Portfolio Managers' Commentary

Emidio Checcone and **Brian Ear** | Third Quarter 2021

Emidio Checcone, CFA
Portfolio Manager,
Equities

Mr. Checcone joined DoubleLine in 2014. He is the Portfolio Manager of the Equity Value strategy. Prior to DoubleLine, Mr. Checcone spent six years at Huber Capital Management, where he was a Principal and Portfolio Manager. Prior to that, he worked at PRIMECAP Management Co. for six years, where he was a Principal and Financial Analyst. Mr. Checcone holds a B.A. in Social Studies from Harvard College and a J.D.-MBA from Harvard Law School and the Harvard Graduate School of Business Administration. He is a CFA® charterholder.

Brian Ear, CFA
Portfolio Manager
Equities

Mr. Ear joined DoubleLine in 2016 as an Equity Analyst and is now a Portfolio Manager. Prior to DoubleLine, he spent two years at Compass North Advisors as a Consultant and six years at Palmyra Capital Advisors LLC, where he was a Principal and Portfolio Manager. Prior to that, Mr. Ear worked for five years at Hotchkis & Wiley Capital Management as an Equity Analyst. He holds a B.S. in Economics from the Wharton School of the University of Pennsylvania. Mr. Ear is a CFA® charterholder and a licensed CPA (inactive).

And all at once, summer collapsed into fall.

- Oscar Wilde

It is not the strongest species that survive,
nor the most intelligent,
but the most responsive to change.

- Charles Darwin

One doesn't accept bad challenges.
Part of it is always the risk-taking without
seeing that the risks are rational
and the rewards are commensurate …
are more than commensurate …
with the risks.

- Sumner Redstone

The third quarter of 2021 saw continued upward momentum in the equity market, with growth stocks outpacing value shares for much of the period, until all at once the market corrected in September just ahead of the autumnal solstice. Throughout most of the quarter, the markets had been edging higher on continued easy liquidity from the Federal Reserve, as well as indications that Delta variant COVID-19 cases had peaked, thus, reducing worries about a faltering recovery despite disappointing economic data. However, the equity market experienced a pullback on a sudden surge in interest rates apparently driven by growing fears over the Fed's upcoming taper plans, as well as by expanding evidence that inflation is not proving transitory, rising doubts about the economic recovery and growing worries surrounding corporate earnings disappointments during the upcoming reporting season. As a result, the market from the early September peak to quarter's end corrected by more than 5%.

Even with the pullback, the S&P 500 Index ended the quarter with a modest gain of 0.58%. During the correction there was a rotation back into value stocks, but growth nonetheless outperformed value during the full quarter. The Russell 1000 Growth Index rose 1.16% while the Russell 1000 Value (RLV) Index decreased 0.78%. The representative portfolio of the DoubleLine Equity Value strategy (the "Portfolio") returned negative 2.28%, underperforming its benchmark, the Russell 1000 Value, by 150 basis points (bps). The cause of this underperformance was broad based, with financials, healthcare and materials impacting performance the most. During the quarter, we had responded to rising stagflationary risks by shifting moderately to a more balanced exposure between reflationary financial names, and defensive technology and communications services stocks. Yet this positioning did not offset the negative performance attribution from individual holdings within these sectors. That said, we continue to maintain these positions since we expect them to show positive relative returns in the future, and because we believe our more balanced portfolio exposures are prudent amid the risks we see in the current environment.

After a robust economic start to the year, following the onset of the global reopening, the recovery's progress has appeared to decelerate on the emergence of several headwinds. This slowdown has coincided with Delta variant case count spikes as well as the rolling off of government stimulus, which together have raised concerns surrounding the pace and durability of the economic rebound. Ongoing supply chain disruptions, whose resolution now appears further out than previously believed, is another key and growing drag, as are the related rising risks concerning energy and electricity supplies across the globe. Delays in the passage of a U.S. infrastructure bill, as well as concerns over the inability of Congress to resolve the debt ceiling issue, have raised further concerns about the ability to promote growth. Indeed, one could argue that many of the governmental policies to address the pandemic (e.g., vaccine mandates and passports, etc.) implemented in several countries have created further challenges to a full reopening. Finally, concerns about a slowdown in economic growth and easy credit in China's economy, traditionally a key locomotive of global growth, have justifiably increased, driven by the government's recent and seemingly anti-capitalist regulatory crackdowns across multiple sectors, as well as by its tighter control over loan growth amid a potential brewing liquidity crisis in the important property sector.

Because the dynamics of the current economic recovery are so unconventional, driven by unique challenges of a global pandemic, as well as the unprecedented governmental interventions to address it, it is harder than usual to determine our location in the business cycle. Ordinarily, during the course of a cycle, the economy slows as investments fueled by excess liquidity turn sour, or consumer spending slows due to tightening credit conditions late in the cycle, and this typically causes labor markets to soften as well. However, the dynamics in the U.S. economy are undeniably different this time – although we recognize the dangers of writing those three words – since the decline in economic activity seems to be more related to continued interruptions in supply and rising inflationary pressures overwhelming the ability of consumers to pay than it is a function of exhausted credit or issues with underlying consumer demand for goods and services.

Indeed, we believe that the recent slowdown in the U.S. economic recovery more likely reflects a delay in the full reopening of activity, rather than the start of a more enduring downturn or a recession. First, we think the worst of the anti-growth aspects of the pandemic and governmental response to it are likely behind us. Although the pace of vaccinations has slowed, the Delta variant case counts have peaked, and it is likely that increasing numbers of individuals will begin to view COVID-19 as an endemic infection that we will have to live with. Hence, even in the event of further case count spikes, we would expect the most-Draconian governmental pandemic measures will soften in order to further the goal of promoting higher levels of employment and reaccelerated rates of economic growth, thereby resolving supply chain disruptions, relieving many ongoing price pressures, supporting consumer demand and returning more fully to normalcy. Of course, if the government continues to promote stricter policies (i.e., zero tolerance) even as the novel coronavirus goes endemic, then this more sanguine growth scenario would be threatened, especially in the event of a severe fall or winter spike in COVID-19 cases from a new variant.

Second, and more importantly, key supports for a sustained economic recovery are in place, which makes a renewal of economic recovery our base case assumption at the present time. U.S. household balance sheets remain in good shape. Indeed, despite the ending of some government stimulus programs, consumer spending could remain strong, as Americans have accumulated about $2.5 billion in excess savings since February 2020, based on our internal estimates. Meanwhile, according to J.P. Morgan, inventories are at 25-year lows since supply chain constraints have impeded replenishments. *(Figure 1)*

Inventory-to-Sales at All-Time Low

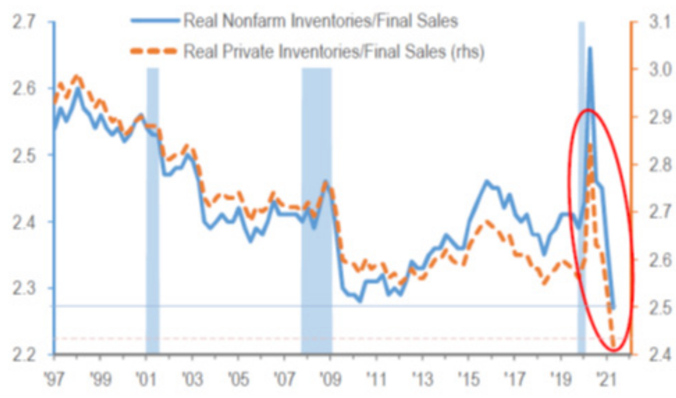

Figure 1

Source: J.P. Morgan Global Equity and Quantitative Strategy, Haver Analytics, as of September 30, 2020. Blue shaded areas indicate recessionary periods.

While companies have been cautious about ramping up capital investments despite being flush with liquidity amid the still-elevated uncertainties arising from the pandemic and supply chain shortages, we think this postponement of capital investment and inventory replenishment will soon end, leading to a period of robust catch-up investment. *(Figures 2 and 3)* With ample job openings that outnumber unemployment counts, we expect employment to further recover – especially as in-person schooling allows more parents to return to work, and paycheck protection payments have ended. Moreover, more fiscal stimulus should still be on its way, with the delayed but popular $1 trillion bipartisan infrastructure bill awaiting approval by the House of Representatives, and an additional $2 trillion to $3.5 trillion "human infrastructure" bill being negotiated. Lastly, credit conditions among consumers and businesses remain healthy.

Capital Expenditure Cycle in Early Stages of a Recovery

Figure 2

Source: J.P. Morgan Global Equity and Quantitative Strategy, as of September 30, 2021

As COVID-19 Eases, Capex for Epicenter/Recovery Stocks Likely to Increase

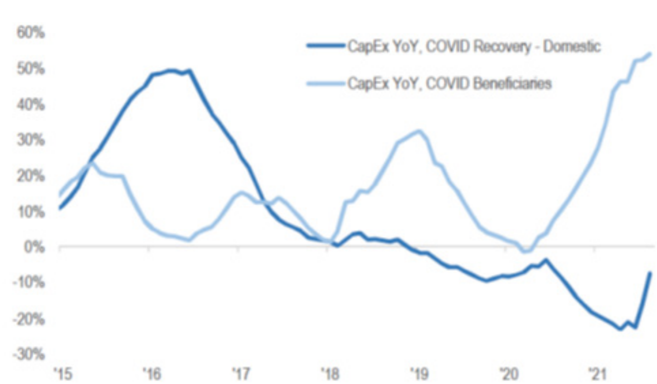

Figure 3

Source: J.P. Morgan Global Equity and Quantitative Strategy, as of September 30, 2021

This constructive view of the economy, if correct, would be supportive of healthy corporate earnings, even as the near-term slowdown in economic growth prompted analysts to temper their earnings estimates in September, with projections for the third quarter being tweaked negatively in September after months of strong upward revisions. *(Figure 4)* However, third quarter earnings are nonetheless expected to rise by about 28% year-over-year (YoY), which would mark the third best earnings growth seen in the last decade – behind only the two preceding quarters. While the rate of growth is expected to decelerate substantially from the record annualized earnings growth rate in the second quarter, the growth rate should remain rather healthy. In light of this, we should still see positive earnings surprises and upward revisions (albeit at a more normalized frequency) given what are still favorable YoY comparisons, and because certain companies could actually benefit from the current dynamics. Specifically, cyclical company earnings can benefit from the higher inflation and rising interest rates, since the inflation creates an opportunity for firms with pricing power to obtain price hikes, while rising rates would likely portend rising economic demand for the goods and services of those cyclical firms. Separately, companies with reasonable valuation multiples engaged in accelerated stock repurchases would also enjoy a boost to earnings, thereby posting incrementally higher earnings per share on a smaller outstanding share base.

Monthly S&P 500 Earnings Revisions for Q32021

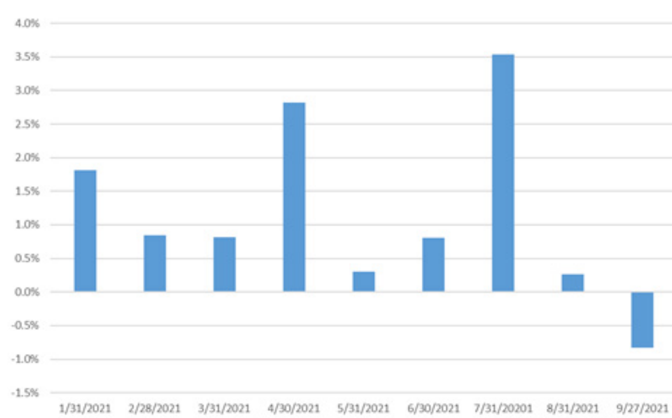

Figure 4

Source: FactSet, DoubleLine

As is widely understood, inflation continues to run relatively hot. The Consumer Price Index (CPI) rose 5.3% in August from a year earlier and was up 4% YoY excluding food and energy. The Personal Consumption Expenditures Prices Index deflator, which is the Fed's preferred measure of inflation, increased 4.3% YoY and 4.9% month-over-month annualized. These rates of inflation are well above anything experienced in the last several years and also are above central bankers' targets. Given that many of the underlying drivers of inflation (e.g., labor shortages, supply chain disruption, lingering COVID-19-related issues, etc.) are proving more difficult to resolve, central bankers, including members of the Fed, are starting to concede that these pressures might last longer than they initially expected. Hence, the definition of "transitory" is itself proving transitory.

Still, many investors seem to agree for now that the inflationary pressures, while more long-lived than originally thought, will, in time, abate. Apparently, this too shall pass... Indeed, according to the most recent BofA Global Fund Managers Survey, 69% of equity investors (still) believe inflation is transitory. At quarter-end, the one- and three-year Treasury Inflation-Protected Securities (TIPS) breakeven inflation rates were 2.54% and 2.51%, respectively, while the five-year TIPS breakeven inflation rate was also 2.51%, implying that bond investors – arguably more sensitized to inflationary pressures than equity investors – currently expect inflation to recede to 2.5% over the next few quarters and years.

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Our view remains that inflation will stabilize below current levels but stay meaningfully above the Fed's 2% target, as we expect some portion of the inflation to endure. In particular, we think shelter and wage inflation, which carry a significant weight in the CPI calculation, are likely to be somewhat sticky and could rise further. Overall rent contributes 33% to CPI, with the owners' equivalent rent portion carrying a 24% weight. Home prices have risen considerably this year, and rent increases have accelerated, so rent is likely to have a bigger impact on CPI going forward. Also, wages are likely a meaningful part of the services basket, which carry a significant weight of 25% in the overall index, and are also on the rise. Meanwhile, food (14% weight) and energy (7% weight) prices could stay elevated longer than expected, especially given that soaring energy prices have already created a crisis in Europe and Asia.

Interest rates are rising again, apparently due to the inflationary pressures, as well as on the anticipation that the Fed's quantitative easing (QE) program might be approaching an end, the recognition that we are past the peak for Delta variant cases and so more-Draconian shutdowns are less likely in the near term and the abating worries that China's troubled property market will trigger a deflationary contagion. Whatever the exact causes, the 10-year Treasury yield jumped 21 bps from 1.33% to 1.54% over a five-day period in September, which was a highly unusual move. While interest rates remain relatively low, and, historically, their rise has not necessarily led to a market downturn, the all-important question is whether rates are rising along with broadening growth in a strengthening economy, or whether rates are merely reflecting the eroding purchasing power of the U.S. dollar in a stagnant economy (i.e., stagflation).

In the past, markets have performed well when rising rates were accompanied by rising expectations of continued healthy economic growth, but they have performed rather poorly when those rising interest rates reflected merely higher inflation expectations amid slowing or stagnant growth prospects. The latter stagflationary scenario could emerge not only due to persistent and high inflationary pressures caused by supply chain disruptions, and labor and input shortages that prove difficult to resolve but also due to technical factors. Specifically, lower demand for U.S. Treasuries (by investors, as well as a tapering Fed) amid ongoing or accelerating increases in Treasury issuance needed to fund our still-widening fiscal deficits could cause rates to jump. It is important to understand that stagflation, while rare, can occur when the market's ability to course-correct is substantially blocked – as we saw in the 1970s during the lengthy and challenging process of overcoming a foreign-supplied energy crisis that adversely impacted a manufacturing-centric U.S. economy. If it turns out that the challenges to addressing today's underlying drivers of inflation, such as the growth-slowing government policies intended to address the pandemic, the deterrents and disincentives for workers to return to the labor market, the issues causing protracted supply-chain snafus or the continued dependence on excessive deficit spending to sustain growth, all prove exceedingly protracted, then it could be possible to see inflation persist even in the absence of solid economic growth. And because such stagflation has historically proved harmful to most asset classes, including equities, this is a risk that we are watching closely even though such stagflation is not our base case assumption.

This risk of worsening inflation – stagflationary or otherwise – remains top of mind for us, particularly since we expect monetary conditions to remain accommodative for the time being, even as the Fed's formal announcement of tapering plans looms. The Fed has said that such an announcement could come as early as November, with actual tapering commencing in December. However, such a taper would reduce bond purchases only by $15 billion per month, meaning that the U.S. central bank would still be injecting about $660 billion of additional liquidity, with about $315 billion occurring in 2022, into the monetary system. This is because the Fed is not technically tightening during the taper but merely reducing the amount of stimulus. More importantly, the reality is that the Fed might already be behind the curve given the significant inflationary pressures already baked into the economy, as well as the fact that a true liftoff in rates would likely only occur after the taper ends by mid-2022 or even the beginning of 2023. Such a delayed and perhaps muted rate increase might not fully quell the rising inflation over the longer term. We think we will see higher rates, but a heavily indebted nation will be reticent to raise those rates too high given the adverse impact on debt servicing costs.

Not all parts of the market will be impacted in the same way by the prospects of rising interest rates and perhaps permanently higher inflation levels. The stocks of cyclical companies tend to do well in an inflationary environment in which economic growth is increasing along with the rising prices. With the recent sudden rise in interest rates, value stocks started to outperform growth stocks again. This likely reflects the ability of cyclical companies to obtain pricing and enjoy operating leverage in their business models. Moreover, it also reflects the relative benefit that lower-multiple value stocks enjoy versus their growth stock counterparts in an environment in which higher rates push down elevated stock multiples. This is especially true given that the valuation spread between growth and value stocks is still among the widest in history. Growth stocks, which bested value shares in performance in the third quarter and had previously experienced a very extended period of outperformance, might not prove such reliable outperformers if we enter a new stage of higher inflation and interest rates. Assuming such a regime change, we likely would be on the cusp of a more sustained growth-to-value rotation, assuming some modicum of growth.

Of course, tightening monetary conditions could pose a challenge to equity market valuations more generally. Market valuations have become even more elevated on the overabundance of liquidity in the financial system. Stocks, bonds, commodities and home prices all have climbed higher. The rise in prices across major asset classes has occurred even while the expansion in GDP, consumer spending and profit margins appears to have peaked. Over the past 20 years, major asset classes have become much more correlated, as Bank of America has noted, with the median correlation among major asset classes increasing to 47% from just 7% two decades ago. *(Figures 5 and 6)* We view the rising correlations as a reflection of liquidity expansion perhaps superseding fundamentals as the driving force behind valuations. Hence, we think that a contraction in liquidity could conversely become a headwind for asset prices. For now, given the fragility of the recovery and the Fed's shift to average inflation targeting, we expect relatively accommodative conditions to continue in the near term even on rising risks of higher inflation. That said, with the Fed pivoting to less accommodation and, eventually, to tightening conditions, there certainly is rising risk further down the road of a Fed misstep, such that liquidity will dry up too quickly, causing valuations to deflate for most asset classes.

Correlations Among Major Asset Classes
Median three-year correlations between
major asset classes today vs. 20 years

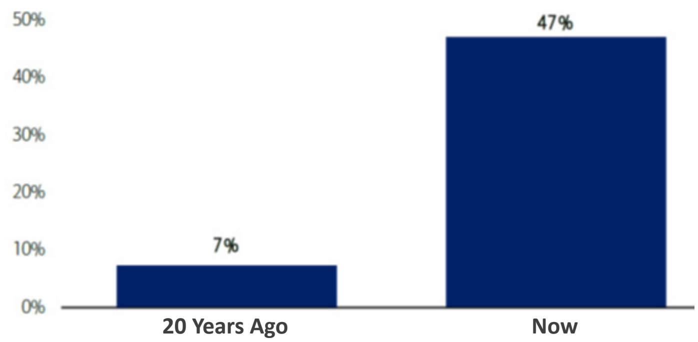

Figure 5
Source: BofA U.S. Equity & Quant Strategy, FactSet, as of September 30, 2021

Three-Year Correlations Among Major Asset Classes Today vs. 20 Years Ago

Today	STOXX 600	Shanghai Composite	MSCI ACAP	MSCI EM	IG Bonds	10-Year Treasury	Euro Gov't	Oil	Industrial Metals
S&P 500	0.89	0.56	0.88	0.79	0.51	-0.41	0.06	0.55	0.65
STOXX 600		0.52	0.83	0.72	0.46	-0.49	0.12	0.61	0.62
Shanghai Composite			0.69	0.70	0.32	-0.28	-0.05	0.32	0.63
MSCI ACAP				0.94	0.44	-0.52	-0.02	0.55	0.68
MSCI EM					0.54	-0.42	0.05	0.47	0.66
IG Bonds						0.22	0.62	0.38	0.31
10-Year Treasury							0.41	-0.38	-0.41
Euro Gov't								0.08	-0.04
Oil									0.51

20 Years Ago	STOXX 600	Shanghai Composite	MSCI ACAP	MSCI EM	IG Bonds	10-Year Treasury	Euro Gov't	Oil	Industrial Metals
S&P 500	0.69	0.05	0.59	0.69	0.10	0.02	0.00	0.13	0.32
STOXX 600		0.00	0.56	0.60	-0.23	-0.37	-0.24	0.06	0.32
Shanghai Composite			0.21	0.16	-0.14	-0.05	-0.28	0.16	0.18
MSCI ACAP				0.78	-0.03	-0.24	-0.23	0.33	0.52
MSCI EM					0.02	-0.22	-0.16	0.31	0.49
IG Bonds						0.84	0.73	0.10	-0.01
10-Year Treasury							0.74	0.16	-0.08
Euro Gov't								-0.12	-0.26
Oil									0.29

Figure 6

Source: FactSet, BofA U.S. Equity & Quant Strategy, as of September 30, 2021

Separately, the pandemic has exposed the vulnerability of global supply chains, threatening to stall or, even worse, reverse the long-standing globalization trend that has contributed to strong earnings growth for many years, as noted by a recent Bank of America study of the past two decades. Labor and tax arbitrage, along with supply chain efficiencies, have contributed to lower production costs and taxes. *(Figure 7)* Margins for all sectors, except energy, have improved, with technology, materials and consumer discretionary among the sectors seeing the most meaningful expansion. *(Figure 8)* Yet margins might be approaching a secular peak as tailwinds from globalization abate and cost pressures from higher wages and input cost inflation increase. A switch to reshoring or near-shoring would likely result in higher labor and other costs, and would require additional capital investments. The impacts of this switch are likely to pressure margins. Furthermore, the incremental demand for labor required could exacerbate the current labor shortage. To the extent that supply remains tight relative to demand, companies might have the ability to increase prices to offset higher costs and protect margins. However, as the business cycle matures and policy rates rise causing demand to soften while supply improves, corporate margins across a variety of sectors are more likely to compress.

2021 Year-to-Date Margin Expansion

Globalization has been a big contributor to S&P 500 net margin expansion since 2004.

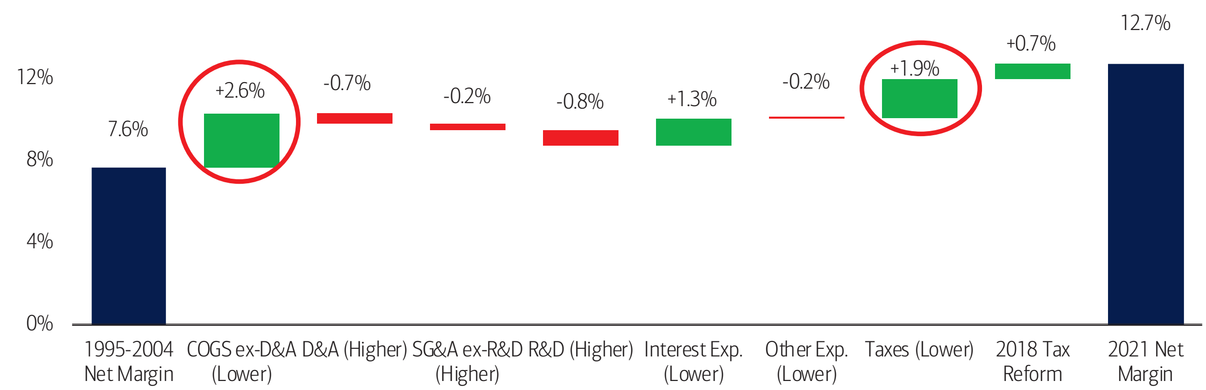

Figure 7

Source: BofA U.S. Equity & Quant Strategy, FactSet. Cost of Goods Sold (COGS); Depreciation & Amortization (D&A); Selling, General & Administrative Expense (SG&A); Interest Expense (Interest Exp.); Other Expense (Other Exp.) Data as of June 30, 2021.

Change in Net Margins by Sectors

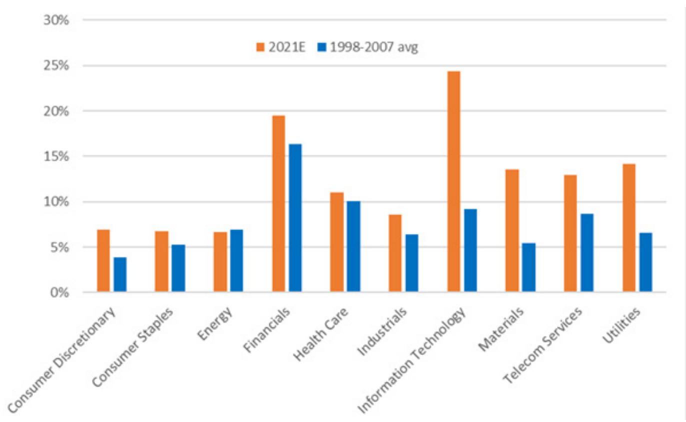

Figure 8

Source: FactSet, DoubleLine. 2021E refers to expectations for net margins for the full year.

Higher taxes are also a key risk that might not be fully reflected in stock prices or earnings. In the latest "human infrastructure" bill, the Democrats are looking to fund a portion of the spending with an increase in the corporate tax rate and a reduction in tax loopholes. President Joe Biden's latest proposal calls for $2 trillion in spending partially offset by a hike in the corporate tax rate to 28% from 21% and includes measures to prevent companies to move profits offshore. Higher taxes, if passed, are likely to have a more immediate impact on corporate earnings and would almost certainly cause an adjustment to stock prices.

As noted, the last key market risk to highlight surrounds ongoing monetary policy. The Fed is currently entering a delicate stage of the monetary policy cycle, which could have major ramifications on the direction of the economy and the market, thus warranting investor caution. With inflation still above 2% and employment gradually improving, the path ahead for the Fed seems to be the withdrawal of monetary stimulus. Yet, coordinating the pace of removing liquidity to sync with the timing of a recovery is very challenging, especially given the feedback loop between stimulus and economic growth. We've only had one major tapering and quantitative tightening event over the last 50 years, so the Fed has limited experience reversing QE. During that previous tapering, market volatility increased early on, but then the markets trended higher as GDP increased. It was not until after multiple rate hikes had caused the yield curve to flatten and then invert that monetary conditions became overly tight, adversely impacting the economy and equity market. However, that past experience might not be predictive. As we shift to a period of less accommodation, the markets and economy might be more susceptible to Fed policy errors this time around, given the larger size of the stimulus involved, the higher rates of inflation we are experiencing, and the higher valuations prevailing in the market. The only certainty is that the timing and speed of the liquidity withdrawal will have significant implications on the economy as well as the equity market, so the Fed will have to walk a narrow, dangerous path between overheating and stifling a growing economy, either of which could trigger a market pullback.

While recognizing these important market risks, we currently expect further recovery in the U.S. and globally, resulting in higher but manageable inflation and interest rates. This should be favorable for value stocks, which still trade attractively relative to growth stocks on a valuation basis – indeed, the difference in multiples between growth and value stocks is still near historic highs. We believe that this combination of benign reflation and attractive value stock multiples could lead to a more sustained growth-to-value rotation, providing attractive potential upside to value stocks. Separately, as we have noted in the past, we also believe that active management will show its importance in the present investing environment, as salient differences in relative company positioning reemerge and become more important than liquidity or macroeconomic considerations.

We will continue to seek sound, long-term investment ideas and strike reasonable balances within our portfolio among those investment ideas offering safety in uncertain times and those holdings representing compelling long-term value once a broader recovery is underway. Our differentiated fundamental value investment philosophy allows us to capture both of these opportunity scenarios in our ongoing effort to seek out solid relative returns.

We thank you for your continued interest in DoubleLine Equity. ■

Select Definitions

Amortization – Used as an accounting technique to periodically lower the book value of a loan or intangible asset over a set period of time. In relation to a loan, amortization focuses on spreading out loan payments over time. When applied to an asset, amortization is similar to depreciation.

BofA Global Fund Manager Survey – Monthly report that canvasses the economic views of approximately 200 institutional, mutual and hedge fund managers around the world.

Consumer Price Index (CPI) – This index, compiled by the U.S. Bureau of Labor Statistics, examines the weighted average of the prices of a basket of consumer goods and services, such as transportation, food and medical care. It is calculated by averaging price changes for each item in the basket. Changes in the CPI are used to assess price changes associated with the cost of living. The CPI is one of the most frequently used statistics for identifying periods of inflation or deflation.

Cost of Goods Sold (COGS) – Refers to the direct costs of producing the goods sold by a company. This amount includes the cost of the materials and labor directly used to create the good. It excludes indirect expenses, such as distribution costs and sales force costs.

Depreciation – Reduction in the value of an asset with the passage of time.

Earnings Per Share – Calculated as a company's profit divided by the outstanding shares of its common stock. The resulting number serves as an indicator of a company's profitability.

Euro Stoxx 600 Index – This index has a fixed number of 600 stocks representing large-, mid- and small-cap companies among 17 European countries, covering approximately 90% of the free-float market capitalization of the European stock market (not limited to the eurozone).

Growth Stock – Any share in a company that is anticipated to grow at a rate significantly above the average growth for the market. These stocks generally do not pay dividends. This is because the issuers of growth stocks are usually companies that want to reinvest any earnings they accrue in order to accelerate growth in the short term. When investors invest in growth stocks, they anticipate that they will earn money through capital gains when they eventually sell their shares in the future.

Interest Expense – Cost incurred by an entity for borrowed funds. Interest expense is a non-operating expense shown on the income statement.

Morgan Stanley Capital International All Country Asia Pacific (MSCI ACAP) Index – This index captures large- and midcap representation across five developed markets countries and nine emerging markets countries in the Asia Pacific region. With 1,555 constituents, the index covers approximately 85% of the free-float-adjusted market capitalization in each country.

Morgan Stanley Capital International Emerging Markets Index (MSCI EMI) – This index captures large- and mid-cap representation across 26 emerging markets countries. With 1,385 constituents, the index covers approximately 85% of the free-float-adjusted market capitalization in each country.

Net Margin – Measures how much net income or profit is generated as a percentage of revenue.

Other Expense – Expense that does not relate to a company's main business. As well as operating costs, the company needs to consider other expenses, including interest expense and losses from disposing of fixed assets.

Owners' Equivalent Rent (OER) – Component metric used in the Consumer Price Index for the amount of rent that would have to be paid in order to substitute a currently owned house as a rental property. This value is also referred to as "rental equivalent." In other words, OER figures the amount of monthly rent that would be equivalent to the monthly expenses of owning a property (e.g., mortgage, taxes, etc.).

Personal Consumption Expenditures (PCE) Price Index – This index, published by the U.S. Bureau of Economic Analysis, measures price changes in consumer goods and services exchanged in the U.S. economy to reveal underlying inflation trends.

Price-to-Earnings (P/E) Ratio – This ratio for valuing a company measures current share price relative to earnings per share (EPS). The P/E ratio is also sometimes known as the "price multiple" or the "earnings multiple." A high P/E ratio could mean that a company's stock is overvalued, or investors are expecting high growth rates in the future.

Quantitative Easing (QE) – An unconventional monetary policy used by central banks to stimulate the economy when standard monetary policy has become ineffective. A central bank implements quantitative easing by buying specified amounts of financial assets from commercial banks and other private institutions, thus raising the prices of those financial assets and lowering their yield, while simultaneously increasing the monetary base.

Quantitative Tightening (QT) – Reverse of quantitative easing (QE); a central bank that acquired financial assets under QE undertakes steps to reduce its balance sheet.

Research and Development (R&D) Expense – Associated directly with the research and development of a company's goods or services and any intellectual property generated in the process. A company generally incurs R&D expenses in the process of finding and creating products or services.

Russell 1000 Growth (RLG) Index – This index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values. Growth stocks are shares in a company that are anticipated to grow at a rate significantly above the average growth for the market.

Russell 1000 Value (RLV) Index – This index measures the performance of the large-cap value segment of the U.S. equity universe. It includes Russell 1000 Index companies with lower price-to-book ratios and lower expected growth values. Value stocks are shares of a company that appear to trade at a lower price relative to the company's fundamentals.

S&P 500 Index – This unmanaged capitalization-weighted index of the stocks of the 500 largest publicly traded U.S. companies is designed to measure performance of the broad domestic economy through changes in the aggregate market value of the 500 stocks, which represent all major industries.

Selling, General and Administrative (SG&A) Expense – Category of selling, general and administrative expense in a company's income statement includes all general and administrative expenses as well as the direct and indirect selling expenses of the business.

Shanghai Stock Exchange Composite Index – This capitalization-weighted index, developed in December 1990 with a base value of 100, tracks the daily performance of all A shares and B shares listed on the Shanghai Stock Exchange.

Tapering – Gradual slowing of the pace of the Federal Reserve's large-scale asset purchases that were put in place as part of the Fed's quantitative easing policies.

Treasury Inflation-Protected Securities (TIPS) – Type of Treasury security issued by the U.S. government that is indexed to inflation in order to protect investors from a decline in the purchasing power of their money. As inflation rises, TIPS adjust in price to maintain their real value.

Value Stock – Shares of a company that appear to trade at a lower price relative to its fundamentals, such as dividends, earnings or sales, making it appealing to value investors.

One cannot invest directly in an index.

Important Information Regarding This Material

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