Stock Market Outlook Report

The Latest Insights and Forecasts from Zacks Investment Management

JANUARY 2026

Zacks
INVESTMENT MANAGEMENT

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Perspective on a Potential "AI Bubble"

Apart from the sharp selloff tied to the "Liberation Day" tariff announcement, U.S. stocks posted a banner year in 2025—largely driven by Technology stocks and the ongoing AI trade.

The strong performance has many investors concerned.

The phrase "AI bubble" made the rounds in the second half of last year, with comparisons to the late-1990s tech boom becoming increasingly common. It's a fair position to bring up for debate—valuations are elevated, enthusiasm is widespread, and capital spending tied to artificial intelligence is accelerating.[1]

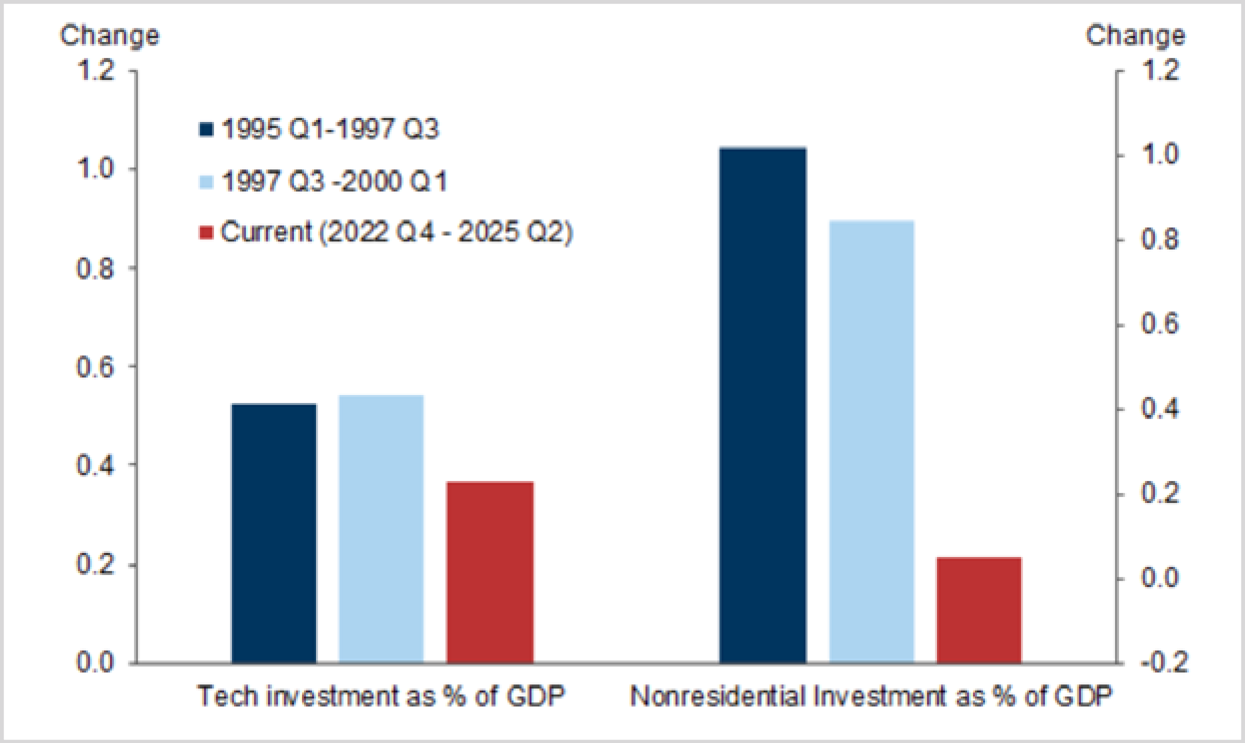
Market bubbles happen when asset prices become untethered from underlying fundamentals, and importantly, from free cash flow. So the question for investors today is, *have we reached that point in this cycle?*

To answer that question, it is useful to look back to the late 1990s to understand what other forces were at work in creating bubble-like conditions. In that period, we saw soaring valuations like we do now, but those valuations were also accompanied by dramatic economy-wide distortions: an unprecedented investment surge, declining corporate profitability, rising leverage, widening credit spreads, and growing financial imbalances that eventually helped tip the economy into recession.

In our view, many of those warning signs are not yet visible today, but it's important for investors to continue to look for them.

Let's start with the investment piece. Capital expenditures (business investment) from hyper-scalers have surged since generative AI went mainstream in late 2022, and AI-related investment is now a key component of total investment across the economy. But the scale and persistence of that spending remain well below what defined the late stages of the tech bubble. Relative to GDP, AI investment is smaller than the telecom and technology buildout of the late 1990s, and it has not yet been sustained for the multi-year stretch that ultimately proved destabilizing back then (see chart on the next page).

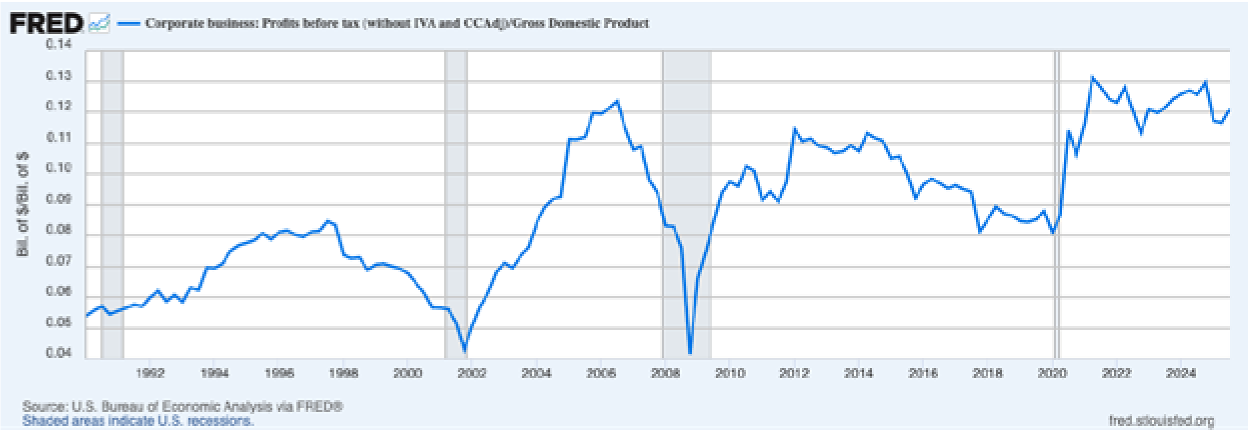
[1] Goldman Sachs. November 9, 2025.



Source: Haver Analytics, Goldman Sachs Global Investment Research

Profitability also tells an important story. In the 1990s, corporate profit margins peaked in late 1997 (see chart below) and then quietly eroded as wages rose and unit labor costs climbed. As corporate profitability fell, the Nasdaq continued to soar.

Today, the opposite dynamic is in place. Corporate margins remain elevated, earnings growth has been resilient, and wage pressures have eased rather than intensified. Productivity growth has improved recently, though it is still too early to attribute most of that gain directly to AI. Crucially, there is no clear evidence yet that AI-related investment is undermining profitability at the macro level, as seen on the chart below.

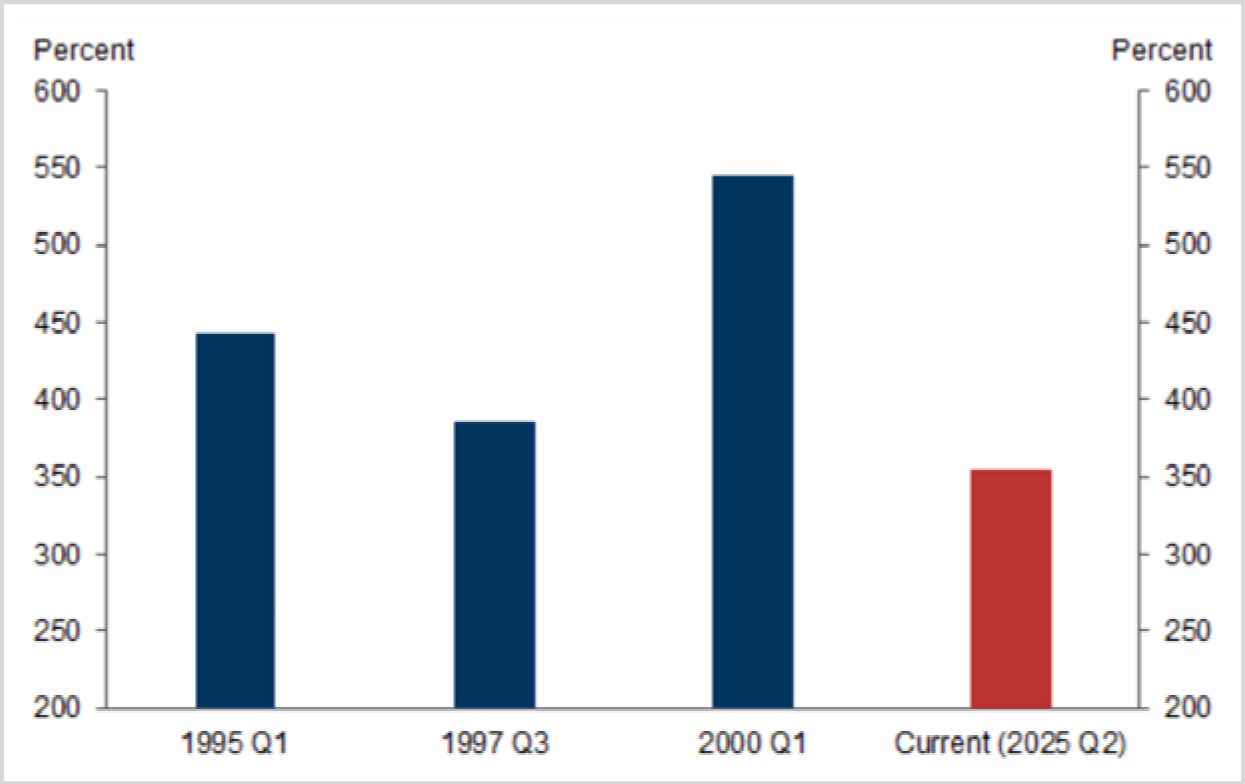


Source: Federal Reserve Bank of St. Louis[2]

Balance sheets further differentiate this cycle from the last one. During the tech bubble, investment increasingly relied on debt, pushing the corporate sector into financial deficit and weakening balance sheets. Today, most large AI-linked companies are funding expansion primarily through internal cash flows. Leverage has risen modestly, but from historically strong starting points, and the corporate sector as a whole remains in surplus.

[2] Fred Economic Data. December 23, 2025. https://fred.stlouisfed.org/series/A446RC1Q027SBEA

Corporate Debt as Percent of Corporate Profits



Source: Haver Analytics, Goldman Sachs Global Investment Research

Finally, financial markets appear to be sending a similar message, for now. In the late 1990s, credit spreads widened and equity volatility rose well before stocks peaked, which we can now label as early warnings that risks were building beneath the surface. Today, credit spreads remain tight and volatility has not reset structurally higher, even amid periodic market shocks. That does not mean risks are absent, but it does suggest that financial stress has not yet become systemic.

None of this implies that AI-related assets cannot become overvalued, or that future returns will necessarily justify today's prices. History offers a useful caution here: even transformative technologies can produce disappointing outcomes for investors if competition intensifies or capital spending overshoots demand. Equity markets can also price in long-term benefits well before they materialize in earnings.

The late 1990s did not unravel overnight. Warning signs emerged gradually: a sustained acceleration in investment, a peak and decline in profit margins, a shift toward debt-financed expansion, and rising volatility and credit spreads. Those remain the key markers to watch as the AI cycle matures.

Key U.S. Economic Data: Numbers and Trends

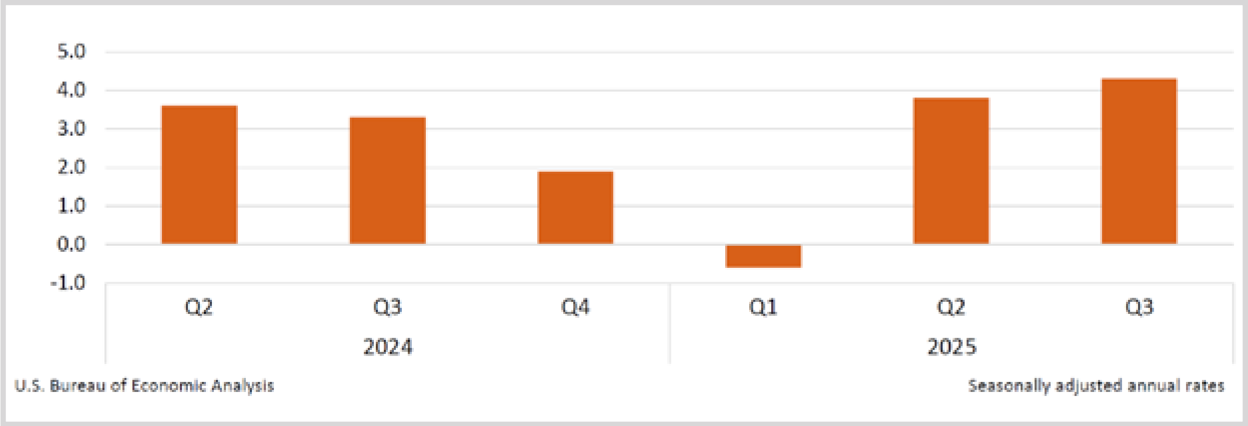
Here is a summary of key economic data from September, November, and December 2025. October 2025 data is not available due to the government shutdown.

U.S. GDP

Real gross domestic product (GDP) increased at an annual rate of 4.3 percent in the third quarter of 2025 (July, August, and September), according to the initial estimate released by the U.S. Bureau of Economic Analysis. In the second quarter, real GDP increased 3.8 percent.

(Due to the recent government shutdown, this initial report for the third quarter of 2025 replaces the release of the advance estimate originally scheduled for October 30 and the second estimate originally scheduled for November 26.)

Real GDP, Percent Change From Preceding Quarter



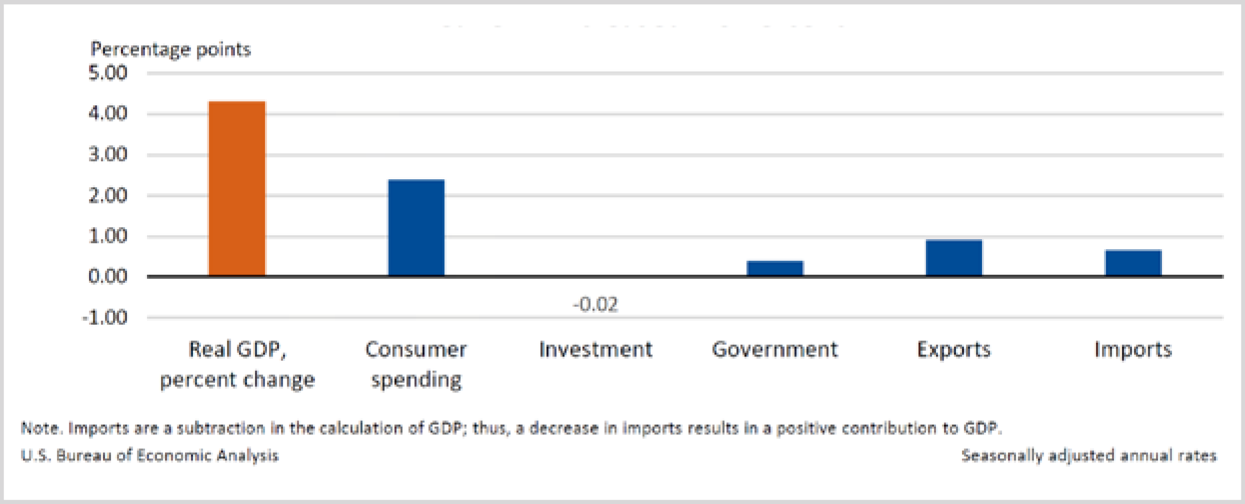
BEA 3

The increase in real GDP in the third quarter reflected increases in consumer spending, exports, and government spending that were partly offset by a decrease in investment. Imports, which are a subtraction in the calculation of GDP, decreased.

[3] BEA. December 23, 2025. https://www.bea.gov/news/2025/gross-domestic-product-3rd-quarter-2025-initial-estimate-and-corporate-profits

Contributions to Percent Change in Real GDP, 3rd Quarter 2025

Real GDP Increased 4.3 Percent



BEA 4

Compared to the second quarter, the acceleration in real GDP in the third quarter reflected a smaller decrease in investment, an acceleration in consumer spending, and upturns in exports and government spending. Imports decreased less in the third quarter.

Looking ahead to Q4 2025, the Atlanta Fed's GDPNow tool is forecasting that the U.S. economy is poised to continue growing at a 2.7% annual pace (projection as of January 5, 2026).

INCOME AND CONSUMER SPENDING

According to the Bureau of Economic Analysis, incomes and spending both increased in September. *(Data for October, November, and December will be released in the coming month).*

Personal income increased $92.4 billion (0.4 percent at a monthly rate) in September. Disposable personal income (DPI)—personal income less personal current taxes—increased $73.5 billion (0.3 percent) and personal consumption expenditures (PCE) increased $79.2 billion (0.4 percent).

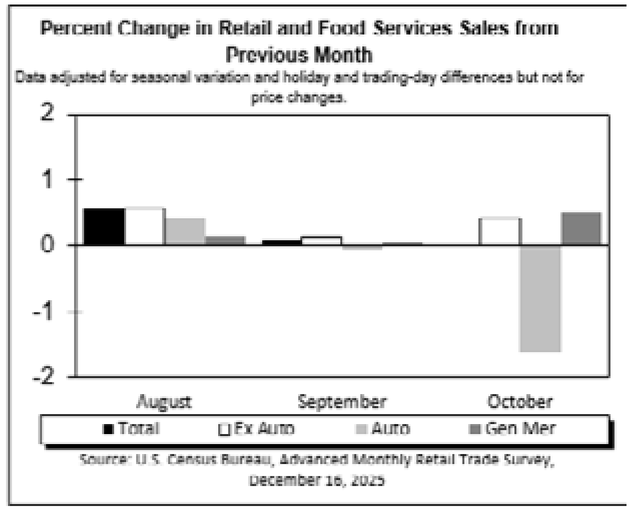
Personal outlays—the sum of PCE, personal interest payments, and personal current transfer payments—increased $88.2 billion in September.[5]

[4] BEA. December 23, 2025. https://www.bea.gov/news/2025/gross-domestic-product-3rd-quarter-2025-initial-estimate-and-corporate-profits

[5] BEA. December 23, 2025. https://www.bea.gov/system/files/pi0625charta.PNG

Advance estimates of U.S. retail and food services sales for October 2025, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $732.6 billion, virtually unchanged from the previous month, and up 3.5 percent from October 2024. Total sales for the August 2025 through October 2025 period were up 4.2 percent from the same period a year ago.[6]

Retail trade sales were up 0.1 percent from September 2025, and up 3.4 percent from last year.



Census[7]

INFLATION

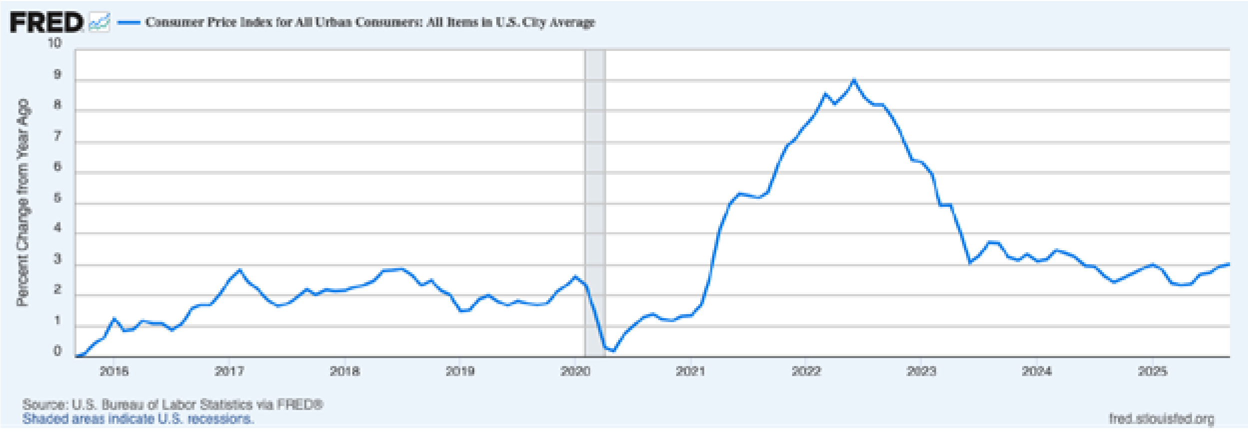
The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.2 percent on a seasonally adjusted basis over the two months from September 2025 to November 2025, according to the U.S. Bureau of Labor Statistics. Over the last 12 months, the all-items index increased 2.7 percent before seasonal adjustment. BLS did not collect survey data for October 2025 due to the government shutdown.

The all-items index rose 2.7 percent for the 12 months ending November, after rising 3.0 percent over the 12 months ending September. The all-items less food and energy index rose 2.6 percent over the last 12 months. The energy index increased 4.2 percent for the 12 months ending in November. The food index increased 2.6 percent over the last year.

[6] Census. December 16, 2025. https://www.census.gov/retail/sales.html

[7] Census. December 16, 2025. https://www.census.gov/retail/sales.html

Consumer Price Index Year-Over-Year % Change, All Items



Source: Federal Reserve Bank of St. Louis [8]

The Fed's preferred inflation measure, the headline PCE price index, rose 2.8% y/y in September, with core prices up 2.8%.

U.S. LABOR MARKET (JOBS)

Total nonfarm payroll employment changed little in November (+64,000) and has shown little net change since April, the U.S. Bureau of Labor Statistics reported today. In November, the unemployment rate, at 4.6 percent, was little changed from September.

The change in total nonfarm payroll employment for August was revised down by 22,000, from 4,000 to -26,000, and the change for September was revised down by 11,000, from +119,000 to +108,000. With these revisions, employment in August and September combined is 33,000 lower than previously reported.

[8] Fred Economic Data. December 18, 2025. https://fred.stlouisfed.org/series/CPIAUCSL

Job openings are holding steady, and continue to be at elevated levels despite declines over the past year:

Source: Federal Reserve Bank of St. Louis[9]

SERVICES AND MANUFACTURING PMI

According to S&P Global's Flash December PMI report, on U.S. service sector activity (which accounts for a majority of output)[10]:

"US business activity continued to expand in December, according to early 'flash' PMI data, though the rate of growth dropped to the weakest recorded for six months.

The headline S&P Global US PMI Composite Output Index fell to 53.0 in December from 54.2 in November, according to the 'flash' reading (based on about 85% of usual survey responses). The latest reading is the lowest since June, though continues to indicate robust economic growth. Output has now grown continually for 35 months.

Key Takeaway:

The slowdown was accompanied by the smallest rise in new business inflows recorded for 20 months. Demand for services grew only modestly, rising at a sharply reduced rate, and new orders for goods fell for the first time in a year.

The survey also saw a slightly pull-back in business confidence in the year ahead, in turn contributing to a softening of employment growth to result in only a very modest increase in staffing numbers, notably in the services economy.

Price pressures meanwhile moved sharply higher, with average selling prices rising at one of the steepest rates seen since mid-2022 as firms passed on the steepest rise in costs recorded for just over three years, in turn widely blamed on tariffs.

[9] Fred Economic Data. January 7, 2026. https://fred.stlouisfed.org/series/JTSJOL

[10] ISM World. 2025. https://www.ismworld.org/supply-management-news-and-reports/reports/ism-report-on-business/

Similar rates of output growth were recorded across both manufacturing and services in December, although growth rates slowed to three- and six- month lows respectively in response to cooler demand conditions. Manufacturing new orders fell, albeit only modestly, for the first time for a year, while inflows of new work in the service sector slipped to a 20-month low.

Key Takeaway:

November's Services PMI® is a continuation of a downward trend (as noted in the October report) of more than 10 percentage points in the 12-month average since February 2022, when it was 62.6 percent. The continued expansion in both the Business Activity and New Orders indexes in November, and the highest Backlog of Orders index reading since February 2025 are positive signs of an emerging recovery for the services sector. On the downside, tariffs and the government shutdown continue to be noted by survey respondents as impacting both demand and costs. The Employment index reading of 48.9 percent, while still in contraction, is its highest reading since it registered 50.7 percent in May 2025. The highest Supplier Deliveries index figure (54.1 percent) since October 2024 — a reading in expansion indicates slower deliveries by suppliers — was likely due to air traffic disruptions from the government shutdown and customs impacts related to changing tariffs. The tragic UPS plane crash on November 4 is also a sobering reminder, especially with the coming holidays that rely on timely deliveries, of the risks that logistics providers take every day on our roads, waterways and skies to ensure that supply chains operate smoothly."

REGARDING THE U.S. MANUFACTURING SECTOR:

"Economic activity in the manufacturing sector contracted in December for the 10th consecutive month, following a two-month expansion preceded by 26 straight months of contraction.

The Manufacturing PMI® registered 47.9 percent in December, a 0.3-percentage point decrease compared to the reading of 48.2 percent in November and the lowest reading of 2025. The overall economy continued in expansion for the 68th month after one month of contraction in April 2020. (A Manufacturing PMI® above 42.3 percent, over a period of time, generally indicates an expansion of the overall economy.)

Key Takeaway:

In December, U.S. manufacturing activity contracted at a faster rate, with pullbacks in the Production and Inventories indexes leading to the 0.3-percentage point decrease of the Manufacturing PMI®. Those two subindexes increased in November, so their contraction this month continues the short-term "bubble" of improvement indicative in the last several months of PMI® data — and a hallmark of recent economic uncertainty in manufacturing.

[6] ISM World. 2025. https://www.ismworld.org/supply-management-news-and-reports/reports/ism-report-on-business/

Although the demand indicators are still in contraction, improvement in three indexes (New Orders, Backlog of Orders and New Export Orders) and the Customers' Inventories Index remaining in 'too low' territory (and at an accelerated rate) are positive signs for December, but several consecutive months of gains in these indicators are necessary for a longer-term recovery. A 'too low' status for the Customers' Inventories Index is usually considered positive for future production.

Regarding output, the Production Index is still in expansion but slipped 0.4 percentage point, likely due to last month's drop in the New Orders and Backlog of Orders indexes. The Employment Index contracted at a slower pace, with 63 percent of panelists indicating that managing head counts is still the norm at their companies, as opposed to hiring.

Finally, inputs (defined as supplier deliveries, inventories, prices and imports) were mixed, with the Supplier Deliveries Index indicating slower deliveries, the Inventories and Imports indexes contracting strongly, and the Prices Index with the same reading as in November.

Looking at the manufacturing economy, 85 percent of the sector's gross domestic product (GDP) contracted in December, compared to 58 percent in November, and the percentage of manufacturing GDP in strong contraction (defined as a composite PMI® of 45 percent or lower) increased to 43 percent, compared to 39 percent in November. The share of sector GDP with a PMI® at or below 45 percent is a good metric to gauge overall manufacturing weakness. Of the six largest manufacturing industries, only Computer & Electronic Products expanded in December."

The Housing Market

Existing-home sales rose 0.5% in November 2025. Month-over-month sales increased in the Northeast and South, showed no change in the West, and fell in the Midwest. Year-over-year sales showed no change in the Northeast and South, and decreased in the Midwest and West.[11]

According to NAR Chief Economist Lawrence Yun, *"Existing-home sales increased for the third straight month due to lower mortgage rates this autumn. However, inventory growth is beginning to stall. With distressed property sales at historic lows and housing wealth at an all-time high, homeowners are in no rush to list their properties during the winter months."*

Total Existing-Home Sales for November

- 0.5% increase in existing home sales month over month to a seasonally adjusted annual rate of 4.13 million.
- 1.0% decrease in sales year over year.

Inventory in November

- 1.43 million units: Total housing inventory, down 5.9% from October and up 7.5% from November 2024 (1.33 million).
- 4.2-month supply of unsold inventory, down from 4.4 months in October and up from 3.8 months in November 2024.

Median Sales Price in November

- $409,200: Median existing-home price for all housing types, up 1.2% from one year ago
- ($404,400) – the 29th consecutive month of year-over-year price increases.

[11] National Association of Realtors. 2026. https://www.nar.realtor/newsroom/nar-existing-home-sales-report-shows-1-5-increase-in-september

Global Market Data

Here's key data across equity, bond, and commodity markets.

STOCKS

PERFORMANCE OF MAJOR INDEXES IN DECEMBER 2025[12]:

- S&P 500: +0.06%
- Nasdaq: -0.47%
- MSCI World[13]: +0.73%
- MSCI EAFE: +3.01%
- MSCI Emerging Markets: +3.02%
- MSCI United Kingdom: +3.69%
- MSCI Germany Index: +4.38%
- MSCI Japan Index: +0.43%

ACROSS STYLE AND SIZE:

- Russell 1000 Growth: -0.62%
- Russell 1000 Value: +0.67%
- Russell Mid-Cap: -0.28%
- Russell 2000 (small-cap): -0.58%

FIXED INCOME

- 10-year U.S. Treasury Bond: 4.18%
- iShares Investment Grade Corporate Bond ETF: -0.73%
- iShares Core Aggregate Bond ETF: -0.28%
- iShares High Yield Corporate Bond ETF: +0.49%
- Fed Funds: Cut by 25 basis points, to a range of 3.50% to 3.75%
- 3-month / 10-year U.S. Treasury Bond Yield Curve: **Steepening**

[12] Y Charts. January 5, 2026. https://get.ycharts.com/resources/blog/monthly-market-wrap/

[13] MSCI. 2026. https://www-cdn.msci.com/web/msci/index-tools/end-of-day-index-data-search

Source: Federal Reserve Bank of St. Louis

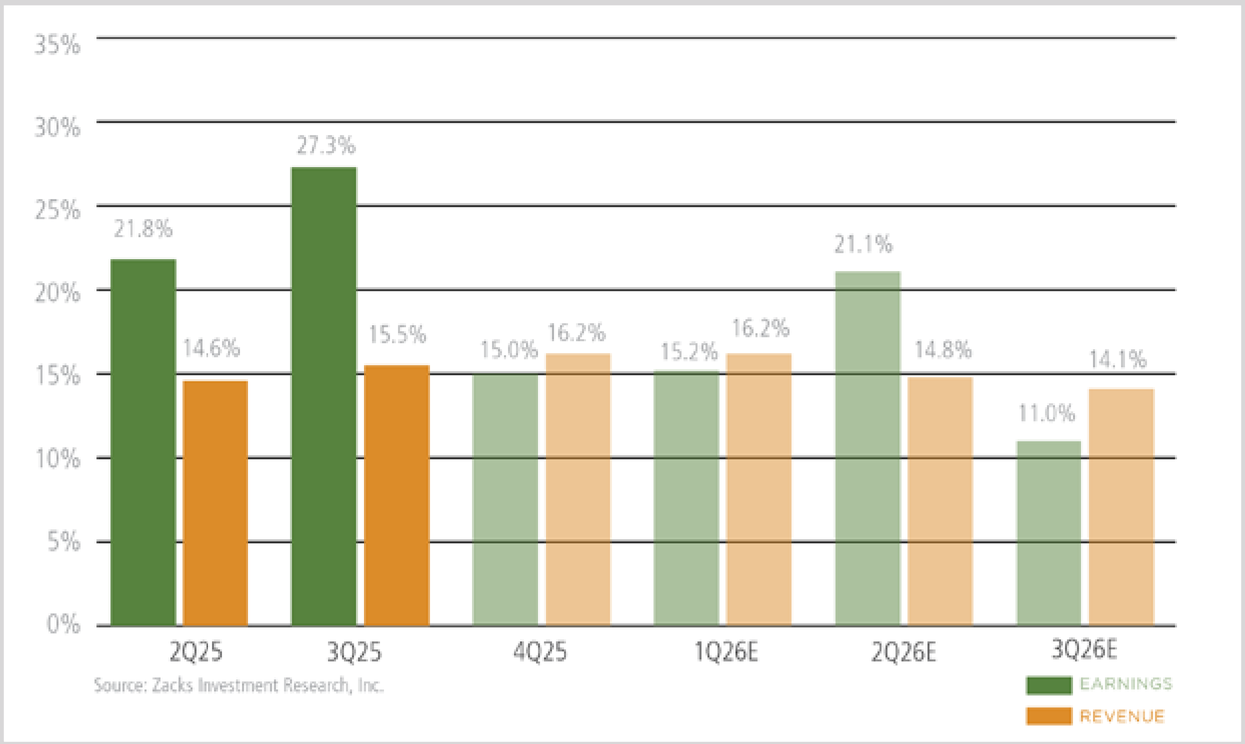
[14] Fred Economic Data. January 9, 2026. https://fred.stlouisfed.org/series/T10Y3M

Zacks S&P 500 Earnings Insights

The Outlook for Tech Earnings + Q4 2025 Earnings Scorecard

The chart below shows the earnings and revenue growth outlook for the Zacks Tech sector on a quarterly basis, where we highlight expectations for Q4 2025 in the context of what the sector achieved in the preceding two quarters and what is expected in the following three quarters.[15]

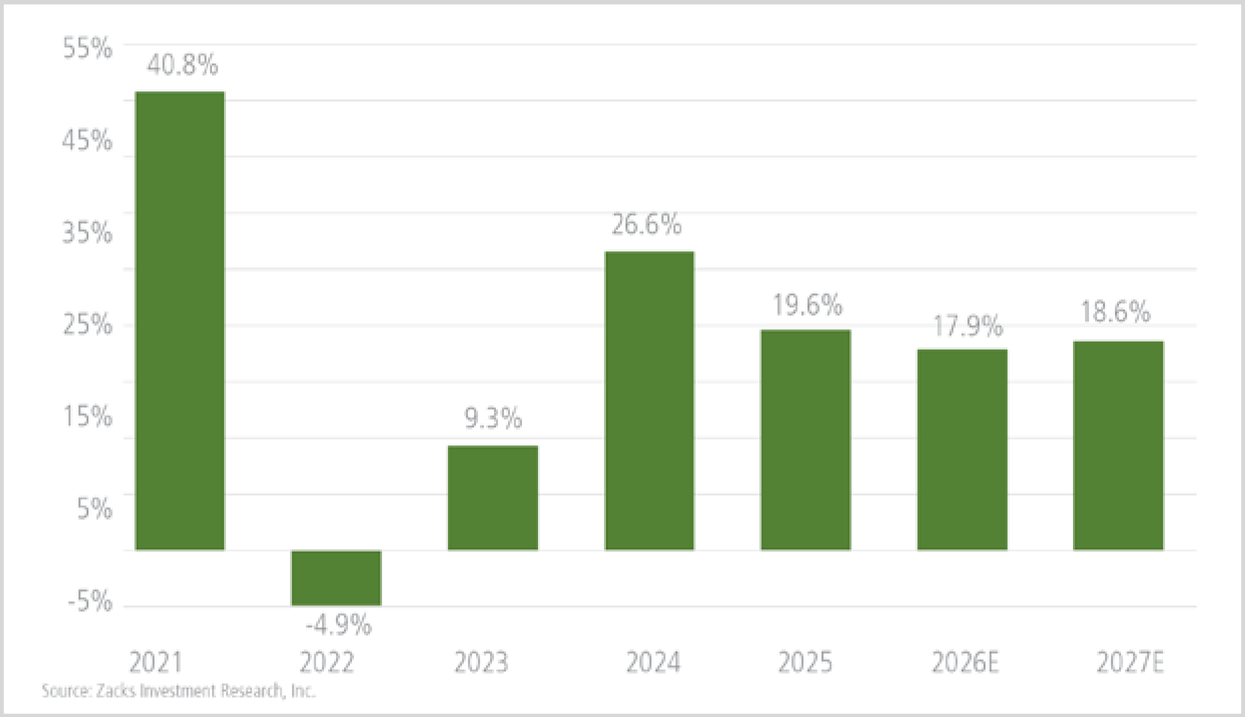
Technology Sector Quarterly Growth Rates



The Tech sector has been critical to driving aggregate earnings growth for the last 9 quarters (since Q3 2023), and the above chart shows that it is expected to continue playing that role in the coming periods as well.

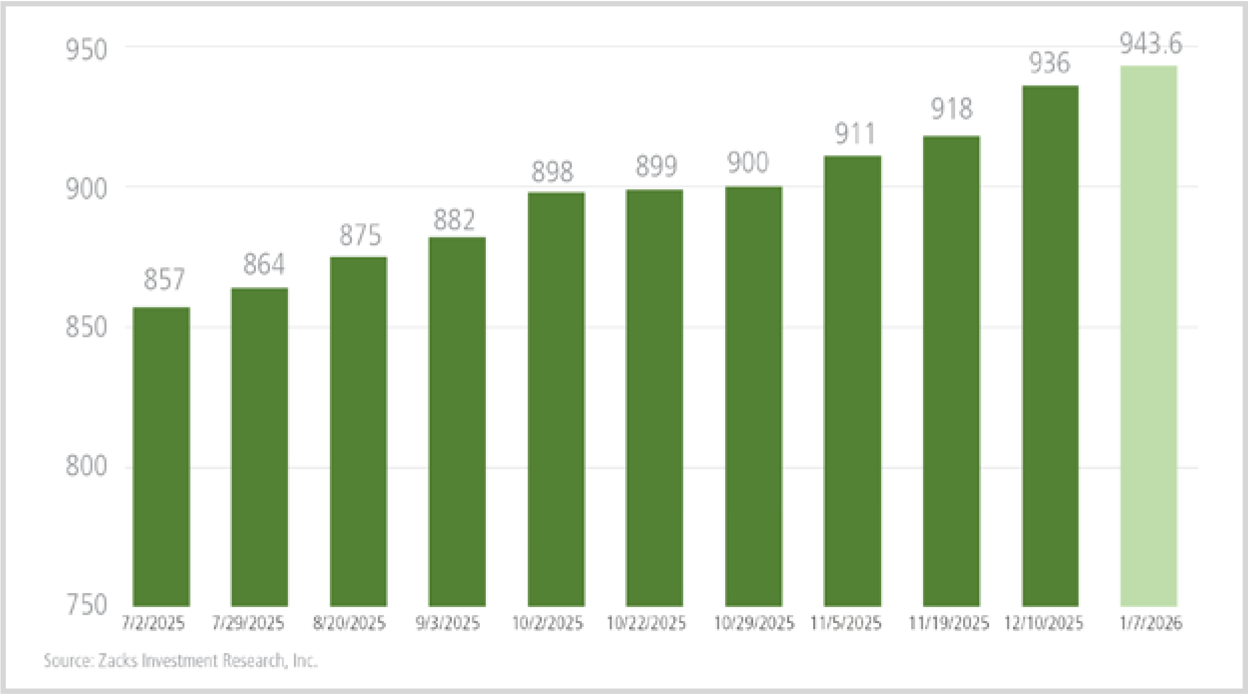
[15] Zacks.com. December 19, 2025. https://www.zacks.com/commentary/2807014/breaking-down-oracle-the-ai-trade-and-the-outlook-for-tech-earnings

Tech Sector Earnings Growth Rate



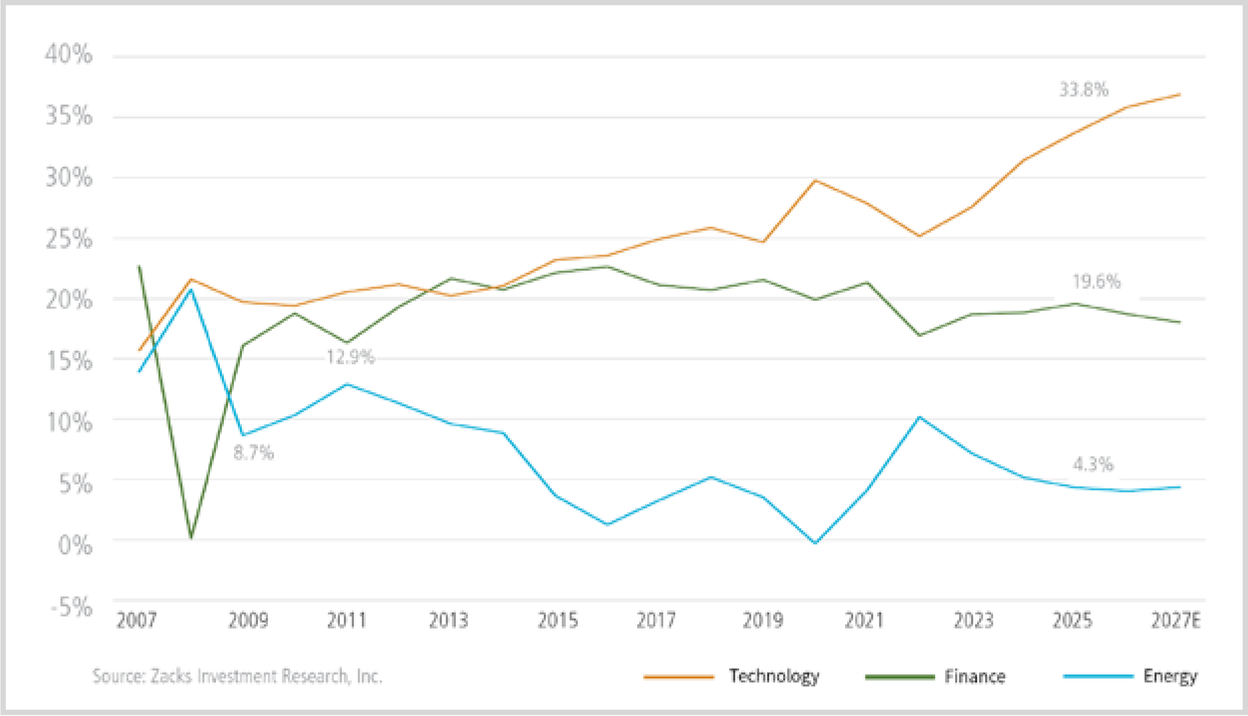
Please note that the Tech sector has been consistently enjoying positive estimate revisions over the past year, and we saw the same trend at play since the start of Q4 2025 in October. In fact, had it not been for positive revisions to Tech sector estimates, aggregate Q4 earnings estimates for the S&P 500 index would be modestly down since the start of October.

Evolution of 2026 Q3 Tech Earnings Growth Estimates (Billion $)



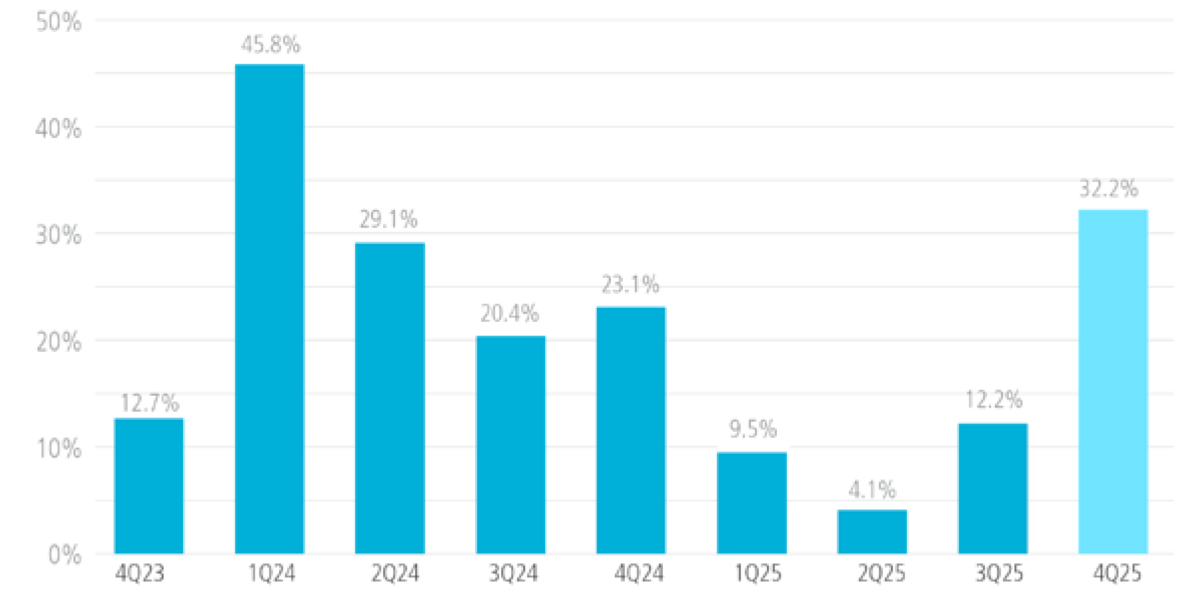
The chart below shows the sector's earnings growth picture on an annual basis.

S&P 500 Earnings Contributors



The positive revisions trend that we referenced for the Tech sector in the context of 2025 Q4 earnings estimates is very much in place for full-year 2026 estimates as well, as the chart below shows.

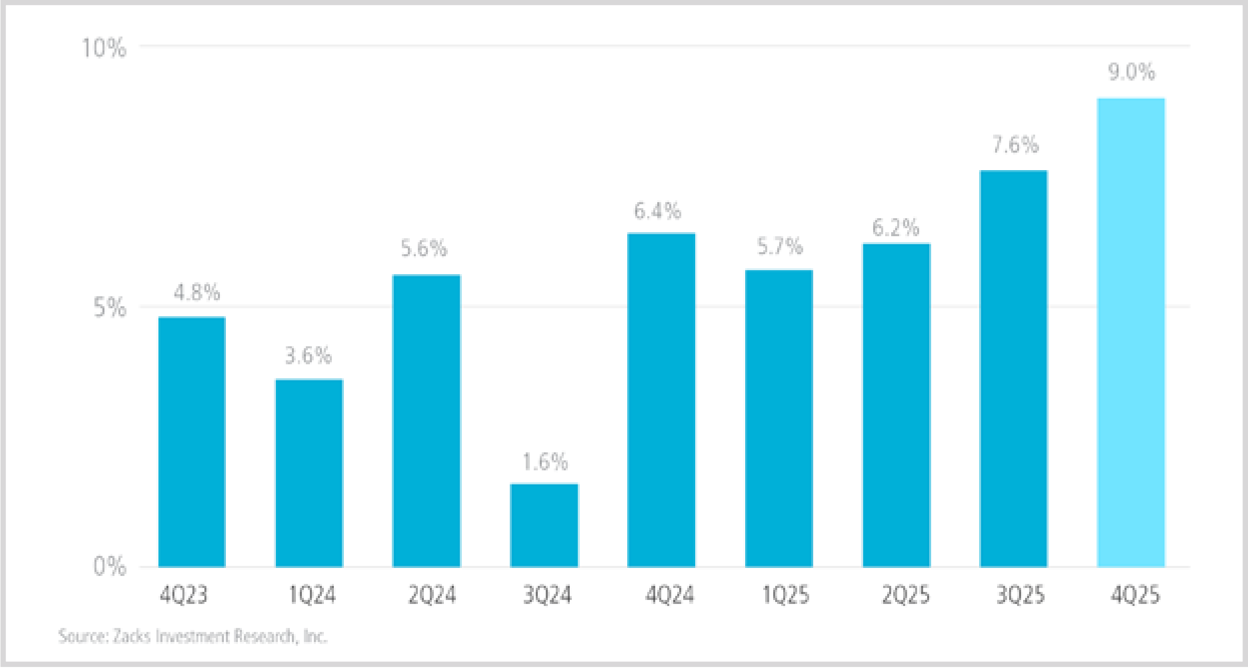
Q4 Earnings Growth Rates Compared



Source: Zacks Investment Research, Inc.

The Tech sector is not ordinary; it accounts for nearly a third of S&P 500 earnings, as the chart below shows.

Q4 Revenue Growth Rates Compared

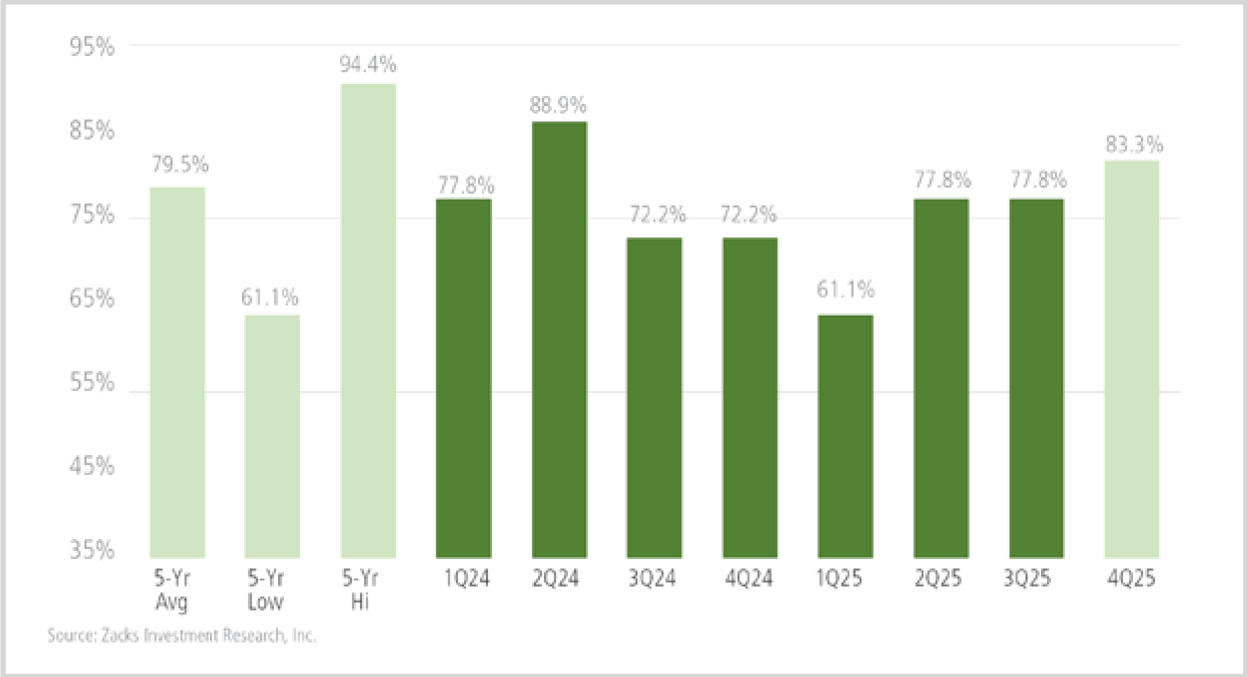


Q4 2025 EARNINGS SEASON SCORECARD

Total earnings for these 18 index members are up +32.2% from the same period last year on +9% higher revenues, with 83.3% beating EPS estimates and 72.2% beating revenue estimates (through mid-December).

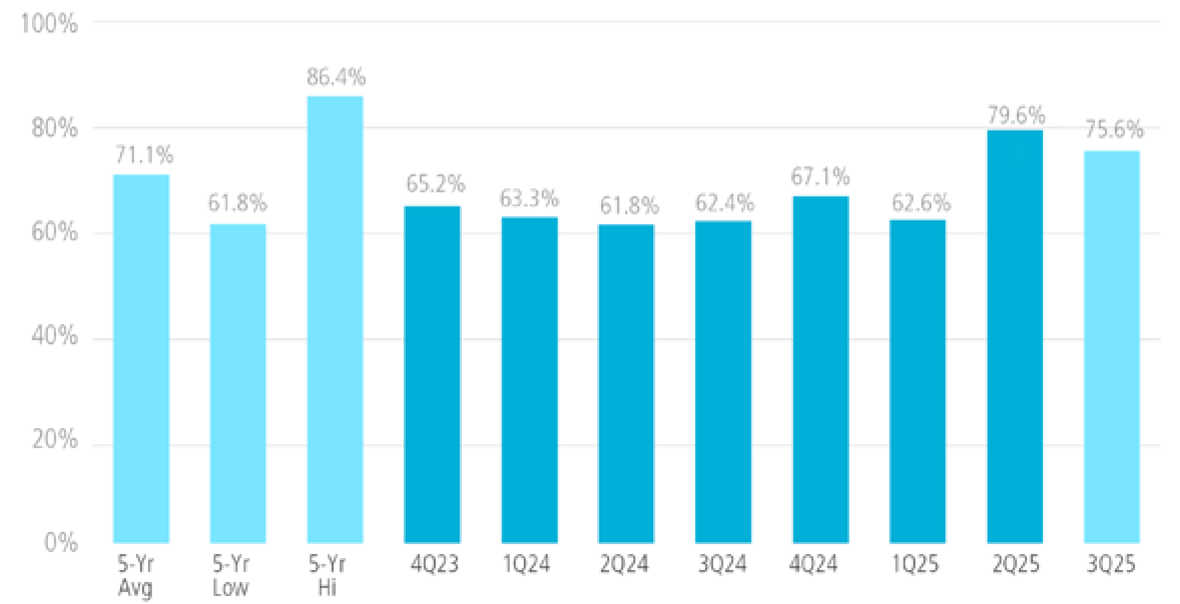
The comparison charts below put the Q4 earnings and revenue growth rates from these companies in a historical context.

Q4 EPS Beats % Compared



The comparison charts below show the Q4 EPS and revenue beats percentages in a historical context.

Quarterly Earnings and Revenue Growth (YoY)

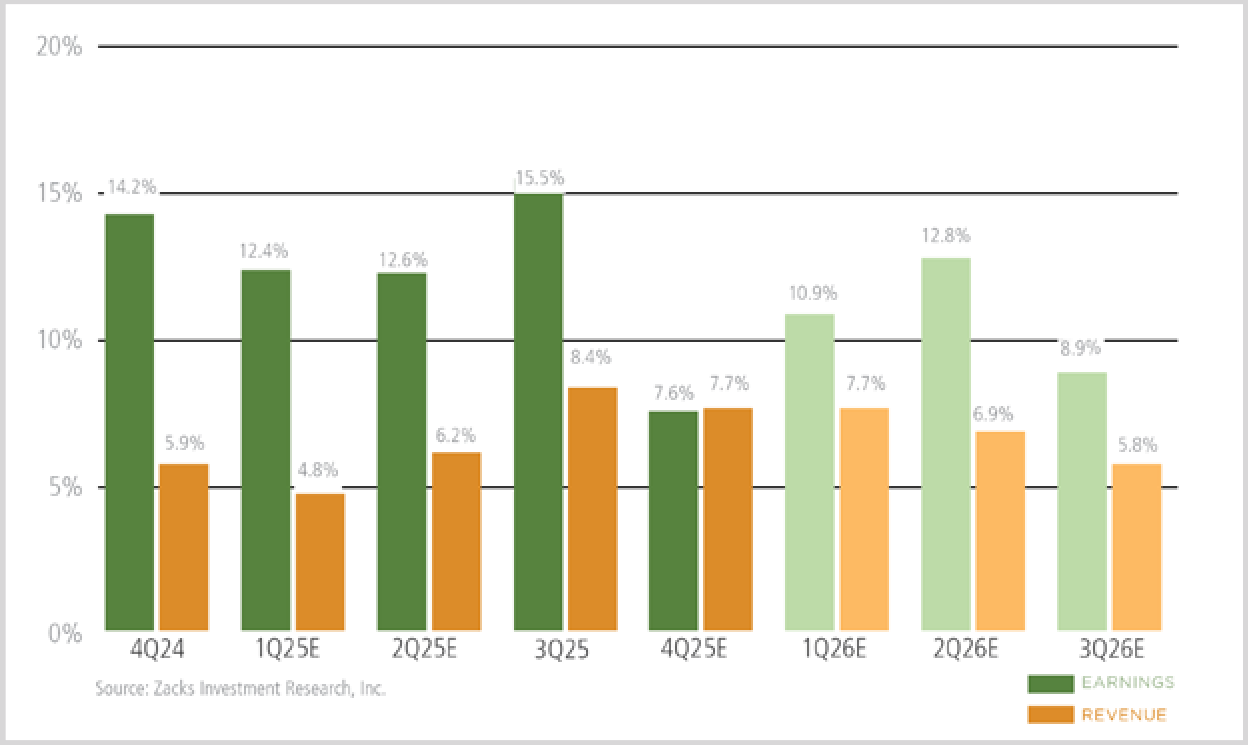


Source: Zacks Investment Research, Inc.

The Earnings Big Picture

The chart below shows current Q4 earnings and revenue growth expectations for the S&P 500 index in the context of the preceding 4 quarters and the coming three quarters.

Quarterly Earnings and Revenue Growth (YoY)



The chart below shows the overall earnings picture on a calendar-year basis.

Annual Earnings and Revenue Growth Rate: S&P 500

Asset Allocation: Zacks Sector Picks

PERFORMANCE

For the month of December 2025, six S&P 500 sectors were strong relative performers.

- Financials (XLF): 3.05%
- Communication Services (XLC): 2.35%
- Materials (XLB): 1.97%
- Industrials (XLI): 1.27%
- Consumer Discretionary (XLY): 1.20%
- Technology (XLK): 0.75%

Five S&P 500 sectors underperformed in December:

- Energy (XLE): -0.30%
- Consumer Staples (XLP): -1.34%
- Health Care (XLV): -1.39%
- Real Estate (XLRE): -2.12%
- Utilities (XLU): -5.09%

EARNINGS

For bulls, **4 of 16** Zacks sectors show relatively strong Q4-25 earnings:

- Aerospace (+62.2%)
- Finance (+13.4%)
- Technology (+11.3%)
- Utilities (+10.2%)

With S&P500 Q4-25 EPS growth at +6.8%, **3** Zacks groups offer in-line growth:

- Business Services (+4.0%)
- Retail/Wholesale (+3.5%)
- Conglomerates (+2.5%)

For bears, **9** Zacks sectors have shown negative (or flat) Q4-25 EPS growth.

- Basic Materials (+1.0%)
- Medical (+0.7%)
- Oil/Energy (+0.3%)
- Industrial Products (-0.7%)
- Consumer Staples (-3.8%)
- Consumer Discretionary (-6.0%)
- Transportation (-6.9%)
- Construction (-18.1%)
- Autos (-22.2%)

ZACKS RANK S&P 500 SECTOR PICKS

Zacks January 2026 Sector/Industry/Company Telescope

Dec. 31st, 2025 data showed several leaders: Info Tech remains dominant at Very Attractive. Info Tech EPS growth has "AI" data/cloud centers & mega-cap earnings.

Record prices on stocks and Fed policy easing keep Financials Attractive. Utilities stayed Attractive too. "AI" data center electricity use keeps it strong, as well.

There are many new Attractive sectors this month: **Communications** rose to Attractive. **Telco Equipment** ranked high, again. **Consumer Discretionary** rose to an Attractive rating. **Industrials** rose to Attractive. **Energy** sectors rose to Attractive. **Energy-Alternates** and **Oil-Drillers** led.

Health Care stayed at a Market rating; **Medical-Products** continues as a strong hand.

Materials looked stuck at an Unattractive rating.

Consumer Staples stayed at the back, at a Very Unattractive rating.

(1) Info Tech stayed at Very Attractive. Semis, Electronics, and Misc. Tech led again.

(2) Financials stayed at Attractive. Major Banks, Finance, Banks & Thrifts looked best.

(3) Utilities stayed Attractive. Utility-Gas Distribution was the best.

(4) Communications Services rose to Attractive. Telco Equip't was best, again.

(5) Industrials rose to Attractive. Metal Fabricating & Pollution Control, were its strongest industries, again.

(6) Energy rose to Attractive. Energy-Alternates and Drillers looked the best.

(7) Consumer Discretionary rose to Attractive. Consumer Electronics and Non-Food Retail/Wholesale looked best, again.

(8) Health Care stayed at Market Weight. Medical Products was its best, again.

(9) Materials rose to Unattractive. Steel and Metals-non-Ferrous stayed solid (Record high gold and silver prices!).

(10) Consumer Staples stayed Very Unattractive. But Soaps & Cosmetics and Agri-business looked great.

ZACKS RANK JANUARY INDUSTRY TABLES

(As of Dec. 31st, 2025)

Industry Portfolio Rating	Very Attractive (2.00 to 2.64 Zacks Rank)	Attractive (2.65 to 2.81)	Market Performer (2.81 to 2.99)	Unattractive (3.00-3.20)	Very Unattractive (3.21 or worse)
Consumer Staples **VERY UNATTRACTIVE**	Soaps & Cosmetics (2.35) Agri-business (2.57)			**Food/Drug Retail** Hypermarkets & Supercenters (3.12) **Beverages** Soft Drinks, Brewers, Distillers & Vintners (3.24)	Cons Prod-Misc. Staples (3.35) Tobacco (3.44) **Food** Food Distributors, Packaged Foods (3.51)
Consumer Discretionary **ATTRACTIVE**	**Consumer Electronics** (2.05) **Non-Food Retail/ Wholesale** Department Stores, General Merch. Stores, Specialty Stores (2.63)		**Media** Movies & Entertainment, Cable & Satellite, Advertising (2.91) Other Cons Disc. (2.92) **Leisure Service** Casinos & Gaming, Hotels, Leisure Products, Restaurants (2.94)	Publishing (3.00) **Consumer Autos/Tires/ Trucks** Auto Retail, Automotive Manufacturer, Tires & Rubber, Auto Parts & Equipment Distributors (3.06) Home Furnishing – Appliance (3.15)	**Apparel** Footwear, Apparel & Accessories, Apparel Retail (3.54)

Industry Portfolio Rating	Very Attractive (2.00 to 2.64 Zacks Rank)	Attractive (2.65 to 2.81)	Market Performer (2.81 to 2.99)	Unattractive (3.00-3.20)	Very Unattractive (3.21 or worse)
Energy **ATTRACTIVE**		Energy – Alternate Sources (2.67) Oil – Mach/ Drillers (2.76)	Oil Misc. – (2.82) Oil & Gas – Integrated (2.91)	Coal & Consumable Fuels (3.03) Coal & Consumable Fuels (3.03) Oil & Gas Exp. & Prod. (3.15)	Oil/Gas Prod & Pipeline (3.02)
Health Care **MARKET WEIGHT**		**Medical Products** Life Science Tools & Services, Health Care Equipment (2.82)	**Medical Care** Health Care Distributors, Health Care Supplies, Health Care Facilities, Managed Health Care (3.02)	**Drugs** Biotech, Pharma (3.08)	
Financials **ATTRACTIVE**		**Banks – Major** Regional Banks, Diversified Banks, Other Diverse Financial Srvs. (2.73) Banks & Thrifts (2.76) **Finance** Specialized & Consumer Finance (2.78)	**Real Estate** (REITs), Real Est. Mgmt. & Dev. (2.82) Invest Banking & Brokering (2.85)	Investment Funds (3.00) **Insurance** Insurance Brokers, Multi-Line Insurance, Life & Health Insurance, Property & Casualty Insurance (3.00)	

Industry Portfolio Rating	Very Attractive (2.00 to 2.64 Zacks Rank)	Attractive (2.65 to 2.81)	Market Performer (2.81 to 2.99)	Unattractive (3.00-3.20)	Very Unattractive (3.21 or worse)
Industrials **ATTRACTIVE**	Pollution Control (2.22) Metal Fabricating (2.50)	Conglomerates (3.04) Aerospace & Defense (2.73)	**Machinery Electrical** Electrical Comp. & Equip. (2.85) Construction – Building Services (2.87 Machinery (2.93) **Transport** Railroads & Trucking (2.99)	**Business Products** Commercial Printing, Office Services & Supplies (3.00) **Business Services** HR & Employment Services, Trade Comps & Distributors (3.04) **Transport – Air** Airlines, Air Freight & Logistics (3.06)	Industrial Products/ Services (4.11)
Info Tech **VERY ATTRACTIVE**	**Semiconductors** Semiconductors, Semiconductor Equipment, Electronic Manufacturing Services (1.78) **Electronics** Electronic Components, Equipment & Instruments, Computer Hardware, Computer Storage & Peripherals (2.51)	**Misc. Tech** Data Processing & Outsourcing Services, Consulting & Services (2.96)	**Computer Software-Services** Home Entertainment Software, Application Software, Systems Software, Internet Software & Services (2.89) **Computer-Office Equipment** Office Electronics (2.79)		

Industry Portfolio Rating	Very Attractive (2.00 to 2.64 Zacks Rank)	Attractive (2.65 to 2.81)	Market Performer (2.81 to 2.99)	Unattractive (3.00-3.20)	Very Unattractive (3.21 or worse)
Materials **UNATTRACTIVE**	Steel (2.35) **Metals non-Ferrous** Diversified Metals & Mining, Gold, Aluminum (2.57)			Containers & Glass (3.11) **Chemicals** Fertilizers & Ag. Chemicals, Industrial Gases, Specialty Chemicals, Diversified Chemicals (3.26) Building Products/Construction Materials (3.27)	**Paper** Paper Packaging, Paper & Forest Products (3.77)
Communication Services **ATTRACTIVE**	Telco Equipment (2.14)			**Telco Services** Wireless Telecom Services, Integrated Telecom Services (3.01)	
Utilities **ATTRACTIVE**	Utilities – Gas Dist. (2.51)		Utilities – Water Supply (2.83) Utilities – Electric Power (2.83) Utility Telephone (2.92)		

DISCLOSURE

Past performance is no guarantee of future results. Inherent in any investment is the potential for loss.

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The S&P 500 Index is a well-known, unmanaged index of the prices of 500 large-company common stocks, mainly blue-chip stocks, selected by Standard & Poor's. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor. An investor cannot invest directly in an index. The S&P 500 Index assumes reinvestment of dividends but does not reflect advisory fees.

The Russell 1000 Growth Index is a well-known, unmanaged index of the prices of 1000 large-company growth common stocks selected by Russell. The Russell 1000 Growth Index assumes reinvestment of dividends but does not reflect advisory fees. An investor cannot invest directly in an index. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor.

Nasdaq Composite Index is the market capitalization-weighted index of over 3,300 common equities listed on the Nasdaq stock exchange. The types of securities in the index include American depositary receipts, common stocks, real estate investment trusts (REITs) and tracking stocks, as well as limited partnership interests. The index includes all Nasdaq-listed stocks that are not derivatives, preferred shares, funds, exchange-traded funds (ETFs) or debenture securities. An investor cannot invest directly in an index. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor.

The Dow Jones Industrial Average measures the daily stock market movements of 30 U.S. publicly-traded companies listed on the NASDAQ or the New York Stock Exchange (NYSE). The 30 publicly-owned companies are considered leaders in the United States economy. An investor cannot directly invest in an index. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor.

The Russell 2000 Index is a well-known, unmanaged index of the prices of 2000 small-cap company common stocks, selected by Russell. The Russell 2000 Index assumes reinvestment of dividends but does not reflect advisory fees. An investor cannot invest directly in an index. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor.

The FTSE 100 is a market-capitalisation weighted index of UK-listed blue chip companies. The index is part of the FTSE UK Series and is designed to measure the performance of the 100 largest companies traded on the London Stock Exchange that pass screening for size and liquidity. FTSE 100 constituents are all traded on the London Stock Exchange's SETS trading system. An investor cannot invest directly in an index. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor.

The Nikkei Stock Average, the Nikkei 225 is used around the globe as the premier index of Japanese stocks. More than 60 years have passed since the commencement of its calculation, which represents the history of Japanese economy after the World War II. Because of the prominent nature of the index, many financial products linked to the Nikkei 225 have been created are traded worldwide while the index has been sufficiently used as the indicator of the movement of Japanese stock markets. The Nikkei 225 is a price-weighted equity index, which consists of 225 stocks in the 1st section of the Tokyo Stock Exchange. An investor cannot invest directly in an index. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor.

The Russell 1000 Value Index is a well-known, unmanaged index of the prices of 1000 large-company value common stocks selected by Russell. The Russell 1000 Value Index assumes reinvestment of dividends but does not reflect advisory fees. An investor cannot directly invest in an index. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor.

The Russell Midcap Index is a well-known, unmanaged index of the prices of approximately 800 mid-cap company common stocks, selected by Russell. The Russell Midcap Index assumes reinvestment of dividends but does not reflect advisory fees. An investor cannot invest directly in an index. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor.

DAX tracks the performance of the 40 largest companies listed on the Regulated Market of Frankfurter Wertpapierbörse (FWB, the Frankfurt Stock Exchange) that fulfil certain minimum quality and profitability requirements. Constituent selection is based on free float market capitalization. An investor cannot invest directly in an index.

The S&P Municipal Bond Index is a broad, market value-weighted index that seeks to measure the performance of the U.S. municipal bond market. An investor cannot invest directly in an index.

The MSCI Emerging Markets Index captures large and mid cap representation across 24 Emerging Markets (EM) countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country. An investor cannot invest directly in an index.

The S&P MidCap 400 provides investors with a benchmark for mid-sized companies. The index, which is distinct from the large-cap S&P 500, is designed to measure the performance of 400 mid-sized companies, reflecting the distinctive risk and return characteristics of this market segment. An investor cannot invest directly in an index. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor.

The S&P SmallCap 600 seeks to measure the small-cap segment of the U.S. equity market. The index is designed to track companies that meet specific inclusion criteria to ensure that they are liquid and financially viable. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor.

The CBOE Volatility Index (VIX) is a calculation designed to produce a measure of constant, 30-day expected volatility of the U.S. stock market, derived from real-time, mid-quote prices of S&P 500 Index call and put options. On a global basis, it is one of the most recognized measures of volatility -- widely reported by financial media and closely followed by a variety of market participants as a daily market indicator. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor. An investor cannot invest directly in an index.

The S&P SmallCap 600 Value measures constituents from the S&P SmallCap 600 that are classified as value stocks based on three factors: the ratios of book value, earnings and sales to price. An investor cannot invest directly in an index.

The S&P SmallCap 600 Growth measures constituents from the S&P SmallCap 600 that are classified as growth stocks based on three factors: sales growth, the ratio of earnings change to price, and momentum. An investor cannot invest directly in an index.

The Russell 2000 Value Index measures the performance of the smallcap value segment of the US equity universe. It includes those Russell 2000 companies with relatively lower price-to-book ratios, lower I/B/E/S forecast medium term (2 year) growth and lower sales per share historical growth (5 years). The Russell 2000 Value Index is constructed to provide a comprehensive and unbiased barometer for the small-cap value segment. The index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect value characteristics. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor.

The Russell 2000 Growth Index measures the performance of the smallcap growth segment of the US equity universe. It includes those Russell 2000 companies with relatively higher price-to-book ratios, higher I/B/E/S forecast medium term (2 year) growth and higher sales per share historical growth (5 years). The Russell 2000 Growth Index is constructed to provide a comprehensive and unbiased barometer for the small-cap growth segment. The index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect growth characteristics. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor.

The MSCI United Kingdom Index is designed to measure the performance of the large and mid-cap segments of the UK market. The index covers approximately 85% of the free float-adjusted market capitalization in the UK. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor.

The MSCI Germany Index is designed to measure the performance of the large and mid-cap segments of the German market. The index covers about 85% of the equity universe in Germany. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor.

The MSCI Japan Index is designed to measure the performance of the large and mid-cap segments of the Japanese market. The index covers approximately 85% of the free float-adjusted market capitalization in Japan. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor.

The MSCI World Index captures large and mid-cap representation across 23 Developed Markets (DM) countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor.

The MSCI EAFE Index is an equity index which captures large and mid cap representation across 21 Developed Markets countries around the world, excluding the US and Canada. The index covers approximately 85% of the free float-adjusted market capitalization in each country. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor. An investor cannot invest directly in an index.

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