BNY MELLON | PERSHING

Lockwood Investment Insights

Getting Butter Every Day

April 2021

Contents

Executive Summary

Five Trends to Consider

1. Save or Spend?

Economists are divided on how the stimulus checks will affect inflation. Will recipients save the funds or spend it? Stimulus spending reverberates around the economy. Saving, on the other hand, may help personal finances but doesn't do much to help the economy grow more rapidly.

2. Guns and Butter

Economists and public policy professionals have generally operated under a tradeoff between spending on weapons in wartime (i.e. guns) and domestic and social programs in peacetime (i.e. butter). Today, we're spending on both. What happens to the economy if we can't stop or don't want to stop spending?

3. Ricardian Equivalence

British economist David Ricardo posited that a government that finances its expenditures with immediate taxes or deficit spending will have a limited effect on the economy, because taxpayers will save more to cover increased future taxes. Today's savings growth may be due to both pandemic and future tax fears.

4. The Treasury Put

Our response to COVID-19 included an experimental step for fiscal policy: sending direct payments to American households. Will households now expect direct cash payments every time there is a pronounced cyclical downturn? Helicopter money may be here to stay.

5. A Chicken in Every Pot

The Biden administration, with a mostly Democratic Congress, looks to loosen the fiscal restraints. A large infrastructure bill in the works could improve growth as the multiplier effect on the overall economy is larger than the stimulus checks.

Market Overview
Index Returns (%) as of March 31, 2021

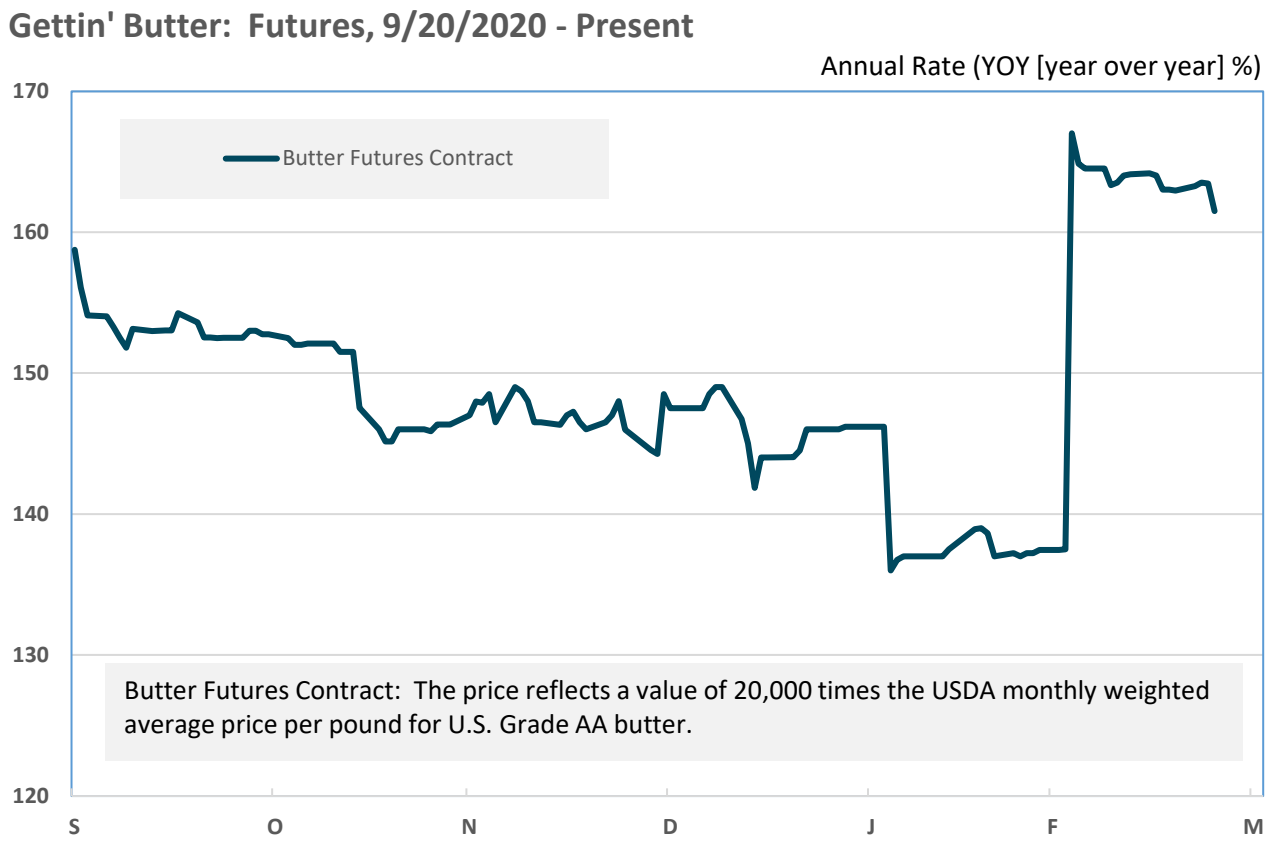
Index	1Q 2021	1 Yr.	3 Yr. ^	5 Yr. ^	2020	2019	2018	2017
S&P 500	6.2	56.4	16.8	16.3	18.4	31.5	(4.4)	21.8
MSCI USA Small Cap	12.9	95.2	15.6	16.5	18.9	27.4	(10.0)	17.3
MSCI EAFE (net of taxes)	3.5	44.6	6.0	8.8	7.8	22.0	(13.8)	25.0
MSCI Emerging Markets (net of taxes)	2.3	58.4	6.5	12.1	18.3	18.4	(14.6)	37.3
Bloomberg Barclays US Aggregate Bond	(3.4)	0.7	4.7	3.1	7.5	8.7	0.0	3.5
Bloomberg Barclays Global Aggregate ex-US	(5.3)	7.2	1.1	2.1	10.1	5.1	(2.1)	10.5
S&P GSCI Crude Oil	21.9	188.9	(3.1)	9.1	(20.5)	34.5	(24.8)	12.5
S&P GSCI Gold	(9.8)	4.4	7.4	5.5	20.9	18.0	(2.8)	12.8
Bloomberg Commodity	6.9	35.0	(0.2)	2.3	(3.1)	7.7	(11.2)	1.7
Bloomberg Barclays US Treasury Bill 6–9 Month	0.0	0.2	1.8	1.3	1.2	2.6	1.8	0.7
Inflation §	0.9	1.7	1.9	2.2	1.2	2.3	1.9	2.1

^3-year and 5-year returns are annualized
Sources: MSCI; Bloomberg Barclays; Standard and Poor's (©2021, S&P Dow Jones Indices LLC. All rights reserved); Bureau of Labor Statistics.
§ Inflation data through February 2021. Visual created by Lockwood Advisors, Inc. For additional information regarding the indices shown, please refer to the Important Disclosures at the end of this document. Indices are unmanaged and are not available for direct investment. **Past performance is not a guarantee of future results.**

Getting Butter Every Day

We're getting butter every day. The economic data is showing a robust recovery for the U.S. and most of the global economy, but, like butter, may be too much of a good thing. A recent poll called "Stress in America" from the American Psychological Association of over 3,000 U.S. adults found that some 42% of U.S. adults reported packing on undesired weight since the start of the pandemic. Of this group, adults reported gaining an average of 29 pounds (with a typical gain of 15 pounds, which is the median). Have our policy makers overcooked the economic dish, just like we seem to have overdone it with the lockdown eating?

What do Americans plan to spend their stimulus checks on other than butter? The U.S. Census Bureau Household Pulse Survey for late February found that 52% of Americans planned to pay down debt, while 28% would mostly spend it and the remaining 19% would save it.



USDA = United States Department of Agriculture.
Source: Bloomberg. Visual created by Lockwood Advisors, Inc. Data as of March 25, 2021.

Save or Spend?

The dynamics of consumer inflation and savings and investment expectations pose important questions for the economy as we head into the spring of 2021. Economists are divided on what recipients will do and how the stimulus checks will affect inflation and other macroeconomic variables. Will eligible recipients save the funds or spend it? For some, the stimulus checks form a much-needed lifeline in a time of stress. That spending reverberates around the economy as it is spent, but probably replaces lost income rather than creates much new growth. To other households, the funds will pay down debts such as credit cards. According to the survey, the vast majority (71%, or 52% + 19%) intend to save it, not spend it.

Thrift may help personal finances but doesn't do much to help the economy grow more rapidly. It may help the stock or bond markets to the extent the cash ends up in the markets. Other surveys, like ones from Deutsche Bank, show that young Americans aged 25-34 intend to spend 50% of their stimulus checks in the investment markets. According to the same survey, other age groups would invest 37-40%. Even if consumers spend it and if they buy foreign goods, that cash mostly ends up overseas and weakens the dollar as well.

A working paper from the Federal Reserve Bank of San Francisco from last summer began to answer the question of what pandemics do to an economy and how those events are different than wartime. Oscar Jordà, Sanjay Singh and Alan Taylor found that:

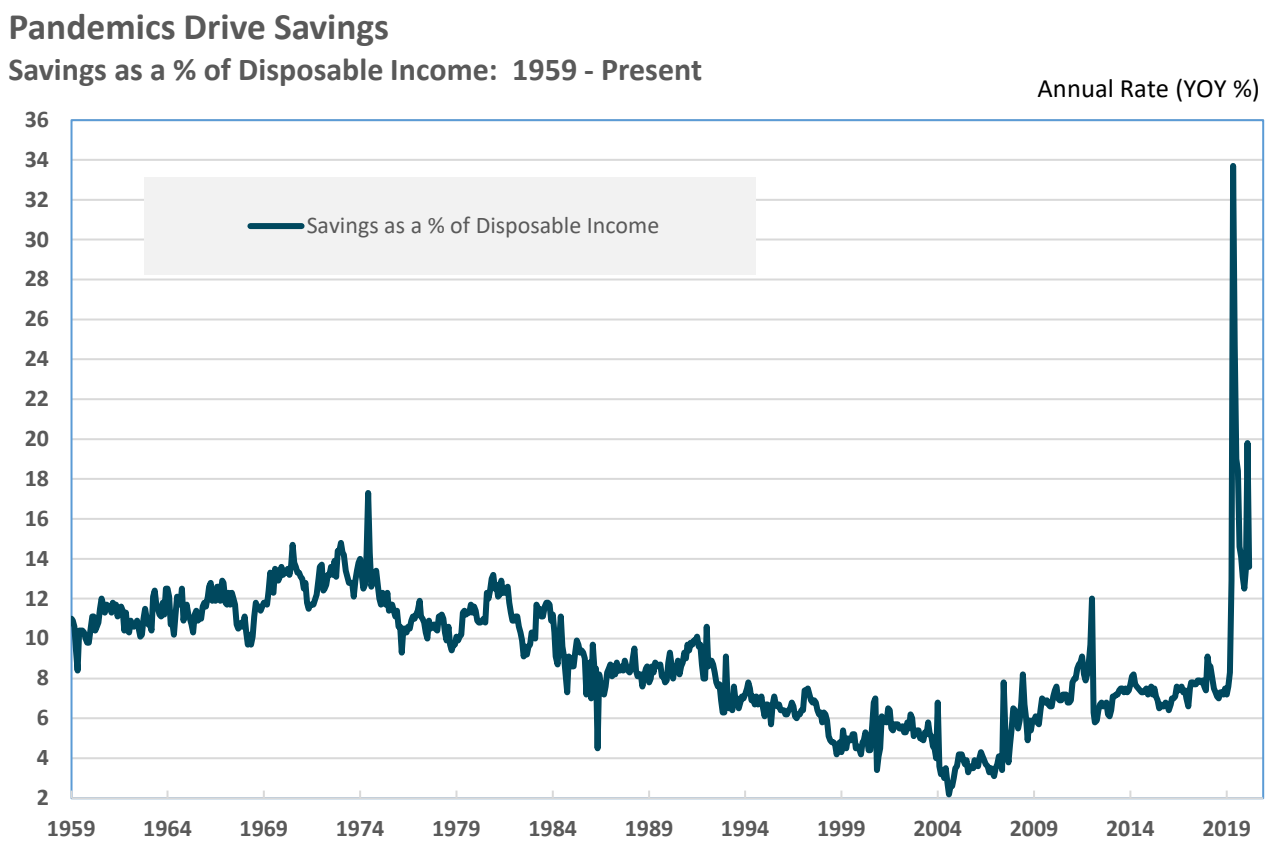
> "Significant macroeconomic after-effects of pandemics persist for decades, with real rates of return substantially depressed, in stark contrast to what happens after wars. Our findings are consistent with the neoclassical growth model: capital is destroyed in wars, but not in pandemics; pandemics instead may induce relative labor scarcity and/or a shift to greater precautionary savings."

Source: Jordà, Òscar, Sanjay R. Singh, Alan M. Taylor. 2020. “Longer-Run Economic Consequences of Pandemics,” Federal Reserve Bank of San Francisco Working Paper 2020-09. https://doi.org/10.24148/wp2020-09

The above survey data appears to confirm that pandemics tend to increase savings rates as consumers attempt to build a cushion to weather the event. The actual data bears this out as well (see chart below). Not only has savings increased quite a bit, but the velocity of money has slowed. This data indicates consumers have been hoarding money, including cash and money-like securities. As we move through 2021, will the vaccine rollout begin to slow the growth of a savings cushion that Americans are building? Generating increased economic activity and rehiring the nearly 20 million displaced American workers is a central goal of the current policy mix. Recent data makes it seem likely that we will see a change in behavior to favor more spending.

Almost everything in the capital markets revolves around investor expectations. Interest rates are set according to what bond investors expect to happen to the real and nominal value of future cash flows. Stock prices react to the expected value of future dividends and earnings. Famous value investor Benjamin Graham was quoted as saying "In the short run, the market is a voting machine but in the long run it is a weighing machine." Graham was not referring to weighing all those Americans who have been eating up all the butter. He meant that, in the longer run, the markets assess the reality, the actual value of what has been created by an economic enterprise. In the short run, the markets vote on what they believe will happen in the future. In the short run, the stock market is a beauty contest.

Even in broad policy expectations, markets have operated for decades under the assumption that the Federal Reserve (the Fed) has issued an unofficial “put” option under the current level of equity markets. When one sells a put option, you are obligated to buy a security at a predetermined price if the buyer of the option wants to sell it to you. The Fed put means that should market conditions or liquidity devolve rapidly, investors in the market will exercise its option. It’s not an actual put, but a belief and expectation that the Fed will intervene to protect the general economy from a deteriorating wealth effect if markets get too rough and stocks decline substantially. It forms an unstated third mandate of “market stability” for Fed policy behind price stability and full employment. It tends to encourage risk taking by market players who might sit on the sidelines when volatility and uncertainty reigns.



Source: Bloomberg. Visual created by Lockwood Advisors, Inc. Data as of February 28, 2021.

Guns and Butter

For many decades, the economics and public policy professions generally operated under the principle that there were constraints on government spending. In wartime, the government had to spend more on armaments and weapons. In peace, the government could spend more on domestic and social programs—that is, the butter. There was a central understanding that we could not afford to spend on both, or only in very unusual circumstances or over limited periods of time. Many people place the blame for rapid inflation during the later 1960s and 1970s on policy prescriptions that spent heavily on both the military in Vietnam and the "Great Society" social programs. The phrase "guns and butter" came from William Jennings Bryan, who resigned as Secretary of State from the Woodrow Wilson Cabinet in 1915. He objected to the loss of neutrality in World War I and to the cost of producing munitions over dairy. Literally, Bryan preferred butter over guns.

Our system of civics, borrowed from the British Parliament, evolved to constrain the executive branch or the King's excessive spending, most notably on foreign wars and expensive mercenaries. It wasn't lost on the U.S. Founding Fathers that King George III attempted to make the Colonies pay for military expenditures. The Founders designed a system where "money bills" originate in the House—the people's chamber—and must pass muster with a Ways and Means Committee. Expenditures required a way and a means to pay for them. The Committee on Ways and Means is the oldest committee in the U.S. Congress and the chief tax-writing committee in the House of Representatives. The history of the Committee underscores its importance in the structural design of the government. The operating concept behind our country's fiscal design is the constraint of a potentially wayward executive branch. That discipline has been eroding steadily over the decades and now seems almost completely lacking today.

When we use the phrase "guns and butter," we are not speaking of the gun control debate or recent tragic events. However, it is true that we are spending more on a personal level on armaments. The NSSF (National Shooting Sports Foundation) reports nearly 5 million Americans purchased a firearm for the first time in 2020. Based on the same survey, 40% of purchases were conducted by purchasers who have never previously owned a firearm, data that reveals a country likely spooked by seemingly daily unrest. On a bigger scale, the "guns" portion of "guns and butter" refers to large budget expenditures on the nation's defense. The United States spends much more on defense than any nation in the world. In 2019, we spent $719 billion on defense outlays, far outpacing China by an estimated $261 billion. We are forecast to spend between 3 and 3.5% of gross domestic product (GDP) on defense expenditures for most of the next decade. The Defense establishment is concerned about the Taiwan Strait, the Persian Gulf and the Arctic among other potential hot spots. An escalation in geopolitical risk would be most unwelcome to a market that is just beginning to recover from COVID-19. So, we're spending on guns as well and that does not look likely to change.

What happens if the entire legislative and executive branches behave in concert and can't stop or don't want to stop spending? At the moment, we're spending on both guns and butter.

Ricardian Equivalence

David Ricardo (1772-1823), a British economist, posited that a government that finances its expenditures with either immediate taxes or deficit spending will have a limited effect on the economy. The reason is that taxpayers will surmise that current expanded levels of government expenditures, whether for guns or butter, will eventually have to be paid for with increased taxes. So, taxpayers will account for increased government spending by saving more to cover increased taxes in the future. Is the savings growth we're witnessing now due to fears of future taxes and fears of the pandemic? Perhaps both.

As we discussed in last quarter's commentary, the U.S. since before World War II has not had a major military or wartime experience without major tax increases. The COVID-19 pandemic has many similarities to a wartime event, as Jordà et al point out above. Biden's tax proposals from his candidacy rank among the top five largest tax increases in U.S. history. How are investors thinking about potential tax increases? The largest sources of demand for equities over the past five years have been wealthy individuals and corporate buybacks. Tax law changes, including capital gains tax increases, could put a dent in those sources of demand. Markets have generally ignored these developments as they are still not law and may face legislative hurdles to passage.

The Treasury Put

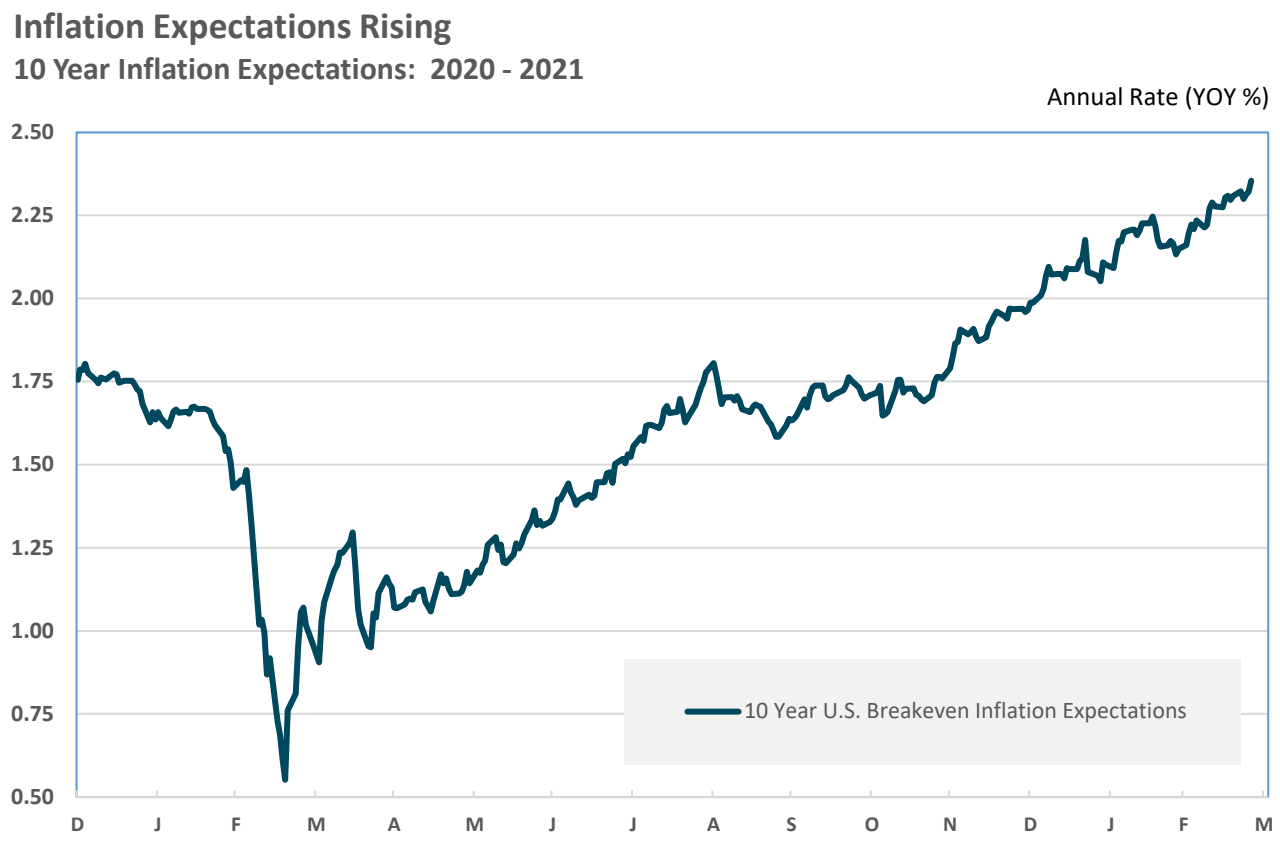
Our response to COVID-19 included an experimental step for fiscal policy. Sending direct payments to American households is a new occurrence outside of traditional unemployment assistance, social security or other welfare payments. Will households now expect direct cash payments every time there is a pronounced cyclical downturn? Has the U.S. Treasury issued taxpayers an income put option as well? The interest rate complex is repricing the possibility that fiscal policy has entered an entirely new and more expansive era. Helicopter money may be here to stay.

The permanent income hypothesis, as formulated by economist Milton Friedman in the 1950s, speaks directly to the expectations that consumers have when they set their spending level. Friedman predicted that consumers set their spending according to their expectations for average income over a longer future time period. A windfall of higher additional income such as a stimulus check may not be perceived as permanent, leading consumers to save most of the additional income rather than spend it.

Friedman also accounted for a liquidity factor. Some consumers may be conditioned to spend all current income rather than the take future income levels into account. This may be the operating demographic for the stimulus check recipients. For markets, the consideration is whether stimulus checks are now a permanent feature of the policy mix, leading to higher expectations for spending in the future.

Markets have begun to worry. Inflation expectations have moved sharply higher. A recent survey of over 2,600 Americans from CivicScience showed 77% were concerned about inflation. Moreover, the surveys showed younger Americans were most concerned. The Fed frequently speaks of inflation expectations as “anchored,” but we are starting to see some drift higher from the low base of recent years.

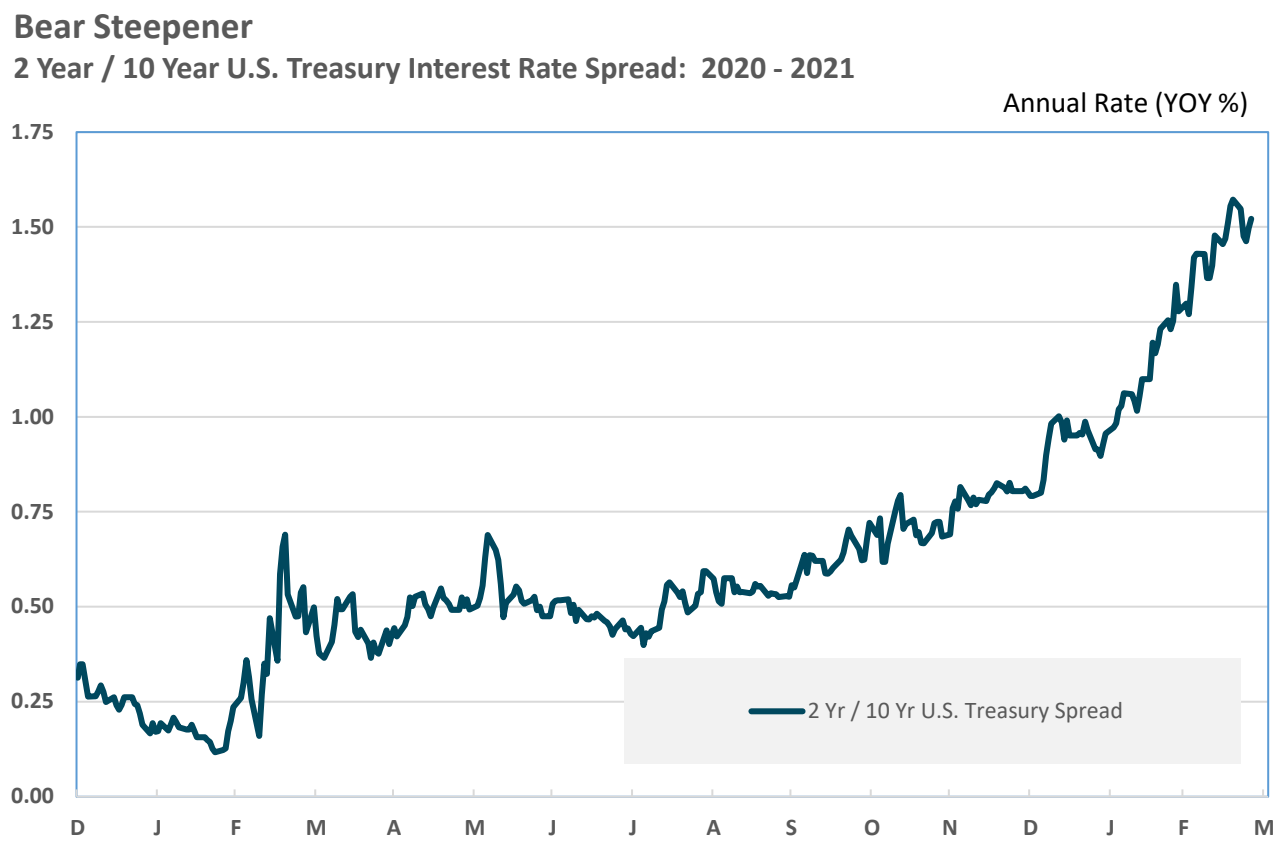
One way to measure the market's expectations for inflation is by examining the breakeven rate, or the difference between 10-Year TIPS (Treasury Inflation Protection Securities), priced in "real" terms, and the 10-Year U.S. Treasury note rate, priced in "nominal" terms. The breakeven rate has moved sharply higher and now sits above the long-term 2% inflation target of the Fed. As the massive amounts of monetary and fiscal stimulus were unleashed in 2020, the markets responded by taking up their forecast for long-term inflation. In the fall, the Fed changed the way it sees its inflation target and will now allow the inflation rate to average 2% over a longer-term cycle. The result is the prospect of easier money from the monetary policy makers.



Sources: Bloomberg, U.S. Treasury, St. Louis Federal Reserve. Visual created by Lockwood Advisors. Data as of March 26, 2021.

Virtually all measures of future inflation expectations have risen. Actual inflation has not moved much, at least yet. We face the imminent prospect of higher inflation measurements as the base comparison to a year ago compares itself to the initial months of COVID-19 when many prices were declining rapidly. Pent-up demand for consumer goods, rapid money supply growth, past stimulus payments and potential infrastructure investments could all contribute to higher inflation. The question is how permanent these base effects to the CPI (consumer price index) will prove. Longer-term forces, including demographics, globalization and technology continue to operate against inflationary pressure. So far, the Fed has signaled they expect any price level increases to be somewhat temporary, a vestige of the recovery. Still, the near-term expected shock of higher inflation could give markets indigestion over the next several quarters.

Interest rates have followed the rising inflation expectations higher. With the short end of the curve "anchored" to expectations that the Fed will keep the policy rate (fed funds or IOER [interest on excess reserves]) at or near the zero boundary. This action means longer rates have been free to rise despite the fact that the Fed has also been purchasing bonds via QE (quantitative easing). We've been in a pronounced bear steepener for most of the past year. That is, bond rates have risen while the curve has steepened as long rates have risen faster than short rates.



Sources: Bloomberg, U.S. Treasury, St. Louis Federal Reserve. Visual created by Lockwood Advisors. Data through March 26, 2021.

The rise in interest rates has implications for many market sectors. Clearly, the most impacted so far has been growth equities. Companies that are growing quickly with respect to others implies that revenues, earnings and dividends in the future could be quite higher than today. If a company is growing very quickly, why would it pay a dividend at all? It may make more sense to plow that cash back into the firm. If the discount rate is rising quickly, then it is impacting the values of all those future cash flows. This is true for all companies, but more so for growth equities. On a relative basis, value stocks are having their moment in the sun after a long drought. Growth stocks have stalled a bit for the moment. Only time will tell if the markets will reward stronger earnings growth despite a higher discount rate.

Equities, overall, historically have not been a bad inflation hedge. Small capitalization companies have also responded to the optimism that the COVID-19 vaccines will reset U.S. growth. Small companies typically get a much larger share of their revenues and earnings from domestic sources. Commodities, as well, have often served as a hedge against inflation. TIPS, while seeming to offer inflation protection, are also subject to a repricing of longer-dated bonds as they are relatively high duration instruments.

Higher inflation means that the value of the U.S. dollar, in real terms, may decline against foreign currencies. Foreign companies, who derive most of their revenue and earnings from abroad, can benefit if the dollar faces appreciation challenges. That is, as the U.S. dollar has declined, cash flows in foreign currencies are worth more than those in U.S.

dollars. In addition to the currency movement, the valuation difference to the U.S. has made foreign equities attractive on a relative basis for many years. Like value stocks, that have been rallying in the face of better economic expectations, foreign equities may finally be getting additional attention.

A Chicken in Every Pot

Politicians have long promised better living standards. The Hoover administration promised "a chicken in every pot and a car in every garage." Unfortunately, they made their case on the eve of the Great Depression. Now, the Biden administration with a mostly Democratic Congress, looks to loosen the fiscal restraints. A large infrastructure bill in the works could improve growth as the multiplier effect on the overall economy is larger than the stimulus checks. Still, the increased spending will only come as a result of expanding the nation’s debt load even further than the already historic levels. More butter goes with the chicken in every pot.

Overcooked

Our fiscal largesse may have overcooked the buttery macro stew as we head into the middle of the year. The repricing of interest rates has potentially profound challenges for many markets, not just bonds. We surmised that a reduction in volatility and a lessening of uncertainty could help markets during 2021. So far, that has generally been the case. Several COVID-19 vaccines are helping the U.S. and global economies recover rapidly and may be helping to reset consumer expectations that the worst of the COVID-19 era is coming to a close. A setback in that battle would be most unfortunate, but for the moment, markets seem to be looking ahead to the post-COVID-19 era. Despite some valuation and interest rate jitters, markets look like they are anticipating the start of a long economic expansion that goes well beyond mere recovery. After all, we're getting butter every day.

Important Disclosures

Pershing does not provide investment advice. Affiliated investment advisory services, if offered, are provided by Lockwood Advisors, Inc. (Lockwood), a Pershing affiliate and an investment adviser registered in the United States under the Investment Advisers Act of 1940. Trademark(s) belong to their respective owners.

The statements contained herein are based upon the opinions of Lockwood and the data available at the time of publication and are subject to change at any time without notice.

The statistical data contained herein has been obtained from third-party sources (see below) believed to be reliable and accurate. While Lockwood believes the information to be accurate and reliable, no representations, guarantee or warranty, express or implied, can be made as to its completeness, accuracy, or reliability.

Neither the information nor any opinions expressed herein should be construed as a solicitation or a recommendation by Lockwood or its affiliates to buy, hold or sell any securities or investments.

Statements of future expectations, estimates and other forward-looking statements are based on available information and Lockwood's view as of the time of these statements. Accordingly, such statements are inherently speculative, as they are based on assumptions that may involve known and unknown risks and uncertainties. Actual results, performance or events may differ materially from those expressed or implied in such statements.

This communication does not constitute investment advice, is for informational purposes only and is not intended to meet the objectives or suitability requirements of any specific individual or account. An investor should assess his or her own investment needs based on his or her own financial circumstances and investment objectives.

Lockwood in its capacity as an investment adviser and money manager may be engaged in the purchase and sale of securities discussed in this article in one or more of its discretionary portfolios. Lockwood personnel may also from time-to-time buy and sell these same securities for their personal accounts.

It is important to remember that there are risks inherent in any investment and that there is no assurance that any money manager, fund, asset class, index, style or strategy will provide positive performance over time.

Diversification and strategic asset allocation do not guarantee a profit or protect against a loss in declining markets. **All investments are subject to risk, including the loss of principal.**

Foreign investments are subject to risks not ordinarily associated with domestic investments, such as currency, economic and political risks, and may follow different accounting standards than domestic investments.

Investments in emerging or developing markets involve exposure to economic structures that are generally less diverse and mature, and to political systems that can be expected to have less stability than those of more developed countries. These securities may be less liquid and more volatile than investments in US and longer established non-US markets.

Investments in fixed income securities are subject to several general risks, including interest rate risk, credit risk, the risk of issuer default, liquidity risk and market risk. These risks can affect a security's price and yield to varying degrees, depending upon the nature of the instrument, and may occur from fluctuations in interest rates, a change to an issuer's individual situation or industry, or events in the financial markets. In general, a bond's yield is inversely rated to its price. Bonds can lose their value as interest rates rise and an investor can lose principal. If sold prior to maturity, fixed income securities are subject to gains/losses based on the level of interest rates, market conditions and the credit quality of the issuer.

Liquidity risk increases when particular investments are difficult to purchase or sell. A lack of liquidity also may cause the value of investments to decline. Illiquid investments may be harder to value, especially in changing markets. Typically liquid investments may become illiquid, particularly during periods of market turmoil. When illiquid assets must be sold in such market conditions (to meet redemption requests or other cash needs for example), it may be necessary to sell such assets at a loss.

Investments in small/mid-capitalization companies involve greater risk and price volatility than an investment in securities of larger capitalization, more established companies. Such securities may have more limited marketability and the firms may have limited product lines, markets and financial resources than larger, more established companies.

Investments in gold bullion come with additional risks. The price of gold has fluctuated widely over the past several years. Several factors affect the price of gold, including: global supply and demand; global or regional political, economic or financial events and situations, investors' expectations with respect to the rate of inflation; currency exchange rates and interest rates. There is no assurance that gold will maintain its long-term value in terms of purchasing power in the future.

Investments in natural resources-related companies may be negatively impacted by variations, often rapid, in the commodities markets, the supply of and demand for specific products and services, the supply of and demand for oil and gas, changes in energy prices, exploration and production spending, government regulation, economic conditions, events relating to international political developments, environmental and safety regulations, energy conservation, the success of exploration projects and environmental incidents. As a result, the securities of natural resources companies may experience more price volatility than securities of companies in other industries.

Past performance is not a guarantee of future results. Current performance may be lower or higher than the performance data quoted. The investment return and principal value of an investment will fluctuate, so that an investor's assets, when sold, may be worth more or less than their original cost.

Inflation is the rate at which the general level of prices for goods and services is rising and, consequently, the purchasing power of currency is falling.

The information on indices is presented for illustrative purposes only and is not intended to imply the potential performance of any fund or investment. Index performance assumes the reinvestment of all distributions but does not assume any transaction costs, taxes, management fees or other expenses, which would reduce the performance shown. Indices unmanaged and are not available for direct investment.

Bloomberg Barclays Global Aggregate ex-US Bond Index: The Bloomberg Barclays Global Aggregate ex-US Bond Index is designed to be a broad-based measure of the global investment-grade, fixed rate, fixed income corporate markets outside the United States.

Bloomberg Barclays US Aggregate Bond Index: The Bloomberg Barclays US Aggregate Bond Index represents securities that are SEC registered, taxable and dollar denominated. The index covers the US investment-grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis. Securities must have at least one year to final maturity regardless of call features and must have at least $250 million par amount outstanding.

Bloomberg Barclays US Treasury Bill 6–9 Month Index: The Bloomberg Barclays US Treasury Bill 6–9 Month Index represents United States-issued government debt with a bond maturity between six months and nine months.

Bloomberg Commodity Index: The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The index is composed of exchange-traded futures and represents 20 physical commodities, which are weighted to account for economic significance and market liquidity (subject to weighting restrictions). On July 1, 2014, the Dow Jones UBS Commodity Index rebranded as the Bloomberg Commodity Index.

Consumer Price Index (CPI): The Consumer Price Index (CPI), as measured by the U.S. Bureau of Labor Statistics, represents changes in prices of all goods and services purchased for consumption by urban households**.**

MSCI EAFE (Europe, Australasia and the Far East) Index (net of taxes): The MSCI EAFE (Europe, Australasia and the Far East) Index (net of taxes) is a free-float-adjusted market-capitalization index that is designed to measure developed market equity performance, excluding the United States and Canada. As of May 30, 2019, the MSCI EAFE Index consisted of the following 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom. The index is net because dividends are reinvested after deducting a withholding tax from dividend distributions. Since taxes are withheld from the MSCI EAFE Index (net of taxes), the performance of the MSCI EAFE Index (net of taxes) will generally be lower than that of the MSCI EAFE Index (gross of taxes).

MSCI Emerging Markets Index (net of taxes): The MSCI Emerging Markets Index (net of taxes) is a free-float adjusted, market-capitalization index that is designed to measure equity market performance of emerging markets. As of May 30, 2019, the MSCI Emerging Markets Index consisted of the following 26 emerging market country indices: Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Qatar, Russia, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates. The index is net because dividends are reinvested after deducting a withholding tax from dividend distributions. Since taxes are withheld from the MSCI Emerging Markets Index (net of taxes), the performance of the MSCI Emerging Markets Index (net of taxes) will generally be lower than that of the MSCI Emerging Markets Index (gross of taxes).

MSCI USA Small Cap Index: The MSCI USA Small Cap Index is an unmanaged index designed to measure the performance of the small-cap segment of the US equity market. The index represents approximately 14% of the free float-adjusted market capitalization in the US.

S&P GSCI Gold Index: The S&P GSCI Gold Index, a subindex of the S&P GSCI Index, provides investors with a reliable and publicly available benchmark for investment performance in the gold commodity markets. The index is designed to be tradable, readily accessible to market participants and cost efficient to implement. The S&P GSCI Index is widely recognized as the leading measure of general commodity price movements and inflation in the world economy.

S&P GSCI Crude Oil Index: The S&P GSCI Crude Oil Index, a sub-index of the S&P GSCI, provides investors with a reliable and publicly available benchmark for investment performance in the crude oil commodity markets. The index is designed to be tradable, readily accessible to market participants and cost efficient to implement. The S&P GSCI is widely recognized as the leading measure of general commodity price movements and inflation in the world economy. Spot price in the S&P GSCI means the price of the S&P GSCI futures holdings.

S&P 500 Index: The S&P 500 Index, an unmanaged index, includes 500 of the largest stocks (in terms of stock market value) in the United States; prior to March 1957, it consisted of 90 of the largest stocks. Although the S&P 500 focuses on the large-cap segment of the market, with approximately 80% coverage of US equities, it is also used as a proxy for the total US equity market.

Securities are not bank deposits. They are not insured or guaranteed by Lockwood, its affiliates or its parent companies.

Securities are not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC), the Federal Reserve, the U. S Securities and Exchange Commission (SEC) or any other government agency.

For more information about Lockwood, as well as its products, fees and services, please refer to Lockwood's Form CRS (Customer Relationship Summary) and applicable Form ADV Part 2 Wrap Fee Brochure (Managed 360® Program, Managed Account Advisor Program, Lockwood Sponsored Program or Co-Sponsored Programs) or the Firm Brochure, which may be obtained through your financial advisor or by writing to: Lockwood, Attn: Legal Department (AIM #19K-0203), 760 Moore Road, King of Prussia, PA 19406, or by calling (800) 200-3033, option 3.

All performance is expressed in US dollars. Sources: Federal Reserve; MSCI; Standard & Poor's, Bloomberg, U.S. Census Bureau, American Psychological Association, Federal Reserve Bank of San Francisco, Bureau of Labor Statistics, Federal Reserve Bank of St. Louis, CivicScience.