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2023 1st Quarter Equity Market Update

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Outlook:

While the **recent banking concerns ratchet up risk in the near-term**, we believe unprecedented policy (during COVID and post COVID) always ran the risk of unintended consequences, which we are seeing now. Overall, we see the risks as manageable due to the quick actions by central banks to help solidify the liquidity issues, which should reduce concerns of widespread contagion. In the aftermath, bank lending standards are likely to tighten further, which increases the already high likelihood of economic weakness to come, however, **a silver lining for equities may be that financial conditions are tightening for the Fed—shifting up the timeline for an end to the Fed's tightening cycle. For a market that has been highly sensitive to Fed actions, the easier policy may be supportive for equities down the road.**

While this may lead to confusion for equities in the near-term due to the quickly shifting market narrative, we believe this is all part of the bottoming process as we near the latter stages of the bear market. Volatility is likely to remain elevated for now as the S&P 500 stays in a **range-bound trading pattern between 3500-4100 (+/- 100 points) over the coming weeks and months**, but it is important not to lose sight of the **bull market opportunity on the other side, which historically has averaged returns of 152% over the next 4 to 5 years.** For 2023, we maintain our **base case earnings estimate of $215**, however, due to the increasing recessionary risk, **we raised the probability of our base case scenario to 75%**, which assumes a short-lived, shallow recession and decreased our probability of our upside case scenario to 15%, which assumes that the economy is able to avoid going into a recession in 2023, which appears more challenging.

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Summary of key data points

Near-term Outlook (pg. 4): Shifting narrative after shifting narrative! Can be confusing, but all part of the bottoming process as we believe we are in the latter stages of this bear market, but in the near-term, the **S&P 500 likely stays range bound between 3500-4100 (+/- 100 points).**

Current Narrative (pg. 4-5): **Recession risks are elevated** due to challenges within the banking sector. However, despite bank failures and investors shifting focus towards the economic damage in the month of March, the **market remained resilient with rotation within sectors (Technology oriented sectors were the best performing sector over the last month), but not out of equities** (pg. 11) as the market now expects Fed policy to shift to rate cuts in 2023.

Unprecedented Policy Runs the Risk of Unintended Consequences (pg. 6): The economic normalization from a global economic shutdown was not going to be easy or smooth, and the recent pressures on the banking sector are a by-product of very swift central bank tightening over the past year.

Market Discounting Further Economic Weakness (pg. 7-9): While economic deterioration is likely to continue, the **sharp decline in the S&P 500 during 2022 is already pricing in further weakness for leading indicators**, which supports our belief that this is the latter stages of the bear market and part of the bottoming process (pg.9). While **earnings are likely to continue to move lower** (pg. 7), the **S&P 500 has bottomed well ahead of earnings out of recessions historically** (pg. 8) and it is important to not to lose sight of the **bull market opportunity** on the other side, which historically has averaged returns of **152% over the next 4 to 5 years**.

Areas to Watch (pg. 10-20): As market expectations shift towards the Fed cutting rates in 2023, we believe there are several areas to watch including: **sector rotation** (pg. 11)—Tech oriented sectors were the best performing in March, **profit recession** (pg. 12) caused by **economic weakness** (pg. 15), **inflation expectations** declining (pg. 13), **Fed policy**, which is now baking in Fed cuts in 2023 (pg. 14), **tightening bank lending standards** from the recent challenges within the banking sector (pg. 16), **credit spreads contained** for now (pg. 17), **government assistance declining** (pg. 18) leading to **ballooning household debt** (pg. 19-20)

Earnings Outlook (pg. 29-30): Increasing recessionary risks **raise the probability of our base case scenario to 75%** while lowering our upside scenario (probability decreased to 15% from 20%). Overall, we maintain our base case price objective of 4300 (which assumes a shallow, short-lived recession which leads to a **slight contraction in 2023 earnings to $215**).

Near-term Outlook

Near-term Outlook

Shifting narrative after shifting narrative! Can be confusing, but all part of the bottoming process as we believe we are in the latter stages of this bear market

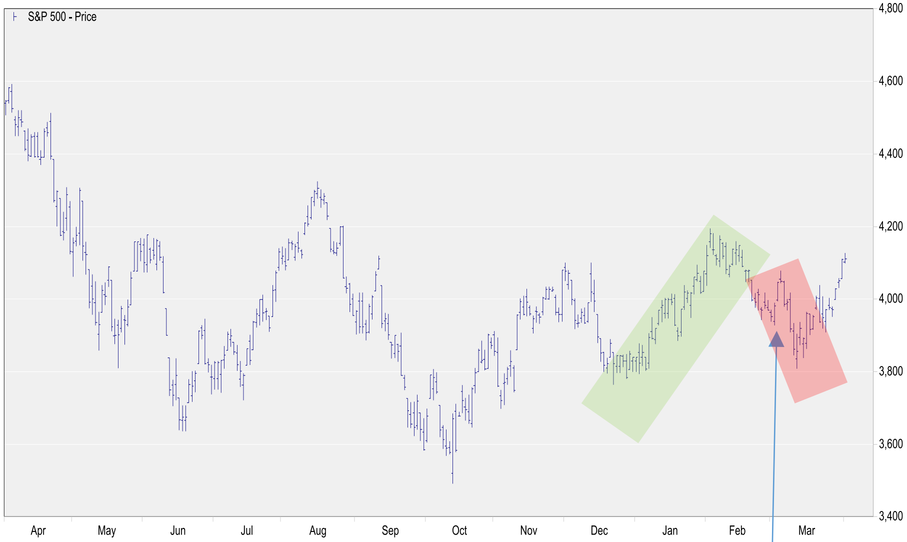
- Likely keeps the market range-bound in the near-term (comings weeks and months) between 3500-4100 (+/- 100 pts)
- Rotation within sectors is possible
- Narratives can shift quickly
    - January, February, and March have seen different narratives to begin 2023

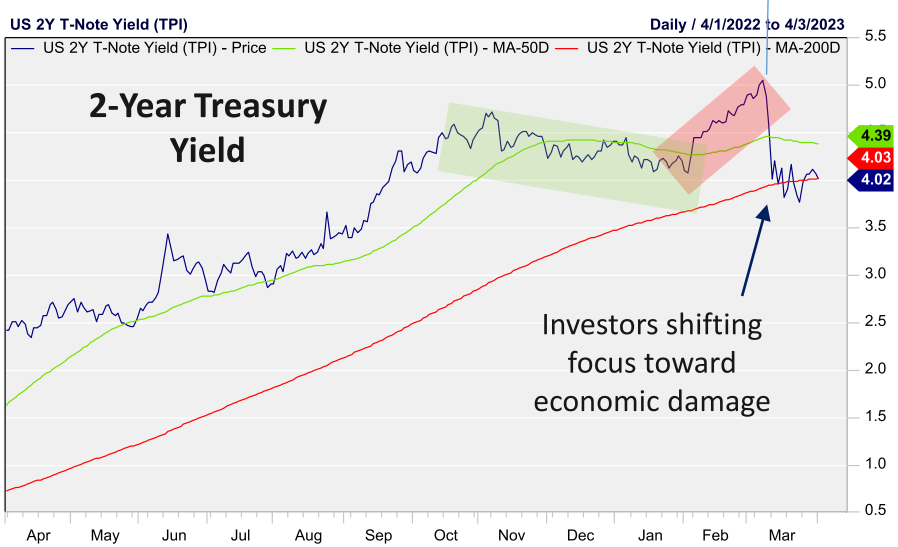
Current narrative:
- Recession risks are elevated due to challenges within the banking sector
- Sector dispersion and rotation elevated-Technology oriented areas have been best performing area over the last month
- Fed policy is expected to shift to rate cuts in 2023

Areas to Watch:
- Sector Rotation
- S&P 500 Profits
- Inflation
- Fed Policy
- Macro Deterioration
- Bank Contagion and Tightening Lending Standards
- Credit Spreads
- Government Assistance
- Ballooning Household Debt

Source: FactSet
All Charts/Price data used as of the close on March 31, 2023

Narrative Shift After Narrative Shift!- Hard, Soft, or No Landing?





Source: FactSet

We believe the shifting narratives and associated volatility is a reminder that this is a bottoming process and recovery is likely elongated

January Market Rally:

- Total Return for the S&P 500 of 6.28%
- Technical momentum mounting as interest rates moved lower and reprieve in the U.S. Dollar
- Optimism of a "no landing"/goldilocks scenario as the consumer remains healthy and data suggestive that inflation was moderating
- Expectation is that Fed would have a dovish pivot in the back half of the year as inflation moderates

February Market Reality Check:

- Total Return for the S&P 500 of -2.45%
- Expectation is that Fed will take a "hike-and-hold" strategy as rates stay higher for longer
- Inflation remains sticky, clear and convincing evidence of inflation moderation takes time thus the Fed needs to maintain aggressive stance

March Market Resiliency:

- Total Return for the S&P 500 of 3.67%
- Despite bank failures and investors shifting focus towards the economic damage, the market remained resilient with rotation within sectors, but not out of equities
- Recession risks rising
- Rates and inflation expectations moved sharply lower as the Fed is now expected to begin cutting rates in 2023

Unprecedented Policy Runs the Risk of Unintended Consequences

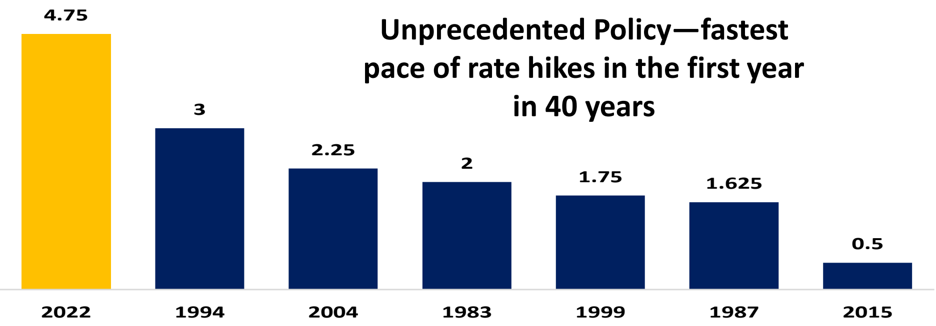
Unprecedented policy always runs the risk of unintended consequences. The economic normalization from a global economic shutdown was not going to be easy or smooth, and the recent pressures on the banking sector are a byproduct of very swift central bank tightening over the past year. Similarly, we have seen other areas impacted from these unintended consequences—housing market, manufacturing slowdown, and deeply inverted yield curve—and could continue to see further impacts to areas of the economy going forward.

Unprecedented Policy—fastest pace of rate hikes in the first year in 40 years

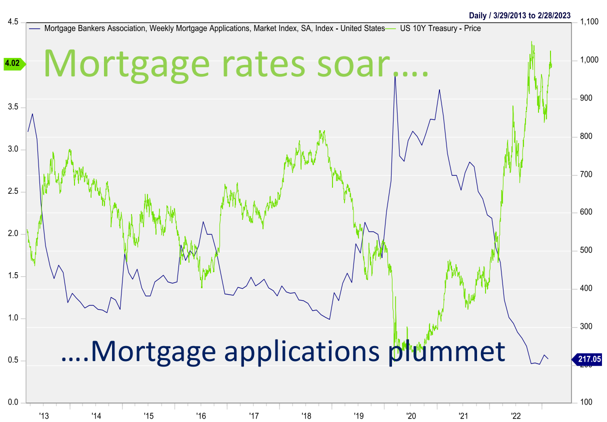
Unintended Consequences:

- **Housing**
- **Manufacturing Slowdown**
- **Deeply Inverted Yield Curve**

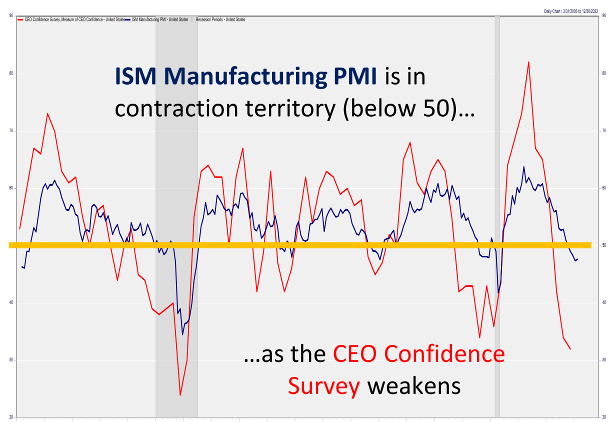
Cumulative Fed Tightening in 1st Year of Rate Hike Cycle



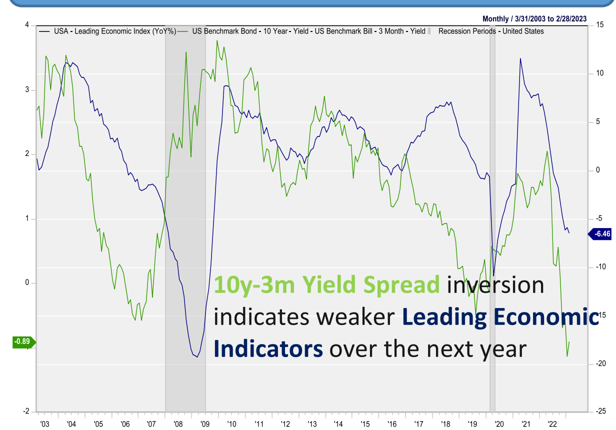
Housing



Manufacturing Slowdown



Deeply Inverted Yield Curve



Source: FactSet

Latter Stages of the Bear Market

While narrative shifts can be uncomfortable as volatility increases, we believe we are nearing the latter stages of the bear market as we are 15 months into this bear market vs. the average recessionary bear market of 13 months. While we do not know the exact timing (or if the bottom is already in), but we believe given the duration and pullback already experienced, odds increase that we are in the latter stages and on the cusp of a bull market.

Recessionary Bear Markets

Market Top	Market Bottom	Total Months	Bear Market Decline	Months to return to high from bottom	% Decline of P/E	% Decline of Earnings	Months from Mkt Peak to EPS Trough	P/E at EPS Trough	P/E Chg from Mkt Bottom to EPS Trough
Jul-57	Oct-57	3	-20%	11	-24%	-23%	20	20.9	87%
Jan-60	Oct-60	10	-18%	3	-27%	-15%	17	21.3	41%
Nov-68	May-70	18	-36%	22	-32%	-18%	32	19.5	51%
Jan-73	Oct-74	21	-48%	69	-64%	-22%	37	13.2	81%
Feb-80	Apr-80	2	-21%	4	-31%	-6%	18	9.6	40%
Nov-80	Aug-82	21	-27%	3	-27%	-26%	32	13.5	93%
Jul-90	Oct-90	3	-21%	4	-18%	-35%	23	27.1	107%
Mar-00	Oct-02	31	-49%	55	-45%	-26%	25	27.8	64%
Oct-07	Mar-09	17	-59%	49	-43%	-33%	27	18.5	95%
Feb-20	Mar-20	1	-34%	5	-32%	-17%	11	28.0	95%
Average		***13***	***-33%***	***23***	***-34%***	***-22%***	***24***	***19.9***	***75%***

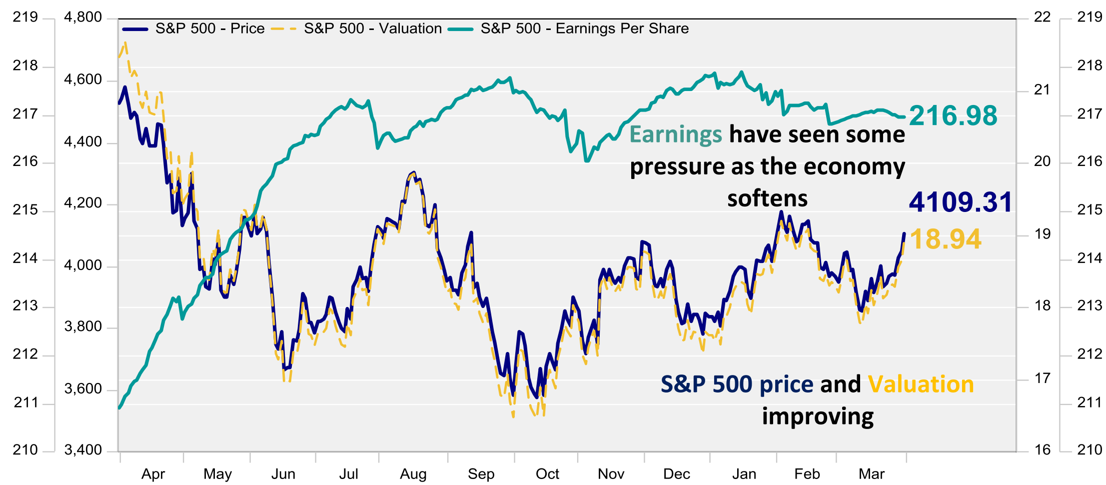
Important not to lose sight of bull market opportunity on the other side

Bull Markets

Trough	Peak	Price Change	# of Days
6/13/1949	8/2/1956	267%	1,789
10/22/1957	12/12/1961	86%	1,042
6/26/1962	2/9/1966	80%	913
10/7/1966	11/29/1968	48%	516
5/26/1970	1/11/1973	74%	665
10/3/1974	11/28/1980	126%	1,555
8/9/1982	8/25/1987	231%	1,277
10/20/1987	7/16/1990	71%	691
10/11/1990	7/20/1998	304%	1,963
10/8/1998	3/24/2000	68%	368
10/10/2002	10/11/2007	105%	1,259
3/6/2009	2/19/2020	396%	2,758
3/23/2020	1/3/2022	114%	450
Average		***152%***	***1173***

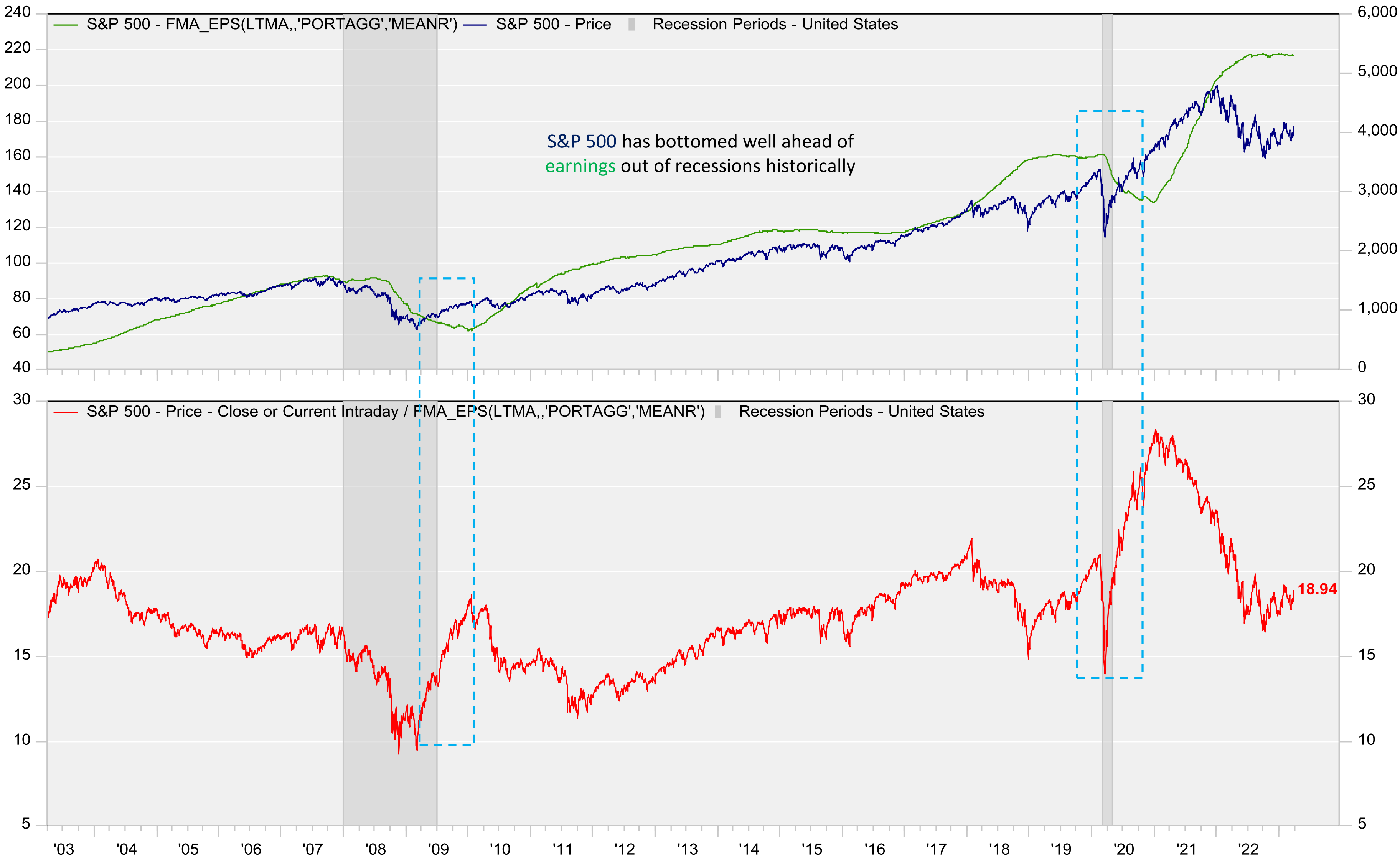
Non-Recessionary Bear Markets

Market Top	Market Bottom	Total Months	Bear Market Decline	Months to return to high from bottom	% Decline of P/E	% Decline of Earnings
Dec-61	Jun-62	6	-28%	15	-35%	6%
Feb-66	Oct-66	8	-22%	7	-36%	-3%
Sep-76	Mar-78	18	-19%	18	-40%	13%
Aug-87	Dec-87	4	-34%	20	-38%	-13%
Jul-98	Oct-98	3	-23%	2	-20%	-1%
Apr-11	Oct-11	6	-19%	5	-39%	5%
Sep-18	Dec-18	3	-20%	4	-32%	5%
Average		***7***	***-24%***	***10***	***-34%***	***2%***



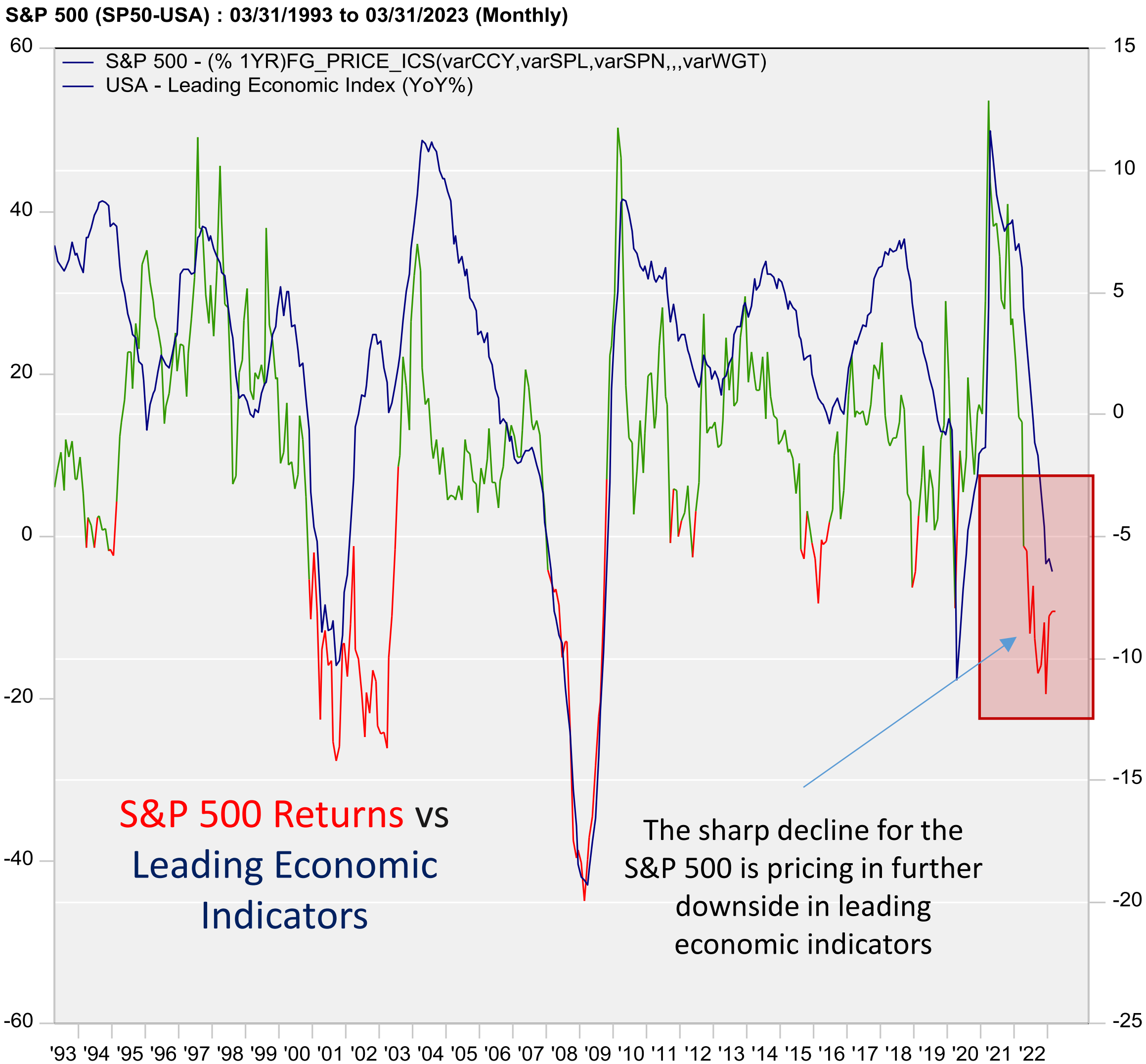
Source: FactSet

Latter Stages of the Bear Market



Source: FactSet

Market Discounting Further Economic Weakness



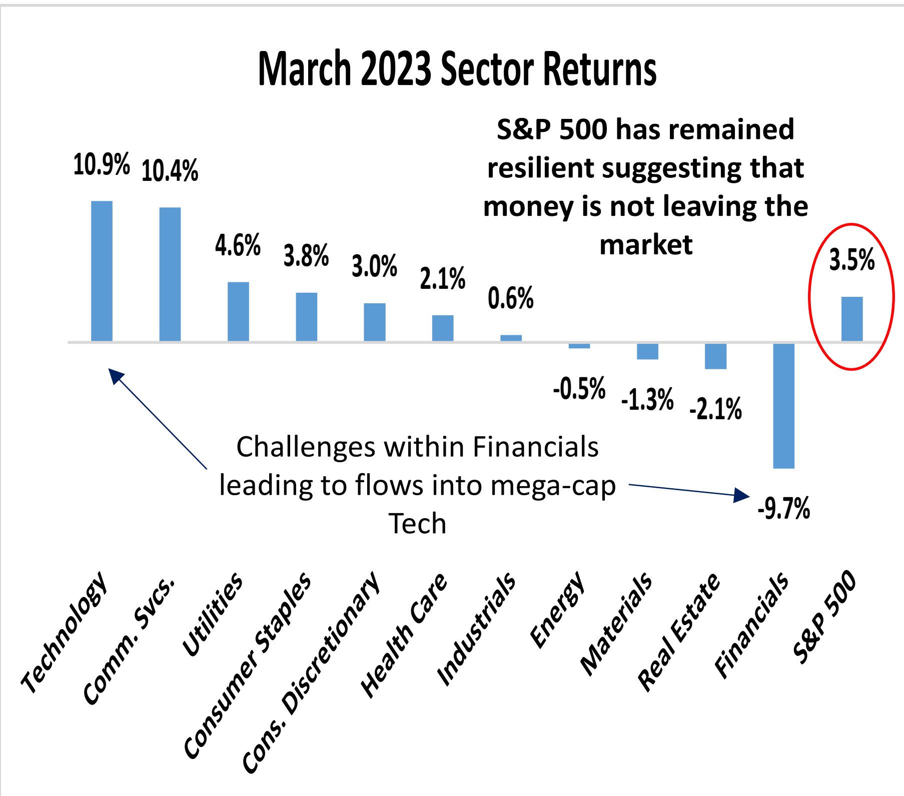
Source: FactSet

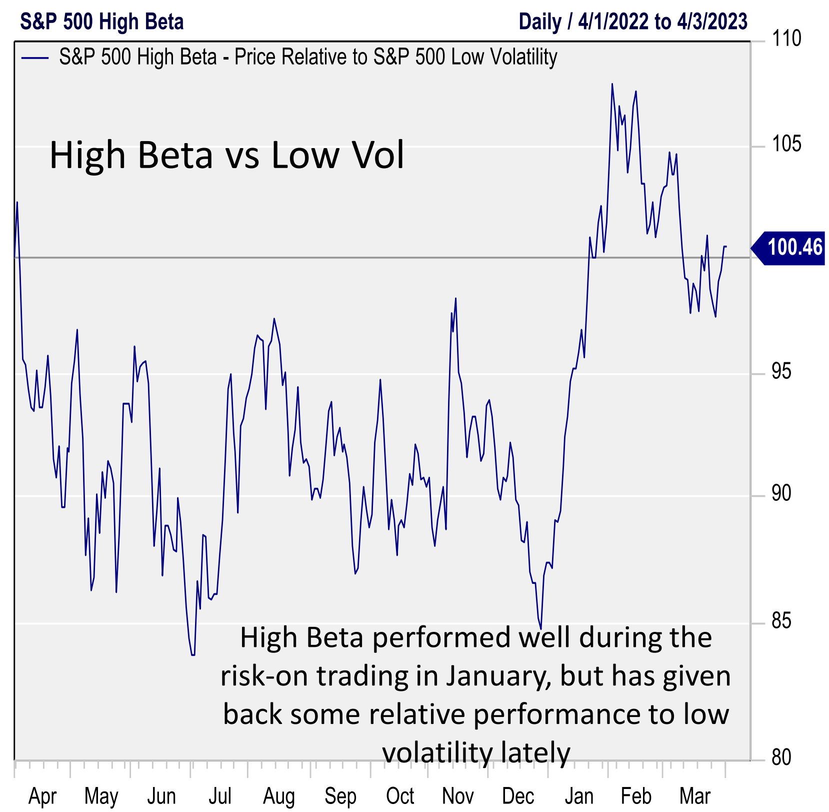
While leading economic indicators are showing signs of weakness, we believe the sharp declines for the S&P 500 during 2022 are already pricing in further weakness for leading indicators, which supports our belief that this is the latter stage of the bear market and part of the bottoming process. While further downside is possible if economic conditions deteriorate further than expected, we believe a mild recession (as we forecast in our base case) is being discounted by the market.

Areas to Watch

Sector Rotation

During the month of March, challenges within the Financials sector have led to flows into other areas of the market, most notably the mega-cap Technology sector. Overall, we see the underlying resiliency of the S&P 500 index, which was able to increase during the month of March, as a positive as we believe money is not leaving the market, rather just rotating within, and is part of the bottoming process.

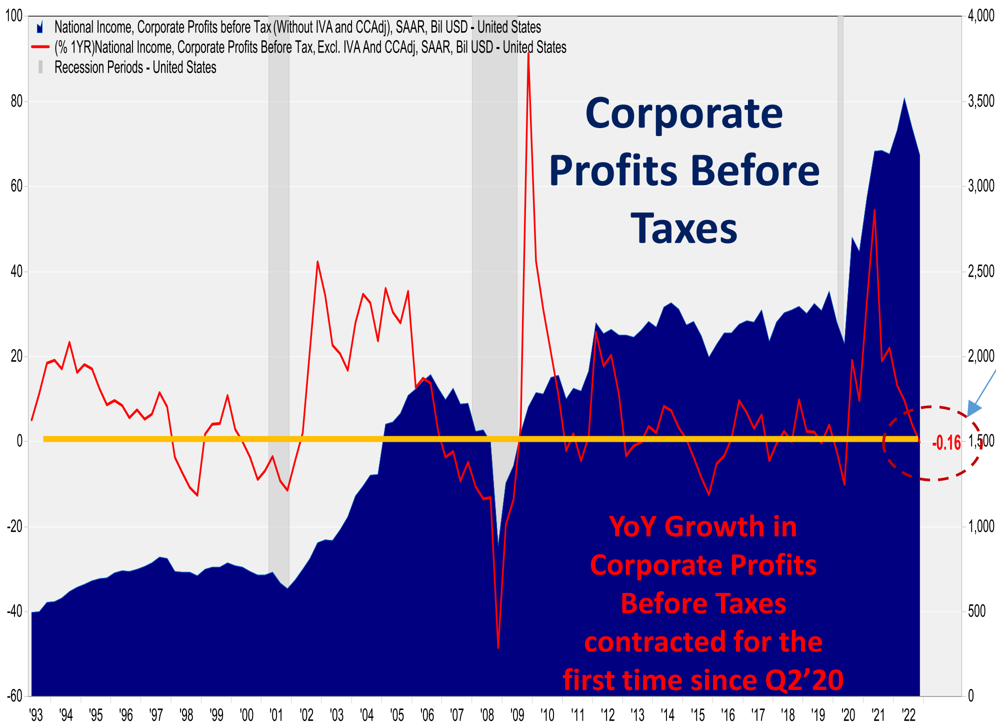


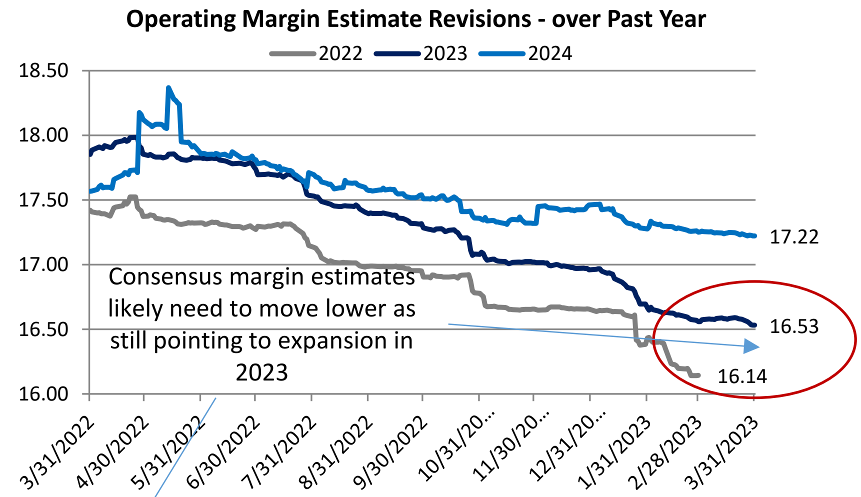


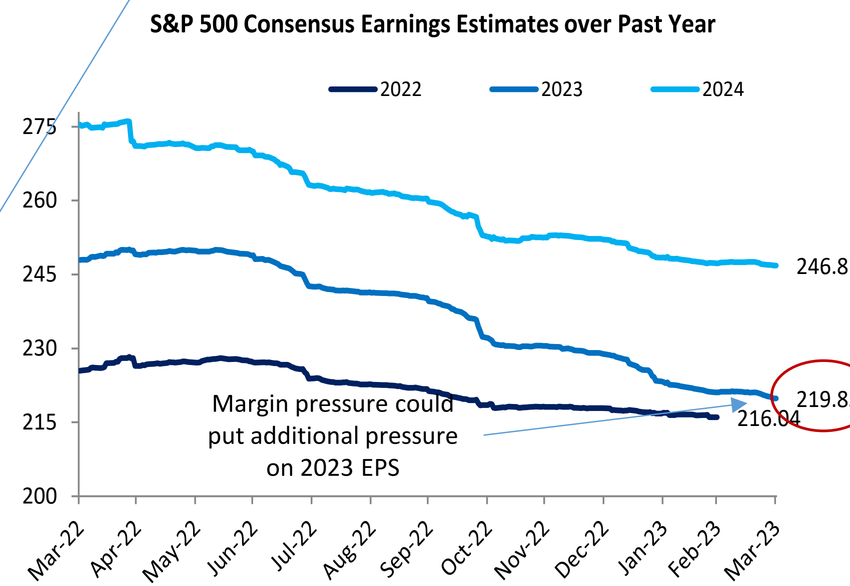
Source: FactSet

Profit Recession

Corporate profits before taxes contracted for the first time since Q2'20. However, consensus operating margins are still estimating some expansion in 2023, which we believe likely needs to come lower, which could put continued pressure on 2023 earnings. Our 2023 base case EPS estimate is $215, which is below the current consensus of ~$220.



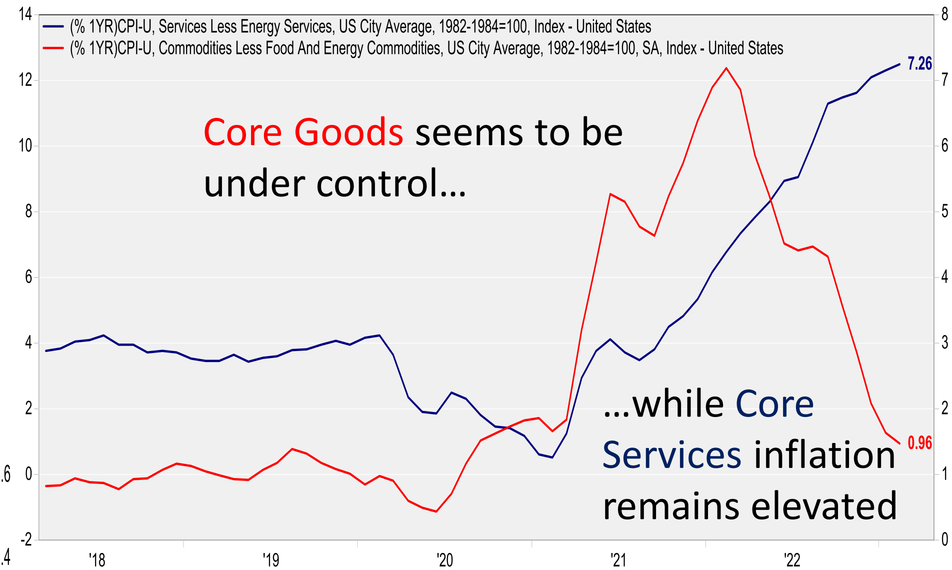


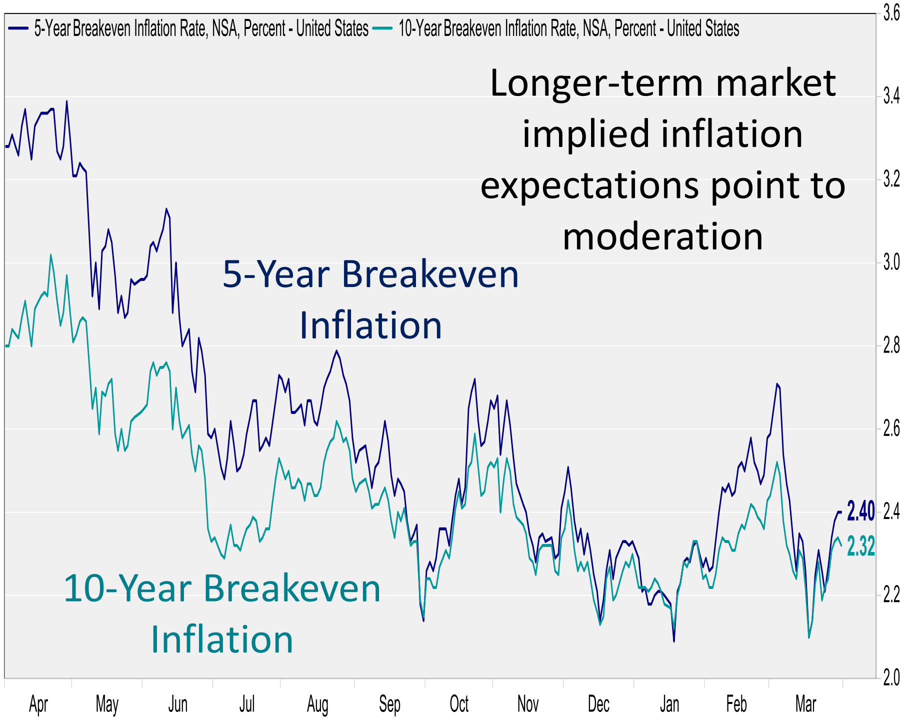


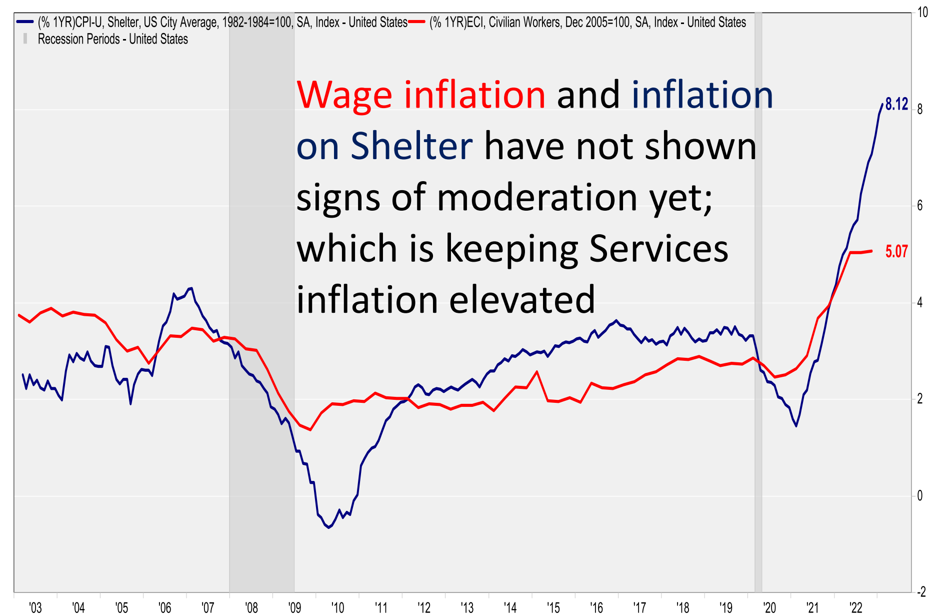
Source: FactSet

Inflation

Inflation remains a key area to watch. While the Fed was hopeful to get clear and convincing evidence of moderating inflation before cutting rates, inflation is proving more entrenched on the Services side of the economy, which will take time to moderate. Given some of the economic softening and challenges with the banks, it does not appear the Fed will have to begin cutting rates before inflation is fully under control. However, as seen to the right, all of inflation is not the same. Core Goods inflation has been moderating for some time and is now contained while Services, specifically shelter and wages, remain areas that have yet to see moderation, making the Fed's job harder. Long-term, market implied breakeven expectations (5-year and 10-year) are pointing to inflation coming back near the Fed's target.



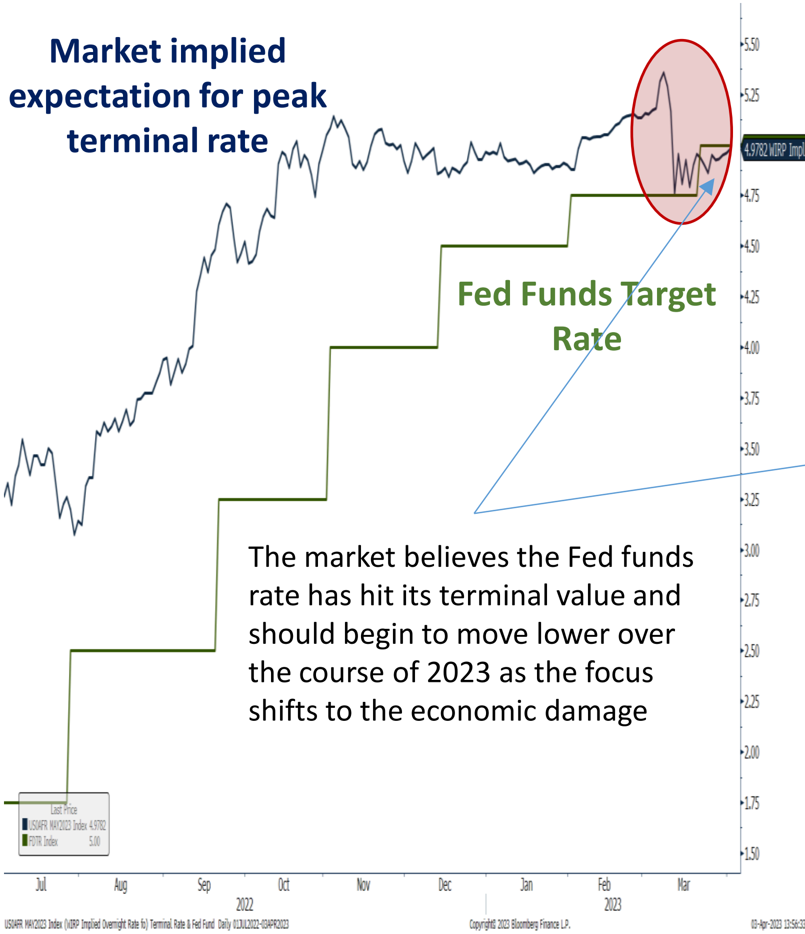


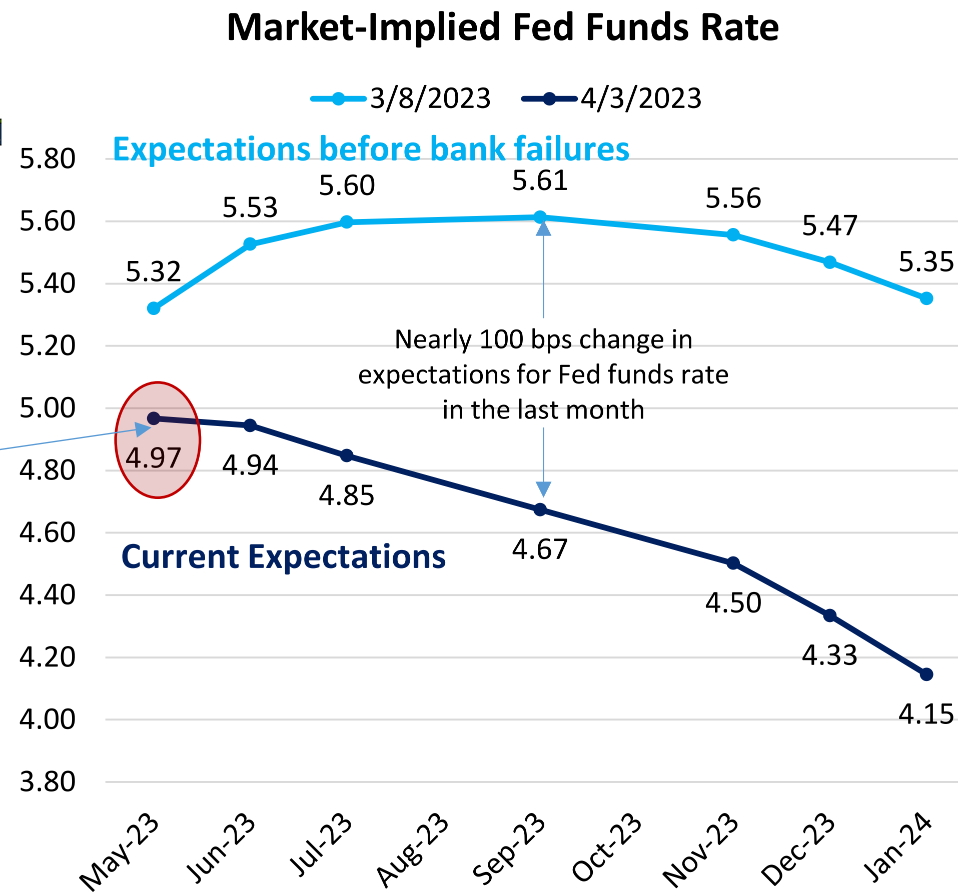


Source: FactSet

Fed Policy

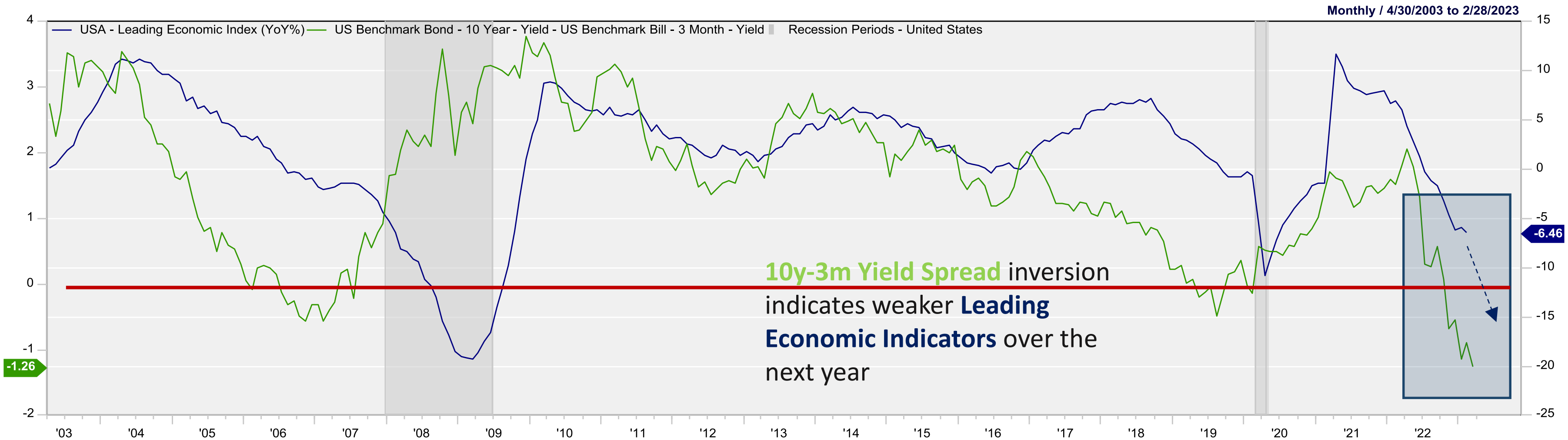
The Fed has a difficult job of balancing inflation while not ignoring that rate hikes can have two-sided risks, including damaging the economy and issues with the Financial sector, which are starting to trickle into the economy now. Despite the Fed talking about further rate hikes, the market is ignoring the words of the Fed and seems to have shifted focus to the economic damage. The market seems optimistic that the rate hike cycle may be coming to an end much sooner than the Fed suggests, which is likely the rationale for market resiliency in the face of macro challenges and bank collapses/tightening lending standards.

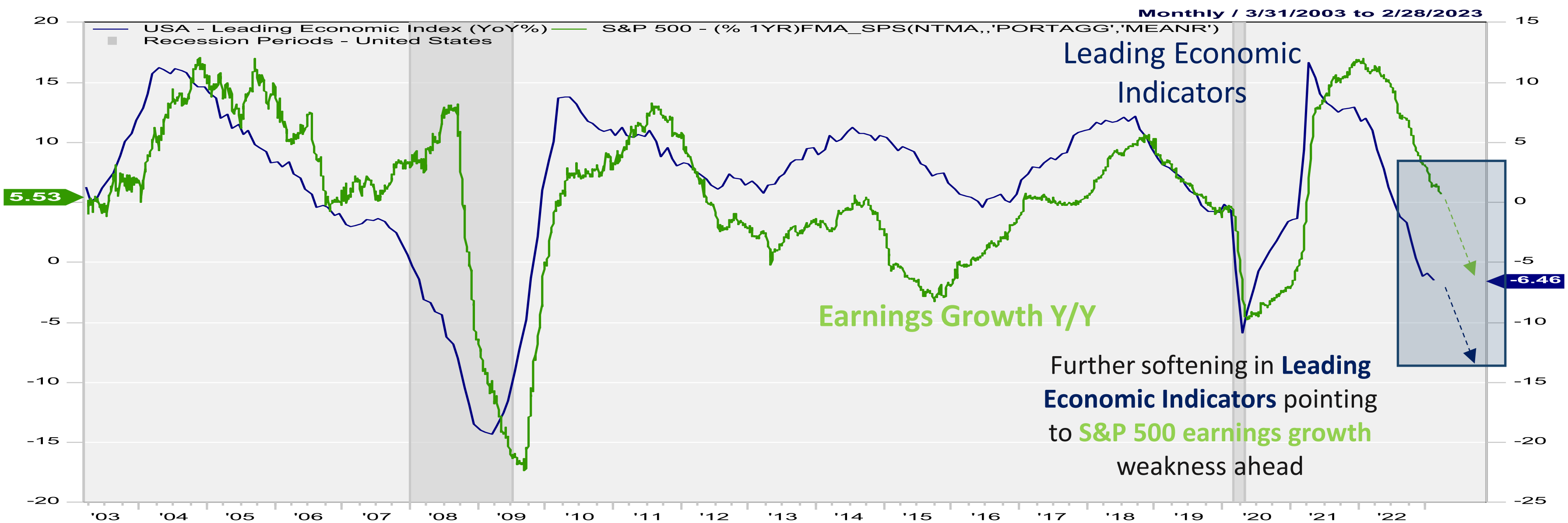




Source: Bloomberg and FactSet

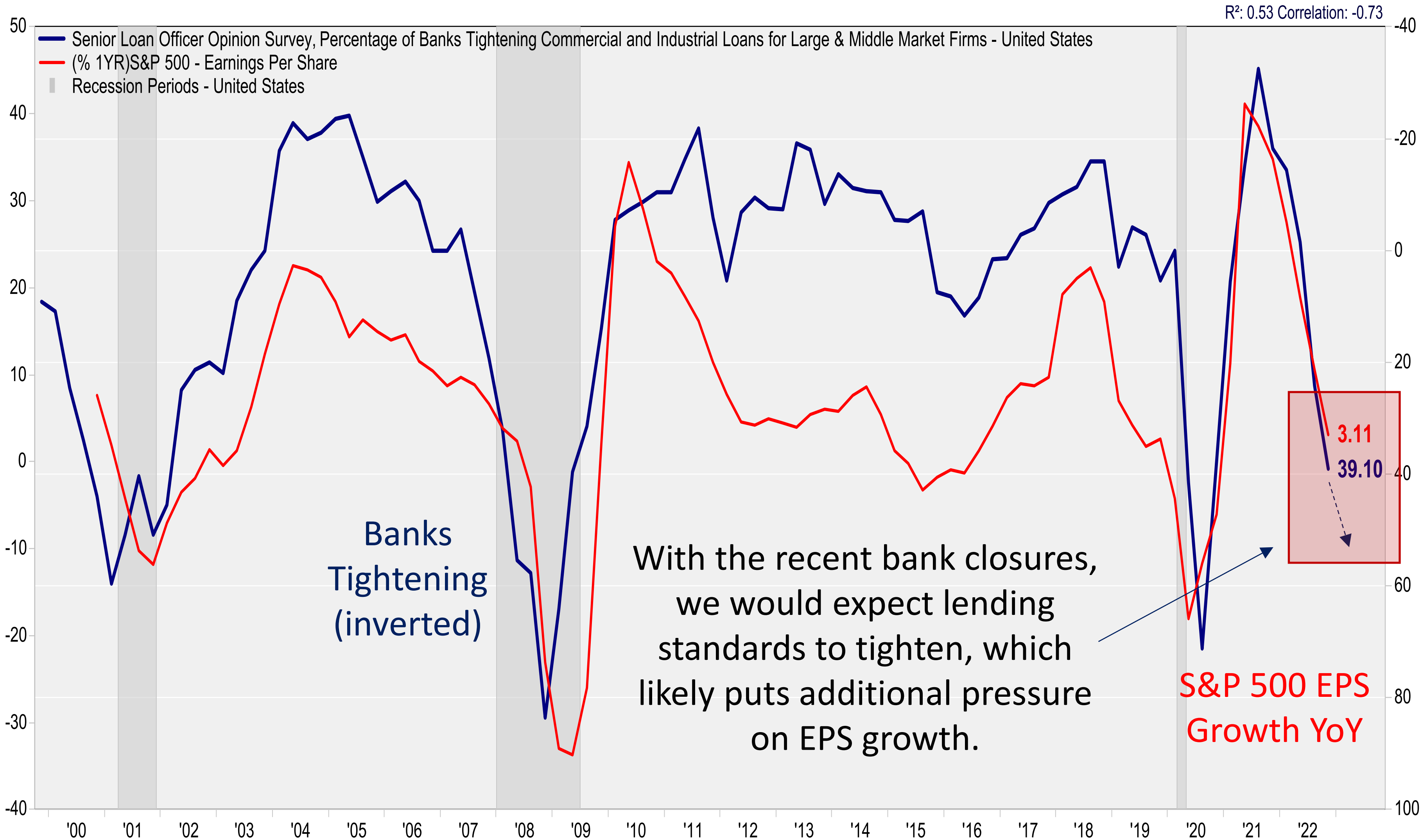
Economy Set to Weaken





Source: FactSet

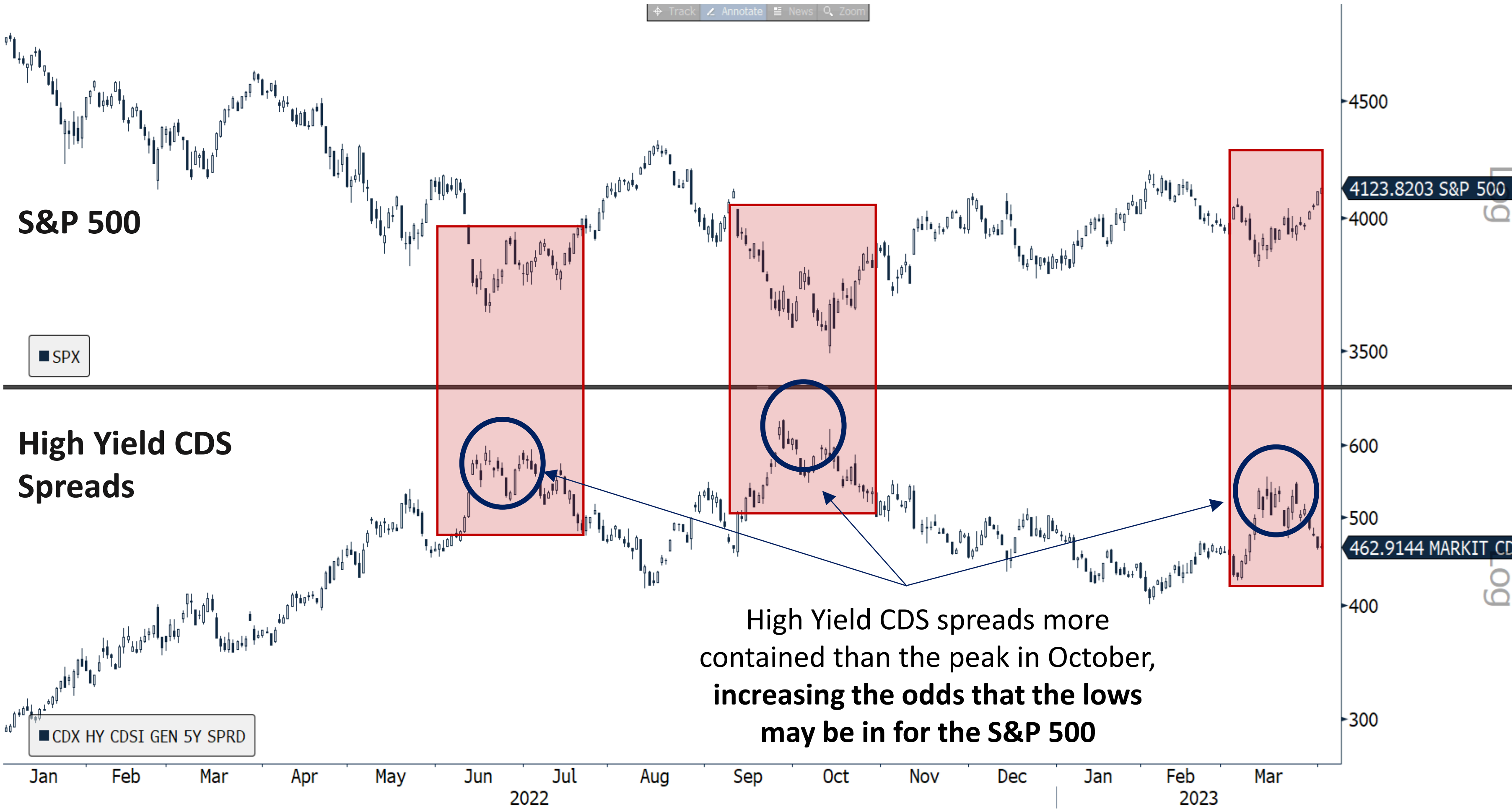
Bank Contagion and Tightening Lending Standards



Source: FactSet

Credit Spreads

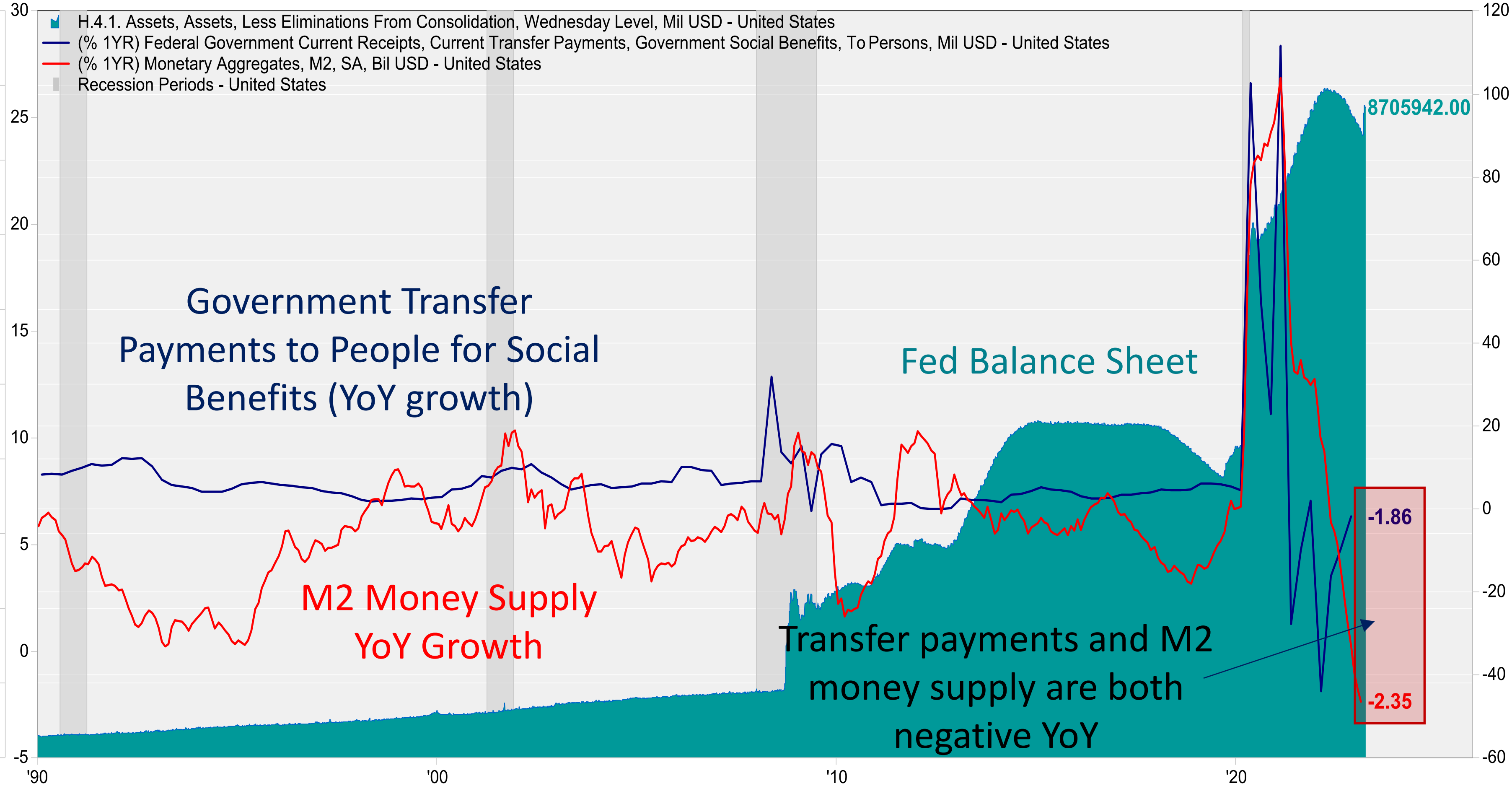
Initially after several bank failures, HY CDS spreads spiked higher, which created volatility for equities. However, the spike in HY CDS remained well below prior highs, which we believe increases the odds that the lows may be in for the S&P 500.



Source: Bloomberg

Government Assistance

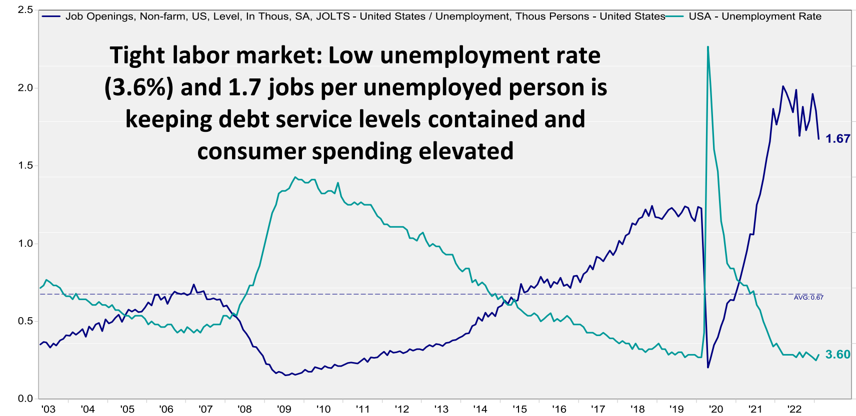
Easy money policies fueled risk assets, but the days of lenient policies due to COVID are winding down as the Fed reduces its balance sheet, transfer payments from the government to people for social benefits has turned negative YoY, and M2 money supply is negative YoY. With government assistance continuing to go away, this could pressure the consumer, which has remained strong as the economy eases.

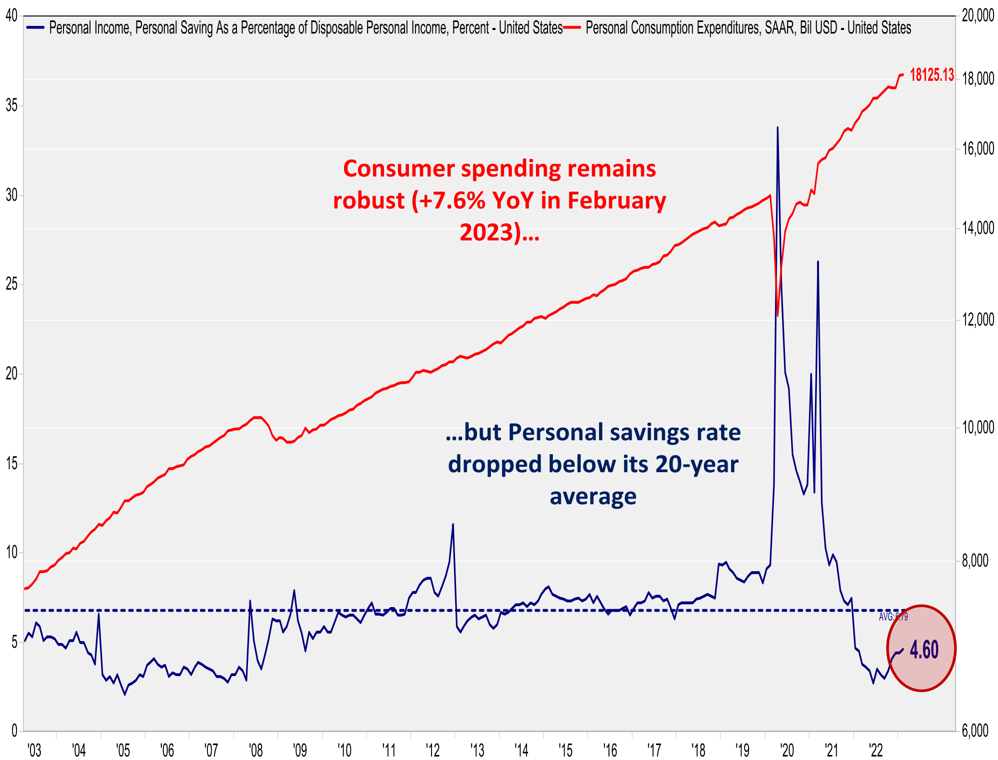


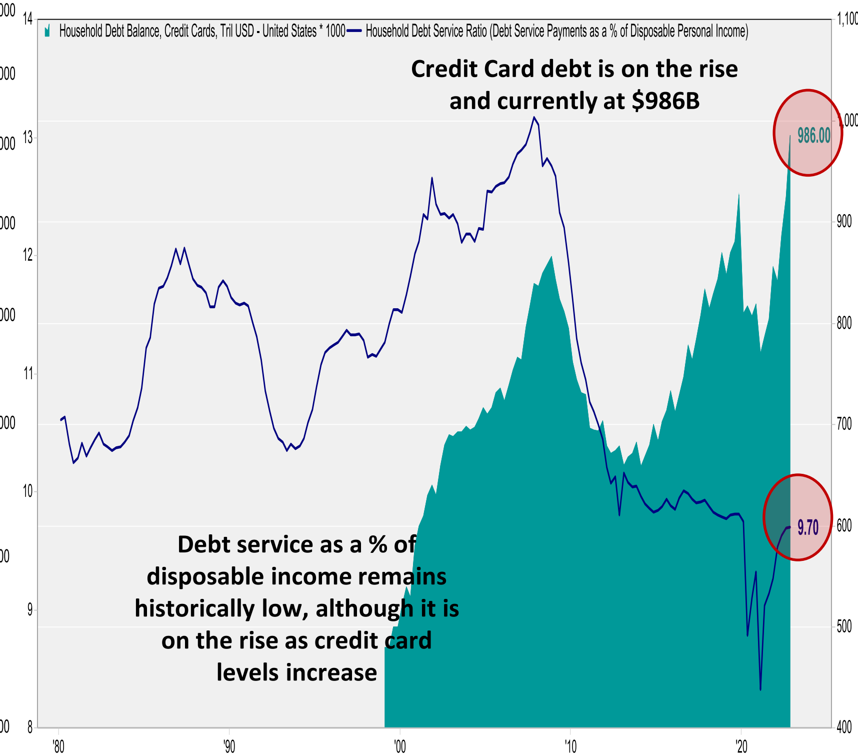
Source: FactSet

Ballooning Debt

For now, the ballooning debt is worth monitoring, but not an issue given the strong labor market. As seen below, consumer spending remains robust despite the personal savings rate dropped below the 20-year average and credit card debt increased to $986B. However, debt service level as a percentage of disposable income remains contained for now.



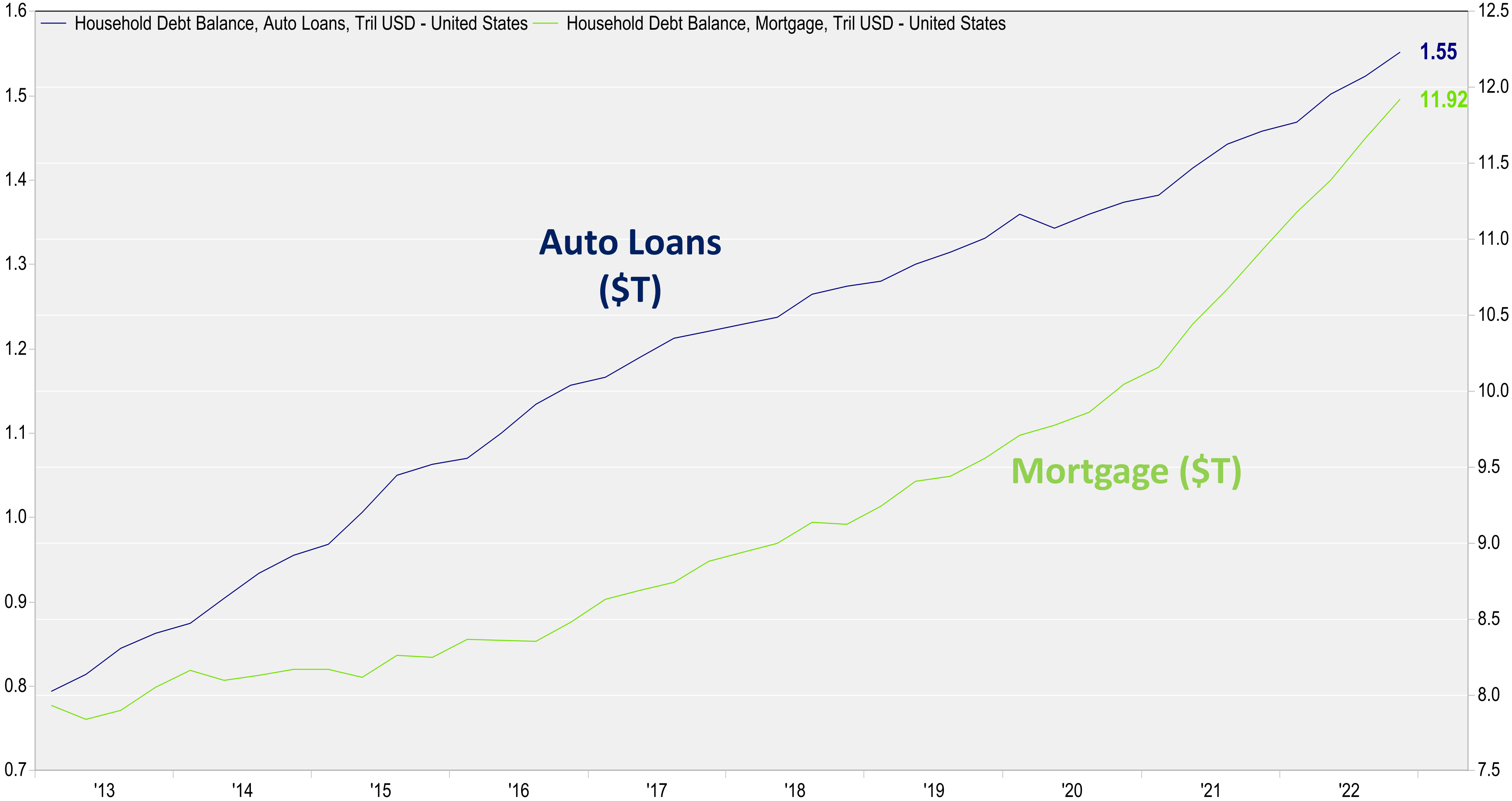




Source: FactSet

Ballooning Debt

In addition to credit card debt, household debt on auto loans and mortgages has been rising and now sits at $1.55T and $11.92T, respectively. Higher interest rates will be a burden to the consumer, but for now seems manageable.

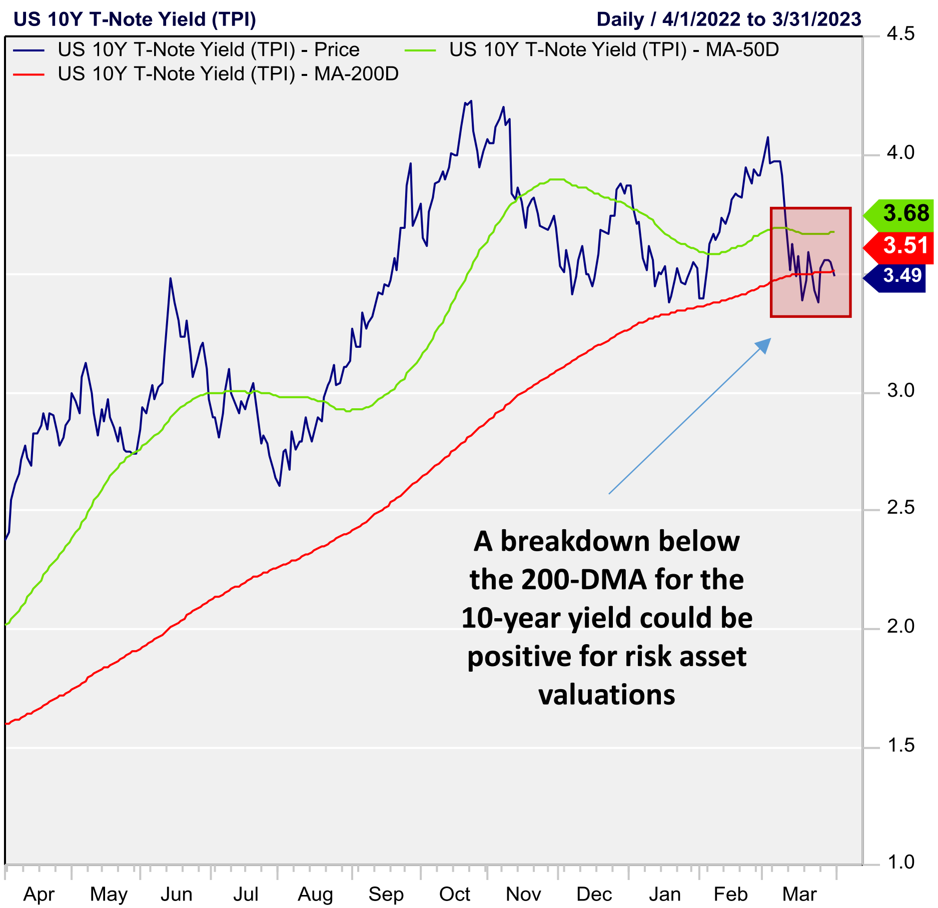


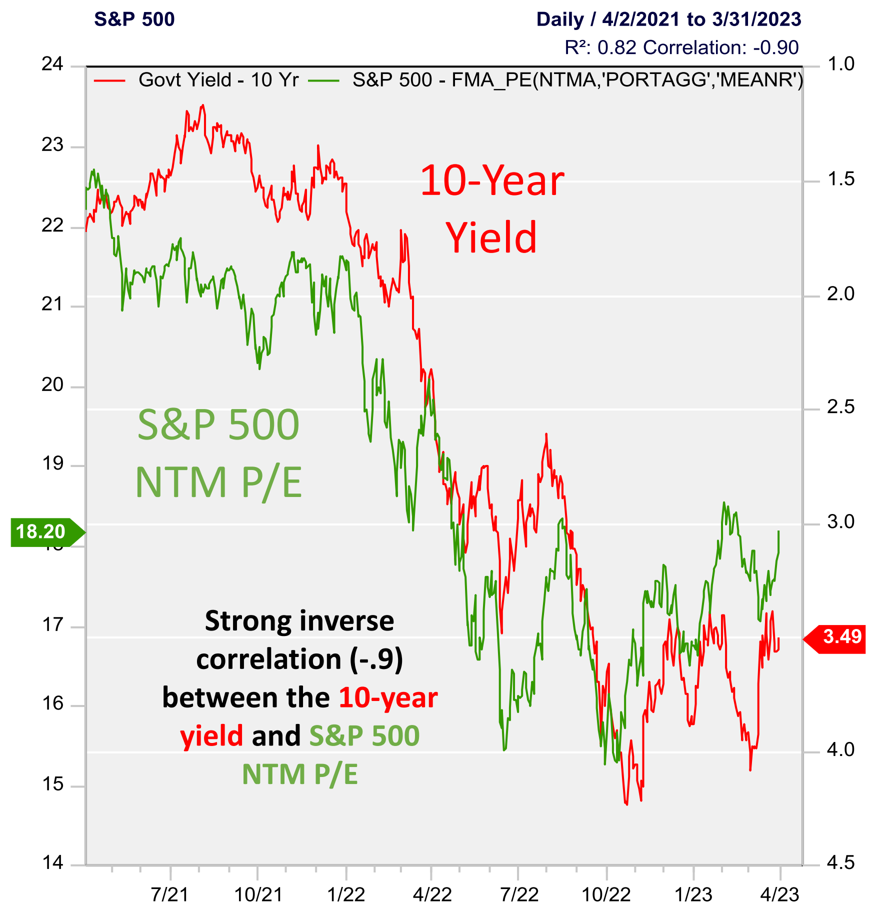
Source: FactSet

Areas of Interest

Interest Rates and Valuation

Over the last two years, there has been a strong inverse correlation between the 10-year yield and S&P 500 P/E valuation (-0.9). As rates moved higher, NTM P/E was pressured. However, the recent reprieve in the 10-year yield has been a tailwind for valuations to move higher, especially for the higher-beta areas such as Technology.

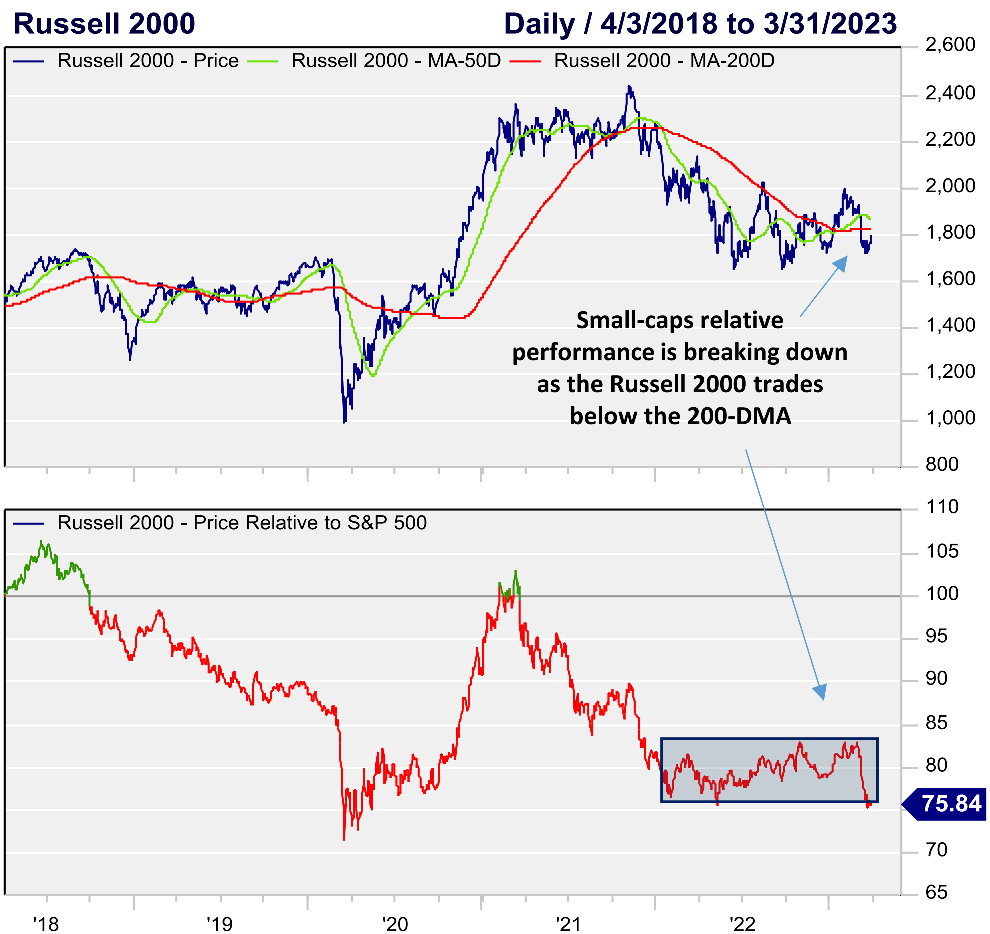


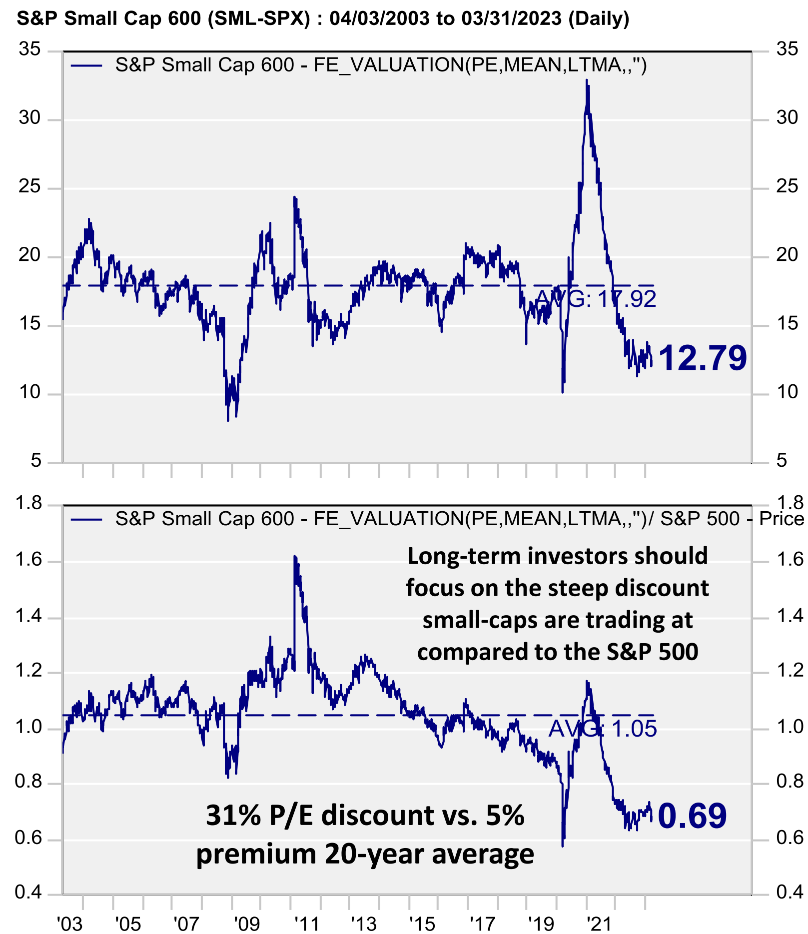


Source: FactSet

Large Cap vs. Small Cap

Flows into large caps are pressuring the relative reperformance of the Russell 2000. In the near-term, small-caps are breaking down as the Russell 2000 trades below the 200-DMA. While small-cap valuation remains attractive for long-term investors, small-caps could remain under pressure for now.

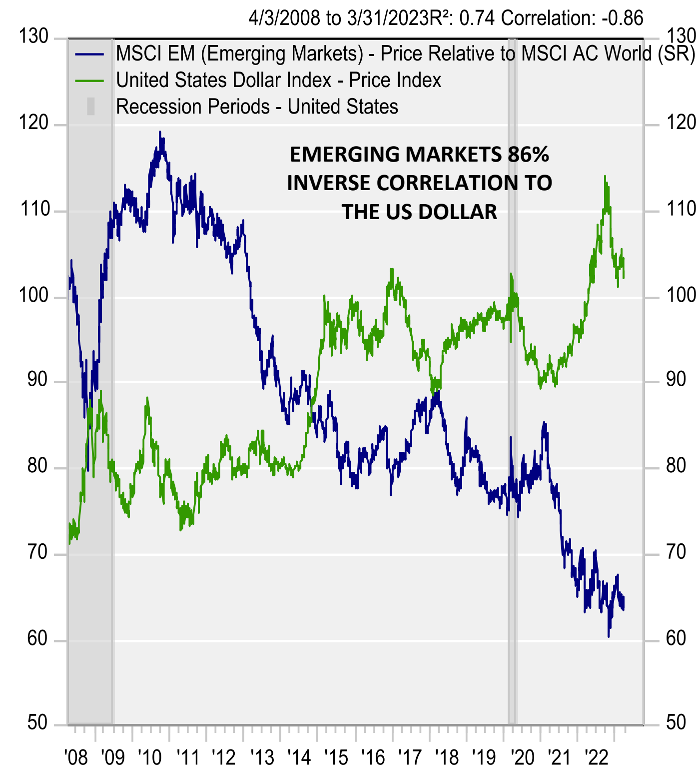




Source: FactSet

U.S. Dollar

To begin the year, equities would rally when the U.S. Dollar (and interest rates) softened and were under pressure when both were stronger. However, Over the last month, U.S. Dollar has moved lower, breaking below its 50-DMA. Further weakness in the U.S. Dollar would be positive for areas such as Emerging Markets, which has an 86% inverse correlation to the U.S. Dollar.



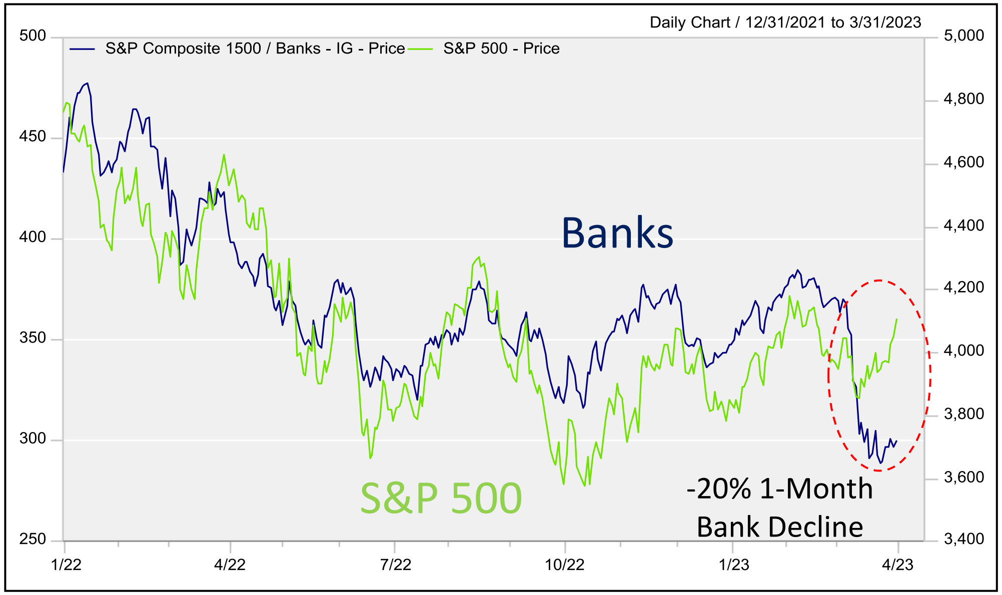
Source: FactSet

Banks

>20% 1-MONTH BANK DECLINES

The Banks declined over 20% in the past month, which is not a common event and is a cautionary signal for the economy. While every period is a little different/has its own nuances, and Fed policy has a big part to play, we took a look back at prior 20%+ Bank Declines over a 20-day period in the table below.

In general, when the market has already been down significantly and a -20%+ 20-day decline occurs, market lows have typically been near (outside of the financial crisis). To be sure, volatility usually follows in the next 2-5 months or so, but good returns have occurred over the next 12-24 months.

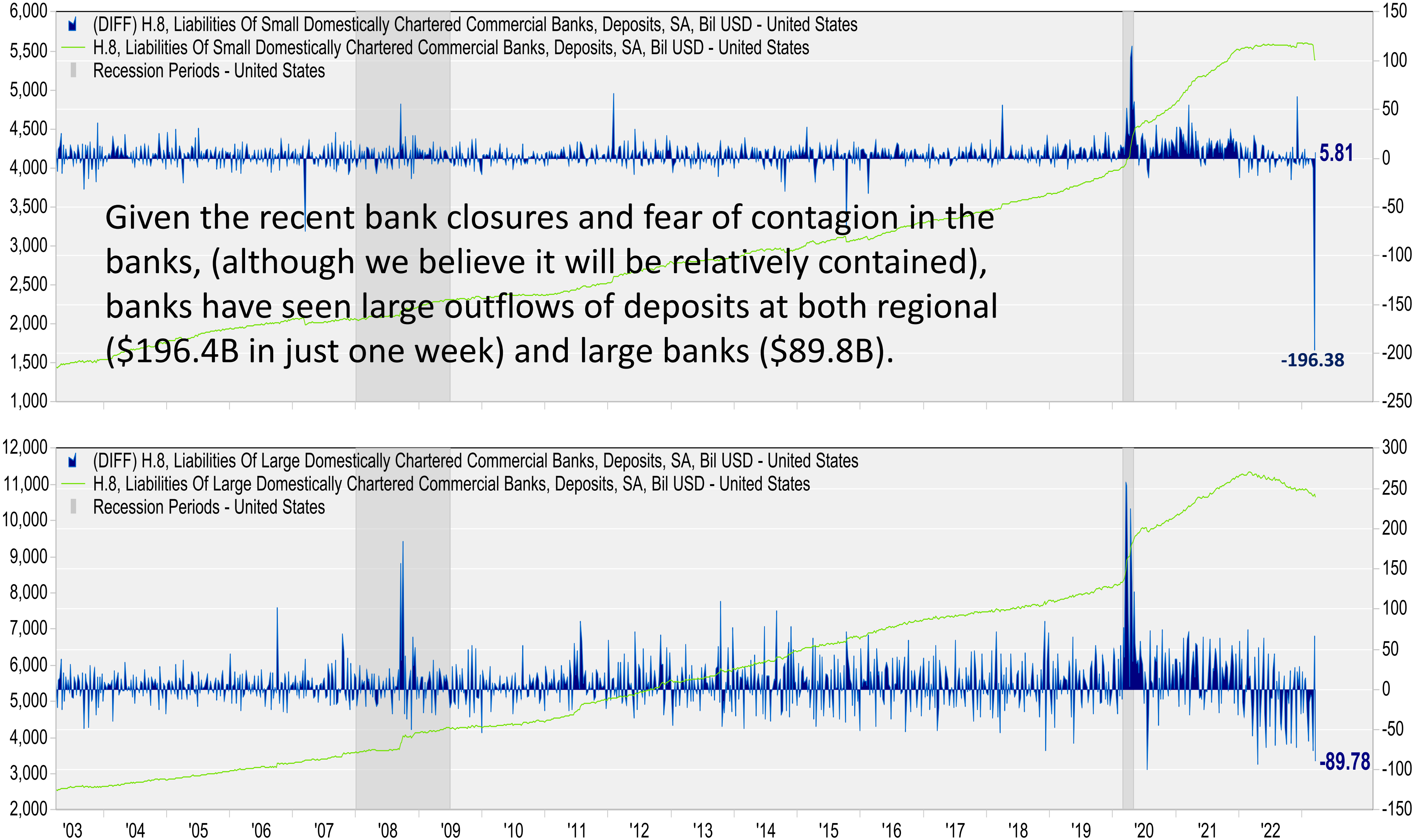


Date	Banks 1500	1M Decline	+1M	+3M	+6M	+12M	+24M	S&P 500	1M Decline	+1M	+3M	+6M	+12M	+24M
8/28/1998	270.35	-20.1%	2.2%	17.1%	16.4%	7.8%	-4.7%	1027.14	-8.3%	2.1%	15.7%	23.9%	26.4%	43.6%
6/30/2000	234.09	-20.2%	6.6%	18.8%	24.5%	29.0%	40.4%	1454.60	-1.5%	-1.6%	-1.9%	-13.1%	-16.1%	-28.5%
10/7/2002	248.83	-21.3%	21.4%	20.9%	11.3%	31.6%	54.0%	785.28	-13.0%	15.7%	15.8%	8.0%	32.0%	42.4%
11/26/2007	282.22	-20.6%	5.8%	-0.2%	-9.4%	-40.2%	-50.6%	1407.22	-8.3%	6.3%	-3.8%	1.4%	-35.7%	-23.2%
6/23/2008	194.62	-20.4%	6.1%	2.7%	-26.6%	-38.5%	-18.7%	1318.00	-4.2%	-3.1%	-12.3%	-33.7%	-28.7%	-15.4%
10/9/2008	154.26	-25.7%	9.4%	-3.8%	-38.1%	-8.7%	-12.9%	909.92	-27.2%	-0.6%	2.7%	-8.3%	16.6%	20.0%
8/18/2011	119.15	-21.8%	7.7%	12.6%	30.1%	37.8%	78.3%	1140.65	-15.1%	6.6%	10.8%	18.5%	20.6%	48.1%
3/6/2020	291.15	-22.8%	-27.5%	-11.0%	-11.7%	28.2%	51.0%	2972.37	-11.2%	-16.3%	3.6%	17.0%	31.7%	51.9%
7/7/2020	241.48	-20.6%	4.0%	1.2%	33.6%	63.8%	54.8%	3145.32	-2.7%	5.1%	6.9%	17.7%	32.5%	30.4%
3/15/2023	299.21	-21.4%						3891.93	-5.9%					
Average		***-21.5%***	***4.0%***	***6.5%***	***3.3%***	***12.3%***	***21.3%***		***-9.7%***	***1.6%***	***4.2%***	***3.5%***	***8.8%***	***18.8%***

Source: FactSet

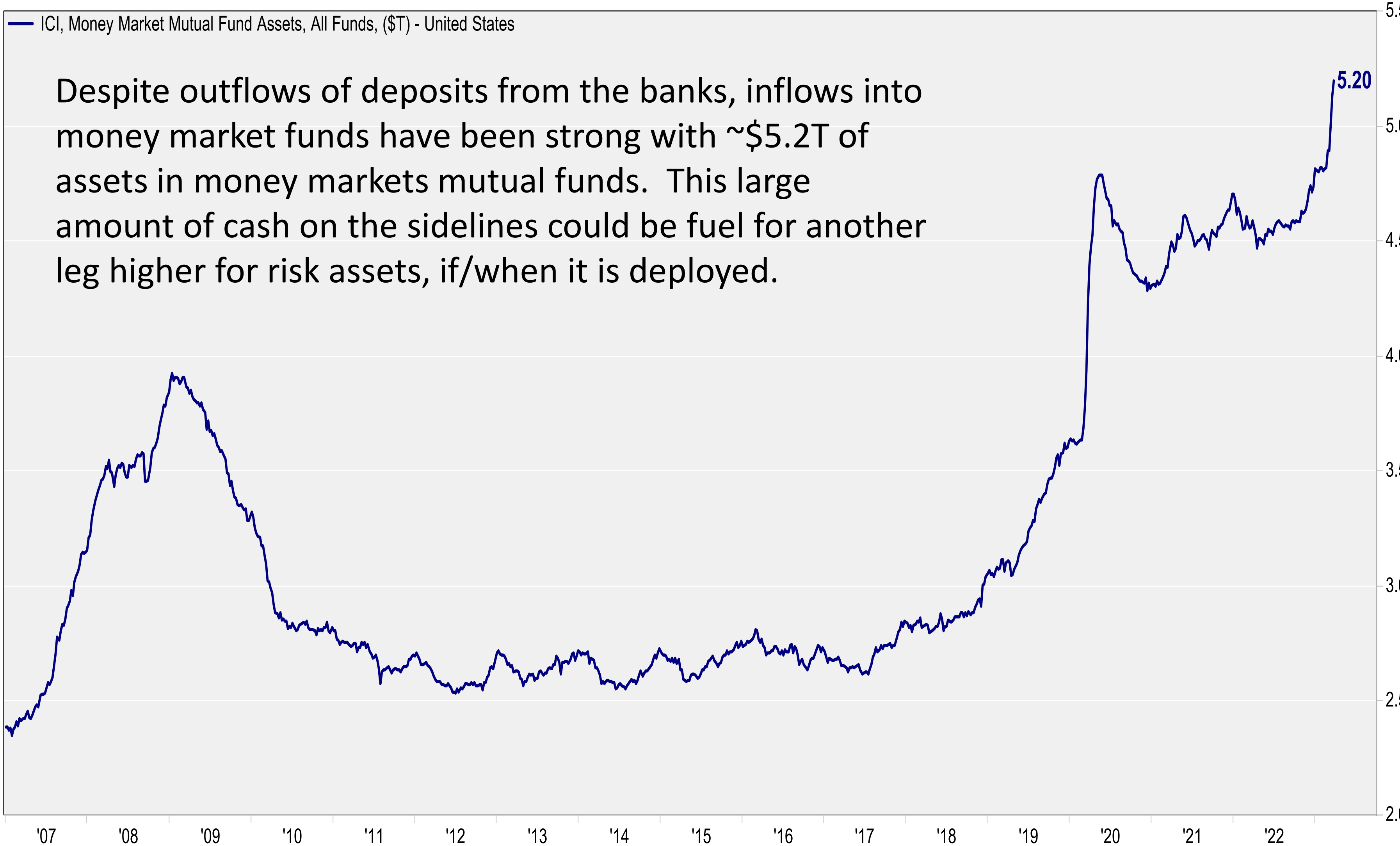
Banks

Given the recent bank closures and fear of contagion in the banks, (although we believe it will be relatively contained), banks have seen large outflows of deposits at both regional ($196.4B in just one week) and large banks ($89.8B).



Source: FactSet

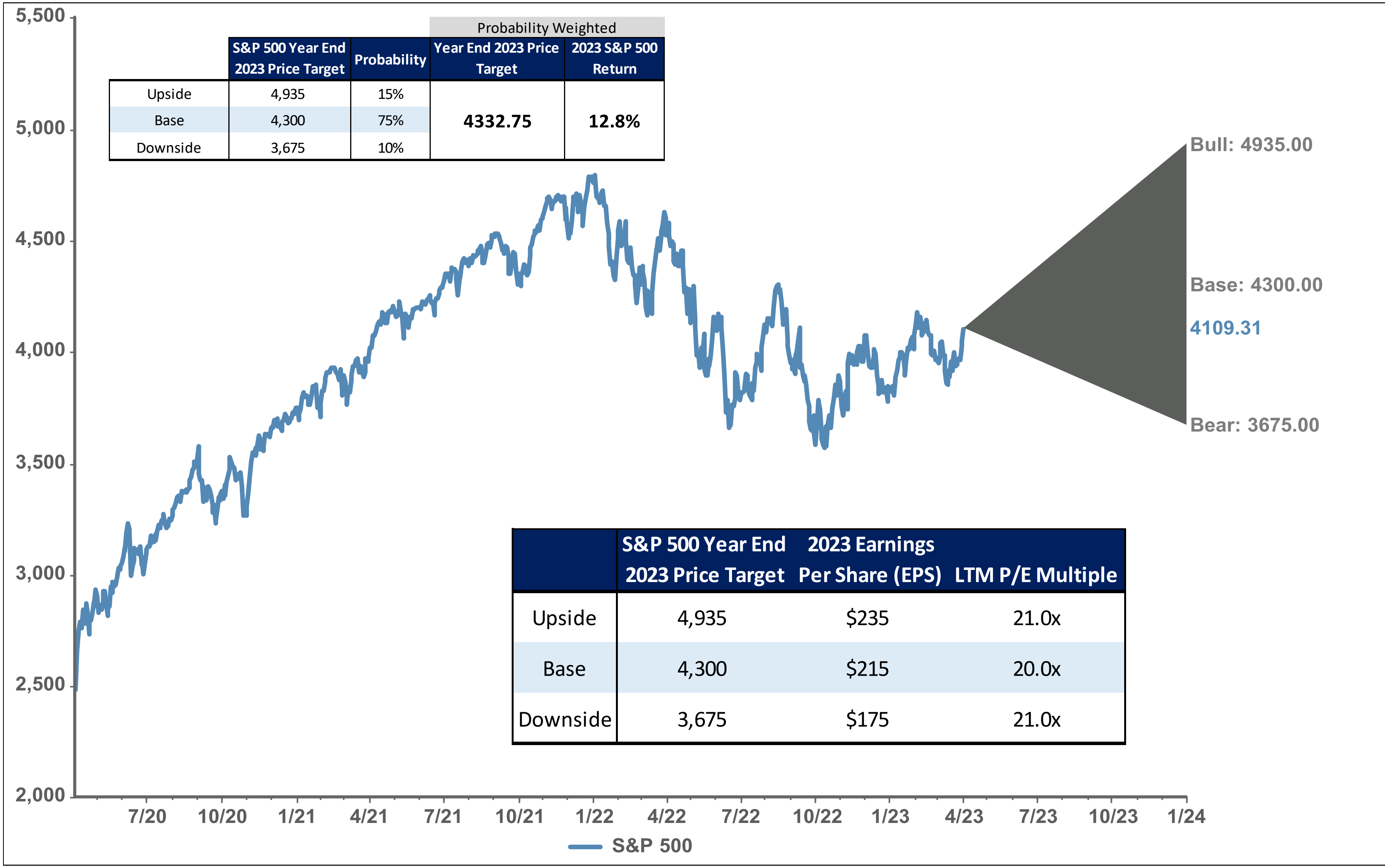
Banks



Source: FactSet

Earnings Outlook

2023 Price Objective



	S&P 500 Year End 2023 Price Target	Probability	Probability Weighted Year End 2023 Price Target	Probability Weighted 2023 S&P 500 Return
Upside	4,935	15%	**4332.75**	**12.8%**
Base	4,300	75%		
Downside	3,675	10%		

	S&P 500 Year End 2023 Price Target	2023 Earnings Per Share (EPS)	LTM P/E Multiple
Upside	4,935	$235	21.0x
Base	4,300	$215	20.0x
Downside	3,675	$175	21.0x

Source: FactSet

2023 S&P 500 Fair Value

	S&P 500 Year End 2023 Price Target	Probability	Probability Weighted Year End 2023 Price Target	Probability Weighted 2023 S&P 500 Return
Upside	4,935	15%	**4332.75**	**12.8%**
Base	4,300	75%		
Downside	3,675	10%		

Increasing recessionary risks raise the probability of our base case scenario

Upside Case: Probability 15% (lowered from 20%)

- The unintended banking issues created by the aggressive Fed policy mixed with more persistent inflation increases recession risks and makes the Fed's job more difficult, thus we lowered our probability that the economy is able to avoid a recession in 2023.
- In this scenario, the U.S. economy avoids a recession (which is becoming more difficult with higher rates), inflation moderates, and the Fed becomes less hawkish. As cost pressures moderate, earnings revisions resume an upward trajectory. Our earnings estimate for the S&P 500 moves up to $235 as we incorporate higher GDP forecast and higher margins.
- Price gets to a new all-time high. Historically, in a non-recessionary bear market, markets get back to new highs within 10 months of the market bottom.
- The improvements influence positive investor sentiment allowing the P/E multiple to expand back to the 5-year average and pre-pandemic level of 21x.

Base Case: Probability 75% (increased from 70%)

- The Fed's aggressive actions from 2022 push the economy into a shallow, short-lived recession during 2023.
- Due to the demand destruction, inflation moderates, which allows the Fed to become less hawkish, which keeps the recessionary period brief.
- Our model assumes earnings contract slightly to $215 in 2023; however, the market begins to recover off its bottom and the P/E multiple expands to 20x even as trailing earnings continue to move lower as economic growth starts to re-accelerate at the end of the year.

Downside Case: Probability 10% (unchanged from 10%)

- Recession risks are increasing as the recent banking issues embolden the Fed to become more lenient in its policy. However, inflation is still elevated and more persistent than expected, which increases the odds that the Fed's actions to tame inflation prove ineffective if the Fed is forced to cut rates too soon, which could push the U.S. economy into a more longer-lasting recession than we believe. The biggest wildcard is going to be the duration/degree of the recession and the persistence of inflation.
- EPS estimates, which continue to contract even after a recession ends, move lower and contract in-line with the average recessionary bear market of 22%.
- Despite earnings moving lower, historically, trough P/E multiples have not been applied to trough earnings, thus we would expect P/E multiples to expand in our downside case scenario to 21x.

Supplemental Slides

Supplemental Pages

Stat Pack Estimates (March 31, 2023: S&P 500 4109.31)

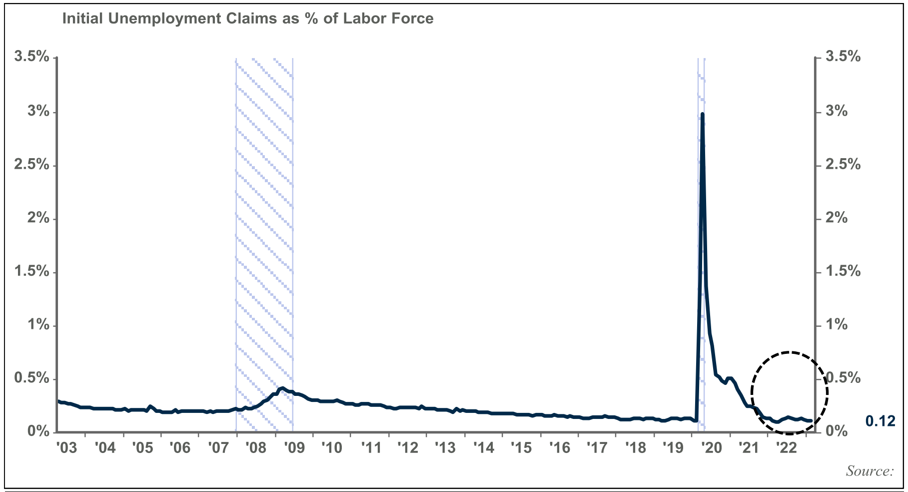
Stat Pack of Forecasts

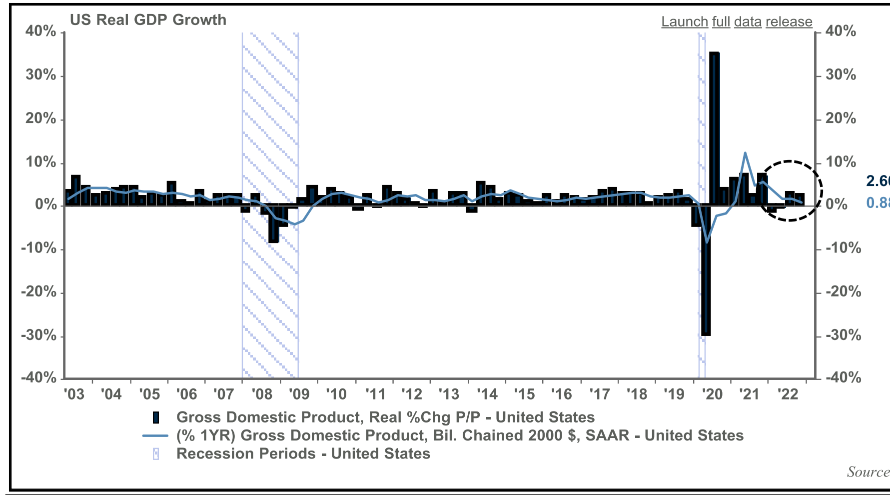
	2023 Estimates	2024 Estimates
Consensus EPS S&P 500[1]	$219.85 (Bottom up- Analysts) $215- RJ estimate (base case)	$246.81 (Bottom up- Analysts)
EPS Growth S&P 500	1.8% bottom up; -0.5% RJ (base case)	12.3% bottom up
Margins (EPS/Sales-using bottom up est.)	12.1% E(consensus[1])	13.0% E (consensus[1])
EPS if Margins stay flat (high probability from elevated levels)		$230.17 (based on consensus revenues)
GDP	Fed 0.4%; Consensus 1.0%; RJ 1.2%[3]	Fed 1.2%; Consensus 1.0%; RJ 1.2%[3]
CPI	Headline 4.3%[1]	Headline 2.6%[1]
PCE (Personal Consumption Expenditures)	4.0% (ex-F&E)[1]	2.5% (ex-F&E)[1]
Dividend/Dividend Growth S&P 500	$68.77[1] +4.5% Payout ratio: 31.2% (of bottom up est.)	$72.70[1] +5.7% Payout ratio: 29.5% (of bottom up est.)
Revenue Growth Per Share S&P 500 (only bottom up available)	+1.8% ($1,815.14/share[1])	+4.8% ($1,901.99/share[1])
P/E	~18.7x[2]	~16.6x [2]
Earnings Yield S&P 500	5.4% (using bottom up est.)	6.0% (using bottom up est.)
Fed Funds (average)	5.05%[1]	3.55%[1]
10 Year Treasury Yield	3.47%[1]	3.24%[1]

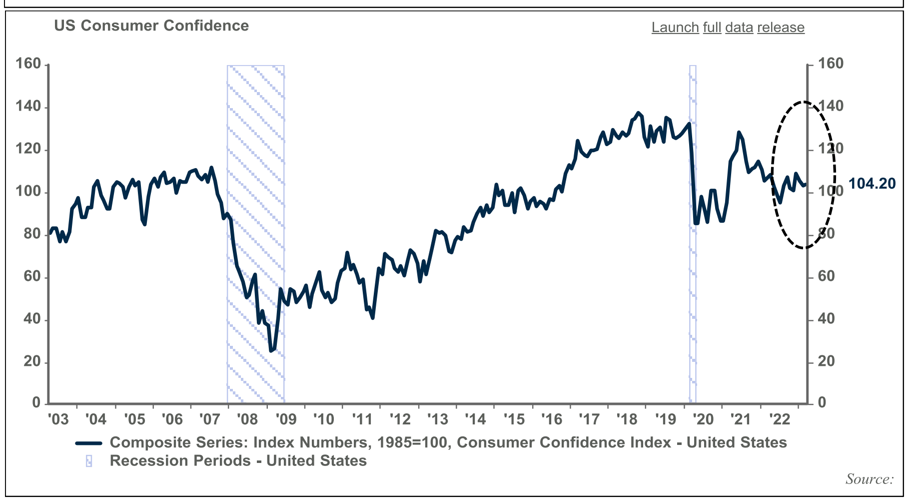
[1] FactSet;
[2] Current PE based on consensus 2022 and 2023 bottom up estimates
[3] RJ Chief Economist Eugenio Aleman

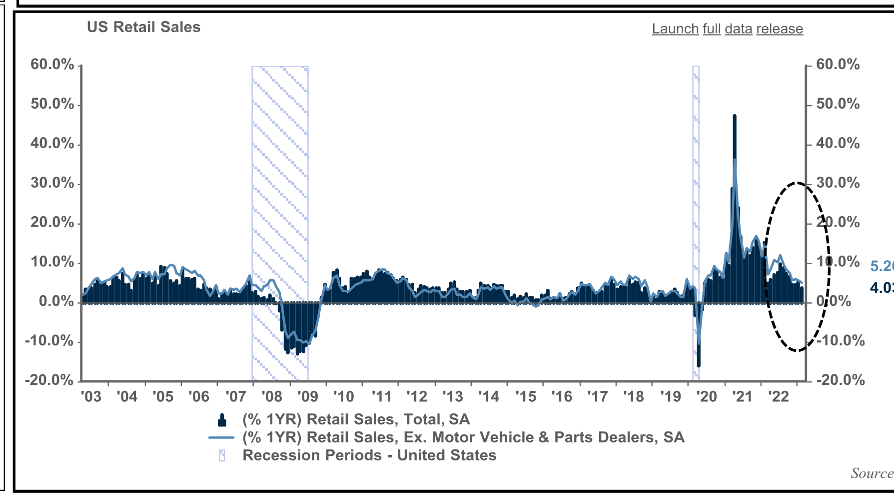
Source: FactSet

U.S. Economic Conditions





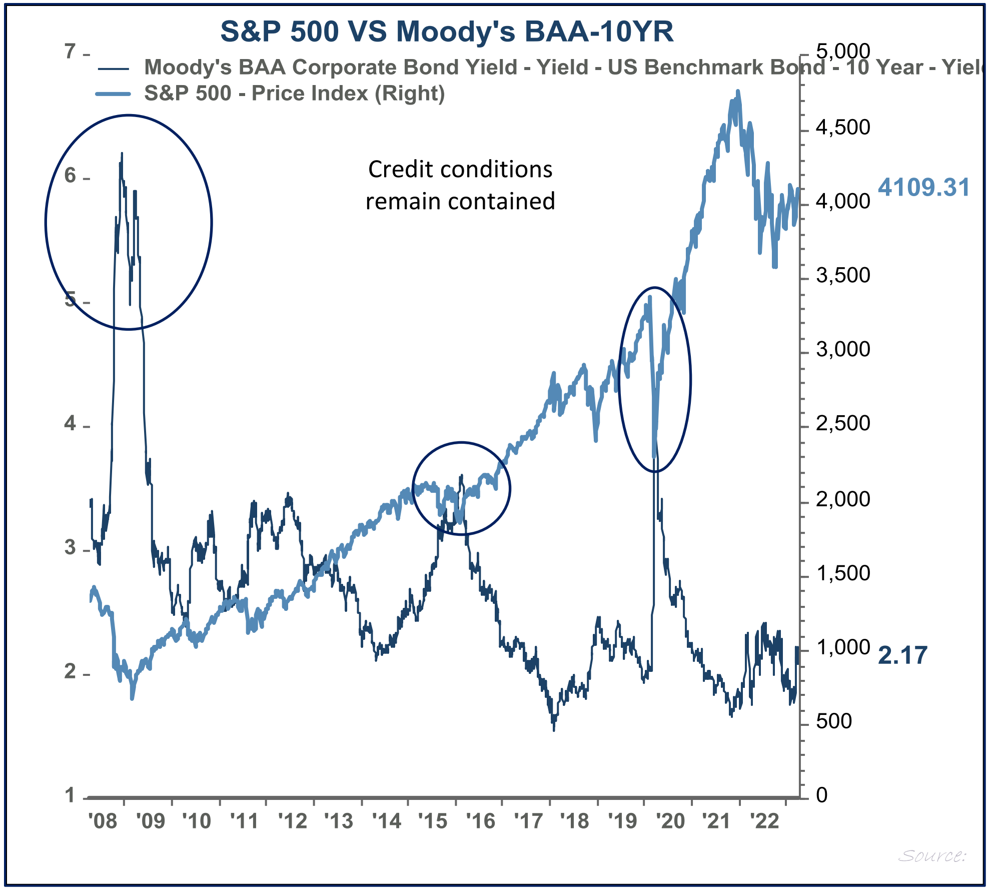


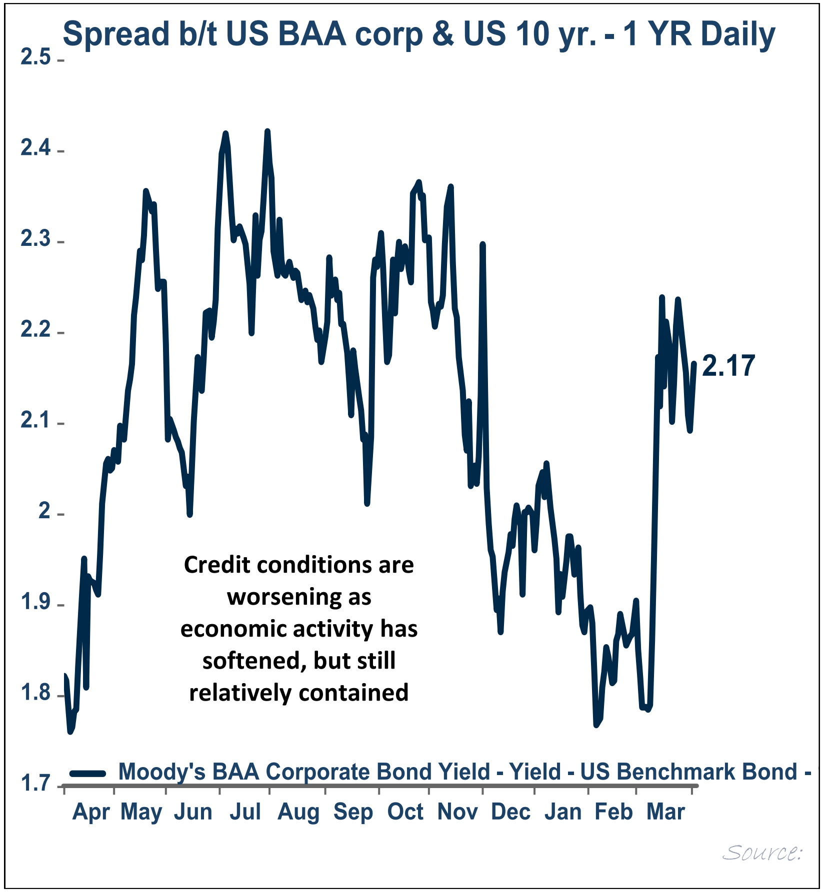


Source: FactSet

Credit Conditions

The credit markets are seeing an uptick as economic activity has softened, but still relatively contained. We will continue to keep a keen eye on the credit markets for signs of further deterioration.

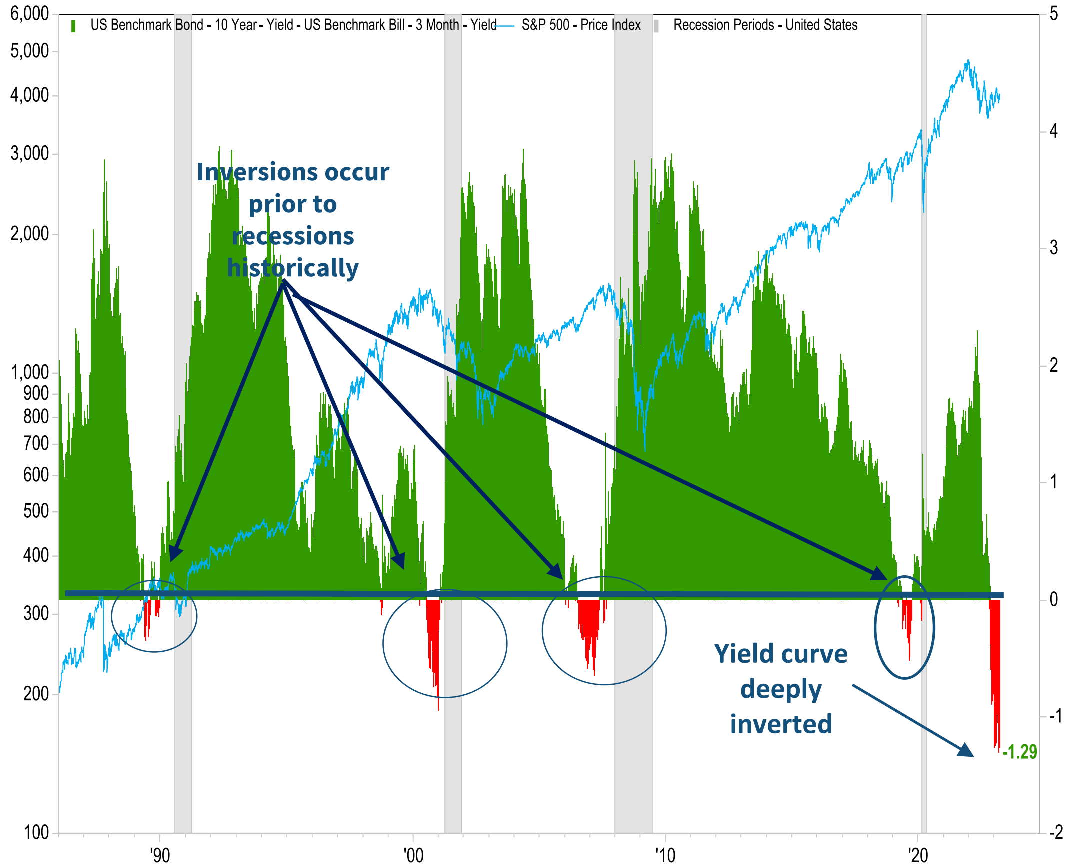


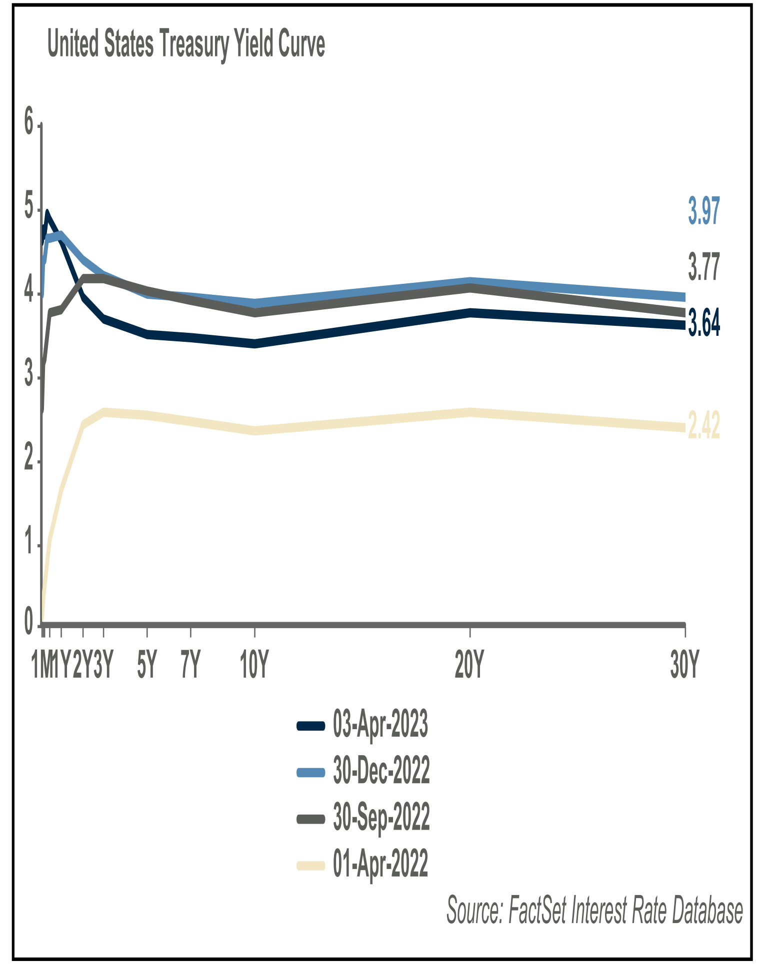


Source: FactSet

2023: Areas to Watch: Inversion of Yield Curve

The spread between the 10-year and 3-month is deeply inverted. A narrowing of the yield curve would likely be negative for the Financial sector and Value index.

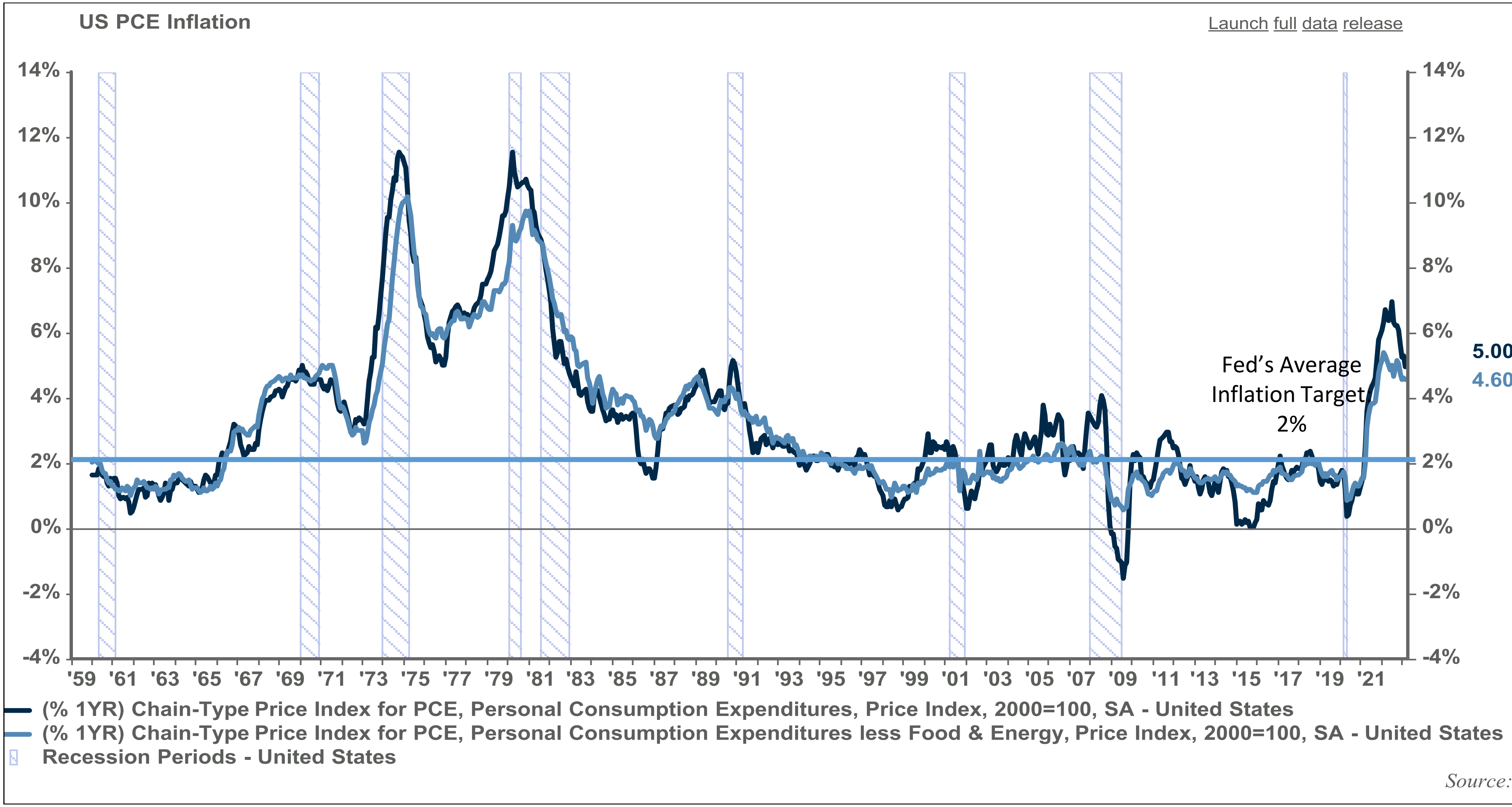




Source: FactSet

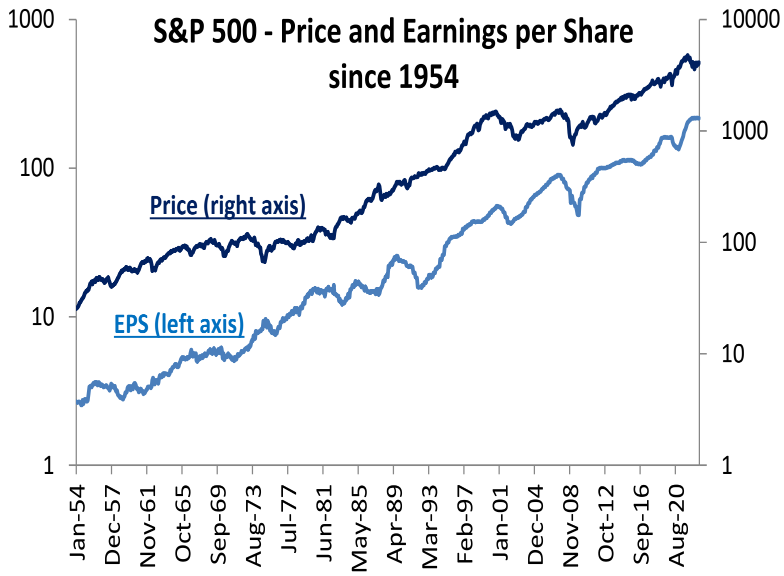
2023: Areas to Watch: Inflation

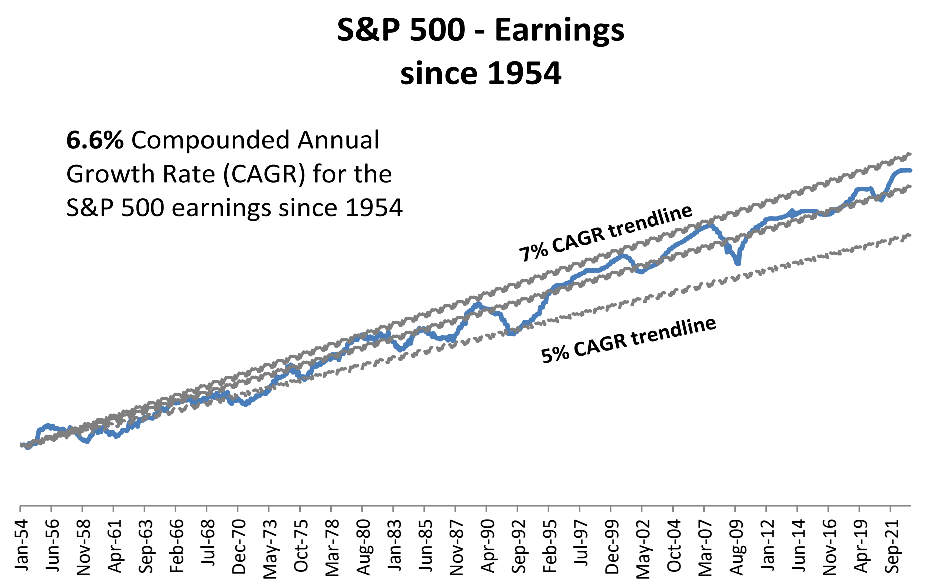
This is an area we continue to watch closely. After some debate if inflation was transitory, inflation has been more sticky resulting in FOMC's call to action by raising rates to combat the higher prices. Despite inflation being more persistent in the Services sector, we continue to believe there are opportunities for inflation to moderate as economic activity softens.



Source: FactSet

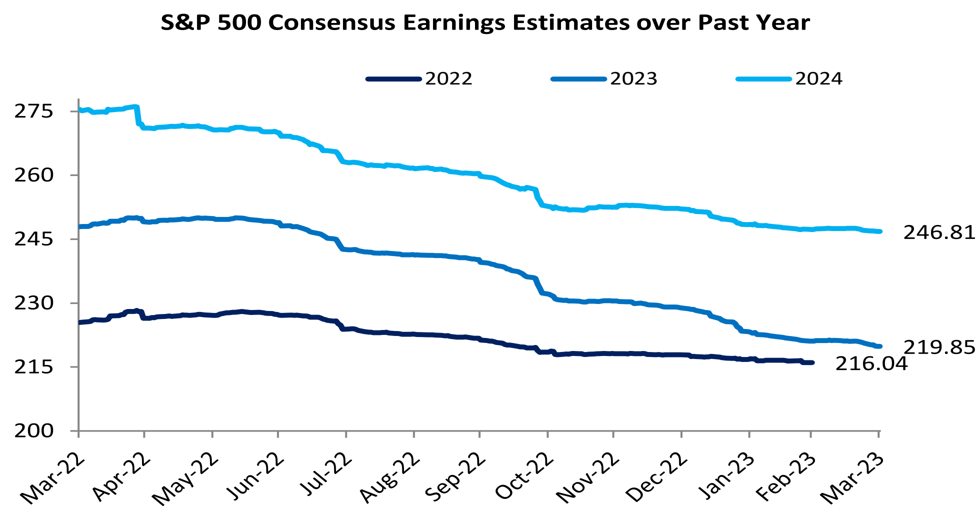
S&P 500 Earnings – Long-Term Mother's Milk of the Market





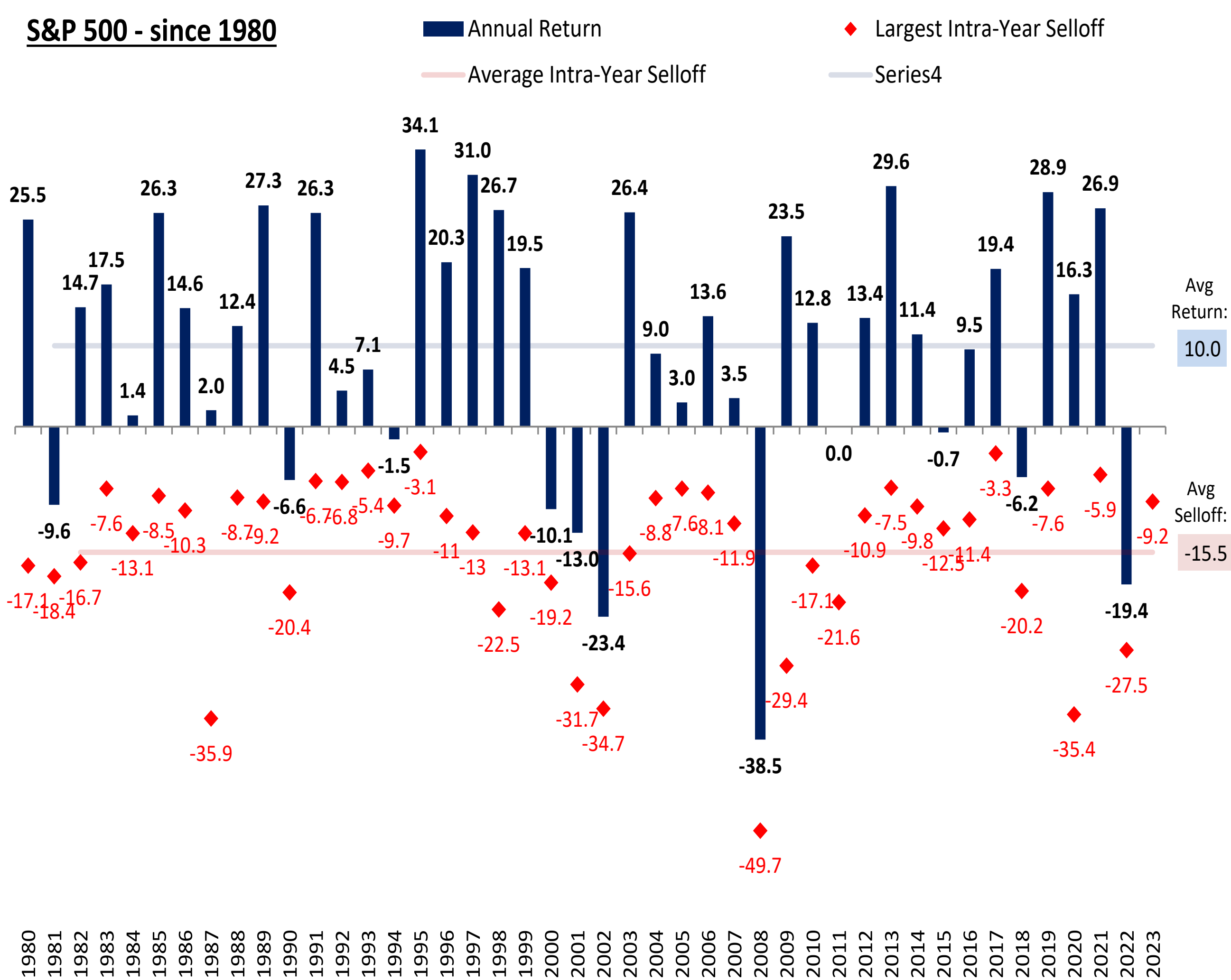
S&P 500 since 1954:

- **Earnings CAGR**: 6.6%
- **S&P 500 Price CAGR**: 7.6%



Source: FactSet

Market Selloff Stats

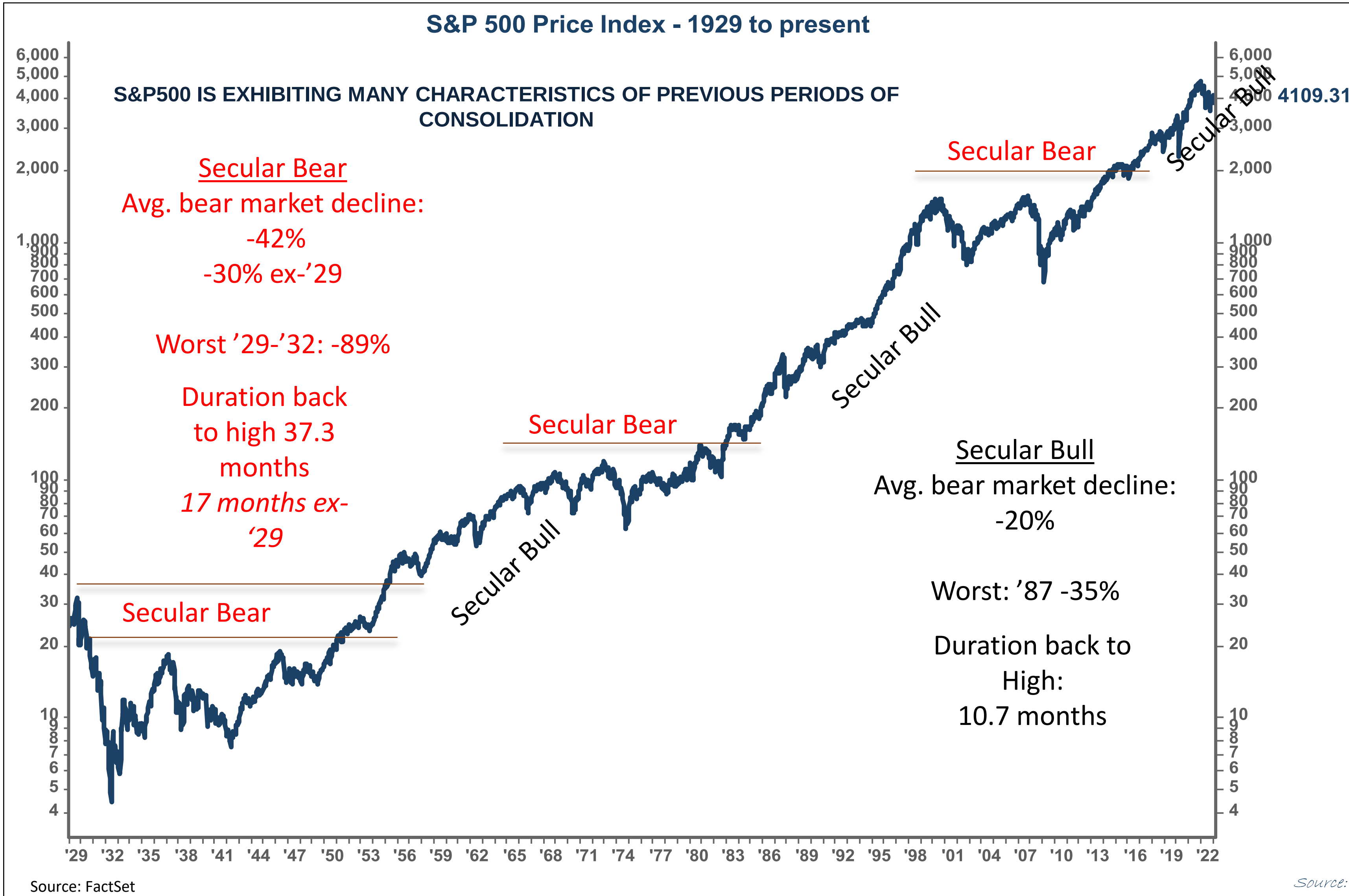


Source: FactSet

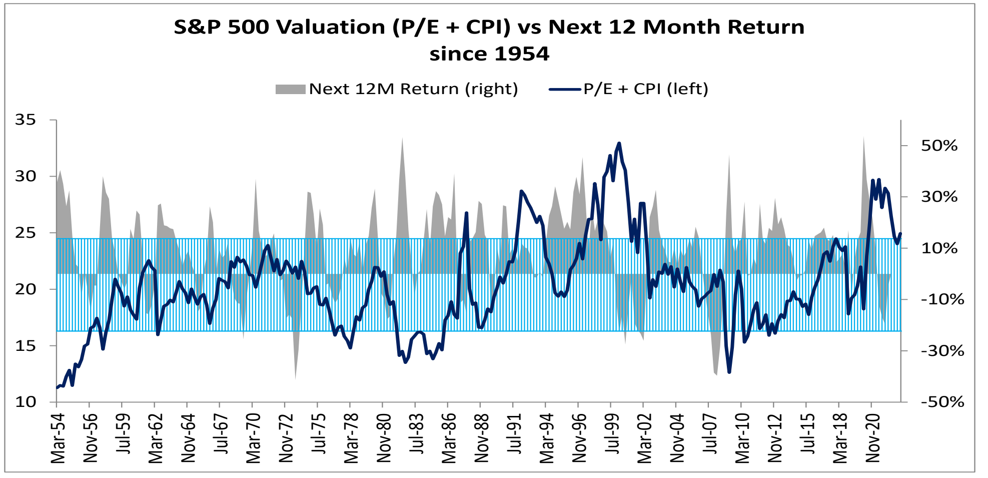
Selloffs are common:

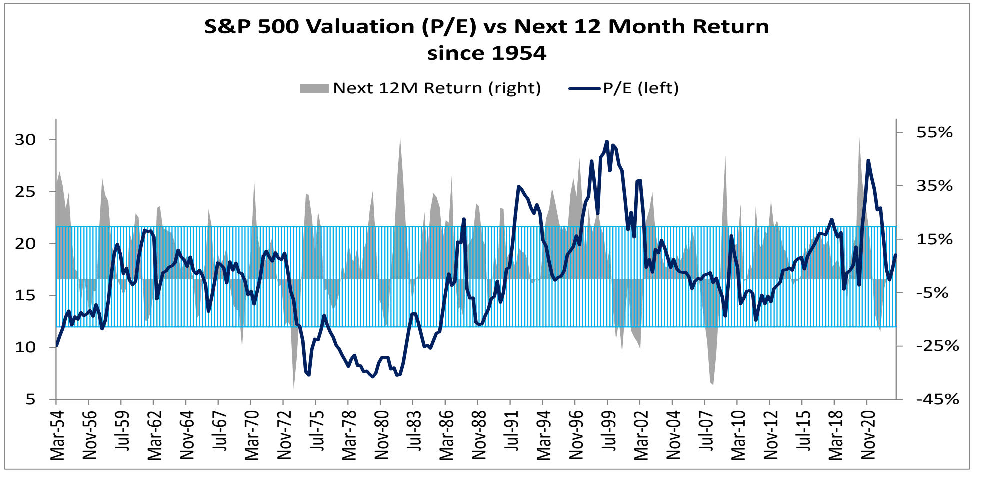
- Average Largest Intra-year selloff: -15.5%
- Ex-bear market years still normal to get 8-12% drawdown intra-year
- Average Annual return is : +10.0%

Secular Bull and Bear Markets



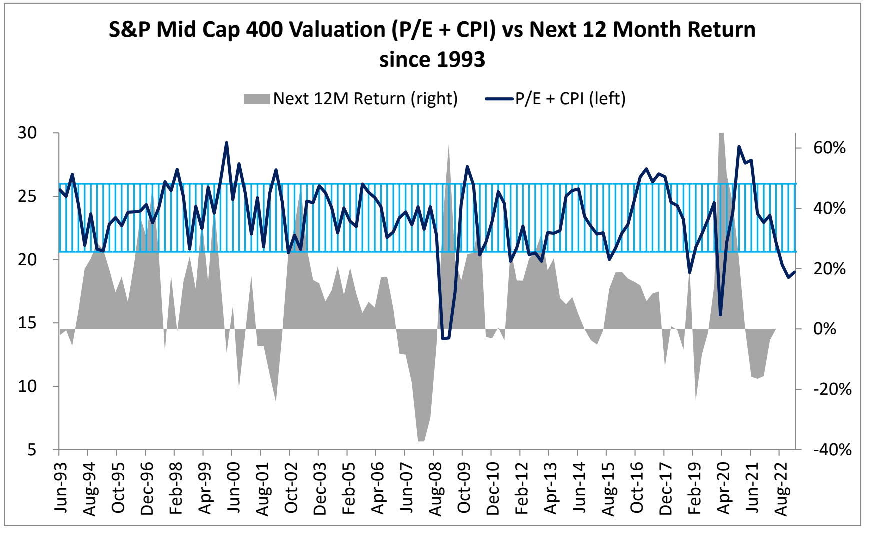
S&P 500 Valuation

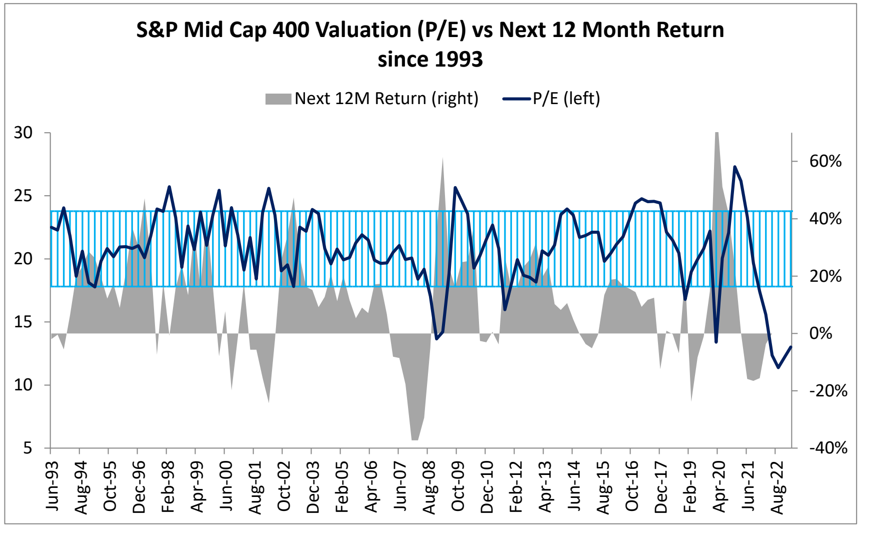




Source: FactSet

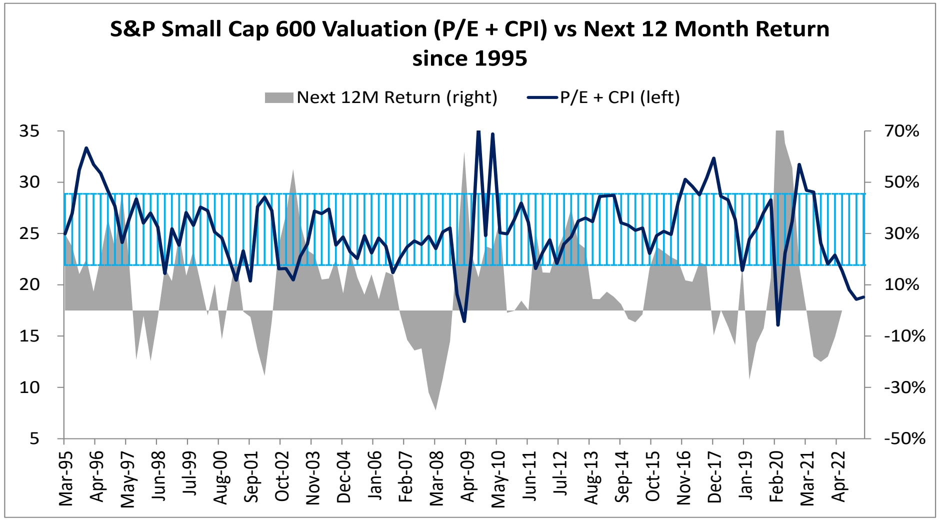
S&P Mid Cap 400 Valuation

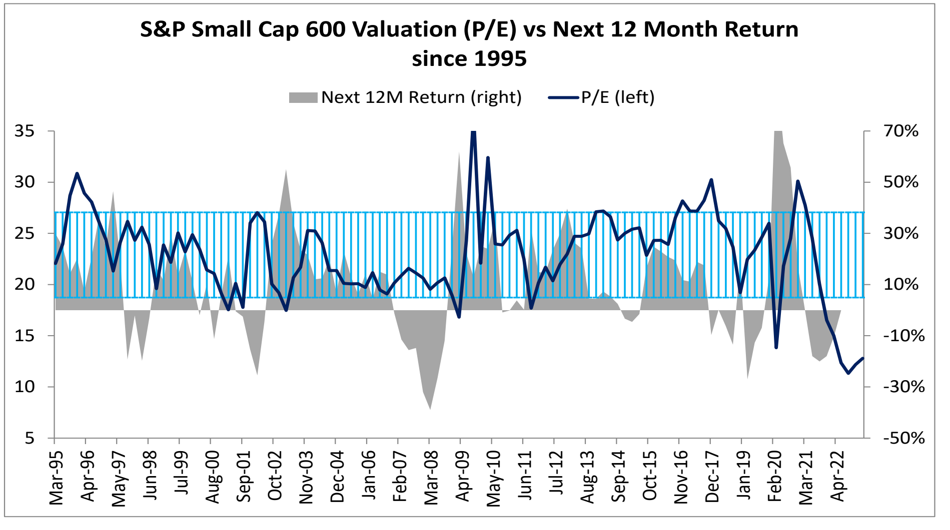




Source: FactSet

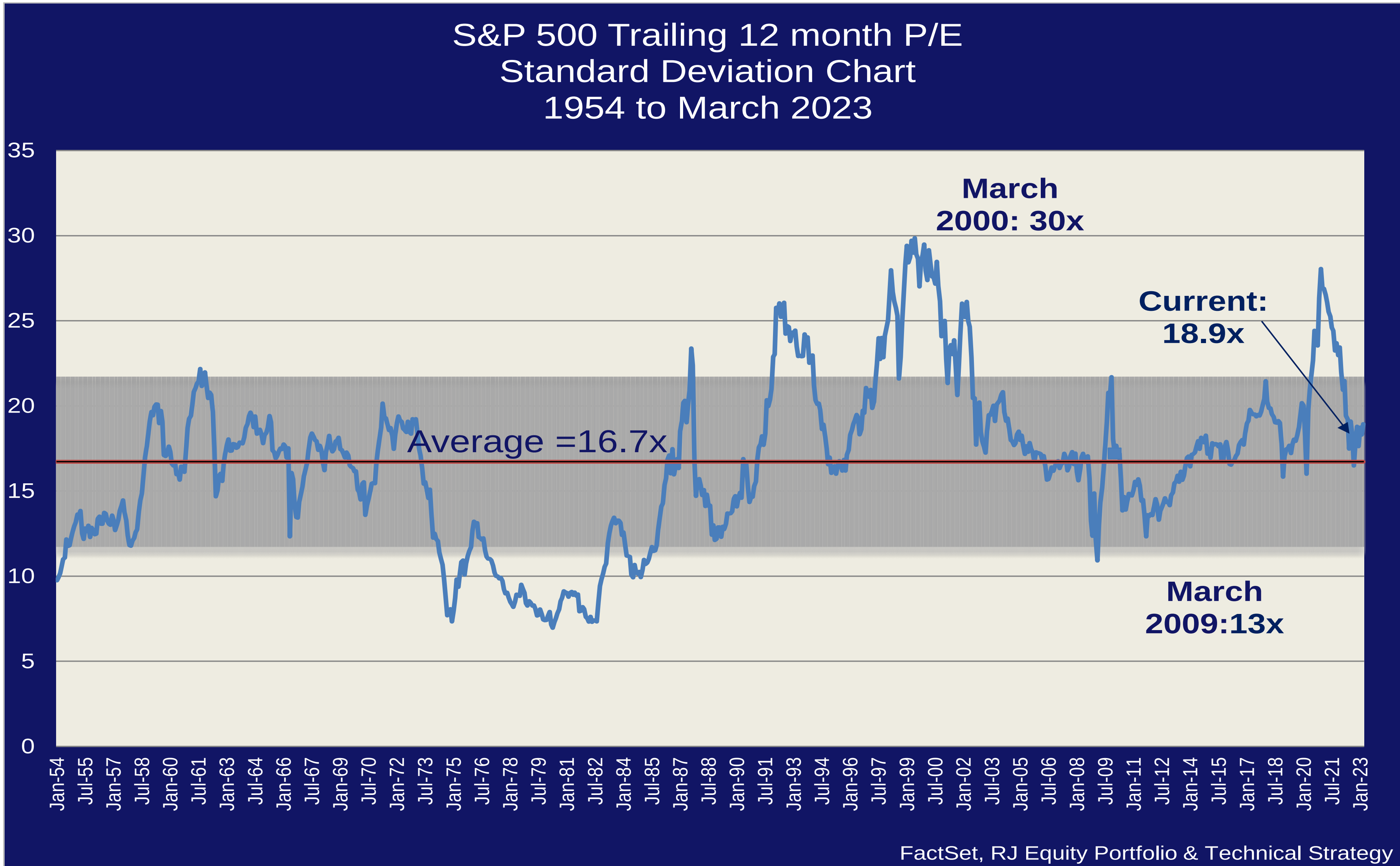
S&P Small Cap 600 Valuation



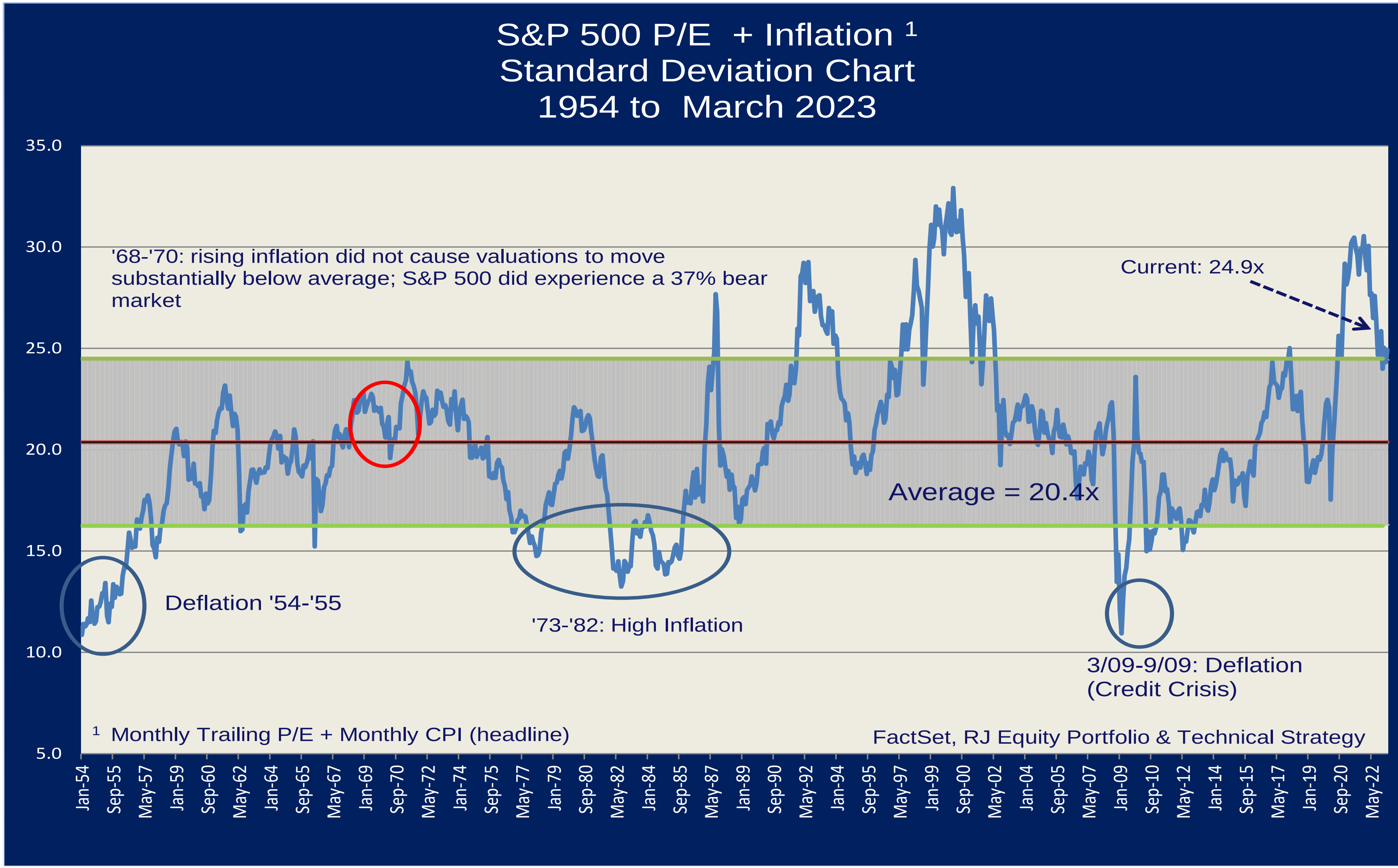


Source: FactSet

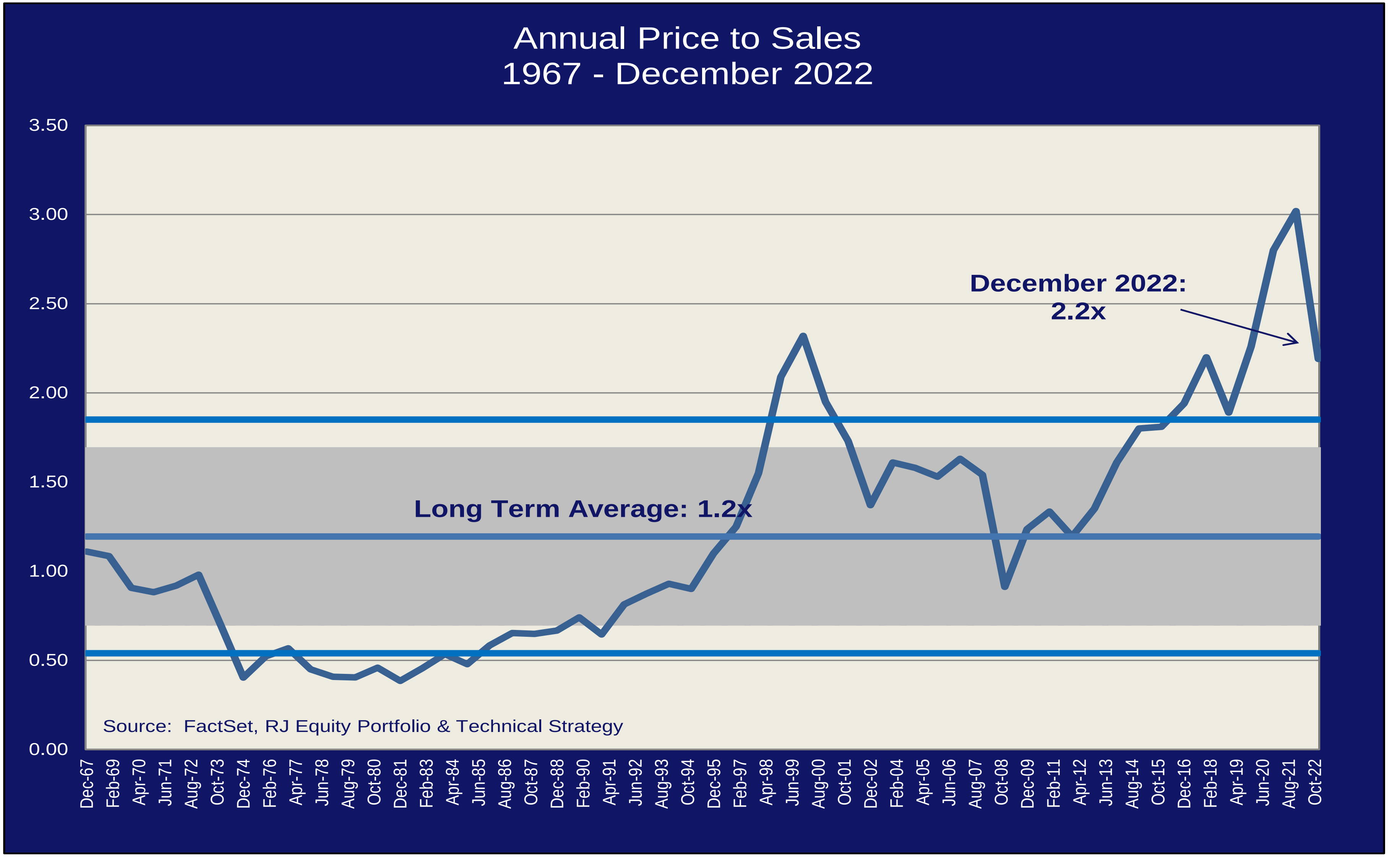
S&P 500: Long Term P/E



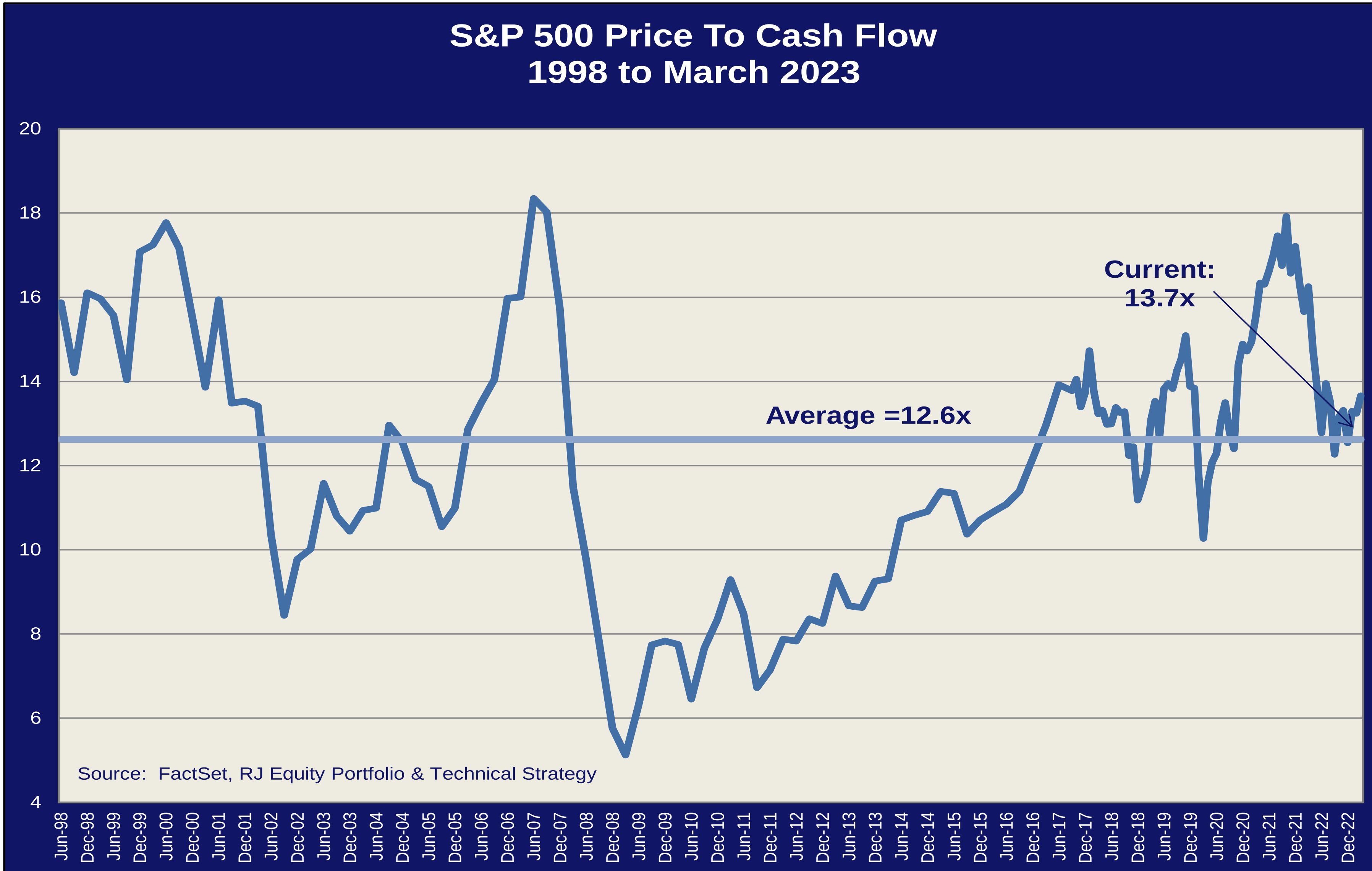
S&P 500: Inflation-Adjusted P/E



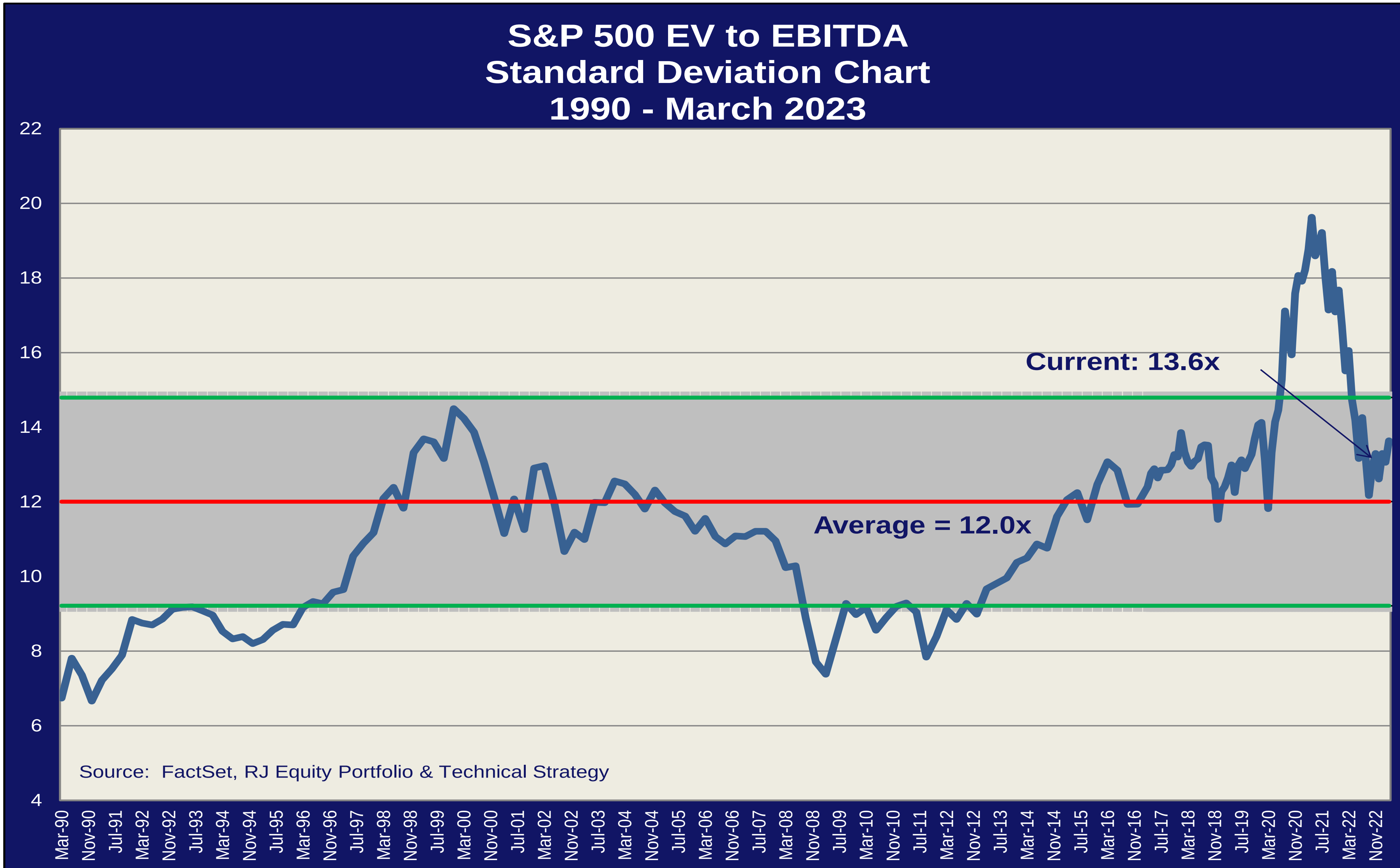
S&P 500: Price to Sales



S&P 500: Price to Cash Flow



S&P 500: EV to EBITDA



Definitions

S&P Mid-Cap 400 – Provides investors with a benchmark for mid-sized companies.

S&P Small Cap 600 – Provides investors with a benchmark for small-sized companies.

U.S. Treasury – Securities are guaranteed by the US government and, if held to maturity, generally offer a fixed rate of return and guaranteed principal value.

200-DMA– The 200-day moving average is a popular technical indicator which investors use to analyze price trends. It is simply a security's average closing price over the last 200 days.

50-DMA– The 50-day moving average is a popular technical indicator which investors use to analyze price trends. It is simply a security's average closing price over the last 50 days.

Weighting – Sector percentage (%) of S&P 500

Total Return – Price return including dividends received

Beta – Measure of volatility in comparison to the market as a whole

Dividend Yield – Dividends received divided by price; reflects the percentage return off of dividends received.

Dividend Payout Ratio – Dividends distributed divided by net income; reflects the percentage of net income distributed in dividends.

Long-Term EPS Growth – Estimated earnings per share growth over the next three to five years, as received from consensus analyst forecasts.

Free Cash Flow Yield – Free cash flow divided by price. The free cash flow per share a company is expected to earn against its market price per share.

Price to Sales – Market cap divided by sales of companies in the sector or S&P 500

Price Earnings Ratio (P/E) – The price of the stock divided by its earnings per share.

EV to EBITDA – Enterprise Value (EV) divided by EBITDA (Earnings Before Interest, Tax, Depreciation, & Amortization).

- LTM P/E – P/E calculated with the last 12 months earnings reported.
- NTM P/E – P/E calculated with the consensus earnings estimates over the next 12 months.

Relative P/E – The sector's multiple divided by the S&P 500 multiple; represents a premium or discount relative to the S&P 500's valuation. We use last 12-month P/E in this report.

Relative Ratio – The sector's relative P/E multiple vs. its respective 10-year average relative P/E.

Relative Strength – Calculates price performance relative to the S&P 500 over time.

Standard Deviation – Measures the fluctuations of returns around the arithmetic average return of investment. The higher the standard deviation, the greater the variability (and thus risk) of the investment returns.

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It is important to review the investment objectives, risk tolerance, tax objectives and liquidity needs before choosing an investment style or manager. All investments carry a certain degree of risk, including loss. There is no assurance that any strategy will be successful, and no one particular investment style or manager is suitable for all types of investors. Indices are not available for direct investment. Any investor who attempts to mimic the performance of an index would incur fees and expenses which would reduce returns. Asset allocation and diversification does not ensure a profit or protect against a loss.

Sector investments are companies engaged in business related to a specific sector. They 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.

Commodities and 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.

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Index Definitions

The **S&P 500** is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market.

The **Dow Jones Industrial Average (DJIA)** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ.

The **NASDAQ Composite** is a stock market index of the common stocks and similar securities listed on the NASDAQ stock market.

The **MSCI World All Cap Index** captures large, mid, small and micro-cap representation across 23 Developed Markets (DM) countries. With 11,732 constituents, the index is comprehensive, covering approximately 99% of the free float-adjusted market capitalization in each country.

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 21 developed nations.

The **MSCI Emerging Markets Index** is designed to measure equity market performance in 23 emerging market countries. The index's three largest industries are materials, energy, and banks.

The **Russell 2000** index is an index measuring the performance of approximately 2,000 smallest-cap American companies in the Russell 3000 Index, which is made up of 3,000 of the largest U.S. stocks.

The **NYSE Alerian MLP** is the leading gauge of energy infrastructure Master Limited Partnerships (MLPs). The capped, float-adjusted, capitalization-weighted index, whose constituents earn the majority of their cash flow from midstream activities involving energy commodities, is disseminated real-time on a price-return basis (AMZ) and on a total-return basis (AMZX).

The **Barclays Intermediate Government/Credit Bond** index measures the performance of U.S. Dollar denominated U.S. Treasuries, government-related and investment grade U.S. corporate securities that have a remaining maturity of greater than one year and less than ten years.

The **Euro Stoxx 50 Index** is a market capitalization weighted stock index of 50 large, blue-chip European companies operating within Eurozone nations. Components are selected from the Euro STOXX Index which includes large-, mid- and small-cap stocks in the Eurozone.

The **China CSI 300** is a capitalization-weighted stock market index designed to replicate the performance of top 300 stocks traded in the Shanghai and Shenzhen stock exchanges. It had a sub-indexes CSI 100 Index and CSI 200 Index.

The **S&P 500 Futures** is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The **DJIA Futures** is a stock market index futures contract traded on the Chicago Mercantile Exchange`s Globex electronic trading platform. Dow Futures is based off the Dow 30 stock index.

The **Nasdaq 100 Futures** is a modified capitalization-weighted index of the 100 largest and most active non-financial domestic and international companies listed on the NASDAQ.

Europe: DAX (Deutscher Aktienindex (German stock index)) is a blue chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange.

Asia: Nikkei is short for Japan's Nikkei 225 Stock Average, the leading and most-respected index of Japanese stocks. It is a price-weighted index composed of Japan's top 225 blue-chip companies traded on the Tokyo Stock Exchange.

Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results. Future investment performance cannot be guaranteed, investment yields will fluctuate with market conditions.