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CHIEF INVESTMENT OFFICE

Capital Market Outlook

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Macro Strategy—*Another Year of Upside Surprises?:* Since the pandemic, the consensus of economists and Federal Reserve (Fed) forecasts at the beginning of each year have consistently been too low for both real gross domestic product (GDP) and inflation. The structural shift toward easier monetary and fiscal policies since 2020 suggests that economists have underestimated the power of this more stimulative policy mix, making it likely, in our view, that these consensus forecasts will prove too low once again in 2025. Stronger-than-consensus growth and inflation would continue to favor our Equity overweight and Fixed Income underweight in 2025.

Market View—*While You Were Away: Some Key Headlines That Should Shape Future Market Returns:* The investment landscape is always in flux, never static. Based on the latest incoming data, the U.S. consumer, led by high-income households, remains in solid shape and should be a key support to economic growth this year. But one key challenge remains: finding workers for all the available jobs. Through greater automation and generative Artificial Intelligence (AI), we expect the U.S.' winning productivity streak to continue. Meanwhile, political infighting among Republicans could dampen investor confidence of sweeping pro-growth policies from the incoming administration; Europe continues to depopulate (underweight); Japan is on the cusp of mergers & acquisition (M&A) boom (overweight); and China's unwavering push up the technology curve is increasingly evident in the global aviation market.

Thought of the Week—*A Year-End Fizzle But A Banner Year:* Over what's typically one of the best months of the year for the S&P 500, December ended with more of a fizzle, losing 2.5% in its final month. Still, losses and pullbacks were rather subdued over the totality of 2024. The S&P 500 has risen more than 50% since the start of 2023, the best two-year gain since the late 1990s, while posting 57 record closes just this year.

So what follows a banner year? Factors that could carry this market in 2025 include: above-trend U.S. growth that's showed little moderation and a still-less restrictive Fed, along with rising and broadening corporate earnings. Potential crosscurrents to watch include policy uncertainty with the change in administration, the risk of disappointment if the AI theme loses its luster while denting a large portion of U.S. market cap, as well as the general level of market consensus on the outlook.

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Managing Director and Head of CIO Market Strategy

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Lauren J. Sanfilippo
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Data as of 1/6/2025, and subject to change

Portfolio Considerations

We maintain our tactical Equity overweight relative to Fixed Income with the U.S. as our preferred Equity region relative to the rest of the world given a broad-based and continuous earnings recovery, resilient consumer, and a solid U.S. growth outlook.

Our highest conviction Fixed Income call remains that the yield curve will normalize as short rates move lower. With that in mind, investors should consider moving out investable cash in Fixed Income to their strategic duration target as cash yields are likely to decrease from here while the short-term backup in yields may be an opportunity.

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MACRO STRATEGY

Another Year of Upside Surprises?

Chief Investment Office, Macro Strategy Team

Over the past two years, consensus forecasts have been revised higher for both real GDP and inflation, and consequently for nominal GDP growth. In January of 2023, the Blue Chip Indicators consensus for 2024 was 1.2% for real GDP growth, 2.3% for the consumer price inflation rate and 3.6% for nominal GDP. As recently as January 2024, the consensus for real growth in 2024 had risen to only 1.6% with consumer price index (CPI) inflation forecast at 2.6% and nominal GDP growth just under 4%, where it had averaged during the two decades prior to the pandemic. Fed forecasts tend to track the forecasts of the Blue Chip consensus, which are compiled from a monthly survey of more than 50 leading business economists. The Fed's forecasts have generally tracked those of the market consensus as new information has become available.

Since the January 2024 forecasts at the beginning of the past year, ongoing upside surprises have continued to push GDP growth and inflation forecasts higher, with GDP for 2024 now looking closer to 3%, and CPI inflation for the year also averaging close to 3%, with nominal GDP growth over 5% for the fourth year in a row. Similarly, early 2024 forecasts for 2025 growth and inflation have been drifting higher all year, from 1.7% GDP growth and 2.2% inflation last January to 2.1% growth and 2.4% inflation now the Blue Chip consensus for the year ahead. These upward revisions to growth and inflation for the year ahead were also made by the Fed as seen in its median dot plots released at the December 18 Federal Open Market Committee (FOMC) meeting, which provided the basis for the changed view that only two policy rate cuts are now expected compared to four in its prior weaker growth, lower inflation outlook.

Both the Fed and the consensus of economists are forecasting GDP based on the notion that the potential growth rate of the U.S. economy is less than 2% because of the pre-pandemic experience. In addition, they both believe that long-run inflation will average around just 2% despite the 4%-plus average since the pandemic. These assumptions combine to generate just 4% nominal GDP growth, which was about the average for the two decades prior to the pandemic. Since interest rates generally track around nominal GDP growth rates over the long run, this is the basis for believing that current rates over 4% are restrictive and that the neutral rate is lower. For example, the latest Blue Chip survey in December finds the consensus estimate for the long-term nominal neutral rate is just 3.06%.

Both monetary and fiscal policy were changed dramatically after the pandemic struck. Fiscal deficits that generally ran at 3% or 4% of GDP jumped and have been averaging 7% or 8% since 2020. This massive acceleration in government spending has boosted nominal growth into a new higher range that has been accommodated by a much easier approach to monetary policy.

After over a year of study, the Fed changed its monetary policy strategy on August 27, 2020, with a new statement on longer-run goals and monetary policy strategy. The new approach created an increased focus on keeping the unemployment rate low while allowing inflation to run above target. Since then, inflation has averaged over 4%, and unemployment has run at generational lows. Big deficits with such low unemployment are unprecedented in the past 75 years. The Fed's rate cuts this year are another anomaly reflecting its increased focus on employment rather than inflation since its 2020 shift in strategy.

A recent Brookings Institution podcast focused on the lessons from this 2020 shift in monetary policy and how it might be amended in the upcoming evaluation scheduled for 2025 and 2026.[1] The focus on employment over inflation in the 2020 change is likely to get serious attention. But for now, the Fed is still operating in a way that favors higher growth over lower inflation. This continues to be the case and helps account for the continued forecast errors of the consensus, which does not adequately incorporate the new fiscal and monetary policy paradigm since 2020.

While stimulative policy has kept growth surprises to the upside since 2020, it has also kept inflation surprises to the upside. Market-based inflation expectations as, for example, measured in the Treasury Inflation-Protected Securities market totally missed the uptick in inflation since

Portfolio Considerations

Strong growth and high inflation continue to favor Equities and hurt bonds.

[1] "How Will the Federal Reserve revise its monetary policy Framework in 2025?" December 18, 2024.

2020. Consumers, on the other hand, have shown a dramatic increase in uncertainty about the outlook for the long-term inflation rate.

A recent study by the University of Michigan Surveys of Consumers shows that households' long-run inflation views have not returned to prepandemic levels,[2] even while those of economists and the Fed have.

For example, the median expectation for long-run CPI inflation rose from an average of 2.5% in 2019 to 3.1% in the 12 months through October of 2024. The variance around long-run inflation expectations have risen about eight-fold in the same time comparison mainly because there is a growing contingent of households expecting much higher inflation over the next five to 10 years. This is reflected in the bigger rise in the mean expectation for long-term CPI growth from 3.5% to 5.1%, which reflects a growing population who expect inflation to run much higher than the Fed's target rate. This rise in inflation expectations is also evident in the December survey of consumers, which noted, "Buying conditions exhibited a particularly strong 32% improvement, primarily due to a surge in consumers expecting future price increases for large purchases." Buying ahead of price increases is a symptom of an inflationary policy mix.

Finally, while the continued mix of easier monetary and fiscal policy keep 2025 on track to repeat the upside growth and inflation surprises of the post-pandemic period, the election results also suggest economists are underestimating the outlook. Most of the rationale behind the consensus outlook for a slowdown in 2025 is predicated on the notion that tariffs and trade frictions more generally would hamper growth, while stricter immigration policies would slow labor force growth and therefore the economy.

Countering these presumed drags are the prospects for increased growth and rising productivity from reduced regulation and the spreading application of AI technologies to more industries. Surveys of business leaders suggest that the uncertainty surrounding trade and immigration policies is more than offset by the hopes for pro-business regulatory policies. After the election, the National Federation of Independent Business (NFIB) survey of small business owners' optimism jumped above its 50-year average following almost three years below average. Interestingly, the uncertainty index dropped dramatically, suggesting concerns about immigration and trade are more than offset by hopes for better government regulatory policies.

The Business Roundtable survey of CEOs finds similar results among large corporate leaders, as it also rose above its historic average in the fourth-quarter survey to its highest level in over two years. Perhaps even more surprising given economists worries about the new administration's trade policies, business leaders in other countries show the same positive response to the election. A survey of 300 global public company CEOs and 380 institutional investors finds that 77% of global CEOs and 86% of the investors expect that the global economy will improve in the first half of 2025. "For the first time since Teneo conducted this survey, we see significant alignment between CEO and investors on the direction of the global economy, and confidence has never been higher," said Teneo CEO Paul Keary.

In our view, an upside growth surprise is unlikely to be accompanied by the disinflation trend the Fed and consensus economists expect. Producer prices, which are in the earlier stages of the inflation process, have been trending higher since the Fed Chair Powell pivot in late 2023, which eased financial conditions and set off the earnings recovery, which is gaining steam. "Core" consumer inflation has been stalled around 3% since the summer and, as the Michigan survey shows, consumers are not expecting lower inflation. Indeed, the skew is toward upside risks.

Another year of stronger growth would once again surprise the Fed and consensus economists as would continuing well-above target inflation. This is a mix that helps explain why long-term Treasury bonds had their fourth down year in a row and Equities keep inflating despite the Fed's presumed restrictiveness.

[2] "Current Versus Pre-Pandemic Long-Run Inflation Expectations," October 25, 2024.

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MARKET VIEW

While You Were Away: Some Key Headlines That Should Shape Future Market Returns

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

For those of you OOO (out of office) and unplugged over the past few weeks, we highlight and summarize some of the key headlines that caught our attention while you were away, including:

"Holiday Shopping Reveals Consumer-Spending Split," ***Wall Street Journal*****, December 27, 2024.**

The headline speaks to a common theme we have been highlighting for some time: that not all U.S. consumers are created equal. While consumers in lower-income households are feeling the squeeze from higher prices, high-income households are in better shape and holding their own—i.e., they are out spending. To wit, according to Mastercard, consumers spent 3.8% more between November 1 and December 24 this year from the prior year, although the bulk of the spending was done by households making more than $100,000 a year. As the article notes, "it was a holiday season of the haves and have nots." The upshot: The true meaning of the phrase "U.S. consumer" is a little more nuanced and differentiating than commonly recognized. A year ago, remember, many economists expected the U.S. consumer to buckle under the weight of higher interest rates and elevated prices, placing the U.S. economy at risk of a recession. The latter never panned out because higher-income spenders kept spending, providing ballast to the U.S. economy, earnings and upward momentum in the U.S. Equities. As we enter the new year, it's all systems go for high-income consumers thanks to the positive wealth effects of a strong stock market and significant home appreciation, in addition to a tight labor market.

"Factories In U.S. Are Struggling to Fill Jobs," ***The Wall Street Journal*****, December 31, 2024.**

This headline speaks to another top-of-mind theme of ours—and one that supports our portfolio conviction for leading manufacturers of automation/robotics. Simply put, there are not enough U.S. manufacturing workers for all the available work out there. For most of 2024, the gap each month between manufacturing job openings and new hires was roughly 100,000; no wonder, then, that over 60% of employers recently surveyed by the National Association of Manufacturers said attracting and retaining talent was their top challenge. So, at precisely the moment when U.S. firms are being encouraged to produce goods at home; when the threat of U.S. tariffs could engender supply-side shortages and higher costs, notably with China; and when anti-immigrant policies portend to knee-cap U.S. labor market growth—at this exact moment, U.S. firms are struggling to fill the basic jobs desperately needed to underpin the industrial production of the U.S. The upshot: more automation and greater reliance on artificial intelligence to boost productivity.

"Is a Productivity Boom in Store for U.S.?" ***The Wall Street Journal*****, December 27, 2025.**

And speaking of productivity, we lean into the narrative that the U.S. is on the cusp of a productivity boom that could ultimately lead to higher-than-expected economic growth, corporate earnings and market returns in the U.S. As this article notes, "total nonfarm business sector labor productivity increased 2% from a year earlier in the third quarter—the fifth straight quarter of growth at or above 2%." That is substantially above the 1.6% average rate in the five years leading up to the pandemic. The article ends with "quarterly productivity readings, volatile as they may be, will be one of the most important indicators to watch in the years ahead." We couldn't agree more.

"MAGA[3] is Fighting a 'civil war' over H-1B Visas," ***Washington Post*****, December 30, 2024.**

While you were away, a major battle broke out in the nation's capital—and the combatants were not Republicans vs. Democrats. Rather, a major split emerged between hardline

Investment Implications

After a strong 2024, investors confront a number of crosscurrents entering the new year. We remain overweight U.S. Equities and prefer the U.S. to the rest of the world.

[3] MAGA: Make America Great Again.

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Republicans on the one hand, who want to restrict H-1B visas, and Republican technology leaders on the other, who support more visas for foreign skilled labor. The president has sided with the latter for now. The Republicans also spent some of the holiday arguing over the debt ceiling and future government spending on mandatory programs. The uptake is this: Internal wrangling among Republicans serves as a reminder to investors that even when political parties hold majorities on both sides of Pennsylvania Avenue, as the Republicans do, enacting legislation can be difficult and unpredictable. Investors are expecting significant market-friendly policies in year one of Trump 2.0, but the actual shape and timing of these policies remains fluid. A divided Republican party on Capitol Hill could slow or throttle President-elect Trump's legislative agenda, throwing cold water on investor enthusiasm.

"European Union (EU) Births Drop to New Low as Strains on Younger Generations Mount," *Financial Times*, December 24, 2024.

"As we are wont to say", babies' matter—and by this score, Europe is failing miserably. According to the latest figures from Eurostat, the number of babies in the EU hit a record low of 3.665 million in 2023, the lowest annual figure since the statistics were first collected in 1961. Births were down 5.5% from the levels of 2022. Nine counties in the EU now have "ultra-low" fertility rates, including Europe's largest economy, Germany, where birth rates fell to 1.35 children per women in 2023. Italy, Spain, Greece, Poland, Finland, Austria and the Baltic states are also on the "ultra-low" list. Minus immigration, a plummeting fertility rate in Europe means a shrinking working-age labor force, lower productivity over the long run, less final demand and added stress on public finances. Europe's demographic challenges are only mounting and are a key reason why the transatlantic economy continues to diverge, with the U.S. economy (and Equities) expected to outperform its transatlantic counterparts again this year and in the back half of this decade. We remain slightly underweight developed Europe.

"Honda and Nissan Unveil Plan for $58 billion Merger by 2026," *Financial Times*, December 23, 2024.

In contrast, we remain slightly overweight Japan. One of Asia's largest economies is slowly breaking free from decades of deflation and stagnation, boosting confidence among investors. Another market support: greater corporate and shareholder activism in Japan. The headline above supports our call and expectation for more M&A in Japan—or greater industry consolidation that could boost earnings and profit margins and, therefore, market returns in Japan. Tightly knit and insular corporate Japan is opening up, with the Honda-Nissan merger serving as the best illustration of this trend. A fundamental (and bullish) shift in corporate governance is underway in Japan.

"China Steps Up Drive To Break Boeing and Airbus Grip on Plane Market," *Financial Times*, December 31, 2024.

Honda and Nissan are joining forces in the face of intense Chinese competition in the automobile sector, with China, virtually overnight, emerging as the world's largest vehicle manufacturer. Could the same story be unfolding in aviation? If you have never heard of Comac's C919, you're probably not alone. You will in the future, however. The headline speaks to the unwavering state-supported Chinese goal of moving up the technology value chain, with China now taking dead aim at the Western duopoly of Boeing and Airbus. The maiden commercial flight of the C919 was in 2023 and centered on China's domestic market. Now the airline has its sights on Southeast Asia and hopes to gain European certification as early as this year. While the C919 relies on some key components made in Europe and the U.S.—which could slow its expansion—history suggests that China will ultimately find a workaround. The key is this: After more than a decade and billions of dollars in state support, China is set to join the battle for the skies against Western leaders Boeing and Airbus.

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THOUGHT OF THE WEEK

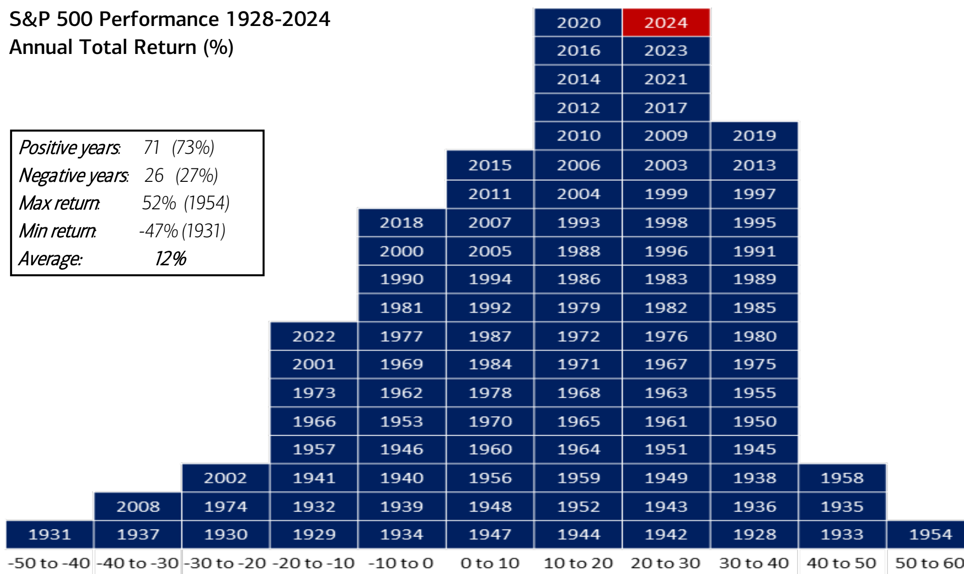
A Year-End Fizzle But A Banner Year

Lauren J. Sanfilippo, Director and Senior Investment Strategist

It was no Hollywood ending the way U.S. Equities closed out 2024. Over what's typically one of the best months of the year for the S&P 500 Index, December ended with more of a fizzle than a bang, losing 2.5% in its final month. Still, losses, and pullbacks, were rather subdued over the totality of 2024. The S&P 500 has risen more than 50% since the start of 2023, the best two-year gain since the late 1990s, while posting 57 record closes just this year. Also impressive, the Nasdaq Index notched 38 new highs, while the Dow Jones Industrial Average Index closed in on 48.

Performance for the year stacked up nicely, historically speaking (Exhibit 1). The S&P 500 surged 23% in 2024 and added $10 trillion to U.S. Equity values, more than $5 trillion of which can be attributed to the Magnificent 7[4]—a group of the largest, most well-capitalized companies in the world. Under the index level of the exceptional U.S. returns, performance of technology companies outshone other sectors. The Technology and Communication Services sectors returned more than 35% each, while the Consumer Discretionary sector gained more than 29%—indicative of two standout market narratives: enthusiasm for AI and the continued resilience of the U.S. consumer.

Exhibit 1: Exhibit 1: S&P 500 Performance 1928 - 2024.



Source: Bloomberg. Data as of December 31, 2024. **It is not possible to invest directly in an index. Please refer to index definitions at the end of this report. Past performance is no guarantee of future results.**

Still, the majority of stocks (more than two-thirds) within the S& P 500 ended in the green for the year, as a handful of names from airline operators to power generation and security software companies gained over 100%. On the other end of the spectrum, 96 stocks were down at least 10%, and another 57 were down more than 20%. Littering the laggards list were retail drugstores and, once again, clean energy companies.

So what follows a banner year? Factors that could carry this market in 2025 include: above-trend U.S. growth that's showed little moderation and a still-less restrictive Fed, along with rising and broadening corporate earnings. Potential crosscurrents to watch include policy uncertainty with the change in administration and a risk of disappointment if the AI theme loses its luster while denting a large portion of U.S. market cap, as well as the general level of market consensus on the outlook.

Portfolio Considerations

As we consider how 2025 could unfold, we have an overall constructive view on the markets for the New Year following two years of above-average returns for Equities. Our underlying view remains that investors should maintain a balanced and diversified allocation with an emphasis on U.S.-based assets.

[4] Magnificent 7 defined as: Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla.

Equities

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
DJIA	42,732.13	-0.6	0.5	0.5
NASDAQ	19,621.68	-0.5	1.6	1.6
S&P 500	5,942.47	-0.5	1.0	1.0
S&P 400 Mid Cap	3,152.14	0.5	1.0	1.0
Russell 2000	2,268.47	1.1	1.7	1.7
MSCI World	3,737.50	-0.5	0.8	0.8
MSCI EAFE	2,254.82	-0.9	-0.3	-0.3
MSCI Emerging Markets	1,073.21	-0.8	-0.1	-0.1

Fixed Income†

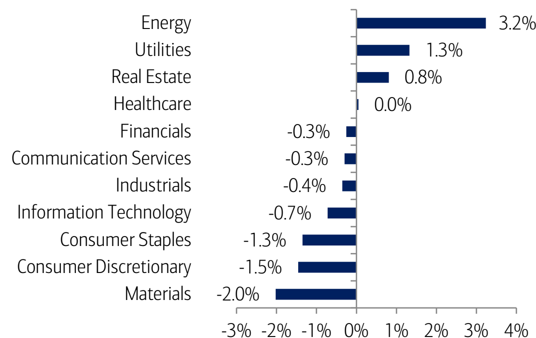
	Total Return in USD (%)			
	Current	WTD	MTD	YTD
Corporate & Government	4.80	0.18	-0.12	-0.12
Agencies	4.64	0.20	-0.03	-0.03
Municipals	3.70	0.61	0.29	0.29
U.S. Investment Grade Credit	4.93	0.18	-0.13	-0.13
International	5.36	0.08	-0.14	-0.14
High Yield	7.39	0.40	0.31	0.31
90 Day Yield	4.29	4.27	4.31	4.31
2 Year Yield	4.28	4.33	4.24	4.24
10 Year Yield	4.60	4.63	4.57	4.57
30 Year Yield	4.81	4.82	4.78	4.78

Commodities & Currencies

	Total Return in USD (%)			
Commodities	Current	WTD	MTD	YTD
Bloomberg Commodity	238.05	0.4	-0.2	-0.2
WTI Crude $/Barrel††	73.96	4.8	3.1	3.1
Gold Spot $/Ounce††	2640.22	0.7	0.6	0.6

	Total Return in USD (%)			
Currencies	Current	Prior Week End	Prior Month End	2022 Year End
EUR/USD	1.03	1.04	1.04	1.04
USD/JPY	157.26	157.87	157.20	157.20
USD/CNH	7.36	7.30	7.34	7.34

S&P Sector Returns



Sources: Bloomberg, Factset. Total Returns from the period of 12/30/2024 to 1/3/2025. †Bloomberg Barclays Indices. ††Spot price returns. All data as of the 1/3/2025 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 1/3/2025)

	Q4 2024E	2024E	Q1 2025E	Q2 2025E	Q3 2025E	Q4 2025E	2025E
Real global GDP (% y/y annualized)	-	3.1	-	-	-	-	3.2
Real U.S. GDP (% q/q annualized)	2.0	2.7	2.5	2.3	2.2	2.2	2.4
CPI inflation (% y/y)	2.7	2.9	2.3	2.3	2.7	2.5	2.5
Core CPI inflation (% y/y)	3.3	3.4	3.0	2.9	3.2	3.1	3.0
Unemployment rate (%)	4.2	4.0	4.3	4.3	4.4	4.4	4.3
Fed funds rate, end period (%)	4.33	4.33	4.13	3.88	3.88	3.88	3.88

The forecasts in the table above are the base line view from BofA Global Research. The Global Wealth & Investment Management (GWIM) Investment Strategy Committee (ISC) may make adjustments to this view over the course of the year and can express upside/downside to these forecasts. Historical data is sourced from Bloomberg, FactSet, and Haver Analytics. **There can be no assurance that the forecasts will be achieved. Economic or financial forecasts are inherently limited and should not be relied on as indicators of future investment performance.**
A = Actual. E/* = Estimate.
Sources: BofA Global Research; GWIM ISC as of January 3, 2025.

Asset Class Weightings (as of 12/3/2024)

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		●			
International Fixed Income			●		
High Yield		●			
U.S. Investment-grade Tax Exempt			●		
U.S. High Yield Tax Exempt		●			
Alternative Investments*					
Hedge Funds			●		
Private Equity			●		
Real Assets			●		
Cash					

CIO Equity Sector Views

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

*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 December 3, 2024. All sector and asset allocation recommendations must be considered in the context of an individual investor's goals, time horizon, liquidity needs and risk tolerance. Not all recommendations will be in the best interest of all investors.

Index Definitions

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

S&P 500 Index is a market-capitalization-weighted index that is widely regarded as the best single gauge of large-cap U.S. equities. The index includes 500 leading companies and covers approximately 80% of available market capitalization.

Consumer Price Index (CPI) measures change over time in the prices paid by consumers for a representative basket of goods and services.

Nasdaq Index is a stock market index that includes almost all stocks listed on the Nasdaq stock exchange.

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

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

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

Investments have varying degrees of risk. Some of the risks involved with equity securities include the possibility that the value of the stocks may fluctuate in response to events specific to the companies or markets, as well as economic, political or social events in the U.S. or abroad. Small cap and mid cap companies pose special risks, including possible illiquidity and greater price volatility than funds consisting of larger, more established companies. 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. Investments in high-yield bonds (sometimes referred to as "junk bonds") offer the potential for high current income and attractive total return, but involves certain risks. Changes in economic conditions or other circumstances may adversely affect a junk bond issuer's ability to make principal and interest payments. 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. Bonds are subject to interest rate, inflation and credit risks. Investments in foreign securities (including ADRs) 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.

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