

Navigating emerging markets: shifting opportunities

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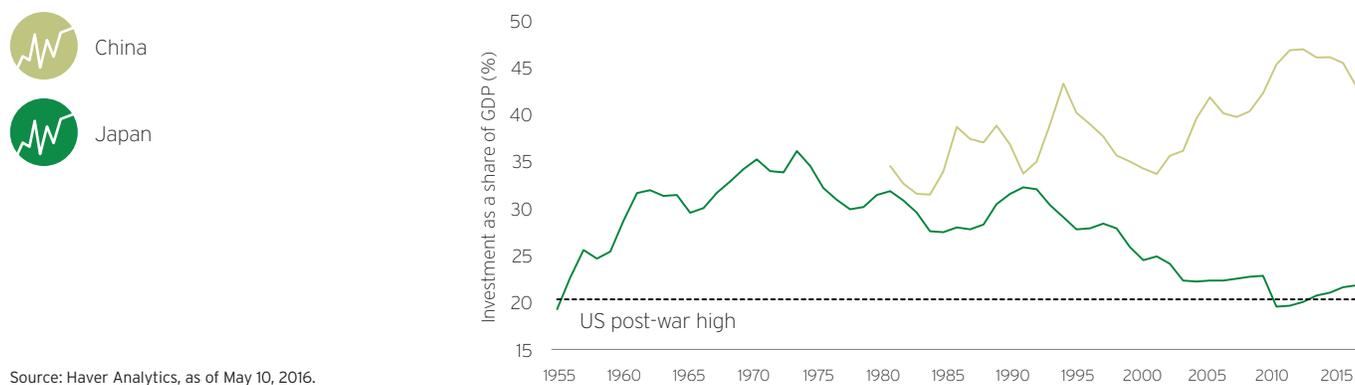
We see emerging-market investment risks as having shifted somewhat away from Latin America towards Asia and have adjusted our positioning accordingly.

The recovery from the Great Recession of 2009 to date has not been kind to emerging markets (EM). This is particularly true of the largest EM of all. China borrowed heavily from 2009 to finance stimulus, exacerbating its excess industrial capacity and other imbalances.

Nevertheless, its economic growth rate has slowed every year since 2010. China's prior two decades of growth may represent the most rapid and sustained economic growth spurt in history. While relative stages of development still differ markedly as discussed below, the

situation is somewhat akin to Japan's post-war "growth miracle," which once contributed mightily to global economic expansion, but then subsequently ebbed - **figures 1** and **2**. Notably, Japan still grew significantly in an absolute sense long after its peak growth rate.

Figure 1. Capital investment shares of GDP



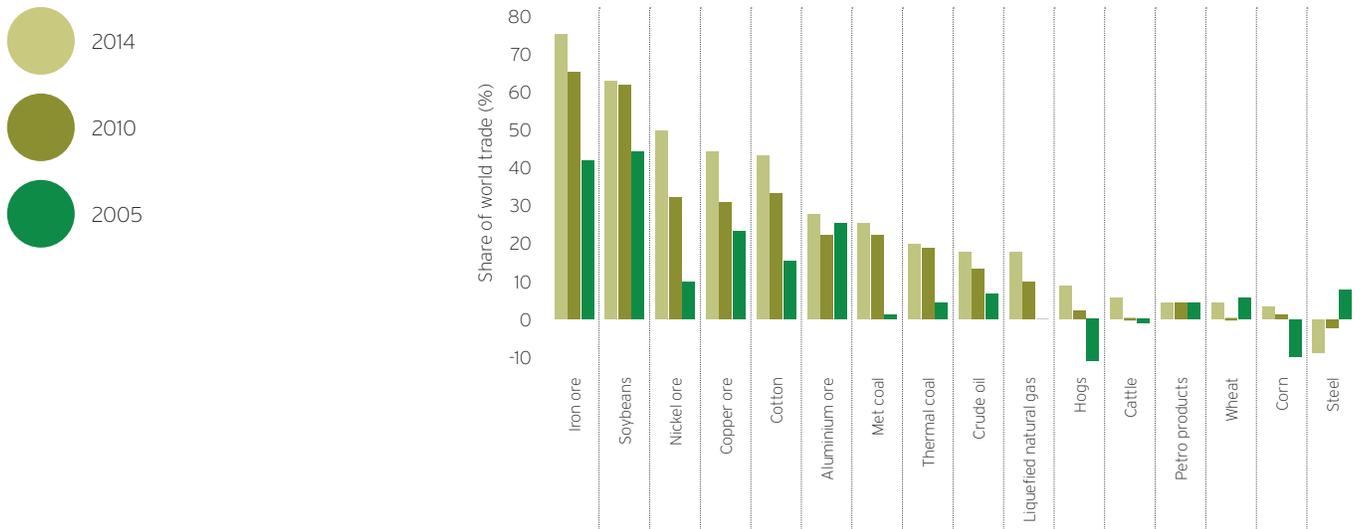
Source: Haver Analytics, as of May 10, 2016.

Figure 2. Contribution to global growth

	Japan	China
1960	6.2%	10.1%
1970	11.8%	3.4%
1980	10.4%	7.5%
1990	7.5%	8.9%
2000	5.5%	16.4%
2010	0.8%	27.8%

Source: Penn World Table, as of 28 April 2016.

Figure 3. China commodity net imports as % of world trade*



Source: Citi Research, April 2016. *Metal ores are measured in US dollar value terms, all others are volumetric.

China's structural slowdown requires significant adjustments elsewhere in the world. This includes softer growth in industrial commodities demand, as China has driven much of the last decade's demand-growth - **figure 3**. Latin American economies and markets have already suffered from weaker Chinese commodity demand before this year.

That said, the sharp decline of Latin American asset prices relative to Asian asset prices suggests that risks have shifted somewhat away from the

former and towards the latter. We have adjusted our tactical asset allocation in emerging markets to reflect this shifting opportunity as follows:

- Cut Asian equities from overweight to neutral
- Reduced underweight to Brazil equities
- Raised Latin American debt - hard-currency and local - from neutral to overweight**

** Source: Citi Private Bank as of May 2016. The recommendations refer to tactical weighting adjustments on a 12-18 month view made by our Global Investment Committee to our strategic asset allocations, which take a ten-year view. Overweight and underweight signify having a greater or lesser allocation to an asset class or sub-asset class than our long-term strategic asset allocations, while neutral signifies having an allocation in line with our long-term strategic asset allocations.

China reverts to stimulus

China has resorted to debt-fuelled stimulus once again in early 2016. Many key macroeconomic indicators have noticeably improved. Industrial deflation may soon reverse, with producer prices getting their largest boost since 2010, thanks to the weaker Chinese yuan and commodity-price rebound. This is important for Chinese equities because listed firms are dominated by industrial producers. Outside of the bubble and bust of 2014-15, equities have closely tracked producer prices - **figure 4**.

But the data improvement may be hard to sustain, given its dependence on credit growth. Total new financing amounted to RMB6.5tn (US\$1.0tn) in the first quarter of 2016. The outstanding financing represents 221% of GDP, excluding government and financial institutions. At the current 5% average cost, the debt-service burden is excessive and would require lower interest rates to sustain.

Despite these challenges, China largely remains committed to reforms. It continues to improve access to its onshore equity and bond markets, while allowing its exchange rate to become much more market-driven. Its tax reforms favor the services sector while pension changes reduced

Growth improvements may bring investors back to the sustainable sectors like consumer, insurance, and healthcare.

entitlements to government and state-owned enterprise retirees.

Longer term, urbanization offers significant potential. China is only 35% urbanized if its 200 million rural migrants are not counted as fully urban. Providing migrants full urban entitlements could boost demand for consumer goods, services and real estate.

Much has been said about over-investment in China, where capital stock has doubled since 2010 to \$21tn, nearly one-half that of the US. But on a per capita basis, China has less than one-tenth that of the US. More infrastructure investment in China and across Asia can help to unlock consumer spending.

Invest in 'new' China

For Chinese equities, we continue to favor industries with sustainable growth and dividends. We think the recent short-covering rally in deep cyclicals

like materials and energy has largely run its course. Growth improvements may bring investors back to the sustainable sectors like consumer, insurance, and healthcare. Banks, however, may remain a value-trap because of China's leverage problem.

We see a case for further depreciation of the yuan. China's high indebtedness will demand lower real interest rates. And the revival of producer price inflation is likely to be temporary. China's authorities are likely to want the yuan to effectively weaken versus a basket of currencies, so as to maintain competitiveness. Moreover, the US dollar is reasserting itself on Fed policy normalization, which is likely to pressure the yuan further.

Latin America

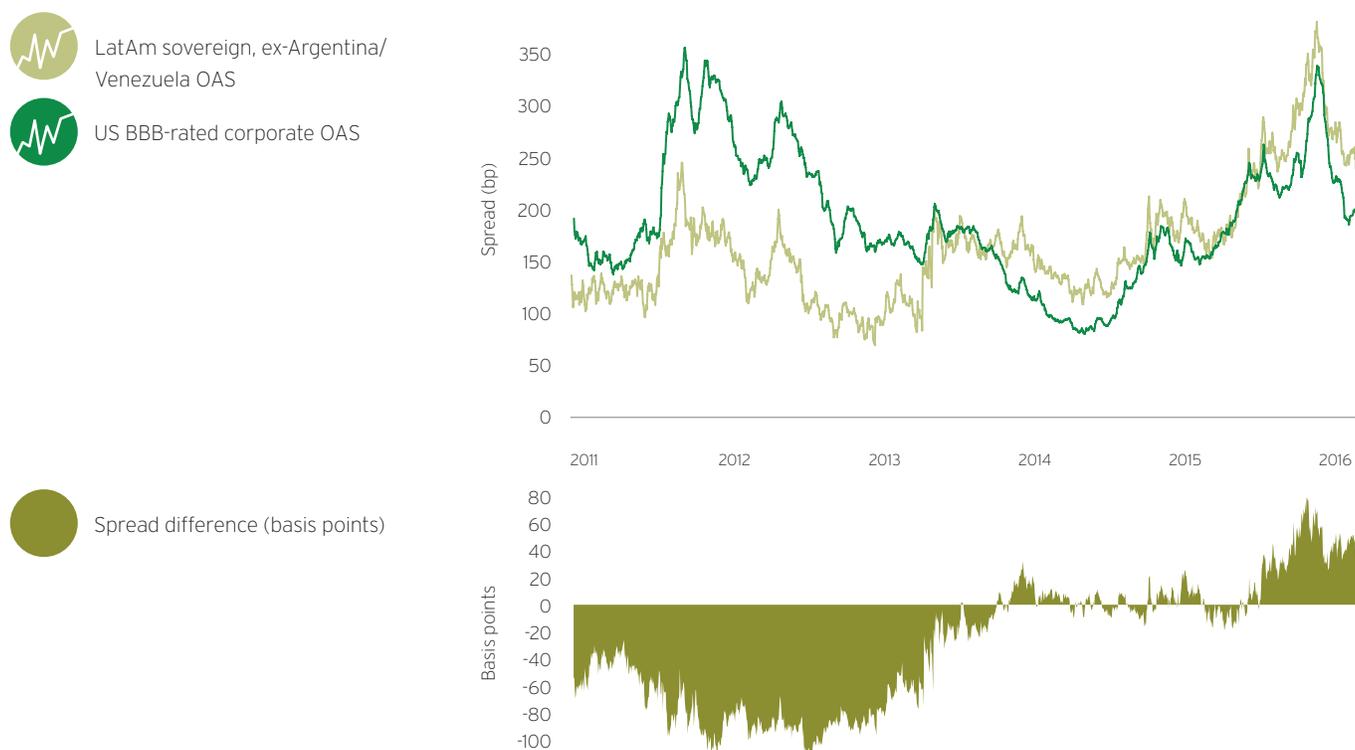
After five years of underperformance and a particularly bleak 2015, Latin American financial markets appear to have turned a corner in early 2016.

Figure 4. China equities have mainly tracked producer prices



Sources: National Bureau of Statistics of China, Bloomberg, as of Mar 2016. PPI is producer price inflation, a measure of selling prices achieved by producers of goods and services.

Figure 5. Latin America yield differential



Source: Bloomberg, as of 1 May 2016. There can be no assurance that these market conditions will remain in the future. Past performance does not guarantee future results. Actual results may differ materially from the forecasts/estimates. Views, opinions, trends and prices expressed are subject to change without prior notice and are expressed solely as a general market commentary and do not constitute investment advice or a guarantee of returns. The option-adjusted spread (OAS) is the measurement of the spread of a fixed-income security rate and the risk-free rate of return, which is adjusted to take into account an embedded option. Typically, an analyst would use the Treasury securities yield for the risk-free rate.

Since the start of the year, the MSCI Latin America Total Return Index is up nearly 12.7% compared to a 0.2% gain for the S&P 500, -6.7% in the Euro Stoxx 600 index and -6.1% in the Japanese Nikkei 225.¹

While the region will likely suffer a setback once the global economic cycle peaks, the deep declines already experienced in recent years may mitigate the impact. The Fed's renewed dovishness and the bottoming of crude oil are helpful for now. Crude oil is strongly positively correlated to Latin American markets and negatively correlated to the US dollar. This eases external debt burdens in the region among other impacts.

Although there may be a temptation to take some profits after the first-half

2016 rally, we see further scope for gains, particularly as Citi Research's commodity strategy team expects an incipient upturn in the commodities cycle. Meanwhile, equity valuations remain modest, while fixed-income yields are at historically attractive levels compared to other markets - **figure 5**.

We see Argentina as one of the region's most attractive markets for the coming months. Following President Macri's surprise election in October 2015 - see *Politics unusual* - capital is flowing back into the country.

We expect Argentinian equities and debt to be promoted back from 'frontier' to 'emerging market' status. Their re-inclusion in emerging-market indices would likely benefit prices, as investors would increase their

allocations to bring themselves into line with the benchmarks. And the country's bond yields remain attractive relative to the region.

Brazil's next administration will need to show pragmatism in order to begin to reverse the nation's dire economic conditions. Both fund flows data and anecdotal evidence suggest that investor sentiment remains skeptical about Brazil. Cumulative broad fixed-income market fund flows in Brazil have been falling sharply since 2013 and are now net negative. The 32% low-to-high snap-back in the Bovespa Index erased 2015 losses and could indicate overall low investor positioning.² But valuations are still attractive and we would expect continued gains if the next administration responds positively.

¹ Bloomberg, as of 23 May 2016.

² Source: Bloomberg. The sharp 48% snap back in the Bovespa between the 20 January lows and the 28 April highs could indicate overall low investor positioning in the index.

Asset class definitions

Global Developed Market Equity is composed of MSCI indices capturing large-, mid- and small-cap representation across 23 individual developed-market countries, as weighted by the market capitalization of these countries. The composite covers approximately 95% of the free float-adjusted market capitalization in each country.

Global Emerging Market Equity is composed of MSCI indices capturing large and mid-cap representation across 20 individual emerging-market countries. The composite covers approximately 85% of the free float-adjusted market capitalization in each country. For the purposes of supplemental long-term historical data, local-market country indices are used, wherever applicable.

Global Equity is represented by the MSCI ACWI Index, capturing all sources of equity returns in 23 developed and 23 emerging markets.

Global Developed Investment Grade Fixed Income is composed of Barclays indices capturing investment-grade debt from twenty different local currency markets. The composite includes fixed-rate treasury, government-related, and investment grade rated corporate and securitized bonds from the developed-market issuers. Local market indices for US, UK and Japan are used for supplemental historical data.

Global Fixed Income is represented by the Barclays Multiverse Index, with returns hedged into US dollars.

Global High Yield Fixed Income is composed of Barclays indices measuring the non-investment grade, fixed-rate corporate bonds denominated in US dollars, British pounds and Euros. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below, excluding emerging market debt. Ibbotson High Yield Index, a broad high yield index including bonds across the maturity spectrum, within the BB-B rated credit quality spectrum, included in the below-investment-grade universe, is used for supplemental historical data.

Global Emerging Fixed Income is composed of Barclays indices measuring performance of fixed-rate local currency emerging markets government debt for 19 different markets across Latin America, EMEA and Asia regions. iBoxx ABF China Govt. Bond, the Markit iBoxx ABF Index comprising local currency debt from China, is used for supplemental historical data.

Cash is represented by US 3-month Government Bond TR, measuring the US dollar-denominated active 3-Month, fixed-rate, nominal debt issues by the US Treasury.

Hedge Funds is composed of investment managers employing different investment styles as characterized by different sub categories - HFRI Equity Long/Short: Positions both long and short in primarily equity and equity derivative securities; HFRI Credit: Positions in corporate fixed income securities; HFRI Event Driven: Positions in companies currently or prospectively involved in wide variety of corporate transactions; HFRI Relative Value: Positions based on a valuation discrepancy between multiple securities; HFRI Multi Strategy: Positions based on realization of a spread between related yield instruments; HFRI Macro: Positions based on movements in underlying economic variables and their impact on different markets; Barclays Trader CTA Index: The composite performance of established programs (Commodity Trading Advisors) with more than four years of performance history.

Private Equity characteristics are driven by those for Developed Market Small Cap Equities, adjusted for illiquidity, sector concentration, and greater leverage.

Real Estate contains all Equity REITs (US REITs and publicly-traded real estate companies) not designated as Timber REITs or Infrastructure REITs: NAREIT US REIT Index, NAREIT Canada REIT Index, NAREIT UK REIT Index, NAREIT Switzerland REIT Index, NAREIT Euro-zone REIT Index.

Commodities contains the index composites - GSCI Precious Metals Index, GSCI Energy Index, GSCI Industrial Metals Index, and GSCI Agricultural Index - measuring investment performance in different markets, namely precious metals (e.g. gold, silver), energy commodity (e.g. oil, coal), industrial metals (e.g. copper, iron ore), and agricultural commodity (i.e. soy, coffee) respectively. Reuters/Jeffries CRB Spot Price Index, the TR/CC CRB Excess Return Index, an arithmetic average of commodity futures prices with monthly rebalancing, is used for supplemental historical data.

Index definitions

The Bloomberg-JPMorgan Asia Currency Index (ADXY) is a US dollar tradable index of emerging Asian currencies, which serves as a benchmark for monitoring Asia's currency markets on an aggregate basis. It is a spot index of emerging Asia's most actively traded currency pairs valued against the US dollar.

The Bovespa Index is a market-capitalization weighted index of around 50 stocks that trade on the São Paulo Stock, Mercantile & Futures Exchange.

The CBOE Crude Oil ETF Volatility Index ("Oil VIX", Ticker - OVX) measures the market's expectation of 30-day volatility of crude oil prices by applying the VIX® methodology to United States Oil Fund, LP (Ticker - USO) options spanning a wide range of strike prices.

Commodity Index is the S&P Gold Sachs Commodity Index (S&P GSCI), a composite index of commodity sector returns representing an unleveraged, long-only investment in commodity futures that is broadly diversified across the spectrum of commodities.

The CBOE Volatility Index (VIX) is a measure of expectations of near-term volatility based on S&P 500 stock index option prices.

The Citi US High-Yield Market Index is a US Dollar-denominated index which measures the performance of high-yield debt issued by corporations domiciled in the US or Canada. Recognized as a broad measure of the North American high-yield market, the index includes cash-pay, deferred-interest securities, and debt issued under Rule 144A in unregistered form. Sub-indices are available in any combination of industry sector, maturity, and rating.

The CSI 300 is a capitalization-weighted index compiled by the China Securities Index Company Ltd and tracks 300 stocks traded on the Shanghai and Shenzhen stock exchanges.

The Currency Volatility Index (CVIX) seeks to provide a benchmark for currency market participants, representing investors' expectation of future volatility, and is calculated as the arithmetic average of the 3-month level of implied volatility for all the major currency pairs.

The DAX 30 is an index of the 30 most actively traded German blue chip stocks on the Frankfurt Stock Exchange. The value of the index is based on a free-float weighted system and average daily volume.

The Deutsche Bank Currency Volatility index (CVIX) is a measure of investors' expectations of future volatility, and is calculated as the arithmetic average of the 3-month level of implied volatility for all the major currency pairs.

The Dow Jones Industrial Average – commonly known as the Dow – is a price-weighted stock market index that tracks the performance of 30 large US companies chosen by a committee.

Emerging market currencies are represented by the OITP (Other important trading partners) index is a weighted average of the foreign exchange values of the U.S. dollar against a subset of currencies in the broad index that do not circulate widely outside the country of issue. The weights are derived by rescaling the currencies' respective weights in the broad index so that they sum to 1 in each sub-index.

European equities are represented by the MSCI Europe index, which captures large- and mid-cap representation across 15 Developed Markets (DM) countries in Europe. It covers approximately 85% of the free float-adjusted market capitalization across the European Developed Markets equity universe.

The Euro Stoxx 600 is an index representing the performance of 600 large-, mid-, and -small capitalization companies across 18 countries across Europe.

The FTSE 100 is a capitalization-weighted equity index representing the performance of 100 large-capitalization companies listed on the London Stock Exchange.

Gold is represented by the commodity futures price for gold.

The Hang Seng index is a free-float adjusted market capitalization stock market index in Hong Kong, which aims to represent the leading companies in that country.

The High Yield Energy Bond Price index measures the price performance of US bonds with ratings below investment grade comprising energy and natural resources industries.

Japan equities are represented by the MSCI Japan index, which is designed to measure the performance of the large- and mid-cap segments of the Japanese market. It covers approximately 85% of the free float-adjusted market capitalization in Japan.

The MOVE (Merrill Lynch Option Volatility Estimate) Index measures the implied volatility of US Treasury markets based on options pricing.

The MSCI All Country World Index represents 48 developed and emerging equity markets. Index components are weighted by market capitalization.

The MSCI Asia ex-Japan index has large and mid-cap representation across 2 of 3 Developed Markets countries and 8 Emerging Markets countries in Asia. It captures approximately 85% of the free float-adjusted market capitalization in each country.

The MSCI China index has large- and mid-cap representation across China H shares, B shares, Red chips and P chips. With 139 constituents, it covers about 85% of this China equity universe.

The MSCI Emerging Markets Index represents the performance of large- and mid-equities from 23 emerging countries, covering approximately 85% of the free float-adjusted market capitalization in each country.

The MSCI KLD 400 Social Index is a capitalization-weighted index of 400 US securities that provides exposure to companies with outstanding Environmental, Social and Governance (ESG) ratings and excludes companies whose products have negative social or environmental impacts. The parent index is MSCI USA IMI.

The MSCI Emerging Markets (EM) Latin America Index captures large and mid cap representation across 5 Emerging Markets (EM) countries* in Latin America. With 121 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

The MSCI USA Investable Market Index (IMI) measures the performance of the large, mid and small cap segments of the US market. With 2,469 constituents, the index covers approximately 99% of the free float-adjusted market capitalization in the US.

The MSCI World Index represents the performance of more than 1,600 large- and mid-cap stocks across 23 developed markets countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

The MSCI World ex-USA Index represents the performance of large- and mid-cap representation across 22 of 23 developed markets countries excluding the United States. With 1,005 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

The Nikkei 225 tracks the performance of 225 leading stocks on the Tokyo Stock Exchange (TSE). The components of this index are reviewed yearly. Since it is a price-weighted index, the movement of the stocks is weighted without regard to their market capitalization.

Oil is represented by the West Texas Intermediate Crude Oil price.

The Oil VIX - ticker OVX - measures the market's expectation of 30-day volatility of crude oil prices by applying the VIX methodology to United States Oil Fund, LP - ticker USO - options, spanning a wide range of strike prices.

The Standard & Poor's 500 Index is a capitalization-weighted index that includes a representative sample of 500 leading companies in leading industries of the US economy. Although the S&P 500 focuses on the large cap segment of the market, with over 80% coverage of US equities, it is also an ideal proxy for the total market.

US Investment Grade Corporate Debt Total Return Index is an index made up of investment-grade debt issued by US companies, measured on a total return basis.

USD vs developed currencies is a broad weighted average index of the foreign exchange values of the US dollar against the currencies of a large group of major U.S. trading partners.

USD vs emerging markets = The OITP (other important trading partners) index is a weighted average of the foreign exchange values of the US dollar against a subset of currencies in the broad index that do not circulate widely outside the country of issue.

Citi Private Bank Hedge Fund categorizations

Diversifier, Return Enhancer and Volatility Dampener are internal descriptors based on a fund's strategy and objective that HFRM has developed and uses to categorize

hedge funds. Such descriptors have not been approved by the relevant portfolio managers. The internal classification noted above is subject to change without notice to investors. Many portfolio managers offer multiple products that could have a different objective or classification from that of the fund identified herein. Diversification does not ensure against loss of principal invested.

Volatility Dampeners are hedge funds that typically are expected by HFRM to have low to moderate correlation and/or beta to traditional markets and seek low volatility and relatively consistent returns. The portfolio managers of such funds often attempt to eliminate a substantial portion of market risk via hedges and trade construction. This classification is based on the analysis and subjective views of HFRM. The internal classification is subject to change without notice to investors and there is no guarantee that the funds will perform as described above. It is important to note that the market strategy described above may not completely eliminate market risk. There is no guarantee that hedge funds classified as "Volatility Dampeners" will perform as described above. Hedge funds should not be invested in based on their classification as "Volatility Dampeners" and other assets in a client's overall portfolio should be taken into consideration before an investment is made.

Diversifiers are hedge funds that typically are expected by HFRM to display low or negative correlation and/or beta to traditional asset classes though they may display significant degrees of market correlation at certain points of the investment cycle. The portfolio managers of such funds are often long volatility and generally may provide attractive diversification benefits to a client's portfolio though returns are often "unpredictable" and can be volatile. This internal classification is based on the analysis and subjective views of HFRM. The internal classification is subject to change without notice to investors and there is no guarantee that the funds will perform as described above. It is important to note that the market strategy described above may not completely eliminate market risk. There is no guarantee that hedge funds classified as "Diversifiers" will perform as described above. Hedge funds should not be invested in based on their classification as "Diversifiers" and other assets in a client's overall portfolio should be taken into consideration before an investment is made.

Return Enhancers are hedge funds that are expected by HFRM to generally seek to outperform traditional risk assets over the course of an investment cycle while still providing some measure of downside protection. The portfolio managers of such funds typically have a higher correlation and/or beta to traditional markets. There is also a higher level of risk associated with these types of strategies. This internal classification is based on the analysis and subjective views of HFRM. The internal classification is subject to change without notice to investors and there is no guarantee that the funds will perform as described above. It is important to note that the market strategy described above may not completely eliminate market risk. There is no guarantee that hedge funds classified as "Return Enhancers" will perform as described above. Hedge funds should not be invested in based on their classifications as "Return Enhancers" and other assets in a client's overall portfolio should be taken into consideration before an investment is made.

Other terminology

Adaptive Valuations Strategies is Citi Private Bank's own strategic asset allocation methodology. It determines the suitable long-term mix of assets for each client's investment portfolio.

Alpha is a measure of absolute positive or negative performance, adjusted for risk. It is commonly seen as a way of capturing an investor's skill in generating returns.

Beta is a measure of the relationship between one asset class and another. It compares the average change in the return of one asset class relative to the average historical change in another. The beta of High Yield would be 0.5x to Equities if, on average, High Yield rises by 5% whenever Equities rise by 10%.

Correlation is a statistical measure of how two assets or asset classes move in relation to one another. Correlation is measured on a scale of 100% to -100%. A correlation of 100% implies perfect positive correlation, meaning that two assets or asset classes move in the same direction all of the time. A correlation of -100% implies perfect negative correlation, such that two assets or asset classes move in the opposite direction to each other all the time. A correlation of 0% implies zero correlation, such that there is no relationship between the movements in the two over time.

Extreme Downside Risk (EDR) is a measure used to estimate the risk of an asset allocation. EDR seeks to estimate the typical type of loss, over a 12-month time horizon, that an asset allocation may experience in a period of extreme market stress. It is calculated using a proprietary methodology and database. For a given asset allocation, this approach estimates the loss, over a 12-month time horizon, that the asset allocation may have experienced during historical periods of extreme market stress. EDR is calculated by taking the average loss in the worst 5% of this historical periods of extreme market stress. EDR does not estimate the maximum possible loss. Potential losses for a given asset allocation may exceed the value of the EDR.

Strategic Return Estimates are Citi Private Bank's forecast of returns for specific asset classes over a 10-year time horizon. The forecast for each specific asset class is made using a proprietary methodology that is appropriate for that asset class. Equity asset classes are forecast using a proprietary methodology based on the calculation of valuation levels with the assumption these valuation levels revert to their long-term trends over time. Fixed Income asset classes are forecast using a proprietary methodology based on current yield levels. Other asset classes have other specific forecasting methodologies. Please note that hedge funds, private equity, real estate, structured products and managed futures are generally illiquid investments and are subject to restrictions on transferability and resale. Each SRE is gross of actual client fees and expenses. Components of the methodology used to create the SREs include the rate of return for various asset classes based on indices. Termination and replacement of investments may subject investors to new or different charges. Past performance is not indicative of future results. Future rates of return cannot be predicted with certainty. Investments that pay higher rates of return are often subject to higher risk and greater potential loss in an extreme scenario. The actual rate of return on investments can vary widely over time, especially for long-term investments. This includes the potential loss of principal on your investment. It is not possible to invest directly in an index.

Tactical asset allocation looks to adjust the strategic asset allocation of a client's investment portfolio to incorporate shorter-term market insights.

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Alternative investments referenced in this report are speculative and entail significant risks that can include losses due to leveraging or other speculative investment practices, lack of liquidity, volatility of returns, restrictions on transferring interests in the fund, potential lack of diversification, absence of information regarding valuations and pricing, complex tax structures and delays in tax reporting, less regulation and higher fees than mutual funds and advisor risk. Asset allocation does not assure a profit or protect against a loss in declining financial markets.

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REITs are subject to special risk considerations similar to those associated with the direct ownership of real estate. Real estate valuations may be subject to factors such as changing general and local economic, financial, competitive, and environmental conditions. REITs may not be suitable for every investor. Dividend income from REITs will generally not be treated as qualified dividend income and therefore will not be eligible for reduced rates of taxation. There may be additional risk associated with international investing, including foreign, economic, political, monetary and/or legal factors, changing currency exchange rates, foreign taxes, and differences in financial and accounting standards.

Master Limited Partnership

- Energy Related MLPs May Exhibit High Volatility. While not historically very volatile, in certain market environments Energy Related MLPs may exhibit high volatility.
- Changes in Regulatory or Tax Treatment of Energy Related MLPs. If the IRS changes the current tax treatment of the master limited partnerships included in the Basket of Energy Related MLPs thereby subjecting them to higher rates of taxation, or if other regulatory authorities enact regulations which negatively affect the ability of the master limited partnerships to generate income or distribute dividends to holders of common units, the return on the Notes, if any, could be dramatically reduced.
- Concentration Risk. Investment in a basket of Energy Related MLPs may expose the investor to concentration risk due to industry, geographical, political, and regulatory concentration.
 - The price and dividends paid by Energy Related MLPs may be affected by a number of factors, including:
 - Worldwide and domestic supplies of, and demand for, crude oil, natural gas, natural gas liquids, hydrocarbon products and refined products;
 - Changes in tax or other laws affecting MLPs generally;
 - Regulatory changes affecting pipeline fees and other regulatory fees in the energy sector;
 - The effects of political events and government regulation;
 - The impact of direct government intervention, such as embargos;
 - Changes in fiscal, monetary and exchange control programs;
 - Changes in the relative prices of competing energy products;
 - Changes in the output and trade of oil and other energy producers;
 - Changes in environmental and weather conditions;
 - The impact of environment laws and regulations and technological changes affecting the cost of producing and processing, and the demand for, energy products;
 - Decreased supply of hydrocarbon products available to be processed due to fewer discoveries of new hydrocarbon reserves, short- or long-term supply distributions or otherwise;
 - Risks of regulatory actions and/or litigation, including as a result of leaks, explosions or other accidents relating to energy products;
 - Uncertainty or instability resulting from an escalation or additional outbreak of armed hostilities or further acts of terrorism in the United States or elsewhere;
 - General economic and geopolitical conditions in the United States and worldwide.

Mortgage-backed securities ("MBS"), which include collateralized mortgage obligations ("CMOs"), also referred to as real estate mortgage investment conduits ("REMICs"), may not be suitable for all investors. There is the possibility of early return of principal due to mortgage prepayments, which can reduce expected yield and result in reinvestment risk. Conversely, return of principal may be slower than initial prepayment speed assumptions, extending the average life of the security up to its listed maturity date (also referred to as extension risk).

Additionally, the underlying collateral supporting non-Agency MBS may default on principal and interest payments. In certain cases, this could cause the income stream of the security to decline and result in loss of principal. Further, an insufficient level of credit support may result in a downgrade of a mortgage bond's credit rating and lead to a higher probability of principal loss and increased price volatility. Investments in subordinated MBS involve greater credit risk of default than the senior classes of the same issue. Default risk may be pronounced in cases where the MBS security is secured by, or evidencing an interest in, a relatively small or less diverse pool of underlying mortgage loans.

MBS are also sensitive to interest rate changes which can negatively impact the market value of the security. During times of heightened volatility, MBS can experience greater levels of illiquidity and larger price movements. Price volatility may also occur from other factors including, but not limited to, prepayments, future prepayment expectations, credit concerns, underlying collateral performance and technical changes in the market.

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