MORNING MARKET COMMENTARY: Anthony M. Saglimbene, Global Market Strategist

- **Quick Take**: U.S. futures are pointing to a modestly higher open; European markets are trading mixed; Asia ended mostly higher overnight; West Texas Intermediate (WTI) oil trading up to $40.48; 10-year U.S. Treasury yield at 0.60%.

- **What Are The Market Risks For The Second Half?** Yesterday, we noted some of the positive trends moving stock prices higher. We also noted investors should remain cautious in this environment. Much of the optimism built into stock prices today hinges on COVID-19 vaccines and treatments working effectively enough to return consumer behavior toward normal next year.

- And while early vaccine and treatment trials offer promise, we believe it is still too soon to expect economic/business activity will quickly accelerate this year. Thus, there remains a significant risk to the downside if the market’s hope and optimism does not go as scripted. Investors should use recent strength in the market to reposition toward high-quality assets, trim positions that do not meet a strong fundamental thesis and rebalance portfolios back to targeted allocations.

- **As we move through the second half of the year, here are some of the critical risks, events and trends, we believe investors should consider:**
  - **Coronavirus cases are accelerating across the country.** Coronavirus cases are surging in the South Southwest and other economically significant areas across the U.S. Some states have already announced delayed school openings for the fall, and hospitals are seeing a resurgence of patients being admitted for virus related problems; all of this during a period in which the virus was generally expected to see a seasonal decline before becoming more problematic again in the fall. Although health officials say there is still a window of time to stem the virus’s spread and return to declining case counts, recent virus trends have clearly darkened. Further proliferation of COVID-19 risks increases the risk of renewed disruptions to employment, business activity, consumer behavior, and corporate profits. A pause or delay in state strategies to return to regular activity, or worse, reinstating widespread lockdowns, would also severely dent the market's assessment of the future. Thus, stock prices could fall.
  - **Promising vaccines and treatments may not live up to their early promise.** As we mentioned yesterday, a few early-stage vaccines and treatments are offering the market hope that COVID-19’s deadliness will be reduced by late this year/early next year. But these are still very early-stage developments and there is much work left to prove these drugs, treatments and potential vaccines are truly safe and effective. We believe any real dent in the market's assessment of the world having effective drugs to treat COVID-19 by next year could trigger lower stock prices.
  - **Equity valuations are elevated, thus reflective of positive developments.** At present, the S&P 500 Index trades at 25.5x projected 2020 earnings per share (EPS). If you think that's rich, the NASDAQ Composite currently trades at an eye-popping 40x projected 2020 EPS. At the index level, U.S. stocks are expensive versus history and relative to on-the-ground macro conditions. However, we believe equity prices are looking ahead and trading on 2021 profit estimates, which could make prices look modestly more reasonable if analyst forecasts prove accurate. Based on 2021 EPS estimates, the S&P 500 trades at a much more reasonable 19.8x, while the NASDAQ trades at what we still see as a somewhat “lofty” 28.9x. Bottom line: A lot of recovery-related optimism is already built into share prices, and while a low interest
rate environment warrants higher stock multiples, there is very, very little room for disappointment, in our view.

- **Earnings growth expectations in 2021 appear optimistic.** As hinted at above, analysts expect a near full recovery to 2019 S&P 500 EPS levels, in terms of dollar value, by year-end 2021. In Q1'21, analysts expect S&P 500 profits to grow by +12.0% y/y. However, in Q2, profits are expected to surge nearly +66% higher y/y, given the potential trough in the current earnings recession in the previous quarter. Again, earnings expectations build in continued growth momentum each quarter, with some aggressive assumptions next year. If reopening trends stay on track, profit estimates could prove reasonable. But a slower than anticipated recovery this year leaves earnings estimates for next year vulnerable to the downside. Hence, stock prices could start to reflect that negativity in the back half of the year.

- **Although recovering, economic activity remains very weak and could still underperform expectations materially in the second-half depending on virus-related developments.** While we said yesterday, the market cares more about the trend in data, absolute levels in several economic metrics remain poor. If the U.S. cannot find a way to stem the spread of the virus and keep economic activity trending higher, stock prices may react negatively at some point. Wider lockdowns, delayed school openings, and a reduction in mobility trends could sow the seeds for a tougher-than-anticipated economic ride in the fall.

- **Unemployment is high and should remain elevated through year-end.** Will employers have to lay off more workers in the fall due to still anemic demand, coronavirus fears, and state restrictions on mobility and business? Or will employment trends continue to improve through year-end as an economic recovery takes hold? Much depends on the arch of the virus over the coming months. Consumers represent nearly 70% of economic activity, and their employment prospects play a material role in their attitude to spend.

- **The shape of direct federal stimulus to individuals remains uncertain.** We believe Congress and the White House will likely agree on the fifth round of coronavirus relief before the August recess. However, stimulus to consumers and workers who have been displaced by the pandemic is likely to see reduced benefits compared to previous rounds. We would bucket this as a low risk, but federal aid packages have kept Americans displaced by the pandemic near whole, and even small gaps in their ability to spend at current levels could be a risk for asset prices over time.

- **Election volatility could accelerate as we move into the fall.** As we noted in our Committee Perspectives: U.S. Election Guide, market volatility tends to rise in the fall in both election and non-election years. However, returns in the months leading up to a presidential election generally see lower equity returns compared to non-election years. With that said, history has also shown implied volatility for the S&P 500 tends to rise 60 days leading up to and peaking on election day, before falling back toward normal levels. The caveat? Nothing about this year has proved normal.

- **While the odds of a "blue wave" has been rising, the likelihood of more regulation and higher taxes over time, increases odds of further political strife.** Former Vice President Joe Biden currently enjoys a comfortable lead in most national polls over President Donald J. Trump. But there are still over three months to election day, voter opinions can quickly change and polls are certainly fallible. If Biden captures the White House and Democrats gain control in the Senate while maintaining a majority in the House, we would expect Democrats to focus on a few central themes. PredictIt betting odds suggest a 35% chance Democrats take control of Congress and the White House, while BCA Research suggests odds are near 50% at present. Democrats focus on re-establishing key provisions of the Affordable Care Act, imposing price caps on Big Pharma, and raising the corporate tax rate to 28% from 21%. Fiscal spending initiatives on infrastructure, education, and alternative energy sources could also be key Democratic priorities. A President Biden could also roll back de-regulation efforts in the banking and energy sectors, while potentially focusing a critical eye on tech regulation. While it currently seems unlikely that Mr. Biden would materially soften the U.S. stance relative to China, he would likely endeavor to improve global trade tensions. Meanwhile, Republican control or a divided government outcome with President Trump winning a second term may see further pushes into corporate tax reform, making permanent the personal tax rates in the Tax Cuts and Jobs Act, maintaining heavy pressure on China on several fronts, and likely maintaining a more adversarial stance on global trade. We expect markets to start grappling with these issues in the fall.

- With all those risks outlined, there remain reasons to be positive. Massive stimulus efforts, the promise of low interest rates, record levels of sidelined cash, and still positive secular trends across economically significant sectors help to brighten the picture.

- Additionally, our view is COVID-19 dynamics are temporary. Over time, the world will find a way to muddle through, and eventually, the globe will look more like it once did. Patience, discipline, and a smart investment strategy should carry investors to the other side, and once the risks above morph into other issues that dominate the day.
Asia-Pacific: Asian equities finished mostly higher on Friday. Per the Financial Times, the White House is considering placing TikTok’s parent ByteDance on the U.S. Commerce Department’s entity list. Doing so would effectively ban Americans from using the video app. For months, concerns that China could obtain personal data via the social media app has raised eyebrows in Washington. President Trump has indicated he is looking at a TikTok ban in retaliation for the way Beijing handled the coronavirus outbreak. With that said, the administration is also looking at ways that could allow U.S. citizens to use the app but with protections that prevent China from accessing the data.

Europe: Markets across the region are trading mixed at midday. The European Union (EU) will hold its first in-person summit today in Brussels and since February. EU leaders will further discuss its landmark $855 billion recovery fund designed as EU-issued debt and provided as grants to countries most in need, according to Bloomberg. German Chancellor Angela Merkel said she expects "very, very difficult negotiations." According to some EU leaders, it could take until the end of the month for a deal to be signed.

U.S.: Equity futures are pointing to a flat-to-higher open. Here’s a quick news rundown to start your morning:

- **Daily coronavirus cases surge to a daily record on Thursday.** Yesterday, U.S. coronavirus cases rose over 77,000, surpassing the previous single-day record of 69,070 cases reported last Friday. In June, virus cases were growing by an average of 28,000 a day. Ten states, including Florida, broke single-day death totals on Thursday, according to FactSet. According to the Washington Post, citing an unpublished White House report by the Coronavirus Task Force on July 14th, at least eighteen states should implement stricter public health orders to fight the pandemic.

- **Despite the surge in the virus, stocks are up in July.** Month-to-date, the S&P 500 Index is higher by +3.7% on a price basis, while the NASDAQ Composite is higher by +4.1%. Materials (+7.6%) and Communication Services (+6.4%) are leading the S&P 500 higher in July, while Real Estate (down 0.9%) and Energy (lower by 1.7%) are weighing on the benchmark. On a price basis, Energy, Financials, Industrials, and Real Estate are all still down by double-digits this year.
Before The Bell
July 17, 2020

### WORLD CAPITAL MARKETS

7/17/2020 As of: 8:30 AM ET

#### S&P 500 Sectors % chg. % YTD Value

<table>
<thead>
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<th>Sector</th>
<th>% chg.</th>
<th>% YTD</th>
<th>Value</th>
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</thead>
<tbody>
<tr>
<td>Consumer Discretionary</td>
<td>-0.27%</td>
<td>13.74%</td>
<td>1,115.2</td>
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<tr>
<td>Consumer Staples</td>
<td>0.22%</td>
<td>-1.32%</td>
<td>628.8</td>
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<tr>
<td>Energy</td>
<td>-0.51%</td>
<td>-36.42%</td>
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<td>Financials</td>
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<td>Health Care</td>
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<td>Industrials</td>
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<td>Materials</td>
<td>0.56%</td>
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<td>Real Estate</td>
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<td>Technology</td>
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<tr>
<td>Utilities</td>
<td>1.32%</td>
<td>-7.30%</td>
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<tr>
<td>Communication Services</td>
<td>0.30%</td>
<td>6.32%</td>
<td>191.4</td>
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<td>Foreign Exchange</td>
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<tr>
<td>Euro (€/$)</td>
<td>0.35%</td>
<td>1.88%</td>
<td>1.14</td>
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<tr>
<td>British Pound (£/$)</td>
<td>-0.21%</td>
<td>-5.51%</td>
<td>1.25</td>
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<tr>
<td>Japanese Yen (¥/$)</td>
<td>0.06%</td>
<td>1.31%</td>
<td>107.21</td>
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<tr>
<td>Australian Dollar (AU$/£)</td>
<td>0.14%</td>
<td>-0.57%</td>
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<td>Chinese Shanghai Bond Fund</td>
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<td>European Foreign Bond Fund</td>
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<td>Japanese Yen (¥/$)</td>
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#### Equity Income Indices % chg. % YTD Value

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<td>CAC 40 (France)</td>
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<td>FTSE MIB (Italy)</td>
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<td>13.24%</td>
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<tr>
<td>IBEX 35 (Spain)</td>
<td>-0.43%</td>
<td>-20.23%</td>
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<tr>
<td>MOEX Index (Russia)</td>
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<td>-5.51%</td>
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<tr>
<td>Global Dividend Index</td>
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<td>6.32%</td>
</tr>
<tr>
<td>Global Dividend Index (Ex-US)</td>
<td>-0.22%</td>
<td>-11.13%</td>
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</tbody>
</table>

#### Global % chg. % YTD Value

- **Americas** % chg. % YTD Value
  - United States: 56.0% Overweight
  - Canada: 27.3% Equalweight
  - United Kingdom: 3.9% Underweight
  - Europe ex U.K.: 13.6% Underweight
- **Asia/Pacific** % chg. % YTD Value
  - Austra...
ECONOMIC NEWS OUT TODAY:


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<tr>
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<th>Period</th>
<th>Release</th>
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<td>Housing Starts (Annualized)</td>
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<td>1011k</td>
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<td>+8.2%</td>
<td>+8.2%</td>
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<tr>
<td>8:30 AM</td>
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<td>1216k</td>
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<td>8:30 AM</td>
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<td>Building Permits (MoM)</td>
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<td>+2.1%</td>
<td>+14.1%</td>
<td>+14.1%</td>
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<td>10:00 AM</td>
<td>Jul-P</td>
<td>U. of M. Consumer Sentiment</td>
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Economic Perspective:  Russell T. Price, CFA – Chief Economist

- **June new housing starts** came-in very close to expectations as reported by the Census Department this morning. The slight short-fall versus estimates was more than made-up by an upward revision to the data for May. The chart at right is sourced from FactSet and HAS been updated to reflect today’s release.

- New housing starts can be very volatile on a month-to-month basis, but June’s new starts were just 4% below year-ago levels as builders continue to report strong demand despite the current economic downturn. Single-family starts and multi-family starts (which typically accounts for about 30% of building activity and primarily reflective of apartment building construction) were both about 4% lower versus their year-ago levels.

- **Apparently, it’s good to be a homebuilder right now.** When the housing bubble burst amid the last recession, the U.S. Census Department reported a more than 50% drop in the number of homebuilders across the U.S. (from 2009 through 2012). From practically any angle, the period was the worst housing downturn in the U.S. since the 1930’s.

- That’s far from the case in the current downturn. Yesterday, the National Association of Homebuilders (NAHB) released its Housing Market Index for the month of July. The Index is essentially a measure of homebuilder confidence, with the headline Index generated via indications of potential buyer foot traffic, pending sales, and other measures.
• Remarkably, as we were exiting what was likely to be the worst quarterly downturn in U.S. economic history, the Index jumped 14 points to a level (72 versus the 60 expected via the Bloomberg consensus) just four points below its 20-year high of 76 as reached in December 2019, and six points below its all-time high of 78 as registered in December 1998.

• Indeed, despite the very difficult backdrop offered by the COVID-19 virus situation, conditions and developments in the housing industry are trending in homebuilder’s favor. Consumer incomes are relatively strong for those that have not lost employment, mortgage borrowing rates are at, or very close to, all-time lows (see chart below), and housing availability is very close to record lows. The “kicker” for builders has been the recent ‘work from home’ experiment. By almost all accounts, the work that traditionally fostered the migration of employees into city centers for office jobs, was shown to work very well on a remote basis. Suggesting millions of works could, should they so desire, work further out from the city where the cost of living (and housing) is typically much cheaper.

**FIXED INCOME NEWS & VIEWS: Brian M. Erickson, CFA, Fixed Income Research & Strategy**

Please see our Morning Research Notes report for today’s fixed income commentary. Fixed Income News & Views will return to this space on Monday.

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Matt Morgan – Sr. Manager
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**As of June 30, 2020**

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Investments in a narrowly focused sector may exhibit higher volatility than investments with broader objectives and is subject to market risk and economic risk.

**Income Risk:** We note that dividends are declared solely at the discretion of the companies’ boards of directors. Dividend cuts or eliminations will likely negatively impact underlying company valuations. Published dividend yields are calculated before fees and taxes. Dividends paid by foreign companies to ADR holders may be subject to withholding tax which could adversely affect the realized dividend yield. In certain circumstances, investors in ADR shares have the option to receive dividends in the form of cash payments, rights shares or ADR shares. Each form of dividend payment will have different tax consequences and therefore generate a different yield. In some instances, ADR holders are eligible to reclaim a portion of the withholding tax.

**International Investing** involves increased risk and volatility due to political and economic instability, currency fluctuations, and differences in financial reporting and accounting standards and oversight. Risks are particularly significant in emerging markets.

**Market Risk:** Equity markets in general could sustain significant volatility due to several factors. As we have seen recently, both economic and geopolitical issues could have a material impact on this model portfolio and the equity market as a whole.

**Quantitative Strategy Risk:** Stock selection and portfolio maintenance strategies based on quantitative analytics carry a unique set of risks. Quantitative strategies rely on comprehensive, accurate and thorough historical data. The Ameriprise Investment Research Group utilizes current and historical data provided by third-party data vendors. Material errors in database construction and maintenance could have an adverse effect on quantitative research and the resulting stock selection strategies.

**PRODUCT RISK DISCLOSURES**

Exchange Traded Funds (ETF) trade like stocks, are subject to investment risk and will fluctuate in market value.

For additional information on individual ETFs, see available third-party research which provides additional investment highlights. SEC filings may be viewed at sec.gov
All fixed income securities are subject to a series of risks which may include, but are not limited to: interest rate risk, call risk, refunding risk, default risk, inflation risk, liquidity risk and event risk. Please review these risks with your financial advisor to better understand how these risks may affect your investment choices. In general, bond prices rise when interest rates fall and vice versa. This effect is usually more pronounced for longer-term securities. This means you may lose money if you sell a bond prior to maturity as a result of interest rate or other market movement.

Any information relating to the income or capital gains tax treatment of financial instruments or strategies discussed herein is not intended to provide specific tax advice or to be used by anyone to provide tax advice. Investors are urged to seek tax advice based on their particular circumstances from an independent tax professional.

A real estate investment trust or REIT is a company that owns and operates income-producing real estate. In addition, some REITs participate in the financing of real estate. To qualify as a REIT, a company must: I) invest at least 75% of its total assets in real estate assets, II) generate at least 75% of its gross income from real property or interest, and III) pay at least 90% of its taxable income to shareholders in the form of distributions. A company that qualifies as a REIT is permitted to deduct the distributions paid to shareholders from its corporate taxes. Consequently, many REITs target to payout at least 100% of taxable income, resulting in virtually no corporate taxes.

An investment in a REIT is subject to many of the same risks as a direct investment in real estate including, but not limited to: illiquidity and valuation complexities, redemption restrictions, distribution and diversification limits, tax consequences, fees, defaults by borrowers or tenants, market saturation, balloon payments, refinancing, bankruptcy, decreases in market rates for rents and other economic, political, or regulatory occurrences affecting the real estate industry.

Ratings are provided by Moody’s Investors Services and Standard & Poor’s.

Non-Investment grade securities, commonly known as “high-yield” or “junk” bonds, are historically subject to greater risk of default, including the loss of principal and interest, than higher-rated bonds, which may result in greater price volatility than experienced with a higher-rated issue.

Securities offered through AFSI may not be suitable for all investors. Consult with your financial advisor for more information regarding the suitability of a particular investment.

For further information on fixed income securities please refer to FINRA’s Smart Bond Investing at FINRA.org, MSRB’s Electronic Municipal Market Access at emma.msrb.org, or Investing in Bonds at investinginbonds.com.

Alternative investments cover a broad range of strategies and structures designed to be low or non-correlated to traditional equity and fixed-income markets with a long-term expectation of illiquidity. Alternative investments involve substantial risks and are more volatile than traditional investments, making them more suitable for investors with an above-average tolerance for risk.

Growth securities, at times, may not perform as well as value securities or the stock market in general and may be out of favor with investors.

Value securities may be unprofitable if the market fails to recognize their intrinsic worth or the portfolio manager misgauged that worth.

DEFINITIONS OF TERMS
Agency - Agency bonds are issued by Government Sponsored Enterprises (GSE), but are NOT direct obligations of the U.S. government. Common GSE’s are the Federal Home Loan Mortgage Corp. (Freddie Mac) Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Bank (FHLB).

Beta: A measure of the risk arising from exposure to general market movements as opposed to company-specific factors. Betas in this report, unless otherwise noted, use the S&P 500 as the market benchmark and result from calculations over historic periods. A beta below 1.0, for example, can suggest the equity has tended to move with lower volatility than the broader market or, due to company-specific factors, has had higher volatility but generally low correlations with the overall market.

Corporate Bonds – Are debt instruments issued by a private corporation. Non-Investment grade securities, commonly known as “high-yield” or “junk” bonds, are historically subject to greater risk of default, including the loss of principal and interest, than higher-rated bonds, which may result in greater price volatility than experienced with a higher-rated issue.

Mortgage Backed Securities – Bonds are subject to prepayment risk. Yield and average lives shown consider prepayment assumptions that may not be met. Changes in payments may significantly affect yield and average life. Please contact your financial advisor for information on CMOs and how they react to different market conditions.

Municipal Bonds – Interest income may be subject to state and/or local income taxes and/or the alternative minimum tax (AMT). Municipal securities subject to AMT assume a “nontaxable” status for yield calculations. Certain municipal bond income may be subject to federal income tax and are identified as “taxable”. Gains on sales/redemptions of municipal bonds may be taxed as capital gains. If the bonds are insured, the insurance pertains to the timely payment of principal (at maturity) and interest by the insurer of the underlying securities and not to the price of the bond, which will fluctuate prior to maturity. The guarantees are backed by the claims-paying ability of the listed insurance company.

Treasury Securities – There is no guarantee as to the market value of these securities if they are sold prior to maturity or redemption.

Price/Book: A financial ratio used to compare a company’s market share price, as of a certain date, to its book value per
share. Book value relates to the accounting value of assets and liabilities in a company's balance sheet. It is generally not a direct reflection of future earnings prospects or hard to value intangibles, such as brand, that could help generate those earnings.

**Price/Earnings:** An equity valuation multiple calculated by dividing the market share price, as of a certain date, by earnings per share. Trailing P/E uses the share price divided by the past four-quarters' earnings per share. Forward P/E uses the share price as of a certain date divided by the consensus estimate of the future four-quarters' EPS.

**Price/Sales:** An equity valuation multiple calculated by dividing the market share price, as of a certain date, by the company's sales per share over the most recent year.

**INDEX DEFINITIONS**
An index is a statistical composite that is not managed. It is not possible to invest directly in an index.

Definitions of individual indices mentioned in this report are available on our website at ameriprise.com/legal/disclosures in the Additional Ameriprise research disclosures section, or through your Ameriprise financial advisor.

**DISCLAIMER SECTION**
Except for the historical information contained herein, certain matters in this report are forward-looking statements or projections that are dependent upon certain risks and uncertainties, including but not limited to, such factors and considerations as general market volatility, global economic and geopolitical impacts, fiscal and monetary policy, liquidity, the level of interest rates, historical sector performance relationships as they relate to the business and economic cycle, consumer preferences, foreign currency exchange rates, litigation risk, competitive positioning, the ability to successfully integrate acquisitions, the ability to develop and commercialize new products and services, legislative risks, the pricing environment for products and services, and compliance with various local, state, and federal health care laws. See latest third-party research reports and updates for risks pertaining to a particular security.

This summary is based upon financial information and statistical data obtained from sources deemed reliable, but in no way is warranted by Ameriprise Financial, Inc. as to accuracy or completeness. This is not a solicitation by Ameriprise Financial Services, LLC of any order to buy or sell securities. This summary is based exclusively on an analysis of general current market conditions, rather than the appropriateness of a specific proposed securities transaction. We will not advise you as to any change in figures or our views.

*Past performance is not a guarantee of future results.*

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