CHIEF INVESTMENT OFFICE

Capital Market Outlook

November 8, 2021

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

IN THIS ISSUE

Macro Strategy—Well-intentioned pandemic-related government policies have generated U.S. consumer goods demand about 35% above its pre-coronavirus trend, according to the Bureau of Economic Analysis (BEA), and a similar surge in Chinese exports to new records, overwhelming supply chains, causing shortages, production disruptions, decades-high inflation, and depressed consumer sentiment. Worldwide decarbonization efforts have also amplified energy shortages, contributing to an outright global energy crisis in recent months. With investment insufficient to meet global future energy needs, according to the International Energy Agency (IEA), risks of chronic energy shortages and higher prices are growing.

Global Market View—While the U.S. fiscal and monetary spigots are poised to turn next year (tighten), offsets will come via robust U.S. household balance sheets, flush corporate coffers and massive amounts of unspent federal monies. By our back-of-the-envelope estimates, an aggregate $4.5 trillion Trifecta from U.S. consumers, U.S. corporations and the U.S. federal government represents future spending into 2022.

Thought of the Week—The divergence in volatility between Equity and Fixed Income markets has grown prominent in recent weeks. In our view, the recent volatility in the bond market is an early sign of a generally higher volatility environment for Equities in 2022.

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. A rising yield backdrop plus changes to the yield curve are the main story in the coming months and through 2022.

MACRO STRATEGY
Chief Investment Office Macro Strategy Team

GLOBAL MARKET VIEW
Lauren J. Sanfilippo
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THOUGHT OF THE WEEK
Emily Avioli
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Data as of 11/8/2021, and subject to change

TAX CHANGES IN THE REVISED BUILD BACK BETTER ACT

The House has proposed a Revised Framework that will serve as its latest version of its human infrastructure bill (H.R. 5376), also known as the Build Back Better Act. The Updated Framework may receive more attention for what it excludes as opposed to what is included in it. Increases to marginal tax rates and capital gains rates as well as changes to estate and gift tax laws have all been jettisoned. Below is a brief summary of tax changes in the Revised Framework (a more detailed summary, as of November 8, 2021, can be found in **Tax Alert 2021-17: Proposed Tax Changes - Build Back Better Framework**), which will likely be further modified with input from the Senate:

- Two-tier tax surcharge for high income taxpayers and trusts beginning in 2022: For individual taxpayers, a 5% surcharge would apply for all income in excess of $10

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million, and an additional 3% surcharge for income in excess of $25 million. For trusts, the 5% surcharge would apply to all income in excess of $200,000, and the 3% additional surcharge on income over $500,000.

- For high earning taxpayers ($450,000 of income for married couples and $400,000 for single taxpayers) with total retirement plan balances exceeding $10 million, proposed new rules include: (1) limitations on additional IRA contributions, (2) mandatory withdrawals of 50% of the excess of total retirement account balances over $10 million, and (3) mandatory withdrawals of all Roth accounts, if and to extent retirement balances over $20 million. These rules would be effective beginning in 2029.
- All taxpayers, regardless of income level, would be prohibited from converting after-tax amounts held in IRAs and employer sponsored plans to a Roth IRA or Roth 401(k), effectively eliminating so called "back-door" Roth conversions beginning in 2022.
- High income taxpayers (again defined as $450,000 of income for married couples and $400,000 for single taxpayers) would be prohibited from converting tax deferred retirement accounts to Roth accounts beginning in 2032.
- Qualified small business stock, which currently may permit taxpayers to exclude up to 100% of any realized gain from income (generally capped at $10 million per taxpayer), would be limited to a 50% exclusion for taxpayers with $400,000 or more of adjusted gross income. Trusts would be subject to this limitation regardless of income.
- A 3.8% surtax, which currently applies to net investment income, will also apply to active business income unless the business income is subject to FICA or self-employment taxes. This surtax would be assessed on single taxpayers with modified adjusted gross income exceeding $400,000 and married taxpayers with modified adjusted gross income in excess of $500,000, as well as trusts and estates with income over the top income tax bracket threshold (currently $13,050).
- The limitation on deducting state and local taxes for federal income tax purposes would be increased from $10,000 to $80,000. The $80,000 limit would be in effect through 2030. For 2031 the limit would again be set at $10,000, with all limits being eliminated from 2032 onward. For married taxpayers filing separately, as well as trusts and estates, the new limit would be set at $40,000.
- Constructive sale rules, which seek to tax transactions as sales even if an asset is not disposed of, would be expanded to include digital assets, such as cryptocurrencies. Currently the constructive sale rules apply only to financial assets. This would be effective as of the date of the bill's enactment.
- Wash sale rules, which prevent taxpayers from deducting a loss on the sale of a security that is purchased or repurchased within the 30 days prior to or after the sale, would be expanded to include several additional types of assets including cryptocurrency, foreign currency and certain commodities. This expanded application of the rule would apply beginning in 2022.

MACRO STRATEGY

Energy Supply Uncertainty Rising

Chief Investment Office, Macro Strategy Team

Leading indicators of global growth show a pickup ahead as the coronavirus Delta variant recedes and economies resume reopening at a faster pace. In the U.S., for example, the Atlanta Fed GDPNow estimates 8.2% annualized growth in Q4, up from just 2% in Q3. Not surprisingly, global energy demand has been strengthening, with a shortfall in renewable output putting extraordinary pressure on legacy energy sources that are being scaled back by climate policies. According to a recent CNBC article, "the global supply of renewables

will grow by 35 gigawatts from 2021 to 2022, but global power demand growth will go up by 100 gigawatts over the same period...Countries will have to tap traditional fuel sources to meet the rest of the demand."

With growth fundamentals strong and the Federal Reserve (Fed) planning to hold interest rates at zero over the first half of 2022, we believe that energy supplies are likely to continue to play a big role in setting the world growth "speed limit." In fact, with the Fed remaining unusually dovish, energy will likely be the factor determining how long the current U.S. and global expansion lasts. Energy supplies have already become a major restraint on global growth this year, with China and Europe particularly affected by energy-price spikes and outright shortages of electricity, coal and natural gas that have caused production shutdowns and other challenges.

The current energy crisis resulted from a confluence of events—droughts in Turkey, Brazil and the Western U.S. hurting hydropower, a deep freeze early this year in Texas, China, Japan, Korea, and weak wind-blowing conditions in the U.S. and Europe to boot. Anti-nuclear and fossil-fuel policies in Europe combined with restrictions on Chinese coal production, imports and consumption have amplified the negative effects of these renewable-energy setbacks. For example, despite vast reliance on natural gas imports in Europe, especially from Russia, Germany has been in the process of phasing out its last nuclear power plants by the end of 2022, exacerbating the continent's electricity and natural gas crunch this year. At the same time, U.S. nuclear power generation last year reached its lowest level since 2013, oil-and-gas investment and production have stalled below pre-pandemic levels, and about 30% of coal-fueled power plants have been retired since 2010, limiting the ability to shift to coal-fueled electricity in response to surging natural gas prices, for example.

With global energy prices and profits surging as a result, the sector has massively outperformed this year, vexing investors and policymakers alike. What's more, we believe the sector is likely to continue to benefit from even bigger potential demand-and-supply imbalances in coming years in light of stringent global emissions policies and targets. For example, according to the IEA, the world is not investing enough to meet the energy needs of the future. Notably, it's clean-energy investments that are not large enough and must urgently increase, according to the agency, while oil-and-gas investments are reasonably in line with its 2030 emissions objectives. Since its objectives involve cutting global oil production to 72 million barrels per day (mbd) in the next nine years, this implies that investment is in line with an almost 30% retrenchment in global production this decade and that the scramble for crude oil has just started.

Such a sharp decline in oil production would also restrain natural gas production associated with drilling for oil, one reason why U.S. natural gas production is lagging this year. In any case, as discussed in past reports, we believe the risk of insufficient energy supply and rising prices has increased substantially since the IEA's May 2021 report outlining the "roadmap" to net-zero emissions by 2050 and its immediate embrace by governments and supranational organizations around the world. Basically, drastic prescriptions for fossil-fuel consumption cuts suggest that energy has the potential to become an even bigger limitation for global growth ahead.

Ironically, fuel switching due to insufficient natural gas supply has not only increased global oil demand more than expected this year, tightening an already scarce oil situation, but has also caused a boom in coal demand, with coal prices surging to records in September/October before China quickly intervened to boost domestic production/imports in order to alleviate electricity shortages in provinces accounting for about half of its gross domestic product (GDP). Thus, although the IEA's roadmap is eying "coal use declines from 5,250 million tons of coal equivalent (Mtce) in 2020 to 2,500 Mtce in 2030," demand is currently booming around the world.

The U.S. has been somewhat insulated from the natural gas scramble by its domestic natural gas production and limited liquefied natural gas (LNG) export capacity, which have

kept natural gas prices relatively tame compared to the record surge in Europe, where they jumped eight times from early-year levels to new records by early October. Still, with insufficient natural-gas production, the U.S. is also expected to boost coal burning for power generation by about 20% this year, according to a November 1, 2021, *Financial Times* article, resulting in the first increase in the share of coal-fired electricity generation since 2014 (to 24% versus 20% in 2020). Indeed, with the oil and natural gas rig count still about 50% lower than pre-pandemic levels, natural gas production has not been enough to meet surging domestic and export demand, causing inventories to remain below average ahead of the heating season (although not as critically low as in Europe) and prices to double this year to a seven-year high.

Still, with U.S. coal inventories at their lowest levels in about 20 years, and 30% of the coal power generation capacity closed over the past decade, the U.S. doesn't have much more room to switch to coal even if it needs to. As a result, the closing of a number of nuclear power plants has been recently postponed, so U.S. 2022 nuclear power generation has been revised up. This, along with a projected 3% domestic production increase and a cap reached on LNG export capacity, feeds Energy Information Administration (EIA) expectations for lower natural gas prices next year.[1] Nuclear power is also attracting more attention in a number of countries like Japan and China, which has long been planning huge capacity additions to reduce greenhouse emissions while powering its massive, growing and energy-intensive economy.

As noted above, these conditions have greatly benefited the energy sector's performance this year. Oil and gas producers' revenues surged, while investment has remained about 30% lower than in 2019, resulting in massive profits and free cash flows. This lack of investment is not surprising and is likely to continue to drive the sector's outperformance. After all, the IEA's roadmap to net-zero is calling for no more exploration and development of new fossil fuel fields with the aim of reducing oil consumption by 75% in the next 30 years, natural gas by 55%, and coal by 90% globally, which is precisely what's happening. Oil and gas producers, especially large corporations subjected to environmental, social and governance (ESG) scrutiny have become reluctant to boost investment in response to rising prices, with U.S. oil drilling still about 50% below pre-pandemic levels despite the surge in prices to a seven-year high, and the natural gas rig count flat-lining at around half its pre-pandemic level. Pressures to disinvest from oil and gas businesses along with labor and materials shortages and inflation also suggest constraints on production.

With the inventory of drilled but uncompleted oil wells also down significantly, U.S. oil supply may surprise to the downside next year. At the same time, some Organization of the Petroleum Exporting Countries (OPEC) producers have had difficulty meeting increased quotas, suggesting that presumed softer demand growth and rising Brazilian production may not be enough to create the excess oil supply and lower prices next year that some, including the EIA, still expect. With global oil inventories declining rapidly this year and spare capacity seen falling by more than half by mid-2022, the oil market is more likely to remain tight.

While the IEA's push for about a 30% drop in oil production by 2030 is restraining investment, starving the global economy of liquid fuel and increasing the dependence on OPEC, the juxtaposition of this objective with the current energy crisis forced President Biden to recently say that the world can't immediately stop using oil, OPEC and Russia need to pump more of it, and an overnight renewable shift is not "rational," according to NPR.org. Importantly, according to a November 2, 2021, Gavekal Research article, *"27% of emissions come directly from electricity generation, 31% derive from industry, and the rest from agriculture and land use (19%), transport (16%), and heating and cooling of buildings (7%)... Decarbonizing industrial processes such as steel and cement will be especially tough; the necessary technologies do not yet exist in a scalable or economical form."* According to

[1] $4/MMBtu 2022 estimated average as of October 2021, EIA Short-term Energy Outlook.

the same report, even if the European Union's power sector completely eliminates fossil fuels by 2030, for example, carbon emissions cuts from all other sectors of the economy between 2020 and 2030 will need to be 20 times higher than they were between 2009 and 2019, which clearly creates risks of major economic disruptions ahead.

China's experience this year is revealing. According to Gavekal Research, the country accounts for 30% of global emissions and has launched an aggressive set of economic policies to curb energy-intensive and highly polluting heavy industry, as well as coal use. The resultant energy shortages, energy price spikes, and severe economic slowdown this year show that even a move to decarbonize the economy in a short period of time can have big unintended negative consequences. In our view, the IEA's plan to completely transform the global energy sector and economy over the next 30 years is likely to create substantial negative effects on world economic growth and prosperity. For investors, an Energy sector overweight may be a prudent way to hedge these downside risks.

GLOBAL MARKET VIEW

The $4.5 Trillion Trifecta for 2022

Lauren J. Sanfilippo, Vice President and Investment Strategist

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

The capital markets are at a pivotal point in the cycle—the Fed has begun to slow its bond-buying program (tapering); it appears the first Fed rate hike has been pulled forward to mid-2022 due to stronger-than-expected inflation readings; and the infrastructure-focused fiscal package grinding its way through Congress is expected to be the last fiscal shot in the arm for the economy for some time.

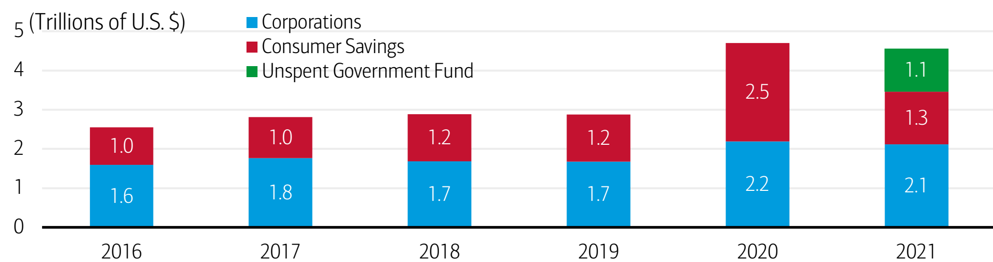
All of the above, in theory, should be of concern for investors and the forward-looking, discounting beast called the U.S. stock market. But we are more sanguine about near-term market prospects. Why? Because while the U.S. fiscal and monetary spigots are poised to turn next year (tighten), offsets will come via robust U.S. household balance sheets, flush corporate coffers and massive amounts of unspent federal monies. By our back-of-the-envelope estimates, the aggregate dry powder of U.S. consumers, U.S. corporations and the U.S. federal government represents a $4.5 trillion Trifecta of future spending in 2022.

We break down the three elements of the Trifecta below:

The Consumer ($1.3 trillion)

Echoes from company earnings reports tell us about the strength and resilience of the consumer through Q3 of this year. Simply put, U.S. household balance sheets are in the best financial shape they've been in years, supported, in part, by an above-average savings rate of 7.5%, which equates to some $1.3 trillion in future consumer purchasing power (Exhibit 1). Speaking of the latter, and underlying the confidence of U.S. households, consumers spent a record $10 billion just on Halloween this year, up 14% from the pre-pandemic levels of 2019, according to the National Retail Federation.

Exhibit 1: Off of Last Year's Elevated Savings, the Consumer Contributes $1.3 Trillion to the Trifecta.



Sources: Bloomberg; Committee For A Responsible Federal Budget (CRFB); BEA. Data as of September of each year, through 2021.

Confidence begets spending. And to this point, consumer confidence as measured by the Conference Board's Consumer Confidence Index ticked up in October, following three months of declines, and is corroborated by the latest retail sales figure (0.7% month-on-month growth), which surprised to the upside last reading. And still, record U.S. household net worth increased by $24.3 trillion in the 12 months ending Q2 2021, bringing wealth in America to a total of $142 trillion. Against this backdrop, it's little wonder that many U.S. firms have been successful in passing through higher input costs to consumers, boosting profit margins and contributing to better-than-expected Q3 earnings.

The effect of the coronavirus delta variant may have deferred some spending into next year, especially as higher-income households' spending patterns take longer to normalize. The top fifth of earners (or households earning at least $120,000 a year) contribute nearly 40% of all spending and account for most of the buildup in bank deposits (absolute and percent change) over the pandemic.[2] The bottom 20% of households account for only 9%, mostly geared toward necessities.

Categorically, the high-income consumer contributes significantly to the service side of the equation. While consumer spending on goods has been running above trend for some time, consumer spending on services has just recently moved above its pre-pandemic high, and still growing. An important dynamic to watch into 2022 is rising energy prices and inflation eroding real incomes, especially for the low-income consumer. As the employment picture strengthens and job growth, wages and incomes should be better supported and should cushion spending as savings and generous fiscal transfers roll off.

All in all, healthy household balance sheets remain a major support for the recovery and for record-setting growth in consumer spending. Current levels of unprecedented wealth supplementing wage growth will be fueling sustaining growth well into 2022 and be the catalyst for upside earnings surprises in the out quarters.

Corporate America ($2.1 trillion)

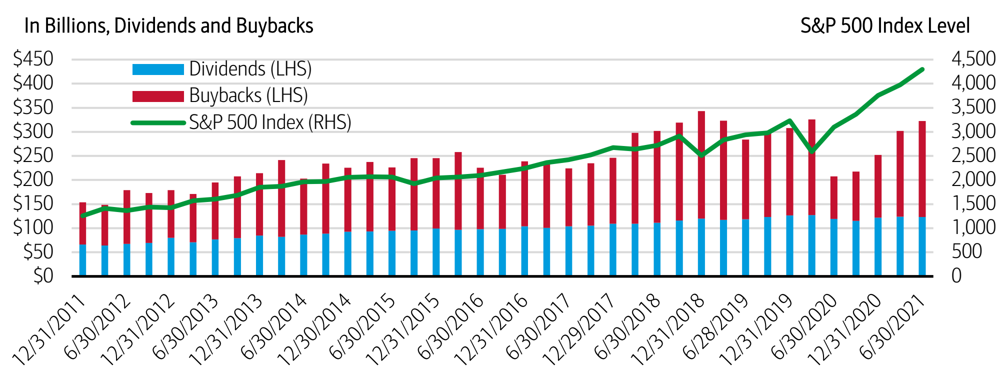
The amount of liquidity presently held by U.S. corporations—in cash holdings and short-term investments—is hovering near all-time highs thanks to improving corporate profits and lower costs of capital, totaling $2.1 trillion in Q2 of this year. With earnings season as a guide, recent announcements show little indication of a spending slowdown on the corporate level. Intention/use of cash will primarily be made through investment of capital expenditures (CapEx) and/or return to shareholders (growing dividends or share buybacks).

Closely tracking the path of earnings and signaling growth initiatives at the company level, the capital expenditures recovery is well underway. Business spending and CapEx intentions in the U.S. have risen to elevated levels across a number of measures. For instance, according to the BEA, the technology-led CapEx cycle alone jumped 11% on a year-over-year basis during Q3 of 2021 to another record high. It accounted for a record 52% of total CapEx as companies and the economy increasingly digitalize. Secular investments in semiconductors and automation, as well as more cyclical infrastructure investments, will likely boost CapEx growth over the medium term.

According to S&P Global, total shareholder return of buybacks and dividends in Q2 2021 stood at $322 billion. Share buybacks in Q2 totaled $199 billion, up 11.6% from Q1 and 124% from the pandemic-depressed levels of Q2 2020 (low of $89 billion). A more stable and consistent story for dividend growth has unfolded for S&P 500 dividends, totaling $123 billion in Q2, up 4% on Q2 2020 (Exhibit 2).[3]

[2] Federal Reserve, as measured by checking deposits for the Top 20%.
[3] S&P Global, September 23, 2021.

Exhibit 2: Cash as a Catalyst: S&P 500 Companies Use of Cash.



Sources: S&P Global; Bloomberg. Data as of September 2021. **Past performance is no guarantee of future results.**

All in all, corporate America is well positioned to be a key driver of growth, supported by a robust earnings backdrop, elevated cash balances, and continued support from the low cost of capital.

U.S. Government ($1.1 trillion and counting)

The public sector will remain a key driver of economic activity as well in 2022. Notwithstanding the current legislative back-and-forth in Washington, the consensus on Wall Street is that another $1 trillion to $2 trillion in spending is coming down the pipe. But even without this new spending, the U.S. government is sitting on some $1.1 trillion in unspent funds. Indeed, according to the CRFB, there is still over $1.1 trillion remaining in unspent coronavius relief funds. Currently $4.8 trillion of the allowable $5.9 trillion under the coronavius packages has been committed or disbursed (Exhibit 3).

Exhibit 3: Coronavirus Relief, Trillions of U.S. Dollar

Legislative	Allowed	Committed/Disbursed	Unspent
Loan & Grant Programs	$ 1.56	$ 1.31	$ 0.25
Income Support	$ 0.91	$ 0.85	$ 0.06
State & Local Funding	$ 0.80	$ 0.69	$ 0.19
Direct Payments	$ 0.87	$ 0.82	$ 0.05
Health Spending	$ 0.66	$ 0.41	$ 0.26
Tax Policy	$ 0.58	$ 0.45	$ 0.13
Other Spending	$ 0.47	$ 0.28	$ 0.19
	$ 5.9	$ 4.8	$ 1.1

Sources: CRFB; Strategas Research Partners. Data as of September 2021.

To repurpose unused funds, Congress would need to pass additional legislation allowing funds to be reallocated. For example, the bipartisan infrastructure bill repurposes $210 billion of unspent aid as a payfor mechanism for the infrastructure package. What's more, President Biden's Build Back Better proposal and framework would direct additional funds to infrastructure initiatives.

Investor implications

What does all of this mean for investors? For starters, concerns of a "fiscal cliff"—i.e., when both Congress and the Fed step back from priming the fiscal and monetary pump—are overdone, especially considering spending additional in the pipeline. Following on a banger Halloween, we expect robust spending ahead with the $4.5 trillion Trifecta backing markets and earnings through the holiday season and into the new year. Corporate cash and household savings equate to 19% of U.S. GDP, a level not seen since the 1960s. Ladle on a $1.1 trillion unspent government balance and an additional $1 trillion Build Back Better proposal, and that figure rises to 24% of GDP—levels the economy and markets cannot ignore. These elevated cash levels are the future catalysts leading to healthy U.S. equity prices and returns, and the continuation of the reflation trade in 2022.

One caveat worth mentioning: A potential headwind to the Trifecta, and corporate spending more specifically, is tax reform, in the way that a higher effective corporate tax

rate would weigh on corporate spending, while a buyback tax would likely induce alternative uses of cash. That said, we continue to see upside gains for U.S. Equities over the course of 2022. The macro outlook continues to support cyclical, reflationary positioning, leading us to prefer economically sensitive sectors such as Industrials, Materials, Energy and Financials, as the cyclical and Value segment of the market works overtime to cushion the increasingly tired Growth side of the market. We view any pullback as an opportunity to add to cyclical areas of the market, given higher levels of nominal growth and profits.

THOUGHT OF THE WEEK

Rising Bond Volatility Portends Higher Equity Volatility

Emily Avioli, Assistant Vice President and Investment Strategist

The divergence in volatility between Equity and Fixed Income markets has grown prominent in recent weeks, as stocks have powered to fresh all-time highs. The ratio between The MOVE Index and the Chicago Board of Options Exchange (CBOE) Volatility Index (VIX) is now hovering near the lowest level since February 2020 (Exhibit 4).

Exhibit 4: The Equity-To-Bond Volatility Ratio Is At Pandemic Lows.

Source: Bloomberg. Data as of November 2, 2021. Short time period shown to illustrate recent trend.

The bond market's recent uptick in volatility comes amid increasing uncertainty about inflation and monetary policy. Signals of persistently high inflation have recently prompted hawkish responses by central banks around the world, amplifying investor concerns about the timing of Fed tightening and fueling the recent rise in short-term bond yields. At the same time, long-term yields have remained anchored, leading to a flattening of yield curves, adding to some nascent concerns about growth.

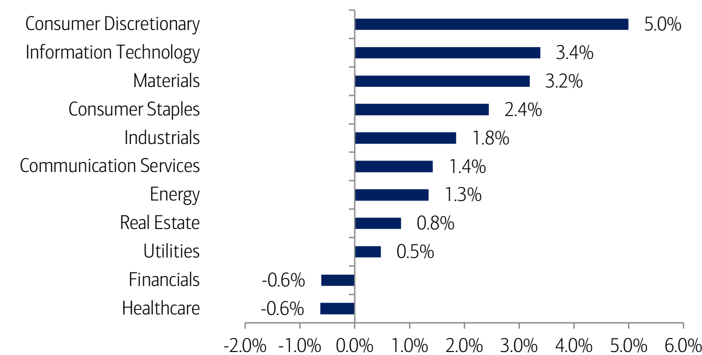
Meanwhile, the VIX sits well below its historic average, as Equities have largely ignored the bond market's signals. Strong earnings have helped to power Equities higher while keeping volatility at bay—Q3 earnings and sales have come in better than expected, with corporate margins proving to be resilient. Elevated consumer net worth and a strong demand backdrop remain as powerful support for Equities, and optimism that the coronavirus Delta variant wave looks to be subsiding has recently provided an additional boost.

In our view, the recent volatility in the bond market is an early sign of a generally higher volatility environment for Equities in 2022. As earnings growth moderates, higher levels of persistent inflation pressure margins, and financial conditions tighten, Equity returns are likely to be choppier.

Equities

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
DJIA	36,327.95	1.4	1.4	20.5
NASDAQ	15,971.59	3.1	3.1	24.6
S&P 500	4,697.53	2.0	2.0	26.6
S&P 400 Mid Cap	2,905.11	4.0	4.0	27.2
Russell 2000	2,437.08	6.1	6.1	24.4
MSCI World	3,232.26	1.8	1.8	21.6
MSCI EAFE	2,373.27	1.6	1.6	12.8
MSCI Emerging Markets	1,264.07	0.0	0.0	-0.3

S&P 500 Sector Returns



Fixed Income†

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
Corporate & Government	1.49	0.74	0.74	-1.15
Agencies	0.90	0.48	0.48	-0.68
Municipals	1.15	0.47	0.47	0.97
U.S. Investment Grade Credit	1.58	0.64	0.64	-0.95
International	2.13	0.89	0.89	-0.14
High Yield	4.04	0.61	0.61	5.00
90 Day Yield	0.04	0.05	0.05	0.06
2 Year Yield	0.40	0.50	0.50	0.12
10 Year Yield	1.45	1.55	1.55	0.91
30 Year Yield	1.89	1.93	1.93	1.64

Commodities & Currencies

	Total Return in USD (%)			
Commodities	Current	WTD	MTD	YTD
Bloomberg Commodity	219.40	-0.6	-0.6	31.7
WTI Crude $/Barrel††	81.27	-2.8	-2.8	67.5
Gold Spot $/Ounce††	1818.36	2.0	2.0	-4.2

	Total Return in USD (%)			
Currencies	Current	Prior Week End	Prior Month End	2020 Year End
EUR/USD	1.16	1.16	1.16	1.22
USD/JPY	113.41	113.95	113.95	103.25
USD/CNH	6.39	6.40	6.40	6.50

Sources: Bloomberg, Factset. Total Returns from the period of 11/1/2021 to 11/5/2021. †Bloomberg Barclays Indices. ††Spot price returns. All data as of the 11/5/2021 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 11/2/2021)

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.

Economic Forecasts (as of 11/5/2021)

	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	2.0	6.0	5.6
CPI inflation (% y/y)	1.2	1.9	4.8	5.3	6.1	4.5
Core CPI inflation (% y/y)	1.7	1.4	3.7	4.1	4.6	3.5
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 November 5, 2021.
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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.

Conference Board's Consumer Confidence Index measures how optimistic or pessimistic consumers are regarding their expected financial situation.

S&P Global is a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

The MOVE Index is a well-recognized measure of U.S. interest rate volatility that tracks the movement in U.S. Treasury yield volatility implied by current prices of one-month over-the-counter options on 2-year, 5-year, 10-year and 30-year Treasuries.

Chicago Board Options Exchange's (CBOE) Volatility Index (VIX) measures the stock market's expectation of volatility based on S&P 500 index options.

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