Capital Market Outlook

Chief Investment Office

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MACRO STRATEGY

The robust January employment report surprised forecasters with a big increase in the labor force participation rate (LFPR) in response to increased supply-side incentives from lower tax rates and deregulation. Despite accelerating wage growth, inflation remains subdued, forcing the Federal Open Market Committee (FOMC) to halt its aggressive tightening campaign.

GLOBAL MARKET VIEW

Emerging markets (EM) are leading the rally in global equities this year, having troughed ahead of the U.S., Europe and Japan in late October. Several factors have made conditions more favorable over the past few months, and a breakthrough in the U.S.-China trade dispute over the coming weeks would likely give further support to emerging equity valuations, particularly in the Asia-Pacific region.

THOUGHT OF THE WEEK

Despite a lowered bar for fourth-quarter earnings estimates for the S&P 500, companies have struggled to clear it. However, investors have generally signaled relief. Bolstering optimism has been commentary from health care and consumer firms with operations in China, which have noted resilience, suggesting strength in the country's emerging new economic growth drivers.

PORTFOLIO CONSIDERATIONS

We continue to emphasize a higher-quality portfolio positioning overall; in terms of asset allocation this is represented by higher U.S. and large capitalization exposure than our strategic allocations, and higher-quality fixed income relative to high yield and emerging market debt.

MACRO STRATEGY

FED GIVES GROWTH A CHANCE

Chief Investment Office Macro Strategy Team

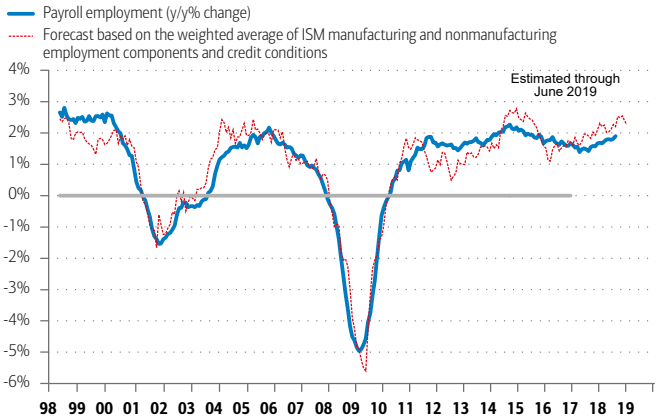
The FOMC has acknowledged the need for a pause in its tightening campaign given waning momentum in U.S. and global growth and inflation indicators, high financial-market volatility and elevated economic policy uncertainty. The restraining effect of its cumulative rate hikes to date has become increasingly clear and is likely to continue to reverberate throughout the U.S. and global economy, as is typical following a sharp flattening of the yield curve. The economic slowdown appears particularly pronounced overseas. Recent data show a sharp deceleration in global trade volume growth through the end of 2018 and broad-based declines in manufacturing surveys abroad through January, consistent with further softening in global industrial production in the first half. With growth-inhibiting economic policies and political disarray, the euro bloc is again flirting with recession. Weakening leading indicators of growth suggest no improvement in its downward growth momentum this year, making the International Monetary Fund's 1.6% real gross domestic product (GDP) growth forecast for the eurozone this year appear too high. This suggests that its small recent revision to 2019 global growth from 3.7% to 3.5% (the average since 1980) may also prove optimistic.

Its forecast for 2.5% U.S. GDP growth this year appears more realistic. We believe that, while on a decelerating path, U.S. growth is likely to remain a bright spot despite meaningful restraint from the Federal Reserve (Fed) and headwinds coming from overseas. Aside from strong fundamentals and a softening dollar, still-stimulative effects from government spending and tax cuts into 2020 should also help the economy weather the shock from the excessive Fed tightening to date, extending the expansion into its tenth year. Recent data have been mixed, supporting this view. For example, the Conference Board Leading Economic Index significantly declined in the

Data as of 02/11/2019 and subject to change.

fourth quarter of 2018, pointing to slowing growth in the first half; consumer expectations for January dropped sharply, signaling moderating consumer spending; and housing-related data have remained soft. On the other hand, credit growth is accelerating, employment has continued to surprise to the upside, and leading indicators of employment (Exhibit 1) and wage growth are still robust, while inflation remains subdued. In sharp contrast, with more deterioration in manufacturing surveys overseas, the U.S. Institute for Supply Management (ISM) index regained strength in January, with a jump back into strong growth territory for new orders and production particularly encouraging for the outlook and supporting our view of a softer and quicker downside adjustment in manufacturing activity compared to the previous two ISM minicycles of this expansion (2011–2012 and 2014–2016).

Exhibit 1: Employment Growth Likely to Remain Strong This Year.

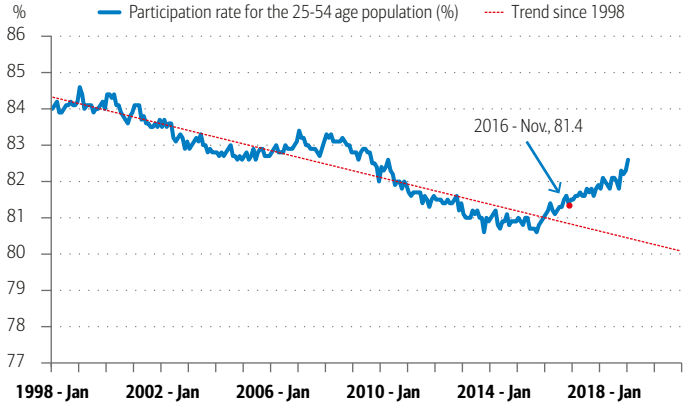


Sources: Bureau of Labor Statistics/Haver Analytics
Data as of February 5, 2019.

In this context, labor demand should remain strong but likely moderate somewhat as the year progresses as a result of slower growth as well as diminishing labor-market slack. Indeed, worries about sufficient available labor remain front and center, and have played an important role in the Fed's decision to tighten as much as it has to date.

The length of the expansion remains critically dependent on attracting more labor from the sidelines. So far, the increase in the LFPR has allowed a robust pickup in GDP growth and employment even as the population continues to age and to grow at a slowing pace. As we had expected, a growing economy, tightening labor market, rising real wages, and tax cuts have reached a critical mass to meaningfully boost participation rates, especially for the prime-age 25 to 54 year-old cohort (Exhibit 2). As a result, the prime-age female participation rate has surged over the past year to a decade high in January. Over the past three years, it has retraced 75% of about a four-point drop from its 2000 peak. This strong performance shows that work incentives matter and boosts the probability of additional gains in male participation as well. While up substantially in January, the participation rate for men 25 to 54 has lagged during this expansion: It has recuperated just about half of its decline from pre-recession levels. We believe closing that gap would allow the economy to keep creating about 200,000 jobs per month through the end of 2020 with the unemployment rate staying around 3.8%. At current participation rates for these cohorts, it would take only about 165,000 jobs per month on average to bring down the unemployment rate to 3.5% by the end of 2020.

Exhibit 2: Led By Women, The LFPR For The Prime-age 24 to 54 Cohort Has Rebounded Significantly Over The Past Two Years.



Sources: Bureau of Labor Statistics/Haver Analytics
Data as of February 5, 2019

We continue to believe that there's still meaningful room to boost employment without as big a drop in the unemployment rate as feared by those, including the Fed, who have perceived declining unemployment as a risk to growth due to its presumed impact on inflation (i.e., the Philips curve theory linking low unemployment to high inflation). That said, even if the participation rate for 24 to 54 year old males returns to its 1990s level, the overall participation rate would not likely increase much above 63.5% because of the aging population. While baby boomers are likely to work longer than their parents did, continuing to boost the participation rate of the elderly, their aging is having a large downward effect on the LFPR because people over 65 have much lower participation compared to that of the 55 to 64 and 25 to 54 cohorts: 20% versus 65% and 82%, respectively. This is the main reason why the overall LFPR has declined from 66% to 63.2% over the past decade. With participation for 16 to 24 year olds close to a 50 year low level and unlikely to increase much because of extended education and changing social norms, downside pressure on the overall participation rate should

persist, increasing the need to boost productivity to keep economic growth at a healthy pace.

Fortunately, the rising wage pressure to date has been accompanied by faster productivity growth, suppressing upward pressure on inflation. Supply-side reforms seem to be working to boost real wages without the inflationary effects the Fed was expecting. What's more, productivity has substantially more room to accelerate from its "secular-stagnation" lowpoint. In our view, the anemic, stop-go pattern of economic growth during the earlier years of this expansion has played a large role in keeping productivity from reaching potential as labor has been constantly underused in the absence of sustained strong growth. Potential for productivity to increase more as well as for prime-age male participation to recuperate more of its declines of the past twenty years suggest the economy has not reached its limits to growth yet. Subdued recent inflation with low unemployment and still-strong jobs growth are the proof in the pudding. So we salute the Fed's new policy of giving growth a chance.

GLOBAL MARKET VIEW

EMERGING MARKETS' STRONG START TO THE YEAR AND POTENTIAL UPSIDE FOR EMERGING ASIA

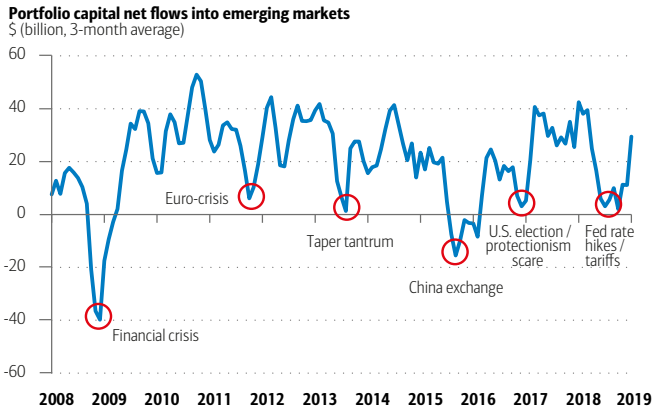
Ehiwario Efeyini, Senior Vice President and Senior Market Strategy Analyst

Emerging markets are leading the rally in global equities this year, having troughed ahead of the U.S., Europe and Japan in late October. Several factors have made conditions more favorable over the past few months, and a breakthrough in the U.S.-China trade dispute over the coming weeks would likely give further support to emerging equity valuations, particularly in the Asia-Pacific region.

So what has changed over recent months? Moderation in the trade-weighted dollar from its December peak has reduced the burden of foreign currency debt for EM corporate and government borrowers. The recent fall in oil prices has improved current accounts for net oil importers, which are now close to 90% of EM equity market capitalization. And perhaps most important has been the shift in expectations for Fed interest rate hikes. Credit spreads in both sovereign and corporate EM debt had continued to widen even after the October equity market bottom. But both have narrowed sharply since the day the Fed indicated that it would be listening to markets, and equities have delivered most of their positive return from the recent lows since this point. Deficit countries that come under the most pressure when rates rise, such as Turkey, South Africa, Pakistan and Argentina, were by far the worst performers of last year according to Bloomberg but have been among the top performers of 2019 so far on expectations for a Fed pause.

The sum total has been a marked improvement in investor appetite for EM assets. October was the last month of net portfolio outflows from the aggregate EM capital account, and total net inflows on a three-month average basis have since risen back to late-2017 levels at close to $30 billion in January. Similar episodes of investor retrenchment during the current cycle have been followed by 1- to 2-year periods of sustained recovery in capital inflows (Exhibit 3).

Exhibit 3: Investor Flows Into Emerging Markets Recovering From Weakness of 2018.



Source: Institute of International Finance.
Data as of January 2019.

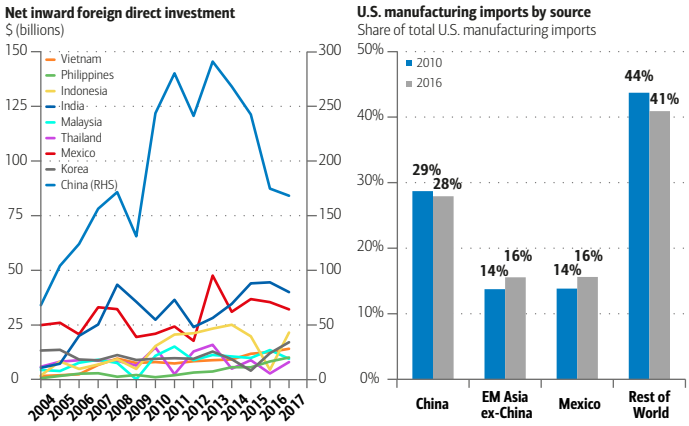
Next to the deficit countries, the second-worst performing group last year were the north Asian markets at the center of the U.S.-China trade conflict, particularly China itself and Korea. As we have shown in the past (see Capital Market Outlook 7.2.2018: *Trade Fears Resurface – Is Emerging Asia at Risk?*), Korea and Taiwan are the most exposed to China's technology-related exports to the U.S., but the size of their direct economic exposure is relatively low at just 1% to 2% of GDP. There will however be a broader impact on the north Asia region from other sources as a result of the rising trade frictions. Equity market exposure to the technology sector is much larger, particularly for Korea and Taiwan, where information technology hardware-producing industries respectively account for 40% and 58% of market capitalization. Company reports from manufacturers operating in China state that uncertainty over the future tariff regime has dampened their capital

expenditure plans. And global multinational exporters have also identified tariffs as a major reason for recent moves to relocate production capacity away from China.

This last trend was, however, already underway before the change of U.S. administration and increase in concern over protectionism. Trade and investment patterns over the course of the current cycle had already shown a downward shift in foreign direct investment (FDI) into China, due in part to rising labor costs and tightening environmental standards. Between 2010 and 2016, net inward FDI for China fell from $244 billion to $175 billion, while the share of U.S. manufacturing imports produced in China slipped from 28.7% to 27.9%. The trade dispute is likely to reinforce this shift, especially if the widely-expected Trump-Xi resolution over the coming weeks leaves room for frictions to re-emerge in future years.

But among the economies that could benefit most from any further supply chain relocation from mainland China will nonetheless be others within the emerging world. Global manufacturers have highlighted a range of markets as preferred destinations, including the lower-income fast-growers in Asia of Vietnam, Philippines, India and Indonesia; middle-income Mexico; and, owing to their well-developed infrastructure and established links to existing Chinese supply chains, even the higher-income north Asian markets of Japan, Taiwan and Korea. Indeed over recent years, non-China emerging Asia and Mexico have seen a rise in both net inward FDI and the share of U.S. manufacturing imports for which they account, even as both measures have declined in China (Exhibit 4).

Exhibit 4: FDI And Manufacturing Exports For China And Other Major Emerging Economies.



Sources: World Bank, Census Bureau, CEIC, Bloomberg.
Data as of 2017.

Industrial activity in manufacturing, construction and infrastructure was the biggest driver of China's double-digit growth in the pre-crisis cycle, and it has been the biggest contributor to the growth slowdown in China since 2010 (Exhibit 5). This is a trend that is expected to persist over the coming years. Aside from any tariff-related weakness in mainland capital expenditure, China's mature transportation, power and communications networks and built-up stock of commercial and residential real estate mean that investment can no longer be the main driver of economic activity. Indeed the central government is actively restricting funding for property developers and local government infrastructure projects in order to prevent over-investment and to slow the pace of debt growth. This in our view will mean further deceleration in economic activity over the near term, but crucially a more sustainable level of investment that prevents a hard landing in the future. As for trade itself, this was a negative contributor to China's growth in 2018, but has in any case become a minor portion of the overall growth mix.

Exhibit 5: China Real Economic Output Growth By Major Component.

Source: National Bureau of Statistics.
Data as of 2018.

The most important component of Chinese activity today is final consumption of goods and services, which was responsible for 76% of total growth in China last year (up from 45% in 2010). As well as lower investment, higher consumption is also typical for maturing economies with rising levels of per capita income, and this is a further shift for China that we believe should be beneficial for other markets within emerging Asia over the coming years. China remains a net goods exporter to the main emerging economies in southeast Asia (Indonesia, Malaysia, Thailand, Philippines and Vietnam) and India as a group, but its surplus with these countries has begun to turn down over the past few years as consumption and imports have risen. Alongside the nascent shift in manufacturing output capacity into the rest of emerging Asia, a China that is led increasingly by consumption from a larger nominal base should help to sustain improvement in the trade balance and boost potential growth for the rest of

the region. And the fourth-quarter policy stimulus from Beijing designed to promote spending (including cuts to personal income taxes and incentives for firms to retain workers) should help provide additional support in the nearer term.

The biggest near-term boost for the regional Asian equity market and therefore EM overall would of course be a U.S.-China deal ahead of the March deadline. Asia has become the dominant region in terms of size within the emerging market equity index, and the 25% of market capitalization held outside the region across 15 countries in Latin America, Europe, Africa and the Middle East is now very much the tail of the asset class. China and Korea, which alone account for 45% of total EM equity market capitalization, were two of the worst-performing markets in 2018 but have so far been among the best performers in all of Asia this year. And with both still below their average multiples across price-to-earnings and price-to-book ratios over the 10-years back to the start of the cycle, the Asia region and the emerging markets index should have room to move higher.

THOUGHT OF THE WEEK

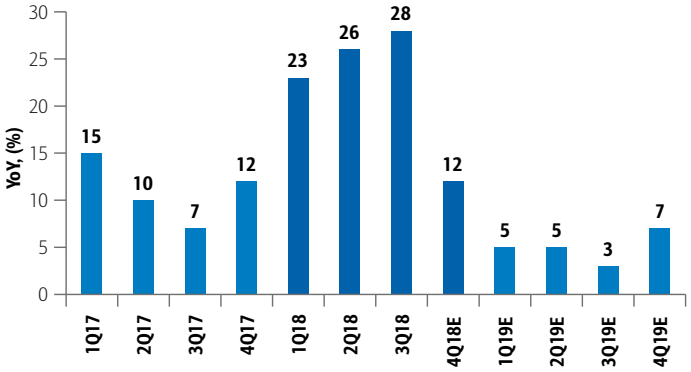
MID-SEASON SNAPSHOT: EARNINGS STRUGGLE TO CLEAR A LOWERED BAR

Rodrigo C. Serrano, CFA®, Director and Investment Strategist

On aggregate, during the S&P 500's tumble from October to December last year, analysts were cutting fourth-quarter earnings forecasts at a rate not seen in more than a year[i]. According to FactSet Research Systems, the estimated median earnings-per-share (EPS) for the index shrank nearly 4%, dragging the expected year-over-year (YoY) growth rate from 17.1% to 12.6% by year-end. The bar for companies to beat had been lowered.

Fast forward to the week ending February 1, generally marking the midway point of the fourth-quarter earnings season, with 66% of S&P 500 companies having announced results. According to BofA Merrill Lynch (BofAML) Global Research, implied YoY growth of the consensus median EPS estimate stood at 12.1%, just below year-end expectations and a downshift from third-quarter growth of 28.0% (see Exhibit 6). Beneath the topline result, health care, industrials, and tech companies surpassed estimates on aggregate. Meanwhile sales, also slightly underperforming expectations set at the beginning of the year, were on pace to grow 5.5% YoY.

Exhibit 6: After A Torrid Few Quarters, S&P 500 Earnings Growth Is Expected To Slow, Ending 2018.



E = Estimate
Source: BofAML Global Research
Data as of January 28, 2019.
Performance would differ if a different time period was displayed. Short-term performance shown to illustrate more recent trend.

Despite struggling to clear a lowered bar, investors have generally signaled relief by the results. Companies that beat estimates generally outperformed the broader index by 2.5 percentage points (ppts) the next day according to BofAML Global Research, which if sustained would mark the biggest reward since the third quarter of 2015. Meanwhile, companies that missed were generally penalized less, lagging by 1.6ppts, versus an average 2.4ppts ding. A factor behind the relief may have been commentary from companies exposed to China, which didn't appear to be all bad. While reports from tech, industrials, and materials firms were generally lackluster, those in the health care and consumer sectors reported resilience, an encouraging sign suggesting China's continued structural economic transition to new-growth drivers of services and consumption remains on track.

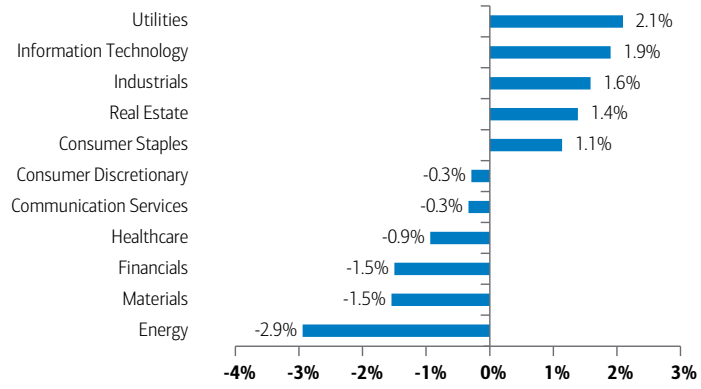
[i] Since the 3rd quarter of 2017.

MARKETS IN REVIEW

Equities

	Current	Total Return in USD (%) WTD	MTD	YTD
DJIA	25,106.33	0.3	0.6	7.9
NASDAQ	7,298.20	0.5	0.3	10.1
S&P 500	2,707.88	0.1	0.2	8.2
S&P 400 Mid Cap	1,852.45	0.6	0.9	11.5
Russell 2000	1,506.39	0.3	0.5	11.8
MSCI World	2,020.53	-0.4	-0.4	7.4
MSCI EAFE	1,804.73	-1.4	-1.4	5.0
MSCI Emerging Markets	1,036.03	-1.3	-1.3	7.3

S&P 500 Sector Returns



Fixed Income[1]

	Current	Total Return in USD (%) WTD	MTD	YTD
Corporate & Government	3.09	0.4	0.2	1.4
Agencies	2.70	0.3	0.1	0.5
Municipals	2.55	0.3	0.3	1.0
U.S. Investment Grade Credit	3.16	0.4	0.1	1.2
International	3.89	0.5	0.3	2.7
High Yield	6.89	0.2	0.3	4.8

	Current	Prior Week End	Prior Month End	2017 Year End
90 Day Yield	2.35	2.36	2.35	2.36
2 Year Yield	2.47	2.51	2.46	2.49
10 Year Yield	2.64	2.69	2.63	2.69
30 Year Yield	2.98	3.03	3.00	3.02

Commodities & Currencies

Commodities	Current	Total Return in USD (%) WTD	MTD	YTD
Bloomberg Commodity	167.13	-1.1	-0.8	4.6
WTI Crude $/Barrel[2]	52.72	-4.6	-2.0	16.1
Gold Spot $/Ounce[2]	1,314.50	-0.2	-0.5	2.5

Currencies	Current	Prior Week End	Prior Month End	2017 Year End
EUR/USD	1.13	1.15	1.14	1.15
USD/JPY	109.73	109.50	108.89	109.69
USD/CNH	6.78	6.76	6.71	6.87

Source: Bloomberg, Factset.Total Returns from the period of 02/04/19 to 02/08/19. Bloomberg Barclays Indices.[1] Spot price returns.[2] All data as of the 02/08/19 close.
Past performance is no guarantee of future results.

Asset Class Weightings (as of 01/08/19)

	Under-weight		Neutral		Over-weight
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. Investment Grade Tax Exempt	•	•	●	•	•
U.S. High Yield Tax Exempt	•	●	•	•	•
International Fixed Income	●	•	•	•	•
Alternative Investments*	see CIO Asset Class Views				
Hedge Funds					
Private Equity					
Real Assets					
Cash					

* 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 02/11/19)

	Q1 2018A	Q2 2018A	Q3 2018A	Q4 2018A	2018A	2019E
Real global GDP (% y/y annualized)	-	-	-	-	3.7*	3.4
Real U.S. GDP (% q/q annualized)	2.2	4.2	3.4	2.8*	2.9*	2.5
CPI inflation (% y/y)	2.2	2.7	2.6	2.2	2.4	1.6
Core CPI inflation (% y/y)	1.9	2.2	2.2	2.2	2.1	2.3
Unemployment rate(%)	4.1	3.9	3.8	3.9	3.9	3.7
Fed funds rate, end period (%)	1.63	1.88	2.13	2.38	2.38	2.88
10-year Treasury, end period (%)	2.74	2.86	3.06	2.68	2.68	3.00
S&P 500, end period	2641	2718	2914	2507	2507	2900
S&P earnings ($/share)	38	41	43	41*	163*	170
U.S. dollar/euro, end period	1.23	1.17	1.16	1.15	1.15	1.25
Japanese yen/U.S. dollar, end period	106	111	114	110	110	101
Oil ($/barrel, avg. of period, WTI**)	63	68	70	59	64	56

The forecasts in the table above are the base line view from BofAML Global Research team. 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.

Past performance is no guarantee of future results. 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. S&P 500 represents a fair value estimate for 2019. **West Texas Intermediate/
Sources: BofA Merrill Lynch Global Research; GWIM ISC as of February 11, 2019.

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.

ISM Manufacturing Index is based on surveys of more than 300 manufacturing firms by the Institute for Supply Management (ISM). The ISM Manufacturing Index monitors employment, production, inventories, new orders and supplier deliveries.

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.

Conference Board Leading Economic Index is an American economic leading indicator intended to forecast future economic activity.

Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging market countries.

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.

Stocks of small-cap companies pose special risks, including possible illiquidity and greater price volatility than stocks of larger, more established companies.

Companies may reduce or eliminate dividend payment to shareholders. Historically, dividends make up a large percentage of stocks' total return.

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.

Neither Merrill Lynch, U.S. Trust nor any of their affiliates or advisors provide legal, tax or accounting advice. You should consult your legal and/or tax advisors before making any financial decisions.

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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