

## THOUGHTS OF THE WEEK

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## WEEKLY HEADINGS

All eyes are (still) on the Fed! With the August inflation reading coming in hotter-than-expected, investors are looking to next week's Federal Open Market Committee meeting (September 20-21) where Chairman Powell will provide the latest bird's eye view of the US economy. The markets quickly and upwardly recalibrated expectations for an aggressive for longer Fed as pricing pressures permeated the broader economy, and investors prepared for the third consecutive 75 basis point rate hike! In addition, we will get the release of the updated economic projections and dot plot as well as the Chairman's press conference. The financial markets will be closely watching to see how the Fed balances its focus on inflation (e.g., the increase in the terminal value of the fed funds rate) with the risk of recession.

Key Takeaways

- Anticipating The Third Consecutive 0.75% Rate Hike
- Retailers Are Discounting As They Offload Inventories
- The Streak Of Declining Gas Prices Continues

• **Keeping An Eye On The Fed's Projections** | The market's expectations surrounding the future pace of inflation and the accompanying Fed policy has been fluid recently as so much has happened since the Fed last updated its economic projections on June 15—one interest rate hike, three months of economic data, and another earnings season (including CEO forward guidance). Over this time, consensus 2022 growth estimates have fallen (from 3.9% at the start of the year to 1.8% now), inflation has cooled (albeit not as quickly as desired), and the market's anticipated peak policy rate has risen above 4%. Below is our summary of how we believe the Fed will revise its economic projections and policy outlook at next week's meeting:

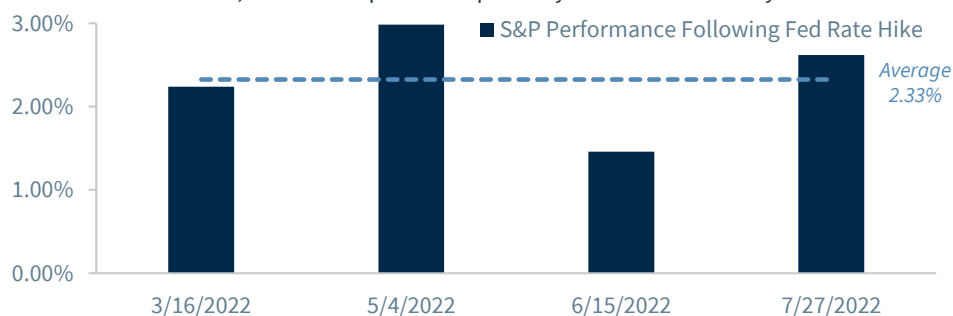
- **Economic Growth** | At the June FOMC meeting, the Fed lowered its 2022 GDP forecast from 2.8% to 1.7% and its 2023 forecast from 2.2% to 1.7%. While we do not expect a substantial shift to this year's forecast, the 2023 GDP growth rate will be lowered as the current 1.7% level is well above our forecast of -0.5% and the consensus estimate of 1.1%. Our below-consensus forecast is due to rates soon entering restrictive territory (e.g., fed funds >2.75%) and the lagged effects of tightening policy.
- **Inflation** | The August Consumer Price Index report did not ease as expected, but the peak level appears to have been reached in July.\* While the natural assumption would be that the Fed's targets for headline and core inflation (2022 estimate 5.2% and 4.3% respectively) may be unattainable, we do not agree. Why? Heading into fall, some of the hotter monthly prints from last year (0.9% in October & 0.7% November) will be 'rolled off.' Combined with evidence of easing pricing pressures in multiple areas of the economy (e.g., commodities, goods, etc.), the more significant deceleration may be just a few months away.
- **Unemployment** | The Fed's 2022 employment target of 3.7% is likely to be revised slightly higher but should remain below 4% due to the resilient streak of job gains and still near record level of job openings. However, as economic momentum slows, companies will slow the pace of hiring and the unemployment rate is likely to approach the 4.7% level next year.
- **Federal Funds Rate** | As of June, the Fed's 2022 and 2023 fed funds target was 3.4% and 3.8% respectively. But since then, inflation has not eased as quickly as anticipated, and the Fed has reiterated its focus to tame it. Our forecast is that the 2022 target should be raised to 4%, and that the 2023 target will hopefully be the same. While the market is pricing in a peak rate of 4.4% in the early months of 2023, we think easing inflation will limit the need for the Fed to be this aggressive. But as this is likely the most important number for the markets, a rate approaching 4.5% or higher would be a negative for equities.
- **Press Conference** | In our view, Chair Powell set the stage for further tightening at the Jackson Hole Symposium as the lower-than-expected inflation print in July was not enough to set a new trend and markets had already begun pricing in rate cuts by the end of 2023. Since then, he has stated that 'some pain' may be ahead due to higher rates while concurrently assuaging fears that the economy was headed for a recession. While he has been successful at threading the needle thus far (see chart below), any sign that the Fed is behind the curve or that more acute economic pain is ahead could unsettle markets.

• **Keeping An Eye On The Fed's Projections** | The futures market has now fully priced in a 75 basis point hike at next week's September FOMC Meeting (we agree). We foresee an additional 75 basis points before year end (combined at the November and December meetings) which brings the policy rate to 4%. Our projected policy path thereafter remains far more patient than what the market is expecting. Our reasoning? First, the action taken thus far has already impacted the more interest-rate sensitive areas of the economy, especially the housing market. Second, although the easing of inflation has been more stubborn than expected, there are a number of real-time indicators that suggest it will cool further in the months ahead (e.g., promotional activity, declining ocean freight rates, lower commodity prices). If a convincing pattern of decelerating inflation is established and more signs of demand destruction become evident, the Fed can pause and patiently assess the suitability of further action.

## CHART OF THE WEEK

## All Eyes Are On The Fed

The previous four times the Fed raised interest rates – March 16, May 4, June 15, and July 27 – the S&P 500 rallied 2.2%, 3.0%, 1.5%, and 2.6% respectively.



\* See Charts of the week on page 3.

## ECONOMY

- The Consumer Price Index (CPI) increased a more-than-expected 8.3% YoY, but more importantly, Core CPI climbed again, indicating that prices are still not on a downward trajectory even as energy prices have come down considerably.\* On the other hand, the Producer Price Index recorded a second negative monthly reading of -0.1%. These two reports all but guarantee that the Federal Reserve will increase the federal funds rate by 75 bps during its September Federal Open Market Committee meeting next week.
- The all-important control group retail sales sector, which is used to estimate the consumption component of GDP, was flat in August after a 0.4% increase in July.\* Thus, control group sales are slightly positive during the first two months of the third quarter in nominal terms and should be supportive of a positive reading of the Q3 GDP when it's released on October 27.
- Consumer sentiment continued to trend up in September, albeit at a slower pace than the strong increase reported in August. Meanwhile, inflation expectations, both one-year-ahead and five-years-ahead, came down further, which should give some comfort to Federal Reserve officials considering what to do with the federal funds rate going forward. Expectations of inflation, from every survey, continue to point to lower inflation in the future.
- **Focus of the Week:** Housing data points next week should continue to show signs of weakness as current and expected interest rates remain elevated. The Leading Economic Index is expected to turn positive after five consecutive negative readings. This would further support our view that, although the economy will tip into a recession early next year, the slowdown will be mild and short lived.

## September 19 – September 23

MON

NAHB Housing Market Index

WED

Existing Home Sales  
FOMC Meeting

FRI

Markit PMI Services/Manufacturing

TUE

Housing Starts  
Building Permits

THU

Initial Claims  
Leading Indicators  
Current AccountFUTURE  
EVENTS9/27 New Home Sales; Building permits  
9/29 GDP (Q2 Final Estimate)  
9/30 PCE

## US EQUITY

- The path of inflation remains paramount for equities. Overall, we expect inflation to moderate over the next year due to lower commodity prices, an improved supply/demand imbalance, and lower wage pressures. Because of this, we still favor the worst of this bear market likely being behind us. However, the path is unlikely to be quick or smooth, and it will be difficult for equities to show sustainable upside with inflation so high and the Fed in tightening mode.
- Technically, we are monitoring support at ~3,900, but weakness (in the aftermath of Tuesday's hot CPI report) raises the odds that this level does not hold.\* A move below 3,900 will increase the odds of a retest or undercut of the lows at 3,637 with potential support around 3,800 and 3,742 on the way.
- **Focus of the Week:** Over the coming weeks, the bear market will likely take time to digest the inflationary data flow with back-and-forth trading. With this in mind, we recommend not chasing rallies and using pullbacks as opportunities to accumulate favored stocks for the next bull market.

## FIXED INCOME

- The highly anticipated inflation report delivered another blow to the bond market, with the hotter-than-expected print pushing yields higher across the curve. Expectations for the peak fed funds rate soared to ~4.4% as the market braces for the Fed's Summary of Economic Projections and rate decision next week, with a 75 basis point rate hike now widely expected. The Fed's data dependence has amplified market volatility, which is evident by the large daily swings we've seen in bond yields over the last few months. With the Fed expected to continue to raise interest rates and the 2-year yield rising to its highest level since 2007, we've seen an even deeper inversion in the yield curve and real yields soar to their highest levels since late 2018.\* These sharp moves are indicative of ever tightening financial conditions, which have traditionally signaled trouble ahead for risk assets.
- **Focus of the Week:** Next week's FOMC meeting will bring the Fed's new Summary of Economic Projections. The bond market will be keyed into policymakers peak fed funds rate forecast, which in June, signaled a 3.8% peak. However, a 4% or higher peak would not be a surprise as Fed officials have been preparing the markets for this since Jackson Hole.

## POLITICS &amp; ENERGY

- **Politics:** Russia might be considering retaliatory action in response to Ukraine's successful counteroffensive against Russian forces and G7 nations targeting a price cap on seaborne Russian oil exports. In fact, the conflict in Ukraine is shifting to a new phase given the recent advances into Ukrainian territory held by Russia since the early stages of the war. Concerns are rising over the increasing risks associated with military escalation within Ukraine—including an environmental disaster following catastrophic damage to Ukraine's Zaporizhzhya nuclear power plant. Setting a price cap on seaborne Russian oil exports is a priority for the G7, and a decision on the price and enforcement mechanism is expected later this fall. Russia has threatened to slash oil exports in response, following its cutback of gas exports to Europe, raising concerns around the social stability of the EU as the bloc faces an energy crisis. We may see escalation in September or October, given the upcoming elections across EU member states and the fall midterms in the US. We continue to expect to see the conflict extending into the winter months.
- **Energy:** In the context of Russia's war in Ukraine, here is something our readers may be asking: why does Europe have an epic natural gas crisis, but there is no crisis in the global oil market? Part of the answer is that Russia has been using natural gas exports as a political weapon in an (unsuccessful) attempt to pressure European governments into making concessions. But there is also another reason: In contrast to natural gas, all the world's major economies have substantial emergency stockpiles of oil, such as the US Strategic Petroleum Reserve (SPR). These stockpiles are coordinated by the International Energy Agency. Indeed, ongoing releases from these stockpiles help explain why spot oil prices have fallen 25% since June. As of last week, the SPR reached its lowest level since 1984, but there is still quite a large amount available: 434 million barrels. Even if hypothetically Russia were to deliberately curtail several million barrels per day of oil exports, there would be ample room in stockpiles to offset such a supply gap through all of 2023 if not longer. The Kremlin knows this and is therefore not playing political games with oil exports.

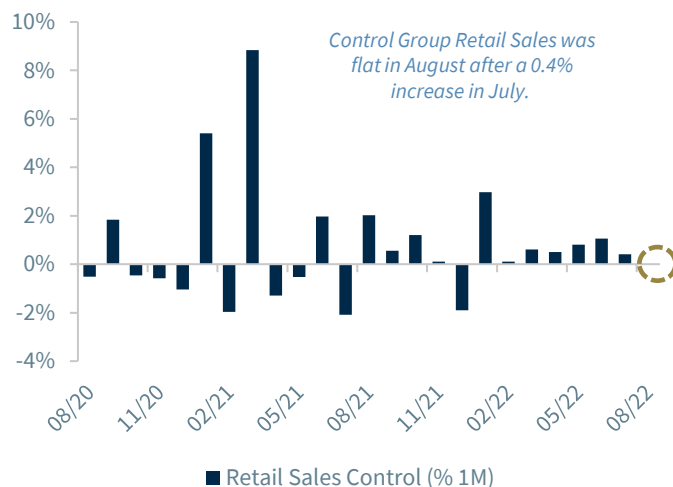
\* See Charts of the week on page 3.

## Charts of the Week

Headline Inflation Slows For Second Month



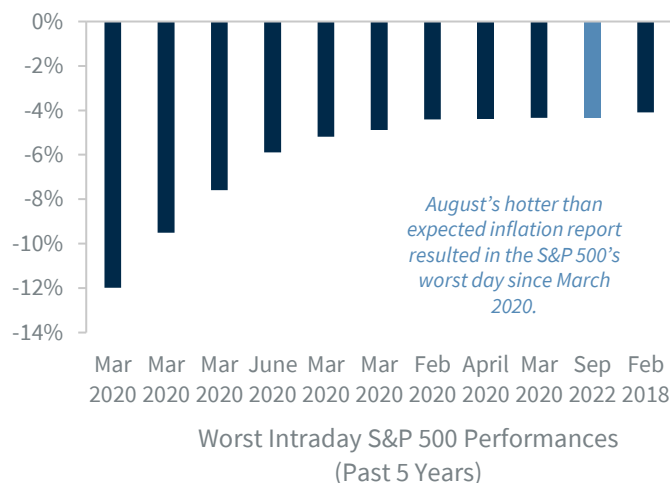
Retail Sales Remain Steady In August



S&amp;P 500 Closes In On Support Level



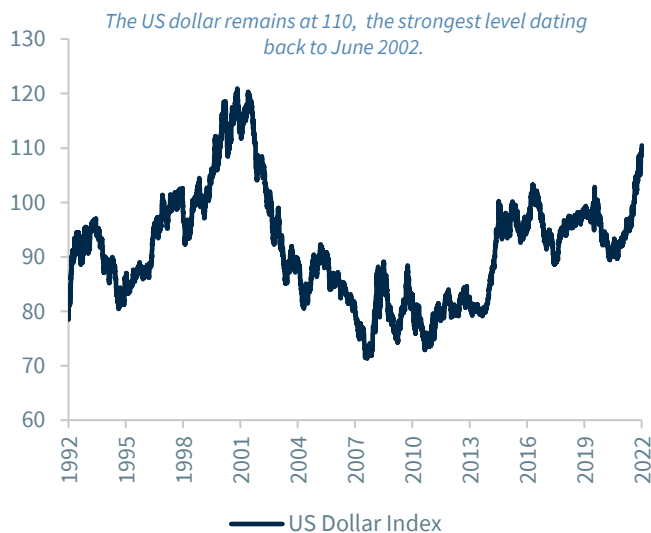
S&amp;P 500 Sees Worst Day Since March 2020



2-Year Treasury Yield Rises to Highest Level Since 2007



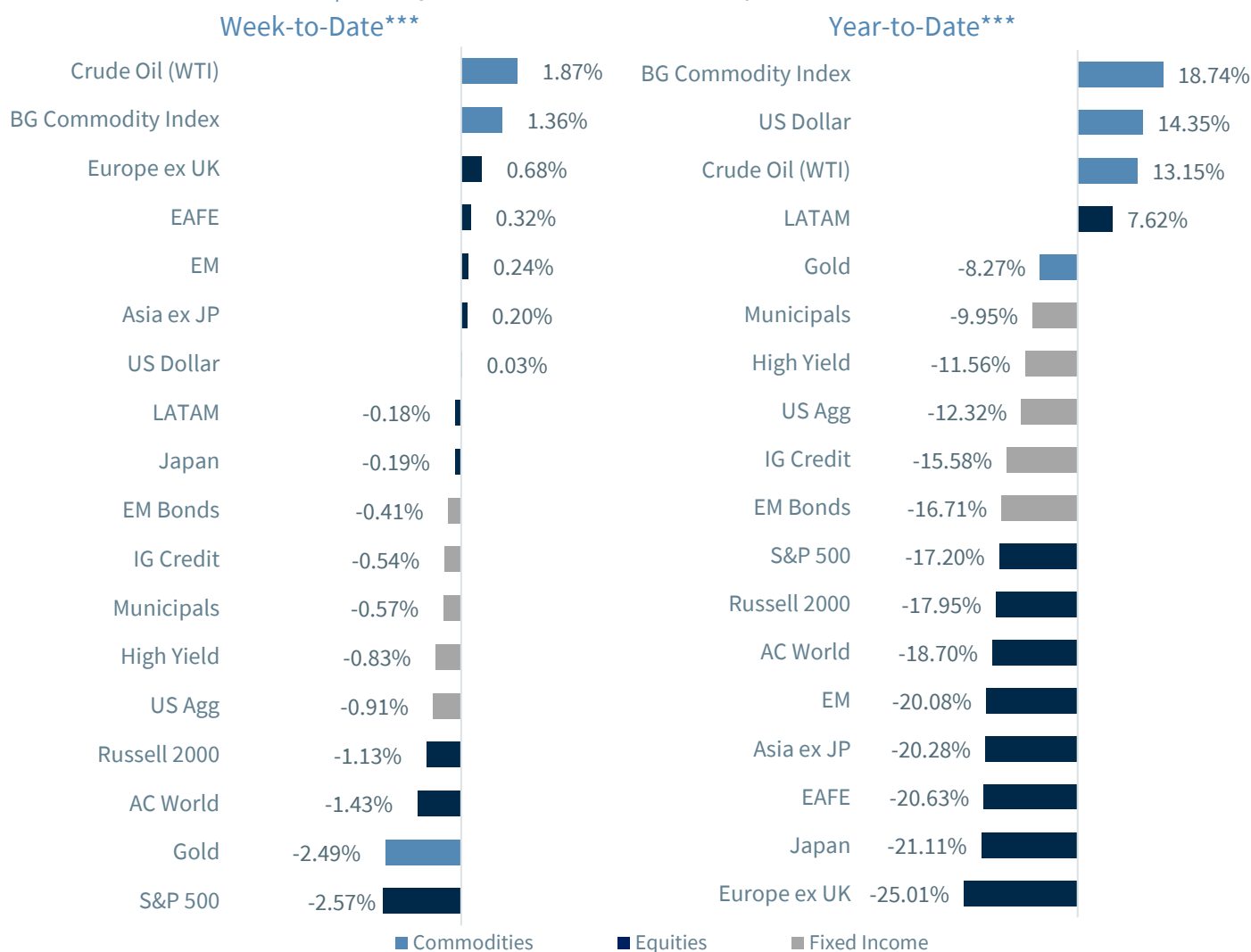
The Dollar's Strength Continues



## Asset Class Performance | Distribution by Asset Class and Style (as of September 15)\*\*

US Equities (Russell indices)				International Equities (MSCI indices)				Fixed Income (Bloomberg indices)				
Weekly Returns (as of September 15)	Value Blend Growth			Dev. Mkt World Emerg. Mkt			1-3 YR Medium Long					
	Large Cap	-2.0%	-2.4%	-2.8%	Large Cap	0.1%	-1.5%	0.5%	Treasury	0.0%	-1.1%	-1.1%
	Mid Cap	-2.1%	-2.1%	-2.0%	Mid Cap	-0.5%	-1.3%	0.6%	Invest. Grade	-0.5%	-0.7%	-0.9%
	Small Cap	-1.0%	-1.1%	-1.3%	Small Cap	-0.1%	-0.6%	0.6%	High Yield	-0.4%	-0.8%	-1.0%
Year-to-Date Returns (as of September 15)	Value Blend Growth			Dev. Mkt World Emerg. Mkt			1-3 YR Medium Long					
	Large Cap	-10.1%	-17.8%	-24.6%	Large Cap	-7.7%	-15.2%	-15.0%	Treasury	0.5%	-9.4%	-14.6%
	Mid Cap	-12.1%	-16.7%	-25.0%	Mid Cap	-13.1%	-14.9%	-10.8%	Invest. Grade	-3.8%	-9.8%	-13.9%
	Small Cap	-13.1%	-17.9%	-22.9%	Small Cap	-13.3%	-14.0%	-9.5%	High Yield	-5.0%	-11.0%	-20.9%

## Asset Class Performance | Weekly and Year-to-Date (as of September 15)\*\*



\*\*Weekly performance calculated from Thursday close to Thursday close.

\*\*\*Assumes all asset classes are priced in US dollars unless otherwise noted. Ranked in order of performances (best to worst).

# Weekly Data\*\*

Data as of September 15

## US Equities

Index	Price	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
S&P 500	3901.4	(2.6)	(1.3)	(17.2)	(11.6)	10.8	11.3	12.5
DJ Industrial Average	30961.8	(2.6)	(1.7)	(14.8)	(11.1)	4.4	6.8	8.6
NASDAQ Composite Index	11552.4	(2.6)	(2.2)	(26.2)	(23.8)	12.2	12.4	13.8
Russell 1000	4134.7	(2.4)	(1.1)	(17.8)	(13.0)	12.1	11.6	13.0
Russell 2000	4536.2	(1.1)	(0.9)	(17.9)	(17.9)	8.6	6.9	10.0
Russell Midcap	7022.8	(2.1)	(0.2)	(16.7)	(14.8)	9.4	9.2	11.6

## Equity Sectors

Sector	Price	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
Materials	464.1	(3.7)	(1.8)	(17.4)	(9.9)	10.1	7.9	9.0
Industrials	767.6	(3.2)	(2.0)	(13.2)	(9.4)	6.6	7.3	11.1
Comm Services	177.1	(3.5)	(4.0)	(33.4)	(37.1)	1.9	4.7	4.8
Utilities	377.5	(3.0)	0.6	6.0	13.3	9.4	9.9	11.3
Consumer Discretionary	1246.8	(1.5)	2.1	(22.1)	(14.5)	9.7	13.0	14.2
Consumer Staples	738.5	(2.8)	(2.5)	(6.5)	1.8	8.7	8.4	10.2
Health Care	1485.2	(1.2)	2.5	(8.6)	(2.5)	13.9	11.1	14.4
Information Technology	2262.4	(3.8)	(4.3)	(25.4)	(17.5)	17.9	18.8	17.8
Energy	609.5	2.1	(0.1)	48.6	69.0	16.2	9.0	4.2
Financials	552.8	(2.0)	1.0	(13.7)	(10.1)	7.7	8.3	11.9
Real Estate	251.3	(5.4)	(3.6)	(21.0)	(12.0)	4.9	7.5	8.4

## Fixed Income

Index	Yield	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
3-Months Treasury Bill (%)	2.8	0.0	0.1	0.5	0.5	0.6	1.1	0.6
2-Year Treasury (%)	3.9	(0.6)	(0.6)	(4.1)	(4.7)	(0.3)	0.5	0.5
10-Year Treasury (%)	3.5	(1.1)	(2.3)	(14.6)	(15.6)	(2.9)	(0.4)	0.6
Bloomberg US Corporate HY	8.6	(0.8)	(0.4)	(11.6)	(11.3)	0.7	2.4	4.3
Bloomberg US Aggregate	4.3	(0.9)	(1.8)	(12.3)	(13.3)	(2.0)	0.2	1.2
Bloomberg Municipals	--	(0.6)	(1.5)	(10.0)	(10.0)	(0.9)	1.0	2.2
Bloomberg IG Credit	5.1	(0.5)	(1.6)	(15.6)	(16.7)	(1.8)	0.7	2.2
Bloomberg EM Bonds	7.3	(0.4)	(1.0)	(16.7)	(18.7)	(3.6)	(0.7)	1.9

## Commodities

Index	Price	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
WTI Crude (\$/bl)	85.1	1.9	(5.0)	13.1	17.2	15.8	11.3	(1.5)
Gold (\$/Troy Oz)	1677.3	(2.5)	(2.8)	(8.3)	(6.5)	3.8	4.8	(0.6)
Bloomberg Commodity Index	117.8	1.4	(3.2)	18.7	18.2	14.4	6.7	(2.5)

## Currencies

Currency	Price	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
US Dollar Index	109.7	0.0	1.0	14.3	18.6	3.7	3.6	3.4
Euro	1.0	0.4	(0.6)	(12.1)	(15.4)	(3.4)	(3.5)	(2.7)
British Pound	1.1	0.0	(1.2)	(15.2)	(16.9)	(2.7)	(3.3)	(3.4)
Japanese Yen	143.5	0.4	(3.4)	(19.7)	(23.8)	(9.0)	(5.0)	(5.9)

## International Equities

Index	Price	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
MSCI AC World	603.3	(1.4)	(1.5)	(18.7)	(16.3)	6.8	6.9	8.5
MSCI EAFE	1806.0	0.3	(1.7)	(20.6)	(21.4)	0.9	1.4	4.6
MSCI Europe ex UK	1924.7	0.7	(0.4)	(25.0)	(24.0)	1.4	1.4	5.3
MSCI Japan	2996.1	(0.2)	(4.1)	(21.1)	(27.5)	(0.3)	1.3	5.7
MSCI EM	958.6	0.2	(3.4)	(20.1)	(23.1)	0.5	(0.0)	2.2
MSCI Asia ex JP	615.1	0.2	(3.9)	(20.3)	(23.3)	1.3	0.7	4.4
MSCI LATAM	2141.3	(0.2)	0.7	7.6	(1.5)	(2.2)	(2.0)	(1.9)
Canada S&P/TSX Composite	14812.1	0.8	1.2	(7.8)	(5.5)	5.4	5.2	4.6

\*\*Weekly performance calculated from Thursday close to Thursday close.

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**INTERNATIONAL INVESTING** | International investing involves additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets.

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**GOLD** | Gold is subject to the special risks associated with investing in precious metals, including but not limited to: price may be subject to wide fluctuation; the market is relatively limited; the sources are concentrated in countries that have the potential for instability; and the market is unregulated.

**FIXED INCOME** | Fixed-income securities (or ‘bonds’) are exposed to various risks including but not limited to credit (risk of default of principal and interest payments), market and liquidity, interest rate, reinvestment, legislative (changes to the tax code), and call risks. There is an inverse relationship between interest rate movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices generally rise. A credit rating of a security is not a recommendation to buy, sell or hold the security and may be subject to review, revision, suspension, reduction or withdrawal at any time by the assigning Rating Agency. Ratings and insurance do not remove market risk since they do not guarantee the market value of the bond.

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**DATA SOURCE** | FactSet, as of 9/15/2022

## DOMESTIC EQUITY DEFINITION

**LARGE GROWTH** | **Russell 1000 Growth Total Return Index:** This index represents a segment of the Russell 1000 Index with a greater-than-average growth orientation. Companies in this index have higher price-to-book and price-earnings ratios, lower dividend yields and higher forecasted growth values. This index includes the effects of reinvested dividends.

**MID GROWTH** | **Russell Mid Cap Growth Total Return Index:** This index contains stocks from the Russell Midcap Index with a greater-than-average growth orientation. The stocks are also members of the Russell 1000 Growth Index. This index includes the effects of reinvested dividends.

**LARGE BLEND** | **Russell 1000 Total Return Index:** This index represents the 1000 largest companies in the Russell 3000 Index. This index is highly correlated with the S&P 500 Index. This index includes the effects of reinvested dividends.



**SMALL GROWTH | Russell 2000 Growth Total Return Index:** This index represents a segment of the Russell 2000 Index with a greater-than-average growth orientation. The combined market capitalization of the Russell 2000 Growth and Value Indices will add up to the total market cap of the Russell 2000. This index includes the effects of reinvested dividends.

**MID BLEND | Russell Mid Cap Total Return Index:** This index consists of the bottom 800 securities in the Russell 1000 Index as ranked by total market capitalization. This index includes the effects of reinvested dividends.

**SMALL BLEND | Russell 2000 Total Return Index:** This index covers 2000 of the smallest companies in the Russell 3000 Index, which ranks the 3000 largest US companies by market capitalization. The Russell 2000 represents approximately 10% of the Russell 3000 total market capitalization. This index includes the effects of reinvested dividends.

**LARGE VALUE | Russell 1000 Value Total Return Index:** This index represents a segment of the Russell 1000 Index with a less-than-average growth orientation. Companies in this index have low price-to-book and price-earnings ratios, higher dividend yields and lower forecasted growth values. This index includes the effects of reinvested dividends.

**MID VALUE | Russell Mid Cap Value Total Return Index:** This index contains stocks from the Russell Midcap Index with a less-than-average growth orientation. The stocks are also members of the Russell 1000 Value Index. This index includes the effects of reinvested dividends.

**SMALL VALUE | Russell 2000 Value Total Return Index:** This index represents a segment of the Russell 2000 Index with a less-than-average growth orientation. The combined market capitalization of the Russell 2000 Growth and Value Indices will add up to the total market cap of the Russell 2000. This index includes the effects of reinvested dividends.

#### FIXED INCOME DEFINITION

**AGGREGATE BOND | Bloomberg US Agg Bond Total Return Index:** The index is a measure of the investment grade, fixed-rate, taxable bond market of roughly 6,000 SEC-registered securities with intermediate maturities averaging approximately 10 years. The index includes bonds from the Treasury, Government-Related, Corporate, MBS, ABS, and CMBS sectors.

**HIGH YIELD | Bloomberg US Corporate High Yield Total Return Index:** The index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below.

**CREDIT | Bloomberg US Credit Total Return Index:** The index measures the investment grade, US dollar-denominated, fixed-rate, taxable corporate and government related bond markets. It is composed of the US Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supranationals and local authorities.

**MUNICIPAL | Bloomberg Municipal Total Return Index:** The index is a measure of the long-term tax-exempt bond market with securities of investment grade (rated at least Baa by Moody's Investors Service and BBB by Standard and Poor's). This index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and prerefunded bonds.

**DOW JONES INDUSTRIAL AVERAGE (DJIA) | The Dow Jones Industrial Average (DJIA)** is an index that tracks 30 large, publicly-owned companies trading on the New York Stock Exchange (NYSE) and the NASDAQ.

**NASDAQ COMPOSITE INDEX | The Nasdaq Composite Index** is the market capitalization-weighted index of over 3,300 common equities listed on the Nasdaq stock exchange.

**S&P 500 | The S&P 500 Total Return Index:** The index is widely regarded as the best single gauge of large-cap U.S. equities. There is over USD 7.8 trillion benchmarked to the index, with index assets comprising approximately USD 2.2 trillion of this total. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

**BLOOMBERG CAPITAL AGGREGATE BOND TOTAL RETURN INDEX |** This index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. The index is designed to minimize concentration in any one commodity or sector. It currently has 22 commodity futures in seven sectors. No one commodity can compose less than 2% or more than 15% of the index, and no sector can represent more than 33% of the index (as of the annual weightings of the components).

#### INTERNATIONAL EQUITY DEFINITION

**EMERGING MARKETS EASTERN EUROPE | MSCI EM Eastern Europe Net Return Index:** The index captures large- and mid-cap representation across four Emerging Markets (EM) countries in Eastern Europe.

**EMERGING MARKETS ASIA | MSCI EM Asia Net Return Index:** The index captures large- and mid-cap representation across eight Emerging Markets countries. With 554 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

**EMERGING MARKETS LATIN AMERICA | MSCI EM Latin America Net Return Index:** The index captures large- and mid-cap representation across five Emerging Markets (EM) countries in Latin America. With 116 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

**EMERGING MARKETS | MSCI Emerging Markets Net Return Index:** This index consists of 23 countries representing 10% of world market capitalization. The index is available for a number of regions, market segments/sizes and covers approximately 85% of the free float-adjusted market capitalization in each of the 23 countries.

**PACIFIC EX-JAPAN | MSCI Pacific Ex Japan Net Return Index:** The index captures large- and mid-cap representation across four of 5 Developed Markets (DM) countries in the Pacific region (excluding Japan). With 150 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

**JAPAN | MSCI Japan Net Return Index:** The index is designed to measure the performance of the large and mid cap segments of the Japanese market. With 319 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.

**FOREIGN DEVELOPED MARKETS | MSCI EAFE Net Return Index:** This index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada. The index is available for a number of regions, market segments/sizes and covers approximately 85% of the free float-adjusted market capitalization in each of the 21 countries.

**EUROPE EX UK | MSCI Europe Ex UK Net Return Index:** The index captures large and mid cap representation across 14 Developed Markets (DM) countries in Europe. With 337 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across European Developed Markets excluding the UK.

**MSCI EAFE |** The **MSCI EAFE** (Europe, Australasia, and Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 22 developed nations.

**MSCI ACWI |** The **MSCI All Country World Index** (ACWI) is a stock index designed to track broad global equity-market performance. The index is comprised of the stocks of about 3,000 companies from 23 developed countries and 26 emerging markets.

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