CHIEF INVESTMENT OFFICE

Viewpoint

An Attractive Rebalancing Environment

February 2022

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

IN BRIEF

- For now, strong nominal growth is powering robust corporate earnings that will help serve to reinforce the business cycle expansion. Leading economic indicators point toward above trend real economic growth over the balance of the year. This is a positive backdrop for Equities.
- Given our view that ultimately solid profits should be the arbiter of the market's trend, we would use this correction in Equities as a rebalancing opportunity for long term investors.
- This month we are reducing our allocation to Mortgage-backed-securities (MBS) within a multi-asset class portfolio due to a number of headwinds including the quicker pace of Federal Reserve (Fed) policy reduction, and the current backdrop of higher rates and volatility which we expect to persist. The proceeds of this adjustment will be invested in Investment-grade corporate bonds which have historically outperformed both MBS and Treasurys in the early stages of Fed rate increases.

CIO ASSET CLASS VIEWS

This month, the Global Wealth & Investment Management Investment Strategy Committee reduced our allocation to Mortgage-backed securities from neutral to slightly underweight, with the proceeds moving to Investment-grade corporate bonds. We reaffirm our positive view on Equities relative to Fixed Income with a preference for U.S. Equities relative to International. Diversification across asset classes and within Equities increases in importance as yields rise.

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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				●	
High Yield		●			
U.S. Investment Grade Tax Exempt			●		
U.S. High Yield Tax Exempt		●			
International Fixed Income	●				
Cash					

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

As we close out the first month of 2022, the S&P 500 has experienced its eighth worst January drop in history (-5.3% through January 31, 2022) and largest since 2008 (-6.1%). After sharply increasing earlier in the month, Equity volatility has remained elevated and has only been higher 12% of the time since 1990. In addition, investor sentiment continues at one of its most bearish levels since the spring of 2020. Inflation across the most widely watched industry gauges is still, on a year-over-year basis, up significantly and more than four times higher at the market-based core personal consumption expenditure level (a closely followed gauge by economists and monetary policy analysts) versus the last time the Federal Reserve (Fed) lifted rates off the zero bound in 2015 (4% December 2021 versus 1% December 2015).

With the concerns over slower economic growth in the U.S., the potential aggressiveness by the Fed, and rising geopolitical risks, investors have increased their risk aversion throughout the month. This march to the sidelines is particularly pronounced with investors that have shorter-term time horizons and use more model-driven and technical factors in their investment strategies. We call this segment the "meerkats," which tend to burrow in the ridge at the first sign of danger. Given our view that ultimately solid profits should be the arbiter of the market's trend, we would use this correction in Equities as a rebalancing opportunity for long-term investors.

Our conviction for Equities relative to Fixed Income is based on our view on what we believe is priced into the markets at this time. We believe the market has priced in four to five hikes by the Fed, which would take the federal funds rate to around 1.00% to 1.25% or 1.25% to 1.5% at year end. If inflation continues to remain uncomfortably above the Fed's own targets, the market will likely begin to price in additional hikes. BofA Global Research recently raised its forecasts to a quarter-point increase each meeting starting in March, which is a total of seven hikes. If this process were to unfold, we would expect further outperformance of Value relative to Growth and specifically, underperformance by the lower-quality, less profitable areas of the equity markets. In addition, investors are beginning to price in slower growth globally, and higher-than-expected oil prices, in our opinion.

What's not priced in, from our perspective, is a true confrontation and escalation in Ukraine or a sharp rise in oil prices well above $100 per barrel. If these issues increase in probability, we will likely experience further weakness in risk assets. Geopolitical events and commodity price swings are traditionally difficult to forecast and can contain large unknowns. We believe this is another reason to stay well diversified and balanced in your investment process with an emphasis on higher quality. Ultimately, the most important catalyst for potential relief rallies and an overall uptrend for Equity prices in the coming months is the level of growth in corporate profits, which we expect to be attractive.

Furthermore, although financial conditions in the credit markets have tightened somewhat, spreads are in the normal range at this point in the cycle, the yield curve has flattened but not to levels that give us pause, and the U.S. dollar has strengthened with a speed that makes sense, in our view. Equally important, the Q4 earnings season is unfolding above expectations with margins holding steady while guidance is still generally upbeat. The current investment environment is being dominated by headline risk and a rotation wave that is still trying to get to more balanced exposure and away from the overbuilt allocation to the longer-duration, less profitable areas of the equity markets. This rotation takes time and can cause broader market pressure like we experienced in January. We continue to emphasize higher-quality areas with a focus on Financials, Industrials, Energy and Materials, more established companies in Technology, the U.S. relative to the rest of the world, and find value in small capitalization shares, which are the cheapest they have been in 20 years as measured by the S&P Small-cap Index relative to the S&P 500.

CIO INVESTMENT DASHBOARD

The outlook for global economic activity remains strong in 2022 given elevated consumer net worth, pent-up demand and job growth. However, in the near term the risk for a slowdown has risen given the decline in consumer spending. Corporate earnings continue to demonstrate considerable momentum across styles, sectors and regions. Persistently high inflation levels will lead the Fed to tighten monetary policy, which could bring higher volatility for financial markets. Corporate credit conditions are generally supportive, as a result of past measures taken by the Fed and rising corporate earnings and cash flows. Relative valuations continue to favor Equities over Fixed Income, although a disorderly move higher in yields would be considered a headwind for Equities. Investor sentiment has moved to bearish levels following recent volatility.

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

	Implication for Equities			
Factor	**Negative**	**Neutral**	**Positive**	**CIO View**
Earnings			●	In Q4, the S&P 500 has so far reported profits that have positively surprised the aggregated consensus estimate by roughly 5.2%, according to Bloomberg. This magnitude has fallen since peaking in Q1. After year-over-year (YoY) growth in S&P 500 profits of 40% in Q3, the consensus estimate calls for an appreciation of 22.5% in Q4, which would mark four straight quarters of growth above 20%, according to FactSet. Annual 2022 S&P 500 earnings growth is expected at 9.1%. Generally upward earnings revisions in the U.S., Europe and Japan suggest positive earnings trends for these markets.
Valuations		● →		U.S. Equity valuations remain extended on an absolute basis but are still attractive compared to Fixed Income. S&P 500 price-to-earnings (P/E) ratio (next 12 months) has fallen under 20x, though remains higher than the historical average. It has declined due to both price volatility and rising earnings estimates. The S&P 500 earnings yield is 340 basis points (bps) above the 10-year Treasury yield, indicating upside for Equities relative to Fixed Income. The recent rise in rates has pressured richly valued, long-duration Equities, while supporting cyclical areas.

Factor	Implication for Equities Negative Neutral Positive	CIO View
U.S. Macro		U.S. economic growth reaccelerated in Q4 by 6.9% seasonally adjusted annual rate, driven by a buildup of inventories, according to the Commerce Department. This results in 2021 growth of real gross domestic product (GDP) of 5.7%, the most since 1984. On the demand side, consumer spending remains supported by an improving labor market, economic reopening, record-high household net worth and excess savings. The Purchasing Managers' Index (PMI) for the manufacturing sector signals robust business conditions. However, the indicator tracking the services sector has weakened, influenced by the recent wave of the coronavirus. Supply-chain challenges and labor shortages remain impediments to growth. BofA Global Research expects growth of 3.6% for 2022.
Global Growth		Despite recent normalization across the global economy, uncertainty remains high due to elevated new cases of the coronavirus, fueled in part by the Omicron variant and geopolitical developments. Elevated energy prices, particularly in Europe, also pose a risk to the economic outlook. Led by China, the global economy is expected to have grown by 6.0% in 2021 and is expected to expand by 4.3% in 2022, according to BofA Global Research.
Monetary Policy / Inflation		The Federal Open Market Committee (FOMC) began tapering the central bank asset purchases in November. Should conditions allow, it's likely the Fed will begin raising interest rates at the March meeting, as stated by Fed Chairman Jerome Powell, which have helped sustain anticipation for a quicker pace of tightening monetary policy, including multiple rate hikes and balance sheet runoff in 2022. Overall, inflation data, such as the Consumer Price Index (CPI), the Producer Price Index (PPI) and consumer expectation for prices, has surprised to the upside, driven by strong demand and constrained supply in the global economy.
Fiscal Policy		Including the Bipartisan Infrastructure Framework, approved in October, fiscal relief in the U.S. equates to nearly 31% of GDP since the start of the pandemic. Momentum toward approving the entire Build Back Better bill through the reconciliation process by the Democratic-controlled Congress has diminished. President Biden has instead proposed a piece-meal approach.
Corporate Credit		Corporate credit conditions remain generally benign as a result of past measures taken by the Fed and rising corporate earnings and cash flows. High Yield (HY) credit spreads remain within a range in place since around mid-2021. Investment-grade (IG) spreads have risen above their early December highs. Financial conditions remain accommodative and economic fundamentals are strong.
Yield Curve		While most yield curves continue to flatten, the all-important Fed Funds/10s curve has been steepening, signaling a positive economic outlook. Rates on the front end have moved higher to reflect higher expectations for Fed hikes sooner rather than later. Rates on the back end have recently risen on expectations for more persistent inflation, Fed policy and strong GDP growth. Some sections of the yield curve may reflect some emerging concern of its sustainability.
Technical Indicators		Throughout January, the Chicago Board Options Exchange (CBOE) Volatility Index (VIX) had risen to 30, a historically elevated level. Market breadth has deteriorated. The cumulative advance/decline line for New York Stock Exchange (NYSE) Equities has broken down to its lowest since early March 2021. Meanwhile, the percentage of NYSE stocks above their 200-day moving average has fallen to 35%.
Investor Sentiment		Bears now outnumber bulls by the most since March 2020, according to the American Association of Individual Investors. Meanwhile, institutional portfolio cash levels continue to signal a contrarian "buy" signal, according to the Fund Manager Survey. However, the BofA Global Research Bull & Bear Indicator is at 3.7, signaling a neutral reading.

Source: Chief Investment Office. Data as of February 1, 2022.

EQUITIES

We expect Equities to outperform Fixed Income: Global Equities should benefit from higher nominal growth levels, healthy corporate profits, rising consumer spending and an improvement in the service sectors. Bond yields may further rise as the Fed begins to hike interest rates and potentially does quantitative tightening. The Omicron variant continues to create uncertainty in the near term; however cases are declining in many parts of the world, raising the possibility of a growth acceleration. We continue to favor U.S. Equities and are neutral International Developed Equities and Emerging Markets (EM).

We are overweight U.S. Equities overall: The U.S. remains our preferred equity region relative to the rest of the world, with stronger balance sheets on aggregate, prospects for higher levels of nominal growth and a favorable earnings backdrop. U.S. Large-caps generally offer a balance of Quality, Yield and Growth factors, while Small-caps offer higher cyclicality and more attractive relative valuations.

We expect earnings per share (EPS) for the S&P 500 to improve to $220 in 2022, with potential for upside as earnings estimates trend higher. U.S. Equity valuations are still higher than historical averages, but the recent selloff has brought the forward price to earnings (P/E) to a more reasonable 19.5x level from 21.5x in December. Near-term risks for Equities come from ongoing coronavirus concerns, China's slowdown and its effect on multinational company's earnings, geopolitical tensions, and a rise in energy prices. We would expect volatility to continue as financial conditions tighten as the Fed begins their hiking cycle.

We remain constructive toward the Financials, Industrials, Energy and Materials sectors, which should benefit from the continued economic recovery and elevated inflation, and maintain our positive long-term outlook on Technology due to a secular rise in spending on innovation, productivity and the continued digitalization of the economy. We continue to maintain a positive outlook for the consumer; however, the Consumer Discretionary sector is discounting the reopening, and rising input costs pose a risk to margins. Healthcare is a diverse sector with a mix of defensive bond proxies and high-growth stocks that could continue to face headwinds in this part of the cycle. However, we still believe the long-term trends in global healthcare spending are positive.

We believe portfolios should incorporate both Growth and Value factors that would simultaneously gain from cyclical and secular forces gaining traction. Growth should continue to benefit from accelerated secular investments in 5G, artificial intelligence, cloud computing, robotics and health infrastructure globally. However, current economic conditions suggest that investors may want to consider emphasizing Value, which has higher exposure to cyclical sectors that benefit from an improved pace of earnings growth and economic normalization. We also favor Small-cap Equities, given their cyclical nature, correlation to interest rates and inflation and the rising capital expenditures (CapEx) cycle. Both Value and small-caps are trading at discounted relative valuations.

We are neutral Emerging Market Equities: Emerging Market Equities remain attractively valued, but continue to face headwinds from lower fiscal capacity and lower coronavirus vaccination rates. Looking forward, we see further challenges stemming from weaker economic growth in China and upside risks from U.S. interest rates. We nonetheless continue to expect a wide return dispersion between individual EM countries and regions. Cyclically oriented markets in Latin America and EMEA (Europe, Middle East and Africa) should be well positioned as global economic activity continues to recover, while markets in Asia with high exposure to digital industries remain longer-term beneficiaries of the expanding digital economy. For the heavyweight Chinese market, we also see ongoing policy risks related to industry-specific regulation. The continued rise in EM consumer spending remains a big reason that we believe investors should maintain a strategic allocation to EM Equities. 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 commodity exposure, external funding needs, corporate governance and other factors.

We are neutral International Developed Market Equities: International Equities were mixed last year, as the pace of economic reopening, earnings recovery and the pandemic's effect differed across countries. European Equities have performed well through 2021 amid improving growth and elevated positive earnings revisions, while Japanese Equities remain well supported by high levels of inoculation and strong fiscal stimulus. Both Europe and Japan have strong sensitivities to global economic activity and should benefit as output continues to normalize. International Developed Equities have the potential to add cyclicality and Value orientation in portfolios.

EQUITY WATCH LIST

- Regional economic reopenings, coronavirus case trends, vaccination distribution timeline

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

- Rising expectations for Fed tightening as inflationary pressures persist
- Economic data for production, labor, consumer expectations, and credit and liquidity conditions
- Progression of earnings estimates amid margin pressures
- Fiscal policy adjustments and taxes
- Reorganization of global supply chains and U.S.-China relationship

FIXED INCOME

We are underweight Fixed Income: We prefer portfolios to be positioned short duration relative to a Fixed Income benchmark aligned to specific investment goals. The Fed was hawkish at its January meeting, and seems to have even higher conviction that it must withdraw monetary policy accommodation at a somewhat faster pace. The Fed signaled that the market should expect every FOMC meeting to be "live" in terms of potential rate hikes. In addition to more rate hikes, the Fed also signaled quantitative tightening may begin at any time after the first rate hike, which is now expected in March. Treasury market volatility may therefore continue to increase in the coming months as the market grapples with persistent inflation and a more aggressive and proactive Fed.

The 10s/30s spread stopped narrowing over the last month, even after this last FOMC meeting, which is encouraging, for now. The current 10s/30s level is not at a worrying level, but if the flattening trend started again it would bear watching. The 2s/10s curve, however, did significantly flatten, but is still not anywhere near a level that signals a recession is a near-term risk. We expect Treasury rates to rise overall, with sharper increases on the shorter end.

While there should be upside to Treasury rates over the medium term, Treasurys should still be considered for most investors' portfolios, especially to complement portfolios with Equity risk. However, investors less focused on managing short-term Equity volatility, with all Fixed Income portfolios, or with better ability to withstand price volatility, should still underweight Treasury allocations while favoring high-quality, IG spread products—corporates and municipals. We still expect Fixed Income to be a diversifier—in the long run, coupon income is a larger determinant to total returns than price changes due to rate moves—and this diversification effect has proven true when rate volatility decreases.

We remain slightly overweight Investment-grade corporates and slightly underweight High Yield: Investment-grade credit spreads have widened to one-year wides (around 105bps) on concerns regarding tightening monetary policy, higher Treasury yields, and negative total return pressures. Technicals have also weakened amid a deterioration in sentiment and investor outflows. That being said, while volatility could remain elevated over the near term, spreads have been relatively resilient, and we believe that credit should modestly outperform Treasurys as the global economic recovery continues to support strong underlying corporate credit fundamentals. We continue to believe that excess returns versus duration-matched Treasurys are likely to come mostly from carry and likely not from significant spread tightening. Further widening in credit spreads in response to an unexpected or large move in Treasury yields, inflation or both remains a key risk; however, with the strong earnings/fundamental backdrop a more material move wider in spreads should be viewed as a repositioning opportunity.

Credit losses in IG are generally manageable and not a large component of spreads, but the same cannot be said in HY. Despite an improving fundamental backdrop, credit losses may rise and meaningfully reduce total returns. The yields now available in HY (roughly 4%) provide very meager compensation. Within HY allocations, we prefer larger allocations to secured floating-rate leveraged loans versus unsecured high-yield bonds, although both should be included, and we caution investors to be aware that strong near-term performance may not be sustainable.

Municipal bond valuations have cheapened significantly versus Treasurys this year and are now approaching normal levels, as measured on a historical (pre-pandemic) basis. We believe fundamental conditions for munis remain strong, with improving tax collections, stronger pension funding levels and generous fiscal stimulus. However, technicals have weakened; demand has slackened due to rising yields and the lower likelihood of tax rate increases, while tax-exempt supply may grow moderately due to issuers leveraging infrastructure stimulus funds. We still expect munis to provide value over Treasurys for tax-sensitive investors in 2022, particularly carefully researched mid-to-lower-quality credits. However, current tight credit spreads make it less likely that munis will outperform as strongly as they did in 2021, in our view.

We have moved to slightly underweight Mortgage-Backed Securities: This month we are reducing our allocation to Mortgage-backed securities within a multi-asset class portfolio due to a number of headwinds including the quicker pace of Fed policy reduction, and the current backdrop of higher rates and volatility which we expect to persist. The proceeds of this adjustment will be invested in Investment-grade corporate bonds which have historically outperformed both MBS and Treasurys in the early stages of Fed rate increases. Due to concerns about Fed tapering/quantitative tightening, along with reduced demand from commercial banks as long demand recovers, we expect MBS spreads to come under pressure. The rapid move in Treasury yields has also caused mortgage duration to extend from the low 2s seen in mid-last year to the high 4s, according to the Bloomberg U.S. MBS Index. Further duration extension may be more limited from here, as duration remains near multi-year highs. Going forward, increased volatility and fluctuating mortgage rates may mean a higher prepayment risk. Furthermore, any miscommunication or negative surprise as a result of rising inflation, particularly as it relates to balance sheet reduction, is a material risk. Hence, it is prudent to position conservatively within the sector, in our opinion. In the long run, MBS appears attractive versus Treasurys, and the sector is a large component of the high-quality bond market. Therefore, investors should maintain exposure in the sector as appropriate for their particular investment objectives and risk tolerance.

FIXED INCOME WATCH LIST

- Potential Fed policy error, in either direction
- The 10s/30s spread, which may signal slowing growth if it narrows more dramatically
- Uneven Treasury market sell-off as taper progresses and fed funds rate hikes begin
- Signs of any risk aversion in terms of spreads, yields or new issue activity
- Potential tax changes if consensus is eventually reached on the Build Back Better bill
- Dislocations in Commercial Real Estate (CRE) markets

MACRO STRATEGY

- For now, strong nominal growth is powering robust corporate earnings that will help serve to reinforce the business cycle expansion. Leading economic indicators point toward above trend real economic growth over the balance of the year. This is a positive backdrop for Equities.
- With the economy overheating and inflation far above target the Fed is likely to have a difficult time reining in inflation without causing a recession. This is likely to keep markets volatile.

ECONOMIC FORECASTS (AS OF 1/28/2022)

	2021A	Q1 2022E	Q2 2022E	Q3 2022E	Q4 2022E	2022E
Real global GDP (% y/y annualized)	5.9*	-	-	-	-	4.3
Real U.S. GDP (% q/q annualized)	5.7	1.0	5.0	3.0	2.0	3.6
CPI inflation (% y/y)	4.7	7.2	6.1	5.2	3.9	5.6
Core CPI inflation (% y/y)	3.6	6.0	5.1	4.7	4.0	5.0
Unemployment rate (%)	5.4	3.7	3.4	3.1	3.0	3.3
Fed funds rate, end period (%)	0.07	0.38	0.88	1.38	1.88	-

The forecasts in the table above 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. **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.

A = Actual. E/* = Estimate. Note: BofA Global Research 2022 end period S&P 500 estimate is 4600; end period 10-year Treasury estimate is 2.00%; 2022 average West Texas Intermediate Oil estimate is $82/barrel. Sources: BofA Global Research; GWIM ISC as of February 1, 2022.

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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 2023 and price-to-earnings (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.

S&P 500 SCENARIOS BASED ON FORWARD P/E AND 2023 EPS

Forward P/E (Next 12 months)

2023 EPS	Forward P/E (Next 12 months)				
	18.0x	19.0x	20.0x	21.0x	22.0x
$275	4,950	5,225	5,500	5,775	6,050
$265	4,770	5,035	5,300	5,565	5,830
$255	4,590	4,845	5,100	5,355	5,610
$245	4,410	4,655	4,900	5,145	5,390
$235	4,230	4,465	4,700	4,935	5,170
$225	4,050	4,275	4,500	4,725	4,950
$215	3,870	4,085	4,300	4,515	4,730

For illustrative purposes only. Forecasts are subject to change. Source: Chief Investment Office as of February 1, 2022.

CIO ASSET CLASS VIEWS

Asset Class	CIO View					Comments
	Underweight		Neutral	Overweight		
Global Equities				●		We retain our positive view on Equities based upon favorable relative valuations and improving global growth. Corporate profits remain in an uptrend as forward estimates have increased, policy remains supportive and global growth continues to accelerate. We remain overweight the U.S., neutral International Developed and neutral EM.
U.S. Large-cap Growth			●			Growth should continue to benefit from accelerated secular trends, but Value, which has higher exposure to cyclical sectors, should benefit from an improved pace of earnings growth and economic normalization. We believe portfolios should incorporate both Growth and Value factors. At the sector level, we continue to favor Technology for long-term secular growth exposure but are also constructive near term on cyclical sectors like Industrials, Financials, Energy and Materials.
U.S. Large-cap Value				●		
U.S. Small-cap Growth				●		Small-caps have relatively attractive valuations and could benefit from further cyclical rotation.
U.S. Small-cap Value				●		
International Developed			●			Global economic recovery is expected to continue, which should benefit more cyclically oriented International Developed markets. A substantial monetary and fiscal policy drive in Europe and Japan paired with relatively attractive valuations is a support for International Equities, though underlying rates of nominal growth are expected to trail behind U.S. levels.
Emerging Markets			●			We are neutral EM Equities overall with cyclical regions well positioned for normalization in global activity and Asian markets geared to long-term growth in the digital economy. Potential risks from rising U.S. interest rates, industry-specific regulation in China and greater vulnerability to new coronavirus outbreaks.
Global Fixed Income		●				Bonds diversify multi-asset class portfolios by providing income and relative stability. Below-benchmark duration is preferred, as fiscal and monetary policy supports higher inflation, stronger nominal growth and higher long-term rates over the medium term.
U.S. Governments		●				Yields are very expensive relative to inflation. Some allocation to Treasurys for liquidity and principal preservation is still advised, as Treasurys continue to provide one of the best short-term diversification benefits to Equities among Fixed Income assets. Interest rate volatility has increased and may remain high.
U.S. Mortgages		●	◀			The Fed has successfully initiated the tapering cycle without upsetting the market. Going forward, any miscommunication or negative surprise due to elevated inflation, particularly related to balance sheet reduction, is going to be a key risk. Furthermore, MBS purchases from banks may slow as the economy opens up, presenting a headwind. However, with fair valuations, we expect MBS to outperform Treasurys near-term and suggest a conservative positioning in shorter duration assets.
U.S. Corporates				●		Credit spreads have moved off the lows, but at 100bps, still relatively close to post pandemic tights. With the Fed's commitment to markets, improving fundamentals, and yields well above Treasurys, spread product should provide modest positive excess return over the medium term. We see relative value opportunities in select BBB-rated Industrials and also U.S. Financials. We see the least value in the front end of the credit curve given the compression in yields and spreads. Higher Treasury yields amid tightening monetary policy remains a risk to the demand backdrop – but should be manageable longer term.
International Fixed Income	●					Compressed yields and risk premiums around the globe compared to the U.S., combined with potentially higher volatility in non-U.S. markets, present unfavorable risk/reward conditions for non-U.S. Fixed Income, in our view, justifying an underweight position.
High Yield		●				Valuations present mediocre absolute long-term returns after estimating credit losses. Near-term performance may be reasonable—given where the economy is in the business cycle – however we don't view the risk/reward favorably. Any additions to HY risk need to have a long timeframe. Within HY, we prefer more floating-rate loan exposure versus HY unsecured.
U.S. High Yield Tax Exempt		●				HY muni credit spreads have narrowed and remain supported for now by improving credit conditions, strong technicals and investors' search for yield.
U.S. Investment-grade Tax Exempt			●			Muni fundamentals are benefiting from growing tax collections, generous fiscal stimulus, and higher pension funding levels, with muni credit spreads at record post-2007 tights. Technicals have weakened however; demand has slackened due to rising yields and the lower likelihood of tax rate increases, while tax-exempt supply may grow moderately due to issuers leveraging infrastructure stimulus funds. We still believe munis provide value over Treasurys over the medium term for tax-sensitive investors, particular well-researched, lower-quality credits.

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 36-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 as of February 1, 2022.

CIO THEMATIC INVESTING

Taking the long view, the following themes and subthemes are considered among the most powerful structural forces in the world. They are macro in nature but carry significant risks and reward for companies, both large and small. Although constructed with a global lens, in today's tightly woven world, what transpires or disrupts in Asia has a tendency to emerge in Europe or North America, and vice versa. These themes are transformational and carry long-term implications for economic growth, the cost of capital and global earnings. Gaining exposure to these themes is a key ingredient to investing.

Theme	Comments
Big Data	The massive growth in unstructured data being created by connected machines, devices and systems is fueling data processing and **Data Analytics**. Complementing **Artificial Intelligence** technologies are replete with applications for big data. The size of the digital world and **Internet of Things (IoT)** is accelerating the migration of data and applications to a **Cloud Computing** environment. **Data Centers** and cloud-based Storage will likely capture incremental data created.
Demographics	Several demographic transitions serve as important arbiters of future growth. With elongated life expectancies globally, **longevity** for older populations will likely mean a renewed focus on healthcare, aged-care, financials, and consumer products and services for longer, serving as a multitrillion-dollar potential opportunity. Both the **Millennials** (born 1981-1996) and **Gen Z** (born 1997-2012) could have greater influence over the next decade on consumer spending and preferences. While we are neutral the EM asset class on a tactical basis, we believe the **EM Consumer** represents a powerful middle-class consuming cohort over the longer term. Uplifting the **Bottom Billions**, or poorest socioeconomic group with growing access to electricity, internet and sanitation can also offer a demographic dividend for multinational companies.
Climate Change	With emphasis from the new administration, a much greater focus is on health, renewable energy, clean water and sanitation, and other industries that tend to support a more sustainable future. Companies that embrace more climate-friendly business models and operations, as well as consumer products and services, are likely to enjoy sustained growth opportunities over the long term. Key investment opportunities: Renewable Energy (**Solar**, **Wind** and **Hydrogen**), **Energy-Efficiency** such as building systems, **Water/Waste Management**, and **Energy Storage** & **Distribution**.
Future Mobility	The future of mobility hinges on **Next-Gen Infrastructure**. This includes the telecom industry's deployment of the 5G network, which is expected to prove to be the greatest accelerant and enabler to **Smart Cities** (smart buildings, safety and security), **Autonomous Vehicles** and unmanned Drones. The growing **Electric Vehicle** market will likely demand installation of charging equipment and fuel peripheral industries such as battery material demand.
Security	Expanding the **IoT** means security for a growing ecosystem of devices and end points. With the increase in time spent on online platforms, (as well as adoption of online **Payments/FinTech**), **Data Privacy/Surveillance** and governance is expected to play a larger role in a post-pandemic world, as will bolstering **Cybersecurity** defenses and budgets. With the commercialization of space, cybersecurity will likely extend to Space-based assets (think satellites, data links, weather monitoring and GPS).
Post-coronavirus World	In the post-pandemic economic recovery, the factory of the future tends to be based closer to home and driven by Robotics (**Industrial/Service Automation**) not humans, hastening reshoring by creating **Dual/Local Supply Chains**, notably in high-end activities and manufacturing. The post-pandemic world will likely demand a new wave of **Infrastructure** investments, both mineral and material-intensive for cleaner and greener infrastructure. The fusion of Healthcare and Technology through **HealthTech** capabilities, should result in greater investments in telemedicine, disease surveillance and patient monitoring. Just as healthcare has gone digital, technology could increasingly dictate **e-Everything**, as we've seen **eCommerce**, eSports and eLearning gain traction. An increased focus on **ESG** factors and metrics promotes the shift toward stakeholder capitalism.

Source: Chief Investment Office as of February 1, 2022.

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%**	**26%**	**32%**	**43%**	**49%**	**59%**	**65%**	**74%**	**80%**	**88%**	**94%**	**98%**	**98%**
U.S. Large Cap Growth	0%	0%	7%	7%	12%	12%	17%	17%	21%	21%	25%	25%	29%	27%
U.S. Large Cap Value	0%	0%	8%	10%	15%	17%	19%	21%	24%	26%	28%	30%	31%	32%
U.S. Small Cap Growth	0%	0%	1%	2%	1%	2%	2%	3%	2%	3%	3%	4%	3%	3%
U.S. Small Cap Value	0%	0%	1%	4%	1%	4%	2%	5%	2%	5%	3%	6%	3%	5%
International Developed Equity	0%	0%	6%	6%	10%	10%	13%	13%	17%	17%	20%	20%	22%	22%
Emerging Markets	0%	0%	3%	3%	4%	4%	6%	6%	8%	8%	9%	9%	10%	9%
Fixed Income	**98%**	**98%**	**58%**	**52%**	**55%**	**49%**	**39%**	**33%**	**24%**	**18%**	**10%**	**4%**	**0%**	**0%**
U.S. Government	28%	23%	17%	12%	16%	11%	12%	7%	7%	2%	3%	0%	0%	0%
U.S. Mortgages	24%	27%	12%	11%	13%	12%	10%	9%	6%	5%	2%	0%	0%	0%
U.S. Corporates	25%	31%	17%	19%	16%	18%	13%	15%	8%	10%	3%	3%	0%	0%
U.S. High Yield	6%	5%	3%	2%	3%	2%	2%	1%	2%	1%	2%	1%	0%	0%
International Fixed Income	15%	12%	9%	8%	7%	6%	2%	1%	1%	0%	0%	0%	0%	0%
Cash	**2%**	**2%**	**16%**	**16%**	**2%**	**2%**	**2%**	**2%**	**2%**	**2%**	**2%**	**2%**	**2%**	**2%**

Source: Chief Investment Office as of February 1, 2022.

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%**	**24%**	**30%**	**41%**	**47%**	**57%**	**63%**	**72%**	**78%**	**88%**	**94%**	**98%**	**98%**
U.S. Large Cap Growth	0%	0%	7%	6%	12%	12%	17%	17%	21%	21%	26%	26%	29%	27%
U.S. Large Cap Value	0%	0%	8%	10%	14%	16%	19%	21%	24%	26%	29%	31%	31%	32%
U.S. Small Cap Growth	0%	0%	1%	2%	1%	2%	1%	2%	2%	3%	3%	4%	3%	3%
U.S. Small Cap Value	0%	0%	1%	4%	1%	4%	2%	5%	2%	5%	3%	6%	3%	5%
International Developed Equity	0%	0%	5%	5%	9%	9%	13%	13%	17%	17%	20%	20%	22%	22%
Emerging Markets	0%	0%	2%	3%	4%	4%	5%	5%	6%	6%	7%	7%	10%	9%
Fixed Income	**98%**	**97%**	**74%**	**68%**	**57%**	**51%**	**41%**	**35%**	**26%**	**20%**	**10%**	**4%**	**0%**	**0%**
U.S. Government	0%	0%	11%	10%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
U.S. Mortgages	0%	0%	5%	4%	2%	0%	0%	0%	0%	0%	0%	0%	0%	0%
U.S. Corporates	7%	8%	8%	10%	4%	6%	0%	0%	0%	0%	0%	0%	0%	0%
U.S. High Yield	9%	8%	3%	0%	4%	1%	4%	1%	3%	1%	0%	0%	0%	0%
U.S. Investment Grade Tax Exempt	60%	63%	28%	28%	29%	29%	32%	32%	19%	16%	6%	3%	0%	0%
U.S. High Yield Tax Exempt	9%	7%	4%	2%	4%	2%	4%	2%	4%	3%	4%	1%	0%	0%
International Fixed Income	13%	11%	15%	14%	14%	13%	1%	0%	0%	0%	0%	0%	0%	0%
Cash	**2%**	**3%**	**2%**	**2%**	**2%**	**2%**	**2%**	**2%**	**2%**	**2%**	**2%**	**2%**	**2%**	**2%**

Source: Chief Investment Office as of February 1, 2022.

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 (CBOE) Volatility Index (VIX) is a real-time market index that represents the market's expectation of 30-day forward-looking volatility.

Bloomberg US Mortgage Backed Securities Index tracks fixed-rate agency mortgage backed pass-through securities guaranteed by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC).

Consumer Price Index (CPI) is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food, and medical care.

Producer Price Index (PPI) program measures the average change over time in the selling prices received by domestic producers for their output.

Purchasing Managers' Index (PMI) is a measure of the prevailing direction of economic trends in manufacturing.

S&P Small-cap Index tracks a broad range of small-sized companies that meet specific liquidity and stability requirements.

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