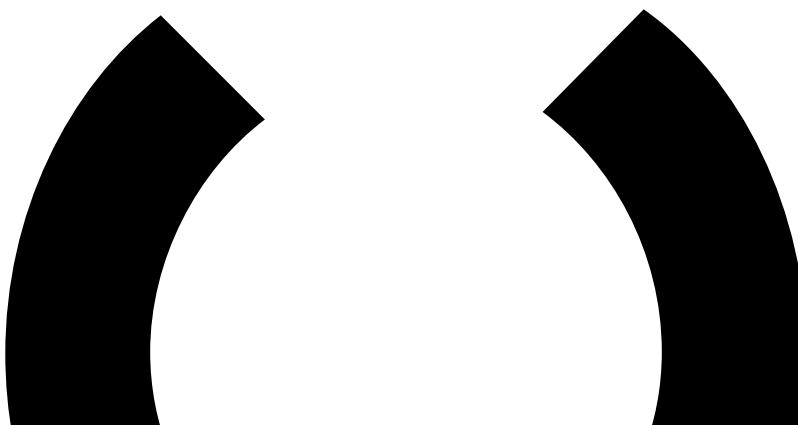


# THE CHIEF INVESTMENT OFFICE PERSPECTIVE



## THE **SHORT** AND **LONG**

2026 Q1 Macro Investment View



**citi** Wealth



**THE  
SHORT  
AND  
LONG**

**2026 Q1 Macro Investment View**

INVESTMENT PRODUCTS: NOT FDIC INSURED • NOT CDIC INSURED  
NOT GOVERNMENT INSURED • NO BANK GUARANTEE • MAY LOSE VALUE

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## SECTION 1

# INTRODUCTION FROM THE CIO

Citi Wealth recently launched *The Short and Long*, a new platform to help navigate markets with more discipline and less noise. As a part of this platform, each quarterly report applies our framework and highlights where we see the most compelling tactical and strategic investment opportunities along with their potential risks. This quarter, we share some of our perspectives challenging conventional wisdom—on valuations, artificial intelligence, and global equity exposure.

Throughout 2025, our portfolio moves reflected an evolving market landscape: adding where fundamentals improved, trimming where risk-reward deteriorated, and staying patient where long-term drivers remained intact.

As we enter 2026, we are not prescribing wholesale changes to asset allocation or massive rotations. That said, our team is committed to incorporating new developments and data into our investment approach, and we'll continue to update our views as they evolve against the fast-moving market.



**Kate Moore**

Chief Investment Officer, Citi Wealth

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# OUR POSITIONING

## KEY TAKEAWAYS

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01	Despite impulses to rotate with the new year, our analysis keeps us in our highest conviction views of balanced risk-on, underweight duration, with a strategic exposure to gold as a diversifier.
02	We believe Technology and AI sectors remain critical drivers of growth given their superior earnings and cash flow generation.

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### Introduction

Explaining yesterday's markets is easy. Positioning portfolios for what comes next is more challenging. Our job as investors is to understand the present and position our portfolios for the markets and risks ahead. This is rarely an easy task. Maintaining objectivity is particularly challenging in the present, when personal views can subtly distort how market participants interpret incoming data.

In investing, one of the most pervasive risks is “narrative fitting.” Investors may form a view and then selectively emphasize data that supports it, often without realizing the bias. For example, if an investor believes the Federal Reserve will – or should – cut interest rates, they may focus on signs of labor market softness like layoff announcements; they may ignore or dismiss broader indicators such as tax receipts, Job Openings and Labor Turnover Survey (JOLTS), or initial jobless claims, all of which, at the end of 2025, continue to signal a broadly stable labor market.

Objectivity is most challenging when convictions run high. But that is exactly when discipline and data matter most.

### Staying grounded in a noisy world

So how do we stay objective? We focus on incorporating a multitude of different data sources to build a well-rounded picture of both the macroeconomy and markets. This means studying official government data, corporate earnings and business activity data, alternative and industry data, and constantly improving our information dashboards. In a dynamic world, process and flexibility are equally important.

**On the CIO team, our investment process evaluates markets through four lenses: macro, fundamentals, sentiment and technicals, and valuation.** This helps us to identify tactical cross-asset opportunities while seeking to manage risks across market cycles. Cutting through the noise to isolate signals remains central to how we invest.

### Asset Allocation for 1Q26

As we start 2026, pinpointing the level of an index or a bond yield at year end is an impossible task. And frankly, it is not a great use of time. At the start of 2025, the median forecast by strategists on the Street for the S&P 500 was 6,600. After the April tariff announcement, strategists slashed their forecasts to 5,900 only to update them again after the Tech-powered market proved resilient. We believe constructing dynamic portfolios with core positions – rather than a shifting spot forecast – is a winning strategy to navigate market cycles.

Our core positions for a balanced portfolio at the start of 2026 are as follows:

- Balanced risk-on via equities – with a preference for the U.S. and China (within EM Asia), where we believe earnings growth should be the principal driver of returns
- A strategic exposure to gold, reflecting late-cycle risks, policy uncertainty, and a desire to use real assets to balance portfolio risks
- Underweight duration in light of resilient economic growth and a policy path that remains uncertain, rather than definitively dovish

We don't believe in rotating for rotation's sake. However, investors who want to start off 2026 buying laggards may consider increasing exposure to U.S. equities, which underperformed other equity markets in both USD and local terms over the course of 2025. A critical point is the outperformance of non-U.S. markets was nearly exclusively driven by multiple expansion, **not** earnings growth over the last 12 months. On the flip side, U.S. performance has been primarily a function of earnings growth.

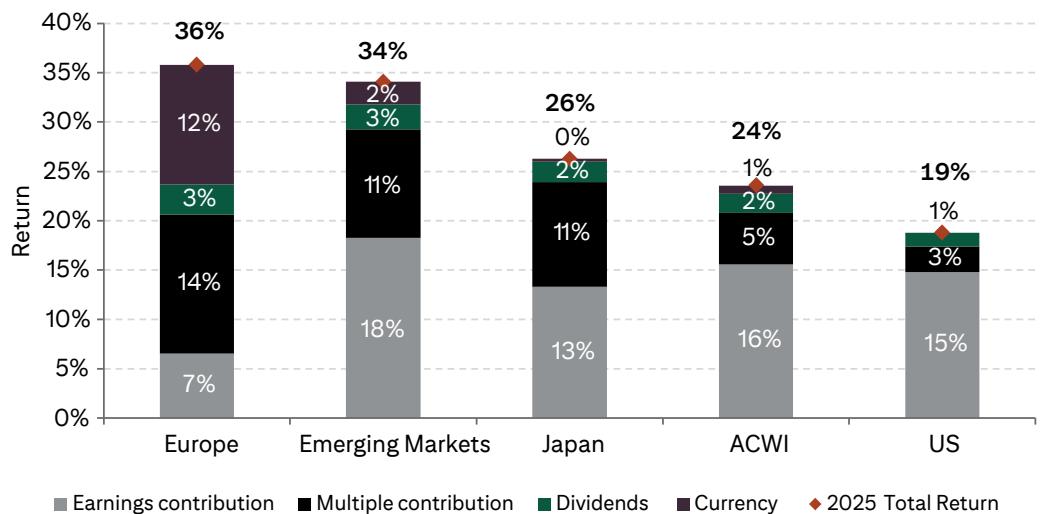
#### Asset Classes | Global USD Level 3 Asset Allocation (%)

	SAA	TAA	Active Weight	Mar 1-Dec 31 2025 Chg
<b>FIXED INCOME</b>	<b>38.1</b>	<b>35.4</b>	<b>-2.7</b>	<b>-2.2</b>
Developed Sovereign	19.0	18.8	-0.2	+3.5
US	9.2	14.2	5.0	+1.5
Non-US	9.8	4.6	-5.2	+2.0
US Securitized	5.8	7.8	2.0	0.0
Developed IG Corporates	6.9	6.6	-0.3	0.0
High Yield	3.2	0.0	-3.2	-1.7
Emerging Market Sovereigns	3.2	2.2	-1.0	0.0
<b>EQUITIES</b>	<b>60.0</b>	<b>60.0</b>	<b>0.0</b>	<b>-1.4</b>
Developed Equities	51.4	52.6	1.2	+0.4
Large Cap	45.6	52.6	7.0	+7.6
US	33.7	39.7	6.0	+7.5
Canada	1.4	1.4	0.0	0.0
UK	1.7	1.7	0.0	0.0
Europe ex-UK	4.9	5.9	1.0	+1.1
Asia ex-Japan	1.3	1.3	0.0	-0.5
Japan	2.6	2.6	0.0	-0.5
Small and Mid Cap	5.8	0.0	-5.8	-7.2
Emerging Market Equity	8.6	7.4	-1.2	-1.8
Asia	7.4	6.2	-1.2	-1.7
Latin America	0.7	0.7	0.0	-0.5
Europe, Middle East & Africa	0.5	0.5	0.0	+0.4
<b>CASH</b>	<b>2.0</b>	<b>1.0</b>	<b>-1.0</b>	<b>0.0</b>
<b>COMMODITIES</b>	<b>0.0</b>	<b>3.7</b>	<b>3.7</b>	<b>+3.7</b>
<b>Level 3 Global USD Portfolio</b>	<b>100</b>	<b>100</b>		

Source for all information: Office of the Citi Chief Investment Officer, December 2025. All forecasts are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events. The Global Asset Allocation (GAA) team creates strategic asset allocations (SAA) using the CPB Adaptive Valuations Strategy (AVS) methodology on an annual basis. SAA represents the strategic allocations and guidance that the GAA believes represents diversification based on current market conditions. Global Investment Committee (GIC) provides underweight and overweight decisions to AVS's Global USD without Hedge Funds Risk Level 1 through Level 5 portfolios. The GAA team then creates tactical allocations for all other profiles or subprofiles such as Global USD with Hedge Funds and Illiquid Private Assets & RE Level 2 through Level 5 portfolios. This sample portfolio reflects 2025 SAA and the tactical asset allocation (TAA) over/under weights expressed at the December 8, 2025, GIC meeting. TAAs represent investment at the asset class level based on the risk objectives. Risk Level 3 is designed for investors with a blended objective who require a mix of assets and seek a balance between investments that offer income and those positioned for a potentially higher return on investment. Risk Level 3 may be appropriate for investors willing to subject their portfolio to additional risk for potential growth in addition to a level of income reflective of his/her stated risk tolerance.

At this point in the cycle (which is not in its first few chapters), we believe earnings should drive the bulk of equity returns over the coming quarters. That leaves non-U.S. markets in a “show me” phase: margin and earnings delivery must now validate higher multiples.

### 2025 Return Contributions by Region (USD)



Source: Factset as of December 31, 2025. Regions are using their respective MSCI indices as proxy. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees, or sales charges, which would lower performance. Past performance is no guarantee of future results. Real results may vary.



### Don't believe the hype: Equity markets need Tech to perform

In late 2025, much (digital) ink was spilled over the fading of mega-cap Tech leadership amidst concerns around aggressive investment spend – and the subsequent impact on future earnings and cash flow. But mega-cap Tech/ Comms still makes up 53% of S&P 500 2026 earnings growth, and around 40% of the index market cap. If you don't believe mega-cap Tech can lead in 2026, then it is quite hard to be bullish on stocks. Given the weight of these companies in U.S. equity indices, achieving meaningful index gains over the next year requires some very heavy lifting from other sectors. Excluding the Tech and Communications sectors, the average sector return for the nine other S&P 500 sectors at 60% weight would need to be 16.7% to generate a 10% index return (roughly in line with consensus estimates for 2026). That's a heavy lift, and an outcome to which we assign a low probability. In fact, over the last 10 years, there have been zero instances of the S&P 500 up 10% y/y at month end with the Tech sector underperforming the aggregated other ten sectors.

While the Tech/ AI theme may experience near-term fatigue, fundamentals continue to favor the sector. We believe superior earnings growth and strong cash flow generation support Tech as a long-term core holding, even if rotation persists early in the year. We continue to believe that technology investments will power the global economy and are essential for growth and profitability in every industry around the world.

# FIVE CONVICTIONS SHAPING OUR VIEW

**These five core convictions represent our highest confidence views on the macro backdrop, market opportunities, and risks in 1Q26:**

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- 01 Monetary and fiscal policy should provide tailwinds to the global economy in early 2026, and we expect corporate profits to support the macroeconomic backdrop.

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- 02 Today's "elevated" valuations (particularly in the U.S.) reflect index composition and healthy fundamentals, and do not give us pause in our equity allocations.

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- 03 A robust capital expenditure (capex) and AI investment pipeline have opened compelling opportunities both upstream in natural resources and downstream across specialized industrials.

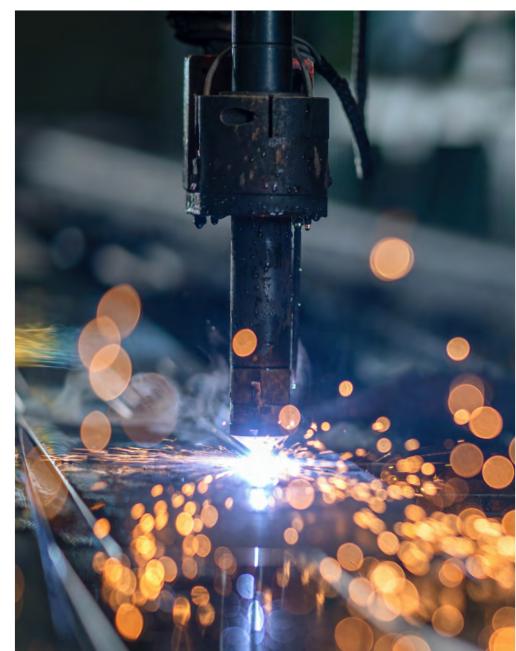
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- 04 Europe's cyclical bias and stagnant productivity backdrop constrain upside, while the U.S. continues to offer more durable and predictable earnings growth.

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- 05 A hawkish monetary policy tilt, disruptions in AI investments, and a ruling against the International Economic Emergency Powers Act (IEEPA)<sup>1</sup> tariffs could all be risks to bullish investor sentiment in 1Q26.

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<sup>1</sup> The International Emergency Economic Powers Act (IEEPA) is a U.S. federal law enacted that authorizes the President to regulate international commerce during a national emergency caused by an unusual and extraordinary threat from abroad. This law allows the President to impose economic sanctions and control transactions to protect national security.

# MACRO OVERVIEW AND FOCUSES FOR 1Q26



## KEY TAKEAWAYS

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- 01 Despite significant headwinds like U.S. tariffs, persistent G7 inflation, and supply chain disruptions, global economic growth in 2025 proved notably resilient, slowing only marginally.

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- 02 Strong corporate profitability and healthy balance sheets provide a robust fundamental backdrop for the start of 2026.

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- 03 Early 2026 is poised for constructive macroeconomic support from accommodative global monetary policy (lagged effects of 2025 rate cuts) and planned fiscal easing across the U.S., parts of Europe, and potentially in Asia.

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**The global economy exhibited resilience in 2025 despite material headwinds**

Expansive U.S. tariffs disrupted global trade, increased supply chain complexity, and elevated uncertainty. The World Bank's Global Supply Chain Stress Index – which measures disrupted maritime container shipments – soared to an average of 1.8 million Twenty-Foot Equivalent (TEU) stalled containers in 2025. This is not far below the peak of 2.2 million TEUs during the period of extreme supply-chain disruptions in early 2022 and compares to pre-pandemic levels of 0.3 million stalled containers (see Figure 1). Business uncertainty was elevated in 2025, and inflation in most of the G7 remained at levels central banks traditionally view as inconsistent with their price stability objectives. Thus, major economies remained in an environment in 2025 in which inflation continued to disrupt the decision making of businesses and households.

**Despite these headwinds, global growth slowed only modestly. A trade-weighted estimate of global real GDP from the Federal Reserve Bank of Dallas puts global growth in the first three quarters of 2025 at 2.6% compared to 2024's 2.8% real growth.**

**FIGURE 1**  
**Global supply chain stress index**



Source: Haver Analytics and World Bank as of December 31, 2025. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance. Past performance is no guarantee of future results. Real results may vary.

“MAJOR ECONOMIES REMAINED IN AN ENVIRONMENT IN 2025 IN WHICH INFLATION CONTINUED TO DISRUPT THE DECISION MAKING OF BUSINESSES AND HOUSEHOLDS.”

We believe corporate profitability is the key driver of economic growth since it determines business investment and hiring decisions. Business hiring provides income to the household sector, which drives consumer spending. To compare profitability across countries, we use the gross operating surplus of nonfinancial companies, which for the G7 was up 5.0% year-over-year in the second quarter of 2025 versus an average of 3.5% in 2023 and 2024<sup>2</sup>. Judged by the earnings reports of major G7 firms, corporate profits ended 2025 on a strong note, which provides a solid fundamental backdrop to economic growth at the start of 2026. Companies in advanced economies have also built resilience into their balance sheets with low leverage and large liquidity buffers (see Figure 2).

**FIGURE 2**  
**US companies: liquid assets to short-term liabilities ratio**



Source: Haver Analytics as of December 31, 2025. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance. Past performance is no guarantee of future results. Real results may vary.

<sup>2</sup> Haver Analytics (data collected by Haver from national statistical offices: BEA, Eurostat, ONS, StatsCan, Japan's MoF).

**Looking ahead to early 2026, we see tailwinds for global economies** — some of which should become apparent in the first quarter while other factors affecting growth may emerge later in the year. First, aggregate global monetary policy is moving toward a more accommodative setting. The inflation-adjusted policy rate for advanced economies fell from a recent peak of 1.8% in the third quarter of 2024 to 0.5% in the third quarter of 2025 (see Figure 3), declining further in the fourth quarter given rate cuts by the Federal Reserve and Bank of England (only partially offset by the Bank of Japan's rate hike). Further easing in 2026 will be challenged by above-target inflation and resilient growth, while the Bank of Japan is expected to hike rates further next year. **However, since monetary policy affects the economy with a lag, the impact of lower policy rates delivered in 2025 will likely be felt in early 2026.**

**FIGURE 3**  
Advanced economies real policy rate



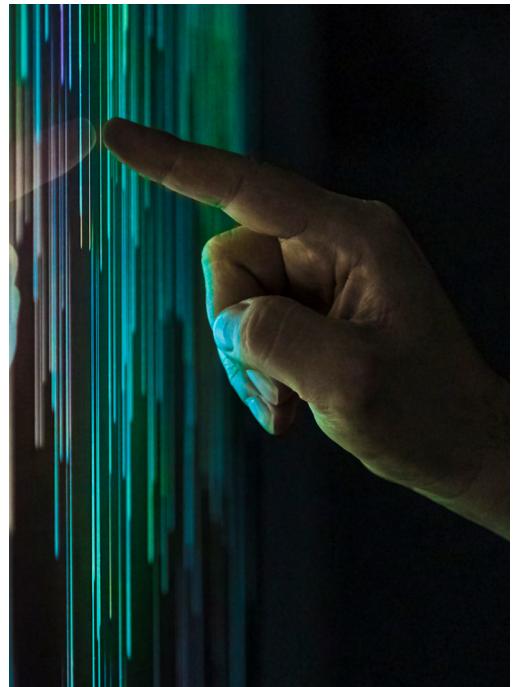
Source: Haver Analytics as of December 31, 2025. Past performance is no guarantee of future results. Real results may vary.

**Global fiscal policy settings should also provide support for economic growth**

In the first quarter of 2026, U.S. household disposable income will be boosted by larger-than-usual tax refunds, given retroactive One Big Beautiful Bill tax measures that were not reflected in 2025 withholding schedules. Fiscal easing is also in the works in Japan and the Eurozone, although we anticipate political challenges to the delivery of broad-based fiscal support in Germany. The UK's November 2025 budget contained front-end loaded spending increases, and back-end loaded tax increases that kick in after 2028. In China, uncertainty about government policies should be reduced by the publication of the 15th Five-Year Plan in early 2026. The December 2025 Central Economic Work Conference (CEWC) pointed to targeted measures aimed at the long-term performance of China's economy, rather than broad-based stimulus to boost short-term activity. Nonetheless, strengthening domestic demand remains a key focus for policymakers in China and the CEWC's communiqué also referenced the importance of stabilizing the property sector.

**Taken together, we are constructive on the macroeconomic environment entering 2026 – anchored by profits and bolstered by monetary and fiscal support.**





### Questioning the view that nearly all U.S. growth in 2025 is tied to AI

U.S. government data are often cited to support the claim that economic growth in 2025 was driven almost entirely by AI-related investment. Specifically, the U.S. Bureau of Economic Analysis reported that real GDP excluding investment in information-processing equipment and software increased by just 0.1% in the first half of 2025<sup>3</sup>.

However, that headline number warrants closer examination. The BEA's information-processing category includes a wide range of non-AI expenditures, such as medical devices, which rose at an annualized rate of roughly 12% in the first half of the year, and legacy enterprise software. Updated BEA data for the third quarter of 2025 show that growth in overall real GDP accelerated to a 4.3% annualized pace from 1.6% in the first half of 2025, even as information-processing equipment investment and data-center construction slowed sharply.

Importantly, the data suggest AI investment was an important pillar of U.S. growth in 2025, but AI-linked capital spending was not the sole contributor to growth. Consumer spending, non-AI business investment, and services activity all played material roles in supporting economic momentum.

<sup>3</sup> BEA data are drawn from the quarterly National Income and Product Accounts (NIPA), the U.S. government's official GDP framework in use since 1932.

## SECTION 4

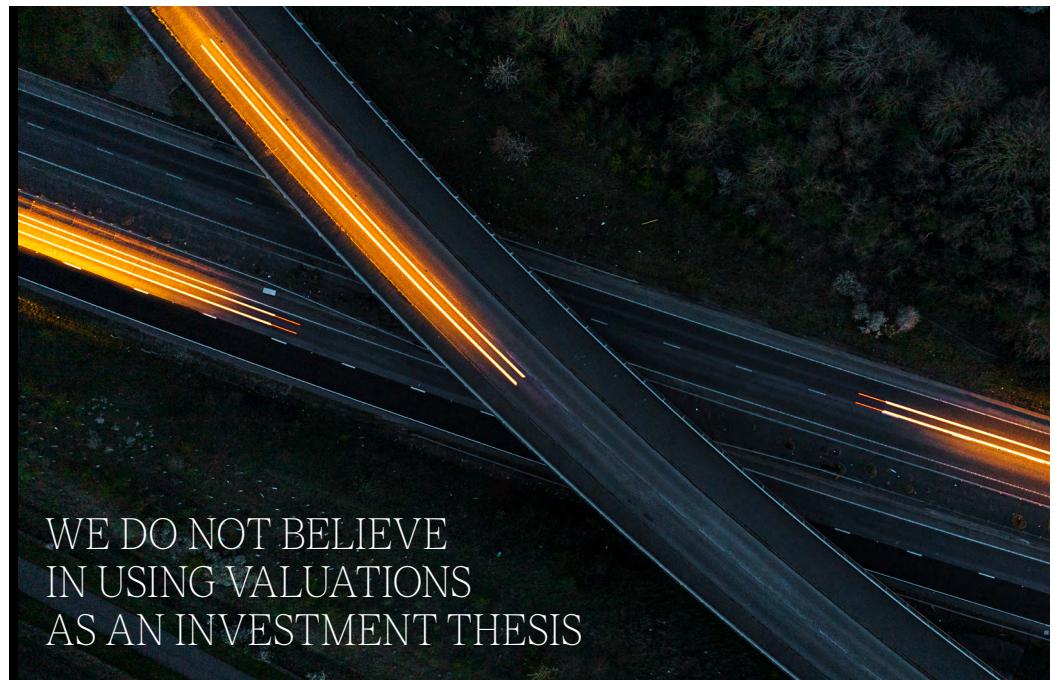
# KEY INVESTMENT TENETS FOR MEDIUM-TERM VIEWS

### KEY TAKEAWAYS

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- 01 We believe valuations have little bearing on near-term forward returns.
- 02 A robust capex cycle and AI infrastructure pipeline can create bottlenecks/supply constraints, which could ultimately be opportunities for investors.
- 03 Europe's outperformance in 2025 was driven by multiple expansion, but structural drags may limit further upside outside of pockets.

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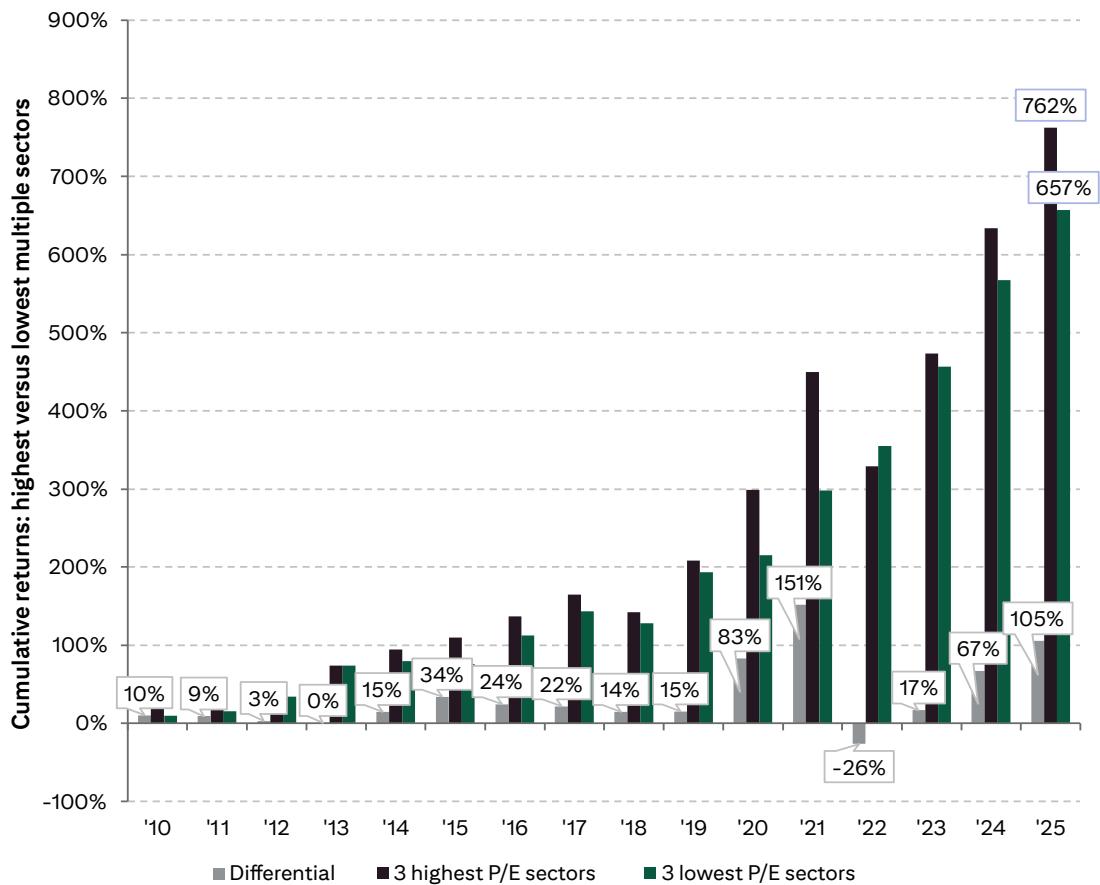


### Valuations have little bearing on near-term forward returns

The notion of “buy low, sell high” is ingrained in money managers during the days of being an intern. However, we argue that this is difficult to execute in practice when investing for long-term wealth creation. Many of the best performing assets continuously trade at a premium valuation for years as they scale, grow, and compound into their previously lofty expectations that come to life through high multiples. Alternatively, assets perceived as “cheap” can remain at a discount for years due to broken business models and out-of-favor industries. In fact, if an individual began investing 15 years ago in the three lowest multiple sectors of the S&P 500 at the start of every year just to “buy low,” that investor would have underperformed the owner of the three highest multiple sectors nearly every year and by a cumulative 105% by the end of 2025. Investing for “value” in discounted companies or sectors has not worked sustainably since before the Global Financial Crisis<sup>4</sup> (see Figure 4).

<sup>4</sup> The Global Financial Crisis was a worldwide economic downturn that occurred between 2007-2009.

**FIGURE 4**  
**Cumulative returns: highest versus lowest multiple sectors**



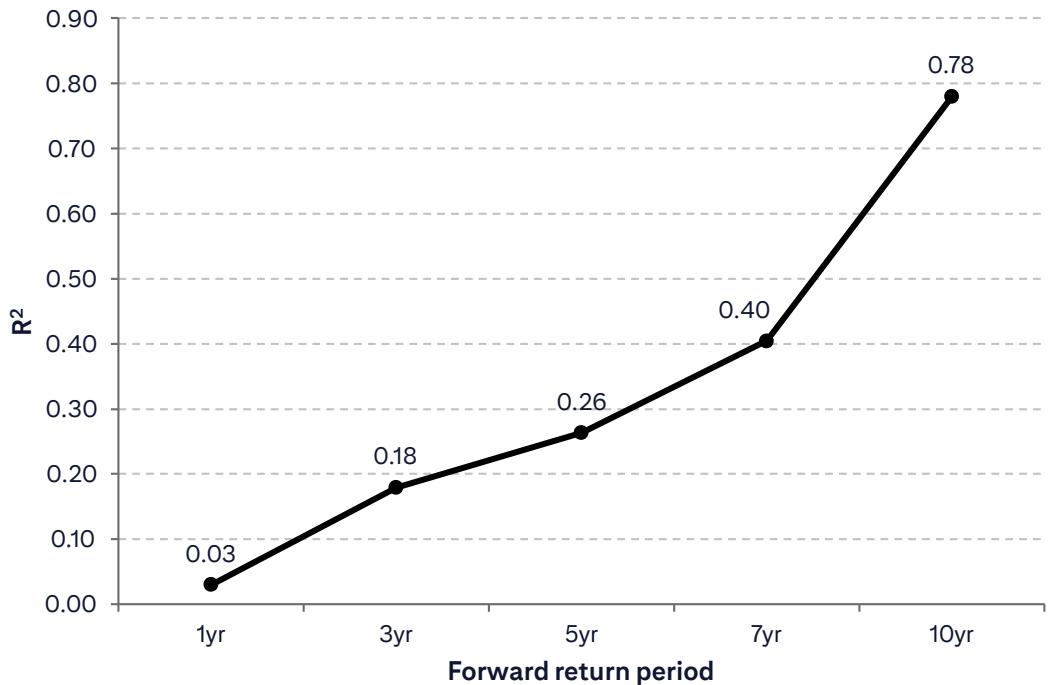
Source: Factset as of December 31, 2025. S&P 500 sectors are used as proxy. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance. Past performance is no guarantee of future results. Real results may vary.

**“WE BELIEVE INVESTORS SHOULD FOCUS ON ANCHORING TO FUNDAMENTALS INSTEAD OF ATTEMPTING TO TIME ENTRY AND EXIT POINTS BASED ON MULTIPLES.”**

Over a shorter period, valuations indicate even less about your potential return. As measured by the forward price-to-earnings (PE) ratio for the S&P 500, the starting point of valuation, when investing in equity markets, has close to zero predictive relationship ( $R^2$  of 0.03) with forward returns over the following year. Only after a meaningful period does an investor's initial entry point grow in importance, shown through a rise in  $R^2$  up to 0.79 for a 10-year holding period (see Figure 5). The data prior to the last 15 years also skews this 10-year period relationship higher whereas more recent data shows less of a relationship with starting multiple and long-term return potential.



**FIGURE 5**  
**R<sup>2</sup> forward return versus starting P/E**



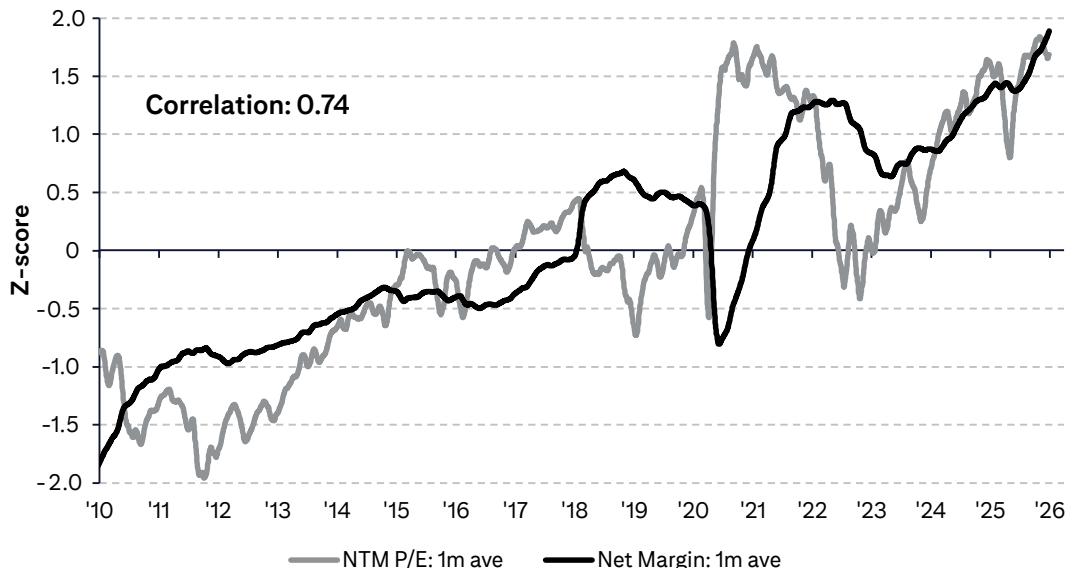
Source: Bloomberg as of December 31, 2025. R<sup>2</sup> represents the proportion of variance in a dependent variable (forward return) that can be explained by the independent variable (starting P/E ratio). The S&P 500 is used as proxy for forward returns. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance. Past performance is no guarantee of future results. Real results may vary.

**Regardless, it is important to remember:** based on historical analysis, for a time horizon of 10 years, most entry points proved to be good entry points! We believe investors should focus on anchoring fundamentals instead of attempting to time entry and exit points based on multiples. Since September 30, 1999 through December 31, 2025 there have been 316 observations of trailing 10-year returns at month end for the S&P 500. Only 24 of those periods were negative for a 92.4% hit rate of positive 10-year annualized returns of 9.5% on average. Said another way: unless you need your dedicated equity capital in the next few years, staying on the course with a long-term equity allocation has historically increased the likelihood for positive returns.

**Valuations “appear” elevated today because of index and bottom-up composition**

Today, valuations at the top end of historic ranges are intimidating investors and keeping some on the sidelines. With many media headlines trying to draw parallels to previous bubbles like the Dot Com Bubble in 2000, we can understand the hesitation. S&P 500 valuations (price to forward earnings) do remain in the top 5% of observations over the last 15 years – nearly two standard deviations above average – but there are stark differences to previous periods where valuations hit this point. Profitability and compositional profile strength are two pillars of support differentiating today from these prior valuation highs. For example, net margins for the S&P 500 have also expanded to be near record highs as of December 31, 2025, showing a 0.74 correlation with P/E expansion over that 15-year period. Simply put, companies are more profitable than ever, and market pricing appears to reflect today’s strong fundamentals (see Figure 6).

**FIGURE 6**  
**Z-score: next twelve months (NTM) price to earnings versus net margin**



Source: Factset as of December 31, 2025. S&P 500 is used as proxy. Z-score is a statistical measure that quantifies how many standard deviations a particular data point is away from the mean of a dataset. Standard deviation is a quantity calculated to indicate the extent of deviation for a group as a whole. All forecasts are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees, or sales charges, which would lower performance. Past performance is no guarantee of future results. Real results may vary.

As for compositional shifts, sectors with stronger fundamental support have outperformed over the last 15 years and risen in their weight of the S&P 500. Technology – the most profitable sector – as of December 31, 2025 represents over 35% of the index, up from 19.9% in 2010. Communication Services and Financials, the next two most profitable sectors, are the next largest weights. That said, not all exposure within each sector is created equal, and that is especially apparent within Tech. We remain cautious on unprofitable Growth exposure as a long-term investment where stretched multiples rest on hope, not cash flow. Cash flow paired with growth potential remains king when investor sentiment declines, and less profitable indices tend to falter during these times of stress.

As the market cycle continues, this reinforces our long-term preference for large cap over small cap companies, profitable over unprofitable, and U.S. over the rest of the world. As noted earlier, we do not believe in rotating for rotation's sake. However, in the near-term, we believe there could be tradable opportunities in some of these lower quality areas, as well as cyclical exposures geared to the strong nominal growth environment and supply/demand bottlenecks, which will be discussed in subsequent sections.

**Fundamentals drive drawdowns, and we see little evidence of fundamental collapse**

To be clear, we do not think the current environment is representative of a bubble in valuations. The strength in the fundamental pillar of our investment process continues to outweigh unease around full valuations. For a significant drawdown to occur, fundamentals must weaken – something we haven't seen in the data yet. Since 1990, the S&P 500 has experienced 29 drawdowns greater than 10% over a six-month period. In 80% of those instances, these drawdowns were in anticipation of a deterioration in fundamentals where the expectations for index earnings per share (EPS) over the next 12 months also drop into negative growth territory over a six-month period. The valuation component of price is more volatile than the earnings component, and earnings drive valuations over time. When companies continue to deliver growth, temporary valuation dips may present tactical opportunities.

When is greater caution warranted around a market pullback? Historical analysis suggests that market drawdowns associated with pronounced earnings pressure have tended to be more severe than typical volatility-driven pullbacks. Periods since 1990, in which forward 12-month earnings expectations declined by more than 10% have often coincided with materially weaker equity performance, reflecting environments marked by elevated and macroeconomic or recession risk.

## “WHEN COMPANIES CONTINUE TO DELIVER GROWTH, TEMPORARY VALUATION DIPS MAY PRESENT TACTICAL OPPORTUNITIES.”

Since 1990, declines of this magnitude in S&P 500 earnings expectations have been relatively rare and largely concentrated around major economic stress episodes, including the Tech Bubble, Global Financial Crisis, and COVID. In those periods, equity market declines tended to be deeper and more persistent than during non-recessionary corrections, underscoring the importance of distinguishing between earnings-driven drawdowns and more routine market volatility.

Currently, we believe there may be opportunities to take advantage of dips because fundamentals remain on solid footing. Forward earnings expectations for the S&P 500 and most major regions continue to be revised higher. We see any market volatility as a potential opportunity to add quality exposure. Fundamental strength still underpins the market despite elevated valuations, and until a significant deterioration in fundamentals occurs, we believe headline-driven pullbacks in the market may present tactical buying opportunities.

### **Capital expenditure and AI infrastructure: upstream and downstream opportunities**

We believe an aggressive global capex pipeline, coupled with evolving AI infrastructure needs, is set to drive sustained demand for natural resources, specialized labor, and niche industrial suppliers. Both earnings transcripts and corporate surveys point to capex reaching new highs in 2026, even when normalized by real GDP. Against this backdrop, we see compelling opportunities both upstream in natural resources and resource providers and downstream among specialized industrial suppliers for thematic exposure. That said, this outlook is not without risk: a sharper-than-expected slowdown in global growth, tighter financial conditions, delays in project execution, or shifts in policy or regulation could temper the pace or durability of capex deployment, particularly in more capital-intensive segments of the supply chain.

### **Upstream opportunities align with the macro backdrop**

Just as important as the capex pipeline is the broader trajectory of growth, inflation, and global geopolitics. We continue to see upside in natural resources through this lens. Specifically, our view of rising nominal growth and sticky inflation encourages investors to seek real-asset exposure. Additionally, the prospect of increased government demand for commodities amid an increasingly multipolar world should support this area of the market. Notably, central bank gold purchases rose sharply – and have persisted – after Russian Central Bank assets were frozen following the country’s invasion of Ukraine in February 2022. This underscores how geopolitical risk can translate into stronger demand for off-balance sheet “hard” assets. Going forward, we would not be surprised to see government purchases of other commodities ramp up for national security measures all while the macroeconomic backdrop remains supportive for the asset class.

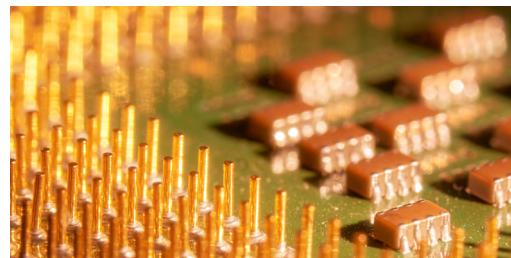
We believe energy, metals, chemicals, agriculture, food, and water would be the natural resources most in demand which could, in turn, benefit upstream companies in these sectors. This may afford investors seeking tactical opportunities a chance to benefit from rising nominal growth, persistent inflation, and structurally higher geopolitical demand for real assets. However, this view is subject to risks, including weaker-than-expected global demand, shifts in geopolitical dynamics, and policy or regulatory changes.

### **On our radar: emerging niche AI players**

As AI technology advances, the contours of capex will evolve. This evolution will create new engineering requirements, new supply bottlenecks, and introduce niche companies as key drivers of innovation. In the U.S., we see multiple investment avenues tied to the next phase of AI infrastructure. For example, the transition from large language models (LLMs) – focused on language processing and comprehension – to Vision-Language-Action (VLA) models – enabling movement – will likely introduce new bottlenecks and resource constraints. As data speed, storage capacity, and communication capabilities become critical enablers of this shift, companies positioned to support the “action” layer of VLA models may offer interesting opportunities. We expect this area to evolve as the technology matures and implementation broadens, and we will continue to monitor developments closely as the opportunity set takes shape.

## Europe's 2025 outperformance masked by weak earnings fundamentals

Structural drags and cyclical exposure leave Europe trailing U.S. earnings power. While 2025 saw European equity outperformance when compared to the U.S., the composition of this outperformance relied upon multiple expansion rather than earnings growth. Specifically, impressive earnings growth contributed to 88% of the S&P 500 return in 2025 while earnings growth contributed to 13% of the Stoxx 600 index. This stark contrast highlights the fundamental underpinnings of the U.S. equity market and reinforces our structural overweight within a global portfolio.



## U.S. economic dynamism highlights Europe's competitive disadvantages

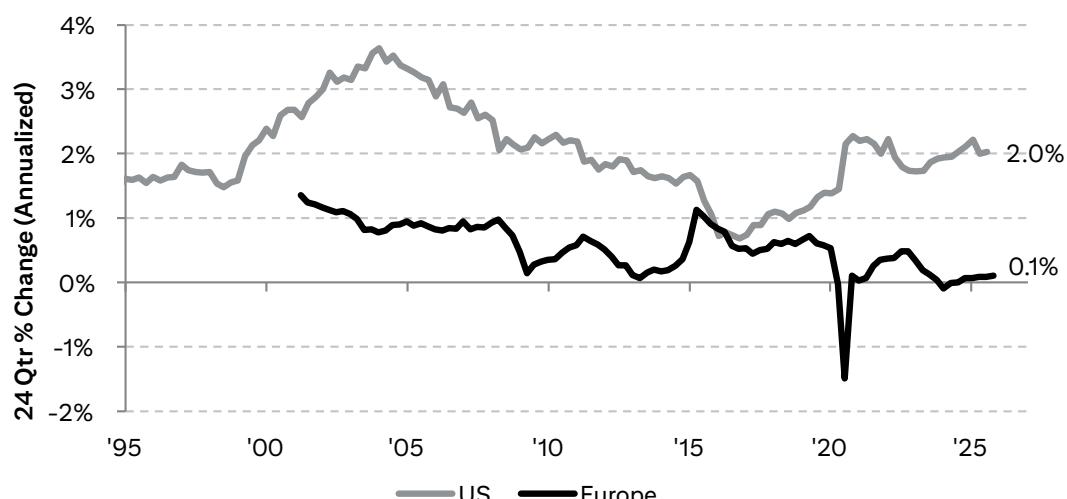
On a longer horizon, low labor mobility, demographic headwinds, and muted incentives for innovation and entrepreneurship contribute to a structurally stagnant productivity environment in Europe (see Figure 7). Given this starting point, it remains difficult to envision a scenario where productivity gains improve drastically and translate into broad-based earnings momentum or margin expansion for the region.

When we compare the characteristics of the European economy with those of the U.S., we find greater dynamism in the U.S. enables a higher rate of growth and innovation, which filters through to productivity gains and earnings growth. For example, the U.S. possesses one of the most dynamic labor markets in the world as defined by churn – the rate at which workers move in and out of employment or between jobs within a given period. While demographic headwinds exist in the U.S., the supportive innovation environment coupled with the ability of companies to shed excess labor when needed generates more powerful and predictable earnings compounding.

## Equity market composition reinforces Europe's cyclical bias

The composition of the European equity market further reinforces our cyclical vs. structural investment theme. Value-oriented sectors – Financials, Industrials, and Energy, for example – account for nearly half of the Morgan Stanley Capital International (MSCI) Europe equity index as of December 31, 2025. Since the Global Financial Crisis, this sector mix has weighed on European equity returns relative to more technology and innovation driven markets globally. In contrast, U.S. and Chinese equity markets are heavily skewed toward Technology and other growth-oriented sectors, positioning them more favorably when it comes to innovation-led performance.

**FIGURE 7**  
**U.S. vs Europe productivity growth**



Source: Haver Analytics as of December 31, 2025. Past performance is no guarantee of future results. Real results may vary.

“WHILE DEMOGRAPHIC HEADWINDS EXIST IN THE U.S., THE SUPPORTIVE INNOVATION ENVIRONMENT COUPLED WITH THE ABILITY OF COMPANIES TO SHED EXCESS LABOR WHEN NEEDED GENERATES MORE POWERFUL AND PREDICTABLE EARNINGS COMPOUNDING.”

**Fiscal policy divergence:  
EU stimulus vs. definitively  
expansive U.S. policy**

Looking ahead, assessing the likelihood of meaningful fiscal expenditure in the EU is critical for both economic and market outlooks. Despite elevated debt loads, a shift towards fiscal expansion is progressing across several developed markets. This remains a key focus for investors, influencing both fixed income positioning and equity market dynamics. The trajectory of fiscal spend is one reason for our portfolio’s underweight to global duration in favor of exposure to gold and may contribute to pockets of outperformance across global equity indices.



Given Germany’s current political dynamics, we see a low likelihood of meaningful fiscal stimulus, which in turn tempers our expectations for broader European growth. At the same time, plans for elevated defense-related spending across the EU—driven by ongoing geopolitical pressures—remain an important consideration. This stands in contrast to the U.S., with the passage of the One Big Beautiful Bill Act (OBBA) in July 2025. The lagged impacts of the OBBA are set to hit households (i.e., consumers) in the first quarter of 2026, with tax refunds expected in February and March. Meanwhile, U.S. businesses should also benefit from the OBBA in 2026, with the retroactive application of expensing for equipment and domestic R&D through 2025.

The clear dichotomy between the two economies – fiscally, fundamentally, and compositionally – leaves us more optimistic on the U.S. generating more predictable and durable earnings growth for the foreseeable future. Risks to this view include fiscal spending materializing sooner, and a larger-than-expected cyclical boost from a capex catch-up by European technology companies, or a China macro rebound benefiting European exporters.

# RISKS ON OUR RADAR

**The early months of 2026 present a complex risk backdrop for investors, with markets balancing optimistic earnings expectations against both monetary and trade policy uncertainty. Consensus is largely bullish as we start this year, and we are watching several events that could shake confidence in current positions:**

**The Fed holds rates steady in 1Q given a backdrop of solid growth, stable labor market, and resilient inflation. Investors expecting additional rate cuts early next year will be disappointed if higher front-end rates persist, even if for a good reason.**

**Why this matters:**

- Rate-sensitive equities such as homebuilders, utilities, smaller-cap stocks, and unprofitable tech companies tend to rely more heavily on lower borrowing costs and may face pressure if front-end rates remain elevated.
- Fixed income markets that have priced in rapid rate cuts could experience near-term repricing, particularly for shorter-term bonds.
- More established companies with strong balance sheets, limited floating-rate debt, and pricing power may prove more resilient while assets like gold may continue to benefit given its historically negative correlation to inflation.

**Delays in data center construction become widespread while further debt-financing of AI investment stokes fears that it will soon stall out – or both. AI may be a generational opportunity for investment, and any deep cracks in the narrative present market risks in 2026.**

**Why this matters:**

- AI-linked companies could face valuation and stock price pressure if spending timelines shift or returns take longer to materialize.
- Markets with lower technology exposure, as well as sectors outside of AI-intensive industries, may be less directly affected by these dynamics and may be beneficiaries of investors re-allocating their exposures.
- In periods of broader risk aversion tied to AI concerns, Treasuries and gold may once again play a stabilizing role in diversified portfolios as investors seek safe havens.

**SCOTUS rules IEEPA tariffs unconstitutional – continuing volatility and uncertainty. Despite other avenues to re-introduce tariffs, the following questions must be answered: Is money returned to the tariff-payers, and how does the administration navigate ongoing trade negotiations?**

**Why this matters:**

- Changes in tariff policy could impact/lower projected government revenues, which in turn may cause Treasury rates to go higher.
- Defensive sectors may hold up better if trade uncertainty weighs on growth sentiment.
- Industrials with direct tariff exposure could benefit from improved outlook given lesser impact from tariffs, depending on how future trade measures and deals are structured.

# GLOSSARY OF KEY TERMS AND ACRONYMS

This glossary defines important terms, phrases, and acronyms found in the CIO Quarterly document.

<b>AI (Artificial Intelligence)</b>	Technology simulating human intelligence for tasks like learning and problem-solving.
<b>AI Infrastructure</b>	The underlying hardware and software systems that support AI operations.
<b>AI Supply Chain</b>	The network of resources, processes, and components involved in developing and delivering AI products and services.
<b>AI Investment Spending</b>	Expenditures related to the development, deployment, or utilization of Artificial Intelligence technologies.
<b>Asset Allocation Table</b>	A visual representation detailing how investment assets are distributed across various categories.
<b>Annualized Returns</b>	The average annual rate of return earned on an investment over a specified period, expressed as a yearly percentage.
<b>Bear Market Corrections</b>	Significant declines in the stock market, typically 20% or more, often associated with a pessimistic investor sentiment.
<b>Broaden Equity Exposure</b>	The act of diversifying investments across a wider range of equity assets or sectors to reduce risk.
<b>"Buy Low, Sell High"</b>	A fundamental investment strategy aiming to purchase assets when their prices are low and sell them when prices are high.
<b>CAPE (Cyclically Adjusted Price-to-Earnings Ratio)</b>	A valuation measure that uses average inflation-adjusted earnings from the previous 10 years to smooth out cyclical fluctuations in earnings.
<b>CapEx Cycle (Capital Expenditure Cycle)</b>	The recurring pattern of investment in fixed assets (e.g., property, plant, equipment) by companies.
<b>Cash Flow</b>	The net amount of cash and cash equivalents moving into and out of a business or investment.
<b>Central Bank Gold Purchases</b>	The accumulation of gold by national central banks, often for reserve diversification or as a hedge against currency fluctuations.
<b>"Circularity of Spending"</b>	An economic concept where spending by one entity generates income for another, which then fuels further spending, creating a circular flow.
<b>Citi Wealth's Vision-Language-Action Supply Chain</b>	A specific initiative or framework within Citi Wealth related to advanced AI models that combine visual understanding, language processing, and action capabilities.
<b>Compositional Profile Strength</b>	The overall resilience and positive attributes of the underlying components or constituent elements within an index, portfolio, or market.

<b>Compositional Shifts</b>	Changes in the makeup or weighting of an index, portfolio, or market over time, often reflecting evolving economic or industry trends.
<b>Conviction</b>	A strong belief or confidence in a particular investment idea, strategy, or market outlook.
<b>COVID</b>	Refers to the global pandemic caused by the SARS-CoV-2 virus, impacting global economies and markets.
<b>Demographic Headwinds</b>	Negative economic impacts resulting from population changes, such as an aging workforce, declining birth rates, or shifts in population distribution.
<b>Developed Markets</b>	Countries with mature economies, typically characterized by high per capita income, industrialized infrastructure, and robust financial markets.
<b>"Don't Fear Valuations"</b>	An investment argument suggesting that current market valuations, even if seemingly high, should not be the sole determinant for investment decisions.
<b>"Don't Rotate for Rotation's Sake, Don't Broaden for Broadening's Sake"</b>	An investment philosophy advising against making portfolio changes or diversifying simply for the sake of activity but rather based on sound investment principles.
<b>Dot Com Bubble (in 2000)</b>	A speculative bubble in the stock market during the late 1990s and early 2000s, driven by excessive investment in internet-based companies.
<b>Downstream Dynamics</b>	Refers to developments and opportunities occurring in the later stages of a value chain, closer to the end consumer or final product.
<b>Drawdowns</b>	The peak-to-trough decline in the value of an investment or portfolio during a specific period.
<b>Earnings Compounding</b>	The growth of a company's earnings over time, where accumulated earnings are reinvested to generate further earnings.
<b>Earnings Component</b>	The portion of a stock's price or market valuation that is directly attributable to its reported or projected earnings.
<b>Earnings Growth</b>	The rate at which a company's net income or earnings per share increase over a period.
<b>Earnings Per Share (EPS)</b>	A company's net profit divided by the number of outstanding shares of its common stock, indicating profitability on a per-share basis.
<b>Earnings Transcripts</b>	Written records of quarterly or annual earnings calls, where company executives discuss financial results and outlook.
<b>Equity Allocation</b>	The proportion of an investment portfolio that is invested in stocks or other equity-based securities.
<b>European Equity Market</b>	The collective stock markets and exchanges located within Europe.
<b>Expensing Provisions</b>	Tax rules or accounting treatments that allow businesses to deduct certain costs or investments as expenses, often to encourage specific activities.
<b>"Fade the Excitement on Europe"</b>	An investment theme to reduce enthusiasm or exposure to European markets, possibly due to anticipated underperformance.

<b>Fiscal</b>	Pertaining to government revenue, expenditures, and debt, particularly as they relate to economic policy.
<b>Fiscal Expansion</b>	An increase in government spending or a decrease in taxes aimed at stimulating economic growth.
<b>Fiscal Largesse</b>	Excessive or extravagant government spending, often implying a lack of financial prudence.
<b>Fiscal Stimulus</b>	Government measures, such as tax cuts or increased spending, designed to boost economic activity during a downturn.
<b>Fixed Income Positioning</b>	An investment strategy focusing on the allocation and management of debt securities, such as bonds, within a portfolio.
<b>Forward Earnings Expectations</b>	Projections or estimates of a company's or market's earnings for a future period.
<b>Forward Price-to-Earnings Ratio</b>	A valuation metric calculated by dividing a company's current share price by its estimated future earnings per share.
<b>Fundamental Collapse</b>	A severe and widespread deterioration in the underlying economic or business conditions that drive investment value.
<b>Fundamental Pillar</b>	A core or foundational principle related to economic or company fundamentals in investment analysis.
<b>Fundamentals Drive Drawdowns</b>	The theory that significant market declines are primarily caused by a deterioration in underlying economic or corporate fundamentals rather than speculative factors.
<b>Geopolitical Risk</b>	Risks to markets or businesses arising from political and geographical factors, such as international relations, conflicts, or government instability.
<b>Global Duration</b>	A measure of the sensitivity of a global bond portfolio's price to changes in interest rates.
<b>Global Financial Crisis</b>	The severe worldwide economic crisis that occurred in the late 2000s, stemming from a collapse in the US housing market.
<b>Global Equity Indices</b>	Stock market indices that track the performance of equities across multiple countries or regions.
<b>Growth-Oriented Sectors</b>	Industries or market segments characterized by companies expected to achieve above-average revenue and earnings growth.
<b>Hyperscalers</b>	Large-scale cloud computing providers (e.g., Amazon Web Services, Google Cloud, Microsoft Azure) known for their massive infrastructure and services.
<b>Inflation</b>	The rate at which the general level of prices for goods and services is rising, and subsequently, purchasing power is falling.
<b>Investment Process</b>	The systematic approach or series of steps taken by investors or fund managers to make investment decisions.
<b>Investment Themes</b>	Overarching ideas or trends that guide investment decisions, often based on long-term structural changes in the economy or society.

<b>Lagged Impact of OBBBA</b>	The delayed effects or consequences of the “One Big Beautiful Bill Act” on the economy or specific sectors.
<b>Large Cap / Small Cap Companies</b>	Companies categorized by their market capitalization (the total value of their outstanding shares), with large cap being larger and small cap being smaller.
<b>Liquid Assets</b>	Assets that can be easily and quickly converted into cash without significant loss of value.
<b>LLMs (Large Language Models)</b>	A type of artificial intelligence model specifically designed for understanding, generating, and processing human language.
<b>Long-Term Equity Allocation</b>	The portion of an investment portfolio allocated to stocks with a long-term investment horizon.
<b>Long-Term Wealth Creation</b>	The process of building and accumulating significant financial wealth over an extended period, typically through strategic investments.
<b>Market Cycle</b>	The cyclical upward and downward movements or trends in financial markets, influenced by economic growth, investor sentiment, and other factors.
<b>Market Outlooks</b>	Forecasts or expectations regarding the future direction and performance of financial markets.
<b>Market Volatility</b>	The degree of variation or fluctuation in the price or value of a financial asset, market, or index over time.
<b>MSCI Brazil Index</b>	A stock market index that tracks the performance of Brazilian equities, often used as a benchmark for investment in Brazil.
<b>Multipolar World</b>	A global order characterized by multiple centers of power or influence, rather than a single dominant superpower.
<b>Muted Incentives for Innovation and Entrepreneurship</b>	A lack of strong encouragement or rewards for developing new ideas, products, or starting new businesses.
<b>Natural Resources</b>	Materials or substances occurring in nature that can be used for economic gain, such as minerals, forests, water, and fertile land.
<b>Negative Growth Territory</b>	A period of economic contraction or decline, where economic output or key indicators are shrinking.
<b>Net Margins</b>	A profitability ratio that measures how much net income a company makes for every dollar of revenue.
<b>Niche Industrial Suppliers</b>	Companies that provide specialized goods or services to very specific, often small or specialized, industrial markets.
<b>Nominal Growth</b>	Economic growth that is not adjusted for inflation, reflecting the raw increase in monetary value.
<b>OBBA (One Big Beautiful Bill Act)</b>	A specific legislative act mentioned as having lagged impacts on the economy.

<b>Off-Balance Sheet Assets</b>	Assets that do not appear on a company's balance sheet but for which the company may have some claim or obligation.
<b>P/E Expansion</b>	An increase in a company's or market's price-to-earnings (P/E) ratio, suggesting investors are willing to pay more for each dollar of earnings.
<b>Political Noise</b>	Distractions, uncertainties, or short-term fluctuations in markets or public discourse caused by political events or rhetoric.
<b>Portfolio Changes</b>	Adjustments or modifications made to the composition of an investment portfolio.
<b>Premium Valuation</b>	When a company or asset trades at a higher price relative to its earnings, book value, or other intrinsic measures, suggesting investors expect higher future growth or quality.
<b>Profitability</b>	The ability of a business or investment to generate profit or financial gain.
<b>Provocative Headlines</b>	Eye-catching or controversial titles used to draw attention to specific viewpoints or sections.
<b>R<sup>2</sup> (R-squared)</b>	A statistical measure that represents the proportion of the variance for a dependent variable that's explained by an independent variable or variables in a regression model.
<b>Rare Earth Reserves</b>	Deposits of rare earth elements, a group of 17 chemical elements crucial for many high-tech applications.
<b>Rate-Cutting Cycle</b>	A period during which a central bank repeatedly lowers its benchmark interest rates to stimulate economic activity.
<b>Real GDP</b>	Gross Domestic Product adjusted for inflation, providing a measure of economic output in constant prices.
<b>Real Policy Rate</b>	A central bank's policy interest rate adjusted for inflation, reflecting the real cost of borrowing.
<b>Recessions</b>	Periods of significant economic contraction, typically defined as two consecutive quarters of negative GDP growth.
<b>Rebut</b>	To argue against, contradict, or prove to be false.
<b>Rigid Labor Markets</b>	Labor markets characterized by inflexible regulations, strong unions, or high dismissal costs, making it difficult for employers to hire or fire workers.
<b>S&amp;P 500</b>	A stock market index that represents the stock performance of 500 of the largest companies listed on stock exchanges in the United States.
<b>Secular Growth</b>	Long-term growth trends that are independent of short-term economic cycles, driven by fundamental shifts in technology, demographics, or consumer behavior.
<b>Specialized Labor</b>	Workers who possess unique or highly specific skills and expertise required for particular tasks or industries.
<b>Sticky Inflation</b>	Inflation that is persistent and difficult to bring down, often due to underlying economic factors that maintain upward price pressure.

<b>Structural Headwinds</b>	Long-term, fundamental obstacles or challenges that impede economic growth or progress.
<b>Stretched Multiples</b>	Valuation multiples (like P/E ratios) that are considered high or expensive relative to historical averages or industry peers, implying overvaluation.
<b>Tax Refunds</b>	Reimbursements of overpaid taxes to taxpayers by a government.
<b>Tech Bubble</b>	Another reference to the Dot Com Bubble, specifically focusing on the overvaluation of technology companies.
<b>Technology (Sector)</b>	The economic sector comprising companies involved in the research, development, and distribution of technologically based goods and services.
<b>Thematic Exposure</b>	Investment focused on specific, often long-term, macroeconomic or industry trends and themes.
<b>Theoretical German Fiscal Spend</b>	Hypothetical or proposed government spending plans in Germany.
<b>Trajectory of Growth</b>	The path, direction, and rate of economic or business growth over time.
<b>Upstream and Downstream Opportunities</b>	Investment opportunities that span the entire value chain of an industry, from the initial stages (upstream, e.g., raw materials) to the final stages (downstream, e.g., finished products).
<b>Valuation Component of Price</b>	The portion of an asset's price that is determined by its intrinsic value or by how investors perceive its current worth relative to its earnings, assets, or future prospects.
<b>Value-Oriented Sectors</b>	Industries or market segments comprising companies that are considered undervalued by the market, often trading at lower multiples relative to their assets or earnings.
<b>VLA Models (Vision-Language-Action Models)</b>	Advanced AI models that integrate capabilities for visual understanding, natural language processing, and performing actions.

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## Bond rating equivalence

Alpha and/or numeric symbols used to give indications of relative credit quality. In the municipal market, these designations are published by the rating services. Internal rating are also used by other market participants to indicate credit quality.

Bond credit quality ratings	Rating agencies		
Credit risk	Moody's <sup>1</sup>	Standard and Poor's <sup>2</sup>	Fitch Rating <sup>2</sup>
<b>Investment Grade</b>			
Highest quality	Aaa	AAA	AAA
High quality (very strong)	Aa	AA	AA
Upper medium grade (Strong)	A	A	A
Medium grade	Baa	BBB	BBB
<b>Not Investment Grade</b>			
Lower medium grade (somewhat speculative)	Ba	BB	BB
Low grade (speculative)	B	B	B
Poor quality (may default)	Caa	CCC	CCC
Most speculative	Ca	CC	CC
No interest being paid or bankruptcy petition filed	C	D	C
In default	C	D	D

<sup>1</sup>The ratings from Aa to Ca by Moody's may be modified by the addition of a 1, 2, or 3, to show relative standing within the category.

<sup>2</sup> The rating from AA to CC by Standard and Poor's and Fitch Ratings may be modified by the addition of a plus or a minus to show relative standings within the category.

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Changes in Regulatory or Tax Treatment of Energy Related MLPs. If the IRS changes the current tax treatment of the master limited partnerships included in the Basket of Energy Related MLPs thereby subjecting them to higher rates of taxation, or if other regulatory authorities enact regulations which negatively affect the ability of the master limited partnerships to generate income or distribute dividends to holders of common units, the return on the Notes, if any, could be dramatically reduced. Investment in a basket of Energy Related MLPs may expose the investor to concentration risk due to industry, geographical, political, and regulatory concentration.

Mortgage-backed securities ("MBS"), which include collateralized mortgage obligations ("CMOs"), also referred to as real estate mortgage investment conduits ("REMICs"), may not be suitable for all investors. There is the possibility of early return of principal due to mortgage prepayments, which can reduce expected yield and result in reinvestment risk. Conversely, return of principal may be slower than initial prepayment speed assumptions, extending the average life of the security up to its listed maturity date (also referred to as extension risk).

Additionally, the underlying collateral supporting non-Agency MBS may default on principal and interest payments. In certain cases, this could cause the income stream of the security to decline and result in loss of principal. Further, an insufficient level of credit support may result in a downgrade of a mortgage bond's credit rating and lead to a higher probability of principal loss and increased price volatility. Investments in subordinated MBS involve greater credit risk of default than the senior classes of the same issue. Default risk may be pronounced in cases where the MBS security is secured by, or evidencing an interest in, a relatively small or less diverse pool of underlying mortgage loans.

MBS are also sensitive to interest rate changes which can negatively impact the market value of the security. During times of heightened volatility, MBS can experience greater levels of illiquidity and larger price movements. Price volatility may also occur from other factors including, but not limited to, prepayments, future prepayment expectations, credit concerns, underlying collateral performance and technical changes in the market.

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- lack of liquidity in that there may be no secondary market for the fund and none is expected to develop;
- volatility of returns;
- restrictions on transferring interests in the Fund;
- potential lack of diversification and resulting higher risk due to concentration of trading authority when a single advisor is utilized;
- absence of information regarding valuations and pricing;
- complex tax structures and delays in tax reporting;
- less regulation and higher fees than mutual funds; and
- manager risk.

Individual funds will have specific risks related to their investment programs that will vary from fund to fund.

Asset allocation does not assure a profit or protect against a loss.

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