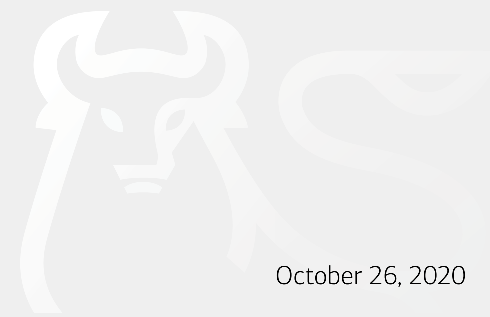
MERRILL
A BANK OF AMERICA COMPANY

CHIEF INVESTMENT OFFICE

Capital Market Outlook



October 26, 2020

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

IN THIS ISSUE

- **Macro Strategy**—The combination of a cyclical growth rebound, low base effects from the recession, the Federal Reserve's (Fed) upgrade of the importance of inflation expectations and powerful fiscal stimulus makes it likely the Fed will hit and exceed its 2.0% inflation target for at least a few months in 2021. The Fed will hold the line, though, as structural disinflationary forces remain well-entrenched. Additionally, the Fed may welcome an inflationary shock over the next few years if it serves to reinforce inflation expectations. Investors should position accordingly.
- **Global Market View**—As we enter a period of heightened market volatility due to election uncertainties, we believe that investors should think long term and opportunistically leverage market pullbacks in the weeks ahead on the C.H.I.Ps—areas that benefit from the cybersecurity spend protecting our digital economy; the fusing of two of the economy's largest sectors (Healthcare and Technology); the 21st century infrastructure plan; and, lastly, platform companies disrupting and controlling an increasing share of aggregate output.
- **Thought of the Week**—The trough in corporate earnings growth may be behind us, and certain valuation multiples appear primed to compress a bit as Q3 profits pick up and future expectations gather steam. The pace of economic recovery in the U.S. has helped corporate sales and profitability to a level unexpected by many, and as management guidance turns increasingly positive toward the future so too have analyst projections.
- **Portfolio Considerations**—Headline risk and presidential election uncertainty is likely to keep investor risk aversion and cash allocations high, and we expect this to lead to a "seesaw" investment environment well into November. We believe major weekness in equity markets is a buying opportunity for those who have at least a six-month-or-longer time horizon.

MACRO STRATEGY

Jonathan Kozy
Director and
Senior Macro Strategy Analyst

GLOBAL MARKET VIEW

Lauren Sanfilippo
Vice President and
Investment Strategist

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

THOUGHT OF THE WEEK

Nicholas Giorgi, CFA®
Vice President and
Investment Strategist

Data as of 10/26/2020, and subject to change.

MACRO STRATEGY

The Fed's Poker Face

Jonathan Kozy, Director and Senior Macro Strategy Analyst

During the post-Great Financial Crisis (GFC) expansion, Fed officials often talked about not waiting to see the "whites of inflation's eyes" before raising interest rates, citing their belief that monetary policy acted with long and variable lags and seeking to avoid runaway inflation. This appears to have been self-defeating as inflation ran

Chartered Financial Analyst® and CFA® are registered trademarks owned by CFA Institute.

Merrill Lynch, Pierce, Fenner & Smith Incorporated (also referred to as "MLPF&S" or "Merrill") makes available certain investment products sponsored, managed, distributed or provided by companies that are affiliates of Bank of America Corporation ("BofA Corp."). MLPF&S is a registered broker-dealer, registered investment adviser, Member SIPC and a wholly owned subsidiary of BofA Corp.

Investment products:

Are Not FDIC Insured	Are Not Bank Guaranteed	May Lose Value

Please see last page for important disclosure information. 3300458 10/2020

persistently below the Fed's 2.0% target for most of the expansion, and inflation expectations trended lower in acknowledgement of the forward-looking hawkish tilt. The new Averaging Inflation Targeting (AIT) framework's goal is to correct this mistake by acknowledging the important role inflation expectations play, whereby it "seeks to achieve inflation that averages 2% over time". For investors, this means that the Fed will now not only wait to see the "whites of inflation's eyes," it will likely put on its best poker face and stay the course, keeping policy rates pinned near zero. This is a positive backdrop for equity investors, as higher inflation will boost nominal gross domestic product (GDP) growth with flowthrough to corporate revenues and profits. Investors should maintain a tactical reflationary bias as well, in our view, in anticipation of the Fed letting inflation run hot. Below we provide some commentary around the outlook for inflation in 2021 and the potential for the Fed to hit its target.

Relative to the post-GFC expansion, the strength of this economic recovery and the starting point for both cyclical and structural inflation gives the Fed a fighting chance to reach the 2.0% inflation target it has pursued mostly unsuccessfully since 2012. Cyclically, the San Francisco Fed's Cyclical Core Personal Consumption Expenditures (PCE) Inflation, for example, was already running 2.9% year-over-year in August, compared with just 0.4% in June 2010, one year after the end of the GFC recession. And the fraction of items within PCE inflation that experienced price declines was smaller during this recession versus the GFC, suggesting there is a smaller hole to dig out of. Survey measures of prices, like the Institute for Supply Management (ISM) Manufacturing Index, and the Economic Cycle Research Institute's leading indicator for inflation, suggest there is upside to cyclical prices.

A key difference during this expansion was a more robust reflationary policy response, which is set to continue. Both monetary and fiscal stimulus were more efficiently administered and more aggressive. On the fiscal side, given the uncertainty around the nature of the coronavirus at the time, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was conservatively calibrated and ended up more than covering the coronavirus-induced decline in personal income. As a bonus, the labor market has recovered faster than most expected, and private sector wages and salaries income is already back to at least 96% of pre-coronavirus levels and rising. Over the two weeks through October 9, continuing claims for unemployment insurance fell by over 2.2 million, squashing rhetoric that the jobs recovery is slowing. When you add in government transfers, personal income is generally well above what it would have been sans coronavirus. We could see more fiscal stimulus this year or next, which would further support the reflationary effort.

The faster labor market recovery combined with the fiscal stimulus raises the prospect of higher wages. The National Federation of Independent Business (NFIB) Survey showed that the net percentage of firms planning to raise worker compensation in the next three months has risen from 7% in April to 16% in September. The same survey is registering solid readings in job openings and plans to increase employment, suggesting the labor market is tightening. While the unemployment rate remains historically high, the pace of tightening is unprecedented, and if it continues, will be supportive of broader cyclical price inflation, particularly if the Fed can raise inflation expectations at the same time wage growth is picking up.

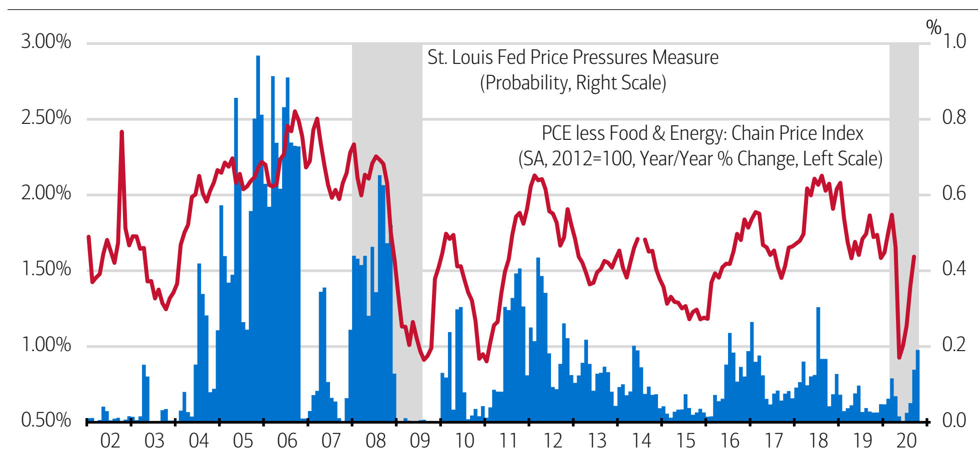
Labor market conditions will take a backseat to inflation expectations, though. Fed Chair Powell noted in his Semiannual Monetary Policy Report to the Congress before the Senate Committee on Banking, Housing and Urban Affairs in May 2019 that "inflation expectations are now the most important driver of actual inflation." The link between the labor market and inflation may be weaker than it used to be because low inflation is well-entrenched in inflation expectations. Could the Fed's AIT fix this? If the Fed stays the course and fiscal stimulus remains supportive, we think so. The Fed will not pre-emptively raise rates to contain potential inflation, but it will put on a good poker face. And the Fed is leading the global monetary policy initiative in this direction, which could also help reinforce domestic conditions. A weaker dollar should also help domestic reflationary efforts.

Cyclical inflation could get a boost from the credit cycle as well. As we have noted in the past, household leverage (as measured by the subcomponents of the Chicago Fed's Financial Conditions Index) is relatively benign, leaving room for U.S. consumers to re-lever. Revolving credit has been contracting during the pandemic, but cyclically revolving credit acts more as a coincident than a leading indicator and should turn as the coronavirus fades and jobs continue to come back. And the housing market is booming, lifting home prices and home equity, which could act as a source of credit growth. Fed officials, including St. Louis Fed president James Bullard, have noted that the Fed may also welcome an inflationary shock that could act to boost cyclical inflation and reinforce inflation expectations.

Structurally, deflationary forces appear to be "less bad," but technologies' ability to unleash capacity across sectors is a formidable force for the Fed to try to overcome to boost inflation expectations. For example, globalization and technological change figure prominently in goods-sector inflation, which has been running below zero during the period since the Fed started targeting 2.0% inflation in 2012. With only one exception (in July 2011), the year-over-year PCE Price Index for Durable Goods has been below zero since 1995. The pandemic has rattled the cage, though, and the index was up 0.94% year-over-year in August. The main source of deflation in this sector is in technology goods like televisions, personal computers and software. Interestingly, the PCE for personal computers and tablets has been on a steady uptrend from its low of -38% year-over-year in January 1999 to -3% year-over-year in the August reading ("less bad"). The index touched above zero in June for the first time since 1979. The re-working of global supply chains with a national security focus may reinforce the trend away from deflation in some parts of the consumer technology space. Still, technological progress boosts productivity, which is booming in the U.S., and will act as a significant challenge for the Fed as it will keep a damper on inflation, but at the same time it will likely give the Fed even more reason to hold the line as advancements in artificial intelligence and other areas are moving fast. Without a sustainable pickup in inflation expectations it will be difficult for the Fed to keep inflation above 2.0% for a sustained period of time.

Putting all of this together, and considering the low base effects from the two-month recession earlier this year, inflation should run above 2.0% for at least a few months in the first half of next year, and the probability of inflation running above 2.5% has risen from near zero to 19%, according to the St. Louis Fed's Inflation Pressure gauge (Exhibit 1). There is cyclical upside in a number of the more volatile components of inflation like hotel rates if the pandemic allows for it. The effect of the housing boom on inflation will be difficult to gauge as home prices are going up and the owners' equivalent rent in PCE should also rise, but actual tenant-occupied rents are falling in some major cities and will act as a drag. Beyond the cyclical pickup in inflation, the medium-term path will be determined by expectations, and the Fed's actions will prove most important.

Exhibit 1: St. Louis Fed Measures Suggests Probability Inflation Runs Above 2.5% in the Next 12 Months Is Rising.



Sources: Federal Reserve Bank of St. Louis; Bureau of Economic Analysis/Haver Analytics. Data as of October 1, 2020.
Past performance is no guarantee of future results.

As mentioned, for investors higher nominal growth is good for revenue and earnings growth and will support equities. Additionally, a reflationary bias for investors has more upside because under the new framework the Fed will not react as hawkishly as it has in the past to inflationary shocks. Rising inflation expectations would put upward pressure on longer-dated yields even as the Fed holds the short end of the yield curve near zero. From a contrarian perspective, it also goes against the increasingly consensus view that the Fed is pushing on a string and bound to end up in a Japan-like scenario of persistently low inflation. The combination of the AIT framework, fiscal stimulus and a good poker face to rebuild credibility could prove this view wrong.

GLOBAL MARKET VIEW:

Buy the C.H.I.Ps on the Dips

Lauren J. Sanfilippo, Vice President and Investment Strategist
Joseph P. Quinlan, Managing Director and Head of CIO Market Strategy

As we enter a period of heightened market volatility due to presidential election uncertainties, we urge investors to see the forest for the trees and look beyond the "world-is-coming-to-an-end" headlines. Yes, we expect a "seesaw" investment environment over the near term. We believe that investors should think long term and opportunistically leverage market pullbacks in the weeks ahead on Cybersecurity, Healthtech, Infrastructure and Platform economy (C.H.I.Ps) (Exhibit 2). We explain below.

Exhibit 2: The C.H.I.Ps—Cybersecurity, HealthTech, Infrastructure, Platform Economy.

Cybersecurity

- The Federal Bureau of Investigation (FBI) reported that their Cyber Division received as many as 4,000 cyberattacks a day. That's a 400% increase from pre-coronavirus levels.
- The cost of cybercrime will hit $6 trillion next year, equal to the current economic effect of coronavirus, estimates the World Economic Forum.
- Cybersecurity spending by companies and governments is forecast to hit $147 billion this year and will subsequently grow 9% a year from 2021 to 2024, according to Gartner Research.
- Compared to the first half of this year, ransomware attempts jumped 50% in the last three months with hospitals and healthcare organizations hardest hit, according to Check Point Research.
- In the first half of this year, the Department of Health and Human Services reported a 50% increase in the number of healthcare-related cybersecurity breaches.
- The average lifecycle of a data breach lasts 280 days from time of identifying through containing a breach according to IBM.

HealthTech

- $250 billion of current U.S. healthcare spend could potentially be virtualized with consumer and provider adoption of telehealth.[1]
- Providers are seeing 50 to 175 times the number of patients via telehealth than before the pandemic.[1]
- At-home diagnostics has boomed in the coronavirus era as U.S. sales of fingerprint pulse oximeters spiked by 527% on the week of January 20 (coinciding with the first coronavirus case in the U.S.), according to Quartz media outlet.
- Organisation for Economic Co-operation and Development (OECD) data shows that while the U.S. outspends all countries on healthcare at 16.9% of GDP compared to the U.K. at 9.8% or India at 3.6%, the pandemic has overwhelmed many healthcare systems irrespective of spending.
- Total health innovation funding for the first half of 2020 hit $9.1 billion, up nearly 19% compared to the same period in 2019, according to StartUp Health's funding report.
- The most unwell 5% of the population consume 50% of total healthcare spending, according to Harvard Business Review.

Infrastructure

- The Energy Information Administration's (EIA) projections for utility-scale wind and solar energy capacity installations in 2020 stood at nearly 34 gigawatts (GW), surpassing previous records set in 2012 and 2016.
- Amid the pandemic, in early May the U.S. Department of the Interior approved a combined 690 megawatts (MW) solar and 380 MW storage project expected to power 260,000 homes in the Las Vegas area.
- McKinsey & Company expects the U.S. will need to install about 13 million chargers to account for growing electric vehicle (EV) infrastructure demands over the next decade.
- International Data Corporation (IDC) estimates that 4.2 million 5G shipments of smartphones were sold in the U.S. in the first half of this year, about 7.5% of domestic smartphone shipments over that time period.
- By 2025, the world will reach 1.8 billion 5G connections—led by Developed Asia and North America, two regions that could each see nearly half of all mobile connections on 5G networks, estimates Global System for Mobile Communications (GSM) Association.
- To support 5G and growing data demands, 800,000 small cells need to be installed by 2026, according to S&P Global Market Intelligence.

[1] According to McKinsey & Company, May 1, 2020.

Platform Economy

- 20% more time was spent using apps in the first quarter of 2020 as compared to 2019. App users spent over $23 billion—the largest spend per quarter recorded to date.[2]
- In the U.S., video chat and online conference apps witnessed a 627% increase in downloads and a 121% increase in daily active users.[3]
- According to Nielsen's Consumer survey, 25% of adults added a streaming service in the past three months, while only 2% of adults reduced the number of paid subscription services.
- U.S. e-Commerce sales grew more than 30% between the first and second quarters of 2020, according to quarterly figures released by the U.S. Department of Commerce, illustrating that the pandemic has pushed more spending online.
- 29% of consumers binge on games on a weekly basis, with the average session lasting over three hours, while 38% of consumers said they binge-watch streaming video services, with the average session lasting 4.2 hours, according to Deloitte.
- According to the World Economic Forum, edtech investments (language apps, virtual tutoring, online learning, etc.) reached $18.6 billion in 2019 and is expected to reach $350 billion by 2025.
- Nine out of the 10 largest tech companies by market value are platform companies.[4]

Sources: Chief Investment Office; Bloomberg. Data as of September 30, 2020.

C = Cybersecurity

Cyberattacks have increased along with the spread of the coronavirus. Much like the coronavirus, cybercriminals have the potential to upend cities, states, companies and individuals. In fact, targeting technologies heavily relied upon by a remote and virtual world, nothing is off limits for hackers—hospitals, drug companies, schools nor banks. Lack of investment and security upgrades has left the healthcare sector and valuable patient data exposed. The healthcare sector commits only approximately 5% of its annual budgets toward cybersecurity—an amount less than half of other sectors and a woefully inadequate sum in today's virtual world according to Gartner Research. In the first half of this year, the Department of Health and Human Services reported a 50% increase in the number of healthcare-related cybersecurity breaches.

Brought on by the pandemic, the risks to online systems have increased with work pushed to remote locations, the widespread introduction of digital learning, and other general activity online. While most cybersecurity architectures were designed for a single company facility, the shutdowns and attendant shift into homes while accessing business systems has had huge implications for endpoint security. What all this means: We expect an accelerating pace of cybersecurity spending by companies and governments, with current spending expected to hit $147 billion this year; Gartner Research estimates spending will subsequently grow from 9% a year from 2021 to 2024. Finally, massive data creation is accelerating the transition to the cloud with cloud security one of the fastest growing segments, a near 33% compound annual growth rate out to 2024.

[2] Data from the Visual Capitalist shows, May 2020.

[3] Data from the Visual Capitalist shows, May 2020.

[4] Barron's, October 19, 2020.

H = HealthTech

Manufacturing, advertising, transportation, agriculture, retail, finance and travel—there is hardly an industry that has not been touched—and/or torched—by the incessant advancement of technology. Pick virtually any sector of the economy, and there's a good chance it has been upended by chips and clicks, save one: the U.S. Healthcare industry.

Enter the coronavirus pandemic—one of the world's most debilitating healthcare crises in over a century. The coronavirus has hastened the merging of healthcare and technology, with the world now intensely focused on applying every available technological application and technique to the crisis.

Looking beyond the pandemic, a future filled with wearable devices, at-home testing apps, mobile messaging between doctors and patients, and a more proactive approach to healthcare may become the norm. The key to cost savings lies in machine learning algorithms that can process massive quantities of patient data tracked through smart health devices and detect abnormalities, alerting doctors in real time. Earlier detection and treatment can result in significant cost savings for the healthcare system. Note that the sickest 5% of the population consume 50% of total healthcare spending, and about a third of these "expensive patients" are those suffering from chronic conditions such as diabetes or stable heart failure.

Thus the pandemic has helped fuse science and technology. Technological capabilities and computational horsepower are fundamentally altering the largest sector of the U.S. economy—the $3.7 trillion healthcare industry. It's an affiliation we believe to be replete with opportunity around HealthTech—or the dominant leaders and players in medical technologies spaces as well as many leading pharmaceutical and biotech companies.

I = Infrastructure

Yes, infrastructure, not in the way of roads, bridges, damns, but instead—infrastructure supporting 5G, solar and wind investments, and electric vehicles (EV).

The future of mobility is EV, but this transition will require both an investment and policy overhaul, much like California's recent commitment to phase out passenger vehicles with internal combustion engines by 2035. McKinsey & Company estimates 13 million chargers will be needed across the country, costing $11 billion in capital investment by 2030. Pile on the procurement of renewable power, energy management services, batteries, and a host of peripheral services and infrastructure, and plenty of capital spending is expected in the years ahead. We expect either administration—Biden or Trump—to spend on the infrastructure build-out of electrical vehicles. As a benchmark of future growth in this sector, only 2% of the U.S. car market is currently electric.

Per 5G, despite the hype, the inconvenient truth is that the U.S. is not yet fully equipped with the necessary infrastructure and complementary technologies for an orderly 5G rollout, and therefore the transformational potential of a fifth-generation network. While ultra-fast speeds over a low-latency network is where we are heading, a massive infrastructure effort is necessary in getting us there. The global 5G supply chain broadly consists of smartphone makers, semiconductor suppliers, component makers, telecommunication equipment vendors and operators supported by more fiber optic cables, towers, data centers and small cells. To get an idea of the build-out and in support of 5G networks and growing data demands, the addition of 800,000 small cells is needed to be installed by 2026, according to S&P Global Market Intelligence.

Finally, the current pipeline of wind and solar projects is large, but, as renewable energy increasingly goes mainstream, even greater amounts of capital will be spent on the renewable grid itself, as well as distribution and storage capabilities/facilities. In May,

the U.S. Department of the Interior approved the eighth-largest solar power facility in the world, expected to power 260,000 homes in the Las Vegas area. Bloomberg predicts in five years' time it will be more expensive to operate an existing coal or natural gas power plant than a new solar or wind farm. In fact, last week the International Energy Agency said solar is starting to take over from coal as the cheapest form of electricity—meaning, the EV-olution is underway, which we expect will gain even more traction under a Biden administration.

P = Platform Economy

The creation of digital communities and marketplaces has allowed more streaming, gaming, learning, shopping online—all especially important to pandemic times. This includes nine out of the 10 largest tech companies by market value right now, while, according to McKinsey & Company, "By 2025, some $60 trillion in annual revenue could be redistributed across the economy—one-third of that year's total. This dynamic is playing out in the high tech, media and telecom sector, where tech giants have built platforms on which entire ecosystems run."[5]

Some platform companies have already benefited from the pandemic, like the e-Commerce and brick-and-mortar retail tradeoff, pulling forward years of online growth. Retail sales at nonstore retailers (inclusive of the online segment) proved resilient for the month of September, up 24% from a year earlier. The growth of platform companies and marketplaces has gone as far as enabling trade for small and medium-sized businesses through the platform's supply chains in reaching end users.

Now and on the other side of the election and pandemic, we see the platform economy as a clear example of the "big get bigger" not only valuation-wise, but also in the growing importance of the digital economy as a driver of growth. Over the past decade, the so-called digital economy has not only been a bigger contributor to U.S. growth but it has also expanded at a growth rate triple the overall economy, according to the Bureau of Economic Analysis. And there is more upside down the road considering that over 2.4 billion people worldwide have never logged on to the internet; e-Commerce sales in the U.S. represent under 20% of total sales, implying more upside growth; and the Internet of Things is still in its infancy but will be enabled over the next decade, providing even more earnings potential for platform leaders.

In summary….

Cybersecurity spending is set to accelerate as more of the global economy goes digital. The premium on public health has fused two of the economy's largest sectors: healthcare and technology. Constructing the infrastructure of the 21st century entails billions of dollars in capital investment in 5G, renewable energies and electrical vehicles. And the future of the U.S. economy (and global economy) increasingly rests on the platform economy, with more and more platform companies disrupting and controlling an increasing share of aggregate output.

Against this backdrop, we are constructive for the medium- and longer-term on the C.H.I.Ps, and view periods of market volatility and pullbacks as favorable entry points into some of the fastest-growing and most dynamic sectors of the U.S. economy.

[5] Digital/McKinsey: Insights, "Winning in digital ecosystems," 2018.

THOUGHT OF THE WEEK:

The Light At The End Of The Tunnel For Earnings And Valuations?

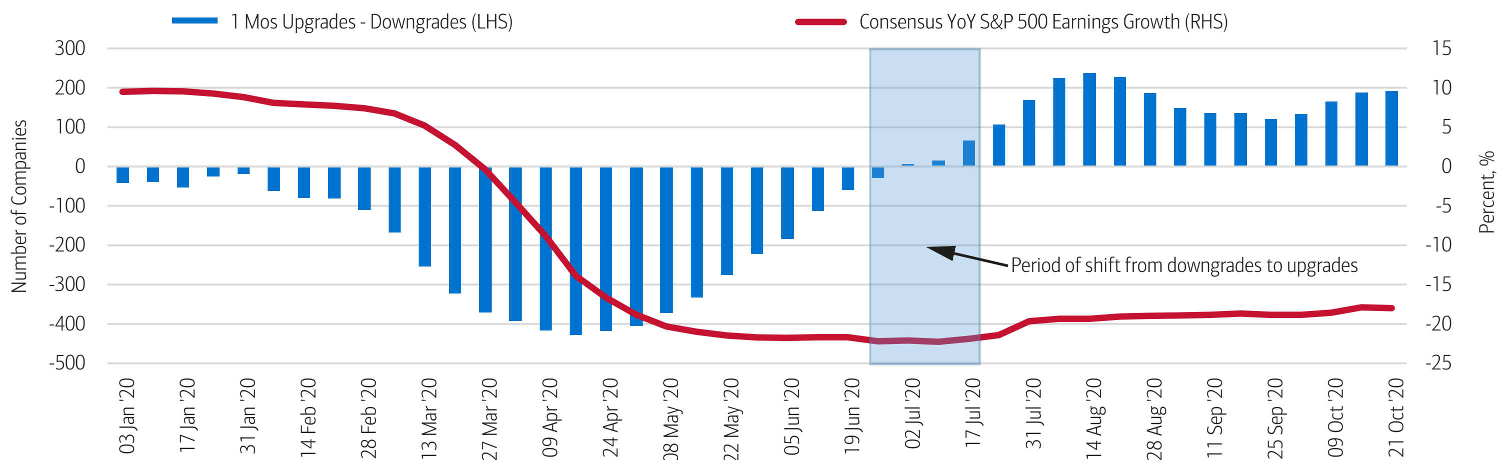
Nicholas Giorgi, CFA®, Vice President and Investment Strategist

The trough in corporate earnings growth may be behind us, and certain valuation multiples appear primed to compress a bit as third-quarter (Q3) profits pick up and future expectations gather steam. The pace of economic recovery in the U.S. has helped corporate sales and profitability to a level unexpected by many, and as management guidance turns increasingly positive toward the future so too have analyst projections.

On June 26, the consensus earnings per share (EPS) estimate for the S&P 500 this year had dropped to $127, representing a 22.2% year-over-year (YoY) decline, according to FactSet. This contrasts with consensus expectations of $178 at the beginning of the year. Having endured the historic economic fallout from the pandemic, yearly profits are still expected to contract; however, the pace has declined, with current estimates tallying $134 EPS. Q3 is anticipated to be a pivot quarter, in which the pace of profit deterioration would decline, and, thus far, this has proven accurate. Of the 121 companies to have reported, YoY profit growth reported is -14.3% as opposed to -31.6% in Q2. The lagging sectors remain Consumer Discretionary, Industrials and Energy, while Technology, Staples and Healthcare are actually expected to post positive full-year earnings growth. Importantly, future expectations are also improving, with 295 companies having positive one-month upward revision momentum as opposed to just 104 downward revisions.

We continue to believe that relative valuation measures, such as the Equity Risk Premium, remain more relevant given the historically low rate environment. However, earnings-based valuation measures are also becoming more attractive as current and expected profits increase. Since August 28, the S&P 500 multiple on expected 2020 earnings has decreased by 1x. The process of earnings growing into multiples has started, and this should ultimately create a stronger foundation for the equity markets in 2021 and beyond as the economic normalizes post the arrival of a vaccine.

Exhibit 3: As the Economic Recovery Picked Up in the Summer, So Did Company Expectations.

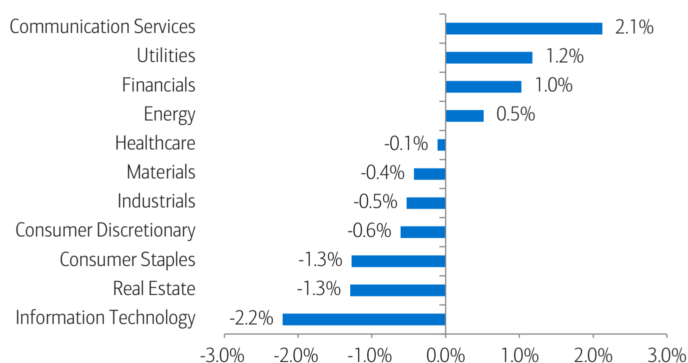


Sources: Chief Investment Office; FactSet. Data as of October 22, 2020. Short-term performance shown to illustrate most recent trends. **Past performance is no guarantee of future results.**

Equities

	Current	WTD	MTD	YTD
	Total Return in USD (%)			
DJIA	28,335.57	-0.9	2.1	1.2
NASDAQ	11,548.28	-1.1	3.4	29.6
S&P 500	3,465.39	-0.5	3.1	8.9
S&P 400 Mid Cap	2,015.65	0.9	8.3	-1.0
Russell 2000	1,640.50	0.4	8.9	-0.6
MSCI World	2,430.54	-0.4	2.7	4.5
MSCI EAFE	1,884.26	0.1	1.6	-5.6
MSCI Emerging Markets	1,136.45	1.1	5.1	3.9

S&P 500 Sector Returns



Fixed Income†

	Current	WTD	MTD	YTD
	Total Return in USD (%)			
Corporate & Government	1.18	-0.57	-0.53	7.47
Agencies	0.55	-0.22	-0.32	5.10
Municipals	1.41	-0.07	-0.39	2.93
U.S. Investment Grade Credit	1.24	-0.42	-0.41	6.36
International	2.00	-0.54	0.05	6.69
High Yield	5.33	0.16	1.58	2.21

	Current	Prior Week End	Prior Month End	2019 Year End
90 Day Yield	0.09	0.09	0.09	1.54
2 Year Yield	0.16	0.14	0.13	1.57
10 Year Yield	0.84	0.75	0.68	1.92
30 Year Yield	1.64	1.53	1.46	2.39

Commodities & Currencies

Commodities	Current	WTD	MTD	YTD
	Total Return in USD (%)			
Bloomberg Commodity	157.02	0.2	3.8	-8.7
WTI Crude $/Barrel††	39.85	-2.5	-0.9	-34.7
Gold Spot $/Ounce††	1902.05	0.1	0.9	25.4

Currencies	Current	Prior Week End	Prior Month End	2019 Year End
EUR/USD	1.19	1.17	1.17	1.12
USD/JPY	104.71	105.40	105.48	108.61
USD/CNH	6.67	6.69	6.78	6.96

Sources: Bloomberg, Factset. Total Returns from the period of 10/19/2020 to 10/23/2020. †Bloomberg Barclays Indices. ††Spot price returns. All data as of the 10/23/2020 close.
Past performance is no guarantee of future results.

Asset Class Weightings (as of 9/1/2020)

	Under-weight		Neutral		Over-weight
Global Equities	•	•	•	● (green)	•
U.S. Large Cap Growth	•	•	•	● (green)	•
U.S. Large Cap Value	•	•	•	● (green)	•
U.S. Small Cap Growth	•	•	•	● (green)	•
U.S. Small Cap Value	•	•	● (yellow)	•	•
International Developed	•	•	● (yellow)	•	•
Emerging Markets	● (red)	•	•	•	•
Global Fixed Income	•	● (orange)	•	•	•
U.S. Governments	•	● (orange)	•	•	•
U.S. Mortgages	•	● (orange)	•	•	•
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)	•	•	•	•
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 pre-qualified clients.

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

Economic and Market Forecasts (as of 10/23/2020)

	2019A	Q1 2020A	Q2 2020A	Q3 2020A	Q4 2020E	2020E
Real global GDP (% y/y annualized)	2.9	-	-	-	-	-3.8
Real U.S. GDP (% q/q annualized)	2.2	-5.0	-31.4	33*	3.0	-3.6
CPI inflation (% y/y)	2.3	1.5	0.6	1.3	1.2	1.3
Core CPI inflation (% y/y)	2.3	2.1	1.2	1.7	1.8	1.7
Unemployment rate (%)	3.5	3.8	13.0	8.8	7.7	8.3
Fed funds rate, end period (%)	1.55	0.08	0.08	0.09	0.13	0.13
10-year Treasury, end period (%)	1.92	0.67	0.66	0.68	1.00	1.00
S&P 500 end period	3231	2585	3100	3363	3250	3250
S&P earnings ($/share)	163	33	28	35*	35	131
Euro/U.S. dollar, end period	1.12	1.10	1.12	1.17	1.14	1.14
U.S. dollar/Japanese yen, end period	109	108	108	105	103	103
Oil ($/barrel, avg. of period, WTI**)	57	46	29	40	44	40

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. 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. S&P 500 represents the year-end target for 2020. **West Texas Intermediate.
Sources: BofA Global Research; GWIM ISC as of October 23, 2020.

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.

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.

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

Institute for Supply Management Manufacturing Index measures manufacturing activity based on a monthly survey of purchasing managers at more than 300 manufacturing firms.

Economic Cycle Research Institute leading indicator identifies turning points in the economic cycle that are indicated by pronounced changes in the index.

Chicago Fed's National Financial Conditions Index (NFCI) provides a comprehensive weekly update on U.S. financial conditions in money markets, debt and equity markets and the traditional and "shadow" banking systems.

The Personal Consumption Expenditures price index for durable goods is known for capturing inflation (or deflation) across a wide range of consumer expenses and reflecting changes in consumer behavior.

Important Disclosures

This material does not take into account a client's particular investment objectives, financial situations or needs and is not intended as a recommendation, offer or solicitation for the purchase or sale of any security or investment strategy. Merrill offers a broad range of brokerage, investment advisory (including financial planning) and other services. There are important differences between brokerage and investment advisory services, including the type of advice and assistance provided, the fees charged, and the rights and obligations of the parties. It is important to understand the differences, particularly when determining which service or services to select. For more information about these services and their differences, speak with your Merrill advisor.

The Chief Investment Office (CIO) provides thought leadership on wealth management, investment strategy and global markets; portfolio management solutions; due diligence; and solutions oversight and data analytics. CIO viewpoints are developed for Bank of America Private Bank, a division of Bank of America, N.A., ("Bank of America") and Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S" or "Merrill"), a registered broker-dealer, registered investment adviser and a wholly owned subsidiary of BofA Corp. This information should not be construed as investment advice and is subject to change. It is provided for informational purposes only and is not intended to be either a specific offer by Bank of America, Merrill or any affiliate to sell or provide, or a specific invitation for a consumer to apply for, any particular retail financial product or service that may be available.

The Global Wealth & Investment Management Investment Strategy Committee (GWIM ISC) is responsible for developing and coordinating recommendations for short-term and long-term investment strategy and market views encompassing markets, economic indicators, asset classes and other market-related projections affecting GWIM.

Bank of America, Merrill, their affiliates, and advisors do not provide legal, tax, or accounting advice. Clients should consult their legal and/or tax advisors before making any financial decisions.

Investing involves risk, including the possible loss of principal. Past performance is no guarantee of future results.

All 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. Asset allocation, diversification and rebalancing do not ensure a profit or protect against loss in declining markets.

Investments have varying degrees of risk. Some of the risks involved with equity securities include the possibility that the value of the stocks may fluctuate in response to events specific to the companies or markets, as well as economic, political or social events in the U.S. or abroad. Investments in foreign securities involve special risks, including foreign currency risk and the possibility of substantial volatility due to adverse political, economic or other developments. These risks are magnified for investments made in emerging markets. Investments in a certain industry or sector may pose additional risk due to lack of diversification and sector concentration. There are special risks associated with an investment in commodities, including market price fluctuations, regulatory changes, interest rate changes, credit risk, economic changes and the impact of adverse political or financial factors. Investing in fixed-income securities may involve certain risks, including the credit quality of individual issuers, possible prepayments, market or economic developments, and yields and share price fluctuations due to changes in interest rates.

© 2020 Bank of America Corporation. All rights reserved.