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Capital Market Outlook

May 6, 2019

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

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- **Macro Strategy**—Residential investment has been a drag on overall gross domestic product (GDP) for five consecutive quarters, but higher-frequency data have been mostly positive over the last few months. What should we make of the mixed data, and what does it mean for housing-related equities?
- **Global Market View**—For decades, America's "soft power" helped win the hearts and minds of the world, bestowing, in turn, a number of benefits on U.S. firms. Yet as America's global image weakens, at risk are multiple U.S. companies that have long relied on America's prominent position in the global economy to attract foreign customers and drive earnings growth.
- **Thought of the Week**—It's been a busy start to the year for initial public offerings, although volume remains far off its historic peak. This year's activity has been characterized by a relatively high proportion of larger deals focused across the communications and technology industries, and broader market observations may come into focus.
- **Portfolio Considerations**—We currently 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

Jonathan W. Kozy
Senior Vice President and
Senior Macro Strategy Analyst

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

Nick Giorgi, CFA®
Vice President and
Investment Strategist

Data as of 5/6/2019 and subject to change.

MACRO STRATEGY

Questions and Answers on Housing

Jonathan W. Kozy, Senior Vice President and Senior Macro Strategy Analyst

Housing activity data have been mixed over the last few months, but housing equities have performed well. What is your view on housing-related stocks given the recent outperformance?

We turned bullish on housing equities in the fourth quarter of last year when the group was out of favor. The premise was that lower rates from a more dovish Federal Reserve (Fed) and a better-than-expected macro backdrop would act as a catalyst for a rebound.

This has largely played out as homebuilder stocks are up over 30% from the late fall of last year and over 20% year-to-date, outperforming the broader S&P 500 index. While we still believe the fundamentals for the housing market at this point in time are solid and supportive of equities over the medium term, our tactical view is that we should not overstay our welcome in housing-related equities and will likely be turning less sanguine in the next few months. While there could be a "fear of missing out" demand push in May as rates stay low and more supply comes on line, the majority of the reversion to the mean for homebuilders and building materials companies has probably been realized, suggesting a more neutral outlook may be appropriate.

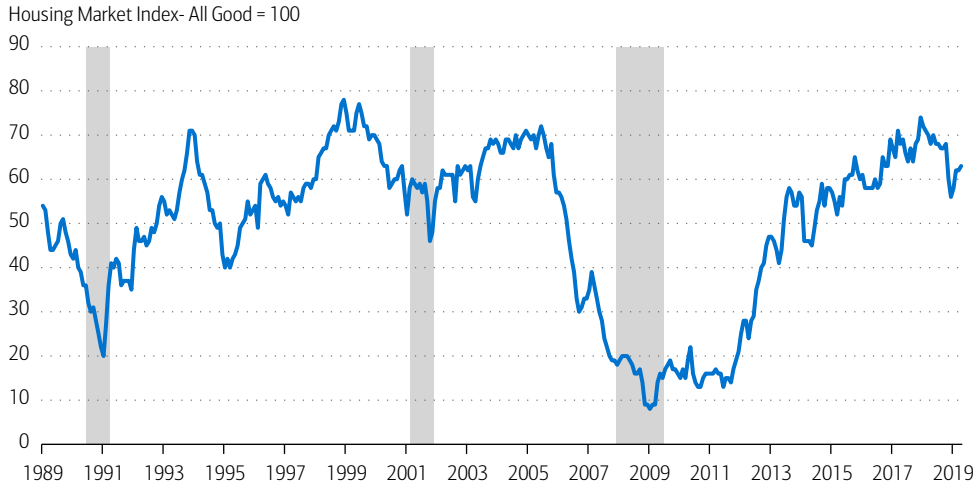
What are the main tailwinds you see for housing?

The biggest catalyst has been the rapid decline in mortgage rates, which historically has been an important near-term driver of housing activity. Most of the yield curve flattening that was spurring recession fears was happening on the long end of the curve, which meant mortgage rates were falling at the same time. This is in stark contrast to other periods of yield curve flattening when a rising short end drove the flattening.

The decline in long rates improved housing affordability and helped push the MBA new purchase mortgage index to a post-crisis high. Spring seasonal traffic into new home properties looks strong as new home sales have risen for three straight months. New homes "sold but not yet started" are near a cycle high, suggesting activity will remain robust the next few months as construction gets underway. We believe this should put an end to the streak of five consecutive quarters of negative contribution to GDP growth from residential investment.

Importantly, many homebuilders are feeling confident, according to the latest NAHB Housing Market Index (Exhibit 1) and anecdotally via earnings calls with investors.

Exhibit 1: Home Builder Confidence Holding Up.



Sources: National Association of Home Builders; Haver Analytics. Data as of April 30, 2019.

The new-home builders have aggressively responded to the three L's (labor, land and lending) that have hindered their growth in previous years. On the land side, companies are reporting that land optionality has been disciplined and more in line with demand. Homebuilders are seeing consistent evidence that demand has rebounded above typical seasonal levels despite some weather-related impact, and the cadence of traffic into communities and the intent to buy a new home have given builders the confidence to release new land projects and to accelerate their build rates in advance of a stronger selling season. Inventoried homes with quick delivery times have seen the most interest as the recent pullback in mortgage rates has provided potential buyers with a solution to

their fear of missing out. There seems to be a preference for affordable, quick-move-in homes for both the first-time buyers and move-up buyers.

Looking at labor, the job market and consumer balance sheets have remained strong and should continue to support the housing market. The mortgage debt service ratio, for example, is near the lowest on record, with data back to 1980. The broader household financial obligations ratio is also healthy and is mirrored by a supportive personal savings rate. Further, and perhaps most importantly for the housing market, consumers still are buoyed by a very healthy labor market with moderate wage growth.

Lending/financial conditions are also benign. In addition to lower mortgage rates, while the Fed's Senior Loan Officer Survey showed an increase in the net share of banks tightening mortgage standards in the first quarter, the index level suggests, on balance, banks are not tightening standards. Higher loan limits are also a near-term catalyst for new home sales, and a limited use of incentives has been a benefit to homebuilder profitability.

The backdrop for the home improvement cycle also appears to be very positive. Our most reliable contemporaneous indicator of the housing cycle is the demand for building material from professional contractors as reported by public companies. Professional contractor demand remains robust as measured by the mid-single digit growth in big ticket purchases over $1,000 reported at some of the larger home improvement companies. Continued growth in categories such as paints and stains, lighting, safety and security, and tool and hardware, bolstered a recent mid-single digit store sales improvement. The professional contractor and do-it-yourself (DIY) customer e-commerce experience continues to evolve and has been growing in the 25%–30% range for the past few quarters and now represents over 12% of total DIY and professional contractor sales. One of the largest home improvement retailers announced that it has installed 1,000 lockers in stores across the U.S. that enable 24 hour click-and-collect at the stores, and it anticipates adding a few thousand more in 2019. The management reiterated on an earnings call the significant opportunity in refurbish and remodel that is still attainable during this economic cycle. The company pointed to over $15 trillion of home equity in the U.S. owner-occupied housing market (Source: Federal Reserve Board), representing around $198,000 of available home equity per home, based on data from the Census Bureau. This is up from around $6 trillion in the years following the recession. A major home improvement retailer reiterated that its research suggests that nearly 52% of the existing home base is over 40 years old, and they require about 30% more maintenance than newer homes.

Structurally, while a lot of the pent-up demand from the post-financial crisis lull in residential investment has been worked out, there remain few signs of overinvestment in housing. This sets up a more neutral-to-positive structural backdrop and forms the basis for our neutral medium-term outlook for housing-related equities. Residential investment as a percentage of GDP remains below average, for example. Further, by some estimates, new housing starts are still undershooting the required replacement demand to meet demographic and depreciation needs. Starts will need to pick up as 2018 was the second-best year for household formation this cycle, and 2019 seems to be on a strong track. At the same time, existing inventories are lean. Millennials continue to drive a shift away from multifamily housing into single-family housing as they enter the prime years for buying a home. This is likely to continue.

What are the main headwinds, and is recent equity performance a signal that these headwinds are abating?

The combination of higher mortgage rates and changes to the state and local tax (SALT) deduction included in tax reform combined to produce strong headwinds for residential real estate in the second half of last year. Persistent home price gains throughout this cycle have also dented affordability. While the reversal in mortgage rates the last few months is a key development, the tax reform policy change is not going away anytime

soon. The New York Fed looked at the effect of the SALT limitation in a piece titled *Did Tax Reform Raise the Cost of Owning a Home* and concluded that home prices in areas with higher taxes were negatively affected. We expect home price growth at the national level to continue to moderate, not just because of this policy change, but because the supply/demand balance is normalizing as activity picks up.

The continuation of the trend away from multifamily units also creates potential speed bumps. We see many regions, particularly major cities, saturated with "cranes in the sky" that are adding to the supply of new rental apartments. This could put upward pressure on rental vacancy rates. The builders have lamented that there is no differentiation of the new multifamily communities and that the next stage will need to be lower prices, flexible terms and lower going-in costs. We wouldn't be surprised to see somewhat higher rental vacancy rates, but this risk should be mitigated for now by the strength of the labor market.

For this reason, high-frequency labor market data (for example, initial claims for unemployment insurance) will be important to watch as the business and housing cycles mature. If the labor market falters, housing will likely falter as well.

Short term, any hint of inflation or a backup in mortgage rates (perhaps driven by upside surprises to growth) will likely impact activity and stall the rally in housing-related equities. Still, our view is the that Fed is on hold at least through the end of the year and could even cut rates, as inflation remains well below the 2.0% target. This should keep a lid on mortgage rates.

Bottom line: We expect the positive trend in housing data to continue in fits and starts over the medium term given both cyclical and structural conditions. This is a positive backdrop for housing-related equities. That said, we turned bullish on housing stocks late last year, and our tactical view is that we should not overstay our welcome and will likely be turning to a more "neutral" outlook in the next few months.

GLOBAL MARKET VIEW

U.S. "Soft Power" Becoming Harder for Corporate America

Joseph P. Quinlan, Head of CIO Market Strategy

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

For decades, no country in the world has been as globally seductive as the United States. With its liberal democratic values, vibrant educational system, rags-to-riches business mentality, iconic brands, and leading position in global entertainment—thanks to these "soft power" attributes—the allure and attractiveness of the United States has been second to none over the post-war era.

"Soft power," a term coined by Joseph Nye in the early 1990s, is the ability to shape the preferences or behaviors of other nations and their citizens through positive attraction and persuasion. Elements of U.S. soft power range from the use of the U.S. dollar as the world's reserve currency to cultural exports like Hollywood movies to America's top-ranked universities. The internet, an American expression of freedom, is also an example of U.S. soft power. Ditto for iconic U.S. corporate brands like Disney, Levi jeans and brands that express individuality or convenience, or espouse the much-vaunted "American Dream."

For decades, America's "soft power" helped win the hearts and minds of the world, bestowing, in turn, a number of benefits on U.S. firms. American "soft power," for instance, is one reason why the U.S. remains a leader in global corporate brands, with American companies representing eight out of the top 10 global brands in 2018.[1] The

[1] Methodology and valuation by Kantar Millward Brown, "BrandZ Top 100 Most Valuable Global Brands 2018."

global proliferation of the internet is why some 58% of the total sales of the S&P 500 technology companies has been generated overseas. And for U.S. media conglomerates, the benefits of a strong global presence have never been greater: Global box office sales hit a record high of $41.7 billion in 2018, with over 70% of total sales generated outside the U.S.

Meanwhile, America's "soft power" has helped fill U.S. universities with some of the top minds in the world—providing schools with income and the U.S. labor force with more human capital and talent. Nearly 1.1 million international students attended U.S. colleges and universities in 2018, generating some $45.3 billion in export revenue, more than double the amount eight years ago. Total U.S. export receipts from education services (including tuition and what students spend on food, transportation and other related items) rivals that of U.S. medical and pharmaceutical exports ($55 billion) and passenger cars ($50 billion).[2]

Many of these foreign-born students stay in the United States after graduation and many have added tremendous value to the U.S. economy. For instance, according to the Kauffman Foundation, foreign-born Americans are twice as likely as native-born Americans to start a business. According to the same source, immigrants now account for almost 30% of all new entrepreneurs in the U.S., up from just 13.3% in 1996. And according to the National Foundation for American Policy, 55% of U.S. "unicorns" had one or more immigrant founders, with 23% of these billion-dollar startups founded by leaders who first came to America as international students.

Add in the fact that at approximately 90% of U.S. universities, the majority of full-time graduate students in computer sciences and electrical engineering are international students, and one begins to realize the importance of foreign students to the future of the U.S. economy.[3]

In the end, across multiple sectors and activities—ranging from brands to education, export receipts and skilled labor—the economic benefits of U.S. "soft power" are quite palatable. Among other benefits, "soft power" has embellished U.S. corporate brands, enticed foreign students to U.S. universities, and enabled U.S. firms to hire some of the world's greatest human capital. "Soft power," in other words, has paid handsome dividends to Corporate America.

But will the past be prologue? As maintaining America's "soft power" becomes increasingly difficult, what price will U.S. firms and the economy pay in the long run?

"Soft power" becoming hard for U.S. companies

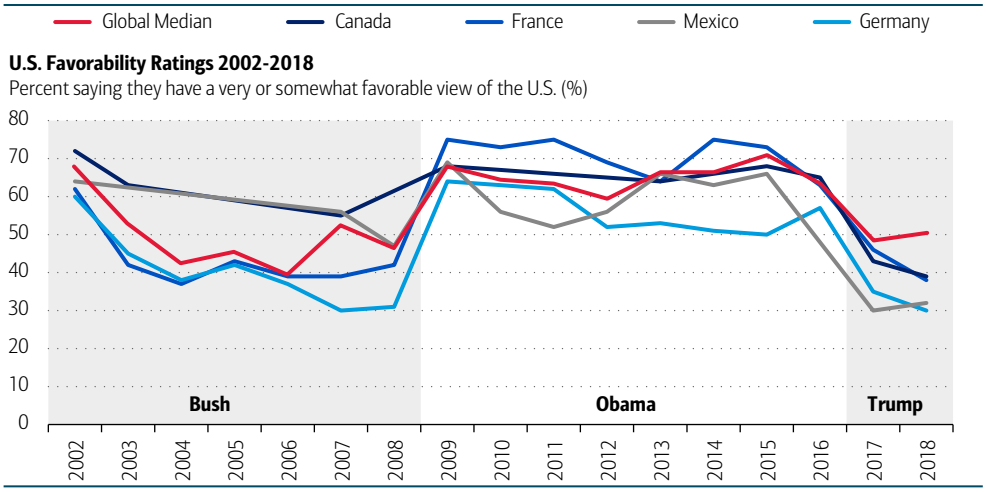
Let's face it, America is no longer the open, liberal and benign hegemon of the past. "America First" and the attendant antagonistic U.S. stance towards trade, immigration and multilateral institutions have left a bitter taste in the mouths of many around the world. The world is souring on a more-protectionist and inward-looking U.S., a trend that could potentially undermine America's "soft power" and benefits.

The mounting evidence is worrisome:
First, according to a 25-nation Pew Research Center survey, America's global image has plunged in the past two years, notably in key foreign markets like Mexico, Canada, France and Germany (Exhibit 2). "President Trump's international image remains poor, while ratings for the United States are much lower than during Barack Obama's presidency," according to the report. Favorable views of the U.S. remain at historic lows in many countries—a worrisome backdrop for any U.S. company/sector dependent on foreign sales/earnings to drive growth.

[2] New York Times, "One of America's Most Vital Exports, Education, Never Goes Abroad, but It Still Faces Threats," Jan 3, 2019. Data from the Institute of International Education and the U.S. Bureau of Economic Analysis.

[3] National Foundation for American Policy, "The Importance of International Students to American Science and Engineering", October 2017.

Exhibit 2: Souring on America.

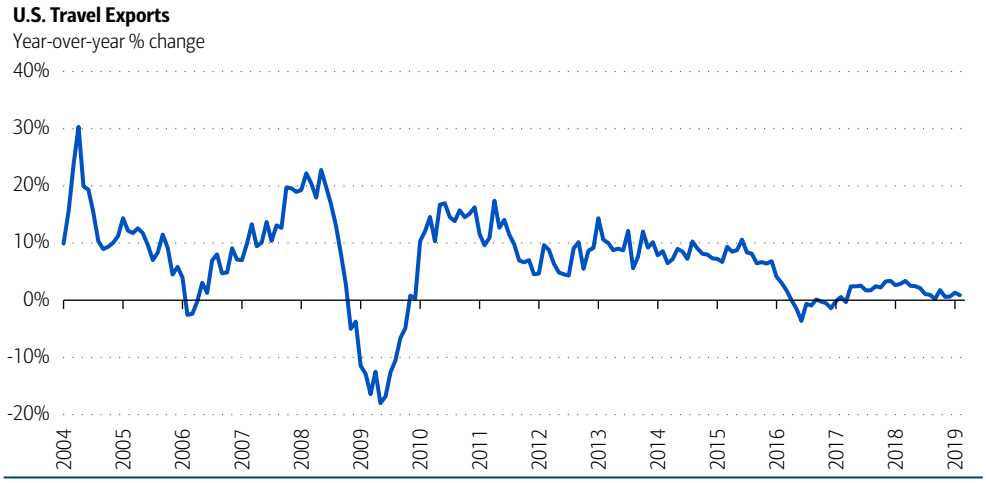


Global median calculated using data from the 25 countries polled in the 2018 Global Attitudes Survey by Pew Research, where available. Source: Pew Research Center. Data as of 2018.

Second, as American "soft power" deteriorates, many leading U.S. brands could lose their allure or miss out on important growth opportunities, notably in the face of China's expanding "soft power" initiatives. While the U.S. turns inward, China has been expanding its global footprint in culture, education and mega-diplomatic projects. The latter includes China's Belt and Road Initiative, which is reshaping global investment and trade networks, leading to greater economic integration between China and other developing countries/regions. As noted in The Economist, "as recently as 2006 Africa's three biggest trading partners were America, China and France, in that order. By 2018 it was China first, India second and America third."[4] What's at stake for U.S. companies: export opportunities, market share and first-mover advantages in various industries throughout Africa, a continent expected to account for half of the global population growth by 2050.

Third, U.S. travel exports have slowed in recent years. Following a sharp decline in 2016, travel exports have failed to bounce back to the growth rates seen in the first half of the decade (Exhibit 3). Last year, travel was the second most important U.S. export (after transportation equipment), totaling $214 billion, which includes education, medical tourism and all other types of travel spending. Yet the relative attractiveness of America as a travel destination has weakened: the U.S. received 5.6% of worldwide international arrivals last year, down from 6.4% in 2015.

Exhibit 3: Growth in Travel Exports has Slowed.

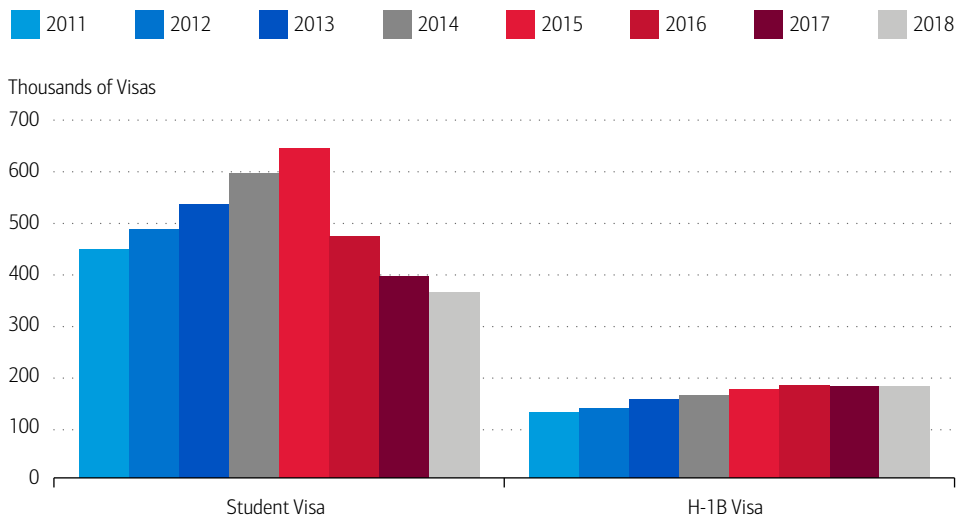


Travel exports for all purposes including business travel, expenditures by border and short-term workers, personal tourism, health-related travel and education. Source: U.S. Commerce Department. Data through February 2019.

[4] *The Economist*, "The New Scramble for Africa", March 7, 2019.

Fourth, the number of visas issued to foreign students wishing to study in America declined again last year (Exhibit 4). In 2018, the State Department issued 363,000 student visas, an 8% decline from the prior year and down 44% from the 2015 peak, with tougher immigration rules and regulations one key reason cited for the drop. Long term, the decline in the number of foreign students in U.S. universities represents a double-edged sword. The U.S. is not only losing a source of demand (students are consumers) but also a future source of supply (or potential workers upon graduation). On that note, the number of H1-B visas issued to foreigners for temporary work has stalled amid a more protectionist tilt from the U.S.

Exhibit 4: Student and H-1B (Temporary Work) Visas Issued.



H-1B visa is for temporary, skilled labor in specialty occupations. Source: U.S. Department of State. Data as of May 2019.

Fifth, while the U.S. dollar remains the world's reserve currency, its share of foreign exchange reserves has declined in recent years—from 66% in 2015 to 61.7% last year. Although the greenback is unlikely to cede the top spot any time soon, a loss of leadership could impact the demand for U.S. treasuries and/or cause U.S. companies to lose the benefit/convenience of conducting most cross-border transactions in U.S. dollars.

The bottom line

As the U.S. loses some of its "soft power" luster, at risk are multiple U.S. companies that have long relied on America's prominent position in the global economy to attract foreign customers and drive earnings growth. Key industries to watch include travel/leisure, education, technology, entertainment and iconic consumer brand products. We're not expecting a sudden boycott of American goods in response to U.S. tariffs and protectionism. But in the category of long-term risks to the U.S. economy and financial markets, the gradual deterioration of U.S. "soft power" with its negative effects to corporate earnings, ranks right up there.

THOUGHT OF THE WEEK

IPO Uptick

Nick Giorgi, CFA®, Vice President and Investment Strategist

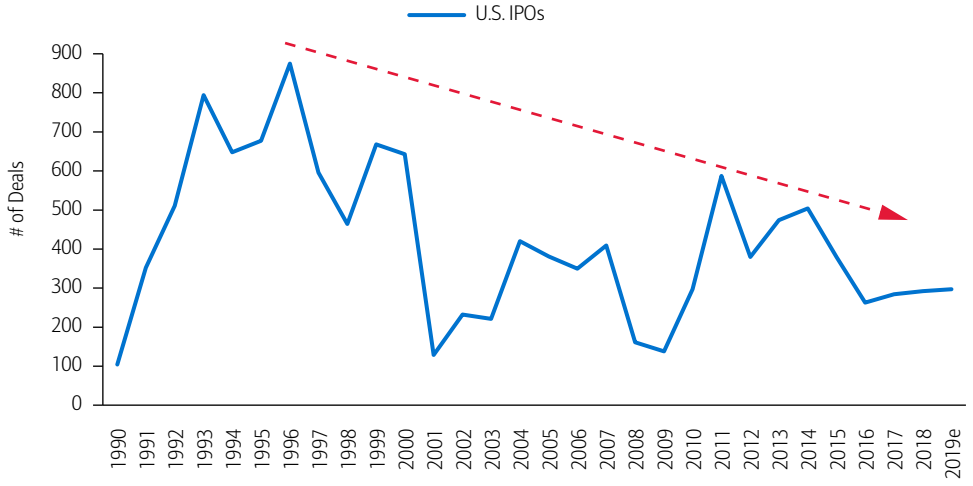
It has been a busy start to the year for initial public offerings (IPOs) with nearly $26bn of value across 149 deals having been announced in North America, as of the date of this report, as tracked by Bloomberg. This is the quickest early-year pace since 2014, and April enjoyed the greatest one-month deal value since 2012. This year's activity

has been characterized by a relatively high proportion of larger deals focused across the communications and technology industries. This is indicative of a broader trend of companies choosing to remain private for longer, ultimately going public higher up the market capitalization ladder. In fact, there have already been three announced offerings in excess of $1bn this year, matching the entire total of such large deals last year, and including what is scheduled to be the largest offering since 2012. With that said, IPO deal value as a percentage of equity market cap still remains subdued relative to historical standards.

There may be broader market implications or observations drawn by the current uptick in IPO activity. Increasing participation by technology companies shows the heft that this sector has on the economy and personal lives. The demand for new and innovative technologies, as most industries and tasks are being digitized, has spurred many companies to seek greater amounts or sources of capital. Furthermore, IPO activity can help to stem the dwindling number of public firms, with the ranks of listed U.S. companies having declined by nearly 50% since 1996, according to the Center for Research in Security Prices. Jay Clayton, chairman of the Securities and Exchange Commission, called the decline of public companies, "a serious issue for our markets and the country," and cited increased trading liquidity as a benefit of deeper public markets. A vibrant public capital market is vital in providing everyday Americans an opportunity to participate in the growth of the economy.

Some inferences are made to suggest a link between greater IPO activity and stronger equity market performance; however, we view the causality as inconclusive. Alternatively, contrarian viewpoints often cite past peaks in deal volume coinciding with subsequent market turbulence. We find today's market backdrop to be more fundamentally sound and remain supportive of equities, as such.

Exhibit 5: Deal Volume is Far Off of its Peak But May be Headed for a Rebound.



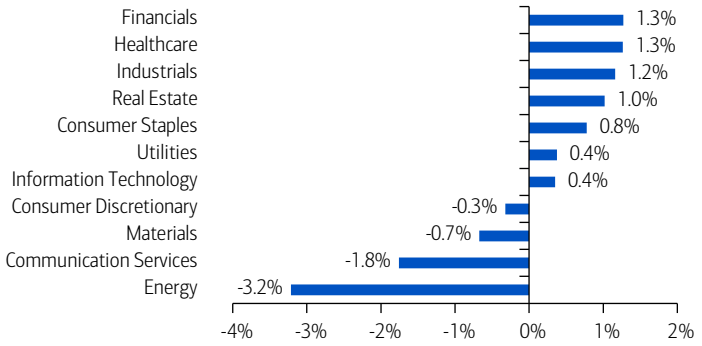
*2019e deal value is annualized as of April 30, 2019. e=Estimate.
Sources: Bloomberg, Chief Investment Office. Data as of April 30, 2019.

MARKETS IN REVIEW

Equities

		Total Return in USD (%)		
	Current	WTD	MTD	YTD
DJIA	26,504.95	-0.1	-0.3	14.4
NASDAQ	8,164.00	0.2	0.9	23.4
S&P 500	2,945.64	0.2	0.0	18.3
S&P 400 Mid Cap	1,980.83	0.4	0.5	19.7
Russell 2000	1,614.02	1.4	1.4	20.2
MSCI World	2,177.77	0.2	0.0	16.5
MSCI EAFE	1,918.81	0.3	-0.1	13.0
MSCI Emerging Markets	1,082.77	0.5	0.4	12.6

S&P 500 Sector Returns



Fixed Income[1]

		Total Return in USD (%)		
	Current	WTD	MTD	YTD
Corporate & Government	2.93	-0.1	-0.1	3.2
Agencies	2.56	0.0	-0.1	1.8
Municipals	2.29	0.2	0.1	3.4
U.S. Investment Grade Credit	3.00	-0.1	-0.1	2.9
International	3.64	-0.2	-0.2	5.5
High Yield	6.12	0.1	0.0	8.8

	Current	Prior Week End	Prior Month End	2018 Year End
90 Day Yield	2.36	2.37	2.37	2.36
2 Year Yield	2.33	2.28	2.27	2.49
10 Year Yield	2.53	2.50	2.50	2.68
30 Year Yield	2.92	2.92	2.93	3.01

Commodities & Currencies

		Total Return in USD (%)		
Commodities	Current	WTD	MTD	YTD
Bloomberg Commodity	167.60	-1.1	-0.9	4.9
WTI Crude $/Barrel[2]	61.94	-2.1	-3.1	36.4
Gold Spot $/Ounce[2]	1,279.15	-0.6	-0.3	-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	111.10	111.58	111.42	109.69
USD/CNH	6.74	6.74	6.74	6.87

Source: Bloomberg, Factset.Total Returns from the period of 4/29/19 to 5/3/19. Bloomberg Barclays Indices.[1] Spot price returns.[2] All data as of the 5/3/19 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 5/3/19)

	Q3 2018A	Q4 2018A	Q1 2019A	Q2 2019E	2018A	2019E
Real global GDP (% y/y annualized)	–	–	–	–	3.6	3.4
Real U.S. GDP (% q/q annualized)	3.4	2.2	3.2	2.1	2.9	2.6
CPI inflation (% y/y)	2.6	2.2	1.6	2.1	2.4	1.9
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	3.6	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 May 3, 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.

Mortgage Bankers Association (MBA) Purchase Index is weekly measurement of nationwide home loan applications based on a sample of about 75 percent of U.S. mortgage activity.

National Housing Market (NAHB) Index is a gauge of builder opinion on the relative level of current and future single-family home sales.

Important Disclosures

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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.