CHIEF INVESTMENT OFFICE

Capital Market Outlook

January 17, 2023

All data, projections and opinions are as of the date of this report and subject to change.

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Macro Strategy—*U.S. Economy Likely To Hit The Wall In 2023:* The drop in the composite Institute for Supply Management (ISM) Index, the biggest yield curve inversion in four decades, a deep housing-market recession, and the drop in the Conference Board Index of Leading Indicators have confirmed our expectations for sustained deterioration in U.S. economic growth as a result of last year's destabilizing surge in inflation and unusually sharp U-turn in the Federal Reserve's (Fed) monetary policy stance.

In our view, the data have become increasingly clear that a 2023 economic contraction is baked in the cake. While the prospect of a new economic cycle implies lower interest rates and is typically favorable for risk asset returns, the big pandemic-related Equities overvaluation suggests the current cycle's S&P 500 peak is unlikely to be revisited anytime soon.

Market View—*2023 CIO Market Balance Sheet:* Our Chief Investment Office (CIO) Market Balance Sheet framework appears more balanced and suggests Equities could see elevated volatility in the first half of the year but eventually stabilize toward the latter part. Given this backdrop, long-term investors should focus on portfolio diversification as the market and economic bottoming process continues.

Thought of the Week—*China Shakes the World 2.0:* One of the most significant macro events of 2023 is the reopening of China after a three-year coronavirus shutdown. The process won't be linear, but China's growth prospects for 2023 have been upgraded rapidly.

As part of this process, the Chinese consumer is about to be unleashed, and we expect a marked acceleration in so-called "revenge spending" on travel and leisure, luxury brands, and discretionary goods and services. One of the best ways to play the reopening is indirectly or by gaining exposure to non-Chinese firms positioned to satisfy the wants and needs of the Chinese consumer.

MACRO STRATEGY ▶

Chief Investment Office
Macro Strategy Team

MARKET VIEW ▶

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THOUGHT OF THE WEEK ▶

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MARKETS IN REVIEW ▶

Data as of 1/17/2023, and subject to change

Portfolio Considerations

As we begin 2023, our thinking is that bonds are more relatively attractive than Equities but could swap places quickly and potentially earlier than expected. This month we have shifted to be tactically neutral across stocks and bonds, to maintain a defensive posture and preference for Quality. Within U.S. Equities, we are adjusting our sector views by upgrading Healthcare and downgrading Real Estate. The inclusion of Alternative Investments,* for qualified investors, to help mitigate risk and/or potentially enhance portfolio returns should also increase in importance in 2023, in or opinion. As we move through the first half of the year, we will be looking for opportunities to add to Equities.

*Many products that pursue Alternative Investment strategies are available only to qualified investors.

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U.S. Economy Likely To Hit The Wall In 2023

Chief Investment Office Macro Strategy Team

U.S. and eurozone economic data continued to surprise to the upside as 2022 came to a close. Strong fiscal support measures in Germany and France combined with warm weather benefits on Europe's energy-crisis front and expectations for a strong post-coronavirus economic rebound in China have begun to buoy consumer, business and investor confidence in 2023 global economic prospects. Positive surprises on the economic front have not only helped European Equities exceed expectations in recent months but have also had favorable spillover effects on U.S. and global financial markets, as they raised hopes that the worst may be over for the world economy following a difficult year in 2022. Lingering support for U.S. consumer spending and corporate revenues from the trillions of dollars of pandemic-related fiscal transfers have also helped assuage concerns about a "hard landing."

While the substantial drop in oil and natural gas prices, both here and, especially, in Europe, has been tremendously welcome, unemployment has remained low, and inflation appears on track to decline meaningfully this year in both economies, the outlook is still at risk of significant negative surprises in 2023, in our view, as the global surge in interest rates, severely tighter lending conditions, fading business pricing power, and a dimming profits growth outlook take their toll. Basically, businesses do not begin to retrench consistent with a recession until revenue and profit growth becomes a concern, which is starting to be the case, according to various indicators we follow for clues on this front.

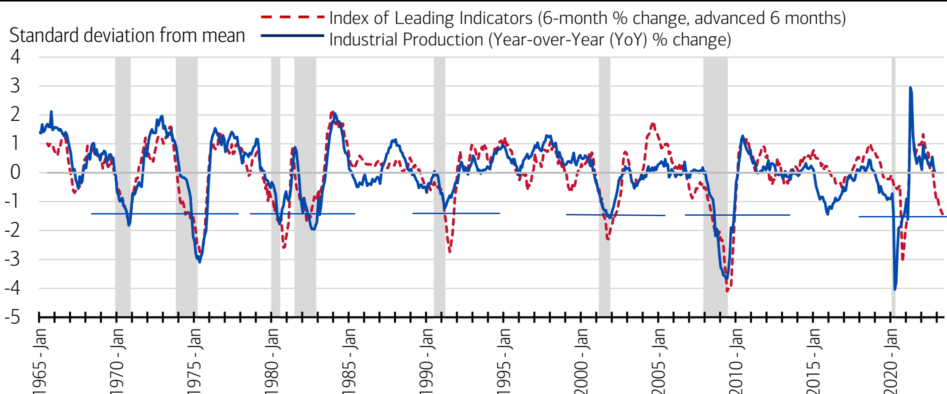
Indeed, there have been increasingly convincing signals of a 2023 recession, as incoming data show a sharp deterioration in various leading indicators of economic activity in recent months. For example, the manufacturing ISM Index dropped further under the breakeven 50 mark, getting closer to recession levels with a reading of 48.4 in December. The decline was led by a sharp fall in production and, especially concerning, new orders, with both measures now in contraction territory. What's more, the loss of momentum has been broad-based, with just two of 18 industries reporting growth in December compared to 17 in April. With 13 industries reporting outright contraction in activity, overall participant comments have been uninspiring according to sources citing the ISM report, with managing head counts and inventories their primary goals as the manufacturing sector closed the year.

Regional manufacturing Purchasing Managers' Indexes (PMIs) have confirmed the dim signals from the ISM survey, as has actual manufacturing production, which has plateaued from April to November, according to Federal Reserve Board data. In this context, it's not surprising to see manufacturing average weekly overtime hours fall in December to below-average levels previously seen only in recessions. Hours worked and temporary employment, which has also dropped significantly in the past few months, tend to be leading indicators, as they get cut first when economic conditions soften. Importantly, since 1960, the Conference Board Index of Leading Indicators has never dropped as much as it has over the past six months without a large enough subsequent contraction in industrial production consistent with a recession. Thus, more negative news on the manufacturing front is likely in store (Exhibit 1).

Investment Implications

Our 2023 macroeconomic outlook argues for Fixed Income to outperform Equities. Treasury notes and bonds should benefit as markets increasingly price in lower inflation and the beginning of a new rate-cutting cycle, while profits likely disappoint.

Exhibit 1: Clear Signal For Industrial Production Declines And U.S. Recession In 2023.



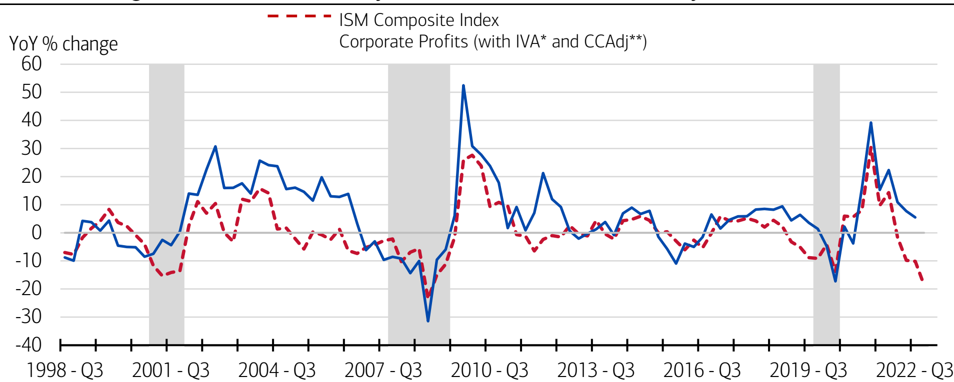
Gray areas represent recession periods. *Standard deviation measures the dispersion of a dataset relative to its mean. Sources: The Conference Board; Federal Reserve Board/Haver Analytics. Data as of January 12, 2023.

Moreover, the weakness has now spread into the services sector. Given widespread expectations that the switch from consumer spending on goods to services would help the Fed engineer a soft landing, the drop in the nonmanufacturing ISM Index from 56.5 in November to 49.6 in December is quite sobering. The drop has been led by a collapse in new orders from a level of 56 in November, comfortably in expansion territory, to just 45.2 in December, a reading never seen outside recessions in the 25-year history of the series. In fact, a recent St. Louis Fed study suggests a recession could have begun in Q4 because state level activity measures show a majority of states are already in recession.

The eye-popping and broadening retrenchment in the ISM Services Index has closely tracked our expectations, as deep housing-market recessions, such as the one under way in the U.S. since mortgage rates spiked from 3.2% in December 2021 to 7.2% in October 2022, rarely remain confined to the housing market. Instead, they tend to presage economywide contractions in activity as they depress consumer spending on goods and services related to homebuying with broadening negative effects on economic activity. The drop in its new orders component is particularly concerning, as it signals that economic output and employment will likely weaken broadly and significantly this year. As noted above, hours worked and temporary employment declined rapidly by late 2022, a typical leading indicator of business conditions that this time points down.

The big drop in the ISM manufacturing and services composite doesn't bode well neither for corporate profits growth (Exhibit 2) nor revenue growth. Already, with hours worked significantly cut, employment growth easing, and average hourly earnings growth slowing sharply, wage-and-salary income growth dropped further in December. Our proxy measure for wages and salaries suggests continued softening in labor-income growth from +10% YoY in early 2022 to just about 3% to 4% by mid 2023, indicating growing downward pressure on consumer spending, business pricing power and profits growth likely ahead. As is typical in an end-of-cycle dynamic, a weakening profit growth environment will likely result in more aggressive hiring and investment retrenchment efforts, especially in the context of already tight bank lending conditions.

Exhibit 2: High Inflation Has Buoyed Profits. This Year They Seem At Risk.



*IVA=Inventory Valuation Adjustment. **CCAdj=Capital Consumption Adjustment. Sources: Bureau of Economic Analysis; Institute for Supply Management/Haver Analytics. Data as of January 12, 2023.

All in all, while the worst may have passed in terms of Europe's energy crisis and China's shutdowns, central bank efforts to bring inflation down from levels not seen in 40 years have sown a strong negative impulse for real economic growth in 2023. U.S. manufacturing activity stopped expanding months ago, resulting in declining hours worked and contributing little to payroll growth since August. The negative thrust from high inflation and surging interest rates has affected the service sector as well by now. Overall, nominal gross domestic product growth is in a strong downtrend from the mid-teens in 2021 to low single digits on a YoY basis, which is negative for the profits outlook.

Not surprisingly, analyst revisions to company earnings are in a strong downtrend, with negative revisions far exceeding positive adjustments. A likely downside surprise to corporate earnings in 2023, as we expect in this context, would be negative for Equity prices, while weaker-than-anticipated inflation and growth will be positive for longer-duration, high-quality Fixed Income assets, in our view.

MARKET VIEW

2023 CIO Market Balance Sheet

Kirsten Cabacungan, Assistant Vice President and Investment Strategist

With a new year upon us, it may be a good time to revisit the CIO Market Balance Sheet. Here, we review factors that favor further upside (Assets) versus factors that call for getting cautious (Liabilities) and then those that are on balance or in transition (Exhibit 3). In aggregate, our framework appears more balanced and suggests Equities could see elevated volatility in the first half of the year but eventually stabilize toward the latter part. Given this backdrop, long-term investors should focus on portfolio diversification as the market and economic bottoming process continues.

Investment Implications

With a more balanced outlook amid both upside and downside risks, investors should emphasize defensiveness in portfolios by staying neutral across the board, reinforce a high-quality bias, and remain flexible to possible opportunities to rebalance should they arise.

Exhibit 3: CIO Market Balance Sheet.

	Assets	Balanced/Transitioning	Liabilities
Macro	Labor Market → Secular Trends	Global & U.S. Economic Growth → Corporate Earnings →	Inflation ←
Policy & Geopolitics		Fiscal Policy	Monetary Policy Geopolitical Backdrop
Capital Markets	Valuations Technicals & Sentiment	Commodities U.S. Dollar ←	

Note: Transitioning arrows indicate the direction the factor may be moving toward. Source: CIO. January 13, 2022.

Market Balance Sheet "Balanced/Transitioning"

Global growth is slowing as the lagged effects of hawkish monetary policy and tight financial conditions weigh on economic activity around the world. Global leading indicators point to deteriorating economic conditions in the near term, but a bottom could form if the major drags on growth lift. As inflation peaks in certain economies, a slowdown and subsequent pause in central bank tightening could cushion growth, and while China's current health crisis may contribute to further weakness in the first half of the year, an eventual loosening of its zero-coronavirus policies could support a rebound. BofA Global Research forecasts global growth to slow to 2.3% in 2023 from an estimated 3.4% growth in 2022, but risks remain to the downside, especially for the U.S., U.K. and euro area.

In the U.S., signs of economic slowdown are building. The ISM survey for December showed both manufacturing and service sectors contracted, the second consecutive month for manufacturing and first for services since the early part of the pandemic. Despite eroding conditions broadening out, the tight labor market has kept consumers spending and has underpinned the economy. The corporate earnings outlook, however, is deteriorating as activity weakens and elevated labor costs squeeze profit margins. So far, consensus analyst expectations are calling for positive earnings growth of 4.7% this year,[1] but economic recessions have historically never happened without an earnings recession, with earnings typically declining over 20% on average.[2] Several factors from healthier corporate balance sheets and a solid consumer may mitigate some of the earnings risk, but the overall picture of profit strength is fading. Fiscal policy tailwinds have also turned more balanced. The legacy of pandemic stimulus measures is waning, but consumers still maintain a little over a year of cumulative excess savings left that should provide support in an economic slowdown.[3] The breakdown in commodity prices due to demand worries and the retreat in the U.S. dollar provide some relief for households and businesses. Crude oil prices have fallen 36% since June, and natural gas prices have come down over 60% since August. The U.S. dollar has retreated roughly 10% from its September high, a tailwind for U.S. companies with international revenue exposure.[4] Roughly 40% of S&P 500 revenues are generated abroad.[5]

[1] FactSet. Data as of January 13, 2023.
[2] BofA Global Research. November 2022.
[3] Empirical Research, Federal Reserve. Data measured through September 30, 2022.
[4] Bloomberg. Data as of January 12, 2023.
[5] FactSet. Data as of January 12, 2023.

Market Balance Sheet "Assets"

Labor market dynamics continue to be a fundamental support for the consumer. Despite the Fed's aggressive tightening efforts, labor demand has only gradually moderated. Job openings came in little changed in November at roughly 10.5 million, well above the 6.7 million openings at the end of 2019, which leaves the ratio between job vacancies to unemployed persons elevated at 1.7. The latest jobs report showed monthly nonfarm payrolls decelerated slightly from the prior month, but still gained 223,000 in December and have continued to exceed the 100,000-per-month pace Fed Chair Powell suggested may be the level consistent with population growth. The tick higher in the quits rate* in November paints an even stronger picture and reflects a willingness among workers to test the job market despite rising recession concerns.[6] In fact, the labor market imbalance has rewarded workers with higher wages and even pushed the difference in wage growth between job switchers and job stayers to a record high,[7] although the moderation of average hourly earnings in December may be an early indication of labor market tightness slowly unwinding.

The meaningful derating in equity valuations over the last year presents an improved entry point for long-term investors. The S&P 500 trailing price to earnings multiple at around 19x is down from 26x toward the end of 2021. Despite more attractive levels, there may be scope for valuations to shift lower as the economy weakens. The multiple remains above its long-term average of 17x and elevated relative to the average level at bear market troughs going back to the 1950s of 13x, but equities have gone on to see positive returns on average in the following 12-month period from current levels.[8] From a sentiment perspective, investors remain extremely pessimistic, setting up a contrarian bull case for equities. Bullish sentiment readings by the American Association of Individual Investors have sat well below their historical average for 54 consecutive weeks, even touching extreme low levels in the last few weeks, but the S&P 500 has gone on to realize above-average returns in the 12-month period that followed unusually low bullishness.[9] And from a longer-term view, this cycle should eventually converge back with the underlying secular bull market cycle as momentum behind innovation, shifting supply chains, manufacturing, energy transition support productivity and a sustained long-term uptrend in equities.

Market Balance Sheet "Liabilities"

Markets are still taking their cue from inflation. Overall, measures of inflation are trending lower. The Consumer Price Index has fallen from its peak of 9.1% in June, but the latest December 2022 print at 6.5% is still elevated. Sharply lower money supply growth and improved supply-side factors have played a part in the downtrend, but stickier components like rents and wages are supporting underlying price pressures. The key dimension is how quickly inflation comes down and the implications for monetary policy. The Fed has hiked interest rates a cumulative 425 basis points this tightening cycle and instituted quantitative tightening as another mechanism to reduce liquidity in the system. The December Federal Open Market Committee meeting minutes, however, indicate that central bank officials remain cautious against "prematurely loosening monetary policy" and believe a restrictive policy stance is appropriate until inflation data presents a sustained downward path to 2%. The biggest risks to markets include the Fed overtightening and pushing the economy into a hard economic downturn as well as the Fed pulling back too soon, allowing for inflation to ramp up again. The other complicating factor to the market backdrop pertains to geopolitical risks. Potential additional energy shocks because of any increased escalation of tensions between Russia and Ukraine cannot be ruled out and present an additional layer of uncertainty for investors.

*The quits rate is the number of quits during the entire month as a percent of total employment.

[6] Bloomberg. Data as of January 12, 2023.
[7] Federal Reserve Bank of Atlanta Wage Growth Tracker. Data as of November 2022.
[8] Bloomberg. Data as of January 12, 2023.
[9] American Association of Individual Investors, "AAII Sentiment Survey: Pessimism Falls to a 10-Week Low." January 12, 2023.

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THOUGHT OF THE WEEK

China Shakes the World 2.0

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Lauren J. Sanfilippo, Director and Senior Investment Strategy Analyst

We are well into the 21st century but Napoleon's 19th century quip that "when China wakes, she will shake the world" resonates today. Indeed, in the face of Beijing's sudden about-face from the draconian zero-Covid policies of the past three years, China is set to rattle the world again, with the reopening of the world's second-largest economy already buoying Chinese Equities, numerous global commodities, and foreign multinationals leveraged to the Chinese consumer.

Speaking of the Chinese consumer, take note of Exhibit 4A. Perhaps no visual better illustrates the Middle Kingdom's stunning rise in driving global demand over the past few decades. Owing to China's burgeoning middle class, personal consumption expenditures as a percentage of the global total have risen roughly fourfold since 2000, to 12% in 2020. Based on the latest available data from the United Nations, China's personal consumption spend totaled $5.7 trillion in 2020, second only to the U.S. ($14 trillion) and greater than total consumer spending of Japan and Germany combined ($4.7 trillion).

Consumption, not unexpectedly, sank with China's three-year, coronavirus-related shutdown, weighing on global commodity prices, luxury brand sales, and the earnings of leading travel and tourism operators. But as pandemic restrictions have come down, China's mobility has gone up. Movie tickets, mall sales, auto deliveries, domestic and international travel—all of these indicators have spiked in the past few weeks. As reported in the *Financial Times*, Expedia noted searches for flights from China to the U.S. rose 40% following the lifting of travel restrictions.[10] Some flight restrictions to the U.S. and Europe still apply to Chinese tourists, but the China Tourism Research Institute expects 18 million Chinese tourists to travel overseas in the first half of the year, followed by 40 million in the second half of 2023.[11] And when the Chinese travel, they spend—namely on luxury brand items that are less expensive and more available overseas than at home. See Exhibit 4B depicting the staggering rise in Chinese international travel spending over the past few decades. This is just one micro/sector example of China's rising purchasing power.

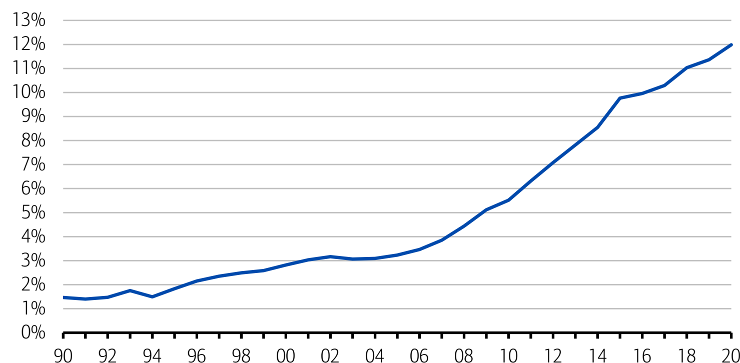
The bottom line: One of the globe's most powerful growth engines—the Chinese consumer—is revving up and poised to move the earnings needle for global luxury brand leaders, top travel and tourism operators, and U.S. multinationals leveraged to the Chinese consumer. A key investment solution to China's reopening story pivots on gaining exposure to non-Chinese firms/sectors like the ones just mentioned, as well as leading Western energy and commodity producers.

Investment Implications

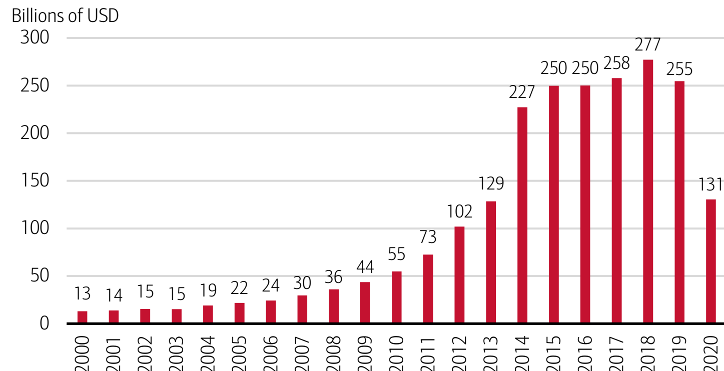
One of the best ways to play the China reopening story is indirectly or by gaining exposure to non-Chinese firms that will benefit from the unleashing of the Chinese consumer in 2023. Think key luxury brands, top regional and global travel operators, countries with high export exposure to China (Europe/ASEAN) and leading multinationals leveraged to Chinese consumption. Other beneficiaries: energy/commodity producers.

Exhibit 4: The Power of the Chinese Consumer: Have Income, Will Travel.

4A) China's Share of World Personal Consumption Expenditures.



4B) International Tourism Expenditure of Chinese Tourists.



Left Exhibit: Source: United Nations. Data as of January 10, 2023. Right Exhibit: Source: International Monetary Fund (IMF). Data as of February 2022.

[10] See "Hotel, airline and luxury sectors set for China tourism revival." January 9, 2023.

[11] Ibid.

Equities

	Current	WTD	MTD	YTD
		Total Return in USD (%)		
DJIA	34,302.61	2.0	3.5	3.5
NASDAQ	11,079.16	4.8	5.9	5.9
S&P 500	3,999.09	2.7	4.2	4.2
S&P 400 Mid Cap	2,580.91	3.7	6.2	6.2
Russell 2000	1,887.03	5.3	7.2	7.2
MSCI World	2,735.72	3.3	5.2	5.2
MSCI EAFE	2,080.35	4.3	7.0	7.0
MSCI Emerging Markets	1,029.84	4.2	7.7	7.7

Fixed Income†

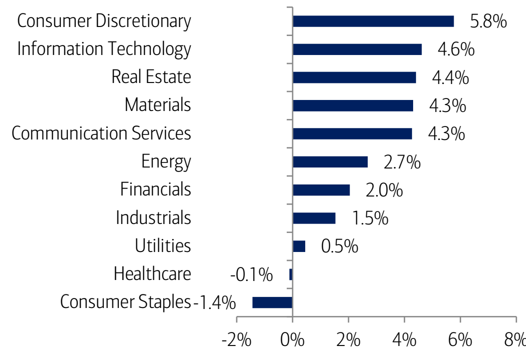
	Current	WTD	MTD	YTD
		Total Return in USD (%)		
Corporate & Government	4.31	0.89	2.65	2.65
Agencies	4.32	0.38	1.28	1.28
Municipals	3.18	1.15	2.31	2.31
U.S. Investment Grade Credit	4.32	0.88	2.74	2.74
International	5.03	1.40	3.43	3.43
High Yield	8.10	1.58	3.84	3.84
90 Day Yield	4.57	4.58	4.34	4.34
2 Year Yield	4.23	4.25	4.43	4.43
10 Year Yield	3.50	3.56	3.87	3.87
30 Year Yield	3.61	3.69	3.96	3.96

Commodities & Currencies

Commodities	Current	WTD	MTD	YTD
		Total Return in USD (%)		
Bloomberg Commodity	243.64	3.3	-0.9	-0.9
WTI Crude $/Barrel††	79.86	8.3	-0.5	-0.5
Gold Spot $/Ounce††	1920.23	2.9	5.3	5.3

Currencies	Current	Prior Week End	Prior Month End	2022 Year End
		Total Return in USD (%)		
EUR/USD	1.08	1.06	1.07	1.07
USD/JPY	127.87	132.08	131.12	131.12
USD/CNH	6.71	6.83	6.92	6.92

S&P Sector Returns



Sources: Bloomberg; Factset. Total Returns from the period of 1/9/2023 to 1/13/2023. †Bloomberg Barclays Indices. ††Spot price returns. All data as of the 1/13/2023 close. Data would differ if a different time period was displayed. Short-term performance shown to illustrate more recent trend. **Past performance is no guarantee of future results.**

Economic Forecasts (as of 1/13/2023)

	Q4 2022A	2022A	Q1 2023E	Q2 2023E	Q3 2023E	Q4 2023E	2023E
Real global GDP (% y/y annualized)	-	3.4*	-	-	-	-	2.3
Real U.S. GDP (% q/q annualized)	0.5*	1.9*	-1.0	-2.0	-1.5	1.0	-0.3
CPI inflation (% y/y)	7.1	8.0*	5.3	3.7	3.0	2.7	3.5
Core CPI inflation (% y/y)	6.0	6.1*	5.2	4.3	3.3	2.8	3.9
Unemployment rate (%)	3.6	3.6*	3.6	4.0	4.7	5.2	4.4
Fed funds rate, end period (%)	4.33	4.33	5.13	5.13	5.13	4.88	4.88

The forecasts in the table above are the base line view from BofA Global Research. 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. Historical data is sourced from Bloomberg, FactSet, and Haver Analytics. **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.

Sources: BofA Global Research; GWIM ISC as of January 13, 2023.

Asset Class Weightings (as of 1/10/2023)

Asset Class	CIO View: Underweight		Neutral	Overweight	
Global Equities			●		
U.S. Large Cap Growth			●		
U.S. Large Cap Value				●	
US. Small Cap Growth			●		
US. 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					

CIO Equity Sector Views

Sector	CIO View: Underweight		Neutral	Overweight	
Healthcare				▶	●
Energy				●	
Financials				●	
Utilities				●	
Consumer Staples			●		
Industrials			●		
Real Estate			●	◀	
Information Technology			●		
Materials		●			
Consumer Discretionary	●				
Communication Services	●				

*Many products that pursue Alternative Investment strategies, specifically Private Equity and Hedge Funds, are available only to qualified investors. CIO asset class views are relative to the CIO Strategic Asset Allocation (SAA) of a multi-asset portfolio. Source: Chief Investment Officse as of January 10, 2023. All sector and asset allocation 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 in the best interest of all investors.

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 U.S. 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.

Institute for Supply Management (ISM) Index measures the change in production levels across the U.S. economy from month to month.

ISM Composite Index is a composite index that gives equal weighting to new orders, production, employment, supplier deliveries, and inventories.

Purchasing Managers' Indexes (PMIs) is an index of the prevailing direction of economic trends in the manufacturing and service sectors.

Conference Board Index of Leading Indicators is a predictive variable that anticipates (or "leads") turning points in the business cycle by around 7 months.

ISM Services Index is an economic index based on surveys of more than 400 non-manufacturing (or services) firms' purchasing and supply executives.

Consumer Price Index is a price index, the price of a weighted average market basket of consumer goods and services purchased by households.

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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 in the best interest of 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. 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 share price fluctuations due to changes in interest rates. When interest rates go up, bond prices typically drop, and vice versa. Bonds are subject to interest rate, inflation and credit risks. 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. 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. 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 are speculative and involve a high degree of risk.

Alternative investments are intended for qualified investors only. 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.

Nonfinancial assets, such as closely-held businesses, real estate, fine art, 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 in the best interest of 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.

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