MARKET PERSPECTIVES QUARTERLY | Q2 2023

WEALTH MANAGEMENT INSIGHTS FROM STIFEL'S CIO OFFICE

KEY TAKEAWAYS

- Volatility persisted in the first quarter, amplified by unforeseen banking troubles, as investors and the Federal Reserve (Fed) continued to parse inflation and economic data.
- While the overall risks to the banking system seem modest, the chances for a 2023 recession have increased primarily as a result of banks pulling back on lending.
- So far this year, the Fed has raised its benchmark rate by 50 basis points, but at the March meeting, the Fed acknowledged hikes "may" continue, implying they may not.
- Rising input costs, tightening of monetary policy, and a slowing economy are having an impact on company earnings. Consensus bottom-up forecasts estimate S&P 500 earnings will grow 1.5% in 2023.
- In the second half of 2023, we expect clarity on the state of the economy and Fed policy and an opportunity to turn back to the fundamentals – an important step in making our way to the next bull market cycle.
- Given the uncertainty surrounding the global economy, we remain focused on quality in our portfolios.

OVERVIEW

Volatility persisted in the first quarter as investors and the Fed continued to parse inflation and economic data, watching for cooler inflation and the possibility of a recession. An unforeseen banking crisis amplified volatility.

Two regional banks failed in March, shaking business and consumer confidence and creating risk of a global credit crisis. By the end of the month, U.S. equity markets recovered as the Fed stepped in to alleviate depositor concerns and manage systemic risk to the overall banking system.

Nevertheless, interest rates declined sharply and traders of fed funds futures repriced expectations for monetary policy from no rate cuts this year to three 0.25% rate cuts by the Fed before the end of the year. While the overall risks to the banking system seem modest, the chances for a 2023 recession have increased primarily as a result of banks pulling back on lending. The Fed's most recent monetary policy statement indicated that the bank troubles may cool the economy, hiring, and inflation.

Economic data released during the quarter signaled continued expansion in the U.S. economy, albeit at a slower pace, buoyed by a resilient consumer. The labor market remains tight and out of balance, but job openings are falling, and jobless claims are trending higher, reaching levels last seen at the end of 2021. Headline inflation fell to 6.0% year over year (YoY) in February, declining for eight consecutive months after peaking at 9.1% YoY in June 2022.

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"The expectations for tightening in lending standards may impact business and consumer confidence and accentuate the slowdown in economic activity."

The Fed is now wrestling with inflation and a banking crisis that may slow the economy faster than anticipated. We believe the Fed will remain data dependent in its fight against inflation but also take into account that the bank troubles have tightened financial conditions further. In the second half of 2023, we expect clarity on the state of the economy and Fed policy and an opportunity to turn back to the fundamentals – an important step in making our way to the next bull market cycle.

We view favorably the positive start to the year for equity markets, but given the uncertainty still surrounding the global economy, we remain focused on quality in our portfolios. In equities, we have a preference for companies that have strong balance sheets, considerable pricing power, and the ability to grow dividends. Within fixed income, despite the recent decline in yields, the investment-grade bond market offers attractive yields and valuations.

We continue to guide investors to consider active management selectively, where managers can apply their skills to focus on traditional fundamentals and quality. If you are invested and have a longer-term time horizon, it's better to stay invested. We revisit our dynamic leanings regularly and will look to act swiftly as market conditions evolve.

THE U.S. ECONOMY – RECESSION RISK ELEVATED

The economy was already slowing as a result of the Fed's tightening of monetary policy, but the recent bank turmoil reduced the chances of a "soft landing" and increased the risk of a recession.

Economists project that the economy will grow 1.0% YoY in 2023. The latest 2023 growth estimate in the Fed's Summary of Economic Projections (SEP) is slightly above consensus at 0.4% Q4/Q4. The expectations for tightening in lending standards may impact business and consumer confidence and accentuate the slowdown in economic activity.

Recession or not, we still expect economic growth to be muted this year. The consumer remains a deciding factor, especially the consumer's confidence and willingness to keep spending.

INFLATION – COOLING, BUT IS IT ENOUGH FOR THE FED TO CLAIM VICTORY?

The consumer price index (CPI) fell to 5.0% YoY in March, decelerating for nine consecutive months after peaking at 9.1% YoY in June 2022. Likewise,

Figure 1. - Inflation continues to cool in the U.S.

Source: Stifel CIO Office via Bloomberg, as of March 31, 2023

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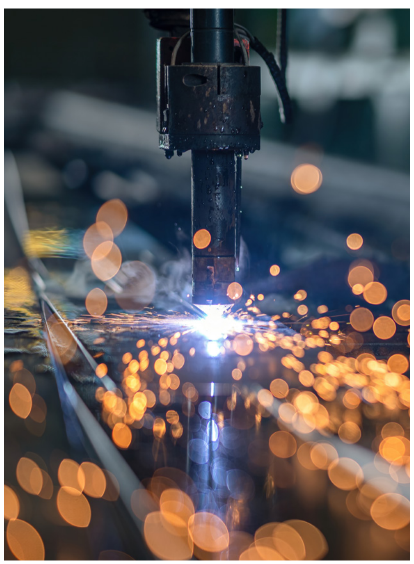
"The number of job openings for each person searching for a job has fallen slightly to 1.67 from 1.86 in the prior month but still shows a supply and demand mismatch."



the personal consumption expenditures (PCE) price index fell to 5.0% YoY in February after peaking at 7.0% YoY in June 2022. Nonetheless, inflation remains well above the Fed's 2% target. Fed Chair Jerome Powell has said that goods inflation has been squashed; housing prices should slow in the next few months; yet, non-housing services inflation remains problematic by rising to 6.1% in February from 5.3% in June 2022.

Wage pressures are easing as the labor market rebalances. For example, average hourly earnings in February was 4.6% YoY, compared to 5.6% in the first quarter of 2022. The employment cost index (ECI), excluding incentives, fell to 5.2% YoY in the fourth quarter of 2022 from 5.6% in the third.

In the Fed's latest SEP, PCE inflation is projected to be 3.3% (Q4/Q4) in 2023, up from 3.1% projected in December. The Fed expects inflation to fall to 2.5% in 2024.

EMPLOYMENT – LABOR MARKET BALANCING IN PRGORESS

The labor market remains tight and out of balance, with demand for workers substantially exceeding the supply of those available. This imbalance has translated to wage pressures and made the Fed's job more difficult; however, as mentioned above, some cracks are starting to show. Job openings fell in both January and February. Voluntary quits fell on average during the first two months of 2023 compared to the last two months of 2022, and involuntary discharges rose. The number of job openings for each person searching for a job has fallen slightly to 1.67 from 1.86 in the prior month but still shows a supply and demand mismatch.

The unemployment rate rose to 3.6% in February from 3.4% in January, though it is still below the 6% average unemployment rate for the past 20 years. The Fed forecasts unemployment will average 4.5% in the fourth quarter of 2023 and only rise to an average of 4.6% in the fourth quarters of both 2024 and 2025.

CONSUMER – STILL SPENDING

Consumer spending increased by the most in nearly two years in January amid continued wage gains, indicating that tighter monetary policy has yet to erode consumer confidence. PCE, or consumer spending, rose 2.0% in January and 0.2% in February, compared to a flat reading in December and a 0.2% decline in November.

Despite a slower February, consumer spending in the first quarter is expected to be a solid contributor to GDP.

Retail sales rose 2.6% in the first two months of the year compared to the last two months of 2022. The University of Michigan Index of Consumer Sentiment fell in March to 62.0 from 67.0 in February on impending recession concerns but is still above 2022 lows.

SERVICE AND MANUFACTURING SECTORS – DIVIDED

Economic activity in the services sector is outpacing the manufacturing sector.

The Institute for Supply Managment (ISM) Services Purchasing Managers' Index (PMI) expanded in March for the third consecutive month, but the pace of expansion slowed in March. In fact,the sector has grown in 33 of the last 34 months, with the lone contraction in December.

The ISM Manufacturing PMI index was below 50 in March, signaling contraction for the fifth consecutive month following a 28-month period of expansion. For both sectors, inflation and higher rates remain an issue, yet confidence seems to have improved. We are keeping an eye on how the bank turmoil may impact businesses as a result of tighter credit availability.

HOUSING – HIGHER MORTGAGE RATES A HEADWIND

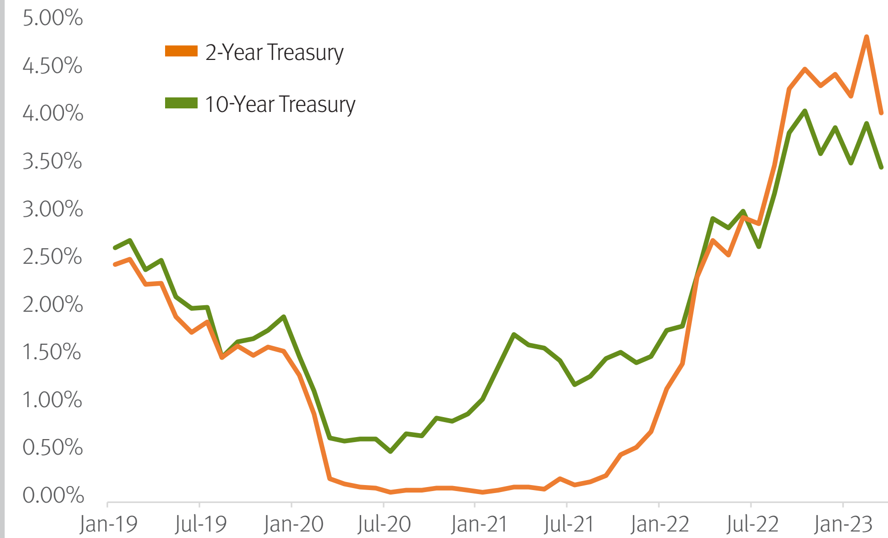
Investors are anticipating the weakness in the housing sector may be nearing a bottom. The housing shortage continues to be a tailwind to the battered sector. After falling each month in 2022, National Association of Home Builders (NAHB) builder sentiment has risen in the first three months of the year, helped by mortgage rates coming off 2022 highs of 7%.

For the first two months of the year, compared to the last two months of 2022, building permits, a key indicator of housing demand, rose 6.5%, reflecting the higher volatile multi-family homes being built. Still, higher mortgage rates and builder costs continue to be a headwind for both demand and builders. Housing starts during the same time frame rose only 0.1%.

THE FEDERAL RESERVE – NEARING THE END OF THE HIKING CYCLE

The Fed increased the federal funds rate by 425 basis points (bps) last year and forecasted in December that it would raise it another 75 bps in 2023. So far this year, it has raised the benchmark rate by 50 bps. Recent bank troubles have put into doubt its ability to further tighten policy without triggering a recession.

Figure 2. - Treasury curve remains inverted with yields still elevated



Source: Stifel CIO Office via Bloomberg, as of March 31, 2023

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"At its latest meeting in March, the Fed acknowledged all incoming information will need to be closely monitored, saying hikes "may" continue, implying they may not."

At its latest meeting in March, the Fed acknowledged all incoming information will need to be closely monitored, saying hikes "may" continue, implying they may not. The statement indicated the bank troubles may cool the economy, hiring, and inflation, and Chair Powell suggested focusing on the words like "may" rather than "ongoing." Still, the dot plot shows Fed officials expect one more hike for the year, while the market is pricing in rate cuts later this year, implying tighter financial conditions triggered by the bank challenges may lead to economic troubles that warrant a shift in Fed policy.

EQUITY EARNINGS – BREAKING EVEN

Rising input costs, tightening of monetary policy, and a slowing economy led to a slowdown in company earnings. Fourth quarter earnings for the S&P 500 declined about 4.6% on a YoY basis. For the full 2022 calendar year, S&P 500 earnings rose 3.9%.

For the fourth quarter, five of the 11 S&P 500 sectors are estimated to have reported YoY earnings growth. The energy sector had the highest YoY earnings growth of 56.4% on base effects from rising oil prices. The communication services sector saw earnings fall 24.9% from the previous year.

As companies work through the recent bank troubles, a path to lower rates and economic recovery should set the stage for recovering earnings growth and positive equity returns going forward. Consensus bottom-up forecasts estimate S&P 500 earnings will grow 1.5% in 2023. This estimate may not fully reflect revisions in the aftermath of the banking crsis.

The forward 12-month price-to-earnings (P/E) ratio for the S&P 500 is 17.8, below the five-year average (18.5), but above the 10-year average (17.3). The forecasts imply earnings growth rates of -6.6%, -4.4%, 2.3%, and 9.3% for the first, second, third, and fourth quarters, respectively, exhibiting recovery in the second half of the year.

DYNAMIC ASSET ALLOCATION

The following table summarizes our thinking across various asset classes and regions.

■ Underweight ■ Neutral ■ Overweight

	ASSET CLASS	CHANGE	CURRENT: Underweight	CURRENT: Neutral	CURRENT: Overweight	COMMENTS
EQUITY	**U.S. Equity vs. Non-U.S. Equity**	=		■		We remain neutral between U.S. and non-U.S. equity. Although non-U.S. equity valuations remain more attractive, caution is warranted due to the prevailing global economic and geopolitical headwinds. Recent stress in the U.S. banking sector has increased the risk of a U.S. recession and earnings downgrades, which suggests volatility in the near term is possible.
EQUITY	**U.S. Large Cap vs. U.S. Small Cap**	=	■			We are overweight to small cap equities but guide investors to consider active management to navigate the potential risks and uncertainties stemming from a slower economy and tighter lending. Skilled investors may be able to capitalize on the opportunities presented by lower valuations.
EQUITY	U.S. Large Value vs. U. S. Large Growth	=		■		We believe investors should diversify across both value and growth styles. Within U.S. large cap, we have a modest overweight to dividend growth and quality companies, regardless of style, as these companies are typically better positioned to weather market volatility.
EQUITY	**Non-U.S. Developed Markets vs. Emerging Markets**	=		■		Europe's winter was mild, and China appears to have fully reopened its economy following the end to its zero-COVID policy. However, both regions remain vulnerable to risks stemming from geopolitical tensions and a slowing global economy.
EQUITY	Europe vs. Japan	=		■		We see investment opportunities across regions of the world. Japan's corporate governance reform is a positive and likely to enhance shareholder value in the medium to long term. Europe has proved to be more resilient thus far in the aftermath of the Ukraine war.

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DYNAMIC ASSET ALLOCATION (CONTINUED)

The following table summarizes our thinking across various asset classes and regions.

Underweight | Neutral | Overweight

	ASSET CLASS	CHANGE	CURRENT	COMMENTS
FIXED INCOME	U.S. Investment Grade vs. U.S. High Yield	=	Overweight	Bond yields are the most attractive they have been in the last 10-15 years, despite coming off of recent highs. Near-term volatility and an economic slowdown may exacerbate near-term price losses in high yield.
FIXED INCOME	Corporates Government/Agency MBS	=	Neutral	We remain neutral and diversified across fixed income supersectors given the fat tail risks of our bear and bull scenarios.
FIXED INCOME	Duration	=	Neutral	We view duration as a diversifier in a multi-asset class portfolio given the macroeconomic uncertainty and remain neutral to the overall market.
ALTERNATIVES	Private Assets	=	Neutral	For investors interested in alternative investments and able to handle illiquidity, exposure to some combination of private equity, private debt, and/or private real estate can be considered as part of a diversified portfolio.
ALTERNATIVES	Hedge Funds	=	Neutral	For investors interested in alternative investments and able to handle less liquidity who have conviction about manager skill, exposure to hedge funds can be a helpful part of a diversified portfolio. This is especially true in volatile, low-return environments.

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"U.S. equity markets had a strong start to the year as investors grew more confident in the prospect of a 'soft landing' and receding inflation."

CAPITAL MARKETS RECAP

Equity and bond markets were mostly higher in the first quarter. The technology-heavy Nasdaq was the standout performer, entering a new bull market. The S&P 500 moved higher for the second straight quarter. Treasury yields fell, in part, due to the problems in the banking sector. Gold prices moved higher, while oil prices fell.

EQUITY

U.S. equity markets had a strong start to the year as investors grew more confident in the prospect of a "soft landing" And receding inflation. The S&P 500 was up over 6% in January, and the Nasdaq was up more than 10%, its best start to a year since 2001. Volatility had fallen early in the quarter, but then picked up as a result of hotter-than-expected inflation readings, monetary policy uncertainty, weaker earnings and guidance metrics, and banking sector turmoil.

The S&P 500 and Russell 1000 both advanced 7.5% in the first quarter. The Nasdaq 100 was up 20.8%, as declining bond yields and Fed pivot expectations provided a tailwind for big tech. Small cap stocks, as measured by the Russell 2000 Index, returned 2.7% for the quarter. The financials sector was the largest underperformer with the S&P 500 Financials Index down 6.0% during the quarter. The KBW Regional Banking Index fell 18.0% in the quarter.

Non-U.S. equity markets performed well. For Q1 2023, the MSCI EAFE Index, representing non-U.S. developed markets, returned 8.5%. This rise is in part due to a weaker U.S. dollar and a milder winter in Europe. As measured by the MSCI EM Index, emerging markets returned 4.0%, driven mainly by the reopening of China.

FIXED INCOME

Bond yields fell, after reaching their highest levels since November 2022, driving prices higher. The 10-year Treasury yield opened the quarter at 3.87% and rose as high as 4.05% before settling at 3.47% at the end of the quarter. The two-year Treasury yield plunged, falling more than 100 bps in just a couple of weeks as a result of the financial sector challenges, ending the quarter at 4.09%. The Bloomberg U.S. Aggregate Index, representing investment-grade taxable bonds, returned 2.96% for the quarter. The Bloomberg U.S. Municipal Bond Index, representing investment-grade municipal bonds, returned 2.78%. As measured by the Bloomberg Corporate High Yield Index, high-yield bonds were up 3.57%.

COMMODITIES

The continued effects of the war in Ukraine and milder winter in Europe pushed commodity prices lower. West Texas Intermediate fell to as low as $66.74/barrel before rising to $75.67 at quarter end. The Bloomberg Commodity Index was down 5.4% for the quarter.

The U.S. dollar index was down 1% after losing more than 7.5% in the prior quarter. Gold reached a low of $1811.04 per ounce in February, but rallied in March to end up 8.0% from the beginning of the quarter.

FIGURE 4. CAPITAL MARKET RETURNS (AS OF MARCH 31, 2023)

NORTH AMERICAN EQUITY	MTD (%)	QTD (%)	YTD (%)	1 YEAR (%)	3 YEAR (%)*	5 YEAR (%)*
Russell 3000 Index	2.67	7.18	7.18	-8.58	18.48	10.45
Standard & Poor's 500	3.67	7.50	7.50	-7.73	18.60	11.19
Standard & Poor's/TSX (CAD)	-0.22	4.55	4.55	-5.17	18.02	8.80
U.S. EQUITY BY SIZE/STYLE						
Russell 1000 Index	3.16	7.46	7.46	-8.39	18.55	10.87
Russell 1000 Growth Index	6.84	14.37	14.37	-10.90	18.58	13.66
Russell 1000 Value Index	-0.46	1.01	1.01	-5.91	17.93	7.50
Russell 2000 Small Cap Index	-4.78	2.74	2.74	-11.61	17.51	4.71
Russell 2000 Small Cap Growth Index	-2.47	6.07	6.07	-10.60	13.36	4.26
Russell 2000 Small Cap Value Index	-7.17	-0.66	-0.66	-12.96	21.01	4.55
Russell Microcap Index	-8.89	-2.83	-2.83	-17.93	17.19	2.96
INTERNATIONAL EQUITY (USD)						
MSCI AC World ex U.S.	2.44	6.87	6.87	-5.07	11.80	2.47
MSCI EAFE	2.48	8.47	8.47	-1.38	12.99	3.52
MSCI Europe	2.37	10.56	10.56	1.38	15.00	4.35
MSCI Pacific	0.55	2.16	2.16	-7.40	13.97	3.40
MSCI Japan	3.96	6.19	6.19	-5.23	7.39	1.27
MSCI Emerging Markets	3.03	3.96	3.96	-10.70	7.83	-0.91

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FIGURE 4. CAPITAL MARKET RETURNS (AS OF MARCH 31, 2023)

U.S.FIXED INCOME	MTD (%)	QTD (%)	YTD (%)	1 YEAR (%)	3 YEAR (%)*	5 YEAR (%)*
Bloomberg U.S. Treasury Bills: 1-3 Months	0.40	1.09	1.09	2.60	0.91	1.38
Bloomberg U.S. Aggregate	2.54	2.96	2.96	-4.78	-2.77	0.91
Bloomberg Gov't/Credit	2.82	3.17	3.17	-4.81	-2.63	1.16
Bloomberg Treasury	2.89	3.00	3.00	-4.51	-4.20	0.74
Bloomberg U.S. TIPS	2.89	3.34	3.34	-6.06	1.75	2.94
Bloomberg Municipal Bond Index	2.22	2.78	2.78	0.26	0.35	2.03
Bloomberg U.S. Credit	2.74	3.45	3.45	-5.31	-0.70	1.54
Bloomberg Corporate High Yield	1.07	3.57	3.57	-3.34	5.91	3.21
REAL ESTATE/COMMODITIES/ALTERNATIVES						
Wilshire U.S. Real Estate Securities Index	-2.55	3.44	3.44	-21.20	11.12	5.68
Wilshire Global ex U.S. Real Estate Securities Index	-3.58	-0.32	-0.32	-19.71	4.21	-1.94
Wilshire Global Real Estate Securities	-2.83	2.35	2.35	-20.78	9.02	3.17
Bloomberg Commodity Index	-0.21	-5.36	-5.36	-12.49	20.82	5.36
S&P GSCI Commodity (S&P GSCI)	-1.07	-4.94	-4.94	-10.04	30.53	4.93
Wilshire Liquid Alternatives Index	0.10	1.20	1.20	-2.68	4.09	1.27
Wilshire Liquid Alternative Equity Hedge Index	0.98	2.45	2.45	-1.70	8.24	2.85
Wilshire Liquid Alternative Event Driven Index	-0.44	0.42	0.42	-1.83	3.54	2.07
Wilshire Liquid Alternative Global Macro Index	-3.72	-2.62	-2.62	-0.18	4.47	2.49
Wilshire Liquid Alternative Multi-strategy Index	-0.43	1.14	1.14	-3.41	4.02	0.69
Wilshire Liquid Alternative Relative Value Index	0.80	1.53	1.53	-3.63	1.80	0.25
Wilshire Focused Liquid Alternative Index	-0.58	0.43	0.43	-2.88	3.89	1.61

Source: Stifel Investment Strategy via Bloomberg as of March 31, 2023

**Represents annualized returns*

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DISCLOSURE

The MSCI Japan Index is designed to measure the performance of the large and mid cap segments of the Japanese market. With 322 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.

The MSCI EM (Emerging Markets) Europe, Middle East and Africa Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the emerging market countries of Europe, the Middle East, and Africa.

The Bloomberg U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related, and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS, and CMBS (agency and nonagency). Provided the necessary inclusion rules are met, U.S. Aggregate-eligible securities also contribute to the multicurrency Global Aggregate Index and the U.S. Universal Index, which includes high yield and emerging markets debt.

The Bloomberg U.S. Government/Credit Bond Index is a broad-based flagship benchmark that measures the non-securitized component of the U.S. Aggregate Index. It includes investment-grade, U.S. dollar-denominated, fixed-rate Treasuries, government-related, and corporate securities.

The Bloomberg U.S. Treasury Index measures U.S. dollar-denominated, fixed-rate, nominal debt issued by the U.S. Treasury. Treasury bills are excluded by the maturity constraint, but are part of a separate Short Treasury Index. STRIPS are excluded from the index because their inclusion would result in double-counting. The U.S. Treasury Index is a component of the U.S. Aggregate, U.S. Universal, Global Aggregate, and Global Treasury Indices.

The Bloomberg U.S. Treasury U.S. TIPS index includes all publicly issued, U.S. Treasury inflation-protected securities that have at least one year remaining to maturity, are rated investment grade, and have $250 million or more of outstanding face value.

The Bloomberg U.S. Municipal Index covers the U.S. dollar-denominated, long-term, tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and prerefunded bonds.

The Bloomberg U.S. Credit Index measures the investment-grade, U.S. dollar-denominated, fixed-rate, taxable corporate and government-related bond markets. It is composed of the U.S. Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supranationals, and local authorities.

The Bloomberg U.S. Corporate High Yield Bond Index measures the U.S. dollar-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Barclays EM country definition, are excluded.

The Bloomberg Global Aggregate Bond Index is a flagship measure of global investment-grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate, and securitized fixed-rate bonds from both developed and emerging markets issuers.

The Bloomberg Emerging Markets Hard Currency Aggregate Index is a flagship hard currency Emerging Markets debt benchmark that includes U.S. dollar-denominated debt from sovereign, quasi-sovereign, and corporate EM issuers.

The Wilshire U.S. REIT Index is a float-adjusted market capitalization-weighted index that measures U.S. publicly traded real estate investment trusts (REITs), excluding mortgage REITs, net-lease REITS, real estate finance companies, home builders, large landowners and sub-dividers, hybrid REITS, and companies that have more than 25% of their assets in direct mortgage investments.

The Wilshire ex U.S. Real Estate Investment Trust Index℠ (Wilshire ex U.S. REIT) measures global publicly traded real estate investment trusts, less all U.S. securities.

The Wilshire ex U.S. REIT is a subset of the Wilshire ex U.S. Real Estate Securities Index℠ (Wilshire ex U.S. RESI).

The Wilshire Global REIT Index is a float-adjusted, market capitalization-weighted index that measures global publicly traded real estate investment trusts (REITs), excluding mortgage REITs, net-lease REITS, real estate finance companies, home builders, large landowners and sub-dividers, hybrid REITS, and companies that have more than 25% of their assets in direct mortgage investments.

Bloomberg Commodity Index (BCOM) is calculated on an excess return basis and reflects commodity futures price movements. The index rebalances annually weighted two-thirds by trading volume and one-third by world production, and weight-caps are applied at the commodity, sector, and group level for diversification. Roll period typically occurs from the sixth to the tenth business day based on the roll schedule.

The S&P GSCI Crude Oil Index is a sub-index of the S&P GSCI Commodity Index. The production-weighted index reflects the returns that are potentially available through an unleveraged investment in the West Texas Intermediate (WTI) crude oil futures contract.

The Wilshire Liquid Alternative Index℠ measures the collective performance of the five Wilshire Liquid Alternative strategies that make up the Wilshire Liquid Alternative Universe. The Wilshire Liquid Alternative Index (WLIQA) is designed to provide a broad measure of the liquid alternative market by combining the performance of the Wilshire Liquid Alternative Equity Hedge Index℠ (WLIQAEH), Wilshire Liquid Alternative Global Macro Index℠ (WLIQAGM), Wilshire Liquid Alternative Relative Value Index℠ (WLIQARV), Wilshire Liquid Alternative Multi-Strategy Index℠ (WLIQAMS), and Wilshire Liquid Alternative Event Driven Index℠ (WLIQAED).

The Russell 2000 Index measures the performance of the 2,000 smallest companies in the broader Russell 3000 Index, which measures the performance of the 3,000 largest U.S. companies based on total market capitalization. The average market capitalization is approximately $490 million, and the median market capitalization is approximately $395 million.

The Russell 2000 Growth Index measures the performance of those Russell 2000 index companies with higher price-to-book ratios and higher forecasted growth values.

The Russell 2000 Value Index measures the performance of those Russell 2000 index companies with lower price-to-book ratios and lower forecasted growth values.

The Russell Microcap Index is a capitalization-weighted index of 2,000 small cap and micro cap stocks, including the smallest 1,000 companies in the Russell 2000 plus 1,000 smaller U.S. based listed stocks. Over-the-counter stocks and pink sheet securities are excluded.

The MSCI World ex USA All Cap Index captures large, mid, small, and micro cap representation across 22 of 23 Developed Markets (DM) countries (excluding the United States). With 8,138 constituents, the index covers approximately 99% of the free float-adjusted market capitalization in each country.

The MSCI EAFE Index (Europe, Australasia, and the Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada.

The MSCI Europe Index is a free float-adjusted market capitalization-weighted index that is designed to measure the equity market performance of the developed markets in Europe.

The MSCI Pacific Index captures large and mid cap representation across five Developed Markets (DM) countries in the Pacific region. With 470 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

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The Russell 1000 Index measures the performance of the 1,000 largest companies in the Russell 3000 Index, which measures the performance of the 3,000 largest U.S. companies based on total market capitalization. The average market capitalization is approximately $11 billion, and the median market capitalization is approximately $3.5 billion.

The Russell 1000 Growth Index measures the performance of those Russell 1000 index companies with higher price-to-book ratios and higher forecasted growth values.

The Russell 1000 Value Index measures the performance of those Russell 1000 index companies with lower price-to-book ratios and lower forecasted growth values.

The Russell 3000 Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market. The average market capitalization is approximately $4 billion, and the median market capitalization is approximately $700 million.

The Standard & Poor's 500 Index is a capitalization-weighted index that is generally considered representative of the U.S. large capitalization market.

The S&P/TSX Composite Index is the benchmark Canadian index, representing roughly 70% of the total market capitalization on the Toronto Stock Exchange with about 250 companies included in it. The Toronto Stock Exchange is made up of over 1,500 companies.

The Wilshire Focused Liquid Alternative Index℠ is a subset of the Wilshire Liquid Alternative Index℠ and measures the performance of a focused basket of mutual funds that provides risk adjusted exposure to equity hedge, global macro, relative value, and event driven alternative investment strategies.

High yield bonds have greater credit risk than higher quality bonds.

Small company stocks are typically more volatile and carry additional risks, since smaller companies generally are not as well established as larger companies.

There are special considerations associated with international investing, including the risk of currency fluctuations and political and economic events. Investing in emerging markets may involve greater risk and volatility than investing in more developed countries.

When investing in real estate companies, property values can fall due to environmental, economic, or other reasons, and changes in interest rates can negatively impact the performance.

Alternative investments involve a high degree of risk, often engage in leveraging and other speculative investment practices that may increase the risk of investment loss, can be highly illiquid, are not required to provide periodic pricing or valuation information to investors, may involve complex tax structures and delays in distributing tax information, are not subject to the same regulatory requirements as more traditional investments, and often charge high fees, which may erode performance. An investment is appropriate only for investors who have the capacity to absorb a loss of some or all of their investment.

Private equity funds are not appropriate for all investors. Investors should be aware that private equity funds may contain speculative investment practices that can lead to a loss of the entire investment. Private equity funds may invest in entities in which no secondary market exists and, as such, may be highly illiquid. The funds are not required to provide periodic pricing or valuation information to investors and often charge high fees that can erode performance. Additionally, they may involve complex tax structures and delays in distributing tax information.

Investors should be aware that hedge funds often engage in leverage, short-selling, arbitrage, hedging, derivatives, and other speculative investment practices that may increase investment loss. Hedge funds can be highly illiquid, are not required to provide periodic pricing or valuation information to investors, and often charge high fees that can erode performance. Additionally, they may involve complex tax structures and delays in distributing tax information. While hedge funds may appear similar to mutual funds, they are not necessarily subject to the same regulatory requirements as mutual funds.

Indices are unmanaged and are not available for direct investment. Past performance is no guarantee of future results. Index returns include the reinvestment of dividends but do not include adjustments for brokerage, custodian, and advisory fees.

Past performance is not indicative of future results.

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