3rd Quarter 2023 – Ozempic Fed

Sierra Capital Quarterly Newsletter

September 2023

Volatile Year for Asset Prices Thus Far in 2023

Key points:

The third quarter of 2023 has brought significant turbulence to financial markets. Increased US Treasury issuance, ongoing Fed redemptions, and positive economic forecasts have led to higher US yields and increased Treasury market volatility. It's important to note the significant equity market correction in 2022 when considering future market trends.

The Federal Reserve's recent actions, including aggressive rate hikes to counter inflation, have impacted the market. While maintaining the federal funds rate target range at 5.25% to 5.50% was expected, the Fed's moderately hawkish forward guidance allows for potential rate hikes in November.

The global monetary policy shift has caused the first sovereign bond bear market since 1949, erasing a decade of nominal bond returns. Rising interest rates and oil prices have disrupted equity markets, compounded by factors like political discord, labor tensions, and student loan repayments.

Concerns about over-tightening and its impact on economic expansion persist. Longer-term rates have surged as Treasury holdings by the Fed were reduced, and private lenders began funding US Treasury issuance.

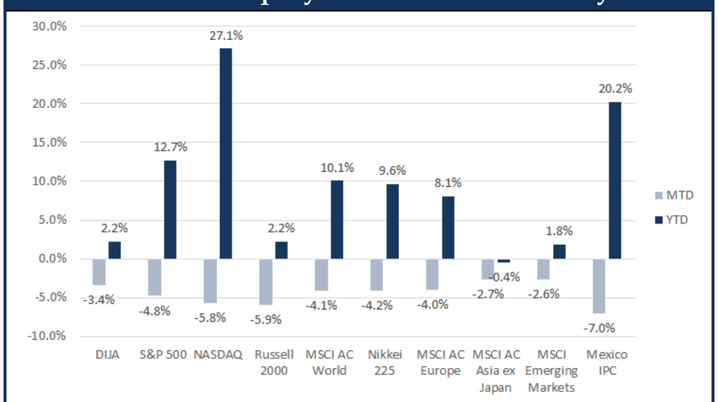
The labor market has performed well, but signs of weakening have emerged, with job gains slowing. Consumer savings are decreasing, and delinquency rates in auto and credit card debt are rising. Inflation, previously elevated, shows signs of moderation. Challenges lie in reversing factors that drove inflation higher. Small and mid-cap growth companies remain attractively priced.

Diversifying away from high-return U.S. stocks into international markets may provide value for investors. The changing yield environment requires different investment strategies. Private credit emerges as an interesting asset class, with managers well-positioned to invest across capital structures and deal with various borrowers.

Amid evolving fiscal, economic, and political dynamics, maintaining a steady, defensive posture is crucial for investors.

The month of September brought some pain to equity and fixed income markets as the Federal Reserve signaled potential additional rate hikes given strong economic data and some sticky inflation. For the 3rd Quarter of 2023, the S&P 500 and the Global Fixed Income Aggregate was negative 3.4%. This brought YTD returns down to 12.7% for the S&P 500 index. To highlight the impact of the top flying technology names on the index, the Nasdaq is up 27.1% YTD while the Dow Jones is only up 2.2%. The Global Fixed Income Aggregate is negative 2.2% for the year, the second time in a row. (**Table 1**)

Table 1: The 2023 Equity Market Pauses its Rally

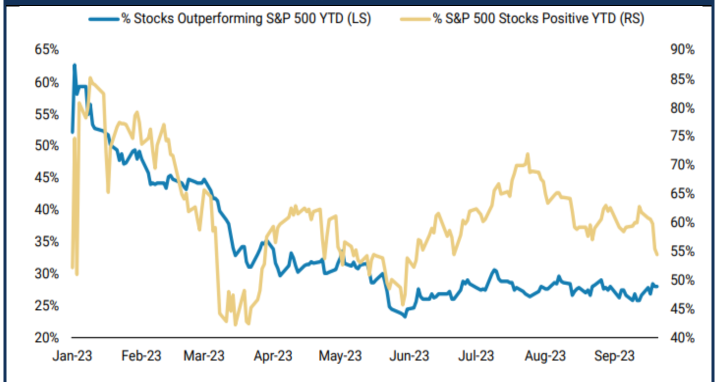


Source: Sierra Capital, FactSet

The top-performing sector for the quarter was Energy (+12.0%) while nearly all other industries were lower, led by Utilities (-9.5%), Consumer Staples (-6.2%), and Technology (-5.7%). Higher yields hit leveraged sectors the worst as the market started to price in a higher for longer environment. For the year, however, a cruel story is playing out in equity markets with most industries nearly flat or negative for the year. Telecom Services, IT, and Consumer Discretionary, however, are up 39.4%, 33.8%, and 25.7% respectively, as the AI boom carried may estimates higher in these sectors with the hope of increased productivity gains and revenues from generative AI tools and hardware required to scale. (**Table 2)**

However, now with the Fed continuing down the road with quantitative tightening at the same time the U.S. Treasury is expected to issue nearly $2 trillion in new treasury supply in the 2nd half of 2023, its no shock that rates have recently surged higher. The next step of the Fed and the remainder of 2023 will undoubtedly be a bumpy road.

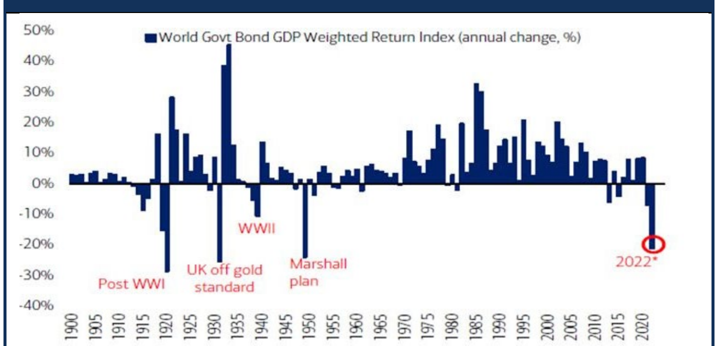
Table 2: 30% Stocks Outperformed SP500 Year to Date



Source: Citi

The third quarter of 2023, especially September, has been turbulent due to factors like increased US Treasury issuance, ongoing Fed redemptions, and positive economic forecasts, causing higher US yields and greater Treasury market volatility. To understand future long-term equity market developments, it's crucial to highlight the significant correction in 2022. The global monetary policy shift resulted in the first sovereign bond bear market since 1949, erasing over a decade of nominal bond returns, an event unprecedented since the 1950s (**Table 3**).

Table 3: World Government Bond Return Index

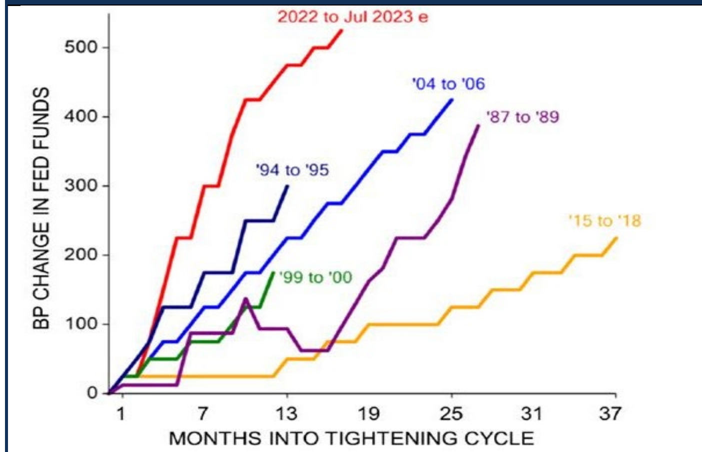


Source: BAML

Higher rates and the soaring price of oil have disrupted the upward trajectory of equity markets. Previously, equities thrived on a challenging-to-sustain blend of rising earnings per share growth expectations, diminishing inflation, and the anticipation of rate cuts factored into US Treasuries. Additional factors, such as political discord in Washington, labor union tensions, and the resumption of student loan repayments, have compounded consumer anxiety.

The genesis of much of this volatility seems to have been lit at the most recent Federal Open Market Committee (FOMC) meeting. The Federal Reserve aggressively increased rates by a cumulative 5.25% over the past year and a half to counter inflation, faster than any time since Volcker, and opted to maintain the federal funds rate at a target range of 5.25% to 5.50% in their September meeting (**Table 4**).

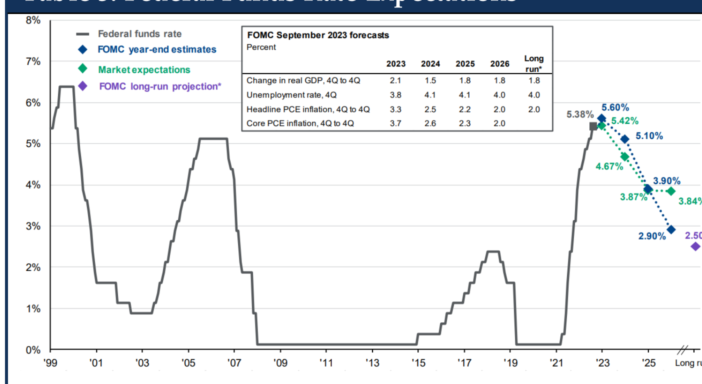
Table 4: Historical Fed Rate Hiking Cycles



Source: Evercore ISI

While this decision was widely expected, the forward guidance remained moderately hawkish, leaving room for a potential rate hike in November. The updated "dot plot" from the Fed hints at the possibility of more rate hikes, with the median FOMC member still anticipating a year-end federal funds rate of 5.6%. This implies one more rate hike this year and only two cuts in 2024. (**Table 5).**

Table 5: Federal Funds Rate Expectations

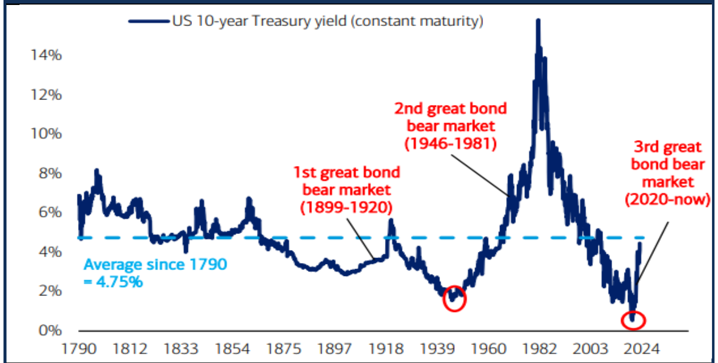


Source: JP Morgan, Bloomberg, FactSet

The Feds economic projections in the recent meeting estimated GDP growth for 2023, a decline in unemployment rate expectations from 4.1% to 3.8%, and an uptick in Personal Consumption Expenditure (PCE). This all paints a picture of a "soft landing" scenario, however, amidst several headwinds challenging the ongoing economic expansion, the risk of over-tightening looms large, potentially jeopardizing this outlook.

While the Fed seems to be nearing the end of its hiking cycle, longer-term rates have surged recently, however they are not far from their long-term average (**Table 6**).

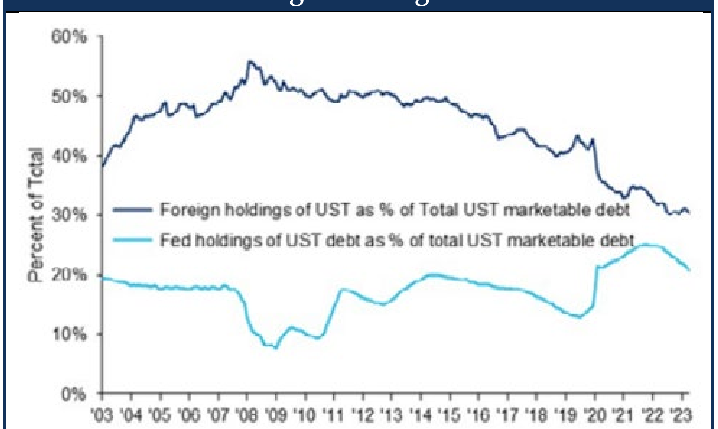
Table 6: US Bond Yields Breaking to New Recent Highs



Source: Bank of America

One reason is that price-insensitive Treasury buyers from the past 15 years have stepped back. The Fed reduced its holdings in treasuries and mortgage-backed securities by over $1 trillion through quantitative tightening since mid-2022, while foreign central bank buyers haven't kept up with US issuance. Banks, due to dwindling deposits and regulatory uncertainties, are also buying less. These shifts mean private lenders now fund new US Treasury issuance and Fed balance sheet asset purchases, reducing credit availability. (**Table 7**).

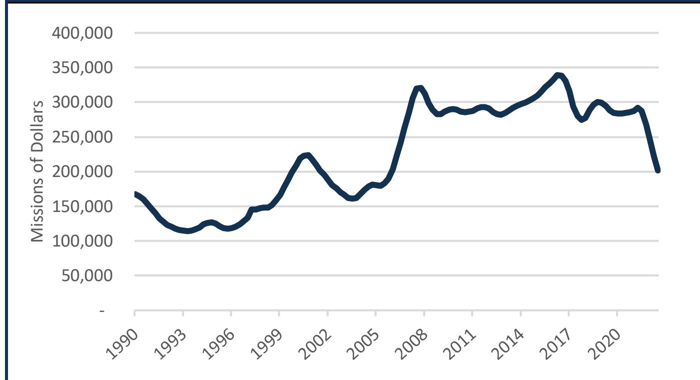
Table 7: Fed and Foreign Holdings of Treasuries



Source: Citi, Haver Analytics, Bloomberg

David Einhorn in a recent speech called into question the actions of the Fed as hiking rates as another form of stimulus. Corporate capital spending has been on the rise even as the Fed began raising interest rates. This unexpected phenomenon, something Chairman Bernanke tried to stimulate with 0% rates, has been partly attributed to corporations extending the maturity of their debt while maintaining substantial cash reserves. As a result, corporate net interest expenses have decreased, boosting profits by around 5% over the past year. (**Table 8).**

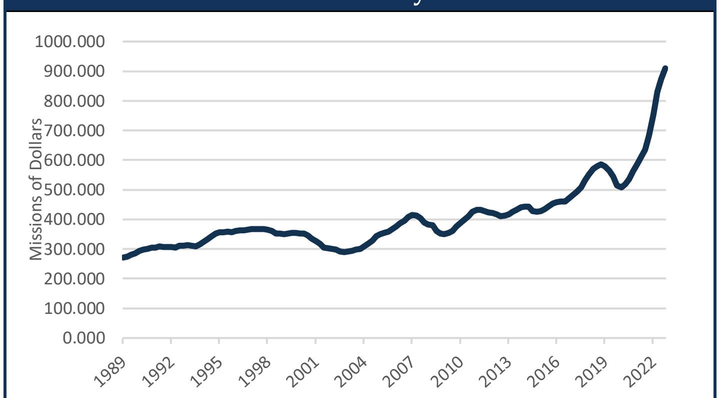
Table 8: NonFinancial Corporate Net Interest Payments



Source: Sierra Capital, Federal Reserve Board. Note- includes miscellaneous payments

In contrast, the federal government has faced increased costs due to higher interest rates, with approximately $450 billion in extra interest expenses on its $33 trillion debt. In Einhorn's view, this additional spending can be seen as a form of fiscal stimulus as it increases the federal deficit to the benefit of households and corporations by increasing passive income, profits, and capital spending for those who locked in lower rates or are saving money today. (**Table 9**).

Table 9: Government Interest Payments

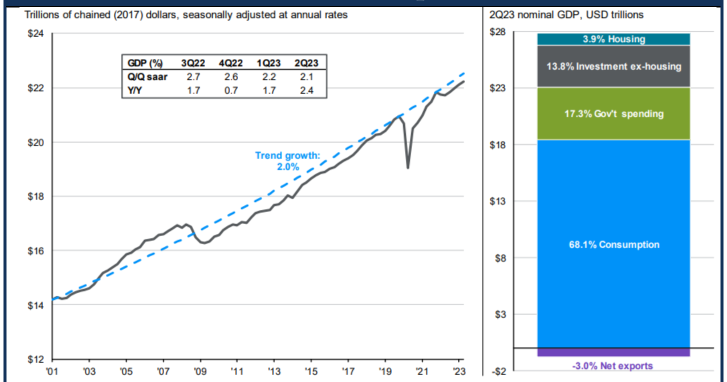


Source: Sierra Capital, Federal Reserve Board

David explains how the Feds mandate is inflation and employment, however, their tools are not really made to tackle both in the real economy effectively? Setting rates is instead a good tool to manage financial assets and things with large amounts of leverage like banks, real estate, etc. So while rising rates might trigger foreclosures on a levered piece of commercial real estate, is it really going to be the best tool to affect unemployment? Perhaps it is the politicians' tools with policy and budget rather than the Fed setting rates that have a more pronounced effect, and therefore the responsibility and accountability should fall on elected officials.

The US has exhibited strong long-term growth, with the third quarter maintaining this momentum. Easing inflation and improved growth prospects have fostered optimism for a soft landing. (**Table 10**).

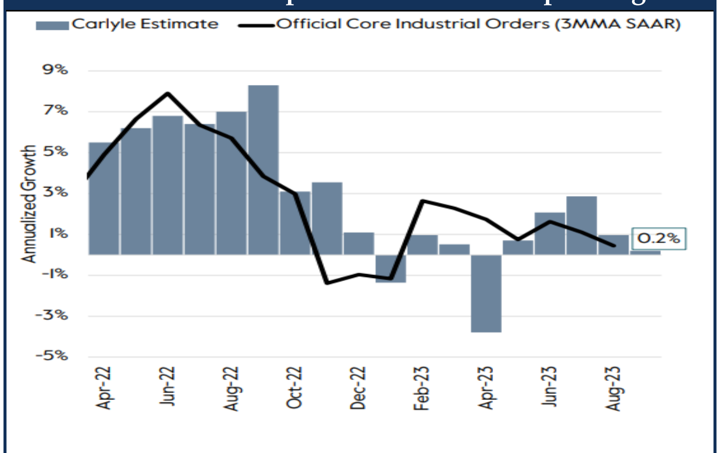
Table 10: Real GDP (L) and Components of GDP (R)



Source: JP Morgan, BEA, Factset

However, a closer examination of each sector of the economy suggests that economic momentum might be tapering off, particularly in the non-tech industrial space, signaling that we may not be out of the woods yet (**Table 11**).

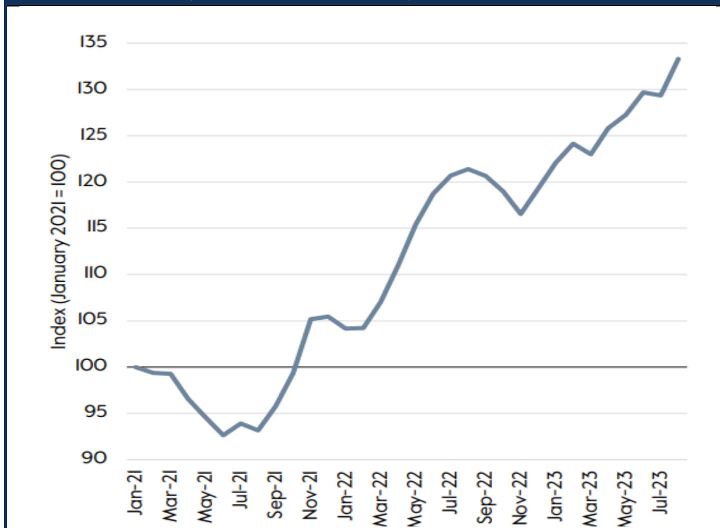
Table 11: Portfolio Implied U.S. Business Spending



Source: Carlyle Group, US Census Bureau

Despite stricter lending standards and lackluster industrial complex, business spending has remained unexpectedly strong, driven by fixed investments in structures such as semiconductor fabrication plants, green industry manufacturing facilities, and LNG export terminals. Official estimates indicate a 23% annualized growth in fixed investment in structures in the first half of 2023. Another data point comes from Carlyle, whose company data aligns with 18% annualized growth in Q3-2023. Additionally, orders for construction materials suggest continued growth in residential construction (**Table 12).**

Table 12: Carlyle Tech Spending Index



Source: Carlyle Group

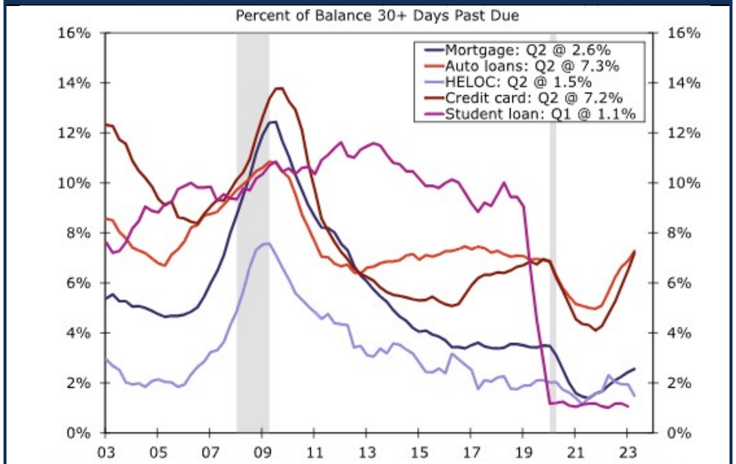
Consumers have surprisingly demonstrated resilience in the third quarter, helped by a tight labor market and rising real wages. However, they have been drawing down their savings and taking on more debt to sustain their current lifestyles which is likely due to the effects of inflation on their cost of living and depleting covid savings. (**Table 13**).

Table 13: US Savings Rate

Source: JP Morgan

Delinquency rates are also starting to rise, particularly in auto and credit card debt as the impacts of previous monetary tightening, higher energy prices, and the resumption of student loan payments have and are expected to put additional downward pressure on consumer spending in the coming months (**Table 14**).

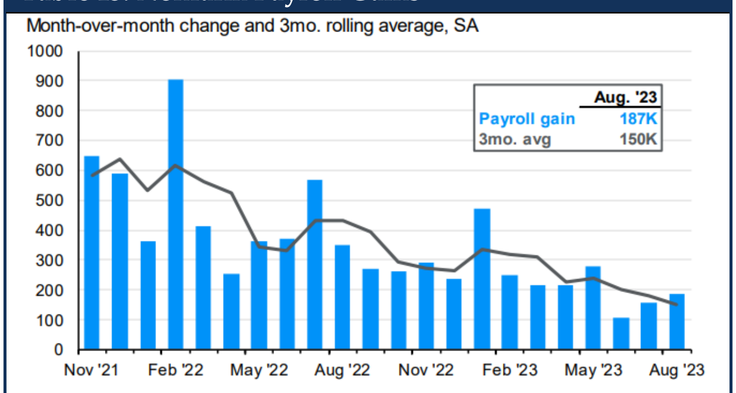
Table 14: Delinquency Rate by Loan Type



Source: Wells Fargo, NY Fed Consumer Credit, Equifax

Despite the consumer getting squeezed, the labor market has performed exceptionally well throughout this economic cycle. However, signs of weakening are gradually emerging. Job gains have been decelerating since the previous year and the three-month moving average of payroll job gains have reached its lowest point since the onset of the pandemic in August (**Table 15**).

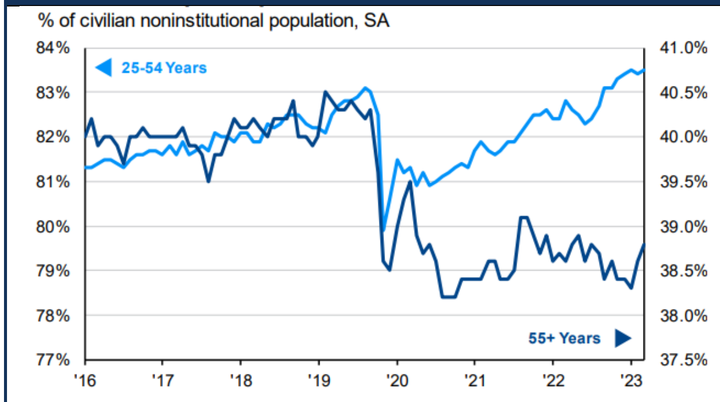
Table 15: Nonfarm Payroll Gains



Source: JP Morgan, BLS

Going back to work is now a necessity which has led to improved labor force participation and bolstered job growth. The participation rate for adults aged 25 to 54 is now above pre-pandemic levels while the participation rate for adults aged 55 and over has remained depressed, reflecting an aging baby-boomer population permanently exiting the workforce. Even with higher wages and low unemployment, the labor force participation rate may struggle to with significant further gains (**Table 16**).

Table 16: Labor Force Participation



Source: JP Morgan, BLS

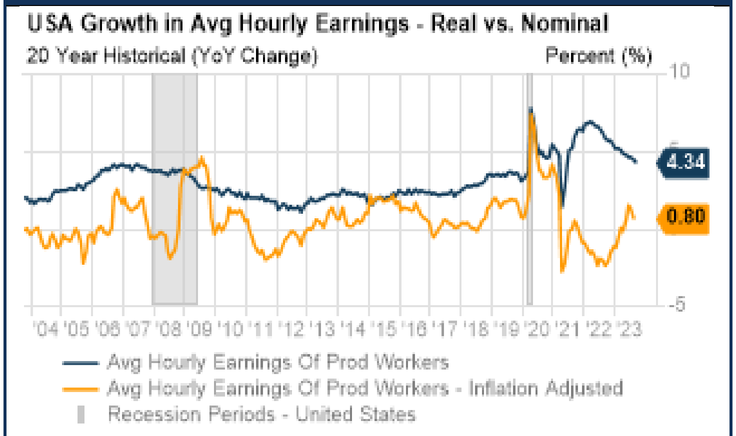
Additional labor market indicators also imply a return to normalcy while September's job gains were quite elevated, led by Leisure and Hospitality, Government, and Health Care. Weekly initial claims for unemployment, while still indicative of a robust labor market, have declined compared to the previous quarter but remain above their 2022 average. This suggests that, in the coming months, claims could experience a more rapid increase. The tight labor market has allowed the unemployment rate to hover around 50-year lows, averaging 3.6% this year, though it increased to 3.8% in August through September (**Table 17).**

Table 17: Unemployment Rate

Source: Sierra Capital, Factset

While the job market seems to be slowing, wages increased by a mere 0.2% month-over-month in August and September for all private workers. Year-over-year wage growth has now decreased to 4.2% from its peak of 5.9% in March 2022, although it still exceeds its long-term average. Expectations of significant upward pressure on inflation from wage growth have dwindled, as workers are primarily being compensated for their prior losses in purchasing power after wages failed to keep pace with inflation for most of 2021 and 2022 (**Table 18**).

Table 18: USA Growth in Avg Hourly Earnings



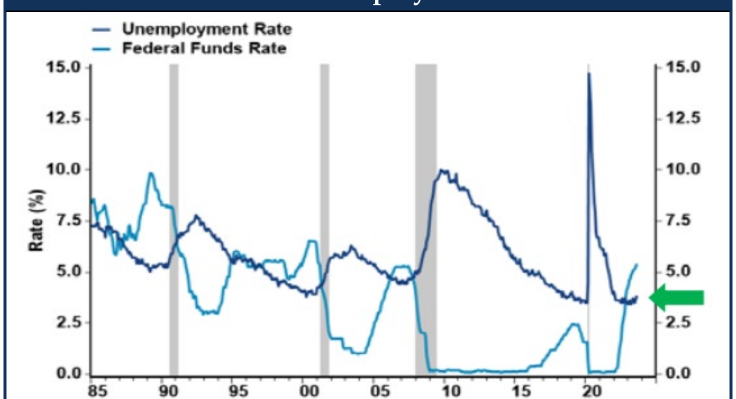
Source: Sierra Capital, FactSet

Table 20: Present Situation and Expectations Index

Source: Conference Board

The Federal Reserve has been closely monitoring the labor market, adjusting its policy with precision. Investors are now puzzled as to why the Fed anticipates potential rate cuts in the absence of a recession in its forecasts. The latest estimates from the Federal Open Market Committee shed light on the belief among its members that small rate reductions may become essential to mitigate labor market deterioration (**Table 19**).

Table 19: Fed Funds & Unemployment Rate



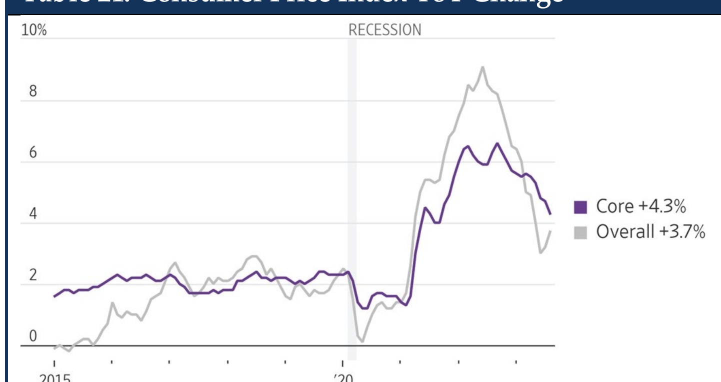
Source: Citi, Bloomberg

Consumer expectations for the next six months have fallen below the recession threshold of 80, reflecting reduced confidence in future business conditions, job availability, and incomes. This dip may be attributed to increased concerns over corporate earnings, narrowing job openings, reduced savings, and rising interest rates which are rendering major purchases more expensive (**Table 20**).

Business surveys are mirroring these trends, with the PMI measures of services and manufacturing employment and small business hiring plans showing signs of moderation in recent months. Overall, the labor market still appears strong, and the risk of a recession this year remains low. However, the diminishing demand for labor implies that job growth will likely decelerate in the months to come.

Lastly, after nearly two years of elevated inflation, which squeezed consumer budgets and contributed to a rapid rise in interest rates, a sustained downtrend in inflation has been taking shape. Headline CPI inflation, which peaked at 9.1% year-over-year last June, has receded to 3.7% year-over-year in August. Similarly, core inflation has continued to trend downward after its peak eleven months ago (**Table 21**)

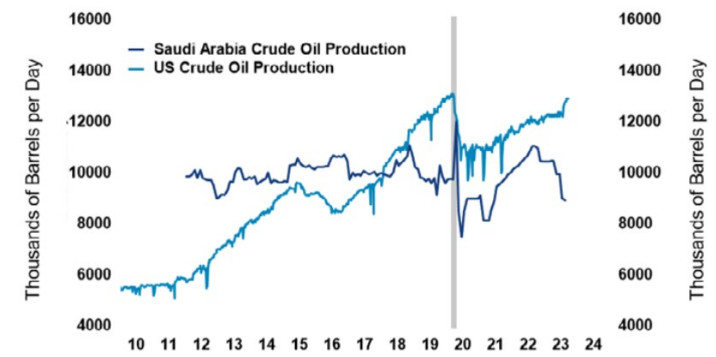
Table 21: Consumer Price Index YoY Change



Source: Labor Department, KKR Note- Core excludes food and energy

The challenge lies in the fact that much of the inflation we've seen is a reversal of factors driving it higher over the past two years, which are now subsiding. For example, September saw a 10% increase in oil prices, challenging the disinflation effect that had previously pushed the Consumer Price Index (CPI) from 9% to 3% mid-year, as OPEC production cuts counterbalance rising US oil production and the US has already reduced its Strategic Petroleum Reserve by 40% (**Table 22)**.

Table 22: US and Saudi Crude Oil Production

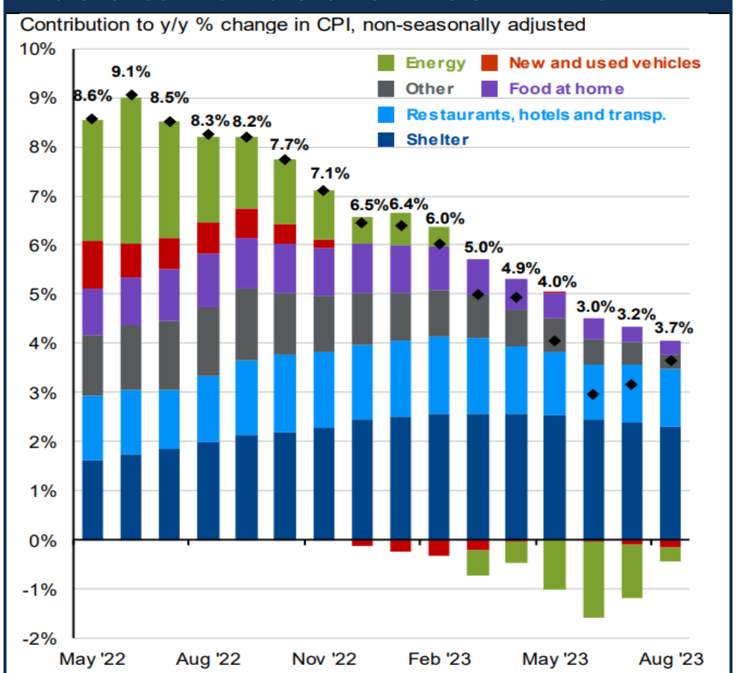


Source: Citi, Haver Analytics

Beyond energy, the other significant contractors in inflation has been from the moderation in vehicle prices and shelter inflation. Shelter is the largest contributor to overall inflation and slows with a lag. This suggests it will continue to put downward pressure on inflation in the coming year.

The remaining inflationary concern revolves around core services prices outside of housing, a concern frequently discussed by Chair Powell. However, this seems to primarily reflect the delayed effects of supply chain issues, with "transportation services" being the main driver of remaining inflation. With improved supply chains, moderating vehicle prices, and a more relaxed labor market, this measure of inflation is forecasted to decrease in 2024 (**Table 23)**.

Table 23: Contributions to Headline CPI Inflation



Source: JP Morgan, BLS, FactSet

With the economic picture still foggy and as Jerome Powell said, we are "Navigating with the stars in cloudy skies", where can we as investors find value.

So far, the contraction in forward P/E multiples for the US by the end of 2022 approximated the average of prior recessions, reflecting the realization that by that time, most of the bad news had likely already been digested and discounted in equity valuations. However, this is no longer the case, given the positive equity returns year-to-date (**Table 24**).

Table 24: Fall in MSCI P/E During Past Recessions

Recession	Market Peak	Market Trough	MSCI US peak to trough move	12m Fwd P/E at MSCI US peak	12m Fwd P/E at MSCI US trough	Move in MSCI US 12m Fwd P/E from peak to trough
1990	Jul-90	Oct-90	-20%	12.8	10.4	-19%
2001	Mar-00	Oct-02	-51%	25.7	13.8	-46%
2008	Oct-07	Mar-09	-56%	15.4	10.4	-32%
2020	Feb-20	Mar-20	-34%	19.6	13.2	-33%
Average			-40%			-33%
Current	Dec-21	Oct-22	-26%	22.4	15.6	-30%

Source: JP Morgan

However, while the market in general has appreciated, profitable small and mid-cap growth companies are priced at significant discounts to their larger peers, and S&P 400 and 600 firms with a 5-year EPS growth rate of 11% sit at around 14.5-15x P/E (**Table 25**). This is why we still believe there is value to investing with managers who invest in Growth at Reasonable Prices (GARP).

Table 25: US Large, Mid, and Small Cap Forward P/E

Source: Citi, Bloomberg

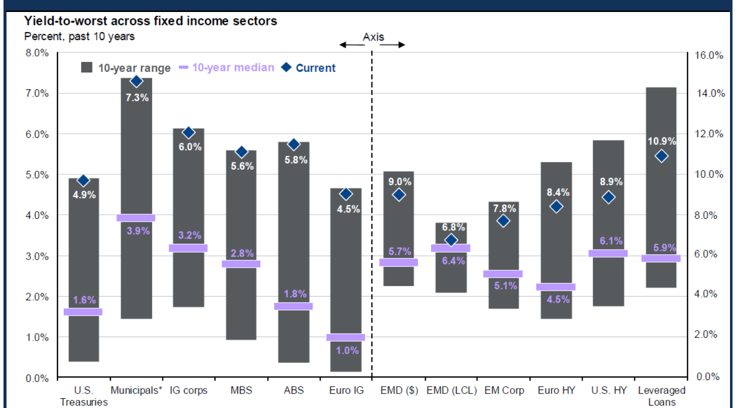
Time horizon is also very important to consider. Within equities, there may be value in diversifying away from the stocks that generated the largest returns YTD and lean into international markets, particularly given the strength of the dollar since July (**Table 26).**

Table 26: Year to Date Dollar Index

Source: CNBC

Given the level of yield today, one can save less to generate the same amount of income they expected a few years ago. This opportunity could pass quickly if and when the Fed lowers rates again but would rather choose to be intermediate on the curve and up in quality. Those held to maturity bonds should deliver strong stable returns. (**Table 27**)

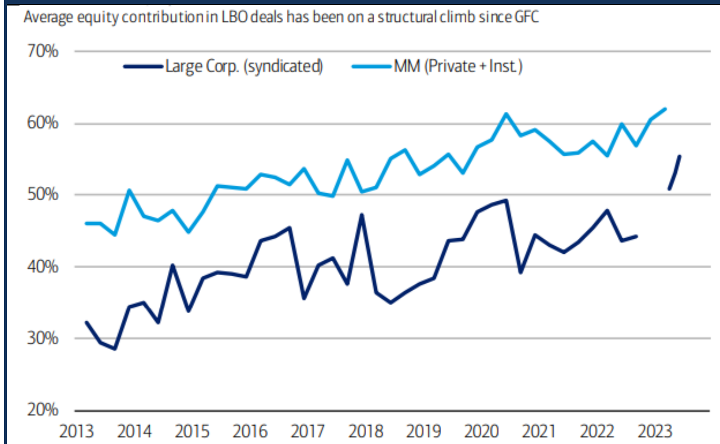
Table 27: Year to Date Dollar Index



Source: Bloomberg, FactSet, JP Morgan

Lastly, another interesting asset class is private credit. As we have discussed before, we find private credit managers to be advantaged by their unique ability to invest across capital structures and deal with many different types of borrowers. While the expectation is that defaults will rise in the space, newer deals are structurally superior to older ones as new deals contain lower loan to values, stronger credits are being dismissed by banks, and money in general is moving into private markets from public ones. (**Table 28**)

Table 28: Equity Contribution in Private Credit Deals



Source: Bank of America, Refinitiv

In conclusion, while many may use historical analogies as a guide to the future, we believe that we remain in uncharted territory. With the fiscal, economic, and political situation both domestically and internationally changing quickly, a steady and defensive posture is important to maintain.

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Securities may be less liquid and more volatile than U.S. and longer-established non-U.S. markets. Bond investors should consider risks such as interest rate, credit, repurchase and reverse repurchase transaction risks. Greater risk, such as increased volatility, limited liquidity, prepayment, non-payment and increased default risk, is inherent in portfolios that invest in high yield ("junk") bonds or mortgage-backed securities, especially mortgage backed securities with exposure to sub-prime mortgages. Investment in non-U.S. and emerging market securities is subject to the risk of currency fluctuations and to economic and political risks associated with such foreign countries. Small capitalization (small cap) investments involve stocks of companies with smaller levels of market capitalization (generally less than $2 billion). Small cap investments are subject to considerable price fluctuations and are more volatile than large company stocks. Investors should consider the additional risks involved in small cap investments. Large capitalization (large cap) investments involve stocks of companies generally having a market capitalization between $10 billion and $200 billion. The value of securities will rise and fall in response to the activities of the company that issued them, general market conditions and/or economic conditions.

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Dow Jones Industrial Average (DJIA): is a price-weighted measure of 30 U.S. blue-chip companies. The index covers all industries except transportation and utilities. The DJIA was designed to serve as a proxy for the health of the broader U.S. economy.

EURO STOXX 50: Index composed of 50 stocks from countries in the Eurozone. EURO STOXX 50 represents Eurozone blue-chip companies considered as leaders in their respective sectors. The index represents the performance of the 50 largest companies among 20 sectors in terms of free-float market cap in Eurozone countries. The index captures about 60% of the free-float market cap of the EURO STOXX Total Market Index (TMI).

MSCI (Morgan Stanley Capital International) Europe (USD): Index captures large and mid-cap representation across 15 Developed Markets countries in Europe: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the UK. The index covers approximately 85% of the free float-adjusted market capitalization across the European Developed Markets equity universe.

MSCI AC (All Country) Europe: Index that captures large and mid-cap representation across 15 Developed Markets countries and 5 Emerging Markets countries in Europe. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

MSCI AC Asia ex Japan: Index that captures large and mid-cap representation across Developed Markets (Hong Kong and Singapore) countries (excluding Japan) and Emerging Markets (China, India, Indonesia, Korea, Malaysia, the Philippines, Taiwan, and Thailand) countries in Asia. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

MSCI AC World: Broad global equity index that represents large and mid-cap equity performance across 23 developed and 24 emerging markets. The index covers approximately 85% of the global investable equity opportunity set.

MSCI Emerging Markets (USD): Index designed to track the financial performance of key companies in fast-growing nations. The index tracks mid-cap and large-cap stocks in Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Kuwait, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

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

MSCI Japan (USD): Index designed to measure the performance of the large and mid-cap segments of the Japanese market. The index covers approximately 85% of the free float-adjusted market capitalization in Japan.

MSCI World: Cap-weighted stock market index of companies throughout the world. It is used as a common benchmark for 'world' or 'global' stock funds intended to represent a broad cross-section of global markets. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

NASDAQ (National Association of Securities Dealers Automated Quotations): Index of more than 3,700 stocks listed on the Nasdaq stock exchange, weighted by market capitalization. The technology sector accounts for just over half the index, more than three times the index weight of any other market sector.

Nikkei 225: a price-weighted equity index for the Tokyo Stock Exchange. The Nikkei measures the performance of 225 large, publicly owned companies in Japan from a wide array of industry sectors.

Russell 2000 Growth: index composed of small-capitalization U.S. equities of the Russell 2000 Growth Index that exhibit growth characteristics

Russell 2000 Value: index composed of small-capitalization U.S. equities of the Russell 2000 Growth Index that exhibit value characteristics.

Russell 2000: Small-cap stock market index that makes up the smallest 2,000 stocks in the Russell 3000 Index, a capitalization-weighted stock market index that seeks to be a benchmark of the entire U.S stock market. The Russell 2000 is commonly used as a small-cap proxy.

S&P 500 Growth: is a market-cap-weighted index comprised of growth stocks within the S&P 500 Index based on three factors: sales growth, the ratio of earnings change to price, and momentum.

S&P 500 Index: The S&P 500 is a stock market index tracking the performance of 500 large companies listed on stock exchanges in the United States. It is market-capitalization weighted and is widely regarded as the best single gauge of large-cap U.S. equities. The index includes 500 U.S. leading companies and captures approximately 80% coverage of available market capitalization

S&P 500 Value: is a market-cap-weighted index comprised of value stocks within the S&P 500 Index based on three factors: book/price ratio, earnings/price ratio, and sales/price ratio.

S&P/BMV Indice de Precios y Cotizaciones (Mexico IPC): Index seeks to measure the performance of the largest and most liquid stocks listed on the Bolsa Mexicana de Valores (BMV). The constituents are weighted by modified market cap subject to diversification requirements.

Shanghai Composite: Market capitalization-weighted index that reflects the performance of the whole Shanghai securities market, including all listed A shares and B shares stocks on the Shanghai Stock Exchange (SSE).

Bloomberg Emerging Markets USD Aggregate - High Yield: Index that measures the USD-denominated, high yield, fixed-rate corporate bond market of key companies in fast-growing nations (EM issuers).

Bloomberg Emerging Markets USD Aggregate: Flagship hard currency Emerging Markets debt benchmark that includes fixed and floating-rate US dollar-denominated debt issued from sovereign, quasi-sovereign, and corporate EM issuers.

Bloomberg Global Aggregate Index: The Bloomberg Global Aggregate Index is a flagship measure of global investment grade debt in local currency. This multi-currency benchmark includes treasury, government-related, corporate, and securitized fixed-rate bonds from both developed and emerging markets issuers

Bloomberg Global High Yield: Multi-currency flagship measure of the global high-yield debt market. The index represents the union of the US High Yield, the Pan-European High Yield, and Emerging Markets (EM) Hard Currency High Yield Indices.

Bloomberg US Aggregate Bond Index: The Bloomberg US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market in the United States. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency)

Bloomberg US High Yield - Corporate: Index that measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below.

Bloomberg US Treasury Bills 1-3 Month Index: The Bloomberg US Treasury Bills 1-3 Month Index is designed to measure the performance of public obligations of the U.S. Treasury that have a remaining maturity of greater than or equal to 1 month and less than 3 months

JPM EMBI Global Diversified: Unmanaged, market-capitalization weighted, total-return index tracking the traded market for U.S.-dollar-denominated Brady bonds, Eurobonds, traded loans, and local market debt instruments issued by sovereign and quasi-sovereign entities.

S&P U.S. TIPS (TIPS): Treasury Inflation-Protected Securities (TIPS) Index seeks to measure the performance of the U.S. TIPS Market. TIPS are treasury bonds that are indexed to an inflationary gauge to protect investors from the decline in the purchasing power of their money.

Credit Suisse Hedge Fund Index – Event Driven: Asset-weighted index composed of hedge funds with an event-driven strategy. Event-driven **i**s a hedge fund investment strategy that seeks to exploit pricing inefficiencies that may occur before or after a corporate event, such as an earnings call, bankruptcy, merger, acquisition, or spinoff.

Credit Suisse Hedge Fund Index – Global Macro: Asset-weighted index composed of hedge funds with global macro strategy. A global macro strategy is a hedge fund strategy that bases its holdings primarily on the overall economic and political views of various countries or their macroeconomic principles. Holdings may include long and short positions in various equity, fixed-income, currency, commodities, and futures markets.

Credit Suisse Hedge Fund Index – Long/Short Equity: Asset-weighted index composed of hedge funds with a long/short strategy. Long/short funds use an investment strategy that seeks to take a long position in underpriced stocks while selling short, overpriced shares. Long/short seeks to augment traditional long-only investing by taking advantage of profit opportunities from securities identified as both under-valued and over-valued.

Credit Suisse Hedge Fund Index – Multi/ Strategy: Asset-weighted index composed of hedge funds with a multi-strategy. Multi-strategy hedge funds are the most diverse portfolios in the hedge fund universe. Multi-strategies combine different single hedge fund strategies in one portfolio and differentiate considerably from each other. Most often, such portfolios include a variety of long-short, relative value, and event-driven strategies.

Credit Suisse Hedge Fund Index: Asset-weighted hedge fund index that includes open and closed funds. Seeks to measure hedge fund performance and provide the most accurate representation of the hedge fund universe.

HFRI Fund of Funds Composite: The Hedge Fund Research Indices Fund of Funds is an index comprised of funds that invest with multiple managers through funds or managed accounts. The strategy designs a diversified portfolio of managers with the objective of significantly lowering the risk (volatility) of investing with an individual manager. The Fund of Funds manager has discretion in choosing which strategies to invest in for the portfolio.

S&P Goldman Sachs Commodity Index: Commodities index that tracks the performance of the global commodities market. It is made up of exchange-traded futures contracts that cover physical commodities spanning five sectors: energy products, industrial metals, agricultural products, livestock products and precious metals.

West Texas Intermediate (**WTI) Crude Oil NYMEX Near Term ($/bbl) (WTI Crude):** Price of light, sweet, landlocked crude oil that serves as one of the main global oil benchmarks. It is sourced primarily from inland Texas and is useful for pricing any oil produce in the United States, primarily from the Permian Basin.

Crude Oil Brent Global Spot ICE ($/bbl) (Brent Crude): Price of waterborne crude oil based on a basket of North Sea crudes. The brent crude oil blend extracted from the North Sea, comprises Brent Blend, Forties Blend, Oseberg, Ekofisk, and Troll crudes, commonly referred to as BFOET.

Gold Spot: The purchase price of a single troy ounce of the metal (gold) for immediate delivery, as opposed to a date in the future.

Silver Spot: The purchase price of a single troy ounce of the metal (silver) for immediate delivery, as opposed to a date in the future.

British pound (GBP) /Dollar (USD): Current exchange rate of the British Pound (GBP) to US Dollar (USD)

Dollar (USD)/ Mexican Pesos (MXN): Current exchange rate of US Dollar (USD) to Mexican Pesos

Dollar (USD)/Japanese Yen (JPY): Current exchange rate of Dollar (USD) to Japanese Yen (JPY)

Dollar (USD)/Swiss Franc (CHF): Current exchange rate Dollar (USD) to Swiss Franc (CHF)

Euro (EUR)/Dollar (USD): Current exchange rate of Euro (EUR) to US Dollar (USD)

Earnings per share (EPS): Monetary value of earnings per outstanding share of common stock for a company. It is a key measure of corporate profitability and is commonly used to price stocks.