CAPITAL MARKETS OUTLOOK

Reviewing the quarter ended March 31, 2025

Klingman & Associates
INDEPENDENT WEALTH ADVISORS

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.

Global trade. Tariffs. Protectionism. Concepts many of us studied in Economics 101. President Trump campaigned on increasing tariffs, but none of us, including the financial markets, believed that he was intent on reengineering the entire global trading system. Prior to the announcement last week, most market participants thought this was a negotiating tactic to gain an edge in individual negotiations with other countries. But the speed, scope, and magnitude of the tariffs laid out on our trading partners on April 2, 2025, or "Liberation Day", was far worse than expected. A 10% baseline tariff was imposed on all trading partners and another set of tariffs (as high as 50%) on countries that the administration identified for US trade deficits (page 31).

Further adding to the complexity, the administration is calculating the individualized tariff rates based on the size of the US goods trade deficit with the specific country relative to the US imports from that country. This makes the potential de-escalation harder since, in theory, other countries cannot simply reduce tariffs on the US. Countries will have to decrease their own trade surplus with the US to see a relief, which can take considerable time. We use as an example the country of Vietnam, that the administration proposes enacting a 46% tariff in hopes of balancing our trade deficit. Vietnam is a small relatively poor country. It is almost inconceivable that it will ever purchase as many goods from the United States as we can purchase from them. This is a misguided policy goal in our opinion. While economists, corporate executives, business owners, and investors all scramble to understand the far-reaching implications, one thing is clear…these tariffs are proving more than a negotiating tactic, and the global free trade system that emerged following World War II has been upended seemingly overnight.

Before we discuss the implications of these policies, we think it is important to respond to some of the rhetoric coming from the current administration. It can certainly be argued that some of the tariffs on US goods are unfair and should be renegotiated. Having said that, the administration continues to emphasize the unfairness and "cheating" in the global trading system, without any mention of the benefits that the world's economies, including the US, have enjoyed over the last 80 years. The global trading system has allowed countries to specialize in products and services that they are most effective in producing, increased productivity and economic efficiency, and has raised the standard of living of billions of people globally. Over this time, America transitioned from a manufacturing-based economy to a services-based economy.

Even if these policies are softened, changed, or reversed in the near to intermediate term, they are damaging the economy as businesses and consumers put off investment and consumption decisions until they have a clearer picture of the rules that they will be playing by. Further, the “process” that was used to arrive at and announce these tariffs have led countries across the globe to question whether the US can be trusted as a trading partner (and more). In our opinion, the actions of the administration have significantly increased the likelihood that we will have a recession in the US and global economy. We believe they will negatively impact corporate earnings. We will start to get more information on this later this week as companies report their first quarter earnings and their outlook for the coming year.

As we write this Outlook, the S&P 500 is now in bear market territory, falling ~20% from its mid-February highs. The NASDAQ, Russell 2000 and other market indicators are off even further. We find it helpful when we experience these types of declines to reflect on when this has happened in the past, including the stock market crash of 1987, the tech bubble of 2000, the Global Financial Crisis of 2007, and the Covid pandemic of 2020. In each situation, new information at first caused a decline in equity prices as markets correctly discounted a decline in short and intermediate-term earnings for corporations. The situation then evolved into panic as investors continued to sell equities. Bear markets are typically exacerbated by “forced” sellers: investors that have money in equities that they need in the short-term, investors who are leveraged or on margin, investors that don’t understand the short-term risk of equities, etc. History never repeats itself, but it usually rhymes. The chart on page 34 shows every bear market in the S&P 500 since World War II. The average decline was 34% and ranged from 22% to 57% during the Global Financial Crisis.

While we certainly cannot predict when and at what level this bear market will bottom, we do not believe that the problems facing the global economy are as foundational as they were during the Global Financial Crisis of 2007 or the Covid shut down in 2020. Today, a mere modification in the administration’s policies could quickly lead to a turnaround for an otherwise healthy global economy. In many ways this is the most frustrating thing about this current downturn. As a result, we have moved to a slight Underweight to US Large Cap Equities in our asset allocation models. US Mid Cap (S&P 400) and Small Cap (S&P 600) Equities have both also entered a bear market following recent declines. These companies are typically more domestically focused as compared to their larger counterparts and were trading at relatively cheaper valuations going into the trade war (page 22). We remain Neutral weight US Mid Cap Equities and US Small Cap Equities in our asset allocation models.

After years of US equity markets being the “only game in town”, Non–US Equity markets have provided investors with positive diversification benefits this year. Non–US Developed Equities, as measured by the MSCI EAFE Index, returned +7% in the first quarter (page 21) and Non–US Emerging Market Equities, as measured by the MSCI EM Index, returned +3%. Although these markets have given back most of these gains over the last few trading days. While the tariffs will undoubtedly affect these companies, we believe there are several factors for this relative outperformance which can be sustainable. Valuations remain historically low on both an absolute and relative basis, providing support amidst these tumultuous times. And economic and corporate earnings trends are improving, particularly as fiscal and monetary policy turn into tailwinds in many economies. We remain Neutral weight Non–US Developed Equities and slightly Overweight Non-US Emerging Market Equities in our models.

ECONOMIC OUTLOOK

The Federal Reserve held short-term interest rates steady at 4.25 - 4.50% in the first quarter, after lowering three times in 2024. Fed Chairman Jerome Powell was already walking a tight rope to ensure the job market doesn't slow too dramatically and inflation doesn't increase. The tariff announcement brings a hurricane into the forecast, with gusts of higher inflation, lower growth and weaker employment. Markets are currently pricing in several cuts to short-term interest rates this year (page 24), which we worry may be too optimistic. The Fed remains very wary of "getting behind" inflation, again. Long-term interest rates moved lower in the "flight to quality" trade we typically see in times of market stress. The 10 year Treasury is back under 4% for the first time since October 2024 (page 24) and has room to move further if economic growth materially declines. We continue to purchase high quality bonds to lock in income for client portfolios, while being wary of undue duration (interest rate) risk. We remain Overweight US Investment Grade Bonds. We also increased our allocation to shorter duration Treasury Inflation Protected Securities (TIPs), which will help protect against a rise in inflation from tariffs and now are Neutral weight in our models. Non-Investment Grade bonds enjoyed another quarter of positive returns (+1% as measured by the Barclays High Yield index) and credit spreads tightened to historically narrow levels. We have been reducing our allocations even through the income is attractive on an absolute basis, because we do not believe investors are being adequately compensated for taking excessive credit risk. We remain Neutral to Strategic Bonds.

In our fourth quarter 2024 market outlook, we cautioned that we should be 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." Well, the April 2nd tariff announcement was certainly unexpected, and is particularly painful given it is a seemingly self-inflicted wound. But capital markets adjust…and eventually recover. We continue to monitor, rebalance and tax-loss harvest our clients' long term portfolios as appropriate.

We leave you with a 19th century quote which Warren Buffett recently reminded his investors to observe during a significant market decline…. "If you can keep your head when all about you are losing theirs … If you can wait and not be tired by waiting … If you can think — and not make thoughts your aim … If you can trust yourself when all men doubt you … Yours is the Earth and everything that's in it."

TACTICAL OVERLAY TO STRATEGIC ASSET ALLOCATION MODELS

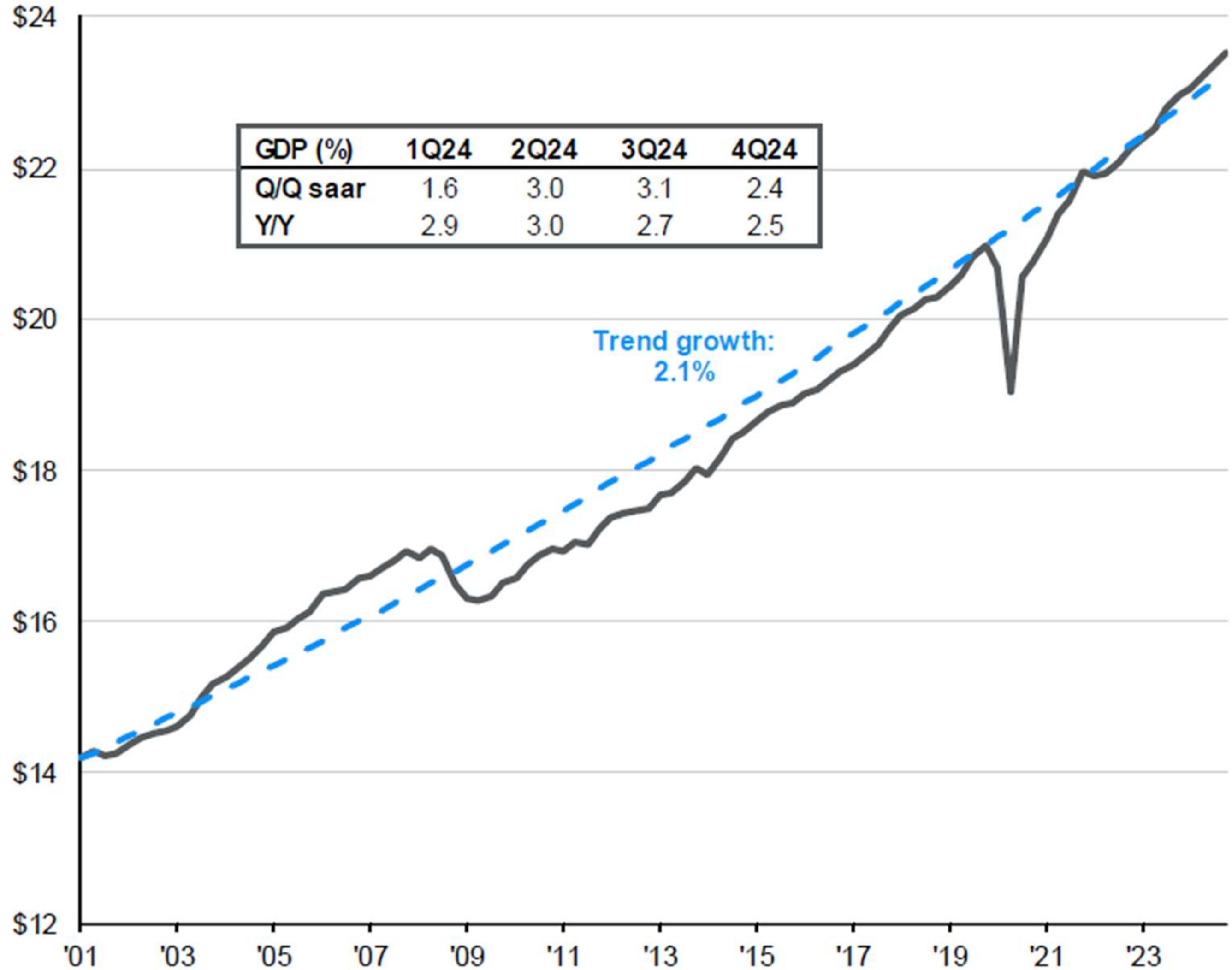
CASH ALTERNATIVES	**UNDERWEIGHT**	NEUTRAL	OVERWEIGHT
FIXED INCOME			
US INVESTMENT GRADE BOND	UNDERWEIGHT	NEUTRAL	**OVERWEIGHT**
TIPS	UNDERWEIGHT	**NEUTRAL**	OVERWEIGHT
STRATEGIC BOND	UNDERWEIGHT	**NEUTRAL**	OVERWEIGHT
US STOCKS			
US LARGE CAP EQUITY	**UNDERWEIGHT**	NEUTRAL	OVERWEIGHT
US MID CAP EQUITY	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

ECONOMIC REVIEW

CAPITAL MARKETS

QUARTERLY THEMES

Gross domestic product increased 2.5 percent in the fourth quarter of 2024 versus a year ago according to the Bureau of Economic Analysis, driven by increases in consumer and government spending.



GDP (%)	1Q24	2Q24	3Q24	4Q24
Q/Q saar	1.6	3.0	3.1	2.4
Y/Y	2.9	3.0	2.7	2.5

Source: Bureau of Economic Analysis, JPMorgan, FactSet. Trillions of chained (2017) dollars, seasonally adjusted. Data as of 12/31/2024.

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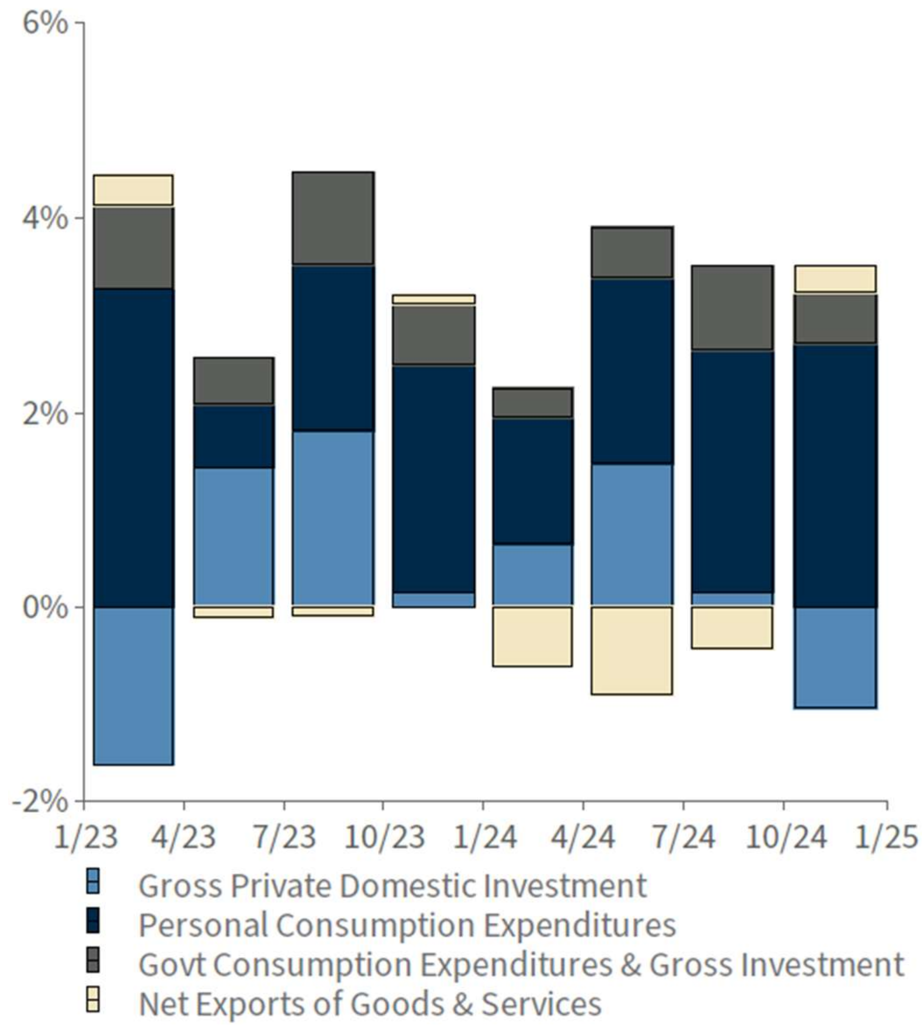
CONTRIBUTIONS TO % CHANGE IN REAL GDP

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



Source: FactSet, as of 12/31/2024.

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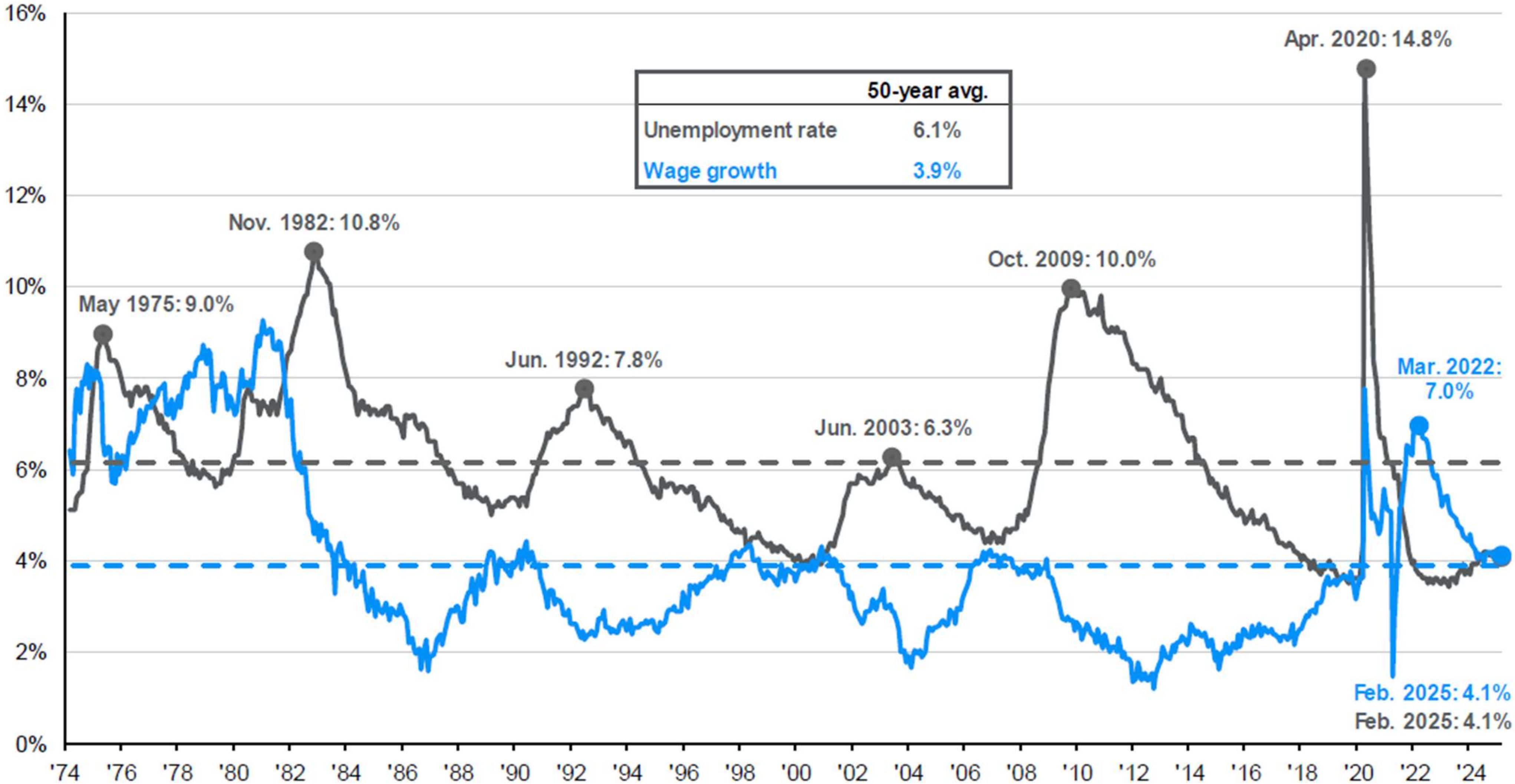
Civilian Unemployment Rate and Year-over-Year Wage Growth



Source: BLS, FactSet, JPMorgan Asset Management. Private production and non-supervisory jobs represent just over 80% of total private nonfarm jobs. Data as of 3/31/2025.

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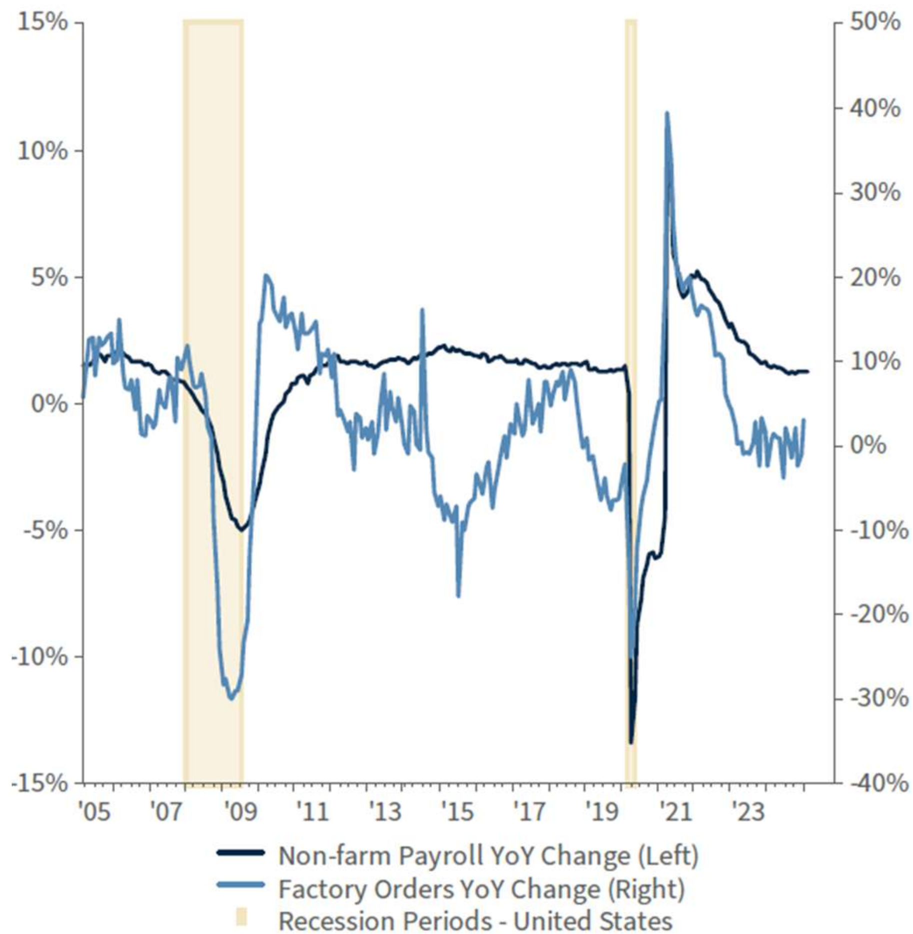
Non-farm payrolls rose by 228,000 in March, well ahead of expectations for 140,000. This increase reflects additions within primarily healthcare and social assistance jobs.

Non-Farm Payroll and Factory Orders



Source: FactSet, as of 3/31/2025.

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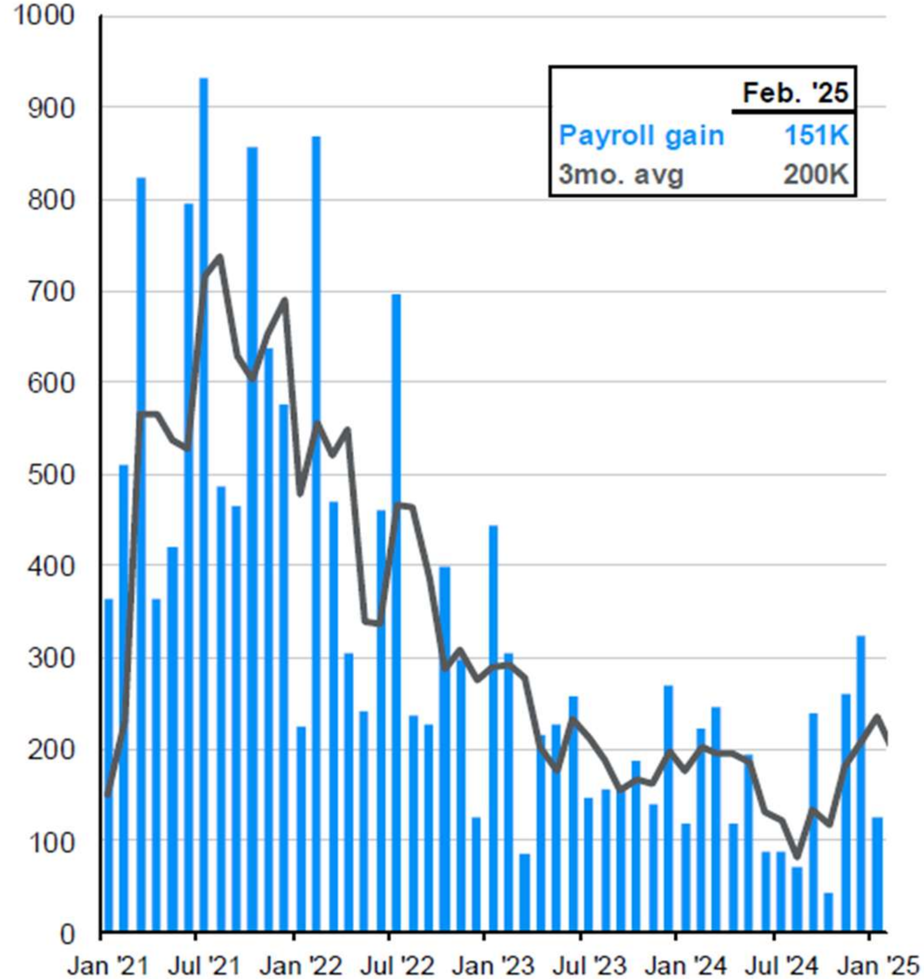
Non-Farm Payroll Gains

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



Source: BLS, FactSet, CBO, JPMorgan Asset Management, as of 3/31/2025.

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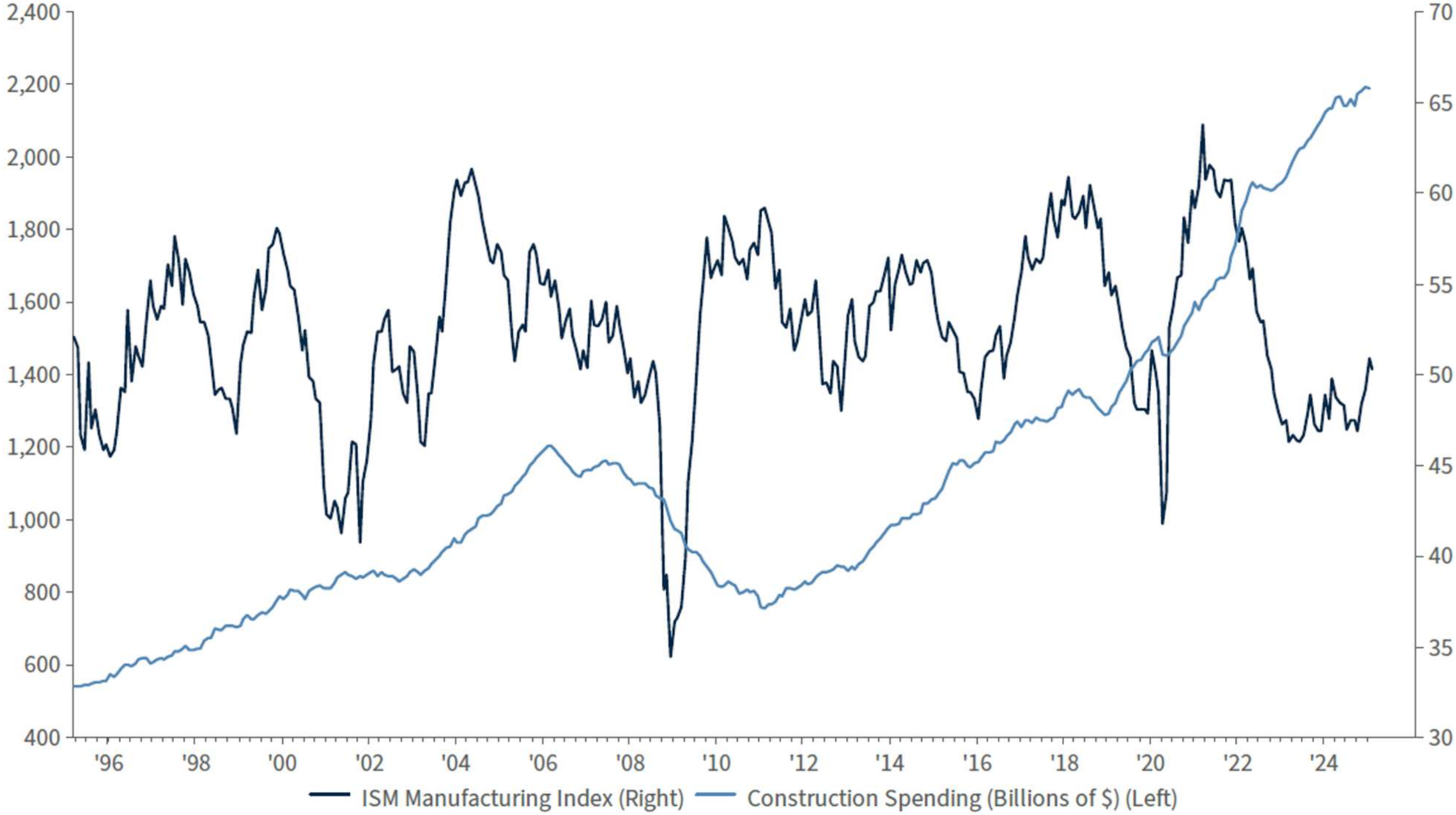
The ISM Manufacturing Index fell in March to 49.0 and remains in contractionary territory (a level below 50). Construction spending increased slightly over the quarter.

Construction and Manufacturing



Source: FactSet, as of 3/31/2025.

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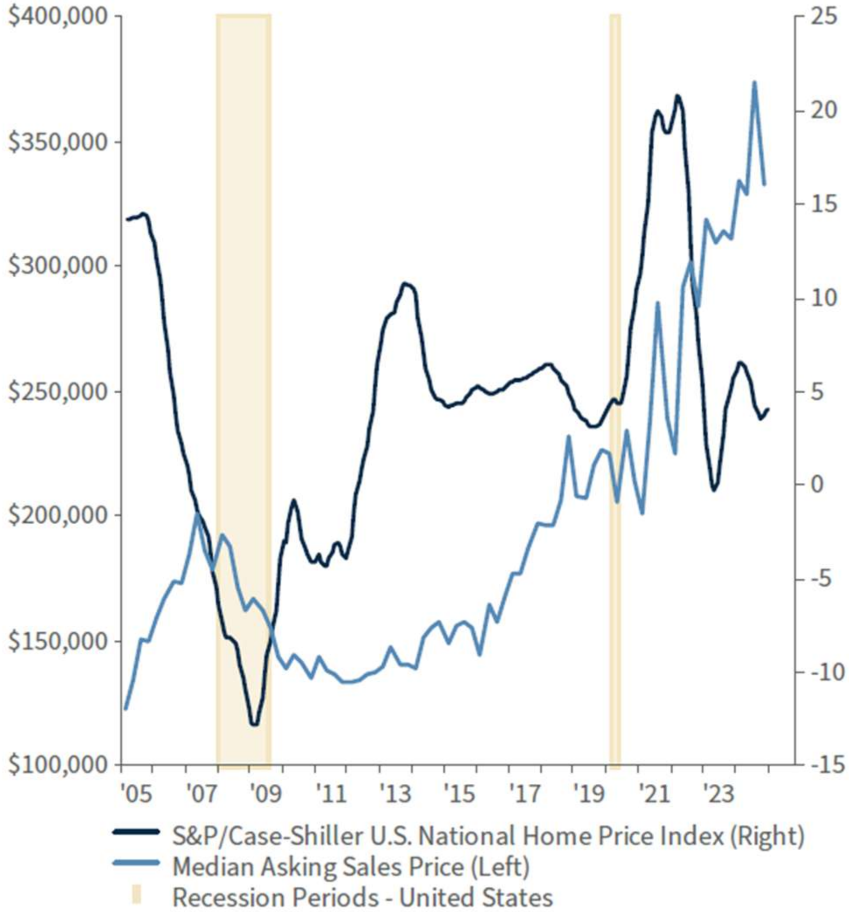
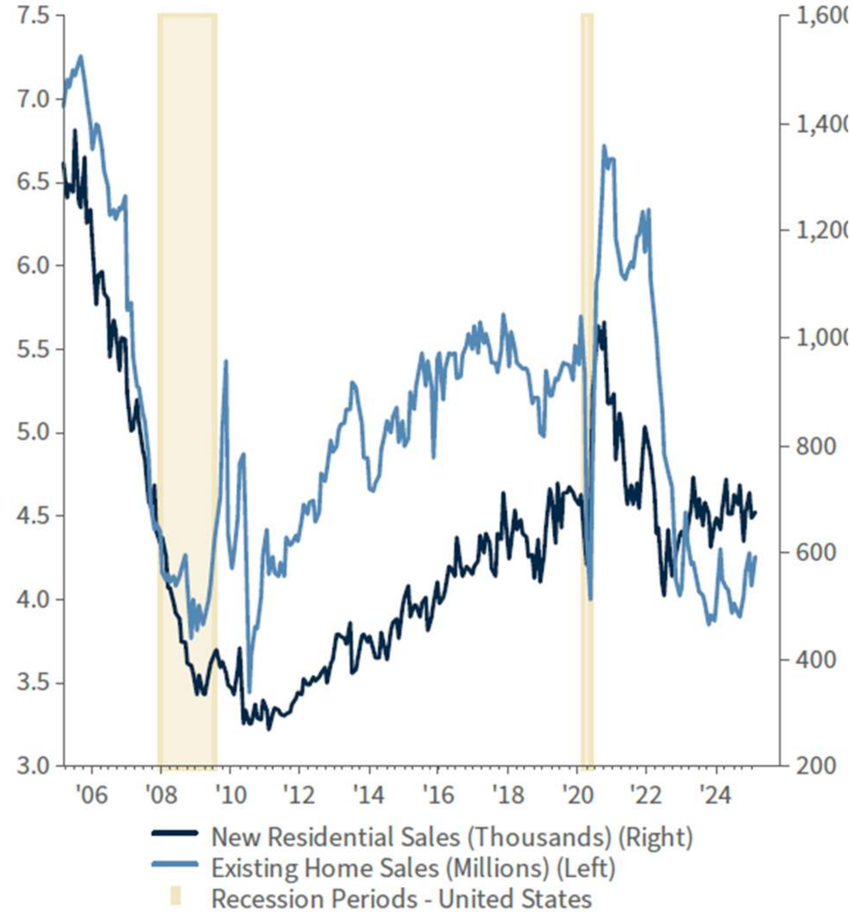
While home prices have continued to climb, the pace of price increases has moderated. Both new and existing home sales trended slightly higher this winter.

National Home Price Index (YoY Change)



Source: FactSet, as of 3/31/2025.

New and Existing Home Sales



Source: FactSet, as of 3/31/2025.

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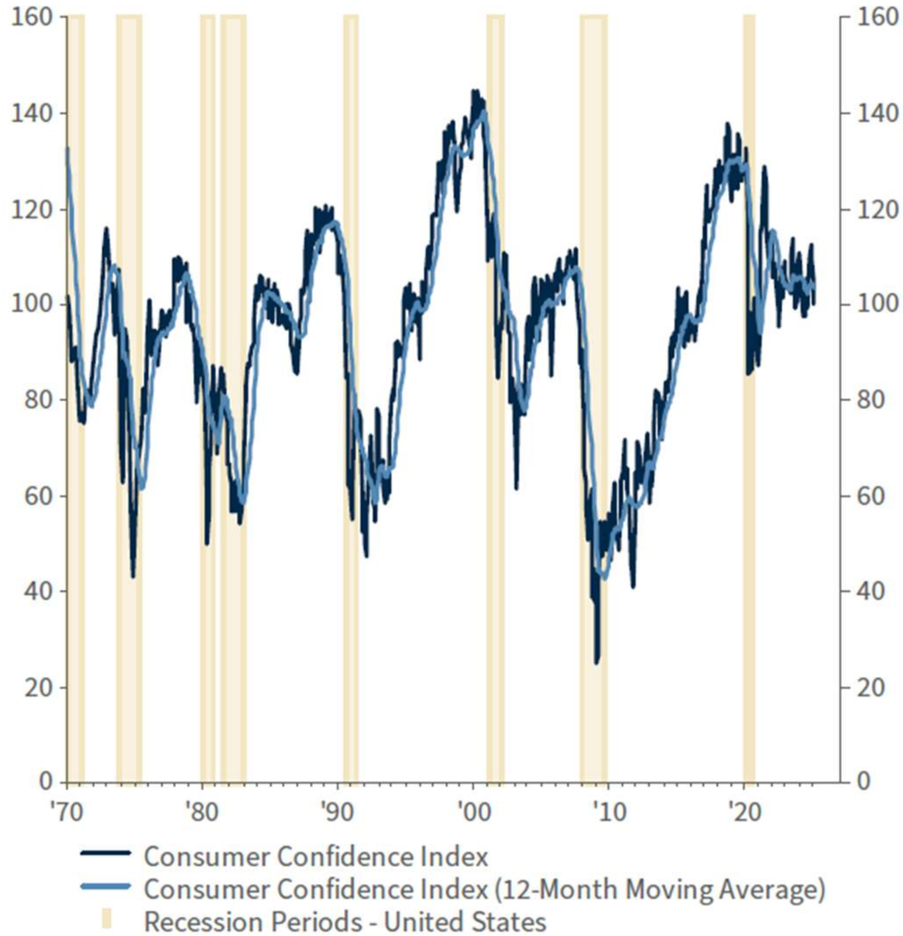
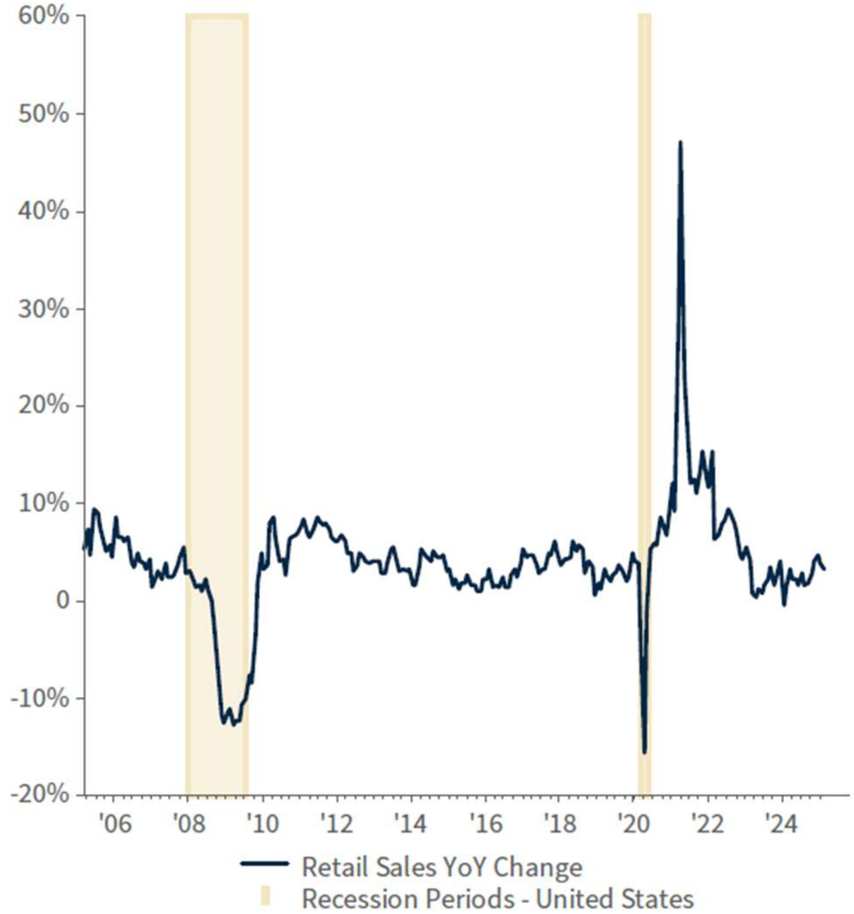
US Consumer confidence was 92.9 in March, continuing its downward trend. Retail sales were relatively stable but slightly higher during the fourth quarter.

Consumer Confidence



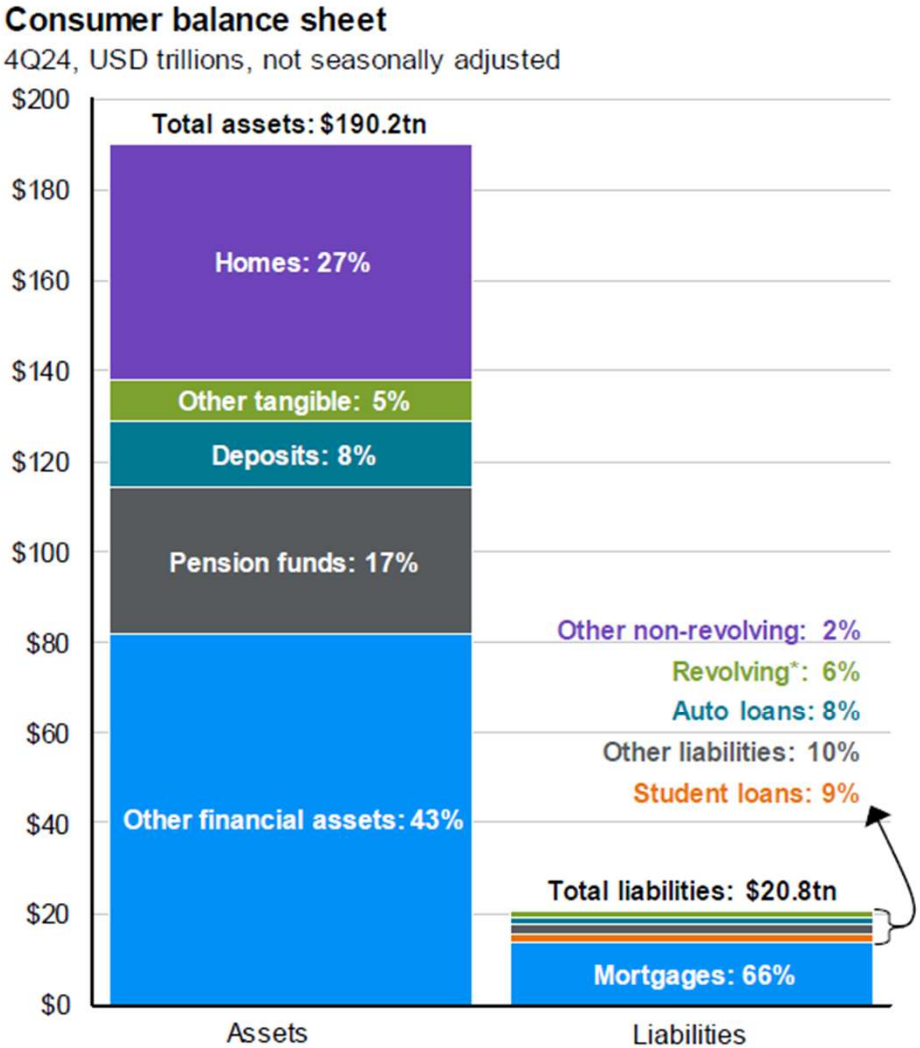
Source: FactSet, as of 3/31/2025.

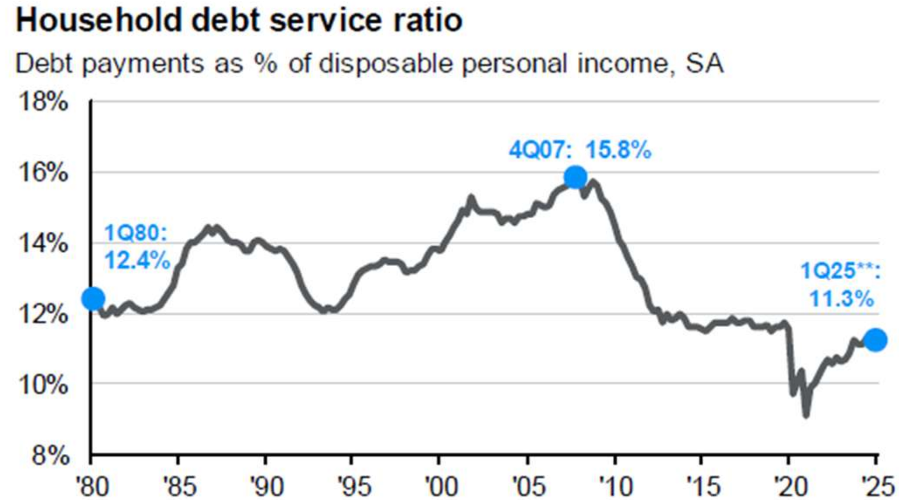
Retail Sales

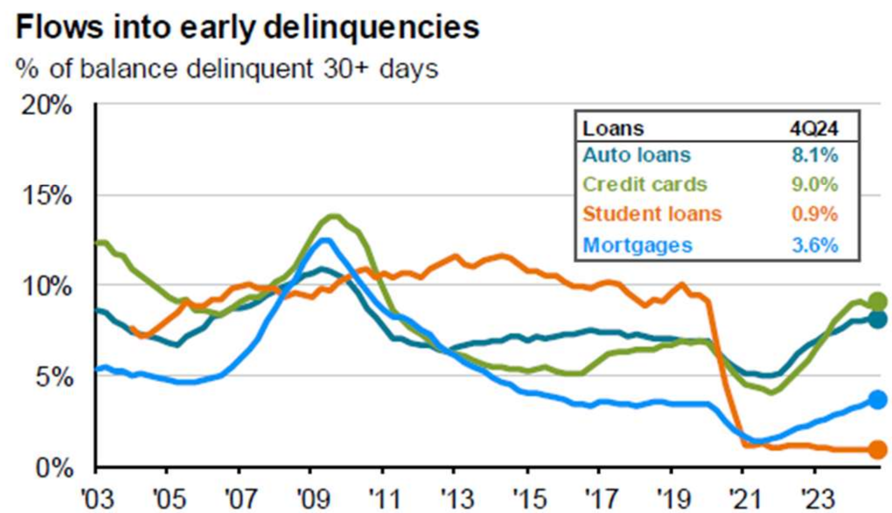


Source: FactSet, as of 3/31/2025.

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 3/31/2025.

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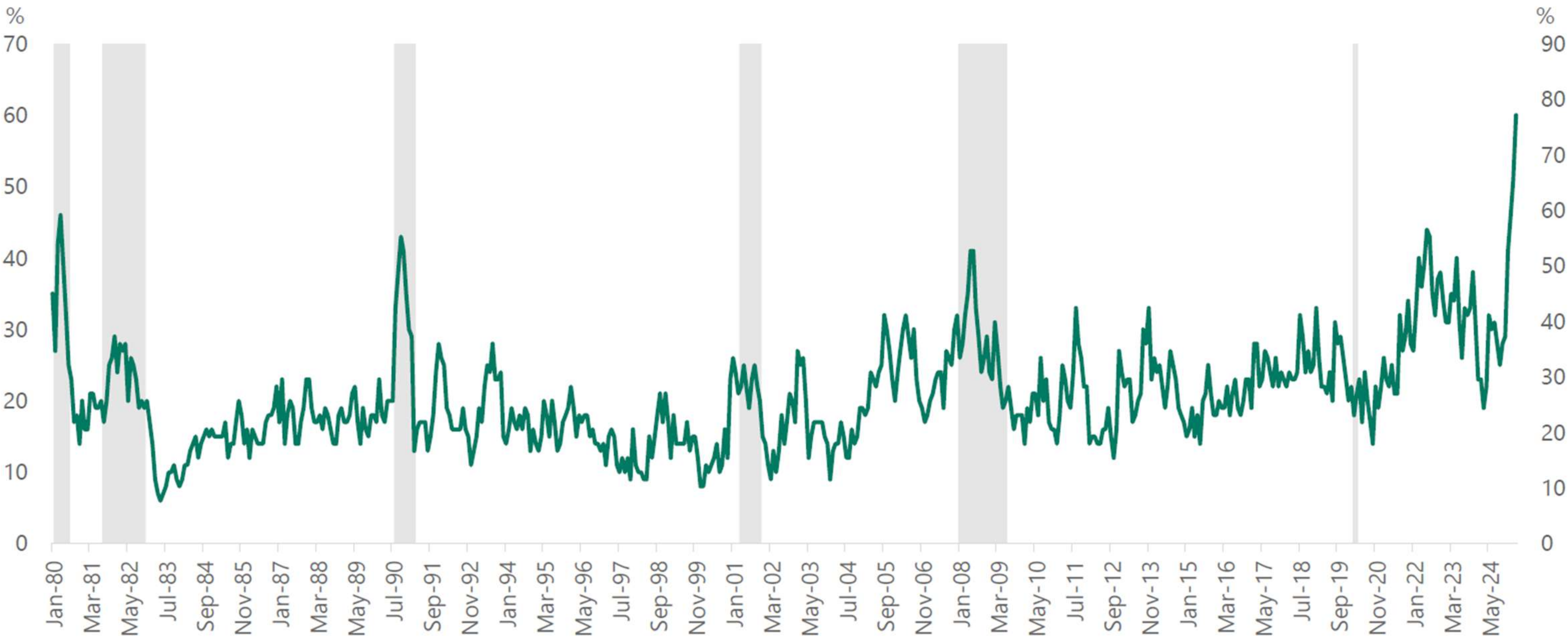
Consumer Expectations for Business Conditions

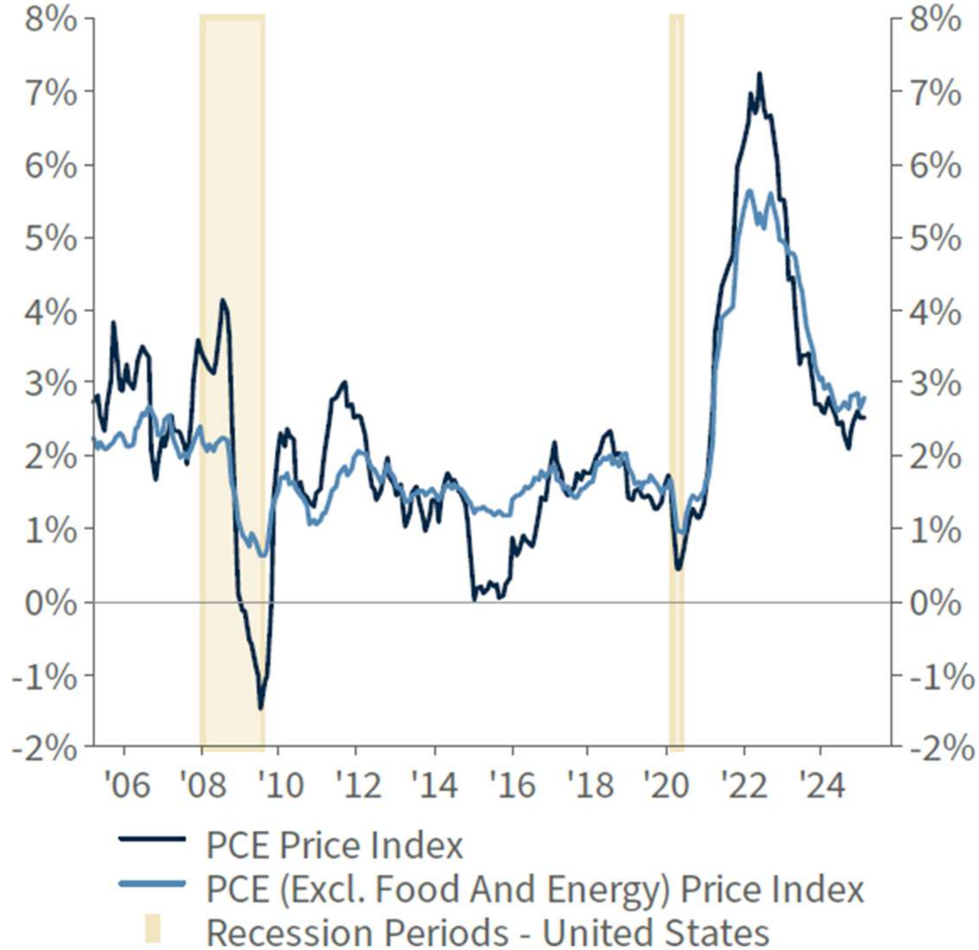
Expected Business Conditions in One Year: Worse



Source: Apollo, University of Michigan, Haver Analytics. Data as of March 2025.

Inflation

After two years of deceleration following post-COVID highs, inflation was sticky at the beginning of the year. The PCE Price Index (PCE) and Core PCE Index, which excludes the volatile food and energy components, increased 2.5% and 2.8%, respectively, in February versus a year ago.



Source: FactSet, as of 3/31/2025. Personal Consumption Expenditure (PCE) is the preferred measure of inflation by the Bureau of Economic Analysis.

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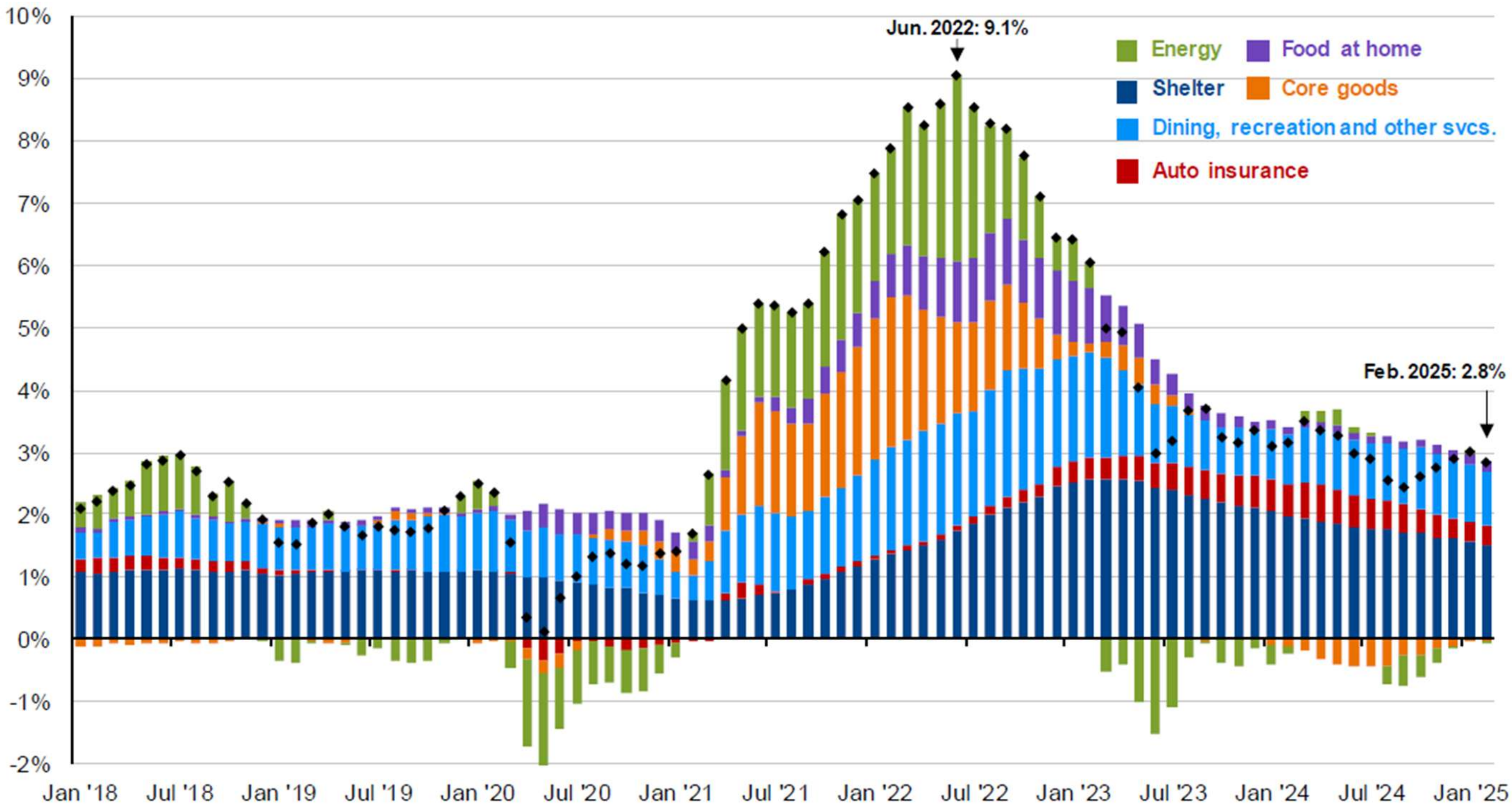
Inflation

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 3/31/2025.

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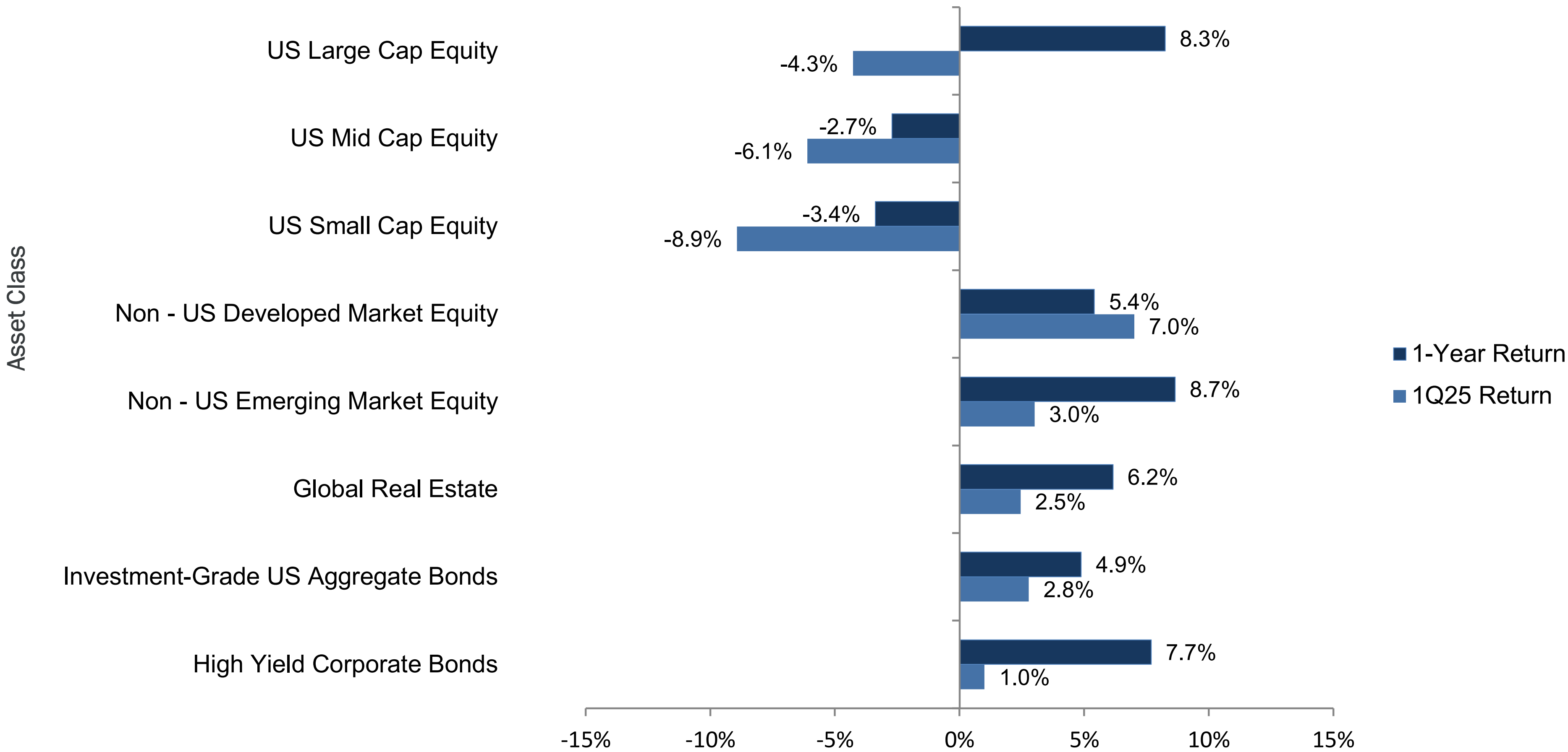
ASSET CLASS RETURNS



Source: FactSet, as of 3/31/2025. Past performance is not indicative of future results. Please see slides 41-43 for asset class definitions.

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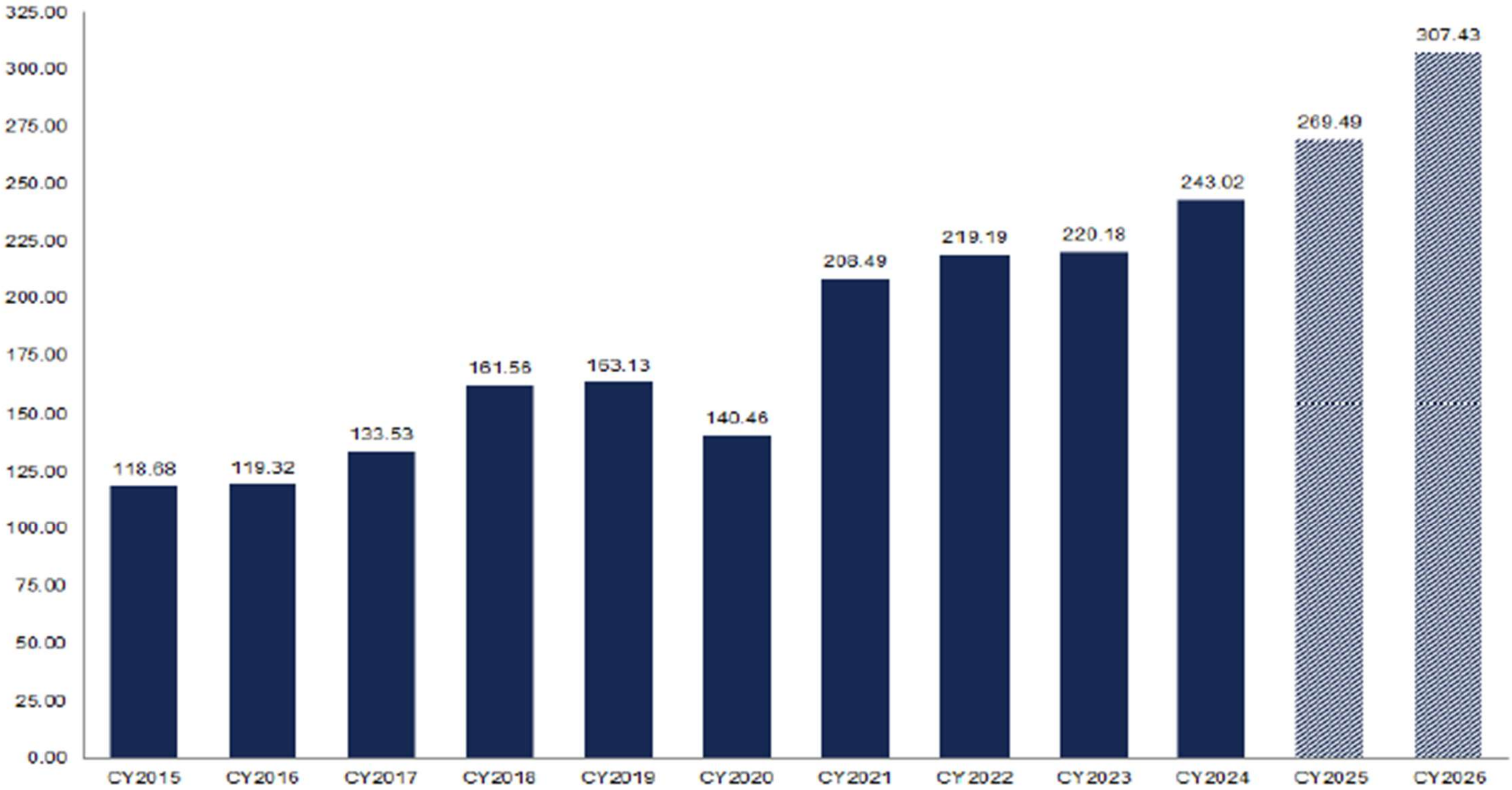
PRICE-EARNINGS RATIOS VERSUS HISTORICAL AVERAGES

	Current Forward P/E	20-Year Average	Current P/E as a % of 20-year Average
S&P 500	20.3	15.7	129.0%
S&P 400	14.9	15.7	94.8%
S&P 600	14.3	16.3	87.8%

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 3/31/2025.

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 3/31/25.

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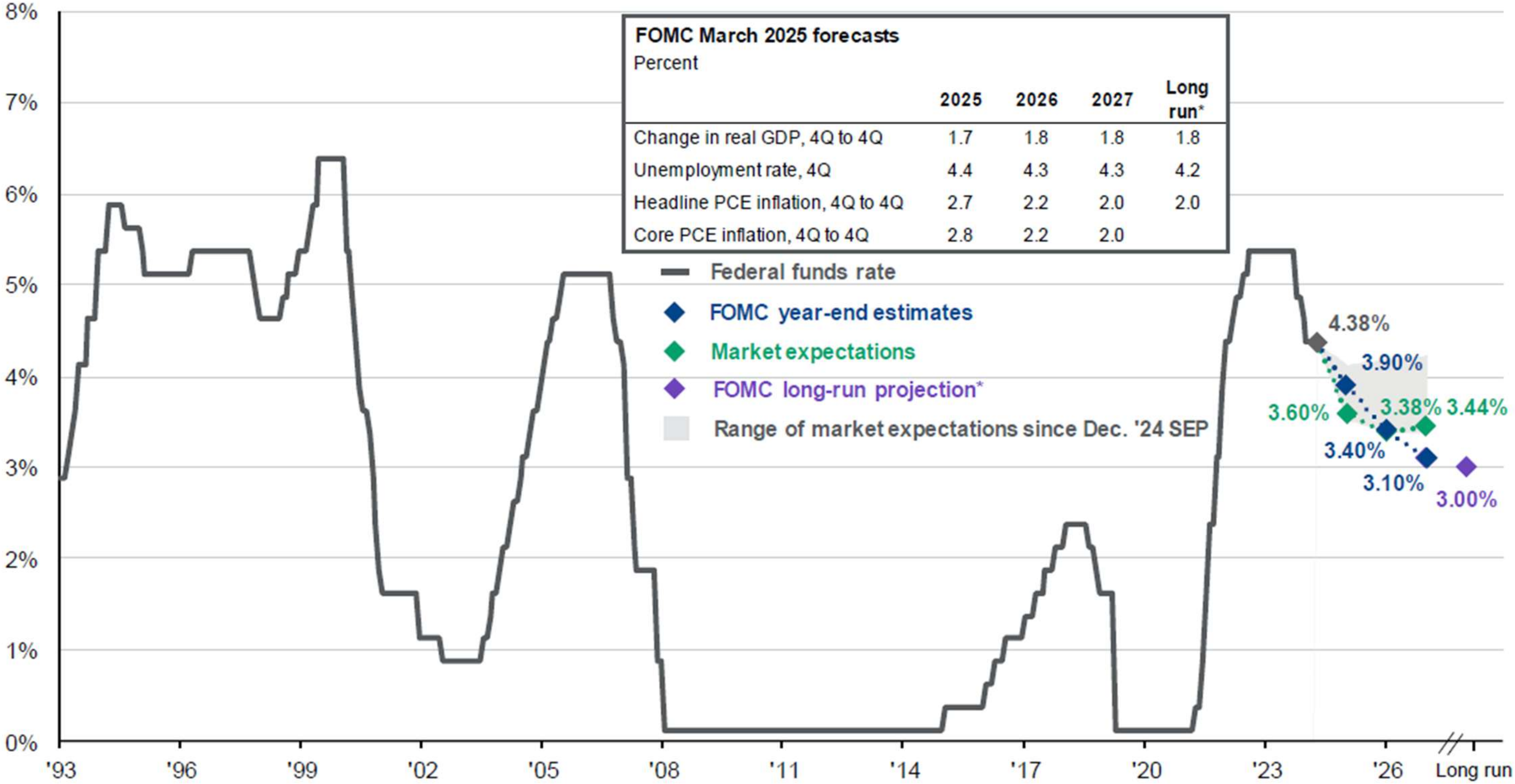
Federal Funds Rate Expectations

FOMC and Market Expectations for the Federal Funds Rate



FOMC March 2025 forecasts
Percent

	2025	2026	2027	Long run*
Change in real GDP, 4Q to 4Q	1.7	1.8	1.8	1.8
Unemployment rate, 4Q	4.4	4.3	4.3	4.2
Headline PCE inflation, 4Q to 4Q	2.7	2.2	2.0	2.0
Core PCE inflation, 4Q to 4Q	2.8	2.2	2.0	

Source: FactSet, JPMorgan Asset Management, as of 3/31/2025.

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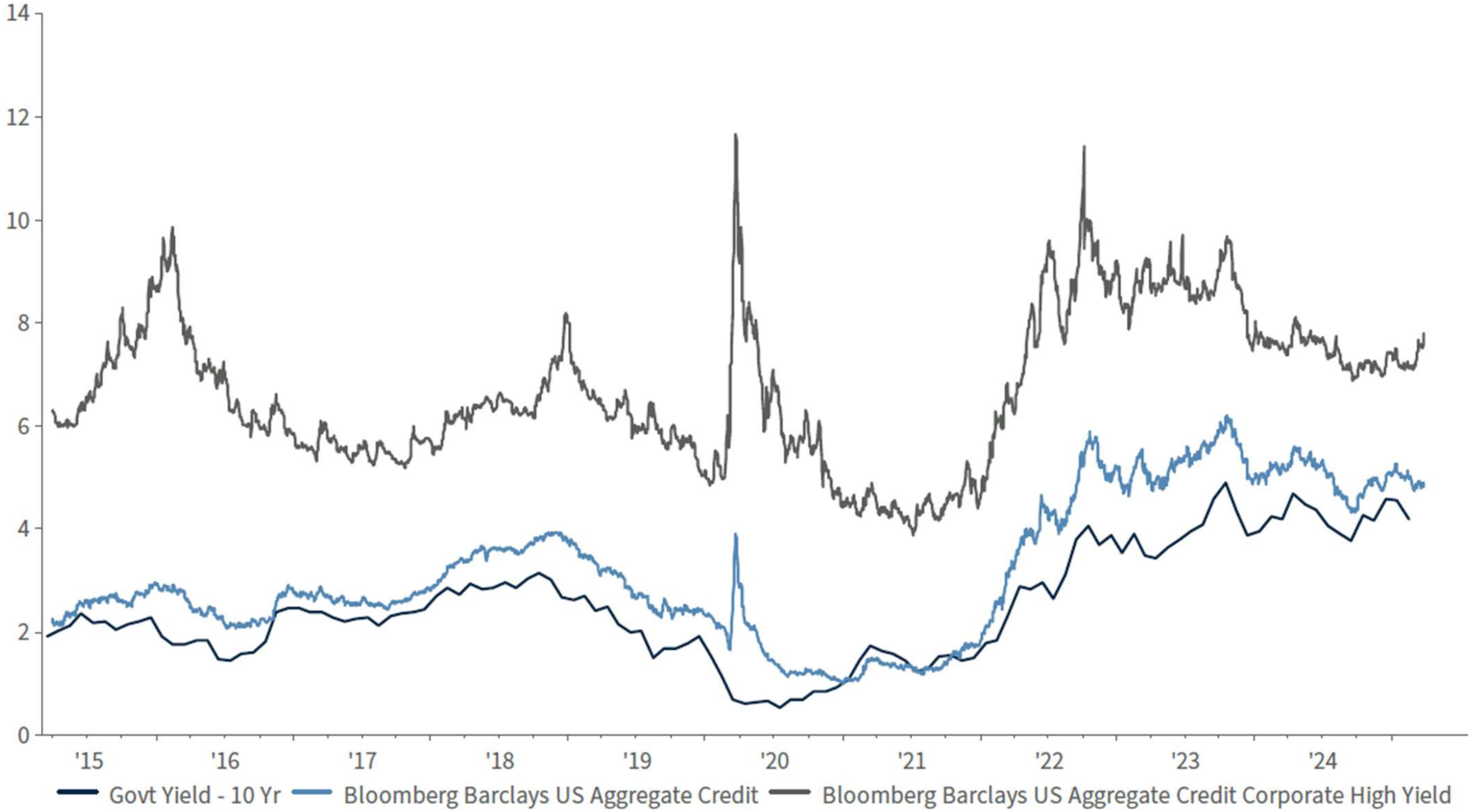
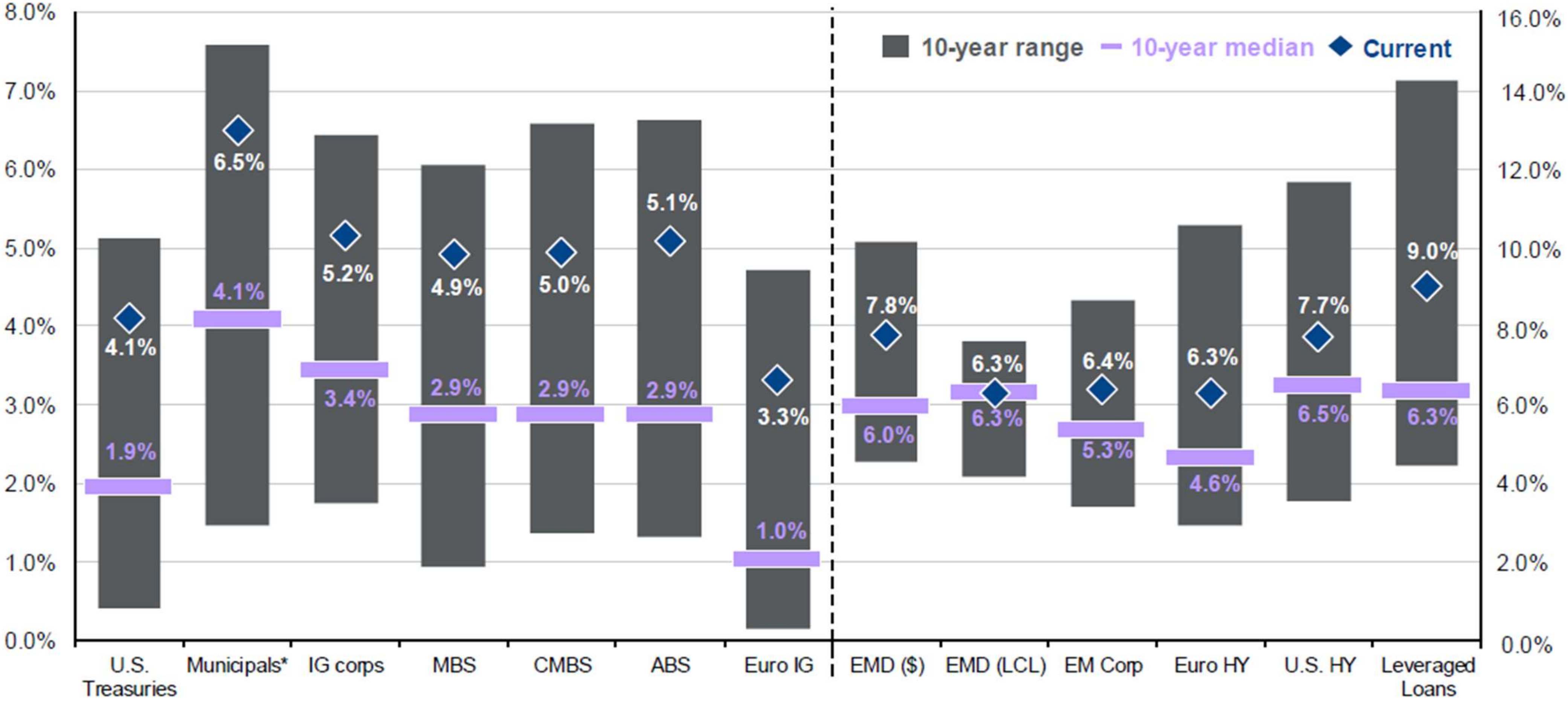
Yield to Worst



Source: FactSet, as of 3/31/2025. 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 3/31/25. 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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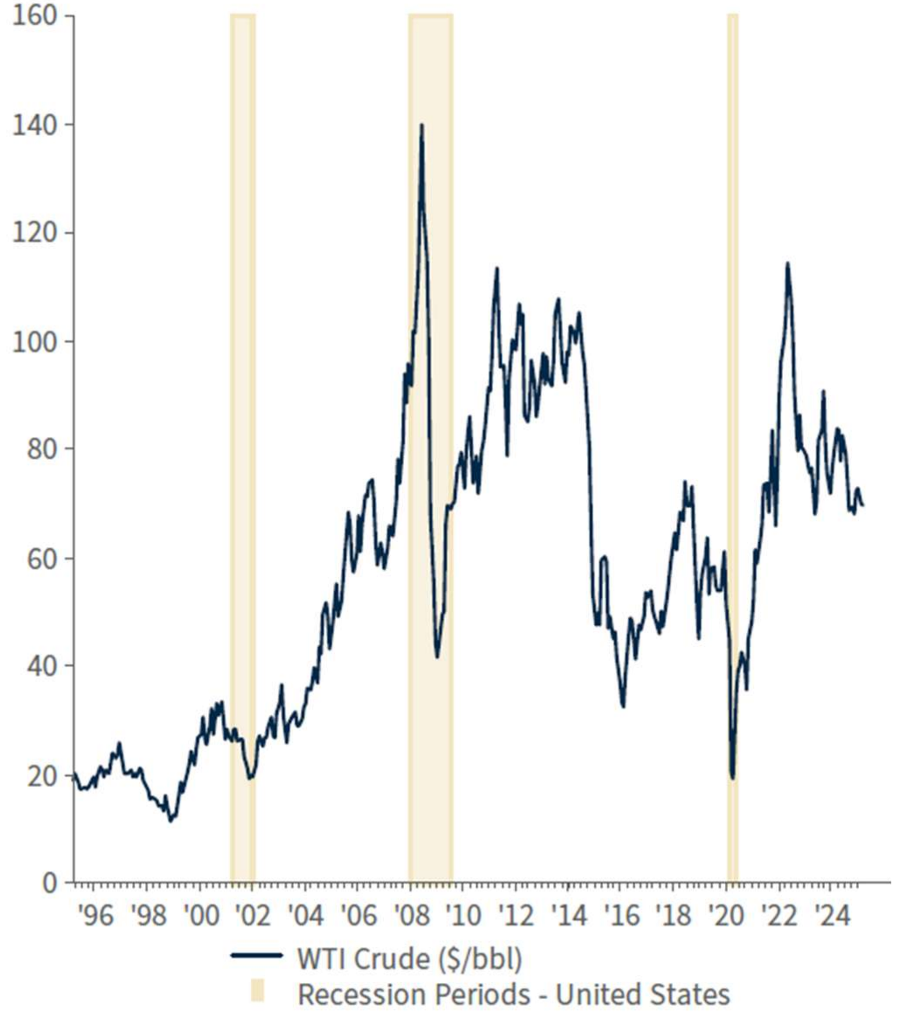
The US Dollar weakened in the first quarter as investors weighed the impact of global trade tensions.

Source: FactSet, as of 3/31/2025.

WTI Price



Source: FactSet, as of 3/31/2025.

Gold Price

Source: FactSet, as of 3/31/2025.

ECONOMIC REVIEW

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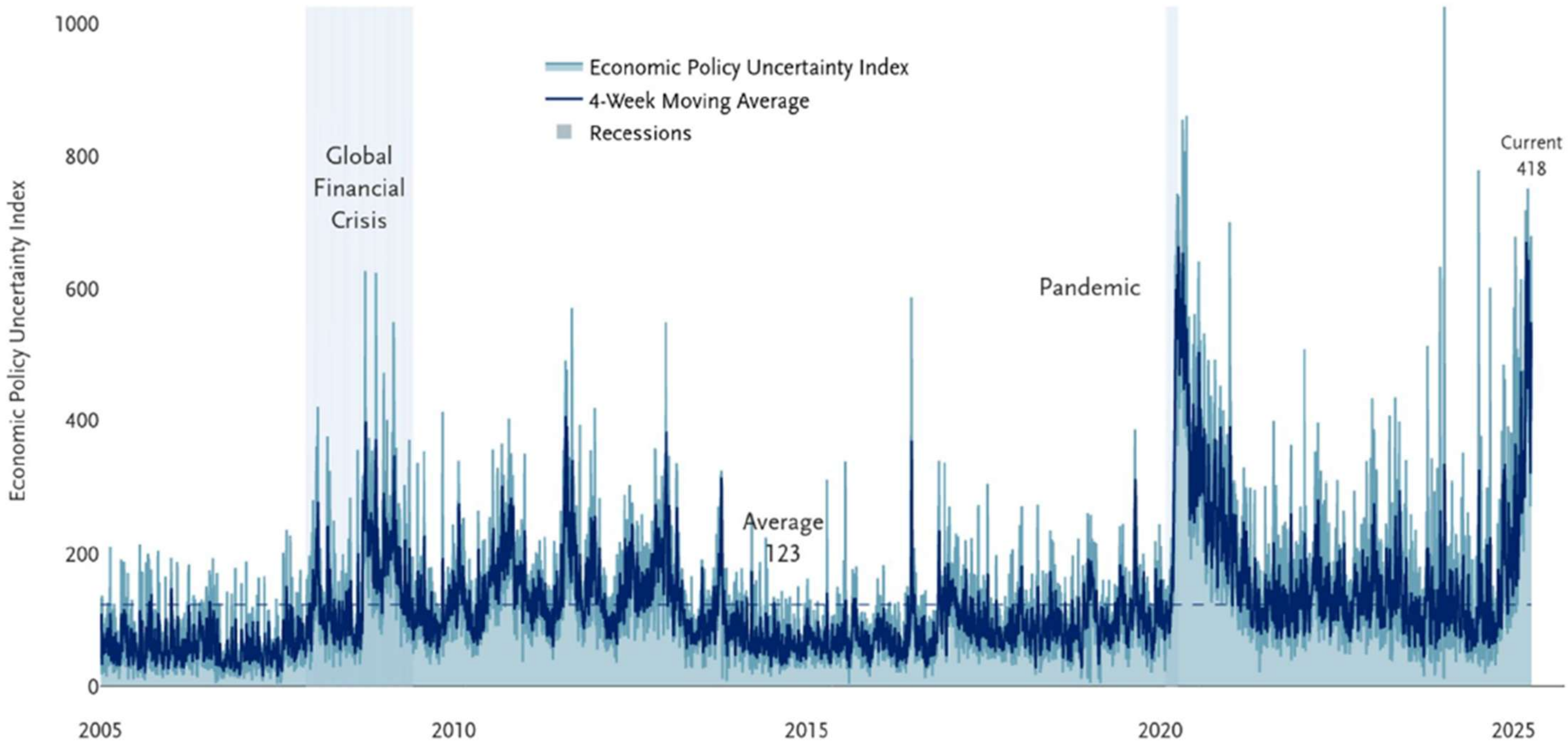
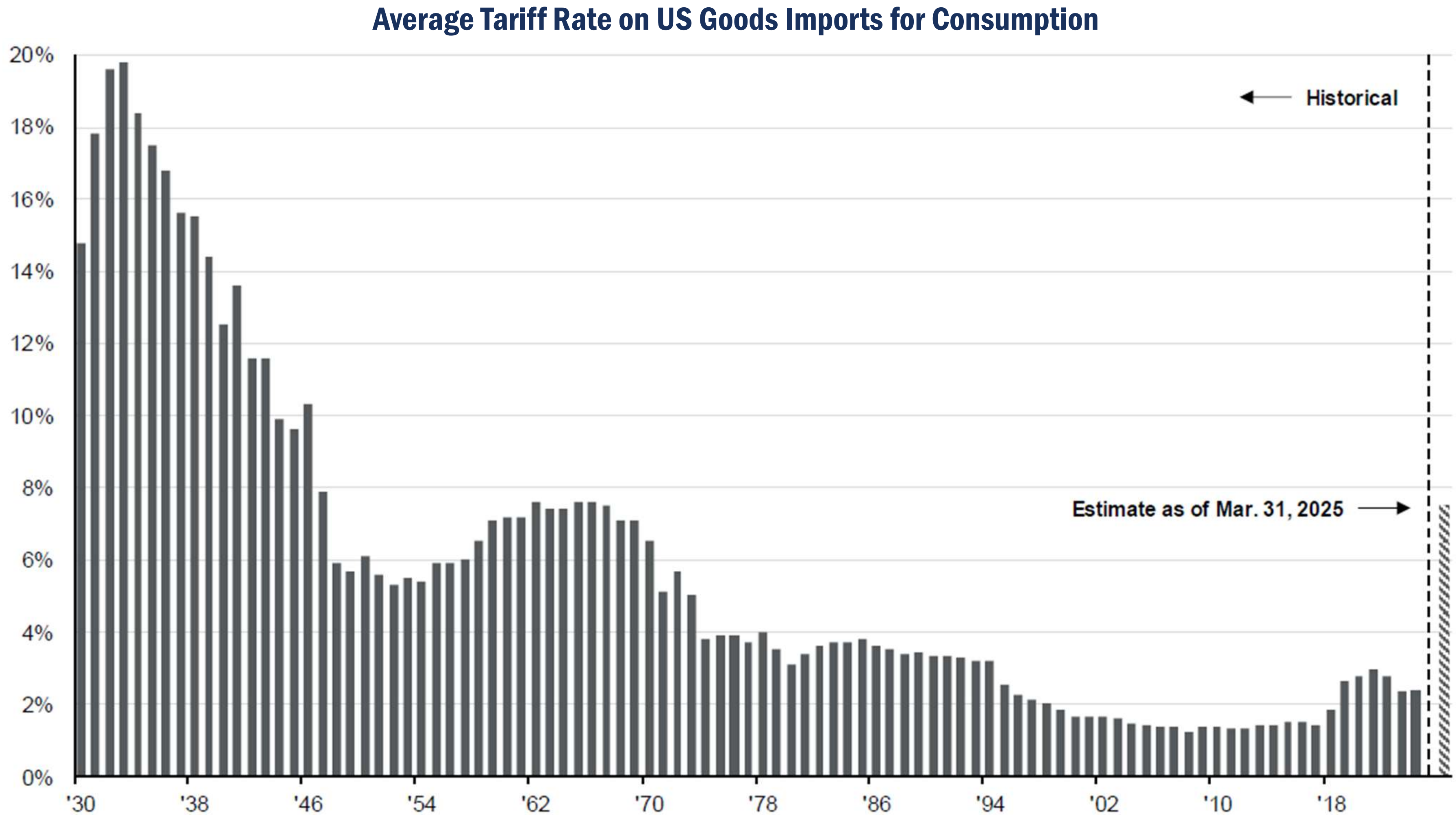
Economic Policy Uncertainty



Source: TCW, Clearnomics, Bloom, David, Federal Reserve. Uncertainty measures are based on news, taxes and forecaster disagreement. Index of 100 represents the average from 1985 to 2009. Data as of 4/3/2025.

Tariffs on US Imports



Source: United States International Trade Commission, JPMorgan Asset Management, Goldman Sachs. The estimated weighted average US tariff rate includes the latest announcements (25% tariffs on steel and aluminum imports, an additional 20% tariff on Chinese imports, and a 25% tariff on non-compliant Mexican and Canadian imports). Estimates about which goods are USMCA compliant come from Goldman Sachs Investment Research. Imports for consumption: goods brought into a country for direct use or sale in the domestic market. The estimate does not consider non-tariff barriers, such as value-added taxes. Figures are based on 2024 import levels and assume no change in demand due to tariff increases. Forecasts are based on current data and assumptions about future economic conditions. Actual results may differ materially due to changes in economic, market, and other conditions. Data as of 3/31/2025.

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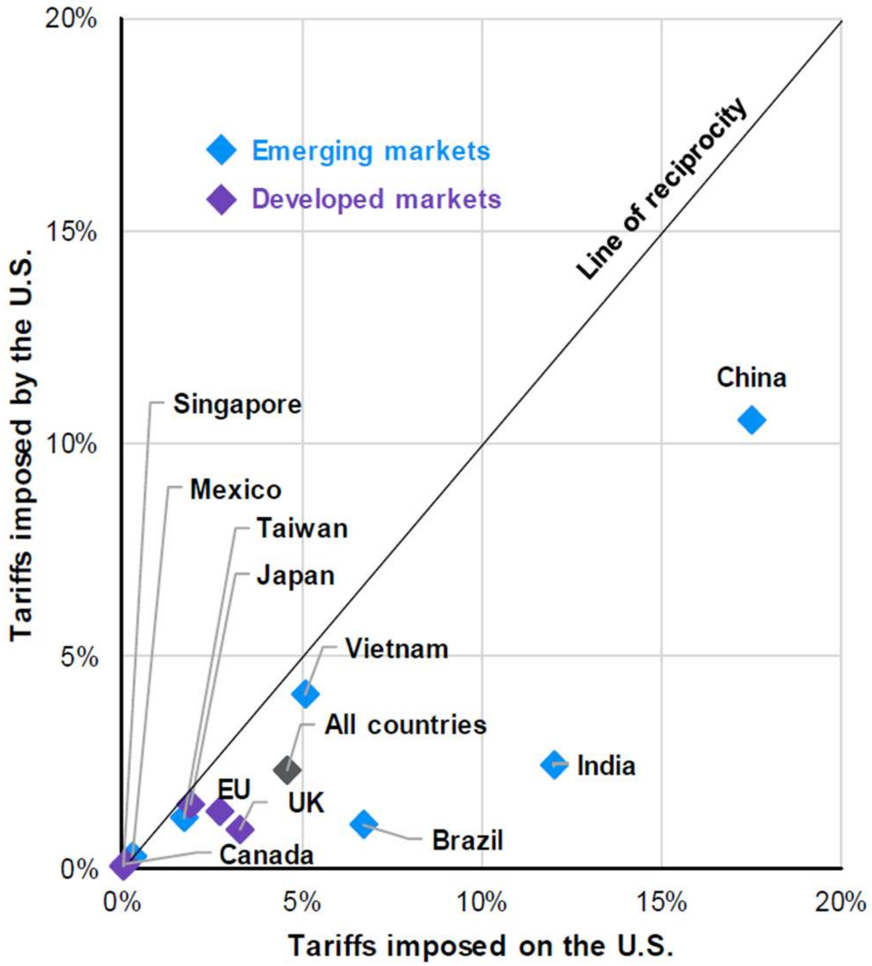
Tariffs Between the US and its Partners

Average Weighted Tariff Rate on Goods Imports, 2023



Source: World Trade Organization, United States International Trade Commission, JPMorgan Asset Management. Tariffs imposed by the US are calculated by dividing duties collected by total imports for consumption. Tariffs imposed on the US are the most-favored nation trade-weighted average tariffs except for China and for countries that have a trade agreement with the US. Excludes recent tariff announcements. Data as of 3/31/2025.

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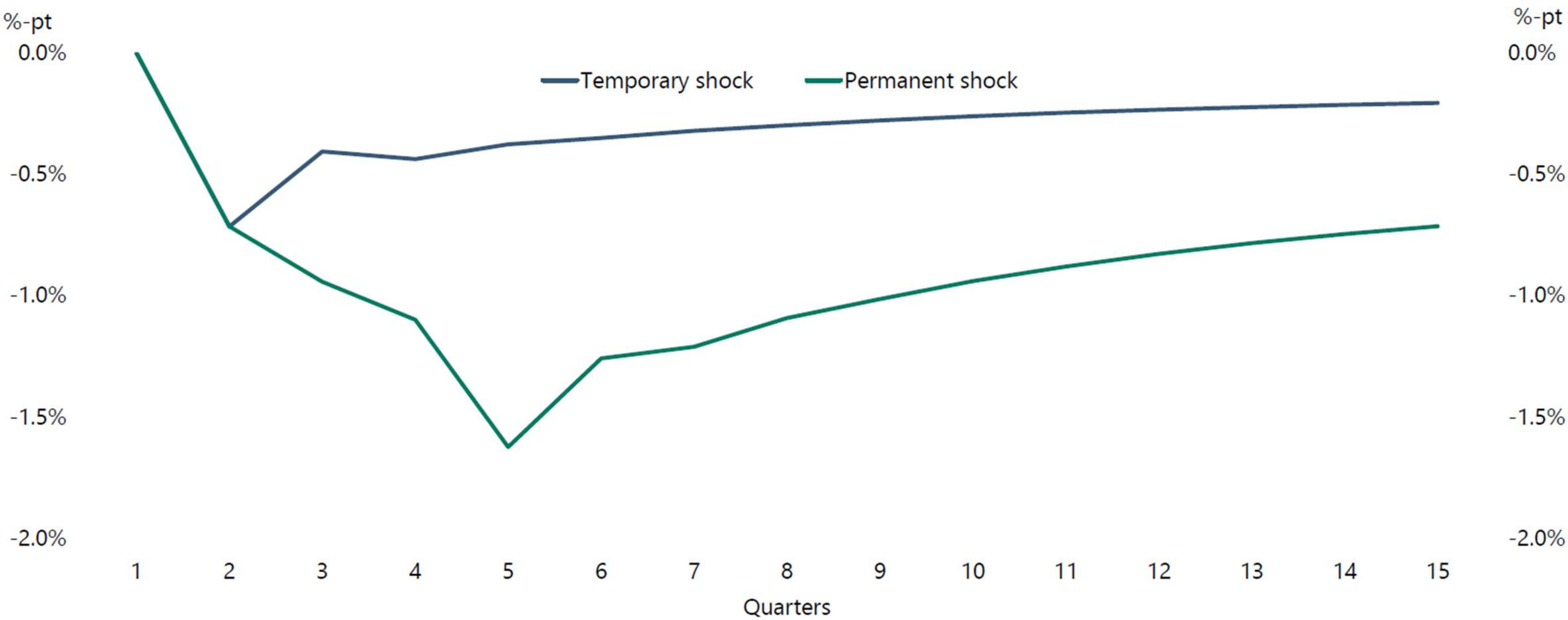
Response of Real GDP to Economic Policy Uncertainty Shock



Source: Apollo, Bloomberg. Impulse response from a vector auto regression model with GDP and economic policy uncertainty. A one standard deviation shock to economic policy uncertainty leads to a -0.2% point decline in Real GDP. Temporary shock is defined as a four standard deviation shock in Q1, and permanent shock is defined as a four standard deviation shock in Q1, three standard deviation shock in Q2, two standard deviation shock in Q23, and one standard deviation shock in Q4. Data as of 3/31/2025.

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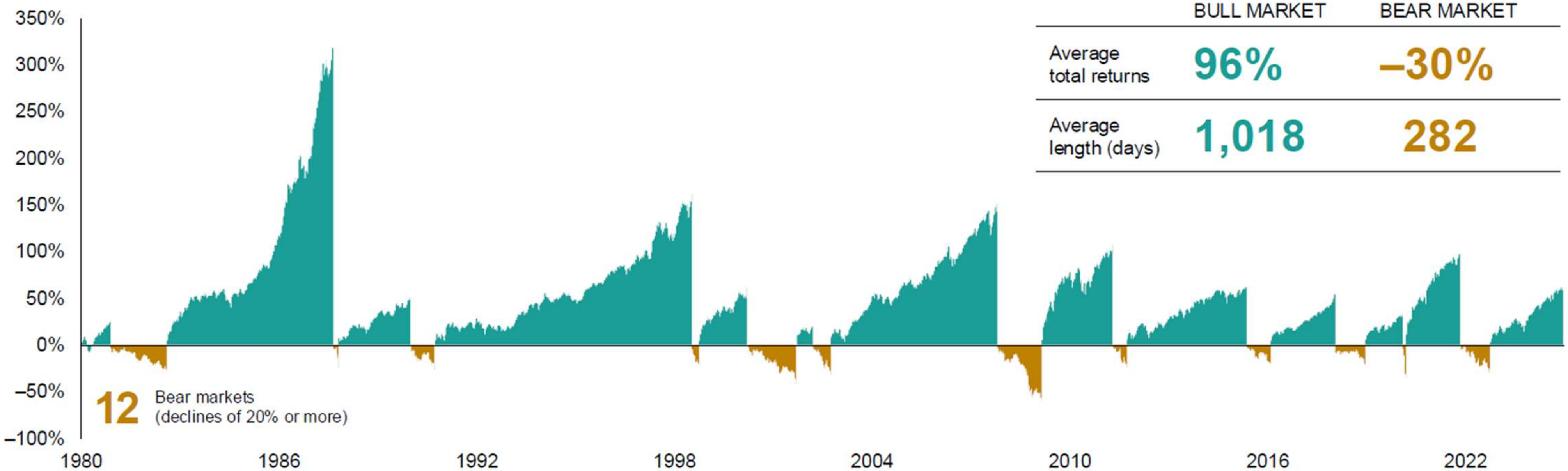
Prior Bear Market Returns

Market Correction	Market Peak	Bear Market Return	Bear Market Duration (Months)
Post WWII Crash - Post-war demobilization, recession fears	May-46	-30%	36
Eisenhower Recession - Worldwide recession	Aug-56	-22%	14
Flash Crash of 1962 - Flash crash, Cuban Missile Crisis	Dec-61	-28%	6
1966 Financial Crisis - Credit crunch	Feb-66	-22%	7
Tech Crash of 1970 - Economic overheating, civil unrest	Nov-68	-36%	17
Stagflation - OPEC oil embargo	Jan-73	-48%	20
Volcker Tightening - Whip Inflation Now	Nov-80	-27%	20
1987 Crash - Program trading, overheating markets	Aug-87	-34%	3
Tech Bubble - Extreme valuations, .com boom/bust	Mar-00	-49%	30
Global Financial Crisis - Leverage/housing, Lehman collapse	Oct-07	-57%	17
Global Slowdown - COVID-19, oil price war	Feb-20	-34%	1
Powell Tightening - Fiscal stimulus induced inflation, recession fears	Jan-22	-25%	9
Averages		**-34%**	**15**

Source: FactSet, NBER, Robert Shiller, Standard & Poor's, JPMorgan Asset Management. Please see slides 41-43 for index definitions.

Bear Markets are Challenging, but Bull Markets Have Been Longer and Stronger

Global Stock Prices, 1980-2024



	BULL MARKET	BEAR MARKET
Average total returns	96%	–30%
Average length (days)	1,018	282

Source: Vanguard, MSCI. Data as of 12/31/2024. Please see slides 41-43 for index definitions.

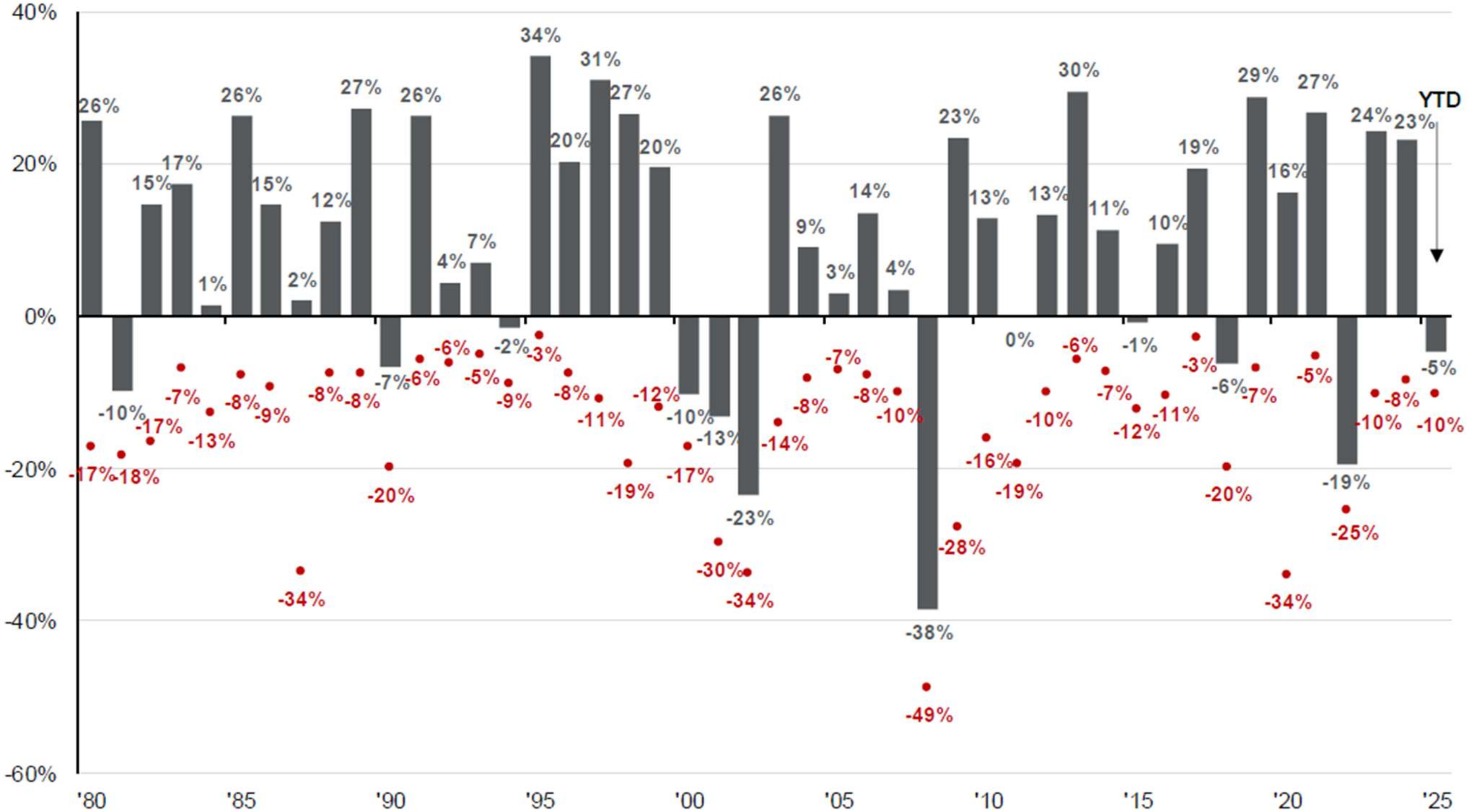
Importance of Staying Invested

Hypothetical Growth of $100k, 2000-2024

Source: Dimensional, FTSE Russell. Data as of 12.31.2024. Please see slides 41-43 for index definitions.

S&P 500 Intra-Year Declines vs. Calendar Year Returns

Despite average intra-year drops of 14.1%, annual returns were positive in 34 of 45 years



Source: FactSet, Standard & Poor's, JPMorgan Asset Management. Returns are based on price index only and do not include dividends. Intra-year drop refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2024, over which the average annual return was 10.6%. Data as of 3/31/2025. Please see slides 41-43 for index definitions.

Klingman & Associates
INDEPENDENT WEALTH ADVISORS

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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.

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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).

INDEX DESCRIPTIONS

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.

INDEX DESCRIPTIONS (continued)

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.