2024 Outlook – Bite Following the Bark

Sierra Capital Quarterly Newsletter

January 2024

Volatile Year for Asset Prices in 2023

Key points:

The fourth quarter of 2023 marked a significant period in financial history, witnessing a surge in global equities and fixed income. Notable performances for the year included a 26.3% increase in the S&P 500 and a 44.6% climb in NASDAQ. Resilience in the US economy and positive year-over-year earnings growth projections for 2024 set a favorable tone.

Despite positive trends, discussions on global economic strength, earnings sustainability, geopolitical tensions, and the dominance of the Magnificent 7 shaped the narrative for the year. The market showed signs of inclusivity, encouraging support for underperforming sectors. However, challenges persisted in markets like China, influenced by undervaluation and government policies affecting investor sentiment.

As we look ahead to 2024, we must highlight the resilience of the consumer and a robust labor market. Skepticism exists regarding the market being priced to perfection, influenced by positioning, sentiment, and optimistic Fed rate cut expectations, however, the consumer looks to have the means to remain strong in these uncertain times.

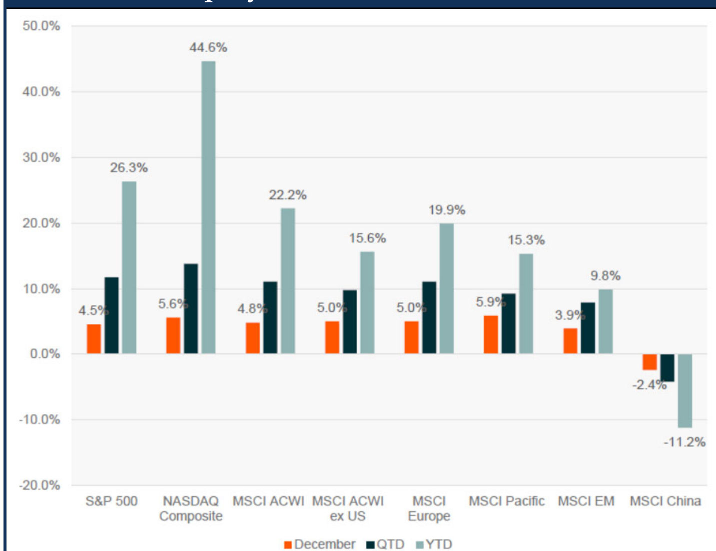
The theme of inflation prominently occupied 2023 and is likely to continue into 2024 given its high influence on monetary policy. Inflation is expected to gradually return to target levels as food and shelter inflation fall. Energy prices present a mixed scenario, influenced by global economic factors and geopolitical risks.

The US economic and employment landscape undergoes a transformation in 2024, with expectations of slower but sustainable growth. Factors contributing to this slowdown include reduced consumer and government spending, corporate investment, and improvements in international trade. The US Beige Book suggests a current economic slowdown, with varying opinions on the possibility of a recession.

In all, 2024 looks to continue 2023s volatility as investors look for additional clarity of the path for rates and valuations moving forward.

The fourth quarter of 2023 emerges as a noteworthy period in financial history, characterized by a consistent upward trajectory in stock and bond prices. For the year, global equities surged by 15%, and fixed income witnessed a 5.7% increase, attributed to a nearly 70 basis points drop in US Treasury yields and tightening credit spreads at the end of the year. Regionally, the market concluded the year on a high note, with the S&P 500 up over 25%, the NASDAQ climbing about 44%, the EURO STOXX rising approximately 19%, the FTSE showing a modest 4% increase, while the Hong Kong Hang Seng experienced a decline of around 14%. Notably, the Japanese Nikkei surged by about 28% in local currency terms. (**Table 1**)

Table 1: 2023 Equity Performance Accelerated at Year End



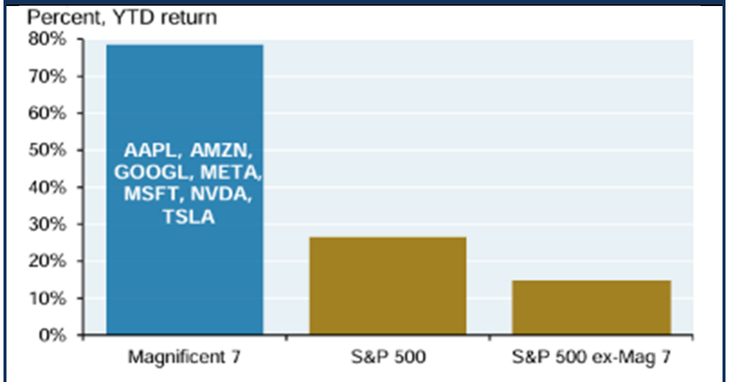
Source: Bloomberg

This shift finds its impetus in the resilience of the US economy and surpassing expectations in employment strength, even as wage and employment growth showed signs of moderation. Forecasted positive year-over-year earnings growth for the S&P 500 index of 11% for 2024 signals a favorable outlook as inflation is on track to reach close to the 2% Fed target by the end of 2024, hopefully eliminating the likelihood of future rate hikes, with the Federal Reserve considering rate cuts to support growth.

Despite these positive trends, the journey has been marked by volatility as shifts emerge in global economic strength, sustainability of earnings, heightened geopolitical tensions, and the implications of the "higher for longer" concept. Notably, the Magnificent 7 (Amazon, Apple, Alphabet, Meta, Microsoft, Nvidia, and Tesla) accounted for

53% of the S&P500's total return in 2023, though this dominance decreased in the last two months of the year, reflecting a broadening out of equity performance. (**Table 2**)

Table 2: Magnificent 7 stocks led S&P 500 in 2023

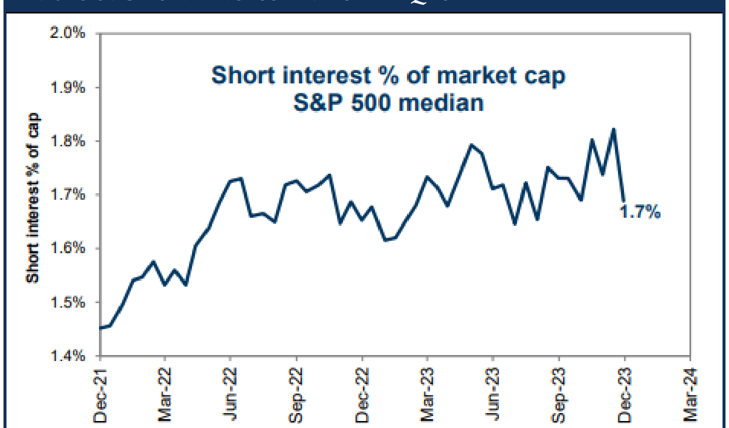


Source: Bloomberg, JPMAM

The recent trend of market inclusivity is encouraging, potentially providing support to underperforming sectors globally. However, challenges persist in certain markets, such as China and the UK, where undervaluation and government policies may influence investor sentiment.

The surge in trading volume in mid-December, followed by a decline as the year ended, raises questions about whether this excessive trading was due to a material change in corporate and economic prospects or simply tax-related trading. The winter months historically introduce noise into US economic data, and the strong jobs number and weak private sector services survey in December may undergo significant revisions. Therefore, did not likely drive significant sentiment shifts, but short covering may also be part of the answer as funds trimmed exposure into year-end (**Table 3**).

Table 3: Short Interest Falls in 4Q23

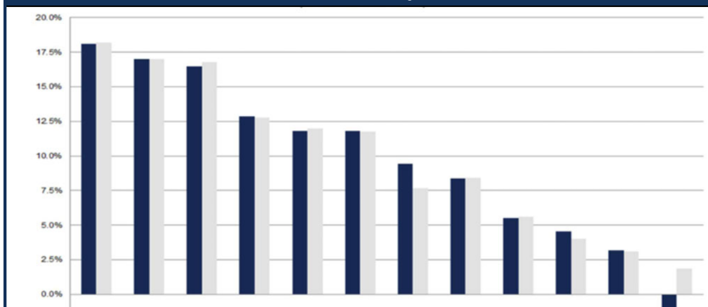


Source: Goldman Sachs

Looking at 2023 and ahead to 2024, the resilience of the consumer and the robustness of the labor market are impossible to ignore. Despite rising interest rates and corporate streamlining, consumer confidence remains high, and unemployment holds steady at 3.7%.

Skeptics argue that the market may be priced to perfection, influenced by positioning, sentiment, and optimistic Fed rate cut expectations, and the trajectory of inflation also raises questions about its impact on corporate earnings. Will a decrease in inflation pose revenue challenges, or can companies maintain margins as effectively as they have so far? This depends on structural costs, but we have seen many Tech and high-personnel cost industries trim expenses earlier in 2023. Consensus does show Healthcare and Technology leading 2024 growth with Staples, Real estate, and Energy lagging. (**Table 4**).

Table 4: 12% EPS Growth Led By Healthcare and Tech



	Health Care	Info. Technology	Comm. Services	Consumer Disc.	Industrials	S&P 500	Financials	Utilities	Consumer Staples	Materials	Real Estate	Energy
Today	18.1%	17.0%	16.5%	12.9%	11.8%	11.8%	9.4%	8.4%	5.5%	4.6%	3.2%	-1.3%
31-Dec	18.2%	17.0%	16.8%	12.8%	12.0%	11.8%	7.7%	8.4%	5.6%	4.0%	3.1%	1.8%

Source: Sierra Capital, FactSet

The 4Q23 price action in rates may have been exaggerated by the prospect of far too many Federal Reserve rate cuts in early 2024. Our take is that the economic outlook remains positive, with slower but sustainable growth projected for 2024. Anticipating a slowdown in the US labor market, a key metric for the Federal Reserve, we believe rate cuts are unlikely in the near term, given the gradual decline expected in both goods and wage inflation. Our outlook aligns with consensus, forecasting small rate cuts at the middle of the year absent any economic shocks that could unsettle the markets before that time. There is some variation, however, with many forecasters on the street around how the economy and Fed act in 2024 (**Table 5).**

Table 5: Wallstreet 2024 Outlook

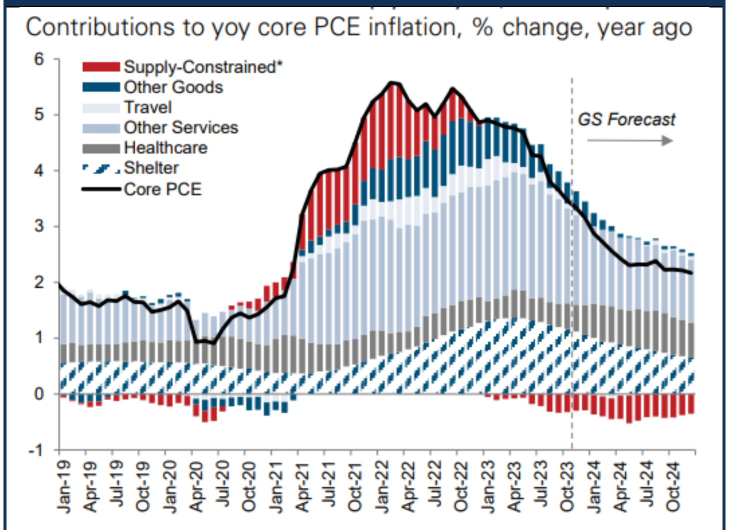
FIRM	S&P 500	2024 EPS	IMPLIED P/E	GDP	Inflation	Fed Funds
BANK OF AMERICA	5000	$235	21.3	1.4%	2.7%	4.5%
BARCLAYS	4800	$233	20.6	1.2%	2.8%	5.3%
CITI	5100	$245	20.8	2.4%	2.3%*	4.5%*
DEUTSCHE BANK	5100	$250	20.4	0.6%	2.1%	3.8%
GOLDMAN SACHS	4700	$237	21.5	2.3%	2.7%	4.3%
JPMORGAN CHASE	4200	$225	18.7	2.0%	2.0%	4.3%
MORGAN STANLEY	4500	$229	19.7	1.9%	2.4%	4.3%
Average	4771	$236	20.2	1.7%	2.5%	4.4%

Source: Sierra Capital, CNBC

One key theme of both 2023 and 2024 was and is likely to be inflation given its considerable influence on monetary policy. Throughout the

COVID-19 pandemic, fiscal and monetary stimulus inundated households and the market with fresh capital. These funds were both invested and spent during a period when production and supply chains faced disruptions, resulting in a surge in prices as demand outpaced the constrained supply. As of the beginning of 2024, inflation has been gradually returning to target levels with supply constrained items acting deflationary (**Table 6**).

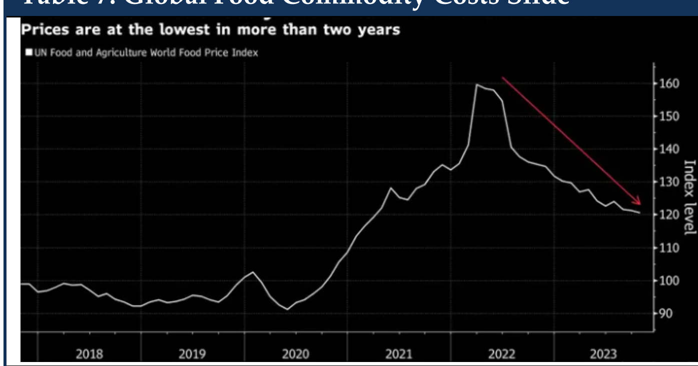
Table 6: Core PCE Inflation Forecasted to Decline



Source: Goldman Sachs

Food prices experienced notable inflation which was exacerbated by Russia's invasion of Ukraine. This was attributed to the region serving as a significant agricultural plain for Europe, then with fertilizer and pesticide costs ballooning due to embargos on Russian energy. The impact has since been diminishing as real food spending declined for lower and middle-income consumers over the past two years, while higher earners and restaurant spending remain robust. This shift in demand, coupled with increased production, is expected to contribute to a further subsiding of food inflation in 2024 (**Table 7**).

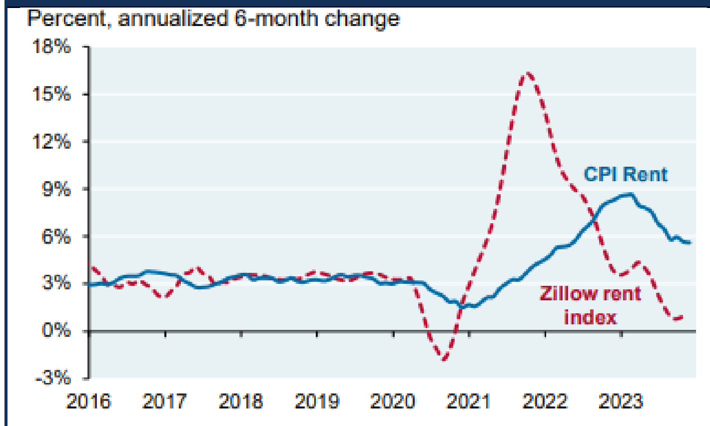
Table 7: Global Food Commodity Costs Slide



Source: Bloomberg, UN FAO

Shelter inflation is also anticipated to decrease steadily throughout 2024. Shelter is nearly 25% of the Consumer Price Index (CPI) so a reduction is significant. Shelter is also easily forecasted ahead of the government-measured inflation level, as the official number lags rent negotiations in the marketplace. Unofficial indicators suggest a moderate decrease in housing inflation, although it remains above pre-COVID levels. (**Table 8).**

Table 8: Zillow Rent vs Official CPI Rent



Source: Zillow, Federal Reserve, JPMAM

The outlook for energy in 2024 presents a mixed bag of scenarios. On the bearish side, a slowing global economy, coupled with growing output from both the US and non-OPEC members, may offset reductions from OPEC and Russia, pointing to lower prices in the energy space. However, refilling of the strategic petroleum reserve in the US and increased global energy supply from geopolitically vulnerable countries, such as Iran (Oil Output +55% since 2020), could introduce volatility and bouts of higher prices in the energy sector through a security risk premium. (**Table 9**).

Table 9: Change in Production and Consumption of Fuel

Change in production and consumption of liquid fuels

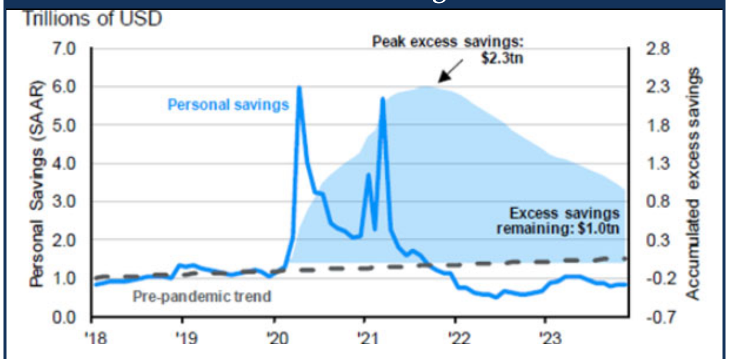
Production, consumption and inventories, millions of barrels per day

Production	2019	2020	2021	2022	2023*	2024*	2019-2023
U.S.	19.5	18.6	19.0	20.3	21.9	22.2	11.9%
OPEC	34.6	30.7	31.7	34.2	33.4	33.1	-3.5%
Russia	11.5	10.5	10.8	11.0	10.8	10.7	-6.3%
Global	**100.3**	**93.9**	**95.7**	**100.0**	**101.6**	**102.2**	**1.3%**
Consumption							
U.S.	20.5	18.2	19.9	20.0	20.1	20.4	-1.9%
China	14.0	14.4	15.3	15.2	15.9	16.3	13.8%
India	4.9	4.5	4.7	5.0	5.3	5.6	7.9%
Global	**100.9**	**91.6**	**97.1**	**99.2**	**101.0**	**102.3**	**0.1%**
Inventory Change	-0.6	2.3	-1.4	0.8	0.6	-0.2	

Source: JPMAM, EIA

While the expectation is that general inflation will broadly decrease due to ongoing resurgence of supply and reduced demand for various goods, disinflation is not generally forecasted. This poses further stress on lower-income households due to high food and energy prices eroding purchasing power, offset by an increase in real wages. Higher debt servicing costs further limit consumer spending, eroding savings accumulated during the pandemic stimulus. As we transition to a softer economic growth regime and a slowing job market, discretionary spending may decrease as spending habits shift from the recent post-pandemic environment. This shift is likely less significant for higher income households and retirees with high savings as the rise in equities and real estate added net worth to those households. (**Table 10**).

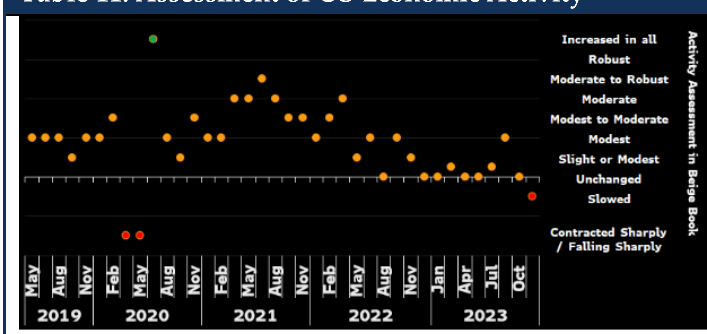
Table 10: Household Excess Savings



Source: JPMAM, BEA

The economic and employment landscape in the US is undergoing a transformation. While consensus opinions vary between the bearish and bullish camps, the general theme is that the US economy will continue to progress and grow, albeit at a slower pace than the robust 2023. Factors contributing to this slowdown include a reduction in consumer and government spending, mixed corporate investment spending (higher in A.I. and data), inventory restocking, and improving international trade. While these are generally expected to decelerate in 2024, domestic manufacturing, which contracted in 2022 and 2023, may offer some offsetting factors. This reduction in real GDP is primarily attributed to the anticipated lag effects of restrictive monetary policy but should not cause the US to enter a recession. According to the US Beige Book, a Federal Reserve Board commentary about economic conditions, the US is already in a slowdown (**Table 11**).

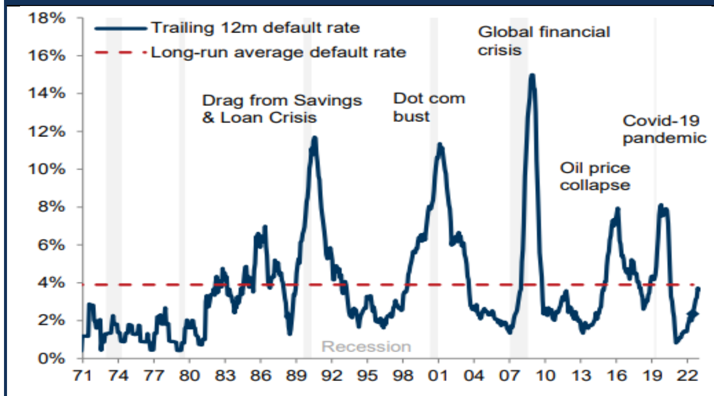
Table 11: Assessment of US Economic Activity



Source: Bloomberg, FRB

Deutsche Bank stands as an outlier with its projection of a recession in 1Q or 2Q24. Their perspective is based on recent increases in US unemployment, a 12-year high in credit card delinquency, and high-yield default rates off their lows (**Table 12**)., indicating apparent stresses are likely to extend into 2024 as rates remain elevated. These effects could contribute to an increase in unemployment to 4.6%, triggering the Federal Reserve to cut rates in June 2024.

Table 12: High Yield Default Rates Rising



Source: Goldman Sachs, Bloomberg

Despite Deutsche Bank's bearish outlook, we view their stance as a more pessimistic scenario, considering the encouraging progress in inflation and the easing but not dire employment slack. Labor demand, paralleling GDP, has already been slowing into 2024. While many economists forecast an unemployment rate of 3.7-4.2% by year-end, aggregate demand for labor is expected to remain robust (**Table 13).**

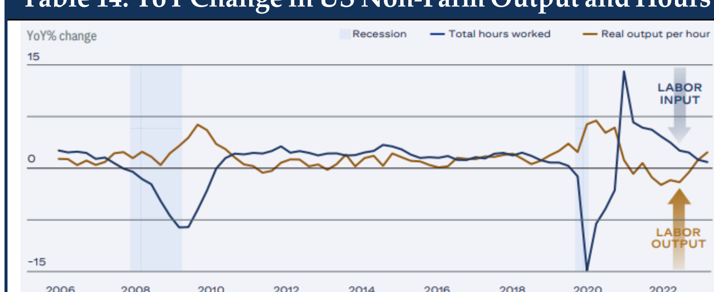
Table 13: Job Demand Slowing in 4Q23

QUARTERLY STATS	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023
Unique Active Jobs	9,434,626	9,227,989	9,358,029	9,472,610	8,310,546
Change in Active Jobs	-6.4%	-2.2%	1.4%	1.2%	-12.3%
New jobs	5,543,446	5,675,654	5,789,986	5,940,895	4,884,006
Change in New Jobs	-7.8%	2.4%	2.0%	2.6%	-17.8%
Removed Jobs	5,939,460	5,614,818	5,852,922	6,044,441	5,440,401
Change in Removed Jobs	-4.3%	-5.5%	4.2%	3.3%	-10.0%
Average Job Duration	45.7	45.6	42.0	41.5	45.9 days
Change in Job Duration	-1.0%	-0.2%	-8.0%	-1.0%	10.4%

Source: LinkUp

Job gains during 2022-2023 surpassed GDP which marks a departure from historical trends dating back to 1974, suggests Citi. This period of anomalous labor and demand dynamics, characterized by falling productivity, is likely approaching its conclusion. Concurrently, labor demand is diminishing while labor input slows, and productivity rebounds (**Table 14**).

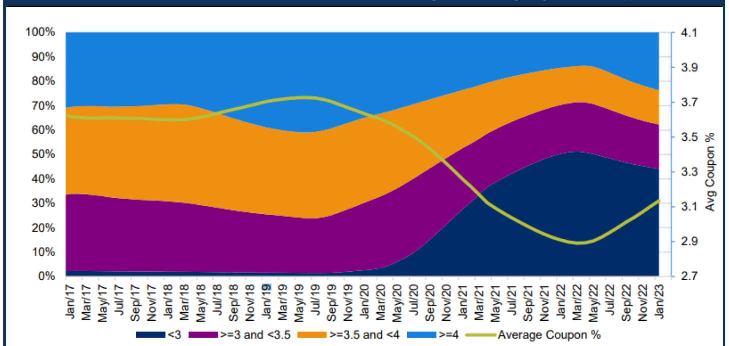
Table 14: YoY Change in US Non-Farm Output and Hours



Source: Citi, Haver Analytics

Strong employment should lead to sustained spending for both consumers and thus corporates. Another item is liabilities, where outstanding mortgages persist at rates significantly below the current market rate, acting as a support for consumer spending. In March 2021, more than 80% of the $7.7 trillion in Mortgages in MBS Pools had coupons below 4% given seismic refinancing, with Ginnie Mae reporting an average backed mortgage rate of 3.13% as of January 2023 (refer to TABLE Outstanding Ginnie Mae MBS Balance). Additional incentives for spending include higher rates paid to savers, recent Social Security inflation increases, and elevated investor returns. (**Table 15**).

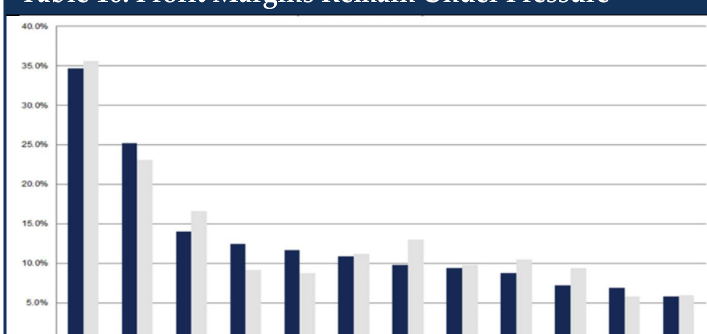
Table 15: Ginnie Mae Outstanding Mortgage Coupons



Source: Ginnie Mae

What does this mean for investment strategies in 2024? Regarding equities, amidst a backdrop of slowing growth, our focus shifts towards companies and themes with sustainable earnings to differentiate between winners and losers. While 2023 was anticipated to be the year of the stock picker, this trend may have been postponed to 2024 considering the dominance of AI in 2023. Revenues played a pivotal role in earnings throughout 2023, driven by a robust US economy and job market supporting consumer spending. Although companies experienced margin contraction due to higher labor and cost of goods sold, cost-cutting measures were initiated in the middle of 2023 to defend these margins (**Table 16**).

Table 16: Profit Margins Remain Under Pressure

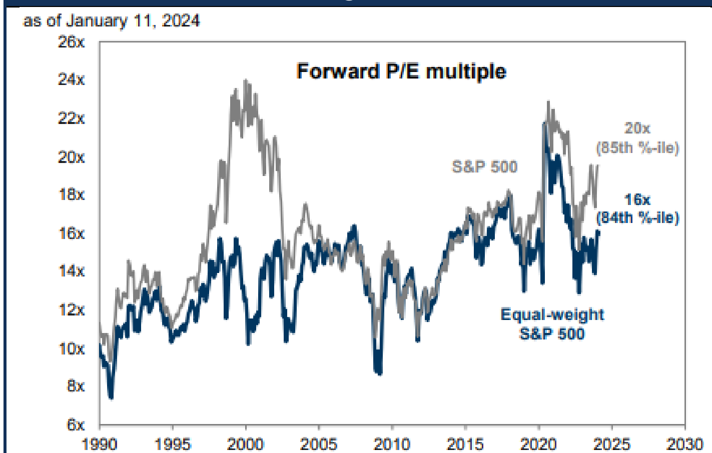


	Real Estate	Information Tech.	Financials	Utilities	Comm. Services	S&P 500	Energy	Industrials	Materials	Health Care	Consumer Disc.	Consumer Staples
Q423	34.7%	25.2%	14.0%	12.4%	11.7%	10.9%	9.8%	9.4%	8.8%	7.2%	6.9%	5.8%
Q422	35.6%	23.1%	16.6%	9.1%	8.8%	11.2%	13.0%	9.8%	10.5%	9.4%	5.8%	5.9%

Source: Sierra Capital, FactSet

Looking ahead to 2024, while most analysts expect high single to double-digit earnings growth, there exists skepticism about the optimism of these projections. Our perspective emphasizes that high-quality companies exhibiting sustainable earnings, strong free cash flow, and balanced sheets with limited near-term maturing debt are poised for better performance. Consequently, our preference leans towards quality factors and valuation, maintaining an allocation to equal-weighted large-cap indices given the discount (**Table 17**).

Table 17: S&P Market Weight Premium



Source: Goldman Sachs, FactSet

Despite a valuation reset for Small and Mid-Caps, which remain leveraged to economic growth, our value tilt within this segment should safeguard critical exposure while mitigating downside risks. Utilizing the equal weight S&P 500 achieves a similar exposure given growth is the largest factor in the market weight index and value still trades at a discount while cash flow remains high (**Table 18**).

Table 18: S&P 500 Forward P/E

	Forward 12 Months					
	Price/Earnings		Price/Cash Flow		Price/Sales	
	Level	%-ile	Level	%-ile	Level	%-ile
US Equities						
Large Cap Growth	25.4	85%	18.0	84%	3.9	87%
Large-Cap Value	15.3	64%	9.1	42%	1.7	83%
Mid-Cap Growth	25.4	84%	19.1	87%	2.2	73%
Mid-Cap Value	15.6	43%	6.7	6%	1.4	85%
Small-Cap Growth	32.7	68%	16.8	41%	1.7	83%
Small-Cap Value	17.9	53%	9.2	28%	0.9	60%
International Equities						
Europe	13.1	44%	8.3	51%	1.4	91%
Japan	14.9	63%	5.0	8%	1.1	94%
Asia Pacific ex Japan	14.4	46%	10.3	33%	2.3	64%
Emerging & Frontier Markets	11.6	56%	7.7	79%	1.2	66%
Total Equities						
US	19.6	86%	12.1	74%	2.3	89%
International	13.6	43%	7.6	35%	1.4	91%
Emerging Markets	11.6	56%	7.7	79%	1.2	66%

Source: Morgan Stanley, Bloomberg

In the realm of international equities, 2023 witnessed robust performance, however these regions are still entering 2024 at a slight discount to historical valuations. We maintained our allocation to Japan and Europe, with an increased exposure to Emerging Markets.

Japan, undergoing corporate governance reforms, is poised for improved equity performance. For example, the Tokyo Stock Exchange's is now delisting companies trading below Tangible Book Value in the absence of corporate governance and capital plan reforms. Other similar items are expected to further bolster equity markets. Additionally, under-allocated households and pensions contribute to the positive outlook. (**Table 19).**

Table 19: Potential Demand for Japan Equities

	US	Japan
10 year dividend payout ratio	70%	30%
Cash % of market capitalization	7%	21%
Share of companies trading below book value	4%	50%
Corporate buybacks as % of market capitalization	2.0% - 3.5%	0.7% - 1.4%
Household equity allocation	40%	11%
Pension equity allocation	40%	25%
Household cash allocation	15%	55%

Source: Bloomberg, JPMAM

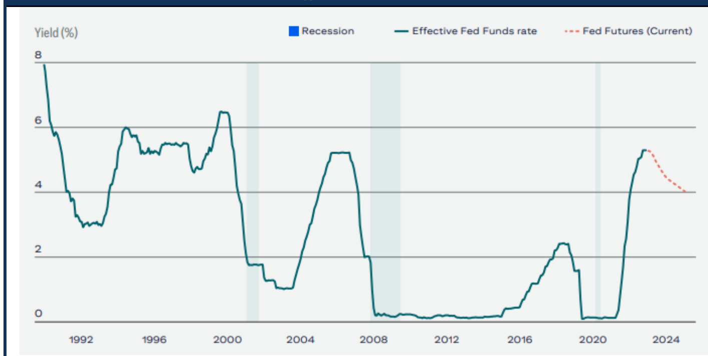
Within Emerging Markets, a strategic shift away from China has been observed due to challenges in government policies stimulating the economy and a global push for supply chain expansion beyond the mainland. We are monitoring China for effective tools to address its real estate crisis or a reversal in its progressive authoritarian shift before shifting our stance. This international movement away from China in manufacturing positions India and Mexico for relative outperformance as they capture large market share. (**Table 20**).

Table 20: China Index Weight and Performance

Source: Bloomberg, JPMAM

Turning to fixed income, it is imperative to note that an economic collapse is not a prerequisite for Fed easing. As employment growth decelerates, the Fed expresses increasing concern about the interaction between its self-described restrictive monetary policy and the labor market. Consensus views for 2024 anticipate approximately three cuts, bringing the fed funds rate to 4.25% or 4.5% by year-end, with cuts commencing near the start of the second half. Despite indications of a decelerating economy, the central bank may not necessitate further tightening, suggesting the ability to maintain rates at higher levels for an extended period if inflation proves persistent or employment strengthens. (**Table 21**).

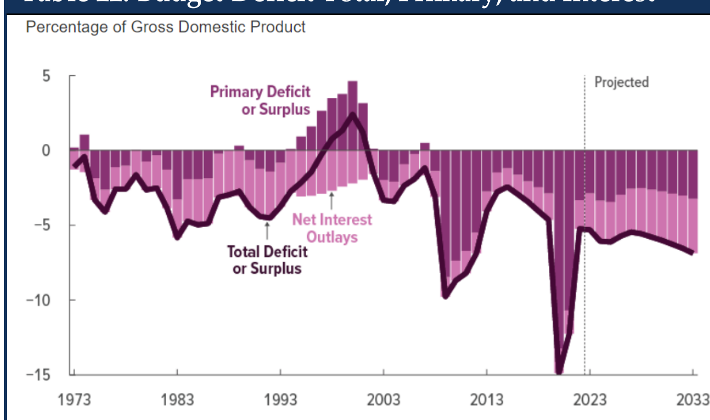
Table 21: Fed Funds Implied Rates



Source: Citi, Bloomberg

The long bond experienced a rally towards the end of 2023, settling around ~4% from its 5% peak in October. The yield on the 10-year aligns with the consensus estimate for the long bond by the close of 2024. Long-term rates could be higher, influenced by factors such as quantitative tightening, political uncertainty, and a significant budget deficit attributed to entitlements, the war in Ukraine, and lagging tax receipts from the 2022 market selloff. The US fiscal house needs to be a priority to keep rates low, a tough ask as the Congressional Budget Office estimates interest to also become a considerable driver of the Total Deficit moving forward (**Table 22**).

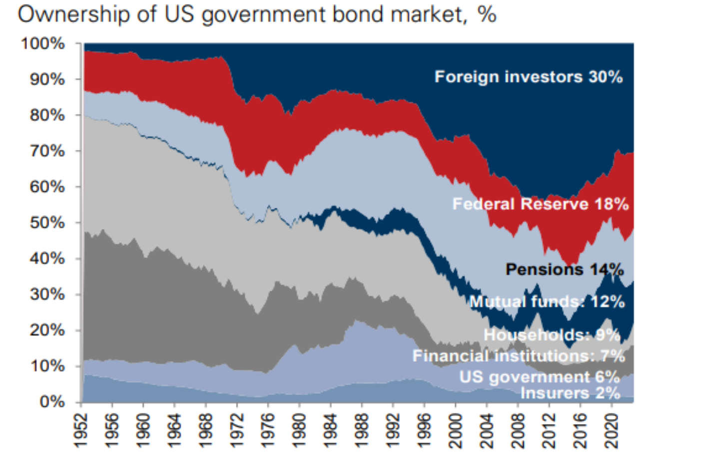
Table 22: Budget Deficit Total, Primary, and Interest



Source: Congressional Budget Office

Failed treasury auctions also likely played a role in recent yield increases as foreign economies sold US denominated debt to help drive stimulus or maintain their currencies within their home countries. This can be seen in the significant decrease in foreign owners of US treasury, largely driven by China. (**Table 23**)

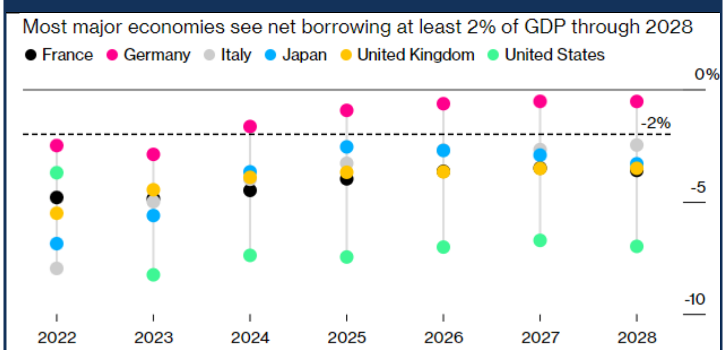
Table 23: Foreigners Remain Largest Treasury Owners



Source: Federal Reserve, Goldman Sachs

But rest assured, the United States is not alone in raising large amounts of funds rarely seen before. The UK, Eurozone, and Japan alongside the United States will sell $2.1 trillion of new bonds to finance 2024 fiscal deficits. This is a 7% increase from last year (**Table 24**)

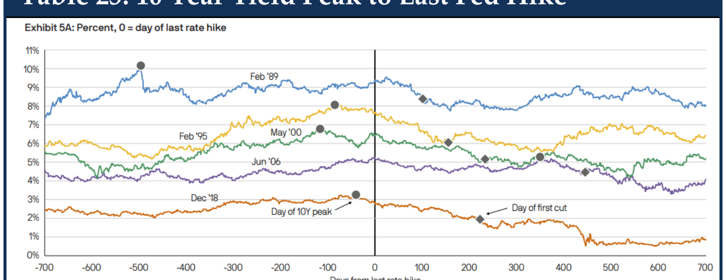
Table 24: Global Fiscal Deficits



Source: Bloomberg, IMF

Additionally, regarding long term rates, historically, the timing of the last Fed hike correlates with the peak of the 10-year bond with yields peaking three months later (October 2023). Consequently, a strategic decision has been made internally to shift towards an overweight position in short-duration fixed income as to generate additional carry relative to long-duration bonds as long rates may not fall much further (**Table 25**)

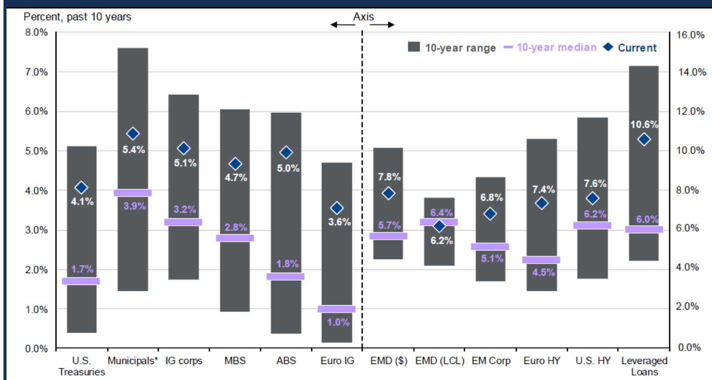
Table 25: 10 Year Yield Peak to Last Fed Hike



Source: Bloomberg, JPMAM

Moving to credit, our stance on high yield remains unchanged, preferring investment grade high-quality bonds, including agency mortgages and government debt, to safeguard portfolios from downside economic risks. The outlook for income investing in 2024 remains positive, with high-quality debt continuing to provide attractive yields. However, most fixed income asset classes still have good value. Nearly all yields remain above their 10-year median, but some assets are tighter than others, such as US High Yield (**Table 26**).

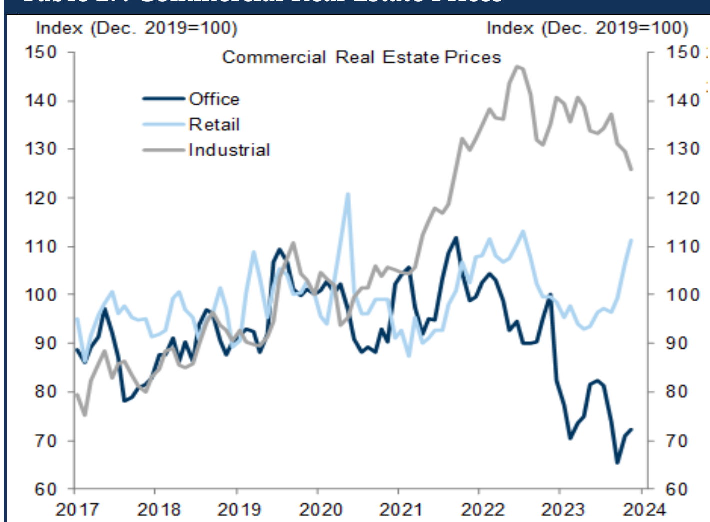
Table 26: Fixed Income Yields



Source: Bloomberg, FactSet, JPM Credit, JPMAM

One interesting item is commercial real estate which looks incredibly vulnerable in part to maturing debt as well as the increase in remote work affecting rents. However, the reality is that this stress is specific to Office and not CRE broadly. From banks perspectives, office loans account for only 2-3% of bank loans portfolios. For assurance, Fed's 2023 stress tests based its severely adverse scenario off a 40% decline in CRE prices and 10% unemployment which resulted in sufficient capital for banks to operate. As for current prices, office is down 25-30% from their highs, however other segments such as retail and industrial are not as impacted and remain positive (**Table 27).**

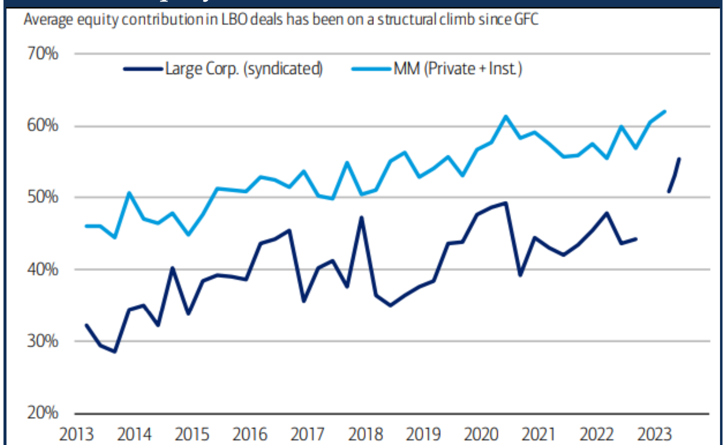
Table 27: Commercial Real Estate Prices



Source: MSCI Real Assets, Department of Commerce, Goldman Sachs

Lastly, we remain allocated to private equity and private credit. As we have discussed before, we find private credit managers to be advantaged by their unique ability to invest across capital structures and deal with many diverse types of borrowers. We have discussed that defaults are increasing which should affect non-investment grade borrowers, however, this increase in defaults may just reflect a normalization from recent very low levels. Additionally, as rate cuts get priced into 2024 and beyond, transactions are likely to pick up which could be less equitized as additional debt can be supported from lower rates. This should then help increase valuations in private equity and allow for refinances and the return of capital on currently expensive credit. (**Table 28**).

Table 28: Equity Contribution in Private Credit Deals



Source: Bank of America, Refinitiv

In conclusion, the fourth quarter of 2023 highlighted remarkable trends in the financial landscape, with global equities and fixed income experiencing substantial gains. The resilience of the US economy, positive year-over-year earnings growth projections, and anticipation of inflation reaching the 2% Fed target contributed to a favorable outlook. While the dominance of the Magnificent 7 in the S&P500 decreased into year end, market inclusivity and the surge in trading volume raised questions about the drivers behind these changes. Looking ahead to 2024, the economic landscape appears positive, with varying outlooks on Federal Reserve rate cuts and GDP growth among financial institutions. Despite varying opinions on the economic outlook, we suggest a nuanced approach to investing, emphasizing sustainable earnings, quality factors, and strategic allocations across different asset classes.

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Disclaimers:

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Securities may be less liquid and more volatile than U.S. and longer-established non-U.S. markets. Bond investors should consider risks such as interest rate, credit, repurchase and reverse repurchase transaction risks. Greater risk, such as increased volatility, limited liquidity, prepayment, non-payment and increased default risk, is inherent in portfolios that invest in high yield ("junk") bonds or mortgage-backed securities, especially mortgage-backed securities with exposure to sub-prime mortgages. Investment in non-U.S. and emerging market securities is subject to the risk of currency fluctuations and to economic and political risks associated with such foreign countries. Small capitalization (small cap) investments involve stocks of companies with smaller levels of market capitalization (generally less than $2 billion). Small cap investments are subject to considerable price fluctuations and are more volatile than large company stocks. Investors should consider the additional risks involved in small cap investments. Large capitalization (large cap) investments involve stocks of companies generally having a market capitalization between $10 billion and $200 billion. The value of securities will rise and fall in response to the activities of the company that issued them, general market conditions and/or economic conditions.

Disclaimers - Definitions:

Dow Jones Industrial Average (DJIA): is a price-weighted measure of 30 U.S. blue-chip companies. The index covers all industries except transportation and utilities. The DJIA was designed to serve as a proxy for the health of the broader U.S. economy.

EURO STOXX 50: Index composed of 50 stocks from countries in the Eurozone. EURO STOXX 50 represents Eurozone blue-chip companies considered as leaders in their respective sectors. The index represents the performance of the 50 largest companies among 20 sectors in terms of free-float market cap in Eurozone countries. The index captures about 60% of the free-float market cap of the EURO STOXX Total Market Index (TMI).

MSCI (Morgan Stanley Capital International) Europe (USD): Index captures large and mid-cap representation across 15 Developed Markets countries in Europe: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the UK. The index covers approximately 85% of the free float-adjusted market capitalization across the European Developed Markets equity universe.

MSCI AC (All Country) Europe: Index that captures large and mid-cap representation across 15 Developed Markets countries and 5 Emerging Markets countries in Europe. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

MSCI AC Asia ex Japan: Index that captures large and mid-cap representation across Developed Markets (Hong Kong and Singapore) countries (excluding Japan) and Emerging Markets (China, India, Indonesia, Korea, Malaysia, the Philippines, Taiwan, and Thailand) countries in Asia. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

MSCI AC World: Broad global equity index that represents large and mid-cap equity performance across 23 developed and 24 emerging markets. The index covers approximately 85% of the global investable equity opportunity set.

MSCI Emerging Markets (USD): Index designed to track the financial performance of key companies in fast-growing nations. The index tracks mid-cap and large-cap stocks in Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Kuwait, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

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

MSCI Japan (USD): Index designed to measure the performance of the large and mid-cap segments of the Japanese market. The index covers approximately 85% of the free float-adjusted market capitalization in Japan.

MSCI World: Cap-weighted stock market index of companies throughout the world. It is used as a common benchmark for 'world' or 'global' stock funds intended to represent a broad cross-section of global markets. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

NASDAQ (National Association of Securities Dealers Automated Quotations): Index of more than 3,700 stocks listed on the Nasdaq stock exchange, weighted by market capitalization. The technology sector accounts for just over half the index, more than three times the index weight of any other market sector.

Nikkei 225: a price-weighted equity index for the Tokyo Stock Exchange. The Nikkei measures the performance of 225 large, publicly owned companies in Japan from a wide array of industry sectors.

Russell 2000 Growth: index composed of small-capitalization U.S. equities of the Russell 2000 Growth Index that exhibit growth characteristics.

Russell 2000 Value: index composed of small-capitalization U.S. equities of the Russell 2000 Growth Index that exhibit value characteristics.

Russell 2000: Small-cap stock market index that makes up the smallest 2,000 stocks in the Russell 3000 Index, a capitalization-weighted stock market index that seeks to be a benchmark of the entire U.S stock market. The Russell 2000 is commonly used as a small-cap proxy.

S&P 500 Growth: is a market-cap-weighted index comprised of growth stocks within the S&P 500 Index based on three factors: sales growth, the ratio of earnings change to price, and momentum.

S&P 500 Index: The S&P 500 is a stock market index tracking the performance of 500 large companies listed on stock exchanges in the United States. It is market-capitalization weighted and is widely regarded as the best single gauge of large-cap U.S. equities. The index includes 500 U.S. leading companies and captures approximately 80% coverage of available market capitalization.

S&P 500 Value: is a market-cap-weighted index comprised of value stocks within the S&P 500 Index based on three factors: book/price ratio, earnings/price ratio, and sales/price ratio.

S&P/BMV Indice de Precios y Cotizaciones (Mexico IPC): Index seeks to measure the performance of the largest and most liquid stocks listed on the Bolsa Mexicana de Valores (BMV). The constituents are weighted by modified market cap subject to diversification requirements.

Shanghai Composite: Market capitalization-weighted index that reflects the performance of the whole Shanghai securities market, including all listed A shares and B shares stocks on the Shanghai Stock Exchange (SSE).

Bloomberg Emerging Markets USD Aggregate - High Yield: Index that measures the USD-denominated, high yield, fixed-rate corporate bond market of key companies in fast-growing nations (EM issuers).

Bloomberg Emerging Markets USD Aggregate: Flagship hard currency Emerging Markets debt benchmark that includes fixed and floating-rate US dollar-denominated debt issued from sovereign, quasi-sovereign, and corporate EM issuers.

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

Bloomberg Global High Yield: Multi-currency flagship measure of the global high-yield debt market. The index represents the union of the US High Yield, the Pan-European High Yield, and Emerging Markets (EM) Hard Currency High Yield Indices.

Bloomberg US Aggregate Bond Index: The Bloomberg US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market in the United States. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency)

Bloomberg US High Yield - Corporate: Index that measures the USD-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.

Bloomberg US Treasury Bills 1-3 Month Index: The Bloomberg US Treasury Bills 1-3 Month Index is designed to measure the performance of public obligations of the U.S. Treasury that have a remaining maturity of greater than or equal to 1 month and less than 3 months.

JPM EMBI Global Diversified: Unmanaged, market-capitalization weighted, total-return index tracking the traded market for U.S.-dollar-denominated Brady bonds, Eurobonds, traded loans, and local market debt instruments issued by sovereign and quasi-sovereign entities.

S&P U.S. TIPS (TIPS): Treasury Inflation-Protected Securities (TIPS) Index seeks to measure the performance of the U.S. TIPS Market. TIPS are treasury bonds that are indexed to an inflationary gauge to protect investors from the decline in the purchasing power of their money.

Credit Suisse Hedge Fund Index – Event Driven: Asset-weighted index composed of hedge funds with an event-driven strategy. Event-driven **i**s a hedge fund investment strategy that seeks to exploit pricing inefficiencies that may occur before or after a corporate event, such as an earnings call, bankruptcy, merger, acquisition, or spinoff.

Credit Suisse Hedge Fund Index – Global Macro: Asset-weighted index composed of hedge funds with global macro strategy. A global macro strategy is a hedge fund strategy that bases its holdings primarily on the overall economic and political views of various countries or their macroeconomic principles. Holdings may include long and short positions in various equity, fixed-income, currency, commodities, and futures markets.

Credit Suisse Hedge Fund Index – Long/Short Equity: Asset-weighted index composed of hedge funds with a long/short strategy. Long/short funds use an investment strategy that seeks to take a long position in underpriced stocks while selling short, overpriced shares. Long/short seeks to augment traditional long-only investing by taking advantage of profit opportunities from securities identified as both under-valued and over-valued.

Credit Suisse Hedge Fund Index – Multi/ Strategy: Asset-weighted index composed of hedge funds with a multi-strategy. Multi-strategy hedge funds are the most diverse portfolios in the hedge fund universe. Multi-strategies combine different single hedge fund strategies in one portfolio and differentiate considerably from each other. Most often, such portfolios include a variety of long-short, relative value, and event-driven strategies.

Credit Suisse Hedge Fund Index: Asset-weighted hedge fund index that includes open and closed funds. Seeks to measure hedge fund performance and provide the most accurate representation of the hedge fund universe.

HFRI Fund of Funds Composite: The Hedge Fund Research Indices Fund of Funds is an index comprised of funds that invest with multiple managers through funds or managed accounts. The strategy designs a diversified portfolio of managers with the objective of significantly lowering the risk (volatility) of investing with an individual manager. The Fund of Funds manager has discretion in choosing which strategies to invest in for the portfolio.

S&P Goldman Sachs Commodity Index: Commodities index that tracks the performance of the global commodities market. It is made up of exchange-traded futures contracts that cover physical commodities spanning five sectors: energy products, industrial metals, agricultural products, livestock products and precious metals.

West Texas Intermediate (**WTI) Crude Oil NYMEX Near Term ($/bbl) (WTI Crude):** Price of light, sweet, landlocked crude oil that serves as one of the main global oil benchmarks. It is sourced primarily from inland Texas and is useful for pricing any oil produce in the United States, primarily from the Permian Basin.

Crude Oil Brent Global Spot ICE ($/bbl) (Brent Crude): Price of waterborne crude oil based on a basket of North Sea crudes. The brent crude oil blend extracted from the North Sea, comprises Brent Blend, Forties Blend, Oseberg, Ekofisk, and Troll crudes, commonly referred to as BFOET.

Gold Spot: The purchase price of a single troy ounce of the metal (gold) for immediate delivery, as opposed to a date in the future.

Silver Spot: The purchase price of a single troy ounce of the metal (silver) for immediate delivery, as opposed to a date in the future.

British pound (GBP) /Dollar (USD): Current exchange rate of the British Pound (GBP) to US Dollar (USD)

Dollar (USD)/ Mexican Pesos (MXN): Current exchange rate of US Dollar (USD) to Mexican Pesos

Dollar (USD)/Japanese Yen (JPY): Current exchange rate of Dollar (USD) to Japanese Yen (JPY)

Dollar (USD)/Swiss Franc (CHF): Current exchange rate Dollar (USD) to Swiss Franc (CHF)

Euro (EUR)/Dollar (USD): Current exchange rate of Euro (EUR) to US Dollar (USD)

Earnings per share (EPS): Monetary value of earnings per outstanding share of common stock for a company. It is a key measure of corporate profitability and is commonly used to price stocks.