



3Q 2022 Investment outlook: Financial theory becomes an investor

Quarterly Outlook

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Executive summary

To call 2022's start to the year challenging for investors would be an understatement. Pervasive selling gripped stocks, bonds, currencies and real estate interests; only select commodities were spared during the year's first six months. A core tenet of investment theory hinges on prevailing interest rates or bond yields; as interest rates on safe assets rise, all other asset prices should fall, and vice versa. Driven by the United States Federal Reserve's (the "Fed") attempts to combat persistent inflation, interest rates jumped and outside of the energy market, assets repriced sharply lower.

Recognizing that readers have observed and likely experienced some of the price downdraft, our outlook remains cautious, yet we are seeing compelling opportunities emerge. In client communications throughout this year, we have shared the concept of two potential "repricings": the first being the Fed's interest rate increases, which could provide some price volatility, and the second representing the risk higher interest rates and elevated prices could impact consumer and business activity with a commensurate decline in riskier asset classes like stocks. As the year's second half begins, we are seeing evidence that consumers and businesses are scaling back demand, but the extent of that slowdown remains an open question. Businesses and consumers came into 2022 with strong savings and liquidity relative to prior periods, but that liquidity is being tested by higher borrowing, energy, food

and shelter costs. While we continue to weigh issues with a global perspective, we do favor a more defensive and cautious outlook but recognize that the pessimistic pendulum can swing too far during uncertain periods.

In the sections that follow, our capital market professionals share their views on the economy and specific asset classes. If you have further questions or would like additional information, please do not hesitate to let your wealth management representative know. Thank you for your engagement.

Global economic views

Emerging market economies continue to battle a variety of pressures, from coronavirus infections to higher energy prices, higher food prices and now higher U.S. interest rates and a tighter supply of U.S. dollars for trade. China is the largest emerging market economy, and its economic slowdown impacts growth trajectories across developed and emerging economies. A key event is this fall's Central Committee meeting of the Chinese Communist Party, which is likely to elect President Xi Jinping to an unprecedented third term. This further solidifies President Xi's power and sets the stage for the continued evolution of China's domestic economy and foreign policies relative to the U.S. and other major western governments. In the near term, the country's COVID practices entail episodic regional shutdowns to combat outbreaks while officials continue to seek an

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effective, internally developed vaccine. The reopening of the Shanghai province should bring a near-term boost to activity. The government may provide further stimulus to prod the economy toward its 5.5% 2022 growth target ahead of the Central Committee meeting.

Emerging market economies outside China continue to struggle with inflation, and we have seen many countries, including Brazil, Russia, South Korea and South Africa increase interest rates in response. In the near term, growth prospects appear muted, but a change in the path of interest rate policies and the recent strengthening of the U.S. dollar could lead to improving export growth prospects late this year or early in 2023.

U.S. equity markets

Equity market declines have been broad based across geography, company size and economic sector year-to-date, leaving equity investors with few places to hide.

The S&P 500, NASDAQ Composite and Russell 2000 Index (representing smaller publicly traded domestic companies) declined between 20.6% and 29.5% in the year's first half. The performance gap between the broad, large company-oriented S&P 500 Index (-20.6%) and narrower technology-oriented NASDAQ Composite (-29.5%) is wide; rising interest rates disproportionately impact the present value of secular-growth sectors' future cash flows, resulting in a stronger valuation reset. Additionally, only one of 11 S&P 500 sectors (Energy) is in positive territory for the year, and the gap between the best and worst performer is wide, with Energy up 29.2% and Consumer

Discretionary down 33.1%. This highlights the disparate impact of a resolute Fed combating high food and energy inflation across economic sectors. Meanwhile, elevated inflation, higher anticipated Fed interest rates and the impending reduction of its security holdings (further removing policy stimulus), a slowing earnings growth pace as comparisons versus the prior year become more difficult, the ongoing Russia/Ukraine crisis and still yet-to-be-resolved supply chain challenges have stoked increased equity market volatility.

As a result of Fed's determination to restore inflation to normal levels through raising interest rates, tightening financial conditions, valuation, or the price investors pay for expected earnings, has reset lower and is currently trending near historical averages. As of midyear, the S&P 500 trades at a price relative to expected earnings of 15.2 times analysts' consensus 2022 estimate of approximately \$228 per share and \$249 times the 2023 estimate of roughly \$250 per share. Both levels are near historical averages when considering the prevailing inflation and interest rates. Despite this year's broad price declines, we consider equities to be priced above levels that would characterize an extremely bearish or oversold market.

Earnings remain a bright spot and a wildcard.

Corporate earnings continue to trend higher, albeit at a decelerating pace. At the end of the second quarter, consensus analysts' forecast a nearly 10% increase in 2022 earnings relative to year-ago levels and for 2023 earnings to increase

another 10% over 2022, according to Bloomberg, FactSet Research Systems and S&P Global. While analysts' earnings estimates remain elevated, higher input costs, wage pressures, supply chain shortages and shifts in consumer preferences could lead analysts to lower corporate profit growth expectations. This remains a key consideration in our more cautious outlook. Earnings visibility for the remainder of the year will become clearer following the release of second quarter results and management guidance beginning in mid-July.

Consumers are paying for "experiences" more than durable goods.

An emerging trend from first-half company results, as reported by airlines, hotel companies, credit card companies, big box retailers and others is that consumers are paying for experiences, such as travel and leisure, beauty items, party dresses, office clothes and household essentials. Demand for COVID pandemic categories, such as active wear, home furnishings, bicycles and televisions has slowed. This dynamic shift in consumers' spending patterns is contributing to overall market volatility due to divergent company performances in managing inventories and navigating supply chain challenges. Another focal area for the second half is assessing the extent to which high energy prices meaningfully impact the all-important back-to-school and holiday selling seasons.

Opportunities exist in all market environments.

In the current inflationary and rising interest rate environment, dividend-paying and traditionally defensive growth sectors are well-positioned, providing steady streams of dividend income with upside potential should inflation remain sustained. For investors with longer time horizons and a tolerance for shorter-term volatility, secular-growth companies' prospects remain compelling. Importantly, the interaction of artificial intelligence, machine learning, cloud computing and e-commerce have tentacles that extend well beyond the duration of the current economic cycle. This, in our view, favorably positions select Information Technology, Consumer Discretionary and Communication Services companies for longer-term performance. In both instances, we favor companies with consistent revenue growth, minimal debt, a history of profitability, strong free cash flow and competitive advantages.

Foreign equity markets

Bearish investor sentiment toward foreign equities reflects challenging macroeconomic conditions but provides upside potential if conditions improve.

Investors' sentiment regarding foreign developed equity prospects materially worsened in this year's first half. Europe's proximity to the Russia/Ukraine conflict, a surge in commodity price inflation, renewed China lockdowns and major central banks initiating or announcing plans to raise interest rates to combat elevated price inflation were headwinds. The price investors are willing to pay for anticipated earnings (known

as the price/earnings ratio) for the MSCI EAFE Index (EAFE stands for Europe, Australasia and the Far East and includes 21 developed market countries across the world, excluding the United States and Canada) has declined 22% from 15.3 at the start of this year to 11.9, well below the 20-year average.

A lower price/earnings ratio reflects investors' demand for higher compensation (paying lower prices for anticipated earnings) in order to take on foreign equity price risk when considering Europe's disproportionate impact from elevated hydrocarbon prices and sluggish economic growth prospects as inflation weighs on consumers' sentiment and spending. Equity prices could decline further in the year's second half if investor sentiment worsens as a result of the conflict spreading beyond Ukraine's borders (prices fall due to a further compression of the price/earnings ratio) or if the corporate profit outlook deteriorates as sticky inflation and central bank interest rate hikes slow or derail the economic recovery (prices fall due to lower-than-expected earnings). However, the price/earnings ratio remains below the long-term average on an absolute basis and is in the lowest decile over the past 20 years relative to U.S. equities. This suggests that if geopolitical events de-escalate or central banks pause their interest rate hiking path, bearish investor sentiment toward foreign equities could quickly reverse, providing upside price potential.

Peripheral Europe's reaction to the European Central Bank (ECB)'s interest rate policy is a key focal area for foreign developed equities' prospects in the year's second half.

A macroeconomic and capital market analysis suggests that foreign developed equity price movements have historically been sensitive to investors' confidence toward peripheral European countries such as Italy, Spain and Greece as measured by those countries' sovereign bond yields relative to core European yields. A lower spread, or additional yield investors demand between peripheral and core European yields, has historically coincided with positive developed equity price movements. A widening spread implies worsening investor confidence and has coincided with weaker price movements.

The ECB both lowered its economic growth outlook and raised its inflation forecast for 2022 while indicating that it will raise interest rates at both the July and September meetings, viewing inflation risks as skewed to the upside. Spanish and Italian five-year bond yields have already surged to eight- and nine-year highs in June, respectively, increasing those countries' borrowing costs as investors demanded higher compensation for high inflation and growth risks. As the ECB continues to tighten monetary policy to combat elevated price inflation, Italian, Spanish and Greek bond yields will be a key focal area for gauging investors' risk sentiment and foreign developed equities' prospects in the year's second half.

China's policy responses leading up to this year's Communist Party Congress are keys to emerging market equities' 2022 fortunes.

Emerging markets encompass a heterogeneous set of global economies: Manufacturing powerhouses such as China, Taiwan and South Korea; commodity

exporters such as Brazil, Saudi Arabia, Indonesia and South Africa; and high population, service sector-oriented economies such as India. Differences in performance across the emerging market class in this year's first half reflects the disparate impacts from the Russia/Ukraine conflict's onset: Energy importers' equity markets declined while commodity exporters experienced notable price gains.

China's fortunes remain central to emerging market equity prospects in 2022. China's strict virus containment policies, known as "zero-COVID", have materially impaired the world's second-largest economy's activity as well as disrupted global supply chain linkages with the world's largest exporter. The country's policymakers imposed severe lockdown measures on major urban centers including Beijing and Shanghai, a key transportation hub for the global supply chain. Consumer and business activity slowed sharply as a result, with retail sales contracting more than 11% in April relative to a year ago and industrial production and property investment also declining year-over-year.

President Xi Jinping is widely anticipated to receive an unprecedented third five-year term heading the Chinese Communist Party at the 20th Party Congress later this year. The country's policymakers have announced monetary and fiscal policy easing measures in order to cushion the economic blow from COVID lockdowns and re-accelerate economic growth in the lead-up to the Party Congress. The Peoples Bank of China (PBOC) lowered mortgage rates on both first and second homes, and China's State Council issued a set of 33 fiscal policy measures intended to return the economy to a more normal

growth track. China's monetary (and fiscal) policy stimulus stands out from other major central banks' pivot to tightening policies, and together with progress in containing COVID's spread could fuel a recovery in China's economic growth, providing a much-needed boost for the region's fortunes.

Fixed income markets

Despite higher interest rate prospects, high-quality bonds may help manage portfolio risk during times of equity market volatility.

Rising Treasury yields and higher corporate and municipal bond yields compared to Treasuries have improved high-quality fixed income valuations. Decelerating economic growth and tighter monetary policy remain headwinds to riskier asset prices and favor the defensive characteristics of investment-grade bonds.

Considerably higher Treasury yields incorporate investor expectations for Fed increases in its short-term interest rate target to 3.5%-4.0% by the year's end in response to high inflation. As of June, the Fed is allowing its bond holdings to mature, which may strain the ease for market transactions. Although Treasury yields already reflect aggressive Fed policy for higher interest rates, inflation that continues to run hot could push yields higher and bond prices lower. Short-term Treasury bonds can help mitigate this interest rate sensitivity, because their prices fluctuate less when interest rates change. We believe high-quality core bond exposure remains a critical component of diversified portfolios, particularly during times of heightened stock market volatility like we see currently.

Yields on corporate and municipal bonds are reasonable, but slowing growth, tightening financial conditions and deteriorating investor sentiment could challenge riskier bond prices.

Corporations and municipalities issued debt at low yields in 2020 and 2021 to strengthen their balance sheets and build up cash reserves. Higher borrowing costs reduced refinancing activity and lower-quality issuers are instead beginning to draw down cash reserves. The average high yield corporate bond issuer retains ample ability to service their debt, but bond prices could come under pressure should earnings prospects weaken alongside slower economic growth. Weak investor sentiment could also fuel ongoing market volatility.

Reinsurance and bank loans offer opportunities to earn favorable income.

The reinsurance category, also referred to as insurance-linked securities, offers attractive yield and can aid in portfolio diversification given their limited relationship with the broader economic cycle for qualified investors. Substituting some high yield corporate bond allocations with bank loans can improve credit quality while reducing interest rate sensitivity.

Real assets

Rising interest rates may offset positive earnings in the real estate market, pressuring property prices and hampering returns.

Publicly traded real estate securities outperformed the S&P 500 by 1.5% during the second quarter, losing 14.8%. Property market fundamentals continue to be a net positive. However, rising interest rates drove

lower earnings yields, especially in the secular growth sectors of cell towers, data centers and industrial properties, leading to substantial underperformance in those sectors.

Nationally, vacancy rates are still declining across most property types and income growth is increasing, though at a slower rate. We expect income growth to remain above average in 2022 before tapering off to more average levels in 2023 and beyond. Income relative to property values should remain near all-time lows, meaning valuations will remain rich. Additionally, there is ready availability of cheap credit for property investment. Commercial mortgage interest rates are below the average earnings yield on Class A property, supporting investor returns relative to investment costs. The increase in interest rates is compressing the difference between mortgage rates and property earnings yields, shrinking the buffer protecting property prices. If rates increase more dramatically than market expectations, property prices will be at more serious risk. We remain cautious as higher interest rates likely pressure property market performance.

Economic uncertainty benefits infrastructure stocks, which offer long-term assets paying consistent dividends.

The FTSE Global Core Infrastructure 50/50 Index slipped 7.3% in the second quarter, still outperforming the S&P 500 by more than 8%. Energy infrastructure and utilities led asset class performance. In the third quarter, we expect investor demand for quality assets paying large

and stable dividends to remain high. Given the Russia/Ukraine conflict and associated global economic uncertainty, we remain positive on infrastructure.

Tight supplies lifted commodity prices, but slowing economic growth could limit further gains.

Commodity markets from industrial metals to agriculture rose in the second quarter, with oil prices spiking and now up 40% for the year; domestic inventories of oil and petroleum products are at their lowest since 2008. Additionally, the Russia/Ukraine conflict reduced the output of many commodities, including oil, natural gas and wheat. However, decelerating economic growth is typically a headwind to prices as demand falters. A resolution to the Russia/Ukraine conflict could lift supplies, limiting further gains.

Hedge funds

Hedge fund managers are looking through current market volatility for opportunities.

Hedge fund managers remain focused on the macroeconomic and capital market environments, digesting the significant policy and economic shifts that have occurred. They are finding the environment difficult to navigate from an absolute performance perspective because of macroeconomic concerns about inflation, interest rates and energy prices. We are observing significant differentiation in performance across the hedge fund universe as managers make diverse decisions on portfolio positioning, anticipating that this volatile period would lead

to more active trading and defensive positioning with lower market exposures. Hedge fund managers generally reduced risk through broad market hedges and the use of leverage. They are likely to remain more defensively positioned into 2022's second half but shift their focus to individual security selection, such as stock-specific short selling, or investments that benefit when individual company stock prices fall. We expect additional market pullbacks may also encourage some managers to position portfolios for potential upside volatility. Nimbleness and agility continue to be critical for navigating the markets this year.

In the current environment, many hedge fund managers have pursued high-quality companies to set up their portfolios for when markets once again reward profitability and strong fundamentals. Industry wise, they have relied on sectors traditionally sensitive to the economic cycle, as well as utilities, and have reduced exposure to growth-oriented technology and consumer discretionary stocks. The latter includes retailers, with which short selling opportunities recently have been especially profitable. Some of the best-performing long positions for hedge fund managers this year have been in the Energy sector. However, individual winning positions have not separated the top-performing hedge funds this year as much as managers' decisions around overall net exposure to the markets. Lower net exposure funds, where the portfolios have a similar amount of long and short positions, have held up relatively well. However, this posture will be challenging if markets

rebound sharply, because the hedge fund manager will capture only a limited amount of the upside. Hedge funds that continue to stay agile and appropriately size the risks are well-positioned in this environment. Macro strategies, where managers allocate across currencies, equities, fixed income and real assets, are also suited for this environment. Discretionary macro managers who dynamically position their portfolios have benefited from moves in yield curves. Systematic macro managers who follow persistent price trends have been among the best performers this year, benefitting from rising prices across the commodity complex, including food, energy and metals.

Private markets

Private markets fared better than public markets in previous large downturns.

In our prior outlook, we discussed challenging macroeconomic conditions and our expectation of softening in private markets performance. We also mentioned that private markets present several persistent attributes that allow for opportunities to outperform public markets. It is still early to assess the full impact of recent public market volatility and assertive central banks combatting persistent inflation on private investments, since private markets can take six to nine months to reflect the impact on valuations and overall funding activity levels. Looking back on the two prior market downturns, the technology-led crash of 2000-2002 and the global financial crisis of 2007-2009, our research shows muted private equity losses compared to the public market. For example, during the technology crash,

the S&P 500 Total Return Index, a proxy for large, publicly traded domestic companies, fell 44% from peak to trough while the Cambridge Associates Private Equity Index, a proxy for private equity investments, declined by 21%. Similarly, during the financial crisis, the S&P 500 Total Return Index fell 46% and Cambridge Associates Private Equity Index declined 32%. While the past is not necessarily a prelude to the future, private markets may experience a less severe correction through this cycle as well. The correction process typically takes anywhere from 12 to 36 months before the market reaches a new steady state.

The secular trends in technology are here to stay despite headlines proclaiming the bursting of a second technology “bubble.”

Headline-grabbing stories of prominent technology-focused hedge funds experiencing sharp performance declines in 2022 have precipitated speculation about the bursting of the latest technology bubble, pointing to hedge fund managers' private market investments as a primary contributor to negative returns. However, private market portfolios have yet to reflect the valuation impact, since the process takes six to nine months to materialize, and it is a bit premature to assume similar outcomes for private market investments. The fate of the Technology sector through this cycle has not yet fully played out, and our initial take is a bit more nuanced than anticipating a broad-based collapse of the sector.

Growth investing requires a different approach to valuing companies' prospects than does a mature

business. For example, mature businesses tend to have better visibility into their earnings and cash flows, so performing traditional financial market analysis can be a relatively straightforward exercise. In contrast, a early-stage growth business requires predicting future cash flows based on the effectiveness of the company to turn capital investments into future cash flows. The further out in the future one must go to predict cash flows, the greater the impact of higher interest rates and economic headwinds on the valuations. In the low interest rate environment experienced over the past decade, investors paid higher prices for higher anticipated future cash flows, abstracting valuation based on non-traditional indications of future cash flows. For example, investors attributed value to the number of users on a social media platform, assuming those users would produce revenues for the business in the future.

Market conditions have changed significantly over the past few months, with persistent and higher-than-expected inflation combined with rising interest rates leading to increasing investor concern of an economic recession or corporate profits contraction ahead. Assessing this changed macroeconomic environment, investor preference has shifted toward businesses with more visible current cash flow streams as a “flight to safety.” Rising interest rates and capital outflows produce a dual hit to the valuation of growth businesses in the public markets, and recent markdowns have been magnified for more speculative businesses.

Private market growth stage companies have experienced similar excesses since the pandemic, but to a lesser extent than comparable public market companies. The valuation impact in private markets has yet to materialize given the pricing lag. We anticipate private market valuations will also come down over time, but to a lesser extent than public markets since the runup in prices was not as exuberant. The key consideration is that the secular trends of digitization and consumer preference for technology-enabled services remain ongoing, providing revenue growth opportunities for companies offering products and services that create value for the user. These quantifiable secular trends differentiate this cycle from the early 2000 tech bubble and ascribing “clicks” to future revenues and profits.

We anticipate differentiated outcomes for private market businesses going forward.

The most immediate valuation contraction will be observed in late-stage companies that planned to list in the public markets over the next 12 to 18 months either through an initial public offering (IPO) or through a merger with a special purpose acquisition vehicle (SPAC). Investors’ exuberance was most concentrated in technology companies in this stage. The companies in earlier developmental stages are more insulated from public market volatility and, consequently, experienced materially less valuation froth compared to public companies. Investor sentiment has dramatically shifted from “growth at any cost” to valuing capital discipline. Companies with sound business models, capital

efficiency and a large market to grow into will continue to attract capital. Companies lacking those characteristics may see their valuations most impacted and some may potentially go out of business. This much-needed overall shift away from chasing valuations at any cost to focus on good business fundamentals is healthy for markets over the long term.

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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.

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. **Special Purpose Acquisition Company (SPAC)** managers may be unqualified or incompetent, a risk made more pronounced by lack of any operating history or past performance of the SPAC. There is a risk that an acquisition may not occur, and the investment may decline in value even if the acquisition is completed.