



H I G H L A N D

Capital Markets Book - 2019

Highland Associates

For Institutional Use Only

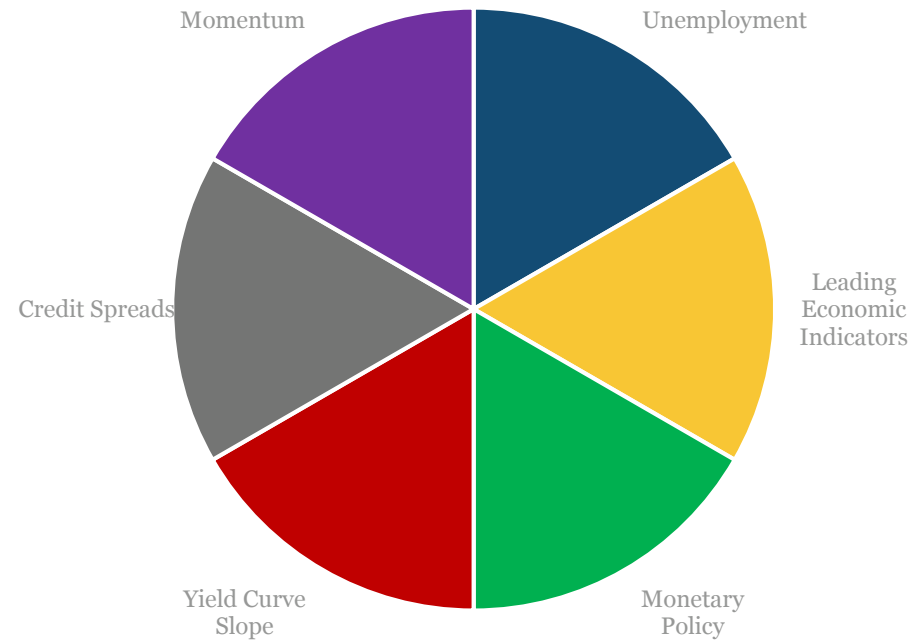
Highland Risk-On/Risk-Off Diffusion Index

Index Components

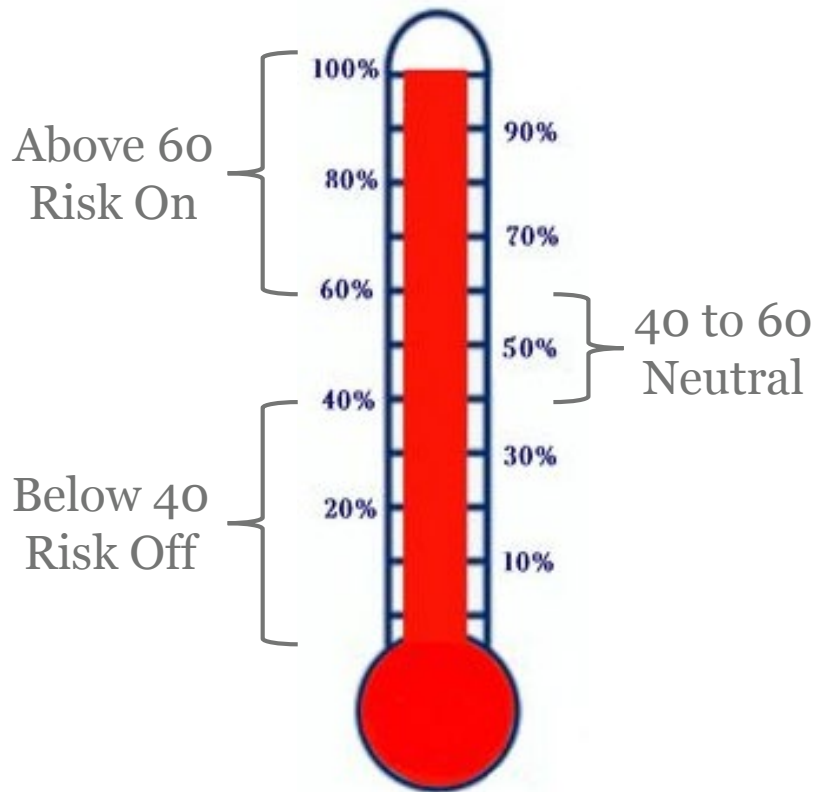
Diffusion Index = measures the proportion of economic and market indicators that contribute to a risk-on reading of 100 or risk-off reading of 0.

Indicators:

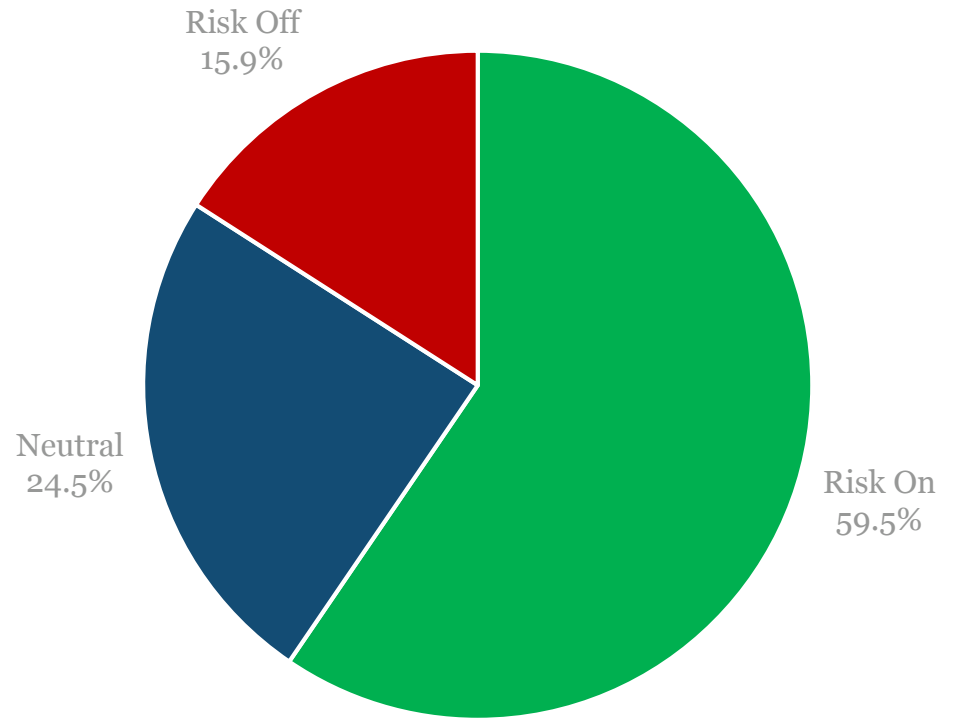
- Unemployment → consumer strength
- Leading Economic Indicators → overall economic strength
- Monetary Policy → policy strength
- Slope of Yield Curve → financial strength
- Credit Spreads → lending strength
- Equity Market Momentum → market strength



Index Measurement

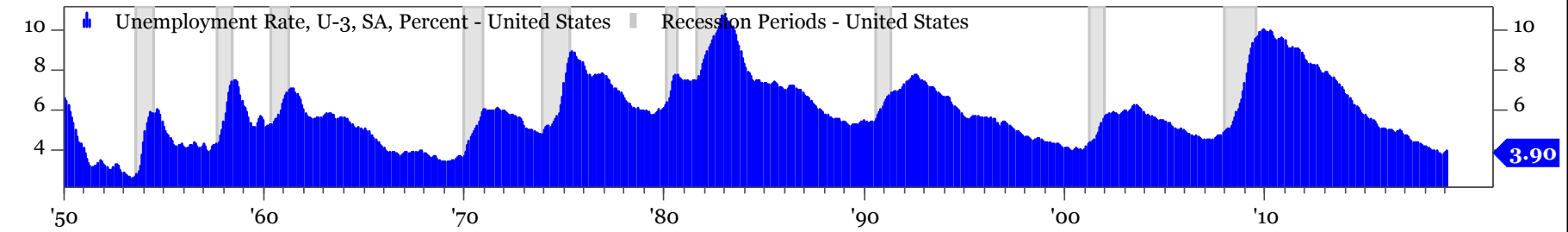
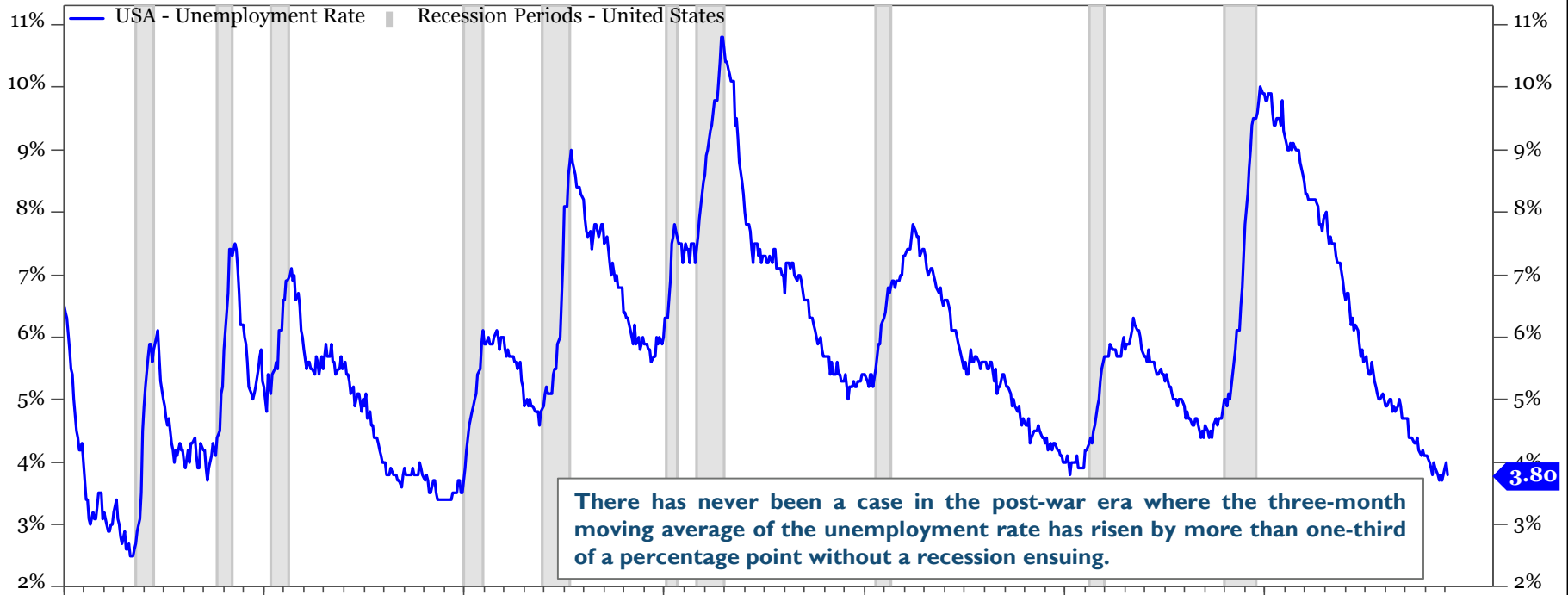


Historical Percentage of Readings*



* From January 1986 to Present

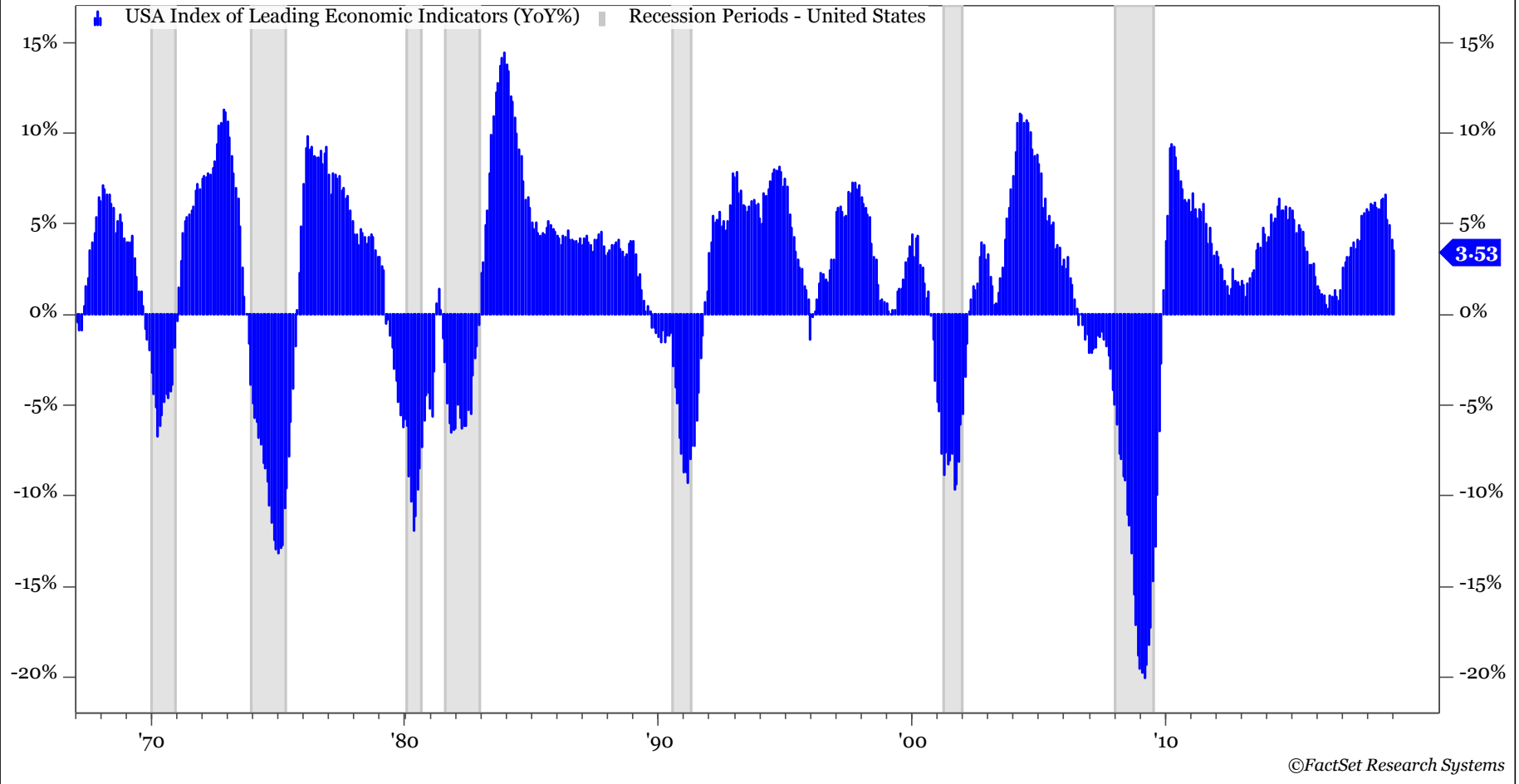
Unemployment Rate Remains Low



Source: U.S. Bureau of Labor Statistics

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Economic Indicators Continue to Grow



Sources: Conference Board; shown in log scale; LEI = Average weekly hours, manufacturing; Average weekly initial claims for unemployment insurance; Manufacturers' new orders, consumer goods and materials; ISM® Index of New Orders; Manufacturers' new orders, nondefense capital goods excluding aircraft orders; Building permits, new private housing units; Stock prices, 500 common stocks; Leading Credit Index™; Interest rate spread, 10-year Treasury bonds less federal funds; Average consumer expectations for business conditions