CHIEF INVESTMENT OFFICE

# Capital Market Outlook

November 22, 2021

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

IN THIS ISSUE

**Macro Strategy—**Businesses have responded to unprecedented U.S. consumer-demand strength and rising capacity utilization rates by bringing real equipment investment slightly above pre-pandemic levels as 2021 progressed, with strong investment plans for 2022, especially in automation and production re-shoring. Still, big upside risks to consumer demand, logistical backlogs and labor shortages suggest supply may continue to lag demand, keeping upside pressure on inflation.

**Global Market View—**The unique circumstances created by the pandemic, generally favorable conditions for Equities and new methods of market access all seem to have abetted individual investors' engagement in the financial markets. The increased participation of individual investors could shape market trends moving forward and should contribute to the secular bull market for years to come.

**Thought of the Week—**2021 United Nations (UN) Climate Change Conference (COP26) has concluded with an agreement, adopted by nearly 200 countries, to speed up the timeline for addressing climate change in this "critical decade." Overall commitments appear to fall short of the target of capping global temperatures from increasing more than 1.5 degrees Celsius. However, the Glasgow Climate Pact does mark important progress. In our view, people have the potential to play a crucial role in the success of the agreement made in Glasgow and ultimately in the essential shift to a more sustainable planet.

**Portfolio Considerations—**Maintain an Equity overweight—a U.S. Equity bias relative to the rest of world—relative to Fixed Income overall. Within Fixed Income, we remain lower duration. This month we are trimming our slight overweight allocation from Large-cap, in favor of Mid- and Small-cap Equities, with a preference for Value, where appropriate. We are also raising Real Estate sector to neutral, and lowering Communication Services to a slight underweight.

MACRO STRATEGY

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Director and Senior Macro Strategy Analyst

GLOBAL MARKET VIEW

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THOUGHT OF THE WEEK

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**Data as of 11/22/2021, and subject to change**

MACRO STRATEGY

## Upside Risks To Excess Consumer Demand

*Irene L. Peters, CFA®*, Director and Senior Macro Strategy Analyst

With service-sector activity not fully normalized yet and upside risks to spending, as discussed below, worries about the consumer sector appear premature despite the biggest inflation shock since the 1970s and a related decline in the November University of Michigan consumer confidence survey to its lowest level since 2011. In our view, it is the

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supply side that is likely to continue to limit growth, causing inflation to remain more elevated than generally expected.

Indeed, aggregate consumer spending underpinnings remain exceptionally solid. They include:

- The biggest demand for labor and fastest wage and employment growth in decades. For example, businesses report almost 3 million more job openings than there are unemployed people in the economy.[1] According to the National Federation of Independent Business (NFIB), 58% of small business owners reported difficulty filling open positions in October as employees retired in large numbers and quit their jobs in search of higher wages/better jobs at the highest rate on record.
- The latest employment report showed that the aggregate payroll index, which takes account of hours worked, employment growth and average hourly wage gains as a proxy for wage-and-salary income, increased at an annualized rate of 9% in October after rising 14% in September (compared to just 4% on average between 1990 and 2019). With employment likely to grow about 3% to 4% next year and wage gains on track to remain around 5%, we expect wage-and-salary income gains of around 8% to 9% year over year in coming quarters.
- The largest accumulation of saving out of income in 60 years between September 2019 and September 2021, about $5.5 trillion versus $2.5 trillion between December 2017 and December 2019, for example, contributed to the biggest gain in aggregate household net worth ever, according to the Federal Reserve (Fed) Board.
- The lowest financial obligations share of disposable income since 1980 (including automobile lease payments, rental payments on tenant-occupied property, homeowners' insurance and property tax payments), according to the Federal Reserve Board.
- A low sensitivity to rising mortgage rates as a result of a high 90% share of fixed-rate contracts, as well as stringent lending standards, with more than 75% of mortgage originations going to borrowers with credit scores of 720 or higher in recent years.[2]
- The fastest home-price appreciation ever (+20% over the past year[3]) and largest share of homeowner equity in real estate in 30 years (68% compared to 46% between 2009 and 2012).
- Potentially massive wealth effects from the 20% surge in U.S. household net worth over the past year alone and unprecedented $30 trillion over the past two years, which is equivalent to double the entire 2015 U.S. aggregate personal income, for example. Assuming a moderate 2% marginal propensity to consume out of this wealth surge distributed over the next three years would result in the largest wealth effect ever, enhancing by about $200 billion per year typical consumer spending growth of about $540 billion per year, such as between 2016 and 2019, for example. Because housing accounts for a larger share of most households' net worth than stocks, consumer spending tends to respond more to changes in housing wealth gains, with a lag, which suggests substantial support from the past two-year surge in homeowners' equity in real estate alone still lays ahead. Any larger propensity to consume would generate even more consumer spending ahead, suggesting big upside risks to consumer demand.
- Housing affordability is still above levels seen between 1970 and 2008, according to the National Association of Realtors' Affordability Index for September, and demand remains strong. Indeed, a low rental vacancy rate and lagging homebuilding activity because of lots, materials and labor shortages have increased pent-up demand for housing, pushing home prices and rents up more than expected. This, along with unprecedentedly strong consumer finances, explains why the National Association of Home Builders (NAHB) Index increased in November from already elevated levels, led

[1] Job Openings and Labor Turnover Survey (JOLTS), November 2021.
[2] Empirical Research Partners, November 16, 2021.
[3] CoreLogic Case-Shiller Home Price Index, August 2021.

by gains in present sales and the number of prospective buyers despite the largest share of consumers since 1950 perceiving homebuying conditions as bad because of high prices, according to the University of Michigan consumer confidence survey.

- Strong housing demand, low inventory, upbeat home builder sentiment and a record backlog of housing starts should support home construction and labor demand. In turn, stronger housing construction and sales are stimulative for consumer spending, as they drive sales of furnishings and other big-ticket consumer goods.
- With sales of light motor vehicles still depressed (at about 13 million units versus 16 to 17 million in normal conditions) due to unprecedentedly low inventories, consumer pent-up demand for motor vehicles remains elevated, suggesting ongoing support for both manufacturing and consumer spending into 2022.
- Newly implemented government financial support for families with children.

In light of all this, it's not surprising that the October retail sales report blew past expectations (up 22% over the past two years, the biggest such gain since 1984). As a result, the Atlanta Fed GDPNow projects a 9.2% annualized quarterly gain in real personal consumption expenditures for Q4 after an increase of just 1.6% in Q3, which helps lift its real gross domestic product (GDP) estimate to 8.2% from 2.0% in Q3.

Businesses are working hard to make this happen, with industrial production surprising to the upside in October (inching further above its 2019 average), according to the Federal Reserve Board. As U.S. manufacturing capacity utilization rates keep rising and companies try to improve their supply chains, producers are also responding to the consumer demand shock of the past 18 months with strong business capital expenditures (capex) plans for 2022, according to recent ISI Evercore Research surveys. Indeed, surveys show that the U.S. is gaining share of capex spending budgets, with automation increasingly important to address extreme labor shortages. While supply-chain challenges have been pushing out the timing of some investment expenditures, the outlook in this space remains favorable for economic growth.

That said, with consumer demand likely to remain ahead of potential supply, we expect real consumer spending growth to moderate from its abnormal 60-year-high pace of the past 18 months closer to 5% over the next year as inflation accounts for an increasing share of the spending pie. In fact, with the unemployment rate already down to 4.6% in October, an aging population and upside risks to consumer spending from wealth effects, labor shortages have the potential to become even bigger constraints on growth, in our view.

The combination of more people turning 65+ and a declining labor force participation rate (LFPR) for this cohort due to the pandemic, a surge in wealth prompting more retirements, as well as the growing share of older cohorts with very low participation rates within the 65+ mix, have contributed significantly to the rapid tightening of the labor market, and in our view will continue to do so. For example, up until 2005, only about 500,000 Americans entered the 65+ retirement age bracket in a given year compared to 1.7 million on average between 2018 and 2020, according to the Bureau of Labor Statistics. As a result, while the LFPR for 16-to-55-year-olds has been recovering in response to employers' efforts to boost compensation and benefits, employment still lags far behind labor demand even after a 1.3 million net jobs gain in the past three months.

Encouragingly, rising wages, more benefits and improved work flexibility have the potential to boost the LFPR for people under 65 even more. A return to their 2007 levels would result in 2 million potential jobs beyond the 8 million likely to be created by the end of 2023 if the overall participation rate remains close to current levels and unemployment drops to 3%, as we expect. As long as aggregate demand remains red-hot, supply constraints will keep putting upward pressures on wages and prices.

## An Equity Culture is Building—and it's a Positive for the Secular Bull Market

*Emily Avioli,* Assistant Vice President and Investment Strategist

*Niladri Mukherjee,* Managing Director and Head of CIO Portfolio Strategy

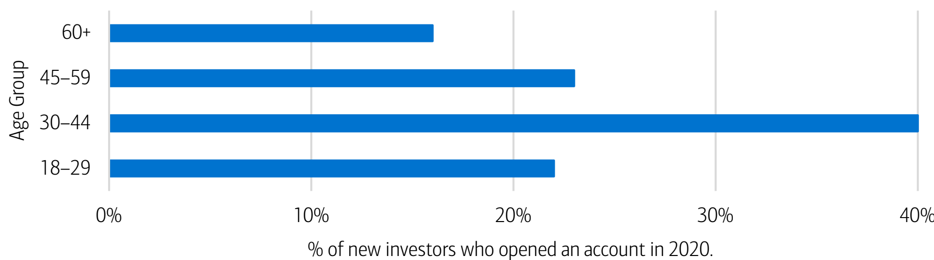
Equity market participation is at all-time highs, with households now owning roughly 40% of the U.S. Equity market.[4] While equity ownership has been climbing for years, the unique circumstances created by the pandemic in the form of excess savings and cash along with spending more time indoors seem to have abetted individual investors' engagement in the financial markets. Generally favorable market conditions and easier and cheaper ways to access them have further fueled the rise in interest among everyday investors. In our view, the increased breadth of individual investors participating in Equity markets could shape market trends moving forward and should contribute to the secular bull market for years to come.

### Examining Equity Market Participants

Stock market participation has been steadily rising for years—53% of all U.S. families owned publicly traded stock in some form in 2019, up from 32% in 1989, according to data from the Fed Survey of Consumer Finances. Consistent with historical trends, middle-aged, high-income investors still tend to have the most equity ownership—the top 10% of income earners owned 70% of the stock market in 2019. From a demographics perspective, families with a head of household aged 45 to 54 had the highest rate of stock ownership, with 58% of families invested in the stock market in some form.

But equity ownership may be growing more diverse in part thanks to a huge wave of individual investors that were recently ushered into the market, with millions of new brokerage accounts opened in 2020. A Financial Industry Regulatory Authority (FINRA) study that analyzed account opening in 2020 found that 66% of survey respondents who opened a new investment account were new investors who had not previously owned a taxable investment account. Of those new investors, 62% were under age 45 (Exhibit 1). The study also found that these new investors tended to earn lower incomes and be more racially/ethnically diverse than experienced investors who opened an account during the same time period.

**Exhibit 1: New Investors In 2020 By Age Group.**




Source: FINRA Investor Education Foundation. Data as of February 2021.

### Strong Backdrop for Equity Ownership

We see a number of catalysts behind the recent surge in equity ownership. Of note is the rise of online trading platforms, which studies have found tend to increase overall participation in financial markets by attracting retail investors who otherwise would not have participated.[5] Traditional barriers to entry for Equity markets have also been lowered in recent years, amid a widespread reduction in brokerage fees and the introduction of

[4] Empirical Research Partners, Federal Reserve Flow of Funds data. July 21, 2021.

[5] TFI Research, "The effects of Robo-Advisers on Stock Market Participation and Household Investment Behavior," March 2021.

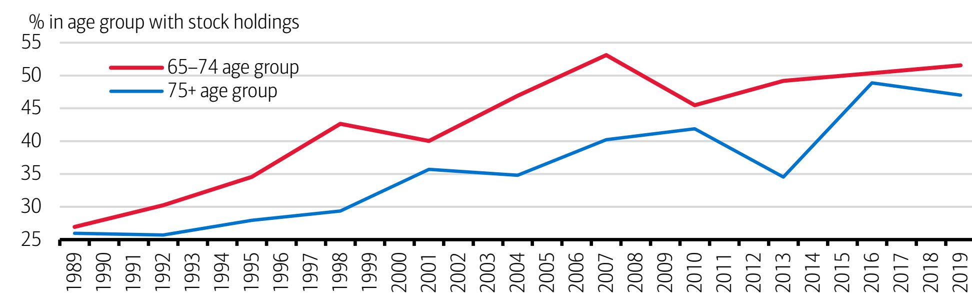
simple and engaging app-based trading platforms. These new methods of Equity market access may have enticed first-time investors that found themselves flush with cash and stuck at home amid pandemic-induced shutdowns.

The "everything rally" that kicked off last year also likely helped to draw investors in. Driven by impressive corporate earnings and a faster-than-anticipated economic recovery, the S&P 500 Index gained 18.4% in 2020 and is up roughly 25% year to date, with 50+ record highs reached in 2021 alone.[6] Even prior to the pandemic, investors had observed outsized equity returns in recent years, likely helping to amplify enthusiasm for stocks—the average annual return for the S&P 500 Index was 15.8% in the last five years, well above the average annual return of 9.1% in the last 20 years.[7]

Equities are also one of the most attractive options for investors right now, despite elevated absolute valuations. With interest rates near historically low levels, yields on other assets, such as Fixed Income, offer meager compensation for investment. The Equity Risk Premium (ERP), or the extra yield provided by the earnings of the S&P 500 in comparison to the 10-year U.S. Treasury bond, remains higher than roughly 55% of all daily data points going back 30 years.[8]

Amid this backdrop of low interest rates, lackluster bond yields and higher inflation, Equities may offer a potential hedge against longevity risk. People are living longer—the population of the 65+ age cohort increased by 36% from 2009–2019, and the population of the 100+ age cohort has more than tripled since 1980.[9] Faced with the prospect of a longer retirement, an increasing share of the 65+ age cohort is investing in equities (Exhibit 2).

**Exhibit 2: Percent of 65–74 Year Olds and 75+ Year Olds with Stock Holdings.**




Sources: Federal Reserve Survey of Consumer Finances. Data as of 2019. Latest data available.

### Individual Investors Driving Market Trends

We are starting to see signs that the new wave of individual investors is shaping several Equity market trends. The outsized price appreciation in the so-called 'meme' stocks which started earlier this year has continued with other such companies, with well-known brands but for which share prices had suffered over the years on weakening fundamentals, have attracted interest from these traders. For this group of investors, fundamentals seem to matter less than the collective enthusiasm for the company and the impulse of going against professional investors who may be on the other side of the trade. Market intelligence can now be gathered through social media, chat forums and stock trading clubs which have been mushrooming all over the world.

Meanwhile, retail trading volumes remain elevated, accounting for about 20% of U.S. Equity market volume.[10] The increased activity could be contributing to record inflows into Equities this year—the annualized inflow of $1 trillion+ to global stocks in 2021 is greater

[6] Bloomberg, November 15, 2021.

[7] Ibid.

[8] Bloomberg, data as of November 15, 2021.

[9] U.S. Department of Health and Human Services Administration for Community Living, May 2021.

[10] Bloomberg Intelligence Estimates, September 30, 2021.

than the cumulative inflow of prior 20 years, according to BofA Global Research. And according to a recent Wharton study, they could be influencing price action by creating a more pronounced overall market response per unit of positive earnings surprise.

These individual investors also appear to be undeterred by market pullbacks, having fully embraced the dip-buyer mentality. Retail traders were among the biggest buyers during the pandemic recovery and have continued to pour money into Equities when the opportunity has presented itself. Case in point, they purchased a net $24.4 billion of U.S. stocks and exchange-traded funds (ETF) in September when the S&P 500 Index pulled back by 5%.[11] Investors also seem to be doubling down on their Equity market stakes, as margin debt is hovering near record highs. As of September, investors had borrowed a record $903 billion against their portfolios, according to data from FINRA. That figure is up 38% from one year earlier.

While so far this discussion has been limited to U.S. markets, it's worth noting that individual investors are also beginning to have influence overseas. They're especially prevalent in pockets of Asian markets—for instance, retail traders are responsible for about 70% of the turnover in Taiwan,[12] where stocks are outperforming the rest of Asia by about 25% year-to-date.[13] In India, the National Stock Exchange saw retail investors' share grow from 33% in 2016 to 45% in 2021, with monthly registration of new investors increasing to an all-time high of 1.5 million in June 2021.[14] We expect retail investor involvement to continue to grow on a global scale in years to come.

### Conclusion

Our view remains that the current secular bull market began in 2013, when the S&P 500 broke out to new highs following the drawdown from the 2008 Global Financial Crisis. The subsequent uptrend in stocks was helped by a slow recovery in economic growth and subdued inflation but lacking conviction from individual investors, for whom the pain of the 2008 crisis was still recent. The effect of the pandemic has been to strengthen investor belief that given their growth and in some cases yield characteristics, Equities remain a more attractive investment than bonds and cash in the age of rising inflation and support from fiscal and monetary authorities. Risk tolerance has also perked up given the rise in margin debt and attention to 'meme' stocks creating shallower pullbacks.

It is still unclear how a reduction in stimulus or a significant pullback in Equity markets could influence individual investors' engagement in the near term. But in our view, the increased participation of retail investors should continue to add to the new equity culture that is building out in the U.S. and internationally, and will likely continue to shape market trends in years to come. Individual investors should continue to gain prominence as Equity allocations continue to increase, contributing to the secular bull market.

THOUGHT OF THE WEEK

## COP26: Investors Have The Potential To Play A Crucial Role In The Shift To A More Sustainable Planet

*Sarah Norman,* Director and Senior Investment Strategy Analyst

COP26 has concluded with an agreement, adopted by nearly 200 countries, to speed up the timeline for addressing climate change in this "critical decade". Negotiations in Glasgow ran into extra time, so it's no surprise then that overall commitments appear to fall short of the target of capping global temperatures from increasing more than 1.5 degrees Celsius. However, the Glasgow Climate Pact[15] does mark important progress in

[11] VandaTrack, *Wall Street Journal*, September 30, 2021.

[12] Bloomberg, "Retail Frenzy Lifts Three of Asia's Top-Performing Stock Markets," May 28, 2021.

[13] Bloomberg, data as of November 16, 2021. Indices referenced: MSCI Emerging Asia Net Total Return USD Index, Taiwan Stock Exchange Weighted Index USD.

[14] Is this the era of the retail investor? *Economic Times*, October 21, 2021.

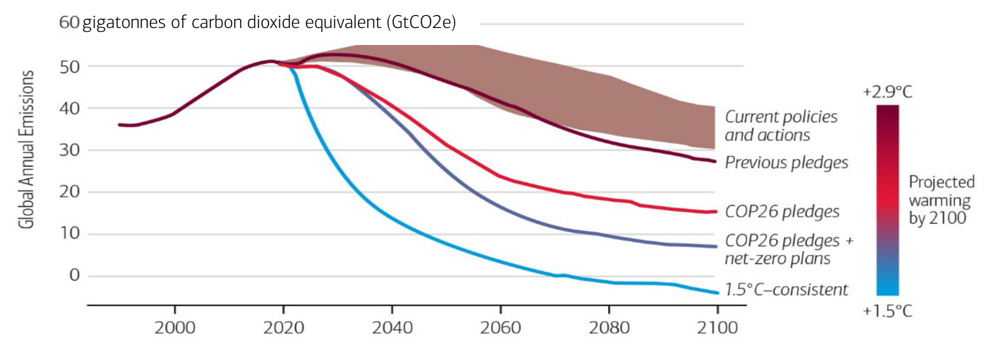
[15] Glasgow Climate Pact. 2021 United Nations Framework Convention on Climate Change, November 13, 2021.

some areas and potentially a new model of operation for the future. Here are the highlights:

- Countries are to revisit and strengthen their 2030 emissions-reduction targets by the end of 2022.
- The pact reiterated (and encouraged significantly increasingly) a $100 billion-per-year developed-country-financing commitment to aid developing countries in dealing with climate impacts.
- It urged those same nations to at least double their collective provision of climate finance to help developing nations mitigate and adapt to the effects of climate change.
- Financial institutions and the private sector are called on to enhance financial mobilization to deliver the scale of resources needed to achieve climate plans.
- A coalition of the willing saw meaningful commitments around methane reduction and deforestation, with 100 countries pledging to curb methane emissions by 30% by 2030, and world leaders representing 85% of the world's forests pledging to stop and reverse deforestation.
- Coal power and inefficient fossil fuel subsidies will be phased down, a first for a climate agreement, yet a dilution of the initial proposal that called for the phasing out of unabated coal use.
- Discussions around agriculture were notably missing from the agenda, a critical issue that will need to be tackled in the coming years.
- The U.S. and China, the top two greenhouse-gas emitters, announced an unexpected agreement that declares an intent to take "concrete actions" on emissions reductions and limitations.

COP26 demonstrated clearly that governments cannot and will not succeed or act alone, and action lies increasingly in the hands of corporations. In our view, people will play a crucial role in the success of the agreement made in Glasgow and ultimately in the essential shift to a more sustainable planet, be it through holding companies to account for their emissions targets, insisting on broad implementation of climate-related financial disclosures, and identifying—and investing in—the opportunities associated with the path to net zero. As we recently noted,[16] for investors we would expect clean energy and related materials, equipment and infrastructure to be the principal beneficiaries over the course of the 2020s and beyond, as companies and countries look to reach their net-zero targets.

**Exhibit 3: The Emissions Gap: Even If Countries Stick to COP26 Pledges, We Won't Limit Warming to 1.5°C.**



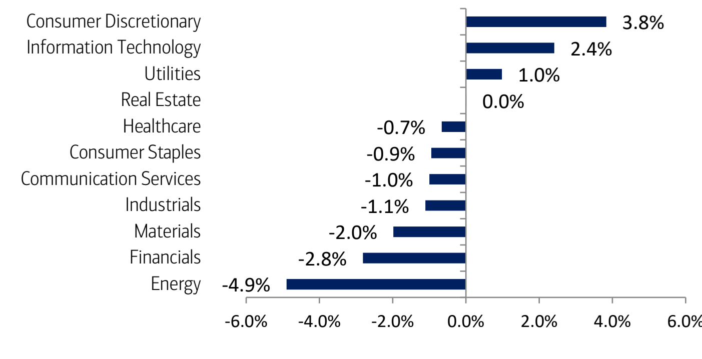

Source: Climate Action Tracker, Grist. Data as of November 9, 2021.

[16] Chief Investment Office, Capital Market Outlook. As of November 1, 2021.

## Equities

| | Total Return in USD (%) | | | |
|---|---|---|---|---|
| | Current | WTD | MTD | YTD |
| DJIA | 35,601.98 | -1.3 | -0.4 | 18.2 |
| NASDAQ | 16,057.44 | 1.3 | 3.7 | 25.3 |
| S&P 500 | 4,697.96 | 0.4 | 2.1 | 26.7 |
| S&P 400 Mid Cap | 2,870.72 | -1.1 | 2.8 | 25.8 |
| Russell 2000 | 2,343.16 | -2.8 | 2.1 | 19.6 |
| MSCI World | 3,219.90 | -0.1 | 1.5 | 21.2 |
| MSCI EAFE | 2,344.93 | -0.8 | 0.5 | 11.6 |
| MSCI Emerging Markets | 1,269.22 | -1.3 | 0.4 | 0.1 |

## S&P 500 Sector Returns




## Fixed Income†

| | Total Return in USD (%) | | | |
|---|---|---|---|---|
| | Current | WTD | MTD | YTD |
| Corporate & Government | 1.61 | 0.10 | 0.03 | -1.86 |
| Agencies | 1.04 | 0.07 | -0.01 | -1.17 |
| Municipals | 1.14 | 0.00 | 0.62 | 1.12 |
| U.S. Investment Grade Credit | 1.70 | 0.09 | -0.02 | -1.60 |
| International | 2.28 | -0.03 | -0.13 | -1.15 |
| High Yield | 4.41 | -0.38 | -0.02 | 4.33 |
| 90 Day Yield | 0.04 | 0.04 | 0.05 | 0.06 |
| 2 Year Yield | 0.51 | 0.51 | 0.50 | 0.12 |
| 10 Year Yield | 1.55 | 1.56 | 1.55 | 0.91 |
| 30 Year Yield | 1.91 | 1.93 | 1.93 | 1.64 |

## Commodities & Currencies

| | Total Return in USD (%) | | | |
|---|---|---|---|---|
| Commodities | Current | WTD | MTD | YTD |
| Bloomberg Commodity | 218.50 | -0.5 | -1.0 | 31.1 |
| WTI Crude $/Barrel†† | 76.10 | -5.8 | -8.9 | 56.8 |
| Gold Spot $/Ounce†† | 1845.73 | -1.0 | 3.5 | -2.8 |

| | Total Return in USD (%) | | | |
|---|---|---|---|---|
| Currencies | Current | Prior Week End | Prior Month End | 2020 Year End |
| EUR/USD | 1.13 | 1.14 | 1.16 | 1.22 |
| USD/JPY | 113.99 | 113.89 | 113.95 | 103.25 |
| USD/CNH | 6.39 | 6.38 | 6.40 | 6.50 |

Sources: Bloomberg, Factset. Total Returns from the period of 11/15/2021 to 11/19/2021. †Bloomberg Barclays Indices. ††Spot price returns. All data as of the 11/19/2021 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 11/11/2021)

| Asset Class | CIO View: Underweight | | Neutral | Overweight | |
|---|---|---|---|---|---|
| Equities | • | • | • | ● (green) | • |
| U.S. Large Cap | • | • | • | ● (green) | • |
| U.S. Mid Cap | • | • | • | ● (green) | • |
| U.S. Small Cap | • | • | • | ● (green) | • |
| International Developed | • | • | ● (yellow) | • | • |
| Emerging Markets | • | • | ● (yellow) | • | • |
| Fixed Income | • | ● (orange) | • | • | • |
| U.S. Investment Grade Taxable | • | ● (orange) | • | • | • |
| International | ● (red) | • | • | • | • |
| Global High Yield Taxable | • | ● (orange) | • | • | • |
| U.S. Investment Grade Tax Exempt | • | • | ● (yellow) | • | • |
| U.S. High Yield Tax Exempt | • | ● (orange) | • | • | • |
| Alternative Investment* | | | | | |
| Hedge Funds | | | │ | | |
| Private Equity | | | │ | | |
| Real Estate | | | │ | | |
| Tangible Assets / Commodities | | | │ | | |
| 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.

## Economic Forecasts (as of 11/19/2021)

| | 2020A | Q1 2021A | Q2 2021A | Q3 2021A | Q4 2021E | 2021E |
|---|---|---|---|---|---|---|
| Real global GDP (% y/y annualized) | -3.2 | - | - | - | - | 5.8 |
| Real U.S. GDP (% q/q annualized) | -3.4 | 6.3 | 6.7 | 2.0 | 6.0 | 5.6 |
| CPI inflation (% y/y) | 1.2 | 1.9 | 4.8 | 5.3 | 6.5 | 4.6 |
| Core CPI inflation (% y/y) | 1.7 | 1.4 | 3.7 | 4.1 | 4.9 | 3.5 |
| Unemployment rate (%) | 8.1 | 6.2 | 5.9 | 5.1 | 4.4 | 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 November 19, 2021.
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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 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.

**National Association of Realtors Affordability Index** measures whether or not a typical family could qualify for a mortgage loan on a typical home.

**CoreLogic Case-Shiller Home Price Index** refers to a group of indexes that measures or tracks the average changes in the prices of single-family-detached residences (houses) throughout the United States by observing the purchase price and resale.

**National Association of Home Builders (NAHB) Index** is a gauge of builder opinion on the relative level of current and future single-family home sales.

**MSCI Emerging Asia Net Total Return USD Index** captures large and mid cap representation across 9 Emerging Markets countries.

**Taiwan Stock Exchange Weighted Index USD** is a weighted average, meaning that stocks with a higher market capitalization exert a greater influence on the overall index.

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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. Small cap and mid cap companies pose special risks, including possible illiquidity and greater price volatility than funds consisting of larger, more established companies. 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. Bonds are subject to interest rate, inflation and credit risks. Treasury bills are less volatile than longer-term fixed income securities and are guaranteed as to timely payment of principal and interest by the U.S. government. 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.

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