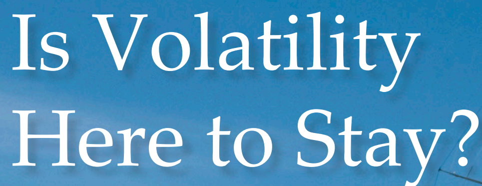


MarketOutlook 2019

Market Commentary by K. Sean Clark, CFA® Chief Investment Officer

Is Volatility Here to Stay?

HIGHLIGHTS

We believe:

- The U.S. economy will continue to grow in 2019, although at a slower pace than 2018.
- The current correction should be viewed within the context of a secular bull market, although headline risks will continue to play a factor in market volatility during the year ahead.
- Peak earnings growth is in the rearview mirror and our projection for the S&P 500 in 2019 is 2900.
- Interest rates will move slightly higher this year and we expect the 10-year Treasury note yield to rise to 3.00%.
- Leading Economic Indicators remain positive, providing a solid fundamental backdrop for the economy.

Investors and asset managers alike are happy to turn the page from 2018 to 2019. Last year was a tough year for the markets. It started strong for the equity markets on the heels of tax legislation and then faded as trade tensions, rising interest rates, peak earnings growth, and geopolitical concerns at home and abroad weighed heavily on the global markets.

In hindsight, it looks like 2018 turned out to be a year of consolidating the strong gains achieved since the Presidential Election in 2016. Our expectations coming into 2018 called for an uptick in volatility and the return of normal market corrections. We have certainly seen both of those expectations realized with the S&P 500 suffering two 10% corrections and the current correction approaching a bear market. Our view then and still now is that U.S. equities are in a secular bull market. As such, we expect 2019 to end on a happier note than last year.

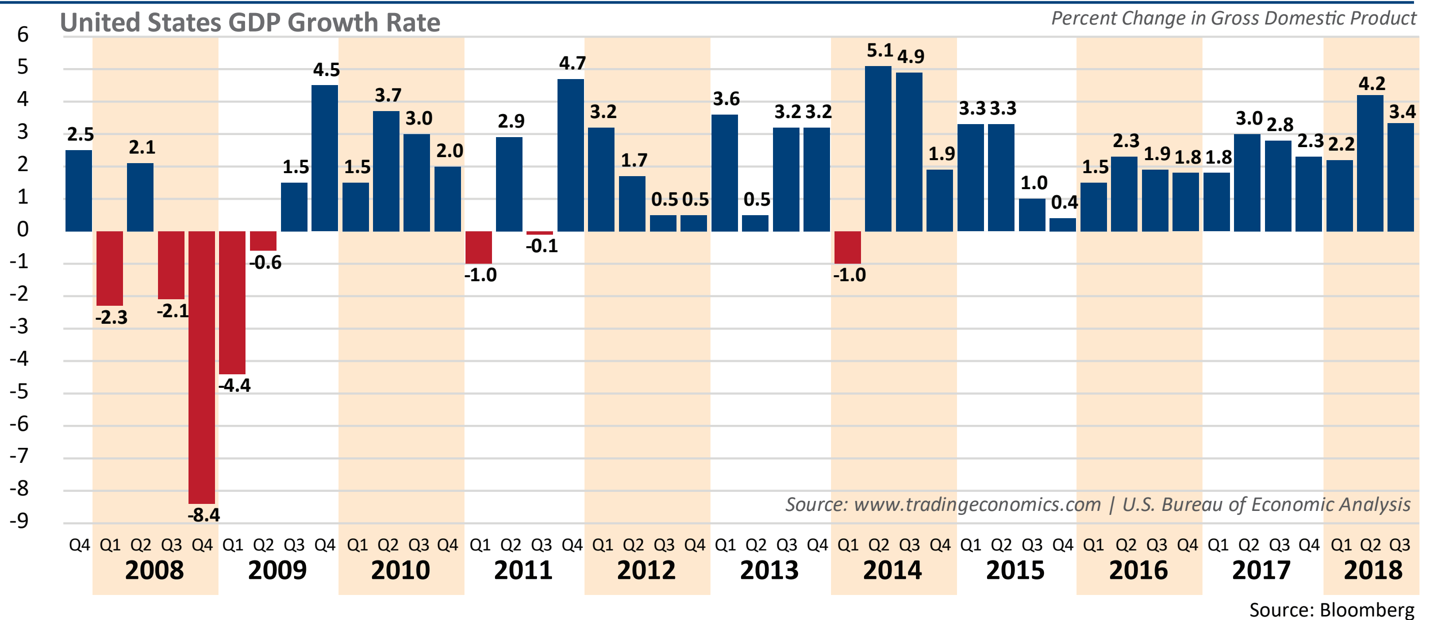
In review, the second half of 2018 was lower for all risk-on asset classes from U.S. equity to foreign equity, high yield debt, and commodities. Risk-off asset classes ended higher with Treasuries and investment grade debt benefitting from a flight to safety, and municipal bonds ending the year with the highest returns.

2018 Performance: A Year in Review

Domestic Equity	Q4 2018	2nd Half 2018	2018
S&P 500	-13.52%	-6.85%	-4.39%
Russell 1000	-13.83%	-7.42%	-4.79%
Russell 2000	-20.21%	-17.35%	-11.03%
Russell 3000	-14.31%	-8.20%	-5.25%
Russell 1000 Value	-11.73%	-6.69%	-8.28%
Russell 1000 Growth	-15.89%	-8.17%	-1.52%
International Equity	**Q4 2018**	**2nd Half 2018**	**2018**
MSCI Emerging Market	-7.47%	-8.49%	-14.49%
MSCI All Country World (ex US)	-11.49%	-10.84%	-14.20%
Fixed Income			
BBgBarc U.S. Aggregate Bond	1.64%	1.65%	0.01%
BBgBarc U.S. Treasury	2.57%	1.96%	0.86%
BBgBarc U.S. Corporate	-0.18%	0.79%	-2.51%
BBgBarc U.S. Corporate High Yield	-4.53%	-2.24%	-2.08%
BBgBarc Municipal	1.69%	1.53%	1.28%

Source: Morningstar Direct.

Figure 1. **A Look at U.S. Economic Growth Rates**



We enter 2019 with a ton of uncertainty hanging over the markets and in the midst of a correction that has seen the S&P 500 decline 19.37% so far. We view this as a correction/cyclical bear market within the context of a long-term secular bull market in equities.

While there are risks that the markets and economy face, we see no immediate risk of a recession in the U.S. economy. A lot of the same headwinds that pushed against the markets in the second half of 2018 will continue to be concerns in 2019, including slower earnings growth, Brexit and the Italian budget standoff with the European Union, the China trade war, a growing budget deficit here in the U.S., and the risk of a Fed policy mistake.

Given these risks, we expect volatility to remain elevated, at least through the first half of the year. We do expect that once this correction runs its course, the secular winds will take hold, and a new cyclical bull market will begin that takes the market to new highs. Our expected year-end target for the S&P 500 is 2900, essentially back near the highs of 2018. However, we do see the potential for a wide range of outcomes given the many risks and uncertainties facing the economy.

Considering that we expect continued economic growth globally along with a rebound in stocks, international markets should fare better in relative terms. However, we are less optimistic about Europe given the uncertainty surrounding Brexit, political turmoil on the continent, poor demographics and low productivity growth. We are more optimistic on emerging markets as we expect some of the factors that really hurt the asset class in 2018 (rising interest rates, a strong U.S. dollar, and sinking oil prices) will fade. Finally, valuations and economic growth are more favorable for emerging markets than any other region in the world, and therefore we expect EM to outperform as the global markets rebound.

The Federal Reserve should hike rates only once this year, and the market is beginning to price in the chance of a rate cut late in 2019 or early 2020. The yield curve is very flat, with only a five basis point spread between the 1-year and 10-year Treasury Note yields. The curve will likely invert, especially if the Fed doesn't reverse course.

The U.S. economy saw a pickup in growth over the last several quarters. As shown in **Figure 1** above, this stronger growth culminated in a 4.2% annualized growth rate in the second quarter of last year, which was the strongest growth rate since Q3 of 2014. Economic indicators on the front end of the economy continue to reflect ongoing economic strength.

Still Growing, Just Not as Fast

U.S. growth is expected to slow to 2.3% from the 3% pace we saw in 2018. Fading fiscal stimulus, tighter financial conditions, and a gradual uptick in core inflation should define the U.S. economic backdrop in 2019. We don't think these dynamics will end the expansion, and we see no recession on the horizon. The current expansion will become the longest economic expansion on record after June of this year, when it will eclipse the ten year expansion that lasted from 1991 to 2001. We think we are in the late innings of this expansion (could be the 7th, 8th, or 9th), and it could turn

into an extra inning game as economic indicators we look at suggest more room for the economy to grow.

We are now 9.5 years in to the expansion, making it the second longest economic expansion since 1949. While long, the expansion has also been suboptimal and much weaker than the average of the last six economic expansions. The mean annualized percentage of real GDP gains during expansions since 1949 has been 4.6%. So far, the current expansion has grown at only a 2.3% annualized pace. It is no surprise that the rising amount of national debt has coincided with slower growth potential, as more debt crowds out investment. Our projection for 2019 U.S. economic growth of 2.3% returns expectations back in line with the suboptimal trend growth during this expansion.

In terms of global markets, we project global economic growth to come in at about 3.5% in 2019, down just slightly from about a 3.7% growth rate in 2018. This estimate incorporates some deceleration in both developed and emerging markets. Despite modestly slower growth, a 3.5% global growth rate is in line with the long-term average growth rate since 1980, and suggests a return to trend growth.

Macro risks escalated in 2018 and we expect these risks to remain elevated in the year ahead. These risks include trade tensions between the U.S. and China that will continue to hound the world's two largest economies. Other headline risks include Brexit, the Italian budget standoff with the European Union, and monetary policy that is becoming less accommodative. For the first time since 2011, more than half of the world's central banks are tightening monetary policy.

LEI Recession Lead Times

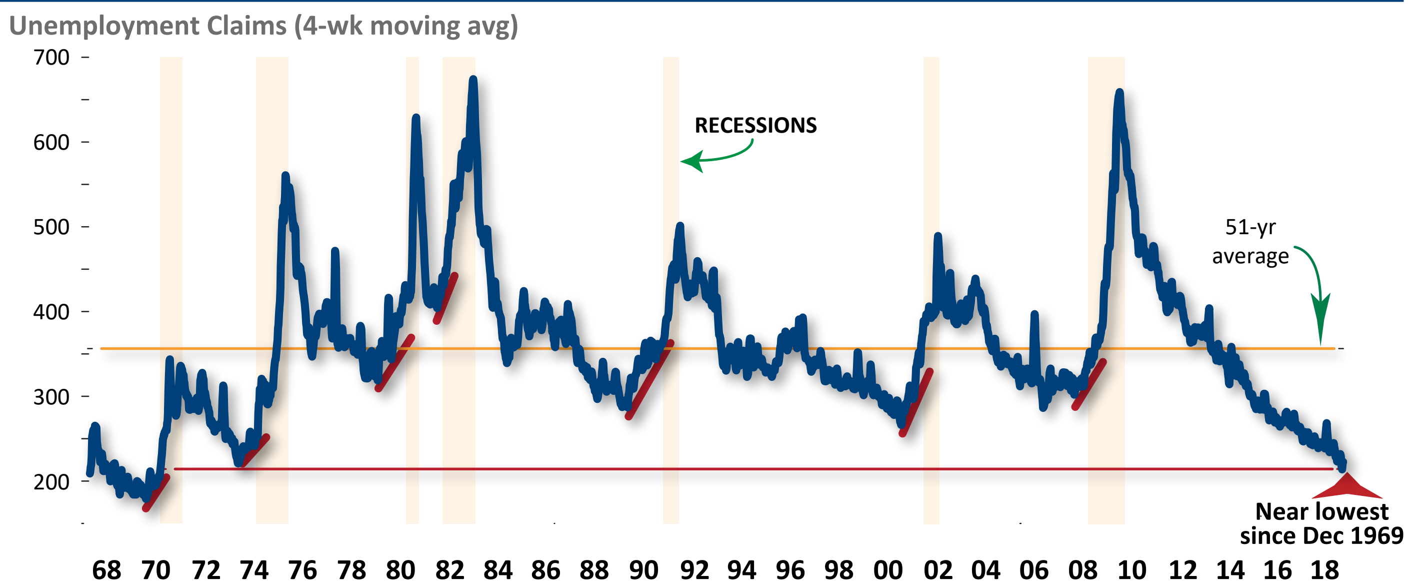
LEI Peak	Recession Start	Months from Peak to Start
12/31/1959	4/30/1960	4
4/30/1969	12/31/1969	8
2/28/1973	11/30/1973	9
10/31/1978	1/31/1980	15
10/31/1980	7/31/1981	9
1/31/1989	7/31/1990	18
4/30/2000	3/31/2001	11
3/31/2006	12/31/2007	21

Source: Ned Davis Research

A Look at the Leading Economic Indicators

While there are a lot of indicators we look at to gauge the health of the economy, there are several that we put a lot of stock in when assessing the economic outlook over the intermediate-term: the Conference Board's Index of Leading Economic Indicators, first time unemployment claims, and the shape of the yield curve. We highlighted these three indicators last year in our 2018 Market Outlook and stated that they pointed to continued economic growth.

Figure 2. **Unemployment Claims Spike Leading Up to Recession**



We are now likely into the late stages of the economic expansion, but right now all three indicators suggest the economy has more runway. Let's take a look at each one.

The Conference Board's Index of Leading Economic Indicators has hit all-time high after all-time high for much of this year and shows no signs of rolling over. We put a lot of emphasis on leading indicators because over the past 60 years, early weakness in the Leading Indicators Index (LEI) has preceded every recession in the U.S. As the table on the previous page shows, the typical lead time between the peak in LEI and the start of recessions has ranged between four and 21 months. Since 1960, the average lead time has exceeded 11 months. Finally, prior to the last three recessions to hit the U.S. economy, leading indicators were declining for an average of 16 months. We are not seeing any weakness currently in the Leading Indicators Index and if history is any guide, the U.S. economy should likely continue its expansion beyond 2019.

Another gauge related to leading indicators that remains in growth territory is the ratio of leading to coincident economic indicators. We believe this ratio does an excellent job of signaling recessions by declining sharply in the lead up to contractions. Historically, this ratio has always peaked ahead of a recession, and in most cases the peak came well over a year in advance. As of now, the ratio is still advancing. Additionally, considering that this ratio is still below all but one of the peak readings from every other expansion since 1959, it seems likely that there is more upside potential left in the economy.

Another indicator that is signaling continued expansion is the number of new claims for unemployment benefits. As shown in **Figure 2** on the previous page, unemployment claims typically start rising about six to 12 months prior to the start of a recession (see: red lines on the chart). The four-week moving average of jobless claims recently hit its lowest level since December 1969, a 49-year low, which is consistent with continued growth in the economy. The fact that weekly initial jobless claims continue to hover near their lowest levels since the late 1960's reflects strength in the job market, which is critical for our consumption led economy. Layoffs, which would be reflected in jobless claim statistics, tend to turn up six to 12 months before a recession, and those indications are not present at this time.

Hard economic data doesn't suggest that the U.S. economy is rolling over. Of course, data tends to be backward looking, so no one knows for sure how the future will play out. In addition to looking at actual data on the economy, it is also important to check on the signals coming from the markets. One such signal is the shape of the yield curve, which has a track record of forecasting recessions better than any economist.

Throughout the last 50 plus years, one consistent characteristic of U.S. recessions has been an inverted yield curve. While there have been instances where the yield curve inverted and a recession did not follow suit, every recession has been preceded by an inverted yield curve.

Yield Curve Leading Up to Recessions

	Yield Curve (bps)	
Start of Recession	At Start of Recession	52-Week Low
12/31/1969	-13	-45
11/30/1973	-61	-187
1/31/1980	-87	-208
7/31/1981	-20	-373
7/31/1990	61	-16
4/2/2001	72	-99
12/31/2007	79	-60
Current	31	31

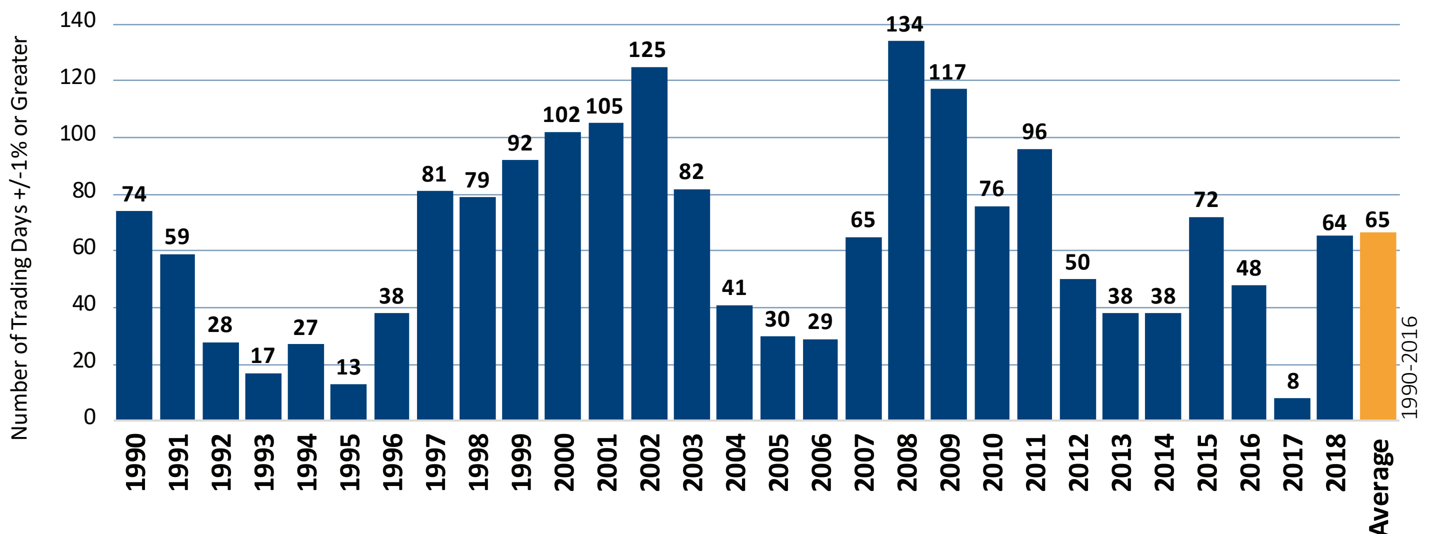
Source: InvesTech Research

The table above shows the level of the yield curve (10-year treasury–3 month T-Bill yields) at the start of each recession since the 1960s. While the curve was steeper at the onset of all three of the last recessions, those levels were reached after the curve had already inverted. Each of the prior recessions since the late 1960s has been preceded by an inversion of the curve. Up to this point, we still have not yet seen an inversion in the 10-year/3 month curve. However, it is getting close, with the spread at only 31 basis points at year end, which is the flattest it has been since September 2007! That being said, there are other maturities on the Treasury yield curve that have already inverted, such as the 1 to 7-year curve, the 1 to 10-year curve, and the 2 to 5-year curve. These inversions likely foreshadow an inversion of the 10-year–3 month T-Bill end of the curve.

The San Francisco Fed published a report in March of 2018 titled "Economic Forecasts with the Yield Curve." In the report, the Fed highlighted that the curve normally inverts 12-24 months prior to the start of recessions. For example, prior to the Financial Crisis, the 10-year Treasury–3 month T-Bill yield curve inverted in February 2006, two years prior to the crisis and start of the recession. When the curve inverts this cycle (and we're getting close), we will surely pay attention and begin speculating the timing of the next recession.

At this point, we remain positive on the U.S. economy and expect the economic expansion to likely continue into 2020. The unem-

Figure 3. **A Return to Normal Levels of Volatility**



Source: Bloomberg as of 9/30/18. S&P 500 Index.

ployment rate is low, consumer confidence is high despite the market decline, earnings are still growing, inflation is stable, and corporate America is still benefitting from tax cuts.

Volatility: A Tale of Two Cities

In our Market Outlook for 2018, we stated that we expected a return of normal corrections and volatility following an unprecedented period of low volatility in 2017. We certainly got that with two 10% or greater corrections and several bouts of volatility, which we are still in the midst of. As shown in **Figure 3,** since 1990, the market has averaged 65 days where the S&P 500 moved by more than 1% in either direction. The return of volatility in 2018 fell in line with the historic norm, with 64 days in which the S&P 500 moved by greater than 1%. While we don't expect a recession, we are still in the midst of a correction, the economy is in the late cycle, and interest rates and risk continue to rise. As a result, we expect to remain in a higher volatility environment.

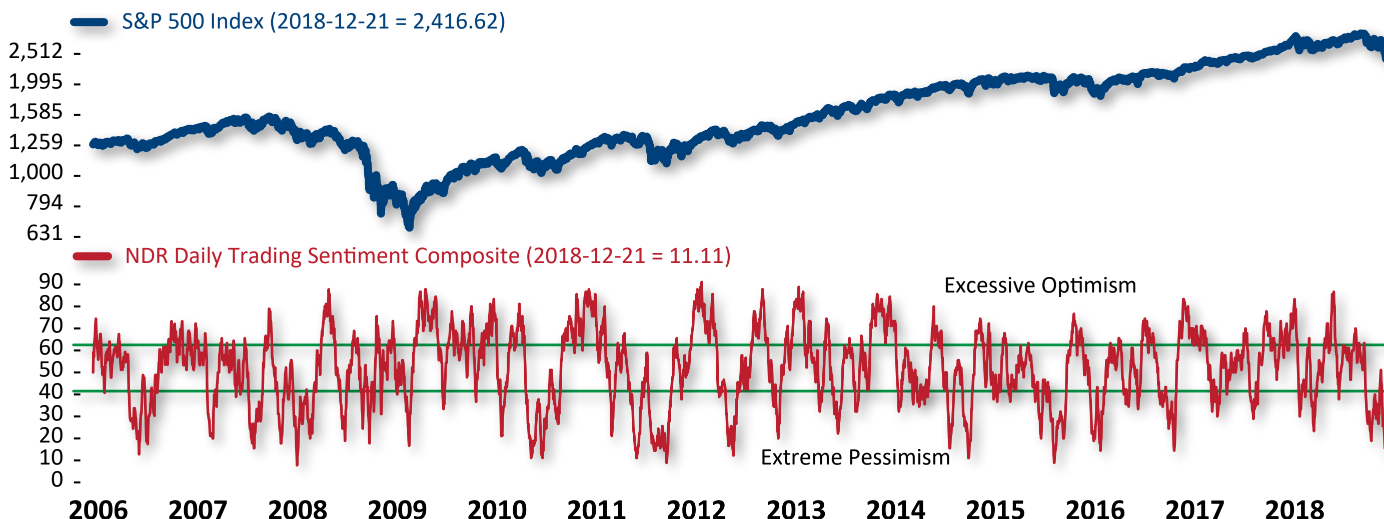
It had been quite a while since we lived through normal corrections. Now in 2018, we had two corrections of more than 10%, and one of them fell just shy of a 20% decline with the S&P 500 down 19.37% on a total return basis from its September 20th high during the Christmas Eve plunge. It's likely that the market has more downside in front of it as the New Year begins. But without a recession on the horizon, we believe further downside should be viewed as a buying opportunity for a cyclical rebound within the context of an ongoing secular bull market.

Investor sentiment has really soured over the past few months as declines have weighed on emotions. Investors are driven by two very powerful emotions — greed and fear. One of Warren Buffett's famous quotes is "Be fearful when others are greedy and greedy when others are fearful." While the point of maximum fear is only known for sure in hindsight, the Ned Davis Research Trading Sentiment Composite **(shown in Figure 4)**, a short-term gauge of investor sentiment is about as low as it gets. True to Warren Buffett's quote, when investor sentiment is this pessimistic, the S&P 500 has historically rallied at a 25% or better annualized pace.

In addition, the American Association of Individual Investors (AAII) sentiment poll showed a sharp decline in bullish sentiment towards the end of 2018. Bullish sentiment dipped down to 20.9% in mid-December to its lowest level since May 2016! Historically, the performance of the S&P 500 following times when investor bullish sentiment is below 25% has generally been positive with strong performance. Six months later, the S&P 500 was up an average of 4.51% with positive returns over 80% of the time and one year later, the S&P 500 saw double-digit gains averaging 11.08%, and gained nearly 90% of the time. However, longer-term sentiment gauges have not reached similar extremes in pessimism, which suggests some more time and/or correction could be in store prior to the secular trends resuming higher.

In our opinion, the wildcard for this year is the ongoing trade war with China. If there is a resolution, the picture turns rosy quickly. On the other hand, if it continues to drag on, the markets would

Figure 4. **S&P Rallies After Investor Sentiment Sours**



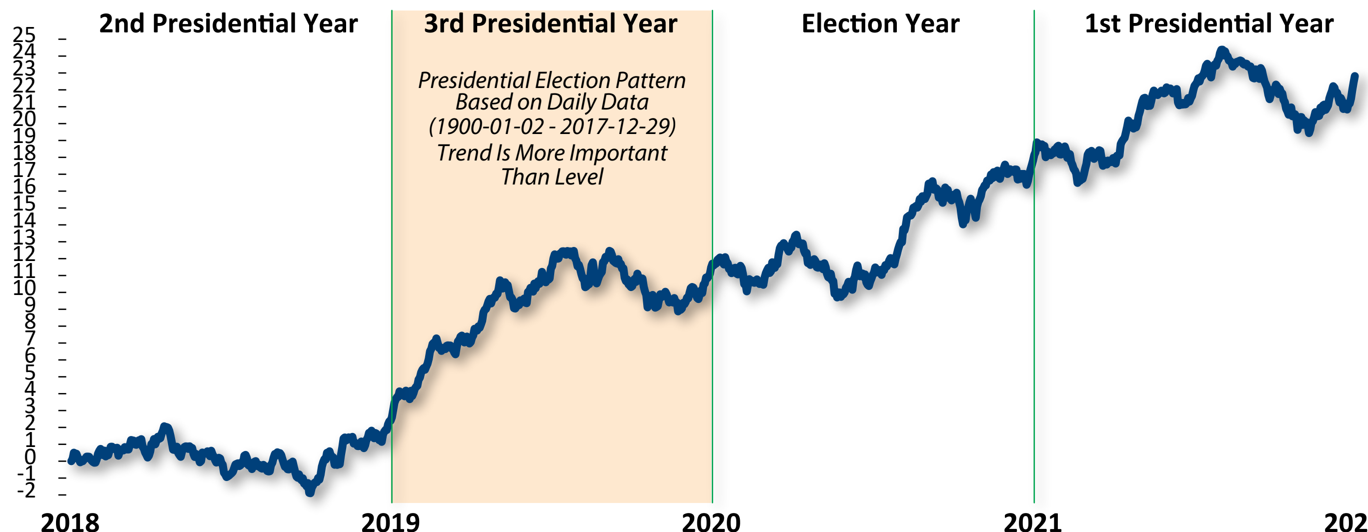
Source: Ned Davis Research; as of December 21, 2018

be mired in news events, likely resulting in more volatility. There should be incentive on both sides to come to an agreement sooner rather than later. The longer it drags on, the more potential there is for economic damage on both sides. There are signs that the Chinese economy is beginning to experience worsening conditions, while U.S. companies are also becoming increasingly cautious about profit expectations. Apple's recent warning is a prime example.

If there is an agreement, we should see a large relief rally, but even if there's an agreement, tensions will remain high. However, it's not about the goods deficit as much as it is the systematic transfer of technology from the U.S. to China. China has proposed delaying some portions of its Made in China 2025 plan, but it's highly unlikely that it will alter its plans significantly.

From an historical perspective, there have been 37 Presidential Elections since 1900 and 18 post-WWII Presidential Election Cy-

Figure 5. **Presidential Cycle Market Trends**



Source: Ned Davis Research

Figure 6. **Stocks Look Cheap**

Source: Yardeni Research, Inc.

cles. The pre-election year, which is currently 2019, has historically been by far the strongest performer of the four-year cycle as the chart in **Figure 5** illustrates. In the post-WWII period, the S&P 500 has averaged a 16.1% gain in the pre-election year, and the returns have been slightly stronger under Republicans in the White House than Democrats. It is possible though with the pulling forward of fiscal stimulus and political turmoil here in the U.S. that these trends may not materialize to the same degree as they have in the past.

Peak Earnings Growth in the Rearview Mirror

Following President Trump's election in late 2016, P/E multiples for the S&P 500 surged on the prospects of a softer regulatory environment and lower taxes. As shown in **Figure 6**, in early 2018, the S&P 500 was trading at a lofty 23 times trailing earnings, which was the highest multiple since the depths of the financial crisis.

Given the decline in stocks and continued good earnings growth, P/E multiples have contracted significantly to the current level of 17 times trailing earnings.

When 2018 earnings for the full year are in, earnings will have grown by about 26%. The strong earnings growth and declines in stocks have contributed to multiple compression. The forward P/Es of the S&P 500/400/600 are down to 13.5, 12.6, and 13.6 respectively. Those are the lowest forward P/Es since 2012. The recent market declines have served to replant seeds of fear among investors and also reset valuations to much more reasonable levels.

Without a doubt, we will see slowing corporate earnings in 2019. Peak earnings growth for this cycle is in the rearview mirror, which was the cause for much of the weakness over the past several months. In our Mid-Year 2018 Outlook we said, "A good argument can be made that maybe we are at the point of maximum earnings optimism." This continues to be a concern as we enter 2019. Earnings received a big boost from the tax cuts, but generating earnings growth moving forward will be more difficult given the tax infused comps, higher wages and higher interest expenses.

Earnings are still growing, but the upward slopes of analysts' consensus earnings expectations for 2019 and 2020 are flattening, reflecting expectations that profit margins may start getting squeezed. Nevertheless, analysts are currently predicting that S&P 500 earnings will grow 10.3% in 2019 and 9.5% in 2020. We expect earnings to grow in the 7-9% range over the next 12 months, which isn't terrible. With earnings expectations in that range, the S&P 500 has historically advanced at a 10% annual clip.

Rates on the Rise

The question we have been asked most often before the recent stock market volatility was about rising interest rates. Interest rates have risen for the following reasons: Fed rate hikes, inflation fears, strong economic growth, budget deficits, and an increase in Treasury supply. The tailwind of declining interest rates that we have been experiencing for over 30 years has finally ended, which requires different techniques for managing bonds. We believe this regime change plays well within our fixed income strategies, which focus on individual bond ownership and active bond management.

The Federal Reserve has hiked rates nine times during this cycle and hiked them four times in 2018 alone. The Fed has been known to make policy mistakes. For example, there have been 13 rate hike cycles since 1950 in which 10 recessions ensued. It looks like they could be on the verge of another policy error unless they turn dovish rather quickly, and recent comments coming from the Fed have had the markets on edge. The Fed's hawkish language over the last two months was punctuated by Fed Chairman Powell saying that the Quantitative Tightening (QT) was on "autopilot" for another $600 billion in 2019 and that the Fed was planning on two additional rate hikes in 2019.

Our 2018 target for the 10-year Treasury note was 2.75%, and it ended the year at 2.69% having peaked at 3.23% in the fourth quarter before the market repriced risk assets. We believe interest rates will move slightly higher this year and expect the 10-year Treasury note yield to rise to 3.00%.

Another Volatile Year for Credit?

In a year that saw a wide variety of asset classes decline in value, credit markets were no exception. For high yield, 2018 goes down as the fifth worst year for the asset class on record. As shown in **Figure 7**, since the data begins in 1987, 2018 is only the fourth year where total returns have been negative for both investment grade and high yield bonds. The only other years were 1994 (when the Fed surprised the markets and aggressively hiked rates), 2008 (the global credit crisis), and 2015 (when commodity weakness drove asset prices lower). With the major central banks data-dependent, we anticipate another volatile year for credit, which we believe requires an active approach to managing risk in fixed income.

High yield credit spreads have widened fairly substantially from a low of 295 basis points in January to close 2018 at 527 basis points. The credit markets enter the New Year with a risk-off tone and our Fixed Income Total Return portfolio is positioned defensively. As shown in **Figure 8,** credit spreads have widened, and Treasuries have benefited as investors grow increasingly concerned about growth prospects, Fed activities, and geopolitical turbulence. The credit spread is now just at its average spread since 2000, and it can move higher from here if conditions worsen. A good reference is the last real risk-off period in high yield debt in early 2016, when high yield spreads reached 840 basis points, which was quite a bit higher from current spread levels.

Fitch Ratings said it expects U.S. high yield bond default rates to decline to 1.5% in 2019. The rating agency's forecast is below the non-recessionary average of 2.3% for high yield default rates and would represent the lowest default rate since 2013. Fitch said, "Lower default rates should be considered in the context of the stage of the credit cycle, as improving profitability, open access to capital markets and looser credit terms are typical markers of late cycle stages."

Budget Deficits Become a Headwind in 2019

Another headwind we face is exploding budget deficits. When the

Figure 7. **High Yield Struggled in 2018**

BAML HY Master II Index Total Return By Year, 1987 - 2018 YTD

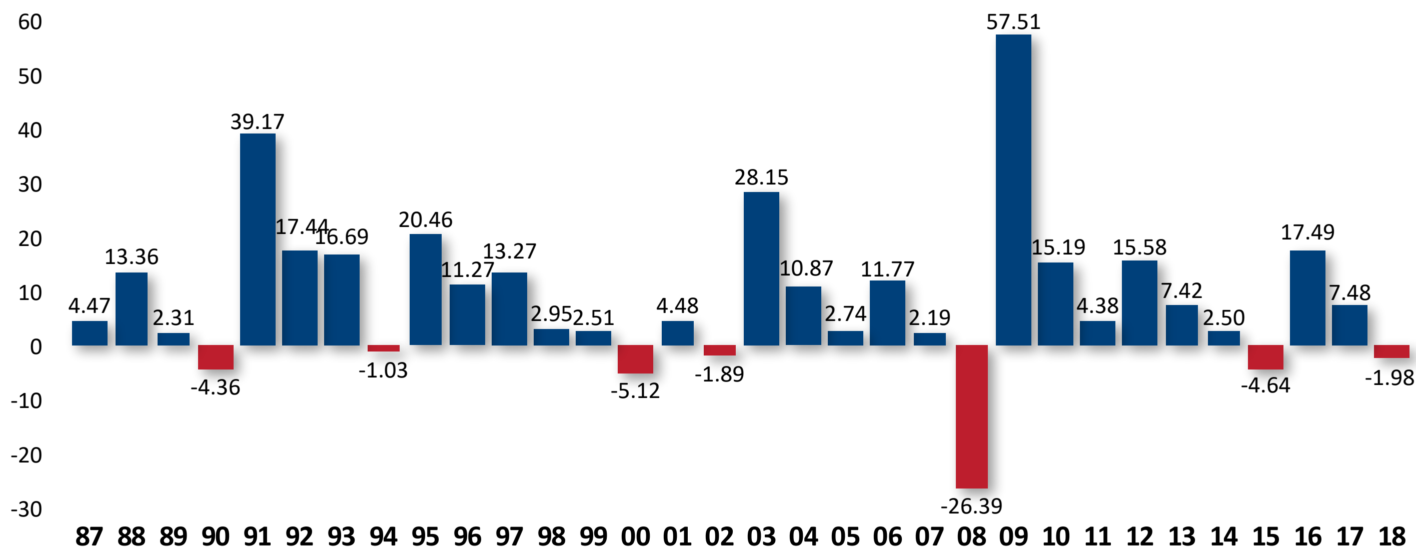
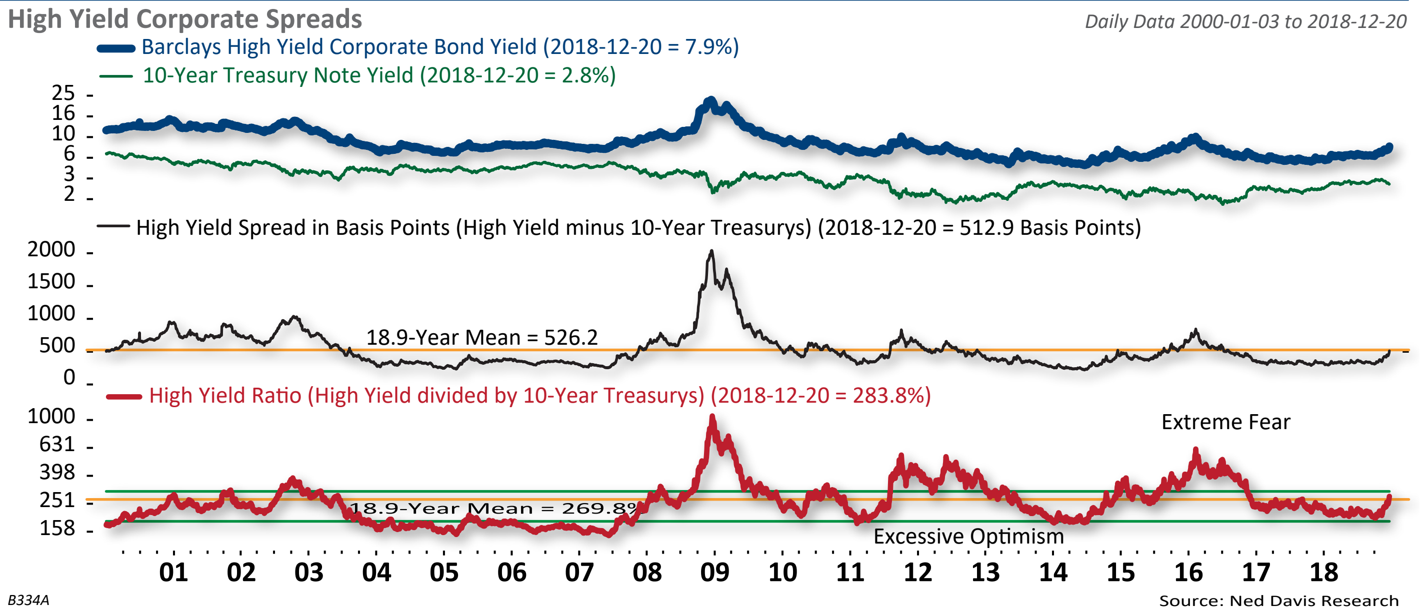


Figure 8. **High Yield Corporate Spreads Widen**



deficit increases, the economy tends to perform about half as well as it does when the deficit is decreasing. This is because as deficits worsen, rates increase due to funding needs, and more government debt crowds out investment for productive uses. As a result, the economy tends to operate below its potential. Continued growth in the federal deficit **(as shown in Figure 9)** will add to the supply of Treasuries and put upward pressure on bond yields. As interest rates rise, debt service can explode when government debt is extremely high. Interest on the U.S. debt has boomed a record 26.5% over the last year. That is only going to get worse as deficits continue and interest rates climb. An overall 1% rise in yields is now estimated to increase the federal government debt service by $500 billion.

Figure 9. **Government Spending on the Rise**

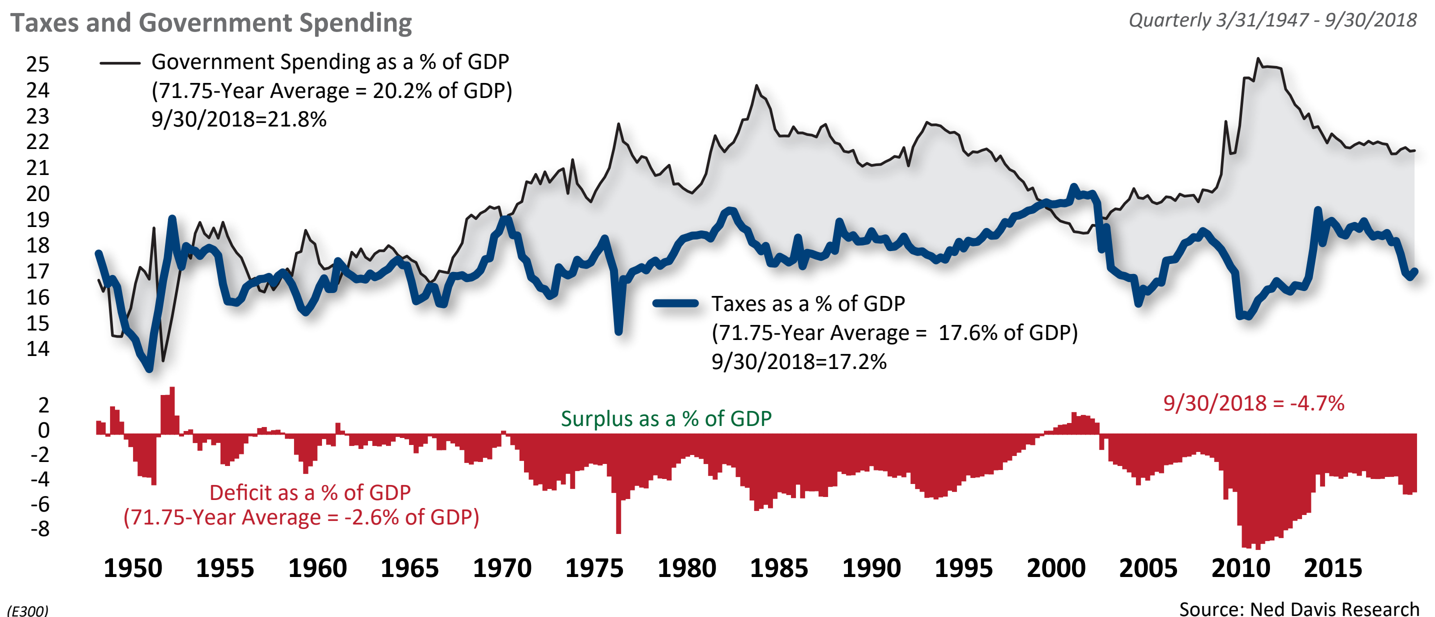
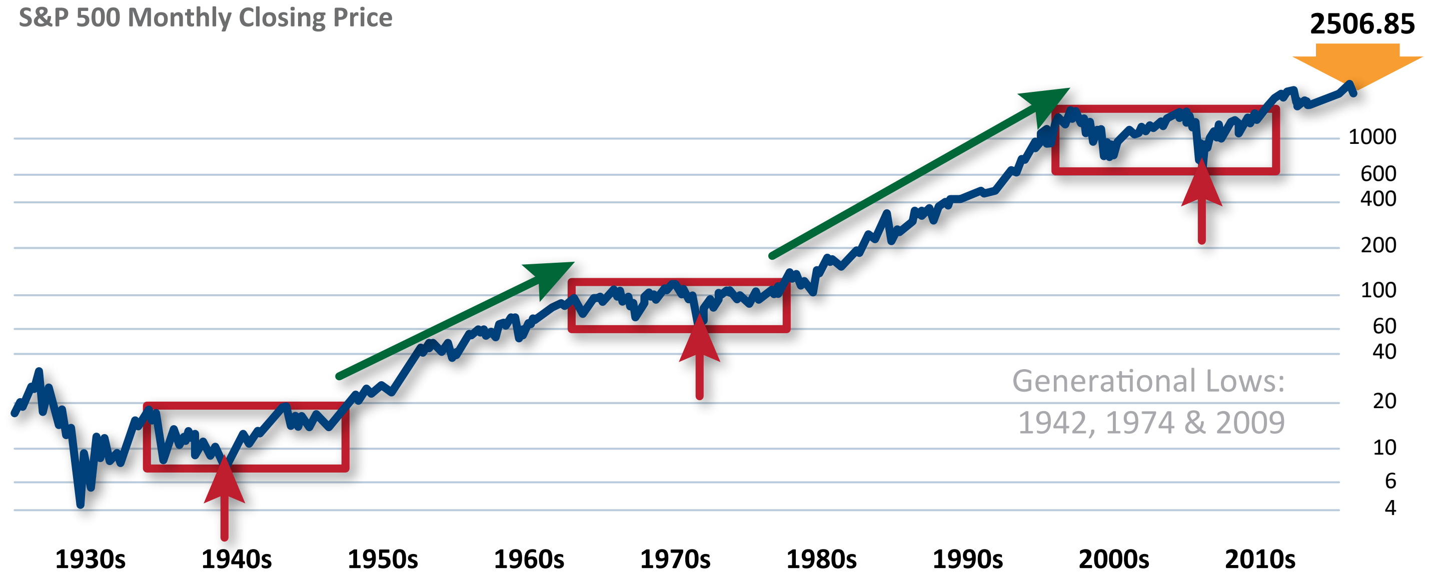


Figure 10. **Generational Lows: A Long-Term Perspective**



Looking at Equities from a Long-Term Perspective

We have concluded the past several annual Market Outlooks with the above chart **(Figure 10)** of the very long-term perspective of the equity markets, and given the volatility and market declines, we think it is important to do so again.

This chart of the S&P 500 dates back into the 1920's. The three boxes in red highlight the last three secular bear markets. Note that once the market eclipsed its prior secular peak, it continued higher for many years. The prior two secular bull runs lasted 22 and 18 years. We believe that is the same environment that we are in today. We are now almost ten years into this secular bull market, and if history is any guide, the probability of additional secular gains is high.

Conclusion

In conclusion, there are many uncertainties and unknowns as we enter 2019. We feel confident that the U.S. economy will continue growing, although at a slower pace. The investment environment is fraught with risks and will be shaped by continued elevated volatility, Fed activities, slower but positive earnings growth, the negotiations around China trade, and geopolitical issues globally. The current correction should be viewed within the context of continued economic expansion and once the correction runs its course, the secular tailwinds for the market should kick in and a new cyclical bull market will begin.

About the Author

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Chief Investment Officer

As Clark Capital's Chief Investment Officer, Sean oversees all of the Firm's investment activities and heads the firm's portfolio team. Sean joined the firm in 1993 and is responsible for asset allocation and investment selection for Navigator Investment Solutions as well as directing ongoing market research and contributing to the development of proprietary products. Sean is a member of the Clark Capital Investment Team and the Executive Team. He graduated from the University of Delaware, earning a B.S. and an M.A. in Economics. Sean holds the Chartered Financial Analyst® designation and is a member of the CFA Institute (formerly AIMR) and the Financial Analysts of Philadelphia, Inc. Sean is considered an industry expert and is often asked to appear on CNBC and Bloomberg television to share his views on the market. In addition, Sean has been featured in a number of articles in nationally distributed business journals and newspapers.

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The S&P 500 measures the performance of the 500 leading companies in leading industries of the U.S. economy, capturing 75% of U.S. equities.

Barclays 7-10 Year Treasury Index tracks the investment results of an index composed of U.S. Treasury bonds with remaining maturities between seven to ten years.

Barclays 20+ Year Treasury Index tracks the investment results of an index composed of U.S. Treasury bonds with remaining maturities greater than 20 years.

S&P GSCI Index is an unmanaged world production-weighted index composed of the principal physical commodities that are the subject of active, liquid futures markets.

S&P GSCI Industrial Metals Index is considered representative of investment performance in the industrial metals market.

The MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performers of developed markets outside the U.S. and Canada.

The MSCI World Index is a freefloat-adjusted market capitalization index that is designed to measure global developed market equity performance.

The MSCI World Index ex. U.S. is a freefloat-adjusted market capitalization index that is designed to measure global developed market equity performance excluding the U.S.

The Russell 3000® Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market.

The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index.

The Value Line Arithmetic Composite Index uses the arithmetic mean change in the index reflects change if a portfolio of stocks in equal amounts were held.

The S&P MidCap 400 Index measures the performance of mid-sized companies, reflecting the distinctive risk and return characteristics of that market.

The S&P Small Cap 600® measures the small-cap segment of the U.S. equity market being designed to track companies that meet criteria showing that they are liquid and financially viable.

The VIX Index is a forward looking index of market risk which shows expectation of volatility over the coming 30 days.

Barclays U.S. Government/Credit Bond Index measures the performance of U.S. dollar denominated U.S. Treasuries and government-related & investment grade U.S. Corporate securities that have a remaining maturity of greater than one year.

The Barclays U.S. Aggregate Bond Index covers the U.S. investment-grade fixed-rate bond market, including government and credit securities, agency mortgage pass-through securities, asset-backed securities and commercial mortgage-based securities. To qualify for inclusion, a bond or security must have at least one year to final maturity, and be rated investment grade Baa3 or better, dollar denominated, non-convertible, fixed rate and publicly issued.

The Barclays U.S. Corporate High-Yield Index covers the USD-denominated, non-investment grade, fixed-rate, taxable 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.

The iPath® S&P 500 Dynamic VIX ETN is designed to provide investors with exposure to the S&P 500® Dynamic VIX Futures™ Total Return Index.

The S&P 500® Dynamic VIX Futures™ Total Return Index (the "Index") is designed to dynamically allocate between the S&P 500® VIX Short-Term Futures™ Index Excess Return and the S&P 500® VIX Mid-Term Futures™ Index Excess Return by monitoring the steepness of the implied volatility curve. The Index seeks to react positively to overall increases in market volatility and aims to lower the roll cost of investments linked to future implied volatility.

Index returns include the reinvestment of income and dividends. The returns for these unmanaged indexes do not include any transaction costs, management fees or other costs. It is not possible to make an investment directly in any index.

Economic and market forecasts presented herein reflect a series of assumptions and judgments as of the date of this presentation and are subject to change without notice. Forward-looking statements cannot be guaranteed.

CCM-649