October 11, 2019

# THOUGHTS OF THE WEEK

## WEEKLY HEADINGS


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Tomorrow (Saturday) is National Chess Day, a holiday that has been in existence since the proclamation of President Gerald Ford in 1976. The game revolves around 'power and conflict' where intelligence, strategy, and patience are key, and calculated risk reward tradeoffs need to be assessed on a continual basis. To win, you need to make the correct moves and make sure your pieces are in the right place at the right time. Today, these same dynamics confront global policymakers and investors as President Trump and President Xi go 'head-to-head' in negotiating a trade deal, Fed Chair Powell weighs the potential impact of further interest rate cuts, CEOs assess capital expenditures and hiring decisions in the midst of potential negative earnings growth, and investors seek to structure their portfolios amid unrelenting periods of volatility.

### Key Takeaways

No Definitive 'Checkmate' in the Current Trade Negotiations

The Fed Awaits More Data as it Seeks to Avoid a 'Blunder'

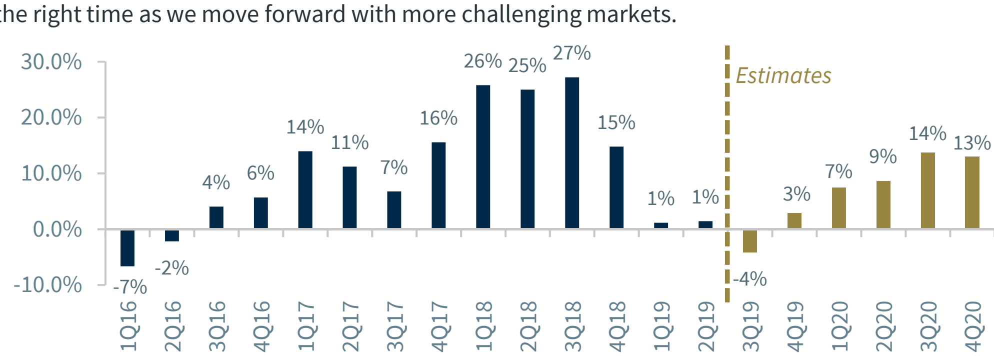
Earnings Environment May Dictate Future Capex 'Moves'

- **A Checkmate or Draw in the Trade Talks |** President Trump and President Xi are in a prolonged, tumultuous game of trade 'chess' with many 'pieces' still in play. From agricultural purchases to intellectual property theft there are still major points of contention under negotiation. There is also the added 'power' dynamic as President Xi seeks to establish his legacy while President Trump desires to bolster his re-election chances. We do not expect a clear-cut 'checkmate' winner in these negotiations. The most likely outcome is a 'draw' (no winner) with rematches periodically in the future. All attention will now turn to the November 14-15 APEC Summit in Chile, which both President Trump and President Xi are expected to attend and hopefully act to avert the more significant and economically damaging December 15 tariffs. In our opinion, the tariffs on the third tranche of Chinese imports worth $300 billion will be a 'game-changer' as those goods will directly impact the consumer and would likely have an adverse impact on the US and global economy.
- **Avoiding a Big Blunder |** In the game of chess, a serious mistake occurs when there is some sort of tactical error, whether it is due to timing, overconfidence, or pure carelessness. A tactical 'blunder' is exactly what the Federal Reserve is trying to avoid as it seeks to continue the current record economic expansion (124 months). The Fed does have its fair share of challenges to maneuver given amplified pressure from President Trump and growing expectations in the financial markets for further rate cuts.* These challenges will test the Fed's patience as it awaits further economic data from around the globe. At a conference this week, Chair Powell reiterated that there is no "preset course" for policy, but that previous and future Fed action has and will continue to be dictated by how the 'pieces' (e.g. economic data) are arranged on the board. He also signaled that the central bank would proactively begin to buy short-term Treasury securities "soon" to alleviate potential liquidity concerns in the repo market. We anticipate that weak global growth and muted inflation will also lead the Fed to implement one more 25 basis point 'insurance' rate cut before year end.
- **The Power of the Next Move |** Next week begins 3Q earnings season, with many of the largest financial services companies kicking it off. S&P 500 earnings growth is expected to decline 4.0% year-over-year. As earnings have beaten estimates by ~3.8%, on average, over the past 20 quarters, history implies there is slightly more than a 50% probability of the S&P 500 posting negative earnings growth this quarter, the first time since 2Q16. For that reason, it is very challenging to see CEOs continuing to hire new employees and invest in capital expenditures in a flat-to-down earnings environment. That is why guidance will be critically analyzed to see if this weak earnings environment is a trend or if earnings are set to rebound in 2020. While consensus believes the latter, a return to double-digit earnings growth appears unlikely.
- **Be A Chess Player Not a Chess Piece |** Incessant headlines have tested the patience of asset allocation strategies and confronted the conviction of individual investors. This week the varying degrees of optimism and pessimism over the trade war resulted in significant market swings in both directions. We caution investors against attempting to time the market around these types of headlines. In fact, most behavioral studies conclude that investors, on average, historically underperform the market when making hasty portfolio changes.** Successful investors tend to have an asset allocation plan in place and a strategy for times of increased volatility. They not only focus on the next move but also know their next several moves. As a result, we encourage you to review your portfolio with your advisor so together you can 'move your pawns' to the right place at the right time as we move forward with more challenging markets.

## CHART OF THE WEEK

**50/50 Chance for Negative Earnings in 3Q**

*Headline earnings are currently expected to decline 4% YoY in 3Q19. However, as earnings typically beat estimates by ~4%, this implies a 50% chance that earnings could be negative in 3Q.*




*S&P 500 Year-over Year Earnings Growth*

*See Charts of the week on page 3.
**Brinson, Hood, and Beebower Report

## ECONOMY

- The headline Consumer Price Index (CPI) was unchanged in September, held down by the decline in gasoline prices and a sharp drop in used vehicle prices (which had risen sharply over the three previous months).* Ex-food and energy, core CPI edged up 0.1% month-over-month, and continues to grow on a year-over year basis at the fastest pace (2.4% YoY) since 2008. However, the Fed's preferred measure of inflation, core PCE (1.8% YoY), continues to trend below the Fed's 2% target.
- In a speech, Fed Chair Powell gave no firm indication of another rate cut later this month, but he left the door open for further accommodation. In addressing the recent repo operations, Chair Powell mentioned that the balance sheet expansion will resume sooner rather than later to maintain an adequate level of reserves, but emphasized that this should not be seen as an additional round of quantitative easing. In other Fed related news, the minutes from the September FOMC meeting showed that officials were divided on the appropriate course of action at the September meeting, but the balance of power among FOMC voting members appears to be in the dovish camp, consistent with one or two more rate cuts by year end. While we expect one more rate cut, the market is pricing in a 93% probability of at least one rate cut and a 53% probability of two rate cuts by year end.
- **Focus of the Week:** As the consumer has been the primary driver of recent economic growth, the key focus of investor attention will be on the release of September retail sales (on Wednesday). At the headline level, retail sales are expected to have risen moderately (0.4% MoM) on the back of strength in auto sales and back to school shopping.

## October 14 – October 18

| | | | | | |
|---|---|---|---|---|---|
| MON | Columbus Day Holiday<br>(Bond Market Closed) | WED | Retail Sales (Sep)<br>Fed Beige Book | FRI | Leading Indicators |
| TUE | | THU | Industrial Production (Sep)<br>Building Permits<br>Jobless Claims | FUTURE EVENTS | 10/24 Durable Goods Orders<br>10/30 FOMC Policy Statement<br>11/1 ISM Manufacturing Index |

## US EQUITY

- In the event that both sides are able to agree on a partial deal that avoids the tariff increase to 30% from 25% on $300B worth of Chinese goods next week (October 15), internals are oversold enough for a risk-on tone to send the market to new highs.* However, if there is a setback with trade, the most likely scenario is the same blueprint that has played out when tensions have escalated over the past year. This includes initial negative headlines causing equity market weakness, followed by a 'dialing back' of the negative rhetoric which then allows equities to rally off of the better news.
- If the 'setback' trade scenario comes to fruition, we could see the S&P 500 trade lower to the 2725-2800 range (that would be a ~10% pullback from the recent highs and ~6% lower from here). This level reflects both technical and fundamental support, reflecting a 16.9x P/E (the normalized low P/E seen this year). After reaching these levels, a softening trade rhetoric in conjunction with help from the Fed (dovish commentary and rate cut) could then lead equities to recover and test the old highs. However, we do not expect equities to move meaningfully above the old highs as slowing global earnings and economic growth along with the lack of real progress on trade will remain headwinds.
- **Focus of the Week:** The 3Q earnings season will kick off with some of the key financials reporting next week. Following the trend of the past two quarters where final quarter results finished 4% higher on average, we believe Q3 earnings growth likely finishes flattish (current expectations are -4%).* While the headline figure for Q3 is fairly weak, we would like to remind investors that the average company has reported stronger earnings growth than the headline figure this year, generally led by the more domestic-focused names (due to less overseas exposure). The average S&P 500 company is expecting 2.4% earnings growth in Q3, following an average of ~5.5% in the first and second quarter. Guidance will be important to monitor, as investors will be gauging how companies are being impacted by trade, tariffs, the slow macro environment, and how they are offsetting these headwinds.

## FIXED INCOME

- **Focus of the Week:** Fed Chair Jerome Powell announced that the Fed will once again begin purchasing Treasury securities with the intent of providing adequate liquidity for money markets. While details are currently uncertain, should the Fed start buying the very short end of the curve, it is likely to push short-term prices up, thereby moving rates down and leading to a steepening in the. yield curve This week, the yield curve (10-year/3-month) steepened and nearly turned positive for the first time in three months.*

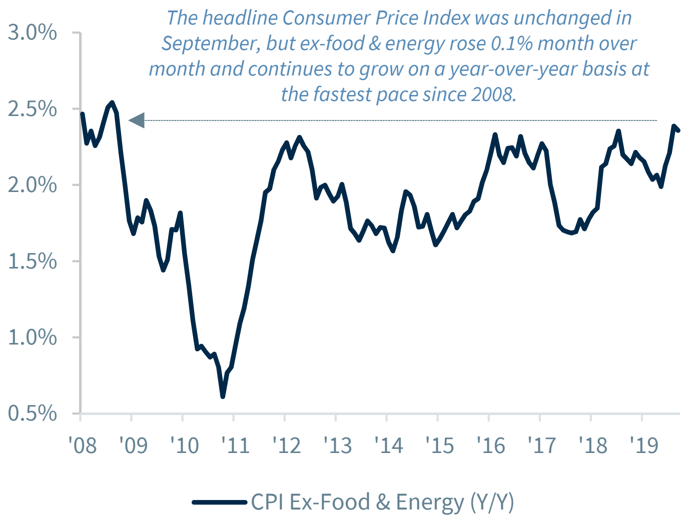
## INTERNATIONAL

- Steps forward on currency issues, an easing on Huawei, and stepped-up agricultural purchases all appear to be on the table as potential parts of an interim US-China deal. We continue to see a possible Trump-Xi meeting in November as a larger catalyst that could see an interim deal struck, depending on the outcome of this week's talks. A visit by the Chinese delegation with President Trump as currently expected would be a positive indication that the Oct. 15 tariffs will be delayed for talks to continue.
- We will be watching to see how China responds to some of the US actions from earlier this week, including visa restrictions and the blacklisting of 28 Chinese entities that restricts their business with US suppliers. Chinese officials are said to be drafting a list of its own visa restrictions targeting US human rights groups. A potential granting of licenses for US suppliers to conduct limited business with Huawei could serve to mitigate the fallout from the latest blacklisting, but we will also be watching another tech development tied to the president's May executive order on protecting US telecom infrastructure that could further complicate the US-China relationship.
- **Focus of the week:** If some form of a positive result is reached at the conclusion of this week's negotiation (our base case), attention will turn to a potential Trump-Xi meeting during the November 14-15 APEC Summit for the finalization of an interim deal. An interim deal provides clear positives for both sides, but may also present a risk for markets. Putting off the larger questions of IP protections, industrial subsidies, and market access issues may be seen as confirmation that these larger issues cannot be settled pre-2020, 'kicking the can down the road' and leading to future volatility. Increased certainty in the near term would be a clear positive, but the enforcement of any conditions within an interim deal will be paramount to determining whether it can hold.

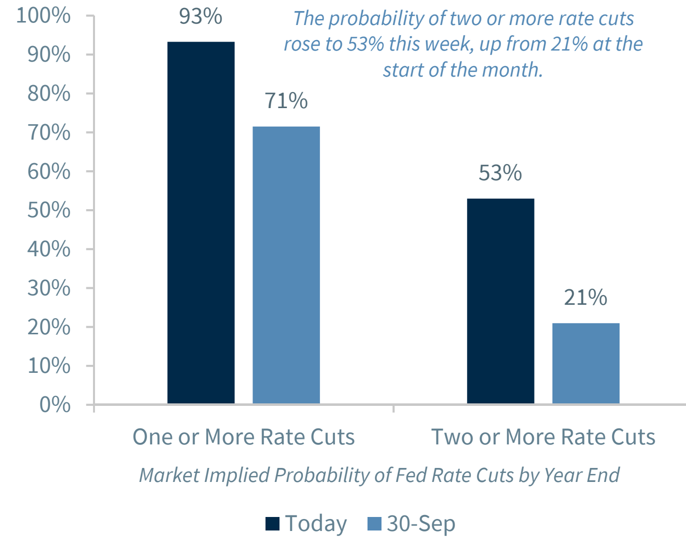
*See Charts of the week on page 3.

## Charts of the Week

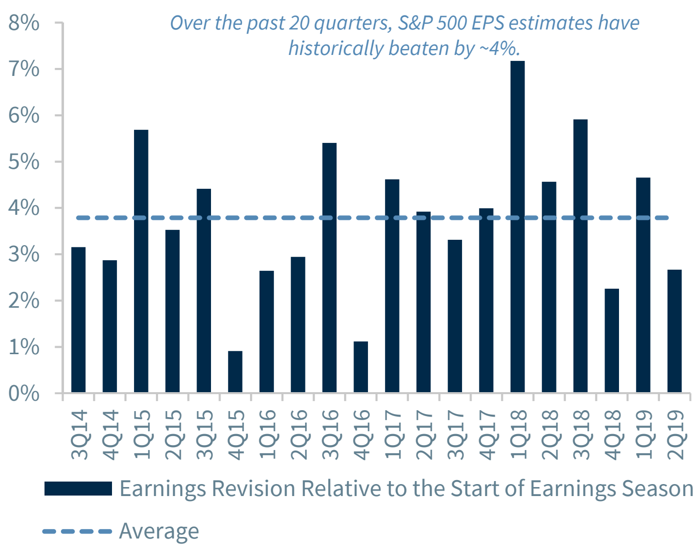
### Core CPI Year-Over-Year Pace Remains Strong



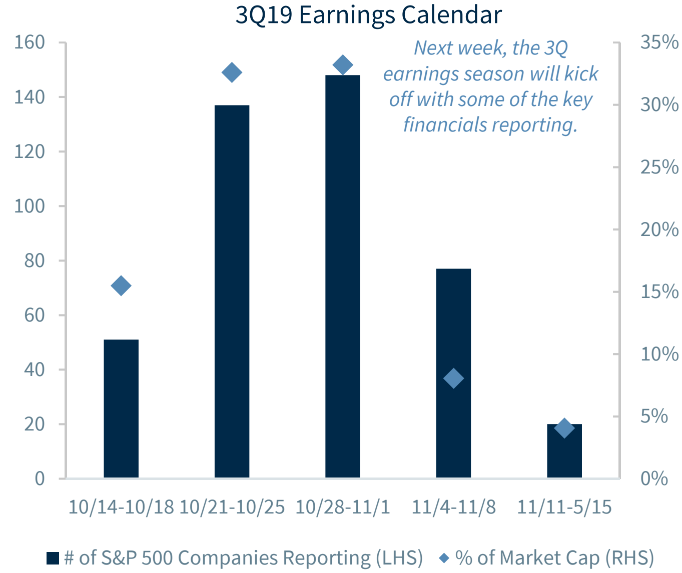

### Fed Rate Cut Probabilities Rising



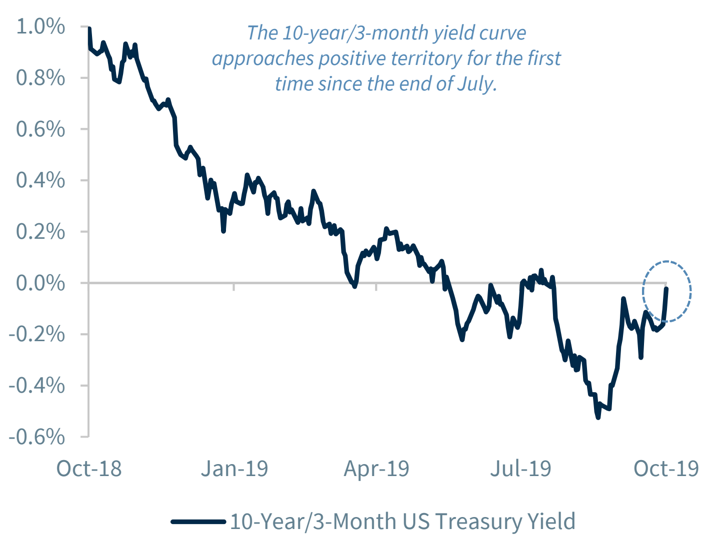

### Earnings Typically Beat Estimates By 4%



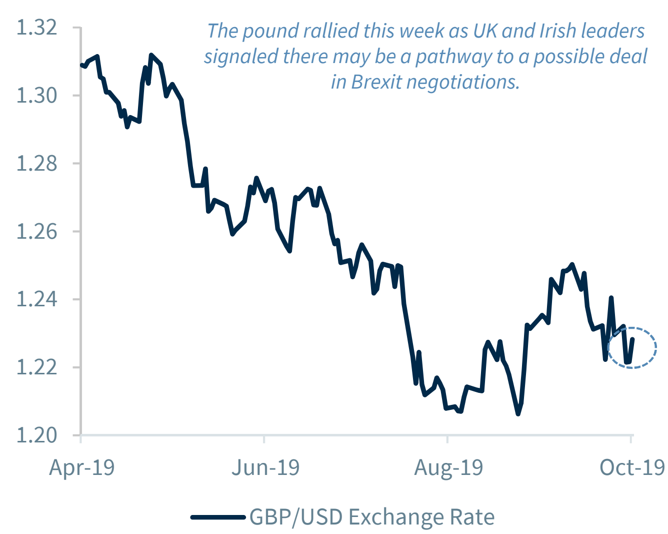

### 3Q19 Earnings Calendar




### 10-Year/3-Month Yield Curve Nears Zero




### Sterling Rises Amid Hopes of Brexit Deal



## Asset Class Performance | Distribution by Asset Class and Style (as of October 10)

### Weekly Returns (as of October 10)

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

| | Value | Blend | Growth |
|---|---|---|---|
| Large Cap | -0.3% | -0.4% | -0.6% |
| Mid Cap | -0.9% | -1.0% | -1.1% |
| Small Cap | -1.5% | -1.3% | -1.1% |

**International Equities (MSCI indices)**

| | Dev. Mkt | World | Emerg. Mkt |
|---|---|---|---|
| Large Cap | 0.7% | 0.0% | 0.1% |
| Mid Cap | 0.3% | -0.3% | -0.1% |
| Small Cap | 0.5% | -0.3% | -0.1% |

**Fixed Income (Bloomberg Barclays indices)**

| | 1-3 YR | Medium | Long |
|---|---|---|---|
| Treasury | 0.0% | -0.7% | -1.3% |
| Invest. Grade | -0.2% | -0.5% | -0.7% |
| High Yield | 0.1% | 0.1% | 0.2% |

### Year-to-Date Returns (as of October 10)

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

| | Value | Blend | Growth |
|---|---|---|---|
| Large Cap | 18.3% | 19.1% | 19.8% |
| Mid Cap | 13.7% | 14.8% | 15.8% |
| Small Cap | 11.4% | 10.0% | 8.7% |

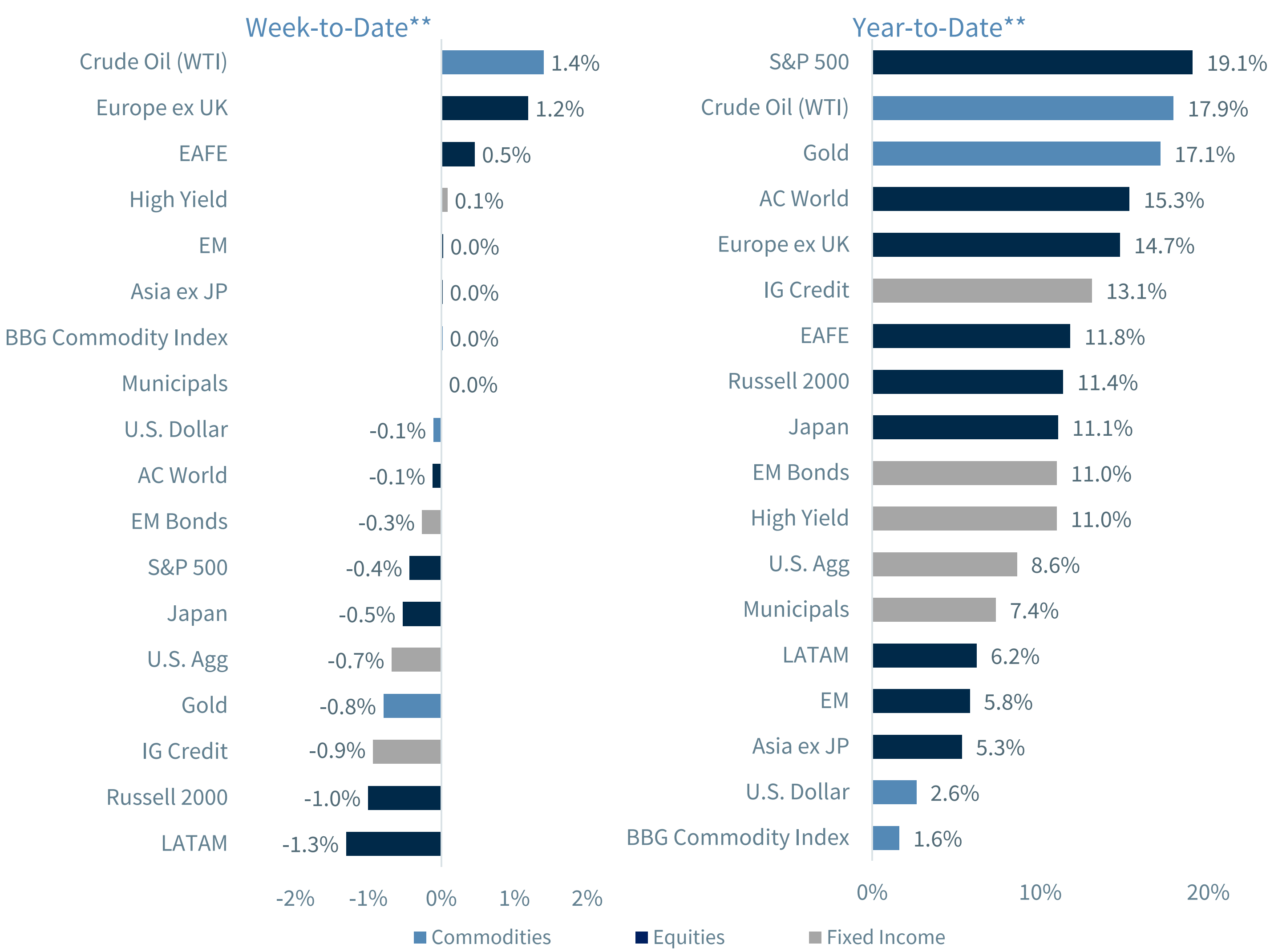
**International Equities (MSCI indices)**

| | Dev. Mkt | World | Emerg. Mkt |
|---|---|---|---|
| Large Cap | 14.2% | 16.1% | 7.8% |
| Mid Cap | 14.5% | 16.2% | 4.5% |
| Small Cap | 14.0% | 13.3% | 4.0% |

**Fixed Income (Bloomberg Barclays indices)**

| | 1-3 YR | Medium | Long |
|---|---|---|---|
| Treasury | 1.9% | 6.5% | 11.1% |
| Invest. Grade | 4.4% | 9.2% | 12.8% |
| High Yield | 6.0% | 10.6% | 17.9% |

## Asset Class Performance | Weekly and Year-to-Date (as of October 10)




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



RAYMOND JAMES

# Weekly Data

Data as of October 10

### U.S Equities

| Index | Price | Weekly | MTD | YTD | 1 Year | 3 Year | 5 Year | 10 Year |
|---|---|---|---|---|---|---|---|---|
| S&P 500 | 2938.1 | 1.0 | (1.2) | 19.1 | 7.6 | 13.0 | 10.8 | 15.8 |
| DJ Industrial Average | 26496.7 | 1.1 | (1.6) | 13.6 | 3.5 | 19.3 | 12.6 | 16.1 |
| NASDAQ Composite Index | 7950.8 | 1.0 | (0.6) | 19.8 | 7.1 | 19.9 | 13.1 | 19.0 |
| Russell 1000 | 3118.9 | 0.9 | (1.3) | 19.0 | 3.9 | 13.2 | 10.6 | 13.2 |
| Russell 2000 | 3691.5 | (0.0) | (2.5) | 11.4 | (8.9) | 8.2 | 8.2 | 11.2 |
| Russell Midcap | 5622.8 | 0.3 | (2.0) | 19.5 | 3.2 | 10.7 | 9.1 | 13.1 |

### Equity Sectors

| Sector | Price | Weekly | MTD | YTD | 1 Year | 3 Year | 5 Year | 10 Year |
|---|---|---|---|---|---|---|---|---|
| Materials | 352.7 | 0.5 | (3.3) | 13.3 | 6.1 | 8.3 | 6.1 | 8.7 |
| Industrials | 635.2 | 0.7 | (3.0) | 18.9 | 2.5 | 10.7 | 10.3 | 13.0 |
| Comm Services | 166.5 | 1.4 | (0.2) | 21.6 | 12.4 | 4.1 | 5.5 | 9.8 |
| Utilities | 325.5 | 0.4 | (0.9) | 24.3 | 22.9 | 14.4 | 12.2 | 12.4 |
| Consumer Discretionary | 935.7 | 0.8 | (1.2) | 21.0 | 10.1 | 15.5 | 14.5 | 17.4 |
| Consumer Staples | 625.1 | 0.8 | (0.6) | 22.5 | 17.3 | 8.3 | 8.9 | 12.0 |
| Health Care | 1032.2 | 0.5 | (1.0) | 4.5 | (1.5) | 9.2 | 9.0 | 14.0 |
| Information Technology | 1411.1 | 1.5 | (0.1) | 31.2 | 17.4 | 22.3 | 19.4 | 16.9 |
| Energy | 422.1 | 0.2 | (3.4) | 2.4 | (21.3) | (4.3) | (4.3) | 2.6 |
| Financials | 453.5 | 1.5 | (2.5) | 16.6 | 2.6 | 13.7 | 10.5 | 10.3 |
| Real Estate | 243.4 | 0.3 | (0.1) | 29.6 | 28.0 | 12.1 | 11.1 | 14.7 |

### Fixed Income

| Index | Yield | Weekly | MTD | YTD | 1 Year | 3 Year | 5 Year | 10 Year |
|---|---|---|---|---|---|---|---|---|
| 3-Months Treasury Bill (%) | 1.7 | 0.0 | 0.1 | 1.8 | 2.3 | 1.5 | 0.9 | 0.5 |
| 2-Year Treasury (%) | 1.5 | (0.2) | 0.2 | 3.1 | 4.5 | 1.4 | 1.1 | 1.1 |
| 10-Year Treasury (%) | 1.7 | (1.1) | 0.2 | 11.1 | 17.0 | 2.3 | 3.1 | 4.1 |
| Barclays US Corporate High Yield | 6.4 | 0.2 | (0.4) | 11.0 | 7.1 | 5.8 | 5.3 | 7.9 |
| Bloomberg Barclays US Aggregate | 2.2 | (0.6) | 0.1 | 8.6 | 11.4 | 3.1 | 3.2 | 3.8 |
| Bloomberg Barclays Municipals | | 0.1 | 0.6 | 7.4 | 10.1 | 3.6 | 3.6 | 4.3 |
| Bloomberg Barclays IG Credit | 2.9 | (0.8) | (0.1) | 13.1 | 14.2 | 4.6 | 4.4 | 5.6 |
| Bloomberg Barclays EM Bonds | 5.0 | (0.0) | 0.2 | 11.0 | 11.9 | 4.6 | 5.0 | 6.4 |

### Commodities

| Index | Price | Weekly | MTD | YTD | 1 Year | 3 Year | 5 Year | 10 Year |
|---|---|---|---|---|---|---|---|---|
| WTI Crude ($/bl) | 53.6 | 1.4 | (1.0) | 18.6 | (26.8) | 2.5 | (9.0) | (2.9) |
| Gold ($/Troy Oz) | 1494.8 | (1.5) | 0.6 | 16.9 | 25.8 | 5.9 | 4.2 | 3.6 |
| Dow Jones-UBS Commodity Index | 77.9 | 0.3 | 0.2 | 1.6 | (9.8) | (3.5) | (8.0) | (4.9) |

### Currencies

| Currency | Price | Weekly | MTD | YTD | 1 Year | 3 Year | 5 Year | 10 Year |
|---|---|---|---|---|---|---|---|---|
| U.S. Dollar Index | 98.7 | (0.2) | (0.7) | 2.6 | 3.3 | 0.6 | 2.8 | 2.6 |
| U.S. Dollar per Euro | 1.1 | 0.3 | 1.0 | (3.7) | (4.5) | (0.4) | (2.7) | (2.9) |
| U.S. Dollar per British Pounds | 1.2 | (1.0) | (0.3) | (3.6) | (6.9) | (0.3) | (5.2) | (2.6) |
| Japanese Yen per U.S. Dollar | 108.0 | 1.2 | (0.1) | (1.6) | (4.2) | 1.4 | 0.0 | 1.9 |

### International Equities

| Index | Price | Weekly | MTD | YTD | 1 Year | 3 Year | 5 Year | 10 Year |
|---|---|---|---|---|---|---|---|---|
| MSCI AC World | 514.1 | 0.9 | (1.2) | 15.3 | 5.4 | 9.9 | 7.8 | 8.6 |
| MSCI EAFE | 1862.4 | 0.9 | (1.4) | 11.8 | 1.9 | 6.7 | 4.6 | 5.2 |
| MSCI Europe ex UK | 1944.5 | 2.0 | (1.1) | 14.7 | 5.2 | 7.9 | 5.3 | 5.1 |
| MSCI Japan | 3184.4 | (0.4) | (0.4) | 11.1 | (2.8) | 6.5 | 6.9 | 5.8 |
| MSCI EM | 996.5 | 0.5 | (0.4) | 5.8 | 4.1 | 5.6 | 2.9 | 3.3 |
| MSCI Asia ex JP | 614.0 | (0.1) | (0.6) | 5.3 | 3.7 | 6.0 | 4.7 | 5.6 |
| MSCI LATAM | 2656.4 | 0.9 | (0.4) | 6.2 | 2.1 | 5.3 | (0.6) | (0.8) |
| Canada S&P/TSX Composite | 12360.0 | 0.3 | (1.4) | 14.7 | 5.8 | 4.1 | 2.9 | 3.7 |

## 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.

Diversification and asset allocation do not ensure a profit or protect against a loss.

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, generally offer a fixed rate of return and guaranteed principal value.

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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.

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.

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