CHIEF INVESTMENT OFFICE

Capital Market Outlook

December 14, 2020

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

IN THIS ISSUE:

- Macro Strategy—The global economy is expected to rebound in 2021, with the U.S. economy poised for its fastest rate of growth in decades. Below we summarize our key macro views heading into the new year, including risks to our outlook. In short: aggressive monetary and fiscal stimulus, faster economic growth, a pickup in inflation, higher long-dated Treasury yields, a neutral-to-slightly weaker U.S. dollar, and strong profits growth with supportive margins. This is a positive backdrop for equities.
- Global Market View—Globalization is alive and well for a number of reasons, ranging from the rebound in global trade to the "sticky" nature of global supply chains. For Corporate America, this entails more foreign trade and investment, rising overseas earnings, lower costs, and greater operating efficiencies—all of which are bullish for U.S. equities.
- Thought of the Week—The outlook for small-caps has gotten more constructive given attractive relative valuations, rising earnings revisions, potential for a global synchronized growth environment, and favorable central bank liquidity and financial conditions.
- Portfolio Considerations—Headline risk is likely to keep investor risk aversion and cash allocations high, and we expect this to lead to a "seesaw" investment environment well into November. We would use major weakness in equity markets as a buying opportunity for those who have at least a six-month-or-longer time horizon.

MACRO STRATEGY

Jonathan W. Kozy
Director and
Senior Macro Strategy Analyst

GLOBAL MARKET VIEW

Joseph P. Quinlan
Managing Director and
Head of CIO Market Strategy

Lauren J. Sanfilippo
Vice President and
Investment Strategist

THOUGHT OF THE WEEK

Niladri "Neel" Mukherjee
Managing Director and
Head of CIO Portfolio Strategy

Data as of 12/14/2020, and subject to change

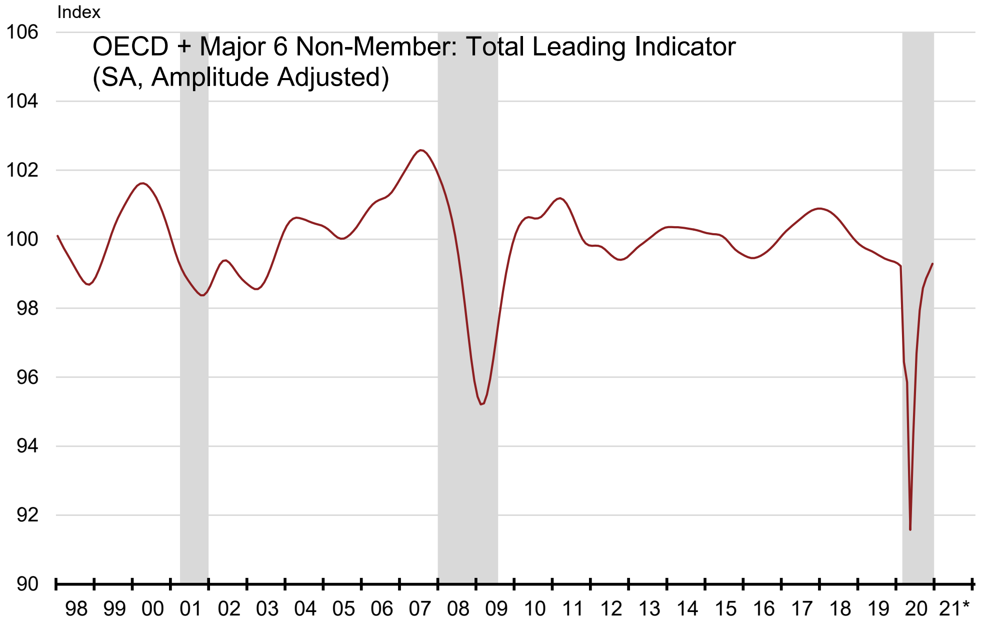
MACRO STRATEGY

Macro Views for 2021

Jonathan W. Kozy, Director and Senior Macro Strategy Analyst

Global economic growth: Aggressive monetary and fiscal stimulus continue to support a positive, self-reinforcing growth dynamic that is expected to receive an additional boost from vaccinations, unleashing pent-up demand all over the world next year. Global leading economic indicators reflect this confluence of factors (Exhibit 1). Strong growth in the U.S. and China, the two largest economies in the world, should lead the way, in our view. The U.S. economy could be poised for its fastest rate of growth since the early 1980s.

Exhibit 1: V-Shaped Recovery in Global Leading Economic Indicator Signals Solid Growth Recovery in 2021.



*Estimate. Sources: Organisation for Economic Cooperation & Development/Haver Analytics. Data as of December 8, 2020. **Past performance is no guarantee of future results.**

U.S. Consumer Spending: The U.S. consumer will likely be a solid pillar of support in 2021. With the help of fiscal stimulus, the personal savings rate is relatively high, while at the same time, wealth is rising (rising home and equity prices are helping), and financial obligations are low, a powerful setup for consumer spending in 2021. Consumers have room to lever up. Pent-up demand for high-contact leisure activities is expected to provide a significant spark if vaccinations are effective in gradually reducing the associated risk. Jobs are expected to also rebound rapidly in these industries. Like overall real gross domestic product (GDP) growth, real consumer spending growth could set up for a multi-decade record.

Labor Market: Job and wage growth should be supportive of consumer spending in the year ahead, and we expect the unemployment rate to drop below 5.0% by year end. Vaccinations will play a key role in opening up hiring in contact services industries where millions of workers remain out of work. While job growth may slow until vaccination picks up, small business survey data like the National Federation of Independent Business (NFIB) survey and Job Openings and Labor Turnover Survey (JOLTS) data from the Bureau of Labor Statistics point to still-high job openings at the same time that some industries struggle to find qualified workers. Leading indicators of employment like the Conference Board Employment Trends Index™ continue to move higher. Vaccination setbacks and structural unemployment are considered risks.

U.S. Housing: Residential construction is estimated for another strong year in 2021 even if existing home sales slow and home price growth normalizes. Favorable demographics, high liquid consumer savings, low financial obligations relative to disposable income, decent job growth, record-low mortgage rates, and incredibly lean inventories for both new and existing homes should give the housing boom legs. Homebuilder confidence is at an all-time high, well above the high reached during the housing expansion in the mid-2000s. Key risks may include affordability, loose lending practices from nonbank lenders, structural unemployment, or a cyclical labor market shock.

Inflation: Inflation growth should pick up in the first half of the year and eventually will run above the Federal Reserve's (Fed's) 2.0% target, in our view. After years of missing its 2.0% inflation target, the combination of the Fed's new monetary framework and massive fiscal stimulus could be a game changer. Technical factors should also play a role for the calendar-year outlook. Core Personal Consumption Expenditures (PCE) inflation bottomed in April 2020, likely setting up positive year-over-year base effects for April 2021. About this time, vaccines should be reaching the most vulnerable and gaining traction more broadly, unleashing pent-up consumer spending. This pent-up demand should combine with capacity constraints in many industries that would keep upward pressure on prices. Under the Fed's new framework, though, it will hold the line on accommodative monetary policy, reinforcing inflation expectations. For the year, core PCE inflation should average near or above the Fed's 2.0% target.

Profits: The profits rebound already underway will help to reinforce the broader economic cycle in 2021. Companies would use profits to invest in productivity-enhancing technology and people. Corporate profits at the economywide level reached a record high in the third quarter. The profits cycle will be supported, in our view, by elevated margins, which also surged in the third quarter with after-tax profit margins for nonfinancial companies near a record high. Low interest costs should support margins even as labor costs pick up. Importantly, a pickup in productivity will likely serve to ease these labor cost pressures and support margins.

U.S. Equities: The economic growth and profits outlook for 2021 and 2022 is encouraging for U.S. equity performance next year. The Organisation for Economic Co-operation and Development (OECD) is forecasting faster economic growth in the U.S. in 2022 than in 2021 (3.5% versus 3.2%). The BofA Global Research Global Wave is showing a cyclical upswing in the global manufacturing cycle and earnings revisions. While historical valuations are a longer-term headwind, equity valuations relative to fixed income remain attractive. Monetary and fiscal stimulus remains on standby next year in the event of a coronavirus resurgence or an unexpected deflationary shock.

Fixed Income: The Fed is expected to keep short yields anchored near zero, but rising growth and inflation expectations will likely continue to push longer-dated Treasury yields higher, steepening the yield curve. BofA Global Research expects the 10-year Treasury yield to reach 1.5% by the end of 2021. The profits backdrop, including the likelihood for margins to remain elevated, should be supportive of corporate credit, but rising nonfinancial corporate leverage is worth watching and favors high-quality corporates.

Dollar: The broad, trade-weighted U.S. dollar remains slightly overvalued even after the greater-than-10% depreciation[1] since the March highs. Valuations have mostly normalized for the dollar versus the euro, the largest component of trade- and liquidity-weighted indexes. A pickup in global growth outside the U.S., positive risk sentiment and the likely path of the Fed monetary policy will keep downward pressure on the dollar, but the pace of depreciation could slow from here. The dollar should continue to be the preferred currency if bouts of risk-off sentiment occur in the new year.

Risks: Election risk around the Georgia Senate runoffs are an early risk. Other risks include: Premature monetary or fiscal tightening; disappointing vaccine results (in effectiveness or uptake, for example); structural economic scarring; U.S.-China relations (Taiwan is a notable flashpoint); the buildup of nonfinancial corporate leverage; and a bubble-watch from massive global liquidity injections.

[1] Source: Bloomberg Dollar Index, as of November 2020.

GLOBAL MARKET VIEW:

Bullish Indicator: Globalization Is Far From Dead

Joseph P. Quinlan, Managing Director and Head of CIO Market Strategy

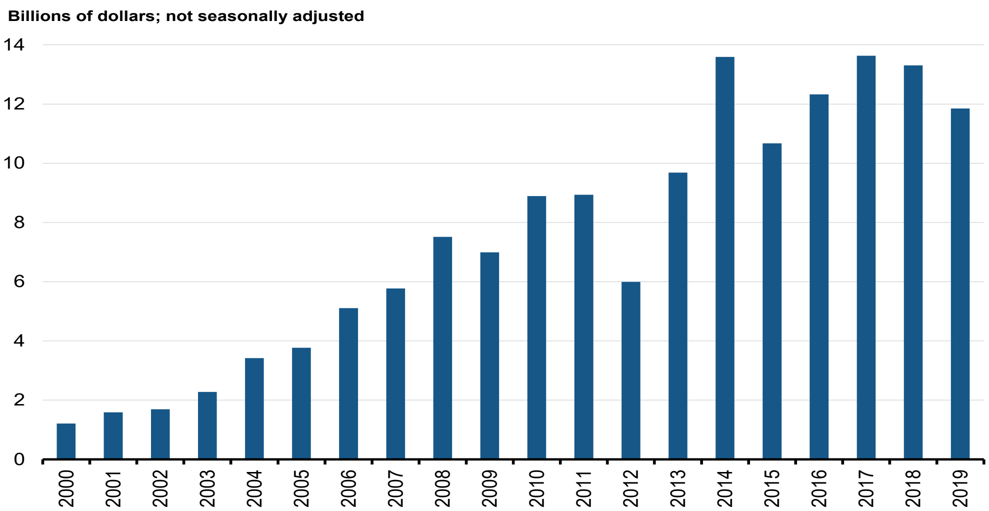
Lauren J. Sanfilippo, Vice President and Investment Strategist

There is no arguing the fact that over the near term the rise in populism, the spread of protectionism, and the decimating economic effects of the pandemic have dealt a blow to a more integrated global economy. Yet despite these headwinds, the demise of globalization—or the unfettered flow of crossborder movement of goods, services, capital, data and people—has been greatly exaggerated. As we discuss below, many factors suggest that globalization's obituary be placed on hold.

First, a more multilaterally minded Biden administration may yet reboot globalization and opt to strengthen the pillars of global integration. President-elect Biden's Cabinet appears to be full of globally minded policymakers who are more welcoming of greater global integration, not less. Reflecting this DNA, the Biden administration looks to be intent on working with U.S. allies in promoting smoother trade and investment agreements (think the European Union, Japan, and a host of Asian states); is more amendable to working within multilateral constructs like the Paris Climate Agreement and World Trade Organization; and even hopes to reset U.S.-Sino trade relations after four tumultuous years of tit-for-tat trade and investment restrictions. We don't expect the administration to rewind the clock on U.S.-China trade, but we do think the bilateral rancor of the past will likely be dialed back and become less unpredictable and uncertain. All of the above suggests more globalization, not less, over the next four years.

Second, for all the chatter about "onshoring" and "reshoring", and firms decamping en masse China, there is little evidence thus far to suggest a whole scale change in this direction. Indeed, according to a survey conducted by the U.S.-China Business Council, very few U.S. firms have moved or plan to move out of China.[2] The reason: China's market is just too large and lucrative for U.S. firms not to be there; to this point, Exhibit 2, which shows a more-than-six-fold increase in U.S. foreign affiliate income in China since the start of the century. Meanwhile, foreign direct investment inflows to China totaled $76 billion in the first half of 2020, a 4% year-over-year decline, which was much lower than expected and counter to the-everyone-is-bolting–China narrative. In contrast, foreign direct investment (FDI) inflows to the U.S. declined a stunning 61% over the same period, and were some one-third less ($51 billion) than inflows to China (Exhibit 3).

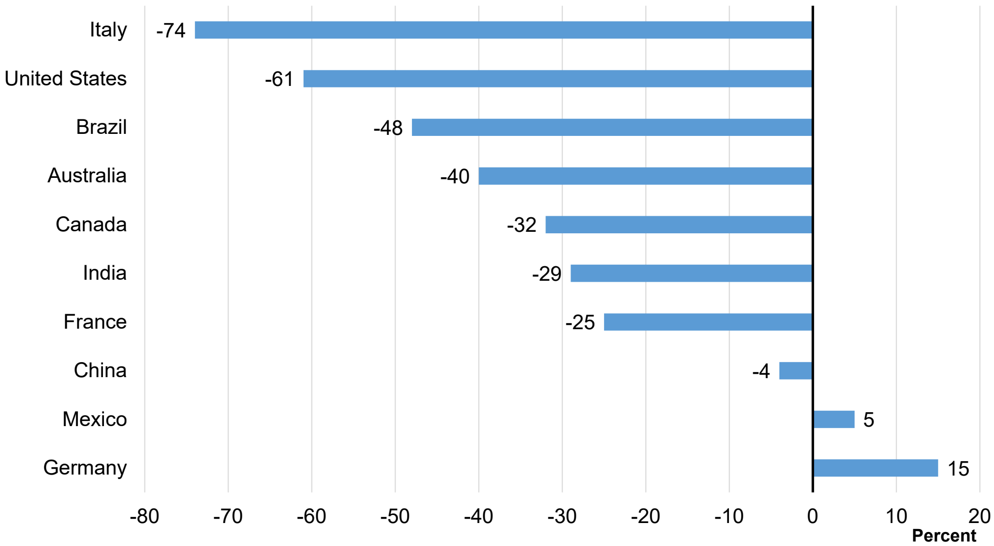
Exhibit 2: U.S. Affiliate Income Earned in China.



Sources: Bureau of Economic Analysis. Data only available on a yearly basis through 2019 but retrieved on November 24, 2020.

[2] See, "Special Report: The World Economy," The Economist, October 10, 2020.

Exhibit 3: Change In First-Half 2020 FDI Inflows For The Top 2019 Recipient Economies.



Sources: UNCTAD. Data as of June 2020.

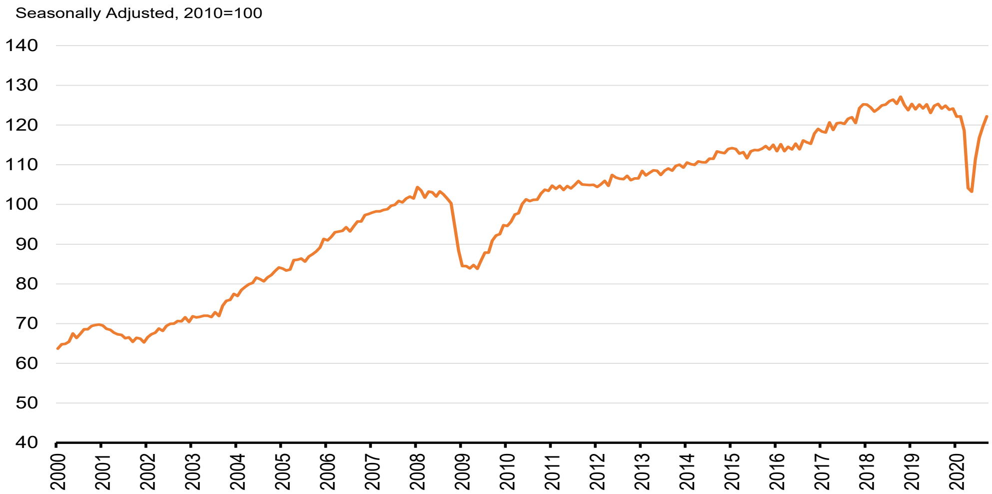
Third, and related to the above, global supply chains are rather "sticky' in nature given the high fixed costs that come with offshoring or setting up foreign operations.[3] "Reshoring," meanwhile, is expensive and costly, and entails significant additional fixed costs most firms are unwilling to undertake. As a case in point, Philips, one of the largest manufacturers of ventilators, identified that in one machine there are 621 crucial components that were designed, produced and assembled all over the world. The upshot: Replicating the entire supply chain would be expensive, inefficient, and a drag on future earnings, and hence inertia around "reshoring."[4]

Fourth, U.S. multinationals are not about to give up on being "multinational" any time soon because they simply can't afford to. The future earnings growth of many firms depends on accessing foreign markets and overseas resources given that the U.S. economy accounts for only one-quarter of world GDP and less than 5% of the world population. In other words, when it comes to global supply and demand, there is a great deal of both beyond U.S. shores. The activities of multinationals (i.e., crossborder investment, technology transfers, employment, trade, etc.) will likely remain the glue of globalization.

Fifth, while export restrictions have soared over the past year—the International Monetary Fund (IMF) counted 120 such restrictions last year—the pandemic-induced decline in global trade has not been as bad as first predicted by the World Trade Organization (WTO). To wit, when the pandemic started, the WTO forecast global trade to decline by 13% to 32%; in October, however, the organization upgraded its forecast, anticipating a drop in global trade of just 9.2% in 2020, followed by a solid rebound in 2021 (7.2%). As Exhibit 4 highlights, global trade has experienced a sharp V-shaped recovery—much to the surprise of the globalization-is-dead camp.

[3] See "De-Globalization? Global Value Chains in the Post-Covid-19 Age," by Pol Antras, Harvard University, November 2020.
[4] See Globalization Comes to the Rescue: How Dependency Makes Us More Resilient, ECIPE, June 2020.

Exhibit 4: World Trade Volumes.



Source: CPB Netherlands Bureau for Economic Policy Analysis World Trade Monitor. Data as of September 2020.

Sixth, investors need to reframe how they think about globalization—think less about trade and investment in goods, and think more about trade in services, as well as more digital and virtual crossborder activities. The next phase of globalization is about software, not hardware; experiences, not physical assets; clouds and codes, not colas; and intangibles as opposed to tangibles. As noted by Erik van der Marel of the European Center for International Political Economy, a new type of globalization is emerging, one based on "digital services, research and development, data, ideas and other intangibles."[5] These activities are setting the tone for the global economy—indeed, services trade now represents 20% to 25% of total trade and is growing faster than crossborder trade in goods.[6]

The world was already going digital before coronavirus, but the pandemic, like many other shocks in history, has hastened the pace of change. Despite disputes over crossborder data flows, the greater the digitalization of the global economy, the greater the level of crossborder digital trade in a host of sectors, including insurance and pension services, financial services, and telecommunications, computer and information services. The future of globalization includes more trade in so-called "other business services" which runs the gamut from research and development services, legal and accounting services, management consulting, and public relations services. It also includes more service exports of architectural, engineering, scientific and other technical services as well as waste treatment services, operating leases services, and exports of personal, cultural and recreational services.

Adding momentum to all of the above is the switch from physical retail toward e-commerce, the explosion in remote working and remote learning, and soaring demand for remote/online healthcare services. Most of these activities take place at the local level but will gradually go global as the world economy comes online. Keep in mind that over 2 billion people, or more than 40% of the world's population, have never logged on to the internet; that's another way of saying that there is still tremendous upside for the growth of the global digital economy and the continuation of globalization.

Finally, there is no better example of globalization being alive and well than the Pfizer/BioNTech vaccine—the world's first coronavirus vaccine recently approved for mass use. As the *Financial Times* recently noted: "The vaccine was developed in Germany by the children of Turkish immigrants; tested in Germany, the U.S., Turkey, South Africa, Brazil and Argentina; manufactured in Belgium and first approved in the UK."[7]

The bottom line: Globalization is changing, adjusting and mutating. It is far from dead—a bullish prospect for U.S. and global equities.

[5] See, "Globalization Isn't in Decline: It's Changing," European Centre for International Economy, November 6, 2020.
[6] Ibid.
[7] See "Approval of Covid Vaccine is a Big Hurrah for Science", Financial Times, December 3, 2020.

THOUGHT OF THE WEEK

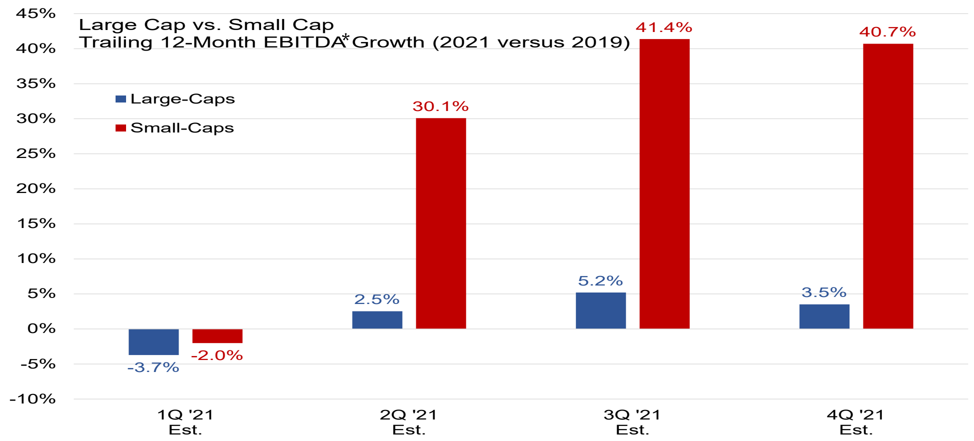
A Constructive Outlook for Small-Cap Equities

Niladri "Neel" Mukherjee, Managing Director and Head of CIO Portfolio Strategy

Coming into 2020, over the previous 10 years, small-cap equity performance has broadly underwhelmed, as it trailed its larger brethren by 50%.[8] This can be attributed to a relatively lower earnings growth profile, lower quality given a rising proportion of non-earners and less representation of secular growth industries like technology, whose dominant performance has been more beneficial for large-caps.

However, small-cap stocks have accelerated higher recently. Since the end of October, they have risen 25% and outperformed large-caps by 11%, as election uncertainty has declined and with positive vaccine developments raising the potential for faster economic normalization in 2021. Despite this rally, small-caps remain historically undervalued compared to large-caps. On a forward Price/Earnings basis, small-caps trade at a 21% discount to where they have historically been versus large-caps, and on a Price/Sales metric, it's at a 27% discount.[9] And within small-caps, the Value segment remains significantly undervalued compared to Growth, suggesting perhaps more upside for the small-cap Value asset class going forward. In addition, the earnings recovery for small-caps is estimated to be stronger than large-caps in 2021, even when comparing growth rates to 2019 earnings levels rather than 2020 troughs (Exhibit 5). A synchronized global growth environment with additional fiscal stimulus and easier financial conditions via rising central bank liquidity and tighter credit spreads are tailwinds for equities, especially for small-caps.

Exhibit 5: The Earnings Recovery For Small Caps Is Estimated To Be Stronger Than For Large Caps In 2021 Compared To 2019 Levels.



*EBITDA=**Earnings before interest, taxes, depreciation and amortization.** Sources: Strategas Research; Bloomberg. Data as of December 7, 2020. **Past performance is no guarantee of future results.**

The outlook for small-caps has gotten more constructive, and they should be considered in multi-asset portfolios that may be significantly underweight this asset class, in our view. Attractive relative valuations, rising earnings revisions, and positive macro-economic forces led us to this conclusion. The recent strong momentum in small-caps and slightly extended investor sentiment create near-term risks of a pullback or consolidation, especially within the context of rising coronavirus cases and potential for further economic shutdowns. However, investors with a longer time horizon and those looking to include more cyclicality into portfolios should opportunistically add on weakness.

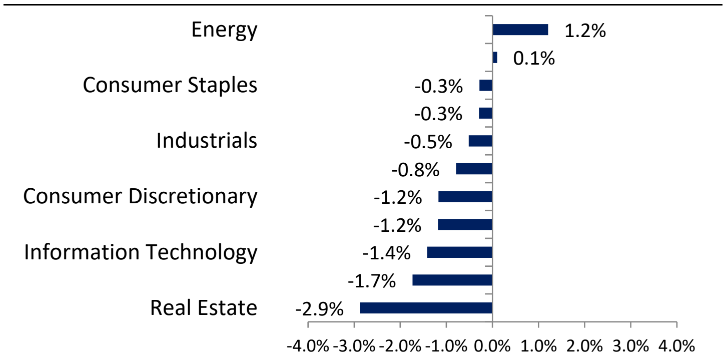
[8] Date range 12/31/2009 to 12/31/2019. Using Russell 2000 Index (RTY) and Russell 1000 Index (RIY).
[9] BofA Global Research. Report titled, "Small/Mid-cap Valuations," dated December 9, 2020.

MARKETS IN REVIEW

Equities

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
DJIA	30,046.37	-0.5	1.5	7.7
NASDAQ	12,377.87	-0.7	1.5	39.1
S&P 500	3,663.46	-0.9	1.2	15.4
S&P 400 Mid Cap	2,239.94	-0.2	3.3	10.3
Russell 2000	1,911.70	1.0	5.1	16.0
MSCI World	2,621.89	-0.7	1.5	12.9
MSCI EAFE	2,090.16	-0.5	1.8	4.9
MSCI Emerging Markets	1,257.66	0.5	4.4	15.0

S&P 500 Sector Returns



Fixed Income†

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
Corporate & Government	1.11	0.45	-0.19	8.62
Agencies	0.49	0.29	0.04	5.40
Municipals	1.11	0.31	0.37	4.96
U.S. Investment Grade Credit	1.17	0.35	-0.14	7.21
International	1.83	0.26	-0.26	9.13
High Yield	4.44	0.18	0.97	6.15

	Current	Prior Week End	Prior Month End	2019 Year End
90 Day Yield	0.06	0.07	0.07	1.54
2 Year Yield	0.12	0.15	0.15	1.57
10 Year Yield	0.90	0.97	0.84	1.92
30 Year Yield	1.63	1.73	1.57	2.39

Commodities & Currencies

	Total Return in USD (%)			
Commodities	Current	WTD	MTD	YTD
Bloomberg Commodity	159.82	0.8	0.7	-7.1
WTI Crude $/Barrel††	46.57	0.7	2.7	-23.7
Gold Spot $/Ounce††	1839.85	0.1	3.5	21.3
Currencies	Current	Prior Week End	Prior Month End	2019 Year End
EUR/USD	1.21	1.21	1.19	1.12
USD/JPY	104.04	104.17	104.31	108.61
USD/CNH	6.54	6.52	6.58	6.96

Sources: Bloomberg, Factset. Total Returns from the period of 12/07/2020 to 12/11/2020. †Bloomberg Barclays Indices. ††Spot price returns. All data as of the 12/11/2020 close.
Past performance is no guarantee of future results.

Asset Class Weightings (as of 12/3/2020)

	Under-Weight		Neutral	Over-Weight	
Global Equities				●	
U.S. Large Caps Growth				●	
U.S. Large Caps Value				●	
U.S. Small Caps Growth				●	
U.S. Small Caps Value			●		
International Developed			●		
Emerging Markets	●				
Global Fixed Income					
U.S. Governments		●			
U.S. Mortgages		●			
U.S. Corporates				●	
High Yield		●			
U.S. Investment Grade Tax Exempt			●		
U.S. High Yield Tax Exempt		●			
International Fixed Income	●				
Alternative Investments*					
Hedge Funds			●		
Private Equity			●		
Real Assets			●		
Cash					

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

Economic & Market Forecasts (as of 12/11/2020)

	2019A	Q1 2020A	Q2 2020A	Q3 2020A	Q4 2020E	2020E	2021E
Real global GDP (% y/y annualized)	2.9	-	-	-	-	-3.6	5.4
Real U.S. GDP (% q/q annualized)	2.2	-5.0	-31.4	33.1	4.0	-3.5	4.5
CPI inflation (% y/y)	2.3	1.5	0.6	1.4	1.2	1.2	2.1
Core CPI inflation (% y/y)	2.3	2.1	1.2	1.7	1.6	1.7	1.8
Unemployment rate (%)	3.5	3.8	13.0	8.8	6.6	8.1	5.5
Fed funds rate, end period (%)	1.55	0.08	0.08	0.09	0.13	0.13	0.13
10-year Treasury, end period (%)	1.92	0.67	0.66	0.68	0.90	0.90	1.50
S&P 500 end period	3231	2585	3100	3363	3250	3250	3800
S&P earnings ($/share)	163	33	28	39	38	138	165
Euro/U.S. dollar, end period	1.12	1.10	1.12	1.17	1.18	1.18	1.25
U.S. dollar/Japanese yen, end period	109	108	108	105	103	103	100
Oil ($/barrel, avg. of period, WTI**)	57	46	29	40	44	40	47

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. S&P 500 represents the year-end target for 2020 and 2021. **West Texas Intermediate.
Sources: BofA Global Research; GWIM ISC as of December 11, 2020.

BofA Global Research is research produced by BofA Securities, Inc. ("BofAS") and/or one or more of its affiliates. BofAS is a registered broker-dealer, Member SIPC, and wholly owned subsidiary of Bank of America Corporation.

Index Definitions

Securities indexes assume reinvestment of all distributions and interest payments. Indexes are unmanaged and do not take into account fees or expenses. It is not possible to invest directly in an index. Indexes are all based in dollars.

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.

Conference Board Employment Trends Index™ (ETI) is an aggregate of eight labor-market indicators that shows underlying trends in employment conditions.

Personal Consumption Expenditure Index (PCE) measures is the component statistic for consumption in gross domestic product collected by the United States Bureau of Economic Analysis. It consists of the actual and imputed expenditures of households and includes data pertaining to durable and non-durable goods and services.

Russell 2000 Index is a small-cap stock market 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 90% of the total market capitalization of that index.

Important Disclosures

This material does not take into account a client's particular investment objectives, financial situations, or needs and is not intended as a recommendation, offer, or solicitation for the purchase or sale of any security or investment strategy. Merrill offers a broad range of brokerage, investment advisory (including financial planning) and other services. There are important differences between brokerage and investment advisory services, including the type of advice and assistance provided, the fees charged, and the rights and obligations of the parties. It is important to understand the differences, particularly when determining which service or services to select. For more information about these services and their differences, speak with your Merrill financial advisor

The Chief Investment Office (CIO) provides thought leadership on wealth management, investment strategy and global markets; portfolio management solutions; due diligence; and solutions oversight and data analytics. CIO viewpoints are developed for Bank of America Private Bank, a division of Bank of America, N.A., ("Bank of America") and Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S" or "Merrill"), a registered broker-dealer, registered investment adviser and a wholly owned subsidiary of BofA Corp. This information should not be construed as investment advice and is subject to change. It is provided for informational purposes only and is not intended to be either a specific offer by Bank of America, Merrill or any affiliate to sell or provide, or a specific invitation for a consumer to apply for, any particular retail financial product or service that may be available.

The Global Wealth & Investment Management Investment Strategy Committee (GWIM ISC) is responsible for developing and coordinating recommendations for short-term and long-term investment strategy and market views encompassing markets, economic indicators, asset classes and other market-related projections affecting GWIM.

Bank of America, Merrill, their affiliates, and advisors do not provide legal, tax, or accounting advice. Clients should consult their legal and/or tax advisors before making any financial decisions.

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

All recommendations must be considered in the context of an individual investor's goals, time horizon, liquidity needs and risk tolerance. Not all recommendations will be in the best interest of all investors. Asset allocation, diversification and rebalancing do not ensure a profit or protect against loss in declining markets.

Investments have varying degrees of risk. Some of the risks involved with equity securities include the possibility that the value of the stocks may fluctuate in response to events specific to the companies or markets, as well as economic, political or social events in the U.S. or abroad. 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. 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.