

CHIEF INVESTMENT OFFICE

Capital Market Outlook

October 24, 2022

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

IN THIS ISSUE

Macro Strategy—Will Monetary Policy Stop Fiscal Profligacy? The economic forecasting consensus continues to revise the outlook for U.S. gross domestic product (GDP) growth down and the outlook for inflation and interest rates up. As a result, the odds of a more protracted recession and bear market in stocks are rising.

Profit margins are in a strong downtrend based on Q3 corporate earnings reports showing increasing difficulty passing on inflationary price hikes to customers.

Market View—Risk Monitor: The Good, The Bad and On Our Radar: Time in the market, not market timing—this fundamental view of the Chief Investment Office stresses a long-term perspective. Moreover, goals-based investing includes a careful consideration of an investor’s time horizon and risk tolerance. Combined, this ethos is reflected in the strategic asset allocation, which should prevail when constructing comprehensive investment portfolios.

Tactical shifts supplement this bedrock allocation and reflect higher uncertainty. The balance of our risk monitor is tilting negative, leading to more defensive asset allocation positioning. We continue to monitor various macroeconomic and market signals, such as earnings estimates, the shape of the U.S. government Treasury bond yield curve and leading indicators, among other elements. We review some of the positive and negative factors that have influenced markets, in our view, as well as some factors on our radar.

Thought of the Week—Will Private Markets Continue To Grow Faster Than Public Markets? Private Markets have experienced rapid growth over the last two decades, driven by a range of factors.

As markets process the current period of painful reset, we examine the question of whether Private Markets growth will resume its previous trajectory.

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 10/24/2022,
and subject to change

Portfolio Considerations

We remain neutral Equities and see near-term risks for Equities coming from a global slowdown in growth and profits, persistently elevated levels of inflation, and what we believe to be a Fed policy error. This month, we raised Fixed Income, tactically, to a slight overweight and increased overall credit quality, as real and absolute yields have become attractive for the first time in many years. With this adjustment, which was funded from the Cash asset class, we also look for opportunities to extend duration. In addition to our tactical changes within Fixed Income, muni bonds have become more attractive, and we remain overweight within an all Fixed Income allocation, where appropriate.

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Will Monetary Policy Stop Fiscal Profligacy?

Chief Investment Office, Macro Strategy Team

The clash between the Bank of England (BoE), which is trying to rein in double-digit inflation with rate hikes and quantitative tightening (QT), and the U.K. Treasury, which had announced an expansion of fiscal stimulus, may be a precursor of what's coming in the rest of the world after a prolonged era of central banks enabling explosive government debt growth. In our view, the BoE's decision not to go along with this latest round of fiscal stimulus marks the death knell for modern monetary theory¹ (MMT), which had become increasingly fashionable in political circles in recent years. The constraints on MMT are set by society's tolerance for rising inflation, which appears to be diminishing rapidly as inflation erodes the living standards of most people in the U.S., Europe and the U.K.

In the U.S., the party is also drawing to a close. The 400 bps rise in interest rates so far this year implies a massive rise in interest expense on the \$30 trillion of government debt outstanding in the U.S. that will force tough decisions about spending and taxes versus more inflation.

The Federal Reserve's (Fed) current schedule for reducing its balance sheet by \$1.2 trillion over the next year means the private market needs to absorb a huge increase in Treasury supply that is pressuring rates higher across the maturity spectrum. Four percent handles out to 30 years indicate market expectations are for much higher real rates indefinitely, after a long period of negative real rates while the Fed was expanding its balance sheet from less than \$1 trillion when the 2007-2008 Financial Crisis began to a peak of about \$9 trillion in March of this year.

While the Fed has raised interest rates rapidly since that March peak and started to reduce its bloated balance sheet, the unprecedented inflationary monetary and fiscal stimulus unleashed from March 2020 through March 2022 is still working its way through the economy. Nominal GDP growth, which rose into the high teens on a year-over-year (YoY) basis in 2021, has begun to subside and is running somewhere in the high single digits currently, with real growth down from about 6% in 2021 to barely positive in 2022, while inflation has surged from 2% to over 8% in 2022.

As the pandemic stimulus fades further in 2023 and 2024 as the Fed's tightening kicks in and inflation declines toward 2%, nominal GDP is likely to stall, causing stagnant cash flows for personal incomes, retail sales, corporate revenues and profits, all of which are tracking the sharp declines from historically high 2021 nominal GDP growth to half those levels in 2022. Nominal GDP growth sets the limits on these cash flows.

Early indications from Q3 earnings reports show inflation is still supporting much stronger revenue growth than had prevailed prior to the pandemic, when nominal GDP growth barely averaged 4% for two decades, the slowest pace since the 1930s. While revenue growth is still healthy, earnings have stopped growing, as margins are being squeezed by an inability to pass on higher prices to customers experiencing declining real incomes. According to Credit-Suisse calculations, as of October 19, S&P 500 companies' revenue growth is estimated at a healthy 9.7% YoY rate for Q3, with earnings estimated to be down 0.2% because of this margin squeeze, however.

After the September consumer price index (CPI) data was released, the Social Security Administration announced an 8.7% increase for benefit recipients in 2023. For 2022, the increase was 5.9%. For most workers not receiving government cost of living adjustments, living standards have dropped by one- or two-months' worth of income. Overall, inflation has taken almost 15% from household purchasing power over the past two years. With Equities down about 25% from the peak, that amounts to a 40% loss in the real

Investment Implications

The unexpected surge in inflation and interest rates has caused a sharp increase in real interest rates of roughly 400 basis points (bps), making high-quality Fixed-Income assets and Cash relatively more attractive alternatives to Equities.

¹ MMT is a heterodox macroeconomic theory that describes currency as a public monopoly and unemployment as evidence that a currency monopolist is overly restricting the supply of the financial assets needed to pay taxes and satisfy savings desires.

value of equity wealth. The point is, it should not be a surprise that businesses are unable to pass on price increases and that their margins are being squeezed. In our view, this process will continue as nominal GDP growth slows toward zero next year and into 2024. In contrast, during peak stimulus and zero interest rates last year, high-teens revenue growth was accompanied by high-teens profits growth, as businesses had no problem passing through price increases.

The long tail of the unprecedented stimulus is keeping demand strong. After all, nominal growth is still double its pre-pandemic secular-stagnation average. Leading indicators, however, continue to point to an ongoing slowing that is likely to reach recessionary levels sometime in 2023. Housing data confirm that a recession has already begun in residential real estate, where the National Association of Home Builders' survey fell for the 10th straight month in October, thanks to the doubling of mortgage rates this year. Housing recessions are generally precursors to general recessions as the spill-over effects filter into the broader economy.

The negative momentum in the economy is apparent in the pattern of revisions in earnings estimates and consensus forecasts for economic growth. Bottoms-up analysts are progressively making more and more downward than upward revisions to their outlooks for company profits. Likewise, as prognosticators struggle to catch up with the negative momentum, economic forecasts have been on a downward track for over a year. For example, the Blue Chip Economic Indicators Survey of Top Analysts' Forecasts of the U.S. economic outlook for the year ahead shows a steady pattern of downward revisions to GDP and corporate profits growth for 2022 and 2023, and upward revisions to inflation and interest rates (Exhibit 1).

Exhibit 1: History of Blue Chip forecasts for 2022 and 2023 shows big misses.

	Real GDP (YoY % change)	CPI (YoY % change)	10-year Treasury Yield (average, %)	Corporate Profits (YoY % change)
For 2022 as of:				
Jan-21	3.4	2.1	1.5	5.6
Jan-22	3.9	4.6	1.9	5.4
Oct-22	1.6	8.0	3.0	5.2
For 2023 as of:				
Jan-22	2.6	2.4	2.3	3.2
Oct-22	0.2	3.9	3.6	-1.1

Source: Blue Chip Economic Forecast. Data as of October 19, 2022.

At the start of this year, the forecasters expected real GDP to grow by 3.9% in 2022 and 2.6% in 2023. In the latest October survey, these growth expectations were down to 1.6% and 0.2%, respectively (Exhibit 1). During the same time frame, the consensus for CPI inflation jumped from 2.1% and 2.4% in 2022 and 2023 to 8% and 3.9%, respectively. The outlook for the year-average 10-year Treasury note yield surged from 1.5% in 2022 and 2.3% in 2023, to 3% and 3.6%, respectively. The outlook for 2023 corporate profits growth went negative in September.

High interest rates and lower profits are a recipe for lower stock prices, which is what we've seen as a result. A new bull market awaits a turnaround in economic momentum, which has been delayed by the destabilizing monetary and fiscal policies of the past two years. A key question is whether central banks will stick to their inflation mandates or succumb to political pressures to monetize excessive government spending. When inflation was below the 2% target, the Fed had a good reason to monetize fiscal deficits. However, it went past the point of low and stable inflation to a destabilizing excess that has significantly lowered U.S. living standards. It remains to be seen whether central bank independence will give way to the fiscal capture that has kept so many emerging market populations trapped in poverty.

Risk Monitor: The Good, The Bad and On our Radar

Rodrigo C. Serrano, CFA®, Director and Senior Investment Strategy Analyst

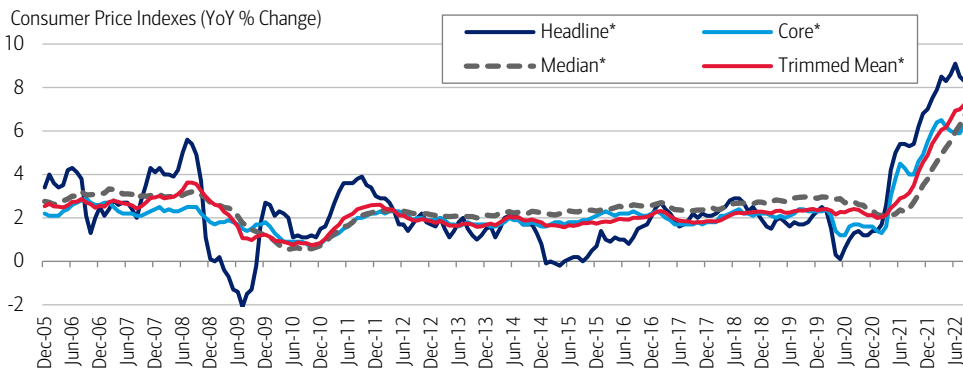
Ongoing Positives and Negatives

In our view, robust U.S. corporate health has reflected both a resilient U.S. economy and the nominal nature of cash flows. Private-sector excess savings have helped sustain demand and provide pricing power for companies. Second quarter YoY revenue growth for S&P 500 companies increased by 14%, according to FactSet. More broadly, post-tax corporate profits registered at 12.1% of GDP in the second quarter, according to the Bureau of Economic Analysis, just shy of an all-time high of 12.3% twelve months prior.

Strong demand has similarly benefited commodity-oriented economies from the Middle East to Latin America. Countries in South East Asia, such as Malaysia, have also enjoyed tourism booms fueled by “revenge traveling,” after years of coronavirus-related restrictions. In this context, a strong U.S. dollar has benefited European tourism. Like the S&P 500 in the U.S., the consensus 2023 earnings estimate for the MSCI Europe Index has registered only a marginal decline from its high point, according to Bloomberg.

Pockets of inflationary pressure have cooled. The S&P GSCI, a benchmark measure of global commodity prices, has declined by over 20% from its peak in early March. In the U.S., indicators, such as those published by the Institute for Supply Management (ISM), suggest reduced supply chain bottlenecks. Nevertheless, core consumer price inflation in September hit a 40-year high, suggesting a rising risk of pricing pressures becoming embedded in the economy (Exhibit 2). The results raise the bar for the Fed, which remains determined to regain its inflation-fighting credibility. Real interest rates have risen, which have factored in downward pressure on equity market valuations.

Exhibit 2: The Headline CPI Measure Includes More Volatile Outliers. Measures Which Remove Them Aim To Capture Inflation’s Central Tendency. These Continue To Flag Broad Price Pressures.



*Headline refers to aggregate of prices paid by urban consumers for a typical basket of goods as measured by the CPI. Core refers to the aggregate of prices paid by urban consumers for the same typical basket of goods as headline but excluding food and energy, which tend to have very volatile prices. Median refers to the one-month inflation rate of the CPI component whose expenditure weight is in the 50th percentile of price changes. Trimmed Mean refers to the weighted average of one-month inflation rates of CPI components whose expenditure weights fall below the 92nd percentile and above the 8th percentile of price changes. Source: Cleveland Federal Reserve. Data as of October 14, 2022.

Elevated geopolitical uncertainty has also factored in price downtrends across global equity markets. Since 2018, investors have navigated a trade, technology and capital war between the U.S. and China. This year features a resource war, which includes broader sanctions regimes and weaponized commodities. Its repercussions have been particularly magnified in Europe, where a more consensus outlook includes a stagflationary and recessionary environment over the coming quarters. In our view, this scenario presents the European Central Bank with a dilemma. Tightening monetary policy may strengthen economic headwinds, yet prove less effective in combatting inflationary pressures stimulated by non-economic developments. Conversely, idleness may pressure the euro lower and destabilize inflation expectations.

Investment Implications

Raised uncertainty, amid a projected global economic slowdown, underpins our relative overweight of the Fixed Income asset class compared to that of Equities. Our “on guard” and defensive-minded portfolio stance also stresses diversification. Themes within our risk monitor suggest long-term value in Real Assets, in particular Commodities. Tailwinds include government efforts to ensure resource security, to sustain living standards, and to accelerate toward a greener energy mix, among other factors.

In China, strict adherence to coronavirus restrictions continues to weigh on confidence and consumption. Moreover, a framework to reduce leverage in the property sector has instead strained liquidity for major developers and local governments.

On Our Radar

The unique nature of the business cycle since the start of the coronavirus pandemic has challenged accurate economic forecasting, in our view. Resilient consumption in the U.S. has been reflected in the improving trend of the Citigroup Economic Surprise Index since July. A real-time GDP tracker published by the Atlanta Fed has also rebounded. On our radar is the guidance given by companies during the Q3 earnings season. Amid turbulent macroeconomic headwinds, disappointing outlooks may trigger a notable recalibration of earnings estimates, rendering valuations less secure. The Bloomberg consensus 2023 estimate for nominal GDP growth has declined by nearly 19%. Yet coinciding S&P 500 profits forecasts have fallen by less than 5%.

Globally too, higher inflation and lower purchasing power may reduce discretionary spending further, particularly if a summer of consumer euphoria, after two years of coronavirus restrictions, gives way to a colder, more austere winter. In Europe, on our radar are the effects of a policy package designed to buffer the economic fallout of energy shortages. Stabilizing the nearer-term outlook for inflation and business activity, these policies may yet lead to building financial imbalances. In this context, a wildcard geopolitically may be a broader effort to institute a price cap on Russian oil, as well as the duration of Ukraine/Russia conflict.

Also on our radar is the rhetoric of nations with important diplomatic relationships with Russia and Ukraine. It may influence in a more favorable disposition by both to achieve a breakthrough and at least pause the war. A renewal of a deal to facilitate food exports out of the Black Sea region is also on watch. Other geopolitical risks involve countries such as North Korea, Taiwan, Iran and evolving U.S.-China relations.

Developments out of China's 20th Party Congress suggest that enhanced economic support, particularly for the private sector, should be forthcoming. However, the nation's coronavirus restrictions are set to continue and may impede the effectiveness of looser fiscal policy. Moreover, a more apparent shift in consumer expectations of the merits of real estate as a store of wealth may weigh on a cyclical recovery.

A recent element in the more unstable macroeconomic environment, has been an apparent return of the "bond vigilantes." The fight against inflation has reduced buying support by central banks for government bond markets. Prolonged, this climate may raise the prominence of more fundamental principles, such as a more balanced public budget, which may challenge policy efforts to sustain living standards for populations. Recent volatility in the U.K. underscores the risk of financial market instability. Similar flare-ups may highlight an increasingly acute cost of tightening monetary policy and may strengthen calls to revisit inflation targets, paired with long-term reforms.

Exhibit 3: Summarized Below Are The Main Elements On Our Risk Monitor.

Upside risk factors

- A quicker-than-expected decline in U.S. inflation truncates the interest rate upcycle.
- A resilient U.S. economy is underpinned by strong private sector balance sheets.
- A diplomatic breakthrough in Eastern Europe calms growth and inflation fears.
- In China, officials amplify fiscal support or reconsider restrictive coronavirus policy.
- Policy underpins longer-run growth expectations (technology, climate change, etc.).

Downside risk factors

- Geopolitical escalation worsens Europe's stagflationary and recessionary climate.
- Weaker consumption and stickier costs (e.g. wage growth) undercut profit margins.
- Sustaining inflation-fighting credibility keeps policy interest rates higher for longer.
- Slower economic growth and policy uncertainty induce disorderly financial selloff.
- Zero-Coronavirus policy, property-related stress and geopolitics weigh on China.

Source: Chief Investment Office. Data as of October 2022.

Will Private Markets Continue To Grow Faster Than Public Markets?

Rolando Castellanos, CFA®, Director and Senior Alternative Investments Strategy Analyst

Private Markets have grown significantly on both an absolute and relative basis over the last two decades, a time frame long enough to qualify as a secular trend. And while as a secular trend it is more likely than not to continue, it is not predestined that the growth of Private Markets will continue unabated. As with virtually all asset classes, the macro regime shift post-pandemic to an inflationary environment has clouded the near-term outlook for Private Markets. This in turn raises the question about whether the accelerating trajectory of Private Markets will resume once we move past this period of uncertainty.

Using Private Equity (PE) and Venture Capital (VC) as proxies, the total market capitalization of PE- and VC-backed companies relative to the total market capitalization of public Equities in the U.S. has grown meaningfully over the last twenty-plus years. PitchBook Data, Inc. estimates that by the end of 2021 those levels had reached 12.4% in aggregate, which is more than double the proportion in 2000. This has been driven in part by insatiable investor interest and aggressive fundraising, but also the consistently strong historical performance PE and VC strategies over that period. The dynamics have been similar in other Private Markets, including private debt.

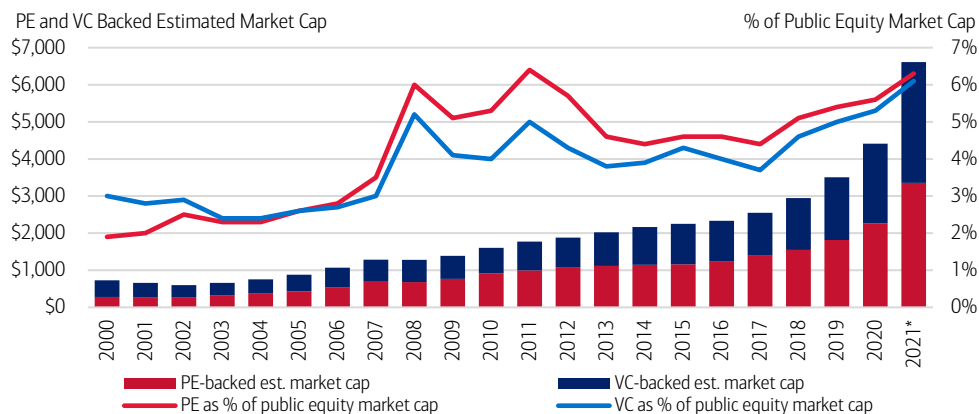
For qualified investors, the virtues of Private Markets asset classes and strategies (e.g., strong relative performance; in some cases, lower volatility or lower correlations) seemingly justified their growth over this timeframe. What should be acknowledged, however, is that this dynamic also occurred against the backdrop of secularly declining interest rates and inflation. Now, interest rates and inflation have reversed course and have begun rising, which has at least challenged the calculus investors have to make in terms of allocating to risk assets. To be clear, this is true across private and public markets. Nevertheless, certain Private Markets strategies (though, notably, not all) are clearly facing serious headwinds on par with, or greater than, previous cycles.

While we think investors should make room for the possibility of a reversal in Private Markets growth (at least on a relative basis), we ultimately think the stronger case is for the multi-decade trend to resume. In certain asset classes and strategies, such as PE and private debt, Private Markets have the potential to offer return premiums tied to illiquidity or complexity. In other areas, notably Real Estate, or even Hedge Fund strategies such as Global Macro, can offer diversification by virtue of low correlations to public Equities and bonds. For these reasons and more, we think qualified investors would continue to seek out Alternative Investments and help propel Private Markets to greater heights once this phase of reset plays out. But the unpredictability of the current environment is forcing us to at least reexamine our priors.

Investment Implications

If Private Markets growth were to slow relative to public markets over a longer period, the mega-funds of a select few Alternative Asset Managers that have ballooned in recent years would likely be in the cross-hairs—instead of gathering ever greater assets from qualified investors with each new round of fundraising, they could stagnate in assets under management while other areas of the capital markets grew. Institutional investors that find themselves over allocated to Private Markets may consider pausing on re-upping to new fund vintages, putting pressure on Alternative Asset Managers.

Exhibit 3: PE And VC Backed Market Capitalization As A Percent Of Public Equity Market Cap.



*Estimate. Sources: PitchBook Data, Inc.; World Bank; Statista; Sibilis Research | Geography: U.S. Data as of December 2021.

Equities

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
DJIA	31,082.56	4.9	8.3	-13.0
NASDAQ	10,859.72	5.2	2.7	-30.2
S&P 500	3,752.75	4.8	4.7	-20.3
S&P 400 Mid Cap	2,312.21	3.0	5.0	-17.6
Russell 2000	1,742.24	3.6	4.7	-21.6
MSCI World	2,462.42	3.6	3.6	-22.8
MSCI EAFE	1,679.68	0.5	1.1	-26.3
MSCI Emerging Markets	865.04	0.2	-1.2	-28.0

Fixed Income[†]

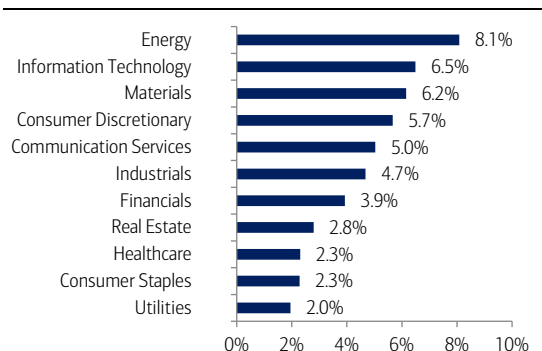
	Total Return in USD (%)			
	Current	WTD	MTD	YTD
Corporate & Government	5.07	-1.10	-2.37	-17.11
Agencies	4.74	-0.32	-1.07	-9.49
Municipals	4.13	-1.20	-0.35	-12.44
U.S. Investment Grade Credit	5.15	-1.07	-2.49	-16.74
International	6.10	-1.22	-2.67	-20.89
High Yield	9.62	0.28	0.58	-14.25
90 Day Yield	3.93	3.70	3.25	0.03
2 Year Yield	4.47	4.50	4.28	0.73
10 Year Yield	4.22	4.02	3.83	1.51
30 Year Yield	4.33	3.99	3.78	1.90

Commodities & Currencies

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
Commodities				
Bloomberg Commodity	240.57	-2.0	0.0	13.6
WTI Crude \$/Barrel ^{††}	85.05	-0.7	7.0	13.1
Gold Spot \$/Ounce ^{††}	1,657.69	0.8	-0.2	-9.4

	Total Return in USD (%)			
	Current	Prior Week End	Prior Month End	2020 Year End
Currencies				
EUR/USD	0.99	0.97	0.98	1.14
USD/JPY	147.65	148.67	144.74	115.08
USD/CNH	7.23	7.22	7.14	6.36

S&P Sector Returns



Sources: Bloomberg; Factset. Total Returns from the period of 10/17/2022 to 10/21/2022. [†]Bloomberg Barclays Indices. ^{††}Spot price returns. All data as of the 10/21/2022 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 10/21/2022)

	2021A	Q1 2022A	Q2 2022A	Q3 2022A	Q4 2022E	2022E	2023E
Real global GDP (% y/y annualized)	6.1	-	-	-	-	3.4	2.3
Real U.S. GDP (% q/q annualized)	5.7	-1.6	-0.6	1.0*	0.5	1.6	-0.6
CPI inflation (% y/y)	4.7	8.0	8.6	8.3	7.4	8.1	4.4
Core CPI inflation (% y/y)	3.6	6.3	6.0	6.3	6.4	6.3	4.7
Unemployment rate (%)	5.4	3.8	3.6	3.6	3.6	3.6	4.8
Fed funds rate, end period (%)	0.07	0.33	1.58	3.08	4.38	4.38	4.63

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 October 21, 2022.

Asset Class Weightings (as of 10/4/2022) CIO Equity Sector Views

Asset Class	CIO View			Sector	CIO View		
	Underweight	Neutral	Overweight		Underweight	Neutral	Overweight
Global Equities	●	●	●	Energy	●	●	●
U.S. Large Cap Growth	●	●	●	Utilities	●	●	●
U.S. Large Cap Value	●	●	●	Healthcare	●	●	●
U.S. Small Cap Growth	●	●	●	Financials	●	●	●
U.S. Small Cap Value	●	●	●	Real Estate	●	●	●
International Developed	●	●	●	Information Technology	●	●	●
Emerging Markets	●	●	●	Consumer Staples	●	●	●
Global Fixed Income	●	●	●	Industrials	●	●	●
U.S. Governments	●	●	●	Materials	●	●	●
U.S. Mortgages	●	●	●	Consumer Discretionary	●	●	●
U.S. Corporates	●	●	●	Communication Services	●	●	●
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 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 October 4, 2022. 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.

Consumer price index (CPI) measures the overall change in consumer prices based on a representative basket of goods and services over time.

MSCI Europe Index is a stock market index that measures the performance of large and mid-cap companies across developed countries in Europe.

Citigroup Economic Surprise Index tracks whether a core set of economic data series has been coming in under expectations, at expectations, or over expectations.

S&P GSCI serves as a benchmark for investment in the commodity markets and as a measure of commodity performance over time.

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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. 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. 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.

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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