Synchronized Global Recovery on the Horizon

Nick Niziolek, CFA, Co-CIO, Senior Co-Portfolio Manager
Dennis Cogan, CFA, SVP, Senior Co-Portfolio Manager
Paul Ryndak, CFA, SVP, Head of International Research
Kyle Ruge, CFA, AVP, Senior Strategy Analyst
1Q 2021 Global Equity Market Review

The first quarter of 2021 can be divided into two distinct periods. During January and early February, emerging markets outperformed developed markets, and growth equities slightly outperformed their value counterparts. The U.S. dollar was relatively stable versus most major currencies while U.S. bond yields appreciated at a measured pace.

The environment changed dramatically in mid-February. During the second half of the quarter, global value stocks outperformed global growth stocks by nearly 1,000 basis points. U.S. equities provided the only positive returns, with emerging markets significantly underperforming on concerns about a strengthening dollar and rising rates. While it is difficult to identify a single event that sparked rotation, the speed of Covid-19 vaccinations in the U.S. was a key factor. While the U.S. vaccination rollout proceeded at a brisk pace, there were vaccination delays and lockdowns overseas. This resulted in a significant near-term change in for U.S. and non-U.S. economic growth, which was reflected in the U.S. dollar and U.S. bond yields.

Since late December, global markets have navigated a string of extraordinary developments that historically might have muted returns or even caused steep and sustained drawdowns. But instead, the predominant focus of markets has been on the strength and global scale of the rebound in growth that is beginning to unfold. Though the early stages of this rebound have been uneven across the world, driving understandable relative return gaps across regions, we anticipate that once Covid case growth begins to slow in Europe and vaccine rollouts accelerate globally, overseas markets can lead. In the pages that follow, we’ll share our updated view on the U.S. dollar, global interest rates, and other key issues that shape our global outlook and positioning.

**FIGURE 1. GLOBAL ASSET CLASS AND SECTOR RETURNS (%), 1Q 2021**

![Chart showing global asset class and sector returns for 1Q 2021.](chart.png)

*Past performance is no guarantee of future results. Source: Bloomberg. MSCI Index data shown for Europe, Japan, Emerging Markets, World ex U.S. and All Country World (ACWI). Currency indexes for the euro, British pound and Japanese yen are shown per USD. High Yield is represented by the ICE BofA HY Index. 20+ Year Treasury represented by the ICE BofA Treasury 20+ Bond Index. The U.S. Dollar Index, represented by the DXY Index, measures the value of the U.S. dollar relative to a basket of foreign currencies, including Euro Area, Canada, Japan, United Kingdom, Switzerland, Australia, and Sweden. Oil is represented by for Brent crude, CRY is the Thomson Reuters/Core Commodity CRB Commodity Index. Please see end notes for additional index disclosures.*
Synchronized Global Recovery on the Horizon

GLOBAL CURRENCIES AND YIELDS
Despite the countertrend rally of the broad U.S. Dollar Index during the quarter, we continue to believe the dollar is in a stable-to-downward trend versus most major currencies. And, as we have noted, it’s normal and healthy to witness months or quarters of U.S. dollar strength within such a longer-term downtrend trend. The dollar remains “expensive” relative to most currencies when viewed from a purchasing power parity basis. Valuation alone is not a catalyst, but we believe the recent increases in budget deficits, trade deficits, and the Fed’s evolving inflation averaging framework provide the catalysts to unlock these valuation differentials. (For more on this, see our post, “Cyclical Themes: Outlook for the U.S. Dollar.”)

Changes in the U.S. Dollar Index (DXY) can be a valuable technical indicator, but it’s important to look beyond the headline number to understand how the constituents of the index are driving the overall trend. The DXY tracks the performance of the dollar against a basket of currencies, but these currencies have different weights within the index and may not move in tandem versus the dollar. In regard to this most recent episode of dollar strength, the euro has been the key driver. Representing 57% of the index, the euro can exert a particularly strong impact on the index as a whole, and its 4% decline over the quarter was the largest contributor the DXY’s 3.7% gain.

With vaccine rollout delays, increasing Covid cases, and another round of targeted lockdowns in Europe, expectations for the European economic recovery were pushed out—at the same time the U.S. was experiencing the exact opposite conditions. While these developments may have changed our short-term expectations for the pace of recovery in the U.S. and Europe, we still anticipate a better 2H 2021 globally, as vaccine rollout accelerates and more countries achieve herd immunity via vaccination and natural immunities. As the Northern Hemisphere heads into the summer, when contagious illnesses often decline, Europe and other countries lagging in vaccinations will have time to catch up. We also anticipate that the pace of vaccinations will slow in the U.S. as maximum vaccination levels are reached; this should push the rate-of-change differential further in favor of ex-U.S. markets.

The euro was the largest contributor to the U.S. Dollar Index’s gain during the quarter, but it is also worth noting that the weakest G-10 currency during the quarter was the Japanese yen. The yen tends to be a safe haven currency within Asia, and its weakening aligns with our expectation for stronger global growth going forward, as well as the desire of global investors to allocate risk to benefit from this acceleration in global growth.

Additionally, several currencies reported positive returns versus the U.S. dollar during the quarter. These included the currencies of countries with large commodity exports, such as Canada and Norway. The British pound also gained, as the U.K. was one of the few countries to vaccinate a higher percentage of its population than the United States. Given our analysis of the key factors that have contributed to recent U.S. dollar weakness and our expectations for these factors going forward, we continue to believe that the U.S. dollar remains in a stable-to-weakening trend against most major currencies. This trend can continue to be a tailwind to non-U.S. risk assets as global recovery strengthens.

FIGURE 2. THE DOLLAR AND TWIN DEFICITS

FIGURE 3. 1Q21 G-10 CURRENCIES


Past performance is no guarantee of future results. Source: Bloomberg. Data from 12/31/20 to 3/31/21.
Changes in U.S. yields across the term structure have been another significant factor in the market’s recent rotation. Although we expected longer-term rates would normalize as confidence grew about the global economic recovery, we did not expect this normalization would be a material risk to global equity markets during the first quarter, particularly in light of the Federal Reserve’s stated intention to remain accommodative well into the recovery. We also did not anticipate how the speed of U.S. long-term rate normalization would combine with vaccination rollouts of varying speed to impact regional market performance.

Although we believe long-term rates will keep moving higher as global recovery continues, we also believe the pace of the ascent from here will be more gradual than in 1Q 2021. Given the amount of debt that governments around the world have added to their balance sheets during the Covid crisis, it is not in countries’ best interests to see funding costs rise too quickly. At current levels, U.S. real rates are now more competitive globally, and we anticipate foreign buyers will return to U.S. Treasury auctions if rates move considerably higher.

Rotating our positioning toward cyclical equities continues to make sense given improving global growth and the reflationary pressures higher long-term yields reflect. However, this increased cyclical exposure has not precluded maintaining exposure to secular growth companies that continue to innovate and disrupt the industries in which they compete. If the U.S. 10-year Treasury yield increased to approximately 3%, this would approach 2018 highs. In our view, the outperformance of many secular growth stocks over the past few years had more to do with improving fundamentals as adoption rates accelerated and total addressable markets increased, as opposed to a re-rating based on the decline in long-term rates. So, while we expect outperformance of cycicals given relative valuation opportunities and greater leverage to improving global growth, we don’t believe this will come at the full expense of secular growth stocks. The greater vulnerability lies in defensive sectors that are more fully valued and which will not see the same fundamental inflection as cycicals. We are also steering clear of disrupted business models that can often be viewed as “value” but which are facing permanent headwinds that will further erode what limited value they have.
UNITED STATES
During the first quarter, U.S. equities continued to climb the proverbial “wall of worry.” The S&P 500 Index ultimately returned 6.2%, outperforming broad global benchmarks, although the ride was bumpy. Market participants confronted worries from all sides: violence at the U.S. Capitol, hedge fund de-grossing caused by “short attacks”, the passage of another massive fiscal stimulus package, a huge infrastructure proposal, more U.S.-China headlines, the implosion of a multi-billion-dollar family office, a chip shortage that squeezed supply chains in multiple industries, winter storms and power shutdowns in Texas and the broader Mid-South region, and finally, the misadventures of a giant containership stuck in the world’s busiest trade artery.

As extraordinary as many of these events were, the most notable market development during the quarter was the significant rise in U.S. Treasury yields and curve steepening that began in mid-February. A primary catalyst for this was the significant progress in the U.S. vaccination effort, which raised optimism that the economy would normalize and that consumers would draw down historically elevated savings balances—balances that received yet another boost from this current round of stimulus. Meanwhile, the Fed maintained its commitment to easy monetary policy despite higher inflation expectations and kept short-term rates well anchored.

Within U.S. equities, the result was clear outperformance by value and cyclical stocks as compared to growth stocks, extending a trend that began in early November when Pfizer announced vaccine efficacy results. This increased cyclical tilt in the market was in line with our expectations (see our 1Q 2021 and 4Q 2020 outlooks).

Within the U.S., the primary driver of value outperformance versus growth was relative valuation trends. Value P/E multiples remained stable for the quarter while growth multiples de-rated—although underlying earnings estimate improvements were similar within both groups. When we look at overall U.S. outperformance versus global ex-U.S. markets through that lens, relative valuation trends were the main drivers as well. In the U.S., P/E multiples de-rated less than those in global ex-U.S. markets, all while earnings estimate improvements were actually slightly better outside the U.S., as shown in Figure 7. (Note: this table applies a geometric return rather than addition.)
We continue to favor a greater balance of cyclical and secular growth, given our expectations that the dollar will return to a downtrend over the next several quarters. As more of the world catches up to the U.S. in vaccinations, we believe we will see the kind of synchronized global growth acceleration we expected earlier and ex-U.S. markets will resume the outperformance that started in the fourth quarter.

Aside from alleviating the economic disruptions caused by Covid, the biggest factor supporting a favorable cyclical outlook is the Fed’s changed policy framework regarding inflation (see our blog post “Taper Tantrum redux? History rhymes, but it rarely repeats”) and its intention to let near-term inflation readings exceed its 2% target to make up for past shortfalls and ensure sustained economic recovery. Fiscal stimulus also provides a near-term tailwind. But it is important to recognize that the fiscal boost can be short-lived and comes with longer-term costs. Massive stimulus packages drive massive budget deficits, which in turn pile onto already massive piles of debt. All debt eventually gets paid with someone’s equity, as the Calamos team has noted through the years. Today, that looks likely to happen via a combination of higher taxes and inflation, neither of which contribute to a capital-friendly environment. The push to higher taxes has already been communicated in the “Made in America Tax Plan.” To be clear, the U.S. is certainly not unique across the world when it comes to elevated government debt levels, but the relative growth does stand out. This is another key reason why the likeliest direction for the dollar is downward and why we believe investment opportunities outside of the U.S. offer better risk/reward.

With regard to monetary policy, debate continues about how committed the Federal Reserve is to leaving policy easy while inflation expectations and interest rates rise. We are inclined to believe the Fed’s communications, but there is a risk that policy does tighten earlier than expected if the Fed can’t “walk the talk.” This would be a headwind to our global reflationary outlook and would likely be negative for global risk assets, including equities. But we think this is a low-probability risk at present.
EUROPE

The headlines out of Europe ex-U.K. were mostly negative this quarter, including reports of slower vaccine rollouts, vaccine safety concerns, and new Covid lockdowns and restrictions. Despite these near-term concerns, the European market returned 4.3% (USD) during the quarter, in line with broader global equity markets. The U.K. market was the outperformer, posting a 6.4% return (USD). As we discussed, the U.K. is one of the few countries whose vaccine rollout is outpacing the U.S., and relative currency performance reflected this progress, with the British pound appreciating nearly 1% versus the U.S. dollar this quarter while the euro depreciated nearly 4%.

Our outlook for Europe remains constructive, supported by the region’s fundamental leverage to the continuing global growth rebound we expect, the encouraging resilience of the European markets during recent months of negative news flow, as well as our views on global currencies. More specifically, while vaccine rollouts have had a near-term impact, we believe the longer-term fundamentals are more conducive to resumed euro stability.

The European vaccine headlines during the quarter tended to paint a more negative picture than may be warranted. In the beginning of March, concerns were building in the EU over the AstraZeneca vaccine’s potential ties to limited cases of blood clots, which was significant as the AstraZeneca vaccine represented approximately 35% of total delivered vaccine supply in EU during 1Q. These concerns led to the temporary halt in the use of the AstraZeneca vaccine in people under 60, which caused hesitation for the 60-plus population and slowed down the overall vaccination effort. Later in the month, the halt was lifted as EU health ministers determined the benefits of the AstraZeneca vaccine outweigh the risks.

The EU lags one to two months behind the U.S. and U.K. in its total vaccine rollout effort, but its supply of total vaccines is ramping up meaningfully. Importantly, the Pfizer, Moderna and Johnson & Johnson vaccines are expected to make up more than 80% of vaccine supply growth in 2Q, compared with approximately 65% during 1Q. The EU Commissioner recently projected that the EU will have the capacity to deliver enough doses to reach collective virus immunity by the end of June, ahead of the original expectations of getting to this level by the end of summer.

As Covid cases in the EU have risen, new lockdowns have been imposed. However, the economic impact of incremental lockdowns should be less significant than earlier lockdowns. Global trade is much stronger now than it was during the 2020 lockdowns, and industries tied to the global recovery are less likely to be hindered by the short-term lockdowns that are occurring now. Additionally, the lockdowns we are seeing in 2021 are less restrictive than those of 2020. For example, in France, a person can go anywhere within a 10-kilometer perimeter, while in 2020 the lockdown was effectively house arrest. We are optimistic that the arrival of summer in the Northern Hemisphere will also help slow the spread and provide time for European vaccination efforts to reach collective virus immunity.

Despite Covid and vaccination challenges, EU economic data is still coming through positively, supporting the case for underlying corporate earnings improvement. Not surprisingly, manufacturing, which is tied more to global recovery trends, is providing more support to the economic recovery than services. Eurozone manufacturing PMI for March stood at 62.5, far above the expansion threshold and slightly better than expectations. A pickup in the vaccination trend could allow the consumer/household sector to provide additional support to the economy fairly quickly, given that household balance sheets remain very strong and the labor market remains resilient amidst managing Covid.

From a monetary policy standpoint, the European Central Bank indicated at its last policy meeting that it would speed up the pace of its quantitative easing, furthering its commitment to provide accommodative conditions. Interest rates in Europe have increased incrementally alongside U.S. rates but not at the same pace as U.S. rates, and EU peripheral spreads remain well-behaved in spite of Covid challenges. EU fiscal stimulus implementation has lagged somewhat versus U.S. fiscal stimulus plans during 1Q, but dispersals from the €750B EU Recovery Fund are expected to begin in June and offer another potential “catch-up” opportunity.

FIGURE 11. EUROZONE M1 GROWTH (DEFLATED BY HICP) VS PMI

FIGURE 12. MANUFACTURING IS SURGING, BUT SERVICES STILL SUFFER FROM EXTENDED LOCKDOWNS

Euro Area Manufacturing PMI
Euro Area Services PMI


FIGURE 13. ECB AND FED BALANCE SHEETS AS % OF ANNUALIZED GDP

Fed balance sheet as % of U.S. annualized GDP
ECB balance sheet as % of Eurozone annualized GDP


Our positioning in Europe continues to lean toward (1) more cyclical recovery/interest rate driven names that stand to benefit from a continued global recovery, and (2) Covid recovery/re-opening beneficiaries whose rebounds have been somewhat delayed but which have “catch-up” potential to reach the same trajectory that U.S. and U.K. re-opening stocks have already achieved. Looking at the U.S. as an example, as EU inoculation momentum begins in 2Q and continues through the remainder of 2021, the European equity market can start discounting the re-opening of the services sector very quickly.

JAPAN

The MSCI Japan Index returned 1.5% (USD) during the first quarter, which trailed many markets in the developed market equity universe, including the U.S. and Europe. This underperformance was heavily influenced by the Japanese yen, which depreciated 7.2% against the U.S. dollar during the first quarter as U.S. Treasury yields rose sharply in anticipation of a better U.S. economic growth outlook. As we’ve discussed previously, Covid’s overall impact on Japan has been subdued due to lower case counts relative to the rest of the world. However, an uptick in cases in January led to further government restrictions, which in turn created headwinds on consumption and economic activity during the quarter. As infection rates started to decline in February, the government began loosening restrictions and consumer activity should be returning to normal. Japan has been one of the slower countries to roll out vaccinations, which may leave it more susceptible to disruptions and potential lockdowns. In addition, the decision to bar foreign spectators from attending the Tokyo Olympics lessens the positive domestic impacts previously expected from the increase in tourism.

Despite these economic headwinds, we believe the Japanese companies in which we are invested are well positioned to benefit as the global recovery strengthens throughout 2021. The Japanese market is highly levered to the global growth environment as Japan has many high-quality industrial, technology and manufacturing companies that export their goods to the rest of the world. Consistent with what we had heard from many Japanese machinery companies in early 2021, we have seen further signs of economic activity picking up throughout the first quarter as demand for Japanese machinery, equipment and technology improves (Figure 14). Japanese exports returned to growth for
the first time in a few years (Figure 15), coinciding with Japan’s Manufacturing Purchasing Managers’ Index (PMI) finally moving into expansion territory. In February, PMI reached 51.4, the highest reading since December 2018; March brought further improvement, with PMI rising to 52.7. As the global recovery strengthens, manufacturing and industrial production in Japan should also continue to recover due to improved demand from the U.S., Europe and China. We see this as serving as a catalyst for Japan’s equity market.

There are other reasons beyond recovering global growth to be optimistic about Japan. Among them, we believe Prime Minister Suga’s continued attention to economic reforms and a new focus on the digitalization of the Japanese economy can provide additional tailwinds. In response to the global chip shortage, the U.S. and Japan announced plans earlier this month to establish a working group dedicated to securing supply chains for strategic technologies, including semiconductors, and we believe this initiative could further Japan’s contribution to global technologies. (For more on our views of the global technology sector, see our post, “Investing in Technology Innovators: The Benefits of a Global Approach.”)

Prime Minister Suga has also established a “Green Growth Strategy” aimed at cutting Japan’s net emissions to zero by 2050. Japan has not been at the forefront of many green technologies, but the policy includes grants and tax incentives that should encourage further investments by Japanese companies into green initiatives. Two potential areas for innovation by Japanese firms are hydrogen energy, where companies can build on a long history of development (see our blog post “Green” Hydrogen Opportunity: More Than a Lot of Hot Air” for more on this opportunity) and new battery technology.

After a long period of low global growth due to other structural headwinds in the Japanese economy (see our post, “Japan at an Inflection Point”), Japanese equities have been generally under-owned by many investors. As the global economic recovery continues, we believe Japan can experience a positive inflection in domestic and global investor positioning as a significant improvement in Japanese corporate profits takes place. The improvement in fundamentals, together with signs of accelerating inflation, could lead to further equity flows to Japan and a re-rating of equities. We believe our investments in leading industrial and technology companies are among those that can benefit most from these trends and an acceleration in global growth in 2021.

**FIGURE 15. JAPAN’S GOODS EXPORTS ARE ON AN UPWARD TREND COMPARED WITH A YEAR EARLIER**

![Graph showing Japan's goods exports trend](chartimage)


**EMERGING MARKETS**

Emerging market equities outperformed through most of February relative to other global equity markets, but the quarter ended with a sharp correction due largely to rising U.S. Treasury yields, a strengthening U.S. dollar, and the usual concerns about how capital flows to these markets will hold up in this environment. As we have discussed, we believe the moves in the dollar and U.S. rates can be traced back to more transitory catalysts, namely, accelerating vaccinations and fiscal stimulus in the U.S. As other countries close the gap in vaccination progress and as the initial boost of U.S. fiscal stimulus passes, the dollar is likely to weaken again for the balance of the year, settling into the multi-year regime of dollar weakness we have discussed over the past year. As a result, we believe the case for emerging markets remains strong.

Of course, we recognize there are risks to this view. One risk follows the historical cyclical playbook where developed market central banks embark on a tightening cycle that shifts real interest rate differentials in favor of the U.S., sees the U.S. dollar strengthen and capital move away from emerging markets, in turn driving underperformance of risk assets, particularly equities. Given our view that the Fed is a long way away from any such tightening of monetary policy, we see this risk as a low probability.

Another risk is that the environment for capital formation and growth becomes more attractive in the U.S. and other developed markets than it is in developing markets. As noted earlier, fiscal stimulus in the U.S. and some other developed markets can provide a short-term boost to demand, but it is unlikely to have a long-lasting impact. Indeed, fiscal stimulus as large and demand-side focused as this can ultimately create a less attractive environment for growth, capital formation, and inflation when the bill comes due.
Additionally, while the dollar has historically been an important factor in the performance of emerging market equities, it is not the only factor. In recent years, several countries that were historically more vulnerable to episodes of dollar strength have improved fiscal and/or external balances. (For more on how emerging market fundamentals have improved, see our post, “Taper Tantrum Redux? History Often Rhymes, but it Rarely Repeats.”) Although there are countries that still have a heavy reliance on U.S. dollar funding, including Chile, Mexico, Argentina and Turkey, these countries account for less than 5% of the MSCI Emerging Markets Index.

India. We are optimistic about the recent budget and reform announcement, which provided details on pro-growth stimulus and reform measures that should aid in a post-Covid recovery. India has lately seen a resurgence in Covid cases, and as is in many countries outside of the U.S., the vaccine rollout remains slow. We expect some localized restrictions to combat the rising Covid cases, which will likely have a near-term impact on growth, but believe India’s economy is well positioned to participate in a post-Covid recovery. India has become a strategic partner for the U.S. and Europe as these regions look toward new supply chain and end-market opportunities. We believe Indian companies across financials, real estate, industrials and consumer sectors can benefit from this pending recovery. Additionally, India also provides opportunities to invest in technology, manufacturing and health care companies that can benefit from developed market recovery.

China. China is in a unique position globally and one that is relatively new, as well. China has become the port in the storm, an economy that was initially hit hard by Covid but also the first to snap back. Already, the country has progressed to a targeted tightening of monetary conditions as the government focuses on upgrading the quality of economic growth as opposed to the overall level of growth. We believe
the decisions Beijing is making now will put China on more solid footing in upcoming years as global recovery takes hold. Over the near term, this may mean China doesn’t participate in the credit-induced recovery we expect to see throughout the developed and emerging world. However, it does position China to be less vulnerable to taper concerns over the medium term, while providing additional flexibility for stimulus if an air pocket occurs. Also, China’s current course arguably lends credibility and stability to Beijing’s fiscal and monetary policy at a time when deepening of domestic capital markets and the internationalizing of the yuan remain high priorities.

Over recent quarters, we have reduced our exposure to China at the margin, favoring new opportunities in India, Taiwan, Korea and Mexico. Nonetheless, China remains our largest country exposure. We have invested in secular winners in e-commerce, payments and online services, while also maintaining exposure to national brands. We have balanced these secular names by blending in cyclical exposure that can benefit from better global growth conditions. This includes the travel industry, an area that we believe will be very strong in coming quarters as borders re-open, and pent-up consumption is released, particularly given the health of the Chinese consumer.

Last month’s high-level meeting between Chinese and American officials in Alaska was quickly soured by discord, affirming our expectation that U.S.-China tensions are not likely to improve significantly under this new U.S. administration. We also continue to expect that the U.S.-China decoupling that began over the past few years is unlikely to revert in a material way, regardless of who is running Washington. We do believe the current administration’s approach to China will be better telegraphed and predictable, which should result in a reduction of the volatility we’ve seen in Chinese equities and Chinese-exposed companies in recent years. This could be a negative for some companies, but a positive for others. The boycott of Nike in China, which will likely result in market share gains for local competitors like Li Ning is the most recent example, but we’d anticipate more opportunities for national champions and localized competition.

**CONCLUSION**

We believe the case remains strong for strategic allocations to global and international strategies, including emerging markets, as economic recoveries among countries synchronize at the same time deglobalization continues (Figure 18). As we have discussed, the first quarter brought short-term disruptions, primarily due to differing paces of vaccinations, rising U.S. long-term rates and a strengthening of the dollar. Because these conditions are likely transitory, we believe non-U.S. assets, including select emerging markets are better positioned to outperform. Given the crosscurrents, we have increased cyclical exposure in our portfolios, while still maintaining meaningful allocations to secular growth innovators.

For additional commentary from the Calamos Global Equity team and information about our global and international capabilities, please visit our global resource center at calamos.com/globalmarkets.
Opinions, estimates, forecasts, and statements of financial market trends that are based on current market conditions constitute our judgment and are subject to change without notice. The views and strategies described may not be appropriate for all investors. References to specific securities, asset classes and financial markets are for illustrative purposes only and are not intended to be, and should not be interpreted as, recommendations.

As a result of political or economic instability in foreign countries, there can be special risks associated with investing in foreign securities, including fluctuations in currency exchange rates, increased price volatility and difficulty obtaining information. In addition, emerging markets may present additional risk due to the potential for greater economic and political instability.

Indexes are unmanaged, do not include fees or expenses and are not available for direct investment. The S&P 500 Index measures the performance of large-cap U.S. equities. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. The MSCI World ex U.S. Index measures developed market equities, excluding the U.S. The MSCI ACWI Index is a measure of the global stock market performance, including developed and emerging markets. The MSCI ACWI Growth Index and MSCI ACWI Value Index measure global growth and value equities, respectively. The MSCI US Index is designed to measure the performance of the large and mid cap segments of the U.S. market. The MSCI USA Value Index captures large and mid cap U.S. securities exhibiting overall value style characteristics. The value investment style characteristics for index construction are defined using three variables: book value to price, 12-month forward earnings to price and dividend yield. The MSCI USA Growth Index captures large and mid cap securities exhibiting overall growth style characteristics in the US. The growth investment style characteristics for index construction are defined using five variables: long-term forward EPS growth rate, short-term forward EPS growth rate, current internal growth rate and long-term historical EPS growth trend and long-term historical sales per share growth trend. The MSCI EAFE Index measures the performance of large and mid cap stocks in 21 developed markets, excluding the U.S. and Canada. The ICE BofA U.S. High Yield Index is an unmanaged index of U.S. high yield debt securities. The ICE BofA Treasury 20+ Year U.S. Treasury market. The Russell 1000 Growth Index measures the performance of U.S. large cap growth stocks. The Russell 1000 Value Index measures the performance of U.S. large cap value stocks. The MSCI EMU (European Economic and Monetary Union) Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of countries within EMU. The MSCI Japan Index is designed to measure the performance of the large and mid cap segments of the Japanese market. The MSCI United Kingdom Index is designed to measure the performance of the large and mid cap segments of the UK market. Purchasing Managers’ Indexes (PMI) measure the prevailing direction of economic trends in the manufacturing and service sectors.

NOT FDIC INSURED | MAY LOSE VALUE | NO BANK GUARANTEE