2Q 2021 investment outlook

Executive summary

We continue to monitor two horizons for our clients, the first representing trends toward economic reopening and the second contemplating the economic environment once we have achieved herd immunity. We remain optimistic about diversified investment portfolios’ forward prospects but acknowledge an uneven forward path. Medical progress has been encouraging, yet vaccination uptake remains uneven across geographies. The confluence of vaccinations, pro-growth public and monetary policies, increased mobility by consumers and increased spending could generate inflationary pressures for central banks to ponder in coming quarters.

Investors have enjoyed a three decade-plus bull market in bond prices, driving yields (which move inversely with prices) to historic lows in March 2020. As markets anticipate a transition from horizon one to horizon two, we continue to monitor developments across capital markets, with the bond market a particular focal point. An abrupt rise in interest rates since the start of the year has investors thinking about implications across markets, and this outlook offers our perspective on what we are focused on for our clients and their portfolios. While a range of outcomes exist, we retain a glass half-full viewpoint and expect patient investors to be rewarded for the risks they bear.

Global economic views

Despite tangible progress toward controlling the COVID-19 epidemic, we expect robust global recovery to moderate toward the end of 2021. Global attention has turned to recovery from the pandemic, with six vaccines now approved around the world. Vaccination uptake has been uneven, with Israel, the United Kingdom and United States leading the charge, while other major economies are trying to make up ground. Full economic reopening appears to be likely in the summer or later, depending upon vaccinations, though incremental measures are helping lift economic activity. From a growth perspective, the most robust quarters are likely in the first half of 2021. A quick reopening and return to normal activities, especially when coupled with additional fiscal stimulus, could further lift second half growth
and inflation. However, should virus mutations render current vaccines ineffectual and economies must once again socially distance, we could see a dour outcome for the year.

**Strong U.S. economic growth in the first half will likely plateau to finish the year, with some risks.**

The Center for Disease Control (CDC) expects 70 percent of the U.S. population to receive at least one coronavirus vaccine dose by the middle of the summer. Coupled with March’s American Rescue Plan Act of 2021, a $1.9 trillion stimulus measure, this positions the U.S. economy for robust growth into the middle of the year. Should vaccinations continue at their current or an improved pace, economic activity in the second half of the year could also remain solid. January’s 20 percent consumer savings rate implies significant pent-up demand for goods and services. A follow-up infrastructure spending bill could also provide some lift to the economy, although such projects typically take multiple years to play out. Two key issues could limit growth prospects into year-end: Adverse coronavirus mutations and excessive price inflation that limits consumer spending growth. The former is a risk we must acknowledge, but with an unknown probability of occurrence. The latter is a foreseeable risk should current product backlogs turn to shortages. If the labor market recovery falters, inflation could be punishing for underemployed or unemployed consumers, just as the economy reopens. An additional concern for investors is potential changes to the tax code. This appears to be an issue lower on the list for the Biden administration, and we have little clarity on costs as they struggle to get the economy through the pandemic.

**An uneven recovery still tilts foreign growth toward Asia.**

The global coronavirus pandemic has generally synchronized the economic story over the past year as most economies limited travel and social activities. Concurrent reopenings are also likely, with most economies likely to favor stronger growth in the first half of the year and see moderation in activity to finish the year. Major differences are likely to occur around reopening timing and stimulus measures. Emerging Asian economies, including China, Taiwan and Korea, shut down earlier in 2020 and are likely to experience moderation in their growth before mid-year. Additionally, recent measures in China to limit housing speculation and moderate credit growth could limit economic activity. In contrast, European economies did not shut down until nearly the second quarter of 2020 and recurring infections mean limitations have been in place into 2021. A recovery in the next few quarters will lift European growth into later 2021. However, absolute levels of activity are likely to remain relatively modest when compared to the United States and emerging Asian countries, reflective of an aging population and more limited stimulus measures in Europe. The European Central Bank could provide a headwind if they tighten credit in reaction to reopening and modest inflation.

**U.S. equity markets**

We maintain our “glass half-full” orientation for U.S. equities looking toward midyear and beyond.

Generally restrained inflation, relatively low interest rates, rising earnings, ongoing monetary and fiscal stimulus policies and COVID-19 medical progress support our outlook for rising U.S. equities in 2021. Medical progress continues toward achieving COVID-19 herd immunity, when a large percentage of U.S. adults is projected to have antibodies derived either from infections or vaccinations that, once achieved, should accelerate the pace toward economic normalcy. The recent uptick in interest rates has stoked investors’ concerns over U.S. equities’ historically high valuation — stock prices relative to actual or forecasted earnings — which leave little margin for error for companies that do not deliver earnings or revenue growth.

**Volatility is likely to persist as inflation looms on the horizon.**

While returns have been positive, periods of elevated volatility were key features of U.S. equity market performance in the first quarter, a trend we envision continuing for the foreseeable future. A full economic reopening coupled with ongoing fiscal and monetary stimulus could cause inflation to run hot, which would likely lead to a Federal Reserve (Fed) policy response. While not our base case, stronger-than-anticipated
inflation would likely be accompanied by increased volatility, because rekindling inflation and higher interest rates typically result in lower stock price-to-corporate earnings multiples and more subdued equity returns.

We examined the historical relationship between the change in the Consumer Price Index (CPI), a widely accepted U.S. inflation measure, and the corresponding price/earnings multiples for the S&P 500 dating back to 1958. On balance, an inverse relationship exists between inflation and prices investors are willing to pay for equities relative to earnings, or the price/earnings multiple. Price/earnings multiples tend to decrease as inflation moves meaningfully higher. The average price/earnings ratio when core CPI (CPI less volatile food and energy prices) was between 2 percent and 4 percent was roughly 20, with a maximum multiple of nearly 30. At present, the S&P 500 trades at roughly 23 times current year estimates, leading us to conclude that equity valuations are elevated, yet short of extremes.

**Rising earnings estimates provide valuation support.**

Earnings are trending higher with consensus analysts’ estimates for the S&P 500 in 2021 approaching $175 per share as we begin the second quarter. Following the most recently completed fourth quarter reporting period, both revenue and earnings exceeded analysts’ expectations. Companies cited progression toward COVID-19 herd immunity and related economic reopenings worldwide, as well as spending associated with additional government stimulus, as items driving greater-than-expected revenue and earnings growth.

As we contemplate two time horizons, the current economic recovery and the steady state post-full economic reopening, both secular-growing and cyclically-oriented sectors have attractive investment characteristics. Ongoing monetary and fiscal stimulus in concert with vaccination progress suggest cyclically-oriented sectors, which tend to move with the overall economy, remain favorably positioned in the current recovery horizon. Similarly, the longer-term, post-recovery horizon outlook for secular (longer-term) growing sectors remains compelling, spurred by positive trends in digitization, artificial intelligence, machine learning, mobility and e-commerce.

**U.S. equities’ dividend profile remains compelling despite rising interest rates.**

Equities remain an attractive alternative for investors looking for income, mindful of their risk profile. We calculate equities’ dividend yield by dividing the expected dividend per share by the current price per share. By this measure, approximately 41 percent of S&P 500 companies offer dividends yielding above the 10-year Treasury yield of roughly 1.7 percent as of March 31. We envision dividends increasing for many companies as economies reopen and COVID-19 herd immunity becomes more pervasive, allowing companies to return excess capital back to investors in the form of dividends and share buybacks.

**Foreign equity markets**

**Foreign developed equities’ catch-up potential remains untapped; the interplay between vaccination progress and economic opening remains key to return potential in 2021.**

After significantly lagging both domestic and emerging market peers in 2020, foreign developed equities, as measured by the MSCI EAFE Index, continued to deliver modest price gains relative to U.S. equities’ stronger performance in the first quarter. (EAFE stands for Europe, Australasia and the Far East and includes 21 developed market countries across the world, excluding the U.S. and Canada). Slower vaccination progress relative to the United States and the resulting tighter activity and mobility restrictions continue to challenge Europe’s near-term recovery path from the global pandemic. The U.S. dollar, which had established a falling trend in 2020, reversed course and moved higher in 2021’s first quarter, making foreign investments less attractive for U.S.-based investors.

Looking ahead to the second half of the year, foreign developed equities’ return potential in a post-reopening scenario, while delayed, is still intact. Sectors historically sensitive to the economic cycle, such as Energy, Financials, Industrials and Materials, comprise more than 40 percent of the MSCI EAFE Index, indicating foreign developed equities retain significant catch-up potential in a global economic recovery. The index’s more muted performance relative to domestic large-, mid- and small-

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cap equities suggests investors have not yet fully priced in the region’s recovery potential. Longer-term, however, we still retain a strategic bias towards U.S. equities over time, due to Europe’s and Japan’s more challenging demographics and less secular growth-oriented equity markets. For example, Technology and Healthcare comprise nearly 40 percent of the domestic S&P 500 Index, nearly double the 21 percent weighting in the EAFE index.

**Rising full-year 2021 earnings estimates support historically high foreign developed equity valuation.**

Similar to the United States, muted inflation, relatively low interest rates and still-accommodative monetary policies across Europe and Japan provide valuation support for foreign developed equities. Investors value equities’ future cash flows favorably compared to lower-yielding fixed income alternatives. Analysts continue to revise full-year 2021 earnings estimates higher in foreign developed economies, foreseeing an acceleration in vaccination throughput leading to an eventual economic reopening. Rising earnings estimates provide further support for price appreciation despite historically high equity valuation measures such as the forward price-to-earnings ratio, which is the index’s current price per share divided by expected earnings per share in 2021.

**Foreign emerging market equities’ risk and reward appear reasonably balanced through year-end, with policy risks balancing thematic growth opportunities.**

Emerging market equities, as measured by the MSCI Emerging Markets Index, delivered strong returns for investors in 2020, but performance has been decidedly mixed in 2021’s opening quarter. After finally eclipsing the 2007 high in early January, emerging market equity price volatility returned as investors digested virus growth and mutation, vaccination progress, uneven global economic reopening, policymakers’ intervention in capital markets and rising U.S. interest rates. As we look to the remainder of the year, we believe policy risks and reward opportunities remain reasonably balanced, with recovering corporate profits continuing to support rising equity prices though historically high valuation leaves little room for error.

**Monetary policy and economic and corporate fundamentals remain positive, but the U.S. dollar has become a headwind for emerging economies in 2021.**

Inflation remains relatively contained across emerging economies and policymakers remain free to pursue accommodative monetary policies without fear of driving up prices, which can be a source of domestic unrest. Analysts continue to forecast a strong profits recovery across emerging markets in 2021, expecting earnings to rise more than 60 percent from 2020’s pandemic-induced contraction. Strong economic momentum, restrained inflation, accommodative monetary policies and corporate profit growth support rising equity prices in 2021. Akin to U.S. and foreign developed alternatives, however, emerging equities’ valuation — the price relative to actual or expected earnings — is elevated relative to history. The dollar established an upward trend relative to emerging market currencies in early 2021, which increases the dollar-denominated costs for emerging market borrowers, hampering domestic growth prospects while decreasing U.S. investors’ foreign holdings values.

Local government policies and other intangibles highlight key risk considerations for emerging market investors. Emerging markets continue to provide attractive investment opportunities for investors, including China’s continued economic ascent and the rising purchasing power of emerging middle-class consumers across Asia and Latin America. However, relative to a global equity opportunity set, we continue to retain a strategic “home bias” toward domestic companies, believing that U.S. accounting standards, shareholder friendliness, corporate governance and rule-of-law generally favor domestic companies over international firms. Last year’s intervention by Chinese authorities in a highly anticipated initial public offering and this year’s intervention by Brazilian officials in the governance of that country’s largest oil producer highlight the additional policy risks investors must navigate in foreign emerging markets.
China consumers remain key to foreign emerging equities’ fortunes in 2021.

China has an outsized weighting in the MSCI Emerging Market Index, comprising nearly 40 percent of the index’s country exposure, while six of the 10 largest index companies by market size are domiciled in China. China’s largest publicly traded companies are no longer state-owned enterprises in the Energy and Financial Services sectors but consumer-oriented e-commerce, mobile gaming and social media enterprises. China, South Korea and Taiwan were among the countries earliest hit by the COVID-19 pandemic and the economies earliest to reopen, and Chinese consumers’ ongoing return to normalcy is a key factor for emerging equities’ fortunes in 2021.

Fixed income markets

Despite rising interest rates, we expect the Federal Reserve (Fed) to hold its course and continue administrating pro-growth policies.

Treasury bond yields rose considerably in the first quarter as growth and inflation expectations strengthened. The increase also reflects investors pulling forward expectations for Fed interest rate hikes into 2022 and 2023, as well as another likely surge in Treasury supply later this year to fund government deficits. However, we anticipate the Fed will maintain low interest rates and ongoing bond purchases into 2022 and perhaps longer. Accommodative Fed policy paired with additional fiscal stimulus should continue acting as a tailwind to growth, inflation and, by extension, bond yields. However, the pace of increases is likely to moderate over the year.

Recent high-quality corporate and municipal bond performance converged with Treasury performance once yields relative to Treasuries fell well below normal historical levels. We expect this phenomenon of low additional yield to persist as the economy recovers. Investor demand for incremental income remains strong and bond issuer fundamentals are strong as they hold meaningful cash balances (having locked in cheap financing while extending their debt maturities). High-quality bonds provide important portfolio diversification benefits, but low and rising yields limit return potential for now.

With high-quality U.S. corporate bonds appearing fully valued, investors seek opportunities in riskier high yield sector.

Large companies raised a record amount of debt last year at the cheapest rates on record. The debt-fueled boost to corporate cash balances has contributed to low corporate defaults in recent months, indicating large companies can weather short-term challenges. Corporate bond credit ratings are relatively stable. Corporate bond yields compared to Treasuries have fallen to very low levels, indicating limited incremental return potential over Treasuries. Riskier high yield corporate bonds have room to continue performing well given meaningful incremental yield, significantly improving default rates, strong investor demand for income and a recovering economy.

Municipal bonds offer a valuable source of non-taxable income, with the best opportunities in riskier segments.

Municipal bonds outperformed Treasuries in the first quarter, with riskier bonds performing the best. Fears of plummeting state and local tax revenues were short-lived after data showed faster-than-expected recoveries. Fiscal stimulus will pad budgets further. Tax-equivalent yields compared to Treasuries are quite low by historical metrics, indicating minimal room for additional price gains. Some credit rating agency downgrades persist, and credit selection remains paramount.

Lower-quality high yield municipal securities represent many esoteric bonds with less exposure to traditional state and local government borrowers. Default and distress events remained low in 2020 despite market volatility, with negative events heavily concentrated in continuing care, assisted living and hospital bonds. We see value in the current income that high yield municipal bonds offer. Credit selection is key, since the weakest credits may remain under pressure.

Opportunities remain with non-government backed residential mortgage.

Compelling value persists in this category due to incremental yield and strong fundamentals. Many homeowners in forbearance never stopped making mortgage payments, and those coming out of

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forbearance are performing better than anticipated. Current loans falling 30 days or more past due fell to pre-COVID levels months ago, indicating high borrower equity and a robust housing market are encouraging borrowers to remain current on their loans.

**Real asset markets**

**Economic recovery moderated by rising interest rates and excess stock of property could limit real estate gains.**

Publicly traded real estate securities underperformed the broader market in the first quarter as expectations for economic recovery and interest rates increased. COVID-19-induced lockdowns combined with an urban exodus of both workers and inhabitants created a seismic shift in real estate demand, and net operating income (NOI – rental incomes less certain expenses) for most property types continues to decline.

Nationally, overall vacancy rates continue to rise across most property types and NOI growth remains negative. We expect NOI growth to remain low due to supply growth and rising expenses at the property level. Net incomes relative to property values remains at all-time expensive levels. However, there is ready availability of cheap credit for property investment. Commercial mortgage interest rates are below the average earnings yield on Class A property. As a result, investors can still generate decent returns on property investments. If interest rates increase, the difference between mortgage rates and property earnings yields will compress, which would limit forward returns.

Later in 2021, economic growth aided by reopening of the economy should typically be a positive for property prices. Due to excess capacity, we have concerns regarding landlords’ ability to raise rents in urban office, retail and apartment markets. Therefore, we remain cautious, with the understanding that changes in interest rates can have an outsized impact on property market performance going forward.

**Economic recovery coupled with limited supplies are lifting commodity prices.**

Commodity markets, from industrial metals to agriculture, have risen dramatically this year. The crude oil market finally participated in this rally, rising by more than 25 percent in the first quarter. As we look further into 2021, we believe the backdrop for commodities is mostly positive. Increasing economic growth combined with a falling dollar and rising interest rates should support both commodity demand and prices against a backdrop of limited supplies.

The world’s three largest producers of crude oil (United States, Saudi Arabia, and Russia) reduced supply considerably to support prices. Global demand is improving, and crude oil inventories are being drawn down. OPEC+ members (the Organization of the Petroleum Exporting Countries and their oil-producing allies, including Russia) appear willing to cooperate in limiting supplies. Additionally, U.S. shale producers are becoming better stewards of capital, focused on returning cash flow to shareholders and avoiding large capital expenditures. Currently, the crude oil market is undersupplied. If this loose coalition can refrain from overproducing, the oil market could return to balance later in the second quarter and moderately rising prices could result. If they fail to limit production, the market could quickly become oversupplied and prices would reset lower.

**Industrial metals are likely the most responsive to the economic recovery.**

Investment in new production capacity has been limited for several years. Compensating for natural declines in rates of production requires significant new capital. Rising economic growth and a lack of excess capacity should be supportive of copper and other industrial metals prices.

Precious metals have been volatile thus far in 2021, with gold down approximately 10 percent after hitting new lows for the cycle. As we progress in 2021, the outlook for precious metals is not positive. Rising economic growth reduces the safe haven demand for gold. Additionally, economic growth could lead to higher interest rates, which makes other investments more appealing than gold given its lack of cash flow generation. Investors will likely have better investment opportunities than precious metals in 2021.
Alternative investments

Social media became a capital market influencer in the first quarter, though we believe its effects will prove to be limited and transitory.

Few investors appreciated the influence social media could have on stock prices and market volatility until the recent experience involving GameStop, a company that sells new and used video games and hardware. In 2020, GameStop’s stock price averaged $7.14 per share and 6.7 million shares changed hands on an average trading day. Earlier this year, GameStop’s trading volume surged to 197 million shares on January 22 and the stock price reached a high of $347.51 on January 27. The volatility in social media that influenced stocks such as GameStop resulted in painful lessons for a few hedge funds that had short positions in stocks with limited liquidity. These funds were positioned to benefit from potential price declines, but significant losses were attributable to a coordinated effort by retail investors using trading websites to push the prices higher.

Despite fading election uncertainty and accelerating vaccination progress, hedge fund investors faced periods of elevated market volatility in 2021, a market feature that may continue in the second quarter as managers navigate the effects of a rising interest rate environment. Rising interest rates reduce the future value of a firm’s future cash flows. Many growth-oriented Technology and Healthcare firms do not pay dividends, making their valuation entirely dependent on the values of those future cash flows and very sensitive to changes in interest rates that discount those cash flows.

In the first quarter, hedge funds began reducing exposure to the popular stocks in the Technology and Healthcare sectors with high valuations and often negative earnings. Instead, many funds bought stocks in cyclical industries, such as Energy, Materials and Industrials, anticipating both domestic and global economies return to a more normal pre-COVID state. This positioning by hedge funds is expected to continue into the second quarter, illustrating managers’ ability to quickly react to changing market dynamics driven by earnings growth trends and changes in Treasury yields.

The Technology and Healthcare sectors remain well-positioned to benefit from longer-term trends. While the first quarter highlighted the potential for periods of elevated volatility and short-term selloffs, Technology and Healthcare firms continue to drive more innovations that impact our daily lives than any other sector, impacts that will likely prove more durable and longer-lasting than social media-influenced price swings. Hedge fund managers remain well equipped to provide the potential to reward investors with their ability to look beyond the current market environment and invest in new technologies that will drive innovation and growth for decades to come.

Private Markets

Market demand for initial public offerings (IPOs) and special purpose acquisition companies (SPAC) issuances remains unabated, providing exit opportunities.

Despite the rising interest rates and a rotation from growth to value investments, investors’ demand for new IPOs and SPACs remains strong. Through early March, 60 IPOs have priced this year, a 161 percent increase from same period last year. Reflecting strong investor demand and ample market liquidity, a much-anticipated public listing of a very popular videogaming platform increased 54 percent from the listing price of $45 per share on its first trading day. New SPAC listings also continued at break-neck speed, with 241 new listings through early March compared to 248 during all of 2020. Strong IPO and SPAC activity is evidence of the continued demand for growing companies among public market investors, and private market investment managers are taking note and driving exits across their portfolios, seeking to maximize investor returns. We expect these trends to continue for much of 2021, even if there is a short period of consolidation in the public markets as the economy reopens and we enter the next secular growth phase in the economy.
Long-term trends remain intact while pockets of new opportunities emerge.

We maintain our long-held conviction in private market investment managers capable of driving significant operational improvements in companies through active management. Adding value through operational improvements is even more important with the purchase price of businesses rising to record highs. Investment managers need to work extra hard to grow the businesses and deliver the performance investors expect from private markets. However, a highly experienced investment team can still lean into and deliver attractive returns from several long-term trends. Demographics, innovation cycles and consumer behavior continue to evolve, driving investable trends within digitization and healthcare. Other sectors such as Financial Services that have been out of favor over the last decade are becoming attractive again. Private real estate investments in sectors disrupted due to COVID-related shutdowns, such as hospitality, office and commercial space, present unique opportunities as the economy reopens and consumers revert to their pre-COVID activities. Finally, growth in online shopping and consumer expectation for faster delivery of products has led to unmet demand for last mile industrial real estate used to fulfil e-commerce deliveries.

COVID-related shutdowns did not precipitate broad based distress in private markets, partly due to private lenders’ flexibility combined with the availability of large pools of capital ready to step in. However, this also limited the opportunity for outsized returns within the distressed private debt market, unlike the 2008 financial crisis when broad-based and protracted economic malaise led to very attractive returns for investors. Therefore, we decided not to pursue distressed debt investments when it was popular during the pandemic. We continue to direct our efforts toward identifying nimble private debt managers with flexible mandates and smaller funds focused on the less liquid direct lending market who may find good businesses in need of restructuring or willing to pay higher interest for debt financing.

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Diversification and asset allocation do not guarantee returns or protect against losses. Based on our strategic approach to creating diversified portfolios, guidelines are in place concerning the construction of portfolios and how investments should be allocated to specific asset classes based on client goals, objectives and tolerance for risk. Not all recommended asset classes will be suitable for every portfolio.
Past performance is no guarantee of future results. All performance data, while deemed obtained from reliable sources, are not guaranteed for accuracy. Indexes shown are unmanaged and are not available for investment. The S&P 500 Index is an unmanaged, capitalization-weighted index of 500 widely traded stocks that are considered to represent the performance of the stock market in general. The S&P 500 Total Return Index includes the same stocks but include the reinvestment of dividends. The MSCI EAFE Index includes approximately 1,000 companies representing the stock markets of 21 countries in Europe, Australasia and the Far East (EAFE). The MSCI Emerging Markets Index is designed to measure equity market performance in global emerging markets. The Renaissance IPO Index is a stock market index based upon a portfolio of U.S.-listed newly public companies, before their inclusion in core equity indices. The index reflects approximately the top 80 percent of newly public companies in capitalization terms, is weighted by float capitalization and imposes a 10 percent cap on the weight of large constituents. The Consumer Price Index measures the prices of consumer goods and services, such as transportation, food and medical care. It is used to assess price changes associated with the cost of living and is one of the most frequently used statistics for identifying periods of inflation or deflation.

Equity securities are subject to stock market fluctuations that occur in response to economic and business developments. The value of large-capitalization stocks will rise and fall in response to the activities of the company that issued them, general market conditions and/or economic conditions. Stocks of small-capitalization companies involve substantial risk. These stocks historically have experienced greater price volatility than stocks of larger companies and may be expected to do so in the future. Growth investments focus on stocks of companies whose earnings/profitability are accelerating in the short term or have grown consistently over the long term. Such investments may provide minimal dividends, which could otherwise cushion stock prices in a market decline. Stock value may rise and fall significantly based, in part, on investors’ perceptions of the company, rather than on fundamental analysis of the stocks. Investors should carefully consider the additional risks involved in growth investments. Value investments focus on stocks of income-producing companies whose price is low relative to one or more valuation factors, such as earnings or book value. Such investments are subject to risks that their intrinsic values may never be realized by the market, or such stocks may turn out not to have been undervalued. Investors should carefully consider the additional risks involved in value investments. International investing involves special risks, including foreign taxation, currency risks, risks associated with possible difference in financial standards and other risks associated with future political and economic developments. Investing in emerging markets may involve greater risks than investing in more developed countries. In addition, concentration of investments in a single region may result in greater volatility. Investing in fixed income securities are subject to various risks, including changes in interest rates, credit quality, market valuations, liquidity, prepayments, early redemption, corporate events, tax ramifications, and other factors. Investment in debt securities typically decrease in value when interest rates rise. The risk is usually greater for longer-term debt securities. Investments in lower-rated and non-rated securities present a greater risk of loss to principal and interest than higher-rated securities. Investments in high yield bonds offer the potential for high current income and attractive total return but involve certain risks. Changes in economic conditions or other circumstances may adversely affect a bond issuer’s ability to make principal and interest payments. The municipal bond market is volatile and can be significantly affected by adverse tax, legislative or political changes and the financial condition of the issuers of municipal securities. Interest rate increases can cause the price of a bond to decrease. Income on municipal bonds is free from federal taxes but may be subject to the federal alternative minimum tax (AMT), state and local taxes. There are special risks associated with investments in real assets such as commodities and real estate securities. For commodities, risks may include market price fluctuations, regulatory changes, interest rate changes, credit risk, economic changes and the impact of adverse political or financial factors. Investments in real estate securities can be subject to fluctuations in the value of the underlying properties, the effect of economic conditions on real estate values, changes in interest rates and risks related to renting properties (such as rental defaults). Hedge funds are speculative and involve a high degree of risk. An investment in a hedge fund involves a substantially more complicated set of risk factors than traditional investments in stocks or bonds, including the risks of using derivatives, leverage and short sales, which can magnify potential losses or gains. Restrictions exist on the ability to redeem or transfer interests in a fund. Private capital investment funds are speculative and involve a higher degree of risk. These investments usually involve a substantially more complicated set of investment strategies than traditional investments in stocks or bonds, including the risks of using derivatives, leverage, and short sales, which can magnify potential losses or gains. Always refer to a Fund’s most current offering documents for a more thorough discussion of risks and other specific characteristics associated with investing in private capital and impact investment funds. Private equity investments provide investors and funds the potential to invest directly into private companies or participate in buyouts of public companies that result in a delisting of the public equity. Investors considering an investment in private equity must be fully aware that these investments are illiquid by nature, typically represent a long-term binding commitment and are not readily marketable. The valuation procedures for these holdings are often subjective in nature. Private debt investments may be either direct or indirect and are subject to significant risks, including the possibility of default, limited liquidity and the infrequent availability of independent credit ratings for private companies. There are distinct risks associated with Special Purpose Acquisition Companies (SPACs) and they may not be appropriate for all investors. It is important for investors to understand the specific features of any SPAC under consideration and carefully consider the associated risks in light of individual goals, risk tolerance, investment horizon and net worth.