



Insights from Stifel's CIO Office

INVESTMENT STRATEGY BRIEF:

Managing Through Economic Recovery

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An Outlook for a Strong Recovery

Our Outlook 2021 – Three Scenarios

Base Case (70%)

- Successful vaccination campaign in the U.S. and abroad
- Federal government support of the economy continues
- President Biden prioritizes economic recovery
- Geopolitical tensions and policy uncertainty decreases

Bull Case (15%)

- A faster timeline to herd immunity
- Back closer to “normal” for Consumers
- Even more business spending

Bear Case (15%)

- A meaningful delay in vaccination efforts
- COVID-19 cases continue to surge
- Business and economic headwinds remain
- “Animal Spirits” impacted

Risks

Troublesome coronavirus variants

- Faster-spreading variants of the virus
- Possibly resistant to vaccine
- Impact of the boundary of herd immunity

Market Excess

- Focused segments of the market are richly valued
- Certain market areas are disconnected from fundamentals

Results Are “Too Good”

- Heating up inflation
- Higher rates

Slower Global Recovery

- Certain countries falling behind vaccination curve

Possible Market Correction

- Some possibility of a market correction in the first half of 2021
- Pullback as a temporary pause possible even in our Base Case

2021 TARGET	OUR VIEW	COMMENT	
MACRO VIEWS			
Core PCE Inflation	2.0%	Trending Higher	Inflation will move higher as the economy accelerates, but the output gap may take longer to close, thereby keeping inflation from running too hot.
Real GDP	3.75% - 4.25%	Above Trend	A bridge to “normalcy” via a vaccine and a surge of pent-up demand in sectors constrained by the virus will drive GDP above its long-term trend.
Volatility (VIX)	-	Modestly Above Average	The VIX averaged 29.2 in 2020, up from 15.4 in 2019. We see volatility lower than last year, but still elevated as the path to recovery will be bumpy.
U.S. Dollar	-	Modestly Weaker	A recovering global economy, lower rate differential, and rising inflation expectations will put pressure on the dollar.
EQUITY			
U.S. Equities Large Cap (S&P 500)	10% return (4,073 index)	Positive returns above our long-term capital market assumptions	2020 saw a pandemic-induced recession and subsequent V-shaped recovery in many segments of the economy, in part, due to strong policy support. In 2021, a strong global economic recovery and rebounding earnings will underpin market returns.
U.S. Equities Small Cap (Russell 2000)	13% return (2,208 Index)		
Developed Markets (MSCI EAFE)	13% return (2,376 index)		
Emerging Markets (MSCI EM)	14% return (1,448 index)		
FIXED INCOME			
Federal Funds Rate	0.00% - 0.25%	No change to monetary policy	The Federal Reserve (Fed) has signaled a patient approach and allowing inflation to overshoot 2%.
10-Year Yield	1.25% - 1.50%	Higher	A stronger economy will lift rates, but a more patient Fed and a tepid longer-term growth outlook will limit the rise in rates.
Investment-Grade Credit (OAS)*	100 - 125 basis points	Slight Widening	Spreads are at the lower end of their historical range, and there is some room for widening.
High-Yield Credit (OAS)	375 - 425 basis points	Slight Widening	

Coronavirus/Major Investment Themes

**Productive
Competition**



**Fourth
Industrial
Revolution**



**Shifting
Demographics**



**Geopolitical Tensions
and Protectionism**



**Managing Through
Economic Recovery**



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D.C. Update – Historic Spending



What's in the Stimulus Package?

Ways & Means (\$ in billions)	Oversight & Reform	Education & Labor	
<i>Stimulus checks.....\$422</i> <i>Extended unemployment....\$246</i> <i>Expanded tax credits.....\$143</i> <i>Grants to pension plans.....\$58</i> <i>Expand ACA subsidies.....\$45</i> <i>Extended paid sick leave.....\$14</i> <i>Subsidize COBRA coverage..\$8</i> <i>Other policies.....\$9</i> <i>Repeal interest expense rule for multinational corporations. -\$22</i>	\$350	\$290	
\$923 billion	Energy & Commerce	Financial Services	
	\$122	\$71	
	Transportation & Infrastructure	Small Business	
	\$90	\$50	

Source: Stifel Investment Strategy via Committee for a Responsible Federal Budget (CFRB) as of March 12, 2021

Biden Infrastructure Plan

Highways, transit ports, airports, water and sewer systems \$650 billion	Affordable Housing	U.S. Manufacturing	
	\$300	\$300	
Home and Community Based Health \$400	Research and Development	Electric Grid	High-Speed Broadband
	\$180	\$100	\$100
	Clean Drinking Water	Workforce Dev. & Job Retraining	
	\$100	\$100	

Source: Brian Gardner, Stifel Chief Washington Policy Strategist

Biden Administration Near-Term Agenda

- Beat COVID-19
- Jobs and Economic Recovery
- Health Care
- **Tax Legislation**
- Infrastructure
- Immigration
- “Make it in America” - Semiconductors

BIDEN TAX PLAN**Corporate Taxes**

- Raise to 28% from 21%
- Minimum 15% tax for companies with more than \$100 million in annual income
- Double the Global Intangible Low-Taxed Income (GILTI)

Individual Taxes

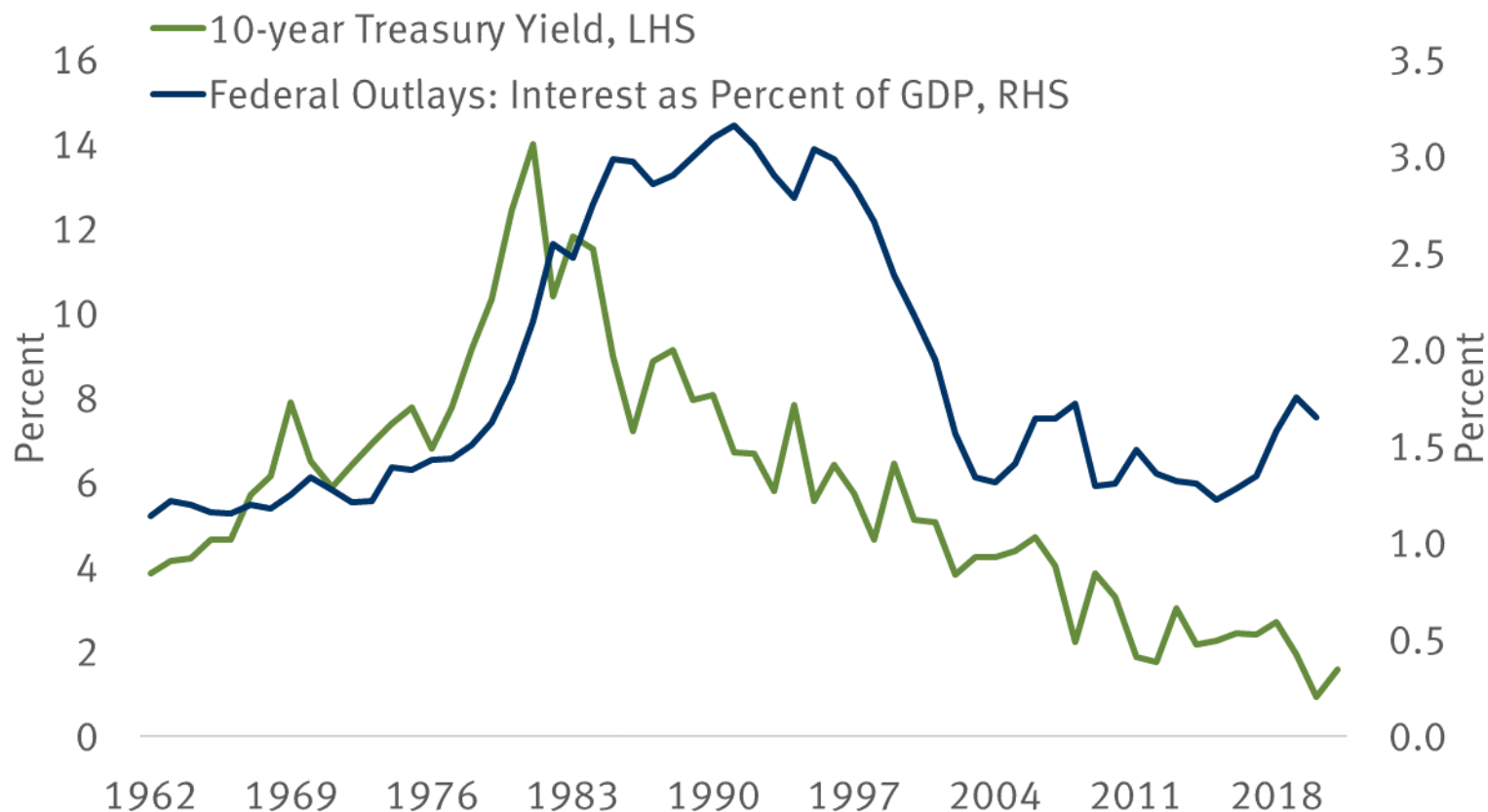
- Raise top tax rate to 39.6% from 37%
- Cap itemized deductions at 28% for incomes above \$400,000
- Apply payroll tax on income earned above \$400,000

Investment and Retirement

- Capital gains as ordinary income for incomes above \$1 million
- Eliminate stepped-up basis at death
- Increase estate tax rate to 45%

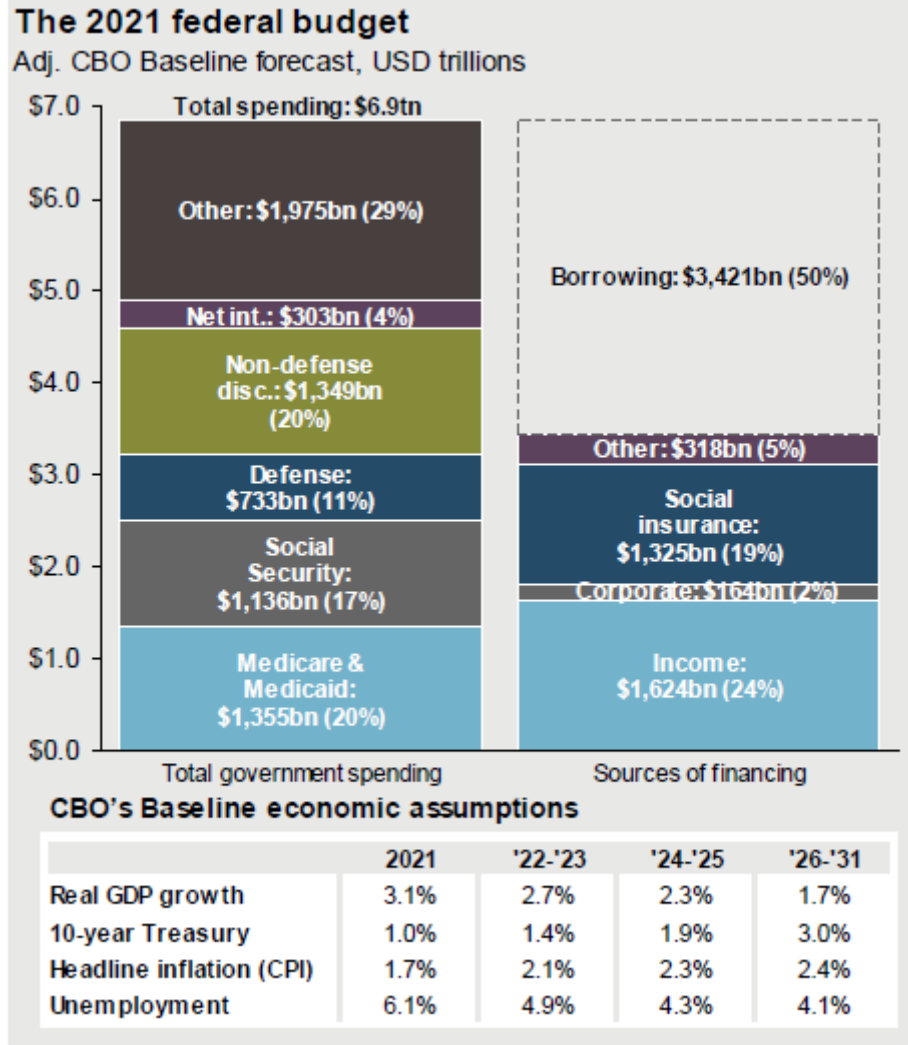
Source: Stifel Investment Strategy as of March 12, 2021

Government interest expenses and 10-year yield



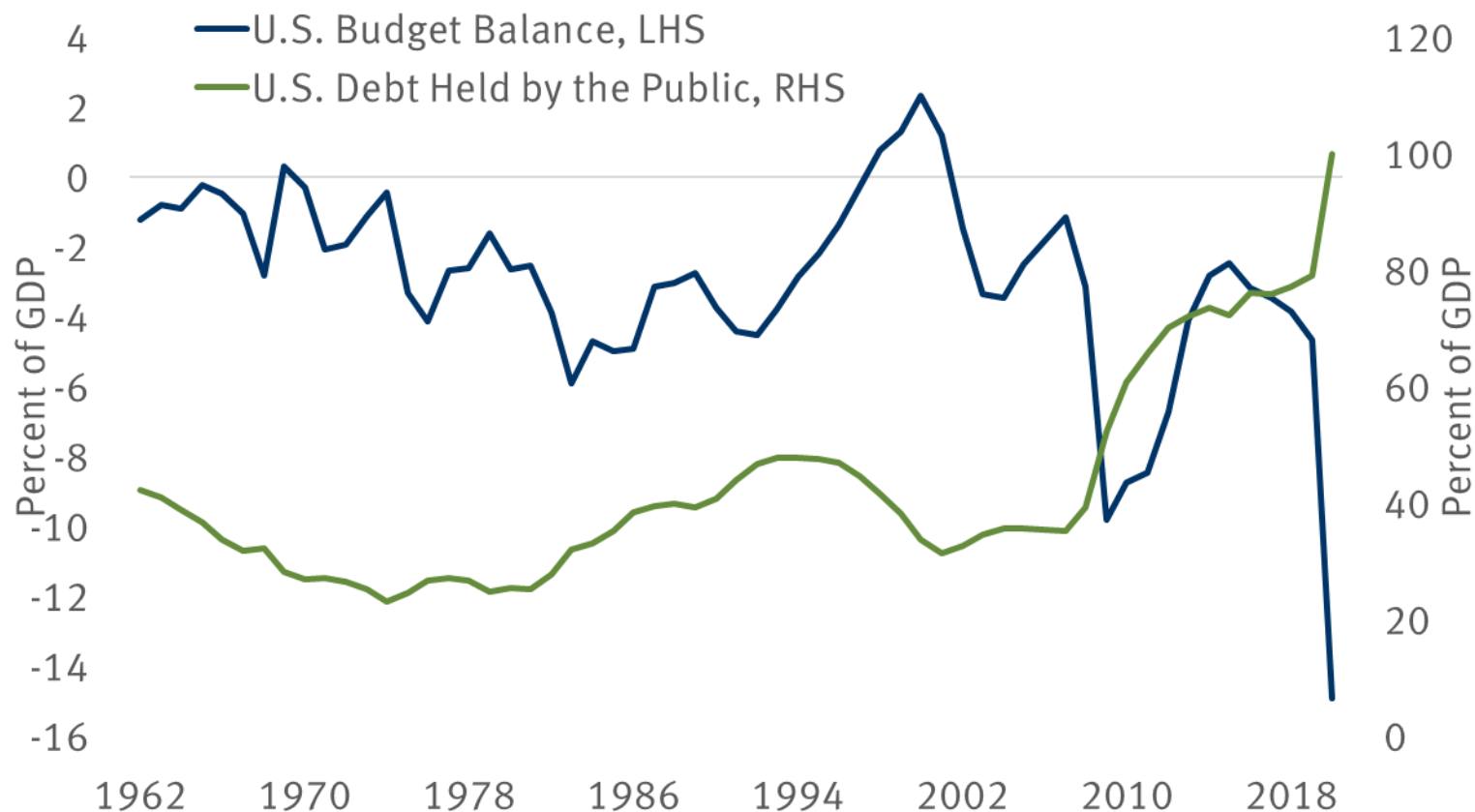
Source: Stifel Investment Strategy via Bloomberg and Federal Reserve Bank of St. Louis, as of April 15, 2021

Federal Finances



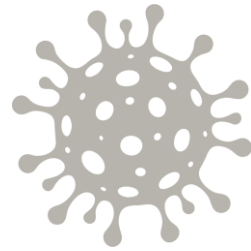
Source: CBO, J.P. Morgan Asset Management. Estimates are based on the Congressional Budget Office (CBO) February 2021. Baseline Budget Forecast adjusted to account for the impact of the America Rescue Plan Act of 2021. Other spending includes, but is not limited to, health insurance subsidies, income security and federal civilian and military retirement. Note: years shown are fiscal years. (Oct. 1 through Sep. 30) Forecasts are not a reliable indicator of future performance. Forecasts, projections and other forward looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections or other forward statements, actual events, results of performance may differ materially from those reflected or contemplated. Guide to the Markets – U.S. Data are as of April 14, 2021

Government budget balances and debt

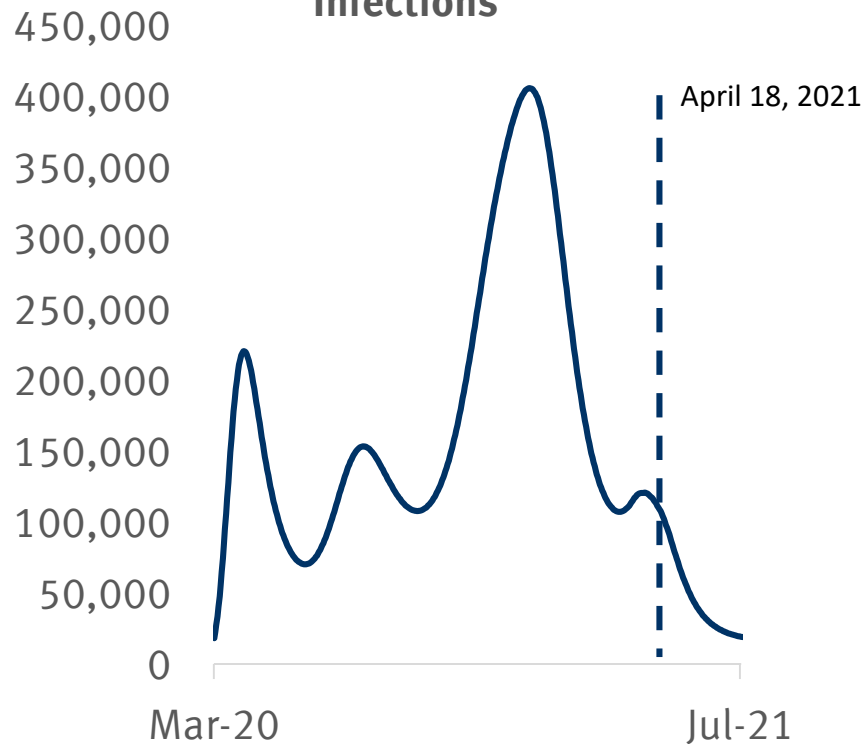


Source: Stifel Investment Strategy via Congressional Budget office, as of February 11, 2021

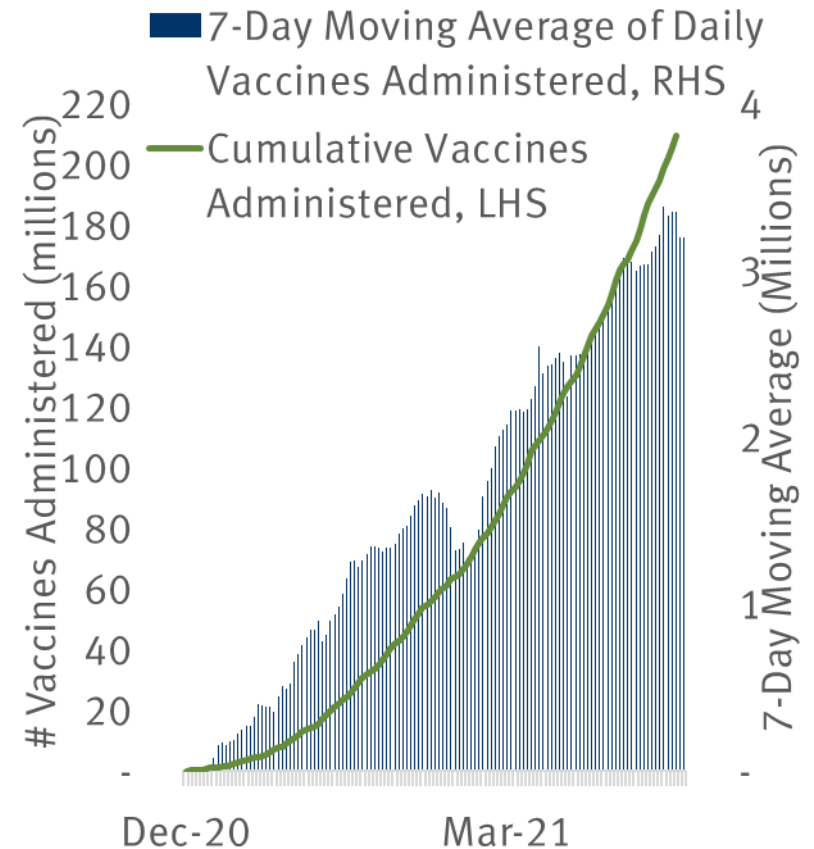
Pandemic Update



Estimated Daily COVID-19 Infections



Source: Stifel Investment Strategy via Institute for Health Metrics and Evaluation (IHME), as of April 16, 2021

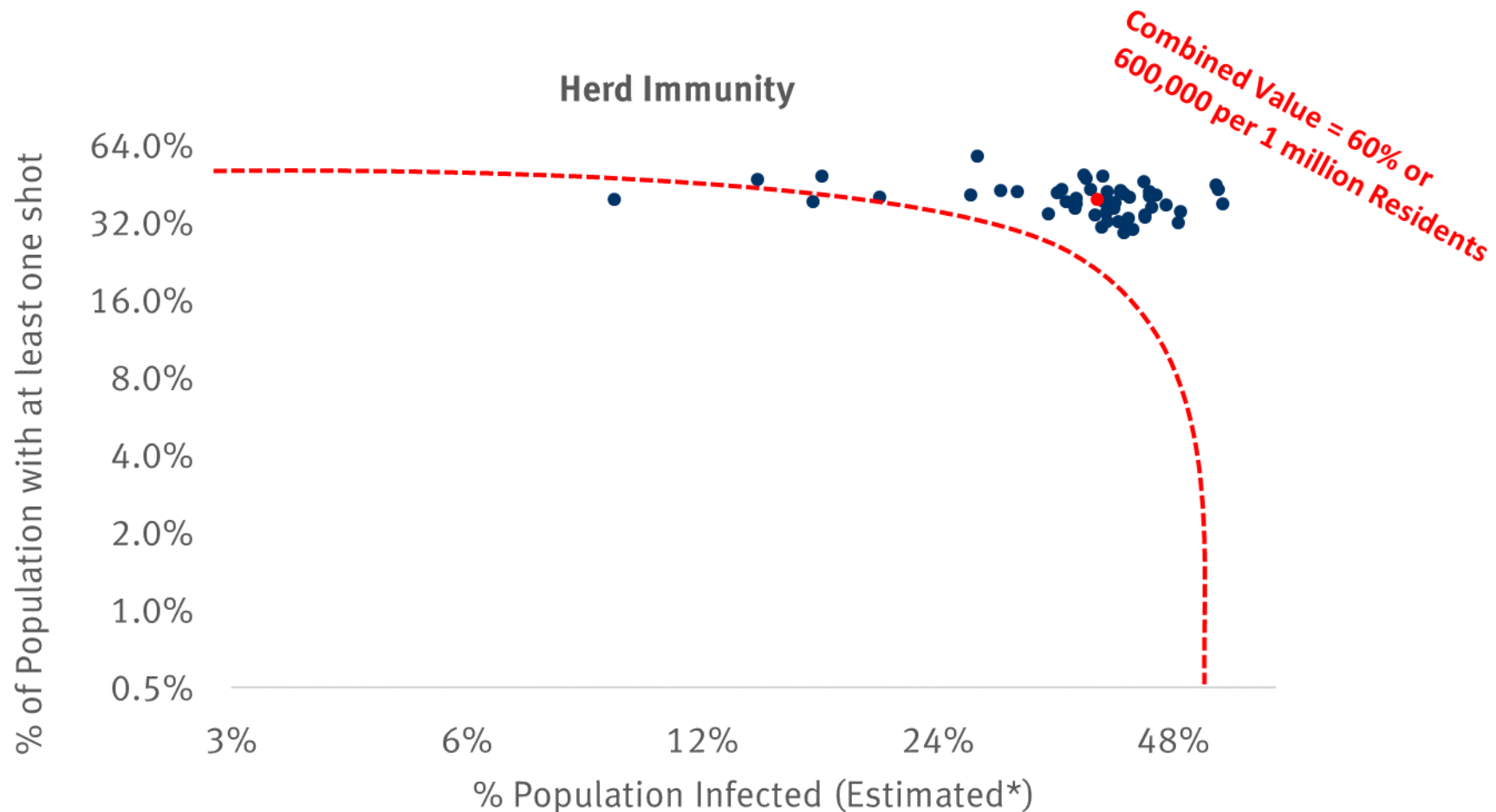


Source: Stifel Investment Strategy via Bloomberg, as of April 19, 2021

›3 million
Vaccine shots/day

65,000
Cases/day

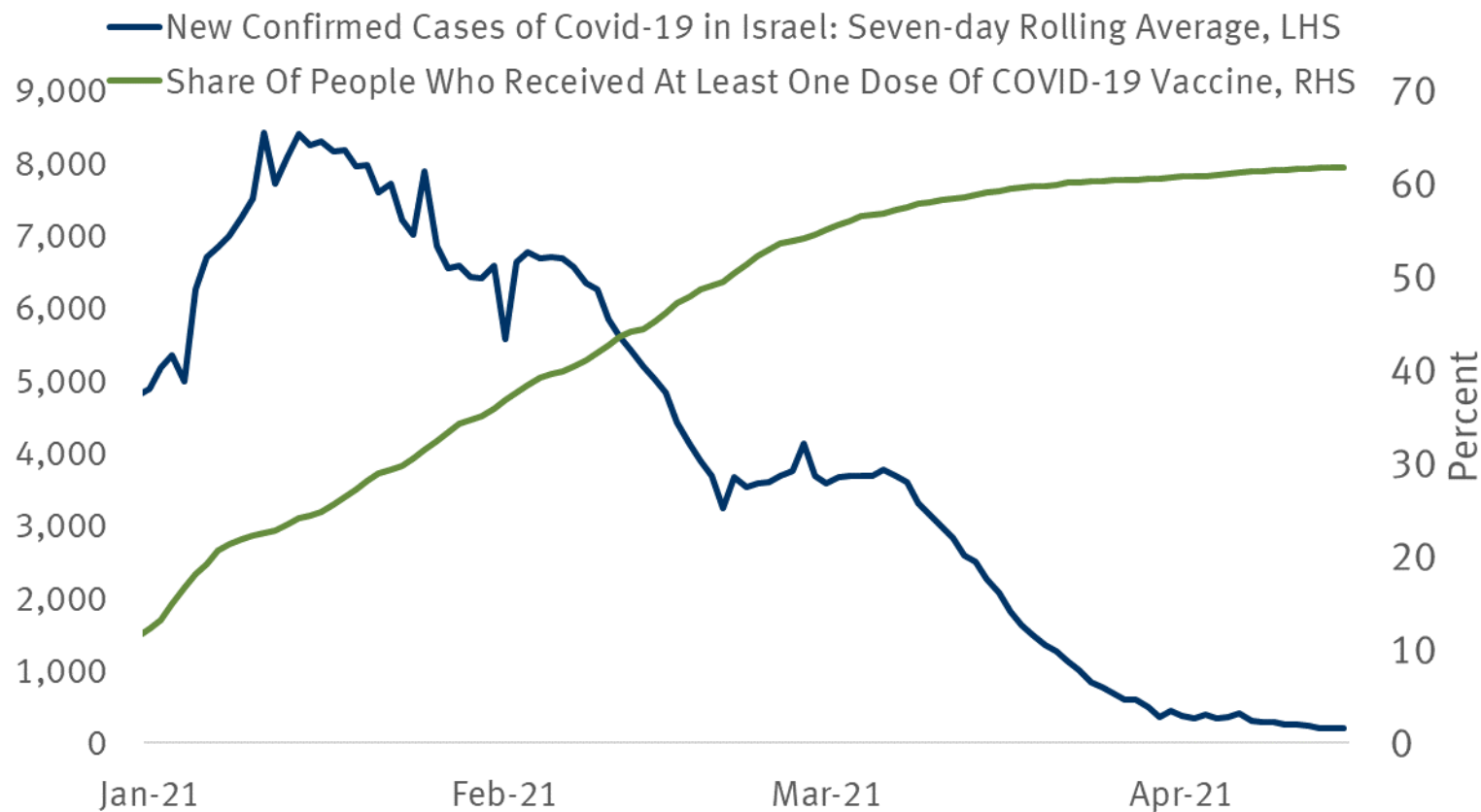
End of Second Quarter
Timing for herd immunity?



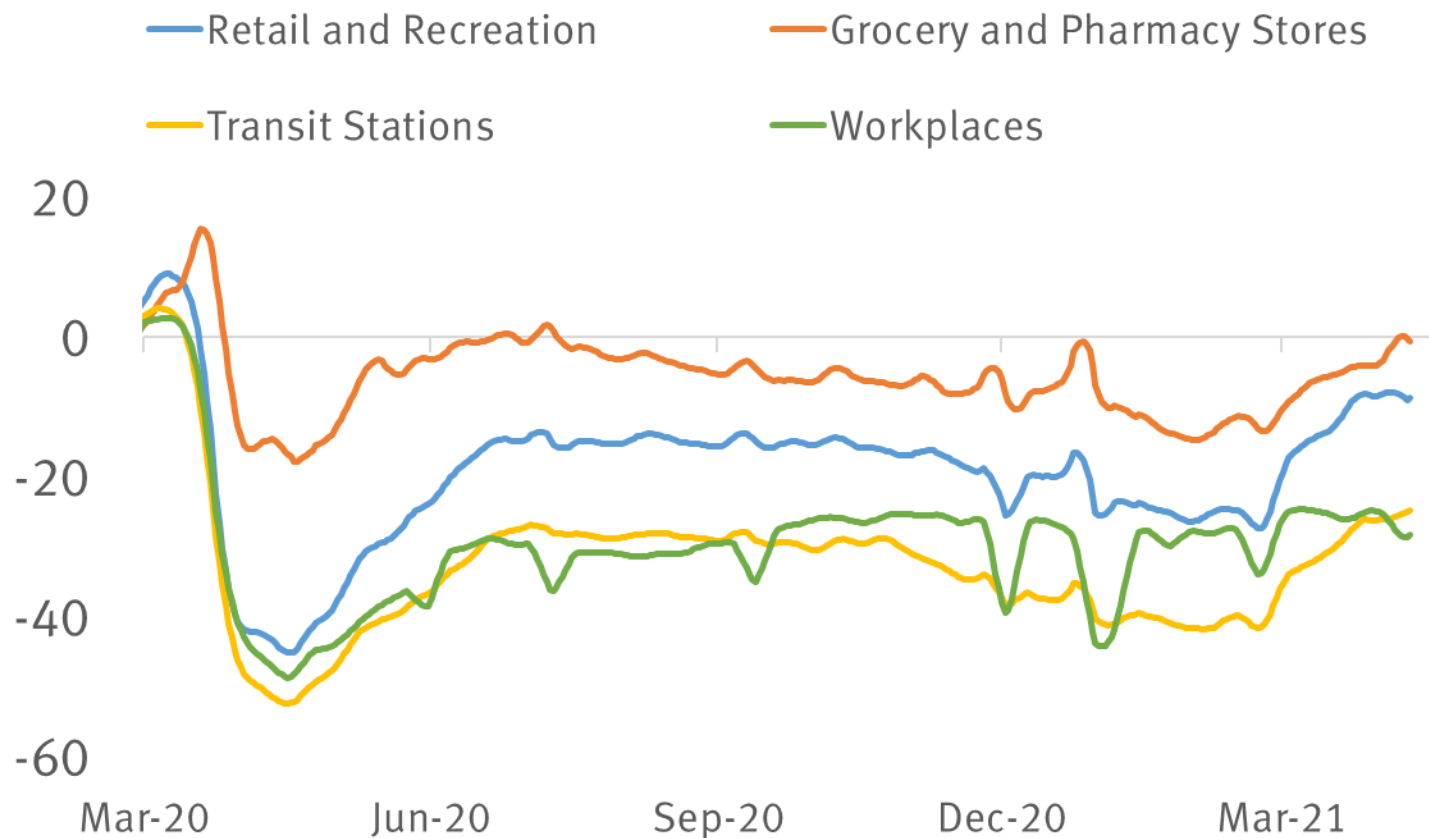
Source: Stifel Investment Strategy via Bloomberg, Fundstrat and CDC, as of April 19, 2021; U.S. state and national level data shown in the dots above. *Estimated infection rate equals detected infections times 4. (Source: Fundstrat)

Country/Region	Doses Administered		Pct. of population	
	Per 100 people	Total	Vaccinated	Fully Vaccinated
World	11	840,719,672	-	-
Seychelles	116	112,194	68%	47%
Israel	116	10,298,554	60%	56%
U.A.E.	97	9,295,462	-	-
Chile	67	12,496,993	40%	27%
Bahrain	64	1,008,746	37%	27%
Bhutan	63	477,060	-	-
U.K.	61	40,496,685	49%	12%
United States	59	194,791,836	37%	23%
Maldives	58	299,029	53%	5%
San Marino	56	18,835	31%	25%

Source: Stifel Investment Strategy via New York Times, as of April 15, 2021



Source: Stifel Investment Strategy via Bloomberg and Our World In Data, as of April 15, 2021



Source: Stifel Investment Strategy via Google Mobility Trends, as of April 11, 2021; based on 7-day moving average data.

Macro Environment



MACRO**U.S. Economy**

- Q4 2020 GDP at 4.3%
- Peaking jobless claims
- Declining unemployment rate
- Non-farm Payrolls 539,000 (rolling 3-month total)
- Wage growth, 4.2%
- Inflation lower, 1.6% (Core CPI)
- V-shaped recovery
- \$2.3 trillion stimulus package

Central Bank Activity

- Carefully rebuilt the tools
- Dovish global central banks
- Global M2 stable
- Federal Reserve (Fed) – unprecedented measures
- Expanding balance sheet

Global Economy

- Global manufacturing above pre-COVID levels
- Supportive Global Fiscal Policy
- Asia ex Japan GDP, 1.4% in 2020
- Japan Real GDP, -4.9% in 2020
- Europe core stronger than periphery

Geopolitical Events

- Protectionism and trade
- 2020 Presidential Election
- Gulf tensions
- China, Russia, Middle East, North Korea

MARKETS**Market Environment**

- Increased volatility
- Modestly higher returns forward
- Exited bear market

Equity Market

- Earnings growth recovering, valuations are up
- Longer-term driven by fundamentals
- Market is up 90% since its low

Bond Market

- Rates fell, curve flattened
- Household credit rising but remains modest relative to GDP
- Stretched corporate credit no longer under pressure

Foreign Exchange & Commodities

- Dollar (DXY) up 1.9% YTD on rate differentials
- Gold down 7.1% YTD to \$1,763
- Oil (WTI) up 29% YTD on supply curbs and positive vaccine news

THEMES**Themes**

- Productive Competition
- Fourth Industrial Revolution ...and Globalism
- Shifting Demographics ...and Millennials
- Geopolitical Tensions ...and Protectionism
- Managing Through Economic Recovery

Potential Headwinds

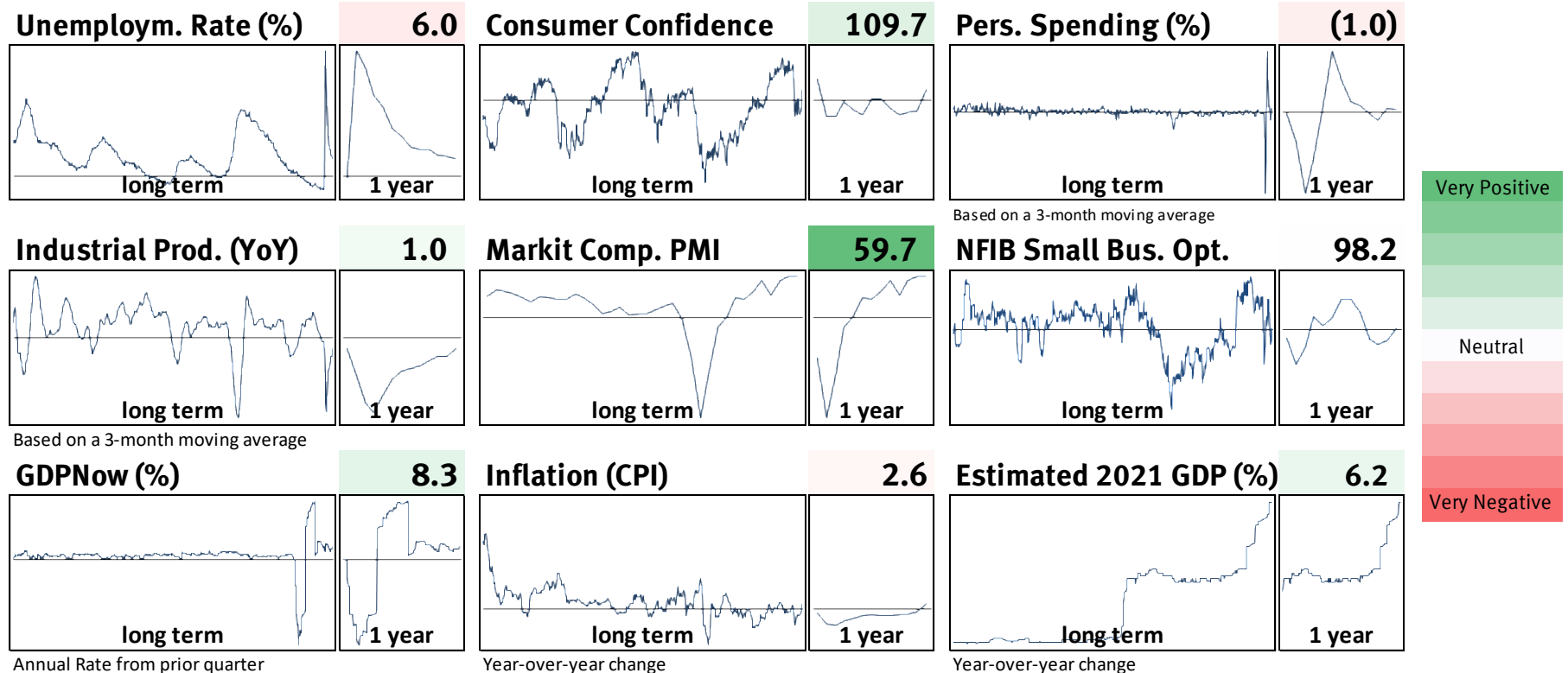
- Coronavirus pandemic
- Inflation and price pressures picking up faster than expected
- Slower U.S. GDP growth
- Trade and tariff tensions
- Heightened geopolitical risks (Europe, Iran)

Existing Tailwinds

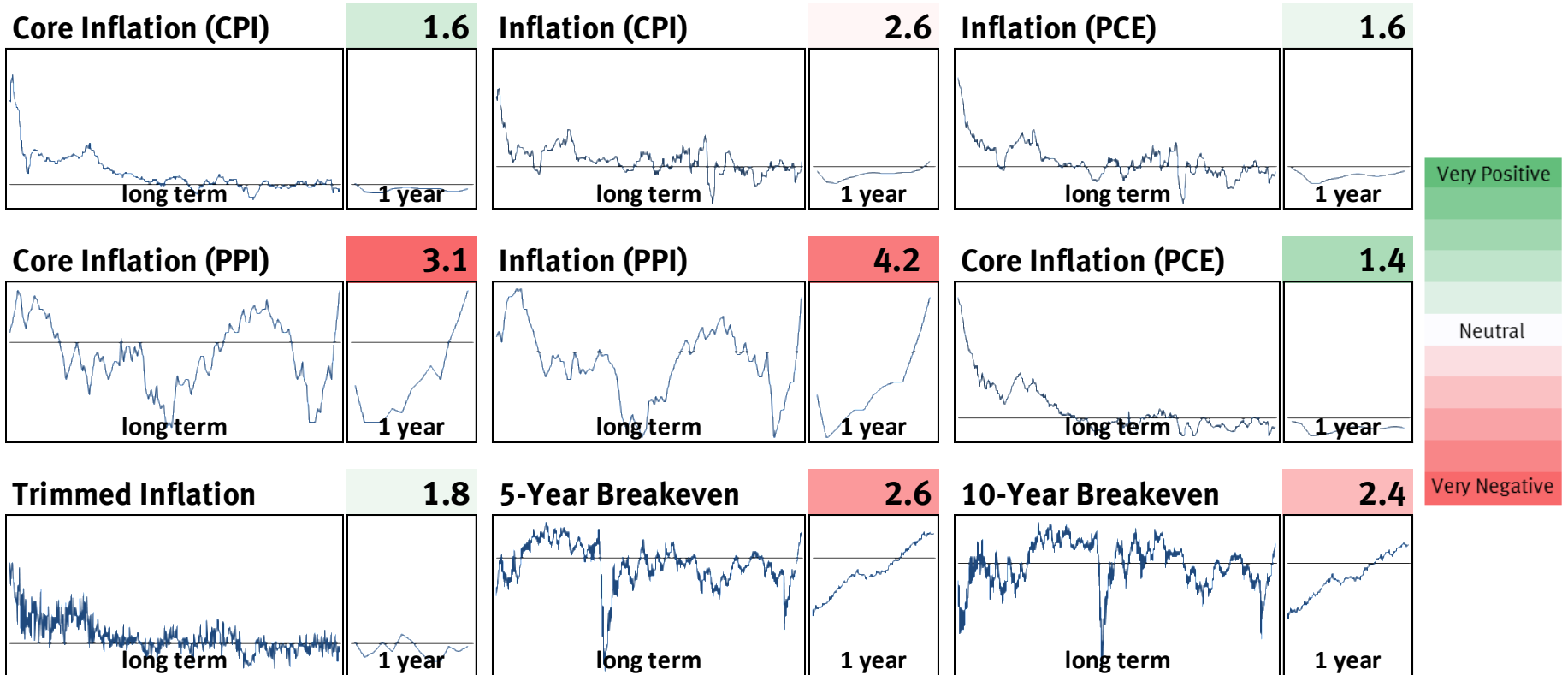
- Massive monetary support
- Historic fiscal support
- Started crisis with a strong economy
- Moderna's, J&J's, and Pfizer's vaccines are approved
- May have hit a pandemic peak

Source: Stifel Investment Strategy data via Bloomberg, as of April 15, 2021

The Economy



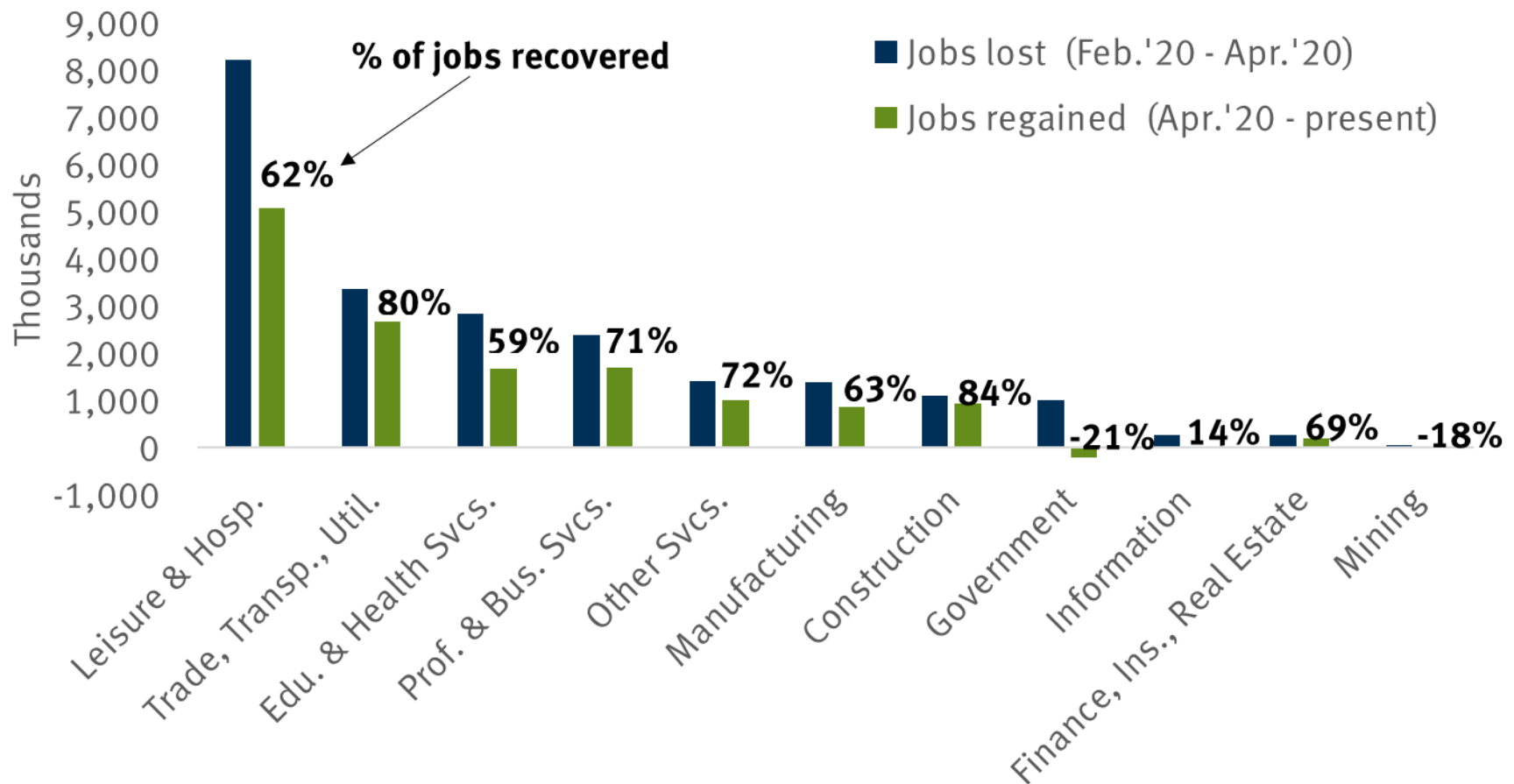
Source: Stifel Investment Strategy via Bloomberg, as of April 16, 2021

Inflation

All Inflation numbers reflect percent year-over-year changes.

Source: Stifel Investment Strategy via Bloomberg, as of April 16, 2021

Jobs Lost and Regained by Industry



Source: Stifel Investment Strategy data via Bloomberg and Bureau of Labor Statistics, as of April 16, 2021

FOMC Minutes

- Stronger GDP growth projections compared to December on vaccination progress
- Employment improved but below pre-pandemic levels
 - Lower wage workers earning more

Summary of Economic Projections

Percent	Median			
Variable	2021	2022	2023	Longer run
Change in real GDP	6.5	3.3	2.2	1.8
December projection	4.2	3.2	2.4	1.8
Unemployment rate	4.5	3.9	3.5	4.0
December projection	5.0	4.2	3.7	4.1
PCE inflation	2.4	2.0	2.1	2.0
December projection	1.8	1.9	2.0	2.0
Federal funds rate	0.1	0.1	0.1	2.5
December projection	0.1	0.1	0.1	2.5

Source: Federal Reserve, as of March 17, 2021

Powell Comments

- Outlook has brightened – long way from fulfilling dual mandate
- **Interest rates** likely to stay low for some time
 - Observed that most central-bank officials see rates staying near zero through 2023
- **Asset purchases:** “actual progress, not forecast progress” toward Fed’s goals before slowing down pace
 - Would taper bond purchases first, raise rates later
- **Inflation:** will look through temporary inflation due to year-over-year base effects
 - Price pressures due to reopening as transient
 - Seeks inflation “that is moderately above 2% for some time”

The Consumer

109.7

*Conference Board
Consumer Confidence
(as of March 31, 2021)*

27.7%

*Retail Sales
(as of March 31, 2021)*

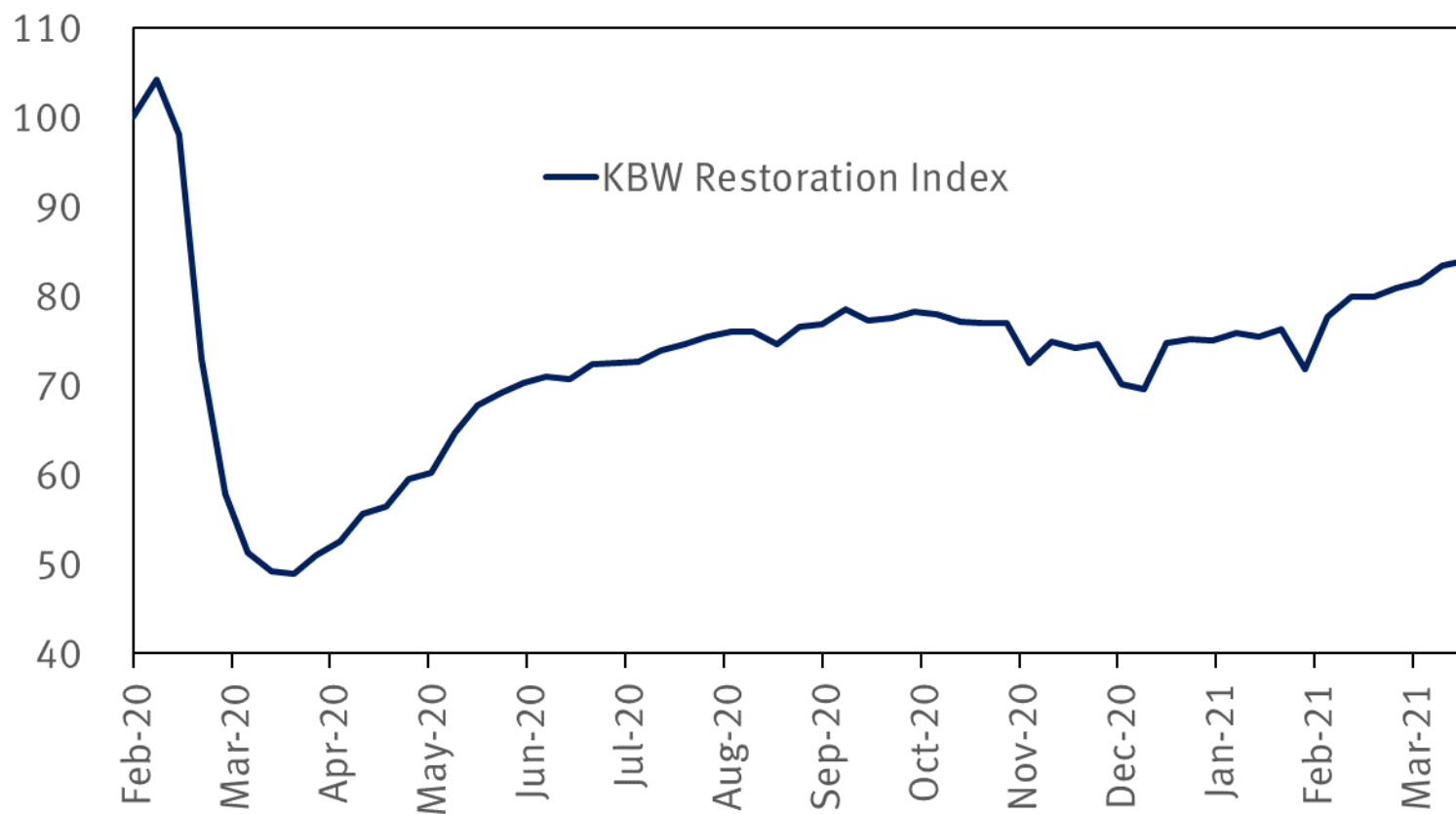
13.6%

*Savings Rate
(as of February 28, 2021)*

6.0%

*Unemployment Rate
(as of March 31, 2021)*

Source: Stifel Investment Strategy data via Bloomberg, as of April 16, 2021



Source: Stifel Investment Strategy data via KBW, as of April 9, 2021

U.S. GDP	Q1 20	Q2 20	Q3 20	Q4 20	Q1 21	Q2 21	Q3 21	Q4 21	2020*	2021*	2022*
Consensus Estimates	-5.0	-31.4	33.4	4.3	5.4	8.1	7.0	4.7	-3.5	6.2	4.0
Stifel**	-2.6	-28.4	18.0	3.8	7.0	8.2	5.0	4.5	-3.5	6.3	4.2
IHS Markit	3.0	-35.5	33.2	2.9	6.1	8.3	8.1	5.3	-3.6	6.2	4.3
Goldman Sachs	-9.0	-33.0	35.0	5.0	7.5	10.5	7.5	6.5	-3.4	7.2	4.9
Pantheon Macro	-6.0	-30.0	35.0	6.0	6.0	7.0	14.0	5.0	-3.4	7.0	4.0
Capital Economics	-3.5	-30.0	30.0	4.5	7.0	8.5	5.8	3.5	-3.5	6.5	4.0
Strategas	0.0	-33.0	25.0	8.5	10.0	10.0	2.5	4.5	-3.2	6.9	3.3
Julius Baer	-4.0	-25.0	29.5	2.0	4.0	9.5	9.3	8.0	-3.7	6.5	4.1
UBS	-5.1	-31.7	29.7	4.5	4.0	10.7	8.4	8.7	-3.5	6.6	6.2
Wells Fargo	-1.2	-36.8	28.6	4.0	4.8	8.5	9.2	7.2	-3.5	6.4	5.5
Bloomberg Economics	3.0	-37.0	28.0	2.5	6.0	11.0	10.0	4.0	-3.6	7.0	5.1
Barclays	-1.5	-31.7	30.0	4.0	3.5	11.5	10.0	6.5	-3.4	6.7	4.0
JPMorgan Chase	-10.0	-32.9	34.5	4.8	3.5	9.5	8.3	3.0	-3.4	6.3	4.0
Bank of America ML	-7.0	-35.0	33.0	5.0	7.0	10.0	9.0	5.0	-3.5	7.0	5.5
Federal Reserve									-2.4	6.5	3.3

*Annualized percent change from prior quarter and year-over-year change are shown for quarterly and yearly periods, respectively.

**Based on Stifel sell-side Economics department estimates.

Source: Stifel Investment Strategy data via Bloomberg, as of April 16, 2021. Federal Reserve estimates are as of March 17, 2021. Figures in grey areas under "Consensus Estimates" represent reported results.

Short Term***Coronavirus***

Variants
Herd Immunity

Macro Environment

Money Supply
Inflation
Rates

Policy

Fiscal Stimulus Appetite
Taxes
Regulation

Fundamentals

Valuations
Earnings Growth
“Zombie” Companies

Geopolitics

Trade Tensions
Productive Competition

Technical

Market Breadth
Hedge Fund Leverage

Long Term***Debt***

Government and Corporate
Foreign Holders of National Debt
Misallocation of Capital

Valuations

“Big-Tech”
Dollar Devaluation

Social

Inequality
Climate Change
Environmental and Health

Economic Growth

Productivity
Labor Force
Policy Intervention

Markets



*Performance***2020**

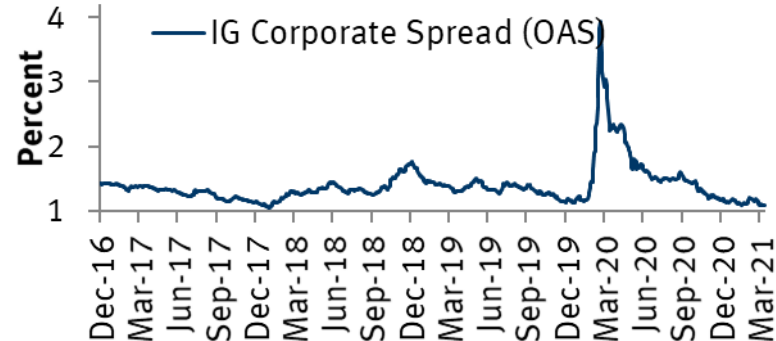
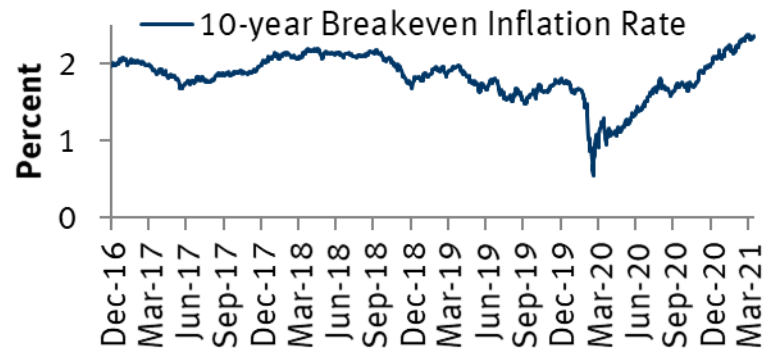
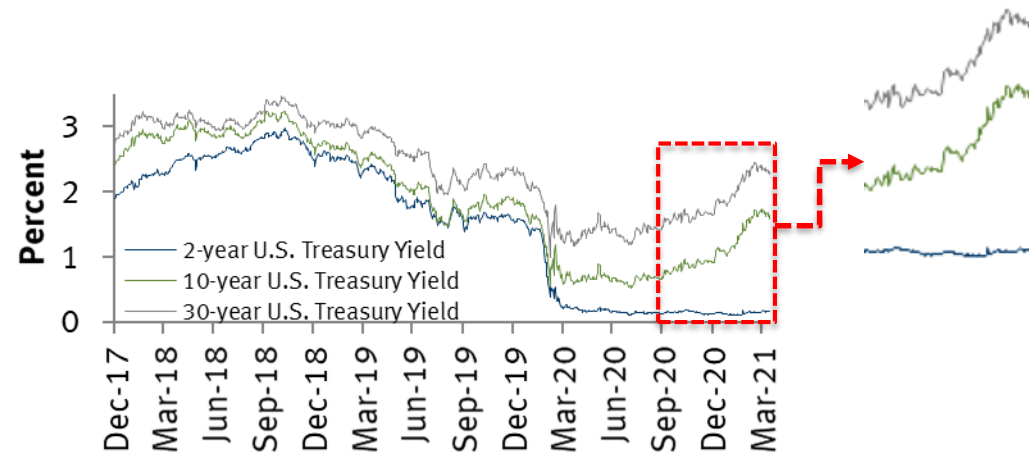
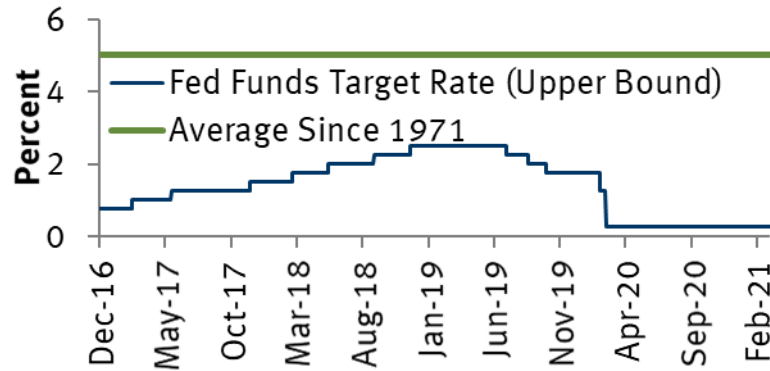
Index	12/31 to 2/19	2/19 to 3/23	3/23 to 9/2	9/2 to 12/31	Full 2020
S&P 500 Index	5.1%	-33.8%	61.4%	5.4%	18.4%
S&P 500 Equal Weighted Index	2.6%	-39.0%	59.6%	12.9%	12.8%
NYSE FANG+ Index	25.6%	-30.9%	113.4%	9.6%	103.1%
Russell 2000 Index	1.6%	-40.7%	59.8%	24.5%	19.9%
MSCI EAFE Index	-0.8%	-32.7%	43.1%	12.8%	7.8%
MSCI EM Index	-0.9%	-31.2%	49.6%	15.9%	18.3%
BBG/Barclays U.S. Agg	2.0%	-0.9%	6.2%	0.2%	7.5%

2021

Index	12/31 to 1/29	1/29 to 3/31	3/31 to 4/16	2021 YTD
S&P 500 Index	-1.0%	7.3%	5.4%	11.9%
S&P 500 Equal Weighted Index	-0.8%	12.4%	4.0%	15.9%
NYSE FANG+ Index	1.9%	0.7%	8.5%	11.3%
Russell 2000 Index	5.0%	7.3%	1.9%	14.9%
MSCI EAFE Index	-1.1%	4.6%	4.2%	7.9%
MSCI EM Index	3.1%	-0.8%	2.5%	4.9%
BBG/Barclays U.S. Agg	-0.7%	-2.7%	0.8%	-2.6%

Source: Stifel Investment Strategy data via Bloomberg, as of April 16, 2021

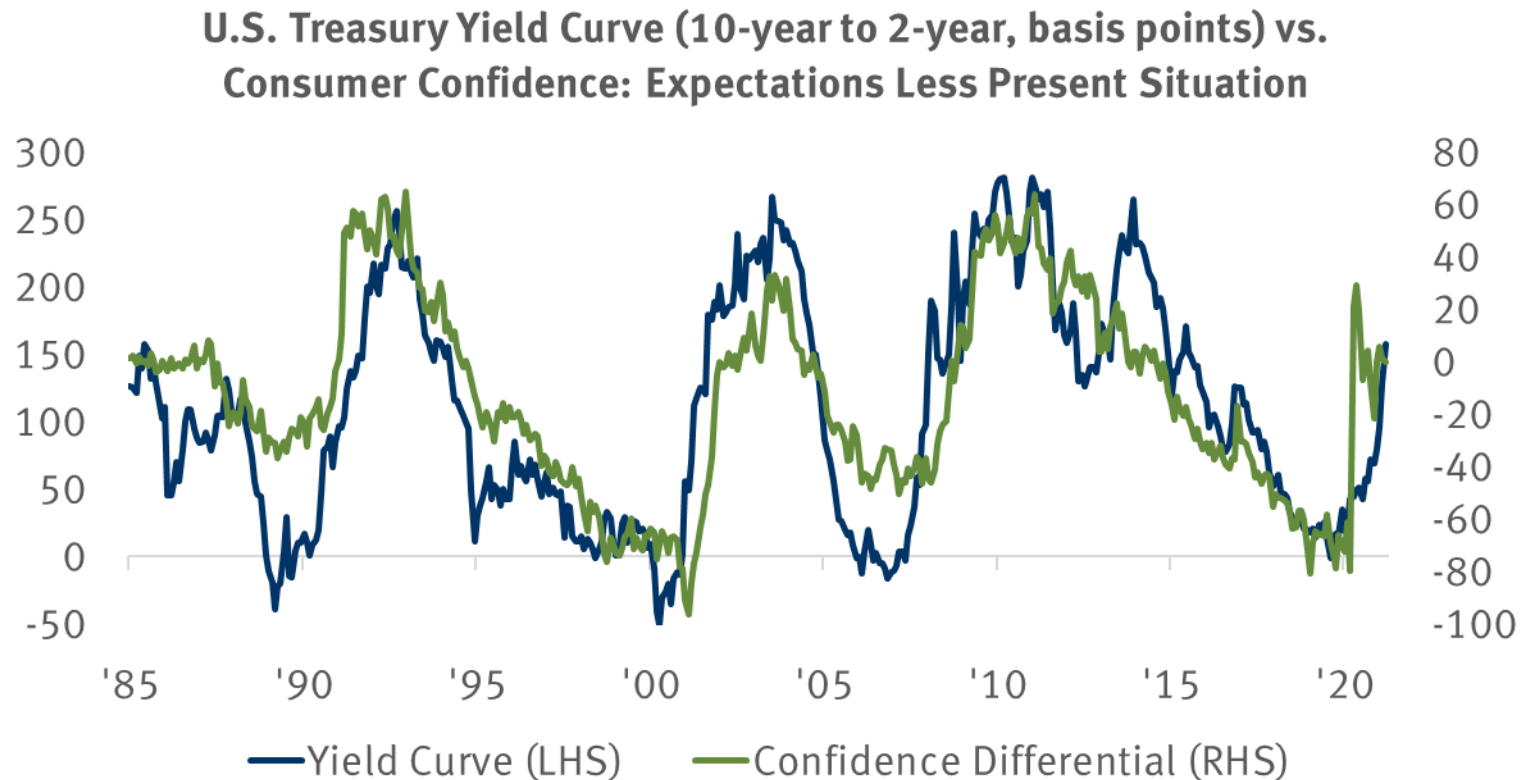
Rates and Spreads



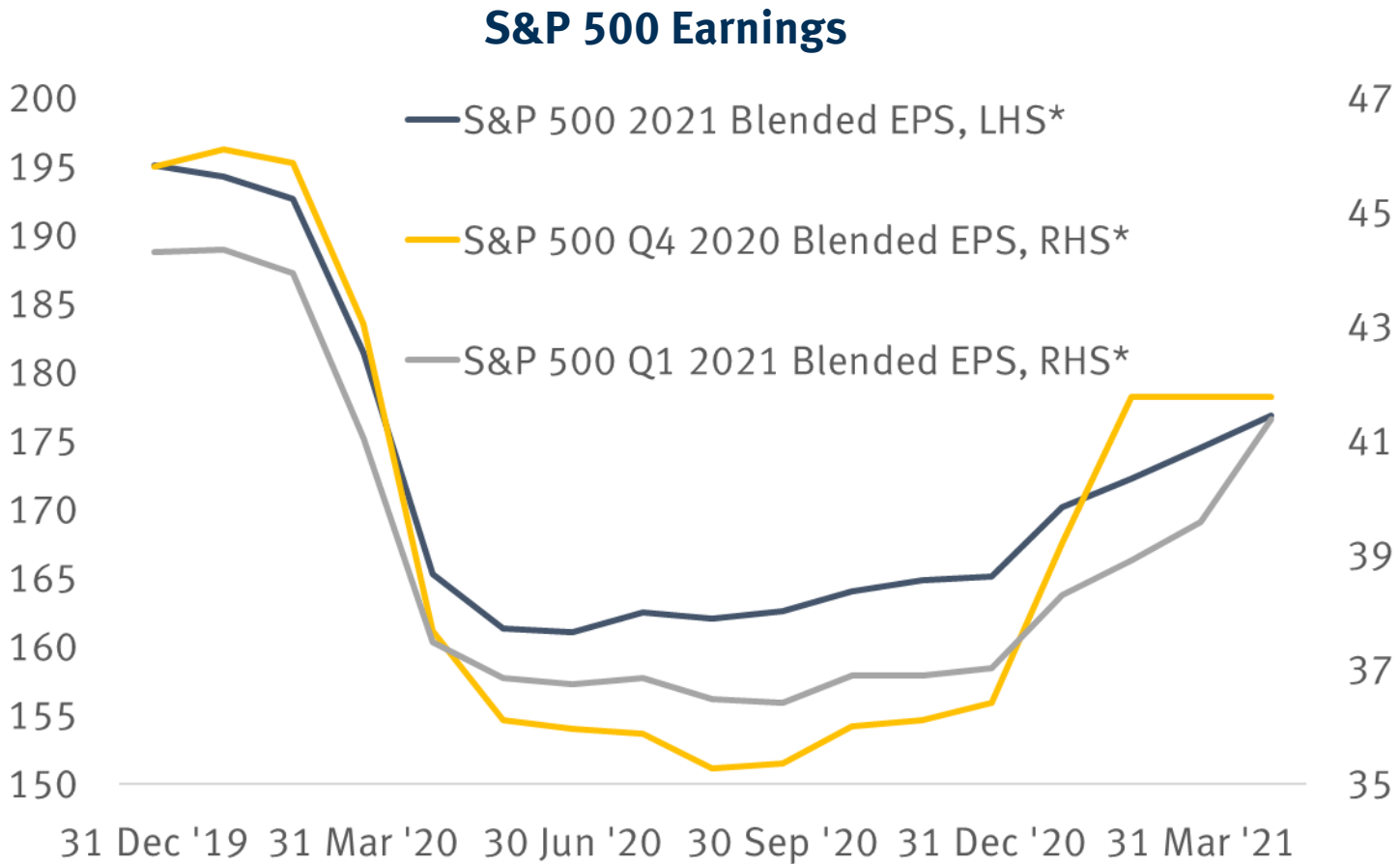
OAS Spread is the measurement of the spread of a fixed-income security rate and the risk-free rate of return, which is adjusted to take into account an embedded option

Source: Stifel Investment Strategy data via Bloomberg, as of April 15, 2021

2-10 Spread and Consumer Confidence Measures



Source: Stifel Investment Strategy data via Strategas Research Partners, as of March 31, 2021

Earnings

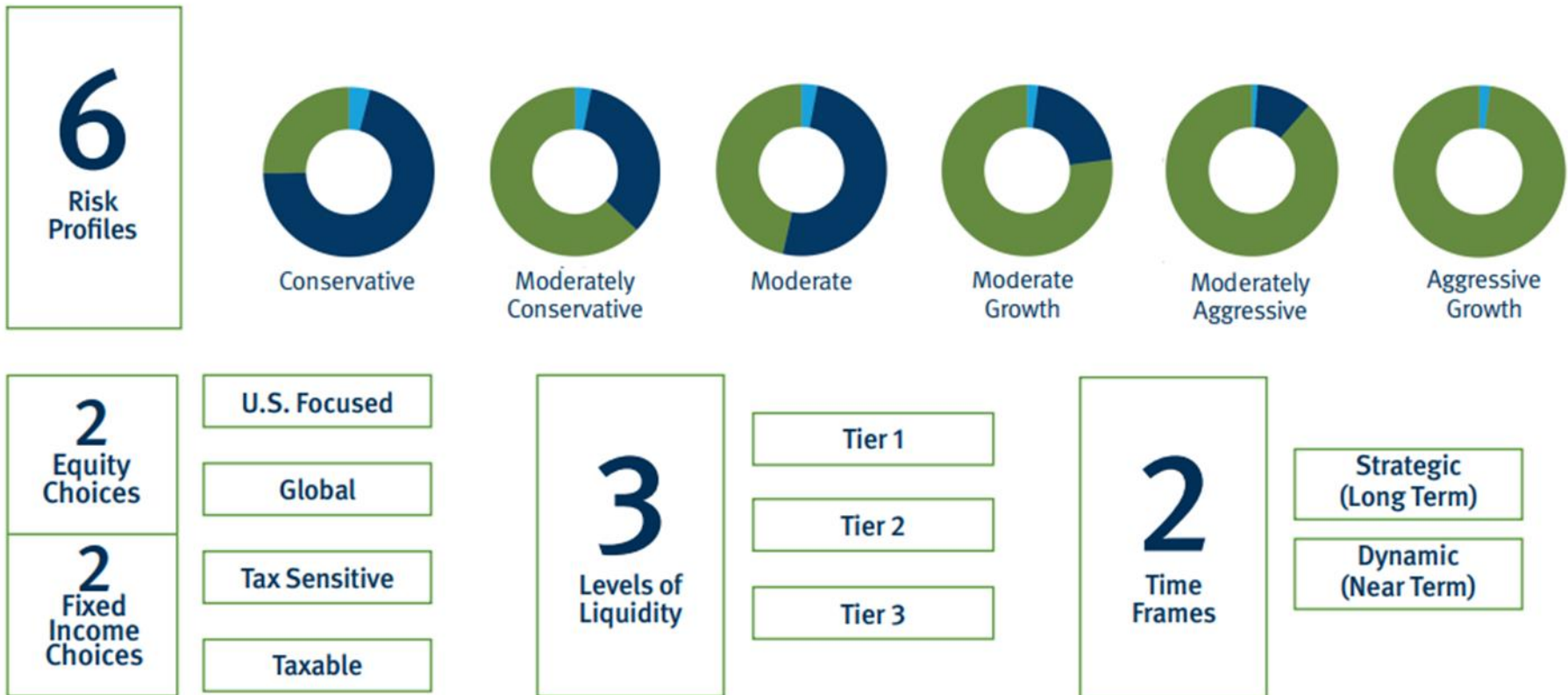
Source: Stifel Investment Strategy via FactSet, as of April 15, 2021; The blended rate combines actual results for companies that have reported and estimated results for companies that have yet to report.

*LHS – left hand side, RHS – right hand side.

Dynamic Leanings



144 ASSET ALLOCATION MODELS FOR YOUR SELECTION



ASSET CLASS	PREVIOUS	CURRENT	COMMENTS
U.S. Equity	■	▼	Our base case assumes a strong global economic recovery in 2021, supported by fiscal and monetary stimulus, a gradual return to "normal," and vaccine availability. Equity markets outside the U.S., which generally underperformed in 2020, are more dependent on trade and levered to cyclical sectors, which should bode well for their performance. A weakening dollar is expected to be a tailwind for non-U.S. markets.
U.S. Large Cap	▼	▼	Smaller businesses, or those in weaker financial condition, have suffered and some have gone out of business as a result of the COVID-19 shutdowns. Risks still remain, but we are more upbeat looking forward as the vaccine provides clarity for a path forward, and the economic data continues to suggest that the economy is regaining ground.
Large Value versus Large Growth	▲	▲	The large cap value segment of the market has underperformed large cap growth as many of the underlying companies were more impacted by the COVID-19 lockdowns and social distancing measures. Now that the uncertainty of the election is largely behind us and a vaccine is available, value stocks are poised to outperform given their greater cyclical exposure.
U.S. Small Cap	▲	▲	Smaller businesses, or those in weaker financial condition, have suffered and some have gone out of business as a result of the COVID-19 shutdowns. Risks still remain, but we are more upbeat looking forward as the improving economic data suggests that the economy may be regaining ground.
Small Value versus Small Growth	■	■	We recommend a diversified approach, investing in both small cap value and growth.
Non-U.S. Equity	■	▲	Our base case assumes a strong global economic recovery in 2021, supported by fiscal and monetary stimulus, a gradual return to "normal," and vaccine availability. Equity markets outside the U.S., which generally underperformed in 2020, are more dependent on trade and levered to cyclical sectors, which should bode well for their performance. A weakening dollar is expected to be a tailwind for non-U.S. markets.
Non-U.S. Developed Markets	■	■	We are neutral within non-U.S. equity between developed and emerging markets as we find the risks to be balanced between both.
Europe versus Japan	■	■	The European economy is more exposed to global trade with public companies generating 50% of revenue outside of Europe. Japan has been relatively successful at containing the virus, and ongoing structural and corporate reform is a tailwind for company earnings. However, both Europe and Japan face some challenges that keep us at neutral within developed markets, for now.
Emerging Markets	■	■	A weaker dollar, stable oil prices, and a stronger global economy should benefit most emerging market countries. However, weaker healthcare systems and less attractive relative valuations keep us on the sidelines, for now, relative to non-U.S. developed markets.

(Continued on next page.)

▲ Overweight

▼ Underweight

■ Neutral

FIXED INCOME

ASSET CLASS	PREVIOUS	CURRENT	COMMENTS
U.S. Investment Grade	■	▼	Within fixed income, we are tilting to an overweight of U.S. high yield relative to U.S. investment grade with the use of active management. Default rates in high yield are above their 30-year average, and while the impacts of COVID will persist, we believe there is opportunity in certain cyclical sectors and the potential for yield enhancement in a low-yield environment.
Corporates Government/Agency MBS	■	■	We recommend a diversified approach to the full spectrum of investment-grade fixed income.
Inflation Protected	■	▲	The Fed has revised its policy framework to allow for inflation to be above 2% for extended periods of time. We believe inflation will trend higher through the year on account of accommodative central banks, continued fiscal support, and a restart of the economy.
Duration	■	■	The Fed is expected to stay accommodative for the foreseeable future, and while interest rates will likely move higher as the economy recovers, we don't anticipate rates rising significantly. We believe we are in a "lower for longer" environment and remain neutral duration.
U.S. High Yield	■	▲	Within fixed income, we are tilting to an overweight of U.S. high yield relative to U.S. investment grade with the use of active management. Default rates in high yield are above their 30-year average, and while the impacts of COVID will persist, we believe there is opportunity in certain cyclical sectors and the potential for yield enhancement in a low-yield environment.

ALTERNATIVES

Private Assets	■	■	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.
Hedge Funds	■	■	For investors who are interested in alternative investments, are able to handle less liquidity, and 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.

▲ Overweight

▼ Underweight

■ Neutral

Finding Our Guidance



The following summarizes how we deliver our economic and market analysis and corresponding investment guidance, along with some helpful links.

- Each day we broadcast [*Stifel Investor Insights on iHeartRadio*](#).
- *Sight/Lines* is a weekly note for clients, along with a [video summary](#) and a podcast on [Spotify](#), [Apple](#), [Omny](#), and [Google](#).
- [Market Pulse](#) is shared when the S&P 500 Index moves up or down 2%.
- The monthly *Investment Strategy Brief* [video series](#) shares our update on the current economic and market environment. The podcast: [Spotify](#), [Apple](#), [Omny](#), and [Google](#).
- In [Conversations Podcast](#), Stifel's Chief Investment Officer, Michael O'Keeffe, sits down with leaders at Stifel and in the finance industry to have thought provoking conversations related to the finance industry. Episodes are released monthly.
- The [weekly](#), [monthly](#), and [quarterly](#) *Market Perspectives* provide a recap of the most recent period's global market results.
- The monthly [Favorite 15](#) shares our favorite 15 slides for the month.
- *Stifel's Allocation Insights* provides our dynamic asset allocation leanings quarterly.
- The [Stifel 2021 Outlook Report](#) and [Video](#): provide our annual outlook and related articles.
- [Stifel's Approach to Asset Allocation](#) summarizes our asset allocation approach and provides a catalogue of various recommended asset mix models.
- The *Stifel Financial ID* [video series](#) provides an overview of our work in behavioral finance and the related *Stifel Financial ID* model.

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.

Indices are unmanaged, do not reflect fees and expenses, and are not available for direct investment.

Past performance does not guarantee future results. Investing involves risk, including the possible loss of principal. Asset allocation and diversification do not ensure a profit or protection against loss.

Alternative Investments or Non-Traditional Assets – Alternative investments may include, but are not limited to: Real Estate Investment Trusts (REITs), Commodities, Futures, Hedge Funds, Venture Capital, Limited Partnerships, etc.

Real Estate – 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.

Commodities and Futures – The risk of loss in trading commodities and futures can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. The high degree of leverage that is often obtainable in commodity trading can work against you as well as for you. The use of leverage can lead to large losses as well as gains.

Hedge Funds – *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.*

Venture Capital – Venture capital investments involve substantial risks. The risks associated with investing in companies in the start-up or expansion stages of development are greater than those of companies in later stages, because the companies' business concepts generally are unproven and the companies have little or no track record.

Limited Partnerships – Generally, limited partnership investments are suitable only for a narrow class of relatively sophisticated investors. Limited partnership investments may be speculative in nature and be subject to resale restrictions or illiquidity. An investment is appropriate only for investors who have the capacity to absorb a loss of some or all of their investment.

Bonds – When investing in bonds, it is important to note that as interest rates rise, bond prices will fall. High-yield bonds have greater credit risk than higher quality bonds.

Duration – Duration is a measure of the sensitivity of the price -- the value of principal -- of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years.

Standard Deviation – Standard deviation is a measure of the dispersion of a set of data from its mean. It is calculated as the square root of variance by determining the variation between each data point relative to the mean. If the data points are further from the mean, there is higher deviation within the data set.

International and Emerging Markets – 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.

Private Equity – 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.

Short Positions – The investor should note that when a short position moves in an unfavorable way, the losses are theoretically unlimited. The broker will demand more collateral and the manager might have to close out that short position at an inopportune time to limit any further losses.

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

Bloomberg Barclays U.S. Treasury Bills 1-3 Months Index includes all publicly issued zero-coupon U.S. Treasury Bills that have a remaining maturity of less than three months and more than one month, are rated investment grade, and have \$250 million or more of outstanding face value.

Bloomberg Barclays U.S. Corporate IG Index is an unmanaged index considered representative of fixed-rate investment-grade taxable bond debt.

Bloomberg Barclays U.S. Aggregate Corporate Index is an unmanaged index considered representative of fixed-rate investment-grade taxable bond debt.

Bloomberg Barclays U.S. Corporate High Yield is an unmanaged index considered representative of fixed-rate, noninvestment-grade debt.

Bloomberg Barclays U.S. Government Bond Index is an unmanaged index considered representative of fixed-rate, investment-grade US Government debt.

Bloomberg Barclays Global Aggregate This index provides a broad-based measure of the global investment-grade, fixed-rate debt market.

DXY Index is a measure of the value of the U.S. dollar relative to the value of a basket of currencies of the majority of the U.S.'s most significant trading partners.

S&P 500 Index is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Russell 1000 Index represents approximately 1,000 of the largest companies in the U.S. equity markets, the Russell 1000 is a subset of the Russell 3000 Index. The Russell 1000 (maintained by the Russell Investment Group) comprises over 90% of the total market capitalization of all listed U.S. stocks and is considered a bellwether index for large cap investing.

Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 index.

MSCI EAFE Index captures large and mid cap representation across Developed Markets countries around the world, excluding the U.S. and Canada. With 914 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

MSCI Emerging Markets (EM) Index captures large and mid cap representation across 23 Emerging Markets (EM) countries. With 837 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

Morgan Stanley Market implied pace of hikes index (MSPOKE) is the number of Fed rate hikes in the 12 months following the first rate hike implied by the Eurodollar interest rate futures market.

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

Wilshire 5000 Index is a market-capitalization-weighted index of the market value of all stocks actively traded in the United States.

VIX Index 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.

EURO STOXX 50 is a stock index of Eurozone stocks designed by STOXX, an index provider owned by Deutsche Börse Group. According to STOXX, its goal is "to provide a blue-chip representation of Supersector leaders in the Eurozone

Cash & Cash Eq. is represented by the Bloomberg Barclays U.S. Treasury 3-6 months Bill Index, comprised of treasury bills issued by the U.S. government with less than one year to maturity.

U.S. Gov't Bonds is represented by the Bloomberg Barclays U.S. Government Bond Index, comprised of the U.S. Treasury and U.S. Agency indexes.

U.S. Corp IG Bonds is represented by the Bloomberg Barclays U.S. Corporate Bond Index, comprised of the investment grade, fixed –rate, taxable corporate bond market.

High-Yield Bonds is represented by the Bloomberg Barclays U.S. Corporate High Yield Bond Index, comprised of U.S. Dollar denominated, high-yield, fixed- rate corporate bond market securities.

U.S. LC (Large Cap) equities is represented by Russell 1000 Index, comprised of 1,000 of the largest U.S. securities based on a combination of their market cap and current index membership.

U.S. SC (Small Cap) equities is represented by the Russell 2000 Index, comprised of 2,000 of the smallest U.S. securities based on a combination of their market cap and current index membership.

Dev Int'l Equities is represented by the MSCI EAFE Index, comprised of equity securities that belong to markets outside of the U.S. and Canada.

EM Equities is represented by the MSCI EM Index, comprised of equity securities that belong to emerging markets.

Moderate Bench stands for moderate benchmark portfolio return which is a blended portfolio of stocks (60% weight, represented by MSCI AC World Index) and bonds (40% weight, represented by Bloomberg Barclays U.S. Agg Gov/Credit).

MSCI AC World Index is comprised of equity securities belonging to 23 developed markets and 24 emerging markets countries.

Bloomberg Barclays U.S. Government/Credit Bond Index is comprised investment grade, dollar-denominated, fixed-rate Treasuries, government-related and corporate securities.