Morningstar® Markets Observer

Q1 2021 Data as of December 31, 2020

Morningstar® Research

Timothy Strauts
Director of Quantitative Research

Michael Manetta
Quantitative Research Manager

Alina Lamy
Project Manager

Gabrielle Dibenedetto
Senior Data Journalist

Barbara Kennedy
Visual Designer

Amrutha Alladi
Associate Quantitative Analyst

Kathryn Wing
Senior Quantitative Analyst

Chau Pham
Quantitative Analyst

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Table of Contents

Market Overview	3
Equities	13
Fixed Income	22
Funds	29
Economic Indicators	38

Market Overview

Market Dashboard

Incredibly, in a year that saw so much devastation around the world, return numbers for most asset classes were not only positive, but in double-digit territory. U.S. stocks recovered quickly after a catastrophic drop in March and are now once again on an upward trend. There remains, however, a sharp discrepancy between growth and value stocks, as illustrated by the one-year return Morningstar Style Box. Small-cap stocks rallied in the fourth quarter, with news of the coronavirus vaccine.

		Return (%)					
Equities	**12 Month Yield**	**YTD**	**3 Mo**	**1 Yr**	**3 Yrs**	**5 Yrs**	**10 Yrs**
S&P 500	1.9	18.4	12.1	18.4	14.2	15.2	13.9
Russell 2000	1.0	20.0	31.4	20.0	10.2	13.3	11.2
MSCI EAFE	2.0	7.8	16.0	7.8	4.3	7.4	5.5
MSCI Emerging Markets	1.9	18.3	19.7	18.3	6.2	12.8	3.6
Fixed Income	**Current Yield**						
U.S. Aggregate	1.1	7.5	0.7	7.5	5.3	4.4	3.8
U.S. Corporates	1.5	9.7	2.4	9.7	7.2	6.6	5.8
High Yield	5.0	6.2	6.5	6.2	5.9	8.4	6.6
Municipals	1.1	5.2	1.8	5.2	4.6	3.9	4.6
Emerging Markets (USD)	4.6	5.3	5.8	5.3	5.0	7.1	6.2
Broad Commodities							
Bloomberg Commodity		–3.1	10.2	–3.1	–2.5	1.0	–6.5
Morningstar Commodity		–8.6	13.3	–8.6	–2.3	1.5	–5.5

	Fundamental Measures			
	P/E	**P/B**	**P/S**	**P/C**
S&P 500	28.3	4.0	2.8	16.5
Russell 2000	20.3	2.3	1.4	9.6
MSCI EAFE	21.6	1.7	1.4	10.2
MSCI Emerging Markets	19.0	2.0	1.7	10.3

Interest Rates	**Current**	**1 Yr Ago**
2 Yr Treasury	0.1	1.6
5 Yr Treasury	0.4	1.7
10 Yr Treasury	0.9	1.9
20 Yr Treasury	1.7	2.4
Prime Rate	3.3	4.8
Commodities		
Brent Crude Oil	52	66
Gold	1,888	1,515

3-Month Return (%)

	Value	Blend	Growth
Large	14.6	11.7	8.9
Mid	20.3	17.4	19.4
Small	33.4	26.3	28.1

>8
4 to 8
0 to 4
–4 to 0
–8 to –4
<–8

1-Year Return (%)

	Value	Blend	Growth
Large	–0.6	19.7	38.9
Mid	–3.8	13.5	46.2
Small	1.0	6.2	43.5

>20
10 to 20
0 to 10
–10 to 0
–20 to –10
<–20

5-Year Return (%)

	Value	Blend	Growth
Large	10.0	15.3	20.6
Mid	8.7	12.4	20.8
Small	7.0	10.7	18.6

>20
10 to 20
0 to 10
–10 to 0
–20 to –10
<–20

Source: Morningstar Direct. U.S. Aggregate—Bloomberg Barclays U.S. Aggregate Bond Total Return, U.S. Corporates—Bloomberg Barclays U.S. Corporate 5-10 Year Total Return, High Yield—Bank of America Merrill Lynch U.S. High Yield Master II Total Return, Municipals—Bloomberg Barclays Municipal Total Return, Fixed-Income Emerging Markets—J.P. Morgan EMBI Global Diversified Total Return, Gold—London Fix Gold PM Price Return. Data as of Dec. 31, 2020. ©2021 Morningstar. All Rights Reserved.

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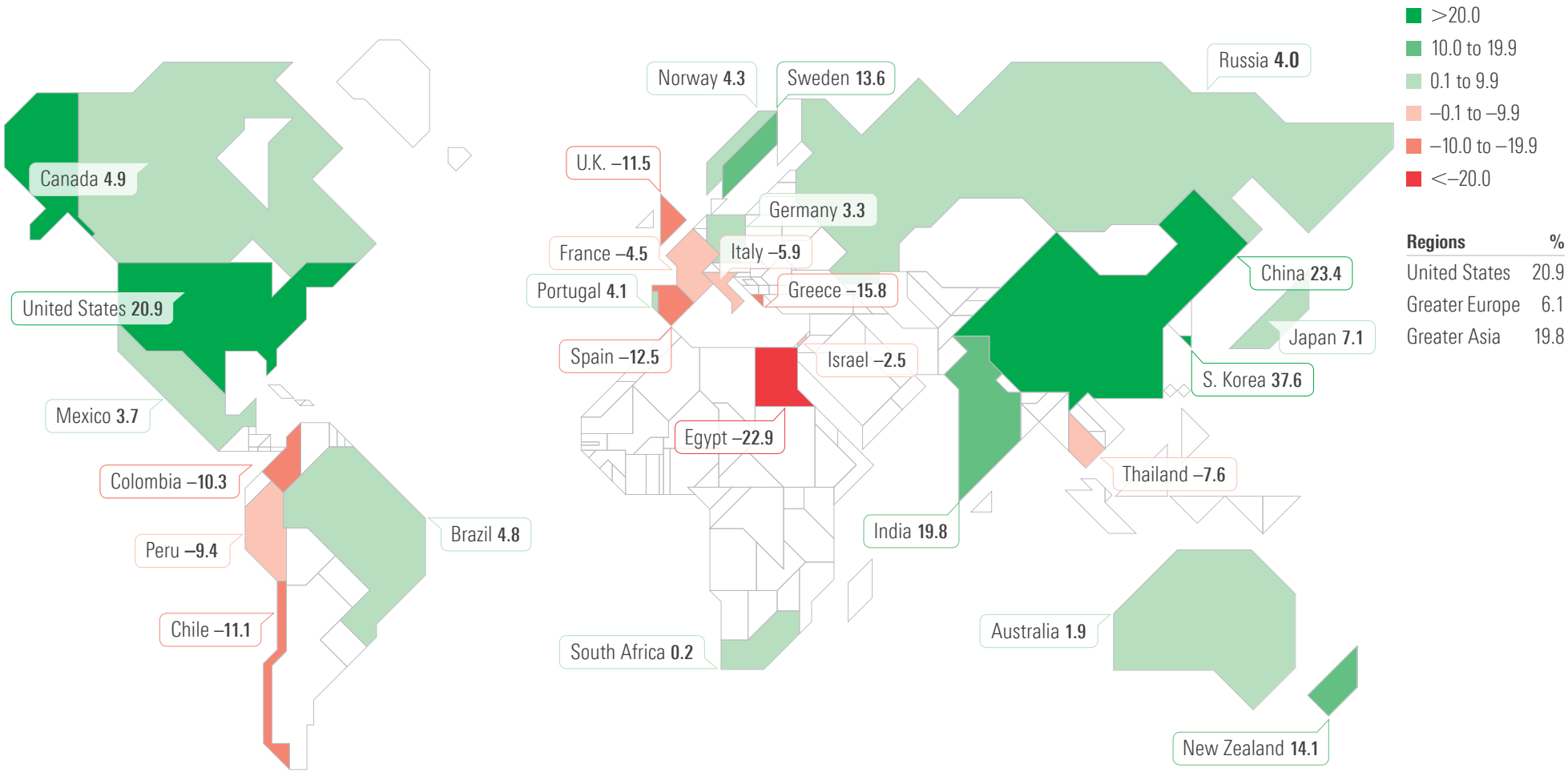
Global Market Barometer

Given the crippling effects of COVID-19 on economies all over the world in 2020, one would expect to see negative stock-market returns in most countries. Happily, this was not the case. China and the U.S. were able to recover from their early losses and ended the year with 20%-plus returns. Much of Europe and South America was not so lucky. With vaccination programs now beginning in most countries, there is hope that the recovery will pick up in 2021.

1-Year Trailing Returns of Morningstar Country Indexes in Base Currency by Percentage



Regions	%
United States	20.9
Greater Europe	6.1
Greater Asia	19.8

Source: Morningstar Country and Region Indexes. Forecasts from the European Commission and the International Monetary Fund. Data as of Dec. 31, 2020. ©2021 Morningstar. All Rights Reserved.

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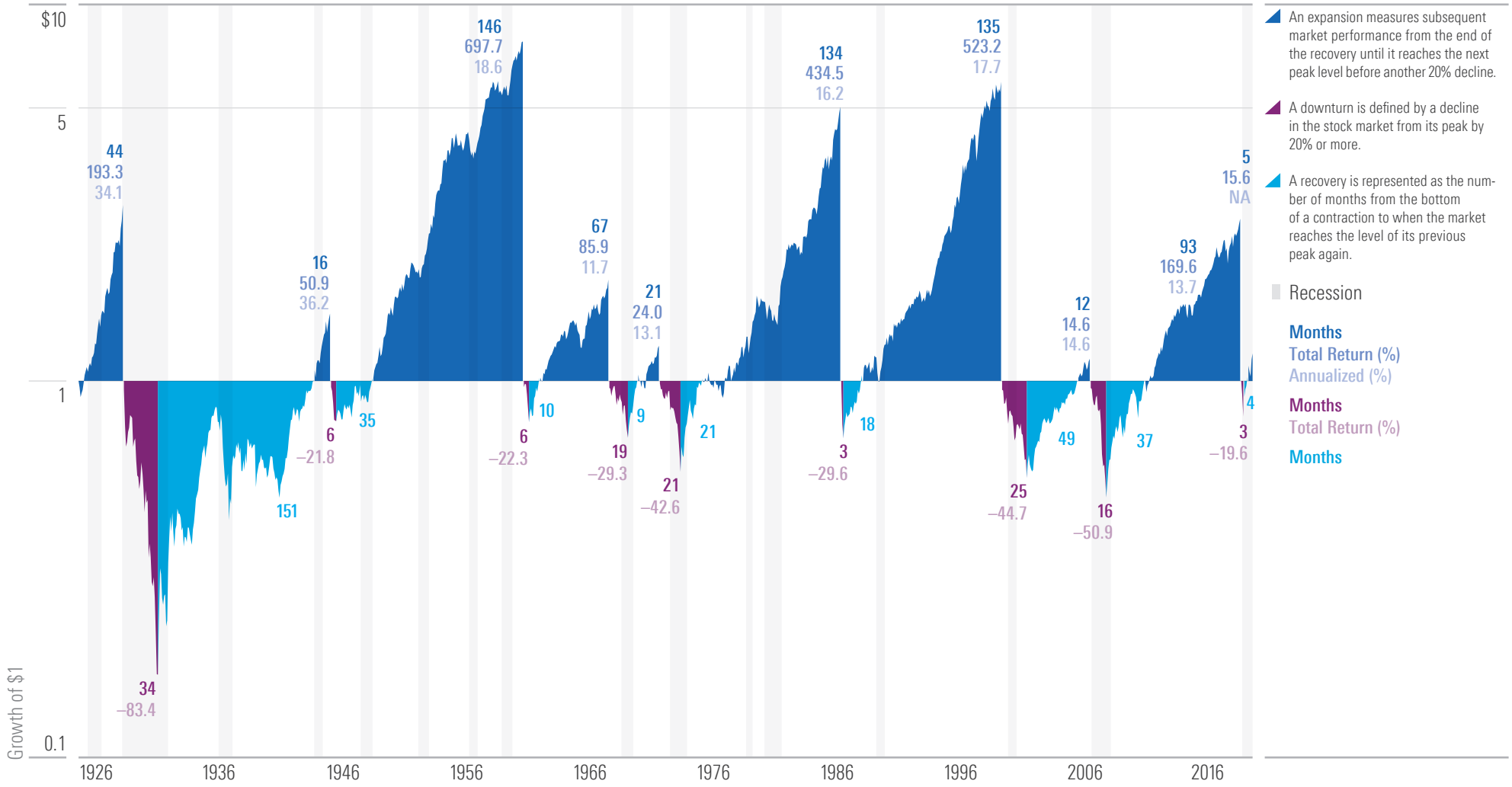
A Downturn, Recession, and Recovery—All in 2020

The COVID-19 bear market saw U.S. stocks drop by 19.6% from January to March 2020. However, the 19.6% is calculated using monthly returns. In terms of daily returns, the loss was 33.8% (from the Feb. 19 peak to the March 23 trough). The market fully recovered these losses by July, technically marking the beginning of a new expansion only four months after the end of the downturn. With the exception of September and October, all monthly returns have been positive since.

U.S. Market Downturns, Recoveries, and Expansions



Source: Stocks—Ibbotson Associates SBBI U.S. Large Stock Index. Recession data from the National Bureau of Economic Research (NBER). Data as of Dec. 31, 2020. ©2021 Morningstar. All Rights Reserved.

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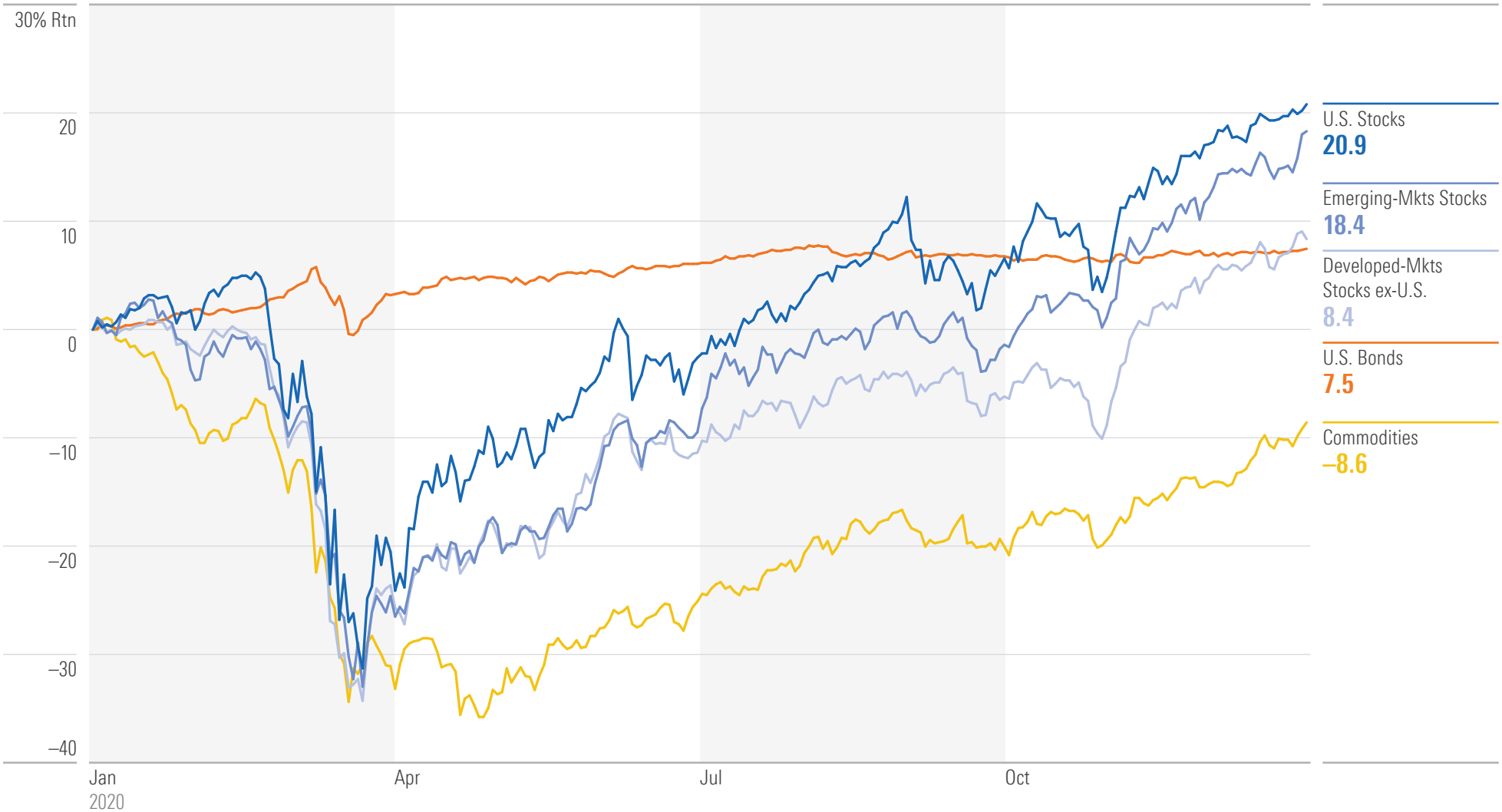
Trailing-12-Month Performance of Major Asset Classes

All major asset classes dropped in unison when the pandemic hit in March. A rapid recovery then began in late spring and continued throughout the rest of 2020, undeterred by the slight drop in September. This resilience was strongly sustained by expansionary monetary and fiscal policy, and fueled by optimism that economic activity would pick up once a vaccine became available. Concerns remain, however, that skyrocketing returns may have resulted in overvaluations.



QM01

Source: U.S. stocks—Morningstar U.S. Market Index. Developed-markets stocks ex-U.S.—Morningstar Developed Markets ex-U.S. Index. Emerging-markets stocks—Morningstar Emerging Markets Index. U.S. bonds—Morningstar Core Bond Index. Commodities—Morningstar Long-Only Commodity Index. Data as of Dec. 31, 2020. ©2021 Morningstar. All Rights Reserved.

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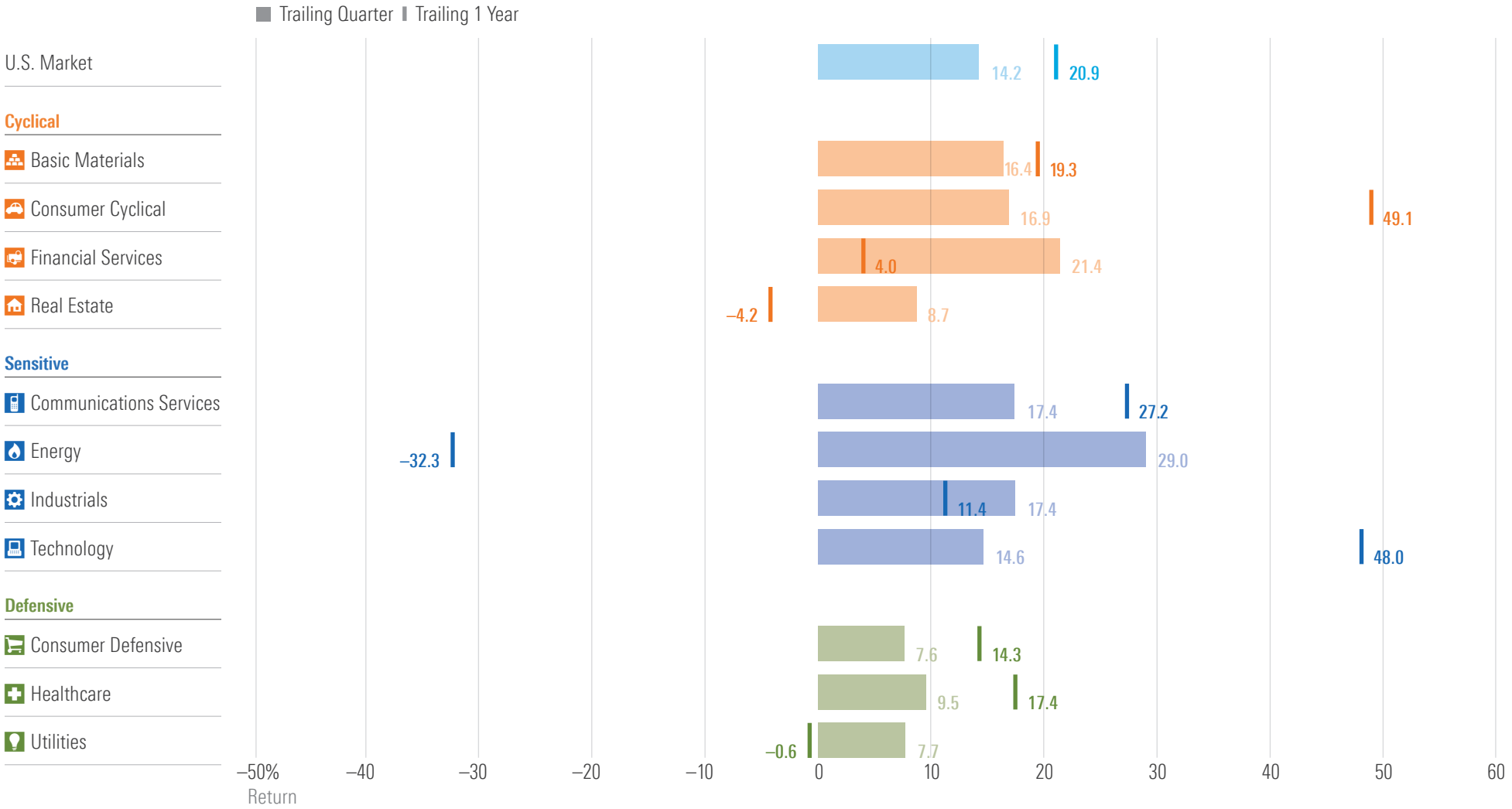
U.S. Sector Performance

There has been significant performance disparity between sectors during the COVID-19 crisis. Technology and communications-services stocks were well-positioned to make the best out of a terrible situation, as stuck-at-home consumers ramped up their online shopping and tech device usage. Real estate and utilities ended the year in negative territory since offices and factories remained closed or running at limited capacity. Notably, some of these trends started to reverse in the fourth quarter.



Source: Morningstar Sector Indexes. Data as of Dec. 31, 2020. ©2021 Morningstar. All Rights Reserved.

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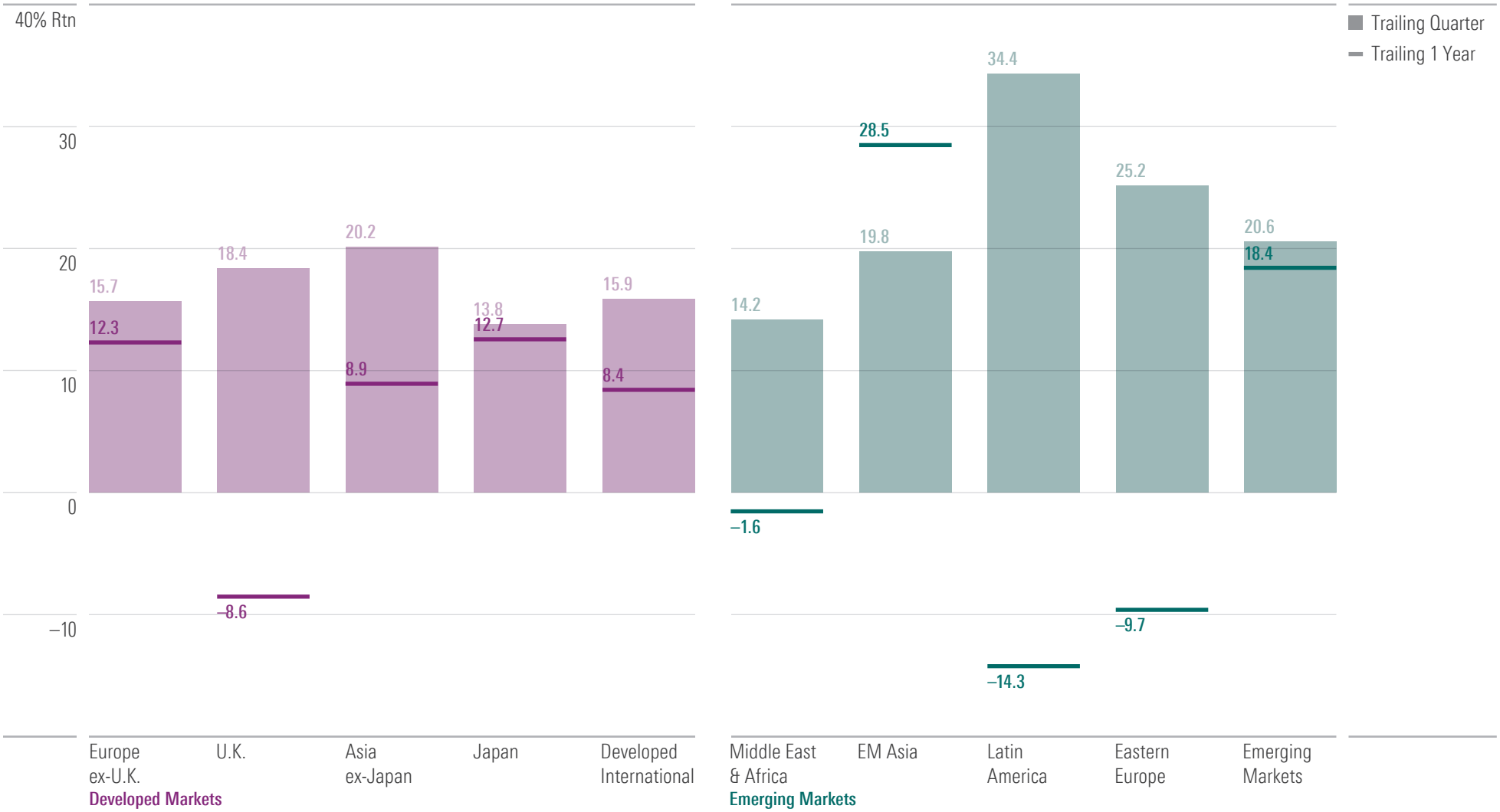
International Stock Market Performance

The market recovery maintained strong momentum in the fourth quarter, although not enough to push all regions into positive return territory for the year. Latin America and Eastern Europe suffered the most. Developed markets were all able to stabilize and recover faster, with the notable exception of the U.K., where the impact of Brexit may have played a significant role.



Source: Morningstar Indexes. All returns are calculated in U.S. dollars. Data as of Dec. 31, 2020. ©2021 Morningstar. All Rights Reserved.

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Asset-Class Winners and Losers

The colorful pattern in this "quilt chart" illustrates how unpredictable the ups and downs of markets can be. In 2018, seven out of eight asset classes and the moderate portfolio posted negative returns. All asset classes and the portfolio rebounded in 2019, with large-cap stocks posting their strongest returns since 2013. Despite the global pandemic, all asset classes except commodities ended 2020 with surprisingly strong returns, prompting some bubble speculation.

Highest Return (%)															
36.1	39.4	17.4	83.8	28.4	13.1	19.7	37.9	13.6	1.8	20.3	36.0	1.2	31.8	21.7	10.2
26.6	31.8	–5.2	58.2	23.6	7.7	17.5	31.8	7.2	1.8	17.1	25.5	–1.7	26.0	18.8	9.2
17.0	12.7	–22.2	37.7	21.8	5.0	16.5	22.0	6.9	0.7	12.9	22.7	–2.1	23.4	16.4	7.6
15.9	10.6	–26.2	36.1	15.1	2.6	16.0	14.3	6.4	–1.4	11.3	15.0	–3.4	19.0	12.8	7.5
13.0	8.6	–33.8	24.8	13.4	0.6	15.8	7.4	4.9	–1.8	11.2	14.7	–4.8	18.6	9.8	7.0
11.8	6.7	–36.1	21.8	12.3	–2.6	12.4	–1.8	2.5	–4.5	8.6	7.5	–11.0	14.8	9.1	6.2
4.4	5.2	–36.2	21.2	11.4	–5.3	12.0	–2.1	–0.8	–4.9	5.8	5.6	–12.1	14.3	9.0	5.5
2.7	1.9	–43.0	20.9	10.8	–11.9	3.7	–3.7	–3.9	–13.3	3.4	2.3	–13.2	14.2	7.1	4.9
–0.2	–0.7	–53.8	–5.0	8.7	–18.6	3.6	–4.6	–24.4	–26.3	1.2	2.1	–13.9	7.4	–8.6	–2.0
2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2006–20

Lowest Return (%)

- Small stocks
- Large stocks
- International-developed stocks
- Emerging-markets stocks
- Inter-term government bonds
- Inter-term corporate bonds
- High-yield bonds
- Commodities
- Moderate portfolio

QAA1

Source: Small stocks—Morningstar Small Cap Index. Large stocks—Morningstar Large Cap Index. Int'l stocks—Morningstar Developed Mkts ex-U.S. Index. Emerging stocks—Morningstar Emerging Mkts Index. Interm. govt bonds—Morningstar U.S. 5-10 Year Treasury Bond Index. Interm. corp. bonds—Morningstar U.S. 5-10 Year Corporate Bond Index. High-yield bonds—Bloomberg Barclays U.S. High Yield Corp. Bond Index. Commodities—Morningstar Long-Only Commodity Index. Moderate portfolio—Morningstar Moderate Target Risk Index. Data as of Dec. 31, 2020. ©2021 Morningstar. All Rights Reserved.

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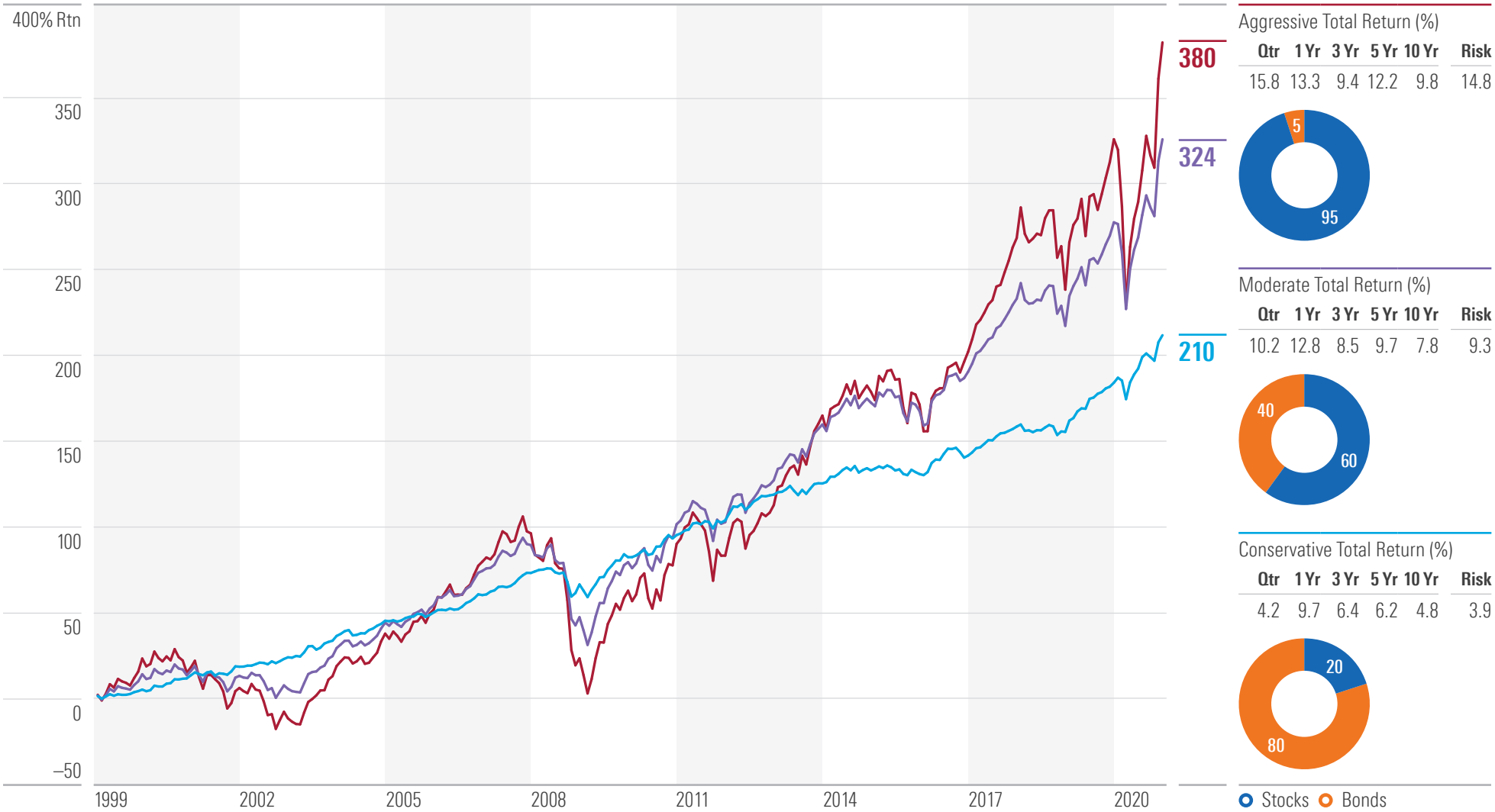
Performance of Risk-Based Portfolios

As expected, an aggressive portfolio with a larger allocation to stocks was able to deliver returns superior to its moderate and conservative counterparts over longer time horizons. However, it also assumed a greater risk level and was therefore more likely to suffer losses in down markets. All three portfolios not only managed to recover their losses from the COVID-19 crash, but were also able to surpass their pre-pandemic highs.



QAA2

Source: Conservative portfolio—Morningstar Conservative Target Risk Index. Moderate portfolio—Morningstar Moderate Target Risk Index. Aggressive portfolio—Morningstar Aggressive Target Risk Index. Returns for periods longer than one year are annualized. Data as of Dec. 31, 2020. ©2021 Morningstar. All Rights Reserved.

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International Stocks Expected to Outperform

Future return estimates have gone down significantly since last quarter because of the recent market rally. Morningstar's valuation models indicate that international stocks are more attractive than U.S. stocks and fixed income over the next 10 years. Investment-grade bonds offer little return advantage over U.S. cash.

These valuation-implied returns are based on Morningstar Investment Management LLC's forecasts of corporate and economic fundamentals.

Our equity model forecasts the sources of stock returns (inflation, total yield, growth, and change in valuation) and is outlined in Straehl and Ibbotson (2015). Our fixed-income model is based on forecasts of inflation, real rates, and term and credit spreads.

Ibbotson, R., & Straehl, P. 2015. "The Supply of Stock Returns: Adding Back Buybacks." Data as of Dec. 31, 2020. ©2021 Morningstar Investment Management LLC. All Rights Reserved. Morningstar Investment Management LLC is a registered investment advisor and subsidiary of Morningstar, Inc.

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Equities

Morningstar Price/Fair Value, U.S. Equity Style Boxes

The U.S. market became even more overvalued in the fourth quarter, moving to 17.6% from 11.5% above fair value, and almost tripling since last year's 6.7%. Small-cap stocks moved from 13.1% undervalued to 4% overvalued last quarter as markets priced in news of a coronavirus vaccine. Value stocks remain relatively attractive but have also appreciated in the past three months. In the moat-uncertainty Morningstar Style Box, narrow-moat stock valuations have more than doubled.

Size	Style: Value	Blend	Growth
Total Mkt 17.6	–4.8	20.7	28.0
Large 19.4	–4.3	23.6	27.5
Mid 15.3	–4.4	17.0	36.2
Small 4.0	–7.8	5.6	15.8

Moat	Uncertainty: Low	Medium	High
Total Mkt 17.6	34.6	19.2	13.9
Wide 12.7	22.2	18.8	4.7
Narrow 26.3	54.3	20.9	22.9
None 16.0	46.4	16.0	14.7

Overvalued (%)
- ⩾10.1
- 5.1 to 10

Fairly Valued (%)
- 0.1 to 5
- 0
- –0.1 to –5

Undervalued (%)
- –5.1 to –10
- ⩽–10.1

Source: Morningstar quantitative and analyst fair value data. Morningstar Style Boxes based on market-cap-weighted data. Data as of Dec. 31, 2020. ©2021 Morningstar. All Rights Reserved.

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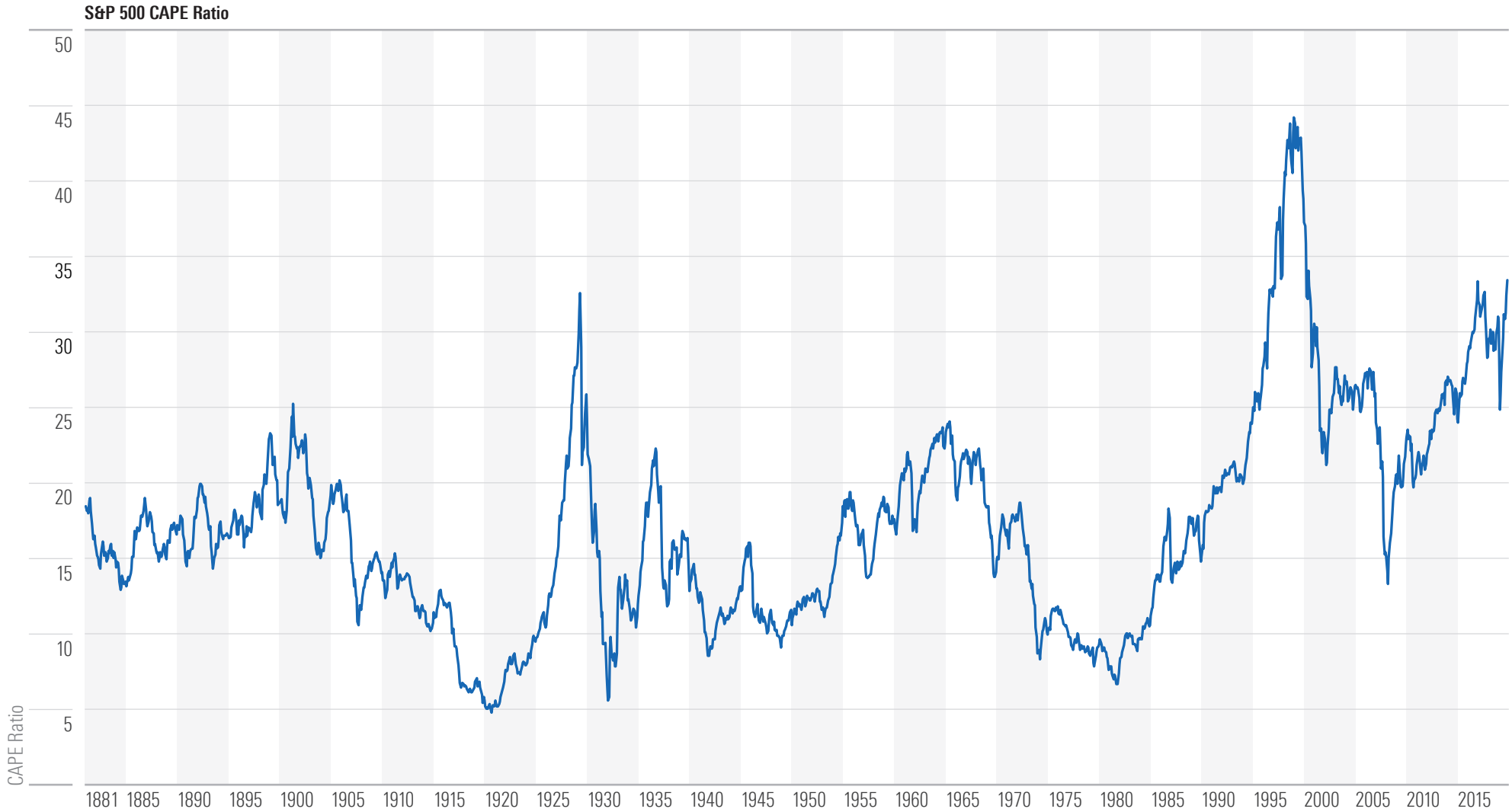
U.S. Stock Market's Price/Earnings Ratio Returns to Historical Highs

The cyclically adjusted price/earnings (CAPE) ratio of the S&P 500, a way to assess whether the market is undervalued or overvalued, rose to 33 in December, eclipsing 2018 highs. When the ratio is high, stocks are expensive relative to their earnings, with periods of low long-term returns for the next decade usually following. Prior to 2018, the ratio surpassed 30 only twice in American history – the late 1920s, leading into the Great Depression, and the late 1990s, before the dot-com bubble burst.



Source: Macrobond. Data as of Dec. 1, 2020. ©2021 Morningstar. All Rights Reserved.

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Momentum Factor Crashes, Erasing Gains for Highfliers

Positive news about multiple COVID-19 vaccines and U.S. presidential election results led to some notable shifts in risk factor premia. The momentum factor, which had flown close to the sun in the summer and fall, reversed course late in the year, pulling many top-performing funds down with it. On the other hand, the volatility factor enjoyed positive returns throughout the year, surging even higher in the last two months.

Morningstar Global Risk Model Factors: Cumulative Returns

QQE7

Source: Morningstar Global Risk Model. Data as of Dec. 13, 2020. ©2021 Morningstar. All Rights Reserved.

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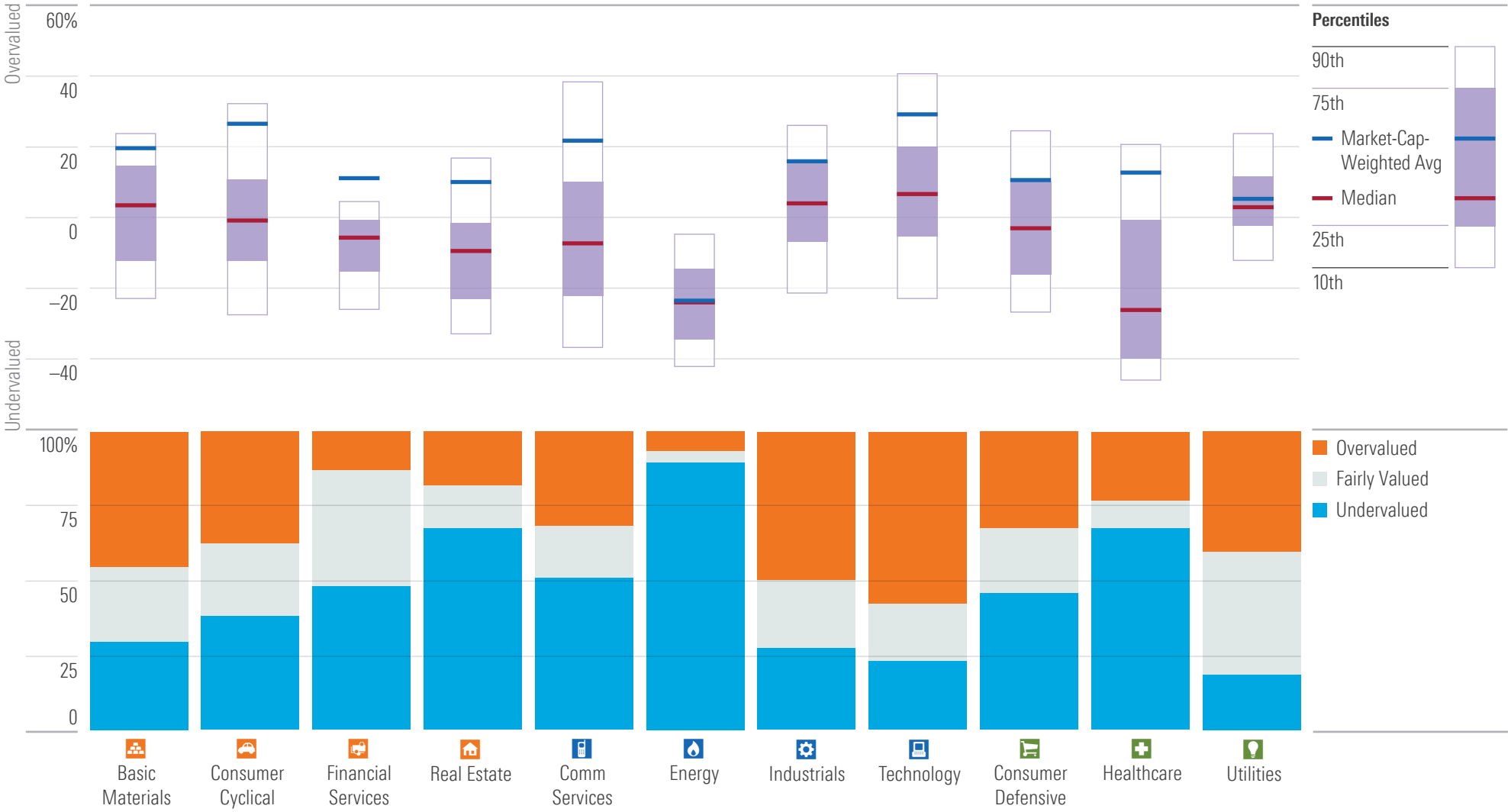
Morningstar Price/Fair Value Distribution by U.S. Sector

Basic materials, industrials, and technology look the least attractive heading into the new year after the S&P 500's 12.2% fourth-quarter gain. Despite gaining nearly 30% in the fourth quarter, energy continues to rank as the most compelling sector due to the outsize impact of the pandemic on oil prices for the majority of the year. Health care and real estate also offer undervalued opportunities.



Source: Morningstar quantitative and analyst fair value data. Data as of Dec. 31, 2020. ©2021 Morningstar. All Rights Reserved.

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Don't Judge a Book (or an Index) by Its Cover

By focusing on a growth or value index, investors may unwittingly end up over- or under-exposed to certain sectors. For example, the Morningstar U.S. Value Index is heavily weighted toward financial services, while its growth counterpart is disproportionately skewed toward technology. All sectors are trading rich to fundamentals, with the exception of energy, whose price/book ratio is below its 15-year average. Consumer cyclical and technology are more than double their 15-year averages.

	Morningstar Index Weights (%)			Price to Earnings		Price to Book			
	U.S. Market	U.S. Value	U.S. Growth	Current	15 Yr Avg	Current	15 Yr Avg	Beta (3 Yr)	Dividend Yield (%)
Morningstar U.S. Market	—	—	—	28.3	17.9	3.9	2.6	1.0	1.6
Cyclical									
Basic Materials	2.38	3.4	1.20	34.1	18.3	3.0	2.6	1.1	4.5
Consumer Cyclical	12.42	5.8	17.47	35.0	19.2	7.5	3.5	1.2	0.8
Financial Services	13.10	24.8	8.95	19.7	14.2	1.7	1.4	1.1	2.4
Real Estate	3.20	3.2	2.76	36.4	28.9	2.6	2.2	0.8	3.8
Sensitive									
Communications Services	10.36	6.0	18.14	27.5	18.1	3.7	2.3	0.9	1.0
Energy	2.08	7.2	0.15	22.4	15.1	1.3	2.0	1.8	6.3
Industrials	9.02	5.1	3.66	29.1	18.4	4.4	1.9	1.1	1.6
Technology	24.69	11.6	35.05	34.2	20.7	9.3	4.2	1.1	1.0
Defensive									
Consumer Defensive	6.37	14.2	0.89	24.8	19.4	5.4	3.8	0.6	2.6
Healthcare	13.73	10.3	11.67	26.1	20.8	4.8	3.4	0.7	1.6
Utilities	2.65	8.4	0.05	21.6	17.3	2.1	1.8	0.3	3.5

Source: Morningstar. Data as of Dec. 31, 2020. ©2021 Morningstar. All Rights Reserved.

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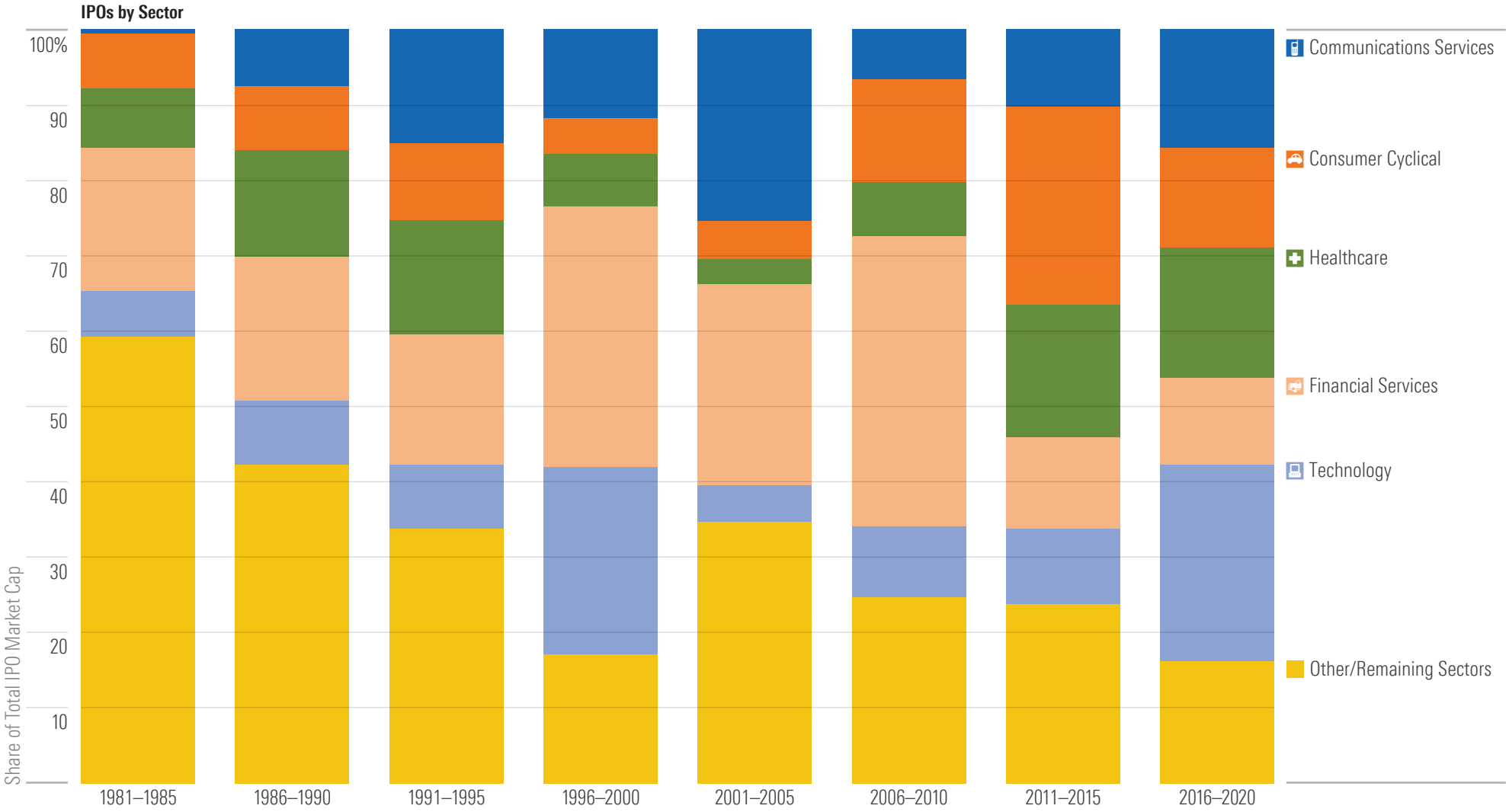
Technology IPOs Dominate Like It's 1999

U.S. IPO activity gained momentum in 2020, with 325 companies going public versus 193 in 2019. Over the past five years, 26% of IPOs have been in the technology sector, the largest share by market cap since the late 1990s tech boom, and 15% in the communications services sector. This is a sharp uptick from the five-year period prior, when offerings were dominated by the consumer cyclical sector and only 20% of offerings were attributed to technology and communications combined.



QE12

Source: Morningstar Direct. Data as of Dec. 31, 2020. ©2021 Morningstar. All Rights Reserved.

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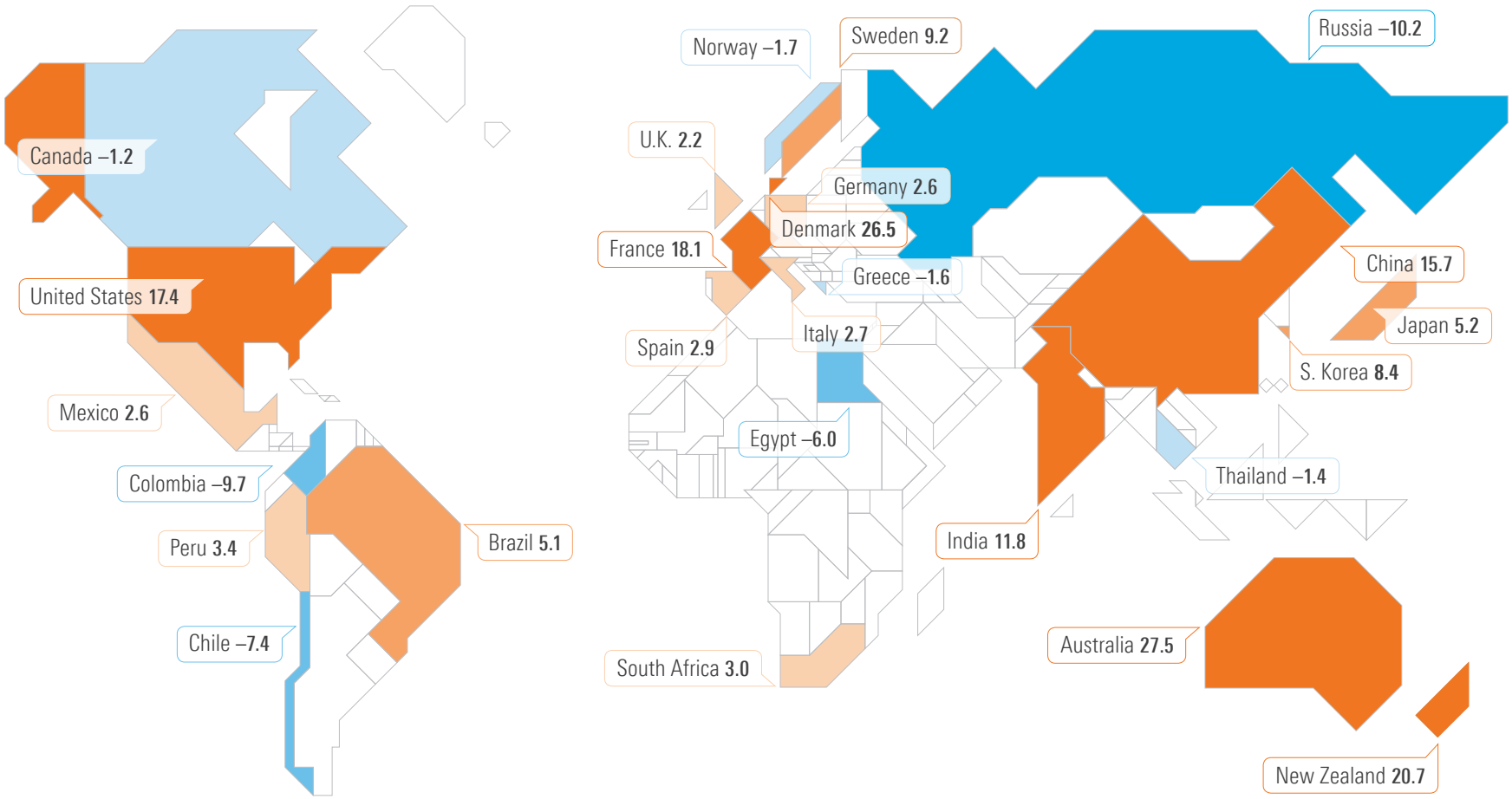
Morningstar Price/Fair Value by Country

Following the equity market's strong fourth-quarter rally, pockets of undervaluation are few and far between. Many emerging and developed markets, including South Korea, Japan, Brazil, and Mexico, flipped from undervalued to overvalued in the last three months of 2020. Markets that had the strongest returns, such as the U.S. and China, are now significantly overvalued. Even those markets still trading at a discount saw a notable improvement in valuations compared with earlier in the year.

Market-Cap-Weighted Valuation



Regions	%
Greater Asia	7.5
Greater Europe	6.8
United States	17.4

Source: Morningstar quantitative and analyst fair value data. Data as of Dec. 31, 2020. ©2021 Morningstar. All Rights Reserved.

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Morningstar Price/Fair Value Distribution by Region

Similar to the pattern observed in the price/fair value distribution by sector analysis, market-cap-weighted-average valuations are higher than median ones for all regions. One possible driver behind this pattern is that the largest companies by market cap have been reaping the benefits of the recovery, while smaller companies are still struggling all over the world. Some attractive buying opportunities are still available, but largely in the riskiest markets.

Top 10 Lowest-Valued Countries (Market-Cap-Weighted)

Country	Over/Undervalued by %	Uncertainty Rating	Number of Companies
Iran	–18.1	Extreme	258
Hungary	–14.7	Very High	34
Jordan	–12.5	Very High	71
Romania	–10.3	Very High	52
Russia	–10.2	High	124
Colombia	–9.7	High	28
Bulgaria	–8.6	Very High	38
Singapore	–8.4	High	147
Qatar	–8.1	Very High	44
Pakistan	–7.9	Very High	321

Top 10 Highest-Valued Countries (Market-Cap-Weighted)

Country	Over/Undervalued by %	Uncertainty Rating	Number of Companies
Saudi Arabia	36.4	High	181
Australia	27.5	High	566
Denmark	26.5	High	137
New Zealand	20.7	High	85
France	18.1	High	475
United States	17.4	High	4,393
China	15.7	High	3,959
Netherlands	15.1	High	88
Morocco	14.2	Very High	35
Nepal	11.9	Very High	117

Source: Morningstar quantitative and analyst fair value data. Data as of Dec. 31, 2020. ©2021 Morningstar. All Rights Reserved.

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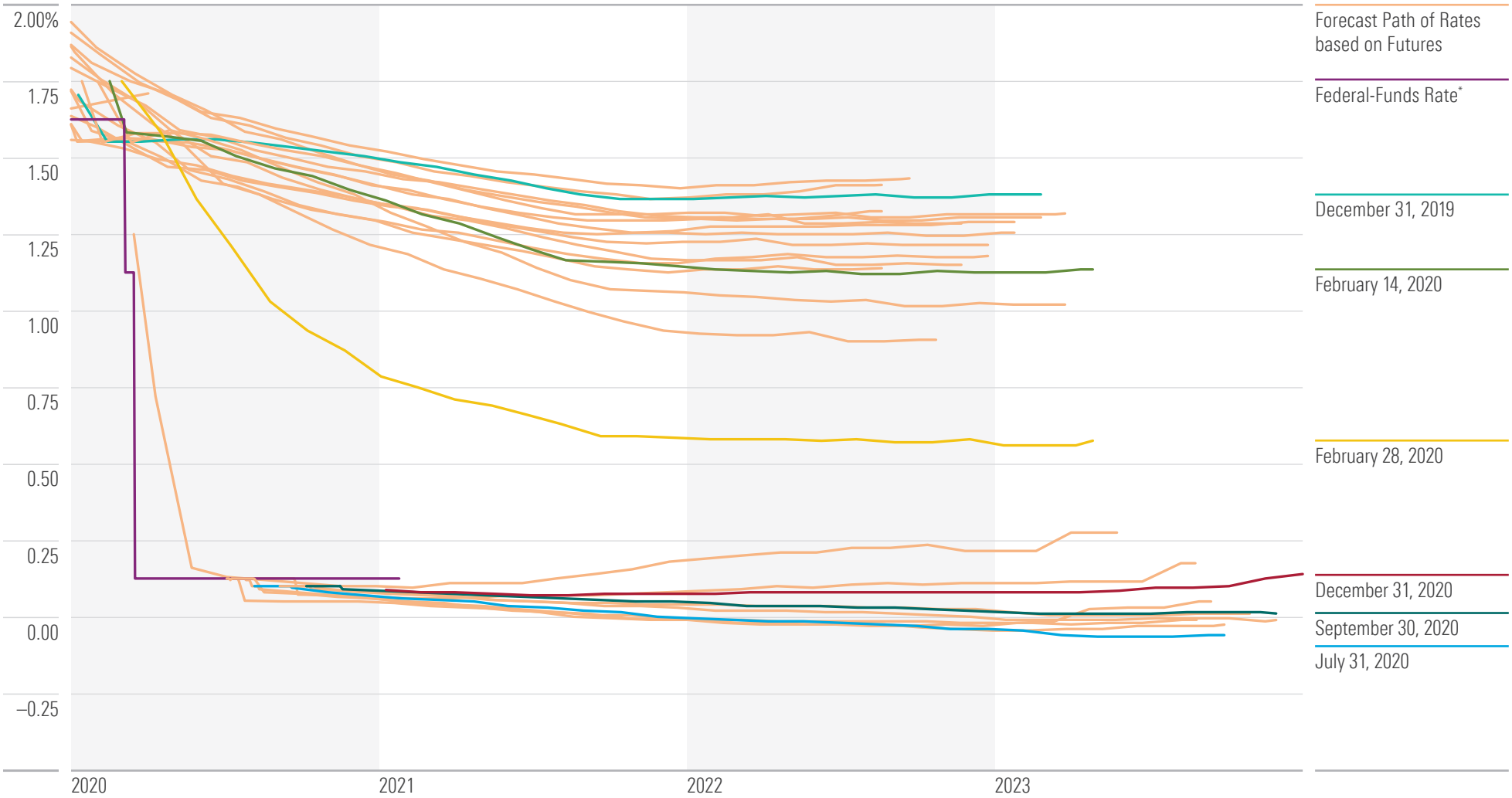
Fixed Income

Market Not Expecting the Fed to Raise Rates Anytime Soon

The Fed Funds Futures curve returned to solidly positive territory in late 2020 on an improved economic outlook. While the market is not pricing in a rate hike anytime soon, it has largely priced out the possibility of the Fed experimenting with a federal-funds rate below zero. As recently as July, the futures curve indicated potential negative rates by end-2021. Federal Reserve officials have stated multiple times that negative rates are not being considered as part of the policy toolkit.

Federate-Funds Rate: Futures vs. Actual



Source: Macrobond Financial. Data as of Dec. 31, 2020. ©2021 Morningstar. All Rights Reserved.

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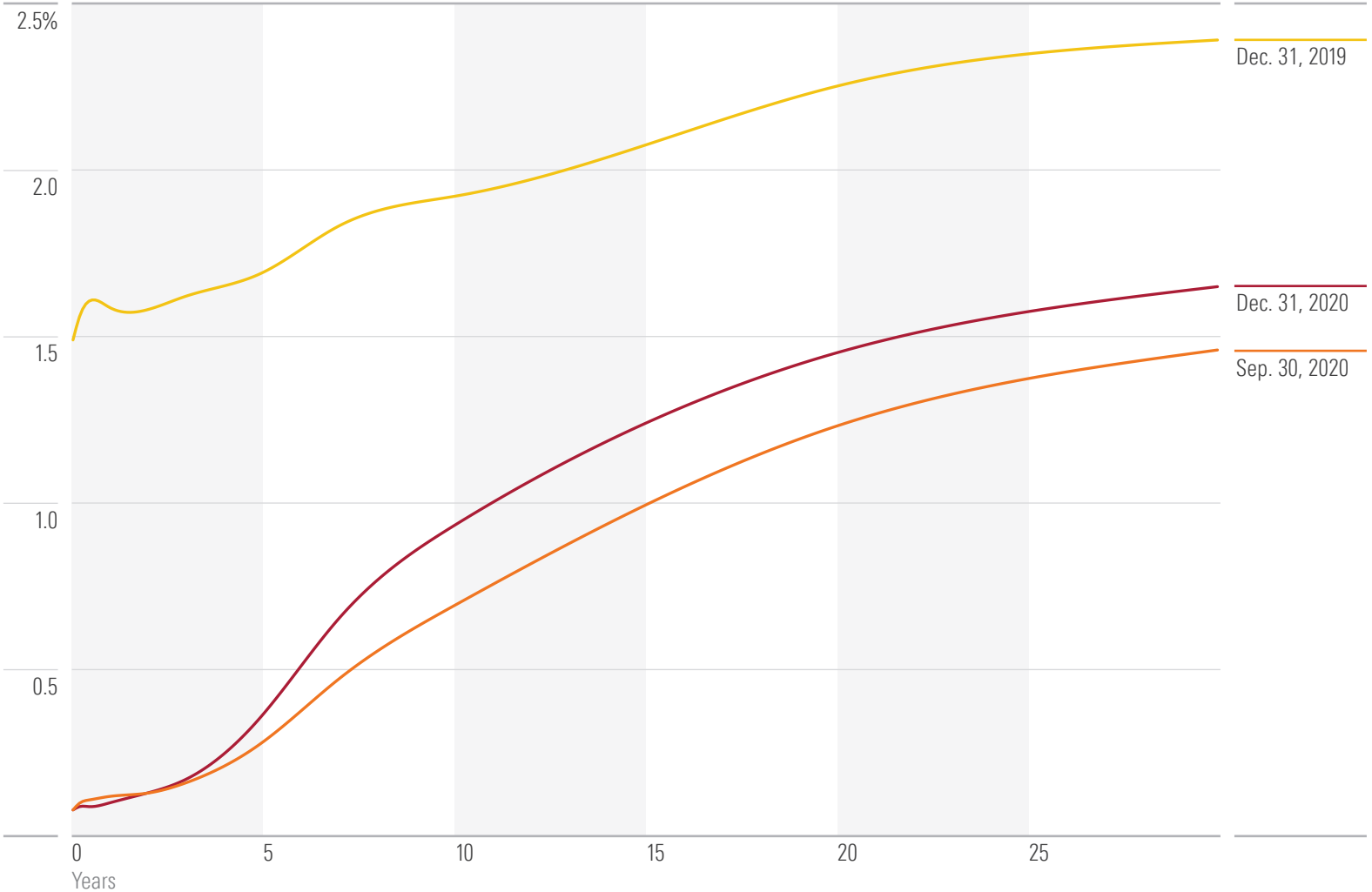
Treasury Curve Steepens, Reflecting an Improved Economic Outlook

The Treasury curve steepened significantly in the fourth quarter of 2020 as longer-term rates increased and the short end remained anchored by Fed policy expectations (namely, to keep the federal-funds rate near zero for an extended period). This is certainly a positive signal that the bond market is pricing in a reflation of the U.S. economy, but market pricing suggests longer-term nominal growth expectations remain suppressed: The 10-year yield remains roughly 100 basis points below its end-2019 level.

U.S. Treasury Yield Curve



Bonds	1-Year Return (%)
Core	7.5
10 Year U.S. Treasury	10.0
20 Year U.S. Treasury	18.1
Inflation Protected (TIPS)	10.6
U.S. Corporate	9.7
U.S. High Yield	7.0
USD Emerging Market	7.3
Local Currency Emerg Mkt	2.7

Source: U.S. Federal Reserve. 10-Year US Treasury Bonds—Bloomberg Barclays US Treasury 7-10 Year Bond Index. 20+ Year US Treasury Bonds— Bloomberg Barclays US Treasury 20+ Year Bond Index. US Corporate Bonds—Morningstar Corporate Bond Index. US High Yield Bonds— Bloomberg Barclays US Corporate High Yield Bond Index. USD EM Bonds—Morningstar EM Composite Bond Index. Local Currency EM Bonds—Bloomberg Barclays EM Local Currency Broad Bond Index. Yield curve data as of Dec. 31, 2020. ©2021 Morningstar. All Rights Reserved.

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The Two-Year/10-Year Treasury Spread Reaches Its Widest Mark in More Than Three Years

The image illustrates the yield differential between 10-year and two-year Treasuries. A normal yield curve occurs when long-term yields are higher than short-term ones, which would be a positive number on this chart. A wider spread is generally considered a positive sign for the economy, as market participants price in faster growth and higher inflation in the future relative to the near term. At the end of 2020, the spread had reached its widest level since mid-2017.

Source: Macrobond Financial. Data as of Dec. 31, 2020. ©2021 Morningstar. All Rights Reserved.

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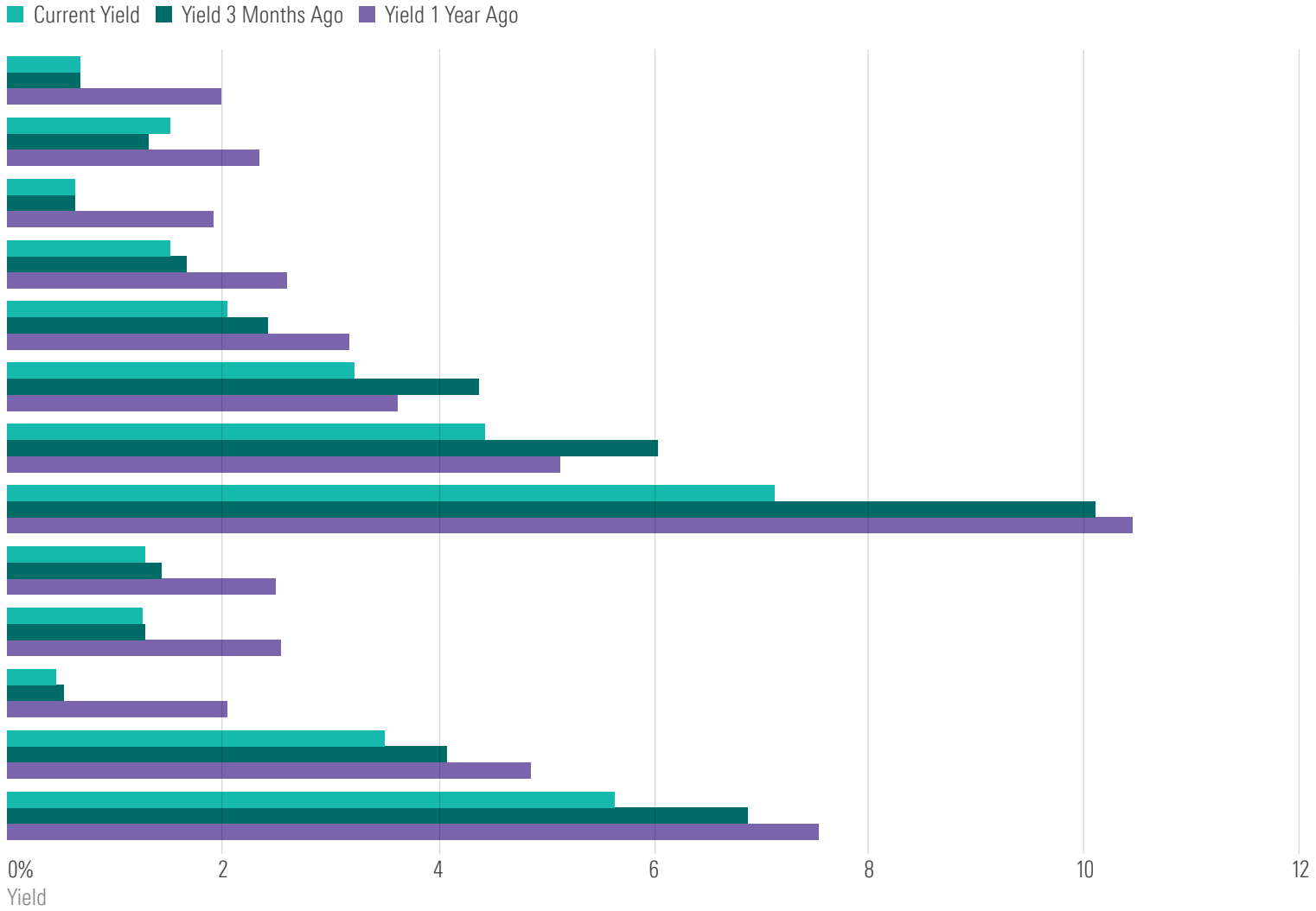
Increase in Risk Appetite Trumps Inflation Expectations, Driving Most Yields Lower in the Fourth Quarter

Yields across most fixed-income products declined in the fourth quarter, with long-term Treasury yields a notable exception. The relative stability in Treasury Inflation-Protected Securities (TIPS) suggests the increase in nominal Treasury yields was a product of increased inflation expectations. The sharp drop in yields in the riskier corners of fixed income--notably, high-yield and emerging-market debt--reflects an increase in risk appetite and search for yield.

Yield on Select Fixed-Income Indexes



QFI31

Sources: BbgBarc US Treasury USD TIPS Index, BbgBarc US Treasury Long Index, BbgBarc US Credit Aaa Index, BbgBarc US Credit A Index, BbgBarc US Credit Baa Index, BbgBarc US HY Ba Index, BbgBarc US HY B Index, BbgBarc US HY Caa Index, BbgBarc US HY Ca to D Index, BbgBarc Glb Agg US CMBS Index, BbgBarc US MBS Index, BbgBarc ABS Index. Yield data as of Dec. 31, 2020. ©2021 Morningstar. All Rights Reserved.

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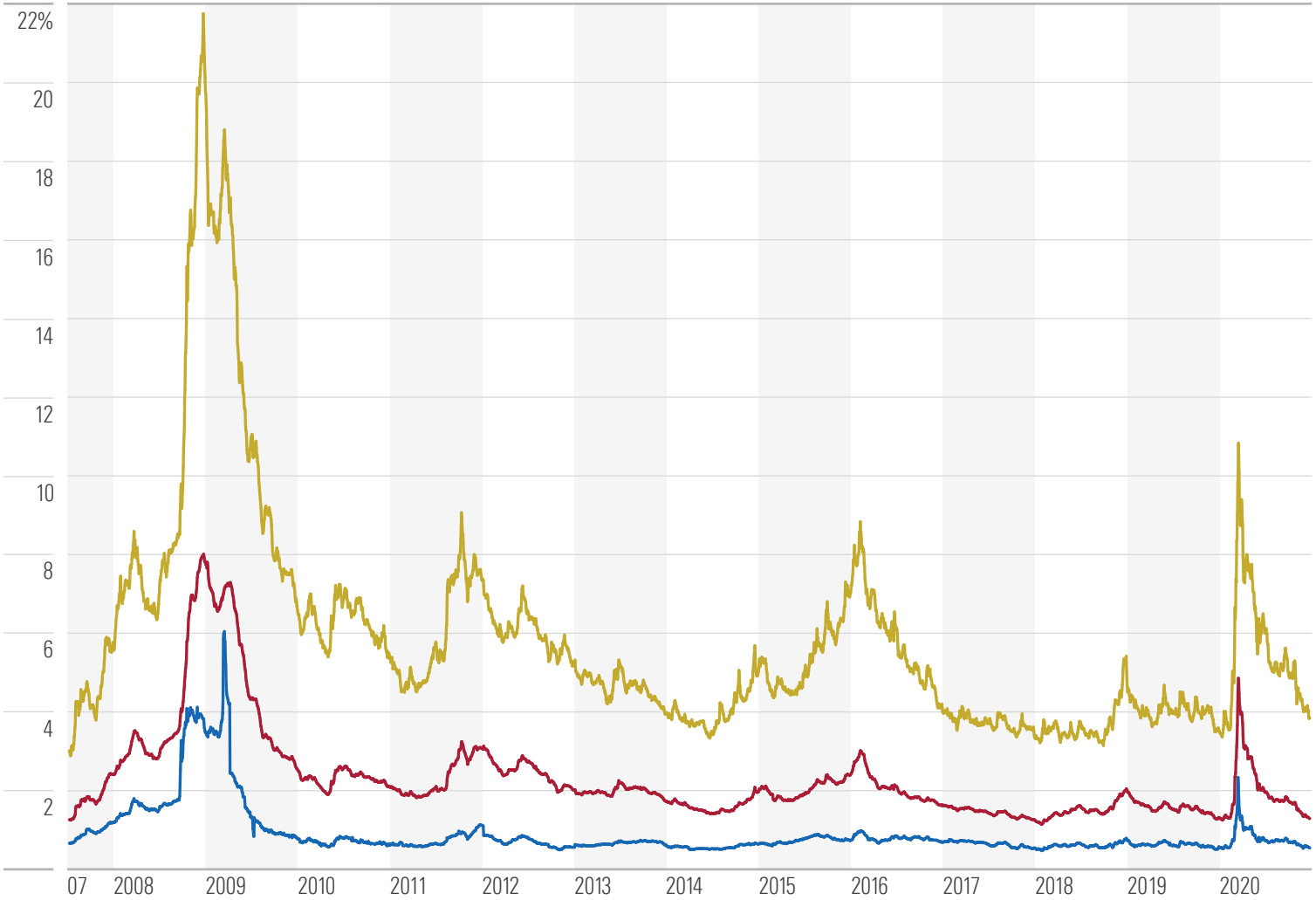
Credit Spreads Narrowed to Pre-Pandemic Levels

In the U.S. corporate-bond market, the credit risk premium continued to compress as the risk of widespread defaults dissipated and investors gained more confidence in the health of corporate borrowers. The performance was all the more impressive given the sheer amount of gross issuance in 2020: about $2.2 trillion through November, the most since 2007 (not pictured), according to Federal Reserve data.

Corporate Credit Spreads



	Current (%)	Avg (%)	Change Over Last Quarter
AAA	0.6	0.9	–0.23
BBB	1.3	2.3	–0.55
High Yield	3.9	5.9	–1.63

Source: Bank of America Merrill Lynch Corporate Spread Indexes from the Federal Reserve, Morningstar calculations. Credit spread data as of Dec. 31, 2020. ©2021 Morningstar. All Rights Reserved.

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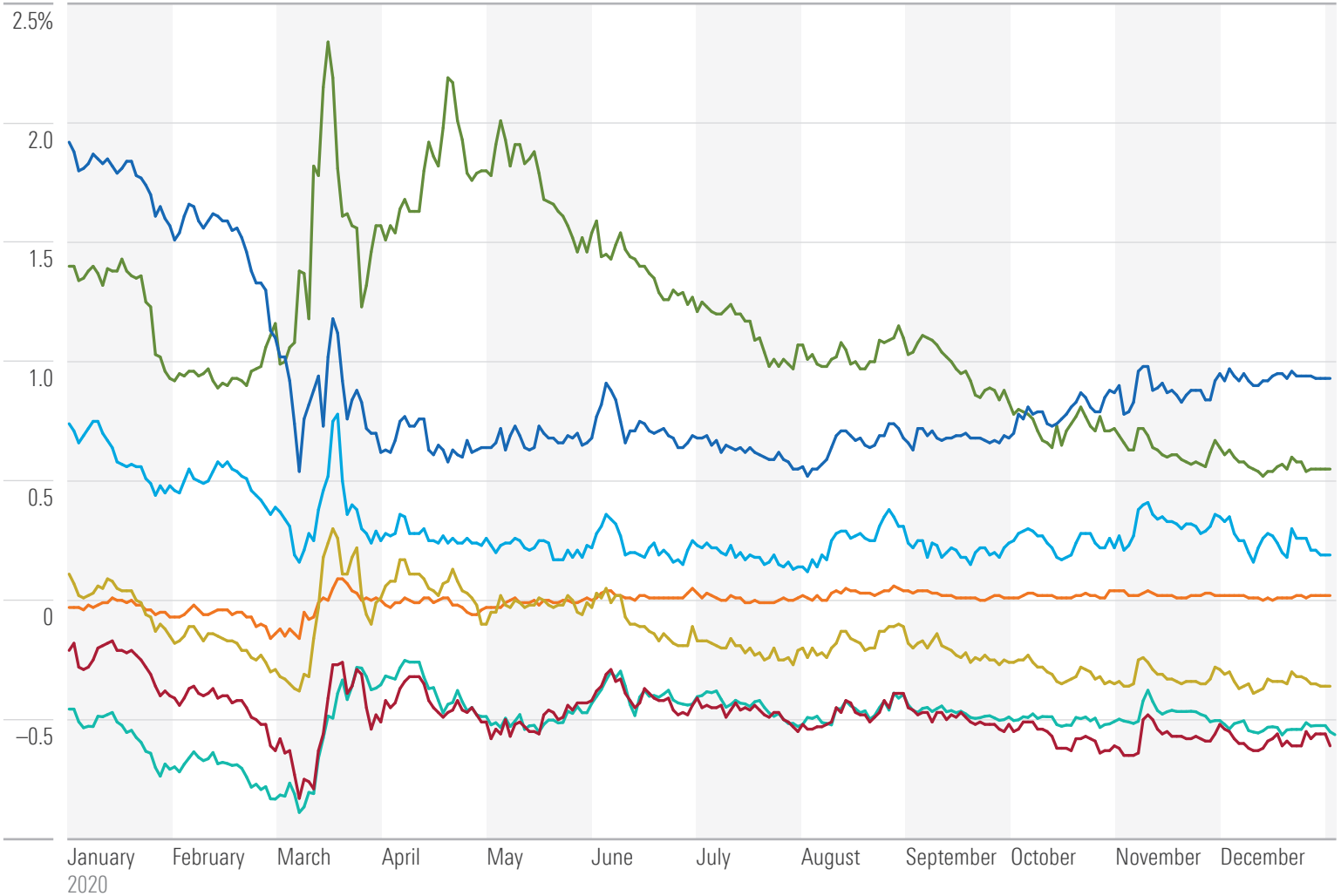
Global Search for Yield Finds Few Opportunities in Developed Sovereign Bond Markets

Only the U.S. has seen a sustained increase in longer-term yields among developed economies in the second half of 2020. The 10-year Treasury yield has more than doubled from its early-August lows of around 0.5%. Elsewhere, yields have moved either sideways or declined, with several benchmark yields in Europe remaining firmly in negative territory. The divergence reflects in part the relative outperformance of the U.S. economy compared with its peers since the pandemic began.

10-Year Government Bond Yields



	Current Yield (%)	Change in Last Year (%)
United States	0.93	–0.99
Italy	0.55	–0.85
United Kingdom	0.19	–0.55
Japan	0.02	0.05
France	–0.36	–0.47
Switzerland	–0.53	–0.07
Germany	–0.56	–0.35

Source: Macrobond. Data as of Dec. 31, 2020. ©2021 Morningstar. All Rights Reserved.

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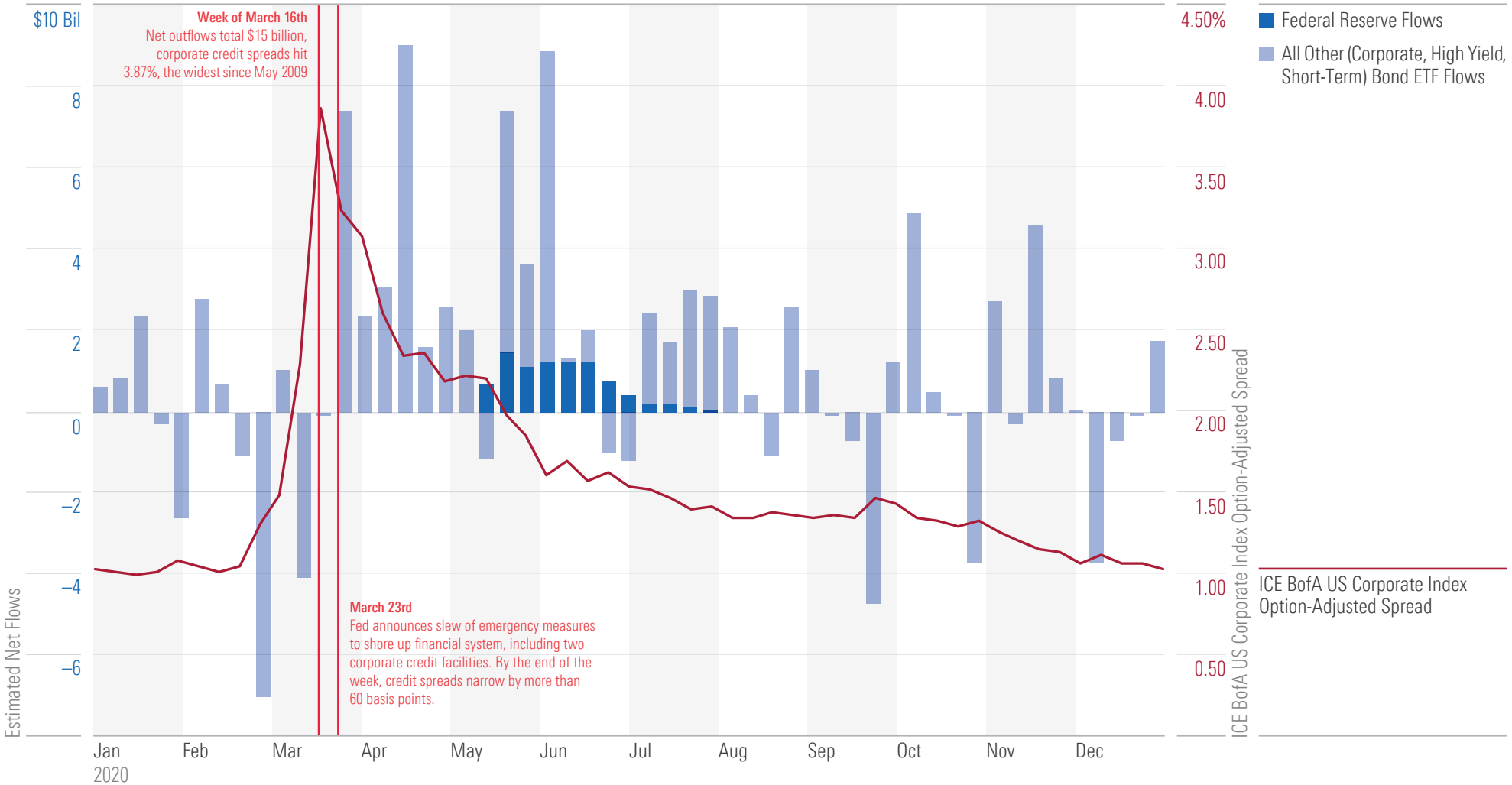
Funds

The Federal Reserve Does More With Words Than Actions

The Fed's March announcement of a commitment to backstop the secondary corporate bond market by purchasing ETFs for the first time largely mitigated the need to actually do so. The market responded with record annual bond ETF flows. All told, the Fed "only" purchased $8.4 billion in corporate bond ETFs in 2020, about 15% of the nearly $58 billion of flows into the three Fed-eligible categories (U.S. high yield, U.S. investment grade, and U.S. short-term) after the program was announced.

Weekly ETF Flows for Three Fed-Eligible Categories



QMF38

Source: Morningstar, Federal Reserve, ICE BAML. Data as of Dec. 31, 2020. ©2021 Morningstar. All Rights Reserved.

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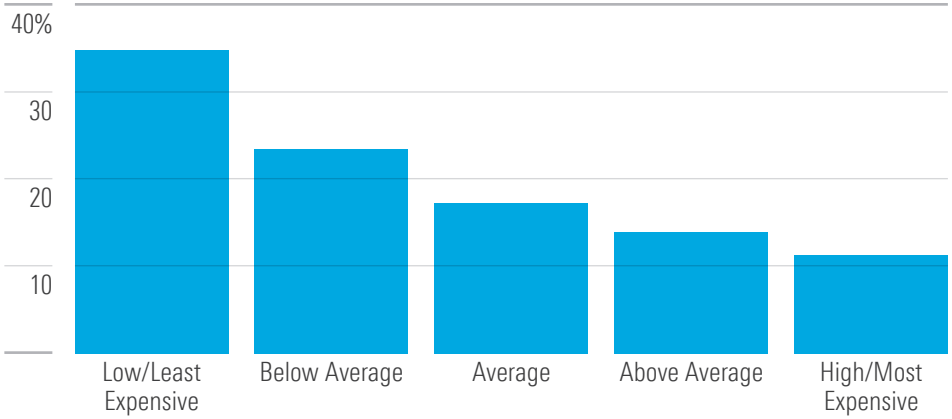
Low-Cost ETFs Dominate Fund Launches

Historically, ETFs have been used predominantly as instruments for equity exposure, but 2020 saw a record number of ETF launches and closures in other categories. Moreover, about 35% of newly launched share classes were in the least-expensive quintile among peers, reflecting fund managers' efforts to keep up with investor preferences for low-cost funds.

New Funds Launched by U.S. Category Group 2020

Percentage of New Funds by Fee-Level



New Funds Launched by Investment Type 2020

Fund Type	%
Exchange Traded	60
Open-End	40

Source: Morningstar Direct. Data as of Dec. 31, 2020. ©2021 Morningstar. All Rights Reserved.

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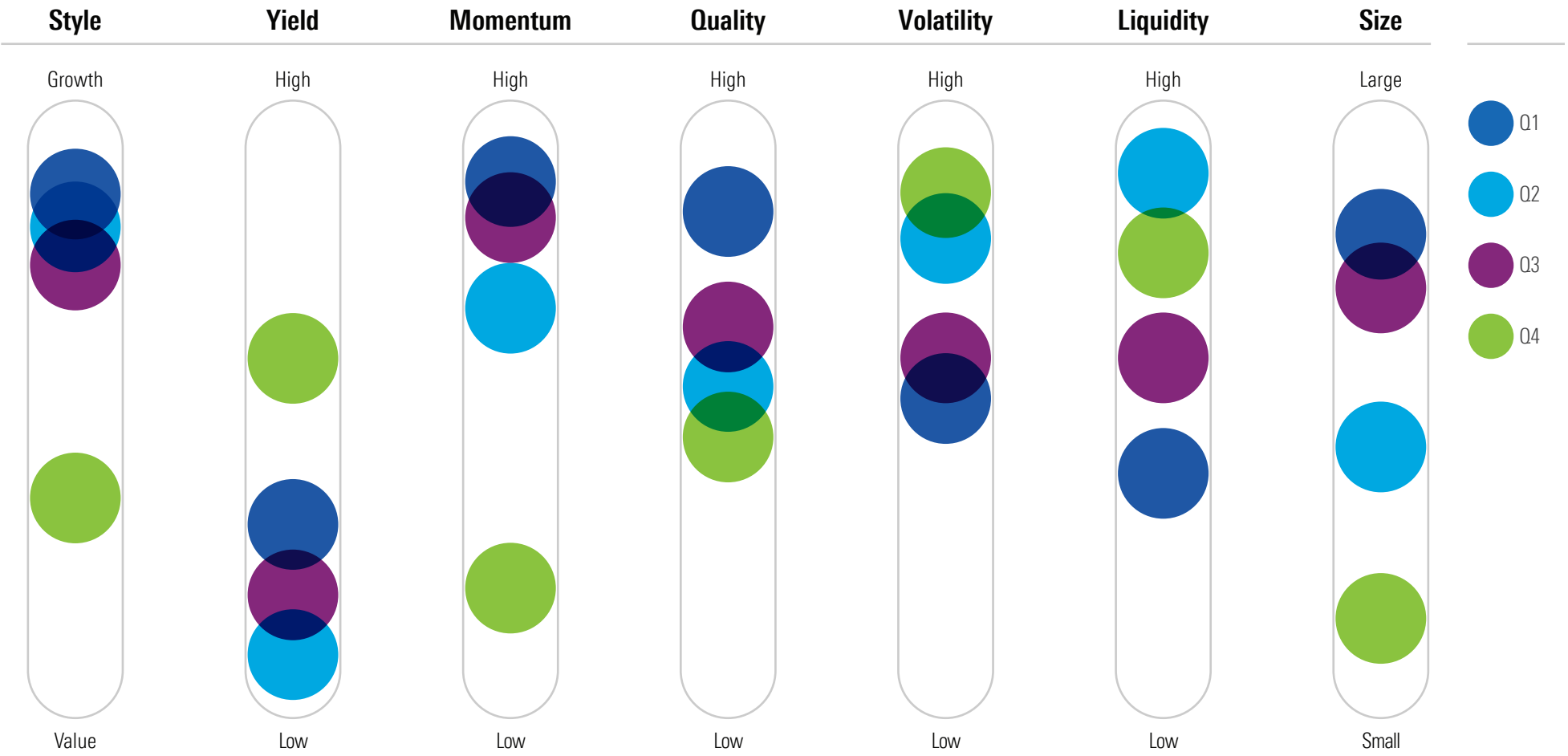
Factors Driving Fund Returns Reversed in the Fourth Quarter

The portfolio exposures leading to funds' success in the first three quarters (growth, low yield, high momentum, and large cap) were the cause of their downfall in the fourth. Following news of progress on developing a COVID-19 vaccine, investor confidence in a synchronized global recovery received a significant boost. This made way for portfolio exposures that were previously struggling (low momentum, small cap, and value) to turn around and drive positive performance.

Factor Profile Exposures of the Top 10% Returning U.S. Equity Funds Each Quarter

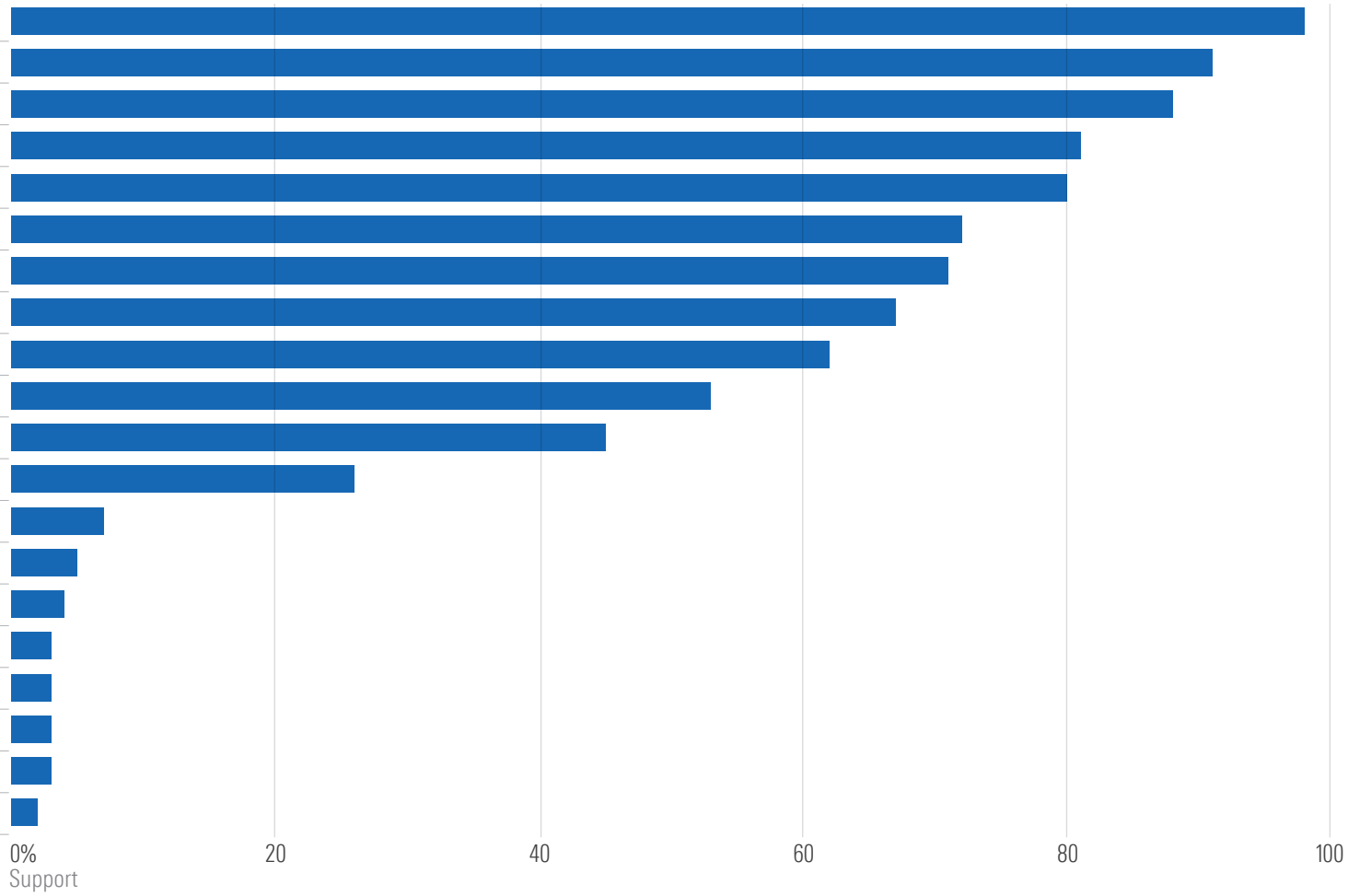


Source: Morningstar. Data as of Dec. 31, 2020. ©2021 Morningstar. All Rights Reserved.

ESG Resolution Support Varies Widely Among Top Asset Managers

Proxy voting gives investors a say in the governance of companies in which they invest. However, for mutual funds, asset managers cast votes on behalf of the shareholders. Looking at the top firms and their voting across all environmental, social, and governance (ESG) considerations, records vary from Columbia Threadneedle's over 90% support to less than 10% for larger firms like Vanguard and BlackRock/iShares. It's also important to note the quantity of issues that firms have voted on varies widely.

Top 20 Fund Families (by U.S. Equity Assets)	**Total Number 2020 Votes**
MFS	4
Columbia Threadneedle	46
American Funds	24
Principal Funds	77
American Century Investments	55
Franklin Templeton Investments	122
Invesco	377
Dodge & Cox	4
Janus Henderson	53
Jackson National	369
Fidelity Investments	1,802
Hartford Mutual Funds	227
SPDR State Street Global Advisors	1,138
Dimensional Fund Advisors	903
T. Rowe Price	594
JPMorgan	766
TIAA Investments	494
Vanguard	2,004
Schwab	1,248
Blackrock/ iShares	2,479



QMF35

Source: Morningstar. Data as of Dec. 31, 2020. ©2021 Morningstar. All Rights Reserved.

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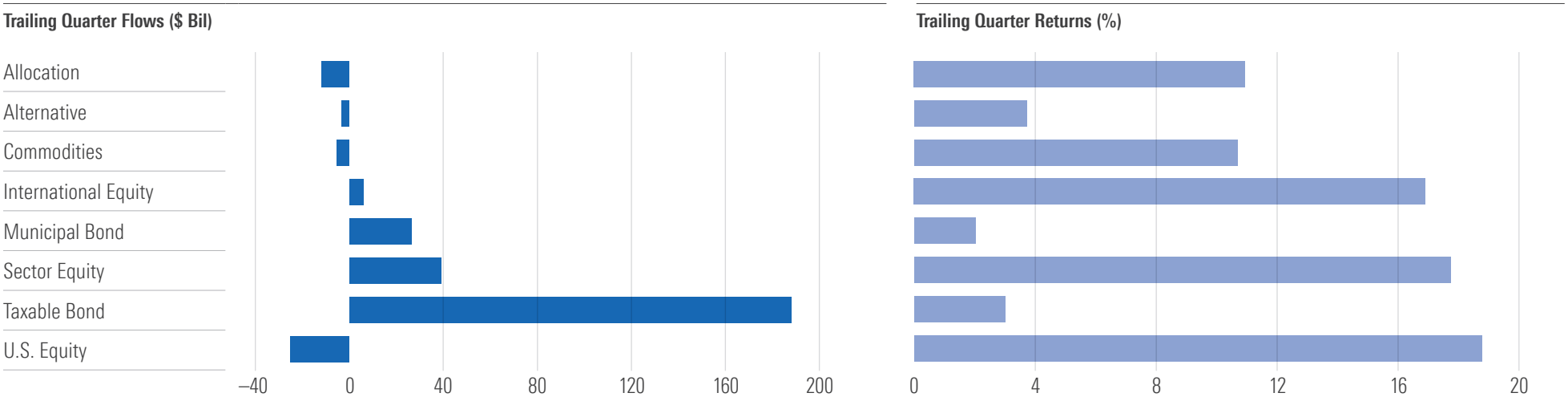
Top- and Bottom-Performing Morningstar Categories

U.S. equity funds sold off sharply in the first quarter of 2020 and never recovered, with net outflows of $25 billion in the fourth quarter despite the S&P 500 ending the year at a near-record high. In times of stock-market crisis, fearful investors tend to turn to the safety of bonds and bond funds. Not surprisingly, 2020 was a banner year for taxable-bond funds, which saw net inflows of $441 billion (including almost $200 billion in the fourth quarter alone) and growth across most categories.



Top-Performing Morningstar Categories	U.S. Category Group	Return (%) Trailing Quarter	Return (%) Trailing 1 Year	Quarterly Flow ($ Mil)
Equity Energy	Sector Equity	37.0	–24.5	3,311
Latin America Stock	International Equity	32.5	–15.4	492
Small Value	US Equity	30.9	4.0	745
Financial	Sector Equity	29.0	–1.1	5,087
Small Blend	US Equity	28.1	11.0	6,011
Small Growth	US Equity	27.2	38.6	3,607
Energy Limited Partnership	Sector Equity	24.9	–23.3	–658
Natural Resources	Sector Equity	24.4	16.4	2,603
World Small/Mid Stock	International Equity	22.7	24.9	–1,266
Mid-Cap Value	US Equity	22.6	2.6	–5,581

Bottom-Performing Morningstar Categories	U.S. Category Group	Return (%) Trailing Quarter	Return (%) Trailing 1 Year	Quarterly Flow ($ Mil)
Bear Market	Alternative	–24.6	–39.0	–386
Long Government	Taxable Bond	–2.8	17.5	–1,820
Short Government	Taxable Bond	0.0	3.1	–905
Intermediate Government	Taxable Bond	0.0	5.6	12,100
Ultrashort Bond	Taxable Bond	0.3	1.3	11,947
Market Neutral	Alternative	0.4	1.2	1,217
Muni National Short	Municipal Bond	0.6	2.3	8,504
Target Maturity	Taxable Bond	0.8	6.4	1,593
Muni Single State Short	Municipal Bond	0.8	2.5	–26
Intermediate Core Bond	Taxable Bond	0.9	7.5	60,330

- >20
- 10 to 20
- 0 to 10
- –10 to 0
- –20 to –10
- <–20

Source: Morningstar Direct. Data as of Dec. 31, 2020. ©2021 Morningstar. All Rights Reserved.

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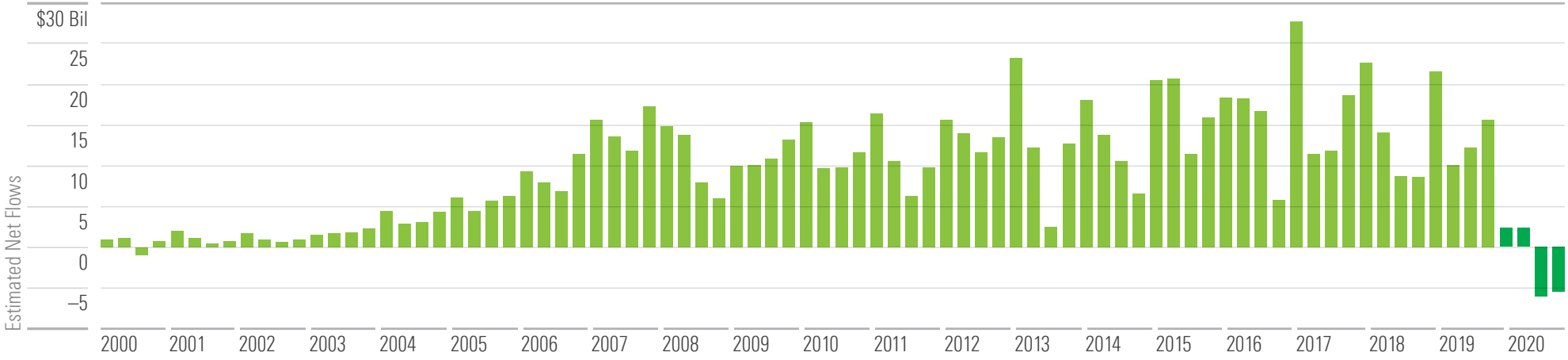
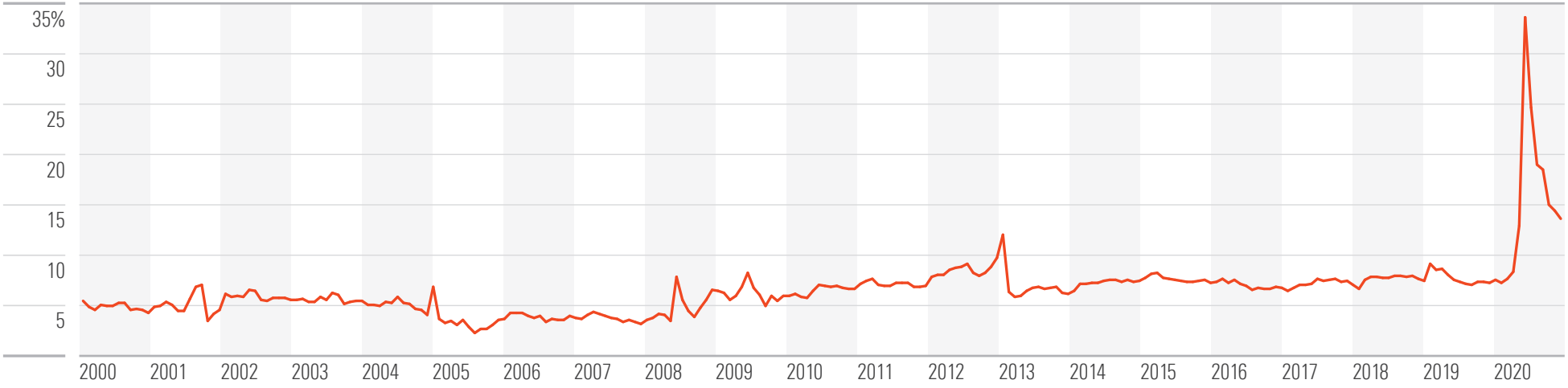
Economic Hardship Forces Savers to Drain Retirement Funds

Investors pulled $6.7 billion from target-date funds in 2020, the first year of recorded outflows since Morningstar started tracking the data in 1994 (top chart). Although the aggregate personal savings rate increased (bottom chart), this was extremely biased by high-income earners and does not reflect the experience of the average retirement contributor. Indeed, 37% of retirement plans have reported increased hardship withdrawals since March.

Quarterly U.S. Target-Date Fund Flows (Starting March 2000)



Personal Savings Rate



Source: Morningstar Direct and Federal Reserve of St. Louis. Data as of Dec. 31, 2020. ©2021 Morningstar. All Rights Reserved.

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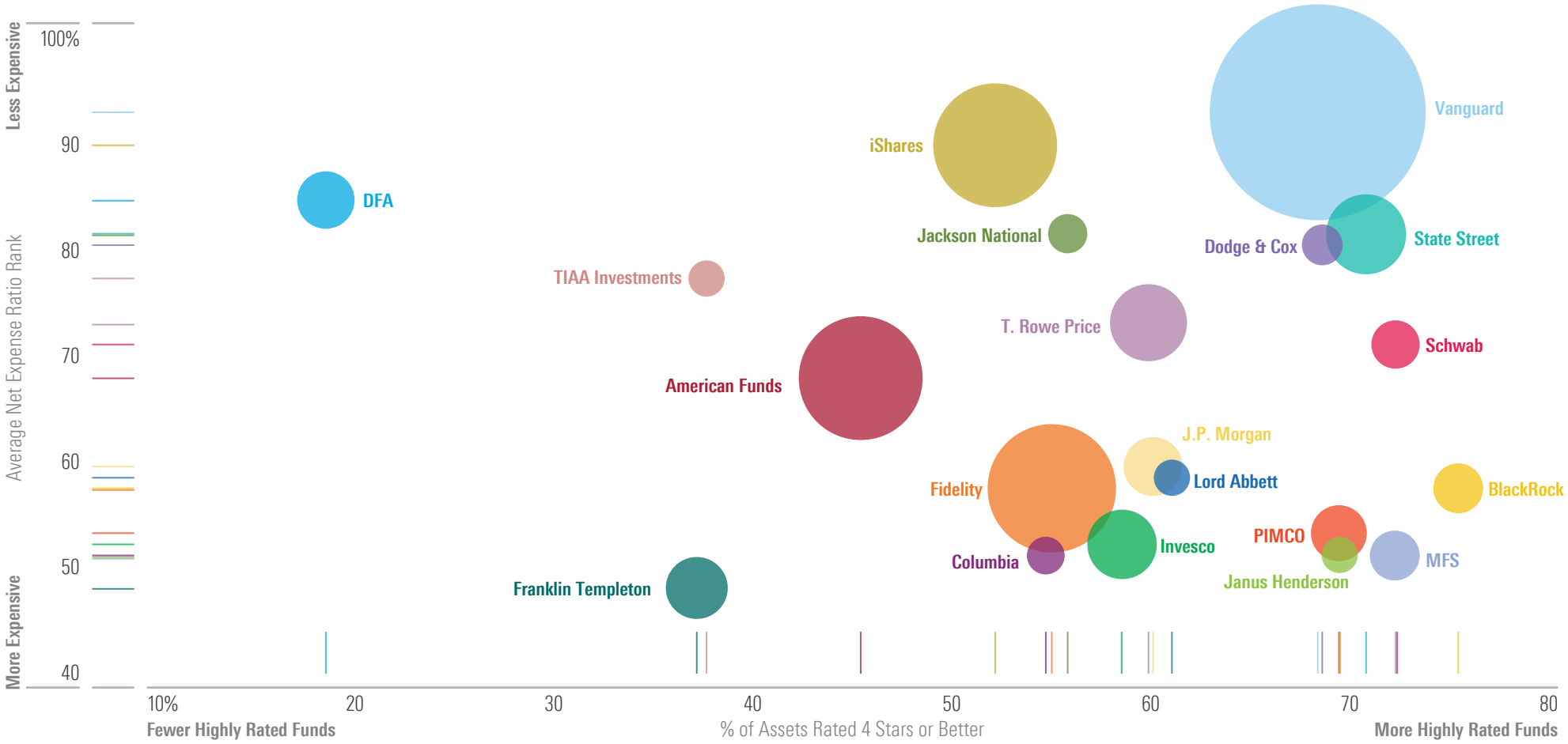
Top 20 Fund Companies: Relationship Between Ratings, Expenses, and Assets

Last year's roller coaster market performance shifted back the risk-adjusted track record for a majority of top fund families, although relative track records remained mostly unchanged. DFA remained an outlier, with returns suffering because of its value-focused strategies. Vanguard's low-cost, passive funds maintained impressive performance, and BlackRock moved up in terms of ratings as they continued to gain traction in the ETF space.



QMF3

Source: Morningstar Direct. Total Net Assets and Morningstar Star Rating as of Dec. 31, 2020 and Average Net Expense Ratio Rank as of Sept. 30, 2020. ©2021 Morningstar. All Rights Reserved.

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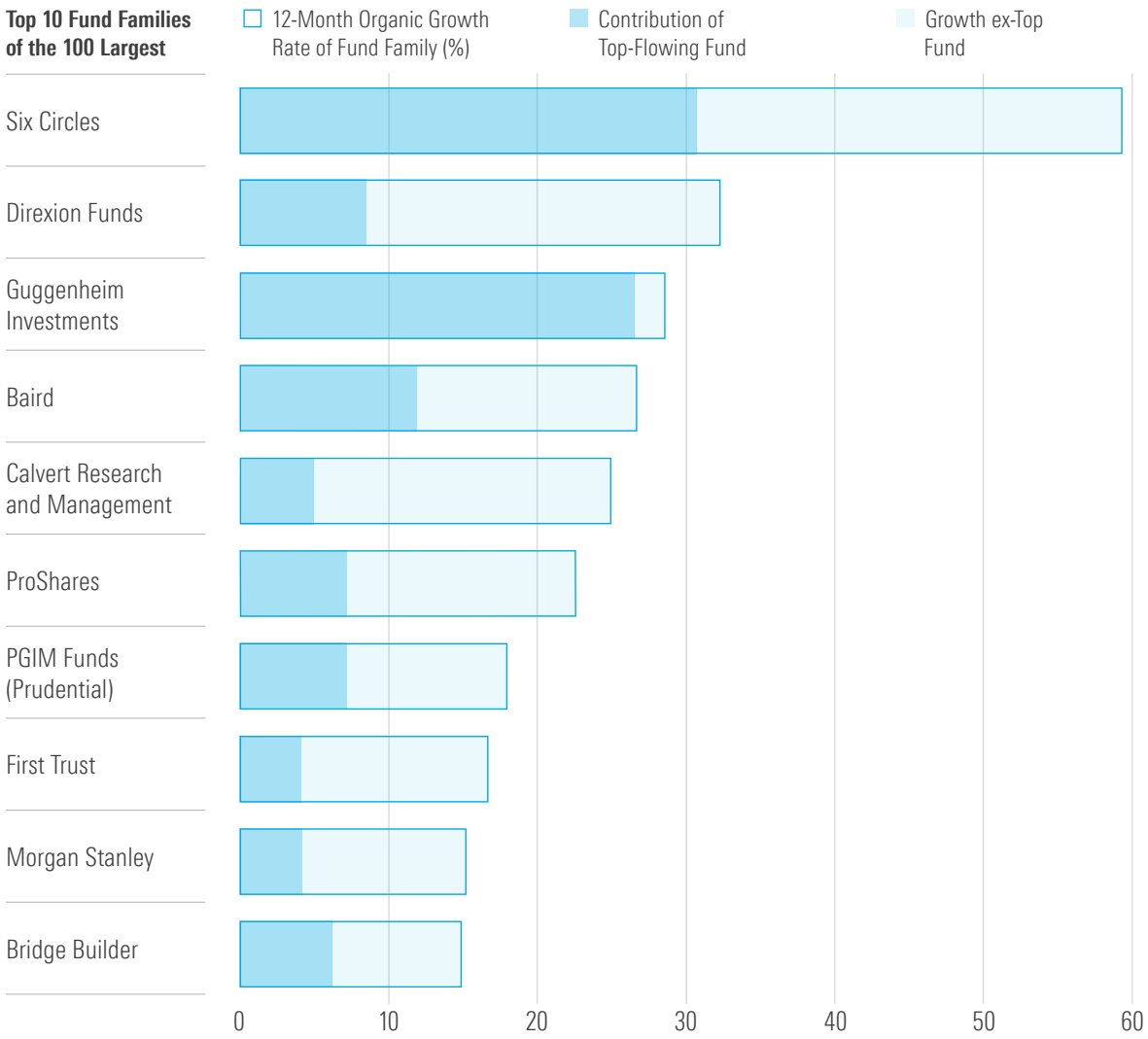
Fastest-Growing Fund Families

Actively managed bond funds drove asset growth among the largest fund families in 2020. The Federal Reserve's easy monetary policy and support of bond market liquidity enticed investors toward fixed income in record numbers. Six Circles, whose funds are available exclusively to clients of J.P. Morgan Chase, topped the leaderboard as the fastest-growing fund company of the year.



Top Fund for Each Family	Morningstar Category	Firm Active/ Passive
Six Circles Global Bond	World Bond	Active
Direxion Daily S&P 500 Bear 3X Shares	Trading—Inverse Equity	Passive
Guggenheim Total Return Bond	Intermediate Core-Plus Bond	Active
Baird Aggregate Bond	Intermediate Core Bond	Active
Calvert Equity	Large Growth	Active
ProShares UltraPro Short QQQ	Trading—Inverse Equity	Passive
PGIM High Yield	High Yield Bond	Active
First Trust TCW Opportunistic Fixed Income	Intermediate Core-Plus Bond	Active
Morgan Stanley Insight	Large Growth	Active
Bridge Builder Core Plus Bond	Intermediate Core-Plus Bond	Active

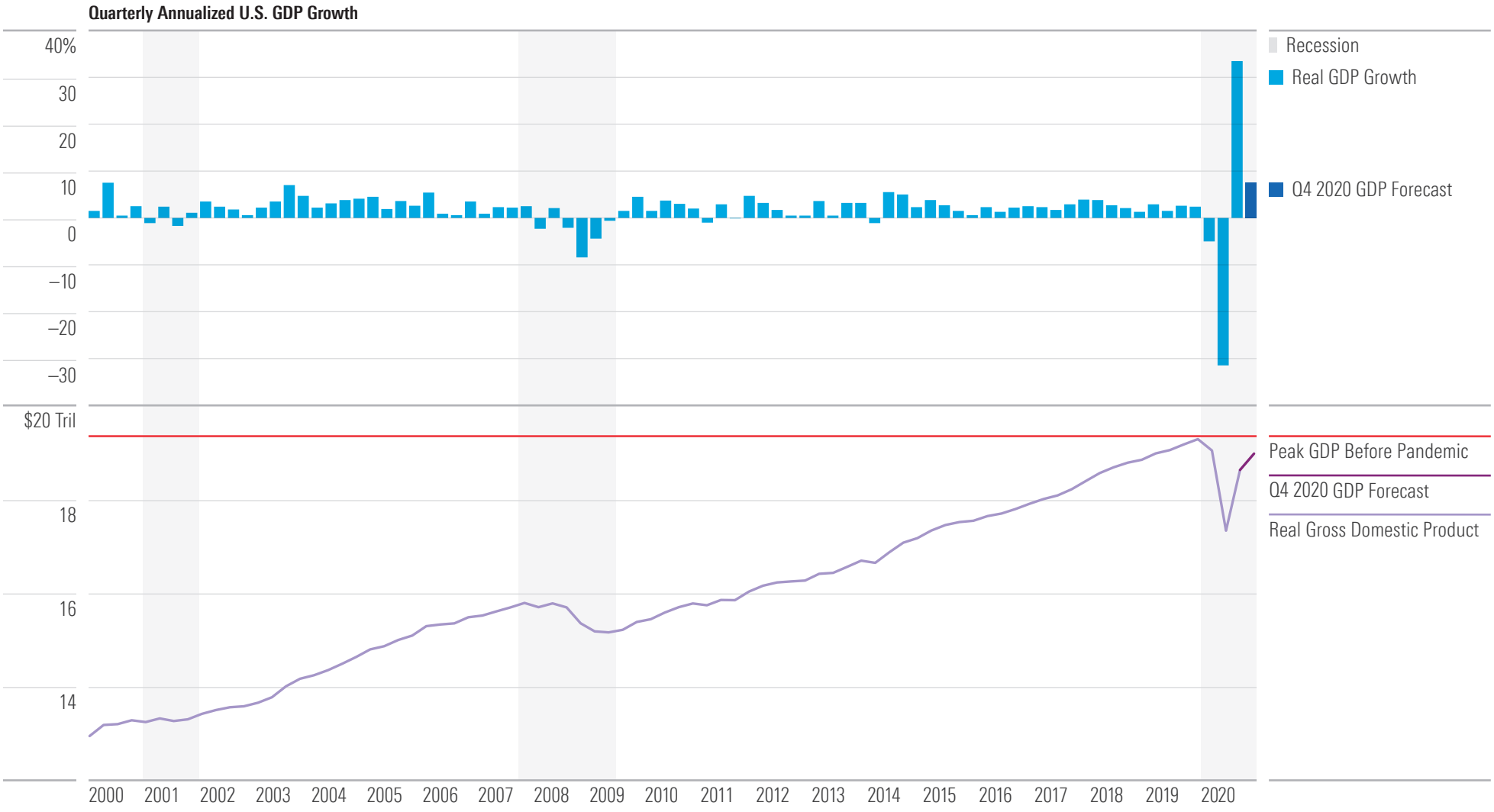
QFF7

Source: Morningstar Direct. Data as of Dec. 31, 2020. ©2021 Morningstar. All Rights Reserved.

Economic Indicators

Recovery Continues but Output Remains Below 2019 Peak

The Atlanta Fed's "Nowcast" shows the U.S. economy grew at a 7.5% annualized rate in Q4 2020, extending the recovery that began in Q3. Nonetheless, total output (as measured by real gross domestic product [GDP]) remains below its Q4 2019 peak. Forecasters appear to be coalescing around the expectation that GDP will fully recover by the second half of 2021, but uncertainty remains high given the uneven rollout of vaccines and the emergence of new strains of the virus.



QEI157

Source: Bureau of Economic Analysis, Federal Reserve Bank of Atlanta. Data as of Jan. 21, 2021. ©2021 Morningstar. All Rights Reserved.

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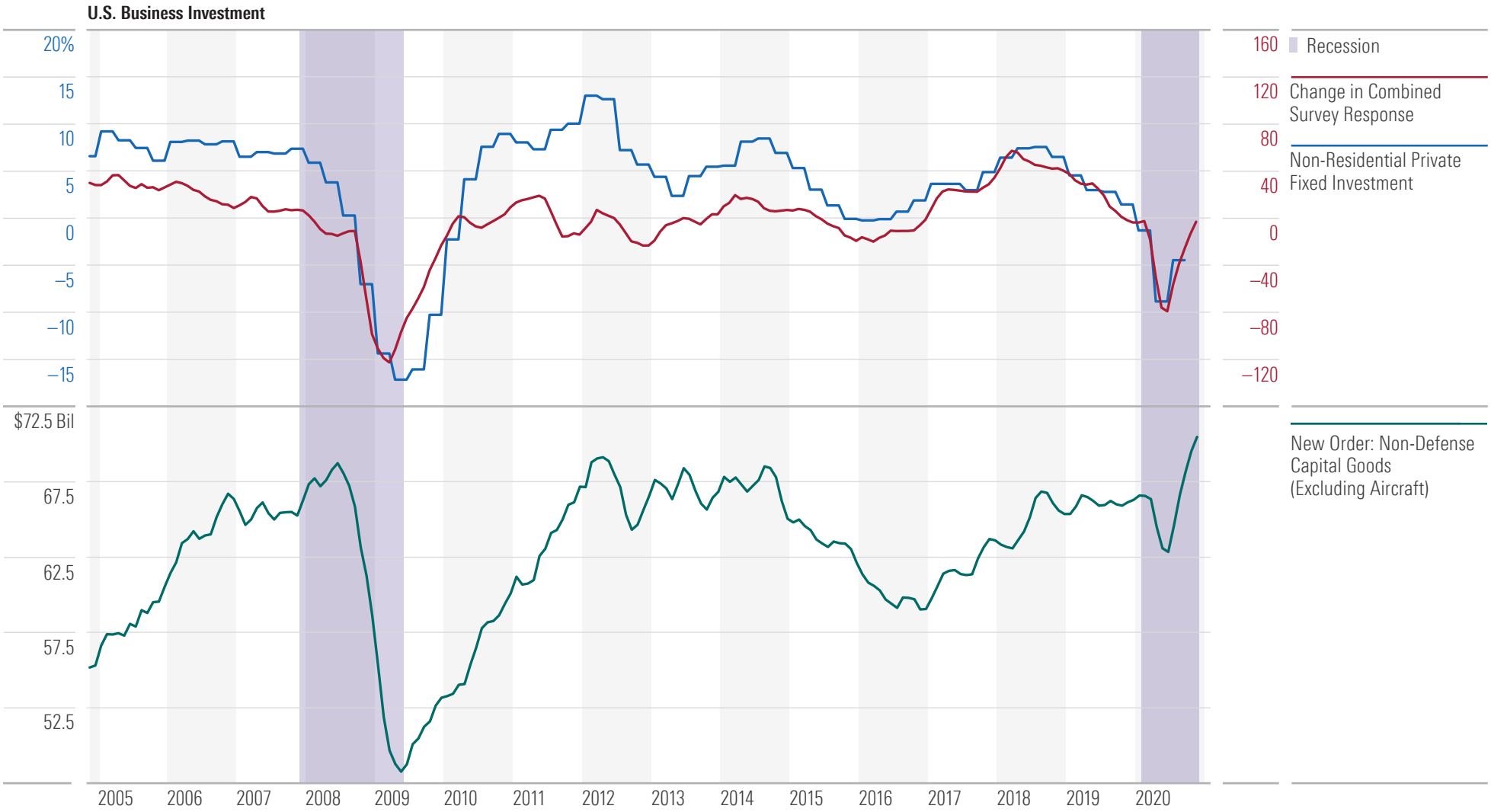
U.S. Business Investment Set to Rebound in 2021

Survey responses and capital goods orders suggest U.S. businesses are planning to increase investment in 2021. In the top chart, a combination of survey data on capital expenditure plans (red line) points to a pickup in nonresidential fixed investment on the horizon, after the latter pulled back sharply in 2020 (blue line). In the bottom chart, orders of capital goods increased significantly in the second half of the year, indicating businesses have already placed orders for new equipment.



QEI170

Note: Combined survey response represents the first principal component of eight business surveys on capital expenditure plans conducted by several regional Federal Reserve Banks.
Source: Federal Reserve Banks of Chicago, Dallas, Kansas City, New York, Philadelphia, and Richmond, U.S. Bureau of Economic Analysis, U.S. Census Bureau, Morningstar Calculations. Data as of Dec. 31, 2020.
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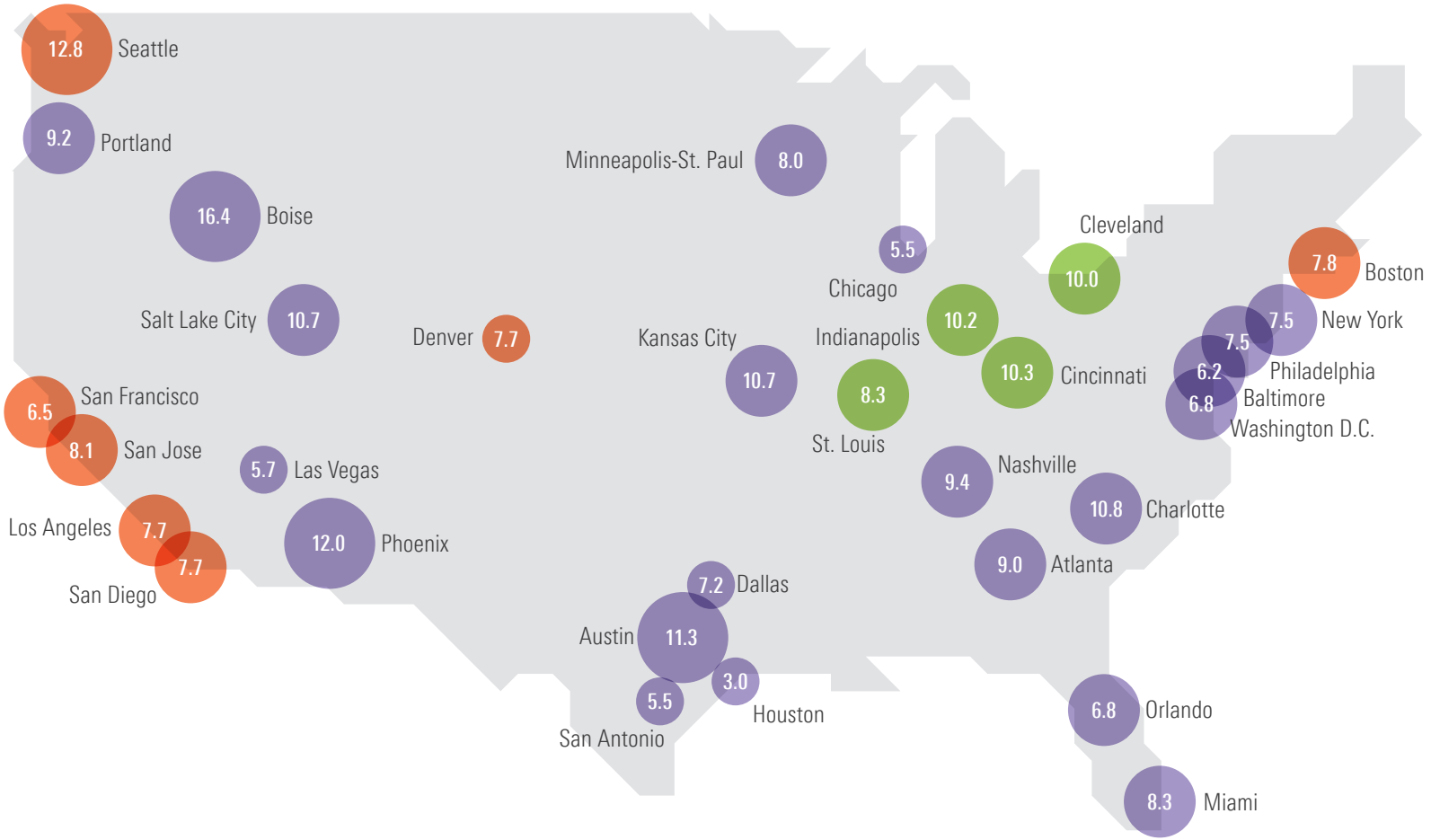
Home Price Data Reflect COVID-Era Changes to the National Housing Market

An exodus out of the country's most expensive metro areas was already in progress ahead of 2020, but the coronavirus pandemic has clearly exacerbated the trend. While some of the fastest-growing cities of the past decade, like Phoenix, Austin, and Charlotte, continued to see strong home-price appreciation in the second quarter, upstarts such as Boise and Salt Lake City have become new hotspots as Americans look for more space and a lower cost of living.

Year-Over-Year Price Growth, Q3 2020



Growth (%)
United States: 7.8

- –1 to 5.9
- 6 to 10.9
- 11 to 17

Median House Price ($)

- ≤250,000
- 250,001 to 500,000
- ≥500,001

Source: Federal Housing Finance Agency, National Association of Realtors. Data as of Sept. 30, 2020. ©2021 Morningstar. All Rights Reserved.

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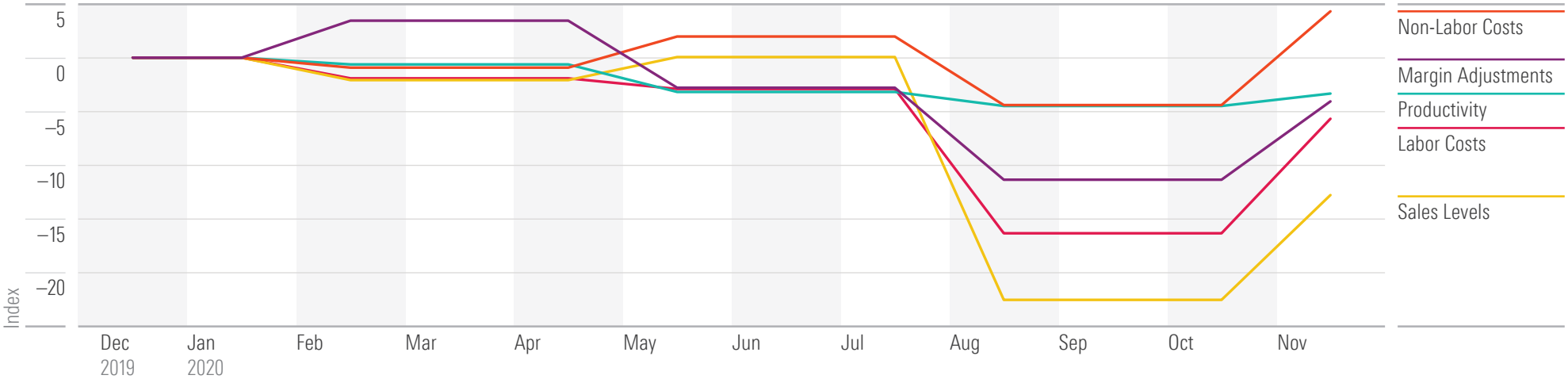
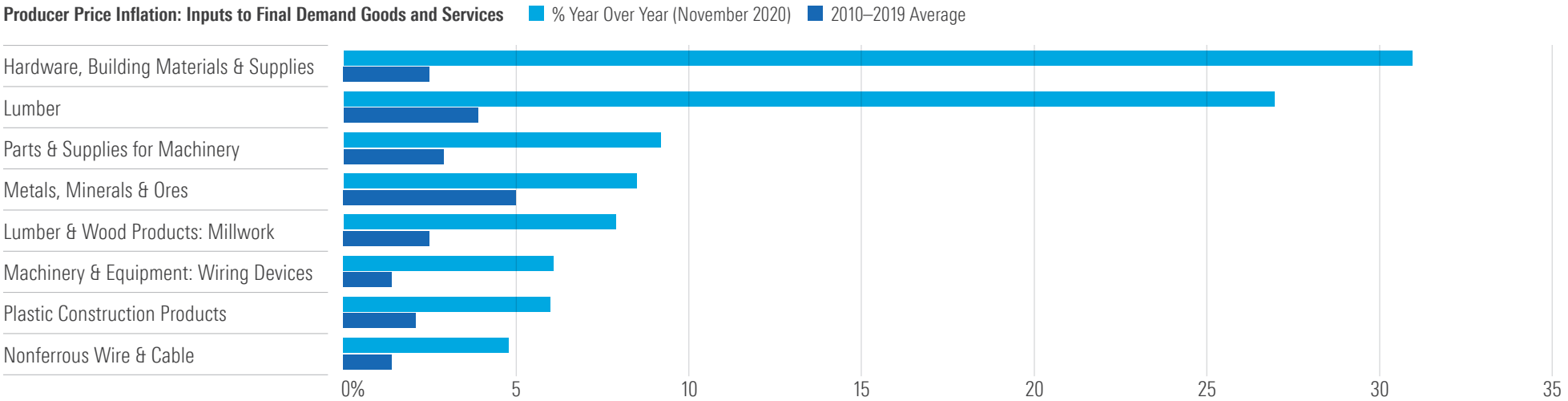
Is the Housing Boom Generating Inflation in the Economy More Broadly?

The Atlanta Fed's Business Inflation Expectations Survey showed upward price pressure starting to pick up from pandemic lows, particularly nonlabor costs (top chart). Among nonlabor inputs, producer price data reveal that construction-related goods and services have been among the most inflationary of late (bottom chart), with prices rising at a pace well above average. These data suggest the red-hot housing market may be starting to exert inflationary pressure on the broader economy.

Business Inflation Expectations: Factors Affecting Prices Over the Next 12 Months



Producer Price Inflation: Inputs to Final Demand Goods and Services



QEI164

Source: Federal Reserve Bank of Atlanta, Bureau of Labor Statistics. Data as of Nov. 30, 2020. ©2021 Morningstar. All Rights Reserved.

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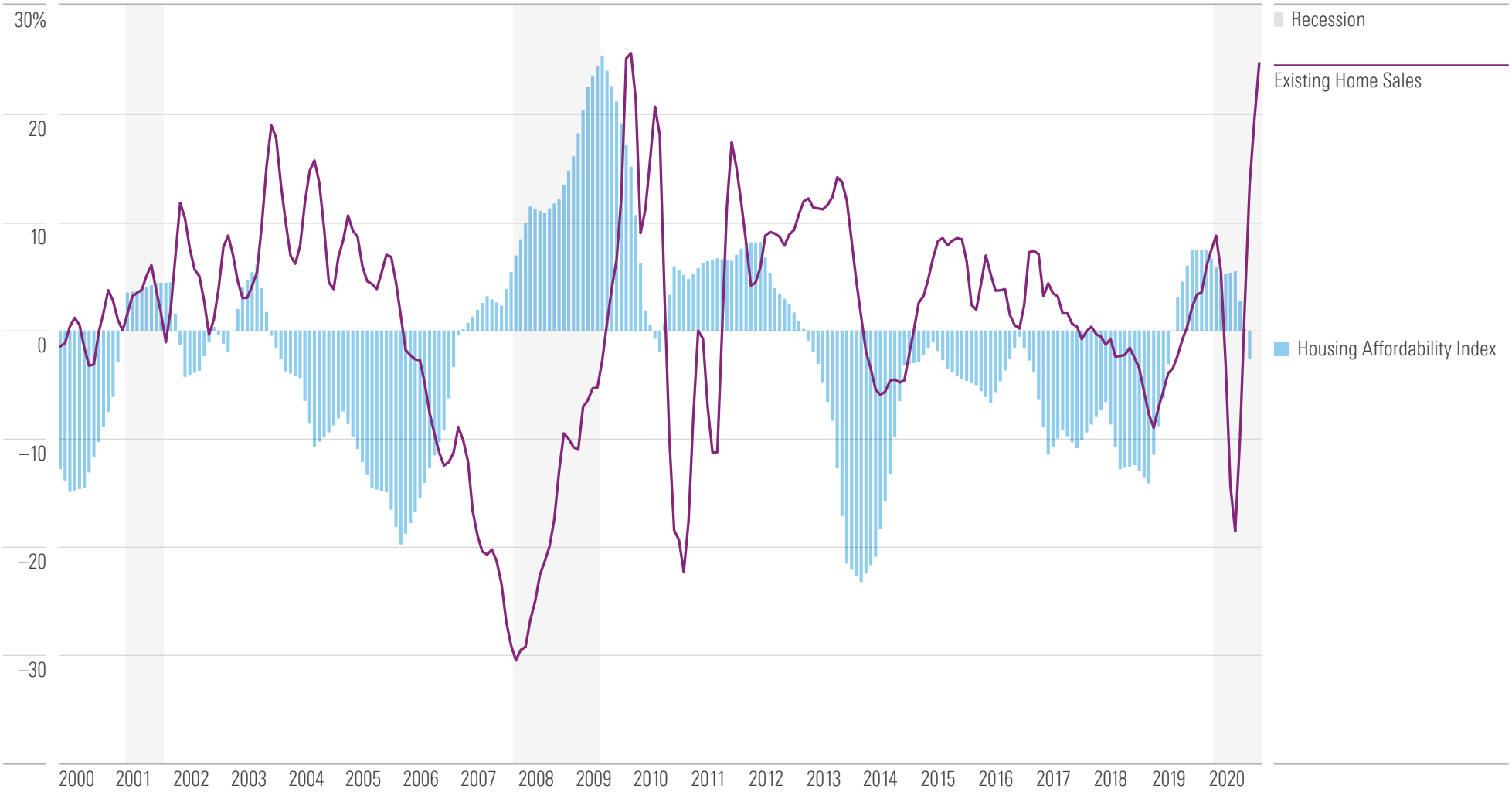
As Home Sales Spike, Housing Affordability Worsens for the First Time in Two Years

Existing home sales surged in 2020 at a pace last seen following the global financial crisis. Even though new home construction (not pictured) has picked up as well, it has not kept pace with demand, leading to the first drop in the National Association of Realtors' Housing Affordability Index (which includes principal and interest payments) in nearly two years. This is all the more remarkable given that mortgage rates are at all-time lows, compared with a rising rate environment in 2017-19.

Housing Affordability and Existing Home Sales (3-Month Average, Year Over Year)



QEI123

Source: National Association of Realtors. Data as of Nov. 30, 2020. ©2021 Morningstar. All Rights Reserved.

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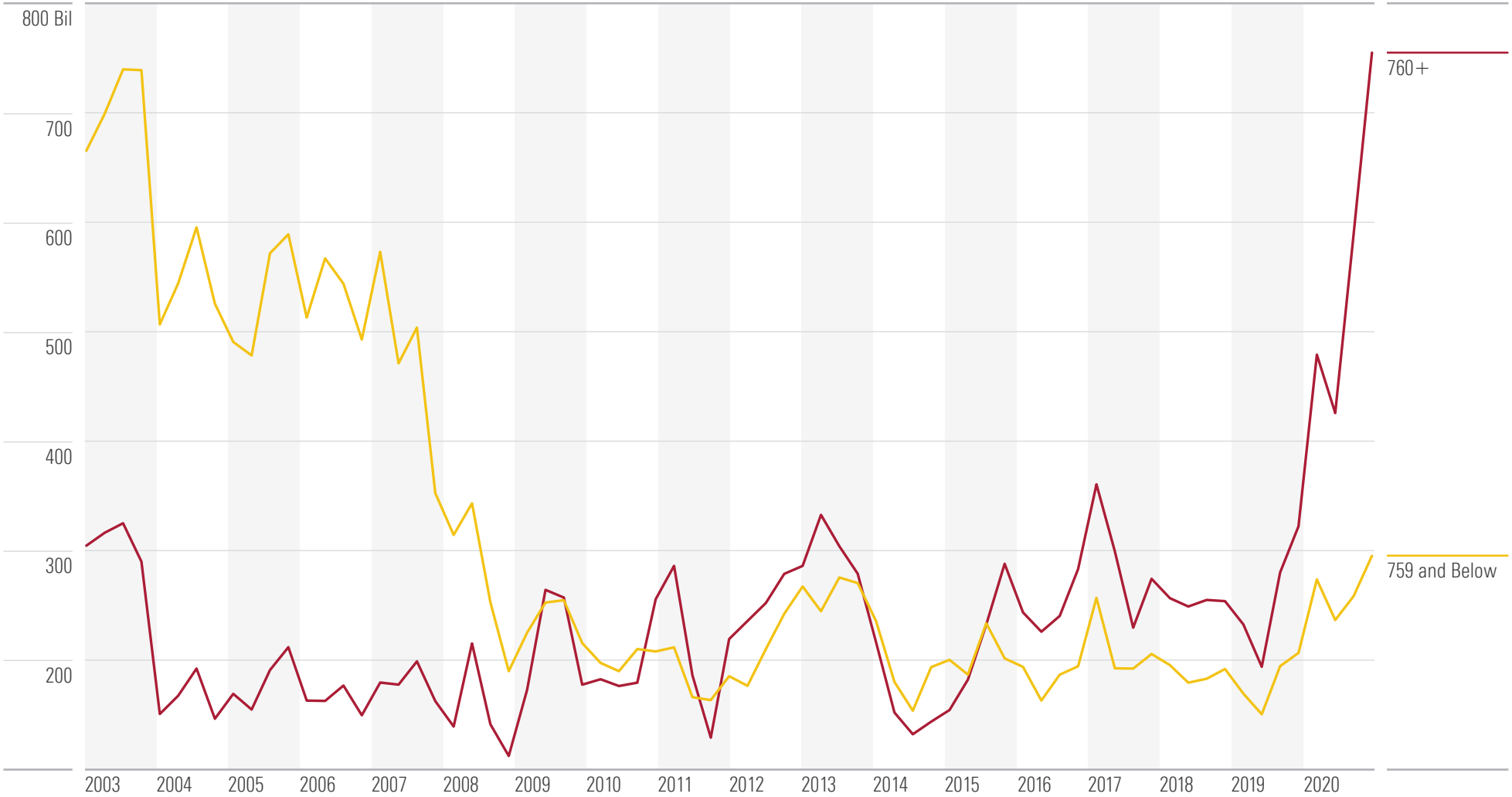
New Mortgage Origination Dominated by High-Credit-Worth Borrowers

Another sign of the uneven U.S. pandemic recovery can be seen in the breakdown of new mortgage origination by credit quality. The vast majority of new mortgages have gone to very high-credit-worthy borrowers, usually higher-income earners with little debt. Lower-credit-quality borrowers—those with lower incomes and/or more debt—have seen only a modest increase in origination. By comparison, the main drivers of the housing boom in the mid-2000s were lower-credit borrowers.

Mortgage Origination by Credit Score



QEI165

Source: Federal Reserve Bank of New York. Data as of Sept. 30, 2020. ©2021 Morningstar. All Rights Reserved.

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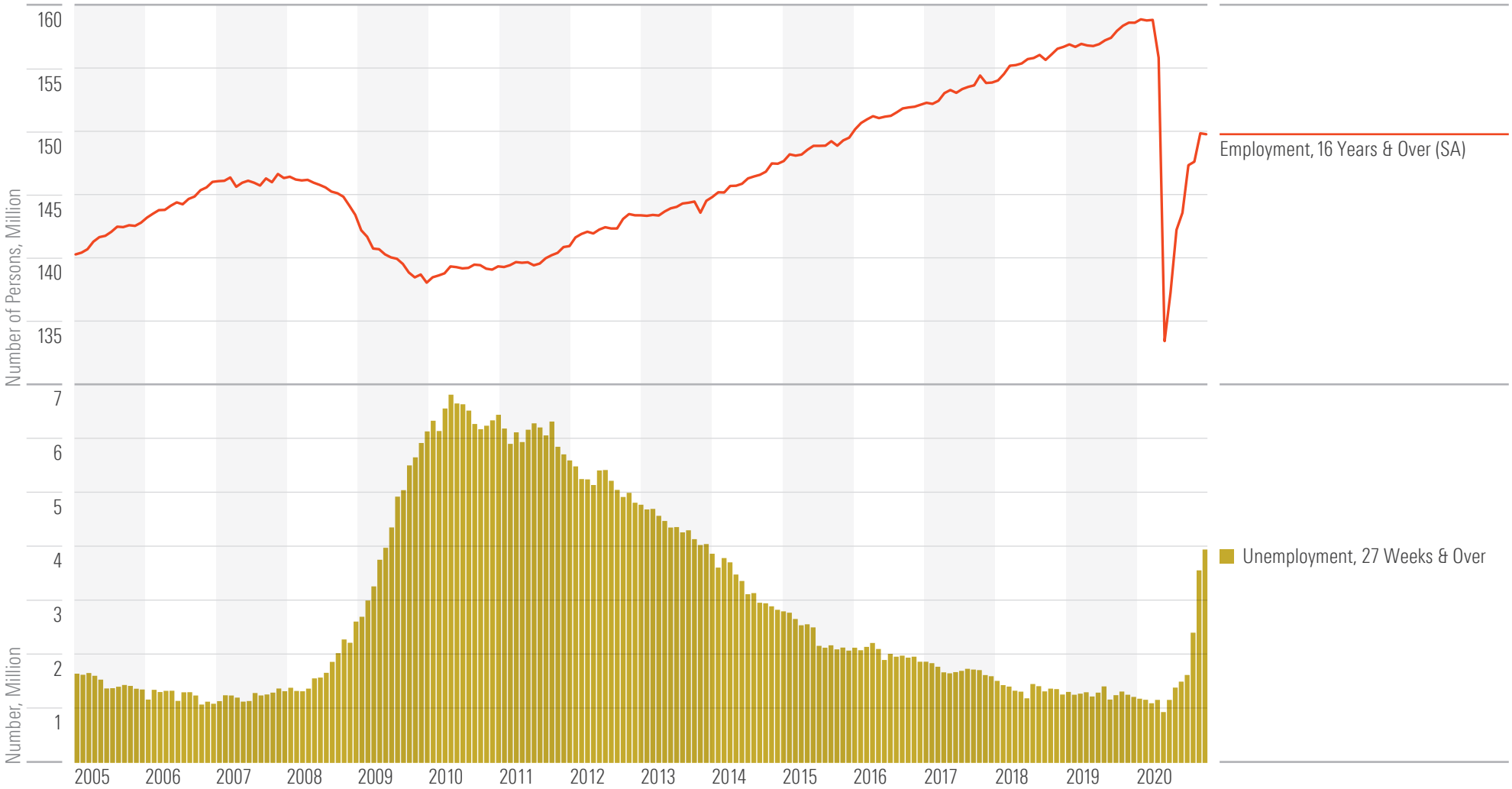
U.S. Labor Market Recovery Stalls as Unemployment Duration Increases

The U.S. economy had added back more than 15 million of the roughly 25 million jobs lost in the spring of 2020, though that recovery has slowed in recent weeks. Moreover, the ranks of long-term unemployed—those out of work for 27 weeks or more—have swelled. The recent extension of federal unemployment benefits will certainly alleviate pressure on this cohort, but the long-term unemployed are still likely to run down savings and experience skills erosion that could hinder future job prospects.

Employment and Duration of Unemployment



QEI166

Source: U.S. Bureau of Labor Statistics. Data as of Dec. 31, 2020. ©2021 Morningstar. All Rights Reserved.

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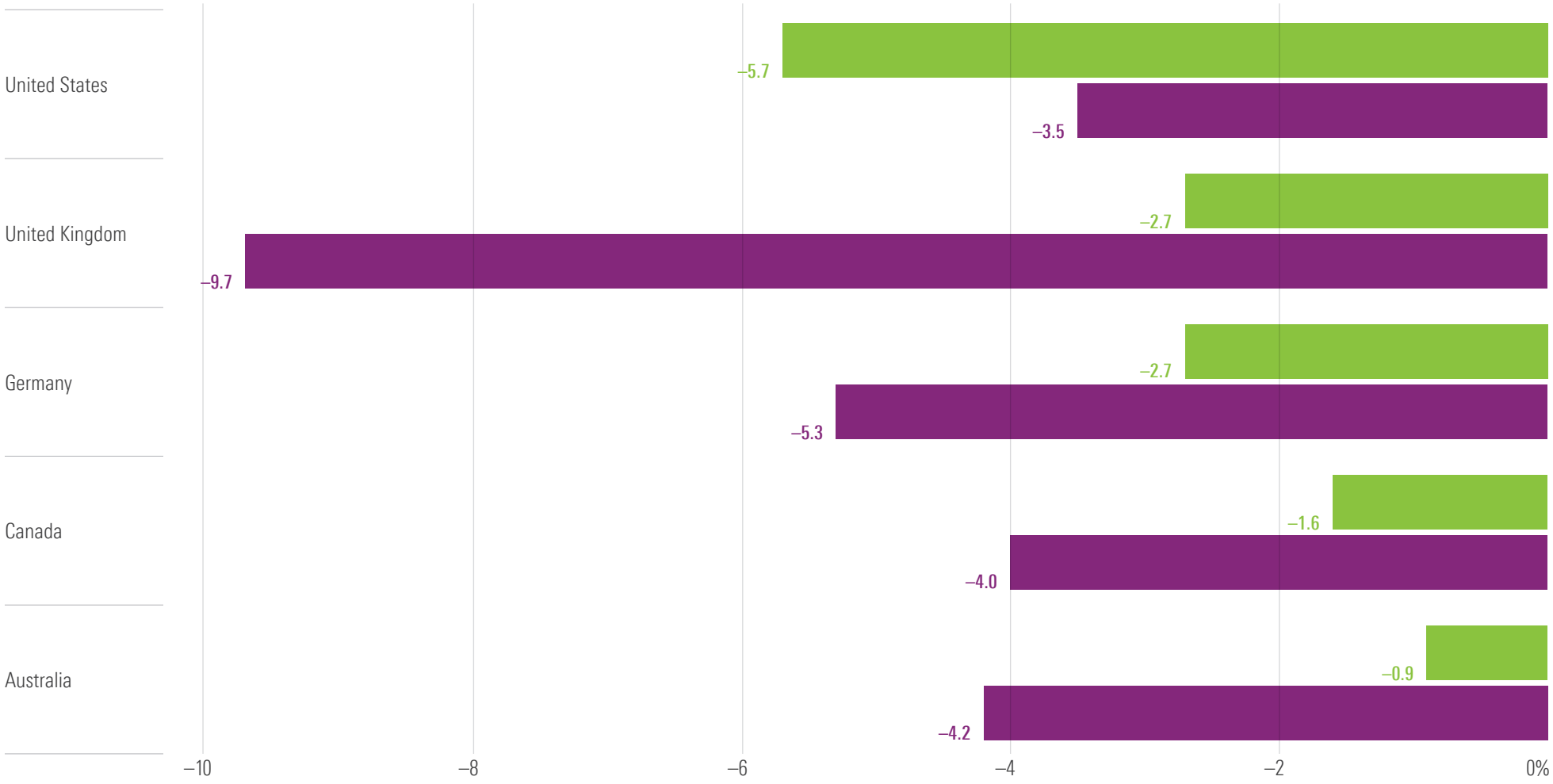
Despite Better Headline Economic Performance, U.S. Lags Peers in Employment Recovery

Through the third quarter, the U.S. economy (as measured by real GDP) was only 3.5% below its end-2019 level, besting most other developed economies. However, total employment in the U.S. was still more than 5% below its December 2019 level, worst among peers. U.S. labor law is less restrictive in general, making it easier to let workers go, and while the U.S. did introduce a jobs protection program in response to the pandemic, it was not as aggressive as some other countries pursued.

GDP and Total Employment Relative to December 2019 Employment GDP



QEI167

Source: National sources, Macrobond. Data as of Nov. 30, 2020. ©2021 Morningstar. All Rights Reserved.

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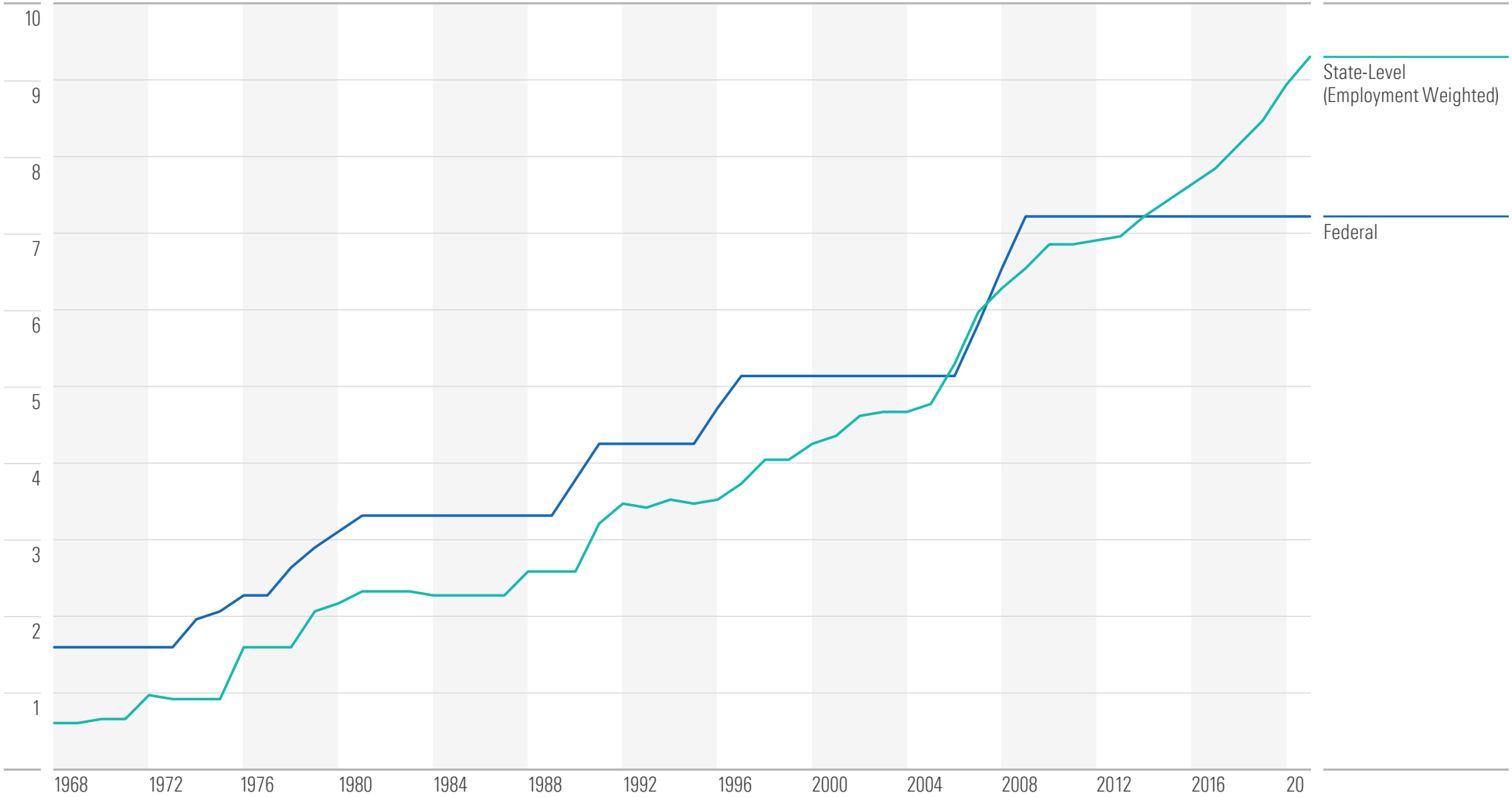
Individual States Have Been the Driving Force Behind Higher Minimum Wages Over the Past Decade

The federal minimum wage was last raised in 2009. Since then, state-level minimum wages have risen dramatically. The state-level effective minimum wage (weighted by state-level employment) surpassed the federal minimum wage for the first time in 2015. That trend has since accelerated, with 24 states raising their minimum wage in 2021. The Biden Administration has proposed a $15-an-hour federal minimum wage, more than 50% higher than the current state-level effective rate.

Federal and State-level Minimum Wage Rates



QEI169

Source: U.S. Department of Labor, U.S. Bureau of Labor Statistics, Morningstar Calculations. Data as of Jan. 1, 2021. ©2021 Morningstar. All Rights Reserved.

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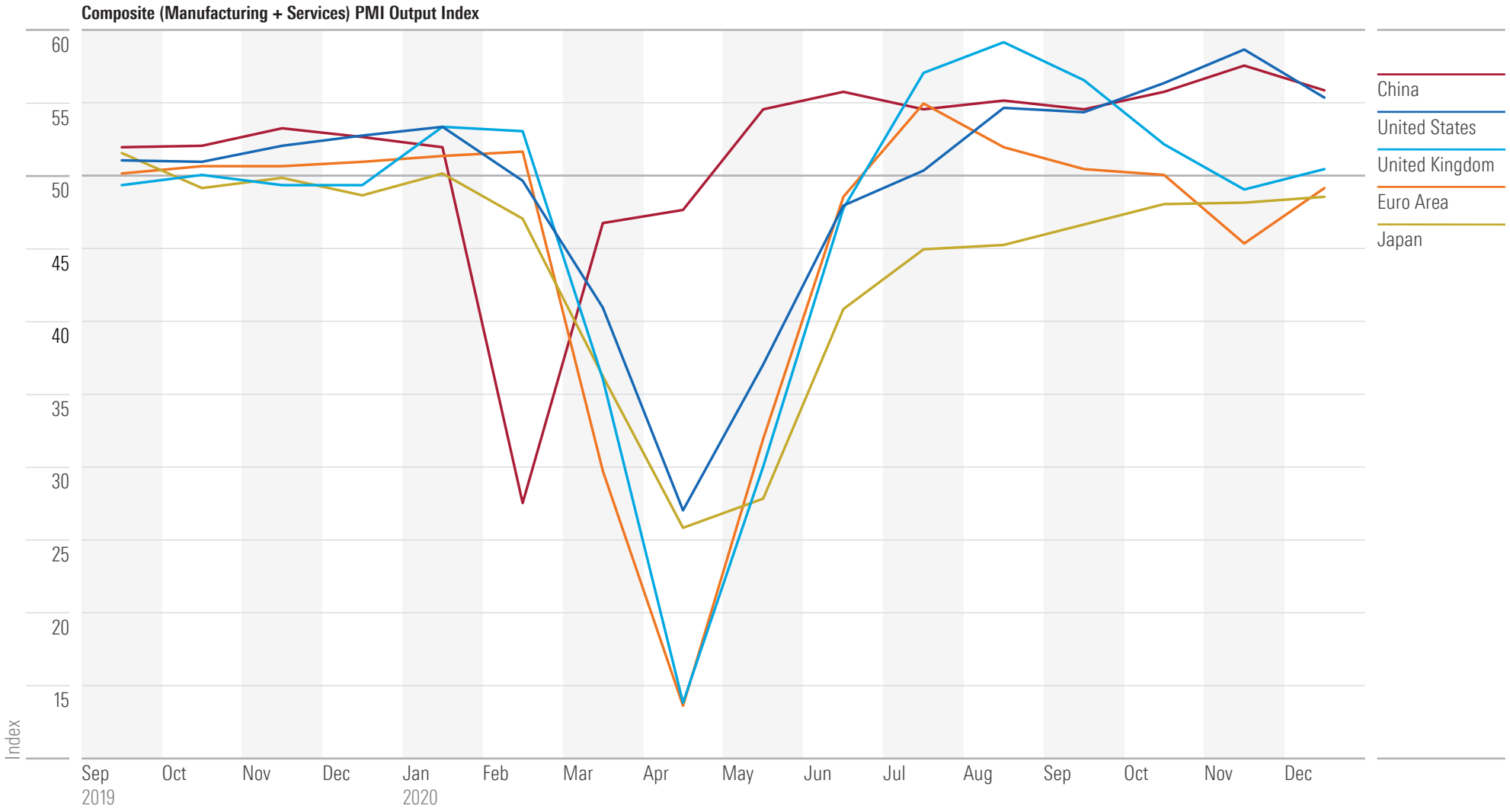
Purchasing Managers Indexes Diverge Among Major Economies Heading into 2021

Both the euro area and Japan continued to face headwinds from strong currencies and depressed global trade. Similar issues in the U.K. have been exacerbated by ongoing Brexit uncertainty, though a late-December trade agreement with the E.U. may offer some reprieve. China's economic recovery has exceeded most expectations, though the murkiness of Chinese statistics complicates the picture. U.S. indicators suggest solid momentum heading into 2021, but high unemployment remains an issue.



QEI141

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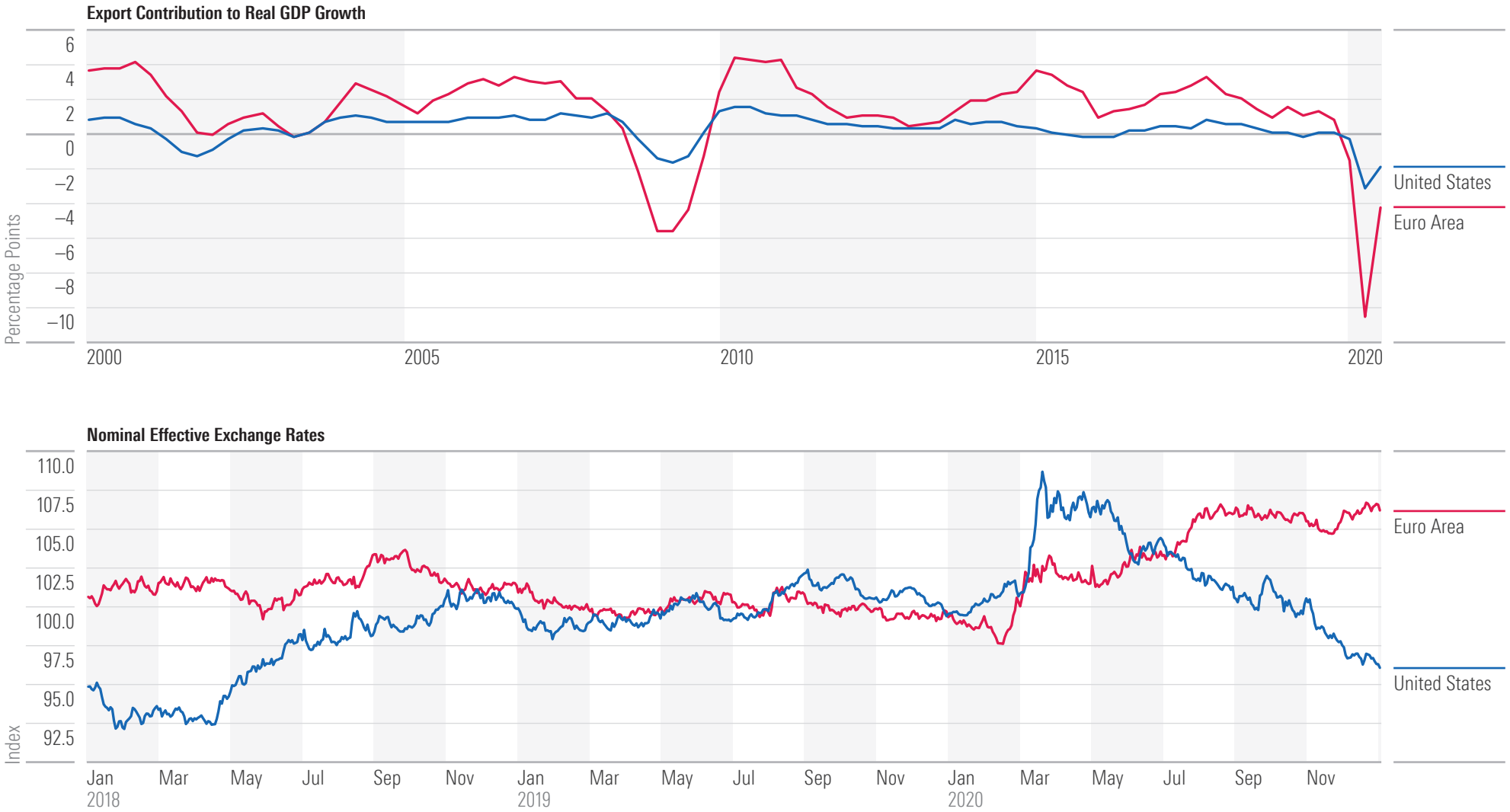
Euro Area Exporters Grapple with Weaker Global Demand, Stronger Euro

The euro area economy has struggled to rebound from the pandemic shock. A major contributing factor to that struggle has been the severe hit to global trade. Exports from the euro area accounted for nearly 2 percentage points of real GDP growth on average over the past 20 years, compared with about half a point for the U.S. (top chart). The significant appreciation of the euro this year has likely exacerbated the headwinds already facing European exporters (bottom chart).



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Index and Disclosure

Index Definitions

The **Morningstar Style index** family consists of 16 indexes that track the U.S. equity market by capitalization and investment style to create an integrated system. The indexes were built using a comprehensive and non-overlapping approach based on the methodology of Morningstar Style Box.

The **Morningstar Sector index** family consists of 14 indexes—three Super Sector and 11 Sector indexes that track the U.S. equity market using a consumption based analysis of economic sectors in a comprehensive, non-overlapping structure. The sector indexes are consumer defensive, healthcare, utilities, basic materials, consumer cyclical, financial services, real estate, communications services, energy, industrials, and technology.

The **Morningstar Global Equity indexes** offer a consistent view of global investment opportunities by applying the same rules for every market around the world. Covering 97% of stocks by market capitalization, the indexes encompass 45 countries in both developed and emerging markets. The index family is designed to work as an integrated system, allowing for meaningful global views across market capitalization and regions.

The **Morningstar Target Risk index** family is designed to meet the needs of investors who would like to maintain a target level of equity exposure. The index family provides global equity market risk levels that are scaled to fit five equity market risk profiles: aggressive, moderately aggressive, moderate, moderately conservative, and conservative.

The **S&P 500® index** includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

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

The **MSCI EAFE index** captures the returns of large and mid-cap equities across developed markets in Europe, Australasia, and the Far East, excluding the U.S. and Canada.

The **MSCI Emerging Markets index** captures the returns of large and mid-cap equities across 23 emerging markets countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

The **Barclays U.S. Aggregate Bond index** is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency).

The **Barclays U.S. 5–10 Year Corporate Bond index** measures the investment return of U.S. dollar denominated, investment-grade, fixed rate, taxable securities issued by industrial, utility, and financial companies with maturities between 5 and 10 years.

The **BofA Merrill Lynch U.S. High Yield Master II Index** tracks the performance of U.S. dollar denominated below investment grade corporate debt publicly issued in the U.S. domestic market. Qualifying securities must have a below investment grade rating (based on an average of Moody's, S&P and Fitch).

The **Barclays Municipal Bond index** measures the broad market for investment grade, tax-exempt bonds with a maturity of at least one year.

The **JP Morgan EMBI Global Diversified index** tracks the performance of dollar-denominated sovereign bonds issued by a selection of emerging market countries. The index limits the weights of countries with larger debt stocks by only including a specified portion of these countries' eligible current face amounts of debt outstanding.

The **London Fix Gold PM index** is the price of gold per ounce at 15:00 GMT determined by the five members of the London Gold Pool.

The **Bloomberg Commodity index** represents 20 commodities, which are weighted for economic significance and market liquidity.

The **Bloomberg Livestock index** reflects the returns of an unlevered investment in futures contracts on livestock commodities. The index consists of two commodity futures (lean hogs and live cattle).

The **Bloomberg Grains index** reflects the returns of an unlevered investment in futures contracts on precious metals commodities. The index consists of three commodity futures (corn, soybeans, and wheat).

The **Bloomberg Precious Metals index** reflects the returns of an unlevered investment in futures contracts on livestock commodities. The index consists of two commodity futures (gold and silver).

The **Bloomberg Industrial Metals index** reflects the returns of an unlevered investment in futures contracts on industrial metals commodities. The index consists of four commodity futures (copper, aluminum, zinc, and nickel).

The **Bloomberg Energy index** reflects the returns of an unlevered investment in futures contracts on energy commodities. The index consists of five commodity futures (natural gas, WTI crude oil, Brent crude oil, unleaded gasoline, and heating oil).

The **Morningstar® Long-Only Commodity index** is a fully collateralized commodity futures index that is long all 20 eligible commodities and uses a dollar weighted open interest weighting scheme.

The **Brent Crude Oil index** tracks the spot price of Brent Crude oil.

The **Morningstar U.S. Market index** covers the top 97% market capitalization of the U.S. equity markets.

The **Morningstar Developed Ex U.S. index** captures the performance of the stocks located in the developed countries across the world. Stocks in the index are weighted by their float capital, which removes corporate cross ownership, government holdings and other locked-in shares.

The **Morningstar Emerging Markets index** captures the performance of the stocks located in the emerging countries across the world. Stocks in the index are weighted by their float capital, which removes corporate cross ownership, government holdings and other locked-in shares.

The **Morningstar Core Bond index** is a broad investment-grade index that includes the largest, most important sectors of the investment-grade U.S. bond market. The index is comprised of the Morningstar U.S. Government Bond, U.S. Corporate Bond and U.S. Mortgage Bond indexes.

The **Morningstar Intermediate U.S. Government Bond index** includes U.S. Treasury and U.S. government agency bonds with maturities between four and seven years. The Morningstar Intermediate Corporate Bond index includes U.S. corporate bonds with maturities of between four and seven years.

The **Morningstar U.S. Corporate Bond index** includes U.S. corporate bonds with maturities of more than one year and at least $500 million outstanding.

The **Morningstar Short-Term Core Bond index** includes all bonds in the Morningstar Core Bond Index that have maturities between one and four years.

The **Morningstar Emerging Markets Composite Bond index** includes the most liquid sovereign and corporate bonds issued in U.S. Dollars (USD) by the governments and corporations of the most prominent emerging markets.

The **Morningstar U.S. Mortgage Bond index** tracks approximately 98% of the fixed-rate mortgages issued by Ginnie Mae, Fannie Mae and Freddie Mac.

The **Morningstar Long-Term U.S. Government Bond index** includes U.S. Treasury and U.S. Government Agency bonds with maturities of seven years or longer.

The **Morningstar Long-Term Corporate Bond index** includes U.S. corporate bonds with maturities of seven years or longer.

The **Barclays U.S. Corporate High Yield index** represents the universe of fixed rate, non-investment grade debt.

The **Barclays U.S. Corporate High Yield ex-Energy index** represents the universe of fixed rate, non-investment grade debt not in the energy sector.

The **Barclays U.S. Treasury 7-10 Year Bond index** measures the performance of U.S. Treasury securities that have a remaining maturity of at least seven years and less than ten years.

The **Barclays U.S. Treasury 20+ Year Bond index** represents the performance of U.S. Treasury securities that have a remaining maturity of greater than 20 years.

The **Barclays Emerging Markets Local Currency Broad Bond index** represents the performance of the sovereign, local currency bond markets of emerging market countries. The Barclays Municipal Bond index is representative of the broad market for investment grade, tax-exempt bonds with a maturity of at least one year.

The **Citigroup WGBI Non-USD 5+ Year Bond index** measures the performance of fixed-rate, local currency, investment grade sovereign bonds. It comprises debt from over 20 countries.

The **S&P/LSTA Leveraged Loan index** tracks the universe of syndicated leveraged loans.

The **MSCI China A Local Currency index** captures large and mid-cap equities listed on the Shanghai and Shenzhen exchanges.

Disclosures

Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. The information, data, analyses, and opinions presented herein do not constitute investment advice, are provided solely for informational purposes, and therefore are not an offer to buy or sell a security or invest in a specific asset class or strategy. An investment cannot be made directly in an index. The data assumes reinvestment of all income and does not account for taxes or transaction costs. Diversification does not eliminate the risk of experiencing investment losses. Holding a portfolio of securities for the long-term does not ensure a profitable outcome, and investing in securities always involves risk of loss.

Risk and return are measured by standard deviation and compound annual return, respectively. Standard deviation measures the fluctuation of returns around the arithmetic average return of the investment. The higher the standard deviation, the greater the variability (and thus risk) of the investment returns.

Stocks are not guaranteed and have been more volatile than the other asset classes.

Small company stocks are more volatile than large company stocks and are subject to significant price fluctuations, business risks, and are thinly traded.

Government bonds and Treasury bills are guaranteed by the full faith and credit of the United States government as to the timely payment of principal and interest. Bonds in a portfolio are typically intended to provide income and/or diversification. U.S. government bonds may be exempt from state taxes and income is taxed as ordinary income in the year received. With government bonds, the investor is a creditor of the government.

With **corporate bonds** an investor is a creditor of the corporation and the bond is subject to default risk. Corporate bonds are not guaranteed.

High-yield corporate bonds exhibit significantly more risk of default than investment grade corporate bonds.

Only insured **municipal bonds** are guaranteed as to the timely payment of principal and interest by issuer. However, insurance does not eliminate market risk. A municipal bond investor is a creditor of the issuing municipality and the bond is subject to default risk. Municipal bonds may be subject to the alternative minimum tax (AMT) and state and local taxes, and federal taxes would apply to any capital gains distributions.

International bonds are not guaranteed. With international bonds the investor is a creditor of a foreign government or corporation. International investments involve special risks such as fluctuations in currency, foreign taxation, economic and political risks, liquidity risks, and differences in accounting and financial standards.

International stocks involve special risks such as fluctuations in currency, foreign taxation, economic and political risks, liquidity risks, and differences in accounting and financial standards. Liquidity is typically lower in emerging markets than in developed markets. The risk of principal and return may be significantly greater than that of other developed international markets.

Sector investments are narrowly focused investments that typically exhibit higher volatility than the market in general. Sector investments will fluctuate with current market conditions and may be worth more or less than the original cost upon liquidation.

Growth and value stocks: Although value stocks have outperformed growth stocks, please keep in mind that each type of stock carries unique risks which include, but are not limited to, economic risk, market risk, company risk, and strategy risk.

Gold/commodity investments will be subject to the risks of investing in physical commodities, including regulatory, economic and political developments, weather events, natural disasters, and market disruptions. Exposure to the commodities markets may subject the investment to greater volatility than investments in more traditional securities, such as stocks and bonds.

Holders of **preferred stock** are usually guaranteed a dividend payment and their dividends are always paid out before dividends on common stock. In event that the company fails, there's a priority list for a company's obligations, and obligations to preferred stockholders must be met before those to common stockholders. On the other hand, preferred stockholders are lower on the list of investors to be reimbursed than bondholders are.

Mutual funds are sold by prospectus, which can be obtained from your financial professional or the company and which contains complete information, including investment objectives, risks, charges and expenses. Investors should read the prospectus and consider this information carefully before investing or sending money.

Holding an exchange-traded fund does not ensure a profitable outcome and all investing involves risk, including the loss of the entire principal. Since each ETF is different, investors should read the prospectus and consider this information carefully before investing. The prospectus can be obtained from your financial professional or the ETF provider and contains complete information, including investment objectives, risks, charges and expenses. ETF risks include, but are not limited to, market risk, market trading risk, liquidity risk, imperfect benchmark correlation, leverage, and any other risk associated with the underlying securities. There is no guarantee that any fund will achieve its investment objective. In addition to ETF expenses, brokerage costs apply. Fees are charged regardless of profitability and may result in depletion of assets.

Credit/default risk: Debt securities are subject to credit/default risk, which is the risk associated with the issuer failing to meet its contractual obligations either through a default or credit downgrade.

Interest-rate risk: Debt securities have varying levels of sensitivity to changes in interest rates. In general, the price of a debt security tends to fall when interest rates rise and rise when interest rates fall. Securities with longer maturities and mortgage securities can be more sensitive to interest rate changes.

This publication contains certain forward-looking statements which involve known and unknown risks, uncertainties, and other factors that may cause the actual results to differ materially from any future results expressed or implied by those projected statements. Past performance does not guarantee future results.

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