# 4Q 2021 investment outlook

## Quarterly Outlook

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### Executive summary

As we begin the year's final quarter, we retain a positive outlook for diversified portfolios and economic growth. Despite a solid total return environment for many asset classes, especially traditionally riskier ones, the year's final stanza will present some challenges to a generally placid investment backdrop. We are in a transitional time period, with the world adjusting to a persistent pandemic, potential changes to central bank policy that has been mostly pro-growth and markets digesting dogged inflationary pressures.

In the segments that follow, our investment leaders share their perspective across asset classes and geographies as we work to synthesize what may impact markets and your portfolio. As always, we appreciate your trust and welcome any questions you may have. Our best wishes for a safe and healthy end of the year to you and yours.

### Global economic views

**Above average but moderating growth is our base case for the near term, with meaningful risks from the coronavirus and inflation.**

The global economy accelerated into the third quarter, with economic reopening lapping the depths of COVID-related social distancing. The spike in global infections and hospitalizations from the emergence of the coronavirus Delta variant suppressed third quarter activity. Shortages of major goods, such as semiconductors and automobiles, are driving higher prices. Key questions and risks remain as we move through 2021 and enter 2022, which could lead to further slowing or drive a reacceleration in economic growth. These include coronavirus vaccine efficacy against further mutations, changes to Federal Reserve (Fed) and global central bank monetary policies, increases in U.S. tax rates, persistent inflation pressures and ongoing shortages in labor and goods.

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**The United States is confronting policy risks as growth and inflation moderate toward longer-term average levels.**

Fiscal stimulus and low interest rates provided meaningful support to the U.S. economy. We are likely past peak economic growth acceleration following the pandemic-induced shutdown, though the softer patch in 2021's third quarter will likely lead to reacceleration into early 2022. Policy risks, including tax increases and changes in the Fed's bond purchase program, imply a wide distribution of potential outcomes into 2022. Our base case is for growth to remain above long-term average levels into 2022, then slowing into year-end as fiscal stimulus benefits conclude.

Inflation rates are likely to remain above long-term averages for much of the remainder of this year before slowing toward the Fed's 2 percent target next year. The economy faces both positive and negative risks in the near term: First, the slow uptake in job openings could lift wages and drive inflation higher for longer as companies raise prices to compensate; second, should shortages cause companies and consumers to abandon spending plans, prices could slip as activity falls.

**Vaccination progress is helping developed markets' recovery.**

Europe and Japan are in recovery after struggling to exit recession at midyear. An acceleration in vaccination rates allows more economic reopening, normalizing economic activity. Economic growth rates are likely to remain near long-term average levels. Automatic economic stabilizers, such as generous unemployment assistance, mean there is less pent-up consumer demand as the economy reopens. Global inflation pressures are a risk to the pace of economic growth, should major central banks alter policies in response.

**Despite an early recovery, emerging markets are still combating COVID risks.**

China and major emerging market economies escaped first from pandemic shutdowns and have moved into the more moderate growth expansion phase of the economic cycle. Coronavirus vaccination rates have been more limited relative to the United States and Europe, which has meant swifter reactions to limit transmission. Slower growth has led China to loosen credit policies to support the economy. However, China has also increased regulation of key industries, including education, finance and technology, which increased investor concerns about the pace of growth and innovation. Ultimately, China appears likely to continue its economic expansion, but at a slower pace than experienced prior to the pandemic. Risks to growth in China and other emerging markets include the slow pace of coronavirus vaccinations, continued evolution of regulations and global central bank policy tightening in response to inflation pressures.

## U.S. equity markets

**Rising earnings, moderate inflation and low interest rates continue to provide valuation support and the basis for U.S. stocks to trend higher into year-end.**

Analysts have revised consensus earnings estimates for S&P 500 companies in 2021 to more than $200 per share, up from approximately $165 at the start of the year, according to Bloomberg, FactSet Research Systems, and S&P Global. Interest rates remain low, with the 10-year Treasury bond yielding 1.5 percent, and we contend time is still required to determine whether recent inflationary measures will be sustained or merely transitory and associated with pandemic-related supply chain disruptions and uneven economic reopening.

We are encouraged by rising revenue and earnings expectations over the next few quarters. Analysts project revenue and earnings growth rates will decelerate as comparable year-ago sales levels become more challenging following the economic recovery from the March 2020 lows. However, consensus expectations for earnings levels in the next three quarters have progressively improved from March, June and September projections. This is among reasons we maintain a positive outlook for equities.

**Broad-based sector performance and below-extreme valuations support our glass half-full outlook.**

The S&P 500 ended the third quarter up 14.7 percent for the year, above the historical longer-term annual average of roughly 10.5 percent. All 11 S&P 500 sectors have generated positive returns, with nine of 11 sectors rising

9 percent or more. The defensive-oriented Consumer Staples sector is lagging behind secular and cyclical growth sectors, customary during periods of economic recovery and expansion, but is still up 2.6 percent as of end of third quarter demonstrating broad market participation. Positive broad-based sector performance is typically indicative of a market that is poised to grind still higher.

We regard valuation, or the price investors pay relative to a company's or index's underlying fundamentals such as earnings, as being within a "zone of okay" — elevated, yet short of extremes. The S&P 500 ended the third quarter trading at roughly 21 times consensus 2021 earnings of $201, below the dot-com era extremes of nearly 30 times in 2000 and below pre-pandemic 2019 levels of roughly 28 times. According to Bloomberg and the U.S. Bureau of Labor Statistics, based on data extending back to the 1950s, price-earnings multiples typically don't become compressed, resulting in lower equity prices, until periods of sustained inflation exceeding 4 percent.

Factors that have recently helped propel equity prices higher may be on the cusp of changing, potentially fueling increased volatility while weighing on future performance.

We retain a favorable outlook for equity performance as we look through year-end to 2022, though we anticipate more subdued returns compared to those experienced so far in 2021. Investors' list of worries includes the impact of COVID variants on the pace of economic and earnings growth, inflationary trends that may prove to be sustained versus transitory, monetary and fiscal policy changes, and geopolitical events. We continue to monitor these risks for their potential to weigh on equity valuation and prices. The release of third quarter earnings results, along with companies' forward guidance, are among immediate catalysts that we expect to impact equity prices into year-end.

## Foreign equity markets

Despite recent positive performance, foreign developed equities retain catch-up return potential. Muted inflation, relatively low interest rates and still-accommodative monetary policies across Europe and Japan provide valuation support for foreign developed equities. Earnings remain upwardly biased, providing the basis for prices to move higher. Since the beginning of the year, analysts have revised full-year 2021 earnings estimates higher by 26 percent, a larger upward revision than in domestic or emerging market equities. Performance has been broad-based — 10 of all 11 sectors have posted positive returns in 2021 and nine of the top 10 countries by index weighting have delivered double-digit gains, with strong performance across Japan, Australia, continental Europe and the United Kingdom (U.K.).

**Vaccination progress is driving economic reopening and equity performance in foreign developed markets.**

Authorities have administered at least one vaccine dose to 73 percent of France's total population and 65 percent of Germany's, and the recent Delta variant surge appears to have crested in Japan. Commensurate with vaccination progress and decelerating Delta variant growth, foreign developed equities as measured by 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) set a new all-time high in the third quarter, finally eclipsing the previous high set all the way back in October 2007.

Sectors historically sensitive to the economic cycle, such as Energy, Financials, Industrials and Materials, comprise more than 40 percent of the MSCI EAFE Index, a larger proportion than in domestic or emerging market equity indices. These cyclical sectors have delivered double-digit year-to-date performance gains, as has the Consumer Discretionary sector, which reflects relaxed activity restrictions and consumers' increased mobility and confidence. Due to high cyclical sector exposure, foreign developed equity performance is sensitive to investors' future economic growth and inflation expectations and prices that typically rise during economic recoveries and expansions such as crude oil.

Looking ahead to the fourth quarter and to 2022, foreign developed equities retain catch-up return potential relative to domestic large-, mid- and small-cap equities if vaccination progress continues and the global economy continues to recover and reopen. While 2021 performance has been positive and broad-based across individual countries and economic sectors, foreign equities continue to lag domestic alternatives, only recently setting a new all-time high, suggesting investors have not yet fully priced in the region's recovery potential.

Longer term, however, we still retain a strategic bias toward U.S. equities due to Europe's and Japan's more challenging demographics and less secular growth-oriented equity markets. For example, innovative-oriented Technology and Healthcare sectors comprise nearly 41 percent of the domestic S&P 500 Index versus a 23 percent weighting in the EAFE index.

**Vaccine progress and China policy outcomes remain key catalysts for emerging market equities' prospects.**

Emerging market equities, as measured by the MSCI Emerging Markets Index, have taken investors on a tumultuous ride in 2021. After setting a new all-time high in February, price volatility returned through the spring and summer months. Investors digested India's Delta variant's case surge, Chinese regulators' increasingly assertive capital markets oversight and a rise in U.S. Treasury yields (which help set the price for global borrowing) from a low of 0.5 percent in August 2020 to a high of 1.7 percent at the end of 2021's first quarter. Emerging market equity investors experienced a greater than 15 percent decline from February's peak to the August lows before recovering most of the losses. The modest year-to-date price decline belies the volatile path emerging market equities have taken this year, in sharp contrast with domestic equities' steady price performance.

As we contemplate emerging market equities' future growth prospects, we continue to view return opportunities and virus/policy risks as reasonably balanced. Low interest rates, a relatively stable dollar, accommodative monetary policies and continued global reopening amid vaccination progress support ongoing corporate profit growth recovery and future price appreciation.

**Diversified investors need to consider rule of law when allocating assets across the globe.**

In the United States, regulatory and other policy changes that impact capital markets are infrequent and often relatively well-telegraphed through election candidates' policy platforms and Congressional deliberations.

Over the past year, China's regulatory authorities have asserted greater control over key industries, targeting companies' anti-competitive practices, individuals' data security concerns, more equitable income distribution and soaring education costs' negative impact on family formation. While understandable from a policy analyst's perspective, the collective regulatory action's swiftness, breadth and decisiveness leave capital market practitioners with little "edge" in anticipating regulators' next actions, highlighting the additional rule of law risks that investors in emerging market equities must navigate and the additional policy uncertainty, or risk premium, they price across emerging markets.

**Longer-term thematic growth opportunities in emerging market equities remain intact.**

While we remain attuned to policymakers' actions and capital market reaction, we continue to see opportunities for diversified investors related to emerging middle-class consumers' increasing purchasing power across Asia, Latin America and other geographies. Also, while China's demographic profile remains challenged due to historical one-child policies that are proving difficult to reverse, emerging economies typically exhibit higher population growth rates than developed economies with lower dependency ratios (the proportion of elderly and young that a working-age population needs to support), which buoy higher long-term economic growth rates.

Finally, despite emerging markets' heterogenous makeup, inclusive of countries across Asia, Latin America, Africa, Europe and the Middle East, China's fortunes have an outsized impact in the MSCI Emerging Market Index. Chinese-domiciled companies comprise the largest proportion of the index's country exposure, and China's largest publicly traded companies are consumer-oriented e-commerce, mobile gaming and social media enterprises at the center of regulators' recent scrutiny. Along with vaccination progress and the path of U.S. interest rates, China's policy outcomes remain a key factor for emerging equities' fortunes as we conclude 2021 and look toward 2022.

## Fixed income markets

**We anticipate subdued bond returns going forward due to low yields and likely Fed bond purchase reductions.**

Treasury bond yields drifted slightly lower through most of the third quarter, with the Delta variant tempering expectations for eventual interest rate hikes from the Fed. We anticipate the Fed will begin reducing its bond purchase program, a process known as quantitative easing, later in the fourth quarter this year. However, interest rate hikes are far from imminent and are unlikely to occur any sooner than mid-2022 and possibly 2023. Significant job growth remains a prerequisite before the Fed eventually increases policy rates. Market odds of an interest rate hike by the end of 2022 remain near 90 percent, with two to three rate hikes currently priced into the by the end of 2023.

Low yields across most bond categories limit future returns. Growth, inflation, policy stimulus, and strong credit fundamentals remain tailwinds for favoring riskier bonds over safer investment-grade bonds for now. However, we acknowledge risks to our view, such as slowing growth paired with more persistent inflation, or deteriorating investor sentiment. Furthermore, high-quality bonds continue to provide important portfolio diversification qualities. The best opportunities persist in higher-yielding segments of the market like non-agency mortgages, bank loans and below investment-grade municipal and corporate bonds, where borrower balance sheets are strong.

**High prices mask municipal bond opportunities in certain riskier bonds with higher yields.**

Municipal bonds continued their trend of strong performance but may have limited scope for further price gains due to high valuations. We anticipate tax-exempt coupon income will drive returns and outperformance, because new issuance supply is unlikely to keep pace with demand. The riskiest high yield municipal bonds performed the best in the third quarter, extending their stretch of outperformance relative to safer investment-grade bonds. Tax-adjusted yields remain attractive versus other bond categories but appear expensive relative to their own historical average values.

Strong issuer fundamentals from state and local tax revenue that now surpass pre-pandemic levels, along with fiscal stimulus that directed $350 billion toward state and local governments earlier this year, bolstered municipal issuers' credit quality. Municipal defaults remained rare in 2020 during the pandemic and in the first three quarters of 2021, validating our view that issuer credit quality remains strong.

Municipal bonds represent a shrinking proportion of the U.S. and global bond market, falling from around 8 percent of U.S. bonds outstanding in 2008 to only 3 percent today. Low new issuance levels are colliding with strong demand for tax-exempt income as high earners face the possibility of higher income tax rates.

We see opportunities in holding some riskier high yield municipal securities to boost income, while keeping most municipal bond exposure high quality to ensure portfolio diversification. The high yield municipal market remains a patchwork of esoteric bonds with less exposure to traditional state and local government borrowers, so diversification and active credit management is critical.

**U.S. corporate bonds appear near fully valued, but still serve as an important income source.**

Corporate balance sheets remain strong, with high cash balances, strong cash flow generation and improving earnings relative to debt servicing costs. Corporate defaults have been near zero in recent months, while corporate bond credit ratings are stable to improving.

Strong corporate issuer fundamentals justify high prices, though investors should not anticipate significant further price gains. Corporate bond yields relative to Treasuries remain very low compared to history for both investment-grade and high yield bonds, setting the stage for relatively low forward returns heavily dependent on income generation. Riskier high yield corporate bonds have additional room to perform well due to meaningful incremental yield, low default rates, strong investor demand for income and a recovering economy. We also see value in bank loans, which typically take priority over corporate bonds in order of issuer payments (they are "senior" to corporate bonds in a company's capital structure) and have less interest rate sensitivity. Loans are also less expensive relative to historical yield comparisons versus Treasuries. If Treasury yields rise, investment-grade corporate bonds may face disproportionate price pressure due to elevated interest rate sensitivity compared to high yield corporate bonds.

**Opportunities remain in non-government-backed residential mortgage bonds relative to traditional bonds.**

Compelling value persists in mortgage bonds not backed by the government due to strong fundamentals and high incremental yield versus Treasury, corporate and municipal bonds. In contrast, government-backed mortgage bonds appear unattractive given low yields. Furthermore, the Fed has been purchasing a significant proportion of government-backed mortgage bonds relative to new supply, which may have artificially supported prices. We expect the Fed to begin reducing bond purchases later this year, which in turn should allow yields to rise and prices to fall.

For mortgages not backed by the government, transitions from current to past-due payments returned to pre-COVID levels. Strong home price appreciation significantly improves loan-to-value ratios of underlying loans, providing an incentive for borrowers to remain current. Lower interest rate sensitivity reduces another risk factor versus other bond categories. We reiterate our preference for residential mortgages not backed by the government and a negative view of government-backed mortgages.

## Real asset markets

**Higher interest rates could derail Real Estate sector returns.**

Publicly traded real estate securities outperformed the broader market in the third quarter as longer-term interest rates declined and the economic recovery took hold. Economic reopening led apartments to be a sector leader, though most real estate sectors saw gains. Fundamentals are under some pressure as activity returns to normal. Pricing is elevated, reflecting the competition for income in this low interest rate environment. Forward prospects are driven by a balance between higher interest rates, the pace of the return to office and owners' ability to raise rents.

Property fundamentals have improved from depressed levels across key sectors, including retail properties, offices and apartments. Retail vacancy rates have improved and net operating income (NOI, revenue minus operating expenses) growth rates rose from extremely depressed levels. Office tenants are making space available on a sublease basis and the uptake of vacant space remains challenging. A healthy construction pipeline could maintain pressure on office fundamentals. Apartment markets have been appealing as tenants move back to the large cities, causing vacancy rates to decline, and rents have been rising back to pre-pandemic levels in most cities across the country.

Income growth is likely to moderate as the market rebalances and economic activity returns toward normal. Property valuations remain near historical highs, but inexpensive credit should support prices and investment growth. Commercial mortgage interest rates are below the average earnings yield on Class A property, so investors may still generate attractive returns on property investments.

As we peer into 2022, growth resulting from a return to a somewhat normal economy should be a positive for property prices. Rising growth along with increasing inflation is normally positive for commercial real estate because rent increases offset rising borrowing costs. Due to current excess capacity, landlords may struggle to raise rents across many commercial property markets. Additionally, the secular growth Real Estate properties — cell towers, data centers and industrials — appear priced to perfection. If interest rates rise too far, incomes relative to property prices could become dislodged from their historic low levels and move higher, hurting investor returns. Therefore, we remain tactically cautious with the understanding that changes in interest rates can have an outsized impact on property market performance going forward.

**Improving global economic prospects and relatively constrained near-term supplies are supportive of cyclical commodities.**

Commodity markets, from industrial metals to agriculture, have risen dramatically this year, but those gains slowed dramatically in the third quarter. In fact, the crude oil market declined 7.5 percent during the quarter, even as domestic supplies continued to contract. Additionally, copper prices were essentially unchanged in the third quarter despite tight supplies in that market. Looking toward the rest of the year, 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 higher prices.

The world's three largest crude oil producers (the United States, Saudi Arabia and Russia) reduced supply considerably in support of prices. Additionally, global demand is improving, and crude oil inventories have fallen, especially with the recent shut-down in Gulf of Mexico output due to Hurricane Ida. The Organization of the Petroleum Exporting Countries (OPEC) and its allies have cooperated to closely manage increasing output. Additionally, U.S. shale producers have become better stewards of capital focused on returning cash flow to shareholders and managing investment in production. As a result, domestic production has barely risen despite the large increase in prices, and the crude oil market is currently undersupplied. If this loose coalition can refrain from over producing, the oil market is likely to remain undersupplied going forward and moderately higher prices could result.

Prospects for economic growth will drive industrial metals prices in the fourth quarter. Limited investment growth in productive capacity is creating limitations in supplies, due to the depletion of older mines. Replacing this output requires new investments, just as demand for industrial metals is ramping from construction, vehicle production and the electrical grid.

## Alternative investments

**Hedge fund managers aim to hold onto strong returns by staying nimble.**

Performance through the first three quarters this year has been strong on an absolute basis. Although relative returns have lagged behind broad market indices, most hedge fund strategies are generating some of their strongest returns in years. We see positioning directed at broader capital market and economic trends and anticipated changes in capital allocations, such as investors' willingness to pay a premium for income in today's low interest rate environment. Hedge fund allocations also reflect a wider range of potential outcomes for their target markets moving forward, anticipating a market environment with higher volatility. While this positioning may reflect an inherent bias toward a volatility environment that creates opportunities for hedge fund strategies, we also anticipate greater market divergence and opportunities among interest rates, bonds and equities as the global economy emerges from COVID-19.

Short-term allocation decisions have also contributed positively to performance this year. Hedge fund strategies often exhibit high turnover due to tactical trading. At the start of 2021, hedge funds favored companies that benefited from economic reopening and subsequently rotated into sectors historically sensitive to the economic cycle, such as Energy and Materials. Most recently, hedge funds have been reluctant to invest in China. The increased regulatory rhetoric has expanded beyond the summer sell-off of long positions in U.S.-listed China internet stocks. Hedge fund managers have reduced investments in other Chinese sectors and neighboring countries, while also selectively adding to short positions, or investments that stand to gain if asset prices fall. We expect managers will remain nimble in the fourth quarter amid the confluence of expiring extraordinary unemployment assistance, recent Delta variant spread and back-to-school and return-to-work dynamics and stand ready to adjust positions quickly to hold onto gains achieved during the year.

## Private Markets

**Upward-trending markets continue to support a strong year for initial public offerings (IPOs) while Special Purpose Acquisition Companies have faced regulatory headwinds.**

The U.S. IPO market has already posted the busiest year since the dot-com era in 2000, and we anticipate a flurry of opportunities in the fall. August was the busiest month for new issuances in more than a decade, according to research by Renaissance Capital. The S&P 500 has set 54 new all-highs in 2021 as this publication went to press, supporting a deep IPO pipeline of companies valued at greater than $1 billion (known colloquially as “unicorns”) and greater than $10 billion (“decacorns”). Many of these private companies are well-known names, such as Warby Parker and Toast, and their public listings are eagerly awaited by investors. Based on historical trends and both confidential and public IPO filings, Renaissance Capital expects 90 to 110 U.S. IPOs to raise $30 billion through year-end, assuming the equity market remains strong. The current pipeline contains a strong backlog of technology, consumer and biotechnology companies.

The technology sector’s strong performance is creating a feedback loop with a trove of companies lining up to go public. Technology companies comprised almost half of IPO proceeds this year. Enterprise software companies achieved strong growth during the pandemic, and upcoming deals include ForgeRock, iCIMS, and Amplitude. As digital payments gain greater public acceptance and adoption, financial technology companies such as Toast and Remitly are preparing to go public. Also, the rebound in Bitcoin prices is supporting cryptocurrency miners such as Stronghold Digital Mining and Argo Blockchain to join a growing list of U.S. cryptocurrency stocks.

Meanwhile, the outlook for Special Purpose Acquisition Companies (SPACs) has been less rosy. SPACs are shell companies that raise money by going public in an IPO with the promise of merging with a real company within two years. The pace of new SPAC issuances slowed recently after the Securities and Exchange Commission (SEC) introduced new guidance and made stricter regulation a priority. Federal agencies have opened investigations into some recent SPAC merger companies, highlighting the additional risks investors must navigate when assessing SPACs’ investment potential. The CNBC Post SPAC Index of the largest SPACs that have announced a merger is down by 29 percent year-to-date, and two-thirds of SPACs that went public in 2021 — most have yet to identify a merger target — are trading below their offer price. However, we expect new SPAC issuances to continue despite these growing pains and provide a viable path for private companies to access public markets.

This commentary was prepared in September 2021 and represents the opinion of U.S. Bank Wealth Management. The views are subject to change at any time based on market or other conditions and are not intended to be a forecast of future events or guarantee of future results and is not intended to provide specific advice or to be construed as an offering of securities or recommendation to invest. Not for use as a primary basis of investment decisions. Not to be construed to meet the needs of any particular investor. Not a representation or solicitation or an offer to sell/buy any security. Investors should consult with their investment professional for advice concerning their particular situation. The factual information provided has been obtained from sources believed to be reliable but is not guaranteed as to accuracy or completeness. Any organizations mentioned in this commentary are not affiliated or associated with U.S. Bank or U.S. Bancorp Investments in any way.

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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.

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