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CHIEF INVESTMENT OFFICE

Capital Market Outlook

July 19, 2021

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

IN THIS ISSUE

Macro Strategy—It's typical for equity markets to overreact when the Federal Reserve (Fed) first signals a shift away from early-cycle, maximum accommodation. These shifts usually cause a temporary rotation from the cyclical and Value stocks that outperform at the beginning of economic expansions to the Growth stocks that benefit when the economy eventually slows downs. As it becomes clear that policy remains accommodative enough for strong growth to continue, the cyclical and Value beneficiaries of currently strong economic growth tend to reassert their leadership until monetary policy actually turns restrictive.

Global Market View—Our tactical view on emerging markets (EM) remains neutral, but wide return disparities still, in our estimation, favor a more active approach to the group. We have, therefore, constructed a scorecard framework in order to help assess the relative prospects across individual countries and regions in the current environment.

Thought of the Week—Small-caps have outperformed on the back of supportive economic conditions, improving earnings, and attractive valuations. In our view, momentum could continue.

Portfolio Considerations—We still expect Equities to outperform bonds and cash and believe that this remains the largest risk management decision in a multi-asset portfolio. Portfolio allocations during this period should continue to emphasize balance across and within asset classes.

MACRO STRATEGY
Chief Investment Office
Macro Strategy Team

GLOBAL MARKET VIEW
Ehiwario Efeyini
Director and Senior Market Strategy Analyst

THOUGHT OF THE WEEK
Emily Avioli
Assistant Vice President and Investment Strategist

Data as of 7/19/2021, and subject to change

MACRO STRATEGY

Stronger for Longer

Chief Investment Office, Macro Strategy Team

As Empirical Research Partners put it in a June 30, 2021, report, "the latest Fed meeting was seen as a bell-ringing turning point for the economy and markets." The key words are "seen as," because history shows that the market typically overreacts to first signals of tightening. Indeed, just a week after the sell-off, market indexes were already setting new record highs. That's because first tightening signals seldom mean that monetary policy is going to turn restrictive anytime soon. Empirical Research analysis finds that over the past 70 years, two-thirds of the initial reactions to these policy shifts turned out to be the opposite of how the market performance played out over the following year.

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For example, the reaction to the Federal Open Market Committee (FOMC) June 15-16 meeting saw a big sell-off in the cyclical, Value-stock leaders of 2021 and a run-up in the Growth stocks that have lagged this year. Why do these knee-jerk sell-offs tend to be contrary to ultimate year-ahead performance? The answer seems to be that policy tends to move toward less accommodation gradually rather than abruptly. In fact, in many instances growth tends to strengthen even as the Fed moves toward higher interest rates, because economic momentum builds faster than accommodation is pulled back. The Fed's new, more laid-back approach to inflation suggests that may be the case in 2022, despite the likelihood that rates will rise sooner than the market thinks.

The leading indicators for global economic growth are unusually strong and almost unanimously pointing to one of the strongest economic expansions of the past 70 years. For example, 95% of the signals from proprietary indicators compiled by BofA Global Research analysts were bullish or neutral in June. That compares with just 15% at the low point in April 2020, when the pandemic shutdown first paralyzed the U.S. and world economies. Since then, unprecedented fiscal and monetary stimulus has propelled one of the strongest and fastest economic rebounds and equity bull markets on record. The rolling reopenings since November and additional fiscal spending have put massive additional demand growth in the pipeline for the foreseeable future, with double-digit liquidity growth from major central banks promised well past 2021. As a result, global gross domestic product (GDP) is seen growing at the fastest pace in decades this year and remaining solid in 2022 as well.

The main concern for the next few years is how high and persistent inflation will be and how aggressive central banks will be in addressing it. Based on the much stronger inflation data than it had predicted, the U.S. central bank made its first tentative step toward reducing accommodation. In our view, a "baby-steps" approach to Fed tightening is likely to keep inflation surprises higher for longer, as it allows excessive accommodation to cement the higher inflation expectations that the new flexible average inflation targeting policy is designed to achieve. In short, the Fed is deliberately overshooting its inflation target for a more sustainable period than the market seems to expect.

With U.S. inflation running in the mid-single digits and real GDP growth on course for high-single-digit growth during the reopening of long-crippled service-sector businesses, nominal GDP is likely to sustain double-digit growth rates for the foreseeable future. Nominal Treasury interest rates between 0% and 2% in the U.S. economy, where nominal GDP is growing above a 10% pace, were last seen in the aftermath of World War II, when the Fed was locked into an accord with the Treasury that created double-digit inflation rates. How the Fed extricates itself from financing today's unprecedented peace-time deficits is the major question ahead for markets. Will tapering abruptly truncate the boom and cause a deep recession? Or, will the quest for a soft landing let the economy run hot and inflation higher for longer? The size of the developing policy excesses are making a smooth exit less and less likely. As the renowned economist Nouriel Roubini put it in a July 3, 2021, *Project Syndicate* article, *"Making matters worse, central banks have effectively lost their independence, because they have been given little choice but to monetize massive fiscal deficits to forestall a debt crisis. With both public and private debts having soared, they are in a debt trap. As inflation rises over the next few years, central banks will face a dilemma. If they start phasing out unconventional policies and raising policy rates to fight inflation, they will risk triggering a massive debt crisis and severe recession; but if they maintain loose monetary policy, they will risk double-digit inflation—and deep stagflation when next negative supply shocks emerge."* In our view, higher inflation is likely to prove the easier way out, much as it did in the 1970s. If that's correct, reflation assets have further to run while the Fed stays behind the curve.

Revisions to estimates for second-quarter U.S. growth illustrate the ongoing extent of the widening gap between stimulus-fueled demand and lagging supply growth in a reopening world economy. A little over a month ago, a massive inventory restocking was projected to add over 2.5 percentage points to Q2 GDP growth, according to early Atlanta Fed GDPNow

estimates. As of July 2, that has been reduced to less than half a percentage point. While consumer spending growth has been revised higher to over 10%, residential investment and equipment spending growth have been substantially reduced, arguably because of supply constraints hampering production. In short, the demand-supply mismatch is carrying into the second half with little evidence of a catch-up, as inventories struggle to keep up, let alone make up for existing shortages. As long as this continues, higher inflation is likely to persist. A similar situation is playing out in the U.S. labor market, where the gap between demand and supply continues to widen, as reflected in an unprecedented job-openings backlog.

With the most stimulus and earliest vaccine development, the U.S., is currently leading the world boom. Other countries are catching up and should show relative strength in the second half, helping support strong global growth well into 2022. Another symptom of the growing U.S. imbalance between demand and supply is the widening trade deficit. While negative for U.S. growth, the growing trade deficit will continue to add to growth abroad, helping the U.S. pull the world out of the pandemic recession.

The main exception to this pattern of strengthening growth in the U.S., followed by the rest of the world as vaccination programs catch up, is the outlook for China. China has not adopted the aggressive, inflationary stimulus policies of other major economies. By choosing to avoid a boom-bust approach, its economy is on a more moderate growth path, and its fixed-income market is attracting more investors looking to preserve the real value of capital. In contrast, because of adopting the easiest policies, the U.S. is likely to see the highest inflation of the major-currency countries. Both these trends point to a weaker dollar down the road.

Given this outlook for policymakers to take the easy way out, nominal growth is likely to run stronger for longer. High nominal growth for an extended period is not priced into the market, which still expects the economy to lapse back to the low nominal growth rates of the secular-stagnation era.

Higher nominal growth is bullish for cyclical and Value stocks because it implies higher near-term revenues and earnings as price increases are easier to pass through to consumers enjoying faster wage and income growth. This suggests the current trend of bigger upward revisions, and positive surprises in the cyclical, Value sectors like Energy, Financials and Materials may persist much longer than markets expect. If so, we believe that bodes well for continued outperformance in the second half.

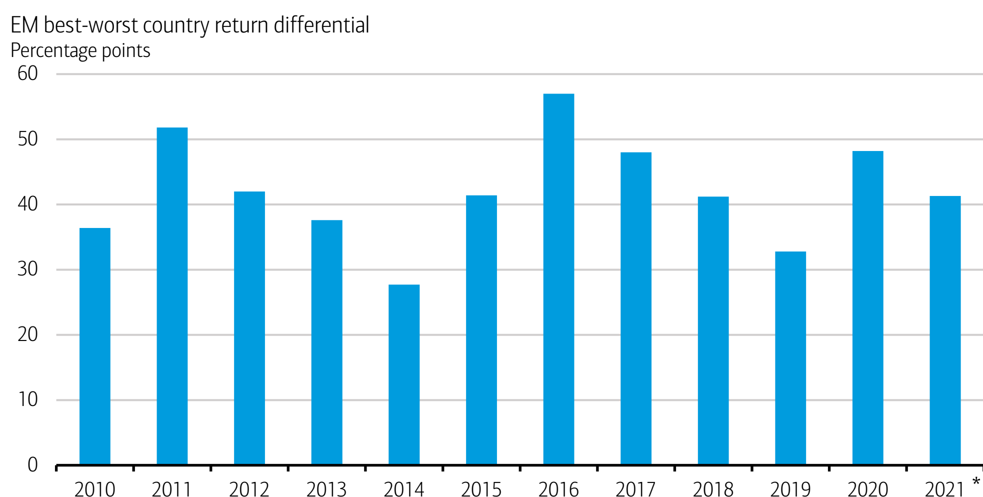
GLOBAL MARKET VIEW

A Scorecard Framework for Emerging Markets

Ehiwario Efeyini, Director and *Senior Market Strategy Analyst*

The first half of 2021 has been a period of solid gains for global equity markets, with cyclical sector leadership across both developed and EM indexes. Global benchmarks have delivered double-digit returns in aggregate, but for EM the concentration of cyclicals within lower-weighted countries has translated into underperformance for the group as a whole. Though they have lagged on a cap-weighted basis, EM have nonetheless exhibited significant dispersion across individual markets. Six countries have outpaced the S&P 500, and the return difference between the strongest and weakest performers has been at the upper end of the range over the past decade since the financial crisis (Exhibit 1).

Exhibit 1: Emerging Markets Have Seen Wide Return Dispersion In 2021.



*Estimate. Source: Bloomberg. Data as of June 2021. Midyear total return difference in USD between best and worst performers across 20 major emerging markets. **Past performance is no guarantee of future results.**

Our tactical view on EM remains neutral, but these wide disparities still, in our estimation, favor a more active* approach to the group. We have, therefore, constructed a scorecard framework in order to help assess the relative prospects across individual countries and regions in the current environment. Based on five categories—progress on coronavirus vaccinations, exposure to the digital economy, vulnerability to Fed tightening, direction of local monetary policy and valuation—we classify 20 major markets (Exhibit 2) with a view to establishing a quantifiable starting point for relative country and regional preferences.

Exhibit 2: A Five-Category Framework To Assess Emerging Markets.

	Coronavirus vaccinations Doses per 100 people	**Digital economy exposure** Share of market capitalization in digital industries*	**Vulnerability to Federal Reserve tightening** Current account share of GDP (%)	**Local monetary policy** 6-month policy rate change (bps)	**Valuation** PE/PB** ratio composite (standard deviations from 10-year average)
China	100	48.1%	2.4	0	-0.3
India	28	18.3%	0.9	0	2.2
Indonesia	20	0.0%	-0.2	-25	0.2
Korea	42	55.3%	4.9	0	2.7
Malaysia	37	0.0%	4.6	0	-3.7
Philippines	12	0.0%	3.3	0	0.7
Taiwan	17	71.5%	14.6	0	2.8
Thailand	18	4.1%	0.9	0	0.9
Brazil	55	1.5%	-1.3	225	1.6
Chile	124	0.0%	0.7	0	0.1
Colombia	43	0.0%	-3.8	0	0.1
Mexico	40	0.0%	2.6	0	-1.3
Peru	29	0.0%	0.1	0	0.3
Czech Republic	86	0.0%	3.5	25	1.1
Hungary	110	0.0%	0.2	30	0.0
Poland	87	16.0%	2.3	0	0.6
Russia	31	9.3%	2.5	125	2.8
Turkey	72	0.0%	-5.0	200	-1.1
Egypt	5	11.2%	-5.7	0	-1.2
South Africa	8	30.1%	2.9	0	-0.9

Sources: International Monetary Fund; Johns Hopkins; MSCI; Bloomberg; Chief Investment Office. Data as of June 2021. Vaccination rates as of July 14, 2021. *Information technology, internet retail (consumer discretionary), interactive media and entertainment (communication services). **price-to-earnings ratio (P/E)/ price-to-book ratio (P/B); standard deviation is a quantity calculated to indicate the extent of deviation for a group as a whole.

*Active management seeks to outperform benchmarks through active investment decisions such as asset allocation and investment selection.

Category 1: Coronavirus vaccinations (doses per 100 people)

Vaccination progress is likely to be a key determinant of the underlying pace of economic activity in the second half, especially due to the ongoing risk of further waves of infection from new variants. Over recent weeks, a number of countries in which vaccination rates are relatively low (including Indonesia, Malaysia, Russia and South Africa) have already moved to tighten mobility restrictions in response to rising cases. And without higher rates of inoculation, these measures are more likely to remain a persistent drag on consumption, investment and corporate earnings by depressing activity and raising uncertainty across households, businesses and investors.

Category 2: Digital economy exposure (share of market capitalization in digital industries)

Virtual activity surged in the early stages of the pandemic, but a rapid expansion of the digital economy was well underway before the crisis. Internet penetration in the emerging world more than doubled over the decade preceding the outbreak from 21.1% in 2010 to 44.4% in 2019, enabling local adoption of connected device sales, internet retail and digital media. And with the pandemic underscoring the need for more investment in digital infrastructure around the world, we see considerable scope for growth in addressable markets for semiconductors, networking equipment and other electronic components, as well as software and digital services. Only 10 of the 20 markets have any exposure to the most tech-focused areas across the Information Technology, Communication Services and Consumer Discretionary sectors. But as the pace of economic growth moderates in 2022 from this year's rebound, structural growth in these areas should regain a leadership role in global activity.

Category 3: Vulnerability to Fed tightening (current account share of GDP)

The Fed has talked down the recent move higher in U.S. consumer price inflation but is still expected to signal a slowdown in its asset purchases at next month's policy symposium at Jackson Hole. Tapering could then begin later in the year or in early 2022. In the past, reductions in U.S. monetary accommodation have been a major obstacle for emerging countries, particularly those with larger current account deficits, which tend to suffer as global competition for funding increases. Markets with larger surpluses are, therefore, likely to be better insulated from capital outflow pressures as monetary stimulus in the U.S. is eventually scaled back.

Category 4: Local monetary policy (six-month policy rate change)

The direction of local interest rates will also matter for EM equity risk premiums. Rising inflation tends to be supportive for returns as it bottoms out and recovers during the reflation phase. But markets forced to raise interest rates to counteract higher outright levels of inflation are more likely to experience multiple compression and weaker returns.

Category 5: Valuation (P/E, P/B ratio composite)

At the current early stage of the economic recovery, market valuations should give some indication of the scope for price appreciation as earnings normalize and the new cycle extends further into the decade.

The scorecard assigns a value to each of the 20 markets based on their ranking across the five categories, with a maximum possible score of 100 for each country. A regional score is also assigned for each Asia, Latin America and EMEA (Europe, Middle East and Africa) based on equal-weighted country averages (Exhibit 3).

Exhibit 3: Scorecard Based On Country Ranking Across Categories.

	Coronavirus vaccinations Doses per 100 people	**Digital economy exposure** Share of market capitalization in digital industries*	**Vulnerability to Federal Reserve tightening** Current account share of GDP (%)	**Local monetary policy** 6-month policy rate change (bps)	**Valuation** PE/PB** ratio composite (standard deviations from 10-year average)	**Overall**
China	18	18	12	6	15	69
Korea	12	19	19	6	3	59
Malaysia	10	1	18	6	20	55
Taiwan	4	20	20	6	1	51
Indonesia	6	1	5	20	11	43
India	7	16	9	6	4	42
Thailand	5	12	9	6	7	39
Philippines	3	1	16	6	8	34
Asia	41	55	68	39	43	49
Mexico	11	1	14	6	19	51
Chile	20	1	8	6	13	48
Brazil	14	11	4	1	5	35
Colombia	13	1	3	6	12	35
Peru	8	1	6	6	10	31
Latin America	66	15	35	25	59	40
Poland	17	15	11	6	9	58
South Africa	2	17	15	6	16	56
Czech Republic	16	1	17	5	6	45
Hungary	19	1	7	4	14	45
Egypt	1	14	1	6	18	40
Russia	9	13	13	3	2	40
Turkey	15	1	2	2	17	37
EMEA	56	44	47	23	59	46

Sources: International Monetary Fund; Johns Hopkins; MSCI; Bloomberg; Chief Investment Office. Data as of June 2021. Scores based on country rankings in each category from 1 (worst) to 20 (best). Regional rankings are equal-weighted. Vaccination rates as of July 14, 2021. *Information technology, internet retail (consumer discretionary), interactive media and entertainment (communication services). **price-to-earnings ratio (P/E)/ price-to-book ratio (P/B); standard deviation is a quantity calculated to indicate the extent of deviation for a group as a whole.

These inputs underscore a relative preference for Asian markets within EM, primarily on the basis of their likely resilience to tighter U.S. monetary policy and greater exposure to digital industries. The classification also highlights the greater challenge posed by high inflation and rising interest rates in Latin America and Europe, the Middle East and Africa (EMEA)—particularly in Turkey, Russia and Brazil—as well as the low gearing to longer-term growth in the digital economy across these two regions. Both, however, appear to be making more progress on vaccinations and remain more attractively valued than Asia relative to their historical averages.

Though it should provide a useful framework, this classification is by no means exhaustive, and investors should also consider other important drivers. Commodity prices, for example, have been volatile over recent weeks, but a continuation of their upward bias over the past year would be a potential headwind for major net importers in the Asia-Pacific, such as China, India and Korea, while supporting net exporters in Latin America and EMEA, such as Brazil, Peru and Russia. The Sino-U.S. strategic rivalry should support long-term investment and growth in China's digital industries but could still give way to shorter-term bouts of volatility in the heavyweight Chinese market. And shifts in regulatory policy will also bear watching, most notably in China, on the basis of data security, digital content moderation, anticompetitive behavior and systemic risks from the expansion of new entrants into traditional sectors such as banking. We continue to prefer a neutral tactical allocation to EM equity as an asset class, but investors looking for a more targeted approach may favor regional, country or actively managed funds.

THOUGHT OF THE WEEK

Small Caps Off to a Strong Start in 2021

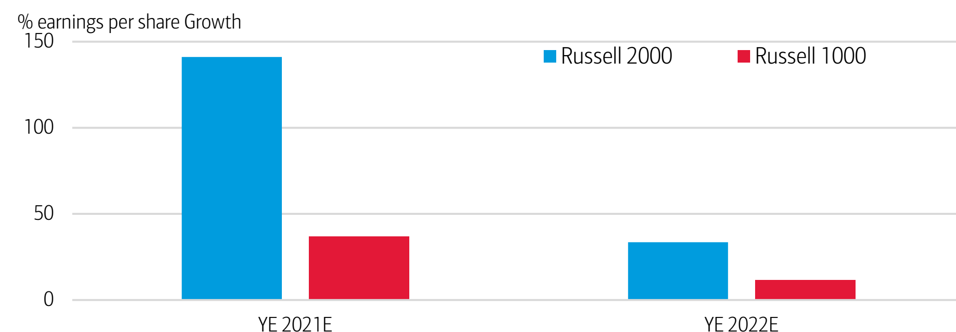
Emily Avioli, Assistant Vice President and Investment Strategist

Small-caps started off 2021 strong, outpacing large-caps by about 3% to end the first half of the year. The Russell 2000 index closed out June with its ninth consecutive month of gains, the longest monthly streak since 1986.[1] In our view, additional small-cap outperformance could be fueled by a supportive economic backdrop, improving earnings, and attractive valuations.

Small-caps have outperformed on the back of improving economic conditions that should persist into the second half of the year. Reopening is likely to remain a tailwind, as small-caps benefit from the release of consumer pent-up demand into services spending. June data from the National Federation of Independent Business (NFIB) suggests that small business hiring intentions and revenue expectations are on the rise—63% of business owners report hiring or trying to hire, while the percent of owners expecting higher sales volumes improved 5 points from the month prior.

Analyst earnings expectations also reflect an improving outlook for small-caps (Exhibit 4). Consensus now expects about 142% earnings growth for small-caps in 2021, versus 37% for large-caps. Valuations are supportive, as small-caps remain historically cheap compared to large-caps. The discount widened in June as the relative forward P/E of the Russell 2000 vs. Russell 1000 fell to 0.82x from 0.84x, its lowest level since November.[2]

Exhibit 4: Small-Cap Earnings Expectations Are Currently Outpacing Large-Cap Expectations.



E=Estimates. Source: Factset. Data as of July 14, 2021. **Past performance is no guarantee of future results.**

Small-cap outperformance cycles tend to last for about a decade on average, indicating there could be room to run. Flows and positioning suggest potential for further upside: Recent inflows into small-caps have not eclipsed multiyear outflows, and active funds still remain under-allocated to smaller stocks, according to BofA Global Research.[2] Rising rates could also be a tailwind, as the Russell 2000 Index saw double-digit returns during four of the last five time periods with a rising real fed funds rate.[3]

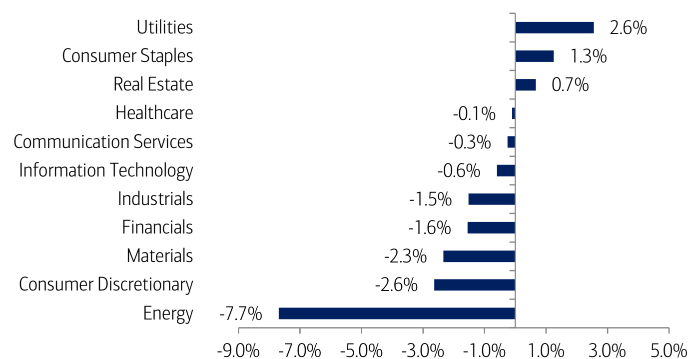
Our bullish outlook for small-caps is not without risk. The recent rotation from recovery-oriented sectors to secular growth areas led small-cap performance to pull back a bit this month, and momentum could be further dampened as liquidity conditions and the pace of growth begin to moderate. All things considered, we think that the outlook for small-caps is strong. From an asset allocation standpoint, we continue to prefer an overweight exposure to small-caps as part of a balanced portfolio.

[1] *The Wall Street Journal*, July 7, 2021.
[2] BofA Global Research, July 9, 2021.
[3] Strategas Research Partners, July 14, 2021.

Equities

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
DJIA	34,687.85	-0.5	0.6	14.4
NASDAQ	14,427.24	-1.9	-0.5	12.3
S&P 500	4,327.16	-1.0	0.8	16.1
S&P 400 Mid Cap	2,616.96	-3.3	-2.9	14.2
Russell 2000	2,163.24	-5.1	-6.4	10.1
MSCI World	3,024.66	-0.9	0.3	13.4
MSCI EAFE	2,302.81	-0.5	-0.1	8.8
MSCI Emerging Markets	1,340.08	1.7	-2.3	5.0

S&P 500 Sector Returns



Fixed Income†

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
Corporate & Government	1.33	0.29	0.83	-1.15
Agencies	0.72	0.10	0.42	-0.38
Municipals	0.90	0.04	0.70	1.77
U.S. Investment Grade Credit	1.43	0.24	0.68	-0.94
International	1.99	0.31	0.76	-0.51
High Yield	3.80	-0.15	0.25	3.88

	Current	WTD	MTD	YTD
90 Day Yield	0.04	0.04	0.04	0.06
2 Year Yield	0.22	0.21	0.25	0.12
10 Year Yield	1.29	1.36	1.47	0.91
30 Year Yield	1.92	1.99	2.09	1.64

Commodities & Currencies

	Total Return in USD (%)			
Commodities	Current	WTD	MTD	YTD
Bloomberg Commodity	201.63	1.0	-0.1	21.0
WTI Crude $/Barrel††	71.81	-3.7	-2.3	48.0
Gold Spot $/Ounce††	1812.05	0.2	2.4	-4.5

Currencies	Current	Prior Week End	Prior Month End	2020 Year End
EUR/USD	1.18	1.19	1.19	1.22
USD/JPY	110.07	110.14	111.11	103.25
USD/CNH	6.48	6.48	6.47	6.50

Sources: Bloomberg, Factset. Total Returns from the period of 7/12/2021 to 7/16/2021. †Bloomberg Barclays Indices. ††Spot price returns. All data as of the 7/16/2021 close. **Past performance is no guarantee of future results.**

Asset Class Weightings (as of 6/1/2021)

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

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

Economic & Market Forecasts (as of 7/16/2021)

	Q4 2020A	2020A	Q1 2021A	Q2 2021E	Q3 2021E	Q4 2021E	2021E
Real global GDP (% y/y annualized)	-	-3.2	-	-	-	-	5.9
Real U.S. GDP (% q/q annualized)	4.3	-3.5	6.4	8.5*	7.0	6.0	6.5
CPI inflation (% y/y)	1.2	1.2	1.9	4.8	5.1	4.9	4.2
Core CPI inflation (% y/y)	1.6	1.7	1.4	3.7	4.0	4.0	3.3
Unemployment rate (%)	6.7	8.1	6.2	5.9	5.4	4.7	5.5
Fed funds rate, end period (%)	0.09	0.09	0.06	0.08	0.13	0.13	0.13

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.

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 July 16, 2021.

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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 Total Return 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.

Russell 2000 Index is a small-cap stock market index of the smallest 2,000 stocks in the Russell 3000 Index. It was started by the Frank Russell Company in 1984.

Russell 1000 Index is a stock market index that tracks the highest-ranking 1,000 stocks in the Russell 3000 Index, which represent about 90% of the total market capitalization of that index.

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All recommendations must be considered in the context of an individual investor's goals, time horizon, liquidity needs and risk tolerance. Not all recommendations will be in the best interest of all investors.

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

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

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