MERRILL
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CHIEF INVESTMENT OFFICE

# Capital Market Outlook

January 6, 2020

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

## IN THIS ISSUE

- **Macro Strategy**—A gradual improvement in global manufacturing and trade growth appears increasingly likely in 2020. In the U.S., the expansion should continue at a moderate pace, with households in a strong position to extend the cycle. Risks of a business balance-sheet-led recession appear low, as companies' debt-servicing ability is unlikely to deteriorate much given our outlook for accommodative global monetary policy and continued moderate demand growth.
- **Global Market View**—The bull market in equities rumbles on, supported by a number of variables, including monetary accommodation from the world's top central banks, a trade truce between the U.S. and China, and reflationary fiscal measures in some of the world's largest economies. Going into 2020, we continue to favor U.S. equities but expect international stocks to close the performance gap with the U.S. in the year ahead.
- **Thought of the Week**—Twelve months ago, few could have imagined the S&P 500 delivering the biggest annual gain since 2013—capping 2019 in excess of 31% (total return), leaving the investor community wishing past performance was in fact indicative of future returns.
- **Portfolio Considerations**—We continue to favor global equities over fixed income. We maintain our constructive view on U.S. equities and, within fixed income, we are overall neutral on credit and have a slight preference for short-dated investment-grade corporates.

MACRO STRATEGY

**Chief Investment Office Macro Strategy Team**

GLOBAL MARKET VIEW

**Joseph P. Quinlan**
Managing Director and
Head of CIO Market Strategy

**Kathryn C. McDonald, CFA®**
Vice President and
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THOUGHT OF THE WEEK

**Lauren J. Sanfilippo**
Vice President and
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## MACRO STRATEGY

## The Path of Least Resistance

Chief Investment Office Macro Strategy Team

Although a wall of worry continues to cast shadows over the global economic outlook into the new year, we believe that, with inflation contained and the Federal Reserve (Fed) out of the way, the economy is likely to slowly accelerate from here. Basically, if past experience is any indication, more accommodative central-bank policy around the world and a steady-to-lower dollar, courtesy of increased Fed liquidity, should help global manufacturing and trade growth turn positive in 2020. The improvement appears slow, however, as diminishing drags from the German and Chinese motor-vehicle sectors, seriously damaged by the introduction of tight emissions standards in 2019, will in part be offset by ongoing difficulties related to the Boeing 737 Max production disruptions and high news-based uncertainty levels.

The data have increasingly validated this view as 2020 approached. On the global front, the number of rising indicators has continued to exceed the number of declining indicators. Notably, the improving momentum in the Organisation for Economic Co-operation and Development (OECD) leading indicator index, recovering German and other business sentiment measures, and small but steady gains in the Markit global manufacturing index back into growth territory suggest that the global manufacturing recession of 2019 is ending.

In turn, because of the high sensitivity of international trade growth to improving manufacturing conditions and even small dollar declines, a cyclical strengthening of global trade is likely as well (i.e., a shift from a 2% year-over-year contraction in October 2019 to about 2% growth by mid 2020). The "phase-one" thaw in U.S.-Sino trade relations also bodes well for trade in 2020. Sustained dollar depreciation from current levels and/or faster-than-expected German/global industrial production recovery would result in a stronger trade rebound, but that remains less certain at this point.

A flat-to-softer dollar and improving trend in manufacturing and trade are favorable for emerging-market growth, commodity prices, and S&P 500 revenue growth. Because of the manufacturing stall, weak pricing power, and high uncertainty, S&P 500 revenue growth decelerated from a strong 10% year-over-year pace in mid 2018 to just 4% in the third quarter of 2019. Our outlook suggests that revenue growth should stop wilting soon, with a low-to-mid-single-digit pace anticipated for 2020 (after about +4.3% in 2019).

A more benign Fed policy and drop in trade-related uncertainty have stabilized U.S. growth at a moderate level. Lower interest rates reignited housing activity, and consumer confidence bounced back close to a 20-year high in December by some measures after a mid-2019 plunge. The National Federation of Independent Business (NFIB) small business survey increased for a second consecutive month in November, with strong and broad-based gains across subcomponents, including a surge in earnings, job openings, and expansion plans. This has boosted the likelihood of continued labor-market strength and has revived hopes for a reacceleration in business investment following a year of decline. Along with upside surprises on the housing front, these positive developments have wiped out fears of a 2020 recession.

That said, U.S. growth remains tempered by a low inventory of previously owned homes available for sale, lagged negative effects of past Fed tightening on home sales and lending standards, as well as high uncertainty levels. Indeed, despite historically low unemployment, elevated aggregate personal savings, robust real earnings growth, and a cheerful holiday shopping season, consumer spending is estimated to increase about 2.5% in the fourth quarter, less than the 20-year-high confidence level would suggest and the 3.2% annualized quarterly gain of the third quarter. Lower news-based uncertainty could easily enhance spending, given their typical inverse negative correlation and these otherwise excellent consumer fundamentals.

Still, as business activity perks up while interest and labor costs remain contained by low inflation and room to boost productivity, domestic profits are expected to increase 3% to 5% after contracting an estimated 2% in 2019. Given the high sensitivity of foreign profits growth to global manufacturing/trade conditions and even small changes in the dollar, we expect a faster rebound in profits from overseas activity. Overall, pretax gross domestic product (GDP)-based profits could strengthen meaningfully from zero growth in 2019 up to about +6% in 2020.

This re-accelerating revenue and profits-growth pattern is positive for business investment. Lending standards are unlikely to tighten much more in this environment, also helping to prop up business investment. In addition, the drag on investment from the rapid pull back in oil drilling should dissipate in light of the recent move in West Texas Intermediate (WTI) oil prices closer to $60 per barrel, where most producers at least break even. Indeed, the U.S. oil rig count already appears to be forming a bottom.

An increase in architectural billings also points to a welcome capex improvement in 2020, as does the NFIB capex survey noted above as well as some regional Fed manufacturing surveys. That said, absent stronger-than-assumed global growth and corporate revenues, business investment is likely to expand only marginally more in 2020 than in 2019 (up around 3% versus about 2% in 2019).

A low inflation outlook is critically important for our positive economic growth and profits view, as it would permit the Fed to keep the 2019 rate cuts in place and to continue its balance-sheet expansion. Despite fears to the contrary, the Fed is unlikely to spur much inflation before 2021, in our view, even as it is again adding liquidity to reinvigorate the U.S. economy. First, notwithstanding a 50-year-low unemployment rate, inflation, wage pressures, and labor-income growth have remained contained, and both household and financial-market inflation expectations remain well anchored. Year-over-year "core" Consumer Price Index (CPI) inflation (which excludes food and energy) was 2.3% in November, while "core" Personal Consumption Expenditure (CPE) inflation, which generally tracks "CPI" inflation but at a lower level, softened to just 1.6%, short of the Fed's explicit 2% target.

Second, and more importantly, this moderate inflation environment is likely to extend into 2020 because Fed policy changes affect the economy with a lag, and inflation is a particularly long lagging indicator. Lingering drags on growth and inflation include: 1) the effects of the 2019 global manufacturing/trade slump; 2) soft housing activity; 3) declining import prices in response to dollar appreciation to date; and 4) high uncertainty levels. As a result, we expect "core" CPI inflation to start decelerating toward 2% in coming months and "core" PCE inflation to remain below the Fed's 2% objective absent a much weaker dollar and meaningfully lower uncertainty levels than appear likely this year.

As long as inflation remains under control, the path of least resistance remains up, with little reason for the expansion to end anytime soon, in our view. As is usually the case, credit spreads will blow out disproportionately for the companies with the weakest balance sheets during the next profits recession, but signs of that are not yet in sight. Instead, credit spreads have been narrowing since global central banks reversed course, consistent with fading fears of impending recession or worsening economic growth conditions. Our macroeconomic outlook suggests more of the same in 2020. Happy New Year!

GLOBAL MARKET VIEW

## The Bull Rumbles On

Joseph P. Quinlan, Managing Director and Head of CIO Market Strategy

Kathryn C. McDonald, CFA®, Vice President and Market Strategy Analyst

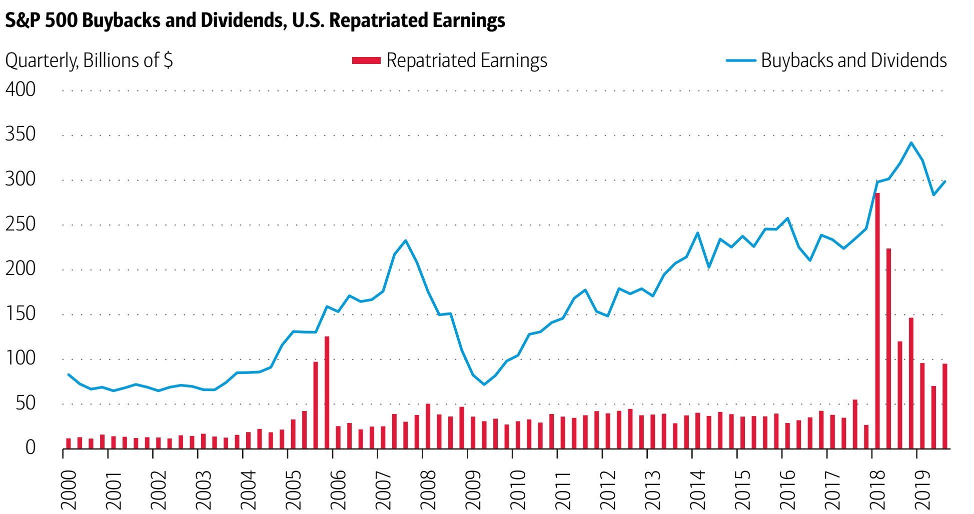
It is a new year and new decade but our market expectations for 2020 are similar to 2019. In a nutshell, we expect U.S. equities to continue to grind higher, led by cyclical sectors like consumer discretionary, financials, industrials and technology. We maintain our high quality bias in equities, preferring large caps over small caps, and our U.S.-centric basis relative to Rest of World equities. However, we do expect international equities to close the performance gap with the U.S. in 2020, and have tactically become more constructive on non-U.S. equities. Thematically, we favor such sectors as robotics, ecommerce, healthcare, defense and cyber security, and clean energy/waste management.

The bull market in equities, in other words, rumbles on, supported by a number of variables, including monetary accommodation from the world's top central banks, a trade truce between the U.S. and China, and reflationary fiscal measures in some of the world's largest economies—think the U.S., Europe and China. Today's market backdrop could not be more different from a year ago. Then, global monetary conditions were tight, U.S.-China trade tensions were escalating, and there was little talk or support for global fiscal easing. Fast forward to today, and the opposite conditions are in play—looser money, calmer trade and easing fiscal conditions.

Granted, with the S&P 500 posting whopping total returns in excess of 30% last year (see accompanying "Thought of the Week"), a great deal of good news has already been priced into various assets.

Also boosting 2019 returns: repatriated U.S. earnings and the attendant boost in buybacks and dividends. On this front, U.S. multinationals are estimated to have brought home almost $350 billion in foreign profits this year, more than double the average in the years leading up to tax reform. In total, an estimated $1.1 trillion of overseas earnings has returned to the U.S. in the two years since the U.S. changed its corporate tax code (Exhibit 1).

**Exhibit 1: Buybacks, Dividends, Repatriations: Underpinnings for the Equity Bull Market**




Sources: S&P Global; Bureau of Economic Analysis. Data through Q3 2019. **Past performance is no guarantee of future results.**

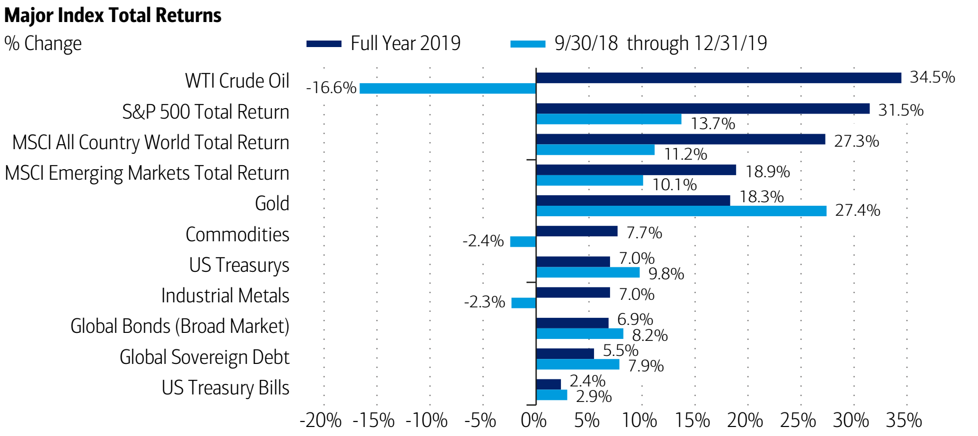
Much of this newly available cash has been returned to shareholders in the form of buybacks and dividends. Indeed, share buybacks in 2019 were the second largest on record, totaling $547 billion in the first three quarters of the year. This is down 6% from the same period a year ago, but significantly larger than historical averages. Meanwhile, dividends continued to climb, rising 6% to $484 billion for the full year 2019. Other uses of cash include M&A transactions, increased wages and paying down debt. According to data from Refinitiv, Mergers & Acquisitions (M&A) transactions targeting U.S. companies rose to a four-year high of $1.8 trillion last year, making up almost half of global volume in 2019.[1]

In the aggregate, the stars nicely aligned last year to produce handsome returns across multiple asset classes. That said, however, a little perspective is in order. Market gains for 2019 were indeed impressive and, not unexpectedly, have fanned fears of "irrational exuberance" or worries of an unjustified market melt-up. However, as Exhibit 2 highlights, market gains since the end of September 2018—or right before the Q4 market implosion that dragged the S&P 500 down by 14% between October 1 and December 31—are hardly wildly out of line.

Note that the S&P has gained only 13.7% in total return since the end of September 2018, with the performance of other benchmarks (Treasurys, emerging markets) similarly modest. In other words, the markets spent a great deal of 2019 "catching up" or "making up" for overblown fears of a global economic meltdown that never materialized.

[1] Source: Reuters, Fortune, Data as of December 31, 2019.

**Exhibit 2: Strong 2019 Gains, Though Returns Since Sep 2018 Show Different Picture**




World stocks measured by MSCI All Country World Gross Total Return Index. EM stocks measured by MSCI EM Gross Total Return. Commodities and Industrial metals measured using Bloomberg Commodity Index and Subindex Total Returns. U.S. Treasurys, Treasury Bills, Global Bonds Broad Market and Global Sovereign Debt measured using BofAML ICE Bond Indices. Gold is spot gold price. Source: Bloomberg. Data as of December 31, 2019.

## Rowing with both oars

In 2020, at least early on, the stars are still aligned for a continued market rally in equities. Of particular note: For the first time in years, global fiscal and monetary policies are in step, with concerted central bank easing happening against a backdrop of easier fiscal policies. On the policy front, in other words, we're finally rowing with both oars in the water. Japan, India, Indonesia, South Korea, in addition to China, the United States and Europe—all the major economies of the world enter 2020 embracing Keynesian economics in the face of growing populist pressures for more growth, jobs and income. Japan's recent fiscal package, which provides central and local government spending equivalent to roughly 1.7% of GDP, is scheduled to be spent over the next 12 to 18 months. In Europe, meanwhile, the European Commission has become more accommodating toward debtor states like Spain, France and Italy, opting not to take legal measures against member states for breaching deficit and debt limits, 3% of GDP and 60%, respectively. It's the first debt/deficit truce in the EU since 2002.

On the upside, then, the global embrace of Keynesianism should underpin a rebound in global growth over the balance of this year and a concomitant revival of manufacturing activity. An easing in trade tensions between the U.S. and China will help as well. Global reflation is at hand, a tailwind for global earnings.

However, the flip side of more public sector spending is rising public sector debt. As future pain points for the capital markets, the U.S. federal budget deficit is on track to top $1 trillion this fiscal year; meanwhile, as a new World Bank report notes, global debt (government + private) hit a record high of 230% of GDP in 2018. Of note: Total debt in the so-called emerging market and developing economies reached an all-time high of 170% of GDP ($55 trillion) in 2018, an increase of 54 percentage points of GDP since 2010. As the Bank highlights, the latest wave of debt accumulation in the emerging markets (starting in 2010) is the largest, fastest and broadest-based in history. And as the Bank ominously notes, the global economy has experienced four waves of debt accumulation over the past fifty years, with the first three ending with financial crises.

Is history bound to repeat itself? Only time will tell. We raise the issue given how interconnected the global capital markets have become over the past few decades, and how a ripple in one part of the world can create ripples in other parts, unexpectedly affecting asset prices across regions, including the United States. In terms of market risks, we view the extraordinary post-crisis debt accumulation (public and private sector, developed and developing) as a key variable to monitor.

### Markets are never linear in the short run

Other risks abound, notably the rise in digital protectionism or the Balkanization of the internet as countries and companies (mainly large-cap U.S. tech companies) spar over the use/ownership of data. The U.S. election and simmering global trade tensions could also emerge as headwinds to the capital markets this year. Ongoing tensions in the Middle East, particularly given the latest escalation of the U.S.-Iran conflict, could provide an additional source of volatility for markets, especially for oil markets in the year ahead. Heightened geopolitical risks in the Middle East, further disruption of oil flows, as well as an escalation of regional proxy wars could push up commodities prices and dampen the global outlook.

On balance, we expect the S&P 500 to grind higher this year, supported by solid earnings growth and a $22 trillion U.S. economy that expands by roughly 2% in real terms. Inflation remains muted and the Fed accommodative, while trade risks fade and the global economic recovery gathers steam over the year. Due to election uncertainty, we expect the bulk of market gains to be front-loaded or transpire in the first half of the year. Thereafter, a side-ways market up until the November election is a high probability, followed by a long-term uptrend.

The key point here is that markets are never linear on a year-to-year basis, ebbing and flowing on account of data flows, investor sentiment, earnings expectations, exogenous shocks, among other things. Hence, successful portfolio construction requires robust scenario analyses—or alternatives to our base case, which we have outlined in our year-ahead Investment Strategy Overview. The nuts and bolts of each scenario—Melt Up, Base Case, Uncertainty—are summarized in Exhibit 3.

### Exhibit 3: CIO Portfolio Scenarios

| **I. Melt Up Scenario:** Growth is better than expected and geopolitical risks fade | **II. Balanced Scenario (Base Case):** Growth optimism mixed with election uncertainty | **III. Uncertain Scenario:** Growth falters and geopolitical risks rise |
|---|---|---|
| • 2020 S&P 500 level of 3575 or higher achievable<br>• S&P 500 earnings of $183 (est. 10%-12%+ growth) | • 2020 S&P 500 level of 3300 plus achievable<br>• S&P 500 earnings of $177 (est. 8% growth) | • 2020 S&P 500 level of around 2875 or slightly below<br>• S&P 500 earnings of $164.50-$165 (est. 0% growth) |
| **Portfolio Implications:** | **Portfolio Implications:** | **Portfolio Implications:** |
| • Equities significantly outperform fixed income as yields back up<br>• Weaker dollar, low oil prices, low volatility and improved global growth supports non-U.S. equities, which rally in line or above the U.S.<br>• Cyclicals outperform defensives; financials take over full market leadership as yield curve steepens<br>• Credit and structured products outperform Treasurys and munis | • Equities outperform fixed income handily<br>• Stable to slight dollar weakness, low oil prices, and slightly improved global growth support non-U.S. equities, which perform in line with U.S.<br>• Sectors that benefit from healthy consumer spending/housing (Consumer Discretionary, Financials), improved industrial activity (Industrials) and specific tech themes should perform well<br>• IG corporate credit outperforms | • Fixed income outperforms equities; higher risk aversion and volatility<br>• Stronger dollar and slower growth pressure overseas markets, which leads to underperformance<br>• U.S. and higher-quality, defensive growth sectors (Consumer Staples, Utilities) and higher-yielding companies (Real Estate Investment Trusts, Utilities) with solid balance sheets outperform; Commodity-related sectors (Materials, Energy) underperform<br>• Treasurys and munis outperform credit |

Source: Bank of America Chief Investment Office *Investment Strategy Overview 2020 Year Ahead*. Data as of December 2019. These scenarios reflect our view of the likely range of economic, geopolitical and market outcomes for 2020.

THOUGHT OF THE WEEK

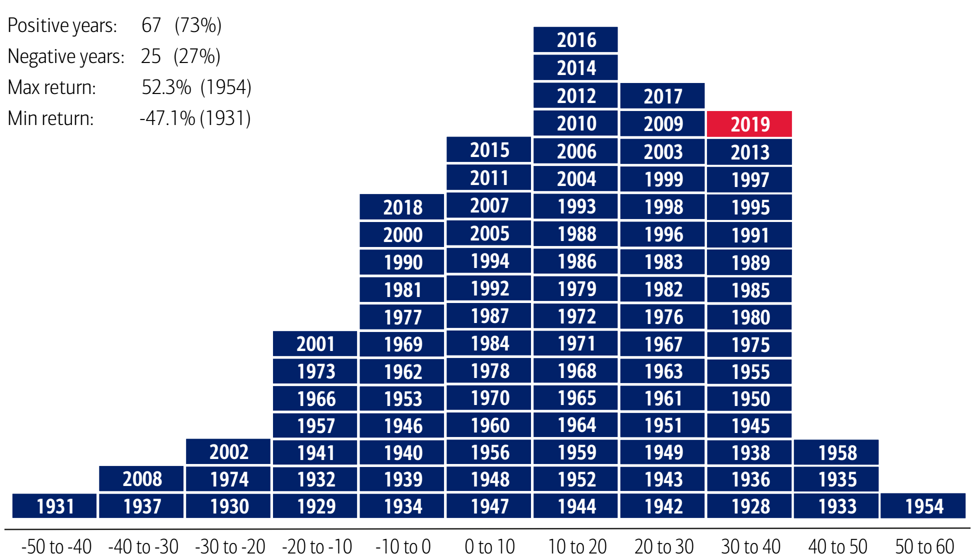
## Keeping Score: New Year, New Market

Lauren J. Sanfilippo, Vice President and Market Strategy Analyst

What a difference a year makes. Twelve months ago, few could have imagined the S&P 500 delivering the biggest annual gain since 2013—capping 2019 in excess of 31% (total return).[2] Behind the gains: progress between the U.S.-China trade war, the recrafting of the North American Free Trade Agreement with Canada and Mexico (now USMCA), a thriving technology sector, the accommodative policies of more than 15 central banks cutting interest rates, all of which contributed to investors' optimism and alleviating major concerns about the economy. An impressive year indeed, while historically speaking, returns on the S&P 500 run the gamut (Exhibit 4). As for the best year (1954), the S&P 500 gained 52%, while the worst year (1931), the S&P 500 lost 47%. Since inception, the S&P 500 has impressively ended in positive territory 73% of the time, with a gain equal to or in excess of 30% (like 2019) occurring 19 out of 92 years, or 20% of the time.

Double-digit returns for 2019 seem to be the rule, not the exception, at least among major U.S stock indices, with the Dow up 25%, and Nasdaq adding more than 36%. While this year's U.S. outperformance over its global peers was impressive (MSCI World ex-U.S. finished +21.5%), various markets around the world from Brazil to Germany to Greece staged gains of more than 20% each. Even the Stoxx Europe 600 capped the biggest gain since 2009, while the Shanghai Composite climbed over 20% amid major uncertainties at home. Also notable, stocks and bonds have staged an extraordinary run for their biggest simultaneous gains in more than two decades. Such returns leave investors wishing past performance was in fact indicative of future returns.

**Exhibit 4: S&P 500 Total Returns: 1928 – 2019 (Annual, percent)**



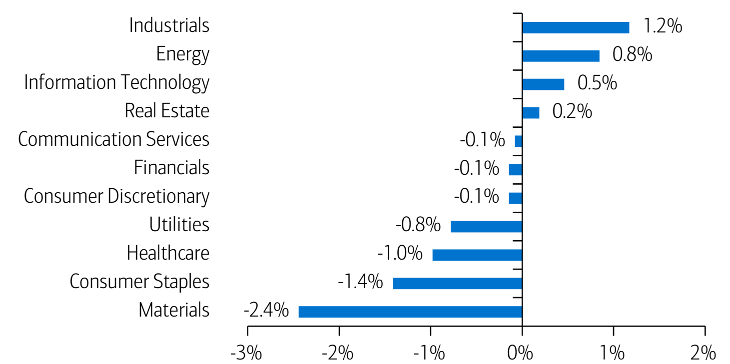

Source: Bloomberg. Data through December 31, 2019. **Past performance is no guarantee of future results.**

[2] Assume all figures are total return unless otherwise stated.

## Equities

| | | Total Return in USD (%) | | |
|---|---|---|---|---|
| | Current | WTD | MTD | YTD |
| DJIA | 28,634.88 | 0.0 | 0.4 | 0.4 |
| NASDAQ | 9,020.77 | 0.2 | 0.6 | 0.6 |
| S&P 500 | 3,234.85 | -0.1 | 0.1 | 0.1 |
| S&P 400 Mid Cap | 2,055.67 | -0.3 | -0.3 | -0.3 |
| Russell 2000 | 1,660.87 | -0.4 | -0.4 | -0.4 |
| MSCI World | 2,363.12 | 0.0 | 0.2 | 0.2 |
| MSCI EAFE | 2,042.46 | 0.0 | 0.3 | 0.3 |
| MSCI Emerging Markets | 1,123.87 | 0.5 | 0.8 | 0.8 |

## S&P 500 Sector Returns




## Fixed Income[1]

| | | Total Return in USD (%) | | |
|---|---|---|---|---|
| | Current | WTD | MTD | YTD |
| Corporate & Government | 2.15 | 0.5 | 0.7 | 0.7 |
| Agencies | 1.82 | 0.3 | 0.4 | 0.4 |
| Municipals | 1.71 | 0.4 | 0.4 | 0.4 |
| U.S. Investment Grade Credit | 2.24 | 0.4 | 0.5 | 0.5 |
| International | 2.77 | 0.4 | 0.7 | 0.7 |
| High Yield | 5.12 | 0.2 | 0.2 | 0.2 |

| | Current | Prior Week End | Prior Month End | 2019 Year End |
|---|---|---|---|---|
| 90 Day Yield | 1.48 | 1.50 | 1.49 | 1.49 |
| 2 Year Yield | 1.52 | 1.58 | 1.57 | 1.57 |
| 10 Year Yield | 1.79 | 1.88 | 1.92 | 1.92 |
| 30 Year Yield | 2.24 | 2.32 | 2.39 | 2.39 |

## Commodities & Currencies

| | | Total Return in USD (%) | | |
|---|---|---|---|---|
| Commodities | Current | WTD | MTD | YTD |
| Bloomberg Commodity | 173.05 | 0.0 | 0.6 | 0.6 |
| WTI Crude $/Barrel[2] | 63.05 | 2.2 | 3.3 | 3.3 |
| Gold Spot $/Ounce[2] | 1,552.20 | 2.8 | 2.3 | 2.3 |

| Currencies | Current | Prior Week End | Prior Month End | 2019 Year End |
|---|---|---|---|---|
| EUR/USD | 1.12 | 1.12 | 1.12 | 1.12 |
| USD/JPY | 108.09 | 109.44 | 108.61 | 108.61 |
| USD/CNH | 6.97 | 6.99 | 6.96 | 6.96 |

Source: Bloomberg, Factset.Total Returns from the period of 12/30/19 to 1/3/20. Bloomberg Barclays Indices.[1] Spot price returns.[2] All data as of the 1/3/20 close.
**Past performance is no guarantee of future results.**

## Asset Class Weightings (as of 10/1/2019)

| | Under-weight | | Neutral | | Over-weight |
|---|---|---|---|---|---|
| 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 | ● | • | • | • | • |
| Alternative Investments* | see CIO Asset Class Views | | | | |
| Hedge Funds | | | ● | | |
| Private Equity | | | ● | | |
| Real Assets | | | ● | | |
| Cash | | | | | |

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

## Economic and Market Forecasts (as of 1/3/20)

| | Q2 2019A | Q3 2019A | Q4 2019A | 2019A | Q1 2020E | 2020E |
|---|---|---|---|---|---|---|
| Real global GDP (% y/y annualized) | – | – | – | 3.1* | – | 3.1 |
| Real U.S. GDP (% q/q annualized) | 2.0 | 2.1 | 1.5* | 2.3* | 1.7 | 1.7 |
| CPI inflation (% y/y) | 1.8 | 1.8 | 2.0* | 1.8* | 2.5 | 2.3 |
| Core CPI inflation (% y/y) | 2.1 | 2.3 | 2.3* | 2.2* | 2.4 | 2.4 |
| Unemployment rate (%) | 3.6 | 3.6 | 3.6* | 3.7* | 3.6 | 3.6 |
| Fed funds rate, end period (%) | 2.40 | 1.90 | 1.55 | 1.55 | 1.63 | 1.63 |
| 10-year Treasury, end period (%) | 2.01 | 1.66 | 1.92 | 1.92 | 1.80 | 1.80 |
| S&P 500 end period | 2942 | 2977 | 3231 | 3231 | – | 3300 |
| S&P earnings ($/share) | 41 | 42 | 42* | 164.5* | 40.5 | 177 |
| Euro/U.S. dollar, end period | 1.14 | 1.09 | 1.12 | 1.12 | 1.10 | 1.15 |
| U.S. dollar/Japanese yen, end period | 108 | 108 | 109 | 109 | 110 | 103 |
| Oil ($/barrel, avg. of period, WTI**) | 60 | 56 | 57 | 57 | 52 | 54 |

The forecasts in the table above are the base line view from BofA Global Research team. 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. S&P 500 represents a fair value estimate for 2020. **West Texas Intermediate

Sources: BofA Global Research; GWIM ISC as of January 3, 2020.

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# Index Definitions

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

**Indexes are all based in dollars.**

**S&P 500** is a stock market index that tracks the stocks of 500 large-cap U.S. companies. It represents the stock market's performance by reporting the risks and returns of the biggest companies.

**Consumer Price Index (CPI)** measures changes in the price level of a weighted average market basket of consumer goods and services purchased by households.

**Personal consumption expenditure (PCE)** measure is the component statistic for consumption in gross domestic product (GDP) collected by the United States Bureau of Economic Analysis (BEA).

**OECD system of Composite Leading Indicators (CLIs)** is designed to provide early signals of turning points in business cycles—fluctuation in the output gap.

**Dow Jones Industrial Average (DJIA)** is an index that tracks 30 large, publicly-owned companies trading on the New York Stock Exchange (NYSE) and the NASDAQ.

**Nasdaq Composite Index** is the market capitalization-weighted index of over 3,300 common equities listed on the Nasdaq stock exchange.

**MSCI World** is a market cap weighted stock market index of 1,655 stocks from companies throughout the world.

**STOXX Europe 600**, also called STOXX 600, SXXP, is a stock index of European stocks.

**SSE Composite**, which is short for the Shanghai Stock Exchange Composite Index, is a market composite made up of all the A-shares and B-shares that trade on the Shanghai Stock Exchange.

# Important Disclosures

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