CHIEF INVESTMENT OFFICE

Capital Market Outlook

September 13, 2021

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

IN THIS ISSUE

Macro Strategy—The biggest macroeconomic surprise so far in 2021 has been the wide discrepancy between economists' forecast for inflation and its actual performance. Despite this big miss, there is still a consensus expectation that inflation will revert to the Federal Reserve's (Fed) 2% target over the next couple of years. Recent developments in labor costs and home prices indicate that inflation will likely surprise to the upside for the foreseeable future. For investors, this suggests relatively undervalued dividend-paying stocks in cyclical sectors like Energy, Materials and the Financial Industries should continue to outperform in the post-pandemic world.

Global Market View—We are optimistic that the secular bull market for equities still has room to run, but we see the potential for near-term choppiness. A variety of emerging macroeconomic risks should be monitored by investors as we head into the end of the year.

Thought of the Week—While chips, cans, cars, cleaners remain in short supply, not lacking is cash. The amount of liquidity presently held by U.S. corporations and American households—on an absolute or relative basis—has never been higher, hence our conviction that U.S. equities remain in an uptrend, notwithstanding some mounting headwinds.

Portfolio Considerations—Given the impressive outperformance of Equities over bonds throughout the better part of 2020 and so far this year, Equity weights have drifted higher than our recommended tactical tilts, and Fixed Income weights have drifted lower. As such, the strategy to rebalance from Equities into bonds would bring them in line with our tactical weights and we look to implement the same in our CIO Portfolios. Our tactical views are not changing as a result of this rebalance and we still remain overweight Equities and underweight bonds as per our earlier recommended tactical asset allocation weights.

MACRO STRATEGY
Chief Investment Office
Macro Strategy Team

GLOBAL MARKET VIEW
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THOUGHT OF THE WEEK
Joseph P. Quinlan
Managing Director and Head of CIO Market Strategy

Data as of 9/13/2021, and subject to change

MACRO STRATEGY

Investing for High Inflation

Chief Investment Office, Macro Strategy Team

Back in January, the Blue Chip Consensus Forecast for consumer price inflation in 2021 was 2%. By August, that forecast had doubled to 4%. Similarly, the Fed's projection for 2021 personal consumption expenditures (PCE) inflation rose from 1.8% last December to 3.4% in June, helping to explain its decision to bring forward tapering into late 2021

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instead of waiting until next year. While forecasters have been chasing the inflation rate higher, they remain well behind what seems likely. The September survey of economists in the Blue Chip Financial Forecast implicitly acknowledges this game of catch-up, with 63% of participants saying that "financial markets are too complacent concerning the inflation outlook."

It's not hard to see why most economists now think inflation risks are to the upside. So far in 2021, the consumer price index (CPI) has been running at an 8.4% pace, and PCE inflation has been running at a 5.6% pace (Exhibit 1). Both are sharply above their 12-month changes (5.4% and 4.2%, respectively). In addition, upward pressure is still building in wholesale prices (as measured by the producer price index, or PPI), which also are rising at rates not seen since the 1970s and early 1980s. Both the 12-month and the seventh-month CPI and PCE inflation measures are way above consensus expectations for 2021 inflation, while the PPI shows higher inflation at the earlier stages of production that will likely push retail price inflation even higher.

Exhibit 1: Inflation Accelerating Well Beyond Consensus Expectations.

	July 2020 - July 2021 (12-month % change)	2021 (7-month % change*)
CPI	5.4	8.4
PCE	4.2	5.6
PPI (finished goods)	9.4	13.2
PPI (intermediate goods)	23.0	31.3
PPI (crude goods)	54.6	53.8
AHE (average hourly earnings)	4.8	5.1

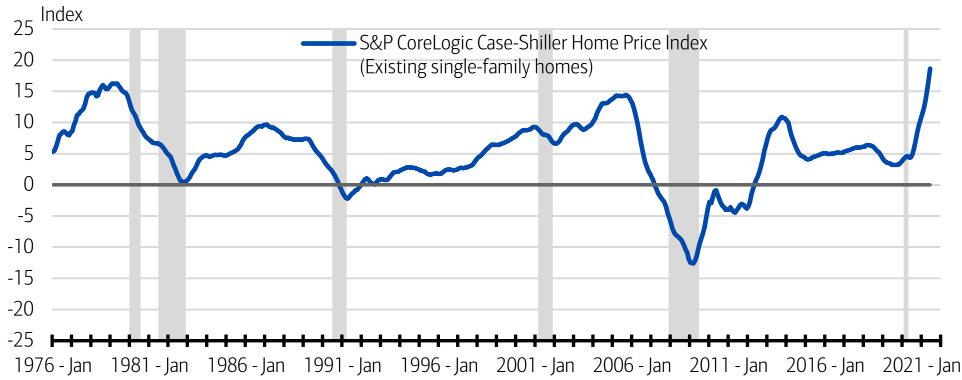
*Dec to July, except for AHE, which are available through August. Source: Haver Analytics. Data as of September 9, 2021.

While it's clear the near-term inflation outlook is diverging even further from market expectations, an even bigger problem is brewing for the longer term. The Blue Chip consensus sees both the CPI and PCE inflation decelerating back to almost 2% by late 2022. The Fed's economic projections for the PCE are 2.1% and 2.2%, respectively, for 2022 and 2023. What's even more striking is that the latest Fed projection from the June 16, 2021, Federal Open Market Committee (FOMC) meeting shows that no member of the committee expects a PCE inflation rate higher than 3.9% for 2021, 2022 or 2023, despite the fact that the PCE inflation is running at a 5.6% pace so far in 2021, and early-stage inflation pressures are still rising, as shown in Exhibit 1. In fact, for 2022 and 2023, no FOMC participant sees inflation above 2.5%. Also remarkable is the same strong belief among the Blue Chip survey participants that inflation will converge back toward 2% next year.

Recent data on wages and home prices make it highly unlikely that inflation will come down as fast as the Fed and consensus economists expect. Average hourly earnings (AHE) have been increasing at a 5.1% pace so far in 2021. This is up from around 3% before the pandemic. While the media commentary on the August jobs report focused on the big shortfall in job creation (only 235,000 net hiring compared to 750,000 expected), Treasury bond rates rose as the market focused on the inflationary implications of the increase in AHE, which at 0.6% was double the 0.3% expected increase. According to the latest National Federation of Independent Business (NFIB) survey of small and medium-sized businesses, the biggest problem they face is finding qualified labor to fill job openings. Indeed, unfilled job openings soared to almost 11 million in July, a record, and 2.5 million more than the number of unemployed reported by the Bureau of Labor Statistics. Rapid wage growth and difficulty finding workers are indicative of a very tight labor market that will be adding to inflation pressures over the next two years, not subtracting as the economic consensus seems to believe.

Another reason to expect higher, rather than lower, inflation in the year ahead is home prices. In the 12 months through June, home prices rose 18.6%, the most in the history of the S&P CoreLogic Case-Shiller Home Price Indexes measure, which goes back to 1975 (Exhibit 2). That has recently surpassed the prior record set in 1979, the last time inflation pressures like those shown in Exhibit 1 were seen.

Exhibit 2: Record-High Home Price Inflation Points to Big Upside CPI Surprises.



Gray bars represent recession periods. Source: Haver Analytics. Data as of September 9, 2021.

The sharp rise in home prices during the 1970s was a major contributor to the double-digit inflation of that era. The even bigger increase in home prices over the past year has less immediate effect because the methodology for computing inflation has changed. In fact, under the old methodology, the CPI would already be running over 10% this year instead of the 8.4% shown in Exhibit 1 for the first seven months of 2021. Instead, the rising home prices will enter the CPI over the next three years in a distributed fashion, as higher home prices influence rents. The Dallas Fed published a research report on August 24, 2021, that connects home prices to the rent measures that enter today's CPI and PCE measures of inflation. The two rent measures used constitute about 30% of the CPI. Based on the relationship between home prices and subsequent rent changes, the Dallas Fed researchers estimate the two measures of rent inflation will be rising to 6.9% by the end of 2023. Accelerating rent inflation along with accelerating wage inflation cast a lot of doubt on the current conventional wisdom that inflation will likely fall dramatically over the next two years.

Ultimately, the only way inflation trends reverse is when the Fed tightens policy enough to stop it. That was Paul Volcker's—former Fed Chair—job in the 1980s, and it took over a decade to bring it down from double digits to low single digits. Currently, Fed projections for policy show the fed funds rate rising from 0.1% to 2% in 2023. With inflation already in the high-single digits, that implies record-low real interest rates over the next two years, which would fuel more high inflation. In other words, there is a major disconnect between surprisingly high inflation and the market's view that nominal interest rates will remain around 2%.

If inflation continues to run over 5%, as current conditions suggest, inflation expectations will eventually adjust higher. In Milton Friedman's—American economist—presidential address to the American Economic Association in December 1967, he presciently explained the role that inflation expectations would play in creating the stagflation of the 1970s: "There is always a temporary tradeoff between inflation and unemployment; there is no permanent tradeoff. The temporary tradeoff comes not from inflation per se, but from unanticipated inflation, which generally means, from a rising rate of inflation." As the poor 2021 forecasting record of the Fed and consensus economists illustrates, today we are witnessing one of the biggest bouts of unanticipated inflation since at least the 1970s. This is causing a temporary boom in employment that will likely be paid for later through persistently high inflation, or, if the Fed reacts to bring it down, the next recession.

This surprise inflation has important implications for investors. This is especially true given the current state of market positioning, with huge valuation discrepancies between long-duration Growth stocks and short-duration Value and cyclical stocks. High valuations for Growth stocks are based on the old secular-stagnation world, where nominal gross domestic product (GDP) averaged only 4% (the lowest since 1930s), and interest rates were very low. Short-duration Value stocks underperformed in this world.

According to Empirical Research, the quintile of stocks with the highest correlation to Treasury bond returns is valued at a 70% forward price-to-earnings (P/E) premium to the rest of the market, while the quintile of the stocks with the lowest correlation to Treasury bond returns is priced at a 40% discount to the rest of the market. These are record valuation gaps that reflect the view that rates will likely stay low, based on disbelief that inflation will be high. Simply put, the market is unusually vulnerable to the inflation shock that is gathering steam.

If rates eventually rise much more than expected, as seems likely, the 70% forward P/E premium on Growth stocks will get crushed, as we have already started to see in the long-duration innovation stocks that surged when rates collapsed in 2020 but have been underperforming in 2021 as bond rates have doubled off their lows. On the other side of the ledger, the 40% discount on short-duration Value stocks helps provide a cushion for the next rate-driven bear market. Cyclical Value stocks also have more dividend income that helps provide a hedge against inflation, while it lifts nominal growth out of the secular-stagnation trap.

As the analysts at Absolute Strategy Research noted on September 9, 2021, "Inflation provides a double benefit for dividends." They grow faster as inflation rises, and they account for more of the overall return as higher inflation compresses multiples. Recent BofA Global Research finds the market the most overvalued since 1999. Dividends have been the sole source of return in past periods of such extreme overvaluation.

GLOBAL MARKET VIEW

Risk Dashboard Update

Kirsten Cabacungan, Assistant Vice President and Investment Strategist

Emily Avioli, Assistant Vice President and Investment Strategist

U.S. Equities have churned higher so far this year, with the S&P 500 up 21% year-to-date.[1] Strong performance has come on the back of easy monetary policy, lower than anticipated bond yields, and a robust economic backdrop. While we are optimistic that the secular bull market for Equities still has room to run, we see the potential for near-term choppiness due to some emerging macroeconomic risks. Investors should monitor the following dynamics as we head into the end of the year.

Fiscal Follies

A variety of upcoming potential policy actions—including budget and infrastructure negotiations, the fiscal cliff, Fed tapering, Fed reappointments, etc.—could affect markets. According to Strategas Research Partners, President Biden's fiscal package will get the most attention, with potentially the largest tax increase since 1968 and the largest spending increase in more than 100 years.

The House of Representatives recently approved the $3.5 trillion budget resolution and advanced a $1 trillion bipartisan infrastructure bill. Equity markets may react positively to the additional stimulus if both efforts are fully approved, but the huge injection of cash into the economy could further ignite inflationary worries. The method of funding could also raise concern, as a good portion of the spending would likely come from a combination of various tax increases, which may dampen investor sentiment. BofA Global Research estimates that President Biden's corporate tax proposals alone would reduce S&P 500 profits by 5% in 2022.

And then there's the issue of the debt ceiling, which was suspended through July 31. It is expected that a provision to increase it will be added to a September bill funding the government, but garnering enough bipartisan support may prove to be difficult. Dragged-

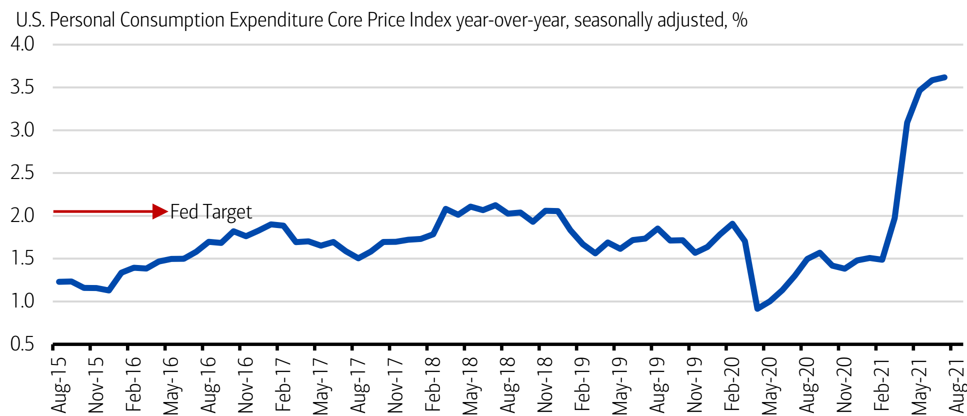
[1] Bloomberg. Data as of September 8, 2021.

out negotiations could bring us closer to a government shutdown, which would generate heightened uncertainty and headline risk for equity markets.

Inflation Persists

While inflation has shown some signs of moderating as of late, we still see signals that it could be more structurally persistent than "transitory." The core PCE price index rose 3.6% in the 12 months through July, hovering well above the Fed's 2% target[2] (Exhibit 3). Meanwhile, the most recent 12 month PPI reading jumped to a record high of 7.8%,[3] indicating that supply pressures are persisting, and "sticky" areas within consumer prices like rents are beginning to move higher—multifamily asking rents rose a record 8.3% in July.[4] All of this comes as the Philadelphia Fed's survey of Professional Forecasters 10-year Headline PCE expectations ticked up from 2.1% in Q2 to 2.2% in the third, signaling that long-term inflation expectations are on the rise.

Exhibit 3: Inflation Remains Well Above the Fed's Target.



Source: Bloomberg. Data as of August 30, 2021.

As these pressures mount, it is increasingly likely that the Fed will ease the gas pedal off its exceptionally dovish policy and begin tapering asset purchases starting in November, which may cause choppiness for equity markets. Fed Chair Powell has reiterated that the timing and pace of the coming reduction in asset purchases is not intended to carry a direct signal regarding the timing of an interest rate hike. Nevertheless, market participants will speculate on the timing, given that the stakes are high, as the Fed risks derailing the jobs market recovery if it lifts rates before full employment is reached, but waiting too long to hike could lead to breakaway inflation.

Consumer Confidence

Consumer confidence has sharply fallen in recent weeks, with the University of Michigan Consumer Sentiment Survey decreasing to 70.3 in August—a level not seen since 2011. The decline coincides with climbing coronavirus case counts due to the rapid spread of the Delta variant, which has caused consumers to pull back on reopening activities. It also comes as the New York Fed Survey of Consumer Expectations showed that three-year inflation expectations rose to 3.7% in July.

The weaker sentiment is starting to translate into a moderation in consumer spending. U.S. Census data showed that retail sales fell -1.1% month-over-month (MoM) in July, and Bank of America-aggregated credit and debit card data indicated that total card spending was down -1.3% MoM. It is our view that spending should bounce back in the medium term because the consumer is solidly positioned to support the economy well into 2022; however, declining confidence could lead to more cutbacks in the near term.

[2] Bloomberg. Data as of August 27, 2021.

[3] Bureau of Labor Statistics. Data as of August 12, 2021.

[4] Yardi Matrix. Data as of August 9, 2021.

Geopolitical Risks

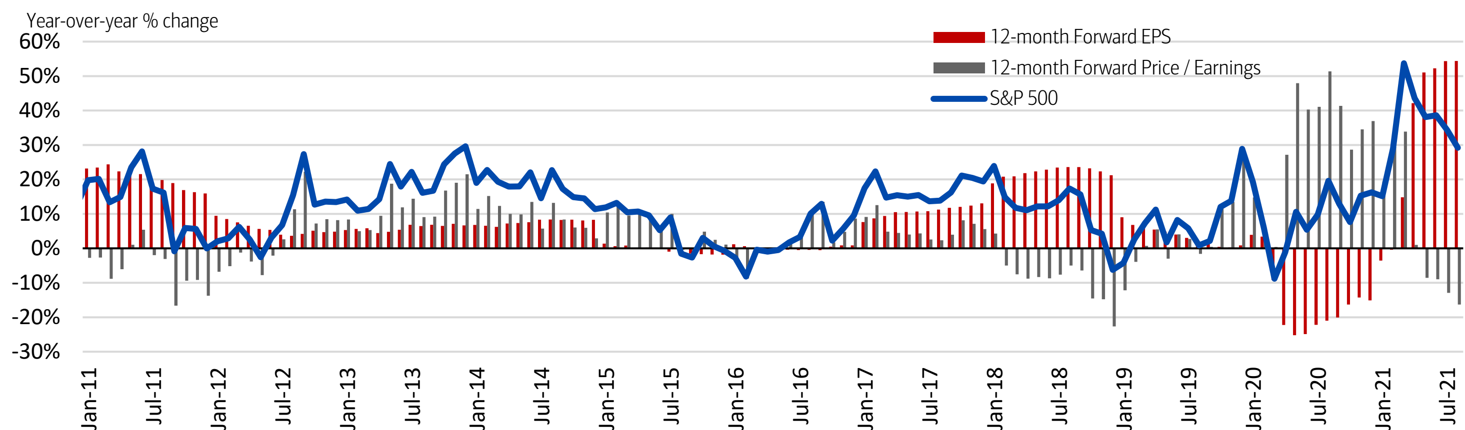
Geopolitical tensions could climb higher on the growing list of issues for investors to monitor. President Biden inherited a tense U.S.-China relationship with economically consequential issues such as a trade war, technological competition, intellectual property (IP) protection, Hong Kong and Taiwan, among others. The current administration has held the line on these issues, but they have raised the bar on human rights issues. Over the summer, President Biden called on other world democracies at the G7 summit to oppose China's alleged use of forced labor and take action to directly challenge the Belt and Road initiative. Furthermore, China's latest implementation of stricter regulatory measures affecting technology companies, especially those listed on U.S. exchanges, and private education firms demonstrates the Communist Party's desire to maintain a tight control over important economic agents, leading to global investors further questioning their allocations to Chinese assets.

The recent move, to withdraw U.S. troops from Afghanistan has also added to investors' cautious mood as many are concerned it could turn into a new breeding ground for terrorist organizations. The execution of the withdrawal has led to a sharp decline in President Biden's approval rating and has raised concerns around whether he will be able to rally enough support to get his fiscal packages passed later this year.

Earnings and Margin Pressures

Strong Q2 earnings and record margins have helped drive U.S. equity returns so far this year and demonstrate that companies have remained resilient against rising cost pressures (Exhibit 4). S&P 500 earnings per share (EPS) beat consensus expectations by 17%, well above the average 2% beat from 2000 to 2019. Net margins (ex-Financials) jumped to a record high during the quarter, reaching 13.1% and surpassing the previous quarter's record of 12.5%.[5] But as the strong positive effect of policy support starts to wane, questions over whether this extraordinary earnings story can be carried forward into 2022 have come into focus.

Exhibit 4: Strong Earnings Growth Has Been the Primary Driver of U.S. Equity Returns So Far This Year.



Source: Bloomberg. Data as of September 7, 2021. **Past performance is no guarantee of future results.**

Companies could experience some margin degradation if wage pressures accelerate, especially as companies allude to labor shortages as a major challenge. While an impaired labor supply could improve in the coming weeks with the expiration of unemployment benefits, it is likely that wage pressures could linger and squeeze margins as demand remains robust. AHE for all employees has risen by roughly 4% year-over-year (YoY) over the past three months, and some of the Fed districts have reported "brisk wage gains," especially among lower-wage workers, with employers even moving to offer additional bonuses, raises and flexible work arrangements in an effort to attract labor. Persistent supply chain disruptions have also contributed to rising costs, and if consumer sentiment

[5] BofA Global Research. Data as of August 26, 2021.

continues to weaken, companies may find it more difficult to pass some of these off through higher prices.

Industries that are more labor intensive, or rely on a larger employee base to support rising sales, such as retail, restaurants, hotels, etc., could be challenged. Industries with greater pricing power or the scale to spread costs (larger, higher-quality companies like tech) may be able to manage and adapt to these pressures more smoothly and in turn may see less earnings sensitivity.

Portfolio Considerations

Despite a growing number of risks developing over the next several months, we remain constructive on Equities versus Fixed Income and cash. Equities may consolidate their gains, and there could be pullbacks, but the bullish uptrend should be supported by a strong consumer, improving corporate earnings and a still-accommodative monetary policy environment. We suggest staying invested and for those portfolios that have experienced a significant drift higher in Equity weights (due to appreciation) to consider rebalancing back to tactical targets.

THOUGHT OF THE WEEK

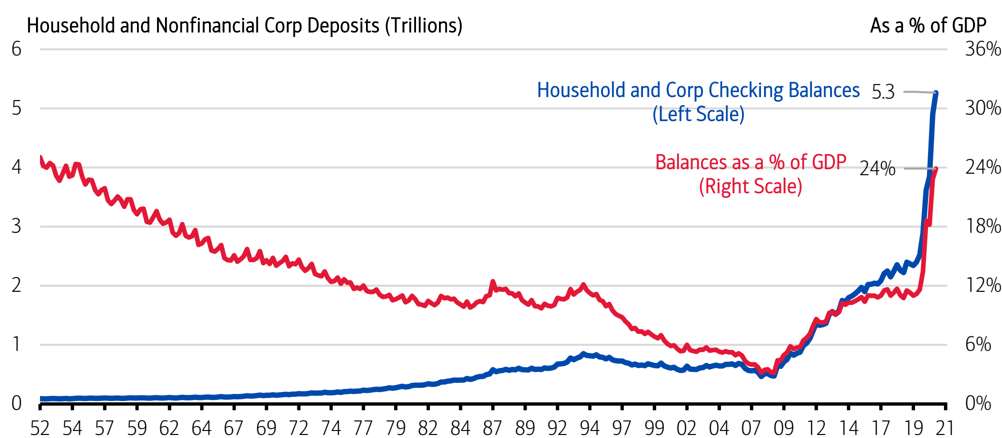
One Thing Not in Short Supply: Cash

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

Chips, cans, cars, cleaners—you name it, and it is in short supply, throttling near-term economic growth and earnings prospects not only in the U.S. but around the world. However, not lacking is cash and hence our conviction that U.S. Equities remain in an uptrend, notwithstanding some mounting headwinds.

Capital is the oxygen of the economy and capital markets, and, as Exhibit 5 highlights, the amount of liquidity presently held by U.S. corporations and American households—on an absolute or relative basis—has never been higher, totaling a staggering $5.3 trillion as of Q1 of this year. According to the latest Flow of Funds data, corporate checking accounts totaled $1.9 trillion[6] at the end of Q1 of 2021, while households were sitting on $3.35 trillion. The combined figure equates to 24% of U.S. GDP, a level not seen since the 1950s.

Exhibit 5: Cash: The Next Catalyst to the Bull Market.



Sources: Federal Reserve Board; Bureau of Economic Analysis. Data through Q1 2021.

Multiple reasons explain the surfeit of cash, ranging from stronger-than-expected profits growth, deferred capital expenditures (CapEx) spending as the coronavirus Delta variant has spread, generous government transfers to U.S. households, ultra-low interest rates, and rising wages, among the primary reasons.

[6] Inclusive of only corporate checking balances.

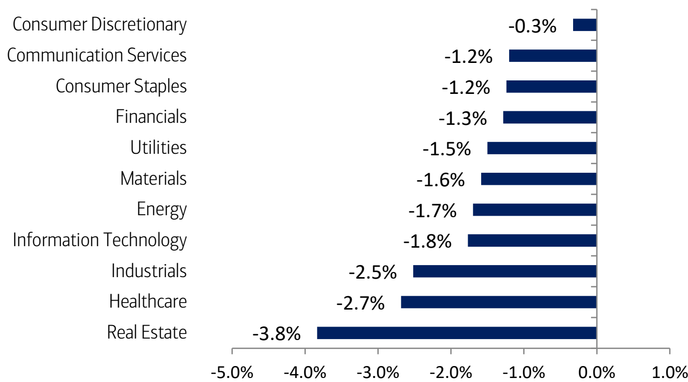
What does all of this mean for the markets? First, we believe concerns of "fiscal cliff" are overdone—i.e., when both Congress and the Fed step back from priming the fiscal/monetary pump, U.S. households and corporations will have the financial wherewithal to keep the economy humming at a solid clip. The upshot: more upside earnings surprises. Second, hoards of corporate cash entails rising CapEx spending into 2022 (bullish for the U.S. Technology sector) and increasing levels of share buybacks and dividend growth. And third, in terms of portfolio construction, rising levels of consumer spending and CapEx into 2022 support our barbell approach to owning cyclicals (Energy, Materials, Industrials and Financials), as well as secular growth leaders like Technology and Healthcare.

The bottom line: The common refrain is that "cash is trash." That's not untrue in a low-yielding world. However, think of present cash levels as a future catalyst to higher U.S. Equity prices/returns.

Equities

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
DJIA	34,607.72	-2.1	-2.1	14.6
NASDAQ	15,115.49	-1.6	-0.9	17.8
S&P 500	4,458.58	-1.7	-1.4	19.9
S&P 400 Mid Cap	2,686.53	-2.7	-2.4	17.4
Russell 2000	2,227.55	-2.8	-2.0	13.5
MSCI World	3,122.07	-1.3	-0.6	17.3
MSCI EAFE	2,381.44	-0.3	1.2	12.9
MSCI Emerging Markets	1,308.94	-0.5	0.1	2.9

S&P 500 Sector Returns



Fixed Income†

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
Corporate & Government	1.34	0.03	-0.07	-0.94
Agencies	0.73	-0.05	-0.08	-0.27
Municipals	0.97	0.00	-0.04	1.49
U.S. Investment Grade Credit	1.44	0.02	-0.05	-0.74
International	2.01	0.11	0.02	-0.20
High Yield	3.79	0.11	0.30	4.85
90 Day Yield	0.04	0.03	0.04	0.06
2 Year Yield	0.21	0.21	0.21	0.12
10 Year Yield	1.34	1.32	1.31	0.91
30 Year Yield	1.93	1.94	1.93	1.64

Commodities & Currencies

	Total Return in USD (%)			
Commodities	Current	WTD	MTD	YTD
Bloomberg Commodity	207.36	0.0	1.2	24.4
WTI Crude $/Barrel††	69.72	0.6	1.8	43.7
Gold Spot $/Ounce††	1787.58	-2.2	-1.4	-5.8

	Total Return in USD (%)			
Currencies	Current	Prior Week End	Prior Month End	2020 Year End
EUR/USD	1.18	1.19	1.18	1.22
USD/JPY	109.94	109.71	110.02	103.25
USD/CNH	6.44	6.44	6.45	6.50

Sources: Bloomberg, Factset. Total Returns from the period of 9/6/2021 to 9/10/2021. †Bloomberg Barclays Indices. ††Spot price returns. All data as of the 9/10/2021 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.**

Asset Class Weightings (as of 9/7/2021)

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 Forecasts (as of 9/10/2021)

	2020A	Q1 2021A	Q2 2021E	Q3 2021E	Q4 2021E	2021E
Real global GDP (% y/y annualized)	-3.1	-	-	-	-	5.9
Real U.S. GDP (% q/q annualized)	-3.4	6.3	6.5	4.5	6.0	5.9
CPI inflation (% y/y)	1.2	1.9	4.8	5.3	5.2	4.3
Core CPI inflation (% y/y)	1.7	1.4	3.7	4.1	4.1	3.4
Unemployment rate (%)	8.1	6.2	5.9	5.3	4.5	5.5
Fed funds rate, end period (%)	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 September 10, 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 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.

Consumer Price Index (CPI) measures changes in the price level of a weighted average market basket of consumer goods and services purchased by households.

Producer Price Index (PPI) is a family of indexes that gauges the average fluctuation in selling prices received by domestic producers over time.

Personal Consumption Expenditure (PCE) Core Price Index refers to a measure of imputed household expenditures defined for a period of time.

S&P CoreLogic Case-Shiller Home Price Indexes measure the price level of existing single family homes in the U.S.

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

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

Investments have varying degrees of risk. Some of the risks involved with equity securities include the possibility that the value of the stocks may fluctuate in response to events specific to the companies or markets, as well as economic, political or social events in the U.S. or abroad. Bonds are subject to interest rate, inflation and credit risks. Investments in foreign securities involve special risks, including foreign currency risk and the possibility of substantial volatility due to adverse political, economic or other developments. These risks are magnified for investments made in emerging markets. Investments in a certain industry or sector may pose additional risk due to lack of diversification and sector concentration. There are special risks associated with an investment in commodities, including market price fluctuations, regulatory changes, interest rate changes, credit risk, economic changes and the impact of adverse political or financial factors. 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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