

Contained Escalation

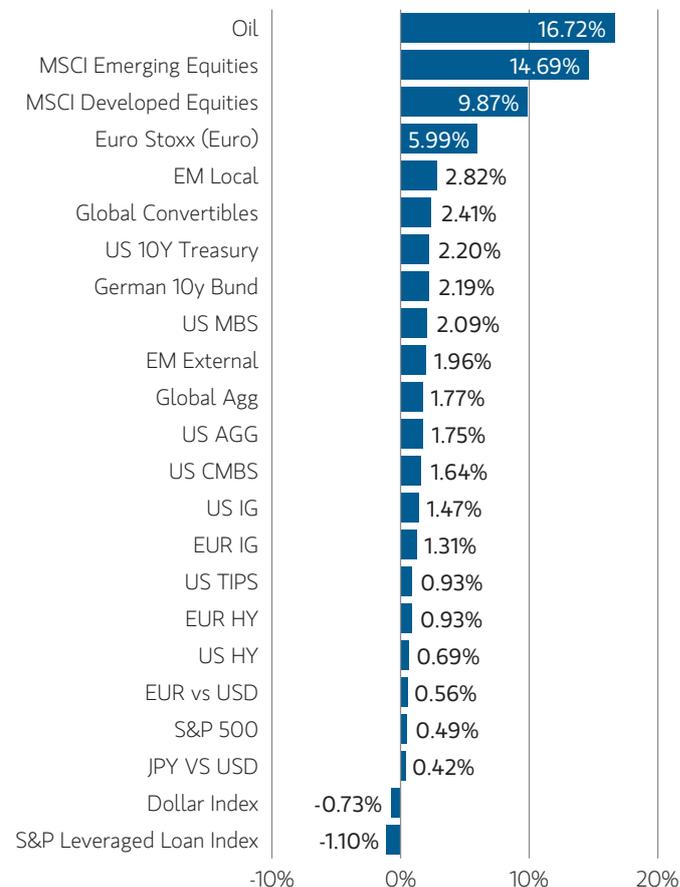
MACRO INSIGHT | BROAD MARKETS FIXED INCOME TEAM | March 2026

As this is a monthly bulletin, the review below reflects developments during February while also incorporating the significant market movements that occurred in early March following the escalation of U.S. involvement in the conflict with Iran. We begin with the recent geopolitical developments and their market impact before stepping back to review the broader market backdrop that prevailed through most of February.

A sharp geopolitical escalation late in the period dramatically shifted the market's tone. U.S. and Israeli strikes on Iran triggered a broader regional confrontation that extended into month-end and into early March. Iranian retaliation targeted regional infrastructure, while tanker attacks effectively closed the Strait of Hormuz—a chokepoint that carries roughly 20% of global oil supply.

Historically, the market impact of geopolitical shocks tends to fade over days to weeks unless accompanied by sustained disruptions to energy supply. As a result, oil remains the key swing factor for markets. The sharp move in crude prices in recent days reflects not only disruption risk around key shipping routes such as the Strait of Hormuz, but also strikes on energy infrastructure in Saudi Arabia and Qatar. This introduces an additional channel beyond shipping disruption alone—the risk of broader geographic escalation and infrastructure damage—which could prove more durable and therefore more consequential for markets.

DISPLAY 1
Asset Performance Year-to-Date



Note: USD-based performance. Source: Bloomberg. Data as of February 28, 2026. The indexes are provided for illustrative purposes only and are not meant to depict the performance of a specific investment. **Past performance is no guarantee of future results.** See pages 6-7 for index definitions.

In this context, the macro implications are highly dependent on the duration of the conflict. Two broad scenarios help frame the potential outcomes.

1. In a fast de-escalation scenario, where tensions ease within days or weeks and energy flows to normalize, the geopolitical risk premium embedded in oil prices would likely fade. In that environment, inflationary effects would likely prove temporary, allowing central banks to largely look through the shock. Government bonds would likely regain their traditional haven characteristics, breakevens and term premia could ease, and rate volatility would likely decline as markets re-anchor around the existing policy path.
2. By contrast, in a more protracted conflict scenario, where disruptions to shipping routes or regional infrastructure persist, energy prices would likely remain elevated and continue feeding into inflation expectations. In that environment, central banks may delay rate cuts or adopt a more cautious policy stance, and government bonds could lose some of their traditional hedge characteristics. Higher breakevens, rising term premia, and greater volatility across rates markets would likely accompany wider risk premia across credit and emerging markets.

For most portfolios, the primary transmission channels would likely remain indirect:

- Oil → inflation expectations → higher rates volatility and tighter financial conditions
- Safe-haven FX dynamics, including periodic U.S. dollar strength during stress
- Wider risk premia in credit and emerging markets during periods of elevated uncertainty

With limited direct exposure to the region, we do not expect idiosyncratic Middle East country moves to be a dominant driver of portfolio drawdowns.

Looking ahead, the most important signals remain straightforward: the trajectory of oil prices, the functioning of key shipping routes, and whether evidence emerges of broader infrastructure damage or geographic escalation. The persistence of elevated energy prices will likely provide the clearest indication of whether the growth and inflation impulse remains contained or becomes more material.

From a portfolio management perspective, we continue to monitor developments closely while remaining disciplined on position sizing and liquidity. Consistent with our active, value-driven investment process, macro risks will be assessed alongside movements in valuations, and portfolio risk positioning will be adjusted as opportunities arise.

February Review

Stepping back from recent developments, it is useful to consider the market backdrop during February prior to the geopolitical escalation.

Before the sharp geopolitical shock late in the month, February's market environment was characterized by modest spread widening and a gradual softening in technicals across credit markets.

Investment grade spreads widened meaningfully over the course of the month. Investment grade (IG) corporates widened 11 basis points (bps) to +84bps OAS, reversing January's tightening, with BBB spreads widening 13bps to +104bps. Financials widened 13bps to +87bps, and longer-duration IG underperformed. High yield spreads also moved wider, increasing 26bps to +291bps, with weakness concentrated in lower-quality and software-related credits. At the same time, U.S. Treasury yields declined materially over the month as investors sought safety, helping offset some of the impact of wider corporate spreads.¹

Market technicals softened modestly during the month. Lower government bond yields reduced all-in returns, dampening demand from insurance companies and pension funds, while retail and mutual fund inflows continued at a slower pace. Primary demand remained healthy overall, though investors demonstrated greater price sensitivity, with meaningful order attrition at final pricing for some transactions. Gross issuance totaled approximately EUR 73bn, within the expected EUR 70–80bn range, split between EUR 37bn of financials (broadly flat year-on-year) and EUR 36bn of non-financials, which came in softer than anticipated. The EUR/USD cross-currency basis continued to favor USD issuance for European borrowers. At the same time, the market remained attentive to elevated M&A- and capex-related supply, particularly from non-financial issuers, reinforcing sensitivity to incremental issuance amid rising volatility.²

¹ Source: Bloomberg as of February 28, 2026

² Source: Bloomberg as of February 28, 2026

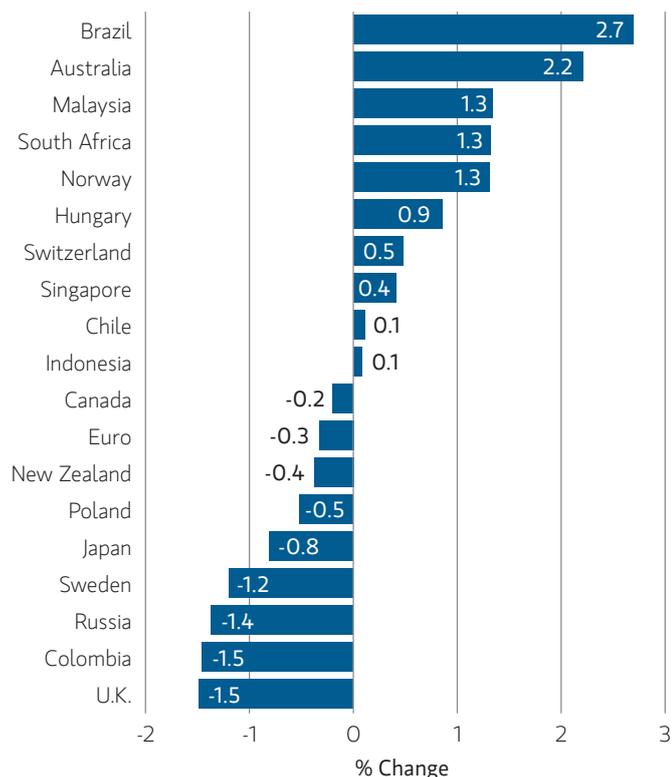
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Dispersion also intensified across AI-exposed sectors. In leveraged loans, software — roughly 13% of the index — underperformed materially, with average bids falling into the mid-80s. Selling was largely indiscriminate and driven more by longer-term refinancing and competitive concerns than immediate earnings deterioration.

Securitized markets were comparatively steady throughout much of the month. Spread sectors were broadly tighter to stable, supported by balanced technicals, while agency mortgage-backed securities (MBS) modestly widened after earlier strength tied to policy-related headlines faded. Activity tapered into month-end around the ABS West conference, contributing to quieter secondary trading conditions. Despite the late-month geopolitical volatility, securitized funding markets remained orderly, with no meaningful signs of stress.

DISPLAY 2 Currency Monthly Changes versus USD

(+ = appreciation)



Note: Positive change means appreciation of the currency against the USD. Source: Bloomberg. Data as February 28, 2026.

DISPLAY 3 Major Monthly Changes in 10-Year Yields and Spreads

COUNTRY	10-YR YIELD LEVEL (%)	MONTH CHANGE (BPS)	10-YR SPREAD (BPS)	MONTH CHANGE (BPS)
(SPREAD OVER USTS)				
United States	3.94	-30		
United Kingdom	4.23	-29	30	1
Germany	2.64	-20	-129	10
Japan	2.12	-13	-182	17
Australia	4.65	-16	71	14
Canada	3.13	-29	-81	1
New Zealand	4.33	-28	39	2
EUROPE (SPREAD OVER BUNDS)				
France	3.22	-21	58	-1
Greece	3.27	-18	63	2
Italy	3.27	-19	63	2
Portugal	3.00	-20	36	0
Spain	3.06	-15	42	5
EM	10-YR LOCAL YIELD (%)	MTD CHANGE (BPS)	SPREAD (BPS)	MTD CHANGE (BPS)
EM External Spreads			235	14
EM Corporate Spreads			190	15
EM Local Yields			5.82	-3
(SPREAD OVER USTS)				
Brazil	13.55	-3	961	26
Colombia	13.41	103	948	132
Hungary	6.40	-14	247	16
Indonesia	6.41	9	248	39
Malaysia	3.49	-1	-45	28
Mexico	8.66	-20	472	9
Peru	5.85	8	192	37
Poland	4.93	-15	99	14
South Africa	8.11	8	418	38
CREDIT			SPREAD (BPS)	MTD CHANGE (BPS)
U.S. IG			84	11
EUR IG			83	9
U.S. HY			291	26
EUR HY			279	22
SECURITIZED				
Agency MBS			110	10
U.S. BBB CMBS			578	-20

Positive Neutral Negative

Source: Bloomberg, JPMorgan. Data as of February 28, 2026.

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Broad Markets Fixed Income Global Asset Allocation and Outlook

Developed Market Rate/Foreign Currency

(NEUTRAL DURATION, CURVE STEEPENERS)

February ended with a sharp geopolitical shock that drove a meaningful flight to quality, reversing earlier rate moves and pushing the U.S. 10-year yield nearly 30bps lower into month-end. Despite the intensity of the move—and a material repricing in energy markets—funding markets and cross-currency basis remained orderly, suggesting markets are adjusting to higher geopolitical risk rather than systemic financial stress. As a result, while volatility has risen, the broader rates regime remains characterized by range-bound dynamics and carry-driven returns.

We maintain a neutral stance on outright U.S. Treasury duration. Our working range for the 10-year remains 3.95–4.25. While elevated oil prices introduce upside inflation risk, structural forces—including fiscal deficits and sustained issuance—continue to support term premia over time. We remain neutral on the U.S. curve, as much of the earlier steepening has repriced and near-term risk-reward appears balanced.

Outside the U.S., we continue to favor selective curve steepeners in Europe, where structural issuance dynamics and more attractive carry and roll profiles offer better relative value than U.S. rates. In Japan, we remain neutral on duration following earlier repricing of normalization expectations.

In inflation-linked markets, we are long U.S. breakevens, as upside risks appear underappreciated following both the recent energy price moves and broader price pressures that remain present (e.g., ISM surveys).

In foreign exchange, we are tactically neutral on the USD. While geopolitical stress has temporarily supported traditional safe-haven flows, we expect USD strength to be episodic rather than structural. We continue to express a positive view on higher-carry EMFX, with positioning primarily in the Brazilian real and selectively in the Mexican peso, where carry remains compelling in a still-benign global funding environment. We use EUR and GBP tactically as funders to avoid volatility in the USD.

Emerging Market Debt

(OVERWEIGHT)

Emerging market (EM) sovereign and corporate debt remains an attractive opportunity for 2026, even as February's late-month geopolitical escalation introduced renewed volatility into global markets. While higher oil prices and regional tensions have increased dispersion across countries, broader EM funding conditions have remained orderly, and capital flows have continued to differentiate among issuers rather than retreat indiscriminately. In this environment, carry and income remain central drivers of expected returns.

Lower inflation, elevated real yields, and credible reform momentum across several countries continue to underpin a supportive backdrop. Valuations—particularly in local markets—remain attractive, and many EM currencies are still undervalued relative to the U.S. dollar, reinforcing the case for selective exposure despite episodic safe-haven flows. The recent rise in energy prices may benefit commodity exporters while posing headwinds for energy importers, further increasing cross-country dispersion.

Dispersion across countries remains high, making policy discipline and country selection critical. We continue to favor markets with credible monetary frameworks, improving fundamentals, and attractive real yield differentials versus developed markets, while remaining mindful of geopolitical risks and commodity sensitivity.

Corporate Credit

(UNDERWEIGHT IG, SMALL OVERWEIGHT HY)

Our base case remains constructive for credit, supported by expectations for low but positive growth and correspondingly low default risk. February's widening—with IG spreads moving 11bps wider to approximately +84bps OAS—has modestly eased valuations, though spreads remain below long-run averages. In our view, current valuations are broadly supported by strong corporate fundamentals and resilient demand for yield.³

Corporate balance sheets remain healthy as we enter a phase where late-cycle behavior is likely to increase, including M&A activity, AI- and infrastructure-related capex, and elevated shareholder distributions. This

³ Source: Bloomberg as of February 28, 2026

environment reinforces the importance of sector and security selection. Strong demand for Euro investment grade credit in particular should help cushion the anticipated increase in non-financial issuance tied to M&A and capex over the coming year.

At the same time, geopolitical tensions, U.S. policy uncertainty, above-target U.S. inflation, and rising idiosyncratic news flow — particularly in technology, software, and insurance — temper conviction in meaningful spread tightening from current levels. As a result, while fundamentals remain supportive, we expect carry and security selection to be the primary drivers of return rather than broad-based multiple expansion. Regionally, we continue to prefer Europe over the U.S., supported by more balanced supply dynamics and comparatively supportive policy settings.

We maintain a modest overweight to select high-yield issuers in both the U.S. and Europe. Fundamentals remain supportive, with improved average credit quality, low default rates, and manageable leverage. While spreads are near post-crisis tights, the higher carry, shorter spread duration, and increased issuer dispersion continue to create opportunities for security-level positioning. Recent episodes of idiosyncratic volatility underscore the importance of selectivity, but defaults are expected to rise only modestly and remain contained, supporting ongoing investor demand.

Leveraged Loans

(UNDERWEIGHT)

We expect heavier net supply and rising dispersion in leveraged loans. While CLO demand remains a key technical support, economically sensitive sectors are showing signs of strain, contrasting with strength in software and technology-linked issuers. Given expectations for Fed rate cuts, we prefer fixed-rate exposure over floating-rate assets and remain underweight the asset class.

Securitized Products

(OVERWEIGHT)

Agency mortgage-backed securities (MBS) and non-agency residential mortgage-backed securities (RMBS) remain a high-conviction overweight for 2026. While agency MBS modestly widened following the fading of earlier policy-related headlines, broader securitized spreads were generally steady to tighter through February, demonstrating resilience even as geopolitical volatility increased late in the month. Agency MBS continue to offer attractive spread pickup relative to both historical levels and other core fixed income sectors, providing compelling relative value versus investment grade corporates and cash alternatives.

Technical factors remain an important driver of performance. Demand for agency MBS continues to be supported by money manager interest in high-quality collateral with attractive carry, alongside a measured and predictable pace of Federal Reserve balance sheet runoff that has limited net supply pressure. Despite episodic volatility, securitized funding markets have remained orderly, reinforcing the sector's defensive characteristics within spread products.

Non-agency RMBS continues to offer an attractive opportunity set, underpinned by stable home prices, low loan-to-value ratios, and historically low delinquency rates. Supply-demand dynamics remain favorable, with limited new issuance and minimal refinancing risk given the high proportion of borrowers locked into low mortgage rates.

Within CMBS, fundamentals remain resilient, particularly in higher-quality segments. Improving sentiment and stable property-level performance support selective opportunities in hospitality, logistics, storage, and high-quality multifamily assets. Dispersion across property types and geographies continues to increase, reinforcing the importance of selectivity and a focus on single asset single borrower (SASB) structures.

We also remain constructive on Danish covered bonds, where defensive characteristics, strong legal frameworks, and attractive USD-hedged yields continue to support relative value.

Risk Considerations

Diversification neither assures a profit nor guarantees against loss in a declining market.

There is no assurance that a portfolio will achieve its investment objective. Portfolios are subject to **market risk**, which is the possibility that the market values of securities owned by the portfolio will decline and that the value of portfolio shares may therefore be less than what you paid for them. Market values can change daily due to economic and other events (e.g., natural disasters, health crises, terrorism, conflicts, and social unrest) that affect markets, countries, companies, or governments. It is difficult to predict the timing, duration, and potential adverse effects (e.g., portfolio liquidity) of events. Accordingly, you can lose money investing in a portfolio. **Fixed-income securities** are subject to the ability of an issuer to make timely principal and interest payments (credit risk), changes in interest rates (interest rate risk), the creditworthiness of the issuer and general market liquidity (market risk). In a rising interest-rate environment, bond prices may fall and may result in periods of volatility and increased portfolio redemptions. In a declining interest-rate environment, the portfolio may generate less income. **Longer-term securities** may be more sensitive to interest rate changes. Certain **U.S. government securities** purchased by the strategy, such as those issued by Fannie Mae and Freddie Mac, are not backed by the full faith and credit of the U.S. It is possible that these issuers will not have the funds to meet their payment obligations in the future. **Public bank loans** are subject to liquidity risk and the credit risks of lower-rated securities. **High-yield securities (junk bonds)** are lower-rated securities that may have a higher degree of credit and liquidity risk. **Sovereign debt securities** are subject to default risk. **Mortgage- and asset-backed securities** are sensitive to early prepayment risk and a higher risk of default and may be hard to value and difficult to sell (**liquidity risk**). They are also subject to credit, market, and interest rate risks. The **currency market** is highly volatile. Prices in these markets are influenced by, among other things, changing supply and demand for a particular currency; trade; fiscal, money and domestic or foreign exchange control programs and policies; and changes in domestic and foreign interest rates. Investments in **foreign markets** entail special risks such as currency, political, economic and market risks. The risks of investing in **emerging market** countries are greater than the risks generally associated with foreign investments. **Derivative instruments** may disproportionately increase losses and have a significant impact on performance. They also may be subject to counterparty, liquidity, valuation, and correlation and market risks. **Restricted and illiquid securities** may be more difficult to sell and value than publicly traded securities (liquidity risk). Due to the possibility that prepayments will alter the cash flows on **collateralized mortgage obligations (CMOs)**, it is not possible to determine in advance their final maturity date or average life. In addition, if the collateral securing the CMOs or any third-party guarantees are insufficient to make payments, the portfolio could sustain a loss.

DEFINITIONS

Basis point (bp): One basis point = 0.01%.

INDEX DEFINITIONS

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The **Bloomberg Euro Aggregate Corporate Index (Bloomberg Euro IG Corporate)** is an index designed to reflect the performance of the euro-denominated investment-grade corporate bond market.

The **Bloomberg Global Aggregate Corporate Index** is the corporate component of the Bloomberg Global Aggregate index, which provides a broad-based measure of the global investment-grade fixed income markets.

The **Bloomberg US Corporate High Yield Index** measures the market of USD-denominated, non-investment grade, fixed-rate, taxable corporate bonds. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below. The index excludes emerging market debt.

The **Bloomberg US Corporate Index** is a broad-based benchmark that measures the investment grade, fixed-rate, taxable, corporate bond market.

The **Bloomberg US Mortgage-Backed Securities (MBS) Index** tracks agency mortgage-backed pass-through securities (both fixed-rate and hybrid ARM) guaranteed by Ginnie Mae (GNMA), Fannie Mae (FNMA) and Freddie Mac (FHLMC). The index is constructed by grouping

individual TBA-deliverable MBS pools into aggregates or generics based on program, coupon, and vintage. Introduced in 1985, the GNMA, FHLMC and FNMA fixed-rate indexes for 30- and 15-year securities were backdated to January 1976, May 1977, and November 1982, respectively. In April 2007, agency hybrid adjustable-rate mortgage (ARM) pass-through securities were added to the index.

Consumer Price Index (CPI) is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food, and medical care.

Euro vs. USD—Euro total return versus U.S. dollar.

German 10YR bonds—Germany Benchmark 10-Year Datastream Government Index; **Japan 10YR government bonds**—Japan Benchmark 10-Year Datastream Government Index; and **10YR US Treasury**—US Benchmark 10-Year Datastream Government Index.

The **ICE BofAML European Currency High-Yield Constrained Index (ICE BofAML Euro HY constrained)** is designed to track the performance of euro- and British pound sterling-denominated below investment-grade corporate debt publicly issued in the Eurobond, sterling.

The **ICE BofAML US Mortgage-Backed Securities (ICE BofAML US Mortgage Master) Index** tracks the performance of US dollar-denominated, fixed-rate and hybrid residential mortgage pass-through securities publicly issued by US agencies in the US domestic market.

The **ICE BofAML US High Yield Master II Constrained Index (ICE BofAML US High Yield)** is a market value-weighted index of all domestic and Yankee high-yield bonds, including deferred-interest bonds and payment-in-kind securities. Its securities have maturities of one year or more and a credit rating lower than BBB-/Baa3 but are not in default.

The **ISM Manufacturing Index** is based on surveys of more than 300 manufacturing firms by the Institute of Supply Management. The ISM Manufacturing Index monitors employment, production inventories, new orders, and supplier deliveries. A composite diffusion index is created that monitors conditions in national manufacturing based on the data from these surveys.

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Italy 10-Year Government Bonds—Italy Benchmark 10-Year Datastream Government Index.

The **JP Morgan CEMBI Broad Diversified Index** is a global, liquid corporate emerging markets benchmark that tracks US-denominated corporate bonds issued by emerging markets entities.

The **JPMorgan Government Bond Index—emerging markets (JPM local EM debt)** tracks local currency bonds issued by emerging market governments. The index is positioned as the investable benchmark that includes only those countries that are accessible by most of the international investor base (excludes China and India as of September 2013).

The **JPMorgan Government Bond Index Emerging Markets (JPM External EM Debt)** tracks local currency bonds issued by emerging market governments. The index is positioned as the investable benchmark that includes only those countries that are accessible by most of the international investor base (excludes China and India as of September 2013).

The **JP Morgan Emerging Markets Bond Index Global (EMBI Global)** tracks total returns for traded external debt instruments in the emerging markets and is an expanded version of the EMBI+. As with the EMBI+, the EMBI Global includes US dollar-denominated Brady bonds, loans, and Eurobonds with an outstanding face value of at least \$500 million.

The **JP Morgan GBI-EM Global Diversified Index** is a market-capitalization weighted, liquid global benchmark for US-dollar corporate emerging market bonds representing Asia, Latin America, Europe, and the Middle East/Africa.

JPY vs. USD—Japanese yen total return versus US dollar.

The **Markit iTraxx Europe Index** comprises 125 equally weighted credit default swaps on investment grade European corporate entities, distributed among 4 sub-indices: Financials (Senior & Subordinated), Non-Financials and HiVol.

The **Nikkei 225 Index (Japan Nikkei 225)** is a price-weighted index of Japan's top 225 blue-chip companies on the Tokyo Stock Exchange.

The **MSCI AC Asia ex-Japan Index (MSCI Asia ex-Japan)** captures large- and mid-cap representation across two of three developed markets countries (excluding Japan) and eight emerging markets countries in Asia.

The **MSCI All Country World Index (ACWI, MSCI global equities)** is a free float-adjusted market capitalization weighted index designed to measure the equity market performance of developed and emerging markets. The term "free float" represents the portion of shares outstanding that are deemed to be available for purchase in the public equity markets by investors. The performance of the Index is listed in US dollars and assumes reinvestment of net dividends.

The **MSCI Emerging Markets Index (MSCI emerging equities)** captures large- and mid-cap representation across 23 emerging markets (EM) countries.

The **MSCI World Index (MSCI developed equities)** captures large and mid-cap representation across 23 developed market (DM) countries.

The **Purchasing Managers Index (PMI)** is an indicator of the economic health of the manufacturing sector.

The **Refinitiv Convertible Global Focus USD Hedged Index** is a market weighted index with a minimum size for inclusion of \$500 million (US), 200 million (Europe), 22 billion Yen, and \$275 million (Other) of Convertible Bonds with an Equity Link.

The **Russell 2000® Index** is an index that measures the performance of the 2,000 smallest companies in the Russell 3000 Index.

The **S&P 500® Index (US S&P 500)** measures the performance of the large-cap segment of the US equities market, covering approximately 75 percent of the US equities market. The index includes 500 leading companies in leading industries of the U.S. economy.

The **S&P CoreLogic Case-Shiller US National Home Price NSA Index** seeks to measure the value of residential real estate in 20 major US metropolitan areas: Atlanta, Boston, Charlotte, Chicago, Cleveland, Dallas, Denver, Detroit, Las Vegas, Los Angeles, Miami, Minneapolis, New York, Phoenix, Portland, San Diego, San Francisco, Seattle, Tampa and Washington, D.C.

The **S&P/LSTA US Leveraged Loan 100 Index (S&P/LSTA Leveraged Loan Index)** is designed to reflect the performance of the largest facilities in the leveraged loan market.

The **S&P GSCI Copper Index (Copper)**, a sub-index of the S&P GSCI, provides investors with a reliable and publicly available benchmark for investment performance in the copper commodity market.

The **S&P GSCI Softs (GSCI soft commodities) Index** is a sub-index of the S&P GSCI that measures the performance of only the soft commodities, weighted on a world production basis. In 2012, the S&P GSCI Softs Index included the following commodities: coffee, sugar, cocoa, and cotton.

Spain 10-Year Government Bonds—Spain Benchmark 10-Year Datastream Government Index.

The **Thomson Reuters Convertible Global Focus USD Hedged Index** is a market weighted index with a minimum size for inclusion of \$500 million (US), 200 million euro (Europe), 22 billion yen, and \$275 million (Other) of convertible bonds with an equity link.

U.K. 10YR government bonds—U.K. Benchmark 10-Year Datastream Government Index. For the following Datastream government bond indexes, benchmark indexes are based on single bonds. The bond chosen for each series is the most representative bond available for the given maturity band at each point in time. Benchmarks are selected according to the accepted conventions within each market. Generally, the benchmark bond is the latest issue within the given maturity band; consideration is also given to yield, liquidity, issue size and coupon.

The **US Dollar Index (DXY)** is an index of the value of the United States dollar relative to a basket of foreign currencies, often referred to as a basket of US trade partners' currencies.

The **Chicago Board Options Exchange (CBOE) Market Volatility (VIX) Index** shows the market's expectation of 30-day volatility.

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