Lockwood Investment Insights: Mind the Gaps

October 2019

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Contents

Executive Summary

Mind the Gaps: Five Gaps to Consider

1. Markets Optimistic but Worried about Numerous Political and Geopolitical Risks

Markets have stayed buoyant and resilient, but political and geopolitical events will test their resolve. Capital markets appear highly dependent on a large set of binary outcomes that may have more to do with political negotiations and geopolitics than capital market developments. Impeachment proceedings, Brexit (Britain's exit from the European Union), trade agreements, Iran, oil supply concerns, North Korea and Hong Kong protests are all part of the wall of worry for markets to either climb over or smash into.

2. Global Interest Rates Exert Gravity on US Rates

A large disparity now exists between United States (US) interest rates (the highest rates in the developed world) and the rest of the global pack. Such a wide gap puts downward pressure on US interest rates.

3. Dissent in Central Banks Highlight Uncertainty in the Global Economy

Federal Reserve Open Market Committee (FOMC) and European Central Bank members have displayed disagreement (gaps) over the path of monetary policy. The dissenting voices among global monetary policy makers highlight the exacerbated degree of uncertainty about the global economic outlook at this point in time.

4. Strong US Dollar Puts Pressure on Many Global Capital Markets

By definition, a strong dollar means it has a performance gap with the rest of the world's currencies. The performance of the dollar vis-à-vis foreign currency often rises to the second largest contributor of risk to a globally diversified portfolio. So many return streams, from foreign stocks and bonds, oil and other commodities depend highly on the exchange rate.

5. Economic Indicators Appear Mixed

Leading indicators have not looked as robust as lagging and coincident indicators like measures of labor activity. This can continue if lag times remain large and positive macro developments unfold. Globally, manufacturing data has been weaker than services. These gaps will require focus as we head into 2020.

Mind the Gaps

As we embark upon the fourth quarter of 2019, it's important to Mind the Gaps. As a teenager, I spent several weeks in a quaint English village as a summer exchange student. "Mind the Gap" signs were posted everywhere at the subway stations. The signs reminded me of the differences between American and British English. Today, it's fitting that we borrow a warning message from a London tube sign as a theme.

A deadline to approve a Brexit withdrawal agreement is due to arise at the end of October. Without an agreement, the United Kingdom (UK) parliament is obligated to seek a third extension of negotiations with the European Union (EU). A no-deal Brexit is a distinct possibility. While markets have been digesting any potential disruption from a no-deal scenario since the 2016 Referendum, it could still rattle markets if it becomes a reality. The challenges of Brexit are already largely responsible for a political transition from Theresa May to Boris Johnson as UK Prime Minister. Further political upheavals within Britain's government look very possible. The positions of EU and UK negotiators are not the only gap we should mind over the next quarter. So grab your jumper, trainers and a packet of crisps as we examine a select list of capital market topics in the queue.

Market Overview
Index Returns (%) as of September 30, 2019

Index	3rd Qtr.	1 Yr.	3 Yr.^	5 Yr.^	2018	2017	2016	2015
S&P 500	1.7	4.3	13.4	10.8	(4.4)	21.8	12.0	1.4
MSCI USA Small Cap	(1.2)	(4.8)	9.8	8.9	(10.0)	17.3	19.8	(3.6)
MSCI EAFE (net of taxes)	(1.1)	(1.3)	6.5	3.3	(13.8)	25.0	1.0	(0.8)
MSCI Emerging Markets (net of taxes)	(4.2)	(2.0)	6.0	2.3	(14.6)	37.3	11.2	(14.9)
Bloomberg Barclays US Aggregate Bond	2.3	10.3	2.9	3.4	0.0	3.5	2.6	0.5
Bloomberg Barclays Global Aggregate ex-US	(0.6)	5.3	0.4	0.9	(2.1)	10.5	1.5	(6.0)
S&P GSCI Crude Oil	(7.5)	(26.2)	3.9	(9.9)	(24.8)	12.5	45.0	(30.5)
S&P GSCI Gold	3.8	22.5	3.0	3.3	(2.8)	12.8	7.7	(10.9)
Bloomberg Commodity	(1.8)	(6.6)	(1.5)	(7.2)	(11.2)	1.7	11.8	(24.7)
Bloomberg Barclays US Treasury Bill 6–9 Month	0.5	2.7	1.5	1.0	1.8	0.7	0.5	0.1
Inflation §	0.4	1.8	2.2	1.6	1.9	2.1	2.1	0.7

^3 year and 5 year returns are annualized
Sources: MSCI; Bloomberg Barclays; Standard and Poor's (©2019, S&P Dow Jones Indices LLC. All rights reserved); Bureau of Labor Statistics.
§ Inflation data through August 2019. 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.**

Gaps in capital markets and economic data can close, or widen, in a variety of ways. If they close, the series can converge if the series both head towards each other. They can converge by having different rates of change or growth. Highlighting them may expose where market outcomes may differ from current trends or expectations.

MIND THE GAP

Geopolitical Risk

Successfully navigating a portfolio around geopolitical risk can be challenging. Even seasoned geopolitical analysts have had difficulty predicting future sources of tension. Fortunately or unfortunately, capital markets currently appear highly dependent on a large set of binary outcomes that may have more to do with political negotiations than capital market developments. We mentioned Brexit. Protests in Hong Kong have not subsided. The US and China appear far apart on reaching a trade resolution, a key ingredient for alleviating global trade uncertainties. As we go to press, there has been no military response to the attack on Saudi Arabian oil production facilities in Abqaiq and Khurais on September 14, which eliminated overnight roughly 5% of global oil supply (and 50% of Saudi production). While the oil supply challenges may prove temporary, security concerns arising from the use of drone-based weapons have escalated.

Geopolitical uncertainty can create upside potential for markets. For example, markets are optimistic that the Japanese and the US can reach a trade agreement. Meetings are scheduled in coming weeks between senior Chinese and American trade negotiators. It would appear that slower global growth and higher energy prices should induce trade negotiators to bargain more effectively and more urgently. Yet, as in a game of chicken, no one knows the extent of pain both sides are willing to endure.

Uncertainty itself can suppress market activity as participants wait for resolution before acting. It’s important to point out, though, that while we worry about these geopolitical events, better than expected outcomes or even simple clarity can have healthy results for markets. That is, markets may welcome a somewhat more negative result relative to expectations as long as the issue gets resolved. A resolution of the trade dispute with China, for example, will likely result in upside potential for global risk markets and equities.

Political risk is prominent in the US. On September 24, Speaker of the House Nancy Pelosi announced that the Democratic leadership intends to move forward with impeachment inquiry proceedings of President Donald Trump. Impeachment risk has been with us for the duration of the Trump Administration, but markets may find the actual process unsettling. Historically, market response to impeachment proceedings has been mixed. Markets fell sharply in the Watergate era but climbed through the Bill Clinton impeachment proceedings. So far, the response to the Trump impeachment proceedings has been tepid. As we go to press, the muted market reaction to the impeachment announcement appears to forecast that the inquiry process will not result in the removal of President Trump from office.

Investors also need to consider that the current majority party in the US (the Democratic Party) could nominate a candidate well to the left of the political center or historical norms. Regardless of one’s party affiliation or political views, markets may not like the effects on markets from proposed policy prescriptions (substantial tax hikes, regulatory expansion on selected industries and enlargement of Federal programs) when we are already running trillion dollar deficits.

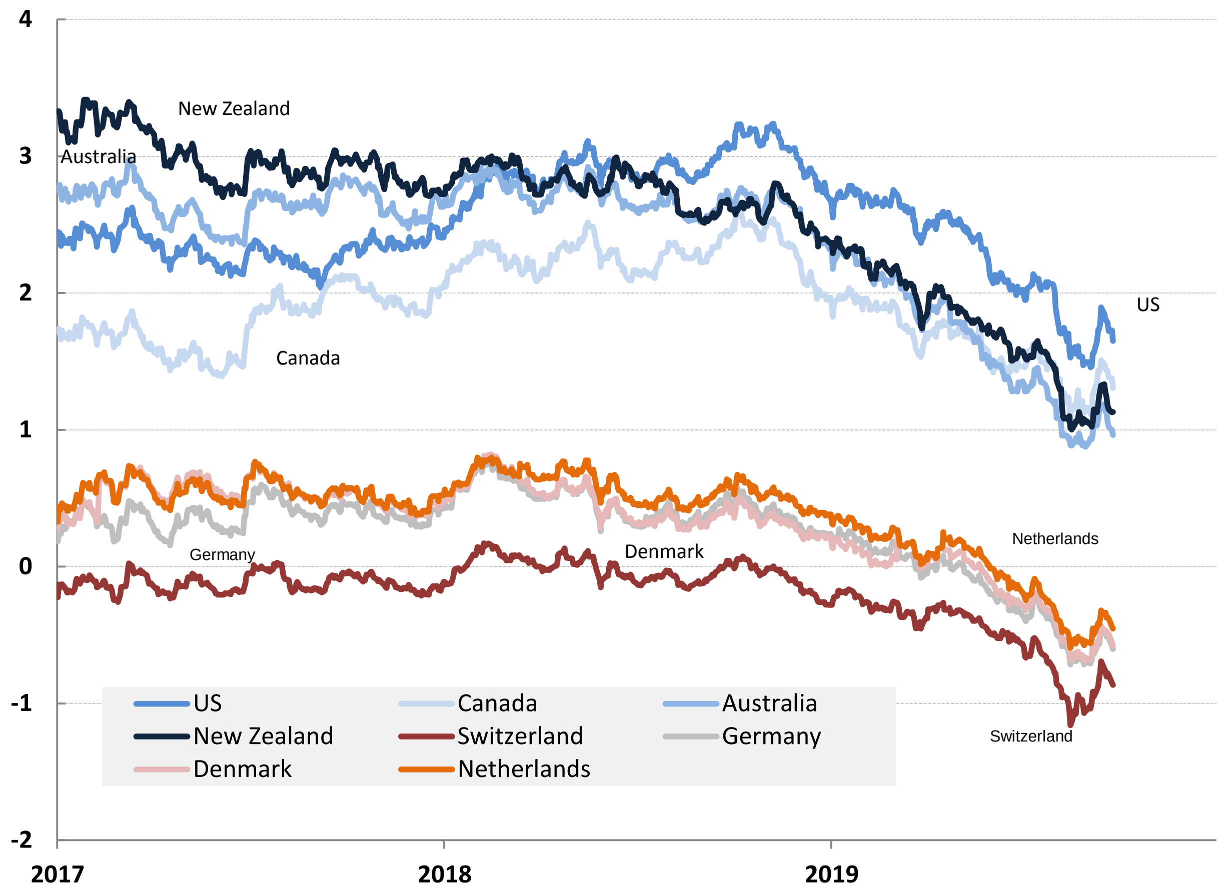
There seems to be large differences in the way political affiliations in the US color perceptions about the health of the economy. In an August 2019 YouGov survey, 56% of Republicans think the economy is getting better compared with 6% of Democrats. This is a big gap. Going into elections in 2020, we are likely to hear discussion about gaps in wealth and inequality.

Political risk is also prevalent in countries and markets where populist movements are active or are in power. Political risk can also carry a regulatory dimension. Regarding practice management, advisors might also want to review requirements for upcoming regulatory and compliance changes in 2020 under a Best Interest (BI) standard.

MIND THE GAP

Interest Rates

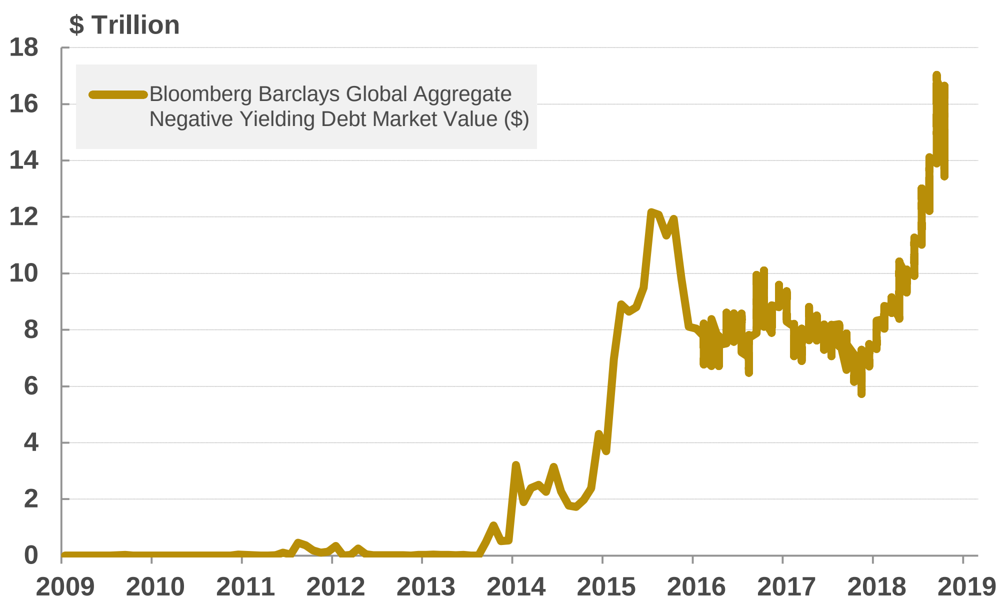
Highest and Lowest Developed Market Interest Rates (%)



Source: Bloomberg. Data as of September 30, 2019. Visual created by Lockwood Advisors, Inc.
Yields represent 10-year sovereign bonds in each country. **Past performance is not a guarantee of future results.**

Gaps have emerged in the capital markets. A large disparity now exists between US interest rates (the highest rates in the developed world) and the rest of the global pack. To some extent, the rate differential is between the US, the UK, Australia, New Zealand and Canada versus the rest of Europe and Asia (see chart above). Large swaths of sovereign rates in Europe and Japan are negative. This data point (now at $15.045 trillion on September 25, 2019 as measured by Bloomberg Barclays Global Aggregate Bond Index), bounces around quite a bit because many of the underlying bonds in the index hover with rates around 0%, so slight changes in rates affect the overall tally. Regardless, such a wide gap puts downward pressure on US interest rates. The European Central Bank's (ECB's) recent decision to lower policy rates even further into negative territory highlights the sensitivity of the US interest rate complex to those in other developed markets. One market pundit has drolly noted that while our politicians may be attempting to move industrial manufacturing back home, US interest rates should bear the label "Made in Germany."

Market Value of Negative Yield Debt ($Trillion)



Sources: St. Louis Federal Reserve and Bloomberg. Data as of September 30, 2019.
Visual created by Lockwood Advisors, Inc. **Past performance is not a guarantee of future results.**
Indices are unmanaged and are not available for direct investment.

While the ECB reduced the official policy rate (to -0.5% from -0.4%) in September 2019, its new reserve tiering policy resulted in a hike of the central bank's effective policy rate. US interest rates spiked in tandem with foreign interest rates on the announcement of the new ECB policy on September 12. While foreign investors need to consider the currency implications (i.e., basis swap) of buying US debt, relatively high interest rates in the US will continue to attract global capital. Moreover, to the extent that there is a shortage of high quality debt across the globe, US Treasury bonds and other positive yielding bonds should continue to catch a bid.

MIND THE GAP

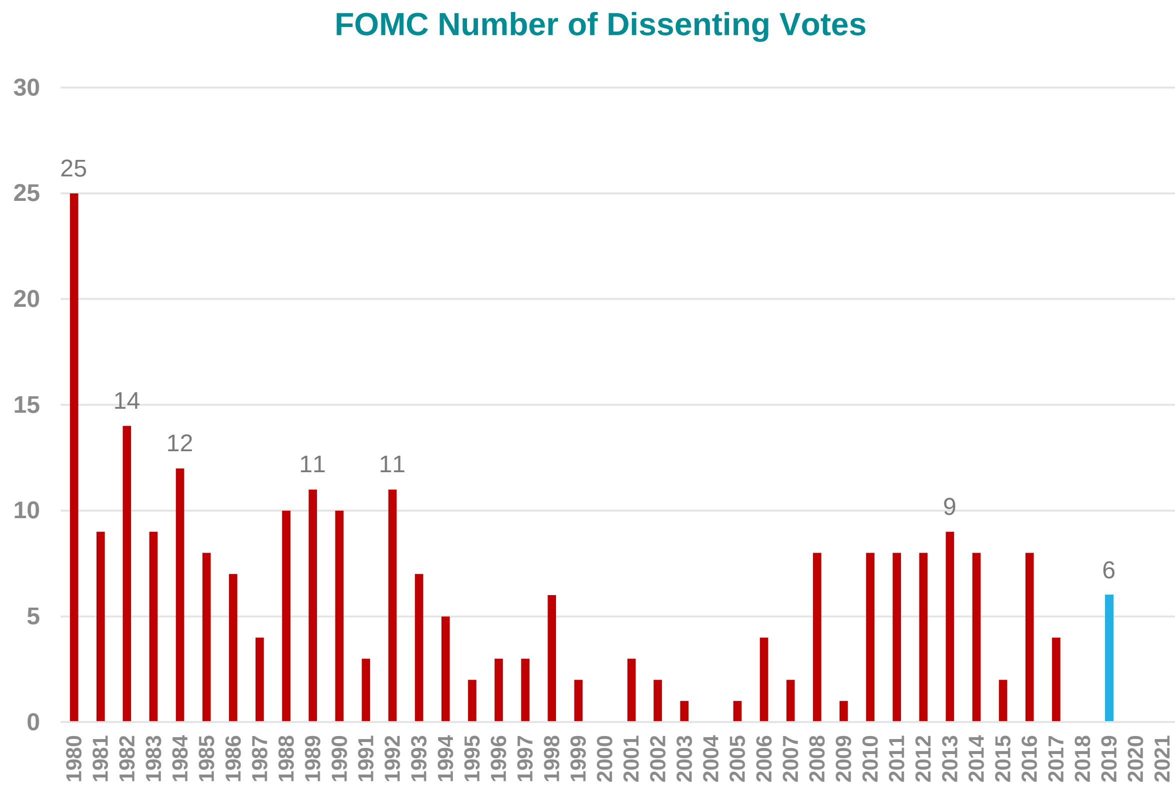
Dissenting Votes on the FOMC

Federal Reserve Open Market Committee (FOMC) members in the US have dissented over the likely path of policy rates. The ECB also appears to have some disagreement over the path of monetary policy and the flexibility of fiscal policy to manage distinctly lower growth prospects in core European countries. The dissenting voices among global monetary policy makers highlight the exacerbated degree of uncertainty about the global economic outlook at this point in time.

At the FOMC, the dissents on policy votes are in differing directions. In the recent FOMC meeting (September 2019), some policy makers wanted to stand pat. Others wanted a 50 basis point (bp) cut in the federal funds rate—an important benchmark interest rate in financial markets. In the end, the FOMC voted to have a 25 bp cut.

The FOMC has not seen three dissents since the September 2016 FOMC meeting. A St. Louis Federal Reserve study compared the dissenting votes from 1936 until the June 19, 2015 meeting. We updated the data through the 2019 year-to-date period (see chart below). So far this year, the six dissents put us in the middle of the pack for an average year. Historically, over the period 1936-2015, 61% of dissenting votes were on the tighter side of policy spectrum.

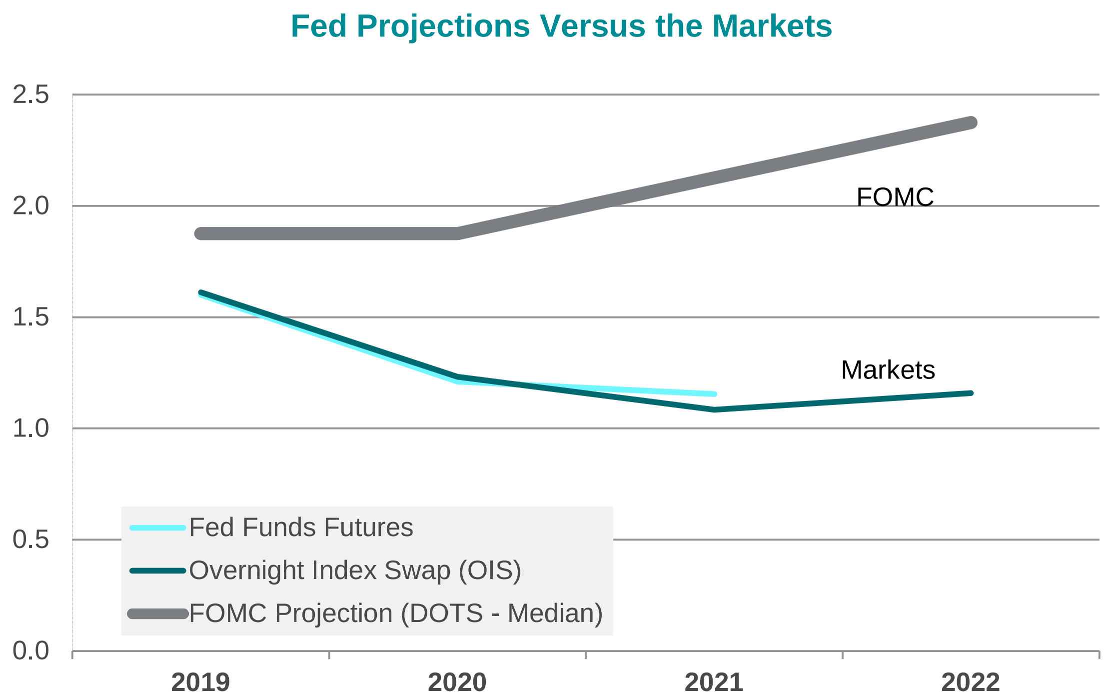
Again, what makes the September 2019 dissents interesting is that there were dissents on both sides of neutral—tighter and easier—relative to the ultimate policy decision.



Sources: Lockwood Advisors, Inc., St. Louis Federal Reserve and Bloomberg. Data as of September 30, 2019.
Visual created by Lockwood Advisors, Inc.

Today, the markets seem to see a different way forward than the monetary policy makers. Other than periods in 2017-18, markets have not generally believed the monetary policy makers' forward guidance around the federal funds policy rate. Markets have consistently believed that equilibrium interest rates would remain lower than what the Federal Reserve (Fed) has projected. This gap has been with us for a while, but has very much widened over the past year as global growth prospects have weakened and markets have expected more central bank stimulus than policy makers have telegraphed. This is a risk for markets. Monetary policy makers may not believe much, if any, additional stimulus is warranted by the current set of macro conditions, setting up markets for disappointment if further rate cuts do not materialize.

Fed Policy Rate Expectations



2020, 2021 and 2022 data are estimates. Actual results may differ materially from those projected.

Sources: Federal Reserve and Bloomberg. Data as of September 30, 2019.
Visual created by Lockwood Advisors, Inc.

Growth Versus Value

In August, US equity markets went through one of their periodic internal upheavals as momentum dived and value stocks rose. The correction looks similar to those we witnessed in 2017 and 2018, although more violent. On the surface, major equity market averages barely budged or drifted slightly higher. Still, even after the correction, valuation gaps between growth and value stocks (or factors) are at levels that approach or exceed any historical precedents other than the period before the technology stock crash in 2001.

Historically, investors in the US and across the globe have been willing to pay premiums for growth and technology stocks, especially in an uncertain or deteriorating global growth environment. Consistent growers have earned their premium. Like the other gaps we mention, this level of valuation disparity looks unlikely to continue indefinitely and may portend other internal equity market shifts as investors adjust to new macroeconomic realities. The jarring internal stock market moves also occurred near a backup in interest rates from recent lows (the 10-year US Treasury note rate hit 1.4573% on September 3, 2019, close to an all-time low of 1.36% on July 8, 2016). This raises the question of how interconnected growth stock premiums are to lower interest rates and what happens if those trends alter course.

MIND THE GAP

Lagging Versus Leading Indicators

Investors know what has already occurred in the macro landscape. New data points and developments get digested fairly quickly, if not immediately. Moreover, widespread expectations are built in to expected data releases. Only true surprises typically move markets. What makes macro transitions difficult for investors is discerning the future trend from historical data points that look relatively healthy. At suspected turning points, macro observers and investors need to look for deviations in trend data.

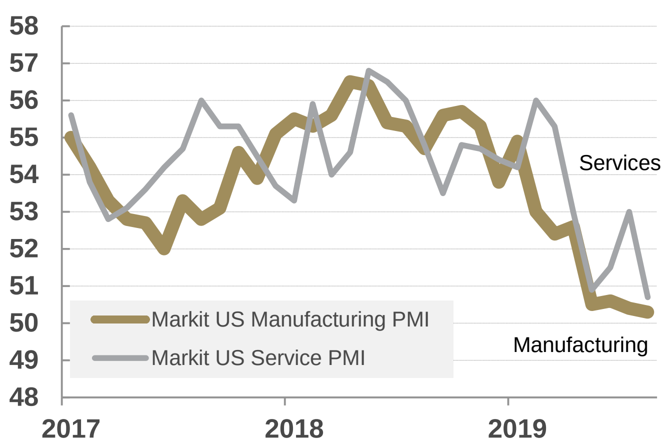
In the US, macroeconomic data surprise indices recently have rebounded sharply due to better than expected (consensus forecasts) data on retail sales and industrial production. This is welcome news, because the trend in the year prior has been lackluster at best. Moreover, the global data has continued to deteriorate against already low consensus expectations. If the US can continue to buck the global trend, it could help extend an already lengthy macroeconomic cycle and help bolster capital markets.

The gap here is that leading indicators have not looked as robust as lagging and coincident indicators like measures of labor activity. This can continue if lag times remain large and positive macro developments unfold, but it is still a gap that will require focus as we head into 2020.

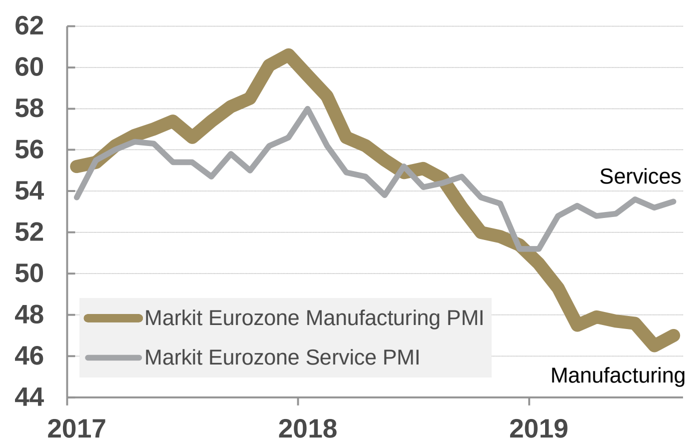
MIND THE GAP

Manufacturing Versus Services

US Manufacturing Versus Services



Europe Manufacturing Versus Services



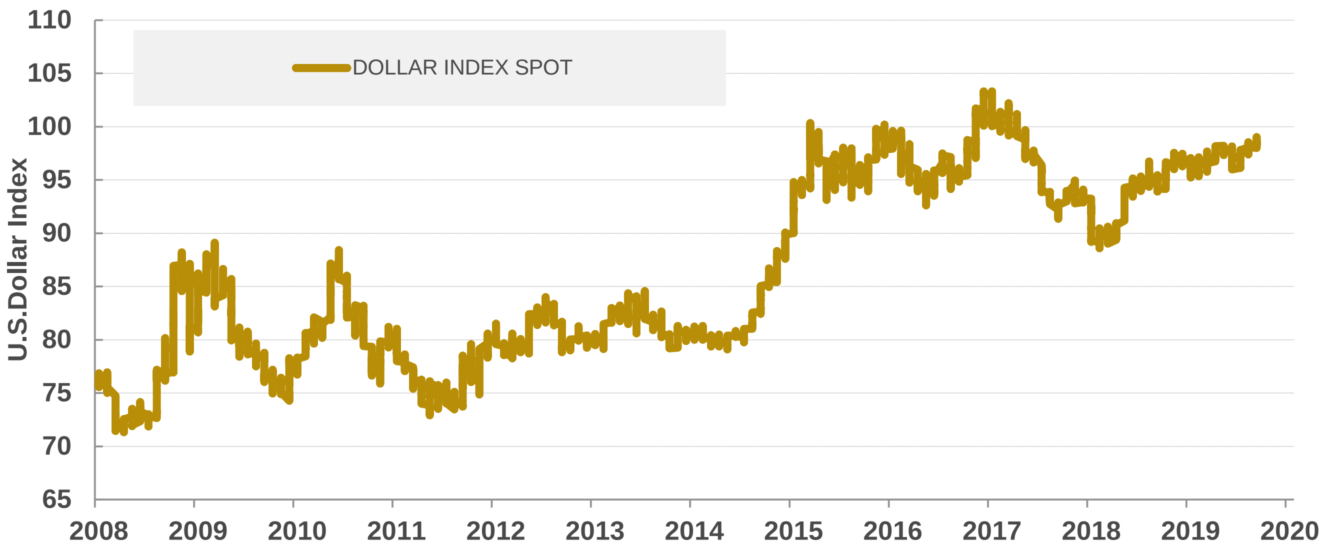
PMI = Purchasing Managers' Index^{TM} All data seasonally adjusted.
Source: Bloomberg. Data as of September 30, 2019.Visual created by Lockwood Advisors, Inc.

Global manufacturing, according to IHS Markit Purchasing Managers Indexes, has been in a slump due to weakening global trade concerns and disruption of global supply chains. German manufacturing data announced in late September 2019 show a country on the verge of recession. European services have held up substantially better.

The US had seen wide disparities between the performance of the industrial and manufacturing sectors versus services, but the recent services data have come in nearly as low as the manufacturing readings. The US economy, overall, is now much more driven by services. The relative weakness of the global manufacturing sector relative to services is another gap that will require attention as we head into the later months of 2019.

The Dollar

US Dollar Index



Source: Federal Reserve. Dara as of September 30, 2019. Visual created by Lockwood Advisors, Inc. **Past performance is not a guarantee of future results.** Indices are unmanaged and are not available for direct investment.

One of the most important gaps to discuss is the trading of the US dollar compared to the rest of the world's currencies. By definition, any movement in the US Dollar Index represents a gap between the performance of the global reserve currency and that of a basket of trade partners. The US Dollar Index has remained at elevated levels since 2015 compared to the 2008-2015 period. It is up substantially from a near-term low on February 15, 2018 of 88.593. Currently, the highest weights in the US Dollar Index basket are the Euro (57.1%), Japanese Yen (13.6%), British Pound (11.9%), Canadian Dollar (9.1%), Swedish Krona (4.2%) and the Swiss Franc (3.6%).

As we've noted, currency risk often rises to the 2nd largest contributor of risk to a globally diversified portfolio. So many return streams, from foreign stocks and bonds, oil and other commodities depend highly on the exchange rate. Near yearly highs as we go to press, continued gains in the US dollar put pressure on many global capital markets.

What Comes Next?

The queue we have examined is not an exhaustive list of the many gaps that may come to define markets over the next several quarters and years. Indeed, in the last several weeks, there have been elevated concerns over the demand for cash in the overnight market for repurchase agreements (or repos), a primary mechanism for bank funding. Factors for the gap are technical (quarterly corporate tax demand for cash) and perhaps coincidental (Saudi Arabian cash required to rebuild damaged oil production equipment) and structural (large supply of short-dated Treasury notes due to sizeable deficits plus new bank capital rules). In any case, the Fed has extensive tools designed to manage short-term funding considerations, and we believe this furor will likely calm down as the calendar moves on and additional liquidity becomes available.

Overall, though, our capital markets outlook has not materially changed since last quarter. Bond markets have signaled significant and renewed concerns about economic growth and monetary policy, but those concerns have been with us for some time. Equity markets have remained resilient with some significant churning under the hood.

Macroeconomic cycle risks are building, and we believe the biggest risk to markets is that cyclical pressure exerts itself more quickly than market players expect. In our view, advisors and investors should typically manage to their longer-term goals. Recession risks are likely the largest risk investors bear in globally diversified balanced portfolios. So far this year, markets have continued to climb despite some growing imbalances. Unfortunately, despite some better high-frequency macro data points in the past few weeks, our concerns still linger.

In our view, minding the gaps like the ones outlined may require that portfolio structure and risk budgets are better aligned to multiple macroeconomic outcomes, for better or worse. As we concluded last quarter, we believe markets have provided advisors with an opportunity to reexamine their clients' fixed income and portfolio allocations positioning in light of changing market and economic conditions for the balance of 2019 and the beginning of 2020.

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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.

Portfolios that invest 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.

Short-term fixed income securities are susceptible to fluctuations in interest rates. If interest rates rise, bond prices will decline, despite the lack of change in both coupon and maturity. Price volatility typically increases with the length of the maturity and decreases as the size of the coupon decreases.

Investments in intermediate- and long-term fixed income securities involve interest rate risk and inflation risk, which could reduce the value or real return of an investment should interest rates rise.

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 Global Aggregate Negative Yielding Debt TR Index Value Unhedged USD represents the market value in US dollars ($) of unhehged global negative-yielding debt securities.

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.

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 and

Purchasing Managers' Index™ (PMI™) data are compiled by IHS Markit for more than 40 economies worldwide. The monthly data are derived from surveys of senior executives at private sector companies and are available only via subscription. The PMI dataset features a headline number, which indicates the overall health of an economy, and sub-indices, which provide insights into other key economic drivers such as GDP, inflation, exports, capacity utilization, employment and inventories. The PMI data are used by financial and corporate professionals to better understand where economies and markets are headed, and to uncover opportunities.

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.

US Dollar Index: The US Dollar Index (USDX, DXY, DX) is an index (or measure) of the value of the United States dollar relative to a basket of foreign currencies, often referred to as a basket of U.S. trade partners' currencies.

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For more information about Lockwood, as well as its products, fees and services, please refer to Lockwood's Form ADV Part 2, Wrap Fee Brochure for Managed Account Advisor, Wrap Fee Brochure for the Lockwood Sponsored Program, Wrap Fee Program Brochure for the Managed360® Program, Wrap Fee Brochure for Co-Sponsored

Programs or the Firm Brochure, as applicable, 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: Bloomberg Barclay; Federal Reserve Board; MSCI; Standard & Poor's; US Treasury Department; Bloomberg; and US Bureau of Labor Statistics.