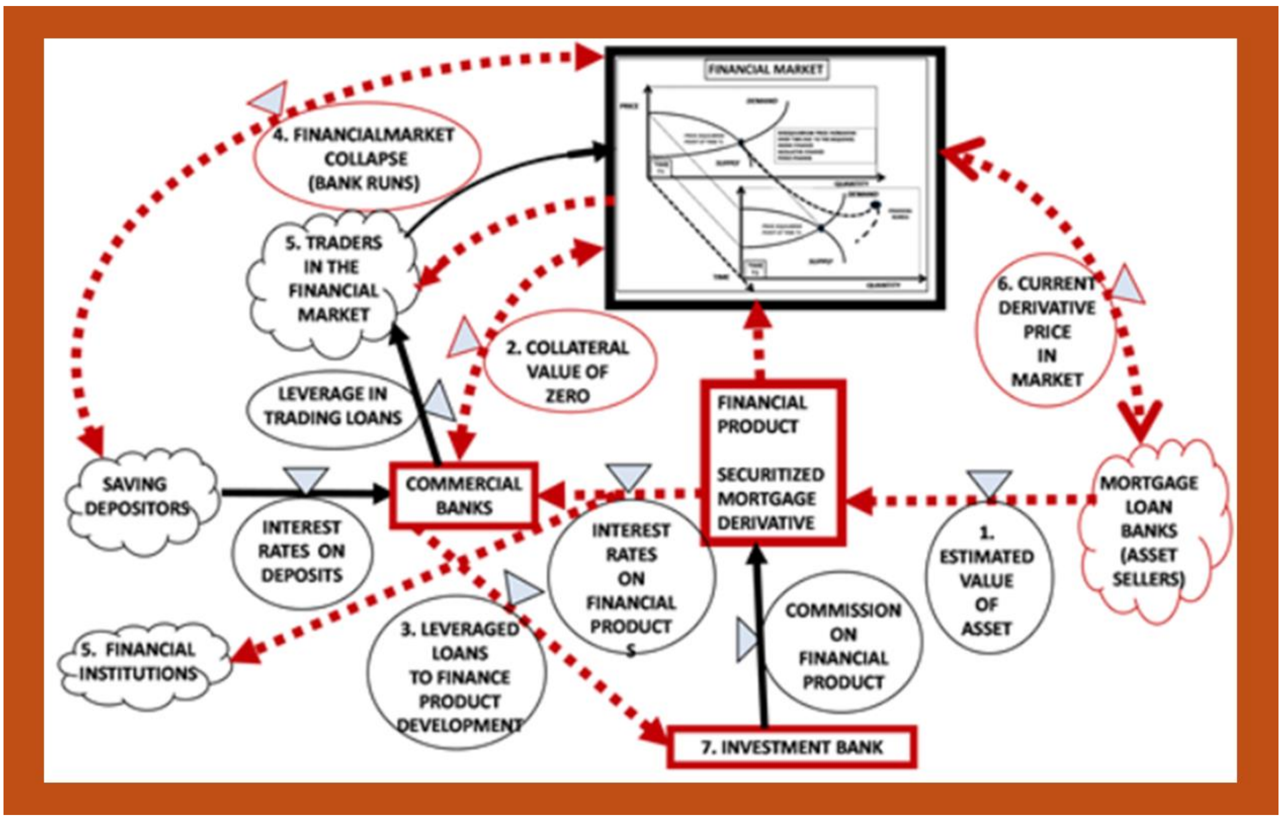
Quarterly Review and Strategy Update

June 30, 2024



Source: Scientific Research

- **Jay Powell recognizes "significant progress" has been achieved in taming inflation, but remains uncommitted to rate cuts**
- **Should Wall Street analysts give up trying to forecast the path of the equity market?**
- **Are Synthetic Risk Transfer bonds the next weapons of mass destruction?**

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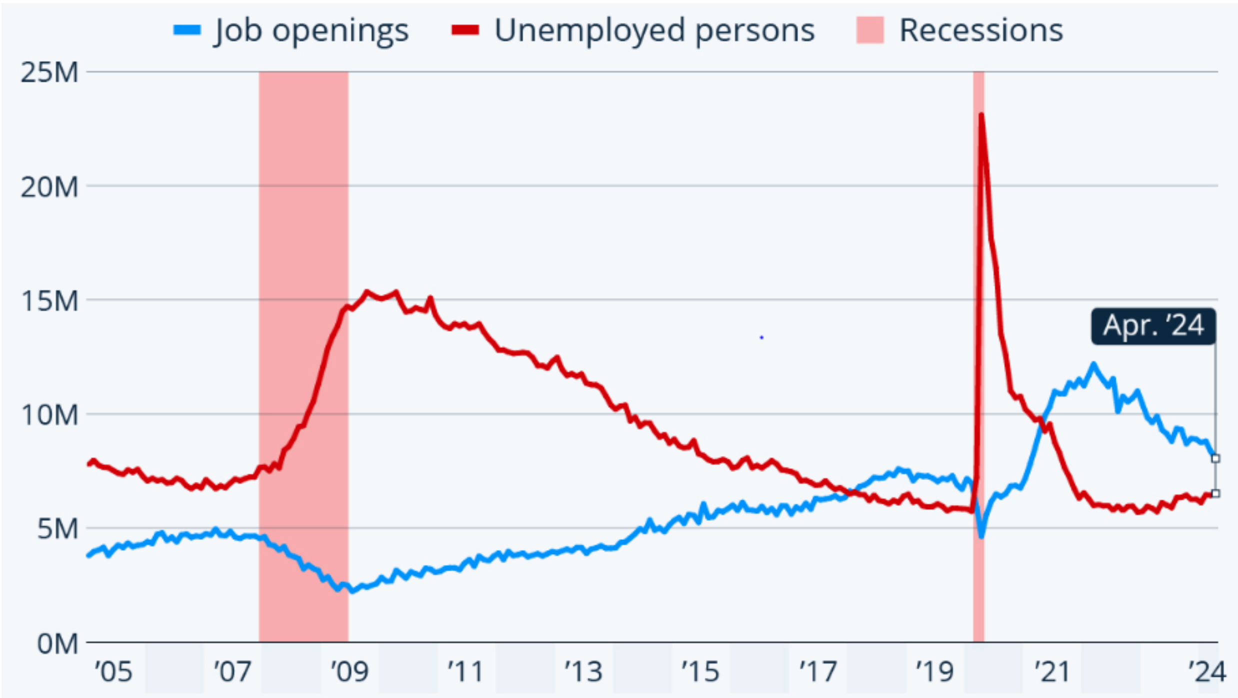
THE ECONOMIC ENVIRONMENT

Unemployment and Job Openings



Source: U.S. Bureau of Labor Statistics, Statista

While the shocking assassination attempt on Donald Trump on July 13th threw further fuel on to the already turbulent presidential race, the financial markets barely registered a reaction before resuming the trends they have followed this year. Even the "safe haven" assets – Treasury bonds, the Dollar and Gold – barely acknowledged the incident. While both the VIX equity volatility index and the MOVE bond volatility index ticked up a few points, they remains well below their post-pandemic average levels, indicating that investors have few worries about the financial markets. Are these signs of market complacency about to be shaken? The second quarter of the year has provided an unusually calm economic backdrop, nudging equity markets slightly higher and leaving bond market more or less unchanged. The U.S. economy expanded at an annualized growth rate of just 1.4% in the first quarter of the year, falling from a 3.4% rate in the last quarter of 2023. The Institute for Supply Management confirmed this slowdown, reporting that its index of manufacturing activity slipped to 48.5% in June from 48.7% in the prior month. Numbers below 50% signal that the manufacturing sector is shrinking. "The manufacturing economy still appears to be stalled," said Timothy Fiore, chair of the ISM Manufacturing Business Committee.

The decline in industrial activity has been echoed by the weakness in consumer spending, which grew at a 1.5% rate over the previous quarter, well below most economists' expectations, and down from 3%-plus growth in each of the prior two quarters. There is increasing evidence that consumers are becoming less optimistic, "trading down" and pulling back their spending on nonessential goods. Morningstar market strategist Dave Sekera cites declining foot traffic at Starbucks and weak results at McDonald's as a sign that middle-class consumers are skipping out on purchases like lattes and fast food in favor of more economical options. “This past quarter is the first time we saw the real signs that the middle-class consumers are now beginning to feel the compound impact of high inflation,” he noted.

Consumers may be becoming more cautious because the labor market strength may have peaked. Although the Bureau of Labor Statistics just announced that 206,000 jobs were added in June, higher than the 190,000 consensus prediction, the number for May was revised sharply lower from an initial 272,000 to 218,000, and the April reading was also revised down from 165,000 to 108,000 jobs. We have pointed out that these downward revisions have become routine over the past few years, so the new job numbers may be overestimating labor market strength. The overall unemployment rate rose to 4.1% in June, the highest since January 2022, up from 3.9% in April and 4% in May. The number of unemployed workers has now increased by 6.7 million workers, and the number of Americans applying for unemployment benefits also climbed last week to 242,000, the highest level since February. The 4-week average of initial unemployment claims has moved up from 204,000 at the start of the year to 236,000 last week. Similarly, continuing jobless claims – filed by individuals still seeking unemployment benefits after their initial claims – have risen from 1.73 million at the start of the year to 1.84 million. Both of these numbers have reached their highest point since the latter half of 2021. Unsurprisingly, the number of job vacancies has also been falling steadily since the start of the year, from 12.6 million positions in 2021 to 8.6 million today.

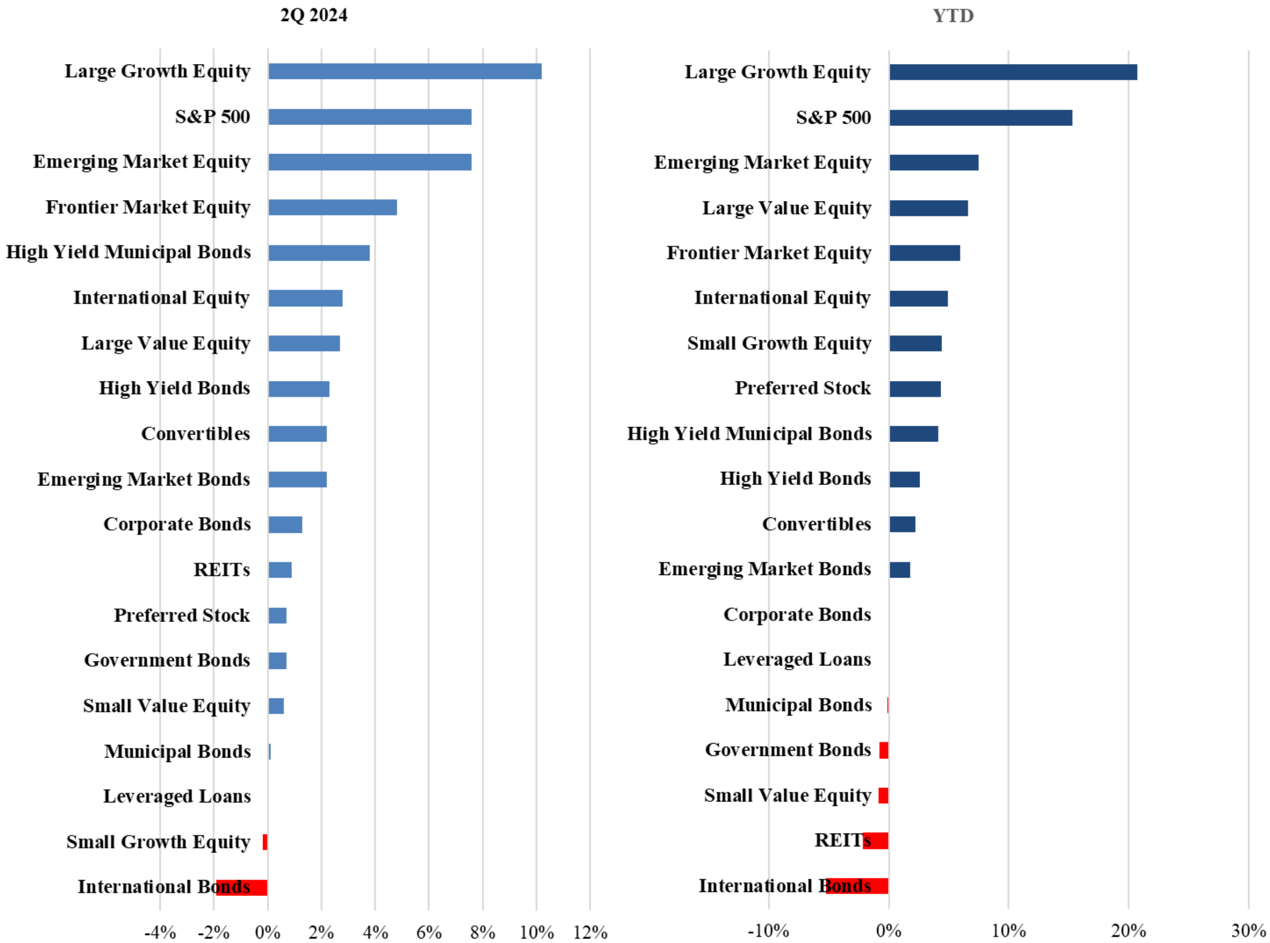
It may seem odd that a job market where there are still 1.2 unfilled positions for every job seeker is regarded as potentially pointing to impending economic slowdown. The reason is that the ratio – which the Federal Reserve tracks closely – has been falling consistently from 2 positions per job seeker in March 2022 at the height of the "Great Resignation." We may be approaching a point where unemployment starts to jump even as this balance persists since there will always be a floor of vacancies that remain unfilled because of a structural shortage of workers in areas such as information technology, nursing, electrical and plumbing trades.

This softening of the labor market may be contributing to slowing inflation. The growth in the Consumer Price Index slowed to 3.3% in May, compared to 3.4% in April. Price increases for most key goods such as food, shelter, transportation, apparel and cars have slowed, offset by increases in energy costs and car insurance. The core Personal Consumption Expenditures index, the Fed’s preferred inflation indicator, fell to 2.6% in May, down from 2.8% in April.

The weakening trends in consumer spending, employment and inflation are supported by the Conference Board’s Index of Leading Economic Indicators. This measure provides an advance indication of significant turning points in the business cycle and where the economy is heading in the near term. The Index decreased by 0.5% in May and has been contracting over the past 12 months. “The U.S. Leading Economic Indicators fell again in May, driven primarily by a decline in new orders, weak consumer sentiment about future business conditions, and lower building permits,” said Justyna Zabinska-La Monica at The Conference Board. “While the Index’s six-month growth rate remained firmly negative, it does not currently signal a recession. We project real GDP growth will slow further to under 1 percent (annualized) over Q2 and Q3 2024, as elevated inflation and high interest rates continue to weigh on consumer spending.”

The accumulation of data pointing to economic weakness may prompt the Federal Reserve to cut interest rates at its September meeting. The central bank had left interest rates unchanged in a range of 5.25%-5.5% at its June meeting and has signaled that it would lower rates just one time this year, down from the three cuts the central bank had anticipated in its previous March projections. Jay Powell has repeatedly acknowledged that “significant progress’ has been made in bringing inflation down but is clearly unconvinced that the preponderance of data point to “mission accomplished” in the quest to conquer inflation, at least just yet. Nevertheless, the investment community appear to have fully priced in a September rate cut. Given apparent determination of the market to ignore even the most jaw-dropping news, however, one has to wonder if it would stir even if the Fed decided to take no action.

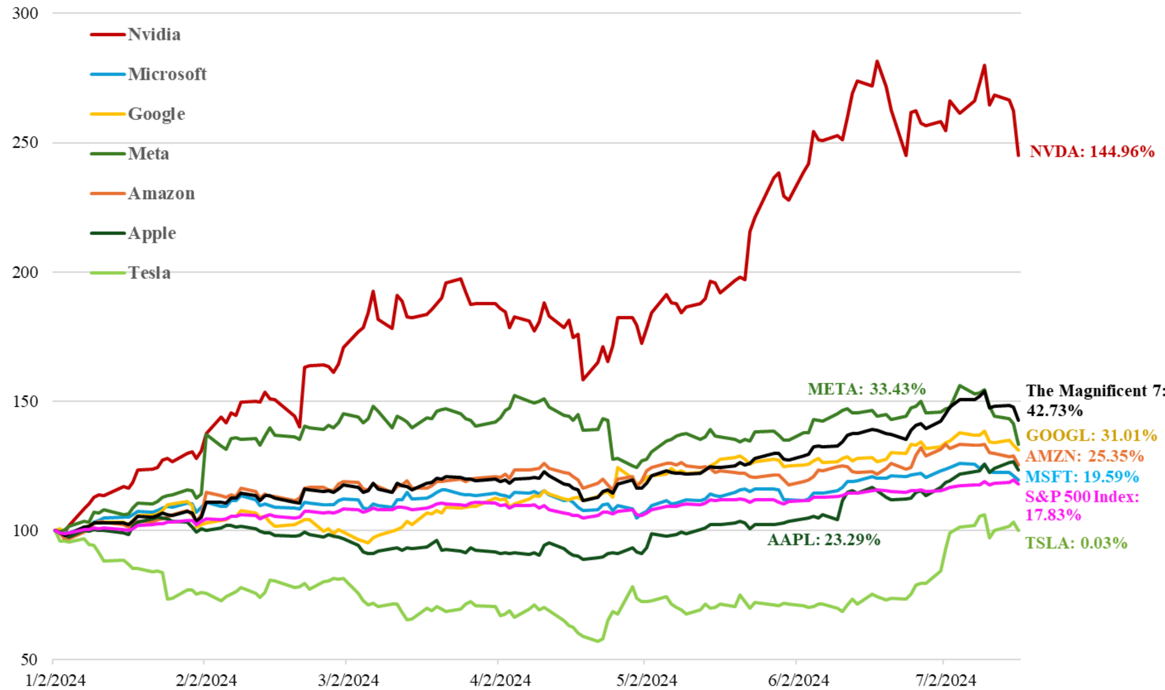
2nd QUARTER PERFORMANCE OF MAJOR ASSET CLASSES



Source: Morningstar

EQUITIES

Performance of Magnificent 7 Stocks Year-To-Date 2024



Source: Bloomberg, Investing.com

The bull market continued its upward trajectory, with the S&P 500 Index up 4.3% in the second quarter and 15.3% for the first half of 2024. These returns have been powered by growth stocks, with the S&P 500 Growth index up 9.6% for the quarter and 23.5% year-to-date. Value stocks, in contrast, have performed disappointingly, gaining only 5.8% through the first six months after losing 2.1% during the second quarter. The Nasdaq Index is now up 20% for the year.

There are a few reasons for this strong half-year performance. First, corporate earnings have been positive, with earnings growth estimated to be 9.3% year-on-year. According to Factset, the calendar year 2024 earnings growth estimate is 11.3%, which comes in slightly above the originally projected 11% growth estimated in December 2023. Second, AI enthusiasm continued to lift the entire market, not just Nvidia, as eager investors have piled into AI-related companies. Third, inflation and market data came in positively, with recent comments by the Federal Reserve indicating they will indeed cut rates before the end of the year.

The second quarter of 2024 continued where 2023 left off. After a brief hiatus in the first quarter where the rest of the market started to catch up, the Magnificent Seven again powered the market gains, led by Nvidia, with all 7 stocks (except Tesla) up at least 15% year-to-date. According to Goldman Sachs, the first half surge from these seven stocks have accounted for 62% of the S&P 500’s return this year alone.

Even more revealing, an equal weighted S&P 500 index would be up only 4% on the year. The top 10 companies in the S&P 500 account for 37% of the market cap, the most top heavy it has ever been!

In our year end letter, we highlighted the predictions made by major Wall Street banks for where the S&P 500 index would finish at the end of the calendar year, pointing out how inaccurate the forecasts had been over the past 4 years. How are they doing so far this year? Well, every single bank has undershot the market by an average margin of 13%. Since we still have six months until the end of the year, with a looming election in November, anything could happen. Wall Street strategists may have made conservative estimates due to the volatility of the markets over the previous four years, underweighting the impact of AI and potential rate cuts on investor enthusiasm.

Wall Street's 2024 Forecast Report Card

Forecasts for the Year-End Level of S&P 500 Index						
Banks	**2020**	**2021**	**2022**	**2023**	**2024 Est.**	**Updated 2024**
J.P. Morgan	3,400	4,400	5,050	4,200	4,200	4,200
Goldman Sachs	3,400	4,300	5,100	4,000	5,100	5,200
Morgan Stanley	3,000	3,900	4,400	3,900	4,500	5,400
Bank of America	3,300	3,800	4,600	4,000	5,000	5,400
Royal Bank of Canada	3,350	4,100	5,050	4,200	5,000	5,300
Bank of Montreal	3,400	4,200	5,300	4,300	5,100	5,600
Deutsche Bank	3,250	3,950	4,750	4,500	5,100	5,500
Wells Fargo	3,388	3,900	5,200	4,200	4,700	5,535
UBS	3,000	4,100	4,850	3,900	4,700	5,200
Citigroup	3,375	3,800	5,100	3,900	5,100	5,100
S&P 500 at Year End	**3,756**	**4,766**	**3,839**	**4,769**	**5,460 (End of June)**	**?**
Average % Deviation	*12.5%*	*15.1%*	*-28.7%*	*13.8%*	*13.0%*	?

Source: Forbes, Yahoo Finance, Morningstar, Bloomberg

It is worth noting that almost all the analysts have revised their targets upwards mid-year. However, J.P. Morgan has left their prediction unchanged, doubling down on their low target despite the strong market appreciation at the start of the year. Their target implies a 23% drop from now until the end of December. Marko Kolanovic, who served as chief global markets strategist and co-head of global research, has since left the bank, but its forecast remains unchanged. Second, longtime market bear Michael Wilson of Morgan Stanley has reversed course and changed his year-end target to 5,400. He cites robust earnings growth coinciding with a good macro environment but remains cautious given high valuations. The Wall Street bears are dropping like flies, with everyone seemingly jumping on board the soft-landing train.

Looking forward, the key factors influencing the markets will be the presidential election, the debate over tax policy, and the increasing concern about the widening federal deficit. However, we should be cautious about overestimating the impact of politics on equity market direction. The data from US Bank below shows the historical performance of the equity markets 3 months following an election:

Historical Election Outcome Scenarios and Market Performance

Scenario	White House control		Congress control		Outcome	Average 3-month S&P 500 return during period	Average 3-month return relative to all periods	Statistically significant (>95%)?
1		+		=	One party (D)	2.20%	+0.02%	No
2		+		=	Divided	3.85%	+1.67%	Yes
3		+		=	Divided	3.93%	+1.75%	Yes
4		+		=	Divided	1.19%	-0.99%	Yes
5		+		=	One party (R)	2.67%	+0.49%	No
6		+		=	Divided	1.62%	-0.67%	No
					All one party (D or R)	2.33%	+0.15%	No
					All divided	2.08%	-0.10%	No

Source: U.S. Bank Asset Management Group

As the table above demonstrates, the short-term returns following an election appear to be random and not dependent on one party gaining control over both the White House and Congress. Given the major fiscal initiatives that may emerge from the next administration over tax policy, import tariffs, defense spending and immigration, it remains to be seen whether this pattern will hold in this cycle.

BONDS

Default Rates of High Yield and Leveraged Loan Issuers

	Par-weighted default rate		Issuer-weighted default rate	
	Excluding dist. exch.	Including dist. exch.	Excluding dist. exch.	Including dist. exch.
High-Yield Bond	1.17%	1.79%	1.80%	3.59%
Leveraged Loan	1.09%	3.10%	1.77%	4.09%
Combined Leveraged Credit	1.13%	2.47%	1.89%	4.31%

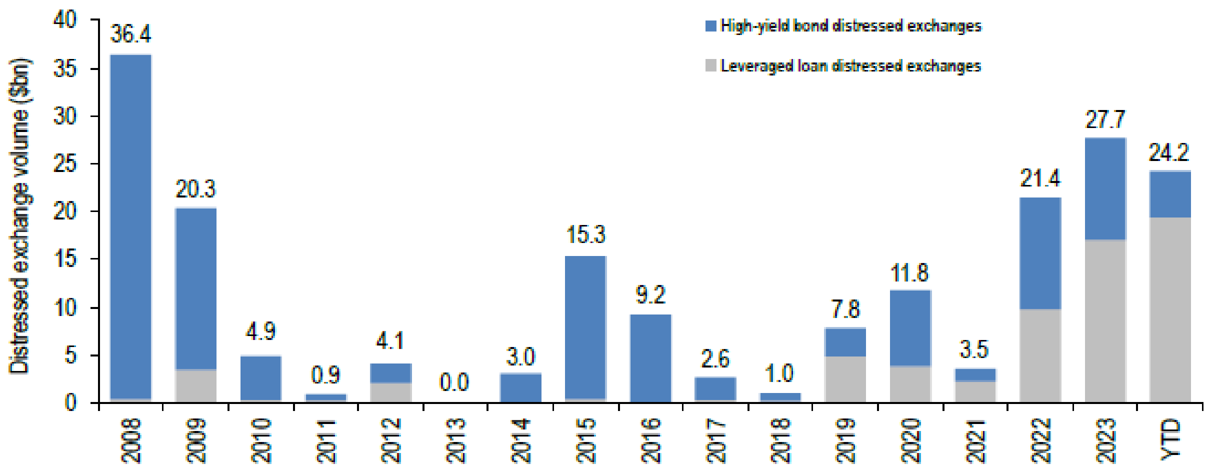
Source: J.P. Morgan, PitchBook Data, Inc; Bloomberg Finance L.P.; S&P/IHSMarkitp

Investors who had increased allocations to fixed income at the start of the year anticipating that the Federal Reserve would begin cutting rates sooner might be justified in being disappointed at the performance of their bond portfolios. The short end of the Treasury yield curve barely budged during the second quarter and the 10-year note yield moved slightly higher from 4.3% to 4.4%. Credit spreads meanwhile widened fractionally, with the end result that the average government bond fund has lost about 0.8% so far this year. Municipal and investment grade corporate bonds are flat, and only emerging market and high yield bonds are up, 1.8% and 2.6%, respectively.

The current market environment poses a bit of a dilemma for investors. While absolute yields on Treasuries and credit assets are at their highest levels since the Global Financial Crisis, credit spreads are tight and borrower stress is increasing. S&P Global Ratings expects the U.S. trailing-12-month speculative-grade corporate default rate to reach 4.75% by December 2024, up from 4.5% in December 2023. Fitch Ratings, its rival, reported a default rate of 3.04% for the same period. Why are these defaults rates different? Different market participant have different definitions of default. While all data providers classify failure to pay interest and principal as a default, some choose to include or exclude other events, such as covenant breaches (declines in debt service coverage ratios), loan maturity extensions, conversion of cash pay interest to PIK, or “pay-in-kind interest”; and debt exchanges, where an issuer’s debt is swapped into new debt with different terms.

These debt exchanges have been on an uptrend. J.P. Morgan reports that while so far this year 19 companies have defaulted on loans and bonds totaling $12.9 billion in value, 23 companies have completed $24.2 billion in distressed exchanges. The volume of exchanges now represent the 3rd highest on record, and the volume for loans the highest amount on record. In exchange, the borrower may replace existing debt with one with lower interest payments or with an extended maturity. While the lender may try to negotiate benefits in return (greater collateral, better covenants, equity upside), these exchanges are “distressed” because they ultimately result in impaired value for existing creditors. Therefore, they should be regarded as evidence of credit market deterioration.

Distressed Exchanges Year-To-Date Third Highest On Record



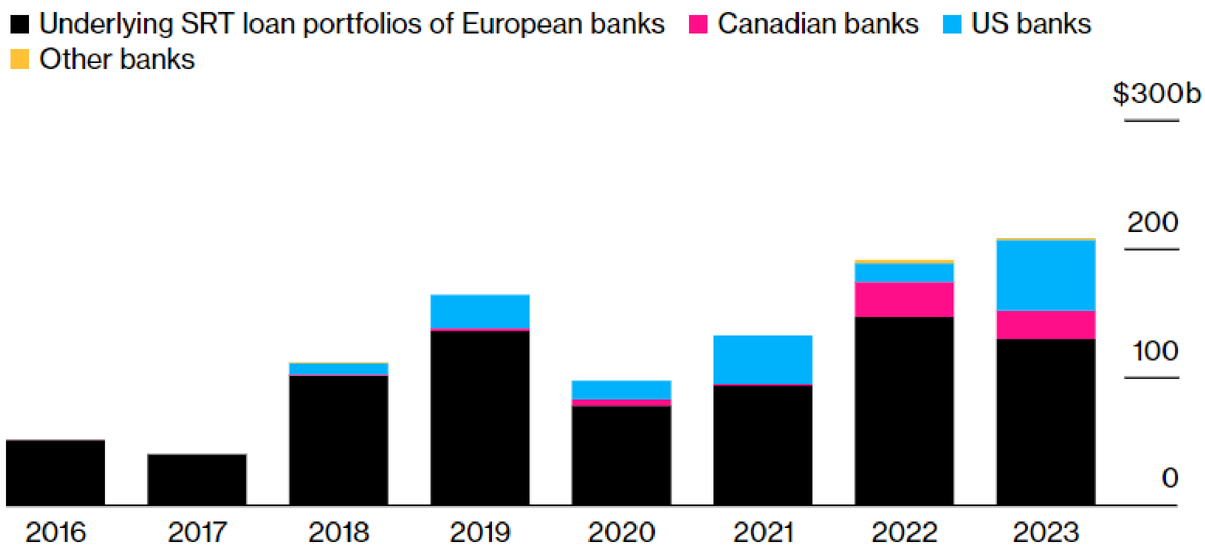
Source: J.P. Morgan

While investors should track all of these yellow flags, they should stick to their target bond allocations for several reasons. First, yields are attractive. Second, the fall in inflation to 3% means that investors are earning a positive real yield. Third, while defaults have indeed been rising, they are very low both in absolute terms and by historical standards. Fourth, although the sequence and magnitude of any Fed interest rate cuts may be unpredictable, timing matters less in the total return of bonds compared to equities since coupons provide a cushion against price volatility. Finally, the duration embedded in fixed-income bonds should provide some insurance in the event of some unforeseen geopolitical crisis, war, pandemic or financial dislocation.

There are however a number of issues that investors should pay attention to in the medium term. As we approach the November election, the Treasury markets may see increased volatility as markets contemplate the potential policy consequences of the winning candidate. The Trump administration-imposed tariffs on foreign goods valued at approximately $380 billion in 2018 and 2019; the Biden administration kept most of these tariffs and introduced additional ones on $18 billion of Chinese goods, including semiconductors and electric vehicles. Tariffs are taxes. While they may be paid initially by the importer, the costs are eventually paid by the American consumer in the form of higher prices. The Tax Foundation, a non-partisan research foundation, estimates that the Trump-Biden tariffs will reduce long-run GDP by 0.2 percent, the capital stock by 0.1 percent, and employment by 142,000 full-time equivalent jobs. This amounts to a tax increase on US households of $625. Any on-shoring prompted by tariffs would increase domestic demand for labor and materials. While some of the longer-term effects of tariffs on consumer behavior and industry structure are difficult to assess, there is broad consensus that tariffs are inflationary.

The second major issue will be if and how the 2017 Trump tax cuts will be renewed in 2025. The 2017 Tax Cuts and Jobs Act brought a major overhaul to U.S. tax code, slashing corporate tax rates to 21% from 35% and reducing individual income tax rates. While these cuts may have boosted economic growth, the price tag was huge, projected to add $2 trillion to the federal deficit by 2028. Trump has proposed making these cuts permanent, while Biden would preserve some of the tax cuts, namely those benefitting households making less than $400,000 a year. An extension of the cuts is estimated to add an extra $4.6 trillion to the deficit over the next decade unless government spending is cut dramatically. The federal debt would balloon to 211% of GDP by 2054, compared to about 100% of GDP today. The U.S. government budget deficits and an escalating debt load pose “a growing risk” to the global economy, marring an otherwise stellar economic performance, said the International Monetary Fund last week. It added that the United States faces “a pressing need” over the next several years to reduce its debt burden, which could require broad-based income tax increases and cuts in popular entitlement programs. While the organization argues that it is when the economy is strong that difficult political choices should be made, the prospect of any bipartisan initiative to tackle the deficit seems extremely unlikely. Whether it is inflation in Argentina, pension losses in the U.K., or real estate crises in China, it is unfortunate that it often takes a catastrophic blowup before the political and investment establishment is forced to act.

Synthetic Risk Transfer Bond Issuance



Source: Bloomberg, AXA

A week before Christmas in 1997, J.P. Morgan issued a bond which it named "Bistro", for Broad Index Secured Trust Offering. This $700m bond offered investors an attractive yield with a catch: if a portion of the bank's commercial loans defaulted, investors would pay the bank for the loss, by having it deducted from the bond's principal at maturity. The transaction provided J.P. Morgan with insurance against credit losses and allowed the bank to keep the loans made to its corporate customers on its balance sheet, rather than jeopardize those relationships by selling them in the market. After the bank issued its second Bistro bond the following year, the Federal Reserve acknowledged that the structure reduced the bank's economic risk and permitted it to lower the regulatory capital it had to put aside for potential loan losses.

The Bistro bonds rank as one of the most innovative transactions in modern finance. "The over-arching motivation for Bistro wasn't to open up a new market or sell some funky product, but for J.P. Morgan to hedge its credit risk," Bill Winters, former co-chief executive of JP Morgan's investment bank, recounted in a recent interview. "It was extremely effective in accomplishing that. It also had the effect of spawning a new industry." While these Synthetic Risk Transfer (SRT) or Credit Risk Transfer bonds did indeed spur such innovations as credit derivatives and Collateralized Bond Obligations, which have been blamed for contributing to the Global Financial Crisis, they were nevertheless revolutionary because it offered banks a fresh way to think about their business model. The risks that banks assume – lending money to individuals and businesses, extending commercial and residential mortgages, trading securities – could all be offloaded to speculative investors, in a way that allowed banks to expand their customer base without having to raise expensive equity capital to support that growth.

After a proliferation of issuance by many banks in the late 1990s, however, Synthetic Risk Transfer bonds disappeared from the markets as regulators became wary of complex securitization and forced banks to boost capital levels following the Global Financial Crisis. It was J.P. Morgan again who reopened the market in 2019 after a 20-year hiatus, and now a wave of banks are expected to hit the market. Five regional banks – Ally, Truist, Bancorp, Huntington, and Santander USA – have been authorized to issue SRT bonds. Last December, Columbus, Ohio-based Huntington Bank executed a private SRT transaction in which it transferred the credit risk of a $2.8 billion car loan portfolio to Bayview Asset Management, a hedge fund. Banks issued about $25 billion of SRTs in 2023, offloading the risk of $300 billion of loans, according to an estimate from Pemberton Asset Management.

The resurgence of this market has been driven by the adoption of international bank capital rules known as Basel III Endgame, which require banks to put up more capital against assets, as well as by the increasing scrutiny on the part of regulators following the collapse of Silicon Valley Bank, First Republic and other regional banks last year. Significant mark-to-market losses on banks' security portfolios caused by the sharp rise in interest rates and markdowns in commercial real estate loans are eroding their capital cushions. The banks could sell off assets to reduce their capital burden, but few have sufficient capital cushion to absorb the 10% to 40% book value losses incurred in recent sales of real estate loan portfolios. To make matters worse, banks are coming under competitive assault from the rapidly expanding private credit industry, where asset managers without the burden of any regulatory capital requirements can offer loans faster and cheaper than the banks. In order to fight back, banks will need more capital.

Unfortunately, the stock prices of small and medium-sized banks are trading at a relative P/E of just 42% of the S&P 500 index, making banks reluctant to raise equity capital. So, the SRT looks like an attractive option. While the recent interest for these bonds in the U.S. is new, SRTs have been more common for some time in Europe, where regulators were earlier to adopt the Basel capital rules. Even in the U.S., Fannie Mae and Freddie Mac, the two Government Sponsored Entities, have used SRTs to manage the risks of their residential mortgage securitization activity.

Are these structures legitimate tools that allow banks to manage their market risk more prudently and optimize their use of regulatory capital? Or do they pose a moral hazard, driving banks to assume more risk knowing that they can be laid off to external investors? Proponents of the market argue that sophisticated institutional investors who buy these bonds are actually better positioned than the banks' depositors to absorb risks. That may be the case, but increasingly the hedge funds, private credit funds and insurance companies buying these bonds are trying to enhance the returns of these bonds, by obtaining leverage from – you guessed it – the banks. So, the Treasurer of a bank may be entering into a SRT transaction to reduce exposure to a pool of loans, while its prime brokerage business may be assuming the same exposure by lending money to a hedge fund buying the same SRT. As one rating agency admitted, "The problem exists that banks are financing these funds, so not laying off risk, or shifting risk out of the banking system. The banks' past efforts to shift some of their credit risk to other players – such as securitizations created in the years leading up to the financial crisis – proved ineffective when economies came under stress."

It is disturbing that the creative financial engineering represented by SRTs may exacerbate rather than reduce systemic risk in the financial system. Investors are not only assuming risks based on pools of corporate loans, but are extending coverage to mortgages, commercial real estate loans, credit card and car loan pools. Moreover, one of the fastest growth areas of the market has been insuring “blind pools” of risks – in other words, the investors do not even know the identities of borrowers in the portfolios they are insuring. These types of transactions accounted for 50% of the $217 billion of loans pledged to SRTs last year. Demand for blind pool SRTs is so strong that investors are receiving a negligible premium for the extra risk. In the U.S., where SRT notes pay 9.5% to 12% interest, blind pools pay as little as 0.2% more than deals where borrowers are disclosed. Richard Robb, the co-founder of New York-based hedge fund Christofferson Robb, which has invested over $6 billion in SRTs, shrugs that not knowing the underlying names in a loan portfolio does not change his assessment of risk, adding that his firm draws comfort from the bank’s internal models and loan selection process!

Wall Street tends to push innovation to insupportable limits. As the SRT market develops you can bet that the technology will be applied to insure pools of assets that are riskier, more esoteric, less transparent and less liquid. If there is a credit meltdown in the future, the banking system may find that their attempts to insure their portfolio risks have backfired spectacularly.

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Glossary and Index Definition

•Alerian MLP Index (MLP) - The Alerian MLP Index is a composite of the 50 most prominent energy master limited partnerships calculated by Standard & Poor's using a float-adjusted market capitalization methodology. The index is disseminated by the New York Stock Exchange real-time on a price return basis (NYSE: AMZ). The corresponding total return index is calculated and disseminated daily through ticker AMZX.

•Barclays Capital U.S. Municipal Index – The U.S. Municipal Index covers the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligations, revenue bonds, insured bonds, and prefunded bonds. Many of the sub-indices of the Municipal Index have historical data to January 1980. In addition, several subindices based on maturity and revenue source have been created, some with inception dates after January 1980 but no later than July 1, 1993. In January 1996, Barclays Capital also began publishing a non-investment grade municipal bond index and "enhanced" state specific indices for Arizona, Connecticut, Maryland, Massachusetts, Minnesota, and Ohio. These indices are published separately from the Barclays Capital Municipal Bond Index.

•BofA Merrill Lynch Convertible Bond Index (Convertibles) - The BofA Merrill Lynch Convertible Bond Index tracks the performance of US dollar denominated convertible bonds issued in the US domestic market. In addition, qualifying securities must have at least one-year remaining term to final maturity, a fixed coupon schedule and a minimum amount outstanding of $100 million.

•BofA Merrill Lynch Perpetual Preferred Securities Index (Preferred) - The BofA Merrill Lynch Fixed Rate Preferred Securities Index tracks the performance of US dollar denominated preferred securities issued in the US domestic market. Qualifying securities must be rated investment grade (based on an average of Moody's, S&P and Fitch) and must have an investment grade rated country of risk (based on an average of Moody's, S&P and Fitch foreign currency long term sovereign debt ratings).

•BofA Merrill Lynch US High Yield Master II Index – This index tracks the performance of below investment grade US dollar-denominated corporate bonds publicly issued in the US domestic market.

•BofA Merrill Lynch EM External Debt Sovereign Index – This index tracks the performance of US dollar-denominated debt issued by sovereign issuers in countries belonging to emerging markets.

•BofA Merrill Lynch Mortgage Master Index – This index tracks the performance of US dollar-denominated mortgage securities.

•BofA Merrill Lynch Municipal Bond Index – This index tracks the performance of US dollar-denominated investment grade tax-exempt bonds.

•Credit Suisse Leveraged Loan Index – This index tracks the investable market of the U.S. dollar denominated leveraged loan market. It consists of issues rated "5B" or lower, meaning that the highest rated issues included in this index are Moody's/S&P ratings of Baa1/BB+ or Ba1/BBB+. All loans are funded term loans with a tenor of at least one year and are made by issuers domiciled in developed countries.

•JP Morgan Emerging Market Bond Index (EMBI+) - The Emerging Markets Bond Index Plus tracks total returns for traded external debt instruments in the emerging markets. The instruments include external-currency-denominated Brady bonds, loans and Eurobonds, as well as U.S. dollar local markets instruments. The EMBI+ is concentrated in instruments from the three major Latin American countries (Argentina, Brazil, and Mexico), reflecting the size and liquidity of these external debt markets. The non-Latin countries are represented in the index by Bulgaria, Morocco, Nigeria, the Philippines, Poland, Russia, and South Africa.

•MSCI Emerging Market Index (Emerging Market Equities) - The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. As of March 2015, the MSCI Emerging Markets Index consisted of the following 23 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey, and United Arab Emirates.

•MSCI Frontier Market Index – The MSCI Frontier Market Index is a free float-adjusted market capitalization index designed to measure equity market performance of the frontier markets. As of March 2015, the MSCI Frontier Markets Index consists of the following 24 frontier market country indices: Argentina, Bahrain, Bangladesh, Bulgaria, Croatia, Estonia, Jordan, Kenya, Kuwait, Lebanon, Lithuania, Kazakhstan, Mauritius, Morocco, Nigeria, Oman, Pakistan, Romania, Serbia, Slovenia, Sri Lanka, Tunisia, Ukraine, and Vietnam.

•Russell 2000 Index (TR) - The best-known of a series of market-value weighted indices published by the Frank Russell Company. The index measures the performance of the smallest 2,000 companies in the Russell 3000 Index of the 3,000 largest U.S. companies in terms of market capitalization.

•Russell 1000 Index (TR) –A market-value weighted indices published by the Frank Russell Company. The index measures the performance of the largest 1,000 companies in the Russell 3000 Index of the 3,000 largest U.S. companies in terms of market capitalization.

•S&P 500 Index (TR) -Widely regarded as the best single gauge of the U.S. equities market, this world-renowned index includes 500 leading companies in leading industries of the U.S. economy. S&P 500 is a core component of the U.S. indices that could be used as building blocks for portfolio construction. It is also the U.S. component of S&P Global 1200. Total return (TR) provides investors with a price-plus-gross cash dividend return. Gross cash dividends are applied on the ex-date of the dividend.

•FTSE NAREIT US Real Estate Index Series – The FTSE NAREIT US Real Estate Index Series is designed to present investors with a comprehensive family of REIT performance indexes that span the commercial real estate space across the US economy, offering exposure to all investment and property sectors. In addition, the more narrowly focused property sector and sub-sector indexes provide the facility to concentrate commercial real estate exposure in more selected markets.

Data Sources: Bloomberg, L.P., JPMorgan, BofA Merrill Lynch, Standard and Poors, Barclays Capital, Alerian, Morningstar Direct, MSCI, HFR, Goldman Sachs, Trading Economics, HIS Markit, Eurostat, Eaton Vance.