QUARTERLY OUTLOOK

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EQUITY MARKET OUTLOOK

What can end the long cycle?
As of September 28, 2018

Highlights

- The list of worries is a mile wide but only an inch deep
- Trade and midterms may turn out better than markets think
- Bull runs such as this don’t come around all that often

When I ask myself, “What will it take to break through to 3,100 and beyond” at the S&P 500, I believe it boils down to one issue: “The Cycle.” The bears worry “this is as good as it gets,” “we are long in the tooth” and sooner rather than later, “The Cycle” will end. Indeed, with this month’s 10-year anniversary of the “Fall of the House of Lehman,” the bears sound ever more prescient to some. We’ve written extensively on why we think this view is wrong-headed, and this memo is meant not so much to reiterate these points but rather to review the latest list of worries, why they are misplaced and why the market should grind higher toward our target.

Worry 1: The trade war will escalate and kill off the expansion

This worry peaked midsummer and, with a new agreement with Canada and Mexico apparently in hand, essentially centers on China. The concern is the president’s attempt to negotiate better trade deals will end poorly, with reciprocal tariffs and other barriers rising, undermining confidence and economic growth in the U.S. So far, the bears have been disappointed, largely because their math has been poor, and they have underestimated the confidence that small business has in the Trump economy. The poor math is simply that the first-order stimulative impact of the president’s tax cuts and incremental government spending—almost $2 trillion spaced fairly evenly through 2020—swamps the amount of tariffs announced and threatened to date by over $1.8 trillion. Even for the $20 trillion U.S. economy, $1.8 trillion matters.

On the confidence front, despite all the negative news about tariffs, small businesses’ optimism just hit an all-time high, suggesting they’ve either done this math already and/or expect the trade dustup to pass eventually without hurting their longer-term investment. We think this is right. With the new Nafta in hand, Europe is likely to follow along. Chinese negotiations will clearly drag on the longest but based on market and economic performance so far this year, the Chinese are losing, not winning. At some point, a “deal” ending the conflict seems likely. And as this reality sets in, the markets should have reason to cheer.

(continued on page 2)
EQUITY MARKET OUTLOOK (continued)

**Worry 2: Late-cycle wage pressures will push the Fed into a policy error**
With unemployment at multi-decade lows, it's reasonable to expect wage inflation to pick up, as it has with annualized average hourly earnings rising at their fastest pace in more than nine years. We think this is good, not bad, for the bull case and won’t prod the Fed into excessive tightening. First, 2.9% wage inflation, while higher than we’ve experienced in this expansion, remains low relative to previous levels associated with accelerated Fed tightening (i.e., in the 4% range). Second, wage inflation does not necessarily correlate with broader price inflation (measured by the core PCE deflator) since corporations have two tools to offset wage growth without raising prices: productivity gains through increased capital investment (now accelerating because of tax reform) and profit growth (currently well into the double digits).

Also, with so many new technology disruptors attacking established companies with price deflation (think Amazon, Uber and Facebook) and providing old economy companies with new tools to improve worker efficiency (think Salesforce.com and Google), companies have unusually high incentives and means to avoid big price hikes. Many Fed governors have made this point recently as they, again and again, emphasize “data dependence.” Our view is wage pressures will only gradually feed into core PCE readings, and that the current dovish Fed path will remain intact. As evidence of this continues to dribble in through the fall, another bear worry should get less severe.

**Worry 3: A trade war and/or wage pressures and/or “something else” will kill off profit growth**
Frankly, some version of this worry has been in place for nearly all of the 10-year expansion that has seen S&P earnings rise from $55 in 2009 to $161 today. While some broad measure of cynicism around profits is healthy, our bottom-up work suggests the profit expansion remains very much in place. Top-line growth is improving, not decelerating. Cash-flow growth is strong, in many cases stronger than earnings growth, making earnings quality better than it’s been in some time. Both ours and the market’s bottom-up estimates for this year and next continue to rise—a very unusual, positive development. We anticipate Q3 earnings and Q4 guidance will be very strong for most companies when they start reporting in a few weeks, providing another catalyst for stocks as we approach year-end.

**Worry 4: The “sugar high” is set to wear off and G-forces from the ensuing deceleration will weaken growth and earnings**
This worry, also commonly referenced as the coming “Fiscal Cliff,” also is overdone in our view. If you examine the details of the tax reform package and incremental spending bills, as Dan Clifton of Strategas Research Partners has done, you’ll see the first-order fiscal stimulus currently in place is pretty evenly spread across the next three years, even if you assume the 2018-19 stimulus unleashed by the omnibus spending bill is not rolled over as expected in 2020. Beyond this, readers of this space know our view that the bill’s most powerful stimulus is not the demand-side piece everyone focuses on but the supply-side tax-reform element that raised permanently after-tax returns on investment. This already has stimulated increased corporate investment in 2018, but given planning cycles for big corporate projects and our own discussions with corporate CFOs, there will be even more next year, not less.

And none of this accounts for the multiplier effects, which take time to work though, from not only the tax cuts but also from improvements in jobs, incomes and confidence. Our macro committee GDP forecasts for next year are in fact much closer to our numbers for this year, in the 3%+ range, than in the desultory 1.5-2% levels the bears see once the sugar melts. So as we move through the fall months, continued strong economic numbers should give the markets more confidence to advance as they see the bears, once again, are wallowing a little too deep in the muck.

**Worry 5: Some international black swan (Italy? Turkey? Brexit?) will swoop in and undo us**
One or more of these black swans could land, for sure, but we think the odds heavily favor that they will be closer to white by the time they arrive. In Italy, the new finance minister seems to have a grip on bond math and understands the budget hit that would come from rising Italian bond yields if it plays the “Italexit card” would dwarf whatever fiscal stimulus his country may pursue. Turkey is more of a wild card, but the recent attack on its currency seems to have sobered President Erdogan enough to avoid a meltdown. And Britain’s Theresa May seems to be grinding slowly toward a market friendly soft Brexit. So far from being a downer, the ultimate outcome on any of these could prove another positive.

**Worry 6: The midterm elections will go poorly for Republicans, leading to policy uncertainty**
At the moment, the only good news I can report is the market seems to be already pricing in a Blue Wave that flips the House and possibly the Senate. So from that perspective, we’d argue there’s nothing but upside. If you review the House races district by district instead of the so-called generic ballot (which is national and prone to the same
Inching closer to neutral
As of October 10, 2018

Highlights
- Took some profits on rate run-up by reducing duration short
- Fighting for pennies as credit spreads have fallen below median
- Fed in difficult spot as it seeks to stick landing on neutral rate

Even though the third quarter felt “noisy” amid China trade tensions, Italian populism, idiosyncratic emerging-market (EM) turmoil and last-minute drama over a U.S. Supreme Court nominee, interest rates continued to climb while the gap between yields on Treasuries and similar maturity non-government bonds narrowed further. This proved beneficial to Federated's fixed-income lineup as rising rates and tightening spreads were representative of our base-case forecasts and portfolio positioning. With the final three months of 2018 upon us, we find ourselves in a similar place. The fundamentals—strong economic growth, robust earnings and moderate (but not accelerating) inflation—suggest a continuing upward bias on rates and some potential further tightening in spreads.

The big question—the caveat—is what happens in the midterm elections. Conventional wisdom currently has the Democrats regaining control of the House and the Republicans retaining control of the Senate, an outcome that arguably is priced into the market. But as we learned in 2016, the conventional view isn’t always the correct view. So we are deploying the same strategy as we did in 2016 before the early summer Brexit vote and the presidential election, moving closer to benchmark in duration and sector. Even at a potential cost of some marginal return until the midterms, this move to minimize portfolio risk should help offset possible short-term volatility going into—and following—the election.

Duration: Taking some profits
As we entered the fourth quarter, we took advantage of September's run-up in rates to cycle highs to take some profits, reducing our duration short to a more modest position. This may cause us to leave some money on the table if rates continue to rise in the short run, but the payoff is that we are a little less vulnerable in case of an unexpected midterm outcome or any risk-off event such as the stock market decline in early October. Moreover, from a broader perspective, we still capitalized on the 20 basis-point increase in 10-year Treasury yields during the third quarter and the 65 basis-point rise since the start of the year. Besides, as we learned in 2016, there should be time to take advantage of post-election opportunities if they arise. Given our view that rates are still normalizing and the 10-year could reach 3.50% or higher, it’s just as likely our next duration move will be to shorten as it would be to lengthen.

Spread product: Fighting for pennies
Spreads clearly aren’t as attractive at this point as they were earlier in the cycle, having fallen below their medians across the high-yield, investment-grade and EM universe. There may be room for a little more tightening, and history tells us that once spreads hit cycle lows, they can stay there for a long time—three to four years in the past two cycles. In such an environment, you are fighting for pennies, but pennies can add up. That’s why we’re not short anywhere yet in our spread product (neutral investment-grade corporate bonds, slight overweights in high yield, EM and commercial mortgage-backed securities). That’s because we still believe these sectors are as good if not better investments than U.S. Treasuries. That said, our next move likely will be to go to neutral/underweight relative to the appropriate sector benchmarks.

Crazy Fed?
As we move late into this rate cycle, the Federal Reserve is in a somewhat difficult spot. While there has been little evidence of inflation accelerating significantly above its 2% target, inflation is a lagging indicator and many forward-looking indicators are signaling that it will continue to move upward (hourly wage increases, employment costs, manufacturing prices paid and received, etc.). This should keep the central bank on its pattern of quarterly rate increases despite rhetoric from the administration; the difficulty is determining when it should pause. The dot plot suggests there will be a pause in 2019; the question is when. Sticking the landing between accommodative and restrictive is not an easy proposition. It doesn’t help that the yield curve has not assigned much of a risk premium out on the curve, meaning the Fed doesn’t have a lot of flexibility to raise rates without potentially inverting the curve. Fundamentally, an inverted curve shouldn’t mean much. But the optics
are sure to spook investors as everybody knows the relationship between an inverted curve and recession (what they may not know is that recessions tend to occur as much as a year or later after inversion, not immediately). It also doesn’t help that the president has doubled down on his criticism—as now all of the Fed’s decisions will be made against a backdrop of the market looking for signs of the Fed’s independence.

**Trump drift risk**

By most indications, the U.S. Supreme Court debate seems to have solidified the Republicans’ hold on the Senate; however, the House remains very much in play, with most political pundits calling for a Democratic majority. If this happens, we expect that the Trump administration will be willing to work with Democrats on infrastructure, and may be more closely aligned with Dems on trade, as well. With tax cuts already baked in the cake, and deregulation coming from the White House as much as Congress, it will be hard for the Dems to undo what’s already been done short of large majorities, which they almost assuredly won’t get. So maybe what happens is the Trump and the Dems strike a partnership. Depending on how it’s structured, it could prove risk-on and further deficit inducing, providing additional catalysts for higher rates down the road.

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### Municipal market impacted by tax reform, strong economy

Municipal bonds continued to outperform comparable maturity Treasuries in the third quarter—muni yields rose at a slower rate than Treasury yields due to a favorable supply and demand mix. On the supply side, the new tax law severely limited the ability of municipal issuers to refinance their tax-exempt debt prior to call dates, causing gross issuance to decline. At the same time, the new tax law in some ways encouraged demand from many individual investors who experienced a somewhat modest tax cut overall (the top income tax rate fell from 39.6% to 37%, for example) and are looking for protection from the tax man now that the federal deduction for state and local taxes is capped at $10,000. This favorable supply/demand mix seems to have deteriorated somewhat lately and could challenge near-term muni bonds relative performance looking forward. Specifically, mutual fund flows have recently turned negative as investors appear to be reacting to the recent rise in rates, and demand from banks (who experienced a large tax cut) continues to be muted. Meanwhile new issuance has picked up somewhat. On the credit front, dynamics remain favorable for most sectors except for hospitals, where the combination of flat financial trends and health policy uncertainty are drags. Local governments are benefitting from rising property values and favorable employment trends, while state governments have experienced significant revenue growth. Pension underfunding continues to fester, however, creating idiosyncratic volatility.

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ORLANDO’S OUTLOOK

Particularly bright moment
As of September 28, 2018

**Highlights**

- Fed sees strengthening economy with modest inflation
- The question is how many rates hikes will we get in 2019?
- All in place for reaching 3,100 S&P 500 target by year-end

**Bottom line**

In a unanimous and widely expected decision, the Federal Reserve voted on Wednesday to raise its benchmark fed funds rate a quarter point to a target range of 2-2.25%. This marks the Fed’s third hike this year and its eighth since ending its zero interest-rate policy (ZIRP) in December 2015.

This also marks the first time the upper band of the range has been above 2% in a decade and the first time it has exceeded core personal consumption expenditure (PCE) inflation during this post-crisis cycle. Through August 2018, the core PCE index (the Fed’s preferred measure of inflation) has been running steadily at the Fed’s 2% year-over-year (y/y) target for four months, up from a trough of 1.4% in August 2017. Policymakers do not appear worried about a future spike in inflation.

Moreover, Fed Chair Jerome Powell noted in his press conference that economic growth was broadly strengthening, while inflation remains relatively benign and on target. It’s a situation that he described as a “particularly bright moment” for the U.S. economy. With a strong labor market, the Fed increased its GDP forecasts for this year and next. It also reaffirmed the potential for five more gradual, data-dependent quarter-point hikes over the next two years and chose to remove the word “accommodative” from its statement for the first time since the end of the financial crisis. Collectively, it gives us greater confidence that the S&P 500 will continue to grind up towards our 3,100 year-end target.

**Economy strengthening**

The Fed raised its forecast for GDP growth in 2018 to 3.1%, which is stronger than our own above-consensus forecast of 3% at Federated. That’s important, as the Fed was forecasting 2.8% GDP growth for 2018 in June, 2.7% in March and only 2.1% last September (2017). In our view, this bullish increase in the Fed’s estimate suggests it is recognizing the powerful and sustainable supply-side effects of President Trump’s structural fiscal-policy reforms of late last year. For 2019, however, policymakers inched up their GDP forecast to only 2.5% from 2.4% in June, compared with our own 3% estimate. Keynesian demand-side habits die hard, and we expect more upward movement in the Fed’s 2019 GDP estimate over time.

**Another quarter-point hike is widely expected in December**

That would be the fourth of 2018, taking the upper band of the fed funds rate up to 2.5%. The Fed’s current dot plots were largely unchanged from June, suggesting three more hikes in 2019 and a final one in 2020, taking the upper band to 3.5%. That’s higher than market expectations of only two more hikes in 2019, stopping at 3% perhaps by midyear.

**Policy error brewing?**

That 50-basis-point gap creates a possible market risk for investors. Will the Fed commit a policy error and over-tighten rates into 2020, just as the economy’s growth is beginning to top out? In anticipation, the bond vigilantes might begin to buy bonds under that scenario, pushing yields down and thus inverting the yield curve. That could deliver the impending recession signal so many equity investors have feared. The Powell Fed has promised to be data dependent, but we remain vigilant.

**Power troika finally in place**

The Senate finally confirmed Richard Clarida as Fed vice chair, long after he was nominated by President Trump in April. This seat had been open since Stanley Fischer prematurely retired last October. In June, San Francisco Fed President John Williams moved east to replace the retiring William Dudley as the president of the New York Fed. So this week’s meeting had its power troika in place for the first time. Clarida and Williams, who are both Ph.D. economists, supplement Powell’s lack of formal economic training, while Powell’s plain-spoken market savvy is a refreshing new wrinkle.

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### WHERE WE STAND (as of October 17, 2018)

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<tr>
<th>Asset Class</th>
<th>Weight</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Equities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Large-Cap Growth</td>
<td>Overweight</td>
<td>Given strong fundamentals and more attractive valuations after the early October sell-off, we raised our allocation in this asset class from neutral back to overweight on our belief the selling was overdone and the news on earnings, rates and midterm elections will get less worse going forward. You may recall we took profits on this trade in June following a market run, moving the asset class to neutral, with the anticipation that we would shift back to overweight when a good buying opportunity arose.</td>
</tr>
<tr>
<td>Large-Cap Value</td>
<td>Overweight</td>
<td>Our view on large-cap value stocks is similar to above—we took a tick out of this asset class, too, in late June though it remained overweight on our view that it has added potential to catch up to growth stocks. The performance of the value trade during the October sell-off reinforced this view.</td>
</tr>
<tr>
<td>U.S. Small-Cap Growth</td>
<td>Overweight</td>
<td>We shifted this asset class back to overweight for the same reason as we raised large-cap growth. Even with the recent sell-off, this asset class has posted remarkably strong outperformance this year.</td>
</tr>
<tr>
<td>U.S. Small-Cap Value</td>
<td>Overweight</td>
<td>We remain overweight small-cap value on strong fundamentals and attractive valuations.</td>
</tr>
<tr>
<td>International Large Cap</td>
<td>Overweight</td>
<td>We think the recent slowdown in Europe is just a hiccup and are watching Italy and Brexit negotiations. Valuations are increasingly attractive and we believe risks may fade in the coming weeks.</td>
</tr>
<tr>
<td>International Small/Mid Cap</td>
<td>Neutral</td>
<td>This asset class is subject to many of the same mix of forces impacting international large cap.</td>
</tr>
<tr>
<td>Emerging Markets</td>
<td>Neutral</td>
<td>A stronger dollar has hurt the EM, but we view much of the individual country troubles as idiosyncratic, not systemic. Sell-offs have created some opportunities from a valuations perspective, and any easing in trade tensions or softening of the dollar could signal the all-clear.</td>
</tr>
<tr>
<td><strong>Fixed Income</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Treasuries/Agencies</td>
<td>Underweight</td>
<td>Treasury and agency yields have trended higher and offer little value per unit of duration risk, particularly as the Fed continues with policy normalization.</td>
</tr>
<tr>
<td>Mortgage-Backed Securities</td>
<td>Underweight</td>
<td>Because fixed income is at maximum underweight in the PRISM stock-bond model, this asset class is underweight even though it is at neutral to slightly overweight within fixed income as positive factors (valuations, reduced prepayment risk as interest rates rise) are largely offset by negative factors (reduced government purchase as the Fed pares back its balance sheet).</td>
</tr>
<tr>
<td>Investment-Grade Corporates</td>
<td>Underweight</td>
<td>Because fixed income is at a maximum underweight in the PRISM stock-bond model, this asset class also is overweight, even though it is at neutral within fixed income. It had been at overweight but was shifted to neutral in September as new supply, particularly in lower-quality IG bonds, merited caution even though corporate balance sheets and fundamentals remain healthy.</td>
</tr>
<tr>
<td>High Yield</td>
<td>Neutral</td>
<td>With a recession looking unlikely and corporate metrics looking solid, high yield remains attractive for its coupon even as its tight spreads relative to Treasuries limit total return potential. It remains a slight overweight within fixed income though neutral in PRISM because, as noted above, fixed income is at a maximum overweight in the PRISM stock-bond model.</td>
</tr>
<tr>
<td>International</td>
<td>Underweight</td>
<td>Despite strong U.S. data and idiosyncratic European political risks, global trade uncertainties cloud both investor appetites and global risk premiums.</td>
</tr>
<tr>
<td>Emerging Markets</td>
<td>Overweight</td>
<td>Recent volatility and trade tensions have widened spreads and created opportunity. Many of the problems appear to be country specific – Turkey and Argentina, for example – and not indicative of contagion. Dollar strength represents a headwind.</td>
</tr>
<tr>
<td><strong>Alternatives</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real Estate</td>
<td>Neutral</td>
<td>Limited supply, recent spread widening and the fundamentals—a growing economy, relatively low vacancy rates and robust rents—are favorable for commercial REITs. But we remain cautious amid still-tight spreads and signs of overbuilding in some markets.</td>
</tr>
<tr>
<td>Commodities</td>
<td>Neutral</td>
<td>Oil prices continue to trade in a range but still look to be in an uptrend. Weather has been supportive of agricultural commodities while the strong dollar and tariffs have not.</td>
</tr>
<tr>
<td>TIPS</td>
<td>Neutral</td>
<td>After moving steadily up to near 4-year highs, the 10-year breakeven inflation rate has steadied, making Treasury Inflation-Protected Securities appear rich.</td>
</tr>
<tr>
<td>Absolute Return</td>
<td>Overweight</td>
<td>We used this asset class to fund our additions to large-cap growth and U.S. small-cap growth, pushing both back to overweight (see above). We typically park some of our cash in absolute return, which should outperform cash and possibly bonds with less downside.</td>
</tr>
<tr>
<td><strong>Cash</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>Overweight</td>
<td>We also have excess funds in this easy-to-deploy asset class as we await better opportunities to put the cash to work. Fed policy normalization is lifting returns, making this asset class more attractive.</td>
</tr>
</tbody>
</table>

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ASSET CLASS VIEWS

These views are based on the most recent and prior investment committee meetings. Visit FederatedInvestors.com for the most up-to-date information.

Indicates current meeting position as of 10/17/18
Indicates approx. 12 months prior position as of 9/28/17
Indicates prior meeting position as of 10/12/18

Equity and Fixed-Income Balance

**Equities**
- U.S. Large-Cap Growth
  - negative
  - positive
- U.S. Large-Cap Value
  - negative
  - positive
- U.S. Small-Cap Growth
  - negative
  - positive
- U.S. Small-Cap Value
  - negative
  - positive
- International Large Cap
  - negative
  - positive
- International Small/Mid Cap
  - negative
  - positive
- Emerging Markets
  - negative
  - positive

**Fixed Income**
- Duration
  - negative
  - positive
- Treasuries/Agencies
  - negative
  - positive
- Mortgage-Backed Securities
  - negative
  - positive
- Investment-Grade Corporates
  - negative
  - positive
- High-Yield Bonds
  - negative
  - positive
- International Bonds
  - negative
  - positive
- Emerging-Markets Bonds
  - negative
  - positive

**Alternatives**
- Real Estate
  - negative
  - positive
- Commodities
  - negative
  - positive
- TIPS
  - negative
  - positive
- Absolute Return
  - negative
  - positive

**Cash**
- Cash
  - negative
  - positive
EQUITY MARKET OUTLOOK (continued)

prediction errors that led consensus the wrong way in 2018), a flip of the Senate seems highly unlikely and a flip of the House too close to call—hardly a wave, in any case.

If we wake on Nov. 6 with Rs holding both houses of Congress, expect an echo of the 9% market run we saw in the S&P and even larger 20% jump in the broader Russell 2000 in the six weeks after their Nov. 4 trough just days before Trump’s election. But even if the House does fall narrowly, this would probably be better than the market thought and would presage virtually no change in policy (given the president’s veto power as well as the nearly balanced Senate makeup) for at least two more years. Either way, we’d expect the market to move higher once the elections are over.

There are always worries
I’m sure there are other worries out there and if you have one, send it to me. My experience over a long period of ups and downs is that in the end, fundamentals drive markets and worries that we can all list are almost always already priced in. With the economy strong, forward indicators such as confidence even stronger, earnings growth in double digits and valuations fair to low, this market has plenty of room to grind higher. We expect it will.

Indeed, as we first outlined in our market memos in 2011 and reiterated regularly since, we believe we currently in what we would call “The Long Cycle,” a bull market advance similar to the long 20-year, 10 times bull markets that followed the Great Depression and later, the 1970s’ stagflation disaster. Although this economy is sure to have modest inventory-adjustment style recessions along the way, and even a few 20% market declines, we anticipate that patient investors will be rewarded with returns not seen since the great 1974-to-1999 bull run. And in the short-term, we can look to 3,100 by late December.

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For additional information on PRISM: Effective Asset Allocation®, contact your Federated representative at 1-800-341-7400. PRISM® is a registered mark of Fil Holdings, Inc., a subsidiary of Federated Investors, Inc.

Duration is a measure of a security’s price sensitivity to changes in interest rates. Securities with longer durations are more sensitive to changes in interest rates than securities of shorter durations.

Gross Domestic Product (GDP) is a broad measure of the economy that measures the retail value of goods and services produced in a country.

Personal Consumption Expenditure (PCE) Index: A measure of inflation at the consumer level.

PCE Deflator: A broad measure of changes in the prices of goods and services that consumers consume.

Russell 2000® Index: Measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index.

S&P 500 Index: An unmanaged capitalization weighted index of 500 stocks designated to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Indexes are unmanaged and investments cannot be made in an index.

Yield Curve: Graph showing the comparative yields of securities in a particular class according to maturity. Securities on the long end of the yield curve have longer maturities.

A Few Words About Risk
Past performance is no guarantee of future results. Investments are subject to risks and fluctuate in value.

Diversification and asset allocation does not assure a profit nor protect against loss.

Bond prices are sensitive to changes in interest rates and a rise in interest rates can cause a decline in their prices.

High-yield, lower-rated securities generally entail greater market, credit/ default and liquidity risks and may be more volatile than investment-grade securities. For example, their prices are more volatile, economic downturns and financial setbacks may affect their prices more negatively, and their trading market may be more limited.

International investing involves special risks including currency risk, increased volatility, political risks and differences in auditing and other financial standards. Prices of emerging markets securities can be significantly more volatile than the prices of securities in developed countries, and currency risk and political risks are accentuated in emerging markets.

Prices of commodities may rise and fall in response to many factors such as economic, political and regulatory developments.

Investments in real estate involve special risks, such as limited liquidity.

Absolute return investing may outperform broad markets during periods of flat or negative market performance but may not outperform stocks and bonds during market rallies.

The value of some mortgage-backed securities may be particularly sensitive to changes in prevailing interest rates, and although the securities are generally supported by some form of government or private insurance, there is no assurance that private guarantors or insurers will meet their obligations.

Small-company stocks may be less liquid and subject to greater price volatility than large-capitalization stocks.

Value stocks may lag growth stocks in performance, particularly in late stages of a market advance.

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