CHIEF INVESTMENT OFFICE

# Capital Market Outlook

December 13, 2021

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

## IN THIS ISSUE

**Macro Strategy—**The U.S. trade-weighted dollar remains overvalued, much as we anticipated one year ago, and may well be able to maintain its balancing act over the next year. Consensus expectations remain timid, reflecting a continued reluctance to bet against the greenback. It's hard to rule out upside surprises or dismiss downside risks to the dollar.

**Global Market View—**In the spirit of the holidays, we've compiled a wish list based on the most important underpinnings to our 2022 outlook. After a year of upside surprises to both growth and investment returns, our base case for 2022 is for Equity outperformance to continue, backed by still-better-than-expected earnings growth and strong consumer and corporate fundamentals.

**Thought of the Week—**High-growth stocks have pulled back in recent weeks, especially those with negative free cash flows and low profitability. In our view, reasons for the dip include a more hawkish Federal Reserve (Fed), increased expectations for elevated inflation and interest rates, and end of year shifts in investor positioning.

**Portfolio Considerations—**We expect a grind-it-out market environment in which valuations could remain flat or slightly decline but with profit growth to supersede this and Equity outperformance to continue. Within Fixed Income, we favor credit overall especially Investment-grade, and also prefer municipals relative to Treasurys. We continue to maintain a shorter duration stance. Qualified investors could also consider opportunities in Alternative Investments, which could add another layer of diversification to a portfolio.


MACRO STRATEGY

**Chief Investment Office**
**Macro Strategy Team**

GLOBAL MARKET VIEW

**Lauren J. Sanfilippo**
Vice President and Senior Investment Strategy Analyst

THOUGHT OF THE WEEK

**Emily Avioli**
Assistant Vice President and Investment Strategist


**Data as of 12/13/2021, and subject to change**

## MACRO STRATEGY

### The Balancing Dollar

*Chief Investment Office*, Macro Strategy Team

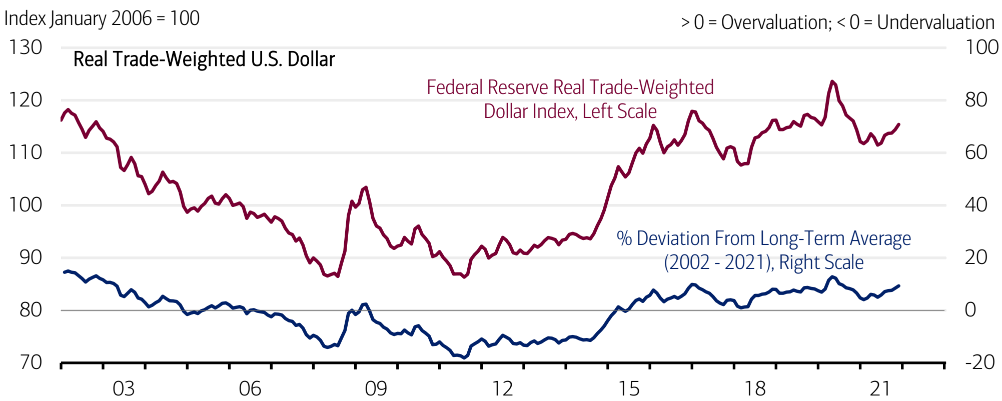
Free-floating currencies are always doing a balancing act amid the push and pull of domestic and external economic, financial and political crosscurrents—and the dollar's balancing act has become more precarious because of the avalanche of fiscal and monetary stimulus poured into the economy since the pandemic erupted and other forces that are lifting inflation substantially. However, we surmise that the dollar may still have a strong enough backbone to navigate multiple crosscurrents without necessarily yielding much ground over the next year. While the dollar is currently overvalued on a trade-weighted basis, it should help that it is not expensive across the board. It also helps that the Fed is pivoting in the right direction and that our gargantuan federal budget deficit is shrinking.

### Qualified Overvaluation

In our December 21, 2020, Capital Market Outlook, *Dollar Discoloration*, we noted that the U.S. dollar was overvalued on a trade-weighted basis but not against all foreign currencies. Our recent analysis suggests that this is still the case. Moreover, the greenback's overvaluation may not necessarily evaporate over the coming year.

Our review of 33 foreign currencies shows that, in Q3 2021, the dollar was overvalued against 15 of them, fairly valued against 10 other currencies, and undervalued against eight other units. All these individual valuations translate into about a 7% overvaluation of the trade-weighted dollar, which is about as reflected in even the simplest valuation measure for the Fed's Real Trade-Weighted Dollar Index. The overvaluation widened some in October and November (Exhibit 1).

**Exhibit 1: U.S. Trade-Weighted Dollar Still Flying High And Still Overvalued.**




Source: Federal Reserve Board/Haver Analytics. Data as of December 1, 2021.

The dollar is overvalued against two of the 10 major foreign units we track (the yen and the Swedish krona); it is fairly valued against five others (the Australian and Canadian dollars, the euro, the Norwegian krone and the Swiss franc) and undervalued against the Danish krone, British pound and the New Zealand dollar. As for emerging market currencies, the dollar is overvalued against 13 (including the units of Mexico, South Korea and Taiwan); it is fairly valued against five other currencies (including China's)—and it is undervalued against another five units, including Vietnam's and Russia's currencies. It is worth noting that the Turkish lira had become fairly valued in Q3 2021 but no longer is. It has dropped, as the central bank is being forced by the government to cut rates despite soaring inflation.

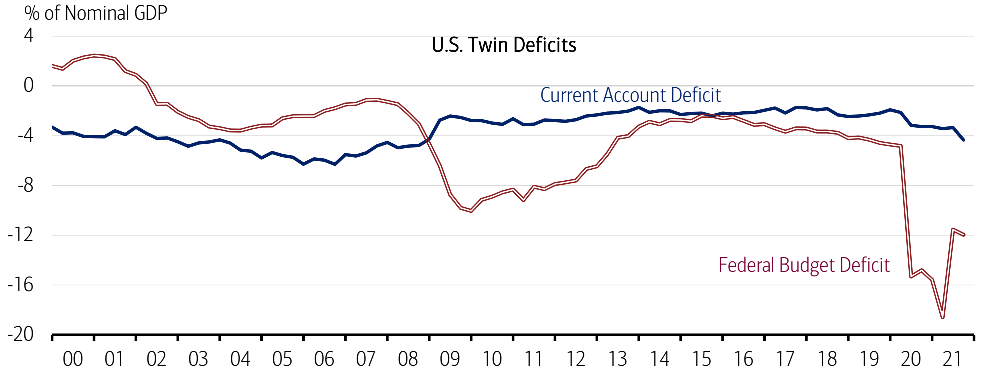
In our view, this blend of valuations against foreign currencies suggests that the trade-weighted dollar's overvaluation is more resilient than it would be if the greenback were overvalued against all foreign units—and particularly against our biggest trading partners' units. For example Canada, China, the eurozone and Mexico account for over 60% of U.S. goods trade flows (exports and imports), but the U.S. dollar is fairly valued relative to the first three currencies and overvalued only against Mexico's unit.

### Firepower Under Fire

The fiscal and monetary explosion we saw here and abroad last year is still smoldering, and the resulting rise in inflation is exerting growing pressure, mainly on central banks, to begin tightening policy. The Fed has begun tapering asset purchases and is inclined to speed up the process. Governments face relatively less pressure at this point, as several emergency benefit programs have expired, and there is generally less stimulus in the pipeline. Though ambitious fiscal spending plans are still being pursued in the U.S., our fiscal deficit is shrinking, which should at least temper downside to the dollar (Exhibit 2). Indeed, consensus expectations envision a federal budget deficit in fiscal year 2022 of

$1.48 trillion, equivalent to roughly 6% of gross domestic product (GDP), compared to the $2.77 trillion gap (12% of GDP) for fiscal year 2021. Our smaller Achilles' heel, the current account deficit, should begin improving as services trade recovers more fully with the reopening of international borders. Consensus expectations see this deficit stabilizing this year at -3.5% to -4% of GDP and subsequently shrinking to a sustainable -2% to -3% range.

**Exhibit 2: U.S. Running On Two Achilles' Heels With Some Cushion.**




Sources: U.S. Treasury; Bureau of Economic Analysis/Haver Analytics. Data as of December 7, 2021.

As for the rest of the world, at least 20 emerging market central banks had begun raising interest rates a few months ago, and some advanced economies' central banks began taking action more recently. New Zealand, Norway and Iceland have raised rates slightly, the Bank of Canada (BOC) has ended asset purchases and the Reserve Bank of Australia (RBA) its yield curve control program. The European Central Bank (ECB) is trimming its pandemic emergency purchases. It sees above-average inflation as transitory, so it is expected to continue conventional asset purchases for longer than should be the case for the Fed or the Bank of England (BOE).The ECB is no longer viewed as more hawkish than other central banks, having adjusted earlier this year its monetary policy framework in the same direction as the Fed's shift to average inflation. The BOE is worried about rising inflation and the tightening labor market but is waiting to see the effect on the labor market of the expiration of the furlough scheme before deciding on rate hikes. Thus, U.K. tightening in coming months cannot be ruled out.

The Bank of Japan (BOJ) has yet to conquer deflation, so it continues targeting yields, while the government continues injecting stimulus. The latest supplementary budget plan (¥57 trillion or 10% of GDP) is reportedly padded with loans and recycled funds from previous budgets. New fiscal spending estimated to be ¥33 trillion, or 6% of GDP. This would be less than last year's plan, but at least ¥10 trillion of that plan has not been spent.

### Balancing Forward

The growth path in the foreseeable future for the U.S. and the rest of the world is paved with persisting shortages and rising inflation, yet another emerging pandemic wave, less fiscal stimulus in the pipeline, and incipient monetary tightening. All this could trigger some turbulence in coming months but may not necessarily empower bets against the dollar, given the tendency for the U.S. economy to surprise to the upside.

At this point, consensus expectations for 33 individual foreign currencies relative to the dollar are very mixed, and they translate into about a 1% decline in the U.S. trade-weighted dollar. This is even more modest than expectations for recent years have been. Most of that decline is expected to be driven by some appreciation in most major foreign currencies, some Central/East European currencies and some Latin American currencies. However, most emerging Asia currencies, including the yuan, are expected to depreciate some against the dollar.

The dollar's balancing act could become somewhat trickier to sustain if the trajectory of consensus expectations for growth and inflation in the U.S. versus the rest of the world remains adverse. Inflation expectations for the U.S. continue rising and are thus biting harder into growth expectations than is the case for overseas inflation versus overseas growth expectations. While above-trend growth here and abroad in 2022 is still expected, the U.S. economy is seen growing a bit more slowly than the rest of the world as a whole, while U.S. inflation is expected to slow, keeping pace with the rest of the world. On balance, these relative expectations are consistent with some downside to the dollar.

The bottom line is that the U.S. dollar may be able to maintain its balancing act over the next year, but one cannot rule out upside to the dollar nor dismiss downside risks.

GLOBAL MARKET VIEW

## Our Wish List for a Happy Holiday and 2022 Outlook

*Lauren J. Sanfilippo,* Vice President and Senior Investment Strategy Analyst

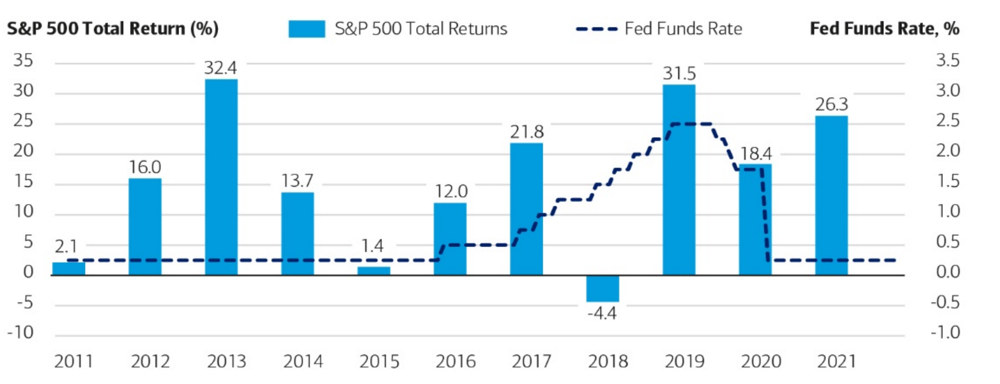
Given the return of the holiday season and in light of anticipated shortages/supply chain disruptions, this year's wish list couldn't have been written early enough. After a year defined by upside surprises to both growth and investment returns, really, what more could investors ask for this holiday season? Looking at an exceptional run over the past three years, U.S. Equity markets[1] returned around 80% with annual performances in excess of 15%.

Coming off of such breakneck pace, and heading into 2022, we see more moderate upside compared to recent years, but still-better-than-expected earnings growth, healthy consumer balance sheets, and elevated corporate liquidity, leaving us with real growth and equity returns closer to their long-term averages. So in the true spirit of the holidays, below we've compiled a wish list based on the most crucial underpinnings to our 2022 outlook.

### WISH 1: Gifting Markets With Reasonable Growth and Inflation

For most of this year, nominal growth has been running at over 10%, while inflation prints have consistently come in above the Fed's flexible target of 2%. Effecting growth on a one-year lag is the ultimate gift that keeps on giving—the Fed's extraordinary monetary stimulus, which has fueled M2 (measure of the money supply) growth to $21 trillion (up 13% year-over-year in October). The Fed's GDPNow forecast for growth in Q4 is running at 8.6%,[2] which would land the highest quarterly growth for all of 2021. More subdued growth next year is likely, in our view, with a decrescendo over the second half of 2022 as the Fed begins to tighten policy rates.

**Exhibit 3: S&P Total Returns and the Fed Funds Rate.**




Source: Bloomberg. Data as of December 7, 2021. **Past performance is no guarantee of future results.**

As markets discount concerns over growth and inflation for next year, indicators for the S&P 500 remain bullish—forward revenues, earnings and profit margins continue to rise

[1] As measured by the S&P 500 Index. Data as of 12/07/2021.

[2] Fed GDPNow model as of December 7, 2021.

against climbing inflation and in anticipation of policy tightening. History suggests that rate hikes aren't necessarily a fundamental negative for the S&P 500, as higher stock prices can coexist and tolerate a fed funds rate that is moving up (Exhibit 3). It was after nine rate hikes in 2018 that the S&P 500 peaked toward year end, ultimately ending the year in the red.[3] BofA Global Research suspects the Fed will begin liftoff in June 2022, with risks to March, beginning with two hikes in 2022, three hikes over 2023 and three hikes for 2024.

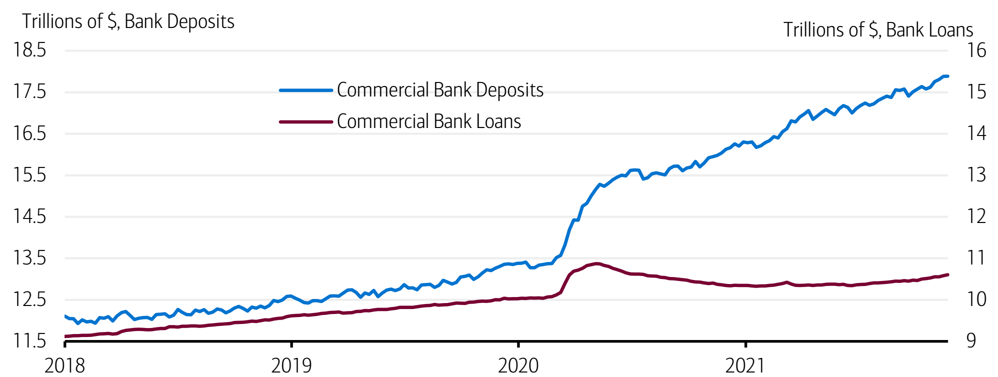
**WISH 2: Decking the Halls: Strong Corporate and Consumer Fundamentals**

U.S. earnings growth peaked in Q2 of 2021 at 88.5%, reached 39% in Q3, and could hover around 19% this quarter, according to current estimates. Impressively, operating margins for the S&P 500 are higher than pre-pandemic levels, rising to 13% for the S&P 500, compared to an average closer to 7%. Also elevated are margins for both small- and mid-cap companies at 8.5% for S&P 400 (mid-cap) and 6.9% for S&P 600 (small-caps), as companies across the size spectrum have successfully passed on costs or managed costs through productivity improvements. Going into next year, we expect robust corporate fundamentals, with earnings revisions ratios strengthening for the U.S. as seen in November.[4]

In addition, the capital return story through several avenues (growing dividends or share buybacks), inventory rebuild, and low cost of capital should support earnings growth around 7% with room to the upside. According to S&P Global, total shareholder return of buybacks and dividends in Q2 2021 stood at $322 billion. Buyback activity for the first half of 2021 totaled $377 billion, up 31% from first half of 2020, and could breech an estimated $1 trillion by the end of the year. A stable and consistent story has unfolded for dividends, totaling $123 billion in Q2, up 4% on Q2 2020.[5]

Similarly, U.S. household balance sheets are in the best financial shape they've been in years, supported by wage growth and unprecedented wealth. Still ahead: inflated bank deposits and underutilized bank loans have diverged, as seen in Exhibit 4. Although the two normally closely track one another, in recent months there's been a widening divergence between them with deposits totaling $17.8 trillion and loans totaling $10.6 trillion. A New York Fed credit access survey also reveals increased demand for borrowing, with credit card applications and credit limit increases as consumers gear up for what they expect will be tighter financing conditions ahead.

**Exhibit 4: Deposits and Loans Have Diverged Over The Second Half Of 2020 and Into 2021.**



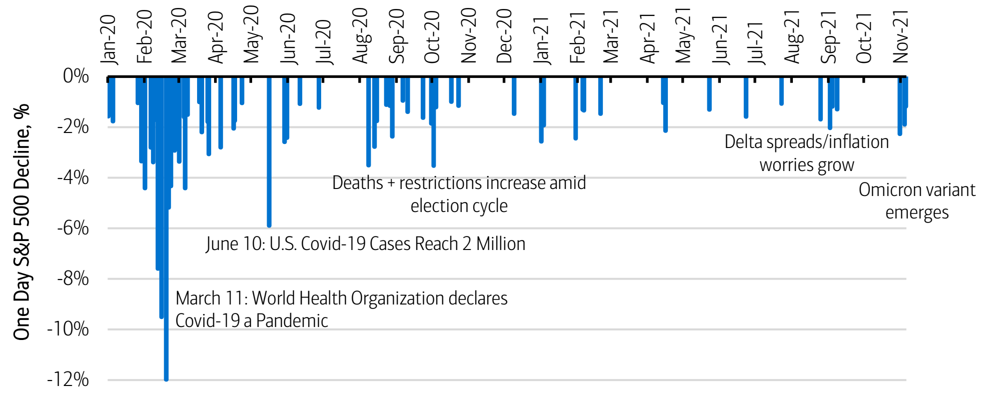

Source: Federal Reserve. Data as of November 24, 2021.

[3] Evercore ISI, Research December 2021.
[4] BofA Global Research, November 2021.
[5] S&P Global, September 23, 2021.

**WISH 3: Markets Get Cozy with Coronavirus**

Unfortunately, just as sleigh bells began ringing so too did alarm bells over the Omicron variant. As a source of volatility for markets, two years on from the first case of SARS-CoV-2, coronavirus-associated market panic and declines have become both milder and shorter compared to earlier waves, as seen in Exhibit 5. Unsettling to the S&P 500, March 16, 2020's 12% single-day decline rivals the one-day market decline on Black Monday or Black Tuesday, (October 28 and 29 of 1929). So far, and with each successive wave, the market's panic-driven volatility has been followed by a recovery to a new market high. News on the Omicron variant spooked markets on Friday, November 26, the day after Thanksgiving, with the S&P 500 dropping 2.3%, a muted reaction compared to earlier waves. Markets haven't always moved in magnitude with caseloads or the human toll of the pandemic but have often discounted other factors, such as vaccine progress, on the health front more heavily. And to mention, there has been a varying effect on other measures such as consumer confidence/spending patterns. Being priced into markets, as most scientists and medical professionals agree, SARS-CoV-2 is likely ending in some form of endemicity with tools such as testing, tracking and tracing, and treatments such as oral drugs and monoclonal antibodies as the bridge.

**Exhibit 5: To the Downside: One-day S&P 500 Declines.**




Sources: Bloomberg; Axios; New York Times. Data as of December 7, 2021.

With ample uncertainty as the new year begins, what's especially clear is what's not on our wish list: a coronavirus variant able to evade vaccinations to a high degree; runaway inflation; an overly aggressive tightening of financial conditions—all of the above bah-humbug scenarios would materially affect the outlook and portfolio positioning.

Given our base case, and from an investment perspective, we continue to see upside gains for U.S. Equities over the course of 2022 and continue to prefer cyclical, reflationary positioning, given the rotation we see ahead toward these areas and throughout 2022. Among sectors, we have a preference for Industrials, Materials, Energy and Financials but also Technology. As the cyclical and Value segments continue their back and forth with the growth side of the market, we view any pullback as an opportunity to add to cyclical areas of the market. Weakness on concerns that fundamentally do not alter the investment terrain or growth curve are potential buying opportunities from our perspective, with an eye toward high-quality, free cash flows and dividend growth all as attractive features.

THOUGHT OF THE WEEK

## High-Growth Stocks Are Stalling

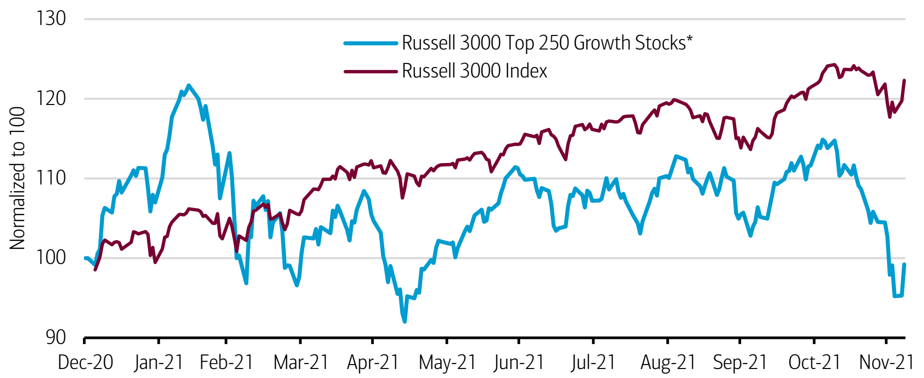
*Emily Avioli,* Assistant Vice President and Investment Strategist

High-growth and extremely high-valuation stocks experienced some sharp pullbacks in recent weeks (Exhibit 6). Drilling down a bit further, we find that Growth stocks with low profitability and negative free cash flows have been hit particularly hard.[6] We see a few

[6] Empirical Research, December 8, 2021.

reasons for this dip, including a more hawkish Fed, increased expectations for elevated inflation and interest rates, and end-of-year shifts in investor positioning.

**Exhibit 6: High Growth Stocks Have Recently Underperformed.**




*Russell 3000 Top 250 Growth Stocks refers to the stocks in the index with the highest 3-year-average sales growth as of December 7, 2021. Source: Bloomberg. Data as of December 7, 2021. Total returns displayed. **Past performance is no guarantee of future returns.**

In recent weeks, investors have digested a variety of economic data suggesting that higher levels of inflation are here to stay. Fed Chairman Jerome Powell recently added to expectations that inflation will be persistent by retiring the use of the word 'transitory.' As a result, investors are anticipating an accelerated tapering timeline and a pull forward in forecasts for interest rate hikes. High-valuation stocks historically see multiple compression when interest rate expectations rise and actual interest rates move higher. The confluence of these developments has likely weighed on high-growth stocks.

Higher inflation paired with higher interest rates creates an unfavorable backdrop for high-growth and high-valuation equities, as they typically have long durations and high valuation multiples. Their price is largely tied to their terminal value since they have limited near-term profits, so an increase in the discount rate (interest rate) has a direct and immediate negative effect on present value. It's been a while since investors have experienced this type of environment, and signals that we're potentially moving toward it have created some tremors in the high-growth area of the market.

Shifts in investor positioning are also a likely factor for the recent sell-off. Long-term holders of these equities may be selling to try to lock in profits that have accrued during the drawn-out stretch of relative outperformance for Growth stocks. In addition, many of these high-growth stocks are crowded positions—meaning they are stocks owned by many different investors including large institutional investors, hedge funds, passive funds and retail investors. There may have been some forced selling by institutional investors when these stocks turned sharply lower and started to threaten year-end portfolio performance.

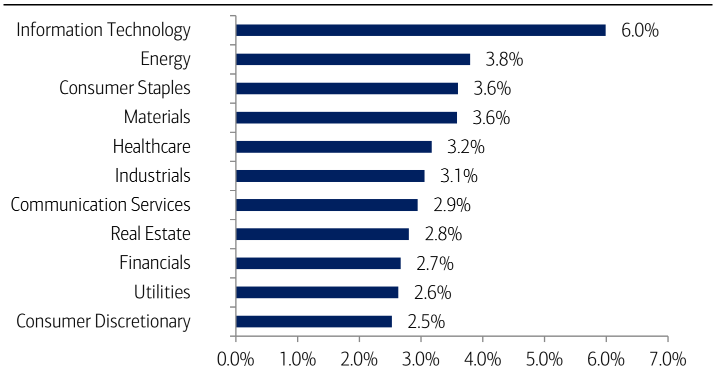
On balance, we continue to suggest appropriate allocations to Growth as part of a disciplined long-term financial strategy. Investors may want to consider emphasizing high-quality Growth equities with strong earnings and medium durations, when appropriate.

## MARKETS IN REVIEW

### Equities

| | Total Return in USD (%) | | | |
|---|---|---|---|---|
| | Current | WTD | MTD | YTD |
| DJIA | 35,970.99 | 4.0 | 4.4 | 19.7 |
| NASDAQ | 15,630.60 | 3.6 | 0.6 | 22.0 |
| S&P 500 | 4,712.02 | 3.8 | 3.2 | 27.2 |
| S&P 400 Mid Cap | 2,779.84 | 2.9 | 2.7 | 21.9 |
| Russell 2000 | 2,211.81 | 2.4 | 0.6 | 13.0 |
| MSCI World | 3,188.26 | 3.3 | 2.8 | 20.1 |
| MSCI EAFE | 2,289.62 | 2.4 | 3.0 | 9.0 |
| MSCI Emerging Markets | 1,238.54 | 1.1 | 2.2 | -2.2 |

### S&P 500 Sector Returns




### Fixed Income†

| | Total Return in USD (%) | | | |
|---|---|---|---|---|
| | Current | WTD | MTD | YTD |
| Corporate & Government | 1.67 | -0.92 | -0.46 | -1.88 |
| Agencies | 1.14 | -0.35 | -0.34 | -1.34 |
| Municipals | 1.12 | -0.02 | 0.05 | 1.40 |
| U.S. Investment Grade Credit | 1.76 | -0.72 | -0.39 | -1.67 |
| International | 2.35 | -0.95 | -0.35 | -1.31 |
| High Yield | 4.47 | 0.65 | 1.06 | 4.44 |
| 90 Day Yield | 0.05 | 0.04 | 0.05 | 0.06 |
| 2 Year Yield | 0.65 | 0.59 | 0.57 | 0.12 |
| 10 Year Yield | 1.48 | 1.34 | 1.44 | 0.91 |
| 30 Year Yield | 1.88 | 1.67 | 1.79 | 1.64 |

### Commodities & Currencies

| | Total Return in USD (%) | | | |
|---|---|---|---|---|
| Commodities | Current | WTD | MTD | YTD |
| Bloomberg Commodity | 206.94 | 1.2 | 1.1 | 24.2 |
| WTI Crude $/Barrel†† | 71.67 | 8.2 | 8.3 | 47.7 |
| Gold Spot $/Ounce†† | 1782.84 | 0.0 | 0.5 | -6.1 |

| | Total Return in USD (%) | | | |
|---|---|---|---|---|
| Currencies | Current | Prior Week End | Prior Month End | 2020 Year End |
| EUR/USD | 1.13 | 1.13 | 1.13 | 1.22 |
| USD/JPY | 113.44 | 112.80 | 113.17 | 103.25 |
| USD/CNH | 6.38 | 6.37 | 6.37 | 6.50 |

Sources: Bloomberg, Factset. Total Returns from the period of 12/6/2021 to 12/10/2021. †Bloomberg Barclays Indices. ††Spot price returns. All data as of the 12/10/2021 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.**

### Asset Class Weightings (as of 12/7/2021)

| Asset Class | CIO View: Underweight | | Neutral | Overweight | |
|---|---|---|---|---|---|
| Global Equities | | | | ● | |
| U.S. Large Cap Growth | | | ● | | |
| U.S. Large Cap Value | | | | ● | |
| U.S. Small Cap Growth | | | | ● | |
| U.S. Small Cap Value | | | | ● | |
| International Developed | | | ● | | |
| Emerging Markets | | | ● | | |
| Global Fixed Income | | ● | | | |
| U.S. Governments | | ● | | | |
| U.S. Mortgages | | | ● | | |
| U.S. Corporates | | | | ● | |
| High Yield | | ● | | | |
| U.S. Investment Grade Tax Exempt | | | ● | | |
| U.S. High Yield Tax Exempt | | ● | | | |
| International Fixed Income | ● | | | | |
| Alternative Investments* | | | | | |
| Hedge Funds | | | ● | | |
| Private Equity | | | ● | | |
| Real Assets | | | ● | | |
| Cash | | | | | |

*Many products that pursue Alternative Investment strategies, specifically Private Equity and Hedge Funds, are available only to qualified investors.
CIO asset class views are relative to the CIO Strategic Asset Allocation (SAA) of a multi-asset portfolio.

### Economic Forecasts (as of 12/10/2021)

| | 2021E | Q1 2022E | Q2 2022E | Q3 2022E | Q4 2022E | 2022E |
|---|---|---|---|---|---|---|
| Real global GDP (% y/y annualized) | 5.8 | - | - | - | - | 4.3 |
| Real U.S. GDP (% q/q annualized) | 5.6 | 4.0 | 4.0 | 3.0 | 2.0 | 4.0 |
| CPI inflation (% y/y) | 4.7 | 6.8 | 5.5 | 4.5 | 3.1 | 5.0 |
| Core CPI inflation (% y/y) | 3.6 | 6.0 | 5.0 | 4.4 | 3.5 | 4.7 |
| Unemployment rate (%) | 5.4 | 3.9 | 3.7 | 3.6 | 3.5 | 3.7 |
| Fed funds rate, end period (%) | 0.13 | 0.13 | 0.38 | 0.63 | 0.88 | 0.88 |

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.
**Past performance is no guarantee of future results. There can be no assurance that the forecasts will be achieved. Economic or financial forecasts are inherently limited and should not be relied on as indicators of future investment performance.**
A = Actual. E/* = Estimate.
Sources: BofA Global Research; GWIM ISC as of December 10, 2021.
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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** is a stock market index that measures the stock performance of 500 large companies listed on stock exchanges in the United States. It is one of the most commonly followed equity indices.

**S&P 400 Index** serves as a barometer for the U.S. mid-cap equities sector and is the most widely followed mid-cap index.

**S&P 600 Index** covers roughly the small-cap range of American stocks, using a capitalization-weighted index.

**Federal Reserve (Fed) Real Trade-Weighted Dollar Index** is an index created by the Fed to measure the value of the USD, based on its competitiveness versus trading partners.

**Russell 3000 (Growth) Index** is a capitalization-weighted stock market index that seeks to be a benchmark of the entire U.S stock market.

## Important Disclosures

**Investing involves risk, including the possible loss of principal. Past performance is no guarantee of future results.**

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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. 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. 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.

**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.