

CHIEF INVESTMENT OFFICE

Capital Market Outlook

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All data, projections and opinions are as of the date of this report and subject to change.

IN THIS ISSUE

Macro Strategy—*The Fourth Turning and the Federal Reserve*: Significant change is likely coming to the Federal Reserve (Fed). A major reevaluation of its role in the U.S. economy is likely if any of the cited candidates for new Fed Chairman have their way. While it's generally accepted that monetary policy needs to be "independent" of outside pressure to control inflation, it's also true that Congress has the ultimate authority over the central bank and the Fed's independence does not mean it's unaccountable to the public and its legislative overseers. In particular, the Fed's inability to meet its primary inflation mandate over the past five years and its increasing "mission creep" into areas separate from its traditional role have made it susceptible, according to many traditionalists, to fundamental reforms that are likely coming over the next few years.

Market View—*Framing the Debate About U.S. Tariffs: The Good, The Bad and The Ugly*: There's no shortage of interest among investors in U.S. tariffs—and the primary and secondary effects on the U.S. economy and corporate earnings. So we frame the debate this week in terms of the good, the bad and the ugly. The good: Over time, higher U.S. tariffs should reorient and rebalance a global trading regime long overly dependent on the U.S. as the buyer of last resort. Also in the good category is additional tariff-related revenue and foreign direct investment in the U.S. The bad: As Q2 earnings season has made clear, tariffs are hitting the bottom line of U.S. firms, though companies continue to find ways to evolve and adapt. And finally, the ugly, which has not transpired: The world has largely held its fire in terms of retaliatory tariffs on U.S. goods, with U.S. and global equity indexes rallying to new all-time highs because the "ugly" tariff scenario has been avoided. While growth and inflation worries in the months ahead wouldn't surprise us, we remain constructive on the U.S. economy and earnings outlook.

Thought of the Week—*What Would It Take for the Housing Market To Unfreeze?*: While recent data has been relatively negative regarding the current state of the housing market, we're beginning to see various bright spots emerging for both buyers and builders. For buyers, improvements in mortgage rates and the median price of a house sold provide increased flexibility. For homebuilders, improving data including housing starts, purchase applications, homebuilder confidence, and market performance suggest an improving environment. Most importantly, an increased probability of a Fed interest rate cut would benefit both cohorts leading to a healthier and more balanced housing market.

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Portfolio Considerations

We maintain our overweight in Equities and preference for the U.S. relative to the rest of the world and believe a neutral stance is warranted in International Equities overall given our weaker dollar view. We would use weakness on the back of "soft patch" concerns as a buying opportunity in Equities.

This month we adjusted the U.S. Equity sector views by moving Industrials to a slight overweight, Financials to a full overweight, Energy to a full underweight and Healthcare to a slight underweight.

We maintain neutral duration within Fixed Income. Longer-term Fixed Income provides meaningful returns relative to cash and therefore diversifies equity risk over time with more stable income.

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The Fourth Turning and the Federal Reserve

Robert T. McGee, Managing Director and Head of CIO Macro Strategy

Signs that the “fourth turning is here” help explain the volatility upending more and more areas of the U.S. economy and institutional establishment.¹ The role of the Fed and its performance have not escaped these dramatic pressures for change. Dissatisfaction in the populace is always the driver of “fourth turnings” and by letting inflation run much higher than its mandated target over the past five years, the Fed has opened itself to external pressure and a need for reform in the eyes of the low- and medium-income voters who have seen their incomes fall in real purchasing power terms because of higher inflation.

Inflation control is the primary long-term objective of U.S. monetary policy. While unemployment is the second part of the Fed’s dual mandate its equilibrium level is determined by forces outside the control of monetary policy. Inflation, on the other hand, is determined by monetary policy because the Fed is the source of the U.S. money supply. Historical experience and economic research have established beyond a shadow of a doubt that inflation is “always and everywhere a monetary phenomenon.”

This theory was reestablished and vindicated by Milton Friedman and other monetarists during the 1960s and 1970s and eventually adopted by Paul Volcker to end the high inflation of that era. Since then, however, many economists have been trained to ignore the basic source of inflation and espouse idiosyncratic inflation theories that don’t hold up across historical and geographic episodes of inflation as robustly as the monetary explanation does.

So, for example, in the 1970s it was popular to blame inflation on the oil price shocks. The resurgence of inflation during the pandemic was routinely blamed on supply chain bottlenecks. More recently, economists have embraced tariffs as a source of inflation. This tendency to blame other things than the excessive expansion of money supply for inflation helps explain why the Fed failed to anticipate the surge in inflation after the pandemic and currently is fearing a tariff-induced surge in inflation that has not happened.

As former Fed Governor, Frederic Mishkin, stated in a recent Barron’s piece on changes coming to the Fed, the monetarists won the war but lost the battle.

Another much discussed source of the Fed’s inability to meet its inflation mandate has been the increasing monetization of fiscal deficits made possible by quantitative easing (QE). The 2008 financial crisis created an emergency situation that required extraordinary monetary support for a financial system on the brink of collapse. The Fed doubled its balance sheet by purchasing massive amounts of government debt and dropping interest rates to zero.

Recurring episodes of QE since then have ballooned the Fed’s balance sheet and enabled increasing fiscal profligacy. The latest episode of QE during and after the pandemic allowed the money supply and inflation to grow about 30% in a few short years enabling a government spending surge of over 60% during the same time frame. In addition to well above target inflation, the result has been annual fiscal deficits that exceed anything seen in U.S. history aside from wartime and recessions.

One of the candidates under consideration to be the next Fed Chairman, Kevin Warsh, was on the Board of Governors during the financial crisis in 2008 and has discussed the necessity of QE at that time. As repeated episodes of QE continued well past the crisis stage, he resigned in 2011 and has since spoken out about the dangers of QE and the increasing entanglement of monetary with fiscal policy that enables bigger and bigger deficits. In a recent interview, he emphasizes that inflation is a central bank choice, not the

Investment Implications

Reforming the Fed to actually meet its inflation target rather than constantly overshooting it would help bring down interest rates. Coupled with fiscal moves to control government spending and incentivize private investment to raise productivity, the decoupling of monetary policy to focus exclusively on inflation control and fiscal policy to reduce deficits would be positive for risk assets and longer-term financial stability as well as higher trend gross domestic product (GDP) growth and corporate profits.

¹ Neil Howe, *The Fourth Turning is Here: What the Seasons of History Tell Us About How and When the Crisis Will End*, Simon & Schuster, 2023.

result of external factors. The Fed, he says, is responsible for price stability and should not blame others for inflation. He also discusses the Fed's abandonment of the concept that the money supply causes inflation, and its disappearance from policy discussion and operating procedures over recent decades. Whoever becomes the next Fed Chairman is likely to address the Fed's methods for controlling inflation and reduce the use of QE which threatens monetary independence with fiscal domination.

This critique of the Fed's mistakes over recent years extends beyond its failure to meet the inflation objective to areas beyond the traditional scope of monetary policy in what Mr. Warsh and other supporters of Fed reform have called the Fed's "mission creep." All told, the next Fed Chairman is likely to address some of these issues with a comprehensive look at the role the Fed plays in the American and global economy. A more focused and intellectually coherent framework for inflation control would ultimately be positive for the financial markets. Expectations for inflation in some consumer surveys have been much more volatile since the pandemic as consumers were surprised by its surge after the pandemic and have likewise been surprised by its failure to accelerate with high tariffs. Better communication about the way inflation works in the financial media would naturally follow from better informed Fed communication about how inflation works.

Disentangling monetary from fiscal policy after a generation of QE won't be easy. Curbing the growth of government spending to the pace of economic growth is a start. For the past five years spending has grown about double the rate of the economy. Tax-incentives that promote private sector growth are aimed at increasing productivity. The potential for Artificial Intelligence to accelerate that productivity pickup is promising. A one-percentage-point rise in productivity growth translates to about \$450 billion of additional tax revenues annually. The higher-than-expected effective tariff rate closer to 15% than 10% translates to roughly \$350 billion of additional annual tax revenues. With government spending back in line with GDP growth this implies a deficit back in the sustainable historical range of 3% or 4% of GDP rather than the unsustainable 6% to 8% range of recent years.

Stronger productivity growth with better controlled government spending is bullish for Equities and corporate profits. The Global Wealth & Investment Management Investment Strategy Committee continues to overweight Equities relative to our benchmarks and believes that a potential return to less inflationary monetary policy could help with future financial stability overall.

Framing the Debate About U.S. Tariffs: The Good, The Bad and The Ugly

Joseph P. Quinlan, Managing Director and Head of CIO Market Strategy

Ariana Chiu, Wealth Management Analyst

Because there is no shortage of interest among investors in U.S. tariffs—and the primary and secondary effects on the U.S. economy and corporate earnings—we frame the debate below in terms of the good, the bad and the ugly.

The Good: The Ultimate Reordering of Global Trade. There is no mistaking that the post-war global trading system underpinned by the world's largest importer—the U.S.—has been upended and painfully disrupted. The average effective tariff rate on U.S. imports remains at century-highs (Exhibit 1A). So with that said, where's the “good” in the tariff debate?

The “good” is that over time, higher U.S. tariffs should reorient and rebalance a global trading regime long overly dependent on the U.S. as the buyer of last resort. At its peak in 2000, the U.S., with just 4.7% of the world population, accounted for a staggering 19.1% of world imports. America's share has since faded, but the U.S. still accounted for 13.5% of global merchandise imports last year, well ahead of second-ranked China (10.7%) and the major economies of Europe, according to International Monetary Fund.

The past will not be prologue as more export-oriented nations like Germany and China adopt more structural policies supportive of consumption over production. Think more fiscal stimulus from Germany and the European Union at large, as well as more consumption-led growth in China. And think more global opportunities/sales for U.S. goods and services as markets once closed or highly protected are opened to more competition. These structural policy pivots won't happen overnight, but they are in train. Also in the “good” category: more tariff-related revenue for federal coffers and more foreign direct investment in the U.S. as foreign firms set up shop in the U.S. to avoid trade barriers and appease the administration. Per the former, according to government figures, tariff duties collected in the first half of this year totaled nearly \$91 billion, more than double the level from the same period a year ago.

The Bad: Tariffs are hitting the bottom line of U.S. firms. The macro effects from the spike in U.S. tariffs are starting to spill into the real economy, although we are a long way from the 70% probability of a U.S. recession assigned by investors back in May. The U.S. economy expanded by an annualized rate of 1.2% in the first half of the year, while the Atlanta Fed has Q3 real GDP growth tracking at 2.5%. Meanwhile, yes, tariffs have boosted the prices of some goods (Exhibit 1B), but the cost pressures to consumers have been mitigated by firms absorbing added costs. The latter became obvious during Q2 earnings season. From autos and food to clothing and construction, companies are citing additional costs, contemplating raising prices for consumers and, in certain cases, lowering full-year profit guidance:

“This decline [in earnings] was primarily driven by a net tariff impact of \$1.1 billion in the quarter.”—General Motors

“...we expect the net impact from incremental tariffs for 2025 will be around \$1.3 billion to \$1.5 billion, net of some mitigating actions and cost controls.”—Caterpillar

“...the pricing on those SKUs that are impacted by tariffs [will rise by] mid-single digits in the US, and that's about 25% of our SKUs that are impacted.”—Proctor & Gamble

“We expect tariffs to be a net headwind of about \$2 billion this year...”—Ford

“...we have implemented a surgical price increase in the United States with phased implementation beginning in fall '25.”—Nike

It remains to be seen how the costs of higher U.S. tariffs are distributed across companies, the U.S. consumer and foreign exporters. We think it's ultimately some combination of the three. But in the near term, it's corporates that have shouldered most

Investment Implications

Though the level of uncertainty around tariffs has faded, sector and country level risks remain. As corporates and consumers navigate the new global trade regime, we wouldn't be surprised to see growth and inflation concerns percolate in the coming months. However, given resilient consumer spending, a capital expenditure cycle gaining momentum, and incoming fiscal stimulus, we continue to be constructive on the U.S. economy and earnings outlook. Hence our continued preference for the U.S. relative to the rest of the world.

of the cost—with many reluctant to hike prices as long as tariff policy remains in flux. To what degree firms will be able to sustain this stance is yet to be determined. But meanwhile, U.S. companies continue to find ways to evolve and adapt, including leveraging excess inventories, trimming costs via innovation, and further reconfiguring supply chains. The 9% year-to-date weakening in the dollar versus major developed currencies has also proven to be a tailwind and explicit offset to tariff costs for U.S. multinationals.

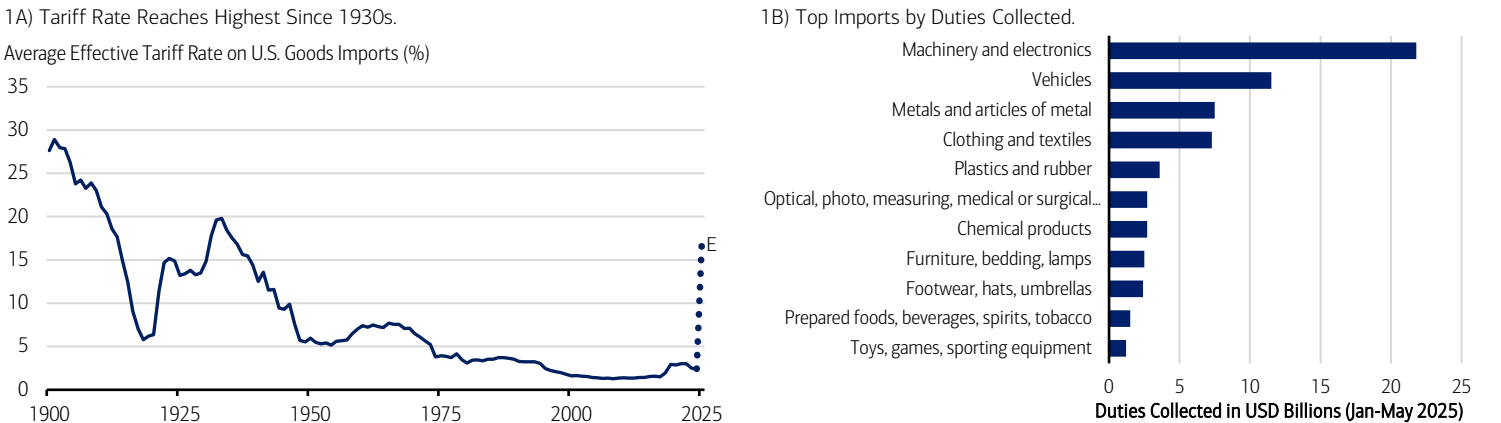
The Ugly: The risk (very low) of a global trade war. The ugly—or worst-case scenario—has not transpired: Since the U.S. announced sweeping tariffs in April, the world has largely held its fire in terms of retaliatory tariffs on U.S. goods, forestalling a debilitating downward spiral in global trade à la the 1930s. True, China matched U.S. tariffs in April, stoking the worse-case fears among investors that history was about to repeat itself. Canada also struck back with tariffs on steel and autos, although both countries—Canada and China—quickly retreated or reconciled with the U.S. to avoid a full-blown trade war. Meanwhile, the rest of the world threatened to retaliate but, in the end, did not.

The timidity of the global response to U.S. tariffs caught investors by surprise (pleasantly so) and has been a key support of the powerful market rally since the April 8 lows. Since then, the Nasdaq has rallied 39%, the S&P 500 by 27% and Dow Jones Industrial Average by 17%. Many global indexes have also rallied to new all-time highs because the “ugly” regarding tariffs has been avoided. But that said, we remain vigilant to the knock-on effects of America’s reordering of the global trading system. Yes, the level of uncertainty about tariffs is fading, but sector- and country-risks around tariffs are still present.

Bottom Line. There are many moving parts to U.S. tariffs—and the attendant first- and second-order effects of a global trade regime upended. Growth and inflation worries in the months ahead would not surprise us. But that said, we remain constructive on the U.S. economy and earnings outlook. U.S. consumers are still consuming. The U.S. capex boom is just beginning. The weak U.S. dollar is a tailwind for earnings. And the fiscal stimulus from the One Big Beautiful Bill is still ahead of us. Overlayed with more deal making, initial public offerings and credit lending, the U.S. economy and U.S. Equities remain on solid footing.

We continue to expect more upside to the S&P 500 and continue to overweight Equities to Fixed Income, with a preference for the U.S. relative to the rest of the world. We would use any market weakness owing to any squalls or scares as buying opportunities for Equities.

Exhibit 1: A Global Trade Regime Reordered and Its Impact So Far.



E=Estimate. Exhibit 1A) Source: Yale Budget Lab. 2025 tariff rate estimate includes tariffs announced through July 31, 2025. Exhibit 1B) Sources: Census Bureau; Wall Street Journal. Data as of July 31, 2025.

What Would it Take for the Housing Market to Unfreeze?

Theadora Lamprecht, Assistant Vice President and Investment Strategist

A few bright spots are emerging for buyers and builders, which suggests the housing market may be coming out of its deep freeze. To start, mortgage rates have declined, with the average 30-year fixed rate mortgage falling to around 6.6% in early August, down from 7.0% at the beginning of this year (Exhibit 2A).² Additionally, there’s been some relief as the median price of a new house sold is \$401,800 as of Q2 2025. While still expensive, it’s been trending downwards since last July when the median price was \$429,000.³ These conditions may give buyers more flexibility and negotiation power.

Of course, the major impetus for an improvement in the housing market pivots on lower interest rates. The market now expects a 100% chance of two 25 bps cuts by December, with a 42% probability of another cut in December.⁴ A decrease in interest rates would improve affordability costs, as high payments may decrease, homeowners may refinance mortgages, the “lock-in effect” may loosen—all of which could lead to an increase in demand for homes.

On the flip side, decreased interest rates would not only make homes more affordable but would benefit homebuilders by reducing the cost of capital for projects and boosting new construction. **Housing starts** data remains weak, and while one month doesn’t make a trend, June starts were stronger than expected increasing 4.6% to 1.32 million compared with May, which could potentially be the bottom.⁵ Also, the **MBA purchase applications** index⁶ improved 1.5% week-over-week and 18.0% year-over-year. This is a leading indicator of home sales by four to six weeks. Moreover, **homebuilder confidence** rose in July after three months of decline, while current sales conditions and sales expectations for the next six months rose.⁷ It’s important to note that labor constraints remain a key headwind for homebuilders. Already, housing-related stocks have seen stellar performance since May, increasing 14.6%, while the S&P has seen a gain of 7.5% (Exhibit 2B).⁸

While the housing sector remains weak, housing only accounts for around 0.58 points contribution to the change in GDP today vs. 1.30 points in 1980.⁹ Ultimately, the Fed’s decision and decreased macroeconomic uncertainty should provide clarity for the housing market in the coming months. The dual shift toward more balanced conditions may reflect a move to a more strategic market for both those buying and building.

Portfolio Considerations

While the outlook for the U.S. housing market remains mixed in 2025, we still remain positive on the U.S. economy overall given a strong consumer, capex spending, and overall economic growth. We continue to await further direction from the Fed, whose policy will help chart the course for the housing market.

Exhibit 2: Interpreting Recent Activity in the Housing Market.

2A) Average 30-Year Fixed Rate Mortgage Remains Flat YoY.



2B) Homebuilders Stocks Outperform S&P 500 Index.

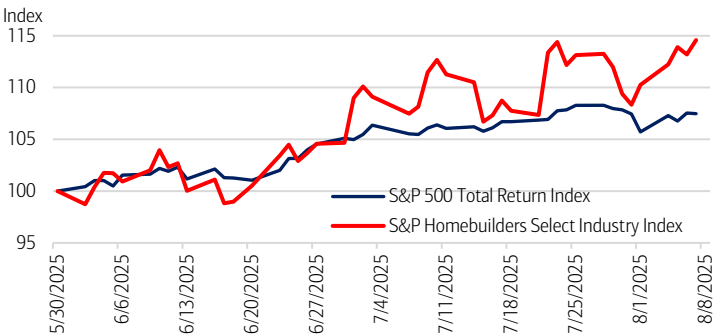


Exhibit 2A) Sources: Freddie Mac; Bloomberg. Data as of August 7, 2025. Weekly data used. Exhibit 2B) Source: Bloomberg. Total returns referenced. Indexed to 100 on May 30, 2025. Please refer to index definitions at the end of this report. **Past performance is no guarantee of future results.**

² Source: Federal Reserve Bank of St. Louis, Freddie Mac. Data as of August 7, 2025.
³ Source: Federal Reserve Bank of St. Louis, U.S. Census Bureau. Data as of June 30, 2025.
⁴ Source: Bloomberg. Data as of August 7, 2025.
⁵ Source: Census Bureau. Data as of June 30, 2025.
⁶ Mortgage Bankers Association.
⁷ Source: National Association of Home Builders Index. Data as of July 31, 2025.
⁸ Source: Bloomberg. Total returns referenced. Data as of August 7, 2025. Housing-related stocks references the S&P Homebuilders Select Industry Total Return Index, which measures the performance of 35 companies.
⁹ Source: Federal Reserve Bank of St. Louis, U.S. Bureau of Economic Analysis. Data as of July 31, 2025. Quarterly data used. Measures contributions to percentage change in GDP: housing and utilities.

Equities

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
DJIA	44,175.61	1.4	0.1	4.8
NASDAQ	21,450.02	3.9	1.6	11.5
S&P 500	6,389.45	2.4	0.8	9.5
S&P 400 Mid Cap	3,124.04	0.7	-0.8	1.0
Russell 2000	2,218.42	2.4	0.3	0.3
MSCI World	4,125.30	2.6	1.2	12.2
MSCIEAFE	2,679.76	2.9	2.5	20.7
MSCI Emerging Markets	1,253.79	2.3	0.9	18.6

Fixed Income[†]

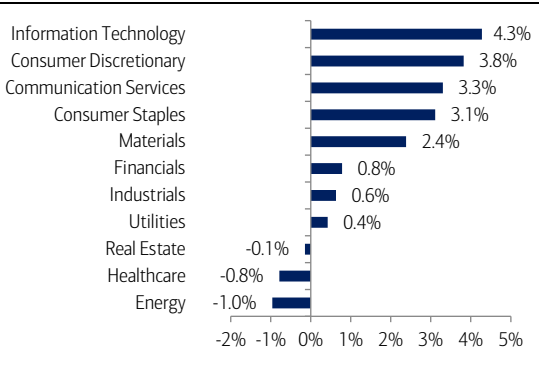
	Total Return in USD (%)			
	Current	WTD	MTD	YTD
Corporate & Government	4.39	-0.20	0.59	4.33
Agencies	4.25	-0.14	0.45	3.80
Municipals	3.90	0.24	0.64	0.09
U.S. Investment-Grade Credit	4.53	-0.18	0.63	4.40
International	4.98	-0.12	0.55	4.81
High Yield	6.99	0.38	0.25	5.30
90 Day Yield	4.24	4.27	4.34	4.31
2 Year Yield	3.76	3.68	3.96	4.24
10 Year Yield	4.28	4.22	4.37	4.57
30 Year Yield	4.85	4.82	4.90	4.78

Commodities & Currencies

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
Commodities				
Bloomberg Commodity	249.93	0.3	-0.3	4.7
WTI Crude \$/Barrel ^{††}	63.88	-5.1	-7.8	-10.9
Gold Spot \$/Ounce ^{††}	3397.75	1.0	3.3	29.5

	Total Return in USD (%)			
	Prior Week End	Prior Month End	2022 Year End	
Currencies				
EUR/USD	1.16	1.14	1.04	
USD/JPY	147.74	150.75	157.20	
USD/CNH	7.19	7.21	7.34	

S&P Sector Returns



Sources: Bloomberg, Factset. Total Returns from the period of 08/04/2025 to 08/08/2025. [†]Bloomberg Barclays Indices. ^{††}Spot price returns. All data as of the 08/08/2025 close. Data would differ if a different time period was displayed. Short-term performance shown to illustrate more recent trend. **Past performance is no guarantee of future results.**

Economic Forecasts (as of 8/8/2025)

	Q1 2025A	Q2 2025A	Q3 2025E	Q4 2025E	2025E	2026E
Real global GDP (% y/y annualized)	-	-	-	-	3.0	3.1
Real U.S. GDP (% q/q annualized)	-0.5	3.0*	1.0	1.6	1.7	1.7
CPI inflation (% y/y)	2.7	2.5*	2.9	2.8	2.7	2.4
Core CPI inflation (% y/y)	3.1	2.8*	3.1	3.0	3.0	2.6
Unemployment rate (%)	4.1	4.2*	4.3	4.4	4.2	4.5
Fed funds rate, end period (%)	4.38	4.38	4.38	4.38	4.38	3.38

The forecasts in the table above are the base line view from BofA Global Research. The Global Wealth & Investment Management (GWIM) Investment Strategy Committee (ISC) may make adjustments to this view over the course of the year and can express upside/downside to these forecasts. Historical data is sourced from Bloomberg, FactSet, and Haver Analytics. **There can be no assurance that the forecasts will be achieved. Economic or financial forecasts are inherently limited and should not be relied on as indicators of future investment performance.**

A = Actual. E = Estimate. *Data as of August 8, 2025.
Sources: BofA Global Research; GWIM ISC as of August 8, 2025.

Asset Class Weightings (as of 8/5/2025)

Asset Class	CIO View		
	Underweight	Neutral	Overweight
Equities	●	●	●
U.S. Large-cap	●	●	●
U.S. Mid-cap	●	●	●
U.S. Small-cap	●	●	●
International Developed	●	●	●
Emerging Markets	●	●	●
Fixed Income	●	●	●
U.S. Investment-grade Taxable	●	●	●
International	●	●	●
Global High Yield Taxable	●	●	●
U.S. Investment-grade Tax Exempt	●	●	●
U.S. High Yield Tax Exempt	●	●	●
Alternative Investments*			
Hedge Strategies			
Private Equity & Credit			
Private Real Estate			
Tangible Assets			
Cash			

* Many products that pursue Alternative Investment strategies, specifically Private Equity and Hedge Funds, are available only to qualified investors. CIO asset class views are relative to the CIO Strategic Asset Allocation (SAA) of a multi-asset portfolio. Source: Chief Investment Office as of August 5, 2025. All sector and asset allocation recommendations must be considered in the context of an individual investor’s goals, time horizon, liquidity needs and risk tolerance. Not all recommendations will be in the best interest of all investors.

CIO Equity Sector Views

Sector	CIO View		
	Underweight	Neutral	Overweight
Financials	●	●	●
Utilities	●	●	●
Consumer Discretionary	●	●	●
Industrials	●	●	●
Communication Services	●	●	●
Information Technology	●	●	●
Real Estate	●	●	●
Healthcare	●	●	●
Consumer Staples	●	●	●
Materials	●	●	●
Energy	●	●	●

Index Definitions

Securities indexes assume reinvestment of all distributions and interest payments. Indexes are unmanaged and do not take into account fees or expenses. It is not possible to invest directly in an index. Indexes are all based in U.S. dollars.

S&P 500 Index is a stock market index tracking the stock performance of 500 leading companies listed on stock exchanges in the United States.

S&P 500 Index Total Returns is a type of equity index that tracks both the capital gains as well as any cash distributions, such as dividends or interest, attributed to the components of the index.

S&P Homebuilders Select Industry Total Return Index comprises stocks from the S&P Total Market Index that are classified in the GICS Homebuilding sub-industry.

Nasdaq Composite Index is a market capitalization-weighted index of almost all the stocks listed on the Nasdaq stock exchange.

Dow Jones Industrial Average Index is a stock market index of 30 prominent companies listed on stock exchanges in the United States.

MBA Purchase Applications Index includes all mortgages applications for the purchase of a single-family home. It covers the entire market, both conventional and government loans, and all products. The Purchase Index has proven to be a reliable indicator of impending home sales.

National Association of Home Builders Index is a monthly survey that measures U.S. builder sentiment on sales, future prospects, and buyer traffic to assess the health in the single-family home market.

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All recommendations must be considered in the context of an individual investor's goals, time horizon, liquidity needs and risk tolerance. Not all recommendations will be in the best interest of all investors.

Asset allocation, diversification and rebalancing do not ensure a profit or protect against loss in declining markets.

Investments have varying degrees of risk. Some of the risks involved with equity securities include the possibility that the value of the stocks may fluctuate in response to events specific to the companies or markets, as well as economic, political or social events in the U.S. or abroad. Small cap and mid cap companies pose special risks, including possible illiquidity and greater price volatility than funds consisting of larger, more established companies. Investing in fixed-income securities may involve certain risks, including the credit quality of individual issuers, possible prepayments, market or economic developments and yields and share price fluctuations due to changes in interest rates. When interest rates go up, bond prices typically drop, and vice versa. Investments in high-yield bonds (sometimes referred to as "junk bonds") offer the potential for high current income and attractive total return, but involves certain risks. Changes in economic conditions or other circumstances may adversely affect a junk bond issuer's ability to make principal and interest payments. Income from investing in municipal bonds is generally exempt from Federal and state taxes for residents of the issuing state. While the interest income is tax-exempt, any capital gains distributed are taxable to the investor. Income for some investors may be subject to the Federal Alternative Minimum Tax (AMT). Treasury bills are less volatile than longer-term fixed income securities and are guaranteed as to timely payment of principal and interest by the U.S. government. Bonds are subject to interest rate, inflation and credit risks. Investments in foreign securities (including ADRs) involve special risks, including foreign currency risk and the possibility of substantial volatility due to adverse political, economic or other developments. These risks are magnified for investments made in emerging markets. Investments in a certain industry or sector may pose additional risk due to lack of diversification and sector concentration. There are special risks associated with an investment in commodities, including market price fluctuations, regulatory changes, interest rate changes, credit risk, economic changes and the impact of adverse political or financial factors.

Alternative investments are speculative and involve a high degree of risk.

Alternative investments are intended for qualified investors only. Alternative Investments such as derivatives, hedge funds, private equity funds, and funds of funds can result in higher return potential but also higher loss potential. Changes in economic conditions or other circumstances may adversely affect your investments. Before you invest in alternative investments, you should consider your overall financial situation, how much money you have to invest, your need for liquidity, and your tolerance for risk.

Nonfinancial assets, such as closely held businesses, real estate, fine art, oil, gas and mineral properties, and timber, farm and ranch land, are complex in nature and involve risks including total loss of value. Special risk considerations include natural events (for example, earthquakes or fires), complex tax considerations, and lack of liquidity. Nonfinancial assets are not in the best interest of all investors. Always consult with your independent attorney, tax advisor, investment manager, and insurance agent for final recommendations and before changing or implementing any financial, tax, or estate planning strategy.

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