Reams Asset Management

2024 Investment Outlook

In June 2021, the U.S. Federal Reserve (Fed) meeting concluded with the release of the highly anticipated "dot plot" summarizing participant expectations for future fed funds rate movement. This particular "dot plot" graph (see chart) was little changed from prior versions released in March 2021 and December 2020; the majority expected no interest rate movement from the then zero-bound current rate by year-end 2022 (an 18-month period). For year-end 2023, Federal Open Market Committee (FOMC) participant projections ranged between zero and 1.75%, with a median rate of 0.75%, and "longer run" rates beyond 2023 settled clearly at 2.5%. A mere three months later, Federal Reserve Chair Jerome Powell termed nascent rising inflation as merely "transitory," effectively doubling down on this call.

Federal Open Market Committee participant assessments of appropriate monetary policy as of June 2021

3.0%
2.5%
2.0%
1.5%
1.0%
0.5%
0.0%

2021 2022 2023 Longer run

Each shaded circle indicates the value of an individual FOMC participant's judgment of the midpoint of the appropriate target range for the federal funds rate or the appropriate target level for the federal funds rate at the end of the specified calendar year or over the longer run.

U.S. Federal Reserve Summary of Economic Projections, as of June, 16, 2021

Of course, with perfect hindsight we now know that these predictions were not only inaccurate, but wildly so. To combat rampant inflation following the COVID-19 pandemic, the Federal Reserve belatedly began hiking rates in March 2022 and culminated in July 2023 with a fed funds target rate of 5.25–5.50%, all exercised within 25 months of that June 2021 prediction. We draw attention to this report not to castigate the FOMC's predictions, woeful as they were in retrospect. We at Reams would not suggest our own forecasting abilities – then or now – would be superior to an FOMC group armed with a battalion of economists, academics, bankers, supply chain contacts, and data points.

Still, it is relevant to make light of this recent track record, as it applies to the key questions market participants are pondering as we enter 2024: When might the Federal Reserve begin to cut rates and by how much?

To answer these questions, the comments of Fed governors will no doubt be analyzed, and future "dot plots" will be pored over for interpretative clues. Indeed, the speeches, comments, and reports have the ability to move financial markets meaningfully on a day-

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to-day basis. Consider for a moment, however, an alternative construct: that the same Federal Reserve that did not properly foretell the beginning of this inflation cycle may not in fact know when it ends. The predictions business is a tough one, even for experts, particularly with unknowable outcomes. Moreover, history has shown repeatedly that financial markets seldom take a linear path or even an expected one.

The 2023 financial markets certainly did not follow a linear path, or an expected one. In March, the largest string of U.S. banking failures since the 2008 financial crisis was largely shrugged off by risk markets, as equities and credit spreads rallied for the majority of the year. The much-forecast economic recession of 2023 simply did not happen. Rates market volatility, however, oscillated sharply and rates continued to climb higher for the first nine months of the year despite ebbing inflation data. The end of the year begat a torrid rally as markets started to anticipate 2024 rate cuts, and this view was appeased when the Federal Reserve turned dovish and indicated rate cut conversations were on the docket.

At Reams, we are encouraged by the backdrop that fixed income markets present as 2024 begins. Real rates, even after the furious Q4 rally, look healthy for the first time since the 2008–2009 recession, and screen attractively by historical measures. All-in yields show the potential for solid total return paths moving forward for income-based investors, after an admittedly challenging two-year period. Elevated volatility in a post-quantitative easing world offers greater opportunity to add positive alpha to actively managed portfolios for the responsive investor who can effectively pivot to capture temporary price dislocations. While none of these conditions guarantees anything, collectively they at least lay out a constructive backdrop consistent with central investment philosophies we hold dear.

What follows is our attempt to lay out key economic data and issues we are tracking as well as to gauge where consensus estimates are, what tail risks exist to that consensus, and what opportunities may present themselves going forward.

Reams' Key Areas of Focus for 2024

What would it take for the Federal Reserve to ultimately move to a rate-cut scenario, and when?

- The U.S. economy has proven remarkably resilient to tightening financial conditions both globally and domestically. Employment continues to be exceptionally strong, corporate profits remain largely healthy, and consumer demand remains reasonably strong. While year-end language reflected an accommodative Federal Reserve leaving the door open to rate cuts, a paradigm shift would be required to move the Federal Reserve to a dovish stance whereby a rate-cut campaign would ensue. For a "data dependent" Federal Reserve, consistent and compelling data is lacking thus far.
- Inflation has subsided from the highs of 2022 (where year-over-year increases crested above 9% briefly) but still remains above the Federal Reserve target of 2%. Core Consumer Price Index (CPI) ended the year at an annualized 6-month run-rate of 2.9%, but the 3-month Core CPI run-rate of 3.4% suggests that inflation is still sticking around. The next several CPI prints should reflect easier year-over-year comparisons to high readings seen in early 2023, so run-rates should continue to drop. Additionally, the Federal Reserve is under no obligation to wait until 2.0% prints return to move on rates.
- As is typically the case, market expectations have outpaced Federal Reserve commentary and "dot plot" assumptions going forward. The most recent "dot plot" charts three 25-basis point (bp) cuts for 2024, versus six such cuts currently suggested by the forward curve rates. This has created a sizeable disconnect on rates versus current fed funds rates. How this differential is resolved going forward will dictate the 2024 backdrop. As demonstrated above, the Federal Reserve "dot plots" and expectations game can change significantly and has only limited near-term value.

Focus on valuations – A positive environment for income-focused investors

- Irrespective of near-term economic gyrations, the increase in real rates was the true fixed income story for 2023, as investors demanded more risk-free premium embedded in yields in exchange for parting with cash. Real yields, measured after the impacts of inflation, had been negative following the COVID-19 pandemic but surged to greater than 2% across the curve by Q3 2023, a level last witnessed before the Great Recession of 2008-2009. Even with a rally in Q4 and elevated volatility, real rates are quite healthy given the modest gross domestic product (GDP) forecasts for the U.S. economy.
- Prior to the Q4 rate rally, more than 70% of the all-in corporate yield came from the Treasury component; that is, only 30% of the yield carried credit risk. That 70% threshold was last

witnessed in 2007. The zero-bound rate environs of quantitative easing are officially dead and unlikely to return anytime soon, but for fixed income investors, that means they do not need to move down the quality curve in an effort to achieve reasonable expected yield.

- Credit rallied impressively in 2023 to levels slightly below the average over the past 10 years. Insurance companies continue to buy long-end industrial paper given attractive all-in yields that can be locked in for a longer period of time. This has caused long industrial paper to appear overbought currently. Overall, credit continues to look resilient and large-capitalization companies seem to be in reasonably good shape.
- Mortgage-backed securities (MBS) have lagged the credit rally on technical factors, such as increased supply from regional bank portfolio disposals and the cessation of the quantitative easing buying program. Now, MBS screens attractively relative to other credit sectors. If rate volatility recedes going forward, MBS stands to perform well. A rangebound rate backdrop would be another scenario by which MBS would theoretically outperform.

What is the consensus viewpoint?

For 2024, surveyed economists (per Bloomberg, as of Dec. 15, 2023) collectively forecast GDP growth of +1.2%, which reflects a meaningful slowdown but importantly avoids approaching recessionary levels. Global growth of +2.6% represents one of the worst world outputs in the past 30 years and reflects a notable slowdown in China, where deflationary pressures underscore a troubling outlook. CPI is estimated to moderate to 2.7% year over year, still above the Federal Reserve's stated 2% target but likely "close enough" to keep potential rate cuts in the picture. Unemployment is expected to increase to 4.2%, which was also predicted last year and never materialized. New home sale estimates are at 694,000 units, a modest increase based on slightly higher levels of new build, but well below pre-pandemic highs and reflective of demand destruction with higher mortgage rates. Overall, these estimates fall squarely in the "soft landing" or perhaps even "no landing" camp, where economic statistics are deteriorating, but not by amounts large enough to cause alarm or tip the economy into a recession.

Economists also forecast the fed funds rate, at 5.33% as of Dec. 15, 2023, is at its peak and will fall to 3.77% by year-end 2024, or 6.25 rate cuts of 25 bps each. This is, by any measure, a significant amount of Fed easing built into current expectations and prices. The 10-year U.S. Treasury rate is estimated to end 2024 at 3.91%, roughly flat from current levels. Implied forwards suggest a 10-year note at 3.79% in one year's time, also barely changed from where the 10-year is today, suggesting that long curve points are not anticipated to move much. For what it is worth, the front end is expected to fall more precipitously as the inverted yield curve normalizes. Again, it is worth pointing out that curve normalization was also predicted a year ago. While long end rates moved more dramatically in the second half of 2023, the inverted 2s-10s and 2s-30s curves remained intact.

What is the downside case (in interest rates) to consensus?

The fixed income market is already anticipating significantly lower Federal Reserve funds rates in the year ahead. An accelerated timetable to the start of rate cuts would most likely be required to move interest rates lower from current levels. That is unlikely to happen unless economic conditions deteriorate rapidly and/or to a sharper degree than anticipated.

One of the more persuasive arguments for this camp is that the total impact of Federal Reserve actions taken to date has still not matriculated fully into the economic data. That is, financial conditions have tightened considerably over the last 18 months, bank activity is slowing, risk-taking is (slowly) being curbed, and money velocity will continue to drop. Areas such as housing have proven resilient to the Federal Reserve movement thus far, but home-buying demand with mortgage rates above 7% will leave a mark going forward. The cumulative effect of substantial rate hikes, coupled with the balance sheet unwinding, have lagged economic statistics and will likely leave the economy in a much more perilous place in 2024, leading to the Federal Reserve having to take action sooner than anticipated to combat negative economic trends and stimulate demand.

Another possible catalyst for this downside case comes from an exogenous shock effect. Something unforetold or not part of the narrative impacts the economy in negative fashion, such as to stir an about-face by the Federal Reserve or to require a greater magnitude of rate cuts to spur increased economic activity. The likely instigator here would be something geopolitical in nature: intensifying spread of global conflicts both existing and

new; political crisis with a contentious U.S. election or overseas political instability; or a commodity shock effect. Broadly, key economies internationally such as China and the Eurozone show weaker GDP trajectory than the United States. Should international economic data continue to deteriorate, this could exacerbate the U.S. economic slowdown, perhaps tipping the U.S. into recession.

What is the upside case (in interest rates) to consensus?

The case for higher rates from today's levels does not appear on the surface to have a significant probability, given a weakening economic backdrop and inflation trending downward. However, the past two years have proven rates can not only stay elevated longer than anticipated but can in fact go higher still in the short term.

A stubborn CPI print showing inflation refusing to abet would be the most likely driver of higher rates, but it is by no means the only factor that could spur higher rate activity. The nonfarm payroll report has mostly shown unabated strength since the economy reopened following the COVID-19 pandemic. Unemployment remains at historically low levels, and job openings remain elevated in certain industries, prompting ever-higher salary offers. Labor has used the good tides to extract meaningful wins for organized labor; witness the UAW strikes against auto manufacturers in 2023, resolved in clear victories for unions. Additional employee flexibility, such as continued work-from-home arrangements and higher benefits, also continue to flow to opportunistic workers. None of this is particularly consistent with a deflationary environment or an economy about to go in the tank.

Also a possibility: the Federal Reserve continues to lean on the side of hawkishness on cutting too soon and quashes hopes of near-term rate cuts, essentially walking back December 2023 commentary. This scenario could come about from external market pressure, either real or imagined, for the Fed to "be tough" on inflation, given its late entry to fighting inflation in 2022. Fed officials may argue somewhat credibly that their dual mandate of managing inflation and employment compels them to see inflation return fully to the long-term target of 2% annually before any cuts are to come. With employment not a pressing concern, this could even lead the Fed to resuming the rate-hike campaign one additional time or more, under the auspices of being "data dependent." Whether this strategy would ultimately validate the Federal Reserve is, of course, up for debate and likely not knowable for several years. At the very least, however, it would mean the world needs to settle into the "higher for longer" rate backdrop. Given the rate cuts already priced in for 2024, this sets up risk markets for potential near-term disappointment should this scenario play out.

Corporate Sector Outlook 2024

Once again, corporate bonds have proven a resilient sector of fixed income with strong demand for corporate paper. Spreads tightened substantially for the year, led by a Q4 rally, to finish November -26 bps tighter year to date. In excess return terms, this translated to excess return of +400 bps.

Investment grade new issuance was as expected throughout the year and essentially equivalent to last year's levels at approximately $1.25 trillion. High yield issuance was meaningfully higher versus 2022, with $500 billion in new issues. Most forecasts are for similar levels of issuance in 2024. We see some nascent signs of more merger and acquisition activity in 2024, which could portend additional corporate issuance. Tempering this outlook is a global regulatory and approval framework that is still difficult to pass for large-scale M&A.

Corporate earnings continued to prove robust, as companies have successfully passed higher costs borne from the post-pandemic period on to consumers. Some companies have tempered outlooks and expectations for the year ahead, as the tighter financial conditions and potentially slower economic outlook could challenge the ability of many companies to continue to show revenue and earnings growth. That said, we don't forecast a sharp decline in corporate balance sheets, which are in reasonably good condition starting the new year.

At Reams, we decreased our corporate exposure modestly throughout the second half of 2023. We believe that spreads are priced at reasonable levels approaching fair value, but no longer represent significant alpha generation. Where available, high-yield corporate derivatives have also been deployed tactically to gain diversified exposure to this sector periodically. In cash bonds, a longstanding preference for financials remains in place, with broad exposure to major U.S.-based banking centers.

Elsewhere, defensive sectors such as utilities or hard-asset sectors such as transports remain favored areas of investment. In terms of curve positioning, overweight positions are maintained in both the front (2- to 5-year) and intermediate (5- to 7-year) parts of the curve for broader-universe portfolios.

Securitized Sector Outlook 2024

2023 proved to be another challenging year for securitized products, with agency MBS in particular lagging most other risk assets. Starting the year, the Fed ended its significant MBS buying program, which was instituted in the wake of the pandemic to support the mortgage and housing market. In March, regional bank failures created an overhang of supply and removed another large buyer from the market. Finally, the increase in rate volatility led to additional pressure on the agency MBS market as investors demanded additional yield for increased uncertainty around the future path of interest rates. Due to these various pressures and uncertainties, spreads have remained elevated and valuations challenged in agency MBS and other securitized products through most of 2023.

Commercial mortgage-backed securities also had significant headwinds in 2023. The pandemic's impact continues to change demand for commercial properties, particularly for office space, which has led to an increase in vacancies, lower valuations, and less certainty around loan refinance availability. Delinquencies are elevated and the number of loans extending beyond their expected maturity is increasing.

Going into 2024, these headwinds remain elevated for securitized products. Commercial properties will continue to be a focus as the market works through maturities and lower valuations for office space. All these themes suggest a market in which volatility could remain elevated in 2024.

For the purposes of positioning portfolios, the headwinds and stress experienced in 2023 led to ample opportunity and attractive valuations in securitized products. As a result, Reams remains very favorable to securitized products as we enter 2024. The foundation of the securitized products universe is built on high-quality assets, structural strength, and liquidity, which together lend historically lower volatility and principal preservation even during times of market uncertainty. This foundation has allowed Reams to add securitized product risk while also striving to maintain, or increase, the quality and liquidity of the overall portfolio. Our current focus in positioning is a significant agency MBS overweight. We also see opportunities in prime 'AAA'-rated non-agency residential mortgages, which add additional spread and value versus their agency counterparts. Asset-backed securities and select commercial mortgage-backed securities also provide attractive opportunities with strong structural and liquidity attributes. Overall, we enter the year well-positioned in the hopes of benefiting from the securitized product sector, and in the event that greater opportunities materialize in 2024, we will be eager to capitalize.

Global Rates and Currencies Outlook 2024

In 2023, resilient U.S. economic data and tight monetary policy kept the U.S. dollar well supported. Emerging market high-carry currencies, like the Colombian peso, Mexican peso and Polish zloty, have outperformed, while low yielders like the Japanese yen lost ground against the U.S. dollar.

Looking forward, as global inflation continues to retreat and the impact of higher rates weighs on growth, the market will focus on when central banks will start cutting their reference rates, with the Fed and European Central Bank being key.

The U.S. dollar cycle that has been in effect since mid-2014 has made the greenback expensive on most valuation metrics. Historically, the end of Fed hiking cycles has allowed U.S. real rates to fall and the broad U.S. dollar to weaken. In addition, we expect the U.S. dollar to weaken as growth in the United States slows from above-trend levels in 2023 and growth stabilizes in the euro area and China.

Given the expensive valuation, a known catalyst for correction in the valuations (the end of the Fed hiking cycle) and improving relative fundamentals, we like owning a basket of G10 currencies (versus short U.S. dollar) to get exposure to this theme heading into 2024.

For more information regarding Reams Asset Management, please contact us at 463.777.3900.

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Bond prices and yields are subject to change based upon market conditions and availability. If bonds are sold prior to maturity, you may receive more or less than your initial investment. There is an inverse relationship between interest rate movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices rise.

Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity and redemption features.

Securitized products, such as asset-backed securities (ABS) and mortgage-backed securities (MBS), are created by pooling loans from a variety of sources and issuing bonds that are backed by these loans. Creditworthiness stems from the credit quality of the underlying loans, as opposed to corporate bonds in which creditworthiness is derived from the earning power of the issuing company. The primary risk of these securities is interest-rate risk. Rising interest rates might cause loan principal prepayments to slow, resulting in less available principal to invest at prevailing higher rates. Conversely, rate decreases might accelerate prepayments, leaving more dollars to invest at lower rates.

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Definitions

An all-in yield refers to a yield, whether in the form of an interest rate, margin, original issue discount (OID), upfront fees, Eurodollar Rate floor and/or Base Rate floor, or otherwise, that does not include arrangement fees, structuring fees, commitment fees and underwriting fees or other fees not paid generally to all lenders of such Indebtedness.

Alpha is a measure of the difference between a manager’s actual returns and its expected performance, given its level of risk as measured by Beta. A positive Alpha figure indicates the manager has performed better than its Beta would predict. A negative Alpha indicates the manager performed worse than expected based on its level of risk. Thus, it is possible for a manager to outperform an index and still have a negative Alpha. In general, however, the higher the Alpha the better.

Annualized estimates represent short-term calculations or rates that have been converted into annual rates.

Basis points (bps) are measurements used in discussions of interest rates and other percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01%.

A consensus estimate is a forecast of a public company’s projected earnings, the results of a particular industry, sector, geography, asset class, or other category, or the expected findings of a macroeconomic report based on the combined estimates of analysts and other market observers that track the stock or data in question.

The U.S. Consumer Price Index (CPI) measures the change in prices paid by consumers for goods and services. The U.S. Bureau of Labor Statistics bases the index on prices of food, clothing, shelter, fuels, transportation, doctors' and dentists' services, drugs, and other goods and services that people buy for day-to-day living. Prices are collected each month in 75 urban areas across the country from about 6,000 households and 22,000 retailers.

The "Consumer Price Index for All Urban Consumers: All Items Less Food & Energy" is an aggregate of prices paid by urban consumers for a typical basket of goods, excluding food and energy. This measurement, known as "Core CPI," is widely used by economists because food and energy have very volatile prices.

A credit spread is the difference in yield between a U.S. Treasury bond and another debt security with the same maturity but different credit quality. Also referred to as "bond spreads" or "default spreads," credit spreads are measured in basis points, with a 1% difference in yield equaling a spread of 100 basis points. Credit spreads reflect the risk of the debt security being compared with the Treasury bond, which is considered to be risk-free. Higher quality securities have a lower chance of the issuer defaulting. Lower quality securities have a higher chance of the issuer defaulting.

Defensive sectors include companies that tend to have a constant demand for their products or services, making their operations more stable during different phases of the business cycle.

Derivatives are financial contracts with values that depend on a specific underlying asset, groups of assets, commodity, or an indicator such as a benchmark, and through which specific financial risks can be traded in financial markets in their own right.

The U.S. Federal Reserve dot plot is a chart summarizing the Federal Open Market Committee's (FOMC) outlook for the federal funds rate. Each dot represents the interest rate forecasted by one of the 12 members of the committee.

Dovish, hawkish and centrist are terms used to describe the monetary policy preferences of central bankers and others. Doves tend to support maintaining lower interest rates, often in support of stimulating job growth and the economy more generally. Hawks prioritize controlling inflation and may favor raising interest rates to reduce it or keep it in check. Centrists tend to occupy the middle of the continuum between tight (hawkish) and loose (dovish) monetary policy.

The federal funds rate, known as the fed funds rate, is the target interest rate set by the Federal Open Market Committee of the U.S. Federal Reserve. The target is the Fed's suggested rate for commercial banks to borrow and lend their excess reserves to each other overnight.

The Federal Open Market Committee (FOMC) consists of 12 members: the seven members of the Board of Governors of the Federal Reserve System; the president of the Federal Reserve Bank of New York; and four of the remaining 11 Reserve Bank presidents, who serve one-year terms on a rotating basis. The FOMC holds eight regularly scheduled meetings per year at which it reviews economic and financial conditions, determines the appropriate stance of monetary policy, and assesses the risks to its long-run goals of price stability and sustainable economic growth.

The forward rate is an interest rate for a financial transaction that will take place in the future. Forward rates are calculated from spot rates. The relationship between spot and forward rates is similar to the relationship between discounted present value and future value.

The Group of 10, also known as the G10, consists of 11 industrialized nations that meet at least annually to work together on matters of international finance. The member nations are Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom, and the United States, with Switzerland playing a minor role.

A high-carry currency is one with a high prevailing interest rate.

High-yield bonds have credit ratings below BBB- from Standard & Poor's or below Baa3 from Moody's.

An implied forward rate is the difference between a spot interest rate and the interest rate for a forward contract or futures delivery date.

Investment-grade (IG) refers to fixed-income securities rated BBB or better by Standard & Poor's or Baa or better by Moody's.

Overbought is a term used to describe a security or group of securities believed to be trading at a level above its or their intrinsic or fair value.

The payroll report, officially known as the Employment Situation Summary, is a monthly U.S. Bureau of Labor Statistics (BLS) report tracking nonfarm payroll employment and the national unemployment rate, with data on changes in average hourly earnings, and job trends in public and private sectors of employment. The report is based on surveys of households and employers.

Quantitative easing (QE) is a form of unconventional monetary policy in which a central bank purchases longer-term securities from the open market in order to increase the money supply and encourage lending and investment. Buying these securities adds new money to the economy, and also serves to lower interest rates by bidding up fixed-income securities. It also expands the central bank's balance sheet.

Rangebound is a condition where the value of a security keeps vacillating between the low and high ends of a narrow range. For example, if the 10-year Treasury yield repeatedly vacillated between 3.75% and 4.25%, it would be described as "rangebound."

A real interest rate is an interest rate that has been adjusted to remove the effects of inflation. Once adjusted, it reflects the real cost of funds to a borrower and the real yield to a lender or to an investor. A real interest rate reflects the rate of time preference for current goods over future goods. For an investment, a real interest rate is calculated as the difference between the nominal interest rate, which is not adjusted for inflation, and the inflation rate.

A run rate refers to the activity or performance of a financial indicator based on using current data to forecast future trends. A run rate assumes current conditions will continue and extrapolates existing activity into the future.

A soft landing is a cyclical slowdown in economic growth that avoids a recession. A no-landing scenario is one in which the economy continues to grow despite restrictive monetary policy, with no significant rise in the unemployment rate.

A short position refers to a trading technique in which an investor sells a security with plans to buy it later.

Tail risk describes a form of portfolio risk associated with the increased possibility that an investment will move more than three standard deviations from the mean in a normal distribution. Left tail risks refer to unusually large losses. Right tail risks refer to unusually large gains.

Technicals refers to technical indicators of historic market data, including price and volume statistics, to which analysts apply a wide variety of mathematical formulas in their study of larger market patterns.

The U.S. 2/10 Curve, known as the 2s/10s, is a bellwether indicator that measures the difference between the rates of the 10-year U.S. Treasury bond and the 2-year Treasury note. Measured in basis points, it is watched as an indicator of where the U.S. economy is in the business cycle, as the spread typically narrows as the economy moves through the cycle, reaches a low point and may go negative near the onset of a recession, then widens again during and after a recession.

The U.S. 2/30 Curve, known as the 2s-30s, is a bellwether indicator that measures the difference between the rates of the 2-year U.S. Treasury yield and the 30-year U.S. Treasury yield.

A yield curve is a line that plots yields (interest rates) of bonds having equal credit quality but differing maturity dates. The slope of the yield curve gives an idea of future interest rate changes and economic activity. Investors and market analysts watch certain yield curves for signs of inversion, when yields for longer-term debt instruments fall below yields on short-term debt with the same credit quality. Inversions are watched as potential signs of a weakening economy and in certain cases, a harbinger of recessions.

The zero bound is the lowest level, which is assumed to be zero, to which interest rates can fall.

Additional information is available at www.reamsasset.com or www.scoutinv.com.

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