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CHIEF INVESTMENT OFFICE

Capital Market Outlook

July 5, 2022

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

IN THIS ISSUE

Macro Strategy—*Volatile Times Ahead*: Untethered money-supply fluctuations have created a new, more volatile environment for asset allocation.

Until the Federal Reserve (Fed) reins in the sharp swings in liquidity, uncertainty and inflation will likely prove more volatile than during the pre-pandemic, low-inflation era. More uncertainty and higher inflation volatility increase the need for a well-diversified, all-weather investment mix.

Market View—*The Glass is Half Full: Ten Reasons To Stay Long The U.S.:* Given the sour mood of the markets, we thought it would be a good time to take the long view and take stock of what's right with America.

Owing to America's underlying economic and competitive strengths, we believe U.S. Equities should be at the forefront (and at the core) of portfolios.

Thought of the Week—*Mid-Year Review For Global Markets:* Global markets have faced a toxic mix of elevated inflation, higher interest rates, and increasingly hawkish monetary policy in 2022. Amid the confluence of these events, asset prices have declined broadly.

With the first half of the year fading into the rear view, we take a look at how performance has varied across asset classes.

MACRO STRATEGY ▶

Chief Investment Office
Macro Strategy Team

MARKET VIEW ▶

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THOUGHT OF THE WEEK ▶

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MARKETS IN REVIEW ▶

Data as of 7/5/2022,
and subject to change

Portfolio Considerations

As this period of uncertainty matures, markets, in our view, will be searching for signs of stability to finally bottom out and create a new base. While risks remain, global Equities still have the support of higher nominal growth levels, healthy corporate profits, a strong consumer, and an improvement in the service sectors in the near term. We still expect high-quality Fixed Income to be a diversifier, and this diversification effect has proven true when rate volatility decreases. For investors, there is a growing list of reasons to shore up and maintain strategic exposure to commodity prices.

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Volatile Times Ahead

Chief Investment Office, Macro Strategy Team

"A Monetary History of the United States, 1867-1960," published in 1963 by Milton Friedman and Anna Schwartz, is regarded as one of the most influential books of the last century. Wikipedia summarizes it as follows: "It uses historical time series and economic analysis to argue the then-novel proposition that changes in the money supply profoundly influenced the U.S. economy, especially the behavior of economic fluctuations. The implication they draw is that changes in the money supply had unintended adverse effects, and that sound monetary policy is necessary for economic stability."

Fast forward to today and the Fed's underestimation of the role played by the sharpest acceleration of money-supply growth since World War II (WWII) in the fastest acceleration in U.S. inflation since WWII. Clearly, the alternative models that the Fed uses have failed to anticipate the surge in U.S. inflation, while the Friedman-Schwartz view has been validated by actual economic experience.

For example, Milton Friedman's views on inflation were instrumental in convincing former Fed Chair Paul Volcker and President Reagan to curb money-supply growth, which had spiraled out of control and created the stagflationary experience of the 1970s that Professor Friedman had accurately anticipated years before. Once money-supply growth was brought under control and became the Fed's primary operating target in the early 1980s, a prolonged era of disinflation began, with the longest period of economic growth least interrupted by recessions in U.S. history.

Indeed, a look at the relationship between changes in money growth and nominal gross domestic product (GDP) growth since 1963, when the Friedman-Schwartz book was published, shows that their conclusion about the importance of steady and moderate money-supply growth for the inflation and economic outlook was correct, despite the conventional wisdom that the relationship broke down after the 1980s, as often incorrectly cited by Fed officials. In fact, the relatively low volatility in the money-supply and GDP growth rates from 1982 to the 2020 pandemic stands in sharp contrast to the post-2020 surge in monetary volatility and wild nominal GDP growth swings. This difference is just one more example of the fact that "inflation is always and everywhere a monetary phenomenon," as Professor Friedman had argued and countless economic studies have documented. Basically, the Fed's extremely accommodative pandemic-related monetary policy unleashed the most volatility in inflation and GDP growth since WWII, the last time money-supply growth deviated so much from normal.

By explicitly targeting lower and stable money-supply growth in the early 1980s, the Fed was able to rein in inflation and nominal GDP growth volatility. To do that, it had to allow interest rates to fluctuate more freely. For example, when the money supply was growing above the target rate, the Fed let the funds rate rise as high as 20%. When money growth slowed enough, it would reduce the funds rate. As a result, in the first two years of the Volcker chairmanship, the funds rate went back and forth between about 8% and 20%, depending on how the money-supply statistics changed. In fact, because of how significant these numbers were for fed funds rate fluctuations, Wall Street had for a while a cottage industry producing weekly money-supply estimates and forecasts.

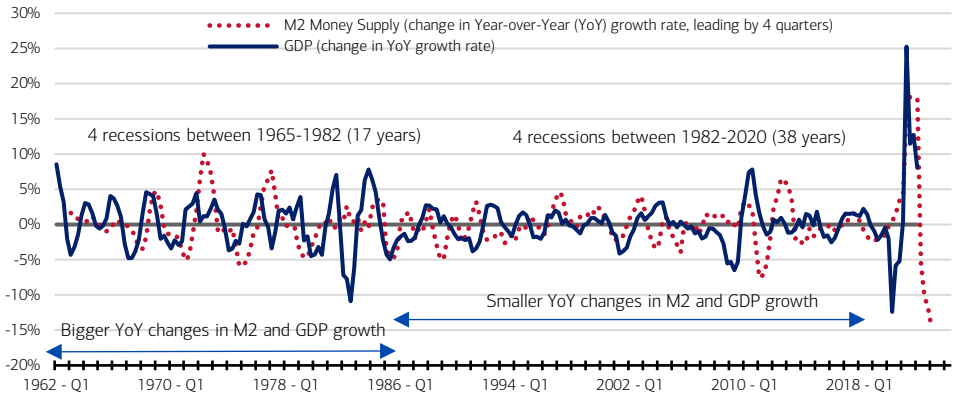
Once inflation began to subside, this high-frequency interest-rate volatility caused policymakers to conclude that excessive short-term control of the money supply was a counterproductive operating procedure, and they abandoned it as a result. As inflation expectations became anchored at a lower, stable rate as a result of money-supply growth fluctuations also becoming anchored around a not-too-hot, not-too-cold rate, the era of economic and inflation stability shown in Exhibit 1 commenced. In expansions, when money-supply growth naturally picked up, inflation would eventually rise and the Fed would tighten. Money growth would then slow, preempting significant rises in inflation. Similarly, when growth slowed and inflation eased, the Fed would provide more liquidity, and money growth would accelerate. Thus, by keeping a tight rein on inflation, the Fed was keeping a tight rein on the money supply. This all changed with the latest cycle of Fed policy, which downplayed the inflationary consequences of the biggest surge in money-supply growth since the 1940s and resulting economic instability.

Investment Implications

The high inflation, high volatility economic environment favors a diversified all-weather portfolio, with assets that help protect against inflation as well as defensive investments for a sluggish economic outlook, such as Healthcare, Utilities and Consumer Staples stocks.

RETURN TO FIRST PAGE

Exhibit 1: The Amplitude of Change in M2* Growth Tends To Impact GDP Growth Volatility One Year Later.



*M2 is a measure of the money supply that includes cash, checking deposits, and easily-convertible near money. Sources: Fed Board; Bureau of Economic Analysis/Haver Analytics; Chief Investment Office. Data as of June 29, 2022.

Clearly, quantitative tightening (QT), which is shrinking the monetary base and slowing money-supply growth, is a powerful disinflationary force that will ultimately bring down inflation from its current 40-year high. In fact, the change in YoY money-supply growth from almost 30% a year ago to only about 5% recently is one of the greatest in history in the U.S. (Exhibit 1). If the Fed is to stick with its current QT schedule through 2023, it would be the biggest swing in money growth in history. As shown in Exhibit 1, large drops in money-supply growth are generally associated with large declines in nominal GDP growth rates. Since the magnitude of growth in incomes, retail sales and corporate revenues is governed by nominal GDP growth, the ingredients for a very hard landing would be sown if the aggressive QT schedule persists through 2023. Exhibit 1 suggests that nominal GDP growth could drop from 11% YoY in Q1 2022 to zero in Q4 2022 as a result of the sharp deceleration in money-supply growth of the past year. This implies an extremely abrupt potential deceleration in both real growth and inflation in coming quarters, even before the Fed tightens much more from here on.

No doubt, that's why the market believes the Fed will pause ahead of schedule and even cut rates before the end of 2023. Sometime between now and then, the financial fallout from rapidly waning real growth and inflation momentum will force the Fed to try to avoid a deflationary collapse in the economy. What's unclear is whether the Fed will overreact again and perpetuate the instability that is characterizing this new decade so far.

As discussed in past reports, bringing inflation down to 2% over the longer term may prove difficult against the backdrop of growing domestic political and geopolitical instability. The political will to bring fiscal policy back to sustainable, non-inflationary levels seems to have weakened. Also, the level of government debt is too high for interest rates much above 4%. The compromises that are possible given this harsh reality are likely to include more tolerance of inflation. Historically, aside from the recent low-inflation period prior to the pandemic, when the Fed consistently failed to generate its 2% inflation mandate because of insufficient money-supply growth, inflation averaged about 3% during the fiat money era since World War II.

In sum, damping fluctuations in money-supply growth is a necessary condition for reducing the extraordinary volatility in the U.S. economy since March of 2020. In the meantime, a higher level of economic instability (high volatility of inflation and economic growth) implies that investors need a broader toolkit of asset diversification to weather the potential storms on the horizon.

MARKET VIEW

The Glass is Half Full: Ten Reasons To Stay Long The U.S.

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

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Hayley A. Licata, Wealth Management Analyst

Who could blame Uncle Sam for skipping any birthday celebration this year? Turning 246 years old hasn't been much fun—not with U.S. consumer prices running at multidecade highs, economic growth slowing dramatically over the past twelve months, and a world still struggling with both a pandemic and conflict in the heart of Europe. Reflecting all of the above, U.S. Equity and Fixed Income returns year-to-date (YTD) are among the worst in decades.

Given the sour mood of the markets, we thought it would be a good time to take the long view and take stock of what's right with America. Owing to America's underlying economic and competitive strengths, we believe U.S. Equities (across the capitalization spectrum) should be at the forefront (and at the core) of portfolios. Yes, cyclical downturns—even bear markets—are a fact of life; nothing is linear. But down days (screens of red) need to be balanced with where we have come from and where we think we are headed.

In terms of the past, let's not forget that as a stable and predictable wealth-generating machine, the S&P 500 has generated chunky 11% returns on a compounded annual rate since 1945. As for the future, well, we think the glass is half full for the following 10 reasons, among others.

Ten reasons to stay long the U.S.

One, the U.S. remains the largest and most productive economy in the world, bar none. With just 4.5% of the global population, the U.S. accounts for 16% of global GDP on a purchasing power parity basis and 24% in nominal U.S. dollars, according to figures from the International Monetary Fund (IMF). Not only is the U.S. economy large—it's also extraordinarily diversified and dynamic. We are a hydra-headed superpower, a global leader in everything from agricultural to aerospace, life sciences to life insurance, energy to education. And we are wonderfully wealthy, with America's per capita income in excess of $60,000, some six times larger than China's.

Two, contrary to the popular media, the U.S. remains a global leader in manufacturing goods, with U.S. manufacturing output (in nominal terms) totaling $2.5 trillion in 2021, a 65% rise since the start of the century. Only China manufactures more than the U.S., but the Sino-U.S. spread is not that large, and China's own manufacturing base is under strain thanks to a stronger currency, rising wages and uncompetitive energy costs. The bottom line: The U.S. remains a manufacturing powerhouse.

Three, America is also an exporting powerhouse, with the U.S. among the largest exporters of goods and services in the world. What the U.S. exports in a month ($252 billion) is greater than what most countries export in a year. The breadth of U.S. exports of goods is extraordinary, ranging from apples to airplanes, while the U.S. remains the world's top exporter of services.

Four, the U.S. remains the world's favorite destination for foreign direct investment (FDI). The allure of the U.S. as an investment site is manifold: a vast and wealthy consumer market, a large skilled labor pool, a transparent rule of law and, more recently, cheap energy costs—all of these variables continue to draw capital from all over the world. The supporting data: Between 2000 and 2021, the U.S. accounted for 16.8% of total global capital inflows, well above China's share of 7.8%. Rising inflows means more real growth as well as growth in U.S. employment, incomes and various asset prices.

Five, America is home to the world's top global brands, and brands matter. According to the latest data from BrandZ, of the top 10 global brands in 2021, seven out of ten were American brands. That said, brands are extremely important to the newly emerging consumers of the developing nations, with many leading U.S. brands well positioned to tap into the future demand/desires of the budding global middle class.

Portfolio Implications

Through this market volatility, we continue to emphasize a diversified, balanced and measured approach to asset allocation. We consider U.S. Equities best in class, so continue to prefer U.S. Equities over non-U.S. in order to maintain our higher-quality tilt.

Six, the U.S. remains the world's high tech leader. America's risk-taking, not-afraid-to-fail, entrepreneurial culture underpins its leadership in both technology and innovation—a top position that continues to attract the best and brightest from around the world to live, work and study in the U.S. America is the largest market in the world for information technology (IT) spending on hardware, software and services, according to International Data Corporation (IDC) estimates. U.S. spending on IT as a share of the global total has held steady over the past few years (40% of global total) and remains well above spending levels in Europe, Japan and China.

Seven, the top-ranked universities in the world are in the U.S. Though America's public school system leaves a lot to be desired, when it comes to higher education, some of the best universities in the world are in the U.S. Indeed, 28% of the universities in the Quacquarelli Symonds World Rankings' top 100 universities for 2022 were located in the U.S.; five out of the top 10 and nine out of the top 20 were American universities. Brains over brawn—the more educated your labor force, the greater the degree of human capital.

Eight, the U.S. dollar is still the world's top reserve currency. The global economy still pivots around the greenback, an "exorbitant privilege" the U.S. will continue to enjoy over the medium term. The greenback accounted for 59% of global central bank reserves as of Q1 2022, according to the IMF, a share down slightly from 2008 but relatively constant over the post-crisis years. The big loser over the past year: the crisis-battered euro, whose share of central bank holdings declined from 28% in mid-2009 to 20.6% in Q4 2021.

Nine, the U.S. is one of the most competitive economies in the world. Competitiveness matters—it drives and dictates economic development, prosperity and ingenuity on a relative and absolute basis. That said, based on the latest competitiveness survey from the World Economic Forum (WEF), the U.S. ranked second among the most competitive economies in the world, trailing only Singapore.

Ten, the U.S. is an energy and agricultural powerhouse, a critical competitive advantage in the age of resource scarcity and protectionism. According to the Energy Information Administration, the U.S. is among the largest producers of crude oil in the world, with output rising from a low of 3.8 million barrels per day (mbd) in 2005 to a peak of 13.1 mbd in 2020. Production is currently running at around 12.1 mbd. The U.S. is also a leading global producer of natural gas and an agricultural powerhouse. Per the latter, America is a leading producer of soy, wheat, corn, oats, cotton and many other commodities of importance.

The bottom line: When you aggregate America's multiple strengths (absolute and relative), it is hard not to be constructive on U.S. assets over the long run. True, the state of the union isn't perfect—it never is. But that said, no economy in the world is as well endowed for future growth than the U.S. In support of our sentiment that the glass is half full, we are reminded of Otto von Bismarck, the great German master strategist, who famously quipped: "God has a special providence for fools, drunkards, and the United States of America."

When it comes to portfolio construction, consider staying long the U.S.

THOUGHT OF THE WEEK

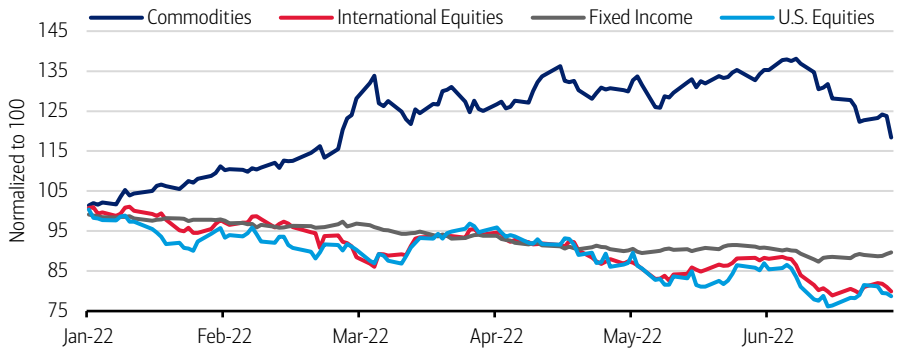
Mid-Year Review For Global Markets

Emily Avioli, Assistant Vice President and Investment Strategist

It's been a challenging start to the year for global markets. Faced with a toxic mix of elevated inflation, higher interest rates, and increasingly hawkish monetary policy, prices have declined broadly across most asset classes. With the first half of 2022 fading into the rear view, we take a look at how performance has varied (Exhibit 2).

In the U.S., higher prices for food and fuel have started to weigh on consumers, with sentiment declining to the lowest level in decades. The Fed has continued to pursue an aggressive tightening path to break the back of 40-year-high inflation, fueling concerns about an economic downturn. Against this backdrop, all major U.S. Equity market indexes have declined significantly, with the S&P 500 Index, Dow Jones Industrial Average Index and NASDAQ Composite Index seeing YTD drawdowns of -20%, -14% and -29%, respectively.

Exhibit 2: Performance Was Mixed Across Asset Classes In The First Half Of The Year.



Sources: Chief Investment Office; Bloomberg. Data as of June 30, 2022. Bloomberg Commodity Index, MSCI World Ex U.S. Index, Bloomberg U.S. Aggregate Bond Index, and MSCI U.S. Index. Performance would differ if a different time period was displayed. Short-term performance shown to illustrate more recent trend. Performance during periods of exceptional market conditions should not be expected to be repeated in a normal market environment. **Past performance is no guarantee of future results. It is not possible to invest directly in an index. Please refer to index definitions at the end of this report.**

Concerns about inflation and tighter monetary policy have also dampened performance beyond the shores of the U.S., with International Equities (MSCI World Ex. U.S. Index) down -18% YTD. We see room for further downside, as areas like Europe face stronger headwinds from higher energy prices, closer proximity to the crisis in Ukraine, and greater exposure to Russian gas. Emerging Markets (EM) (MSCI EM Index) are down -18%, with performance varying across regions. Latin American Equities (MSCI Latin American Index) have been among the top performers within EM, with a roughly flat YTD return on the back of higher commodity prices and favorable sector compositions.

Fixed Income markets have also been pressured lower. Yield curves have flattened significantly in recent months, with numerous inversions having occurred at various parts of the curve since the start of the year. Both the 2-year and 10-year Treasury ended the second quarter with yields hovering near 3%. Credit spreads remain wider on the year amid interest rate volatility and weaker technical dynamics. Lower-quality areas of Fixed Income like High Yield (Bloomberg High Yield Corporate Bond Index) have become more attractive with yields above 8% but remain exposed to further downside in the near term.

Meanwhile, Commodities have generally been a bright spot amid a sea of red this year, with the Bloomberg Commodity Index up 18% YTD. Energy-related commodities have fared the best amid tight supply, increasing demand, and mounting geopolitical turmoil. Gold is slightly lower for the year, while Copper is down -17% with concerns about the strength of the global economy in focus.

Many of the headwinds that pressured markets in the first half of the year are likely to persist into the second, and it's our view that asset prices will continue to fluctuate until there is more clarity on the immediate future. As volatility continues, investors should remain committed to a disciplined investment approach and continue to emphasize diversification across and within asset classes.

Portfolio Considerations

We maintain a preference for U.S. Equities over International. Within Fixed Income, we prefer high-quality investments and a slight below-benchmark duration. Traditional Equity and Fixed Income allocations may be complimented by exposure to Real Assets and Commodities, which have the potential to add an element of inflation protection to portfolios.

Equities

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
DJIA	31,097.26	-1.3	-5.6	-13.5
NASDAQ	11,127.84	-4.1	-7.8	-28.6
S&P 500	3,825.33	-2.2	-7.3	-19.1
S&P 400 Mid Cap	2,295.89	-1.6	-8.5	-18.6
Russell 2000	1,727.76	-2.1	-7.2	-22.5
MSCI World	2,559.95	-2.2	-8.2	-20.1
MSCI EAFE	1,832.34	-2.2	-10.0	-20.2
MSCI Emerging Markets	992.84	-1.6	-7.4	-18.3

Fixed Income†

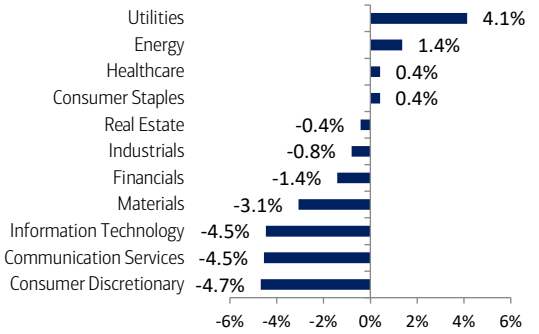
	Total Return in USD (%)			
	Current	WTD	MTD	YTD
Corporate & Government	3.59	1.09	-1.05	-10.57
Agencies	3.12	0.84	-0.31	-5.60
Municipals	3.17	0.72	-1.29	-8.66
U.S. Investment Grade Credit	3.62	1.27	-0.97	-9.81
International	4.62	0.80	-2.26	-13.91
High Yield	8.85	-1.63	-6.56	-14.03
90 Day Yield	1.64	1.63	1.04	0.03
2 Year Yield	2.83	3.06	2.56	0.73
10 Year Yield	2.88	3.13	2.84	1.51
30 Year Yield	3.10	3.26	3.05	1.90

Commodities & Currencies

	Total Return in USD (%)			
Commodities	Current	WTD	MTD	YTD
Bloomberg Commodity	251.04	-3.4	-10.7	18.5
WTI Crude $/Barrel††	108.43	0.8	-5.4	44.2
Gold Spot $/Ounce††	1811.43	-0.8	-1.4	-1.0

	Total Return in USD (%)			
Currencies	Current	Prior Week End	Prior Month End	2020 Year End
EUR/USD	1.04	1.06	1.07	1.14
USD/JPY	135.21	135.23	128.67	115.08
USD/CNH	6.70	6.68	6.68	6.36

S&P Sector Returns



Sources: Bloomberg; Factset. Total Returns from the period of 6/27/2022 to 7/1/2022. †Bloomberg Barclays Indices. ††Spot price returns. All data as of the 7/1/2022 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 7/1/2022)

	2021A	Q1 2022A	Q2 2022E	Q3 2022E	Q4 2022E	2022E
Real global GDP (% y/y annualized)	6.1	-	-	-	-	3.2
Real U.S. GDP (% q/q annualized)	5.7	-1.5	1.5	2.5	1.8	2.3
CPI inflation (% y/y)	4.7	8.0	8.4	8.2	7.0	7.9
Core CPI inflation (% y/y)	3.6	6.3	5.9	5.9	5.7	6.0
Unemployment rate (%)	5.4	3.8	3.6	3.5	3.5	3.6
Fed funds rate, end period (%)	0.07	0.33	1.63	2.88	3.38	-

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 1, 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 6/7/2022)

	CIO View				
Asset Class	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					

CIO Equity Sector Views

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

*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 June 7, 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.

Dow Jones Industrial Index is a stock market index of 30 prominent companies listed on stock exchanges in the United States.

NASDAQ Composite Index is a stock market index that includes almost all stocks listed on the Nasdaq stock exchange. Along with the Dow Jones Industrial Average and S&P 500, it is one of the three most-followed stock market indices in the United States.

Bloomberg Commodity Index is a broadly diversified commodity price index distributed by Bloomberg Index Services Limited.

MSCI World Ex U.S. Index captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries- excluding the United States,

Bloomberg U.S. Aggregate Bond Index is a broad base, market capitalization-weighted bond market index representing intermediate term investment grade bonds traded in the U.S.

MSCI U.S. Index is designed to measure the performance of the large and mid cap segments of the US market.

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

MSCI Latin American Index captures large and mid cap representation across 5 Emerging Markets (EM) countries in Latin America.

Bloomberg High Yield Corporate Bond Index is a rules-based market-value-weighted index engineered to measure the below-investment-grade, fixed-rate, global corporate bond market.

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Asset allocation, diversification, dollar cost averaging 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. Investing in fixed-income securities may involve certain risks, including the credit quality of individual issuers, possible prepayments, market or economic developments and yields and share price fluctuations due to changes in interest rates. When interest rates go up, bond prices typically drop, and vice versa. 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.

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.