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CHIEF INVESTMENT OFFICE

Capital Market Outlook

January 9, 2023

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

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Macro Strategy—*The State of the U.S. Consumer:* A deteriorating labor market, dwindling excess savings, tight financial conditions and still-high food and energy prices will test the resilience of U.S. consumers in 2023, in our view. We believe consumers will continue to trade down and defer discretionary spending as economic data deteriorates. We are most concerned about the downside risk to the profits cycle and what that means for the labor market, which along with excess savings has been a pillar of resilience for U.S. households.

We would maintain defensive positioning in Consumer Staples for now. We still see some signs of pent-up demand for housing and autos and will look for more attractive cyclical entry points for Consumer Discretionary stocks when the economic data are deteriorating more rapidly, consistent with our overall view on risk-assets.

Market View—*Janet Yellen Is Right: Ending the War Is Key to the Year Ahead:* We remain overweight Energy and Commodities, and continue to favor Large-cap U.S. defense contractors. While investor sentiment has improved somewhat on the expectations that U.S. inflation has peaked and the Federal Reserve (Fed) tightening cycle is in the later innings, one key outlier to watch is the military conflict in Ukraine and the myriad ways the conflict affects asset prices in the U.S. and abroad. As the year begins, the conflict not only grinds on but is also widening/escalating between Russia and the U.S.

Hanging in the balance is the global economic outlook for 2023 and global earnings expectations. We remain defensive in terms of portfolio positioning.

Thought of the Week—*2022's Bright Spots Could Continue To Shine:* 2022 was a historically challenging year for investors, as global markets struggled amid surging inflation and interest rates. However, we believe there were a few bright spots, including Energy, defensive sectors, Value and dividend payors, and Commodities.

In our view, these segments of the market that worked relatively well in 2022 could continue to see tailwinds in early 2023.

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Jonathan W. Kozy
Managing Director and Senior Macro Strategy Analyst

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

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Director and Senior Investment Strategy Analyst

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Emily Avioli
Assistant Vice President and Investment Strategist

MARKETS IN REVIEW ▶

Data as of 1/9/2023, and subject to change

Portfolio Considerations

We favor bonds in the first half of 2023 and stocks in the second half. We remain neutral Equities with a preference for U.S. Equities relative to International, and maintain our slight overweight to high quality Fixed Income. We continue to believe that market volatility will be elevated for most asset classes and expect the "grind-it-out" environment to persist for markets over the next several months before stabilizing later in 2023. Portfolio diversification, including Alternative Investments* for qualified investors, can help mitigate volatility and allow for participation in a renewed bull market.

*Many products that pursue Alternative Investment strategies are available only to qualified investors.

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MACRO STRATEGY

The State of the U.S. Consumer

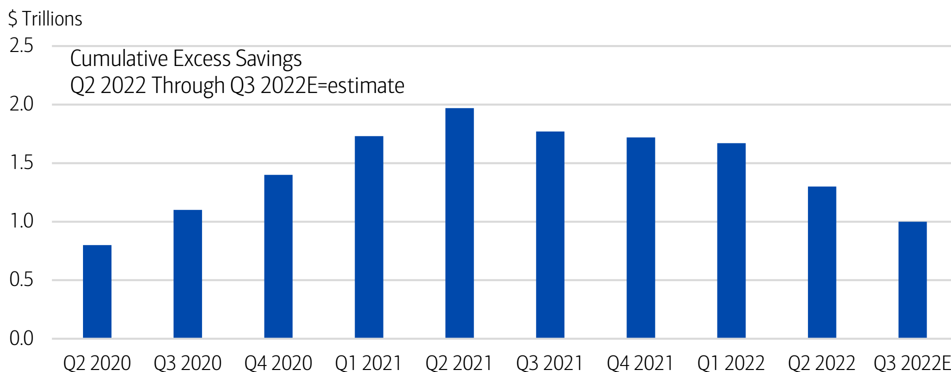
Jonathan W. Kozy, Managing Director and Senior Macro Strategy Analyst

In classic late-cycle fashion, U.S. consumers are working down cumulative excess savings and increasingly turning to debt to keep real consumer spending growth in the black. The good news is U.S. households have been deleveraging for 15 years.[1] We are most concerned about the downside risk to the profits cycle and what that means for the labor market, which along with excess savings has been a pillar of resilience for U.S. households. For investors, we would maintain defensive positioning in Consumer Staples for now. In our view, Consumer Discretionary Equities will look relatively more attractive when the economic data are deteriorating more rapidly and adding to pent-up demand. This is consistent with our overall view on risk assets.

Cumulative excess savings from the pandemic is fading. One of the more reliable leading indicators of consumer spending is liquid savings, and U.S. consumers accumulated a ton of it during the pandemic. Over the last few quarters, more than half of every new dollar of consumer spending came from a drawdown in savings.

How much is left? Using the most recent run-down rate, less than a year of cumulative excess savings is left. Using a similar methodology to a recent Fed paper,[2] we estimate that cumulative consumer excess savings peaked around $2 trillion in mid-2021. This was slightly less than Fed estimates of $2.3 trillion, but the data are very sensitive to assumptions for the trend growth of disposable personal income and outlays. We estimate about $1.0 to 1.2 trillion remained through Q3 of last year (Exhibit 1), with a run-down rate of about $300 billion the last few quarters. Again, this suggests there is less than a year of excess savings remaining.

Exhibit 1: U.S. Consumers Draw-Down Excess Savings.



Sources: Chief Investment Office Calculations; Aladangady, Aditya, David Cho, Laura Feiveson, and Eugenio Pinto (2022). "Excess Savings During the COVID-19 Pandemic," FEDS Notes. Washington: Board of Governors of the Federal Reserve System, U.S. Department of Commerce. Data as of November 2022.

Even as excess savings from past pandemic fiscal stimulus fades, some stimulus remains. Student Loan forbearance until at least June 2023 adds $2 billion per month to income for the 23- to 30-year-old cohort, while Social Security and Supplemental Nutrition Assistance Program (SNAP) cost of living adjustments also are supportive of real incomes if inflation continues to come down. But overall, the backdrop is one of deteriorating cash reserves, especially in lower income cohorts.

Consumers are already turning to credit, a classic late-cycle phenomenon. Revolving consumer credit outstanding, including credit cards, is growing at around 15% year-over-year the last few months, the fastest pace since the mid-1990s. These data are being corroborated by retailers on earnings calls who are reporting increased credit card usage in stores. For now, delinquencies remain very low despite ticking higher the last three quarters. According to the New York Federal Reserve, new delinquent credit card balances

Investment Implications

For investors, we would maintain defensive positioning in Consumer Staples for now. In our view, Consumer Discretionary Equities will look relatively more attractive when the economic data are deteriorating more rapidly and adding to pent-up demand. This is consistent with our overall view on risk assets.

[1] Federal Reserve Board. Ratio of Household Debt to Gross Domestic Product.
[2] FEDS Notes. Washington: Board of Governors of the Federal Reserve System, "Excess Savings During the COVID-19 Pandemic," October 21, 2022.

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as a percentage of the current balance increased to 5.2% in Q3, up from the cycle low of 4.1% at the end of 2021. Delinquencies were as high as 13.9% during the 2008/2009 Great Financial Crisis and have averaged 8% over the last 20 years.

The good news is that U.S. households have been deleveraging for 15 years. Household debt as a percentage of gross domestic product (GDP) is at its lowest level in over 20 years. The financial obligations ratio is an estimate of the ratio of financial obligations payments to disposable personal income and remains historically low at 14.49% versus a 40-year average of around 16% and a peak of 18% in 2007.

Mortgage debt is the lion's share of consumer's borrowing, and the low financial obligations ratio is aided by an effective mortgage rate for outstanding mortgages of just 3.4%.[3] This isn't to say U.S. consumers are immune to the housing recession. If housing activity remains weak, consumer spending will take a more significant hit from the loss of the consumer durable goods purchases (furniture, appliances, etc.) that often accompany a house purchase. Home equity extraction could also slow, but there is a large buffer from the multi-year run up in home prices and it only makes up a low-single digit percentage of consumer spending, according to Empirical Research. The other offsetting factor on housing is that rental costs are likely to lag home prices and move lower (offering some help for renters).

As credit card usage accelerates, the challenge for consumers is that the consumer debt service ratio that excludes mortgages is rising and above its long-term average. While only 14% of consumer debt is variable rate,[4] this ratio is now suggesting consumers are extending to keep spending going, consistent with the rapid drawdown in cumulative excess savings.

A deteriorating labor market could be the key trigger for more acute consumer stress and will also make consumers less likely to pull the trigger on big-ticket purchases. The strength of the labor market was a key pillar of support for consumer spending in addition to excess savings in 2022, but that may also be expiring as job losses are likely in the months ahead, in our view.

Leading indicators of the labor market suggest that job growth continue to slow but thus far support the idea of a resilient consumer. The Conference Board's Employment Trends Index (ETI), for example, declined in the two most recent months of data, but it is far from collapsing. And key indicators like initial claims for unemployment insurance have deteriorated some but are not collapsing. One component of the ETI is temporary workers who are often the first to get laid off in economic contractions. In the establishment survey of the labor market, temporary help services employment peaked in July and ticked lower the last few months.

Ultimately, layoffs will follow the path of the profits cycle with a lag. With profit margins under pressure from decelerating top-line growth, we think firms will look to support margins through layoffs. Fundamentally, the profits cycle reinforces the business cycle, which is slowing. BofA Global Research estimates S&P 500 earnings per share of $200 per share, well below consensus estimates.

Consumer confidence is highly influenced by inflation expectations, and support from falling gasoline prices may also fade. Prepandemic one-year inflation expectations averaged 4.5%, and the current reading from the University of Michigan survey for one year ahead was 6.7%. For now, inflation expectations and confidence are benefitting from falling gasoline prices, but the daily national average is still around $3.26, above the average daily price of $2.89 seen in the 10 years following the Global Financial Crisis. BofA Global Research also sees more upside to energy prices than downside.

For investors, we would remain overweight Consumer Staples and underweight Consumer Discretionary. More acute economic deterioration will create more attractive entry points for Consumer Discretionary stocks this year.

[3] Bureau of Economic Analysis as of October 2022.
[4] Empirical Research Partners as of December 2022.

MARKET VIEW

Janet Yellen Is Right: Ending the War Is Key to the Year Ahead

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

Lauren J. Sanfilippo, Director and Senior Investment Strategy Analyst

Wars seem to be all the rage today. There is the war against inflation. A war against coronavirus, notably in China. And a war in the heart of Europe, which is nearing its one-year anniversary.

All of these conflicts are detrimental to global and U.S. earnings prospects, but one looms larger than the others: the war in Ukraine. Why? Because wars can neither be neatly modeled by analysts nor confidently discounted by investors. The derivatives of war are unpredictability, uncertainty, and unintended consequences—or everything investors abhor. And if this weren't enough, little wars in Europe, as history suggests, have a way of becoming bigger over time. Against this backdrop, U.S. Treasury Secretary Janet Yellen nailed it at the G20 Summit meeting in Bali in November 2022 when she noted that "ending Russia's war is the single best thing we can do for the global economy."

We agree.

Surveying the macro global landscape as the year begins, we take some comfort in 1) the ability of policymakers to ultimately win the battle against inflation and 2) China's wherewithal to conquer coronavirus. To whit, inflation readings in the U.S. and other parts of the world have started to cool as weaker commodity prices, slowing growth, and easing supply chain issues feed through to prices. In China, Beijing has finally ditched its ineffective zero-Covid policies that nearly brought economic growth to a standstill in the final few months of 2022. Both developments are good news for asset prices and market stability.

The bad news: The wars against inflation and coronavirus aren't over, and victory will come with costs. The collateral damage includes a mild recession in the U.S. and other parts of the world, along with the risks of a sloppy "exit wave" of infections in China that could impair near-term growth in the world's second largest economy. "Mission accomplished"? Hardly.

Investment Implications

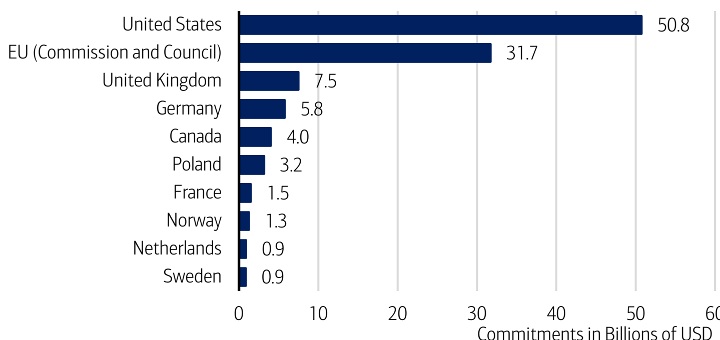
Major military conflicts, and the attendant impact on markets, are hard to model and discount, and therefore should be monitored closely by investors. With little prospects for peace in Ukraine, the war is expected to remain a stiff headwind for assets this year, offsetting more risk-on sentiment/tailwinds associated with peak inflation expectations.

Wars matter

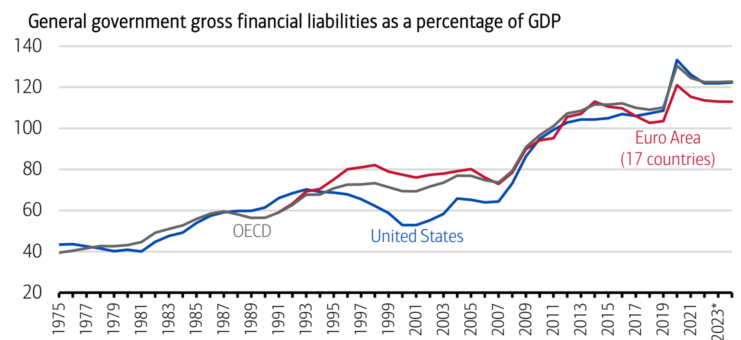
Meanwhile, on the eastern front, the "fog of war" in Ukraine remains as thick as ever, and will, in our opinion, continue to act as a headwind on global earnings and investor sentiment until some resolution materializes. The latter seems remote. After nearly a year of conflict, the war grinds on, with few signs of easing tensions. What's more, this has only escalated over the past year, with profound effects on everything from global energy and food prices to rising public sector debt levels in the developed nations.

Exhibit 2: Ukraine Commitments/Spending Will Add To Already Elevated Budget Deficits.

2A) Ukraine Support January 24, 2022—November 20, 2022.



2B) While off a 2020 peak, budget deficits remain elevated globally.



Left Exhibit: 1 Euro = 1.0615 USD. Total commitments by country quantifies military, financial and humanitarian aid transferred by governments to Ukraine over the stated time period. Source: Kiel Institute for the World Economy. Data as of December 2022. Right Exhibit: *Estimated for 2022 through 2024. Source: Organisation for Economic Co-operation and Development (OECD). Data through November 2022.

As Exhibit 2A highlights, wars aren't cheap. They are costly, with the U.S. and Europe already ponying up roughly $100 billion combined in military, humanitarian and financial assistance since the conflict started. While that total is a relative pittance in terms of the finances of the U.S. and Europe, billions more in assistance is in the pipeline. What's more, arming Ukraine comes at a time when the budget deficits of the U.S. and European allies

are already quite large (Exhibit 2B). While gross financial liabilities as a percentage of GDP among OECD nations have come down from the pandemic highs, they still remain well above 100% of GDP—aka, many developed economies are in uncharted financial waters. Compounding matters, the U.S., Europe, Japan—most of the developed economies—are being forced to ramp up defense aid/spending in the face of rising costs associated with aging populations, soaring healthcare costs due to the pandemic, and rising interest payments on existing debt owing to the backup in global interest rates.

Hence, the longer the war grinds on, the greater the costs to the U.S. and allies of Ukraine—and the greater the risks of a miscalculation and the widening of the conflict, and by extension, the greater the risks of attendant adverse effects on the global capital markets. As retired Lt. Gen. Ben Hodges, a former commander of U.S. Army Europe, recently put it to Politico, "How do you help Ukraine as much as possible without this growing into a conflict between the U.S. and Russia or NATO and Russia?"[5]

As noted by Politico, when Russia annexed Crimea in 2014, President Obama's administration refused to provide offensive weapons, settling for training and nonthreatening equipment like night vision goggles. President Trump approved sending Javelin antitank weapons to Ukraine, but the Javelins had to be stored in the western part of the country, far from the front lines. Since March 2022, however, the supply of weapons flowing to Ukraine has been swift and gradually more sophisticated, starting with Javelins in March, followed by 155-millimeter howitzers in May, HIMARS (High Mobility Artillery Rocket Systems) in June and Patriot missile systems in December. Longer-range missiles, western-made tanks, and smart bombs are on Ukraine's wish list as of now but are considered too escalatory by Washington and Europe. For now.

And the more the U.S. arms Ukraine, the lower the stock of munition inventories here and abroad. Indeed, restocking and resupplying the inventories of fighting forces has become urgent, with the *Wall Street Journal* recently reporting that "Ukraine's battle against the Russian invasion is consuming ammunition at rates unseen since World War II."[6] From the same article was this quote from Michal Strand, owner of a Czech munitions company, "Even if the war were to stop overnight, Europe would need up to 15 years to resupply its stocks at current production rates." Finally, as Greg Hayes, CEO of Raytheon, noted, "Ukraine has burned through five years of Javelin production since February and 13 years' worth of Stinger antiaircraft missiles."[7]

Widening the lens—stay long defense

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, the military conflict in Ukraine demands as much investor attention as earnings growth, interest rates, valuations and other traditional metrics of market returns and economic growth. That is the message from Janet Yellen. Wars matter.

As the conflict drags on, hanging in the balance are global commodity prices, public sector deficits/debt, global inflationary expectations, protectionism and the shift away from globalization, immigration flows, foreign exchange movements, and the overall health of the global economy. By extension, also hanging in the balance are U.S. and global earnings expectations for the next 12 months and beyond.

Given this backdrop, downside risks prevail and underpin the more cautious portfolio positioning posture of the Chief Investment Office. We remain overweight Energy and the commodity complex and remain constructive on defense/cyber security leaders. Per defense, intensifying geopolitical risks has triggered a global supercycle in defense spending, with global military expenditures topping $2 trillion for the first time in 2021. To the benefit of Large-cap U.S. defense contractors, military outlays are poised to continue to grow over the remainder of this decade, owing to a robust restocking cycle and the growing military threats from China, Russia and Iran, in addition to nonstop cyber security threats.

In the end, investors would be wise to heed the wisdom of and caution from Janet Yellen.

[5] *NATO-National Atlantic Treaty Organization. See "First Javelins. Then HIMARS. Now Patriot. What's Next?," Politico, December 29, 2022.
[6] See "Europe Rushes Arms to the Front but is running out of ammunition," *Wall Street Journal*, December 23, 2022.
[7] See "Supply-chain Issues Slow Global Arms Sales," *Wall Street Journal*, December 6, 2022.

THOUGHT OF THE WEEK

2022's Bright Spots Could Continue To Shine

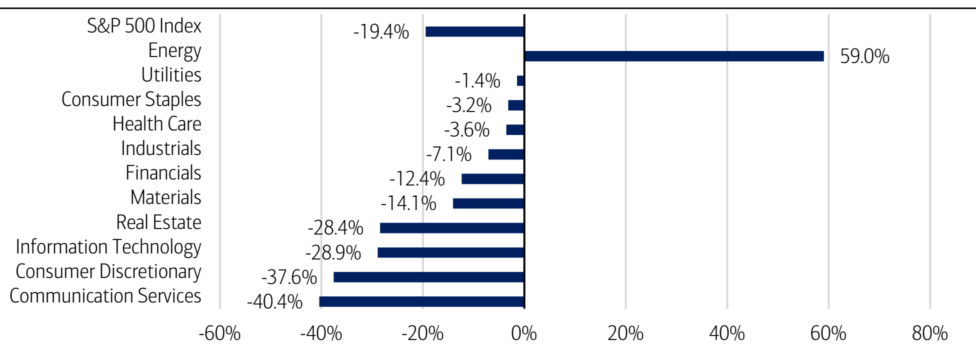
Emily Avioli, Assistant Vice President and Investment Strategist

Global markets struggled against a toxic backdrop of surging inflation and interest rates in 2022, making it a historically challenging year for investors. But there were a few bright spots amid a sea of red. In our view, these segments of the market that worked relatively well last year could continue to see tailwinds in early 2023.

Energy: Energy was the only sector in the S&P 500 with a gain in 2022, rising by 59% and outpacing the broader benchmark for the second year in a row. Performance was boosted by tight oil supply, a military conflict in Ukraine, and, more recently, China's swift reversal of its zero-Covid policy. While declining demand could be a headwind in 2023 as the economy slows, tight inventories, limited spare capacity, and still-elevated inflation should remain supportive for Energy stocks.

Defensive Sectors: While slightly negative for the year, defensive sectors like Utilities, Consumer Staples, and Healthcare were at the top of the leaderboard with respective returns of -1.4%, -3.2%, and -3.6%. Meanwhile, cyclical growth-oriented sectors like Communication Services, Consumer Discretionary, and Information Technology lagged with returns of -40.4%, -37.6%, and -28.9%. Defensive areas of the market should continue to provide some stability, especially in the first half of the year, as we move further into the late-cycle environment.

Exhibit 3: Defensive Sectors Led the S&P 500 in 2022.



Source: Bloomberg. Data as of December 30, 2022. Short-term performance shown to illustrate more recent trend. **Past performance is no guarantee of future results.**

Value and dividend payors: Value-oriented Equities were less pressured by last year's spike in interest rates, as they tend to offer more near-term cash flows. Value saw the best relative performance since the popping of the tech bubble in 2000, leading Growth by 22%.[8] This trend could continue to play out in 2023. Value is still trading at a discount of 16% to Growth relative to historic averages,[9] and in past periods of elevated inflation Value has led Growth when the Fed pauses.[10] Additionally, dividend-paying Equities outperformed the benchmark by 12%[11] and may continue to offer an attractive combination of high-quality earnings growth, and insulation against elevated prices.

High-quality: High-quality Equities had an edge over low-quality Equities as mounting global risks ignited a selloff that was particularly severe for non-profitable, speculative areas of the market. High-quality outperformed low-quality by about 13% in 2022, the biggest yearly outperformance since 2009.[10] We maintain a high-quality bias for now, which should help provide cushion during any potential economic downturn.

Commodities: Commodities were the only major asset class with a gain in 2022, rising by 16.1%,[12] though prices have recently started to stall as the likelihood of recession increases. But over the long term, positive fundamentals remain in place—commodities tend to do well in periods of elevated geopolitical risk and should get an additional boost in the long run from the energy transition to a low carbon economy.

Investment Implications

Moving into the beginning of 2023, we maintain a defensive tilt and continue to advocate for an up-in-quality bias across asset classes. We maintain our slight preference for high-quality Fixed Income relative to Equities.

[8] Bloomberg, December 30, 2022. Refers to Russell 1000 Value and Russell 1000 Growth.
[9] Bloomberg, December 30, 2022. Refers to the price-to-sales ratio for Russell 1000 Value and Russell 1000 Growth.
[10] BofA Global Research, December 29, 2022.
[11] Bloomberg. December 30, 2022. Refers to S&P 500 Dividends Aristocrats Index vs. S&P 500 Index.
[12] Bloomberg, December 30, 2022. Refers to Bloomberg Commodity Index Total Return.

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Equities

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
DJIA	33,630.61	1.5	1.5	1.5
NASDAQ	10,569.29	1.0	1.0	1.0
S&P 500	3,895.08	1.5	1.5	1.5
S&P 400 Mid Cap	2,489.95	2.5	2.5	2.5
Russell 2000	1,792.80	1.8	1.8	1.8
MSCI World	2,649.76	1.8	1.8	1.8
MSCI EAFE	1,995.78	2.7	2.7	2.7
MSCI Emerging Markets	988.68	3.4	3.4	3.4

Fixed Income†

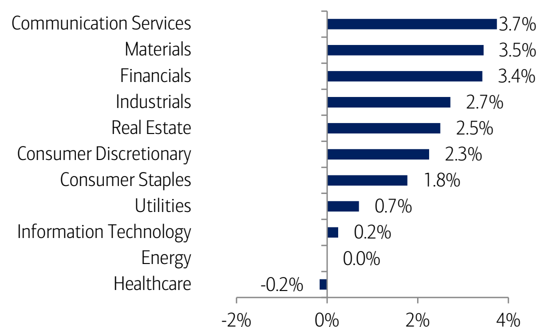
	Total Return in USD (%)			
	Current	WTD	MTD	YTD
Corporate & Government	4.42	1.75	1.75	1.75
Agencies	4.39	0.90	0.90	0.90
Municipals	3.36	1.15	1.15	1.15
U.S. Investment Grade Credit	4.43	1.85	1.85	1.85
International	5.19	2.00	2.00	2.00
High Yield	8.43	2.23	2.23	2.23
90 Day Yield	4.58	4.34	4.34	4.34
2 Year Yield	4.25	4.43	4.43	4.43
10 Year Yield	3.56	3.87	3.87	3.87
30 Year Yield	3.69	3.96	3.96	3.96

Commodities & Currencies

	Total Return in USD (%)			
Commodities	Current	WTD	MTD	YTD
Bloomberg Commodity	235.86	-4.1	-4.1	-4.1
WTI Crude $/Barrel††	73.77	-8.1	-8.1	-8.1
Gold Spot $/Ounce††	1865.69	2.3	2.3	2.3

	Total Return in USD (%)			
Currencies	Current	Prior Week End	Prior Month End	2020 Year End
EUR/USD	1.06	1.07	1.07	1.07
USD/JPY	132.08	131.12	131.12	131.12
USD/CNH	6.83	6.92	6.92	6.92

S&P Sector Returns



Sources: Bloomberg; Factset. Total Returns from the period of 1/2/2023 to 1/6/2023. †Bloomberg Barclays Indices. ††Spot price returns. All data as of the 1/6/2023 close. Data would differ if a different time period was displayed. Short-term performance shown to illustrate more recent trend. **Past performance is no guarantee of future results.**

Economic Forecasts (as of 1/6/2023)

	Q4 2022A	2022A	Q1 2023E	Q2 2023E	Q3 2023E	Q4 2023E	2023E
Real global GDP (% y/y annualized)	-	3.5	-	-	-	-	2.4
Real U.S. GDP (% q/q annualized)	0.5	1.9	-1.0	-2.0	-1.5	1.0	-0.3
CPI inflation (% y/y)	7.2	8.0	5.4	3.9	3.3	2.9	4.0
Core CPI inflation (% y/y)	6.0	6.2	5.2	4.3	3.3	2.8	4.3
Unemployment rate (%)	3.7	3.7	3.7	4.2	4.8	5.4	4.5
Fed funds rate, end period (%)	4.33	4.33	5.13	5.13	5.13	4.88	4.88

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 6, 2023.

Asset Class Weightings (as of 12/6/2022)

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

CIO Equity Sector Views

	CIO View				
Sector	Underweight		Neutral		Overweight
Energy				● (green)	
Utilities				● (green)	
Healthcare				● (green)	
Financials				● (green)	
Real Estate				● (green)	
Information Technology			● (yellow)		
Consumer Staples			● (yellow)		
Industrials			● (yellow)		
Materials		● (orange)			
Consumer Discretionary	● (red)				
Communication Services	● (red)				

*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 6, 2022. All sector and asset allocation recommendations must be considered in the context of an individual investor's goals, time horizon, liquidity needs and risk tolerance. Not all recommendations will be in the best interest of all investors.

Index Definitions

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

S&P 500 Index includes a representative sample of 500 leading companies in leading industries of the U.S. economy. Although the index focuses on the large-cap segment of the market, with approximately 75% coverage of U.S. equities, it is also an ideal proxy for the total market.

Conference Board's Employment Trends Index (ETI) is an aggregate of eight labor-market indicators that shows underlying trends in employment conditions.

Energy, Materials, Consumer Discretionary, Healthcare, Information Technology, Communication Services, Real Estate, Manufacturing/S&P 500 Global Industry Classification Standard (GICS®) is standardized system of categorizing companies into sectors and industries. GICS is used globally by market participants to classify domestic stock and international investment instruments.

Russell 1000 Value Index represents the top 1000 companies by market capitalization in the United States.

Russell 1000 Growth Index measures the performance of the large- cap growth segment of the US equity universe.

S&P 500 Dividends Aristocrats Index is a stock market index composed of the companies in the S&P 500 index that have increased their dividends in each of the past 25 consecutive years. It was launched in May 2005.

Bloomberg Commodity Index Total Return is composed of futures contracts and reflects the returns on a fully collateralized investment in the BCOM.

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