IN SUMMARY

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U.S. Government Shutdown: Do Not Pass Go

As we highlighted in the recent CIO View: U.S. Budget & Fiscal Outlook, Déjà Vu, two major budget battles would dominate investor interest at the end of September: 1) the expiration of the continuing resolution on September 30, and 2) hitting the U.S. Treasury debt ceiling limit (October 17, according to U.S. Treasury estimates). We initially expected a relatively painless and positive resolution to at least the former, but clearly now four days in “shutdown,” things have not gone exactly as we, or for that matter most, had planned. As we move past the first week of the shutdown, the idea of a quick resolution has passed, and the prospect of a shutdown extending into next week looks likely. Although the government shutdown and debt ceiling are close in terms of date, they are distinct events with what we believe are incomparable market consequences.

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This could lead to significant negative economic consequences. Second, it could cause a debt default. We believe the government shutdown and the debt ceiling are likely to increase near-term market volatility as uncertainty increases over just how quickly an agreement will be reached.

**U.S. GOVERNMENT SHUTDOWN**

As of midnight on September 30, the government entered a partial shutdown for all “discretionary” services. October 1 is the start of a new government fiscal year and without either a new budget or continuing resolution (CR), “discretionary” government services cannot restart. In our view, the shutdown is likely to last into next week or later. This is not the first time the government has shutdown: from 1976 to 1996 there were 17 government shutdowns with durations of anywhere from three days to 21 days. There has not been a government shutdown since 1996.

How we get to a position of re-opening the government is still up for debate. Political rhetoric remains charged and it is unclear how Republicans and Democrats will resolve their differences. The two parties still remain far apart with both sides firmly entrenched, with the view that the other side has more to lose from a shutdown. Senate Democrats want a clean CR that continues funding government operations through November 15 while the House Republicans favor a funding agreement through December 15. The real sticking point, however, is over the Republican demand for a one-year delay in the implementation of the Affordable Care Act (ACA). Both the Democrats and the President have indicated that they are not willing to negotiate on the ACA.

The unwillingness to negotiate over the ACA by the President and Senate Democrats moves the emphasis to the House Republicans as the key to an agreement. Our colleagues in BofA ML Global Research view the most plausible outcome as a compromise from House Republicans in which they reduce their demands. Recent polling data from CNN show that Republicans are bearing the brunt of the blame thus far at 46% while only 36% blame the President and 13% both. When there will be any type of agreement and the terms of such an agreement remain unknown.

**Macroeconomic effects of a shutdown**

The duration of the current shutdown largely dictates the macroeconomic impact of the shutdown. While the duration of the shutdown remains unknown, we do know that a prolonged shutdown increases the risk to economic growth. In our view, a shutdown for a few days would likely have modest macroeconomic effects because only services linked to government appropriations (e.g., discretionary spending) are affected, which is about one-third of total federal spending. Within the discretionary spending category, half of the activities are designated essential and thus exempt from a shutdown. Unfortunately, the term “discretionary” spending includes a broad range of programs such as: defense spending, transportation, justice, education, etc. Any government spending programs that are linked to health and the protection of public safety are considered essential and exempt from a shutdown.

On the other hand, “mandatory” spending programs such as Social Security and Medicare (including the implementation of “Obamacare”) are unaffected since their budgets are not authorized on a year-to-year basis.

Our BofA ML Global Economics Research team estimates the following impact to GDP from a shutdown: a shutdown for a few days would likely have a zero net impact on growth, a two-week shutdown could cut 0.5 percentage points from the fourth-quarter GDP; and a one-month shutdown could lop two percentage points from the fourth-quarter GDP. These numbers clearly matter given most economists expect the U.S. economy to grow around 2.5% in the fourth quarter. A key source of uncertainty over those forecasts is the impact to consumer and business confidence. Data from previous fiscal cliff negotiations in the fourth quarter of 2012 showed weak growth, which in part heightens uncertainty.

Even though parts of the government are closed, the U.S. economy continues to operate; however, many data releases are likely to be delayed. The Bureau of Labor Statistics (BLS), which was scheduled to produce Friday’s September non-farm employment report, has posted the following on its Website: “This website is currently not being updated due to the suspension of federal government services. The last update to the site was Monday, September 30. During the shutdown period BLS will not collect data, issue reports, or respond to public inquiries. Updates to the site will start again when the federal government resumes operations. Revised schedules will be issued as they become available.” The Commerce Department, which produces the Bureau of Economic Analysis and the Census, posted a similar note on its Website. Data releases from non-governmental or private sources such

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1 In 1981, it was established that a failure to pass a budget should result in a government shutdown. Since then, there have been 11 shutdowns.
as the ADP Employment report or the Institute for Supply Management (ISM) manufacturing and non-manufacturing reports have not been impacted. While private reports will gain more traction, we urge caution when interpreting the data because private sector reports on select indications (e.g., ADP Employment Report) are not as accurate as the official data and subject to large revisions. The lack of visible data to quantify the impact of the shutdown only adds to the plethora of uncertainty markets have to digest.

Recent comments by both the Federal Reserve (Fed) Chairman Ben Bernanke and Federal Reserve Bank of New York President William Dudley referenced a government shutdown and debt ceiling as a risk factor for their outlook. In our view, the uncertainty created by both these risk factors diminishes the possibility of imminent Fed tapering. The longer the shutdown continues, the greater the probability that the Fed will begin tapering only in 2014. Tapering expectations currently priced into the market may change depending on the severity of the outcome.

**Government Shutdowns & Equity Market Implications**

The government shutdown could be a significant market event when the potential economic effects are taken into consideration. We take comfort knowing that equity markets have largely shrugged off shutdowns since 1981. Savita Subramanian, our BofA U.S. ML Equity Strategist, has noted that since 1981, average returns for the S&P 500 have been flat to positive in the month preceding a shutdown (+0.1%), during the shutdown (0.0%) and the month following a shutdown (+2.5%). *So far this week, equities seem to again be shrugging off the shutdown.*

However, it may not be as easy to extrapolate from history this time round. Unfortunately, directly following the government shutdown debate is the debt ceiling, which the U.S. Treasury has indicated will happen on October 17. The looming debt ceiling debate may restrain or delay any relief rally following a new CR to reopen the government.

At a sector level, performance prior to, during, and after shutdowns has been inconsistent across sectors during previous shutdowns. During shutdowns, the energy and telecommunications sectors traditionally have the best relative performance with a strong hit rate. A month subsequent to the shutdown, however, sector performance rankings have shown changes with the energy sector at the bottom of the list and telecommunications ranks in the middle. The one consistent underperformer following each government shutdown since 1981 has been the consumer discretionary sector (see Exhibit 2). In addition to consumer discretionary, we are cautious on defense and short term on healthcare as these are the two heavily directly exposed to a government shutdown from an earnings standpoint.

Forecasting exactly how quickly this shutdown will end is inherently difficult, which makes estimating the eventual economic impact unclear. Yet there are some things we will be watching. First, public opinion poll data on who is blamed for the government shutdown; if both parties receive an equal amount of blame, their incentive to compromise declines. Second, the intensity of rhetoric from House Republican Speaker John Boehner on his party’s willingness to compromise on insisting the healthcare bill be delayed. Should Boehner put a clean bill to the House floor, this may be one way to end the current status-quo. Third, any deterioration in high frequency indicators (e.g., Bloomberg Consumer Comfort Index, the National Federation of Independent Businesses (NFIB) Small Business Optimism, University of Michigan Confidence) to get a sense of whether private sector confidence is waning.
DEBT CEILING

In our view, the risks from not increasing the debt ceiling are much greater than a shutdown because the effects from a breach of the debt ceiling are, quite frankly, unknown. This is a view echoed recently by the International Monetary Fund and President Obama. The statutory debt ceiling limit applies to almost all federal debt and, more importantly, allows the U.S. government to pay its previously committed debts. The debt limit also imposes a form of fiscal accountability that compels Congress and the President to take visible action to allow further federal borrowing when the federal government spends more than it collects in revenues. A higher debt ceiling allows the government to fund new deficits and issue debt for bills previously authorized.

The exact timing of when the U.S. will breach its debt ceiling is unclear. According to reports from the U.S. Treasury, the U.S. will run out of “extraordinary” measures on October 17 but will have approximately $30 billion in cash, and the remaining cash balance is estimated to be exhausted by October 31. Once the cash balance is exhausted, the Treasury will operate on a cash flow basis, able to only pay what it takes in each day.

In our view, a breach of the debt ceiling is a greater financial risk than the shutdown, as it would send the U.S. into uncharted waters. If we hit the debt ceiling, risks in payment systems, repo transactions, and confidence in the U.S. political system would be tested. Furthermore, failed confidence in the U.S. political process and fiscal stability could cause further volatility of U.S. Treasuries. While a shutdown of the government from failing to pass a new budget is not without consequence, we view a government shutdown as more of a reputational risk. The consequences from a debt ceiling breach are far more tangible. The hit to private sector confidence could move the U.S. economy onto a downward trend, undoing a lot of the recent healing. We believe the prospect of such an outcome would likely cause investors to demand a higher premium for holding equities, resulting in a higher risk of a sell-off.

2013 is different from 2011

In our view, a debt default is a very low probability event. While walking to the end of a cliff is one thing, jumping off it is entirely different. In that sense, we believe an outcome like 2011 – where an eleventh-hour compromise was agreed – is still the most likely.

<table>
<thead>
<tr>
<th>Table 1: Comparing the 2011 Debt Ceiling Showdown and Today</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jul-2011</td>
</tr>
<tr>
<td><strong>Budget Deficit (12Mo Rolling, $Bn)</strong></td>
</tr>
<tr>
<td><strong>Gross Debt (% of GDP)</strong></td>
</tr>
<tr>
<td><strong>Unemployment Rate</strong></td>
</tr>
<tr>
<td><strong>ISM PMI Manufacturing</strong></td>
</tr>
<tr>
<td><strong>University of Michigan Consumer Sentiment</strong></td>
</tr>
<tr>
<td><strong>Bloomberg Consumer Comfort Index</strong></td>
</tr>
<tr>
<td><strong>NFIB Small Business Optimism</strong></td>
</tr>
<tr>
<td><strong>S&amp;P 500</strong></td>
</tr>
<tr>
<td><strong>S&amp;P 500 Fwd PE</strong></td>
</tr>
<tr>
<td><strong>10 Year Bond Yields</strong></td>
</tr>
<tr>
<td><strong>VIX</strong></td>
</tr>
<tr>
<td><strong>Fed Policy Stance</strong></td>
</tr>
</tbody>
</table>

The first important difference between this year’s showdown and 2011 is the renewed strength of the U.S. economy. The showdown in 2011 occurred during softer macroeconomic data and a worsening eurozone crisis (see Table 1). The recent improvements in the economic data have helped reduce the deficit while mitigating the urgency for near-term fiscal changes over the coming months. The short-term improvement in the U.S. deficit has been quite substantial, with the largest improvement in the deficit in the past 40 years. In our view, the recent fiscal improvements despite a government shutdown make it less likely that several rating agencies will downgrade U.S. debt at this point in time, but a breach of the debt ceiling would increase the probability of a downgrade. Second, the Fed is still providing quantitative easing liquidity, in turn mitigating the degree of financial stress.

The bottom line could not be clearer: Congress has only a few weeks to extend the debt ceiling or otherwise risk a potential default. So far, the resilience in markets when compared to the 2011 episode can largely be explained by better macro fundamentals this time around. This has bought politicians time to agree on both appropriations and the debt ceiling. But time is running out quickly and market calm is by no means a reason to breach the limit as the economic and financial consequences of this are unpalatable. According to the U.S. Treasury, “in the event of a default, the U.S. economy could be plunged into a recession worse than any seen since the Great Depression.”

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It goes without saying that financial markets would treat the rising possibility of such an outcome as wholly negative, even though they have not done so already.

**Remain in line with long-term strategic allocations**

With the political noise and scare tactics set to increase, we believe the risk of near-term volatility in the equity markets is likely, especially as we get further into October (see Exhibit 3).

In 2011, the S&P 500 sold off more than 6% in the 30 days prior to the increase of the debt ceiling. Despite the possibility of near-term weakness and volatility in equity markets as a government shutdown continues and the debt ceiling deadline looms, our overweight to equities remains intact, as it is anchored on improving economic fundamentals.

Investors with low risk tolerance to market volatility may consider hedging their exposure or taking gains off the table as we head into year end. An option for hedging U.S. policy risk in equity markets is to reduce exposure to U.S. GDP-sensitive names and rebalance toward more globally diversified names or U.S. multinationals.

Our colleagues in BofA ML Currency Research have long argued that the medium U.S. dollar (USD) outlook is positive into 2014. Recently, the USD has been undermined by doubt about the near-term start of tapering and the resulting reduction in the foreign demand for U.S. assets. The currency should strengthen once tapering begins and the debt ceiling debate is behind us. The near-term USD risk is if the upcoming debt ceiling fight were to delay Fed tapering.

**Exhibit 3:** In 2011, the big sell-off came a few days after an agreement to the debt ceiling was reached, and was exacerbated by the credit downgrade

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Source: Bloomberg and ML GWM Investment Management & Guidance.
When considering your portfolio in light of our current guidance, consider the tactical positioning around asset allocation suggested below in reference to your own individual risk tolerance, time horizon, objectives and liquidity needs. Certain investments may not be appropriate given your specific circumstances and investment plan. Certain security types, like hedged strategies and private equity investments, are subject to eligibility and suitability criteria. Your Financial Advisor can help you to customize your portfolio in light of your specific circumstances.

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<table>
<thead>
<tr>
<th>ASSET CLASS</th>
<th>BENCHMARK STRATEGIC ASSET ALLOCATION FROM RIC*</th>
<th>TACTICAL POSITIONING RELATIVE TO STRATEGIC ASSET ALLOCATION</th>
<th>OPPORTUNITIES AND RISKS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>2%</td>
<td>UNDERWEIGHT</td>
<td>Current returns are negative on a real basis in developed markets; we want to get paid to wait, and the perceived safety of cash may be overstated in an age of financial repression.</td>
</tr>
<tr>
<td>Global Equities</td>
<td>45%</td>
<td>OVERWEIGHT</td>
<td>In developed markets, valuations are fair and they are becoming attractive in Emerging Markets. Corporate fundamentals are excellent. Income generation remains a major theme within portfolios and dividend growth continues to play a major role.</td>
</tr>
<tr>
<td>U.S. Large Cap</td>
<td>21%</td>
<td>OVERWEIGHT</td>
<td>Consider sector rotation toward cyclicals as the U.S. economy improves, these sectors still offer attractive dividend opportunities. Utility and telecom Financials remain an opportunity.</td>
</tr>
<tr>
<td>U.S. Mid &amp; Small Cap</td>
<td>NEUTRAL</td>
<td></td>
<td>Small caps are likely to continue benefiting from ongoing domestic recovery. Valuation dispersion in small caps remain high and an opportunity for active management. Positive M&amp;A outlook is constructive for small caps.</td>
</tr>
<tr>
<td>International Developed</td>
<td>18%</td>
<td>NEUTRAL</td>
<td>BoJ committed to continue quant easing and valuations are fair. The yen remains the key consideration; Eurozone in recession but stabilizing; valuations remain favorable and liquidity actions of the ECB are supportive. See opportunities through 2H 2013 but volatility likely to remain. The bias remains for euro weakness, therefore, hedge euro equity exposure.</td>
</tr>
<tr>
<td>Emerging Markets†</td>
<td>6%</td>
<td>NEUTRAL</td>
<td>The prospect of slower growth combined with the withdrawal of Fed liquidity reduces previous optimism on the region. Short term, prefer countries with stable capital account positions, which may tactically outperform on the back of weak sentiment. Longer-term, look beyond index like exposure to focus on smaller emerging countries and frontier markets.</td>
</tr>
<tr>
<td>Global Fixed Income</td>
<td>33%</td>
<td>NEUTRAL</td>
<td>In a rising rate environment, seek differentiation in returns across sub-segments. Duration management remains paramount in portfolio positioning. Prefer credit risk over duration risk.</td>
</tr>
<tr>
<td>U.S. Treasuries</td>
<td>UNDERWEIGHT</td>
<td></td>
<td>Negative real returns and Fed intervention have created highly overvalued and unattractive conditions. We see better risk/return elsewhere. Within Treasuries, prefer short and intermediate duration.</td>
</tr>
<tr>
<td>U.S. Municipals</td>
<td>OVERWEIGHT</td>
<td></td>
<td>Valuations relative to Treasuries remain attractive and tax-exempt status is not likely to be threatened anytime soon. Prefer essential service revenue bonds and high-quality, actively selected credits. Consider positioning toward short to intermediate duration and state over city GO (general obligation) bonds.</td>
</tr>
<tr>
<td>U.S. Investment Grade</td>
<td>NEUTRAL</td>
<td></td>
<td>Some opportunities remain here, but in the final stage of the investment grade rally U.S. bank bonds may have more room to rally. Very sensitive to a rise in rates, positioning should focus on shorter duration.</td>
</tr>
<tr>
<td>U.S. High Yield &amp; Collateralized</td>
<td>N/A</td>
<td>OVERWEIGHT</td>
<td>Corporate fundamentals remain supportive of investors taking credit risk and default rates will likely remain low. Valuations will overshoot this cycle on quality of balance sheets. HY plays a role in diversifying sources of income, as the search for yield continues. Look to new credit opportunities such as senior loans.</td>
</tr>
<tr>
<td>Non-U.S. Corporates</td>
<td>NEUTRAL</td>
<td></td>
<td>We continue to want to be cautious on Eurozone debt, despite the improving liquidity environment as we expect rate volatility to remain above average and indices have high weight to European banks, which still need to re-capitalize.</td>
</tr>
<tr>
<td>Non-U.S. Sovereigns</td>
<td>NEUTRAL</td>
<td></td>
<td>We like opportunities in this space but advise active manager exposure. Country specific domestic policy to dominate rates and currency performance.</td>
</tr>
<tr>
<td>Emerging Market Debt†</td>
<td>NEUTRAL</td>
<td></td>
<td>More value in higher quality EM credits that too have sold-off, however, Fed liquidity withdrawal introduces uncertainty for the aggregate market. Short term, avoid current account countries susceptible to investor outflows and a stronger U.S. dollar. Stress the need for management of currency exposure. Active managers can better exploit the opportunity set.</td>
</tr>
<tr>
<td>Alternatives**</td>
<td>OVERWEIGHT</td>
<td></td>
<td>Oil provides a hedge against political instability and select agriculturals looking short term oversold. Industrial metals remain dependent on growth in China.</td>
</tr>
<tr>
<td>Commodities/Currencies</td>
<td>Included in Real Assets</td>
<td>NEUTRAL</td>
<td>In a total portfolio, prefer low vol and non-directional strategies such as global macro to provide diversification from our preferred equity overweight. Within more directional strategies prefer equity long/short and relative value.</td>
</tr>
<tr>
<td>Hedged Strategies</td>
<td>9%</td>
<td>NEUTRAL</td>
<td>TIPS attractive after Q2 sell-off.</td>
</tr>
<tr>
<td>Real Assets</td>
<td>4%</td>
<td>OVERWEIGHT</td>
<td>High conviction in private equity as the combination of an improving economy yet banks still reluctant to lend provides attractive opportunities.</td>
</tr>
<tr>
<td>Private Equity</td>
<td>7%</td>
<td>OVERWEIGHT</td>
<td>Consider positioning toward cyclicals as the U.S. economy improves, these sectors still offer attractive dividend opportunities. Utility and telecom Financials remain an opportunity.</td>
</tr>
</tbody>
</table>

*Moderate Global Allocation Tier 2 Liquidity. **Alternative Investments are available only to pre-qualified clients. † Revised.

**Tax-Aware Portfolio Implementation Tactics for 2013**

1. Assess current tax exposures, especially in taxable bond portfolios; and weigh options in dividend-paying stocks.


3. Leverage tax-advantaged status of exchange-traded funds (ETFs) in asset classes where appropriate, and assess the tax management policies of mutual funds for their efficiency and turnover.

4. Revisit using separately managed accounts (SMAs) for tax management and tax-aware portions of portfolio.

5. Consider Roth IRA conversions for traditional IRAs and eligible 401(k)s.

6. Aggressively pursue estate planning, wealth structuring, wealth transfer and gifting strategies.

*Information in this material is not intended to constitute tax advice. You should consult your tax advisor before making any financial decisions.*
CIO Office’s Top 10 Portfolio Actions for 2013 (after managing tax liabilities)

1. **Increase overall exposure to global equities, which are preferred to bonds.** We see the “Great Rotation” from fixed income to equities occurring in 2013 as global economic growth reaccelerates by the end of the year and most global central banks remain stimulative. Superior corporate earnings and balance sheet dynamics should support increased capital spending and shareholder-friendly returns of cash (dividends and buybacks). Income from dividends, especially “growers,” remains preferred.

2. **Broaden geographic preferences within global equities—adding to exposure in Europe and Japan.** International developed portfolios should be hedged as the U.S dollar will likely strengthen versus the yen and the euro. The global debt crisis is entering a new and more stable phase; this should favor a more balanced geographic approach. While we remain very constructive on the prospects for U.S. companies and in turn U.S. equities, valuation and catalysts are improving meaningfully in other major regions; and underweights should be closed. Winners are likely to be multi-nationals with high leverage to global trade and exports.

3. **Reduce purely defensive stock exposures; and embrace value in more cyclical sectors like technology, industrials and energy.** As economic fortunes, global growth and global trade improve through the year, we see a more positive outlook for stocks leveraged to reflation. Many companies in these sectors are of high quality and offer the potential for dividend growth.

4. **Within Emerging Markets, focus on smaller countries and Frontier Markets.** To access this theme, we prefer active managers to ETFs and other passive strategies. Most Emerging Market ETFs remain skewed to commodities, materials and infrastructure. Active managers can focus on strategies more likely to outperform in the years ahead, including growth in the middle class and the resultant surge in spending.

5. **Aggressively manage risk around a potential turn in the bond market and take a total return, after-tax perspective in fixed income portfolios.** Tax-advantaged municipals and global fixed income managers are preferred. We see the tax-advantaged status of municipals increasing in relative value as 2013 tax rates rise. In addition, we look for highly diversified and broad global mandated managers to continue to deliver the best results in 2013.
   - **Reduce duration in fixed income portfolios.** As 2013 unfolds, the risk to interest rates and thus bond principal is likely to rise, with longer-duration securities most vulnerable. Reduce long maturities of U.S. Treasuries and municipals. Utility equities—sometime bond substitutes—are also no longer preferred.
   - **Credit risk preferred to duration risk—but time to reset expectations.** The strong returns experienced by corporate bond investors over the past few years are unlikely to be repeated, and we would not extend durations or move to lowest quality high yield bonds in a reach for yield. High yield bonds may act much more like equities, doing poorly if market volatility rises. Other credit opportunities include residential mortgage-backed securities and mortgage-backed securities.
   - **Consider low volatility/total return alternatives strategies as potential substitutes for low-yielding, increasingly vulnerable bond holdings.** Market neutral and “absolute return”, LIBOR-plus funds with low volatility may have place in a diversified fixed income portfolio along with exposure to floating rate instruments like bank loans.
   - **Increase vigilance on closed-end funds with strategies focused on leveraging high yield instruments.**
   - **Consider annuities as a source of guaranteed minimum income draw.**

6. **Consider using hedge funds to complement positioning by diversifying portfolio risk.** Within diversification strategies, we prefer global macro. For more directional strategies, we favor equity long/short.

7. **Gold’s role as a diversifier in portfolios remains as its ability to hedge policy error has been diminished as economic conditions have improved.** Still see value in a multi-asset diversified portfolios, although short-term price catalysts are less evident.

8. **Refocus on portfolio tax efficiency by utilizing high quality ETFs for a part of your strategic asset allocation and by reconsidering the use of SMAs versus mutual funds for tax management and transparency.**

9. **Exploit the low rate environment by building exposure in direct real estate and private equity.** 2013 remains a year of balance sheet releveraging, benefiting private equity investors. Prefer infrastructure and direct lending to SME (Small Medium Enterprises).

10. **Get back into the markets and reduce cash holdings, which are earning compounding negative real rates of return.** Be mindful of potential changes to FDIC insurance limits.
GWM Investment Management & Guidance (IMG) provides investment solutions, portfolio construction advice and wealth management guidance.

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Asset allocation and diversification do not assure a profit or protect against a loss during declining markets.

The investments discussed have varying degrees of risk. Some of the risks involved with equities include the possibility that the value of the stocks may fluctuate in response to events specific to the companies or markets, as well as economic, political or social events in the U.S. or abroad. Bonds are subject to interest rate, inflation and credit risks. Investments in high-yield bonds may be subject to greater market fluctuations and risk of loss of income and principal than securities in higher rated categories. Investments in foreign securities involve special risks, including foreign currency risk and the possibility of substantial volatility due to adverse political, economic or other developments. These risks are magnified for investments made in emerging markets. Investments in a certain industry or sector may pose additional risk due to lack of diversification and sector concentration. Investments in real estate securities can be subject to fluctuations in the value of the underlying properties, the effect of economic conditions on real estate values, changes in interest rates, and risk related to renting properties, such as rental defaults. Market-Linked investments have varying payout characteristics, risks and reward, investors need to understand the characteristic of each specific investment, as well as those of the linked asset. There are special risks associated with an investment in commodities, including market price fluctuations, regulatory changes, interest rate changes, credit risk, economic changes and the impact of adverse political or financial factors. Exchange Traded Funds are subject to risks similar to those of stocks. Investment returns may fluctuate and are subject to market volatility, so that an investor’s shares, when redeemed or sold, may be worth more or less than their original cost.

Alternative Investments are speculative and subject to a high degree of risk. Although risk management policies and procedures can be effective in reducing or mitigating the effects of certain risks, no risk management policy can completely eliminate the possibility of sudden and severe losses, illiquidity and the occurrence of other material adverse effects.

Some or all alternative investment programs may not be suitable for certain investors. Many alternative investment products, specifically private equity and most hedge funds, require purchasers to be “qualified purchasers” within the meaning of the federal securities laws (generally, individuals who own at least $5 million in “investments” and institutional investors who own at least $25 million in “investments,” as such term is defined in the federal securities laws). No assurance can be given that any alternative investment’s investment objectives will be achieved. In addition to certain general risks, each product will be subject to its own specific risks, including strategy and market risk.