

Capital Market Outlook

February 14, 2022

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

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Macro Strategy—*Wage Inflation Suggests Growing Downside Pressures On Margins:*

With Federal Reserve (Fed) policy still extremely accommodative, manufacturing production struggling to catch up with demand, inventory restocking far from complete, and an unusually large share of cash in consumer financial assets following two years of spending constraints, the economic outlook appears favorable this year. As a result, nominal gross domestic product (GDP) and corporate revenue growth rates are likely to remain at the top end of their historical ranges. However, in our view, profit margins are likely to come under downward pressure as the year progresses and especially in 2023, with a sharp deceleration of profits growth this year and a potentially significant contraction in 2023, mainly due to accelerating labor costs and Fed tightening.

Market View—*From Détente to Decoupling: Investing in China 50 Years after Nixon's Visit:*

Fifty years ago this month, Richard Nixon altered the course of modern history by visiting China. The trip was game-changing for China and the world; we highlight China's role in the global economy and investment opportunities for investors.

Thought of the Week—*Small-cap Snapshot:*

Small-caps have recently underperformed amid the confluence of growing risk-off sentiment, ongoing coronavirus concerns, and pressures from rising costs. While certain headwinds may remain, steeply discounted valuations and strong forecasts for earnings growth suggest reason for optimism. In our view, investors may want to consider incorporating Small-caps that offer quality, Value, and dividend-growth, when appropriate.

The Latest—*Ukraine/Russia Market Update:*

Market uncertainty has increased again on rising Russia-Ukraine tensions, with European Equities, in particular, coming under pressure in recent days. Past experience from Russia's 2014 annexation of Crimea suggests that markets closest to the epicenter of the conflict are likely to see the most significant effect from any further escalation. Russian Equity and currency markets were the hardest hit eight years ago, and potential Financial sector, energy or technology sanctions pose a major risk in the current environment. Western European markets are also exposed through Russian dependence in trade and energy, meaning that any prospective shock to local supply would only exacerbate the existing headwinds from high energy prices, particularly for large gas-importing countries such as Germany and Italy.

More broadly, we believe the initial hit to global risk assets from a Russian invasion could potentially be more significant than following the annexation of Crimea. The geostrategic stakes are much higher this time and the global macro backdrop is more vulnerable to a "stagflationary" shock. As we look deeper into the year, however, we would expect the more fundamental market drivers from inflation and interest rate expectations, the path of the economic expansion and corporate earnings to be the most important determinants of market direction. Despite the current geopolitical uncertainties, we therefore maintain our tactical overweight in global Equities relative to Fixed Income.

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MACRO STRATEGY ►

Chief Investment Office
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MARKET VIEW ►

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THOUGHT OF THE WEEK ►

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MARKETS IN REVIEW ►

Data as of 2/14/2022,
and subject to change

Portfolio Considerations

We would use this correction in Equities as a rebalancing opportunity for long-term investors. We reaffirm our positive view on Equities relative to Fixed Income with a preference for U.S. Equities relative to International. Diversification across asset classes and within Equities increases in importance as yields rise. For qualified investors, we currently see favorable opportunities for select Hedge Fund strategies and we believe Private Credit strategies, should benefit from the concerns of higher interest rates, as many of these investments are more credit- than interest rate-sensitive.

Wage Inflation Suggests Growing Downside Pressures On Margins

Chief Investment Office, Macro Strategy Team

As discussed in recent reports, the 2022 U.S. GDP growth fundamentals remain strong.

Not surprisingly, the Conference Board U.S. Index of Leading Indicators, which has a long record of predicting economic growth six months ahead, was strong through December 2021, consistent with robust economic growth in the first half of 2022. Surveys of corporate sales and trucking company revenues, which tend to correlate well with GDP growth, have also remained elevated. In addition, while Institute for Supply Management (ISM) purchasing managers' surveys have rolled over from their highest levels in decades, they have remained strong through January, consistent with a rapidly expanding economy, high profits, and still relatively narrow credit spreads.

That said, there are reasons to believe that the inflationary boom of 2021—characterized by 40-year-high real growth and inflation—may start losing momentum despite the young age of the current expansion:

- As measured by the year-to-year change in inflation, the U.S. economy has experienced the largest inflation shock since the 1970s. This has eroded workers' purchasing power despite the fastest wage increases in 20 years. This shock in itself is estimated to offset as much as three percentage points of the growth coming from rising wages, inventory restocking, business equipment investment, housing construction and the wealth effect, leaving real GDP growth estimates around 3% to 4% for 2022 (compared to 5.7% in 2021).
- Due to supply-chain disruptions, surging global energy prices, rising interest rates in various countries around the world, and almost a full year of unfavorable year-over-year changes in the trade-weighted dollar index, the U.S. ISM manufacturing index has declined rapidly over the past three months and is likely to remain on a downtrend, which suggests negative earnings-growth momentum ahead.
- While retail inventories remain low, manufacturers' inventories have been increasing at a fast pace over the past three months, according to the ISM manufacturing survey, diminishing the growth boost to GDP from inventory restocking in coming quarters.
- Although housing affordability remains above average as a result of extremely accommodative Fed interest rate policy, the 8% drop in home sales over the past year, according to the National Association of Realtors and the Census Bureau, due to insufficient homes for sale is dampening the economic and profits growth outlook. For example, given the high multiplier effects of home sales on economic activity and past correlations, the ISM non-manufacturing survey appears likely to surprise to the downside ahead, following the drop in the University of Michigan home-buying sentiment index to a 40-year low in January. Based on the typical lags involved, this negative signal is baked in the cake through late 2022 to early 2023. What's more, a lack of labor and available lots continues to constrain home building and inventories of homes for sale, and the Fed interest rate-hiking campaign to fight inflation is likely to further restrain homebuying sentiment and activity.
- Fueled by unprecedented Fed policy accommodation, business pricing power has been unusually strong, allowing profit margins to remain very elevated even as costs have taken off. However, operational leverage has been exhausted, manufacturing capacity utilization rates are high relative to those of the past 14 years, and energy prices are rising fast. What's more, labor demand and supply have never been more out of balance. Insufficient labor is restraining output growth and causing labor costs to accelerate the most in 30 to 40 years, while the Fed is planning to start slowing the economy in order to temper the price-wage spiral engulfing the economy.

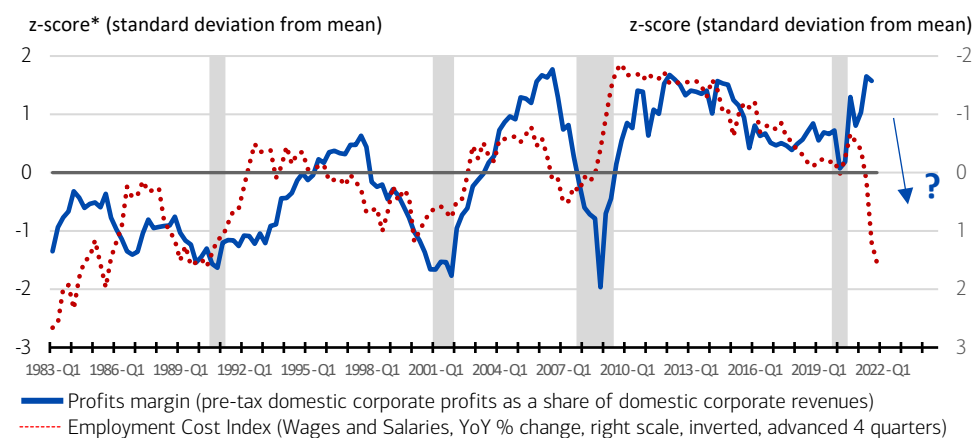
Investment Implications

We believe 2022 corporate profits are likely to increase much less than in 2021, with rising risks of a potentially big profits decline in 2023, due to accelerating wage growth and Fed tightening to restrain inflation. As the economic and profits expansion matures faster than in past cycles because of unusual pandemic-related circumstances (labor shortages, high inflation), as well as energy-supply constraints, we expect tightening financial conditions, rising volatility and risk aversion, accompanied by downward pressure on price-to-earnings (P/E) ratios as we approach 2023.

All this suggests that profit margins are likely to come under downward pressure as 2022 progresses, and especially in 2023 as the labor market tightens more and labor costs continue to accelerate into the 5% to 6% range, in our view. Indeed, as shown in Exhibit 1, there's a strong negative correlation between profit margins and year-over-year (YoY) changes in the Employment Cost Index for the private-sector, which leads by four quarters. This closely watched labor cost measure accelerated sharply over the past two years, reaching 5% at the end of 2021, the fastest YoY gain since 1983, which points to potentially large declines in margins ahead.

Basically, labor costs lag behind inflation in the early stage of the price spiral, when companies increase prices faster than workers get raises and margins rise, as we saw in 2021. Eventually, however, workers catch up, while business revenues growth starts to fall behind as the economy slows due to monetary-policy tightening, causing margins to drop, as seems likely into 2023, when stagflation probably sets in. Indeed, given growing labor-market tightness, our research indicates little wage growth moderation in coming quarters. As high labor-cost inflation combines with slowing growth in nominal magnitudes, such as GDP and corporate revenues, we expect earnings growth to decelerate significantly as margins contract, with a mid-single-digit profits gain likely this year followed by a potentially large decline in profits in 2023.

Exhibit 1: Labor Costs Point To Sharp Decline In Margins.



*z-score is the number of standard deviations by which the value of a raw score is above or below the mean value of what is being observed or measured. Gray shaded area represents recessions. Sources: Bureau of Economic Analysis; Bureau of Economic Analytics/Haver Analytics. Chief Investment Office. Data as of February 10, 2022.

The evolution of the labor force participation rate (LFPR) will greatly influence the length of the current expansion. No doubt, the waning pandemic, end of pandemic-related government support, rising cost of living, and rapid wage growth with increased work flexibility will, in our opinion, entice more people into the labor force. Participation rates for most age cohorts have some room to advance to get back to prepandemic highs. Still, as we'll discuss in more detail in our next report, because of the aging of the population (rising shares of older cohorts with low participation rates), the weighted average LFPR is unlikely to increase much from its upwardly revised 62.2% January level, suggesting that the pool of available workers will be exhausted by the end of next year, and increasingly attractive work incentives may be needed to boost participation rates beyond prepandemic levels across age cohorts.

In sum, excess demand combined with labor shortages, energy-supply limitations, and a government-policy-related surge in inflation create risks of a much shorter expansion compared to past business cycles. The combination of elevated P/E ratio multiples, rising interest rates, and significant profits headwinds ahead, suggests that the economy may enter the late-cycle phase of the business cycle, with uncertainty, volatility and risk aversion increasing as 2023 approaches. Without glaring excesses on the business investment or residential housing construction front, a profits recession would be the most obvious channel for the next recession to end the greatest inflation since the 1970s.

From Détente to Decoupling: Investing in China 50 Years after Nixon’s Visit

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

Lauren J. Sanfilippo, Director and Senior Investment Strategy Analyst

Fifty years ago this month, President Nixon made a historic trip to China that would change the world. The visit in 1972 jumpstarted the normalization of relations between the U.S. and China, and nudged the isolated and impoverished nation to “open” to the West. Indeed, by the end of the decade, the U.S. and China had formally normalized relations, China had entered the United Nations, and, under the leadership of Deng Xiaoping, economic reforms, including greater contacts with the West, had become the norm.

The country Nixon landed in was vastly poor, economically backward, centrally controlled and largely cut off from the rest of the world. Beijing’s ties with Wall Street were non-existent. The following decades, however, would be game-changing for not only China but also the rest of the world, the U.S. included.

Between 1979 and 2018, real annual GDP growth in China averaged a stunning 9.5%, a pace described by the World Bank as “the fastest sustained expansion by a major economy in history.” Since liberalizing foreign trade and investment in the late 1970s, China’s GDP has roughly doubled every eight years in real terms, lifting some 800 million people (nearly 2.5 times the population of the U.S.) out of poverty according to the Congressional Research Service. Real growth, not unexpectedly, has slowed over the past few years, although based on purchasing power parity (PPP) rates, China’s economy is now the largest in the world, an estimated 18% greater than America’s in 2021 according to the International Monetary Fund. (Measured in nominal U.S. dollars, however, China’s GDP in 2021 was \$16.8 trillion, or 74% of the U.S. economy).

The numbers speak for themselves

As one of the largest economies in the world today, there’s hardly a macro indicator or sector/industry not touched by or under the influence of China. Here’s a sampling of the stunning global reach of the Middle Kingdom:

<ul style="list-style-type: none"> • China is a manufacturing superpower, contributing 28.7% of global manufacturing in 2019.¹ • As the world’s top exporter, China accounted for 14.7% of all the world’s goods in 2020.¹ • China is the top export partner for 37 countries.² • China displaced the U.S. as the European Union’s top goods trading partner in 2020.² • China consumes the most copper, steel, aluminum, concrete, electricity and water globally. • China was the 2nd largest recipient of foreign direct investments at \$149 billion in 2020, behind U.S. (\$156 billion).¹ • Some 372,532 Chinese students studied abroad in 2019/2020, the largest global cohort.³ • Pre-pandemic (2019) Chinese tourists spent \$260 billion, exceeding all other nationalities.⁴ 	<ul style="list-style-type: none"> • China’s share of the global luxury goods market was 32% in 2020, according to Euromonitor. • 32% of global auto market; its share of the global electric vehicle market was 41% in 2020.⁵ • S&P 500 companies earn 7.3% of revenues in China, the largest non-U.S. revenue base.⁵ • China makes up 30% of MSCI EM and is the 4th largest weighting in MSCI ACWI (3.5%).⁵ • China is home to 2 of the top 10 most valuable Global Brands according a BrandZ report. • China: 1 billion internet users; 81 million smartphones shipped in Q3 2021 according to IDC. • China’s spending on Research & Development grew 10.3% to \$378 billion in 2020.⁵ • China emits 30.7% of global emissions—the world’s largest emitter since 2006 (BP).
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Napoleon’s Prescient Call

All of the above more than validates Napoleon Bonaparte’s alleged aphorism that “let China sleep, for when she wakes, she will shake the world.” The French emperor was thinking in military terms but in terms of global economics and finance, he nailed it.

¹ United Nations as of May 2021.

² International Monetary Fund as of January 2021.

³ The Open Doors Report on International Educational Exchange for academic year 2019/2020.

⁴ NYTimes, “New variant means China’s big spenders won’t be traveling any time soon,” December 2021.

⁵ FactSet/Bloomberg data as of January 2022.

Investment Implications

Plenty of risk and reward surround investing in China. Presently, commodities, global digitalization/technical leaders, and multinationals that cater to China’s bulging middle class are considered the best investment plays on China.

Since Nixon's visit a half century ago, China has awakened and shaken—for better and for worse—the world. Some upside of China's rise: think more sales and revenues for U.S. multinationals in one of the world's fastest-growing economies; recycled Chinese savings in the U.S., helping to cover America's perennial savings deficit; and more global trade and investment, promoting globalization and growth in many different parts of the world.

Some of the downside: the loss of American jobs/impaired U.S. household incomes due to lower-cost China; unfair trade and investment regulations that have harmed the interests of the U.S.; and, more recently, the growing technological and military might of China that has significantly reshaped and recast the bilateral relationship between the world's two largest economies.

While China's decades-long rise has been relatively benign and beneficial to U.S. investors, the tables have turned. A new geostrategic landscape has emerged over the past few years; U.S.-Sino ties are less sweet, more sour. While bilateral ties remain thick, the risk of decoupling is real.

China: Both promise and peril for investors

When it comes to investing in China, it's best to remember Deng Xiaoping's famous dictate: "cross the river by feeling the stones." In other words, proceed incrementally, be adaptive to changing circumstances, and be amendable to all available options. Move step-by-step and expect the unexpected.

As such, within our asset allocation framework, we are currently neutral on the Emerging Markets (EM), in part due to China's outsized weighting in the main EM index and the risks to Equities associated with U.S.-Sino trade tensions, moderating real growth prospects in China, and the recent rash of regulatory restrictions from Beijing.

All of this makes for a slippery investment backdrop for investors looking to gain exposure to China. "Crossing the river while feeling the stones" means deploying various investment strategies, ranging from direct exposure via Chinese American Depositary Receipts to deploying active Chinese fund managers that allow greater access to Small- and Mid-cap firms in China. The former is risky considering the current regulatory environment, while the latter is more alpha-generating but also highly volatile.

Indirect China investment plays pivot on commodities for one, with China a major producer and consumer of various commodities, ranging from rare earth minerals to aluminum.

Another way to consider gaining exposure is via Large-cap U.S. and European multinationals with significant exposure to China's emerging middle class—think luxury brands, food and beverage leaders, high-end automobile manufacturers, travel and leisure, among various sectors.

Finally, technology, innovation and digitalization are also key avenues by which to invest in China. As we have noted in the past, the post-pandemic global economy is increasingly shifting toward greater automation and digitization in activities such as media, retail, health care and manufacturing, with the world's two largest economies—the U.S. and China—at the forefront.

For investors, this should mean long-term growth opportunities across information technology software and services, chipmakers, semiconductor capital equipment and hardware applications such as networking equipment, cloud servers, electric vehicles and industrial robots. The growing geopolitical rivalry should also help boost defense sector spending on advanced military hardware such as hypersonic missiles and anti-satellite weapons, as well as on enhanced cyber capability. We believe Equities most closely tied to these future trends should remain longer-term market leaders as we move further into the new decade.

In the end, the 50th anniversary of Nixon's historic touchdown in Beijing serves as a timely reminder of China's evolved, and now outsized, influence on the global capital markets.

THOUGHT OF THE WEEK

Small-cap Snapshot

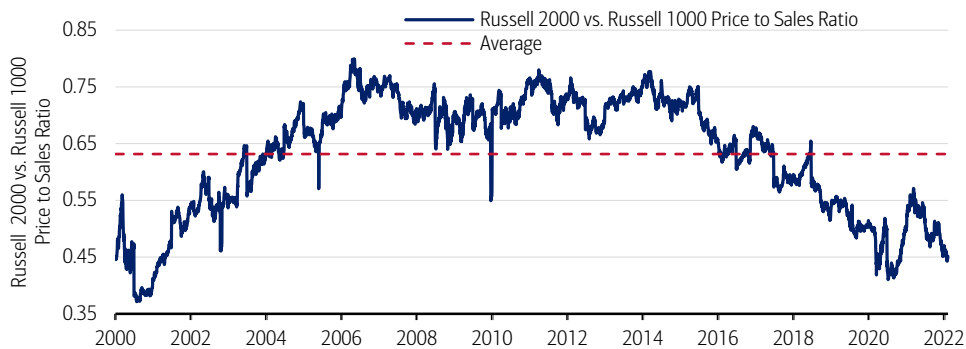
Emily Avioli, Assistant Vice President and Investment Strategist

Despite an economic backdrop that has historically been favorable for Small-caps, the Russell 2000 Index is currently lagging the Russell 1000 Index by roughly 4% year-to-date.⁶ Moreover, Small-caps briefly fell into bear market territory as the index fell 20% from its recent high in November.

We see a number of factors for the recent disappointing performance in Small-caps. Investor's flight to quality following the Fed's hawkish pivot has led high-beta, high-volatility, and non-profitable stocks to underperform. This includes certain Small-caps, as about 44% of the Russell 2000 index comprises of non-earners.⁷ The rise of the Omicron variant has likely added to the downside, as Small-caps tend to be labor intensive and skewed toward services. Persistent inflation may be pressuring margins for smaller companies that are unable to pass through rising costs, with 22% of small business owners citing inflation and 11% citing costs of labor as their top business problem in January.⁸

It's important to keep in mind that Small-cap corrections are not uncommon—on average, 10% pullbacks occur 1.3x times a year, while 20% pullbacks occur 0.4x a year, according to BofA Global Research. Still, a variety of indicators suggests reason for optimism. Small-cap earnings are expected to grow by 30% this year, while Large-cap earnings are expected to grow by a more moderate 9% pace.⁹ Valuations are close to 20-year lows (Exhibit 2), with Small-caps trading at a roughly 30% relative discount to Large-caps. Unlike past Fed tightening cycles, Small-caps are cheap compared to Large-caps heading into the first hike, which could suggest that further multiple compression may be limited.¹⁰

Exhibit 2: Relative Valuations Are Attractive For Small-caps.



Source: Bloomberg. Data as of February 8, 2022.

While certain risks remain, it's our view that the economic backdrop should remain supportive for Small-caps as coronavirus concerns begin to abate, U.S. GDP growth solidly expands, and the services economy continues to recover. Steeply discounted valuations should continue to make Small-caps appear attractive, and strong forecasts for earnings growth remain as a tailwind. From a portfolio positioning perspective, investors may want to avoid riskier unprofitable companies and instead consider Small-caps that offer quality, Value and dividend-growth.

⁶ Bloomberg, February 8, 2022.

⁷ Strategas, February 3, 2022.

⁸ NFIB Research Center Small Business Economic Survey, January 2022

⁹ Factset, February 9, 2022.

¹⁰ BofA Global Research, February 7, 2022.

Portfolio Considerations

We continue to suggest a slight overweight to Small-caps as part of a well-balanced portfolio. Within Small-caps, investors should consider focusing on those that offer a balance of quality, Value, and dividend growth, when appropriate.

From a sector perspective, cyclicals may continue to be favorable—Energy and Financials were among the top-performing sectors in the Russell 2000 index in 2021 and have remained as leaders in 2022 to date, according to Bloomberg.

Equities

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
DJIA	34,738.06	-1.0	-1.1	-4.3
NASDAQ	13,791.15	-2.2	-3.1	-11.8
S&P 500	4,418.64	-1.8	-2.1	-7.2
S&P 400 Mid Cap	2,647.46	0.9	0.5	-6.7
Russell 2000	2,030.15	1.4	0.1	-9.5
MSCI World	3,039.18	-0.7	-0.6	-5.9
MSCI EAFE	2,279.33	1.4	2.6	-2.4
MSCI Emerging Markets	1,240.51	1.6	2.7	0.8

Fixed Income[†]

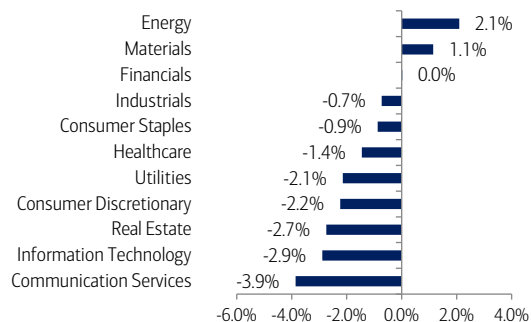
	Total Return in USD (%)			
	Current	WTD	MTD	YTD
Corporate & Government	2.29	-0.35	-1.34	-3.74
Agencies	1.81	-0.35	-0.93	-2.15
Municipals	1.85	-0.90	-0.44	-3.16
U.S. Investment Grade Credit	2.36	-0.41	-1.32	-3.45
International	3.01	-0.39	-1.56	-4.87
High Yield	5.76	-0.96	-1.33	-4.03
90 Day Yield	0.34	0.22	0.18	0.03
2 Year Yield	1.50	1.31	1.18	0.73
10 Year Yield	1.94	1.91	1.78	1.51
30 Year Yield	2.24	2.21	2.11	1.90

Commodities & Currencies

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
Commodities	234.76	0.3	1.9	10.8
Bloomberg Commodity	93.10	0.9	5.6	23.8
WTI Crude \$/Barrel ^{††}	1858.76	2.8	3.4	1.6
Gold Spot \$/Ounce ^{††}				

	Total Return in USD (%)			
	Current	Prior Week End	Prior Month End	2020 Year End
Currencies	1.14	1.14	1.12	1.14
EUR/USD	115.42	115.26	115.11	115.08
USD/JPY	6.37	6.36	6.37	6.36
USD/CNH				

S&P Sector Returns



Sources: Bloomberg, Factset. Total Returns from the period of 2/7/2022 to 2/11/2022. [†]Bloomberg Barclays Indices. ^{††}Spot price returns. All data as of the 2/11/2022 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.**

Economic Forecasts (as of 2/11/2022)

	2021A	Q1 2022E	Q2 2022E	Q3 2022E	Q4 2022E	2022E
Real global GDP (% y/y annualized)	6.0*	-	-	-	-	4.3
Real U.S. GDP (% q/q annualized)	5.7	1.0	5.0	3.0	2.0	3.6
CPI inflation (% y/y)	4.7	7.7	6.8	5.9	4.7	6.3
Core CPI inflation (% y/y)	3.6	6.3	5.5	5.0	4.3	5.3
Unemployment rate (%)	5.4	3.8	3.5	3.3	3.2	3.5
Fed funds rate, end period (%)	0.07	0.38	0.88	1.38	1.88	-

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 February 11, 2022. BofA Global Research is research produced by BofA Securities, Inc. ("BofAS") and/or one or more of its affiliates. BofAS is a registered broker-dealer, Member SIPC, and wholly owned subsidiary of Bank of America Corporation.

Asset Class Weightings (as of 2/1/2022)

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			

CIO Equity Sector Views

Sector	CIO View		
	Underweight	Neutral	Overweight
Energy	●	●	●
Financials	●	●	●
Industrials	●	●	●
Materials	●	●	●
Information Technology	●	●	●
Consumer Discretionary	●	●	●
Real Estate	●	●	●
Healthcare	●	●	●
Communication Services	●	●	●
Consumer Staples	●	●	●
Utilities	●	●	●

*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. Source: Chief Investment Office as of February 1, 2022. All sector and asset allocation 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.

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.

Conference Board U.S. Index of Leading Indicators is an American economic leading indicator intended to forecast future economic activity.

Trade-weighted dollar index is an index created by the Fed to measure the value of the USD, based on its competitiveness versus trading partners.

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

University of Michigan home-buying sentiment index is a monthly survey of how consumers feel about the economy, personal finances, business conditions, and buying conditions.

Employment Cost Index is a quarterly economic series detailing the changes in the costs of labor for businesses in the United States economy.

Emerging Markets (EM) Index is a selection of stocks that is designed to track the financial performance of key companies in fast-growing nations.

Russell 2000 Index is a small-cap stock market index that makes up the smallest 2,000 stocks in the Russell 3000 Index.

Russell 1000 Index is a stock market index that tracks the highest-ranking 1,000 stocks in the Russell 3000 Index, which represent about 93% of the total market capitalization of that index.

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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.

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.

Dividend payments are not guaranteed, and are paid only when declared by an issuer's board of directors. The amount of a dividend payment, if any, can vary over time.

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. 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. Investments in real estate securities can be subject to fluctuations in the value of the underlying properties, the effect of economic conditions on real estate values, changes in interest rates, and risk related to renting properties, such as rental defaults.

Alternative Investments are speculative and involve a high degree of risk.

Alternative investments are intended for qualified investors only. Alternative Investments such as derivatives, hedge funds, private equity funds, and funds of funds can result in higher return potential but also higher loss potential. Changes in economic conditions or other circumstances may adversely affect your investments. Before you invest in alternative investments, you should consider your overall financial situation, how much money you have to invest, your need for liquidity and your tolerance for risk.

Nonfinancial assets, such as closely-held businesses, real estate, fine art, oil, gas and mineral properties, and timber, farm and ranch land, are complex in nature and involve risks including total loss of value. Special risk considerations include natural events (for example, earthquakes or fires), complex tax considerations, and lack of liquidity. Nonfinancial assets are not in the best interest of all investors. Always consult with your independent attorney, tax advisor, investment manager, and insurance agent for final recommendations and before changing or implementing any financial, tax, or estate planning strategy.

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