CHIEF INVESTMENT OFFICE

Viewpoint

The Tightening Transition

January 2022

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

IN BRIEF

- The pandemic marked a secular shift in policy that has created a new dawn for the global economy, with major implications for investors. In most basic terms, it is a shift from the low-interest-rate, low-inflation, secular-stagnation environment that characterized the first two decades of the 21st century to a higher nominal growth environment characterized by higher inflation, higher interest rates and stronger real growth.
- Our view is one in which Equities are still more attractive than Fixed Income and we expect the level of profit growth to rise above the level of potential valuation decline hence a slight overall Equity uptrend.
- Within Fixed Income, 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.
- Alternative Investment ideas for qualified investors, particularly infrastructure-related and more concentrated, active global investment management should be additive to portfolio returns given the increased volatility with capital markets' transitioning.

As we begin the new year, price volatility has increased significantly, capital markets have been under pressure (especially in the high Growth cohort), and investors have been repositioning portfolios for the evolving environment. Back in the spring of 2020 we expected 2022 to be the fifth phase of the Chief Investment Office (CIO) pandemic workout process and the beginning of *The New Frontier*. In our year ahead report released in mid-December, we called 2022 *The Great New Dawn*, which, in our view, is the opening stages of *The New Frontier*. *The Great New Dawn* is an economic environment of above-average growth, a profit cycle still surprising to the upside and an equity market trend that is still in an uptrend even if it contains more volatility. We call this a "buffalo market" environment which is somewhat of a heavier, less attractive and roaming type of bull market. It is not a full-fledged bull market characterized by expanding price-to-earnings multiples and profits at the same time. Our view is one in which Equities are still more attractive than Fixed Income, and we expect the level of profit growth to rise above the level of potential valuation decline, hence a slight overall Equity uptrend.

With this *Great New Dawn* stage comes other more pronounced shifts such as monetary policy tightening, mid-term election posturing, elevated geopolitical risk, and corporations angling to help protect margins that have been built up through the pandemic. In summary,

CIO ASSET CLASS VIEWS

This month, the Global Wealth & Investment Management Investment Strategy Committee did not make any tactical asset allocation adjustments. 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	•	•	•	● (green)	•
US. Large Cap Growth	•	•	● (yellow)	•	•
US. Large Cap Value	•	•	•	● (green)	•
US. Small Cap Growth	•	•	•	● (green)	•
US. Small Cap Value	•	•	•	● (green)	•
International Developed	•	•	● (yellow)	•	•
Emerging Markets	•	•	● (yellow)	•	•
Global Fixed Income	•	● (orange)	•	•	•
U.S. Governments	•	● (orange)	•	•	•
U.S. Mortgages	•	•	● (yellow)	•	•
U.S. Corporates	•	•	•	● (green)	•
High Yield	•	● (orange)	•	•	•
U.S. Investment Grade Tax Exempt	•	•	● (yellow)	•	•
U.S. High Yield Tax Exempt	•	● (orange)	•	•	•
International Fixed Income	● (red)	•	•	•	•
Cash					

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

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2022 is the beginning of a regime change and we expect investors to continue to reposition portfolios accordingly. At present, the equity markets are searching for leadership. Rotation is visible and occurring on an accelerated basis but true leadership has yet to assert itself. We do not believe this is an environment for speculation, high frequency changes, or a major reversal toward risk aversion. Instead, we emphasize a move toward higher quality in most cases but would suggest using weakness as an opportunity to invest in preferred areas at more attractive prices.

We believe the following developments are likely to dominate the equity market environment in the coming weeks:

- Higher-quality characteristics largely outperform. This includes solutions, managers and companies that produce solid growth with low variability. Think profits over concepts. Think pricing power over price takers. Predominately Value versus unprofitable Growth.
- Stable Growth and stable cyclicals that offer balanced yield should outperform. Financials, "old technology" and selective defensives including areas within Healthcare and yield-oriented Energy, Industrials and Materials are attractive.
- Small-capitalization stocks (namely Value) should eventually re-establish their stalled out relative uptrend versus large-capitalization stocks.
- Diversification across asset classes and especially within Equities has the potential to increase in importance as yields rise and repositioning continues.
- In our view, market weakness represents buying opportunities for long-term investors who are below their target Equity weightings. Prices are largely trying to find their next base from which to rise as long as corporate profits are expected to surpass analyst expectations. We continue to emphasize our CIO disciplined investment process using rebalancing opportunities based on capital market activity to support long-term objectives.
- Classic or "old technology" stocks should bottom ahead of upcoming earnings, in our view. We are watching the software industry group as a leading indicator of price action given their significant correction from their peaks and excessive ownership in portfolios in the past few years.
- Financials and Energy are jockeying for the market's leadership position. We expect this to continue as yields rise.
- The U.S. markets should outperform Non-U.S. as long as the U.S. dollar maintains its strength. A U.S. dollar reversal would likely drive some geographic repositioning and flows toward non-U.S. Equities. We are not there at this point, in our view.

Welcome to *The Tightening Transition* as *The Great New Dawn* begins.

CIO INVESTMENT DASHBOARD

The outlook for global economic activity remains strong in 2022; however near-term risk for a slowdown has risen given the rapid spread of the new variant. Elevated consumer net worth, savings and job growth should remain powerful supports. Corporate earnings continue to demonstrate considerable momentum across styles, sectors and regions. Persistently high inflation levels will lead to monetary policy tightening, which could bring higher volatility for financial markets. Corporate credit conditions are generally benign, with credit spreads remaining in a tight range across Investment-grade (IG) and High Yield (HY). 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 is currently neutral. We are mindful of the potential for some profit-taking by investors in the near term amid concerns about inflation and the ongoing surge

in coronavirus cases. However, any pullback is likely to be an opportunity to add to cyclical areas of the market, given higher levels of nominal growth and profit.

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

Factor	Implication for Equities			CIO View
	Negative	Neutral	Positive	
Earnings			●	In Q3, the S&P 500 and Europe STOXX 600 Index reported profits that positively surprised consensus estimates by roughly 9.2% and 8.5% respectively, according to Bloomberg. After year-over-year (YoY) growth in S&P 500 profits of 40% in Q3, the consensus estimate calls for an appreciation of 25% in Q4, which would mark four straight quarters of growth above 20%, according to FactSet. Moreover, annual 2022 S&P 500 earnings growth is expected at 8.5%. Upward earnings revisions point to a continued robust profits picture.
Valuations		●		U.S. Equity valuations are extended on an absolute basis but remain attractive compared to Fixed Income. S&P 500 price-to-earnings (P/E) ratio (next 12 months) is at 21.1x, higher than the historical average, but declined in 2021 as earnings rose. The S&P 500 earnings yield is 303 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.
U.S. Macro			●	U.S. economic growth has shown signs of reaccelerating in Q4, led by consumption, housing, inventory stocking and a boost in exports, according to the Atlanta Fed's GDPNow tracker. On the demand side, consumer spending remains supported by an improving labor market, economic reopening, record-high household net worth and excess savings. Purchasing Managers' Index (PMI) surveys indicate the Manufacturing and Services sectors remain robust. Supply-chain challenges and labor shortages remain impediments to growth. BofA Global Research expects growth of 5.6% for the full-year 2021, followed by 4.0% for 2022.
Global Growth		●		Despite recent normalization across the global economy, uncertainty has increased due to an increase in new cases of the coronavirus fueled in part by the Omicron variant. Elevated energy prices, particularly in Europe, also pose a risk to the economic outlook. Led by China and the U.S., the global economy is expected to grow by 5.8% in 2021 and 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, while commentary in the minutes of December's monetary policy meeting has fueled anticipation for a quicker pace of tightening monetary policy, including multiple rate hikes and balance sheet runoff in 2022. Overall, inflation data, such as Consumer Price Index (CPI), 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. now equates to nearly 31% of gross domestic product (GDP) since the start of the pandemic. Momentum toward approving the Build Back Better plan to be put through the reconciliation process by the Democratic-controlled Congress has diminished.
Corporate Credit			← ●	Corporate credit conditions remain benign as a result of measures taken by the Federal Reserve (Fed) and rising corporate earnings and cash flows. HY credit spreads have fully reversed their recent widening during November; those of IG less so. Overall they remain tight, indicating financial conditions remain accommodative, and economic fundamentals are strong.
Yield Curve		●		Yield curves are showing tentative stabilization, after flattening bias. The 2/10s Treasury curve is just under 90 bps, down from its peak of 157 bps in March. 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 and strong GDP growth. While the economic outlook remains positive, the curve may reflect some emerging concern of its sustainability.
Technical Indicators	←	●		Since peaking in late November, the Chicago Board Options Exchange (CBOE) Volatility Index (VIX) had declined throughout December, but has begun this year on the rise. Market breadth has improved somewhat after regressing. The cumulative advance/decline line for New York Stock Exchange (NYSE) Equities is at the upper end of a range in place since June. Meanwhile, the percentage of NYSE stocks above their 200-day moving average has recovered to around 53%.
Investor Sentiment		●		Amid more volatile individual investor sentiment, bears now outnumber bulls, according to the American Association of Individual Investors. Meanwhile, institutional portfolio cash levels have risen, signaling a contrarian "buy" signal according to the Fund Manager Survey. The BofA Global Research Bull & Bear Indicator is at 3.3, signaling a neutral reading.

Source: Chief Investment Office. Data as of January 11, 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 rise as central banks become more hawkish this year; however, yields still remain at historically low levels and supportive of valuations. The rise of a new variant is creating uncertainty in the near term; however, medical advances allow local authorities to maintain a high threshold for shutdowns. 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, robust economic growth prospects and strong earnings revisions. 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 nominal growth and operating leverage act as tailwinds. A strong manufacturing sector, capital expenditures (CapEx) and margin improvement also bolster the case for a stronger-than-expected earnings recovery. U.S. Equity valuations are extended on an absolute basis but remain attractive compared to Fixed Income. The rising exposure of the S&P 500 to secular growth industries, lower levels of global interest rates and improving profit margins support higher multiples. In the near term, however, performance will likely be influenced by economic reopening, sentiment and policy developments. Near-term risks for Equities come from the ongoing spike in virus cases, China's slowdown and its effect on multinational earnings, and a rise in energy prices. We would expect volatility to rise as financial conditions tighten as the Fed tapers, hikes policy rates multiple times, and potentially begins balance sheet runoff.

We remain constructive toward the Financials, Industrials, Energy and Materials sectors, which should benefit from the continued economic recovery and a steeper yield curve, 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 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 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 CapEx cycle. Both Value and Small-caps are trading at discounted relative valuations.

We are neutral Emerging Market Equities: EM Equities were relative underperformers last year, given weaker fiscal support, regulatory tightening in China and slower vaccination rollouts in lower-income countries making for a slower pace of normalization from the pandemic. Looking forward, we continue to see challenges stemming from slower economic growth in China and upside risks for U.S. interest rates. But 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 long-term beneficiaries of the expanding digital economy. We also see trade tensions with the U.S. and ongoing regulatory risks causing periodic bouts of volatility for the heavyweight Chinese market. 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 key vulnerabilities to commodity prices, borrowing costs, external financing conditions 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 amid improving growth and elevated positive earnings revisions, while Japanese equities remain well supported as their vaccine rollout has ramped higher and additional fiscal stimulus was recently approved. 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. The ongoing strength in the U.S. dollar is broadly a negative for international Equities..

EQUITY WATCH LIST

- Regional economic reopenings, coronavirus case trends, vaccination distribution timeline
- 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, including additional spending packages and taxes
- Reorganization of global supply chains and U.S.-China relationship

FIXED INCOME

We are slightly underweight Fixed Income: We prefer that portfolios are short duration relative to a stated Fixed Income benchmark aligned to specific investment goals. The Fed accelerated its taper plan at the December FOMC meeting, just one meeting after initially announcing a plan. The Fed seems to have higher conviction that it must withdraw accommodation at a somewhat faster pace now, and this has become more consensus as the rates market is pricing in three fed funds rate hikes in 2022 versus none several months ago. The FOMC minutes from the December meeting further highlighted this pivot to a more hawkish Fed. In addition to a faster pace of tapering, there were also discussions about earlier policy rate increases and possible quantitative tightening. Treasury market volatility may therefore continue to increase in the coming months as the market grapples with more persistent inflation and a more aggressive and proactive Fed. The 10s/30s spread stopped narrowing over the last month, which is encouraging. The current 10s/30s level is not at a worrying level, but if the flattening trend started again it would bear watching. We expect Treasury rates to rise overall, with sharper increases on the shorter end. On balance, Fed policy still continues to be positive for risk assets, credit risk, economic growth and inflation, and negative for interest rate risk.

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 agency mortgage-backed securities (MBS). 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 proved true again during the recent volatility. Treasury/Equity correlations, which had broken down within the year, reasserted themselves consistent with our expectations.

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

We remain slightly overweight Investment-grade corporates and slightly underweight High Yield: Investment-grade corporates should continue to outperform Treasurys as the global economic recovery continues. That said, with spreads in the 90 to 100 bps range, we believe that excess returns versus duration-matched Treasurys are likely to come from carry and likely not from any significant spread tightening. The technical backdrop should remain supportive, underpinned by strong demand, particularly from institutional and foreign investors, in addition to waning net supply heading into 2022. Spread volatility in response to an unexpected or large move in Treasury yields, inflation or both remains a key risk; however, spreads have been relatively resilient thus far. Given some of the strongest fundamental trends in decades, any move wider in spreads is likely to be short-term in nature and should be viewed as a potential buying 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 are rich versus Treasurys, particularly at the short end and belly of the curve. We believe fundamental conditions for munis remain strong, with improving tax collections, stronger pension funding levels, and generous fiscal stimulus. These support narrow muni credit spreads, which have tightened through pre-pandemic levels and are currently at or near post-2007 tights. Technical conditions are evolving, given the uncertain status of the Build Back Better bill and the potential for tax-exempt supply to grow as some issuers leverage infrastructure stimulus funds. We expect munis will continue to provide value to tax-sensitive investors over the near-to-intermediate term, particularly carefully researched mid-to-lower-quality credits. However, current elevated valuations and tight credit spreads make it less likely that munis will outperform as strongly in 2022 as they did in 2021, in our view.

We are neutral Mortgage-Backed Securities: Volatility has increased in both rates and mortgage markets. Combined with worries about Fed tapering, this has caused spreads in MBS to widen from single digits earlier this year to the high-20s now. The rapid move in Treasury yields since January 2021 has also caused mortgage duration extension from the low 2s to the low 5s, according to the Bloomberg U.S. MBS Index. Further duration extension is limited from here, as duration stands within one year of its highest level seen in the last two decades. Going forward, increased volatility and oscillating mortgage rates could mean higher prepayment risk, which may move MBS spreads even wider in compensation. It is prudent to position conservatively within the sector, in our opinion. Longer-run, MBS still looks attractive versus Treasurys with additional yield spread, and the sector is a very large component of the high-quality bond market. Therefore, investors should maintain a significant weight to the sector as appropriate for their particular investment objectives and risk tolerance, although the opportunity set is currently still greater in the IG corporate sector.

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 Fund 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

- The pandemic marked a secular shift in policy that has created a new dawn for the global economy, with major implications for investors. In most basic terms, it is a shift from the low-interest-rate, low-inflation, secular-stagnation environment that characterized the first two decades of the 21st century to a higher nominal growth environment characterized by higher inflation, higher interest rates and stronger real growth.
- Monetary and fiscal policy have played key roles in this shift. While monetary policy will remain accommodative, the Fed is likely to raise rates at least three times this year (starting in March) while using its balance sheet to help manage financial conditions.
- Overall, the macro backdrop supports stronger growth in cash flows and profits. We believe this is a positive backdrop for Equities.

ECONOMIC FORECASTS (AS OF 1/07/2022)

	2021A	Q1 2022E	Q2 2022E	Q3 2022E	Q4 2022E	2022E
Real global GDP (% y/y annualized)	5.8*	-	-	-	-	4.3
Real U.S. GDP (% q/q annualized)	5.6*	4.0	4.0	3.0	2.0	4.0
CPI inflation (% y/y)	4.7*	7.1	5.8	4.7	3.1	5.2
Core CPI inflation (% y/y)	3.6*	6.2	5.1	4.4	3.5	4.8
Unemployment rate (%)	5.4*	3.8	3.6	3.5	3.4	3.6
Fed funds rate, end period (%)	0.07	0.38	0.63	0.88	1.13	1.13

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 January 11, 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 2022 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 January 11, 2022.

CIO ASSET CLASS VIEWS

Asset Class	CIO View: Underweight		CIO View: Neutral	CIO View: Overweight		Comments
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. We see key risks from rising U.S. interest rates, alongside policy tightening and slower growth in the heavyweight Chinese market.
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 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 recommend conservative positioning in shorter-duration assets.
U.S. Corporates				●		Credit spreads have moved off the lows, but at 90-100bps, 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 and lingering virus concerns remain 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 time frame. Within HY, we prefer more floating-rate loan exposure versus HY unsecured, while allocating to both.
U.S. High Yield Tax Exempt		●				HY muni credit spreads have narrowed and remain supported for now by improving credit conditions 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. Muni technicals may change, depending on whether the Build Back Better tax bill is revived and to the extent tax increases are included in it. 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 January 11, 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 January 11, 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%	28%	12%	12%	13%	13%	10%	10%	6%	6%	2%	0%	0%	0%
U.S. Corporates	25%	30%	17%	18%	16%	17%	13%	14%	8%	9%	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 January 11, 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%	5%	2%	1%	0%	0%	0%	0%	0%	0%	0%	0%
U.S. Corporates	7%	8%	8%	9%	4%	5%	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 January 11, 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.

Europe STOXX 600 Index is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the STOXX Global 180 index.

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