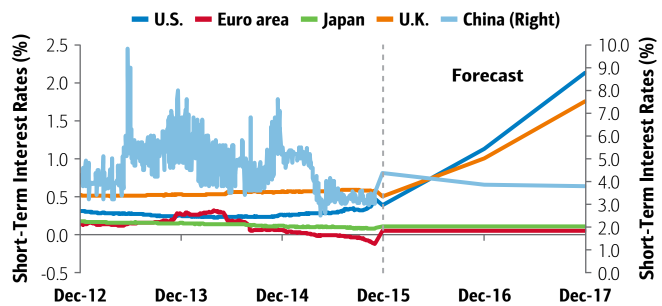
2016 Outlook: You Can Go Your Own Way

The coming year is likely to be a turning point in global economic history, as the Federal Reserve (Fed) begins to normalize U.S. interest rates after seven years of unprecedented accommodation. This "end of the experiment" and the beginning of higher interest rates will occur when most other major central banks are lowering rates, as structural issues like falling global trade, high sovereign debt burdens, and lower-than-wished-for economic growth dominate many policymakers' agendas. Rather than following the Fed with higher rates in 2016 (as occurred in previous cycles), the European Central Bank (ECB) and the Bank of Japan (BoJ) are likely to increase monetary stimulus, in our view, while the Chinese authorities focus on their own stimulus of lower rates and additional fiscal measures to maintain a lower but potentially steadier economic growth rate (see Exhibit 1). One factor that may complicate the Fed's job is the U.S. dollar. Likely to be buoyed by higher interest rates in the U.S. versus most other markets, the U.S. could see capital inflows, which would strengthen the dollar and make the pace of rate increases low and slow.

Exhibit 1: Market expectations see a divergence in rate policy for 2016 and beyond



Source: BofAML Global Economics Research, Bloomberg and ML GWM Investment Management & Guidance. Data as of December 7, 2015.

Against this low rate and inflation backdrop, we see global economic growth as a mixed bag (see Exhibit 2 on the next page). Developed Markets (DMs), led by the U.S., are likely to exhibit reasonable growth in 2016, fueled by domestic consumers. The picture is not so optimistic in Emerging Markets (EMs), as weaker currencies and lower commodity prices suggest varied growth across EMs and highlight the need for investors to be selective at the country level. Increasingly, we see risks to global growth emanating from geopolitics, as tensions in the Middle East and Europe have the potential to spill over into economies and capital markets. Nonetheless, consumers around the world are in relatively

The Wealth Allocation Framework

LIFE PRIORITIES

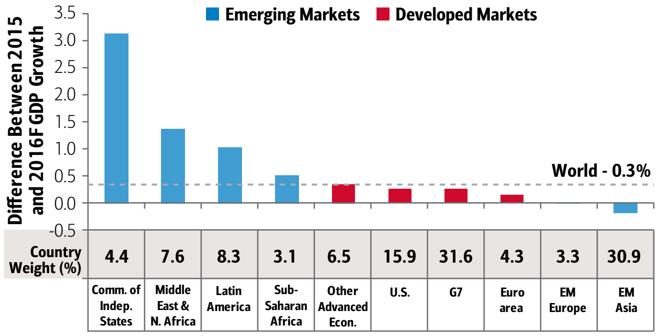
The Wealth Allocation Framework helps you put your goals and aspirations at the center of decisions about allocating your financial resources. **This Monthly Letter focuses on strategies that may be appropriate for the Personal and Market asset categories.**

Personal: Individual investors have a desire for safety and personal financial obligations they want to meet regardless of market conditions. To safeguard essential goals, investors can hold lower-risk assets—but they have to accept lower returns in exchange.

Market: When we invest, we strive to capture market growth most efficiently. Today, access to a broadening array of asset classes and types makes diversifying beyond stocks and bonds easier than ever before.

To learn more, read the whitepaper, *Investing in a Transforming World: The Wealth Allocation Framework*

Exhibit 2: Reasonable growth driven by Developed Economies



Source: International Monetary Fund and ML GWM Investment Management & Guidance. Country weights are gross domestic product based on purchasing-power-parity (PPP) share of world total (Percent).

good shape, and the expected growth in their spending in 2016 suggests the risk of a recession is low, especially in developed economies.

With interest rates low and profit margins still high, we believe equities could outperform bonds, but by a small margin, in 2016. However, for all the major asset classes, we see lower expected returns and higher volatility than before (see Table 1). High starting valuations and potentially higher interest rates are likely to weigh on returns from equities and bonds in DMs next year. EMs and commodity prices, meanwhile, are likely to be challenged by a stronger dollar and excess supply, keeping broad returns muted. However, we expect market volatility to create divergences among investment styles, countries, credit ratings and commodity sectors—these will be where opportunity lies. Beyond 2016 and over the next three to five years, we think the real value opportunities will lie in picking through areas of bursting over-investment: energy, industrials, and EMs. Within bonds, our preferred sectors remain high-quality municipals and Investment Grade bonds over High Yield. However, it is important to be discerning in the credit space, and having a good active manager with a history of prudent risk management and superior security selection will matter.

A world of high tax rates, higher market volatility and lower average returns will place a premium on managing after-tax returns, and we think investors should continue to review portfolios for the appropriate balance among tax-efficient investing, risk management, and active and passive solutions.

Table 1: Outlook 2016: Continue to favor equities over bonds

Macro:

- A mixed macro environment with slightly better overall growth; developed economies outperform developing economies
- A dichotomy in monetary policies, with the U.S. exiting the giant experiment, while Europe, Japan and China move further into it
- Inflation, though rising slowly, should remain muted, supporting our outlook for rates to remain lower for longer
- The China growth outlook remains a worry, but less so, as investors discount slower Chinese growth prospects

Micro and Markets:

- A year of two halves: First-half positive news flow leads to positive investment flows. In the second half, higher rates and geopolitical risks in Europe could mean a stall in equity price appreciation; higher volatility globally, notably in Emerging Markets
- A positive view on U.S. equities and a preference for Europe and Japan regionally, on a hedged basis
- High-quality investments to outperform across all asset classes. High domestic exposure sectors to outperform
- A barbell approach is still favored in fixed income, as returns are unattractive
- Favor munis and high-quality credit over High Yield and Treasuries
- Longer-term investors (with investment horizons of more than five years) could look at averaging into energy, miners, EMs and industrials, given attractive valuations
- Tax efficiency, cash flow accumulation, active management, thematic tilts, and Alternative investments all rise in importance to protect gains, manage liabilities, extract return in low-return environment, or protect against episodic volatility

Source: ML GWM Investment Management & Guidance.

By the numbers: BofAML Global Research Forecasts

S&P 500 Outlook:	**2016E**	
Target	2,200	
EPS	$125.00	
Real Gross Domestic Product:	**2016E**	**2017E**
Global	3.4%	3.7%
U.S.	2.5%	2.3%
Euro area	1.7%	1.8%
Emerging Markets	4.3%	4.8%
U.S. Interest Rates:	**2016E**	**2017E**
Fed funds rate (EOP)	0.25-0.50%	1.00 - 1.25%
10-Year Treasury	2.65%	N/A
Commodities:	**2016E**	**2017E**
Gold	$1,088.00	$1,213.00
WTI crude oil	$48.00	$59.00
Currency:	**Dec-16E**	**Dec-17E**
EUR-USD	0.95	1.00
USD-JPY	120.00	120.00

Source: BofAML Global Research. Data as of November 22, 2015.

Equities: A year of two halves

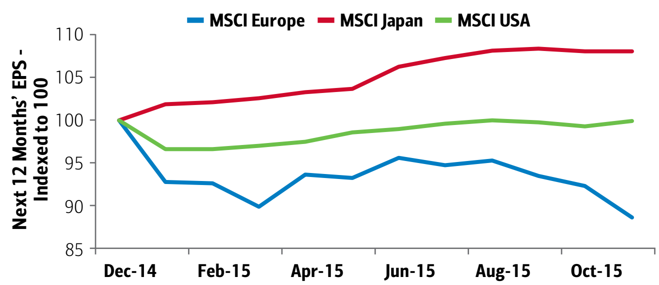
We remain constructive on U.S. equities for 2016, as corporate earnings should improve versus 2015. A patient and slow Fed hiking cycle suggests the current strong corporate profit margins story that supports continued share buybacks will remain intact. We see the first half of 2016 as a period of stronger economic and earnings growth, as comparisons will be easier, and we believe there could be corresponding market gains. In the second half, growth and earnings comparisons will be likely discounted, and we could see stocks adjusting to lower expectations. The August 2015 sell-off was an indication that, with low economic growth and full valuations, a number of factors like stocks likely will be sensitive to weakening global growth, diverging global interest rates, a policy mistake or a perception of one by any major central bank, and rising geopolitical tensions.

Despite the headwinds there are few alternatives to equities, as they remain a source of capital growth and income and have attractive valuations relative to bonds. If this aging bull market, already one of the longest on record, reverses, it should create buying opportunities for long-term investors.

Supporting stocks in 2016 should be modest corporate earnings growth, buoyed by the "base effect"[1] from the energy sector. A rising tide of volatility should favor higher-quality companies—those with strong balance sheets, growing cash flows and dividends in domestically focused industries like health care, housing and the consumer. In the U.S., our preferred sectors are Information Technology, Health Care and select Industrials that have already adjusted to a likely stronger U.S. dollar. In our view, Health Care has one of the best growth opportunities long-term, as demand continues to rise, given aging populations globally. In Information Technology, cash on corporate balance sheets remains high, and earnings growth is expected to be stable. The outlook for the Energy sector is likely to remain mixed in 2016 as lower commodity prices, slower manufacturing, China growth risks and a stronger dollar weigh on the sector overall. The significant sell-off in energy prices this year leaves the sector one of the most attractively valued. While attractive valuations alone are not enough of a catalyst for a positive view, depressed valuations present opportunities for investors with a longer time horizon to pick individual companies with a strong fundamental outlook.

Outside the U.S., we see the need to hedge currency exposures to Europe and Japan—our preferred equity markets. Our positive view on Europe is supported by recovering domestic demand, attractive valuations relative to those in the U.S. and scope for additional policy stimulus. Our positive view on Japan is supported by the BofA Merrill Lynch (BofAML) Global Research Japanese Economics team, which sees a high probability that the country's quantitative easing will continue. Japan also has the strongest earnings revisions as corporate profit margins improve, a strong funds flow story as domestic and foreign investors begin to see the market's value and growth potential, and clearer signs of federal and corporate reform (see Exhibit 3). A stronger dollar, potentially higher U.S. rates, and low commodity prices leave us with a negative view on EM equities.

Exhibit 3: Japan continues to have the best earnings expectations over the next 12 months



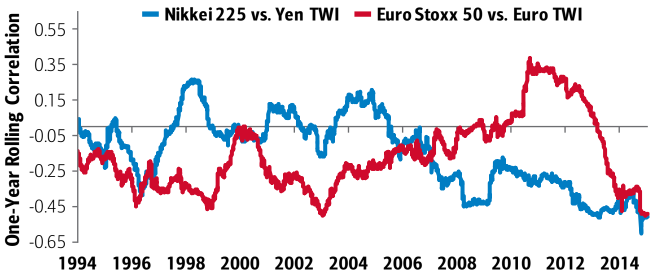
Note: Next 12 Months' Earnings per Share (EPS) are in local currency.
Source: FactSet and ML GWM Investment Management and Guidance.
Data as of November 30, 2015.

Our preference for managing currency risk associated with international equity investing is guided by the relationship between international equities and currencies, which has moved to extreme levels for Europe and Japan (see Exhibit 4 on the next page). We expect the negative relationship to persist in 2016, giving a boost to corporate and exporter revenues, but making it advisable for U.S. investors to manage downside currency risks.

Portfolio Strategy: The recent pullback in equities signals a period of higher episodic volatility driven by global policy concerns. There could be further weakness should earnings weakness persist in the short term. We believe investors should lean towards higher-quality companies—those with growing/stable

[1] Since the Energy sector's Earnings Per Share (EPS) fell significantly in 2015 (due to a decline in commodity prices), even a small improvement in them in 2016 would result in a big boost to overall corporate earnings growth.

Exhibit 4: Currency/equity correlations make the case for U.S. investors in Developed Market equities to remain hedged



Source: FactSet, Bloomberg and ML GWM Investment Management & Guidance. Data as of November 30, 2015. **Note:** TWI = Trade Weighted Index.

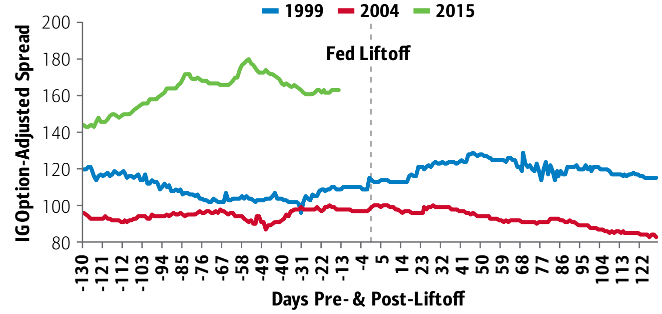
earnings, low leverage, stable free cash flow and high credit ratings, which should prove more resilient in the face of continued volatility. Our base case calls for an improvement in the global economy, a measured interest rate hiking cycle from the Fed, and the continuation of accommodative central bank policies in Japan and Europe. Within Japan, consider adding to domestically focused companies and exposure to high-quality Japanese companies on pullbacks. Consider going slower on Europe as the refugee crisis unfolds and the policy response becomes clearer.

Fixed Income: Be selective; tighter spreads, high dispersion and low quality

We remain constructive on parts of the credit markets in 2016, with the BofAML Credit Strategy team expecting spreads to tighten in investment-grade credit next year as global growth chugs along. However, we think the recovery in risk appetite will be slow, and we expect both the Investment Grade (IG) and High Yield (HY) markets to remain split, as they have been in 2015, with the average yields masking wide divergences in credit quality and liquidity. As highlighted in our recent Investment Insights, *A Different Bond Market: Low Rates and Higher Volatility*, we are increasingly of the view that the "tide is going out" on corporate bond liquidity and believe investors need to shift their fixed income strategy to account for higher liquidity risks.

A low and slow pace to higher interest rates in 2016 should not pose outsized risks to diversified bond portfolios. We think the current level of bond spreads will resist higher rates, as they have in the past (see Exhibit 5). Our confidence in dealing

Exhibit 5: We expect IG spreads to resist higher rates, as they did in the past

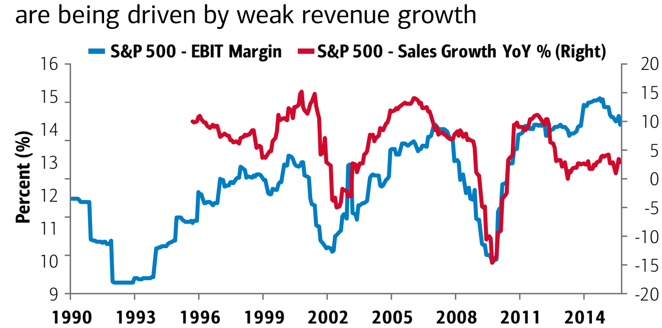


Source: Bloomberg and ML GWM Investment Management & Guidance. Data as of November 27, 2015.

with higher rates is based on our view that the demand for yield will remain strong—keeping the demand for bonds high, yields from running up too much, and thus prices from falling too much. For investors looking for income, we think the low-yield, low-inflation environment of 2015 set the stage for diversifying the sources of income in portfolios—going beyond fixed income coupons and stock dividends.

The fixed income markets will not be without risks next year. Across both IG and HY so much new corporate debt has been issued to support dividends that both IG and HY balance sheets are becoming more levered, making them susceptible to slowing revenue growth. As we noted in our November Monthly Letter, *Five Big Surprises of 2015*, in the first half of this year the deterioration of credit quality was from a "double whammy" of increasing net debt on balance sheets and weak earnings growth (see Exhibit 6). While this is concerning, historically high profit margins allow companies to carry a higher debt burden, while the strength in profit margins mitigates some of the risk from carrying a higher debt burden.

Exhibit 6: Margins are holding up; declining earnings are being driven by weak revenue growth



Source: FactSet and ML GWM Investment Management & Guidance. Data as of November 30, 2015.

Portfolio Strategy: We view bonds as essential for diversification and income purposes, with high-quality issues comprising the core of a fixed income portfolio. Our preferred sectors remain high-quality municipals and IG bonds over HY bonds. The outlook for HY is challenging, given its higher exposure to commodity-related sectors, and the BofAML HY team's view is that Fed tightening policy in the context of lower liquidity will drive spreads wider. Leveraged loans are an alternative, given relatively less commodity exposure. Although many of the same issues exist for leveraged loans as for HY bonds, the BofAML HY team does not believe that fundamentals are particularly worse. In fact, default rates should be lower, recoveries higher (though maybe not as high as normal) and technicals should remain conducive to positive loan performance next year.

It is true that bond markets have become more illiquid, and likely will continue to be as a large buyer of bonds (the Fed) becomes more discriminating in 2016. The BofAML Fixed Income Strategy team notes that longer-term investors who can ride waves of volatility brought on by illiquidity ought to focus more on market fundamentals like credit quality and interest rate risk. Those fundamentals do not give cause for longer-term investors to take drastic measures. We advise investors to stay the course with a diversified, core/satellite bond allocation of quality holdings for the core and credit and duration risks in the satellite. Investors with shorter time horizons and greater liquidity needs should consider reserving for those needs in cash or cash-like investments.

Alternative Investments: Greater volatility and uncertainty; diversification favored

Commodities: In the commodities markets, 2016 is likely to look very much like 2015, as the trends of low growth, low inflation, and a strong U.S. dollar will remain headwinds for most commodities. The fundamental picture for most commodities—oversupply—does not help.

In our April Monthly Letter, *The New Energy Order*, we argued that strong EM commodity demand bid prices up over the last few years. Ultimately, this created incentives for capacity-building and technological innovation in shale—leading to today's oversupply and to a place where energy prices have been searching for a bottom in the second half of 2015. For 2016, we think energy markets will continue their search, as the intersection of deflating input costs, a strengthening of the U.S. dollar, and the overhang of $13 trillion in EM U.S. dollar-denominated debt repayments will keep commodity producers and miners locked in a bumpy downward trajectory for 2016.

Hedge Fund Strategies: We see two key market trends currently taking shape to help strengthen the case for more flexible, opportunistic and targeted strategies in portfolios: 1) a rise in market volatility, spurred by diverging global interest rates, and 2) an increase in corporate actions, such as mergers, acquisitions and divestitures, spurred by an ongoing desire to generate returns amid low revenue growth and high profit margins. Rising market volatility and the ensuing fear, greed and momentum it brings will create opportunities for Alternative Investment strategies like Global Macro and Managed Futures and Event-Driven.

Private Equity: Investors looking to take more equity risk and who can be patient with their capital can consider investing in the private markets. Private Equity (PE) investments have proven to be remarkably resilient, and we continue to have a favorable view on this asset class, which offers significant illiquidity premiums. Against the backdrop of lower inflation and lower public market expectations, the premium of PE investments over their public market counterparts becomes an increasingly important component of a diversified portfolio's return potential.

Currently, we see opportunities in private credit, energy, technology and real estate. We continue to seek managers with a long-term track record; a cohesive, experienced team; a repeatable process for improving portfolio performance; and a significant history of value creation from multiple sources—revenue increases, cost reduction, management upgrades and process improvement. Direct real estate offerings also present opportunities for long-term investors, as supply in the real estate market remains tight and rents continue to improve with the economy.

Portfolio Strategy: We continue to believe that a strong U.S. dollar and subdued global growth would continue to pressure commodity prices. Fundamental pressures such as oversupply in the energy markets are likely to persist in 2016; however, the BofAML Commodities team expects demand to improve slightly. Our view of greater volatility and uncertainty continues to support our favorable view on diversifying alternatives, such as Global Macro and Managed Futures hedge funds. For qualified investors, there should be opportunities to capture illiquidity premiums in Private Equity funds focused on lending or real estate. For more detail on our Alternatives strategy, please see our recent whitepaper, *The Alternatives Evolution*.

2016 Scenarios and Risks

After almost seven years of a bull market in stocks, there are many factors that could serve to pause or slow progress in 2016. We think reviewing potential scenarios for the year can help investors align their asset allocation and portfolios more clearly to their goals and their tolerance for risk (see Table 2).

While central bank policies are likely to diverge more in 2016, we see a few additional risks investors should keep an eye on for next year. With the world broken in two parts, the risk remains that the U.S. and other DMs are not as insulated from the slowdown in EMs, particularly China, and join the slump. Would a larger-than-expected fall in Chinese investment lead to a material uptick in financial volatility that could inhibit the Fed? Because of its scale, Chinese investment, if it were to contract or come close to contracting, could cause a massive shock to the world economy. Risk aversion would take hold, potentially causing a global GDP recession. Commodity-exporting economies, which suffered this year, would be hit most directly. The risk scenario of contracting investment is a low-probability, high-impact event on which investors are justified to focus. However, the BofAML Chinese Economics team thinks that a rebound in Chinese growth early next year, amid stimulus and a global recovery, is far more likely.

We are also concerned about greater volatility and uncertainty from geopolitical risks, as discussed in our latest Weekly Letter, *Geopolitical Risks in 2016*. While events such as the November 13 terrorist attacks in Paris are random and therefore almost impossible to predict, the confluence of geopolitical risks leads us to emphasize our preference for diversifying strategies and the importance of aligning portfolios with risk tolerance.

Should central banks find themselves behind the curve, another risk that concerns us is a drift higher in DM core inflation, particularly in the U.S, raising the risk of a policy mistake. In the U.S., there is the potential for an employment market at full capacity to spur a noticeable increase in inflation. Higher U.S. inflation could trigger higher interest rates and tighter financial conditions. An increase in inflation to levels closer or above the Fed's target rate of 2%, especially if it comes amid a rebound in global growth and Fed hikes, could guide markets toward expecting a steeper tightening cycle. Higher inflation could lead to higher rates, volatility and economic risks.

Table 2: Chief Investment Office – 2016 Macroeconomic and Market Scenarios

Base Case: Chugging Along	Bull Case: Strong Growth	Bear Case: Policy Collapse
• Longer U.S. business cycle leads developed world, bumpy path to recovery for China and more broadly EMs. • We are optimistic on DMs. Global economy continues to grow moderately, supported by DMs, as ECB and BoJ continue easy monetary policy. • Central banks remain accommodative, with Fed liquidity being partially replaced with ECB and BoJ quantitative easing. • EM countries dependent on exports of oil and other commodities continue to struggle.	• Growth accelerates sharply across both DMs and EMs, with Chinese growth especially rebounding. • ECB and BoJ maintain, or even increase, the amount of monetary easing and their commitment to it. EM central banks engage in policy easing as well. • Commodity prices stabilize, allowing commodity-exporting EMs to stabilize growth as demand increases from stronger global growth.	• Ongoing turmoil in EMs spills over to DMs, as growth stalls globally. Chinese growth shocks on downside and policy stimulus is insufficient. • Weaker growth in DMs puts downward pressure on already lower levels of inflation, adding to deflationary concerns. • Fed, which has been preparing investors for rates to rise, may have to do an about-turn and remain on hold for foreseeable future, leading to a flight to quality in U.S. Treasuries and, in turn, to lower rates near-term. • Equity markets likely experience broad declines and higher volatility, with bonds outperforming as yields head lower.

Source: ML GWM Investment Management & Guidance.

Conclusion: In 2016, global growth should inch higher, driven by DMs, but inflation—though rising slightly—should remain muted, allowing interest rates to remain lower for longer. In addition, central bank policy divergence should bring about greater volatility and a firmer U.S. dollar next year. We expect equities to outperform bonds, but acknowledge returns are likely to be lower, in 2016.

When assessing your portfolio in light of our current guidance, consider the tactical positioning around asset allocation in reference to your own individual risk tolerance, time horizon, objectives and liquidity needs. Certain investments may not be appropriate, given your specific circumstances and investment plan. Certain security types, like hedged strategies and private equity investments, are subject to eligibility and suitability criteria. Your Financial Advisor can help you customize your portfolio in light of your specific circumstances.

ASSET CLASS	CHIEF INVESTMENT OFFICE VIEW					COMMENTS
	Negative		Neutral		Positive	
Global Equities				●		Further upside expected based on improving economic and earnings growth and valuations, which remain close to fair value. However, return expectations should be lower than in recent history.
U.S. Large Cap			●			Full valuations and headwinds of stronger dollar, lower energy prices and weak economic activity may lead to higher volatility. Higher quality is preferred in a rising volatility environment.
U.S. Mid & Small Cap			●			Valuation multiples remain extended, although the valuation gap with large caps has narrowed. Investors with a higher risk tolerance may consider select opportunities within higher-quality small caps.
International Developed				●		We are incrementally more bullish on European equities after the ECB's announcement of sovereign QE; we prefer Japan, as it should benefit from continued reflationary "Abenomics."
Emerging Markets		●				Stronger dollar, weaker growth in China and downward pressure on commodity prices will likely challenge EM equities. We recommend being selective and prefer reform-minded countries such as India.
Global Fixed Income		●				Bonds continue to provide diversification, income and stability within total portfolios. Interest rates remaining lower for longer limit total return opportunities in bonds.
U.S. Treasuries		●				Prefer to be short duration, as longer maturity yields rise on better global growth. Current valuations are stretched, especially on longer maturities.
U.S. Municipals				●		Valuations relative to Treasuries remain attractive, and tax-exempt status is not likely to be threatened in the near term; advise a nationally diversified approach.
U.S. Investment Grade			●			Current valuations do not offer much room for spread tightening and leave Investment Grade more susceptible to rising rates.
U.S. High Yield			●			High yield still offers a relatively attractive profile, given a low corporate default outlook. However, now is not the time to add to overweight positions, as HY could be challenged by advances in the credit cycle and the Fed starting to raise interest rates.
U.S. Collateralized			●			Higher rates and Fed tapering are likely to increase spread volatility. A shortage of new issues should counter the effects of tapering.
Non-U.S. Corporates			●			Select opportunities in European credit, including financials; however, any yield pickup likely to be hampered by a stronger dollar.
Non-U.S. Sovereigns		●				Yields are unattractive after the current run-up in performance; prefer active management.
Emerging Market Debt			●			Vulnerable to less accommodative Fed policy and lower global liquidity; prefer U.S. dollar-denominated EM debt. Local EM debt likely to remain volatile due to FX component; prefer active management.
Alternatives*				●		Select Alternative investments help broaden the investment toolkit to diversify traditional stock and bond portfolios.
Commodities			●			The steep decline in commodity prices should help spur growth and, in turn, demand. However, headwinds may persist, given a stronger U.S. dollar, rising rates, and supply/demand imbalances.
Hedged Strategies			●			Equity long/short should benefit from reduced correlation among equities. Global Macro and Managed Futures typically benefit from increased levels of market turbulence.
Real Estate				●		Prefer direct real estate investments. Within REITs, volatility is likely to increase as rates rise; opportunities remain in apartment and office sectors.
Private Equity				●		The combination of an improving economy and a strong liquidity environment is facilitating investment . The M&A market is highly competitive, but attractive investment opportunities remain.
U.S. Dollar				●		Stronger domestic growth and a less dovish Fed policy (relative to the monetary policies of other Developed Markets' central banks) support a stronger dollar going forward.
Cash		●				Monetary policy by Developed Market central banks reduces the attractiveness of cash, especially on an after-inflation basis.

* Many products that pursue Alternative Investment strategies, specifically Private Equity and Hedge Funds, are available only to pre-qualified clients.

Appendix

Index Definitions

The **EURO STOXX 50 Index**, Europe's leading blue-chip index for the eurozone, provides a blue-chip representation of supersector leaders in the eurozone. The index covers 50 stocks from 12 eurozone countries.

The **Euro TWI** is represented by the Goldman Sachs Euro Trade Weighted Index.

The **MSCI Europe Index** captures large and mid cap representation across 15 Developed Market (DM) countries in Europe. With 441 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across the European DM equity universe.

The **MSCI Japan Index** is designed to measure the performance of the large and mid cap segments of the Japanese market. With 318 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.

The **MSCI USA Index** is designed to measure the performance of the large and mid cap segments of the U.S. market. With 636 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in the U.S.

The **Nikkei 225** is comprised of 225 stocks selected from domestic common stocks in the first section of the Tokyo Stock Exchange, excluding ETFs, REITs, preferred equity contribution securities, tracking stocks (on subsidiary dividend), etc., other than common stocks.

The **S&P 500 Index** is widely regarded as the best single gauge of the U.S. equities market. This world-renowned index includes a representative sample of 500 leading companies in leading industries of the U.S. economy. Although the S&P 500 focuses on the large cap segment of the market, with approximately 75% coverage of U.S. equities, it is also an ideal proxy for the total market. An investor cannot invest directly in an index.

The **Yen TWI** is represented by the Goldman Sachs Yen Trade Weighted Index.

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