

# The Battle of Wills

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*Markets unexpectedly roared back to start the new year. The NASDAQ composite returned 10.7%, the best start to a year since 2001, and the S&P 500 gained 6.3%. Even the credit markets rebounded after a horrific year in 2022, with the Bloomberg Global Aggregate index posting its best January performance in 30 years. Although some key indicators, such as manufacturing and housing, are showing negative signals, a battle of wills between the Federal Reserve's monetary policies and market expectations has captivated investors. Chairman Powell's recent remarks have been interpreted with a favorable ear by investors, although he has said the Fed will not change course in its rate trajectory until inflation has been sufficiently tamed. However, the markets have been pricing in further declines in inflation and have discounted the probability of an imminent recession. Many investors believe the lag effect from higher rates will reduce GDP, inflation will continue to moderate, and the Fed may reduce rates later this year. Concurrently, other investors are wondering how high and for how long the Fed will ratchet up interest rates. Complicating this battle is the resiliency of the labor market, which has been underpinning consumer spending in the service sector. The blowout employment reading in January could give the Federal Reserve added conviction in their rate strategy. At the moment, market forces in this battle of wills appear to be pricing in a soft landing with a Fed pivot later in the year.*

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The ISM Manufacturing Index is a monthly gauge on the level of economic activity in the U.S. manufacturing sector versus the previous month.

The ICE BofA Current 10-Year U.S. Treasury Index (GA10) is a one security index comprised of the most recently issued 10-year U.S. Treasury Note.

The ICE BofA U.S. Corporate Index (COAO) has an inception date of December 31, 1972 and tracks the performance of U.S. dollar denominated investment grade corporate debt publicly issued in the U.S. domestic market.

The ICE BofA U.S. High Yield Index (H0A0) has an inception date of August 31, 1986 and tracks the performance of U.S. dollar denominated below investment grade corporate debt publicly issued in the U.S. domestic market.

The Morningstar LSTA US Leveraged Loan Index is a market value-weighted index designed to measure the performance of the U.S. leveraged loan market based upon weightings, spreads and interest payments.

The Refinitiv US All-Cap Focus Convertible Bond Index has an inception date of December 1993, is a subset of the Refinitiv US Convertible Bond Index and includes securities that have a price between 60 and 140 and a conversion premium of < 100%, among other criteria. The Refinitiv US Convertible Bond Index includes convertible securities that are denominated in USD, have a market value of over \$300mm, and have underlying stocks that trade on US equity markets.

The Dow Jones Industrial Average is a price-weighted average of thirty blue-chip stocks that are generally the leaders in their respective industries.

The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

The S&P 500 Index is designed to reflect the U.S. equity markets and focuses on the large-cap sector of the market, which includes the 500 leading companies in leading industries of the U.S. economy.

The NASDAQ composite index is a market-capitalization weighted index of the more than 3,000 common equities listed on the Nasdaq stock exchange. The types of securities in the index include American Depositary Receipts, Common Stock, Limited Partnership Interests, Ordinary Shares, Real Estate Investment Trusts, Shares of Beneficial Interest, and Tracking Stocks. The index includes all Nasdaq listed stocks that are not Security types not included in the Index are closed-end funds, convertible debentures, exchange traded funds, preferred stocks, rights, warrants, units and other derivative securities.

The MSCI Emerging Markets Index captures large and mid-cap representation across 24 Emerging Markets (EM) countries. With 1,398 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

The MSCI World Index, which is part of The Modern Index Strategy, is a broad global equity index that represents large and mid-cap equity performance across 23 developed markets countries. It covers approximately 85% of the free float-adjusted market capitalization in each country and MSCI World Index does not offer exposure to emerging markets.

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