A Three Legged Stool Cannot Wobble

--- Asset Allocation & Market Strategy Committee

The Global Investment Management (GIM) team continually looks forward to evaluate our forecasts and investment allocations decisions. As 2015 comes to a close, we believe that 2016 will see the emergence of some major themes – both old and new – that will drive financial markets. These could include issues surrounding domestic monetary policy, global economies, geopolitical risks, and many more. Under the right circumstances, all of these could contribute to market volatility and investor uneasiness.

Our three asset classes – equities, bonds and alternatives – will ultimately be affected by most of these themes. While some will be easy to predict, others will come unexpectedly as the social and political landscape changes as a result of events at hand. Some of these risks may impact domestic markets while others may spill-over across the globe. A sound asset allocation strategy and strong constitution during these uncertain times can help keep objectives on track. Maintaining an allocation to the three major legs of our strategic asset allocation model will likely improve the odds that portfolios will experience below market volatility.

Volatility, as measured by the CBOE Volatility Index (VIX), in the U.S. market will likely increase over the next 12 months. Having coasted on the wave of lower volatility versus historical averages (16.10 versus the 20-year average 20.95), the tide will likely soon change. A multitude of factors will likely contribute to the uptick including a national election, political activity abroad, and a divergence in monetary policy between the U.S. and the rest of the world. Most immediately, the Federal Reserve raised rates for the first time in over 11 years. This alone is not as much of a risk; however, a Fed policy error caused by either moving too swiftly or too aggressively could contribute to increased volatility.

Both the GIM team and the market expect the Federal Funds rate to rise at a slower pace than indicated by the Fed governors. We believe the Fed will be forced to take a longer wait-and-see approach than indicated by their most recent predictions in September. The Fed is currently predicting 4-5 rate hikes for 2016 while the market is predicting only three. The difference translates into approximately 40-50 bps of rate hikes, a large amount on a relative basis. Given that rates have been so low for so long, an increase may have a greater impact than typically seen in past rate hikes. While the Fed is expected to maintain its transparency regarding future rate increases, volatility is expected to persist. Volatility is also exacerbated by uncertainty, and the tragic terrorist events that have transpired over the past several months certainly have contributed to that. While any long-term investment impact is unlikely to be severe, the uncertainty created by the frequency of these gut-wrenching occurrences unfortunately has to be factored in to the risk equation. Until solutions and actions can effectively curb the current rash of unconventional terrorism, these risks will create additional instability for the foreseeable future. The GIM team will evaluate these developments to determine how best to position for this type of continuing risk. Lower-risk assets will continue to play an active role in riding out volatility and mitigating the impact of unpredictable events such as these.

Positive surprises for equity markets will likely not come as much from domestic markets as it will come from international markets. Volatility in equity markets won’t come as much from domestic markets as it will come from international markets.

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the U.S. consumer will drive U.S. economic growth beyond what we have seen in 2015. International equities, on the other hand, should see higher operating margins and more revenues as a result of stimulative monetary policy. These positive results will be partially offset by depreciated currencies stemming from an easy monetary policy. European and Chinese economies should see the biggest benefit from these forces. China should have the best chance of resurgence due to the magnitude of its market decline and the rate at which the yuan has fallen. Europe, however, may not be far behind. With that said, emerging market economies other than China will likely have a tough time reversing their trends.

Low inflation and slowing global demand growth will have a detrimental consequence for most foreign markets. Any negatives affecting those markets that produce low-priced commodities should be offset by the benefits accrued to the users of those commodities. As such, we remain positive on developed markets such as the European Union, Japan, and the United States and remain cautiously optimistic on the growth prospects of China. The transition to a more consumption-driven economy within China will ultimately pay dividends, but it will take time to get there. For now, we expect to remain overweight to developed equity markets with a slight overweight to undervalued international developed markets.

Equities continue to be the best allocation choice versus fixed income as the Fed embarks upon rate increases. Alternative investments hold additional value, but investors will have to be very selective. The choice between risk reducers versus alpha producers will be the continued decision for the asset class. We continue to favor real estate and hedge-fund like strategies to potentially drive both risk reduction for traditional portfolios as well as provide for additional opportunities of absolute return. A focus on real estate versus commodities is prudent, particularly as rates and lending continue to become cheaper overseas.

Overall, investors should be concerned with these major themes: volatility, lower expected returns from stocks and bonds, divergent central bank, currency exchange implications, geopolitical risks, and the ability of the U.S. consumer to drive U.S. growth. A nimble tactical asset allocation strategy may take advantage of market mispricing and opportunities in 2016 and beyond.
Path of Least Resistance

As most of 2015 fades into the distance, we take an opportunity to focus on what lies in store for the bond market in 2016. With the year-end approaching, we are upon an unprecedented event as the Fed contemplates a move to a less accommodative monetary policy. This type of action isn’t exceptional on its own, as the Fed has embarked on 6 rate increase cycles in the past 45 years, but the global economic outlook, lack of inflation, and low starting point certainly is unique to this monetary tightening cycle. While a 2014 Pew Research survey showed that just under 25 percent of Americans could identify Janet Yellen as the chair of the Federal Reserve Board, we anticipate that she will become more of a household name as the Fed’s rate policy actions will likely dominate financial headlines throughout next year.

Recent comments out of the Federal Reserve Board have been consistent with a policy step in December and will likely set the precedent for more rate increases throughout 2016. We don’t anticipate a stair-step approach to rising rates where the Fed would increase rates 25 bps at each of its 8 meetings in the year - similar to what occurred in the 2004-2006 tightening cycle. Rather, the path to a higher Federal Funds Rate will likely be shallower and data dependent, ultimately increasing to approximately 1 percent by the end of 2016 – a rate still well below the Fed’s long term inflation target of 2 percent. Regardless of what trajectory the interest rate path takes, interest rate volatility will be more pronounced due to the uncertainty of when and how the Federal Reserve will undertake the normalization process.

While policy moves will likely be the major story in 2016, we also anticipate credit to be a big driver of returns for bond asset classes. The widening in credit spreads, which affects both high yield and investment grade corporate bonds, is anticipated to remain above historical averages and potentially expand in 2016. Difficulties within the energy and materials sectors, which have struggled with the collapse of the commodities market, are likely to continue in 2016. Additionally, a flatter yield curve and compressed interest rate margins could negatively impact the credit metrics of the financial sector, leading to overall underperformance in corporate bonds as these three sectors account for approximately 43 percent of the outstanding corporate bond market. We anticipate that consumer-driven debt sectors such as the mortgage and asset-backed sectors will likely outperform in 2016. We are less optimistic on debt sectors, which contain more exposure to the business cycle, as wage growth and higher interest rate costs limit profit margin expansion. We will continue to position the strategy on a relative basis to capitalize on this opportunity.

Our outlook for the municipal market is more optimistic as we expect tax-exempt assets to outperform their taxable counterparts for a second year in a row. The underlying credit metrics of municipalities in aggregate continue to look more favorable with tax bases expanding, filling municipal coffers. The imbalance of demand outpacing the new supply of municipal bonds in 2015 is likely to continue throughout 2016, thereby benefiting the asset class as investors look to shelter income from taxes and seek higher income streams than can be found within the Treasury markets.
Internationally, we expect the difficulties surrounding emerging market debt in 2015 to carry over into next year and continue to plague the asset class. The combination of slowing economic growth in emerging economies, commodity collapse, and a stronger U.S. dollar will be an ongoing negative headwind for the sector. These factors, coupled with potentially higher interest rates in the U.S., which were detrimental to the sector in 2013, are the catalysts for our complete exclusion of the sector within the strategy. Better opportunities can be found in the developed international markets, especially as the central banks of both Europe and Japan continue their quantitative easing programs. Both are expected to directly purchase billions in sovereign debt within those markets throughout 2016. The GIM team’s international exposure will remain limited to USD hedged debt as we expect the U.S. dollar to continue to strengthen next year.

In summary, we anticipate bond returns to echo current yields with more volatility based on Federal Reserve intervention in the rate environment. Opportunistic choices within the credit space could lead to outperformance over traditional bond asset mixes. While our absolute return projections are somewhat muted compared to historical averages, we anticipate inflation-adjusted returns to be more in-line. Bonds will continue to provide diversification benefits to a basket of equity and alternative assets and still require inclusion to help provide protection in risk-off environments.
Global Exchange Rates Provide Opportunities and Risks for 2016

The domestic equity market is expected to continue the trend of better returns over its broad international competitors and will likely post reasonably good results for 2016. While there are some negative aspects that will be of concern as the year progresses, the strengthening dollar is expected to have a positive effect on the majority of the domestic economy as well as U.S. equity returns.

Two hot spots to note include equity valuations and U.S. exports, which are likely to be troublesome for some time. Most notably, U.S. equity valuations based on historical price-earnings (P/E) ratios are well above the 10-year average for the S&P 500, but there is significant justification for this as interest rates are low, balance sheets look quite good, and cash from foreign markets is flowing into U.S. stocks in order to take advantage of the appreciating dollar. U.S. exports continue to be under stress from the appreciating dollar as our goods become more expensive abroad; however, with manufacturing and agriculture representing approximately 15 percent and 1 percent, respectively, of the U.S. economy, the negative impact may be overstated. Both valuations and exchange rates are certainly concerns, but should be offset by the more positive aspects of the economy. As a result, we expect to see reasonable U.S. equity returns despite higher valuations and potentially disappointing ISM Manufacturing reports well into 2016.

Positive U.S. economic data is continuing to emerge as expected and is indicative of a continuing equity bull market. The unemployment numbers and initial jobless claims have improved to the point where we are now seeing increases in average hourly earnings and personal income growth. Personal spending has yet to fully reflect these numbers, but we are seeing an upward trend, including the use of credit after years of decline. This is important as nearly two-thirds of the U.S. economy is driven by consumer spending. Holiday spending will likely be encouraged by low gasoline and import prices, and low interest rates. In fact, the boost could be significant enough to support the 12-month earnings per share growth estimate of 9.65 percent (Bloomberg Financial consensus), continued low unemployment and an ongoing bull market for U.S. equities.

Looking beyond the U.S., currency exchange rates and ongoing geopolitical risks are making it very difficult for international investments. We expect this to drive cash flows towards U.S. investments as foreign investors shy away from international exposure to avoid volatility and benefit from the strengthening dollar. We expect to see the higher P/E ratios continue for U.S. equities, low inflation, moderate interest rates and higher volatility for an extended period of time as international and emerging economies struggle to provide stimulus and stabilize or build exports.

Foreign equities will have to deliver big for relative performance to make up for potential currency declines and approach the relative performance of U.S. equities in dollars. Returns for these regions could reach into the high single and low double digits in their own currencies if commodity inputs remain low. As such, corporate profits will benefit from lower currency values through increased exports. Unfortunately, unhedged currency exposure for U.S. investors is likely to be a significant drag on foreign asset returns as the dollar continues to appreciate. As a result, we continue to recommend a

--- Equity Management
significant allocation to currency-hedged vehicles for foreign markets exposure. Looking to developed markets, we view Europe as a superior opportunity versus the recession-bound Japan or the commodity-heavy economies of Canada and Australia. Regardless of concerns about slowing economic growth and ongoing volatility, China is positioned to remain the most favorable among the major emerging market nations as ongoing policy reforms seek to expand internal consumer demand and reign in excessively speculative markets.

**The Bottom Line**

We predict the struggles in Europe and emerging markets will continue for 2016 and have consequences for domestic markets and U.S. investors. The news is generally reported as negative, but the ultimate results are likely positive for the U.S. as low commodity and energy prices may well lead to improving corporate profit margins and improved opportunities for resurgent U.S. consumers. Our Global Investment Management Equity Committee recommends a neutral to overweight for domestic markets with a tilt towards large cap, and an underweight to emerging markets with a modest tilt towards China. We also recommend an overweight to developed international markets using a tilt towards Europe, with a healthy currency hedge until exchange rates show signs of stability. Volatility should be expected in 2016, but a disciplined and diversified global portfolio with appropriate currency hedges may help investors ride out the storm and benefit from the available opportunities.
You Can’t Spell Volatility Without an “O”, an “I”, and an “L”

--- Alternatives Committee

In a year of tepid returns for most investments, alternative asset classes had a few bright notes, a couple of neutral contributors and one asset class - commodities - that was anything BUT bright.

We started 2015 with an expectation of increased volatility across most investments, which turned out to be accurate. Two major factors caused this volatility. The transition in monetary policy by the Federal Reserve was widely expected to occur this year, although they waited until the last minute to make that prediction accurate. Also, as we have written about extensively, the shift in the Chinese economy continues to have implications on the prospects for many investments, adding to overall bumpiness.

With this as a backdrop, the GIM team has favored investments that have returns less dependent on overall economic forces acting upon traditional financial markets. These strategies, known as “absolute return strategies” can range from a multitude of different objectives but overall these differ than traditional stock and bond strategies. They focus on producing positive returns in volatile or flat and/or declining markets with diversification benefits to provide more efficient risk-adjusted returns. Usually placed with alternative asset allocations, these strategies are sometimes deemed “boring” during strong equity markets, but are considered beneficial for the potential to add positive performance during risk-off periods. Tightly controlled, diversified futures trading strategies and a reinsurance risk premium strategy are two ways overall volatility within traditional stock and bond portfolios may be reduced while maintaining positive absolute return expectations.

A neutral returner should show more promise internationally. After an extremely strong 2014, real estate investment trusts (REITs) cooled off in 2015 but still look to finish the year slightly in the positive. The cheap cost of capital due to low interest rates across the globe and improving economies in developed markets are both contributors to current performance, as well as the expectation for positive performance in 2016. As domestic monetary policy departs from what is being employed in many other world economies, international real estate should benefit as rates outside of the U.S. remain depressed and the economies move through a fragile recovery.

Commodities, which are traditionally the largest allocation within alternative investment sectors, were the largest detractor in 2015 and will likely continue as such into the beginning of 2016. Investors tend to place a premium on investments that demonstrate consistency, which has certainly been the case for most commodity futures this year. Unfortunately, the price direction for most has been consistently and unrelentingly negative. The build-up in capacity and subsequent decline in Chinese demand is the primary reason for these price declines. Most commodity producers require massive capital investments to increase production and engage in multi-year sales and supply chain contracts. The long cycle of capital outlays and contracts stand in stark contradiction to the real time inventory control that many capital-efficient retailers currently employ (think WalMart). This puts pressure on commodity-driven nations to continue production even as demand and profits falter. As a result, it will take some time to balance the supply and demand curves before commodity prices start to increase. Our approach is to stay underweight going into the beginning of the year.

Another very interesting shift has been Organization of Petroleum Exporting Countries (OPEC’s) decision to maintain their market share versus defending a price level. The reality is their current market share is only slightly above 1/3 of total global production, which means that OPEC is now a price-taker versus a price-maker. While many OPEC nations are low cost producers and ultimately will see market share rise, there could be several years of financial pain as higher cost producers wind down production. We have maintained a neutral weighting to our benchmark in commodities throughout the year and continue into the first half of 2016. With projections for crude oil and...
liquid inventories to continue to rise by both the International Energy Agency (IEA) and the U.S. Energy Information Administration (EIA), we see the asset class as near bottom and without a lot of tailwind for the near-term.

The team also anticipates some highly leveraged oil producers to become distressed in the first half of 2016 as hedged-production contracts wind down. This should provide opportunity for larger, financially sound players to pick up assets at attractive prices. At this point, we won’t say the broad commodity market has bottomed but will say that it is in the process of bottoming. The socio-economic tenets within emerging economies, particularly Asia, will continue to see their populations seek a higher standard of living, which means greater demand for all types of commodities. Ultimately, the cost of production cannot remain above the current spot price. As of December 14th one-third of all the global oil produced, as of that day’s prices, was uneconomical, as reported by Ehsan Ul-Haq, senior consultant at KBC Advanced Technologies Plc. Eventually, the balance will be restored, but it will take time for producers to work their way out of the market.

Looking forward to the next several months, we anticipate continued volatility as the global economy digests the first increase in the Fed Funds rate since 2007. Coupled with uncertainty about global economic growth, this should favor our allocations to less equity market-dependent, absolute return strategies. The higher yields afforded by REITs and a continued low interest rate environment, especially overseas, continue to provide attractiveness to the sector. With the expectations for a strengthening international economy, we anticipate increasing our allocations to non-U.S. REITs in the coming months.
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Asset allocation and diversification strategies do not ensure a profit nor protect against loss in a declining market.

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The discussions and information set forth in this newsletter are prepared by and are the views of the Global Investment Management Division of the Bank of the West Wealth Management Group.

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Definitions

Absolute Return strategies are designed to help reduce volatility in volatile markets and provide protection against losses in declining equity markets. These strategies are not necessarily designed to outperform equity or fixed income markets. There is no guarantee of positive returns or that the strategy will meet its stated objectives.

Barclays U.S. Universal Bond Index is an unmanaged index comprising US dollar-denominated, taxable bonds that are rated investment grade or below investment grade.

Bloomberg is a major global provider of 24-hour financial news and information including real-time and historic price data, financials data, trading news and analyst coverage, as well as general news and sports.

Bloomberg Commodity Index is a broadly diversified index that allows investors to track commodity futures through a single, simple measure. The Index is composed of commodities traded on U.S. exchanges, with the exception of aluminum, nickel and zinc, which trade on the London Metal Exchange (LME).

Bureau of Labor Statistics is the arm of the U.S. Department of Labor that researches and publishes a range of data, from inflation and consumer spending to employment, productivity and wages, as well as other economic measures.

CBOE Volatility Index (VIX) is the Chicago Board Options Exchange Volatility Index reflects a market estimate of future volatility, based on the weighted average of the implied volatilities for a wide range of strikes. 1st & 2nd month expirations are used until 8 days from expiration, then the 2nd and 3rd are used.

Corporate bonds are debt obligations issued by corporations. An investment in corporate bonds is subject to a variety of risks including credit and default risk, market risk, event risk, call risk, interest rate risk, foreign risk, and sector risk.

Dow Jones Average (DOW) is a composite of the price movement of 65 stocks, including 30 industrials, 20 transportation, and 15 utilities.

Dow Jones U.S. Real Estate Index is a subset of the Dow Jones US Index and represents Real Estate Investment Trusts (REIT) and other companies that invest directly or indirectly in real estate through development, management or ownership, including property agencies. Index is float-adjusted and market cap weighted.

Duration is the weighted average maturity of the security’s cash flows, where the present values of the cash flows serve as the weights. The greater the duration of a security, the greater its percentage price volatility.

Earnings Per Share (EPS) is the portion of a company’s profit allocated to each outstanding share of common stock. EPS serves as an indicator of a company's profitability and is calculated as net income less dividends on preferred stock divided by average outstanding shares.

Emerging Market countries have economies that are progressing towards becoming advanced, as shown by some liquidity in local debt and equity markets and the existence of some form of market exchange and regulatory body.

The euro is the official currency of the European Union's (EU) member states.

European Union (EU), Eurozone is a group of European countries that participates in the world economy as one economic unit and operates under one official currency, the euro. The EU’s goal is to create a barrier-free trade zone and to enhance economic wealth by creating more efficiency within its marketplace.

The federal funds rate is the interest rate at which depository institutions actively trade balances held at the Federal Reserve, called federal funds, with each other, usually overnight, on an uncollateralized basis. Institutions with surplus balances in their accounts lend those balances to institutions in need of larger balances.

Federal Open Market Committee (FOMC) is a committee that sets interest rate and credit policies for the Federal Reserve System, the U.S. central bank. The committee decides whether to increase or decrease interest rates through open-market operations of buying or selling government securities.

Federal Reserve (Fed) is the federal banking authority in the U.S. that performs the functions of a central bank and is used to implement the country’s monetary policy, providing a national system of reserve cash available to banks. Fiscal policy is government spending policies that influence macroeconomic conditions. These policies affect tax rates, interest rates and government spending, in an effort to control the economy.

Federal Reserve Board (FRB) is the Federal Reserve System’s Board of Governors, who are appointed by the President and confirmed by the Senate. The Board administers the system’s regulations and supervises its 12 banks. It also sets margin and bank requirements, as well as the system’s discount rates.

Frontier Markets are less advanced capital markets from the developing world. Frontier markets are countries with investable stock markets that are less established than those in the emerging markets. They are also known as “pre-emerging markets”.

General obligation bonds are municipal bonds, backed by the full faith and credit of the issuer, which is repaid from either the issuer’s limited or unlimited ad valorem taxing power. These bonds represent a promise by the municipal issuer to levy enough taxes as necessary to make full and timely payments to investors.

Gross Domestic Product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period. Although GDP is usually calculated on an annual basis, Real Gross Domestic Product is an inflation-adjusted measure that reflects the value of all goods and services produced in a given year, expressed in base-year prices. Often referred to as “constant-price,” “inflation-corrected” GDP or “constant dollar GDP”. Real GDP can account for changes in the price level, and provide a more accurate figure.

The Institute of Supply Management (ISM) Manufacturing Index is a monthly index that tracks the amount of manufacturing activity that occurred in the previous month.

The Institute of Supply Management (ISM) Non-Manufacturing Index is a monthly index based on surveys of more than 400 non-manufacturing firms’ purchasing and supply executives, within 60 sectors across the nation.

International Energy Agency (IEA) is an international agency which provides policy advice to 28 member countries. The IEA was founded in 1973–74 during an oil crisis in order to help ensure energy security for member nations. The agency’s primary mandate is to focus on the policies regarding the “three Es”: energy security, economic development and environmental protection.

Investment Grade is a description of a bond considered eligible for bank investment. Such bonds are rated Baa or above by Moody’s or BB+ or above by Standard & Poor’s.

Market Capitalization is a company’s worth calculated by multiplying the shares outstanding by the price per share. For companies with multiple shares, the market cap is equal to the market capitalizations of all common stock classes. For indices, this equals the sum of the current market values of the securities used to compute the index. The stocks of large, medium and small companies are referred to as large-cap, mid-cap, and small-cap, respectively. Investment professionals differ on their exact definitions, but the current approximate categories of market capitalization are: Large Cap: $10 billion plus and include the companies with the largest market capitalization. Mid Cap: $2 billion to $10 billion. Small Cap: Less than $2 billion.

Monetary policy is the actions of a central bank, currency board or other regulatory committee that determine the size and rate of growth of the money supply, which in turn affects interest rates. Monetary policy is maintained through actions such as increasing the interest rate, or changing the amount of money banks need to keep in the vault (bank reserves).

Mortgage-backed securities (MBS) are debt obligations that represent claims to the cash flows from pools of mortgage loans, most commonly on residential property. Mortgage loans are purchased from banks, mortgage companies, and other originators and then assembled into pools. The entity
then issues securities that represent claims on the principal and interest payments made by borrowers on the loans in the pool, a process known as securitization. Mortgage backed securities are subject to prepayment risk.

**Mortgage Bankers Association (MBA)** is the national association that represents the real estate finance industry. The MBA works to help their members conduct business of single and multifamily mortgage finance by promoting fair and ethical lending practices, fostering professional excellence through educational programs and publications, providing news and information, and holding conferences.

**Municipal bonds** are debt obligations issued by states, cities, counties, and other public entities that use the loans to fund public projects. The interest income from municipal bonds is generally exempt from federal taxes and may be exempt from state and local taxes. Municipal bonds are subject to a number of risks such as interest rate risk, call risk, inflation risk, credit and default risk, and tax risks.

**Organization of Petroleum Exporting Countries (OPEC)** is an organization consisting of the world’s major oil-exporting nations. It was founded in 1960 to coordinate the petroleum policies of its members, and to provide member states with technical and economic aid. OPEC is a cartel that aims to manage the supply of oil in an effort to set the price of oil on the world market, in order to avoid fluctuations that might affect the economies of both producing and purchasing countries.

The Pew Research Center has experts that provide analysis of trends shaping America and the world grounded in the center’s rigorous empirical research. Because the center is strictly neutral, its experts do not make policy recommendations.

**Price–Earnings (P/E) ratio** is a valuation ratio of a company’s current share price compared to its per-share earnings.

**Real Estate Investment Trust (REIT)** is a corporation or business trust which owns, manages, and/or leases commercial real estate properties, and/or invests in real estate related securities, such as mortgaged-backed securities or whole loans. Investments in REITs are subject to the inherent risks of direct investment in real estate such as price fluctuation, liquidity, and concentration risks.

**S&P 500 Index** is a capitalization-weighted index of 500 stocks traded on the NYSE, AMEX and OTC exchanges, and is comprised of industrial, financial, transportation and utility companies.

**S&P MidCap 400® Index** provides investors with a benchmark for mid-sized companies. The index covers over 7% of the U.S. equity market, and seeks to remain an accurate measure of mid-sized companies, reflecting the risk and return characteristics of the broader mid-cap universe on an on-going basis.

**S&P SmallCap 600® Index** is a capitalization-weighted index consisting of 600 domestic stocks, measures the small company segment of the U.S. market.

**Treasuries (Treasury Bonds)** are debt obligations issued and backed by the full faith and credit of the U.S. government. Treasuries are subject to interest rate risk, call risk, and inflation risk. As Treasuries are backed by the full faith and credit of the federal government, they have low credit or default risk.

**U.S. Bureau of Census** is a division of the federal government of the United States Bureau of Commerce that is responsible for conducting the national census at least once every 10 years, in which the population of the United States is counted. The Bureau of Census is also responsible for collecting data on the people, economy and country of the United States.

**U.S. Energy Information Administration (EIA)** is a principal agency of the U.S. Federal Statistical System responsible for collecting, analyzing, and disseminating energy information to promote sound policymaking, efficient markets, and public understanding of energy and its interaction with the economy and the environment. EIA programs cover data on coal, petroleum, natural gas, electric, renewable and nuclear energy. EIA is part of the U.S. Department of Energy.

The **World Bank** was created at the end of World War II as a result of many European and Asian countries needing financing to fund reconstruction efforts. Created out of the Bretton Woods agreement of 1944, the Bank was successful in providing financing for these devastated countries. Today, the Bank functions as an international organization that attempts to fight poverty by offering developmental assistance to middle and poor-income countries. By giving loans, and offering advice and training in both the private and public sectors, the World Bank aims to eliminate poverty by helping people help themselves.

The **yuan** is the basic monetary unit of China. One cannot invest directly in an index.