Principal Morley

Economic and market review

Global Market Perspectives

As of December 31, 2024

Q1 2025 key themes

- **A complex global picture is emerging, with significant divergence in growth and policy actions.**
  While the U.S. has continued to thrive, China and Europe are struggling. Proposed U.S. import tariffs threaten to intensify these diverging fortunes, reinforcing the U.S. exceptionalism theme. Policymakers will need to respond accordingly.

- **The U.S. economy has remained resilient, but with pockets of weakness requiring careful watch.**
  Strong household and corporate balance sheets have created a very resilient economy. Nonetheless, low-income households and small businesses are struggling, highlighting the need for further interest rate relief to prevent weakness from spreading.

- **The Federal Reserve will likely adopt a slower, more cautious approach to policy.**
  Recent U.S. economic strength has combined with a rising threat of tariffs to increase upside inflation risks. The Fed is set to cut rates just a few times in 2025. Interest rate relief will likely be shallow and restricted.

- **Fixed income credit spreads to likely remain range bound, with a bias upwards.**
  The shallow Fed cutting cycle means that Treasury yields are unlikely to trend much lower. Credit spreads are near historic tights, but solid fundamentals and elevated starting yields imply credit could generate strong returns in 2025.

- **Flows into cash have continued, but in this constructive environment, risk assets are more favorable.**
  While broad valuation concerns and policy uncertainty persist, the numerous pockets of value, coupled with inflation pressures and reinvestment risk, underscore the importance of investors optimizing opportunities in this favorable macro environment.

U.S. equity markets were mixed for the quarter; growth indexes delivered positive returns while value indexes were negative.

Longer duration fixed income indexes delivered negative returns for the quarter as long-term rates were up.

	3-months	1-year	3-year	5-year	10-year
Fixed Income					
ICE BofA U.S. Treasury Bill 3-month Index	1.17%	5.25%	3.89%	2.46%	1.77%
Bloomberg Aggregate Bond Index	-3.06%	1.25%	-2.41%	-0.33%	1.35%
Bloomberg U.S. Corp High Yld 2% Issuer Capped Index	0.17%	8.19%	2.92%	4.20%	5.16%
Bloomberg Long-Term Govt/Credit Index	-7.42%	-4.15%	-9.20%	-3.26%	0.99%
U.S. Equities					
Russell 1000 Value Index	-1.98%	14.37%	5.63%	8.68%	8.49%
S&P 500 Index	2.41%	25.02%	8.94%	14.53%	13.10%
Russell 1000 Growth Index	7.07%	33.36%	10.47%	18.96%	16.78%
Russell Midcap Index	0.62%	15.34%	3.79%	9.92%	9.63%
Russell 2000 Index	0.33%	11.54%	1.24%	7.40%	7.82%
Non-U.S. Equities					
MSCI EAFE NTR Index	-8.11%	3.82%	1.65%	4.73%	5.20%
MSCI ACWI ex-USA Index	-7.60%	5.53%	0.82%	4.10%	4.80%
MSCI Emerging Markets Index	-8.01%	7.50%	-1.92%	1.70%	3.64%
Other					
MSCI U.S. REIT Index	-6.39%	7.49%	-3.43%	3.10%	4.38%
S&P GSCI® Index	3.81%	9.25%	9.63%	7.12%	1.24%
U.S. Dollar Index	7.65%	7.06%	4.17%	2.39%	1.86%

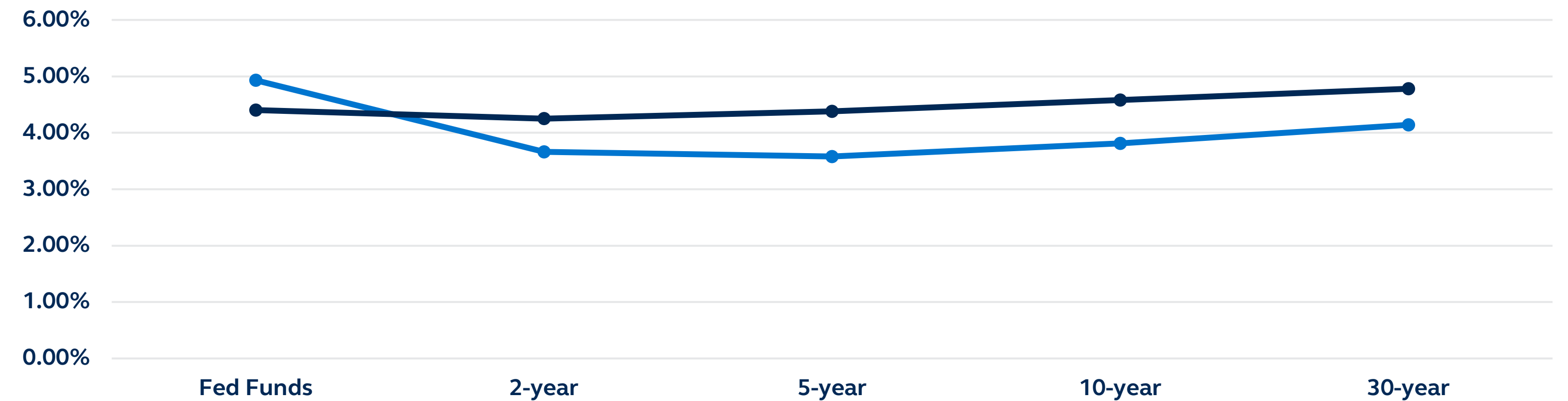
As of December 31, 2024.

Source: Morningstar Direct. Returns are annualized. **Past performance does not guarantee future results**. Index performance information reflects no deduction for fees, expenses, or taxes. Indices are unmanaged and individuals cannot invest directly in an index. See Important Information for index descriptions.

The history of interest rates

How have interest rates changed in recent years?

	Dec 31, 2021	Dec 31, 2022	Dec 31, 2023	Sep 30, 2024	Dec 31, 2024
Fed Funds	0.06	4.12	5.60	4.93	4.40
2-year	0.73	4.41	4.23	3.66	4.25
5-year	1.26	3.99	3.84	3.58	4.38
10-year	1.52	3.88	3.88	3.81	4.58
2- to 10-year spread	0.79	-0.53	-0.35	0.15	0.33
30-year	1.90	3.97	4.03	4.14	4.78



	Fed Funds	2-year	5-year	10-year	30-year
Dec. 31, 2024	4.40%	4.25%	4.38%	4.58%	4.78%
Sept. 30, 2024	4.93%	3.66%	3.58%	3.81%	4.14%

Source: Morningstar Direct. **Past performance does not guarantee future results.**

Principal

ASSET CLASS RETURNS AS OF DEC. 31, 2024

Rank	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Best	Small Cap 38.82%	Real Estate 31.78%	Real Estate 4.23%	Small Cap 21.31%	Emerging Markets 37.28%	Cash 1.86%	Large Cap 31.49%	Small Cap 19.96%	Real Estate 46.18%	Commodities 16.09%	Large Cap 26.29%	Large Cap 25.02%
	Mid Cap 33.50%	Government Treasury 25.07%	Large Cap 1.38%	Mid Cap 20.74%	Intl Stocks 25.03%	Intermediate Bond 0.01%	Mid Cap 26.20%	Large Cap 18.40%	Large Cap 28.71%	Cash 1.50%	Intl Stocks 18.24%	Asset Allocation 15.04%
	Large Cap 32.39%	Large Cap 13.69%	Asset Allocation 1.28%	High Yield 17.34%	Large Cap 21.83%	Government Treasury -1.84%	Real Estate 25.76%	Emerging Markets 18.31%	Commodities 27.11%	High Yield -11.11%	Asset Allocation 17.67%	Mid Cap 13.93%
	Intl Stocks 22.78%	Asset Allocation 10.62%	Intermediate Bond 0.55%	Large Cap 11.96%	Mid Cap 16.24%	Intl Bonds -2.15%	Small Cap 25.53%	Government Treasury 17.70%	Mid Cap 24.76%	Intermediate Bond -13.01%	Small Cap 16.93%	Small Cap 11.54%
	Asset Allocation 17.56%	Mid Cap 9.77%	Cash 0.03%	Commodities 11.77%	Small Cap 14.65%	High Yield -2.26%	Asset Allocation 22.18%	Asset Allocation 14.73%	Asset Allocation 15.86%	Mid Cap -13.06%	Mid Cap 16.44%	Real Estate 9.11%
	High Yield 7.38%	Intermediate Bond 5.97%	Intl Stocks -0.81%	Emerging Markets 11.19%	Asset Allocation 14.21%	Asset Allocation -2.35%	Intl Stocks 22.01%	Mid Cap 13.66%	Small Cap 14.82%	Intl Stocks -14.45%	Real Estate 16.10%	High Yield 8.04%
	Real Estate 1.86%	Small Cap 4.89%	Government Treasury -1.21%	Asset Allocation 8.31%	Intl Bonds 10.51%	Large Cap -4.38%	Emerging Markets 18.44%	Intl Bonds 10.11%	Intl Stocks 11.26%	Asset Allocation -15.79%	High Yield 13.40%	Emerging Markets 7.50%
	Cash 0.06%	High Yield 2.44%	Mid Cap -2.18%	Real Estate 7.24%	Government Treasury 8.53%	Real Estate -4.84%	Government Treasury 14.83%	Intl Stocks 7.82%	High Yield 5.29%	Large Cap -18.11%	Emerging Markets 9.83%	Cash 5.45%
	Intermediate Bond -2.02%	Cash 0.02%	Small Cap -4.41%	Intermediate Bond 2.65%	High Yield 7.48%	Small Cap -11.01%	High Yield 14.40%	Intermediate Bond 7.51%	Cash 0.05%	Intl Bonds -18.70%	Intermediate Bond 5.53%	Commodities 5.38%
	Emerging Markets -2.60%	Emerging Markets -2.19%	High Yield -4.55%	Intl Bonds 1.49%	Real Estate 4.18%	Mid Cap -11.08%	Intermediate Bond 8.72%	High Yield 6.20%	Intermediate Bond -1.54%	Emerging Markets -20.09%	Cash 5.26%	Intl Stocks 3.82%
	Intl Bonds -3.08%	Intl Bonds -3.08%	Intl Bonds -6.02%	Government Treasury 1.33%	Intermediate Bond 3.54%	Commodities -11.25%	Commodities 7.69%	Cash 0.58%	Emerging Markets -2.54%	Small Cap -20.44%	Intl Bonds 3.99%	Intermediate Bond 1.25%
	Commodities -9.52%	Intl Stocks -4.90%	Emerging Markets -14.92%	Intl Stocks 1.00%	Commodities 1.70%	Intl Stocks -13.79%	Intl Bonds 5.09%	Commodities -3.12%	Government Treasury -4.65%	Real Estate -26.81%	Government Treasury 3.06%	Government Treasury -6.41%
Worst	Government Treasury -12.66%	Commodities -17.01%	Commodities -24.66%	Cash 0.27%	Cash 0.84%	Emerging Markets -14.58%	Cash 2.25%	Real Estate -7.90%	Intl Bonds -7.05%	Government Treasury -29.26%	Commodities -7.91%	Intl Bonds -7.79%

The returns reflect performance of certain indexes as defined below. This information is general in nature and is not intended to be reflective of any specific plan.

Cash- FTSE 3-month T-bill ,Government Treasury-BBg Long Treasury, Commodities-Bloomberg Commodity Idx, Intermediate Bond-BBg US Agg Bond Idx, High Yield Bond-ICE BofA High Yield Idx, Intl Bonds-JPMorgan GBI Global ex U.S., Asset Allocation-portfolio assumes the following weights: 60% S&P 500 and 40% BBg US Agg, Large Cap-S&P 500, Mid Cap-S&P Midcap 400, Small Cap-Russell 2000, Intl Stocks-MSCI EAFE (net), Emerging Markets-MSCI EM (net), Real Estate-Wilshire U.S. REIT.

Past performance does not guarantee future results.

Principal

A complex global economic picture emerges

The brief global growth scare in mid-2024 activated synchronized central bank policy loosening. Yet, while U.S. strength was swiftly reasserted, Europe is expected to weaken further. China's outlook was boosted slightly by high hopes for fiscal stimulus. However, this has been offset by the threat of a sharp rise in U.S. tariffs on China's exports.

Indeed, the likely onset of U.S. tariffs confronting numerous trade partners suggests that the divergence in global economic prospects is likely to persist through 2025. In addition, growth-supportive fiscal policies and deregulation only reinforce U.S. exceptionalism.

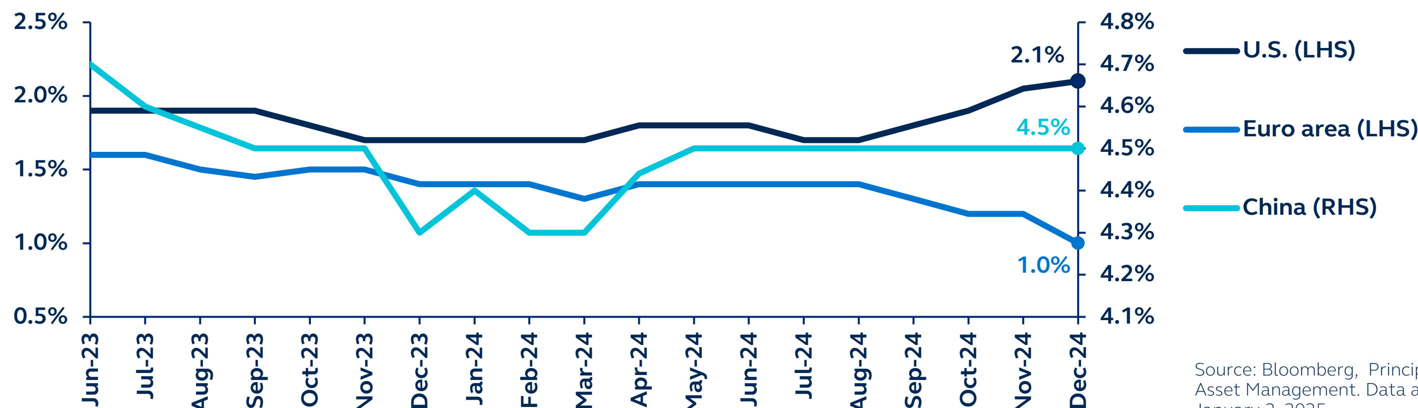
The pace of global central bank rate cuts is also likely to diverge in early 2025. Not only does U.S. economic resilience imply a reduced need for policy stimulus, but with tariffs and restrictive immigration policies threatening a pick-up in price pressures in 2025, the Federal Reserve will be increasingly cautious about its policy path. By contrast, weak growth, or recession, in other developed economies means their central banks will need to cut rates meaningfully more than the Fed.

The offset of global policy desynchronization is a strong U.S. dollar—an adverse environment for emerging markets. Tech strength in pockets of Asia, in addition to India's economic dominance, may counteract some of the downward forces.

Diverging economic fortunes implies global policy desynchronization in 2025.

2025 GDP forecast

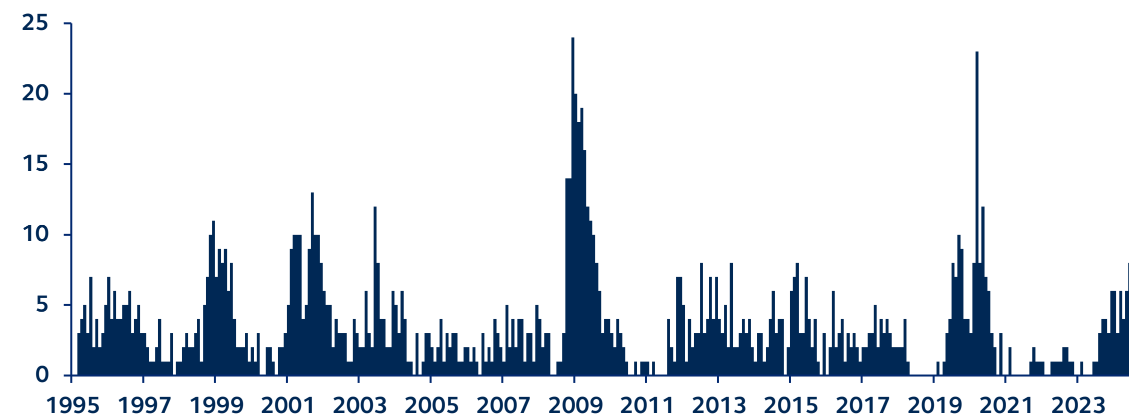
Consensus 2025 real GDP growth forecasts for U.S., Eurozone and China



Source: Bloomberg, Principal Asset Management. Data as of January 2, 2025

Global central bank easing

Number of central bank cuts, monthly, 1995–present



Source: Bloomberg, Principal Asset Management. Data as of January 2, 2025.

Principal

Household and corporate balance sheets are robust

The U.S. economy remains strong, underpinned by healthy household and corporate balance sheets, that both have ample buffers in the event of stress.

Households have seen their net worth swell amid exceptionally strong asset price appreciation, especially within real estate and equity holdings, the latter doubling in value since 2018. These substantial asset gains have more than offset household loan and debt build-up since the pandemic. As a result, household leverage, measured as liabilities as a percentage of total net worth, has declined to the lowest level since 1975. Households have significant cushion to withstand a further deterioration in labor market conditions.

The corporate sector is also in a place of strength. Cash holdings as a percentage of liabilities are elevated, especially relative to history, suggesting ample buffers in the event of a revenue or cash flow squeeze. Moreover, profit margins have remained high, and overall leverage remains manageable, the latter helped by the widespread deleveraging by non-financial corporate firms during the pandemic.

These dynamics suggest that households and corporates are well-placed to withstand headwinds, resilience that meaningfully reduces the risk of sharp slowdown.

In aggregate terms, households and corporates are in good shape, and as such, the economic expansion is likely to extend.

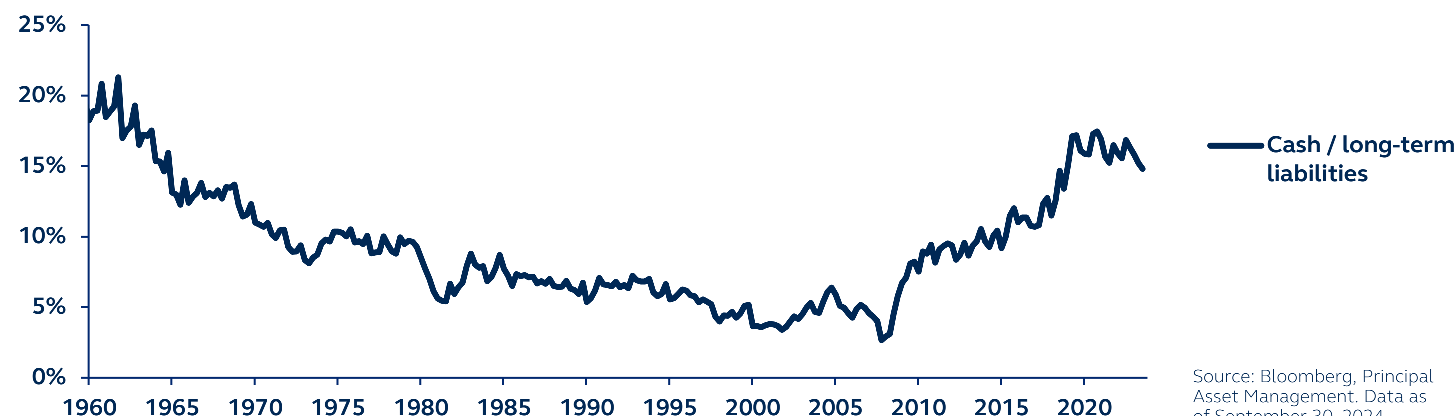
Household balance sheet strength

Household liabilities as % of net worth, 1960–present

Source: Bloomberg, Principal Asset Management. Data as of September 30, 2024.

Corporate liquidity: Cash-to-long-term liabilities ratio

1960–present



Source: Bloomberg, Principal Asset Management. Data as of September 30, 2024.

Principal

Slowdown concerns remain amid pockets of weakness

Despite continued strong performance by the broad economy, concerns persist with lingering pockets of weakness on both the household and corporate side.

Amongst households, while overall retail spending remains resilient, middle- and high-income households have primarily driven this strength. By contrast, having likely depleted their excess savings, low-income households pulled back on spending since mid-2021 and have become increasingly cautious given the softening labor market.

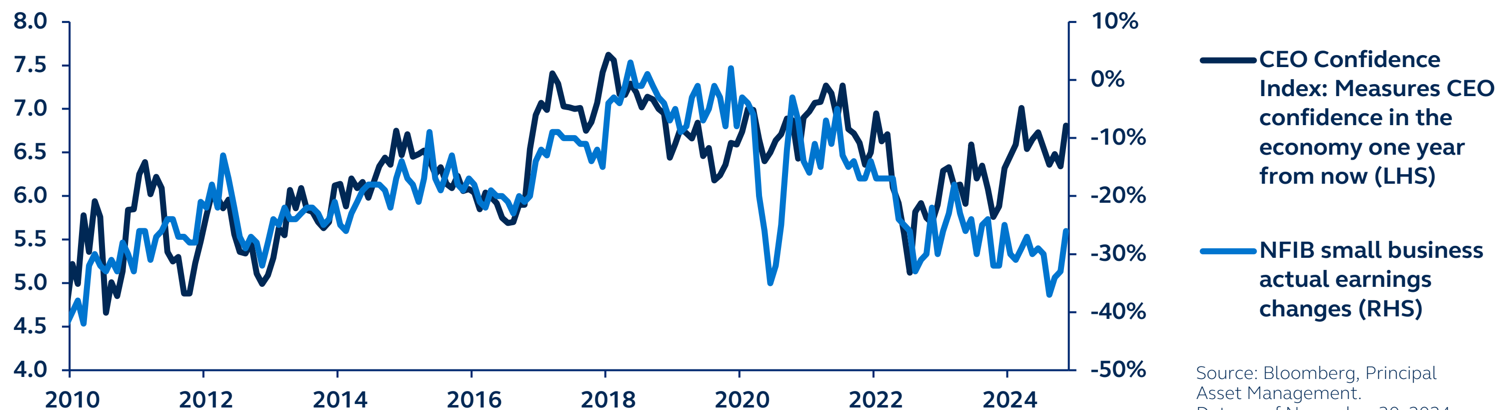
Small businesses have diverged significantly from larger firms, facing greater challenges due to their heightened sensitivity to rising interest rates—approximately 64% of their liabilities are tied to floating-rate debt, compared to just 18% for larger companies. According to the senior loan officer survey, credit availability for small businesses, while improving, remains more constrained than it was before the pandemic.

Surveys also suggest that Fed rate cuts have already supported an improvement in small business confidence, while lower credit card interest rates have supported indebted households. However, further relief is required if these two important pockets of the U.S. economy are to recover sufficiently and a bifurcated economy is to be avoided.

Low income households and small businesses are struggling under high borrowing costs and elevated prices. Policymakers are rightfully concerned about these pockets of weakness.

Small and large business confidence

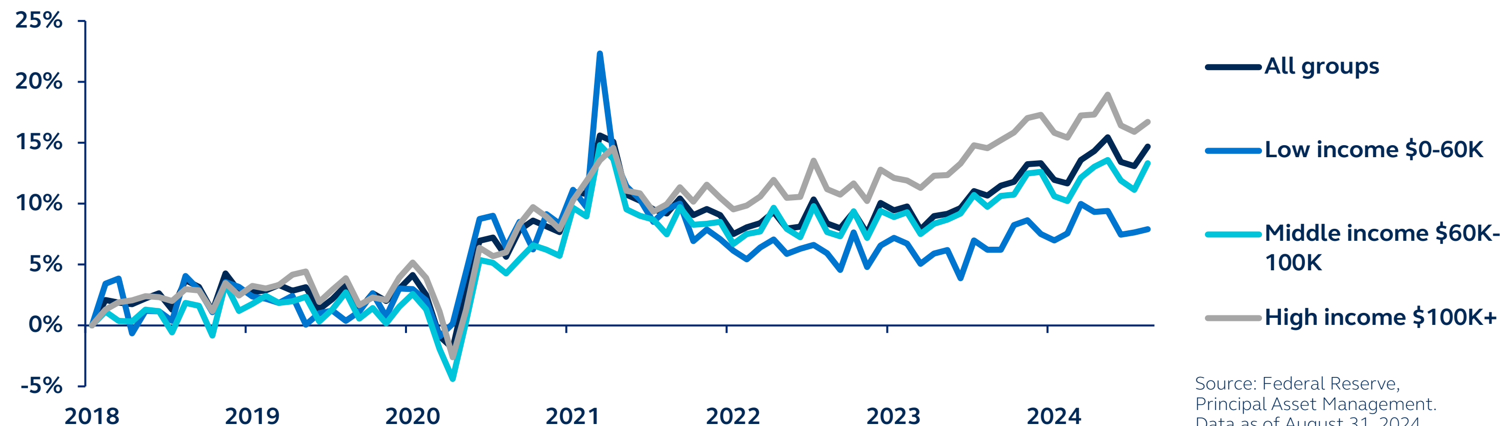
Level, January 2010–present



Source: Bloomberg, Principal Asset Management. Data as of November 30, 2024.

Growth of average retail spending

Seasonally-adjusted and inflation-adjusted, Rebased to 0 at January 2018



Source: Federal Reserve, Principal Asset Management. Data as of August 31, 2024.

Principal

Labor market in an uneasy equilibrium

Surveys continue to show convincing signs of slowing labor demand. However, that weakness has not yet translated into widespread job losses. Instead, it appears that the labor market has become frozen, with companies hesitant to meaningfully shrink or expand their workforce amid lingering uncertainty.

Job cut announcements have stayed relatively subdued, while initial jobless claims have remained consistently and significantly below the 300,000 threshold that has historically marked recession.

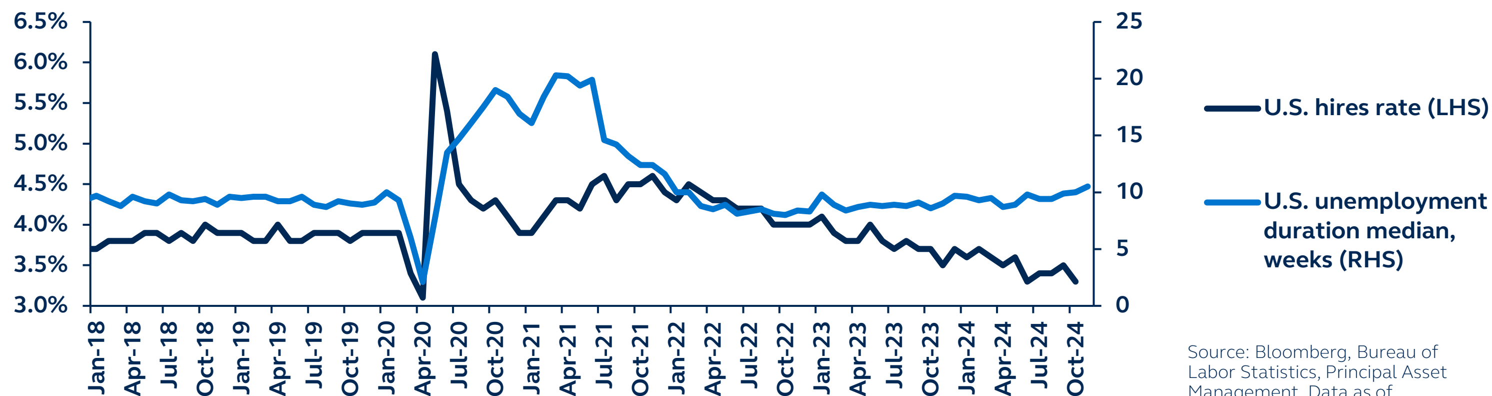
On the other hand, although monthly non-farm payroll growth remains healthy, hiring has been increasingly limited to a pair of non-cyclical sectors: healthcare and government. Furthermore, the hiring rate has fallen to the lowest level since 2020 as businesses increasingly scrutinize labor costs. This environment has led to a rise in the duration of unemployment as individuals are finding it more challenging to find a job. Ultimately, the decline in the job-finding rate has contributed to the overall rise in unemployment.

The uneasy equilibrium state in the labor market needs to be carefully watched by policymakers, especially amid the incoming administration's proposed trade and immigration policies, which may add to labor and input costs for businesses.

While labor demand weakness has not translated into widespread job cuts, policymakers must be alert to the risks.

U.S. hiring rate & unemployment duration

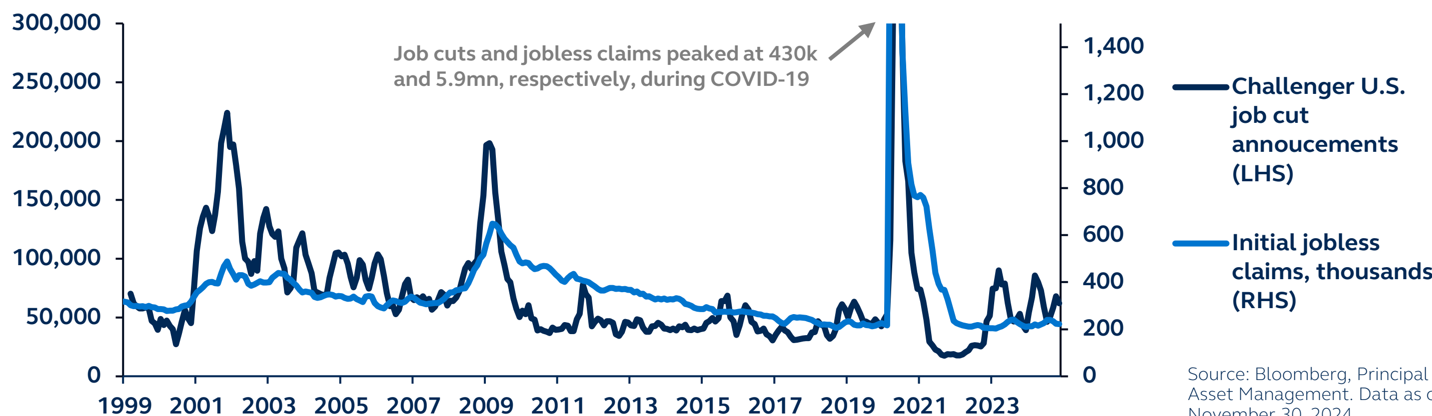
Seasonally adjusted, monthly, January 2018–present



Source: Bloomberg, Bureau of Labor Statistics, Principal Asset Management. Data as of November 30, 2024.

Job cuts: Various measures

Challenger job cut announcements and initial jobless claims, 3-month moving average, 1999–present



Source: Bloomberg, Principal Asset Management. Data as of November 30, 2024.

Principal

U.S. inflation: upside risks aplenty

Progress towards the Fed's 2% inflation target has stalled, with headline inflation settling above 2.5% and core inflation above 3%. After hitting a three-year low of 1.6% in August, the three-month annualized pace of core inflation has risen back to 3.6%. Core services ex-shelter, the inflation segment most closely related to the strength of the labor market, remains a key culprit for sticky inflation. Further economic cooling is required to bring inflation back towards target.

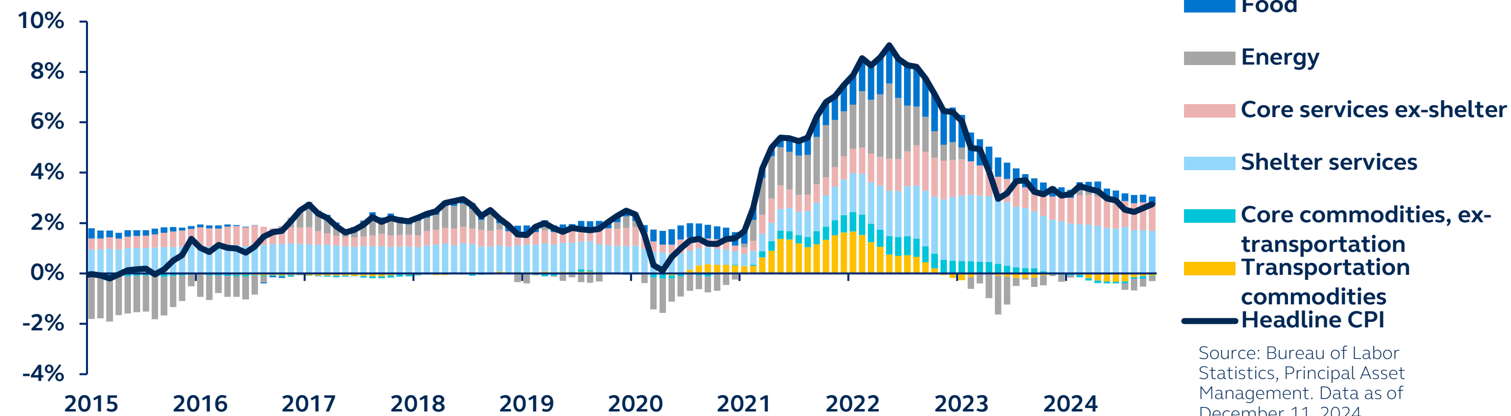
The proposed increase in tariffs by the incoming administration is adding to inflation concerns. Estimates range from a one-off 0.5% to 1.5% increase in inflation from increased tariffs alone. Of course, central banks typically look through one-off increases from tariffs – unless it leads to a rise in inflation expectations. Notably, since the election, both market-based and survey-based measures of one- and two-year inflation expectations have risen slightly.

The striking similarities between U.S. inflation developments today and those of the early 1970s, when premature monetary easing contributed to a second inflation wave, clearly warn against cutting rates unless inflation is on a sustainable path to target. As such, despite significant trade policy uncertainty, the Fed cannot ignore the upside inflation risks facing the U.S. economy.

Recent economic strength has combined with a rising threat of tariffs to increase upside inflation risks.

Contribution to headline U.S. inflation

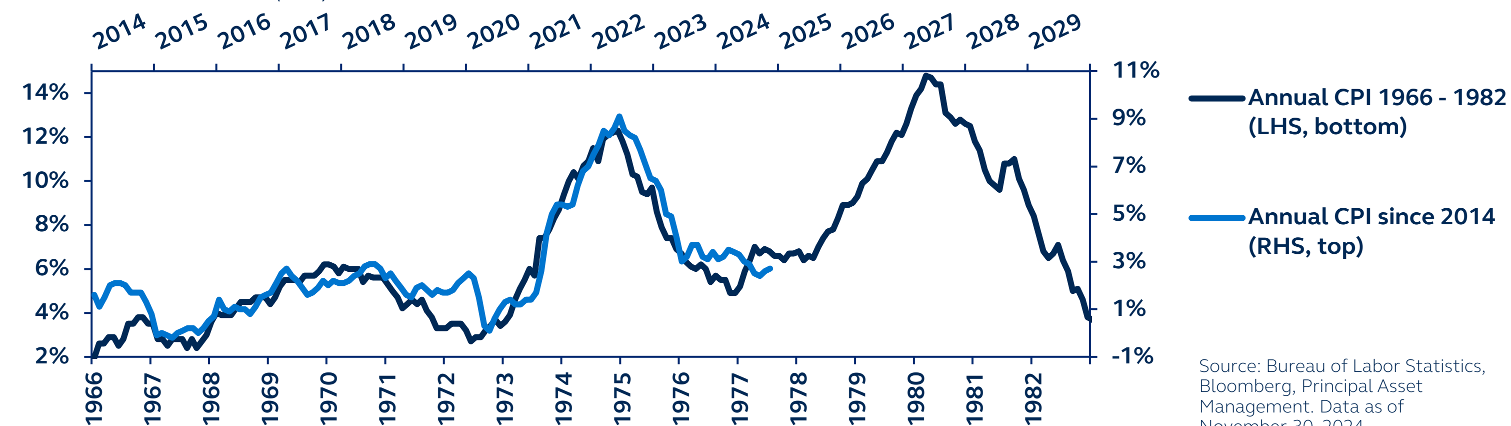
Year-over-year, January 2015–present



Source: Bureau of Labor Statistics, Principal Asset Management. Data as of December 11, 2024.

Historical inflation comparison

Consumer Price Index (CPI)



Source: Bureau of Labor Statistics, Bloomberg, Principal Asset Management. Data as of November 30, 2024.

Principal

Federal Reserve: Cautious in the face of uncertainty

Markets have sharply reduced their rate cut expectations since the first Fed rate cut in September, reflecting both an improvement in the growth outlook and a potentially more inflationary backdrop due to the incoming administration's proposed tariff and immigration policies.

Popular thinking has been that the Fed would cut policy rates to neutral. However, since the neutral rate cannot be directly observed, there are a wide dispersion of market estimates around its value, ranging from a low of 2.8% to a high of 4.6%. Even within the FOMC, there remains a 1.5% range between the highest and lowest estimates.

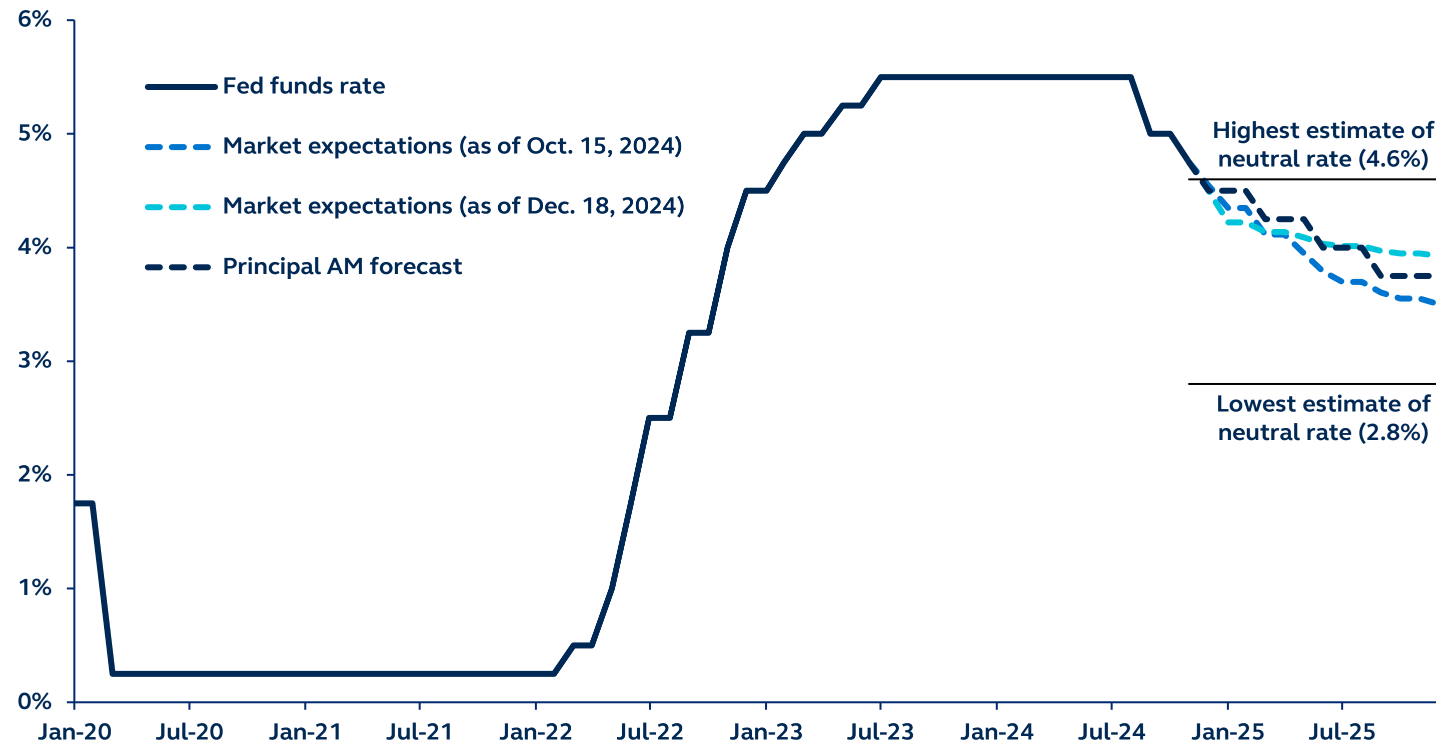
The upshot is that faced with elevated uncertainty around the neutral rate and the inflationary impact of tariffs, the Federal Reserve now needs to tread cautiously and is set to slow the pace of easing to every other meeting.

The Fed sees just two rate cuts in 2025. Although evidence of cooling labor demand, coupled with concerns around low-income households and small businesses suggests that the Fed may cut policy rates, it is not difficult to imagine a scenario whereby new tariffs prompt the Fed to enter a prolonged pause period.

The Fed is set to slow its easing path, cutting rates just a few times in 2025. Interest rate relief will be shallow and restricted.

Federal Reserve policy rate path

Fed funds rate and projections, 2020–present



Source: Federal Reserve, Bloomberg, Principal Asset Management. Highest and lowest neutral rate estimate levels are derived from a wide range of Wall Street analysts and models. Data as December 18, 2024.

Principal

The global economy swaps inflation for growth concerns

Outside the U.S., developed market central banks have made substantial progress with disinflation, and while frustrations around sticky inflation persist, fears of a resurgence in price pressures have largely eased. Unfortunately, the decline in inflation has much to do with a weakening in economic growth, providing central banks with a new headache.

Meanwhile, China has continued to underdeliver on inflation, with year-over-year inflation averaging nearly zero over the past 12 months. This has been largely due to the economic malaise triggered by the ongoing property downturn and weak consumer demand. There, policymakers have had to increasingly turn to both monetary and fiscal stimulus to revive animal spirits.

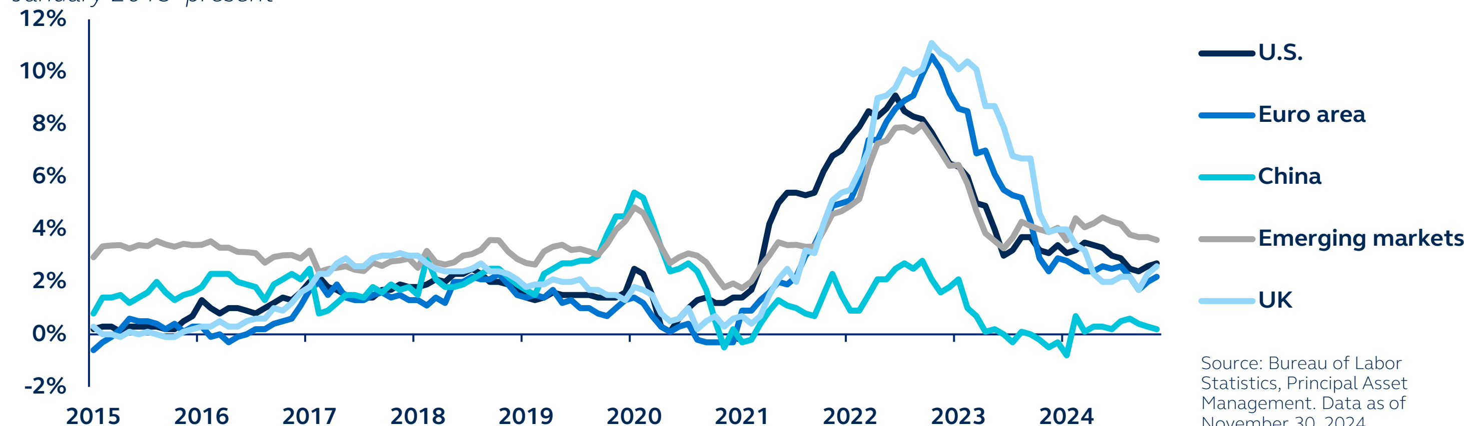
The global economy may also need to navigate the potential increase in U.S. import tariffs. Taking current proposals of a 25% tariff on Mexico and Canada, a 60% tariff on China, and a universal 10% tariff on other economies, the estimated negative impact to each economy ranges from just 0.4% to as much as 9%, with the largest impact accruing to economies that rely on the U.S. the most for trade.

Of course, the scale and scope of tariffs is highly uncertain. Yet, navigating the uncertainty of these global frictions will be demanding for both policymakers and investors.

While inflation is no longer such a headache for global central banks, they must now contend with downside growth risks—amplified by the threat of U.S. tariffs.

Global inflation

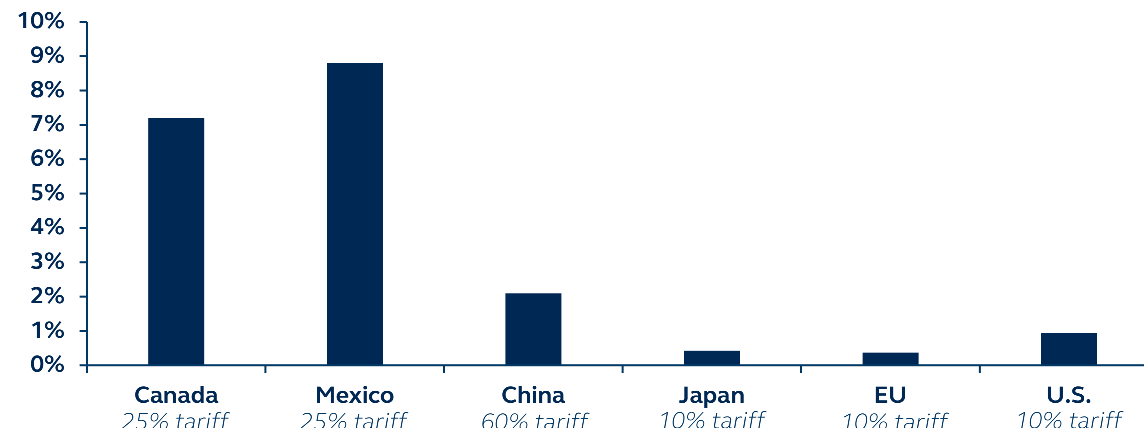
January 2015–present



Source: Bureau of Labor Statistics, Principal Asset Management. Data as of November 30, 2024.

Potential tariff increase impact on GDP

Percentage



Source: International Monetary Fund, World Trade Organization, Bloomberg, Principal Asset Management. Data as of November 15, 2024.

Principal

Bond yields: trending higher, counter to historic Fed cycles

Since the Fed's cutting cycle began in September, long end U.S. Treasury yields have been rising, ending 4Q at 4.57%, almost 80 bps higher than where they started. This is counter to historical trends, which show that yields tend to fall in cutting cycles and when economic activity is slowing.

Several factors appear to be at play:

- Pre-emptive Fed easing has reduced cut expectations
- Proposed policies, such as tariffs and immigration restrictions, have raised inflation risks
- Government policy uncertainty
- Fiscal sustainability concerns

While the cutting cycle should ultimately limit the upside to yields, as the Fed easing cycle is likely to be only very short and shallow, longer-end bond yields are likely to remain relatively range-bound in coming months and unlikely to fall below 4% in 2025 (for a sustained period).

By contrast, with the market Fed funds rate expectations slightly more hawkish than our own, there is likely to be more downward pressure on the front end of the yield curve than the long end.

While history suggests Fed cuts and a slowing economy should push yields lower, bond yields have been trending higher in response to a multitude of factors.

Fed funds rate and U.S. 10y Treasury yield

Recessions are shaded, 1985–present

Source: Federal Reserve, Bloomberg, Principal Asset Allocation. Data as of December 31, 2024.

10-year Treasury yield and economic activity

November 2023–present

Source: Bloomberg, Principal Asset Management. Data as of December 31, 2024.

Principal

Despite tight spreads, credit may generate strong returns

Fixed income returns were quite volatile in 2024 as investor speculation about the size and pace of central bank cuts drove interest rate volatility.

However, overall, the total yield generated from fixed income today remains attractive relative to history, and credit continues to offer additional carry to U.S. Treasurys. As a result, yield buyers should continue to be attracted to credit.

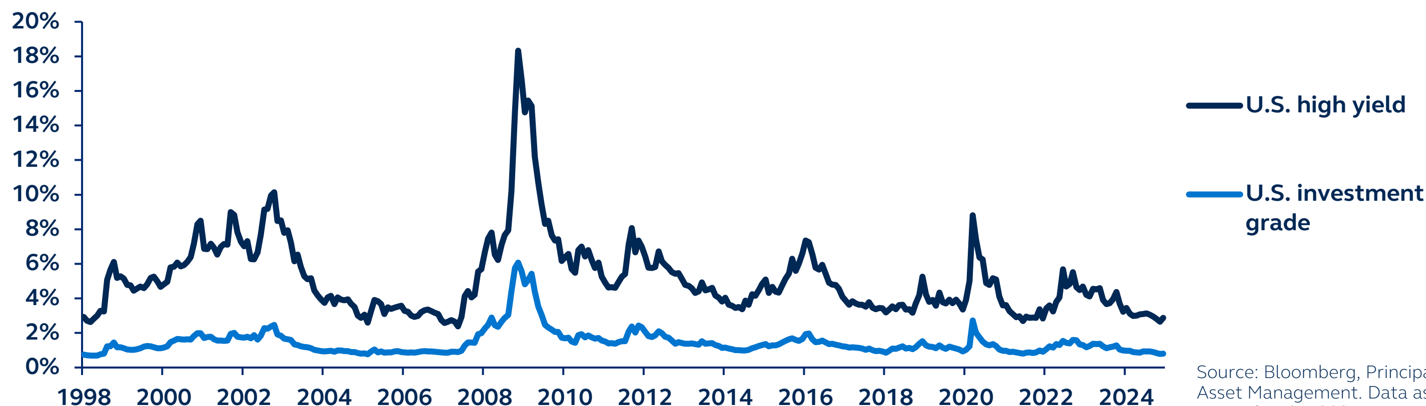
Credit spreads remain near historic lows. While this presents a slightly challenging valuation backdrop, the broad outlook remains positive. The economy is cooling slightly but remains in good health, and corporate balance sheets across both investment grade and high yield companies are also healthy. As such, while there may be only a modest widening bias, spreads are likely to remain broadly rangebound in 2025. The combination of supportive fundamentals and elevated starting yield should enable credit to generate strong returns for investors in 2025.

Ultimately, fixed income assets continue to provide a reliable source of income and yield, offer mitigation against widespread market volatility, and present opportunities to enhance returns within investment portfolios.

Credit spreads are near historic tights. But solid fundamentals and elevated starting yields imply credit could generate strong returns in 2025.

U.S. high yield and investment grade spreads

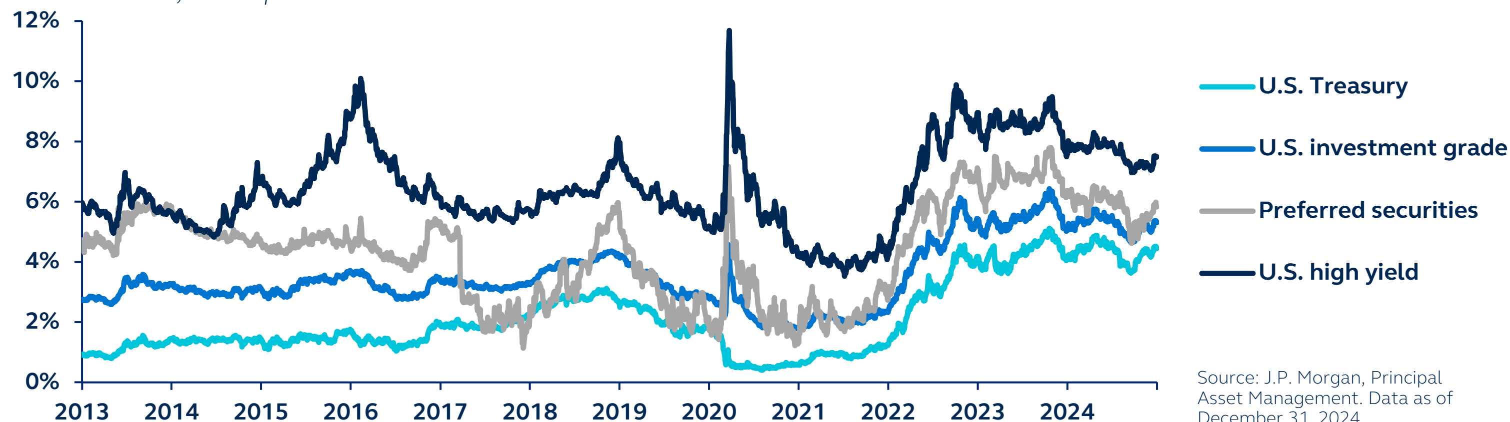
Option-adjusted-spread, 1998–present



Source: Bloomberg, Principal Asset Management. Data as of December 31, 2024.

Yield comparison

Yield-to-worst, 2013–present



Source: J.P. Morgan, Principal Asset Management. Data as of December 31, 2024.

Principal

Risk asset outlook: resisting the temptation of cash

Flows into money market funds have continued to increase. Valuation concerns and U.S. policy uncertainty have led investors to feel more comfortable in cash. Yet, these concerns are likely overdone.

While it is true that the change in government has raised policy uncertainty, the incoming administration's policy stance is for broad deregulation and lower corporate and individual taxes. It is not yet clear how these policies will be enacted, but they are unlikely to be damaging to U.S. economic growth—reinforcing the constructive macro environment, which provides a strong backdrop for risk assets.

In addition, while the S&P 500 index is expensive, there are many segments of the market that are attractively valued and, therefore, less vulnerable to pullbacks.

A key concern for 2025 is the potential for a renewed increase in inflation—this makes it even more important for investors to consider real returns and to target risk assets that can deliver a higher return than cash.

Finally, with Fed policy rates still biased lower, investors face reinvestment risk and should lock in higher yields, suggesting some urgency for investors to put their cash to work.

The strong economic outlook and pockets of value in the market, as well as inflation concerns and reinvestment risk, mean that investors should resist the temptation of cash.

U.S. total money market fund assets
Trillions, 2015–present

Source: Investment Company Institute, Bloomberg, Principal Asset Management. Data as of December 31, 2024.

INDEX DESCRIPTIONS

Bloomberg U.S. High-Yield Corporate Bond Index is a rules-based, market-value-weighted index engineered to measure publicly issued non-investment grade USD fixed-rate, taxable and corporate bonds.

Bloomberg U.S. Corp High Yield 2% Issuer Capped Index is an unmanaged index comprised of fixed rate, non-investment grade debt securities that are dollar denominated. The index limits the maximum exposure to any one issuer to 2%.

Bloomberg U.S. Corporate Investment Grade Index includes publicly issued U.S. corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity and quality requirements. To qualify, bonds must be SEC-registered. The corporate sectors are industrial, utility and finance, which include both U.S. and non-U.S. corporations.

Bloomberg U.S. Treasury Index measures U.S. dollar-denominated, fixed-rate, nominal debt issued by the U.S. Treasury. Treasury bills are excluded by the maturity constraint. STRIPS are excluded from the index because their inclusion would result in double-counting.

MSCI ACWI Index includes large and mid cap stocks across developed and emerging market countries.

MSCI Brazil Index is designed to measure the performance of the large and mid cap segments of the Brazilian market.

MSCI China Index captures large and mid cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs).

MSCI EAFE Index is listed for foreign stock funds (EAFE refers to Europe, Australasia, and Far East). Widely accepted as a benchmark for international stock performance, the EAFE Index is an aggregate of 21 individual country indexes.

MSCI Emerging Markets Index consists of large and mid cap companies across 24 countries and represents 10% of the world market capitalization. The index covers approximately 85% of the free float-adjusted market capitalization in each country in each of the 24 countries.

MSCI Europe Index captures large and mid cap representation across 15 Developed Markets (DM) countries in Europe.

MSCI Europe Banks Index is composed of large and mid cap stocks across 15 Developed Markets countries in Europe. All securities in the index are classified in the Banks industry group (within the Financials sector) according to the Global Industry Classification Standard (GICS®).

MSCI Germany Index is designed to measure the performance of the large and mid cap segments of the German market.

MSCI India Index is designed to measure the performance of the large and mid cap segments of the Indian market.

MSCI Japan Index is designed to measure the performance of the large and mid cap segments of the Japanese market.

MSCI United Kingdom Index is designed to measure the performance of the large and mid cap segments of the UK market.

MSCI USA Growth Index captures large and mid cap securities exhibiting overall growth style characteristics in the U.S. The growth investment style characteristics for index construction are defined using five variables: long-term forward EPS growth rate, short-term forward EPS growth rate, current internal growth rate and long-term historical EPS growth trend and long-term historical sales per share growth trend.

MSCI USA Index is a market capitalization weighted index designed to measure the performance of equity securities in the top 85% by market capitalization of equity securities listed on stock exchanges in the United States.

MSCI USA Large Cap Index is designed to measure the performance of the large cap segments of the U.S. market.

MSCI USA Mid Cap Index is designed to measure the performance of the mid cap segments of the U.S. market.

MSCI USA Quality Index aims to capture the performance of quality growth stocks by identifying stocks with high quality scores based on three main fundamental variables: high return on equity (ROE), stable year-over-year earnings growth and low financial leverage. The MSCI Quality Indexes complement existing MSCI Factor Indexes and can provide an effective diversification role in a portfolio of factor strategies.

MSCI USA Small Cap Index is designed to measure the performance of the small cap segment of the U.S. equity market.

MSCI USA Value Index captures large and mid cap U.S. securities exhibiting overall value style characteristics. The value investment style characteristics for index construction are defined using three variables: book value to price, 12-month forward earnings to price and dividend yield.

Standard & Poor's 500 Index is a market capitalization-weighted index of 500 widely held stocks often used as a proxy for the stock market.

U.S. dollar index (USDX) is a measure of the value of the U.S. dollar relative to a basket of foreign currencies.

Market indices have been provided for comparison purposes only. They are unmanaged and do not reflect any fees or expenses. Individuals cannot invest directly in an index.

IMPORTANT INFORMATION

Risk considerations

Investing involves risk, including possible loss of principal. Past performance is no guarantee of future results. Equity investments involve greater risk, including higher volatility, than fixed-income investments. **Fixed-income investments** are subject to interest rate risk; as interest rates rise their value will decline. **International and global** investing involves greater risks such as currency fluctuations, political/social instability and differing accounting standards. **Alternative investment** strategies may include arbitrage, leverage, derivatives, and shorting securities in addition to traditional investments. Long/short investing does not guarantee reduced risks associated with equity markets, capitalization, sector swings or other risk factors. Long/short investing may also have higher turnover rates, which can result in additional tax consequences. Short selling involves certain risks, including investment loss and added costs associated with covering short positions. Investment risk may be magnified with the use of these alternative strategies. **Real Estate investment options** are subject to investment and liquidity risk and other risks inherent in real estate such as those associated with general and local economic conditions. Property values can decline due to environmental and other reasons. In addition, fluctuation in interest rates can negatively impact the performance of real estate investment options.

Important Information

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