CHIEF INVESTMENT OFFICE

Capital Market Outlook

April 15, 2024

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

IN THIS ISSUE

Macro Strategy—*The Fed Pivot Reignites Growth and Inflation:* Evidence is accumulating that the Federal Reserve's (Fed's) pivot toward easing last year has stoked animal spirits and engendered a U.S. and global growth rebound. Inflation has reaccelerated over the past six months, with another hotter-than-expected 3.5% year-over-year (YoY) consumer price index (CPI) print for March. The blowout March jobs report corroborates this unexpected economic vigor. To avoid a renewed tightening of the labor market, labor force participation gains must continue. However, this may become more difficult, suggesting sustained upside pressure on inflation. The employment report also indicates that nominal consumer income and spending will remain strong in coming months, another reason to worry about rising inflation risks.

Upside employment and inflation surprises reinforce the view that monetary policy may not be nearly as restrictive as presumed. Equities seem to have been rattled by this possibility in recent sessions. In our view, with rebounding global growth, rising earnings and unfazed credit spreads, Equities have likely entered just a consolidation phase before a broadening of the rally reemerges. With an eye on inflation, labor demand and credit conditions, we remain overweight risk assets.

Market View—*Consumer Check-In: Tailwinds Overpower Headwinds:* Strong consumers are of critical importance to the health of both markets and the economy. Fortunately, when examining the various crosscurrents that consumers face today, tailwinds still overpower headwinds. While factors like elevated inflation, higher debt balances and lower savings are working against consumers, their strength remains underpinned by a tight labor market, solid wage gains, elevated net worth and stronger confidence. Adding it all up, the consumer growth engine is unlikely to stall anytime soon and should continue to support corporate profits and economic growth in the near term.

Thought of the Week—*Made (Too Much) in China—Is the World on a Collision Course with China?* Faced with real estate challenges, chronically low consumption, rising youth unemployment and a deteriorating global image, China has turned to a "new" growth model that sounds very familiar: manufacturing, with an eye on exports. With China sitting on excess capacity of solar panels, lithium-ion batteries and electric vehicles (EV), many are left wondering: What does this overcapacity mean for the rest of the world?

Unsurprisingly, the U.S. and Europe are entertaining potentially stricter trade restrictions on goods from China. China's growth strategy is on a collision course with the protectionist policies of the West. At the same time, China has turned its attention to developing countries primarily in Africa, Asia and Latin America—the so-called "Global South"—which, by no coincidence, hold the key to some of the globe's most important commodities. China's dominance of the green transition supply chain remains a concern, and top of mind is the risk that excess capacity in China drives down prices of the same goods the U.S. is just beginning to make. In the crosshairs: many U.S. multinationals that still count China as a key source of supply and demand.

MACRO STRATEGY ▶

Chief Investment Office
Macro Strategy Team

MARKET VIEW ▶

Emily Avioli
Vice President and Investment Strategist

THOUGHT OF THE WEEK ▶

Ariana Chiu
Wealth Management Analyst

MARKETS IN REVIEW ▶

Data as of 4/15/2024, and subject to change

Portfolio Considerations

The economy shows early signs of reaccelerating, consumers remain healthy, corporate profits are turning higher, and monetary policy is pivoting from tightening to easing. We expect markets to take a small breather and enter a brief consolidation phase as we enter the "no fundamental news" period between now and mid-April. Weakness is a buying opportunity, in our view. We believe the broadening out of the market is just beginning. We maintain an overweight to Equities, with a preference for higher quality U.S. Large- and Small-caps, and still favor a significant allocation to bonds in a diversified portfolio. For qualified investors, Alternative Investments should be considered for long-term growth and various sources of yield as a complement to public investments.

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MACRO STRATEGY

The Fed Pivot Reignites Growth and Inflation

Chief Investment Office, Macro Strategy Team

The March inflation report has dashed hopes for Fed rate cuts anytime soon. Evidence is accumulating that the Fed's pivot toward easing last year has stoked animal spirits and engendered a U.S. and global growth rebound. Upward revisions to earnings expectations set off a cheered global rally in stocks. Unfortunately, the pivot also seems to have rekindled inflation. Indeed, despite earlier indications that it might ease toward the Fed's 2% target, inflation has remained stubbornly stuck in the 3.5% to 4% range. Both overall and "core" CPI inflation have reaccelerated on a three- and six-month average basis through March. The latest Blue Chip consensus forecast for CPI inflation in 2024 has risen from 2.3% in the January 2023 survey to 2.9% in the April 2024 survey. Half of that increase has occurred since the Fed's pivot late last year.

Investment Implications

We remain overweight Equities and prefer higher-quality U.S. stocks, with an Energy, Healthcare, Consumer Discretionary and Industrial sector tilt. A significant but slightly underweight allocation to bonds in diversified portfolios and slightly long duration remains appropriate, in our view.

U.S. labor-market data corroborate the growth reacceleration impulse imparted by the Fed pivot. March data reveal a labor market that is not only weathering the Fed's rate hikes and global geopolitical upheaval—it's rather regaining strength. Indeed, according to the Bureau of Labor Statistics (BLS), payrolls expanded by a whopping 303,000 jobs in March, with upside revisions to prior months. The six-month annualized payroll growth rate has accelerated from 1.6% in November to 1.9% in March. The three-month annualized growth rate was red-hot at 2.1%.

Prevailing uncertainties have kept the share of industries adding to payrolls from expanding much. The diffusion index measuring the breadth of employment growth across industries barely edged up in March, continuing to hover around average levels. Basically, it's been sectors such as Government, Private Education and Healthcare, as well as leisure and hospitality that have remained frontrunners on the hiring spree. Manufacturing employment flatlined following job losses in February. Meaningful gains reported for retail and construction employment added confidence in the continuation of the expansion, however. The rebound observed in global manufacturing and trade data as well as the Institute for Supply Management manufacturing index for March suggest a likely rebound in manufacturing labor demand lies ahead.

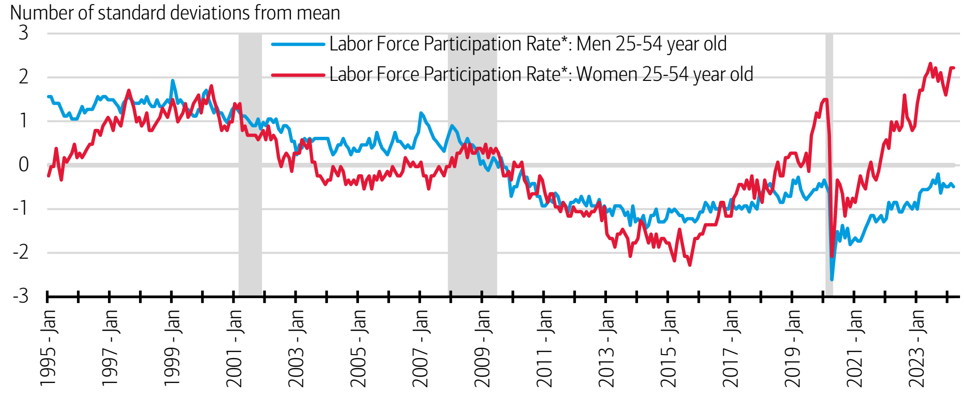
Labor Market Risks Getting Tighter

Employment growth in March was even stronger when also accounting for workers not captured by the establishment survey, such as self-employed and other workers not formally employed. The surge in the BLS' household survey even exceeded a large gain recorded in the labor force, nudging the unemployment rate down to 3.8% from 3.9% in February. A welcome increase in the labor force participation rate (LFPR) to 62.7% precluded an even bigger unemployment rate drop in the face of unyielding labor demand.

The female participation rate took a breather in March, so it was an increase in the participation rate among men, following three months of declines, that saved the day. Still, based on population growth estimates, the current red-hot hiring pace requires meaningful additional gains in the LFPR to avoid an uncomfortably tight labor market. Based on our calculations, a 62.9% average LFPR this year, compared to 62.6% in 2023 and 62.7% in March, would still reduce the unemployment rate further. The overall participation rate has already surprised to the upside, however. Additional gains may become increasingly difficult as the population ages.

For example, widely attributed to broadening work from home (WFH) capabilities, the surge in the prime-age women LFPR over the past four years to a record high has been quite extreme. As a result, prime-age women's labor-force participation has been hovering around two standard deviations above its 30-year average (Exhibit 1). This spike has not only been impressive, but also timely. It helped enable a rebound in the U.S. LFPR from the pandemic abyss despite aging demographics and pandemic-related setbacks to participation rates for the 65+ age cohort. Along with strengthening productivity growth, its surge has been critical to boosting potential growth. This reduced upside inflation pressures and opened the door for a Fed pause. In other words, it has helped to extend the economic expansion.

Exhibit 1: Expansion Prolonged By Surging Prime-Age Women LFPR.



*Number of standard deviations from its 1995-2023 mean. Gray bars represent recessionary periods. Sources: Bureau of Labor Statistics/Haver Analytics. Data as of April 11, 2024.

WFH has no doubt buoyed LFPR across demographic cohorts. Increased flexibility related to part-time work has also helped increase the supply of labor. Their combined effect has probably been even more potent, likely opening employment opportunities for an even wider swath of otherwise sidelined potential workers. Indeed, according to the BLS, there's been a disproportionate increase in part-time employment over the past two years. The same was true in March. While frowned upon as a sign of poor economic conditions, the overwhelming share of part-time work has been for noneconomic reasons, however. This suggests a preference rather than a lack of better options. It suggests flexibility, and flexibility breeds resilience. While up slightly over the past year, part-time employment for economic reasons (i.e., due to worsening jobs prospects) declined in March and remains depressed. A drop in the number of discouraged workers from already low levels also corroborates the fact that the increase in part-time jobs has been a matter of preference.

Part-time work for noneconomic reasons has long been on an uptrend. It underscores the evolving preferences and lifestyle choices of the workforce in response to an increasingly wealthy population and aging demographics. It also reflects changes in the economy and technology enabling the "gig"[1] economy and WFH, for example. An aging and increasingly wealthy U.S. population makes work flexibility increasingly critical to helping attract labor. Driven by remote work capabilities, the upward trajectory of the LFPR has been one of the most favorable trends observed in the U.S. economy over the past few years.

All in all, stronger real growth from a rising labor force and productivity, along with higher-than-expected inflation, work to raise the appropriate real interest rate for the post-pandemic economy. The latest batch of hotter-than-consensus data reduces the need for Fed rate cuts—indeed, the probability of the Fed cutting rates in June has fallen to just 17%, with the probability of a cut in July at 29%. As the bond market has been telling us so far in 2024, interest rates look likely to stay higher for longer in this stronger nominal growth environment.

[1] Gig workers are independent contractors, online platform workers, contract firm workers, on-call workers, and temporary workers.

MARKET VIEW

Consumer Check-In: Tailwinds Overpower Headwinds

Emily Avioli, Vice President and Investment Strategist

It's hard to overstate the importance of the consumer, who has acted as a seemingly perpetual bright spot against a sea of macro uncertainty over the last three years. Credited with powering gains in everything from corporate earnings to U.S. gross domestic product (GDP), strong consumers are vital to the health of both markets and the economy. Fortunately, when examining the various crosscurrents that consumers face today, we find that tailwinds still overpower headwinds. The consumer growth engine is unlikely to stall anytime soon, all things considered.

Consumer Tailwinds

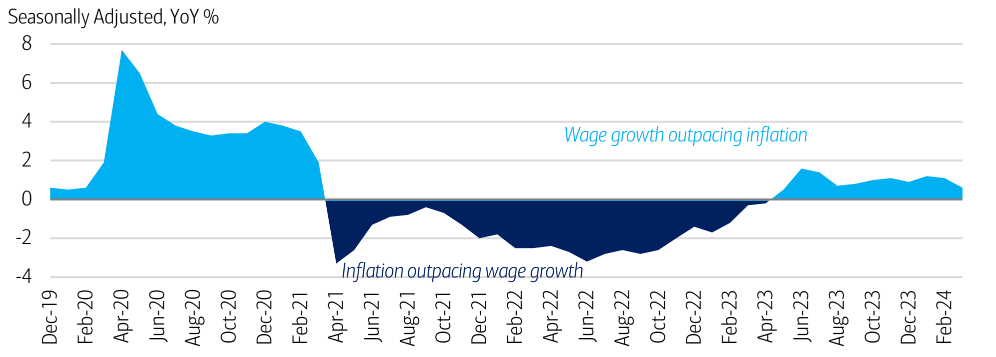
Jobs: The resilient labor market, underscored by the 39th straight month of jobs growth in March, is among the biggest positives for consumers today. The U.S. economy added 303,000 jobs last month, the most in nearly a year, and the unemployment rate fell to 3.8%.[2] The strongest growth was observed in areas like healthcare and government, with other major industries softer by comparison. Indicators like a relatively lower quits rate and a slight uptick in layoffs could portend cooling ahead, but for now the tight labor market should embolden consumers to continue spending.

Wages: While wage gains have cooled from the soaring levels seen in 2020, various measures suggest that they are still growing at a healthy clip. Average hourly earnings are up 4.1% YoY, while the Atlanta Fed's Wage Growth Tracker shows median wages rising by 4.7% in the year through March. Importantly, real wage growth firmly flipped positive in 2023, signaling that increases in inflation are no longer outpacing increases in employment income (Exhibit 2). Heftier consumer paychecks are likely to at least partially cushion the effects of high prices moving forward.

Wealth Effect: Consumer balance sheets have been buoyed by higher prices for homes and financial assets. Household wealth in the U.S. increased by $11.6 trillion in 2023, up 8% YoY, to reach a record $156.2 trillion.[3] The value of Equities held directly and indirectly rose by $7.8 trillion last year, and the value of Real Estate climbed by about $2.0 trillion.[4] The uptrend in consumer's portfolios has likely continued in 2024, as risk assets have powered full steam ahead, with the S&P 500 climbing 10.2% in Q1, adding to 2023's robust 24.2% gain.

Consumer Confidence: Against a backdrop of solid employment, strong wage gains and climbing net worth, consumer confidence has recently rebounded. The University of Michigan Consumer Sentiment Index declined modestly in April after hitting its highest level since July 2021 in March, while the Conference Board's Consumer Confidence Index held steady. Upbeat attitudes tend to precede other positive consumer developments, like upswings in consumption.

Exhibit 2: U.S. Real Average Hourly Earnings.



Source: Bloomberg. Data as of March 31, 2024.

Portfolio Considerations

From a positioning perspective, healthy consumers are a factor in our emphasis on cyclical areas of the market, including the Consumer Discretionary sector. We remain slightly overweight Equities and continue to advocate for a fully invested portfolio.

[2] Bureau of Labor Statistics. April 5, 2024.
[3] Federal Reserve Balance Sheet of Households and Nonprofit Organizations, 1952 - 2023.
[4] Federal Reserve Data, Bloomberg. March 7, 2024. Refers to Household and Nonprofit Organizations holdings of Equity and Real Estate as defined by Federal Reserve Financial Accounts data.

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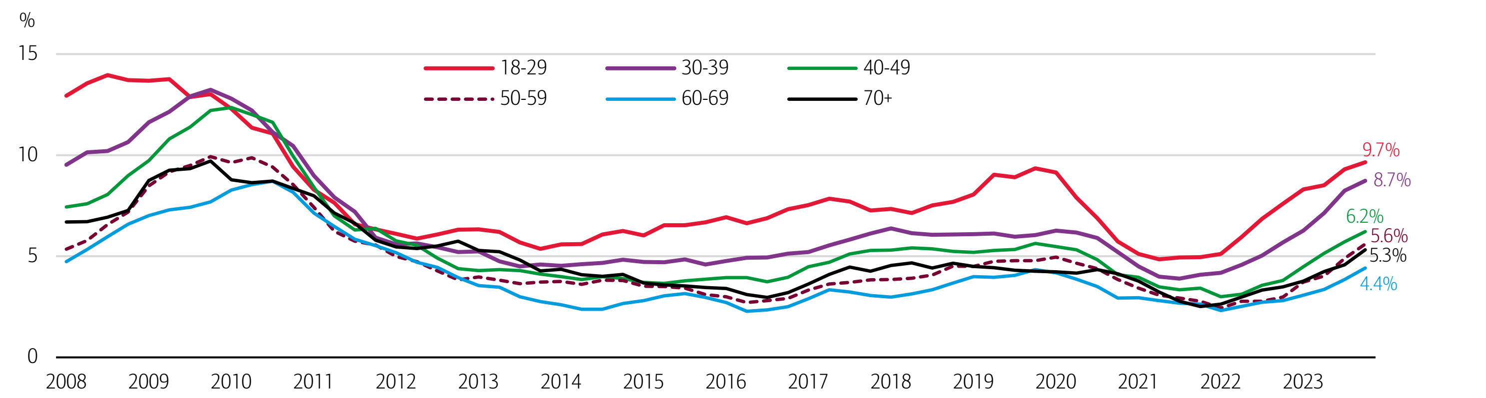
Consumer Headwinds

Inflation: Elevated price levels are still the number one challenge for consumers. Last week's CPI print showed that inflation remains stubbornly elevated, increasing by 3.5% YoY in March. While the rate at which prices are increasing has fallen since the peak of 9.1% YoY in June 2022, consumers are still feeling the pinch, especially when it comes to essentials. To wit, groceries are about 25% more expensive than they were at the beginning of 2020,[5] and U.S. consumers are spending 11.3% of their disposable income on food—a three decade high.[6] Pressure also stems from elevated energy prices on the heels of this year's run-up, with 49% of respondents to the U.S. Census Household Pulse Survey saying they've recently changed their driving behavior due to the cost of gas.[7] If inflation stickiness persists, it may be a while before consumers feel meaningful relief.

Debt: Consumers are increasingly turning to plastic to finance spending at higher prices. U.S. consumers now owe an eye-popping $1.13 trillion in credit card debt, with card balances increasing by $50 billion in Q4 2023 alone. Also troublesome is the fact that interest rates on this debt are near record highs. Seriously delinquent balances have started to spike, especially among consumers under the age of 39 (Exhibit 3). Bourgeoning debt balances are likely to remain a headwind for consumers as pricing pressures persist.

Savings: Excess savings accumulated during the pandemic have largely dried up. The U.S. personal savings rate, defined as personal savings as a percent of personal disposable income, hit an all-time high of 32% in April 2020. Today, the savings rate has declined to 3.6%, well below the historic average of about 8.0%.[8] While BofA Global Research data shows that the monthly median value of savings and checking balances are still around 40% higher than the levels in 2019, it's likely that excess cash balances will continue to dwindle as inflationary headwinds remain.

Exhibit 3: Transition Into Serious Delinquency (90+ Days) For Credit Card Debt By Age.



Sources: New York Fed Consumer Credit Panel/Equifax. Data as of Q4 2023. Latest data available.

The Bottom Line: The headwinds that consumers face today are troublesome and bear close watching. But for now, tailwinds seem powerful enough to support consumer spending, which critically accounts for more than two thirds of U.S. economic activity. Encouragingly, current dollar personal consumption expenditures jumped by a greater-than-expected 0.8% in February, marking the largest month-over-month gain in spending since January 2023 and signaling that consumers remain on solid footing.[9] In our view, absent any unexpected weakness in the labor market or a resurgence in inflation, strong consumers should continue to support the economy and corporate earnings in the near term.

[5] BLS, Bloomberg. Refers to change in U.S. CPI Urban Consumers Food at Home Seasonally Adjusted from January 2020–March 2024.

[6] U.S. Department of Agriculture. Refers to data from 1960–2022. Latest data available.

[7] U.S. Census Bureau Household Pulse Survey. February 6–March 4, 2024.

[8] Bloomberg, Bureau of Economic Analysis. Monthly data referenced. April 10, 2024.

[9] Bureau of Economic Analysis. March 29, 2024.

THOUGHT OF THE WEEK

Made (Too Much) in China — Is the World on a Collision Course with China?

Ariana Chiu, Wealth Management Analyst

It's no secret that China is struggling to find an alternative growth model in the post-pandemic world. Challenged by a real estate slump, chronically low consumption, rising youth unemployment, and a deteriorating global image, the country's "new" growth strategy is really "old," with Beijing doubling down on manufacturing production.

The result? A green glut of solar panels, lithium-ion batteries, and electric vehicles, the majority of which are primed for export. Take it from China's manufacturing trade balance, which has soared on account of a near 40% increase in manufacturing exports since 2019 (Exhibit 4A). Exports of electric vehicles from China rose 70% in 2023 alone.[10]

The surge in manufacturing exports from China, not surprisingly, has set off alarm bells around the world. Both Europe and the U.S. are pushing back against China's exports via potentially higher tariffs and trade restrictions. Many developing nations are considering similar moves because China has directed its focus—and its exports—to developing countries primarily in Africa, Asia and Latin America often referred to as the "Global South." As Exhibit 4B shows, China's exports to the Global South grew 51% between 2019 and 2023, compared to 19% and 15% for the U.S. and European Union (EU) respectively. In each year since 2020, China has exported more to the Global South than the U.S. and EU combined. Now, China accounts for one-fifth of the Global South's imports, compared to just 4% at the start of the century. Importantly, in tandem with trade is China's growing investment stakes in the Global South's critical resource infrastructure; over the last 10 years, China has invested just shy of $1 trillion in construction and investment in Global South countries, gaining a strategic hold on many of the world's most important commodities.[11]

For the U.S., the implications of China's export-led strategy are multifold. Top of mind is that excess capacity in China portends to drive down prices of the same goods that the U.S. is just beginning to make; already, it costs more than 60% less to produce a solar panel in China than in the U.S., and the average EV in China sells for less than half the price seen in the U.S. or Europe.[12, 13] The odds of a coming clash between China and the rest of the world are rising. In the crosshairs are many U.S. multinationals that remain leveraged to the supply/demand dynamics of China.

Investment Implications

China has doubled down on the production and exportation of solar panels, lithium-ion batteries and electric vehicles, just as the U.S. attempts to develop green infrastructure of its own. Overcapacity in China risks driving down prices of said manufacturing products globally. We remain watchful of rising tensions between the U.S. and China, particularly ahead of the 2024 presidential election.

Exhibit 4: China's "New" Growth Strategy.

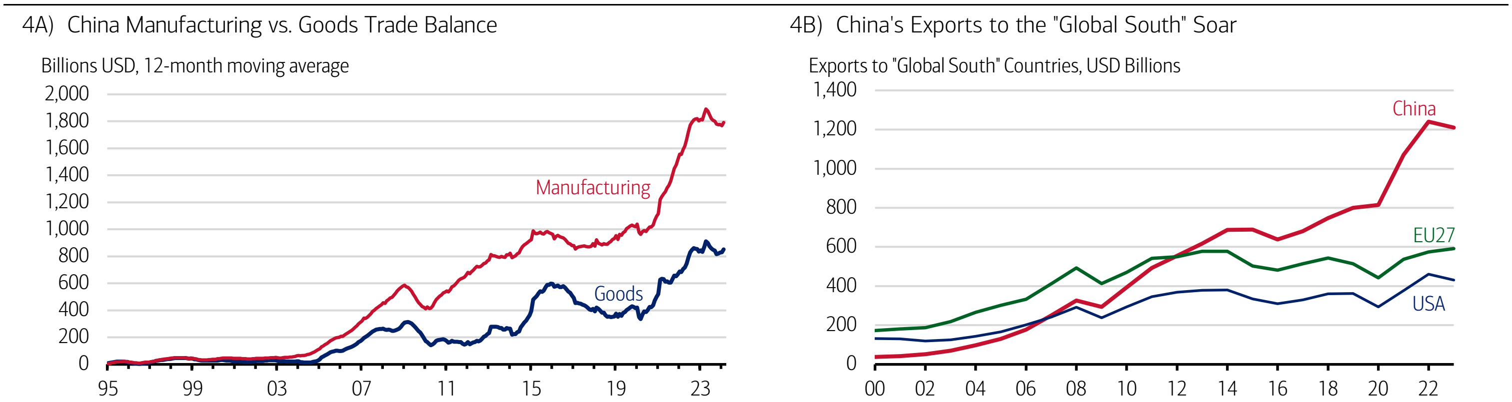


Exhibit 4A: Sources: General Administration of Customs/Haver Analytics. Data as of April 9, 2024. Exhibit 4B: "Global South" includes 134 countries as defined by the United Nations. China and Swaziland are excluded for data purposes. Sources: International Monetary Fund Direction of Trade Statistics, United Nations. Data as of April 9, 2024.

[10] *Atlantic Council*, February 2024.

[11] China Global Investment Tracker, *American Enterprise Institute*, April 2024.

[12] See "China's solar production costs fall by 42% in last year," *Wood Mackenzie*, December 2023.

[13] See "EV price gap: a divide in the global automotive industry," *JATO Dynamics*, October 2023.

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MARKETS IN REVIEW

Equities

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
DJIA	37,983.24	-2.4	-4.5	1.3
NASDAQ	16,175.09	-0.4	-1.2	8.0
S&P 500	5,123.41	-1.5	-2.4	7.9
S&P 400 Mid Cap	2,899.72	-3.0	-4.8	4.7
Russell 2000	2,003.17	-2.9	-5.7	-0.8
MSCI World	3,351.01	-1.5	-2.5	6.2
MSCI EAFE	2,289.77	-1.1	-2.4	3.2
MSCI Emerging Markets	1,041.70	-0.3	-0.1	2.3

Fixed Income†

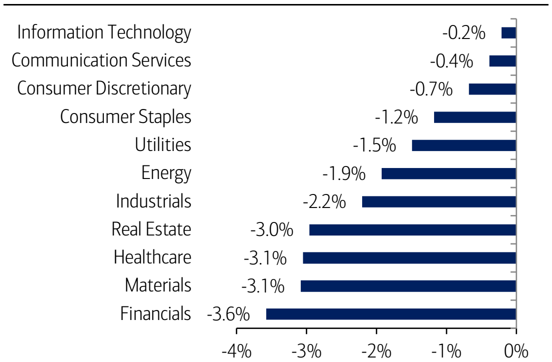
	Total Return in USD (%)			
	Current	WTD	MTD	YTD
Corporate & Government	5.06	-0.64	-1.71	-2.42
Agencies	5.05	-0.34	-0.78	-0.71
Municipals	3.64	-0.08	-0.72	-1.11
U.S. Investment Grade Credit	5.14	-0.70	-1.76	-2.52
International	5.59	-0.68	-1.84	-2.24
High Yield	8.06	-0.58	-1.07	0.39
90 Day Yield	5.38	5.36	5.36	5.33
2 Year Yield	4.90	4.75	4.62	4.25
10 Year Yield	4.52	4.40	4.20	3.88
30 Year Yield	4.63	4.55	4.34	4.03

Commodities & Currencies

	Total Return in USD (%)			
Commodities	Current	WTD	MTD	YTD
Bloomberg Commodity	239.60	3.5	3.5	5.8
WTI Crude $/Barrel††	86.91	4.5	4.5	21.3
Gold Spot $/Ounce††	2329.75	4.5	4.5	12.9

	Total Return in USD (%)			
Currencies	Current	Prior Week End	Prior Month End	2022 Year End
EUR/USD	1.08	1.08	1.08	1.10
USD/JPY	151.62	151.35	151.35	141.04
USD/CNH	7.25	7.26	7.26	7.13

S&P Sector Returns



Sources: Bloomberg; Factset. Total Returns from the period of 4/8/2024 to 4/12/2024. †Bloomberg Barclays Indices. ††Spot price returns. All data as of the 4/12/2024 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 4/12/2024)

	2023A	Q1 2024A	Q2 2024E	Q3 2024E	Q4 2024E	2024E
Real global GDP (% y/y annualized)	3.0*	-	-	-	-	2.9
Real U.S. GDP (% q/q annualized)	2.5	2.5*	2.0	2.0	2.0	2.7
CPI inflation (% y/y)	4.1	3.2*	3.8	3.5	3.3	3.5
Core CPI inflation (% y/y)	4.8	3.8*	3.6	3.6	3.5	3.6
Unemployment rate (%)	3.6	3.8*	3.9	3.9	4.0	3.9
Fed funds rate, end period (%)	5.33	5.33*	5.38	5.38	5.13	5.13

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. **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 April 12, 2024.

Asset Class Weightings (as of 4/2/2024)

	CIO View				
Asset Class	Underweight		Neutral	Overweight	
Global Equities				●	
U.S. Large Cap Growth			●		
U.S. Large Cap Value				●	
U.S. Small Cap Growth				●	
U.S. Small Cap Value				●	
International Developed		●			
Emerging Markets			●		
Global Fixed Income		●			
U.S. Governments				●	
U.S. Mortgages				●	
U.S. Corporates		●			
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					

*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 April 2, 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.

CIO Equity Sector Views

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

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Index Definitions

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

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

Consumer price index is a price index, the price of a weighted average market basket of consumer goods and services purchased by households.

A diffusion index measures how many stocks are advancing within an index, typically on a daily time frame.

Institute for Supply Management manufacturing index is a monthly indicator of U.S. economic activity based on a survey of purchasing managers at more than 300 manufacturing firms.

University of Michigan Consumer Sentiment Index is a monthly survey of consumer confidence levels in the United States conducted by the University of Michigan.

Conference Board's Consumer Confidence Index measures what consumers are feeling about their expected financial situation, whether that's optimistic or pessimistic.

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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. Income from investing in municipal bonds is generally exempt from Federal and state taxes for residents of the issuing state. While the interest income is tax-exempt, any capital gains distributed are taxable to the investor. Income for some investors may be subject to the Federal Alternative Minimum Tax (AMT). 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. Investments in real estate securities can be subject to fluctuations in the value of the underlying properties, the effect of economic conditions on real estate values, changes in interest rates, and risk related to renting properties, such as rental defaults. 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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