Before the Bell

Morning Market Brief

September 18, 2019

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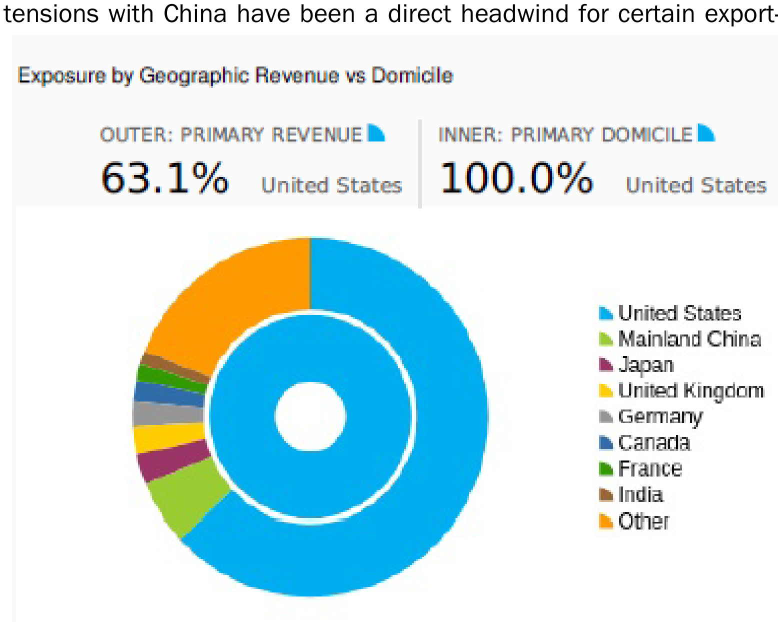
MORNING MARKET COMMENTARY: *Justin H. Burgin, Director of Equity Research*

In addition to comments related to overnight activity and pre-market conditions, each Wednesday we feature commentary from members of the Ameriprise Global Asset Allocation Committee discussing investment considerations targeting their specific area of expertise. The comments are intended to provide additional insight into Committee allocation recommendations.

- ***Quick Take:*** U.S. futures are slightly lower this morning following somewhat lackluster trading on Tuesday. Investor attention is focused on the expected 25 basis point cut later today (2 pm ET) following the FOMC meeting. Europe is trading broadly higher at mid-day, while markets in Asia finished modestly lower. Dislocations in the "repo" market is also in focus with the Fed injecting money into the banking system for the first time in over ten years. This is a technical issue and somewhat related to seasonal factors that we do not see as a reflection of deeper financial system problems. WTI oil is trading lower by ~1% ($58.10) following Tuesday's nearly 6% decline as Saudi officials were upbeat on bring production on line faster than expected. Treasury yields are modestly lower with the ten-year Treasury at 1.77%.

- **A Tale of Two Geographies…** As global trade tensions begin to work their way into corporate earnings estimates and results, we believe a closer analysis of domestic versus international exposure is warranted. While many believe the US/China trade war is "only" about goods imported from, and exported to, China, we believe the situation is more global. Thus far, trade tensions with China have been a direct headwind for certain export-driven sectors such as Technology, Materials, Consumer Staples, etc. However, we believe there are issues facing a wider range of industries regarding uncertainties such as a potential slowdown in global growth (i.e., China's impact on Asia and Europe), trade uncertainty (what country could be targeted next with tariffs?), and how quickly can supply chains be restructured. We believe these concerns have worked to dampen the near-term growth prospects for companies that generate most of their revenue outside the U.S. *The graph at right is sourced from FactSet.*



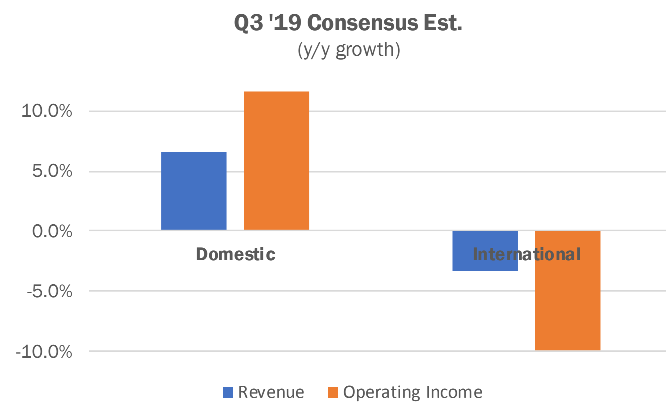
- We screened the Russell 1000 for companies that generated more than 50% of their revenue outside the US to determine if there were any differences

Notations:

- For further information on any of the topics mentioned, please contact your Financial Advisor.
- Unless specifically stated otherwise, comments contained in this document should not be construed as an investment opinion or recommendation of any securities mentioned. Charts depicted are from FactSet unless otherwise noted.

in estimated revenue and earnings growth rates for the current quarter. Note we excluded Financials, which typically do not provide comparable operating metrics to other sectors of the economy. In the graphic below, we show the primary domicile (inner circle is 100% as all companies are incorporated in the US) as well as revenue exposure by country for all companies in the Russell 1000 Index. Notice that the 63% of revenue generated in the US compares favorably to the 62% of revenue generated domestically for the S&P 500 Index. However, we used the Russell 1000 to gain a broader reach beyond just the 500 largest publicly-traded companies.

- After adjusting for certain one-time items, below we highlight companies in the Russell 1000 with greater than 50% of revenue coming from non-US markets (labeled International) and those with less than 50% of revenue from international markets (labeled domestic). As the chart shows, domestic-focused companies are expected to grow revenue 6.6% y/y in Q3'19, while operating income is expected to be up 11% y/y. However, companies with greater international exposure are expected to generate a 3.3% y/y decline in sales, and a 10% decline in operating income. We believe this stark contrast in growth expectations reflects the aforementioned headwinds of slowing global growth, trade ramifications beyond China, and overall declining business confidence and investment.



Source: FactSet, American Enterprise Investment Services, Inc.

	3 month Median Return
Domestic	3.5%
International	4.8%

Source: FactSet, American Enterprise Investment Services, Inc.

- But what does this 'bifurcation' of growth expectations mean from a price return perspective? To determine this, we looked at returns for companies in both the 'domestic' and 'international' buckets over the past 3 months (through September 16). At right, we show the median return for both the domestic and international segments. At first glance, this would not be the expected return composition if we operated under the thesis that earnings expectations drive stock prices. However, we believe there are a number of factors at play here. First, remember the Russell 1000 is a large and diverse index, and returns are calculated on a market capitalization basis, not on an average median return of the constituents as used in our analysis. Second, we excluded Financials (21% of the index) in our analysis to better get a representation of comparable metrics for key end markets. Additionally, the deterioration in the earnings expectation for companies with higher international exposure may not be completely reflected in today's stock prices and most recent (i.e., 3 month) returns. Finally, from a valuation perspective, we note domestic companies in our analysis have a forward 12 months median price-to-sales (P/S) multiple of 2.1x, which is considerably below the 2.8x median forward P/S multiple for the international group of companies. For reference, the larger Russell 1000 Index has a forward P/S multiple of 2.05.
- In sum, there is a significant gap in the expectation of forward revenue and earnings growth estimates for companies based on where they generate product or service revenue. To the extent that this gap narrows over the coming Q3'19 earnings season could result in excess volatility for individual companies in client portfolios. From an allocation recommendation perspective, the Global Asset Allocation Committee currently has slight overweight to Domestic Equities, with an accompanying underweight to International Equities. As a Committee, we continue to believe a well-diversified portfolio across the four major asset classes can help weather the volatility associated with navigating individual company end market exposure.

- ***Asia-Pacific:*** Markets in Asia closed mixed with China gaining ground and Hong Kong and Japan modestly lower. Trade still on the forefront as mid-level Chinese finance officials head to Washington in October. Rhetoric from Washington focusing on an agreement possibly before the 2020 election. Export data from Japan came in better than expected (i.e., fell less than expected) but is still down for nine consecutive months. Asia markets also set for a BOJ meeting on Thursday, with expectations for continued monetary easing—which would be to further move rates negative.

- ***Europe:*** European markets trading modestly higher mid-day with most of the attention on the Fed rate decision and developments on Brexit. Irish border discussions remain top priority between officials, but not much movement until after the Conservative Party conference wraps up on October 2nd. Spain headed for elections after the Socialist party failed to gain sufficient support. Economic data from the UK showed inflation moderating to 1.7%, which was below the 1.8% consensus, and the lowest level since late 2016. Note the BoE is scheduled to meet tomorrow.
- ***U.S.:*** S&P futures are down modestly but most of today's action should be centered around the FOMC rate decision and Fed Chair Powell's press conference later today. China trade tensions getting a positive bounce as talks hint toward a possible deal ahead of the 2020 election. Although limited, modestly negative data points on the corporate earnings front overnight from the transportation and technology sectors (see today's MRN). Short-term borrowing costs moved materially higher overnight, which have been attributed to multiple events including quarterly corporate tax payments and Treasury purchase settlements (per FactSet). Nevertheless, there is concern regarding overall liquidity in the overnight repo market and questions if bank reserves are too low (currently at the lowest level since 2011).

WORLD CAPITAL MARKETS

9/18/2019 **As of: 8:30 AM ET**

Americas	% chg.	% YTD	Value
S&P 500	0.26%	21.67%	3,005.7
Dow Jones	0.13%	18.35%	27,110.8
NASDAQ Composite	0.40%	24.36%	8,186.0
Russell 2000	-0.40%	18.17%	1,578.3
Brazil Bovespa	0.90%	19.04%	104,617
S&P/TSX Comp. (Canada)	0.50%	20.10%	16,834.8
Mexico IPC	1.42%	6.62%	43,448.9

Europe (Intra-day)	% chg.	%YTD	Value
DJSTOXX 50 (Europe)	0.15%	21.33%	3,526.5
FTSE 100 (U.K.)	0.07%	12.86%	7,325.6
DAX Index (Germany)	0.13%	17.33%	12,388.4
CAC 40 (France)	0.17%	22.39%	5,625.1
FTSE MIB (Italy)	0.68%	19.79%	21,950.4
IBEX 35 (Spain)	0.31%	8.83%	9,032.2
MOEX Index (Russia)	-0.37%	25.23%	2,810.4

Asia/Pacific (Last Night)	% chg.	%YTD	Value
Nikkei 225 (Japan)	-0.18%	11.11%	21,960.7
Hang Seng (Hong Kong)	-0.13%	6.93%	26,754.1
Korea Kospi 100	0.41%	1.90%	2,070.7
Singapore STI	-0.51%	6.88%	3,166.8
Shanghai Comp. (China)	0.25%	19.72%	2,985.7
Bombay Sensex (India)	0.23%	2.40%	36,563.9
S&P/ASX 200 (Australia)	-0.20%	23.72%	6,681.6

Global	% chg.	% YTD	Value
MSCI All-Country World Idx	0.14%	17.85%	526.3

Developed International	% chg.	%YTD	Value
MSCI EAFE	0.25%	14.18%	1,907.0

Emerging International	% chg.	%YTD	Value
MSCI Emerging Mkts	-0.79%	7.95%	1,018.9

Note: International market returns shown on a local currency basis. Equity index data is total return, inclusive of dividends.

S&P 500 Sectors	% chg.	% YTD	Value
Communication Services	0.29%	24.81%	171.5
Consumer Discretionary	0.60%	24.37%	962.2
Consumer Staples	0.55%	21.32%	620.1
Energy	-1.52%	10.46%	455.5
Financials	0.09%	20.65%	469.8
Health Care	0.14%	6.75%	1,054.8
Industrials	-0.04%	24.43%	664.9
Materials	0.71%	17.42%	365.9
Real Estate	1.40%	29.41%	243.7
Technology	0.35%	32.17%	1,422.3
Utilities	0.89%	22.15%	320.2

Equity Income Indices	% chg.	% YTD	Value
JPM Alerian MLP Index	0.06%	7.95%	240.5
FTSE NAREIT Comp. TR	1.10%	27.65%	21,184.3
DJ US Select Dividend	-0.09%	17.52%	2,186.4
DJ Global Select Dividend	0.06%	5.36%	217.9
S&P Div. Aristocrats	0.45%	20.10%	2,878.8

Bond Indices	% chg.	% YTD	Value
Barclays US Agg. Bond	0.12%	7.61%	2,202.4
Barclays HY Bond	0.01%	11.77%	2,134.0

Commodities

Futures & Spot (Intra-day)	% chg.	% YTD	Value
CRB Raw Industrials	-0.07%	-7.78%	443.0
NYMEX WTI Crude (p/bbl.)	-0.79%	29.64%	58.9
ICE Brent Crude (p/bbl.)	-0.54%	19.33%	64.2
NYMEX Nat Gas (mmBtu)	0.64%	-8.67%	2.7
Spot Gold (troy oz.)	0.07%	17.14%	1,502.4
Spot Silver (troy oz.)	-0.70%	15.45%	17.9
LME Copper (per ton)	-0.93%	-2.68%	5,789.5
LME Aluminum (per ton)	-0.06%	-5.49%	1,760.5
CBOT Corn (cents p/bushel)	-0.20%	-7.61%	367.3
CBOT Wheat (cents p/bushel)	0.36%	-10.41%	486.0

Foreign Exchange (Intra-day)	% chg.	% YTD	Value
Euro (€/$)	-0.17%	-3.60%	1.11
British Pound (£/$)	-0.33%	-2.31%	1.25
Japanese Yen ($/¥)	-0.05%	1.40%	108.18
Australian Dollar (A$/$)	-0.32%	-2.91%	0.68
Canadian Dollar ($/C$)	-0.09%	2.87%	1.33
Swiss Franc ($/CHF)	-0.21%	-1.32%	1.00

Data/Price Source: Bloomberg. Equity Index data is total return, inclusive of dividends, where applicable.

Ameriprise Global Asset Allocation Committee

U.S. Equity Sector - Tactical View

Sector	S&P 500 Index Weight	GAAC Tactical View	GAAC Tactical Overlay	GAAC Recommended Weight
1) Communication Services	10.2%	Underweight	- 2.0%	8.2%
2) Consumer Discretionary	10.2%	Equalweight	-	10.2%
3) Consumer Staples	7.3%	Equalweight	-	7.3%
4) Energy	5.0%	Equalweight	-	5.0%
5) Financials	12.9%	Underweight	- 2.0%	10.9%
6) Health Care	14.3%	Overweight	+2.0%	16.3%
7) Industrials	9.3%	Equalweight	-	9.3%
8) Information Technology	21.6%	Overweight	+2.0%	23.6%
9) Materials	2.7%	Equalweight	-	2.7%
10) Real Estate	3.1%	Overweight	+1.0%	4.1%
11) Utilities	3.4%	Underweight	- 1.0%	2.4%

Index weighting represents relative weightings based on the regional market capitalization balance of the MSCI All-Country World Index; may not add due to rounding. The GAAC Tactical Overlay, as well as Recommended Tactical Weights, is derived from the Ameriprise Global Asset Allocation Committee (GAAC).Views are expressed relative to the Index and are provided to represent investment conviction in each region. Tactical Allocations are designed to augment Index returns over a 6-12 month time horizon. Index weights as of 6/21/19. Numbers may not add due to rounding.

Ameriprise Global Asset Allocation Committee

Global Equity Region - Tactical View

	Region	MSCI All-Country World Index Weight	GAAC Tactical View	GAAC Tactical Overlay	GAAC Recommended Weight		Region	MSCI All-Country World Index Weight	GAAC Tactical View	GAAC Tactical Overlay	GAAC Recommended Weight
1)	United States	55.5%	Overweight	+4.3%	59.8%	5)	Latin America	1.5%	Equalweight	-	1.5%
2)	Canada	3.0%	Equalweight	-	3.0%	6)	Asia-Pacific ex Japan	12.2%	Equalweight	-	12.2%
3)	United Kingdom	5.0%	Underweight	- 1.0%	4.0%	7)	Japan	7.0%	Underweight	- 1.0%	6.0%
4)	Europe ex U.K.	14.5%	Underweight	- 1.0%	13.5%	8)	Middle East / Africa	1.3%	Underweight	- 1.3%	-

Index weighting represents relative weightings based on the regional market capitalization balance of the MSCI All-Country World Index; may not add due to rounding. The GAAC Tactical Overlay, as well as Recommended Tactical Weights, is derived from the Ameriprise Global Asset Allocation Committee (GAAC).Views are expressed relative to the Index and are provided to represent investment conviction in each region. Tactical Allocations are designed to augment Index returns over a 6-12 month time horizon. Index weights as of 6/21/19. Numbers may not add due to rounding.

BY THE NUMBERS: ECONOMIC ACTUALS AND FORECAST:

Current Projections:

	Actual 2014	Actual 2015	Actual 2016	Actual 2017	Actual 2018	Est. 2019	Est. 2020	Quarterly: Actual Q1-2019	Actual Q2-2019	Est. Q3-2019	Est. Q4-2019
Real GDP (YOY)	2.5%	2.9%	1.6%	2.4%	2.9%	2.2%	2.1%	3.1%	2.0%	1.9%	2.2%
Unemployment Rate	5.6%	5.0%	4.7%	4.1%	3.9%	3.6%	3.5%	3.8%	3.7%	3.6%	3.6%
CPI (YoY)	1.6%	0.1%	1.3%	2.1%	2.4%	1.8%	2.1%	1.6%	1.8%	1.9%	2.0%
Core PCE (YoY)	1.6%	1.3%	1.7%	1.6%	1.9%	1.8%	1.9%	1.6%	1.5%	1.7%	1.8%

Sources: Historical data via FactSet. Estimates (Est.) via American Enterprise Investment Services, Inc.

YoY = Year-over-year, Unemployment numbers are period ending. GDP: Gross Domestic Product; CPI: Consumer Price Index

PCE: Personal Consumption Expenditures Price Index. Core excludes food and energy

Last Updated: September 6, 2019

ECONOMIC NEWS OUT TODAY:

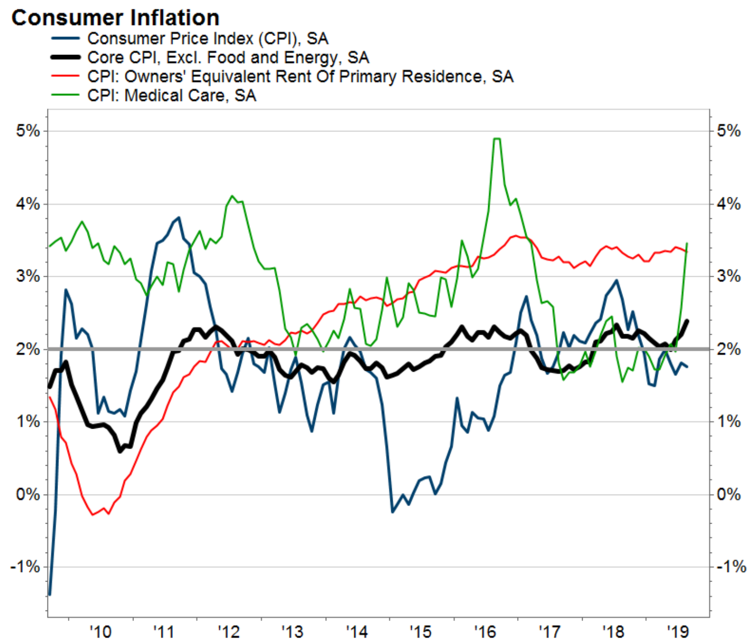
Economic Releases for Wednesday, September 18, 2019. All times Eastern. Consensus estimates via Bloomberg.

Time	Period	Release	Consensus Est.	Actual	Prior	Revised to
8:30 AM	AUG	Housing Starts (annualized)	1250k	**1364k**	1191k	1215k
8:30 AM	AUG	Housing Starts (MoM)	+0.2%	**+12.3%**	-4.0%	-1.5%
8:30 AM	AUG	Building Permits (annualized)	1270k	**1419k**	1336k	1317k
8:30 AM	AUG	Building Permits (MoM)	+3.1%	**+7.7%**	+8.4%	+6.9%
2:00 PM	NA	Fed Rate Decision (Upper Bound)	+2.00%		+2.25%	
2:00 PM	NA	Fed Rate Decision (Lower Bound)	+1.75%		+2.00%	

Economic Perspective: ***Russell T. Price, CFA – Chief Economist***

- The Commerce Department's report on monthly **new housing starts** is one of the most volatile reports we see each month. As such, it also experiences significant revisions in the course of the months that follow. With that said, today's report on new housing starts for the month of August showed a MUCH stronger than expected number while the numbers for July were also revised higher. All else remaining equal, the numbers should increase real GDP estimates for Q3 slightly higher – by a tenth or two relative to our current +1.9%.
- As is often the case, most of the upside surprise in today's report came from the "multi-family" category. This category is dominated by apartments, thus the start of a major project or large building can have a material influence on the data from month-to-month (especially since its annualized).
- On a year-over-year basis, total housing starts were up 12.3% in August. Single-family starts (at 919k on an annualized basis) were up 4.4% yr/yr while multi-family was up 14.1%.
- **Will rising core inflation pressures cause the Fed to hesitate?** Fed officials will release their monetary policy decision at 2 PM ET today (followed by a press conference with Chair Powell at 2:30). Officials are very widely expected to cut their fed funds target range by ¼ percent. As was the case when they made a ¼ point cut in late July, a cursory examination of the economic landscape does not seem to warrant the need for stimulus.

- Regardless, we believe it is the right thing to do. We believe a 25-basis point cut today would be supportive of economic conditions, but rate cuts are not really in a position to be particularly stimulative right now due to weak consumer demand for borrowing, and the fact that business investment spending has moved to the sidelines amid trade uncertainty.
- A rate cut would also come in the face of a recent strong uptick in core inflation. Last week's CPI report for August showed core inflation (CPI minus the volatile food & energy segments) as having grown at a relatively "hot" pace of 0.3% for a third straight month. As seen in the chart below, this left the year-over-year rate at +2.4%, an 11-year high.
- The Fed's preferred measure of inflation, the Core Personal Consumption Expenditure price index has lagged the move in Core CPI as it usually does. The relationship between the two measures strongly suggest that it will catch-up over time (note that the Core PCE for August will not be reported until the end of the month).
- A look at the underlying details of the CPI report, however, are less worrisome. Rather than being a broad-based rise in consumer prices, the majority of upward pressure has come from housing, with a somewhat more modest upward contribution from medical care costs. **In fact, total CPI minus just the "shelter" component of the Index was flat in August with a year-over-year rate of just +1.0%**.
- As we've mentioned previously, housing costs are measured in somewhat of an unusual way in the CPI. Since most people own their home either outright or with a fixed rate mortgage, they see no change cost from month to month. As such, housing costs are measured as a function of market-based rents – something the Labor Department refers to as "Owner's Equivalent Rent" (OER). Given relatively tight availability of apartments in many markets around the country over recent years, these prices have risen at a solid pace (note red line in chart at right as sourced from FactSet). However, builders are catching-up with demand in many areas and rental rates finally seem to be easing somewhat. Nevertheless, OER represents a massive 24% of the headline CPI and 30% of the Core number. The chart at right is sourced from FactSet.



- The jump in medical care costs, meanwhile was largely related to a repricing of health insurance, a factor that is common at this time of year. Note that in the year-ago period medical care costs dropped notably amid a slower pace of insurance rate hikes. The recent change in Obama Care whereby individuals are not mandated to have coverage has resulted in younger healthier people dropping coverage, thus lifting the costs needed to be borne by those remaining in the program.

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

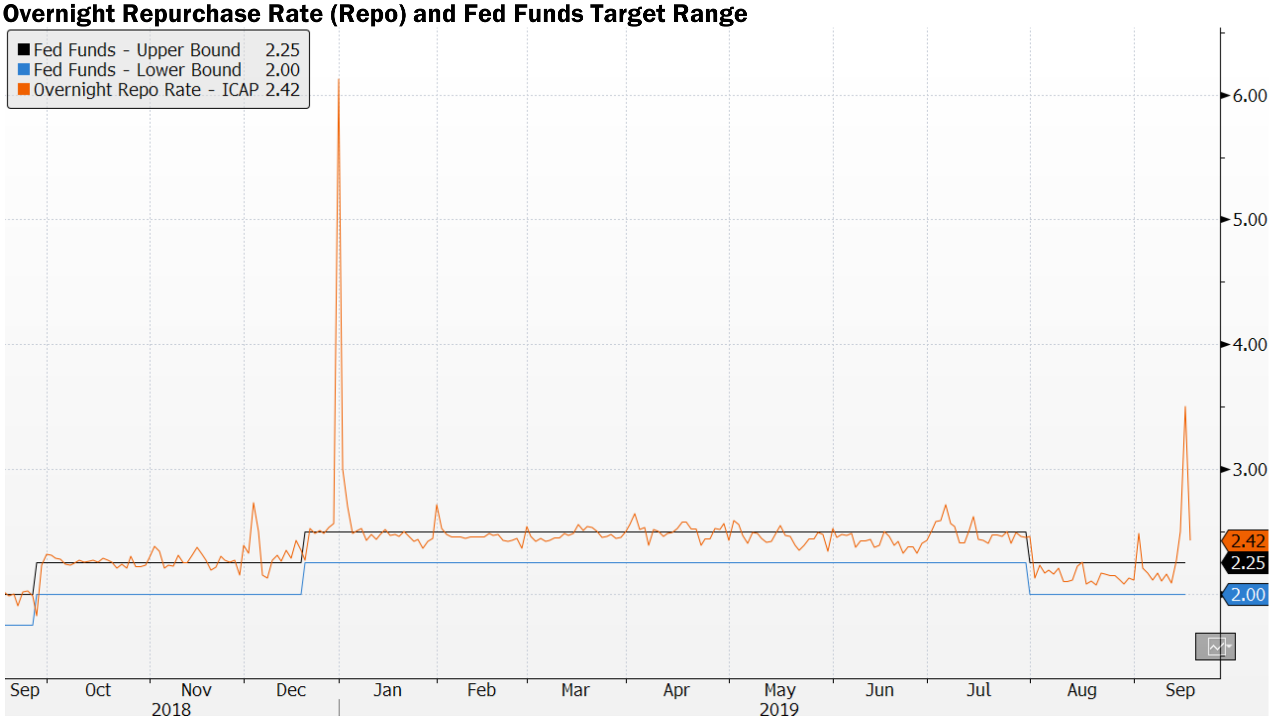
Treasury Markets This Morning

- Treasury markets rallied this morning ahead of the Fed's latest policy announcement this afternoon. Ten-year Treasury yields dipped three basis points to 1.77% this morning ahead of the open to U.S. equity markets.
- This afternoon the Fed releases its latest policy statement and an updated summary of economic projections. The follow-on press conference likely offers context on how the Fed views its latest move in rates in the context of economic conditions and the outstanding risks that prevail.
- The Bank of England and the Bank of Japan are scheduled to wrap up their latest policy meetings tomorrow, expanding the scope of developed market central bank presence here in September.

A Second Day of Fed Intervention in Repo Markets

- The Fed stepped in once again into overnight repo markets to provide sufficient funding for rates to remain close to the upper bound of the Fed's current 2.00%-2.25% target range for fed funds. The overnight repurchase rate
- Investment firms and banks rely on the ability to use Treasury securities as collateral to obtain funding. For example, a bank, which naturally holds a large portfolio of Treasuries, the bank can borrow temporarily using repo (maybe just overnight) to meet the temporary jump in cash outflows. That is essentially what happened Monday. Banks and dealers settled $50 billion of Treasuries auctioned last week after already funding $127 billion of new investment grade corporate issuance this month, which left companies looking to repurchase market for short term funding. We have seen the intermittent blips where demand for repo funding eclipses lending capacity, typically at year-end, when companies look to prep balance sheets for annual reports. The chart below shows the significant jump at year-end 2018 and again this week.
- The decrease in the Fed's balance sheet over the past year may weave its way into the repo discussion, as could the crowding out effect of heavy Treasury supply. The Fed's reduction of Treasuries and mortgage backed securities on its balance sheet served to withdraw liquidity from the banking system as the market exchanged cash liquidity for an additional $700 billion of bonds; unwinding a portion of holdings acquired through multiple quantitative easing (QE) programs. The balance sheet peaked at $4.2 trillion in 2017 and stands at $3.5 trillion after the Fed ended its balance sheet reduction program last month. While the Fed may start growing its balance sheet once again, the pace likely tracks with the supply of money rather than a temporary stimulus program like QE. The Fed may announce this as early as today.

Overnight Repurchase Rate (Repo) and Fed Funds Target Range



Source: Bloomberg L.P.

- We also note that Treasury issuance, both net new issuance of Treasuries to fund deficit spending and the added T-bill issuance to rebuild the U.S. Treasury's liquidity after the resolution to the debt ceiling limit in July removed liquidity from markets as well. The supply of Treasuries competes with the supply of corporate bonds for available investment dollars. The recent wave of corporate bonds ultimately sent spreads wider and may have faded more quickly than in the past as the marginal liquidity in the market dried up. Given the pace and scale of Treasury issuance, corporations may find markets less receptive at times given the need to absorb Treasury supply.
- The repo market liquidity pinch was largely foreseeable and avoidable. The Fed's balance sheet and the new supply of Treasuries were known in advance; as was the quarterly tax payment made by corporations that prompted balances of money market funds to dip; constraining the primary source of repo funding. With this latest lesson in hand, we anticipate that the Fed sets up an on-going backstop to support the repo markets through peak periods of demand or of constrained funding supply.

- **<u>Our View:</u> We expect Fed Chair Powell to touch on the dynamics underlying the recent spike in repo funding costs and to outline a strategy for how the Fed will provide on-going support to return stability to this key rate in the press conference this afternoon. A simple solution would be a Fed facility to provide repo funding on an as needed basis to ensure markets remain fluid and that repo remains a reliable bound as the Fed manages fed funds within the target range. When the measure determining the upper bound pops out of line, that could also impact the ability for the Fed to implement policy. We believe the Fed likely nips funding concerns in the bud, to prevent repo friction from undermining financial market functioning.**
- **<u>Bond investor implications:</u> The Fed uses the repo funding rate as a tool to manage the fed funds target range. This core borrowing rate is at the center of funding markets. Companies assume they can get funding secured by a Treasury bond to manage liquidity. When demand for borrowing exceeds the supply of lending the rate rises. The settlement of a massive wave of corporate new issuance at the same time the U.S. Treasury settled note auctions last week resulted in the squeeze. Volatility in the repo funding markets can severely undermine bond market sentiment, as companies may take more conservative approaches to funding to avoid paying elevated rates. This may preclude them from buying at times when they formerly relied on repo funding to support purchases.**
- **While banks and dealers may become more focused on the timing of cash payments, we do not see this as a 2008-redo in any way. Markets function differently today and are driven by different mechanics. Plus, banks generally maintain healthy balance sheets and are reasonably levered in our view.**

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FIXED INCOME RESEARCH & STRATEGY

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As of June 30, 2019

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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 a 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
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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.

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.

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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.

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