Quarterly Reflections & Outlook

Second quarter 2014 recap:

- Improving employment and strong purchasing manager surveys indicate a rebound in the U.S. economy.
- The pattern of economic growth across the eurozone and emerging markets remained diverse.
- Equities managed to power higher throughout much of the first half of 2014.
- Geopolitical headlines throughout the quarter continued to drive fixed income yields lower.
- Sales of new and existing homes experienced a strong rise during the quarter.
- Strong oil prices during the quarter helped boost the overall performance of the commodities complex.

Outlook summary:

- We expect U.S. growth to average 3 percent over 2014.
- Growth in Europe is likely to be moderate, while emerging market countries are expected to be the largest contributors to global growth.
- We think conditions remain favorable for equities to trend higher in the second half of the year.
- The projected conclusion of quantitative easing (QE) is likely to produce a more volatile interest rate environment.
- We expect housing and commercial real estate to continue moving through the recovery phase in 2014.
- Geopolitical risks are likely to be factors for commodity price volatility over the remainder of the year.

Second quarter review—economy

U.S. economy: The U.S. economy entered the second quarter with a bit of a hangover from the first quarter’s winter weather. A contraction of 2.9 percent for the quarter left economic actors unsure of the pace and trend of activity in the second quarter, with some wondering aloud if the winter slowdown was going to pull the economy into recession. As the quarter progressed data gradually improved, indicating U.S. growth likely expanded for the quarter and the economy rebounded from its surprising first quarter contraction. The economy seems to have survived threats from geopolitical conflicts as Russia annexed Crimea from Ukraine and Iraq was beset by war with the invasion of the jihadist army Islamic State of Iraq and Syria (ISIS). As we exited the quarter, improving employment and strong purchasing manager surveys indicated a rebound in U.S. growth likely occurred in the second quarter.

Employment was the primary and consistent indicator of strength in the quarter. The unemployment rate dropped from 6.7 percent in March to 6.1 percent at the end of June. Nonfarm payrolls grew by an average of 272,000 each month, bringing total payroll employment to a new high, exceeding the peak reached in January 2008. Structural issues, such as long-term unemployment, also started to improve. As a percentage of total unemployed, those unemployed for more than 27 weeks reached the lowest level since June 2009. Inflation also ticked higher over the quarter with year-over-year consumer price inflation reaching 2.1 percent in May, up from just 1.1 percent in February. Home prices, which increased by 13 percent in 2013, as measured by the Case Shiller Home Price Index, were the primary driver of inflation. Other factors, such as commodity prices and wage growth remained modest. Year-over-year average hourly earnings were growing around 2 percent in the second quarter and commodity prices increased just 1.1 percent for the year ending in May.

Consumer confidence remained moribund in the quarter with the Conference Board Consumer Confidence Index reaching 85.2 for June, a new post-recession high, but well below the average index level of 100 for expansions.
The growth in consumer credit remains modest and personal savings rates remain elevated. Despite strong improvement in employment, consumers remain conservative in their financial matters. To start the year, we expected capital spending to primarily serve as a swing factor for economic growth. Current evidence for the quarter seems to indicate little improvement as yet. Through May, Industrial Production and New Manufacturing Orders growth has been modest, averaging around 3 percent (year-over-year average) in 2014, below the average levels for a typical expansion.

**Global economy:** The recovery from recession continued across the eurozone despite potential impacts from the conflict between Russia and Ukraine. The conflict has rapidly subsided as Russia’s annexation of Crimea elicited sanctions against key Russian individuals but little else. Eurozone growth remained modest in the first quarter, growing just 0.9 percent year over year, and data from the second quarter seem to indicate growth may not accelerate much more. The eurozone composite Purchasing Managers Index (PMI) improved over the quarter but remains around levels that are consistent with slow economic growth. Deleveraging of financial institutions remains the primary detractor from economic growth. In the first quarter, eurozone bank balance sheets contracted about 6 percent. The contraction was to help banks reach new target asset and reserve levels consistent with the Basel III banking accords.

Evidence indicates deleveraging continued through the second quarter. This deleveraging, combined with year-over-year consumer price inflation of just 0.5 percent, finally led to action by the European Central Bank (ECB). The monetary authority reduced the short-term interest rate to just 0.15 percent and cut the deposit rate for assets on deposit with the ECB to negative 0.1 percent. The ECB also approved Targeted Long-Term Refinancing Operations (TLTROs) in an effort to spur lending. ECB president Mario Draghi stated that they have begun to research the possibility of limited quantitative easing via direct purchases of asset-backed securities, which seems likely to be implemented late this year or early next year.

The promise of Abenomics to rekindle the Japanese economy has yet to be met. Monetary accommodation continued to grow as the Bank of Japan implemented quantitative easing, but suffered from the April increase in the consumption tax. Consumers pulled forward-spending into March, when retail sales grew more than 25 percent month over month before collapsing by nearly 20 percent in April. Activity seemed to be on the rebound, with business surveys improving, indicating expansion at the end the quarter.

With the de-escalation of the Russia-Ukraine conflict in the second quarter, attention in emerging markets turned to growth. Purchasing manager surveys improved across the emerging markets. Data for China indicated a return to expansion as the index hit its highest level in six months, while India saw its sharpest rise in output in more than one year. Russia and Brazil continue to struggle with contraction as capital flight has hurt Russia and inflation pressures are harming Brazil. Emerging Asian economies seemed to do well, with growth improving over the quarter for Indonesia, Vietnam and Taiwan. Growth in Mexico seemed to benefit from an improving U.S. economy. So far this year, 2014 has demonstrated the emerging market economies no longer perform as a single unit. The pattern of growth remained diverse, based upon the primary industries and differing credit and inflation conditions. Commodity exporters, such as Brazil and Russia, continued to slow. Growth for manufacturing or export-driven economies will be sensitive to the pace of growth in the developed economies. Growth in China seemed to find its nadir, but levels remain slow as the economy continues its difficult transition toward consumption from export-driven growth.

**Second quarter review—capital markets**

**Equities:** The equity market in the first half of 2014 was generally considered to have been a grind higher market, characterized by low volume, low volatility and improving economic conditions. During the second quarter, most broad-based equity indices posted positive returns. The S&P 500, Dow Jones Industrial Average, Russell 2000, MSCI EAFE and MSCI Emerging Markets (EM) indices advanced between 1.7 and 5.6 percent, led by the MSCI EM and S&P 500. Year to date, the same indices posted midyear returns ranging between 1.5 and 6.1 percent.
Market and sector performance

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<th>2Q</th>
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<td>MSCI Emerging Markets</td>
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<td>Health Care</td>
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<td>Industrials</td>
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<td>Telecommunication Services</td>
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Source: FactSet. *Data through 6/30/14

Despite performance varying among market caps, investment styles and sectors, equities managed to power higher throughout much of the first half with a general rotation occurring within but not out of equities. Perhaps most noteworthy was sector performance. Until early June, defensive sectors outperformed cyclical sectors, with Utilities, Energy and Healthcare posting the best returns while Consumer Discretionary and Telecommunication Services lagged. As of the end of the second quarter, the performance of cyclical sectors and companies had begun to improve. Five of ten S&P 500 sectors ended the second quarter with year-to-date returns of 7.5 percent or greater, setting the stage for renewed optimism in the second half of 2014.

While past performance is not a guarantee of future returns, the favorable broad-based returns tend to coincide with economic improvement and often are indicative of an equity market that is poised to trend higher. Additionally, somewhat surprising was the improved performance of the international-oriented MSCI Emerging Markets index in the second quarter following the lackluster performance in 2013, particularly given that the near-term economic growth trajectory of China remains inconclusive. At a minimum, year-to-date performance of the emerging markets segment would seem to indicate that economic conditions have stabilized.

Fixed Income: Geopolitical headlines throughout the quarter continued to drive global developed yields lower. The sharp revision to gross domestic product (GDP) in the first quarter renewed concerns about the sustainability of the domestic recovery and served as an additional driver of downward pressure on yields.

There were little significant changes to the Federal Open Market Committee (FOMC) statement in June, however the Summary of Economic Projections (SEP) showed a modest upward shift in the Committee’s policy rate expectations for 2015 and 2016. The recent release of the minutes showed substantial discussion about how to remove the excess liquidity in the market in anticipation of the first increase in the policy rate. The Yellen dashboard continued to show progress throughout the quarter as the labor market gradually improved and inflation began to show signs of life. As a result, we continued to see a flattening of the yield curve and both 10-year and 30-year Treasuries dropped 20 basis points and the five-year dropped 10 basis points. However, the two-year was the most volatile, bouncing around sharply most of the quarter ending higher by 4 basis points.

Despite continued negative headlines out of Detroit and Puerto Rico, municipal bonds managed to post modestly positive returns as Illinois’ pension issues began to receive additional attention. The longer-dated maturities outperformed shorter-dated maturities.

Investment-grade corporates also posted modest positive returns, with the lowest-quality Baa issuers outperforming the highest-quality Aaa issuers. Utilities outperformed Industrials and Financials as the continued curve flattening benefitted the longer-duration Utilities sector.

Concerns about the recent rise in inflation spurred inflation-protected securities (TIPS) to post respectable returns, with the longer-dated maturities outperforming the shorter-dated maturities. High yield continued to outperform nearly every other fixed income sector, with the lower-quality CCC sector outperforming double and single B sectors.

Lower-rated bonds drove high yield in June

Source: Barclays Live. Data as of 6/30/14
Although developed sovereign debt posted modestly positive results for the quarter, the more attractive sector remained emerging debt. Recent U.S. dollar weakness and economic strength in the emerging Asian countries led both the local and hard currency sectors of emerging market debt to outperform the broader fixed income markets.

**Real Estate:** Both the sale of new and existing homes had a strong rise in May to 504,000 and to 4.89 million annualized units, respectively. This is the highest monthly level of new home sales in six years. This is the high water mark for existing homes this year, but it is still about 10 percent below last July when mortgage rates created headwinds and uncertainty. Since then rates have eased about 35 basis points (now around 4.15 percent for a 30-year fixed mortgage), but sale prices continue to increase although there has not been a return to the transactions level of a year ago.

After thawing out in the early spring, and with a big jump in April, new home starts retreated in May by 6.5 percent month over month. The decline is not overly surprising because of the huge run up in April, but construction permits also dropped 6.4 percent month over month in May, so we may not see a quick snapback in starts. However, the Home Builders’ sentiment index increased in May as that group thinks buyer traffic and sales will improve in the coming six months.

At 27 percent of the existing home purchases, first-time homebuyers are well below the normal level of 35 to 40 percent. There is some current indication of loosening credit requirements, which impacts this important group of buyers.

**Commodities:** For the second quarter, commodities prices continued their gains from the first quarter, adding another 2.7 percent. The driver shifted from winter weather in the United States to improving economic growth expectations and rising geopolitical risks. Middle East unrest led to a 6 percent gain for oil prices and lifted gold prices almost 3 percent for the quarter. Stabilizing emerging market economic data lifted industrial metals prices nearly 7 percent for the quarter. Strong crop planting and good spring weather pressured agricultural prices, leading the S&P GSCI Agricultural index 12 percent lower for the quarter.

The industrial metals complex reversed its first quarter losses, gaining 7 percent for the second quarter. The complex saw consistent gains each month as the flow of news offered an improving story. Speculators entered the quarter negatively positioned in the complex, providing some technical support. Falling inventories provided support to a shift in investor positions. Copper inventories started to fall at key futures market warehouses in London and Shanghai, sparking some speculation of improving economic growth in China. Finally, economic data from China indicated a stabilizing economy led by improving Purchasing Manager Index reports. Nickel was the primary early beneficiary, gaining 15 percent in April, as Indonesia continued its ban—initiated in January—on exports of the metal. Gains spread to the rest of the complex with lead, copper, aluminum and zinc all experiencing gains for the quarter.
Petroleum prices gained 5 percent for the quarter as the market adjusted to threats to global supply from the ISIS invasion of Iraq, after focusing for April and much of the first quarter on U.S. oil production growth. Price gains have remained modest relative to past conflicts likely due to this growth, but also due to the potential for a return of supplies from Libya. Strikes restricted Libyan crude oil exports, but negotiations had progressed and the close to the quarter saw an end to the strikes.

After jumping nearly 16 percent in the first quarter, agricultural prices slipped more than 12 percent in the second quarter. Improving weather in the United States, as well as Brazil, pressured prices. Rising estimates to U.S. stocks also pressured prices. Finally, U.S. planting estimates proved conservative and fears of wet weather hampering the planting season proved unfounded. Corn, wheat and cotton saw their first quarter price gains reversed in the second quarter, while prices for soybeans and coffee merely trimmed first quarter gains.

Despite increasing global conflict, gold prices added just 2.9 percent in the second quarter. So far this year, prices have risen 9.9 percent, after losing 29 percent in 2013. Geopolitical risks have provided some support, but the nearing conclusion to the U.S. Federal Reserve quantitative easing policy, as well as improving global economic activity is providing a disincentive to speculators. Physical demand has been relatively weak as well, with India continuing its gold import limits and hiking tariffs.

Global economy: The global economy seems to have survived shocks from winter weather and rising geopolitical problems in Ukraine and the Middle East. We believe global growth is poised to improve on sound U.S. economic fundamentals, a eurozone recovery and a stabilizing China. Geopolitical risk will remain a factor over 2014, particularly if we get a spike in oil prices. While the Russia-Ukraine conflict has moved from boil to simmer, negotiations with Iran continue over their nuclear capability, and civil unrest continues in Iraq and Syria.

Growth in Europe will likely remain very modest, around 1 percent for the next four quarters. Banks will continue to reduce their balance sheets to meet capital requirement targets, reducing capital available for economic expansion. European Central Bank easing will be modest at best and is unlikely to offer much economic stimulus. For Japan, quantitative easing is offering support to the economy, but structural reforms have been slow in coming, indicating to us economic growth will remain slow.

Emerging markets are still the largest contributor to global growth, but weaker commodity prices and relatively tighter monetary policies have led to slowing growth, and now slowing inflation. Growth in China likely averages just 7.0 to 7.5 percent. Growth in manufacturing centers, such as Korea and Taiwan, likely improves with developed market growth. Commodity-producing economies likely struggle as commodity prices have been weak.
Outlook—capital markets

Equities: Equity prices are likely to presage the pace of economic growth. To that end, in our view, conditions remain favorable for equities to trend higher in the second half of 2014. Sector performance is broadening out, earnings are increasing, interest rates remain low, valuation is elevated but not at extremes, sentiment is mostly constructive and inflation remains restrained. While the broad indices are near all-time highs, importantly, so, too, are earnings, providing fundamental support for current prices. In general, we continue to favor the risk/reward profile of cyclical sectors and companies that benefit from a slowly improving global economy. It is hard to envision equities trending meaningfully higher from current levels without cyclical sectors and companies (Information Technology, Financials, Industrials and, to a degree, Consumer Discretionary) leading performance.

The age of the current bull market remains an often-discussed topic. The S&P 500 is in its sixth consecutive year of advancing, which is above the historical average of approximately four-plus years dating back to the early 1900s. Additionally, the popular index has not experienced a 10 percent correction since August 2011, fueling speculation that the mere probabilities suggest a pullback is increasingly likely. While history would suggest that the probabilities for a market downturn are elevated, the fundamentals would indicate that a significant period of weakness is not imminent.

While the macro environment appears favorable for equities, to a degree, stocks are priced to perfection. The margin of error appears narrow given current valuation levels and expectations for accelerating earnings growth. As of midyear, consensus earnings expectations are for earnings to increase approximately nine percent in 2014 above year-ago levels.

Among catalysts that could cause increased volatility as the year unfolds include rising geopolitical tensions, disappointing company earnings results, surprising FOMC rate decisions, seasonal factors, an inflation scare, slowing in the pace of global growth and a Europe that slumps back into a recession. Following Federal Reserve (Fed)-driven liquidity that has help propel equities to all-time highs, of concern as expressed by investors is what happens to equity prices leading up to and following the first Fed rate hike. According to a study conducted by Strategas Research Partners of S&P 500 returns since 1980, the S&P 500, on average, has trended upwards up to six months before and for 12 months after an initial rate hike, with the broad equity market becoming more concerned only after subsequent rate hikes over fears that economic expansion is about to end. We believe that in the absence of inflation and in a slow-growing world economy where central banks around the globe are lowering rates, it seems U.S. equities may grind still higher, even after the first rate hike.

### S&P 500 performance before and after first Fed tightening

<table>
<thead>
<tr>
<th>Date of first raise</th>
<th>-6 mos.</th>
<th>-3 mos.</th>
<th>+3 mos.</th>
<th>+6 mos.</th>
<th>+12 mos.</th>
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<td>8.8%</td>
<td>9.9%</td>
<td>8.6%</td>
<td>4.1%</td>
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<tr>
<td>Jan 1987</td>
<td>0.2%</td>
<td>7.9%</td>
<td>19.1%</td>
<td>21.2%</td>
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<tr>
<td>Mar 1988</td>
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<td>6.0%</td>
<td>5.4%</td>
<td>13.3%</td>
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<tr>
<td>Feb 1994</td>
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<td>2.7%</td>
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<tr>
<td>Jun 1999</td>
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<td>6.7%</td>
<td>-6.6%</td>
<td>7.0%</td>
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<tr>
<td>Jun 2004</td>
<td>2.6%</td>
<td>1.3%</td>
<td>-2.3%</td>
<td>6.2%</td>
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<tr>
<td>Average</td>
<td>4.4%</td>
<td>5.2%</td>
<td>3.7%</td>
<td>7.7%</td>
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Source: Strategas Research Partners

Our published 2014 price target for the S&P 500 remains 2,030, based on a price-earnings multiple of 17.5 times our below-consensus earnings estimate of $116. We see upside to our price target based on a higher earnings estimate.

Fixed Income: We believe the FOMC is on track to end QE by October 2014. We expect there may be additional discussion about the zero interest rate policy (ZIRP) exit strategy at the September meeting, including the Fed’s intent for the path of the balance sheet and the rolling over of maturities leading up to and possibly surpassing the first increase in the policy rate. We believe the Committee minutes and the SEP will reflect the Fed’s belief that the economy is likely to post substantial improvement in the coming months. This outlook has already been reinforced by the recent improvement in consumer confidence, purchasing manager surveys, industrial production and jobs data. By late September, we think interest rates may rise modestly as the Fed begins anticipating the first policy rate hike to occur in the first half of 2015. Fed fund futures are startlingly low relative to the average FOMC committee members’ projections for the path of the policy rate, thus we anticipate further upward pressure on yields as the market attempts to catch up to the median FOMC forecast.
Market expectations for the policy rate remain below the Fed’s estimates

Although we expect the yield curve to continue to modestly flatten, the slope may remain steep by historical standards. For this reason, we have revised our year-end target on the 10-year Treasury to the 3.2 to 3.3 percent range.

We maintain a favorable view of credit sectors. Although we believe emerging debt could benefit from stronger global growth, we continue to prefer the hard currency (dollar denominated) options. In our view, recent dollar weakness is likely to be short-lived as we expect the dollar to gain momentum along with the U.S. economic recovery and further removal of Fed accommodation. We remain overweight high yield debt as these securities tend to be less sensitive to a rising interest rate environment. High yield may benefit from stronger domestic growth, which informs our outlook for default rates to remain low for the next 12 to 24 months.

Although there is little room for much in the way of additional spread compression, we believe investment grade corporates and municipal debt should be able to post modest positive returns over the next quarter.

Treasuries, mortgage-backed securities and TIPS may struggle in an environment that includes reduced Fed accommodation, gradually increasing interest rates and below target inflation. Dollar strength and continued concerns in the eurozone may weigh upon non-dollar denominated sovereign debt.

Real Estate: In our view, improvements in the economy, with employment gains and some increased demand for space will further the commercial real estate industry recovery. Competition for the best properties will continue to be strong, keeping prices elevated. Because of this competition and as fundamentals improve, second tier markets will be the recipient of increased scrutiny and transactions.

Industrial, retail and office sectors will continue moving into and through the real estate cycles—from recession to recovery and into expansion. Multifamily is solidly in the expansion phase of the recovery, which warrants a close watch as some markets with expanding supply could begin moving into the contraction phase in the year(s) ahead. Some of this will depend on what happens in the housing sector.

As housing continues moving ahead, the double-digit year-over-year price appreciation throughout 2013 is cooling a bit, as expected. We are experiencing and expect somewhat increased inventory supply. Mortgage rates will continue to move in harmony with the Treasury yield. The housing market is becoming more based upon fundamentals such as job and wage growth, affordability and household formation rate as opposed to being driven by negative equity, investors placing large numbers of homes into the rental market and low inventory.

Commodities: Geopolitical risks are a factor for commodity price volatility over the rest of 2014. The fundamental driver for commodity prices will be a rising tide of global economic growth, particularly in developed economies. We expect demand growth will expand, especially for oil but eventually industrial metals as well. Middle East unrest remains the key for volatility. Iran’s nuclear ambitions remain unresolved. Unrest in Iraq is likely to be an issue for the rest of the year, with volatility driven by the distance between conflict and the southern oil fields.
Oil demands set to pick up with global growth

Improving demand dynamics likely lead to modestly higher oil prices and industrial metals, such as copper. Price expansion will be tempered by the continued rise in global supplies. U.S. energy production is leading to our lowest imports of oil in decades, helping to moderate global price volatility. Gold prices are likely to struggle through the year as improving global economic growth and the reduction of the Fed’s monetary accommodation reduce demand. Crop prices are also likely to moderate over the year as planting trends and long-range weather forecasts seem to indicate a strong crop cycle.

We continue to recommend modest allocations to the broad commodity complex. While price increases will likely be modest, commodity investments may offer a relatively efficient hedge against unexpected inflation in food and energy prices.

Contributed by U.S. Bank Wealth Management:

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- Robert L. Haworth, CFA – Senior Investment Strategist
- Terry D. Sandven – Chief Equity Strategist
- Jennifer L. Vail – Head of Fixed Income Research

Investments are:

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<th>NOT A DEPOSIT</th>
<th>NOT FDIC INSURED</th>
<th>MAY LOSE VALUE</th>
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<th>NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY</th>
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Past performance is no guarantee of future results. All performance data, while deemed obtained from reliable sources, are not guaranteed for accuracy. Indexes shown are unmanaged and are not available for investment. The S&P 500 Index is an unmanaged, capitalization-weighted index of 500 widely traded stocks that are considered to represent the performance of the stock market in general. The Dow Jones Industrial Average (DJI) is the price-weighted average of 30 actively traded blue chip stocks. The NASDAQ Composite is a market-capitalization weighted average of roughly 5,000 stocks that are electronically traded in the NASDAQ market. The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, and is representative of the U.S. small capitalization securities market. The MSCI EAFE Index includes approximately 1,000 companies representing the stock markets of 21 countries in Europe, Australasia and the Far East. The MSCI Emerging Markets Index is designed to measure equity market performance in global emerging markets. The S&P GSCI is a composite index of commodity sector returns that is broadly diversified across the spectrum of commodities.

Equity securities are subject to stock market fluctuations that occur in response to economic and business developments. International investing involves special risks, including foreign taxation, currency risks, risks associated with possible difference in financial standards and other risks associated with future political and economic developments. Investing in emerging markets may involve greater risks than investing in more developed countries. In addition, concentration of investments in a single region may result in greater volatility. Investing in fixed income securities are subject to various risks, including changes in interest rates, credit quality, market valuations, liquidity, prepayments, early redemption, corporate events, tax ramifications, and other factors. Investment in debt securities typically decrease in value when interest rates rise. The risk is usually greater for longer term debt securities. Investments in lower-rated and nonrated securities present a greater risk of loss to principal and interest than higher-rated securities. Investments in high yield bonds offer the potential for high current income and attractive total return, but involve certain risks. Changes in economic conditions or other circumstances may adversely affect a bond issuer’s ability to make principal and interest payments. The municipal bond market is volatile and can be significantly affected by adverse tax, legislative or political changes and the financial condition of the issuers of municipal securities. Interest rate increases can cause the price of a bond to decrease. Income on municipal bonds is free from federal taxes, but may be subject to the federal alternative minimum tax (AMT), state and local taxes. A Treasury Inflation-Protected Security (TIPS) is a special type of note or bond designed to offer protection from inflation. Interest payments vary with the rate of inflation. These securities offer a lower return compared to other similar investments. The principal value may increase or decrease with the rate of inflation. Investments in mortgage-backed securities include additional risks that investors should be aware of such as credit risk, prepayment risk, possible illiquidity and default, as well as increased susceptibility to adverse economic developments. There are special risks associated with an investment in commodities, including market price fluctuations, regulatory changes, interest rate changes, credit risk, economic changes, and the impact of adverse political or financial factors. Investments in real estate securities can be subject to fluctuations in the value of the underlying properties, the effect of economic conditions on real estate values, changes in interest rates, and risks related to renting properties (such as rental defaults).