

CHIEF INVESTMENT OFFICE

## Capital Market Outlook

April 11, 2022

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

## IN THIS ISSUE

**Macro Strategy—How tight are financial conditions?** The Federal Reserve (Fed) is in the early stages of an aggressive monetary tightening cycle. Fiscal policy in the U.S. has reversed course. Energy and food prices are elevated, draining liquidity from global consumers and slowing global growth. Financial and nonfinancial firms are marking Russian assets lower raising concerns over counterparty risk and financial stress. Domestic corporate profit margins are under pressure.

How tight are financial conditions? We would broadly categorize macro financial conditions as “flashing yellow.” Consumer, business and commercial bank balance sheets are well fortified and are a key transmission buffer, but the pressure is on.

**Market View—Shifting Supply-Side Shocks:** The global economy has experienced shifting supply-side shocks—first from the pandemic, followed by ongoing conflict in Eastern Europe.

Prolonging an economic imbalance with bolstered demand, these shocks are creating persistent inflation, bringing novel challenges for policymakers and investors. They also may bring longer-term geopolitical shifts including the prioritization of energy security, the formation of regional trading blocs, and the building of more resilient supply chains.

**Thought of the Week—What Have Yield Curves Been Saying Recently?** Since the first quarter of 2021, the 2-year/10-year Treasury yield curve has flattened dramatically. Usually, this indicates that Fed policy is becoming restrictive, and the economy may slow near term. However, that is not the case now. The federal funds rate/10-year yield curve is diverging from the 2-year /10-year Treasury, which is a historical anomaly, but there is no conundrum here.

We believe the divergence is simply a glaring sign of how far behind the curve the Fed is at the moment, and as the Fed follows through on rate hikes, these curves will once again likely move in the same direction.

## MACRO STRATEGY ►

**Jonathan Kozy**

Managing Director and Senior Macro Strategy Analyst

## MARKET VIEW ►

**Rodrigo C. Serrano, CFA®**

Director and Senior Investment Strategy Analyst

## THOUGHT OF THE WEEK ►

**Matthew Diczok**

Managing Director and Head of Fixed Income Strategy

## MARKETS IN REVIEW ►

Data as of 4/11/2022,  
and subject to change**Portfolio Considerations**

Within Equities, we emphasize positioning for higher inflation through cyclical exposures which include Value and Small-cap exposure and we prefer cyclical sectors that are most likely to benefit from real asset growth and increasing free cash flow such as Energy, Materials and Mining. Within Fixed Income, we are positioning for rising interest rates and prefer shorter duration versus benchmarks and corporate and municipal credit versus Treasuries. For qualified investors, we currently see favorable opportunities for select Hedge Fund strategies, and we believe Private Credit strategies should benefit from the concerns of higher interest rates, as many of these investments are more credit- than interest rate-sensitive.

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## How tight are financial conditions?

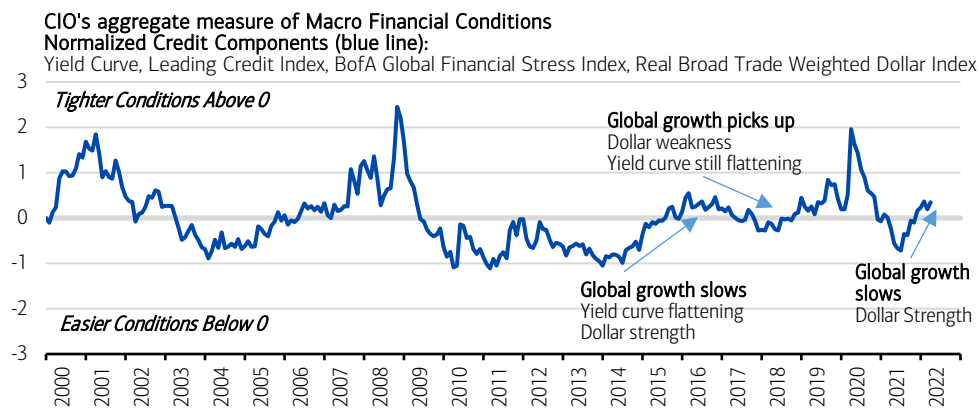
Jonathan Kozy, Managing Director and Senior Macro Strategy Analyst

### No Clear Path to Easier Financial Conditions

Financial conditions are a key transmission mechanism for monetary policy and geopolitical shocks to effect the real economy and profits. Monetary policy tightening, for example, works by raising private sector borrowing costs on mortgages and corporate debt to slow growth and inflation. That process is well underway. The Chief Investment Office (CIO) tracks various measures of macro-level financial conditions and financial stress to gauge associated business cycle risk. Looking at the balance of the data, there has been a clear upward track to individual and aggregate measures of financial conditions over the last few months. We would broadly characterize financial conditions as “flashing yellow,” consistent with our view for elevated business cycle risk and choppy equity markets. Consumer, business and commercial bank balance sheets are well fortified and are key transmission buffers, but the pressure is likely to be persistent and growing. Investors should note a few key observations.

First, looking at the two fundamental recessions in 2001 and 2008-2009, the CIO’s aggregate measure of macro financial conditions crossed over the one standard deviation<sup>1</sup> “tight” in advance of the recessions and around the same time the S&P 500 index made a top. In the current environment, the U.S. dollar and BofA Global Financial Stress indicator (GFSI) (including components of liquidity risk, market risk and investor flows) are driving the index higher, while the yield curve (as measured by the 10-year Treasury minus federal funds rate) and the Conference Board’s Leading Credit Index have been relative sources of resilience, for now. Overall the index has a reading of 0.3 standard deviations above normal (Exhibit 1).

### Exhibit 1: Macro Financial Conditions “Flashing Yellow”.



Sources: Bloomberg; Chief Investment Office. Data as of April 5, 2022.

Second, financial tightening rarely sneaks up on investors, and it didn’t this time either. Exhibit 1 shows financial conditions are generally in an uptrend before making a more sharply aggressive move higher in advance of recessions. For example, macro financial conditions were tightening throughout the mid-2000s before more acute financial stress showed up in 2007. In the current expansion, financial conditions have been tightening, on balance, since the middle of last year. The Chicago Fed’s National Financial Conditions Credit Index has also been tightening since mid-2001 and is close to crossing the threshold into tighter than average conditions.

What could be the prospects for further tightening? Global growth is slowing, and financial conditions have historically tightened with slower global growth. The most benign contribution to the index, the yield curve, could also be reversing course. The widening trend seen recently seems unlikely to persist as the Fed is likely to be raising rates and shrinking the balance sheet. BofA Global Research believes we will see three 50 basis point (bps)

<sup>1</sup>Standard deviation: a quantity calculated to indicate the extent of deviation for a group as a whole.

### Investment Implications

As macro financial conditions continue to tighten, we emphasize quality across asset classes. We favor U.S. Equities over the rest of the world. Maintain diversification across and within asset classes as volatility remains elevated.

increases this year and 25 bps increases at the rest of the Fed meetings this year. We have more on the intricacies of yield curve analysis below in the *Thought of the Week*. Domestic measures of credit and liquidity stress have been relatively benign, as measured by the Conference Board's Leading Credit Index. Thus far, domestic corporate credit spreads are contained, and domestic banks are well fortified with capital to provide liquidity. But consumers and businesses already face higher borrowing costs. Higher mortgage rates are making homes less affordable. A tipping point would be if banks tightened lending standards.

Geopolitical shocks can transmit to financial conditions and the real economy through the credit markets. One feature of the Ukraine/Russia conflict is Russian assets being marked down on the balance sheets of financial and non-financial firms, creating concerns over financial losses, liquidity concerns and counterparty risk. Economic sanctions are being ratcheted up, not down, and "voluntary sanctions" are adding a new dynamic to financial market stressors.

Geopolitical shocks also transmit through currency markets. The stronger dollar we have seen recently makes U.S. goods more expensive to foreigners and also makes dollar-based commodities more expensive to the rest of the world, acting as a drain on global liquidity. And dollar strength has been broad-based. The real trade-weighted dollar has appreciated versus both developed and emerging market currencies over the last year, with the few exceptions being commodity export currencies (in Latin America, for example). The U.S. dollar is benefitting from relatively stronger growth versus Europe and Japan, while the Fed is also raising policy rates relatively faster and is expected to continue to do so. Adding to dollar strength, the geopolitical backdrop is reinforcing risk-off flows to so-called "safe-haven" assets like the U.S. dollar.

The pain from dollar strength adds to more acute pain for emerging markets from high energy and food prices. Globally, consumers have less disposable income if they are spending more on food and fuel. The stresses are more acute for lower-income individuals and lower-income countries who are net importers of food and fuel and spend greater shares of income on essentials.

Is there a release valve for financial conditions? It seems unlikely that the yield curve used in our Macro Conditions Indicator will continue to steepen, although it could remain steeper than many expect, in our view. The Leading Credit Index could be a source of resilience as banks remain well capitalized and willing to lend to support businesses and consumers, but a significant easing is less likely. That leaves the U.S. dollar and broader measures of global financial stress. Both are heavily influenced by monetary policy, the geopolitical backdrop and the outlook for global growth. In the U.S., monetary policy has a portfolio balance effect that encourages risk-on when deflation is a risk, and risk-off assets when inflation is high. This is not encouraging for the GFSI index. Stronger global growth would likely allow the dollar to weaken and also relieve other credit stresses, but it is difficult to make the case for an acceleration in global growth given the direction of global monetary policy and geopolitical risk.

The good news is U.S. consumers and businesses have excess cash to be deployed and access to credit to reinforce aggregate demand. In essence, this provides a buffer zone for the transmission of financial stress to the real economy. This buffer zone is less prevalent or non-existent in other parts. In the U.S., the consumer saving rate could go negative for several months without making consumer balance sheets vulnerable. Businesses are already engaged in share buybacks and merger activity and investing in productivity-enhancing technology to ease pressures.

The crux of recession risk lies with consumers' and businesses' ability to maintain trend-like or above spending in the face of tighter financial conditions. This time around they are well positioned and have support from the banking sector, but there is no clear path for financial conditions to ease given the need for central banks to aggressively address inflation.

## Shifting Supply-Side Shocks

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

The Fed identifies a demand shock as the reduced capacity or willingness of consumers to purchase goods or services at given prices. Examples featuring these tendencies include the fallout of the dot-com equity bubble, among other events, which weighed on consumer and corporate confidence during the 2001 U.S. recession. The 2007-2008 Great Recession began a period of deleveraging of consumer balance sheets. This was followed by another financial crisis in the euro area involving sovereign debt. It, followed by a policy of fiscal austerity, also weighed on economic growth. More recently, the hit to confidence, in part from widespread lockdowns and joblessness in the initial days of the pandemic, led to a consumption shortfall, particularly in the services side of the economy.

### Supply Shock One—February 2020

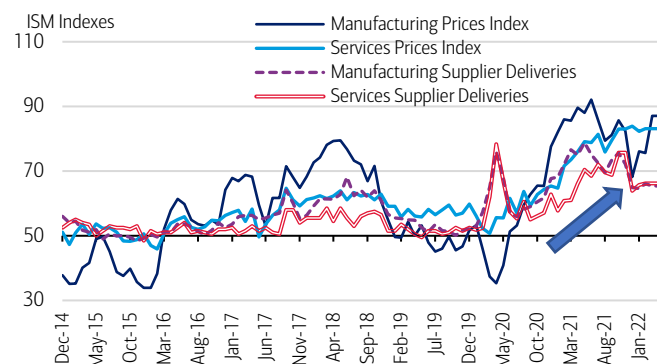
In contrast, a supply shock occurs when the capacity of an economy to produce goods and services at given prices is hindered. A study by the St. Louis Fed early on determined that the health crisis, including measures to combat the spread of the virus, exhibited a preponderance of dynamics characterizing this scenario.<sup>2</sup> Meanwhile, significant fiscal and monetary stimulus primarily served to help avoid a loss of income, which produced pent-up demand. Partly as a result, a feature of the pandemic was buoyant goods consumption, which strained global supply chains. Indicators suggested that the supply side of the U.S. economy was not immune (Exhibit 2A and 2B). Anticipating a fading of the economic disruptions alongside cooling demand, authorities argued that inflationary pressures caused by the demand-supply imbalance were transitory.

### Portfolio Positioning

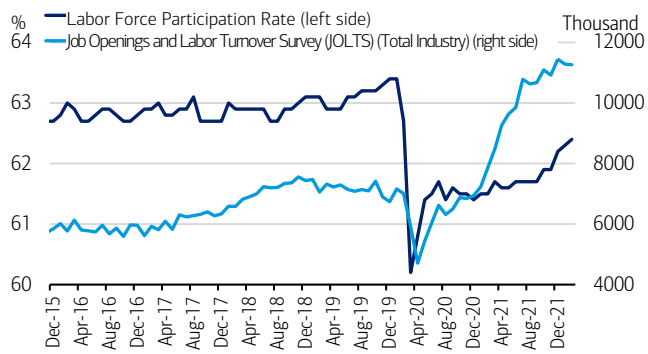
We believe we're transitioning into a new macroeconomic regime, one generally characterized by higher rates of nominal economic growth, which should support corporate profits. Acknowledging greater uncertainty, we suggest a risk-conscious, well-diversified portfolio stance, with a focus on higher-quality firms with cash-flow generating ability and pricing power.

### Exhibit 2: The U.S. Suffered a Supply Shock to Both Its Economic Sectors and the Labor Market.

A) Supplier delivery times became longer. Prices paid by firms increased.



B) Meanwhile, despite greater job openings signaling strong demand from businesses for workers, they were slow to return to the labor force.



Sources: Bloomberg; Institute for Supply Management (ISM); Bureau of Labor Statistics; Chief Investment Office. Data as of March 2022. Notes: Left-hand chart—Greater than 50 indicates lengthened delivery times and rising prices paid. Right-hand chart—Job Openings and Labor Turnover Survey (JOLTS).

### Supply Shock Two—March 2022

Indeed, there were signs that the supply side of the U.S. and the global economy was beginning to heal, until conflict broke out in Eastern Europe.<sup>3</sup> Its fallout has produced another global supply shock, exacerbating inflationary pressures.

Though a relatively small economy, Russia is a commodities powerhouse. It's the world's second- and third-largest producer of natural gas and oil, respectively.<sup>4</sup> Especially affecting the European Union, turmoil in energy markets has also raised economic uncertainty in Asian energy consumers such as India, South Korea and Japan. Also a significant producer of other categories, Russia, together with Belarus, accounts for nearly a third of the global production of potash-based fertilizer, in particular affecting Brazil, an agricultural giant.<sup>5</sup> Russia and Ukraine combine to export nearly a quarter of the world's wheat, while the latter exports about half of the global supply of sunflower oil, key for cooking. Aluminum and nickel are other metals notably supplied by Russia, according to Bloomberg.

<sup>2</sup> "Is the COVID-19 Pandemic a Supply or a Demand Shock?" Economic Research Federal Reserve Bank of St. Louis (May 20, 2020).

<sup>3</sup> "Outlook Brightens for Southeast Asia Factories as Virus Eases," Bloomberg (February 28, 2022).

<sup>4</sup> Council on Foreign Relations. (March 22, 2022).

<sup>5</sup> Commodity Markets Outlook—World Bank (October 2021).

## Aspects of a New Regime?

From a macroeconomic regime of secular stagnation, our belief is that we're transitioning to a new one, generally characterized by a greater pace of nominal economic expansion. Yet resonating with aspects of the 1970s oil shocks, which resulted in enduring pressure on the world's supply-side economy, we think today's back-to-back crises raise uncertainty as to the longer-term mix of real growth and inflation underpinning nominal growth.

Moreover, prominent investors and economists worry that the latest crisis may accelerate a shift toward a more fragmented global economy, a structural shift which may result in lower-trend economic growth and greater inflation.<sup>6</sup> We'd dub this rearrangement "*The Great Scramble*," portrayed by private efforts to secure supply chains—a "just-in-case," rather than a "just-in-time" approach—and greater government intention to incorporate evolving geopolitical contexts to their countries' economic security. While also inducing capital expenditure, transitions to greener economies as well as the effects of climate change and even the near-term evolution of China's Zero-Covid policy constitute other notable factors for the outlook of the world's supply-side economy, in our opinion.

Alongside repeated supply-side shocks, another factor that fanned the Great Inflation of the 1970s was excessive growth of the U.S. money supply, fueled in part by a full abandonment of the dollar's anchor to gold. One measure, M2—a measure of the money supply—grew by around 13% year-over-year on numerous occasions. Like then, today's reading of 11% sits over a standard deviation above its average since 1960 of roughly 7%, despite powerful base effects—the same month last year saw growth of over 25%, a record.

Alongside easy monetary policy by the Fed, President Lyndon Johnson's Great Society 1964 programs, combined with Vietnam War military spending, grew fiscal imbalances. Today they are larger, though they've been shrinking. On a trailing-twelve-months basis, the federal budget balance has recovered to just over a deficit of 9% of gross domestic product (GDP) from marginally above 18% in March 2021. Since the mid-1960s, today's figure is matched only by the period during the 2008 Global Financial Crisis. Challenging continued efforts to ameliorate this imbalance and anchor longer-term inflation expectations may be political pressure to sustain real incomes and standards of living, a dynamic also discernable outside the U.S.

## Other Considerations

Nearer term, the expectation for strong real growth momentum of the U.S. economy suggests resilience against these disruptions. BofA Global Research forecasts real growth of 3.3% this year, well above the average of 2.2% during the secular stagnation period from 2009-2019. Moreover, services-oriented activity comprises a larger share—for every dollar of GDP, roughly 40% less energy is consumed compared to in 1975, suggesting less of a broad effect from higher oil prices.<sup>7</sup> Europe's economy, though, based more on natural gas, may be more vulnerable.

Meanwhile despite repeated warnings,, globalization has proved a tough nut to crack. According to the CPB World Trade Monitor, global trade volumes sit at a record, in defiance of repeated disruptions and geopolitical tensions. A gradual approach may dominate corporate behavior. A preference for inventory overstocking and diversifying suppliers, alongside the reshoring of supply chains, may bring greater nuance to the deglobalization trend while boosting investment opportunities, amid rising global capital expenditure.

It's also important to note that the supply shocks of the 1970s had lasting positive effects, such as a push to improve energy efficiency in the U.S. Today's analogue may be a push toward the quicker adoption of renewable energy, also in an effort to reduce national security vulnerabilities.<sup>8</sup> Driven by these ongoing trends, longer-term, economic growth in this novel environment may increasingly favor cyclically based real assets and firms connected to them, such as those in the Energy and Materials sectors. Along these veins, we'd also favor firms specialized in the management and infrastructure underpinning evolving supply chains, the green and digital economies, including cybersecurity, and in enhancing productivity, such as robotics. From a regional basis, the loss of Russia and Ukraine as global commodities suppliers may benefit various countries, such as some in Latin America, including Brazil, Argentina and Colombia. Australia, Indonesia, Malaysia, South Africa, as well as countries in the Middle East, may also find opportunity to raise their market share.

<sup>6</sup> "The future of the world economy is deglobalization," *Axios* (March 24, 2022).

<sup>7</sup> "\$100 oil won't derail the US economy," *CNN* (February 25, 2022).

<sup>8</sup> "War brings echoes of the 1970s oil shock," *Financial Times* (March 11, 2022).

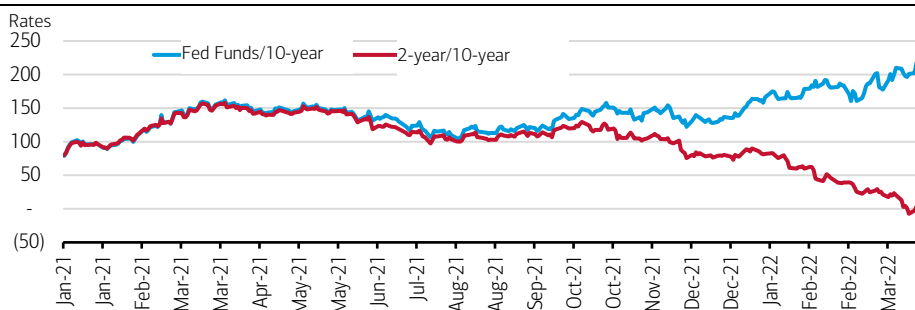
## What Have Yield Curves Been Saying Recently?

*Matthew Diczok, Managing Director and Head of Fixed Income Strategy*

Since the first quarter of 2021, the 2-year /10-year Treasury yield curve has flattened dramatically—from almost +160 bps positive to recently negative -7 bps negative. Usually, this indicates that Fed policy is becoming restrictive, and the economy may slow near term.

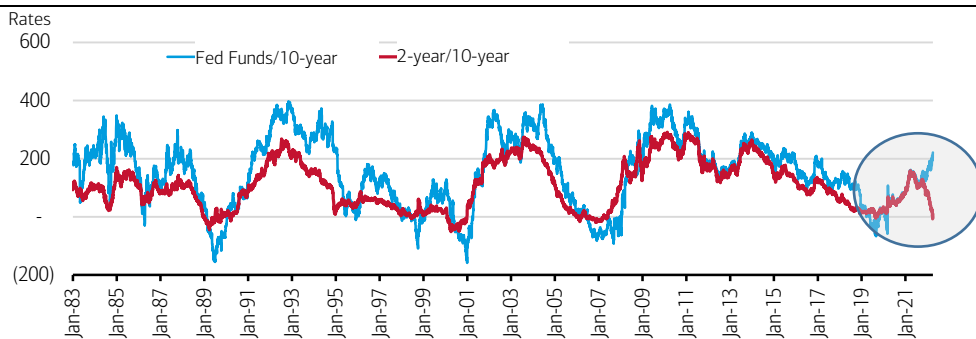
However, that is not the case now. Different yield curves generally move in similar directions, flattening or steepening at the same time. Now, however, different curves are producing conflicting signs. The federal funds rate/10-year yield curve also started flattening when 2-year /10-year Treasury yield did; since then, however, 10-year and 2-year Treasury rates have increased markedly, while the Fed has kept rates near zero. Therefore, the federal funds rate/10-year Treasury started steepening at the end of last year while the 2-year/10-year Treasury yield continued to flatten. This divergence is a historical anomaly.

### Exhibit 3: The Recent Divergence Between 2-year Treasury/10-year Yield and Federal Funds Rate/10-year Yield.....



Source: Federal Reserve. Data as of April 4, 2022.

### Exhibit 4: ...Is Unprecedented In the Modern Era, As the Fed Has Never Been This Far Behind Curve in Over 40 Years.



Source: Bloomberg. Data as of March 31, 2022.

While some have indicated that this is a conundrum, we believe it isn't. The federal funds rate/10-year Treasury is signaling the same thing as coincident and leading economic indicators—the near-term economic environment is quite strong, and a recession is very unlikely this year. The fact that the federal funds rate/10-year Treasury has not flattened like the 2-year/10-year Treasury yield curve is simply a glaring sign, in our opinion, of *how far behind the curve the Fed is at the moment*. Had the Fed started raising rates last year—when it became abundantly clear that inflation was not transitory—the federal funds rate/10-year Treasury curve and 2-year/10-year Treasury yield would likely be moving in the same direction, consistent with history.

As the Fed begins to follow through on its anticipated rate hikes, therefore, these curves will once again likely move in the same direction. We will watch for signs of other major changes—quantitative tightening may have a significant effect on rates—but for now the combined signal from the yield curves is clear: While caution may be warranted in 2023 and later, we believe there is no reason to be overly concerned about Fed policy at the moment, as it is currently too loose and not restrictive at all.

### Portfolio Considerations

By looking carefully at yield curves and other economic indicators, we see minimal near-term economic risk, in our opinion. While we are beginning the later part of the economic cycle, we therefore believe it is too early to become excessively defensive, especially as rates are expected to move higher. Investors are cautioned against adjusting portfolios due to the flattening curve at this point, as monetary policy is still quite accommodative. Fixed income portfolios should remain up in quality, short duration, and slightly underweight Treasuries.

Equities

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
DJIA	34,721.12	-0.2	0.2	-3.9
NASDAQ	13,711.00	-3.8	-3.6	-12.2
S&P 500	4,488.28	-1.2	-0.9	-5.5
S&P 400 Mid Cap	2,617.09	-3.4	-2.8	-7.6
Russell 2000	1,994.56	-4.6	-3.6	-10.9
MSCI World	3,012.19	-1.4	-1.3	-6.4
MSCI EAFE	2,139.56	-1.4	-1.8	-7.7
MSCI Emerging Markets	1,127.93	-1.5	-1.2	-8.1

Fixed Income<sup>†</sup>

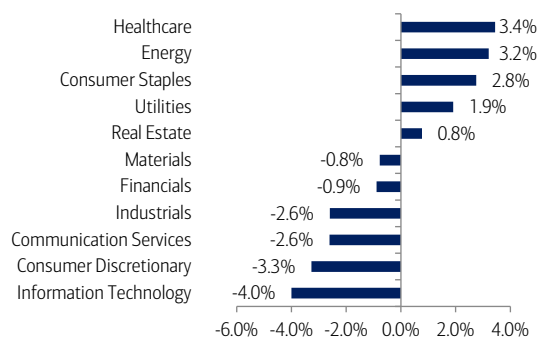
	Total Return in USD (%)			
	Current	WTD	MTD	YTD
Corporate & Government	3.17	-1.89	-2.11	-8.30
Agencies	2.75	-0.69	-1.01	-5.17
Municipals	2.78	-0.83	-0.83	-7.01
U.S. Investment Grade Credit	3.22	-1.82	-2.08	-7.89
International	3.91	-2.36	-2.47	-9.96
High Yield	6.41	-1.34	-1.49	-6.25
90 Day Yield	0.68	0.51	0.48	0.03
2 Year Yield	2.51	2.46	2.33	0.73
10 Year Yield	2.70	2.38	2.34	1.51
30 Year Yield	2.72	2.43	2.45	1.90

Commodities & Currencies

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
Commodities				
Bloomberg Commodity	270.23	2.1	1.6	27.6
WTI Crude \$/Barrel <sup>††</sup>	98.26	-1.0	-2.0	30.6
Gold Spot \$/Ounce <sup>††</sup>	1947.54	1.1	0.5	6.5

	Total Return in USD (%)			
	Current	Prior Week End	Prior Month End	2020 Year End
Currencies				
EUR/USD	1.09	1.10	1.11	1.14
USD/JPY	124.34	122.52	121.70	115.08
USD/CNH	6.37	6.37	6.35	6.36

S&P Sector Returns



Sources: Bloomberg; Factset. Total Returns from the period of 4/4/2022 to 4/8/2022. <sup>†</sup>Bloomberg Barclays Indices. <sup>††</sup>Spot price returns. All data as of the 4/8/2022 close. Data would differ if a different time period was displayed. Short-term performance shown to illustrate more recent trend. **Past performance is no guarantee of future results.**

Economic Forecasts (as of 4/8/2022)

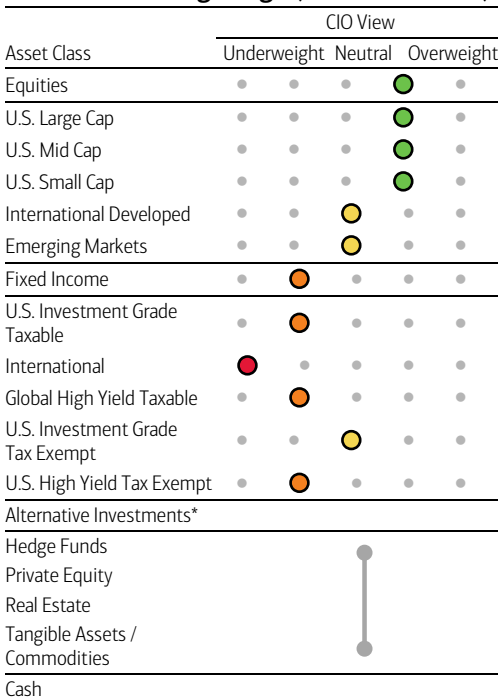
	2021A	Q1 2022E	Q2 2022E	Q3 2022E	Q4 2022E	2022E
Real global GDP (% y/y annualized)	6.1	-	-	-	-	3.6
Real U.S. GDP (% q/q annualized)	5.7	1.0*	3.5	2.5	1.8	3.3
CPI inflation (% y/y)	4.7	7.9*	7.8	7.1	6.0	7.2
Core CPI inflation (% y/y)	3.6	6.3*	5.6	5.3	5.0	5.6
Unemployment rate (%)	5.4	3.8	3.4	3.2	3.1	3.4
Fed funds rate, end period (%)	0.07	0.33	1.38	2.13	2.63	-

The forecasts in the table above are the base line view from BofA Global Research. The Global Wealth & Investment Management (GWIM) Investment Strategy Committee (ISC) may make adjustments to this view over the course of the year and can express upside/downside to these forecasts. Historical data is sourced from Bloomberg, FactSet, and Haver Analytics. **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.**

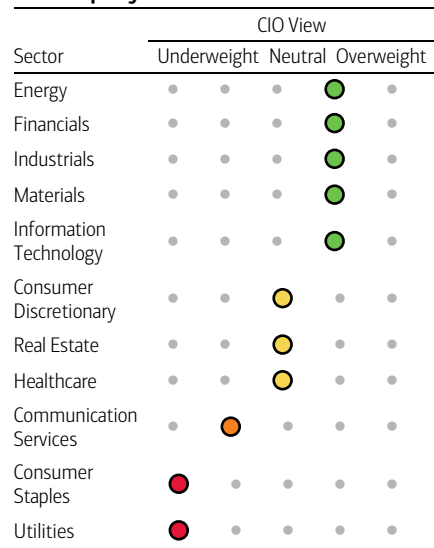
A = Actual. E/\* = Estimate.

Sources: BofA Global Research; GWIM ISC as of April 8, 2022. 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.

Asset Class Weightings (as of 3/1/2022)



CIO Equity Sector Views



\*Many products that pursue Alternative Investment strategies, specifically Private Equity and Hedge Funds, are available only to qualified investors. CIO asset class views are relative to the CIO Strategic Asset Allocation (SAA) of a multi-asset portfolio. Source: Chief Investment Office as of March 1, 2022. All sector and asset allocation recommendations must be considered in the context of an individual investor's goals, time horizon, liquidity needs and risk tolerance. Not all recommendations will be in the best interest of all investors.

## Index Definitions

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

**S&P 500 Equity 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.

**Conference Board Leading Credit Index** is an American economic leading indicator intended to forecast future economic activity.

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

**BofA Global Financial Stress Index (GFSI)** calculated, cross market measure of risk, hedging demand and investor flows in the global financial system.

**Manufacturing Prices Index** is a measure of pricing trends constructed from a survey of a nationwide sample of purchasing and supply executives, in which respondents are asked whether they see the prices of their inputs as increasing, decreasing, or staying the same over the month

**Real Broad Trade Weighted Dollar Index** is a measure of the value of the United States dollar relative to other world currencies

**Services Prices Index** is a list of prices of goods and services that shows how much prices have changed in a given period of time.

**Institute for Supply Management (ISM) Index** is a composite index that gives equal weighting to new orders, production, employment, supplier deliveries, and inventories.

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Asset allocation, diversification and rebalancing do not ensure a profit or protect against loss in declining markets.

Dividend payments are not guaranteed, and are paid only when declared by an issuer's board of directors. The amount of a dividend payment, if any, can vary over time.

Investments have varying degrees of risk. Some of the risks involved with equity securities include the possibility that the value of the stocks may fluctuate in response to events specific to the companies or markets, as well as economic, political or social events in the U.S. or abroad. Small cap and mid cap companies pose special risks, including possible illiquidity and greater price volatility than funds consisting of larger, more established companies. Investing in fixed-income securities may involve certain risks, including the credit quality of individual issuers, possible prepayments, market or economic developments and yields and share price fluctuations due to changes in interest rates. Bonds are subject to interest rate, inflation and credit risks. Investments in foreign securities involve special risks, including foreign currency risk and the possibility of substantial volatility due to adverse political, economic or other developments. These risks are magnified for investments made in emerging markets. Investments in a certain industry or sector may pose additional risk due to lack of diversification and sector concentration. There are special risks associated with an investment in commodities, including market price fluctuations, regulatory changes, interest rate changes, credit risk, economic changes and the impact of adverse political or financial factors.

**Alternative investments are speculative and involve a high degree of risk.**

Alternative investments are intended for qualified investors only. Alternative Investments such as derivatives, hedge funds, private equity funds, and funds of funds can result in higher return potential but also higher loss potential. Changes in economic conditions or other circumstances may adversely affect your investments. Before you invest in alternative investments, you should consider your overall financial situation, how much money you have to invest, your need for liquidity, and your tolerance for risk.

Nonfinancial assets, such as closely held businesses, real estate, fine art, oil, gas and mineral properties, and timber, farm and ranch land, are complex in nature and involve risks including total loss of value. Special risk considerations include natural events (for example, earthquakes or fires), complex tax considerations, and lack of liquidity. Nonfinancial assets are not in the best interest of all investors. Always consult with your independent attorney, tax advisor, investment manager, and insurance agent for final recommendations and before changing or implementing any financial, tax, or estate planning strategy.

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