

CHIEF INVESTMENT OFFICE

Capital Market Outlook

February 7, 2022

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

IN THIS ISSUE

Macro Strategy—*Risky Business (Cycle)*: We believe the probability of a recession this year is low and remain overweight Equities for now, but business cycle risk is rising for a number of reasons. Inflation is one of the biggest risks, as it could drive the Federal Reserve (Fed) to induce a recession. Nonfinancial profit margins are already under pressure from rising labor and interest costs and tend to peak a few years ahead of recessions. Housing and business investment sectors are currently sources of economic strength but could become overinvested and vulnerable to shocks in the years ahead.

Over the course of the year, investors may look to get ahead of forward-looking asset classes, like Equities, that are pricing in this risk.

Market View—*Our Most Frequently Asked Questions*: There has been no shortage of uncertainty for markets and investors since the start of the year. From record inflation prints and adjusting to a Fed tightening regime to concerns over a growth slowdown in China; contentious geopolitical issues to vicious index-level pullbacks, corrections and bear markets not seen in years.

In an attempt to provide some clarity around these topics, we address some of the most frequently asked questions we're receiving.

Thought of the Week—*Soaring EV Sales Put Metal/Mineral Suppliers In The Driver's Seat*: Electric car sales are poised to massively scale up in the new few years, notably in China, Europe and the U.S., portending sustained demand for a host of minerals and metals. Not surprisingly is the demand for numerous metals, helping to make the global mining/energy sector among the best performing of the past few years.

The push to clean energy helps support an elongated up cycle for energy and mining.

MACRO STRATEGY ►

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MARKET VIEW ►

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THOUGHT OF THE WEEK ►

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MARKETS IN REVIEW ►

Data as of 2/7/2022,
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.

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Risky Business (Cycle)

Jonathan Kozy, Managing Director and Senior Macro Strategy Analyst

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The 2022 growth outlook for the U.S. economy remains positive. The Leading Economic Index points to strong growth in the next six months, for example. Consumers are well positioned to spend and there is pent up demand for autos and housing, with home builder confidence near an all-time high. Businesses are investing to boost productivity given a very tight labor market. Credit conditions are supportive. With the probability of a recession low, historical analysis shows pullbacks in the equity market of greater than 10% like we just experienced suggests a good buying opportunity.¹

Looking further ahead, business cycle risk is set to pick up substantially for a number of reasons. Monetary policy is tightening as inflation continues to surprise to the upside. Nonfinancial margins are under pressure from a tight labor market and rising labor costs. And housing and business investment sectors, sources of fundamental strength this year as the economy overheats, could be sources of fundamental vulnerability next year and thereafter.

The Fed “Didn’t Get Dressed Up for Nothing”

One of the biggest risks to the length of the expansion is if the Fed is forced to induce a recession to arrest persistent inflation. For much of the decade since the Fed has been formally targeting 2% inflation, its credibility was at risk from being unable to generate inflation over 2%. Now the reverse is occurring. The market is unsure how the Fed will get inflation back to its 2% target without causing a recession, as most inflation metrics are running well over 5% year-over-year (YoY), and there are very few signs that it is poised to roll over.

Fed hawkishness is new, but inflation is not. Inflation growth has been trending higher since 2010, and wage growth, which reinforces inflation, is also on a multiyear upward track. And recent data are not letting up. Manufacturing survey data on prices paid and prices received, for example, are signaling strong inflation growth. Thus there are both short- and long-term reasons for the Fed to consider being more aggressive.

A volatile geopolitical backdrop, and its effect on energy prices, is adding to inflationary pressure and the risk of a “stagflationary” shock. This is a volatile mix that could force the Fed to strangle inflation and simultaneously the expansion. For now, BofA Global Research expects seven Fed interest rate hikes this year, not enough to bring real interest rates even close to positive, but a down payment on addressing the upside risk to inflation.

Watch for frothiness in housing and business investment

Fundamentally, economists often look for signs of overinvestment in investment sectors to gauge the potential for a recession (business cycle risk). Housing and business investment are quickly heading in that direction. Building permits, a leading indicator, are at levels last seen during the housing bubble of the 2000s and well above the long-term average. After years of underinvestment, a catchup phase is warranted, but at this pace of building, the state of housing could go move into overinvestment within a few years.

On the business investment side, businesses are frantically investing in plants and equipment to help meet demand. Oftentimes, new capacity hits the market about when aggregate demand falters. For example, one could imagine a scenario where new semiconductor production (new plants are in the works all over the world) comes on line at the same time demand falters, leading to overcapacity.

One way to gauge this would be to look at the ratio of inventory to sales, a common gauge of business conditions for firms and industries alike that makes up the index of lagging indicators. This indicator has likely bottomed. During expansionary periods, rapid sales growth leaves production unable to keep up with demand, causing the ratio to fall. Inventories tend to increase as the economy slows and businesses catch up, causing the ratio to rise. We believe we are in this phase now. We have already seen the late-recession peak, and analysis conducted points to the idea that we may have also seen the post-

Portfolio Considerations

Given the backdrop of higher inflation, our Fixed Income positioning is in anticipation of rising interest rates, which calls for shortening duration relative to benchmarks and reducing interest rate sensitivity through sector allocation. Our Equity positioning is gradually transitioning from a reflationary stance to an inflationary stance. As the current market cycle matures, expect volatility and rotations throughout the year. Rebalancing, diversification and consideration of Alternative Investments for qualified investors.

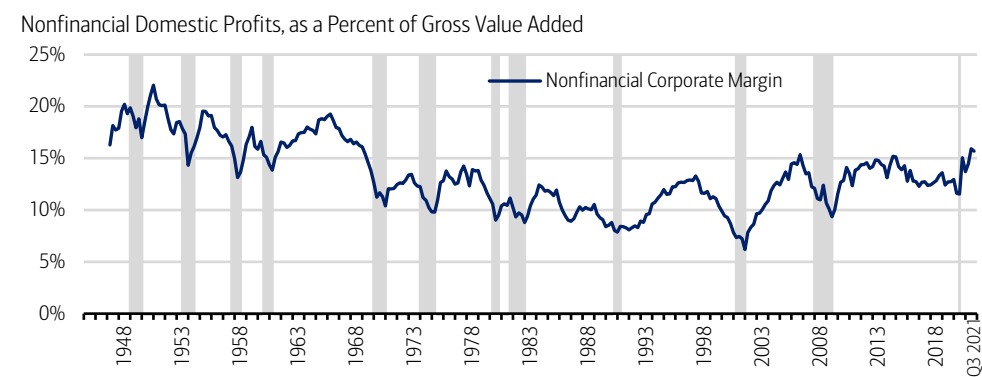
¹ Source: Applied Global Macro. “U.S. Equities: Is this a Buying Opportunity.” January 31, 2022.

recession trough. If this is the case, historical analysis of the behavior of the ratio during business cycle expansions would suggest that we are firmly in the back half of the cycle, and business cycle risk is picking up.

Profit margins: Peaked or peaking?

Profit margins are a reliable business cycle timing indicator. In the post-World War II period, nonfinancial profit margins tend to peak about two and half years before recessions and may be peaking now. The second quarter of 2021 was the most recent peak level, using gross domestic product (GDP) profits, and margins contracted some in Q3. Q4 data will arrive in a few weeks. While the top-line revenue growth benefits from faster nominal growth in this environment, a very tight labor market is putting upward pressure on employment costs. If Q2 2021 peak holds, the historical average suggests that the economy will be vulnerable to a recession in later 2023 or early 2024. Looking at a different indicator of margins, with over half of S&P 500 companies reported, average operating margins appear to have narrowed slightly in Q4. It is also likely monetary policy will be substantially tighter at the end of next year.

Exhibit 1: On Average, Peak Margins Signal A Recession 2.5 Years In Advance.



Gray shaded area represents recessions. Profits data represent domestic nonfinancial corporate profits with adjustments for inventory valuation and capital consumption. Sources: Bureau of Economic Analysis; Haver Analytics. Data as of Q3 2021.

Tight labor market driving employment costs for firms

Labor cost growth is a key input to margins, and the speed of labor market tightening will be a key indicator to watch. In addition to the unemployment rate, which is dropping rapidly, the average duration of unemployment is a lagging indicator that has provided reliable information over the last five decades related to business cycle timing and could be a key indicator to watch. At the very least, it is another indicator to gauge the speed of the expansion.

The duration of unemployment tends to be at its lowest just under two years post-recession. From that point, there is an average of around four years until another recession. This is an average and will not tell the exact story every time, but the balance of data suggest this labor market recovery is moving very fast relative to history. The most recent recession ended April 2020, and unemployment saw a notably low duration June 2021: beating the average post-recession timing by seven months. However, we have seen other instances where the duration of unemployment quickly rebounds post-recession. In the case of an earlier post-recession recovery, time until the start of the next recession decreases. Based on analysis of both peer and population trends, the average duration of unemployment points to risk of a recession in the second half of 2024.

“Slow and steady” no more

The slow and steady pace of macroeconomic growth, inflation and monetary policy seen in previous cycles is probably long gone. All variables seem to be moving faster and with more volatility in this cycle, perhaps suggesting the expansion could also be shorter.

The equity market and other risk assets like high-yield corporate bonds are leading indicators. If the probability of a recession in the next few years goes up as some indicators suggest, risk assets will start pricing this in well in advance, perhaps by year-end. It wouldn't surprise us to see investors starting to pare back risk asset allocations (like Equities and high-yield corporates) as we move deeper into the year, if not sooner.

Our Most Frequently Asked Questions

Marci A. McGregor, Managing Director and Investment Solutions Executive

Lauren J. Sanfilippo, Director and Senior Investment Strategy Analyst

There has been no shortage of uncertainty for markets and investors one month into 2022—from record inflation prints and adjusting to a Fed tightening regime to concerns over a growth slowdown in China; contentious geopolitical issues to vicious index-level pullbacks, corrections and bear markets not seen in years. Pessimism is in—as seen by the sharp increase in the percentage of investors who are now bearish on short-term market expectations, reaching 52.9%—the highest number of bears since 2013.² In an attempt to provide some clarity on these topics, we address some of the most frequently asked questions we're receiving.

What are our key risks to the outlook this year?

The risk that eclipses all other risks is overly aggressive policy around the Fed's triple threat of tapering asset purchases, raising the fed funds rate and shrinking its balance sheet. Four to five Fed rate hikes are currently priced into markets (about one per quarter through the end of this year), taking the fed funds rate to around 1.25% by year-end. The market will likely price in additional hikes as the year progresses with inflation currently running well above the Fed's targets. Although a delicate act—a Fed cadence too fast and/or too aggressive in taming inflation risks a slowdown and could set up a more bearish backdrop for most risk assets.

A second risk on our short list is the associated volatility and uncertainty of November's midterm elections, with the prospect of a Republican sweep (in the House and Senate). Midterm election years are the most volatile of the four-year presidential cycle especially in the lead up to November until a bullish period begins right around election time.³

A third risk worth monitoring are geopolitical tensions like Russia's threat of invading Ukraine. The market response: Russian Equities, which represent only a 3.2% sliver of the MSCI Emerging Markets (EM) Index, have fallen into a bear market. Next most disruptive risk would be to the energy markets, raising the risk of recession for Europe (More on Russia/Ukraine risks below).

How could corporate earnings remain resilient this year given a number of headwinds such as rising wages, attendant margin pressures, and tougher YoY comparisons?

So far a better-than-expected earnings season for Q4 2021 has unfolded for the S&P 500, while the magnitude of beats has moderated from recent quarters. Companies have absorbed higher prices from wage increases or record freight costs, as examples, or passed on rising costs to end-consumers. The effect of inflation and rising rates has been specific to sectors, industries and companies, leading to higher dispersion in earnings. This augurs for an emphasis on higher-quality, high free cash flow names with demonstrated pricing power. In aggregate, margins may have peaked around mid-year 2021 at a little over 13%, although the fully reported Q4 earnings season will be the guide. Central to our view is that while peak profit growth is behind us, peak profits are not. Corporate profits remain on an uptrend, with 2022 U.S. return expectations including dividends likely to track profit growth. Strong earnings were an important driver of 2021's market performance, and 2022 should be no different, in our view.

How could the inflation outlook and the rising interest rate environment effect portfolio positioning?

Still intact has been our relative call of maintaining an Equity overweight relative to Fixed Income. Otherwise, rotations will likely prove to be a common feature of the market this year. This includes the rotation toward cyclical/value names. Generally, we believe sectors and industries with pricing power (Energy, Materials, Industrials—infrastructure related—and Financials), economic leverage and strong profits growth mixed with attractive valuations should dominate the year. Included in this environment and as seen

Investment Implications

Given the inflation outlook and anticipated rising interest rate environment, we believe the rotation from long-duration to short-duration assets should continue, as Value should generally outperform Growth. Chiefly, we view volatility and pullbacks as potential opportunities to add higher-quality areas. We maintain our U.S. bias given cross currents such as China's slowdown growth, a hawkish Fed pivot, uncertainty about geopolitical tensions and a stronger U.S. dollar, leading to our strategic weighting to both International and Emerging Markets Equities.

² The American Association of Individual Investors (AAII), January 26, 2022.

³ BofA Global Research, 2022 Equity Technical Year Ahead. December 6, 2021.

year-to-date, Energy (+23.8% total return YTD) should get a boost from rising energy prices, and Financials (+2.2% total return YTD) benefit from a steeper yield curve.

We find value down the capitalization spectrum in S&P Small-caps, which are holding at their cheapest level in 20 years and have more exposure to cyclical areas that do well when the broader economy and inflation are strengthening. Higher-volatility times and pullbacks could be leveraged as potential buying opportunities to add to our preferred areas.

How should we think about high growth-oriented thematic investments given our preference for cyclical and Value-based areas?

The global pandemic acted as an accelerant for many themes and trends that already took hold at the start of the decade. While the innovation that carried us through the pandemic is still important, especially for long-term investors, given our view that the market rotation toward cyclicals and Value leadership should continue, a balanced approach to thematic exposure with some cyclical and Value may make sense. Consider exposure to themes like cybersecurity, shifting supply chains—where the factory of the future is more automated and closer to home, and investment in greener/cleaner infrastructure—which are mineral and material intensive—within a balanced portfolio.

Given the massive run up in U.S. Equities over the past three years, could it be time to venture overseas and consider increasing non-U.S. allocations in portfolios?

After several years of U.S. Equity outperformance, EM and International Equities have started 2022 as relative outperformers. However, there are a number of crosscurrents facing global markets today that lead us to maintain our preference for U.S. Equities over the rest of the world, and remain neutral both EM and International Developed Equities.

As an attractive feature, International Developed Equities add cyclical and value exposure. The earnings revision ratio for Europe in particular is seeing accelerated upgrades and stands at the highest in the world. While the global ratio remains above 1—more analyst upgrades than downgrades—EM and Asia Pac-Ex Japan are noticeable laggards with both ratios declining in January and with downgrades outnumbering upgrades. In terms of valuation, international markets are less expensive than their U.S. counterparts.

However, the effect of the ongoing pandemic, a Fed that has made a hawkish pivot, a stronger U.S. Dollar, and high oil prices all may pose significant headwinds for international markets, especially EM. Within EM there is also concern over China growth moderating and what the effect of “zero-covid” policies may be. Investors will also look to the pace and commitment to policy easing by the People’s Bank of China as a potential positive. For now, while these crosscurrents and a backdrop of heightened geopolitical tensions play out, we maintain our strategic weighting to both International and EM Equities.

How could geopolitical risks (aka Ukraine/Russia tensions, China) effect U.S. capital markets and factor into portfolio construction?

There is no shortage of geopolitical hotspots in the world today—tensions are rising and are often unforecastable risks. Historically, selloffs related to geopolitical events tend to be short-lived, with pullbacks averaging 6% to 7% and, on average, recovering in the subsequent three months, according to BofA Global Research. For example, in 2014, when Russia annexed Crimea, the S&P 500 declined 4% peak to trough. 2022 is also a year of heightened policy risk, with countries comprising more than 50% of global GDP having elections or leadership changes this year. While it is best to avoid selling based on headline risk, a well-diversified portfolio remains the best way to position for the unknowns about geopolitics. That said, some beneficiaries of the current red hot geopolitical landscape may include U.S. markets relative to the rest of the world, and the U.S. dollar as an expression of risk-aversion, defensive stocks as tensions are likely to remain elevated, and the North American energy sector, as the European Union may be pressured to find more reliable sources of natural gas. Our view is that an escalation of tensions between Russia and Ukraine is not currently priced into the market, so this risk bears watching.

Soaring EV Sales Put Metal/Mineral Suppliers In The Driver’s Seat

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

If the future entails more electric vehicles (EV) (as we believe), then the future also suggests sustained and rising demand for key metals and minerals like copper, lithium, nickel, manganese, cobalt and graphite. As Exhibit 2A underscores, the mineral demands of an EV are radically different from and greater than the conventional car. According to the International Energy Agency, a typical electric vehicle requires six times the mineral inputs of a conventional car. Not surprisingly then, as demand for EV has soared over the past few years, so has demand for numerous metals, helping to make the global mining/energy sector among the best performing of the past few years.

EV manufacturers have had a relatively good experience throughout the pandemic, with global sales of electric cars hitting 6.6 million in 2021, triple the level of 2019 (2.2 million units). China leads the world in electric car sales, with sales of 3.4 million in 2021 greater than the total sales of the rest of the world. That said, however, the embrace of EVs is going mainstream. EV sales in Europe spiked nearly 70% in 2021, to 2.3 million units, owing to state subsidies and new carbon emission standards. In Germany, more than one in three cars sold in late 2021 were electric.⁴ Sales of EVs in the U.S. more than doubled in 2021 (albeit from a low base); presently, EVs account for only 4.5% of overall car market in the U.S., although that figure is expected to rise as more models are introduced and prices trend lower.⁵

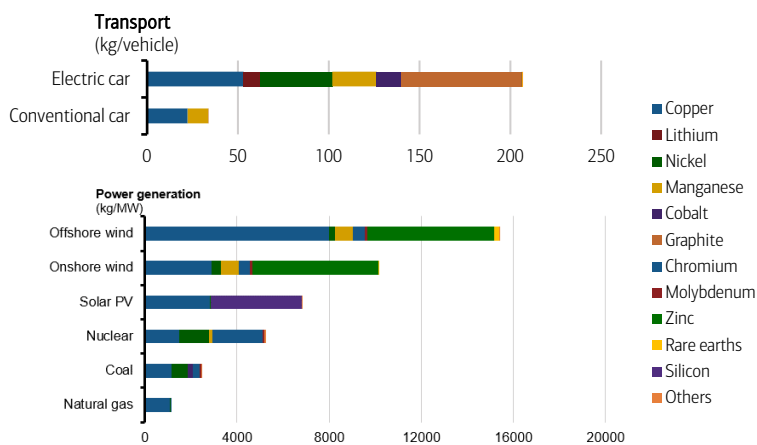
On a global basis, note from Exhibit 2B that EV sales account for just 9% of global sales, portending tremendous upside for future sales of EV, as well as continued demand/pressure on many of the world’s key resources, ranging from copper to zinc. In the end, soaring EV sales will likely keep metals/minerals in the driver’s seat well into this decade.

Investment Implications

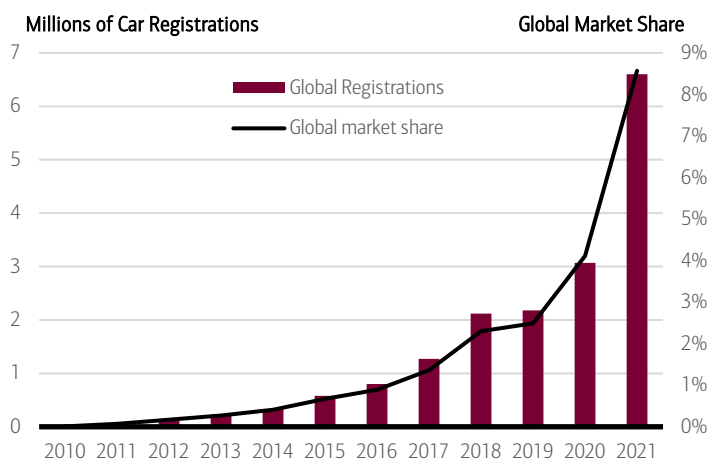
We expect the bull market in Commodities (metals/minerals) to carry on, supported in large part by the global shift to clean energy, notably electric vehicles. This secular shift is one support of our overweight to the Energy sector.

Exhibit 2: More EV Sales, More Mineral Inputs.

A) Minerals Used In Selected Clean Energy Technologies.



B) Global Sales and Market Share of Electric Vehicles



Notes: kg = kilogramme; MW = megawatt. Steel and aluminum not included, Source: International Energy Agency. Data as of January 2022.

⁴ See “Electric cars fend off supply challenges to more than double global sales,” IEA, January 2022.

⁵ Ibid.

Equities

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
DJIA	35,089.74	1.1	-0.1	-3.3
NASDAQ	14,098.01	2.4	-1.0	-9.8
S&P 500	4,500.53	1.6	-0.3	-5.5
S&P 400 Mid Cap	2,623.18	1.8	-0.4	-7.6
Russell 2000	2,002.36	1.7	-1.3	-10.8
MSCI World	3,061.46	1.9	0.1	-5.2
MSCI EAFE	2,247.73	2.1	1.1	-3.7
MSCI Emerging Markets	1,221.10	2.5	1.1	-0.8

Fixed Income[†]

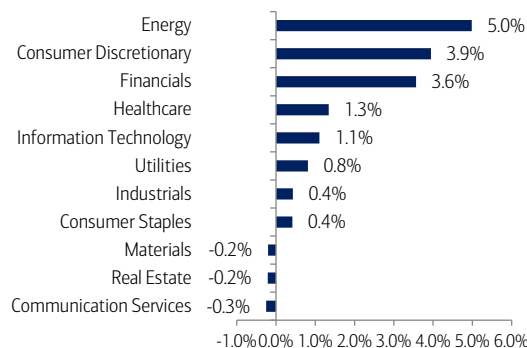
	Total Return in USD (%)			
	Current	WTD	MTD	YTD
Corporate & Government	2.20	-1.04	-0.99	-3.40
Agencies	1.68	-0.58	-0.58	-1.81
Municipals	1.66	0.43	0.47	-2.28
U.S. Investment Grade Credit	2.26	-0.95	-0.92	-3.05
International	2.93	-1.20	-1.18	-4.50
High Yield	5.41	-0.30	-0.37	-3.10
90 Day Yield	0.22	0.18	0.18	0.03
2 Year Yield	1.31	1.16	1.18	0.73
10 Year Yield	1.91	1.77	1.78	1.51
30 Year Yield	2.21	2.07	2.11	1.90

Commodities & Currencies

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
Commodities				
Bloomberg Commodity	234.06	2.3	1.6	10.5
WTI Crude \$/Barrel ^{††}	92.31	6.3	4.7	22.7
Gold Spot \$/Ounce ^{††}	1808.28	0.9	0.6	-1.1

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

S&P Sector Returns



Sources: Bloomberg, Factset. Total Returns from the period of 1/31/2022 to 2/4/2022. [†]Bloomberg Barclays Indices. ^{††}Spot price returns. All data as of the 2/4/2022 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 2/4/2022)

	2021A	Q1 2022E	Q2 2022E	Q3 2022E	Q4 2022E	2022E
Real global GDP (% y/y annualized)	5.9*	-	-	-	-	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	7.2	6.1	5.1	3.8	5.5
Core CPI inflation (% y/y)	3.6	6.0	5.1	4.6	4.0	4.9
Unemployment rate (%)	5.4	3.8	3.4	3.1	3.0	3.3
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 4, 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.

Leading Economic Index is an American economic leading indicator intended to forecast future economic activity.

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

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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.

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