Market and Economic Review

Client Communication for the Third Quarter 2026

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Executive Summary

Economic

- The U.S. economy remained strong despite higher energy costs and higher interest rates, while employment conditions remained stable and weekly initial jobless claims fell toward their lowest levels in decades.
- Consumer confidence fell from 92.2 in July to 81.9 in September, its lowest level in over 14 years, as elevated gasoline and diesel prices served as a daily reminder of four years of rising prices.

Commodities

- The re-escalation of the conflict in the Middle East disrupted global oil supplies, sending WTI crude from $70 to a peak of $107 per barrel before ending the quarter at $90.
- Retail diesel prices reached all-time highs, while industrial commodities also moved higher as the continued buildout of data centers and increased global defense spending created a demand shock alongside the supply shock.

Fed Raised Rates

- The Federal Reserve raised the fed funds target rate +0.25% to 4.00% in September to combat the re-acceleration of inflation, while September projections lifted the median rate to 4.1%, signaling a hawkish shift.
- Many developed market central banks also moved off the sidelines and hiked their respective policy rates as inflation expectations moved higher.

Interest Rates

- Treasury yields increased sharply during the quarter, with the 2-year, 5-year, and 10-year maturities shifting +0.72% to 4.87%, +0.86% to 5.07%, and +0.83% to 5.27%, respectively, while longer-duration bonds bore the brunt of the move.
- Decisively higher rates weighed on interest-rate-sensitive and cyclical equities, with the Utilities (-12.4%) and Industrials (-9.7%) sectors the notable laggards.

US Equity Market

- After a standout second quarter, the S&P 500 posted a more modest +2.3% gain, bringing the year-to-date return to +12.8% and ending within 2.0% of its mid-August all-time high.
- The broadening of returns seen in the first half of the year faded, with the S&P 500 Equal-Weighted index, mid caps, and small caps all lagging the S&P 500, while rising earnings estimates brought the S&P 500's forward earnings valuation down to 19.0x from 20.4x.

Executive Summary

Earnings Estimates Continued to Improve

- Second-quarter earnings grew nearly 50% year-over-year, well ahead of the 20% growth anticipated at the start of earnings season, with ten of the eleven S&P 500 sectors reporting growth.
- Third-quarter earnings are anticipated to grow over 26% year-over-year, which would mark the third consecutive quarter above 25% and well above the 10-year average of 10.3%, while tariff refunds are providing an additional source of fiscal stimulus for corporate earnings.

Fixed Income Markets

- Rising yields pushed bond returns into negative territory, with the Bloomberg U.S. Aggregate and U.S. Corporate indexes returning -3.5% and -3.9%, respectively, while credit spreads widened modestly from historically tight levels.
- Shorter-maturity bonds provided ballast, with 1-3 year Treasuries and corporates each returning -0.2%; we continue to prefer high-quality issuers within sectors less vulnerable to economic swings.

Midterm Elections

- Since 1930, there have been 24 midterm elections, with nine resulting in a change of control of at least one chamber of Congress and fifteen resulting in no change; regardless of outcome, the S&P 500 posted positive one-year forward returns in 92% of occurrences.
- Midterm years have historically followed a different pattern of seasonality, with a weak September (-1.5%) giving way to October (+2.4%) and November (+2.1%); while headlines and volatility are likely, we believe it is best to treat the political noise as just that and remain disciplined.

Looking Ahead

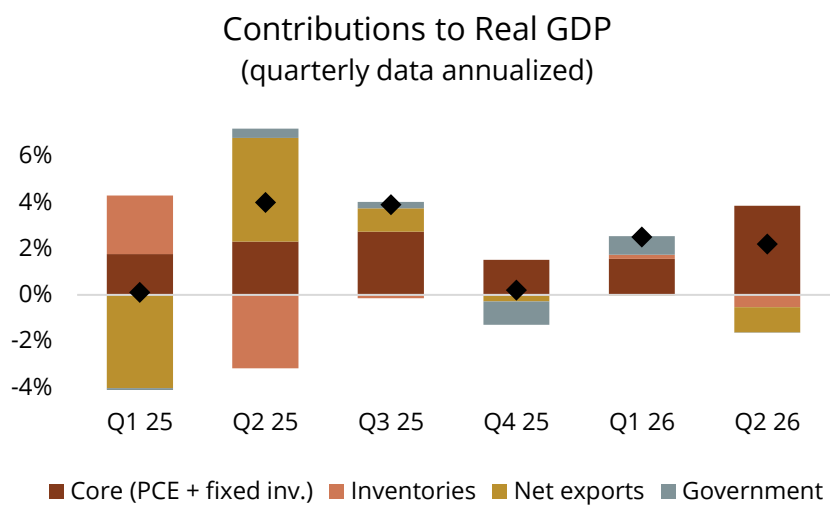
- Interest rates: Investors have adjusted expectations toward a higher-for-longer policy path; should the price of oil fall, we would anticipate interest rates to follow suit, allowing equity multiples to expand.
- Earnings: This year's impressive results have raised the bar for 2027, implying we may have seen peak earnings growth this cycle, and any slowdown in hyperscaler AI capex would pressure estimates and equities lower.
- Consumer: Spending has remained resilient, supported by a stable labor market and the wealth effect, though elevated energy prices create a backdrop for potential changes at the ballot box in the November midterm elections.

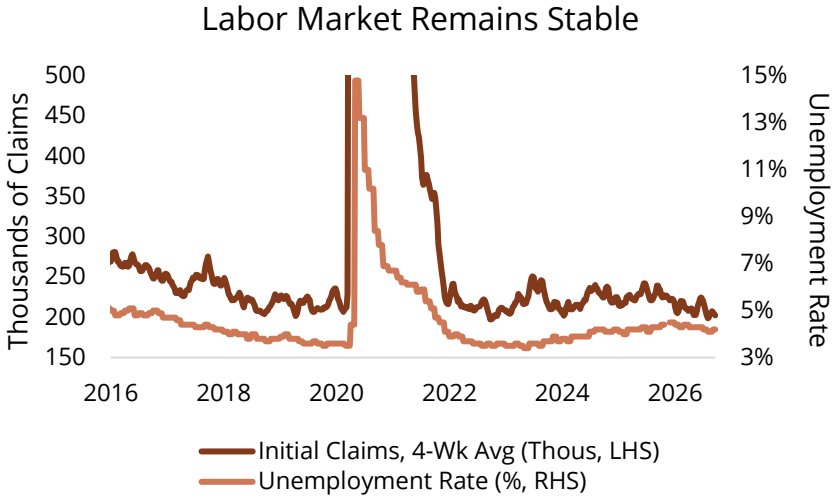
Macro Commentary

U.S. Growth Continues

GDP increased by 2.2% during the (recently reported) second quarter, led by consumer and business spending. Personal Consumption Expenditures (PCE) and Fixed Investment contributed 2.51% and 1.35% toward GDP, whereas Inventories and Net Exports subtracted 0.53% and 1.10%, respectively.

The nonresidential portion of Fixed Investment grew by 9.0%, a portion of which is attributable to data centers. Residential investment increased 2.8%, a notable reversal of the quarterly decreases reported since early 2025. Looking forward, economists on average forecast the U.S. economy will expand near 2% for the foreseeable future.





Labor Market Remains Stable

Despite fears of disruption caused by the threat of AI and dour consumer views of the labor market, employment data illustrates a job market that is stable.

The official unemployment rate has remained at economically unconcerning levels and moved lower throughout the quarter. One of the most robust real-time labor market indicators, weekly initial jobless claims, has been moving to its lowest level in decades.

Sources: FactSet, Bloomberg, Madison Investments

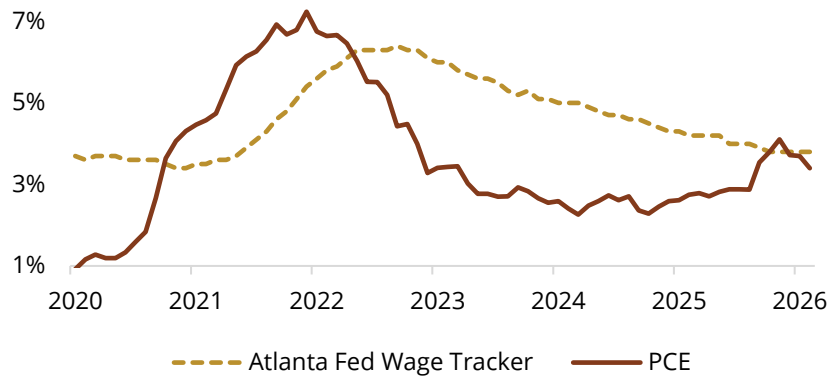
Macro Commentary

Wage Growth Is Affecting Some Consumers

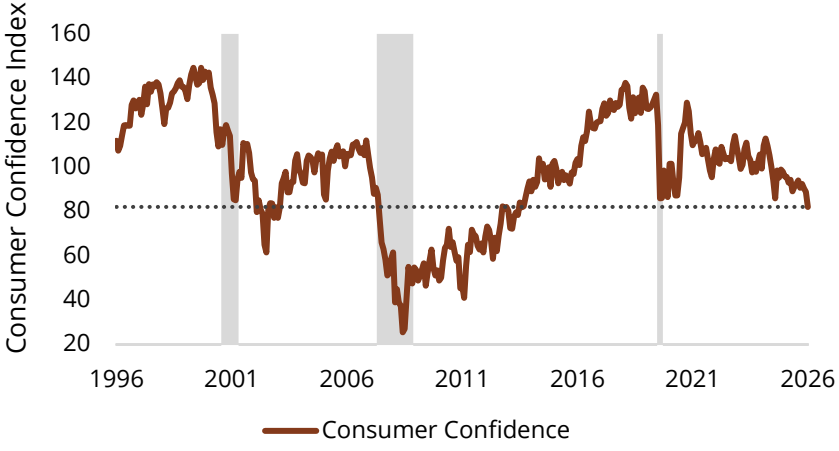
The recent GDP report indicated consumers continue to spend (as measured by the PCE index), though spending behavior may vary based on earnings potential. As shown in the chart on the right, wage gains continue to trend lower as tracked by the Federal Reserve Bank of Atlanta.

Similarly, in recent months the increase in average hourly earnings has fallen near or below the rate of inflation. Some consumers are finding it necessary to cut discretionary spending, thereby negating the potential for a wage-price spiral (e.g., as purchasing power increases, so does demand for goods and services) that fuels inflation. We believe current inflation is characteristic of businesses experiencing higher costs, a portion of which is passed along to consumers.

Nominal Wage Growth versus
Personal Consumption Expenditures (PCE)



US Consumer Confidence



Consumer Sentiment

Consumer sentiment is at its lowest level in over 14 years. This is despite a stable labor market and continued strength in consumer spending numbers, which is supported by the wealth effect as asset prices have moved higher.

While US consumer spending has remained resilient, after four years of sustained increases in price levels, consumers are constantly reminded of the increase daily, as retail gasoline and diesel prices have hit levels not seen in years, creating a backdrop for potential changes at the ballot box at the upcoming midterm elections in early November.

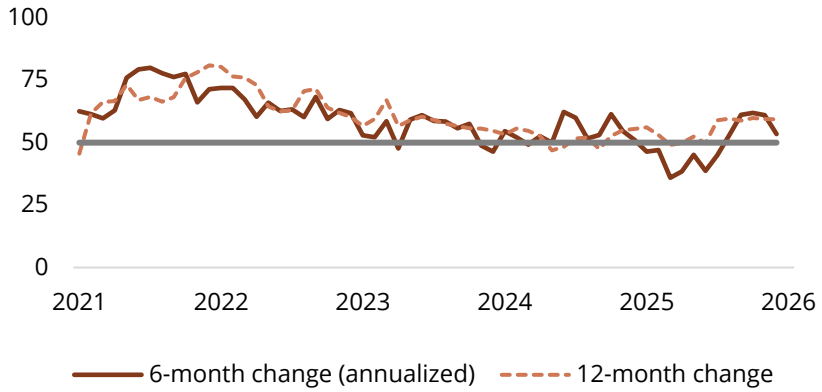
Sources: FactSet, Bloomberg, Madison Investments

Fed Chair Warsh Messages Inflation Concerns

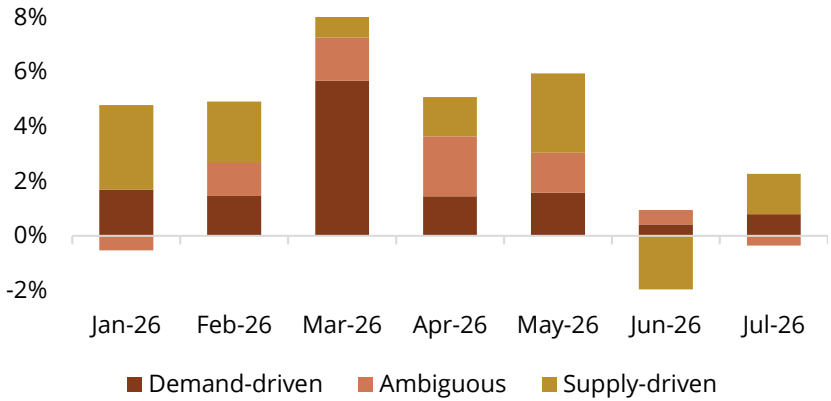
At the Jackson Hole Economic Policy Symposium, Fed Chair Warsh warned that inflation has not yet shown meaningful underlying improvement. His comments included reference to the percentage of PCE product categories with lingering increases above 3%.

At right is a rolling diffusion index illustrating the percentage of weighted product categories experiencing increases of 3% or more. Since early 2026, most products have eclipsed the 3% threshold. In our opinion, elevated energy prices and U.S. tariff policies could prolong the Fed's efforts to achieve 2% inflation.

Rolling PCE Diffusion Index
(weighted share of PCE components above 3%)



Supply and Demand Driven Contributions to Annualized Monthly Core PCE Inflation



Sources: Bloomberg, Madison Investments

Supply Constraints Contributing To Persistent Inflation

In September, the Federal Open Market Committee raised the federal funds rate to 4.0%, an increase of 25 basis points (bps). The rate increase was thought necessary due to relentless inflation, while both the economy and labor market were deemed to be strong enough to absorb tighter monetary policy.

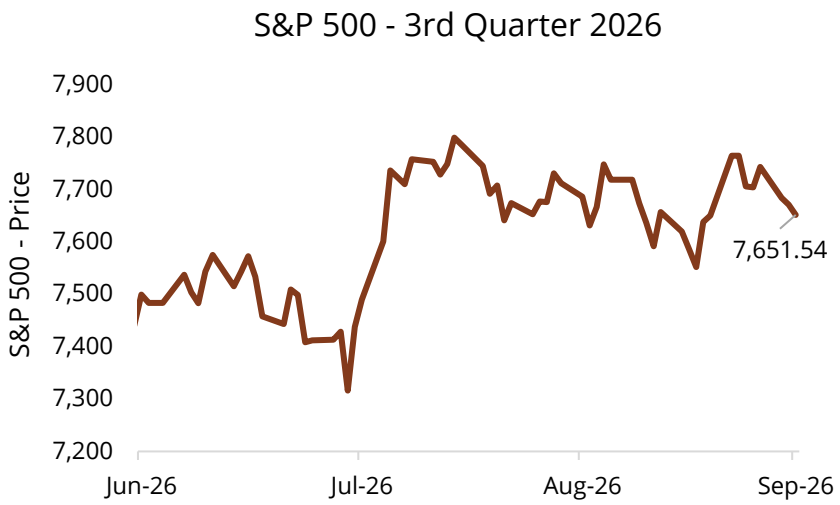
There's growing debate as to whether tighter policy will tame inflation, especially given that the bulk of inflation appears to be stemming from the supply side. The chart on the left segments inflation into contributions from both the supply- and demand-side as analyzed by the Federal Reserve Bank of San Francisco. Supply-driven inflation has been prominent in all months except March and June, periods that coincided with a drop in energy prices.

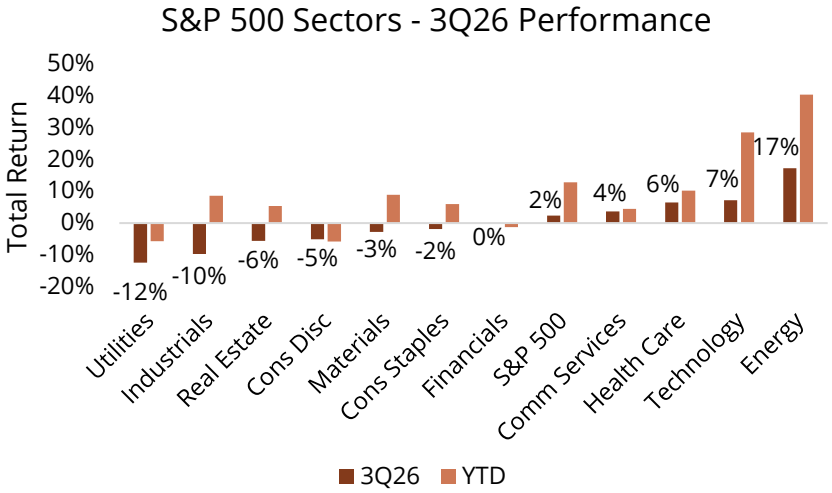
3Q 2026 – US Equity Attribution

Summary of the Third Quarter

After a standout second quarter, the S&P 500 posted much more modest gains in the third quarter, advancing +2.3%, bringing the year-to-date return to +12.8%, ending the quarter within 2.0% of its all-time high of 7,798.99, which was established in mid-August.

Market leadership shifted as the quarter progressed, with the broadness of the market seen in the first and second quarter fading over the past three months as pressure mounted with the economic realities of persistently higher energy prices. Decisively higher interest rates weighed on cyclical parts of the market, while long-established business models were threatened by the advancements in agentic AI.





Sources: FactSet, Morningstar Direct, Madison Investments

Sector Snapshot

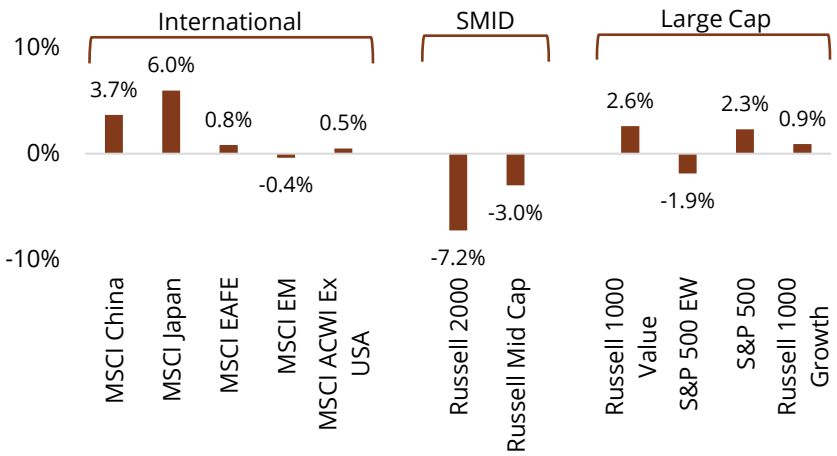
Energy was the top-performing sector in the third quarter, posting a +17.2% return, as the increase in crude oil prices due to the re-escalation of the geopolitical conflict in the Middle East caused a disruption in the supply of oil to the global markets.

Despite weakness in the Semiconductor industry during the third quarter, the Technology sector fared well, returning +7.2%, as the Software & Services industry recovered from its AI-induced lull earlier this year. The Health Care sector was another standout during the quarter, driven by large moves in a handful of stocks. The Utility and Industrial sectors were notable laggards as interest-rate-sensitive and cyclical equities came under pressure.

Global Equity Markets in the Third Quarter

Madison INVESTMENTS

Equity Market Returns in 3Q26: Size and Geographies

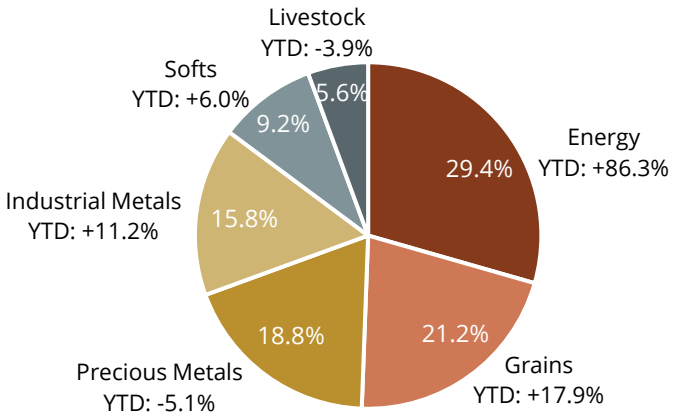


Deterioration of Market Breadth

Beneath the headline return for the third quarter, there was a rotation under the surface, with many stocks seeing meaningful drawdowns. Within the broader Russell 3000 index, over 50% of its constituents saw drawdowns of over 20% or more since June, weighing on the S&P 500 Equal-Weighted index, down 1.9%, in addition to small (-7.2%) and mid cap (-3.0%) stocks.

International equities were mixed during the third quarter. The AI trade lost some of its momentum, which created a headwind for emerging market equities exposed to the semiconductor supply chain. In addition, the strengthening of the US dollar into quarter-end weighed on results for US-based investors.

Bloomberg Commodity Index



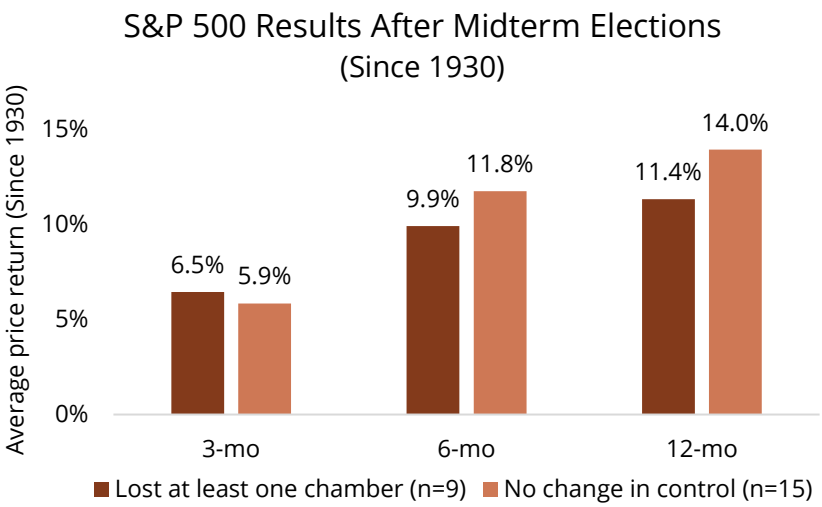
Simultaneous Supply and Demand Shocks

More headwinds are beginning to emerge for global equities as the reignited conflict in the Middle East sent oil prices predictably higher. In turn, this has led to price pressure on refined products such as gasoline and diesel fuel, with the latter hitting all-time highs in the US and around the globe. Higher diesel prices are particularly problematic for the global economy as the inflationary ripple effects are felt in global trade and industrial production.

In addition to the supply shock, industrial commodities have also seen prices rise due to massive demand coming from the continuous buildout of data centers as well as increased global defense spending. Inflation expectations across developed market economies have moved higher, pushing many central banks to move off the sidelines and hike their respective policy rates in response.

Sources: FactSet, Morningstar Direct, Madison Investments

Midterm Elections



Equities Adapt

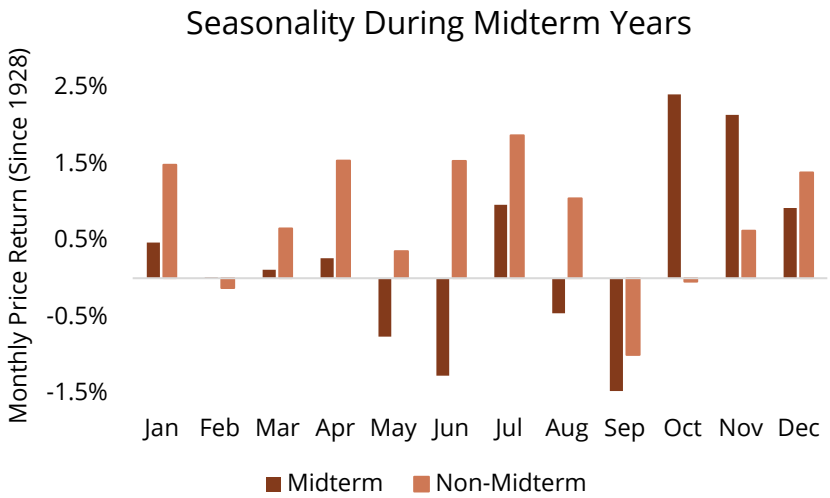
Since the 1930s, there have been two dozen midterm elections. Results from each of the elections were variable, of course, with nine of them resulting in a change of control of at least one chamber of Congress and fifteen of them resulting in no change. What has been remarkably consistent is how well equities have done in the months following the November polls, with the S&P 500 posting positive one-year-forward results in 92% of occurrences.

While past performance is of course not indicative of future results, the purpose of this analysis is to illustrate that the market's ability to adapt to different political outcomes has historically been rewarded for patient investors.

Fourth Quarter Seasonality

In non-midterm election years, the month of October has typically provided uninspiring results before improving in November and December. During midterm election years, US equities have historically been shown to follow a decisively different pattern of seasonality.

With any election cycle, there will be plenty of headlines and volatility. This year's midterm election will likely prove to be no different; however, when it comes to the markets, we prefer to treat the political noise as just that and remain disciplined.



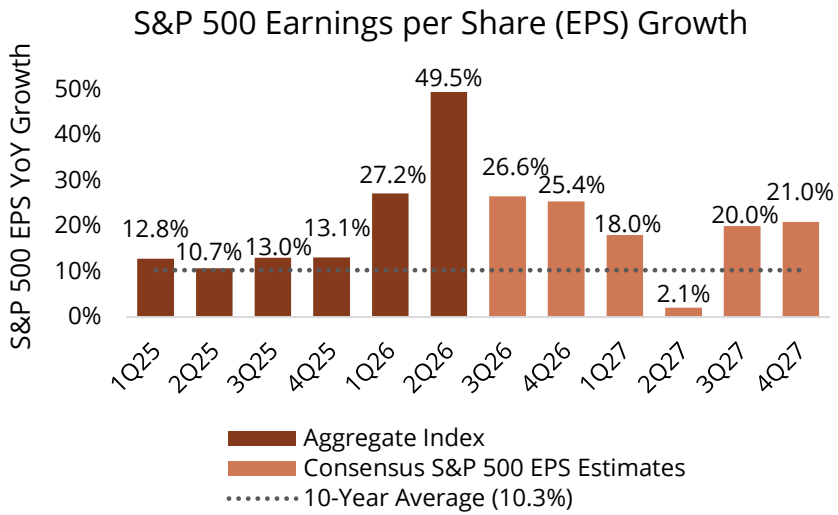
Sources: FactSet, Madison Investments

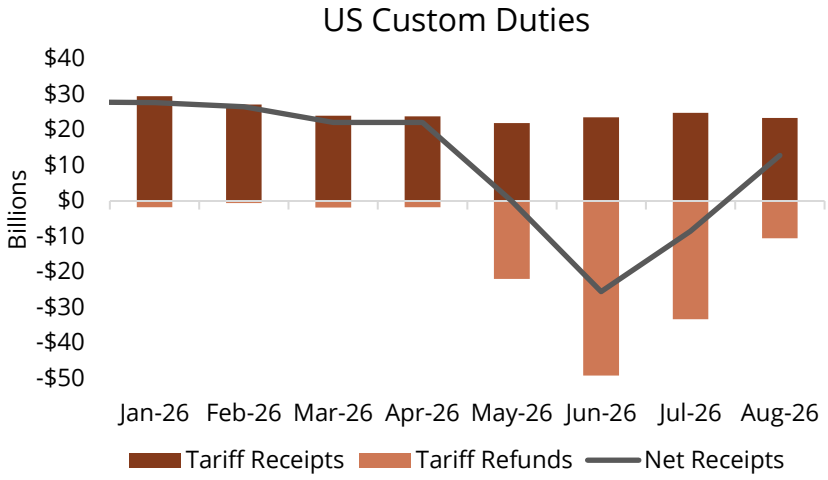
Equity Fundamentals

Impressive Results

The second quarter proved to be a remarkable period for earnings growth, with a growth rate of nearly 50% compared to the second quarter of last year, well ahead of estimates at the beginning of the second quarter's earnings season, which were slightly above 20%. Encouragingly, the earnings strength continues to be broad-based, with ten of the eleven sectors of the S&P 500 reporting year-over-year earnings growth in the second quarter, and results for the median stock in the index remain ahead of long-term averages as well.

Earnings are anticipated to grow by over 26% in the third quarter relative to the same period last year. If these estimates are reasonably representative of actual results, it will mark the third consecutive quarter of earnings growth over 25% and well above the 10-year average of 10.3%.





Sources: FactSet, US Treasury, Madison Investments

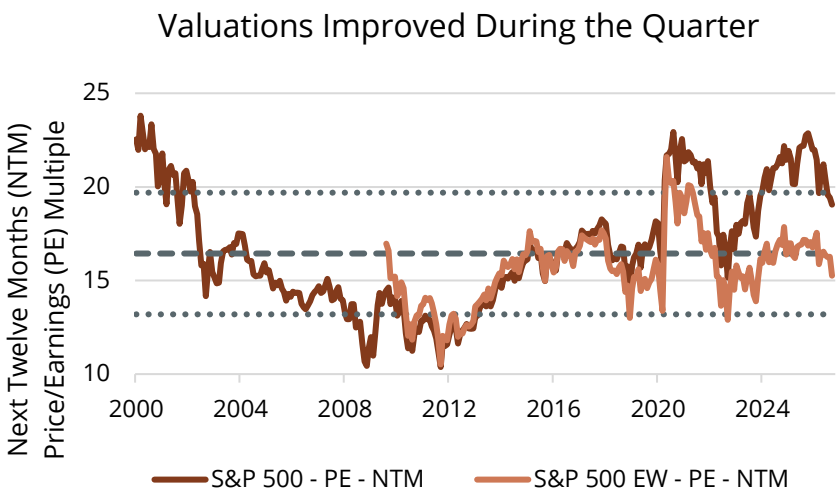
Fading Headwinds

In addition to the massive amounts of capital being invested in AI and fiscal expansion, there is additional fiscal stimulus making its way into corporate earnings: tariff refunds. Earlier this year, the legality of a number of the tariffs put in place through much of the last year was successfully challenged in the courts, dampening the net impact of tariffs on corporate earnings.

Earnings growth has been remarkably strong this year, and estimates are for it to continue this quarter and into the fourth quarter. However, these impressive quarterly results have raised the bar for 2027, implying that we may have seen peak earnings growth this cycle. In addition, should there be a slowdown in AI capex spending by the hyperscalers, earnings estimates would be pressured lower.

Equity Valuations & Outlook

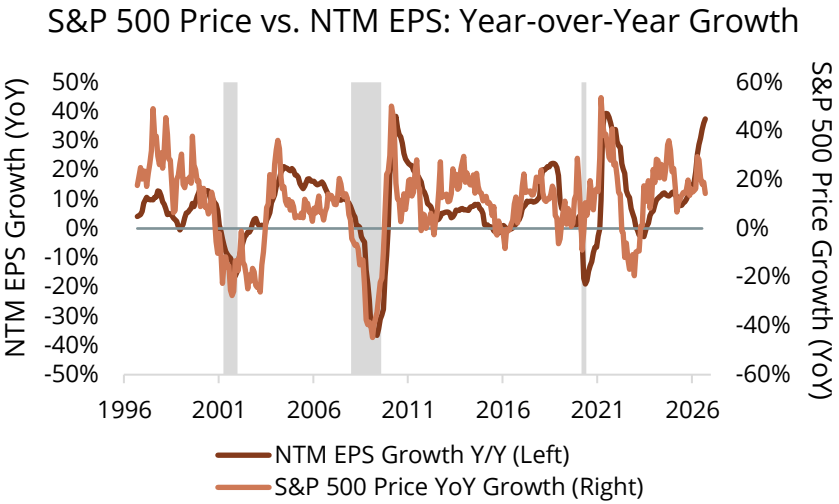
Madison INVESTMENTS



Valuations Are Becoming More Attractive

Increasing earnings growth assumptions and a modest gain for the S&P 500 during the third quarter combined to bring the forward EPS valuation of the market-cap-weighted index to its lowest level in nearly three years, ending the quarter at 19.0x forward earnings, down from 20.4x at the start of the quarter and 22.0x at the beginning of the year.

The equal-weighted S&P 500 index showed similar improvement in valuation through the third quarter. While earnings growth assumptions remain robust, the market is signaling an increasing level of uncertainty associated with the forward estimates.



Moving Into Year-End

While equity returns have been strong over the past few years, they are rather muted relative to the phenomenal earnings growth, as inflation expectations and higher interest rates have proven to be a governor for the equity markets.

Should the price of oil fall, we would anticipate that interest rates would follow suit, provided their seemingly lock-step ascent. Combined with robust fundamentals, this combination could allow for equity multiples to expand, creating a rewarding environment for equity investors.

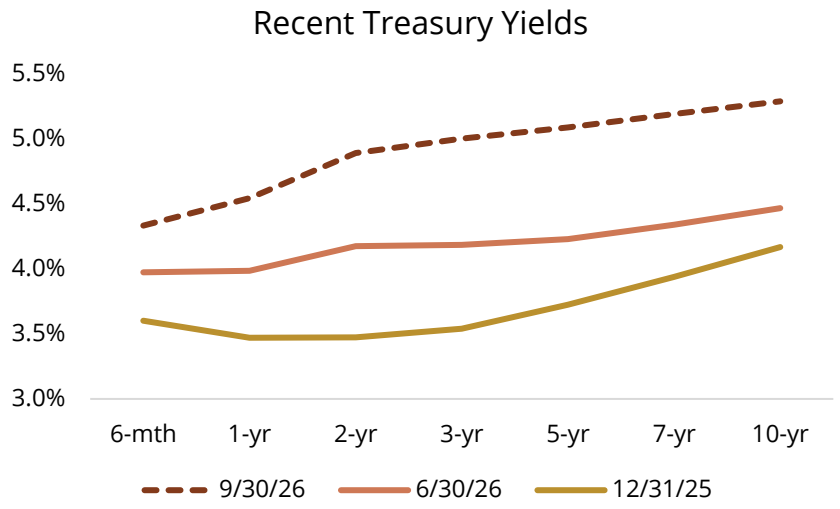
Sources: FactSet, Madison Investments

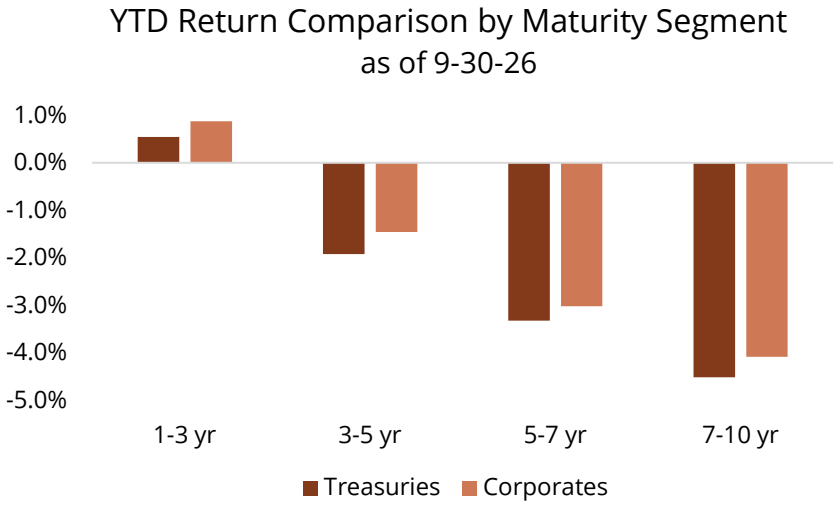
3Q 2026 – Fixed Income Attribution

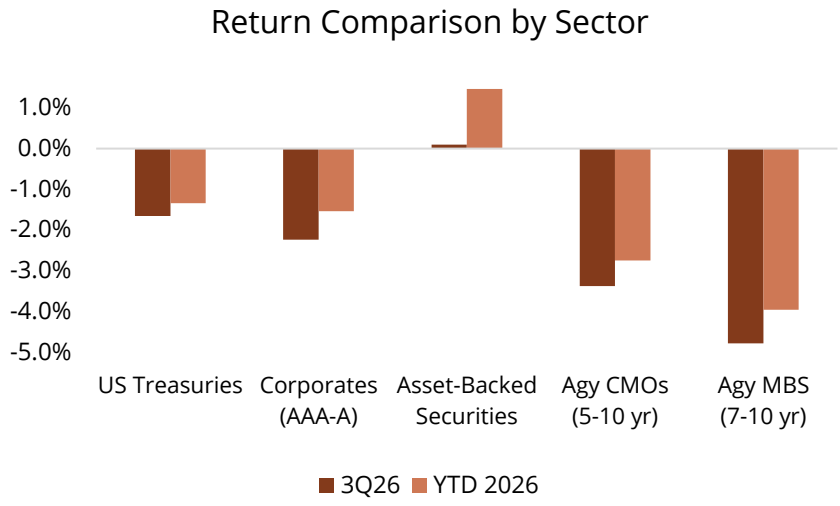
Attribution Comments

The Bloomberg Intermediate Government/Credit index generated a -1.88% return during the third quarter, primarily due to interest rates moving substantially higher. A modest increase in credit spreads also affected performance. The sell-off caused year-to-date returns to turn negative for all but the 1- to 3-year maturity segment.

Intermediate investment grade corporate bonds generated a -2.31% return during the quarter while intermediate Treasuries returned -1.69%. Credit quality did not materially affect performance. Fixed-rate agency mortgage paper returned -4.25% during the quarter, the result of valuations adjusting to an extension of prepayment assumptions.

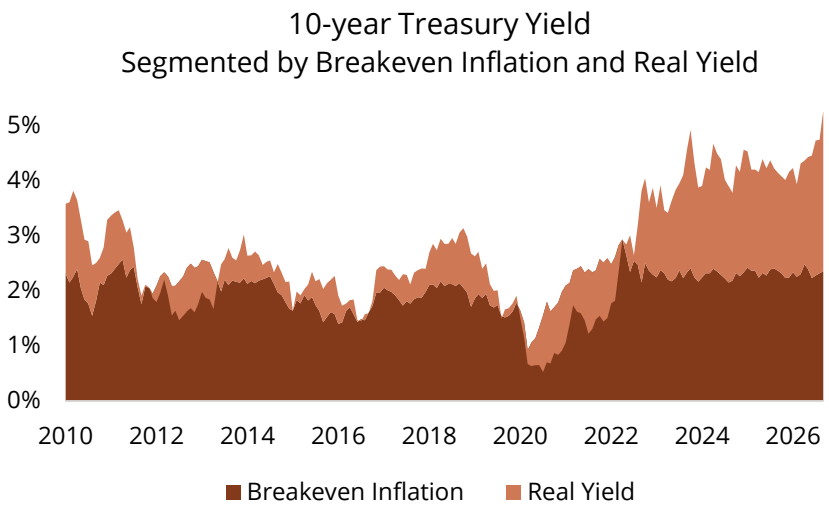






Sources: Bloomberg, ICE Global Indices, Madison Investments

Asset Class (Governments)



Uncertainty May Be Causing Real Yields To Rise

Despite the sustained increase in price levels for goods and services, the Fed's credibility remains intact, as shown in the chart on the left. Long-term inflation expectations have remained anchored near 2.35% for an extended period, as evidenced by the breakeven inflation rate.

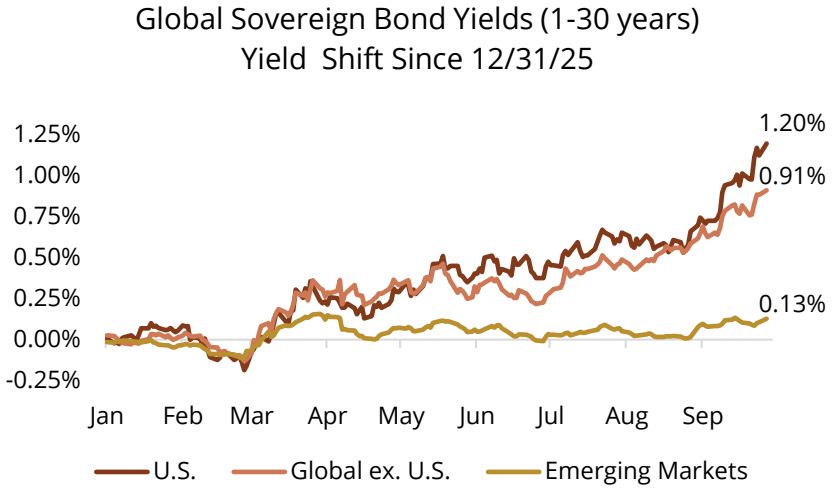
In contrast, the real yield (i.e., 10-year yield minus breakeven inflation) has moved significantly higher as investors seek additional compensation for holding longer-tenor bonds (i.e., the term premium) given the federal budget deficit and Treasury supply. Ultimately, higher real yields pressure mortgages, corporate financing, and government interest costs.

Inflation Has Contributed to Higher Global Rates

Global inflation has re-accelerated in 2026, primarily due to the energy shock caused by the U.S./Israel war with Iran. Many central banks have responded by shifting from accommodative to tighter monetary policy, thereby leading to an upward movement in interest rates.

Higher global sovereign rates offer investors a compelling alternative to Treasuries, thereby pressuring U.S. rates higher. Thus far, higher foreign rates have not materially weakened the U.S. dollar. Such an occurrence would raise import prices and inflation, although we do not see that as a likely outcome for the foreseeable future.

Similarly, the surge in domestic corporate issuance has increased competition for capital, thereby affecting demand for Treasury debt.



Sources: Bloomberg, Madison Investments

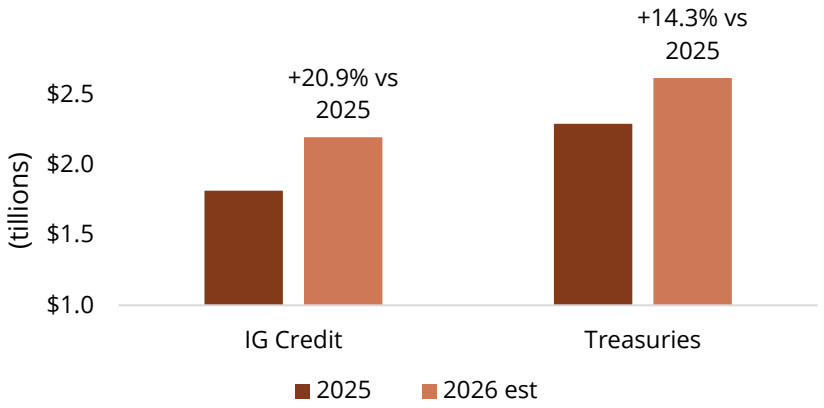
Asset Class (Corporates)

Corporate Issuance Continues To Soar

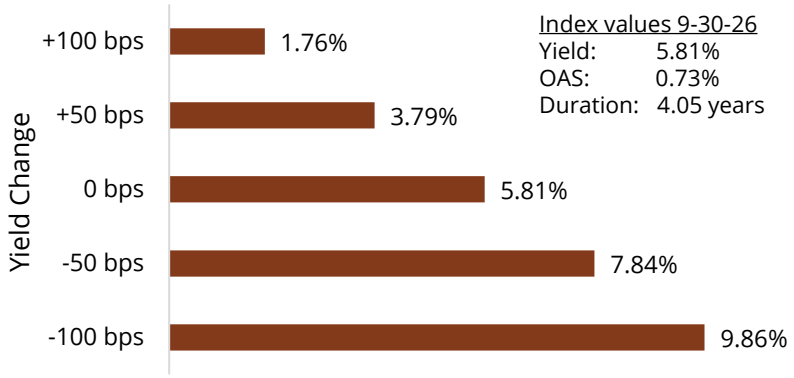
Investment-grade corporate bond issuance is expected to approach $2.2 trillion this year. Year-to-date, hyperscalers including Amazon, Alphabet, Meta, and Oracle have issued billions of dollars of new debt to finance artificial intelligence infrastructure. M&A financing has also accounted for a significant amount of new issuance.

Despite record issuance, credit spreads remain near historic lows as investors continue to lock in attractive all-in yields. In our view, solid credit fundamentals for most high-quality issuers currently support lower risk premiums. However, our view would change should U.S. economic conditions or credit profiles deteriorate.

Annual Bond Issuance
Investment Grade Credit vs Treasuries



Estimated 1-year Corporate Bond Return
Bloomberg Intermediate Corporate Bond Index



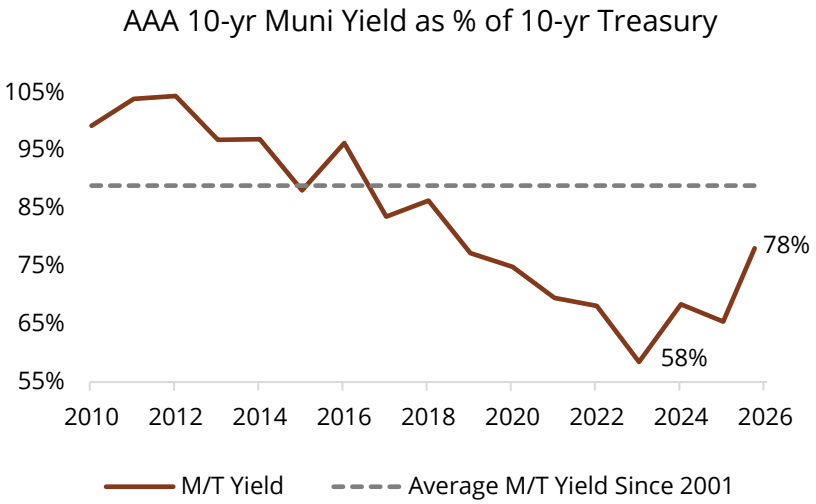
Yield Cushion Provides Downside Protection

While credit spreads remain susceptible to widening, absolute yield levels are attractive from a historical perspective. As shown in the chart on the left, with a quarter-end yield of 5.81%, the Bloomberg Intermediate Corporate Bond Index has the potential to generate a positive one-year return even if yields increased by 100 bps.

Assuming the option-adjusted spread (OAS) does not change, the Corporate Index would earn a return that is approximately 73 bps more than comparable duration Treasuries. This is true for all yield shifts shown in the chart. The Intermediate Corporate Index and a similar duration Treasury index would post near-equal returns if the Corporate OAS increased by 18 bps.

Sources: Bloomberg, ICE Global Indices, Madison Investments

Asset Class (Municipals)



Tax-Exempt Valuations Continue To Cheapen

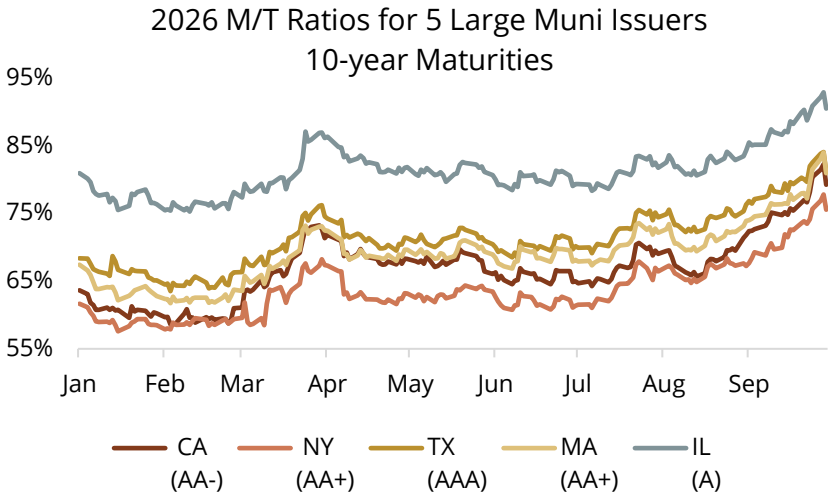
Muni valuations trended toward long-term averages as heavy issuance and market uncertainties caused investors to rethink fixed income allocations. Some investors are selling to realize capital losses to offset equity gains while others are liquidating to protect against additional price declines.

We believe municipal bond portfolios are best held by investors with long investment horizons, sufficient liquidity, and patience to remain invested over the long term. To us, it is less about periodic total return and more about generating income exempt from federal taxes over the longer term. Currently, muni investors can lock in tax-exempt yields that have not been available since 2020.

State Selection Provides Opportunity To Enhance Yield

All state-issued debt has experienced valuation adjustments, as shown in the chart on the right. Each state has a unique credit curve based on credit fundamentals, issuance, and investor demand. The fluctuation in each state's Muni/Treasury yield ratio (for 10-year maturities) this year has been roughly even across the portrayed issuers, regardless of credit quality.

We view this as a sign that cheaper valuations (for most issuers) are due to factors other than credit risk. An economic slowdown, shifting demographics, and/or the availability of federal subsidies could change this perspective. Therefore, we prefer essential service revenue bonds and general obligation bonds issued by state/local entities with favorable demographics.



Sources: Bloomberg, Municipal Market Analytics, Madison Investments

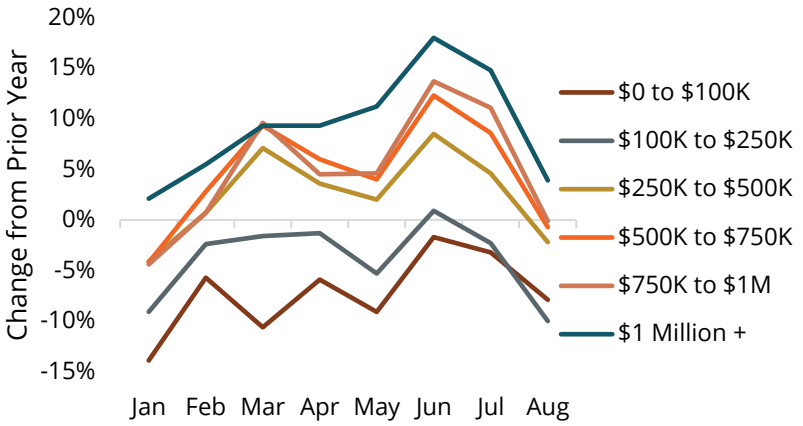
Asset Class (ABS/MBS & High Yield)

Higher Mortgage Rates Impacting Home Sales

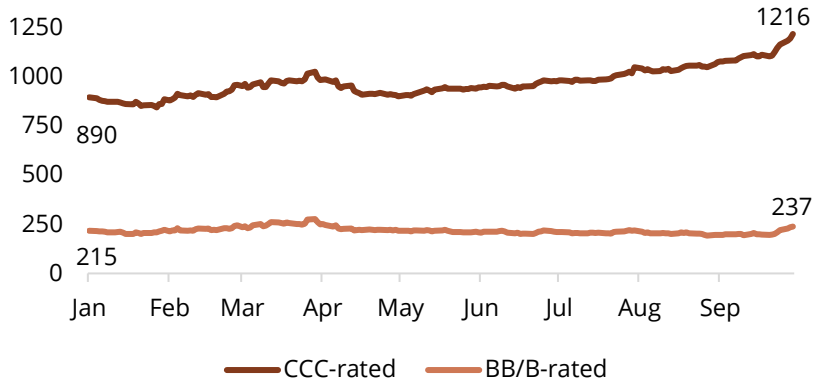
Existing home sales have trended downward this year as mortgage rates have increased by nearly 1%. According to Bankrate, the quarter-end 30-year mortgage rate was 7.23% versus 6.25% at year-end 2025. The sale of lower-priced homes has been impacted the most, suggesting affordability for first-time home buyers is an issue. Thus far, home prices have not dropped as reported by the National Association of Realtors.

The rise in mortgage rates has extended the average life of lower-coupon pass-through securities, thus lowering valuations. We believe agency-backed residential mortgages continue to offer investors with a long horizon an opportunity to diversify portfolios and enhance yield.

2026 Existing Home Sales by Price Range



CCC vs BB/B Corporate Bonds
Option-Adjusted Spreads



Signs of Distress for Lower-Rated Bonds

Risk premiums on bonds issued by lower-quality borrowers increased 238 bps to 1,216 bps during the quarter. For the year, credit spreads on CCC-rated debt have increased 324 bps. In contrast, spreads on BB/B-rated debt increased 26 bps during the quarter and 22 bps for the year.

Companies with floating-rate debt or near-term refinancing are facing rapidly rising interest costs. Higher energy prices are also squeezing margins for weaker, cyclical companies. Up until now, BB/B-rated companies have escaped investor scrutiny given their stronger fundamentals, ability to service higher debt costs, and lower refinancing risk.

Sources: Bloomberg, ICE Global Indices, Madison Investments

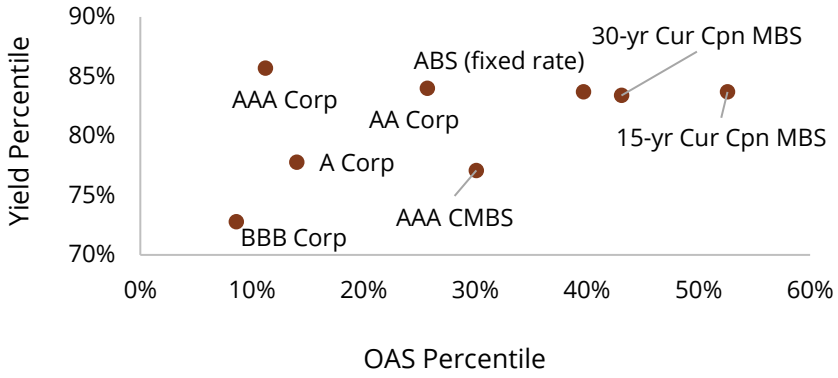
Asset Class (Sector Valuations)

Valuation Comments

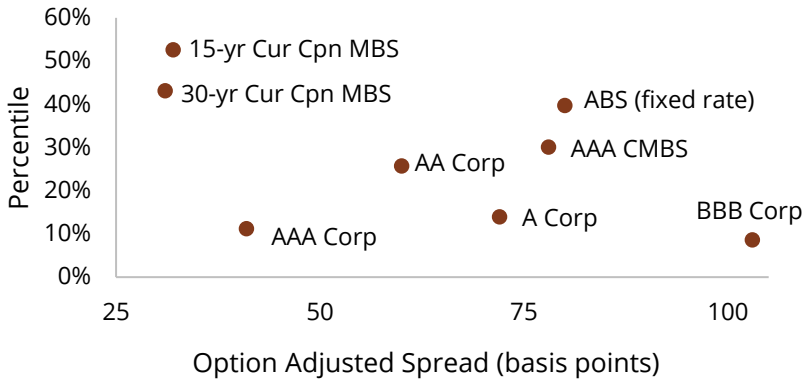
The rise in rates during the third quarter benefited valuations for all asset classes as measured by percentile rank of yield. Yields are currently near or above the 70th percentile. Historically, yields have been higher than current levels less than 30% of the time. From an option-adjusted spread perspective, valuations remain less attractive as most OAS percentile ranks are below the 30th percentile. To us, this means the potential for spread tightening is limited.

The bottom two charts illustrate OAS and yield from the perspective of actual levels versus percentile rank. The lower left chart suggests corporate sector spreads remain lower than past levels. The lower right chart indicates absolute yields are above most previous periods.

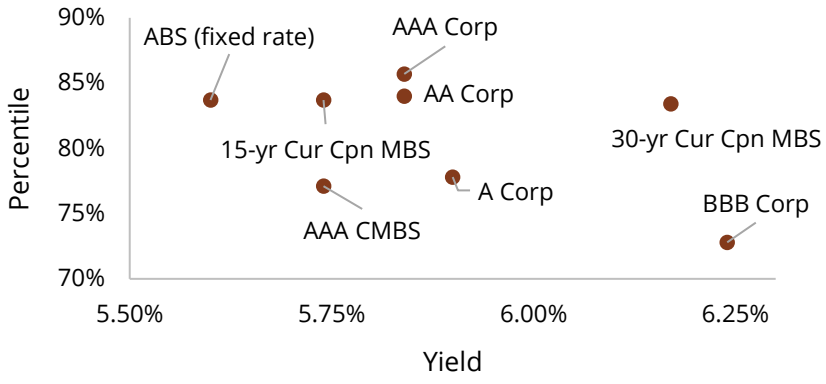
Percentile Rank of OAS and Yield
(based on data from 1997 thru 9-30-26)



Sector Valuation: OAS
(based on OAS data from 1997 thru 9-30-26)

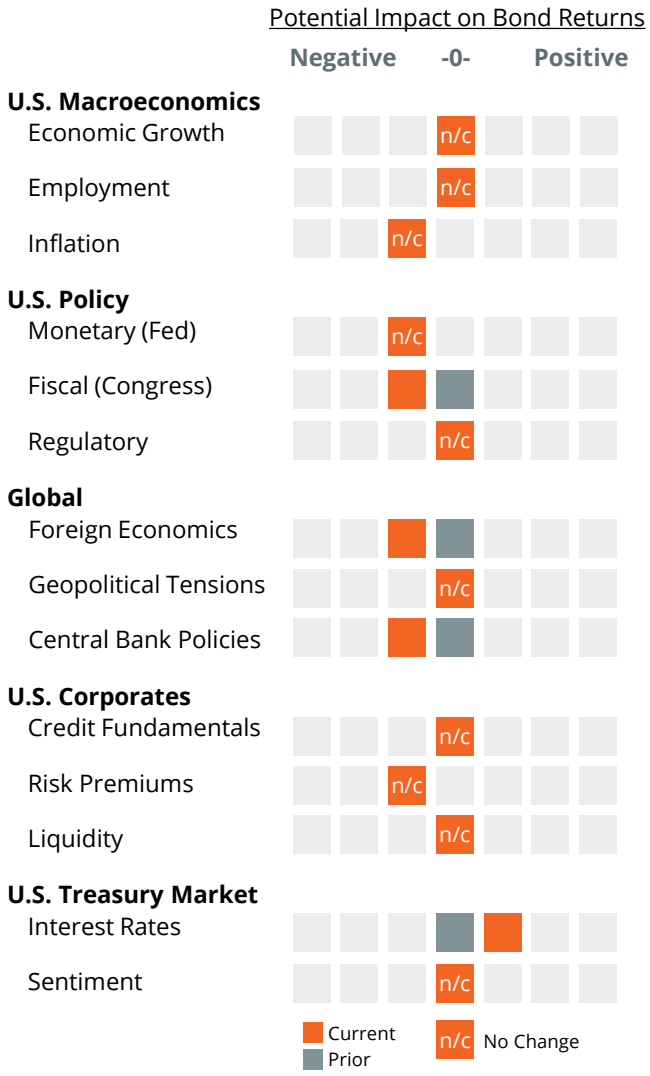


Sector Valuation: Yield
(based on yield data from 1997 thru 9-30-26)



Sources: Bloomberg, ICE Global Indices, Madison Investments

Fixed Income Scorecard



GDP increased at an annual rate of 2.2% during the (recently reported) second quarter as solid consumer and business spending offset negative contributions by the government and net exports. Employment conditions remain steady, even though the pace of hiring continues to slow. Elevated energy prices have added to prolonged inflation.

The recent Fed rate increase could be more about credibility than containing inflation. Current inflation seems to be driven by the supply of energy. Interest rates are more effective at containing demand-driven inflation. The growth in U.S. debt (as a percent of GDP) is concerning, but thus far interest rates have not been significantly impacted.

Many global central banks have been tightening monetary policy in response to higher price levels attributable to energy prices. The resulting rate rise attracts capital to economies with higher rates, thereby reducing demand for U.S. Treasuries. Geopolitical outcomes will likely promote periods of volatility for the foreseeable future.

Unwavering investment-grade corporate risk premiums reinforce the notion that credit fundamentals are solid for most issuers. Many investors continue to position in high-quality bonds, although there is growing resistance to CCC-rated bonds as credit profiles diminish due to rising debt service costs and lower margins. Bid/ask spreads on newly issued debt have trended wider.

The substantial rise in interest rates during the third quarter reflects investor expectations for tighter Fed policy in coming quarters, as well as an adjustment to term premiums (i.e., incremental compensation to invest in longer-term bonds) related to global uncertainties and fiscal policy. Higher rates could impact the economy as debt service costs rise for all borrowers.

Source: Madison

Disclosures

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All investments contain risk and may lose value. Equities may decline in value due to both real and perceived general market, economic and industry conditions. Investing in foreign-denominated and/or -domiciled securities may involve heightened risk due to currency fluctuations, and economic and political risks, which may be enhanced in emerging markets.

In addition to the ongoing market risk applicable to portfolio securities, bonds are subject to interest rate risk, credit risk and inflation risk. When interest rates rise, bond prices fall; generally, the longer a bond's maturity, the more sensitive it is to this risk. Credit risk is the possibility that the issuer of a security will be unable to make interest payments and repay the principal on its debt. Bonds may also be subject to call risk, which allows the issuer to retain the right to redeem the debt, fully or partially, before the scheduled maturity date. Proceeds from sales prior to maturity may be more or less than originally invested due to changes in market conditions or changes in the credit quality of the issuer.

Upon request, Madison may furnish to the client or institution a list of all security recommendations made within the past year.

Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only, and do not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance.

Madison-1014527-2026-10-08

Definitions

A basis point is one hundredth of a percent.

Agencies is a bond or other debt security issued by a government agency or government-sponsored agency such as Freddie Mac or Fannie Mae, and are the highest quality debt securities after Treasuries.

Asset-Backed Securities (ABS) are bonds made up of a collection of consumer debts.

Bond Spread is the difference between yields on differing debt instruments of varying maturities, credit ratings, and risk, calculated by deducting the yield of one instrument from another.

Commercial Mortgage-Backed Securities (CMBS) are bonds backed by mortgages on commercial properties rather than residential real estate.

Duration is a measure of the sensitivity of the price of a bond or other debt instrument to a change in interest rates. Duration measures how long it takes, in years, for an investor to be repaid the bond's price by the bond's total cash flows.

Federal funds rate is the target interest rate range set by the Federal Open Market Committee (FOMC) for banks to lend or borrow excess reserves overnight. It influences monetary and financial conditions, short-term interest rates, and the stock market.

High yield bonds are considered lower-quality instruments known as "junk bonds". Such bond entail greater risks than those found in higher-rated securities and, as a result, investments in the fund entail more risk than investments in average bond funds. More detailed information regarding these risks can be found in the fund's prospectus.

Income from tax-exempt bonds may be subject to the federal Alternative Minimum Tax and state and municipal taxes.

Mortgage-Backed Security (MBS) Bonds: Bonds secured by home and other real estate loans.

Option-adjusted spread (OAS) measures the difference in yield between a bond with an embedded option (e.g. callable bonds, mortgage-backed securities) with the yield on Treasuries.

Percentile Rank is a statistical measure that indicates the relative standing of a value within a dataset. As an example, a sector with an OAS of 35 and a percentile rank of 25 indicates that historically the OAS has been below 35 twenty-five percent of the time and above 35 seventy-five percent of the time.

Price earnings ratio (P/E) is the ratio for valuing a company that measures its current share price relative to its per share earnings (EPS).

Volatility is the degree of variation of returns for a given security or market index.

Yield Curve is a line that plots yields (interest rates) of bonds having equal credit quality but differing maturity dates. The slope of the yield curve gives an idea of future interest rate changes and economic activity. There are three main types of yield curve shapes: normal (upward sloping curve), inverted (downward sloping curve) and flat.

Bloomberg Commodity Index (BCOM) is calculated on an excess return basis and reflects commodity futures price movements. The index rebalances annually weighted 2/3 by trading volume and 1/3 by world production and weight-caps are applied at the commodity, sector and group level for diversification.

The Bloomberg U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, mortgage backed securities, asset-backed securities and corporate securities, with maturities greater than one year.

Definitions

The Bloomberg U.S. Corporate Bond Index is an unmanaged market-value-weighted index of investment-grade corporate fixed-rate debt issues with maturities of one year or more.

The Bloomberg US Intermediate Corporate Bond Index measures performance of United States dollar-denominated investment grade, fixed-rate, taxable corporate bond securities with maturities greater than or equal to one year, but less than ten years, that are issued by U.S and non-U.S. industrial, utility and financial issuers.

Bloomberg U.S. Intermediate Government/Credit Bond Index measures the performance of United States dollar-denominated United States Treasuries, government-related and investment-grade United States corporate securities that have a remaining maturity of greater than or equal to one year and less than 10 years.

The S&P 500® is an unmanaged index of large companies and is widely regarded as a standard for measuring large-cap and mid-cap U.S. stock-market performance. Results assume the reinvestment of all capital gain and dividend distributions. An investment cannot be made directly into an index.

The Russell 2000®Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index, which represents approximately 11% of the total market capitalization of the Russell 3000® Index.

The Russell Midcap® Index measures the performance of the 800 smallest companies in the Russell 1000® Index, which represent approximately 35% of the total market capitalization of the Russell 1000® Index. As of the latest reconstitution, the average market capitalization was approximately $3.7 billion; the median market capitalization was approximately $2.9 billion. The largest company in the index had an approximate market capitalization of $10.3 billion.

The Russell 1000® Growth Index is designed to track those securities within the broader Russell 1000 Index that FTSE Russell has determined exhibit growth characteristics.

The Russell 1000® Value Index is designed to track those securities within the broader Russell 1000 Index that FTSE Russell has determined exhibit value characteristics.

The Russell 3000 Index measures the performance of 3,000 stocks and includes all large-cap, mid-cap and small-cap US equities, along with some microcap stocks. The index is designed to represent approximately 98% of investable US equities by market capitalization.

The MSCI Emerging Markets Index captures large and mid cap representation across 24 Emerging Markets (EM) countries. With 1,138 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

The MSCI EAFE (Europe, Australasia & Far East) Index is a free-float adjusted market capitalization index that is designed to measure developed market equity performance, excluding the U.S. and Canada.

The MSCI ACWI ex USA Index captures large and mid cap representation across 22 of 23 Developed Markets countries (excluding the US) and 23 Emerging Markets countries. With 1,843 constituents, the index covers approximately 85% of the global equity opportunity set outside the US.

The MSCI China Index captures large and mid cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs).

The MSCI Japan Index is designed to measure the performance of the large and mid cap segments of the Japanese market.

The Personal Consumption Expenditures Price Index is a measure of the prices that people living in the United States, or those buying on their behalf, pay for goods and services.