CHIEF INVESTMENT OFFICE

Capital Market Outlook

The opinions are those of the author(s) and subject to change.

MAY 29, 2018

IN THIS ISSUE

MACRO STRATEGY

The capital expenditure (CAPEX) cycle is currently experiencing a resurgence as a result of stronger global growth, rising commodity prices, lower economic policy uncertainty, declining slack in capacity utilization and stimulative fiscal policy (in the U.S.). These factors have combined to provide a large boost to corporate confidence, which should keep business spending on equipment growing at a decent clip heading into 2019. Overall, we view this is a positive backdrop for CAPEX-related technology and industrial stocks to make new highs.

GLOBAL MARKET VIEW

Stock prices have struggled to recover from the January-February drawdown, despite continuing strength in corporate earnings. We nonetheless look for cyclical sectors to continue leading the market advance as we move toward mid-year and into the second half of 2018.

THOUGHT OF THE WEEK

Political risk is now one of the significant driving forces of financial markets. This is particularly evident in Italy, where differences between politics and policy have raised a major political risk for European investors, causing Italian yields to rise sharply, and equity markets to sell off last week. However, we remain favorable on European equities despite the political hurdle in Italy, and we continue to monitor the situation.

PORTFOLIO CONSIDERATIONS

Active management of equities is favored at this point in the cycle given a normalizing interest-rate environment and a wide corporate earnings variance. We continue to favor high quality in bonds and suggest considering using commodities for a hedge on pockets of equity and fixed-income underperformance.

MACRO STRATEGY

CAPEX OUTLOOK

Jonathan W. Kozy, Senior Vice President and Senior Research Analyst

The major leading indicators of global capital spending prospects that we track have been in an upswing since the end of 2016 (Exhibit 1). In the U.S., the capital expenditure (CAPEX) cycle is experiencing a relatively stronger resurgence than the rest of the world as a result of the fiscal stimulus boost, which added to tailwinds from stronger global growth, lower economic policy uncertainty, rising commodity prices and declining slack in capacity utilization. At the same time, consumer spending and housing have been strong sources of domestic demand, and rising labor costs have increased the incentive for businesses to boost productivity. Technology-related CAPEX has led the way on this front. Elevated geopolitical risk, while often viewed as a potential headwind for business confidence, has served to keep defense spending a priority. While corporate debt is on the rise, corporate nonfinancial balance sheets do not appear to be a headwind at this stage (tax cuts helped) but are worth watching. There are also pockets of pent-up demand as a result of the domestic CAPEX recession from late 2015 to the second half of 2016. That said, there are still limitations to CAPEX at this stage of the cycle. Overall, we expect a high single-digit pace of growth for real business equipment spending over the balance of the year and into 2019. This expected pace of growth should create opportunities in CAPEX-related technology and industrial stocks.

U.S. BUSINESS CONFIDENCE SKY HIGH

The easiest way to gauge the direction and strength of CAPEX is to ask company management, and here, there is no shortage of positive data. According to the Duke CFO Global Business Outlook Survey, business confidence in the U.S. is at its highest level in its 27-year history. Looking specifically at CAPEX, executives' expectations for growth in the next 12 months surged in the first quarter to 11%. The semi-annual Institute for Supply Management (ISM) survey of capital

Data as of 05/29/2018 and subject to change.

spending plans also shows a surge since tax reform was passed in December, with both the manufacturing and non-manufacturing companies sharply raising their plans for 2018. Outside the U.S., financial executives' expectations for CAPEX in Europe, China and Japan have also improved, according to the Duke CFO Global Business Outlook Survey (Exhibit 1).

Exhibit 1: Leading Indicators Point to Solid Global CAPEX

GLOBAL CAPEX–KEY INDICATORS	2016	2017	2018
Global Real GDP Growth (%)	3.2	3.8	3.5-4.0 (E)
Duke/CFO Outlook: Expected Growth in Capital Spending 12 months (%)			
U.S.	1.4	3.2	11.0
Europe	2.7	4.8	7.0
Japan	-5.4	8.6	14.2
China	6.2	2.1	9.1
Canada: Business Outlook: Investment in Machinery & Equipment: Balance	24.0	29.0	24.0
Germany: ZEW Survey, Profit Expectations (6 months): Machinery	26.8	50.9	30.1
Japan: Small/Medium Business Survey: Equipment Production Capacity	-4.0	7.8	9.9
U.K.: BoE Agents' Survey: Investment Intentions: Manufacturing	0.1	1.1	1.5
U.K.: BoE Agents' Survey: Investment Intentions: Services	0.2	1.0	0.9
U.S. Indicators			
CEO Business Confidence Survey: Business Executive Confidence	65.0	63.0	65.0
Small business optimism: NFIB % planning CAPEX in 3 to 6 months	29.0	27.0	29.0
Economic Policy Uncertainty* (index)	257.5	149.7	147.4
Average Age Capital Stock: Private Equipment (years)	7.2	N/A	N/A
FRB: Sr. Loan Officers Survey: Banks Tightening C&I Loans	1.5	-8.5	-11.3
FRB: Sr. Loan Officers Survey: Banks Reporting Stronger Demand C&I Loans	-5.9	-11.3	-7.0
Nonfinancial Corporate Business Liquid Assets/Short-term Liabilities	48.2	51.2	N/A
Capacity Utilization: All Industry	75.7	77.3	78.0
U.S. Real Investment Spending Growth (%)–Equipment (includes IT)	-3.4	4.8	7-10 (E)
U.S. Real Investment Spending Growth (%)–Intellectual Property Products	6.3	3.9	4-6 (E)

Sources: IMF, CFO Magazine, Conference Board, BEA, FRB, NFIB, PolicyUncertainty.com/ Haver Analytics. Data as of May 29, 2018. (E) = GWIM CIO Estimate. YTD = Year to Date
*Policyuncertainty.com

ACCELERATOR EFFECT GOES GLOBAL

Companies need confidence in the outlook for demand in order to pull the trigger on big ticket items, and the global backdrop has improved significantly since 2016. Recent levels of global manufacturing survey data (global purchasing managers' indexes) are consistent with an upbeat assessment of final demand fundamentals. While the acceleration in global growth may be slowing, the level of growth should be sufficient for CAPEX-related stocks to make new highs, all else being equal, in our view. A number of emerging markets are in the early stages of cyclical pickups, Japan is likely to keep its foot on the fiscal and monetary accelerators (with a greater emphasis on the former), and, in China, fiscal stimulus is coming in fits and starts to ensure the economy hits its target growth rate for overall gross domestic product (GDP). While there are some signs of fading cyclical momentum in Europe, we are not seeing signs of an imminent recession. In the end, we expect global growth to be slightly stronger in 2018 than it was in 2017. The U.S. business equipment spending cycle is one of the most globalized cycles, making the global synchronized nature of the CAPEX revival particularly beneficial.

COMMODITY REFLATION HELPS

Commodity prices are getting a boost from global growth and in turn are supporting CAPEX. After years of depressed investment levels (three years for oil and gas, seven years for mining, four years for agriculture), the recent backdrop of higher commodity prices is spurring both maintenance and expansion CAPEX in end markets that now possess more favorable economics. North American onshore investment and process automation spending, which is primarily related to oil and gas and chemicals, is an area of notable strength, driven by oil prices moving above breakeven for many producers, strong global growth generating demand for refined products and upcoming regulations, such as 2020 rules for Sulphur limits on marine fuels, expected to constrain supply.

While there is some pent-up demand in cyclical sectors, there are also areas of frothiness that are more in line with the age of the overall business cycle. Transportation-related spend, mainly in truck, for example, has been very strong, which has been a result of much higher freight rates from the very tight freight environment. A driver shortage and the implementation of electronic logging device (ELD) regulations, along with very strong domestic demand and CAPEX incentivizing tax reform, have caused a surge in truck orders, which are running well above replacement levels. We see potential for this strength to continue in the near term, given continued strength in freight, but do expect continued builds above replacement to eventually result in spend being pulled forward from out years.

From an industry perspective, technology spending has long been a strong driver of the trends in business spending on equipment, and it appears to be accelerating in 2018. CAPEX for leading tech firms is expected to grow 56% in 2018, a significant step up from prior years. This growth is partially attributable to rapid growth in hyperscale data centers as well as ever increasing demand for compute capacity, which necessitates spending on central processing units (CPUs), memory, network infrastructure, software, building infrastructure and manufacturing process equipment.

Lastly, corporate balance-sheet conditions matter, and here there are offsetting factors at work. While U.S. companies have spent the last few years taking advantage of lower interest rates and are no longer "lean and mean," they still have some spending power, and tax cuts provided a boost. As of the fourth quarter of last year, the Federal Reserve's Flow of Funds shows nonfinancial corporations had \$2.49 trillion in liquid assets, an improvement to over 50% of short-term liabilities (Exhibit 1). Lending conditions have also improved for businesses, according to the Federal Reserve's (Fed) Senior Loan Officer Opinion Survey on Bank Lending Practices (Exhibit 1). The impact of the accelerated depreciation bonus and overall tax cuts is difficult to predict but could be significant, even as the overall cycle matures. The financing gap, a leading indicator of future CAPEX spending, for example, suggests spending could be higher over the next few quarters. Finally, as wage pressures grow and squeeze margins, firms should have more incentive to spend on productivity-boosting equipment, but declining margins will also make companies more vulnerable to slowdowns. Leading indicators suggest this risk is minimal, for now.

WHAT'S AN INVESTOR TO CONSIDER?

We think investors could take advantage of opportunities in end markets where the current global growth environment, commodity price backdrop and previously depressed CAPEX levels, could support a multi-year upcycle in investment spending. For upside and to move beyond current maintenance and repair investments into capacity expansions, we look for a stronger-for-longer global growth environment and a sustained upward trajectory in commodity prices that could eventually necessitate incremental capacity investments across supply chains. The inverse of this backdrop—commodity prices falling and global growth slowing—is the key downside risk, along with margin pressures from price/cost headwinds, where companies are unable to keep up with rising input costs such as raw material, labor and freight. On specific end markets, we highlight the potential for a multi-year recovery in select oil and gas (O&G)-related end markets and the continued vigorous pace of technology and commercial aerospace investments. For exposure to rebounding oil and gas CAPEX, within the energy sector we favor onshore oilfield equipment companies with leading positions in North American well completion and pumping equipment, and within the industrial sector we favor multi-industry companies with best-in-class process automation businesses that have proven technological advantages versus peers. For both of these cohorts, we prefer high-quality companies that used the recent down cycle in energy investment to improve balance sheets, invest in technology and gain market share. For technology, we look to companies that benefit from surging hyperscale data-center spending mentioned earlier. For commercial aerospace, continued above-trend growth in global flight hours supports a favorable outlook for both airplane and component manufacturers, as well as aftermarket parts suppliers.

GLOBAL MARKET VIEW

TAKING STOCK OF U.S. EQUITY SECTORS

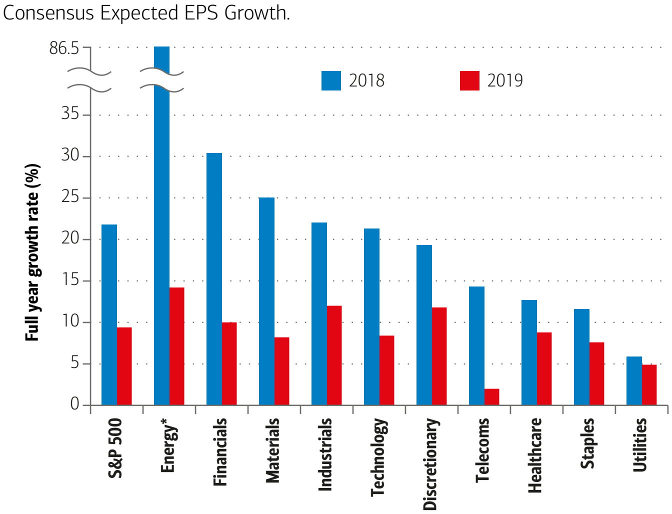
Ehiwario Efeyini, Senior Vice President and Senior Research Analyst

First-quarter earnings season for the S&P 500 is winding down, and the current 25%-plus year-on-year growth rate has been the strongest since the initial rebound from the financial crisis. Despite expectations moving higher into the start of the season, a well-above-average share of companies has exceeded analyst profit and revenue forecasts. Improving global economic activity has played a role in the earnings recovery since the growth rate troughed in early 2016, but tax policy also helped to lift results in the first quarter. An estimated $83 billion of overseas corporate cash has now been returned to the U.S., with $440 billion announced for Q1[1], while share buybacks totaled a record $178 billion in the first quarter according to S&P Dow Jones indexes—a 34% increase over Q1 2017.

Stock prices have nonetheless struggled to recover from the January-February drawdown alongside a peak in earnings momentum. Looking through the strong earnings expected in 2018, profit growth is expected to slow significantly across each of the S&P 500 sectors in 2019 (Exhibit 2), with year-on-year growth for the broad market slipping back below 10% from the first quarter of next year. This does not necessarily mean an end to the rise in prices. Sustained periods of flat or declining markets have typically occurred with outright earnings contraction, not slower earnings growth (Exhibit 3).

Exhibit 2: Expected S&P 500 Earnings Growth by Sector

Consensus Expected EPS Growth.

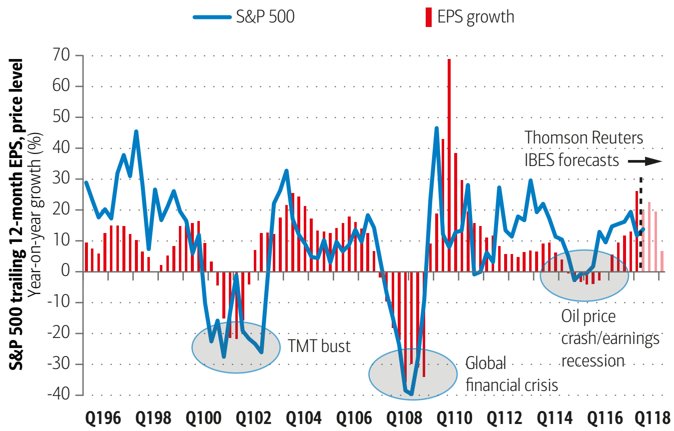


*Energy consensus expectation for 2018 is 86.5%.

Source: Thomson Reuters. Data as of May 2018. Illustration is for hypothetical purposes only and based on current data and subject to change.

[1] "Capex is Coming" (Strategas Research Partners, May 11 2018).

Exhibit 3: Sustained Equity Market Declines Typically Require Outright Earnings Contraction



Light red bars are Thomson Reuters IBES forecasts for Q218 to Q119. TMT is Technology, Media and Telecommunications.
Source: Bloomberg, Thomson Reuters. Data as of May 22, 2018.

But the profit deceleration, alongside further interest rate increases and the more recent resilience in the dollar, is likely to keep the uptrend more volatile than in recent years. Since the January peak of this year, the Volatility Index (VIX) has averaged 18.5, comparable to a cycle average of 18.1 and well above the unusually low levels of 2016 (15.8) and 2017 (11.1).

We have however already begun to see cyclical sectors lead a gradual recovery from the early-year selloff. The technology and energy sectors have now regained their January peaks, with consumer discretionary also recovering more than the broad market. The defensive sectors of telecommunications and consumer staples, by contrast, have recovered the least ground and remain more than 10% off their 2018 highs. We look for cyclicals to continue leading the market advance as we move toward mid-year and into the second half, and summarize here some of our main thematic sector views.

TECHNOLOGY, ENERGY AND CONSUMER DISCRETIONARY LEADING THE CYCLICAL SECTORS

Two key elements of the U.S. tax reform should be tailwinds for the technology sector as the economic expansion extends into a tenth year. The provision for 100% expensing of investment outlays over the next five years is likely to support capital expenditure, including on IT equipment and software, while the lower rate on repatriated earnings could potentially boost technology firms more than the broad market—overseas cash holdings for the sector relative to its market capitalization are roughly double that of the broad market at around 12%. Regulatory risk has increased in the wake of the Facebook data breach, subsequent legislative hearings in Washington and Brussels, and the introduction of the new EU-wide data protection law last week. But the large digital media platforms account for 15% to 20% of the listed sector, while other groups such as hardware devices, systems software and semiconductors remain exposed to growth trends such as cloud computing, data storage and artificial intelligence. According to Cisco Systems, the volume of all stored digital data will reach 7.2 zettabytes (ZB) in 2021 from 1.8ZB in 2016 (a 32% annual growth rate). And over the same period, cloud-based data processing volumes are projected to grow at an annual rate of 22%. We also expect semiconductors to benefit from growth in connected devices and more widespread application of artificial intelligence in areas such as medical imaging, robotics and content filtering.

The surge in oil prices over recent months has helped the energy sector recover the most ground since the January-February selloff, with downstream segments such as exploration and production, equipment and services being the biggest beneficiaries. But whether or not the rise in prices can continue will depend in large part on a range of supply factors. Oil output from Venezuela has fallen by close to one million barrels per day (mbpd) since the price trough of early 2016, a trend that is likely to be reinforced through continuing underinvestment by the newly re-elected government and recently imposed U.S. sanctions. And at the same time, geopolitical uncertainty remains over the outlook for investment by European energy firms in Iran following the U.S. withdrawal from the nuclear agreement. But supply growth from the U.S. and even Organization of the Petroleum Exporting Countries (OPEC) could potentially act to restrain the price rise. Despite widely reported bottlenecks in pipeline capacity, labor and production inputs such as water and frac sand, U.S. production continues to climb. It now stands at a record 10.7 mbpd, with shale production accounting for over 50% of total output for the first time. And OPEC could also lower its targeted 1.8 mbpd production cut in light of the recent runup in prices, potentially as early as its June 22 meeting.

Within the cyclical sectors, we also see online retail leading consumer discretionary higher as it continues to take share from traditional brick and mortar segments. Internet retailers now account for a record 31% of consumer discretionary market capitalization and have been the best-performing sub-group within the S&P 500 so far this year. According to the U.S. Census Bureau, e-commerce still accounted for just 9.5% of total U.S. retail sales in the first quarter of 2018 and has remained on an uninterrupted uptrend through two recessions, from 1.0% in 2000 to 3.5% in 2007. We would expect this trend to remain a support for the group as online sales continue to grow across key categories such as media, grocery and apparel.

HIGHER-YIELDING DEFENSIVE SECTORS STRUGGLING AS INTEREST RATES RISE

With respective dividend yields of 5.7%, 3.7% and 3.1%, the telecoms, utilities and consumer staples sectors have been the three lowest-returning sectors this year. All three are likely to come under increased competition from rising interest rates as the Fed tightens further, and bond yields breach 3% beyond 10-year maturities for the first time since 2011.

For utilities and telecoms in particular, we also see a range of structural headwinds continuing to weigh on returns. Mature residential electricity sales and increasing energy efficiency continue to limit the revenue growth potential for the utilities sector, with cost headwinds coming from a range of sources. These include the need to replace existing grid infrastructure such as poles and wires, and required investment in cleaner generating capacity at the state level, even as the Environmental Protection Agency (EPA) pushes to loosen federal regulations. The falling cost of renewables and growing competition from distributed power generation should also have a negative impact on traditional utilities as costs are spread over a dwindling base of household rate payers.

Similarly for the telecoms sector, long-term pricing pressure remains on network providers in the form of growing competition from other industry incumbents and new entrants in voice, messaging and data services, while required investment outlays are also rising with the need to increase bandwidth and coverage. However, we also see potential future sources of support, particularly with valuations for the sector now among the lowest relative to their long-term averages within the S&P 500. The push for further industry consolidation could help to restore pricing power. New services such as remote security and remote energy usage management in connected homes and offices are fast-growing channels, though for now they remain too small to have a material impact on total industry revenue. And regulatory policy, if upheld in the face of a recent Senate challenge, could also provide support should weaker Federal Communications Commission (FCC) rules give more pricing power and personal data access to internet service providers.

THOUGHT OF THE WEEK

THE RETURN OF POLITICAL RISK?

John Veit, CFA®, Director and Investment Strategist

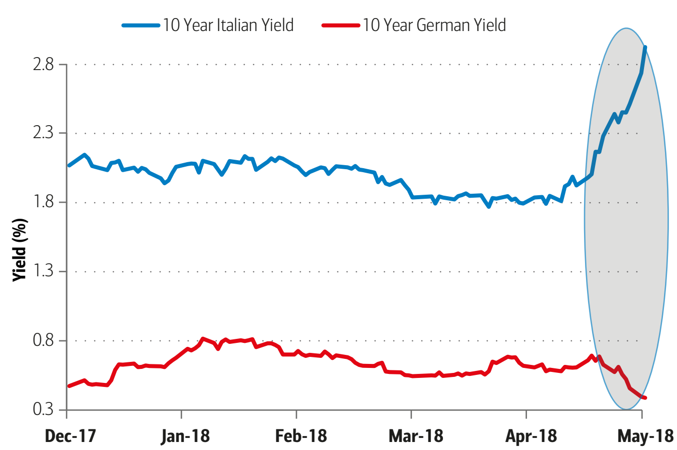
Last year, political risk generated steady white noise in financial markets but wasn't a driver of them. However, that's changed in 2018 as strong fundamentals have been outdone by politics. This is particularly evident in Italy, where differences between politics and policy have raised a major political risk for European investors. Last week, markets there experienced a sharp correction with the leak of an initial draft of a government contract that included cancellation of some public debt, although that provision was taken out of the final agreement.

There is concern that some of the progress in Italy could be undone over the next few weeks if a new government is formed around the original program negotiated between the left-wing populist Five Star Movement and the right-wing populist League, which includes a flat tax rate and the introduction of a minimum income for unemployed persons. An updated "lighter" version calls for simplification from five to two tax brackets and the introduction of a minimum income, conditional on job-seeking status and income level. This "lighter" version will still lead to deterioration of Italy's fiscal outlook and conflict with the European Union's balanced budget rules. The anticipated fiscal deterioration is one reason Italian yields spiked last week, given that Italy has one of the highest debt-to-GDP ratios across Europe (Exhibit 4).

Chartered Financial Analyst® and CFA® are registered trademarks owned by CFA Institute.

We believe it's important to separate the noise from the action: Lawmakers seem aware of Italy's narrow path and the sensitive dialogue with Europe. However, we still see scope for a communication misstep and further deterioration of the Rome-Brussels relationship. There are a lot of hurdles for Italy over the near term, and front and center is greater political risk. However, we remain favorable on European equities, despite the political hurdle in Italy, and we continue to monitor the situation.

Exhibit 4: Political Risk is Rising in Italy.



Source: Bloomberg and Chief Investment Office. Data as of May 29, 2018.
Past performance is no guarantee of future results.

MARKETS IN REVIEW

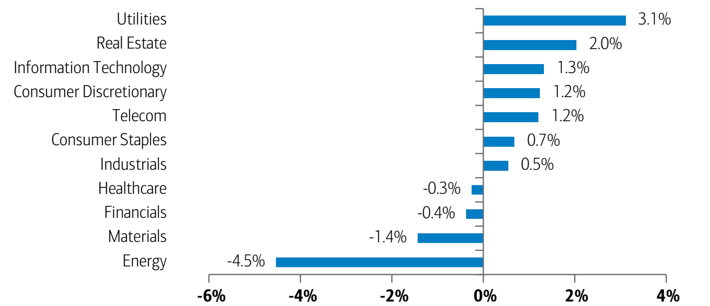
Equities

	Level	Total Return in USD (%) WTD	MTD	YTD
DJIA	24,753.09	0.2	2.7	1.1
NASDAQ	7,433.85	1.1	5.3	8.2
S&P 500	2,721.33	0.3	3.0	2.6
S&P 400 Mid Cap	1,946.87	0.2	4.1	3.0
Russell 2000	1,626.93	0.0	5.6	6.4
MSCI World	2,110.80	-0.4	1.4	1.3
MSCI EAFE	2,014.52	-1.5	-0.9	-0.2
MSCI Emerging Mkts	1,136.62	0.0	-2.2	-1.3

Fixed Income[1]

	Yield (%)	Total Return in USD (%) WTD	MTD	YTD
Corporate & Government	3.23	0.8	0.2	-2.3
Treasury Bills	1.91	0.0	0.1	0.6
Treasury Notes and Bonds	2.73	0.8	0.2	-1.7
Agencies	2.74	0.5	0.3	-0.9
Municipals	2.74	0.4	0.7	-0.8
U.S. Investment Grade	3.29	0.7	0.2	-2.0
International	3.94	0.8	0.1	-3.1
High Yield	6.39	0.0	0.0	-0.2

S&P 500 Sector Returns (For the week ending 5/25/18)



Commodities & Currencies

	Level	Total Return in USD (%) WTD	MTD	YTD
Bloomberg Commodity	186.83	0.6	1.6	3.8
WTI Crude $/Barrel[2]	67.88	-4.8	-1.0	12.3
Gold Spot $/Ounce[2]	1,301.70	0.7	-1.0	-0.1

Level	Current	Prior Week End	Prior Month End	2017 Year End
EUR/USD	1.17	1.18	1.21	1.20
USD/JPY	109.41	110.78	109.34	112.69

Source: Bloomberg, Factset. [1] Bloomberg Barclays Indices. [2] Spot price returns. All data as of the 5/25/18 close. **Past performance is no guarantee of future results.**

Asset Class Weightings (as of 5/9/18)

	Negative		Neutral		Positive
Global Equities				●	
U.S. Large Cap Growth				●	
U.S. Large Cap Value				●	
U.S. Small Cap Growth			●		
U.S. Small Cap Value			●		
International Developed				●	
Emerging Markets				●	
Global Fixed Income		●			
U.S. Governments		●			
U.S. Mortgages		●			
U.S. Corporates			●		
High Yield		●			
U.S. IG Tax Exempt			●		
U.S. HY Tax Exempt		●			
International Fixed Income	●				
Alternative Investments*	see CIO Asset Class Views				
Hedge Funds					
Private Equity					
Real Assets					
Cash	We are neutral				

* Many products that pursue Alternative Investment strategies, specifically Private Equity and Hedge Funds, are available only to pre-qualified clients.

Economic and Market Ranges (as of 5/29/18)

	Q2 2017	Q3 2017	Q4 2017E	Q1 2018E	2016	2017E	2018E
Real global GDP (% y/y annualized)					3.2	3.8	3.5 – 4.0
Real U.S. GDP (% q/q annualized)	3.1	3.2	2.9	2.3	1.5	2.3	2.5 – 3.5
CPI inflation (% y/y)*	1.9	2.1	2.1	2.1	1.3	2.1	2 – 3
Core CPI inflation (% y/y)*	2.1	2.0	1.8	1.8	2.2	1.8	2 – 3
Unemployment rate, period average (%)	4.4	4.3	4.1	4.1	4.9	4.4	3.9
Fed funds rate, end period (%) **	1.12	1.12	1.37	1.63	0.62	1.37	1.87 – 2.37
10-year Treasury, end period (%)	2.31	2.33	2.41	2.74	2.45	2.41	2.87 – 3.38
S&P 500, end period	2423	2519	2674	2641	2239	2674	2800-3000
S&P operating earnings ($/share)	33	32	38	37	119	129 – 138	148 – 158
U.S. dollar/euro, end period	1.14	1.18	1.2	1.23	1.05	1.2	1.18 – 1.28
Japanese yen/U.S. dollar, end period	112	113	113	106	117	113	105 – 115
Oil ($/barrel), end period	46	52	60	65	54	60	65 – 85

The average quarterly percent growth for the current calendar year divided by the average quarterly percent growth for the previous calendar year, annualized (unless stated otherwise). E = Estimate.

* Latest 12-month average over previous 12-month average

** Fed funds rate, end period based on market indications.

Past performance is no guarantee of future results. There can be no assurance that the forecasts will be achieved.

Economic or financial forecasts are inherently limited and should not be relied on as indicators of future investment performance.

Source: Global Wealth & Investment Management Investment Strategy Committee.

Index Definitions

Securities indexes assume reinvestment of all distributions and interest payments. Indexes are unmanaged and do not take into account fees or expenses. It is not possible to invest directly in an index.

Indexes are all based in dollars.

Dow Jones Industrial Average is a price-weighted measure of 30 U.S. blue-chip U.S. companies. The index covers all industries except transportation and utilities.

NASDAQ Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.

S&P 400 Mid Cap Index is representative of 400 stocks in the mid-range sector of the domestic stock market, representing all major industries.

S&P 500 Index includes a representative sample of 500 leading companies in leading industries of the U.S. economy. Although the index focuses on the large-cap segment of the market, with approximately 75% coverage of U.S. equities, it is also an ideal proxy for the total market.

S&P Small Cap 600 measures 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.

CBOE Volatility Index (VIX): The CBOE Volatility Index, known by its ticker symbol VIX, is a popular measure of the stock market's expectation of volatility implied by S&P 500 index options, calculated and published by the Chicago Board Options Exchange.

Important Disclosures

Investing involves risk, including the possible loss of principal. No investment program is risk-free, and a systematic investing plan does not ensure a profit or protect against a loss in declining markets. Any investment plan should be subject to periodic review for changes in your individual circumstances, including changes in market conditions and your financial ability to continue purchases.

Economic or financial forecasts are inherently limited and should not be relied on as indicators of future investment performance.

It is not possible to invest directly in an index.

Asset allocation, diversification, dollar cost averaging and rebalancing do not ensure a profit or protect against loss in declining markets.

Past performance is no guarantee of future results.

Investing in fixed-income securities may involve certain risks, including the credit quality of individual issuers, possible prepayments, market or economic developments and yields and shareprice fluctuations due to changes in interest rates. When interest rates go up, bond prices typically drop, and vice versa. Income from investing in municipal bonds is generally exempt from Federal and state taxes for residents of the issuing state. While the interest income is tax-exempt, any capital gains distributed are taxable to the investor. Income for some investors may be subject to the Federal Alternative Minimum Tax (AMT).

Investments focused in a certain industry may pose additional risks due to lack of diversification, industry volatility, economic turmoil, susceptibility to economic, political or regulatory risks and other sector concentration risks.

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 risks related to renting properties, such as rental defaults.

Nonfinancial assets, such as closely-held businesses, real estate, oil, gas and mineral properties, and timber, farm and ranch land, are complex in nature and involve risks including total loss of value. Special risk considerations include natural events (for example, earthquakes or fires), complex tax considerations, and lack of liquidity. Nonfinancial assets are not suitable for all investors. Always consult with your independent attorney, tax advisor, investment manager, and insurance agent for final recommendations and before changing or implementing any financial, tax, or estate planning strategy.

Investments in tangible assets are highly volatile and are speculative. 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.

Alternative Investments such as private equity funds, can result in higher return potential but also higher loss potential. Changes in economic conditions or other circumstances may adversely affect your investments. Before you invest in alternative investments, you should consider your overall financial situation, how much money you have to invest, your need for liquidity, and your tolerance for risk.

This material was prepared by the Global Wealth & Investment Management Chief Investment Office (GWIM CIO) and is not a publication of BofA Merrill Lynch Global Research. The views expressed are those of the GWIM CIO only and are subject to change. This information should not be construed as investment advice. It is presented for information purposes only and is not intended to be either a specific offer by any Merrill Lynch or U.S. Trust entity to sell or provide, or a specific invitation for a consumer to apply for, any particular retail financial product or service that may be available.

Global Wealth & Investment Management (GWIM) is a division of Bank of America Corporation. Merrill Lynch Wealth Management, Merrill Edge®, U.S. Trust, and Bank of America Merrill Lynch are affiliated sub-divisions within GWIM. The GWIM Chief Investment Office (CIO) provides investment solutions, portfolio construction advice and wealth management guidance.

Neither Merrill Lynch nor any of its affiliates or financial advisors provide legal, tax or accounting advice. You should consult your legal and/or tax advisors before making any financial decisions.

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. 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. Income from investing in municipal bonds is generally exempt from federal and state taxes for residents of the issuing state. While the interest income is tax exempt, any capital gains distributed are taxable to the investor. Income for some investors may be subject to the federal alternative minimum tax (AMT).

The Private Banking and Investment Group is a division of MLPF&S that offers a broad array of personalized wealth management products and services. Both brokerage and investment advisory services (including financial planning) are offered by the Group's Private Wealth Advisors through MLPF&S, a registered broker-dealer and registered investment adviser. The nature and degree of advice and assistance provided, the fees charged, and client rights and Merrill Lynch's obligations will differ among these services.

The banking, credit and trust services sold by the Group's Private Wealth Advisors are offered by licensed banks and trust companies, including Bank of America, N.A., Member FDIC, and other affiliated banks.

MLPF&S is a registered broker-dealer, registered investment adviser, Member **SIPC** and wholly owned subsidiary of BofA Corporation.

 AR7W6YJD