CHIEF INVESTMENT OFFICE

Capital Market Outlook

January 23, 2023

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

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Macro Strategy—*Treasury Offsetting QT Until Mid-Year:* The looming debt ceiling crisis is pressuring the U.S. Treasury to drain hundreds of billions of dollars from its account at the Federal Reserve (Fed), adding reserves to the banking system and easing financial conditions. Coupled with an improved outlook for Chinese economic growth in 2023, this has resulted in a rally in risk assets.

This process is set to reverse once the debt ceiling is lifted around mid-year, setting off a renewed tightening in financial conditions that could pressure the Fed to end quantitative tightening (QT) before year-end.

Market View—*10 Questions on the Outlook for International Markets in 2023:* After a strong finish to 2022, International Equities are off to a strong start in 2023, with most major markets outpacing the U.S. so far. The two largest headwinds for the two biggest non-U.S. economies have reversed over recent months, making for global market leadership in developed Europe and emerging Asia.

Natural gas prices in Europe have fallen steeply from recent highs, and the dismantling of zero-Covid restrictions in China has paved the way for a surge in economic activity. Here we look at 10 key questions to assess the prospects for international markets this year.

Thought of the Week—*Watch List Alert: Small-Caps:* Having turned the page on a tumultuous 2022, long term investors looking ahead toward possible opportunities may want to add Small-cap stocks to their watch list. While headwinds from a possible recession to higher interest rates persist in the near term for the size segment, the backdrop could turn more favorable once the market bottom forms.

We remain tactically neutral across stocks and bonds but continue to monitor for potential opportunities to add to Equities in areas like Small-caps.

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Managing Director and Head of CIO Macro Strategy

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Director and Senior Market Strategy Analyst

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Assistant Vice President and Investment Strategist

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Data as of 1/23/2023, 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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MACRO STRATEGY

Treasury Offsetting QT Until Mid-Year

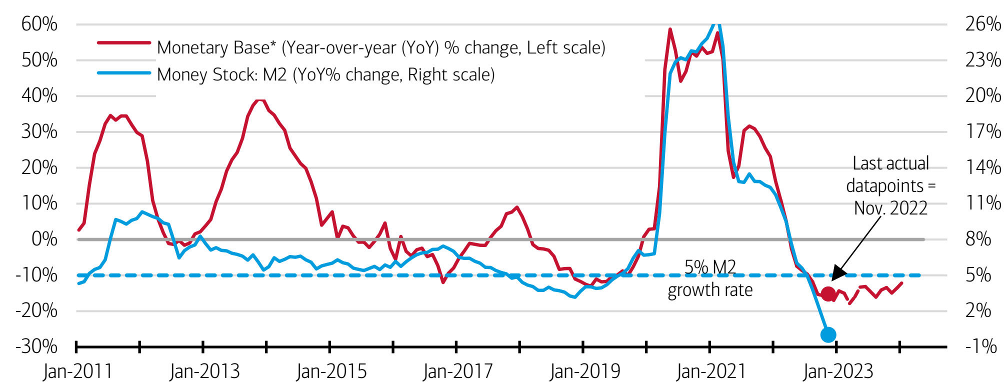
Robert T. McGee, Managing Director and Head of CIO Macro Strategy

On Friday, January 13, Treasury Secretary Janet Yellen notified the House of Representatives that the federal government would reach the statutory debt limit on January 19. Until Congress increases the debt ceiling, which is not expected until early in the summer, the Treasury will have to engage in funds shuffling to meet government obligations. Over the past few months, Treasury balances with the Fed have fallen from about $1 trillion to about $300 billion, compared to a $700 billion target that represents about a week's worth of outlays. As the scope for this maneuvering diminishes over the next few months, the Treasury balance could approach zero, as it did in past debt ceiling crises. Secretary Yellen estimates that the Treasury will run out of maneuvering room by early June.

The Treasury balance at the Fed drains reserves from the banking system when it increases and adds reserves when it declines, so the effect of the current maneuvering aimed at avoiding the debt ceiling will be to add massive amounts of reserves to the banking system, counteracting much of the effect of QT. Thus, while the Fed is draining reserves from the banking system with its QT program, the Treasury is adding reserves back in. Bank reserves have declined from over $4 trillion to just over $3 trillion during the past 12 months. A drop in the Treasury balance from current levels to zero would offset about eight or nine months of QT. In essence, the Treasury's maneuvering to cope with a looming debt ceiling crisis is sterilizing much of the effect of QT on the monetary base.

Exhibit 1 shows the close relationship between the monetary base and the M2 money supply since the pandemic. The surge in inflation in 2021 and 2022 was the direct result of the surge in M2 growth, which in turn reflected the surge in the monetary base from aggressive quantitative easing (QE). Conversely, the equally dramatic decline in inflation now underway reflects the rapid deceleration in the M2 money supply growth rate caused by aggressive QT. In fact, the drop in the M2 growth rate over the past year has been the greatest since the early 1930s, suggesting a significant risk of deflation by 2024.

Exhibit 1: As Fiscal Money Shower Fades, Fed Will be Pushing on a String as in 2011-2015.



*Estimated path assuming Fed ends QT by the end of 2023. Source: Federal Reserve Board/Haver Analytics. Data as of January 19, 2023.

While the debt ceiling drama plays out during the first half of this year, the positive Treasury effect on bank reserves will provide offsetting liquidity to the banking system, helping to support money supply growth, reduce long-term interest rates, soften the dollar, and generally ease financial conditions, as we have already seen recently despite hawkish Fed rhetoric and aggressive rate hikes. However, once the debt ceiling crisis is resolved, and the Treasury brings its checking account at the Fed back to its $700 billion target, these effects will go into reverse. About eight or nine months' worth of Treasury-induced QT will go into effect in the second half of 2023, reducing bank reserves, dollar liquidity, and money supply growth just as the U.S. economy is anticipated to fall into recession.

Investment Implications

Easier U.S. financial conditions as the debt ceiling drama plays out favor long-duration bonds, a weaker dollar, and stocks that benefit from stronger growth in China and weaker growth in the U.S. Continue to maintain a high level of diversification in portfolios and focus on higher quality investments across Equities and Fixed Income as the debt ceiling impasse unfolds.

Of course, the actual outcome depends on how the Fed proceeds with its own QT plans. Currently, the market anticipates only one or two additional quarter-point fed funds rate hikes this year, as inflation is falling much faster than the Fed expected. This implies that rates policy would be on pause when the debt ceiling impasse resolves during the late spring or early summer.

The most explicit QT guidance was laid out in the May 2022 report on 2021 Open Market Operations prepared by the New York Fed's Markets Group. It suggested that the Fed's balance sheet contraction should "slow" when bank reserves fall to about 10% of nominal gross domestic product (NGDP) and be stopped when reserves hit 9% of NGDP. Organic balance sheet growth is recommended to resume once reserves fall to 8% of NGDP. That's about where the 2018 QT and rate-tightening campaigns ended when the Fed abruptly pivoted within a few weeks in early 2019 because money markets were becoming too volatile.

Bank reserves are currently about a half-trillion dollars above the 10% mark where slowing QT is presumably set to begin. This mark could be reached by mid-summer at the current QT pace. The sooner the debt ceiling is lifted, the sooner the Treasury can resume normal cash-management operations, and the sooner bank reserves would reach the threshold for a slower QT pace.

In any event, it's quite possible the Fed will be able to end QT in the second half of this year after a few months of slower reserve draining. Rebuilding the Treasury balance after the debt ceiling is raised would do a lot of heavy lifting to reach the 8% of NGDP mark for bank reserves before year-end. As this rebuilding phase of Treasury balances reduces bank reserves, it would have tightening effects on financial conditions, in contrast to the easing effects of the big draining of Treasury balances in recent months, as noted above.

The quick reopening of China has improved the global growth outlook for 2023. Stock market flows show repositioning into non-U.S. beneficiaries of a weaker dollar and stronger growth in China compared to a U.S. economy headed into recession.

While easing inflation is supporting real consumer purchasing power and household confidence, overall nominal growth continues to slow. So far, the effect of tighter monetary policy has brought NGDP growth down from a YoY peak in the mid-teens to mid-single digits. Various nominal magnitudes, like weak holiday sales, suggest that cash flows decelerated further toward a low single-digit growth pace by December. The ongoing drop in nominal growth is squeezing earnings and corporate confidence. U.S. corporate earnings peaked in mid-2022 and are declining. Recent earnings reports show margins continue to contract alongside weakening nominal revenue growth.

The looming recession has markets counting on a policy pivot that will trigger the next cyclical upswing. The link between the Fed's provision of monetary base and the money supply was tight during the pandemic period (Exhibit 1) because fiscal policy was expansive, essentially taking reserves from the Fed and spending them by showering people with money, an unprecedented largesse in the U.S. and symptomatic of the almost century-old trend toward fiscal excess in an era of permanent inflation. However, the fiscal spending excesses of the pandemic are unlikely to repeat anytime soon given the new Republican majority in Congress. In our view, the quick arrival of a debt ceiling impasse is indicative of tighter fiscal gridlock to come.

This is important because fiscal restraint would hinder the Fed's efforts to stimulate the economy out of recession. Indeed, as shown in Exhibit 1, during the first rounds of QE after the 2008/2009 Great Financial Crisis (GFC), the monetary base surged with QE, but the money supply did not respond. It languished at sub-trend growth rates as excess reserves accumulated and weren't matched by an expansion of bank lending or fiscal spending. Basically, as the Republican Congress did not go along with the fiscal side of stimulus, the Fed was "pushing on a string," and inflation stayed below the Fed's target despite QE.

Policy paralysis is likely to stymie the fiscal side again this time, as inflation possibly turns into deflation and real rates stay positive, or even move higher in a recession. Eventually, however, the electorate's declining threshold for sacrifice is likely to call on the burgeoning safety net, reigniting the persistent inflation we've seen since World War II.

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MARKET VIEW

10 Questions on the Outlook for International Markets in 2023

Ehiwario Efeyini, Director and Senior Market Strategy Analyst

After a strong finish to 2022, International Equities are off to a strong start in 2023, with most major markets outpacing the U.S. so far. The two largest headwinds for the two biggest non-U.S. economies have reversed over recent months, making for global market leadership in developed Europe and emerging Asia. In Europe, benchmark natural gas prices have more than halved from their December highs on the back of weak seasonal demand and ample storage levels. And, perhaps most significant, the dismantling of zero-Covid restrictions in China that began in November is now all but complete, paving the way for a surge in economic activity. Investors have seen international equities deliver many short bouts of moderate out-performance over the past several years, only to see them unwound as U.S. markets led the world in 10 of the 13 years since the GFC. As in past years, valuation for global ex.-U.S. Equity (at -0.7 standard deviations below 10-year averages across price-to-earnings and price-to-book ratios) remains a source of upside potential relative to U.S. Equity (at +0.2 standard deviations above 10-year averages). But international markets will need sustainable catalysts to extend their recent return advantage over the course of 2023. Here we look at 10 key questions to assess their prospects for this year.

Investment Implications

Investors have seen International Equities deliver many short-lived bouts of moderate out-performance over the past several years. It may yet be too early to take an outright positive view on the rest of the world. But we nonetheless see a number of key developments, most notably China's economic reopening, that could potentially do more to support the major non-U.S. markets in 2023.

How significant is China's reopening to its domestic economy? China has abandoned its zero-Covid policy much more quickly than most expected late last year. Official statements from the mid-December Central Economic Work Conference outlined the government's pro-growth stance for 2023, and the last major restrictions on international travel were lifted earlier this month, including reopening of the land border with Hong Kong. After three years of shutdowns, this represents a major shift in policy direction, and a 2023 consumption-led growth rate of 5.0% is now expected across Bloomberg private forecasters. Domestic spending on travel, recreation, dining, apparel, and other goods and services should be further fueled by the rise in personal saving over the past three years, with household deposits having risen from 82% of GDP at the end of 2019 to 99% of GDP at the end of 2022.

What other developments could affect economic direction in China this year? The Technology sector and real estate market have been additional headwinds for China since the start of the pandemic, but investors can also expect a degree of relief from these sources. The central government is winding down its consumer internet-focused regulatory campaign, recently allowing previously restricted applications back into online stores. And U.S. regulators have also allayed delisting fears by confirming Chinese compliance with audit inspections of U.S.-listed firms. In the real estate market, homebuyer confidence and property sales remain weak, but the central government commitment to providing liquidity support for developers should decrease the sector's negative growth contribution and reduce tail risks for the wider economy. Crucially, inflation in China remains relatively low at under 3%. It should therefore not be a near-term constraint on monetary accommodation as it has been in much of the rest of the world.

Could China's recovery push global inflation higher? Given its greater expected effect on road, rail and air transportation activity than on construction, China's rebound should offer more price support to energy than to metals and other industrial commodities. But due to base effects and the likelihood of demand weakness in the U.S. and Europe, this is unlikely to result in the type of high energy price inflation we saw in 2022. To the extent that industrial output and labor participation in China increase, fewer bottlenecks in global manufacturing supply chains could also reduce upward pressure on global goods prices.

Is the worst over for Europe? Though headline inflation in Europe appears to have peaked, it remains well above U.S. levels, with core inflation still rising. Mild weather and a rebuilding of natural gas storage to the 80% levels stipulated by the European Union (EU) Commission have at least temporarily relieved the upward pressure on retail gas prices. But with ongoing curtailment of Russian supply, growing demand from China, and the possibility of a normalization in seasonal trends, supply constraints are likely to re-emerge at a later stage. Moreover, the December EU ban on seaborne Russian crude oil imports and coming February

ban on Russian diesel, jet fuel and other products will represent new limits on energy supply that could weigh on economic activity.

Which parts of the European market are better positioned? The Consumer Discretionary sector should benefit more than the broad market in Europe as China's consumption recovery boosts demand for luxury products. Industrials should also be better positioned for any substitution in machinery and equipment sales away from U.S. suppliers under a more hawkish Republican House, and on the defense side in the face of a continuing Russia-Ukraine conflict.

How might Japan compare to other international markets in 2023? Japan has lagged the rebound in global ex.-U.S. markets over recent months as its exchange rate has strengthened and uncertainty has increased over its monetary policy direction. The central bank unexpectedly raised its 10-year bond yield ceiling by 25 basis points in late December 2022, and the next governor is likely to adjust policy further after taking office in April. Less monetary accommodation, higher rates and a stronger currency are likely to be relative hurdles for (export-exposed) Japanese markets.

What might economic reopening in China mean for other Asian markets? Asia as a region is likely to be the biggest global beneficiary of China's reopening. More Chinese tourist arrivals in their leading destinations of southeast Asia, Hong Kong and Japan represent a boost to local exports, and manufacturers of discretionary consumer goods such as Korea should also experience a pickup in external demand from Chinese consumers. India may have the least to gain from these sources, while its current account balance may deteriorate on the back of higher energy prices.

Can Latin America remain a global outperformer? Latin American markets have kept pace with emerging Asia in the early stages of 2023 but should remain tied to the direction of resource price as they were last year. Terms of trade for energy producers such as Colombia and Mexico should be supported more than for metals producers such as Peru and Chile if the balance of global demand tilts toward transportation over construction as we expect. Fiscal deterioration under its incoming administration could raise credit risk in Brazil, the region's largest market.

What are likely to be the main drivers of Emerging Markets (EM) as a group? Fed tightening cycles have typically been an important trigger for past crises in EM. And though the fundamentals of most emerging economies have progressed over recent decades (as current account balances have improved, a greater share of debt has been issued in local currency, and central banks have accumulated larger stockpiles of international reserves), countries with larger deficits may yet remain vulnerable to capital outflow pressures in the first half of the year as the Fed and other central banks continue to raise rates, and the dollar remains historically strong. But with China alone forming roughly one-third of EM market capitalization and Asia in total at close to 80%, a strong Chinese recovery should buoy the overall EM benchmark. And looking ahead to a first-half Fed pause and potential pivot toward lower rates later in the year, a coming shift in U.S. monetary policy direction—which would likely be accompanied by further weakness in the dollar—could give way to a period of more sustained relative return improvement.

Can international markets outperform in 2023? Should non-U.S. markets outpace the U.S. in 2023, it would be their first year of consecutive outperformance since 2007. Lower multiples and greater exposure to Value sectors over Growth sectors remain long-standing characteristics of International Equities that should be supportive this year. And what could be the most significant shift this year in the form of China's reopening should come as a positive for much of the 39% of global ex.-U.S. market cap for which the Asia region as a whole accounts. However, a period of recession and earnings contraction potentially looms for Europe at a combined 42% of non-U.S. market across its developed and emerging countries. And the risk of a higher and more persistent fed funds terminal rate and a still historically strong dollar could persist while economic data in the U.S. remain firm. It may yet be too early to take an outright positive view on the rest of the world. But we nonetheless see a number of key developments that could potentially do more to support the major non-U.S. markets in 2023.

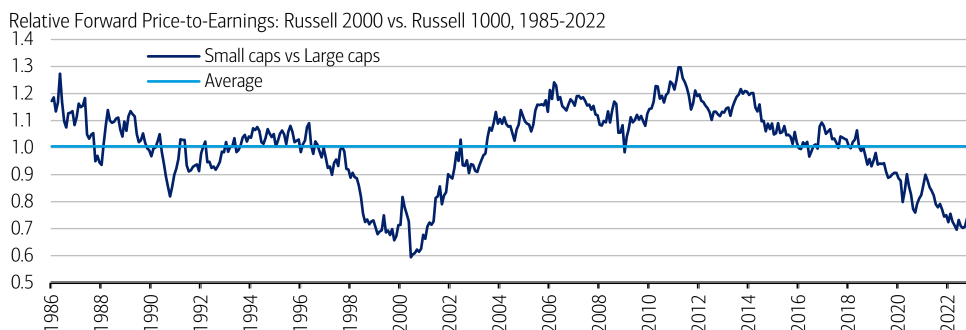
THOUGHT OF THE WEEK

Watch List Alert: Small-Caps

Kirsten Cabacungan, Assistant Vice President and Investment Strategist

Turning the chapter on a tumultuous 2022, long-term investors looking for opportunities may want to add Small-cap stocks to their watch list. Last year, Small-caps suffered worse than Large-caps, with the Russell 2000 ending the year down 21.6% compared to the S&P 500 down 19.4% as economic downturn concerns weighed greater on smaller companies given their lower-quality balance sheets, less financial flexibility, and closer tie to the domestic economy.[1] While headwinds for the smaller size segment persist in the near term, the backdrop could turn more favorable once the bear market bottoms. In fact, Small-caps have historically outperformed Large-caps by an average of 29% in the 12-month period following troughs in S&P 500 bear markets going back to the 1930s.[2] Additionally, the beating down on Small-cap stocks has pushed their valuations to near historic lows. Small-caps are now extremely cheap relative to Large-caps, trading at levels otherwise seen only during the dot-com bubble (Exhibit 2). The Russell 2000 led the Russell 1000 by roughly 60% in the seven-year period following the bottom in relative valuations in 2000, suggesting current valuations may be a compelling entry point for long-term investors.[3]

Exhibit 2: Relative Valuations Favor Small-Caps.



Source: BofA Global Research. Data as of December 30, 2022. **Past performance is no guarantee of future results.**

While Small-caps have fared better than Large-caps so far this year, they may struggle to make further headway in the near term given downside risks. One main factor to consider is that Small-caps tend to underperform heading into a recession as the earnings outlook deteriorates. Russell 2000 earnings have on average fallen roughly 50% during recessions, far deeper than the average 20% decline in S&P 500 earnings.[4] The current outlook for 2023 earnings is weakening, but the magnitude of the potential earnings hit to smaller companies remains uncertain. U.S. small business optimism fell to its second-lowest level in a decade in December and its 12th consecutive month below its 49-year average.[5] Many owners cited inflation as their single greatest business challenge, but price pressures have shown early signs of cooling. Higher-for-longer borrowing costs is also a risk for Small-caps since they have more floating rate debt relative to Large-caps, but they may be better positioned compared to previous cycles since companies have turned to more longer-dated fixed rate debt in recent years. Despite these risks, the deep discount in Small-caps from a historical perspective presents a solid argument that a recession could already be priced in, potentially limiting much further downside. Given the uncertainty about a potential Fed pause as well as the depth of earnings deterioration, we remain neutral Small-caps with a bias to Large-caps but believe investors should prepare to consider building out exposure as the market bottoming process comes closer to an end.

Investment Implications

To start the year, the Global Wealth & Investment Management Investment Strategy Committee turned tactically neutral across stocks and bonds to maintain a defensive posture as market headwinds persist for the first half of the year. But we continue to monitor opportunities to potentially add to Equities in areas such as Small-caps, non-U.S. Developed Markets and EMs, and further emphasize more value-oriented places since we expect the 12- to 18-month return outlook to be solid for stocks.

[1] Bloomberg. Data as of December 30, 2022.

[2] Small-caps represented by the Russell 2000. Large-caps represented by S&P 500. BofA Global Research. Data as of November 2022.

[3] Bloomberg. Data from June 30, 2000 to June 29, 2007.

[4] BofA Global Research. Data as of November 2022.

[5] National Federation of Independent Business. Data as of December 2022.

Equities

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
DJIA	33,375.49	-2.7	0.8	0.8
NASDAQ	11,140.43	0.6	6.5	6.5
S&P 500	3,972.61	-0.6	3.5	3.5
S&P 400 Mid Cap	2,558.46	-0.9	5.3	5.3
Russell 2000	1,867.34	-1.0	6.1	6.1
MSCI World	2,725.40	-0.4	4.8	4.8
MSCI EAFE	2,080.41	0.0	7.1	7.1
MSCI Emerging Markets	1,036.24	0.6	8.4	8.4

Fixed Income†

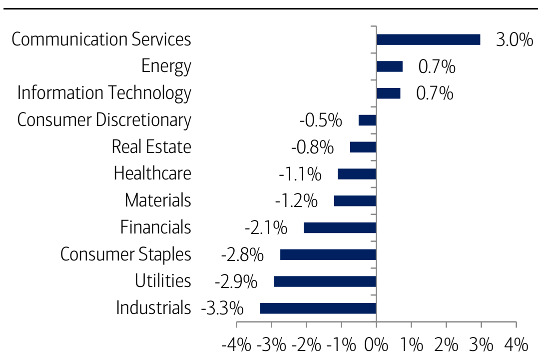
	Total Return in USD (%)			
	Current	WTD	MTD	YTD
Corporate & Government	4.28	0.11	2.76	2.76
Agencies	4.29	0.20	1.49	1.49
Municipals	3.09	0.51	2.83	2.83
U.S. Investment Grade Credit	4.29	0.15	2.89	2.89
International	5.00	0.09	3.52	3.52
High Yield	8.19	-0.31	3.52	3.52
90 Day Yield	4.63	4.57	4.34	4.34
2 Year Yield	4.17	4.23	4.43	4.43
10 Year Yield	3.48	3.50	3.87	3.87
30 Year Yield	3.65	3.61	3.96	3.96

Commodities & Currencies

	Total Return in USD (%)			
Commodities	Current	WTD	MTD	YTD
Bloomberg Commodity	245.06	0.6	-0.3	-0.3
WTI Crude $/Barrel††	81.31	1.8	1.3	1.3
Gold Spot $/Ounce††	1926.08	0.3	5.6	5.6

	Total Return in USD (%)			
Currencies	Current	Prior Week End	Prior Month End	2022 Year End
EUR/USD	1.09	1.08	1.07	1.07
USD/JPY	129.60	127.87	131.12	131.12
USD/CNH	6.78	6.71	6.92	6.92

S&P Sector Returns



Sources: Bloomberg; Factset. Total Returns from the period of 1/16/2023 to 1/20/2023. †Bloomberg Barclays Indices. ††Spot price returns. All data as of the 1/20/2023 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 1/20/2023)

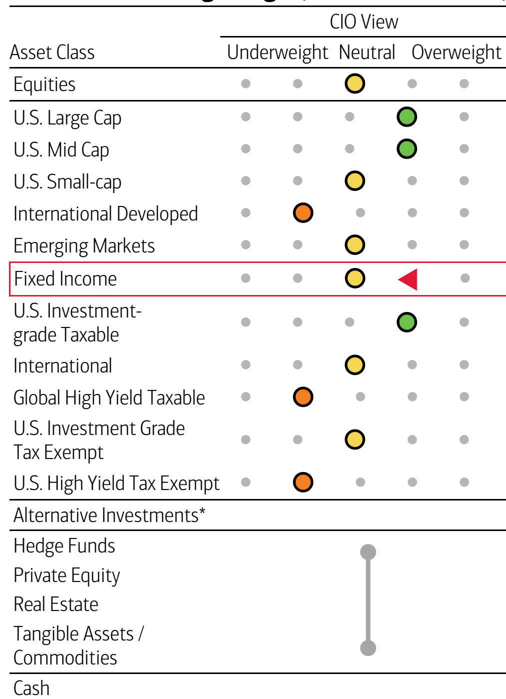
	Q4 2022A	2022A	Q1 2023E	Q2 2023E	Q3 2023E	Q4 2023E	2023E
Real global GDP (% y/y annualized)	-	3.4*	-	-	-	-	2.5
Real U.S. GDP (% q/q annualized)	2.5*	2.1*	1.5	-0.5	-2.0	-1.5	0.7
CPI inflation (% y/y)	7.1	8.0	5.3	3.7	3.0	2.7	3.5
Core CPI inflation (% y/y)	6.0	6.1	5.2	4.3	3.3	2.8	3.9
Unemployment rate (%)	3.6	3.6	3.5	3.8	4.4	4.8	4.1
Fed funds rate, end period (%)	4.33	4.33	4.88	5.13	5.13	5.13	5.13

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.**

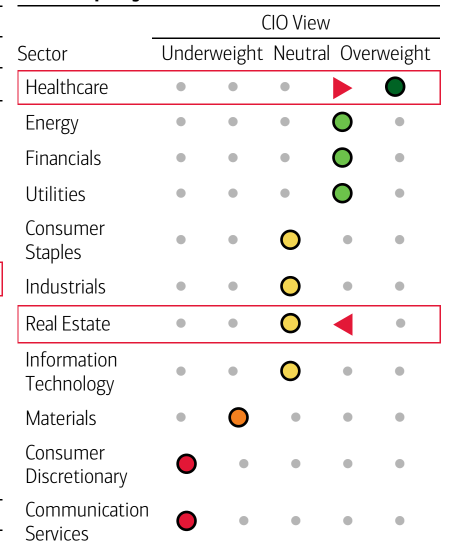
A = Actual. E/* = Estimate.

Sources: BofA Global Research; GWIM ISC as of January 20, 2023.

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



CIO Equity Sector Views



*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 Office 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.

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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.

Russell 2000 Index is a small-cap stock market index that makes up the smallest 2,000 stocks in the Russell 3000 Index.

Russell 1000 Index is a stock market index that tracks the highest-ranking 1,000 stocks in the Russell 3000 Index, which represent about 93% of the total market capitalization of that index.

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Investments have varying degrees of risk. Some of the risks involved with equity securities include the possibility that the value of the stocks may fluctuate in response to events specific to the companies or markets, as well as economic, political or social events in the U.S. or abroad. Small cap and mid cap companies pose special risks, including possible illiquidity and greater price volatility than funds consisting of larger, more established companies. 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. 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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