Regions Wealth Management

Economic & Investment Strategy Overview

February 9, 2026

Adrian A. Hughes, CFA
Head of Enhanced Cash & Trading
Sr. Vice President & Portfolio Manager
Regions Investment Management
adrian.hughes@regions.com
205-264-4230

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Market Updates

- Economic & Financial Market Overview

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Market Returns

Equities	Trailing 3-Months 12/31/2025	YTD 12/31/2025	2024	2023	2022	2021	2020	2019
S&P 500 Index (Large Cap Stocks)	2.65%	17.88%	25.02%	26.29%	-18.11%	28.71%	18.40%	31.49%
S&P 500 Growth Index (Large Cap Growth)	2.21%	22.18%	36.07%	30.03%	-29.41%	32.01%	33.47%	31.13%
S&P 500 Value Index (Large Cap Value)	3.20%	13.19%	12.29%	22.23%	-5.22%	24.90%	1.36%	31.93%
S&P 1000 Index (Small to Mid Cap)	1.67%	7.04%	12.34%	16.35%	-13.98%	25.35%	12.98%	25.14%
S&P 400 Mid Cap Index (Mid Cap)	1.64%	7.50%	13.93%	16.44%	-13.06%	24.76%	13.66%	26.20%
S&P 600 Small Cap Index (Small Cap)	1.70%	6.02%	8.70%	16.05%	-16.10%	26.82%	11.29%	22.78%
MSCI World Ex-US (Foreign Stocks)	5.05%	32.39%	5.53%	15.62%	-16.00%	7.82%	10.65%	21.51%
MSCI EAFE Index (Foreign Developed Stocks)	4.86%	31.22%	3.82%	18.24%	-14.45%	11.26%	7.82%	22.01%
MSCI EM Index (Emerging Stocks)	4.73%	33.57%	7.50%	9.83%	-20.09%	-2.54%	18.31%	18.42%
Fixed Income								
Bloomberg US Agg Bond (Core Bond)	1.10%	7.30%	1.25%	5.53%	-13.01%	-1.54%	7.49%	8.72%
Bloomberg Global Agg Ex USD (International Bond)	0.24%	8.17%	-1.68%	5.72%	-16.25%	-4.71%	9.17%	6.84%
Bloomberg National Muni (Municipal Bond)	1.56%	4.25%	1.05%	6.40%	-8.53%	1.52%	5.20%	7.54%
Bloomberg High Yield Corporate (High Yield Bond)	1.31%	8.62%	8.17%	13.45%	-11.19%	5.28%	7.09%	14.32%
Bloomberg US Treasury TIPS (Inflation-Protected Bond)	0.13%	7.01%	1.83%	3.90%	-11.85%	5.96%	10.96%	8.43%
Bloomberg 1-3M T-Bill Index (Money Market)	1.01%	4.29%	5.31%	5.14%	1.52%	0.04%	0.54%	2.21%
Diversified Strategies								
HFRX Global Hedge Fund Index (Liquid Alternative)	1.41%	7.14%	5.25%	3.10%	-4.41%	3.65%	6.79%	8.62%

Source: Prepared by Regions Asset Management using data from Bloomberg. Past performance is not an indication of future results.

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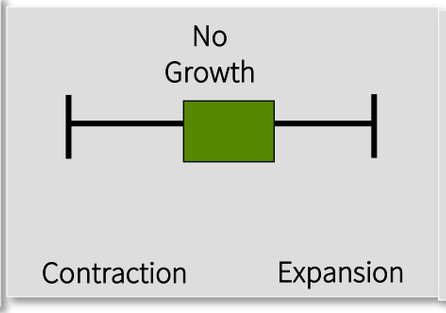
Economy

Overview & Outlook

Economy



Risks:

•Renewed supply chain disruptions, prospect of broadly based trade wars, persistent inflation pressures, labor shortages tied to immigration reform, negative wealth effects triggered by a sharp decline in equity prices, global capital flowing out of U.S. dollar denominated assets, and an unsustainable fiscal path all pose downside risks to our baseline outlook.

Opportunities:

•Still-strong household and business balance sheets, accommodative financial conditions, faster than anticipated deceleration in core inflation, corporate tax reform and clarity around the policy outlook, and sustained acceleration in labor productivity growth pose upside risks to our baseline outlook.

A Long, Strange Trip . . . To Where We Thought We'd Get

▪The Bureau of Economic Analysis (BEA) released a revised estimate showing real GDP grew at an annual rate of 4.4 percent in Q3 2025. Growth in consumer spending and a smaller U.S. trade deficit were the main drivers of Q3 growth.[1] The release of the Q4 GDP data has been delayed until February 20, as the disruptions in the flow of data stemming from the government shutdown have not been fully cleared. The data now at hand suggest real consumer spending and business investment in equipment and machinery were tracking to grow at a faster pace in Q4 than our forecast anticipated. The wild cards in the Q4 data remain net exports and government spending.

▪When all is said, done, and revised, we expect the data to show full-year 2025 real GDP growth of 2.2 percent, which would match the forecast we laid out in the January 2025 edition of this deck. That said, while the economy will have gotten to where we thought it would go in 2025, how it got there was not exactly how we envisioned at the start of the year.

▪Consumer spending, business inventory accumulation, and net exports were more volatile than normal in 2025, largely reflecting households and businesses acting in anticipation of and then in reaction to shifts in U.S. trade policy. By year-end-2025, however, consumer spending had settled into a more stable pace while business investment in equipment and machinery and in intellectual property products were notably strong. At the same time, the acceleration in the pace of labor productivity growth acted as an important counter to a markedly slower pace of labor force growth.

▪To the downside, the manufacturing sector was stagnant for much of 2025, as higher tariff rates disrupted supply chains and left many firms facing higher input costs. Affordability constraints continued to weigh on demand for home purchases and elevated inventories led builders to cut back on new construction. Inflation remained well above the FOMC's 2.0 percent target rate.[2,3,4]

2026 To Be Calm, Quiet, And Predictable . . . Or Not

▪Our January baseline forecast anticipates full-year 2026 real GDP growth of 2.5 percent. Absent the sizable swings in net exports and inventories stemming from changes in U.S. trade policy in 2025, the quarterly profile of real GDP growth should be more stable in 2026.

▪Changes in the individual and corporate tax codes enacted into law in the summer of 2025 should provide support for 2026 real GDP growth. A sizable boost in after-tax income, reflecting larger income tax refunds, lower withholding rates, and expanded tax credits, will support consumer spending. Immediate expensing of capital investment and expanded interest deduction will boost corporate cash flows and should support business investment in equipment and machinery and intellectual property products. Business investment in structures, however, is expected to remain weak.

▪We anticipate only modest job growth in 2026 which, as in 2025, will reflect a low rate of hiring while the layoff rate remains low. If, however, labor supply growth remains as weak as we anticipate, the "breakeven" pace of job growth, i.e., the pace of monthly job growth required to keep the unemployment rate stable, is likely below 50,000 jobs per month. Our January baseline forecast anticipates an average unemployment rate of 4.4 percent for 2026.

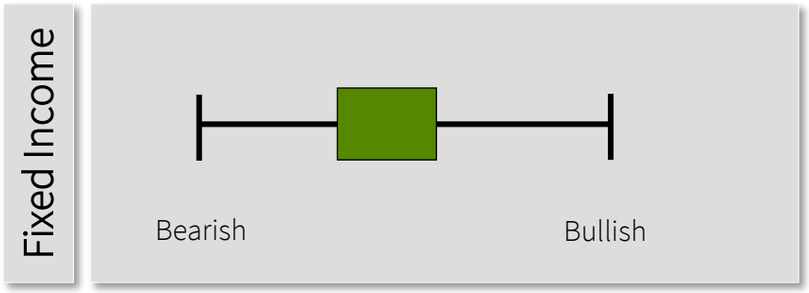
▪Despite modestly lower mortgage interest rates, affordability constraints will continue to weigh on demand for home purchases. We anticipate declines in single family housing starts and new home sales in 2026.

▪Our January baseline forecast anticipates headline and core PCE inflation will remain above the FOMCs 2.0 percent target rate through 2027. We expect to see further tariff pass-through into final goods prices in 2026, which would help sustain broader inflation pressures. With the Fed funds rate nearing what many would consider its "neutral" value, there is limited room for further funds rate cuts in 2026. Significant softening in labor market conditions would be supportive of further rate cuts but persistent inflation pressures could preclude further rate cuts.

Source: 1) Bureau of Economic Analysis (BEA); 2) Institute for Supply Management (ISM) 3) U.S. Census Bureau; 4) Bureau of Labor Statistics (BLS)

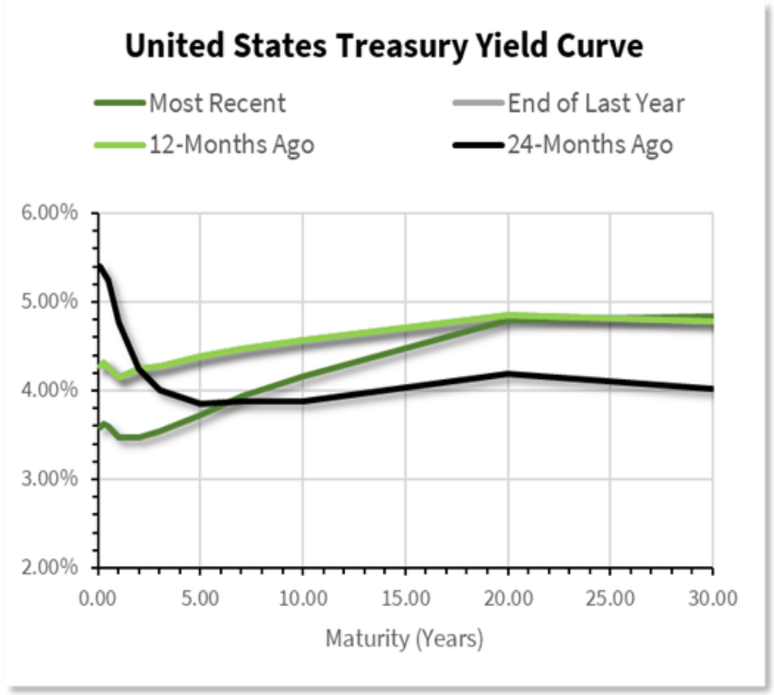
Fixed Income

Overview & Outlook



Yields as of December 31, 2025

US Treasuries	
3-month	3.63%
2-year	3.47%
5-year	3.73%
10-year	4.17%
30-year	4.84%



Source: Prepared by Regions Asset Management using data from Bloomberg.

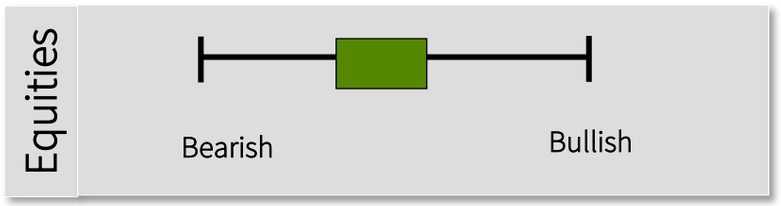
Summary View: Neutral

- The Federal Open Market Committee (FOMC) cut the Fed funds rate by 25-basis points at its December meeting and lowered the funds rate by 75-bps in 2025. The FOMC's updated dot plot painted a rosy picture of the U.S. economy in the coming year with expected GDP growth of 2.1%, PCE inflation moving lower and the unemployment rate ending the year at 4.4%, below the current 4.6% level. We expect the FOMC to be on hold at its late January meeting and are only forecasting one 25-basis point rate cut this calendar year as we don't expect the labor market to deteriorate to a degree requiring substantial further intervention.
- Investment-grade (IG) corporate bonds remain beholden to the path taken by rates in the belly of the Treasury curve, and we see little downside for Treasury yields in the 5- to 10-year portion of the curve at present, likely limiting total return potential for higher quality corporate issues. The credit spread over the Treasury curve for the Bloomberg U.S. Corporate index sat at 78-basis points in mid-December, leaving only 7/8-bps of potential spread tightening under the most bullish of scenarios, in our view, and as a result we would wait for dislocations and spread widening before allocating additional capital to IG corporates.
- High yield (HY) corporates bonds got cheaper in the back-half of November, with the credit spread on the Bloomberg U.S. Corporate High Yield index over the U.S. Treasury curve eclipsing 300-basis points as cuts to the Fed funds rate were priced out. However, HY corporates rallied to close out the year and have continued to garner investor capital to kick off the new year, pulling credit spreads to two-decade low levels around 250-basis points. Less restrictive monetary policy and U.S. economic growth will likely buoy corporate bonds in the coming year but further spread tightening from here would likely be an opportunity to lower exposure there just isn't enough compensation for taking credit risk at present.
- We are neutral on developed market sovereigns abroad and U.S. dollar denominated emerging market debt to diversify fixed income portfolios, clip a relatively attractive coupon, and reduce U.S. interest rate beta. In the case of EM debt, the asset class has garnered sizable inflows and has performed well in recent years, but investors likely need to temper their expectations moving forward. Yields in the asset class are now substantially lower and interest rate sensitivity is higher, leading us to expect elevated volatility.
- **Risks:** Investors play defense and hide out in cash/money markets, failing to extend portfolio duration to lock-in higher long-term yields; Renewed inflation puts upward pressure on yields, limiting total return.

Total Return	YTD 12/31/2025	2024	2023	2022	2021	2020
Bloomberg US Agg Bond Index	7.3%	1.2%	5.5%	-13.0%	-1.5%	7.5%
Bloomberg High Yield Corp Index	8.6%	8.2%	13.4%	-11.2%	5.3%	7.1%
Bloomberg Global Agg Ex USD Index ($Hedged)	4.9%	3.4%	7.1%	-11.2%	-1.4%	5.6%
Bloomberg EM USD Aggregate Index	11.1%	6.6%	9.1%	-15.3%	-1.7%	6.5%
Bloomberg US Treasury TIPS Index	7.0%	1.8%	3.9%	-11.8%	6.0%	11.0%
Bloomberg 1-3M T-Bill Index	4.3%	5.3%	5.1%	1.5%	0.0%	0.5%

Equities

Overview & Outlook



S&P 500 Statistics as of December 31, 2025

Fundamentals	
2025 Earnings	273
2026 Earnings	311
Earnings Growth %	13.7%
Forward P/E (x)	25.3
Dividend Yield	1.15%
Technicals	
% of Stocks Above 200ma	66%
VIX (CBOE Volatility Index)	17.33

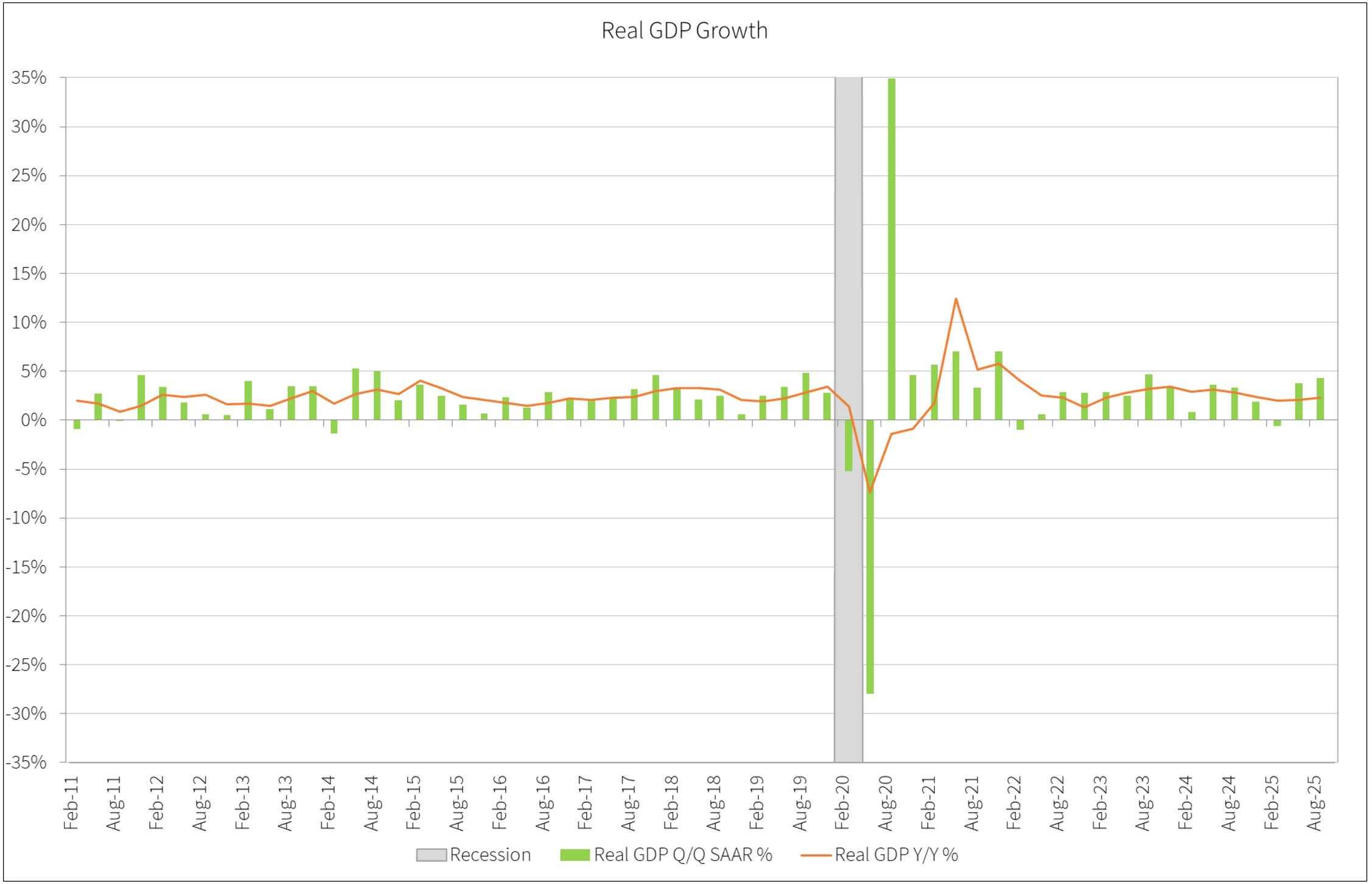
Summary View: Neutral

- The S&P 500's valuation remains stretched by historical standards, but positive earnings revisions for 2026 and 2027 are supportive of further upside in the coming quarters. Economic surprises skewed positively prior to the government shutdown, and we expect fiscal spending and less restrictive monetary policy to boost economically sensitive sectors this year. Concerns surrounding outsized spending on AI infrastructure are worth monitoring as they could provide opportunities to own longer-term winners at better valuations.
- Small and mid-cap (SMid) U.S. stocks have the potential for a catch-up trade in coming quarters as we expect the U.S. economy to grow by around 2.5% in '26, benefitting more economically sensitive sectors. Greater clarity/confidence regarding the path forward for monetary policy and for the U.S. economy could spur inflows into SMid in the near-term, and an uptick in M&A is another potential tailwind. High yield credit spreads remain tight, leaving in place a constructive backdrop for SMid due to ties between high yield bonds and SMid issuers.
- After the double-digit decline in the U.S. dollar in the first half of 2025, the greenback has found support and could pose a headwind for international developed equities. The Eurozone is undergoing secular changes that could provide more attractive investment opportunities over the intermediate-term, but in the short-term market participants have pulled forward a lot of good news that has yet to translate into actual economic and earnings growth upside. After leading for much of 2025, Japan enters 2026 at a crossroads where expansionary fiscal policy is likely to be met by more restrictive monetary policy and potential sales of equity ETFs by the country's government. As a result, we expect more modest upside out of Japanese stocks in the coming year.
- We are constructive on the outlook for China, Brazil, Mexico, South Korea, and Taiwan, among others, in the new year and, broadly speaking, investors appear optimistic that improved economic growth in the developing world will spur capital inflows. An active and more selective approach to EM will likely be rewarded in '26.
- Risks: Estimates for S&P 500 earnings growth stalls and moves lower, Spending on AI infrastructure flags, calling valuations into question; Uncertain trade policy weighs on sentiment and demand for riskier assets, i.e., stocks.

Total Return Domestic Equity	YTD 12/31/2025	2024	2023	2022	2021	2020	5-Year Trailing
S&P 500 Index (Large Cap)	17.9%	24.9%	26.3%	-18.1%	28.7%	18.3%	14.4%
S&P 500 Growth Index (Large Cap Growth)	22.2%	36.0%	30.0%	-29.4%	32.0%	33.4%	15.0%
S&P 500 Value Index (Large Cap Value)	13.2%	12.3%	22.2%	-5.2%	24.9%	1.4%	13.0%
S&P 1000 Index (Small to Mid Cap)	7.0%	12.3%	16.3%	-14.0%	25.3%	12.9%	8.6%
S&P 400 Mid Cap Index (Mid Cap)	7.5%	13.9%	16.4%	-13.1%	24.8%	13.6%	9.1%
S&P 600 Small Cap Index (Small Cap)	6.0%	8.7%	16.1%	-16.1%	26.8%	11.3%	7.3%
International Equity							
MSCI World Ex-US (Foreign Stocks)	32.4%	5.5%	15.6%	-16.0%	7.8%	10.6%	7.9%
MSCI EAFE Index (Foreign Developed)	31.2%	3.8%	18.2%	-14.5%	11.3%	7.8%	8.9%
MSCI EM Index (Emerging Stocks)	33.6%	7.5%	9.8%	-20.1%	-2.5%	18.3%	4.2%

Source: Prepared by Regions Asset Management using data from Morningstar and FactSet.

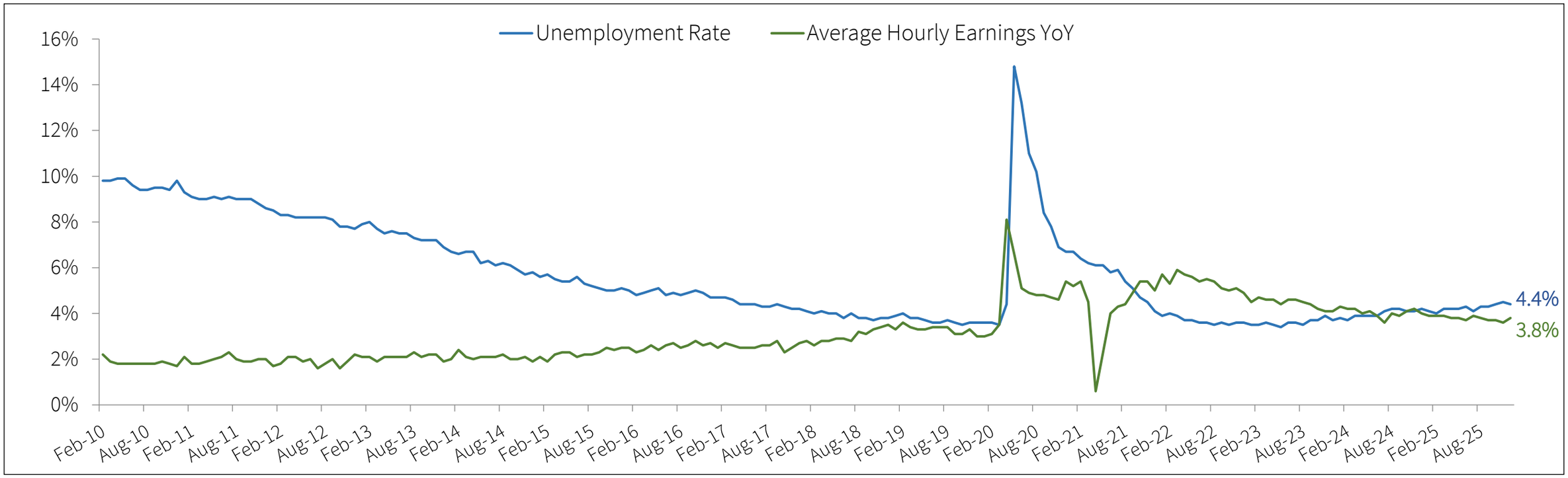
U.S. Real GDP Growth

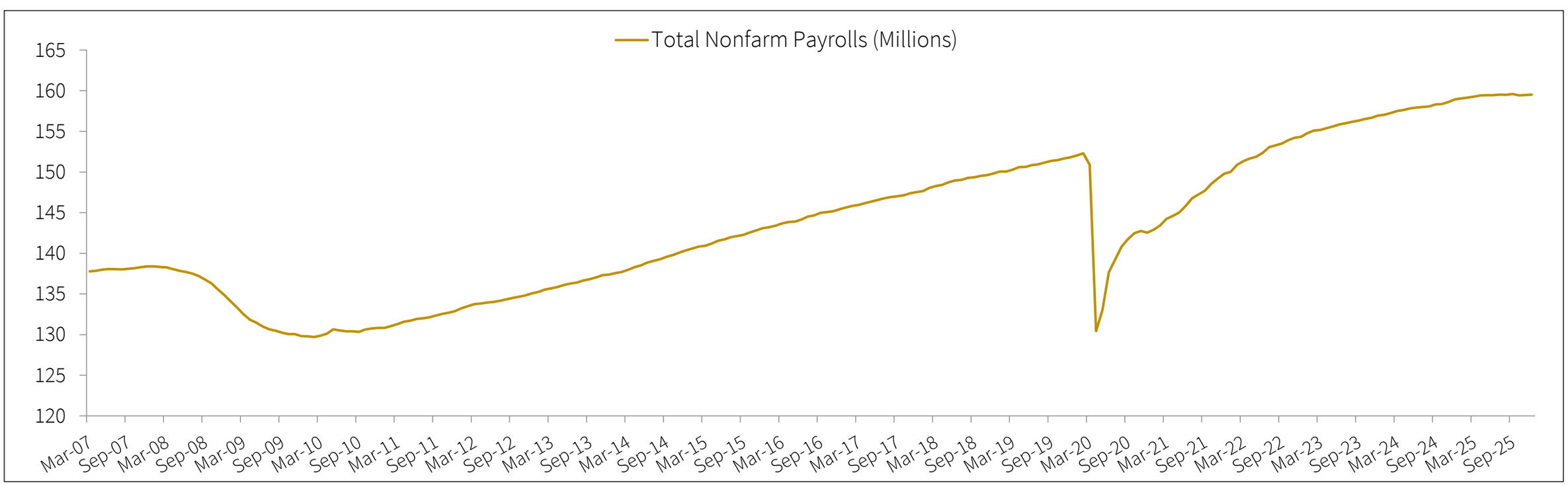


Source: Bloomberg

Internal Use

Payrolls, Unemployment, and Wages





Source: Bloomberg

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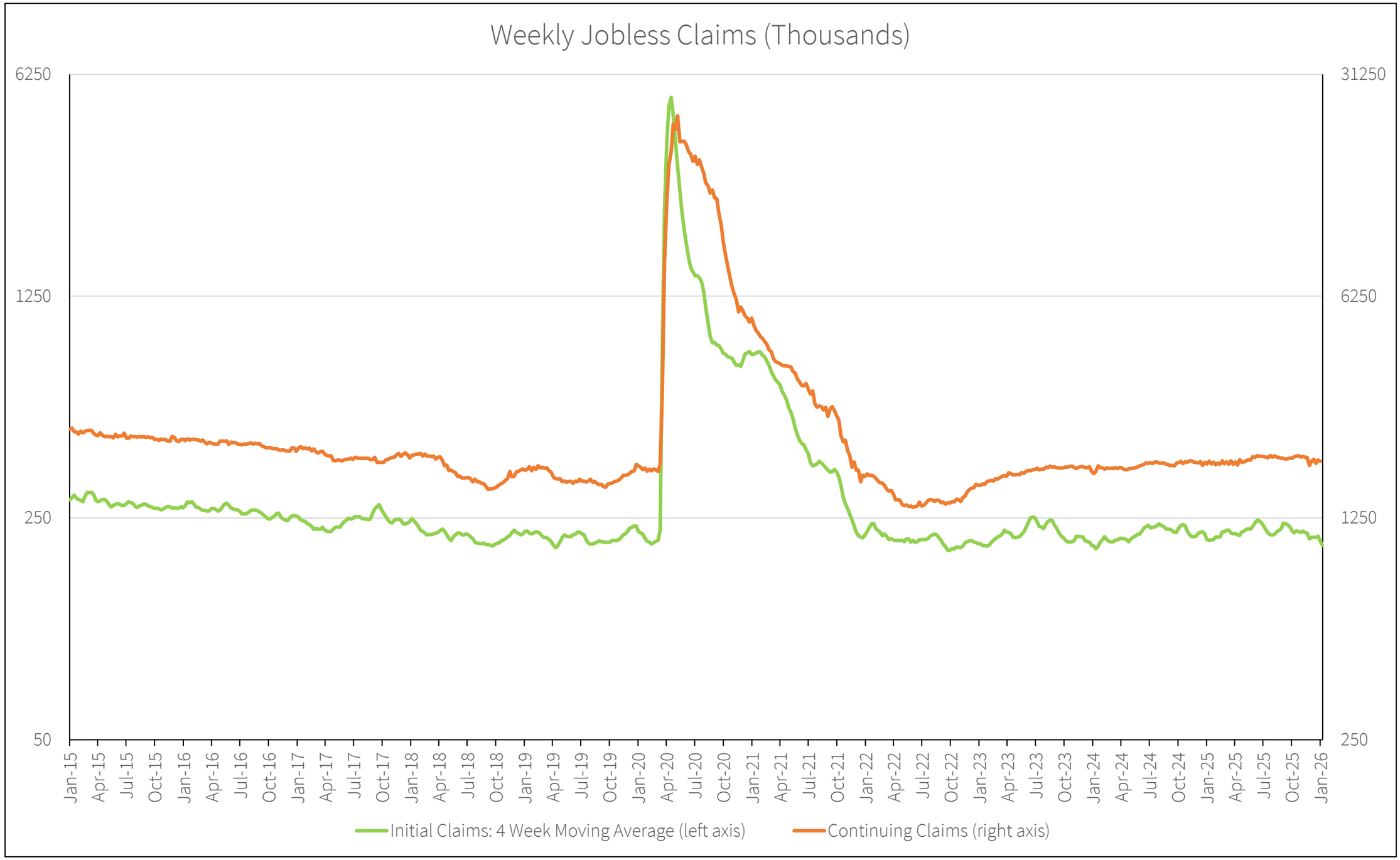
Jobless Claims



Source: Bloomberg

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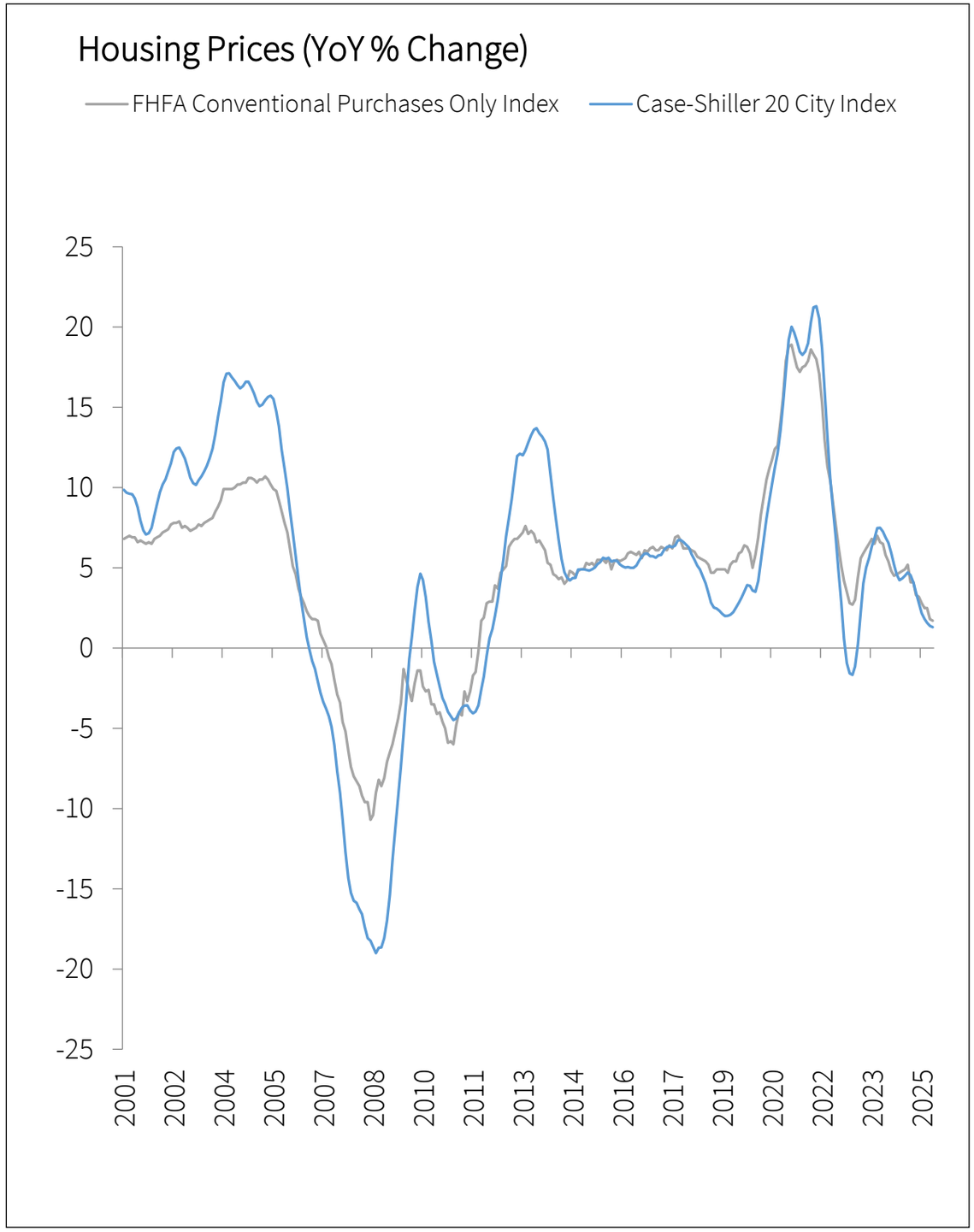
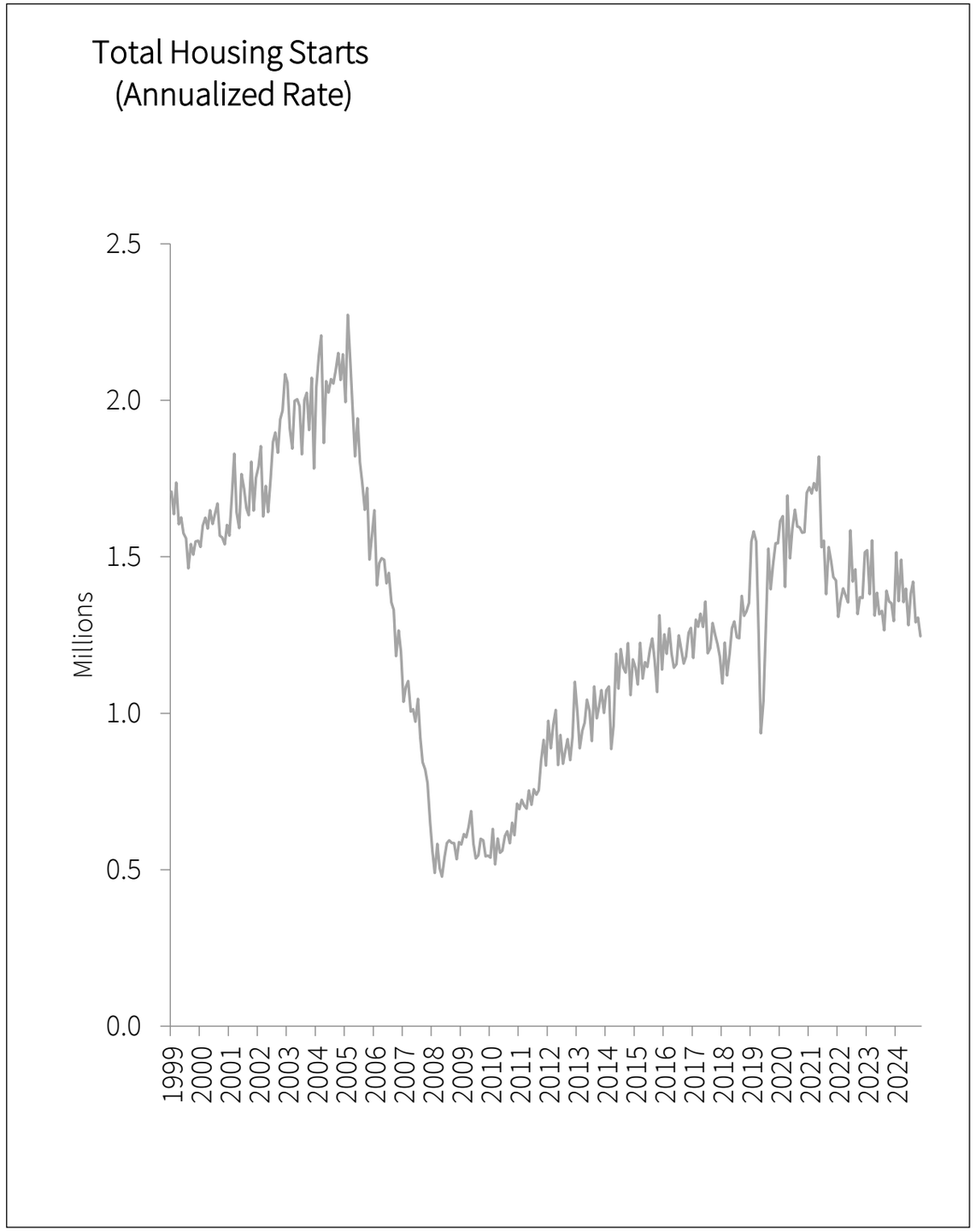
U.S. Housing





Source: Bloomberg

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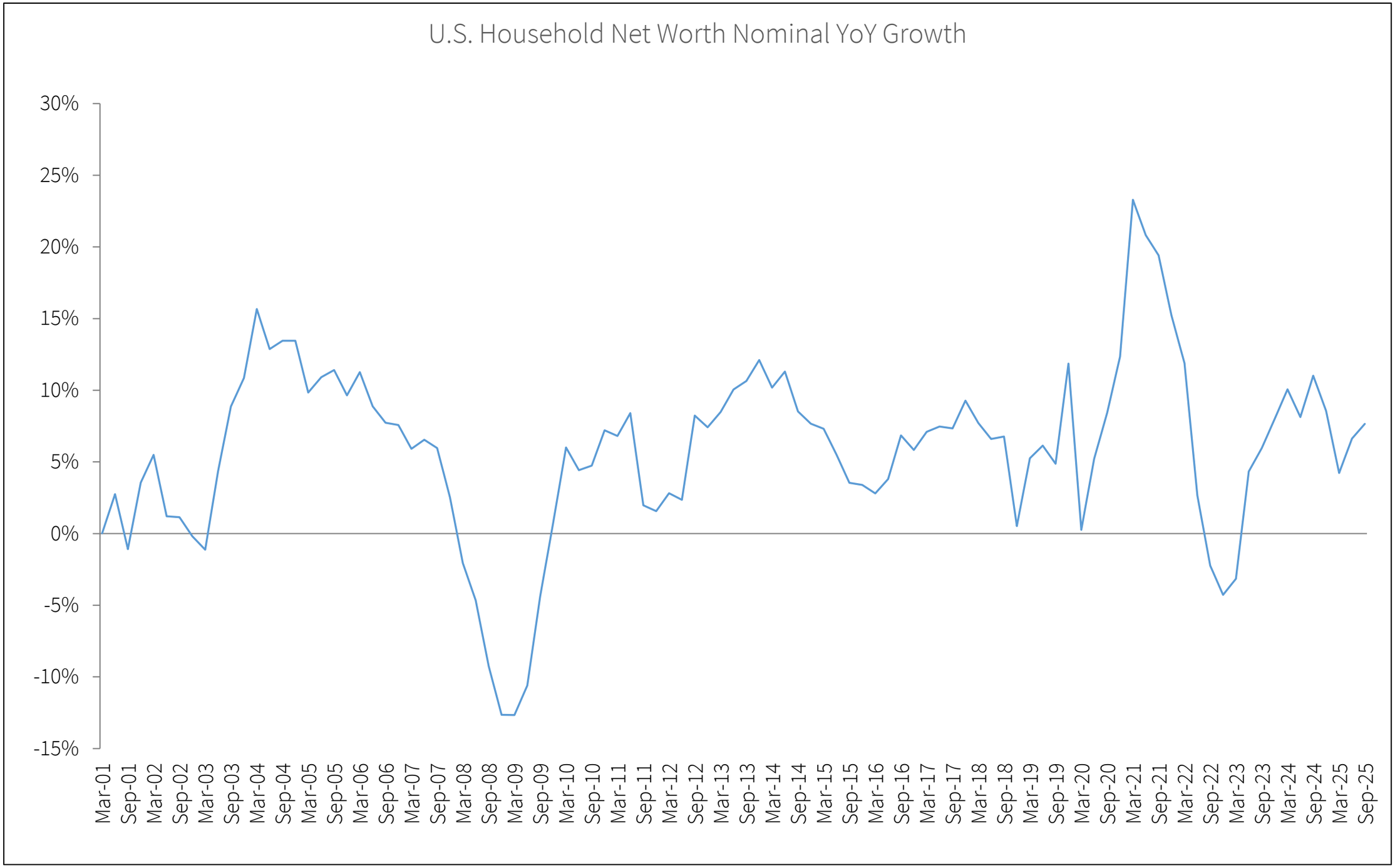
Household Net Worth



Source: Bloomberg

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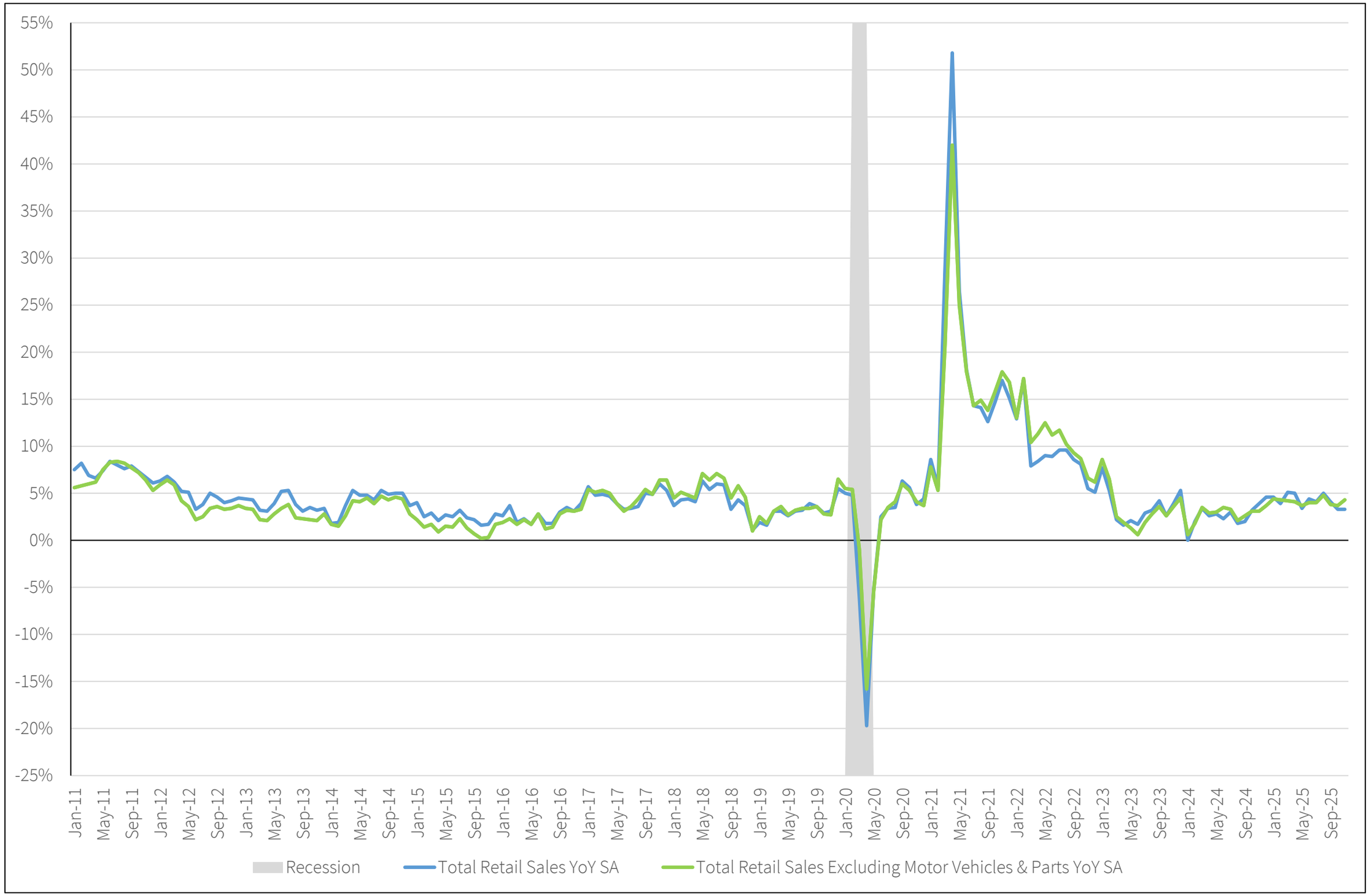
U.S. Retail Sales



Source: Bloomberg

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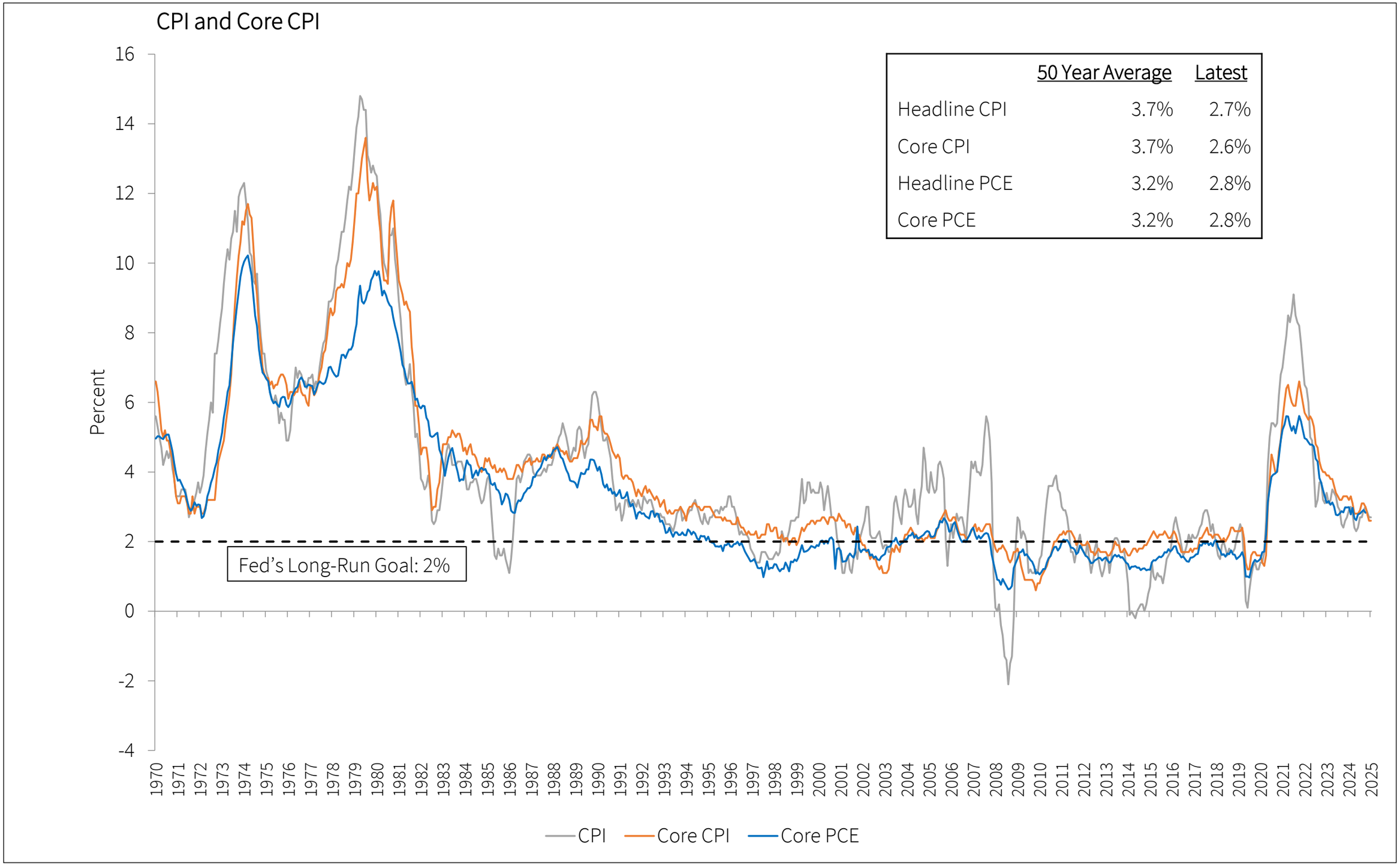
Inflation



	50 Year Average	Latest
Headline CPI	3.7%	2.7%
Core CPI	3.7%	2.6%
Headline PCE	3.2%	2.8%
Core PCE	3.2%	2.8%

Source: Bloomberg

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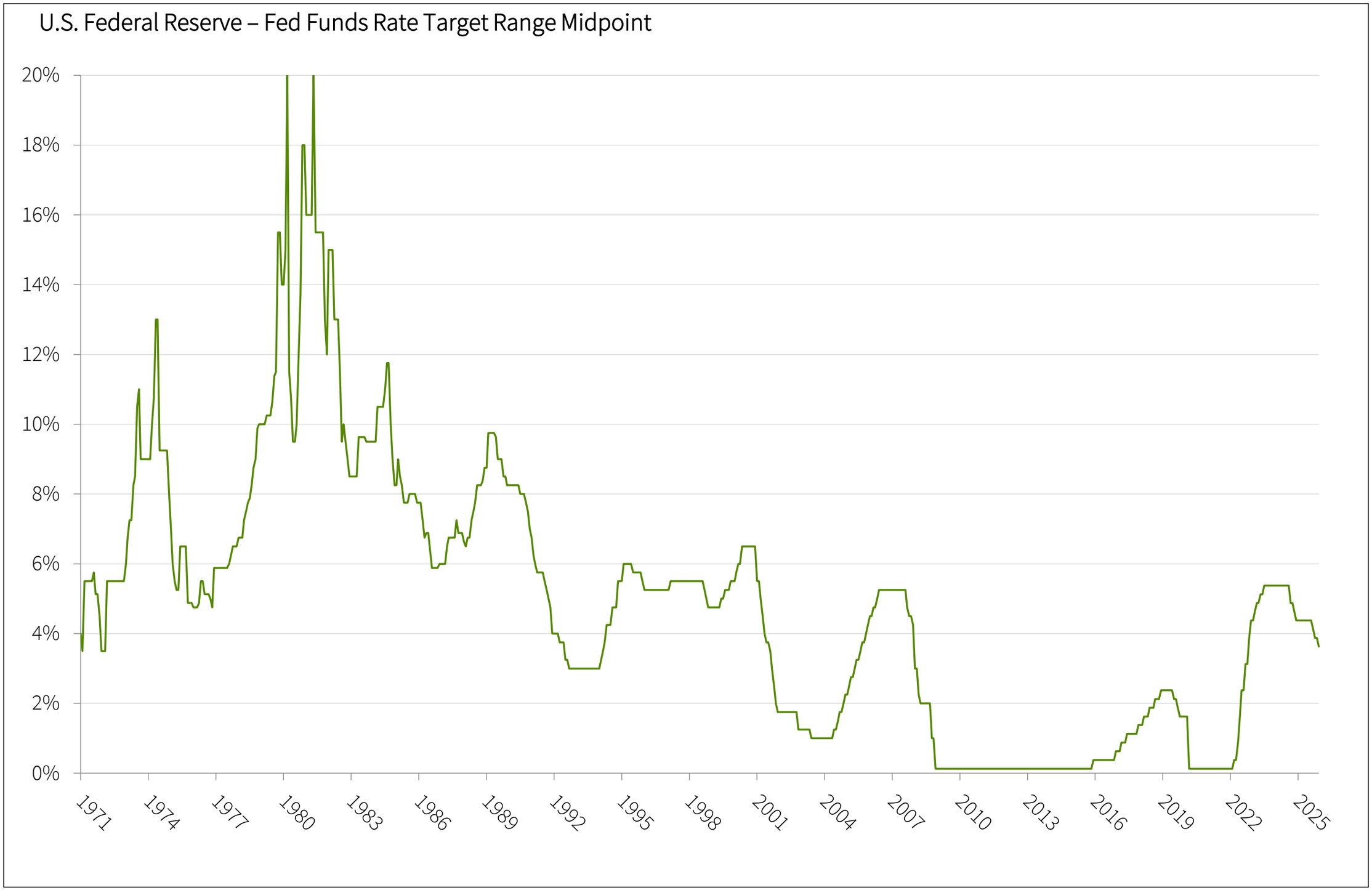
U.S. Fed Funds Rate



Source: Bloomberg

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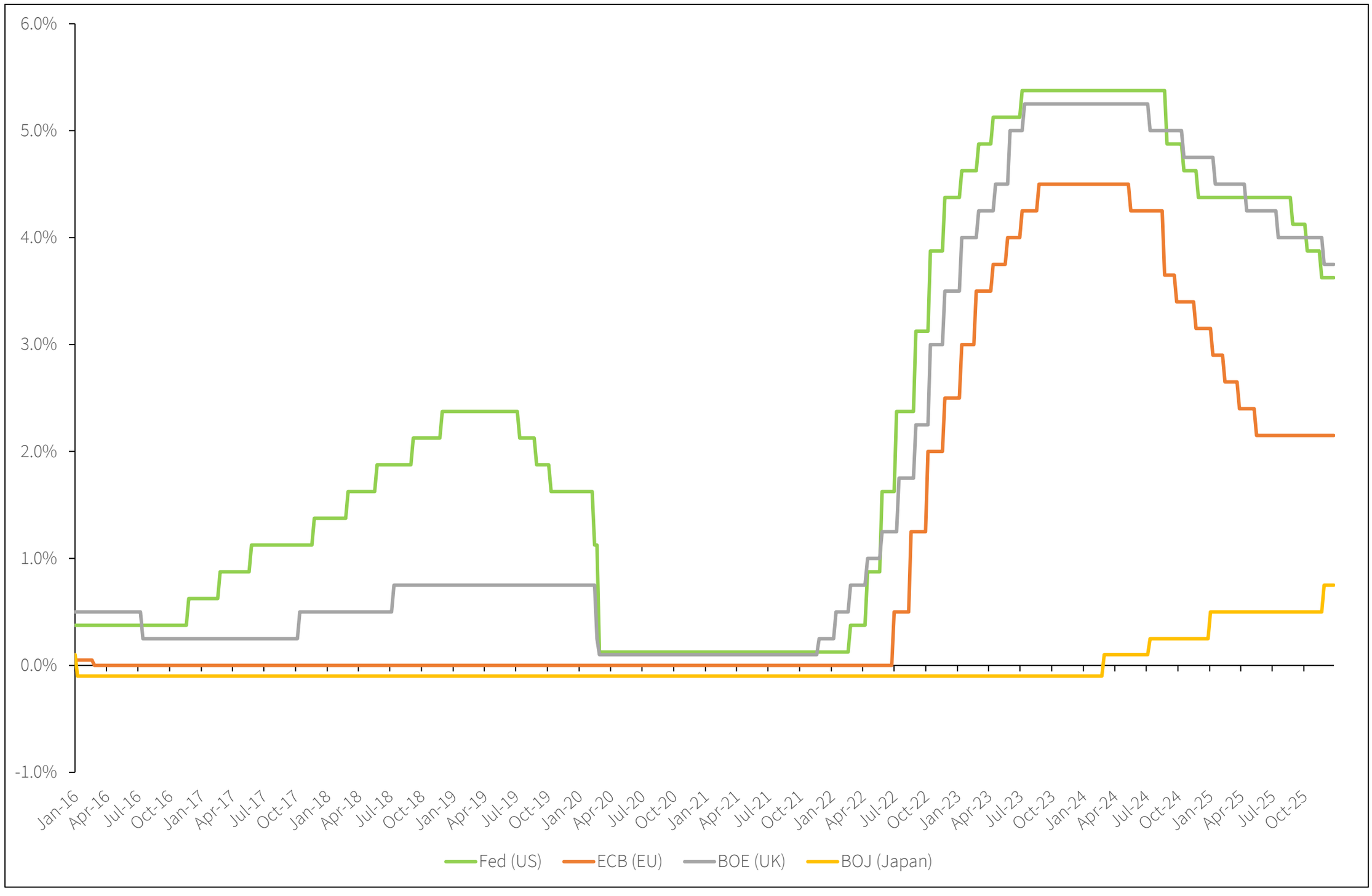
Central Bank Rates



Source: Bloomberg

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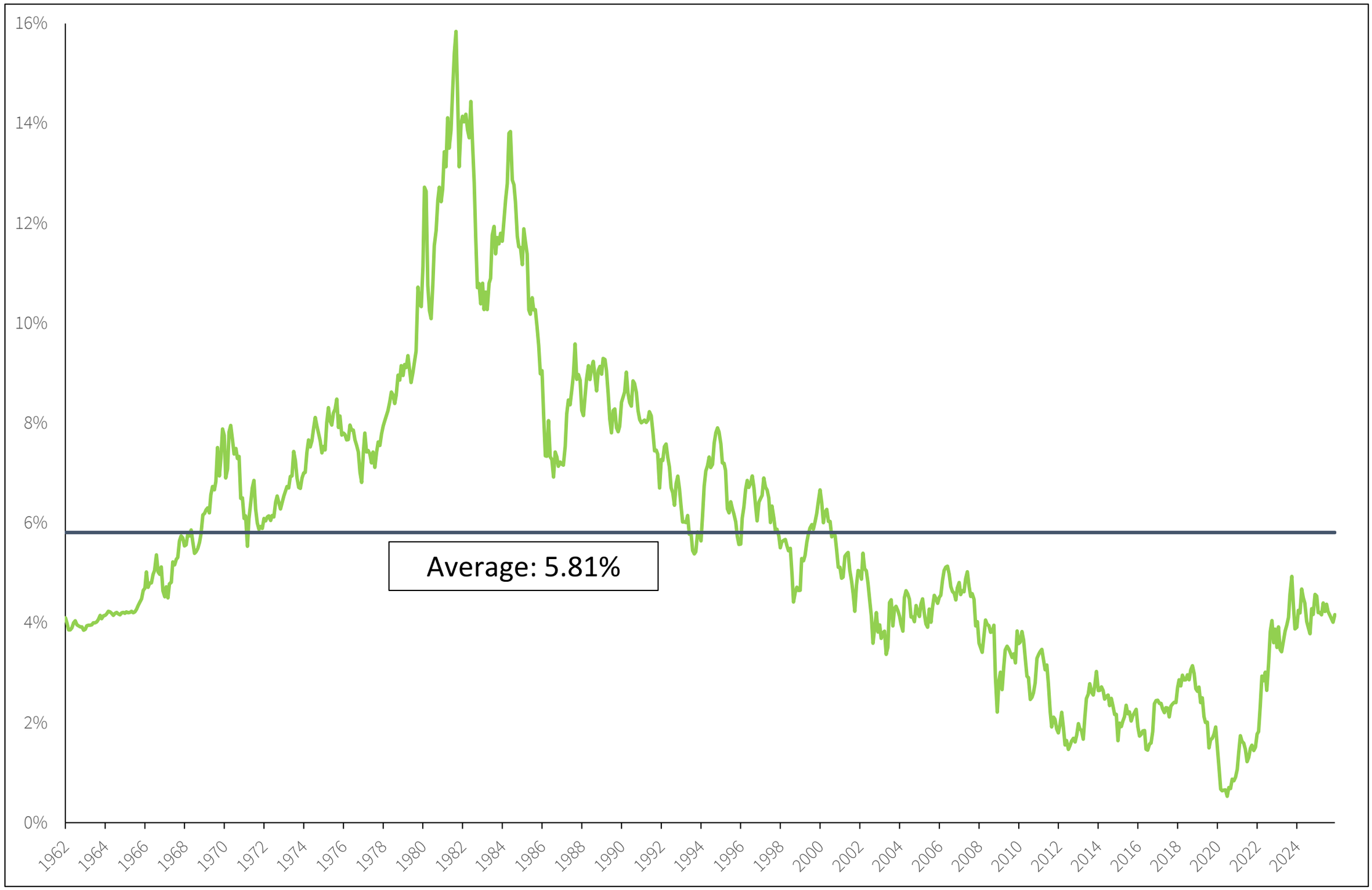
10-Year U.S. Treasury Yield



Source: Bloomberg

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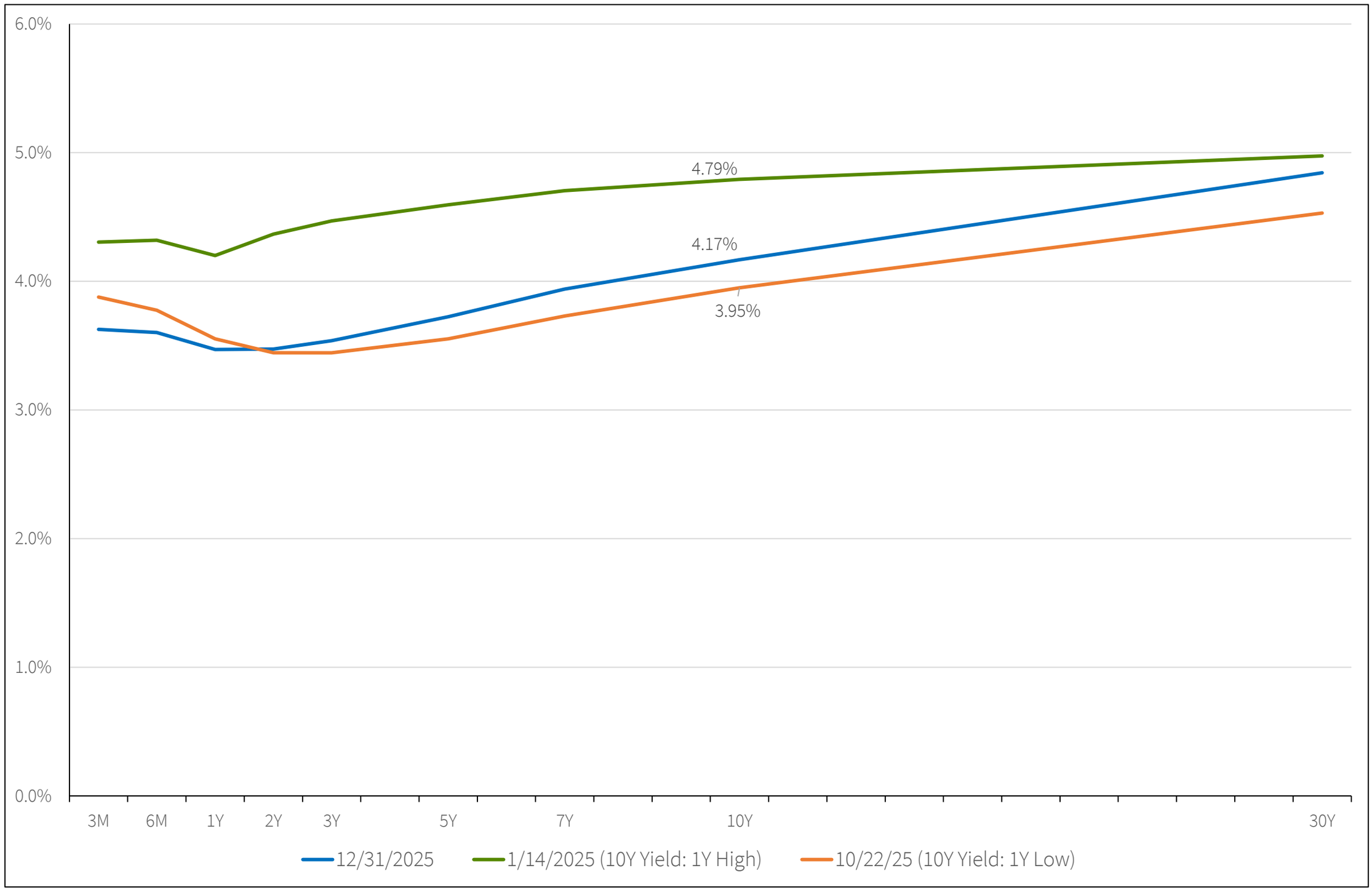
U.S. Treasury Yield Curve



Source: Bloomberg

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Overview of Investing

- Definitions
- Why Invest?
- Components of Investment Return

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Investment Definitions

Investing: *Investing is the current commitment of money or other resources in the expectation of reaping future benefits.*

- Investing can create an income stream, grow your principal, or both.

- Investing is usually a longer-term commitment as opposed to trading or speculation.

- Examples of “investment vehicles”: real estate, stocks, bonds, mutual funds, exchange traded funds (ETFs), and certificates of deposit (CDs).

Source: Bodie, Z., Kane, A., & Marcus, A. J. (2010). Essentials of Investments. New York, NY: McGraw-Hill Education.

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Investment Definitions

Examples of "investment vehicles" allowed by Alabama law for State Treasury monies include:

- Bonds, Notes, or Treasury Bills of the United States Government (US)
- Obligations of any agency or instrumentality of the US; such as Federal Home Loan Bank
- Obligations guaranteed as to principal and interest by the US
- U.S. Government money market mutual funds
- Commercial paper of the highest credit rating
- State of Israel Bonds
- Certificates of Deposit

Source: Code of Alabama (1975) – Section 41-14-30

Internal Use

Investment Definitions

Stock: *A stock is a type of security that signifies ownership in a corporation and represents a claim on part of the corporation's assets and earnings.*

- When you invest in, or buy a stock, you are becoming part owner of that corporation.

- Dividends are the return of a portion of the company's earnings to its owners or stockholders and are generally paid quarterly and paid on a per-share basis.

- Not all stocks pay dividends.

- Equity or stock returns are potentially higher than on bonds because there is increased risk of losing some or even all of your investment.

Source: Bodie, Z., Kane, A., & Marcus, A. J. (2010). Essentials of Investments. New York, NY: McGraw-Hill Education.

~ Note: <u>Stocks are not allowed</u> as investment with AL Treasury monies

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Investment Definitions

Bond: *A bond is a debt investment in which an investor loans money to an entity (typically corporate or governmental) which borrows the funds for a defined period of time at a variable or fixed interest rate.*

- When you invest in or buy a bond, you are lending money to that company or entity.
- The bond pays interest, generally semi-annually, at a stated rate for the life of the bond.
- At maturity, the issuer pays you back the “par value” or “face value”, which may be more, less or equal to your cost basis.
- Bonds historically have been much less volatile than stocks, due to fixed interest and increased safety of principal. They also have had lower returns for the same reasons.

Source: Bodie, Z., Kane, A., & Marcus, A. J. (2010). Essentials of Investments. New York, NY: McGraw-Hill Education.

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Investment Definitions

United States Treasury Bills, Notes, and Bonds: *The federal government offers fixed-income securities to fund operations. Treasuries are debt instruments in which investors are lending the U.S. Government the purchase amount of the bond.*

- Depending on the maturity range when issued, a U.S. Treasury debenture may be defined as a bill, note or bond.

- Treasury bills (T-bills) have the shortest maturity terms, which are up to one year. T-bills are issued at a discount and do not pay any interest. Therefore, the total return to investors comes in the form of price appreciation.

- Treasury notes mature between two and 10-years, and Treasury bonds mature in 20-30 years. Treasury notes and bonds pay interest, or a coupon, bi-annually, so an investor's total return consists of the interest paid plus any change in price.

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U.S. Treasury Bill & Note Example

Characteristics

	U.S. Treasury Bill	U.S. Treasury Note
Yield to Maturity	3.63%	3.68%
Coupon	0.000%	3.500%
Effective Duration	0.50 years	2.80 years
Final Maturity	0.50 years	3.00 years
Average Quality	Aa1	Aa1

Source: BondEdge & Bloomberg Barclays Capital; Bloomberg Index Services Limited. BLOOMBERG® is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively "Bloomberg"). BARCLAYS® is a trademark and service mark of Barclays Bank Plc (collectively with its affiliates, "Barclays"), used under license. Bloomberg or Bloomberg's licensors, including Barclays, own all proprietary rights in the Bloomberg Barclays Indices. N either Bloomberg nor Barclays approves or endorses this material, or guarantees the accuracy or completeness of any information herein, or makes any warranty, express or implied, as to the results to be obtained therefrom and, to the maximum extent allowed by law, neither shall have any liability or responsibility for injury or damages arising in connection therewith."

Cusips for securities above: U.S. Treasury Bill: 912797TP2 0% 7/23/26 & U.S., Treasury Note: 91282CPT2 3.50% 1/15/29; pricing data as of 01/22/26

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U.S. Treasury Yield Curve

Tenor	1-30-26	12-31-25	12-31-24	12-31-23
1 Month	3.68	3.59	4.28	5.40
3 Month	3.66	3.63	4.32	5.34
6 Month	3.63	3.61	4.27	5.26
1 Year	3.47	3.48	4.15	4.77
2 Year	3.52	3.48	4.24	4.25
3 Year	3.59	3.54	4.27	4.01
5 Year	3.79	3.73	4.38	3.85
10 Year	4.24	4.17	4.57	3.88
30 Year	4.87	4.85	4.78	4.03
FRBXX*	3.61	3.70	4.36	5.26

Source: Bloomberg

*FRBXX is Fidelity Treasury Portfolio Institutional Shares Money Market Fund

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Investment Definitions

Money Market Mutual Fund: *A subsector of the bond market; consists of very short-term debt securities, which are typically very marketable (or "liquid").*

- Liquidity is assessed by the time and cost it takes to exchange an investment into cash.
- Money market funds primarily allocate principal to U.S. Treasury bills & commercial paper
- Primary objectives are principal preservation, stability, and liquidity.
- Government money market funds only invest in U.S. government-issued or U.S. government-guaranteed securities.
- Lower risk profile equates to lower return potential

Source: Bodie, Z., Kane, A., & Marcus, A. J. (2010). Essentials of Investments. New York, NY: McGraw-Hill Education.

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Why Do You Invest?

It is important to establish clearly defined investment objectives or goals so that you can track progress towards them and address any deficiencies along the way.

- Goals are investor-specific and an investor may have numerous.

- Preservation of principal, liquidity, and income are a few common goals.

- Time horizon of each goal is integral to determining the appropriate strategy to use to achieve the goal.

- Ability and willingness to take risk is important to ascertain. This enables investors to be comfortable with and stick to the investment strategy implemented.

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Components of Investment Return

Total Investment Return = Yield + Capital Appreciation/Depreciation

The ***yield*** is the income return on an investment, such as the ***interest or dividends received*** from holding a particular security. The yield is usually expressed as an annual percentage rate based on the investment's cost, current market value or face value. Yields may be considered known or anticipated depending on the security in question as certain securities may experience fluctuations in value.

Capital appreciation is a rise in the value of an asset based on a rise in market price. It occurs when the asset invested commands a higher price in the market than an investor originally paid for the asset. The capital appreciation portion of the investment includes all of the market value exceeding the original investment or cost basis. ***Depreciation*** would be a decrease in the value of an asset over time.

Source: Bodie, Z., Kane, A., & Marcus, A. J. (2010). Essentials of Investments. New York, NY: McGraw-Hill Education.

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Understanding the Yield Curve

The U.S. Treasury yield curve plots the yields with associated maturities of U.S. Treasury securities.

- The slope of the yield curve can be positive, negative, or flat.

- A “normal” sloping yield curve has a positive slope; as the maturity increases, so does the yield. As the maturity of a bond increases, so does the anticipated investment period along with increased interest rate risk (sensitivity to changes in interest rate moves).

- A positively sloped yield curve usually indicates near-term economic growth; where as, a negatively sloped curve is predicting an economic slowdown or recession.

- Investors can use the yield curve to help implement their outlook on the economy & financial markets.

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An Inverted Yield Curve

Why invest when the yield curve is inverted?

- With an inverted yield curve, shorter-dated bonds yield more than longer-dated bonds.

- When economic growth slows, and even contracts, interest rates usually decline. Therefore, longer-maturity bonds will benefit more than shorter maturities due to the higher degree of interest rate sensitivity.

- When investors are expecting an economic slowdown, they will purchase longer-maturity bonds in anticipation of overall interest rates falling. This increased demand will drive up the prices of these longer-dated bonds, which pushes yields lower.

- Beyond investing based on economic forecasts, investors may also prefer to invest out the yield curve to simply obtain the yields the market currently offers. When expecting to hold bonds to maturity, investors will have a better expectation of cash flows and overall returns, regardless of what the economy and interest rates do. This also helps manage reinvestment risk or having to reinvest proceeds from bond maturities after yields have declined.

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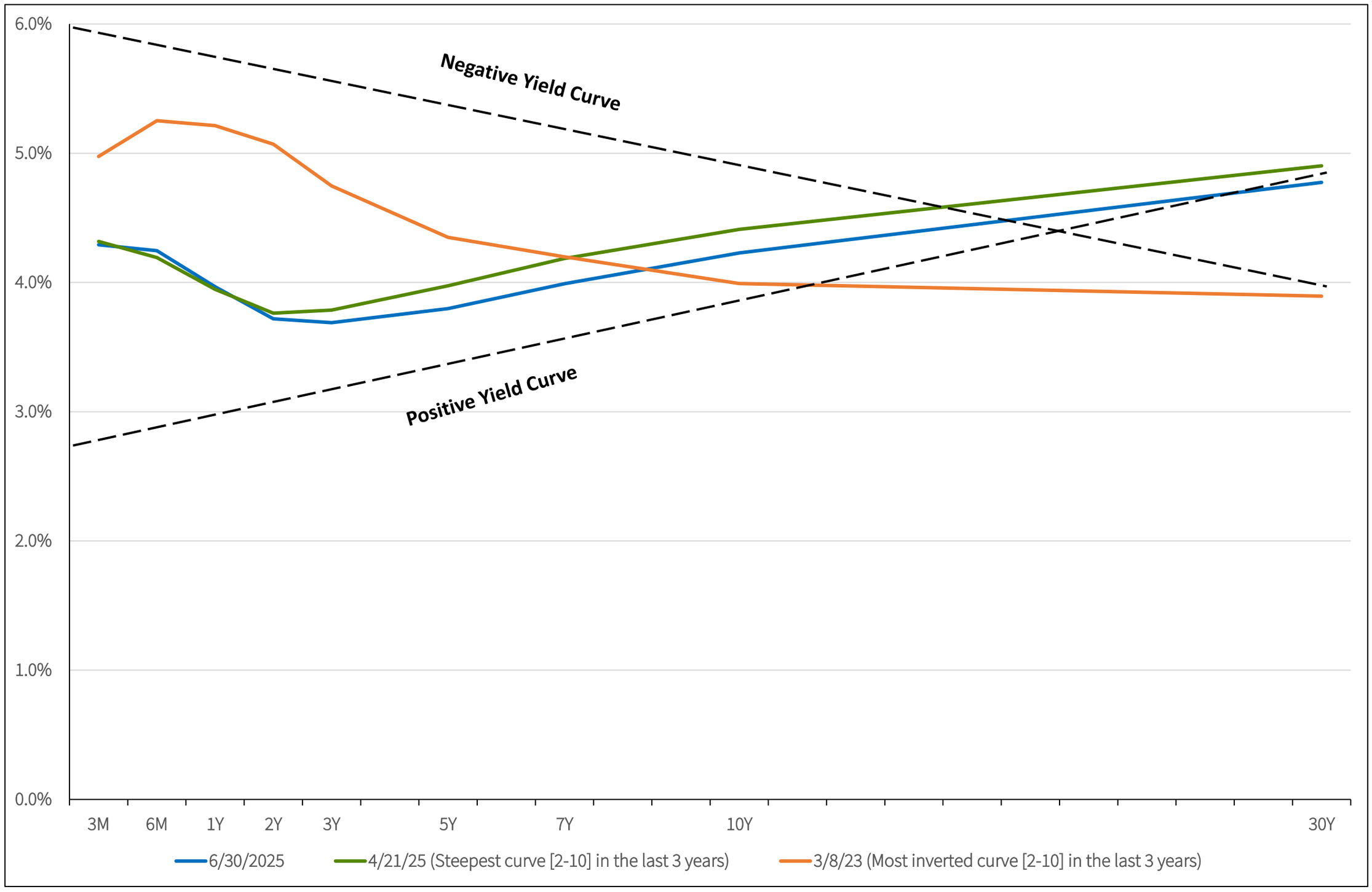
U.S. Treasury Yield Curve



Source: Bloomberg

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Strategy Overview

- Liquidity Management
- Short-Duration, Fixed-Income Management

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Liquidity Management

Learning Objective: *Help illustrate how investment management is being incorporated as part of your overall liquidity management process.*

How should investors view liquidity? Cash? Investment? Or Both?

- The answer ultimately depends on the investor's specific situation, where cash balances, investment parameters, and risk tolerances should all be considered.

- Viewing daily cash, cash reserves, and short-term fixed-income as multiple buckets in a holistic liquidity management solution that has created opportunity for many to incorporate an investment management component.

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Short-Duration Fixed Income Management

Possible benefits of utilizing a conservative bond strategy:

- Potentially competitive risk-adjusted, total return versus cash alternatives

- Incorporates a long-term view, while focusing on liquidity.

- Primary objective is principal preservation with the secondary objective striving to generate stable, predictable cash flows as part of the total return.

- Example may be investing for a 1-3 year timeframe.

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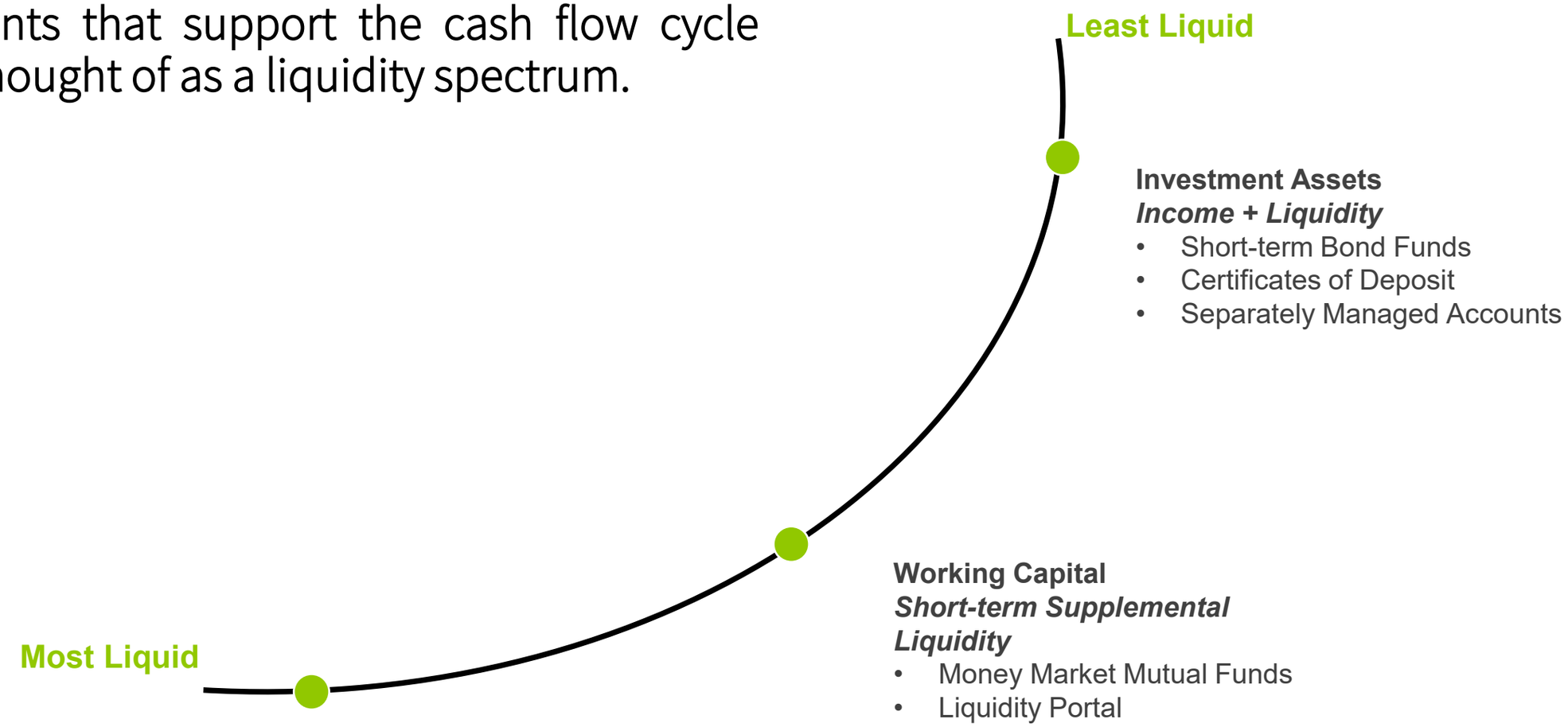
Liquidity Spectrum

- Instruments that support the cash flow cycle can be thought of as a liquidity spectrum.



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Liquidity Solution Example

- Agency has $200 million in cash

Cash Fund 1001:	Money Market Mutual Fund:	Customized Portfolio:
$20 mm for operating expenses and reserves – 0-30 Days	$30mm additional reserves – 0-1 Year	$150mm – Short Duration Fixed Income Strategy – Typically Greater Than 1 year

- Considers cash needs from daily liquidity to an actively managed fixed income strategy
- Customization is key, as each bucket is part of an overall solution.
- Funds can flow between each bucket as investors' needs and liquidity profile changes.

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