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2Q 2024

Principal Asset Management[SM]

Global Market Perspectives

What's not to like?

PRINCIPAL GLOBAL INSIGHTS TEAM

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Key themes for 2Q 2024

- **The U.S. economy stands out from the crowd.**
  U.S. growth is downshifting somewhat as lower income households pull back, and corporates face higher refinancing costs. However, with most other global economies still struggling, the U.S. will remain the strongest global performer.
- **Global disinflation is showing signs of stalling.**
  After having made significant progress last year, inflation deceleration has flattened out. The last mile of disinflation toward central bank targets will require some economic slowdown and job market rebalancing.
- **Central banks believe they can cut rates without sacrificing inflation.**
  The Fed wants to cut policy rates, but it may be fazed by recent inflation surprises. It will likely cut policy rates two times this year, starting in September. Other central banks will also begin easing soon but will cut with greater urgency.
- **Equities should continue embracing the soft landing narrative.**
  The constructive backdrop of solid growth, positive earnings and prospective rate cuts has been fueling market optimism. This mix should also support a broadening of the market rally as rate cuts come closer into sight.
- **Fixed income yields are attractive compared to equity yields.**
  U.S. Treasury yields should skew lower as the Fed begins cuts but will be limited by the shallow easing cycle. While credit spreads are tight, providing recession is avoided, they should not widen much and still provide meaningful carry opportunities.
- **With potential gains across asset classes, staying in cash is the main risk.**
  Assets in money market funds have ballooned to a record $6 trillion, with investors attracted by elevated yields. Now, this cash represents a potential tailwind to risk assets.

Global economy: U.S. stands out from the crowd

The U.S. economy has withstood the most aggressive central bank rate hiking cycle in four decades and continues to grow strongly, overshadowing other major global economies.

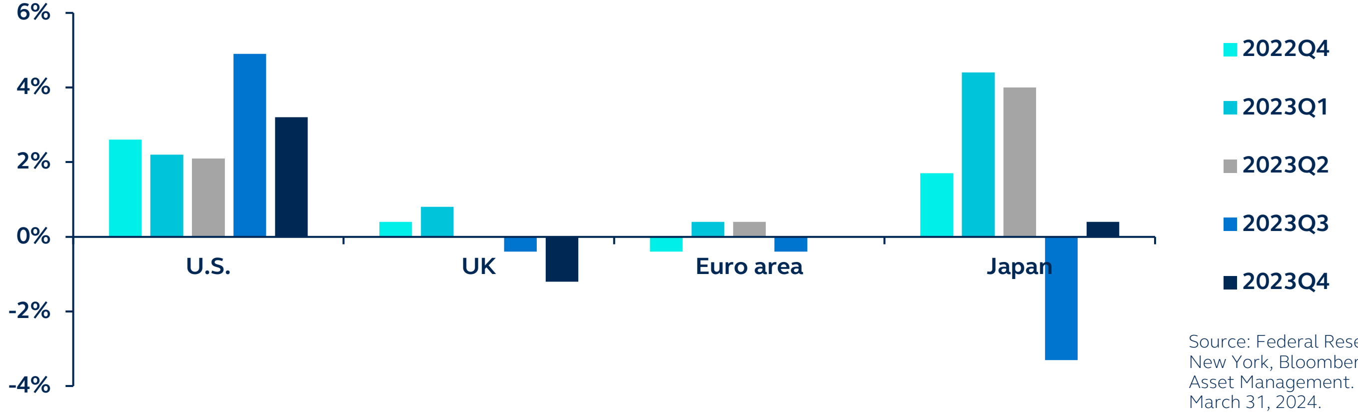
In the second half of 2023, the U.S. economy posted an average quarterly GDP growth rate of 4.1%. By contrast, the UK entered technical recession, while the Euro area remained entrenched in stagnation. China has continued to struggle, weighed down by depressed household confidence, which has been exacerbated by entrenched property market weakness. Furthermore, deflation means that financial conditions are tightening even as authorities cut policy rates.

Looking forward, China is unlikely to hit its 5% growth target without new, impactful stimulus measures, and while policymakers clearly recognize this, they continue to be held back by debt and leverage concerns. Europe is seeing signs of a cyclical upturn in the manufacturing cycle and should avoid recession, while Japan's reflation story has legs. U.S. growth is set to downshift over the coming quarters as consumers pull back slightly, the labor market rebalances, and corporates finally confront higher refinancing costs. But overall, growth will likely only slow to trend, with 2024 marking another year of U.S. economic outperformance.

The U.S. is set to outperform its global peers once again. While Europe and China struggle to make significant headway, the U.S. economy is heading for a soft landing.

Global growth

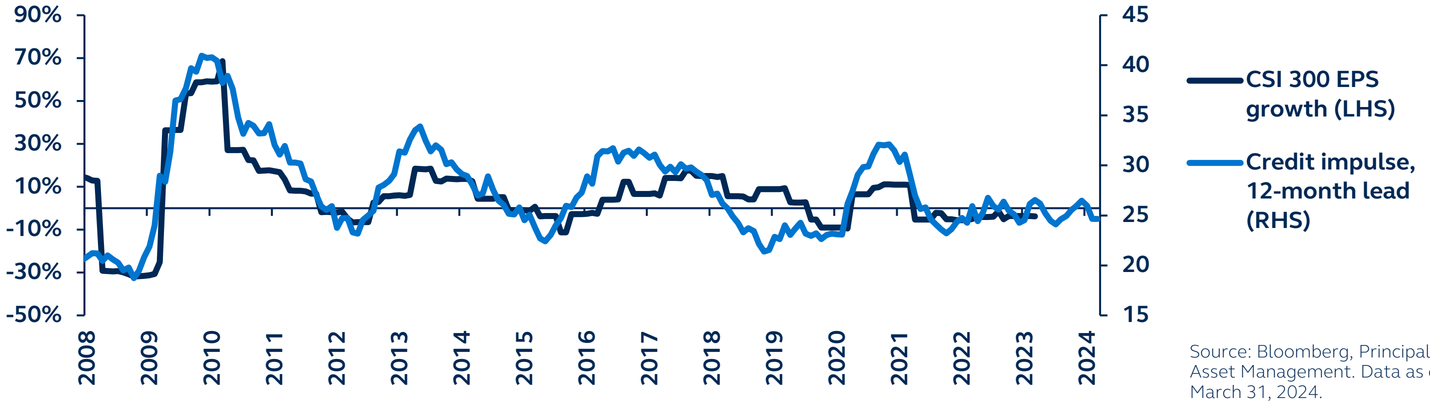
Quarterly, 4Q 2022–4Q 2023



Source: Federal Reserve Bank of New York, Bloomberg, Principal Asset Management. Data as of March 31, 2024.

China credit impulse versus earnings growth

2008–present



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

U.S. economy halfheartedly confronting higher rates

The U.S. economy's interest rate sensitivity is considerably lower than in previous hiking cycles, largely because many households insulated themselves from higher policy rates by locking in the 2020/2021 record low mortgage rates. So even as rising Fed policy rates drove 30-year mortgage rates to 8% last year, the effective rate on the outstanding stock of mortgage debt remained at around 3%.

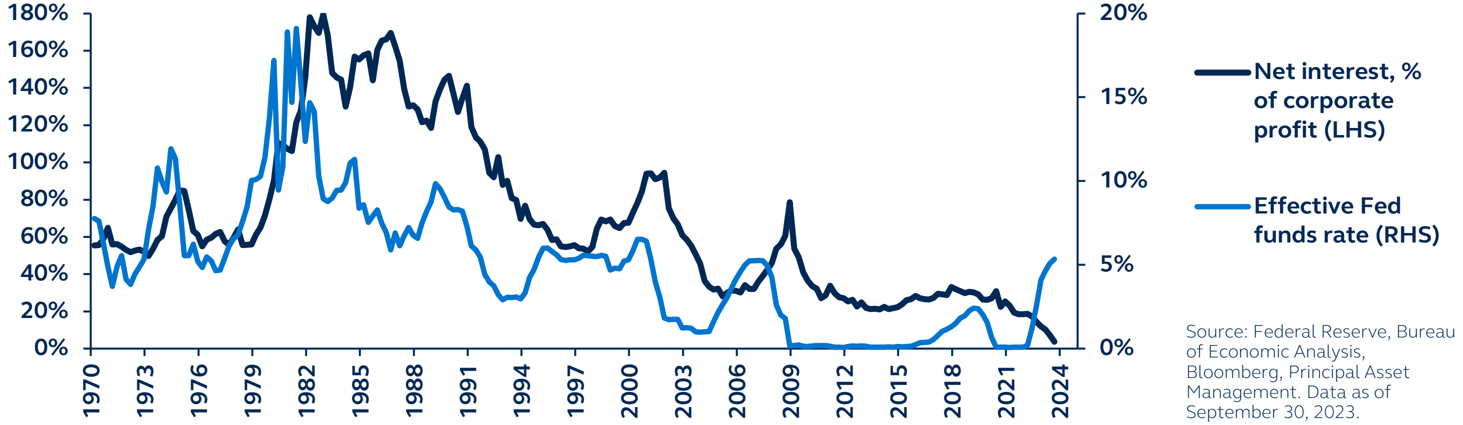
Similarly, on the corporate side, the Fed's 2020 decision to make credit cheap and easy to access for all companies encouraged corporates to take full advantage of record-low rates by refinancing their debt and issuing new debt in record numbers. As a result, even as Fed rates have risen to 22-year highs, corporate interest payments trended lower.

These stimulus measures created a unique defense against higher policy rates. Rising numbers of corporate bonds are now maturing, requiring refinancing, and many at significantly higher rates than their existing loans, particularly for the most leveraged issuers. The constructive economic backdrop implies that most corporates should be able to climb the maturity wall relatively unscathed, but they will have to offset their higher refinancing costs by reducing expenses elsewhere, with strategies such as cutting dividends, reducing capex, and decreasing labor costs likely to take some toll.

The U.S. economy will only start to feel the effect of higher interest rates this year. Pandemic stimulus measures did a very effective job at insulating the economy from higher rates.

Corporate interest payments versus Federal funds rate

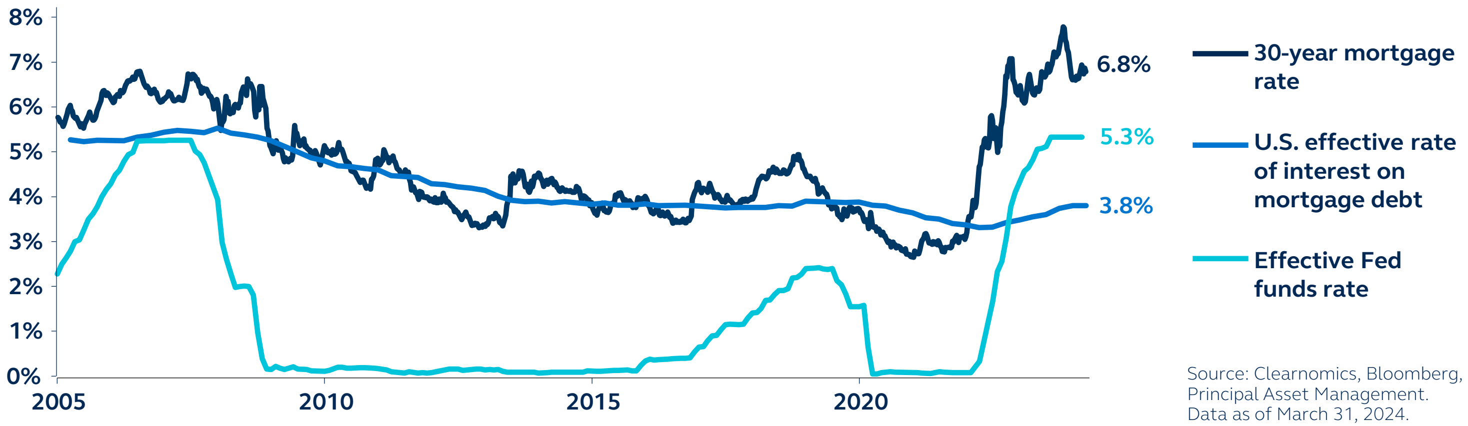
Quarterly, January 1970–September 2023



Source: Federal Reserve, Bureau of Economic Analysis, Bloomberg, Principal Asset Management. Data as of September 30, 2023.

U.S. 30yr fixed mortgage rate, effective mortgage rate, and effective Fed funds rate

2010–present



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

Lower income consumers starting to feel the pinch

Household spending power has remained more robust than in previous hiking cycles. Not only have homeowners been broadly immune to rising mortgage rates, but higher rates have actually bolstered household income. Pandemic-related fiscal cash injections led to a meaningful buildup of excess savings, and higher interest rates on deposit accounts and money market funds have meant that savers received a boost to passive income. Household wealth has also risen sharply, bolstered by capital market and house price appreciation.

Yet, there are signs that some consumers are stretched:

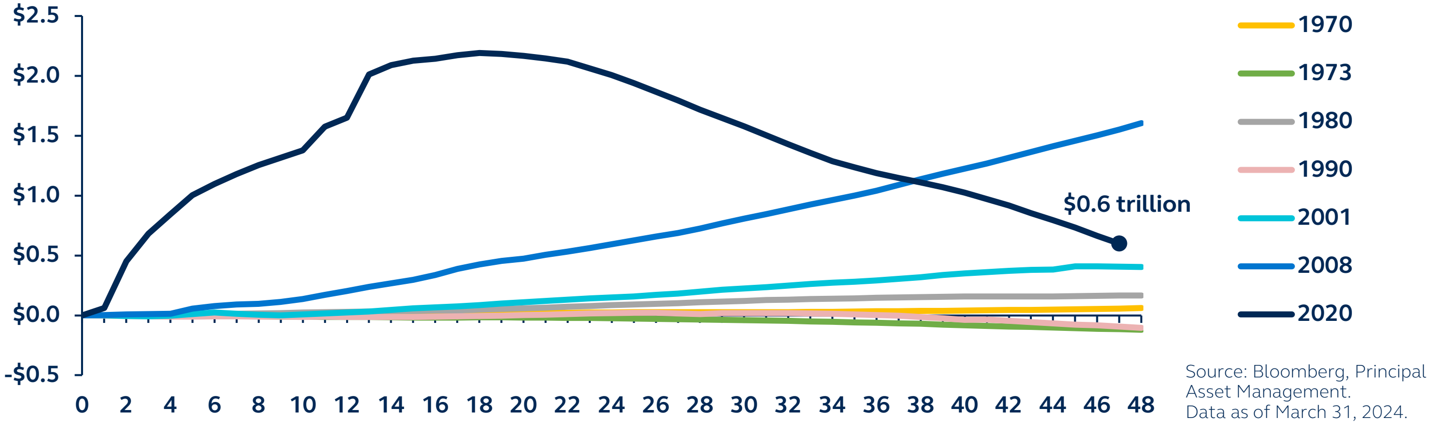
- Household balance sheets are still strong, but excess savings are becoming depleted —although this is tilted toward lower income rather than higher income households.
- A growing number of companies suggest consumers have become more value conscious, shifting away from higher priced goods toward lower priced goods.
- Credit concerns are creeping higher—the rate of credit card delinquencies has risen above pre-pandemic levels.

Dynamics that helped fuel lower income consumer strength in the past two years are now fading, leading to an increasingly fragmented economic backdrop.

While high income consumers still have excess savings and continue to benefit from positive wealth effects, lower income consumers are showing signs of strain.

Aggregate excess savings following recession

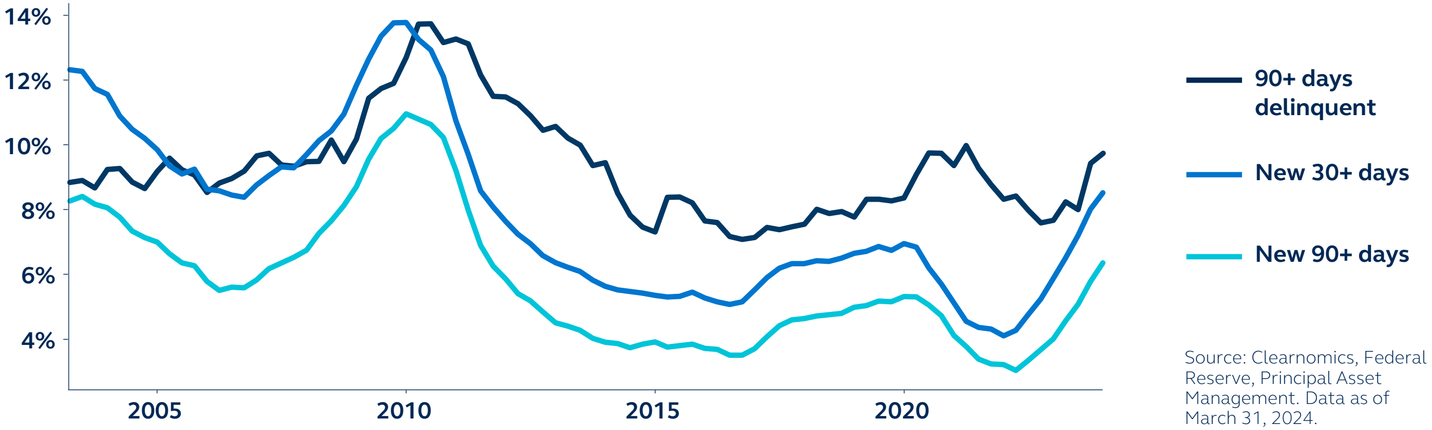
Trillions, months since start of recession



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

Credit card delinquency rates

Percent of current outstanding balance, quarterly, January 2003–present



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

Labor market: Solid but not overheating

Tightening financial conditions have not broken the economic expansion; a key reason for this has been the labor market's strength. Yet, while headline employment has continued to grow uninterrupted and has even strengthened since the turn of the year, there are growing signs of a (healthy) labor market rebalancing.

Job openings continue to drift lower, fewer people are quitting jobs to take on others, temporary employment is slowing, and fewer small businesses are planning to increase employment. Companies are beginning to respond to cooling economic activity and consumer spending by gently reducing labor demand.

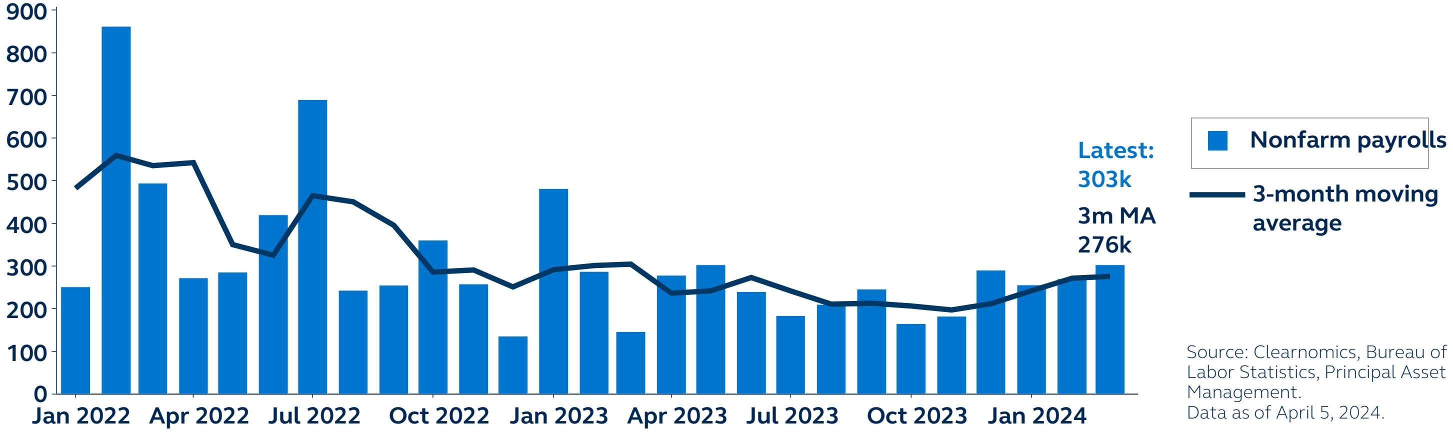
Labor supply has also risen sharply recently, largely due to a surge in immigration. This is likely the key reason behind the recent rise in unemployment, representing a "healthy" supply-driven rise in unemployment rather than an "unhealthy" demand-driven rise in unemployment. As such, while unemployment is likely to still rise incrementally, it should not be associated with recession.

More pertinently, if labor market rebalancing persists, it should support a further weakening in wage growth over the coming months, assisting the disinflation narrative.

Labor market resilience is set to remain a key theme for 2024. A healthy rebalancing of labor supply and demand should ensure unemployment does not spike.

U.S. nonfarm payrolls

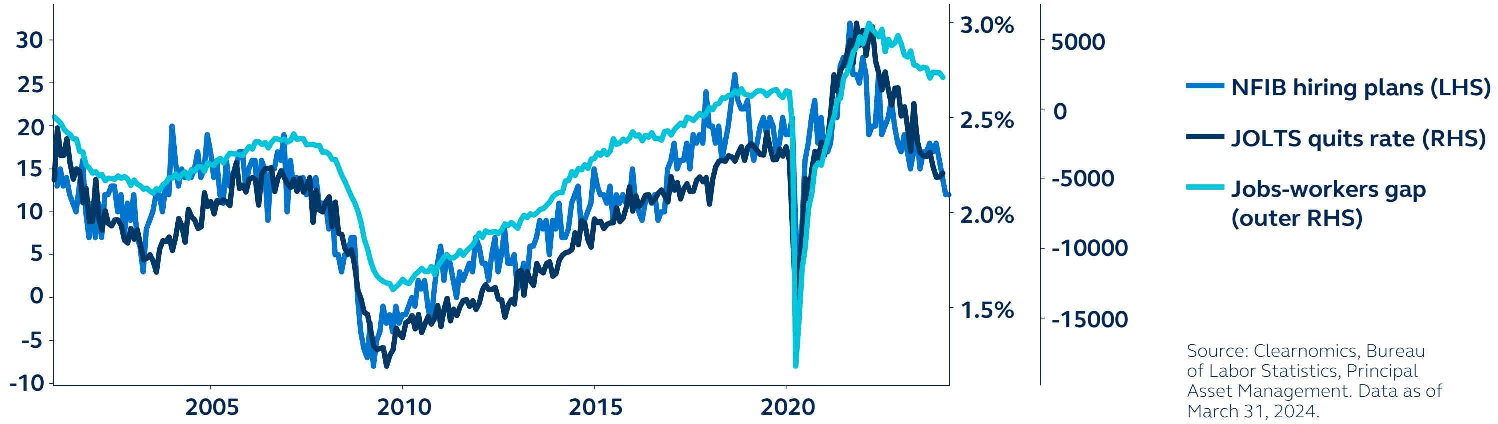
Thousands, monthly, January 2022–present



Source: Clearnomics, Bureau of Labor Statistics, Principal Asset Management. Data as of April 5, 2024.

Labor market tightness: various measures

NFIB hiring plans, JOLTS quits rate, jobs-workers gap



Source: Clearnomics, Bureau of Labor Statistics, Principal Asset Management. Data as of March 31, 2024.

Global inflation: A frustratingly slow last mile

Global disinflation has made significant headway, and generally without job losses. However, there are now signs that inflation is no longer decelerating. Recent U.S. inflation prints represent a setback in the Fed's effort to build additional confidence in the sustainability of disinflation. While core goods inflation has dropped sharply, driven by normalizing supply chains, core services inflation ex-housing—the segment of the consumer basket most closely related to the labor market—remains strong, raising concerns that the U.S. labor market is simply too hot to permit inflation to reach the 2% target. Upcoming data will be pivotal to confirm the U.S. economy is not in the throes of a new inflationary trend.

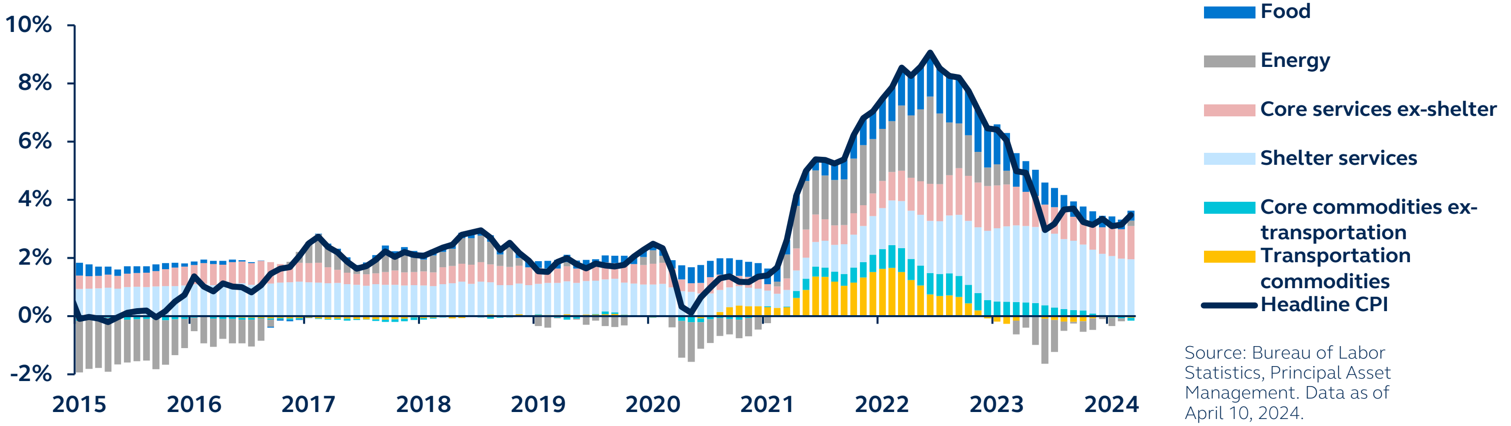
In fact, sticky services inflation appears to be a common global theme, suggesting that wider labor market cracks are required for the last mile to the inflation target.

In the UK and the Euro area, central banks are closely focused on wage growth. Lackluster economic activity suggests wage growth is likely to weaken, but clear evidence is necessary before both central banks can begin executing rate cuts. By contrast, for the Bank of Japan (BOJ), the "shunto" wage negotiations, which showed stronger-than-expected wage growth, were the final piece of the inflation puzzle to convince the BOJ to shift away from negative rates.

The last mile to central banks' inflation targets is proving tough and may require some (small) cracks in the labor markets to materialize.

Contribution to headline U.S. inflation

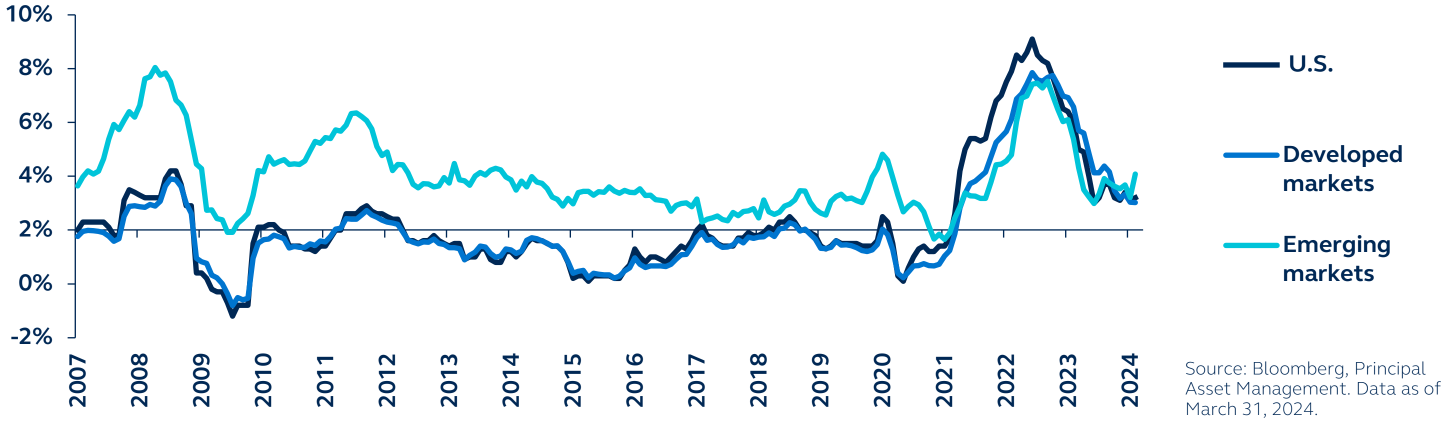
Year-over-year, January 2015–present



Source: Bureau of Labor Statistics, Principal Asset Management. Data as of April 10, 2024.

Principal Asset Allocation GDP-weighted inflation

January 2007–present



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

Policymakers must carefully navigate the landing

The last mile of inflation will be bumpy and unpredictable. Against that backdrop, small surprises in inflation can have significant consequences for the policy path and the economy.

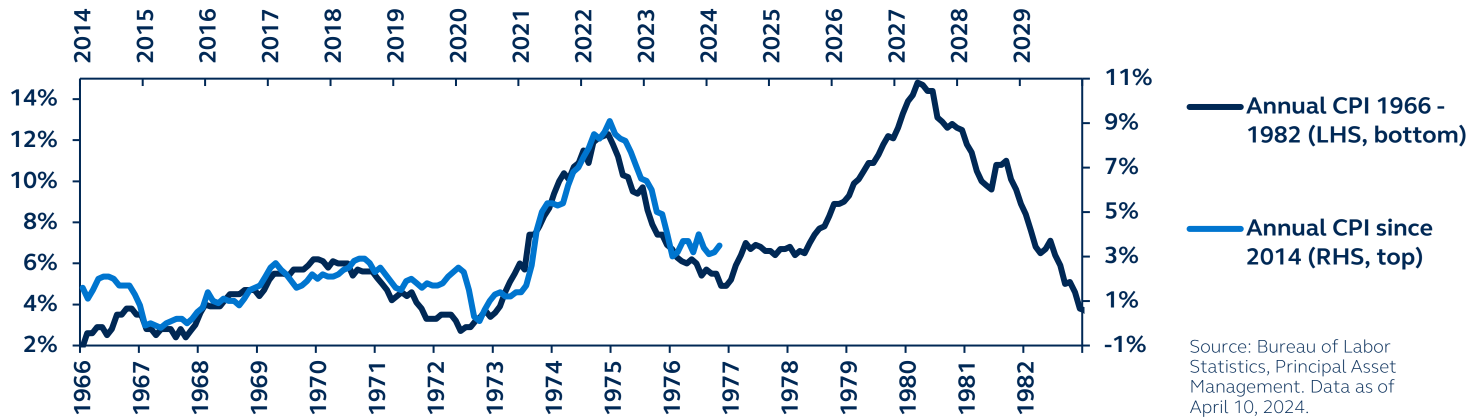
History clearly warns against cutting rates before inflation is on a sustainable path back to target. There are striking similarities between U.S. inflation developments today and those of the early 1970s. During that period, the Fed had also responded with steep interest rate hikes. After some time, it was anxious to ease monetary policy, cutting interest rates before inflation had fallen back to levels consistent with price stability. The result was a resurgence in price pressures.

However, the very limited number of successful soft landings also demonstrates the dangers of waiting too long before cutting rates. If the Fed were to keep policy rates on hold at 5.5%, falling inflation would imply a rising real policy rate and, therefore, a tightening monetary stance. As such, keeping rates on hold for too long risks throwing away the strong prospects of achieving a soft landing—the Fed must navigate its policy path very carefully.

The Fed must tread carefully to ensure it does not trigger a new inflation wave. However, leaving policy rates unchanged for too prolonged a period would raise recession risk.

Historical inflation comparison

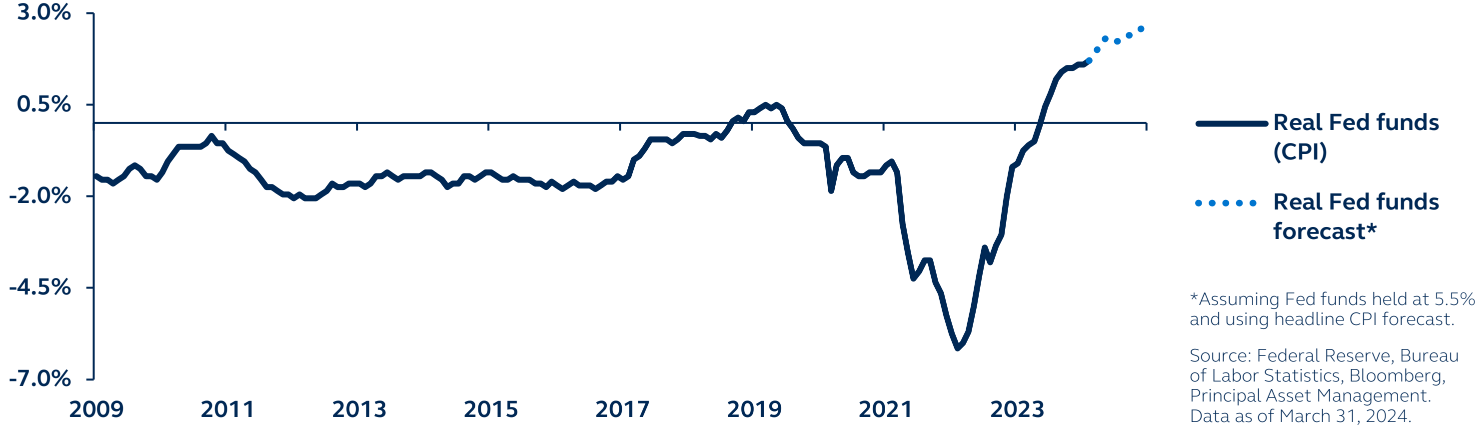
Consumer Price Index (CPI)



Source: Bureau of Labor Statistics, Principal Asset Management. Data as of April 10, 2024.

Real Fed funds rate

January 2009–present



*Assuming Fed funds held at 5.5% and using headline CPI forecast.

Source: Federal Reserve, Bureau of Labor Statistics, Bloomberg, Principal Asset Management. Data as of March 31, 2024.

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Federal Reserve: Eager to cut rates

The past few months have been a particularly volatile period for Federal Reserve forecasts. Upside inflation surprises mean that financial market expectations have shifted from six Fed cuts this year to just two cuts, starting in September.

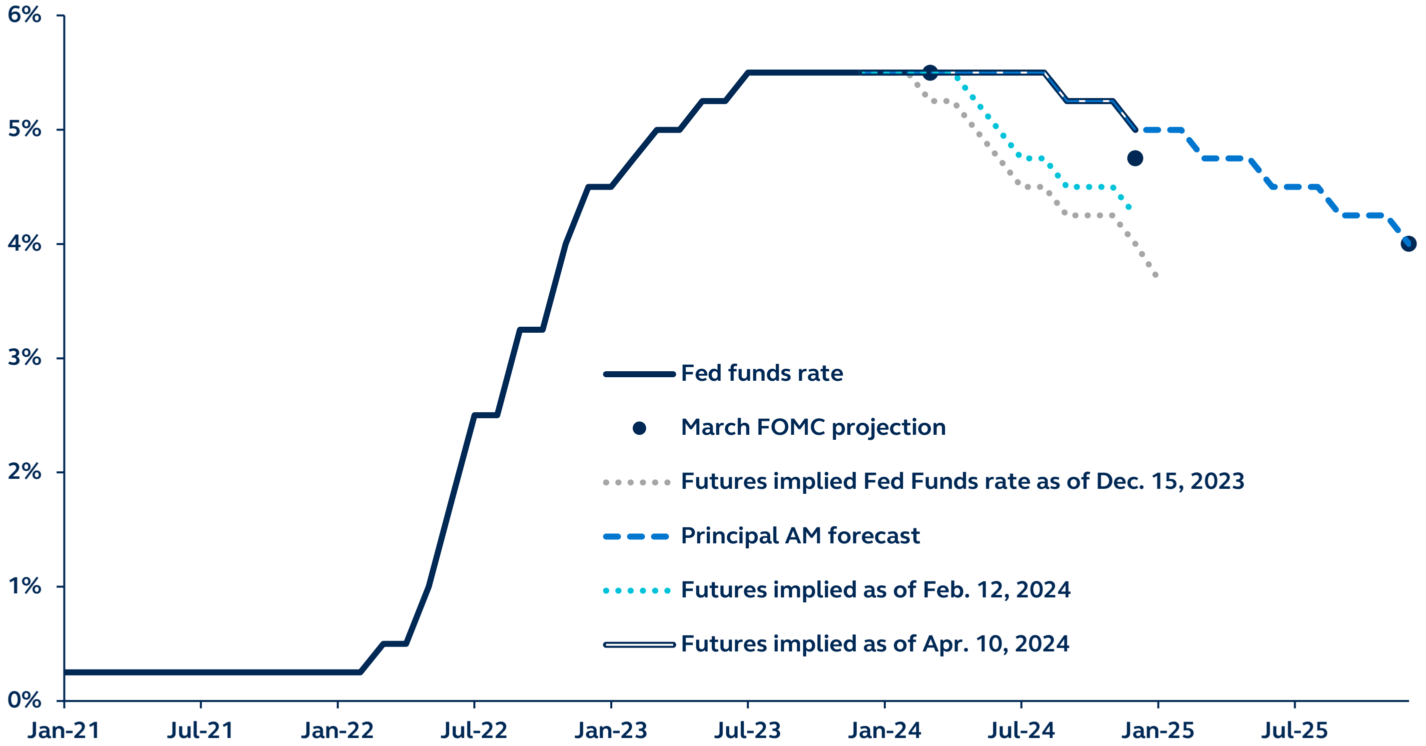
The Fed, and in particular Chair Powell, have made it abundantly clear that it wants to cut rates this year. Not only has it been downplaying the importance of recent inflation prints, but upward revisions to the Fed's growth and inflation forecasts did not prompt any changes to the near-term policy path projection. The Fed continues to expect 75 basis points of cuts this year.

The strength of the economy means that only one cut is likely required, yet we must take consideration of the Fed's clear desire to cut rates into account. We have revised our forecast from three cuts to two cuts in 2024, with the first reduction coming in September. The complications of starting an easing cycle just before the U.S. Presidential election does insert significant uncertainty. Investors should note that cutting policy rates when the economy is running above trend and while unemployment is still near record lows raises the risk of another inflation wave. The implication is that the Fed's loosening cycle will be historically shallow, with rates ultimately higher for longer.

The Fed clearly wants to cut rates. We are expecting two rate cuts in 2024, starting in September. However, loosening policy at a time when growth is still strong is a risky strategy.

Federal Reserve policy rates path

Fed funds rate and projections, 2021–present



Source: Federal Reserve, Bloomberg, Principal Asset Management. Data as of April 10, 2024.

Global central banks: More reason to cut than the Fed

Typically, as the largest economy in the world, the U.S. sets the stage, and global central banks wait for a signal from the Fed before they begin their easing cycles. Moving before the Fed risks putting upward pressure on their local currencies and, in turn, weighing on their economies.

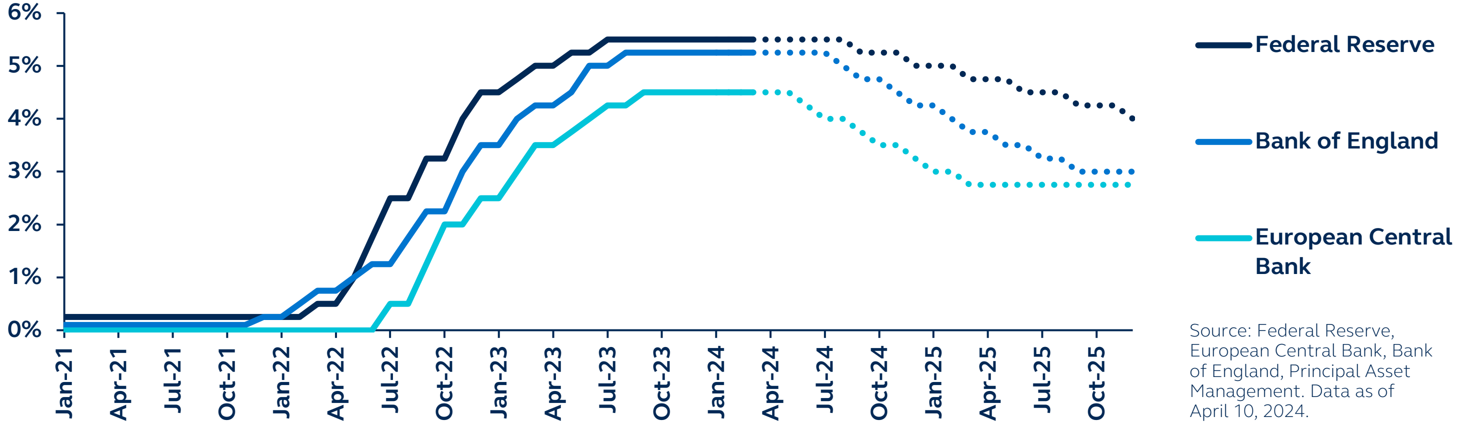
Yet the European Central Bank (ECB) and the Bank of England (BoE) are struggling with weak economies and have a clearer need to loosen monetary policy than the Fed. They too are waiting to gather sufficient evidence of sustained disinflation before they enact a rate cut. We expect the ECB rate cutting cycle to be delayed until June and, for the BoE, potentially late summer. However, both central banks will be uncomfortable starting their cutting cycles several months ahead of the Fed.

Once they do start cutting rates, the BoE and ECB are likely to move with more urgency than the Fed as they are facing a greater risk of protracted economic downturns. As a result, the U.S. dollar will likely see an extended period of strength, only slightly muted by the Bank of Japan's policy moves towards a more restrictive setting.

Global central banks would prefer to start cutting rates at the same time as the Fed. Yet their weaker economies mean they will move with greater urgency. Their relatively dovish policy path will keep upward pressure on the U.S. dollar.

Global central bank rates

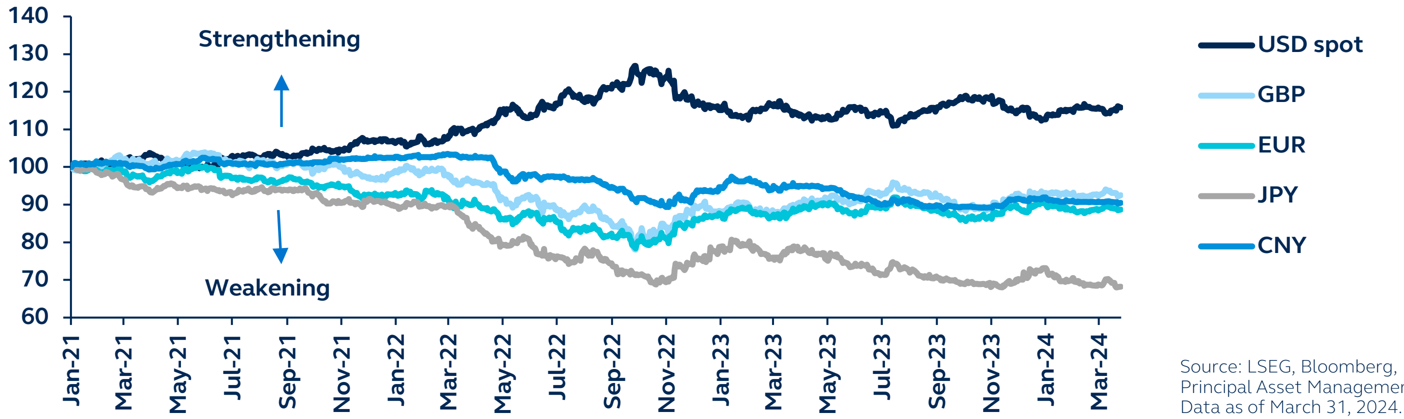
January 2021–present, forecasted through 2025



Source: Federal Reserve, European Central Bank, Bank of England, Principal Asset Management. Data as of April 10, 2024.

Major currencies

Rebased to 100 at January 2021



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

Equities

U.S. equities: What's not to like?

Central banks have fueled a market rally as they embrace optimism about inflation without sacrificing growth. Historically, when central bank easing takes place against a backdrop of a soft landing (like in 1995), the economy enters a mid-cycle position—whereby growth is stimulated by rate cuts, extending the economic expansion, the earnings upswing, and therefore, the market rally.

Yet, just like last year, the only investment decision that really mattered in 1Q was owning the Magnificent 7 stocks. They recorded a total return of 13.6% in 1Q. That follows on from an outstanding total return of 107% last year, accounting for most of the S&P 500 gains in 2023.

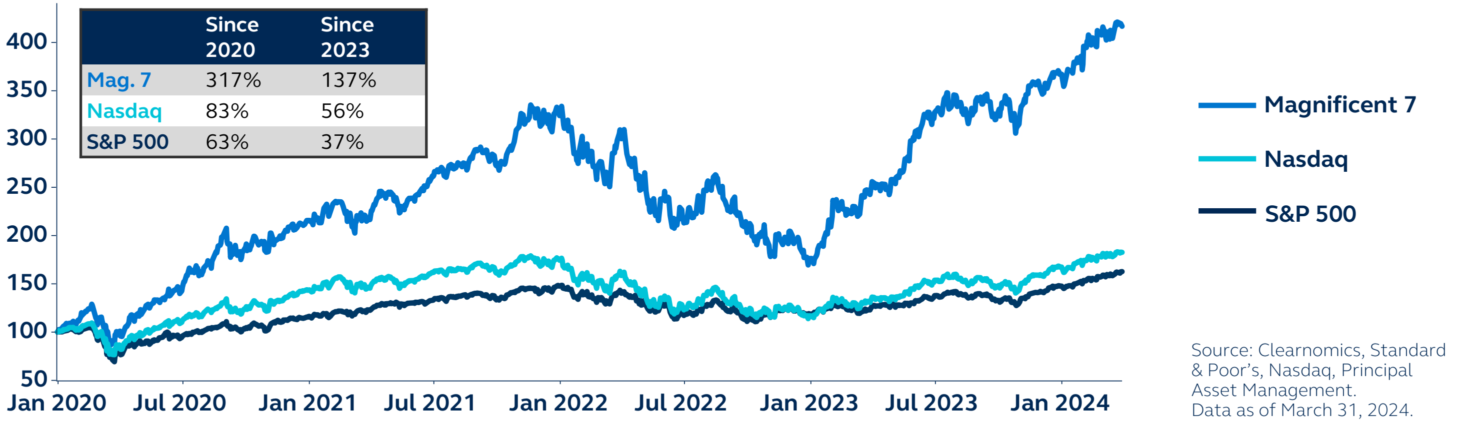
The Magnificent 7 should extend their positive performance. After all, the strong balance sheet characteristics and secure competitive market positions of the Magnificent 7 imply that a significant correction is unlikely, despite their valuations drawing comparisons to the 2000s tech bubble. Yet, this year, the combination of a continued economic expansion, solid earnings growth and rate cuts should see strong performance broadening to other more cyclical sectors and markets whose valuations are not quite so stretched.

Equity markets are facing a goldilocks combination of a soft landing and rate cuts. This should support a broadening of the market rally to other more cyclical sectors.

Magnificent 7 performance

Simple equal-weighted performance versus the S&P 500 and Nasdaq composite, indexed to 100 at January 1, 2020

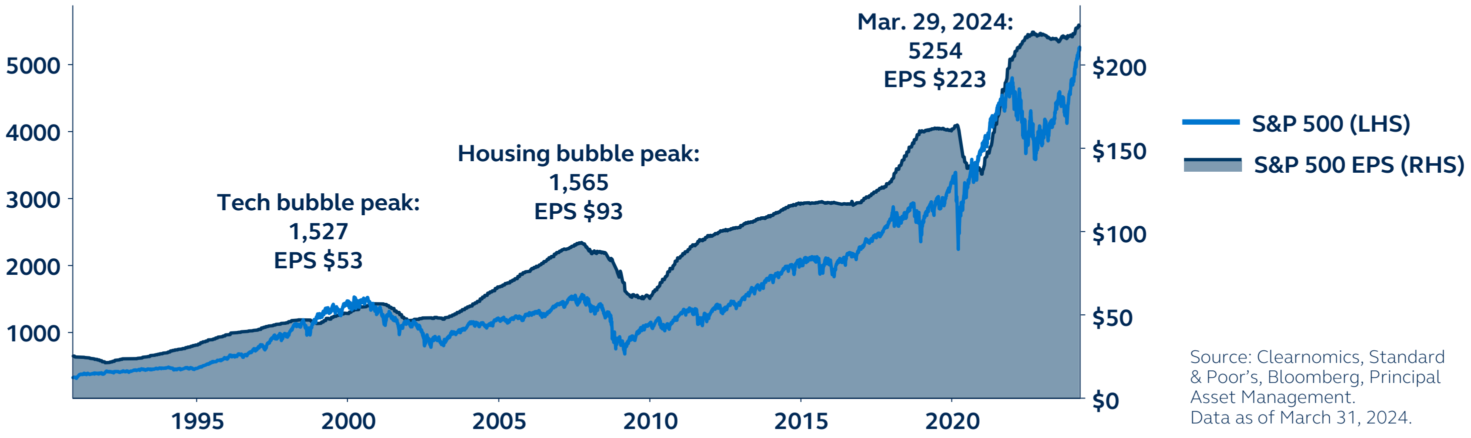
	Since 2020	Since 2023
Mag. 7	317%	137%
Nasdaq	83%	56%
S&P 500	63%	37%



Source: Clearnomics, Standard & Poor's, Nasdaq, Principal Asset Management.
Data as of March 31, 2024.

The stock market and earnings

S&P 500 Index price and trailing earnings-per-share, 1990–present



Source: Clearnomics, Standard & Poor's, Bloomberg, Principal Asset Management.
Data as of March 31, 2024.

Global equity valuations: Pockets of opportunity

The U.S. market was not the only one hitting new record highs. Europe hit an all-time high despite its weak economy, while Japan's Nikkei 225 regained its previous 1989 record high as companies benefitted from a weak yen.

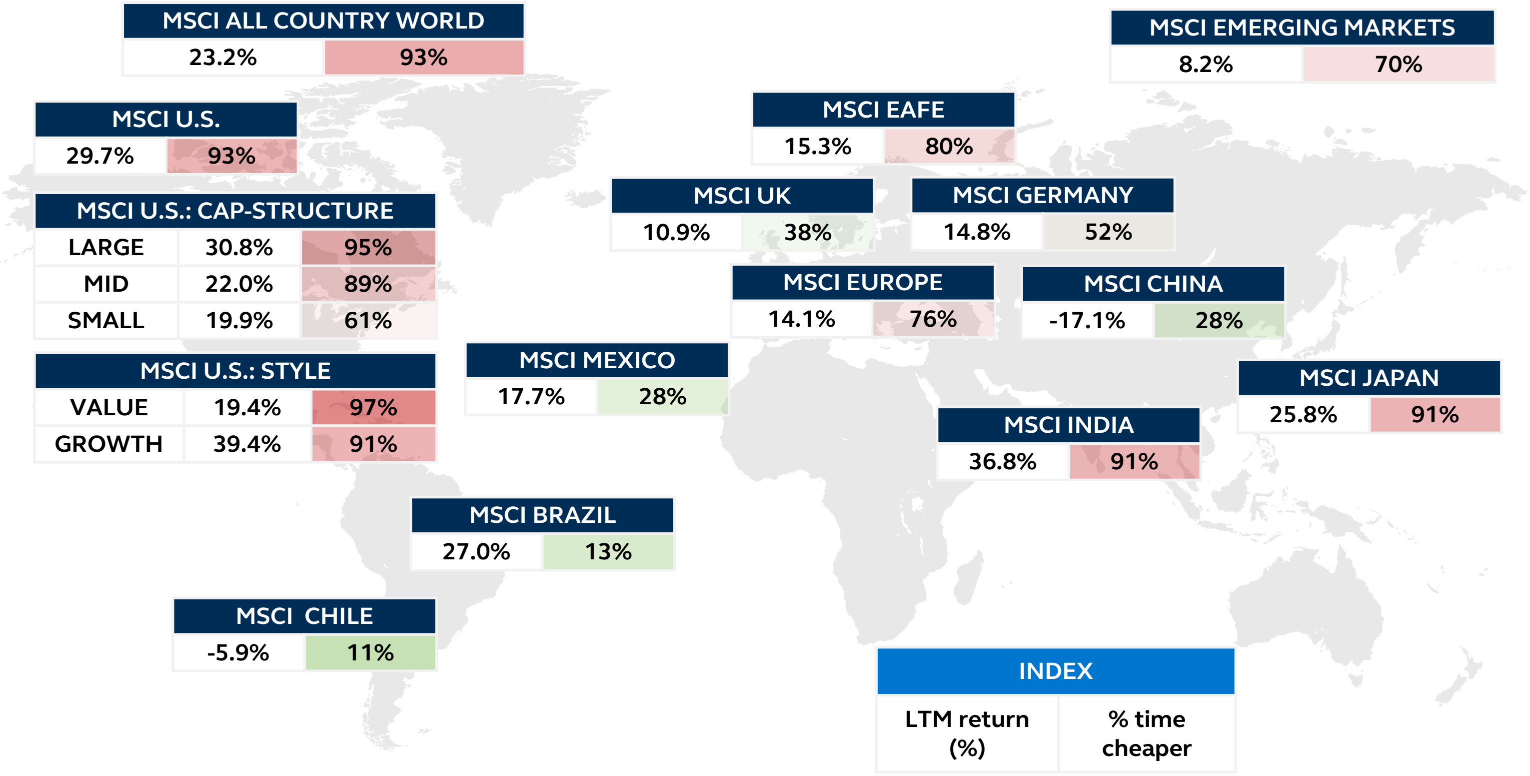
In the U.S., with the Magnificent 7 recording another outstanding quarter, large-cap equity valuations are the most stretched, while small- and mid-cap valuations remain relatively attractive. As investors look to take advantage of the soft landing and rate cuts backdrop, the cyclical features of U.S. small-caps are likely to become increasingly appealing. In Europe, although Germany is meaningfully less stretched than the U.S. market, its lackluster economy implies a less inspiring outlook. Japan's valuations are now clearly flagging as expensive, but the return of inflation, positive interest rates, and corporate governance reforms present opportunities for unlocking value.

Emerging market valuations are varied, with India being very stretched but others still being cheap. China's market will continue to struggling unless policymakers introduce new and impactful stimulus measures. In Latin America attractive valuations and positive fundamentals are colliding to make a very strong investment case.

Although global valuations are stretched, there are pockets of opportunity that can benefit from the constructive macro backdrop, including Latin America.

Global equity returns and valuations

Last twelve months returns and % times cheaper, MSCI indices



Source: FactSet, Bloomberg, MSCI, Principal Asset Allocation. LTM (last twelve months) returns are total return and in USD terms. % Time Cheaper is relative to PAA Equity Composite Valuation history. PAA Equity Composite Valuation is a calculated measure, comprised of 60% price-to-earnings, 20% price-to-book and 20% to dividend yield. Composite started in 2003. EAFE is Europe, Australasia, Far East. See disclosures for index descriptions. Data as of March 31, 2024.

Fixed income

U.S. Treasurys are set to skew lower, but only slightly

1Q was a challenging quarter for U.S. Treasurys as constructive economic data prompted markets to revise their Fed rate expectations path to a significantly less dovish one. U.S. Treasury yields corrected higher, albeit not quite to the highs of early 4Q 2023. With the Fed likely to start cutting rates later this year, Treasury yields should skew lower as investors look to lock in the current level of yields.

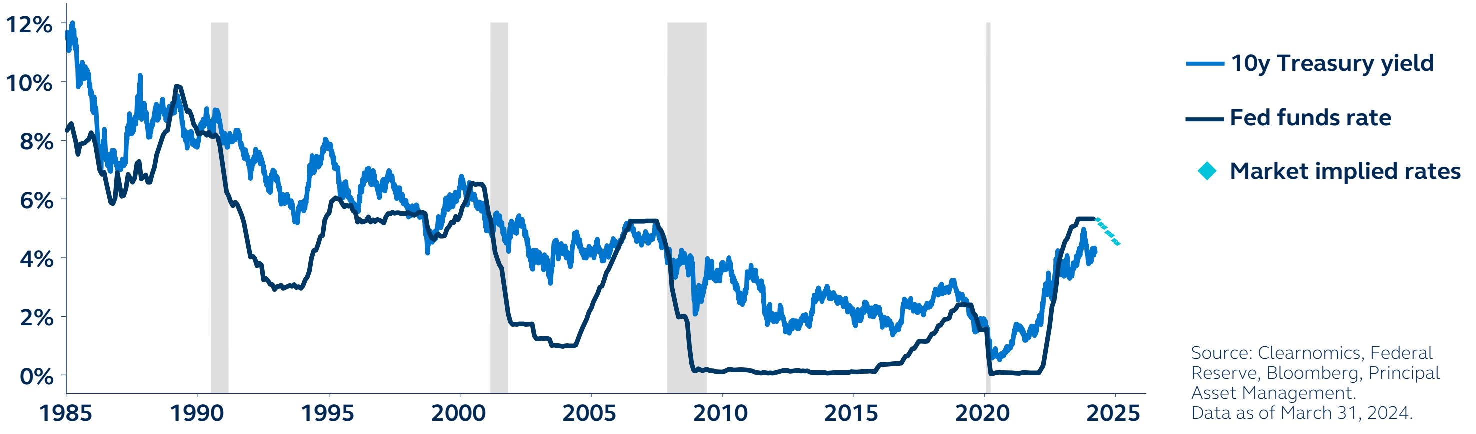
However, in the absence of a severe recession, Treasury yields are unlikely to revert to the ultra-low levels of recent years. With inflation set to remain above the 2% target for much of the forecast horizon, the Fed's easing cycle will be considerably more shallow than usual. In addition, shifting supply/demand dynamics in the Treasury space, particularly in an election year, imply higher term premia.

By contrast, credit had a strong quarter, supported by the still strong economic backdrop. Credit spreads are at historically a tight level and in a soft landing scenario, should remain fairly tight. Note, though, that the prospect of a modest economic slowdown suggests limited room for further spread compression.

Fed rate cuts should put downward pressure on U.S. Treasurys but the impact will be limited by a shallow cutting cycle, as well as higher term premia as debt concerns persist.

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

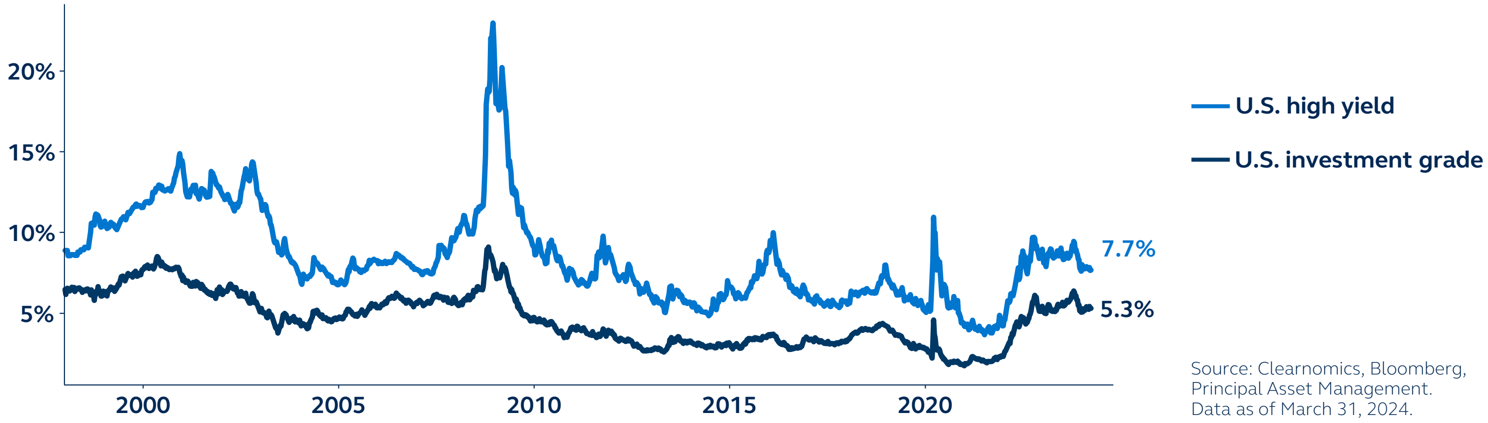
Recessions are shaded, 1985–present



Source: Clearnomics, Federal Reserve, Bloomberg, Principal Asset Management. Data as of March 31, 2024.

U.S. high yield and investment grade spreads

Option-adjusted-spread, 1998–present



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

Fixed income: We're here for the carry

The combination of solid economic growth and a Federal Reserve that is clearly keen to cut policy rates has solidified a constructive backdrop for credit. Higher yields and lower interest rate volatility should continue to support strong institutional demand, while ETF inflows reflect healthy retail appetite.

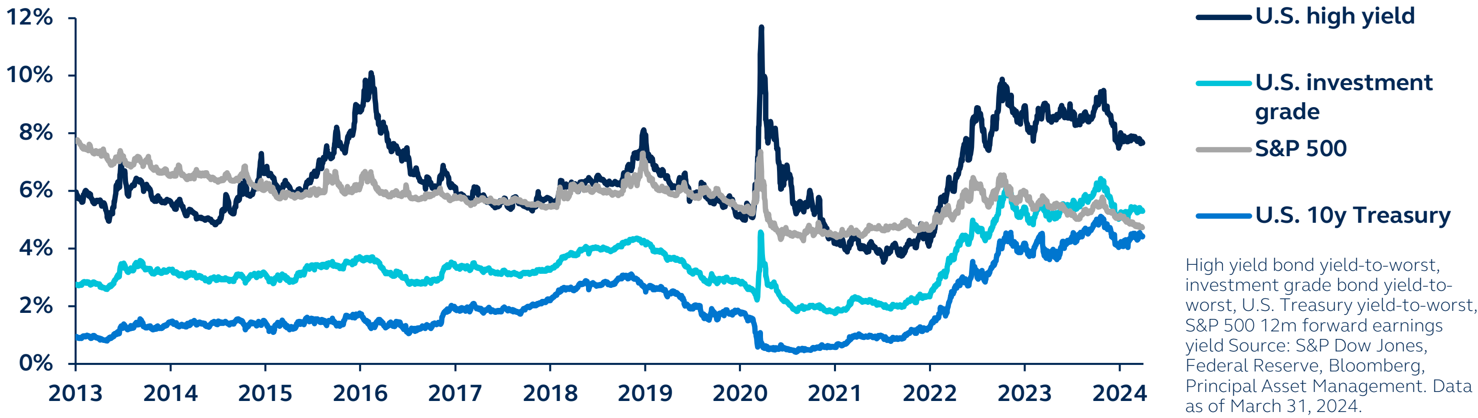
Spreads are historically tight for both investment grade and high yield credit. Yet, while spreads may not tighten significantly from here, provided the economy does not deteriorate significantly, they should not widen much either. More pertinently, credit is offering important additional carry to U.S. Treasurys, while the total yield available in fixed income is also attractive compared to equities.

A much-flagged risk for high yield this year is that due to the Fed's 2022-23 hiking cycle, the wall of maturing debt will face significantly higher refinancing costs, potentially triggering a spike in defaults. However, the resilient macro backdrop and strong balance sheets suggest that companies should scale the wall relatively unscathed. In addition, the maturity wall leans towards high-quality, suggesting that most companies will be able to digest the interest rate costs without too much strain.

Although credit spreads remain tight, fixed income today offers important carry opportunities. Concerns around the high yield maturity wall are likely overblown.

Yield comparison: High yield bonds, investment grade bonds, U.S. Treasurys, and S&P 500

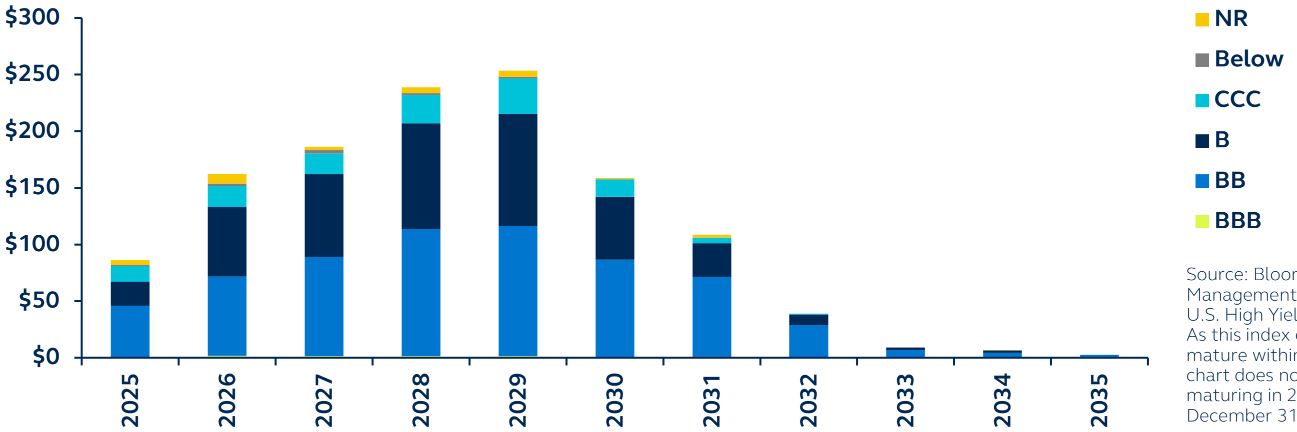
2013–present



High yield bond yield-to-worst, investment grade bond yield-to-worst, U.S. Treasury yield-to-worst, S&P 500 12m forward earnings yield Source: S&P Dow Jones, Federal Reserve, Bloomberg, Principal Asset Management. Data as of March 31, 2024.

High yield bond maturity schedule

Billions USD



Source: Bloomberg, Principal Asset Management. Data represents the U.S. High Yield 2% Issuer Cap index. As this index excludes bonds that mature within the next year, the chart does not include any bonds maturing in 2024. Data as of December 31, 2023.

Investment perspectives

The wall of cash is looking for a new home

Assets in money market funds have ballooned to a record $6 trillion, with investors attracted by elevated yields and partially hiding from an uncertain U.S. economic outlook. Now, with rate cuts on the near-term horizon, this cash may represent a potential tailwind to risk assets.

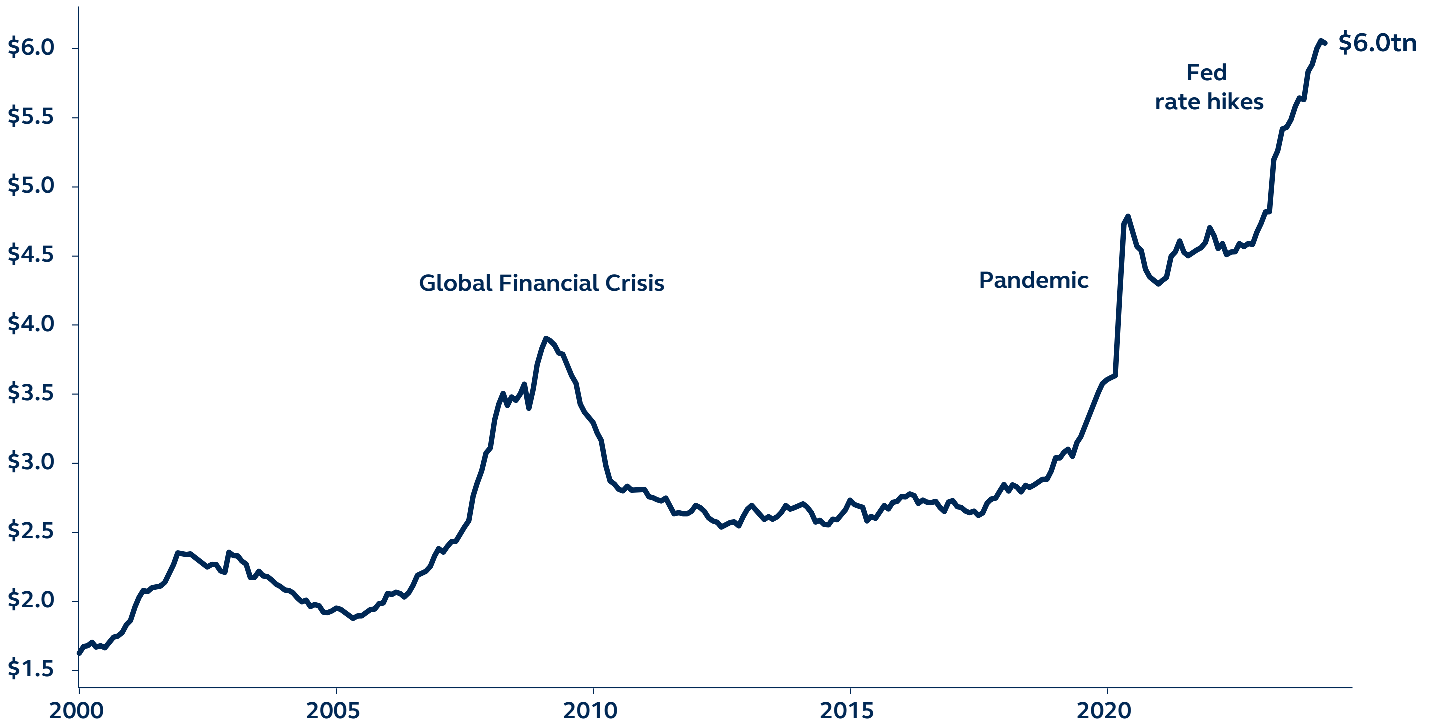
Many of the concerns and questions of recent years should finally be resolved over the coming months. The economy is slowing but is on course for a soft landing, earnings growth will likely remain positive, and the Fed is likely to cut rates later this year, reducing the attractiveness of cash.

Non-cash assets can deliver solid returns and provide important diversification in portfolios. In the base case scenario, a soft landing, risk assets like equities should outperform. If, however, this is too optimistic and recession materializes, bonds can offer stability and a hedge against the downside risks. If inflation resurges, alternatives such as real assets can outperform. With the potential for gains across the asset class spectrum, the main risk is staying in cash.

Investors should be prepared: Rate cuts should ignite a surge in sentiment—and there's a massive $6 trillion mountain of cash to fuel the resulting rally in risk assets.

Money market funds have surged in recent years but, in 2024, with rate cuts likely and the economy still on a positive path, risk assets should perform strongly, and cash is set to lose its attractiveness.

U.S. total money market fund assets
Trillions, 2000–present



Source: Clearnomics, Federal Reserve, Investment Company Institute, Bloomberg, Principal Asset Allocation. Data as of March 31, 2024.

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Diversified asset allocation: Positioned for risk on

Asset allocation	Investment preference: Less	−	Neutral	+	More
Equities	○	○	◍ →	●	○
Fixed income	○	○	◍ →	●	○
Alternatives	○	● ←	◍	○	○
Equities					
U.S.	○	○	○	●	○
Large-cap	○	○	○	●	○
Mid-cap	○	○	●	○	○
Small-cap	○	○	◍ →	●	○
Ex-U.S.	○	●	○	○	○
Europe	○	●	○	○	○
UK	○	●	○	○	○
Japan	○	○	●	○	○
Developed Asia Pacific ex-Japan	○	○	●	○	○
Emerging markets	○	○	●	○	○

Viewpoints reflect a 12-month horizon.
◍ → ● indicates a change in preference from the previous quarter (light blue) to the current quarter (darker blue).

Asset allocation	Investment preference: Less	−	Neutral	+	More
Fixed income					
U.S.	○	○	◍ →	●	○
Treasurys	○	○	●	○	○
Mortgages	○	○	●	○	○
Investment grade corporates	○	○	○	●	○
High yield/Senior loans	○	○	◍ →	●	○
Preferreds (debt & equity)	○	◍ →	●	○	○
TIPS	○	○	●	○	○
Ex-U.S.	○	● ←	◍	○	○
Developed market sovereigns	○	○	●	○	○
Developed market credit	○	○	●	○	○
Emerging market local currency	○	○	○	●	○
Emerging market hard currency	○	○	●	○	○
Alternatives					
Commodities	○	○	●	○	○
Natural resources	○	○	●	○	○
Infrastructure	○	● ←	◍	○	○
REITs	○	○	● ←	◍	○
Hedge funds	○	○	○	●	○

Source: Principal Asset Allocation. Alternatives asset class include commodities, natural resources, infrastructure, REITs, and hedge funds. Allocations across the investment outlook can be proportionately adjusted so magnitudes across categories do not have to net to neutral. Data as of March 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

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