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CHIEF INVESTMENT OFFICE

Capital Market Outlook

January 29, 2024

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

IN THIS ISSUE

Macro Strategy—*Semis: Why They Should Matter So Much for Investors:* 2023 was the year that put Artificial Intelligence (AI) front and center of the next big thing in Technology, if not a new economic revolution. Before investors had a chance to understand the investment implications from this technology, a run up on these stocks was due to a "fear of missing out" (FOMO) as stocks appreciated beyond their historic valuations. Several of these stocks were in the semiconductor (Semi) industry and were deemed the AI compute engines behind the infrastructure build out of large language models (LLM) that will potentially enable machines to have the cognitive ability to displace a multitude of jobs.

The run in AI-related stocks may prove overdone in the near term, but AI could be even bigger than people think in the long term. AI could be the next frontier, but markets tend to front run the effect of new technologies before they generate actual returns, thus creating volatile investment cycles. Meaningful AI revenues will be further off for many companies, and AI premiums should wear off for these stocks as investors begin to think about the business model. This has happened historically to stocks in the early stages of a technology-driven paradigm shift before later creating long-term investment opportunities. However, when looking at the returns of semiconductor stocks over the past several years, it raises the question. Do semiconductors even need AI?

Market View—*Constructing Portfolios in a Bull Market of Negativity and Election Uncertainty:* While 10 months out from the election, we already detect a sense of fatigue and dread among investors owing to the November vote. Against a backdrop of daily negativity, the Chief Investment Office (CIO) suggests that investors be mindful of the following: The U.S. economy remains the most competitive in the world; profits have trumped politics in the long run; election year volatility augurs for portfolio construction that is up-in-quality, diversified and income-producing; staying in the market matters for returns; structural long-term themes can be a hedge against near-term uncertainty; and see the forest before the trees—U.S. Equities remain a solid long-term, wealth-generating instrument. The bull market in negativity will test the patience and tolerance of investors this year but stay the course.

Thought of the Week—*Can International Equity Markets Outperform in 2024?:* International equity markets trailed the U.S. in 2023 for a 12th calendar year in 14 years since the 2008/2009 financial crisis. And so far in 2024, non-U.S. markets are already once again lagging well behind U.S. Equities.

As we look further ahead into the year, many of the challenges Equities faced in 2023 are likely to remain in place or even increase. Though we still believe that a strategic allocation to International Equities can offer investors a range of advantages, we therefore think that tactical caution remains warranted as we enter the New Year.

MACRO STRATEGY ▶

Chief Investment Office
Equity Investments Team

MARKET VIEW ▶

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THOUGHT OF THE WEEK ▶

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MARKETS IN REVIEW ▶

Data as of 1/29/2024, and subject to change

Portfolio Considerations

While we are optimistic that peak rates and inflation are behind us, we are balanced versus our strategic benchmarks and fully invested across Equities—with still a preference for Large-caps and U.S. relative to the rest of the world—and Fixed Income. In Fixed Income, our preference is to maintain a higher quality positioning across credit and sovereigns and, where appropriate, to favor slightly extending duration. We've identified five mega themes for 2024 and beyond that carry long-term implications and influence on economic growth, earnings potential, and the cost of capital.

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MACRO STRATEGY

SEMIS: Why They Should Matter So Much for Investors

Chief Investment Office, Equity Investments Team

Investors want to understand where we are in the business cycle to help determine sector investing. As we enter the year attempting to guess the Federal Reserve's (Fed) position and timing on rates, investors are faced with how much exposure they should have in cyclical stocks.

No other industry within the Technology (Tech) sector is more cyclical than semi-conductors. One year ago, investors were preparing for a downcycle in semiconductor revenues following three years of pandemic-induced growth that left the industry peaking close to the $600 billion mark. Indeed, 2023 semi sales will likely be down around 10% or so, but as far as the stocks are concerned, “What downturn?” might be a better question as the Philadelphia Semiconductor Index (SOX) returned 67%, according to Bloomberg, in 2023 for its best year since 2009.

The SOX bottomed October 13, 2022, and has risen by around 88% since that time, but fundamentals bottomed in Q2 2023. We are only three quarters into a fundamental upturn, which compares to the typical nine quarters over the last seven cycles. If we assume the market discounts two quarters ahead, this suggests another strong year for semiconductor stocks in 2024. The question is have valuation multiples already been pulled forward?

The feedback from many Wall Street analysts suggest that investor sentiment is most bullish for semiconductor year-over-year growth in 2025. Sentiment for 2024 is mixed with caution for the first half of 2024, but more constructive outlooks for the second half of 2024. Outside of memory and graphics processing units (GPU) in AI, semiconductor fundamentals look weak to neutral at best, with downticks in areas like analog and microcontrollers (MCU). However, Semi stocks trade on expected fundamentals at least six months in advance. Therefore, by mid-year investors may start to discount the industry outlook and fundamental company outlooks for 2025.

Hence 2024 should be an interesting year and likely to reflect a return to growth with consensus estimates for most semiconductor companies reflecting revenue growth. However, the stocks have already appeared to anticipate this as according to Bloomberg the SOX forward price-to-earnings (P/E) ratio has been rising in recent weeks/months even as earnings estimates started to reset higher. With semiconductor P/E valuation multiples in the mid-to-high 20s and a premium to the S&P 500 Index multiple, the easy money may have already been made in the sector for the near term.

So why are we discussing this? Technology investing is by no means all about semi stocks. They are cyclical stocks with their highs and lows, but over the longer term, the return potential for semis is considered better than most in the Technology, Media & Telecom (TMT) industries. Semiconductors help give money managers (both long- and short-term focused) more opportunities to generate alpha—a measure of the active return on an investment—in any given year than pretty much all other subsectors of Tech. Semis have liquidity and large trading volumes compared to most internet and software stocks but can also have very high volatility and sharp moves both higher and lower. They are not for everyone but given the past five- and ten-year returns—SOX 67% 2023 return—overweighting this sector and picking the right positions and avoiding the underperformers could help drive strong returns for a diversified Equity portfolio regardless of style or size.

As per the five-year relative performance in Exhibit 1 nothing comes close to semiconductor sector returns in TMT. Returns in 2023 were close between semiconductors and software despite interest rates raised at the fastest pace ever. According to Bloomberg when comparing the past 10 years, the SOX is up 875%, or 26%+ per year vs. the Nasdaq 100 Index (NDX) 445%, or 18% per year and the S&P 500 229%,

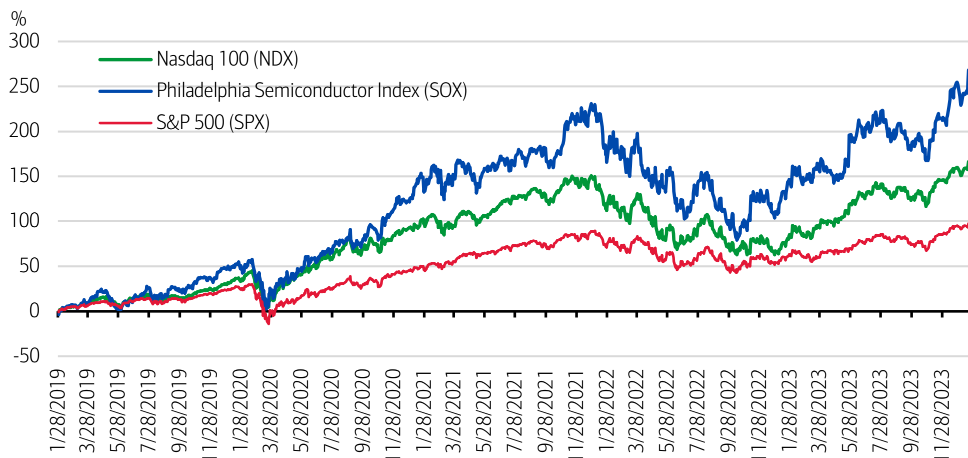
Investment Implications

With a realization that semiconductors are the foundational building block for all innovation in the Technology sector—applications/devices/appliances are getting more intelligent and requiring increased levels of semiconductor content. Semiconductors remain undervalued, and we suspect the next significant re-rating will occur as the move to a data driven economy could force investors to pick leaders and laggards across the broader economy and recognize that semiconductors are the picks/shovels needed across the digital economy.

or 13% per year. Getting the semiconductor space correct can help to improve potential returns in portfolios.

It is still very early in 2024, but semiconductor and TMT returns are following historical patterns after strong performance in 2023. A lot can change from month-to-month and for those tracking benchmark indexes, not owning the leaders in long term secular trends could be detrimental to portfolio performance. We highly doubt this trend continues where only three to five semi stocks sustain massive outperformance through the entire year but if semis perform even close to last year, investors could see positive returns not only in semis but also the broader Technology sector.

Exhibit 1: Five-Year Relative Performance.



Source: Bloomberg. Data as of January 19, 2024. **Past performance is no guarantee of future results. It is not possible to invest directly in an index.**

Basically, a year where semiconductors outperform other indexes (SPX, NDX) this has historically been followed by another year of outperformance. Furthermore, we continue to see more news flow about a broadening out of AI semiconductor investments/GPUs/ Application-Specific Integrated Circuits/Accelerators. Hence, more semi companies can potentially participate in the AI build-out.

Despite cyclicality, semiconductors represent some of the strongest returns in Equities for long-term investors. Don’t get caught up looking at the cyclical trees and miss the forest of semiconductor innovation. When we get pullbacks in the semiconductor group due to rate shocks and or a cyclical downturn, leveraging these opportunities to gain exposure to a subsector within technology with a history of outperformance.

MARKET VIEW

Constructing Portfolios in a Bull Market of Negativity and Election Uncertainty

Joseph P. Quinlan, Managing Director and Head of CIO Market Strategy
Lauren J. Sanfilippo, Director and Senior Investment Strategist
Ariana Chiu, Wealth Management Analyst

"For reasons I have never understood, people like to hear that the world is going to hell."
Historian Deirdre McCloskey

If an alien lost his way, unexpectedly landed on Earth, and stumbled upon the daily headlines of wars in Europe and the Middle East, the hottest year in history due to global warming, and the crisis of democracy and the polarizing U.S. election—there's a good chance he'd fire up his spacecraft and bolt back to space. Who could blame him?

We are living through a bull market in negativity, and this bull—particularly as it pertains to the November U.S. election—is just hitting its stride.

A sampling of the daily barrage of darkness doled out by the media: "Armageddon Election" (*The Economist*), "The Danger Ahead" (*The Atlantic*) or "The Real Threat to American Democracy," (*The New York Times*). Add in anxiety over misinformation on social media, deepfakes and the ubiquity of AI, plus the coming bitter and polarizing presidential campaigns, and it's little wonder some investors have started to channel Rip Van Winkle—i.e., wake me up when this is over.

While 10 months out from the election, we already detect a sense of fatigue and dread among investors owing to the November vote. Indeed, according to a Pew Research poll conducted in September 2023, when asked to reflect on American politics, 65% of respondents said they were always or often exhausted; 55% said they were angry. Meanwhile, a recent Gallup Poll showed that only 28% of U.S. adults—a record low—are satisfied with the way democracy is working in the country.

The CIO Investment Outlook in a Most Unusual Election Year

Because taking a long nap or ejecting to another planet isn't an option for investors, and owing to the welter of uncertainty and negativity of today, the CIO suggests that investors keep in mind the following as we plough toward November:

First, don't bite on the false narrative from either the media or major political parties that the country is going to hell in a hand-basket. Nothing could be further from the truth. Nearly a quarter century into the 21st century, the U.S. economy remains among the most dynamic and resilient in the world, accounting for roughly 25% of world output last year with just 4.5% of the world's population. No economy is as productive and wealthy as the U.S. Stay long America--We believe U.S. assets should be core holdings in portfolios.

Second, profits have always trumped politics. Sure, politics matter to the markets, but the long-term driver of returns has been with company profits. What's more, the profits recession is over, with earnings hitting a trough in Q2 of 2023. For 2024—amid the election frenzy—earnings expectations are skewed to the upside, with the consensus expecting 11% earnings growth this year. Fueling the upturn: better-than-expected growth, retreating inflation, the lower cost of capital and a weaker U.S. dollar.

Third, remember that while election years are frequently associated with more market volatility, U.S. Equity returns in election years (7.5% on average back to 1928 for the S&P 500) have not been all that different from non-election year returns (8%), according to data from Bloomberg. Just as important, stock returns have typically been higher a year later on average. Ergo: In times of tumult, stay in the market.

Fourth, and speaking of staying in the market, don't try to time the market or make major moves today in anticipation of changing course tomorrow. BofA Global Research has long noted, market timing is difficult and can lead to investors missing out on the best days of returns, thereby impairing long-term gains. To this point, as Morgan Housel notes in his book, *The Psychology of Money*, "If you want to do better as an investor, the single most

Investing Implications

Sometimes the most difficult thing to do in investing is to look past the present and plan for the future. Notwithstanding the U.S. election, and the results, we maintain our investment bias toward U.S. assets.

powerful thing you can do is increase your time horizon. Time is the most powerful force in investing. It makes little things grow big and big mistakes fade away."

Fifth, prioritize and emphasis quality in portfolios—across all asset classes. Political uncertainty and the attendant rise in volatility means a premium on quality assets, while junk gets crushed. A strategy of up-in-quality not only serves as a hedge in a climate of ambiguity, but also helps position portfolios for greater upside when the market rebounds/recovers.

Sixth, diversification has never been more important, so look beyond the traditional 60/40 portfolio. The broader, the more diversified the construction of a portfolio (incorporating not just stocks and bonds of all stripes, but alternatives, for qualified investors, like Hedge Funds, Credit, Private Real Estate, etc.), the greater the wherewithal to help smooth out the cyclical ups and downs (volatility) of the markets, notably in an election year.

Seventh, lock in stable income streams via bonds and dividend payers. A predictable and steady stream of income in a time of uncertainty can give portfolios ballast over the near term. As rates on money markets are likely to trend lower this year, an alternative source of income could be high-dividend-paying Equities. In Fixed Income, the CIO preference is to maintain higher-quality positioning across credit and sovereign.

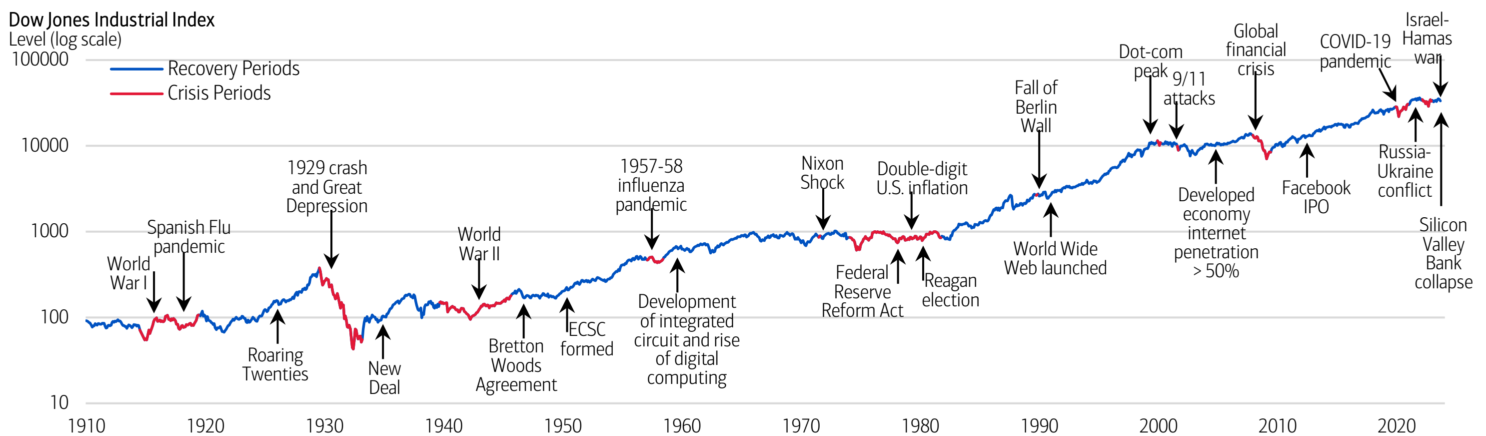
Eighth, be mindful and stay invested in the key macro structural themes of today—they are bigger and more consequential to portfolio returns than the election cycle. Thematic investing is a macroeconomic-based, forward-looking investment approach designed to uncover anticipated changes over a long-term horizon. Some of our top themes include longevity and healthcare, hard power or defense/cybersecurity, the grid (infrastructure spending), and applications of AI. Thematic investing can be deployed throughout a portfolio of multi-asset classes, providing satellite exposure within the portfolio. The strategy can be notably useful in times of heighted uncertainty.

Ninth, stay close to home—we maintain a bias toward U.S. Equities. Owing to stronger balance sheets, sturdy economic fundamentals, and the innovative capacity of the U.S., the U.S. remains our preferred region relative to the rest of the world. Europe and some emerging markets look attractive based on valuation metrics, but heightened geopolitical risks (e.g., the threat to global trade) and China's structural slowdown keep us guarded in our bias towards developed and Emerging Market (EM) assets.

And tenth, take the long view—see the forest before the trees. Sometimes the most difficult thing to do in investing is to look past the present and plan for the future. That's especially true in today's tumultuous world. The CIO continues to espouse that investors take a long-term approach to investing and maintain a disciplined and diversified portfolio while actively rebalancing asset classes. Remember: We've been here before—bouts of instability and market selloffs are not uncommon and have been followed by multiple decades of rising market returns. To wit, between 1945 and 2023, U.S. Equities have returned an annualized 11.4%. As Exhibit 2 shows, major seminal events have not impeded continued gains in major U.S. indexes.

The bottom line: the bull market in negativity will surely test the patience and tolerance of investors this year. But this too shall pass—meanwhile, prepare and position portfolios accordingly, and stay the course.

Exhibit 2: Equity Market and Historical Periods of Crisis and Recovery.



Sources: Chief Investment Office; Bloomberg. Data as of 2023. **Past performance is no guarantee of future results. It is not possible to invest directly in an index.**

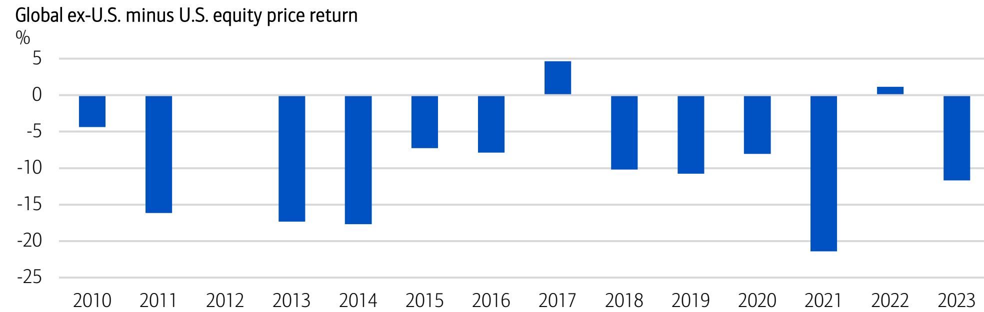
THOUGHT OF THE WEEK

Can International Equity Markets Outperform in 2024?

Ehiwario Efeyini, Director and Senior Market Strategy Analyst

International equity markets trailed the U.S. in 2023, their 12th calendar year of underperformance in the 14 years since the 2008/2009 financial crisis (Exhibit 3). But international markets are already lagging well behind U.S. Equities in the opening weeks of 2024. And as we look further ahead into the year, many of the challenges they faced in 2023 are likely to remain in place or even increase.

Exhibit 3: International Equities Have Trailed the U.S. In Recent Years.



Global ex-U.S. is MSCI All-Country World ex-U.S. U.S. is S&P 500. Returns Shown in U.S. dollar terms. Source: Bloomberg. Data as of 2023. **Past performance is no guarantee of future results. It is not possible to invest directly in an index.**

Investment Implications

Despite several years of underperformance for international equity markets in the post-financial crisis period, we believe that tactical caution remains warranted in 2024. Recession risk is high in Europe, interest rates are likely to rise in Japan, and China continues to face a range of structural challenges. Unlike in past cycles, we would also not expect emerging markets to receive a major boost from prospective Fed rate cuts.

On the developed market side, recession risk in Europe is high and could increase as the year progresses. Growth figures across the region were flat to negative into year-end 2023, and Purchasing Managers' Index numbers released early in 2024 for January remain well below the 50 expansion-contraction threshold. Fiscal tightening this year is likely to put further downward pressure on activity in Europe as the reintroduction of European Union (EU) Stability and Growth Pact leads to budgets cuts for around 50% of EU gross domestic product. And EU parliamentary elections in June have the potential to further undermine investor sentiment given the gains expected to be made by populist, anti-EU parties.

Japan is the only major market that is expected to raise policy rates this year. This should not only lead to tighter credit conditions domestically but should also lead to yen appreciation. Historically, yen strength has tended to go hand in hand with underperformance in the Japanese equity market, especially in the more export-exposed sectors like Technology, Industrials and Consumer Discretionary which together account for over 50% of the Japanese market. However, the parts of the market tied to semiconductor manufacturing should remain relatively well-positioned to benefit from prospective growth in information technology investment as the global digital economy expands.

The EM outlook is likely to remain dominated by developments in China. The recent announcement of government plans to buy onshore stocks could well provide a short-term boost for the local market. But this should do little to alleviate the underlying pressures stemming from weak construction activity, the risk of regulatory intervention in the Technology sector which resurfaced at the end of 2023 and U.S. export controls on semiconductors. Other large markets in Asia such as India, Korea and Taiwan appear better-positioned, but together still account for less than half of total EM market capitalization.

In past cycles, Fed interests rate cuts have tended to support EM stock prices. But external strength across the EM universe today (close to 70% of the market cap is in current account surplus) is likely to dampen this effect in the current environment. Therefore, just as the steep Fed rate hikes of the past two years did not cause the type of shakeout in EM that we have seen in the past, prospective rate cuts in 2024 are also unlikely to spark a major rally via a surge in portfolio capital inflows.

A strategic allocation to International Equities can still offer investors a range of advantages, including higher dividend yields, a valuation discount relative to U.S. markets, a more equal balance between value and growth sectors and portfolio diversification. But given the challenges that should lie ahead in 2024, we believe that tactical caution remains warranted as we enter the New Year.

Equities

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
DJIA	38,109.43	0.6	1.2	1.2
NASDAQ	15,455.36	0.9	3.0	3.0
S&P 500	4,890.97	1.1	2.6	2.6
S&P 400 Mid Cap	2,763.77	0.8	-0.6	-0.6
Russell 2000	1,978.33	1.8	-2.4	-2.4
MSCI World	3,216.23	1.3	1.5	1.5
MSCI EAFE	2,222.74	2.0	-0.6	-0.6
MSCI Emerging Markets	985.10	1.5	-3.7	-3.7

Fixed Income†

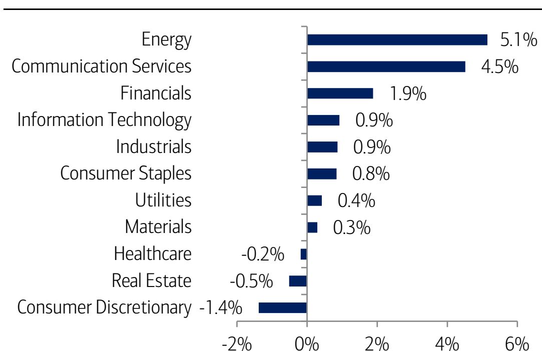
	Total Return in USD (%)			
	Current	WTD	MTD	YTD
Corporate & Government	4.64	0.09	-1.25	-1.25
Agencies	4.59	0.11	-0.32	-0.32
Municipals	3.47	-0.09	-1.10	-1.10
U.S. Investment Grade Credit	4.74	0.10	-1.30	-1.30
International	5.23	0.22	-1.08	-1.08
High Yield	7.75	0.61	-0.07	-0.07
90 Day Yield	5.35	5.34	5.33	5.33
2 Year Yield	4.35	4.38	4.25	4.25
10 Year Yield	4.14	4.12	3.88	3.88
30 Year Yield	4.37	4.33	4.03	4.03

Commodities & Currencies

	Total Return in USD (%)			
Commodities	Current	WTD	MTD	YTD
Bloomberg Commodity	227.68	2.2	0.5	0.5
WTI Crude $/Barrel††	78.01	6.3	8.9	8.9
Gold Spot $/Ounce††	2018.52	-0.5	-2.2	-2.2

		Total Return in USD (%)		
Currencies	Current	Prior Week End	Prior Month End	2022 Year End
EUR/USD	1.09	1.09	1.10	1.10
USD/JPY	148.15	148.12	141.04	141.04
USD/CNH	7.19	7.20	7.13	7.13

S&P Sector Returns



Sources: Bloomberg; Factset. Total Returns from the period of 1/22/2024 to 1/26/2024. †Bloomberg Barclays Indices. ††Spot price returns. All data as of the 1/26/2024 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 1/26/2024)

	Q4 2023E	2023A	Q1 2024E	Q2 2024E	Q3 2024E	Q4 2024E	2024E
Real global GDP (% y/y annualized)	-	3.1*	-	-	-	-	2.8
Real U.S. GDP (% q/q annualized)	3.3	2.5	1.0	1.0	1.5	1.5	2.1
CPI inflation (% y/y)	3.2	4.1	2.8	2.8	2.5	2.3	2.6
Core CPI inflation (% y/y)	4.0	4.8	3.6	3.1	3.2	3.0	3.2
Unemployment rate (%)	3.8	3.6	3.8	4.0	4.1	4.2	4.0
Fed funds rate, end period (%)	5.33	5.33	5.13	4.88	4.63	4.38	4.38

The forecasts in the table above are the base line view from BofA Global Research. The Global Wealth & Investment Management (GWIM) Investment Strategy Committee (ISC) may make adjustments to this view over the course of the year and can express upside/downside to these forecasts. Historical data is sourced from Bloomberg, FactSet, and Haver Analytics. **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 26, 2024.

Asset Class Weightings (as of 1/9/2024)

	CIO View				
Asset Class	Underweight		Neutral		Overweight
Global Equities			●		
U.S. Large Cap Growth			●		
U.S. Large Cap Value				●	
US. Small Cap Growth			●		
US. 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. High Yield Tax Exempt		●			
U.S. Investment-grade Tax Exempt			●		
Alternative Investments*					
Hedge Funds			●		
Private Equity			●		
Real Assets			●		
Cash					

CIO Equity Sector Views

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

*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 January 9, 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.

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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.

Equity/SPX/S&P 500 Index is a stock market index tracking the stock performance of 500 of the largest companies listed on stock exchanges in the United States.

Philadelphia Semiconductor Index (SOX) capitalization-weighted index composed of the 30 largest U.S. companies primarily involved in the design, distribution, manufacture, and sale of semiconductors.

Nasdaq 100 Index (NDX) defines today's modern-day industrials—comprised of 100 of the largest and most innovative non-financial companies listed on the Nasdaq Stock Market based on market capitalization.

MSCI All-Country World ex-U.S. Index captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 24 Emerging Markets (EM) countries.

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

Purchasing Managers' Index is an economic indicator comprised of monthly reports and surveys from private sector manufacturing firms.

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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.

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. 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. 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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