

Your Clients' Top Questions, Answered

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Client Portfolio Manager



FAQs

- Is the Federal Reserve done raising rates?
- Is the stock market rally over?
- Will there be a recession in 2024?
- Is the U.S. consumer healthy?
- Is the national debt a concern?
- How will the 2024 election impact the markets?



Is the Federal Reserve done raising rates?

- The Fed has made progress in fighting inflation
- Fed Fund Futures are pricing in no further hikes
- On average eight months from last hike to first cut
- Stocks and bonds have historically done well one year after the last rate hike

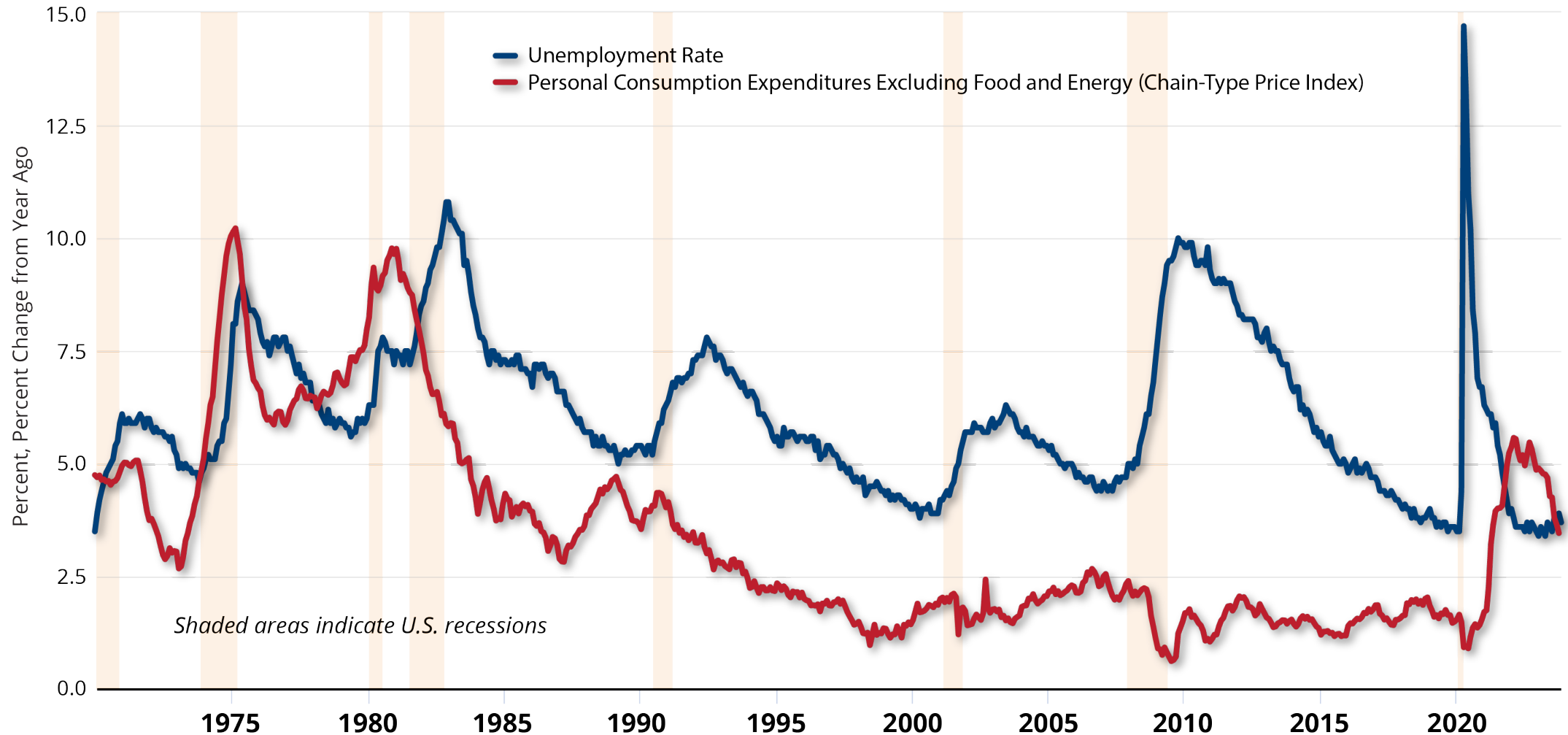


The Fed's dual mandate: Full employment and price stability

Unemployment Rate

Personal Consumption Expenditures Excluding Food and Energy (Chain-Type Price Index)

1/1/1970 to 11/30/2023



Shaded areas indicate U.S. recessions

Source: fred.stlouisfed.org

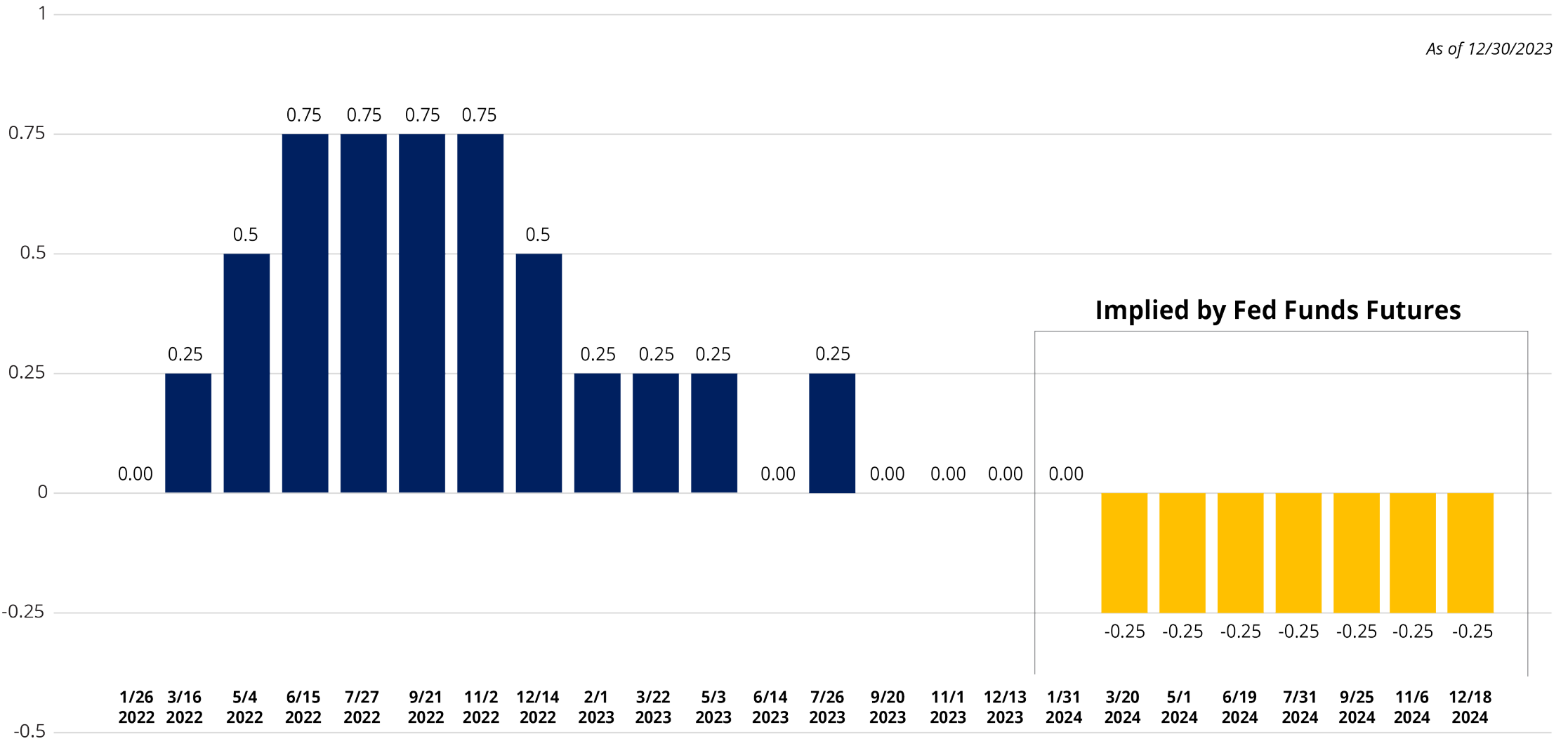
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Source: FRED Board of Governors of the Federal Reserve System



The Fed is most likely done

Fed Rate Hikes: Actual and Implied by Fed Funds Futures

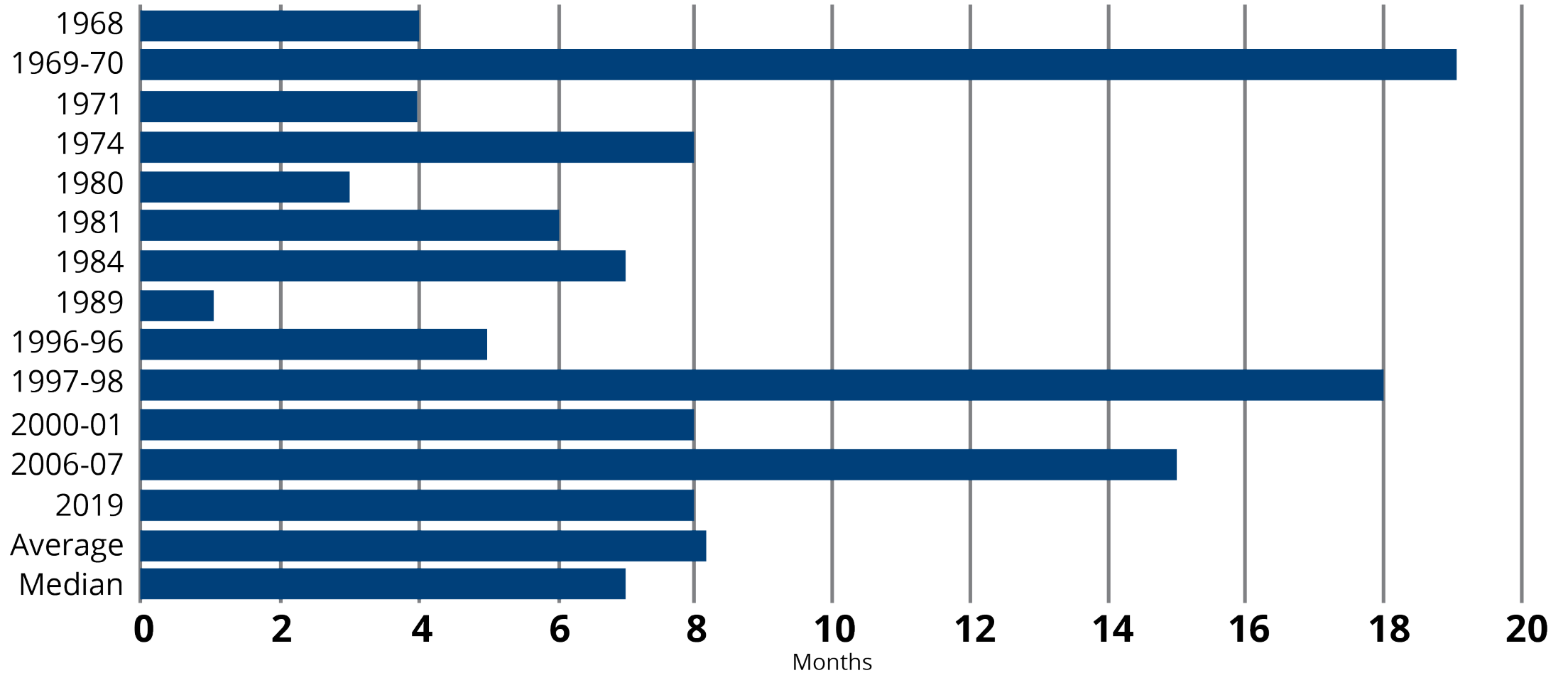


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Source: Clark Capital, fred.stlouisfed.org, CME FedWatch Tool

How soon until the Fed cut rates?

Fed: Length of Time from Last Hike to First Rate Cut



Sources: Board of Governors of the Fed (from FRED), Steven Anastasiou



For illustrative purposes only. Past performance is not indicative of future results.

Source: FRED Board of Governors of the Federal Reserve System, Steven Anastasiou

Asset returns one year after final Fed hike

Returns One Year After Final Fed Hike

Asset	Avg.	Highest	Lowest	Data Since
Equity (US) = S&P 500	14%	40%	-11%	Jul-54
Sector				
Materials	20%	26%	9%	Sep-89
Pharmaceuticals	19%	52%	-8%	Jul-54
Staples	15%	44%	-7%	Jul-54
Real Estate	13%	40%	-8%	Dec-71
Utilities	13%	25%	-7%	Jul-54
Financials	13%	43%	-16%	Jul-54
Discretionary	12%	44%	-7%	Jul-54
Technology	12%	66%	-47%	Jul-54
Industrials	10%	44%	-25%	Jul-54
Telecommunications	10%	34%	-27%	Jul-54
Energy	8%	31%	-15%	Jul-54
Style				
Free Cash Flow	30%	38%	24%	Dec-91
Small Cap Value	22%	58%	-17%	Jul-54
Value	21%	46%	-14%	Jul-54
Large Cap Value	20%	38%	-11%	Jul-54
Small Cap	20%	82%	-33%	Jul-54
Small Cap Growth	18%	81%	-33%	Jul-54
S&P 500 High Dividend	18%	20%	16%	Jan-91
Growth	15%	63%	-25%	Jul-54
Large Cap	14%	40%	-12%	Jul-54
Large Cap Growth	13%	47%	-17%	Jul-54
60/40	12%	29%	-7%	Aug-54

Returns One Year After Final Fed Hike

Asset	Avg.	Highest	Lowest	Data Since
Equity (US) = S&P 500	13%	27%	-15%	Dec-87
Emerging Markets	13%	67%	-22%	Jul-54
EAFE	13%	34%	-17%	Dec-69
Emerging Markets ex-China	12%	41%	-22%	Dec-98
Bonds = 10Y US Treasury Note	10%	29%	0%	Jul-54
EM Debt	20%	42%	10%	Dec-91
Fallen Angels	14%	22%	7%	Dec-96
IG Corporate	11%	31%	-4%	Jul-54
US 30 Year	10%	33%	-6%	Jul-54
Municipal Bonds	10%	15%	5%	Dec-88
HY Corporate	9%	17%	-4%	Aug-86
Treasury Bills	6%	14%	2%	Ju-54
Commodities = Broad Comm. Index	-2%	13%	-15%	Jul-54
Fuel	8%	31%	-15%	Jul-54
STI Oil	3%	35%	-10%	Jul-54
Gold	0%	18%	-32%	Jul-54
Copper	-3%	25%	-21%	Jul-54

For illustrative purposes only. Past performance is not indicative of future results.

Source: BofA Research Investment Committee, Global Financial Data, Bloomberg. Data based on 13 hiking cycles back to July 1954.



10yr Treasury yields after last Fed hike

US10Y Bond Yield Move Around Last Fed Hike

US 10Y Bond Yield Moves (bps)										
	Aug 84	Sep 87	Feb 89	Feb 95	Mar 97	May 90	Jun 06	Dec 18	Average	Median
-12m	100	214	118	192	52	80	122	29	113	109
-11m	97	200	87	138	23	50	92	10	87	89
-10m	100	201	61	72	11	76	103	-12	76	74
-9m	97	232	17	62	-13	46	90	-10	65	54
-8m	79	216	49	54	-8	53	63	-16	61	53
-7m	96	207	28	34	1	36	72	-30	55	35
-6m	69	218	4	55	7	47	84	-14	59	51
-5m	7	175	42	49	23	12	68	-8	46	32
-4m	-14	82	57	6	63	-26	64	-11	28	31
-3m	-86	76	30	-24	42	-12	39	-31	4	9
-2m	-113	100	34	-27	14	18	14	-44	0	14
-1m	-76	51	44	-16	37	57	14	-31	10	26
Fed Last Hike										
1m	-13	29	4	-44	18	-45	-20	3	-9	-5
2m	-66	-41	-23	-46	-2	-33	-42	-12	-33	-37
3m	-125	-33	-76	-60	-32	-59	-57	-14	-57	-58
4m	-127	-50	-114	-146	-58	-58	-52	-20	-78	-58
5m	-116	-102	-135	-146	-38	-69	-67	-36	-89	-86
6m	-100	-101	-120	-119	-64	-76	-49	-73	-88	-88
7m	-81	-63	-117	-143	-78	-124	-30	-70	-88	-80
8m	-144	-37	-151	-148	-91	-119	-63	-115	-108	-117
9m	-200	-22	-159	-168	-102	-132	-55	-97	-117	-117
10m	-224	-52	-156	-195	-108	-165	-50	-100	-131	-132
11m	-229	-31	-101	-209	-115	-117	-31	-97	-116	-108
12m	-246	-29	-84	-206	-112	-96	-17	-83	-109	-91

For illustrative purposes only. Past performance is not indicative of future results.

Source: Bloomberg Finance L.P., JP Morgan



Is the stock market rally over?

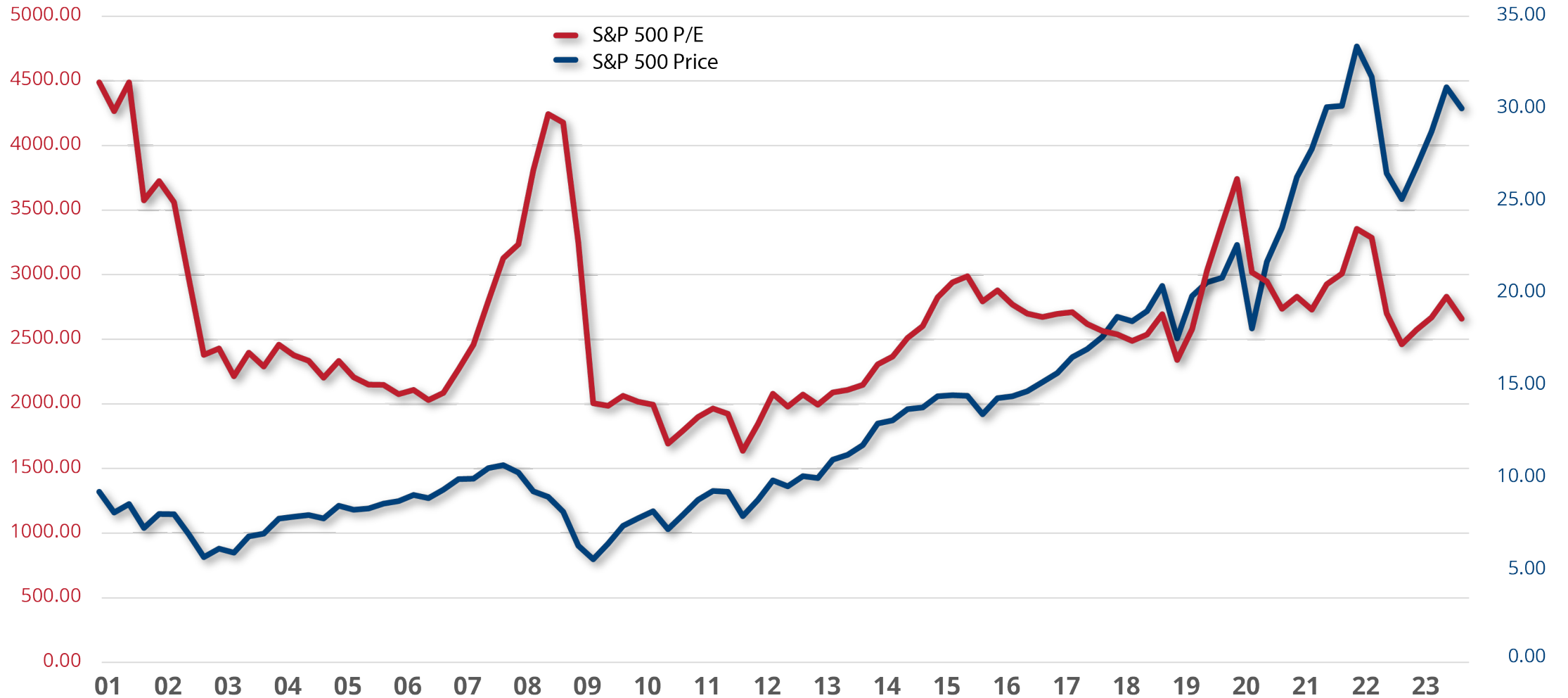
- Earnings are at an all-time high, stocks aren't
- S&P 500 trading around fair value
- Mag 7 skewing valuations higher but have strong earnings growth
- We believe Large Value, SMID, and International look cheaper



The S&P 500 is trading in fair value range

S&P 500 Price vs S&P 500 P/E Ratios

3/31/2000 to 9/30/2023



Source: S&P Global

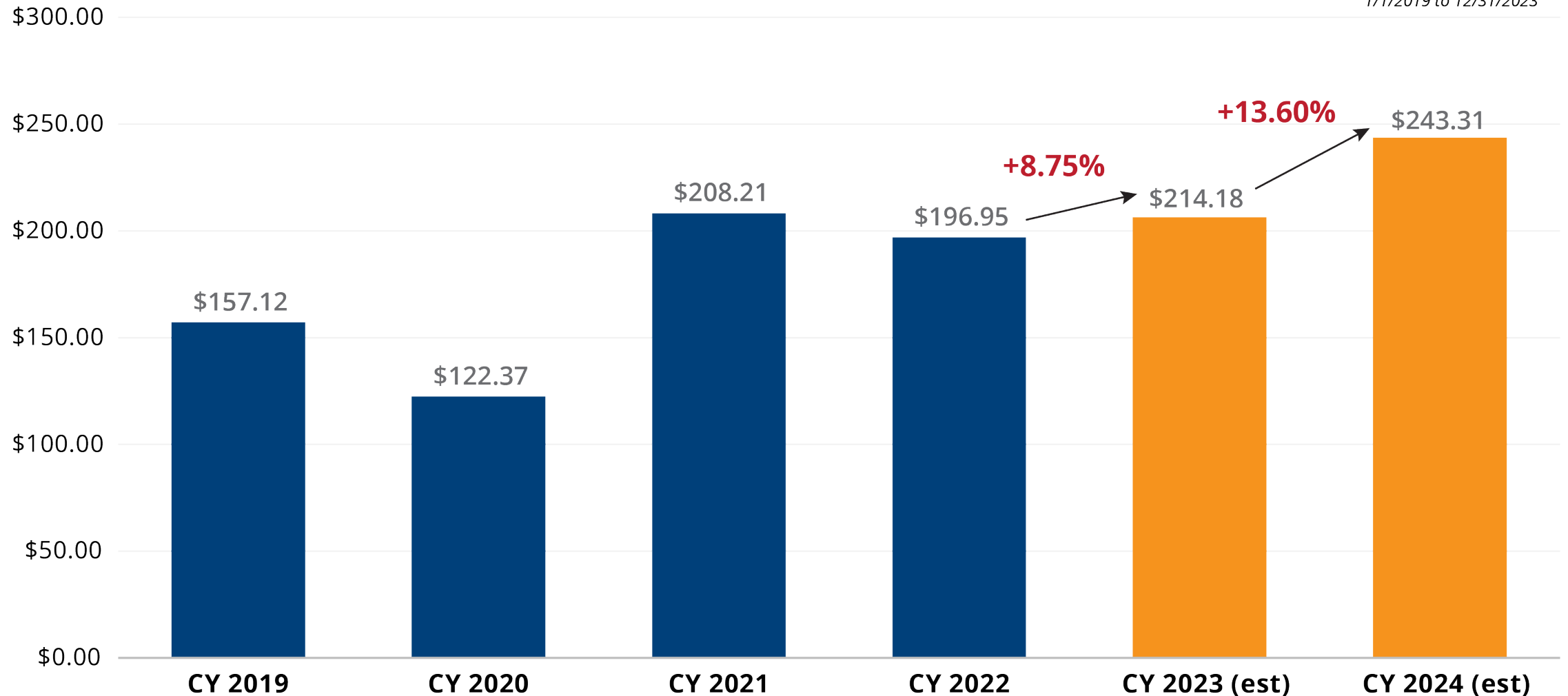
For illustrative purposes only. Past performance is not indicative of future results.

Source: S&P Global

S&P 500 operating earnings are expected to grow

S&P 500 Calendar Year Operating EPS Actuals & Estimates

1/1/2019 to 12/31/2023



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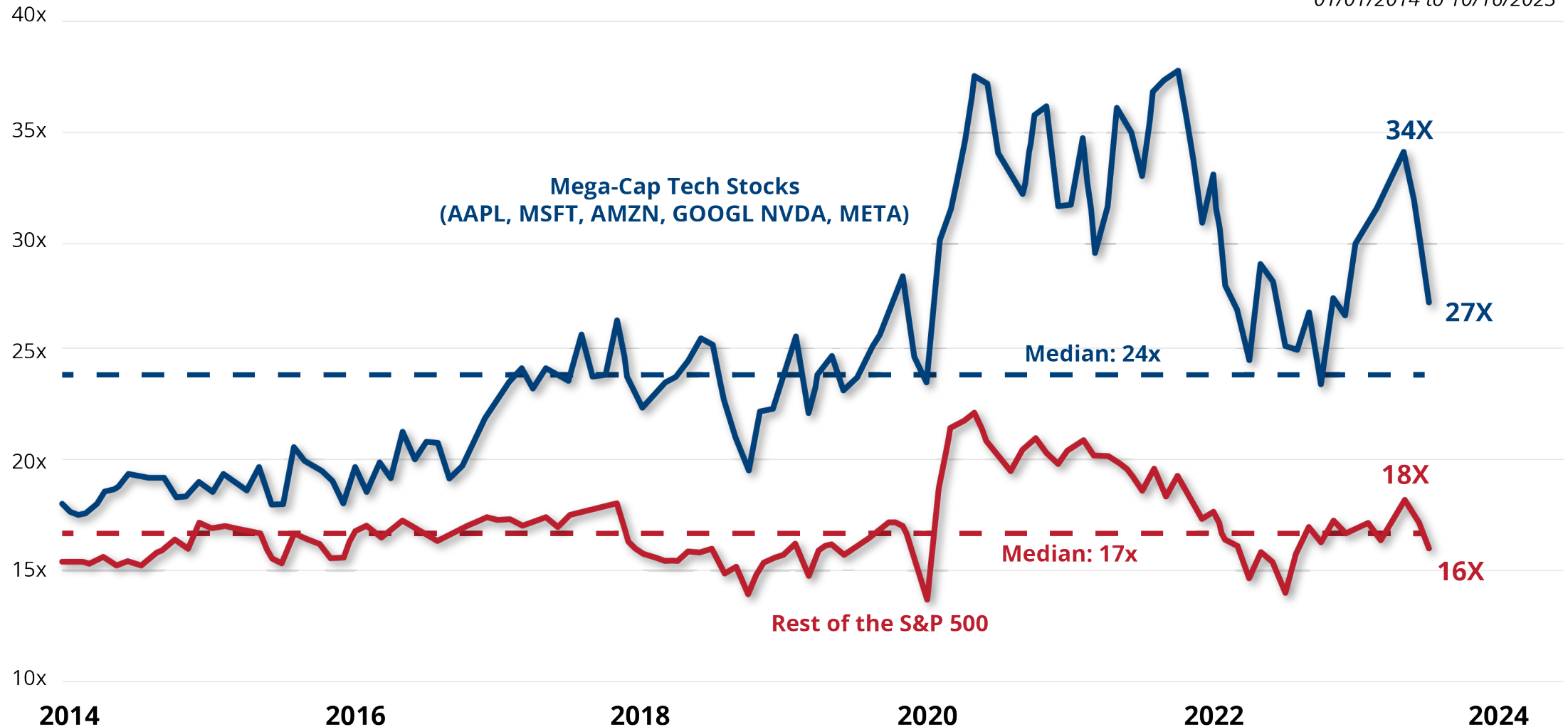
Source: S&P Global



“Magnificent Seven” skewing valuations higher

Mega-Cap Tech vs. Rest of S&P 500 PE

01/01/2014 to 10/16/2023



Source: Goldman Sachs Global Investment Research

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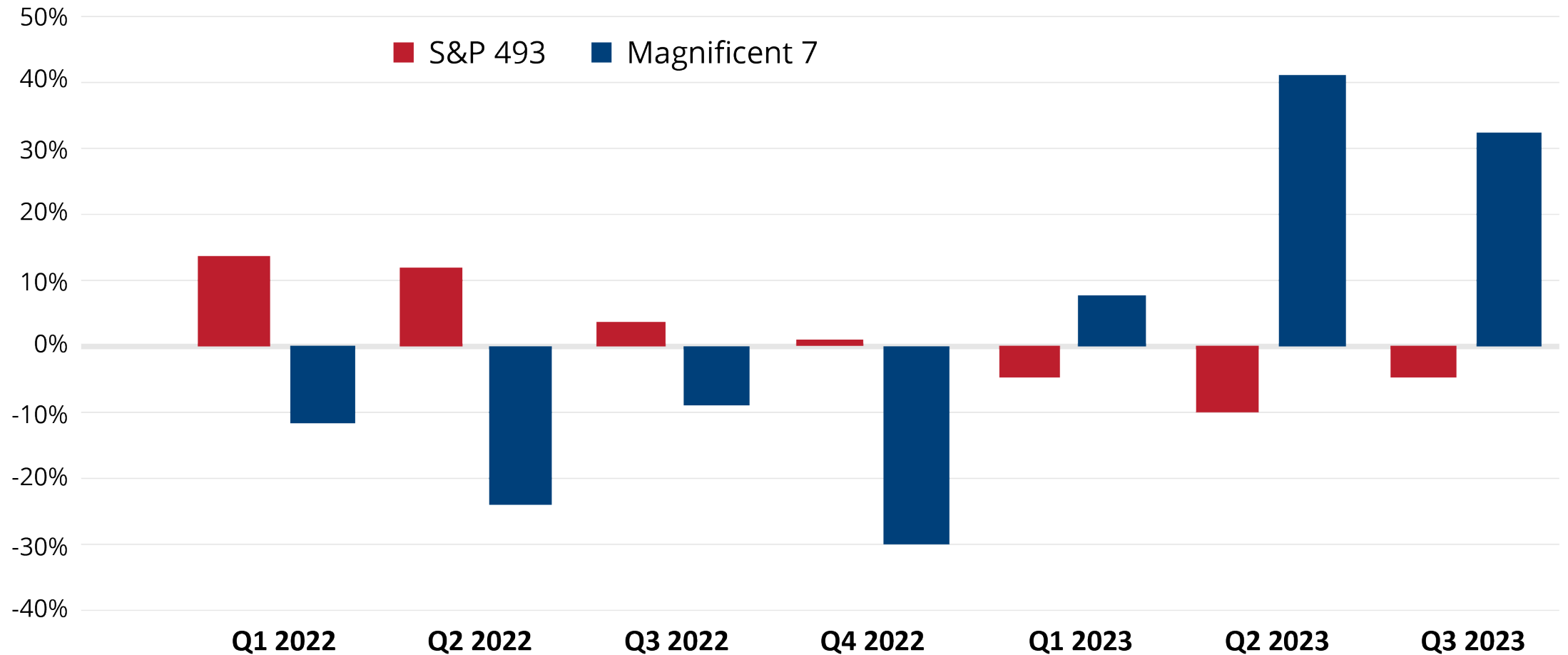
Source: Goldman Sachs Global Investment Research



Mag 7 earnings growth outpacing the rest of S&P 500

Profit Growth, Year-Over-Year, Actuals and Consensus Estimates

As of October 12, 2023



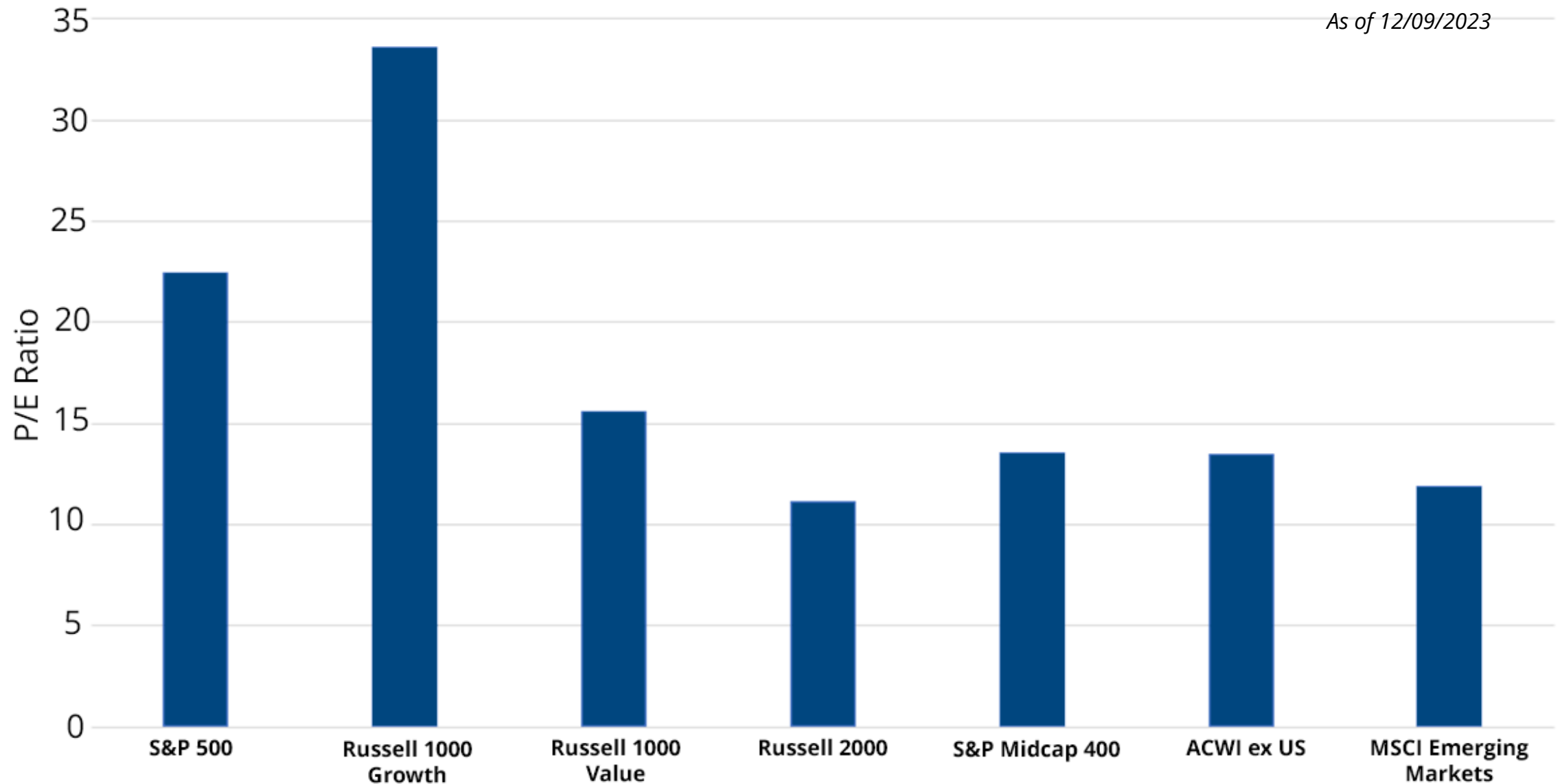
Sources: Facset, UBS

Note: Magnificent 7 = Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla.

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Large Value, SMID, and International look cheaper



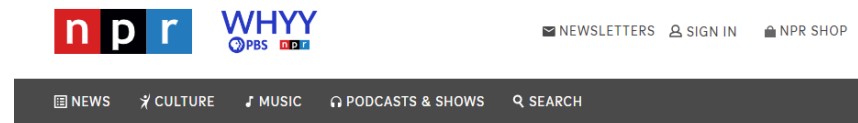
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Will there be a Recession in 2024?

- GDP growth better than expected in 2023
- Labor market strong and consumers are resilient
- Some storm clouds on the horizon
- We believe a slowdown is possible next year
- We believe the odds of no recession or a mild recession in 2024 are 50/50



2023: The most anticipated recession that never happened

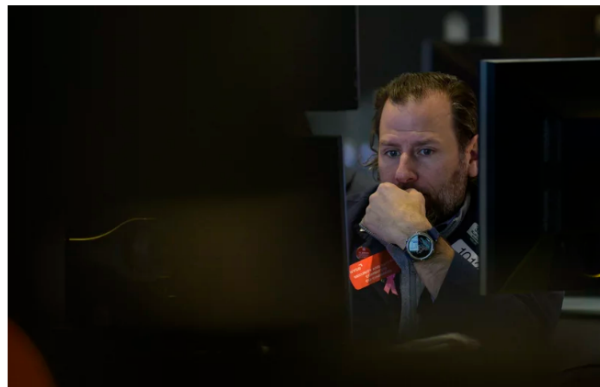


ECONOMY

A recession might be coming. Here's what it could look like

JANUARY 24, 2023 · 5:01 AM ET

By Rafael Nam, Greg Rosalsky



'The worst is yet to come': IMF says 2023 will 'feel like a recession'

More than a third of the global economy will contract in 2023, as the three largest economies - the US, the EU, and China—will continue to stall, the International Monetary Fund's analyses of global economic developments says.

By Sarah Taaffe-Maguire, business reporter

Tuesday 11 October 2022 16:31, UK

NEWS > STOCKS

Morgan Stanley's Mike Wilson says US stocks could crash another 20% as the risks of a recession rise

Harry Robertson Jun 21, 2022, 11:20 AM EDT



A trader works on the floor of the New York Stock Exchange Andrew Burton/Getty Images

FORBES > MONEY

Will There Be A Recession In 2023— And How Long Will It Last?

Q.ai - Powering a Personal Wealth Movement Former Contributor Making wealth creation easy, accessible and transparent.

Jan 20, 2023, 08:00am EST

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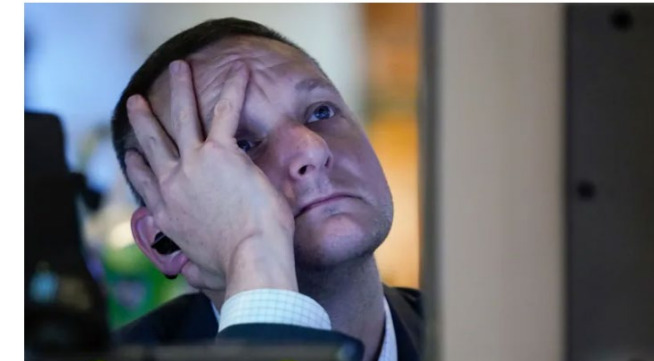
AFP VIA GETTY IMAGES

Business · Analysis

If you thought 2022 was bad, wait until you see what 2023 has in store for the economy

Recession, persistent inflation and rising unemployment all forecast for the new year

Peter Armstrong · CBC News · Posted: Jan 02, 2023 4:00 AM EST | Last Updated: January 2



Traders work on the floor at the New York Stock Exchange in this June 2022 file photo. It's a hard time to look for good news in the 2023 economic outlook. (Seth Wenig/The Associated Press)

MARKETS Published February 6, 2023 11:38am EST

Bank of America 'still forecasting' 2023 recession: Fed action 'not enough,' exec warns

Bank of America Global Research maintains prediction of recession in 2023

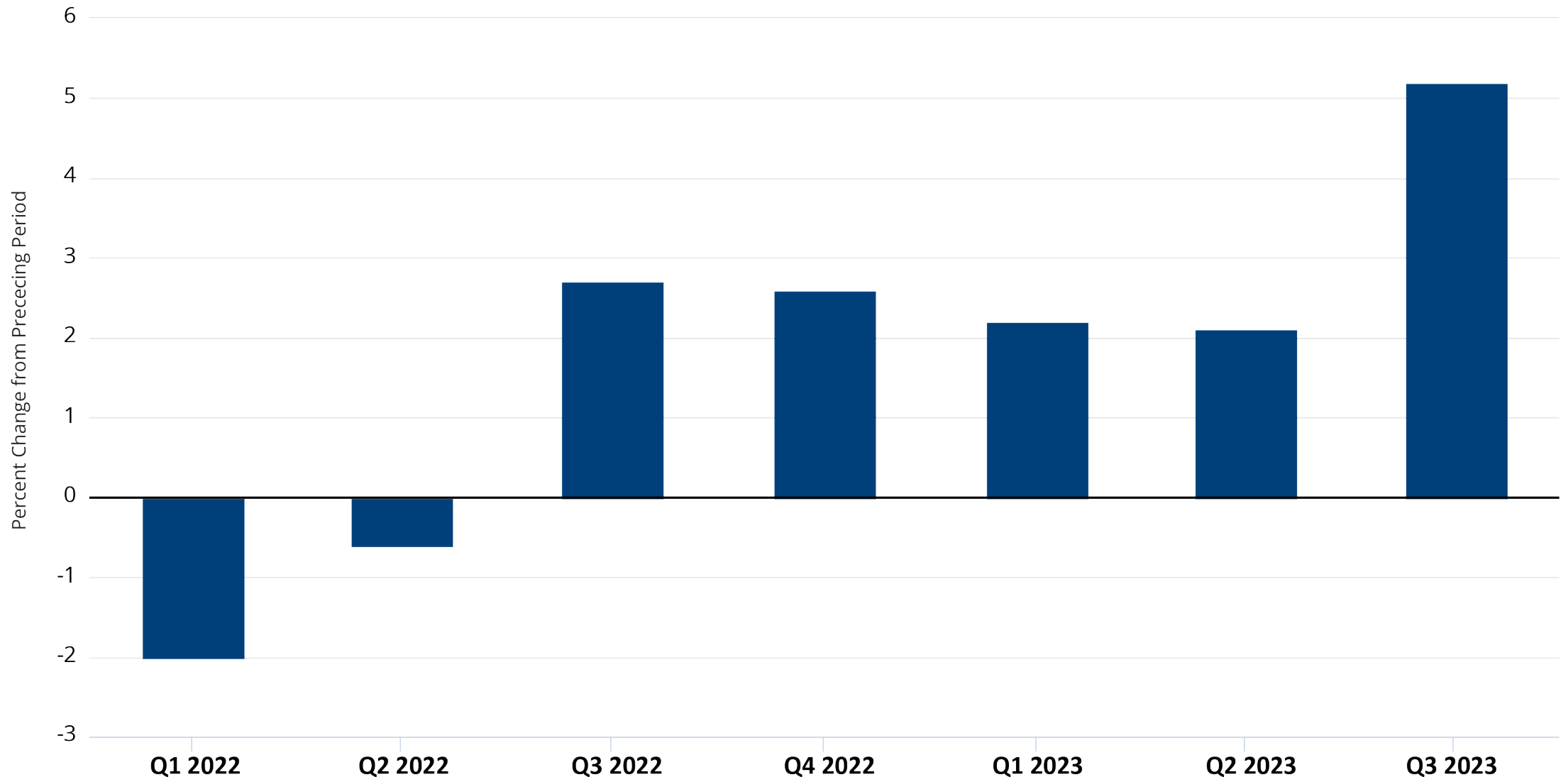


For illustrative purposes. Past performance is not indicative of future results.

Source: NPR, Business Insider, Forbes, CBC News, Sky News, FoxBusiness

Growth has been better than expected in 2023

Real Gross Domestic Product



For illustrative purposes. Past performance is not indicative of future results.

Source: FRED Board of Governors of the Federal Reserve System

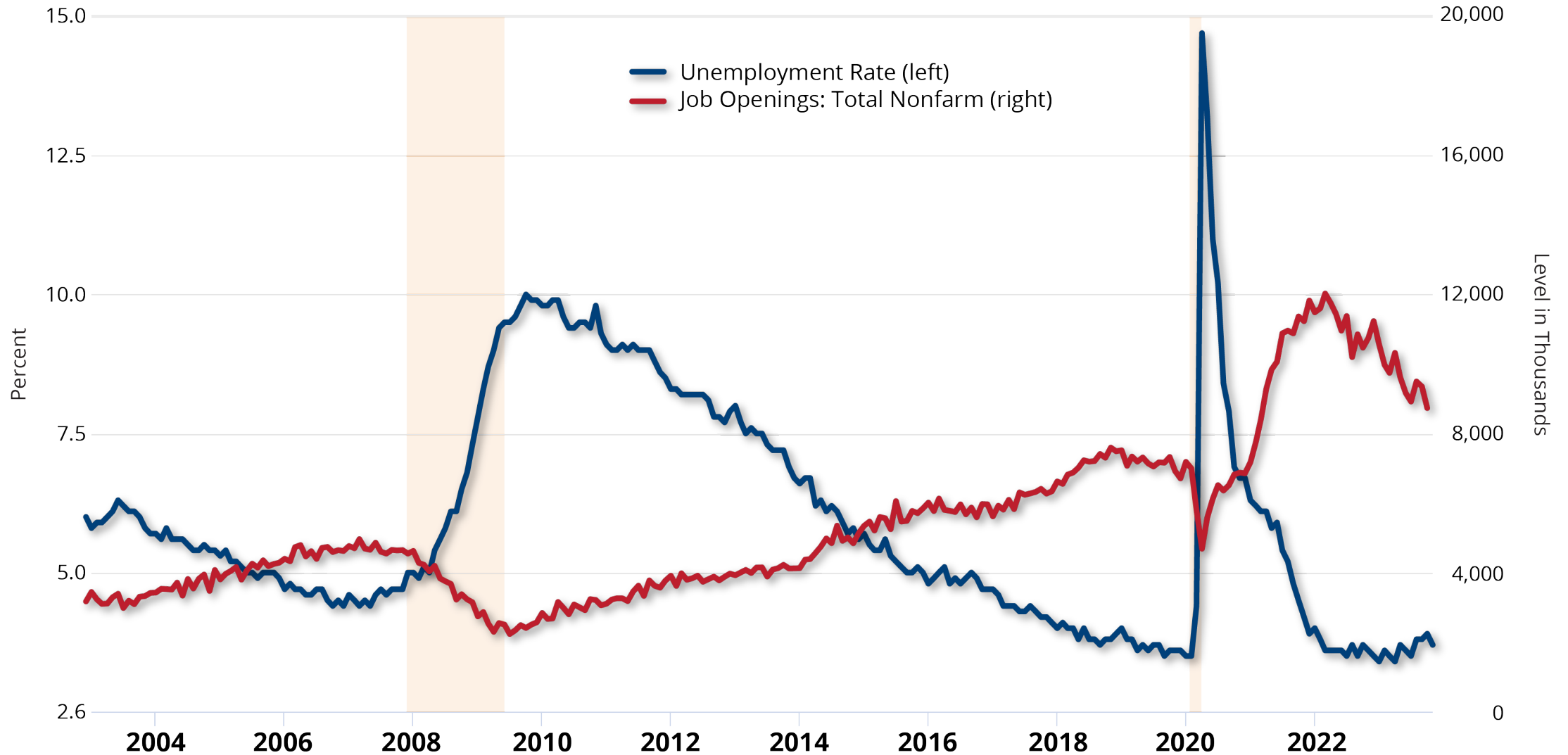
Sources: BEA; Atlanta Fed; fred.stlouisfed.org



Low unemployment and plenty of job openings

Unemployment Rate vs Non-farm Job Openings

1/1/2001 to 11/01/2023



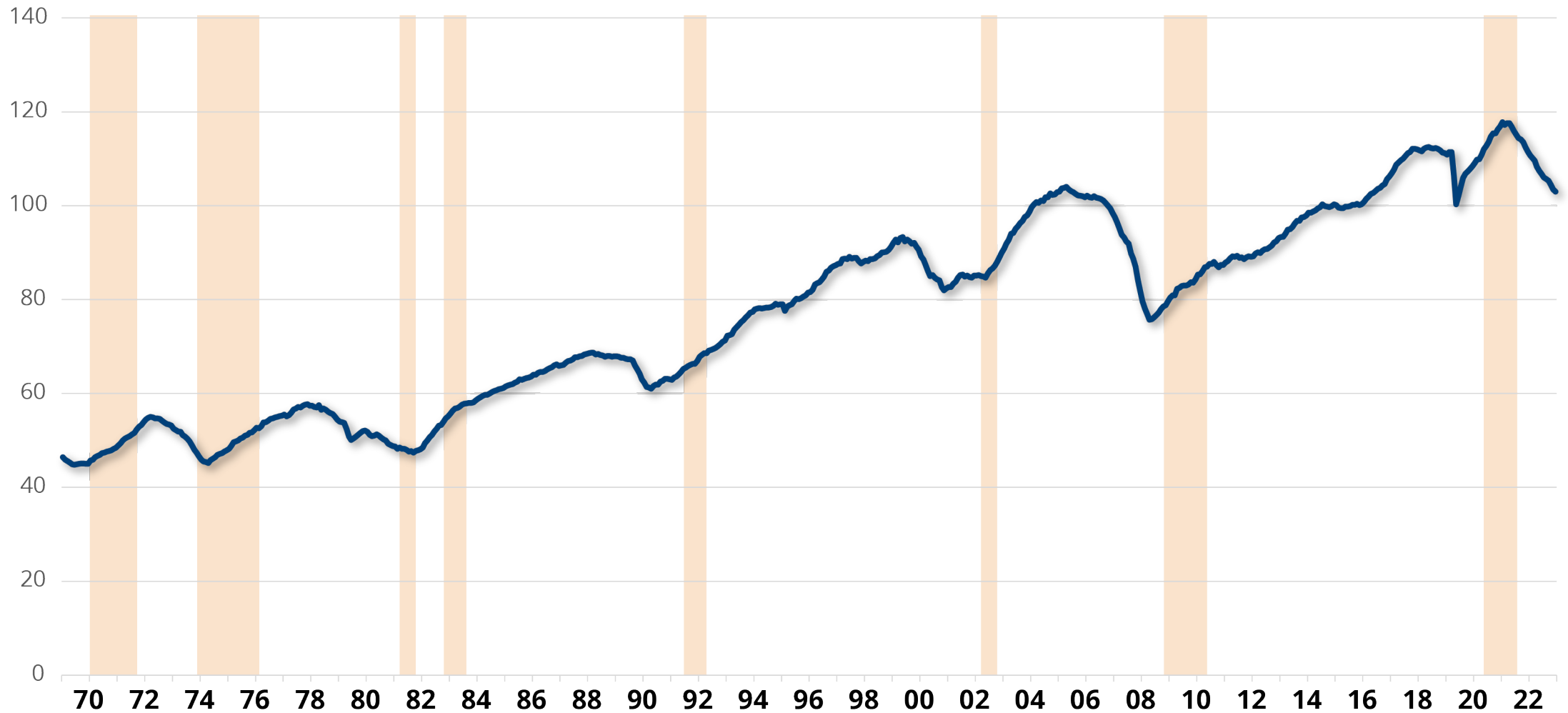
For illustrative purposes only. Past performance is not indicative of future results.

Source: fred.stlouisfed.org

Some storm clouds on the horizon

Leading Economic Indicators

12/31/1969 to 11/30/2023



For illustrative purposes only. Past performance is not indicative of future results.

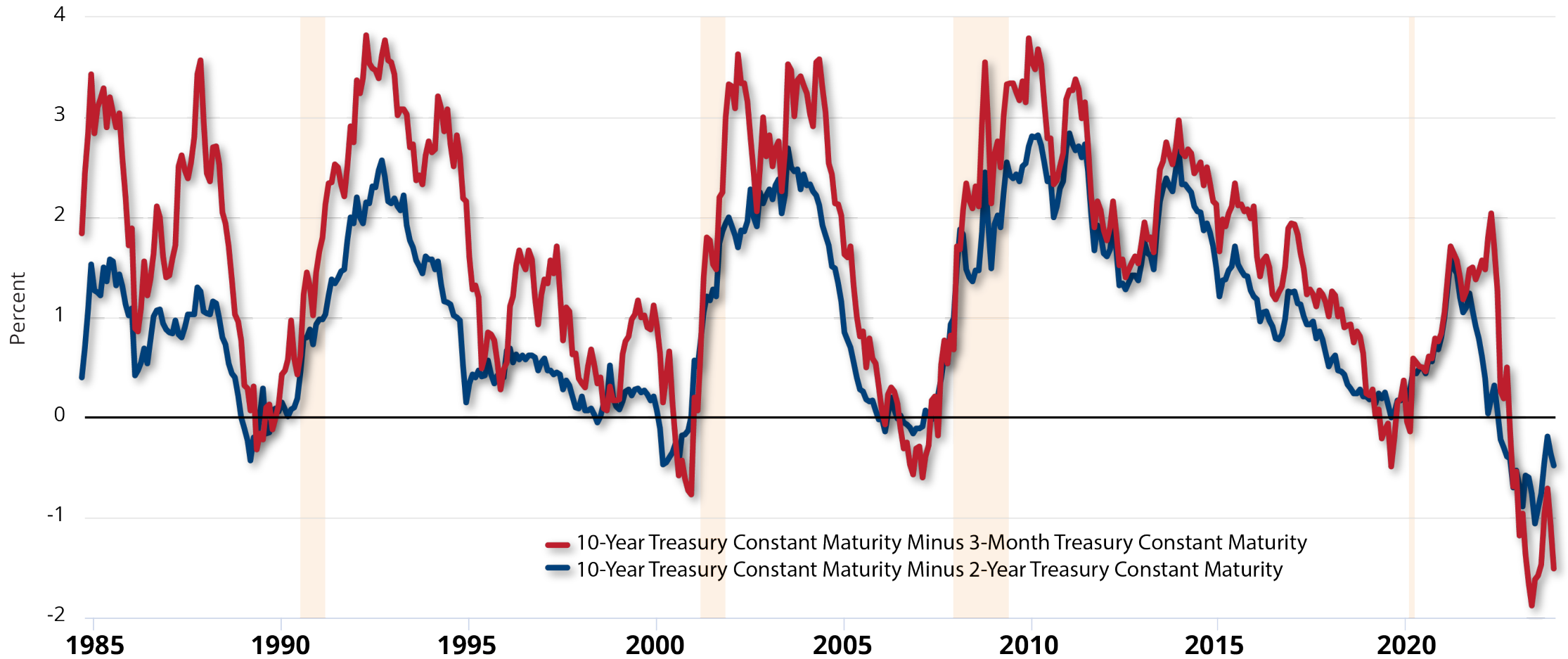
Source: Bloomberg



The yield curve remains inverted

10-Year Treasury Constant Maturity Minus 2-Year Treasury Constant Maturity
10-Year Treasury Constant Maturity Minus 3-Month Treasury Constant Maturity

01/01/1983 to 12/18/2023



Source: fred.stlouisfed.org

For illustrative purposes only. Past performance is not indicative of future results.



What Happens When the Yield Curve Normalizes?

Inversion Period	Deepest Point of Inversion			Yield Curve Normalizes (Reaches 100bps or peak spread)			Change in Yield from Depth of Inversion to Normalization		
	Date	2 yr Treasury	10 yr Treasury	Date	2 yr Treasury	10 yr Treasury	2 yr Treasury	10 yr Treasury	Number of Days
8/18/1978 to 5/2/1980	3/20/1980	15.03	12.62	5/23/1980	8.73	9.85	-630bps	-277bps	64
9/12/1980 to 10/26/1981	5/21/1981	15.75	14.05	11/24/1981	12.15	13.13	-360bps	-92bps	187
1/20/1982 to 7/19/1982	2/18/1982	14.99	14.28	1/6/1983	9.39	10.39	-560bps	-389bps	322
12/13/1988 to 3/20/1990	3/30/1989	9.79	9.34	1/8/1991	7.15	8.16	-264bps	-118bps	649
6/9/1998 to 7/28/1998	6/25/1998	5.53	5.46	10/13/1998	4.13	4.73	-140bps	-73bps	110
2/2/2000 to 12/29/2000	4/7/2000	6.38	5.86	4/20/2001	4.26	5.29	-212bps	-57bps	378
6/8/2006 to 6/7/2007	11/16/2006	4.85	4.66	11/12/2007	2.99	4.00	-186bps	-66bps	361
8/27/2019 to 9/4/2019	8/24/2019	1.53	1.49	1/29/2021	0.11	1.11	-142bps	-38bps	524
	Average	9.23	8.47	Average	6.11	7.08	-312bps	-139bps	324
Current									
7/6/2022	7/3/2023	4.94	3.86	NA	NA	NA	NA	NA	NA

For illustrative purposes. Past performance is not indicative of future results. Investors cannot invest directly in an index and unmanaged index returns do not reflect any fees, expenses, or sales charges.



Timing NBER Recession Declarations

Recession Start Declared	S&P 500	Recession End Declared	S&P 500	Missed Return
06/08/2020	3232	07/19/2021	4258	31.74%
12/01/2008	816	09/20/2010	1143	40.00%
11/26/2001	1157	07/17/2003	982	-15.18%
04/25/1991	379	12/22/1992	440	16.10%
01/06/1982	119	07/08/1983	168	40.59%
06/03/1980	111	07/08/1981	128	16.12%
			Average	21.56%

For illustrative purposes. Past performance is not indicative of future results.



Is the U.S. Consumer healthy?

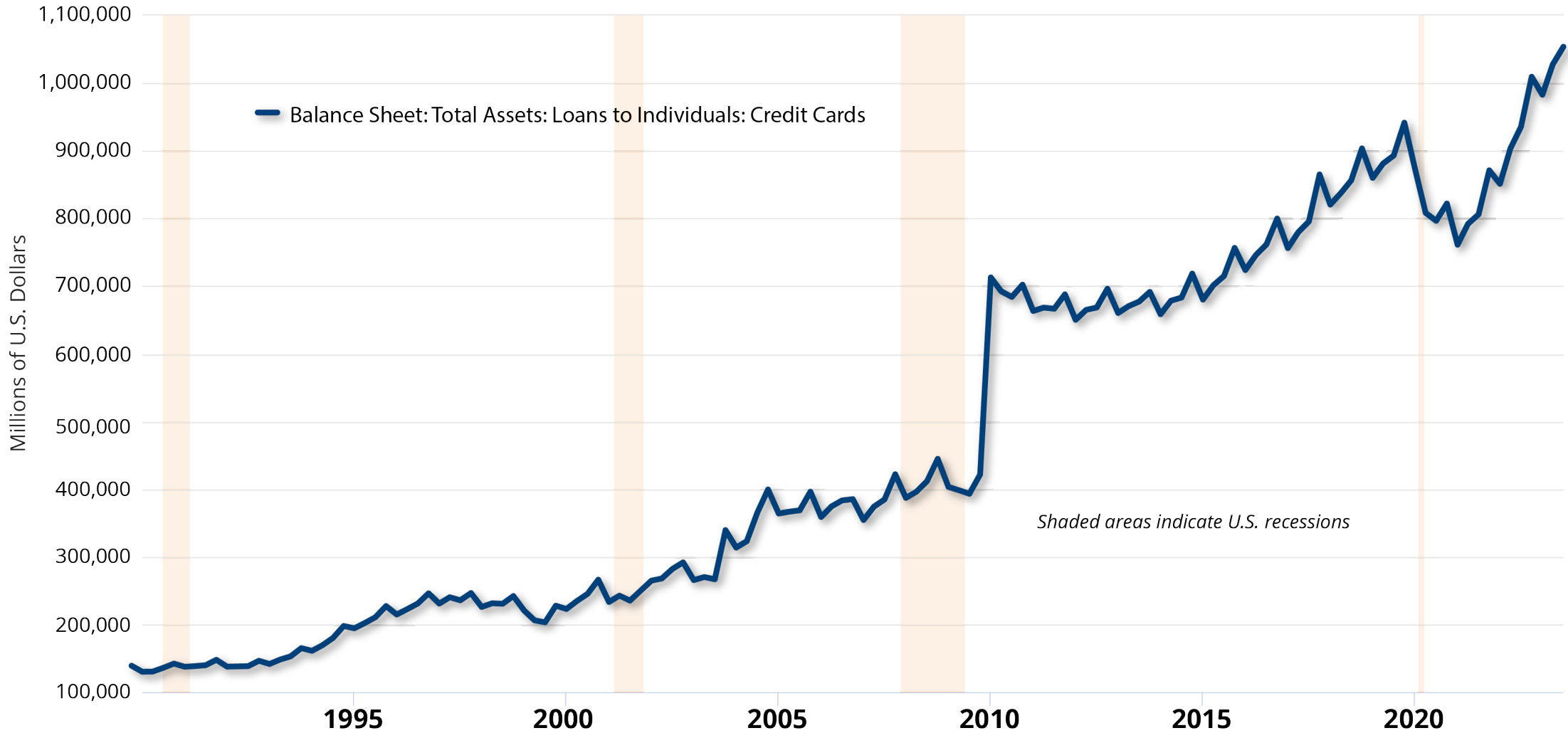
- Credit card debt exceeds one trillion
- Average credit card balance is ~\$6000
- Most people are paying off balances or making more than min payments
- Delinquency and charge-off rates are low
- Household wealth is rising again
- Consumers have equity in their homes



Credit card balances exceed one trillion..

Balance Sheet: Total Assets: Loans to Individuals: Credit Cards

1/31/1990 to 9/30/2023



Shaded areas indicate U.S. recessions

Source: fred.stlouisfed.org



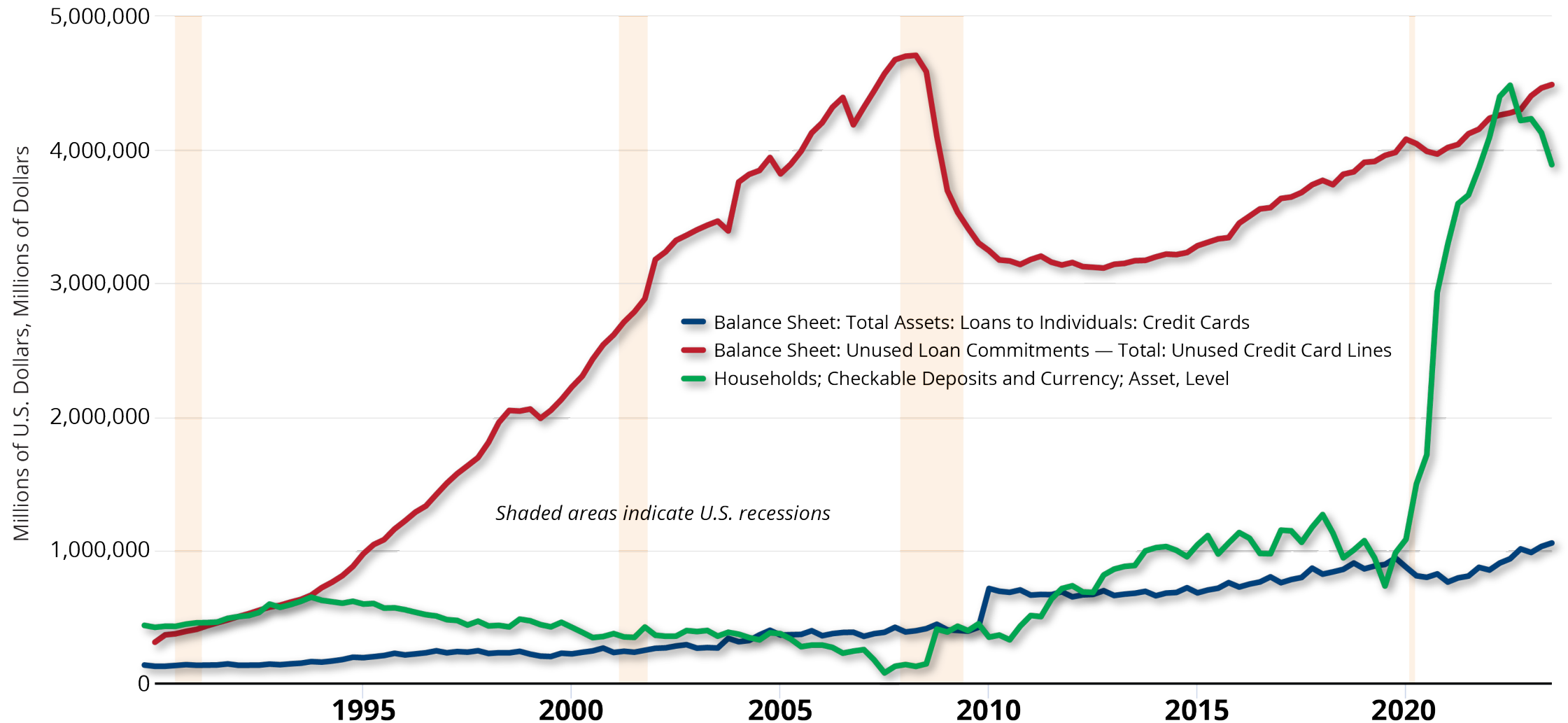
For illustrative purposes. Past performance is not indicative of future results.

Source: FRED Board of Governors of the Federal Reserve System

...but Consumers are not maxing out their cards and have savings

Credit Card Balance Sheets, Household Checkable Deposits

01/01/1990 to 09/30/2023



Shaded areas indicate U.S. recessions

Source: fred.stlouisfed.org

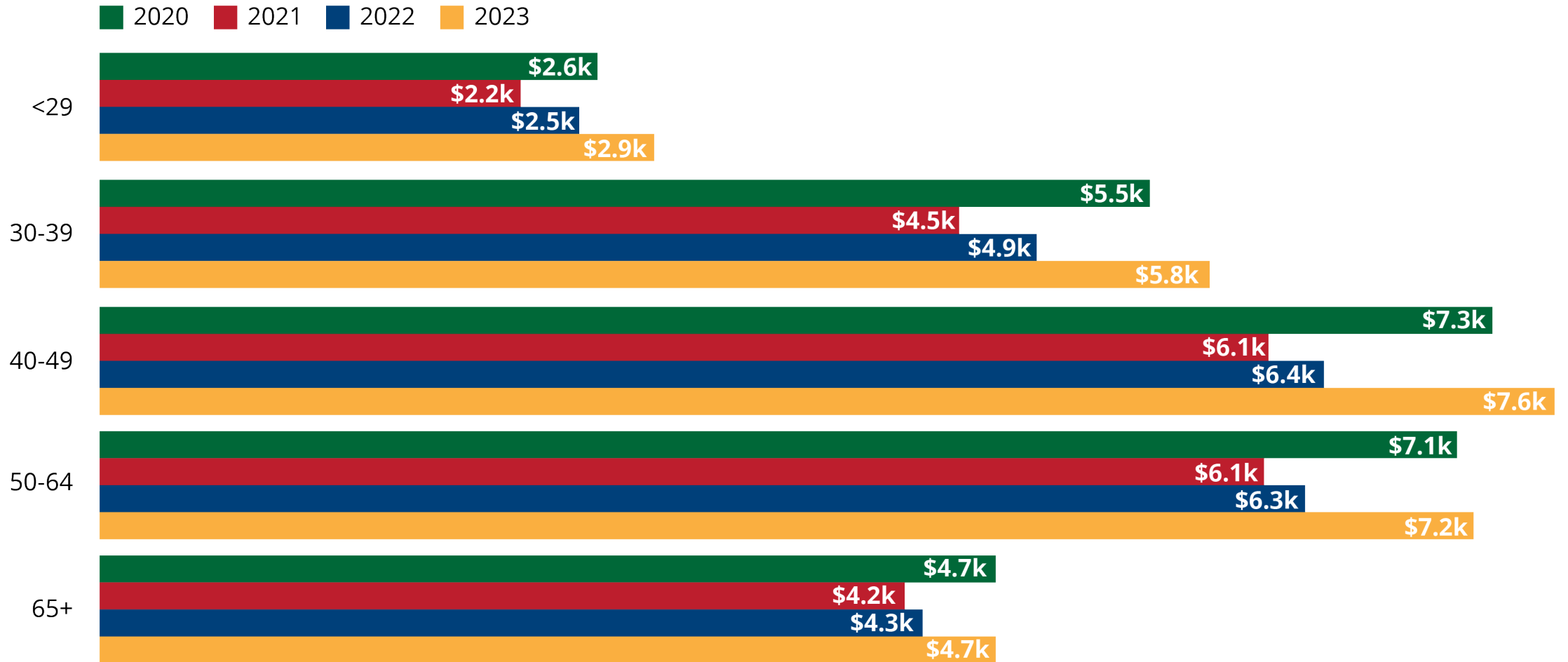
For illustrative purposes. Past performance is not indicative of future results.

Source: FRED Board of Governors of the Federal Reserve System



Average credit card by age: 2020-2023

Average Bankcard Balance Per Consumer in the First Quarter



Sources: Gabriel Cortes/CNBC, TransUnion

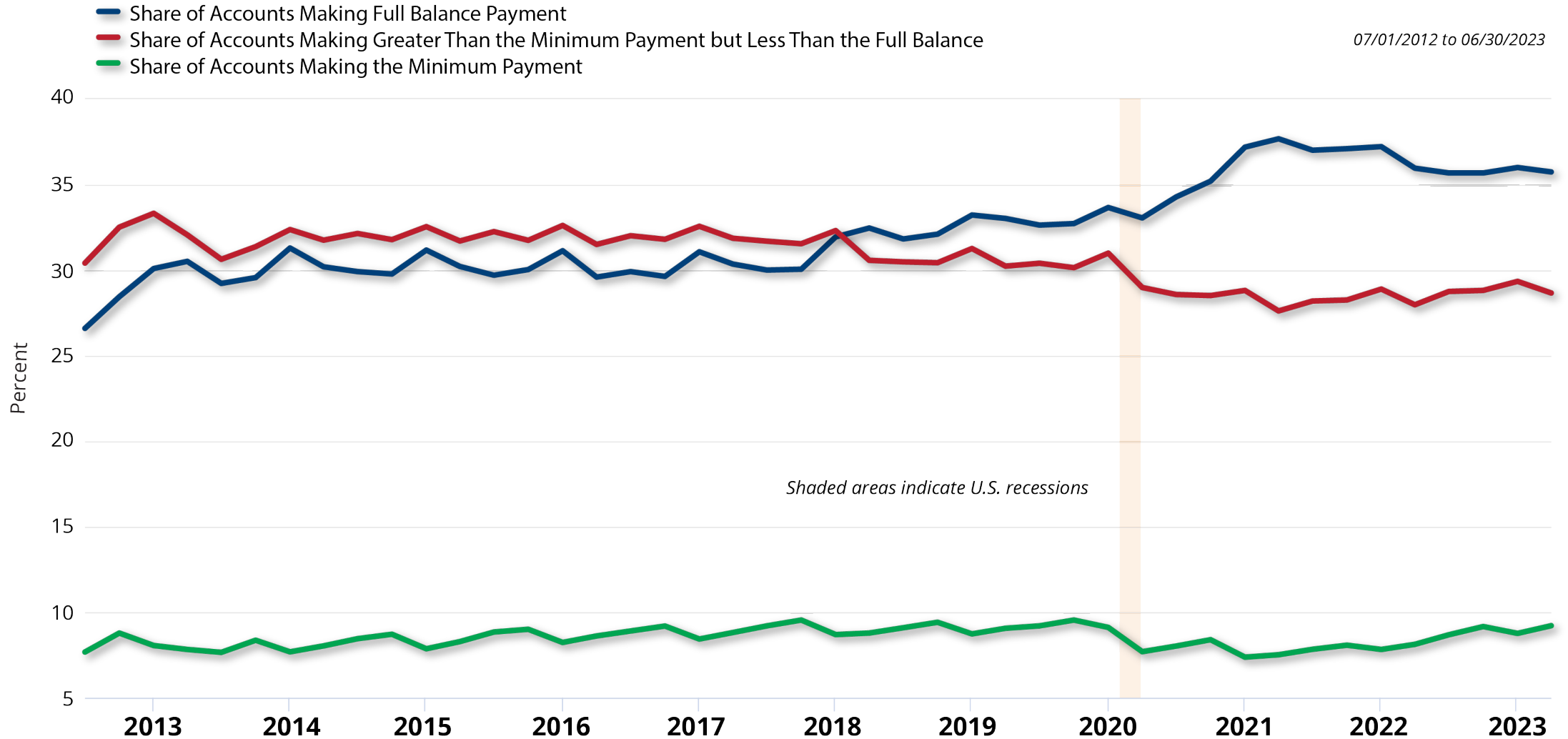


For illustrative purposes. Past performance is not indicative of future results.

Source: TransUnion, Gabriel Cortes, CNBC

Two thirds of consumers are making more than min payments or paying the full balance on their credit cards

Large Bank Consumer Credit Card Balances



Source: Federal Reserve Bank of Philadelphia, fred.stlouisfed.org

For illustrative purposes. Past performance is not indicative of future results.

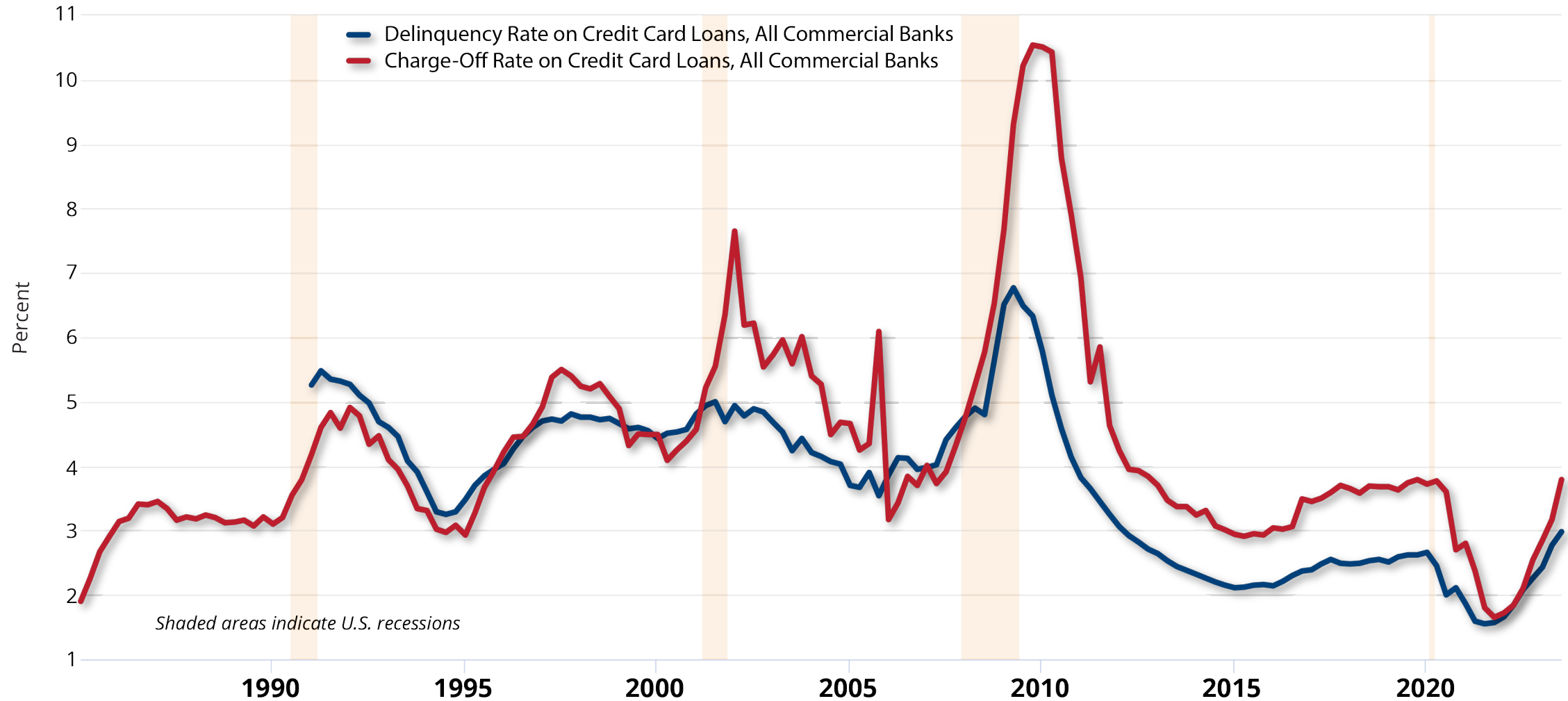
Source: FRED Board of Governors of the Federal Reserve System



Delinquency/Charge-Off rates returning to pre-pandemic levels

Delinquency Rate on Credit Card Loans, All Commercial Banks
Charge-Off Rate on Credit Card Loans, All Commercial Banks

01/01/1985 to 09/30/2023



Source: Fred.stlouisfed.org

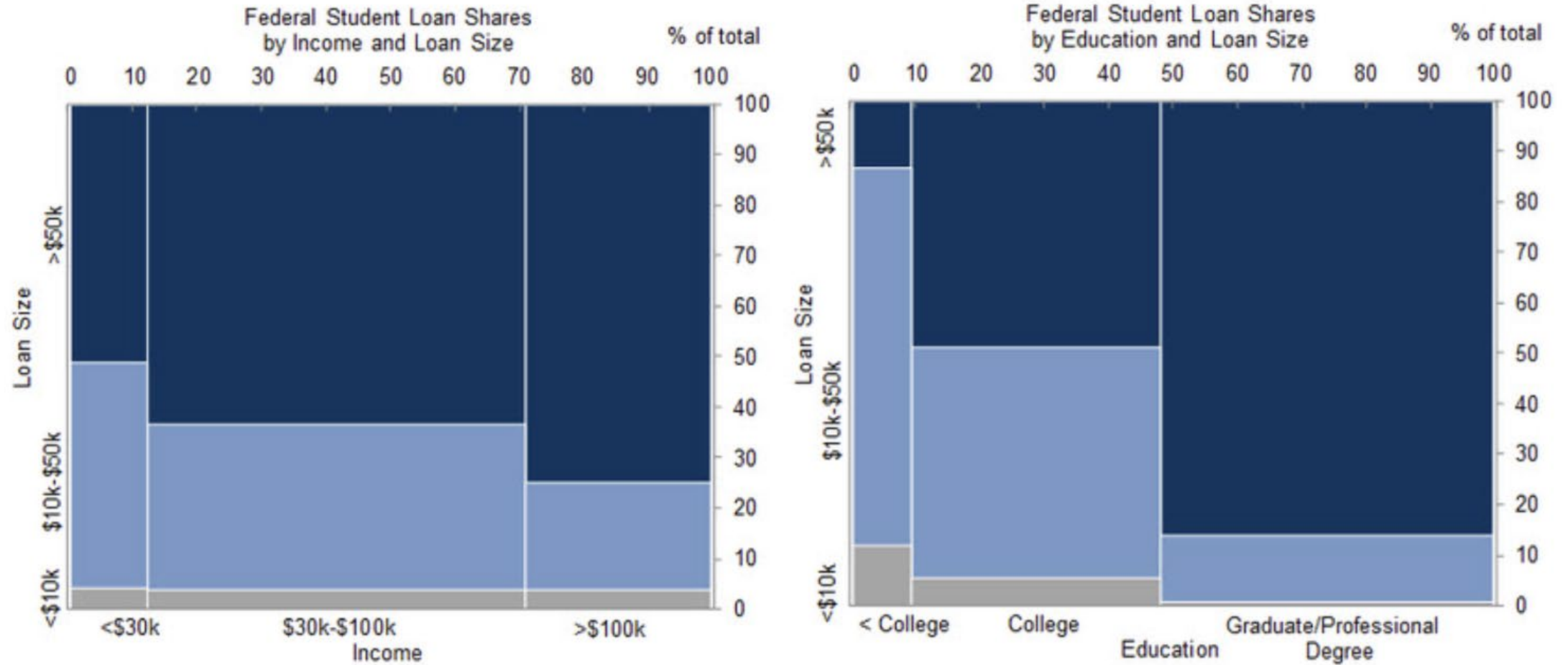
For illustrative purposes. Past performance is not indicative of future results.

Source: FRED Board of Governors of the Federal Reserve System



Student Debt by income and degree

Exhibit 2: Most Student Debt is Held by Middle- and Upper-Income Households With a Graduate or Professional Degree



Source: Federal Reserve Board

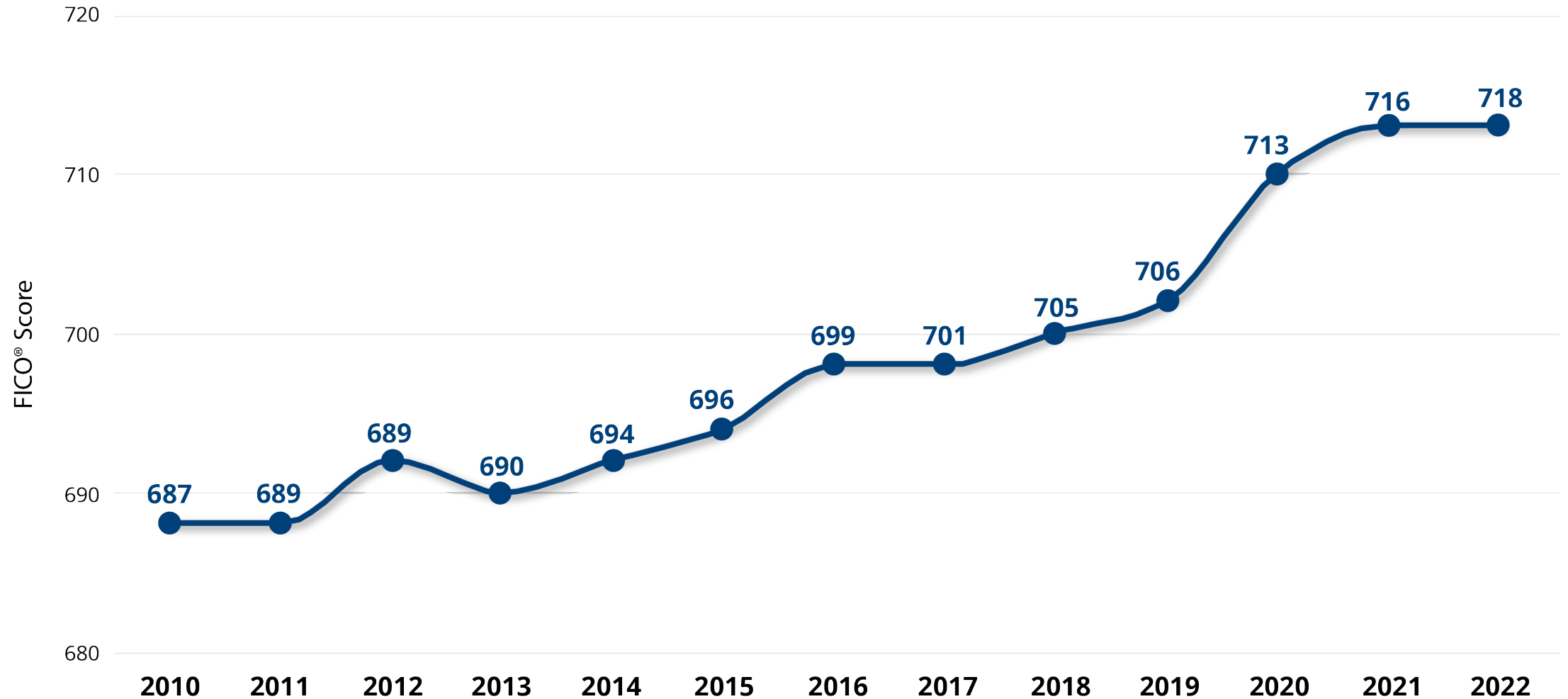
For illustrative purposes. Past performance is not indicative of future results.

Source: Federal Reserve Board

Average Credit Scores in the US have been increasing

Average FICA Score in the U.S. is 718

As of April 2023



Source: Experian.com

For illustrative purposes. Past performance is not indicative of future results.

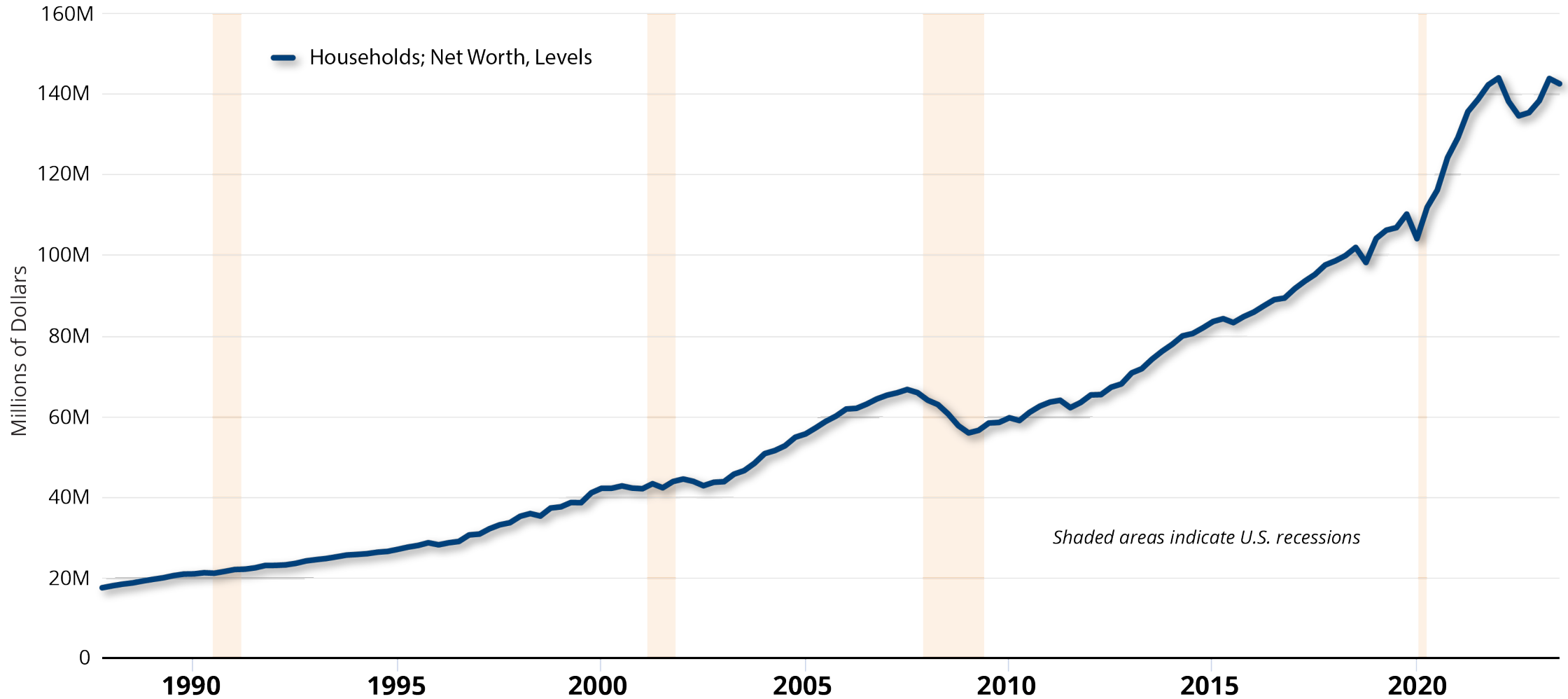
Source: Experian.com



Household Net Worth is on the rise again

Households; Net Worth, Levels

10/01/1987 to 09/30/2023



Shaded areas indicate U.S. recessions

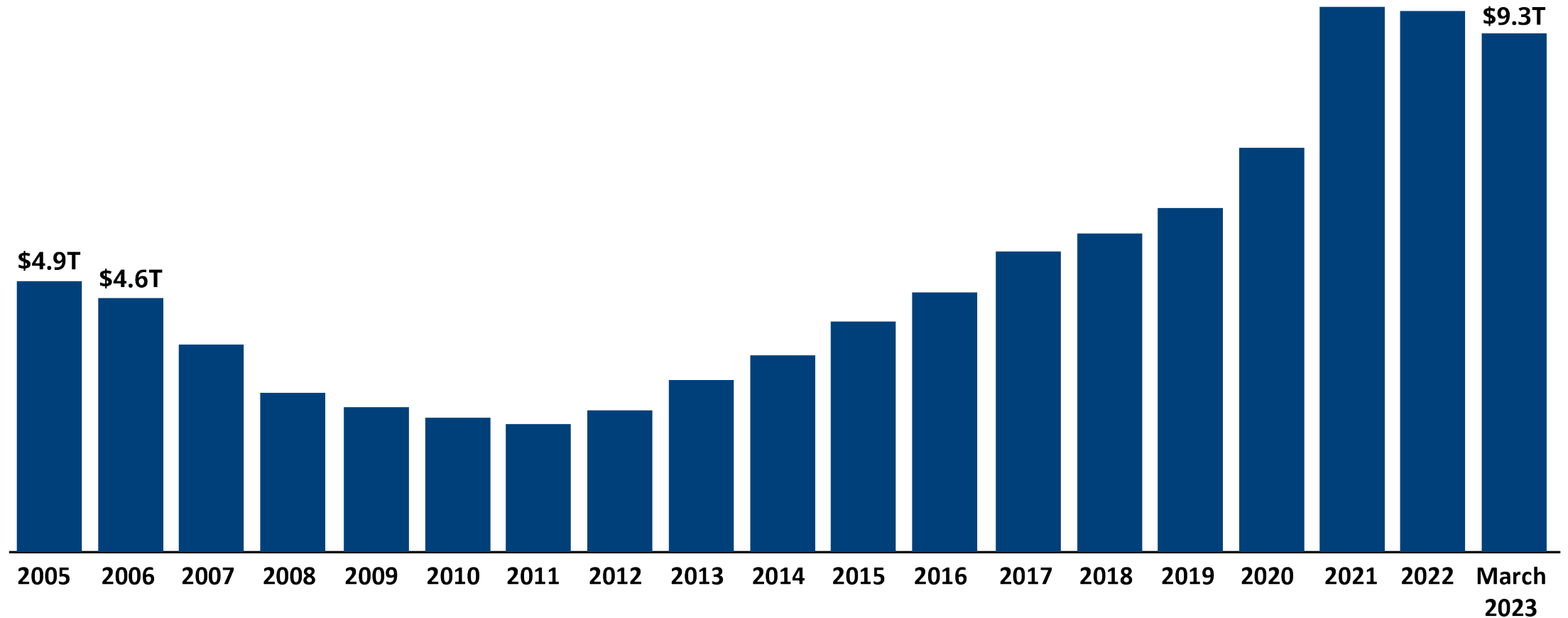
For illustrative purposes. Past performance is not indicative of future results.

Source: Fred.stlouisfed.org

Consumers have plenty of equity in their homes

Tappable Equity Still Near All-Time Highs

Amount of equity available for homeowners to access before hitting a maximum 80% combined LTV in trillions



Source: Black Knight



For illustrative purposes. Past performance is not indicative of future results.

Source: Black Knight

Is the National Debt a concern?

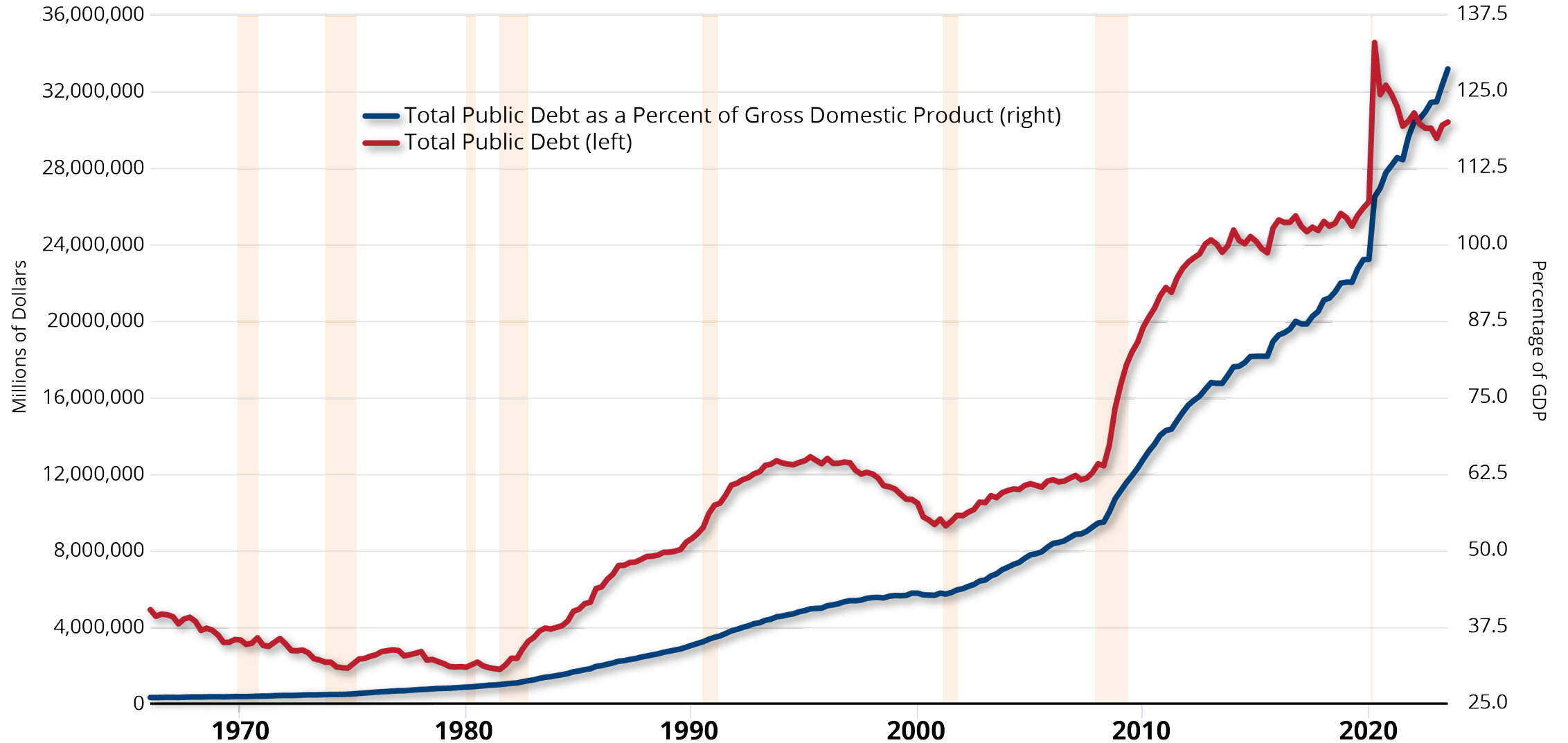
- National debt approaching \$34 trillion
- Debt to GDP ratio down from pandemic peak
- Low debt to GDP doesn't always equal prosperity
- Interest on the debt is \$1 trillion a year
- Interest payments as a percent of GDP are lower than the 1980s and 1990s
- Federal deficit/GDP is improving post pandemic



Level of Debt and Debt to GDP

Federal Debt

01/01/1966 to 09/30/2023



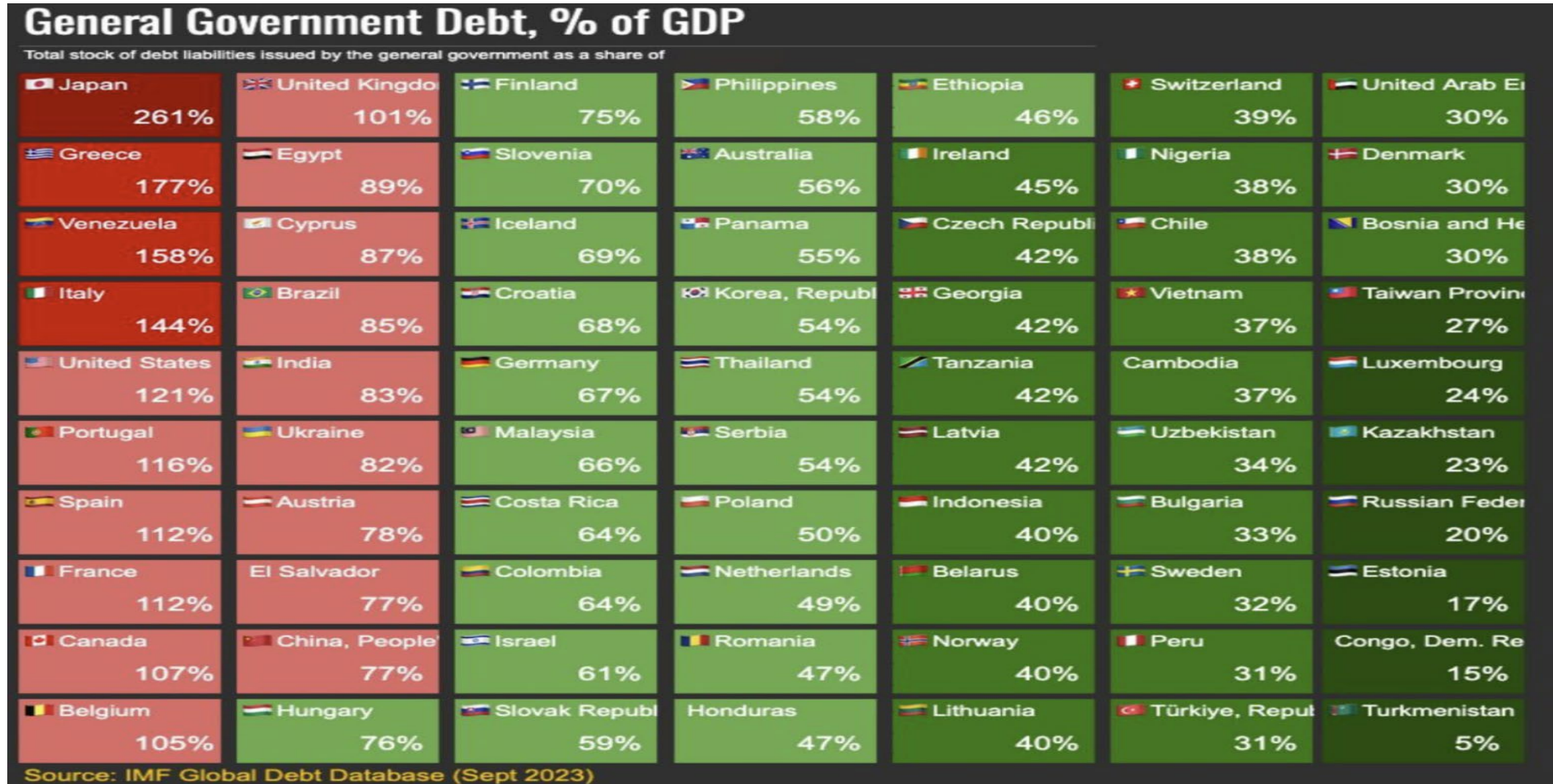
For illustrative purposes. Past performance is not indicative of future results.

Source: FRED Board of Governors of the Federal Reserve System

Source: [FRED.stlouisfed.org](https://fred.stlouisfed.org)



Debt to GDP across the World



For illustrative purposes. Past performance is not indicative of future results.

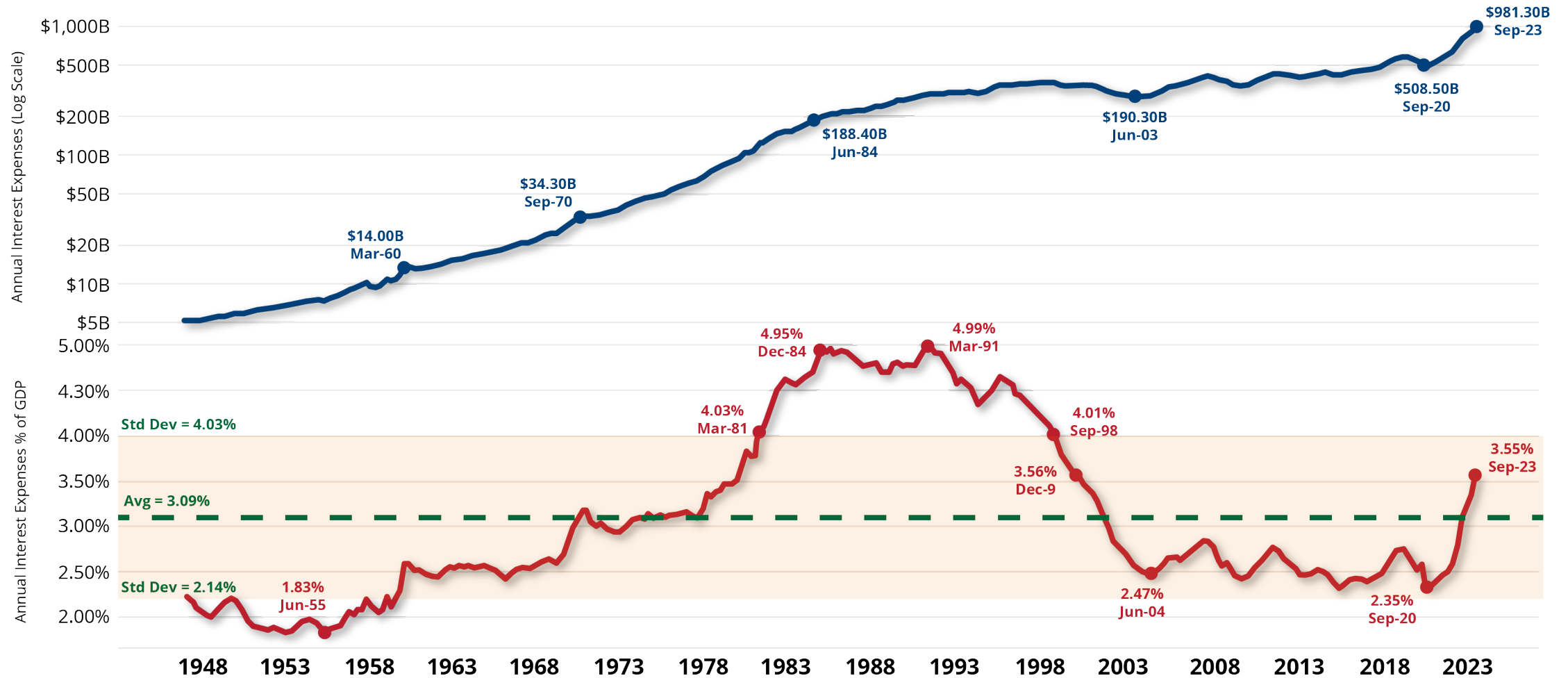
Source: FRED Board of Governors of the Federal Reserve System

Interest payments/GDP lower now than the 80s and 90s

How Much Interest Does the U.S. Treasury Pay on Its Debt in a Year?

Nominal Dollars and as Percentage GDP

01/01/1948 to 09/30/2023



Source: U.S. Treasury, BEA, Bianco Research

For illustrative purposes. Past performance is not indicative of future results.

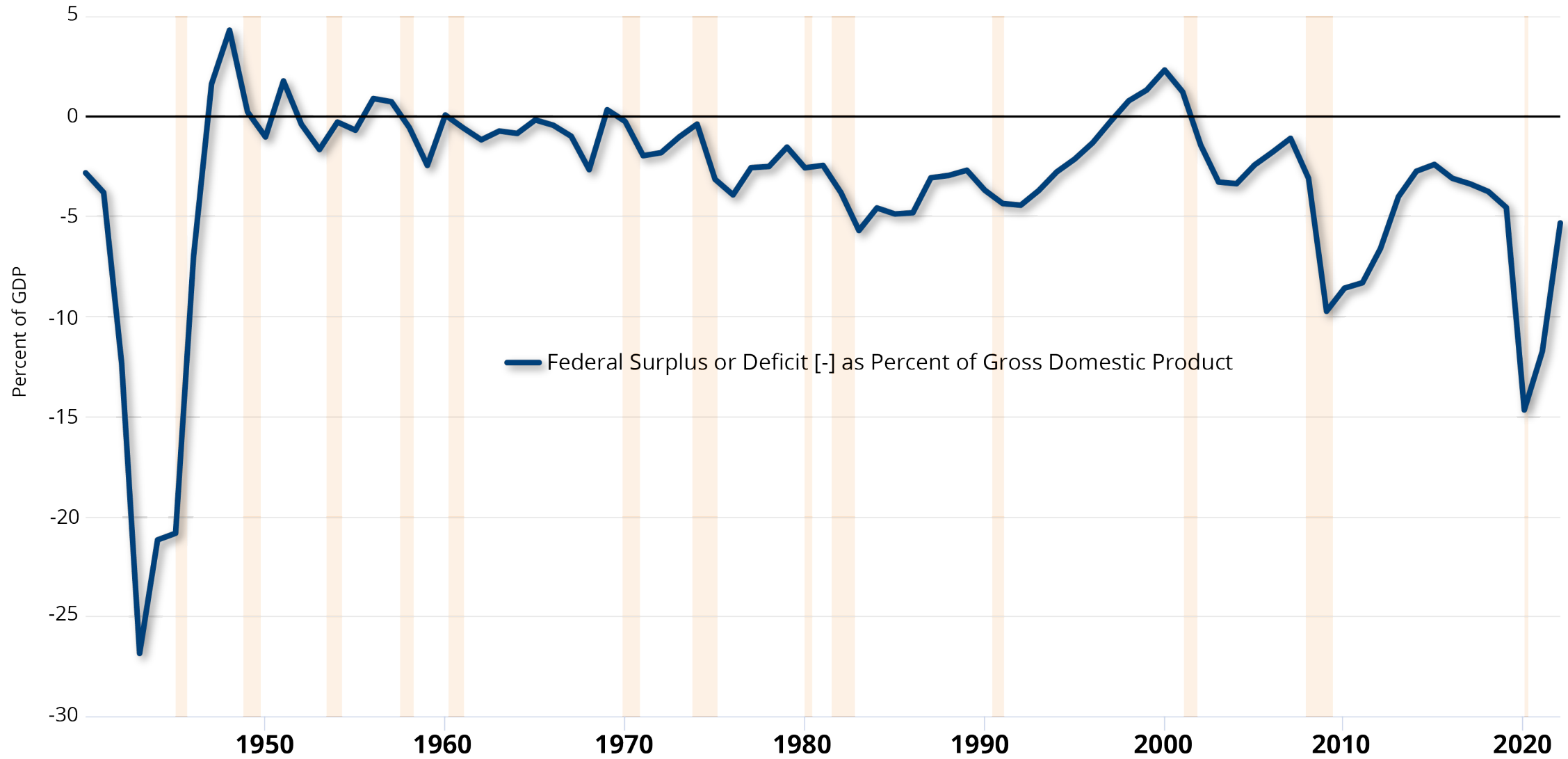
Source: U.S. Treasury, BEA, Bianco Research



Federal Deficit/GDP improving post Pandemic

Federal Surplus or Deficit as Percent of Gross Domestic Product

01/01/1940 to 09/30/2022



Federal Surplus or Deficit [-] as Percent of Gross Domestic Product

Source: FRED.stlouisfed.org

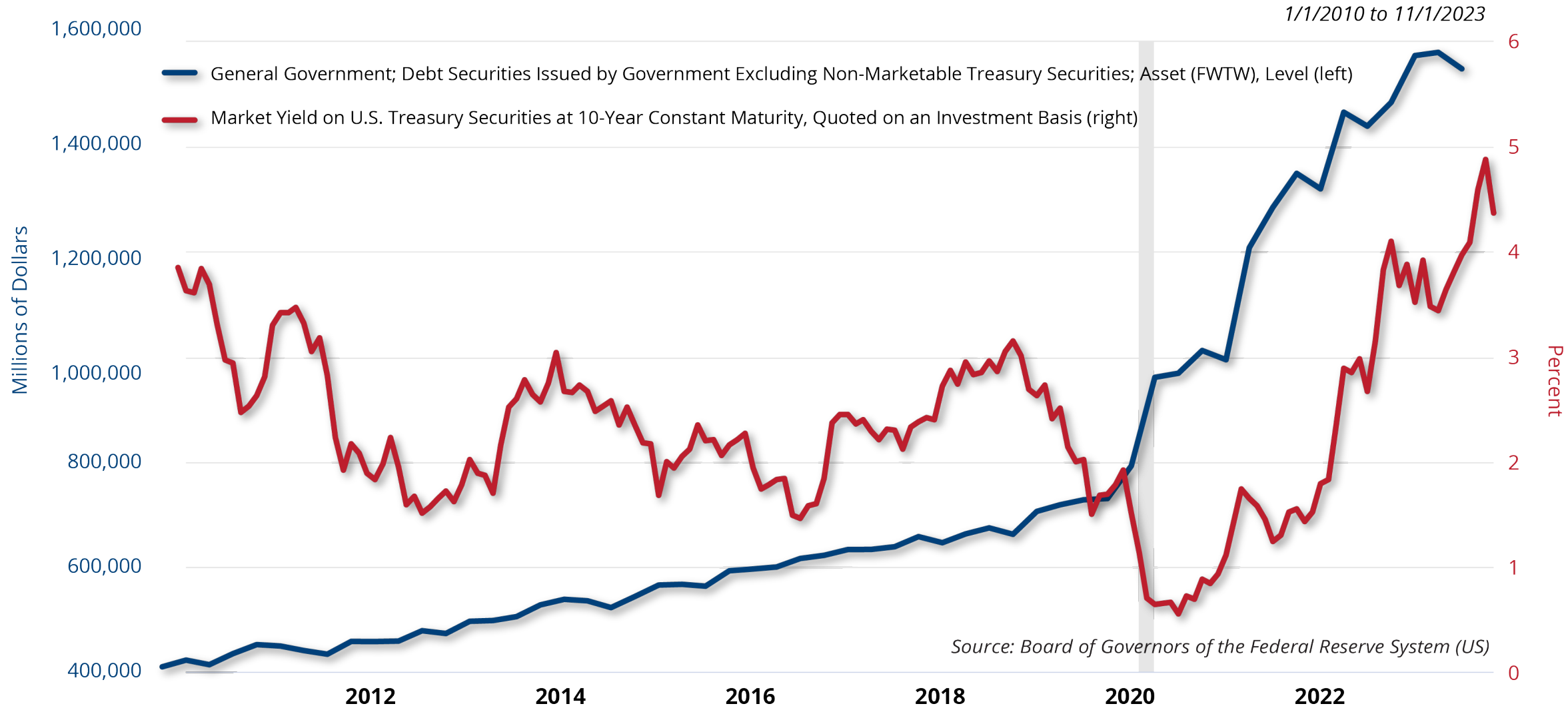
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Source: FRED Board of Governors of the Federal Reserve System



Debt Issuance Impacting Yields

General Government; Debt Securities vs. Market Yield on U.S. Treasury Securities



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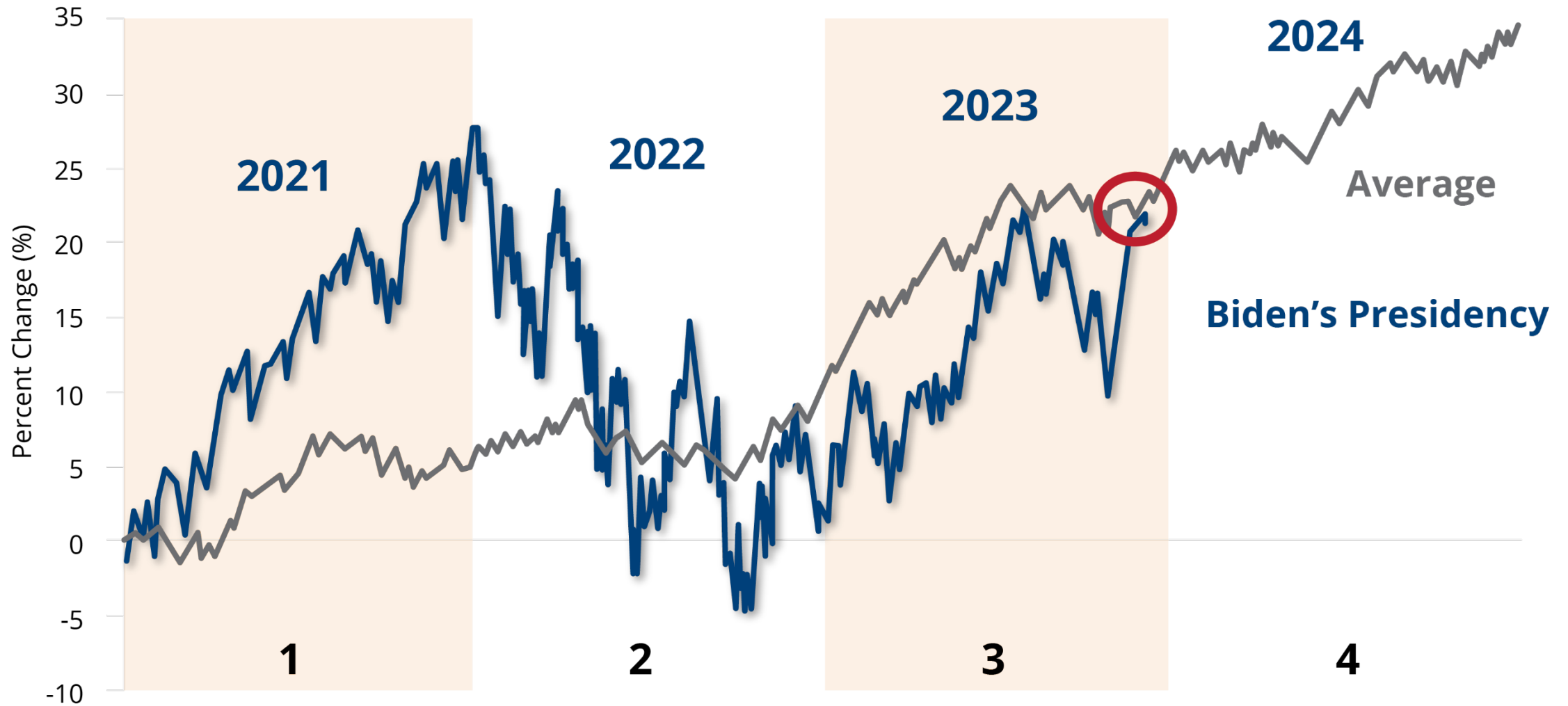
Source: FRED Board of Governors of the Federal Reserve System

How will the 2024 Election impact the Markets?



Current Presidential Cycle

S&P500 Four-Year Presidential Cycle 1928 — 2023



Source: Bespoke

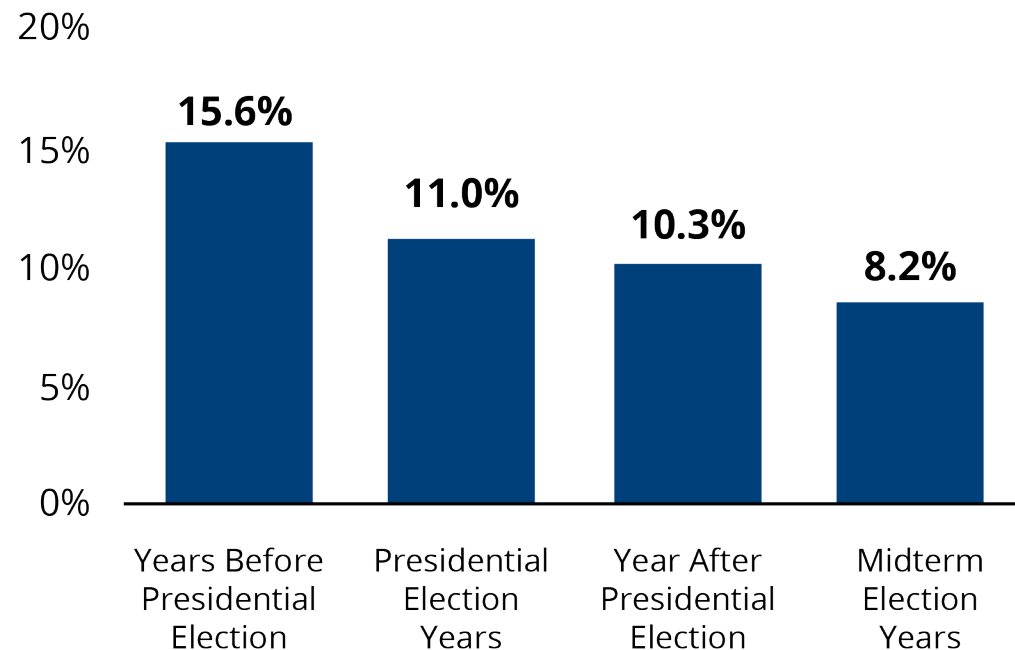
For illustrative purposes. Past performance is not indicative of future results. Neither past actual, projections, nor other forward looking statements regarding future financial performance of markets are only predictions and actual events or results may differ materially.



Presidential Election Years 1928-2020

S&P 500 +11 in Presidential Election Years (in line with average)

Average S&P 500 Total Returns by year, 1928-2020



Source: Bloomberg, BofA

Excluding 2008, average for Presidential Election Years" is 13.1% (still second highest)

The S&P 500 had positive returns in 83% of election years

S&P 500 Total Returns in Presidential Election Years

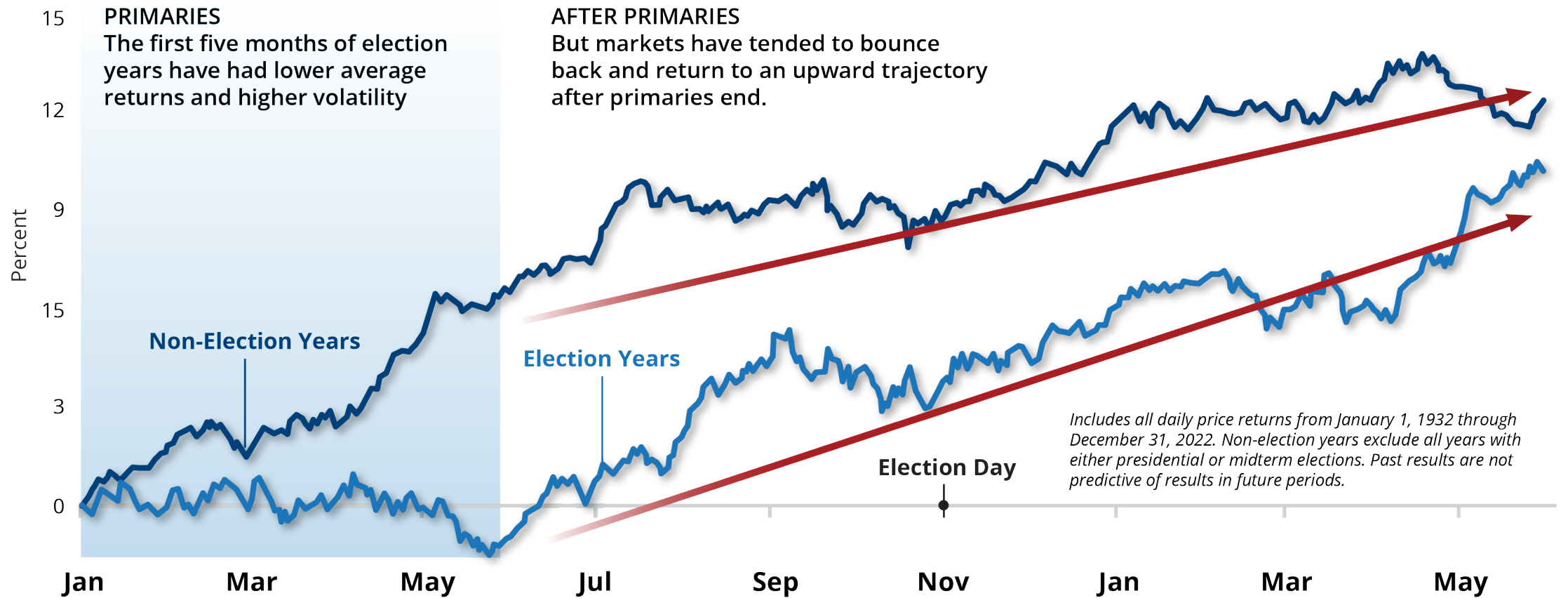
Election Year	Total Return	Election Year	Total Return
1928	38%	1976	24%
1932	-15%	1980	33%
1936	34%	1984	6%
1940	-10%	1988	17%
1944	20%	1992	8%
1948	5%	1996	23%
1952	18%	2000	-9%
1956	6%	2004	11%
1960	0%	2008	-27%
1964	16%	2012	16%
1968	11%	2016	12%
1972	19%	2020	18%

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Primary season tends to be volatile

S&P 500 Index Average Cumulative Returns Since 1932

01/01/1932 to 12/31/2022



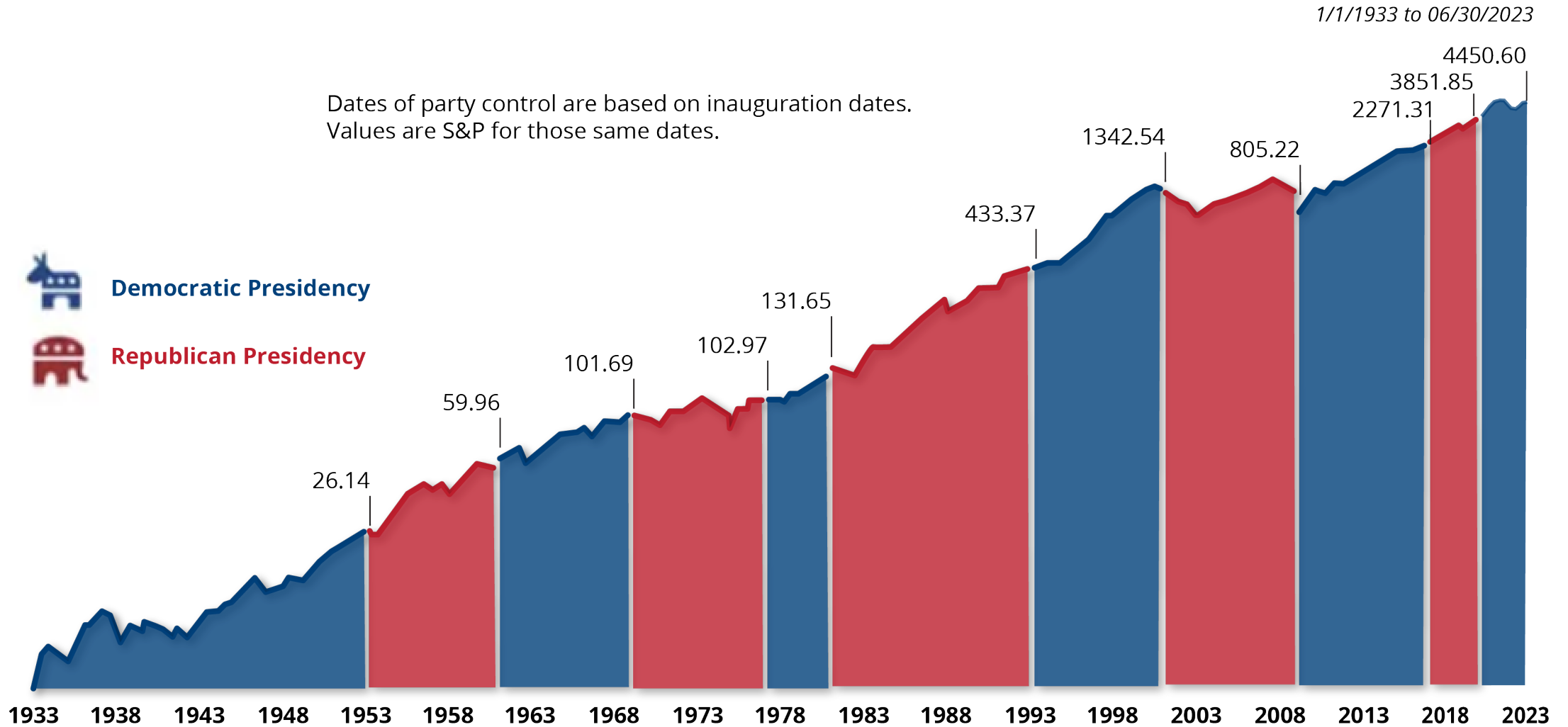
Sources: Capital Group, RIMES, Standard & Poor's

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Over Time Stocks Have Gone Up...Despite Washington!

S&P 500 Index Performance

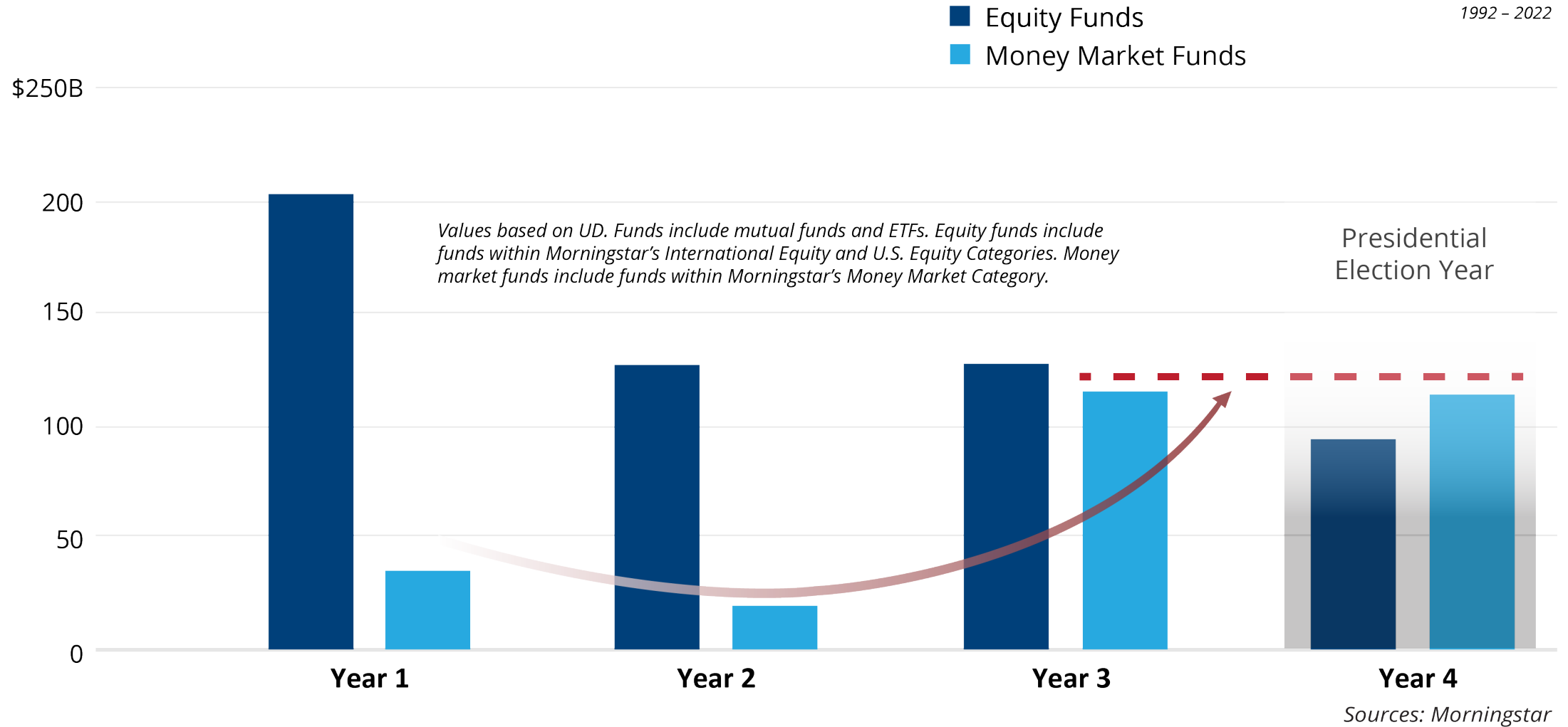


Source: Morningstar, Standard & Poor's, Financialsamurai.com

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Investors often make mistakes in election years

Average Net Flows by Year of Presidential Term



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Q&A



Disclosure

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Non-investment-grade debt securities (high-yield/junk bonds) may be subject to greater market fluctuations, risk of default or loss of income and principal than higher-rated securities.

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Benchmark Descriptions

The S&P 500 measures the performance of the 500 leading companies in leading industries of the U.S. economy, capturing 80% of U.S. equities.

References to market or composite indices, benchmarks or other measures of relative market performance over a specified period of time (each, an “index”) are provided for your information only. Reference to an index does not imply that the portfolio will achieve returns, volatility or other results similar to that index. The composition of the index may not reflect the manner in which a portfolio is constructed in relation to expected or achieved returns, portfolio guidelines, restrictions, sectors, correlations, concentrations, volatility or tracking error targets, all of which are subject to change. Investors cannot invest directly in an index.

The 2-Year Treasury Rate is the yield received for investing in a US government issued treasury security that has a maturity of two years. The 2-year treasury yield is included on the shorter end of the yield curve and is important when looking at the overall US economy.

The 10-year Treasury yield is closely watched as an indicator of broader investor confidence. Because Treasury bills, notes, and bonds carry the full backing of the U.S. government, they are viewed as one of the safest investments.

A leading indicator is a measurable set of data that may help to forecast future economic activity. Leading economic indicators can be used to predict changes in the economy before the economy begins to shift in a particular direction. They have the potential to be useful for businesses,

investors, and policy makers.

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.

The volatility (beta) of an account may be greater or less than its respective benchmark.

Gross domestic product (GDP) is the monetary value of all finished goods and services made within a country during a specific period. GDP provides an economic snapshot of a country, used to estimate the size of an economy and growth rate.

The Dow Jones Industrial Average is the most widely used indicator of the overall condition of the stock market, a price-weighted average of 30 actively traded blue chip stocks, primarily industrials. The 30 stocks are chosen by the editors of the Wall Street Journal (which is published by Dow Jones & Company), a practice that dates back to the beginning of the century. The Dow is computed using a price-weighted indexing system, rather than the more common market cap-weighted indexing system.

