CHIEF INVESTMENT OFFICE

Capital Market Outlook

August 2, 2021

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

IN THIS ISSUE

Macro Strategy—At this stage, investors overweight risk assets may prefer “substantial progress” in the economy to evolve slowly, allowing the Federal Reserve (Fed) to act with poise, transparency and predictability. Economic data released last week, however, continue to point toward faster growth in the economy, labor markets and inflation. This is positive for risk assets, for now, but business cycle risks are building.

Global Market View—Despite a general state of economic uncertainty, some emerging markets (EM) central banks have begun raising their policy interest rates, largely compelled by rising inflation. Inflation has also surprised to the upside in the U.S., which could further intensify a lively debate among Fed policymakers on the merits of tapering asset purchases. By preemptively raising interest rates, we think some EM central bankers may also be aiming to mitigate the effects of rising market anticipation for tighter monetary policy in the U.S.

Thought of the Week—Just as China’s crackdown of its technology sector broadened out, many U.S. Mega-cap tech names hovered near highs during corporate earnings season. The carnage from China’s crackdown: $735 billion in value of Chinese internet stocks lost since its highest value five-and-a-half months ago. Over the same period, the largest U.S. internet companies added $574 billion. We maintain a preference for U.S. Large-caps while neutral on EM as an asset class, according to Bloomberg.

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
Jonathan W. Kozy
Managing Director and Senior Macro Strategy Analyst

GLOBAL MARKET VIEW
Rodrigo C. Serrano, CFA®
Director and Investment Strategist

THOUGHT OF THE WEEK
Lauren J. Sanfilippo
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Data as of 8/2/2021, and subject to change

MACRO STRATEGY

Macro In Brief

Jonathan W. Kozy, Managing Director and Senior Macro Strategy Analyst

Business cycle expansions with near-trend growth and stable prices may be good for risk assets. This was an important lesson from the post-Great Financial Crisis of 2008/2009 expansion and bull market that lasted over a decade. This expansion looks very different.

While U.S. economic data released last week support our cyclical positioning, including our overweight to Equities and our cyclical sector bias, some data might be running too hot. Specifically, residential and business investment spending are fundamentally well anchored and supportive of the overall cycle, but the former is experiencing some growing pains, while

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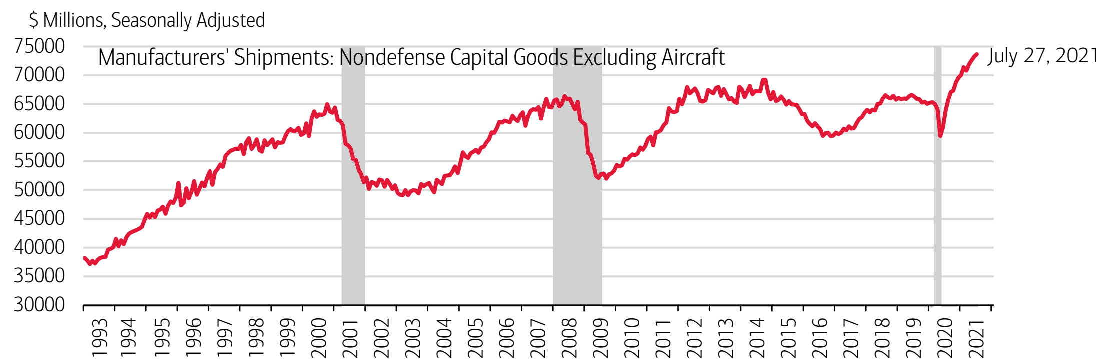
the latter is very advanced for being technically only one year into an expansion. Inflation is also running well above the Fed's 2.0% target (6.0% as measured by gross domestic product (GDP) prices) and likely to stay that way, while leading indicators of employment suggest the labor market could make very, very "substantial progress" over the next year. While financial conditions remain accommodative for now, given this outlook the risk for investors is the Fed is more likely to pull forward tapering than to push it back. The more desirable outcome over the next few months would be data that are not too hot, allowing the Fed to be poised, transparent and predictable. Below we summarize some of the key macroeconomic data releases from last week and investor implications related to this theme.

Gross Domestic Product: According to the Bureau of Economic Research's advance estimate, real GDP grew at a 6.5% annual rate in the second quarter. With GDP-based prices up a much-faster-than-expected 6.0% for the quarter, nominal GDP was a very strong 12.5%. The upside surprise in GDP prices was another data point in a long string of upside inflation surprises. Still, faster nominal GDP forms the economic backbone for the strong company revenue and earnings growth being reported, a positive for equities.

Earnings: On that note, with over half of the S&P 500 reporting Q2 earnings so far, over 80% of firms are beating on both earnings and sales.[1] The profits cycle reinforces the overall business cycle in part because strong earnings feed business capital expenditures (CAPEX), which is booming (Exhibit 1). Productivity enhancing investments could also play a pivotal role in dampening inflation pressures in the years ahead and keeping the Fed from having to slam on the brakes. One reason investors should welcome labor market data that is not too hot in the months ahead is to help keep labor cost pressures contained, further supporting profit margins and the profits cycle and extending the overall cycle.

U.S. Business Investment Spending: As mentioned, firms faced with a tight labor market, robust demand and strong earnings growth are currently investing in productivity-enhancing equipment that could ultimately help put a small dent in inflationary pressures. Shipments of "core" capital goods (nondefense capital goods excluding aircraft) released last week suggest CAPEX is booming. As Exhibit 1 shows, the level of shipments far exceeds the previous peak. And new orders of core capital goods are running at a 16% and 13% annual rate over the last three and six months, respectively, suggesting the CAPEX expansion is carrying a lot of momentum into the second half of the year.

Exhibit 1: CAPEX Goes Boom.



Gray shaded bars represent recession periods. Source: Census Bureau. Data as of July 27, 2021.

Additionally, regional Fed manufacturing survey data show capital investment intentions remain relatively high. For investors, CAPEX plays an important role in potentially dampening inflation pressures if it helps keep the Fed from strangling the cyclical expansion with tighter monetary policy. But it could also create business cycle risk later on if businesses overinvest and a boom goes bust.

[1] Source: Bloomberg as of July 27, 2021.

U.S. Housing: Residential investment contracted in the second quarter, according to the Bureau of Economic Analysis (BEA) GDP data. New home sales have declined for three straight months, but the weaker trend in production is misleading, as homebuilders are struggling to build homes fast enough to keep up with demand and are faced with supply chain constraints. The majority of new homes for sale are not completed, but completed homes are selling relatively fast. Similarly, existing home sales are slowing mainly due to a lack of inventory. Rising prices reflect this dynamic. The Federal Housing Finance Agency (FHFA) purchase-only home price index (HPI) and S&P Case Shiller Home Price Index, both released last week, show year-over-year home prices are up 18% and 17%, respectively. With prices increasing, affordability is increasingly an issue but so far has not dented homebuilder confidence. Affordability as measured by the National Association of Realtors Affordability Index is still about 50% better than it was during the mid-2000s housing boom.[2] For investors, the key point is homebuilders are making forward-looking market assessments and remain confident in underlying housing dynamics. This gives us confidence that the backdrop for housing-related stocks remains positive even if the Fed starts tapering and mortgage rates move higher.

U.S. Consumer Spending: Real consumer spending rose at a blistering 11.8% annual rate in the second quarter, and third quarter prospects are upbeat. The Conference Board's (CB) measure of consumer confidence rose in July. Rising equity and home prices are reinforcing consumer net worth, even if the latter dents affordability. Rising wage growth and a strong labor market are also tailwinds for consumer confidence, along with still-low borrowing rates. Personal income and spending data released last week showed the personal saving rate remains elevated, and a significant portion of consumer savings is liquid. For investors, the macro fundamentals for the U.S. consumer remain very strong. Liquidity is ample, financial obligations are low relative to disposable income, wage growth is picking up, and jobs are plentiful.

Labor Market: In his post-Federal Open Market Committee (FOMC) press conference, Fed Chair Powell suggested that with inflation already running above its target and likely to continue to do so, the requirement for "substantial further progress" toward its goals in order to remove monetary accommodation is mostly a labor market story. On that note, the CB's Consumer Confidence data released last week contains several survey questions that act as leading indicators for the labor market. One survey question asks if jobs are "plentiful" or "hard to get." The Labor Market Differential looks at the spread between these, and that differential is at a record high, implying a very tight labor market and strong growth ahead.

The coincident and forward-looking employment components of the Fed Bank of Richmond's manufacturing survey are also upbeat. The data released last week for the month of July reached all-time highs, with data back to 1993.[3]

For investors, jobs growth is likely to remain strong through year-end, and the risk is it could more than meet the Fed's desire for "substantial further progress." While jobs growth is a cyclical tailwind (positive for risk assets in the near term), it also adds pressure to the Fed to begin tapering asset purchases.

Inflation: Chair Powell stated in his post-FOMC meeting press conference that he believes that, while inflation growth has been running above its 2.0% target for a number of months and is likely to continue to do so, it is transitory because it is not embedded as a "process," and inflation may eventually fall back toward 2.0%. He also reiterated that the Fed wants to maintain inflation expectations that are well anchored. The CB's consumer confidence 12-month inflation expectations metric released last week suggests expectations are well anchored. Consumers expect inflation of 6.6% over the next 12 months, well above the long-term average of 4.88% (data since 1987).[4]

[2] Source: National Association of Realtors/Haver Analytics as of July 19, 2021.

[3] Source: Federal Reserve Bank of Richmond/Haver Analytics as of July 23, 2021.

[4] Source: Conference Board/Bloomberg as of July 23, 2021.

Monetary Policy: With inflation already running well above its 2.0% target and, in our opinion, likely to stay that way, inflation expectations well anchored, and key leading indicators of the labor market flashing green, the Fed will continue to inch closer to tapering asset purchases. As mentioned, in our view, the balance of risk is on the side of tapering sooner rather than later if data run too hot.

Fiscal Policy: From an economic perspective, the Bipartisan Infrastructure Framework that appears to be moving forward (but will not be finalized any time soon) will have a muted effect, as only just over half of the $1 trillion package is new spending and it is spread out over eight years. The bigger effect will be at the industry and company levels. The Biden administration plans to attach an additional spending package to the budget plan later in the year that will likely have both more teeth and more business cycle risk to the extent it includes tax increases.

Coronavirus: Some market participants have huddled around the idea that rising coronavirus cases could serve to cool economic and inflation data and keep the Fed at bay. The seven-day moving average of cases in the U.S. continues to increase, but vaccines appear to be helping keep hospitalizations and deaths relatively contained. In the U.S., the percentage of individuals vaccinated (around 50%) is high relative to the rest of the world. For investors, the higher vaccination penetration makes U.S. equities relatively more attractive in an environment where coronavirus infections are gaining momentum and vaccine availability is unequal. Fed Chair Powell summarized the Fed's view on rising cases by noting that each new wave of coronavirus has had a smaller effect on economic activity for a variety of reasons, including vaccination.

GLOBAL MARKET VIEW

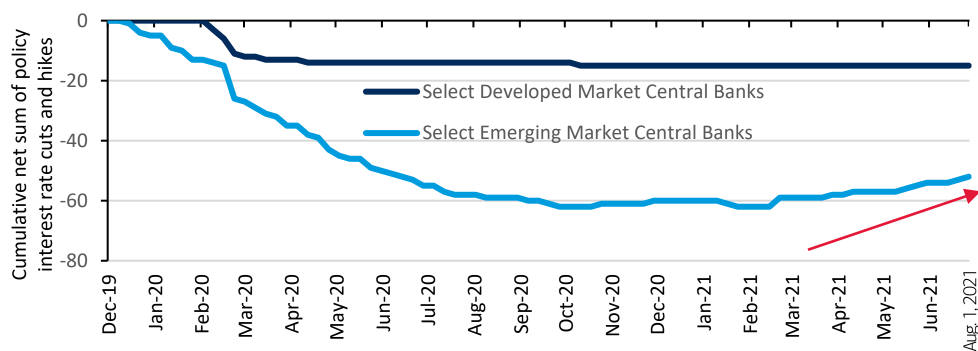
The Pressure's On Emerging Market Central Banks

Rodrigo C. Serrano, CFA®, Director and Investment Strategist

In our view, progress toward economic normalization raises the likelihood for synchronized global growth as we move into 2022. EM stocks could see outsized benefits in this scenario, due in part to attractive relative valuations compared to the U.S. But near-term uncertainty persists.

Weighing on our neutral rating of the region's equity asset class is the increasingly unpredictable path of the coronavirus, amid generally slow vaccination drives compared to many developed market economies. Despite a general state of economic uncertainty, some EM central banks have begun raising their policy interest rates, largely compelled by rising inflation (Exhibit 2).

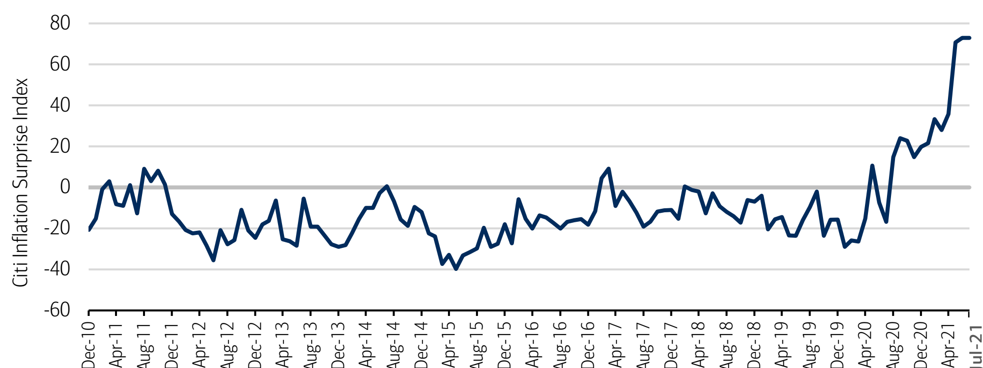
Exhibit 2: In This Select Sample, EM Central Banks Had More Room To Cut Policy Interest Rates than Developed Market Central Banks But Are Now Starting To Raise Them.



Sources: Chief Investment Office; Bloomberg. Data as of August 1, 2021. Developed markets consist of: Australia, Canada, the eurozone, Israel, Japan, New Zealand, Norway, Sweden, Switzerland, the United Kingdom and the United States. Emerging markets consist of: Argentina, Brazil, Chile, Colombia, India, Indonesia, Malaysia, Mexico, Peru, Poland, Russia, South Africa, South Korea, Taiwan, Thailand and Turkey.

Inflation has also surprised to the upside in the U.S. (Exhibit 3). While we believe the Fed will keep monetary policy accommodative, as suggested by its Flexible Average Inflation Targeting (FAIT) policy, greater-than-expected inflation could further intensify a lively debate among policymakers on the merits of tapering asset purchases.

Exhibit 3: Inflation In The U.S. Has Significantly Surprised To The Upside, Testing The Principles Of FAIT.



Source: Bloomberg. Data as of July 31, 2021. Citi Inflation Surprise Index—A Value Above Zero Indicates Higher-Than-Expected Inflation Data.

By preemptively raising interest rates, we think some EM central bankers may also be aiming to mitigate the effects of rising market anticipation for tighter monetary policy in the U.S., similar to what occurred during the first quarter. Back then, EM equities were year-to-date leaders up to mid-February. However, a quickened uptrend in longer-dated U.S. interest rates and relative U.S. dollar strength turned the segment into a laggard; some countries with notable fundamental shortcomings, including dynamic local political risk, were disproportionately hit, in our view.

Yet, this preventative policy trajectory could risk emerging dilemmas, especially if tightening monetary policy creates additional headwinds to developing economies already stymied by the coronavirus and global restrictions designed to temper its virulence, among other factors.

Leading the Upcycle

In our sample of 16 major EMs, central banks had executed a net total of 62 cuts from the start of the coronavirus crisis until the first quarter's volatility in U.S. interest rates. Since then, there have been 10 hikes, led by Latin American nations.

Favorably, Brazil's economy has outperformed expectations this year, resilient against a second major wave of the coronavirus, which has recently ebbed. Simultaneously, inflation has surprised to the upside, a major factor spurring the country's central bank to hike its policy interest rate three times by 2.25% to 4.25%. An additional element remains the precarious state of the country's fiscal accounts. Brazil's President Jair Bolsonaro's administration continues its campaign to reform and improve their longer-run sustainability. However, in our view, an increase in political uncertainty would reinforce the forecast of BofA Global Research for the central bank to raise its interest rate to 7% this year, particularly if expectations for tapering in the U.S. become reignited.

Chile has recently raised its interest rate for the first time since early 2019 by 0.25% to 0.75%. Leading the vaccination effort in the region, and with record fiscal stimulus, the country's economic reopening has also spurred inflation. The Bloomberg consensus calls for an increase to 1.35% by year-end. However, elevated political uncertainty—largely caused by the rewriting of the country's constitution and a presidential election in November—has weighed on Chilean equities and is expected to weigh on the potential growth rate of the economy.

Mexico's central bank raised its interest rate in late June by 0.25% to 4.25% to combat persistent inflation, which has recently registered at nearly twice its target. Already alert to market considerations of longer-run policy uncertainty, authorities may place a greater weight on emerging economic headwinds. While the growth outlook has improved, supply-chain difficulties have recently negatively affected the industrial sector, while new coronavirus cases have begun to rise again, which may affect consumption.

Since mid-February, Russia's central bank has hiked its policy interest rate a sample-high four times by 2.25%, a similar magnitude to Brazil. Amid the country's economic reopening, inflation has been running at its fastest pace in five years at 6.50%. Also driving the increase have been higher commodity prices and a weaker ruble, which has recently priced in an 8% geopolitical premium.[5] Meanwhile, in mid-March, Turkey's central bank raised its interest rate by 2.00% to 19.00%. The lira's depreciation has helped fuel inflation, which stands at over 17%. While the economy remains resilient, investors remain alert to the state of the central bank's independence, especially if growth were to slow, in our opinion.

Among other EM central banks to raise interest rates, Hungary has hiked twice in a row by 0.30% to 1.20% while promising further steps to tame the European Union's quickest pace of inflation.[6] Like Hungary, inflation in the Czech Republic is above the central bank's target band, pressuring authorities to raise the interest rate for the first time in years. For both, labor shortages risk making inflation more persistent, according to BCA Research.

Concluding Dynamics

For some emerging markets, a discerned shift toward tighter monetary policy seems largely aimed at dampening higher inflation, in our view. Ideally, normalizing base effects and gradual improvements in supply-chain bottlenecks would help temper global pricing pressures, providing greater policy flexibility. Meanwhile, continued progress in vaccination efforts would bolster economic resilience. Favorably, the International Monetary Fund (IMF) recently held its 2021 estimate for global GDP at 6%, the fastest pace in four decades of data.

However, accompanying its outlook was a warning of a widening growth divergence, a significant factor underpinning our neutral preference for EM equities.[7] Offsetting its upgraded GDP forecast for advanced economies was its cut for EM. Within emerging Asia, which saw the biggest downgrade, India's was cut by 3% to 9.50%. China's GDP forecast was also marginally lowered, which follows a recent surprise cut by its central bank to its required reserve ratio, amid worries over growth.[8]

Back in the U.S., Fed Chairman Jerome Powell continues to urge patience, maintaining accommodative monetary policy. However, further upside surprises in inflation may raise anticipation for tighter monetary policy. Pressure on some EM central banks to follow suit—before they are ready—to maintain their relative value comprises an additional risk we are monitoring. Facing the prospect of tighter U.S. policy, they may face emerging dilemmas. While they may feel compelled to raise their interest rates to avoid local currency weakness, which risks inflationary pressures, they also face an uncertain outlook. Low vaccination rates render these developing economies vulnerable to the coronavirus, amid unpredictable political dynamics, as has been the case in South Africa and Colombia. In the case of South Korea, low inflation hasn't dampened expectations for the central bank to become the first in Asia to raise its policy interest rate. Top of mind there are an overheating housing market and household debt nearing 105% of the country's GDP. This figure tops all EM tracked by the International Institute of Finance and an average for the group of roughly 46%.

[5] Russia Watch: Job done?; BofA Global Research as of July 23, 2021.

[6] Hungary Primes for Second Rate Hike to Curb Fastest EU Inflation; Bloomberg as of July 27, 2021.

[7] Fault Lines Widen in the Global Recovery; IMF as of July 2021.

[8] China's Central Bank Pivots to Easing as Growth Risks Build; Bloomberg as of July 9, 2021.

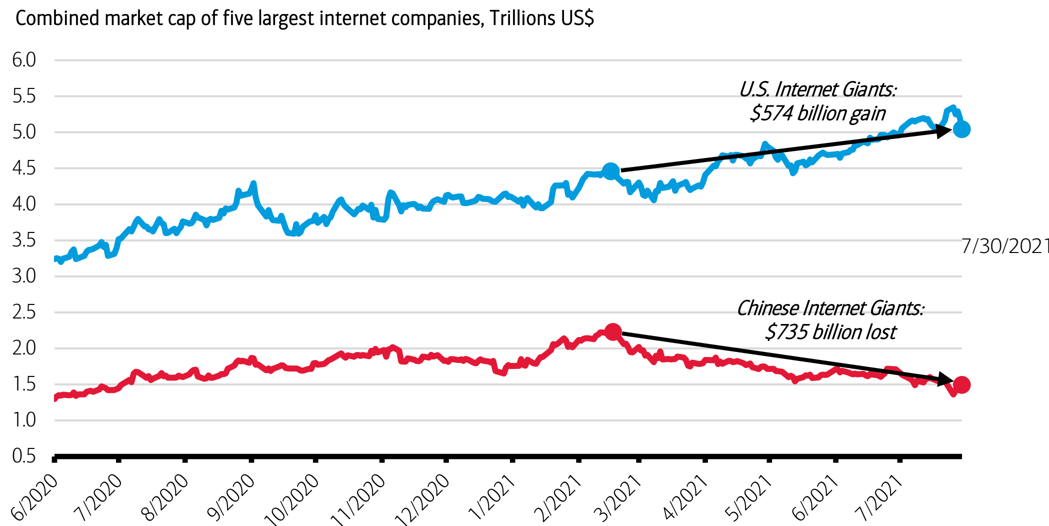
THOUGHT OF THE WEEK

The Cost of China's Crackdown

Lauren J. Sanfilippo, Vice President and Investment Strategist

The sweeping regulatory crackdown on China's private sector has roiled global markets and sent the Nasdaq Golden Dragon China Index, an index tracking 98 of China's biggest firms listed in the U.S., declining by more than 20% this month. The carnage from the crackdown: nearly $735 billion lost in value of China's largest internet stocks since their highest value five-and-a-half months ago, just as the largest U.S. internet companies added $574 billion in value over the same period (Exhibit 4). A clear divergence between U.S. and China technology giants—as many U.S. Mega-cap tech names hovered near highs during corporate earnings season and China's crackdown escalates for internet platform companies with data security as a key risk.

Exhibit 4: U.S-China Tech Divergence



U.S. internet aggregate: Amazon, Alphabet, Facebook, Netflix, Paypal. Chinese internet aggregate: Alibaba, Tencent, Meituan, JD, Pinduoduo. Sources: Bloomberg; Gavekal Research. Data as of July 30, 2021.

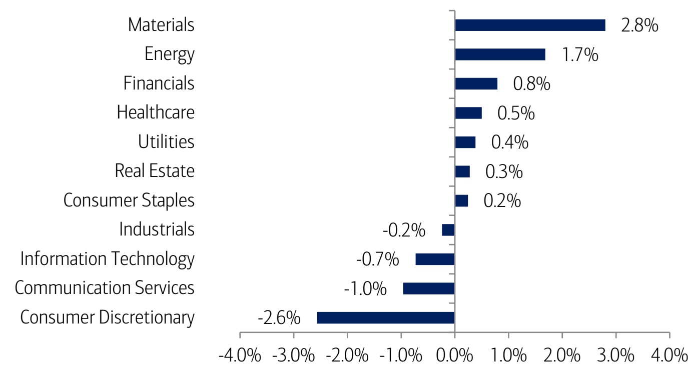
The upshot: Relative to the U.S., MSCI China valuations may be at their lowest levels seen in the last five years. However, investors should assess the risks before bargain hunting. The selloff among the targeted (tech, education, property, etc.) Chinese stocks recently under pressure has moderated some after policymakers stepped in to reassure markets. The market action, however, serves as a not-so-friendly reminder of the risks associated with investing in China's private sector—one in which the Chinese Communist Party looms large.

Although they are not impervious to regulation, we maintain an overweight to U.S. Large-caps, with Technology as one of our favored sectors, and are neutral on EM as an asset class. In the near term, the biggest risk may be to the 250 Chinese companies listed on U.S. exchanges with data security as an ongoing political priority for Chinese regulators. Investors looking to gain exposure to the rise of the EM middle class could consider allocating via U.S. and European multinationals with significant exposure to the Chinese consumer—think luxury brands, food and beverage companies, and automobile manufacturers. Fair warning, most exposure to the EM growth story comes at the terms of Chinese regulators.

Equities

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
DJIA	34,935.47	-0.4	1.3	15.3
NASDAQ	14,672.68	-1.1	1.2	14.3
S&P 500	4,395.26	-0.4	2.4	18.0
S&P 400 Mid Cap	2,703.67	1.2	0.3	18.0
Russell 2000	2,226.25	0.8	-3.6	13.3
MSCI World	3,069.25	-0.1	1.8	15.1
MSCI EAFE	2,321.09	0.6	0.8	9.6
MSCI Emerging Markets	1,277.80	-2.5	-6.7	0.2

S&P 500 Sector Returns



Fixed Income†

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
Corporate & Government	1.26	0.29	1.32	-0.67
Agencies	0.65	0.13	0.70	-0.10
Municipals	0.87	0.04	0.83	1.90
U.S. Investment Grade Credit	1.36	0.25	1.12	-0.50
International	1.93	0.36	1.37	0.08
High Yield	3.88	0.06	0.38	4.01

	Current	WTD	MTD	YTD
90 Day Yield	0.04	0.04	0.04	0.06
2 Year Yield	0.18	0.20	0.25	0.12
10 Year Yield	1.22	1.28	1.47	0.91
30 Year Yield	1.89	1.92	2.09	1.64

Commodities & Currencies

	Total Return in USD (%)			
Commodities	Current	WTD	MTD	YTD
Bloomberg Commodity	205.58	0.6	1.8	23.4
WTI Crude $/Barrel††	73.95	2.6	0.7	52.4
Gold Spot $/Ounce††	1814.19	0.7	2.5	-4.4

Currencies	Current	Prior Week End	Prior Month End	2020 Year End
EUR/USD	1.19	1.18	1.19	1.22
USD/JPY	109.72	110.55	111.11	103.25
USD/CNH	6.46	6.48	6.47	6.50

Sources: Bloomberg, Factset. Total Returns from the period of 7/26/2021 to 7/30/2021. †Bloomberg Barclays Indices. ††Spot price returns. All data as of the 7/30/2021 close. **Past performance is no guarantee of future results.**

Asset Class Weightings (as of 7/6/2021)

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 7/30/2021)

	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)	4.5	-3.4	6.3	6.5	7.0	6.0	6.2
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 30, 2021.

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Index Definitions

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

Federal Housing Finance Agency (FHFA) purchase-only home price index (HPI) the nation's only collection of public, freely available house price indexes that measure changes in single-family home values based on data from all 50 states and over 400 American cities that extend back to the mid-1970s.

S&P Case Shiller Home Price Index measures the value of single-family housing within the United States. The index is a composite of single-family home price indices for the nine U.S. Census divisions and is calculated monthly.

National Association of Realtors Affordability Index measures whether or not a typical family could qualify for a mortgage loan on a typical home.

Citi Inflation Surprise Index measures the level of actual inflation compared with inflation expectations in emerging markets.

Nasdaq Golden Dragon China Index is a modified market capitalization weighted index comprised of companies whose common stock is publicly traded in the United States and the majority of whose business is conducted within the People's Republic of China.

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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. 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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