

CHIEF INVESTMENT OFFICE

# Capital Market Outlook

April 24, 2023

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

## IN THIS ISSUE

**Macro Strategy—*The Calm Before the Storm?*** Economic indicators continue to support our view that U.S. growth is on a slowing trajectory as the Federal Reserve’s (Fed) aggressive liquidity tightening increasingly squeezes bank lending appetite, consumer spending, business expansion plans and corporate pricing power. Indeed, the data’s pattern of change over the past year has validated the predictive characteristics of time-honored leading indicators.

While this time may still be different, past experience with deeply inverted yield curves (i.e., much lower 10-year Treasury yields than short-term interest rates) strongly suggests that the weakest part of the current business cycle is likely to be felt starting later this year and in 2024. Even absent a recession, economic growth is generally seen remaining well below potential for at least two years, with risks to the downside.

**Market View—*Surveying the Landscape in International Markets:*** International Equities came into 2023 on a strong footing, but over the course of this year so far have been broadly in line with U.S. markets.

Over the past several years, investors have seen non-U.S. Equities deliver many short bouts of moderate outperformance, only to see them unwound. And over the past six weeks since the onset of the banking sector problems in the U.S. and Europe, returns across international markets have again moderated. We continue to watch the international market landscape for opportunities, but at this stage still favor the U.S. on a tactical basis.

**Thought of the Week—*Back in Business: Debt Ceiling Negotiations Hit Wall Street:*** The incoming policy debate about the debt ceiling is developing.

Some of Capitol Hill’s past episodes of debt ceiling crises have roiled markets, like in the summer of 2011 when Standard & Poor’s downgraded the U.S. credit rating. We are monitoring headline risk as the debate progresses, including any “X-Date” deadline update.

## MACRO STRATEGY ►

**Irene L. Peters, CFA®**  
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## MARKET VIEW ►

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## THOUGHT OF THE WEEK ►

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## MARKETS IN REVIEW ►

**Data as of 4/24/2023,  
and subject to change**

### Portfolio Considerations

This month, we adjusted our U.S. Equity sector allocations by lowering Financials to neutral from slight overweight, lowering Real Estate to slight underweight from neutral, and raising Communication Services to neutral from underweight. With markets trying to price in two main scenarios at once (recession on its way and a Fed that “blinks” by pivoting to looser policy), we continue to remain neutral Equities and Fixed Income. The macro backdrop warrants near-term caution on risk-assets like Equities and High Yield and points to elevated volatility overall, but we continue to believe it will create opportunities for long-term investors over the rest of the year.

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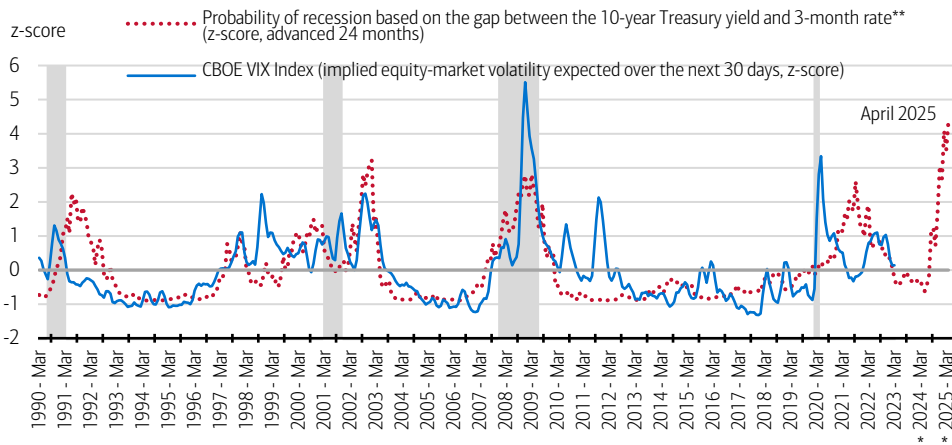
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## The Calm Before the Storm?

Irene L. Peters, CFA®, Director and Senior Macro Strategy Analyst

There's been a lot to be cheerful about so far this year, from healthy Q1 U.S. gross domestic product (GDP) growth and signs of easing inflation to a quick resolution of the banking issue in March and chatter about a possible end to the Ukraine war. Add in China's reopening and better-than-expected European performance, and the stealth S&P 500 Index recovery from about a 25% 2022 peak-to-trough drop makes sense. Reflecting still favorable current economic conditions and strong corporate cash flows, credit spreads have also remained benign, if no longer deep in the below-average territory typically associated with accommodative monetary policy. Given the usual lag of about two years between a surge in the probability of recession—as calculated by the Federal Reserve Bank of New York based on the yield-curve flattening and inversion of the past year—and a spike in expected equity market volatility, as measured by the Chicago Board Options Exchange (CBOE) Volatility Index (VIX), it is not surprising to see volatility still fluctuating around average levels this year, either (Exhibit 1).

### Exhibit 1: Higher Market Volatility Likely Ahead.



\*Estimates. Gray areas represent recession periods. z-score = number of standard deviations an observation is above or below the mean of the data set. Sources: CBOE; \*\*Federal Reserve Bank of NY/Haver Analytics. Data as of April 19, 2023.

That said, the same spike in the probability of recession shown in Exhibit 1 suggests a period of potentially rough volatility is at hand, which argues for a rather defensive investment approach notwithstanding the allure of resilient current economic conditions and financial markets. Basically, while markets are breathing a sigh of relief following various shocks, incoming data show the economy is losing steam amid growing signs of disinflation, with a deeply inverted yield curve signaling that the weakest part of the current business cycle has yet to be felt and, based on past experience, is likely baked in the cake over the next two years.

Indeed, strong January consumer spending (induced by unseasonably warm winter weather and massive upward inflation adjustments to social security payments and other government pension income) set the stage for a strong quarterly gain in Q1, breathing new life into previously fading economic growth. Since January, however, retail sales have contracted at an accelerating pace, posting larger-than-consensus and broad-based declines in March, even as gasoline prices fell sharply, boosting households' discretionary income. On a year-over-year (YoY) basis, retail sales adjusted for inflation have stopped growing. Not surprisingly, given the usual lagged effect of housing sector weakness on consumer spending discussed in our past reports, interest rate-sensitive and housing-related goods including autos, furniture and building materials suffered notable declines.

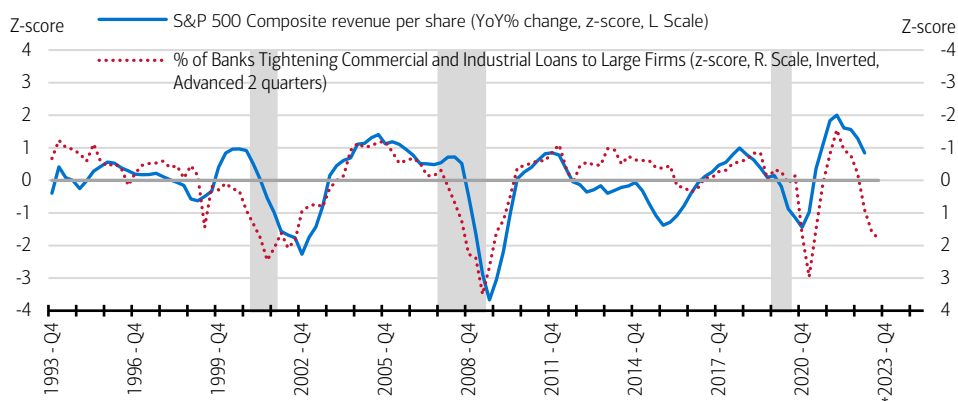
With consumer financing rates at levels not seen in 15 years or more, housing in a deep recession, and banks tightening credit standards over the past six months, consumer durable-goods sales face increasing headwinds. Diminishing pandemic-related excess savings, renewed gasoline price increases just as the driving season is about to start, and a further likely softening in aggregate wages and salaries in coming quarters as a result of Fed-engineered disinflation and moderating employment growth only reinforce the case for a sustained slowdown in consumer spending, with spill-over effects on production and corporate profits.

### Investment Implications

A cautious investment approach remains appropriate, in our view, as the excesses built during the first year of the pandemic unwind in 2023 and 2024, with negative effects on corporate earnings.

The mix of a softening consumer spending outlook with recessionary manufacturing surveys, a completed inventory restocking cycle, fading business pricing power, shrinking small business investment plans, and below-trend global growth expectations for 2023 and 2024 suggest a dimming business investment outlook. The March National Federation of Independent Business (NFIB) survey shows the lowest percentage of small businesses saying “now is a good time to expand” since 1980. While recent data don’t show much new tightening of financing conditions in the wake of regional bank issues yet, the decline in bank lending sentiment reported over the six months to March is consistent with significantly slower commercial and industrial credit and corporate revenue growth ahead (Exhibit 2), both negative for business investment growth. According to the Federal Reserve Board, U.S. manufacturing production has already contracted over the past year—its recently reported drop in March led by a particularly big decline in business equipment production, the fourth in five months.

### Exhibit 2: Slower Lending Usually Followed By Weaker Corporate Revenue Growth.



\*Estimate. Gray areas represent recession periods. Sources: Federal Reserve Board; Standard and Poor’s/Haver Analytics. Data as of April 19, 2023.

All in all, aggressive monetary tightening to tame inflation has set in motion a number of growth-inhibiting self-feeding dynamics and has caused a deep inversion of the yield curve between the 10-year Treasury yield and short rates over the past six months. Given a typical lead of about 18 to 24 months between a spike in the probability of recession associated with yield-curve inversions and a deterioration in economic conditions, the weakest part of the current business cycle is likely to unfold over the next 18 months. This suggests that a prolonged period of downward pressure on production, employment and corporate pricing power is likely in store. What’s more, with the Fed expected to raise rates at least once again and possibly be slow to ease policy while growth and inflation surprise to the downside, the yield curve may stay inverted for a prolonged period, consistent with a longer-than-normal stretch of subpar economic growth and potential stress on bank asset quality.

Thus, the good news is that, as the economy slows further with the typical long and variable lag to tightening monetary policy and weakening leading economic indicators, a period of continued disinflation is likely. The bad news is that a longer-than-expected period of weakening pricing power and slowing growth may be in store, resulting in much softer-than-anticipated revenue growth and profit margins, in our view.

Disagreement about the outlook persists, however, especially given confounding signals coming from very robust current levels of employment and labor-demand surveys that seem to invalidate the warning signals from the rapid moderation or declines seen in indicators such as manufacturing production, consumer and business confidence, and other leading indicators of economic growth. Importantly, however, it is changes in most economic indicators that best track the business cycle and manufacturing mini cycles, not their levels. Two such examples are the JOLTS<sup>1</sup> job openings levels and the NFIB percentage of firms with positions unable to fill right now. These numbers move almost perfectly together, so despite some moderation, both have remained unusually elevated this year. However, their year-to-year changes have closely tracked the sharp drop in the widely followed Institute for Supply Management (ISM) manufacturing index, for example, showing that they are not out of synch with the deterioration in the manufacturing and trade trend after all. While still currently reflecting strong labor demand, their elevated levels say little about where the economy and profits are going, which is what ultimately matters for financial market returns.

<sup>1</sup> Job Openings and Labor Turnover Survey.

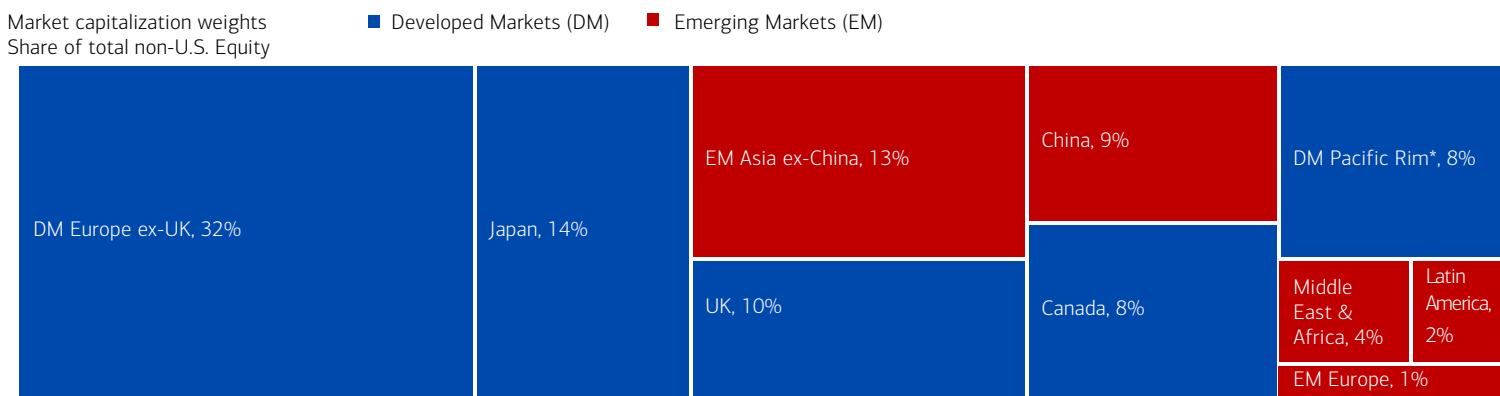
## Surveying the Landscape in International Markets

*Ehiwario Efejini, Director and Senior Market Strategy Analyst*

International markets came into 2023 on a strong footing after sharp declines in benchmark natural gas prices and the dismantling of zero-Covid restrictions provided respective tailwinds for Europe and China late last year. But over the full course of this year so far, non-U.S. Equity returns have been broadly in line with U.S. markets with wide disparities between individual regions. Developed Europe has led the rest of the world, supported by ongoing declines in the natural gas price. Latin America, emerging Europe and Japan have essentially matched U.S. and global aggregate indexes, with dollar weakness lifting common currency returns. And emerging Asia has lagged.

In terms of relative importance, developed Europe still commands by far the largest share of the non-U.S. Equity universe at 32% for continental Europe alone and 42% including the U.K. market. Emerging Asia makes up the next largest share at 22% of non-U.S. market capitalization, with China alone accounting for 9% of the international total. Latin America and emerging Europe by contrast remain relatively inconsequential to the international picture overall at just 2% and 1% respectively (Exhibit 3).

### Exhibit 3: International Equity Regional and Country Weightings By Major Market.



\*DM Pacific Rim is Australia, New Zealand, Hong Kong, Singapore. Based on MSCI All-Country World Index. Source: MSCI. Data as of 2022.

Over the past several years, investors have seen non-U.S. Equities deliver many short bouts of moderate outperformance, only to see them unwound. Indeed, international markets have trailed the U.S. in 10 of the 13 years since the 2008-2009 financial crisis. And over the past six weeks since the seminal bank problems in the U.S. and Europe, returns across non-U.S. markets have again moderated. We continue to watch the international market landscape for opportunities, but at this stage still favor the U.S. on a tactical basis.

Though they have regained ground in more recent sessions, financials and other cyclical sectors have lagged behind defensive and Growth segments since the onset of the banking sector stress in early March. And for as long as risks to deposit funding persist, the likelihood of a prospective tightening in lending standards and slowdown in loan growth may keep financials in particular under relative pressure. This would put non-U.S. markets at a disadvantage to their U.S. counterparts given their aggregate 20% exposure to the sector (weighted evenly across emerging and developed indexes), which is close to double that of the U.S. market.

The potential for global credit availability to tighten further could also pose external funding risks for individual emerging economies with weak current account positions. These include a number of countries in Latin America and emerging Europe with large deficits in excess of 5% of GDP. However, taken together, their small market size should limit the effect on EM as a whole. Close to 70% of the MSCI EM Index market cap remains in outright current account surplus, including the bulk of the dominant Asia region, limiting reliance on external credit to fund domestic consumption and investment. Nonetheless the significant role played by bank credit domestically across non-U.S. markets, particularly in Europe, could yet pose greater downside risks if lending conditions were to deteriorate. Correspondingly, U.S. equities have

### Portfolio Considerations

Equity returns across international markets have moderated since the early March onset of banking sector stress. Diversification benefits continue to justify a strategic allocation to International Equities, but the risk of further bank credit tightening, local sector composition, the potential for higher rates in Europe and Japan, and a lack of decisive weakness in the U.S. dollar mean that for now we retain a tactical bias away from non-U.S. markets.

been global outperformers since early March, with emerging Asia leading other international markets over the same period.

The inflation challenge also appears greater for Europe than for the U.S. and other international markets. On a headline basis, consumer price inflation in the U.S. rose to a lower level, peaked earlier and has fallen further than in Europe. At 6.9%, eurozone consumer price index (CPI) inflation stands close to a full two percentage points higher than the U.S. rate, leaving the European Central Bank with a greater task than the Fed in bringing it back to the 2% target. And on a core (excluding food and energy) basis, U.S. inflation peaked last September, while eurozone core inflation is still rising. This implies more rate increases ahead for European markets, even as the Fed is likely to pause after its May meeting next week. This year's rally in European Equities has been led by the Consumer Discretionary sector, which should continue to benefit from Chinese consumer-led reopening demand for luxury products and accessories. But a more entrenched inflation problem and the likelihood of additional interest rate increases may be a larger hurdle for European valuations as the year progresses, particularly if local credit conditions worsen.

Similarly for Japan, pressure is likely to increase on the central bank to abandon its policy of yield curve control (YCC) and allow 10-year government bond yields to rise beyond their current 0.5% upper limit. Since YCC was adopted in 2016 to target a zero level on the 10-year yield with the aim of keeping ex-food CPI inflation above 2%, the Bank of Japan (BoJ) has widened the band around this target level three times: to 10 basis points (bps) in 2018, 25 bps in 2021 and 50 bps in 2022. But ex-food inflation currently stands at 3.1%, having surpassed the 2% threshold last April. And with growing evidence of second-round effects from union-driven wage increases, this source of monetary support is likely to be reduced or withdrawn at some stage after the new governor of BoJ conducts his first policy meeting at the end of this week. For Japanese markets, downside risks from less monetary accommodation, higher rates and a stronger currency could therefore increase later in the year.

In China, the 4.5% GDP growth figure released last week for Q1 pointed to a faster-than-expected expansion, with 10.6% growth in retail sales highlighting particular strength in consumer demand. Following its economic reopening late last year, China remains in the early stages of a domestic recovery, with additional tailwinds coming from easy monetary policy, rising credit growth, low inflation and regulatory easing in the property and consumer internet sectors. Just as growing consumer demand in China has come as a key support for the luxury goods segment in Europe, we would also expect additional positive spillovers to the rest of the Asia-Pacific region. In particular, cross-border travel should increase as more Chinese tourists arrive in their leading destinations of southeast Asia, Hong Kong and Japan. And manufacturers of discretionary consumer goods in markets such as Korea should also stand to benefit. This suggests that China and the rest of EM Asia could be relative global bright spots within global equities as markets in much of the rest of the world approach the later stages of their current cycles.

For EM more broadly, the U.S. dollar weakness of the past six months has also been a positive, both as a direct boost to common currency returns and by reducing the local value of foreign currency debt. Historical episodes of global financial uncertainty have typically been periods of dollar strength. But the recent depreciation has continued since the start of the banking sector problems in March, helped by coordinated global central bank efforts to boost dollar liquidity through international swap lines. In level terms, the U.S. dollar nonetheless remains well above its long-term average and could still move higher on any broadening in banking sector stress. This suggests an ongoing need for caution until a clearer trend toward outright dollar weakness has been established.

In our view, diversification benefits continue to justify a strategic allocation to International Equities. But at this stage, the risk of further bank credit tightening, local sector composition, the potential for higher rates in Europe and Japan, and a lack of decisive weakness in the U.S. dollar mean that for now we retain a tactical bias away from non-U.S. markets.

## THOUGHT OF THE WEEK

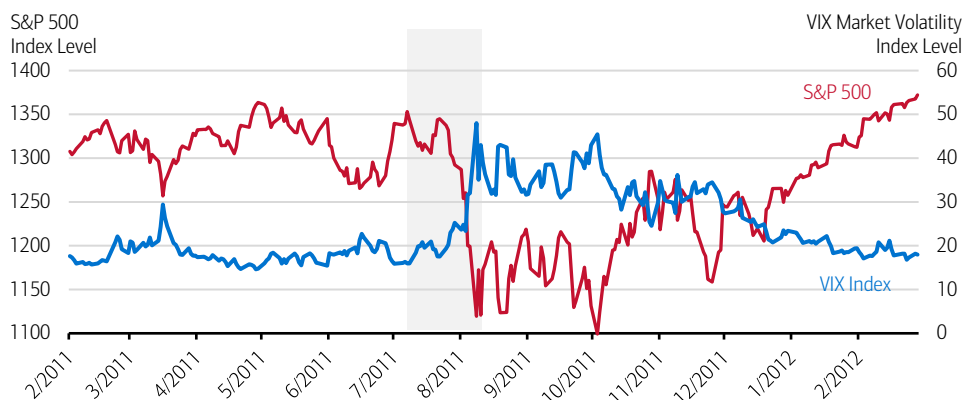
### Back in Business: Debt Ceiling Negotiations Hit Wall Street

*Lauren J. Sanfilippo, Director and Senior Investment Strategy Analyst*

As Speaker of the House Kevin McCarthy delivered a speech at the New York Stock Exchange early last week, we're reminded of the risks (and déjà vu) surrounding the debt ceiling debate. Last raised in December 2021, the U.S. debt ceiling (and total national debt) stands at \$31.4 trillion. Moving closer to the "X-date"—the date by which "extraordinary measures" are exhausted, without agreement, the U.S. runs the risk of downgrade, or worse, default. While the details differ from the 2011 negotiations that resulted in the U.S. credit downgrade from AAA to AA+, its potential as a source of volatility does not.

The 2011 consequence: As U.S. debt was downgraded, risk assets reacted negatively. The dollar declined, credit spreads widened as measures of volatility spiked, and stocks sold off. The S&P 500 fell 17% peak-to-trough over the weeks surrounding the debate, while the VIX spiked to 48 (Exhibit 4). Just days later a compromise was forged before the U.S. would have defaulted. Over the coming months should any headline risk around the debt ceiling result in a drawdown, it could represent a buying opportunity.

#### Exhibit 4: Damage Done from the 2011 Debt Ceiling Debacle.



Shaded area highlights the market reaction's peak-to-trough July 7 through August 8. U.S. credit rating was downgraded on August 5. Source: Bloomberg. Data as of March 2023 for one year period February 2011 through February 2012. **Past performance does not guarantee future results.**

#### 2011 Downgrade, Not a Default

Ultimately, it's our view that an agreement will be reached preventing the U.S. from defaulting on its obligations. Many past instances of debt limit standoffs have been resolved without significant market fallout. A growing worry is that the default date could come faster than expected with lower tax collections to date, closer to June or July rather than August. Any uncertainty about the timing and outcome of the resolution adds to a volatile backdrop already in the throes of an earnings reset and growth slowdown.

Important to remember is this: Since 1960, 78 times over, Congress acted to either raise, temporarily extend, or revise the debt limit, with this time likely no different.<sup>2</sup>

#### Investment Implications

As the contours of the debt ceiling negotiations take shape, investors should prepare for potential market volatility over the coming months. Even given the debt ceiling debate and potential market dislocations, our investment bias remains U.S.-focused across asset classes.

<sup>2</sup> U.S. Department of the Treasury.

Equities

|                       | Total Return in USD (%) |      |      |      |
|-----------------------|-------------------------|------|------|------|
|                       | Current                 | WTD  | MTD  | YTD  |
| DJIA                  | 33,808.96               | -0.2 | 1.7  | 2.6  |
| NASDAQ                | 12,072.46               | -0.4 | -1.2 | 15.6 |
| S&P 500               | 4,133.52                | -0.1 | 0.7  | 8.2  |
| S&P 400 Mid Cap       | 2,498.83                | 0.4  | -0.5 | 3.3  |
| Russell 2000          | 1,791.51                | 0.6  | -0.6 | 2.2  |
| MSCI World            | 2,823.07                | -0.1 | 1.2  | 9.0  |
| MSCI EAFE             | 2,146.26                | 0.0  | 2.7  | 11.4 |
| MSCI Emerging Markets | 980.74                  | -2.0 | -0.9 | 3.1  |

Fixed Income<sup>†</sup>

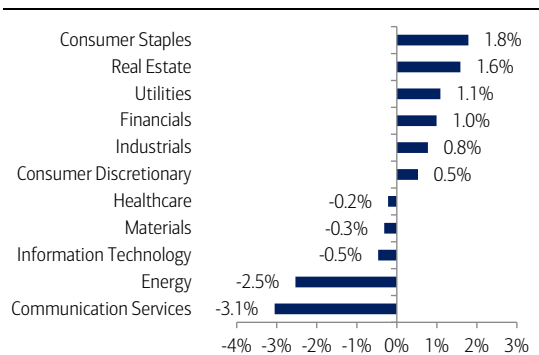
|                              | Total Return in USD (%) |       |       |      |
|------------------------------|-------------------------|-------|-------|------|
|                              | Current                 | WTD   | MTD   | YTD  |
| Corporate & Government       | 4.40                    | -0.24 | -0.24 | 2.92 |
| Agencies                     | 4.45                    | -0.11 | -0.09 | 2.00 |
| Municipals                   | 3.37                    | -1.36 | -0.34 | 2.43 |
| U.S. Investment Grade Credit | 4.47                    | -0.23 | -0.22 | 2.73 |
| International                | 5.20                    | -0.22 | -0.10 | 3.40 |
| High Yield                   | 8.55                    | -0.33 | 0.51  | 4.10 |
| 90 Day Yield                 | 5.02                    | 4.99  | 4.69  | 4.34 |
| 2 Year Yield                 | 4.18                    | 4.10  | 4.03  | 4.43 |
| 10 Year Yield                | 3.57                    | 3.51  | 3.47  | 3.87 |
| 30 Year Yield                | 3.78                    | 3.73  | 3.65  | 3.96 |

Commodities & Currencies

|                                   | Total Return in USD (%) |      |     |      |
|-----------------------------------|-------------------------|------|-----|------|
|                                   | Current                 | WTD  | MTD | YTD  |
| Commodities                       |                         |      |     |      |
| Bloomberg Commodity               | 233.52                  | -2.0 | 0.4 | -5.0 |
| WTI Crude \$/Barrel <sup>††</sup> | 77.87                   | -5.6 | 2.9 | -3.0 |
| Gold Spot \$/Ounce <sup>††</sup>  | 1983.06                 | -1.1 | 0.7 | 8.7  |

|            | Total Return in USD (%) |                |                 |               |
|------------|-------------------------|----------------|-----------------|---------------|
|            | Current                 | Prior Week End | Prior Month End | 2022 Year End |
| Currencies |                         |                |                 |               |
| EUR/USD    | 1.10                    | 1.10           | 1.08            | 1.07          |
| USD/JPY    | 134.16                  | 133.79         | 132.86          | 131.12        |
| USD/CNH    | 6.90                    | 6.87           | 6.87            | 6.92          |

S&P Sector Returns



Sources: Bloomberg, Factset. Total Returns from the period of 4/17/2023 to 4/21/2023. †Bloomberg Barclays Indices. ††Spot price returns. All data as of the 4/21/2023 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 4/21/2023)

|                                    | 2022A | Q1 2023A | Q2 2023E | Q3 2023E | Q4 2023E | 2023E |
|------------------------------------|-------|----------|----------|----------|----------|-------|
| Real global GDP (% y/y annualized) | 3.4*  | -        | -        | -        | -        | 2.8   |
| Real U.S. GDP (% q/q annualized)   | 2.1   | 2.0*     | 0.5      | -1.0     | -2.0     | 1.2   |
| CPI inflation (% y/y)              | 8.0   | 5.8      | 4.3      | 3.6      | 3.2      | 4.2   |
| Core CPI inflation (% y/y)         | 6.1   | 5.6      | 5.0      | 4.2      | 3.4      | 4.5   |
| Unemployment rate (%)              | 3.6   | 3.5      | 3.6      | 3.9      | 4.4      | 3.8   |
| Fed funds rate, end period (%)     | 4.33  | 4.83     | 5.13     | 5.13     | 5.13     | 5.13  |

The forecasts in the table above are the base line view from BofA Global Research. The Global Wealth & Investment Management (GWIM) Investment Strategy Committee (ISC) may make adjustments to this view over the course of the year and can express upside/downside to these forecasts. Historical data is sourced from Bloomberg, FactSet, and Haver Analytics. **There can be no assurance that the forecasts will be achieved. Economic or financial forecasts are inherently limited and should not be relied on as indicators of future investment performance.**

A = Actual. E/\* = Estimate.

Sources: BofA Global Research; GWIM ISC as of April 21, 2023.

Asset Class Weightings (as of 4/4/2023)

| Asset Class                      | CIO View    |         |            |
|----------------------------------|-------------|---------|------------|
|                                  | Underweight | Neutral | Overweight |
| Equities                         | ●           | ●       | ●          |
| U.S. Large Cap                   | ●           | ●       | ●          |
| U.S. Mid Cap                     | ●           | ●       | ●          |
| U.S. Small-cap                   | ●           | ●       | ●          |
| International Developed          | ●           | ●       | ●          |
| Emerging Markets                 | ●           | ●       | ●          |
| Fixed Income                     | ●           | ●       | ●          |
| U.S. Investment-grade Taxable    | ●           | ●       | ●          |
| International                    | ●           | ●       | ●          |
| Global High Yield Taxable        | ●           | ●       | ●          |
| U.S. Investment Grade Tax Exempt | ●           | ●       | ●          |
| U.S. High Yield Tax Exempt       | ●           | ●       | ●          |
| Alternative Investments*         |             |         |            |
| Hedge Funds                      |             |         |            |
| Private Equity                   |             |         |            |
| Real Estate                      |             |         |            |
| Tangible Assets / Commodities    |             |         |            |
| Cash                             |             |         |            |

CIO Equity Sector Views

| Sector                 | CIO View    |         |            |
|------------------------|-------------|---------|------------|
|                        | Underweight | Neutral | Overweight |
| Healthcare             | ●           | ●       | ●          |
| Energy                 | ●           | ●       | ●          |
| Utilities              | ●           | ●       | ●          |
| Consumer Staples       | ●           | ●       | ●          |
| Information Technology | ●           | ●       | ●          |
| Communication Services | ●           | ●       | ●          |
| Industrials            | ●           | ●       | ●          |
| Financials             | ●           | ●       | ●          |
| Materials              | ●           | ●       | ●          |
| Real Estate            | ●           | ●       | ●          |
| Consumer Discretionary | ●           | ●       | ●          |

\*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 April 4, 2023. All sector and asset allocation recommendations must be considered in the context of an individual investor's goals, time horizon, liquidity needs and risk tolerance. Not all recommendations will be in the best interest of all investors.

## Index Definitions

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

**S&P 500 Index** includes a representative sample of 500 leading companies in leading industries of the U.S. economy. Although the index focuses on the large-cap segment of the market, with approximately 75% coverage of U.S. equities, it is also an ideal proxy for the total market.

**Chicago Board Options Exchange (CBOE) Volatility Index (VIX)** is a real-time market index representing the market's expectations for volatility over the coming 30 days.

**Institute for Supply Management (ISM) Manufacturing Index** is a leading economic indicator for the level of economic activity in the manufacturing sector in the United States.

**MSCI All-Country World Index** is a stock index designed to track broad global equity-market performance.

**MSCI EM Index** is a selection of stocks that is designed to track the financial performance of key companies in fast-growing nations.

**Consumer Price Index (CPI)** is a selection of stocks that is designed to track the financial performance of key companies in fast-growing nations.

## Important Disclosures

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

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