Trinity CAPITAL MANAGEMENT

## 2024 TCM Investment Outlook & Strategy

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# Executive Summary

**Introduction** (*Page 2*)

- *Overall, 2023 was a positive year for investors after a difficult 2022.*
- *We begin 2024 with a cautiously optimistic outlook for the U.S. economy and financial markets.*

**U.S Economy** *(Page 2)*

- *Despite several economic and geopolitical challenges during the year, the U.S. economy avoided a recession and continued to grow moderately.*
- *We believe U.S. economic growth has persisted primarily because of the strength of the consumer's overall financial situation and ability to maintain spending levels.*
- *Given the resilience of the consumer, declining inflation, and the Federal Reserve's monetary policy now on hold, we see recession as less likely for the U.S. economy this year.*
- *Since peaking at around 9% in June 2022, the Consumer Price Index (CPI) has fallen consistently to where it now stands at just above 3% on a trailing 12-month basis, per the latest government inflation report for November.*
- *After pausing its rate-hike program last fall, we believe the Federal Reserve may begin cutting rates sometime in 2024.*

**Equities** *(Page 3)*

- *The global equity markets performed well in 2023 with the benchmark S&P 500 Index posting a total return 26% for the year while the average stock returned 10% as measured by the S&P 500 Equal Weighted Index.*[1]
- *We see more favorable Fed monetary policy and a rebound in corporate earnings as the key drivers of the equity markets in 2024, potentially leading to positive performance for stocks.*
- *Currently, we believe the technical picture for the stock market is very positive. However, we expect a mild correction in the equity markets sometime in the first quarter after the strong run-up in stocks in the last two months of 2023.*

**Fixed Income** *(Page 4)*

- *2023 was a volatile year for the fixed-income markets as interest rates for most bonds rose during the first half of the year and then fell back down in the fourth quarter nearly to the levels where they started the year.*
- *We see good value for investors in the fixed-income markets for the first time in several years.*
- *Interest rates for high-quality fixed income instruments are now available that provide historically attractive risk-adjusted returns for conservative investors, in our view.*

**Commodities** *(Page 4)*

- *We have a positive outlook for energy, copper, and agricultural commodities for 2024.*
- *We continue to favor energy equities, especially companies involved in both the production and transportation of oil and gas products.*

**Equity Strategy** – *(Page 5)*

- *Growth stocks outperformed value stocks in 2023, the reverse of what happened in 2022.*
- *We currently favor value stocks over growth stocks for conservative investors seeking both dividend yield and lower volatility that is typically associated with value stocks.*
- *We believe there is opportunity in certain high-quality growth stocks, especially those involved in the development of artificial intelligence (AI) technologies.*
- *Small-cap stocks look attractive to us on a valuation basis but we feel this sector will continue to underperform large and mid-cap stocks in the first half of the year.*
- *We see a muted economic outlook for most international economies in 2024 and remain invested below our normal allocations for this asset class.*

## Introduction

We begin 2024 with a cautiously optimistic outlook for the U.S. economy and financial markets. Supporting our optimism, are more favorable monetary conditions to begin the year, declining inflation rates, a resilient U.S. consumer, and a U.S. economy that refuses to fall into the much-anticipated recession. Our caution comes from concerns about the lag effect of the Federal Reserve's 18-month monetary tightening, the 2024 elections and global geopolitical concerns. We will discuss our reasons for optimism as well as our concerns in more detail in our letter.

2023 was filled with market moving events and developments. Three regional banks failed in March, the war in Ukraine raged on for the second year, conflict in the Middle East escalated, the U.S. manufacturing sector deteriorated, and both consumer and business and confidence fell during the year to levels normally associated with a recession. Yet the resilient U.S. economy continued to grow modestly and the major U.S. stock markets approached new all-time highs at year-end. The old adage, "climbing the wall of worry" comes to mind.

As for the financial markets, 2022 and 2023 was very much a tale of two markets. Coming off a very strong 2021, the U.S. stock market entered "bear" market territory in early January 2022 that lasted nearly 10 months and took the major stock averages down over 20%. The broad-based, cap-weighted S&P 500 Index bottomed in October with a peak to trough decline of 28% and ended the year with a negative return including dividends of -19.8%.[1] 2023 was the opposite story with the S&P 500 Index staging a strong recovery culminating in a robust 26% total return for the year.[1]

It was a similar case for the bond market as most major bond averages fell 8-12% in 2022 while rebounding somewhat in 2023.[1] Most major bond market indices posted modest gains for 2023, especially in the fourth quarter when it became apparent to investors that the U.S. Federal Reserve (Fed) might be at or near the end of its 18-month rate hiking program. Most intermediate high-grade corporate bonds, government agency mortgage instruments, and high-grade municipal bonds on average returned 4-6% to investors depending on maturities.[1] Short-term treasury instruments, money funds, and Certificates of Deposit produced similar returns in the 5-5.5% range for the year.[1]

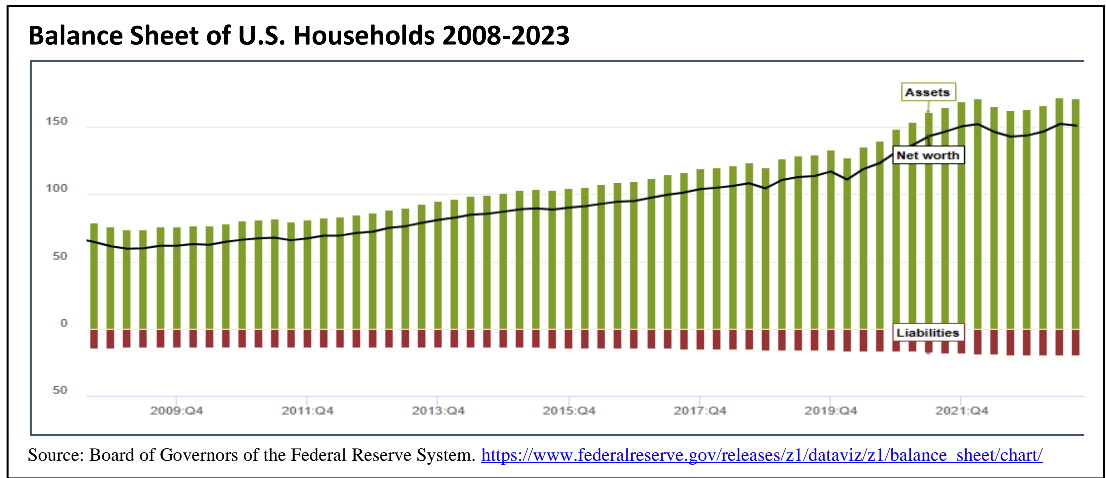
2024 presents new challenges and opportunities. Below are our views on what we believe is in store for investors this year.

## U.S. Economy

Coming into 2023, the biggest fear facing investors was the prospect of a global recession developing as result of aggressive monetary tightening by most central banks around the world. The U.S. Federal Reserve (Fed) raised the benchmark Fed funds rate from the .25% level at the beginning of 2022, to 4.5% by the end of the year.[2] The Fed's monetary tightening was one of the fastest, most aggressive rate-hike tightening cycles in the Federal Reserve's history. Historically, when the Fed has embarked on aggressively raising interest rates it has often led to an economic recession. The Fed tightening led to what is known as an inverted yield curve where short-term interest rates are higher than longer term interest rates, a condition that has often signaled a looming recession. Many economists and investment strategists were calling for a mild-to-moderate recession in 2023 for the U.S. economy. However, the U.S. economy failed to get the memo. Economic growth persisted throughout 2023 despite the Fed raising the Fed funds rate four more times by a total of a 1% before pausing rates hikes in September.[2] Those rate hikes took the Fed funds rate to 5.5%, a level we have not seen since 2006 and considered restrictive enough by economists to significantly slow economic activity and bring down inflation.

So, why has the U.S. economy defied history and remained so resilient? In short, we believe U.S. economic growth has persisted primarily because of the strength of the U.S. consumer. As we have cited numerous times in our client letters, the financial health of consumers has remained very strong since recovering from the 2008-09 financial crisis and the deep economic recession that followed. Household finances improved substantially over the years following the 2008-09 economic crisis with household debt falling as a percentage of household assets, as indicated in the accompanying table on the next page.[3] Total consumer debt rose from $14.7 trillion at the beginning of 2009 to $20.3 trillion in 3Q 2023 for a total increase of 38%, while consumer assets rose from $79.1 trillion to $171 trillion for a total increase of 116% over the same time period putting U.S. consumers in a much stronger financial position. We believe this bolstering of household balance sheets has allowed consumers to continue spending over the last couple of years despite the higher interest rate environment brought on by the Fed's monetary tightening program. Since consumer spending accounts for two-thirds of U.S. Gross

Domestic Product (GDP), the U.S. economy has been able to avoid falling into a recession thus far in our view.[4] The employment picture has also remained positive as companies continue to add jobs, further supporting consumer finances and spending activity. Wage growth has also been supportive of consumer spending as the medium average wage growth has remained above 5% since the beginning of 2022.[5]

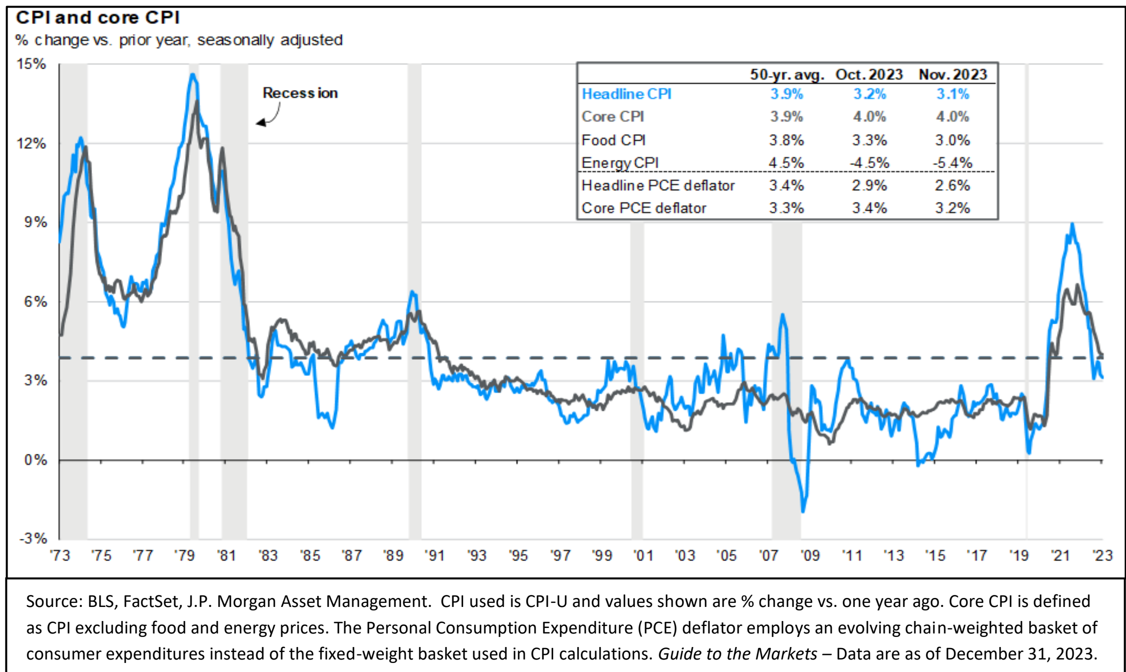


**Balance Sheet of U.S. Households 2008-2023**

Source: Board of Governors of the Federal Reserve System. https://www.federalreserve.gov/releases/z1/dataviz/z1/balance_sheet/chart/

Investors are now asking themselves if there will actually be a recession or if a so called "soft landing" is in store for the U.S. economy, a term used figuratively to describe a scenario where the economy slows but avoids falling into a recession. The debate rages on but in our view, given the resilience of the consumer and the potential that the Fed will be able to cut rates in 2024, we are now leaning more toward the "soft-landing" scenario or, no worse, a very mild two-to-three quarter recession for the U.S. economy. We could see the U.S. unemployment rate rising from its current level of 3.7% per the latest jobs report to above 4% but not much higher than that.[6]

Another key economic driver is inflation. Since peaking at around 9% in June 2022, the Consumer Price Index (CPI) has fallen consistently to where it now stands at just above 3% on a trailing 12-month basis, according to the latest report from the U.S. Bureau of Labor Statistics for November. The high inflationary environment was the driver for the Fed's aggressive monetary tightening program implemented in March 2022. By raising the Fed funds rate and tightening monetary conditions, the Fed hoped to bring inflation back down toward its long-term 2% inflation target. Although the Fed cannot yet declare "mission accomplished," it is well on the way to achieving its desired goal. We see inflation continuing to decline in 2024 with the possibility the CPI hitting the Fed's 2% mark by 2025. This should allow the Fed to begin cutting the Fed funds rate sometime in 2024, possibly in either its March or May meetings. The Fed has not raised rates since July 2023 and signaled in its latest meeting in December, the possibility of easing monetary conditions in 2024 if the inflation numbers continue to improve.




| | 50-yr. avg. | Oct. 2023 | Nov. 2023 |
|---|---|---|---|
| Headline CPI | 3.9% | 3.2% | 3.1% |
| Core CPI | 3.9% | 4.0% | 4.0% |
| Food CPI | 3.8% | 3.3% | 3.0% |
| Energy CPI | 4.5% | -4.5% | -5.4% |
| Headline PCE deflator | 3.4% | 2.9% | 2.6% |
| Core PCE deflator | 3.3% | 3.4% | 3.2% |

Source: BLS, FactSet, J.P. Morgan Asset Management. CPI used is CPI-U and values shown are % change vs. one year ago. Core CPI is defined as CPI excluding food and energy prices. The Personal Consumption Expenditure (PCE) deflator employs an evolving chain-weighted basket of consumer expenditures instead of the fixed-weight basket used in CPI calculations. *Guide to the Markets* – Data are as of December 31, 2023.

Overall, we are optimistic about the prospects for the U.S. economy for 2024 with the Fed on hold and economic conditions remaining positive. However, we feel there is a delicate balance in the economy and there are several issues that could negatively upset the balance. Potential headwinds include deteriorating credit conditions for both consumers and small businesses from the lagged effect of higher interest rates and Fed monetary policy. It generally takes 18 months for Fed

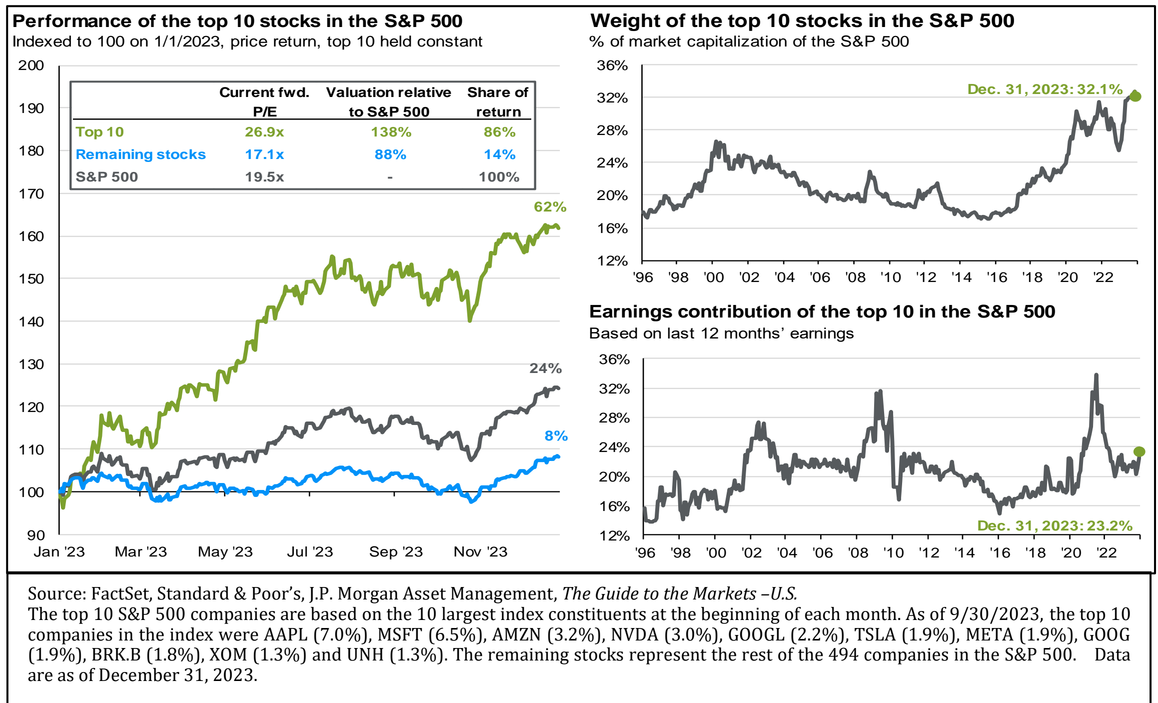
rate hikes to show the full impact on the economy. The Fed's last Fed funds rate increase was July 2023 so the full impact of Fed tightening may not be felt until the latter half of 2024. Another potential headwind is the uncertainty surrounding the 2024 presidential election which could dampen both consumer and business spending until it becomes clear who will be running the country beginning in 2025. There are also a few geopolitical hotspots including, Ukraine, the Middle East and growing tensions with China, that could trigger negative economic effects is any of those situations were to escalate.

Despite these potential headwinds, we believe the resiliency of the U.S. economy will continue and economic growth will be sustained for 2024. If the economy weakens and the danger of a recession increases, the Fed now has room to aggressively cut interest rates to help offset the downward economic momentum.

## Equities

As we closed books on 2022, the so-called "Santa Clause rally" for equities in December never materialized. In fact, over the last two weeks of December 2022, stocks fell 4% as measured by the S&P 500 Index.[1] This past December, the stock market, using the same index, treated investors with a very nice gain of 4.4%.[1] Apparently, Santa Clause is real after all! The December 2023 rally capped off a strong fourth quarter for the stock market and an impressive 26% total return for the S&P 500 Index for year.[1]

However, this does not tell the entire story for the stock market for 2023. The majority of the gains for the market cap-weighted S&P 500 Index can be attributed to a few mega-cap large company growth stocks. The way the S&P 500 Index is calculated, a greater weighting is given to those stocks that have a higher market capitalization. In 2023, as you can see on the chart below, the top 10 stocks by market capitalization increased 62% in value while the remaining 490 stocks rose 8%. The S&P Equal Weighted Index, which assigns the same percentage weighting to each of the 500 stocks in the S&P 500 Index regardless of market cap, increased 10% for the year.[1] We believe the equal weighted index is more representative of the performance of the overall stock market in 2023.




Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management, *The Guide to the Markets –U.S.* The top 10 S&P 500 companies are based on the 10 largest index constituents at the beginning of each month. As of 9/30/2023, the top 10 companies in the index were AAPL (7.0%), MSFT (6.5%), AMZN (3.2%), NVDA (3.0%), GOOGL (2.2%), TSLA (1.9%), META (1.9%), GOOG (1.9%), BRK.B (1.8%), XOM (1.3%) and UNH (1.3%). The remaining stocks represent the rest of the 494 companies in the S&P 500. Data are as of December 31, 2023.

While receding inflation and more favorable monetary policy on the Fed's part will be important influences on stock prices, we believe that greatest influence on equity markets in 2024 will be corporate earnings. According to Factset, the "bottom-up" consensus estimate for 2024 S&P 500 earnings is $246, roughly 10% higher than the 2023 earnings estimates.[7] Using the December 31, 2023 closing level for the S&P 500 Index of 4770, the current price-to-earnings ratio (P/E ratio) is 19.5. We believe the P/E ratio is an excellent indication of the market's valuation. The current P/E ratio of the S&P 500 is lower than the P/E ratio of 24.8 at the beginning of the bear market in January 2022, but above the 25-year average P/E ratio of 16.76 as of September 30, 2023. However, if you extract out the top 10 stocks in the S&P 500 Index from the calculation, the P/E ratio for the remaining 490 stocks falls to approximately 17.1 times earnings and much closer to the 25-year average.[8]

In addition, we believe corporate earnings growth has the potential to surprise on the upside in 2024 and which could be a positive catalyst for stock prices. But even if earnings come in closer to the consensus estimate, we believe stocks can make

further progress in 2024. Of course, 2024 is an election year which will certainly factor into the stock market's performance. Typically, stocks rise until the March Presidential election primaries, tread water until the November election, and then rally into the end of the year once the election is over. We think this scenario may play out in 2024.

Currently, the technical picture for the stock market is very positive. However, we expect a mild correction in the equity markets sometime in the first quarter after the strong run-up in stocks in the last two months of 2023. However, we feel any correction will be short-lived and will give investors an opportunity to put cash to work in equities, where appropriate. In addition, various investor sentiment indicators show a high level of optimism which we view as a contra-indicator of market performance and supportive of our view of a market correction in the first quarter.

Although the stock market finished the year with the major averages approaching all-time highs, we see more gains for stocks in 2024. The key drivers in our view will be a more accommodating Fed that may start cutting interest rates in the first half of the year, a continuation of declining inflation, sustained economic growth, or no worse than a very mild recession, and, most importantly, improving corporate earnings.

## Fixed Income

2023 was a volatile year for the fixed-income markets as interest rates rose across the maturity spectrum for U.S Treasury securities, corporate bonds, and short-term money market instruments during the first half of the year as the Federal Reserve continued to raising interest rates through its July meeting. Bond prices, after initially rising in the first half of the year, fell significantly in September and October before staging a strong rally to close the year. The closely watched 10-year U.S. Treasury Note yield, which serves as a benchmark for other bond markets, started 2023 with a yield of 3.9%, rose to nearly 5% in October before declining back down to its year-end closing yield of 3.85%.[1] Essentially, the total return for the 10-year T-note was its average yield for the year of approximately 4.25%.[1]

We begin 2024 with interest rates still above 5% for money funds and shorter-term securities, and yields on intermediate-to-long-term bonds in the 4-5% range.[1] We see good value for investors in the fixed-income markets for the first time in several years. Interest rates for high-quality fixed income instruments are now available that provide historically attractive risk-adjusted returns for conservative investors in our view. For investors seeking to generate income as well as for portfolio diversification purposes, we continue to favor U.S. Treasuries, high-grade corporate bonds, mortgage-backed securities, prime money market funds, and tax-free municipal bonds. We view tax-free municipal bonds, with current yields ranging from 3% to 4% for intermediate and longer-term maturities, as very attractive for investors in higher tax brackets. Those tax-free yields calculate to a taxable equivalent yield for investors in a 40% tax bracket of 5% to 6.6%. Investors who are holding significant cash in money funds may want to consider locking in the current yields on intermediate and longer term fixed-income instruments in the event the Fed begins lowering the Fed funds rate in 2024.

## Commodities:

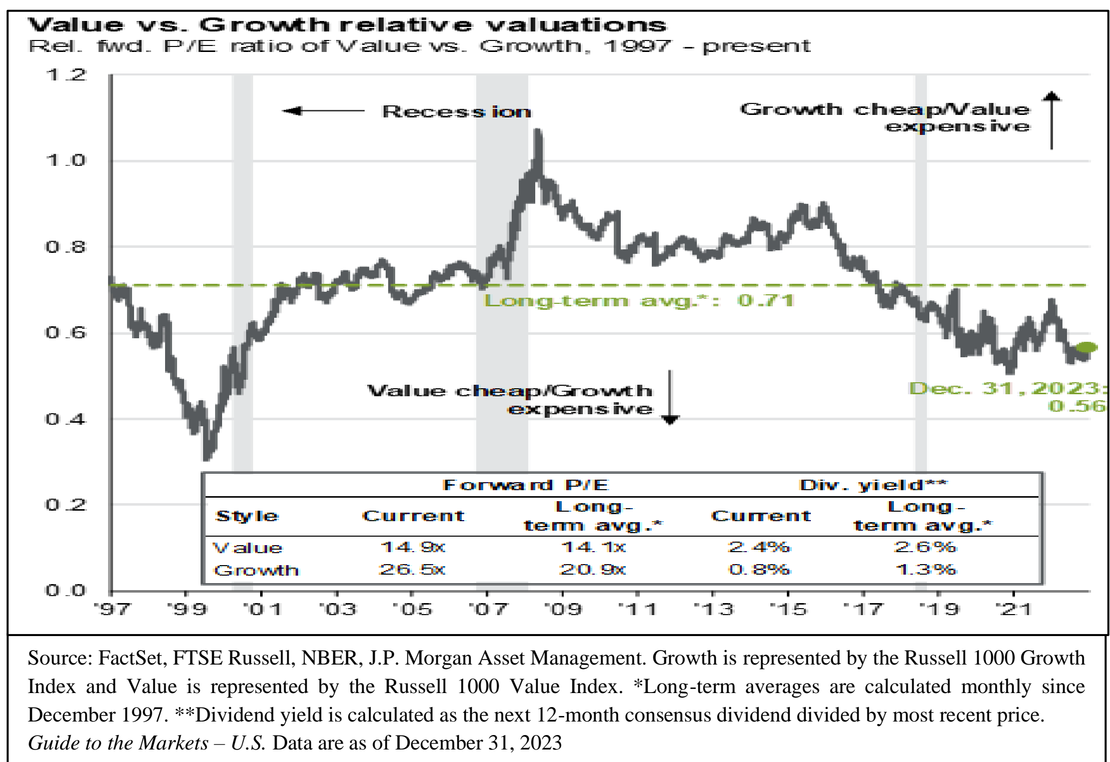
The commodity market struggled overall in 2023 after a strong 2022 performance. Most commodities had been on a tear since May of 2020 as demand exploded for various commodities like copper, steel, aluminum, energy, and agricultural products. Using the S&P GSCI Commodity Index (GSCI) as a basis for performance, commodities increased in value by about 137% since May 1, 2020 through the end of 2022.[9] We believe that strong demand coupled with supply constraints and inflationary pressures pushed most commodity prices higher in 2020 and 2021. However, the commodity bull market took a breather in 2023, falling 1.3% based on the GSCI.[9] Crude oil prices, which are a major component of most commodity tracking funds, were a big contributor in the 2020-21 bull run nearly doubling in price as measured by West Texas Intermediate (WTI) futures contract.[1] Coming into 2023, many analysts were predicting crude prices to reach the $100 level. WTI traded as high as $88 in November before falling back to the year-end closing price of $72, a decline of about 5% for the year. Natural gas prices fell much harder during 2023 on weaker than expected demand and rising inventories. The natural gas front month futures contract fell nearly 50% for the year, reaching levels not since the Covid shutdown in the Spring of 2020. We see prices of most commodities stabilizing at current levels in the first half of 2024 but resuming the upward trend that began in 2020 in the second half of the year.

We favor energy, copper, and agricultural commodities. We see upside opportunity in both crude oil and natural gas. Supplies of both commodities were higher than expected in the second half of 2023, especially natural gas which we feel is the primary reason for the price decline in 2023. In addition, demand for natural gas has been below forecast in the fourth

quarter of last year due to a milder than expected fall/winter season. We believe supplies of both commodities will remain strong for the first half of 2024 and demand could weaken with a slowdown in global GDP growth. However, once we get into the second half of the year, we believe demand will begin to strengthen and excess supplies will be worked off, putting upward price pressure on both crude oil and natural gas. We continue to favor energy equities especially companies involved in both the production and transportation of oil and gas products. Dividend yields for many companies in these two sectors are well above the dividend rate for the S&P 500 which currently stands at 1.4%.[1] (Dividends are not guaranteed and are subject to change or elimination.) We see upside potential for many energy related stocks in 2024 and beyond.

## Equity Strategy

Growth stocks outperformed value stocks in 2023, the reverse of what happened in 2022. The Russell 1000 Growth Index rose 42.5% in 2023 after declining -29.1% in 2022 while the Russell 1000 Value Index fell -7.7% in 2022 and posted a gain of 11.3% in 2023. It has been a wild ride for growth stock investors over the past two years while value stock investors have enjoyed smoother sailing. We currently favor value stocks over growth stocks for conservative investors seeking both dividend yield and lower volatility. The chart below shows the relative valuations for value vs growth stocks. The green dotted line shows the average relative value over the past 25 years. When the solid black line is above the green dotted line growth stocks are cheap relative to value stocks. When the black line is below the green dotted line value stocks are cheap relative to growth stocks. We believe that over the next several years, value stocks will outperform growth stocks.




| Style | Forward P/E Current | Forward P/E Long-term avg.* | Div. yield** Current | Div. yield** Long-term avg.* |
|---|---|---|---|---|
| Value | 14.9x | 14.1x | 2.4% | 2.6% |
| Growth | 26.5x | 20.9x | 0.8% | 1.3% |

Source: FactSet, FTSE Russell, NBER, J.P. Morgan Asset Management. Growth is represented by the Russell 1000 Growth Index and Value is represented by the Russell 1000 Value Index. *Long-term averages are calculated monthly since December 1997. **Dividend yield is calculated as the next 12-month consensus dividend divided by most recent price. *Guide to the Markets – U.S.* Data are as of December 31, 2023

We continue to favor companies that have a history of raising their dividends each year as well as high dividend yielding stocks. (Dividends are not guaranteed and are subject to change or elimination.) We also believe there is opportunity in certain high-quality growth stocks, especially those involved in the development of artificial intelligence (AI) technologies. We view AI as a major technological breakthrough that will have a significant impact on productivity in the future much the way the development of the internet has had over the past 30 years.

Small-cap stocks look attractive to us on a valuation basis but we feel this sector will continue to underperform large and mid-cap stocks in the first half of the year. Higher interest rates and a potential economic slowdown or recession could negatively impact small companies since they tend to borrow more to finance their businesses and typically don't have the cash reserves to weather a recession. We have been bearish on this area for a couple of years and will remain bearish until we can get a clearer picture on the direction of interest rates and the economy.

International stocks are starting to look more attractive on a valuation basis as well however we are still invested below our normal allocation to this equity class. We see a muted economic outlook for most international economies in 2024 although there are pockets of growth that are starting to emerge. At some point, we feel both developed country and emerging market country stocks will be attractive for investment however, we believe that now is not the time to add exposure to these asset classes. A small exposure to international stocks may be appropriate for those investors seeking more portfolio diversification. However, we would wait to add additional exposure to this area until we get closer to the middle of 2024.

## The Bottom Line

The biggest obstacle facing investors this time last year was the U.S. Federal Reserve's restrictive monetary policy begun in March of 2022 to combat inflationary pressures in the economy, in our view. For that reason, as we wrote in our January 2023 TCM Investment Outlook & Strategy letter, we entered 2023 maintaining a cautious stance with respect to both stocks and bonds.[10] Our concerns were primarily focused on the uncertainty surrounding the impact of the Fed's restrictive policy on the U.S. economic growth as the higher interest rates filtered through the economy and potentially dampened both consumer and business spending. We expected, like many economists and market strategists, that the U.S. economy would experience a mild-to-moderate recession in 2023 lasting two to three quarters.

It was also our view that the Fed would pause its rate hiking strategy sometime during 2023 as inflation continued to decline and move toward its target level of 2%. Our forecast for the Fed funds rate was for the rate to reach the 5-5.25% range, which we believed was sufficiently restrictive to slow economic activity and bring inflation down significantly.[9] As we discussed earlier, the Fed hiked the Fed funds rate by .25% to the 5.50% in July of last year and has been on hold ever since. As we observed the resiliency of the U.S. economy in the second half of the year, we became more optimistic that the Fed's restrictive policy may not in fact, push the economy into a recession.

Thus far, there has been no recession nor does it appear like one is looming. With inflation falling significantly throughout 2023 and the Fed putting its rate-hiking strategy on hold, we enter this year more optimistic that the U.S. economy will continue to grow and the financial markets can make meaningful progress for 2024. We see the U.S. economy maintaining an inflation-adjusted growth rate of 1-2% for the entire year with the low probability of a mild recession in the second half of the year. We see annual inflation rate, as measured by the CPI, breaking below 3% and the unemployment rate rising to the 4-4.25% level, up from its current level of 3.7%.[6] We believe equity markets can post high single digit and possibly low double digit returns for the year.

We will inevitably see more volatility in the financial markets once again in 2024. Corrections in both the stock and bond markets, after a strong fourth quarter rally last year, are certainly a possibility. The U.S. elections will likely be a major factor in financial market activity once the primaries crank up in February. We would use any corrections to add to both stocks and bonds, where appropriate.

We believe now is a very good time to review your long-term investment goals and to evaluate your current asset allocation strategy to help ensure your portfolio is in line with your long-term goals and objectives. This could also be a good time to rebalance portfolios back to long-term asset allocation targets.

As we begin the new year, we are very grateful for all of our client relationships and for the confidence and trust you place in us. We are honored and blessed to serve you and your families and look forward to our continued relationship.

May you and your families have a very Happy and Prosperous New Year!

*Your Trinity Capital Management Team*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**Footnotes**

1 Thompson charts

2 https://www.forbes.com/advisor/investing/fed-funds-rate-history/

3 https://www.federalreserve.gov/releases/z1/dataviz/z1/balance_sheet/chart/

4 https://fred.stlouisfed.org/series/DPCERE1Q156NBEA

5 https://www.atlantafed.org/chcs/wage-growth-tracker

6 https://tradingeconomics.com/united-states/unemployment-rate

7 https://insight.factset.com/have-industry-analysts-overestimated-sp-500-eps-for-2024

8 Jeremy Siegel's 2024 Economic and Market Outlook, CNBC interview December 27, 2024

9 Trading Economics, https://tradingeconomics.com/commodity/gsci

10 TCM 2023 Investment Outlook & Strategy, January 2023. https://www.tcmtx.com/blog/post/tcm-2023-investment-outlook-strategy-january-11-2023

To view the above links, press and hold the Ctrl key on your keyboard, hover over the link and left click your mouse.

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The commodities markets are considered speculative, carry substantial risks, and have experienced periods of extreme volatility. Investments in commodities may be affected by changes in overall market movements, commodity index volatility, changes in interest rates or factors affecting a particular industry or commodity.

Asset allocation cannot eliminate the risk of fluctuating prices and uncertain returns nor can diversification guarantee profits in a declining market.

**The Consumer Price Index** (CPI) is a measure of the cost of goods purchased by average U.S. household. It is calculated by the U.S. government's Bureau of Labor Statistics.

**P/E Ratio** is a valuation of a company or an index's current value compared to its earnings per share. It is calculated by dividing the market value per share by earnings per share.

**S&P 500 Index:** The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value weighted index with each stock's weight in the Index proportionate to its market value.

**The Russell 1000® Growth Index** measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

**The Russell 1000® Value Index** measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

**Index return information is provided for illustrative purposes only.** Index returns do not represent investment performance or the results of actual trading. Index returns reflect general market results, assume the reinvestment of dividends and other distributions and do not reflect deduction for fees, expenses or taxes applicable to an actual investment. An index is unmanaged and not available for direct investment.

*Past performance is no guarantee of future results and there is no guarantee that any forward-looking statements made in this communication will be attained.*

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