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Capital Market Outlook

April 29, 2019

The opinions are those of the author(s) and subject to change.

IN THIS ISSUE

- **Macro Strategy**—The key to the longevity of this current expansion is the trend in inflation. The disinflationary shock from 2018 tightening has caused the Federal Reserve's (Fed's) preferred inflation measure to fall below the 2% target for the 11th straight year. Correcting this mistake requires accommodative policy for a couple more years, making a recession appear unlikely in 2020.

- **Global Market View**—Heading into the reporting season, a dark shadow was cast on first-quarter earnings, threatening a year-over-year decline given the moderating economic growth environment. Now in the heart of earnings season, the market is digesting better-than-expected earnings with previous fears of an incoming earning recession abating.

- **Thought of the Week**—We believe the energy sector is likely to remain a volatile sector and is traded by investors given complex geopolitical dynamics, tensions in the Middle East, production disruptions around the globe, and the decline in the power of OPEC given equally powerful oil and gas production from both Russia and the U.S.

- **Portfolio Considerations**—We remain overweight equities and would be buyers on weakness — particularly in between earnings seasons. Within fixed income, we are overall neutral on credit and have a slight preference for short-dated investment-grade corporates and municipals across the curve.

MACRO STRATEGY

Chief Investment Office Macro Strategy Team

GLOBAL MARKET VIEW

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THOUGHT OF THE WEEK

Chief Investment Office Equity Strategy Team

Data as of 4/29/2019 and subject to change.

MACRO STRATEGY

Inflation Is the Key

Chief Investment Office Macro Strategy Team

The decline in inflation over the past year has confirmed that the Fed went beyond neutral into restrictive territory with its four rate hikes in 2018. The Fed's preferred "core" personal consumption expenditure measure is expected to fall to about 1.5% on a year-over-year basis by the summer, forcing forecasters to revise down their estimates for 2019 inflation. It appears that this will be the 11th straight year that the Fed has fallen short of its 2% inflation mandate.

Significantly, the U.S. is not the only country where inflation has stayed below central bank targets. As Exhibit 1 shows, other major economies, including the euro area, Japan, the U.K., Canada and Australia have struggled to meet their inflation targets over the

past five and 10 years. Recognition of this failure has caused the Fed and other central banks to redirect their attention to more aggressive efforts to accommodate economic growth until inflation rises and runs above target for a sustained period that lifts long-run inflation expectations back up to the 2% target.

Exhibit 1: Too Tight Policies Keep Inflation Below Target.

	Actual Inflation		
	5-Year	10-Year	Target
U.S.	1.3	1.6	2.0
Euroarea	1.3	0.8	< 2.0
Japan	0.9	0.4	2.0
U.K.	1.4	2.2	2.0
Canada	1.6	1.7	2.0
Australia	1.7	2.1	2 – 3

Source: BofA Merrill Lynch Global Research. Data as of April 18, 2019.

This shift to more accommodative policy has set the stage for a reacceleration in U.S. and global growth that is apparent in rising leading indicators like equity prices, which have recovered sharply around the world since the period of excessive Fed tightening ended.

Leads and Lags

The economy is entering a cyclical sweet spot where growth is currently rising and inflation is falling. This is typically the best time for equity returns because rising growth generally lifts earnings while falling inflation keeps the Fed at bay.

Fed tightening works with a lag in reducing inflation while having a more immediate impact on growth. While these lags can be "long and variable," empirical studies show that the lag between monetary policy moves and inflation is about a year longer than the lag between policy and economic growth.

Thus, in 2019, the Fed's tilt toward easier policy is already stimulating growth, while the restrictive impact of last year's tightening is still working its way through lowering inflation. Given the growing shortfall between actual inflation and the target and taking account of the need to push inflation above target for an extended period, this "sweet spot" for the markets appears likely to last at least a couple of years.

Productivity Suppressing Inflation

The Fed missed the pickup in productivity in 2018 as did the consensus of economists. That's why the inflation outlook is being revised lower. The consensus assumed that accelerating wage growth would translate into higher inflation. Instead, while wage growth picked up by about a half percentage point in 2018, productivity growth rose more, causing inflation to remain below target in 2018.

The consensus at the Fed and in the forecasting community is that supply-side effects are minimal and that wage pressures dominate inflation. Instead, tax cuts and deregulation have stimulated capital spending, which bolsters productivity. The 2017 Tax Cuts and Jobs Act (TCJA) was more stimulative than expected, and the supply-side effects were bigger than the Fed anticipated. In addition to the positive effect of increased capital spending on productivity, lower tax rates on labor income and higher wages induced more prime-age workers into the labor force, taking some of the pressure off of the tight labor market. As a result, gross domestic product (GDP) growth picked up to about 3% without a pickup in inflation.

Besides the positive impact of the TCJA on productivity and labor force participation, several other factors have worked to raise productivity growth out of its "secular

stagnation" doldrums. Over time, weak labor supply growth, a strong dollar and high confidence are important determinants of solid productivity growth.

The demographic constraints on labor supply growth make workers a scarcer commodity and incentivize businesses to find more ways to raise the productivity of each worker. As a result, extended periods of low labor force growth are associated with higher productivity growth than periods where labor force growth is strong. This is one reason why productivity growth was stronger in the 1950s when the small Depression-era cohort was entering the labor force compared to the weak productivity 1970s era when the massive baby-boom cohort was entering the jobs market.

Similarly, a strong dollar incentivizes more productivity compared to a weak dollar. International competition forces strong currency countries to find ways to bolster productivity just as scarce labor does.

Finally, confidence about the longer-term growth of the economy stimulates investment and adds to worker productivity. The decade of secular stagnation was associated with recession levels of confidence among the small business community that creates most U.S. jobs. As the economy has recovered from the 2008 financial crisis confidence has returned to high levels and combined with a more pro-business policy mix has improved businesses willingness to invest for the longer term.

Taken together, these factors that raise productivity suggest that consensus economists and the Fed are still underestimating the economy's potential growth rate, which was a key factor behind the 2018 monetary policy mistake. Supporting this view is the evidence that the brief slowdown in late 2018 and early 2019 appears to have bottomed out around a 2% growth rate and seems to be accelerating from there. For example, the progressive improvement in U.S. economic data since January lifted first-quarter GDP growth to a much stronger than expected 3.2 percent.

What Could Prompt A Rate Cut?

The Fed's shift of its attention toward a more proactive concern about reaching its inflation target instead of focusing on strong wage growth is evident in recent comments from officials. For example, in the April 22, 2019, edition of the Wall Street Journal, the following:

"Fed Vice Chairman Richard Clarida, speaking earlier this month on CNBC, appeared to be lowering the bar for such a move. He volunteered that a recession wasn't the only situation in which the Fed had cut rates in the past, pointing to instances in the 1990s in which the central bank "took out some insurance cuts."

"Over a 12-month period beginning in February 1994, the Fed raised its benchmark rate to 6% from 3.25%. It then cut rates at three meetings between July 1995 and January 1996 after inflation rose less than anticipated."

We believe this mid-90s example of a policy reversal is most closely associated with the 2018–2019 experience. In 1994, the Fed tightened too much, imparting a deflationary shock to the economy that it subsequently corrected. In both the recent and mid-90s examples, the Fed tightened too much in its initial normalization phase after a long period of unusually low rates. These interest rate overshoots forced a partial reversal in both cases. Whether the Fed needs to backtrack further on rates this time will depend on how low and for how long inflation stays below target.

The Earnings Halftime Report: Not as Bad as Feared

Lauren J. Sanfilippo, Vice President and Market Strategy Analyst

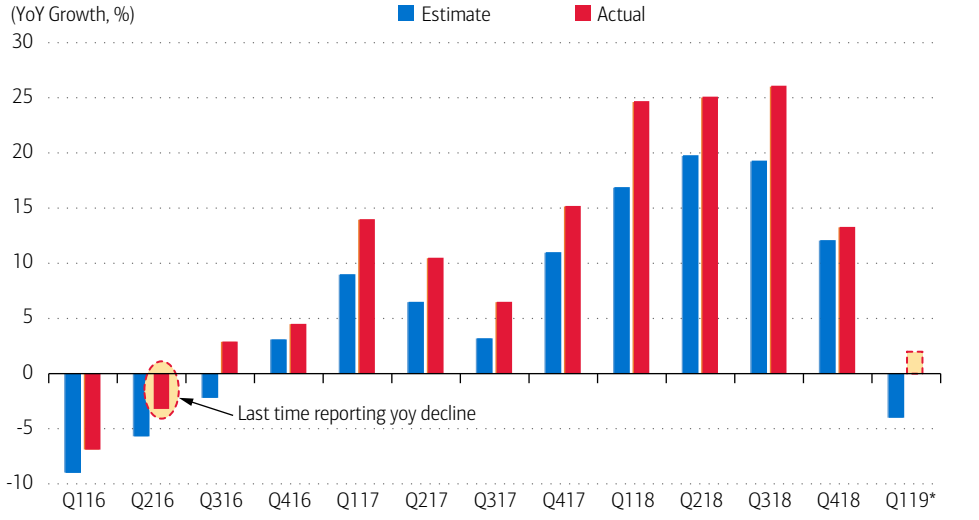
Joseph P. Quinlan, Head of CIO Market Strategy

Now that the U.S. corporate earnings season is past the halfway mark, investors have gotten a sense of how corporate fundamentals are shaping up in a moderating economic growth environment. Heading into the reporting season, clouds loomed overhead, dampening sentiment thanks to a suite of concerns ranging from margin pressures, commodity prices and a stronger dollar to broader economic concerns such as worries over Brexit and the unresolved trade spat between the world's top two economies.

In the face of what was forecast to be a year-over-year decline in S&P 500 first-quarter earnings, stocks topped new highs last week, capping a momentous 17-week 25% move to the upside from the lows of Christmas Eve. The trip in equities came courtesy of better-than-expected earnings, reducing, for now, the much-feared possibility of an earnings recession. So far, the majority of corporate earnings reports have topped expectations, with nearly 70% of the S&P 500 companies having beaten earnings estimates. With the rally in stocks this year attributable to expanding valuation multiples, first-quarter estimates were reset dramatically, lowering the bar for companies to clear. That said, a key challenge of this earning season remains the fading effects of corporate tax cuts, setting up a tough comparable quarter for S&P companies.

According to FactSet, on average over the past five years, actual earnings reported have mostly exceeded estimates from the end of the quarter through the end of earnings season. The spread between these two markers has typically increased by 3.7% on average, due to the number and magnitude of upside earnings surprises. As of Friday, 68% of companies are reporting actual EPS (earnings per share) above estimates, beating by 5.3%. This compares to 72% and 4.8% over the past five years. Factoring in the historical earnings growth rate plus the accelerated pace reported so far, could result in a positive year-over-year earnings growth for first-quarter (Exhibit 2).

Exhibit 2: S&P 500 Earnings Growth: End of Quarter Estimate vs. Actual.



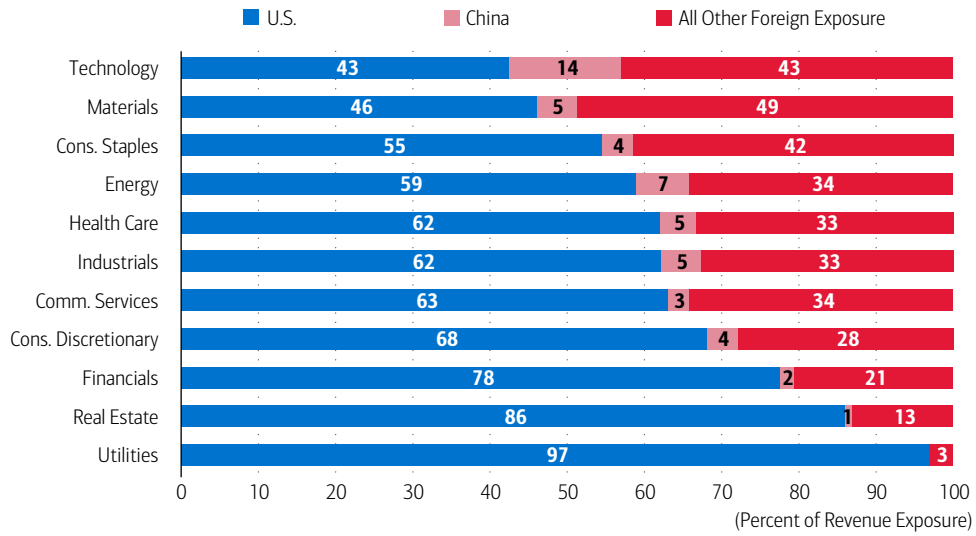
*Estimate for actual Q119 based on 46% of companies reporting so far.
Source: FactSet. Data as of April 26, 2019. **Past performance is no guarantee of future results.** Performance would differ if a different time period was displayed. Short-term performance shown to illustrate more recent trend.

How the other half contributes

U.S. global earnings (non-U.S. figures) have not been immune to the global slowdown impacting large swaths of American businesses and consumers. And key to this batch of earnings is to what extent industries have been, and will be, affected. Looking at revenue by geographic region shows that nearly 61% of S&P 500 revenues come from the U.S., with the remaining emanating from foreign markets. Internationally, the largest individual countries by total revenue percentage of the S&P are: China (5.9%), Japan (2.9%) and the United Kingdom (2.4%). (However, the European Union, on an aggregated basis, remains the largest foreign market for U.S. goods and services.)

On a sector basis, technology led the pack with the most foreign exposure, followed by materials and consumer staples (Exhibit 3). The sectors most exposed specifically to China are tech and energy, relevant to market observers who have been watching for developments in the trade talks between the U.S. and China.

Exhibit 3: Geography Matters: Revenue Exposure by Sector.

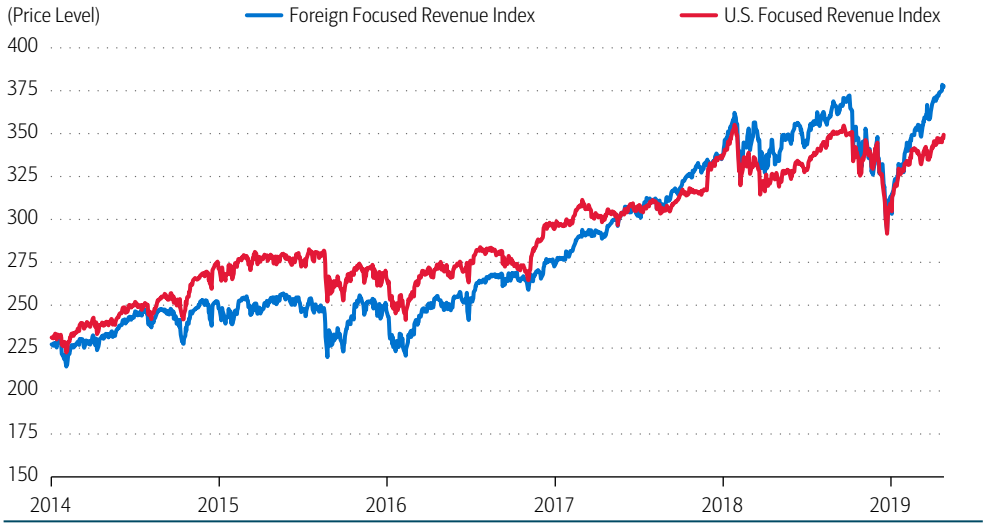


Total foreign revenue exposure is represented by both shades of red. Because of rounding discrepancies, figures may not add up to 100. Source: FactSet. Data as of April 2019.

A number of companies cautioned that slowing global growth as well as international trade tensions could weigh on their bottom lines, bending earnings for those with higher international revenue exposure. According to the most recent Bureau of Economic Analysis data release (Q4 2018), gross corporate profits from the rest of the world hit a near-record high of $819.4 billion (seasonally adjusted annual rate (SAAR)) a figure up modestly from the prior quarter but some 3% higher than the same period a year ago. Rest-of-world gross corporate profits have marched steadily higher over the past few years, rising 20% between 2016 and 2018.

When comparing performance within the S&P 500 of those most exposed to foreign or domestic revenues, the top quartile of those ranked with the most exposure to foreign markets versus the bottom quartile of those with limited foreign exposure in the S&P, the former are outshining their more domestically focused counterparts year-to-date. To note, S&P companies in the Focused Foreign Revenue Exposure Index are up 20.3% this year, following a drop of -7.6% in 2018. In contrast, the S&P companies that comprise the Focused U.S. Revenue Exposure Index are up a more modest 13.1% in 2019, after last year's drop of -8.3% (Exhibit 4). This echoes our sentiment regarding multinationals well positioned in foreign markets with a reliance on foreign revenues.

Exhibit 4: It's Not a Small World, Afterall.



Source: Bloomberg. Data as of April 26, 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.

Market Hates to Lose and Barely Loves to Win

This earning seasons' price reaction for companies that have beat EPS and sales estimates outperformed the S&P by 1.1 percentage points the following day, below the long-term average of 1.6 percentage points. Conversely, companies reporting EPS and sales misses have underperformed by 3.8 percentage points, more than the historical average decline of 2.4 percentage points.[1] Thus, shares of companies in the S&P 500 that miss earnings estimates are being punished more than average this quarter and those beating aren't feeling too loved either.

We view earnings season as an attractive time to take advantage of increased volumes and elevated volatility around a stock's earnings event, as we remain overweight large-cap equities and would be buyers on any weakness. We expect EPS growth to slow from the torrid pace of 20% in 2018 and settle toward 5% in 2019, contingent upon improving economic and trade progress. We prefer exposure to industries that offer earnings streams from secular trends within technology (digital revolution, artificial intelligence, robotics, cloud computing etc.) and those offering cyclical value such as financials and industrials (capital expenditures beneficiaries, defense, infrastructure).

Another key component of earnings seasons remains to be fully seen—guidance. The S&P 500 could benefit from any improvement in the management guidance ratio, which had deteriorated in the first quarter as it typically does. It being only half way into first-quarter earnings season, company guidance is generally neutral, and this sets up realistic expectations and a lower bar for upside surprises for the remainder of 2019. A recovery in guidance this earnings season is likely in our view and would be a positive catalyst driving new highs for the market.

[1] BofA Merrill Lynch Global Research as of April 28, 2019.

THOUGHT OF THE WEEK

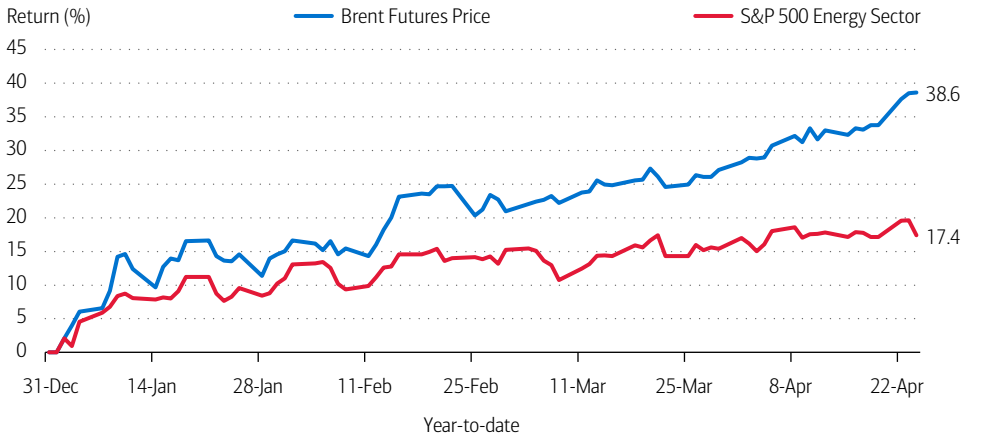
Global Oil Pawns and the Three Kings

Chief Investment Office Equity Strategy Team

The U.S. surprised the market last Monday by announcing its plan to eliminate waivers on the purchase of Iranian oil, and essentially cutting global oil supply by squeezing Iran. Oil prices were already moving higher in recent weeks as disruptions in Libya and Nigeria, combined with increased tensions in Venezuela, helped drive Brent oil prices from $50-55 range to start 2019 up to the $70-75 range as of April 25, 2019. To offset the anticipated decline in Iranian supply, the U.S. will largely depend on Saudi Arabia to increase its production in the second half of 2019.

At the behest of the U.S., Saudi Arabia is likely to increase its production once again in coming months, albeit gradually, until Saudi can see the actual impact of sanctions on Iranian and Venezuelan oil production and exports. The structure of unconventional oil production means the U.S. cannot turn on and off its space capacity in real time, leaving Saudi Arabia as the main provider of short term global spare capacity (estimated Saudi spare capacity is slightly over 1M barrels per day). This dynamic could support oil prices at the upper end of the $50-70 range in the near term. BofA Merrill Lynch[1] Global Research forecast for 2019 remains at $70.

Exhibit 5: Brent Futures Price vs S&P 500 Energy.



Source: Bloomberg. Data as of April 24, 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.

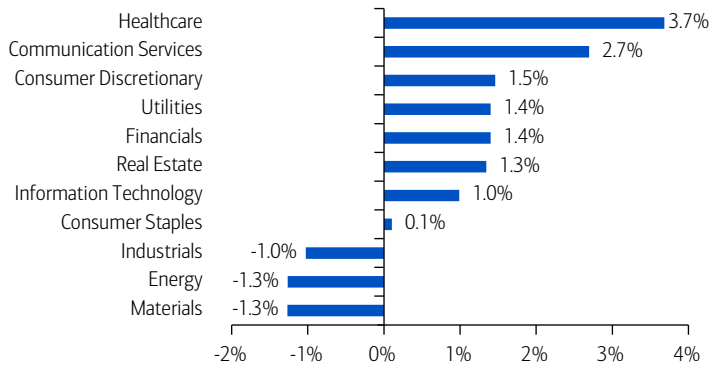
Brent oil prices rallied around 40% year-to-date and although energy equity prices also rallied since the start of the year, energy stocks as measured by the S&P 500 Energy sector index are up only ~18% year-to-date on a total return basis. We believe the energy sector is likely to remain a volatile sector that is traded by investors given complex geopolitical dynamics, tensions in the Middle East, production disruptions around the globe, and the decline in the power of OPEC given equally powerful oil and gas production from both Russia and the U.S. Nevertheless, with investor sentiment for the energy sector currently extremely negative, underweight positioning in energy stocks, and the high correlation between oil prices and energy stock prices, there could be a compression of the aforementioned performance gap between oil prices and energy stocks (Exhibit 5). Not all energy companies will be good investments, in our view. Therefore, we recommend investors consider investing in energy companies with strong balance sheets, the ability to generate free cash flow at $40-50 oil prices, maintain disciplined capital investment plans, are committed to returning more cash to shareholders and offer attractive dividends.

MARKETS IN REVIEW

Equities

		Total Return in USD (%)		
	Current	WTD	MTD	YTD
DJIA	26,543.33	-0.1	2.5	14.6
NASDAQ	8,146.40	1.9	5.4	23.1
S&P 500	2,939.88	1.2	3.8	18.0
S&P 400 Mid Cap	1,973.92	1.1	4.2	19.3
Russell 2000	1,591.82	1.7	3.4	18.5
MSCI World	2,173.82	0.7	3.3	16.2
MSCI EAFE	1,915.66	-0.2	2.4	12.7
MSCI Emerging Markets	1,078.06	-1.3	2.0	12.1

S&P 500 Sector Returns



Fixed Income[1]

		Total Return in USD (%)		
	Current	WTD	MTD	YTD
Corporate & Government	2.89	0.4	0.0	3.3
Agencies	2.52	0.3	0.0	1.8
Municipals	2.31	0.5	0.3	3.2
U.S. Investment Grade Credit	2.97	0.4	0.0	3.0
International	3.60	0.4	0.5	5.7
High Yield	6.15	0.2	1.3	8.7

	Current	Prior Week End	Prior Month End	2018 Year End
90 Day Yield	2.36	2.37	2.35	2.36
2 Year Yield	2.28	2.38	2.26	2.49
10 Year Yield	2.50	2.56	2.41	2.68
30 Year Yield	2.92	2.96	2.81	3.01

Commodities & Currencies

		Total Return in USD (%)		
Commodities	Current	WTD	MTD	YTD
Bloomberg Commodity	169.45	-1.1	-0.2	6.1
WTI Crude $/Barrel[2]	63.30	-1.1	5.3	39.4
Gold Spot $/Ounce[2]	1,286.25	0.9	-0.5	0.3

Currencies	Current	Prior Week End	Prior Month End	2018 Year End
EUR/USD	1.12	1.12	1.12	1.15
USD/JPY	111.58	111.92	110.86	109.69
USD/CNH	6.74	6.70	6.72	6.87

Source: Bloomberg, Factset.Total Returns from the period of 4/22/19 to 4/26/19. Bloomberg Barclays Indices.[1] Spot price returns.[2] All data as of the 4/26/19 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 4/26/19)

	Q3 2018A	Q4 2018A	Q1 2019A	Q2 2019E	2018A	2019E
Real global GDP (% y/y annualized)	–	–	–	–	3.6	3.3
Real U.S. GDP (% q/q annualized)	3.4	2.2	3.2	2.5	2.9	2.2
CPI inflation (% y/y)	2.6	2.2	1.6	2.1	2.4	2.0
Core CPI inflation (% y/y)	2.2	2.2	2.1	2.1	2.1	2.1
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	2.38
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 ($/share)	43	41	38*	42.5	161.5	168
Euro/U.S. dollar, end period	1.16	1.15	1.12	1.15	1.15	1.20
U.S. dollar/Japanese yen, end period	114	110	111	109	110	101
Oil ($/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 April 26, 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.

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.

Ifo Business Climate Index is a closely followed leading indicator for economic activity in Germany prepared by the **Ifo** Institute for Economic Research in Munich, Germany.

ZEW Economic Sentiment index is an aggregation of the sentiments of approximately 300 economists and analysts, used as an **indicator** of the economic future of Germany for the next six months.

National Association of Home Builders Index is a **federation** of more than 800 state and local **associations**. About one-third of NAHB's more than 140,000 members are **home builders** or remodelers.

Citi's Economic Surprise Indices are objective and quantitative measures of **economic** news. They are defined as weighted historical standard deviations of data **surprises** (actual releases vs Bloomberg survey median).

Baltic Dry Index measures changes in the cost of transporting various raw materials, such as coal and steel created by the London-based Baltic Exchange.

MSCI EM Index is an **index** used to measure equity market performance in global **emerging markets**.

MSCI ACWI is a market capitalization weighted **index** designed to provide a broad measure of equity-market performance throughout the **world**.

S&P 500 Foreign Revenue Exposure Index is designed to measure the performance of companies in the S&P 500 with higher than average revenue exposure to regions outside the U.S.

S&P 500 Focused U.S. Revenue Exposure Index is designed to measure the performance of companies in the S&P 500 with relatively focused revenue exposure to the U.S.

S&P 500® Energy Index comprises those companies included in the S&P 500 that are classified as members of the GICS® energy sector.

Important Disclosures

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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.