Capital Market Outlook

Chief Investment Office

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

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MACRO STRATEGY

Early signs that the global slowdown currently ending are propelling equity markets higher. Expectations for a slowdown in capital spending (capex) seem misplaced given the new U.S. tax structure and the developing shortage of available workers. Higher U.S. productivity was the big surprise in 2018. Fundamentals suggest it should continue to move higher this year, helping to contain inflation and prolong the expansion.

GLOBAL MARKET VIEW

Student loan debt in the U.S. has more than doubled in the past ten years to reach $1.5 trillion, driven by rapidly growing tuition costs, higher enrollment and the 2008 financial crisis. In a six-question Q&A, we outline some of the critical concepts on student loan debt and its economic impact.

THOUGHT OF THE WEEK

Beijing recently announced its 2019 defense budget with spending set to grow by 7.5% to 1.19 trillion yuan ($178 billion). The data on defense spending comes as China's National Party Congress reduced its economic growth target for 2019 to a range of 6% to 6.5%. The government is in "whatever-it-takes" mode, supporting the global reflationary trade in global equities this year.

PORTFOLIO CONSIDERATIONS

Given our expectation of elevated volatility, we suggest higher-quality exposure, large- over small-caps, companies with pricing power, cash on their balance sheets, the ability to grow dividends, and less leverage.

MACRO STRATEGY

A MIRROR IMAGE

Chief Investment Office Macro Strategy Team

2019 is shaping up to be a mirror image of 2018, which began with widespread euphoria about a continuing synchronized global expansion. By the spring, however, aggressive Federal Reserve (Fed) rate-hike plans and trade-war concerns had sparked a global slowdown. In sharp contrast, this year has begun with widespread expectations of continued global slowing. Instead, with the Fed and trade concerns now becoming tailwinds, in our view, the global economy is on the cusp of a new upcycle, which should become apparent, likely by the second half.

Early signs of the turnaround are apparent in long-lead-time leading indicators, like stock prices, credit spreads, interest rates and general financial conditions. The U.S. was least impacted by the trade and rate-hike headwinds in 2018, although by the end of the year it also began to show signs of fatigue. China, on the other hand, got hit hardest, as was evident in its much more severe bear market in equities. Once the U.S. began to slow, the Fed stepped back to give growth a chance. Signs of the impending return to synchronized global growth in 2019 have been flashing from the relative outperformance and earlier bottoming process in emerging-market (EM) currencies and equities, especially the Chinese yuan and equities since late last year.

As we wrote last spring, the early victims of the Fed rate hikes were those EMs, like Turkey and Argentina, that had leveraged up during the zero-rate era of plentiful dollar liquidity. Developed economies outside the U.S were also more impacted, not least because they were more vulnerable to China's disproportionate weakening, especially Germany, which has the biggest structural trade surplus in the world and is overly reliant therefore on global trade.

The lack of a coordinated pro-growth policy response and political limbo add to European woes. As George Soros—Hungarian-American investor and philanthropist—put it recently, "Europe is sleepwalking into oblivion..." While lagging behind the Fed's normalization path, the European Central Bank (ECB) still managed to hurt domestic growth by prematurely beginning its ill-timed quantitative tightening program even as inflation falls far short of

Data as of 03/11/2019 and subject to change.

its target. A stubborn refusal to acknowledge this has widened the gap between a now chastened, pro-growth Fed and a still dawdling ECB. Nevertheless, a turnaround in China and other EMs, together with a still strong U.S. economy, will help Europe muddle along as global trade reaccelerates in the wake of an expected U.S. China trade deal, low inflation, lower interest rates and widespread stimulus efforts as other countries follow the lead of the U.S. tax reform and deregulation policies to remain competitive.

WEAK U.S. GROWTH BLIP PASSING

Economic indicators in the U.S. have held up well despite the global slowdown. While sectors tied to global trade and manufacturing have cooled a bit, they remain more robust than those elsewhere. For example, the February Institute for Supply Management (ISM) manufacturing index has fallen sharply to the lowest level in about two years. Still, according to the ISM, its 54.2 reading has been consistent with 3% gross domestic product (GDP) growth, and the nonmanufacturing sector, which constitutes about 80% of the U.S. economy, remains even stronger, with a big surprise jump in February. All told, the composite measure, which includes both the manufacturing and nonmanufacturing indices, remains at a level only seen near the peak of the past 25 years. Expectations for a return to "secular stagnation" would seem to be misplaced.

The key is the takeoff in capital spending that has surprised economic forecasters despite the clear historical record of tax reforms' positive impact on corporate investment. The last two comparable reforms to corporate investment incentives were the 1964 and 1986 tax reforms. Both were followed by long periods of near double-digit growth in capex. Likewise, the biggest surprise in the stronger-than-expected U.S. fourth-quarter GDP growth rate that propelled the U.S. to its strongest year-over-year growth since 2005 was strength in capex. In particular, spending on research and development is currently growing at twice its pre-tax reform rate. In the modern information age and service-dominated economy, R&D is a critical component for advancing productivity, especially in a fully employed U.S. economy where finding workers is the biggest problem facing businesses.

According to research by Cornerstone Macro that looked at the S&P1500 companies, the percentage of firms showing positive year-over-year growth comparison in capex is in a strong uptrend since tax reform was passed following a steady downtrend from 2012, when the initial recovery out of the financial crisis ended. The research also notes a broadening out of capital spending to more sectors of the economy. While growth has moderated from its initial burst, it's still double digit. A follow-up report shows effective tax-rate cuts averaged about nine percentage points.

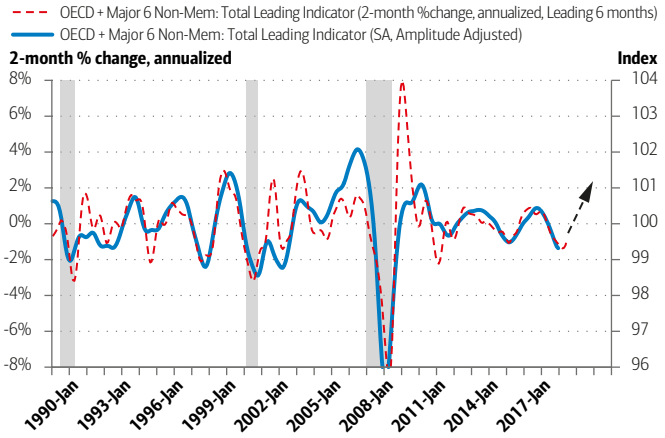
Of particular interest, the new rules narrowed the gap between domestic and multinational firms with over a ten-point cut on average for the former and only about three points for the latter. As a result, domestic firms' capex growth has accelerated sharply relative to multinational companies. This helps explain the strong relative growth outperformance in the U.S. over the past year.

Bottom line: A U.S. slowdown in 2019 is largely predicated on a fizzling out of capex. The 1964 and 1986 tax reforms and recent data suggest this is highly unlikely. Furthermore, housing, which got hit hard by higher interest rates last year, should do better this year since rates have reversed and household formation remains very strong. The current turnaround in homebuilder surveys and stocks supports this view, not a slowdown view. Finally, and perhaps most importantly, a robust labor market with strengthening real wages and incomes in a low-inflation environment is the key to another year of surprisingly strong U.S. growth, in our opinion. The new capex boom is fueling higher productivity and rising real incomes, as of December 2018, while containing inflation. It took the Fed a while to catch on to this positive dynamic and stop attacking wage increases.

REST OF THE WORLD FOLLOWS THE STRONG U.S. HIGHER

The turn in EM currencies and equity markets suggests global trade will resume a more normal growth pace after the sharp slowing of 2018. Exhibit 1 shows the historical pattern of leading indicators for a composite of economies that account for the bulk of global GDP.

Exhibit 1: Muted Mini Cycles Since the Financial Crisis.



Sources: Organisation for Economic Co-operation and Development (OECD)/ Haver Analytics, Chief Investment Office. Data as of March 5, 2019.

What's striking about the chart since 2009 is the muted yet clear pattern of three distinct minicycles, which have tracked global-growth momentum since the financial crisis. Unlike the global economy in the 1990s or 2000s, the amplitude of each minicycle is less than half of those of the previous global expansions. As a result, while world growth has been trend-like, it has not

overheated or weakened to the point of recession. The lack of overheating helps explain the relatively well-contained behavior of inflation. Long-leading indicators now suggest a fourth minicycle could likely begin this year. These cycles have each previously lasted about three years, with two years of rising momentum for growth and equity prices followed by about a year of weakening momentum and equity-market corrections.

These relatively restrained, self-correcting cycles help account for and support the longevity of this expansion, which is expected to set an all-time U.S. record in July. With the Fed moving to a more robust commitment to a 2% inflation rate, the odds of another two-year upcycle starting in 2019 look pretty good, in our opinion.

GLOBAL MARKET VIEW

HOW MUCH OF A BURDEN: Q&A ON STUDENT LOAN DEBT

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

The U.S. student debt burden has been described to the American public in countless ways: a bubble about to burst, a systemic risk to the financial system, a threat to U.S. competitiveness, a source of income inequality, a looming burden for the U.S. government, the reason millennials are living in their parents' basements. The list goes on.

Given the various viewpoints and investor inquiries on the topic, below is a brief Q&A addressing common client questions related to student loan debt.

WHAT IS THE CURRENT STATE OF U.S. STUDENT LOAN DEBT?

According to the latest figures from the Fed, U.S. student debt outstanding totaled $1.5 trillion in the fourth quarter of 2018. That's more than the amount Americans owe on credit cards and auto loans, but a fraction of America's total mortgage debt ($9.1 trillion).

Unlike the other consumer credit sectors mentioned above, student debt was largely unaffected by the household deleveraging trend that occurred after the financial crisis. Since 2008, total student loans outstanding grew 128% compared to 61% growth for auto loans, a decline of -1% for mortgages, and just 0.5% growth for credit card debt.

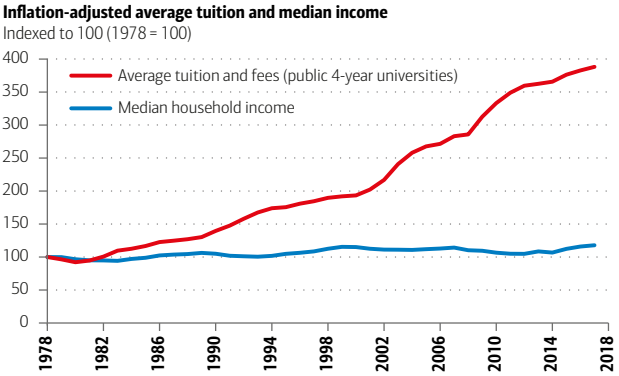
Student loan delinquency rates have also been a concern in recent years. The total amount of student loan balances that are 90+ days delinquent reached $166 billion last year, or 11.4% of the total balance. (The Fed estimates that the true figure could actually be double this stated amount). At the start of the last financial crisis, the comparable figure for mortgage debt was $267 billion (Q4 2017), peaking at $785 billion in delinquent balances as of Q1 2010.

HOW DID WE GET HERE?

The rise of student loan debt can be traced back to the latter half of the 20th century, as various government initiatives encouraged students to pursue higher education. With more Americans attending college, aggregate student debt levels rose. Brookings Institution estimates, "about one-quarter of the aggregate increase in student loans since 1989 is due to more students enrolling in college."[1]

Meanwhile, the average cost of a college degree has risen exponentially. Over the past 40 years, the inflation-adjusted cost of tuition and fees per student climbed by almost 300%, while the average median income (adjusted for inflation) increased by just 18% (Exhibit 2).

Exhibit 2: U.S. College Tuition Outpaces Median Income Gains.



Tuition per student and income levels, adjusted for inflation, and indexed to 1978 price levels. Sources: The College Board, Census Bureau, Center on Budget and Policy Priorities. Data through 2017.

The 2008 recession also played an important role in the recent build-up of student loan debt. As the economy turned, states slashed their budgets, and more of the burden fell on students to fund their education. At the same time, university enrollment picked up, especially among older Americans looking to retrain for the job market after being laid off. This also fueled higher enrollments at for-profit universities, where average student debt levels and defaults tend to be higher.

ARE WE REACHING A TIPPING POINT FOR STUDENT DEBT?

Although leverage has been creeping higher, with delinquency rates for student loans much higher than those for other areas

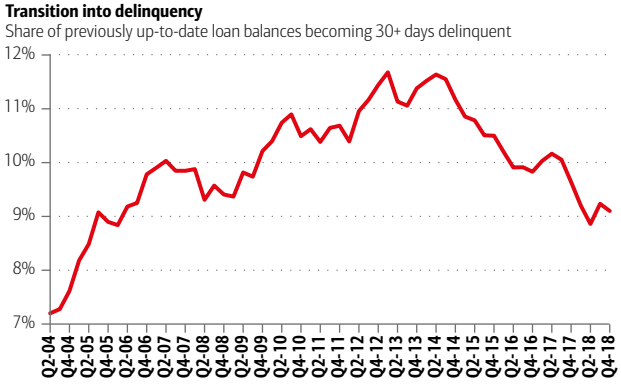
[1] Brookings Institution, "The Looming Student Loan Default Crisis is Worse than We Thought." January 11, 2018.

of consumer credit, we do not believe the student loan market is a bubble that is about to burst. Various signs point to an improving situation.

First, overall U.S. consumer balance sheets are currently strong. Total consumer debt as a percentage of GDP has come down from a peak of 87% in 2008 to just 65% today. Meanwhile, consumer debt service payments as a percentage of disposable personal income are at record lows. And although interest rates over the past year have shifted higher, we do not believe this is an immediate concern for borrowers since most student debt carries a fixed rate.

Second, delinquencies have been growing at a slower pace since 2014 (Exhibit 3). An overall healthier consumer backdrop combined with an increase in income-driven repayment plans should help keep delinquency and default rates in check.[2]

Exhibit 3: Student Loans Transitioning into Delinquency at a Slower Pace.



Sources: New York Fed Consumer Credit Panel/Equifax. Data as of Q4 2018.

Meanwhile college tuition increases appear to have slowed. Tuition and fees at four-year public colleges rose just 2.5% last year, roughly in line with core inflation and wage gains.[3]

ARE STUDENT LOANS A LOOMING SYSTEMIC RISK TO THE FINANCIAL SYSTEM?

Fears of an eventual system-wide financial shock caused by student loan debt are overblown, in our opinion.

Most student loans (roughly 90%) are held on the U.S. government balance sheet. So while a wave of student loan defaults would be a burden on the federal budget, we think student debt is less likely to cause a widespread shock to the financial markets.

The student loan system also has mechanisms in place that gradually shift the financial burden to borrowers, which should cause financial effects to filter through the economy over the course of multiple years. Thus, deteriorating conditions in the student loan market are expected to have a more gradual economic impact.

Another mitigating risk: robust U.S. employment growth and solid income gains, boosting the financial wherewithal, at least in the medium term, of those shouldering the burden of debt.

WHAT ARE THE ECONOMIC CONSEQUENCES OF RISING STUDENT DEBT?

There are mixed views on the overall economic impact of student loan debt. On the one hand, taking on student debt has important benefits for borrowers. Higher levels of educational attainment are generally correlated with lower rates of unemployment, higher wages and greater spending levels.

On the other hand, some research has shown that rising student loan debt has had a negative impact on specific sectors of the economy. For example, a recent study by the Fed finds that 20% of the decline in the homeownership rate for younger Americans since 2005 can be attributed to the rise in student loan debt—translating to roughly 400,000 fewer homeowners.[4]

Older adults are also starting to feel the burden, as they carry their student loans later in life and take on more debt to support their children and grandchildren. This is a trend we are following closely, since an increasing debt burden can have important implications for the spending patterns of the baby boomers as they enter retirement.

WHAT ARE THE INVESTMENT IMPLICATIONS?

While the aggregate economic effect from student loan debt may be relatively mild and spread out over several years, certain sectors can be negatively impacted in the near term.

As discussed, one such area is the housing market, where rising student debt has contributed to a delay in home purchases by young consumers. We acknowledge that there remains considerable pent-up demand in the housing market as millennials reach their prime home buying years; however, the growing burden of student loans could mean slower progress and/or less runway than previously anticipated.

Buying sentiment among young consumers has also weakened in the auto sector. The latest data from the University of Michigan show that buying conditions for motor vehicles have been deteriorating much more rapidly for younger consumers (Exhibit 4). This contrasts with prior business cycles when younger consumers used to have a more favorable outlook on auto purchases than older consumers. According to the

[2] *The New York Times*, "How to Clean Up the Student Loan Mess." April 6, 2018.

[3] Tuition measured by The College Board, "Trends in College Pricing 2018." Comparatively, CPI core inflation was up 2.2% in December 2018 (year-over-year) and average hourly earnings were up 3.3% in December 2018 (year-over-year) according to the Bureau of Labor Statistics.

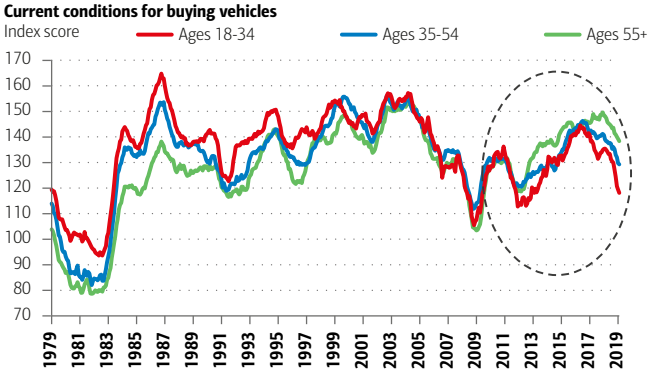
[4] The Federal Reserve, "Can Student Loan Debt Explain Low Homeownership Rates for Young Adults?" January 2019.

survey, "the less favorable views of the young were mirrored in their more frequent concerns about the incurrence of additional debt."[5]

These are just two areas of the U.S. economy where a more cautious view is warranted. By contrast, discount retailers could be beneficiaries of more budget-conscious millennials and baby boomers. In terms of credit markets, we do not think that rising student loan balances and delinquencies will pose a challenge to the U.S. government budget just yet. However, we are watching the policy response to this growing concern and will reassess investment implications as the theme evolves.

[5] "Age Reversal in Buying Attitudes," University of Michigan Surveys of Consumers. February 22, 2019.

Exhibit 4: Vehicle Buying Conditions Deteriorating Faster Among Younger Adults.



12 month moving average. Sources: University of Michigan Surveys of Consumers; Haver Analytics. Data as of February 2019.

THOUGHT OF THE WEEK

EVIDENCE OF "WHATEVER-IT-TAKES" IN CHINA

Lauren J. Sanfilippo, Vice President and Market Strategy Analyst

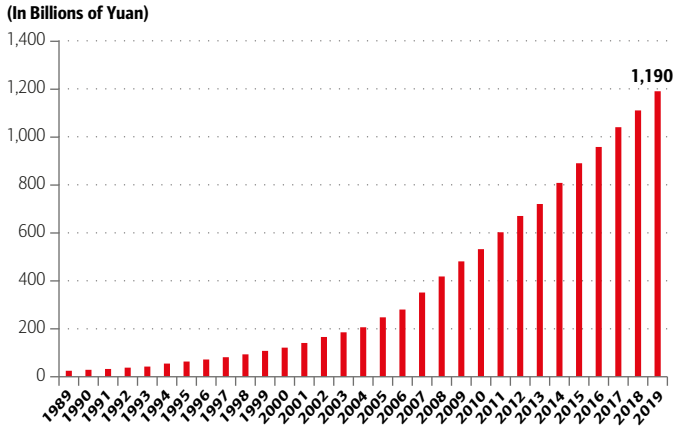
China has long maintained a strong penchant for building things—whether high-speed railroads, world-class suspension bridges, mile-long tunnels, massive airports and, of course, high-rise buildings. To wit, China completed 88 buildings of at least 200 meters in height last year, which is a record number of completions for the nation, and a staggering 61.5% of the global total. In the U.S., comparatively, 13 completions were recorded. In terms of new supertall skyscrapers (300 meters or more), China completed 11 out of a global total of 18 for the year.[6] While skyscrapers are a lagging economic indicator (given it takes years to plan, design and construct a building), we suspect the pace of building will remain relatively robust in the next few years as the government implements more reflationary measures to sustain growth in the 6% to 7% range. Infrastructure investment, a key element of the Chinese government's economic stimulus plan, will not only include skyscrapers and high-speed railways but a 5G rollout and modernization of its military.

Beijing recently announced its 2019 defense budget that (1) fuels global concerns over China's growing military prowess and (2) continues the 25-year run of annual increases in defense spending. Overall spending is set to grow by 7.5% to 1.19 trillion yuan ($178 billion) (Exhibit 5), with the aim of modernizing the nation's weapons capabilities, including more spending on aircraft carriers, stealth fighters, cruise missiles and submarines.

The data on defense spending comes as China's National Party Congress reduced its economic growth target for 2019 to a range of 6% to 6.5%. In our view, that level of growth is achievable but the inconvenient truth is that China is diving deeper in debt and each stimulus package is taking longer to take effect. In 2008, it took China's economy only three months to bounce back, while more recently in 2012, it was six months. Especially given other challenging factors such as its reliance on special purpose bonds to finance many infrastructure projects, China's spending comes at a great cost as companies and consumers are choking on debt, driven by eased credit, lax regulatory hurdles, and state subsidies over the previous decade. Despite currently rising vacancy rates, expanding levels of debt, excess inventory—all key metrics to monitor over the near term—China's building and spending mania rolls on. The government is in "whatever-it-takes" mode, supporting the reflationary trade in global equities this year.

[6] The Council on Tall Buildings and Urban Habitat, Year in Review: Tall Trends of 2018, March 2019.

Exhibit 5: China's Defense Budget.



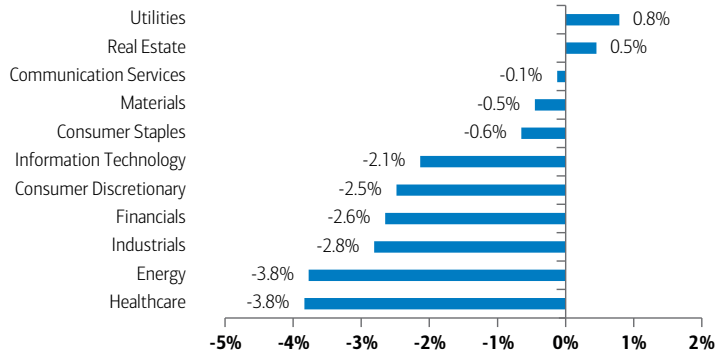
Figures for 2018 and 2019 do not include funds from provincial governments. Source: China National Statistics Yearbook. Data as of March 2019.

MARKETS IN REVIEW

Equities

	Current	Total Return in USD (%) WTD	MTD	YTD
DJIA	25,450.24	-2.2	-1.7	9.7
NASDAQ	7,408.14	-2.4	-1.6	11.9
S&P 500	2,743.07	-2.1	-1.4	9.9
S&P 400 Mid Cap	1,860.28	-3.3	-2.6	12.2
Russell 2000	1,521.88	-4.2	-3.4	13.1
MSCI World	2,051.12	-2.1	-1.6	9.3
MSCI EAFE	1,839.23	-1.9	-1.7	7.4
MSCI Emerging Markets	1,030.13	-2.0	-1.9	6.9

S&P 500 Sector Returns



Fixed Income[1]

	Current	Total Return in USD (%) WTD	MTD	YTD
Corporate & Government	3.08	0.7	0.5	1.6
Agencies	2.72	0.5	0.4	0.8
Municipals	2.51	0.4	0.3	1.6
U.S. Investment Grade Credit	3.14	0.7	0.5	1.5
International	3.86	0.7	0.5	3.1
High Yield	6.74	-0.5	-0.4	5.8

	Current	Prior Week End	Prior Month End	2018 Year End
90 Day Yield	2.38	2.38	2.38	2.36
2 Year Yield	2.46	2.56	2.52	2.49
10 Year Yield	2.63	2.76	2.72	2.69
30 Year Yield	3.01	3.12	3.08	3.02

Commodities & Currencies

Commodities	Current	Total Return in USD (%) WTD	MTD	YTD
Bloomberg Commodity	168.28	-0.6	-1.1	5.4
WTI Crude $/Barrel[2]	56.07	0.5	-2.0	23.5
Gold Spot $/Ounce[2]	1,298.40	0.4	-1.1	1.2

Currencies	Current	Prior Week End	Prior Month End	2018 Year End
EUR/USD	1.12	1.14	1.14	1.15
USD/JPY	111.17	111.89	111.39	109.69
USD/CNH	6.73	6.71	6.70	6.87

Sources: Bloomberg, Factset. Total Returns from the period of 3/4/2019 to 3/8/2019. Bloomberg Barclays Indices.[1] Spot price returns.[2] All data as of the 3/8/2019 close.
Past performance is no guarantee of future results.

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*					
Hedge Funds			●		
Private Equity					
Real Assets			●		
Cash					

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

Economic and Market Forecasts (as of 3/8/19)

	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	1.5	2.4	1.7
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 (%)	1.91	2.18	2.40	2.38	2.40	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 ($/share)	41	43	40*	–	162.5*	170
Euro/U.S. dollar, end period	1.17	1.16	1.15	1.16	1.15	1.25
U.S. dollar/Japanese yen, end period	111	114	110	106	110	101
Oil ($/barrel, avg. of period, WTI**)	68	70	60	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 8, 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.

Dow Jones Industrial Average is a price-weighted measure of 30 U.S. blue-chip U.S. companies. The index covers all industries except transportation and utilities.

NASDAQ Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.

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 Manager's Index (PMI) is based on a survey of purchasing managers at more than 300 manufacturing firms by the Institute for Supply Management (ISM), the index monitors changes in production levels from month to month.

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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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