CHIEF INVESTMENT OFFICE

Capital Market Outlook

January 8, 2024

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

IN THIS ISSUE

Macro Strategy—*Policy Committed to Stronger Growth:* Evidence is accumulating that aggressive monetary and fiscal stimulus is creating a secular breakout to higher nominal gross domestic product (GDP) growth and higher interest rates. Accelerating applications of rapidly advancing artificial intelligence (AI) technology should help determine how faster nominal growth is split between inflation and real growth.

An AI-triggered productivity boom would allow for more real growth and less inflation. In any event, faster trend nominal growth implies a higher interest-rate environment than that of the prepandemic "savings-glut" era.

Market View—*Are the Markets Really Impervious to Geopolitical Risks?:* In the face of a ground war in Europe, a military conflict in the Middle East, elevated U.S.-Sino tensions, and snarled shipping lanes in key transit hubs, many global indexes posted record and near-record returns last year, seemingly impervious to a world full of disorder. However, investors should not be lulled into thinking that the major geopolitical events of today are inconsequential or trivial to assets and market returns. Nothing could be further from the truth.

The costs associated with unpredictable geopolitics run the risk from rising global defense spending-cum-widening budget deficits to higher prices/inflation due to supply chain vulnerabilities and increased global populism/nationalism on account of rising levels of cross-border migrants dislocated by conflict. An actively managed[1], high-quality, diversified and U.S.-centric portfolio should offer the best defense in a world of multipolar disorders.

Thought of the Week—*Clean Energy Needs Hard Hats...Literally:* The global race to decarbonize is well under way. While the road to 2030 has been paved thus far with impressive infrastructure spending, a net zero future will require more than capital.

In both the U.S. and abroad, the key—or foil—to the green transition will likely be workers. Clean energy jobs are certainly more popular than a decade ago, but labor shortages and skill mismatches will be key to watch.

[1] Active management seeks to outperform benchmarks through active investment decisions such as asset allocation and investment selection.

MACRO STRATEGY ▶

Chief Investment Office
Macro Strategy Team

MARKET VIEW ▶

Joseph P. Quinlan
Managing Director and Head of CIO Market Strategy

THOUGHT OF THE WEEK ▶

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MARKETS IN REVIEW ▶

Data as of 1/8/2024, 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 this 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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MACRO STRATEGY

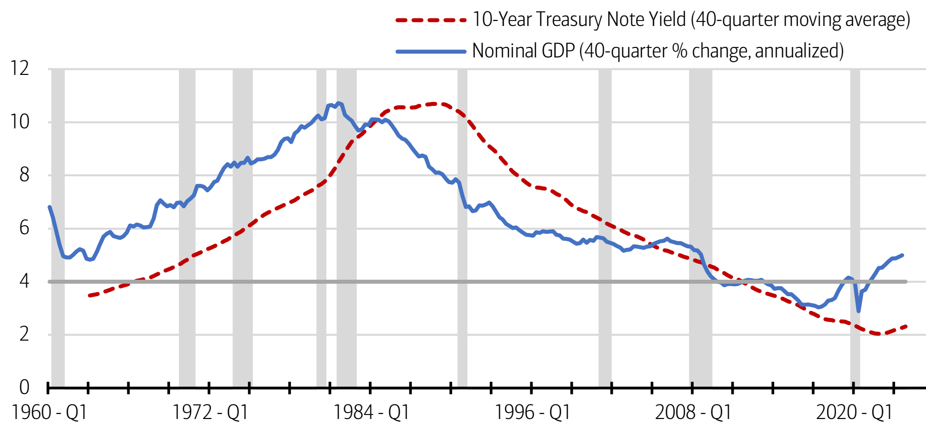
Policy Committed to Stronger Growth

Chief Investment Office, Macro Strategy Team

The big surprise in 2023 was the unprecedented flood of fiscal stimulus into a fully employed economy. While monetary policy brought down inflation, fiscal policy helped offset the contractionary effect of higher interest rates on aggregate demand. With inflation closing in on the Federal Reserve's (Fed) 2% target, monetary policy is poised to reverse course in 2024 while the positive 2023 fiscal impulse fades. The key takeaway is that unprecedented policy stimulation is committed to keeping the economy growing even if it means higher inflation over time. Afterall, inflation has averaged more than double the Fed's target rate over the last three years.

Exhibit 1 shows how the longer-run trends in interest rates and nominal GDP have moved since 1960, when, like today, the peacetime use of fiscal policy took on a much more activist tilt. The graph shows the strong correlation between the level of interest rates and the growth trend in nominal GDP. During the 1960s and 1970s, trend nominal GDP rose from its normal 4% to 6% range steadily higher until it peaked at over 10%. Interest rates followed suit, also rising from mid-single digits to well over 10% averages for the decade to the early 1980s. The rise in nominal GDP was driven by rising inflation. If anything, real growth was subpar in the stagflationary 1970s and early 1980s. Instead of falling with higher inflation, as conventional Keynesian economics predicted, unemployment rose to the highest levels of the past 70 years aside from the brief unemployment spike during the pandemic shutdown. Inflation expectations were constantly lower than the actual outcome, much as they have been during the past three years.

Exhibit 1: Interest-Rate Trend Follows Nominal Growth Trend.



Gray areas represent recession periods. Sources: Bureau of Economic Analysis; Federal Reserve Board/Haver Analytics. Data as of January 4, 2024.

The disinflation era that commenced in the 1980s with the Fed's tight policies changed the longest bond bear market in U.S. history into the longest bull market. In each successive business cycle from the early 1980s until the pandemic, the federal funds rate fell to lower lows and rose to lower highs, culminating in the first-ever zero-rate era. Throughout the secular bull market, economists and market analysts persistently underestimated the declining rate of inflation. Just as interest rates and inflation rose more than forecasters expected in the 1970s and 1980s, they fell more than expected between 1982 and 2020.

The more activist use of fiscal and monetary policy since the pandemic has ended the secular bull market in bonds. Bond yields have risen far above the downtrend lines of the past 40 years. Also, nominal GDP growth has broken out to the upside far above the 4% ceiling of the two decades prior to the pandemic. Since yields tend to follow nominal GDP

Investment Implications

A secular shift to higher nominal GDP growth and interest rates is positive for the relative performance of Value stocks, while accelerating advances in AI are bullish for the Growth leaders of the future, suggesting that a barbell approach of the two styles should help diversify portfolios for better performance.

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growth trends, it appears that the new higher range for nominal GDP will keep pressure for yields to average in a new higher range as well.

After the Great Financial Crisis (GFC) in 2008-2009, monetary policy under Fed Chairman Ben Bernanke resorted to unprecedented actions such as quantitative easing (QE) and zero rates to revive the economy. However, fiscal policy was stymied by the political divisions in Congress. In his memoir, *The Courage to Act*, documenting his experience, Mr. Bernanke cites the inability to use more aggressive fiscal policy in the wake of the crisis as a major stumbling block to spurring a healthier recovery after the GFC, an arguably important piece of the secular stagnation puzzle.

The fundamental question for investors is where interest rates will settle after this secular shift. The experience of the 1960s and 1970s' inflation suggests that an ongoing uptrend in inflation to higher and higher levels is not an attractive option, especially now that the outstanding government-debt stock is so much higher as a share of GDP. The interest expense from spiraling interest rates in an accelerating inflation environment would create a self-reinforcing debt crisis.

Ideally, nominal GDP growth will stabilize at levels more consistent with historical experience above the sub-4% level that characterized the secular stagnation era, but below the 6%-plus level that characterized the high-inflation era in the late 1960s and 1970s. As shown in Exhibit 1, in the rising-inflation era, the 10-year Treasury yield average was persistently below the trend in nominal GDP growth. This meant income and revenue growth, which are governed by nominal GDP growth, were generally above interest rates, making credit an attractive means of expansion. Rising trend inflation was associated with interest rates well below the growth rate of nominal GDP.

On the other hand, the experience of the disinflation era starting in the 1980s, which was characterized by falling nominal GDP growth and falling inflation, shows interest rates were well above nominal GDP well into the 1990s, when inflation finally settled down closer to desired levels. When interest rates are well above nominal GDP growth, disinflation pressures are strong.

As seen in the period after the GFC, when the trend in nominal growth had trouble rising above 4%, interest rates were well below historical norms and disinflation pressures became even more intense. Even with very low policy rates, the Fed had trouble hitting its 2% inflation target. Weak nominal growth made it hard for a highly leveraged private sector to service its debt, so deleveraging was the order of the day for households after the GFC. Today, households' balance sheets are in much better shape, with the debt excesses concentrated in the government sector.

Normalization of nominal GDP growth above the weak levels of the post-GFC era will likely allow the private sector to releverage in a sustainable way. Nominal interest rates in line with nominal GDP growth will avoid the excesses of the rising-inflation era, when the Fed kept interest rates persistently too low relative to nominal GDP growth, and the falling inflation era, when it had to keep rates higher relative to nominal GDP growth to bring down the inflation component of nominal GDP.

All in all, the experience of the past 65 years suggests that interest rates should average in line with nominal GDP growth, not too much above or below. Assuming nominal GDP stabilizes in a 4% to 6% range, current interest rates appear appropriate for this new world of roughly 5% nominal GDP growth over time. This higher-rate structure favors Value stocks compared to the old low-nominal-growth world, where interest rates were also unusually low. How nominal GDP divides between its growth and inflation components will depend on how much productivity growth increases as a result of applying accelerating AI technologies to broader economic activity. AI makes opportunities in the successful users of its potential a nice counterbalance to the Value-oriented beneficiaries of the new, higher interest rate and nominal growth environment.

MARKET VIEW

Are the Markets Really Impervious to Geopolitical Risks?

Joseph P. Quinlan, Managing Director and Head of CIO Market Strategy

On the surface, the major geopolitical events of the past 12 months have had nary an effect on global equities. Indeed, in the face of a ground war in Europe, a military conflict in the Middle East, elevated U.S.-Sino tensions, and snarled shipping lanes in key transit hubs, many global indexes posted record and near-record returns last year, seemingly impervious to a world full of disorder.

From the cyclical October 27 lows to year-end, the S&P 500 surged nearly 16%, while the Nasdaq and Dow Jones Industrial Average climbed 19% and 16%, respectively. Meanwhile, the Russell 2000 returned 24% over the same time frame, matched by strong overseas gains as well, as Japan's Nikkei Index rose 15%, the German DAX surged 19%, and Brazil's Ibovespa rocketed 21%. Even Israel equities rallied into year-end, with the MSCI Israel Index soaring 28% between October 27 and the end of December, giving Israel, remarkably, one of the best-performing equity markets in the world.[2]

The (spurious) uptake from all of this: Geopolitics don't matter. Mr. Market is nothing but cold-hearted, dispassionate, and pitiless, and only cares about market fundamentals. Life goes on.

Geopolitics Matter Investors should not be lulled into thinking that the major geopolitical events of today are inconsequential or trivial to assets and market returns. Nothing could be further from the truth.

The costs associated with unpredictable geopolitics run the risk from rising global defense spending-cum-widening budget deficits to higher prices/inflation due to supply chain vulnerabilities and increased global populism/nationalism on account of rising numbers of cross-border migrants dislocated by conflict.

Like spending on Medicare, Medicaid and Social Security, U.S. defense spending has almost become a "mandatory" line item at a time when the federal budget deficit as a percentage of GDP is already in excess of 6%. Intensifying geopolitical risks means more capital being diverted to missiles and munitions at the risk of higher-for-longer budget deficits.

Meanwhile, the Fed's last mile to 2% inflation could be derailed by clogged global supply chains and the attendant rise in prices. Think the Red Sea—a narrow strip of water, which 10% to 15% of world shipping goes through, but is presently being attacked by missiles and drones by Houthi rebels. Rerouting ships from the Red Sea to around Africa adds about 12 days to the journey and roughly a 20% boost in shipping costs, according to maritime estimates. The risk: a geopolitically induced spike in inflation just as the world's central banks are poised to cut interest rates this year.

And finally, an ever-rising number of forced migrants, displaced by conflict, equates to more global populism and nationalism, which equals a more fragmented world economy—one with rising cross-border barriers to capital, goods, services, data and people, all of which are inimical to the outlook for global earnings. With some 40 elections scheduled this year alone, there is nothing like millions of forced migrants and asylum seekers to stir up anti-immigration, nationalist sentiment as billions of voters go to the polls this year. Might the recent gains of far-right, anti-immigration parties in Europe be a global harbinger for 2024?

As background on the state of world, a recent report from the International Institute for Strategic Studies noted that some 183 conflicts are ongoing as the new year begins, the highest level in three decades. And that figure, sadly, was derived before the outbreak of the war in Gaza. Not mincing words about the threat in Europe, a North Atlantic Treaty Organization spokesman was recently quoted in the *Washington Post* as saying, *"Russia's war against Ukraine has created the most dangerous security situation in Europe in decades."* Equally as blunt were remarks last year from the United Nation Secretary General Antonio Guterres: *"I fear the world is not sleepwalking into a wider war. I fear it is doing so with its eyes wide open."*

Portfolio Considerations

From an investment perspective, geopolitics should demand as much investor attention as traditional investment metrics in 2024. A heightened state of geopolitics given conflicts and warfare is bullish for defense stocks, with the global military complex working flat out to remilitarize. In addition, the global election cycle of 2024 could result in general market volatility but also opportunity to actively rebalance across asset classes.

[2] "The Fed Pivot and Four Scenarios for 2024," Gavekal Research, January 2, 2024.

It didn't use to be this way. Indeed, over the last two decades of the 20th century, the world was largely at peace with itself. The globe's top cop, the U.S. military, not only kept order but also kept critical global sea lanes open, underwriting globalization and the unfettered cross-border flows of global commerce. It wasn't that long ago that the U.S. enjoyed no near-term rivals for global power and influence, and the world basically beat to the tune of America's rules-based, market-friendly order.

Investors, in return, were rewarded with a peace dividend—which took the form of greater global integration and linkages that helped boost the profits of U.S. multinationals, declining U.S. budget deficits as military spending decreased, and lower taxes and inflationary pressures as part of the flow-through effects. A world at peace is a world where government outlays can be funneled to domestic priorities that help promote future growth, and where money is saved, deficits and taxes decline, and inflationary pressures ease. The peace dividends were significant not only for the U.S. but also for many other regions of the world like Europe and Japan, who lived comfortably and cheaply under the U.S. security umbrella.

Times have changed, however. The favorable economic and budgetary effects of lower global military spending are behind us. The Cold War of the 2020s means a ramping up of global military outlays, with annual global defense expenditures totaling a record high of $2.2 trillion in 2022, based on numbers from the Stockholm International Peace Research Institute. There is little doubt expenditures increased again last year; to this point, as the accompanying chart highlights, the combined backlog for orders for the world's fifteen largest defense companies stood at $764 billion in the first half of 2023, virtually equivalent to the combined orders for all of 2022 and nearly double the levels of the last decade.[3]

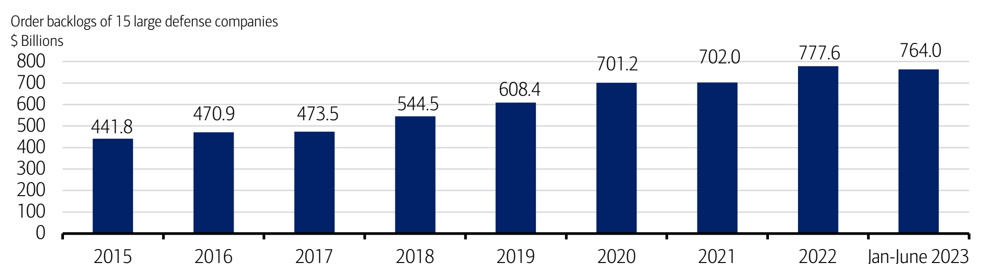
Like it or not, the U.S.-led world order that allowed investors to turn a blind eye to geopolitics is crumbling. The peace dividend is history. Today, geopolitics demand as much investor attention as earnings growth, interest rates, valuations and other traditional metrics of expected market returns. In the end, might the markets be too complacent about a world riven with division?

Time will tell, but meanwhile investors should have their eyes wide open to the first- and second-order effects of mounting geopolitical risks and position/hedge portfolios accordingly.

Investment Implications An actively managed, high-quality, diversified and U.S.-centric portfolio should offer the best defense in a world of multipolar disorders. We remain constructive on Large-cap U.S. defense and cybersecurity plays and, more broadly, continue to advocate and emphasize the importance of portfolio diversification. The broader—the more diversified—the construction of a portfolio (incorporating not just stocks and bonds of all stripes, but Alternatives for qualified investors, like hedge funds, credit, private real estate, etc.), the greater the wherewithal to smooth out the cyclical ups and downs (volatility) of the markets.

We also continue to favor dividend champions and hard assets and prefer a home bias—or a preference for U.S. assets over the rest of the world. The most vulnerable markets to a world on a geopolitical boil are the ones that lack resources, are more dependent on global trade and capital flows, and are deficient in military capabilities. The criteria excludes the U.S.—a hydra-headed superpower whose $25 trillion economy is the most dynamic, diversified and resilient on the planet, and that is better positioned to cope with—but not immune to—geopolitical shocks. Most at risk: Europe, Asia and the emerging markets.

Exhibit 2: Boom Times: Geopolitical Tensions are Driving Up Orders for Defense Companies.



Source: *Financial Times* analysis of companies' data. Data as of January 2, 2024.

[3] "Global defense order books bulge as Ukraine puts budgets on war footing," *Financial Times*, December 28, 2023.

THOUGHT OF THE WEEK

Clean Energy Needs Hard Hats...Literally

Ariana Chiu, Wealth Management Analyst

After registering one of the hottest years in history and as we approach the second half of the decade, the global race to decarbonize is well under way. A global super-cycle in green investment is afoot, with the U.S. among the more active investors in the space. One year following the passage of the Inflation Reduction Act, some 280 clean energy projects have been announced, totaling to $282 billion in investment.[4] Manufacturing construction spending has followed suit, surpassing $200 billion as of November 2023[5] (Exhibit 3A).

As of now, there appears to be no lack of capital when it comes to decarbonization. Still, it takes more than capital to drive growth—it requires labor, and, by this metric, the push toward a global clean-energy ramp-up could hit a wall. From software developers to solar panel installers to wind turbine service technicians, the key—or foil—to reaching net-zero emissions will likely be workers—or the lack thereof. According to the International Energy Agency's World Energy Employment 2023 report, vocational certifications and STEM (science, technology, engineering, and mathematics) degrees are struggling to keep up with decarbonization-driven demand. Such is not surprising considering that, as Exhibit 3B shows, employment in the global renewable Energy sector nearly doubled between 2012 and 2022, with clean energy employment surpassing that of fossil fuels in 2021.[6] Compounding matters, most clean energy jobs are in construction or manufacturing—labor-intensive sectors already facing critical worker shortages in the U.S. and globally.[7]

In the end, one thing is clear: Developing a clean world means finding the workers to do so. As we monitor the wealth of resources required by the green transition, labor shortages and skill mismatches could serve as structural barriers. Among the risks are delayed or cancelled projects, higher costs and climate goals further out of reach. The bottom line: Clean energy needs hard hats. Seven million by 2030, to be exact.[8]

Portfolio Considerations

We continue to monitor how the energy transition unfolds. In addition to capital, investment in a green workforce will be key to growth in clean energy infrastructure both in the U.S. and globally. Risks to watch include labor shortages in manufacturing and construction, project delays, and associated costs.

Exhibit 3: The Road to Net Zero Demands Workers.

A) Calling All Workers: Manufacturing Construction Spend Surpasses $200 Billion.

B) Will Growth in Renewable Energy Workers Continue?

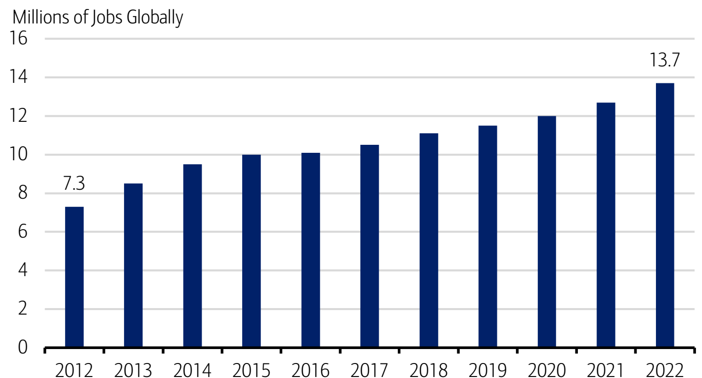


Exhibit 3A) Sources: Census Bureau; Haver Analytics. Data as of January 2, 2024. Exhibit 3B) Source: International Renewable Energy Agency. Data as of September 2023.

[4] Goldman Sachs Asset Management, October 2023.

[5] Census Bureau, January 2024.

[6] International Renewable Energy Agency, IEA, 2023.

[7] International Energy Agency (IEA) World Energy Employment, 2023.

[8] An estimated 14 million additional clean energy workers will be needed to achieve current climate goals by 2030, with approximately half in construction. IEA World Energy Employment, 2023.

Equities

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
DJIA	37,466.11	-0.6	-0.6	-0.6
NASDAQ	14,524.07	-3.2	-3.2	-3.2
S&P 500	4,697.24	-1.5	-1.5	-1.5
S&P 400 Mid Cap	2,712.50	-2.5	-2.5	-2.5
Russell 2000	1,951.14	-3.7	-3.7	-3.7
MSCI World	3,120.55	-1.5	-1.5	-1.5
MSCI EAFE	2,207.74	-1.3	-1.3	-1.3
MSCI Emerging Markets	1,002.08	-2.1	-2.1	-2.1

Fixed Income†

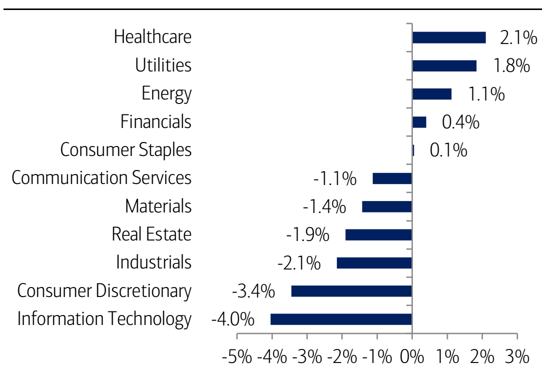
	Total Return in USD (%)			
	Current	WTD	MTD	YTD
Corporate & Government	4.63	-1.20	-1.20	-1.20
Agencies	4.59	-0.49	-0.49	-0.49
Municipals	3.28	-0.29	-0.29	-0.29
U.S. Investment Grade Credit	4.72	-1.20	-1.20	-1.20
International	5.28	-1.54	-1.54	-1.54
High Yield	8.00	-1.12	-1.12	-1.12
90 Day Yield	5.37	5.33	5.33	5.33
2 Year Yield	4.38	4.25	4.25	4.25
10 Year Yield	4.05	3.88	3.88	3.88
30 Year Yield	4.20	4.03	4.03	4.03

Commodities & Currencies

	Total Return in USD (%)			
Commodities	Current	WTD	MTD	YTD
Bloomberg Commodity	226.64	0.1	0.1	0.1
WTI Crude $/Barrel††	73.81	3.0	3.0	3.0
Gold Spot $/Ounce††	2045.45	-0.9	-0.9	-0.9

	Total Return in USD (%)			
Currencies	Current	Prior Week End	Prior Month End	2022 Year End
EUR/USD	1.09	1.10	1.10	1.10
USD/JPY	144.63	141.04	141.04	141.04
USD/CNH	7.16	7.13	7.13	7.13

S&P Sector Returns



Sources: Bloomberg; Factset. Total Returns from the period of 1/2/2024 to 1/5/2024. †Bloomberg Barclays Indices. ††Spot price returns. All data as of the 1/5/2024 close. Data would differ if a different time period was displayed. Short-term performance shown to illustrate more recent trend. **Past performance is no guarantee of future results.**

Economic Forecasts (as of 1/5/2024)

	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	2.8	2.9	2.6	2.4	2.7
Core CPI inflation (% y/y)	4.0	4.8	3.6	3.2	3.2	3.0	3.2
Unemployment rate (%)	3.9	3.7	4.0	4.1	4.2	4.3	4.1
Fed funds rate, end period (%)	5.33	5.33	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 January 5, 2024.

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.

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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.

Nasdaq is an American stock exchange based in New York City.

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

Russell 2000 Index is a small-cap U.S. stock market index that makes up the smallest 2,000 stocks in the Russell 3000 Index.

Japan's Nikkei Index is a stock market index for the Tokyo Stock Exchange.

German DAX Index is a stock index that represents 40 of the largest and most liquid German companies that trade on the Frankfurt Exchange.

Brazil's Ibovespa Index is the benchmark index of about 86 stocks traded on the B3 (Brasil Bolsa Balcão), accounting for the majority of trading and market capitalization in the Brazilian stock market.

MSCI Israel Index is designed to measure the performance of the large and mid cap segments of the Israeli equity market.

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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. Stocks of small- and mid-cap companies pose special risks, including possible illiquidity and greater price volatility than stocks 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. Bonds are subject to interest rate, inflation and credit risks. Investments in foreign securities (including ADRs) involve special risks, including foreign currency risk and the possibility of substantial volatility due to adverse political, economic or other developments. These risks are magnified for investments made in emerging markets. Investments in a certain industry or sector may pose additional risk due to lack of diversification and sector concentration. There are special risks associated with an investment in commodities, including market price fluctuations, regulatory changes, interest rate changes, credit risk, economic changes and the impact of adverse political or financial factors.

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

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

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

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