U.S. Tariffs and the Economy: Evaluating the Impacts

Diluigi, Dave
Hello and good afternoon, everyone. My name is Dave DiLuigi and is head of the U.S. markets for Wilmington Trust Wealth management. Welcome to our discussion this afternoon that we're calling U.S. Tariffs and the Economy: Evaluating the Impacts.

In today's interconnected world, tariffs and trade policies can have a meaningful effect on the consumer, businesses of all sizes, the economy, and our financial markets. Whether you're an individual investor, a business owner or a corporate leader, understanding how these policies may influence supply chains, prices, market trends, et cetera, is essential for making informed decisions. And so with this, as context, the purpose of today's presentation is to examine the current stance on U.S. tariffs, explore possible policy changes, and discuss their economic and market implications.

Leading the conversation today, our Wilmington Trust Chief Investment Officer, Tony Roth, Chief Economist, Luke Tilly, and Head of Investment Strategy, Megan Shue. If you have any questions whatsoever about this, the topic or anything else, please contact your Willington Trust Wealth advisor so that they can help. We're pleased to have you with us today and hope you find the presentation useful. Tony, I'm going to hand it off to you.

Roth, Anthony
Alright, thanks so much Dave and good afternoon everybody to our presentation. I hope everybody is having a great day and notwithstanding the turbulence and markets that we're experiencing today. So I want to start off and jump right into it. We're going to cover today.

Of course, what's going on with tariffs and how we potentially see the situation unfolding. We're going to talk about some non tariff issues as well to provide some broader context on the economic environment and why we feel that notwithstanding. A lot of the uncertainty that the conversation around tariffs has created, we still feel.

Feel that the economy is resilient and we're not seeing a recession yet, and we think that what we're experiencing in markets is really a correction that is associated with a full market rather than at this point a significant start to a recession. That could turn out to be the case, but we don't see it yet. And I want to start by saying that what we're accomp what we're setting out to accomplish today really is to do just that.

Not to describe what's happening from a policy standpoint and the potential implications on the economy and the stock market and the bond market, but we're not setting out to take a normative view on any of this. Really we're just trying to determine what's going to happen from an economic and market standpoint so that we can be as successful as we can at our mandate to to manage your assets. So with that, let me start off with some key takeaways from today's com.

Conversation that we're going to arrive at by the end. The 1st one is that I really want to focus on this idea of uncertainty. There's a tremendous amount of uncertainty around the tariff approach that the administration is taking, and that is creating a lot of confusion for both consumers and for businesses. And that confusion.

Is causing that folks to essentially pull to the sidelines whether whether we're talking about passive investors in the stock market or bond market or whether we're talking about businesses that are looking to potentially deploy capital into their businesses to to grow their businesses and what otherwise was expected to be a pretty strong economy coming out of the election, and in fact we had a pretty good stock market going and a pretty good market until the the terriffs came into play. So.

We have a very uncertain environment and I think what's really important to understand is that as much as concern around the impact of the tariffs themselves, it is that uncertainty which is bleeding into the hard data around the economy and starting to really slow down the economy and cause concern in in.

Consumers which is being reflected in the consumer sentiment and in companies which is being reflected in the narratives that companies have provided in their earnings calls and otherwise. Now when we think about what's going on with the tariffs, we have to understand whether or not they are strategic or tactical, and by that I mean that when we came into the new administration just several weeks ago, we understood that tariffs were going to be part of the tool kit that the administration was going to use to produce outcomes. And we thought those outcomes would be both economic, such as.

Gaining access to other markets as well as non economic such such as having an impact on immigration coming across from Mexico primarily, having an impact on the flow of fentanyl and other drugs coming from both Mexico and Canada. And as such, we thought the tariffs were going to be primarily tactical, short lived in nature that they would be put on in order to produce results to provide negotiating posture and negotiating leverage, but they wouldn't be a long term feature of the economy into a significant measure beyond where they are today. And what we've learned in the last week or so is that that maybe very different than what.

What the administration in fact is going to end up doing. We believe now that there is a reasonable possibility, if not likelihood, that there are other objectives that this administration is really looking to accomplish, which would include principally bringing production of manufacturing back to the U.S., and maybe even collecting meaningful amounts of revenue on an ongoing basis from tariffs. And in order to accomplish those objectives, the tariffs would need to stay in place for a longer period of time. And in fact, in order to get to a point, arrive at a point where we've accomplished some of that reassuring, we would probably have to go through a period of higher costs for consumers here in the United States, and those higher costs could well cause a bit of a shock or a disruption to the economy.

Maybe even resulting in a contraction or or a recession. And indeed, those are some of the messages that have been sent to us by the administration, including the president himself over

the last several days. So it's not to say that we believe that's going to happen or they or they're or they believe that's going to happen, but those are possibilities that are being acknowledged, and that's not something that anybody expected, I think as as recently as a week ago, let's say. So.

So that's all part of this landscape that we're trying to to to unravel here. So if we look at the tariffs that have been announced to date, and we compare them to where we were in the 1st trump term, we, the total tariffs are probably four to five times larger in total than, than what was applied during the entire 1st term of the Trump administration. And so we're definitely dealing with something that from an order of magnitude standpoint iis a much greater undertaking than what we had previously. So that's something that's interesting and important to recognize. But the other thing that's really important is that we have talked about the chutes and ladders economy in which we're in right now where we move along and unexpected.

Outcomes emerge where we might have a an intervention, if you will, that brings us up from an economic or market standpoint or conversely, like the tariffs, at least in the short term pull us down. And notwithstanding these tariffs, there are a number of ladders that remain in the in the environment that we think could counteract any short term negative.

Sort of implication of the tariffs that are not being taken into account by markets today. So we'll cover those in a moment. From a positioning standpoint, we are neutral across all asset classes. So in January, when we were overweight U.S. equities and underweight non U.S. equities, we moved to a neutral position across all assets and a neutral position on U.S. excuse me, on risk assets overall. And so we have come into this last bit, if you will, this experience that we're having now with the with the neutral position across asset classes, and we continue to think that's the right place to be, given this increased volatility, given the difficulty of trying to time and market downturn, and then retiming, if you will, and get back in when the market's towards the bottom and the narrative is as bad as could be. And so right now we are again just neutral cross asset classes and we're waiting to see essentially what happens with tariffs as we get closer to the 1 April or April second deadline when the government's going to be announcing more detail around the idea of proactive tariffs, which we think are likely to be a very big part of the story. And if not the biggest part, and we don't have a lot of informational content yet around these pro these excuse me re reciprocal tariffs that we're waiting to come in April. And then last, we do expect to see the volatility that we're experiencing to continue throughout the year. And so specifically around these reciprocal tariffs, there's a lot of complexity around those reciprocal tariffs, and even in early April, we're not going to know fully what that what this concept means and how they're going to be applied.

And I think that we're only going to be learning about that as to get through a month after a month and the government announces different arrangements with different countries to reach levels of reciprocity that appear to be fair. So the volatility is going to continue the market for some time. So with that background, let's move forward and I just want to start by providing a little bit of context. So we're seven weeks into the administration and the chutes that we see, the

problems or the the obstacles right are clearly tariffs number one, and that's what's weighing down mark.

There's also an underlying inflation scare, and that is a an area where we think even though there's an inflation scare ultimately we think that's going to, the other side of that coin is that it provides a potential ladder in the form of monetary policy and rate cuts, which you see on the right hand side because we expect that inflation in fact is going to subside more quickly.

And the market is, is, is pricing in today. And so that will actually turn out to be a ladder, but still at the moment, the inflation rings have been pretty high and so we'll see when we get CPI later this week. But we have to list it as a chute I think because if in fact it stays sticky, that could be a reason for the economy to potentially move towards the stagflationary situation. Consume consumer retrenchment is also another one that we're really concerned about, which is related to the tariffs and the uncertainty. And again, what we're seeing is that that consumer sentiment has really deteriorated significantly because consumers are sort of uncertain and and if not afraid around the impact of tariffs on all different areas of essentially goods that they purchase and whether or not that will effectively prevent them from engaging in as much discretionary spending as they would otherwise like to. And so consumers are starting to pull back and save rather than spend. That's not good for the economy. Valuation reversion. So one of the things that Megan's going to talk a lot about today, later is that the market is essentially primed for an event like this. So even without a recession, because the market was priced for perfection and we were trading at such high valuations, it shouldn't really take a lot in order to send the market down 1015 percent to see a consolidation and ultimately that could be a healthy correction if it's not followed by the recession.

And then we can move back up from there. And that's still our base case of of what we expect. And then the last chute that I've listed here today is in the short term, there is the potential for a government shutdown as early as later this week, and while each one of these events seems to be pushed off, and we seem to approach that cliff but never jump over it, at least not recently. This one later this week does seem to have a little bit of a higher potential for, a, a longer lasting situation because it's the beginning of the administration and they're really trying to put a stake in the ground in terms of extending the death ceiling for a significant period of time, at least until the end of the year. So that's definitely a chute.

And then on the ladder side, we're not going to spend a lot of time on each of these, but if you had an opportunity to listen to our capital market forecast, you'll know that we're very optimistic around the impact that productivity and technology can continue to have on our economy, and that sort of emanates from the idea of U.S. economic exceptionalism and the impact of technology along with pluralism and consumption in the U.S..

So that's a strong powerful force. Tax cuts, this administration is focused on trying to accomplish some tax cuts and there's a framework for doing so that would allow the administration potentially to cut around four and a half billion dollars of taxes, about three and a half billion would be an extension of the current tax relief from 2017, and that would leave another trillion, approximately excess tax cuts as long as they reach certain targets around reducing

government expenses. Expensing is a certain form of fiscal stimulus that the government's talked a lot about. The administration has talked a lot about just in the last week around the idea that companies should be able to deduct the full amount of any infrastructure or research and development or capital expenditures essentially in their businesses all in one year. And that is a very traditional approach that Republicans have taken for many years, which we think could figure as part of a big fiscal package that could come as early as this year, and that would be certainly a nice ladder, a nice talent for the economy. I've talked about monetary policy deregulation. That's another big one where we expect to see, and we've already seen through executive order a tremendous amount of deregulation and we're seeing it happen in the energy sector, we're seeing it in the financial sector, we're seeing it in certain areas of healthcare. And so lots of opportunity for more economic activity due to deregulation.

And then ultimately tariffs, and I think that it's really important to list tariffs here as a potential ladder as well because while I mentioned earlier, there's a lot of concern around tariffs due to the uncertainty. The underlying idea of reciprocal tariffs is not necessarily a bad one, and maybe it's a good one. And there are many respects in which by level setting the barriers that exist among countries, we could actually try open other markets for American manufacturers to sell their goods in at lower costs and create more demand for for for for our manufacturing. And so the tariffs are designed indeed to achieve a variety of goals, but one of those goals strategically is to create more opportunity for American businesses. And so, that takes some time to, to take effect. You're seeing the negatives impact stock market immediately, but over a longer period of time tariffs could be constructive for our economy. And so that's a ladder that I list, probably not going to impact positively in the beginning of the year, but maybe by the end of the year we could see some positive impacts from that.

So moving forward, we're not going to go through this timeline, but what I wanted to simply show with this timeline is that 1st day of the administration, the president came out with the U.S. presidential American 1st trade policy set of priorities.

And on that 1st day, there was even at as early as that 1st day again, an indication that there were going to be these studies provided by 1 April, which we subsequently learned were very focused on the idea of reciprocal tariffs, which then are going to be delivered again on April second. And so, while there have been a long series here now, a very significant trade policy executive orders and announcements and some reversals and zigzaging, if you will. There has been an underlying consistency around the idea of having reciprocal tariffs. And I think it's important to recognize that because it tends to suggest that the idea of these tariffs is not just tactical, but it indeed is strategic as well and that there are some long term goals here that the administration is looking to achieve, and they're likely to take the form of reciprocal tariffs. And I think there's also some level that I, I think we should derive from this or reassure that if these tariffs are truly reciprocal, we could actually see them come down lower than we might expect as as countries lower their tariffs because they're looking to continue to have access to the U.S., which for many countries is more important than us accessing their countries where we have essentially a trade deficit. And you're seeing that happen already with countries like India, e.g., where we import about twice as much as we export to India, and in con in a dialogue already

with Modi, the the leader of India, they've already indicated their willingness to to drop some of their tariffs in order to open their markets to the U.S., particularly in automobile segment.

So you can see some of this working. So let me just start by or let me let me talk before we get into tariffs more deeply with Luke. I just wanted to level set and make sure that we all understand that what a tariff is essentially. So a tariff is a tax that's imposed on the import of, of goods typically. And so just to use an example that was used by Kevin Hassett, the director of the national Council of Economic Advisors last week, if we were to buy a candy bar that was imported from from China and the candy bar costs a dollar and the government imposed a 25 % tariff on that candy bar, we would actually have to pay dollar 25 for that candy bar, and $0.25 would get remitted to the U.S. treasury. The dollar would go to whoever sent us the candy bar, and presumably, whoever sold us the candy bar and whoever and whoever sold us the candy bar would take some amount less than a dollar and provide it back to the, the company in china.

Yeah, that's sold on the candy bar. So from a mechanical sense, the consumer in the U.S. is the immediate direct bearer of that cost, but from a dynamic perspective, what, what can happen at that point is the person selling the candy bar might say, well, if I continue to charge dollar 25 on these candy bars, the folks buying them are not going to buy them anymore, they're going to go buy different candy bars, so it may cause the redirection of that consumption to different products or it may cause the manufacturer of the product to move the production out of the country that's being tariffed. So ultimately while in the short term, the consumer bears that tax over a long term, it could very much lead to a change in behavior and the 3rd other thing that can happen is it could cause the consumer to buy a candy borrow, let's just say in the U.S. that has NO tariff, and so those profits stay in inside the country. So that's how tariffs work. Luke, I think the place to start is to just sort of level set on the tariff environment that's been set up so far, but then also if you could talk to us about, we, we're a large economy, largest economy in the world, we run a trade deficit, and we, we, our, are in a sense bene we benefit from the ability to consume low cost goods from around the world all around the world without a lot, without a lot of tariffs. In your mind, is the, you know, from a long term perspective, not from a short term perspective, but from a long term perspective could the idea of, of tariffs from a, you know, looking at it from an economic perspective, could it be good for the country? Our trade deficit is very large. That's considered to be a, a negative for our country et cetera. So maybe if we right sided our our trade balance and derive some revenue from tariffs, maybe this is not such a bad thing if it's pursued in a, in a, let's say more calm transparent way. So if you could just level set on where we are and then answer that question around, what do you think as an economist, about the idea of maybe shrinking our trade deficit and doing that through a tariff process?

Tilley, Luke
Yeah, sure, Tony and thanks everybody for joining. If you ask that long term question, there are really so many things that affect it. And essentially, I I think about two things. One is the profit that you were just talking about with a candy bar, and then also, you know, what do what do you really value in terms of having something made within in the on the country or not in a country. And on, on the 1st one, I think one of the last things that you said was, well, you know, if you made it inside the country, then somebody domestically could pocket that profit. And one of the

challenges here is that if it's made inside the country because we do have higher labor costs than a lot of other countries that there might not be as much profit or the the cost.

The good might be higher. But there's a lot of different factors that go into it. It's not just tariffs. I think 2nd part of the question is even more more relevant here. It's sort of what do you want to have in your country? Clearly the president and a lot of people place a high value on having manufacturing done inside the country, either because of a.

You know, some sort of value that's pasted placed on a manufacturing job versus others or also because of reasons for national defense, you know, the reasons that are being put forth for steel and illuminum tariffs is that we have the materials made, domestically for something like that. So I think that there is a posit any time you're adjusting the costs between making something in one country versus making it in another, you've got the possibility of, you know, changing behavior and moving some production back. In the longer term, whether we're able to move a lot of production back or not kind of depends on both this tariff question and a lot of the cost. So it's an open question. I think it's, you know, it's a it's a longer term thing and I think that's one of the points of uncertainty for these auto executives, e.g., and for everybody is to try and figure out what is the time frame here, you know, what is the time frame of implementation? Because these are, these are long dated investment decisions, Tony, and they're sort of trying to figure out, what the, what the longer term outlook is going to look like.

Roth, Anthony
And and just from an economics one on one standpoint, Luke, is it, is it bad for us to have a massive trade deficit growing trade deficit year after year or do you not worry about that as an economist?

Tilley, Luke
It's not something necessarily that I worry about we've had a trade deficit for a long time. It means that people like to purchase our products. They, they end up taking those those revenues and investing them in treasuries, and that does make some people nervous in terms of international holders of our treasuries. It's not something that keeps me up at night, if you will, if you want to use that phrase, but there are also benefits to having a smaller, a smaller trade deficit, but we've had a, we've had a trade deficit for a long time and a strong economy, that doesn't mean that that it would go on forever, but I don't think it's the, it's not the main driver of when I think about the long term health of our country.

Roth, Anthony
So just to level set before we talk about the potential impact of the tariffs on the economy, take us through where you, where you sort of see us right now. And I know that where we are right now is not where we're going to land. It's going to change a lot, but I think that when you take us through where we are right now, it does sort of give a dimension of the magnitude of taxes that these tariffs represent relative to the baseline and that's a good start for us to then from that look at what would the impact be on our economy?

Tilley, Luke

Yeah, it's this is this is critical and I think the point that we're making here and with this slide, previous slide with the sort of the all of the uncertainty is how much uncertainty, this is a staggering amount of changes. I don't want to go back to it, but that timeline that you showed had so many changes that were just last week. You know, you're going to get the the 25 % tariffs and then that was at the beginning of the week, they were imposed on Tuesday, the middle of the week pulling them back on autos from Mexico and Canada and.

And later in the week for goods that are covered under the U.S. Mexico agreement. And as we try to figure out what the economic outlook is, it just creates a lot of challenges in playing, let's say the game of Chutes and Ladders and even being able to see the board. So the things that are listed here, what we're trying to figure out, and this goes to your original comments about strategic versus tactical and sort of what can be gained. The Mexico, Canada and China tariffs, you know, I think the China tariffs are more locked in and in place, but clearly we're in a bit of a holding period for Mexico and Canada. There were several tariffs as you said that lead to a little bit of uncertainty because we don't know, we know that sort of the the area of what they're trying to do. They want to go one for one and match everybody else's tariffs, but you also don't know how they're going to treat some non trade of tariff barriers like subsidies in other countries. You also don't know how long these are going to stay on that goes to the questions that you posed about, you know, strategic versus tactical if they were on for a long time, very, very different than if they were just on for a month or two, and then going for those tactical strategic or is it revenue? This is generating a lot of uncertainty for businesses. In some ways it would be easier if everybody knew that there was going to be, let's say a 20 % tariff across the board from everywhere, and you knew that that was going to stay in place. Businesses can deal with those decision making, you know, they can, they can sort of game out whether they want to move production or not. But this current situation about uncertainty can make it very challenging to make an investment.

Roth, Anthony
You know I've talked to clients, I've talked to many other people who.

Tilley, Luke
We're essentially saying, you know, if you don't know how it's going to turn out, then it's going to be a little bit paralyzing, and businesses deal very well with costs. They don't deal as well with uncertainty basically because you could buy a bunch of capital investment product right now or lumber to build a house and next month it might be less expensive. So that's what is that's one of the things that we're seeing right now, I think is just and that's one of the secondary impacts that we think about is is does this slow down capex as people wait around for the resolution?

Roth, Anthony
Yeah, and I think that a lot of what we're experiencing again is a slowing in the economy due to concern and fear, if you will, for the worst case scenario, because there's uncertainty and we don't really know how things are going to be filled out. It's not that the tariffs are yet really impacting the economy. One example would be.

Roth, Anthony

Thinking about what these reciprocal tariffs mean, take maple syrup. So let's assume with all due respect to our friends in Vermont. But let's just assume we didn't make Maple syrup in Vermont. I know that I know that you're in New Hampshire today, so thank you for joining us from there. But let's just assume that 95 % of the maple syrup around comes from Canada, and very, very little actually comes from Vermont.

What would it mean to have a reciprocal tariff in that situation? If we tax all maple syrup at the same rate, Canada would clearly be much more hurt than we would. Conversely, there maybe lots of things that America makes that for whatever reason can't be made in Canada. And if you tariff those on a level rate, it would, it would hurt with the you would hurt the U.S. over Canada. And so when we talk about reciprocal tariffs, are we talking about what level of specificity are, are, are we thinking of or are we trying to simply level set the total amount of tariffs get paid to each country, which we know is going to be more complicated than that. And I think that since we don't know the answers to those questions yet, we're going to start to learn about it on April second when we get this report, in the interim, there's a tremendous amount of uncertainty and the markets hate uncertainty and they sort of fill up with the worst case scenario, but we don't know that that's going to be the case and I and I don't think that as investors we should assume that's the case. If we look, look at what has been suggested, which is the 25 % on Canada and Mexico, the additional 10 % on Mexico, on China. If you look at just those, you know, with and without the, the, the, the extension for 30 days with the USMCA compliant goods that are not subject to the tariffs, can you take us through what, what impact would you see that having on the economy? Just in terms of the direct impact on the economy with those higher tariffs?

Tilley, Luke
Yeah, sure. And so the next slide is showing our effective tariff. And this is actually from our CMF report from the the 1st of the year showing that effective tariff rate, which is just overall, you know, how many, how much in tariffs do you collect divided by how much is important to the country, and this goes all the way back to 1880. And if you had the tariffs as of 4 March, you can see that 9.4 %. So again, this is also very simplifying in the sense that it's being applied to tariffs as if you don't change your trade behavior, but that would be the highest effective tariff rate that we've had since 1946 as we're seeing here. And that is a significant increase over what we have now. The little bump at the bottom, right of the chart is the 2018 tariffs from the 1st Trump administration that took us from an effective tariff rate of one and a half to about three. And so this would be, you know, a monumentally higher tariff rate. And the other thing to remember here is our economy imports more than we did in years past with the exemptions that were announced near the end of last week, so taking the things that we trade with Canada and Mexico that are undercovered under the USMCA and have those exemptions, that would bring us down to the 6.7 % rate here, highest since 1969. So if these were to stay in place for the year, the 1st order impacts that you're asking about.

So Tony I think it would shave about a half a percent off of GDP growth to three quarters of a percent off of GDP because a lot of this is going to be hitting the consumer. It would be hitting hitting the consumer. You mentioned as you were talking about Kevin Hassan the candy bar example, there are a lot of different ways that you could have that tax land. The tax could land on shippers who decide that they need to reduce the price that they are receiving or you can try

to pass the, the, the cost onto the consumer. Most research from the 2018 tariffs. And some other ones show that with U.S. tariffs, that the bulk of them have been passed on to the U.S. consumer. And if that were the case, then we would see, I think some consumer weakening because it basically it weakens the the ability to spend on on other things. And there would also be less less shopping here. So about a half a percent to three quarters of of a percentage of GDP, Tony.

Roth, Anthony
So, and I think that's a good proxy for what an average tariffs might look like over the course of the year. This doesn't include Europe. And it also doesn't reflect the fact that there will be some items possibly lumber, e.g., that we will have higher tariffs on with Canada over the course of the year, you know, building other gypsum board et cetera, from Mexico. And so it's a good, it's a good proxy for what tariffs might look like over the course of the year on average. Now, that's the direct impact. What about the indirect impact? So, just take us through was only half or three quarters per percent and we're at 1.8 %, so that would take us down to 1 %, but then there were a bunch of other ladders that we've talked about, expensing Capex, tax relief, deregulation that could potentially counteract this. So why is the market so upset?

Tilley, Luke
Yeah while the market's so stressed right now is because of the indirect impacts that tariffs could have on the economy.

Roth, Anthony
Talk to us about those and dimension those for us, please.

Tilley, Luke
Yeah, I actually think that the indirect impacts are, a little bit more damaging if they, if they were to transpire. The one thing, the other thing that we do not have in here is like counter terriffs. You know the counter tariffs do not account for what other countries will be placing on us and and then create challenges for our exporters. And I think that the two, the, you know, the two secondary impacts that I worry most about are some of those, but the the main one really is the capex, and businesses not knowing what the impact is going to be, and as I described before, not laying now capex until there's some resolution here because it can't have a little bit of paralyzing of effect to some degree, but then also if the markets keep going down, the thing that I keep in mind the most is the recession of 2001, where consumers were actually really strong at that, at that point, you know, the consumer spending never actually went negative, but what you had was.

Tilley, Luke
Those equity markets moved down. capex pulled back and you actually had a capex and market led recession. So those are the things to the downside. As you said, Tony, there are a lot of ladders that we haven't considered here yet cause we started the, after the election, you know, we know that those could be those tax cuts coming which could promote more capex,

some of the deregulation, which would provide some some support for growth. What we've seen to this point is implementation is mostly on the chutes side with the with the systemic.

Roth, Anthony
Alright, thanks, and if we go forward just two slides, I think that we'll see one of the ideas on the consumer side or the from a sentiment perspective, Luke here, maybe just walk us through this slide and have this reinforces the idea that it's 2nd order of effects that are really starting to bleed into the economy.

Tilley, Luke
Yeah, yeah, this is the the University of Michigan survey, and the the orange line is inflation fears, it's the projected inflation, and consumers obviously in the most recent two surveys have started to expect higher prices, and I don't think of that really as a projection of inflation in the same way that I'm sitting and trying to, to project where the CPI.

The index or the PC index is going to go. I see this as consumers saying I'm not sure I can afford these things that are going up in price, you know, it shows angst, and you see that with the other measure from this survey on the bottom, which is the question of, do you expect your personal financial situation to be better or worse over the next twelve months? And then right now it's the lowest since 2022. And of course 2022 was the very high inflation year, and people are pretty worried, and I think the biggest difference in the what's going on in markets right now is on January one, I think if you.

Roth, Anthony
Were coming that most people would think.

Tilley, Luke
That the that the consumers could handle it or it wouldn't be push you towards such a challenging situation. Since then we've gotten a couple of consumer surveys showing how much angst it's creating. We've seen the spending data for January was very, very weak counteracting some of the strength that we saw in November and December. And we just have a very different picture of how consumers, how how how well, they are able to take on these kind of price increases, because basically they are reporting that they're worried about their financial situation and it's a very different picture for consumers than it was, 60 days ago basically.

Roth, Anthony
So thank you Luke. And what's so interesting about this, this th this data is that it was data that was collected prior to the last set of dialogue from the administration on the tariffs, which suggests that the tariffs indeed are more strategic than than long term in nature, and so I think that you see that deterioration and sentiment in the market because there's the assumption that this sentiment, the consumer sentiment is going to get even worse as well. So, so Megan, I think this is a place to start.

When we think about investing in the market is to understand the baseline in terms of where the market is before we actually look at the stock market, I think that we tend to overlook the bottom market and what the bomb market is telling us and we had, I think a really interesting period in the ten year yield over the last 30 days or so where we came into the year and we thought we were gangbusters from an economic standpoint, we sort of have.

Roth, Anthony
The opposite of a growth scare. We have the concern that inflation maybe overheating. Fiscal spending maybe, maybe too great and that ultimately people may step away from the U.S. treasury market. Now that's reversed itself. Tell us what you see in the bond market and what the bond market's telling us right now.

Shue, Meghan
Yes, thank you Tony. I agree I think interest rates and specifically the tenure treasury Yield is very helpful for gauging what the market is focused on at the moment. And as you said coming immediately after the election into the inauguration, rates were a concern and and I think the reversal that we're seeing is consistent with the reversal of a lot of these so called trump trades that we saw leading up to inauguration day and what I mean by that is a strong dollar U.S. over non U.S. outperformance and this think this thinking that we'd have higher growth, higher inflation, higher debt levels, and therefore interest rates will continue to do higher.

Instead what we've seen has been a focus on the, the chutes before the ladders, which I think was a little bit of a, a verbover work or soul from what the market was expecting. And as a result, some of this downturn in sentiment from investors and consumers has put a little bit of a cap on interest rates, but I do think that this to some degree works to the benefit of the administration because again the that that concern that we'd be talking about a ten year at four and a half or up towards 5 % was a very real concern over the past few months.

Roth, Anthony
I was just going to add to what you were describing Megan is that the idea of a 4 % or even lower potentially treasury yield depending on why we get that, it could be very beneficial and unexpected this year and you certainly don't want to have a very low interest rate because you have a a stag a stagnation in your economy or you have a contraction or a recession and the the fed is just stimulating in order to get us out of recession. But there is, I think a real need to have lower mortgage rates. There is a real need in the corporate space to have lower rates real to where we've been over the last 20 years, you can see that the average over the last 20 years is higher, still higher, still excuse me, still considerably lower than where we are today. And so, and the president’s talks a lot about having lower rates. So this move towards lower rates, again, if it can happen, not just because of a growth scare, but because structurally we're moving out of inflationary environments could be very positive for the economy as we go forward. So now looking at the stock market, tell us what you think about the, the, this correction that we're seeing or this drawdown. You think it can we view it as a correction instead of the end of the the bull market and the beginning of a bear market that's going to essentially hear all the recession.

Shue, Meghan
Yeah, and I think it's helpful to start with where we came into the year in terms of expectations that were baked into the market. So what we're showing on the left is analyst expectations for earnings growth quarter by quarter for the S&P 500. And as you can see, as we were moving through 2025 into 2026, expectations are for very robust earnings growth from stocks. So there was a lot of of really somewhat aggressive growth expectations already paid into earnings estimates, and then on top of that, you had what investors were willing to pay, what they are willing to pay for those earnings expectations we're, we're getting some feedback on your.

Roth, Anthony
Your audio for some reason. It was perfect the 1st time you spoke. I wonder if you could just toggle your volume on and off again your mute, that might fix it, I don't know.

Shue, Meghan
Okay, is this any better? Otherwise I can I you guys can move on, I can disconnect and try again.

Roth, Anthony
I don't know. It's not so bad that we can't hear you, so keep going, but.

Shue, Meghan
Okay, sorry. So we are we are looking at the market basically somewhat perfection and pricing in very, very aggressive multiples on those earnings expectations you can see on the right before earnings ratio for the S&P 500 even with the recent connect correction still around very close to all time highs and we came into the year with a lot of that baked in. So I think that starting point is really important because that means there's not a lot of room for anything to go wrong or any sort of growth scare or disappointment, and that's exactly what we're living through right now. We are basically dealing with a little bit of a setback in growth expectations and that is one of the reasons why we're getting this, this election related volatility. And at this point, what we have seen is about an eight and a half percent drawdown in the S&P 500 or more for the Russell 2000, which is the small cap index and tends to be more growth sensitive. And I would just, I would say for, from my perspective are this feels like a a normal corruption that we should expect these types of things never feel good. They always feel painful in the moment and yet, you know, we all know that we should be willing to lean into risk, you know, pullbacks in the market. So I think as we're looking at this going forward, the average pullback at any given year is about 12 %. We're still not not at that right now and I think without recession baked in, I would still expect this to be a a normal correction in the market.

Roth, Anthony
Did it again. So I was I was just adding to what you were describing is when I think about where we are in markets, Megan and Luke, I'm more concerned about the behavior and the action on markets between now and April in a way than I am after April because during this period of uncertainty where there's not a lot of informational content and the markets want to fill the vacuum with the worst reading of what could potentially happen, we could, that's where we could see essentially a lot of financial tightening due to continued decline in the equity market,

which, and has a knock on effect on second order dynamic effect as Luke was describing on the consumer. Once we get to a point where potentially potentially we can see these reciprocal tariffs as being beneficial over the long term and right sized so that the total load of tariffs on the economies in that range of maybe eight six to eight to 9 % are not higher than that, then I think that we end up in a place that appears to be some something we can live with potentially for the benefits that we would receive over the long term. So, so Megan bringing it back to the market, the non U.S. large cap market has actually been doing quite well for the 1st time used to be the U.S. market. Can you share that information with us and what would it take you to want to start to redeploy assets from the U.S. into, you know, jumping onto that train which seems to be going up the Swiss alps or or whatnot.

Shue, Meghan
Yeah, I would say this this chart here is showing calendar year returns for 2024 compared to 2025 year to date, teal bars are last year and the navy blue circles are this year, year to date. And what you can see is pretty much across the board a momentum reversal across asset classes and specifically if you look at the bar for the SMP 500 compared to the bar for international developed, you can see we're looking at about an 11 % outperformance of international developed equities which is very different from what we've seen over the past few years. And again, starting points matter, we came into the year priced at an extreme discount for international developed equities relative to U.S. equities. So international equities are very, very cheap, and what we've seen has been a an improvement or relative improvement in terms of economic versus expectations for international equities we've seen more enthusiasm for fiscal and defense related spending in international equities and then we've seen some currency movements as well and all of that has has led to a bit of a snap back in terms of this asset class.

Roth, Anthony
So, why are you not more constructive on it? What why why why should why should we not start to pile in?

Shue, Meghan
Well, I think what we are, what we are experiencing is a bit of a mean reversion, so reversion back to average for evaluations, but there's still a lot of uncertainty, we still have, I think relative optimism around the U.S. economy compared to international development that the stat that allows me is when we look at two and a half percent productivity growth for the U.S. for the past couple of years. If we went to Europe, e.g., productivity growth has been zero. So the underlying machinations and machinery.

Area of the U.S. economy I think is still stronger and then we of course have to recognize that the tariff attention could very soon be shifted towards Europe and that would probably lead to whatever reversal and sentiment, so I think it's too early to start to chase this reversal, but it's a really good reminder about why we diversify our portfolios and I think 2025 could be a really good new for the diverse investors.

Roth, Anthony

Yeah, and to that point Megan, and this I know this is not going to sound like a much of a silver lining for most clients, but the U.S. large cap segment is the biggest component of the portfolio for most clients, for most investors that are in here in the U.S. And over the last couple of years, it's been hard for those clients to keep up with the benchmark for U.S. large cap when it's been so dominated by the Nvidias and Teslas and other companies, and because of the diversification that we maintain for our clients in the U.S. large cap across a very broader set of sectors and and vestable factors, what we're seeing is that as you get a lot of physical areas of the market, particularly the big cap tech names coming back 15, 20, 30%.

As we've seen now, we're seeing our performance in our portfolios in the U.S. large cap area on a relative basis. So on an absolute basis, we're still down, but we're not down as much as the index for those reasons. Maybe we just talk about what you're seeing there. I know on the next slide you have some, some great data for us.

Shue, Meghan

I'm sure and I know people are having trouble hearing me. I really apologize. I don't think it's my headphones or computer or anything. I think it must be some sort of faulty internet connection that we have.

Yes, I do apologize. Here, here again we see the momentum reversal underneath the service of the U.S. Equity market where 2024 calendar year returns, we have them sorted by sector leadership and tech communication services were the dominant parts of the market and yet we've seen that shift more towards some of some more value, some more for defensive parts of the market and again for many of our active managers who just do not really even have a an opportunity to go overweight some of the largest stocks because of the concentration that they hold in the index. We're seeing better participation from that active management and from some of that value which has been again a good thing for the diversified investor.

Roth, Anthony

Yeah, and then the last slide that I know you were going to cover, but just because of your mic I'll just jump in on it is that when we look at investor pessimism, we see that at levels that rival where we were in the pandemic. And that I think that's really important to note because usually what happens when we're at such levels of bearishness, we get a snap back in markets at some point. And so again very hard to time the markets, but we certainly are at a sort of two and a half three standard deviation point in terms of the amount of bearishness that we're registering now and the part of investors in the market. And then on the next slide you can simply see our positioning that we are in fact neutral across the board right now doesn't mean that we're going to stay neutral. You don't pay us to be neutral.

But given this historical level of uncertainty, we continue to believe that neutral is the right place to be before we see how things pan out. And remember, we're not neutral within these asset classes or simply neutral at an asset class level as we try to essentially distill all this information in the marketplace. And before we get to questions, Luke I wanted to just bring you back in

because last year, the biggest story in the marketplace was not tariffs it was inflation. And I think that it's really important as part of the overall environment to dimension where actually do we stand on the inflation trajectory, not only are we having a growth scare, but people are are calling it a stagnation scare, which is not only the stagnan stack excuse me, a staggflation scare. So the inflation part of the staggflation is that inflation is continued.

Roth, Anthony
Thing, and that's not really our view. We view, our view is different, so maybe just take us through what you see for inflation the rest of the year, please, and also what it means for the fed.

Tilley, Luke

Yeah, absolutely. So the next slide is showing our inflation forecast, which actually has not changed materially because we haven't moved to an assumption that the tariffs are going to stay in place all year. The, I think the main, when we're expecting inflation to slow, we don't see consumers standing as strong enough to keep inflation where it is. I think, my, my biggest concern or maybe a difference from some in the market is, you know, we could get higher inflation readings because of the tariffs and higher import prices, but I don't think that the consumer is strong enough to, to bear if those tariffs were to stay in place for the rest of the year, let's say. I think that would end up as you're pointing out lead to much weaker growth and that would end up pulling prices down. And I think that's why we see the fed Funds futures market pulling down on the on the fed funds rate expectations expecting more cuts. And that's what we have on the next slide where we have not changed our forecast yet.

Of the number of cuts, you know, all of our clients would know that we're expecting a hundred basis points of cuts this year, which is more than the market and the Fed is, the Fed last time the Fed did their forecast was in the middle of December, they're going to update their forecast at this upcoming March meeting and I don't know if we're able to advance to the next slide.

Over the past two weeks, as these have the tariffs have come into play, the, the market future sort of that teal line and the teal dot have been coming down closer to us expecting that weaker growth. And we started off the year thinking that the consumer was weaker than, I think the market consensus, and now it's getting a little bit of added fuel because of the concerns about the tariffs and I think before this call earlier, I I checked and where the market is up to three cuts this year, but of course some of that is in reaction to, the, the tariffs and sort of those concerns, Tony.

Roth, Anthony Alright, thanks so much. So, I think what we should do is pivot to Q and A. We've got about six or 7 min left and we've got a lot of questions that have come in. Thanks so much Megan and Luke for great color on what's going on here. 1st question I want to answer is about the automobile sector and specifically around European in sourced automobiles and what insight, do we have to what the administration's plans are for autos coming from the EU. And here let's just share the baseline is that we tariff, I believe we tariff photos at two and a half percent coming in from the EU and they tariff ours at 10 %. I believe that's those are the

numbers and I think that this idea of reciprocal tariffs is important to start with. It could be the case that the EU which exports a lot more than we import from the U.S. produced in the U.S. to Europe decides to lower their tariffs on U.S. imports of automobiles in order to not negatively impact their manufacturers. So that could be something that happens as an example, if they don't, then we would see potentially the tariffs going up on automobiles that are sourced out of the EU. But again, this reciprocal tariff's scenario is very complicated. So e.g., we have higher tariffs than the EU does on light pickup trucks. And so, if they decide, if they are whatever reason unwilling to lower their tariffs on EU based on U.S. based autos coming into the EU, maybe they'll increase their tariffs on U.S. based pickup trucks, and that could upset the U.S. so it's not just one product that we have to look at or one type of product. It's how does the entire equation put together for any particular trade partner, and what is the administration's intent in terms of unpacking this idea of reciprocal tariffs, and that's where we just don't know. So that is the answer to that question. Luke, one for you. Layoffs in the government sector are significant and they spill into the private sector, nonprofits but also government contractors. Do you have any guidance for us on how much those activities could impact the economy?

Tilley, Luke
Yeah, this is one of those incredibly hard things to, get a handle on. The number of federal government layoffs is going to be known with a fair amount of precision precision, and those are relatively high paying jobs, so you might see some especially around the DC area, but obviously they're, they're dispersed throughout the country, you might see some impacts of that. The contractors and sort of the impacts of spending is really hard to get a finger on them. I mean I've read articles that say, Oh, they haven't even really cut spending that much, but I've talked to clients who know people at research hospitals and, places of the like that have those, those contract dollars that are already laying people off. And we haven't really seen it show up in the hiring numbers yet last week’s employment report didn't really show any strong evidence of this, but that's one of those, one of those wild cards with the spending and the and it really comes down to the contractor numbers. But that's one of the reasons we have this this all of these policies at the chute as a possible chute because it could weigh on growth.

Roth, Anthony
Let's take a lumber, soft softwood lumber as another example. So currently about 30 % of the softwood lumber in the United States is sourced from Canada and 50 % of our total lumber is sourced from Canada, so we get some hardwood lumbers well from Canada for furniture and such, and we currently tariff lumber about 14 and a half percent, is a very long history of tariffs between the U.S. and Canada on lumber. It goes back many many decades. So that's currently the baseline and we think that that number could go to 39 and a half percent with the additional 25 and then maybe even 58 % because the commerce department said that they may double independent of the 25 % on everything coming from Canada, they may double the tariff on lumber. So that would get us to a 60 % tariff on lumber and the administration has also come up with a couple of executive orders about trying to increase the production of lumber here domestically in the U.S. do we have any, any, and this is part of a broader question, which is what manufacturers do we think can be scaled up quickly in the U.S.? And I think lumber is an interesting one because the industry has indicated it's not just as simple as cutting down trees and, and, and, you know, putting them into the lumber yard, putting them through a saw mill.

There's a lot of labor that needs to be in place in order to undertake that activity and it's not clear that we can rise to the challenge and now we push up the cost of home prices et cetera. So do you have any insight on lumber from any perspective on tariffs here and then and then do you have any other insight into other areas of the economy where manufacturers could scale up quickly?

Tilley, Luke
Yeah, it's, the lumber is one of those ones where you actually have lumber flowing both directions, but we do import quite a bit from Canada. It's something that we could start to replace, but you would need, you'd need some big changes in terms of the land use requirements and how you would, and how much you allow people to cut down. But there would be an adjustment period and I mean, we remember during the pandemic how much lumber went up, you could have a situation of short supply, so there's probably an equilibrium somewhere down the line that you could get to, and that could be beneficial for the U.S., but I worry a little bit more about the transition, you could have a spike in lumber prices. In terms of other industries, you know, the more capital intensive it is, the, the more challenging it's going to be. I don't see where other suppliers right now have the ability to move a lot of the production. And a lot of this has to do, Tony, you mentioning autos, you know, autos out of Europe being shipped here. I don't know that that's going to end up being the impact because I have a I have a German labeled car but it was made in Chiapos Mexico, you know, they, they're already have They they've produced those products over here in the integrated supply chain in North America for exactly these reasons to move it from Mexico to to U.S. would be pretty challenging, it takes a lot of capex.

Roth, Anthony
Megan, what about bonds? So for clients that are feeling the pain here in the markets, which we all are, but for those that are feeling it acutely, should they just divert port, you know, meaningful portions of the portfolio to bonds or even cash?

Shue, Meghan
I would not be moving out of equities and into bonds or into cash now. I mean I think the, in my view, the time to do it was a few weeks ago when actually, when we did take a little bit off the table and move out of equities and shore up our cash position, but I think at this point it's just going to pay to be patient. There's a lot of, as, as we showed a lot of fear in the market already, and I don't think that now, you know, jumping ship depending on, you know, whatever your personal situation is with, with your various goals, but the vast majority of our clients are, invested with a longer time horizon, and so I would be, I would be patient here and and I think that's going to be probably the word of the year is to be a little bit patient, and just to expect a little bit of higher volatility ups and downs. As I said, we haven't even I don't know what we've done in the last hour in the market, but, before the start of our webinar, we hadn't even corrected 10 % yet andI think that that's, that is still in my view normal volatility.

Roth, Anthony
We're down 3 % from 2.6 when we started. So going in the wrong direction, but having said that I agree with you and what I would say is that moving assets from stocks to bonds is essentially

a form of pulling out of the market or de risking on a tactical basis. And once you do that, there's nothing harder in investing thing getting back into the market because either you're wrong and the market goes up fairly quickly and then you don't want to get back in because you made a move that didn't work or the market goes down and the narrative gets even worse, and you feel so good about being protected that you're not going to get in. And then as the market starts to rebound, again, you've, you've missed the bottom there and you wait for it to come back and it never comes back to you. So if you're a long term investor extremely risky and difficult to try to time these moves in and out of the market. Luke, last question for you, had a couple people ask, is there any possibility or what do you think about the idea that the administration which has really highlighted the need for lower interest rates, is using tariffs here to help push interest rates lower?

Tilley, Luke
Are they using them to push address rates lower? It's possible, but that feels like a little bit of a, I think the phrase is cutting off your notes despite your face, you know, like the lower rates are because people are concerned about a recession and slower economic growth, and so if you know if you're using it in order to slow down the economy, then you're, you're talking about some kind of a multi-stage game. I don't I don't think that this is necessarily good unless you can get, you know, those tactical things that you talked about at the top, those tactical changes and there could be some changes that would be really beneficial to the U.S. economy, with Canada and Mexico especially, but we'd have to see how that turns out and and I don't think I don't think that this is the way you want to get lower interest rates, but that could be what they're trying to do.

Roth, Anthony
And I know I said that would be the last question, but I'm going to do one more for you Megan, because if this was a point we made earlier and I think it's such an important point and point I want to come back to it, which is that European countries have announced a variety of fiscal measures. When I say announced, they've talked about them. They haven't necessarily approved them and in order to do this, it needs to actually go through the EU because the countries in Europe are not allowed to run fiscal deficits above certain thresholds that are negotiated on a country by country basis within the EU and so, but given that there's so much focus and conversation and chatter on this idea of European countries spending more to stimulate their economies, infrastructure defense etc. Tell us again why at this point that is not sufficient to bring us to want to divert assets to European equities.

Shue, Meghan
Well, I mean, I think for me the two main reasons are that, as you said, we, they have talked about increasing defense spending, but some of the economies, some of the countries in the EU have very strict debt restrictions, Germany being one of them. There's also outside of the U.S., a number of different government changes that are happening in terms of leadership. So we're very much in flux. I don't think any of those promises for increased spending are guaranteed at this point and then on top of that, again, the risk that tariffs sort of shift focus towards Europe, I would not at all expect, I would not at all underestimate the possibility that sentiment reverses there if the Trump administration starts to direct tariffs towards Europe.

Roth, Anthony
Alright, thank you so much Luke and Megan. So I want to close by reiterating that we're, we're having this conversation probably at the, you know, the most painful moment, in terms of a day we're down 3 % on the SP 500 just for the day alone. But I I do believe that the market right now is is very focused on, on one aspect of the ecosystem which are these tariffs, and as we move forward and we understand better, the dimension in which these tariffs will take shape through this idea of reciprocity, there is a good chance, if not a likelihood that the total tariff load on the economy is going to land in that call it six to 9 % region, which we think that if it happens quickly enough and the and the clarity comes quickly enough that consumers should be able to understand that and and and start to lean in again to spending, and we can make it through this without having a recession. Now, we don't know that to be the case, but that is still our base case scenario that the economy is strong enough coming into this episode and we have enough other tailwinds in the form of other ladders an economy, productivity, tax cuts, capital expensing of capex, etc. Deregulation that we don't think yet that we are at a period where we're going to have a recession this year for sure or or even likelihood, and that this is anything other than a normal correction in markets, that'll be followed by, a recovery and equities although it may not be the same names. So that's something that we of course are going to handle on our side as we manage portfolios. So with that, if we didn't get your question, please reach out to your investment advisor or your wealth advisor and we would be happy to talk to you offline.
Thank you again for participating, and we look forward to our next conversation, hopefully with some clarity to a lot of these questions.

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- Developed international stocks: MSCI EAFE® (Net) Index
- Emerging market stocks: MSCI Emerging Markets Index
- U.S. inflation-linked bonds: Bloomberg US Treasury Inflation Notes TR Index Value Unhedged USD (took effect 8/1/22)
- International inflation-linked bonds: Bloomberg World ex US ILB (Hedged) Index
- Commodity-related securities: Bloomberg Commodity Index
- U.S. REITs: S&P US REIT Index
- International REITs: Dow Jones Global ex US Select RESI Index
- Private markets: S&P Listed Private Equity Index
- Hedge funds: HFRX Global Hedge Fund Index (took effect 8/1/22)
- U.S. taxable, investment-grade bonds: Bloomberg U.S. Aggregate Index
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The Bloomberg U.S. High Yield Corporate Index, formerly known as Lehman Brothers U.S. High Yield Corporate Index, measures the performance of taxable, fixed-rate bonds issued by industrial, utility, and financial companies and rated below investment grade. Each issue in the index has at least one year left until maturity and an outstanding par value of at least $150 million.

The Bloomberg World Government Inflation-Linked Bond (WGILB) Index measures the performance of investment grade, government inflation-linked debt from 12 different developed market countries.

Bloomberg Commodity Index measures the performance of 19 futures contracts on physical commodities. As of the annual reweighting of the components, no related group of commodities (for example, energy, precious metals, livestock, and grains) may constitute more than 33% of the index and no single commodity may constitute less than 2% or more than 15% of the index.

The Dow Jones Global ex-U.S. Index is an equal-weighted stock index composed of the stocks of 150 top companies from around the world (excluding the U.S.) as selected by Dow Jones editors and based on the companies' long history of success and popularity among investors. The Global Dow is designed to reflect the global stock market and gives preferences to companies with global reach.

The HFRX Global Hedge Fund Index is designed to be representative of the overall composition of the hedge fund universe. It is composed of all eligible hedge fund strategies; including but not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, event driven, macro, merger arbitrage, and relative value arbitrage. The strategies are asset weighted based on the distribution of assets in the hedge fund industry.

The MSCI All-Country World Index ex USA measures the performance of large- and mid-capitalization stocks in approximately 50 developed and emerging equity markets, excluding the United States.

The MSCI EAFE® (net) Index measures the performance of approximately 20 developed equity markets, excluding those of the United States and Canada. The total returns of the index are net of the maximum tax withholding rates that apply in many countries to dividends paid to nonresident investors.

The MSCI Emerging Markets Index captures large- and mid-cap representation across 26 emerging markets countries. With 1,198 constituents, the index covers approximately 85% of the free-float-adjusted market capitalization in each country.

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

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

The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index. As of its latest reconstitution, the index had a total market capitalization range of approximately $128 million to $1.3 billion.

The Russell 3000® Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market. As of its latest reconstitution, the index had a total market capitalization range of approximately $128 million to $309 billion.

The S&P 500 Index measures the performance of approximately 500 widely held common stocks listed on U.S. exchanges. Most of the stocks in the index are large-capitalization U.S. issues. The index accounts for roughly 75% of the total market capitalization of all U.S. equities.

The S&P Developed Property defines and measures the investable universe of publicly traded **property** companies domiciled in developed markets.

The S&P 500® Equal Weight Index (EWI) is the equal-weight version of the widely-used S&P 500. The index includes the same constituents as the capitalization weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight - or 0.2% of the index total at each quarterly rebalance.

The S&P Municipal Bond High-Yield Index consists of bonds in the S&P Municipal Bond Index that are not rated or are rated below investment grade.

The S&P Municipal Bond Index is a broad, market value-weighted index that seeks to measure the performance of the U.S. municipal bond market.

The S&P United States REIT Index measures the investable U.S. real estate investment trust market and maintains a constituency that reflects the market's overall composition.