Capital Market Outlook

Chief Investment Office

The opinions are those of the author(s) and subject to change.

AUGUST 20, 2018

IN THIS ISSUE

MACRO STRATEGY

U.S. business and consumer sentiment remains very strong, showing little impact from the litany of negative commentary around tariffs and trade. The bearish view seems to simultaneously believe that the late-cycle economy is in danger of overheating while a trade war is going to cause a severe global slowdown. These are contradictory scenarios. It seems more likely, in our view, that trade frictions will help prevent overheating and extend the cycle while the shift to a new, fairer trade regime is negotiated for the long-term benefit of the world.

GLOBAL MARKET VIEW

The global capital markets seized in September 2008. The global economy and financial markets shuttered to a halt. The ensuing global recession was one for the record books, as is the subsequent and still-running bull market in U.S. equities. Over the past decade, the S&P 500 has not so much surmounted the classic "wall of worry" as much as scaled various peaks of angst and ambivalence. On the 10th anniversary of the Great Financial Crisis, we offer some key takeaways from the crisis. One stands out: Never bet against America.

THOUGHT OF THE WEEK

Over 90 percent of S&P 500 companies reported second-quarter earnings, with both revenues and earnings results better than expected. A robust profit cycle remains one of the cornerstones in our preference for equities and our positive view on U.S. equities versus non-U.S. developed market equities.

PORTFOLIO CONSIDERATIONS

We maintain our current preference for equity versus fixed income across our portfolios. In addition, we continue to overweight the U.S. relative to non-U.S. developed markets and also prefer emerging markets.

MACRO STRATEGY

ECONOMISTS' FORECASTS STILL CHASING GROWTH HIGHER DESPITE TRADE FRICTION

Chief Investment Office Macro Strategy Team

While the pundits obsess over the supposed negative consequences of a trade war, business and consumer confidence show few signs of any impact. Quite the contrary. In its August report on small business confidence, the National Federation of Independent Business (NFIB) noted that "*small business owners have never been so optimistic for so long. And despite challenges in finding qualified workers to fill a record number of job openings, they're taking advantage of this economy and pursuing growth.*"

Similarly, consumer confidence remains at levels typically associated with very strong economic growth. The Conference Board survey of consumer confidence rose again in July and continues to hover around levels not seen in almost two decades. Low unemployment, strong demand for labor and faster wage gains are buoying consumer spirits. The nabobs of negativism have latched onto the higher inflation rate and its corrosive effect on real wage gains. What they fail to mention is that, thanks to tax cuts and more labor demand, real disposable incomes have been growing at a solid 3% pace despite the higher inflation. Not surprisingly, consumer spending has also been trending around a 3% real growth rate, in line with income. Since consumers account for more than two-thirds of spending, this is a key reason why gross domestic product (GDP) growth has jumped from a 2% to a 3% trend.

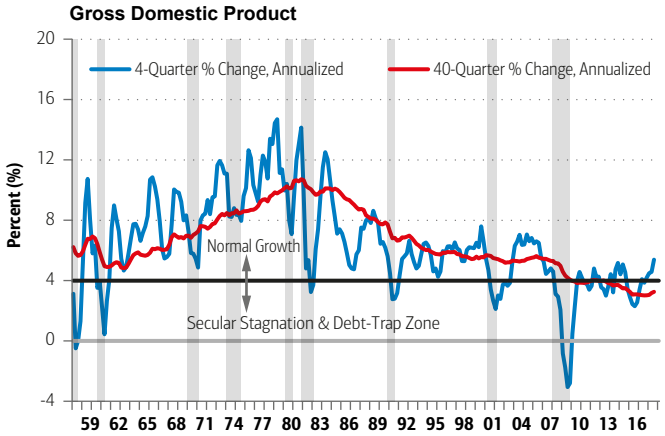
Data as of 8/20/2018 and subject to change.

The worrywarts are concerned that this strength represents a late-cycle peak rather than the beginning of more sustained growth and a healthier economy. Interestingly, retail stocks have been outperforming and show some of the strongest technical indicators among industry groups. This suggests a solid outlook for consumer spending. Credit and debit-card data from Bank of America show that July was another very strong month for consumer spending as did the latest retail sales data, which confirm the 3% spending trend is intact.

The strong consumer and a healthy revival in business investment, along with rising pricing power, help explain the extraordinary second-quarter business earnings results. Earnings per share for the S&P 500 are on track to show about a 25% gain compared to a year ago. Not surprisingly, a big chunk of that (about one third) is the result of the lower corporate tax rate.More encouraging for the longer-term outlook is the roughly 10% gain in corporate revenues. The key to breaking out of the secular stagnation trap that has plagued the U.S. economy since the 2007–2008 financial crisis is stronger growth in business revenues that in turn creates stronger growth in wages, profits and other nominal magnitudes.

The ultimate determinant of these cash-flow streams is the growth rate in nominal GDP. Evidence is building that nominal GDP is breaking out of the secular stagnation trap. As can be seen in Exhibit 1, the long-term trend (10-year average growth rate) in nominal GDP has been lower since its peak in the high inflation era of the 1970s. During the financial crisis, nominal GDP fell the most since the 1930s. A serious 1930s-style debt-deflation threat faced the world.

Exhibit 1: Nominal GDP Breaking Out of Secular Stagnation Rut.



Source: BEA/Haver Analytics. Data as of 7/27/2018.

Extraordinary monetary and fiscal policy action headed off the threat of depression. Central banks have committed to low positive rates of inflation and fought hard to avoid deflation. The U.S. has led the world in this effort and is consequently more advanced in its cyclical expansion and reflation effort. Recent fiscal actions and a more pro-business regulatory environment have pushed real growth over 3% with a 4.1% second quarter and Atlanta Fed GDPNow forecast for a third quarter in the 4% to 5% range.

Economists continue to doubt this secular shift and, as a result, continue to chase the stronger economy outlook by consistently revising their forecasts higher. For example, in the October 2017 survey, the Blue Chip Economic Indicators found that the consensus of economists was forecasting 2.4% real GDP growth and 4.3% nominal GDP growth for 2018. In its latest August survey, the Blue Chip consensus sees 2.9% real GDP growth and 5.2% nominal growth. The roughly one percentage point rise in the outlook for nominal growth is substantial. The outlook for 2019 nominal growth also moved up to a five-handle for the first time. This is evidence reflation is working.

As Exhibit 1 shows, the trend in nominal growth fell below 4% after the financial crisis for the first time since the 1930s. Beyond a certain point, the more debt or leverage there is in an economy, the harder it is to grow. This problem is exacerbated in a low nominal growth environment. When nominal GDP grows less than 4% over time, the revenues generated by businesses and the incomes households earn fall short of what's needed to service a big debt load. The economy becomes vulnerable to a debt trap. If nominal growth picks up to 6%, then revenues and incomes grow 50% faster and debtors have an easier time servicing pre-existing borrowings. That leaves more money for extra growth and GDP can rise more.

Nominal growth was over 7% at an annualized rate in the second quarter and well over 5% year over year, the fastest pace since before the financial crisis. This helps explain why corporate revenues were up roughly 10%. Higher nominal growth also helps explain the rise in business and consumer spirits despite all the negativity surrounding trade issues. During the secular stagnation period (2007–2016), the NFIB survey consistently found that more respondents expected lower nominal sales than rising sales. Prior to the 2007 financial crisis, expectations for falling sales were only associated with recessions and their immediate aftermath. Once an expansion took hold, businesses would begin to see rising sales. The current expansion was different in that the lower nominal environment kept sales expectations negative. That has changed over the past two years, and sales

expectations have normalized for the first time since before the financial crisis. In essence, the sales expansion cycle is just beginning.

The improved sales outlook in the new higher nominal growth environment is also evident in another part of the NFIB survey. Back in 2010, over 30% of businesses reported that poor sales were their "most important" problem, by far the highest percentage in the survey's 45-year history. In the latest survey only 7% reported poor sales were their "most important" problem, the least since 2000. Perhaps this is why retail stocks have shown such strong relative strength.

U.S. IN STRONG POSITION TO WEATHER TRADE CONFLICT

To the extent that trade friction slows global commerce during the process of fixing the inequities in current trade agreements, the economy will be less likely to overheat and require restrictive monetary tightening. Weaker commodity prices and a strong dollar already suggest less need for the Federal Reserve (Fed) to worry about inflation. As in the late 1990s serial emerging-market currency crises, the Fed has the option to pause or even reverse itself should financial conditions tighten excessively and slow growth unnecessarily.

As China, Europe and other trading partners drop their knee-jerk opposition to fixing trade asymmetries, the markets would likely reverse the recent negativity surrounding trade conflict. China is already using stimulative policy tools to stop the bleeding caused by the shift to a tougher U.S. trade stance. Europe is likely to back off plans to normalize monetary policy as its problems worsen.

The main point is simple. Trade conflict is starting to cause pain, especially outside the U.S. More stimulative policy responses and a more cooperative attitude from U.S. trading partners are likely to be the eventual result.

GLOBAL MARKET VIEW

FROM THE ABYSS AND BACK: SOME TAKEAWAYS ON THE TEN-YEAR ANNIVERSARY OF THE GLOBAL FINANCIAL CRISIS

Joseph P. Quinlan, Head of CIO Market Strategy
Lauren J. Sanfilippo, Vice President and Market Strategy Analyst

"If you're going through hell, keep going." Winston Churchill

Over the past decade, the world has done just what Churchill recommended—kept going.

Ten years after the global capital markets seized—or when the "music" famously stopped, pulverizing global capital markets and laying waste to one economy after another—the global economy is in the midst of one of the strongest cyclical upswings of this century. After slumping 5.3% in 2009, the steepest decline of the post-war era, global GDP is expected to top $87 trillion this year, a rise of 45% since 2009 (in nominal U.S. dollars). America's economy is now 40% larger than in late 2008, when the economy began to crater amid what then-Fed Chairman Ben Bernanke would call "one of the worst financial crises in global history, including the Great Depression."

September 2008 will always hold a special place in financial infamy. Following some early warning signals, it was the month when one of the greatest leveraged booms in economic history blew up; it was the month the global financial system and cross-border interbank lending froze; it was the month the U.S. government put Fannie Mae and Freddie Mac into conservatorship; and it was the month various vulnerable Wall Street firms ceased to exist, notably Lehman Brothers, which filed for bankruptcy on September 15, 2008. From that moment, the crisis was on.

And the pain and tumult wasn't contained to the U.S. It was global, battering British banks, Russian oil companies, German capital goods manufacturers, Icelandic financial firms, Irish households and various Asian institutions.

There were plenty of signs of stress before September 2008. U.S. housing prices peaked in 2006, for instance, and as the air came out of the housing boom, more and more subprime and unconventional loans became ticking time bombs. Between 1999 and 2003, 70% of new mortgages issued in the U.S. were through conventional government-sponsored enterprises (GSE) like Fannie Mae and Freddie Mac. By 2006, however, 70% of new mortgages were subprime or unconventional loans "destined for securitization not by the GSE, but as private label mortgage-backed securities," according to Adam Tooze in his new book, "Crashed."[1] While only a fraction of that amount was issued in 2001 ($100 billion), in 2005 and again in 2006, as Tooze notes, some $1 trillion in unconventional mortgages were issued.

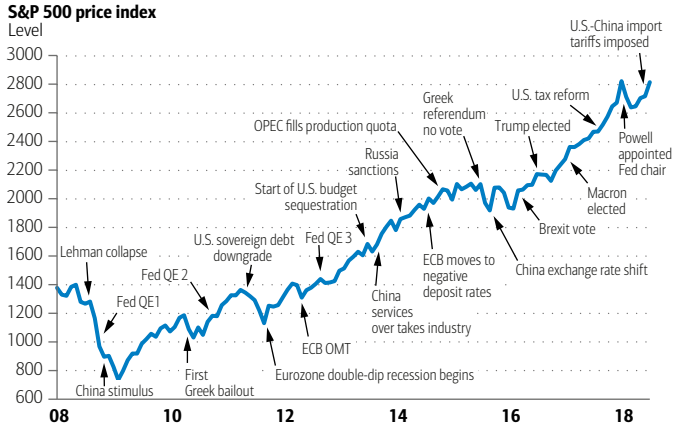
Securitization was supposed to spread the risk and prevent a systemic meltdown. But history proved otherwise. The slow-

[1] Tooze, A., 2018, *Crashed: How a Decade of Financial Crises Changed the World*, Penguin Books Ltd., London, 720 p.

moving financial crisis of 2006–07 became a full-blown train wreck in September 2008. The S&P 500 shed $5.1 trillion in value between September 12, 2008, the last day Lehman Brothers was open for business, and March 9, 2009, when the S&P 500 hit an intra-day low of 666. That equates to a gut-wrenching 54% drop.

Since then, however, the steady upward march of the S&P 500 has been nothing short of remarkable. The major index has not so much surmounted the classic Wall Street "wall of worry" as much as scaled various peaks of angst and ambivalence over the past decade (see Exhibit 2). By grinding ever higher, the current bull market becomes the longest in history this month, surpassing the October 1990 to March 2000 run.

Exhibit 2: S&P 500 Since 2008 with Key Events Along the Way.



Sources: Chief Investment Office, Bloomberg. Data as of July 2018.
Past performance is no guarantee of future results.

SOME KEY INFLECTION POINTS ALONG THE WAY

The road traveled by the S&P 500 has been anything but smooth. Global growth rebounded smartly in 2010 thanks to coordinated global monetary and fiscal efforts. Thereafter, growth became choppier (less synchronized) and the market performance more saw-toothed. The Eurozone floundered from 2011 to 2013, weighing on market sentiment. In August 2011, the U.S. was stripped of its top credit rating, sending shock waves around the world.

China stumbled in 2015, posting its weakest level of annual real growth (6.9%) in a quarter-century. Decelerating growth, not unexpectedly, dented investor confidence and sunk the global commodity complex.

In 2016, politics tugged on the financial markets. "Brexit," or the United Kingdom's vote to leave the European Union, stunned investors in June. More stunning: Donald Trump's successful run to the White House in November. Yet the improbable, but pro-business, Trump Administration gave the U.S. economy and equities a shot of adrenaline over 2017, elongating the winning streaks of the U.S. economy and U.S. equities. Thanks in part to sweeping U.S. tax reform, U.S. corporate profits surged by an estimated 24% in the first half of this year, providing more rocket fuel for equities, with the S&P 500, after posting 19.4% gains in 2017, rising another 5.4% through mid-August 2018 (price returns).

On balance, the bull market in equities has weathered many storms over the past decade and was greatly aided by ultra-easy policies of the world's central banks, led by the U.S. Federal Reserve. Liquidity is the oxygen of the financial markets, and to keep the oxygen flowing, the Fed has worked overtime since 2008, implementing some of the most unorthodox and unconventional monetary policies in both its history of the Federal Reserve, and the world's for that matter.

Through quantitative easing (QE)1, QE2 and QE3, the Fed soaked the world in U.S. dollar liquidity, helping to kick start economic growth at home and abroad. Similarly, it was the Fed's massive bond-purchasing program—adding $3.6 trillion onto the Fed's balance sheet—that incentivized investors to dump bonds for higher-yielding equities. How much credit goes to the Fed and super-low interest rates in explaining the bull market in U.S. equities remains unclear and open for debate. Indeed, the great monetary experiment isn't over yet; however, suffice it to say that an uber-aggressive Fed, by reactivating global cross-border lending in dollars, helped limit and contain the damage wrought by the financial crisis of a decade ago. The Fed's action, in fact, speaks to one of the lessons of September 2008.

THE MULTIPLE LESSONS OF THE CRISIS

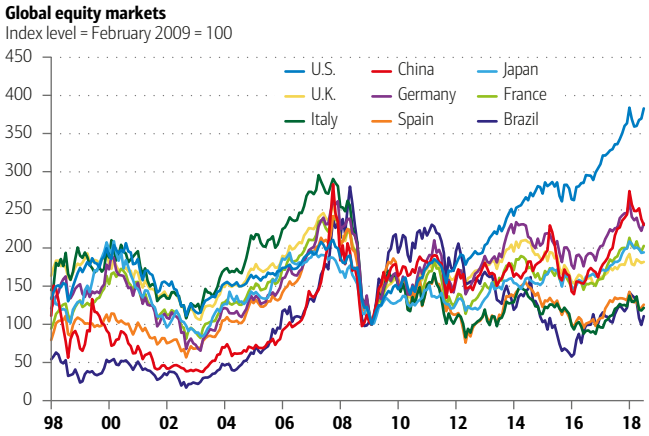
One lesson of the financial crisis is this: The bigger the problem, the faster the required policy response to contain the collateral damage. Scale and speed matter, and they emerged as the critical difference between the U.S. and Europe. The latter preferred more gradualists and uncoordinated policies in the aftermath of the crisis. Europe was slow to recapitalize its banks; slow to recognize the back-breaking debt levels of Greece, Portugal and Ireland; and slower still to stem the loss of investor confidence as Europe's debt crisis dragged on.

In the United States, in contrast, the monetary response was wrapped in terms like "big Bazookas" and "shock and awe," aggressive terms that spoke to the need to act swiftly and decisively.

Another lesson: The U.S. economy remains among the most dynamic and resilient in the world. While super-easy monetary policies have certainly lent support to U.S. equities over the past decade, so too has a U.S. private sector that was quick to slash costs, boost productivity, shed unnecessary assets and restructure debt. U.S. firms frantically reset in the aftermath of the crisis. Others reinvented themselves, with the U.S. energy sector embarking on a shale revolution that would double U.S. oil production in a matter of years. U.S. technology leaders continued to push on the frontiers of e-commerce and all things mobile, creating benefits for both consumers and industry tech leaders.

Against this backdrop, it's little wonder that nearly ten years on from the financial crisis of 2008, no equity market has provided greater equity returns for investors than the United States (see Exhibit 3). The numbers: in the nine and a half years between the end of February 2009 and the end of July 2018, the S&P 500 (USD, price terms) has returned 283%, versus 131% returns in China, 94% in Japan, 132% in Germany, 82% in the UK, 11% returns in Brazil, and 103% in France. So lesson two: never bet against the United States, to paraphrase a well-used phrase of Warren Buffet.

Exhibit 3: Best Performing Global Equity Markets.



Source: Bloomberg. Data as of July 2018. Price return in USD.
Past performance is no guarantee of future results.

A third lesson of the crisis is a bit more sobering and yet to play out: Money can't buy you love. After spending trillions of dollars in support of numerous industries and millions of households, many governments confront ornery constituents. How else to explain the recent surge in global populism and trade and investment protectionism. Brexit and Trump's triumph were shocking to the consensus because the global economy was healing. Things were normalizing—until they weren't. Or until populist candidates across Europe and the United States tapped into the wounds and scars of a population still smarting from the financial crisis of 2008.

Other lessons run the gamut and include the following: The global economy and financial markets are highly interconnected and interdependent; shocks that seem localized can be symptomatic of wider systemic problems; excessive levels of debt can lead to financial collapse if not supported by adequate underlying growth rates; risk can remain mispriced for long periods (the convergence of Eurozone debt spreads pre-crisis is a good example); investors can use new paradigm-type arguments for long periods (for example, "house prices will always rise") to justify market anomalies that prove incorrect in the end; stocks can be volatile in the short term but tend to outperform over the long run; and finally, diversification can help to insulate from unforeseen shocks.

Happy Anniversary.

Q2 CORPORATE EARNINGS RECAP — THE PROFIT TRAIN ACCELERATES AGAIN

Chief Investment Office Equity Strategy Team

S&P 500 Corporate earnings are coming in better than expected as we come to the end of the Q2 earnings season. The reported year-over-year (YoY) revenue and earnings growth of 10% and 25% came in higher than consensus expectations of 7-8% and 20% YoY, respectively. In addition, Q2 reported revenue growth of 10% was higher than the solid Q1 revenue growth of 8% and aligns with the beginning of this years' expectation for higher U.S. gross domestic product (GDP) growth. These results were broadly spread across all 11 sectors however Technology, Energy, Real Estate and Materials all reported double-digit revenue growth with Energy and Materials benefiting from higher commodity prices and volumes. Technology benefited from multiple secular tailwinds in areas such as internet, e-Commerce and cloud computing, while Industrial and Consumer Discretionary sectors reported approximately 9% revenue growth supported by improving consumer confidence.

Other factors that appear to be contributing to the strength of Q2 corporate earnings reported:

- increased stock buybacks
- rising capital expenditures (CapEx)
- solid profit margins
- impact from lower tax rates

Even if tax reform benefits are excluded from reported Q2 profits, the EPS growth is still on track for an impressive 17% YoY growth. The acceleration in the profit cycle is not simply due to the reduction in corporate taxes but rather a reflection of many other fundamentals.

Although concerns still exist such as rising wages that could depress margins and trade tariffs that could impact global growth and profits, we feel that the U.S. profit outlook remains solid. Consensus expectations are for double-digit Q3 and Q4 earnings growth which supports our earnings and equity outlook for 2018 year end. A robust profit cycle remains one of the cornerstones in our preference for equities and for our positive view on U.S. equities versus non-U.S. developed markets.

Exhibit 4: Q2 Earnings Results: YoY Growth of Cyclicals vs Non-Cyclicals.

Cyclical Breakdown:	Revenue Growth	EPS Growth
Technology	12.4%	31.5%
Cons Discretionary	9.7%	20.4%
Financials	5.9%	22.5%
Industrials	8.8%	17.4%
Energy	23.1%	129.8%
Materials	26.5%	51.8%
Non-Cyclical Breakdown:	**Revenue Growth**	**EPS Growth**
Utilities	0.1%	12.3%
Telecom	3.5%	21.9%
Cons Staples	4.5%	11.7%
REITs	12.1%	6.6%
Health Care	7.8%	15.3%

Source: Bloomberg. Data as of 8/14/2018.
Past performance is no guarantee of future results.

MARKETS IN REVIEW

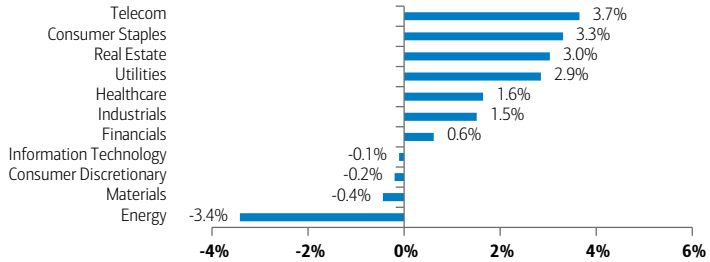
Equities

	Level	Total Return in USD (%) WTD	MTD	YTD
DJIA	25,669.32	1.5	1.2	5.4
NASDAQ	7,816.33	-0.2	2.0	14.0
S&P 500	2,850.13	0.7	1.4	7.9
S&P 400 Mid Cap	2,010.19	0.8	1.4	6.8
Russell 2000	1,692.95	0.4	1.4	11.1
MSCI World	2,138.11	0.0	-0.6	3.0
MSCI EAFE	1,927.78	-1.1	-3.7	-4.0
MSCI Emerging Mkts	1,022.94	-3.7	-5.8	-10.2

Fixed Income[1]

	Yield (%)	Total Return in USD (%) WTD	MTD	YTD
Corporate & Government	3.25	0.0	0.5	-1.3
Treasury Bills	2.08	0.0	0.1	1.0
Treasury Notes and Bonds	2.76	0.0	0.6	-0.9
Agencies	2.84	0.0	0.4	-0.3
Municipals	2.66	0.1	0.2	0.2
U.S. Investment Grade	3.30	0.0	0.5	-1.1
International	3.94	0.1	0.5	-2.0
High Yield	6.31	0.0	0.3	1.6

S&P 500 Sector Returns (For the week ending 8/17/18)



Commodities & Currencies

	Level	Total Return in USD (%) WTD	MTD	YTD
Bloomberg Commodity	172.05	-1.0	-2.3	-4.4
WTI Crude $/Barrel[2]	65.91	-2.5	-4.1	9.1
Gold Spot $/Ounce[2]	1,185.05	-2.2	-3.2	-9.1

Level	Current	Prior Week End	Prior Month End	2017 Year End
EUR/USD	1.14	1.14	1.17	1.20
USD/JPY	110.50	110.83	111.86	112.69

Source: Bloomberg, Factset. [1] Bloomberg Barclays Indices. [2] Spot price returns. All data as of the 8/17/18 close. **Past performance is no guarantee of future results**.

Asset Class Weightings (as of 7/11/18)

	Negative	Neutral	Positive
Global Equities	• • • ● •		
U.S. Large Cap Growth	• • • ● •		
U.S. Large Cap Value	• • • ● •		
U.S. Small Cap Growth	• • • ● •		
U.S. Small Cap Value	• • ● • •		
International Developed	• • ● • •		
Emerging Markets	• • • ● •		
Global Fixed Income	• ● • • •		
U.S. Governments	• ● • • •		
U.S. Mortgages	• ● • • •		
U.S. Corporates	• • ● • •		
High Yield	• ● • • •		
U.S. IG Tax Exempt	• • ● • •		
U.S. HY Tax Exempt	• ● • • •		
International Fixed Income	● • • • •		
Alternative Investments*	see CIO Asset Class Views		
Hedge Funds			
Private Equity			
Real Assets			
Cash	We are neutral		

* Many products that pursue Alternative Investment strategies, specifically Private Equity and Hedge Funds, are available only to pre-qualified clients.

Economic and Market Forecasts (as of 8/17/18)

	Q4 2017A	Q1 2018A	Q2 2018A	Q3 2018E	2016A	2017A	2018E
Real global GDP (% y/y annualized)	-	-	-	-	3.1	3.8	3.9
Real U.S. GDP (% q/q annualized)	2.3	2.2	4.1	3.4	1.6	2.2	2.9
CPI inflation (% y/y)	2.1	2.3	2.6	2.6	1.3	2.1	2.4
Core CPI inflation (% y/y)	1.7	1.9	2.2	2.3	2.2	1.8	2.2
Unemployment rate(%)	4.1	4.1	3.9	3.8	4.9	4.4	3.8
Fed funds rate, end period (%)	1.38	1.63	1.88	2.13	0.63	1.38	2.38
10-year Treasury, end period (%)	2.41	2.74	2.86	3.15	2.44	2.41	3.25
S&P 500, end period	2674	2641	2718	-	2239	2674	3000
S&P earnings ($/share)	34	37	40*	40	118	132	159
U.S. dollar/euro, end period	1.20	1.23	1.17	1.12	1.05	1.20	1.14
Japanese yen/U.S. dollar, end period	113	106	111	116	117	113	112
Oil ($/barrel), end period	60	65	74	62	54	60	63

Figures represent economic and market data and forecasts provided by BofA Merrill Lynch Global Research.
Past performance is no guarantee of future results. There can be no assurance that the forecasts will be achieved.
A=Actual
E=Estimate
* Estimate for Q2 2018
Sources: BofA Merrill Lynch Global Research; Global Wealth & Investment Management Investment Strategy Committee.

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 dollars.

Dow Jones Industrial Average is a price-weighted measure of 30 U.S. blue-chip U.S. companies. The index covers all industries except transportation and utilities.

NASDAQ Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.

S&P 400 Mid Cap Index is representative of 400 stocks in the mid-range sector of the domestic stock market, representing all major industries.

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.

S&P Small Cap 600 measures the small-cap segment of the U.S. equity market. The index is designed to track companies that meet specific inclusion criteria to ensure that they are liquid and financially viable.

MSCI EAFE (Europe, Australasia, and Far East) Index comprises 21 MSCI country indices, representing the Developed Markets outside of North America.

MSCI Emerging Markets Index captures large and mid cap representation across 23 Emerging Markets (EM) countries. With 832 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

MSCI World Index is a broad global equity benchmark that represents large and mid-cap equity performance across 23 developed markets countries. It covers approximately 85% of the free float-adjusted market capitalization in each country and does not offer exposure to emerging markets.

IMPORTANT DISCLOSURES

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Investing involves risk, including the possible loss of principal. No investment program is risk-free, and a systematic investing plan does not ensure a profit or protect against a loss in declining markets. Any investment plan should be subject to periodic review for changes in your individual circumstances, including changes in market conditions and your financial ability to continue purchases.

Economic or financial forecasts are inherently limited and should not be relied on as indicators of future investment performance.

It is not possible to invest directly in an index.

Asset allocation, diversification, dollar cost averaging and rebalancing do not ensure a profit or protect against loss in declining markets. Dollar cost averaging involves continual investment in securities regardless of fluctuating price levels; you should consider your willingness to continue purchasing during periods of high or low price levels.

Past performance is no guarantee of future results.

Investing in fixed-income securities may involve certain risks, including the credit quality of individual issuers, possible prepayments, market or economic developments and yields and share price fluctuations due to changes in interest rates. When interest rates go up, bond prices typically drop, and vice versa. Income from investing in municipal bonds is generally exempt from Federal and state taxes for residents of the issuing state. While the interest income is tax-exempt, any capital gains distributed are taxable to the investor. Income for some investors may be subject to the Federal Alternative Minimum Tax (AMT).

Investments focused in a certain industry may pose additional risks due to lack of diversification, industry volatility, economic turmoil, susceptibility to economic, political or regulatory risks and other sector concentration risks.

Investments in real estate securities can be subject to fluctuations in the value of the underlying properties, the effect of economic conditions on real estate values, changes in interest rates, and risks related to renting properties, such as rental defaults.

Nonfinancial assets, such as closely-held businesses, real estate, 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 suitable for 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.

Investments in tangible assets are highly volatile and are speculative. 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 such as private equity 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.

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The investments discussed have varying degrees of risk. Some of the risks involved with equities 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. Bonds are subject to interest rate, inflation and credit risks. Investments in high-yield bonds may be subject to greater market fluctuations and risk of loss of income and principal than securities in higher rated categories. Investments in foreign securities involve special risks, including foreign currency risk and the possibility of substantial volatility due to adverse political, economic or other developments. These risks are magnified for investments made in emerging markets. Investments in a certain industry or sector may pose additional risk due to lack of diversification and sector concentration. Investments in real estate securities can be subject to fluctuations in the value of the underlying properties, the effect of economic conditions on real estate values, changes in interest rates, and risk related to renting properties, such as rental defaults. There are special risks associated with an investment in commodities, including market price fluctuations, regulatory changes, interest rate changes, credit risk, economic changes and the impact of adverse political or financial factors. Income from investing in municipal bonds is generally exempt from federal and state taxes for residents of the issuing state. While the interest income is tax exempt, any capital gains distributed are taxable to the investor. Income for some investors may be subject to the federal alternative minimum tax (AMT).

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