Voya Global Perspectives

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2016 Forecast: The Road to Normal

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Introduction

In recent years "normalization" has been associated primarily with central bank monetary policy, which remains in the highly accommodative state first entered into as the financial crisis emerged. The U.S. Federal Reserve of late has taken very slow, measured steps to return to more-normal policy and now has hiked the Federal Funds rate for the first time in ten years — even as its global counterparts grow increasingly accommodative in the face of sluggish economic growth and elusive inflation. It is critical that the U.S. is successful in transitioning back to a freer market economy, as its approach ultimately will be replicated by other nations seeking to normalize in the context of what should be a faster growing global economy.

But normal extends beyond the FOMC and its international policy setting analogs. Normal is also about organic, sustainable economic growth. While central banks can help jump-start economies with easy money and asset purchases, it's up to legislators to foster the conditions that help promote sustainable growth via tax reform, labor market liberalization and reduced regulatory burdens.

Normal is also about markets and their relative pricing. A lot of factors go into determining market levels, but one key recent driver has been the renewed strength of the U.S. dollar. The U.S. dollar has strengthened as policy divergence has taken root, sending shock waves across any number of markets; while these trends are challenging for producers and commodity exporters, they are very good for consumers and energy importing nations like Europe, China, Japan and the U.S. As such, another key to the Fed's leadership on the "road to normal" will be its ability to maintain a stable dollar, as a surging greenback would be extremely disruptive to currencies, commodities, corporate profits and dollar-denominated international debt.

While normalization is ultimately a positive for markets and economies, investors should prepare for a bumpy road ahead given the lack of precedent in retreating from such a broadly abnormal state. In this regard, we see a number of headwinds and tailwinds — many of which are merely two sides of the same coin — influencing markets' sentiment over the year to come, as shown in Figure 1, and driving our forecast of key global metrics in Figure 2.

Forecast for Year-End 2016

S&P 500 Price	2250
S&P 500 Earnings per Share	$126
S&P P/E	17.9x
Crude Oil (NYM)	$48/barrel
Euro/U.S. Dollar	$1.05
Gold (NYM)	$999/troy oz
U.S. Ten-Year Treasury Yield	2.60%
U.S. Unemployment Rate	4.75%
U.S. GDP Growth	2.25%
Euro Zone GDP Growth	1.75%
Japan GDP Growth	0.50%
Global GDP Growth	3.00%

Source: Voya Investment Management

Figure 1. Tailwinds and Headwinds to Impact Markets in 2016

Tailwinds	Headwinds
U.S. consumers and services sector	U.S. manufacturing in contraction
Global central bank easing	U.S. federal funds rate hikes
European growth rebound	Strong U.S. dollar
Low commodity prices for consumers	Low commodity prices for producers and exporters
China consumers and services sector	Bubbles in China property, materials and debt markets
U.S. housing market	Brazil in deep recession
U.S. employment market	Global trade
Positive, albeit slow, global growth	Global deflationary pressures

Source: Voya Investment Management

2016 “Road to Normal” Themes

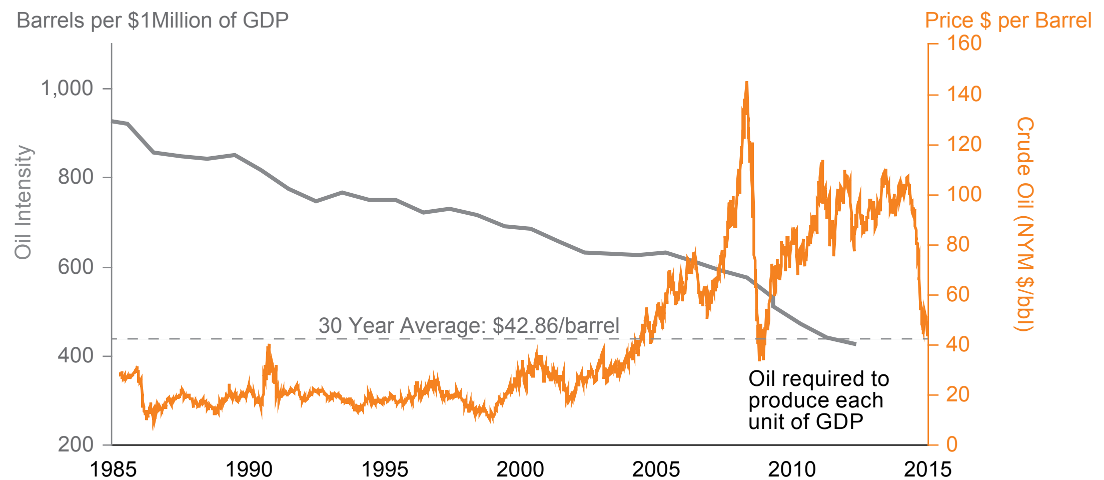
There are ten key themes that we expect will drive markets in 2016.

Theme #1: Low Commodity Prices Roil Markets

A worldwide supply gut and slowing China growth continue to put downward pressure on commodities prices. While much of this has already been processed by the energy sector, oil prices could potentially fall further before bottoming. The upside here is that low oil is good for global consumers; an additional downside, however, is that the negative impact of low oil extends beyond the energy sectors. The financialization of commodities has resulted in seemingly unrelated commodities moving down in tandem with oil; the materials sector — and mining in particular — is now feeling the pain, to the detriment of the many emerging market economies tied to natural resources. The commodities decline also has had a ripple effect on U.S. manufacturing, which recently contracted for the first time since 2009 despite being a beneficiary of low energy costs.

Low commodities prices are good for consumers, bad for producers.

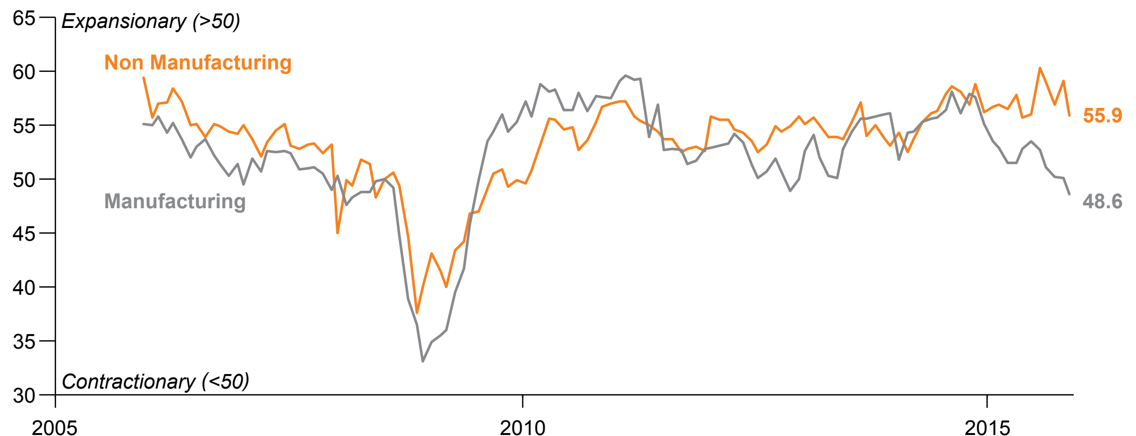
Figure 2. The Collapse in Oil Prices Has Delighted Consumers and Bedeviled Producers



Source: U.S. Department of Energy, FactSet

Note: Oil intensity as of December 31, 2013; crude oil as of November 4, 2015. Oil prices are West Texas Intermediate light crude spot price (NYMEX).

Figure 3. Though U.S. Manufacturing Has Gone into Contraction, Services Remains Strong



Source: Voya Investment Management

Theme #2: Global Central Bank Divergence Accelerates

The U.S will likely try to tighten its key policy rate throughout 2016 even as major central banks elsewhere — particularly the European Central Bank, People's Bank of China and Bank of Japan — loosen further via ultra-accommodative monetary and/or fiscal stimulus. It will be a challenge to normalize in such a divergent policy environment without disrupting other markets and economies. Meanwhile in Europe, China and Japan, central bank stimulus will keep bond yields low and suppress the value of their currencies, bolstering their economies. Net net, global policy divergence stands to benefit European and Japanese equities.

Figure 4. Central Banks in Europe, China and Japan Look to Revive Slowing Economies

Countries	GDP			Trade (% of GDP)	Demographics		
Developed Markets	USD (Billions)	Per Capita	1-Year Change (%)	Exports	Population (Millions)	Unemployment (%)	Median Age
U.S.	17,348	56.1	4.1	9.3	321	5	37
Germany	3,872	45.4	3.2	38.9	82	4.5	45
Canada	1,786	49.3	-2.7	26.8	34	7	41
U.K.	2,990	44.7	10.3	16.9	63	6.2	40
Euro Zone	12,261	39.12	-10.6	19.1	331	10.7	
Japan	4,606	33.6	-6.4	15.0	127	3.1	45
Ireland	251	51.5	5.2	47.0	5	8.9	35
France	2,830	40.7	0.6	20.5	65	9.9	40
Emerging Markets							
Brazil	2,415	9.1	-1.9	9.6	204	7.6	29
Russia	1,848	9.1	-11.0	26.9	143	5.5	39
India	2,016	1.6	7.3	16.0	1,252	6.5	26
China	10,323	8.1	7.9	22.7	1,367	4.1	36
Mexico	1,296	9.7	2.6	30.9	122	4.4	27

Source: Voya Investment Management

Fed raising rates for first time in ten years.

Theme #3: Rates and Inflation Remain Constrained

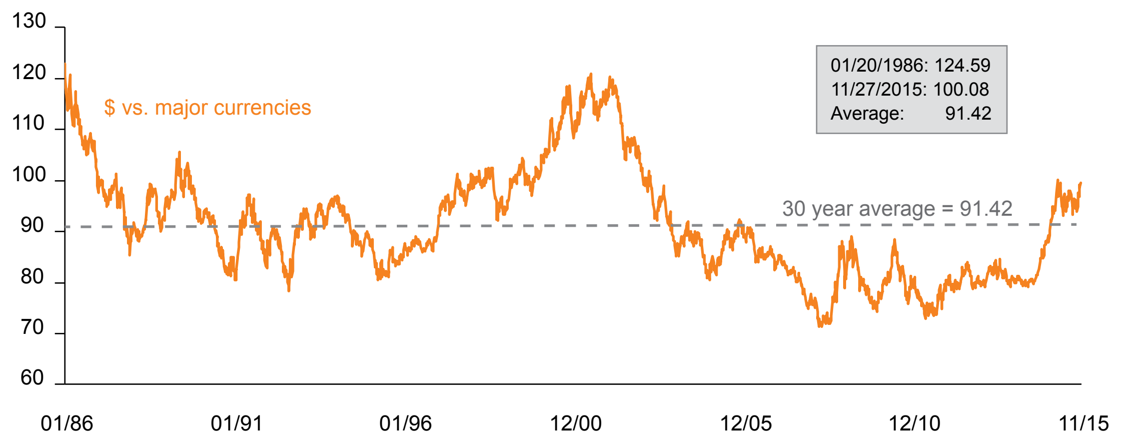
We expect the Fed to announce multiple rate hikes over the course of 2016, sending the fed funds rate up to 1.00% by year end. While U.S. yields will rise on the short end on the curve as the Fed hikes, long rates will be fairly constrained due to continued international demand for U.S. Treasuries given their superior risk/return profile relative to global alternatives. The global lack of inflation (to the point that deflationary fears persist) will suppress pricing pressures here at home, but the core PCE price index should approach the Fed's target of 2% as wage gains build in the face of likely sub-5% unemployment.

Theme #4: Strong Dollar Is a Headwind

The strong dollar has hindered U.S. exports and sales abroad; in fact, the greenback was frequently cited as a significant impediment during third quarter reporting season. In third quarter 2014 one euro was equal to $1.33 dollars on average; in third quarter 2015 one euro equaled only $1.11. A similar trend can be seen in the value of the dollar against the Japanese yen; a year ago one dollar was equal to ¥103.97 only to strengthen to ¥122.17 in third quarter 2015. While rising U.S. interest rates will further boost the dollar, much of the surge has already occurred. Look for the dollar to stabilize at a level higher than its 30-year average against a basket of foreign currencies as represented by the DXY index.

Market fearful of rising rates and strong dollar.

Figure 5. Though the U.S. Dollar Has Surged of Late, it Remains Near Its 30-Year Average



Source: FactSet

Theme #5: Fed Normalization Will Increase Volatility and Fear

While normalization is ultimately a positive for markets and economies, investors should prepare for a bumpy road ahead given the lack of precedent in unwinding from such a broadly abnormal state. Market corrections — declines in excess of 10% — typically happen two or three times a year, so be ready. Warren Buffett has been quoted as saying, “Only when the tide goes out do you discover who has been swimming naked.” The normalization process likely will reveal those companies and investments that at some point lost their swimsuits. For example, though investors saw significant turmoil in the high yield bond market in 2015, there were a limited number of defaults. And while further deterioration in energy prices could drive a spike in defaults, investor fear will likely surpass actual credit defaults.

Theme #6: U.S. Corporate Earnings Will Be Broadly Positive

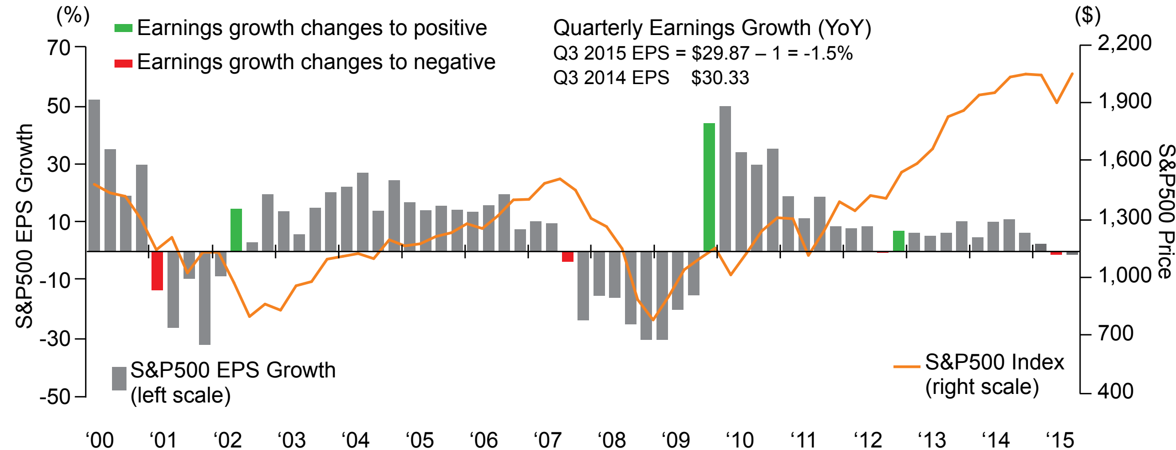
Despite a stronger dollar, slowing global growth and falling commodity prices, earnings and revenue growth are expected to be positive in 2016 across most sectors on easy year-over-year comparisons as well as contributions from global monetary stimulus, low oil and a strong consumer. Given that nearly half of the S&P 500's revenues are generated outside the U.S., these growth expectations suggest the global slowdown might not be nearly as bad as feared. In fact, our top sector picks carry some of the highest expectations in the S&P 500:

- **Consumer discretionary:** Low unemployment, housing market strength and wage growth are supportive of consumer spending.
- **Technology:** Though the sector appears fairly valued at this time, investors seeking growth will continue to fuel its appreciation.
- **Financials:** While the regulatory environment is onerous, financials offer low valuation and the potential to benefit from rising interest rates.
- **Health care:** This was among the sectors to benefit most from record M&A activity in 2015 (more than $5.1 trillion globally and counting), a trend likely to persist into 2016 given limited organic growth opportunities.

Earnings are the fundamentals that drive the market. We expect overall S&P 500 earnings of $126 per share, and a price-to-earnings ratio of about 17.9 will drive the S&P 500 to 2250 in 2016.

Top sector picks: consumer discretionary, technology, financials, health care.

Figure 6. Sluggish 2015 Earnings Growth Makes for Easier Comparisons in 2016



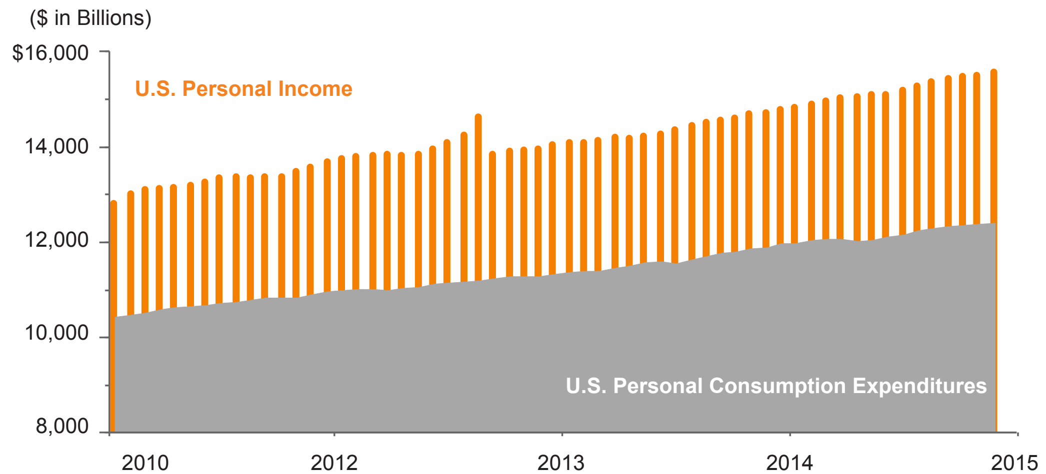
Source: FactSet, Voya Investment Management

Theme #7: The Strong U.S. Consumer Keeps the Economy Growing

Consumers are the game changer in an economic expansion and currently are locked in a virtuous cycle due to jobs and wage growth, house price appreciation, low mortgage rates and a discretionary income boost thanks to low energy prices. Services now account for 68% of U.S. GDP and 80% of civilian employment. The service sector has been expanding robustly, supported by domestic demand across the globe. Automobile sales are at an all-time high, as is household wealth. Expect the consumer to keep the economic engine running in 2016.

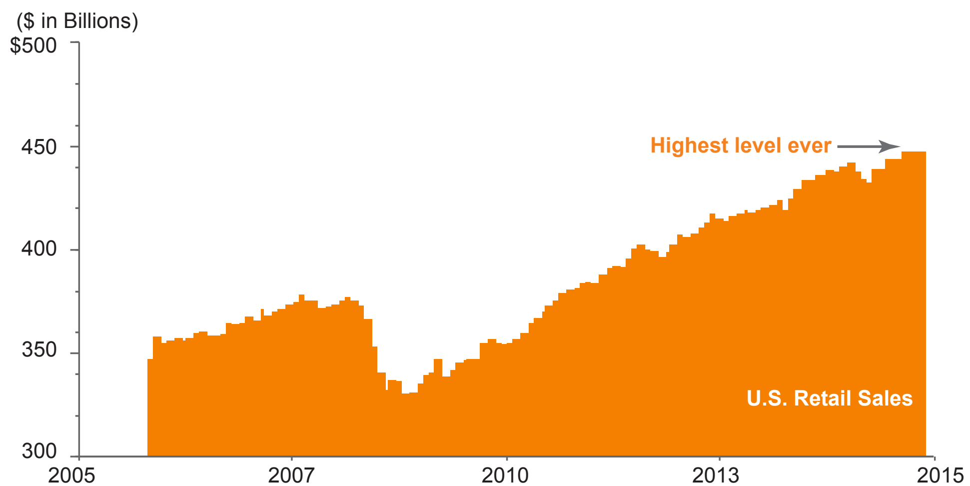
Consumers are the biggest beneficiary of normalization.

Figure 7. Personal Income and Consumption Growing Faster Than Economy



Source: FactSet
As of September 30, 2015.

Figure 8. Retail Sales at Record Highs Despite Drag From Low Gas Prices



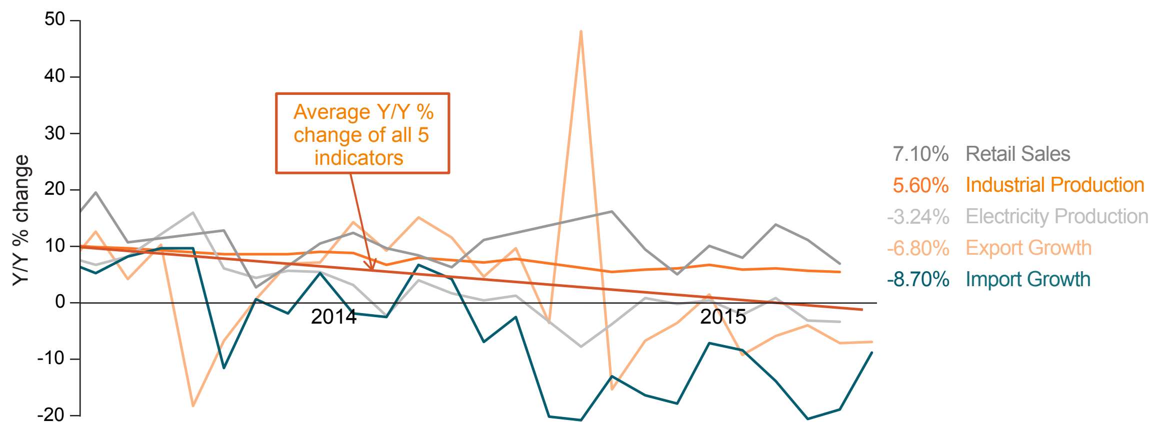
Source: FactSet
As of September 30, 2015.

Theme #8: Emerging Markets Are Down but not Out

China has been decelerating for several years, and 2015 was the year the slowdown seemed to come home to roost, as many companies as well as other emerging and frontier markets depend on the Chinese markets for economic growth. China is moving from an export-driven, manufacturing-focused economy to a domestic-consumption oriented model, which will take time. But while Chinese imports and exports have tanked, retail sales are surging — China's Singles' Day holiday in November 2015 generated one-day sales of more than $14.3 billion for ecommerce giant Alibaba alone, compared with a relatively measly $7.5 billion in online U.S. Thanksgiving/Black Friday/Cyber Monday sales. Economists have been predicting a hard landing in China for years; however, with a strong consumer, $3.6 trillion in foreign currency reserves and a government determined to engineer a successful economic transition, a thud is not likely in 2016. Fellow BRIC's Russia and Brazil, on the other hand, are in recession, and emerging economies in general are not out of the woods. There are opportunities here, but investors must choose wisely and brace for volatility.

No hard landing for China, but India will grow faster in 2016.

Figure 9. China Is Aggressively Using Fiscal and Monetary Stimulus to Avoid a Hard Landing



Source: FactSet
As of November 30, 2015.

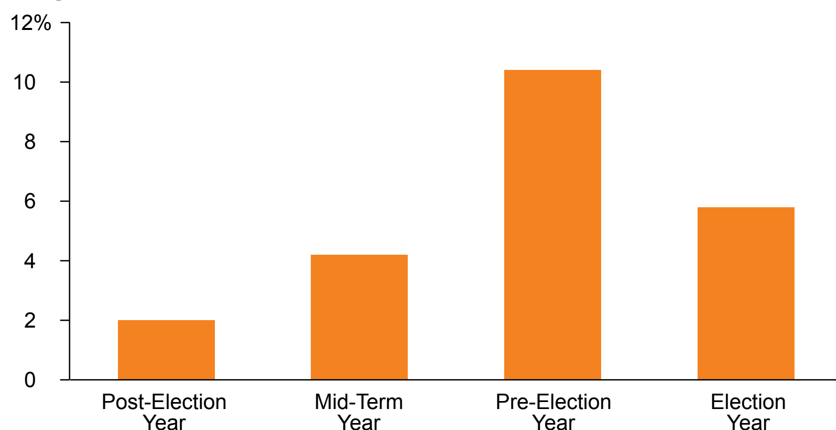
Theme #9: Washington D.C. and the Coming Presidential Elections

We advise investors not to get swayed by the politics of the moment in making investment decisions; in fact, we've long said "don't Washington-proof your portfolio". But given that 2016 is a presidential election year, we felt compelled to do a little digging and found some interesting data. Stocks have gained nearly 6% on average in each election year since 1833, while pre-election years saw even greater success (slightly over 10%, a bogey not to be reached in 2015); the post-election and mid-term years have been weaker, however, coming in at around 2% and 4%, respectively. Remember correlation is not causation, and this is in no way incorporated into our forecast. But we thought you would like to know.

Don't "Washington-proof" your portfolio.

Figure 10. Don't Worry About Washington

Average Annual Stock Market Gains



Source: Stock Trader's Almanac, U.S. Global Investors

Theme #10: Diversification Smooths the Bumps in the Road

Inflection point from low rates to rising rates requires global diversification.

By casting a wide net investors can capture a broader set of investment opportunities and spread around their risk exposures, which may help boost the expected return and help reduce the volatility of their portfolios. Diversification enables investors to pursue a thoughtful, considered investment philosophy that replaces unintended bets with prudent investment discipline. Chasing performance or trying to predict which sector of the market will outperform in any given time period — which we call "gaming diversification" — is a futile effort over the long run. Although Diversification does not guarantee a profit or ensure against loss, portfolios should be globally diversified across many asset classes, regions and risk exposures.

While we always advocate broad global diversification, we'd highlight the following areas of the markets in 2016.

Equity

Investors seeking to build wealth — especially those planning for retirement — must embrace some degree of risk in the form of equities. And while domestic stocks are an important core to any portfolio, international equities, which account for 60% of the world's equity market capitalization, not only can help mitigate U.S.-centered risk and control overall volatility, they can provide additional return-generating opportunities.

In a slow-growth global economy, we highlight two equity asset classes that should benefit investors:

- **Global REITs:** Diversification; ability to perform well in gradual rate scenario; improving economic conditions; high commercial occupancy rates and hence pricing power in markets around the world
- **Large-cap growth:** U.S. economic strength; corporate earnings rebound; investor desire for growth

Fixed income

As policy normalization proceeds, market volatility and uncertainty will likely increase, as will the chances for market shocks; bonds are the best asset class for risk control and downside protection. And contrary to conventional wisdom, bonds have often performed well in a rising-rate environment; for example, credit-oriented assets like high yield and investment grade corporates benefit from potential yield and spread compression, while senior loans offer an attractive floating-rate structure. As with equities, investors that eschew international bond markets are missing out on a significant opportunity set, as U.S.-issued bonds account for only 50% of the world's outstanding paper.

Given expectations for rising interest rates in the U.S., we highlight two fixed income segments:

- **Senior loans:** Minimal duration; floating-rate structure; attractive pricing
- **Intermediate-term bonds:** Risk control; potential spread compression; global demand

Figure 11. Plenty of Positive Performance During Past Tightening Periods

Returns by Asset Class (%)

Period	Intermediate Bonds	High Yield Bonds	Short-Term Bonds	GNMA Bonds	Large-Cap Equity	Senior Loans
04/1987–02/1989	5.01	6.35	6.01	6.16	3.00	N/A
02/1994–02/1995	0.01	1.43	2.48	2.19	4.10	9.54
06/1999–05/2000	2.11	-3.21	4.02	3.20	10.48	3.93
06/2004–06/2006	3.09	8.20	2.01	3.47	8.16	5.88
Average	**2.55**	**3.19**	**3.63**	**3.76**	**6.43**	**6.45**

Source: Barclays, Morningstar, Voya Investment Management

Note: Asset class performance is represented by the following indexes: Barclays U.S. Aggregate Bond Index, Barclays U.S. Corporate High Yield Index, Barclays U.S. Government/ Credit 1–3 Year Bond Index, Credit Suisse Leveraged Loan Index, Standard & Poor's 500 Stock Index, Barclays GNMA Index.

Past performance does not guarantee future results. Performance shown is historical and not indicative of any specific product and does not account for fees and expenses associated with investing in funds. **Investors cannot directly invest in an index.**

Figure 12. Broad, Global Diversification Gives Investors Access to a Wide Array of Opportunities

Index	Wgt	Nov-15	YTD	2014	2013	2012	2011	2010	2009	2008	3 years	5 years	10 years	15 years
Equity														
S&P 500	10%	0.3	3.0	13.7	32.4	16.0	2.1	15.1	26.5	-37.0	16.1	14.4	7.5	5.1
S&P MidCap 400	10%	1.4	2.1	9.8	33.5	17.9	-1.7	26.6	37.4	-36.2	15.2	13.0	8.7	9.2
S&P SmallCap 600	10%	2.7	3.0	5.8	41.3	16.3	1.0	26.3	25.6	-31.1	16.7	14.2	8.4	10.1
Global REITs	10%	-2.2	-0.9	15.9	4.4	28.7	-5.8	20.4	38.3	-47.7	7.6	9.1	5.7	9.7
EAFE	10%	-1.5	0.9	-4.5	23.3	17.9	-11.7	8.2	32.5	-43.1	7.1	6.0	4.1	4.3
Emerging Markets	10%	-3.9	-12.7	-1.8	-2.3	18.6	-18.2	19.2	79.0	-53.2	-4.2	-2.7	4.8	9.2
Average		-0.5	-0.8	6.5	22.1	19.2	-5.7	19.3	39.9	-41.4	9.7	9.0	6.5	8.0
Fixed Income														
Corporate	10%	-0.2	0.1	7.5	-1.5	9.8	8.1	9.0	18.7	-4.9	1.9	4.5	5.5	6.1
U.S. Treasury 20+	10%	-0.9	-1.6	27.5	-13.9	3.4	33.8	9.4	-21.4	33.7	1.9	7.6	7.0	7.2
Global Aggregate	10%	-1.7	-3.7	0.6	-2.6	4.3	5.6	5.5	6.9	4.8	-2.0	1.1	3.8	4.9
High Yield	10%	-2.2	-2.0	2.5	7.4	15.8	5.0	15.1	58.2	-26.2	3.1	6.0	7.3	7.9
Average		-1.2	-1.8	9.5	-2.6	8.3	13.2	9.8	15.6	1.9	1.9	4.8	6.3	6.9
Overall Average		-0.8	-1.2	7.6	11.1	15.1	1.8	16.1	28.8	-26.6	6.3	7.3	6.3	7.4

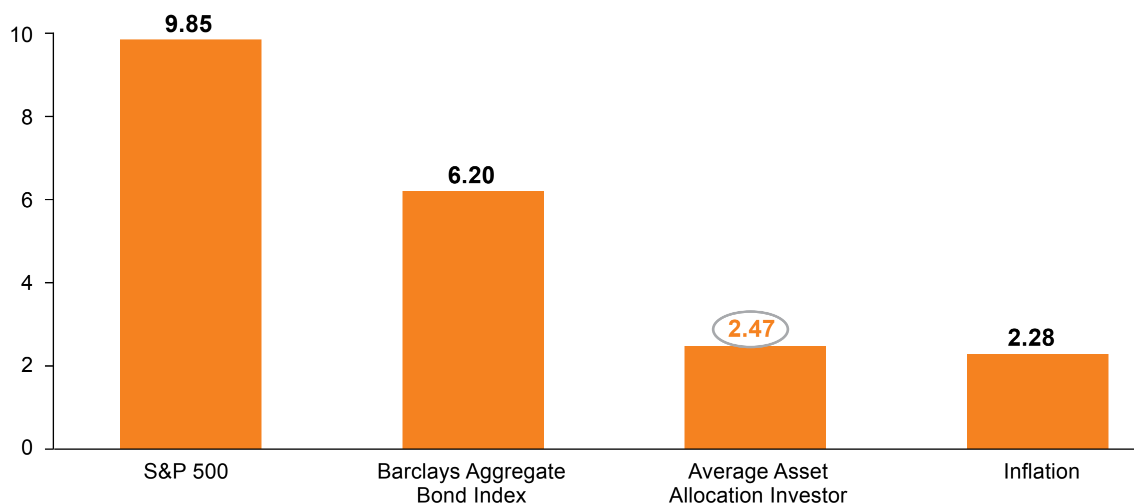
Source: FactSet, FTSE NAREIT, Voya Investment Management

The Overall Average model allocation includes 10 asset classes, equally weighted: S&P500, S&P400 Midcap, S&P600 Smallcap, MSCI U.S. REIT Index/FTSE EPRA REIT Index, MSCI EAFE Index, MSCI BRIC Index, Barclays U.S. Corporate Bonds, Barclays U.S. Treasury Bonds, Barclays Global Aggregate Bonds, Barclays U.S. High Yield Bonds. Returns are annualized for periods longer than 1 year.

Past performance is no guarantee of future results. Performance shown is historical and not indicative of any specific product and does not account for fees and expenses associated with investing in funds. **Investors cannot directly invest in an index.**

Figure 13. Gaming Diversification Has Left Investors with Below-Market Returns

Average Mutual Fund Investor Returns (January 1995 to December 2014)



Source: DALBAR, 2015 Quantitative Analysis of Investor Behavior (QAIB) using data from the Investment Company Institute (ICI), Standard & Poor's, Barclays Indexes and proprietary sources to compare mutual fund investor returns to appropriate benchmarks. Covering the period from January 1, 1995 to December 31, 2014, the study utilizes monthly mutual fund sales, redemptions and exchanges as the measure of investor behavior. These behaviors reflect the "average investor", and the analysis calculates "average investor return" for various periods compared to respective indexes.

Conclusion

In 2016 the U.S. will demonstrate normalcy to the rest of the world as the Federal Reserve continues to slowly recede into the background. Not only does this represent an important transition from the highly managed markets of the post-crisis years back to the free markets upon which our nation was built, it stands as a test U.S. leadership. If the normalization process proves unsuccessful, the Fed will lose credibility and the efficacy of the unconventional stimulus still being employed globally will be called into question. A “helicopter drop” of money — a term first coined by economist Milton Friedman and then revived by former Fed Chair Ben Bernanke — wasn’t supposed to go on forever and could result in bigger problems should it outstay its welcome.

Rising rates are not to be feared but are a reflection of economic growth.

Corporate earnings provide an unbiased assessment of the global economy, and the world looks relatively healthy through this lens. Earnings growth in 2016 will benefit from easy comparisons to 2015 earnings, as well as low energy prices. And while there has been much fretting about the impact a Fed tightening cycle will have on both the domestic and global economies, the central bank is expected to proceed with caution and likely still will be in a highly accommodative position on a historical basis this time next year, giving the U.S. an open lane of economic growth driven by strength in consumer spending and the services sector. A robust greenback will still be a headwind, especially to commodities and emerging markets, but this adjustment process has been underway for more than a year. Meanwhile, major international central banks are prepared to do what it takes to get their economies back on the road, further supplementing the global growth impulse.

These factors suggest earnings and markets should shift from the neutral gear in which they’ve been locked for most of 2015. For their part, markets have shown a willingness to look past negative headwinds, many of which already have been at least partially assimilated into 2015 earnings, thus muting their impact in 2016. While investors should be prepared for a potentially volatile ride on the road to normal, resilient corporations, the enthusiasm of an election year and continued foreign central bank stimulus will help absorb the bumps.

Update on Tectonic Shifts

Tectonic Shifts are both catalysts that pave the way for explosive growth and long-term risks that bear careful oversight. They move markets in ways that defy conventional forecasting, revealing themselves in extraordinary, trend-reversing price shifts.

Energy continues to be a competitive weapon for the U.S. and benefits our national security and manufacturers, though the past year certainly has been challenging for companies in the energy sector and exporters.

- Energy-importing countries (U.S., China, Europe and Japan) have been net beneficiaries of low oil prices and will continue to benefit.
- U.S. energy independence is feasible within the next decade. The U.S. is set to export natural gas, which may increase prices domestically but also will lower prices in Europe and will elevate the U.S. to an energy superpower on par with Russia.
- West Texas Intermediate crude oil — the benchmark for U.S. oil prices — dropped below $40/barrel, a level believed to be the industry's average breakeven profit point, suggesting there likely will be more defaults among oil & gas issuers. The global plunge in oil prices and resulting mining sector contraction is negative for current and prospective factory output, as is the surge in the dollar and the pullback in global economic growth that is partly attributable to the petro-sector's recession.

Technology changes the way companies do business, for the better.

- Predictions that U.S. shale producers would be unable to compete at lower oil price levels proved unfounded, as technological improvements have dramatically lowered the breakeven price for shale oil extraction.
- Tech-related jobs in the U.S. have grown 31% faster than other high-growth sectors and pay an average annual salary of $100,000, 102% higher than the overall average.
- While labor is becoming more expensive, tech is becoming cheaper, helping innovation spread to emerging markets.

The sharp slowdown in **Global Trade** is not surprising given the across-the-board decline in commodity prices.

- Although 2015 marked a slowdown in overall global trade, year-over-year volume was off only marginally. Risks to the downside remain, as the latest trade data out of China showed imports falling for a record 13th consecutive month and exports down for a fifth straight month. This weakness has notably hurt Brazil, which is undergoing its worst recession since the 1930s.
- New free trade agreements like the Trans-Pacific Partnership, which encompasses 40% of the global economy (but not China), will remove barriers to trade worldwide.
- Low commodity prices coupled with ongoing international central bank stimulus will encourage consumption-led economic growth, somewhat offsetting the declines in manufacturing and trade that were byproducts of the commodities bust.

Frontier Markets are volatile and may not be appropriate for all investors, though U.S. companies are finding unexpected sources of growth in these markets.

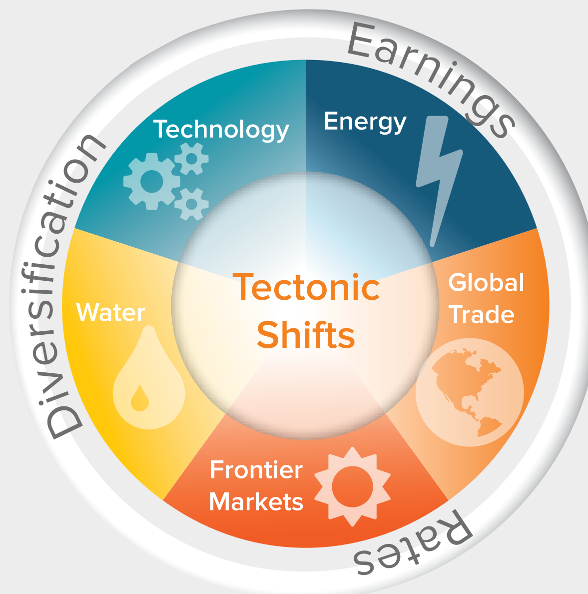
- Many frontier economies that are heavily reliant on oil and China (like Nigeria, Angola and Ghana) have slowed. Also slowing are countries that depend on the mining of natural resources (such as Chile and Peru), as the financialization of commodities has resulted in seemingly unrelated commodities moving lower in tandem with oil. Asian markets have generally fared the best among frontier economies.
- Favorable demographics, rising middle-class consumers and higher-than-average growth rates make frontier markets attractive investment opportunities. Our top picks include Vietnam (a low-cost high-tech producer) and Mexico (given its proximity to the U.S., free trade agreements and energy deregulation).

A **Water** crisis in the U.S. and many other countries is impairing business activity in certain sectors while also creating opportunities in the forms of utilities, regulation, infrastructure and treatment facilities.

- Water has the potential to become the new oil in terms of its economic impact. For example, several years of severe drought in agriculture powerhouse California is raising costs to business and farmers and reducing future export capabilities.
- In many emerging markets, water-oriented spending is growing twice the rate of GDP as these countries seek to build sustainable clean-water infrastructures.

The themes in our forecast were developed and grouped by our TRED view of markets:

- **Tectonic Shifts —** catalysts for growth and unforeseen risks that develop over the long term.
- **Rates —** the impact from monetary policy, inflation, sovereign yields and currencies.
- **Earnings —** an unbiased view of the strength or weakness of the health of the global economy.
- **Diversification —** enables investors to pursue a thoughtful prudent investment plan.



General Investment Risks:

All investing involves risks of fluctuating prices and the uncertainties of rates of return and yield inherent in investing. All security transactions involve substantial risk of loss.

Domestic Equity: Exposure to financial and market risks that accompany investments in equities. Markets are volatile and can decline significantly in response to adverse issuer, political, regulatory, market or economic developments. Small cap stocks may be more volatile and less liquid than stocks of larger more established companies.

Fixed Income: Exposure to financial, market, prepayment, credit and interest rate risks. The value of an investment in a fund is not guaranteed and will fluctuate. Higher yielding bonds are subject to greater volatility and credit risks. A fund may invest in securities guaranteed by the U.S. Government as to timely payments of interest and principal, but a fund's shares are not insured or guaranteed. Bonds have fixed principal and return if held to maturity, but may fluctuate in the interim. Generally, when interest rates rise, bond prices fall. Bonds with longer maturities tend to be more sensitive to changes in interest rates.

International: In addition to the general risks of investing in equities and fixed income securities, investing in foreign securities poses special risks, including currency fluctuation, economic and political risks not found in investments that are solely domestic. Risks of foreign investing are generally intensified for investments in emerging markets.

REITS: Real Estate Investment Trusts may be sensitive to factors such as changes in real estate values and property taxes, interest rates, cash flow of underlying real estate assets, supply and demand, and the management skill and credit-worthiness of the issuer. REITs may also be affected by tax and regulatory requirements.

Non-Diversified Strategies: Due to the concentrated nature of non-diversified and sector funds, they may experience greater volatility than funds with a broader investment selection/strategy.

Diversification does not guarantee a profit or ensure against loss. **Past performance is no guarantee of future results.**

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