October 6, 2023

WEEKLY HEADINGS

THOUGHTS OF THE WEEK

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Key Takeaways

Bonds Are Not Rallying With Positive Inflation News

Poor Technicals Are Driving Market Moves

Dysfunction In Washington Remains A Wild Card

Swing and a miss! This week marks the start of post-season baseball—America's favorite pastime. Over the next four weeks, twelve of the best teams (although four have already been eliminated) across the league compete to win this year's championship. With the playoffs underway, baseball fans across the nation will be rooting for their favorite team to advance. And all eyes will be watching whether the reigning Houston champs prevail or will an underdog team (let's go Baltimore!) pull off an improbable win? And speaking of a swing and a miss, forecasting the peak in the 10-year Treasury yield during this economic cycle has been a humbling experience, at best, these days. But after the brutal sell-off in Treasury yields over the last few months, the key question is how much higher can yields go from here? Calling the precise level where yields will peak in a momentum driven market is challenging, but there are some key factors that should provide guidance on where interest rates go from here.

- **Bond Market Not Rallying On Fundamental Drivers |** The recent repricing in longer-maturity yields has pushed the 10-year Treasury yield to levels not seen in 16 years. And while the speed of the moves is unnerving, the upward march in yields appears to be disconnected with fundamentals. Yes, the US economy has been stronger than expected. But the robust economic activity we saw over the summer is fading quickly as consumer headwinds mount. In addition, the sharp acceleration in yields over the last month or so has occurred at a time when there has been better than expected news on the inflation front (falling core PCE), no sign of a rebound in copper prices (a key barometer of global economic health) and a sharp decline in the prices paid sub-component of the ISM Manufacturing Index. From our vantage point, these data prints do not convincingly align with the 'higher for longer' messaging from the Fed. The problem: the market appears to be convinced that the Fed's higher for longer messaging means that interest rates are going to remain higher forever! While we agree that a move back down to pre-pandemic lows of 0.5% on the 10-year Treasury yield is unlikely in the upcoming cycle (or else we would have much bigger problems to worry about!), we believe the market is overestimating the strength of the economy and ignoring the continued progress being made on the inflation front.
- **Poor Technicals And Indiscriminate Selling Exacerbate Market Moves |** The move in bond yields has been swift. However, momentum and technical factors suggest that the recent price action may have gone too far for three key reasons. First, 10-year Treasury yields have increased ~130 bps over the last five months.* Historically, when the 10-year Treasury yield rises over 1% in such a short period, that tends to signal a turning point or a peak in yields. Second, from a technical perspective, climbing yields have pushed the 10-year Treasury bond into oversold territory (i.e., RSI<30). And when this has occurred in the past, the 10-year Treasury yield has stabilized and moved lower over the next 3, 6 and 12 months. Lastly, there does seem to be indiscriminate selling across equity sectors that are tied to the bond market. When breaking down the performance of S&P 500 constituents, the top 20% of S&P 500 companies with the highest dividends have underperformed the S&P 500 by ~20% year-to-date. And the bond proxies, utility and real estate stocks, have been among the worst performers YTD. Typically, when you see this type of indiscriminate selling, it generally suggests the market is nearing an inflection point.
- **Dysfunction In Washington Remains A Wild Card |** While a last-minute deal helped the US government avert a shutdown, the bad news is the threat of another shutdown has not fully receded. The first ever removal of the Speaker of the House this week has thrown more uncertainty into the mix—raising the odds of a government shutdown in mid-November. The political dysfunction is coming at a time when debt dynamics, fiscal spending and an overwhelming amount of Treasury supply are creating worries for investors, rating agencies and voters. Now to be fair, the government's deteriorating fiscal outlook should place some upward pressure on bond yields—the market's way of sending a message to Washington that they need to get their house in order. And, the longer the Fed keeps rates elevated to offset the government's profligate fiscal spending, the worse the fiscal dynamics will get. But, while policymakers were able to spend freely with limited consequences in an era of low inflation and low interest rates, the same can't be said about today. With the 10-year Treasury yield now hovering near 4.8% (~75 bps higher in the last five weeks) and debt servicing costs rising at a rapid clip, Congress may soon need to make some hard decisions. This means that like it or not, a new era of fiscal responsibility may need to be ushered in. And if this happens, fiscal austerity would be a near-term headwind for growth which could ultimately place some downward pressure on interest rates.

Bottom Line | The abrupt sell off in bond yields does not align with our outlook for a mild (not severe) recession and deceleration in inflation. While rates have likely overshot fundamentals, higher yields and tightening financial conditions will slow the economy and drive yields lower—not back to the COVID level lows, but significantly lower (12-month target: 3.50%) than where yields are today.

CHART OF THE WEEK

Treasury Yields Climb To A 16-Year High

Despite reports of easing inflation pressures and the Fed nearing the end of its tightening cycle, Treasury yields remained under pressure—surging to the highest level in 16-years.

*See Charts of the week on page 3.

ECONOMY

- As expected, the ISM reports this week confirmed a manufacturing sector that is still in contraction (49.0), with prices continuing to weaken, and a service sector that is still expanding (53.6). Prices in the service sector have yet to weaken meaningfully.
- According to the Job Openings and Labor Turnover/Separations (JOLTS) reports, Job Openings reversed its downward trend and grew at its fastest pace since July 2021, reaching 9.6 million openings.* This increase was mostly concentrated in the 'professional and business services' sector which contributed to ~74% of the increase in Job Openings. Meanwhile, the employment report today followed suit and surprised markets to the upside, adding 336k nonfarm jobs—its fastest pace since January.* While these reports are 'water under the bridge', they confirm that the US economy is still strong, and the Federal Reserve has more work to do.
- The deficit in goods and services in August (-$58.3b) was the lowest in almost three years as exports grew considerably and imports—despite rising oil prices—were lower. This will boost economic growth in an already strong quarter.*
- **Focus of the Week:** Next week, we will be mainly focused on inflation. While the Consumer Price Index's headline growth accelerated slightly over the last two months on the back of rising energy costs, we expect September's growth to remain almost unchanged at ~3.7% YoY. Similarly, the Producer Price Index reversed course and sped up slightly in August to 1.6% YoY, and we expect September's growth to remain relatively similar. Finally, we will pay close attention to Friday's Michigan Sentiment Inflation expectations.

October 9 – October 13

MON	
TUE	NFIB Small Business Index Wholesale Inventories
WED	Producer Price Index (PPI) FOMC Minutes
THU	Jobless Claims Consumer Price Index (CPI)
FRI	Import/Export Price Indices Michigan Sentiment
FUTURE EVENTS	10/17 Retail Sales, NAHB Housing Index 10/18 Building Permits, Housing Starts 10/19 Existing Home Sales, Leading Indicators

US EQUITY

- This week, the S&P 500 Index fell to short-term oversold levels near its 200-day moving average, presenting potential tactical opportunities for nimble market participants. What are the near-term catalysts? US stocks got some much-needed relief in the form of a ~$10 decline in the price of domestic crude oil from its recent high of ~$93/barrel. Moreover, better than expected manufacturing activity pointed to a slight pickup in broad earnings growth in the third quarter from the anemic pace in the second quarter. From a seasonal perspective, the third-quarter reporting period has historically boasted the strongest median S&P 500 price returns versus the other quarters, despite comparable average earnings growth—a sign positive seasonal factors could be forthcoming.*
- Despite the well anticipated recession on the horizon, historically defensive areas of the market including Utilities (-4.2% WTD) and Consumer Staples (-2.7% WTD) continue to be challenged as stable dividend income has become less attractive to investors given competitive bond yields.* We view this dynamic as one reason for the concentrated YTD outperformance of growth sectors including Technology and Communication Services that tend to be less sensitive to interest rates.
- **Focus of the Week**: The 3Q23 earnings season begins next week with three of the big six banks reporting on Friday, October 13. Investors are anxious to learn more about the impact of higher interest rates on bank balance sheets, capital levels and net income, as well as the overall health of the US financial system.

FIXED INCOME

- The decline in Treasury bond prices continued, with longer-maturity yields spiking during the week to levels not seen since 2007. In fact, the 30-year Treasury yield is now above the 5.0% level as the market adjusted to the Fed's higher for longer messaging. And despite the market concerns about a reacceleration in inflation, due to the recent surge in oil prices, the move has been entirely driven by sharp increases in real interest rates, which are also at the highest levels since 2007.* The upward march in interest rates has wiped out the bond market's gains year-to-date.
- As we mentioned last week, the turmoil in the Treasury market continues to spill over into the spread sectors, with investment grade and high yield spreads wider by 10 and nearly 60 basis points respectively over the last two weeks. The increased rate volatility has also pushed MBS spreads out to their widest level (76 bps) since October 2022. We are watching these developments carefully, particularly the recent widening in banking sector spreads ahead of next week's earnings reports.
- **Focus of the Week:** The inflation report, release of the FOMC minutes and the 3-, 10-, and 30-year auctions will be the key events to watch next week. We'll be tuned into whether Fed policymakers comment on the sharp rise in longer-maturity yields following the quarterly refunding announcement in early August and whether the move is getting the attention of our Washington leaders.

POLITICS

- Volatility remains elevated in Congress following the ousting of House Speaker Kevin McCarthy on Tuesday. The continuing resolution (CR) signed into law on Saturday evening extends funding through November 17, but significant work remains on FY24 appropriations. McCarthy's ousting following a successful motion to vacate (MTV) will complicate this timeline, with the House now needing to elect a new Speaker—a process that will consume legislative time and Congressional energy in the limited period ahead of the next funding deadline. Given that the MTV was introduced on the grounds of McCarthy working with Democrats to pass the CR, we view the incentives for the new Speaker to cut deals with the opposition party as significantly lowered, further complicating prospects for appropriations bills' passage.

ENERGY

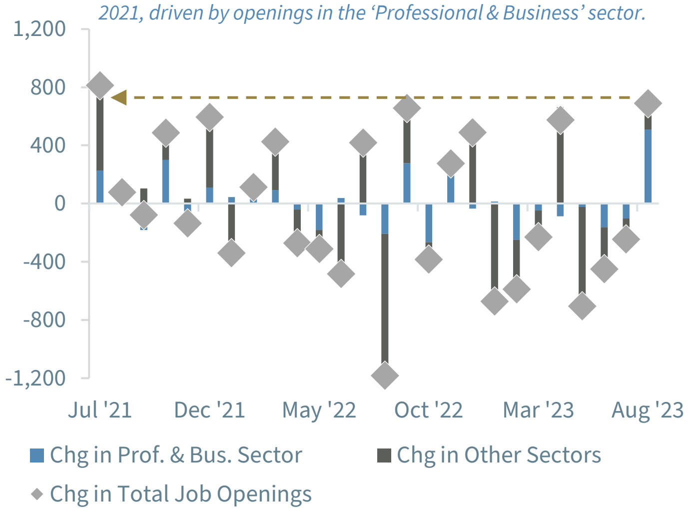
- Buy on the rumor, sell on the news! This just about summarizes the oil market's reaction to the OPEC ministerial meeting on October 4. Having exhibited a high level of production discipline over the past months, OPEC maintained its existing policy and oil prices responded by falling to a one-month low. This is a textbook illustration of how expectations matter. There was nothing 'bearish' for oil prices in OPEC's decision to stick with the status quo, but prices fell nonetheless. To be clear, prices are still close to the 52-week high set just a few weeks ago and questions about global oil demand persist. Monetary-related concerns about recession risk on both sides of the Atlantic, as well as macro weakness in China, are part of the picture as we think about oil prices heading into 2024.

*See Charts of the week on page 3.

Charts of the Week

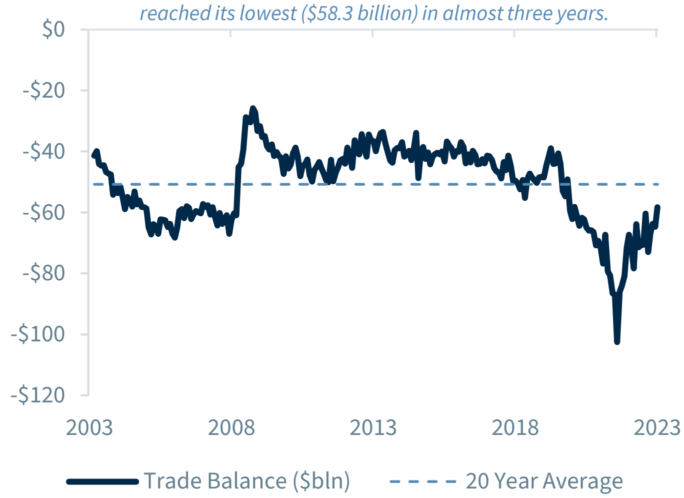
Job Openings Surge

Total nonfarm Job Openings increased at the fastest pace since July 2021, driven by openings in the 'Professional & Business' sector.



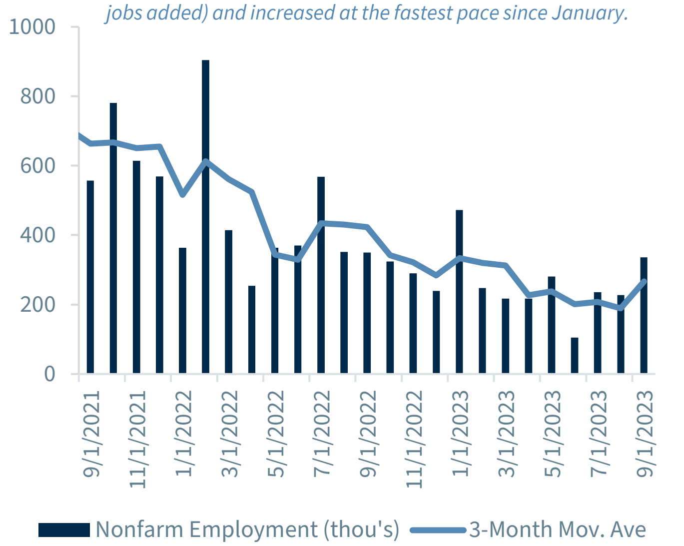
Trade Deficit Grows Smaller

The Goods and Services Trade Balance deficit in August reached its lowest ($58.3 billion) in almost three years.



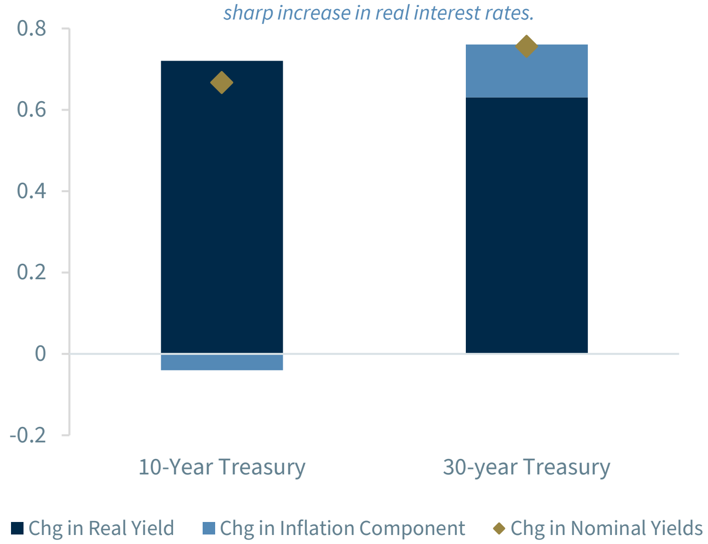
September Hiring Spree

Jobs added in September surprised to the upside (+336k nonfarm jobs added) and increased at the fastest pace since January.



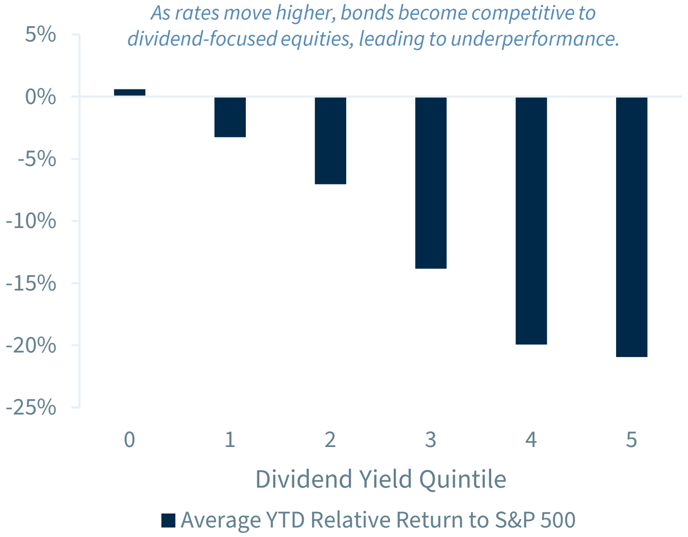
Rising Real Yields Are Behind The Recent Rate Moves

The rate move since August 1 has been entirely driven by a sharp increase in real interest rates.



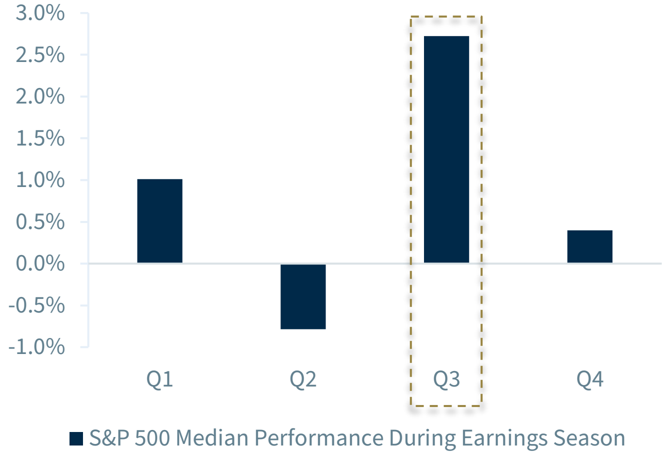
High Dividend Stocks are Underperforming

As rates move higher, bonds become competitive to dividend-focused equities, leading to underperformance.



3Q Earnings Season is the Strongest Historically

Dating back to 1992, the 3Q earnings season posts the strongest median price performance of all earnings seasons for the S&P 500.



* Index definitions can be found on the disclosure pages

Asset Class Performance | Distribution by Asset Class and Style (as of October 5)**

Weekly Returns (as of October 5)

US Equities (Russell indices)

	Value	Blend	Growth
Large Cap	-2.7%	-1.1%	0.3%
Mid Cap	-2.7%	-2.4%	-1.9%
Small Cap	-3.5%	-3.5%	-3.5%

International Equities (MSCI indices)

	Dev. Mkt	World	Emerg. Mkt
Large Cap	-1.8%	-1.1%	-1.0%
Mid Cap	-2.4%	-2.3%	-1.6%
Small Cap	-2.5%	-2.7%	-0.9%

Fixed Income (Bloomberg indices)

	1-3 YR	Medium	Long
Treasury	0.1%	-0.1%	-1.0%
Invest. Grade	0.1%	-0.5%	-1.0%
High Yield	-0.5%	-1.0%	-2.5%

Year-to-Date Returns (as of October 5)

US Equities (Russell indices)

	Value	Blend	Growth
Large Cap	-0.5%	12.1%	25.5%
Mid Cap	-1.9%	1.6%	8.1%
Small Cap	-3.6%	-0.5%	2.2%

International Equities (MSCI indices)

	Dev. Mkt	World	Emerg. Mkt
Large Cap	9.3%	11.5%	1.7%
Mid Cap	7.7%	3.5%	6.4%
Small Cap	4.4%	3.9%	16.1%

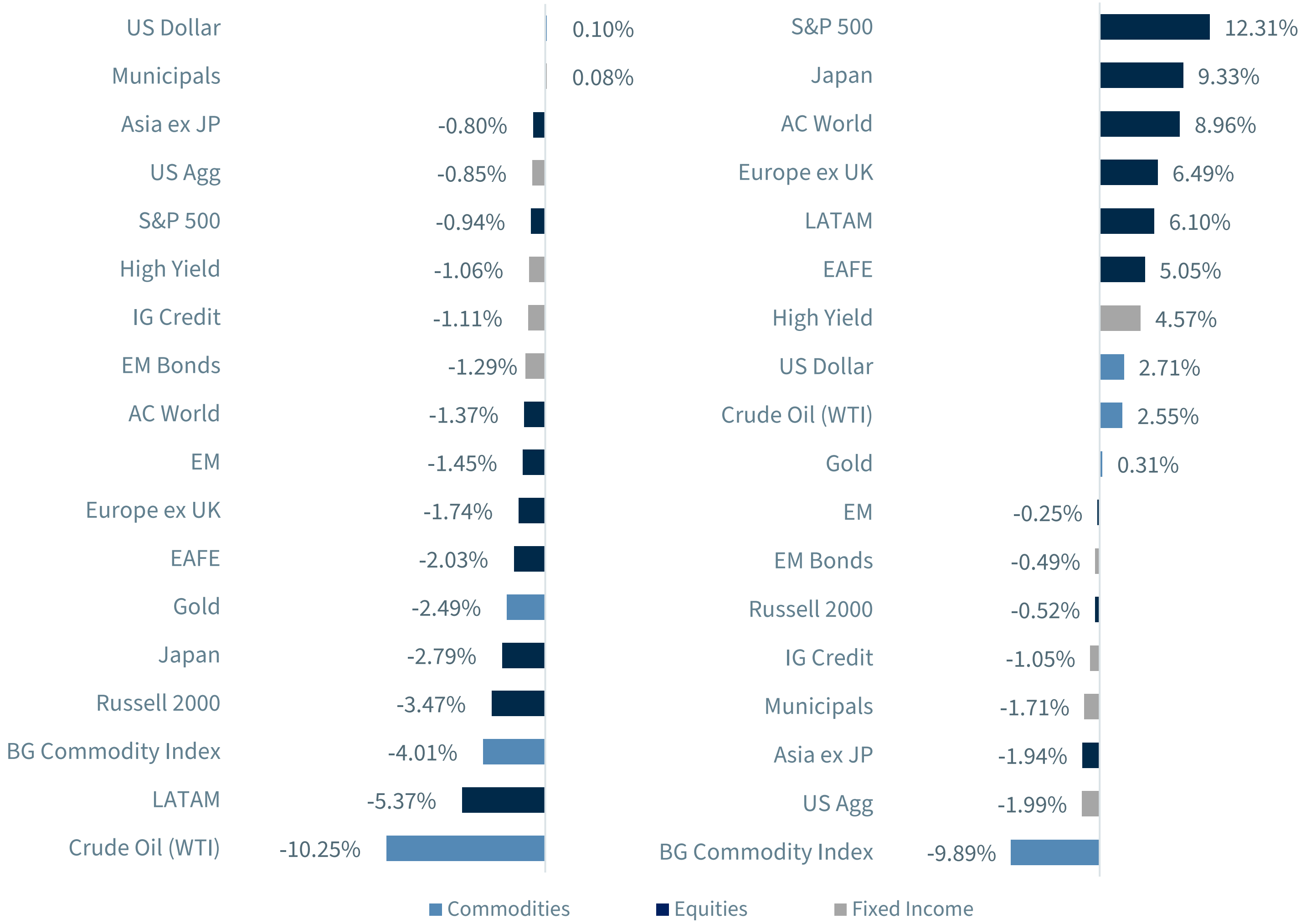
Fixed Income (Bloomberg indices)

	1-3 YR	Medium	Long
Treasury	3.8%	-0.8%	-4.4%
Invest. Grade	2.2%	0.8%	-0.7%
High Yield	6.7%	4.7%	0.9%

Asset Class Performance | Weekly and Year-to-Date (as of October 5)**

Weekly***

Year-to-Date***



**Weekly performance calculated from Thursday close to Thursday close.

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

RAYMOND JAMES

Weekly Data**

Data as of October 5

US Equities

Index	Price	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
S&P 500	4258.2	(0.9)	(0.7)	12.3	14.5	9.4	10.0	11.8
DJ Industrial Average	33119.6	(1.6)	(1.2)	(0.1)	9.4	5.6	4.6	8.2
NASDAQ Composite Index	13219.8	0.1	0.0	26.3	18.6	5.3	11.2	13.3
Russell 1000	4480.7	(1.1)	(0.8)	12.1	21.2	9.5	9.6	11.6
Russell 2000	4303.2	(3.5)	(3.0)	(0.5)	8.9	7.2	2.4	6.6
Russell Midcap	6957.3	(2.4)	(2.2)	1.6	13.4	8.1	6.4	9.0

Equity Sectors

Sector	Price	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
Materials	486.2	(1.9)	(1.7)	0.9	9.6	8.4	8.4	8.4
Industrials	841.3	(2.5)	(1.9)	2.5	15.3	9.9	6.7	9.9
Comm Services	224.9	0.5	1.2	42.2	33.3	5.4	8.6	7.4
Utilities	286.6	(4.0)	(4.2)	(18.0)	(13.4)	0.3	4.4	7.9
Consumer Discretionary	1252.0	(0.4)	(1.0)	25.5	9.1	1.3	7.9	11.3
Consumer Staples	707.9	(2.9)	(2.7)	(7.3)	1.8	4.9	8.1	8.5
Health Care	1500.1	(0.8)	(0.0)	(4.1)	3.1	8.3	8.4	11.6
Information Technology	2934.1	1.4	1.0	36.1	33.3	13.5	19.2	20.4
Energy	654.1	(7.6)	(5.8)	(0.1)	8.9	48.1	7.3	4.4
Financials	544.9	(2.1)	(1.2)	(2.8)	4.2	12.1	5.5	9.5
Real Estate	209.0	(1.7)	(2.1)	(7.5)	(5.4)	0.3	4.5	6.8

Fixed Income

Index	Yield	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
3-Months Treasury Bill (%)	5.5	0.1	0.1	3.8	4.7	1.8	1.7	1.1
2-Year Treasury (%)	5.0	0.2	0.1	1.3	1.6	(1.1)	0.8	0.6
10-Year Treasury (%)	4.7	(1.0)	(1.0)	(4.4)	(4.2)	(8.7)	(0.4)	0.3
Bloomberg US Corporate HY	9.3	(1.1)	(1.2)	4.6	7.0	1.2	2.8	4.1
Bloomberg US Aggregate	5.5	(0.8)	(0.8)	(2.0)	(0.7)	(5.4)	0.1	1.1
Bloomberg Municipals	--	0.1	(0.3)	(1.7)	1.5	(2.4)	1.1	2.3
Bloomberg IG Credit	6.2	(1.1)	(1.1)	(1.1)	1.6	(5.2)	0.9	2.1
Bloomberg EM Bonds	8.2	(1.3)	(1.4)	(0.5)	5.1	(4.7)	0.1	2.2

Commodities

Index	Price	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
WTI Crude ($/bl)	82.3	(10.2)	(9.3)	2.6	(6.2)	28.0	2.1	(2.3)
Gold ($/Troy Oz)	1831.8	(2.5)	(1.8)	0.3	6.5	(1.6)	8.7	3.4
Bloomberg Commodity Index	101.6	(4.0)	(3.0)	(9.9)	(12.7)	12.7	3.2	(2.2)

Currencies

Currency	Price	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
US Dollar Index	106.3	0.1	0.1	2.7	(4.3)	4.4	2.1	2.9
Euro	1.1	(0.3)	(0.5)	(1.3)	6.8	(3.7)	(1.8)	(2.5)
British Pound	1.2	(0.3)	(0.4)	1.1	8.1	(2.1)	(1.4)	(2.8)
Japanese Yen	148.6	0.5	0.4	(11.2)	(2.6)	(10.8)	(5.2)	(4.2)

International Equities

Index	Price	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
MSCI AC World	647.6	(1.4)	(1.4)	9.0	14.0	6.4	7.1	7.9
MSCI EAFE	1983.2	(2.0)	(2.4)	5.0	18.7	4.9	3.7	4.1
MSCI Europe ex UK	2189.1	(1.7)	(2.4)	6.5	23.5	5.1	5.2	4.8
MSCI Japan	3353.8	(2.8)	(2.0)	9.3	18.5	2.3	2.3	4.7
MSCI EM	930.2	(1.5)	(2.4)	(0.2)	5.4	(2.4)	1.4	2.0
MSCI Asia ex JP	593.5	(0.8)	(1.8)	(1.9)	5.6	(3.9)	1.6	3.5
MSCI LATAM	2152.8	(5.4)	(6.4)	6.1	4.2	12.5	1.4	(0.2)
Canada S&P/TSX Composite	13937.2	(2.3)	(2.1)	(1.3)	(0.5)	5.3	3.7	4.1

**Weekly performance calculated from Thursday close to Thursday close.

DISCLOSURES

All expressions of opinion reflect the judgment of the author(s) and the Investment Strategy Committee and are subject to change. This information should not be construed as a recommendation. The foregoing content is subject to change at any time without notice. Content provided herein is for informational purposes only. There is no guarantee that these statements, opinions or forecasts provided herein will prove to be correct. Past performance is not a guarantee of future results. Indices and peer groups are not available for direct investment. Any investor who attempts to mimic the performance of an index or peer group would incur fees and expenses that would reduce returns. No investment strategy can guarantee success. Economic and market conditions are subject to change. Investing involves risks including the possible loss of capital.

The information has been obtained from sources considered to be reliable, but we do not guarantee that the foregoing material is accurate or complete. Diversification and asset allocation do not ensure a profit or protect against a loss.

INTERNATIONAL INVESTING | International investing involves additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets.

SECTORS | Sector investments are companies engaged in business related to a specific economic sector and are presented herein for illustrative purposes only and should not be considered as the sole basis for an investment decision. Sectors are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification.

OIL | Investing in oil involves special risks, including the potential adverse effects of state and federal regulation and may not be suitable for all investors.

CURRENCIES | Currency investing is generally considered speculative because of the significant potential for investment loss. These markets are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising.

GOLD | Gold is subject to the special risks associated with investing in precious metals, including but not limited to: price may be subject to wide fluctuation; the market is relatively limited; the sources are concentrated in countries that have the potential for instability; and the market is unregulated.

FIXED INCOME | Fixed-income securities (or bonds) are exposed to various risks including but not limited to credit (risk of default of principal and interest payments), market and liquidity, interest rate, reinvestment, legislative (changes to the tax code), and call risks. There is an inverse relationship between interest rate movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices generally rise. A credit rating of a security is not a recommendation to buy, sell or hold the security and may be subject to review, revision, suspension, reduction or withdrawal at any time by the assigning Rating Agency. Ratings and insurance do not remove market risk since they do not guarantee the market value of the bond.

US TREASURYS | US Treasury securities are guaranteed by the US government and, if held to maturity, generally offer a fixed rate of return and guaranteed principal value.

CONSUMER PRICE INDEX | The Consumer Price Index (CPI) measures the overall change in consumer prices based on a representative basket of goods and services over time.

PRODUCER PRICE INDEX | The Producer Price Index (PPI) is a measure of wholesale inflation, while the Consumer Price Index measures the prices paid by consumers.

PERSONAL CONSUMPTION EXPENDITURE | Personal Consumption Expenditures (PCE) Personal consumption expenditures (PCE), also known as consumer spending, is a measure of the spending on goods and services by people of the United States.

ISM MANUFACTURING INDEX | The ISM manufacturing index, also known as the purchasing managers' index (PMI), is a monthly indicator of U.S. economic activity based on a survey of purchasing managers at more than 300 manufacturing firms.

ISM NON-MANUFACTURING (SERVICES) INDEX | The ISM Non-Manufacturing, or Services Index, measures business activity for the overall economy; above 50 indicating growth, while below 50 indicating contraction. The index represents the economic activity of more than 15 industries, measuring employment, prices, and inventory levels.

NFIB SMALL BUSINESS INDEX | The National Federation of Independent Business (NFIB) Small Business Optimism Index is a composite of ten seasonally adjusted components. It provides a indication of the health of small businesses in the U.S., which account of roughly 50% of the nation's private workforce.

NAHBHOUSING MARKET INDEX | The NAHB/Wells Fargo Housing Market Index (HMI) is a monthly sentiment survey of members of the National Association of Home Builders (NAHB). The index measures sentiment among builders of U.S. single-family homes and is a widely watched gauge of the U.S. housing sector.

MICHIGAN CONSUMER SENTIMENT INDEX | The Michigan Consumer Sentiment Index is a monthly survey of how consumers feel about the economy, personal finances, business conditions, and buying conditions.

IMPORT/EXPORT PRICE INDEX | The Import and Export Price Indexes measure average changes in prices of goods and services that are imported to or exported from the US.

DATA SOURCE | FactSet, Bloomberg as of 10/5/2023

DOMESTIC EQUITY DEFINITION

DOW JONES INDUSTRIAL AVERAGE (DJIA) | The **Dow Jones Industrial Average (DJIA)** is an index that tracks 30 large, publicly-owned companies trading on the New York Stock Exchange (NYSE) and the NASDAQ.

NASDAQ COMPOSITE INDEX | The **Nasdaq Composite Index** is the market capitalization-weighted index of over 3,300 common equities listed on the Nasdaq stock exchange.

S&P 500 | The **S&P 500 Total Return Index:** The index is widely regarded as the best single gauge of large-cap U.S. equities. There is over USD 7.8 trillion benchmarked to the index, with index assets comprising approximately USD 2.2 trillion of this total. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

S&P 500 EQUAL WEIGHT INDEX | The **S&P 500 Equal Weight Index:** The index includes the same constituents as the capitalization weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight - or 0.2% of the index total at each quarterly rebalance.

LARGE GROWTH | **Russell 1000 Growth Total Return Index:** This index represents a segment of the Russell 1000 Index with a greater-than-average growth orientation. Companies in this index have higher price-to-book and price-earnings ratios, lower dividend yields and higher forecasted growth values. This index includes the effects of reinvested dividends.

MID GROWTH | **Russell Mid Cap Growth Total Return Index:** This index contains stocks from the Russell Midcap Index with a greater-than-average growth orientation. The stocks are also members of the Russell 1000 Growth Index. This index includes the effects of reinvested dividends.

LARGE BLEND | **Russell 1000 Total Return Index:** This index represents the 1000 largest companies in the Russell 3000 Index. This index is highly correlated with the S&P 500 Index. This index includes the effects of reinvested dividends.

SMALL GROWTH | **Russell 2000 Growth Total Return Index:** This index represents a segment of the Russell 2000 Index with a greater-than-average growth orientation. The combined market capitalization of the Russell 2000 Growth and Value Indices will add up to the total market cap of the Russell 2000. This index includes the effects of reinvested dividends.

MID BLEND | **Russell Mid Cap Total Return Index:** This index consists of the bottom 800 securities in the Russell 1000 Index as ranked by total market capitalization. This index includes the effects of reinvested dividends.

SMALL BLEND | **Russell 2000 Total Return Index:** This index covers 2000 of the smallest companies in the Russell 3000 Index, which ranks the 3000 largest US companies by market capitalization. The Russell 2000 represents approximately 10% of the Russell 3000 total market capitalization. This index includes the effects of reinvested dividends.

LARGE VALUE | **Russell 1000 Value Total Return Index:** This index represents a segment of the Russell 1000 Index with a less-than-average growth orientation. Companies in this index have low price-to-book and price-earnings ratios, higher dividend yields and lower forecasted growth values. This index includes the effects of reinvested dividends.

MID VALUE | **Russell Mid Cap Value Total Return Index:** This index contains stocks from the Russell Midcap Index with a less-than-average growth orientation. The stocks are also members of the Russell 1000 Value Index. This index includes the effects of reinvested dividends.

SMALL VALUE | **Russell 2000 Value Total Return Index:** This index represents a segment of the Russell 2000 Index with a less-than-average growth orientation. The combined market capitalization of the Russell 2000 Growth and Value Indices will add up to the total market cap of the Russell 2000. This index includes the effects of reinvested dividends.

COMMODITY INDEX DEFINITION

BLOOMBERG COMMODITY INDEX (BCOM) | The Bloomberg Commodity Index is a broadly diversified commodity price index distributed by Bloomberg Index Services Limited.

DUTCH TTF | The Dutch Title Transfer Facility is a virtual trading hub for gas in the Netherlands and is the primary gas pricing hub for the European gas market.

FIXED INCOME DEFINITION

AGGREGATE BOND | **Bloomberg US Agg Bond Total Return Index:** The index is a measure of the investment grade, fixed-rate, taxable bond market of roughly 6,000 SEC-registered securities with intermediate maturities averaging approximately 10 years. The index includes bonds from the Treasury, Government-Related, Corporate, MBS, ABS, and CMBS sectors.

HIGH YIELD | **Bloomberg US Corporate High Yield Total Return Index:** The index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below.

CREDIT | **Bloomberg US Credit Total Return Index:** The index measures the investment grade, US dollar-denominated, fixed-rate, taxable corporate and government related bond markets. It is composed of the US Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supranationals and local authorities.

MUNICIPAL | **Bloomberg Municipal Total Return Index:** The index is a measure of the long-term tax-exempt bond market with securities of investment grade (rated at least Baa by Moody's Investors Service and BBB by Standard and Poor's). This index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and prerefunded bonds.

BLOOMBERG CAPITAL AGGREGATE BOND TOTAL RETURN INDEX | This index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. The index is designed to minimize concentration in any one commodity or sector. It currently has 22 commodity futures in seven sectors. No one commodity can compose less than 2% or more than 15% of the index, and no sector can represent more than 33% of the index (as of the annual weightings of the components).

BLOOMBERG EMERGING MARKET BOND INDEX | The Bloomberg USD Emerging Market Composite Bond Index is a rules-based, market-value-weighted index engineered to measure USD fixed-rate sovereign and corporate securities issued from emerging markets. The index includes both investment- grade and below-investment-grade securities.

GERMAN BUND | The German bund is a sovereign debt instrument issued by Germany's federal government to finance outgoing expenditures.

INTERNATIONAL EQUITY DEFINITION

EMERGING MARKETS EASTERN EUROPE | **MSCI EM Eastern Europe Net Return Index:** The index captures large- and mid-cap representation across four Emerging Markets (EM) countries in Eastern Europe.

EMERGING MARKETS ASIA | **MSCI EM Asia Net Return Index:** The index captures large- and mid-cap representation across eight Emerging Markets countries. With 554 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

EMERGING MARKETS LATIN AMERICA | **MSCI EM Latin America Net Return Index:** The index captures large- and mid-cap representation across five Emerging Markets (EM) countries in Latin America. With 116 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

EMERGING MARKETS | **MSCI Emerging Markets Net Return Index:** This index consists of 23 countries representing 10% of world market capitalization. The index is available for a number of regions, market segments/sizes and covers approximately 85% of the free float-adjusted market capitalization in each of the 23 countries.

PACIFIC EX-JAPAN | **MSCI Pacific Ex Japan Net Return Index:** The index captures large- and mid-cap representation across four of 5 Developed Markets (DM) countries in the Pacific region (excluding Japan). With 150 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

JAPAN | **MSCI Japan Net Return Index:** The index is designed to measure the performance of the large and mid cap segments of the Japanese market. With 319 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.

FOREIGN DEVELOPED MARKETS | **MSCI EAFE Net Return Index:** This index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada. The index is available for a number of regions, market segments/sizes and covers approximately 85% of the free float-adjusted market capitalization in each of the 21 countries.

EUROPE EX UK | MSCI Europe Ex UK Net Return Index: The index captures large and mid cap representation across 14 Developed Markets (DM) countries in Europe. With 337 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across European Developed Markets excluding the UK.

MSCI EAFE | The MSCI EAFE (Europe, Australasia, and Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 22 developed nations.

MSCI ACWI | The MSCI All Country World Index (ACWI) is a stock index designed to track broad global equity-market performance. The index is comprised of the stocks of about 3,000 companies from 23 developed countries and 26 emerging markets.

CANADA S&P/TSX COMPOSITE | The S&P/TSX Composite Index is a capitalization-weighted equity index that tracks the performance of the largest companies listed on Canada's primary stock exchange, the Toronto Stock Exchange (TSX). It is the equivalent of the S&P 500 index in the United States, and as such is closely monitored by Canadian investors.

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