

CHIEF INVESTMENT OFFICE

Capital Market Outlook

October 25, 2021

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

IN THIS ISSUE

Macro Strategy—Accelerating inflation continues to drive relative performance in the financial markets. Sectors that benefit from faster near-term growth and rising interest rates, as well as those that do better in a higher-inflation environment, have led the bull market that began in the spring of 2020. After some mid-year consolidation of large earlier gains, a year-end rally is now being led by reflation beneficiaries.

Global Market View— It is our view that a series of conditions appears to be forming that should support Value-oriented areas within the global equity markets such as encouraging pandemic-related developments, investors coming around to believing that inflation will persist, a rise in global interest rates, and investor flows once again embracing cyclical sectors.

Thought of the Week—There are risks to our outlook, including a sustained rise in prices/inflation, a U.S.-China geopolitical shock, and an unexpected global energy crunch. A less discussed potential risk is market concentration. Given the top-heavy, tech-led nature of the S&P 500, is it time to worry? We believe the short answer is no.

Portfolio Considerations—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. We prefer short duration relative to a stated Fixed Income benchmark that is aligned to investment goals.

MACRO STRATEGY

Reflation Still Shaping Relative Performance

Chief Investment Office, Macro Strategy Team

After the September consumer price index (CPI) report showed inflation accelerating at a 7.14% pace during the first nine months of 2021, the Social Security Administration announced the highest cost of living increase for beneficiaries since 1982. Unfortunately, the highest inflation in 40 years has also been dominating the decline in consumer confidence over recent months, with the September University of Michigan measure of consumer expectations declining back to the low levels reached during the brief pandemic recession. Indeed, according to Richard Curtin, director of the survey, “When asked to describe in their own words why economic and buying conditions were unfavorable, net price increases were cited more frequently than any time since inflation peaked at over 10% in 1978-1980.”

MACRO STRATEGY

**Chief Investment Office
Macro Strategy Team**

GLOBAL MARKET VIEW

Niladri Mukherjee
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THOUGHT OF THE WEEK

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**Data as of 10/25/2021,
and subject to change**

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Many initial believers in the “transitory” inflation narrative are starting to lose faith, while consensus economists and Federal Reserve (Fed) staff are sticking to their forecast that inflation will revert to its low pre-pandemic levels in 2022. We believe this will continue to prove wishful thinking since the underlying determinant of inflation—the growth in the money supply—is slated to keep growing at a double-digit pace even as the Fed completes its tapering of bond buying by mid-2022.

In the meantime, bank earnings reports for Q3 show lending is picking up as the inflationary boom in the U.S. economy gains traction, with exogenous money-supply growth from money printing to pay for unprecedented fiscal spending eventually likely to give way to the endogenous money-supply growth that comes from rising commercial bank lending. Importantly, while the former form of money-supply growth has held real interest rates at record low levels, the latter form of money-supply growth will push rates higher as the Fed slows the growth rate of the monetary base. Both forms of money-supply growth push inflation up.

Financial institutions, such as banks and insurance companies, are highly leveraged to rising interest rates. As interest rates adjust to the faster-growth, higher-inflation environment, financials should continue to outperform the overall market. As BofA Global Research recently put it, “in recent months, the disparity between the cycles has grown—increasingly, the story is about deficient supply rather than deficient demand.” The Fed’s pivot toward higher inflation after failing to hit its target in the last cycle is the fundamental basis for what we believe is a secular, not just cyclical, shift from “not enough demand” to “too much demand.”

This shift to an excessive demand regime is challenging supply chains to a degree not experienced since the 1970s and is the reason inflation is back to levels not seen since that era. It’s also the reason the word “stagflation” has soared in online searches, although stagflation deniers are correctly pointing out that current conditions do not meet the definition of stagflation, which was originally used to describe a situation when both inflation and unemployment rise at the same time—a situation that runs counter to the Phillips Curve assertion that they are inversely related. The current situation is better characterized as an inflationary boom, with an increasing inflation component and a declining, but still positive, real growth component and falling unemployment rate. The true “stagflation” phase comes later, after the Fed tightens enough to slow the economy and raise the unemployment rate, while inflation, as a lagging indicator, continues to increase. Eventually, the slowdown in demand growth slows inflation too, but only after a period of higher unemployment that eliminates excess demand, supply shortages and business pricing power.

The big question for the markets is whether the new excess demand regime is transitory or whether it marks a fundamental shift in fiscal and monetary policy that results in inflation averaging much higher than before the pandemic. That is ultimately a political question, but it’s clear for now that the policy tilt is heavily on the side of higher inflation. As in the 1970s, a high-inflation environment carries the seeds of its own destruction since consumers ultimately find higher inflation a negative for the economy despite the euphoria of the “transitory” inflationary-boom phase, as the latest University of Michigan survey already indicates. After all, you might like a 10% boost in wages, but if prices rise even more, your real income has declined. Basically, the 1970s showed that consumers eventually catch on to the “money illusion” that makes the economy feel good in the early stages of a higher-inflation environment.

Despite lingering hopes of a “transitory”-inflation environment, equity markets are adjusting as if the new excess demand regime is going to persist. This helps explain the unusual discrepancy between economic data suggesting that the economy is in the late-cycle phase and sector performance suggesting a much earlier phase of the current expansion. A plausible explanation for the discrepancy is the new regime of higher Fed inflation tolerance. In the excess-supply/deficient-demand regime that preceded the pandemic, the Fed was persistently preemptive, raising rates to keep inflation below 2%.

This caused slow-growth/low-inflation/low-interest rate beneficiary sectors to outperform. In particular, it was the fundamental basis for the long period of Growth sector outperformance and Value underperformance. By the time the pandemic hit, the valuation discrepancy between Growth and Value stocks was at levels rarely seen in history, with investors heavily overweight the Growth sectors.

In our view, the fiscal and monetary response to the pandemic marks a secular shift from the low-inflation regime that propelled the four-decade bull market in bonds. This new regime depends on the Fed giving inflation a longer leash, which it clearly has to date. If inflation averages higher over time, so will interest rates. Current negative real rates are historically associated with accelerating inflation, as we are currently seeing. The key to a sustained higher-inflation regime will be the aggressiveness of the Fed's eventual response to the double-digit inflation that it has engendered. Forward guidance from the Fed to date appears insufficient, in our view, to bring inflation back to 2% anytime soon.

The consensus still believes we are in the old, low-inflation regime, as it does not recognize the monetary basis of inflation. Despite all the evidence to the contrary across countries and over time, it still believes it is factors like demographics and technology that are paramount determinants of inflation. This is the basis for the view that inflation is going to magically revert to the sub-2% phase pace of the old, deficient-demand world. However, as noted above, sector performance is telling a different story. Under the old, preemptive Fed regime, late-cycle stocks would be outperforming, while early-cycle beneficiaries would be fading. Currently, that is not the case.

This is shown in Exhibit 1, which ranks the year-to-date (YTD) top 10 performing Dow Jones (Dow) sectors out of 120 industries. It also shows how they ranked in 2020 when the new bull market began. Overwhelmingly, the outperforming sectors are beneficiaries of the new high-inflation world. This year's top performers also dominated the 2020 rankings. Commodity industries dominate the list, not surprisingly, as commodities are the top-performing asset class to date in 2021. This is typical in high-inflation, Value-oriented regimes, like the 1970s and early 2000s.

Exhibit 1: Top-Performing U.S. Industries (Dow J Market Groups).

2021 Rank (YTD)	Industry	2020 Rank
1	Aluminum	1
2	Exploration and Production	3
3	Steel	11
4	Industrial Metals and Mining	4
5	Oil and Gas Production	7
6	Full Line Insurance	6
7	Business Training	13
8	Nonferrous Metals	2
9	Pipelines	22
10	Integrated Oil and Gas	15

Source: *Barron's*. Data as of October 18, 2021. **Past performance is no guarantee of future results.**

Both those regimes were accompanied by commodity supercycles after relative underperformance in the preceding Growth regimes. Secular shifts to Value regimes are set up by: (1) relative undervaluation after the Growth stocks become excessively priced, (2) massive rotation out of over-owned Growth stocks, and (3) the reweighting of low-capitalization sectors more in line with their share of profits.

The big rotation for cyclical and Value stocks earlier in this bull market took a breather mid-year before resuming recently. During that pause, short-term investors moved out of the big Value and cyclical leaders and back into the high-growth stalwarts. Still, these short-term flows are occurring within a longer-term backdrop of mega rotation into sectors like Energy and Financials that shrank to record-low-capitalization shares of the market compared to much-higher-capitalization shares during previous Value-driven commodity supercycle markets.

As depicted in Exhibit 1, also outperforming the overall markets are industries that benefit from higher interest rates and the new shortages of labor, such as insurance stocks (6) and business services training (7). Further down the line, but still in the top quintile are banks (16), retail real estate investment trusts (REITs) (13), oil equipment, services and distribution (11), and transportation services (17). In short, the top-returning industries over the past 18 months are dominated by cyclical beneficiaries of strong demand, higher inflation and, in the case of financials, a new higher interest-rate world.

Q3 earnings releases illustrate why Value sectors deserve higher-capitalization shares of the overall market. According to commentary by Credit Suisse analysts, Value earnings per share (EPS) growth is outpacing Growth by a wide margin. That's because, while overall revenue growth remains in double digits thanks to inflation, Value companies are better positioned to pass on price increases and raise margins. Prime examples are commodity producers, which are big beneficiaries of higher prices and can increase margins given typically bigger operating leverage when demand turns up, while consumer staples, for example, which pay more for commodity inputs, are having more difficulty maintaining margins. Another sign of stronger Value-sector profits is the better EPS growth in more Value-oriented markets outside the U.S., according to the Credit Suisse analysts.

In short, strong demand and higher prices generally are a recipe for higher stock prices. Higher interest rates are distinguishing leaders from laggards, with many long-duration innovation stocks in a bear market since peaking earlier this year, when inflation started to surprise massively to the upside. What's more, in our view, the Fed's current timetable for tapering and eventual rate hikes remains too stimulative to temper concerns about accelerating inflation and supply shortages. As a result, we expect the tightening timetable to continue to move forward. Still, the big question, as always, is whether the Fed stays behind the curve in dealing with inflation, as it did in the 1970s until Paul Volcker became Fed Chairman. The Fed kept hiking rates to higher and higher levels through the 1970s, but inflation kept rising even faster, keeping real interest rates negative and the money supply roaring at a double-digit pace.

The leaders in the new supply-shortage world were laggards in the old excess-supply (deficient demand) world. They shrank as a share of the overall market to historically low levels. The new top-performing industries represent a relatively low share of the overall market. As such, their strong gains to date cannot lift the overall market indexes without support from the big mega-cap Growth stocks. As a result, active management* and money flows into exchange-traded funds (ETFs) that specialize in these smaller industry groups are likely to continue to outperform the overall market during this inflationary boom.

GLOBAL MARKET VIEW

Is It Value's Time To Take Off?

Niladri Mukherjee, Managing Director and Head of CIO Portfolio Strategy

Kirsten Cabacungan, Assistant Vice President and Investment Strategist

Recent chopiness in the equity markets marks an abrupt break from the relentless rise in prices we have witnessed since the fall of last year. The S&P 500 was down over 5% from its all-time high in early September to its trough in early October, but now has fully recovered.¹ As interest rates globally have risen, index heavy weights like the Technology sector have underperformed while cyclicals like Energy and Financials have broken out. In our view, the recent market volatility does not portend a larger correction, as monetary policy remains accommodative for the time being, and economic growth should power corporate profits forward. In fact, we see a series of conditions forming that could support

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

¹ Bloomberg. The September high to October trough reflect activity from September 2, 2021, to October 4, 2021. Latest data reflects data as of October 20, 2021.

Value-oriented areas within the global equity markets, such as encouraging pandemic-related developments, investors coming around to believing that inflation will persist, a rise in global interest rates, and investor flows once again embracing cyclical sectors.

Encouraging Pandemic-related Developments

Disruptions to economic activity continue to fade. Coronavirus cases, hospitalizations and deaths in the U.S. are on a downward trend. In addition, vaccination rates are currently rising across the globe with booster shots being administered in many developed nations and medical advances in the form of vaccines for children look to further economic normalization. While localized flare-ups are still a risk, an improving health backdrop has led to fewer limits on activity. More workers are returning to offices, especially as child care challenges have eased with students back to in-person school. The Kastle Back to Work Barometer average, which measures commercial property occupancy rates, is now at 36.9%, up from where it was at the start of June at 29%.² A pickup in demand for child care services even reflects the transition away from a remote work environment, with the BofA aggregated credit and debit card data showing September spending at daycare centers up 52% from the 2020 level and only 13% below levels from 2019.³

Normalization of economic activity should drive more consumption and support strong economic growth ahead. Thanks to massive government stimulus, the consumer is still sitting on roughly \$1.7 trillion of savings, representing 9.4% of disposable income, a level still well above the average before the pandemic. Rising wages should also be supportive of consumption, with average hourly earnings in September up 4.6% from a year ago.⁴ In turn, cyclical parts of the economy, namely more Value-oriented companies that rely on strong demand to drive revenue and profit growth, should be prime beneficiaries.

Persistent Inflation, but not Stagflation

The Consumer Price Index jumped 5.4% on a year-over-year basis in September, the fifth straight month that prices rose more than 5%.⁵ The move higher in consumer expectation for prices, and the recent backup in market breakeven rates along with a pull forward of expectations of Fed rate hikes are adding to the narrative for investors that inflation is becoming more persistent.

Other concerns about inflation have shifted the debate toward whether stagflation, or an environment where prices are rising, but the economy is stagnating, is taking hold. In our view, this is not the case, as demand remains strong. The Institute for Supply Management (ISM) New Orders Index has now entered its 16th consecutive month of expansion. A stagnating economy would, in theory, see new orders recede as demand pulls back. According to analysis by Renaissance Macro Research, when looking at the relationship between new orders used as a proxy for demand and prices paid as a proxy for inflation, the current state of the economy remains in an inflationary boom (Exhibit 2A), where both prices and demand are above their longer-run averages. This type of environment should bode well for cyclicals and Value (Exhibit 2B).

² Bloomberg. Data as of October 20, 2021.

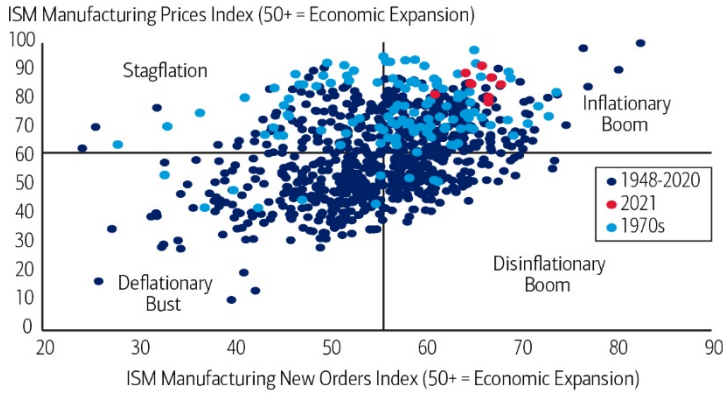
³ BofA Global Research. Data as of October 7, 2021.

⁴ Bloomberg. Data as of October 20, 2021.

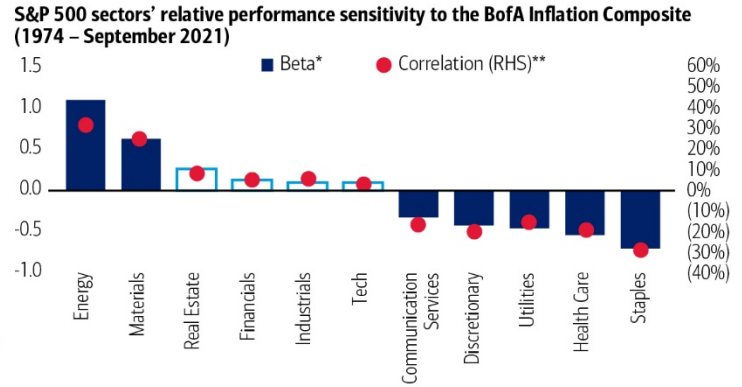
⁵ Ibid.

Exhibit 2: An Inflationary Boom Should Bode Well For Cycles And Value.

A) No Stagflation For Now



B) Inflation Tends To Favor Cyclical Sectors



Sources: (Left) Note: The scatter plot is divided into quadrants by their longer-run averages for both series. An inflationary boom is when both new orders and prices run above their averages. Stagflation is when new orders run below average while prices run above. Renaissance Macro Research. Haver Analytics. Data as of October 18, 2021. (Right) Note: Empty bars indicate not statistically significant. * Beta is a measure of how an individual asset moves when the overall stock market increases or decreases. **Correlation is a statistic that measures the degree to which two securities move in relation to each other. Source: BofA Global Research. Data as of September 17, 2021. **Past performance is no guarantee of future results.**

In no area of the economy has the effect of excess demand played out more than in the commodity markets. Crude oil prices have surged to seven-year highs and should continue to rise with economic reopening fueling demand that far outpaces the current tight supply conditions. Commodity-producing companies in turn have benefited from the spike in energy prices. The Energy sector has gained 53.7% YTD, while the broader S&P 500 index is up roughly 21%. As investors start to recognize the more persistent nature of inflation, economically sensitive areas of the market could be further favored.⁶

Rising Interest Rates

The 10-year Treasury yield has climbed roughly 50 basis points (bps) since its recent low in August, now hovering around 1.6%.⁷ Outside the U.S., bond yields in France have turned positive, while German 10-year yields may be about to, having risen roughly 40 bps since August to -0.10%. Global rates could move even higher as the monetary stimulus tide recedes with the Fed signaling that it would start to taper asset purchases or reduce the pace of bond buying, before the end of the year.

Rising interest rates, however, should not necessarily be interpreted as a sign that the bullish uptrend in equities could be in trouble, especially since fundamentals for corporate profits are currently healthy. Historically, equities have peaked when the Fed policy rate and 10-year Treasury yield are significantly higher, and the yield curve is deeply inverted (Exhibit 3). Despite recent moves, interest rates are still near all-time lows, and the fed funds/10-year Treasury yield curve is steeply positive at 155 bps. However, the trend toward higher interest rates should be supportive of Value-based sectors like global Financials, which is higher by 26% YTD but still roughly 11% below its highs in 2007.⁸

Exhibit 3: Based On History, A Peak In Equities Is Likely Further Down The Line.

Dow Industrial Average Index Pre-Recession Peak Year	Policy Rate Peak	10-Year Treasury Bond Yield	Inversion (bps)
1929	6.00%	3.40%	-260
1973	11.00%	7.25%	-375
1980	15.50%	9.50%	-600
1990	9.75%	9.00%	-75
2000	6.50%	4.90%	-160
2007	5.25%	4.30%	-95
Average	8.90%	6.39%	-251

Note: The Dow Industrial Average Index pre-recession peak year reflects the year that the index peaked before a recession. The policy rate peak reflects the level the fed funds rate peaked at before a recession. The 10-year Treasury bond yield reflects the rate yields hovered around at the time the Dow Industrial Average index peaked and the policy rate peaked. The inversion represents the spread between the 10-year Treasury bond yield and peak policy rate. Source: Evercore ISI. July 11, 2021.

^{6,7} Bloomberg. Data as of October 22, 2021.

⁸ Reflects the S&P Global 1200 Financials Index. Bloomberg. Data as of October 22, 2021.

Portfolio Positioning Shifts

Faced with higher inflation and yields, coupled with an economy growing at an above-potential rate, investors may start to adjust portfolios to reflect this stage of the cycle. Signs of this transition are already starting to show. The latest October BofA Global Fund Manager Survey found that, over the next 12 months, a net 38% of investors expect Value to outperform Growth, which is up 27 percentage points from September and the highest reading since June 2021. But the reflation trade has still yet to be fully embraced.

Value stocks massively underperformed Growth stocks in 2020. Despite the start of a Value rotation toward the end of 2020 into the beginning of this year, which helped Value reverse some of that underperformance, leadership never fully broadened out. Strong flows into Value ETFs that skyrocketed at the start of 2021 have since paused in recent months, with flows now modestly tilted back toward Growth and cyclicals actually seeing significant outflows, according to Strategas Research Partners. Investors reverted to favoring more secular Growth areas of the market as the Delta wave slowed economic activity in Q3 and interest rates remained anchored. Investor repositioning toward the areas of the market that do well under the dynamics of improving economic growth, higher inflation and rising interest rates should provide potential tailwinds for greater inflows back into Value and cyclicals.

Investment Considerations

Value and cyclicals could once again take the baton from secular Growth. But investors should consider balancing both Growth and Value in portfolios. While technology companies should retain their ability to generate profits and high-margin cash flows, and hence provide that Quality exposure for investors, cyclicals like Energy, Financials, Industrials and Materials can play catchup and thrive in an inflationary environment, being promoted by monetary and fiscal authorities alike. Within cyclicals, upstream energy producers should realize profits from higher oil and natural gas prices; well-capitalized U.S. banks benefit from rising yields; and machinery, transportation and manufacturing areas should benefit from further reopenings, rising capital expenditures, and the push to update physical infrastructure. Additionally, having an appropriate positioning in International Equities makes sense for investors to consider, given their relative exposure to cyclicity compared to U.S. Equities.

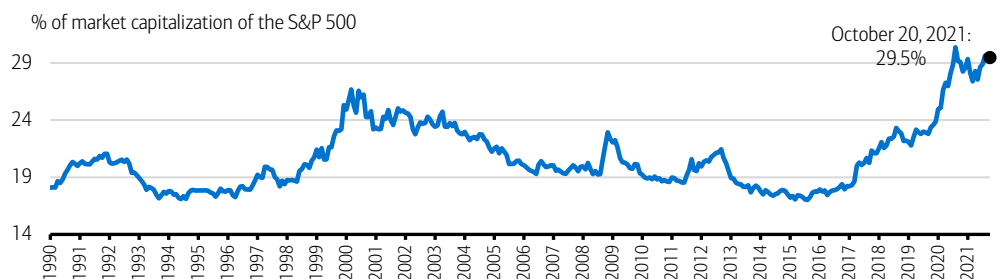
THOUGHT OF THE WEEK

The Market Concentration of the S&P 500: How Much of a Concern for Investors?

Lauren J. Sanfilippo, Vice President and Investment Strategist

Our investment base case is that the main U.S. indexes will continue to grind higher over the medium term, supported chiefly by a reacceleration in U.S./global economic activity and productivity-led earnings growth. That said, and not unexpectedly, there are risks to our outlook, including a sustained rise in prices/inflation, a U.S.-China geopolitical shock, and an unexpected global energy crunch, among others. And yet another potential risk—market concentration—as depicted in Exhibit 4.

Exhibit 4: Weight of the Top 10 Stocks in the S&P 500.



Top 10 by market cap includes: Apple, Microsoft, Amazon, Alphabet, Facebook, Tesla, NVIDIA, Berkshire Hathaway, JPMorgan, Johnson & Johnson. Source: Bloomberg. Data as of October 20, 2021.

While 505 constituents make up the S&P 500, the 10 largest companies currently account for 29.5% of the index's total weight.⁹ The Pareto Principle applies here, with a small number of stocks responsible for a disproportionate concentration in market capitalization. To this point, the top five largest constituents (Apple, Microsoft, Amazon, Alphabet and Facebook) now account for 22.4% of the index, while just two companies—Apple and Microsoft—represent 12% of the index.

Given the top-heavy, tech-led nature of the S&P 500, is it time to worry? We believe the short answer is no.

Yes, the market cap of the S&P 500 is geared toward the top 10 stocks in the index. But so are S&P earnings. According to data from Standard & Poor's, the earnings contribution of the top 10 firms in the S&P 500 at the end of September 2021 was 28.2% (based on last 12 months' earnings), roughly in line with the top 10's index weight. Dare we say it's different this time; that unlike the lead up to the dotcom meltdown, when mega-valuations were supported by minuscule earnings, today's market caps are underpinned by outsized earnings and the fact that the top 10 firms in the S&P are amongst the most profitable and competitive in the world. Against this backdrop, the highlight of Q3 earnings season is upon us with the S&P's top five firms reporting earnings this week.

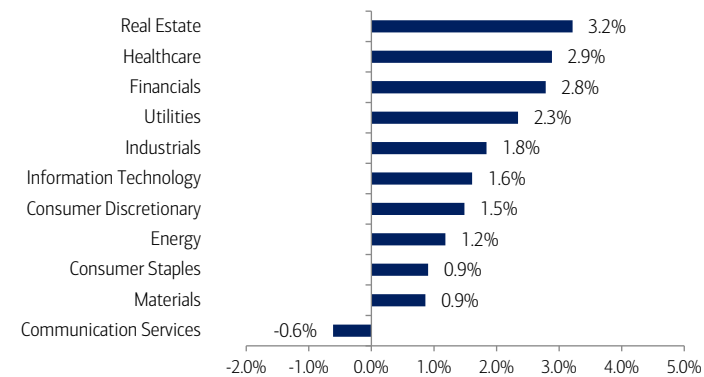
⁹Ten largest companies by market capitalization: Apple, Microsoft, Alphabet, Amazon, Facebook, Tesla, NVIDIA, Berkshire Hathaway, JPMorgan, Johnson & Johnson; as of October 20, 2021.

MARKETS IN REVIEW

Equities

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
DJIA	35,677.02	1.1	5.5	18.3
NASDAQ	15,090.20	1.3	4.5	17.7
S&P 500	4,544.90	1.7	5.6	22.4
S&P 400 Mid Cap	2,796.84	1.8	6.0	22.4
Russell 2000	2,291.27	1.1	4.0	16.9
MSCI World	3,151.16	1.4	4.9	18.5
MSCI EAFE	2,338.59	0.6	2.6	11.1
MSCI Emerging Markets	1,293.14	0.7	3.2	2.0

S&P 500 Sector Returns



Sources: Bloomberg, Factset. Total Returns from the period of 10/18/2021 to 10/22/2021. *Bloomberg Barclays Indices. †Spot price returns. All data as of the 10/22/2021 close. Data would differ if a different time period was displayed. Short term performance shown to illustrate more recent trend. **Past performance is no guarantee of future results.**

Asset Class Weightings (as of 10/5/2021)

Asset Class	CIO View		
	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	●	●	●
Alternative Investments*	●	●	●
Hedge Funds	●	●	●
Private Equity	●	●	●
Real Assets	●	●	●
Cash	●	●	●

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

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

Fixed Income†

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
Corporate & Government	1.61	-0.41	-0.57	-2.48
Agencies	1.02	-0.29	-0.59	-1.33
Municipals	1.22	-0.29	-0.39	0.40
U.S. Investment Grade Credit	1.70	-0.37	-0.54	-2.09
International	2.27	-0.48	-0.54	-1.81
High Yield	4.22	-0.08	-0.26	4.26
90 Day Yield	0.05	0.04	0.03	0.06
2 Year Yield	0.45	0.39	0.28	0.12
10 Year Yield	1.63	1.57	1.49	0.91
30 Year Yield	2.07	2.04	2.04	1.64

Commodities & Currencies

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
Commodities				
Bloomberg Commodity	221.57	-0.9	3.0	33.0
WTI Crude \$/Barrel††	83.76	1.8	11.6	72.6
Gold Spot \$/Ounce††	1792.65	1.4	2.0	-5.6

	Total Return in USD (%)			
	Current	Prior Week End	Prior Month End	2020 Year End
Currencies				
EUR/USD	1.16	1.16	1.16	1.22
USD/JPY	113.50	114.22	111.29	103.25
USD/CNH	6.38	6.43	6.45	6.50

Economic Forecasts (as of 10/22/2021)

	2020A	Q1 2021A	Q2 2021A	Q3 2021A	Q4 2021E	2021E
Real global GDP (% y/y annualized)	-3.1	-	-	-	-	5.8
Real U.S. GDP (% q/q annualized)	-3.4	6.3	6.7	4.5*	6.0	5.9
CPI inflation (% y/y)	1.2	1.9	4.8	5.3	6.0	4.5
Core CPI inflation (% y/y)	1.7	1.4	3.7	4.1	4.4	3.4
Unemployment rate (%)	8.1	6.2	5.9	5.1	4.5	5.4
Fed funds rate, end period (%)	0.09	0.06	0.08	0.06	0.13	0.13

The forecasts in the table above are the base line 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. Historical data is sourced from Bloomberg, FactSet, and Haver Analytics.

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.

Sources: BofA Global Research; GWIM ISC as of October 22, 2021.

BofA Global Research is research produced by BofA Securities, Inc. ("BofAS") and/or one or more of its affiliates. BofAS is a registered broker-dealer, Member SIPC, and wholly owned subsidiary of Bank of America Corporation.

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 is a stock market index that measures the stock performance of 500 large companies listed on stock exchanges in the United States. It is one of the most commonly followed equity indices.

S&P Global 1200 Financials Index consists of all members of the S&P Global 1200 that are classified within the GICS® financials sector.

S&P Energy Sector Index comprises those companies included in the S&P 500 that are classified as members of the GICS® energy sector.

BofA Inflation Composite is based on four measures of inflation that are intended to capture the diverse aspects of the economy, including finished goods, inputs, labor and commodities. These particular measures were selected based on their lower correlations with one another, using data since 1974.

Consumer Price Index (CPI) is a measure that examines the weighted average of prices of a basket of consumer goods and services.

Dow Jones (Dow) Industrial Average is a popular stock market index that tracks 30 U.S. blue-chip stocks.

Institute for Supply Management (ISM) New Orders Index is a monthly indicator of U.S. economic activity based on a survey of purchasing managers at more than 300 manufacturing firms.

Value/Russell 1000 Value Index is a stock market index that tracks the highest-ranking 1,000 stocks in the Russell 3000 Index, which represent about 90% of the total market capitalization of that index.

Growth/Russell 1000 Growth Index is a stock market index that tracks the highest-ranking 1,000 stocks in the Russell 3000 Index, which represent about 90% of the total market capitalization of that index.

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