Soltis Economic & Market Outlook

Outlook	Soltis Position	Comments
Interest Rates	Historically low levels	Attractive for equity investments relative to fixed income
GDP	2nd quarter GDP grew at a 6.5% annual rate, we expect 2021 GDP growth to be in the 6-7% range.	The pace of economic recovery may moderate in 2021 dependent on length of supply chain disruptions. In addition, concerns about the Delta variant appear to be slowing the pace of growth.
Corporate Earnings	Recovering economy will lead to higher earnings in 2021 and 2022	Earnings could be positively impacted by a potential release of pent-up demand as pandemic concerns subside and corporate margins increase
Fed & Monetary Policy	Federal Reserve policy is very accommodative	Positive for equity investments, the Fed is signaling that rate increases are unlikely in 2021 and 2022. Fed tapering could negatively impact equity market.
Inflation	Current inflation numbers are elevated. Our base case is that inflation will be transitory, but it could be higher than we've experienced in the last decade.	Level and duration of inflation will be dependent upon supply chain recovery, an end to pent-up demand, and the effect of money supply growth
Valuations	U.S. equities are above fair value compared to historical price-to-earnings ratio levels	Low interest rates and profit growth make equities attractive relative to other assets.
US Dollar	US Dollar stabilized recently	Fiscal and monetary policy could lead to weaker dollar.
Geopolitical Risks	China-U.S. relations, Afghanistan withdrawal fallout, potential Gulf tensions, and cyber attacks are areas of concern.	Current market complacency could lead to a negative surprise due to unforeseen geopolitical event.
Fixed Income	Provides stability in portfolios	Despite low yields, fixed income investments are still an important diversifier in portfolios
Fiscal Policy	Fiscal policy will be accommodative in 2021	Current accommodative fiscal policy could add to growth in the short-term but will have limited positive long-term effects
Tax Policy	Increasing taxes could be a headwind to economic growth	Could lead to reduction in corporate profits, consumer spending, and capital investment

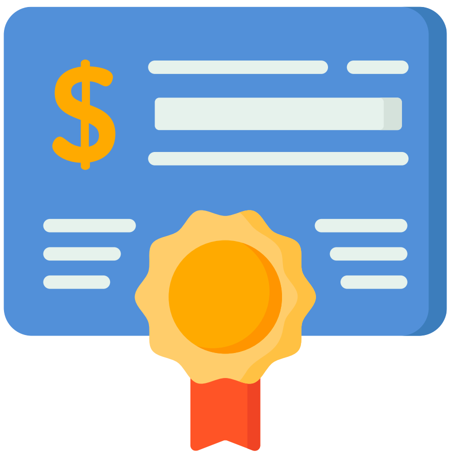
*As of 8/18/2021

What is a Structured Note?

A structured note is a debt obligation issued by a bank. To create the note the bank issues a zero-coupon bond and couples it with options. These options are structured to provide payouts to investors dependent on outcomes of an underlying index or underlying indices.

Each note has a fixed maturity date. However, some of the notes are callable before maturity. The call is either automatic if certain conditions are met or dependent on the issuer's discretion.

Structured notes are considered an alternative investment because they have characteristics of both equities and bonds.



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Each structured product can exhibit an entirely different set of characteristics, risks and rewards. Investors should carefully read the prospectus and pricing supplement prior to investing which contains detailed explanations of the risks, tax treatment, and other relevant information about the investment. The profit and loss potential of many structured products is more akin to an option contract, particularly those where principal is invested is at risk from market movements in the underlying security.

Benefits of Structured Notes

Structured notes can be built to help accomplish the following:

- Provide downside protection
- Allow investors to participate in market growth (sometimes with leverage)
- Provide periodic coupon payments if certain conditions are met
- Tailor investor outcomes to certain market expectations

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Barrier Return Enhanced Note

Sample Client: Wanting levered and uncapped upside market exposure with reduced downside market risk

Uncapped Barrier Return Enhanced Note: Allows for levered upside market participation with reduced downside market risk.

<u>Example Terms:</u>

- $100,000 Investment
- 3 – Year
- Underlying Indices – S&P 500 and Russell 2000
- Maximum Return – Uncapped
- Upside Leverage Factor – 1.20
- Barrier Level – 60%

Principal Amount

Investment Growth

Remaining Principal Amount

Scenario 1

The lesser performing index grows by 5% over the 3-year term. This investment would grow by 6% (cumulative) (5% * 1.2)

$100,000 $6,000

Scenario 2

The lesser performing index grows by 20% over the 3-year term. This investment would grow by 24% (cumulative) (20% * 1.2)

$100,000 $24,000

Scenario 3

The lesser performing index declines by 40% (cumulative) over the 3-year term. This investment is not exposed to an index decline of up to 40%. At maturity, the investment is down 0%

$100,000

Scenario 4

The lesser performing index declines by 41% (cumulative) over the 3-year term. This investment is exposed to the full decline of the lesser performing index It would be down 41%.

$59,000

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Enhanced Yield Note

Sample Client: wants yield that is better than traditional fixed income securities

Structure Features:

- **Underlying**: One or more indices that determine whether the note is redeemed after the non-call period and whether monthly coupon is paid.
- **Early Redemption:** If the index is flat or higher than the initial index level on any quarterly redemption determination date after the non-call period, the note will be redeemed.
- **Downside Barrier:** Level of underlying where losses are dollar-for-dollar after a certain percentage decline.
- **Coupon Barrier:** Coupon is paid as long as underlying index is above certain level relative to initial index value
- **Coupon:** Monthly payment
- **Non-Call Period:** Amount of time which the note is not available for redemption
- **Memory:** Feature that pays missed coupon payments when barrier was breached if underlying(s) recover above coupon barrier.

Example Terms:

- **Underlyings**: Worst-of S&P 500 Index and Russell 2000® Index
- **Maturity:** 2 Years
- **Downside Barrier:** 70% of the initial index value for each underlying
- **Coupon Barrier:** 70% of the initial index value for each underlying
- **Contingent Monthly Coupon:** 8% (per annum)
- **Non-Call Period:** 6 Months

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Risks

- **Counter Party Risk:** the risk that the bank will be financially unable to pay investor principal and coupon payments
- **Loss of Principal:** Investors may lose all or some of their initial investment
- **Call Risk:** Certain notes may be callable prior to maturity
- **Secondary Market Liquidity:** Structured notes are designed to be held to maturity; secondary markets will be made on a best efforts basis but issuers are not obligated to make a secondary market.
- **Limited Upside:** For notes that pay a coupon, investors will forgo gains of the underlying asset beyond the coupon level
- **Legal:** Regulatory considerations are subject to change
- **Capped Returns:** Market linked notes may have a cap on the maximum rate of return of the underlier and in which case investors may underperform
- **Participation Rate:** The participation rate on certain notes may be less than 1:1, in which case the note will underperform the gains of the underlier
- **No Current Income:** Growth notes do not pay interest or dividends
- **Mark to Market Pricing:** Factors that may affect the pricing of the notes prior to maturity, include but are not limited to, interest rates, credit spreads, volatility, and index performance.
- **Complex Payout Structures:** Payout structures for each product vary and are often hard to understand.

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Source: CAIS and Goldman Sachs.