CHIEF INVESTMENT OFFICE

Capital Market Outlook

November 6, 2023

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

IN THIS ISSUE

Macro Strategy—*No Rush:* The historical relationship between inflation and the profits cycle combined with the Federal Reserve's (Fed) emphasis on private sector interest rates suggest Fed Chair Powell may have backed himself into a corner last week.

Chair Powell suggested that financial conditions are not tight enough to bring inflation down to the 2% target, but he also suggested that further tightening is in the pipeline, and the Fed opted not to raise interest rates. But at least some of the transmission of tighter financial conditions runs through the profits cycle that is being supported by higher inflation. And the dovish wait-and-see approach moved private sector rates lower, an effective easing by the Fed's logic. The market concluded that inflation will be higher-for-longer, which is supportive of profits and risk-assets as long as the Fed is in no rush to bring inflation lower.

Market View—*Is the Debt Wall Scalable?* A growing worry for investors is that the indebted levels of corporate America, consumers and the government could be unsustainable. In fact, in just a year's time, U.S. companies, consumers and governments have added some $5 trillion to the U.S. debt pile. The mantra of "higher-for-longer" rates has gone mainstream this fall, applying not only to the trajectory of U.S. interest rates—but also to borrowing costs for corporates, consumers and sovereigns. We highlight the effect of higher rates and higher debt levels on these groups.

Going into next year, we're carefully watching for material signs of deterioration to the U.S. consumer/corporate America's ability to manage debt. Risks are associated with debt at these levels, even if debt levels appear manageable for now.

Thought of the Week—*How I Learned to Stop Worrying and Love the Bonds:* Fixed Income total returns have been disappointing for the past few years. However, the initial conditions that helped lead to that outcome—excessively low interest rates that could not effectively cushion bond price losses against rising rates—have changed dramatically.

Interest rate risk is more reasonably priced now, and the risk-reward is more favorable for bond investors, in our opinion.

MACRO STRATEGY ▶

Jonathan W. Kozy
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Lauren J. Sanfilippo
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Matthew Diczok
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Data as of 11/6/2023, and subject to change

Portfolio Considerations

Our strategy is to maintain a high level of diversification and to use excess cash to add to higher-quality areas that have drifted below strategic asset allocation targets in both Equities and Fixed Income. As more economic data confirms that a lower-growth path is indeed unfolding, we'd be active in rebalancing early next year. This month, we increased our exposure to Agency Mortgage-backed Securities and upgraded Investment-grade Tax-Exempt while decreasing our exposure to Investment-grade Corporates. We also lowered Utilities and upgraded Energy as technical factors and higher yields are weighing on certain sectors.

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No Rush

Jonathan W. Kozy, Managing Director and Senior Macro Strategy Analyst

The Fed has a few core views that are supportive of equity markets and risk assets in near-term. For one, in his post-meeting press conference last week, Fed Chair Powell stated that financial conditions need to tighten further to bring inflation down, but he believes that tightening is in the pipeline, a reason to wait and see. No rush. Two, the Fed sees private sector interest rates as a guide to financial conditions. Among the financial conditions indicators shown in Exhibit 1, the level of private sector rates suggests financial conditions are tight. The clearest example is mortgage rates' contribution to an unaffordable housing market. Three, the Fed believes inflation expectations are contained and is willing to look past the University of Michigan's one-year inflation expectations, which show that consumers believe inflation will be over 4% in the year ahead, while the lower-income cohort has that figure close to 5%. Financial market participants concluded that inflation will be higher for longer, which is supportive of profits and risk-assets as long as inflation keeps trending lower and the Fed maintains its "no rush" approach.

Investment Implications

Tight financial conditions reinforce our Quality bias within and across asset classes including our preference for Large-caps over Small-caps within Equities. Interest rate volatility will likely remain elevated given the Fed's wait-and-see approach. In the near-term the Fed's approach keeps inflation higher for longer, supporting profits. We remain neutral Equities overall.

Is it baked in the cake that financial conditions will continue to tighten? Maybe not. Exhibit 1 provides some key indicators, and our view of where financial conditions stand currently. The Fed believes financial conditions are tight and that more tightening is in the pipeline because monetary policy operates with long and variable lags. For one, the yield curve is a leading indicator and inverted. And while the Fed's balance sheet is already contracting, reserves are not scarce, leaving potential for a liquidity squeeze in the months ahead as quantitative tightening (QT) continues. On the other hand, according to Investment Company Institute (ICI) data, there is $5.6 trillion in money market funds that are "reserve-like" in being a potential source of collateral. This could be viewed as a liquidity buffer.

Exhibit 1: Financial Stress Flashing Yellow, But Is There More Tightening in the Pipeline?

		Gauging Financial Conditions	CIO View
Monetary Policy	Yield Curve	The 10-year yield minus fed funds yield spread remains inverted.	
	Fed's Balance Sheet	QT shrinking balance sheet but reserves stable.	
	Private Sector Interest Rates**	Average 30-year mortgage rate over 8%. High Yield corporate debt yield 9.5%.***	
	Real Interest Rates	Real short-term interest rates positive and rising. Real long-term rates historically high.	
Credit Condition	Chicago Fed Credit Index*	This index suggests overall credit conditions are neutral.	
	NACM Credit Managers' Index	Currently 51.2 where readings 50+=economic growth.	
	Fed Senior Loan Officer Survey	Standards tight for commercial & loan, Commercial Real Estate and residential mortgages.	
	CB Leading Credit Index	Includes 2-year swap spreads, lending standards, investor sentiment, margin balances.	
Global	Trade-weighted dollar	The dollar is expensive on a broad trade-weighted basis, a tightening of conditions for the rest of world.	
	Global Financial Stress	The BofA Global Financial Stress Index (GFSI) is slightly elevated on risk-off flows.	
	Global short rates	Gross domestic product (GDP)-weighted, global short rates are rising as developed market central banks battle inflation.	
Financial Stress	Cleveland Fed Systemic Risk	Systemic risk in the banking system by this measure is increasing but contained.	
	OFR Financial Stress Index	33 financial market variables. Index level suggests average stress.	
	GS Financial Conditions	Noticeable tightening since July S&P 500 peak but the level is near long-term average.	
	Kansas City Financial Stress Index	Aggregate index currently 0.39 standard deviations below long-term average.	

Key: Easier / Neutral / Tighter

*Chicago Fed National Financial Conditions Index: Credit index subcomponent. **An equal weighting of jumbo mortgage rates, new car loan rate, home equity loan rate, 5-year ARM, 3-month LIBOR rate and high yield bond rate. ***Bankrate/Bloomberg for Mortgage rate; ICE BofA U.S. High Yield Index. NACM=National Association of Credit Management. CB=Conference Board. GS=Goldman Sachs. OFR=Office of Financial Research. Sources: Chief Investment Office; Haver. Data as of November 1, 2023. **Past performance is no guarantee of future results. It is not possible to invest directly in an index.**

The market also knows the Fed tends to waver when the going gets tough. The Fed has the option of pausing QT or using liquidity facilities in conjunction with QT if we have a growth pause that leads to a financial stress event. The collapse of regional banks in the first half of the year was an example of the Fed favoring containing financial stress over bringing inflation down faster. This supports the profits cycle by keeping inflation higher.

The Fed is also emphasizing private sector interest rates as a gauge of financial conditions. A key challenge for the Fed will be avoiding chasing its own tail. The market's dovish take on the meeting last week led to long-term interest rates falling over

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25 basis points (bps), with associated declines in private sector rates. The Fed essentially delivered a rate cut last week by one of its preferred financial conditions metrics. Looking at other indicators, given the historical relationship between inflation and the profits cycle, it will be difficult to see a tightening of conditions in key indicators like credit spreads without inflation moving lower. High yield credit spreads are an input to a number of the aggregate indexes in Exhibit 1, but profit margins act as a valuation anchor for spreads and are historically high. Margins also support the labor market that the Fed seems unable to bend, let alone break. Even with the recent widening of high yield spreads that corresponded with the equity market correction, at the current level, spreads are benign and not consistent with a recession. Still high inflation and resilient profits are the same story.

Several aggregate measures of financial conditions in Exhibit 1 also include equity prices, and thus are tightly linked to inflation views and the profits cycle. Thus, the correction in the S&P 500 since July on top of recession-like returns for Small-cap Equities could have created a negative feedback loop for overall financial conditions if it were to continue, but the Fed has arrested risk-off sentiment for now. The consistent pattern is that when financial conditions start to tighten, the Fed defers to a more dovish wait-and-see approach.

The Fed might feel good about tight lending standards, but this is more bark than bite. The Fed's Senior Loan Officer Survey is showing historically tight standards for business investment loans, commercial real estate loans and residential mortgages. Lending standards do not drive credit events like delinquencies or bankruptcies. Profits do, and higher inflation for longer has supported profits. At this stage bank lending standards probably won't help the Fed much. A good chunk of consumers and businesses have locked in long-duration borrowing at low rates. Private markets have also helped firms get financing otherwise not available in public markets.

Globally, the strong dollar acts to tighten financial conditions abroad where growth is already below trend. There is also some concern that the Bank of Japan's signal to move away from yield curve control could put upward pressure on domestic rates, including private sector rates. Aggregate measures of global financial stress are not flashing red, for now. BofA Global Research's GFSI has increased from near-zero in the summer to slightly above the long-term average. That move was primarily on the back of risk-off asset flows and seems to lack follow-through for now.

The Fed's best hope for tighter financial conditions to keep inflation moving lower might be for a growth pause related to a fading fiscal impulse. Economic data released the last few weeks are showing some weakness in Q4. The Institute for Supply Management manufacturing index, a gauge of cyclical momentum, came in well below expectations for both the headline figure and the leading, new orders component. Both suggest manufacturing activity is contracting in Q4. Earnings guidance has also trended weaker this earnings season. On balance, the jobs data released last week also show a slowing labor market while weak capital expenditures spending over the last few quarters confirms a fragile profits cycle.

Chair Powell has consistently indicated the need for growth to fall below potential to bring inflation down to its target. Financial stress metrics went into hibernation after the regional banking crisis in the first half of the year as the combination of massive fiscal stimulus and unexpected central bank liquidity injections revived private sector demand. Economywide profits have been able to tread water as a result, halting the transmission to tighter financial conditions that could have choked off inflation. The Fed may be waiting to see if rolling financial stress returns as the fiscal crutch fades.

Putting it all together, financial conditions are tight by some metrics, but the Fed's assumption that conditions will continue to tighten without further action may not come to fruition if the wait-and-see approach leads to lower private sector rates, higher inflation/profits, and an increase in risk-appetites. In the near term, it likely means interest rate volatility remains elevated. It also means inflation stays higher for longer, which is supportive of profits/Equities. The risk is that inflation expectations and inflation change course, forcing the Fed to shift gears and slam the brakes. The historical precedents seem to be that not driving a stake through the heart of inflation could lead to more volatile cycles later.

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MARKET VIEW

Is the Debt Wall Scalable?

Lauren J. Sanfilippo, Director and Senior Investment Strategy Analyst

Ariana Chiu, Wealth Management Analyst

Had Sam Bankman-Fried paid off the Bahamas debt of $11.6 billion, he could have lowered the global debt pile by a whopping 0.01 percentage point of GDP.[1] While a great deed in theory and creative remedy, it's a drop in the bucket compared to what the global debt pile amounts to: $87 trillion lies with governments worldwide, another $162 trillion with corporates, and $58 with households. Summing it up, global debt surged to a record-high this year of $307 trillion, climbing $10 trillion over the first half and more impressively $100 trillion over the last decade. After falling for two years, the global debt-to-GDP ratio has risen to 336%, having peaked at 360% during the pandemic.[2]

Enter the U.S., a real-world leader in debt accumulation—with debt figures such as $19 trillion in the household sector, double that in the corporate realm, and more than $30 trillion sitting with Uncle Sam. Given these levels of indebtedness, it's little wonder that the mantra of "higher-for-longer" interest rates has gone mainstream this Fall, applying not only to the trajectory of U.S. interest rates—but also applicable to borrowing costs for corporates, consumers, and sovereigns. With the cost of capital, funding, refinancing, etc. all having gone up, below we highlight the effect of higher rates and higher debt levels to these groups.

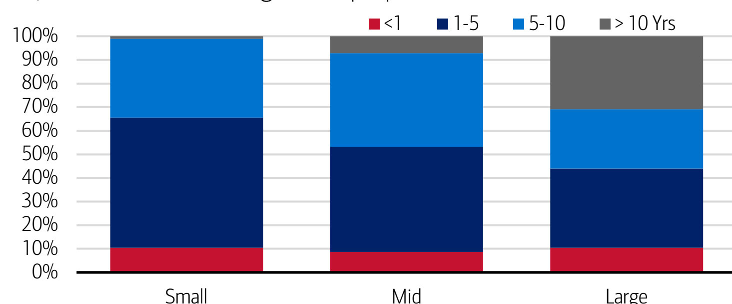
First, the corporate debt maturity wall. With the effective interest rate[3] now back to its pre-pandemic levels, a mounting concern as asserted by the Fed of Boston is that higher debt servicing costs threaten "firm distress and defaults, which have adverse effects on employment and investment."[4] The transmission of higher rates has been muted this cycle, given the advantage of terming out debt during easy money years—particularly of fixed, long-term debt as opposed to floating rate, short-term debt. Over 75% of S&P 500's debt is long-term fixed and spread across maturity windows, while small- and mid-cap companies face steeper debt maturity schedules, being front-loaded. Exhibit 2A shows the comparison across the capitalization spectrum. From a sector perspective, the greatest amount of debt outside of Financials is the Healthcare sector, closely followed by Communication Services. An oddity for this cycle is the corporate cash buffer available (Exhibit 2B), serving as a cushion for higher debt servicing costs or reducing the debt load in lieu of refinancing. Bankruptcies and defaults are up—as seen by a wave of corporate bankruptcies rising at a relatively sharp pace of 30% over the past year to 17,051 cases, although the overall pace of bankruptcy filings remains well below what it was a decade ago.[5] And off a low base, default rates for speculative-grade companies are up/in line with the historical average, according to Moody's Investors Service. Moody's pegs the default rate for speculative-grade companies as likely hitting 5.1% next year, up from 3.8% in the 12 months through June.

Investment Implications

Debt at these levels is a risk that could weigh on sentiment and/or contribute to the crowding out of funding for other priorities across the corporate, consumer and government landscapes. In turn there would be clear effects on the economic and earnings outlooks, and additional chop and churn to capital markets. The Chief Investment Office's (CIO) underlying position remains that investors maintain a balanced and diversified allocation with an emphasis on high quality in both Equities and Fixed Income.

Exhibit 2: Corporate Debt Maturities and Cash Buffer Available.

2A) Debt Schedule Along the Cap Spectrum



2B) The Cash Advantage is King

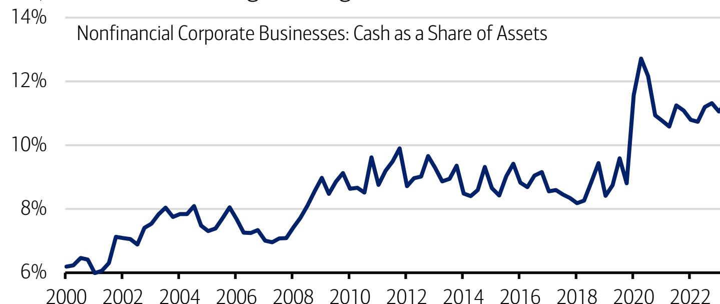


Exhibit 2A: S&P 1500 "Small" includes micro and small cap companies with market values below $2 billion; "Mid" includes mid cap companies with market values between $2-10 billion; "Large" includes large and mega cap companies with market values over $10 billion. Sources: Bloomberg; FactSet; Piper Sandler Research. Data as of October 30, 2023. Exhibit 2B) Cash includes checkable deposits and currency, total time and savings deposits, and money market fund shares as designated in the Financial Accounts of the United States. Source: Federal Reserve Board. Data as of September 2023. **Past performance is no guarantee of future results. It is not possible to invest directly in an index.**

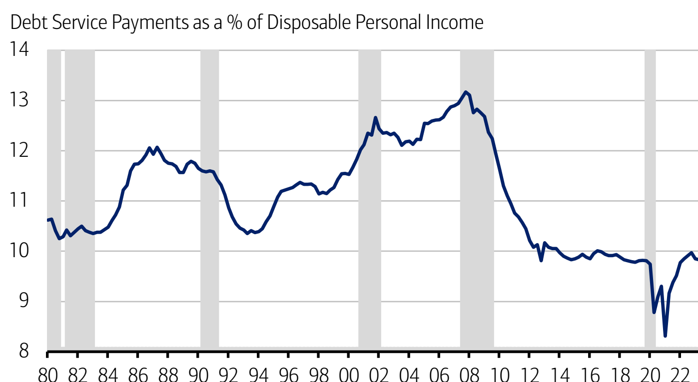
[1] Bloomberg, "'I Don't Recall' and 'Not Sure' Mark SBF's Time on Witness Stand," October 31, 2023.
[2] The Institute of International Finance. Data as of October 2023 for the first six months of 2023.
[3] S&P 500 effective interest rate on debt as of September 2023.
[4] "Interest Expenses, Coverage Ratio and Firm Distress," Federal Reserve Bank of Boston, August 29, 2023.
[5] The Administrative Office of the U.S. Courts, for the year through September 30, 2023, data as of October 2023.

Second, consumers' state of affairs. Missing from the reputed consumer strength narrative (and following a blowout September retail sales figure) is that the most recent tally of revolving (as in credit cards) and nonrevolving (mortgage, auto and student) debt is being added to consumer balance sheets, nearing $5 trillion taken together. While the absolute level of debt matters, the ease of debt servicing tells a much less troubling story. Relative to history, debt servicing costs continue to be low, at under 10% of disposable income (Exhibit 3A). A sizable proportion of household debt is mortgage debt, which homeowners were able to lock in at generationally low rates in recent years, insulating a large portion of consumer debt from the hit of higher interest rates. An estimated 14 million mortgages were refinanced between Q2 of 2020 and Q4 of 2021, according to the New York Fed. On our radar are delinquency rates that have risen, credit card average annual interest rates now running up to 22.8%, and, additionally, tightening credit conditions for consumer loans.

Third, Uncle Sam's payments exacerbate concerns. Amid the ballooning federal budget deficit and debt, spending on interest increased by $162 billion over the last fiscal year, according to the Treasury Department. And with the shift higher in long-term rates, the government is on track to spend more on interest payments in the coming years than was expected. At these levels, interest payments could surpass defense spending in 2025, and further out, Medicare in 2026 (Exhibit 3B). If interest spending surpasses $800 billion in the current fiscal year, that would more than double 2021's figure.[6] What's more—as $207 billion in Treasury notes mature this month at a weighted average interest rate of 1.2%, they will be replaced by debt with a 5% weighted average interest rate.[7] All things debt and deficit are increasingly significant not only heading into an election year, but also given the more immediate government shutdown risk looming later this month and the attendant effect on the U.S. credit rating.

Exhibit 3: Debt Service for the U.S. Consumer and U.S. Government.

3A) In Aggregate, Consumer Debt Looks Manageable at these Levels.



3B) Debt or Defense? Comparing Spending on National Defense vs. Interest Payments

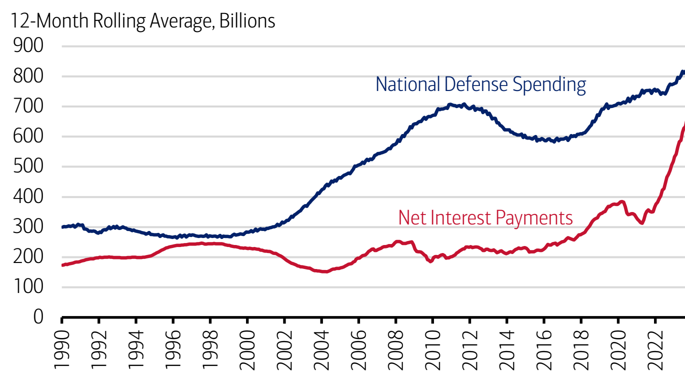


Exhibit 3A: Consumer debt payments on outstanding debt to disposable personal income. Source: Federal Reserve. Data as of October 2023. Exhibit 3B) Sources: U.S. Treasury; Haver Analytics. Data as of October 20, 2023.

Going into next year, we're watching for material signs of deterioration for the U.S. consumer/corporate America's ability to manage its debt levels. Risks are associated with debt at these levels, but as a bottom line, the current state of businesses, households and government debts appears scalable—at least for now.

[6] The Committee for a Responsible Federal Budget, data as of October 2023.

[7] Treasury Department and Axios. Notes originally issued in 2021, 2020, 2018, 2016 and 2013.

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THOUGHT OF THE WEEK

How I Learned to Stop Worrying and Love the Bonds

Matthew Diczok, Managing Director and Head of Fixed Income Strategy

With a peak-to-trough decline of -18.4% from 2020 to 2022, and potentially a third consecutive year of negative returns so far in 2023, Fixed Income returns have been very disappointing recently.[8] However, we do not want investors to be generals "preparing to fight the last war." The initial conditions leading to those negative total returns are quite different right now.

Fixed Income total returns derive from a combination of two sources: coupon income (positive) and price returns (positive or negative, depending on how interest rates change). When price returns are both negative and greater than coupon income—generally, when both interest rates are rising and coupon income is extremely low—negative total returns are more probable, simply from a mathematical perspective. And this, unfortunately, is exactly what happened.

Exhibit 4: Rising Rates Are More Likely To Be A Drag On Total Returns When Yields Are Low.

	Treasury Index		
		Total Return (18 Million)	
	Yields	+ 100 bps	- 100 bps
August-2020 level ==>	0.4%	- 5.1%	+ 6.3%
	1.0%	- 4.2%	+ 7.2%
	2.0%	- 2.7%	+ 8.7%
	3.0%	- 1.2%	+ 10.2%
	4.0%	+ 0.3%	+ 11.7%
October-2023 level ==>	5.0%	+ 1.8%	+ 13.2%
	6.0%	+ 3.3%	+ 14.7%
	7.0%	+ 4.8%	+ 16.2%
	8.0%	+ 6.3%	+ 17.7%

Sources: Bloomberg; Bloomberg U.S. Treasury Index; Chief Investment Office calculations. Data as of October 31, 2023. **Past performance is no guarantee of future results. It is not possible to invest directly in an index.**

In August of 2020, the Treasury Index's lowest yield was 0.4%.[9] At that extreme level, virtually any increase in interest rates would lead to negative total returns—and did. Using the current duration of the index, at that yield the index would return approximately negative -5.1% total returns over the next 18 months if rates only rose +1% (+100 bps) to 1.4%. Rates eventually moved substantially higher than that, of course, and total returns were much lower.

Due to the rise in interest rates since then, the Treasury Index now yields 5%. This higher coupon income available in markets now can help cushion any further price drops due to more yield increases. The sensitivity of total returns to moves in interest rates is lower now, and a better risk-reward trade-off for investors, in our opinion, as coupon income should be a higher proportion of total returns going forward.

Currently, the market is indicating that the last Fed rate hike already occurred in July. However, let's take a very conservative assumption: Not only was that not the last rate hike, but the Fed actually has another four more rate hikes to go (+1% in rates), and longer rates move up in a similar fashion. If that actually occurred, then—as opposed to a -5.1% loss at those lower yields—investors could now earn a positive return over the next 18 months. What a difference a couple of percentage points makes!

From the CIO perspective, higher nominal and real yields available in the market today can be used to extend duration slightly, "locking in" some higher-for-longer coupon income with the potentially higher-for-longer rate environment.

Investment Implications

Nominal and real yields are high relative to the last 15 years, and Fixed Income can help provide steady, reliable, and more predictable yield than cash. We believe a well-diversified portfolio should include an appropriate amount of Fixed Income relative to strategic targets, at or slightly longer than strategic duration targets.

[8] Bloomberg Aggregate Bond Index. Approximation only, assuming a constant duration-5.72. Bloomberg, CIO calculations as of October 31, 2023.

[9] Source: Bloomberg U.S. Treasury Index. Bloomberg as of August 4, 2020.

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Equities

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
DJIA	34,061.32	5.1	3.1	4.5
NASDAQ	13,478.28	6.6	4.9	29.6
S&P 500	4,358.34	5.9	3.9	15.0
S&P 400 Mid Cap	2,478.34	6.6	4.7	3.4
Russell 2000	1,760.71	7.6	5.9	1.2
MSCI World	2,883.80	5.6	4.2	12.4
MSCI EAFE	2,031.06	4.4	4.3	7.1
MSCI Emerging Markets	948.26	3.1	3.6	1.4

Fixed Income†

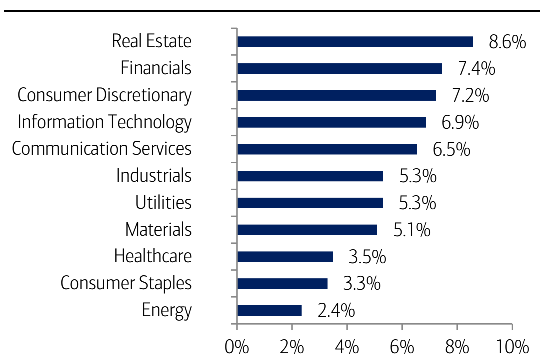
	Total Return in USD (%)			
	Current	WTD	MTD	YTD
Corporate & Government	5.21	1.70	2.05	-0.26
Agencies	5.04	0.77	0.94	2.17
Municipals	4.23	1.88	1.84	-0.42
U.S. Investment Grade Credit	5.30	1.99	2.30	-0.53
International	6.00	2.08	2.47	0.56
High Yield	8.83	2.76	2.46	7.20
90 Day Yield	5.39	5.45	5.46	4.34
2 Year Yield	4.84	5.00	5.09	4.43
10 Year Yield	4.57	4.83	4.93	3.87
30 Year Yield	4.77	5.01	5.09	3.96

Commodities & Currencies

	Total Return in USD (%)			
Commodities	Current	WTD	MTD	YTD
Bloomberg Commodity	239.55	-0.3	0.6	-2.6
WTI Crude $/Barrel††	80.51	-5.9	-0.6	0.3
Gold Spot $/Ounce††	1992.65	-0.7	0.4	9.2

	Total Return in USD (%)			
Currencies	Current	Prior Week End	Prior Month End	2022 Year End
EUR/USD	1.07	1.06	1.06	1.07
USD/JPY	149.39	149.66	151.68	131.12
USD/CNH	7.29	7.33	7.34	6.92

S&P Sector Returns



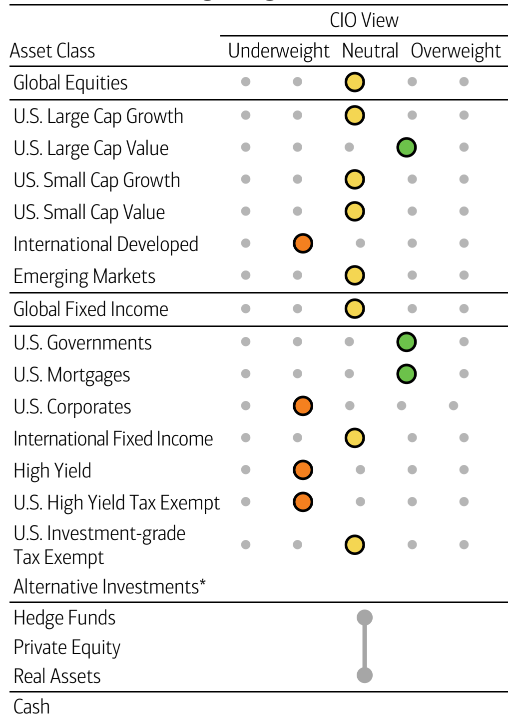
Sources: Bloomberg, Factset. Total Returns from the period of 10/30/2023 to 11/3/2023. †Bloomberg Barclays Indices. ††Spot price returns. All data as of the 11/3/2023 close. Data would differ if a different time period was displayed. Short-term performance shown to illustrate more recent trend. **Past performance is no guarantee of future results.**

Economic Forecasts (as of 11/3/2023)

	2022A	Q1 2023A	Q2 2023A	Q3 2023A	Q4 2023E	2023E
Real global GDP (% y/y annualized)	3.6	-	-	-	-	3.0
Real U.S. GDP (% q/q annualized)	1.9	2.2	2.1	4.9	1.5	2.4
CPI inflation (% y/y)	8.0	5.8	4.0	3.6	3.3	4.2
Core CPI inflation (% y/y)	6.1	5.6	5.2	4.4	4.0	4.8
Unemployment rate (%)	3.6	3.5	3.5	3.7	3.8	3.6
Fed funds rate, end period (%)	4.33	4.83	5.08	5.33	5.63	5.63

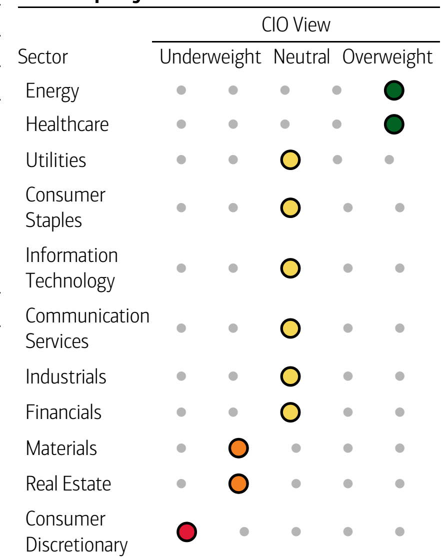
The forecasts in the table above are the base line view from BofA Global Research. The Global Wealth & Investment Management (GWIM) Investment Strategy Committee (ISC) may make adjustments to this view over the course of the year and can express upside/downside to these forecasts. Historical data is 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 November 3, 2023.

Asset Class Weightings (as of 10/3/2023)



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



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 October 3, 2023. All sector and asset allocation recommendations must be considered in the context of an individual investor's goals, time horizon, liquidity needs and risk tolerance. Not all recommendations will be in the best interest of all investors.

Index Definitions

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

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

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

Chicago Fed Credit Index provides a comprehensive weekly update on U.S. financial conditions in money markets, debt and equity markets and the traditional and "shadow" banking systems.

NACM Credit Managers' Index is a monthly economic indicator of financial activity reflecting credit managers' responses to levels of favorable and unfavorable factors.

CB Leading Credit Index is an American economic leading indicator intended to forecast future economic activity.

Trade-weighted dollar Index is a measure of the value of the United States dollar relative to other world currencies. It is a trade weighted index that improves on the older U.S. Dollar Index by incorporating more currencies and yearly rebalancing.

BofA Global Financial Stress Index (GFSI) is a calculated, cross market measure of risk, hedging demand and investor flows in the global financial system.

OFR Financial Stress Index measures systemic financial stress — disruptions in the normal functioning of financial markets.

GS Financial Conditions Index is defined as, "a weighted average of riskless interest rates, the exchange rate, equity valuations, and credit spreads, with weights that correspond to the direct impact of each variable on GDP."

Kansas City Financial Stress Index is a monthly measure of stress in the U.S. financial system based on 11 financial market variables.

Institute for Supply Management manufacturing index is a monthly gauge of the level of economic activity in the manufacturing sector in the United States versus the previous month.

S&P 1500 Index is designed to measure the performance of the large-, mid-, and small-capitalization segments of the U.S. equity market.

Bloomberg U.S. Treasury Index measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury.

Bloomberg Aggregate Bond Index is a broad base, market capitalization-weighted bond market index representing intermediate term investment grade bonds traded in the United States.

ICE BofA U.S. High Yield Index is an unmanaged index that tracks the performance of U.S. dollar denominated, below investment-grade rated corporate debt publicly issued in the U.S. domestic market.

Important Disclosures

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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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