# Capital Markets Outlook

**Reviewing the quarter ended September 30, 2024**

Klingman & Associates

*Gerard Klingman, Founder & President*

*Gerry provides financial planning and investment advisory services to corporate executives, entrepreneurs, professional athletes and other high-net-worth individuals.*

*Gerry received a bachelor's degree in Economics from Princeton University and attained his Certified Financial Planner™ certification from the College of Financial Planning in 1989. He later earned CLU® and ChFC® designations from the American College, as well as a CFS® designation from the Institute of Business & Finance. He is a member of the Financial Planning Association.*

*With more than 30 years of experience, Gerry is widely recognized as a leader in the field of financial planning and investment management. Gerry has been consistently ranked on many of the industry's lists of top financial advisers including Barron's Top 100 Independent Advisors, the Financial Times' F400 Top Financial Advisers, and the Forbes ranking of America's Top Wealth Advisors.*

Two years ago, many market pundits were sure the US economy was entering a recession in response to the Fed's aggressive monetary tightening. Financial markets were having their worst year since the 1970's, with the S&P 500 Index in a bear market and the Barclays Aggregate Bond Index down nearly 20%. Yet here we are today with the Federal Reserve widely expected to achieve a "soft landing" as the economy grows, the labor market remains healthy, and inflation trends downward. In response, financial markets have rallied (S&P 500 is up over 60% from the October 2022 lows) and volatility has dampened. Good long-term investing is not about making great decisions, but about consistently avoiding big mistakes. Instead of taking preemptive action in response to the consensus "recession," we focused on the building blocks of successful long-term investing – committing to an appropriate asset allocation based on risk tolerance and time horizon, rebalancing portfolios to target allocations, managing duration of fixed income portfolios, optimizing returns on cash balances, and managing portfolios with eye towards tax efficiency including tax loss harvesting. We believe these actions have and will continue to serve our clients well. That said, we do believe a lot of good news is priced into financial markets today and we are prepared to see more volatility. Whether from central bank policy, the upcoming US presidential election, geopolitical tensions, or something else unexpected, we cannot be sure. But volatility is a price investors must pay to benefit from the long-term equity premium that investing in stocks has provided.

The US economy, as measured by GDP, grew 3% in the second quarter versus a year ago, highlighting the strength and resilience of the US consumer (page 8). Consumers have shifted their spending preferences from big ticket items during the pandemic (cars, appliances, renovations) to experiences (travel, hotel, and dining). This brings the economy back to a more normal and sustainable level, resembling pre-pandemic activity. We have also experienced a huge wealth surge, with over $50 trillion of wealth added in the last five years from appreciating home and equity prices. This "wealth effect" is powering spending, particularly in upper-income households. But not all households are benefiting equally. Higher borrowing costs are hurting over-levered consumers (and companies), and delinquency and default rates are starting to move higher (page 18). The labor market is healthy on the surface with unemployment at 4.2% (page 10). We do not read too much into the volatile month-to-month payroll numbers, but instead focus on the bigger picture trend which shows the economy continuing to produce jobs albeit at a slower pace (page 12). Overall, we expect the economy to continue to grow into 2025, but likely closer to the 2% trend growth we have seen historically. We are cognizant that decelerating growth typically makes the economy more susceptible to unexpected "shocks," but expect any slowdown to be mild given the absence of financial excesses in the economy. For now, financial markets are riding a strong economy that bodes well for continued consumer spending and future corporate earnings.

Against this economic backdrop, US Large Cap Equities, as measured by the S&P 500 Index, returned +6% in the third quarter of 2024 and are +22% for the year (page 22). The index overall has traded at and around 21x forward earnings for much of the year, well above its long-term average of 17x (page 23). A bright outlook for corporate profits has supported these valuations, with S&P 500 earnings expected to grow +15% in 2025 to $275 and another +13% in 2026 to $310 (page 24). If these estimates are achieved, then the market is trading in line with historical averages at current prices. But if they are not, there may be some disappointments and devaluations in response. We believe the largest companies in the index are most at risk, ten of which now account for over a third of total market capitalization of the S&P 500. These ten companies trade at 31x forward earnings, while the remaining 490 stocks trade at 18x (page 25). While investors have undoubtedly benefitted from owning shares in these great companies, we believe the opportunity going forward in these companies is much more limited as compared to the rest of the market. US Mid Cap Equities (S&P 400 Index) returned +7% in the third quarter and US Small Cap Equities (S&P 600) returned +10%, with the returns coming on the back of the Federal Reserve messaging that it would be lowering rates in 2024. At 16x forward earnings multiples, these asset classes remain historically cheap on both an absolute and relative basis. Lower interest rates should help these companies, which are typically more reliant on floating rate debt. But they are also more reliant on broad economic growth to deliver earnings, which has been a headwind as the Fed actively tries to slow the economy down. We remain Neutral weight to US Large, Mid and Small Cap Equities in our asset allocation models.

Outside of the US, the MSCI EAFE Index of Developed Market Equities returned +7% in the third quarter of 2024 and is +13% for the year. Improving economic growth has fueled a pick-up in expectations for corporate earnings. However, continued geopolitical tensions across various regions make the path forward less clear. And many of these developed economies are not on as strong a footing as the US. We believe this has kept valuations well below historical averages at 14x forward earnings. We remain Neutral weight to Non-US Developed Market Equities. The MSCI EM Index of Emerging Market Equities returned +9% in the third quarter of 2024 and is +17% for the year. China’s raft of policy easing measures were recently announced to stabilize stock and property markets and boost consumption growth. Central banks across other developing countries have begun to ease monetary policy as well, which should help stimulate growth and support corporate earnings. At 12x forward earnings, we believe long-term investors are being adequately compensated for the risks involved in these markets. We remain slightly Overweight to Non-US Emerging Market Equities.

The Federal Reserve cut interest rates by 50bps in September, bringing the Federal Funds target range to 4.75 – 5.00%. Expectations currently call for another 50bps cut in 2024, and at least 100bps in 2025 (page 26). But as we have seen, the market has not done a good job of forecasting short-term interest rates (page 33). If the economy continues to prove more resilient than expected, it may take more time to lower interest rates than currently expected. Remember that a cardinal sin of central banking is to lower interest rates too quickly, and then have to reverse course due to more persistent inflation. Chairman Powell undoubtedly feels this pressure, particularly after getting caught so far behind inflation three years ago. But inflation continues trending towards 2% with headline PCE currently at 2.2% and core PCE at 2.7%. Two recent drivers of inflation, auto insurance and shelter costs, are both decelerating, albeit slowly. Intermediate to long-term interest rates continue to be volatile, with the 10 year Treasury ending the quarter at 3.8%. Despite the volatility, we continued to purchase high quality bonds at attractive yields to lock in income for client portfolios as rates are expected to decline in the future. Thankfully, we seem to be past the era where investors were willing to buy 100 year bonds at 1% yields, as they did for Austria's century bonds. We remain Overweight US Investment Grade Bonds. Strategic (Non-Investment Grade) Bonds, as measured by the Barclays High Yield Index, have returned +8% in 2024. Credit spreads over Treasuries - the premium charged by investors to hold Non-Investment Grade bonds - have narrowed considerably and are well below their long-term averages (page 28). We remain Neutral to Strategic Bonds and have gradually increased the credit quality within our portfolios.

The US presidential election is now only weeks away and will continue to take center stage of the news cycle. Elections are important for a lot of reasons, and this election should be no different. But history has shown the outcome of elections tends to be less consequential for financial markets and the economy than most people think. We will spend more time on the election and potential implications on our Capital Markets Conference Call, but there is not a meaningfully clear correlation between which political party controls the White House and Congress and the long-term performance of equity markets. Having said that, we will be watching the developments closely as the government make-up will influence the course of tax policy with key policies set to expire at the end of 2025. Current polling has the Presidential race as a toss-up, but a divided Congress looking more likely. Financial markets tend to like a divided government in that they tend to avoid policy extremes. We will all be following the outcome closely and will discuss the implications for tax policy and planning as we enter 2025.

# TACTICAL OVERLAY TO STRATEGIC ASSET ALLOCATION MODELS

| | | | |
|---|---|---|---|
| CASH ALTERNATIVES | **UNDERWEIGHT** | NEUTRAL | OVERWEIGHT |

## FIXED INCOME

| | | | |
|---|---|---|---|
| US INVESTMENT GRADE BOND | UNDERWEIGHT | NEUTRAL | **OVERWEIGHT** |
| TIPS | **UNDERWEIGHT** | NEUTRAL | OVERWEIGHT |
| STRATEGIC BOND | UNDERWEIGHT | **NEUTRAL** | OVERWEIGHT |

## US STOCKS

| | | | |
|---|---|---|---|
| US LARGE CAP EQUITY | UNDERWEIGHT | **NEUTRAL** | OVERWEIGHT |
| US MID CAP EQUITY | UNDERWEIGHT | **NEUTRAL** | OVERWEIGHT |
| US SMALL CAP EQUITY | UNDERWEIGHT | **NEUTRAL** | OVERWEIGHT |

## NON-US STOCKS

| | | | |
|---|---|---|---|
| NON-US DEVELOPED MARKETS EQUITY | UNDERWEIGHT | **NEUTRAL** | OVERWEIGHT |
| NON-US EMERGING MARKETS EQUITY | UNDERWEIGHT | NEUTRAL | **OVERWEIGHT** |

## ALTERNATIVES

| | | | |
|---|---|---|---|
| REAL ESTATE | UNDERWEIGHT | **NEUTRAL** | OVERWEIGHT |

This material is for informational purposes only and should not be used or construed as a recommendation regarding any security outside of a managed account. There is no assurance any of the trends mentioned will continue in the future. Dividends are not guaranteed and must be authorized by a company's board of directors. Diversification does not assure a profit or protect against loss. International investing involves additional risks such as currency fluctuations, differing financial and accounting standards, and possible political and economic instability. Also, investing in emerging markets can be riskier than investing in well-established foreign markets. Investing involves risk and investors may incur a profit or a loss, including the loss of all principal.

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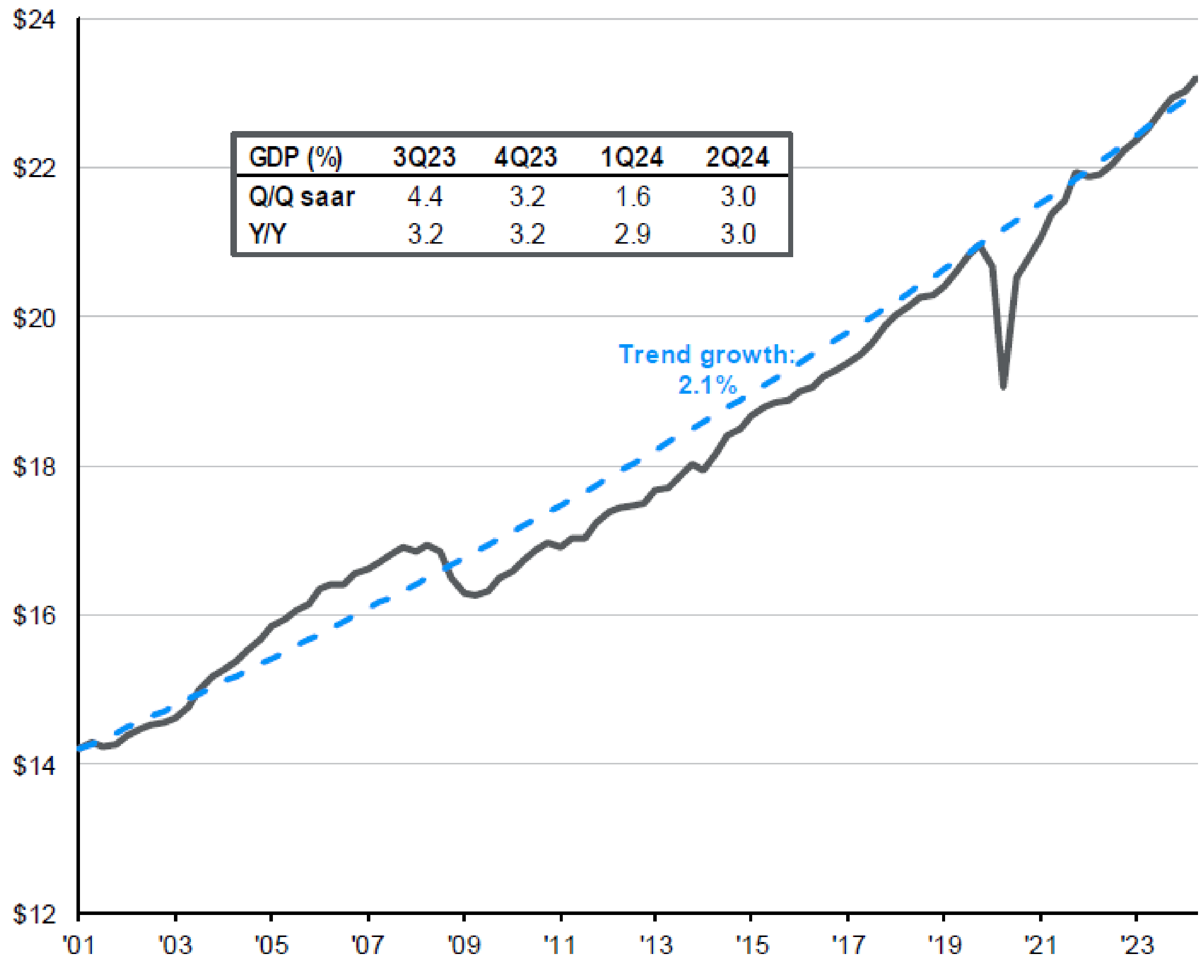
# GROSS DOMESTIC PRODUCT

**Gross domestic product increased 3.0 percent in the second quarter of 2024 versus a year ago according to the Bureau of Economic Analysis, driven by increases in consumer spending, as well as private and nonresidential investment.**




Source: Bureau of Economic Analysis, FactSet, JPMorgan as of 6/30/2024.

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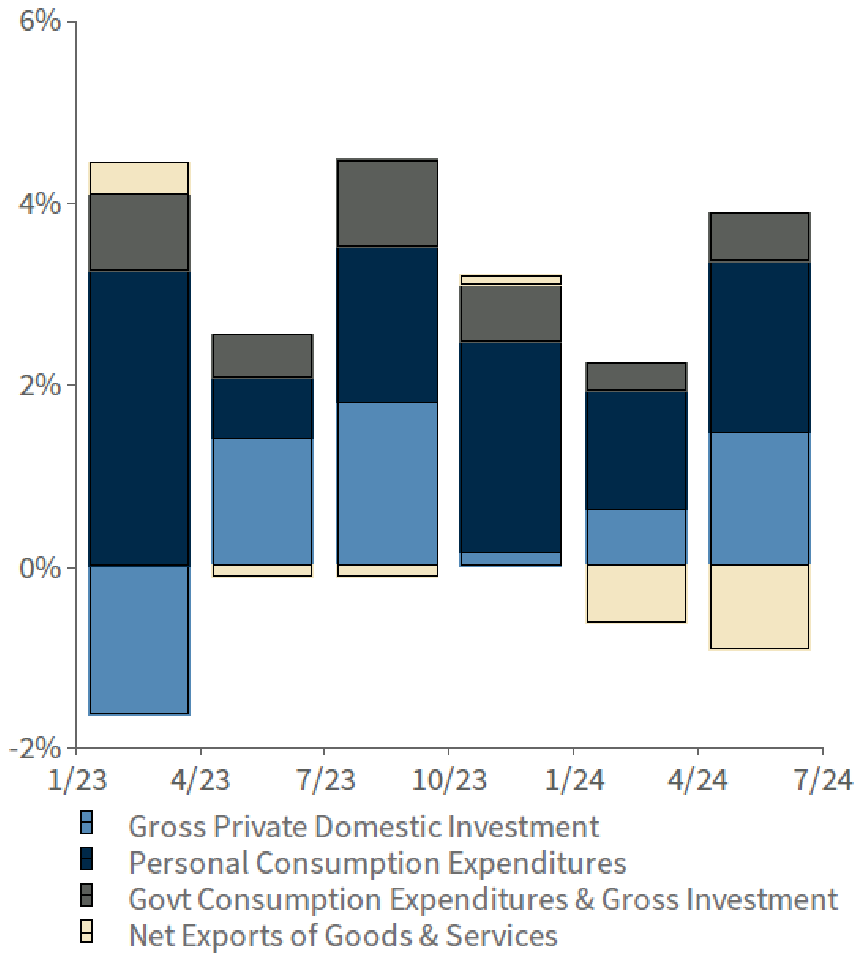
**Second quarter real GDP growth reflected increases across personal consumption, government consumption, and gross private domestic investment, while net exports were negative.**




Source: FactSet, as of 6/30/2024.

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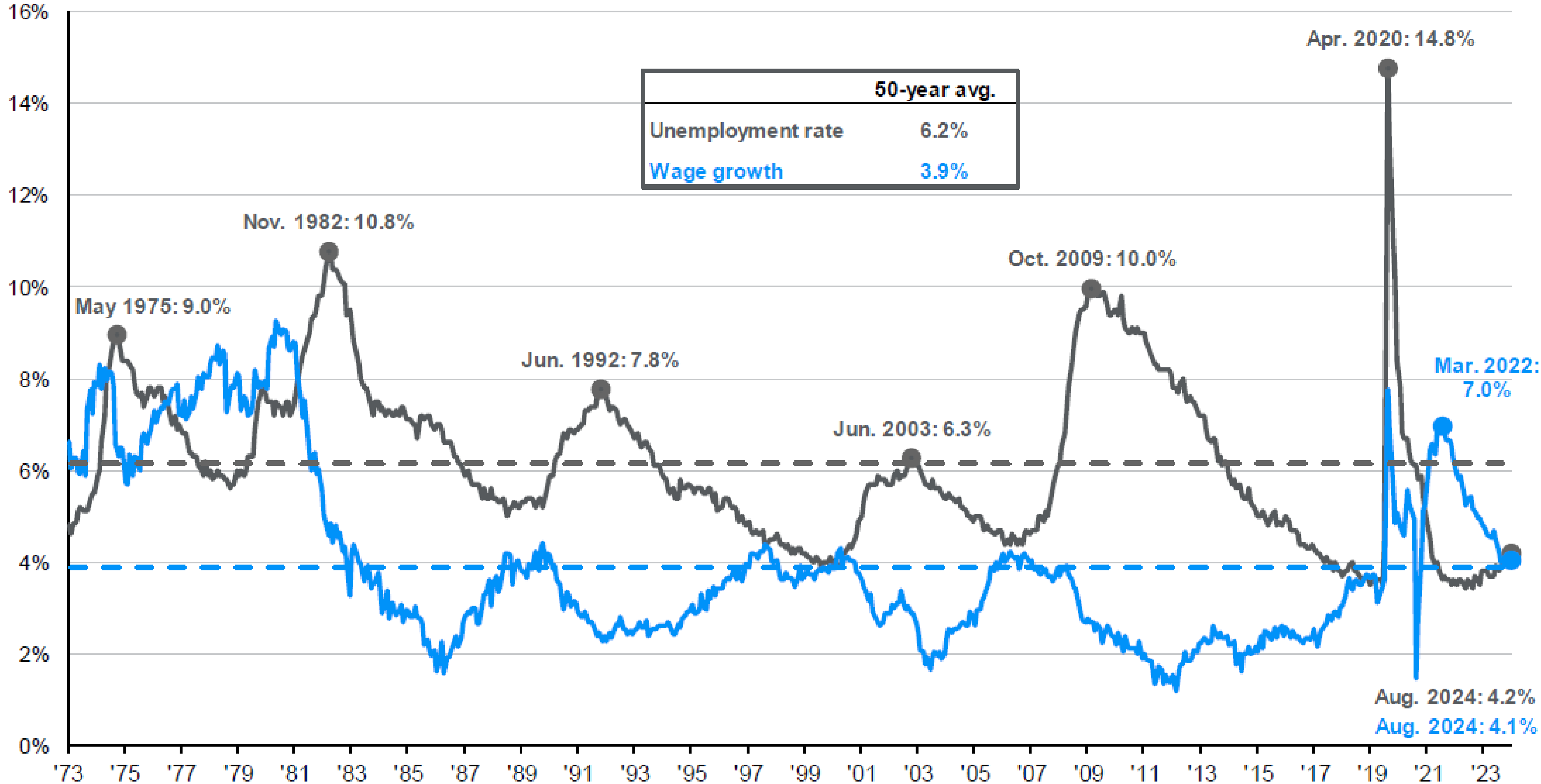
## Civilian Unemployment Rate and Year-over-Year Wage Growth




Source: BLS, FactSet, JPMorgan Asset Management. Private production and non-supervisory jobs represent just over 80% of total private nonfarm jobs. Data as of 9/30/2024.

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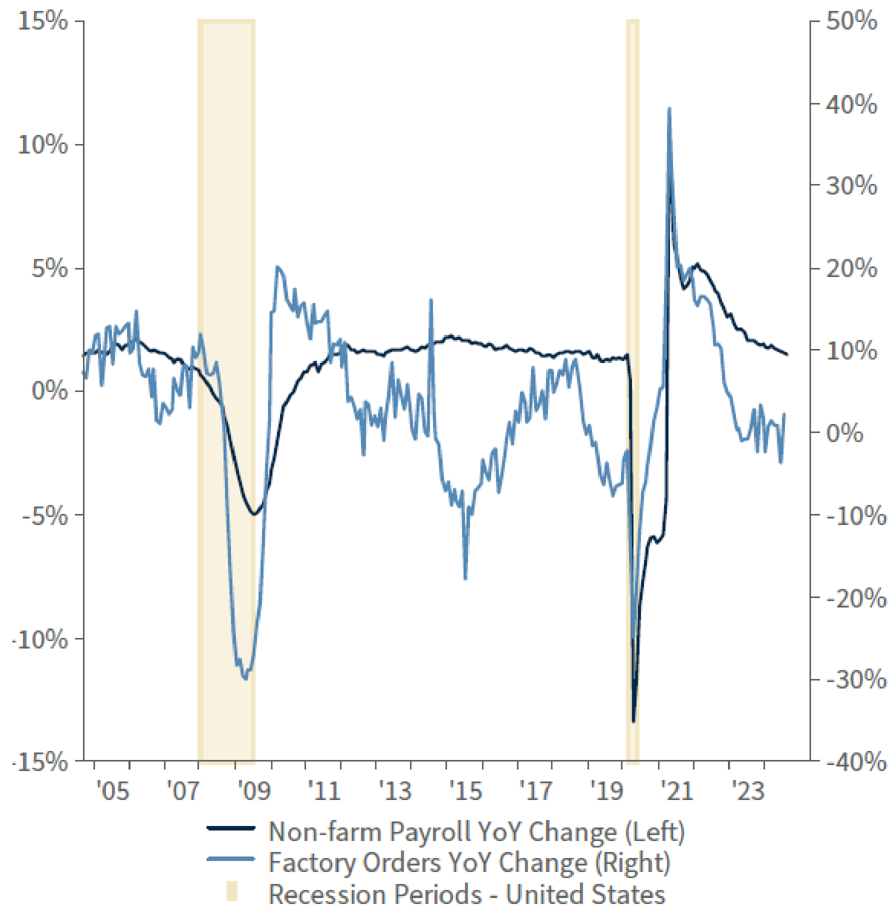
**Non-farm payrolls rose by 254,000 in September, well ahead of expectations for 150,000. This increase reflects additions within primarily services, healthcare, and government jobs.**

## Non-Farm Payroll and Factory Orders




Source: FactSet, as of 9/30/2024.

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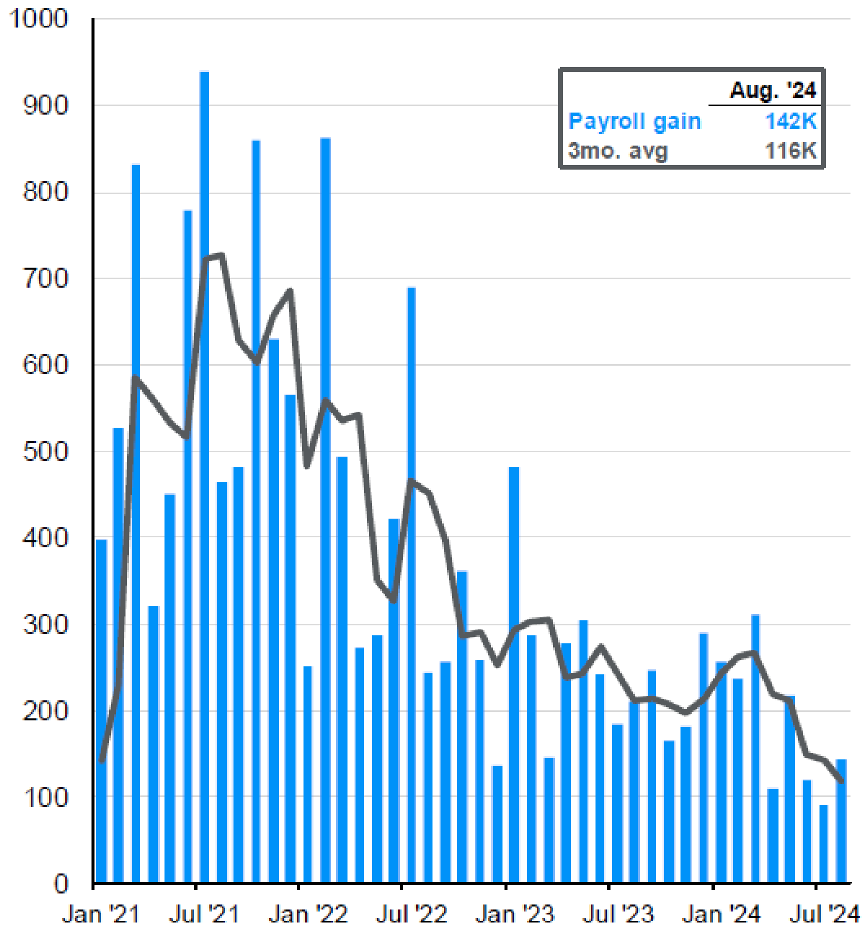
## Non-Farm Payroll Gains

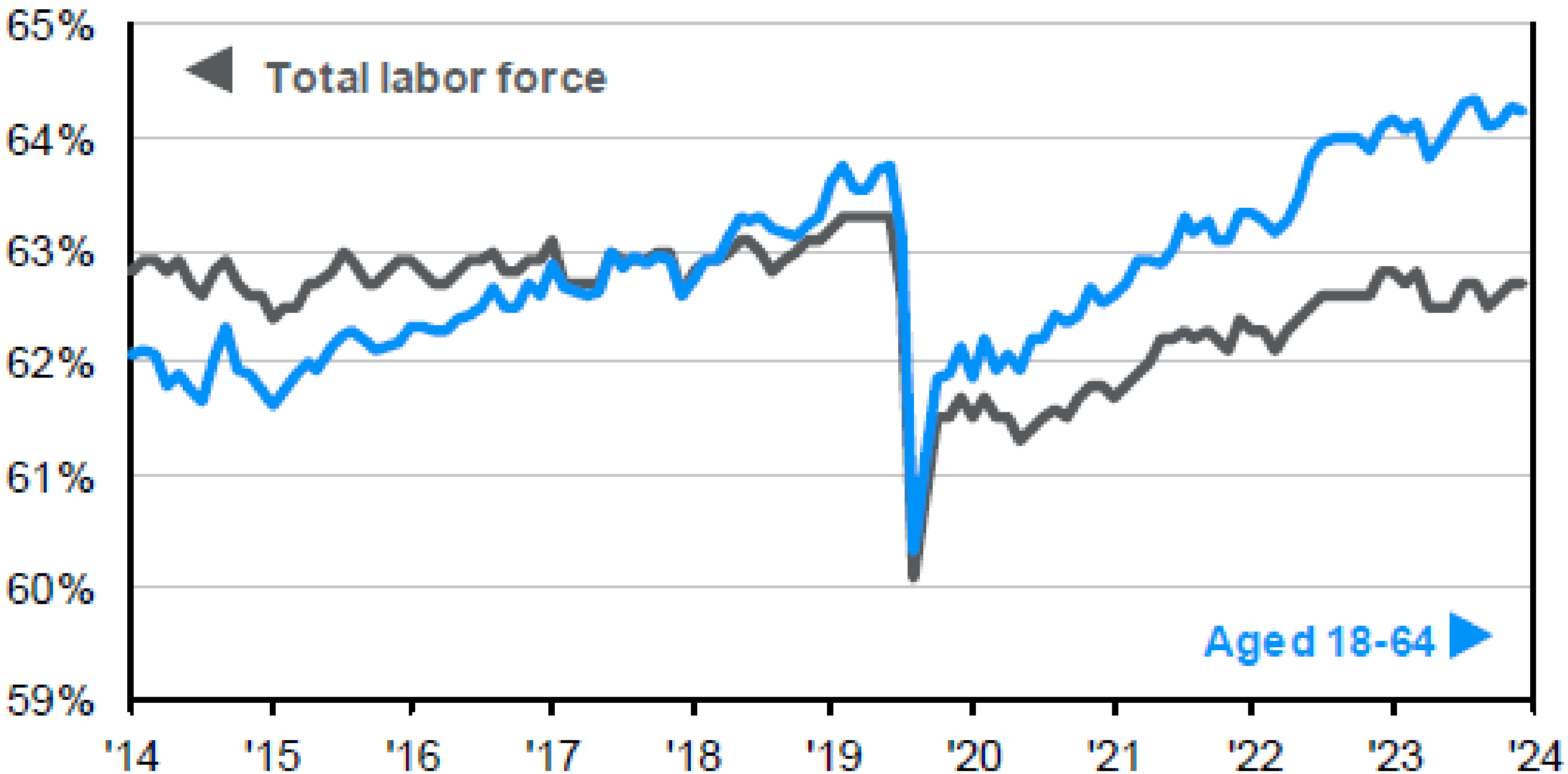
### Month-over-Month Change and 3-Month Moving Average




Source: BLS, FactSet, JPMorgan Asset Management, as of 9/30/2024.

## Labor Force Participation

### Percent of Civilian Noninstitutional Population, Seasonally Adjusted




Source: BLS, FactSet, JPMorgan Asset Management. Labor force data are sourced from Current Population Survey, known as the household survey, conducted by the BLS. Data as of 9/30/2024.

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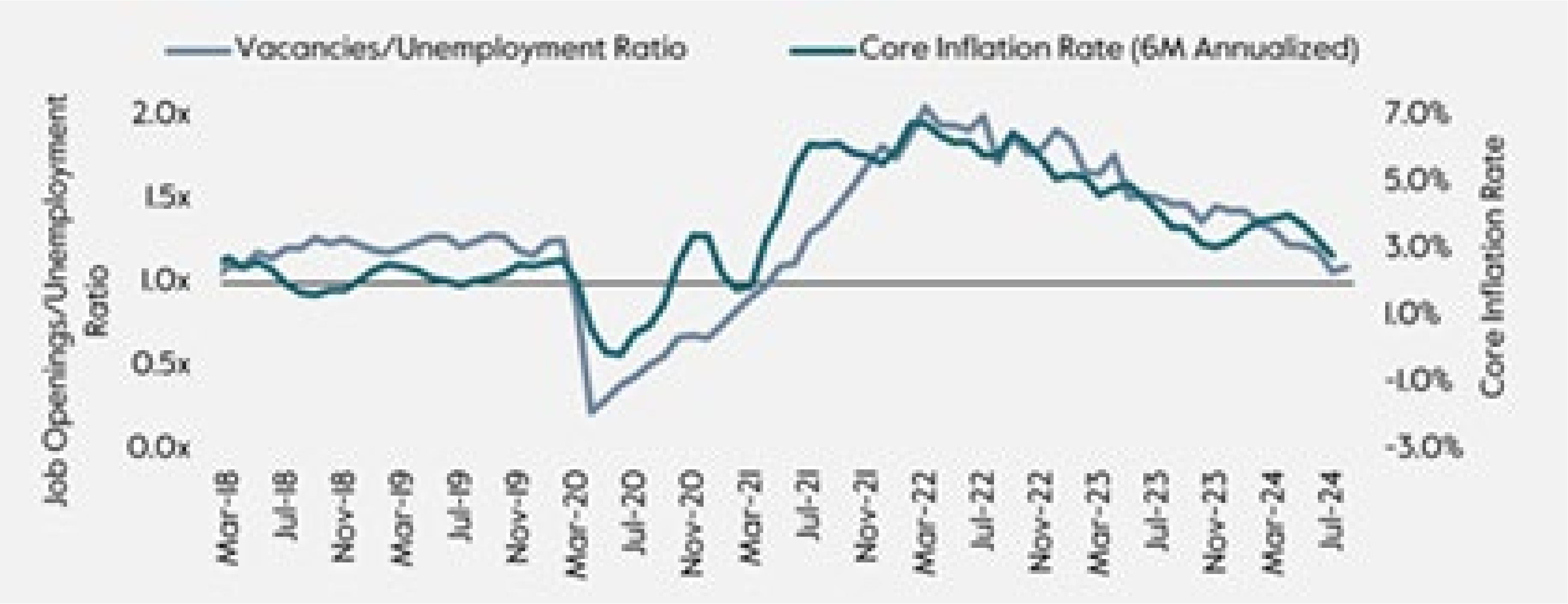
## Labor Market Pressure & Inflation




Source: Carlyle, Federal Reserve Board, as of September 2024.

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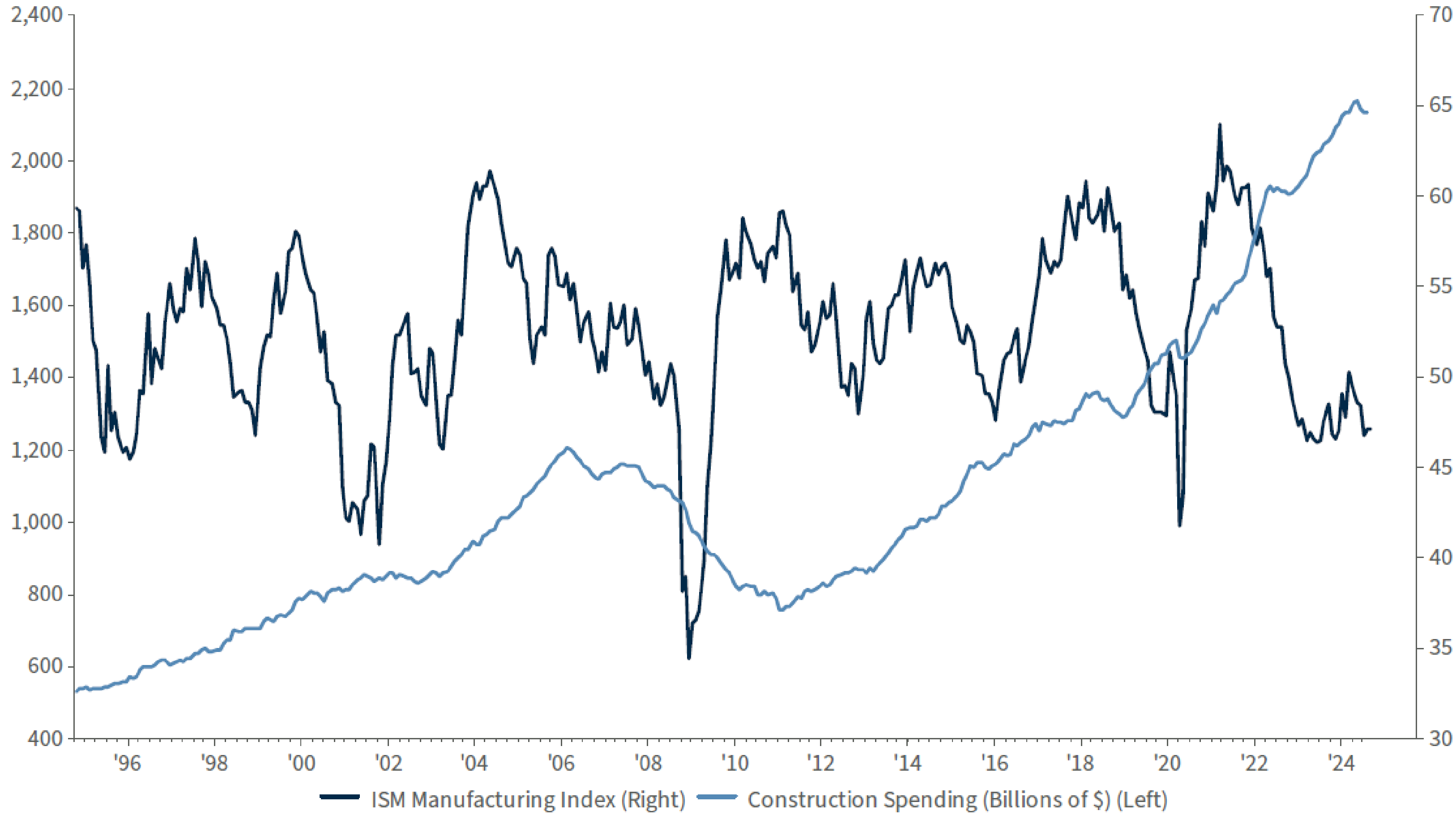
**The ISM Manufacturing Index was unchanged in September at 47.2 and remains in contractionary territory (a level below 50). Construction spending decreased slightly in August.**

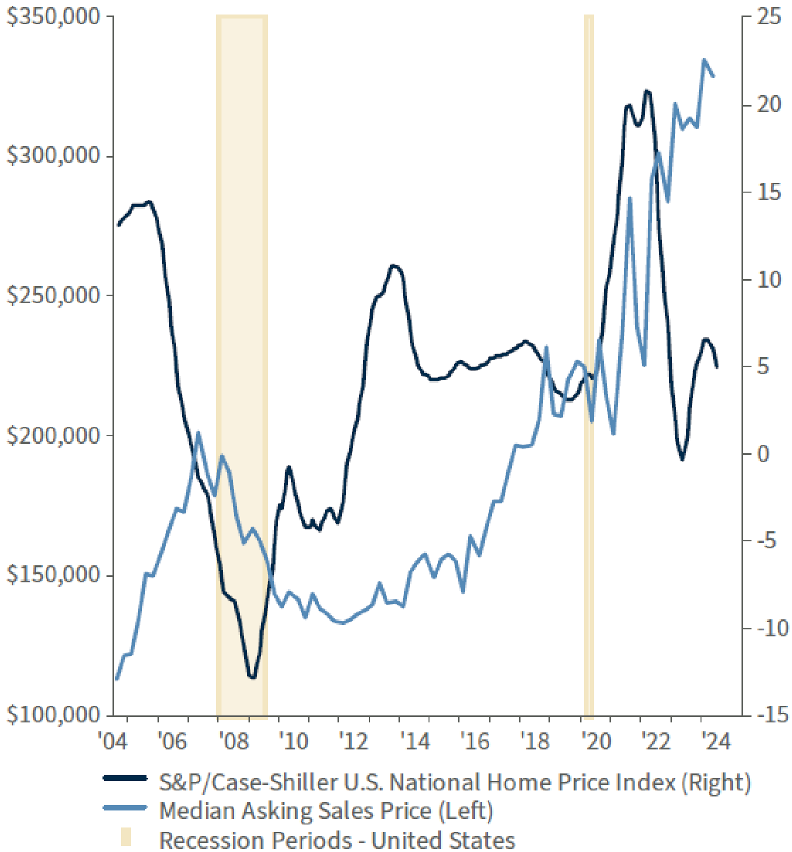
## Construction and Manufacturing




Source: FactSet, as of 9/30/2024.

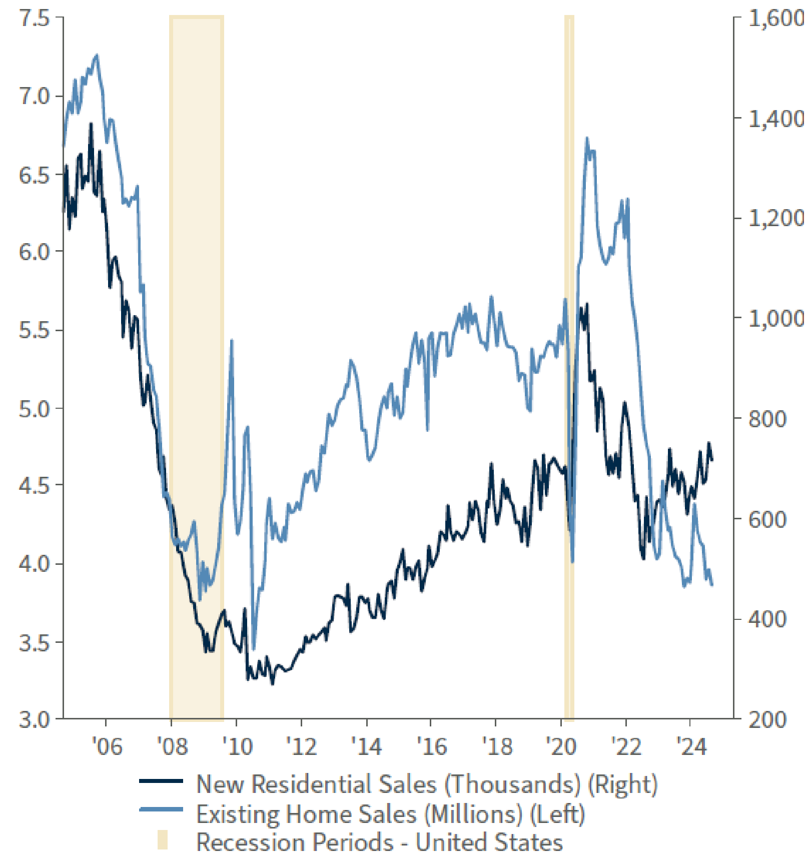
**The national home price index increased in July, continuing the trend from last spring. Both new and existing home sales trended lower this summer.**

## National Home Price Index (YoY Change)




Source: FactSet, as of 9/30/2024.

## New and Existing Home Sales




Source: FactSet, as of 9/30/2024.

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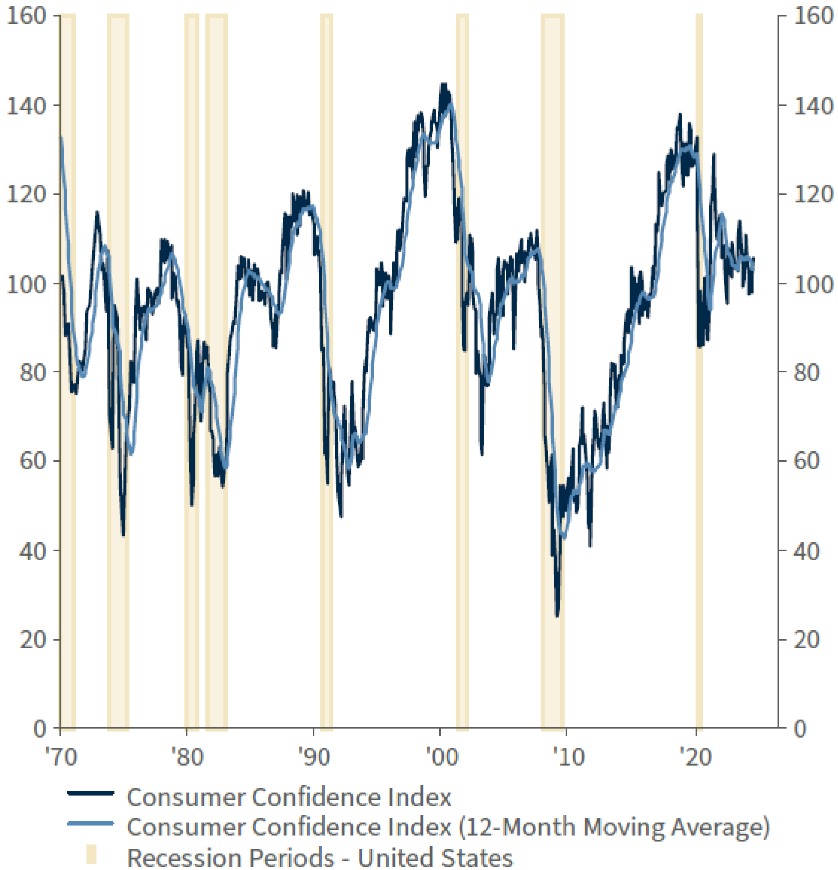
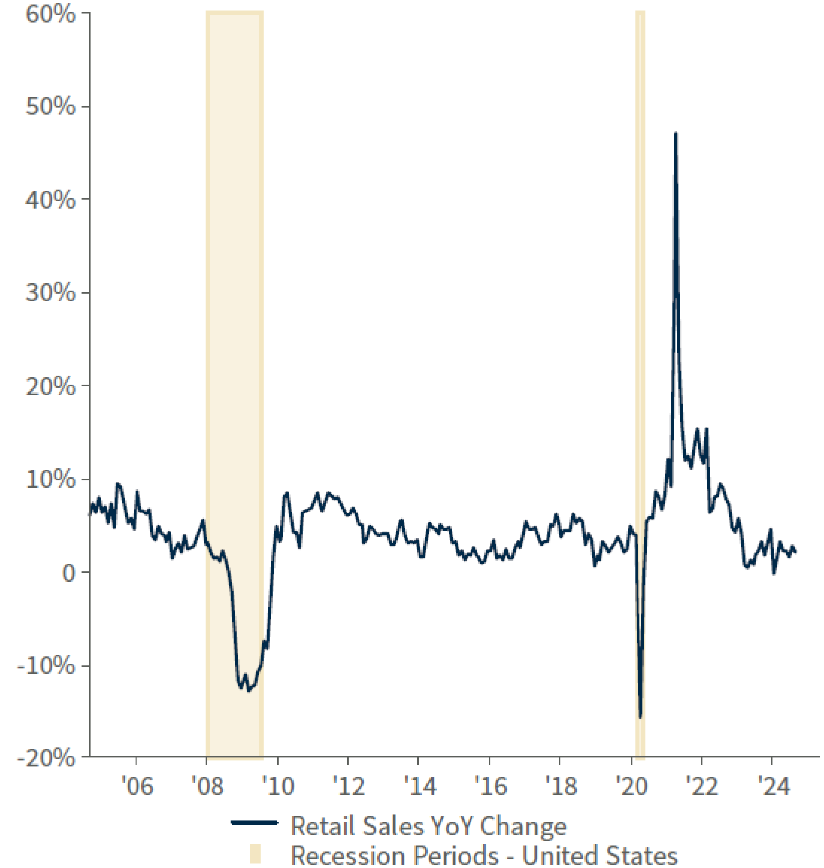
**US Consumer confidence was 98.7 in September, down from 103.3 in August. Retail sales increased slightly over the second quarter.**

## Consumer Confidence



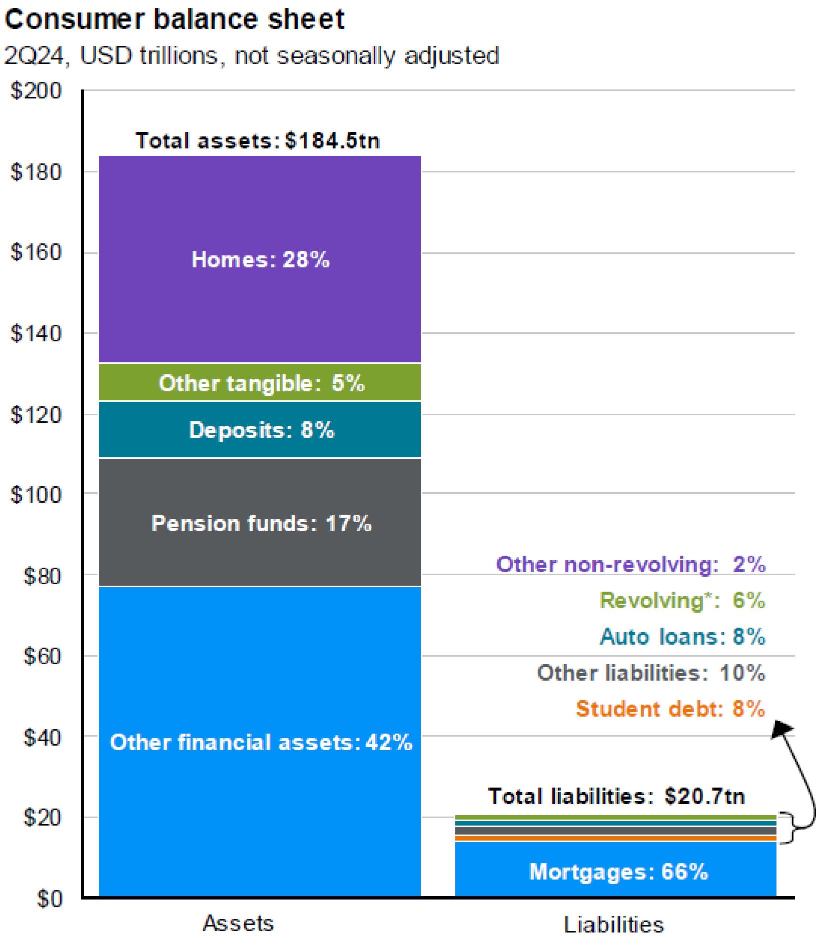

Source: FactSet, as of 9/30/2024.

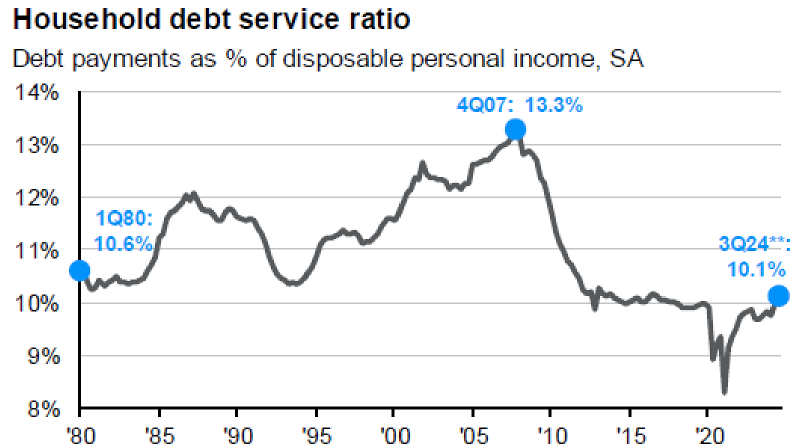
## Retail Sales

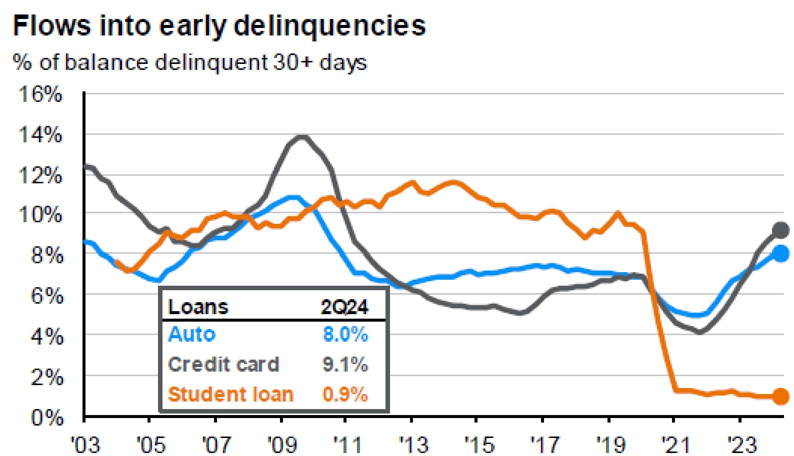



Source: FactSet, as of 9/30/2024.

# Consumer Finances




Source: FactSet, FRB, JPMorgan Asset Management, BEA. Data include households and nonprofit organizations (seasonally adjusted). *Revolving includes credit cards. Values may not sum to 100% due to rounding. **2Q24 and 3Q24 figures for debt service ratio are JPMorgan Asset Management estimates. Data as of 9/30/2024.

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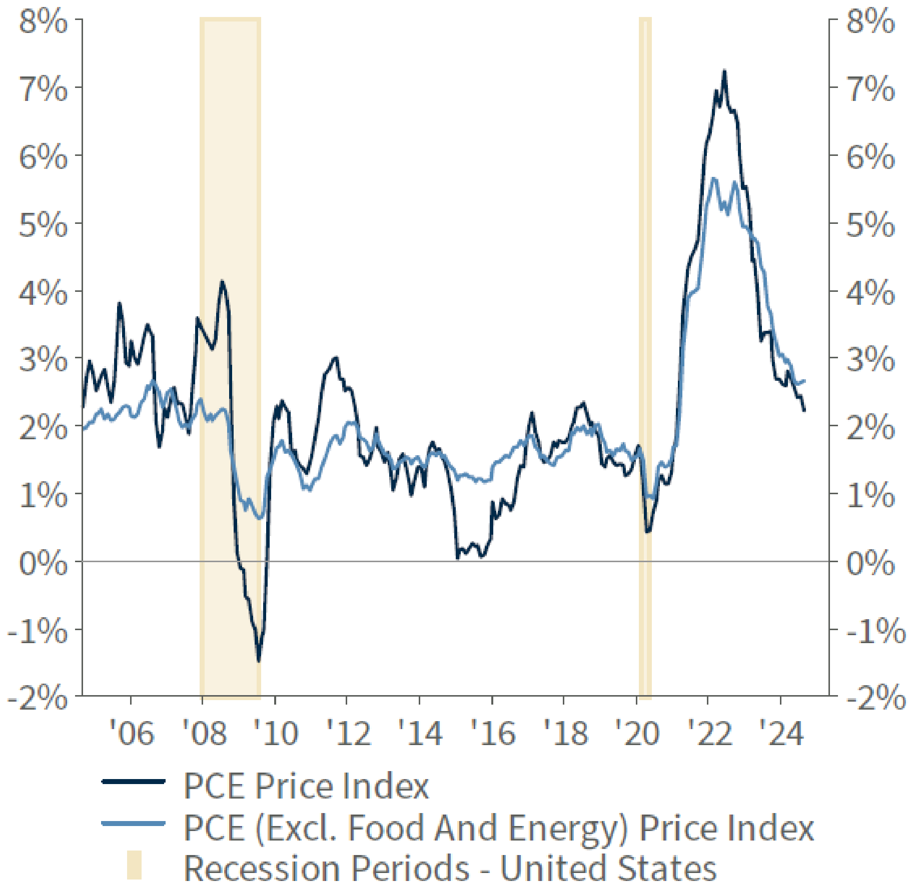
# Inflation Continuing to Roll Over

**Inflation continues to decelerate towards the Fed's target of 2%. The PCE Price Index (PCE) and Core PCE Index, which excludes the volatile food and energy components, increased 2.2% and 2.7%, respectively, in September versus a year ago.**




Source: FactSet, as of 9/30/2024. Personal Consumption Expenditure (PCE) is the preferred measure of inflation by the Bureau of Economic Analysis.

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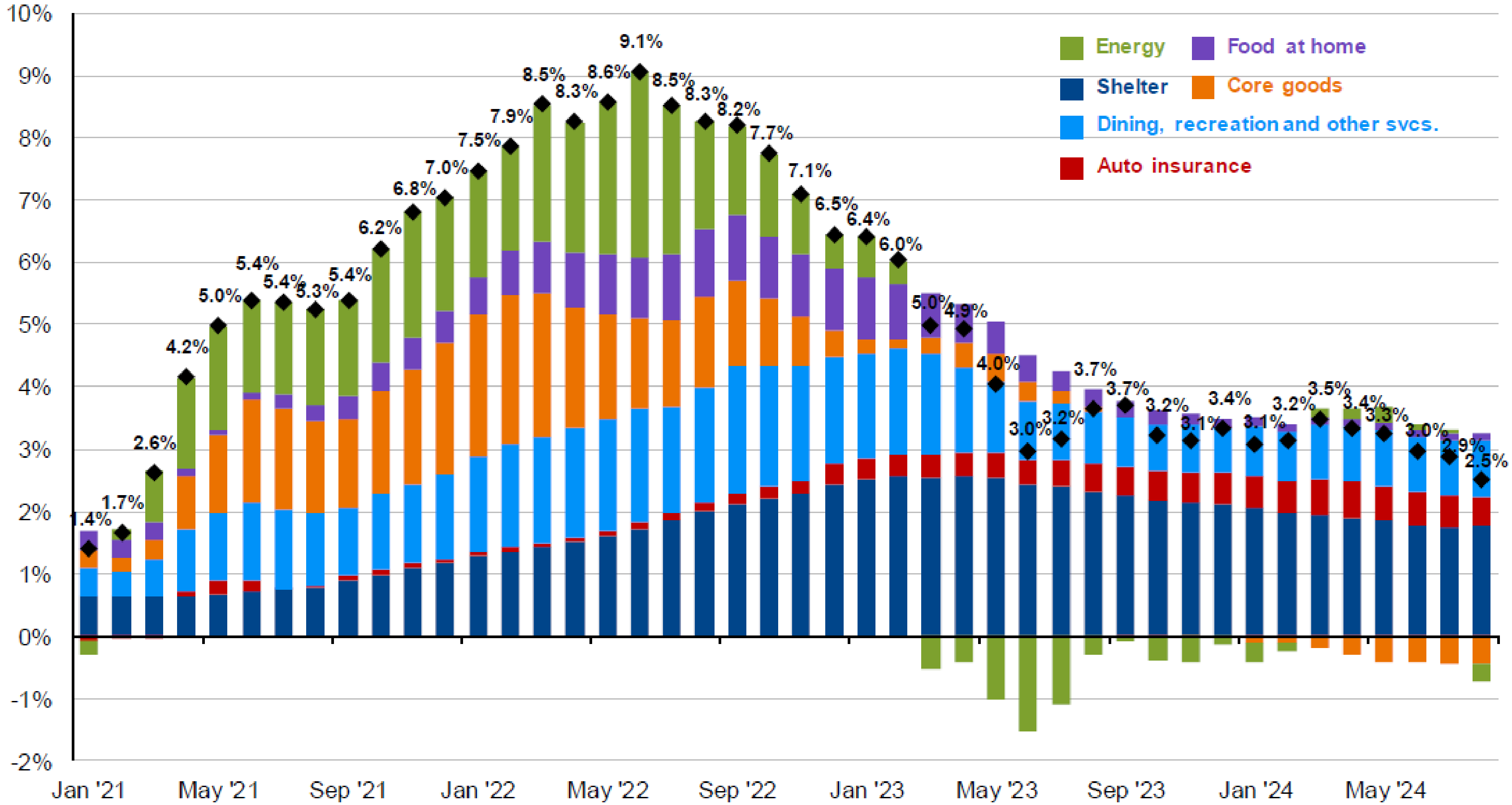
# Inflation Continuing to Roll Over

## Contributors to Headline CPI Inflation




Source: BLS, FactSet, JPMorgan Asset Management. Contributions mirror the BLS methodology on Table 7 of the CPI report. Values may not sum to headline CPI figures due to rounding and underlying calculations. "Shelter" includes owners' equivalent rent and rent of primary residence. "Food at home" includes alcoholic beverages. Data as of 9/30/2024.

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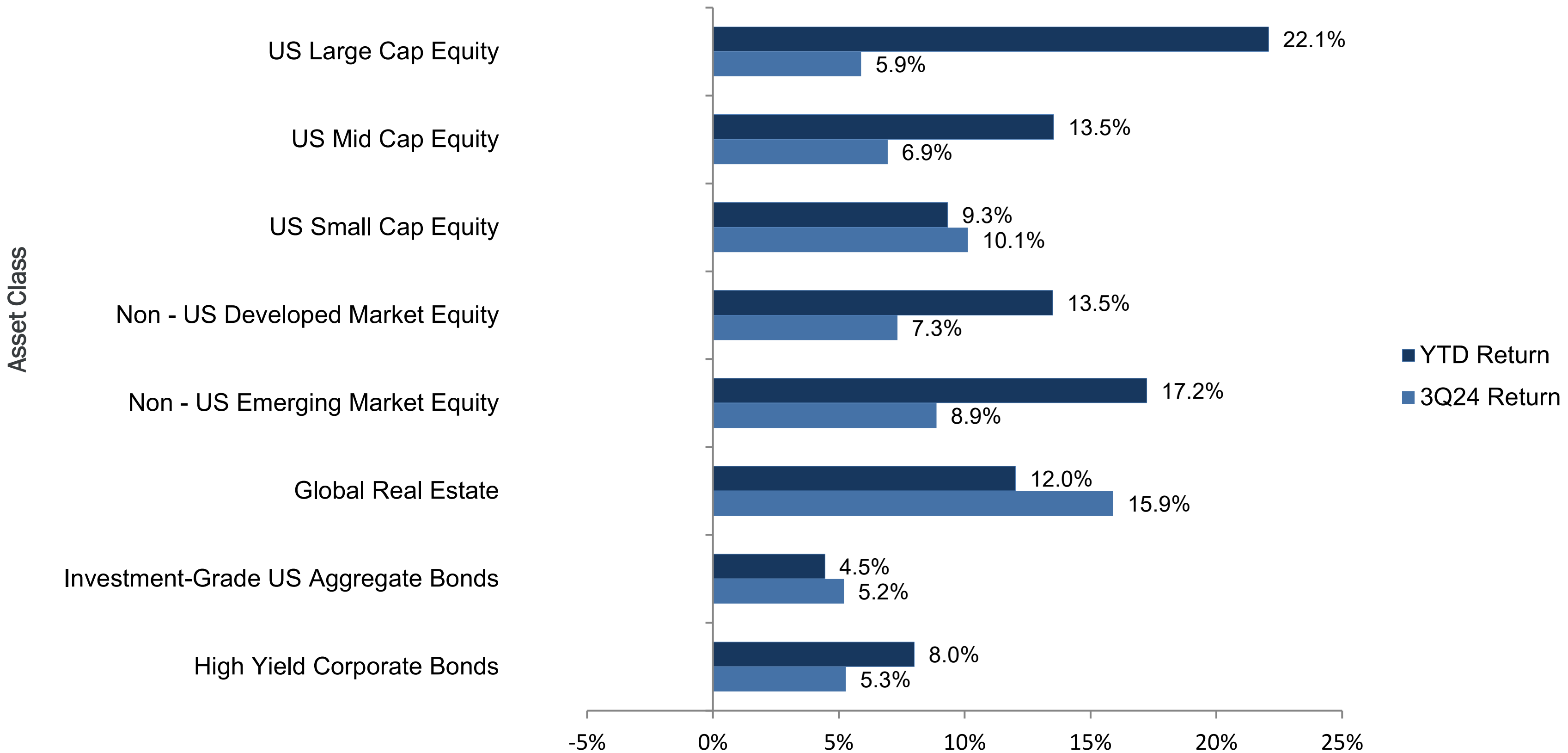
# ASSET CLASS RETURNS




Source: FactSet, as of 9/30/2024. Past performance is not indicative of future results. Please see slides 41-43 for asset class definitions.

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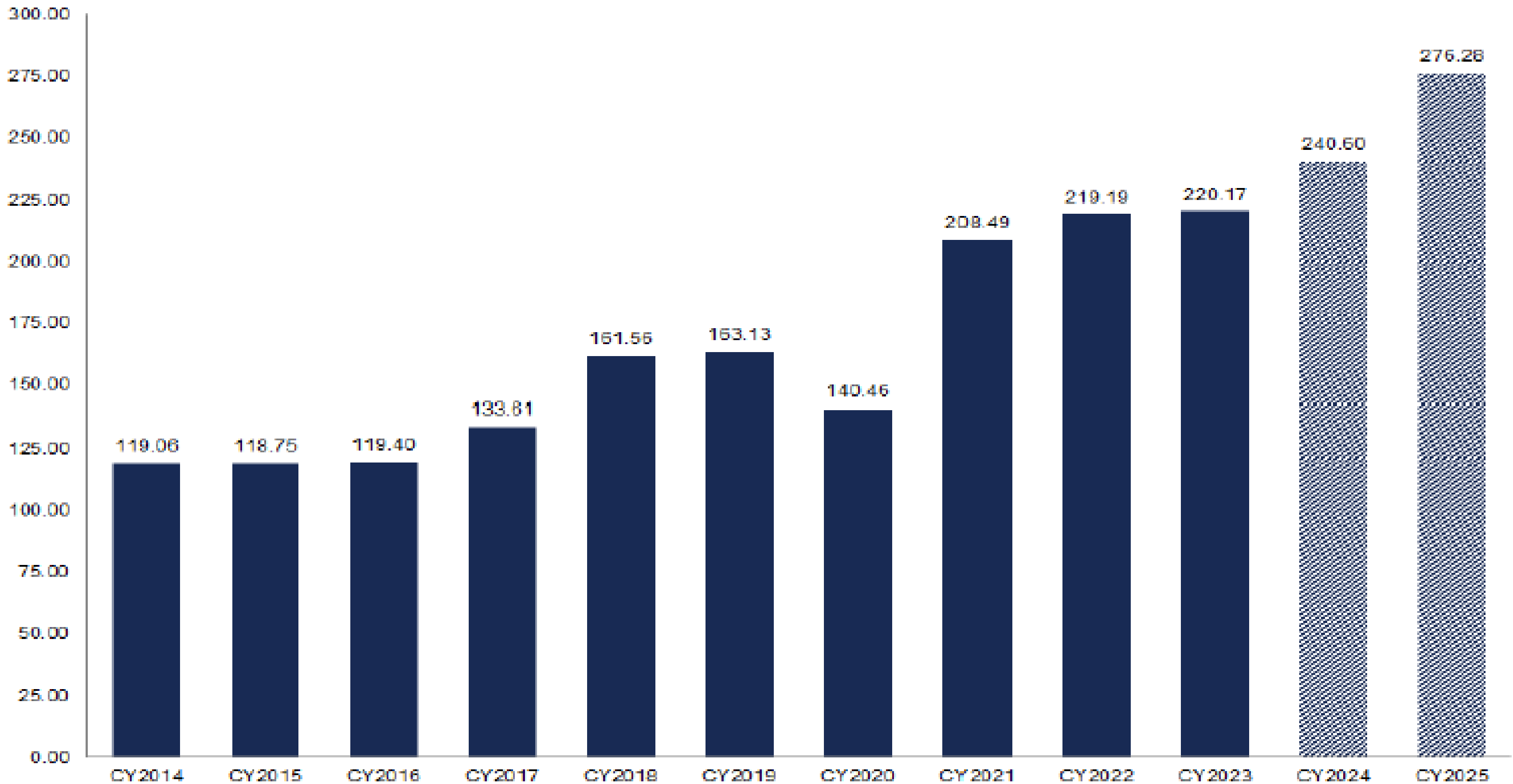
# PRICE-EARNINGS RATIOS VERSUS HISTORICAL AVERAGES

| | Current P/E | 20-Year Average | Current P/E as a % of 20-year Average |
|---|---|---|---|
| **S&P 500** | 21.7 | 15.7 | 138.5% |
| **S&P 400** | 16.2 | 15.7 | 103.1% |
| **S&P 600** | 16.0 | 16.3 | 98.3% |

Source: Standard & Poor's, Raymond James Institutional Equity Strategy Weekly. P/E calculated as the most recent index price, divided by consensus earnings in the next twelve months. Please see slides 41-43 for index definitions. 20-year averages as of June 2024. Current P/E data as of 9/30/2024.

## S&P 500 Calendar Year Bottom-Up EPS Estimates: Current & Historical




Source: Standard & Poor's, FactSet, Earnings Insight Report. Please see slides 41-43 for index definitions. Data as of 9/30/24.

## Forward P/E versus 4Q 2024 EPS Growth by Market Segment


Source: RBA, Bloomberg Financial Services. Estimated consensus forecast for float-adjusted earnings. Please see slides 41-43 for index definitions. Data as of 9/30/24.

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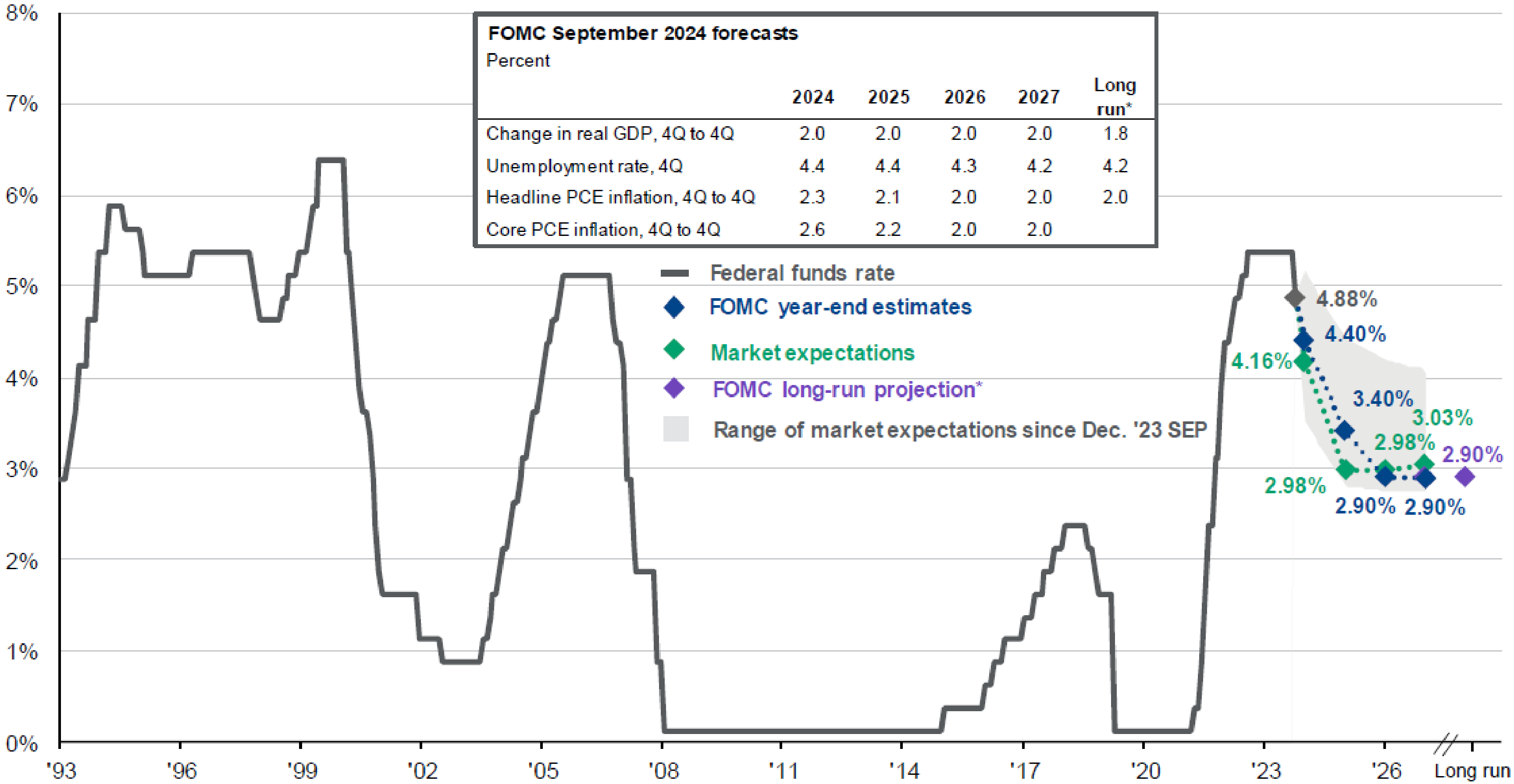
# Federal funds rate expectations

## FOMC and market expectations for the federal funds rate




**FOMC September 2024 forecasts**
Percent

| | 2024 | 2025 | 2026 | 2027 | Long run* |
|---|---|---|---|---|---|
| Change in real GDP, 4Q to 4Q | 2.0 | 2.0 | 2.0 | 2.0 | 1.8 |
| Unemployment rate, 4Q | 4.4 | 4.4 | 4.3 | 4.2 | 4.2 |
| Headline PCE inflation, 4Q to 4Q | 2.3 | 2.1 | 2.0 | 2.0 | 2.0 |
| Core PCE inflation, 4Q to 4Q | 2.6 | 2.2 | 2.0 | 2.0 | |

Source: JPM, FactSet, as of 9/30/2024.

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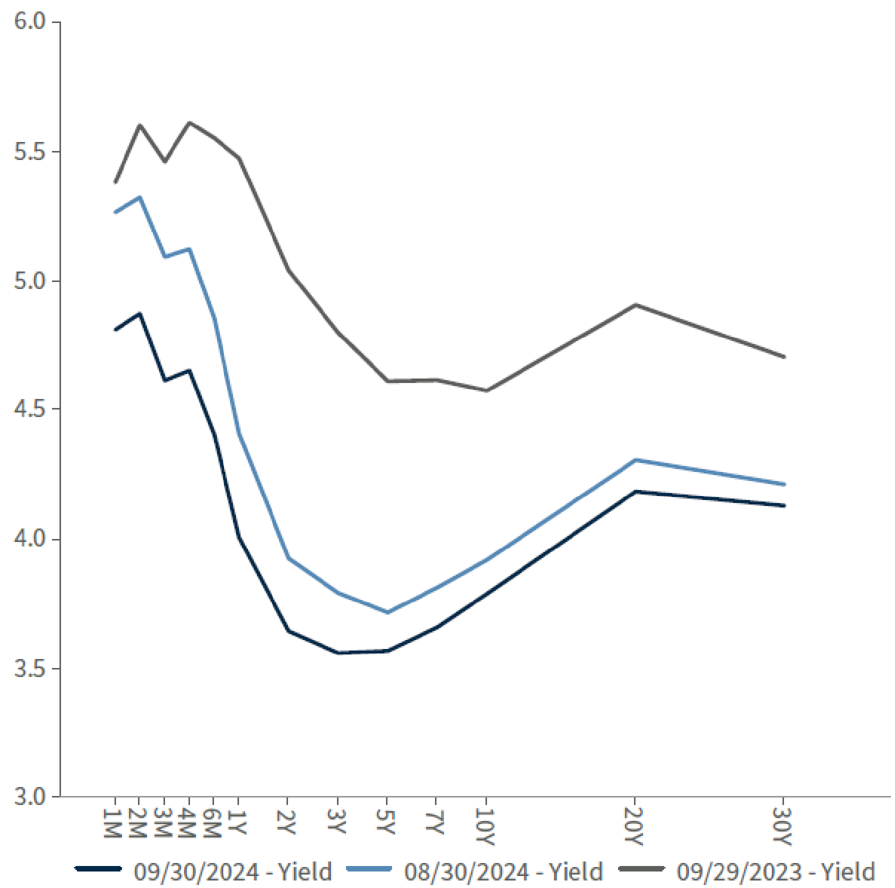
## US Yield Curve




Source: FactSet, as of 9/30/2024.

## US 10 – Year / US 2 – Year Yield Curve


Source: FactSet, as of 9/30/2024.

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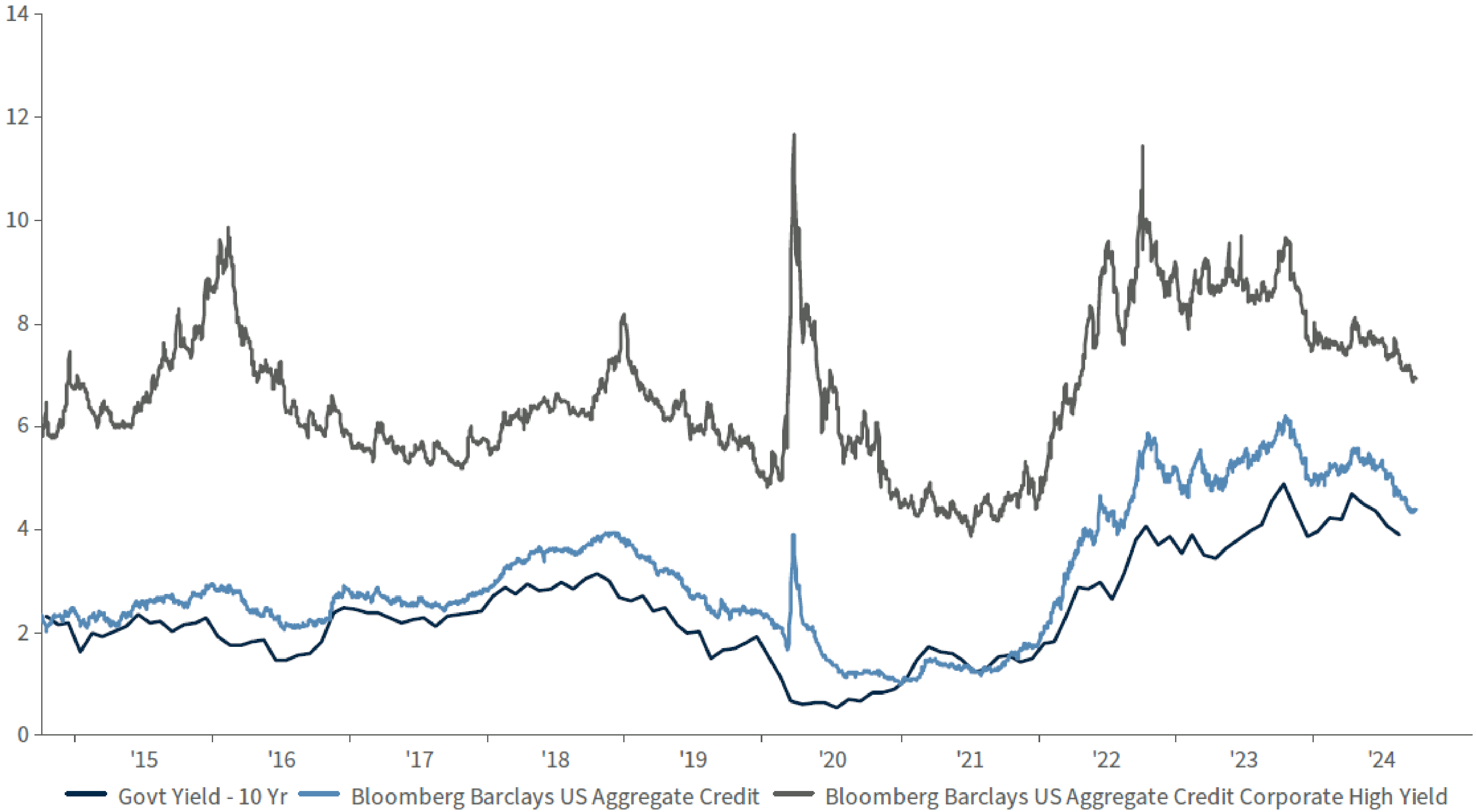
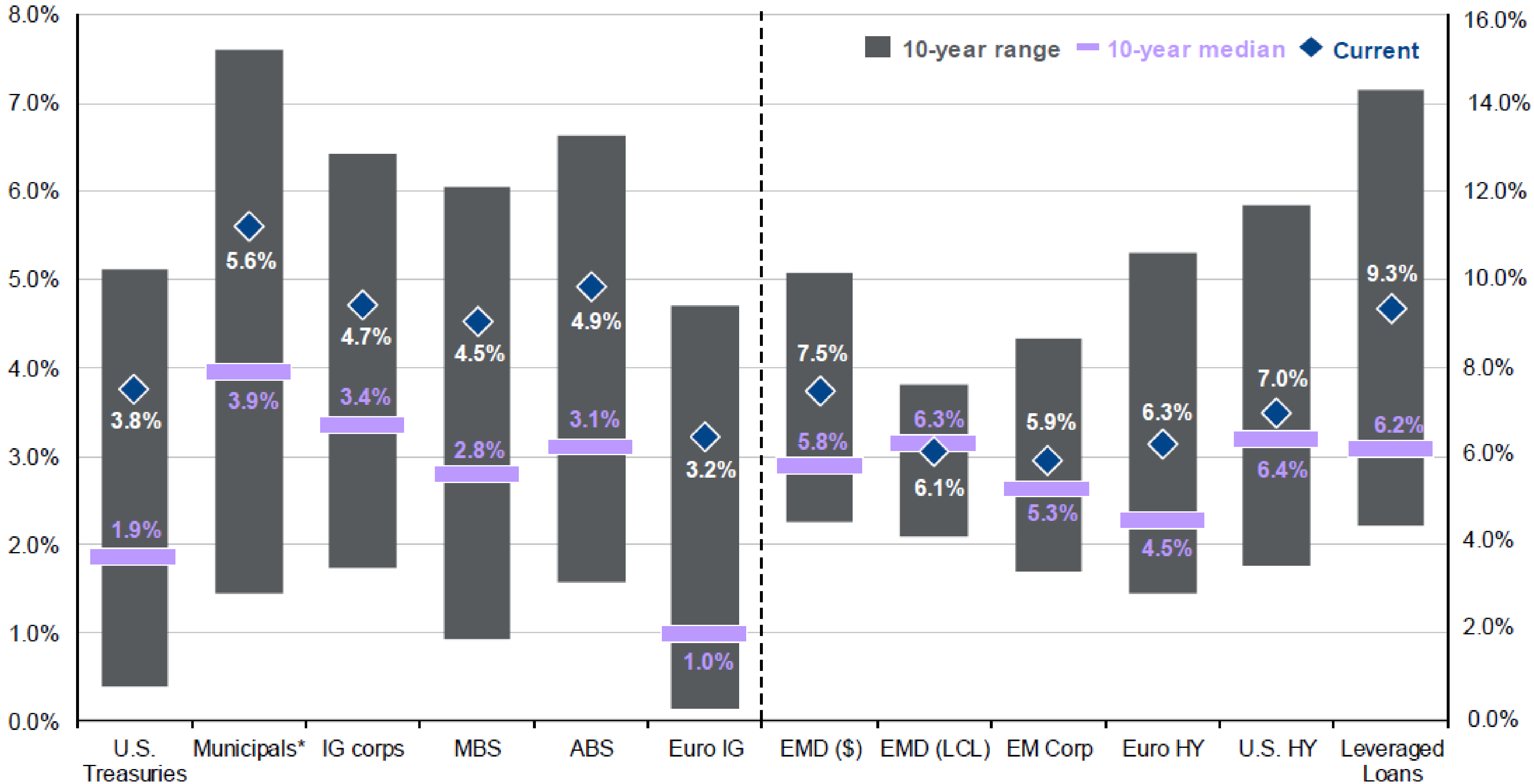
## Yield to Worst




Source: FactSet, as of 9/30/2024. All yields are Yield to Worst. Past performance is not indicative of future results. Please see slides 41-43 for index definitions.

## Yield to Worst Across Fixed Income Sectors




Source: Bloomberg, FactSet, JPMorgan, as of 9/30/24. All sectors shown are yield-to-worst except for Municipals, which is based on the tax-equivalent yield-to-worst assuming a top-income tax bracket rate of 37% plus a Medicare tax rate of 3.8% for a total of 40.8%. Please see slides 41-43 for index definitions.

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**The US Dollar weakened in the third quarter on the back of expectations for additional rate cuts in the coming months.**


Source: FactSet, as of 9/30/2024.

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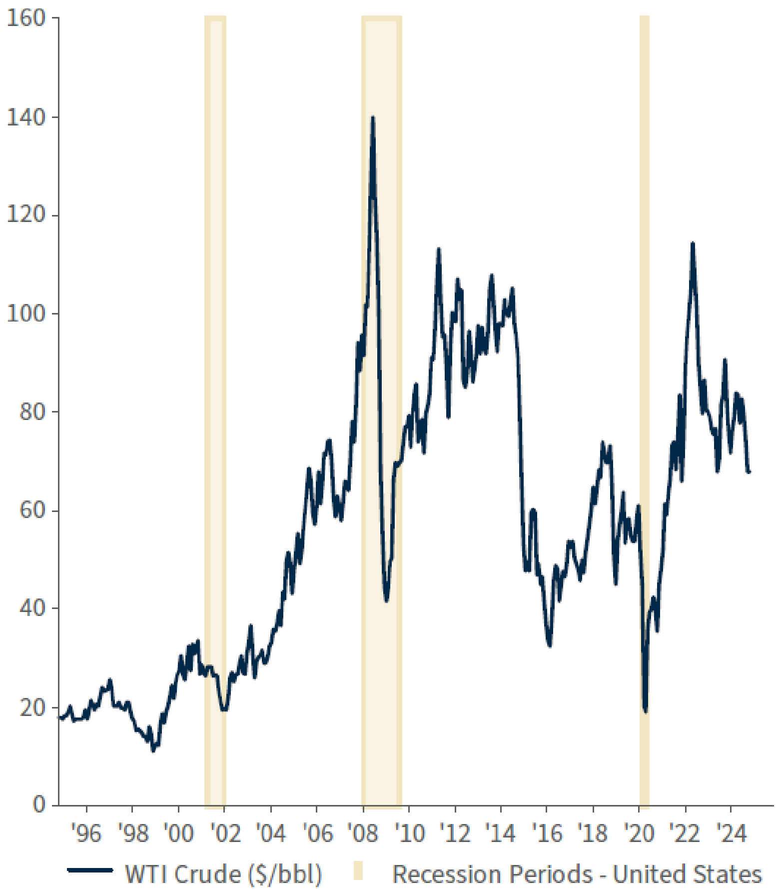
## WTI Price




Source: FactSet, as of 9/30/2024.

## Gold Price


Source: FactSet, as of 9/30/2024.

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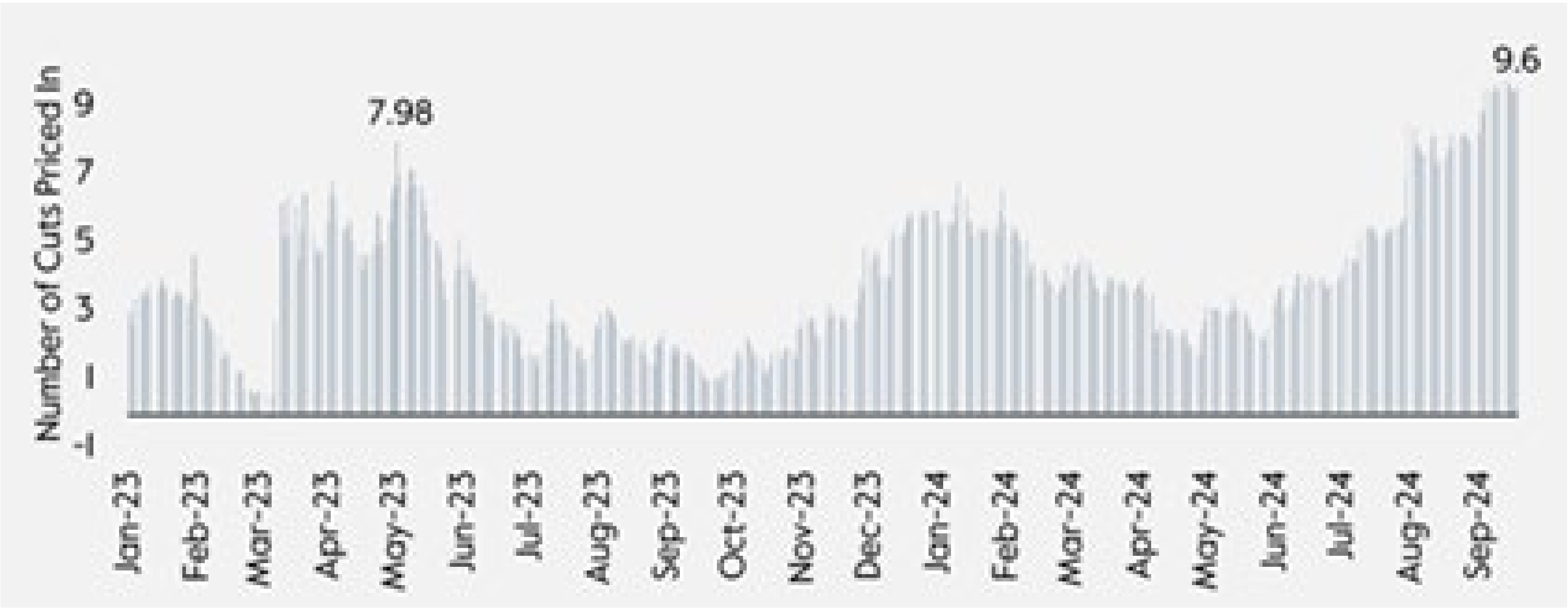
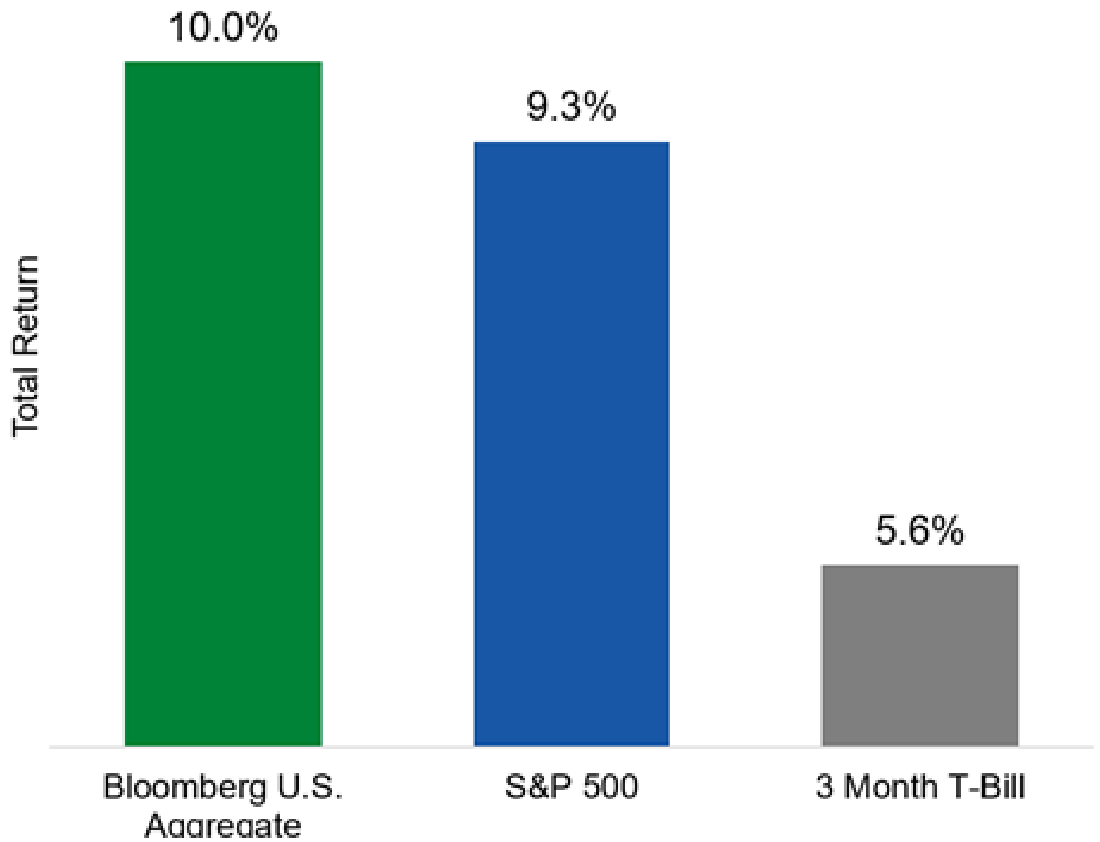
## Fed Rate Cuts Priced in Over Next 12 Months




Source: Carlyle, Bloomberg, as of September 2024.

## Asset Class Performance Following First Rate Cut (Last 7 Cycles)




Source: Bloomberg Index Services Limited. Past performance is not a reliable indicator of future results. Data represents the performance of the Bloomberg US Aggregate, S&P 500, and the ICE BofA US Treasury Bill 3 Month Index over the 1-year periods following the first Federal Funds rate cut in the previous 7 cycles by the US Federal Reserve. Please see slides 41-43 for index definitions. The start date of the seven periods are 10/2/84, 10/19/87, 6/5/89, 7/6/95, 1/3/01, 9/18/07, and 7/31/19.

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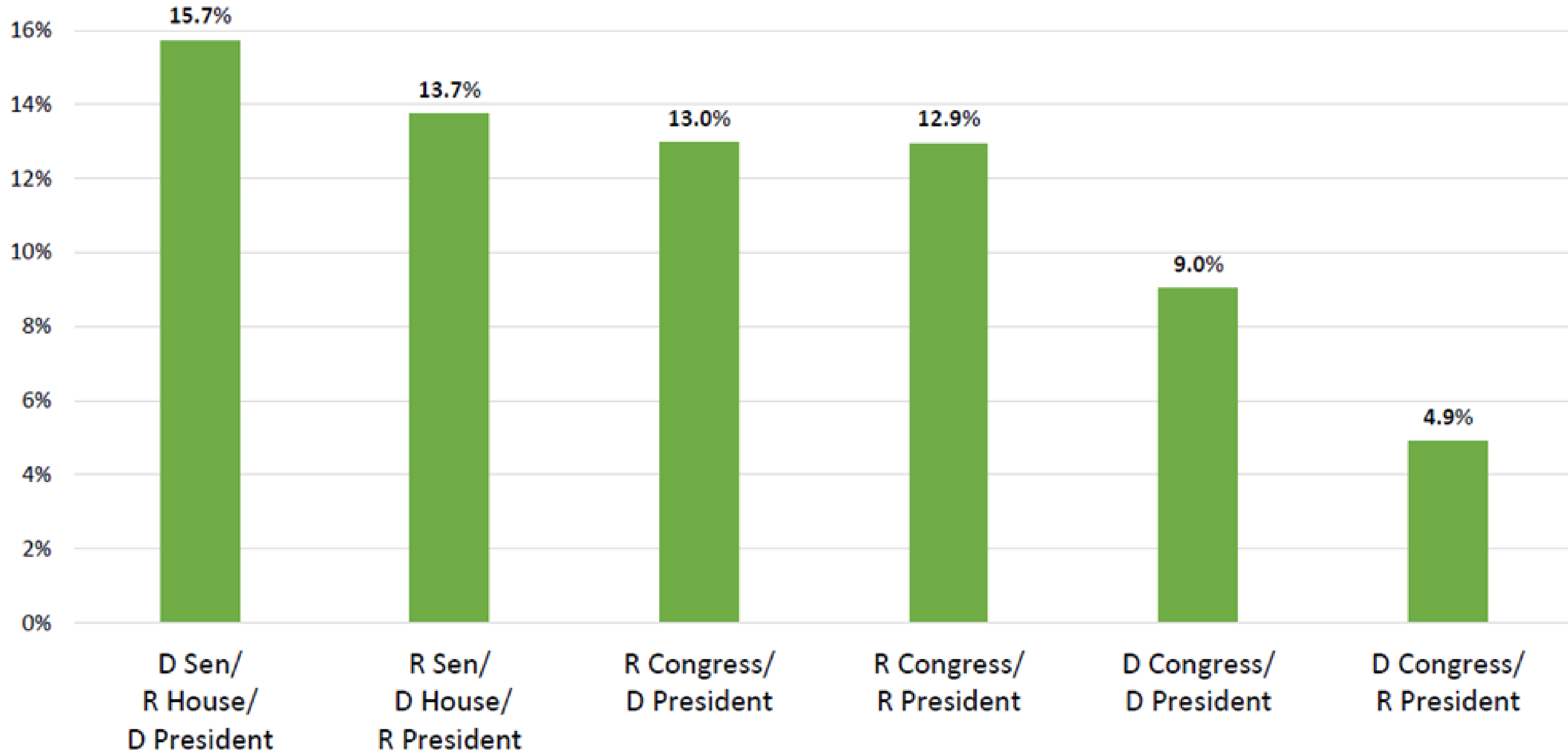
## Partisan Control, Average Annual S&P 500 Performance (1933-2023)




Source: PIMCO, Bloomberg, US House of Representatives. Please see slides 41-43 for index definitions. As of December 2023.

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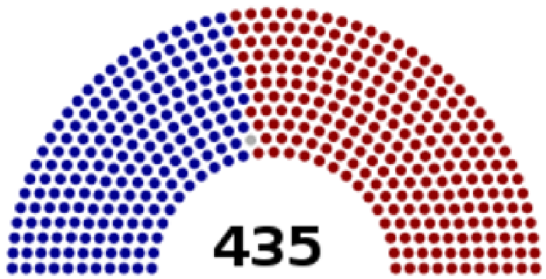
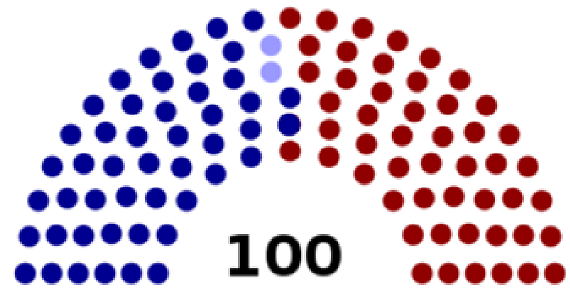
# Importance of Congress

## U.S. House of Representatives
*Republican controlled (+4 seats)*




| | Republicans | Democrats | Total |
|---|---|---|---|
| Current seats | 221 | 214 | 435 |
| Seats up for reelection | 221 | 214 | 435 |
| Vulnerable Repub. seats | 17 | 5 | |
| Seats needed for Democratic majority | | +4 | |

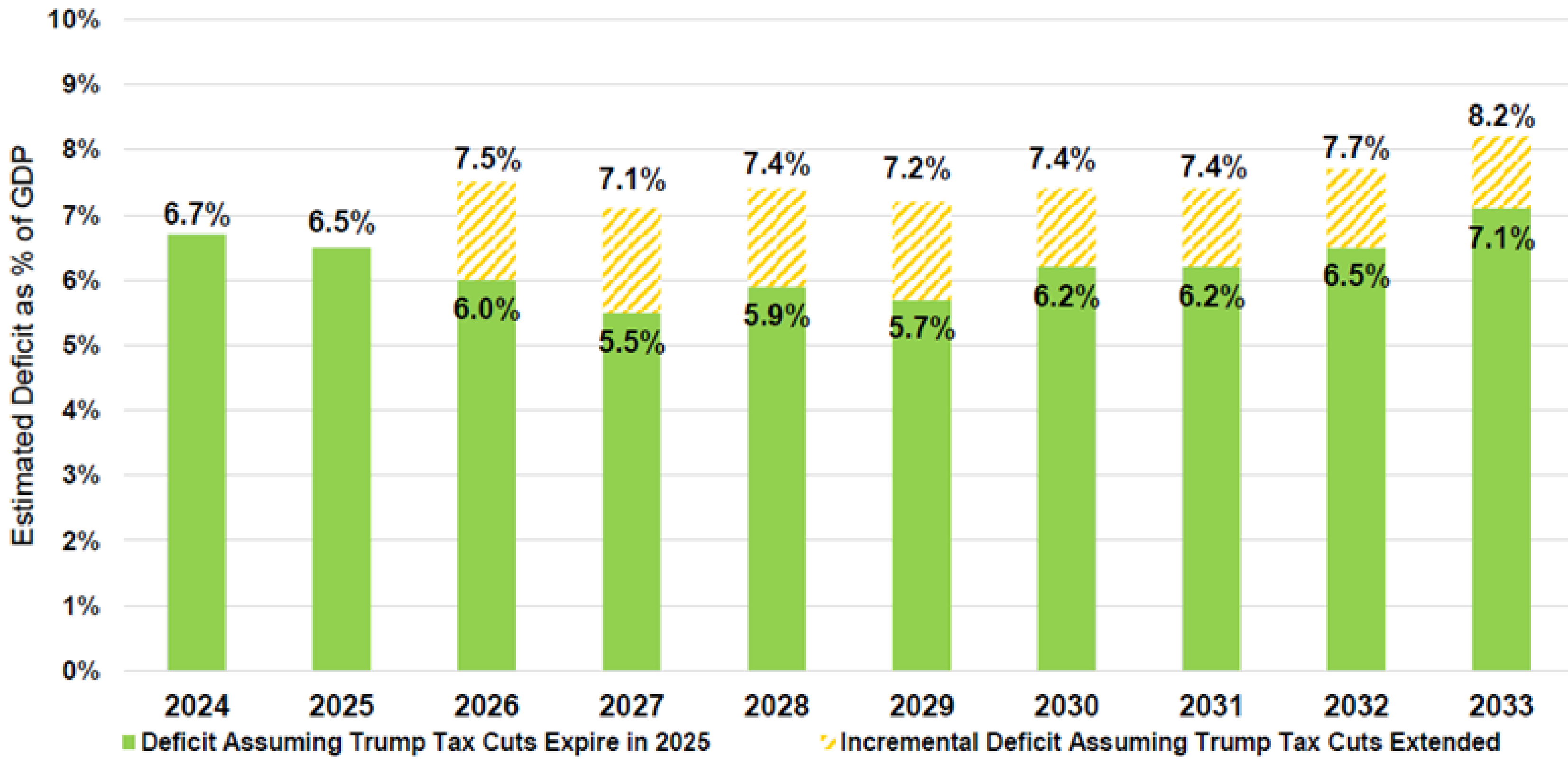
## U.S. Senate
*Democratic controlled (+1 seat)*




| | Democrats | Republicans | Total |
|---|---|---|---|
| Current seats | 51 | 49 | 100 |
| Seats up for reelection | 23 | 11 | 34 |
| Vulnerable Democrat seats | 8 | 1 | |
| Seats needed for Republican majority | | +1-2* | |

Source: PIMCO, Brookings, as of August 2024. *Depends on who wins White House as Vice President can be deciding vote.

## US Fiscal Deficit




Source: PIMCO, Congressional Budget Office, as of June 2024.

## Publicly Held Debt as a Share of GDP


Source: Office of Management and budget (actual); CBO (projection). As of September 2024.

All of the accolades received by Klingman & Associates along with the full disclosure of the criteria used for awarding them can be found at: https://www.klingmanria.com/accolades_and_recognition.htm

Data provided by Morningstar, Bloomberg.

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Asset allocation and diversification does not guarantee a profit nor protect against loss. Dividends are not guaranteed and will fluctuate. Past performance is not indicative of future results. Investing in international securities involves additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets. The values of real estate investments may be adversely affected by several factors, including supply and demand, rising interest rates, property taxes, and changes in the national, state and local economic climate. Companies engaged in business related to a specific sector are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector including limited diversification. Rebalancing a non-retirement account could be a taxable event that may increase your tax liability. Currencies investing are generally considered speculative because of the significant potential for investment loss. Their markets are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising.

Certified Financial Planner Board of Standards Inc. owns the certification marks CFP®, Certified Financial Planner™ and federally registered CFP in the U.S., which it awards to individuals who successfully complete CFP Board's initial and ongoing certification requirements.

**Fixed Income**: subject to credit risk and interest rate risk. An issuer’s credit rating may impact their ability to pay the promised income and return of principal upon maturity. Generally, when interest rates rise, bond prices fall, and vice versa. Specific-sector investing can be subject to different and greater risks than more diversified investments.

**Consumer Price Index (CPI)**: a common measure of inflation which examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. Changes in CPI are used to assess price changes associated with the cost of living.

**Gross Domestic Product (GDP**): a broad measurement of a nation’s overall economic activity. It is the monetary value of all the finished goods and services produced within a country's borders in a specific time period, including all private and public consumption, government outlays, investments and net exports that occur within a defined territory.

**Price-to-Earnings Ratio (P/E)**: a ratio for valuing a company that measures its current share price relative to its per-share earnings.

**Price-to-Book Ratio (P/B):** A ratio used to compare a stock's market value to its book value. It is calculated by dividing the closing stock price by the latest quarter's book value per share.

**Small-cap and Mid-Cap Equity:** generally involve greater risks, and may not be appropriate for every investor. International investing also involves special risks, including currency fluctuations, different financial accounting standards, and possible political and economic volatility.

**High-Yield Fixed Income:** not suitable for all investors. Risk of default may increase due to changes in the issuer’s credit quality. Price changes may occur due to changes in interest rates and the liquidity of the bond. When appropriate, these bonds should only comprise a modest portion of your portfolio.

**Commodities**: trading is generally considered speculative because of the significant potential for investment loss.

**U.S. Government Fixed Income**: guaranteed timely payment of principal and interest by the federal government.

**U.S. Treasury Bills**: A short-term debt obligation backed by the U.S. government with a maturity of less than one year.

**Fixed Income Sectors:** Returns based on the four sectors of Barclays Global Sector Classification Scheme: Securitized (consisting of U.S. MBS Index, the ERISA-Eligible CMBS Index and the fixed-rate ABS Index), Government Related (consisting of U.S. Agencies and non-corporate debts with four sub sectors: Agencies, Local Authorities, Sovereign and Supranational), Corporate (dollar-denominated debt from U.S. and non-U.S. industrial, utility, and financial institutions issuers), and Treasuries (includes public obligations of the U.S. Treasury that have remaining maturities of one year or more).

Asset class and reference benchmarks:

| ASSET CLASS | BENCHMARK |
|---|---|
| U.S. Equity | Russell 3000 TR |
| Non-U.S. Equity | MSCI ACWI ex US NR |
| U.S. Fixed Income | Barclays U.S. Aggregate Bond TR |
| Global Real Estate (prior to 2008) | NASDAQ Global Real Estate NR |
| Global Real Estate (2008-present) | FTSE EPRA/NAREIT Global Real Estate NR |
| Commodities | Bloomberg Commodity TR USD |
| Cash & Cash Alternatives | Citi Treasury Bill 3 Mon USD |

**Bloomberg Commodity Total Return Index:** Formerly the Dow Jones-UBS Commodity Index TR (DJUBSTR),is composed of futures contracts and reflects the returns on a fully collateralized investment in the BCOM. This combines the returns of the BCOM with the returns on cash collateral invested in 3 Month U.S. Treasury Bills.

**Barclays 10-Year Municipal:** A rules-based, market-value weighted index engineered for the long-term tax-exempt bond market. This index is the 10 year (8-12) component of the Municipal Bond Index.

**Barclays 10-Year U.S. Treasuries:** Measures the performance of U.S. Treasury securities that have a remaining maturity of 10 years.

**Barclays U.S. Aggregate Index:** Represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment-grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities.

**Barclays Global Aggregate ex-U.S. Dollar Bond Index**: Tracks an international basket of bonds that currently contains 65% government, 14% corporate, 13% agency and 8% mortgage-related bonds.

**Barclays High Yield**: Covers the universe of fixed-rate, non-investment grade debt. Pay-in-kind (PIK) bonds, Eurobonds, and debt issues from countries designated as emerging markets (e.g., Argentina, Brazil, Venezuela, etc.) are excluded, but Canadian and global bonds (SEC-registered) of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures and 144-As are also included.

**Barclays U.S. Corporate High Yield**: Composed of fixed-rate, publicly issued, non-investment grade debt.

**Citi 3-Month Treasury-Bill Index:** This is an unmanaged index of three-month Treasury bills.

**FTSE EPRA/NAREIT Global Real Estate Index :** Designed to represent general trends in eligible listed real estate stocks worldwide. Relevant real estate activities are defined as the ownership, trading and development of income producing real estate.

**Global Financial Data:** Index data has calculated for world ex US indices back to 1919. Since the Morgan Stanley World index was not calculated before 1970, an index has been put together to simulate how a World Index would have performed had it been calculated back to 1919. From 1970 on, the indices are capitalization weighted and include the same countries as are now included in the MSCI World Index.

**MSCI All Country World Index Ex-U.S Index.:** A market-capitalization-weighted index maintained by Morgan Stanley Capital International (MSCI) and designed to provide a broad measure of stock performance throughout the world, with the exception of U.S.-based companies. It includes both developed and emerging markets.

**MSCI EAFE Index (Europe, Australasia, Far East):** A free-float adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States and Canada. The EAFE consists of the country indices of 21 developed nations.

**MSCI EAFE Growth Index:** Represents approximately 50% of the free-float adjusted market capitalization of the MSCI EAFE index, and consists of those securities classified by MSCI as most representing the growth style.

**MSCI EAFE Small-Cap Index:** An unmanaged, market-weighted index of small companies in developed markets, excluding the U.S. and Canada.

**MSCI EAFE Value:** Represents approximately 50% of the free-float adjusted market capitalization of the MSCI EAFE index, and consists of those securities classified by MSCI as most representing the value style.

**MSCI Emerging Markets Index:** Designed to measure equity market performance in 25 emerging market indexes. The three largest industries are materials, energy and banks.

**MSCI Local Currency Index:** A special currency perspective that approximates the return of an index as if there were no currency valuation changes from one day to the next.

**NASDAQ Global Real Estate Index:** The index measures the performance of real estate stocks which listed on an Index Eligible Global Stock Exchange. The index is market-capitalization weighted.

**Russell 1000 Index:** Measures the performance of the 1,000 largest companies in the Russell 3000 Index, which represents approximately 90% of the investible U.S. equity market.

**Russell 1000 Value Index:** Measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

**Russell 1000 Growth Index:** Measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

**Russell Mid-Cap Index:** Measures the performance of the 800 smallest companies of the Russell 1000 Index, which represent approximately 30% of the total market capitalization of the Russell 1000 Index.

**Russell Mid-cap Value Index:** Measures the performance of those Russell Mid-cap companies with lower price-to-book ratios and lower forecasted growth values.

**Russell Mid-Cap Growth Index:** Measures the performance of those Russell Mid-cap companies with higher price-to-book ratios and higher forecasted growth values.

**Russell 2000 Index:** Measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index.

**Russell 2000 Value Index:** Measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

**Russell 2000 Growth Index:** Measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values.

**Russell 3000 Index:** measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents 98% of the investable U.S. equity market.

**Standard & Poor's 500 (S&P 500):** Measures changes in stock market conditions based on the average performance of 500 widely held common stocks. Represents approximately 68% of the investable U.S. equity market.

**S&P 500 Consumer Discretionary:** Comprises those companies included in the S&P 500 that are classified as members of the GICS® consumer discretionary sector.

**S&P 500 Consumer Staples:** Comprises those companies included in the S&P 500 that are classified as members of the GICS® consumer staples sector.

**S&P 500 Energy:** Comprises those companies included in the S&P 500 that are classified as members of the GICS® energy sector.

**S&P 500 Financials:** Comprises those companies included in the S&P 500 that are classified as members of the GICS® financials sector

**S&P 500 Health Care:** Comprises those companies included in the S&P 500 that are classified as members of the GICS® health care sector.

**S&P 500 Industrials:** Comprises those companies included in the S&P 500 that are classified as members of the GICS® industrials sector.

**S&P 500 Information Technology:** Comprises those companies included in the S&P 500 that are classified as members of the GICS® information technology sector.

**S&P 500 Materials:** Comprises those companies included in the S&P 500 that are classified as members of the GICS® materials sector.

**S&P 500 Telecom Services:** Comprises those companies included in the S&P 500 that are classified as members of the GICS® telecommunication services sector.

**S&P 500 Utilities:** Comprises those companies included in the S&P 500 that are classified as members of the GICS® utilities sector.

**S&P Mid Cap 400 (S&P 400):** Provides investors with a benchmark for mid – cap companies. The index, which is distinct from the large-cap S&P 500, measures the performance of mid-cap companies, reflecting distinctive risk and return characteristics of this market segment.

**S&P Small Cap 600 (S&P 600):** Provides investors with a benchmark for small – cap companies. The index, which is distinct from the large-cap S&P 500, measures the performance of small-cap companies, reflecting distinctive risk and return characteristics of this market segment.

**VIX is the Chicago Board Options Exchange (CBOE) Volatility Index,** which shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options. It is a widely used measure of market risk.