# Capital Market Outlook

## Chief Investment Office

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

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## IN THIS ISSUE

### MACRO STRATEGY

Green shoots suggesting that the global slowdown is coming to its end stage are starting to spread, suggesting that the fourth cyclical upturn since the financial crisis should begin in 2019 and is expected to last through 2020. The Federal Reserve's (Fed's) dovish turn has spawned these green shoots as strong equity gains and a renewed rise in consumer and business confidence are about to cultivate another upcycle in global growth.

### GLOBAL MARKET VIEW

The steady advancement of women, and the attendant effects on economic growth and corporate earnings, is one of the most powerful forces shaping the global investment landscape. In a nation where women are generally better educated, better paid and in better health, good things can happen. And the opportunities afforded to companies—in terms of supply (female workers), demand (female consumers) and earnings—potentially grow exponentially.

### THOUGHT OF THE WEEK

In response to heightened concerns over a so-called "hard landing," Chinese officials have rolled out substantial pro-growth stimulus measures in the form of lower taxes, easier monetary policy and higher infrastructure spending. Notwithstanding risks associated with debt levels and a renewed prominence of state-owned enterprises (SOEs), we're cautiously optimistic these efforts will support growth in the months ahead.

### PORTFOLIO CONSIDERATIONS

We continue to emphasize a higher-quality portfolio positioning overall; in terms of asset allocation, this is represented by higher U.S. and large capitalization exposure than our strategic allocations, and higher-quality fixed income relative to high yield and emerging market debt.

## MACRO STRATEGY

### SOFT PATCH SHOULD BE SHORT-LIVED

**Chief Investment Office Macro Strategy Team**

Although U.S. real GDP growth surprised the consensus to the upside in the fourth-quarter of 2018, economic data for December and January have come in on the weak side, consistent with excessive restraint from Fed rate hikes and the shock to confidence they imparted by the end of 2018. Existing home sales, single-family housing starts and permits, industrial production, new orders for investment goods, and The Conference Board's index of leading indicators suggest ongoing loss of economic growth momentum into 2019. December consumer spending was particularly weak, showing the biggest decline in a decade and raising questions about the consumer and economic outlook.

Still, there are reasons to remain optimistic about a continuation of the expansion this year and next. The sharp December decline in consumer spending followed two very strong months, and a sustained deterioration would be inconsistent with solid real-wage growth. Indeed, the labor market has stayed strong, and low inflation has helped real average hourly earnings increase at the strongest pace in four years through January, led by pay gains for non-management workers. It is likely the shock to confidence from stock-market volatility and fears of a Fed-induced recession were behind the December consumer retreat. Encouragingly, consumer expectations as measured by The Conference Board rose sharply in February following the Fed's early-year U-turn on policy and the end of the government shutdown, reversing more than half of their big December-January drop. Also, the share of respondents in the University

Data as of 03/04/2019 and subject to change.

of Michigan survey expecting increases in real incomes during the next year was the largest in 15 years in February. Indeed, leading indicators of employment, such as hours worked, initial claims for unemployment compensation, unfilled job openings and business hiring surveys suggest hiring and spending fundamentals should remain robust. Leading indicators of wage growth also point to further acceleration, with purchasing power enhanced by tame inflation, as discussed below.

Although consumer spending growth is likely to remain healthy this year, we continue to expect some restraining effects on real spending as well as on inflation from depressed home-buying sentiment and weak home sales. Consumer surveys have shown that elevated home prices have been a major reason for increasingly negative home-buying sentiment over the past two years. Rising mortgage rates exacerbated the negative perception of home buying caused by surging prices. The drop in the 30-year fixed mortgage rate from a 4.96% November peak to 4.35%, the lowest in a year, following the Fed's shift on interest rates this year, is a step in the direction of restoring housing-market demand. So is the deceleration in home-price appreciation. The median price of an existing home sold in January increased at the slowest pace since 2012 (2.8% year-over-year). The recent sharp turnaround in homebuilder sentiment and strong performance of homebuilder stocks so far this year reflect these favorable trends but housing is likely to continue to temper economic growth this year, in our view.

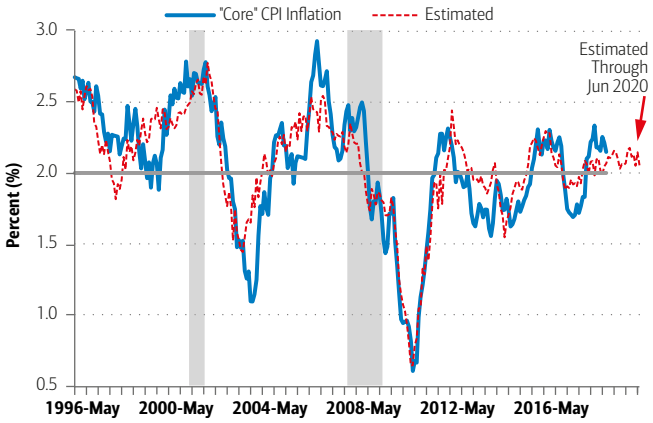
Surveys of business investment also lost vigor in the wake of financial-market turmoil and heightened recession fears at the end of 2018. Restraining effects on energy-sector spending from the big October drop in oil prices also played a role, as have rapidly deteriorating manufacturing and trade conditions overseas. Still, while the Institute for Supply Management (ISM) manufacturing and non-manufacturing purchasing managers' surveys have rolled over from their extremely strong levels early last year, they remain consistent with firm economic growth. Moreover, the stabilization of the trade-weighted dollar index, easing credit conditions, tax cuts and deregulation—along with early signs of a likely bottoming in the European manufacturing downtrend short of a prolonged contraction—suggest the U.S. manufacturing cycle is likely to keep surprising to the upside this year, with a rebound into its fourth growth wave of this expansion following a short-lived and relatively shallow soft patch. The improvement in the manufacturing ISM survey's new-orders component (a leading indicator) after its December plunge has been encouraging in this regard.

All in all, we believe that the expansion will continue through 2020 now that the Fed has reverted to an accommodative mode. As an important long leading indicator of economic activity, the stock market seems to agree with this outlook. Encouraging developments on the trade and political fronts have also helped sentiment recover from the deep late-December slump. Reassuringly, and as we had expected once concerns about Fed policy receded, risk-on sentiment has also become evident in the sharp decline in volatility and the retracement of much of the credit-spread widening of late 2018.

Also as we had expected given Fed tightening and softening global and U.S. growth, inflation has surprised to the downside through January, with little sign of inflationary pressures gaining traction anytime soon. Economic growth and import-price inflation, two major determinants of inflation trends, have not been strong enough since the 2015–2016 mid-cycle slowdown to spur excessive inflation. Sustained Fed tightening into late 2018 took more steam out of the economy, further undermining the nascent inflation uptrend. As a result, inflation expectations remain well anchored: Surveys of prices paid by manufacturers have collapsed over the past year, led by the drop in energy prices, and, according to the University of Michigan's consumer sentiment survey, household expectations for inflation over the long term fell to the lowest level on record. The Fed is clearly worried about its failure to hit its inflation target for the tenth straight year.

In our view, the Fed's tightening, a strong dollar, moderate consumer spending growth, housing constraints and the softening ISM surveys should prevent overheating and keep the economy growing at a moderate pace with well-contained inflation into 2020 (Exhibit 1). Our research indicates that

**Exhibit 1:** Inflation Likely to Remain in Check as Fed Rate-hikes to Date Keep Growth From Overheating.




Sources: Bureau of Labor Statistics, Chief Investment Office/Haver Analytics. Data as of Feb 27, 2019.

even a sustained re-acceleration in real consumer spending in coming quarters would not start to affect inflation before late 2020 given the typical two-year lag between growth and inflation.

Our estimate of the appropriate spread between the 10-year Treasury note and the fed funds rate based on labor-market conditions and wage growth remains consistent with neutral-to-accommodative Fed policy into 2020. The Fed tightened more than necessary based on this indicator, creating downside risks to growth and imparting deflationary pressures on the U.S. and global economy. With the Fed out of the way, the expansion should continue well into late 2020 following a soft patch in early 2019. That is why we continue to expect relatively narrow credit spreads and moderate corporate-revenue growth, and are not surprised by the outperformance of U.S risk-on trades out of the gate this year. Since cyclical bull markets typically peak closer to a recession, we believe there's further room to run for the stock market.

## GLOBAL MARKET VIEW

### COUNTING THE WAYS A MOBILE PHONE COULD CHANGE A LIFE

**Joseph P. Quinlan,** Head of CIO Market Strategy
**Lauren J. Sanfilippo,** Vice President and Market Strategy Analyst

Mobile phones rank as one of the most transformational creations of our times, ranking right up there, in our opinion, with the steam engine, electricity, air conditioning, penicillin and the internet. Over the balance of this century, no single force has had a more powerful impact on societies and individuals, states and countries than the ubiquitous mobile phone. Presently, roughly two-thirds of the world's population is connected by mobile devices; by 2025, the figure is expected to be closer to 75% according to GSMA Intelligence.[1] That equates to roughly 5.9 billion people, representing one of the largest mass adoptions of a single device in the history of mankind.

Helping to drive this trend are women, notably in the developing nations. Since 2014, the number of women owning a mobile phone in the low- and middle-income nations has risen by over 250 million, according to a recent report from GSMA on the mobile gender gap. Presently, 1.7 billion women now own a mobile phone in low- and middle-income nations and over a billion use mobile internet. While a mobile gap still exits—women in the developing nations are still less likely to own a mobile phone and lack access to the internet than men—the mobile gender gap is narrowing. And as it narrows, good things are happening.

Indeed, if you give a woman a mobile phone, huge, even monumental, things can happen.

#### IF YOU GIVE A WOMAN A MOBILE PHONE...

If you give a woman a mobile phone, **she becomes better connected and curious about the world she lives in.** She sees the world through a different lens, dreams of endless possibilities, and becomes more emboldened and empowered to live her life the way she wants to live it.

Connected and curious, a woman pines to learn, **she becomes better educated.** A phone encourages a woman to read and has become instrumental in boosting female literacy rates around the world over the past decade. Reading from a phone is not only more affordable in many parts of the world, but also the only means given the lack of books or stores to buy books in many nations. This paves the way for a more formal education.

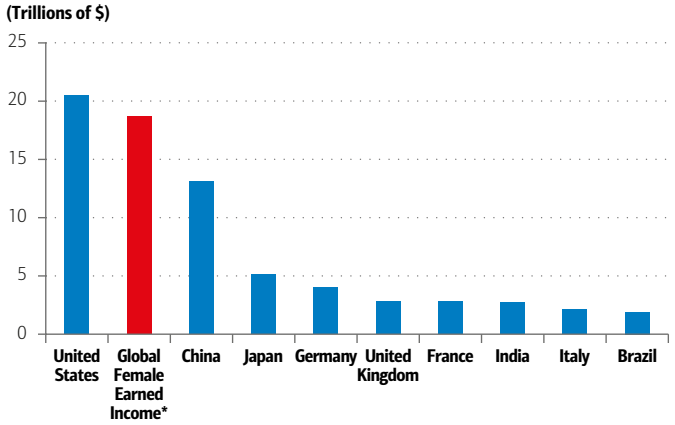
Between 2000 and 2017, while the global gender gap in literacy narrowed dramatically, the number of girls going to primary school rose significantly. This, in turn, has helped boost secondary enrollment among women, with women in many developing nations now significantly more likely to be college educated than men. The bottom line: With the assistance of a mobile phone, more women are becoming literate, staying longer in school, and excelling in various subject matters, including hard sciences.

Armed with a better education, **she enters the formal economy, boosting the nation's female labor force participation rate.** Presently, more women than ever before are both educated and participating in the labor market in the developing nations, although to be sure, the global gender gap in labor force participation rates between males and females remains wide. The labor force participation rate for men in the developing nations was 81% versus 69% for females in 2018. The gap, however, is moving in the direction of women's participation rates in the developed nations, and is narrowing as more women become educated, better skilled and more employable in the formal economy.

[1] GSMA Intelligence, *The Mobile Economy* 2018, data as of 2019.

As a participant in the formal economy, **she earns more income and obtains more purchasing power.** The more women work, the greater their purchasing power, which is already staggering on a global basis: We estimate the global purchasing power of women totaled roughly $18 trillion in 2018. That is a figure some 40% larger than the Chinese economy and larger than every other economy in the world except the United States (Exhibit 2). In the developing nations, ex China, women's income is hardly small change, topping $6 trillion in 2018, by our estimates.

**Exhibit 2:** The World's Largest Economies vs. Global Female Earned Income.




*Estimate.
Source: International Monetary Fund. Data as of October 2018.

Around the world, women have become key drivers in various sectors, ranging from travel and leisure, to health care, cosmetics, food/beverages and a host of other industries. Meanwhile, globally, women control upward of $20 trillion in wealth—a staggering sum of capital that speaks to the financial influence of women and their future sway on the global capital market.

With more income, **she invests more in her health and the health of her family.** According to data from the United Nations, educated mothers mean healthier babies. For instance, a child born to a mother who can read is 50% more likely to survive past age 5; meanwhile, each extra year of a mother's schooling reduces the probability of infant mortality by 5% to 10%. Being better educated, having more income and a healthier lifestyle—these powerful factors allow women and girls to break the vicious cycle of poverty and inequality that has condemned millions of women in the past.

By the same token, **she improves the health of her community and nation.** As the McKinsey Global Institute notes, if women's participation rates were the same as men's around the world, it would add up to $28 trillion, or 26%, to annual global gross domestic product (GDP) by 2025. As the report notes, women currently generate only 37% of global GDP despite accounting for 50% of the global working-age population. When unpaid work done by women is added to the equation, their contribution to global GDP rises considerably since 75% of global unpaid work is done by women. McKinsey estimates that this unpaid work amounts to as much as $10 trillion in output, or roughly 13% of global GDP. No matter how one slices it, women are a critical and growing component of world output.

## INVESTMENT SUMMARY

As we have noted in the past, the steady advancement of women, and the attendant effects on economic growth and corporate earnings, is one of the most powerful forces shaping the global investment landscape. In a nation where women are generally better educated, better paid and in better health, good things can happen. Typically, economic growth accelerates. Income inequalities narrow. The labor force expands. Society becomes more inclusive. And the opportunities afforded to companies—in terms of supply (female workers), demand (female consumers) and earnings—potentially grow exponentially.

In terms of portfolio exposure and the main beneficiaries of this dynamic trend—think leading global multinationals with strong global brands and expanding exposure to the emerging markets, and such sectors as consumer discretionary, technology, health care, cosmetics, sports apparel, travel and leisure.

In the end, a mobile phone in the hand of a woman represents one of the most powerful global forces in the world. It can change everything—for the good.

## CHINA'S STIMULUS MEASURES LIKELY TO STABILIZE GROWTH

**Brian Wilczynski,** Assistant Vice President and Investment Analyst

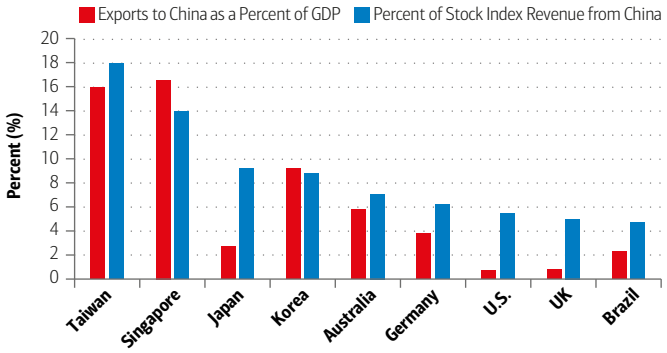
Concerns over a so-called "hard landing" in China have been on investors' minds for years, becoming more acute since the latter part of 2018. Following the nation's weakest economic growth since 1990, policymakers have rolled out a variety of measures to combat headwinds from a trade war with the U.S. and slowing growth abroad.

We expect Beijing to up the intensity of its policy easing to support growth, cutting taxes by an expected 1.5T Yuan (around $223B) for households and businesses, according to the Nikkei Asian Review. The People's Bank of China also continues to ease monetary conditions, cutting the required reserve ratio five times in the last two years and introducing the Targeted Medium Term Lending Facility to provide cheaper financing for banks that lend to small businesses. This, combined with higher infrastructure spending, suggests Beijing is pulling all of its policy levers to boost output.

China is a major driver of global profits, with key beneficiaries of stronger growth being Asian economies, led by Taiwan, which derives 18% of corporate sales from China, followed by Singapore and Japan (Exhibit 3). U.S. multinationals, whose foreign affiliates made $464B of sales in China in 2016 according to the Commerce Department, also stand to benefit, as do European firms like German automakers. However, there are reasons to be skeptical of the efficacy of China's stimulus measures. We think China's debt load is problematic, as easy financing and lower taxes portend a further increase in debt, which may prove unsustainable over the long-term. Increased reliance on SOEs poses issues too. The Peterson Institute for International Economics estimates SOEs' share of corporate borrowing has risen to 83%, and SOEs captured nearly 40% of investment in 2017, the most since 2010. Bloated SOEs could make less efficient use of stimulus funds and impede their benefits by crowding out private companies.

While it remains to be seen how effective China's stimulus will be, we're cautiously optimistic the economy can stabilize in the months ahead, which, combined with a potential trade deal with the U.S., reduces the chance of a "hard landing" and should provide support for global equities.

**Exhibit 3:** Earnings for Asian Nations are Particularly Exposed to Growth in China.



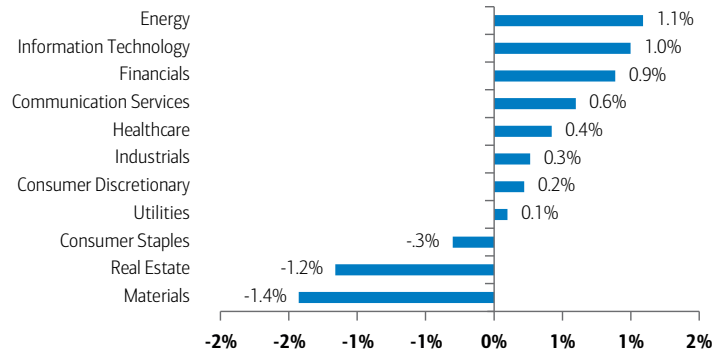

Taiwan is the TAIEX Index, Singapore, the U.K. and Australia are their respective FactSet Country Baskets, Japan is the Nikkei, Korea is the KOSPI, Germany is the DAX, U.S. is the S&P 500 and Brazil is the IBOV. Sources: Cornerstone Macro; FactSet. Data as of February 11, 2019.

# MARKETS IN REVIEW

## Equities

| | Current | Total Return in USD (%) WTD | MTD | YTD |
|---|---|---|---|---|
| DJIA | 26,026.32 | 0.1 | 4.5 | 12.1 |
| NASDAQ | 7,595.35 | 0.9 | 4.5 | 14.7 |
| S&P 500 | 2,803.69 | 0.5 | 3.9 | 12.3 |
| S&P 400 Mid Cap | 1,925.35 | -0.4 | 5.1 | 16.1 |
| Russell 2000 | 1,589.64 | 0.0 | 6.2 | 18.1 |
| MSCI World | 2,096.35 | 0.5 | 3.5 | 11.6 |
| MSCI EAFE | 1,878.53 | 0.6 | 2.8 | 9.6 |
| MSCI Emerging Markets | 1,051.54 | -0.6 | 0.3 | 9.1 |

## S&P 500 Sector Returns




## Fixed Income[1]

| | Current | Total Return in USD (%) WTD | MTD | YTD |
|---|---|---|---|---|
| Corporate & Government | 3.19 | -0.4 | -0.3 | 0.9 |
| Agencies | 2.79 | -0.3 | -0.1 | 0.3 |
| Municipals | 2.55 | 0.0 | 0.5 | 1.2 |
| U.S. Investment Grade Credit | 3.25 | -0.4 | -0.3 | 0.8 |
| International | 3.95 | -0.3 | 0.1 | 2.4 |
| High Yield | 6.55 | 0.5 | 1.7 | 6.3 |

| | Current | Prior Week End | Prior Month End | 2018 Year End |
|---|---|---|---|---|
| 90 Day Yield | 2.38 | 2.38 | 2.35 | 2.36 |
| 2 Year Yield | 2.56 | 2.50 | 2.46 | 2.49 |
| 10 Year Yield | 2.76 | 2.65 | 2.63 | 2.69 |
| 30 Year Yield | 3.12 | 3.02 | 3.00 | 3.02 |

## Commodities & Currencies

| Commodities | Current | Total Return in USD (%) WTD | MTD | YTD |
|---|---|---|---|---|
| Bloomberg Commodity | 169.25 | -1.4 | 0.5 | 6.0 |
| WTI Crude $/Barrel[2] | 55.80 | -2.5 | 3.7 | 22.9 |
| Gold Spot $/Ounce[2] | 1,293.40 | -2.6 | -2.1 | 0.9 |

| Currencies | Current | Prior Week End | Prior Month End | 2018 Year End |
|---|---|---|---|---|
| EUR/USD | 1.14 | 1.13 | 1.14 | 1.15 |
| USD/JPY | 111.89 | 110.69 | 108.89 | 109.69 |
| USD/CNH | 6.71 | 6.71 | 6.71 | 6.87 |

Sources: Bloomberg, Factset. Total Returns from the period of 2/25/2019 to 3/1/2019. Bloomberg Barclays Indices.[1] Spot price returns.[2] All data as of the 3/1/2019 close.
**Past performance is no guarantee of future results**.

## Asset Class Weightings (as of 01/08/19)

| | 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* | | | | | |
| 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 03/01/19)

| | Q2 2018A | Q3 2018A | Q4 2018A | Q1 2019E | 2018A | 2019E |
|---|---|---|---|---|---|---|
| Real global GDP (% y/y annualized) | – | – | – | – | 3.8* | 3.4 |
| Real U.S. GDP (% q/q annualized) | 4.2 | 3.4 | 2.6 | 1.0 | 2.9 | 2.2 |
| CPI inflation (% y/y) | 2.7 | 2.6 | 2.2 | 1.6 | 2.4 | 1.8 |
| Core CPI inflation (% y/y) | 2.2 | 2.2 | 2.2 | 2.2 | 2.1 | 2.3 |
| Unemployment rate(%) | 3.9 | 3.8 | 3.8 | 3.9 | 3.9 | 3.7 |
| Fed funds rate, end period (%) | 1.88 | 2.13 | 2.38 | 2.38 | 2.38 | 2.88 |
| 10-year Treasury, end period (%) | 2.86 | 3.06 | 2.68 | 3.00 | 2.68 | 3.00 |
| S&P 500 end period | 2718 | 2914 | 2507 | – | 2507 | 2900 |
| S&P earnings ($/share) | 41 | 43 | 40* | – | 162* | 170 |
| U.S. dollar/euro, end period | 1.17 | 1.16 | 1.15 | 1.16 | 1.15 | 1.25 |
| Japanese yen/U.S. dollar, end period | 111 | 114 | 110 | 106 | 110 | 101 |
| Oil ($/barrel, avg. of period, WTI**) | 68 | 69 | 59 | 58 | 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 1, 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.**

**TAIEX Index** is a stock market index for companies traded on the Taiwan Stock Exchange.

Japan Nikkei 225 Stock Average is a price-weighted index composed of Japan's top 225 blue-chip companies traded on the Tokyo Stock Exchange

**Korea KOSPI** is the index of all common stocks traded on the Stock Market Division—previously, Korea Stock Exchange—of the Korea Exchange.

**Germany DAX Index** is a blue chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange.

**Brazil IBOV Index** is the flagship index of the Brazilian stock exchange, known by its acronym, BM&FBOVESPA.

**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.

## IMPORTANT DISCLOSURES

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**Investing involves risk, including the possible loss of principal.** No investment program is risk-free, and a systematic investing plan does not ensure a profit or protect against a loss in declining markets. Any investment plan should be subject to periodic review for changes in your individual circumstances, including changes in market conditions and your financial ability to continue purchases.

Economic or financial forecasts are inherently limited and should not be relied on as indicators of future investment performance.

It is not possible to invest directly in an index.

Asset allocation, diversification, dollar cost averaging and rebalancing do not ensure a profit or protect against loss in declining markets.

**Past performance is no guarantee of future results.**

Stocks of small-cap companies pose special risks, including possible illiquidity and greater price volatility than stocks of larger, more established companies.

Companies may reduce or eliminate dividend payment to shareholders. Historically, dividends make up a large percentage of stocks' total return.

Investing in fixed-income securities may involve certain risks, including the credit quality of individual issuers, possible prepayments, market or economic developments and yields and shareprice fluctuations due to changes in interest rates. When interest rates go up, bond prices typically drop, and vice versa. 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 (AMT).

Investments focused in a certain industry may pose additional risks due to lack of diversification, industry volatility, economic turmoil, susceptibility to economic, political or regulatory risks and other sector concentration risks.

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 risks related to renting properties, such as rental defaults.

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. Always consult with your independent attorney, tax advisor, investment manager, and insurance agent for final recommendations and before changing or implementing any financial, tax, or estate planning strategy.

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 private equity 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.

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**The investments discussed have varying degrees of risk. Some of the risks involved with equities 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. Bonds are subject to interest rate, inflation and credit risks. Investments in high-yield bonds may be subject to greater market fluctuations and risk of loss of income and principal than securities in higher rated categories. Investments in foreign securities 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. 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 (AMT).**

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