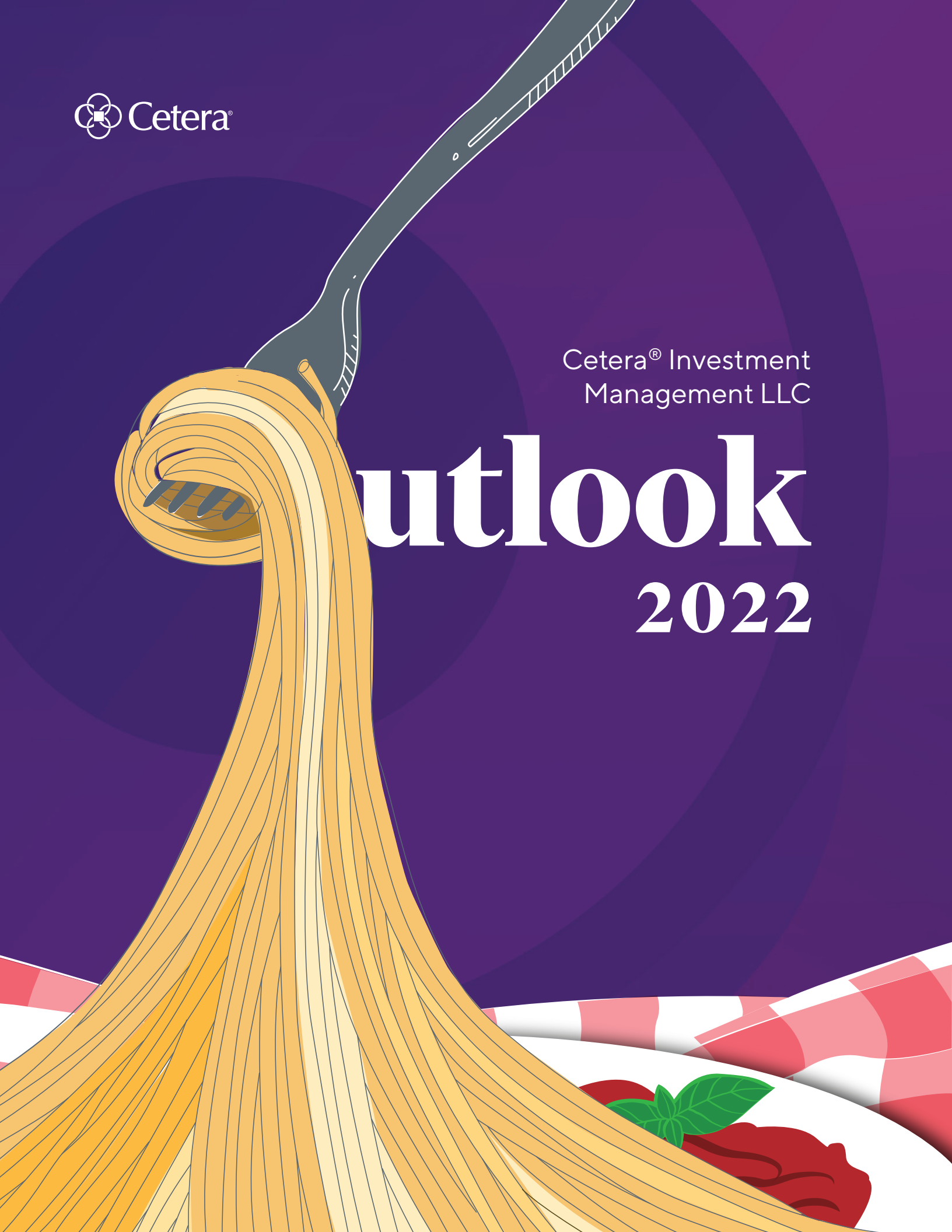
Cetera

Cetera® Investment Management LLC

utlook 2022



Finding the Right Ingredients for the Next Course

Ever since the market bottomed in March 2020, the S&P 500 has more than doubled from its closing low and the economic recovery is now in full swing. Propelled by fiscal spending and the central banks' dovish policies, economies around the world were boosted by a tailwind in 2021.

Looking to 2022, effects from the stimulus will likely continue to diminish and economies will continue to slow from high growth rates. We are hopeful that in 2022, people begin to travel more as restrictions continue to be lifted, and that U.S. consumers spend some of the money they saved during the pandemic.

If you recall, Italy was one of the first countries to be hit hard by the pandemic, so it would only be fitting to travel to Italy to celebrate the economic recovery. As not all of us have the time or money to do that, going to a restaurant for a taste of Italy could also be in order. After all, there are many fun parallels between investing and Italian cuisine.

For those who are well versed in Italian dining, you know the menu can be six or even more courses, but since we're in America and are always on the go, we'll skip the appetizers, cheese plates and digestivo (after-dinner drink) in favor of an abbreviated menu.

We'll begin by looking at the economy as a primi piatti (first course), which is where it all begins. We will move on to stock markets for the secondi piatti (main course), because that is what drives the majority of growth in portfolios, and we will end with bond markets for the insalata (salad)—after all we need to keep our portfolios balanced and healthy.

In Italy, the salad comes after the main course. However, we will save some room for dolce (dessert) and sum it all up at the end. So, let's get started and

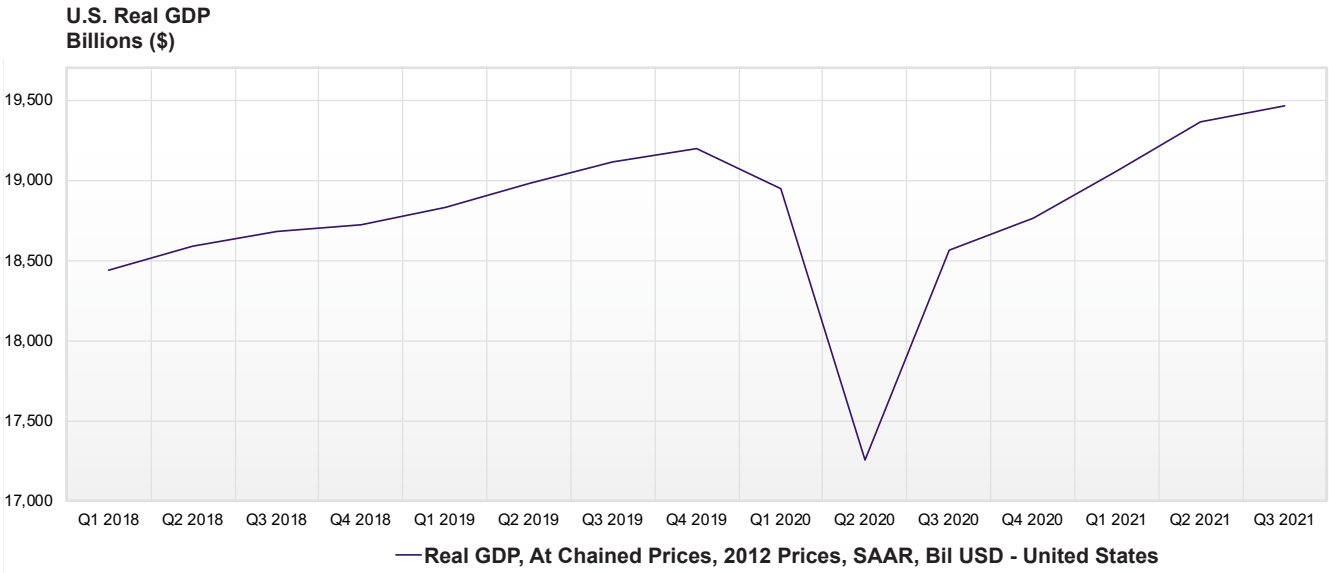
BUON APPETITO!

Primi Piatti—The First Course: The Global Economy

If you're like us, you'll think about what you ordered last time before you even open the menu. So, before we look to the future, let's look back at the economy and where we were a year ago. In last year's outlook, things were already looking better, and the economy had rebounded from its lows, but we were still talking about alphabet soup instead of fine dining. Economists and investors were debating what letter of the alphabet this recovery would look like.

Would it be a sharp "V-shape" recovery, a long bottom "U-shape" recovery or even a dreaded double dip "W-shape" recovery? Our answer to this at the time was, "it depends." After all, nothing is that simple. What ended up happening is a lot of "V-shaped" bottoms and then flatter slopes higher, which we called a "U-shape". Gross Domestic Product (GDP) is a good example of this as seen in **Figure 1.**

Figure 1: Total U.S. Gross Domestic Product



Source: Cetera Investment Management, FactSet, U.S. Bureau of Economic Analysis. Data as of 9/30/2021.

We wrote a lot about an uneven recovery and looking into the numbers shows us that is exactly what happened. Within the economy, goods outpaced services. Within the labor market, government employment, workers with less than a high school degree, and workers in the leisure and hospitality industry saw a rockier path, as compared to steadier employment rates in other categories.

The good news is that, as we predicted, this uneven recovery started to become more broad-based as the initially slower industries and labor markets continued to play catch up to get back to pre-pandemic levels. Overall, it could be said it was a minestrone type recovery. A lot of "V's" for veggies with the occasional bitter bean.

Where are we now exactly? The total amount of goods and services sold in the U.S. (total GDP) surpassed pre-pandemic levels in the middle of 2021. Economic output is now above where we started in 2020. Retail sales are around 20%, above 2020 levels, as spending on goods increased with people pivoting to stay close to home and limiting public interactions.

So, spending on services has lagged compared to retail sales, but that is changing too. Personal consumption on services is now only around 2% away from where we left off before the virus struck.

Let's now open that menu and see what's cooking for 2022.

- **The Federal Reserve (the Fed) is forecasting 3.8% in U.S. GDP growth in 2022, down from their 5.9% projection for 2021, but still high relative to the prior expansion. This seems in line with many other economists' forecasts.**
- **While growth is slowing to more sustainable levels, the Fed did raise the forecast for 2022 while lowering the 2021 forecast. Supply-side constraints are delaying growth from this year to next year.**
- **Breaking down GDP, consumer spending, which makes up roughly two-thirds of GDP, is projected to rise next year, but at a slower pace. Spending will be moderated as government stimulus fades.**
- **Business spending should accelerate as businesses try to keep up with demand from economies reopening and building up inventories.**
- **In addition, businesses are looking to purchase more computers and equipment at currently low interest rates as they look to increase automation due to labor shortages.**
- **Lastly, government spending is budgeted to decrease slightly from elevated levels.**

Who Will Stir the Pot at the Fed?

With GDP growth slowing next year, much of the attention will be on the Fed and when they will raise short-term interest rates. The Chair, or head chef, at the Fed is Jerome Powell. His term was up for renewal in February, but President Joe Biden eliminated that uncertainty recently and re-nominated him. However, two other voting members will need to be replaced next year and two more in January 2023.

This is important because it's hard to make assumptions about what may be on the menu if we don't know who is cooking. Fed policy is so important because it has an influence on borrowing costs. If interest rates and borrowing costs rise, it becomes more expensive to finance homes and loans and thus invest in projects, which hampers economic growth.

The Fed has begun reducing bond purchases, a process known as "tapering." All this means is that the Fed will eventually stop buying longer dated bonds. The Fed had been buying Treasury bonds with the intent to keep bond yields low; this practice is called quantitative easing. Quantitative easing stimulates the economy by lowering borrowing costs, so corporations may find it attractive to spend money to finance projects and individuals might take out mortgages. With the Fed tapering and eventually halting bond purchases, bond yields should increase over time.

After tapering, the next step is for the Fed to raise short-term interest rates. We assume more dovish members will be nominated in the future which could skew current projections for interest rate hikes to the downside. Why would the Fed raise rates and hurt economic growth? The answer lies in the Fed's dual mandate to keep prices stable and maximize employment. Raising rates would theoretically hamper employment gains by slowing growth, but it would also keep prices or inflation in check.

The Fed must balance a recovering labor market with inflation heating up. The problem they are encountering is that much of the inflation is temporary, caused by supply-side disruptions that will likely abate. So, before the Fed turns down the gas on the burner, they have to stir the pot and watch a bit longer and hope the pot doesn't boil over and the pasta doesn't get overcooked.

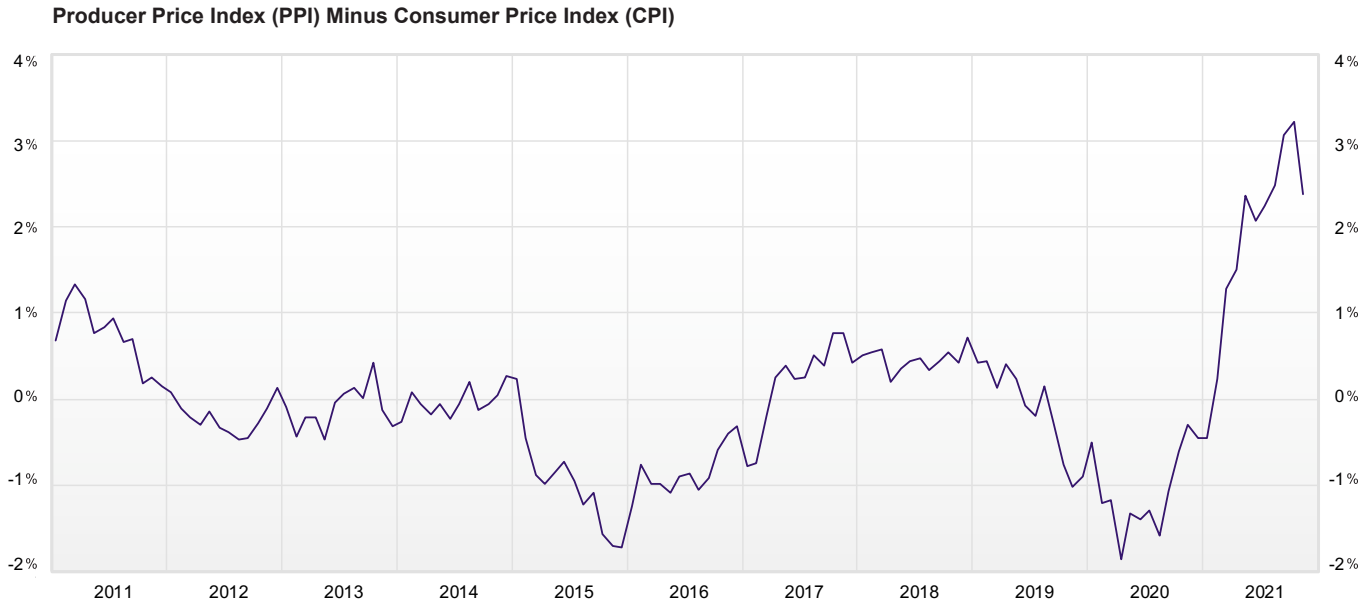
Inflation Is Making Ingredients Pricier

Let's take a deeper dive into what the Fed is watching. We can start with inflation since that is the topic du jour. If you have been looking for a new or used car or trying to book a hotel, you know prices are on the rise. You've probably even noticed this at the supermarket because prices for meats, poultry, fish, eggs and especially beef have risen, and thus the Italian classic osso buco (veal shanks) is pricier.

While much of the inflation is being caused by supply chain disruptions, there are also disruptions in labor markets. The number of unemployed individuals per job opening is currently less than one, meaning for every job opening, there is less than one applicant to fill it. This is creating competition for employers to hire candidates and driving up salaries and wages. Average hourly earnings for the leisure and hospitality sector are up 11% in 2021. Hourly wages grew at an annual pace of 2-3% in the last expansion.

These labor costs factor into production costs and will ultimately drive up prices for consumers. Much of these costs have not been passed on to consumers yet. If we look at **Figure 2**, we can see the cost to produce goods has risen a lot faster than the price consumers are paying for goods. That will reverse as companies pass on more of their costs to consumers.

Figure 2: Inflation in Production Prices Rising Faster Than in Consumer Prices



Source: Cetera Investment Management, FactSet, U.S. Department of Labor. Data as of 10/31/2021.

Labor Market: A Mixed Bag

You might be thinking that the labor market sounds strong, with less workers than available jobs and rising wages, and while that isn't the whole picture, the labor market has been recovering. The most common measure of the unemployment rate, what the Bureau of Labor Statistics calls the U3 unemployment rate, is currently under 5% (as seen in **Figure 3**). This is the level we were at in 2016 when the Fed felt comfortable enough to start raising short-term interest rates following the Great Financial Crisis.

The average monthly inflation was only 1.3% year-over-year in 2016 and 2.1% year-over-year in 2017, while it was over 4% during the first nine months of 2021. The U6 unemployment rate expands on the U3 unemployment rate by including underemployed and discouraged workers, but this unemployment rate is now at 2017 levels. Regardless of how you look at the unemployment rate, it doesn't seem that bad.

Figure 3: U3 Unemployment Rate

Source: Cetera Investment Management, FactSet, U.S. Bureau of Labor Statistics. Data as of 10/31/2021.

If we switch our focus to the labor force participation rate, we see a less rosy picture. Participation took a drastic hit following the pandemic and has yet to fully recover. The labor force participation rate is the proportion of working-age population that is either working or actively looking for work. Before the pandemic, this rate was over 63% and dropped to close to 60% but is now somewhere in-between at roughly 61.5%. This ratio could climb a little, but we don't think it will get back to pre-pandemic levels. Many people decided to retire early, removing themselves from the labor force.

Some caretakers are being cautious as children return to school, because it is still an unknown if the virus is behind us completely and if kids will have to go back to learning from home anytime soon. We think the participation rate will rise, but still settle below 63%.

The Fed recently started evaluating unemployment rates by different demographics. One such example is by income levels, which have also gone back to 2016 levels. The Fed continues to change the recipe to what is needed to hike rates, perhaps buying time to see if the fledgling labor market recovery is truly sustainable. We think it is, and the Fed will be forced to raise rates sooner than the end of next year. Inflation may prove to be less transitory than the Fed is hoping, and this may force an earlier rate move.

International Economies: Slow, Simmering Growth

Much like different cuisines from countries, economies from around the world are also connected. While Italians may not have gotten pasta from China like some theorize, they did get tomatoes from the new world. Can you imagine pizza sauce without tomatoes?

The global economy is expected to grow at a 6% clip in 2021, up from a decline of 3.6% in 2020. Next year, growth will likely slow to around 4% globally. The Eurozone could do better than the U.S. as they catch up in reopening, and China may lag developed countries next year. Latin America is expected to trail other regions in growth.

China made the news in 2021 when its largest property developer missed payments on its debt, but investors have gotten comfortable with the news and don't believe contagion is likely, since the Chinese government seemed like it would step in if needed to contain the financial risk. The government is also likely to continue its campaign to reign in credit expansion and focus on more ideological endeavors that would likely sacrifice some short-term growth. China is preparing for the Winter Olympics in 2022, so they are curbing coal emissions to improve the big event, already rationing electricity in factories.

In Europe, GDP growth is picking up but there are some near-term risks. Energy prices have been rising and pushing up inflation to over 4%. Natural gas prices skyrocketed before Russia offered to boost supplies. Europe gets nearly half its natural gas from Russia and there is still a question mark as to whether Russia will in fact boost supplies. This is something we will be watching carefully in the coming months.

Overall, the global outlook looks to continue its economic growth but at a slower pace, like the U.S. This backdrop should be supportive for both stocks and bonds, which we will discuss in the coming sections.

Secondi Piatti—Main Course: Equity Markets

This brings us to the main course, or secondi piatti. This tends to be the heavier, protein-rich course, so it is fitting that stocks fall into this course since they drive most of the growth within portfolios. As we mentioned in the previous section, osso buco is a little pricey right now, so we will opt for acqua pazza (poached white fish) with black truffles. Let us explain.

Acqua pazza literally translates into "crazy water" in English. It is a simple dish with similarities to its American cousin cioppino. The dish originated when Italian fishermen in the 19th century started stewing fish in sea water with tomatoes, garlic, parsley and olive oil because salt was either too expensive or unavailable (however, today seawater is no longer used for safety reasons.)

How does this translate to stocks, you ask? Well, stocks are also expensive right now and investors need to come up with some new recipes, because what may have worked in the past might not work in the future.

In past outlooks, we wrote about price-to-earnings (P/E) ratios which are extended as compared to historic norms. The price of a stock relative to its earnings is expensive if we look at this from a broad index perspective. The S&P 500 has a P/E ratio of 25, while the average over the last 15 years has been 18.3. It has only been higher than this 8% of the time over these 15 years (mostly over the last 12 months). This imbalance is even more skewed toward growth companies.

So, if you have been invested in large cap growth, you have done very well recently, but that could change as the factors that led to that growth change. Low interest rates fueled technology companies' high returns in recent years. This is evident when you see worries of rising bond yields creeping into markets and technology companies sell off.

As consumers shift more toward eating out or going on vacations, this will leave less room for spending on other products that led us out of the recession during the pandemic. Smaller cap stocks and value stocks are more attractive on a relative basis even after adjusting for future growth prospects.

So you may be wondering about those black truffles? Truffles are hard to find in the Italian mountains and that's why they use trained dogs to find them. Like investing in stocks, there are plenty of opportunities out there, but you need trained investment professionals doing the research to find what you're looking for.

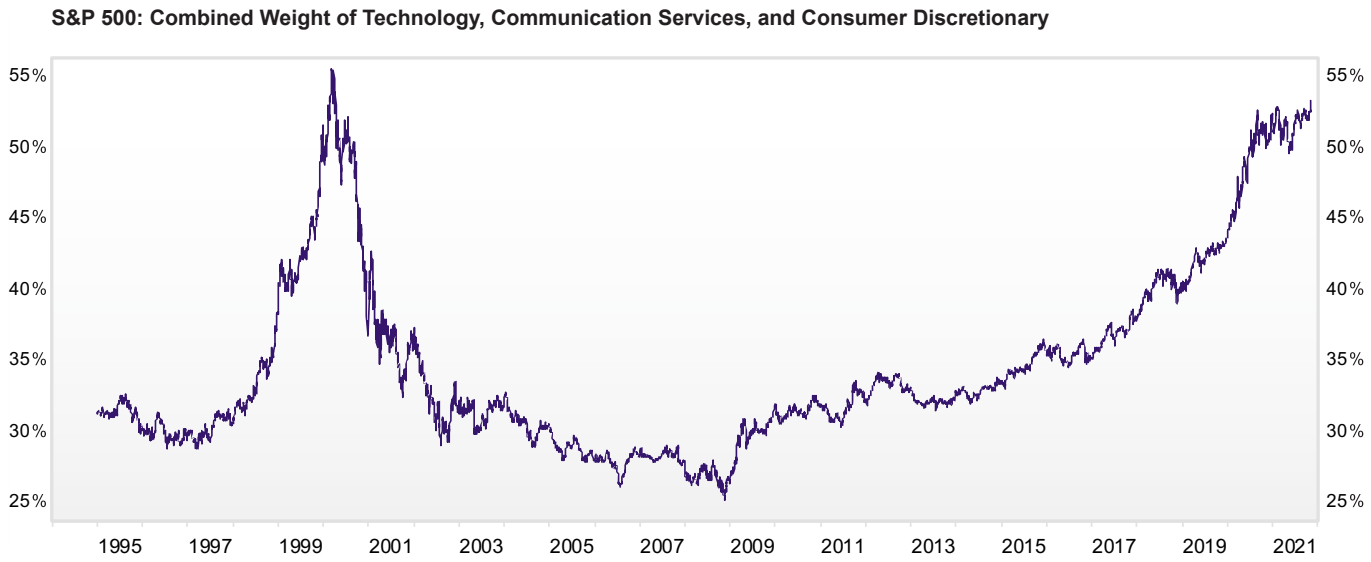
There is nothing wrong with investing in an indexing strategy. Buying market exposure without any fundamental security analysis is cheaper. It doesn't require investment professionals for those index products to analyze industries, sectors or individual stocks. However, now many of these indexes are concentrated at the top, with few large holdings making up a sizable chunk of the index and these indexes can be very heavy in technology growth stocks.

Recently, some of these stocks got reclassified, and stocks you may think of as technology are now under other sectors. We combined some sectors where these high-flying technology-based companies reside, and as you can see in **Figure 4**, these three sectors now make up over 50% of the S&P 500. This is something we haven't seen since the dotcom bubble of 1995-2000. These stocks have done very well coming out of the pandemic, pushing indexes higher along the way.

Having an investment professional who knows what you own is important, as is understanding the risks that come with this and how to mitigate them. Finding the right investment manager to go searching for truffles might become increasingly important as market factors change going forward.

Rethinking investment approaches and investment managers or underlying indexes is in order. What did well in the past may not do well in the future. Small or even larger portfolio shifts are inevitable as markets and your investment goals evolve.

Figure 4: Concentration in the S&P 500

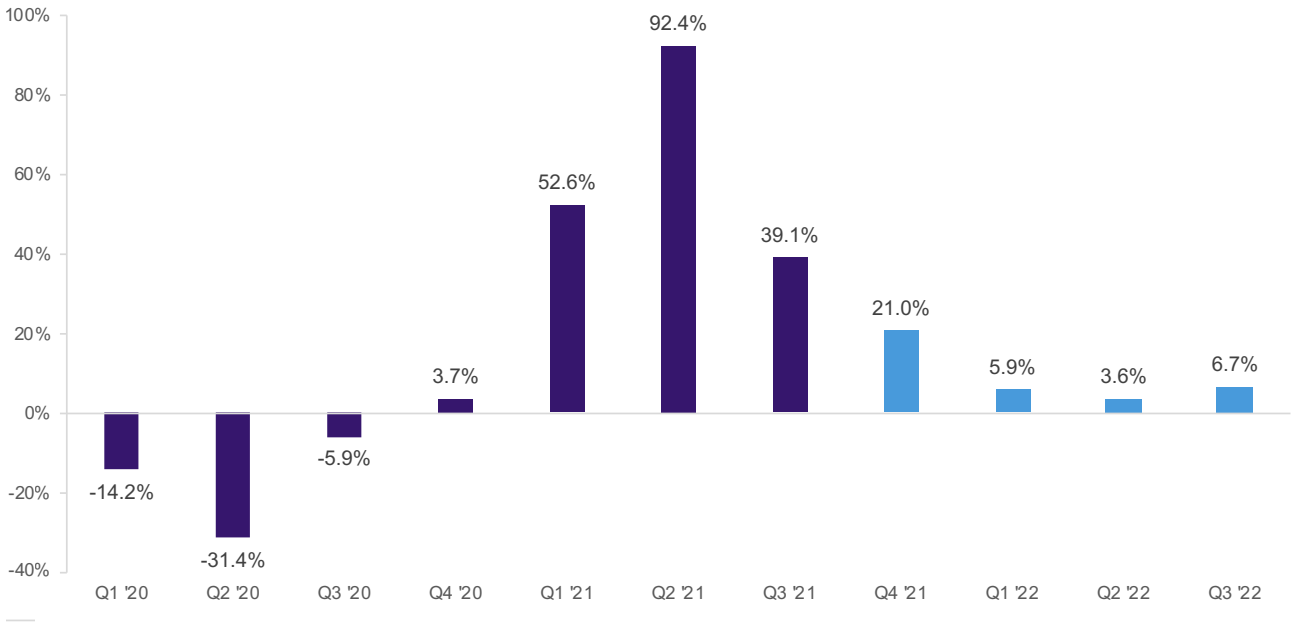


Source: Cetera Investment Management, FactSet, Standard & Poor's. Data as of 11/5/2021.

Changing market leadership, or companies driving stock returns, is a good thing and benefits companies and industries that have trailed early on in this recovery, like the service sector and especially the leisure and hospitality industry. Understanding a company and its industry is important as this recovery will have its winners and losers within each sector. Overall, earnings are projected to be good, but earnings growth is expected to slow.

As you can see in **Figure 5**, earnings growth has been spectacular after falling dramatically in 2020. In 2022, earnings increases will become more pedestrian. While there could be upside surprises, we should also recognize that growth from stimulus is fading and companies will have to manage in a slower-growth, higher-inflation environment.

Figure 5: S&P 500 Earnings Growth (Year-Over-Year Change)



Source: Cetera Investment Management, FactSet, Standard & Poor's. Earnings growth is represented by the year-over-year change in S&P 500 earnings per share. Data as of 11/8/2021.

TWEAKING THE RECIPE

Rethinking investment approaches and investment managers or underlying indexes is in order.

Italian fishermen got creative and thought outside the box as salt got expensive. Equity investors could do the same and think outside the country since U.S. large cap is expensive right now. Not only are international stocks cheaper from a valuation perspective, but these stocks offer diversification away from those technology stocks we discussed earlier.

The MSCI EAFE index, which is an index of large cap stocks from developed countries outside the U.S., has around half the exposure to the three sectors we charted in **Figure 4**. The technology exposure is much less in this index and that is one reason it has trailed the S&P 500 in recent years. The MSCI EAFE is also near its 15-year average in P/E ratio.

Emerging markets are also near their 15-year averages in P/E ratios and offer even more diversification from U.S. stocks. Companies located in emerging market countries can offer investors different consumer bases and different supply-side dynamics depending on the country. For instance, Russia exports natural gas to Europe, and China has its own opportunities with a growing consumer base.

Navigating these markets and companies can be difficult because one must know the investment landscape in these countries. For example, China has recently increased its regulations on educational companies, and it is going through its aforementioned real estate sector woes. Having someone qualified to conduct research on these foreign countries could prove important.

To recap, concentration risk is going up in indexes and so are valuations. Valuations of smaller companies and international equities are better by comparison. Earnings will moderate next year, and we could expect more of a divergence between companies as earnings growth slows. There also may be a shift from the companies that led us out of the pandemic to more service-oriented companies with people getting out more and getting back to activities they may have been postponing. Equity positions within portfolios should be examined and rebalanced accordingly. Stock exposures likely drifted as sectors outperformed and underperformed after the big sell-off in 2020 and subsequent run-up in 2021.

Insalata—Salad: Fixed Income

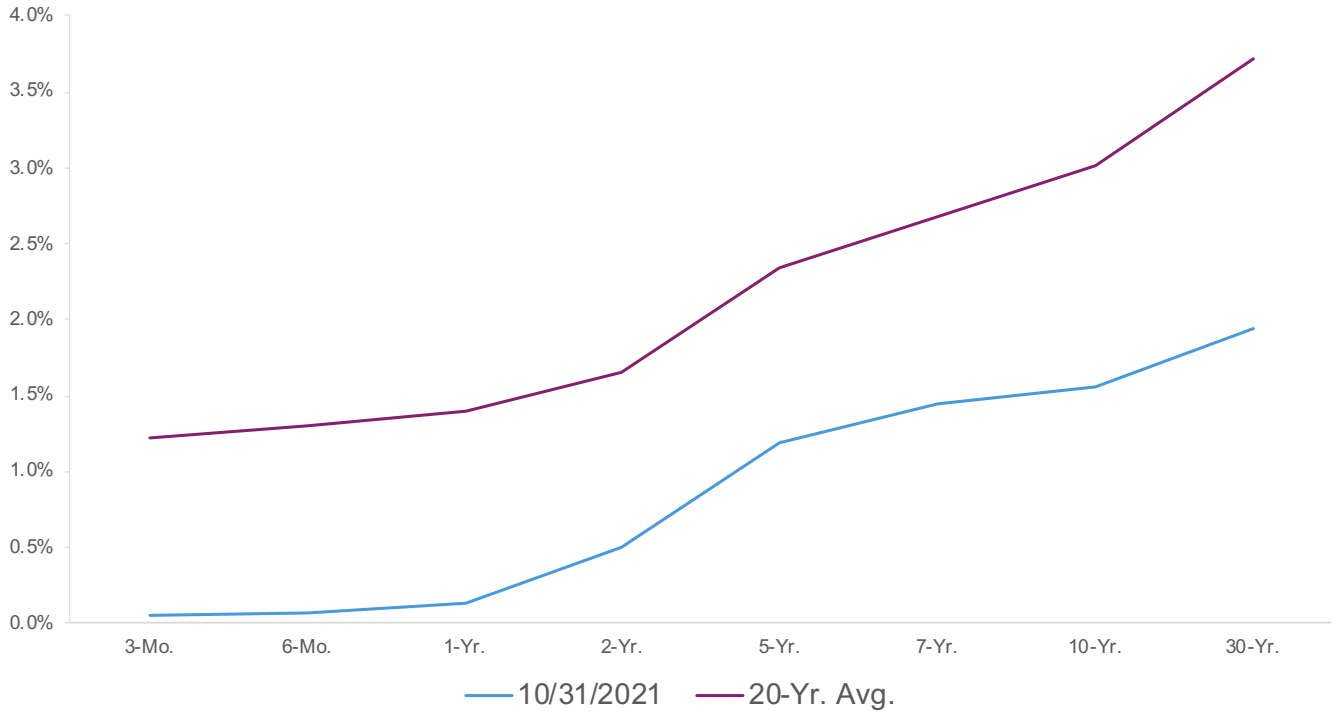
As mentioned, in Italy, the salad comes after the main course. Investing in bonds can be similar in that many don't think of them in the portfolio until after thinking about their equity positions. Like salads, bonds can be a bit boring, but they are important to a well-balanced portfolio. Many investors feel bonds are like a salad with not much dressing right now, as the yield one receives from owning bonds is smaller.

Why eat a salad with not much salad dressing or invest in bonds with not a lot of yield? Eating only pizza, chocolate and wine might taste good for a while, but your health may eventually deteriorate. It's no different in structuring portfolios to perform well. We need to diversify across asset classes to avoid the effects of market volatility—investing's equivalent to indigestion. Bonds are one of the only asset classes that tend to have negative correlation to equities when equities are selling off.

The good news is that picking the right ingredients can improve your salad and bond portfolio. You can't just throw a bunch of good ingredients together and expect a good result. The fears in bond markets are valid though, so let's dive further into them.

As of September, headline inflation has picked up and is running over 5% on a year-over-year basis. As of October 31, investing in a U.S. Treasury bond maturing in 5 years pays 1.2% annually in yield. If we invest in a Treasury bond maturing in 10 years, the yield goes up to 1.6%, while the yield of a 30-year bond is over 2% as seen in **Figure 6**. If inflation stays at these levels, we are losing purchasing power because bonds are paying less than inflation. After adjusting for inflation, Treasury bond holders are losing money. The good news is that inflation is expected to come down soon, so in the future these yields would be more in line with inflation.

Figure 6: Treasury Yield Curve



Source: Cetera Investment Management, FactSet, U.S. Treasury Department. Data as of 10/31/2021.

A possible solution to unexpected inflation is Treasury Inflation Protected Securities or (TIPS). TIPS provide protection against inflation as the principal is adjusted up or down based on what the Consumer Price Index is doing. When inflation is higher than expected, TIPS pay more in yield. The downside is that TIPS tend to be longer in maturity and sensitive to fluctuations in yields. For instance, if inflation rose faster than expected, TIPS would pay more, but if long-term bond yields rise in response to future expectations, this could hurt TIPS.

Inflation expectations are rising as well and becoming harder to exceed. The 5-year breakeven inflation rate has trended higher since the summer and by mid-November it was around 3%. This is the breakeven rate at which TIPS will outperform their equivalent Treasury bond without the inflation component. If inflation continues at those expectations, the Fed will likely hike rates sooner than later and this could hurt bond prices.

Why would bond holders accept such low yields especially when inflation is elevated? We mentioned the Fed bought bonds to lower bond yields, and soon they will be letting these bonds mature and slowly roll off their balance sheet. But the Fed is not the only one that is demanding low-yielding bonds. Foreign investors like U.S. bonds because the yields are higher than in many countries where central banks are also driving down yields. Some of these countries, like Germany, even have negative yielding bonds. Additionally, there are large institutional investors in the U.S., such as insurance companies, that are required to buy these bonds to better match their liabilities.

With the Fed starting to exit bond markets, yields should rise over time. When bond yields rise, bond prices fall to adjust for the new market price. At the same time, major bond indexes that replicate the entire bond market have become even more sensitive to interest rate fluctuations. As governments took on more debt to stimulate economies, they sold more longer maturity bonds to finance that debt. Indexes that were designed to capture the entire bond market added more longer maturity government bonds to their indexes and overall index durations became longer.

Admittedly, this does not sound appealing, but as we mentioned in the equity section, stocks are currently expensive. If there is equity volatility, owning bonds can provide a buffer. We must think about it from a portfolio context and how each part of the portfolio balances the overall portfolio. One way to mitigate the risk of rising yields is to invest in bonds with shorter maturities, which have less sensitivity to rising yields.

The good news is that there isn't much yield being lost by investing in shorter maturity bonds. The yield differential between 30-year bonds and 10-year bonds is just 0.4% right now, and there is much more interest rate risk in 30-year bonds. The spread between 10-year and 5-year bonds is also similar, and again the difference in interest rate sensitivity is considerable. So, we suggest giving up some of the yield and investing in shorter maturity bonds. As yields rise, investors can roll their bonds into higher yielding bonds in the future.

Having an experienced chef or financial professional can help you achieve better results. They can help with duration management to oversee the interest rate sensitivity of your portfolio and help you pick the right ingredients. Treasury bonds are not the only ingredient out there—there are bonds that naturally pay higher yields.

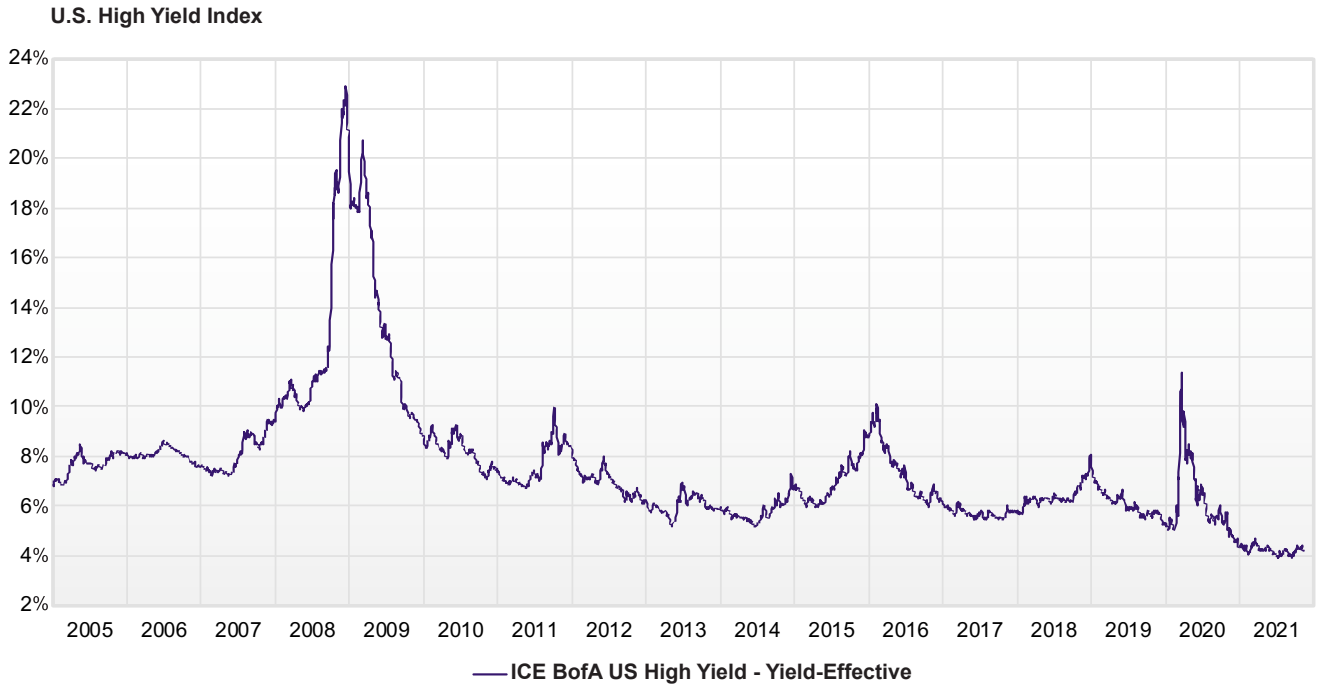
Bonds issued by corporations rather than the government have higher yields to compensate for the possibility of default or downgrade. In investment-grade corporate bonds, the risk of default is relatively low, and the yield could be higher than a 30-year Treasury bond with much less interest rate risk.

If we move down in credit quality to below investment-grade corporate bonds (high-yield bonds) and bank loans, we can get even more yield. While they provide more than double the yield of a 30-year Treasury bond, with more yield comes more risk. Not all bonds are created equal and this becomes even more important when evaluating high-yield bonds and bank loans. Like stocks, the performance of corporate bonds is tied to individual companies. As the risk of default increases, bonds will pay more yield so one has to weigh these cost and risk considerations carefully.

Currently, the economic backdrop is favorable for high-yield issuers. This is a new credit cycle and the economy is expanding. High-yield issuers that needed to refinance were hopefully able to do so at low and manageable interest rates. A moderate amount of inflation could help corporations raise prices and increase profit margins, putting them in a better position to pay off their debtholders. Fitch Ratings recently lowered its 2022 U.S. high-yield default rate forecast to 1%, down from the 2.5% to 3.5% range (2020 saw a 13.7% default rate).

The outlook looks bright, but like in equities, corporate bonds are expensive. Their yields are low from a historical perspective (**Figure 7**). Also, the yield one receives for assuming credit risk over Treasury bonds is also relatively low. In other words, the current rosy economic outlook is factored into corporate bond prices already. There is no free lunch in corporate bonds.

Figure 7: Below Investment Grade Yields



Source: Cetera Investment Management, FactSet, ICE BofA. Data as of 11/9/2021.

This positive economic outlook is also good for municipal bonds as states and other municipalities theoretically collect more tax revenues. During the pandemic, higher wage earners were able to transition to working from home, so states were able to continue to receive taxes on their incomes. The American Rescue Plan Act (ARPA) also allocated $195.3 billion to states and only roughly half of that has been earmarked for spending so far, with only $15 billion going to revenue replacement.

All this federal help has put states in a better position fiscally to pay bond holders. With the expectation of future tax increases on the horizon, municipal mutual funds have recorded record inflows year to date, while total issuance of municipal bonds has been slightly down from last year.

Municipal investors are also closely watching new policy proposals out of Washington and not only for tax policies. Clean energy initiatives probably cannot be met without the help of capital markets and the issuance of more municipal bonds. So, supply-and-demand dynamics have driven municipal bonds prices higher, but with the issuance of more bonds on the horizon this could dampen returns.

However, this new supply could be offset with new demand as Environmental, Social and Governance (ESG) investors are increasingly appearing in this market. Municipal bonds seem fairly priced right now but are still attractive for tax-sensitive clients. Municipal bonds can also have longer maturities—something to be aware of if bond yields start to rise.

After reading the bond section, you can see why it might be more like eating a salad—perhaps not the highlight of your meal or portfolio. While there are some potential challenges in the bond market, bonds still offer diversification from equities. Yields are not high and could rise soon, sending bond returns lower. Not eating your greens or ignoring bonds could have consequences on the health of your portfolio. Like a salad balancing a meal, bonds balance a portfolio, and diversification in bonds is important. Not having too much risk in any one sector of the bond market and managing duration to best suit your investment objectives is prudent.

BONDS, A SALAD WITH NOT MUCH DRESSING

Like salads, bonds can be a bit boring, but they are important to a well-balanced portfolio.

Dolce Dessert—Summary

Hopefully you didn't skip the other sections and go straight for the tiramisu, but if you did, we're not judging. To summarize, economic growth is slowing from high growth rates caused by the huge rebound off the bottom of low economic output and massive amounts of fiscal stimulus. However, economic growth rates are still forecast to be above pre-pandemic levels. The big story in 2022 could be the Fed and when they decide to start raising rates. Therefore, we will be watching the labor market and inflation very carefully as they will be what likely causes the Fed to act sooner than later.

In equities and bonds, valuations overall are high although there are still opportunities. Large cap growth stocks continue to do well, but we would expect small companies, value-oriented companies and companies in service sectors to start to outperform as more local economies begin to open fully and people start to travel more. In bonds, the reward for taking on additional interest rate risk is small, so being underweight duration, or interest rate sensitivity, may make sense depending on risk-and-return objectives. Being diversified and owning different bonds across sectors, credit qualities and maturities may be prudent.

Like one's diet, everyone has different nutritional restrictions and caloric needs. A one-size-fits-all approach does not work for portfolios either. A marathon runner needs more calories and a young investor probably needs a higher portfolio return target (which comes with more risk). Preferences in investing are becoming more and more popular as well. Like those who prefer organic or sustainable cuisines, investors are increasingly preferring ESG. Certain ingredients or investments will just ruin what one is trying to achieve.

When ordering a meal at a restaurant, you need to check the ingredients on the menu and let the chef know what you can or cannot eat. Your financial professional can help you stick to the recipe, or process, keeping your unique long-term goals and objectives in mind. So, grab a cappuccino to-go (ordered the way you like) and rest assured you have a team working for you on your individualized goals.

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Glossary
The S&P 500 is an index of 500 stocks chosen for market size, liquidity and industry grouping (among other factors) designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.

The **ICE BofA US High Yield Index** tracks the performance of U.S. dollar-denominated below-investment-grade-rated corporate debt publicly issued in the U.S. domestic market. To qualify for inclusion in the index, securities must have a below-investment-grade rating (based on an average of Moody's, S&P, and Fitch) and an investment-grade-rated country of risk (based on an average of Moody's, S&P, and Fitch foreign currency long term sovereign debt ratings). Each security must have greater than 1 year of remaining maturity, a fixed coupon schedule, and a minimum amount outstanding of $100 million.

The **S&P MidCap 400** provides investors with a benchmark for mid-sized companies. The index, which is distinct from the large cap S&P 500, is designed to measure the performance of 400 mid-sized companies, reflecting the distinctive risk and return characteristics of this market segment.

The **S&P SmallCap 600** seeks to measure the small cap segment of the U.S. equity market. The index is designed to track companies that meet specific inclusion criteria to ensure that they are liquid and financially viable.

The **MSCI EAFE** is designed to measure large and mid cap equity market performance of 21 developed markets, including three regions (Europe, Australasia, Far East) excluding the U.S. and Canada. The Index is market-capitalization weighted, covering **85% of the free float-adjusted market cap in each of the 21 countries.**

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