CHIEF INVESTMENT OFFICE

Capital Market Outlook

December 7, 2020

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

IN THIS ISSUE

- Macro Strategy—The recent surge in corporate profits to a new record in the third quarter has validated the equity market rally and significant narrowing of credit spreads since March, putting to rest suspicions of a disconnect between financial market conditions and economic fundamentals. In our view, with strongly rebounding real gross domestic product (GDP)/corporate revenues and little cost pressure from interest rates and labor, as well as a likely strengthening productivity trend, profits are likely to advance strongly in 2021. We believe this should help sustain the S&P 500 index while the rotation into more cyclical and Value areas of the equity market gathers steam.
- Global Market View—Recently, encouraging news regarding the progress of a vaccine has bolstered expectations of a path toward economic normalization in 2021. Despite the global equity rally, international equities remain historically undervalued compared to those in the U.S. Going forward, consider adding to international equities in long-term multi-asset portfolios, especially in those that are substantially underweight the asset class relative to strategic weights.
- Thought of the Week—Cyclical sectors led the strong market rally last month, as vaccine optimism and reduced election uncertainty improved both market and business sentiment. Stronger business confidence is also behind one of the quickest Mergers & Acquisitions (M&A) recoveries in decades. In contrast to prior recessions, when M&A has taken years to return to pre-crisis levels, deal activity has rebounded sharply in the second half of 2020.
- Portfolio Considerations—With vaccine advancements and distribution coming closer into focus and consumer pent-up demand building rapidly, we expect a more robust outlook for the economy and private sector profits in 2021 than the consensus currently expects. We would use any weakness in equities as a buying opportunity in order to better position portfolios for the next long-term move up.

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

GLOBAL MARKET VIEW
Rodrigo C. Serrano, CFA®
Director and Senior Investment Strategist

THOUGHT OF THE WEEK
Kathryn McDonald, CFA®
Vice President and
Investment Strategist

Data as of 12/7/2020, and subject to change

MACRO STRATEGY

Profits Surge Validated Financial Market Ebullience

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

A recent streak of red-hot data, such as October business durable-goods orders and shipments, housing starts, consumer spending, as well as U.S. productivity and profits growth, have confirmed our expectation for better-than-consensus growth momentum through the end of 2020. As a result of GDP-boosting incoming data, the Atlanta Fed

GDPNow forecast for Q4 real GDP has been significantly raised from about 3% to 11% annualized quarterly growth (following an unrevised 33% gain in the Q3, according to the Bureau of Economic Analysis).

Strong corporate revenue and profits growth, a big increase in new orders booked for October,[1] a nearly two-decade-high Institute for Supply Management (ISM) manufacturing new-orders index, and elevated small-business plans to expand inventories point to continued strong business production and investment. This is important because faster investment will help offset some of the cooling in consumer-goods spending from its red-hot pace of the past six months. Overall, we expect 4% to 5% real GDP growth in 2021, which would more than reverse the estimated 3% pandemic-related drop in economic activity this year.

The strong rebound is global, and, according to the November 28, 2020, BofA Global Research library of proprietary indicators, it continued to gain momentum in November, with potential for further upside given a broad-based increase in leading indicators, such as global industrial confidence, global consumer confidence, and soaring global profits revisions ratios ("*with upgrades outnumbering downgrades in every region, most global sectors, and all global styles*"). The exception to this uptrend are the pockets of weakness coming out of Europe, where new shutdowns are temporarily constraining the services sector in particular.

With U.S. growth and income much better-than-expected, an uptrend in the global manufacturing cycle, and the dollar easing, it is not surprising that Q3 U.S. corporate revenues have strongly surpassed expectations, with an 8% quarter-to-quarter gain, the biggest since 1996. This jump helped revenues recuperate half of their losses incurred in the first half of the year and greatly contributed to the massive upside profits surprise in Q3.

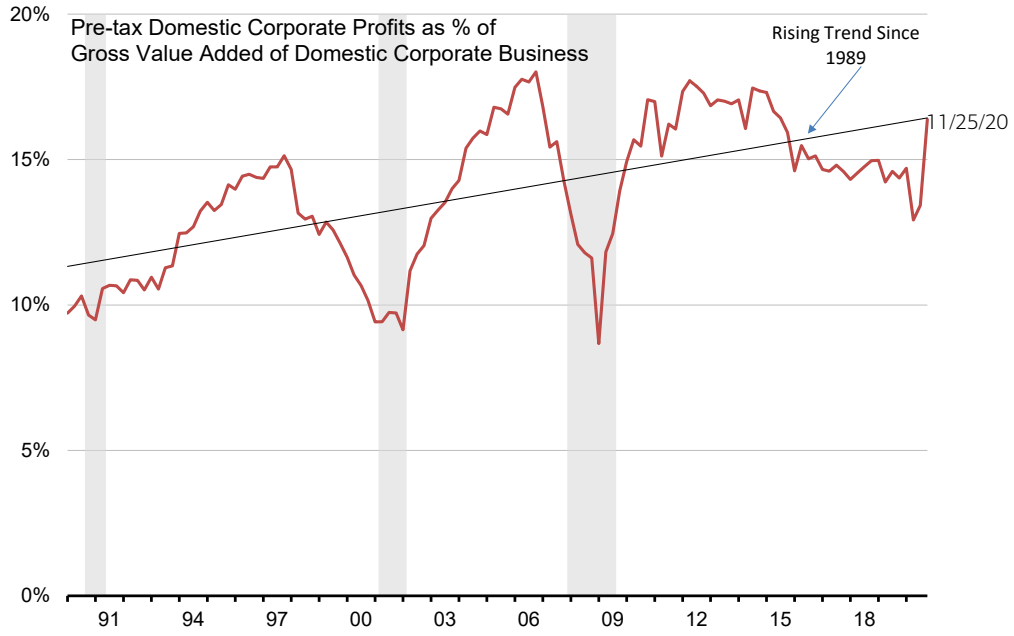
Encouragingly, revenue growth appears likely to remain favorable for profits ahead, with a probable gain of 8% to 10% in 2021 (after declining about 5% in 2020) to new highs sometime in the second half of 2021. This assumes declining uncertainty from still very elevated levels, some moderation in the ISM manufacturing index closer to its long-term average, a gradual further dollar depreciation, and steady-to-higher consumer and small-business confidence.

Stronger manufacturing conditions than we assume are possible given the above-mentioned breadth of improvement in economic conditions as the global economy responds to massive government stimulus and pent-up demand. On the other hand, consumer and small-business sentiment have declined into Q4, and downside risks to confidence have increased given the surge in coronavirus cases and concerns about potential growth-constraining policy changes ahead. Continued deterioration on these fronts would restrain our real GDP and corporate revenues estimates.

So far, the combination of a decades-high pace of revenue growth with a big margin expansion (Exhibit 1) has boosted Q3 pre-tax profits as measured in GDP accounts by an eye-popping 27% quarter-to-quarter, to a new record. The strong profits rebound from the shutdown clearly shows that the effect of the global government support has been widely and massively underestimated. So has the combination of pent-up demand and the role of operating leverage in supercharging margins and profits at the beginning of new business cycles.

[1] Census Bureau as of October 30, 2020.

Exhibit 1: Profit Margins Surged To Trend, As They Typically Do When New Economic Expansions Begin.



Sources: Bureau of Economic Analysis/Haver Analytics; Bank of America. Data as of November 25, 2020. **Past performance is no guarantee of future results.**

Looking ahead, the government stimulus is likely to continue to shape the economy for about another year or so because of the lags involved between changes in policy and their effects on economic conditions. In addition, as noted in past reports, we believe that there are fundamental reasons why profit margins are likely to continue to surprise to the upside, even as they appear high by the experience of the past 40 years.

First, margins usually drop sharply when expansions mature, interest rates increase, and recessions approach, not when new expansions begin. Low interest rates and low energy prices should remain supportive of margins until later in the expansion. For example, our analysis suggests that it would take a sharp increase in real interest rates to meaningfully depress domestic profit margins from current levels, which would run counter to the Federal Reserve's (Fed) stated interest-rate policy intentions two years out. While an eventual increase in real interest rates would be normal, the lags involved between real interest rates and margins are long and unlikely to substantially depress demand and margins in the next year or two. Also important, while some margin compression is probable from elevated current levels in coming quarters, strong revenue growth should mitigate some of this moderation, keeping profits on an uptrend, in our view.

The drop in the labor-force participation rate should also continue to keep the share of labor compensation low by historical standards, buoying margins. Our expectations for a strengthening trend in productivity and soft labor costs also suggest that margins are unlikely to come under much downside pressure over the next two years. Importantly, sustained rapid productivity growth would not only help keep unit labor costs in check but would also prevent the Fed from raising interest rates enough to cause a sharp increase in the real rate, which, as noted above, would be highly detrimental to margins.

As discussed in our March 2, 2020, Chief Investment Office Capital Market Outlook on productivity, economists have been baffled by the secular stagnation caused by the weak productivity growth of the 2010–2016 period and have been equally surprised by its recent improving trend. Expectations for persistent productivity weakness have caused a constant underestimation of U.S. potential GDP growth and an overestimation of inflation. In contrast, our analysis has long suggested a new productivity uptrend, and we continue to expect productivity growth to fluctuate around a likely 3% trend over the next

two to three years. Basically, that's because the economic, financial, confidence, regulatory and tax backdrops over the past four years have reversed in favor of a stronger productivity-growth trend. Demographics and dollar trends, which affect productivity with a lag, have also turned in favor of a sustained period of stronger productivity. A sustained productivity shift, as we expect, would have important implications for inflation, interest rates, margins and profits.

So far, the productivity and inflation data have validated our expectations. Despite much skepticism, non-farm productivity growth has continued to surprise to the upside this year, rising 2.9% year-over-year (YOY) in Q2 and 4.1% in Q3. This comes after a gain of 1.7% in 2019 (which was close to its past 40-year average pace of 1.9% even though the manufacturing sector was in recession) and compares with a 0.7% average between 2010–2016 and 1.5% between 2016–2019. October inflation numbers were softer than consensus expectations but in line with our long-held view that a strengthening productivity trend, weak wage pressures, and gradual dollar depreciation should keep inflation below 2% into late 2021, monthly volatility notwithstanding.

With productivity strong, inflation and labor costs contained, interest rates at rock-bottom levels, and demand soaring out of the shutdown, domestic profits surged 32% quarter-to-quarter to a fresh record in Q3, up 6% above pre-coronavirus levels. If productivity and margins remain in a high range over the next two years, as we expect, domestic profits have the potential to advance about 12% in 2021 to new records after an estimated 4% drop in 2020.

The rebound in foreign profits has lagged that of domestic profits through Q3. While domestic profits surged to a new record high, foreign profits were still 14% below their pre-pandemic level. However, they are very sensitive to improvements in global manufacturing and trade activity as well as changes in the dollar, so we would not be surprised to see foreign profits taking the lead in 2021, with 20% to 25% growth to fresh highs.

All in all, the positive drive of the incoming economic data has continued to boost equities and reduce credit spreads in recent weeks. The surge in corporate profits has been particularly noteworthy, validating our expectations for sustained high and rising margins and better-than-consensus profits growth, and showing that the market rally since March has made sense.

GLOBAL MARKET VIEW

A Look at International Markets

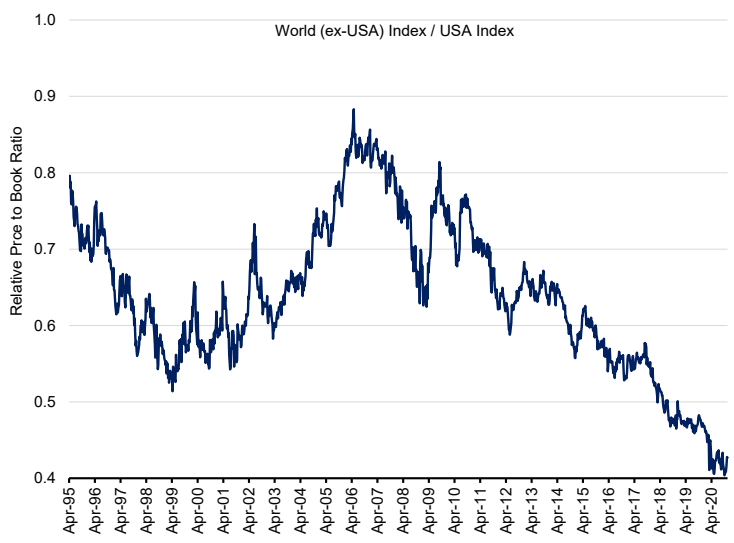
Rodrigo C. Serrano, CFA®, Director and Senior Investment Strategist

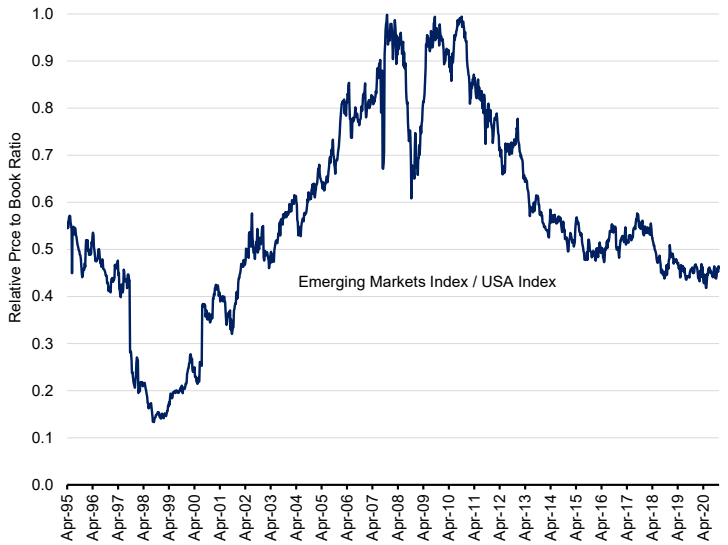
Over the last decade, U.S. equities have handily outperformed their international brethren. Behind the achievement: A more robust domestic economic recovery out of the 2008 Global Financial Crisis, boosting profit growth; the development of now dominant technology companies, underpinning corporate dynamism; and more proactive monetary and fiscal policies.

This year the coronavirus pandemic led to a shutdown of the global economy, cratering stock markets. Governments have rushed to backstop growth and incomes and restart business activity. More recently, encouraging news regarding the progress of a vaccine has bolstered expectations of a path toward economic normalization in 2021. These developments have fueled stock markets from the U.S. to the Emerging Markets (EMs) and Japan back above levels predating the health crisis, though Europe has lagged somewhat. Despite the rally, international equities remain historically undervalued compared to those in the U.S. (Exhibit 2).

Going forward, consider adding to international equities in multi-asset portfolios, especially in those that are substantially underweight the asset class relative to strategic weights. Despite continued risks, we also see several catalysts in 2021, which can potentially help to narrow the wide performance gap of international markets.

Exhibit 2: Compared To The U.S., The Low Valuation Of More Cyclically Sensitive International Market Indices Could Make Them Intriguing Candidates For Diversified Portfolios.





Sources: Chief Investment Office; Bloomberg. Data as of November 27, 2020. **Past performance is no guarantee of future results.**

Turning Fundamentals

After hitting its highest level since July 2018 in October, Markit's Eurozone Manufacturing Purchasing Managers index (PMI) registered a reading of 53.8, above 50.[2] Retail sales volumes have also recovered, registering a YOY result of 4.3% in October. Government programs across the region, designed to cover the better part of wages for employees who can't work, have kept unemployment in relative check while helping boost the growth of the bloc's liquid money supply to elevated levels.[3, 4] Meanwhile, while still negative on a YOY basis, monthly global trade volumes have risen at a historic average clip of 4.3% from June to September.[5] With total trade comprising roughly 88% of the eurozone's economy[6], we believe this is welcome news.

Progress in producing an effective vaccine may raise longer-term optimism, sustaining a recent improvement in capital expenditures (capex), in our view. In Japan, machine tool orders, seen by analysts as a leading indicator of corporate capital spending, are picking up. In May, orders were down over -52% YOY but have since recovered to a relatively marginal decline of just -6.0% in October. This is the slowest rate of contraction in nearly two years. Exports are also close to registering positive YOY growth, rebounding from -28.3% in May to down just -4.9% in September.

Comprising nearly 68% of the MSCI Emerging Markets Index, more effective tactics to combat the coronavirus and a general rise in goods trade have benefited China, Taiwan and South Korea, in our opinion. In addition to the region's technological prowess, BofA Global Research estimates that China's economy will grow by 8.5% next year. Possibly observing a spillover effect, after the United States, Japan and South Korea rank second and third in total trade with China.[7]

[2] A PMI indicates the overall health of a region's economy. It is derived from surveys of senior executives at private sector companies. A level above or below 50 signals growth or contraction, respectively.
[3] "Subsidized furlough programs keep a lid on eurozone unemployment"—*New York Times* (October 1, 2020).
[4] Liquid money supply, otherwise known as the M1 money supply, comprises readily accessible funds for spending.
[5] This is the fastest 4-month average rate on record from data published by the CPB World Trade Monitor as of September 2020.
[6] According to the World Bank as of 2019.
[7] Trade statistics are provided by Bloomberg as of 2019.

These favorable developments argue for an improving fundamental backdrop. With 2020 expected to mark a second consecutive year of shrinking annual earnings per share (EPS), next year the consensus expects EPS to grow over 20% across these markets (Exhibit 3). According to the Global Earnings Revision Ratio, published by BofA Global Research, November saw analysts' expectations soar, with earnings upgrades now outnumbering downgrades across international markets in the latest one-month reading, joining the U.S. (Exhibit 4).

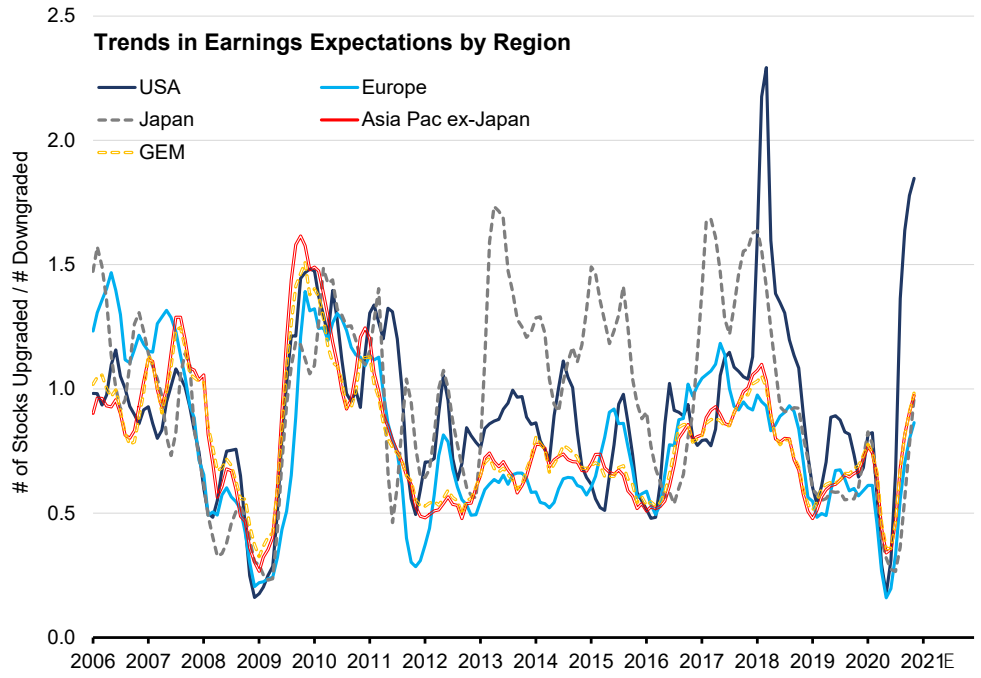
Exhibit 3: Strong Earnings Expectations For Next Year Have Stabilized After Dropping Due To The 2008 Global Recession.

Earnings-per-share growth (%)

	2018	2019	2020E	2021E
S&P 500	20.9	1.0	-14.7	21.6
MSCI Japan	6.4	-13.9	-29.4	29.0
MSCI Europe	-0.1	-2.1	-27.1	30.7
MSCI Emerging Markets	1.0	-14.1	-9.6	31.4

E=Estimate. Source: Factset. Data as of November 30, 2020. Forecasts are subject to change. **Past performance is no guarantee of future results.**

Exhibit 4: The U.S. Remained A Leader, But Rising Earnings Trends In International Markets Strengthen The Case For The Diversification Of Corporate Income Streams For Equity Investors.



E=Estimate. Sources: BofA Global Research; MSCI; The Institutional Brokers' Estimate System (IBES). Data as of November 2020. Three month Global Earnings Revision Ratios. **Past performance is no guarantee of future results.**

In the Eye of the Beholder

Encouragingly for the European Union, the incoming U.S. administration places greater value on alliances—viewing tariffs on America's transatlantic partners, among other nations, akin to disabling the coalition's economic clout—which could be used as leverage to sway issues of geopolitical importance.[8] Vowing to rejoin the Paris Climate Accord, a Biden presidency would see shared agendas with China in the areas of climate change, nonproliferation and global health security. These views would suggest more consistent

[8] "Why America Must Lead Again," by Joseph R. Biden, Jr.—Published on Foreign Affairs (March/April 2020).

U.S. foreign policy, which may improve the longer-term business outlook and sustain global capex.

In Japan, new Prime Minister Yoshihide Suga has promised to build on "Abenomics"—an economic policy platform whereby fiscal and monetary policies are coordinated. Meanwhile, reduced diplomatic turbulence with its allies would allow EU officials to focus their energy on further reforms, such as harmonizing capital markets and/or establishing a banking union, in our view. The Biden administration's disapproval of a Brexit deal that endangers peace between the Republic of Ireland and Northern Ireland may complicate the U.K.'s push for a trade accord with the U.S. This would compound the costs of damaging tariffs on U.K. exports to the EU, in the case of an adverse or no deal.[9] While this plight for the U.K. marginally bolsters our base case for a deal that largely avoids these costs, risks have risen, tempering our conviction on this call.

In the eye of the more cautious investor, near-term, inauspicious elements persist. A second major wave of the coronavirus has hit Europe, prompting an increase in social restrictions. Though generally less harsh than those implemented earlier this year, they are still dampening the region's economic recovery, according to certain high-frequency indicators. If they were to proliferate and/or become prolonged, deep economic scarring may result, even with furlough subsidies in place, according to the European Central Bank.[10] Concurrently, despite an agreement in principle on a €750 billion recovery fund to spur the bloc's economic recovery, haggling over rule-of-law conditionality governing the disbursement of the funds remains a hurdle for a decisive pan-European fiscal response.[11] Comprising nearly 18% of nominal global GDP, prolonged economic weakness in the EU may raise uncertainty, undermining the recent pickup in global trade and capex.

In addition, major EMs, such as Brazil and South Africa, contend with worsening public fiscal dynamics, which may hamstring greater stimulus to drive their economic recoveries. We also think that deficient healthcare systems may delay vaccine dissemination in some countries. Despite the potential for greater predictability in U.S. foreign policy, bipartisan hawkishness in Washington toward China is likely to persist, impeding more receptive relations between both superpowers, in our view. Nations such as Japan and Canada will likely need to delicately balance their foreign policy position to avoid alienating either titan, representing either a major trading or security partner.

Portfolio Strategy

A balance between secular Growth leaders and higher-quality cyclical Value stocks, underpinning our view of a global economic recovery over the coming quarters, is our preference. This stance underpins our more constructive view on international equities. According to MSCI, Financials and Industrials, sectors with larger characteristics of cyclical value, comprise only a 9.5% and 8.2% share of the USA index, respectively. In contrast, Industrials comprise 20.3% of Japan's index, while Financials make up 14.3% of Europe's. EMs may also benefit from a pickup in global trade. Consider adding exposure to these regions in long-term multi-asset portfolios, particularly if they are significantly underweight relative to U.S. equities.

[9] "Boris Johnson's Brexit has a Joe Biden problem"—*Washington Post* (November 12, 2020).
[10] "Swaths of European firms risk collapse despite subsidies, ECB warns"—*Financial Times* (November 10, 2020).
[11] "Poland Threatens to Veto EU Recovery Fund Over Rule-of-Law"—Bloomberg (November 12, 2020).

THOUGHT OF THE WEEK

Market and M&A Rebound the Fastest in Decades

Kathryn McDonald, CFA®, Vice President and Investment Strategist

Last month the Dow Jones Industrial Average joined other U.S. equity indexes in fully regaining losses from the coronavirus-induced bear market. November 16 marked 193 trading days since the Dow's peak in February, the fastest recovery from a bear market (price decline of -20%) since 1991. (The S&P 500 took just 126 trading days to recover, the fastest on record.) Price returns in November for the Dow of +12% were the highest in 33 years.[12]

Cyclical sectors led the strong market rally last month, with Energy shares up 27%, Financial shares up 17%, and Industrials up 16%. Vaccine optimism and reduced election uncertainty have improved both market and business sentiment, despite rising coronavirus cases and higher hospitalization rates. Indeed the National Federation of Independent Business (NFIB) Small Business Optimism Index has rebounded to near pre-crisis levels.

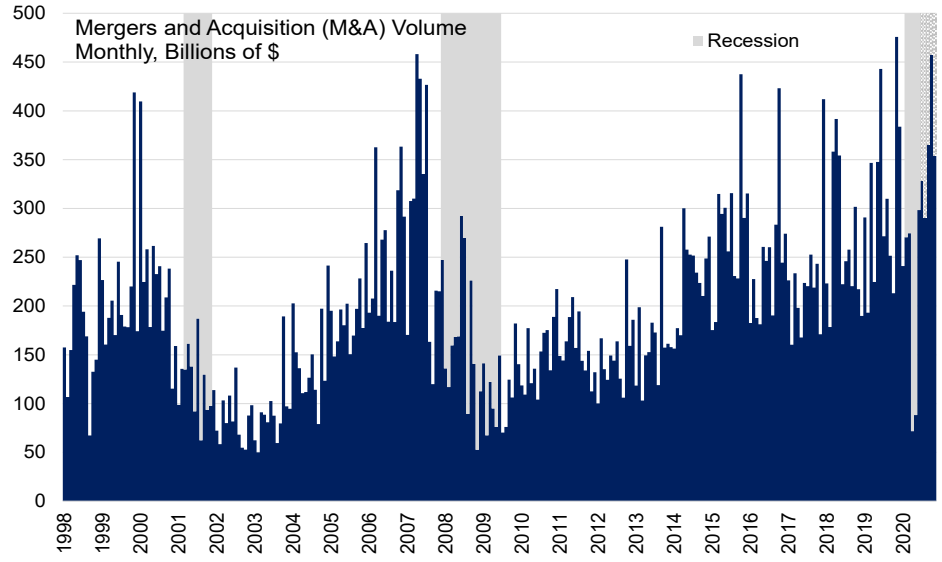
Overseas, a similar dynamic has unfolded, with Europe's Stoxx 600 Index and Japan's Nikkei Index leading global equity performance in the past month. These indexes tend to be more leveraged to global growth and to sectors more sensitive to the business cycle.

Improved business confidence is also behind one of the quickest M&A recoveries in decades. As shown in Exhibit 5, global M&A volumes declined during April and May but moved sharply higher during the second half of the year. In contrast, during past recessions, M&A activity has taken years to return to pre-crisis levels. Adding to the momentum, in the past week two large-cap acquisitions were announced, both of which rank in the top ten transactions by deal value year-to-date according to Bloomberg.

In terms of other firm uses of cash, S&P 500 dividends continued to decline in Q3 and were down 8% from their all-time peak in Q1 2020. Meanwhile, cumulative corporate buybacks tracked by BofA Global Research are down 57% YOY.

Improving firm profits due to a faster-than-expected economic recovery should continue to support equities into 2021, and we would consider any pullbacks as buying opportunities. An improvement in dividend trends could also provide support for the markets.

Exhibit 5: M&A Rebound-The Fastest In Decades



Source: Bloomberg. Data as of November 2020. Recession dates per National Bureau of Economic Research Dating Committee as of June 2020. End date of recession has not been formally announced.

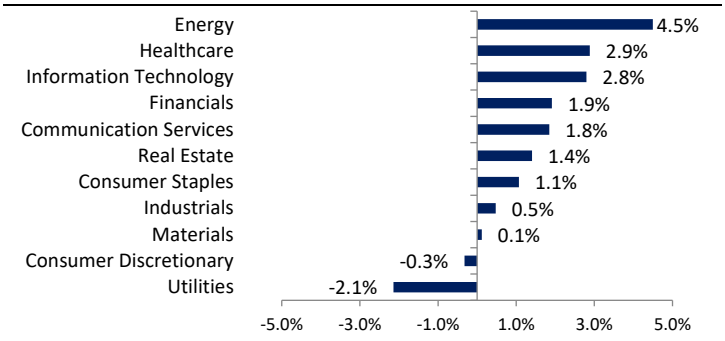
[12] MarketWatch, "Dow Just Clinched its Fastest Bear-Market Recovery in 30 years," November 16, 2020.

MARKETS IN REVIEW

Equities

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
DJIA	30,218.26	1.2	2.1	8.3
NASDAQ	12,464.23	2.1	2.2	40.1
S&P 500	3,699.12	1.7	2.2	16.5
S&P 400 Mid Cap	2,244.94	1.8	3.5	10.5
Russell 2000	1,892.45	2.0	4.0	14.8
MSCI World	2,639.66	1.5	2.2	13.7
MSCI EAFE	2,101.12	1.0	2.3	5.4
MSCI Emerging Markets	1,251.04	1.7	3.8	14.4

S&P 500 Sector Returns



Fixed Income†

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
Corporate & Government	1.15	-0.54	-0.64	8.13
Agencies	0.54	-0.22	-0.25	5.10
Municipals	1.17	0.13	0.06	4.64
U.S. Investment Grade Credit	1.21	-0.42	-0.49	6.84
International	1.85	-0.31	-0.52	8.84
High Yield	4.39	0.86	0.79	5.96

	Current	Prior Week End	Prior Month End	2019 Year End
90 Day Yield	0.07	0.07	0.07	1.54
2 Year Yield	0.15	0.15	0.15	1.57
10 Year Yield	0.97	0.84	0.84	1.92
30 Year Yield	1.73	1.57	1.57	2.39

Commodities & Currencies

	Total Return in USD (%)			
Commodities	Current	WTD	MTD	YTD
Bloomberg Commodity	158.61	-0.7	-0.1	-7.8
WTI Crude $/Barrel††	46.26	1.6	2.0	-24.2
Gold Spot $/Ounce††	1838.86	2.9	3.5	21.2
Currencies	**Current**	**Prior Week End**	**Prior Month End**	**2019 Year End**
EUR/USD	1.21	1.20	1.19	1.12
USD/JPY	104.17	104.09	104.31	108.61
USD/CNH	6.52	6.58	6.58	6.96

Sources: Bloomberg, Factset. Total Returns from the period of 11/30/2020 to 12/04/2020. †Bloomberg Barclays Indices. ††Spot price returns. All data as of the 12/04/2020 close.
Past performance is no guarantee of future results.

Asset Class Weightings (as of 12/1/2020)

	Under-Weight		Neutral		Over-Weight
Equities				●	
U.S. Large Caps				●	
U.S. Mid Caps			●		
U.S. Small Caps					
International Developed			●		
Emerging Markets	●				
Fixed Income		●			
U.S. Investment Grade Taxable		●			
International	●				
Global High Yield Taxable		●			
U.S. Investment Grade Tax Exempt			●		
U.S. High Yield Tax Exempt		●			
Alternative Investments*					
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 pre-qualified clients.
CIO asset class views are relative to the CIO Strategic Asset Allocation (SAA) of a multi-asset portfolio.

Economic & Market Forecasts (as of 12/04/2020)

	2019A	Q1 2020A	Q2 2020A	Q3 2020A	Q4 2020E	2020E	2021E
Real global GDP (% y/y annualized)	2.9	-	-	-	-	-3.7	5.4
Real U.S. GDP (% q/q annualized)	2.2	-5.0	-31.4	33.1	4.0	-3.5	4.5
CPI inflation (% y/y)	2.3	1.5	0.6	1.4	1.1	1.2	2.0
Core CPI inflation (% y/y)	2.3	2.1	1.2	1.7	1.5	1.7	1.7
Unemployment rate (%)	3.5	3.8	13.0	8.8	6.6	8.1	5.5
Fed funds rate, end period (%)	1.55	0.08	0.08	0.09	0.13	0.13	0.13
10-year Treasury, end period (%)	1.92	0.67	0.66	0.68	0.90	0.90	1.50
S&P 500 end period	3231	2585	3100	3363	3250	3250	3800
S&P earnings ($/share)	163	33	28	39	38	138	165
Euro/U.S. dollar, end period	1.12	1.10	1.12	1.17	1.18	1.18	1.25
U.S. dollar/Japanese yen, end period	109	108	108	105	103	103	100
Oil ($/barrel, avg. of period, WTI**)	57	46	29	40	44	40	47

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. S&P 500 represents the year-end target for 2020 and 2021. **West Texas Intermediate.
Sources: BofA Global Research; GWIM ISC as of December 4, 2020.

Index Definitions

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

S&P 500 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.

MSCI EM Index is an index used to measure equity market performance in global emerging markets. It is just one index created by MSCI, which has been constructing and maintaining them since the late 1960s.

The MOVE Index calculates the future volatility in U.S. Treasury yields implied by current prices of options on Treasuries of various maturities.

Chicago Board Options Exchange (CBOE) Volatility Index (VIX) is a real-time market index that represents the market's expectation of 30-day forward-looking volatility.

Purchasing Managers Index (PMI) is a measure of the prevailing direction of economic trends in manufacturing.

Citi Economic Surprise Indices are objective and quantitative measures of economic news. They are defined as weighted historical standard deviations of data surprises.

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

Important Disclosures

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.