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4Q 2024

Principal Asset Management℠

Global Market Perspectives

Hard to be gloomy

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Key themes for 4Q 2024

- **A globally synchronized downturn produces a globally synchronized policy easing.**
  As global growth has weakened, policymakers have started to respond. The U.S. Federal Reserve is committed to avoiding recession, while China's recent policy measures also raise the odds of a global soft landing.
- **The U.S. economy: Slowdown does not imply recession.**
  Labor market cooling has triggered recession concerns, but the continued strength of consumer and corporate balance sheets implies that job layoffs, and therefore recession, can be avoided. A moderation to trend growth is likely.
- **Central banks are determined to secure soft landings.**
  The Fed is set to lower rates toward 3% and may frontload rate cuts if there are further signs of labor market weakness. The Fed's commitment to a soft landing will be mirrored by other central banks keen to avoid overly strong currencies.
- **Equity markets confront valuation challenges, but Fed cuts should support continued gains.**
  Historically, a Fed cutting cycle without recession has resulted in a strong equity market performance. While stretched valuations suggest gains may be more limited this time, a broadening of gains beyond just tech presents opportunities.
- **Fixed income typically shines in a late cycle slowdown.**
  Fixed income spreads are tight, but elevated yields continue to draw investor interest. Combined with strong growth, Fed cuts should reduce default risk, extending the credit cycle.
- **With potential gains across asset classes, staying in cash is the leading risk.**
  With the Fed's rate cutting cycle now underway, the attractiveness of cash is rapidly diminishing. As global stimulus lifts prospects for risk assets across the globe, investors should be optimizing this constructive environment.

Global economic growth finds support in central banks

Slowing global demand has prompted a global central bank easing cycle to commence. In the U.S., growth is modestly slowing as the aftereffects of generous fiscal policy injections fade. Meanwhile, Europe has lost momentum and is retreating into stagnation as the industrial sector remains in the doldrums. In China, growth has continued to disappoint, raising concerns that it will miss its 5% GDP growth target.

Monetary policy conditions become more restrictive as inflation trends lower, putting the global economy at risk of an extended period of weakness. However, policymakers have responded with synchronized global central bank easing, tempering the downside. The U.S. Federal Reserve has begun its cutting cycle with an aggressive 50 basis point cut. At the same time, China's policymakers have recently signaled new momentum for fiscal stimulus in conjunction with monetary stimulus. Japan is one of the few global outliers, with policy rates moving higher in response to signs of a healthy reflation.

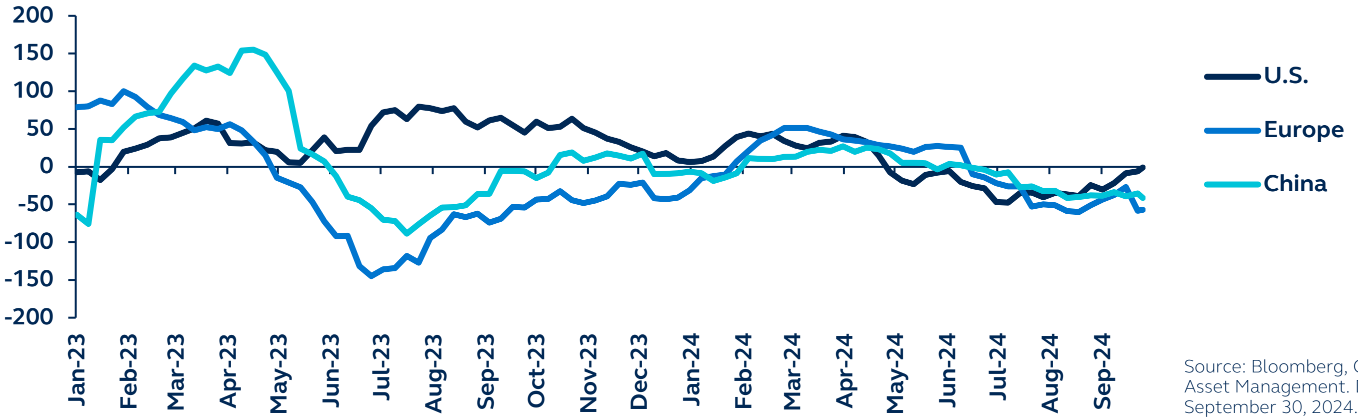
The odds of a global soft landing have increased and provided inflationary pressures do not reignite, a mild cyclical upswing is possible in the second half of 2025.

The U.S. presidential election remains a wildcard for the global outlook. The potential for more tariffs, dollar volatility, and geopolitical shifts could impact the global economy.

Global policymakers have responded to weakening economic growth, raising the odds of a global soft landing.

U.S., Europe, and China economic surprises

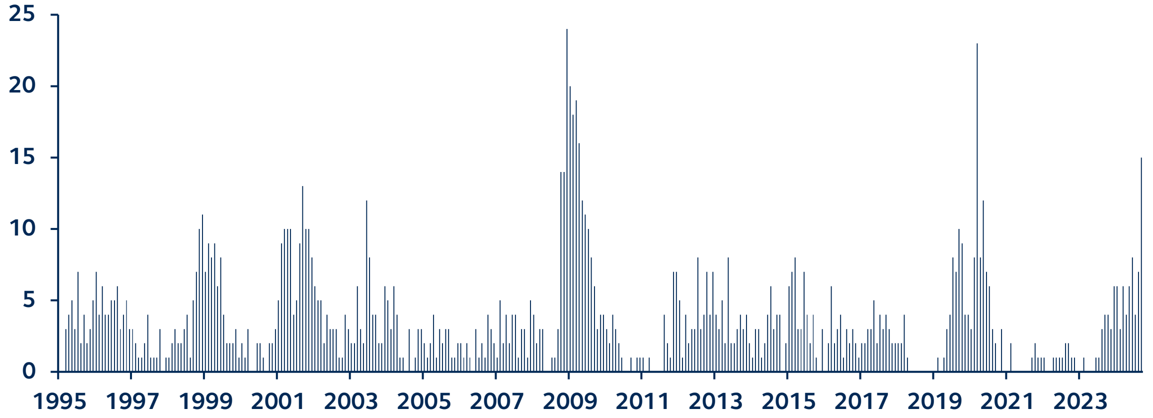
Citi Economic Surprise Index level, weekly, 2023–present



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

Global central bank easing

Number of central bank cuts, monthly, 1995–present



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

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China stimulus: Potentially a pivotal moment

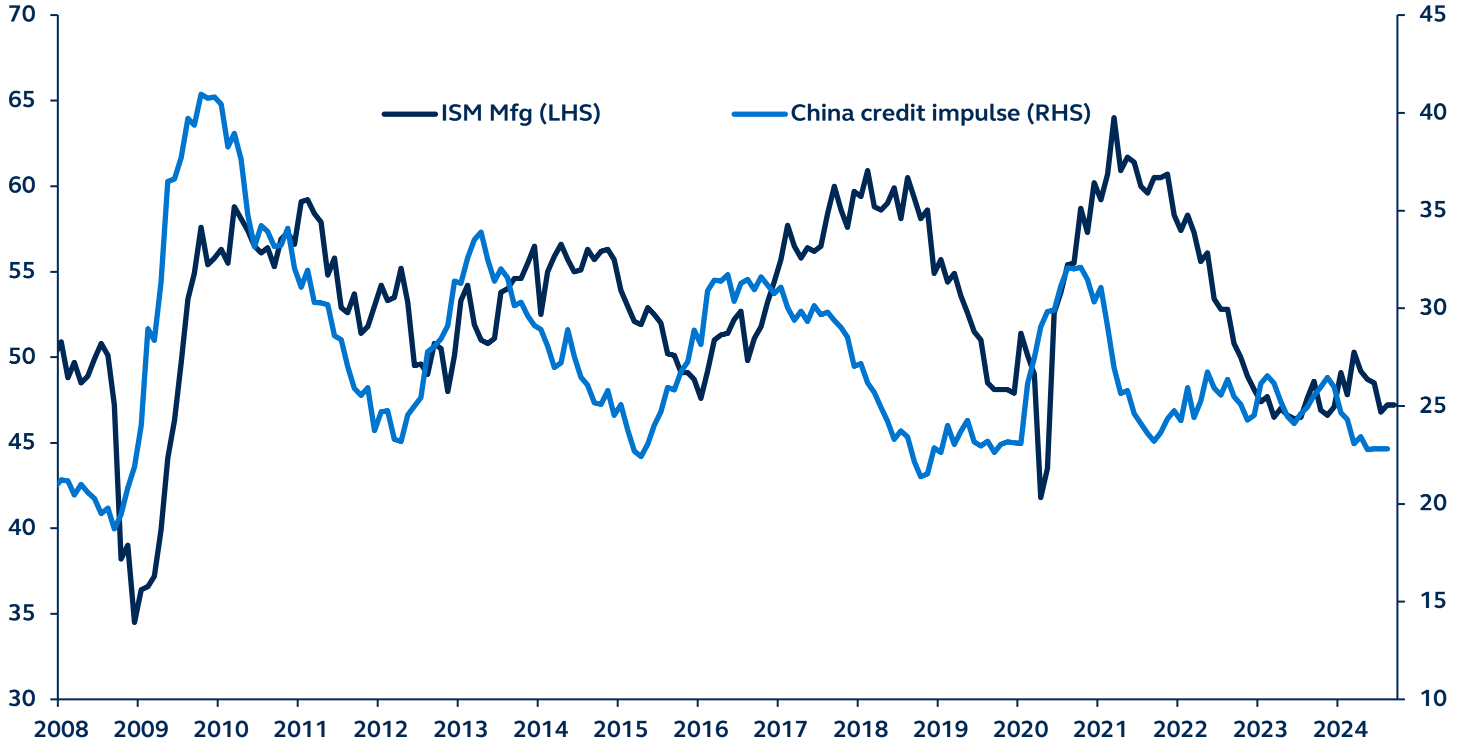
In response to China's deepening economic downturn, in late September policymakers announced a significant package of easing measures. Comprehensive monetary policy easing, targeted at supporting the beleaguered real estate market and boosting Chinese equities, has been rounded out by an impactful pledge to support fiscal spending and stabilize the troubled property sector.

The early reception from global markets was very positive. Equity boosting measures could restore confidence and stop the deflationary trend in at least one segment of China's economy. Yet the sustainability of the positive market response comes down to the strength of the economy and depends mainly on the size and implementation of the fiscal measures, which are yet to be announced. Tax or consumption subsidies may have a meaningfully smaller impact than policies that provide a clear fiscal injection to consumption or directly address the root problem of the property market.

Given that the magnitude of the fiscal measures is sizeable and policymakers proactively and sufficiently target rejuvenating the property sector, prospects for China's economy will likely improve, with critical positive spillovers to the U.S. and global economy.

China's policy measures have the potential to lift the economy and provide a sustained boost to markets.

China's credit impulse and U.S. ISM Manufacturing Index
Index level, 2008–present



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

Falling interest rates should ease U.S. consumer strains

U.S. consumers, who have grown more cautious as high prices deplete their cash reserves, are increasingly turning to credit to cover expenses. This trend has raised concerns about mounting financial pressures on households.

While outstanding consumer credit – driven by a rise in credit card loans – has grown, when adjusted for the concurrent increase in disposable income, the aggregate picture for consumer credit simply shows a normalization to pre-pandemic levels.

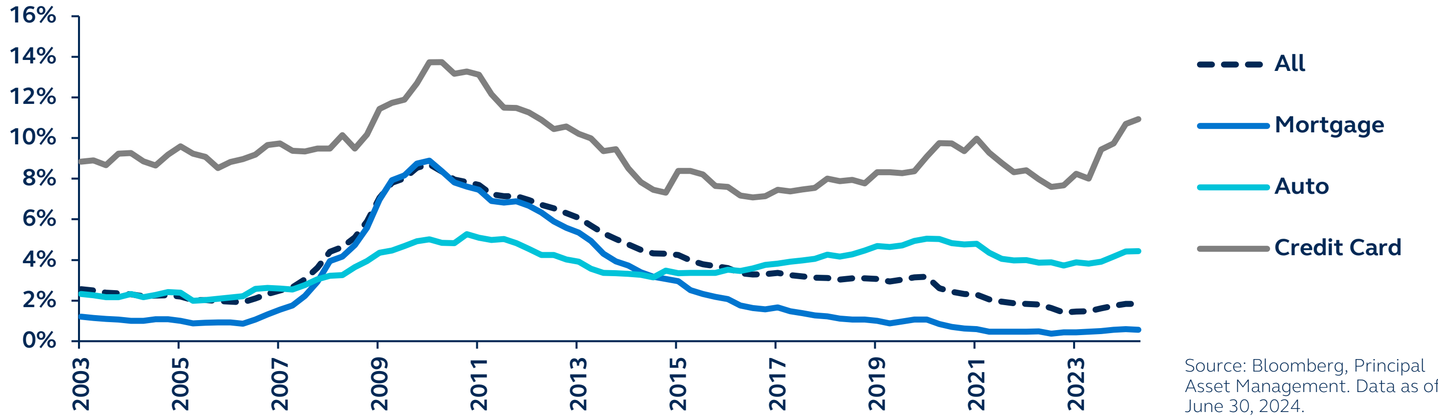
An additional investor worry has been the increase in credit card delinquencies. However, the stress appears to be concentrated among lower-income households as their excess savings buffers are most likely exhausted. While mortgage debt payments as a percentage of disposable income are likely to remain fairly steady, lower credit card and auto loan rates should put downward pressure on non-mortgage interest payments.

Meanwhile, broad household wealth remains near all-time highs. Solid gains in equities suggest that middle and higher-income households, which hold the bulk of assets, remain in a very solid position. Making up 60-70% of U.S. consumer spending, these cohorts should be able to continue supporting the U.S. economy.

Lower-income consumer strains have been building, but interest rate cuts should help prevent further deterioration.

U.S. consumer loan 90+ day delinquency rate by loan type

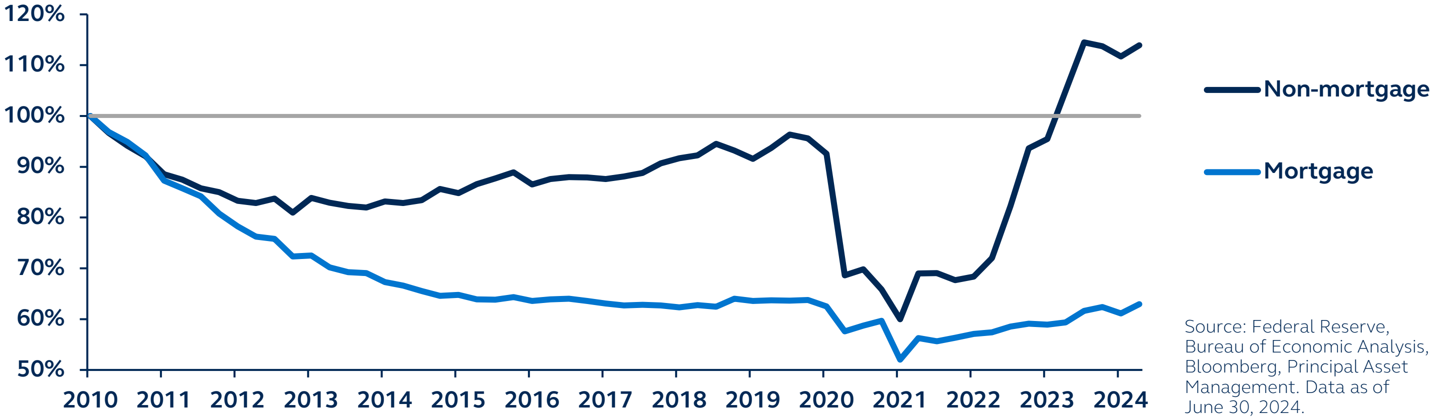
2003–present



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

Personal interest payments, mortgage and non-mortgage

Percent of disposable income, January 2010–present, rebased to 100 at 1Q 2010



Source: Federal Reserve, Bureau of Economic Analysis, Bloomberg, Principal Asset Management. Data as of June 30, 2024.

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Ample buffers given sturdy corporate balance sheets

The corporate sector remains strong, with business spending accelerating and profit margins remaining elevated, especially relative to pre-pandemic periods. With firms benefiting from deleveraging during the pandemic, asset coverage and cash levels are also high, suggesting ample buffers in the event of a revenue or cash flow squeeze.

The start of the Fed easing cycle should likely improve the cost and availability of credit. Declining interest expenses should at least partially offset the eroding of pricing power as inflation declines, helping to protect profit margins. Large companies—that have an easier time accessing capital markets relative to their smaller peers—appear better positioned to benefit from this tailwind.

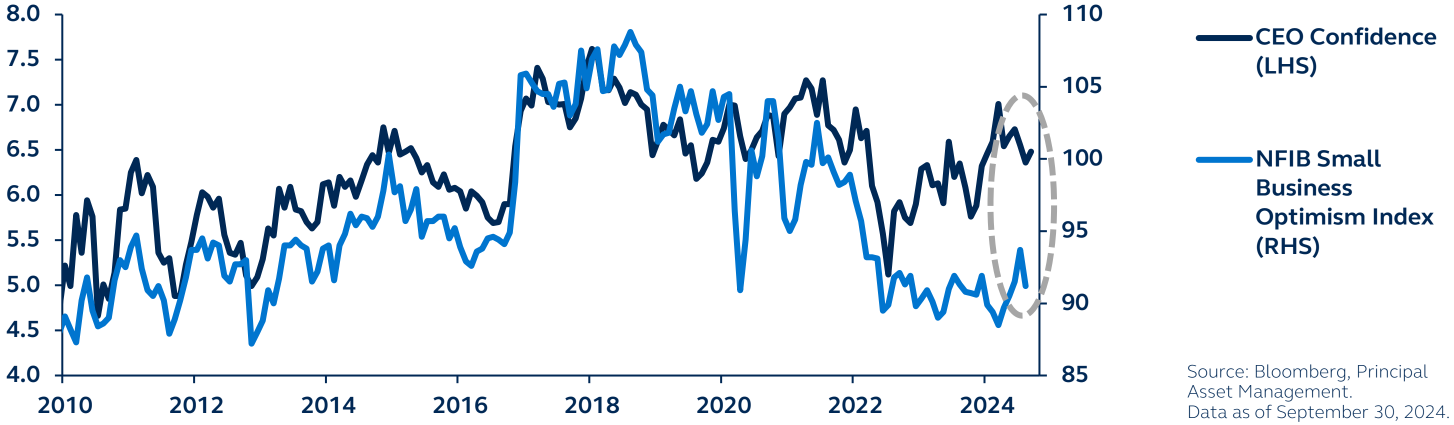
Rate cuts should also provide a broad lift to corporate sentiment, supporting an improvement in small business confidence, which has been particularly depressed in recent quarters.

Even as Fed easing reduces corporate pressures, slowing economic growth implies a weaker earnings outlook, potentially driving firms to reduce capex and labor costs. With corporate balance sheets in solid shape, however, the intent to shed jobs should remain modest.

Corporate balance sheets are in good shape and, with the support of Fed cuts, should fare well even as the economy weakens.

Small and large business confidence

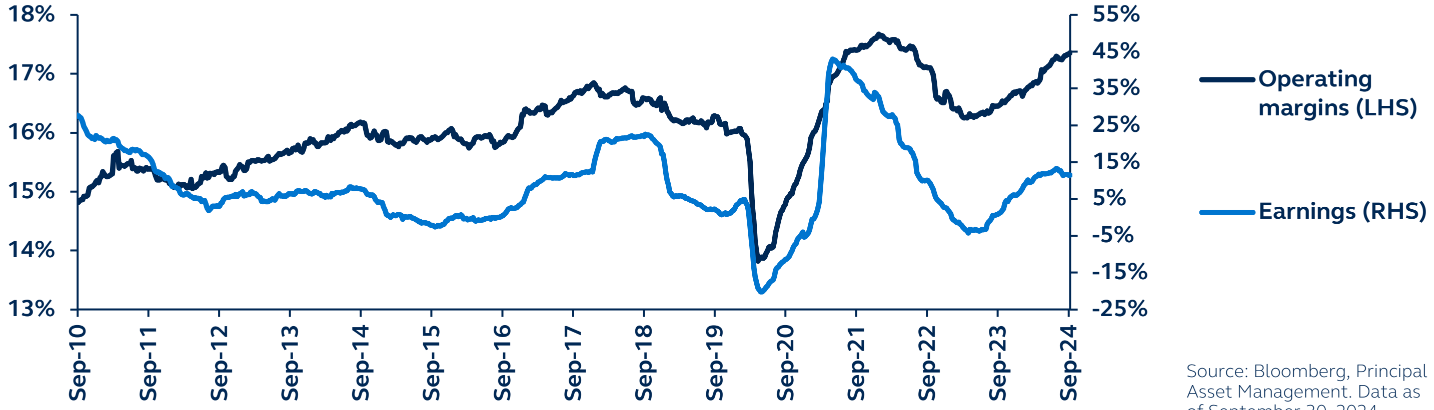
Level, March 2007–present



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

S&P 500 next 12 months operating margin and Y/Y earnings growth estimates

September 2010–present



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

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Labor market: On the cusp and requiring Fed attention

The recent rise in the unemployment rate has triggered recession concerns, and labor market fears have been dominating the Fed's narrative. Rising unemployment can create a negative feedback loop in which job losses cause a pullback in consumer spending, which drives other businesses to cut more jobs in response to lower demand.

Yet, while there has been evidence of slowing labor demand, so far, it is only being borne out via an erratic downshift in monthly job growth and a pullback in hiring intentions rather than job losses. Jobless claims remain meaningfully below the 300,000 threshold that has typically marked recession territory, the Challenger survey reports no job losses, and company mentions of job cuts are limited.

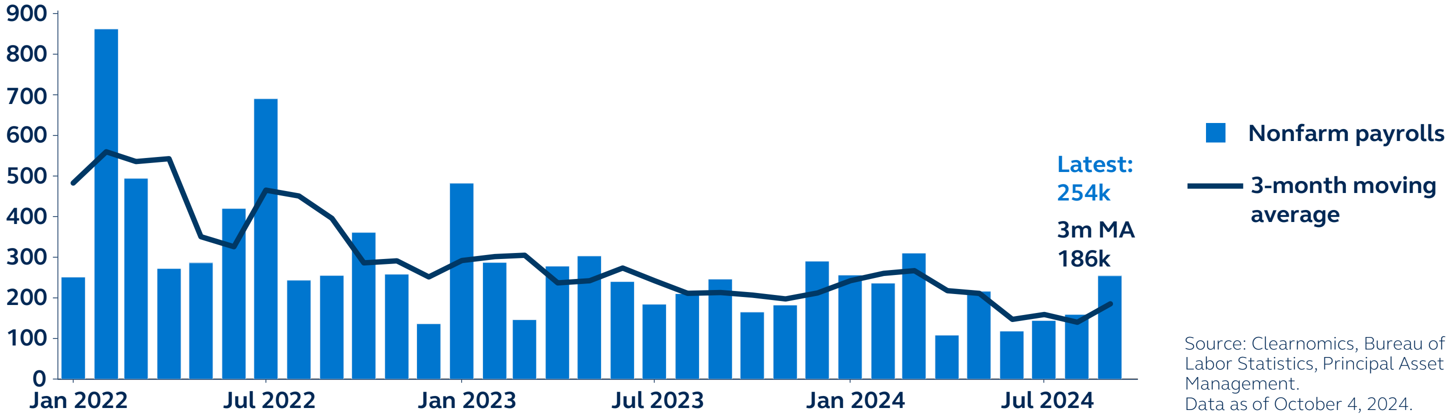
In fact, rather than layoffs, rising unemployment has been driven, in part, by rising labor supply—itself driven by increased participation and immigration—muting the recession signal.

Of course, that does not give the labor market the all-clear. Given the retrenchment in hiring that has already taken place, further economic cooling could trigger job losses. However, with consumer weakness limited to low-income households and corporate profit margins still healthy, Fed rate cuts should be able to arrest a further weakening in labor demand.

The rise in the unemployment rate has been driven by rising labor supply, not layoffs. Given the retrenchment in hiring to date, further economic cooling could trigger job losses.

U.S. nonfarm payrolls

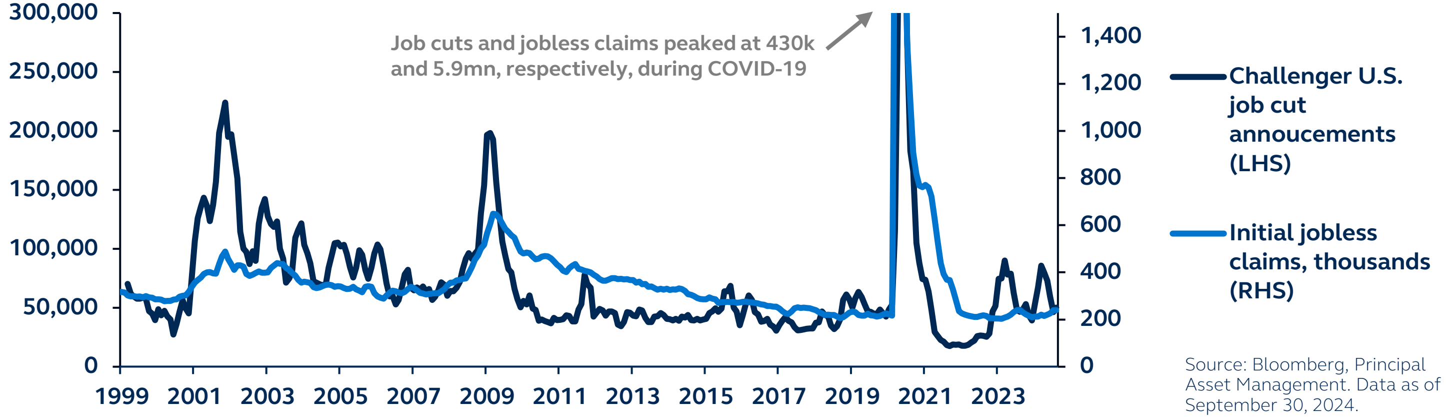
Thousands, monthly, January 2022–present



Source: Clearnomics, Bureau of Labor Statistics, Principal Asset Management. Data as of October 4, 2024.

Job cuts: Various measures

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



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

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Global inflation: Heading back toward target

Global central banks have made substantial progress with disinflation, and while frustrations around sticky inflation persist, fears of a resurgence in price pressures have faded. The Fed, European Central Bank, and Bank of England all expect inflation to be at their 2% targets by 2026.

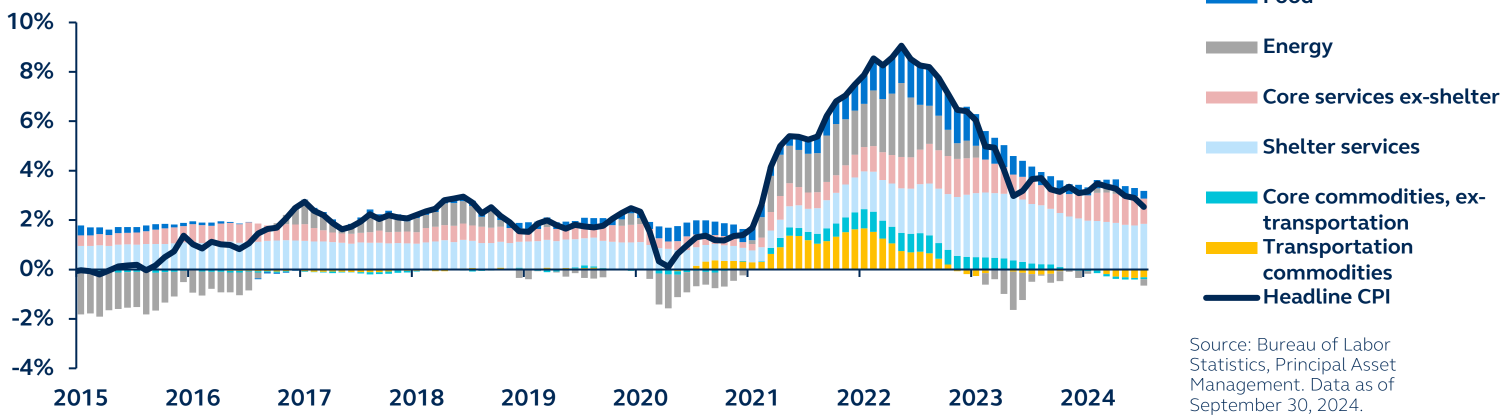
In the U.S., easing fiscal stimulus and cooling labor demand have contributed to a further fall in price pressures, with headline inflation now sitting at just 2.5%. Shelter inflation remains the most stubborn inflation component, but various indicators – including primary rents, new lease signings, and median home price – continue to signal a significant improvement ahead. Importantly, core PCE, which puts less weight on shelter and is the Fed's preferred inflation gauge, is expected to subside to almost 2.5% by year-end.

Upside inflation risks persist, but it would probably take both a supply-side shock and a tightening of labor market conditions (similar to the post-COVID experience) to trigger a more concerning spike. A more likely scenario is where near-term Fed cuts stabilize the labor market slowdown and inflation exceeds Fed forecasts by a small margin. In that case, the Fed is likely to reduce the number of rate cuts rather than reverse its actions and hike rates.

Inflation globally is heading back toward target levels. Upside risks remain but would require both a supply-side shock and a tightening labor market to trigger a concerning spike.

Contribution to headline U.S. inflation

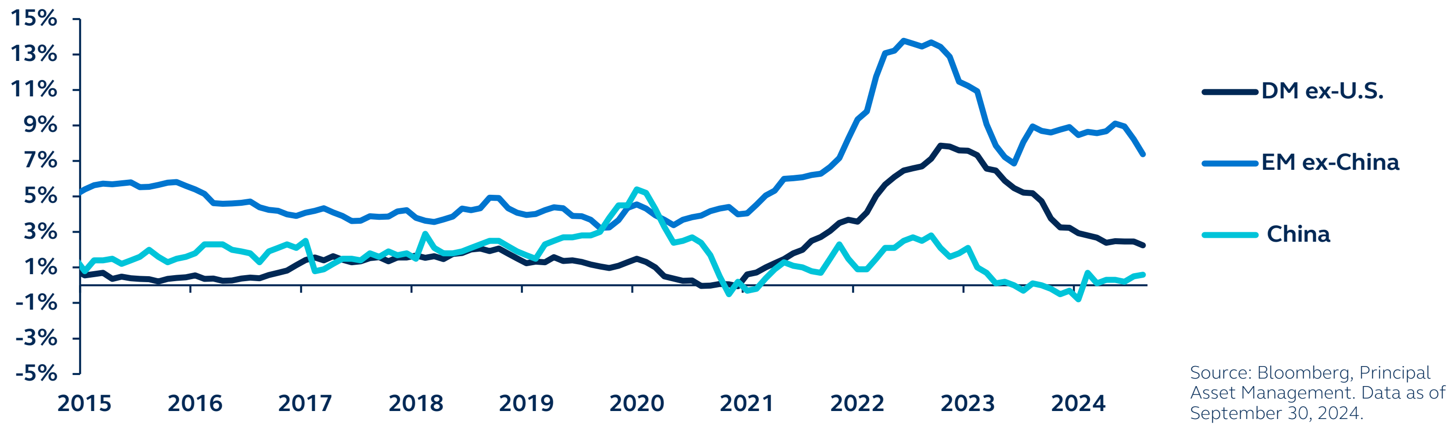
Year-over-year, January 2015–present



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

Global inflation rates

Principal Asset Allocation GDP-weighted inflation, 2015–present



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

Federal Reserve: Committed to securing a soft landing

The Fed's decision to kick start its rate-cutting cycle with an unusually large 50 basis points reduction of the benchmark policy rate appears to have been driven by growing confidence around the inflation outlook and a desire to prevent job layoffs from materializing. It also indicates the Fed's commitment to not fall behind the curve.

Since the late 1980s, 50bps cuts have become associated with crises and recession. As a result, moves of this size typically prompt major market angst as investors begin to price in economic and financial disaster.

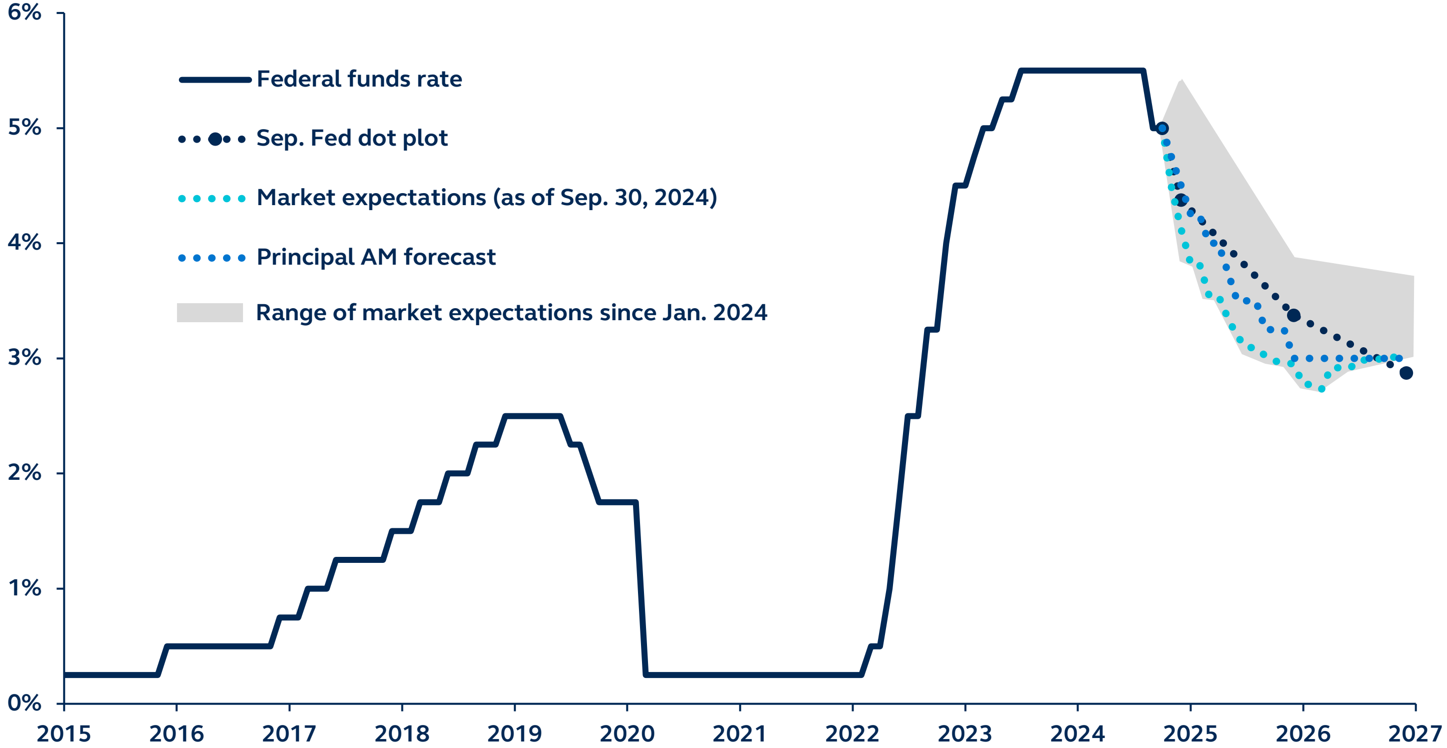
This time, however, there are no financial strains and no asset price bubbles bursting, while job losses are largely absent. Against that backdrop, the 50bps cut has been rightfully received with market positivity and optimism. The Fed dot plot sees a further string of rate cuts, which takes the policy rate down toward 3%, their estimate of neutral, by 2026.

Our forecast is for another 50-75bps of cuts this year, followed by a further 125-150bps next year. We also see rates falling all the way to 3% but with a more rapid cutting cycle; we expect the Fed to finish its cutting cycle by the end of 2025.

The Fed's initial 50bps cut shows a commitment not to fall behind the curve. We expect a series of reductions, taking rates down to almost 3% by end-2025.

Federal Reserve policy rate path

Fed funds rate and projections, 2015–present



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

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Fed easing should avoid recession

Market rate expectations have been revised drastically in the past few months. Weak labor market data prompted a spike in growth concerns and a downgrade to inflation forecasts, creating ample space for the Fed to cut rates.

Markets are pricing in another 200bps of easing until the end of 2025, equivalent to 250 basis points of cuts over 18 months. This is similar to our forecast.

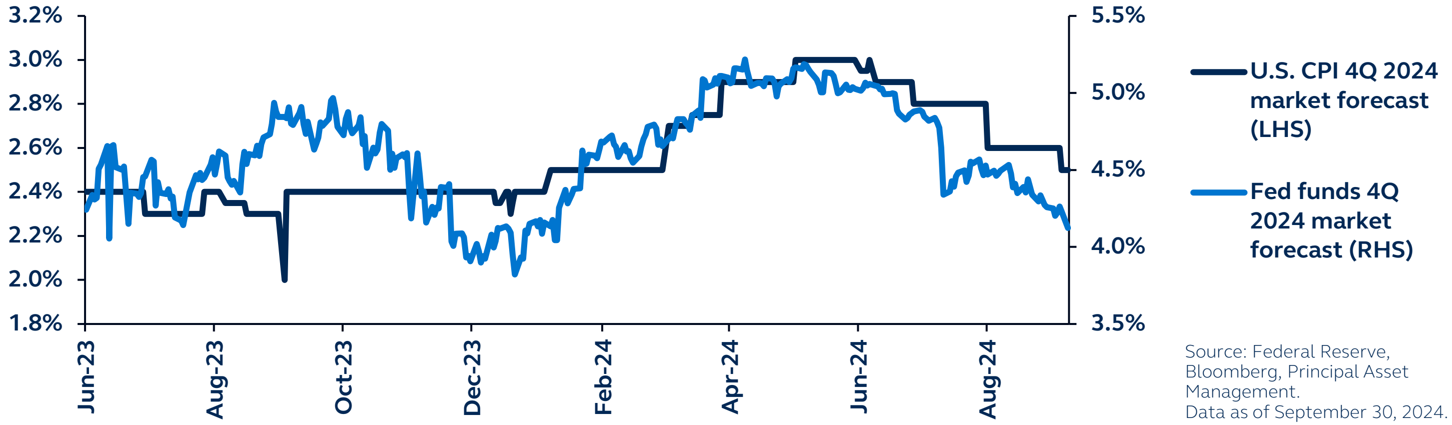
Historically, such a pace of easing has been associated with recessions – the exception being the mid-1980s when the Fed was looking to normalize rates after they were hiked to extremely high levels in response to the late 1970s/early 1980s inflation spike. The current era has some similarities; in response to the post-COVID inflation spike, the Fed hiked rates aggressively and has now begun the process of normalization. In that regard, such a sharp pace of easing does not necessarily need to be associated with recession; instead, it is just the Fed bringing rates back toward neutral.

Ultimately, although the U.S. labor market is slowing, the continued strength of household and corporate balance sheets suggests that there is nothing so broken about the U.S. economy that the Fed cannot fix. The 200bps or so of additional Fed easing should be enough to avoid recession.

Although the U.S. economy is cooling, strong household and corporate balance sheets mean that the expected 200bps of Fed cuts should be sufficient to avoid recession.

Evolution of market 4Q 2024 inflation and Fed rate forecasts

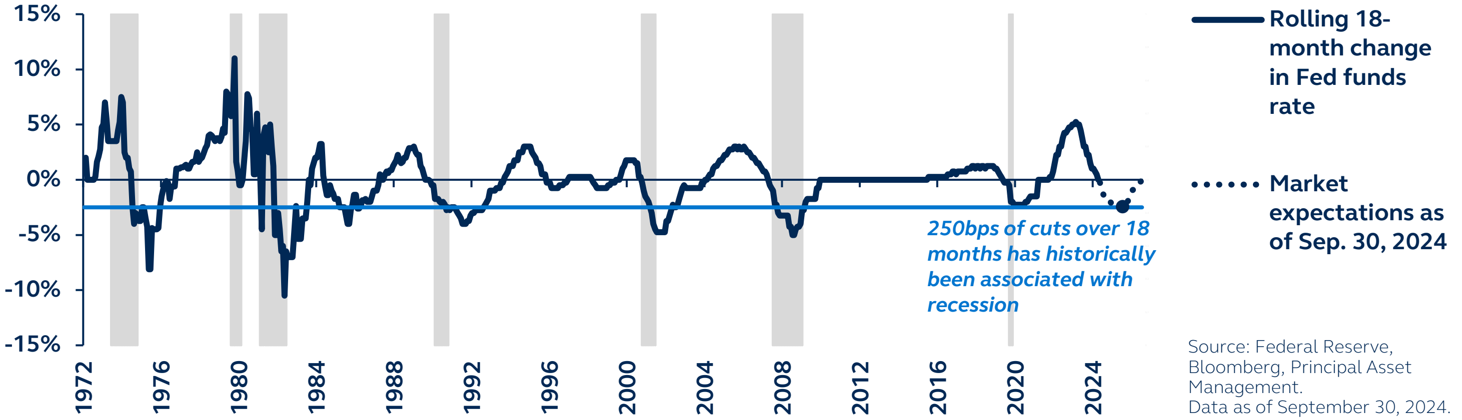
U.S. CPI at 4Q24 forecast and market implied Fed rate for Dec. 2024, June 2023–present



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

Change in Fed funds rate versus 18-months prior

Recessions are shaded, 1972–present



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

Synchronized easing cycles to limit dollar downside

A synchronized global monetary easing cycle is underway. Such concerted efforts raise the odds of a global soft landing.

The initial stages of the ECB easing cycle were less intense than the Fed's, cutting rates at every other meeting. Yet, with the Euro area economic backdrop so stagnant and euro strength further challenging the struggling manufacturing sector, the ECB is unlikely to maintain its gradual pace. It will likely shift to back-to-back rate cuts during 4Q 2024, falling in line with the Fed's policy path. For the Bank of England, currency pressures and fiscal tightening will likely contribute to an acceleration of its rate-cutting pace in 2025.

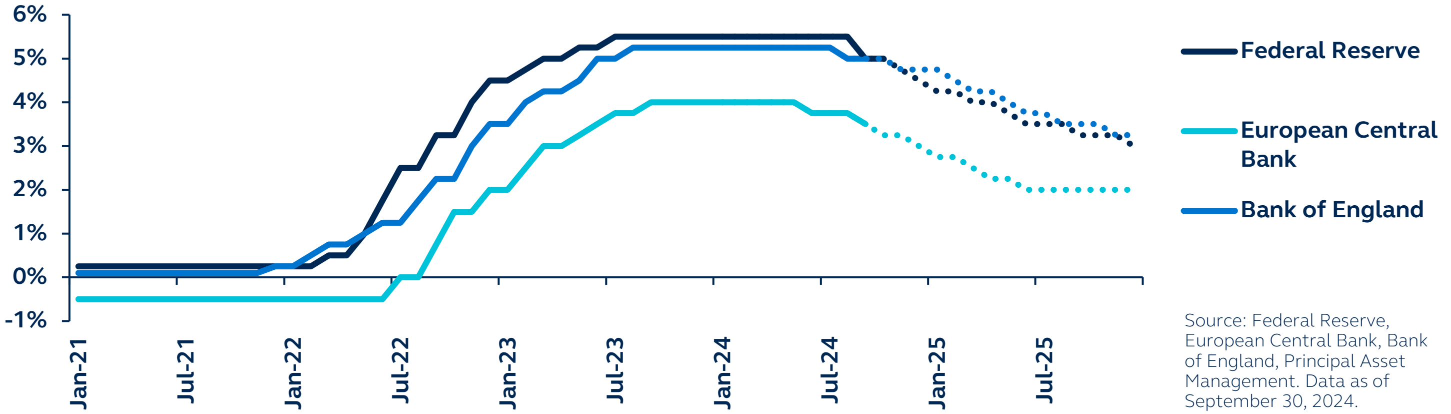
With the People's Bank of China firmly in easing mode, the Bank of Japan remains the only outlier of the major central banks. Yet, the vicious unwind of the yen carry trade during early August as the BoJ announced a sharper-than-expected tightening of monetary policy has likely served as a warning signal. Going forward, the BoJ will likely adopt a gradual and cautious approach to hiking, limiting yen appreciation.

With most central banks likely to match the Fed's pace of easing in 2025 and the BoJ tightening at a modest pace, the scope for further dollar weakness is limited.

As global central banks confront slowing growth and strengthening currencies, they will likely accelerate their pace of easing to match the Fed's.

Global central bank rates

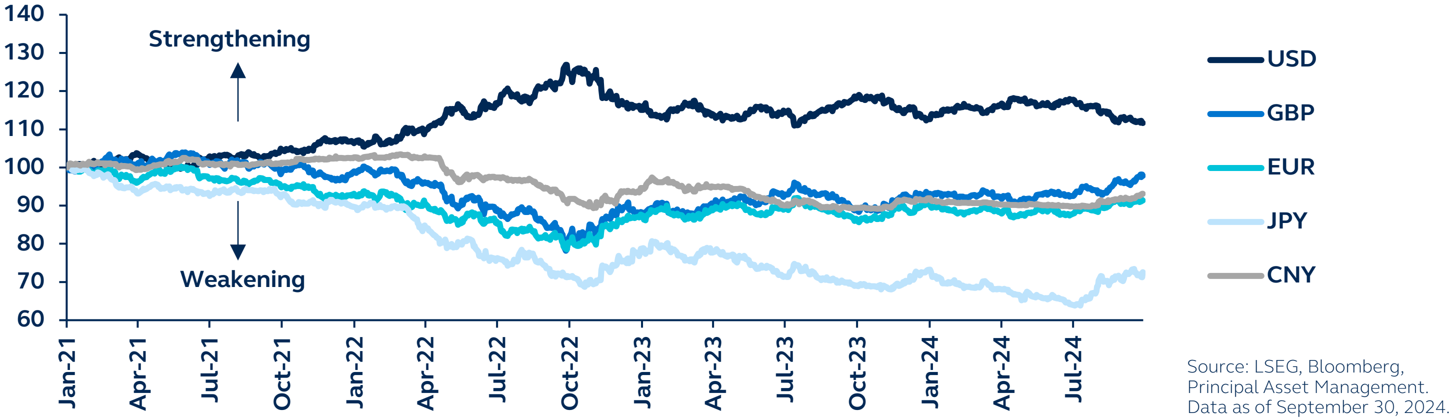
January 2021–present, forecasted through 2025



Source: Federal Reserve, European Central Bank, Bank of England, Principal Asset Management. Data as of September 30, 2024.

Major currencies

Rebased to 100 at January 2021



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

Equities

U.S. equities: Dependent on Fed soft landing success

Strong policy easing moves have helped U.S. markets recover and even hit new highs after having been whipsawed in early August when concerns about the U.S. economy spiked.

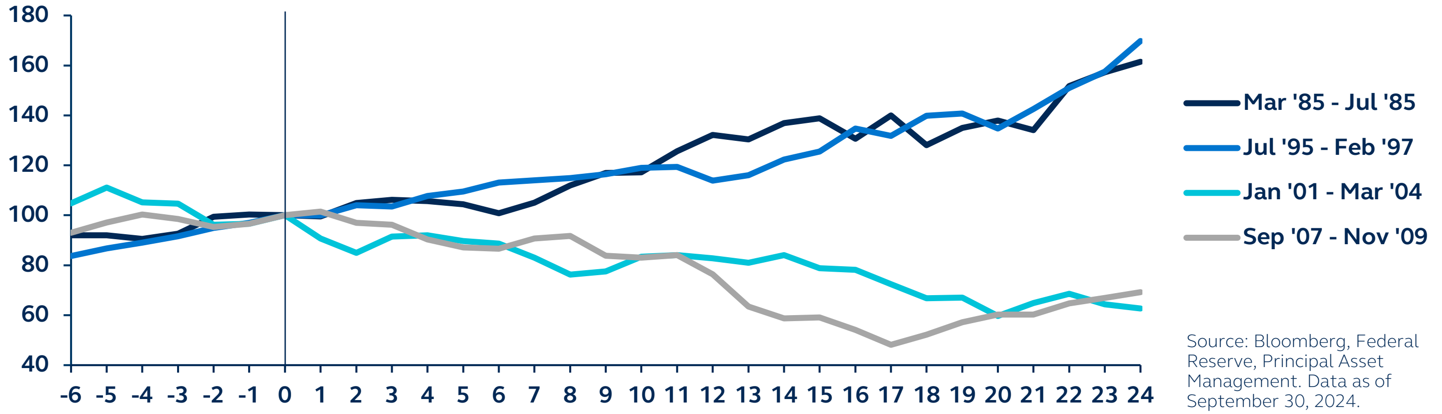
History suggests that the Fed's success in piloting a soft versus hard landing will play a key role in dictating the forward path for U.S. equities. For example, in 1985 and 1995, rate cuts supported strong equity gains as recessions were avoided, while in 2001 and 2007, even aggressive easing could not prevent steep market declines amid economic downturns. Today, the absence of glaring household or corporate balance sheet vulnerabilities means Fed rate cuts should be enough to prevent recession, supporting a positive backdrop for corporate earnings and, therefore, equities.

However, positive returns may be constrained by a more subdued performance from Magnificent 7 technology stocks. While the secular trend upward of the Mag 7 should persist over the long run, investors are now questioning their ability to meet near-term lofty earnings expectations and are increasingly averse to adding exposure at these valuations. That said, the broadening risk appetite and earnings growth across a variety of other companies, sectors, and cap sizes, which are meaningfully less stretched, provide reassurance about the diversity and resilience of the U.S. markets.

Fed success in piloting a soft landing should drive further positive gains in earnings and, therefore, U.S. equities.

S&P 500 performance preceding and following the first Fed cuts in four select cutting cycles

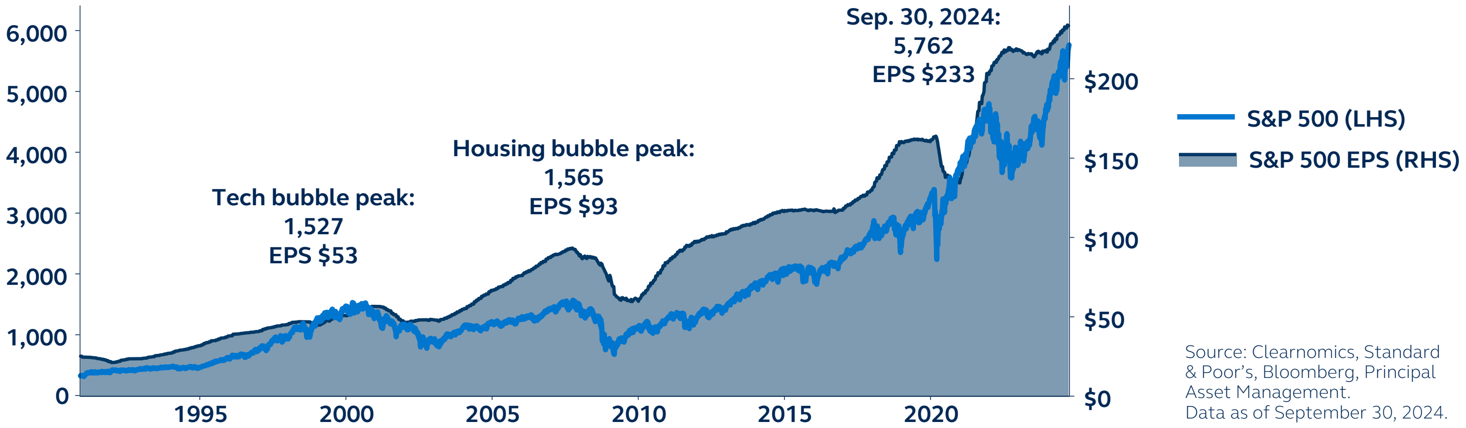
Month 0=beginning of rate cutting cycle, rebased to 100 at month 0



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

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Global equity valuations increasingly in focus

After severe turmoil hit the market in mid-3Q, global policy stimulus announcements pushed U.S. equities to new record highs, and Chinese equities recovered all their losses for the year within September alone. Japan was one of the few markets to record negative returns in 3Q, as yen appreciation took its toll.

The U.S. and India remain the most stretched markets. Large-cap U.S. stocks have rarely been more expensive, while a series of strong gains for small-caps have reduced their attractiveness over the quarter (albeit still meaningfully cheaper than large caps).

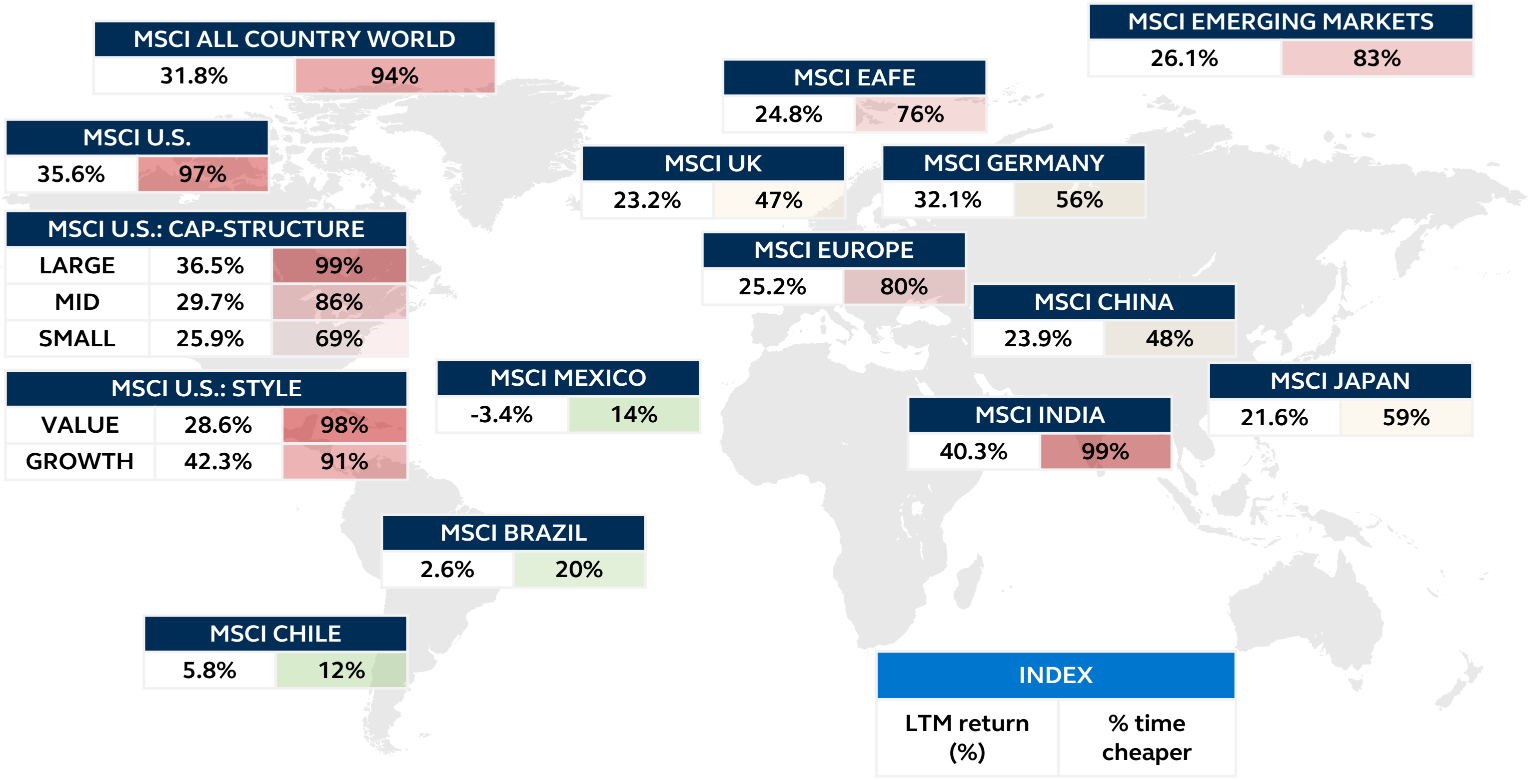
Although Germany and the UK remain meaningfully less expensive than the U.S. market, their valuations have become more stretched and are now in line with historical averages. With its stagnant economic backdrop, further gains for Germany could be limited. By contrast, Japan's valuations have seen a noticeable correction over the quarter and, with continuing momentum in corporate governance reforms, are likely to attract investor flows.

China's valuations are still historically cheap. If stimulus measures prove to be meaningful and are effectively implemented, recent significant gains could be extended.

Global stimulus measures should drive gains, particularly in markets where valuations are historically attractive. Increasingly, investors should consider global diversification.

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 September 30, 2024.

Fixed income

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Realization of a soft landing could provide a lift to yields

The third quarter of 2024 saw an acceleration in expectations of global central bank policy easing amid growth concerns. As a result, sovereign yields declined through the quarter, with 10-year U.S. Treasury yields ending around 60bps lower than where they began.

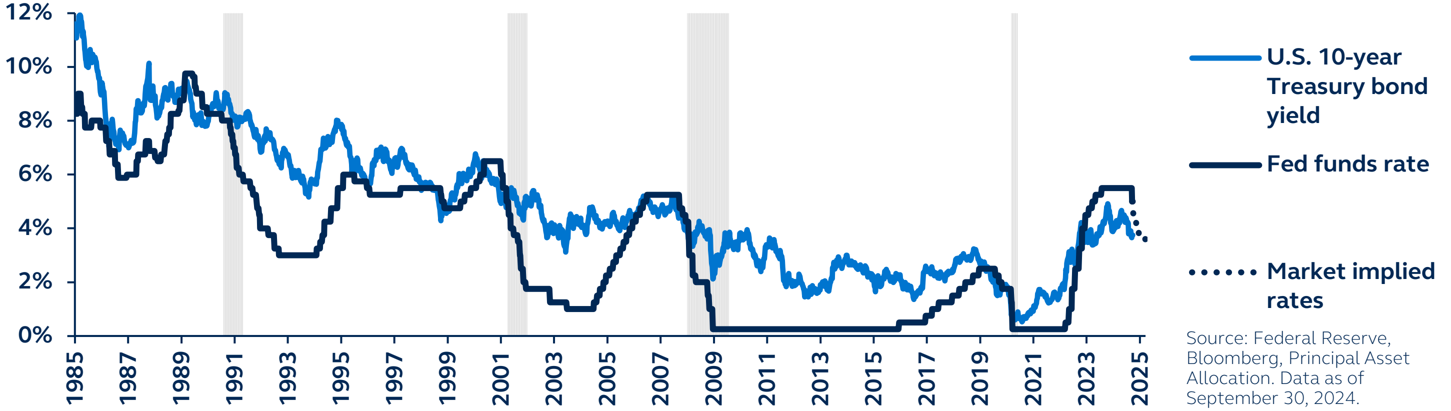
With the Fed's cutting cycle finally underway, history suggests there may be some additional downward pressure on U.S. Treasury yields. Yet, with significant Fed easing already priced into forward rates, the front end of the yield curve may already be close to its floor. A steepening of the yield curve is likely as the long-end should drift modestly higher as preemptive Fed easing engineers a soft landing. U.S. election-related volatility, plus market focus on fiscal sustainability as 2025 tax cut extension negotiations come into view, also likely limits the downside for bond yields. Keeping a slight duration overweight would be a valid hedge in case growth ultimately disappoints.

Overall, fixed income has continued to deliver positive performance in 2024, as macro conditions remain largely solid. The total yield generated from fixed income today remains attractive relative to history, and credit continues to offer additional carry to U.S. Treasurys.

While history suggests Fed cuts should push yields lower, the improvement in economic outlook suggests some mild upward drift in long-end yields, resulting in a steeper yield curve.

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

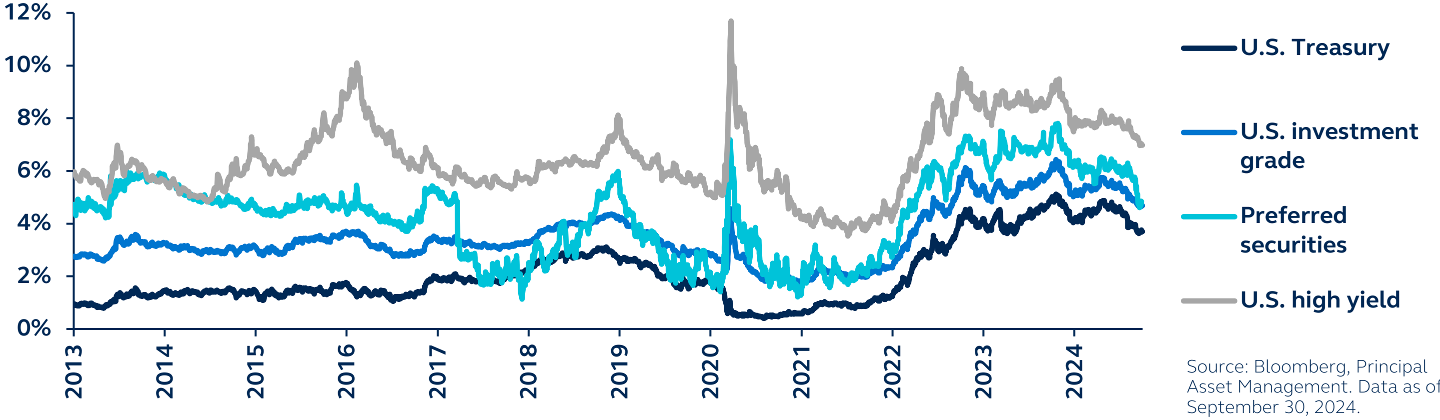
Recessions are shaded, 1985–present



Source: Federal Reserve, Bloomberg, Principal Asset Allocation. Data as of September 30, 2024.

Yield comparison

Yield-to-worst, 2013–present



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

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Tight spreads a reflection of solid fundamentals

Credit spreads remain near historic lows, largely shrugging off volatility that has impacted other risk assets. Despite valuation concerns, these levels reflect that underlying credit fundamentals remain in good shape. Corporate balance sheets across both investment grade and high yield companies are healthy, with manageable leverage, and cash and interest coverage high.

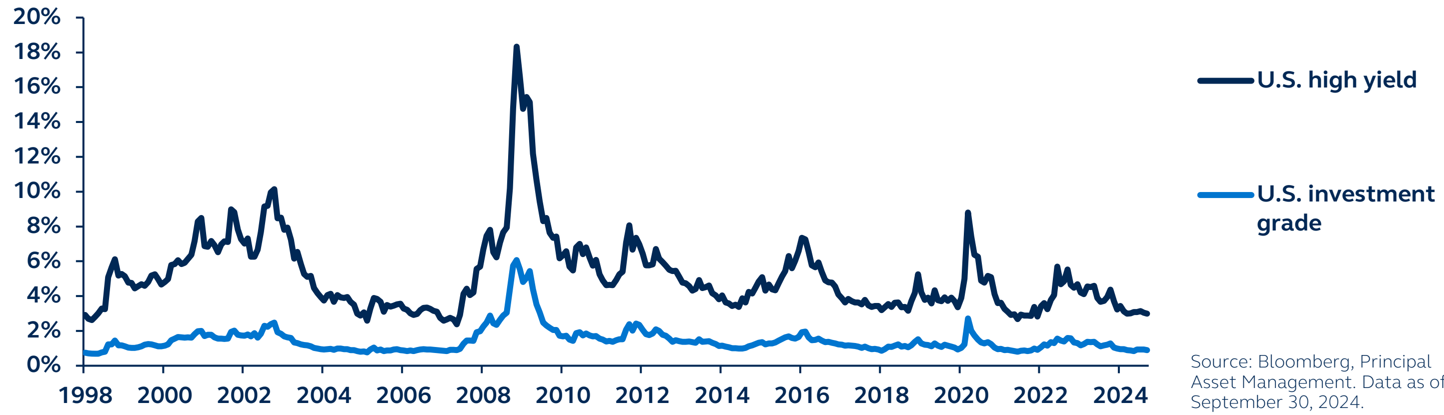
This dynamic should help offset the negative impact of the slowing economic environment. Indeed, the overall pace of ratings upgrades across the corporate credit market is still tracking above downgrades. With the maturity wall being pushed years into the future for high yield issuers given robust refinancing activity in the last quarter, defaults should also remain low.

Looking ahead, investment grade companies should thrive in the Fed-cutting, slower-growth environment. Spreads could naturally drift higher, but demand is likely to stay robust, supported by a more positive technical environment. While a slight widening of spreads may also be in the cards for high yield given a lofty issuance calendar, the asset class should continue to produce higher-than-average total returns.

IG credit should remain attractive as Fed rate cuts support strong demand for high-quality corporate bonds. High yield should also prosper in this constructive growth environment.

U.S. high yield and investment grade spreads

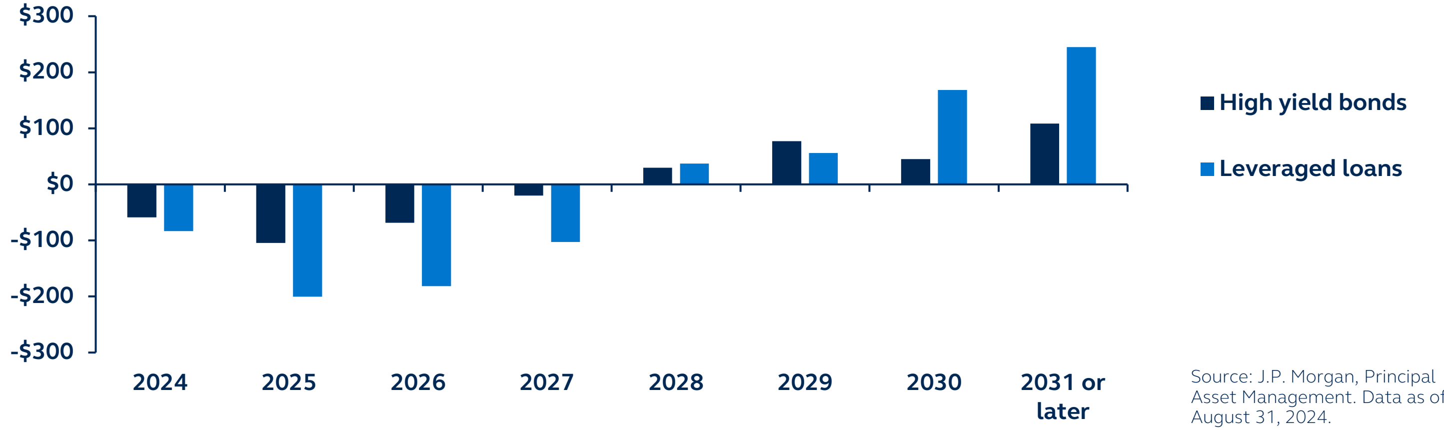
Option-adjusted-spread, 1998–present



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

Change in maturities since year-end 2022

$ billions



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

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Investment perspectives

Cash is not optimal in a rate cutting environment

With the Fed's monetary easing cycle now underway and rate cuts potentially front-loaded, the attractiveness of cash has declined. Some $6.4 trillion is currently sitting in money market funds, potentially representing an important tailwind for risk assets.

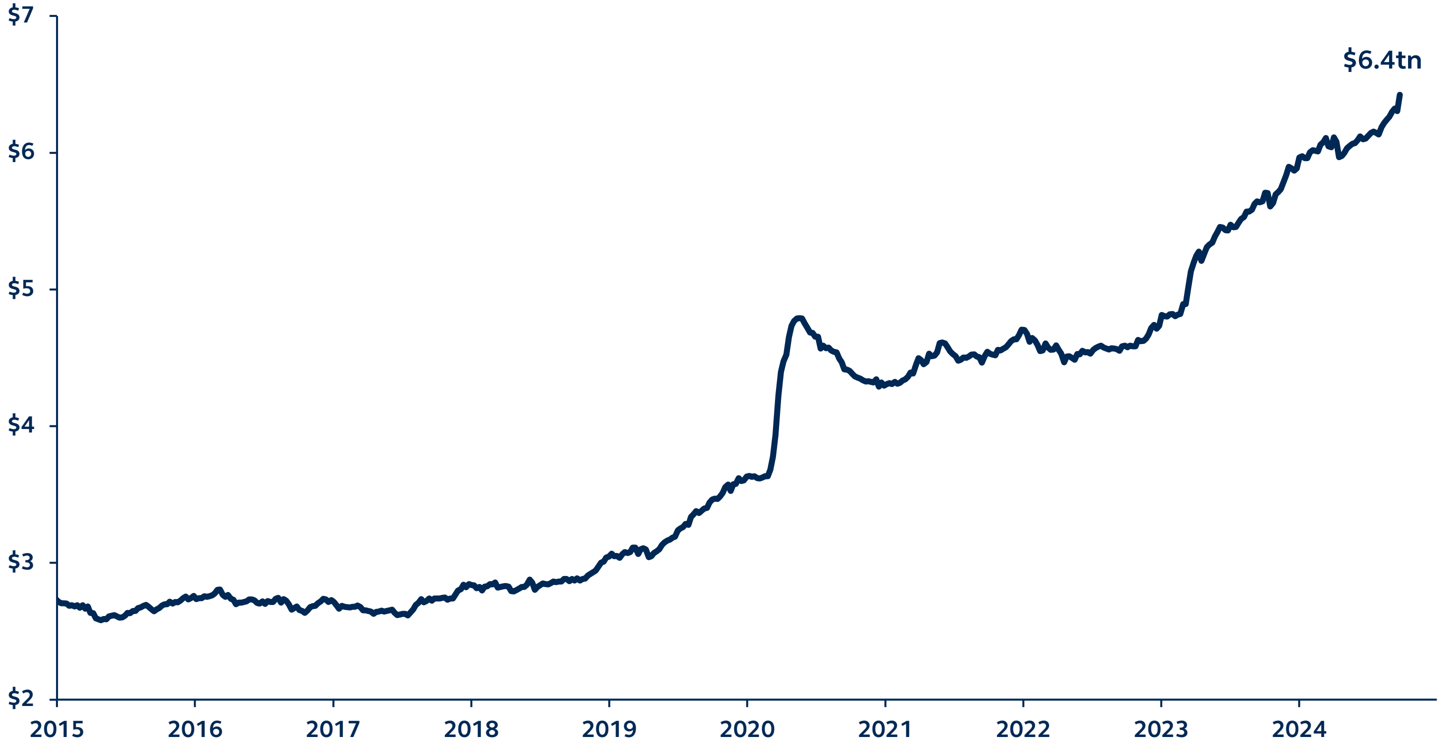
Putting a number on the potential flow into risk assets is difficult. In recent years, some of the increases in money market funds have simply been a conversion of demand deposits such as checking accounts and savings, which investors will likely maintain in liquid, safe assets. Yet, with risk assets facing a fairly positive outlook, there will inevitably be some flows into equities and credit.

Equities not only offer exposure to important secular themes, such as AI and technology, but in a rate-cutting, soft-landing environment, there is strong potential for positive returns. Similarly, high yield credits should also benefit from a rotation out of money market funds as investors look to higher-yielding assets. In addition, core fixed income can offer income stability and a hedge against downside economic risk.

The final quarter of 2024 will likely be beset by U.S. election volatility. Investors will need to keep cool heads, focus on the fundamentals, and resist the temptation to revert to cash.

Rate cuts are reducing the attractiveness of cash. With global stimulus lifting prospects for risk assets across the globe, investors should be optimizing this constructive environment.

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



Source: Investment Company Institute, Bloomberg, Principal Asset Allocation. Data as of September 30, 2024.

Principal Asset Management℠

A cautiously risk-on environment for investors

Despite global economic and geopolitical risks, coordinated central bank easing offers a prime risk-on investing opportunity.

Equities *Diversify via global equities, tactically leveraging small-cap for more risk-on*

- Attractive international valuations suggest opportunities outside the U.S.
- Explore opportunities beyond the Mag 7, including tactical exposure to small- and mid-cap stocks.
- Falling rates and slowing growth have historically been constructive for equity markets.

Implementation:

- Large-cap U.S. strategies
- Well-diversified, active international managers
- Quality-biased active managers
- Active mid- and small-cap strategies

Fixed income *Increase exposure to high-quality credit and extend duration*

- Leverage core fixed income during a mild economic slowdown.
- Extend duration as a hedge against growth disappointment.
- Emerging market debt may offer total return potential during global central bank easing.
- High yield maintains a substantial carry advantage for income-seeking investors.

Implementation:

- IG credit heavy core fixed income
- Flexible emerging market debt strategies
- Active high yield strategies
- Preferred & capital securities

Alternatives *Pursue less correlated real asset exposures*

- Real return-focused strategies gain attractiveness when nominal growth slows.
- Infrastructure offers resiliency and attractive valuations.
- REITs offer attractive valuations and constructive fundamentals as rates move lower.

Implementation:

- Diversified real asset strategies (infrastructure, natural resources)
- Private real estate markets
- Proven REIT strategies

Principal Asset Management℠

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

IMPORTANT INFORMATION

Risk considerations

Investing involves risk, including possible loss of principal. Past performance is no guarantee of future results. Equity investments involve greater risk, including higher volatility, than fixed-income investments. Fixed-income investments are subject to interest rate risk; as interest rates rise their value will decline. International and global investing involves greater risks such as currency fluctuations, political/social instability and differing accounting standards.

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