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CHIEF INVESTMENT OFFICE

Capital Market Outlook

September 16, 2024

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

IN THIS ISSUE

Macro Strategy—*Economic Data Inconsistent With Impending Recession:* Labor-market data have disappointed but are unlikely to deteriorate much ahead. Real aggregate wage growth remains strong, a positive for consumer spending. Q3 business equipment investment estimates have been raised substantially in recent weeks, consistent with strong S&P 500 profits growth estimates. Bank lending standards have eased since the regional bank crisis, and rate cuts are in the pipeline. This is inconsistent with a recession and much higher unemployment.

Market View—*Meet the New Boss—Election Implications to Consider for Fixed Income Markets:* Election outcomes are difficult to handicap; however, candidate policies can oftentimes have meaningful implications for markets. While there will be leaders and laggards on the margin, overall, we expect that uncertainty and volatility could be elevated heading into November, but that it will likely subside shortly thereafter.

Thought of the Week—*Minding the Gap: Bridging the Insurance Coverage Gap Amid Rising Climate Risks:* 2024 is on track to being the hottest year on record, with more than double the average U.S. climate disasters. As warming persists, aging U.S. infrastructure faces widespread damage. Prioritizing infrastructure investment can help reduce economic losses and help close the insurance coverage gap, potentially benefiting both insured parties and investors.

Market Update—Shutdown or Just Another Capitol Hill Showdown: And so it begins. Each year, Congress must pass 12 spending bills that set spending levels for the upcoming fiscal year. As we approach the close of the 2024 fiscal year (September 30), Congress appears to be at a standstill with 2025 funding. With just days remaining before the end of the fiscal year, it seems all but certain that Congress will not reach the finish line. Without funding, nonessential government agencies would be forced to close on October 1—essential government services such as Social Security Administration, Medicare and Medicaid programs, military operations, and law enforcement continue to function. To avoid a shutdown, and provide additional time to pass spending bills, Congress will likely turn to a stopgap measure known as a Continuing Resolution (CR). Generally, a CR will fund the government for a certain amount of time, often at the level established for the previous year.

Speaker Johnson proposed a six-month CR but that failed on September 11—attached to the CR would have been the Republican-favored Safeguard American Voter Eligibility (SAVE) Act, which would require voters to submit proof of U.S. citizenship to register to vote. Democrats desire a "clean" CR with an extension until December. Simply given the makeup of Congress, any CR must draw bipartisan support rather that rely on party-line votes to pass.

As September 30 draws closer, we expect an agreement that will extend funding and avoid a preelection government shutdown. If negotiations stall, we may see the Senate take the lead and attempt to jam the House with a last-minute CR. This would put the House in a position where it would be forced to either accept the terms of a Senate-crafted CR or allow a shutdown and go back to the drawing board. While a shutdown would probably be short-lived and have a limited effect on the economy, many House Republicans, particularly those locked in competitive reelection bids, will likely prefer to avoid the negative publicity of a shut down, even if it means going against their leadership.

MACRO STRATEGY ▶

Chief Investment Office
Macro Strategy Team

MARKET VIEW ▶

Chief Investment Office
Fixed Income Team

THOUGHT OF THE WEEK ▶

Muhammad A. Wainwright
Assistant Vice President and Investment Analyst

MARKETS IN REVIEW ▶

Data as of 9/16/2024, and subject to change

Portfolio Considerations

In the next couple of months market activity is likely to be more on edge, in our view. This is typical during election years, whereas, historically, September and October have usually been weak months. We would view weakness as an opportunity to add to Equities and diversify at the same time.

This month we adjusted our U.S. Equity sector allocations by upgrading Financials to slight overweight, and downgrading Industrials to neutral. 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.

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MACRO STRATEGY

Economic Data Inconsistent With Impending Recession

Chief Investment Office, Macro Strategy Team

Investment Implications

Mixed economic data combined with elections uncertainty and seasonal headwinds are keeping Equities on edge. The data are consistent with moderate growth, slowing inflation and an easier Fed policy. We still suggest an Equity overweight relative to Fixed Income, with broad Equity exposure across size and style.

Rapidly weakening labor-market indicators this year have raised concerns of recession. Most recently, Bureau of Labor Statistics (BLS) data showed August payrolls falling short of expectations. Data revisions also brought June and July payrolls much lower than initially reported. Without a doubt, the data show significantly cooler labor demand, with payrolls up just 116,000 per month on average over the past three months compared to +267,000 in the three months to March. Large downside revisions to payrolls for the year to March 2024 also seem to be in store.

Additionally, according to the Job Openings and Labor Turnover Survey (JOLTS), job openings continued to decline in July back to prerecession levels, with hiring rates down to a decade low. With a bigger increase in the labor force than net hiring, the unemployment rate has increased from a cycle low of 3.5% in July 2023 to 4.2% in August (having ticked lower from 4.3% in July, when it was boosted by temporary factors, such as hurricane Beryl).

Still, labor-market data are not uniformly negative. They are mixed, reflecting normalizing labor demand in an economy that has transitioned to a slower, more sustainable growth pace. As noted above, job openings remain at healthy levels, initial claims are still low, and the 142,000 August payrolls increase was “not too hot, not too cold,” after all. In fact, it was an improvement from the June and July numbers. The BLS tends to underestimate payrolls when the economy is on an upswing and overestimate them when the cycle turns down, so August payrolls are probably overestimated too. The revision may be tempered by seasonal quirks, though, as August data have tended to be revised up more often than down over the past decade.

What’s more, there are reasons to believe the runway for the “soft landing” may be longer than expected, allowing for an extended expansion:

- Healthy real gross domestic product (GDP) growth averaging 2.8% over the past eight quarters and 3.2% over the past year doesn’t jibe with a rapid descent into layoffs and recession. Moreover, both real GDP and consumer spending growth accelerated in Q2. Real consumer spending has also surprised to the upside in July, with an annualized gain of almost 5%, and is poised to keep rising. Indeed, according to the latest payrolls report, the aggregate wage growth proxy—determined by growth in payrolls, average hourly wages, and hours worked—rose at a solid pace in August. Combined with moderate inflation, this should buoy real spending in August as well.

- Improved credit availability and some further room to draw down the pandemic saving cushion also augur well for consumer spending in August. We don’t expect real spending growth to drop below 2% annualized into early 2025. This solid consumer spending would be inconsistent with a rapid further deterioration of labor market conditions. Moderate employment growth is more likely over the coming months.

- Businesses tend to reduce hours worked before they cut employment when they feel pressured by deteriorating economic conditions. Hours worked by private-sector production and nonsupervisory workers have declined from abnormal pandemic levels but have stabilized at a healthy level this year. The increase in the index of aggregate weekly hours, which also accounts for the increase in payrolls, is consistent with moderate economic output growth in August. According to the Atlanta Fed, the real GDP growth estimate for Q3 has recently been revised up from 2% to 2.5% on upside revisions to consumer spending, now seen increasing 3.5%, as well as to business equipment investment, now seen at +10% versus +2% two weeks ago (all annualized quarterly rates).

- Analyst estimates for corporate profits growth in the year ahead are strong and have been revised higher. Companies don’t lay off workers when profits are rising.

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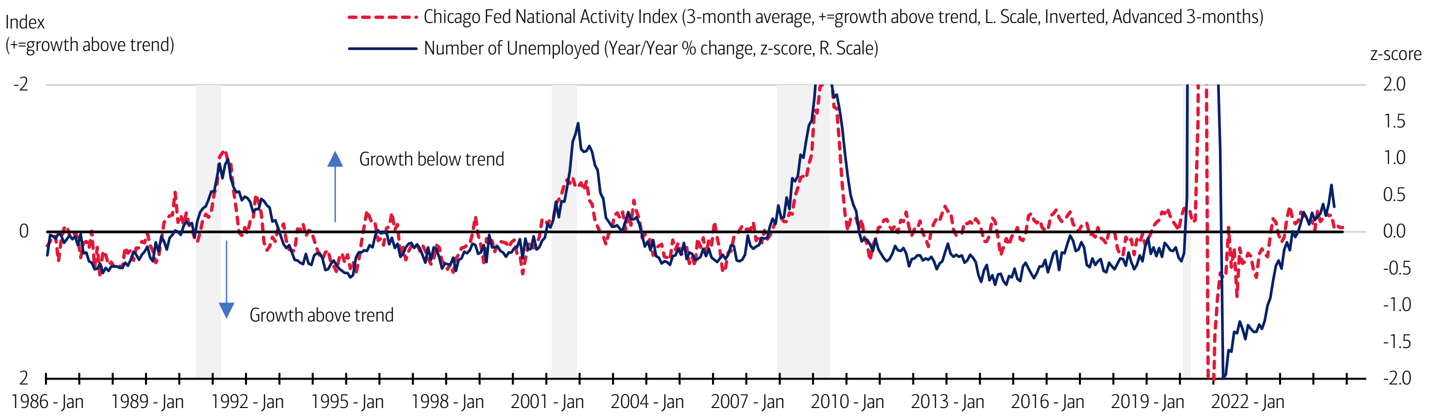
- Not surprisingly given strong productivity growth and growing capital investment, businesses have been comfortable to boost both payrolls and pay at a faster rate in August. Average hourly wages have increased at a healthy clip, undermining concerns of insufficient income growth and related descent into a deficient-spending environment.
- Given the sustained-growth context, it's not surprising to see initial claims for unemployment insurance roll over in the past six weeks and remain benign. Layoffs remain low. As noted above, the unemployment rate ticked down from 4.3% to 4.2% in August.
- The improvement in the three-month average of the Chicago Fed National Activity Index to just-below trend growth territory also suggests that unemployment and the number of workers discouraged by hiring prospects are unlikely to increase much this year (Exhibit 1). Covering 85 different economic indicators, this index tends to lead changes in both metrics by three to six months. Activity must deteriorate for a while before these indicators increase further. Not only has this not been the case, but improved credit availability and upcoming rate cuts make it unlikely through early 2025.
- Basically, economic growth has not deteriorated enough to justify much further increase in the duration of unemployment over the next six months either. The same is true for the number of people working part time for economic reasons.
- The employment diffusion index improved in August, moving back over 50% from 47% in July. While still subpar at 53%, it suggests that once again there were more industries expanding payrolls than cutting payrolls.
- The percentage of small firms not able to fill open positions increased in August and remains elevated by historical standards.

Exhibit 1: Growth Near Trend Is Inconsistent With Much Higher Unemployment.



Gray bars represent recessionary periods. z-score=number of standard deviations from the mean of a data set. Sources: Federal Reserve Board of Chicago; Bureau of Labor Statistics/Haver Analytics. Data as of September 12, 2024.

All in all, strong profits, consumer spending, business investment and GDP growth appear inconsistent with much additional labor-market deterioration. Also, bank lending standards have eased significantly since the regional bank crisis was resolved in mid-2023, and, with Federal Reserve (Fed) interest rate cuts expected to start in September, the economy is on track to receive additional support. While a period of job growth below that consistent with a stable unemployment rate (estimated at around 175,000 per month) is possible after the hiring binge of the post-pandemic period, it would take a period of much weaker economic growth to spur job cuts and a recession, in our view.

MARKET VIEW

Meet the New Boss—Election Implications to Consider for Fixed Income Markets

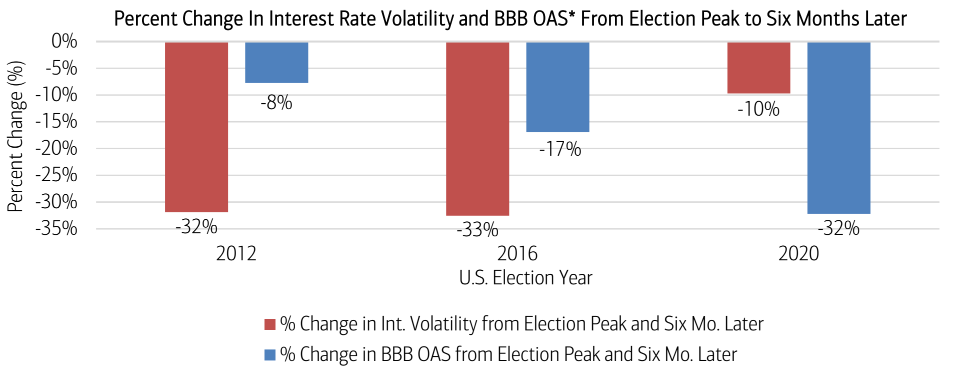
Chief Investment Office, Fixed Income Team

Election forecast models point to an extremely close race between former President Donald Trump and Vice President Kamala Harris. Candidate policies could have meaningful implications for growth and national debt balances, as well as sector-specific effects. That said, policies that are ultimately enacted tend to be watered down from campaign rhetoric and are obviously highly dependent on the composition of the Senate and the House—leading to a wide range of possible outcomes. Regardless, we expect that market volatility may escalate as November 5 approaches. However, history has shown that despite rising market volatility around elections, clearer heads prevailed six months forward, with lower volatility in interest rates and tighter credit spreads (Exhibit 2). Bottom line, stay invested and use near-term volatility to reposition portfolios.

Investment Implications

Election uncertainty can cause elevated volatility across markets. Bottom line, stay invested and use dislocations to rebalance portfolios appropriately. Regardless of the November outcome, we see longer-term risks of higher Treasury yields should deficit funding become untenable.

Exhibit 2: Interest Rate Volatility tends to Decline and Credit Spreads Compress from Peaks Witnessed Ahead of a U.S. Presidential Election.



*OAS=option-adjusted spread. Source: Bloomberg; BofA Global Research. Data as of September 10, 2024.

Protectionist Trade Policy Could Stoke Inflation. Across policy proposals, trade policy requires less Congressional involvement and therefore has an easier path to implementation. Trump has proposed a 60% tariff on Chinese imports and a 10% tariff on imports from all other countries. Tariffs, if passed through to consumers rather than absorbed by firms, raise prices and reduce consumer demand—pushing inflation upward and real GDP growth downward. **All else being equal, new inflationary pressures could push the Fed in a more hawkish direction versus a more dovish stance, currently.**

Tax Policy Changes Likely to Swell the Deficit. The outcome of the Tax Cuts and Jobs Act (TCJA) of 2017 is one of the most significant near-term factors affecting U.S. deficits. The TCJA reduced the corporate tax rate from 35% to 21% and lowered income tax rates, among other changes. Parts of the law specifically affecting individual tax rates are slated to expire at the end of 2025. The Congressional Budget Office (CBO) projects that a full extension of the TCJA would increase the cumulative deficit between 2025 and 2034 by $4.6 trillion. Republicans are seen as more likely to target a full extension, which would likely be fiscally expansionary, whereas Democrats have indicated willingness to extend parts of the TCJA while raising income tax rates on households earning over $400,000 per year.

Other tax proposals from both candidates are skewed toward further widening of the deficit. Both have proposed making income from tips tax-exempt, and Trump advocates

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for ending taxes on Social Security benefits.[1] He has also suggested reducing the corporate tax rate to 15%, providing a boost to earnings growth. Meanwhile, Harris aims to raise the corporate tax rate to 28%, which would generate revenue but could pressure earnings and growth. Other tax proposals from Harris, such as expanding the Child Tax Credit, would provide fiscal stimulus at the expense of the deficit.[2]

Higher Deficits Could Lead to Higher Long-Term Treasury Yields. Additional fiscal easing from either administration would keep the U.S. on a trajectory toward rising debt levels, which could lead to higher yields on longer-term Treasurys and a steeper Treasury curve. All else equal, higher rates could support technicals for the Investment-grade (IG) market as buyers seek higher all-in yields. However, if investor concerns regarding unsustainable deficits—and increased Treasury supply—rise, we could see a scenario similar to October 2023, with rising rates, elevated interest rate volatility, and a risk-off tone in credit and equity markets.

Sector-Specific Effects: Autos, Banks, Health Insurers and Energy. In our view, the most significant sector effects would occur in the scenario of a Trump win. Firstly, a Republican administration could roll back electric vehicle incentives in the Inflation Reduction Act and loosen emissions standards, which is positive for auto manufacturers over the near term given the higher profitability of Internal Combustion Engines (ICE) vehicles. We would also anticipate less regulation for U.S. banks, potentially a slightly credit-negative change for the sector—albeit potentially offset by greater earnings power. In addition, if a Trump administration chose not to extend enhanced subsidies in the Affordable Care Act (ACA), certain insurers would see lower revenue from 2026 onward as ACA enrollment falls.

The Energy sector could be a major beneficiary in a second Trump term given reduced emissions regulations, increased leasing/drilling activity on federal land, and easier permitting for hydrocarbon-related infrastructure projects. However, despite the push to increase oil production, we believe that Energy companies will continue to be disciplined with regard to capital expenditures and production growth.

Potential Effect on Municipal Bonds. Election considerations for municipal investors include the potential modification of the tax exemption and overall tax reform—which we highlighted in the August 5, 2024 *Capital Market Outlook*. Muni valuations tend to react favorably under a Democratic regime given greater likelihood for an increase in federal tax rates, enhancing the benefit of the tax exemption. Under Republican control, we would anticipate an extension of the TCJA tax cuts, which, all else equal, would be neutral for munis. Notably, most initiatives that could affect munis (e.g., tax law changes) require legislation, not executive orders. Therefore, we believe there will be little substantive effect unless one party controls the presidency and both chambers of Congress.

That said, given that the muni tax exemption has critics on both sides of the political spectrum, with some fiscal conservatives viewing it as encouraging wasteful spending and some liberals viewing it as a tax loophole for the rich, Congress may view eliminating it as a way to reduce fiscal deficits. However, we believe the muni tax exemption is an important and effective tool for the country to maintain and modernize its infrastructure and do not expect it to be eliminated, regardless of election outcome.

[1] The Committee for a Responsible Federal Budget estimates that this policy would increase deficits by $1.6 trillion to 1.8 trillion between FY2026 and FY2035.

[2] The Committee for a Responsible Federal Budget estimates that these policies would increase deficits by $1.7 trillion between FY2026 and FY2035, with $1.1 trillion from expansion of the Child Tax Credit.

THOUGHT OF THE WEEK

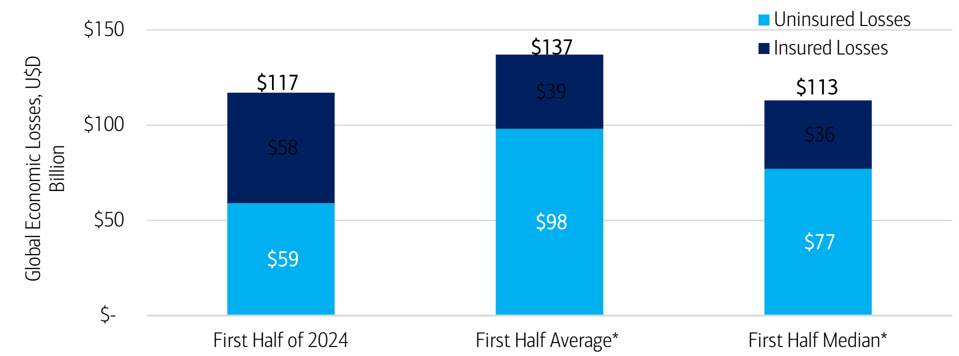
Minding the Gap: Bridging the Insurance Coverage Gap Amid Rising Climate Risks

Muhammad A. Wainwright, Assistant Vice President and Investment Analyst

According to the National Oceanic and Atmospheric Administration (NOAA), 2024 is on pace to being the hottest year on record. There were 19 climate disaster events as of August in the U.S. (with each event exceeding losses of $1 billion or more) versus the historical average of 8.5 annually from 1980 to 2023.[3] Extending this problem beyond the U.S., global insured losses exceeded $58 billion through the first half of 2024 as a result of climate disasters; however, absolute economic losses were over $117 billion, creating a broader insurance protection gap of at least 50% (Exhibit 3).[4] To address this persistent gap—and while much work needs to be done—both insurers and governments are starting to take action.

The insurance protection gap creates a waterfall of increased costs for businesses and communities as many providers are either withdrawing services such as fire and flood insurance or raising premiums as a response to persistent climate disasters. Insurance providers stand at the forefront of being able to protect the insured from mounting costs by integrating climate-related risks into their risk management process, while public-private partnerships (P3) aim to drive investment into infrastructure that is resilient to climate disasters.

Exhibit 3: Losses from Natural Catastrophes Highlight Global Insurance Protection Gap, First Half of 2024.



*2000-first half of 2024 Average and median first half values. Source: AON, "Global Catastrophe Recap." Data as of August 2024.

As the planet continues to warm and inclement climate events persist, the existing aged U.S. infrastructure base is at risk of widespread damage and degradation. The implementation of P3's presents a valuable mechanism for funding large infrastructure projects and enhancing asset lifespan as well as service reliability.[5] P3's enable municipalities and government entities to close financing gaps for infrastructure as well as share risks and returns with public investors.[5] Through the first half of 2024, the U.S government authorized $30 billion in financing from public investors to drive investment into critical transportation infrastructure like bridges, tunnels and highways.[6] According to the Federal Emergency Management Agency (FEMA), every dollar spent constructing buildings to hazard-resistant guidelines saves $11 in disaster repair and recovery costs. Prioritizing infrastructure investment should mitigate further economic losses as well as address some of the existing insurance coverage gap, providing long-term support to both insured and investors.

While the insurance protection gap persists, infrastructure investment presents a potential opportunity to investors. Considering climate resilience in investment decisions about investing in mass transit systems, smart grids and broader energy distribution and storage not only may offer potential returns but could minimize future economic losses from disasters, all while putting pressure on the gap.

[3] NOAA, "Billion-Dollar Weather and Climate Disasters," August 8, 2024.
[4] AON, "Global Catastrophe Recap," August 2024.
[5] World Bank, "Five ways PPPs deliver impact," November 30, 2023.
[6] U.S. Department of Transportation, "Private Activity Bonds," June 17, 2024.

Portfolio Considerations

The planet is the hottest it has ever been, and rising insurance costs from climate disasters are putting pressure on economies. Investing in climate resiliency through infrastructure areas such as transportation, utilities, energy and power provides opportunities for investors to minimize future economic losses while also capturing long-term growth potential.

MARKETS IN REVIEW

Equities

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
DJIA	41,393.78	2.6	-0.4	11.4
NASDAQ	17,683.98	6.0	-0.1	18.4
S&P 500	5,626.02	4.1	-0.3	19.1
S&P 400 Mid Cap	3,034.34	3.3	-1.8	10.3
Russell 2000	2,182.49	4.4	-1.5	8.7
MSCI World	3,634.86	3.3	-0.7	15.9
MSCI EAFE	2,410.81	1.2	-1.7	10.1
MSCI Emerging Markets	1,082.30	0.8	-1.5	7.9

Fixed Income†

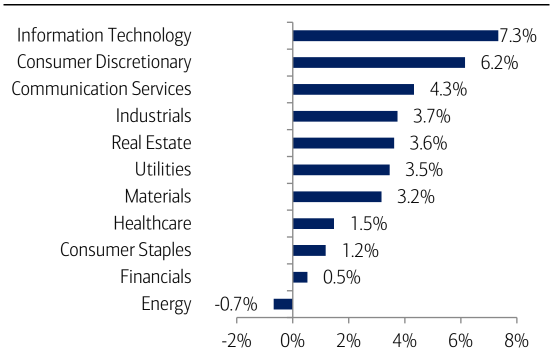
	Total Return in USD (%)			
	Current	WTD	MTD	YTD
Corporate & Government	4.04	0.49	1.81	4.82
Agencies	4.02	0.30	1.09	4.42
Municipals	3.35	0.17	0.68	1.99
U.S. Investment Grade Credit	4.14	0.51	1.81	4.93
International	4.68	0.63	1.90	5.45
High Yield	7.18	0.40	0.64	6.97
90 Day Yield	4.88	5.05	5.11	5.33
2 Year Yield	3.58	3.65	3.92	4.25
10 Year Yield	3.65	3.71	3.90	3.88
30 Year Yield	3.98	4.02	4.20	4.03

Commodities & Currencies

	Total Return in USD (%)			
Commodities	Current	WTD	MTD	YTD
Bloomberg Commodity	229.26	2.7	0.3	1.2
WTI Crude $/Barrel††	68.65	1.4	-6.7	-4.2
Gold Spot $/Ounce††	2577.7	3.2	3.0	25.0

	Total Return in USD (%)			
Currencies	Current	Prior Week End	Prior Month End	2022 Year End
EUR/USD	1.11	1.11	1.10	1.10
USD/JPY	140.85	142.30	146.17	141.04
USD/CNH	7.10	7.09	7.09	7.13

S&P Sector Returns



Sources: Bloomberg; Factset. Total Returns from the period of 9/9/2024 to 9/13/2024. †Bloomberg Barclays Indices. ††Spot price returns. All data as of the 9/13/2024 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 9/13/2024)

	2024E	Q1 2024A	Q2 2024A	Q3 2024E	Q4 2024E	2025E
Real global GDP (% y/y annualized)	3.1	-	-	-	-	3.3
Real U.S. GDP (% q/q annualized)	2.7	1.4	3.0	2.5	2.0	2.2
CPI inflation (% y/y)	2.8	3.2	3.2	2.5	2.1	1.9
Core CPI inflation (% y/y)	3.4	3.8	3.4	3.2	3.1	2.6
Unemployment rate (%)	4.1	3.8	4.0	4.2	4.2	4.2
Fed funds rate, end period (%)	4.63	5.33	5.33	5.13	4.63	3.38

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 September 13, 2024.

Asset Class Weightings (as of 9/3/2024)

	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					

CIO Equity Sector Views

	CIO View				
Sector	Underweight		Neutral	Overweight	
Energy				●	
Healthcare				●	
Consumer Discretionary				●	
Financials			►	●	
Information Technology			●		
Communication Services			●		
Industrials			●	◄	
Real Estate			●		
Utilities		●			
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 September 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.

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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.

Chicago Fed National Activity Index is designed to gauge overall economic activity and related inflationary pressure. The CFNAI is based on a weighted average of 85 existing monthly indicators of national economic activity. It has an average value of zero and a standard deviation of one.

Employment diffusion index is published by the US Bureau of Labor Statistics (BLS), which is an indicator that measures the dispersion of employment gains across industries.

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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. 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.

Investments in Infrastructure Assets will be subject to risks incidental to owning and operating infrastructure projects, including risks associated with the general economic climate, geographic or market concentration, government regulations and fluctuations in interest rates. The industries targeted for investment may be highly regulated by governmental agencies. Such regulations may impact an investor's ability to acquire, dispose of and/or manage investments.

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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