# WEEKLY HEADINGS

## THOUGHTS OF THE WEEK

Larry Adam, Chief Investment Officer, Private Client Group

**Follow Larry Adam on Twitter:** @LarryAdamRJ

In two weeks, ESPN will celebrate its fortieth anniversary. Its flagship program, SportsCenter, provides the scores, highlights and important news of the day from the sports world in one concise hour. Rather than watching play-by-play for every game, every sport and every level (e.g., college vs. professional), a sports enthusiast can quickly be brought up to speed. That is exactly what we like to do in our *Weekly Headings*, provide you with timely market updates—with information that may impact your portfolio—without you having to endure the daily market noise that can be overly frustrating. One of the signature segments of the show is called 'Top 10 Plays of the Day' so with Labor Day approaching, below we borrow this theme to articulate what we believe were the 'Top 10 Plays of the Summer' for investors. For the 'Not-So Top 10 Plays of the Summer,' please follow @LarryAdamRJ on Twitter.

**Key Takeaways**

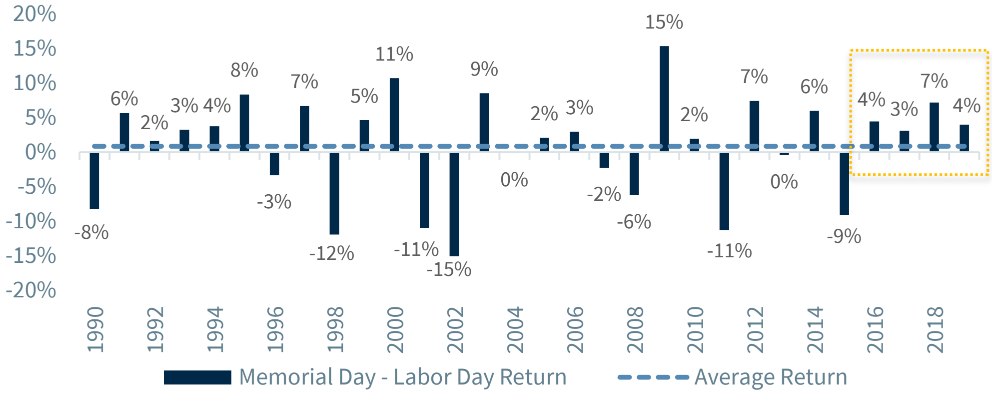
- Info Tech has been the MVP among equity sectors
- US equities outperformed international markets
- Rope-a-Dope Tariff Tiff continues

- **#10: Gold Medal Moment |** Summer heat accompanied heightened volatility, and gold prices benefited as investors sought to diversify in a negative-yielding environment. Since Memorial Day, gold has rallied over 18%, notching its best 3-month return since April 2016.
- **#9: Advantage Point - Housing Market |** With Treasury yields declining (the 30-year Treasury yield fell below 2% for the first time ever), the 30-year fixed mortgage rate (at 3.9%) fell to its lowest level since November 2016. Low yields should continue to 'court' homebuyers as the MBA Mortgage Applications Index rose to its highest level since 2012.
- **#8: Budget Deal Avoids Hazards |** The bipartisan budget deal was hit down the fairway in July, avoiding a 'rough' period for the markets as it sidestepped the threat of debt default, \$225 billion of sequestration spending cuts, and a potential government shutdown. The two-year agreement came earlier than expected and should provide a slight boost to the economy given its ~\$100 billion of net stimulus over the 2020 and 2021 fiscal years.
- **#7: Tech Scores a Touchdown |** Since Memorial Day, the Information Technology sector rallied 8.3% and outperformed all other sectors by at least 200 basis points (bps), earning MVP (Most Valuable Player) status from equity investors.*
- **#6: US Wins the World Cup |** Not only did the US Women's National Soccer Team win the World Cup, US equities 'won' the summer as the S&P 500 outpaced international markets by at least 1.9%.*
- **#5: 'Ironman' of Economic Expansions |** July marked 121 consecutive months of US economic expansion, the longest streak on record. The strength of the US consumer and the labor market lead us to believe the economy's marathon run isn't over just yet and is likely to continue for at least the next twelve months.
- **#4: Consumers Run the Court |** The US consumer remains the king of court, helping to propel the US economy. From strong retail sales to strong earnings by consumer discretionary companies, it is clear that consumers continue to spend. With job growth remaining solid and elevated consumer confidence, consumer spending should remain a driver of growth.
- **#3: Fed Balancing Act |** Just like gymnasts on a balance beam, the Federal Reserve (Fed) needs to balance a multitude of factors in determining monetary policy. While the Fed's performance in July, when they cut the Fed funds rate by 25 bps (the first rate cut since 2008), did not impress the judges (e.g., the markets), we believe the 'insurance' cut should support the economy and equity market. Historically, the S&P 500 has rallied ~15% in the 12 months following the initial rate cut.
- **#2: Rope-a-Dope Tariff Tiff |** The back and forth announcements and counterpunches in the tariff war between the US and China is likely to be ongoing and last a few more 'rounds.' While President Trump has promised a 'knockout' trade deal that favors US interests, his latest delay of some tariffs targeted toward consumer goods shows a more defensive stance (and helps with holiday shopping!) and is a 'round won' for the US consumer.
- **#1: Summer Months Step Up to the Plate |** Since Memorial Day, the S&P 500 has rallied over 4.0% and is on pace to record its fourth consecutive year of positive summer returns, the longest streak over the last 20 years. But the real All-Star has been the fixed income market, where Investment Grade Credit ( 6.7%), Treasuries ( 5.1%), and the Aggregate Index ( 4.7%) all shined.

## CHART OF THE WEEK

**S&P 500's Summer Streak**

*Since Memorial Day, the S&P 500 rallied ~4.0%, and is on pace for its fourth consecutive year of positive summer returns.*




*See Charts of the week on page 3.

RAYMOND JAMES

## ECONOMY

- The Conference Board's Index of Leading Economic Indicators rose 0.5% to a record high in July, following declines of 0.1% in both May and June. This is important as this Index has peaked ~13 months, on average, prior to the last eight recessions, suggesting that the US economy is not yet on the recession watch clock. Consistent with our view, in the report, the Conference Board concluded that "the expansion in economic activity should continue in the near term, but at a modest pace."
- FOMC Minutes from the July meeting showed that policymakers were split. "A couple" of officials wanted to lower short-term interest rates by 50 bps, "several" preferred no change, and "most" saw the 25 bps cut as "a recalibration of the stance of policy."
- For economic data next week, the advance estimate of the first revision to 2Q19 GDP growth is 2.1% and little change is anticipated, durable goods orders are notoriously volatile, but a further rebound in aircraft orders is expected for July. The Consumer Confidence Index is likely to pull back somewhat in the initial estimate for August, but should remain relatively strong. Personal income and spending are likely to have risen moderately in July, and market participants will keep an eye on core PCE. The Chicago Business Barometer fell further into contraction in July, but is likely to be less weak in August.
- **Focus of the Week:** At the Jackson Hole summit on Friday, Fed Chair Powell's comments remained thoroughly neutral and did not deviate from past statements, reiterating the Fed's commitment to "act as appropriate to sustain the expansion." Given the divisions amongst FOMC members in the July 31 Fed minutes, markets will be watching closely for additional clues for future cuts.

## August 26 – August 30

| | | | | | |
|---|---|---|---|---|---|
| MON | G7 Summit<br>Durable Goods Orders | WED | | FRI | Personal Income<br>Personal Spending<br>Chicago Business Barometer |
| TUE | Consumer Confidence | THU | Real GDP (2Q19 Second Estimate)<br>Jobless Claims<br>Pending Home Sales | FUTURE EVENTS | 9/2 Labor Day (Markets Closed)<br>9/3 ISM Manufacturing Survey<br>9/4 Fed Beige Book |

## US EQUITY

- **Focus of the Week:** Q2 earnings season is winding down as 96% of S&P 500 companies have reported. In general, results were better than expected, but forward guidance was relatively soft. S&P 500 Q3 sales estimates have held steady since the start of Q2 earnings season, but Q3 EPS estimates have fallen 2% as tariff impacts cut into margin forecasts. The more US-centric companies (>50% of revenues from US) have exhibited better fundamentals, growing sales by 5.4% and earnings by 4.6% on average in Q2; whereas those with <50% of revenues from the US saw flat earnings growth (-0.1%) on sales growth of 2.8% on average.*

## FIXED INCOME

- Germany's recent 30-year auction of a zero coupon bond showed weak participation, falling short of target issuance and ending with an average yield of -0.11%.* So while yields in Germany continue to move to record lows, the weakness in demand may suggest that appetite may wane even further if yields move lower. In addition, the largest European economy, Germany, has now had two consecutive quarters of contraction and is considering boosting budget spending as things worsen. The bottom line, US interest rates remain relatively attractive for domestic and international investors.
- **Focus of the week:** Although yields on the 2-year/10-year briefly inverted intraday on August 14, this spread remains flat (i.e., near zero). Though each of the previous five recessions were preceded by inverted curves, it bears mentioning that the average lag time from inversion to recession is approximately 22 months.*

## INTERNATIONAL & POLICY

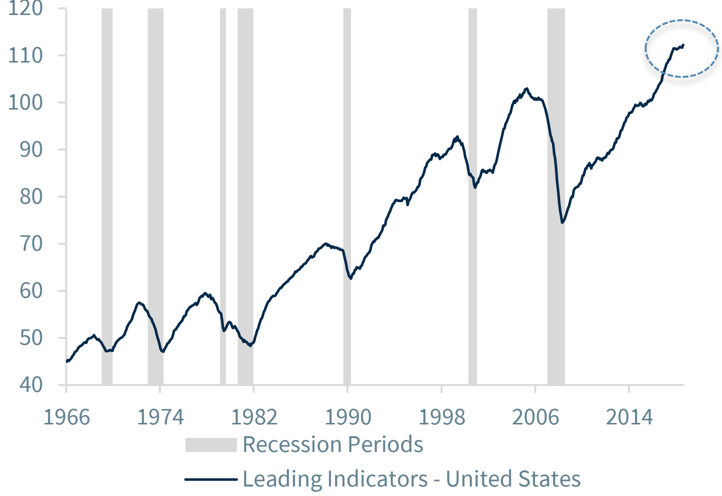
- Italian Prime Minister Giuseppe Conte resigned as the Italian Prime Minister on August 21 and the leader of the nationalist League party, Matteo Salvini, has formally broken up his coalition with the populist Five Star Movement. Italian President Sergio Mattarella now has the task of trying to coordinate the next stage of Italian politics, which could range from a new ruling coalition, a technocratic government, or a general election in the autumn. We continue to underweight Europe as Italy's political turmoil only adds to the European Union's sluggish recent economic growth levels and consumer sentiment.
- Trade angst continues to impact key exporting nations including Germany and Japan. The latter's latest Purchasing Manager's Index data was below the neutral measure for the fourth month in a row, reflecting the impact of slower trade conditions. The Bank of Japan appears primed to initiate more stimulus measures in time to offset any risk of the Japanese economy slipping into recession - especially as the country is set to raise indirect taxes in October.
- While the topic of 'Medicare for All' (MFA) will remain in the news up until the Democratic presidential primaries, we estimate there is less than a 1% chance this will become law in the next three years. This level of conviction is based on several factors that include: 1) only four presidential candidates support eliminating private insurance; 2) polling data shows that more Democrats and Democrat-leaning independents prefer to build on the ACA (55%) rather than replacing the ACA with MFA (39%); 3) +20 sitting Democratic Senators have been outspoken against MFA; and 4) supporters of MFA estimate that 1 to 2 million workers in the private insurance industry will lose their jobs, which in our view is a conservative estimate. Net-net, in 2019, managed care names have been pressured by MFA rhetoric, which has overshadowed the group's strong earnings results. These negative headlines have been a headwind for the Health Care sector but have now begun to subside, continuing to make it one of our favorite sectors.
- Poor economic data highlighting Hong Kong's current troublesome backdrop has been accompanied by more corporate interests stressing the need for calm and dialogue. Chinese President Xi continues to play a longer game, anticipating that these protests will lose momentum over time and has pushed back against the US administration, which has attempted to link the matter with ongoing world trade discussions. On the latter specifically, this weekend's G7 conference will provide further opportunities for China and the United States to build on their tentatively recent warmer trade discussions.
- **Focus of the week:** Given China's recent retaliatory increase in tariffs on US imports, all eyes will be on ongoing trade developments to determine whether there will be additional escalations or a resumption of negotiations.

*See Charts of the week on page 3.

## Charts of the Week

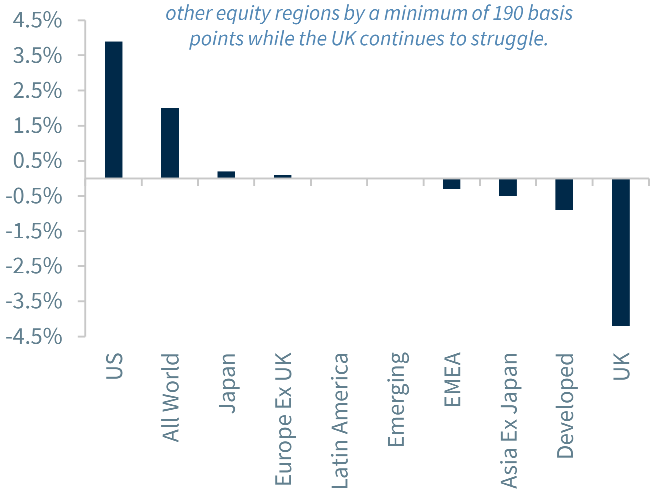
### Leading Indicators Hit Record High

*After declining for two consecutive months, leading economic indicators rose to a record high in July.*



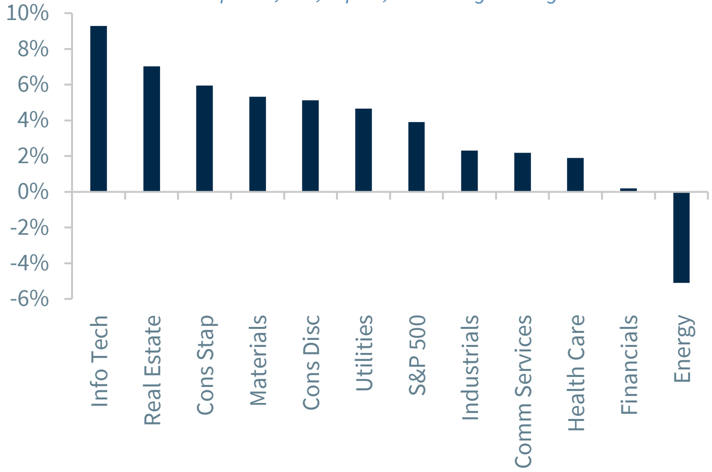

### US the Top Performing Equity Region

*Since Memorial Day, the US has outperformed all other equity regions by a minimum of 190 basis points while the UK continues to struggle.*



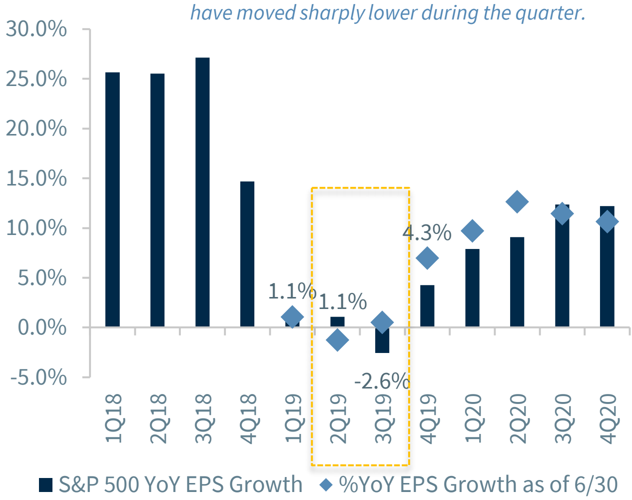

### Info Tech the Best Sector this Summer

*Since Memorial Day, Info Tech has outpaced all other sectors by over 200 basis points, due, in part, to a strong earnings season.*



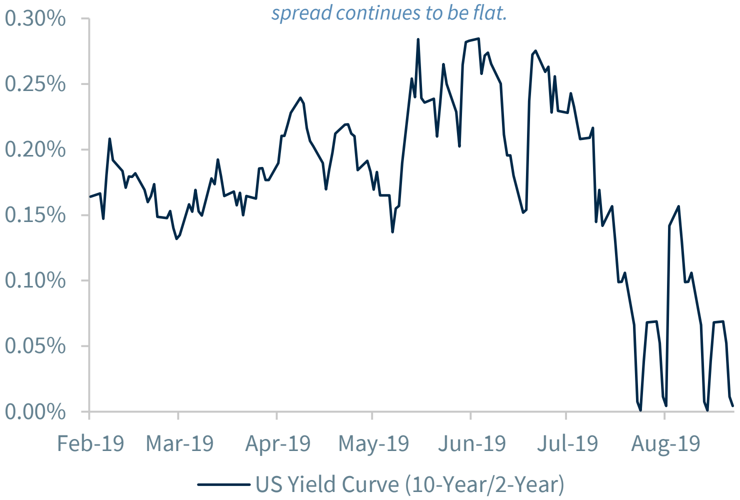

### 3Q Earnings Estimates Move Sharply Lower

*While 2Q earnings beat estimates, 3Q19 EPS estimates have moved sharply lower during the quarter.*




### 10-Year/2-Year Intraday Inversion

*The 10-year/2-year yield curve has inverted intraday, but the spread continues to be flat.*




### 30-Year German Bund Yield At Record Lows

*As German Bund yields continue to move to record lows, the 30-year German Bund auction saw weak demand this week.*

## Asset Class Performance | Distribution by Asset Class and Style (as of August 22)

### Weekly Returns (as of August 22)

**U.S. Equities (S&P indices)**

| | Value | Blend | Growth |
|---|---|---|---|
| Large Cap | 1.2% | 1.2% | 1.2% |
| Mid Cap | 0.9% | 0.8% | 0.7% |
| Small Cap | 0.7% | 0.6% | 0.6% |

**International Equities (MSCI indices)**

| | Dev. Mkt | World | Emerg. Mkt |
|---|---|---|---|
| Large Cap | 0.8% | 1.0% | 0.7% |
| Mid Cap | 1.6% | 1.4% | 1.0% |
| Small Cap | 1.7% | 1.2% | 1.0% |

**Fixed Income (Bloomberg Barclays indices)**

| | 1-3 YR | Medium | Long |
|---|---|---|---|
| Treasury | 0.0% | -0.4% | -0.6% |
| Invest. Grade | -0.1% | 0.0% | 0.0% |
| High Yield | 0.5% | 0.8% | 1.2% |

### Year-to-Date Returns (as of August 22)

**U.S. Equities (S&P indices)**

| | Value | Blend | Growth |
|---|---|---|---|
| Large Cap | 15.5% | 18.1% | 20.5% |
| Mid Cap | 12.0% | 14.8% | 17.4% |
| Small Cap | 9.8% | 10.5% | 11.4% |

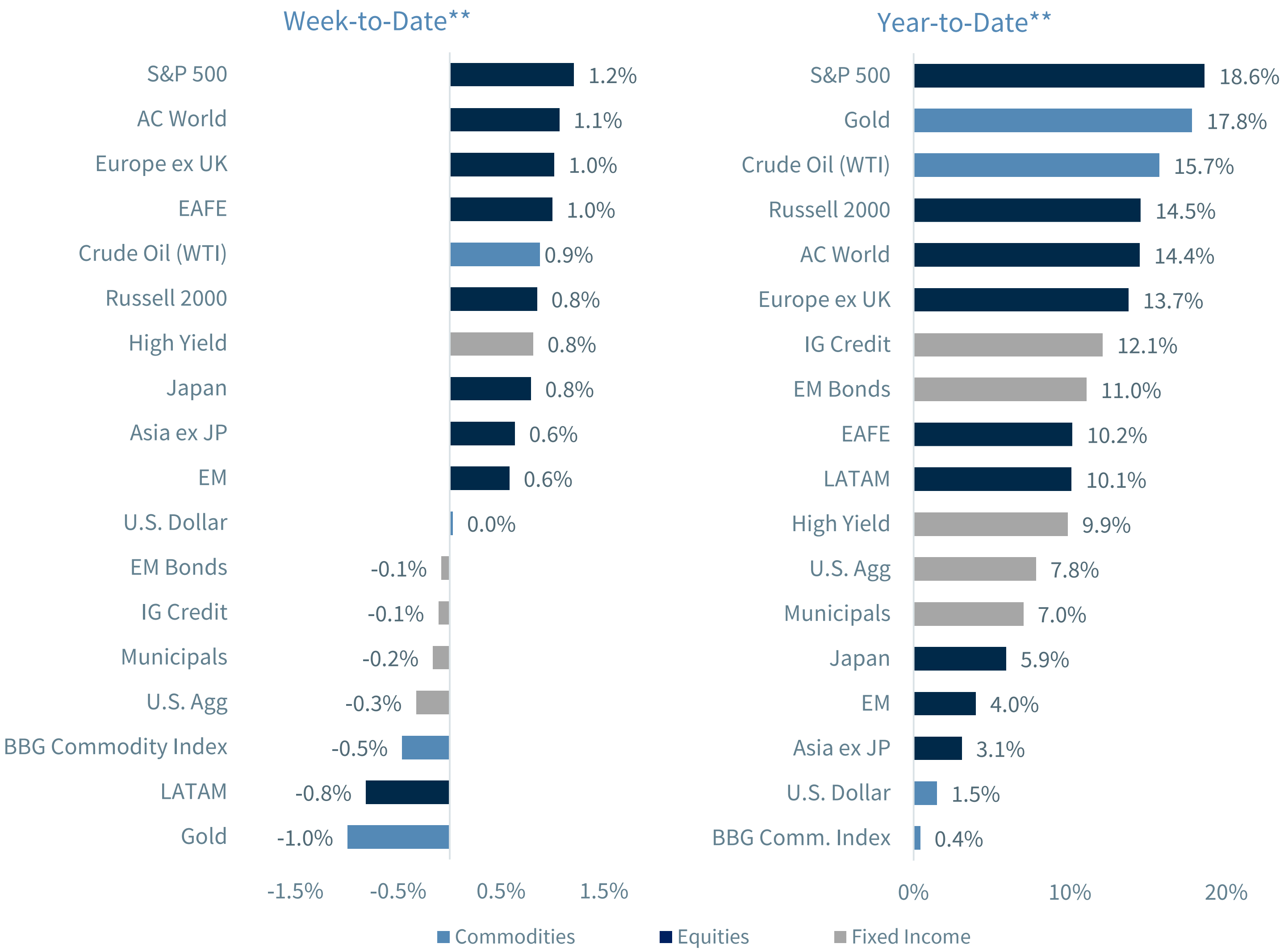
**International Equities (MSCI indices)**

| | Dev. Mkt | World | Emerg. Mkt |
|---|---|---|---|
| Large Cap | 10.9% | 14.4% | 5.6% |
| Mid Cap | 11.2% | 14.7% | 2.8% |
| Small Cap | 10.1% | 12.3% | 2.6% |

**Fixed Income (Bloomberg Barclays indices)**

| | 1-3 YR | Medium | Long |
|---|---|---|---|
| Treasury | 1.6% | 6.3% | 11.4% |
| Invest. Grade | 3.9% | 8.8% | 12.5% |
| High Yield | 5.6% | 10.3% | 17.0% |

## Asset Class Performance | Weekly and Year-to-Date (as of August 22)




**Assumes all asset classes are priced in US dollars unless otherwise noted. | Ranked in order of performances (best to worst).

# Weekly Data

Data as of August 22

**U.S Equities**

| Index | Price | Weekly | MTD | YTD | 1 Year | 3 Year | 5 Year | 10 Year |
|---|---|---|---|---|---|---|---|---|
| S&P 500 | 2923.0 | 2.7 | (1.8) | 18.1 | 4.2 | 12.5 | 10.8 | 15.8 |
| DJ Industrial Average | 26252.2 | 2.6 | (2.3) | 12.5 | 2.0 | 19.3 | 12.6 | 16.1 |
| NASDAQ Composite Index | 7991.4 | 2.9 | (2.3) | 20.4 | 1.3 | 19.9 | 13.1 | 19.0 |
| Russell 1000 | 3110.2 | 2.7 | (1.9) | 18.4 | 8.0 | 13.3 | 11.2 | 14.1 |
| Russell 2000 | 3742.8 | 3.1 | (4.3) | 12.6 | (4.4) | 10.4 | 8.5 | 12.5 |
| Russell Midcap | 5647.5 | 2.8 | (2.7) | 19.7 | 6.7 | 11.0 | 9.6 | 14.3 |

**Equity Sectors**

| Sector | Price | Weekly | MTD | YTD | 1 Year | 3 Year | 5 Year | 10 Year |
|---|---|---|---|---|---|---|---|---|
| Materials | 352.1 | 1.1 | (3.5) | 12.7 | (2.3) | 6.9 | 4.4 | 9.1 |
| Industrials | 631.2 | 3.1 | (3.5) | 17.9 | 0.3 | 9.6 | 8.6 | 13.6 |
| Comm Services | 165.4 | 1.8 | (2.3) | 20.3 | 7.8 | 2.5 | 5.4 | 9.6 |
| Utilities | 313.8 | 1.7 | 4.2 | 19.2 | 20.0 | 11.0 | 11.8 | 11.9 |
| Consumer Discretionary | 942.3 | 4.1 | (1.2) | 21.5 | 5.0 | 15.0 | 13.3 | 18.1 |
| Consumer Staples | 621.6 | 1.7 | 1.8 | 21.2 | 15.2 | 6.4 | 9.2 | 12.5 |
| Health Care | 1049.8 | 1.6 | (0.3) | 6.0 | 1.0 | 8.7 | 9.4 | 14.3 |
| Information Technology | 1397.3 | 3.9 | (1.2) | 29.8 | 10.5 | 23.1 | 17.8 | 17.5 |
| Energy | 425.0 | 2.9 | (7.5) | 2.8 | (19.5) | (3.2) | (6.8) | 3.3 |
| Financials | 443.1 | 2.6 | (5.5) | 13.5 | (3.4) | 13.3 | 9.5 | 10.5 |
| Real Estate | 241.3 | 1.7 | 4.2 | 27.7 | 21.1 | 9.3 | 10.2 | 15.5 |

**Fixed Income**

| Index | Yield | Weekly | MTD | YTD | 1 Year | 3 Year | 5 Year | 10 Year |
|---|---|---|---|---|---|---|---|---|
| 3-Months Treasury Bill (%) | 2.0 | 0.0 | 0.1 | 1.5 | 2.3 | 1.4 | 0.9 | 0.5 |
| 2-Year Treasury (%) | 1.6 | (0.2) | 0.7 | 2.9 | 4.1 | 1.3 | 1.1 | 1.1 |
| 10-Year Treasury (%) | 1.6 | (0.7) | 3.8 | 11.4 | 13.8 | 1.8 | 3.4 | 4.3 |
| Barclays US Corporate High Yield | 6.4 | 1.0 | (0.0) | 10.6 | 6.3 | 6.1 | 4.8 | 8.6 |
| Bloomberg Barclays US Aggregate | 2.2 | (0.3) | 2.0 | 8.4 | 9.4 | 2.9 | 3.3 | 3.9 |
| Bloomberg Barclays Municipals | | (0.2) | 1.4 | 7.4 | 8.5 | 3.3 | 3.9 | 4.7 |
| Bloomberg Barclays IG Credit | 2.9 | (0.1) | 2.4 | 13.2 | 12.3 | 4.4 | 4.5 | 5.9 |
| Bloomberg Barclays EM Bonds | 4.9 | 0.1 | (0.0) | 10.4 | 11.1 | 4.4 | 4.7 | 7.2 |

**Commodities**

| Index | Price | Weekly | MTD | YTD | 1 Year | 3 Year | 5 Year | 10 Year |
|---|---|---|---|---|---|---|---|---|
| WTI Crude ($/bl) | 55.3 | 0.8 | (5.6) | 22.4 | (18.5) | 5.2 | (10.0) | (2.8) |
| Gold ($/Troy Oz) | 1502.1 | (0.9) | 5.2 | 17.4 | 25.5 | 4.0 | 3.3 | 4.7 |
| Dow Jones-UBS Commodity Index | 76.4 | (0.4) | (3.2) | (0.4) | (8.6) | (3.7) | (9.4) | (5.0) |

**Currencies**

| Currency | Price | Weekly | MTD | YTD | 1 Year | 3 Year | 5 Year | 10 Year |
|---|---|---|---|---|---|---|---|---|
| U.S. Dollar Index | 98.2 | 0.0 | (0.4) | 2.1 | 3.2 | 1.3 | 3.6 | 2.3 |
| U.S. Dollar per Euro | 1.1 | (0.3) | (0.5) | (3.1) | (4.5) | (0.7) | (3.5) | (2.5) |
| U.S. Dollar per British Pounds | 1.2 | 1.2 | 0.1 | (3.8) | (5.1) | (2.3) | (5.9) | (2.9) |
| Japanese Yen per U.S. Dollar | 106.5 | 0.3 | (1.9) | (3.0) | (3.6) | 2.0 | 0.5 | 1.2 |

**International Equities**

| Index | Price | Weekly | MTD | YTD | 1 Year | 3 Year | 5 Year | 10 Year |
|---|---|---|---|---|---|---|---|---|
| MSCI AC World | 508.9 | 2.3 | (2.8) | 13.8 | 0.8 | 9.3 | 6.2 | 9.2 |
| MSCI EAFE | 1829.3 | 1.8 | (3.3) | 9.3 | (3.3) | 5.8 | 2.3 | 5.6 |
| MSCI Europe ex UK | 1908.5 | 2.4 | (2.6) | 12.5 | (2.1) | 7.2 | 3.0 | 5.7 |
| MSCI Japan | 3063.5 | 0.7 | (2.2) | 5.8 | (5.0) | 5.0 | 4.6 | 5.5 |
| MSCI EM | 975.7 | 1.3 | (5.7) | 3.2 | (4.4) | 5.4 | 0.7 | 4.3 |
| MSCI Asia ex JP | 605.4 | 1.5 | (5.0) | 3.5 | (5.9) | 6.4 | 2.7 | 6.5 |
| MSCI LATAM | 2588.0 | 0.6 | (8.6) | 3.3 | 6.8 | 5.1 | (3.0) | 0.2 |

## DISCLOSURES

All expressions of opinion reflect the judgment of the author(s), and are subject to change. This information should not be construed as a recommendation. The foregoing content is subject to change at any time without notice. Content provided herein is for informational purposes only. There is no guarantee that these statements, opinions or forecasts provided herein will prove to be correct. Past performance is not a guarantee of future results. Indices and peer groups are not available for direct investment. Any investor who attempts to mimic the performance of an index or peer group would incur fees and expenses that would reduce returns. No investment strategy can guarantee success. Economic and market conditions are subject to change. Investing involves risks including the possible loss of capital.

INTERNATIONAL INVESTING | International investing involves additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets.

SECTORS | Sector investments are companies engaged in business related to a specific economic sector and are presented herein for illustrative purposes only and should not be considered as the sole basis for an investment decision. Sectors are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification.

OIL | Investing in oil involves special risks, including the potential adverse effects of state and federal regulation and may not be suitable for all investors.

CURRENCIES | Currencies investing are generally considered speculative because of the significant potential for investment loss. Their markets are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising.

GOLD | Gold is subject to the special risks associated with investing in precious metals, including but not limited to: price may be subject to wide fluctuation; the market is relatively limited; the sources are concentrated in countries that have the potential for instability; and the market is unregulated.

FIXED INCOME | Fixed-income securities (or “bonds”) are exposed to various risks including but not limited to credit (risk of default of principal and interest payments), market and liquidity, interest rate, reinvestment, legislative (changes to the tax code), and call risks. There is an inverse relationship between interest rate movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices generally rise.

US TREASURIES | US Treasury securities are guaranteed by the US government and, if held to maturity, offer a fixed rate of return and guaranteed principal value.

## DESIGNATIONS

Found a shorter version for the CFP: Certified Financial Planner Board of Standards Inc. owns the certification marks CFP® and CERTIFIED FINANCIAL PLANNER™ in the U.S.

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## DATA SOURCES

FactSet and Bloomberg.

## DOMESTIC EQUITY DEFINITION

LARGE GROWTH | **Russell 1000 Growth Total Return Index:** This index represents a segment of the Russell 1000 Index with a greater-than-average growth orientation. Companies in this index have higher price-to-book and price-earnings ratios, lower dividend yields and higher forecasted growth values. This index includes the effects of reinvested dividends.

MID GROWTH | **Russell Mid Cap Growth Total Return Index:** This index contains stocks from the Russell Midcap Index with a greater-than-average growth orientation. The stocks are also members of the Russell 1000 Growth Index. This index includes the effects of reinvested dividends.

SMALL GROWTH | **Russell 2000 Growth Total Return Index:** This index represents a segment of the Russell 2000 Index with a greater-than-average growth orientation. The combined market capitalization of the Russell 2000 Growth and Value Indices will add up to the total market cap of the Russell 2000. This index includes the effects of reinvested dividends.

LARGE BLEND | **Russell 1000 Total Return Index:** This index represents the 1000 largest companies in the Russell 3000 Index. This index is highly correlated with the S&P 500 Index. This index includes the effects of reinvested dividends.

MID BLEND | **Russell Mid Cap Total Return Index:** This index consists of the bottom 800 securities in the Russell 1000 Index as ranked by total market capitalization. This index includes the effects of reinvested dividends.

SMALL BLEND | **Russell 2000 Total Return Index:** This index covers 2000 of the smallest companies in the Russell 3000 Index, which ranks the 3000 largest US companies by market capitalization. The Russell 2000 represents approximately 10% of the Russell 3000 total market capitalization. This index includes the effects of reinvested dividends.

LARGE VALUE | **Russell 1000 Value Total Return Index:** This index represents a segment of the Russell 1000 Index with a less-than-average growth orientation. Companies in this index have low price-to-book and price-earnings ratios, higher dividend yields and lower forecasted growth values. This index includes the effects of reinvested dividends.

MID VALUE | **Russell Mid Cap Value Total Return Index:** This index contains stocks from the Russell Midcap Index with a less-than-average growth orientation. The stocks are also members of the Russell 1000 Value Index. This index includes the effects of reinvested dividends.

SMALL VALUE | **Russell 2000 Value Total Return Index:** This index represents a segment of the Russell 2000 Index with a less-than-average growth orientation. The combined market capitalization of the Russell 2000 Growth and Value Indices will add up to the total market cap of the Russell 2000. This index includes the effects of reinvested dividends.

## FIXED INCOME DEFINITION

AGGREGATE BOND | **Bloomberg Barclays US Agg Bond Total Return Index:** The index is a measure of the investment grade, fixed-rate, taxable bond market of roughly 6,000 SEC-registered securities with intermediate maturities averaging approximately 10 years. The index includes bonds from the Treasury, Government-Related, Corporate, MBS, ABS, and CMBS sectors.

HIGH YIELD | **Bloomberg Barclays US Corporate High Yield Total Return Index:** The index 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.

CREDIT | **Bloomberg Barclays US Credit Total Return Index:** The index measures the investment grade, US dollar-denominated, fixed-rate, taxable corporate and government related bond markets. It is composed of the US Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supranationals and local authorities.

MUNICIPAL | **Bloomberg Barclays Municipal Total Return Index:** The index is a measure of the long-term tax-exempt bond market with securities of investment grade (rated at least Baa by Moody's Investors Service and BBB by Standard and Poor's). This index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and prerefunded bonds.

VIX | **CHICAGO Board Options Exchange (VIX):** The Volatility Index, or VIX, is a real-time market index that represents the market's expectation of 30-day forward-looking volatility.

## US INDEXES AND EQUITY SECTORS DEFINITION

DOW JONES INDUSTRIAL AVERAGE (DJIA) | The **Dow Jones Industrial Average (DJIA)** is an index that tracks 30 large, publicly-owned companies trading on the New York Stock Exchange (NYSE) and the NASDAQ.

NASDAQ COMPOSITE INDEX | The **Nasdaq Composite Index** is the market capitalization-weighted index of over 3,300 common equities listed on the Nasdaq stock exchange.

S&P 500 | The **S&P 500 Total Return Index:** The index is widely regarded as the best single gauge of large-cap U.S. equities. There is over USD 7.8 trillion benchmarked to the index, with index assets comprising approximately USD 2.2 trillion of this total. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

BLOOMBERG BARCLAYS CAPITAL AGGREGATE BOND TOTAL RETURN INDEX | This index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. The index is designed to minimize concentration in any one commodity or sector. It currently has 22 commodity futures in seven sectors. No one commodity can compose less than 2% or more than 15% of the index, and no sector can represent more than 33% of the index (as of the annual weightings of the components).

## INTERNATIONAL EQUITY DEFINITION

EMERGING MARKETS EASTERN EUROPE | **MSCI EM Eastern Europe Net Return Index:** The index captures large- and mid-cap representation across four Emerging Markets (EM) countries in Eastern Europe. With 50 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

EMERGING MARKETS ASIA | **MSCI EM Asia Net Return Index:** The index captures large- and mid-cap representation across eight Emerging Markets countries. With 554 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

EMERGING MARKETS LATIN AMERICA | **MSCI EM Latin America Net Return Index:** The index captures large- and mid-cap representation across five Emerging Markets (EM) countries in Latin America. With 116 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

EMERGING MARKETS | **MSCI Emerging Markets Net Return Index:** This index consists of 23 countries representing 10% of world market capitalization. The index is available for a number of regions, market segments/sizes and covers approximately 85% of the free float-adjusted market capitalization in each of the 23 countries.

PACIFIC EX-JAPAN | **MSCI Pacific Ex Japan Net Return Index:** The index captures large- and mid-cap representation across four of 5 Developed Markets (DM) countries in the Pacific region (excluding Japan). With 150 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

JAPAN | **MSCI Japan Net Return Index:** The index is designed to measure the performance of the large and mid cap segments of the Japanese market. With 319 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.

FOREIGN DEVELOPED MARKETS | **MSCI EAFE Net Return Index:** This index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada. The index is available for a number of regions, market segments/sizes and covers approximately 85% of the free float-adjusted market capitalization in each of the 21 countries.

EUROPE EX UK | **MSCI Europe Ex UK Net Return Index:** The index captures large and mid cap representation across 14 Developed Markets (DM) countries in Europe. With 337 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across European Developed Markets excluding the UK.

MSCI EAFE | The **MSCI EAFE** (Europe, Australasia, and Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 22 developed nations.

GERMAN BUND | A bund is a debt security issued by Germany's federal government, and it is the German equivalent of a U.S. Treasury bond.

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