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CHIEF INVESTMENT OFFICE

Capital Market Outlook

December 11, 2023

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Macro Strategy—*Incoming Data Generally Softer But Not Recessionary:* With Equity benchmarks near record highs, credit spreads narrowing, expectations for low equity market volatility, and the outperformance of cyclical stocks versus defensives as 2023 draws to a close, financial markets have basically decided that the economy is going to withstand the most aggressive Federal Reserve (Fed) tightening campaign in 40 years, as its effect remains narrowly concentrated in the most interest rate sensitive areas of the economy, such as manufacturing and housing.

Indeed, while softening, incoming indicators have mostly remained above recessionary levels with inflation cooling off. This mix has boosted confidence in the possibility of soon-to-come Fed rate cuts that can breathe new life into the current expansion, extending the cycle. The surge in household net worth, strong government spending, elevated profits, and still-abundant liquidity have so far helped avoid a worse outcome. So have better-than-expected emerging market economic growth, rebounding overseas leading indicators of growth, and record U.S. corporate profits from overseas operations.

Market View—*COP28 and The Green Transition:* The 2023 United Nations (UN) climate change summit (COP28) will conclude in Dubai tomorrow after two weeks of talks among world leaders. According to the UN, the world is still falling short of its target of limiting global temperature rise to 1.5°C above pre-industrial levels by 2100, though some improvement has been recorded over recent years as renewable energy capacity has increased.

With global emissions still rising, more is clearly needed to avert the most damaging effects of climate change, and decarbonization is therefore likely to remain a major investment theme for the current decade and beyond.

Thought of the Week—*What Happens When the Fed Cuts?:* As inflation and economic data continue to moderate, investors are increasingly focused on the outlook for rate cuts in 2024.

When revisiting historical Fed easing cycles for insight on past market reactions, we find that nothing is typical for Equities after the first cut and that performance is largely dependent on the state of the economy at the time. Ultimately, the path of monetary policy is just one of many elements that could influence the direction of markets in 2024.

MACRO STRATEGY ▶

Chief Investment Office
Macro Strategy Team

MARKET VIEW ▶

Ehiwario Efeyini
Director and Senior Market Strategy Analyst

THOUGHT OF THE WEEK ▶

Emily Avioli
Assistant Vice President and Investment Strategist

MARKETS IN REVIEW ▶

Data as of 12/11/2023, and subject to change

Portfolio Considerations

While we continue to anticipate a choppy market environment given elevated headline risk, we believe the next couple of months will bring the beginning of a long rotation in Equities that includes a move up in areas that have significantly lagged and areas that are well placed for a more substantive rally later next year. Our portfolio strategy remains “balanced” while fully invested to start the year, as we believe that adjustments below the surface in terms of Value and Growth, Small- and Mid-capitalization shares versus Large-capitalization, and U.S. versus non-U.S. (including Emerging Markets) are paramount in 2024.

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Incoming Data Generally Softer But Not Recessionary

Chief Investment Office, Macro Strategy Team

Given the long and variable lags in the response of economic growth to persistent declines in leading indicators and an inverted yield curve (wherein short rates exceed long rates), it may be premature to declare victory in favor of a soft landing. However, despite warning signals from leading economic indicators and an extended manufacturing and housing market recession, the U.S. economy appears more resilient than expected while navigating through a growth-recalibration phase engendered by aggressive Fed rate hikes, weak China and Eurozone growth, and geopolitical turmoil. Indeed, with some exceptions, economic indicators still don't show enough weakness to make a strong case for other than a Fed-engineered normalization of growth from unsustainably strong, inflationary levels, with the ultimate objective of bringing inflation back near the 2% target.

Encouragingly for the soft landing scenario, incoming data have generally been softer but not crashing, resulting in downward revisions to the Atlanta Fed's GDPNow estimates for Q4 gross domestic product growth to just 1.2%, compared to an eye-popping gain of 5.2% in Q3, a welcome moderation if hopes of Fed rate cuts are to materialize soon. Indeed, inventories and residential investment are seen subtracting from growth in Q4, business investment estimates have been revised down based on recent data, and manufacturing surveys remain in the doldrums.

More importantly, the 3.6% annualized quarterly surge in Q3 real consumer spending may be untenable. Not only have more forward looking indicators of labor demand been cooling, causing wage growth to also slow, but the Q3 spending gusher was largely the result of dis-saving, as it occurred while real disposable personal income barely increased. Excess savings have dwindled, however, and the personal saving rate is at very low levels, offering more limited spending-boost potential ahead.

Not surprisingly, consumer spending started Q4 on a much softer note, up just 2% at an annualized rate in October due to declines in durable goods spending, according to the Bureau of Economic Analysis (BEA). The Atlanta Fed GDPNow current estimate is for more normal real consumption growth of 1.9% annualized in Q4. This would still be respectable and makes sense since economic conditions have not deteriorated enough to cause more material weakness in consumer incomes and spending yet.

On the manufacturing front, the Institute for Supply Management (ISM) manufacturing index shows the sector remained in recession through November, as reflected in a 13th consecutive month of below-50 readings. Production, employment, new orders and inventories were all in contraction territory, although not low enough to cause a general economic downturn. Still, declining new orders for manufactured goods combined with the October drop in real consumer spending on durable goods suggest persistent sector struggles in coming months. So does the mix of shrinking new orders and fastest supplier delivery times in 23 years, which eroded order backlogs at a rapid and accelerating pace in November, suggesting limited scope for activity expansion in coming months.

Still, the ISM manufacturing index could continue to muddle through, hovering around current midcycle slowdown levels over the next few months as a result of a number of tailwinds. These include positive effects from a rebound in the Organisation for Economic Co-operation and Development (OECD) index of leading indicators for the seven major developed economies this year, easing financial conditions, an improvement in the German ZEW Index of Eurozone macroeconomic expectations since September, and dollar depreciation. These could offset to some extent lagged negative effects from the Fed tightening to date, keeping manufacturing conditions from worsening more over the next few months.

The global Markit Purchasing Managers' Index for manufacturing has hovered at levels similar to past midcycle slowdowns, just below the 50 breakeven line over the past year. Encouragingly, this index inched up closer to 50 in November, helped by moderate, but

Portfolio Considerations

Until the Fed relaxes monetary policy, we continue to favor a balanced investment approach, including broad portfolio diversification with a preference for U.S. Equities.

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faster, expansion in emerging market new orders and output. In contrast, developed market new orders and output have remained much weaker than their emerging market counterparts, with 18 consecutive months of contraction in new orders and sustained output declines.

Given emerging-market support, rebounding OECD leading indicators, limited ISM manufacturing index declines, and solid consumer spending, it's not surprising that U.S. industrial production has not dropped as much as in past recessions yet. Indeed, there have been enough expanding industries to keep the sector's retrenchment in line with past midcycle slowdown episodes. The diffusion index, which measures the breadth of expansion across industries, would have to drop a lot more than it has in the three months through September, when 58% of industries reported steady or expanding activity versus much-below-40% readings in past recessions.

The U.S. service sector activity has remained much stronger than the manufacturing sector, with the ISM services index in slow expansion territory for an 11th consecutive month through November. Still, the November index was below its Q3 average, suggesting weakening growth. Notably, the employment subcomponent barely remained above the 50 breakeven level after downshifting in October, also consistent with slower employment growth than in Q3, in line with other leading labor market indicators losing steam.

The new orders subcomponent remained at a level consistent with orders rising at a below-average pace, while faster deliveries caused the orders backlog to contract for the third time in four months, suggesting modest scope for service sector expansion ahead. At global level, the November Markit services survey shows that business activity and new orders ticked up, but remain much below average, and barely in expansion territory.

All in all, U.S. economic growth appears to be softening from its Q3 spurt as the big 2023 fiscal boost fades. At the same time, progress on the inflation front, both here and abroad has become increasingly clear. Our expectations for sustained inflation moderation in response to the big downturn in money-supply growth have been confirmed, with the 3-month annualized percent change in "core" consumer price index inflation at 3.4% in October versus 4.6% in January, and the "core" personal consumption expenditures inflation up just 2.4% in October versus 4.8% in January.

Both measures remain on a steep downtrend in a lagged response to central bank tightening to date, fading government pandemic-related stimulus effects, a sharp moderation in real consumer spending, normalization of supply chains, and negative money supply growth. The swing from rapid import price inflation to outright deflation in recent months should also exert downward pressure on inflation in coming months. In addition, the ISM manufacturing price index remains at a level consistent with further goods-price disinflation, while the drop in the ISM survey of services prices in October and November points to slower inflation in the services sector as well.

Thus, the Fed appears on track to bring inflation under control faster than had been expected, which allows for an end to rate hikes and eventually for lower policy rates to prevent a bigger-than-necessary economic slowdown with an inflation undershoot. This prospect has boosted rate-sensitive assets, such as financial, real estate, industrial and other cyclical equities, as well as commodity prices, which tend to respond early to hopes of renewed economic growth momentum.

While the moderation in inflation and potential monetary policy adjustments open up opportunities for investors across various sectors, caution is still advised due to prevailing uncertainties in the global and domestic economic landscape. Given the risks that economic momentum could still surprise to the downside, a balanced investment approach remains prudent in our view.

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MARKET VIEW

COP 28 and The Green Transition

Ehiwario Efeyini, Director and Senior Market Strategy Analyst

The 2023 UN climate change summit will conclude in Dubai tomorrow after two weeks of talks among world leaders. This latest Conference of the Parties (COP28) to the UN Framework Convention on Climate Change conducted the first "global stocktake" of progress on the goals of the agreement. According to the annual UN Emissions Gap Report, the world is still falling short of its target of limiting global temperature rise to 1.5°C above pre-industrial levels by the end of the century. But some improvement has been recorded over recent years. At the time of the Paris COP21 summit in 2015, the expected increase by 2100 was 3°C. But fast forward to today and the estimated rise in global temperatures based on current policy is a lower 2.5-2.9°C.

Progress has come from greater energy efficiency, and a growing installed capacity in renewable energy as costs decline and policy direction around the world continues to disincentivize the use of fossil fuels. Climate finance transfers from developed to emerging economies for both mitigation and adaptation (estimated by the OECD to have reached their $100 billion annual target in 2022) have also played a role, and the International Energy Agency now expects global demand for oil, coal and natural gas to peak before 2030. But with global emissions still rising, more is clearly needed to avert the most damaging effects of climate change, and decarbonization is therefore likely to remain a major investment theme for the current decade and beyond.

The bulk of global carbon emissions today are concentrated in the world's largest economies. China alone accounts for over 30% of the global total, with the Asia-Pacific region as a whole contributing more than 50%. Along with the U.S. and Europe, these regions together generate the overwhelming majority (88%) of the global carbon footprint. Renewable energy penetration in these markets is on a rising trend but nonetheless remains relatively low at 12% in Europe, 8% in the U.S. and just 6% in Asia. The addressable market for renewables and other energy-switching technologies within these three key markets therefore remains significant. In growth terms, however, some of the fastest rates of increase in renewable energy consumption are taking place in smaller, lower-income regions such as Africa and the Middle East. We would expect this trend to persist as primary energy demand in these markets converges with the rest of the world, and local governments look to build out their domestic energy infrastructure.

As two of the largest sources of global greenhouse gas emissions, electricity (28%) and transportation (16%) are likely to be the main focus for policymakers. Crude oil (31%), coal (27%) and natural gas (24%) correspondingly remain the largest sources of global primary energy consumption, but renewable energy demand is the fastest growing. Over recent years, the rise in renewable energy demand has been almost exclusively driven by growth in solar and wind power in the electricity sector, with wind also surpassing hydro power in 2019 to become the single largest source of alternative energy in electricity generation. Renewables overall, however, still account for a relatively small 7% share of global primary energy consumption. This leaves considerable scope for greater uptake over the coming years, particularly given official policy support, technological advancements, improvements in artificial intelligence for better load forecasting to manage supply intermittency, as well as market-based tailwinds from falling equipment and installation prices and lower storage costs.

Despite the progress made over recent UN summits and at this latest COP28 (including a pledge to phase down or potentially even phase out of fossil fuels), we expect global agreements to ultimately prove less important than domestic policies in driving global clean energy investment. Perhaps most notably in recent years, the 2022 U.S. Inflation Reduction Act (IRA) will provide some $380 billion over the next decade in subsidies and credits for renewable energy production, green infrastructure and clean energy equipment manufacturing, and is expected to reduce greenhouse gas emissions to 40% below 2005 levels by 2030 through a range of key provisions (Exhibit 1).

Portfolio Considerations

Despite recent progress on climate change mitigation, decarbonization is expected to remain a major long-term investment theme. Clean energy production and related materials, equipment and infrastructure should be the principal beneficiaries of this trend, with key growth areas likely to include solar modules, wind turbines and balance of system components such as batteries, power optimizers and inverters in addition to electric vehicles, green hydrogen and grid improvement infrastructure.

Exhibit 1: Main Provisions Of 2022 U.S. Inflation Reduction Act.

Key Inflation Reduction Act Provisions

IRA Provision	Terms of IRA Provision
Residential Property credits	Credits for installation of energy efficient appliances and home improvements of up to $3,200 extended to 2032. Credits for wind, solar, fuel cells, geothermal, biomass and storage extended to 2034, phased down from 30% to 22%.
Production Tax Credit (PTC)	PTC extended to 2032 for wind, solar, geothermal, biomass, hydropower and other projects starting construction before 2025. Rate set at $0.026 per kilowatt-hour (kW/h) subject to wage and apprenticeship requirements, with bonus credit for meeting domestic content thresholds.
Investment Tax Credit (ITC)	ITC for expenses invested in solar and other renewable energy generation projects extended to 2034, phased down from 30% to 22%.
Carbon Sequestration	Expansion of credit for sequestration projects starting construction before 2033. Increases previous credit amount and decreases minimum plant size eligibility requirement depending on facility type.
Advanced Manufacturing Production credit	Credit for production of solar, wind, inverter, battery components and critical materials for equipment sold to 2032.
Advanced Energy Production tax credit	$10 billion allocated to tax credits for facilities that produce energy storage systems, electric grid modernization equipment, electric vehicles, equipment used to reduce emissions at manufacturing facilities. Rate set at 30% for projects that meet wage and apprenticeship requirements, or 6% otherwise.
Zero Emission Nuclear Power Production credit	New nuclear credit of $0.30 per kW/h to 2032 for eligible plants that generate and sell electricity to a third party starting after 2023.
New Electric Vehicle Tax Credit	$7,500 credit subject to income limits, with vehicle cap of 200,000 per manufacturer removed from 2023 to 2032. Starting 2025 and 2024 respectively, critical minerals and battery components cannot be sourced from a 'foreign entity of concern' for vehicle to be eligible for credit.
Used Electric Vehicle Tax Credit	New credit of lesser of $4,000 or 30% of the vehicle sales price for used electric vehicles, subject to income limits. Vehicles must be at least two years old and have a sales price of $25,000 or less.
Clean Hydrogen Fuel Production Credit	Credit of $3/kilogram if prevailing wage and apprenticeship requirements met, or $0.60 otherwise for projects that begin construction before 2033.
Alternative Fuel Refueling Property credit	Maximum credit of $100,000 for refueling property such as electric vehicle chargers brought into service by 2032. Rate set at 30% for projects that meet wage and apprenticeship requirements, or 6% otherwise.

Sources: Department of Energy; Treasury Department; Chief Investment Office. Data as of November 2023.

China's strategic focus on dominating green manufacturing sectors such as batteries and solar power has also yielded it a significant competitive advantage in their production, as well as a strong influence over the supply of the raw materials required for their manufacturing. This in turn has helped to boost China's electric vehicle and renewable energy production, with both by far the largest globally. The Chinese leadership nonetheless continues to place a major emphasis on decarbonization, with the latest (14th) Five-Year Plan including explicit targets to decrease carbon intensity by 18% between 2021-2025, reach peak carbon emissions by 2030 and reach carbon neutrality by 2060.

For investors, we would expect clean energy production and related materials, equipment and infrastructure to be the principal beneficiaries of these trends over the course of the 2020s and beyond. Key growth areas in our view should include suppliers of solar modules and wind turbines, as well as providers of balance of system components such as batteries, power optimizers and inverters. Developers of electrolyzers and fuel cells should benefit from growth in green hydrogen for energy storage and use in industrial applications such as steelmaking and fertilizer production, in addition to commercial transportation segments such as heavy-duty trucks and forklifts. Electric vehicle manufacturers should also see tailwinds from growing consumer demand as battery costs decline, driving ranges increase and charging infrastructure is built out. And the commodities used to build renewable energy hardware, electric vehicles and batteries such as copper, nickel, lithium, graphite and cobalt are also likely to perform well over the longer-term, improving terms of trade for producer countries.

At the same time, renewable energy utilities and providers of smart grid features such as demand-response and vehicle-to-grid systems should benefit as greater volumes of alternative energy are connected to the power grid. And makers of industrial cables for long-distance power transmission and grid connections from renewable sources should also be well-positioned. As we look further out into the green transition, providers of negative emissions technologies such as carbon capture, utilization and storage are also likely to become more mainstream as countries look to reach their net-zero targets.

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What Happens When the Fed Cuts?

Emily Avioli, Assistant Vice President and Investment Strategist

While the outlook for Fed interest rate hikes was top of mind throughout 2023, focus is quickly shifting to the potential for rate cuts in 2024 amid moderating inflation and economic data. As investors gear up for the anticipated pivot, they should keep in mind that nothing is typical for Equities after the easing cycle begins.

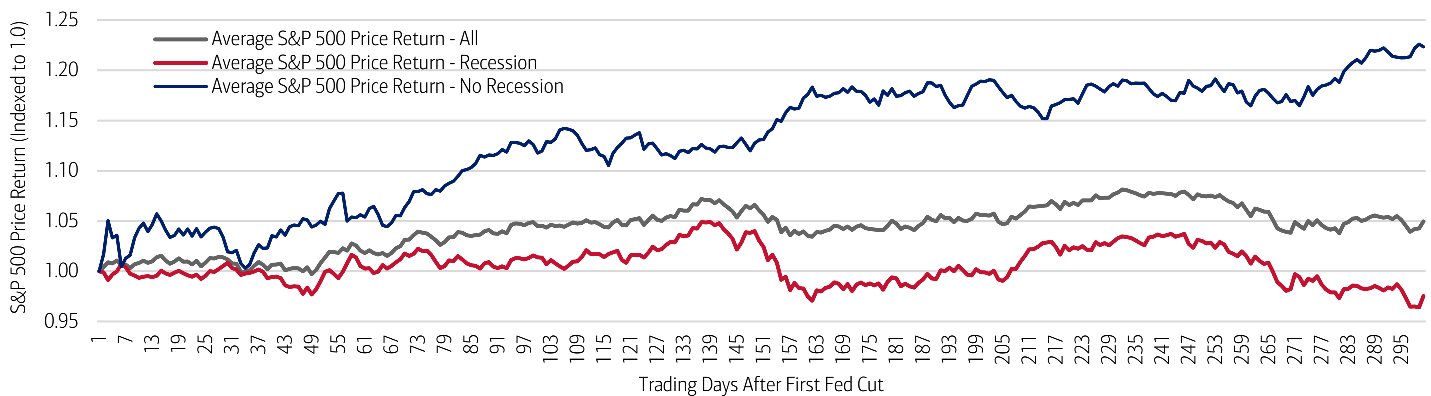
Even forecasting the timing of the first rate cut is fraught with variability. Since 1974 there has been an average of five months between the last hike and the first cut, ranging from a low of just one month to a high of 15 months depending on the state of the economy at the time.[1] While there is growing conviction that the cutting cycle will begin next spring, with fed fund futures currently pricing in a 100% chance of a rates reduction by May, we see several factors that could lead the Fed to keep rates "higher for longer" this cycle. Of note, any data that suggests inflation could reaccelerate like it did in the 1970s would likely delay policy easing.

Still, consensus expectations suggest that it may be time to revisit historical Fed easing cycles for insight on past equity market reactions. Since 1974, the S&P 500 has seen price returns of 1.9%, 5.0%, and 7.5% in the respective 3, 6, and 12 months after the first rate cut on average, though the overall range of outcomes is wide.[2] The path of performance is largely dependent on other macro elements. For instance, cuts made to reinvigorate the economy amid an economic downturn have been proceeded by very different market outcomes than cuts made amid a soft landing (Exhibit 2).

Portfolio Considerations

Fed interest rate cuts have historically had varied outcomes for Equities. From a positioning perspective, we maintain a neutral stance and reiterate the importance of maintaining appropriate exposures as part of a well-balanced portfolio.

Exhibit 2: S&P 500 Performance After First Rate Cut.



Sources: Bloomberg; BofA Global Research as of December 5, 2023. Refers to cutting cycles since 1974. Cutting cycles with recession = 1974, 1980, 1981, 1989, 2001, 2007, 2019. Cutting cycles with no recession = 1984, 1987, 1995. **It is not possible to invest directly in an index. Past performance is no guarantee of future results. Please refer to asset class proxies and index definitions at the end of this report.**

Ultimately, the path of monetary policy is just one of many elements, including heightened geopolitical risk and a U.S. presidential election, that could influence the direction of markets in 2024. We continue to see many crosscurrents in the market and economic landscape and emphasize a balanced and diversified approach for the year ahead.

[1] Piper Sandler Research. November 20, 2023.

[2] Bloomberg. December 5, 2023.

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Equities

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
DJIA	36,247.87	0.0	0.9	11.7
NASDAQ	14,403.97	0.7	1.3	38.7
S&P 500	4,604.37	0.2	0.8	21.8
S&P 400 Mid Cap	2,632.09	0.3	2.7	10.0
Russell 2000	1,880.82	1.0	4.0	8.4
MSCI World	3,047.21	0.2	0.8	18.9
MSCI EAFE	2,138.43	0.4	0.7	13.0
MSCI Emerging Markets	975.01	-0.7	-1.2	4.4

Fixed Income†

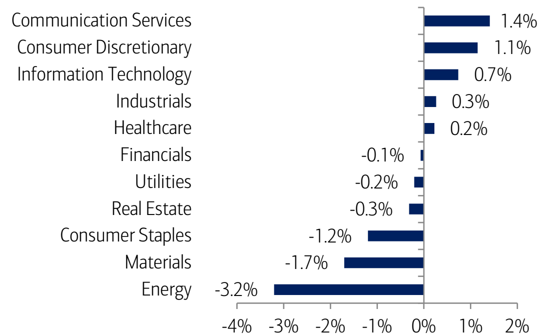
	Total Return in USD (%)			
	Current	WTD	MTD	YTD
Corporate & Government	4.87	0.16	0.94	2.93
Agencies	4.85	-0.10	0.33	3.51
Municipals	3.46	0.56	0.72	4.73
U.S. Investment Grade Credit	4.95	0.15	1.01	2.66
International	5.51	0.25	1.12	5.17
High Yield	8.29	0.37	0.69	10.13
90 Day Yield	5.37	5.35	5.39	4.34
2 Year Yield	4.72	4.54	4.68	4.43
10 Year Yield	4.23	4.20	4.33	3.87
30 Year Yield	4.30	4.39	4.49	3.96

Commodities & Currencies

	Total Return in USD (%)			
Commodities	Current	WTD	MTD	YTD
Bloomberg Commodity	223.94	-3.5	-3.8	-8.9
WTI Crude $/Barrel††	71.23	-3.8	-6.2	-11.3
Gold Spot $/Ounce††	2004.67	-3.3	-1.6	9.9

	Total Return in USD (%)			
Currencies	Current	Prior Week End	Prior Month End	2022 Year End
EUR/USD	1.08	1.09	1.09	1.07
USD/JPY	144.95	146.82	148.20	131.12
USD/CNH	7.19	7.12	7.15	6.92

S&P Sector Returns



Sources: Bloomberg; Factset. Total Returns from the period of 12/4/2023 to 12/8/2023. †Bloomberg Barclays Indices. ††Spot price returns. All data as of the 12/8/2023 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.**

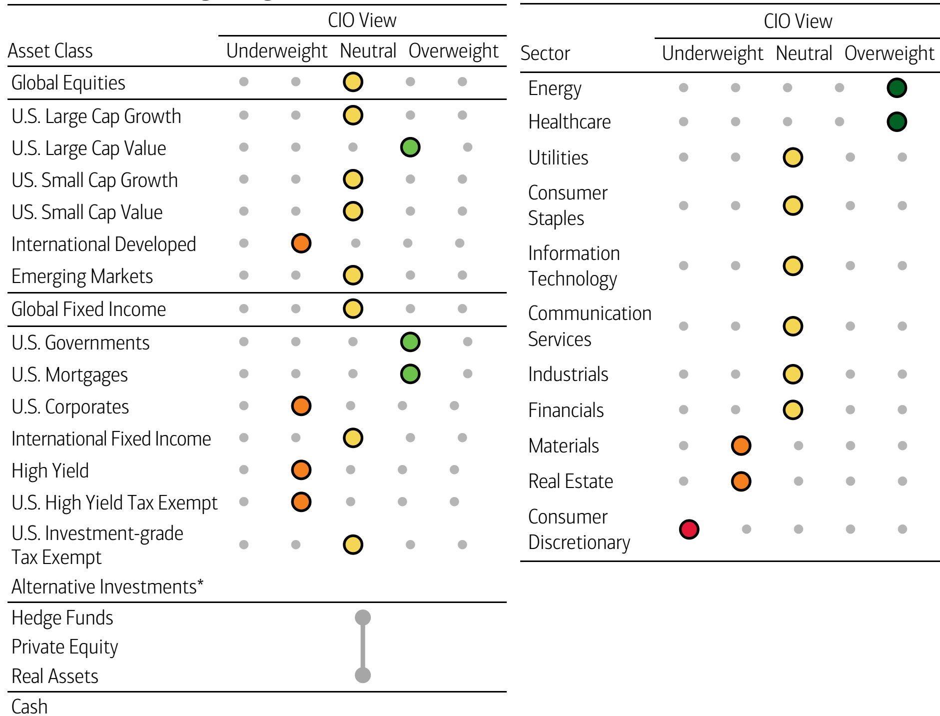
Economic Forecasts (as of 12/8/2023)

	Q4 2023E	2023E	Q1 2024E	Q2 2024E	Q3 2024E	Q4 2024E	2024E
Real global GDP (% y/y annualized)	-	3.1	-	-	-	-	2.8
Real U.S. GDP (% q/q annualized)	1.5	2.5	0.5	0.5	0.5	1.0	1.4
CPI inflation (% y/y)	3.2	4.1	2.9	2.9	2.6	2.5	2.7
Core CPI inflation (% y/y)	4.0	4.8	3.6	3.2	3.2	3.0	3.3
Unemployment rate (%)	3.9	3.7	4.0	4.1	4.2	4.3	4.1
Fed funds rate, end period (%)	5.38	5.38	5.38	5.13	4.88	4.63	4.63

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 December 8, 2023.



Asset Class Weightings (as of 12/5/2023)

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

CIO Equity Sector Views

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

*Many products that pursue Alternative Investment strategies, specifically Private Equity and Hedge Funds, are available only to qualified investors. CIO asset class views are relative to the CIO Strategic Asset Allocation (SAA) of a multi-asset portfolio. Source: Chief Investment Office as of December 5, 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 includes a representative sample of 500 leading companies in leading industries of the U.S. economy. Although the index focuses on the large-cap segment of the market, with approximately 75% coverage of U.S. equities, it is also an ideal proxy for the total market.

Organisation for Economic Co-operation and Development (OECD) Index is an international organisation that works to build better policies for better lives.

Supply Management (ISM) manufacturing Index is a monthly gauge of the level of economic activity in the manufacturing sector in the United States versus the previous month.

German ZEW Index measures overall expert opinions on the direction of the German economy over the next six months.

Markit Purchasing Managers' Index an index of the prevailing direction of economic trends in the manufacturing and service sectors.

ISM services index surveys non-manufacturing (or services) firms' purchasing and supply executives.

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

ISM manufacturing price index is a monthly indicator of U.S. economic activity based on a survey of purchasing managers at more than 300 manufacturing firms.

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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. Investing in fixed-income securities may involve certain risks, including the credit quality of individual issuers, possible prepayments, market or economic developments and yields and share price fluctuations due to changes in interest rates. When interest rates go up, bond prices typically drop, and vice versa. Bonds are subject to interest rate, inflation and credit risks. Municipal securities can be significantly affected by political changes as well as uncertainties in the municipal market related to taxation, legislative changes, or the rights of municipal security holders. 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. Investments in high-yield bonds (sometimes referred to as "junk bonds") offer the potential for high current income and attractive total return, but involves certain risks. Changes in economic conditions or other circumstances may adversely affect a junk bond issuer's ability to make principal and interest payments. Treasury bills are less volatile than longer-term fixed income securities and are guaranteed as to timely payment of principal and interest by the U.S. government. Investments in foreign securities (including ADRs) involve special risks, including foreign currency risk and the possibility of substantial volatility due to adverse political, economic or other developments. These risks are magnified for investments made in emerging markets. Investments in a certain industry or sector may pose additional risk due to lack of diversification and sector concentration. There are special risks associated with an investment in commodities, including market price fluctuations, regulatory changes, interest rate changes, credit risk, economic changes and the impact of adverse political or financial factors.

Alternative Investments are speculative and involve a high degree of risk.

Alternative investments are intended for qualified investors only. Alternative Investments such as derivatives, hedge funds, private equity funds, and funds of funds can result in higher return potential but also higher loss potential. Changes in economic conditions or other circumstances may adversely affect your investments. Before you invest in alternative investments, you should consider your overall financial situation, how much money you have to invest, your need for liquidity and your tolerance for risk.

Nonfinancial assets, such as closely-held businesses, real estate, fine art, oil, gas and mineral properties, and timber, farm and ranch land, are complex in nature and involve risks including total loss of value. Special risk considerations include natural events (for example, earthquakes or fires), complex tax considerations, and lack of liquidity. Nonfinancial assets are not in the best interest of all investors. Always consult with your independent attorney, tax advisor, investment manager, and insurance agent for final recommendations and before changing or implementing any financial, tax, or estate planning strategy.

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