CHIEF INVESTMENT OFFICE

Viewpoint

Digging Deep

February 2025

All data, projections and opinions are as of the date of this report and subject to change.

IN BRIEF

- We continue to expect Equities to outperform Fixed Income throughout 2025. We believe another move forward on our rotation theme takes hold in the first half with more cyclical companies beginning to experience improved fundamentals. A more diversified set of leaders is still one of our top themes for 2025.
- Generative Artificial Intelligence (GAI) is heading into phase two, in our view. In this phase increased competition kickstarts accelerated innovation, wider adoption, and rapid efficiency gains across the corporate landscape.
- With our expectations that the Federal Reserve (Fed) will be in a holding pattern for all of 2025 and the 10-year U.S. Treasury yield to end the year around 4.75%; the yield curve is likely to be in a similar shape in a few months to where it is currently.
- We would use weakness in the equity markets as buying opportunities and major volatility (up or down) as rebalancing events over the course of the year.

In this month's Viewpoint, we discuss a number of below-the-surface trends and potential clues that help to assess investment trends through the first half of the year.

First, the level of interest rates and the yield curve to begin 2025 are telling us quite a bit about the short- and medium-term trends in the bond markets, in our view. With our expectations that the Fed will be in a holding pattern for all of 2025 and the 10-year U.S. Treasury yield to end the year around 4.75%; the yield curve is likely to be in a similar shape in a few months to where it is currently. Inflation gauges and the duration of imposed tariffs are the clues to watch for any material changes in the yield curve.

Corporate earnings across a wider swath of industry groups are gathering some momentum coming out of 2024 and are trending toward a double-digit percentage increase in 2025 assuming the recently imposed tariffs generally have a short lifespan. The digging deep surprise could be that margins actually widen as productivity gains ramp up and economic growth heads above trend post the tariff tantrum. The clues to watch here are forward guidance on corporate earnings coming out of the Q1 earnings per share (EPS) announcements in the spring.

GAI is heading into phase two, in our view. In this phase, increased competition kickstarts accelerated innovation, wider adoption and rapid efficiency gains across the corporate landscape. We believe the first half of 2025 showcases a number of new users as the costs to deploy GAI decline. In the short term, questions will surround the high-growth semiconductor space and the full end-to-end chain of GAI (including the data center and

CIO ASSET CLASS VIEWS

This month, the Global Wealth & Investment Management Investment Strategy Committee (GWIM ISC) did not make any tactical asset allocation adjustments. We maintain an overweight to Equities, with a preference for U.S. Equities, both Large- and Small-caps, relative to the rest of the world, and still favor a significant allocation to bonds in a well-diversified portfolio. Through periods of episodic volatility, we remain fully invested and diversified across portfolios.

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	CIO View				
Asset Class	Underweight		Neutral	Overweight	
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		●			
International Fixed Income			●		
High Yield		●			
U.S. Investment-grade Tax Exempt			●		
U.S. High Yield Tax Exempt		●			
Cash					

CIO asset class views are relative to the CIO Strategic Asset Allocation (SAA) of a multi-asset portfolio.

power producer segment), but through the course of the year the "growth" and large capital investment narrative should re-establish itself.

Equity valuations remain at a premium given well-above-average growth, the dominance of asset-light companies with mega capitalizations, and still evolving market structural factors. We don't expect this to change any time soon. The premium valuations do increase the probability of a market pullback from a negative event (e.g., tariff impact, poor inflation print, important earnings miss, etc.), in our opinion, but we expect any extended weakness to be a buying opportunity. The clues in this arena continue to be the mega capitalization's earnings announcements and whether or not the "rest of the best" of the 493 companies in the S&P 500 Index can join the improvement party. We think they are well positioned to do so.

When digging deep below the surface of these areas, what does it tell us about asset allocation and asset class trends in the coming months as we continue to keep a watchful eye on potential new policies?

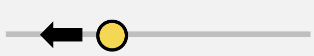
We continue to expect Equities to outperform Fixed Income throughout 2025. We believe another move forward on our rotation theme takes hold in the first half with more cyclical companies beginning to experience improved fundamentals. A more diversified set of leaders is still one of our top themes for 2025. In addition, Small- and Mid-capitalization shares should have better tailwinds this year with growth rising, deregulation gathering momentum, and mergers and acquisitions (M&A) picking up.

The asset-light era in which the supply of assets continues to be much lower than the demand for assets is just beginning. Labor light, lower fixed costs as a percentage of assets plus rising productivity are the dominating characteristics of corporate America in the years ahead. This allows capital investment to be more productive and the trend line in growth to be above average, in our view. We would use weakness in the equity markets as buying opportunities and major volatility (up or down) as rebalancing events over the course of the year. Lastly, we focus on potential opportunities in Equities for total return, Fixed Income for stable cash flow, and for qualified investors, private markets for long-term growth and attractive yield.

CIO INVESTMENT DASHBOARD AS OF FEBRUARY 4, 2025

While we maintain a constructive outlook for 2025, we see the potential for more uncertainty surrounding headline risk, the outlook for GAI, potential new policy initiatives, and geopolitical tensions—all of which could lead to choppiness within a broader uptrend. Long-term investors should consider using any episodic market volatility to their advantage and remain fully invested and diversified across portfolios.

Current readings on the key drivers of Equities for investors to consider, with arrows representing the recent trend:

Factor	Implication for Equities Negative Neutral Positive	CIO View
Earnings		Strong U.S. earnings growth remains on a year-over-year (YoY) basis. According to FactSet, consensus expects S&P 500 growth in revenue and earnings of 5.1% and 9.4% in 2024, respectively, followed by an acceleration to 5.8% and 14.5% this year. Accordingly, in Q4 2024, revenue and profits are expected to expand YoY by 4.7% and 12.4%, followed by a pace of 5.0% and 10.8% in Q1 2025. Yet according to BofA Global Research, in January, the Global Earnings Revision Ratio suggested curbing enthusiasm from analysts. More analysts cut their corporate earnings estimates than those upgrading them compared to the past month, which has kept the three-month average of the ratio below its long-term average. The number of upgrades to profit estimates surpasses downgrades in 3 of 20 countries and in 4 of 16 tracked industries.
Valuations		The S&P 500 price-to-earnings (P/E) ratio (next 12 months) stands at around 22.1x above its long-term average. This headline measure suggests that Large-cap U.S. Equities in general remain expensive, although relative discounts can be found in areas like Small-cap and Value.
U.S. Macro		With a preliminary Q4 reading of 2.3% in annualized growth of gross domestic product (GDP), 2024 real GDP growth stood at 2.8%, a steady pace of expansion from 2.9% in 2023. Excluding volatile measures in trade and inventories, final sales to domestic purchasers grew by 3.1% in Q4 and 3.0% in 2024, faster than growth of 2.7% in 2023. Consistently strong data has strengthened the case for a quicker pace of normalized economic growth. BofA Global Research expects GDP growth of 2.5% for Q1 of 2025 and 2.5% for this year. For 2026, an annual growth rate of 2.1% is anticipated.

Factor	Implication for Equities: Negative	Neutral	Positive	CIO View
Global Growth		●		Robust growth in the U.S., underpinned by sturdy consumption overall, offsets tepid performance in the rest of the global economy. The services sector remains a key pillar of growth in the Eurozone, though trade-related uncertainty has compounded weakness in manufacturing. In China, announced policies to support the economy have thus far produced a minimal impact to growth. After growth of 3.3% in 2023, the global economy is expected to grow by 3.1% in 2024, followed by an expansion of 3.3% in 2025 and 3.3% in 2026, according to BofA Global Research. This compares to average growth of 3.8% from 2000 to 2019, according to the International Monetary Fund.
U.S. Monetary Policy / Inflation		●		In January, the Federal Open Market Committee held its policy interest rate at 4.25% to 4.50%. The group's statement highlighted a solid economy and labor market. It also signaled a continued cautious approach in easing monetary policy, removing a reference indicating progress in bringing inflation to the central bank's target. Officials also stressed a data-dependent approach, amid uncertainty related to fiscal and trade policies. BofA Global Research expects the Fed to hold at this interest rate level, seen as the terminal rate, through year-end. Meanwhile, markets anticipate a possibility of additional cuts this year.
Fiscal Policy		●		U.S. pandemic-era fiscal support totaled nearly 31% of GDP, much of which has faded. Longer-term initiatives include the 2022 CHIPS and Science Act, a $280 billion plan to bolster the country's technological industrial base, and the 2022 Inflation Reduction Act (IRA), a $370 billion effort largely to develop a renewable energy supply chain, among other elements. These programs have recently come under scrutiny. On December 21, a bill was passed to fund federal agencies through March 14, 2025. Aside from talks over the federal budget, negotiations over raising the federal debt ceiling are expected. The Republican sweep of the U.S. general election has raised expectations for easing tax policy offset by enhanced efficiency in government spending and a greater preference for tariffs as a source of government revenue.
Corporate Credit			●	Credit spreads overall reflect little concern about an economic slowdown. For both investment-grade (IG) and High Yield (HY), they stand just off levels last seen nearly two decades ago.
Yield Curve		● →		The U.S. Treasury yield curve has generally normalized. Inversions, whereby longer-dated yields are below shorter-dated ones, have largely ended. Coinciding with an environment of resilient, above-trend economic growth, this normalization has occurred despite lessened expectations for interest rate cuts by the Fed. Instead, this evolution may reflect a greater permanence of stronger rates of economic growth or greater uncertainty over future fiscal policy, among other factors.
Technical Indicators			●	The S&P 500 remains above its 200-day moving average, which is also in an uptrend. The percentage of New York Stock Exchange stocks closing above their 200-day moving average and the cumulative advance/decline indicator, measures of market breadth, suggest lessened nearer-term participation within the U.S. Equity rally.
Investor Sentiment		● →		Sentiment indicators in general have turned more mixed. According to the American Association of Individual Investors, the large imbalance between bullish sentiment and that of bearish sentiment has notably decreased. Moreover, as of January 30, BofA Global Research's Bull & Bear Indicator signals "neutral" at 4.2. However, according to its Global Fund Manager Survey, cash levels in institutional portfolios remain at a level qualifying as a "sell" signal The Chicago Board Options Exchange Volatility Index generally remains above its 12-month average.

Source: Chief Investment Office.

EQUITIES

We are slightly overweight Equities: We maintain a positive bias for Equities this year. Equities remain well supported by a broad-based earnings expansion, a resilient consumer, a solid economic growth backdrop and relatively easier monetary policy. While we continue to see crosscurrents in the market landscape, solid fundamentals should ultimately provide Equities with a strong foundation moving forward.

We are slightly overweight U.S. Equities: The U.S. currently remains our preferred Equity region relative to the rest of the world, given relatively stronger forecasted earnings growth, balance sheets in aggregate and better consumer fundamentals. Index-level valuations remain elevated above long-term averages, but earnings have recently become more supportive. Our view on U.S. Large-caps remains positive on strong fundamentals and the ability to produce free cash flow (FCF) and healthy shareholder payouts. We maintain a slight Small- and Mid-cap overweight considering expectations for solid economic growth, a broadening profits cycle, potential for increased M&A activity, and lower costs of capital moving forward.

At this point in the cycle, we suggest a balance in Equity portfolios and broader exposure across sectors. In addition to the leadership and fundamental strength in recent years from the Information Technology (IT) and Communication Services sectors, we are starting to see improvement in earnings from other sectors, including Financials, Utilities, Consumer Discretionary and Healthcare. As the cycle starts to broaden out and as financial conditions further ease, it is important to have Equity exposure across cyclical, interest rate-sensitive and growth sectors. We continue to emphasize exposure to Financials despite our expectation that the Fed will pause interest rate cuts for the duration of the

EQUITY WATCH LIST

- Economic data for production, labor, consumer expectations, and credit and liquidity conditions
- Progression of earnings estimates and margins
- Reorganization of global supply chains and U.S.-China relationship
- A sustained broader rotation that favors Small-caps, cyclicals and Emerging Markets (EM)

RISK CONSIDERATIONS

- Heightened geopolitical risk and conflict in the Middle East
- Shifting expectations surrounding the outlook for Fed rate cuts
- Inflationary pressures that remain above the Fed's target level
- Pressures within the Office segment of Commercial Real Estate (CRE)

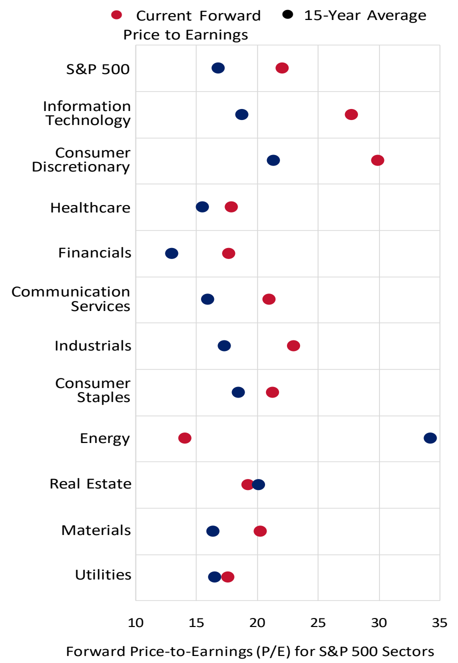
year. The cuts that the Fed has already implemented along with a steeper yield curve can help improve credit risk and default rates going forward especially in CRE (commercial real estate). Moreover, we expect American banks will generate record spread revenue this year even without meaningful loan growth given the re-pricing trend in securities portfolios industrywide (>40% of earning assets). We maintain neutral exposure to Industrials after mixed results from Q2 and Q3 earnings reports, few green shoots, and guarded company guidance for the end of 2024. However, infrastructure-related investments and projects related to secular growth trends in electric power demand, energy transmission and distribution, data center builds, and next-generation AI-focused semiconductor technology that is increasingly power hungry could drive multiyear demand for select growth and cyclical stocks. The relative view on Consumer Staples is more constructive after underperformance against both the broader equity market and the Consumer Discretionary sector last year, valuation measures at multiyear lows and early signs of fundamentals stabilizing.

Uncertainties pertaining to potential changes to Healthcare policies from the new administration could drive rebalancing in portfolios; therefore, we maintain a neutral exposure, and see opportunity beneath the sector level. We also remain cautious on the Energy sector, as weaker demand from China combined with a growing supply outlook for 2025 is a concern and could weigh on oil prices, energy cash flows and earnings in coming quarters. Our positive outlook for Utilities is based on accelerating electric power demand for the first time since the early 2000s, driven in part by the growth in GAI and increasing electrification of the economy. While we are constructive on IT and Communication Services as longer-term thematic trends, we maintain our neutral view in the near term on elevated valuations, crowded positioning and recent developments in the AI trend that generated a correction in late January. We remain cautious on Materials, as demand is weak, especially from China, and pricing power remains questionable. With interest rate volatility in recent months, we are neutral Real Estate (RE) and prefer being selective in the RE subsectors due to positive fundamentals in some areas of RE but remain cautious about weaker trends in other areas like CRE.

We believe strategic portfolios should continue to incorporate both Growth and Value factors that would simultaneously benefit from the possibility of cyclical and secular forces gaining traction. While we believe that the GAI theme has long-term momentum, the late-January market action in related mega-cap Growth stocks acted as a reminder that market leadership can, and often does, shift. We continue to caution against overexposure and advocate for diversification. Meanwhile, Value continues to trade at a relative discount to Growth and dividend-oriented Value stocks remain attractive. We suggest a disciplined and balanced approach between Value and Growth for long-term investors and emphasize the importance of balance in portfolios.

We are neutral Emerging Market Equities: Emerging Markets (EM) Equities appear attractively valued, but the Fed rate-cutting cycle is unlikely to have a major positive effect given small current account deficits across the EM universe, and the potential imposition of U.S. import tariffs that poses downside risks to more goods trade-oriented economies. We continue to expect a wide return dispersion between individual EM countries and regions. Recent stimulus measures in China so far appear insufficient to provide a significant boost to growth, and activity is likely to remain constrained on a structural basis by headwinds from the RE sector, weak household balance sheets, a tighter domestic regulatory environment and global export controls. Central and Eastern European markets remain most exposed to the Russia-Ukraine war through trade links and high dependency on natural gas imports, while market direction in Latin America, the Middle East and Africa should remain broadly tied to the direction of natural resource prices. The structural rise in EM consumer spending remains a big reason why we believe investors should consider maintaining a strategic allocation to EM Equities as appropriate. The emerging world now constitutes around 40% of global Personal Consumption Expenditures (PCE), according to the United Nations, and ongoing convergence with developed economies should support GDP growth and corporate earnings over the longer term. We favor active management[1] when investing in EM, as fundamentals differ across countries based on fiscal capacity, external funding needs, corporate governance and other factors.

Sector Valuations



Source: Bloomberg as of February 3, 2025. All sector and asset allocation recommendations must be considered in the context of an individual investor's goals, time horizon, liquidity needs and risk tolerance. **Past performance is no guarantee of future results.**

[1] Active management seeks to outperform benchmarks through active investment decisions such as asset allocation and investment selection.

We are slightly underweight International Developed Equities: We continue to prefer U.S. versus International Developed given our higher-quality view. We remain slightly underweight Europe. Downside risk remains from the potential for fiscal tightening in high- budget-deficit European Union (EU) countries and increased political uncertainty in Germany and France. Potential imposition of U.S. import tariffs and growing competition from China are additional risks for manufacturing-led EU economies. We are slightly overweight Japan Equities. The potential for faster interest rate hikes could represent a headwind for Japan if yen weakness persists, but sustained positive inflation and corporate reforms remain fundamental supports for valuation. As aggregate net energy importers, International Developed markets should also be more sensitive to the direction of energy prices. We believe long-term investors should maintain some strategic exposure to International Developed Equities, as appropriate, given that they trade at a discount relative to U.S. Equities, contain more of a balance between Value and Growth sectors, can offer attractive dividend yields, and provide diversification.

FIXED INCOME

We are slightly underweight Fixed Income: We are still favorable with a strategic allocation to bonds in diversified portfolios but are currently slightly overweight Equities. The Fed's ability and willingness to change rate policy to aggressively protect the labor market is largely positive for the economy but increases the risk of higher inflation (all things being equal). We therefore maintain our neutral duration position for now. We still believe, on balance, that rates may drift lower from here over the medium term. The relative rates opportunity has become more compelling again as the 10-year approaches the 4.75% to 5.0% area, and real rates approach 2.00% to 2.50%. Our highest conviction call remains that the yield curve will normalize by short rates moving lower, and investors should therefore consider moving out investable cash into their strategic duration target as cash yields are likely to decrease from here, and the backup in yields may be an opportunity.

Nominal and real rates are more attractive due to the recent back-up, and provide good income-generating power, in our opinion, as well as a decently priced hedge to high risk-asset valuations. Therefore, we have a slight overweight U.S. Governments. Real yields—the yield after inflation, as measured by Treasury Inflation-Indexed Securities—are now 2.00% to 2.50% across the curve, the higher end of the range since 2008. Substantially positive yields that are higher than inflation levels on U.S. government-guaranteed securities is a welcome relief for savers after years of financial repression. We recommend a neutral duration position versus a stated benchmark, to take advantage of these higher yields, protect against declining rates on cash balances, and as prudent positioning against macro risk in the increased Equity positioning of a diversified portfolio by moving to their long-term strategic duration target.

We remain slightly underweight both Investment-grade Corporates and High Yield: This view is largely predicated on valuations that continue to screen expensive, leaving less room for upside and outperformance relative to duration matched Treasurys. Over the last 12 months, credit markets have fully embraced the improved macro and technical backdrops. With IG at around 80 bps and HY at around 275 bps, spreads have continued to grind post-election and continue to reflect a healthy growth picture in addition to relatively strong demand with yields solidly in the 5.0% to 5.5% area for high-quality corporates. More compelling yields, and a continued strong technical backdrop is the single biggest risk to our underweight thesis, in our opinion.

To be clear, we don't see a risk or catalyst for spreads to move meaningfully wider over the short term. Bouts of volatility and mean reversion moves in credit spreads are normal. History has shown that credit spreads can trend at low/rich levels for an extended period (i.e., mid-to-late 1990s and mid-2000s). With the U.S. economy still on strong footing and earnings growth reaccelerating, any move wider in credit spreads could be more contained, in our view. However, the margin for error at current valuations is still slim. On average, at starting spread levels of 100 bps or less, IG underperforms duration-matched Treasurys 12 months forward.

FIXED INCOME WATCH LIST

- Economic and fiscal implications of the U.S. election
- Level of real rates in the U.S.
- Credit Spreads and muni/Treasury ratios
- Global central bank activity
- Global economic growth
- U.S. short-term funding markets
- U.S. inflation

RISK CONSIDERATIONS

- Heightened U.S. deficit spending
- Resilient or accelerating inflation
- Any increase in risk aversion at current tight credit spreads
- Potential for a short-term liquidity crunch

We therefore continue to believe that an up-in-quality and defensive tilt within a corporate allocation is prudent and would look to re-risk portfolios should we see spreads move above 130 bps—all else being equal.

HY yield-to-worst remains around 7%, above the median level seen over the last 25 years and provides modest compensation for credit losses, in our view. However, similar to IG, HY spreads look priced to perfection and continue to price in a soft/no-landing outcome and a continued improvement in default losses. Current spreads in the BB-rated and B-rated cohorts are both roughly inside of the 10th percentile historically, and we would look for substantially wider levels as a more attractive entry point. We therefore maintain our slight underweight positioning and see better risk-adjusted opportunities in other asset classes such as Equities.

We are neutral U.S. Investment-grade Tax Exempt and slightly underweight U.S. High Yield Tax Exempt: Tax-exempt municipal bonds begin 2025 at valuations we consider attractive relative to Treasury securities. Technical conditions are typically strong in January, with below-average issuance and strong demand from January coupon payments, so valuations could richen this month. We believe municipal credit quality remains generally solid, with most states maintaining abundant levels of rainy-day funds. However, there are credit outliers to the downside, some muni subsectors such as healthcare and private higher education face particular challenges, and credit spreads for low-quality munis are currently tighter than their long-term averages. Therefore, investors should exercise diligence in reaching down the credit spectrum for additional yield.

We remain slightly overweight Mortgage-backed Securities: Mortgage-backed Securities (MBS) spreads remain relatively attractive compared to other high-quality Fixed Income sectors, particularly IG corporates. The risk of duration extension, a primary concern for MBS investors, has largely been mitigated. However, while interest rate volatility has moderated, it remains elevated from a longer-term perspective. Additionally, a potential rise in inflation poses a risk to our slightly overweight stance, as it could push Treasury yields higher, resulting in wider MBS spreads and/or increased volatility—both of which could negatively affect MBS returns.

Despite the additional supply resulting from quantitative tightening (QT), the sector's relative attractiveness, coupled with the potential for banking deregulation—likely to spur additional bank demand—provides meaningful counterbalances. Banking deregulation will be a critical factor to monitor in 2025. As long as Treasury yields remain range-bound near current levels, these risks are expected to have a limited effect on the sector.

MACRO STRATEGY

- Personal income and spending data were strong in 2024, with both measures growing at a 5% year-over-year pace. The stronger data caused real PCE, a measure of total real consumer spending, to grow at a 4.2% pace in Q4. Strong consumption is keeping final sales growth at over a 3% pace.
- Claims for unemployment compensation show layoffs are still very low, but continuing claims remain elevated because it is taking longer for the unemployed to find new jobs because of a lower level of unfilled job openings.
- Overall PCE inflation rose 2.6% in the 12 months through December compared to 2.4% in November. Core consumer price inflation was 3.2% in the 12 months through December. Core inflation has stalled around 3% for several months now as the disinflation trend seems to have ended.
- The profits cycle for large U.S. companies and policy tailwind from existing fiscal stimulus and deregulation remains supportive of economic growth and risk-assets in the near term with volatility likely as tariffs remain a concern.

ECONOMIC FORECASTS (AS OF 1/31/2025)

	Q4 2024A	2024A	Q1 2025E	Q2 2025E	Q3 2025E	Q4 2025E	2025E
Real global GDP (% y/y annualized)	-	3.1*	-	-	-	-	3.3
Real U.S. GDP (% q/q annualized)	2.3	2.8	2.5	2.3	2.2	2.2	2.5
CPI inflation (% y/y)	2.7	3.0	2.6	2.7	3.0	2.8	2.8
Core CPI inflation (% y/y)	3.3	3.4	3.0	3.0	3.2	3.2	3.1
Unemployment rate (%)	4.2	4.0	4.2	4.2	4.2	4.2	4.2
Fed funds rate, end period (%)	4.33	4.33	4.38	4.38	4.38	4.38	4.38

The forecasts in the table are the baseline view from BofA Global Research. The Global Wealth & Investment Management (GWIM) Investment Strategy Committee (ISC) may make adjustments to this view over the course of the year and can express upside/downside to these forecasts. 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.

A = Actual. E/= Estimate.

Sources: BofA Global Research; GWIM ISC as of February 4, 2025. Forecasts are subject to change.

When assessing your portfolio in light of our current guidance, consider the tactical positioning around asset allocation 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 advisor can help you customize your portfolio in light of your specific circumstances.

S&P 500 SCENARIOS BASED ON FORWARD P/E AND 2025 EARNINGS PER SHARE (EPS)

The table below provides a rough indication of where the S&P 500 Index's central tendency could be, given various scenarios for EPS in 2025 and P/E ratio multiples. These scenarios are not official price targets and are not meant to signal levels where portfolio actions may always be needed. However, during times of market volatility, it's useful to keep this basic framework in mind when considering whether to incrementally add to or trim risk from portfolios while staying invested in one's strategic asset allocation framework.

2025 EPS	EPS Forward P/E (Next 12 months)				
	19.0x	20.0x	21.0x	22.0x	23.0x
$305	5,795	6,100	6,405	6,710	7,015
$295	5,605	5,900	6,195	6,490	6,785
$285	5,415	5,700	5,985	6,270	6,555
$275	5,225	5,500	5,775	6,050	6,325
$265	5,035	5,300	5,565	5,830	6,095
$255	4,845	5,100	5,355	5,610	5,865
$245	4,655	4,900	5,145	5,390	5,635

For illustrative purposes only. Source: Chief Investment Office as of February 4, 2025.

CIO ASSET CLASS VIEWS AS OF FEBRUARY 4, 2025

Asset Class	CIO View: Underweight		Neutral	Overweight		Comments
Global Equities				●		We are slightly overweight Equities and continue to view weakness as a buying opportunity for long-term investors. We remain overweight the U.S. and neutral EM, with a slight underweight to International Developed.
U.S. Large-cap Growth			●			We have a slight preference for Value over Growth, given better absolute and relative valuations. We believe portfolios should incorporate both Growth and Value factors as appropriate.
U.S. Large-cap Value				●		
U.S. Small-cap Growth				●		We maintain a slight overweight to Small-caps on attractive valuations, the declining cost of capital and the stable U.S. consumer.
U.S. Small-cap Value				●		
International Developed		●				We are slightly overweight Equities and continue to view weakness as a buying opportunity for long-term investors. We remain overweight the U.S. and neutral EM, with a slight underweight to International Developed.
Emerging Markets			●			We have a slight preference for Value over Growth, given better absolute and relative valuations. We believe portfolios should incorporate both Growth and Value factors as appropriate.
Global Fixed Income		●				Bonds are attractive and provide good diversification for multi asset class portfolios with both reasonable income and the ability to decline substantially in yield in an economic downturn. Neutral duration recommended, balancing the risk of further tightening/higher yields against significantly better valuations.
U.S. Governments				●		Nominal and real yields remain attractive across the curve relative to the last 10 to 15 years. A Treasury allocation for liquidity, principal preservation and diversification is advised, as Treasurys provide the best short term diversification benefits to Equities among Fixed Income sectors. Rate volatility has increased and may remain high.
U.S. Mortgages				●		MBS spreads have tightened to the mid- 30s (bps). Although this level of spread is now near the ten-year average, MBS remains attractive to Treasury and Corporate bonds on a relative basis. With a longer-term horizon in mind, we are slightly overweight on the asset class, recognizing that the risk-reward profile is now more balanced.
U.S. Corporates		●				We remain slightly underweight IG. This reflects our view that while all in yields may still be compelling, credit spreads have rallied sharply year-to-date, and at around 80 bps, remain priced for a strong macro backdrop and leave little room for error. At current valuations, IG tends to underperform Treasurys modestly on an excess return basis 12 months forward. That being said, we acknowledge that given the strong macro and fundamental backdrops expected to play out this year, that credit spreads could remain range bound–providing carry like excess returns.
International Fixed Income			●			International rates markets have become significantly more attractive as global Central Banks raise rates to fight inflation, no longer trading at a significant discount to the U.S. except in Japan where the Bank of Japan is still keeping longer term rates artificially low.
High Yield		●				Valuations are very extended and provide a poor risk/ return profile. Any additions to High Yield (HY), therefore, should have a long time horizon. Within HY, we prefer balanced exposure between floating rate loans and HY unsecured.
U.S. Investment-grade Tax Exempt			●			Valuations relative to Treasurys appear reasonable. Fundamental conditions remain generally favorable for state and local government bonds, but challenges exist in certain subsectors, e.g., private higher education and healthcare.
U.S. High Yield Tax Exempt		●				HY munis are rich relative to IG munis, based on historical valuations. However, we do not see a catalyst for spread widening in the near future.

Tactical qualitative investment strategy weightings are relative in nature versus the strategic weightings for a fully diversified portfolio. Weightings are based on the relative attractiveness of each asset class. Tactical strategy weightings are for a 12- to 18-month time horizon. CIO asset class views are relative to the CIO Strategic Asset Allocation (SAA) of a multi-asset portfolio. Because economic and market conditions change, recommended allocations may vary in the future. Asset allocation cannot eliminate the risk of fluctuating prices and uncertain returns. All sector and asset allocation recommendations must be considered in the context of an individual investor's goals, time horizon, liquidity needs and risk tolerance. Not all recommendations will be in the best interest of all investors. Changes in economic conditions or other circumstances may adversely affect your investments. Source: Global Wealth & Investment Management Investment Strategy Committee.

CIO THEMATIC INVESTING AS OF FEBRUARY 4, 2025

The following themes and subthemes encapsulate the Chief Investment Office's thinking on some of the most convincing undercurrents of future areas of growth around: Transformative Innovation, Resilient Infrastructure, Future Security and Changing Demographics. These themes carry long-term implications for economic growth, the cost of capital and global earnings. We'd consider exposure to these themes a key ingredient to investing.

Level 1	Level 2
Transformative Innovation • Generative AI • Robotics/Automation • Digitization	**Generative AI:** Power demand/generation, productivity wave **Robotics/Automation:** Industrial/service robotics **Digitization:** Cloud computing, data analytics, digital payments, internet of things, augmented reality and virtual reality, electrified transportation
Resilient Infrastructure • Energy Addition • Utility Infrastructure • Supply Chain Reconfiguration	**Energy Addition:** Nuclear renaissance, solar, natural gas generation, hydrogen, battery storage **Utility Infrastructure:** Data centers, grid (transmission/distribution), thermal management, water management, power generation **Supply Chain Reconfiguration:** Onshoring/nearshoring buildout
Future Security • Aerospace & Defense • Cybersecurity • Resource Protectionism	**Aerospace & Defense:** Remilitarization, space, drones **Cybersecurity:** Network security, cloud evolution/security, endpoint security **Resource Protectionism:** Food/agriculture/commodity scarcity (water), natural resources, metals/mining
Changing Demographics • Healthcare Innovation • Great Wealth Transfer • Global Labor Force Distribution	**Healthcare Innovation:** Ageing, longevity, drug discovery, biotechnology (gene therapy, personalized medicine) **Great Wealth Transfer:** Wealth creation, NextGen consumer/investor base **Global Labor Force Distribution:** Immigration/migration, global fertility bust, automation "cobots"

Table 1: CIO U.S. Low Tax Sensitivity (Tier 0 liquidity) Asset Allocation Guidance for Merrill Clients

Tier 0 (highest liquidity): Highest liquidity needs with none of the portfolio invested in less liquid alternative asset categories.

	All Fixed Income		Conservative		Moderately Conservative		Moderate		Moderately Aggressive		Aggressive		All Equity	
	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical
Equity	**0%**	**0%**	**24%**	**27%**	**40%**	**43%**	**58%**	**61%**	**75%**	**78%**	**91%**	**94%**	**99%**	**99%**
U.S. Large Cap Growth	0%	0%	7%	7%	12%	12%	17%	17%	22%	22%	27%	27%	29%	29%
U.S. Large Cap Value	0%	0%	8%	10%	14%	16%	20%	22%	26%	28%	31%	33%	34%	35%
U.S. Small Cap Growth	0%	0%	1%	2%	1%	2%	2%	3%	3%	4%	4%	5%	4%	5%
U.S. Small Cap Value	0%	0%	1%	3%	1%	3%	2%	4%	3%	5%	4%	6%	4%	6%
International Developed Equity	0%	0%	5%	3%	8%	6%	11%	9%	14%	12%	16%	14%	18%	14%
Emerging Markets	0%	0%	2%	2%	4%	4%	6%	6%	7%	7%	9%	9%	10%	10%
Fixed Income	**99%**	**99%**	**71%**	**68%**	**59%**	**56%**	**41%**	**38%**	**24%**	**21%**	**8%**	**5%**	**0%**	**0%**
U.S. Government	28%	32%	17%	19%	17%	19%	13%	14%	8%	9%	3%	5%	0%	0%
U.S. Mortgages	24%	26%	12%	13%	13%	14%	10%	11%	3%	4%	0%	0%	0%	0%
U.S. Corporates	26%	24%	17%	14%	16%	13%	13%	10%	11%	7%	5%	0%	0%	0%
U.S. High Yield	5%	1%	3%	0%	3%	0%	2%	0%	1%	0%	0%	0%	0%	0%
International Fixed Income	16%	16%	22%	22%	10%	10%	3%	3%	1%	1%	0%	0%	0%	0%
Cash	**1%**	**1%**	**5%**	**5%**	**1%**	**1%**	**1%**	**1%**	**1%**	**1%**	**1%**	**1%**	**1%**	**1%**

Source: Chief Investment Office as of February 4, 2025.

Table 2: CIO U.S. High Tax Sensitivity (Tier 0 liquidity) Asset Allocation Guidance for Merrill Clients

Tier 0 (highest liquidity): Highest liquidity needs with none of the portfolio invested in less liquid alternative asset categories.

	All Fixed Income		Conservative		Moderately Conservative		Moderate		Moderately Aggressive		Aggressive		All Equity	
	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical
Equity	**0%**	**0%**	**22%**	**25%**	**40%**	**43%**	**58%**	**61%**	**74%**	**77%**	**91%**	**94%**	**99%**	**99%**
U.S. Large Cap Growth	0%	0%	7%	7%	12%	12%	17%	17%	22%	22%	27%	27%	29%	29%
U.S. Large Cap Value	0%	0%	8%	10%	14%	16%	20%	22%	26%	28%	31%	33%	34%	35%
U.S. Small Cap Growth	0%	0%	1%	2%	1%	2%	2%	3%	3%	4%	4%	5%	4%	5%
U.S. Small Cap Value	0%	0%	1%	3%	1%	3%	2%	4%	3%	5%	4%	6%	4%	6%
International Developed Equity	0%	0%	4%	2%	8%	6%	11%	9%	13%	11%	16%	14%	18%	14%
Emerging Markets	0%	0%	1%	1%	4%	4%	6%	6%	7%	7%	9%	9%	10%	10%
Fixed Income	**99%**	**99%**	**73%**	**70%**	**59%**	**56%**	**41%**	**38%**	**25%**	**22%**	**8%**	**5%**	**0%**	**0%**
U.S. Government	0%	4%	9%	11%	0%	2%	0%	1%	0%	0%	0%	0%	0%	0%
U.S. Mortgages	1%	2%	5%	6%	2%	3%	0%	0%	0%	0%	0%	0%	0%	0%
U.S. Corporates	13%	12%	7%	5%	4%	2%	0%	0%	0%	0%	0%	0%	0%	0%
U.S. High Yield	1%	0%	3%	1%	1%	0%	1%	0%	0%	0%	0%	0%	0%	0%
U.S. Investment Grade Tax Exempt	60%	60%	28%	28%	34%	34%	35%	35%	22%	22%	7%	5%	0%	0%
U.S. High Yield Tax Exempt	9%	6%	4%	2%	4%	1%	4%	1%	3%	0%	1%	0%	0%	0%
International Fixed Income	15%	15%	17%	17%	14%	14%	1%	1%	0%	0%	0%	0%	0%	0%
Cash	**1%**	**1%**	**5%**	**5%**	**1%**	**1%**	**1%**	**1%**	**1%**	**1%**	**1%**	**1%**	**1%**	**1%**

Source: Chief Investment Office as of February 4, 2025.

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 U.S. dollars.

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.

Chicago Board Options Exchange Volatility Index is a real-time market index that represents the market's expectation of 30-day forward-looking volatility.

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