## THOUGHTS OF THE WEEK

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# WEEKLY HEADINGS

With this week's start of the fourth quarter, I thought it was the perfect time to provide a summary of our current investment strategy. Hopefully, this outlook serves as a map as you navigate the ever changing economic and financial market landscapes.

### Key Takeaways

Record US Economic Expansion Still Has 'Miles' to Go

Positive Seasonality To Help Equity Market Reach Its 'Peak'

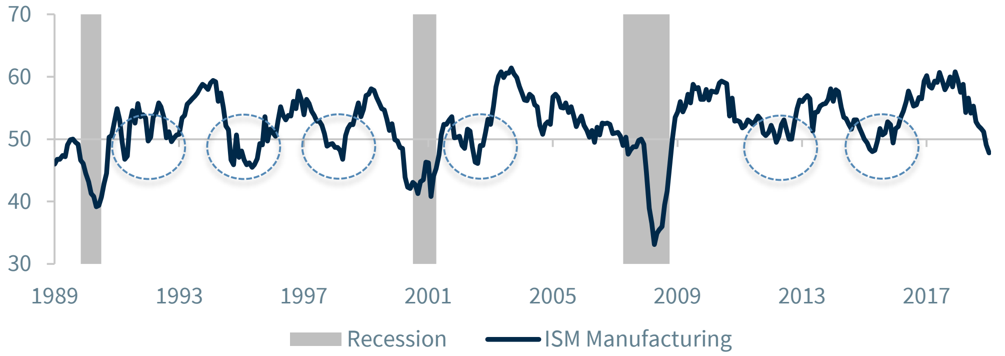
Asset Allocation Critical As Volatility 'Climbs Higher'

- **The US Economy Still Has 'Miles' to Go |** At 124 months, the current economic expansion is the longest on record. Despite some recent data such as the weak ISM Manufacturing Index bolstering recessionary fears, we believe it is premature to declare an imminent recession. As the consumer is the dominant force driving our economy, consumer spending should maintain its momentum as confidence remains elevated, employment remains strong and wages are growing. Our activity metrics, such as truckloads, air cargo freight and miles driven remain healthy. In addition, with the Fed likely taking another 'insurance' rate cut (in October or December) to extend the duration of this expansion and President Trump focusing on maintaining the strength of the economy to maximize his chances of re-election, we expect economic growth to remain relatively robust with only a small probability of recession. We forecast 2019 and 2020 GDP growth of 2.2% and 1.7%, respectively.
- **'Landmark' Low Yields |** As a result of a global synchronized easing cycle from global central banks, trade concerns, and slowing global economic growth, global interest rates have moved to unprecedented low levels. We expect US yields to remain low because of the negative yields overseas driving fund flows into US bonds, continued lackluster overseas growth), record low inflation expectations, and aging global demographics. Our year-end and 12-month forecast for the 10-year Treasury yield are 1.6% and 1.4%, respectively. From a sector perspective, we maintain our preference for investment-grade bonds and emerging-market bonds over high-yield bonds.
- **The Equity Market Hasn't Reached Its 'Peak' |** Given our expectation for continued US economic growth over the next 12 months, we believe that the economic landscape should provide an environment for positive US earnings growth moving forward. Valuations are not yet stretched and may have the capacity for slight multiple expansion given low interest rates and muted inflation. When compared to bonds, the S&P 500 dividend yield outpaces that of most other global developed market sovereign bond yields. As for corporate activity, increasing dividends and ongoing buybacks remain supportive of the equity market. Seasonally, the fourth quarter has historically (over the last 30 years) been the strongest quarter of the year, with the S&P 500 up 4.8%, on average, and positive 80% of the time.* Equities also benefit from the presidential cycle seasonality. Since 1929, the S&P 500 has an average return of ~11% in a president's fourth year and is positive 91% of the time. Our year-end target for the S&P 500 is 3,053 and our 12-month target is 3,127. We reiterate our preference for US equities over other developed nations, with our favorite sectors being Technology, Health Care, and Communication Services.
- **Dollar to 'Set Up Camp' |** The US dollar has returned to its highest level since May 2017.* The extended rally has been the result of multiple tailwinds that include tightening monetary policy, increasing interest rate differentials, repatriation, foreign direct investment, and better growth dynamics. However, these tailwinds are fading, and when combined with widening twin deficits (current account deficit and fiscal deficit) should lead to a range-bound dollar near term. Our current year-end forecast for the EUR/USD exchange rate is 1.10.
- **Oil Prices Get Their 'Bearings' |** Slowing global economic momentum and rising concerns over future oil demand due to trade uncertainty have led to a recent decline in crude oil prices. However, we forecast that oil prices will rise to $70/bbl due to continued OPEC production cuts, geopolitical risks (e.g., tensions in the Middle East), and rule changes as the International Maritime Organization's low-sulfur fuel regulations are expected to prompt new oil demand in 2020.
- **Volatility 'Climbing Higher' |** The financial markets have had no shortage of volatility-inducing headlines this year. This week alone saw further tariff discussions, possible impeachment proceedings, a 'final' offer being made in the ongoing Brexit negotiations, North Korea's ninth missile test of 2019, and the Hong Kong protests turning violent. As we enter an election year and move through the later stages of the business cycle, we expect volatility to remain elevated over the next 12 months, and reiterate the importance of asset allocation and selectivity.

## CHART OF THE WEEK

**ISM Contraction Does Not Mean Recession!**

*ISM Manufacturing declined to the lowest level since 2009, but this does not guarantee the US economy is heading into a recession. Over the last 30 years there have been a number of false positives.*




*See Charts of the week on page 3.



RAYMOND JAMES

## ECONOMY

- Nonfarm payrolls rose by 136,000 in the initial estimate for September, with a net upward revision of 45,000 to July and August.* The gain was a bit less than expected, but not as bad as feared. Private-sector payrolls rose by 114,000 (a 119,000 average for 3Q19 – half of the 236,000 pace seen in 3Q18). Average hourly earnings were unchanged (2.9%), but rose 0.2% for production workers (3.5% year-over-year (YoY)). The unemployment rate edged down to 3.5%.
- The ISM Manufacturing Index slid further into contraction in September to the lowest level since 2009, while the Non-Manufacturing Index declined to the lowest level in three years as both reports reflected growing concerns about the impact of tariffs and slowing global economic growth. We do not believe this data reflects a recession is on the immediate horizon but is consistent with ongoing manufacturing weakness in the US economy. These disappointing economic indicators sent bond yields lower and boosted the market odds of another Fed rate cut later this month (now seen as a near certainty).*
- **Focus of the Week:** On Tuesday, Fed Chairman Jerome Powell will speak at the annual conference of the National Association for Business Economics. Following this, the minutes from the September FOMC meeting (where officials were divided on the appropriate path for monetary policy) will be released on Wednesday. We will pay attention to Chair Powell's comments (particularly given the recent weakness in ISM surveys) and the minutes from the Fed meeting to see if they provide any clues regarding the Fed's view of the health of the US economy and perhaps future Fed action.

## October 7 – October 11

MON

TUE Producer Price Index (Sep)

WED FOMC Minutes

THU Consumer Price Index (Sep)
Jobless Claims

FRI Import Prices (Sep)
Consumer Sentiment

FUTURE EVENTS 10/14 Columbus Day (Bond Market Closed)
10/16 Fed Beige Book
10/18 Leading Indicators

## US EQUITY

- Weak ISM economic readings have the S&P 500 5% off its highs to start October and Q4. Downside momentum picked up throughout the week as the S&P 500 posted back-to-back days of 80% declining volume during which the key 2940 breakout level was undercut (on Wednesday). One of our technical concerns lately has been lost momentum from leadership areas (i.e., software, payments), accompanied by the former laggards (i.e., banks, industrials, small caps) failing at resistance. The net result has been weaker technical momentum with the S&P 500 reaching oversold levels in the short term. The percentage of stocks above their 10 and 20 day moving averages (DMA), as well as short term stochastics, are consistent with at least a short-term pause as the market digests the sharp drop ahead of trade talks next week.*
- The intermediate-term technical backdrop remains intact, and we view the current market action as a normal pullback for now. A similar current pullback would coincide with the 200 DMA, which we view as technical support. This level also represents a 17.4x price to earnings (PE), which coincides with the average P/E seen year to date and is fair heading into trade discussions and earnings season over the coming weeks. US and China officials are set to meet in DC on October 10, where optimism has grown for momentum toward a potential mini-deal when Presidents Trump and Xi are scheduled to meet on November 16. In the end, it is not in President Trump's best interest to come down too hard on trade a year out from his re-election campaign. He knows that he needs a good economy and good equity market in the lead up to next fall.
- **Focus of the Week:** The base case outlook is for the Fed to provide support to the slowing macro environment and trade disputes, and to expect a mini trade deal or agreement that will be market positive (although it is probably not a smooth process).

## FIXED INCOME

- The Japanese 10-year auction was the worst in three years, fueled by the notion that the Bank of Japan may buy fewer bonds beginning this month and that the large Government Pension in Japan may look abroad for more purchases going forward. Negative yields have done little to stimulate either the economies in Japan or the euro zone, but when there is excess cash flow being funneled into the market through accommodative central banks and weak economic data, less risky assets tend to rise.
- **Focus of the Week**. In the midst of recent equity market volatility, credit spreads have widened (particularly in the lower tranches of the high-yield market given the recent weakness in energy prices) and are now near a two-month high.

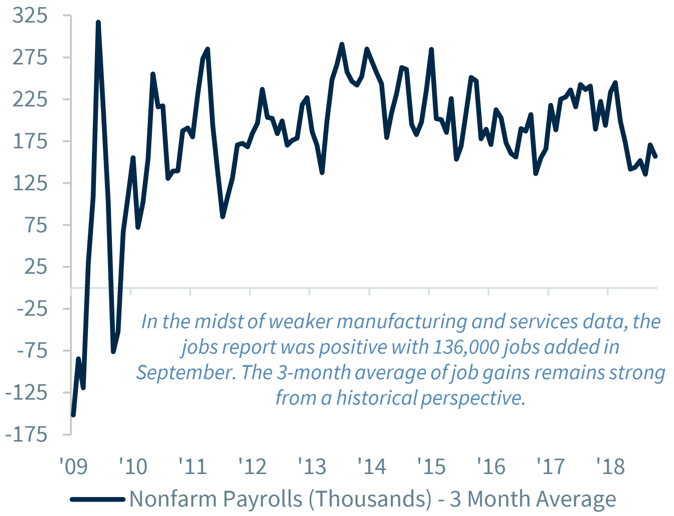
## POLITICAL, INTERNATIONAL AND COMMODITIES

- Oil prices took a hit this past week, with both WTI and Brent falling to lower levels than before last month's stunning attack against Saudi Arabian oil infrastructure that caused the world's largest oil supply disruption in nearly three decades. For the time being, the oil market is essentially ignoring anything supply-related, with all the attention being paid to the demand side of the equation. Amid the negative macro sentiment on demand, fundamentally bullish supply variables are being overlooked (even setting aside the Saudi situation): the larger US producers are exhibiting restraint in capital allocation, and US well productivity improvements are slowing down; OPEC plus Russia's production cuts are noticeably contributing to inventory draws; US sanctions against Iran continue to be impactful; and the IMO 2020 low-sulfur regulations are looming three months from now.
- A WTO ruling authorizing retaliatory tariffs by the US in its dispute with the EU over Airbus subsidies may see, although unlikely, swift EU retaliation, which raises the risk of auto tariffs, and potentially leads to an effective freeze of the WTO dispute settlement body by the end of the year. The US will subject imported EU aircraft (but not parts, at this stage) to a 10% tariff and consumer goods such as foods and clothing to a 25% tariff on October 18. We are also looking at the potential car tariffs through a political lens - especially if Trump believes tariffs on European cars would benefit domestic production in swing states such as Michigan.
- **Focus of the week:** On October 3, Trump gave a much anticipated speech and signed an Executive Order on Medicare. The focus of the address was on Medicare Advantage (MA) and actions the Trump Administration has taken to encourage more utilization of MA. In reference to drug pricing, we believe that any near-term action will come from the executive branch, as we don't think we will see any meaningful legislation that could negatively impact earnings before the 2020 election.

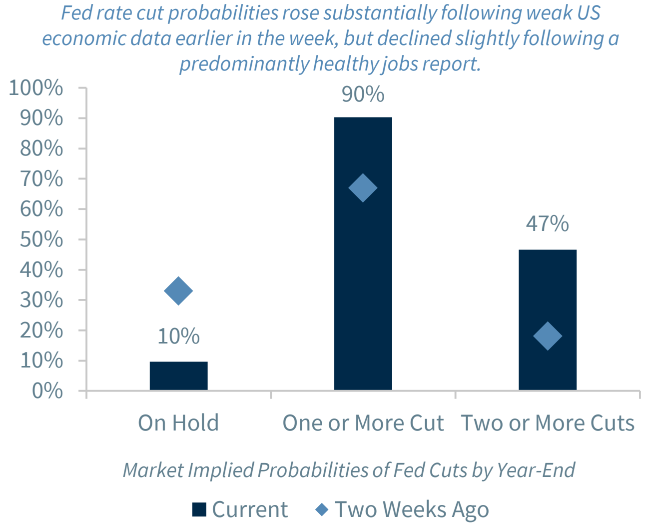
*See Charts of the week on page 3.

## Charts of the Week

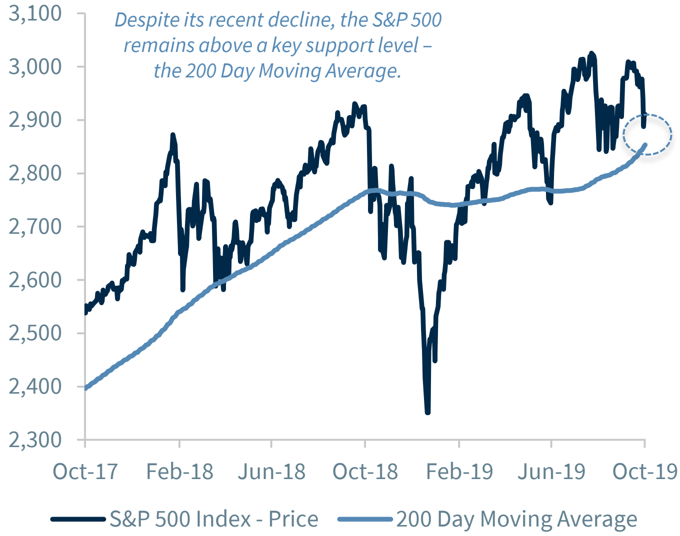
### Record Streak of Job Gains Continues



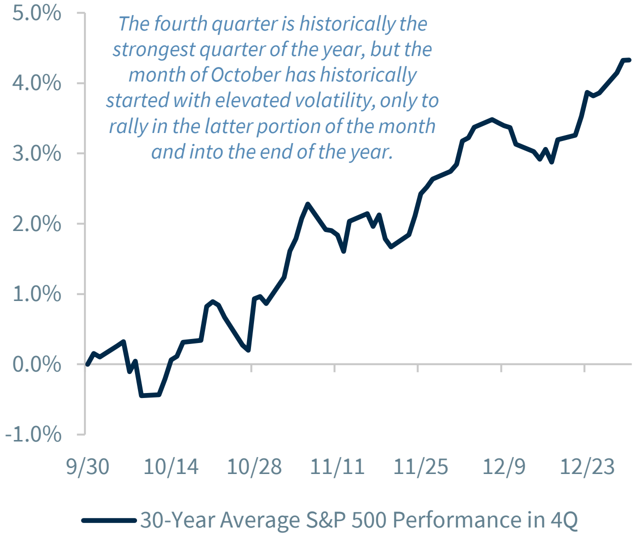

### Fed Rate Cut Probabilities Respond to Economic Data



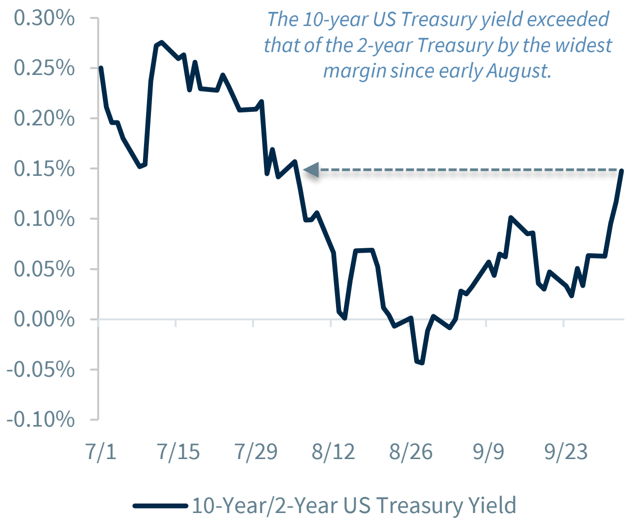

### S&P 500 Still Above 200 Day Moving Average



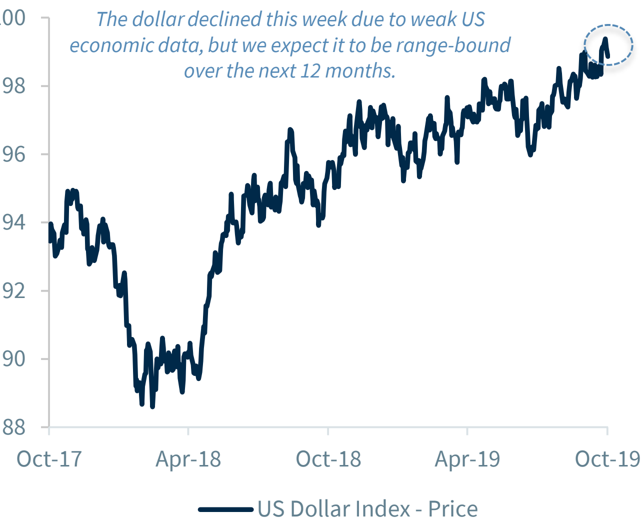

### 4th Quarter Historically Strong




### Spread Between 10-Year/2-Year Yields Rises




### Dollar Declines on Weak US Economic Data



## Asset Class Performance | Distribution by Asset Class and Style (as of October 3)

**Weekly Returns (as of October 3)**

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

| | Value | Blend | Growth |
|---|---|---|---|
| Large Cap | -2.1% | -1.7% | -1.4% |
| Mid Cap | -2.6% | -2.0% | -1.4% |
| Small Cap | -3.0% | -2.6% | -2.3% |

**International Equities (MSCI indices)**

| | Dev. Mkt | World | Emerg. Mkt |
|---|---|---|---|
| Large Cap | -3.1% | -2.0% | -0.8% |
| Mid Cap | -2.8% | -2.1% | -1.2% |
| Small Cap | -2.1% | -1.8% | -0.5% |

**Fixed Income (Bloomberg Barclays indices)**

| | 1-3 YR | Medium | Long |
|---|---|---|---|
| Treasury | 0.1% | 1.0% | 1.3% |
| Invest. Grade | 0.4% | 0.7% | 0.8% |
| High Yield | -0.3% | -0.6% | -0.9% |

**Year-to-Date Returns (as of October 3)**

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

| | Value | Blend | Growth |
|---|---|---|---|
| Large Cap | 16.9% | 17.9% | 18.8% |
| Mid Cap | 13.6% | 14.8% | 15.9% |
| Small Cap | 11.9% | 10.3% | 8.8% |

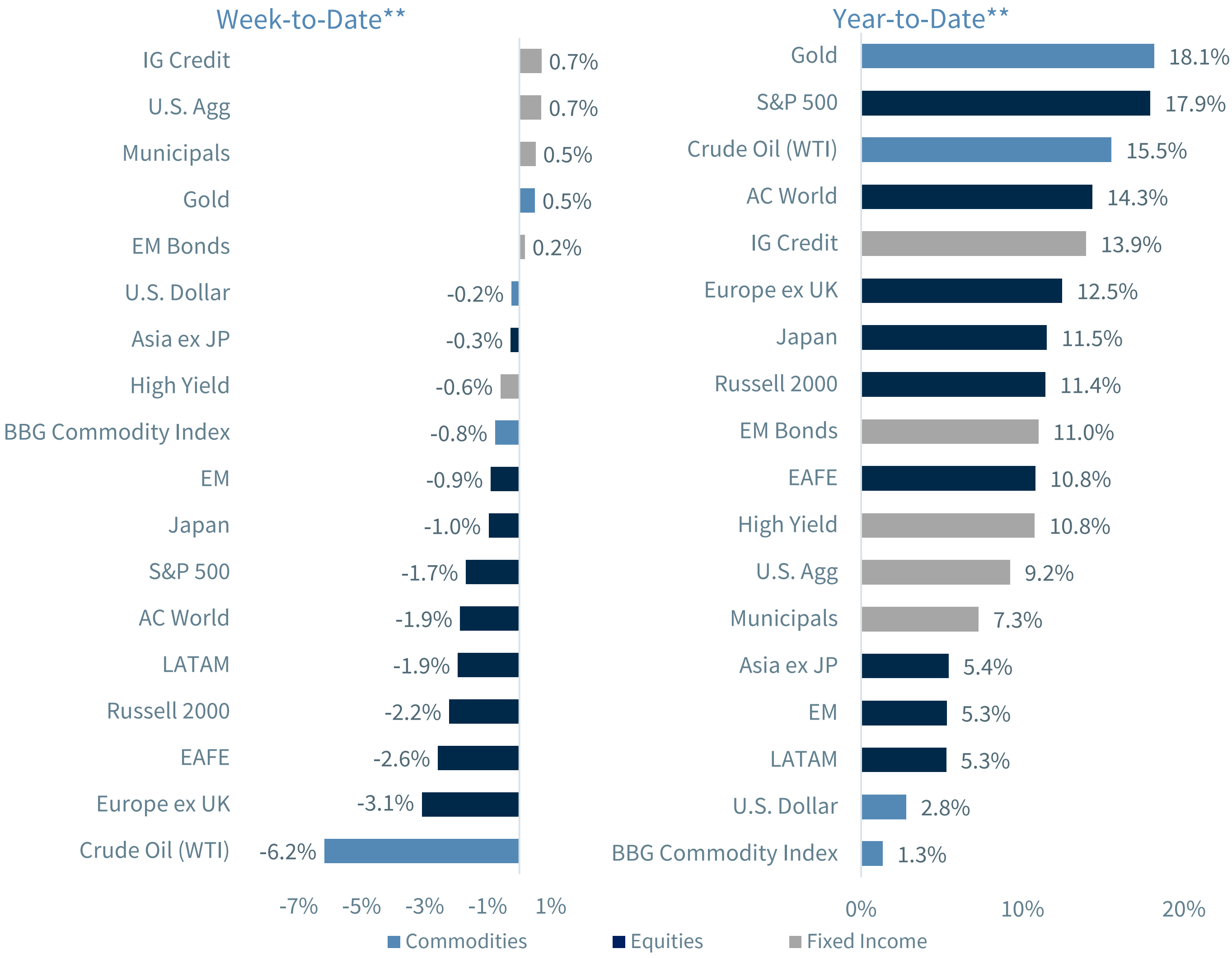
**International Equities (MSCI indices)**

| | Dev. Mkt | World | Emerg. Mkt |
|---|---|---|---|
| Large Cap | 12.7% | 15.0% | 7.6% |
| Mid Cap | 13.4% | 15.5% | 4.2% |
| Small Cap | 12.7% | 12.8% | 4.2% |

**Fixed Income (Bloomberg Barclays indices)**

| | 1-3 YR | Medium | Long |
|---|---|---|---|
| Treasury | 1.9% | 7.2% | 12.3% |
| Invest. Grade | 4.6% | 9.6% | 13.4% |
| High Yield | 5.8% | 10.4% | 17.4% |

## Asset Class Performance | Weekly and Year-to-Date (as of October 3)




**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 October 3

**U.S Equities**

| Index | Price | Weekly | MTD | YTD | 1 Year | 3 Year | 5 Year | 10 Year |
|---|---|---|---|---|---|---|---|---|
| S&P 500 | 2910.6 | (2.2) | (2.2) | 17.9 | 1.6 | 12.7 | 10.8 | 15.8 |
| DJ Industrial Average | 26201.0 | (2.6) | (2.7) | 12.3 | (2.3) | 19.3 | 12.6 | 16.1 |
| NASDAQ Composite Index | 7872.3 | (2.0) | (1.6) | 18.6 | (1.9) | 19.9 | 13.1 | 19.0 |
| Russell 1000 | 3091.9 | (2.2) | (2.1) | 17.9 | 3.9 | 13.2 | 10.6 | 13.2 |
| Russell 2000 | 3693.9 | (3.0) | (2.4) | 11.4 | (8.9) | 8.2 | 8.2 | 11.2 |
| Russell Midcap | 5606.6 | (2.4) | (2.3) | 19.2 | 3.2 | 10.7 | 9.1 | 13.1 |

**Equity Sectors**

| Sector | Price | Weekly | MTD | YTD | 1 Year | 3 Year | 5 Year | 10 Year |
|---|---|---|---|---|---|---|---|---|
| Materials | 351.1 | (3.2) | (3.7) | 12.8 | (1.8) | 7.6 | 5.1 | 9.3 |
| Industrials | 631.0 | (3.8) | (3.6) | 18.1 | (3.8) | 9.9 | 9.1 | 13.5 |
| Comm Services | 164.7 | (2.1) | (1.5) | 19.9 | 3.8 | 2.7 | 4.9 | 9.5 |
| Utilities | 324.1 | (1.6) | (1.3) | 23.7 | 25.7 | 13.6 | 12.4 | 12.7 |
| Consumer Discretionary | 928.3 | (1.5) | (2.0) | 20.0 | 2.4 | 15.1 | 13.5 | 17.9 |
| Consumer Staples | 620.3 | (1.0) | (1.4) | 21.5 | 15.8 | 7.6 | 8.8 | 12.2 |
| Health Care | 1027.1 | (1.1) | (1.5) | 4.0 | (5.2) | 9.1 | 8.5 | 14.3 |
| Information Technology | 1390.6 | (1.8) | (1.6) | 29.3 | 6.0 | 22.1 | 18.0 | 17.3 |
| Energy | 421.2 | (4.4) | (3.7) | 2.1 | (24.0) | (3.8) | (5.3) | 3.3 |
| Financials | 447.0 | (3.7) | (3.9) | 15.0 | (1.3) | 14.1 | 9.5 | 10.8 |
| Real Estate | 242.6 | (0.8) | (0.4) | 29.2 | 26.9 | 10.9 | 11.4 | 15.4 |

**Fixed Income**

| Index | Yield | Weekly | MTD | YTD | 1 Year | 3 Year | 5 Year | 10 Year |
|---|---|---|---|---|---|---|---|---|
| 3-Months Treasury Bill (%) | 1.7 | 0.0 | 0.0 | 1.8 | 2.3 | 1.5 | 0.9 | 0.5 |
| 2-Year Treasury (%) | 1.4 | 0.5 | 0.5 | 3.4 | 4.8 | 1.5 | 1.2 | 1.1 |
| 10-Year Treasury (%) | 1.5 | 1.4 | 1.3 | 12.3 | 17.6 | 2.3 | 3.5 | 4.1 |
| Barclays US Corporate High Yield | 6.4 | (0.7) | (0.6) | 10.8 | 5.5 | 5.8 | 5.1 | 7.9 |
| Bloomberg Barclays US Aggregate | 2.1 | 0.8 | 0.6 | 9.2 | 11.6 | 3.2 | 3.4 | 3.8 |
| Bloomberg Barclays Municipals | | 0.5 | 0.5 | 7.3 | 9.3 | 3.4 | 3.7 | 4.2 |
| Bloomberg Barclays IG Credit | 2.8 | 0.8 | 0.7 | 13.9 | 14.4 | 4.7 | 4.7 | 5.6 |
| Bloomberg Barclays EM Bonds | 5.0 | 0.3 | 0.2 | 11.0 | 11.0 | 4.4 | 5.1 | 6.7 |

**Commodities**

| Index | Price | Weekly | MTD | YTD | 1 Year | 3 Year | 5 Year | 10 Year |
|---|---|---|---|---|---|---|---|---|
| WTI Crude ($/bl) | 52.5 | (6.2) | (3.0) | 16.2 | (31.3) | 2.5 | (10.2) | (2.8) |
| Gold ($/Troy Oz) | 1517.1 | 0.7 | 2.1 | 18.6 | 26.3 | 4.9 | 4.9 | 4.2 |
| Dow Jones-UBS Commodity Index | 77.7 | (1.1) | (0.1) | 1.3 | (11.3) | (3.2) | (8.0) | (4.6) |

**Currencies**

| Currency | Price | Weekly | MTD | YTD | 1 Year | 3 Year | 5 Year | 10 Year |
|---|---|---|---|---|---|---|---|---|
| U.S. Dollar Index | 98.9 | (0.3) | (0.5) | 2.8 | 3.2 | 1.1 | 2.7 | 2.5 |
| U.S. Dollar per Euro | 1.1 | 0.4 | 0.8 | (3.9) | (4.8) | (0.7) | (2.6) | (2.8) |
| U.S. Dollar per British Pounds | 1.2 | 0.6 | 0.7 | (2.6) | (4.6) | (1.1) | (4.9) | (2.4) |
| Japanese Yen per U.S. Dollar | 106.7 | (0.9) | (1.3) | (2.8) | (6.5) | 1.6 | (0.6) | 1.8 |

**International Equities**

| Index | Price | Weekly | MTD | YTD | 1 Year | 3 Year | 5 Year | 10 Year |
|---|---|---|---|---|---|---|---|---|
| MSCI AC World | 509.8 | (2.2) | (2.1) | 14.3 | (0.0) | 9.6 | 7.1 | 9.0 |
| MSCI EAFE | 1846.4 | (2.3) | (2.3) | 10.8 | (2.2) | 6.2 | 3.9 | 5.5 |
| MSCI Europe ex UK | 1906.0 | (2.6) | (3.1) | 12.5 | (1.7) | 7.2 | 4.1 | 5.4 |
| MSCI Japan | 3197.4 | (1.5) | (0.0) | 11.5 | (3.2) | 6.5 | 6.7 | 6.2 |
| MSCI EM | 992.3 | (1.6) | (0.9) | 5.3 | (1.3) | 5.7 | 2.7 | 3.8 |
| MSCI Asia ex JP | 614.6 | (1.1) | (0.5) | 5.4 | (1.6) | 6.1 | 4.5 | 5.9 |
| MSCI LATAM | 2633.5 | (2.0) | (1.2) | 5.3 | 1.1 | 6.2 | (0.4) | (0.2) |
| Canada S&P/TSX Composite | 12287.2 | (2.5) | (1.7) | 14.3 | 1.8 | 3.7 | 2.1 | 4.1 |

## 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.

WTI | The West Texas intermediate (WTI), also known as Texas light sweet, is a grade of crude oil used as a benchmark in oil pricing.

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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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