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Capital Market Outlook

April 1, 2019

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- **Macro Strategy**—Oil supply management by OPEC and its allies along with a quick response to price signals in the shale patch suggest that prices will fluctuate in a $50 to $70 per barrel range, favorable both to consumers and producers, and thus looks to be supportive of global growth for the foreseeable future.
- **Global Market View**—The future of the European Union (EU) remains critical to the long-term health of the global economy. The reflationary policies of both the U.S. (aka Federal Reserve (Fed) on hold) and China (more pro-cyclical spending) should likely limit the economic downside in Europe in the next few months.
- **Thought of the Week**—Despite a strong rally for global equities so far in 2019, investor flows into equity funds have remained fairly tepid. Here we explain this disconnect and what it says about how investors view the state of financial markets.
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MACRO STRATEGY

Chief Investment Office Macro Strategy Team

GLOBAL MARKET VIEW

Joseph P. Quinlan
Head of CIO Market Strategy

Kathryn A. Cassavell
CFA®, Vice President and Market Strategy Analyst

THOUGHT OF THE WEEK

Kirsten Cabacungan
Investment Analyst

Brian Wilczynski
Assistant Vice President and Investment Analyst

Data as of 4/1/2019 and subject to change.

MACRO STRATEGY

U.S. Energy Revival: Transformative and Unprecedented

Chief Investment Office Macro Strategy Team

The United States energy resurgence has played a major role in taming energy prices over the past five years, enhancing the attractiveness of domestic petrochemical and other industrial-sector investment and supporting the global expansion. According to the International Energy Agency's (IEA's) March 11, 2019, press release for the *Oil Market Report 2019 (OMR 2019)* with projections through 2024, "the story of how the United States transformed itself into a major exporter within less than a decade is unprecedented" and, as discussed below, its effects are likely to be long-lasting.

Indeed, according to the OMR 2019, "Thanks to the remarkable strength of its shale industry, the United States is triggering a rapid transformation of global markets. Before the end of our forecast, it will export more oil than the Russian Federation ("Russia") and

close in on Saudi Arabia as the world's largest exporter—a pivotal milestone that will bring greater diversity of supply to global markets." Specifically, the IEA expects the U.S. to contribute as much as four of the estimated six million barrels per day (mbd) increase in net global oil production capacity between 2018 and 2024 at Brent prices of about $60 per barrel. This feat would follow "spectacular growth of 2.2 mbd in 2018," and puts the country on track to reach about 20 mbd in crude-oil and natural-gas-liquids (NGLs) production capacity, which would exceed that of either Russia or Saudi Arabia.

Apart from the U.S., meaningful growth outside OPEC through 2024 is expected only from Brazil (1.2 mbd, following a disappointing 2018), as well as from Norway and Guyana. Despite significant expansion expected in Iraq, OPEC capacity is anticipated to shrink by 0.4 mbd by 2024 if current oil-market conditions persist in Iran, Venezuela and Libya. The prospect of additional Iran export cuts from a currently estimated 1 mbd—in light of U.S. sanctions aimed at completely eliminating the country's oil export revenues—and that of more Venezuelan output declines suggests downside risks to the OPEC forecast. However, uncertainty remains high. Indeed, an offset to Venezuela is possible from Libya, where supply rose 30% in March to 1.2 mbd, and officials point to more potential gains on the way to about 2.1 mbd by 2021 (contingent on attracting foreign investment and a big improvement in the security situation).

Given these constant sources of uncertainty, a growing share of moderately priced U.S. oil helps increase the security of supply and intensifies competition for market share among OPEC members, exerting downward pressure on prices and expectations for prices in the process. Indeed, with massive resources, increased production efficiency, and an estimated 50% decline in breakeven costs for shale oil between 2014 and 2016, the U.S. is helping keep global upstream oil and gas investment about 60% lower than in 2014 (when it amounted to about $800 billion, according to the IEA) even as production continues to exceed expectations. Overall, global investment is projected to rise for a third consecutive year in 2019 but at a slower pace of 4% compared to 6% in 2018 according to to IEA.

A sharper U.S. investor focus on capital discipline and returns on investment (ROI), combined with higher interest rates and less access to capital markets since the 2014–2016 crisis for smaller, independent producers typical of the shale patch have spurred these producers to cut investment budgets by an estimated 11% for 2019. In contrast, with better access to capital, and by now well-positioned in terms of shale assets, major oil companies are planning to boost spending as they start playing an increasingly big role in this space.

Disciplined shale oil investment doesn't mean declining U.S. output but rather a moderation from the red-hot expansion of 2018. First, well productivity remains high. Second, although the rig count has declined in a typical lagged response to the late-2018 oil-price weakness, it's down only modestly and is unlikely to correct more than 10% given the sharp rebound in oil prices since January. Third, according to the IEA, there's a large inventory of drilled but uncompleted wells ready to be brought on line to offset rapid declines at existing wells and boost production if demand and prices justify it. This appears to be the case, according to the OMR 2019, "...the current $50–$55/barrel West Texas Intermediate (WTI) price environment is not a major impediment for U.S. shale activity..."

At prices of $60/barrel, the IEA projects a U.S. shale-oil supply expansion of about 50% by 2024. Output would likely be substantially bigger at $80/barrel, while starting to decline at around $40 per barrel, as many projects would become uneconomical. This suggests that prices are likely to fluctuate between $50 and $70 per barrel for the foreseeable future as supply and prices self-adjust in response to demand and supply conditions. Over time, even as the estimated resource base of the Permian, the main shale-oil basin, has been revised up by 35% over the past year, its most prolific fields are depleting first and fast, suggesting slowing well productivity and eventual upside cost pressures that would shift this range higher.

The anticipated U.S. supply expansion is made possible by an unprecedented build-out of pipeline capacity now underway. Supply exceeded takeaway capacity last year, causing distribution constraints and a rising WTI spread to Brent oil. Billions of dollars of investment are projected to boost Permian pipeline capacity from 3 mbd to 8 mbd by the end of 2024, with a surfeit of capacity already in place by the end of 2019. This, combined with massive investments in new export facilities and other related infrastructure, indicates that the United States could reach export capacity of 5 mbd of crude by 2024, making it *one of the world's largest gross crude exporters*. According to the IEA, *if all projects under consideration were to be commissioned*, U.S. crude export capacity would reach 8.5 mbd, rendering the country the largest crude exporter in the world.

The same cannot be said of Canada, where supply is not seen expanding much because of pipeline constraints and insufficient/expensive oil-by-rail transportation capacity. Mexican oil production is also seen lagging, as new projects remain inadequate to offset declines at mature fields in coming years. The same is true for other countries, including China. In Russia, capacity has surprised to the upside but is not expected to increase much through 2024 either.

All in all, nimble U.S. investment to take advantage of abundant supply at increasingly lower costs has helped the country crowd out less reliable producers, improve the security of supply, and keep oil prices in check even as the long anticipated peak in demand remains elusive. According to the IEA, "there is no peak demand on the horizon," as consumption growth continues to surprise to the upside led by booming Asian air travel and rapid petrochemical industry expansion to meet growing Asian consumer demand. Still, because of government efforts to reduce reliance on fossil fuel and broadening fuel economy standards, expectations remain for slowing global oil-demand growth from an average of about 1.5 mbd per year over the past five years to about 1.2 mbd per year through 2024.

The market has been tightening this year due to sanctions on Venezuela, supply cuts from OPEC, Russia and their allies, and rising demand. A potential curtailment of Iran import waivers suggests downside risks to supply while Libya may surprise to the upside, offsetting some of these supply cuts. As noted above, however, the U.S. has great potential to step in with bigger supplies as a result of any rise in prices. Indeed, the sharp rebound in oil prices year to date suggests only a short-lived drop in U.S. drilling and relatively stable prices into 2020, especially given surging distribution capacity.

Despite some decline this year, global inventories and spare capacity appear likely to stabilize and eventually increase with help from the projected U.S. output expansion, likely capping oil prices over the next three years. As a result, we continue to believe that oil prices will fluctuate in a $50 to $70 per barrel range for the foreseeable future, with the various voluntary and involuntary supply cuts, a relatively steady dollar, and a probable global growth upturn in the second half likely to result in a Brent average for 2019 in the middle of Bank of America Merrill Lynch (BofAML)[1] Global Research and the short term U.S. Energy Information Association (EIA) forecasts. BofAML Global Research indicates a Brent average of $70 per barrel in 2019 and $65 in 2020, while the EIA Short-term Energy Report for March forecasts $63 and $62, respectively. Relatively stable oil prices are positive for continued U.S. and global expansion.

[1] BofA Merrill Lynch Global Research is research produced by BofA Securities, Inc. ("BofAS") and/or one or more of its affiliates. BofAS is a registered broker-dealer, Member SIPC, and wholly owned subsidiary of Bank of America Corporation.

GLOBAL MARKET VIEW

The Global Slowdown: Europe is the One to Watch

Joseph P. Quinlan, Head of CIO Market Strategy

Kathryn A. Cassavell, CFA®, Vice President and Market Strategy Analyst

The world economy is composed of nearly 200 economies but only three can significantly move the needle when it comes to global growth, trade, investment and related activities: the United States, China and the EU. The rest of the world follows along.

The "Big Three" account for over 60% of world gross domestic product (GDP) and global consumption, and more than half of world trade and cross-border investment (Exhibit 1). With or without the UK, the EU is a formidable economic entity, with output totaling over $18 trillion in 2018. Minus the UK, the EU's output ($16 trillion) was still almost 20% larger than China's ($13.5 trillion) last year, underscoring the economic heft of the region. Add in the bloc's 500 million people with a healthy per capita GDP of $34,000, and Europe's influence on global economic activity and global earnings becomes even clearer.

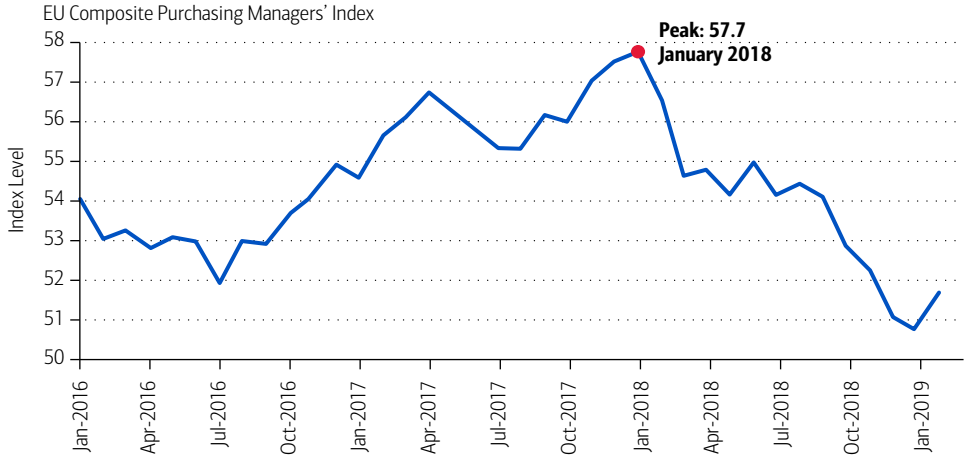
Exhibit 1: The Big Three: The U.S., EU and China.

(% of global total)	U.S.	EU	China	Total: U.S.+EU+China
GDP (current $)	24%	22%	16%	62%
Personal Consumption Expenditure (PCE)	29%	21%	10%	60%
Exports (goods + services)	10%	34%	10%	55%
Imports (goods + services)	13%	32%	10%	55%
Outward FDI Position	25%	34%	5%	65%
Inward FDI Position	25%	29%	5%	58%
Market Cap	39%	16%	9%	63%

EU data includes intra-EU trade and investment. Global percentages calculated using data in nominal U.S. dollars.
Source: International Monetary Fund, United Nations, Bloomberg. GDP data is 2018 IMF estimate. Market Cap data is as of March 2019. All other data is for 2017.

To this point, recall that it was Europe that was at the forefront of the global economic slowdown of 2018. As Exhibit 2 highlights, the region's Purchasing Managers Index (PMI) peaked in January 2018, and economic growth was subsequently dragged lower by a stronger euro, rising oil prices and industrial capacity constraints. Accelerating the move to the downside: the announcement of U.S. steel and aluminum tariffs in March 2018, which battered business confidence in Europe and disrupted transatlantic trade volumes.

Exhibit 2: EU Businesses Report Deteriorating Economic Growth.



Source: IHS/Markit, Haver Analytics. Data through February 2019. **Past performance is no guarantee of future results.** Performance would differ if a different time period was displayed. Short-term performance shown to illustrate more recent trend.

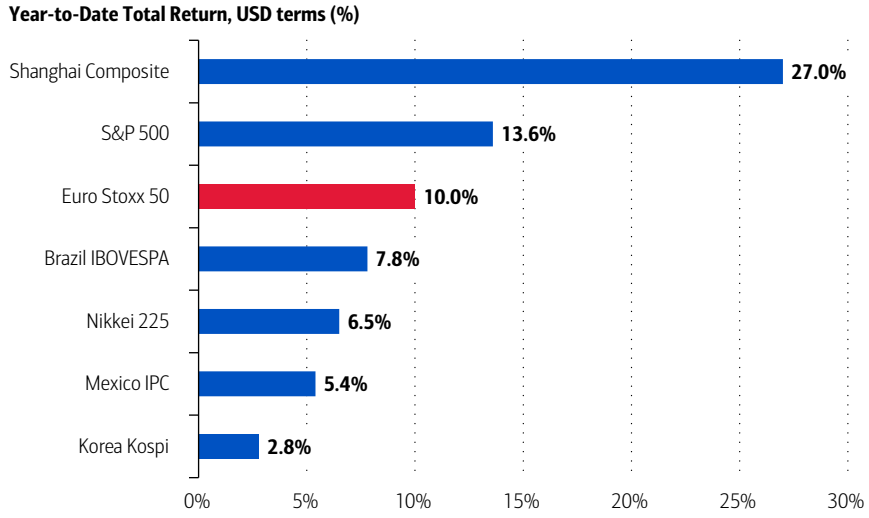
Over the second half of the year, rising U.S.-China trade tensions—and the attendant negative effect on China's real growth—squeezed EU exports to China in particular and the world in general. More EU exporters have greater leverage to China today than the U.S., so when China sneezes, Europe catches a cold, notably those nations with a relatively high share of exports to GDP (e.g., Germany, the Netherlands, Belgium, and Ireland). In addition to softening external demand, the messy uncertainty of Brexit has hardly helped matters, sapping consumer and business confidence on both sides of the Channel.

Against this backdrop, Europe limped into 2019. Euro area growth forecasts have been continuously marked down over the past few months, with the Organisation for Economic Co-operation and Development (OECD), for instance, now forecasting euro area real growth of just 1% this year versus 1.8% back in November 2018. The outlook for growth next year is hardly gangbusters: 1.2%. That's the bad news.

The good news: A great deal of negative news is already priced into European equities. What's more, the reflationary policies of both the U.S. (aka, Fed on hold) and China (more pro-cyclical spending) should likely limit the economic downside in Europe in the next few months, as should more accommodating policies from the European Central Bank (ECB) and mild stimulative fiscal positions of most euro states. Add in a U.S.-China trade deal that dramatically de-escalates global trade tensions and the economy most dependent on trade for growth—the European Union—looks better.

This backdrop is why European large cap equities have been among the best performers so far this year (Exhibit 3). The buoyancy of Europe equities reflects market expectations that the U.S. and China could likely successfully reflate global growth, with export-dependent eurozone nations among the main beneficiaries.

Exhibit 3: Global Equity Indices Returns for Q1 2019.



Source: Bloomberg. Data as of March 29, 2019. **Past performance is no guarantee of future results.**
Performance would differ if a different time period was displayed. Short-term performance shown to illustrate more recent trend. There is no guarantee that this trend will continue.

One caveat: the UK crashing out of the EU, which cannot be ruled out at this juncture.

The OECD estimates that should the two parties separate without a deal—boosting tariffs between the two parties—the effect would reduce GDP by around 2% in the UK over the next two years.[2] The negative spillover effects would hurt smaller European exporters most exposed to the UK, notably Ireland, the Netherlands and Denmark.

[2] See OECD "Interim Economic Outlook," March 6, 2019.

What happens in Europe doesn't stay in Europe

We believe the U.S. economy is the most resilient and dynamic of the "Big Three"—or the United States, China and the European Union. But the United States is hardly immune to troubles across the Atlantic. As we have highlighted in the past, Europe matters significantly to U.S. corporate earnings.

For instance, data released last week from the Bureau of Economic Analysis show that U.S. corporate earnings in Europe hit a record $284 billion in 2018, up 7% from a year ago. Putting that number into perspective, U.S. affiliate income in Europe was about three times more than the affiliate income of all of Latin America ($96 billion) or Asia ($93 billion).

Europe remains, by far, the most important market for U.S. multinational companies, with the region as a whole accounting for 55% of global foreign affiliate income. Wealthy consumers, respect for the rule of law, the ease of doing business, credible institutions—all of these factors, and more, have long made the EU a more attractive place to do business for American firms. While much attention has been given to the rise of the middle class consumer in China and associated market opportunities, the country remains a difficult place to do business. U.S. affiliates posted just $13.3 billion in earnings in China in 2018, down 1.1% from a year ago.

Meanwhile, the more profitable U.S. affiliates are in Europe, the more earnings are available to the parent firm to hire and invest at home, dole out higher wages to U.S. workers, and/or increase dividends to U.S. shareholders. In other words, U.S. corporate success in Europe is hugely important to the overall and long-term success of many U.S. multinationals, and by extension, the U.S. economy. The more successful U.S. affiliates are in reaching new consumers in Europe and leveraging the Continent's resources, the better off are the foreign affiliates, U.S. parent companies, U.S. workers, shareholders and local communities are considered.

In other words, America's transatlantic partnership with Europe has proven to display significant dividends. Despite a more challenging economic environment in Europe last year, U.S. foreign affiliate profit growth remained strong. However, rising investment uncertainty and structural issues throughout Europe could lead to a more challenging operating environment for U.S. multinationals, which have long counted on Europe to drive the bulk of their non-U.S. earnings growth.

In the end, the future of the EU remains critical to the long-term health of the global economy. In other words, what happens in Europe doesn't stay in Europe. As growth slows in the eurozone, as the UK and EU struggle to find a solution on Brexit, and as political populism gains traction across the continent, at risk are large-cap U.S. corporate earnings. However, global reflationary policies are falling into place that should help to limit the profits downside to U.S. firms.

THOUGHT OF THE WEEK

What Are Flows Suggesting About Investors' Mindsets?

Kirsten Cabacungan, Investment Analyst

Brian Wilczynski, Assistant Vice President and Investment Analyst

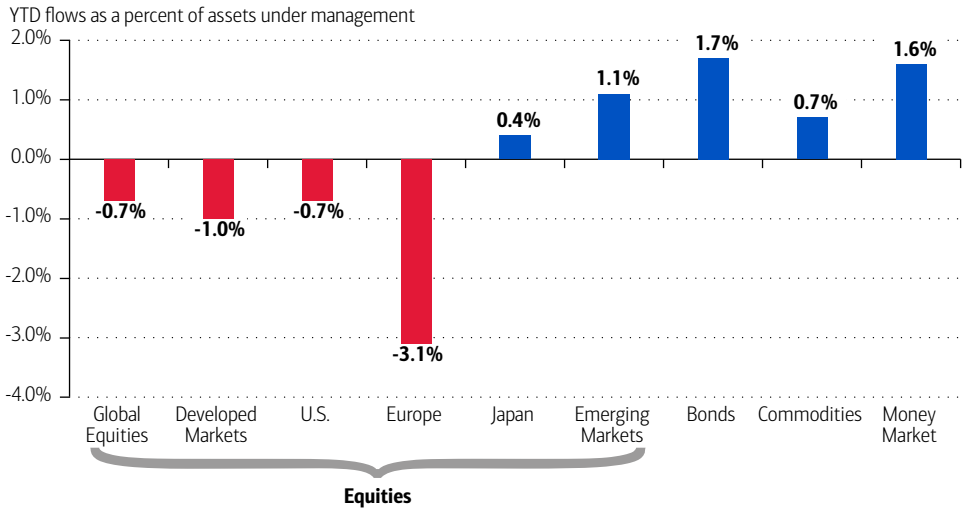
On the heels of their worst quarter in seven years, global equities have generated a nice bounce of around 12% to start 2019. But despite this strong start to the year, investors have continued to shun equity funds, especially developed markets, instead favoring fixed income, emerging markets (EMs) and cash (Exhibit 4).

Why the disconnect? We believe the answer lies in the dovish tilt by global central banks in response to weakening global growth, with low rates helping to support credit markets and drive demand for EMs. Investors are concerned about a weakening backdrop for corporate earnings, especially among developed economies following weak manufacturing data and the recent yield curve inversion in the U.S. And with inflation peaking in developed economies following over tightening by the Fed last year, fear of deflation has re-emerged, leading investors to pour money out of equities in favor of more yield-oriented sectors of the market. In short, investors continue to question the durability of the rally in equities.

So what needs to happen for investors to bring cash back into stocks? First, earnings need to pull through. Recent reports show companies, including a major U.S. logistics company, German automaker and Swiss bank, are providing discouraging outlooks. But with expectations having been lowered so drastically, there's the potential for upside surprises with earnings revisions showing signs of stabilizing. Next, signs of progress between the U.S. and China. Recent reports have thrown some cold water on the prospects of an imminent deal amid disagreement on enforcement and structural issues (most recently over China's alleged discrimination against foreign technology companies). Lastly, Chinese economic data need to improve, but with Beijing undertaking aggressive stimulus ($298B in tax cuts), we believe growth can stabilize in coming months.

Investors speak with their wallets, and currently their message is that the economic backdrop is weakening and the risk of deflation is on the rise. But in our view, a solid U.S. economy and dovish global central banks suggest investors should still maintain a slightly pro-risk tilt in portfolios. This means a preference for equities over fixed income as reflation builds steam, and view periods of weakness as potential entry points into the market.

Exhibit 4: Global Equity Performance at Odds with Investor Flows.



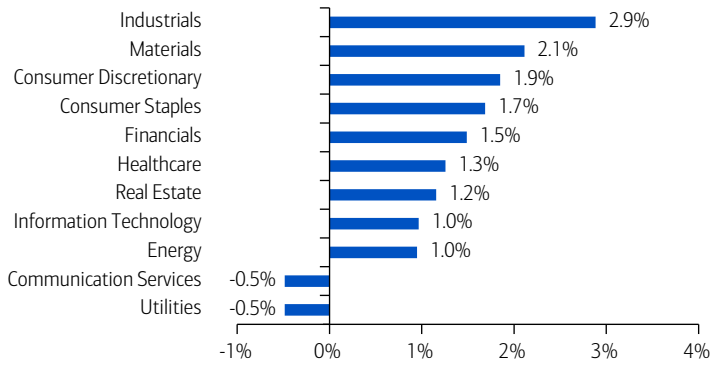
Source: BofAML Global Research as of March 28, 2019. **Past performance is no guarantee of future results.** Performance would differ if a different time period was displayed. Short-term performance shown to illustrate more recent trend. There is no guarantee that this trend will continue.

MARKETS IN REVIEW

Equities

		Total Return in USD (%)		
	Current	WTD	MTD	YTD
DJIA	25,928.68	1.7	0.2	11.8
NASDAQ	7,729.32	1.2	2.7	16.8
S&P 500	2,834.40	1.2	1.9	13.6
S&P 400 Mid Cap	1,896.27	2.3	-0.6	14.5
Russell 2000	1,539.74	2.3	-2.1	14.6
MSCI World	2,107.74	0.7	1.3	12.5
MSCI EAFE	1,875.43	-0.1	0.6	10.0
MSCI Emerging Markets	1,058.13	-0.1	0.8	9.9

S&P 500 Sector Returns



Fixed Income[1]

		Total Return in USD (%)		
	Current	WTD	MTD	YTD
Corporate & Government	2.87	0.4	2.1	3.3
Agencies	2.50	0.3	1.4	1.8
Municipals	2.32	0.4	1.6	2.9
U.S. Investment Grade Credit	2.93	0.3	1.9	2.9
International	3.63	0.5	2.5	5.1
High Yield	6.43	0.3	0.9	7.3

	Current	Prior Week End	Prior Month End	2018 Year End
90 Day Yield	2.36	2.39	2.38	2.36
2 Year Yield	2.26	2.32	2.51	2.49
10 Year Yield	2.41	2.44	2.72	2.68
30 Year Yield	2.81	2.87	3.08	3.01

Commodities & Currencies

		Total Return in USD (%)		
Commodities	Current	WTD	MTD	YTD
Bloomberg Commodity	169.82	-0.8	-0.2	6.3
WTI Crude $/Barrel[2]	60.14	1.9	5.1	32.4
Gold Spot $/Ounce[2]	1,292.30	-1.6	-1.6	0.8

Currencies	Current	Prior Week End	Prior Month End	2018 Year End
EUR/USD	1.12	1.13	1.14	1.15
USD/JPY	110.86	109.92	111.39	109.69
USD/CNH	6.72	6.72	6.70	6.87

Source: Bloomberg, Factset.Total Returns from the period of 03/25/19 to 03/29/19. Bloomberg Barclays Indices.[1] Spot price returns.[2] All data as of the 03/29/19 close.
Past performance is no guarantee of future results. Please see the Index Definitions at the back of the document.

Asset Class Weightings (as of 3/6/19)

	Under-weight		Neutral		Over-weight
Global Equities	•	•	•	●	•
U.S. Large Cap Growth	•	•	•	●	•
U.S. Large Cap Value	•	•	•	●	•
U.S. Small Cap Growth	•	•	•	●	•
U.S. Small Cap Value	•	•	●	•	•
International Developed	•	●	•	•	•
Emerging Markets	•	•	•	●	•
Global Fixed Income	•	●	•	•	•
U.S. Governments	•	●	•	•	•
U.S. Mortgages	•	●	•	•	•
U.S. Corporates	•	•	●	•	•
High Yield	•	●	•	•	•
U.S. Investment Grade Tax Exempt	•	•	●	•	•
U.S. High Yield Tax Exempt	•	●	•	•	•
International Fixed Income	●	•	•	•	•
Alternative Investments*	see CIO Asset Class Views				
Hedge Funds					
Private Equity					
Real Assets					
Cash					

* Many products that pursue Alternative Investment strategies, specifically Private Equity and Hedge Funds, are available only to pre-qualified clients.

Economic and Market Forecasts (as of 3/29/19)

	Q3 2018A	Q4 2018A	Q1 2019A	Q2 2019E	2018A	2019E
Real global GDP (% y/y annualized)	–	–	–	–	3.8	3.3
Real U.S. GDP (% q/q annualized)	3.4	2.2	1.0*	2.5	2.9	2.2
CPI inflation (% y/y)	2.6	2.2	1.6*	1.9	2.4	1.9
Core CPI inflation (% y/y)	2.2	2.2	2.1*	2.2	2.1	2.2
Unemployment rate (%)	3.8	3.8	3.9*	3.8	3.9	3.7
Fed funds rate, end period (%)	2.18	2.40	2.43	2.38	2.40	2.63
10-year Treasury, end period (%)	3.06	2.68	2.41	2.80	2.68	3.00
S&P 500 end period	2914	2507	2834	–	2507	2900
S&P earnings ($/share)	43	41*	40*	43	162.5*	170
Euro/U.S. dollar, end period	1.16	1.15	1.12	1.15	1.15	1.20
U.S. dollar/Japanese yen, end period	114	110	111	107	110	101
Oil ($/barrel, avg. of period, WTI**)	69	59	55	62	65	59

The forecasts in the table above are the base line view from BofAML Global Research team. The Global Wealth & Investment Management (GWIM) Investment Strategy Committee (ISC) may make adjustments to this view over the course of the year and can express upside/downside to these forecasts.

Past performance is no guarantee of future results. There can be no assurance that the forecasts will be achieved. Economic or financial forecasts are inherently limited and should not be relied on as indicators of future investment performance.

A = Actual. E/* = Estimate. S&P 500 represents a fair value estimate for 2019. **West Texas Intermediate

Sources: BofA Merrill Lynch Global Research; GWIM ISC as of March 29, 2019.

Index Definitions

Securities indexes assume reinvestment of all distributions and interest payments. Indexes are unmanaged and do not take into account fees or expenses. It is not possible to invest directly in an index. Indexes are all based in dollars.

Index term	Definition
S&P 500 Index	includes a representative sample of 500 leading companies in leading industries of the U.S. economy. Although the index focuses on the large-cap segment of the market, with approximately 75% coverage of U.S. equities, it is also an ideal proxy for the total market
Purchasing Managers' Index (PMI)	is an indicator of economic health for manufacturing and service sectors. EURO STOXX 50 is a stock index of Eurozone stocks designed by STOXX, an index provider owned by Deutsche Börse Group.
Bovespa Index	(Portuguese: Índice Bovespa) best known as Ibovespa is the benchmark index of about 60 stocks that are traded on the B3 (Brasil Bolsa Balcão).
Nikkei	is short for Japan's Nikkei 225 Stock Average, the leading and most-respected index of Japanese stocks. It is a price-weighted index composed of Japan's top 225 blue-chip companies traded on the Tokyo Stock Exchange.
Mexican Stock Exchange	is one of two stock exchanges in Mexico, the other being BIVA - Bolsa Institucional de Valores.
Korea	Composite Stock Price Index **KOSPI** is the index of all common stocks traded on the Stock Market Division—previously, **Korea** Stock Exchange—of the **Korea** Exchange

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Investing involves risk, including the possible loss of principal. Past performance is no guarantee of future results.

All recommendations must be considered in the context of an individual investor's goals, time horizon, liquidity needs and risk tolerance. Not all recommendations will be suitable for all investors. Asset allocation, diversification and rebalancing do not ensure a profit or protect against loss in declining markets.

Investments have varying degrees of risk. Some of the risks involved with equity securities include the possibility that the value of the stocks may fluctuate in response to events specific to the companies or markets, as well as economic, political or social events in the U.S. or abroad. Small cap and mid cap companies pose special risks, including possible illiquidity and greater price volatility than funds consisting of larger, more established companies. Bonds are subject to interest rate, inflation and credit risks. Municipal securities can be significantly affected by political changes as well as uncertainties in the municipal market related to taxation, legislative changes, or the rights of municipal security holders. Income from investing in municipal bonds is generally exempt from Federal and state taxes for residents of the issuing state. While the interest income is tax-exempt, any capital gains distributed are taxable to the investor. Income for some investors may be subject to the Federal Alternative Minimum Tax. Investing in lower-grade debt securities ("junk" bonds) may be subject to greater market fluctuations and risk of loss of income and principal than securities in higher rated categories. Treasury bills are less volatile than longer-term fixed income securities and are guaranteed as to timely payment of principal and interest by the U.S. government. Mortgage-backed securities are subject to credit risk and the risk that the mortgages will be prepaid, so that portfolio management may be faced with replenishing the portfolio in a possibly disadvantageous interest rate environment. Investments in foreign securities (including ADRs) involve special risks, including foreign currency risk and the possibility of substantial volatility due to adverse political, economic or other developments. These risks are magnified for investments made in emerging markets. Investments in a certain industry or sector may pose additional risk due to lack of diversification and sector concentration. Investments in real estate securities can be subject to fluctuations in the value of the underlying properties, the effect of economic conditions on real estate values, changes in interest rates, and risk related to renting properties, such as rental defaults. There are special risks associated with an investment in commodities, including market price fluctuations, regulatory changes, interest rate changes, credit risk, economic changes and the impact of adverse political or financial factors.

Nonfinancial assets, such as closely-held businesses, real estate, oil, gas and mineral properties, and timber, farm and ranch land, are complex in nature and involve risks including total loss of value. Special risk considerations include natural events (for example, earthquakes or fires), complex tax considerations, and lack of liquidity. Nonfinancial assets are not suitable for all investors.

Investments in tangible assets are highly volatile and are speculative. There are special risks associated with an investment in commodities, including market price fluctuations, regulatory changes, interest rate changes, credit risk, economic changes, and the impact of adverse political or financial factors.

Alternative investments such as derivatives, hedge funds, private equity funds, and funds of funds can result in higher return potential but also higher loss potential. Changes in economic conditions or other circumstances may adversely affect your investments. Before you invest in alternative investments, you should consider your overall financial situation, how much money you have to invest, your need for liquidity, and your tolerance for risk. Alternative investments are speculative and involve a high degree of risk. An investor could lose all or a substantial amount of his or her investment. There is no secondary market nor is one expected to develop and there may be restrictions on transferring fund investments. Alternative investments may be leveraged and performance may be volatile. Alternative investments have high fees and expenses that reduce returns and are generally subject to less regulation than the public markets. The information provided does not constitute an offer to purchase any security or investment or any other advice.