

# NAVIGATING THE MARKETS

The *Portfolio Compass* provides a snapshot of LPL Financial Research's views on equity, equity sectors, fixed income, and alternative asset classes. This monthly publication illustrates our current views and will change as needed over a 3- to 12-month time horizon.

The top down is an important part of our asset allocation process. As a result, we have a new macro section including our views of the global economy and key drivers of those views, and a section on what we are watching that might change those views.

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## COMPASS CHANGES

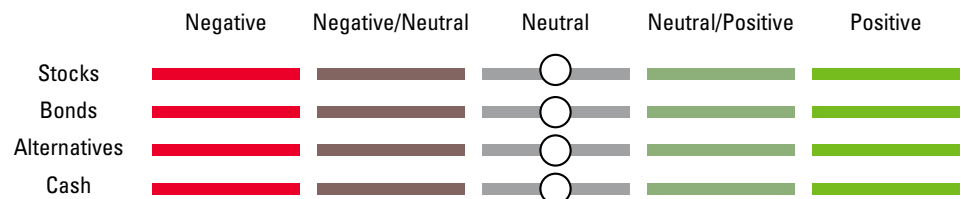
- Downgraded telecom to negative/neutral from neutral.
- Added real estate to equity sectors (page 6) and removed REITs from equity asset classes (page 5).
- Upgraded mortgage-backed securities and bank loans to neutral/positive from neutral.

## INVESTMENT TAKEAWAYS

- We continue to expect mid-single-digit stock market gains in 2016, consistent with mid-to-late cycle performance and driven by a second half earnings rebound.\*
- Technical deterioration coupled with a sluggish growth outlook drives our lowered telecom sector view.
- Its addition as the 11th S&P sector should help real estate's outlook, along with job gains and an expected go-slow approach to rate hikes for the Federal Reserve (Fed).
- Expected gradual Fed rate hikes and slow economic growth are supportive of bonds in the near term.
- For fixed income allocations, we emphasize a blend of high-quality intermediate bonds and a small allocation to less interest rate-sensitive sectors such as bank loans or high-yield bonds for suitable investors.
- From a technical perspective, the S&P 500 price continues to operate above its 200-day simple moving average, which increases the likelihood that the intermediate- to long-term bullish trend is sustained.

## BROAD ASSET CLASS VIEWS

LPL Financial Research's views on stocks, bonds, cash, and alternatives are illustrated below.



All performance referenced herein is as of September 20, 2016, unless otherwise noted.

\*As noted in our *Midyear Outlook 2016* publication, we believe the conditions are in place for a solid earnings rebound during the second half of 2016, due to the easing drags from the U.S. dollar and oil, coupled with minimal wage pressures. A slight increase in price-to-earnings ratios (PE) above 16.6 is possible as market participants gain greater clarity on the U.S. election and the U.K.'s relationship with Europe, and begin to price in earnings growth in 2017. Following several quarters of earnings declines, a turnaround in growth should support our forecast for mid-single-digit gains for stocks in 2016.

## MACROECONOMIC VIEWS

	Economic Factor	Outlook	Investing Impact
ECONOMY	<b>U.S. GDP Growth</b>	We expect near-trend 2–2.5% GDP growth in 2016.*	Absence of a recession would likely support equity markets.
	<b>Consumer Spending</b>	Still low oil prices, home price gains, labor market should help.	Supports consumer cyclicals.
	<b>Business Spending</b>	Priorities slowly shifting toward investment.	Industrials (outside oil-sensitive areas), technology most likely to benefit.
	<b>Housing</b>	Tight supply, years of underbuilding may help but consumers are still cautious.	A stronger turnaround could support housing/financials stocks.
	<b>Import/Export</b>	Dollar impact subsiding; service sectors and oil independence help trade imbalance.	Potentially supports technology, business services.
	<b>Labor Market</b>	Steadily improving overall. Early signs of wage pressure in a few fields.	May put modest pressure on margins.
	<b>Inflation</b>	Wages, economic growth point to normalization once commodities stabilize.	Interest rates likely to rise but process will be gradual.
	<b>Business Cycle</b>	Still mid-cycle but may have moved into latter half.	Equity markets may have room to run, but expect more volatility.
	<b>Dollar</b>	Dollar still strong but stabilization may mute further impact.	Drag on U.S. profits starting to fade.
	<b>Global GDP Growth</b>	Potential modest improvement in 2016 overseas ex-China.	May support multinational technology and industrials, global diversification.
POLICY	<b>Fiscal</b>	Possibility of fiscal stimulus at home and abroad is increasing.	May provide a welcome economic lift, but government debt still a potential long-term headwind.
	<b>Monetary</b>	Market adjusting to possibility of an additional rate hike by year-end.	Interest rates may be a modest headwind for quality bonds.
	<b>Government</b>	Increased uncertainty around unusual election cycle.	May contribute to volatility; creates some global trade concerns.
RISKS	<b>Financial</b>	Brexit has had minimal impact on financial condition thus far.	Higher volatility would still be normal for this point in business cycle.
	<b>Geopolitical &amp; Other</b>	Monitoring Chinese economy, Russia, Islamic State.	May contribute to higher stock volatility.
OVERSEAS	<b>Developed Overseas</b>	Monetary policy supportive, but Brexit increases uncertainty in Europe.	May increase currency volatility; likely favors U.S. equities.
	<b>Emerging Markets</b>	Oil rebound, better policy mix in China providing some relief.	Faster growth ex-China may help lift low valuations.
FINANCIAL CONDITIONS	<b>Corporate Profits</b>	Expect earnings growth to potentially accelerate in second half of 2016.	May be supportive of modest stock market gains.
	<b>Main Street</b>	Fed Beige Book depicts optimistic economic outlook despite below-trend growth.	Supportive of rebound in cyclical sectors.

Source: LPL Research, U.S. Department of Energy, Haver Analytics 09/20/16

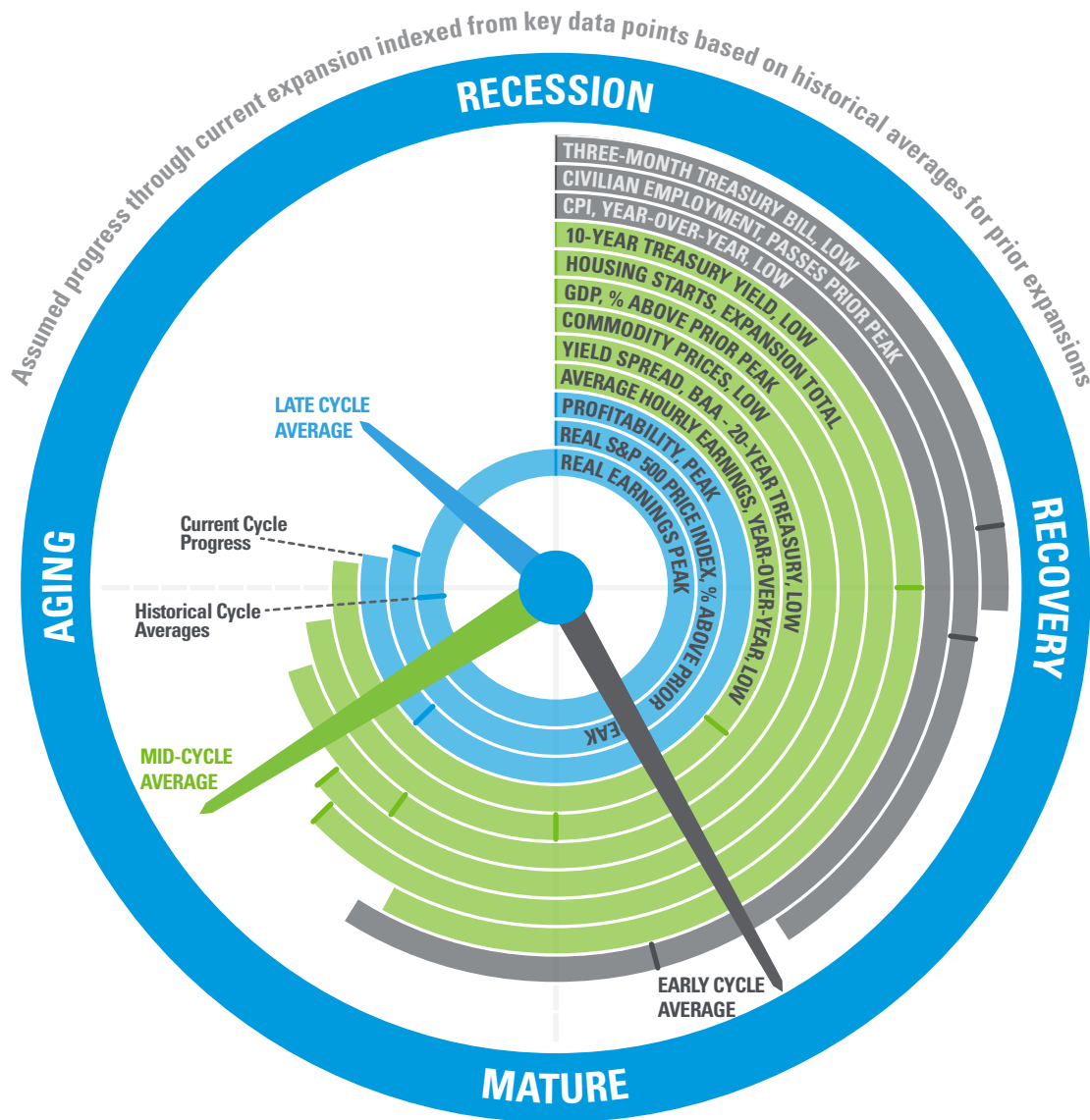
\*Our forecast for GDP growth of between 2.5–3% is based on the historical mid-cycle growth rate of the last 50 years. Economic growth is affected by changes to inputs such as: business and consumer spending, housing, net exports, capital investments, and government spending.

The opinions voiced in this material are for general information only and are not intended to provide or be construed as providing specific investment advice or recommendations for your clients. Any economic forecasts set forth in the presentation may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

## WHAT WE'RE WATCHING

The Cycle Clock suggests we are in the mid-to-late stage of the current expansion, but we are still seeing some early cycle and late cycle behavior. Extended loose monetary policy, inflation, and employment growth are still exhibiting early cycle behavior, while some items relating to corporate profits are showing late cycle behavior, although they may be reset if profits improve.

*"What We're Watching"* features indicators that are keys to the current LPL Research macroeconomic outlook. Economic and market dynamics will dictate featured topics and their durability.



Sources: LPL Research, Federal Reserve, U.S. Bureau of Economic Analysis (BEA), U.S. Bureau of Labor Statistics, U.S. Bureau of the Census, Standard and Poor's, Robert Shiller, National Bureau of Economic Research, Haver Analytics 09/20/16

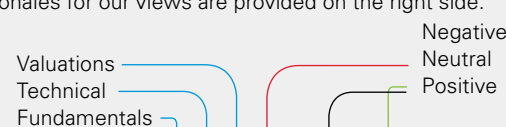
Data for all series are as of September 20, 2016. Starting point for all series is June 1954 except housing starts (March 1961), hourly earnings (December 1970), and commodity prices (December 1970). Real prices and real earnings determined using the Consumer Price Index for all urban consumers (CPI-U). Commodity prices are based on the GSCI Total Return Index. Profitability is based on real profit per unit value added for non-financial corporate business based on current production as calculated by the BEA.

## ASSET CLASS & SECTOR TOP PICKS

Below we provide our top overall ideas across the various asset classes and sectors covered in this publication, as well as our best ideas within the three disciplines of our investment process: fundamentals, technicals, and valuations. More details on these and other investment ideas can be found in subsequent pages.

Characteristics	EQUITY ASSET CLASSES	EQUITY SECTORS	FIXED INCOME	Characteristics	ALTERNATIVE ASSET CLASSES
<b>BEST OVERALL IDEAS</b>	U.S. Stocks Large Growth Emerging Markets (EM)	Healthcare Technology	Investment-Grade Corporates Mortgage-Backed Securities (MBS) Bank Loans	<b>BEST OVERALL IDEAS</b>	Long/Short Equity
<b>Fundamentals</b>	U.S. Stocks Large Growth	Healthcare Technology	Municipal Bonds Treasuries Bank Loans	<b>Catalysts</b>	Managed Futures Global Macro Long/Short Equity
<b>Technicals</b>	U.S. Stocks U.S. Small and Mid Cap EM	Healthcare Technology	Preferred Stocks High-Yield bonds MBS	<b>Trading Environment</b>	Long/Short Equity
<b>Valuations</b>	Large Foreign EM	Healthcare Technology Telecom	Investment-Grade Corporates MBS	<b>Volatility</b>	Global Macro Long/Short Equity Managed Futures

## READING THE PORTFOLIO COMPASS

RATING	ICON	
Negative	■ ●	<p>Fundamental, technical, and valuation characteristics for each category are shown by their blue icons below, and displayed as colored squares.</p> <p>Negative, neutral, or positive views are illustrated as a colored circle positioned over the scale, while an outlined black circle with an arrow indicates change and shows the previous view.</p> <p>Rationales for our views are provided on the right side.</p>  <p>Valuations — Technical — Fundamentals</p> <p>Negative Neutral Positive</p>
Negative/Neutral	■ ●	
Neutral	■ ●	
Positive/Neutral	■ ●	
Positive	■ ●	
Previous Position	⊙	

Sector	F	T	V	⊖	○	⊕	S&P*	Rationale
Materials	■	■	■	●	○	●	3.2	China stimulus could help more, but technicals are negative and China's growth is stalling
Energy	■	■	■	●	○	●	8.2	Intriguing potential contrarian opportunity, but supply and technicals suggest caution, favor MLPs.

Global macro strategy is a hedge fund strategy that selects its holdings primarily on the macroeconomic and political views of various countries, and is subject to numerous risks such as: geopolitical, derivative, commodity, volatility, currency, and regulatory.

Long/short equity strategies are subject to normal alternative investment risks, including potentially higher fees; while there is additional management risk, as the manager is attempting to accurately anticipate the likely movement of both their long and short holdings. There is also the risk of "beta-mismatch," in which long positions could lose more than short positions during falling markets.

## EQUITY ASSET CLASSES

We expect mid-single-digit returns for the S&P 500 with elevated volatility in 2016, consistent with historical mid-to-late economic cycle performance and derived from a second half earnings rebound. As the economic expansion transitions to its latter stages, we favor the generally less volatile and higher-quality large cap stocks, although small caps have enjoyed strong technical momentum recently. We have a slight preference for growth over value but positive biases toward energy and financials have views more closely aligned. We maintain our U.S. focus, but find emerging markets (EM) increasingly attractive on a valuation and technical basis.

	Sector	F	T	V	⊖	○	⊕	Rationale
Style/Capitalization	Large Growth	■	■	■	[Progress bar with green dot at ~80%]			We favor large caps for the mid-to-late stages of the economic cycle. We maintain a slight preference for growth over value for a slow growth environment when high growth companies may demand above-average valuation premiums. Our positive technology view also supports our growth preference, although positive energy and financials biases lead to our style views becoming more closely aligned.
	Large Value	■	■	■	[Progress bar with grey dot at ~50%]			
	Mid Growth	■	■	■	[Progress bar with grey dot at ~50%]			Mid caps are exhibiting strong technical momentum and valuations remain reasonable relative to large caps, but potential vulnerability in a market pullback lead us to a neutral view.
	Mid Value	■	■	■	[Progress bar with grey dot at ~50%]			
	Small Growth	■	■	■	[Progress bar with red dot at ~30%]			Small caps are exhibiting strong technical momentum but rich valuations, the mid-to-late stages of the business cycle, and expected increase in market volatility suggest limiting small cap exposure.
	Small Value	■	■	■	[Progress bar with red dot at ~30%]			
Region	U.S. Stocks	■	■	■	[Progress bar with green dot at ~80%]			We continue to focus equity portfolios in the U.S. while watching for opportunities overseas, particularly in EM.
	Large Foreign	■	■	■	[Progress bar with red dot at ~30%]			
	Small Foreign	■	■	■	[Progress bar with red dot at ~30%]			Macroeconomic and political risks and earnings weakness keep us cautious on international developed equities, although valuations make these markets worth watching and technicals have improved.
	Emerging Markets	■	■	■	[Progress bar with green dot at ~80%]			
MLPs	MLPs	■	■	■	[Progress bar with green dot at ~80%]			Yields and valuations appear attractive. Distribution growth remains intact for many MLPs, while widespread cuts have not materialized. Declining U.S. crude oil production remains a risk.

Investing in MLPs involves additional risks as compared with the risks of investing in common stock, including risks related to cash flow, dilution, and voting rights. MLPs may trade less frequently than larger companies due to their smaller capitalizations, which may result in erratic price movement or difficulty in buying or selling. MLPs are subject to significant regulation and may be adversely affected by changes in the regulatory environment, including the risk that an MLP could lose its tax status as a partnership. Additional management fees and other expenses are associated with investing in MLP funds.

## EQUITY SECTORS

We maintain our slight preference for cyclical growth sectors as the economic expansion continues and economic growth potentially picks up in the U.S. and emerging markets. Technology remains a favorite sector based on favorable fundamentals, attractive valuations, and positive technicals. The latter stages of the business cycle are historically positive for healthcare, which is attractively valued due partly to the market’s onerous political outlook. Our global growth outlook suggests industrials may provide a buy-the-dip opportunity. Our positive energy bias is based on an expected oil price move back above \$50 later this year.

	Sector	F	T	V	⊖	○	⊕	S&P*	Rationale
Cyclical	Materials	■	■	■	●	○	●	2.9	Stability in China and the U.S. dollar are supportive, although China’s transition to a services-led economy presents a challenge, and earnings and technical momentum have slowed.
	Energy	■	■	■	●	○	●	7.0	We see upside to oil prices into the low \$50s on expected continued progress toward balancing supply and demand; positive bias.
	Industrials	■	■	■	●	○	●	9.6	Attractive valuations and potential upside in oil prices are positives; economic growth in the U.S. and EM is poised to improve and may help drive a pickup in capital investment.
	Consumer Discretionary	■	■	■	●	○	●	12.5	Negative bias on technical weakness, negative earnings revisions, risk of higher oil prices, and age of business cycle, although valuations have become reasonable.
	Technology	■	■	■	●	○	●	21.2	Most upside and best revisions during second quarter earnings season; potential for business spending uptick, tech’s role as productivity enabler, valuations, and technicals all positive.
	Financials	■	■	■	●	○	●	13.0	Interest rate and regulatory environments remain difficult; positive bias due to attractive valuations, solid loan growth, and possible further move higher in interest rates.
Defensive	Utilities	■	■	■	●	○	●	3.4	We prefer cyclical sectors at this stage of the cycle; rich valuations, technical weakness, and interest rate risk also suggest caution.
	Healthcare	■	■	■	●	○	●	14.8	Favorable demand outlook, drug development trends, solid earnings gains, and valuations are all supportive; eventual political clarity may be a catalyst.
	Consumer Staples	■	■	■	●	○	●	9.9	We still favor cyclical sectors, while valuations look rich and technicals have weakened; pullback may be required for relative performance to improve.
	Telecommunications	■	■	■	●	○	●	2.6	Technical deterioration coupled with sluggish growth outlook drives caution despite rich yields and attractive valuations.
	Real Estate	■	■	■	●	○	●	3.1	Favorable jobs backdrop, rich yields, and addition as an S&P sector should help; interest rate risk seems manageable for now given the Fed’s likely go-slow approach.

\* S&P 500 Weight (%)

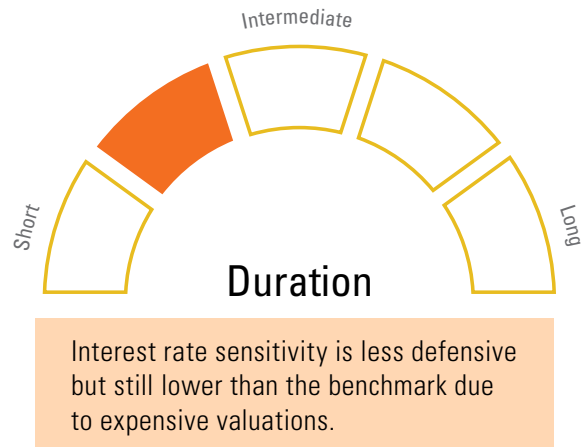
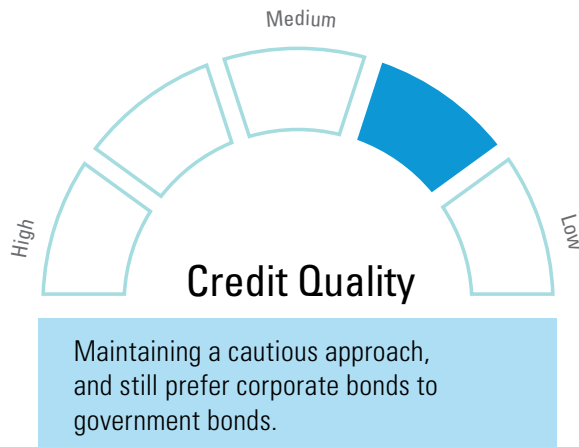
Investing in real estate/REITs involves special risks such as potential illiquidity and may not be suitable for all investors. There is no assurance that the investment objectives of this program will be attained.

Because of its narrow focus, specialty sector investing, such as healthcare, financials, or energy, will be subject to greater volatility than investing more broadly across many sectors and companies.

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a nondiversified portfolio. Diversification does not ensure against market risk.

## FIXED INCOME

Yields remain near historic lows, and valuations relative to Treasuries are toward the middle of the recent range, though investor demand has remained strong. Over the longer term, a favorable supply-demand balance and prospects for higher (local) taxes may provide support in 2016. Municipal bonds' credit quality remains generally good; problem issuers remain isolated and have not impacted the broader market.



Yield spread is the difference between yields on differing debt instruments, calculated by deducting the yield of one instrument from another. The higher the yield spread, the greater the difference between the yields offered by each instrument. The spread can be measured between debt instruments of differing maturities, credit ratings, and risk.

Sector	F	T	V	⊖	○	⊕	Rationale
Munis-Short-Term	■	■	■	●			Higher relative valuations and lower yields limit appeal.
Munis-Intermediate-Term	■	■	■		●		Yields are off recent lows, but valuations have increased relative to Treasuries.
Munis-Long-Term	■	■	■		●		Valuations relative to Treasuries have increased, but strong demand continues to provide support.
Munis-High-Yield	■	■	■		●		Rich valuations and longer maturity may be headwinds, though additional yield is an offsetting factor.

Continued on next page.

For the purposes of this publication, intermediate-term bonds have maturities between 3 and 10 years, and short-term bonds are those with maturities of less than 3 years.

All bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and are subject to availability and change in price.

High-yield/junk bonds are not investment-grade securities, involve substantial risks, and generally should be part of the diversified portfolio of sophisticated investors.

Municipal interest income may be subject to the alternative minimum tax. Federally tax-free but other state and local taxes may apply.

Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate, and credit risk, as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features.

## FIXED INCOME (CONTINUED)

For fixed income allocations, we continue to emphasize a blend of high-quality intermediate bonds coupled with a small allocation to less interest rate-sensitive sectors such as bank loans or high-yield bonds for suitable investors. High-yield spreads continued to compress last month, and the current spread at 5.2% remains slightly expensive compared to our fair value estimate of 6.5–7% based on low but increasing defaults. We have upgraded our view of bank loans as a Fed rate hike could be enough to push Libor above the 1% floor that many bank loans have implemented, and investors may be able to take advantage of floating rates in the near future. We maintain a cautious approach with credit-sensitive areas of the market, but a “coupon-clipping” environment may still aid suitable investors. We have liked the fundamentals of MBS for some time, but upgraded our overall view on improved technicals.

		F	T	V	⊖	○	+	Rationale
Taxable Bonds – U.S.	Treasuries	■	■	■	●			Investor demand has remained strong despite lower yields. Yield spread to overseas alternatives remains attractive and may keep demand elevated.
	TIPS	■	■	■	●			Inflation expectations have increased slightly over the past month, though remain benign overall.
	Mortgage-Backed Securities (MBS)	■	■	■		●	●	Yield per unit of duration remains attractive, technicals have improved.
	Investment-Grade Corporates	■	■	■		●		Valuations have richened, but we still find incremental value in corporate bonds.
	Preferred Stocks	■	■	■		●		Fundamentals are firm for U.S. banks, but low yields and above-average valuations warrant caution.
	High-Yield Corporates	■	■	■		●		Average yield spread of just over 5.2% is richer than our estimate of fair value, but yields remain attractive in a low-yield environment.
	Bank Loans	■	■	■		●	●	Libor is nearing 1% level that would push it above the floor held by many bank loans, making floating rates more attractive. Less energy exposure compared with high-yield.
Taxable Bonds – Foreign	Foreign Bonds – Hedged	■	■	■		●		Given easing bias of foreign central banks, the sector may be more resilient if U.S. rates move higher.
	Foreign Bonds – Unhedged	■	■	■	●			Potential currency volatility, low yields, and unattractive valuations are negatives.
	Emerging Markets Debt	■	■	■		●		Decrease in rate hike expectations has helped the sector, but valuations have become more expensive.

Investing in foreign and emerging markets debt securities involves special additional risks. These risks include, but are not limited to, currency risk, geopolitical and regulatory risk, and risk associated with varying settlement standards.

Mortgage-backed securities are subject to credit, default, prepayment risk that acts much like call risk when you get your principal back sooner than the stated maturity, extension risk, the opposite of prepayment risk, market and interest rate risk.

Bank loans are loans issued by below investment-grade companies for short-term funding purposes with higher yield than short-term debt and involve risk.

Treasury Inflation-Protected Securities (TIPS) help eliminate inflation risk to your portfolio, as the principal is adjusted semiannually for inflation based on the Consumer Price Index (CPI)— while providing a real rate of return guaranteed by the U.S. government. Investing in foreign and emerging markets debt securities involves special additional risks. These risks include, but are not limited to, currency risk, geopolitical, and regulatory risk, and risk associated with varying settlement standards.



## COMMODITIES & ALTERNATIVE ASSET CLASSES

Commodities, led by energy, have given back gains recently as the oil market continues to seek solid footing. Gold has struggled as a Fed rate hike potentially looms on the horizon. Domestic energy production has stabilized somewhat as rig counts have started to rise in response to higher prices. Credit-based strategies have continued to recover with higher energy prices. Managed futures strategies, which had benefited from declining interest rates earlier in the year, have struggled recently with rate increases and equity market volatility.

Sector		F	T	V	⊖	○	⊕	Rationale
Commodities	Industrial Metals	■	■		●			Chinese demand remains soft, despite bold policy reforms and monetary stimulus efforts; technical strength may indicate short-term trading opportunity.
	Precious Metals	■	■			●		Rising geopolitical risk post-Brexit is supportive in the near term while the potential for a Fed rate hike poses a risk.
	Energy	■	■			●		Progress made year to date to balance oil markets has stalled with supply disruptions abating. We still see upside to oil prices back into the \$50s over the short to intermediate term.
	Agricultural	■	■		●			Focus is on the harvest season for grains in the U.S. after forecasts for high yields. Managed money (hedge funds) positioning remains bearish.
Sector		T E	C T	V O	⊖	○	⊕	Rationale
Alternatives	Long/Short Equity	■	■	■			●	We continue to be cautious on highly directional managers and favor those with lower net exposures. The value-conscious investment orientation, which many long/short managers employ, is well positioned for a potential increase in market volatility.
	Event Driven	■	■	■		●		Deal opportunities remain widely available, while the environment for distressed and special situation strategies has improved on the rally in oil prices.
	Managed Futures	■	■	■		●		Managed futures have had volatile performance, but upward-trending commodity markets may potentially provide a stronger environment for these strategies going forward.
	Global Macro	■	■	■			●	These strategies have disappointed recently, despite a favorable macroeconomic backdrop.

### LEGEND

CHARACTERISTICS	ICON	DEFINITION
Catalysts	C T	Potential for favorable macroeconomic and/or idiosyncratic market developments that may benefit the investment strategy.
Trading Environment	T E	Market characteristics present sufficient investment opportunities for this investment style.
Volatility	V O	The current volatility regime provides a constructive environment that an investment of this style can capitalize on.

Alternative strategies may not be suitable for all investors and should be considered as an investment for the risk capital portion of the investor's portfolio. The strategies employed in the management of alternative investments may accelerate the velocity of potential losses.

Commodity-linked investments may be more volatile and less liquid than the underlying instruments or measures, and their value may be affected by the performance of the overall commodities baskets as well as weather, geopolitical events, and regulatory developments.

## IMPORTANT DISCLOSURES

All performance referenced is historical and is no guarantee of future results.

There is no assurance that the techniques and strategies discussed are suitable for all investors or will yield positive outcomes. The purchase of certain securities may be required to affect some of the strategies.

### Stock and Pooled Investment Risks

Investing in stock includes numerous specific risks including: the fluctuation of dividend, loss of principal and potential illiquidity of the investment in a falling market.

Investing in foreign and emerging markets securities involves special additional risks. These risks include, but are not limited to, currency risk, geopolitical risk, and risk associated with varying accounting standards. Investing in emerging markets may accentuate these risks.

### Bond and Debt Equity Risks

Government bonds and Treasury bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate.

### Alternative Risks

Currency risk is a form of risk that arises from the change in price of one currency against another. Whenever investors or companies have assets or business operations across national borders, they face currency risk if their positions are not hedged.

Global macro strategy is a hedge fund strategy that selects its holdings primarily on the macroeconomic and political views of various countries, and is subject to numerous risks such as: geopolitical, derivative, commodity, volatility, currency, and regulatory.

Event driven strategies, such as merger arbitrage, consist of buying shares of the target company in a proposed merger and fully or partially hedging the exposure to the acquirer by shorting the stock of the acquiring company or other means. This strategy involves significant risk as events may not occur as planned and disruptions to a planned merger may result in significant loss to a hedged position.

Managed futures strategies use systematic quantitative programs to find and invest in positive and negative trends in the futures markets for financials and commodities. Futures and forward trading is speculative, includes a high degree of risk that the anticipated market outcome may not occur, and may not be suitable for all investors.

## DEFINITIONS

The simple moving average is an arithmetic moving average that is calculated by adding the closing price of the security for a number of time periods and then dividing this total by the number of time periods. Short-term averages respond quickly to changes in the price of the underlying, while long-term averages are slow to react.

The Beige Book is a commonly used name for the Federal Reserve's (Fed) report called the Summary of Commentary on Current Economic Conditions by Federal Reserve District. It is published just before the Federal Open Market Committee (FOMC) meeting on interest rates and is used to inform the members on changes in the economy since the last meeting.

Technical Analysis is a methodology for evaluating securities based on statistics generated by market activity, such as past prices, volume and momentum, and is not intended to be used as the sole mechanism for trading decisions. Technical analysts do not attempt to measure a security's intrinsic value, but instead use charts and other tools to identify patterns and trends. Technical analysis carries inherent risk, chief amongst which is that past performance is not indicative of future results. Technical Analysis should be used in conjunction with Fundamental Analysis within the decision making process and shall include but not be limited to the following considerations: investment thesis, suitability, expected time horizon, and operational factors, such as trading costs are examples.

Global Industry Classification Standard (GICS): A standardized classification system for equities developed jointly by Morgan Stanley Capital International (MSCI) and Standard & Poor's. The GICS methodology is used by the MSCI indexes, which include domestic and international stocks, as well as by a large portion of the professional investment management community. The GICS hierarchy begins with 10 sectors and is followed by 24 industry groups, 67 industries and 147 sub-industries. Each stock that is classified will have a coding at all four of these levels. The 10 GIC Sectors are as follows: Energy, Materials, Industrials, Consumer Discretionary, Consumer Staples, Health Care, Financials, Information Technology, Telecommunication Services, and Utilities.

London Interbank Offered Rate (Libor): An interest rate at which banks can borrow funds, in marketable size, from other banks in the London interbank market. The Libor is fixed on a daily basis by the British Bankers' Association. The Libor is derived from a filtered average of the world's most creditworthy banks' interbank deposit rates for larger loans with maturities between overnight and one full year.

## INDEX DEFINITIONS

All indexes are unmanaged and cannot be invested into directly.

The **Russell 2000 Index** measures the performance of the small cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index.

The **S&P 500 Index** is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The **Russell Midcap Index** offers investors access to the mid cap segment of the U.S. equity universe. The Russell Midcap Index is constructed to provide a comprehensive and unbiased barometer for the mid cap segment and is completely reconstituted annually to ensure that larger stocks do not distort the performance and characteristics of the true mid cap opportunity set. The Russell Midcap Index includes the smallest 800 securities in the Russell 1000.

The **Barclays U.S. Municipal Index** covers the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds.

The **Barclays U.S. Corporate High Yield Index** measures the market of USD-denominated, noninvestment-grade, fixed-rate, taxable corporate bonds. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below, excluding emerging market debt.

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