



# ECONOMIC AND MARKET REVIEW

FOURTH QUARTER 2023



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# AGENDA

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# 2023 year in review

**Mar/Apr:** Fed raised interest rates by 0.25%; The collapses of SVB, Silvergate Bank & Signature Bank all occurred within five days; UBS agreed to buy Credit Suisse for \$3.25B

**May:** Nvidia hit the \$1 trillion valuation mark, riding the wave of A.I. exuberance; Fed raised interest rates by 0.25%

**Jun/Jul:** The U.S. passed a debt ceiling package; The S&P 500's bear market ended with a 20% advance from its October '22 low; Fed raised interest rates for the last time in 2023 by 0.25%

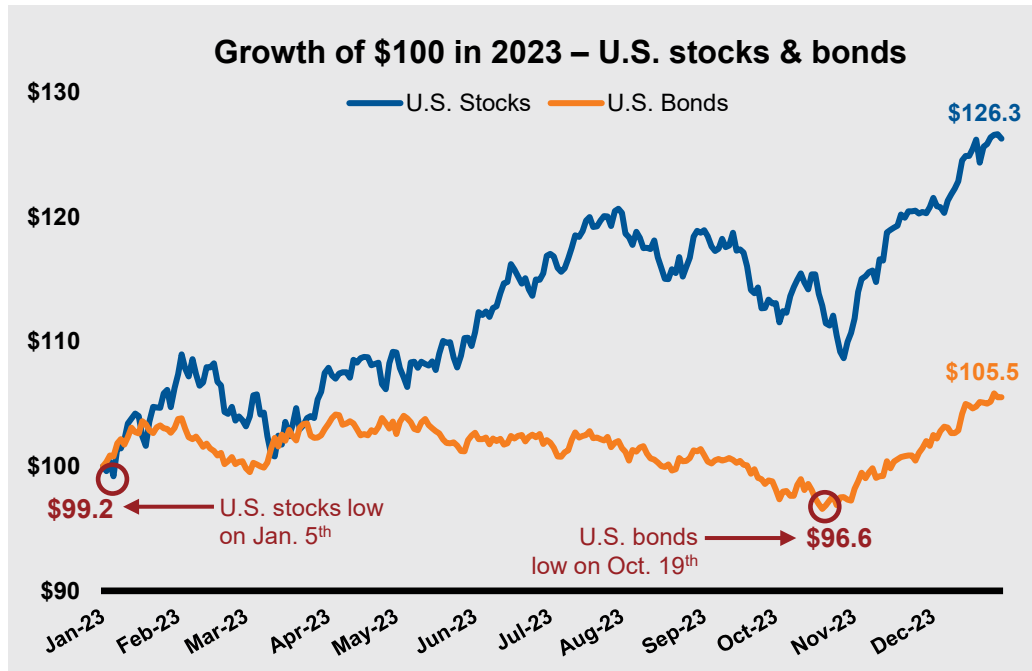
**Aug/Sept:** Fitch downgraded U.S. long-term debt rating to AA+ from AAA; America's national debt topped \$33T for the first time; Student debt reached \$1.6T

**Feb:** Fed raised interest rates by 0.25%; Yield on 2-year Treasury bonds go above 5%; An American fighter jet shot down a Chinese air balloon off South Carolina coast

**Oct:** Average on 30-year fixed rate mortgages hit 8%; Yield on 10-year Treasury bonds rose to 5%; Israel-Gaza conflict began

**Jan:** Unemployment started the year at 3.4%; Egg prices peaked at \$4.82 a dozen; Microsoft made multi-billion-dollar investment in ChatGPT

**Nov/Dec:** Inflation, as measured by 12-month CPI, hit low of 3.1%; Bitcoin staged its comeback with a 154% surge in 2023; Unemployment finished the year at 3.7%



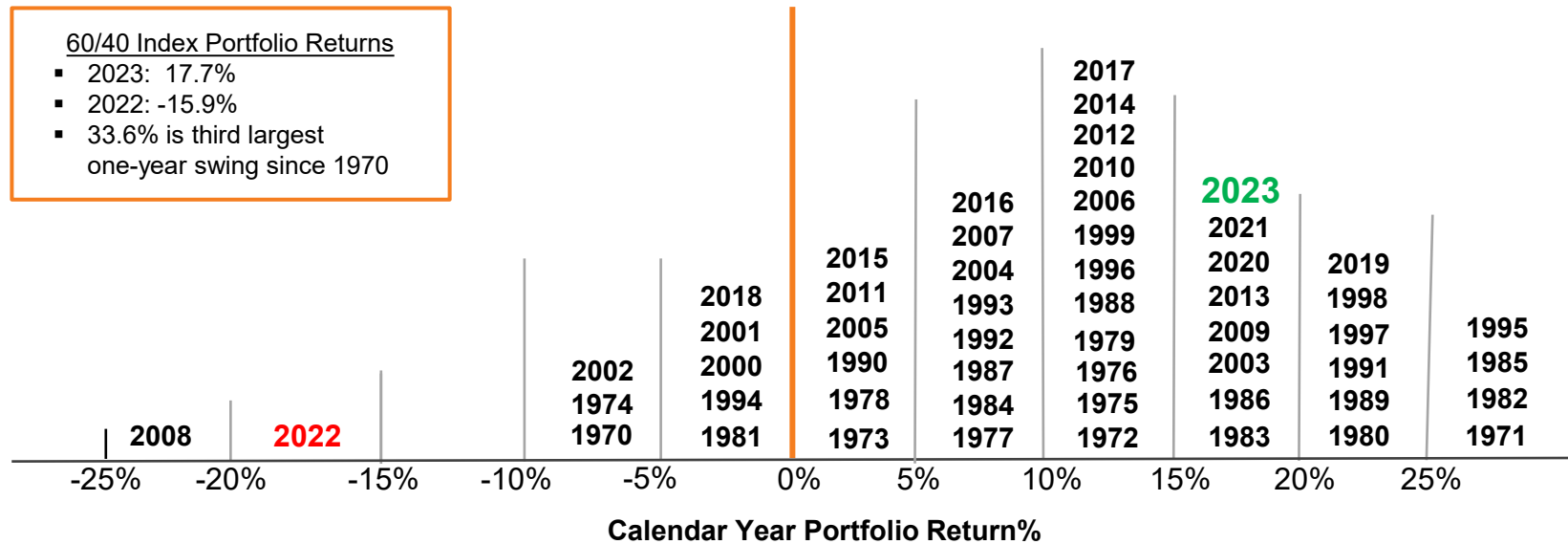
- Cooling inflation and resilient economic growth saw stocks deliver positive returns (+26.3%)
- Stabilizing interest rates helped bonds produce positive returns as well (+5.5%)

Source: Seeking Alpha Wall Street Breakfast: <https://seekingalpha.com/article/4659661-wall-street-breakfast-what-year> & <https://seekingalpha.com/article/4659878-wall-street-breakfast-year-in-review> & <https://seekingalpha.com/article/4660110-wall-street-breakfast-looking-back-2023>; CNBC the biggest money stories from 2023: <https://www.cnbc.com/2023/12/30/student-loan-forgiveness-tech-layoffs-big-money-stories-from-2023.html>; Morningstar Direct: U.S. Stocks = S&P 500 Index TR USD; U.S. Bonds = Bloomberg U.S. Aggregate Bond Index TR USD. Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment. Indexes are unmanaged and cannot be invested in directly.

# What a difference a year makes for diversified portfolios

Stocks and bonds both bouncing back from difficult 2022

## 60% Stock / 40% Bond Index Portfolio 1970 – 2023



- Both stocks and bonds posted positive results following a historically difficult 2022
- Portfolios have recently demonstrated a pattern of resiliency following tough stretches
  - 2008 → 2009
  - 2018 → 2019
  - 2022 → 2023
- Those moving out of the markets tend to miss the rebound, hurting long-term portfolio results

Index portfolio of 60% S&P 500 Index and 40% Bloomberg U.S. Aggregate Bond Index  
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# Economic indicators dashboard

Q4 2023



## Market Volatility

Stayed at the lower end of the typical range in Q4



## Yield Spread

Widened from -0.96% at the end of Q3



## Unemployment

Down from 3.80 at the end of Q3, and still below the typical range in Q4



## Consumer Sentiment

Despite December increase, Q4 sentiment remains below typical range

MOST RECENT ■ | 3-MO. TREND → | TYPICAL RANGE ■ | ACTUAL RANGE ■

### MARKET INDICATORS

Market Volatility (CBOE VIX)

[HISTORICAL DETAILS](#)

10 Yr. U.S. Treasury Yield

[HISTORICAL DETAILS](#)

Yield Spread

[HISTORICAL DETAILS](#)

Home Prices (HPI)

[HISTORICAL DETAILS](#)

### ECONOMIC INDICATORS

Inflation (CPI)

[HISTORICAL DETAILS](#)

Unemployment

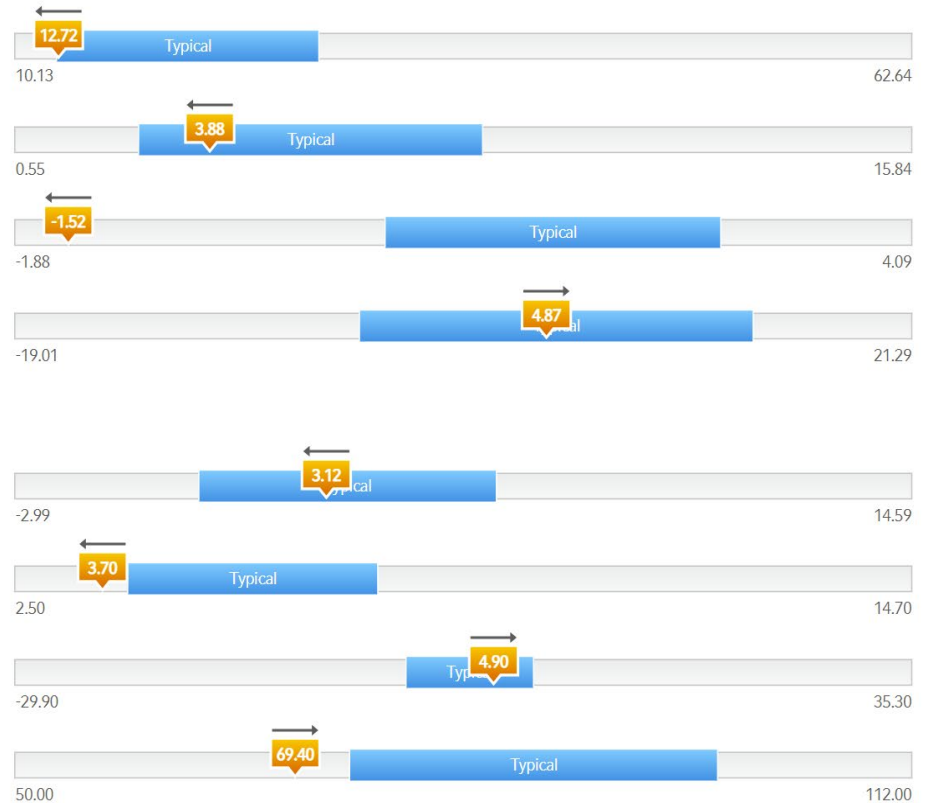
[HISTORICAL DETAILS](#)

Economic Expansion (GDP)

[HISTORICAL DETAILS](#)

Consumer Sentiment (CSI)

[HISTORICAL DETAILS](#)



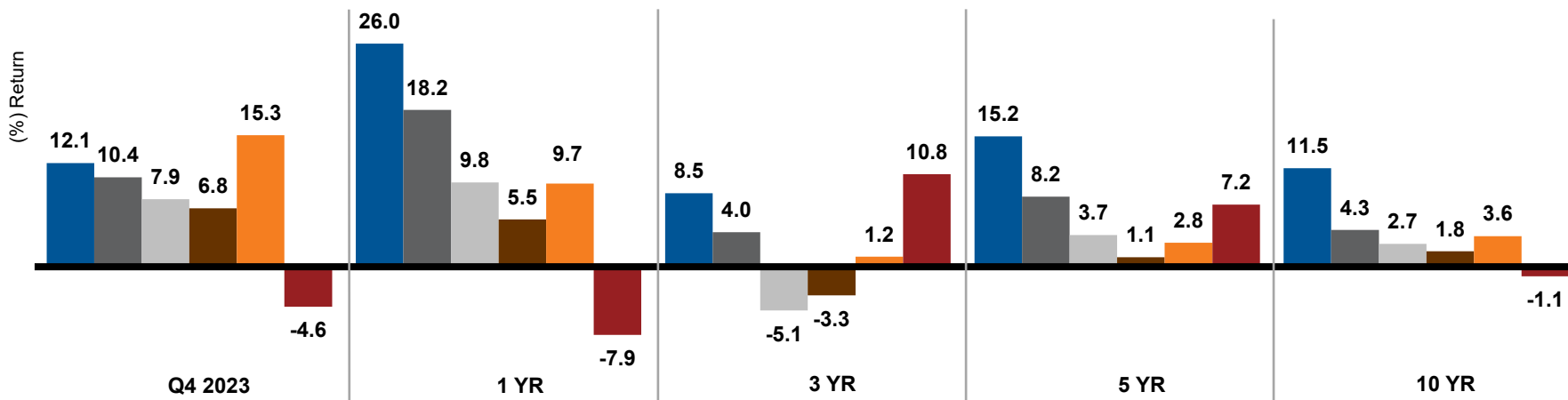
Source: <http://www.russellinvestments.com>, current state as of 01/03/2024. See appendix for category definitions. Russell Investments' Economic Indicators Dashboard charts several key indicators to help investors assess economic and market trends.

# Capital markets

Periods ending December 31, 2023

- U.S. Equity
- International Equity
- Emerging Markets
- U.S. Bonds
- Global REITs
- Commodities

**Capital market returns (%)**  
(Annualized for periods greater than 1 year)



**U.S. equity:** (Russell 3000® Index) U.S. stock index which includes the 3,000 largest U.S. stocks as measured by market capitalization

**Non-U.S. developed equity:** (MSCI EAFE Index) International market index that includes Western Europe, Japan, Australia

**Emerging markets:** (MSCI Emerging Markets Index) Emerging markets index that includes S. Korea, Brazil, Russia, India and China

**U.S. bonds:** (Bloomberg U.S. Aggregate Bond Index) Broad index for U.S. Fixed Income market

**Global REITs:** (FTSE EPRA/NAREIT Developed Index) Index for global publicly traded real estate securities

**Commodities:** (Bloomberg Commodity Index Total Return) Broad index of common commodities

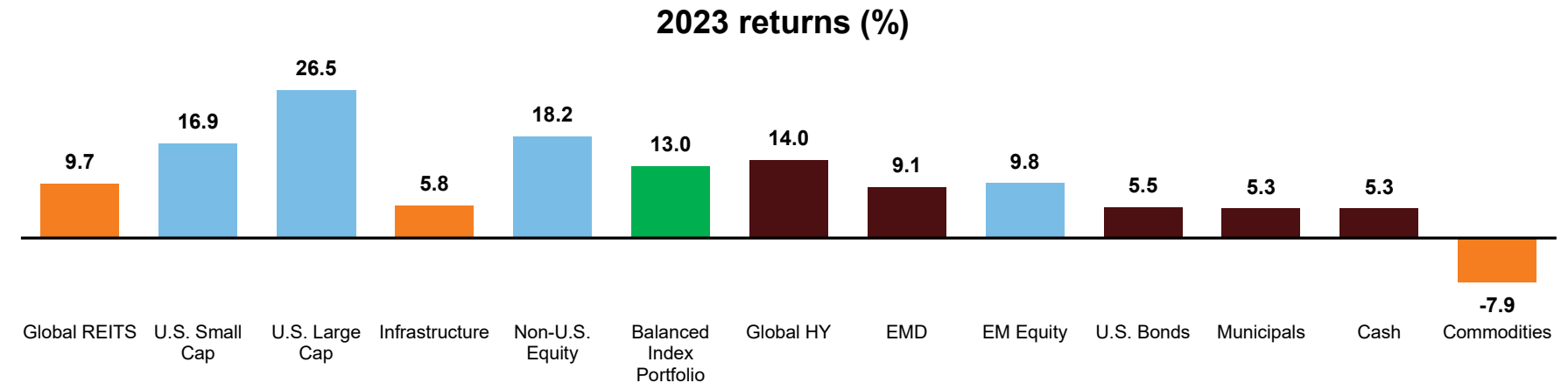
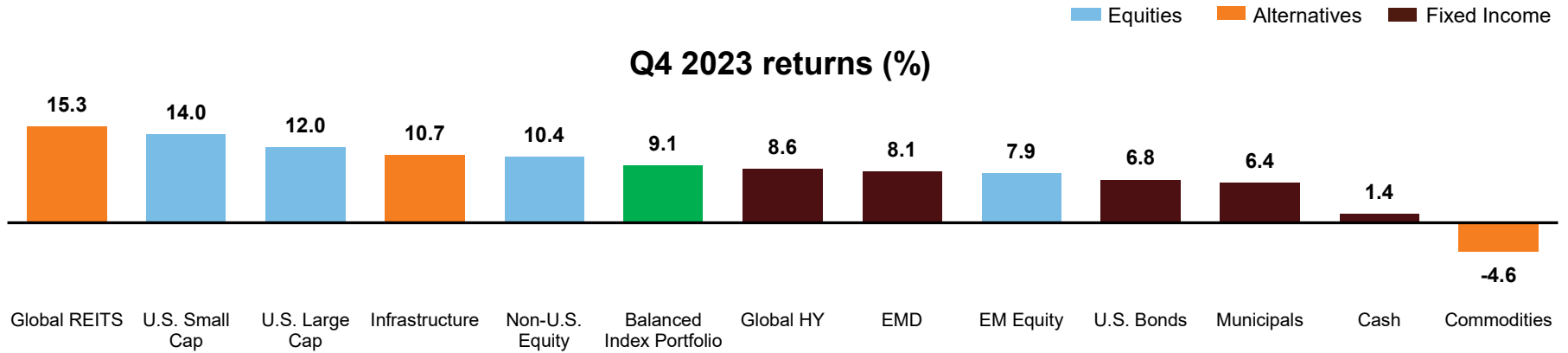
## CAPITAL MARKETS Q4 2023:

- **U.S. equity** up in Q4 as inflation cooled and talk of potential rate cuts from the Fed in 2024
- **Non-U.S. developed equity** up on a weaker U.S. dollar and lower inflation
- **Emerging markets** up though country performance was mixed. Poland and Peru were the best performers while Turkey struggled in Q4
- **U.S. bonds** ended up in Q4 as rates fell from the 10-year Treasury yield's peak in October, which was just shy of 5%
- **Global REITs** finished Q4 up after the Fed indicated rates likely to move down
- **Commodities** down with mixed sector performance in Q4. Crude Oil was down -17.48% while Gold was up 11.38%

Source: FTSE/Russell, Bloomberg, MSCI and FTSE NAREIT. Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment. Indexes are unmanaged and cannot be invested in directly.

# What worked and what didn't

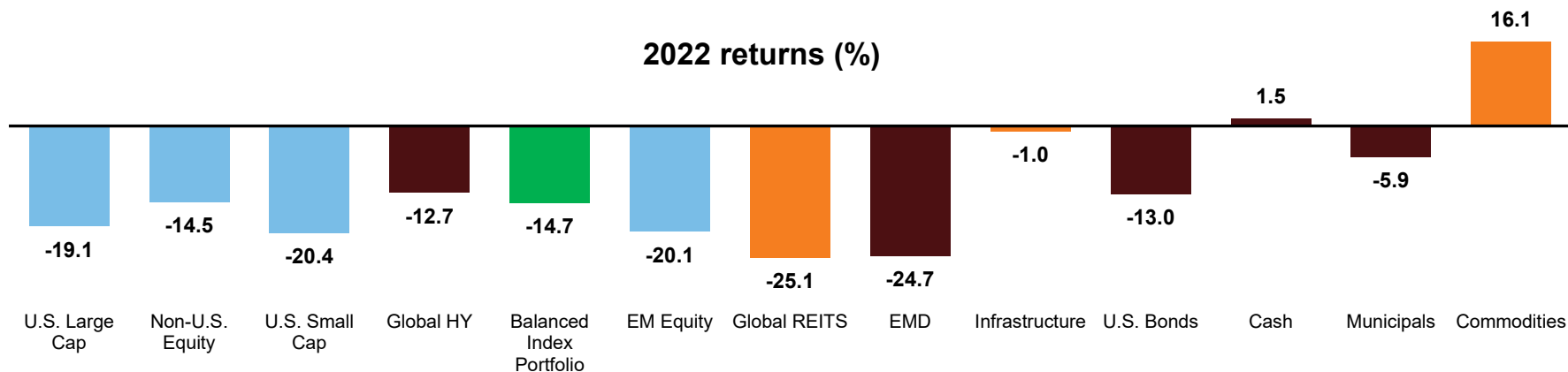
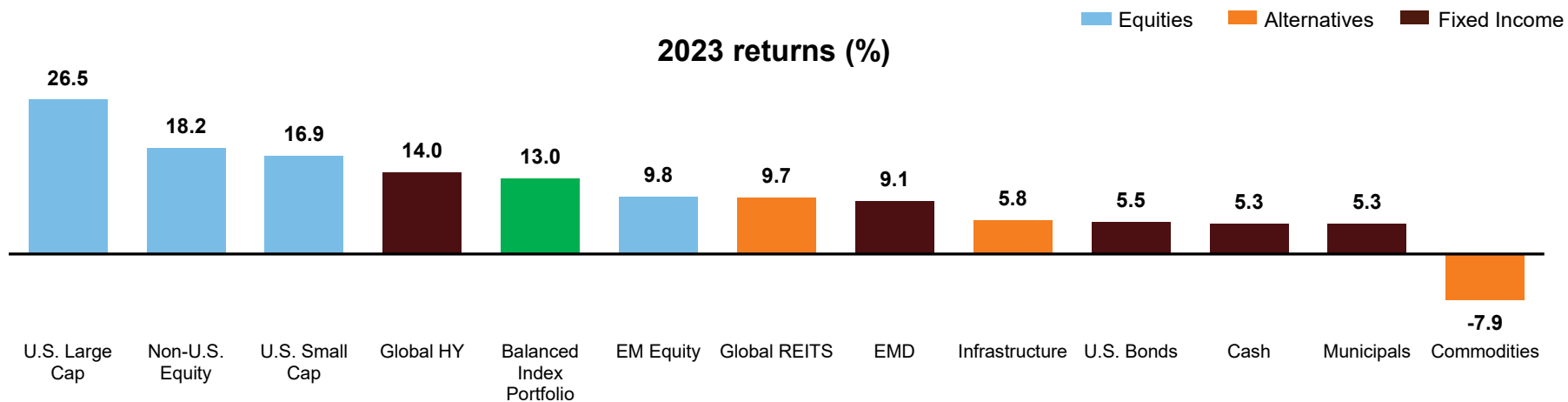
Q4 2023 vs. YTD 2023



Source: U.S. Small Cap: Russell 2000® Index; U.S. Large Cap: Russell 1000® Index; Global: MSCI World Net Index; Non-U.S.: MSCI EAFE Net index; Infrastructure: S&P Global Infrastructure Index; Global High Yield: Bloomberg Global High Yield Index; Global REITS: FTSE EPRA/NAREIT Developed Index; Municipals: Bloomberg Municipal Index, Cash: FTSE Treasury Bill 3 Month Index; EM Equity: MSCI Emerging Markets Index; U.S. Bonds: Bloomberg U.S. Aggregate Bond Index; EMD: Bloomberg EM USD Agg Bond Index; Commodities: Bloomberg Commodity Index Total Return; Balanced Index: 5% U.S. Small Cap, 15% U.S. Large Cap, 10% Global, 12% Non-U.S., 4% Infrastructure, 5% Global High Yield, 4% Global REITS, 0% Cash, 6% EM Equity, 30% U.S. Bonds, 5% EMD and 4% Commodities. Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment. Indexes are unmanaged and cannot be invested in directly.

# What worked and what didn't

2023 vs. 2022



Source: U.S. Small Cap: Russell 2000® Index; U.S. Large Cap: Russell 1000® Index; Global: MSCI World Net Index; Non-U.S.: MSCI EAFE Net index; Infrastructure: S&P Global Infrastructure Index; Global High Yield: Bloomberg Global High Yield Index; Global REITS: FTSE EPRA/NAREIT Developed Index; Municipals: Bloomberg Municipal Index; Cash: FTSE Treasury Bill 3 Month Index; EM Equity: MSCI Emerging Markets Index; U.S. Bonds: Bloomberg U.S. Aggregate Bond Index; EMD: Bloomberg EM USD Agg Bond Index; Commodities: Bloomberg Commodity Index Total Return; Balanced Index: 5% U.S. Small Cap, 15% U.S. Large Cap, 10% Global, 12% Non-U.S., 4% Infrastructure, 5% Global High Yield, 4% Global REITS, 0% Cash, 6% EM Equity, 30% U.S. Bonds, 5% EMD and 4% Commodities. Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment. Indexes are unmanaged and cannot be invested in directly.

# Lack of repeatable patterns

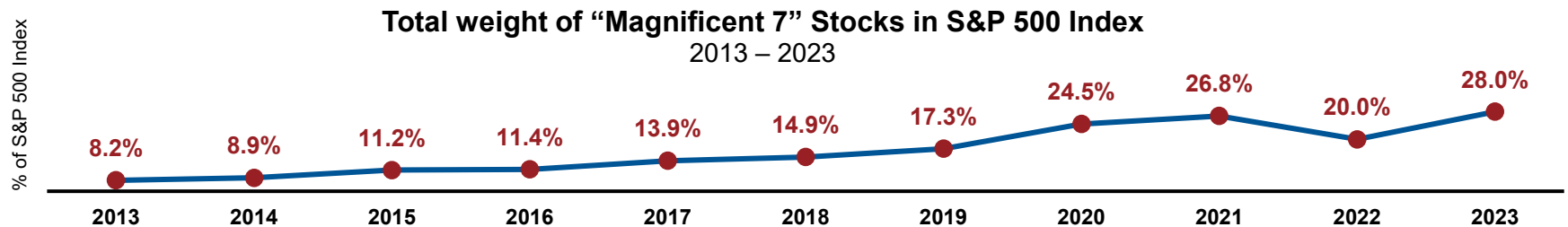
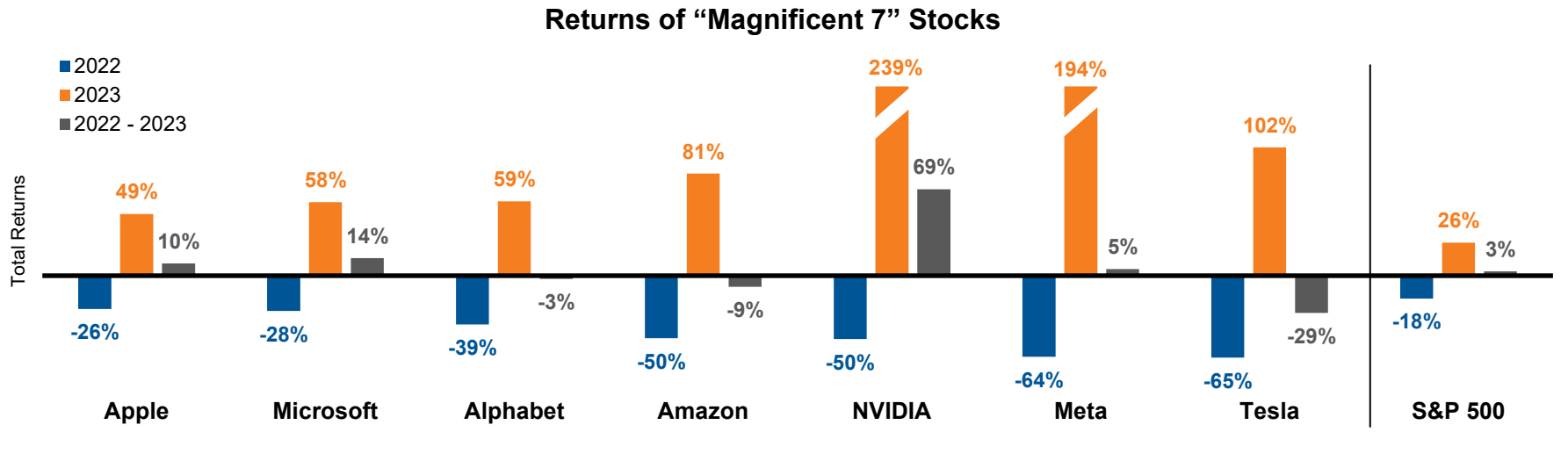
## The case for diversification

10 YEARS ENDING 2013*	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	10 YEARS ENDING 2023*	20 YEARS ENDING 2023*
Emerging Markets 11.2%	Global Real Estate 15.0%	U.S. Equity Large Cap 0.9%	U.S. Equity Small Cap 21.3%	Emerging Markets 37.3%	Cash 1.8%	U.S. Equity Large Cap 31.4%	U.S. Equity Large Cap 21.0%	Commodities 27.1%	Commodities 16.1%	U.S. Equity Large Cap 26.5%	U.S. Equity Large Cap 11.8%	U.S. Equity Large Cap 9.8%
Infrastructure 9.4%	U.S. Equity Large Cap 13.2%	U.S. Bonds 0.5%	Global High Yield 16.2%	Non-U.S. Equity 25.0%	U.S. Bonds 0.0%	Global Equity 27.7%	U.S. Equity Small Cap 20.0%	U.S. Equity Large Cap 26.5%	Cash 1.5%	Global Equity 23.8%	Global Equity 8.6%	U.S. Equity Small Cap 8.1%
U.S. Equity Small Cap 9.1%	Infrastructure 12.1%	Cash 0.0%	U.S. Equity Large Cap 12.1%	Global Equity 22.4%	Global High Yield -1.9%	Infrastructure 25.8%	Emerging Markets 18.3%	Global Real Estate 26.1%	Infrastructure -1.0%	Non-U.S. Equity 18.2%	U.S. Equity Small Cap 7.2%	Global Equity 7.8%
Global High Yield 8.8%	U.S. Bonds 6.0%	Global Real Estate -0.8%	Commodities 11.8%	U.S. Equity Large Cap 21.7%	U.S. Equity Large Cap -4.8%	U.S. Equity Small Cap 25.5%	Global Equity 15.9%	Global Equity 21.8%	Global High Yield -11.4%	U.S. Equity Small Cap 16.9%	Balanced 5.5%	Infrastructure 7.1%
U.S. Equity Large Cap 7.8%	Global Equity 4.9%	Non-U.S. Equity -0.8%	Infrastructure 11.4%	Infrastructure 19.1%	Global Real Estate -5.6%	Non-U.S. Equity 22.0%	Balanced 11.4%	U.S. Equity Small Cap 14.8%	U.S. Bonds -13.0%	Balanced 13.8%	Infrastructure 4.8%	Emerging Markets 6.8%
Global Real Estate 7.4%	U.S. Equity Small Cap 4.9%	Global Equity -0.9%	Emerging Markets 11.2%	Balanced 14.7%	Balanced -5.7%	Global Real Estate 21.9%	Non-U.S. Equity 7.8%	Balanced 11.5%	Non-U.S. Equity -14.5%	Global High Yield 13.0%	Global High Yield 4.5%	Global High Yield 6.7%
Global Equity 7.0%	Balanced 4.5%	Balanced -1.7%	Global Equity 7.5%	U.S. Equity Small Cap 14.6%	Global Equity -8.7%	Balanced 19.1%	U.S. Bonds 7.5%	Non-U.S. Equity 11.3%	Balanced -14.5%	Emerging Markets 9.8%	Non-U.S. Equity 4.3%	Balanced 6.1%
Non-U.S. Equity 6.9%	Global High Yield 2.5%	Global High Yield -2.0%	Balanced 6.5%	Global Real Estate 10.4%	Infrastructure -10.4%	Emerging Markets 18.4%	Global High Yield 6.6%	Infrastructure 11.0%	Global Equity -18.1%	Global Real Estate 9.7%	Global Real Estate 3.6%	Non-U.S. Equity 5.6%
Balanced 6.8%	Cash 0.0%	U.S. Equity Small Cap -4.4%	Global Real Estate 4.1%	Global High Yield 8.0%	U.S. Equity Small Cap -11.0%	Global High Yield 14.5%	Cash 0.5%	Global High Yield 3.0%	U.S. Equity Large Cap -19.1%	Infrastructure 5.8%	Emerging Markets 2.7%	Global Real Estate 5.5%
U.S. Bonds 4.5%	Emerging Markets -2.2%	Infrastructure -12.2%	U.S. Bonds 2.6%	U.S. Bonds 3.5%	Commodities -11.2%	U.S. Bonds 8.7%	Commodities -3.1%	Cash 0.0%	Emerging Markets -20.1%	U.S. Bonds 5.5%	U.S. Bonds 1.8%	U.S. Bonds 3.2%
Cash 1.6%	Non-U.S. Equity -4.9%	Emerging Markets -14.9%	Non-U.S. Equity 1.0%	Commodities 1.7%	Non-U.S. Equity -13.8%	Commodities 7.7%	Infrastructure -6.5%	U.S. Bonds -1.5%	U.S. Equity Small Cap -20.4%	Cash 5.1%	Cash 1.2%	Cash 1.4%
Commodities 0.9%	Commodities -17.0%	Commodities -24.7%	Cash 0.3%	Cash 0.8%	Emerging Markets -14.6%	Cash 2.2%	Global Real Estate -9.0%	Emerging Markets -2.5%	Global Real Estate -25.1%	Commodities -7.9%	Commodities -1.1%	Commodities -0.1%

\*Annualized return. Non-U.S. Equity – MSCI EAFE Index; Global Equity – MSCI World Index; Emerging Markets – MSCI Emerging Markets Index; Global Real Estate – FTSE NAREIT All Equity Index (1/1/1995-2/18/2005) & FTSE EPRA/NAREIT Developed Index (2/18/2005-present); Cash – Bloomberg US Treasury Bill 1-3 Month Index; Global High Yield – Bloomberg Global High Yield Index (1/1/1990-12/31/1997) & BofAML Global High Yield TR Hdg Index (12/31/1997-present); Infrastructure – S&P Global Infrastructure Index; U.S. Bonds – Bloomberg U.S. Aggregate Bond Index; U.S. Equity Large Cap – Russell 1000® Index. Balanced: 30% Russell 3000® Index; 35% Bloomberg U.S. Aggregate Bond Index; 20% MSCI EAFE Index; 5% MSCI Emerging Markets Index; 5% FTSE EPRA/NAREIT Developed Index; 5% Bloomberg Commodity Index. Please note that this chart is based on past index performance and is not indicative of future results. Indexes are unmanaged and cannot be invested in directly. Index performance does not include fees and expenses an investor would normally incur when investing in a mutual fund. Diversification and strategic asset allocation do not assure profit or protect against loss in declining markets.

# “Magnificent 7” stocks led the way in 2023

Significant bounce back and larger market weight after lagging in 2022

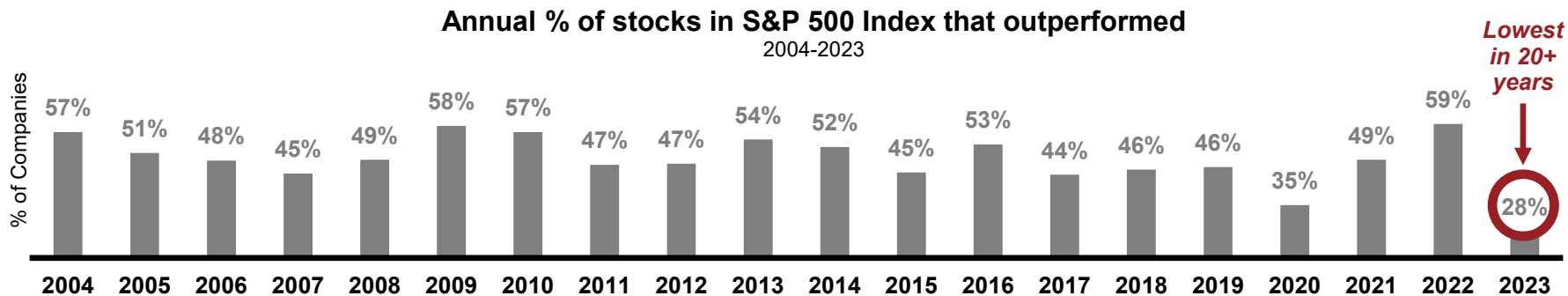
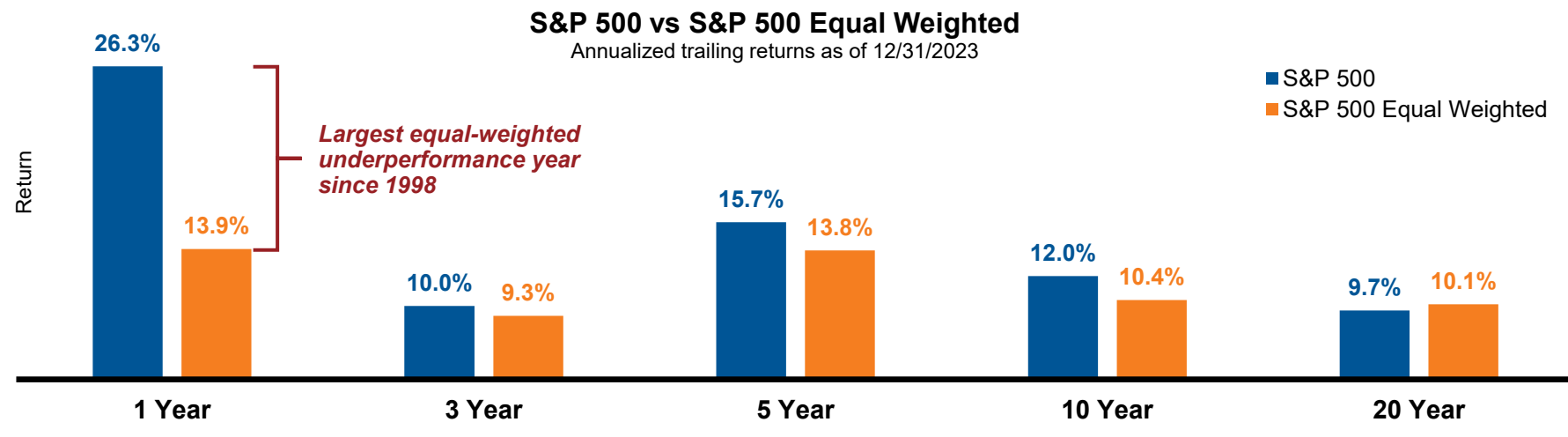


- The “Magnificent 7” dominated returns within U.S. stocks in 2023
- Despite strong returns this year, steep losses in 2022 put most year-over-year results in line with the market
- These companies now represent nearly 30% of the S&P 500 Index after recent relative strength

Source: Morningstar and Russell Investments. As of 12/31/2023. Alphabet represents combined A&C shares. Weights based on end of each year. Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment. Numbers may not be exact due to rounding. “Magnificent 7” refers to Apple, Microsoft, Alphabet, Amazon, NVIDIA, Tesla and Meta.

# Narrow leadership in U.S. equities

Largest stocks have outperformed as many others have not kept pace

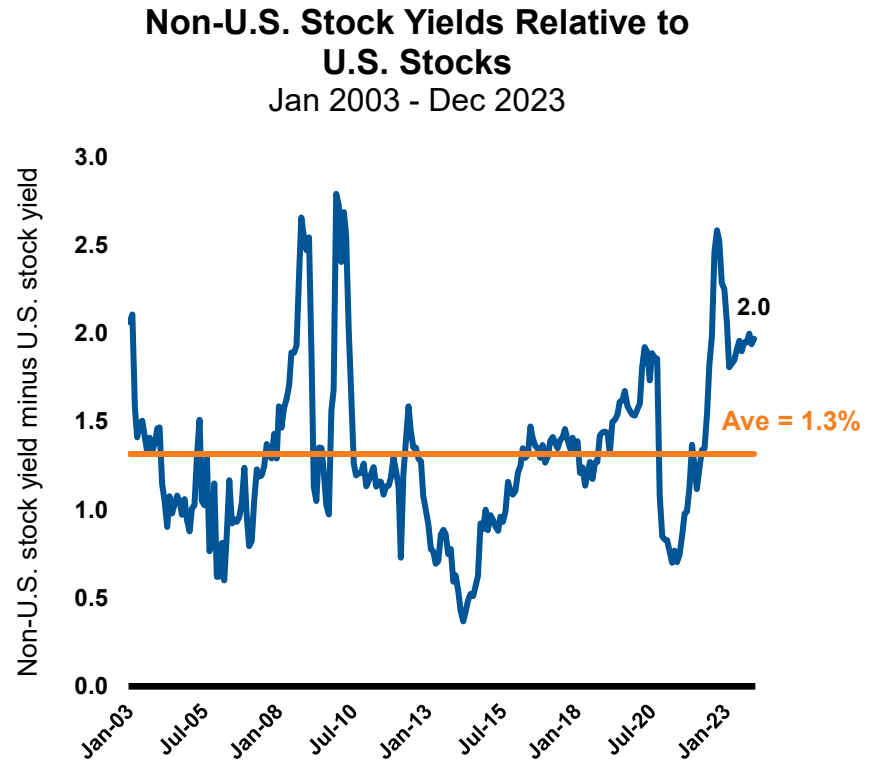
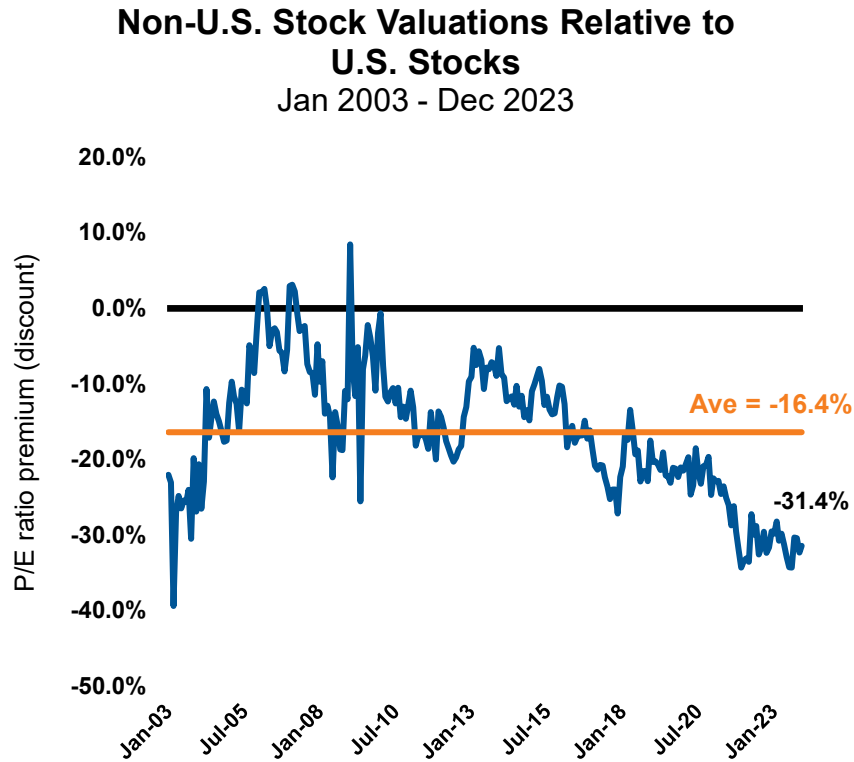


- Strong returns from the largest stocks have resulted in wide performance differences from rest of market
- Despite recent differences, size leadership has rotated and delivered similar long-term results

Source: Russell Investments, Morningstar and Factset. Weights based on year end values. Alphabet represents both A&C share classes. Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment. Indexes are unmanaged and cannot be invested in directly.

# Valuations & yields could be catalyst for non-U.S. returns

International stock fundamentals look attractive

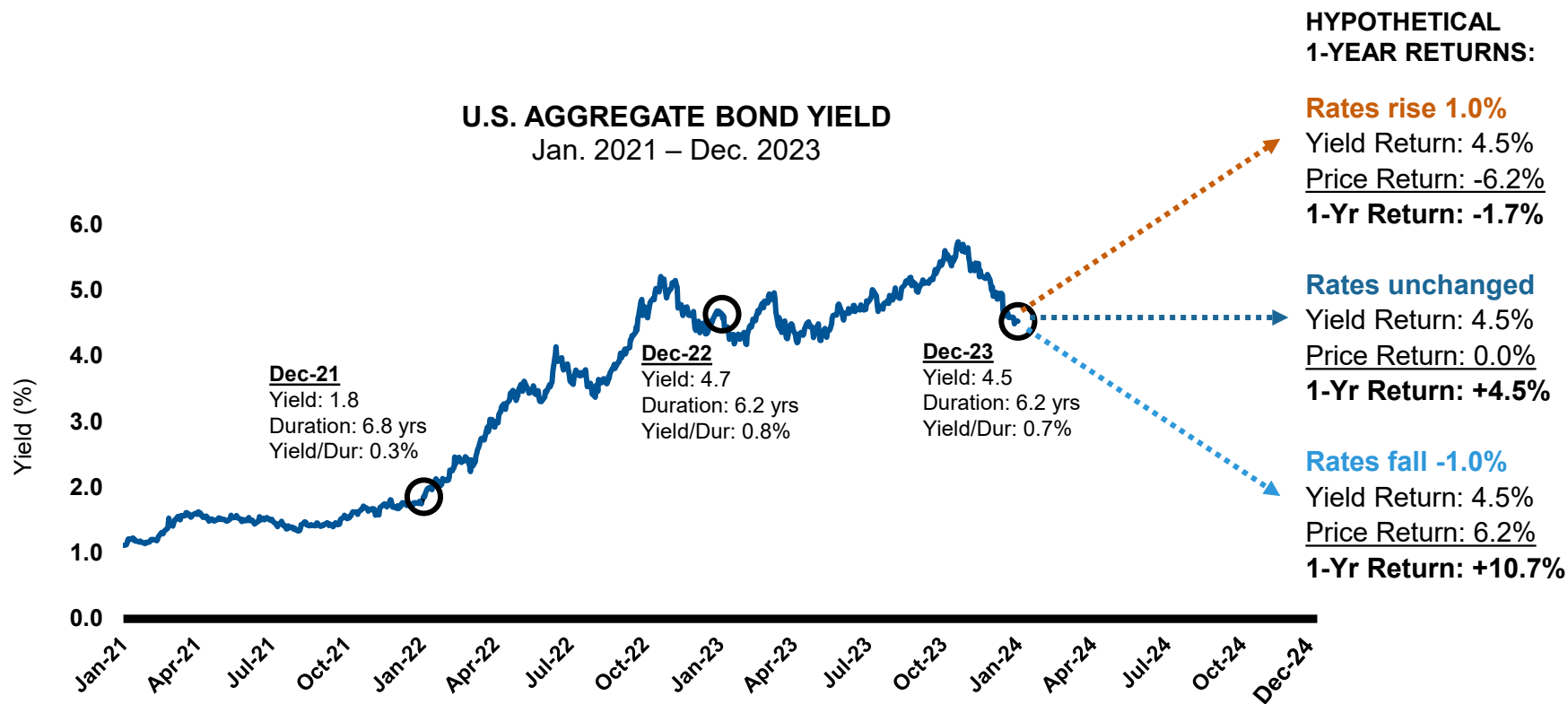


- Relative valuations, as measured by Price/Earnings ratio, are near 20-year lows
- International stocks are providing investors with an attractive yield

Source of Data: Morningstar's Current and Historical Price/Earnings Calculations and Dividend Yield Calculations for the S&P 500 Index (US Stocks) and MSCI EAFE Index (Non-U.S. Stocks)

# Understanding the impact of changing rates

Falling rates can boost return from bonds



- Despite rising for most of 2023, the yield on the Aggregate Bond Index is slightly lower than one year ago
- Higher yields help to offset the price impact of further rate increases
- If rates fall, price appreciation can boost returns as demonstrated in Q4

Source: Barclays. Data as of 12/31/2023. U.S. Aggregate Bond: Bloomberg U.S. Aggregate Bond Index. Yield: Yield-to-Worst of the Bloomberg U.S. Aggregate Bond Index. Duration: Modified Adjusted Duration of the Bloomberg U.S. Aggregate Bond Index. Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment. Indexes are unmanaged and cannot be invested in directly.

# Bonds close out 2023 with a bang

Strong returns in Q4 as rates fell

## 2023 yield changes and returns by bond type:

	Q1 - Q3		Q4			YTD 2023	
Bond type	Yield Change %	Return %	Yield Change %	Return %	Best Quarter Since	Yield Change %	Return %
U.S. Treasury	+0.67	-1.52	-0.77	5.66	1Q 2020	-0.10	4.05
U.S. Aggregate	+0.71	-1.21	-0.86	6.82	2Q 1989	-0.15	5.53
U.S. Credit	+0.61	0.03	-0.95	8.15	2Q 2020	-0.34	8.18
Municipals	+0.88	-1.05	-1.17	6.38	1Q 2002 (Index inception)	-0.30	5.26

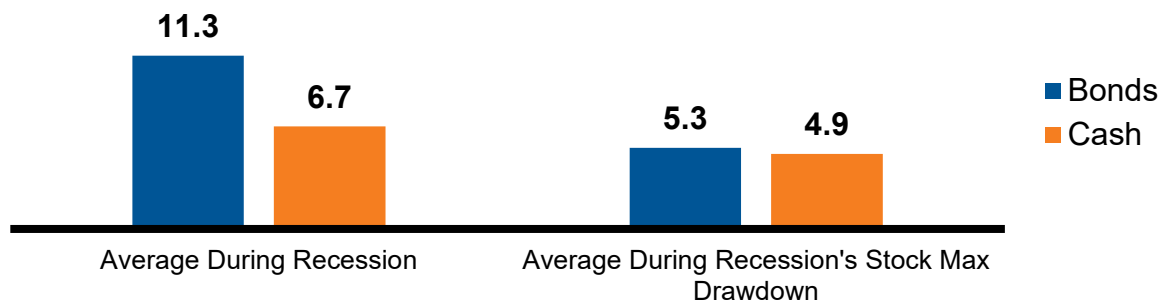
- Interest rates and bond prices generally move in opposite directions
- Negative returns continued into 2023 for most bond types as rates kept moving up
- Bonds surged in Q4 as interest rates dropped sharply, resulting in positive calendar-year returns

Source: Barclays and Morningstar as of 12/31/2023. Aggregate: Bloomberg U.S. Aggregate Bond Index; U.S. Treasury: Bloomberg U.S. Treasury Index; Credit: Bloomberg U.S. Credit Index; Municipals: Bloomberg 1-15 Yr Municipal Index. Yield represents Yield-to-Worst. Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment. Indexes are unmanaged and cannot be invested in directly.

# Bonds or cash as a better risk hedge?

Bonds appear to be the better equity diversifier during recessions

**Total Returns% During Recessions**



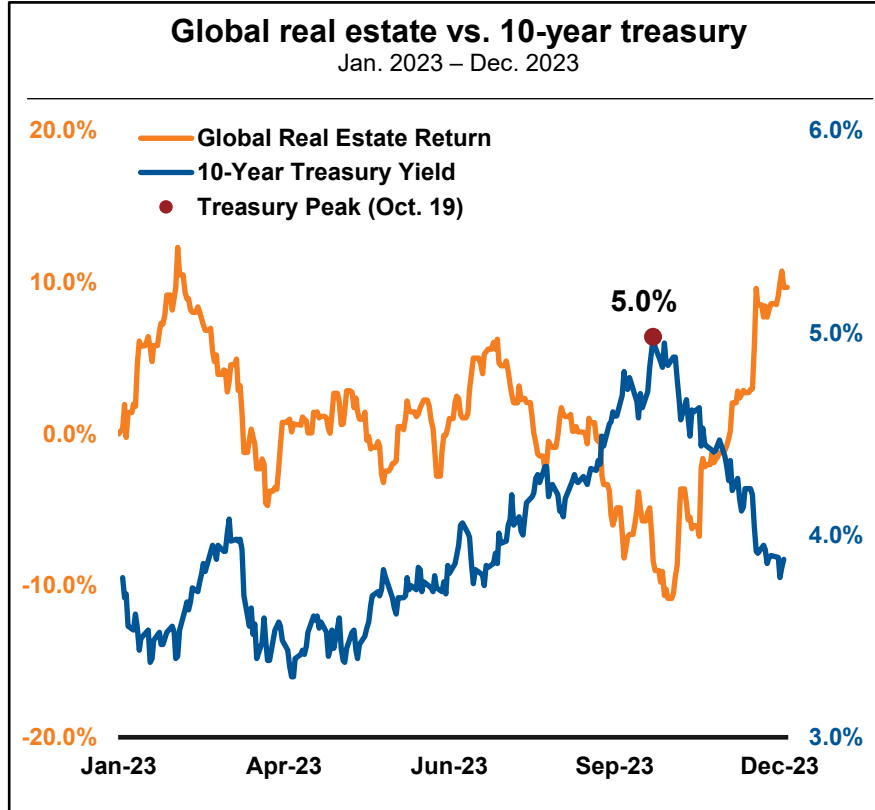
- Duration is often the best diversification for stocks during downturns
- Investment grade bonds provide higher exposure to duration than cash

NBER Recession Periods	Stock Returns	Bond Returns	Cash Returns	Stocks Max Drawdown	Bonds returns during max drawdown	Cash returns during max drawdown
12/69 – 11/70	-12.3%	14.0%	6.8%	-20.9%	10.2%	5.1%
11/73 – 03/75	-32.7%	8.3%	10.9%	-39.0%	5.6%	7.3%
01/80 – 07/80	16.4%	6.2%	6.7%	-9.7%	-5.8%	2.2%
07/81 – 11/82	14.5%	37.9%	18.5%	-11.7%	15.6%	12.5%
07/90 – 03/91	7.6%	8.9%	5.4%	-14.1%	2.1%	2.6%
03/01 – 11/01	-7.2%	6.5%	2.9%	-15.4%	5.7%	2.4%
12/07 – 06/09	-35.5%	7.5%	2.2%	-48.8%	4.2%	2.1%
03/20 – 04/20	-1.1%	1.2%	0.2%	-12.4%	-0.6%	0.1%

Sources: National Bureau of Economic Research, U.S. Stocks: S&P 500 Index, Bond Returns: Bloomberg Barclays US Aggregate Bond Index, Cash: Citigroup 1-3 Month Tbill Index

# REIT resurgence?

Falling interest rates could support REITs



Sectors	Weight	Returns to and from treasury peak	
		Jan. 1 - Oct. 19	Oct. 20 - Dec. 31
Diversified	18.6%	-11.8%	16.5%
Retail	15.3%	-10.8%	23.4%
Residential	15.2%	-3.1%	14.9%
Industrial	14.2%	-7.7%	26.0%
HealthCare	7.7%	-0.6%	12.4%
Office	7.0%	-18.4%	24.8%
Data Centers	8.0%	10.3%	15.7%
Self Storage	5.8%	-9.1%	29.0%
Specialty	3.2%	-7.3%	16.6%
Lodging/Resorts	2.8%	-2.2%	22.6%
Industrial/Office	2.2%	-13.2%	33.7%
<b>Global Real Estate</b>	-	<b>-8.4%</b>	<b>19.7%</b>

- Negative real estate sentiment and volatility in 2023 were driven by higher rates and unfavorable headlines
- Real estate rebounded after the 10-year treasury yield fell from its highest level since 2007
- Lower interest rate sentiment in 2024 could continue to benefit the real estate market

Sources: Morningstar, St. Louis Fred, Bloomberg and FTSE Russell. Global Real Estate: FTSE EPRA Nareit Developed NR Index, Individual Sectors: Respective FTSE EPRA Nareit Developed TR Indices (see appendix), except data centers and specialty which use Bloomberg data. 10 Year Treasury: Market Yield on U.S. Treasury Securities at 10-Year Constant Maturity, Quoted on an Investment Basis. Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment.

# Russell Investments' global market outlook

## ECONOMIC VIEWS



### U.S. ECONOMY

- Recession risks and macro uncertainty remains elevated
- Labor markets need to soften further to put the final nail in the coffin of an inflation overshoot
- Markets are priced in anticipation of a “soft landing”



### EUROZONE

- On track for another year of below-trend growth
- Restrictive monetary policy, sluggish growth in China and weak global trade will be headwinds
- Rebuilding of global inventories can help manufacturing



### PACIFIC BASIN

- Japanese growth likely to slow as reopening dynamics fade
- Increase Chinese government and consumer spending should provide growth of ~4.5% in 2024



### FED and FISCAL POLICY

- The Federal Reserve has likely finished lifting rates due to slowing jobs growth and declining inflation
- With rising debt-to-GDP ratios, the era of big fiscal expansion is probably over. Politicians likely to be constrained by debt burdens and interest costs.

## ASSET CLASSES



### GLOBAL EQUITIES

- Potentially limited upside given expensive multiples and recession risk
- Non-U.S. developed stocks are cheaper than U.S. equities, but lack cycle support
- China's economy is holding back expectations for the emerging markets



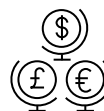
### FIXED INCOME

- Government bonds appear attractive in the U.S., the U.K., Canada, Germany and Australia
- U.S. Treasuries are a preferred overweight
- Potential for the yield curve to re-steepen if more aggressive rate cuts come in 2024 and 2025



### REAL ASSETS

- REITs and listed infrastructure look attractively valued relative to global equities.



### CURRENCIES

- USD appears expensive on a purchasing-power parity basis
- However, a global recession in 2024 could result in further upside for the dollar as investors flock to safety

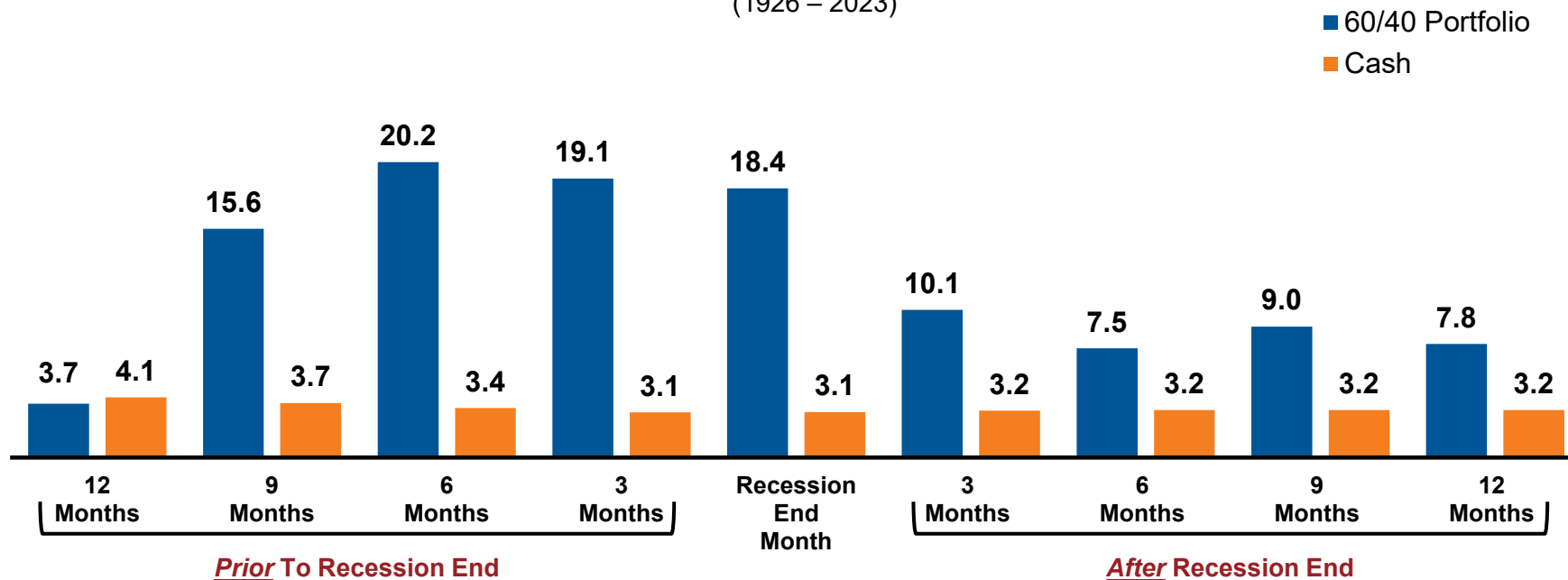
There is no guarantee the stated expectations will be met.

As of 12/14/2023. Forecasting represents predictions of market prices and/or volume patterns utilizing varying analytical data. It is not representative of a projection of the stock market, or of any specific investment.

# Should you wait?

Markets tend to turn around before the economy does

**Average 12-month forward return**  
60/40 Portfolio vs. Cash  
(1926 – 2023)



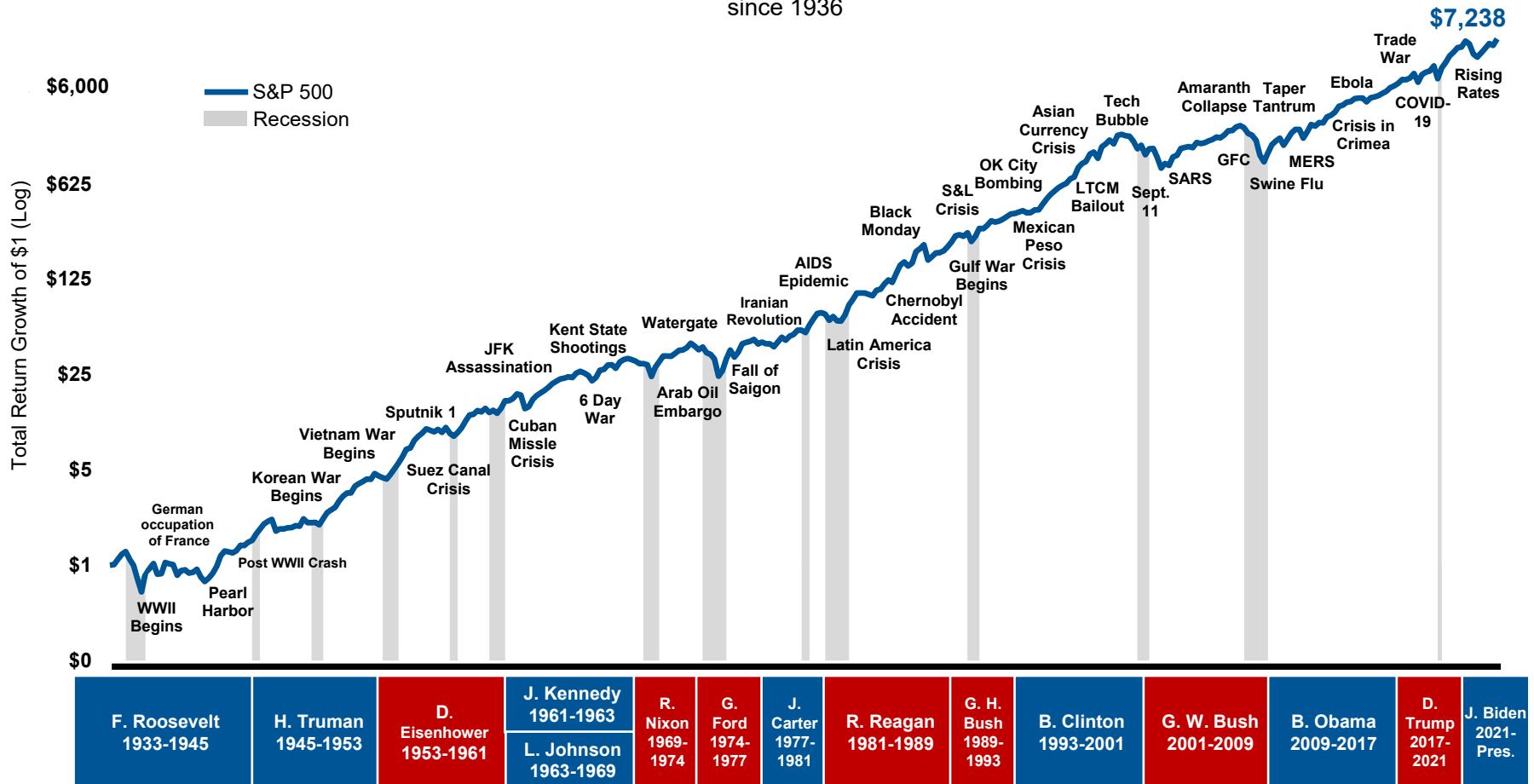
- Equity markets tend to be positive leading up to the end of a recession while bonds typically provide a ballast
- Waiting to invest until the recession is declared over may dampen long-term results

Source: 60/40 Portfolio: 60% U.S. Equity / 40% Bonds. U.S. Equity: Ibbotson U.S. Equity Index (1926 – 1969), S&P 500 Index (1970 – Present). Bonds: Ibbotson Intermediate Bond Index (1926 – 1975), Bloomberg U.S. Aggregate Bond Index (1976-Present). Averages include the 16 U.S. recessions from 1926 – 2023 as defined by NBER's business cycle expansions and contractions data. Indexes are unmanaged and cannot be invested in directly. Returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment.

# U.S. stock market growth & election cycles

Resilient over the long-term

## S&P 500 Growth of \$1 since 1936

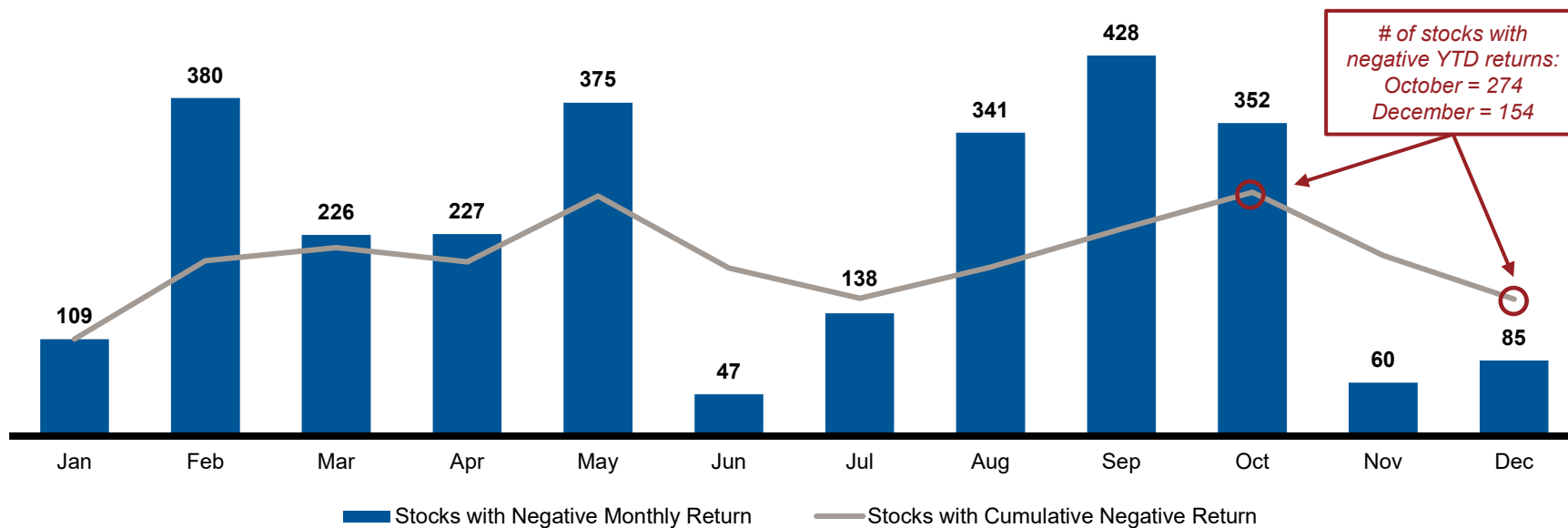


U.S. Stocks: S&P 500 Index as of 12/31/2023. Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment. Indexes are unmanaged and cannot be invested in directly.

# Tax loss harvesting opportunities year-round

Waiting to harvest losses at end of year could lead to missed opportunities

## S&P 500 constituents monthly tax-loss harvesting opportunities



- In November and December only 60 and 85 stocks, respectively, had a negative monthly return. Missing out on the loss harvesting opportunities in the down months earlier in the year could be costly.
- The S&P 500 Index showed strong returns in 2023, with a 26.3% return despite more than 150 constituents posting a negative return for the year
- Even in periods of strong positive performance, tax-loss harvesting strategies can be executed

Source: Morningstar Direct. Stocks represent companies in the S&P 500 Index on 12/31/2023. Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment. Indexes are unmanaged and cannot be invested in directly.

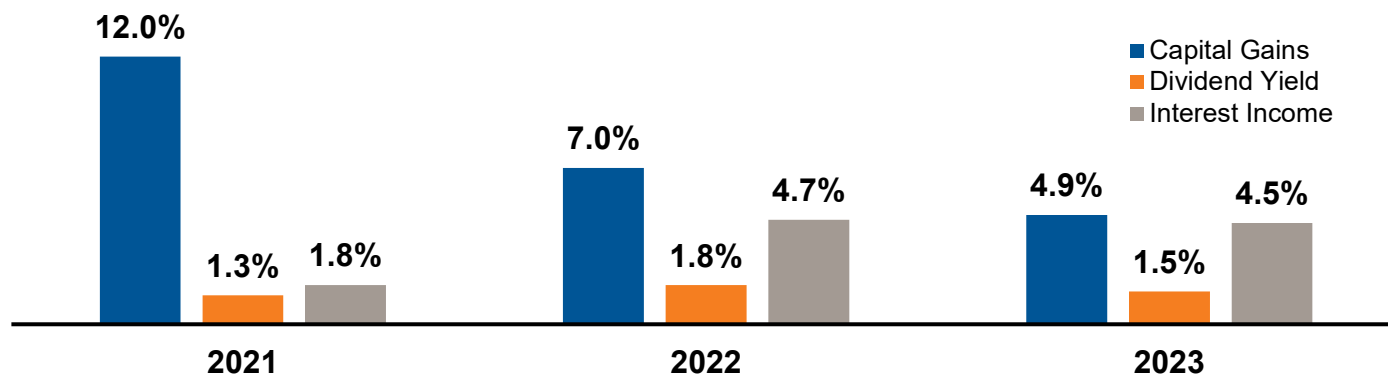
# Consider your whole portfolio when thinking about taxes

Despite market and interest rate environment changes, investors' tax cost stayed largely the same

- In 2023, we saw lower taxable distributions

- Your tax bill may not come down as much as you would think

Distribution rate per category (year-end, %)



**\$1 Million diversified portfolio**  
(50% stocks / 50% bonds)

Distribution amount

Federal Income Tax Owed

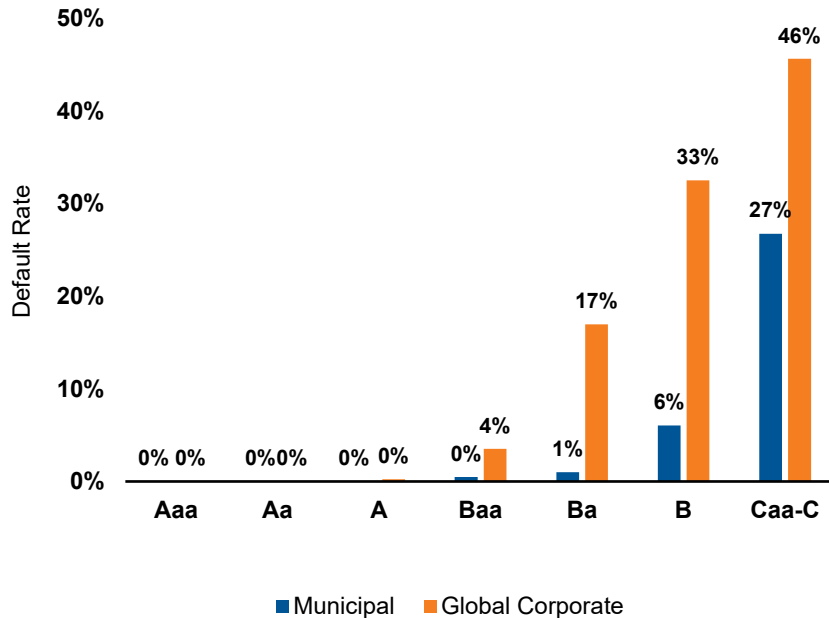
Source	2021	2022	2023	Tax Rate	2021	2022	2023
Capital Gains (stocks)	\$60,000	\$35,000	\$24,500	23.8%	\$14,280	\$8,330	\$5,831
Dividend Yield (stocks)	\$6,450	\$8,750	\$7,350	23.8%	\$1,535	\$2,083	\$1,749
Interest Income (bonds)	\$8,770	\$23,405	\$22,650	40.8%	\$3,578	\$9,549	\$9,241
<b>TOTAL</b>	<b>\$75,220</b>	<b>\$67,155</b>	<b>\$54,500</b>	-	<b>\$19,393</b>	<b>\$19,962</b>	<b>\$16,822</b>

Source: Morningstar Direct, Refinitiv & Barclays. Capital Gains: U.S. Equity Average % = total cap gain distribution + respective pre-distribution NAV. Dividend Yield: S&P 500 Index. Interest Income: Yield-to-worst on the Bloomberg U.S. Aggregate Bond Index. Capital Gains and dividends taxed at a rate of 23.8% (Max LT Cap Gain 20% + Net Investment Income 3.8%). Interest Income taxed at a rate of 40.8% (Max Federal Income Rate 37% + Net Investment Income 3.8%). Diversified Portfolio: 50% equity, 50% bonds. Distribution amount applies 50% of each distribution rate to the total portfolio value of \$1 million.

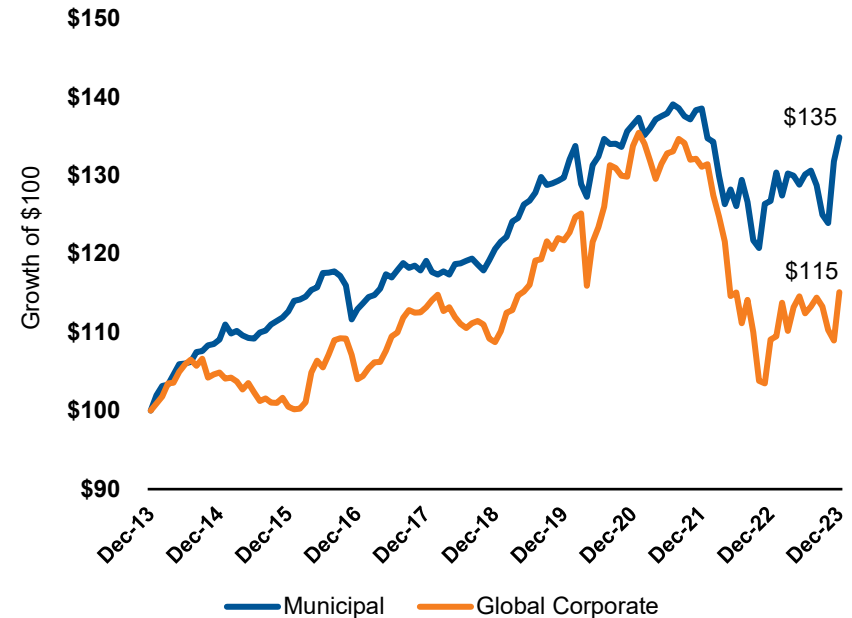
# Credit risk and performance of municipal bonds

U.S. Municipal bonds have had a track record of creditworthiness to go with solid performance

U.S. Municipal vs Global Corporate Bonds  
10-Year Cumulative Average, 1970-2022



U.S. Municipal vs Global Corporate Bonds,  
10 Years Ending 2023



- Across the credit rating spectrum, municipal bonds have had equal or lower default rates than their global corporate bond counterpart. In below-investment grade credit, municipal bonds have been the more creditworthy option.
- Over the last ten years, on a pre-tax basis, municipal bonds have experienced consistent outperformance over global corporate bonds

Source: Moody's Investor Service, "US municipal bond defaults and recoveries, 1970-2022". Morningstar Direct: Municipal Performance: Bloomberg Municipal Index. Global Corporate Performance: ICE BofA Global Corporate Index. Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment. Indexes are unmanaged and cannot be invested in directly.

# 5% CD return! But, what's the *real* rate of return?

It's what you get to use that matters

## ASSUMPTIONS

- 5% CD rate
- Top Federal Income Tax Rate\*
- 2% Inflation

After-tax real return

0.96%

## ASSUMPTIONS

- 5% CD rate
- Top Federal Income Tax Rate\*
- 4% Inflation

After-tax real return

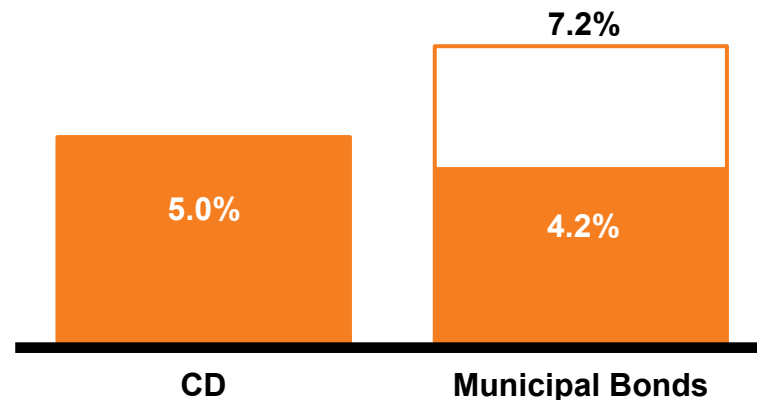
-1.04%

## Taxable Equivalent Yields

CD's vs. Munis

An investor in the top tax bracket would need to **earn a taxable yield of:**

**7.2% to match the 4.2% yield of IG Munis**



- Interest received from CDs and money market funds is taxable as ordinary income
- After considering taxes and inflation, the return on a 5% CD may result in reduced purchasing power
- Municipal bonds provide a compelling income generating alternative with minimal tax cost

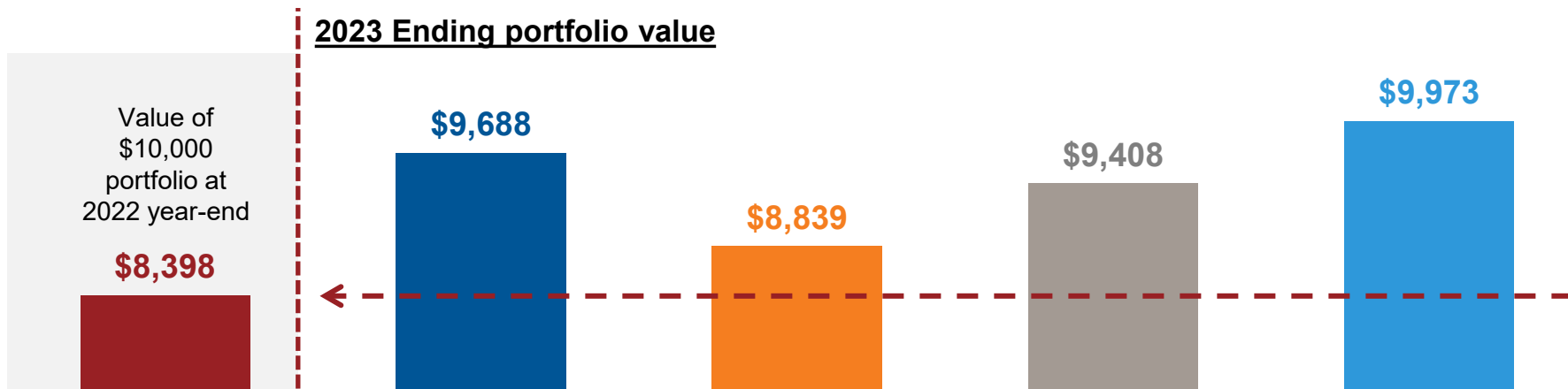
Source: Barclays and Russell Investments. Municipal Bonds: Bloomberg Municipal Bond Index. Certificates of deposit (CDs) offer a fixed rate of return, and the interest and principal on CDs will generally be insured by the FDIC up to \$250,000. Top Federal Income Tax Rate\* and Taxable Equivalent Yield: Based on maximum tax rate of 40.8% for Married Filing Jointly, including 3.8% Net Investment Income Tax.

# Stick to the plan

Staying invested was rewarded in 2023

- In 2022, a \$10,000 portfolio of 60% global stocks / 40% bonds shrank to \$8,398 by year-end
- In 2023, investors had several options for that portfolio:

## 2023 Ending portfolio value



	Stuck to plan	Went to cash	Reduced risk	Increased risk
Investor action:	Maintained the existing allocation of 60% stocks and 40% bonds.	Sold all current stock and bond positions and invested in cash.	Stayed invested but reallocated portfolio to 40% stocks / 60% bonds to limit further losses.	Reallocated portfolio to 80% stocks / 20% bonds to take advantage of lower prices.
2023 Portfolio Results:	<b>+15.4%</b> Strong recovery from 2022 and almost back up to initial investment amount.	<b>+5.3%</b> Easiest to stomach in short-term, however significantly underperformed other options.	<b>+12.0%</b> Solid returns in 2023, but underperformed "Stuck to plan" option.	<b>+18.8%</b> Best outcome, but requires strong investor resolve in volatile markets.

Source: Morningstar. Stocks represented by MSCI ACWI Index, bonds represented by Bloomberg U.S. Aggregate Bond Index and cash represented by FTSE 3 Month T-Bill Index. Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment.

# Important information and disclosures

## RISKS OF ASSET CLASSES DISCUSSED IN THIS PRESENTATION:

**Global, International and Emerging markets** return may be significantly affected by political or economic conditions and regulatory requirements in a particular country. Investments in non-U.S. markets can involve risks of currency fluctuation, political and economic instability, different accounting standards and foreign taxation. Such securities may be less liquid and more volatile. Investments in emerging or developing markets involve exposure to economic structures that are generally less diverse and mature, and political systems with less stability than in more developed countries.

**Real Assets:** Investments in infrastructure-related companies have greater exposure to adverse economic, financial, regulatory, and political risks, including, governmental regulations. Global securities may be significantly affected by political or economic conditions and regulatory requirements in a particular country. Declines in the value of real estate, economic conditions, property taxes, tax laws and interest rates all present potential risks. Investments in international markets can involve risks of currency fluctuation, political and economic instability, different accounting standards, and foreign taxation.

**Commodities:** Commodities may have greater volatility than traditional securities. The value of commodities may be affected by changes in overall market movements, changes in interest rates or sectors affecting a particular industry or commodity, and international economic, political and regulatory developments.

**Bonds:** With fixed income securities, such as bonds, interest rates and bond prices tend to move in opposite directions. When interest rates fall, bond prices typically rise and conversely when interest rates rise, bond prices typically fall. When interest rates are at low levels there is risk that a sustained rise in interest rates may cause losses to the price of bonds. Bond investors should carefully consider these risks such as interest rate, credit, repurchase and reverse repurchase transaction risks. Greater risk, such as increased volatility, limited liquidity, prepayment, non-payment and increased default risk, is inherent in portfolios that invest in high yield ("junk") bonds or mortgage-backed securities, especially mortgage-backed securities with exposure to sub-prime mortgages. Investment in non-U.S. and emerging market securities is subject to the risk of currency fluctuations and to economic and political risks associated with such foreign countries. When interest rates are at low levels there is risk that a

sustained rise in interest rates may cause losses to the price of bonds.

**Small capitalization (small cap) investments** involve stocks of companies with smaller levels of market capitalization (generally less than \$2 billion) than larger company stocks (large cap). Small cap investments are subject to considerable price fluctuations and are more volatile than large company stocks. Investors should consider the additional risks involved in small cap investments.

**Large capitalization (large cap) investments** involve stocks of companies generally having a market capitalization between \$10 billion and \$200 billion. The value of securities will rise and fall in response to the activities of the company that issued them, general market conditions and/or economic conditions.

Although stocks have historically outperformed bonds, they also have historically been more volatile. Investors should carefully consider their ability to invest during volatile periods in the market.

**Growth:** Growth investments focus on stocks of companies whose earnings/profitability are accelerating in the short-term or have grown consistently over the long-term. Such investments may provide minimal dividends which could otherwise cushion stock prices in a market decline. A stock's value may rise and fall significantly based, in part, on investors' perceptions of the company, rather than on fundamental analysis of the stocks. Investors should carefully consider the additional risks involved in growth investments.

**Value:** Value investments focus on stocks of income-producing companies whose price is low relative to one or more valuation factors, such as earnings or book value. Such investments are subject to risks that the stocks' intrinsic values may never be realized by the market, or, that the stocks may turn out not to have been undervalued. Investors should carefully consider the additional risks involved in value investments.

An **Investment Grade** is a system of gradation for measuring the relative investment qualities of bonds by the usage of rating symbols, which range from the highest investment quality (least investment risk) to the lowest investment quality (greatest investment risk).

**Gross domestic product (GDP)** refers to the market value of all final goods and services produced within a country in a given period. It is often considered an indicator of a country's standard of living.

**Trailing price-to-earnings (P/E)** is a relative valuation multiple that is based on the last 12 months of actual earnings. It is calculated by taking the current stock price and dividing it by the trailing earnings per share (EPS) for the past 12 months.

**Forward price to earnings (forward P/E)** is a quantification of the ratio of price-to-earnings (P/E) using forecasted earnings for the P/E ratio.

**Price-to-book ratio** compare a firm's market to book value by dividing price per share by book value per share.

## INDEX DEFINITIONS:

**Bloomberg Global High-Yield Index:** An index which provides a broad-based measure of the global high-yield fixed income markets. The Global High-Yield Index represents that union of the U.S. High-Yield, Pan-European High-Yield, U.S. Emerging Markets High-Yield, CMBS High-Yield, and Pan-European Emerging Markets High-Yield Indices.

**Bloomberg High Yield Municipal Bond Index:** An unmanaged index considered representative of noninvestment-grade bonds. FactSet Research Systems Inc. Intermediate U.S. Credit Index is an unmanaged index of dollar-denominated, investment-grade, publicly issued securities with maturities of one to 10 years.

**Bloomberg Intermediate Treasury Index:** Measures the performance of U.S. Dollar denominated U.S. Treasuries, government-related and investment grade U.S. corporate securities that have a remaining maturity of greater than one year and less than ten years.

**Bloomberg Short Treasury Index:** Is composed of all treasuries that have a remaining maturity between one and twelve months.

**Bloomberg U.S. Aggregate Bond Index:** An index, with income reinvested, generally representative of intermediate-term government bonds, investment grade corporate debt securities, and mortgage-backed securities. (specifically: Bloomberg Government/Corporate Bond Index, the Asset-Backed Securities Index, and the Mortgage-Backed Securities Index).

# Index definitions (cont'd)

**Bloomberg U.S. Credit Bond Index:** Measures the performance of investment grade corporate debt and agency bonds that are dollar denominated and have a remaining maturity of greater than one year.

**Bloomberg US Corporate Bond Index:** Measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers.

**Bloomberg U.S. Municipal Index:** Covers the USD-denominated long-term tax-exempt bond market.

**Bloomberg Commodity Index Family:** Represents the major commodity sectors within the broad index: Energy (including petroleum and natural gas), Petroleum (including crude oil, heating oil and unleaded gasoline), Precious Metals, Industrial Metals, Grains, Livestock, Softs, Agriculture and Ex-Energy. Also available are individual commodity sub-indices on the 19 components currently included in the DJ-UBSCI<sup>SM</sup>, plus Brent crude, cocoa, feeder cattle, gas oil, lead, orange juice, platinum, soybean meal and tin.

**Bloomberg Commodity Index Total Return:** Composed of futures contracts on physical commodities. Unlike equities, which typically entitle the holder to a continuing stake in a corporation, commodity futures contracts normally specify a certain date for the delivery of the underlying physical commodity. In order to avoid the delivery process and maintain a long futures position, nearby contracts must be sold and contracts that have not yet reached the delivery period must be purchased. This process is known as "rolling" a futures position.

**BofA Merrill Lynch Global High Yield Index:** Tracks the performance of USD, CAD, GBP and EUR denominated below investment grade corporate debt publicly issued in the major domestic or Eurobond markets.

**Citigroup 1-3 Month T-Bill Index:** An unmanaged index that tracks short-term U.S. government debt instruments.

**FTSE NAREIT:** An Index designed to present investors with a comprehensive family of REIT performance indexes that span the commercial real estate space across the U.S. economy, offering exposure to all investment and property sectors. In addition, the more narrowly focused property sector and sub-sector indexes provide the facility to concentrate commercial real estate exposure in more selected markets.

**FTSE NAREIT all Equity Index:** Measures the performance of the commercial real estate space across the U.S. economy offering exposure to all investment and property sectors.

**FTSE EPRA/NAREIT Developed Index:** A global market capitalization weighted index composed of listed real estate securities in the North American, European and Asian real estate markets.

**FTSE EPRA Nareit Developed Healthcare Index:** A global market capitalization weighted index composed of listed real estate securities where 75% or more of their gross invested book assets are invested in health care properties.

**FTSE EPRA Nareit Developed Self-Storage Index:** A global market capitalization weighted index composed of listed real estate securities where 75% or more of their gross invested book assets are invested in self-storage properties.

**FTSE EPRA Nareit Developed Industrial Index:** A global market capitalization weighted index composed of listed real estate securities where 75% or more of their gross invested book assets are invested in industrial warehouses and distribution facilities.

**FTSE EPRA Nareit Developed Office Index:** A global market capitalization weighted index composed of listed real estate securities where 75% or more of their gross invested book assets are invested in offices.

**FTSE EPRA Nareit Developed Industrial/Office Mixed Index:** A global market capitalization weighted index composed of listed real estate securities that are not members of property sectors industrial or office but have a combined total of 75% or more of their gross invested book assets invested in industrial warehouses, distribution facilities and offices.

**FTSE EPRA Nareit Developed Residential Index:** A global market capitalization weighted index composed of listed real estate securities where 75% or more of their gross invested book assets are invested in residential home properties. That includes apartment buildings and residential communities.

**FTSE EPRA Nareit Developed Retail Real Estate Index:** A global market capitalization weighted index composed of listed real estate securities where 75% or more of their gross invested book assets are invested in retail properties. That includes malls, neighborhood and community centers and factory outlets.

**FTSE EPRA Nareit Developed Lodging/Resorts Index:** A global market capitalization weighted index composed of listed real estate securities where 75% or more of their gross invested book assets are invested in lodging & resort properties.

**FTSE EPRA Nareit Developed Data Centers Index:** A global market capitalization weighted index composed of listed real estate securities where 75% or more of their gross invested book assets are invested in data centers.

**FTSE EPRA Nareit Developed Specialty Index:** A global market capitalization weighted index composed of listed real estate securities where 75% or more of their gross invested book assets are invested in single property sector.

**FTSE EPRA Nareit Developed Diversified Index:** A global market capitalization weighted index which own, manage and lease substantial assets across two or more property sectors where none meet the 75% gross invested book asset threshold for any single property sector.

**Ibbotson Intermediate Bond Index:** Measures the performance of U.S. Dollar denominated treasury and government-related bonds

**JPM Emerging Market Bond Index (EMBI):** Dollar-denominated sovereign bonds issued by a selection of emerging market countries.

**JPM EMBI Plus Bond Index:** Tracks total returns for traded external debt instruments in the emerging markets.

**MSCI AC World ex-USA Index:** An index that tracks global stock market performance that includes developed and emerging markets but excludes the U.S.

**MSCI AC World ex-USA Equal-weighted Index:** An equal weighted index that tracks global stock market performance that includes developed and emerging markets but excludes the U.S.

**MSCI country indices:** Indices which include securities that are classified in that country according to the MSCI Global Investable Market Index Methodology, together with companies that are headquartered or listed in that country and carry out the majority of their operations in that country.

**MSCI EAFE (Europe, Australasia, Far East) Index:** A free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada.

# Index definitions (cont'd)

**MSCI Emerging Markets Index:** A float-adjusted market capitalization index that consists of indices in 24 emerging economies.

**MSCI Europe Index:** A free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the developed markets in Europe. The MSCI Europe Index consists of the following 15 developed market country indexes: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the United Kingdom.

**MSCI World Index:** A broad global equity index that represents large and mid-cap equity performance across 23 developed markets countries.

**Russell 3000® Index:** Index measures the performance of the largest 3000 U.S. companies representing approximately 98% of the investable U.S. equity market.

**Russell 2000® Index:** measures the performance of the 2,000 smallest companies in the Russell 3000 index.

**Russell 1000® Growth Index:** Measures the performance of the broad growth segment of the U.S. equity universe. It includes those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

**Russell 1000® Value Index:** Measures the performance of the broad value segment of U.S. equity value universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

**The S&P 500® Index:** A free-float capitalization-weighted index published since 1957 of the prices of 500 large-cap common stocks actively traded in the United States. The stocks included in the S&P 500® are those of large publicly held companies that trade on either of the two largest American stock market exchanges: the New York Stock Exchange and the NASDAQ.

**The S&P Global Infrastructure Index:** Provides liquid and tradable exposure to 75 companies from around the world that represent the listed infrastructure universe. To create diversified exposure across the global listed infrastructure market, the index has balanced weights across three distinct infrastructure clusters: Utilities, Transportation, and Energy.

**S&P Global Natural Resources Index:** The index includes 90 of the largest publicly-traded companies in natural resources and commodities businesses that meet specific investability requirements, offering investors diversified and investable equity exposure across 3 primary commodity-related sectors: agribusiness, energy, and metals & mining.

## Market Indicators

**HOME PRICES –** The S&P/Case-Shiller Home Price Index is a measurement of U.S. residential real estate prices, tracking changes in top 20 metropolitan regions. This indicator value represents the trailing year over year % change in the home prices index as of last month-end. Residential real estate represents a large portion of the U.S. economy, and the Home Price index helps us monitor the value of real estate.

**MARKET VOLATILITY(VIX) –** CBOE VIX (Chicago Board Options Exchange Volatility Index) measures annualized implied volatility as conveyed by S&P 500 stock index option prices and is quoted in percentage points per annum. For instance, a VIX value of 15 represents an annualized implied volatility of 15% over the next 30-day period. The VIX measures implied volatility, which is a barometer of investor sentiment and market risk.

**10 YR. U.S. TREASURY YIELD –** The yield on the 10-year U.S. Treasury note issued by the U.S. Government. It is important because it is seen as a benchmark for interest rate movements and borrowing costs in the economy.

**YIELD SPREAD –** The spread between 3-month Treasury bill yields and 10-year Treasury note yields measures the market outlook for future interest rates. A normal or upward-sloping yield curve, can imply that investors expect the economy to grow and inflation to eat into asset returns. They thus demand a higher yield for long-term Treasuries. An inverted yield curve has often been an indicator of coming recessions, but not always. For example, reduced inflation expectations could cause the yield curve to flatten.

## Economic Indicators

**CONSUMER SENTIMENT –** The University of Michigan Survey of Consumer Sentiment Index is an economic indicator which measures the degree of optimism that consumers feel about the overall state of the economy and their personal financial situation.

**ECONOMIC EXPANSION (GDP) –** GDP (Gross Domestic Product) measures the total market value of a nation's output of goods and services during a specific time period. It is usually measured on a quarterly basis. Current GDP is based on the current prices of the period being measured. Nominal GDP growth refers to GDP growth in nominal prices (unadjusted for price changes). Real GDP growth refers to GDP growth adjusted for price changes. Calculating Real GDP growth allows economists to determine if production increased or decreased, regardless of changes in the purchasing power of the currency.

**INFLATION –** The Consumer Price Index (CPI) NSA (non-seasonally adjusted) measures changes in the price level of a market basket of consumer goods and services purchased by households. This indicator value represents the trailing year over year % change in the CPI index as of last month-end.

**UNEMPLOYMENT –** The Bureau of Labor Statistics measures employment and unemployment of all persons over the age of 15 using two different labor force surveys conducted by the United States Census Bureau (within the United States Department of Commerce) and the Bureau of Labor Statistics (within the United States Department of Labor) that gather employment statistics monthly. The data reported here is seasonally adjusted (SA) to account for seasonal gains in employment leading up to Christmas.