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CHIEF INVESTMENT OFFICE

Capital Market Outlook

February 18, 2020

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

IN THIS ISSUE

- **Macro Strategy**—Sharp declines in prices for economically sensitive commodities along with the recent renewed yield-curve inversion signal a deflationary shock to the U.S. economy from the Wuhan Coronavirus crisis. Already faced with below-target inflation, moderate real gross domestic product (GDP) growth and soft inflation pressures, the Federal Reserve (Fed) has space to cut rates to preempt a worsening economic outlook caused by insufficient nominal GDP growth.
- **Global Market View**—The current state of household, federal government and business debt appears manageable for now, but we continue to monitor these areas of the economy for signs of financial excesses or imbalances. These debt dynamics warrant close watching, as problems can arise where least expected and when growth becomes increasingly driven by leverage.
- **Thought of the Week**—With rates and commodities falling on concerns over the Coronavirus' impact on the global economy, Value is again making new lows against Growth to start the year. Growth could continue to outperform over the near term, but we favor a balanced approach to both styles as 2020 progresses, enjoying exposure to tactical opportunities within each.
- **Portfolio Considerations**—We maintain our preference for equities relative to fixed income and still prefer the U.S. relative to the rest of the world. The Wuhan Coronavirus outbreak has imparted a deflationary shock to the global economy that may delay the full benefit of the underlying recovery that we believe is setting up a fourth mini-wave expansion.

MACRO STRATEGY

Chief Investment Office Macro Strategy Team

GLOBAL MARKET VIEW

Kathryn C. McDonald, CFA®
Vice President and
Market Strategy Analyst

THOUGHT OF THE WEEK

Brian T. Wilczynski
Assistant Vice President
and Investment Analyst

Data as of 2/18/2020 and subject to change.

MACRO STRATEGY

Deflationary effects from the Coronavirus put the Fed back in play

Chief Investment Office Macro Strategy Team

Positive incoming economic data so far this year have confirmed our belief that the path of least resistance for the U.S. economy would be up after the Fed cut interest rates and the effect of other central banks' rate cuts started to be felt around the world. The global economic surprise diffusion index has turned sharply positive, reflecting increasingly more upside surprises than downside surprises on the economic front worldwide in recent weeks.

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The U.S. improvement has been broad-based, ranging from better-than-expected employment growth, consumer and small-business confidence, home sales and manufacturing/ nonmanufacturing surveys to productivity growth and fourth-quarter 2019 corporate earnings. The big jump in the Institute for Supply Management (ISM) manufacturing new-orders index from 47.6 in December to 52 in January has been particularly encouraging given its early-signal properties and disconcerting plunge into contraction territory through late 2019. This improvement, along with continued positive signals from the Organisation for Economic Co-operation and Development (OECD) leading-indicator index and a "phase one" U.S.-China trade deal have kept U.S. equity prices around record highs and corporate credit spreads generally narrow, consistent with a sustained economic expansion.

That said, leading growth indicators for manufacturing, consumer income and spending, hiring, and housing remain consistent with only moderate real GDP growth around 2.25% in 2020 (similar to 2.33% in 2019). It would take another leg up in consumer and business confidence for growth to accelerate much in coming quarters, which is unlikely absent a quick resolution of the Coronavirus problem. Until that becomes apparent, risks to growth and inflation will more likely remain to the downside in light of bigger potential disruptions to global economic activity and a conceivable eventual hit to consumer and business confidence.

In addition to renewed downside risks to real GDP growth, the recent surge in the gold/copper ratio, 20% drop in oil prices, 10% copper-price decline, softening 10-year Treasury rates and renewed inversion of the yield curve reflect deflationary effects of Chinese travel restrictions and production disruptions that add another layer of risk to an already wobbly U.S. inflation and nominal GDP growth environment. Indeed, rapid Fed rate hikes in 2017 and 2018 caused a big setback on the inflation front, with nominal GDP growth weakening sharply from almost 6% year-over-year in early 2018 to less than 4% in the second half of 2019, suppressing corporate revenues, profits, capital spending, and wage growth. As we discussed in past reports, weak nominal GDP growth (in our view, below 5%) impedes a smooth run of the economy by impairing the ability to service the debt in a highly leveraged economy such as the U.S.

With heightened risks to the downside from an already moderate real-growth and soft inflation outlook, the likelihood that the Fed will significantly miss its 2% target for the eleventh straight year has increased. As a result, and as reflected in the renewed inversion of the yield curve, the probability that the Fed will need to cut rates to address the situation has also increased. In other words, even if *real* GDP growth remains moderately positive, as we expect, downside risks to *nominal* GDP growth from the deflationary effects of the Wuhan Coronavirus crisis have raised the specter of sub-par growth or recession ahead. The fact that the Fed boosted money-supply growth as 2019 progressed has helped stabilize the economy, but the Fed may have to do more to preclude money-supply growth from slowing again, either by cutting rates or expanding its balance sheet at a faster pace if downside risks to the economy materialize.

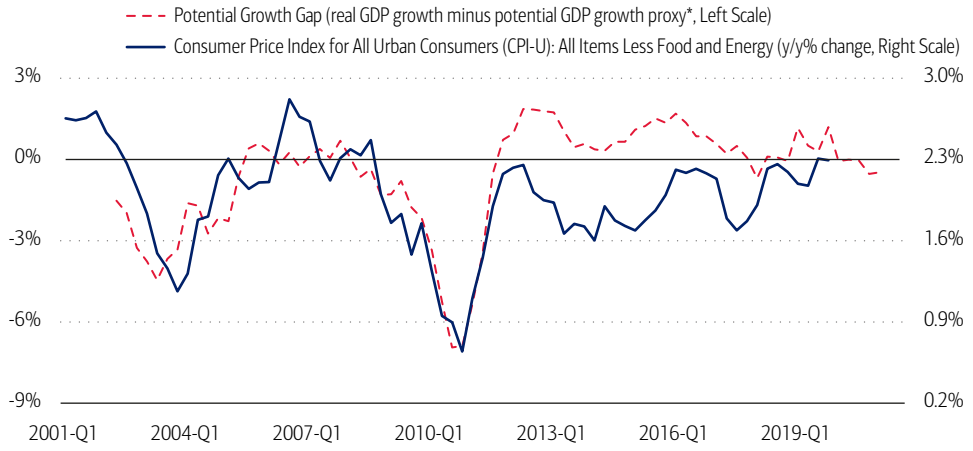
In our view, the fifty-year-low unemployment rate, stronger-than-expected payrolls increase in January and still-favorable leading indicators for employment over the next few months do not preclude a case for more rate cuts. First, with manufacturing hours worked already reduced in response to last year's manufacturing recession, the Fed may have to step in to prevent a prolonged period of below-potential growth that would result in layoffs and a rising risk of recession. Importantly, while the ISM manufacturing index surprised to the upside with a spike back into growth territory (to the highest level in 6 months), its employment subcomponent has remained consistent with contracting manufacturing payrolls. In addition, renewed dollar strength is hampering this year's anticipated manufacturing-sector rebound. At the same time, even as the ISM non-manufacturing index inched higher into expansion territory in January, the survey's employment subcomponent cooled, and its price component declined again and has been weakening since inflation peaked in mid-2018.

These surveys' readings fall short of signaling an acceleration in employment or inflation in coming months and face downside risks ahead from negative effects on global growth from the Coronavirus. The plunge in the Job Openings and Labor Turnover Survey (JOLTS) also suggests that businesses are becoming more cautious about hiring.

Second, the surge in the labor force participation rate (LFPR) and improvement in the productivity growth trend have raised U.S. growth potential. As we had anticipated, pro-growth supply-side policies have continued to attract workers off the sidelines. Led by a spectacular surge in the female participation rate to the highest levels since the late-1990s boom, the participation rate for the prime age 25-54 cohort has continued to surpass expectations. However, with 1) male participation rates lagging and still below pre-financial crisis levels; 2) the highest job-finding rate in twenty years (i.e., the share of unemployed workers in one month that got a job the next month); and 3) manufacturing activity and employment still soft, the prime-age LFPR has more room to advance.

Further potential labor force expansion combined with the ongoing productivity uptrend suggests that real GDP growth has room to accelerate before its gap to potential growth increases enough to create stronger inflation pressures (Exhibit 1). Indeed, restrained by the lagged effects of the Fed's excessive 2018 tightening, the Boeing 737 Max production debacle, the trade war and high uncertainty, real GDP growth has lagged this potential growth proxy. As shown in Exhibit 1, because of typical lags between growth and inflation, this shortfall is likely to keep downside pressure on inflation in coming quarters.

Exhibit 1: Real GDP Growth Has Increasingly Lagged Potential Growth, Pointing to a Peak in "Core" Inflation in Coming Quarters.



* Sum of labor force growth and productivity growth. Sources: Haver Analytics; Chief Investment Office. Data as of February 12, 2020.

The fact that hours worked have been cut in response to weakening manufacturing conditions in 2019 and that the seemingly tight jobs market has not stoked wage inflation is consistent with growth falling short of potential, and explains why inflation pressures have continued to soften despite very low unemployment. In fact, average hourly earnings growth (AHE) for production and nonsupervisory workers lost momentum by the end of 2019 in a lagged response to the housing and manufacturing-led economic growth moderation, which, along with cuts to manufacturing hours worked, has suppressed labor-income growth and business pricing power, ultimately restraining inflation.

While we expect AHE growth to reaccelerate this year in a lagged response to growing labor force dynamism, upbeat small-business sentiment and a less stingy Fed, it also appears likely to remain in a 3.5%-to-4% range over the next year or so. At the same time, and as we had anticipated, productivity growth remains on a gradual uptrend. It has accelerated from an average of 0.8% per year between 2012 and 2016 to 1.8% in late 2019, and, based on leading indicators we watch, it appears likely to continue to surprise

to the upside. Given our maximum 4% AHE growth forecast over the next year or so, this suggests a cap on inflation of at most 2% for the foreseeable future, inconsistent with an overheating economy even before accounting for any negative effects from the Coronavirus. With the Fed set to try for an inflation overshoot, a rate cut will likely be needed to move inflation up.

The bottom line is the Fed has leeway to cut rates if needed to buoy inflation and nominal GDP growth, and the yield curve has started to point in that direction. In our view, unless Chinese economic activity returns to normal soon and the yield curve re-steepens, the Fed will likely have to cut rates again this year to stop inflation from falling even further below target. In his semi-annual policy testimony on February 10, Fed Chairman Powell emphasized the Fed's desire to "*resoundingly achieve 2% inflation*" after a decade of falling short. Coronavirus-related risks to the inflation outlook raise the odds that a "material reassessment" of the need for further easing may occur by mid-year.

GLOBAL MARKET VIEW

Trouble for the Trifecta of U.S. Debt?

Kathryn C. McDonald, CFA® Vice President and Market Strategy Analyst

Our baseline forecast for the U.S. economy to grow around trend this year and next is premised on several key assumptions, including continued monetary accommodation from the Fed, low inflation, improving U.S. profits, a healthy jobs market, reduced global trade tensions and the Coronavirus disruption being temporary. It also is based on the important observation that financial stability risks are currently moderate, preventing the Fed from restraining growth.

To that end, we are continually monitoring the U.S. economy for financial excesses or imbalances. One area of concern for investors in recent years has been the buildup of leverage as the U.S. business cycle ages. Last year, the U.S. lagged only China in terms of debt accumulation, driven by an expanding government budget, rising corporate leverage and moderate growth in consumer debt.

We expect this debt buildup to continue, given the current era of easy monetary policy, but with minimal impact to our base-case growth assumptions in the near term. Still, these debt dynamics warrant close watching, as problems can arise where least expected and when growth becomes increasingly driven by leverage.

1. Household Debt

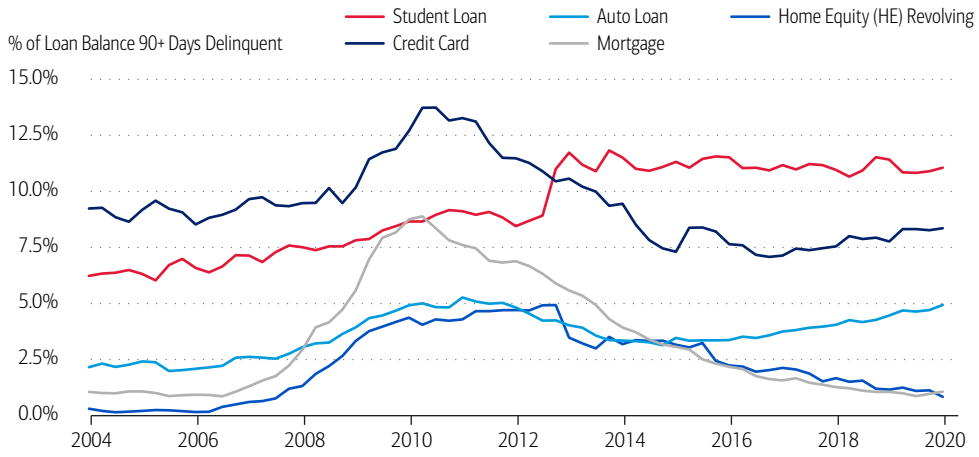
U.S. personal consumption continues to be the bright spot of not only the U.S. economy, but also the global economy. Looking ahead, U.S. consumption growth should continue to be supported by a strong jobs market, rising wages, high levels of consumer confidence, and, importantly, healthy household balance sheets.

Data released last week by the Fed shows U.S. household debt at a record high in nominal dollar terms, but remember: Relative to overall levels of income, consumer debt trends have been continuously improving since the 2008/09 financial crisis. Household debt as a percent of GDP is currently at cycle lows (Exhibit 4). Also, thanks to last year's Fed rate cuts and deleveraging in the mortgage space, household debt payments as a percent of disposable income are at all-time lows in the history of the data.

The headline figures, which are primarily driven by healthier credit conditions in housing debt, mask some pockets of pressure in other areas, which have risen rapidly over the past decade. Student loan balances have more than doubled to $1.6 trillion, auto loans have risen 84% to $1.3 trillion, and credit card debt is now 17% higher than levels in

2009. Auto and credit card delinquencies have been steadily rising, driven by subprime borrowers. Student loan delinquencies remain elevated (Exhibit 2).

Exhibit 2: On Watch: Rising Delinquencies for Auto and Credit Card Debt.



Source: Federal Reserve. Data through Q4 2019.

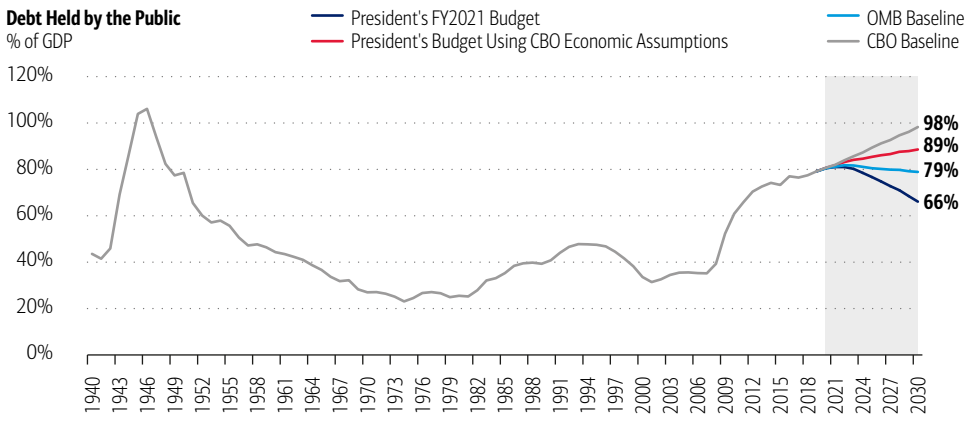
Risks building in consumer credit are likely to not be as severe as during the subprime mortgage crisis. Importantly:

- At the height of the global financial crisis, mortgages outstanding represented 74% of consumer debts and over 60% of U.S. GDP. Currently, credit card, auto and student loans each represent less than 11% of U.S. household debt and less than 7% of GDP.
- Most student loans are owned by the federal government. A wave of defaults would be a burden on the federal budget, but the financial contagion would likely be more contained than the mortgage market in 2008.

2. Government Debt

New estimates from the Congressional Budget Office (CBO) show federal deficits averaging $1.3 trillion per year over the decade, with the national debt held by the public rising from 79% of GDP in 2019 to 98% by 2030. These budget forecasts, however, have a wide range of variability. The latest White House budget unveiled last week assumes a 3% average real GDP growth rate over the decade and forecasts debt to fall to just 66% of GDP by 2030 (Exhibit 3).

Exhibit 3: U.S. Federal Government Debt Forecasts.



*2020–2030 Forecast. Sources: Committee for a Responsible Federal Budget; Office of Management (OMB); Congressional Budget Office (CBO). Data as of February 2020.

Currently, we believe the U.S. government has some fiscal room. Interest rates have continued to surprise to the downside, helping keep a lid on interest payments. The Fed's monetary policy framework review suggests this trend of lower-for-longer interest rates will continue. Strong demand for U.S. Treasuries, low rates, the dollar's status as the world's reserve currency, and the ability of the U.S. to control its currency allows the U.S. government to sustain larger debt loads than other countries.

But deficits do matter. Interest rates and inflation are not guaranteed to stay low forever. Rising interest payments on the debt can escalate quickly and crowd out productive public investments. Last year, federal debt payments to foreigners totaled $164 billion (vs. $97 billion spent on transportation, $38 billion on natural resources and the environment, and $32 billion on science and technology). Surging government debt can also crowd out private investment, since higher debt levels, in theory, lead to higher interest rates, which makes financing investments more expensive for businesses and households. Another risk associated with large deficits is that the government has less flexibility to respond to unexpected economic crises.

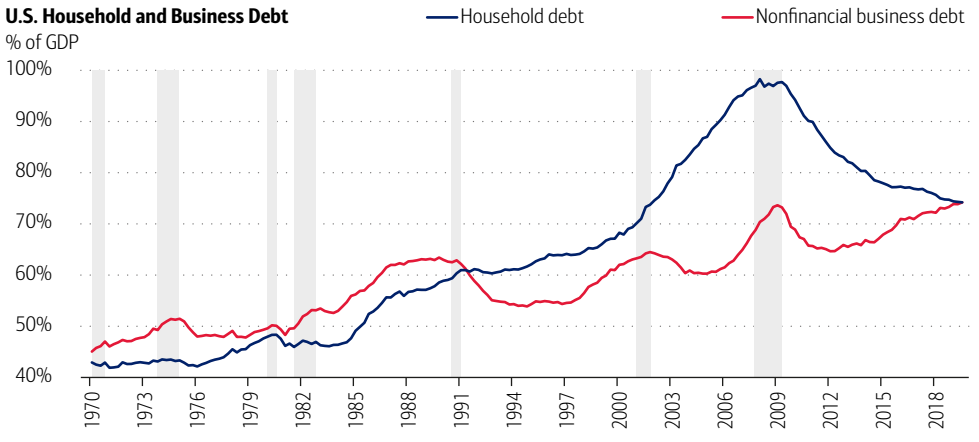
3. Corporate Debt

Financial vulnerabilities in the corporate debt sector also continue to build. Driven by low borrowing costs, U.S. nonfinancial business leverage as a percent of GDP has reached all-time highs. Chief among investors' concerns: Growth in investment grade (IG) debt since the crisis has been driven by BBB issuers, which now make up half of outstanding U.S. IG corporate debt. The risk is that in a recession, a larger amount of debt could be downgraded to the high yield universe, upending credit markets.

These fears have somewhat abated due to recent central bank easing. Lower interest rates help keep corporate debt payments manageable. Last year, the number of global companies with credit ratings downgraded from investment grade to speculative grade hit the lowest level in 23 years.[1] Also, the buildup in corporate debt has been gradual and in line with the business cycle, unlike the spike in housing debt leading up to the 2008/09 financial crisis (Exhibit 4).[2]

Favorable liquidity conditions and continued economic growth supported by the Fed should continue to prop up markets in the year ahead, but the risks have not been eliminated. In BofA Global Research's Fund Manager Survey, investors cited concerns about the bond market as the second biggest "tail risk" in February 2020, ahead of the Wuhan Coronavirus. As the credit cycle ages, this is something we are watching carefully.

Exhibit 4: Corporate Debt Surpasses Household Debt in 2019.



Households includes nonprofit institutions. Sources: Federal Reserve; Bureau of Economic Analysis; Haver Analytics. Data through Q3 2019.

[1] Axios Markets, "S&P Finds Record Low Fallen Angels," January 24, 2020.

[2] See Fed Chairman Jerome Powell's Speech on "Business Debt and Our Dynamic Financial System," May 20, 2019.

The Bottom Line

The current state of household, government and business debt appears manageable for now. The latest read on nonfinancial leverage, measured by the National Financial Conditions Index, currently does not show signs of financial stress.

The main risk to this outlook is an unexpected spike in inflation that forces the Fed to raise interest rates. When it comes to assessing financial stability, it is not the level of debt in the system that matters—but instead the future rate of growth of leverage and the ease of debt servicing. These rely heavily on the path of monetary policy.

Finally, taking a more long-term view, debt is not a bad thing if used for productive investments and spending that boosts the long-term growth rate of the U.S. economy. In this sense, it's important to identify what debt is used for. For the federal government, 70 cents on every dollar is directed toward net interest payments and mandatory programs such as Medicare, Medicaid and Social Security— leaving just a small amount of funds for productive programs like infrastructure, education and research and development. Growth in corporate debt has primarily been used to increase shareholder payouts (dividends and buybacks) and to fund mergers and acquisitions, while business investment has lagged. Student debt does provide some benefit in terms of a more skilled/productive workforce, but the returns on investment in a college degree have somewhat diminished.[3]

Investment Strategy

- In the near term, financials and consumer discretionary stocks could benefit from healthy credit conditions in the household sector and continued consumer appetite for borrowing. Corporate debt risks are more concerning, but banks are better capitalized than in the past.
- Significant deterioration in the fiscal deficit could put downward pressure on the U.S. dollar as well as crowd out government spending—impacting sectors that are more leveraged to government budget policy. Renewed focus on fiscal restraint could pressure the defense budget and health care sector over the long term.
- In the end, we believe investors should filter out the noise and maintain a well-diversified portfolio, sticking to an asset allocation strategy with solid economic foundations. In the near term, we think the Fed should remain accommodative and that the U.S. government has fiscal space for incremental stimulus given the low-rate environment, which supports our view of equities over fixed income.

THOUGHT OF THE WEEK

What the Coronavirus Means for Growth and Value

Brian T. Wilczynski, Assistant Vice President and Investment Analyst

Coming out of a decade in which Growth-oriented areas of the market dominated equity returns in the U.S., many investors were looking for signs that a style rotation favoring Value could be taking shape. But with rates and commodities falling on concerns over the Coronavirus' impact on the global economy, Value is again making new lows against Growth to start the year.

Over the past two decades, the relative performance of Financials, Energy and Technology has been a major driver of Growth versus Value, which underscores the importance of interest rates and oil prices as the year progresses (Exhibit 5). With concerns over the Coronavirus' impact on the global economy remaining front-and-

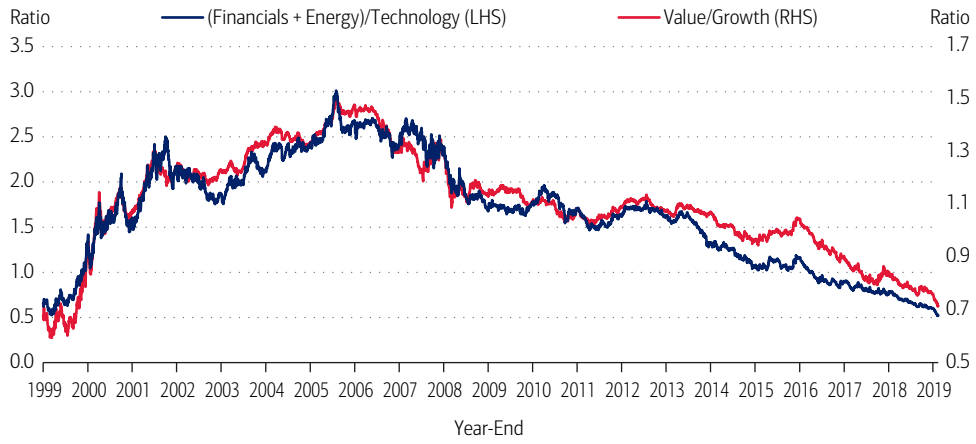
[3] See Federal Reserve Bank of New York, Liberty Street Economics Blog. June 5, 2019.

center, Growth could continue to outperform over the near term as commodities remain under pressure, especially from slower growth in China. According to the Energy Information Administration (EIA), China represents 14% of global oil consumption, more than India, Japan and Russia combined, and reports indicate Chinese demand could fall 25% due to the virus. At the same time, rates could move lower from risk-off sentiment, deflationary pressure from the Coronavirus and the potential for central banks to cut rates in response, which is a headwind for Financials. And while heavy exposure to China has weighed on semiconductors, the broader Technology sector has continued to outperform thanks to strong performance from the software industry. Since Financials and Energy are 37% of the Russell 1000 Value index, and Technology is 41% of Russell 1000 Growth, this favors Growth on a relative basis.

How can Value make a comeback? Evidence that the virus is being contained could help global economic momentum start to rebound, supporting profits, which is a tailwind for Value: According to BofA Global Research, Value has historically outperformed Growth by 3% (16% vs. 13%) when profits are accelerating and underperformed by 2% (12% vs 14%) when they're slowing. Financials and Energy would also benefit as rates and oil move higher from improved investor sentiment.

However, even then Value wouldn't be completely out of the woods, as election concerns could lead to periods of risk-off sentiment that weigh on rates and commodities. Given the broad range of potential outcomes and uncertain timing on the Coronavirus, we favor a balanced approach to both styles as 2020 progresses, enjoying exposure to tactical opportunities within each.

Exhibit 5: Growth Versus Value Performance.

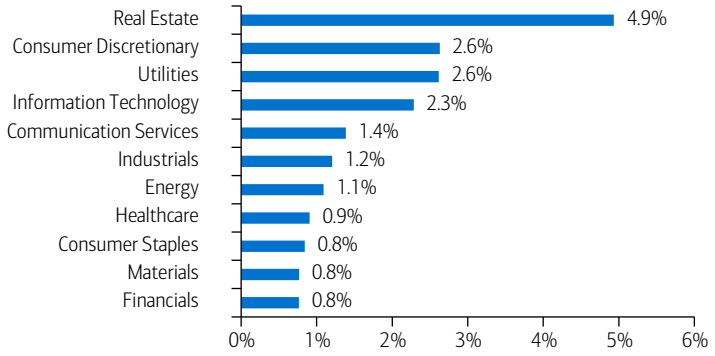


Note: Measured by the relative performance of the S&P 500 Energy, Financials and Technology Sectors, compared to the Russell 1000 Growth and Russell 1000 Value indexes. Source: Bloomberg. Data as of February 11, 2020. **Past performance is no guarantee of future results.**

Equities

		Total Return in USD (%)		
	Current	WTD	MTD	YTD
DJIA	29,398.08	1.2	20.7	3.3
NASDAQ	9,731.18	2.2	35.2	8.6
S&P 500	3,380.16	1.6	27.7	4.9
S&P 400 Mid Cap	2,096.61	2.4	16.3	1.8
Russell 2000	1,687.58	1.9	14.3	1.3
MSCI World	2,430.69	1.2	22.3	3.2
MSCI EAFE	2,026.90	0.0	14.2	-0.3
MSCI Emerging Markets	1,107.99	1.4	8.1	-0.7

S&P 500 Sector Returns



Fixed Income[1]

		Total Return in USD (%)		
	Current	WTD	MTD	YTD
Corporate & Government	1.98	0.0	10.9	2.3
Agencies	1.69	0.0	6.9	1.4
Municipals	1.50	0.1	8.6	1.8
U.S. Investment Grade Credit	2.06	0.0	9.6	1.9
International	2.59	0.1	14.7	2.5
High Yield	5.11	0.5	10.6	1.1

	Current	Prior Week End	Prior Month End	2019 Year End
90 Day Yield	1.52	1.51	2.35	1.49
2 Year Yield	1.43	1.40	2.46	1.57
10 Year Yield	1.58	1.58	2.63	1.92
30 Year Yield	2.04	2.05	3.00	2.39

Commodities & Currencies

		Total Return in USD (%)		
Commodities	Current	WTD	MTD	YTD
Bloomberg Commodity	160.61	0.9	-4.6	-6.6
WTI Crude $/Barrel[2]	52.05	3.4	-3.2	-14.8
Gold Spot $/Ounce[2]	1,584.06	0.9	19.9	4.4

Currencies	Current	Prior Week End	Prior Month End	2019 Year End
EUR/USD	1.08	1.09	1.14	1.12
USD/JPY	109.78	109.75	108.89	108.61
USD/CNH	6.99	7.01	6.71	6.96

Source: Bloomberg, Factset.Total Returns from the period of 02/10/20 to 02/14/20. Bloomberg Barclays Indices.[1] Spot price returns.[2] All data as of the 02/14/20 close.
Past performance is no guarantee of future results.

Asset Class Weightings (as of 1/9/2020)

	Under-weight		Neutral		Over-weight
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*	see CIO Asset Class Views				
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.

Economic and Market Forecasts (as of 02/14/20)

	Q2 2019A	Q3 2019A	Q4 2019A	2019A	Q1 2020E	2020E
Real global GDP (% y/y annualized)	–	–	–	2.9	–	3.1
Real U.S. GDP (% q/q annualized)	2.0	2.1	2.1	2.3	1.0	1.7
CPI inflation (% y/y)	1.8	1.8	2.0	1.8	2.2	2.0
Core CPI inflation (% y/y)	2.1	2.3	2.3	2.2	2.3	2.3
Unemployment rate (%)	3.6	3.6	3.5	3.7	3.5	3.5
Fed funds rate, end period (%)	2.40	1.90	1.55	1.55	1.63	1.63
10-year Treasury, end period (%)	2.01	1.66	1.92	1.92	1.80	1.80
S&P 500 end period	2942	2977	3231	3231	–	3300
S&P earnings ($/share)	41	42	41.5*	164.1*	40.5	177
Euro/U.S. dollar, end period	1.14	1.09	1.12	1.12	1.10	1.15
U.S. dollar/Japanese yen, end period	108	108	109	109	110	103
Oil ($/barrel, avg. of period, WTI**)	60	56	57	57	59	57

The forecasts in the table above are the base line view from BofA Global Research team. 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.

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 a fair value estimate for 2020. **West Texas Intermediate

Sources: BofA Global Research; GWIM ISC as of February 14, 2020.

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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 dollars.

S&P 500 is a stock market index that tracks the stocks of 500 large-cap U.S. companies. It represents the stock market's performance by reporting the risks and returns of the biggest companies.

Global Economic Surprise Diffusion Index: A diffusion index is a method of summarizing the common tendency of a group of statistical series. A monthly composite index, released by the Institute for Supply Management, that is based on surveys of 300 purchasing managers throughout the United States in 20 industries in the manufacturing area.

OECD Leading-indicator Index: The composite leading indicator (CLI) is designed to provide early signals of turning points in business cycles showing fluctuation of the economic activity around its long term potential level.

National Financial Conditions Index (NFCI): The Chicago Fed's National Financial Conditions Index (NFCI) provides a comprehensive weekly update on U.S. financial conditions in money markets, debt and equity markets and the traditional and "shadow" banking systems.

Russell 1000 Value Index refers to a composite of large and mid-cap companies located in the United States that also exhibit a value probability.

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Investing involves risk, including the possible loss of principal. No investment program is risk-free, and a systematic investing plan does not ensure a profit or protect against a loss in declining markets. Any investment plan should be subject to periodic review for changes in your individual circumstances, including changes in market conditions and your financial ability to continue purchases.

Economic or financial forecasts are inherently limited and should not be relied on as indicators of future investment performance.

It is not possible to invest directly in an index.

Asset allocation, diversification, dollar cost averaging and rebalancing do not ensure a profit or protect against loss in declining markets. Dollar cost averaging involves continual investment in securities regardless of fluctuating price levels; you should consider your willingness to continue purchasing during periods of high or low price levels.

Past performance is no guarantee of future results.

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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.

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