



# Equities and Bonds Slid Into the New Year on Icy Patch

## Monthly Snapshot

- **Global equities tumbled into the New Year with the largest one-month decline since March 2020. Value-oriented stocks fell by considerably less than their growth-oriented counterparts.**
- **Government-bond rates rose across maturities in major developed markets; most fixed-income asset classes suffered losses.**
- **Although there have been pockets of speculative behavior in some areas of the financial world, we do not see the sort of widespread frenzy that would point to a serious equity correction in 2022.**

Global equities tumbled into the New Year with the largest one-month decline since March 2020. Volatility increased slightly during the first half of January, then marched higher before jumping erratically at the end of the month amid dramatic intraday price swings.

The specter of rising rates in the face of persistently high inflation, coupled with geopolitical uncertainty driven by Russia's military encirclement of Ukraine, were widely cited as sources of investor consternation.

Hong Kong and U.K. equities stood apart from other major markets as both registered positive performance in January. In emerging markets, huge gains in Latin America more than offset plummeting stocks in China; this resulted in a considerably smaller decline in emerging-market equities compared to the selloff in developed-market stocks. Japanese equities fell by less than the U.S., while Europe lagged both.

Value-oriented stocks fell by considerably less than their growth-oriented counterparts.

Government-bond rates rose across maturities in the U.S., U.K. and eurozone. Shorter-term rates were the largest gainers in the U.S., while intermediate-to-long-term rates increased by more than other maturities within the U.K. and eurozone.

Local-currency emerging-market debt was essentially flat in January, halting a string of recent negative performance; the rest of the fixed-income universe was negative. Investment-grade corporates had the steepest decline for the month.

Commodity prices continued a seemingly relentless climb. West-Texas Intermediate and Brent crude oil prices were up a respective 17.2% and 14.8% in January, while the Bloomberg Commodity Index advanced by 8.8%.

With a growing Russian military presence at Ukraine's border, Nord Stream 2—Russia's not-yet-operational (although completed) natural gas pipeline that runs along the Baltic seabed directly to Germany—became the subject of renewed Trans-Atlantic interest in late January given the leverage it would provide the Kremlin over Europe. U.S. senators introduced a bill directed at preventing the pipeline from being put into service. German Chancellor Olaf Scholz has been scheduled to visit President Joe Biden at the White House in early February.

## Key Measures: January 2022

EQUITY	
Dow Jones Industrial Average	-3.24% ↓
S&P 500 Index	-5.17% ↓
NASDAQ Composite Index	-8.96% ↓
MSCI ACWI Index (Net)	-4.91% ↓
BOND	
Bloomberg Global Aggregate Index	-2.05% ↓
VOLATILITY	
Chicago Board Options Exchange Volatility Index	27.66 ↑
PRIOR Month: 17.22	
OIL	
WTI Cushing crude oil prices	\$88.15 ↑
PRIOR Month: \$75.21	
CURRENCIES	
Sterling vs. U.S. dollar	\$1.34 ↓
Euro vs. U.S. dollar	\$1.12 ↓
U.S. dollar vs. yen	¥115.15 ↑

Sources: Bloomberg, FactSet, Lipper

U.S. deliveries of liquefied natural gas to Europe via cargo ships accounted for nearly half of the Continent's record imports in January—helping to restock depleted reserves as year-ago levels nearly tripled.

The U.S. deployed 2,000 troops to Germany and Poland, mobilized 1,000 troops to Romania, and ordered additional troops to stand by for deployment at the beginning of February, after having prepared an initial 8,500 troops to deploy in January.

Shortly after January's close, U.K. energy regulator The Office of Gas and Electricity Markets (Ofgem) announced that a cap on energy prices is set to increase by more than 50% this spring, effectively guaranteeing dramatically higher household energy bills. The U.K. Treasury reportedly intends to help counteract rising living costs via discounts on energy bills, accommodative loans to suppliers, and larger disbursements this year from a reserve established to help low-income households cover spikes in fuel costs each winter.

## Economic Data

### U.S.

- U.S. manufacturing growth remained healthy in January but continued to slow from the feverish pace that prevailed for most of 2021, reaching the lowest rate of expansion since late 2020.
- The expansion in U.S. services activity almost slowed to a halt in January after a long trend of healthy-to-red-hot levels extending back to summer 2020.
- New weekly U.S. jobless claims climbed, peaking at 286,000 in mid-to-late January, as receding seasonal employment and a cresting COVID-19 Omicron wave put upward pressure on joblessness.
- The broad U.S. economy grew at a 6.9% annualized rate during the fourth quarter (up from the third quarter's 2.3% pace) and a 5.7% rate for the 12-month period ending December.

### U.K.

- The expansion in U.K. manufacturing activity remained strong in January, generally maintaining the same rate since autumn.
- U.K. services growth continued at a healthy but subdued pace in January, in line with the prior month.
- The U.K. claimant count (which calculates the number of people claiming Jobseeker's Allowance) declined in December for the tenth straight month, by roughly 43,000, lowering the claimant share of the population from 4.8% to 4.7%.

## Eurozone

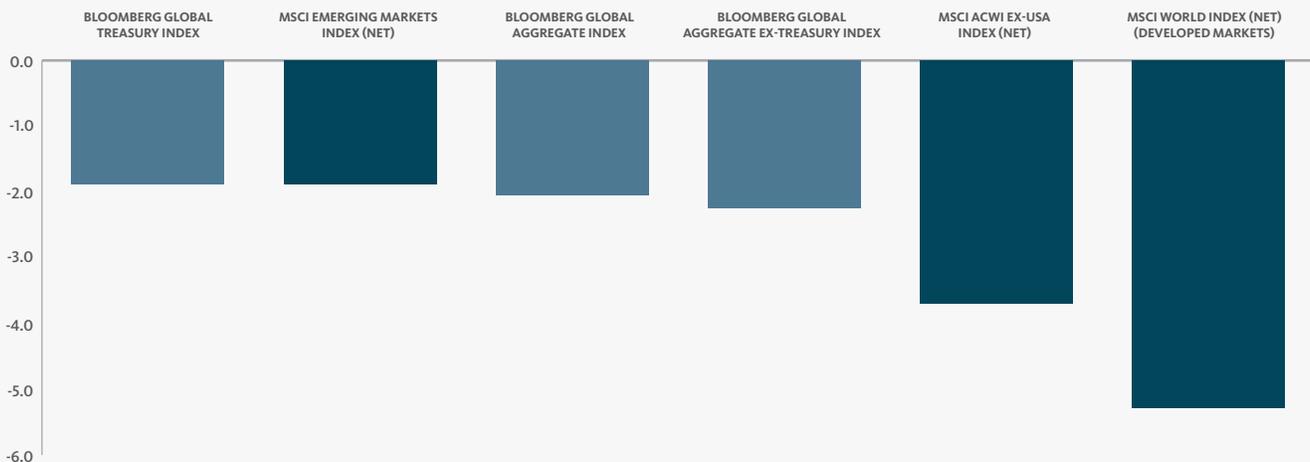
- Manufacturing activity in the eurozone sustained its sharp expansion in January, although at a softer rate than the surge that unfolded in the spring and summer of 2021.
- Growth in eurozone services activity remained modest during January after having returned to its slowing trend in December following a temporary burst of strength in November.
- The eurozone unemployment rate edged down by 0.1% to 7.0% in December, continuing a persistent decline that began in March 2021.
- Overall eurozone economic growth slowed to 0.3% in the fourth quarter from 2.2% in the third quarter, yet accelerated in the year over year to 4.6% from 3.9% in the one-year period ending September.

## Central Banks

- The Federal Open Market Committee (FOMC) met toward the end of January. In its post-meeting statement, the central bank affirmed its expectation that high inflation and a strong labor market will necessitate an increase in the federal-funds rate in the near future; Federal Reserve (Fed) Chair Jerome Powell echoed this in his press conference. The FOMC also confirmed a final \$30 billion round of new asset purchases will take place in February before it can consider increasing rates, and it released a statement following its January meeting outlining its principles for reducing the size of its balance sheet. Powell had referred to high inflation as a severe threat earlier in January during his Senate reconfirmation hearing.
- The Bank of England’s (BOE) Monetary Policy Committee (MPC) reconvened at the beginning of February for its first meeting since raising its bank rate in December 2021, and issued another increase—by 25 basis points (bps) to

## Major Index Performance in January 2022 (Percent Return)

■ FIXED INCOME ■ EQUITIES

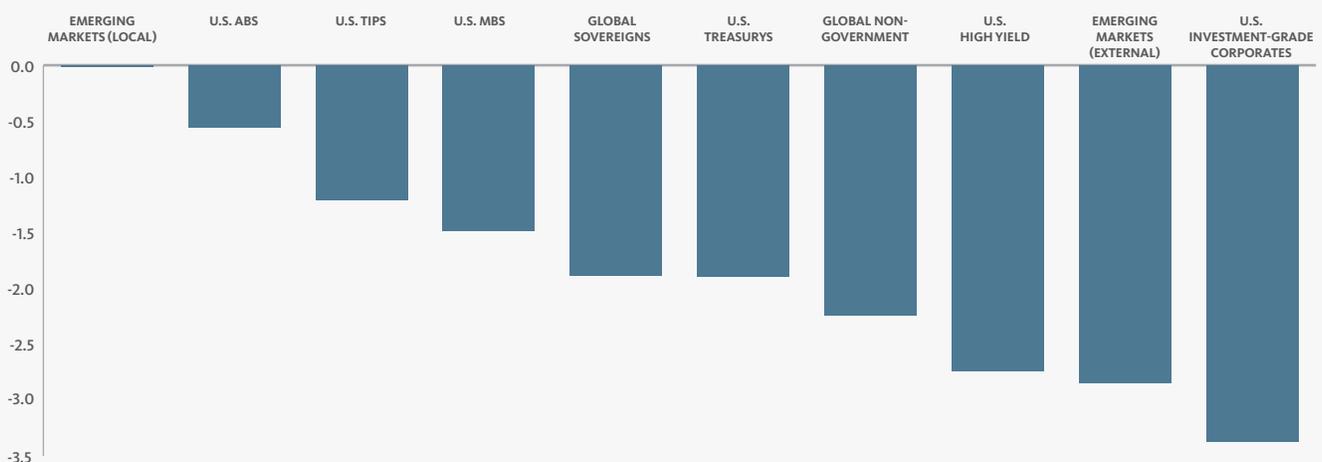


Sources: FactSet, Lipper

0.50%—for the first back-to-back rate hike in 18 years. A large minority of MPC members voted for a larger 50 bps increase to counteract high inflation. The central bank also said it intends to reduce the size of its balance sheet by ceasing to re-invest proceeds from its asset-purchase program.

- The European Central Bank (ECB) also held its inaugural meeting of 2022 at the beginning of February. It remained committed to the policy path it articulated in December—yet ECB President Christine Lagarde avoided affirming her recent expectation that a 2022 rate increase would be unlikely, and acknowledged that the widespread stress that inflation has caused will likely continue over the short term. She also said that asset purchases would need to conclude before rates can increase; this would necessitate a policy change as asset purchases are currently scheduled to continue on an indefinite basis once they decline in size over the course of 2022.
- The Bank of Japan (BOJ) was the first major central bank to hold a monetary policy meeting in the New Year, convening in mid-January. While the central bank’s policy orientation remained fixed—with the short-term interest rate at -0.1% and the 10-year government bond yield target near 0%—its expectations increased for higher inflation. The BOJ announced after its December meeting that it would revert purchases of corporate bonds and commercial paper to pre-pandemic levels beginning in April.
- The People’s Bank of China (PBOC) cut its one-year-loan prime rate by 10 bps to 3.7% in January after having made a smaller cut in December and reducing its reserve-requirement ratio (which dictates the amount of money banks are required to hold in reserves) in the same month.

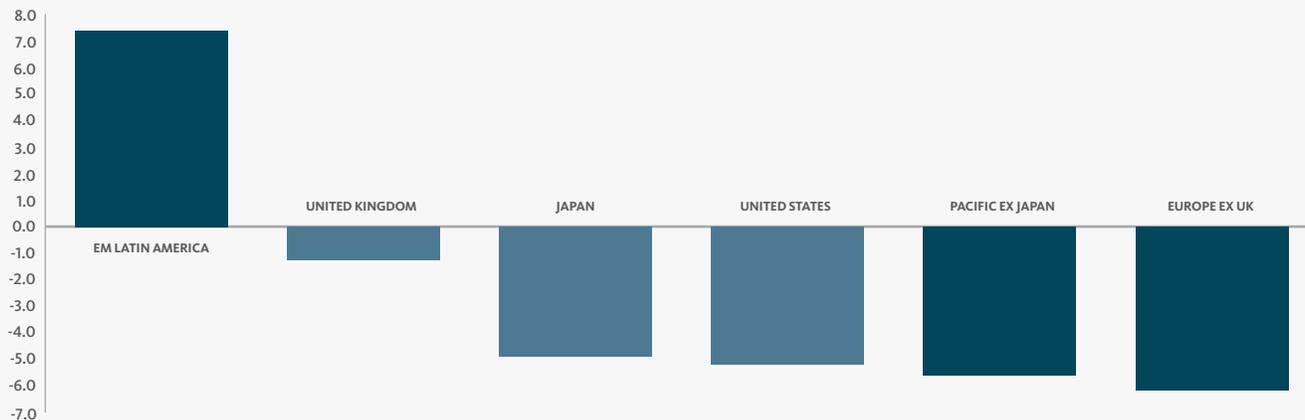
## Fixed-Income Performance in January 2022 (Percent Return)



Sources: FactSet, Lipper. See “Corresponding Indexes for Fixed-Income Performance Exhibit” in the Index Descriptions section for more information.

## Regional Equity Performance in January 2022 (Percent Return)

■ COUNTRIES ■ REGIONS



Sources: FactSet, Lipper. See “Corresponding Indexes for Regional Equity Performance Exhibit” in the Index Descriptions section for more information.

## SEI’s View

Although there have been pockets of speculative behavior in some areas of the financial world, we do not see the sort of widespread frenzy that would point to a serious equity correction in 2022. The economy would have to slow precipitously for reasons other than the temporary impact stemming from COVID-19 mobility restrictions. The trend in earnings would need to flat-line or turn negative.

We expect a gain in overall U.S. economic activity of around 4% in 2022—appreciably above the economy’s long-term growth potential of 2%. We also expect other countries to continue to post above-average growth as they recover from the past two years’ worth of lockdowns and shortages. With the major exception of China, which continues to pursue a zero-COVID-19 policy, most countries are unlikely to shut down their economies as fiercely or for as long as they did in 2020.

China’s performance in 2022 is one of the key unknowns that will influence global economic growth. Consensus expectations call for a soft landing of the Chinese economy, with gross domestic product (GDP) growing by about 5% in 2022 versus 8% in the past year.

The year ahead promises to be another one of extremely tight labor markets. We think more people will return to the workforce as COVID-19 fears fade, but there likely will still be a tremendous mismatch of demand and supply.

Currently, there are 11.8 million U.S. persons theoretically available to fill 10.9 million job openings—the smallest gap on record. Wage gains, unsurprisingly, have climbed at their fastest pace in decades over the past year. In the short term, we expect wages to continue their sharp climb as businesses bid for workers.

The U.K. also is experiencing a pronounced upswing in its labor-compensation trend. We think Brexit and the departure of foreign workers back to the Continent are aggravating the country’s labor shortage. The disparity in compensation trends among the richest industrialized nations also means that policy responses are likely to diverge.

Policy rates in emerging economies have already jumped. It remains to be seen whether this pre-emptive tightening of monetary policy will forestall a 2013-style taper tantrum as the Fed embarks on its own rate-tightening cycle.

Predicting a bad inflation outcome for 2022 isn't exactly much of a risk. Where we depart from the crowd on inflation is in the years beyond 2022. We are skeptical that the Fed will be sufficiently proactive as it struggles to balance full and inclusive employment against inflation pressures that are starting to look more entrenched. We believe this will be the central bank's biggest challenge in 2022 and beyond.

We also don't think the Fed's inflation and economic projections are internally consistent. Since it projects the economy to be even closer to full employment later into 2022 and beyond, we find it hard to understand why price pressures should ease so dramatically.

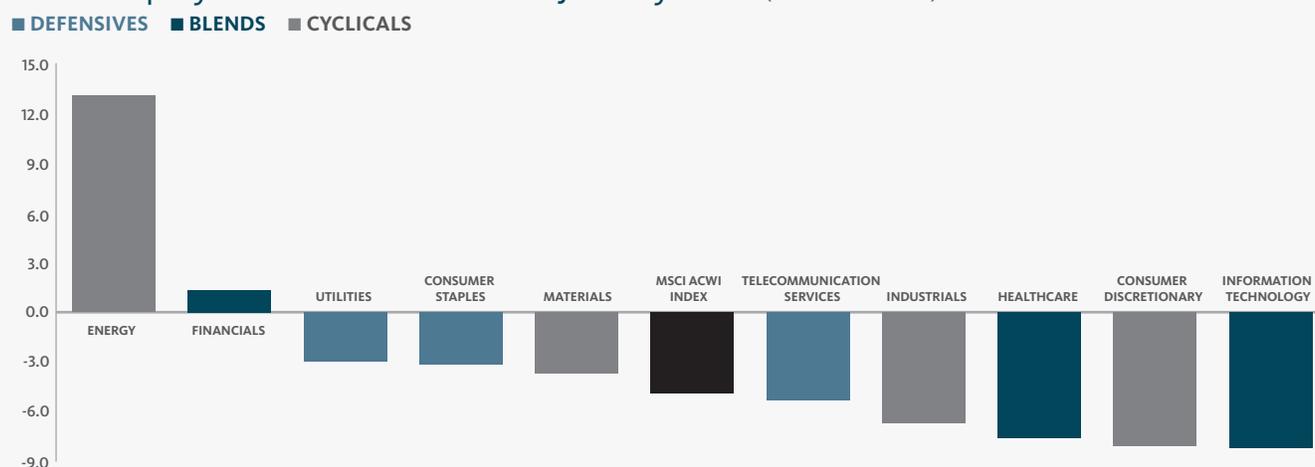
Even the central banks that are most likely to taper their asset purchases and raise policy rates in the months ahead (the Fed, the BOE and the Bank of Canada) will probably do so cautiously. By contrast, policy rates in emerging economies have already jumped.

It remains to be seen whether this pre-emptive tightening of monetary policy will forestall a 2013-style taper tantrum as the Fed embarks on its own rate-tightening cycle. Although emerging-market currencies have generally lost ground against the U.S. dollar during the past six months, the depreciation hasn't become a rout (with the exceptions of Turkey and the usual economic basket cases—Argentina and Pakistan). Still, the shift in Fed policy will probably represent a formidable headwind for emerging-market economies in 2022.

The People's Bank of China (PBOC) cut a key interest rate in December and then again in January, both by modest amounts. These cuts followed a reduction in reserve-requirement ratios aimed at increasing the liquidity available to the economy; it will take a while for any beneficial impact to be felt on China's domestic economy, and even longer for the world at large.

In addition to the start of a new monetary tightening cycle, some economists have expressed concern about the next "fiscal cliff" facing various countries, the U.S. in particular. While there will be a negative fiscal impulse in the sense that the extraordinary stimulus of the past two years will not be repeated, we argue that the impact should be less contractionary than feared.

## Global Equity Sector Performance in January 2022 (Percent Return)



Sources: FactSet, Lipper. MSCI ACWI Index Components (as defined by SEI).

Perhaps economists should be more concerned about the negative fiscal impulse in the U.K., Canada, Germany and Japan. They are all facing a potential fiscal tightening equivalent to 4% of GDP this year. By comparison, the International Monetary Fund predicts that the cyclically adjusted deficit in the U.S. will contract by less than 0.5% of GDP.

We remain optimistic that growth in the major economies will be buoyed by the strong position of households. In the U.S., household cash and bank deposits were still almost \$2.5 trillion above the pre-pandemic trend as at the end of September. This total is equivalent to almost 14% of disposable personal income. Excess savings in the U.K., meanwhile, have reached 10.6% of annual personal disposable income. Euro-area bank balances aren't quite as high, but still amount to 5% of after-tax income.

Investors always need to deal with uncertainty; we are focused on three main areas of geopolitical risk. We believe the most important flashpoint in terms of near-term probability and economic impact is the Russian build-up of troops on the Ukrainian border. An invasion of Ukraine could lead to a complete shut-off of gas imports from Russia to Western Europe, aggravating the existing energy shortage. It also could disrupt shipments of oil, which would have an impact across the globe.

Next is the ongoing tug-of-war for influence and military advantage between China and the U.S. The most worrisome flashpoint would be over Taiwan given its dominant position in advanced semiconductor manufacturing. An actual invasion is probably still years away, if it ever happens at all.

The third major area of concern is the Middle East and the negotiations with Iran over its nuclear development program. Two things are clear: Iran is now much closer to having a nuclear bomb, and Israel still will not tolerate such a major change in the region's balance of power. The risk of war may be low, but developments continue to head in a direction that could someday have catastrophic consequences.

International investors can be forgiven for being somewhat frustrated. Earnings growth in 2021 for developed- and emerging-market equities both exceeded the earnings gain for the U.S. As a consequence, the relative valuation of international markets versus the U.S. has become only more attractive in the past year.

The trajectory of S&P 500 earnings growth probably will slow in 2022, but a gain in the 8%-to-12% range seems consistent with our macroeconomic call for continued above-average growth and inflation.

In our view, the real anomaly in the financial markets is the ultra-low levels of interest rates in the face of higher inflation and above-average growth in much of the world. This may force central banks to adopt more aggressive interest-rate policies than they and market participants currently envision.

We have penciled in a rise of 50 to 75 basis points in 10-year U.S. Treasury bond yields for 2022. That gain should not derail the bull market in equities, but it could catalyze a shift away from the most highly valued, interest-rate-sensitive areas of the market into the broader grouping of stocks that have been neglected for the past several years.

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## Glossary of Financial Terms

**Asset-Backed Securities (ABS):** ABS are securities created from pools of loans or accounts receivable such as credit cards, auto loans and mortgage loans.

**Asset Purchase Programme (APP):** The ECB's APP is part of a package of non-standard monetary policy measures that also includes targeted longer-term refinancing operations, and which was initiated in mid-2014 to support the monetary policy transmission mechanism and provide the amount of policy accommodation needed to ensure price stability.

**Bear market:** A bear market refers to a market environment in which prices are generally falling (or are expected to fall) and investor confidence is low.

**Bubble:** A bubble occurs when excessive speculation leads to a drastic increase in asset prices, leaving them at risk to collapse.

**Bull market:** A bull market refers to a market environment in which prices are generally rising (or are expected to rise) and investor confidence is high.

**Commercial paper:** Commercial paper is a type of short-term loan that is not backed by collateral and does not tend to pay interest.

**Cyclical stocks:** Cyclical stocks or sectors are those whose performance is closely tied to the economic environment and business cycle. Managers with a pro-cyclical market view tend to favor stocks that are more sensitive to movements in the broad market and therefore tend to have more volatile performance.

**Delta variant:** The B.1.617.2 (delta) variant of the severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2), the virus that causes coronavirus disease 2019 (Covid-19), arose during the sharp surge in cases in India during spring 2021 and has now been detected across the globe, including notable increases in cases in the U.K. and U.S.

**Fiscal cliff:** A fiscal cliff refers to the reduction or withdrawal of government spending, an increase in taxation, or both.

**Fiscal policy:** Fiscal policy relates to decisions about government revenues and outlays, like taxation and economic stimulus.

**Fiscal stimulus:** Fiscal stimulus refers to government spending intended to provide economic support.

**Forward price-to-earnings (PE) ratio:** The forward PE ratio is equal to the market capitalization of a stock or index divided by forecasted earnings over the next 12 months. The higher the PE ratio, the more the market is willing to pay for each dollar of annual earnings.

**Gilt:** Gilt refers to a sovereign debt instrument issued by the U.K. government.

**Green lending:** Green lending refers to the Bank of Japan's effort to strengthen the lending market for environmentally-friendly projects.

**Hawk:** Hawk refers to a central bank policy advisor who has a negative view of inflation and its economic impact and thus tends to favor higher interest rates.

**Inflation-Protected Securities:** Inflation-protected securities are typically indexed to an inflationary gauge to protect investors from the decline in the purchasing power of their money. The principal value of an inflation-protected security typically rises as inflation rises, while the interest payment varies with the adjusted principal value of the bond. The principal amount is typically protected so that investors do not risk receiving less than the originally invested principal.

**International Monetary Fund:** The International Monetary Fund (IMF) is an international organization of 189 member countries that promotes global economic growth and financial stability, encourages international trade, and reduces poverty.

**Monetary policy:** Monetary policy relates to decisions by central banks to influence the amount of money and credit in the economy by managing the level of benchmark interest rates and the purchase or sale of securities. Central banks typically make policy decisions based on their mandates to target specific levels or ranges for inflation and employment.

**Mortgage-Backed Securities:** Mortgage-Backed Securities (MBS) are pools of mortgage loans packaged together and sold to the public. They are usually structured in tranches that vary by risk and expected return.

**NextGenerationEU:** NextGenerationEU is an economic recovery fund established by the EU and totaling more than €800 billion projected to be spent between 2021 and 2027. The centerpiece of the programme is a €723.8 billion facility for loans and grants to EU countries for investments.

**OPEC+:** OPEC+ combines OPEC—a permanent intergovernmental organization of 13 oil-exporting developing nations that coordinates and unifies the petroleum policies of its member countries—with Russia, a major oil exporter, to make collective high-level decisions about oil production levels.

**Pandemic Emergency Purchase Programme (PEPP):** PEPP is a temporary asset purchase programme of private and public sector securities established by the ECB to counter the risks to monetary policy transmission and the outlook for the euro area posed by the COVID-19 outbreak.

**Price-to-earnings (PE) ratio:** The PE ratio is equal to the market capitalization of a share or index divided by trailing (over the prior 12 months) or forward (forecasted over the next 12 months) earnings. The higher the PE ratio, the more the market is willing to pay for each dollar of annual earnings.

**Quantitative easing:** Quantitative easing refers to expansionary efforts by central banks to help increase the supply of money in the economy.

**Sovereign:** A sovereign refers to government-issued debt.

**Summary of Economic Projections:** The Fed's Summary of Economic Projections (SEP) is based on economic projections collected from each member of the Fed Board of Governors and each Fed Bank president on a quarterly basis.

**Taper tantrum:** Taper tantrum describes the 2013 surge in U.S. Treasury yields, resulting from the U.S. Federal Reserve's announcement of future tapering of its policy of quantitative easing.

**Transitory inflation:** Transitory inflation refers to a temporary increase in the rate of inflation.

**Treasury Inflation-Protected Securities (TIPS):** TIPS are sovereign securities issued by the U.S. Treasury that are indexed to an inflationary gauge to protect investors from the decline in the purchasing power of their money. The principal value of TIPS rise as inflation rises, while the interest payment varies with the adjusted principal value of the bond. The principal amount is protected so that investors do not risk receiving less than the originally invested principal.

**Yield:** Yield is a general term for the expected return, in percentage or basis points (one basis point is 0.01%), of a fixed-income investment.

**Yield curve:** The yield curve represents differences in yields across a range of maturities of bonds of the same issuer or credit rating (likelihood of default). A steeper yield curve represents a greater difference between the yields. A flatter curve indicates the yields are closer together.

## Index and Benchmark Descriptions

**All indexes are quoted in gross performance unless otherwise indicated.**

**The Bloomberg 1-10 Year US TIPS Index** measures the performance of inflation-protected public obligations of the U.S. Treasury that have a remaining maturity of 1 to 10 years.

**The Bloomberg US Asset Backed Securities (ABS) Index** measures the performance of ABS with the following collateral types: credit and charge card, auto and utility loans. All securities have an average life of at least one year.

**The Bloomberg Global Aggregate Index** is an unmanaged market-capitalization-weighted benchmark, tracks the performance of investment-grade fixed-income securities denominated in 13 currencies. The Index reflects reinvestment of all distributions and changes in market prices.

**The Bloomberg Global Aggregate ex-Treasury Index** is an unmanaged market index representative of the total-return performance of ex-Treasury major world bond markets.

**The Bloomberg Global Treasury Index** is composed of those securities included in the Bloomberg Global Aggregate Bond Index that are Treasury securities.

**The Bloomberg US Corporate Bond Index** is a broad-based benchmark that measures the investment-grade, fixed-rate, taxable corporate bond market.

**The Bloomberg US Mortgage Backed Securities (MBS) Index** measures the performance of investment-grade, fixed-rate, mortgage-backed, pass-through securities of Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA) and Freddie Mac (FHLMC).

**The Bloomberg US Treasury Index** is an unmanaged index composed of U.S. Treasuries.

**The Bloomberg Commodity Index** is composed of futures contracts and reflects the returns on a fully collateralized investment in the Index. This combines the returns of the Index with the returns on cash collateral invested in 13-week (3-month) U.S. Treasury bills.

**The Employment Cost Index** is a quarterly economic series published by the U.S. Bureau of Labor Statistics that details the growth of total employee compensation. The index tracks movement in the cost of labor, as measured by wages and benefits, at all levels of a company.

**The Chicago Board Options Exchange Volatility Index (VIX)** tracks the expected volatility in the S&P 500 Index over the next 30 days. A higher number indicates greater volatility.

**CBOE Volatility Index (VIX Index):** The VIX Index tracks the expected volatility in the S&P 500 Index over the next 30 days. A higher number indicates greater volatility.

**The Dow Jones Industrial Average** is a widely followed market indicator based on a price-weighted average of 30 blue-chip New York Stock Exchange stocks that are selected by editors of *The Wall Street Journal*.

**The Employment Cost Index** is a quarterly economic series published by the U.S. Bureau of Labor Statistics that details the growth of total employee compensation. The index tracks movement in the cost of labor, as measured by wages and benefits, at all levels of a company.

**The FTSE All-Share Index** represents 98% to 99% of U.K. equity market capitalization. The Index aggregates the FTSE 100, FTSE 250 and FTSE Small Cap Indexes.

**The ICE BofA U.S. High Yield Constrained Index** contains all securities in The ICE BofA U.S. High Yield Index but caps exposure to individual issuers at 2%.

**The ICE BofA U.S. High Yield Index** tracks the performance of below-investment-grade, U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market.

**The JPMorgan EMBI Global Diversified Index** tracks the performance of external debt instruments (including U.S. dollar-denominated and other external-currency-denominated Brady bonds, loans, eurobonds and local-market instruments) in the emerging markets.

**JPMorgan GBI-EM Global Diversified Index** tracks the performance of debt instruments issued in domestic currencies by emerging-market governments.

**The MSCI ACWI Index** is a market-capitalization-weighted index composed of over 2,000 companies, representing the market structure of 48 developed- and emerging-market countries in North and South America, Europe, Africa and the Pacific Rim. The Index is calculated with net dividends reinvested in U.S. dollars.

**The MSCI ACWI ex-USA Index** includes both developed- and emerging-market countries, excluding the U.S.

**The MSCI Emerging Markets Index** is a free float-adjusted market-capitalization-weighted index designed to measure the performance of global emerging-market equities.

**The MSCI Emerging Markets Latin America Index** captures large- and mid-cap representation across five emerging-market countries in Latin America.

**The MSCI EMU (European Economic and Monetary Union) Index** is a free float-adjusted market-capitalization-weighted index that is designed to measure the equity market performance of countries within EMU. The Index consists of the following 10 developed-market country indexes: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Netherlands, Portugal and Spain.

**The MSCI Europe ex-UK Index** is a free float-adjusted market-capitalization-weighted index that captures large- and mid-cap representation across developed-market countries in Europe excluding the UK.

**The MSCI Frontier Emerging Markets Index** is a free float-adjusted market capitalization index designed to serve as a benchmark covering all countries from the MSCI Frontier Markets Index and the lower size spectrum of the MSCI Emerging Markets Index.

**The MSCI Pacific ex Japan Index** captures large- and mid-cap representation across four of five developed-market countries in the Pacific region (excluding Japan).

**The MSCI Japan Index** is designed to measure the performance of the large- and mid-capitalization stocks in Japan.

**MSCI United Kingdom Index** is designed to measure the performance of the large- and mid-cap segments of the U.K. market.

**MSCI USA Index** measures the performance of the large- and mid-cap segments of the U.S. market.

**The MSCI World Index** is a free float-adjusted market-capitalization-weighted index designed to measure the equity market performance of developed markets. The Index consists of the following 23 developed-market country indexes: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the U.K. and the U.S.

**The MSCI World ex-USA Index** is a free float-adjusted market-capitalization-weighted index that is designed to measure the equity market performance of developed markets, excluding the U.S.

**The NASDAQ Composite Index** is a market-value-weighted index of all common stocks listed on the National Association of Securities Dealers Automated Quotations (NASDAQ) system.

**Russell 1000 Growth Index** measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values.

**The Russell 2000 Growth Index** measures the performance of the small-cap growth segment of the U.S. equity universe. It includes those Russell 2000 Index companies with higher price-to-value ratios and higher forecasted growth values.

**The Russell 1000 Value Index** measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 Index companies with lower price-to-book ratios and lower expected growth values.

**The Russell 2000 Value Index** measures the performance of small-cap value segment of the U.S. equity universe. It includes those Russell 2000 Index companies with lower price-to-book ratios and lower forecasted growth values.

**The Shenzhen Stock Exchange Composite Index** tracks performance of A share stocks (which are denominated in renminbi, the local currency) and B share stocks (which are denominated in Hong Kong dollars, an offshore currency) on China's Shenzhen Stock Exchange.

**The S&P 500 Index** is a market-capitalization-weighted index that consists of 500 publicly-traded large U.S. companies that are considered representative of the broad U.S. stock market.

**The TOPIX, also known as the Tokyo Stock Price Index**, is a capitalization-weighted index of all companies listed on the First Section of the Tokyo Stock Exchange. The Index is supplemented by the subindexes of the 33 industry sectors. The Index calculation excludes temporary issues and preferred stocks, and has a base value of 100 as of January 4, 1968.

**The U.S. Dollar Index (DXY Index)** measures the value of the U.S. dollar relative to a basket of other currencies, including the currencies of some of the US's major trading partners: the euro, Swiss franc, Japanese yen, Canadian dollar, British pound, and Swedish krona.

## Corresponding Indexes for Fixed-Income Performance Exhibit

U.S. High Yield	ICE BofA U.S. High Yield Constrained Index
Global Sovereigns	Bloomberg Global Treasury Index
Global Non-Government	Bloomberg Global Aggregate ex-Treasury Index
Emerging Markets (Local)	JPMorgan GBI-EM Global Diversified Index
Emerging Markets (External)	JPMorgan EMBI Global Diversified Index
U.S. Mortgage-Backed Securities (MBS)	Bloomberg US Mortgage Backed Securities Index
U.S. Asset-Backed Securities (ABS)	Bloomberg US Asset Backed Securities Index
U.S. Treasuries	Bloomberg US Treasury Index
U.S. Treasury Inflation-Protected Securities (TIPS)	Bloomberg 1-10 Year US TIPS Index
U.S. Investment-Grade Corporates	Bloomberg US Corporate Bond Index

## Corresponding Indexes for Regional Equity Performance Exhibit

United States	S&P 500 Index
United Kingdom	FTSE All-Share Index
Pacific ex Japan	MSCI Pacific ex Japan Index (Net)
Japan	TOPIX, also known as the Tokyo Stock Price Index
Europe ex U.K.	MSCI Europe ex UK Index (Net)
EM Latin America	MSCI Emerging Markets Latin America Index (Net)

## Disclosures

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