

CHIEF INVESTMENT OFFICE

## Capital Market Outlook

March 14, 2022

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

## IN THIS ISSUE

**Macro Strategy—*No Respite For The Weary*.** After two years of a pandemic, the world now has to deal with an escalating conflict between Ukraine and Russia. Even assuming cooler heads prevail, and a diplomatic solution unfolds, the conflict has the potential to sow the seeds of a global recession.

The Russian economy is small, yet its exports account for disproportionately large shares of critically important commodities. The conflict has created serious downside risks to world growth and upside risks to inflation. From disruption to business, financial, and global trade activities to energy supplies, food scarcity, and heightened risk of cyber-attacks, a protracted conflict between the Western world and Russia could only be negative for economic growth prospects. While the yield curve remains consistent with continued U.S. expansion, the world economy is unlikely to come out of the conflict unscathed.

**Market View—*The Changing Forces Driving Asset Allocation*:** Prior to 2020, the economy was in the midst of a slow expansion era characterized by low inflation, weaker business spending, accommodative monetary policy and anemic growth. The coronavirus ushered in a pandemic disruption era that saw historic increases in money supply, fiscal support, inflation and nominal growth.

*The Great New Dawn* era will likely consist of tighter financial conditions, persistent inflation, lower returns from traditional assets, higher volatility, and geopolitical uncertainty. Throughout these shifts in the economic backdrop, the key forces driving asset allocation have continuously evolved.

**Thought of the Week—*What Happens in Europe Doesn't Stay in Europe: An Earnings Hit to the U.S.?*** We are keeping a close eye on macro trends in Europe because the harmful combination of weak European growth, and stronger dollar versus the euro could trim U.S. earnings in the next few quarters.

Even before tensions erupted in the heart of the continent, the pace of growth was cooling across the pond, notably in Europe's largest economy: Germany. Unbeknownst to investors, U.S. ties in Europe run deep.

## MACRO STRATEGY ►

**Irene L. Peters, CFA®**

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## MARKET VIEW ►

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## THOUGHT OF THE WEEK ►

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## MARKETS IN REVIEW ►

**Data as of 3/14/2022,  
and subject to change****Portfolio Considerations**

We continue to prefer high quality across the board, areas of solid dividend growth, and low earnings variability. We reaffirm our positive view on Equities relative to Fixed Income with a preference for U.S. Equities relative to International. Maintain diversification across and within asset classes as volatility remains elevated. 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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## No Respite For The Weary

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

Geopolitical events continue to overshadow otherwise favorable U.S. economic data. The Ukraine-Russia conflict has strained food and energy supplies, global growth and financial market conditions. Indeed, despite its small economy, Russia is a major exporter of critically important commodities, including energy, grains, palladium, steel, aluminum, nickel, rare gases, and fertilizer. Ukraine is a major grain exporter and exports a disproportionate volume of neon gas used for semiconductor production, an industry already exceptionally strained during the pandemic.

Given its role in the world economy, the economic sanctions imposed on Russia have increased risks to growth and inflation. Europe is particularly at risk because of its disproportionately large dependence on Russian energy and an already tight global energy market. Its economy was already constrained by natural gas shortages. As a result, Europe is reportedly scouring for Australian and South African coal as it seeks to extend the life of coal-based power generation plants, while the German government is pleading with consumers to conserve energy given the circumstances, another negative for growth.

While the spike in European gas prices this winter has been sobering, the situation would have been worse if U.S. LNG exports to Europe had not nearly doubled between November and January, according to the Energy Information Administration (EIA). The surge in exports drove U.S. natural gas inventories down and prices higher, though still about 10 times lower than in Europe. The EIA expects strong LNG demand and expanding export capacity to boost U.S. exports by another 16% this year.

Oil prices have increasingly become burdensome for consumers around the world. If sustained above \$120 per barrel, oil will exacerbate an already elevated inflation environment, sharply boosting the share of U.S. consumer spending on energy to the highest since 1985. Combined with surging prices for other commodities, including agricultural commodities, the economic situation is starting to become quite problematic both here and abroad. The outcome will clearly depend on how long the crisis lasts, although the rapid escalation of the conflict—with an increasingly large number of European countries, Canada and the U.S. sanctioning Russia—suggests long-lasting negative effects. The sudden withdrawal of numerous major Western international oil companies from Russian investments and projects (at the cost of tens of billions in asset impairments) meaningfully worsens the long-term outlook for world energy supply given already low global inventories, diminished surplus production capacity, insufficient investment due to aggressive green-energy policies and objectives, and the Organization of the Petroleum Exporting Countries (OPEC) difficulty meeting its own production targets. It would take time to find new sources of supply even in the absence of heightened geopolitical risks, uncertainty and financial market volatility. Sweeping financial sector sanctions against Russia also have the potential for a significant squeeze on global liquidity, potentially weakening funding conditions for high-yield borrowers around the world and emerging market countries reliant on global capital inflows.

Severely curtailing Russian energy industry's access to the capital and technology that helped boost its production to 10% of global supply before the war (the third-largest in the world after the U.S. and Saudi Arabia) puts its 11 million barrels per day (mb/d) oil output at risk of not being sustained. Planned LNG export facilities are also at risk of delays or of never materializing. With banks also refusing to finance business with Russian companies and with refiners around the world shunning Russian oil, the country's exports have already fallen sharply despite deep price discounts. All in all, in an already tight oil, gas and coal market, there are few alternatives to Russian energy supply cuts, especially in the short to near terms. The long-term outlook is also becoming increasingly dire given the reluctance of fossil fuel producers to invest in new projects given strong green energy transition pressures. That said, Bloomberg news reports that China is already considering stepping in to buy stakes in Russian energy and commodity companies. Also, Western financial sanctions have created an opportunity for China to expand its nascent cross-border international payments system (CIPS), as Russia needs an alternative to the Western SWIFT payments system. Western sanctions could be basically speeding up the deglobalization

### Investment Implications

Sweeping Western sanctions against Russia have serious implications for global growth, inflation, world food availability and poverty. Already stretched during the pandemic, global commodity markets have little scope to offset losses stemming from the Russia economic sanctions in the short to near terms. Thus, inflation will likely worsen and global growth weaken, in our view. The effects on individual countries will depend on how long the crisis lasts and whether they are net commodity importers or not. The conflict suggests a ramp-up in defense spending and outperformance by inflation beneficiaries, while risk assets are likely to face headwinds from the rising probability of global recession. A growing probability of negative credit events also clouds the investment outlook.

trend already underway and the creation of a separate sphere of influence in competition with the West.

The U.S. is in a much better position than Europe to weather the energy crisis, though not in a position to help the world fully offset sanctioned Russian supply. U.S. natural gas prices are a tenth of those in Europe, and oil production is increasing. According to the EIA, U.S. crude oil production increased to 11.6 mb/d in recent weeks, the most since April 2020, with production generally expected to average about 12.3 mb/d in 2022 and 12.9 mb/d in 2023 (above the 12.3 mb/d prepandemic annual record in 2019), as surging prices are incentivizing small independent producers to expand drilling. Large publicly traded producers, on the other hand, are sticking to their newfound capital discipline. According to a February 2022 *Wall Street Journal* article, the three-largest shale companies have recently reported that they would continue to limit production growth this year despite decade-high profits in order to return more cash to shareholders after years of poor returns. As noted above, many producers are hesitant to invest in light of strict greenhouse gas emission targets widely embraced by governments and international organizations around the world over the past year.

In addition, industry costs are reportedly rising by double digits due to labor shortages, tight supply chain, and other factors. For example, while the rig count has increased in response to rising oil prices over the past year, the easiest-to-access fields are increasingly exhausted. Higher and rising prices are needed to justify ramping up production outside of “sweet spots” (high-productivity, easy-to-explore fields). Also, most of the best rigs and fracking fleets are reportedly already under lease, with limited equipment availability and marginal rigs not fit to meet increasingly long lateral drilling. According to industry sources, strong competition for the most sophisticated drilling gear is seen hindering U.S. oil supply expansion this year. Thus, part of the oil price surge reflects higher inflation and less productive/more difficult fields.

With U.S. oil production unlikely to expand much faster than had been planned before the conflict in Ukraine, according to industry reports, and not expected to offset much of the impaired Russian supply, the International Energy Agency (IEA) has announced the release of 2 mb/d for 30 days from the Strategic Petroleum Reserve to help alleviate an immediate supply crunch. In addition, the U.S. is turning to Iran and Venezuela for help with boosting oil supply crunch, with potentially more to come. Expectations for an Iran deal on nuclear activities have helped restrain somewhat the war oil price premium, although an estimated 1.5 mb/d in extra exports from Iran would still not be enough to offset a big drop in Russian oil production and exports. Also, according to industry reports, it would take about six to nine months after sanctions are lifted to bring back Iranian production and exports to pre-sanctions levels, so at least a short-term energy crunch is unavoidable, in our view.

Surging energy prices have significantly added to the cost of producing and distributing metals. They also affect food prices, as rising fertilizer and transportation costs are directly passed through to consumers. Both Russia and Ukraine are major wheat, sunflower oil and corn exporters. Combined, they provide about 25% of global wheat exports, for example. The effect of the conflict on food prices is aggravated by already low fertilizer supplies and soaring prices. Natural gas shortages have constrained fertilizer production in Europe, while Hurricane Ida and electricity cuts in China also contributed to low supplies and surging fertilizer prices over the past year. Boycotts of Russian fertilizer exports combined with the suspension of fertilizer exports until April by the Russian Trade ministry are exacerbating the shortages. Brazil is highly dependent on imported fertilizer, so fertilizer shortages are raising doubts it will be able to offset much of the anticipated drop in Ukrainian and Russian grain exports. Insufficient fertilizer sharply reduces crop yields, while the surge in fertilizer prices increases crop prices. Either way, global food availability is at risk. Russia is also a leading producer of soybeans. With already tight inventories, rising corn and soybean prices suggest higher costs for animal feed and further price increases for meat. Recent news of tight grain supply and the Chinese winter wheat crop potentially being the worst in history point to a potentially serious global food supply crisis brewing.

To the extent the countries that abstained from endorsing the U.N. resolution condemning the Russian invasion (India, China and other countries, accounting for the majority of the world population) replace the void left by Western sanctions on Russia, their effect will be diluted and the conflict prolonged. Still, a sharp break into separate of economic spheres of influence and a new trade war are not encouraging for economic growth prospects.

## The Changing Forces Driving Asset Allocation

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

*Emily Avioli, Assistant Vice President and Investment Strategist*

The global economy and the attendant financial markets are in a new and unique phase, with very different characteristics from the 2016–19 and the 2020–21 time frames. Amid this continuously shifting economic backdrop, we examine how the fundamental elements of asset allocation have evolved (Exhibit 1).

### Exhibit 1: Key Forces Driving Asset Allocation By Era.

	The Slow Expansion Era (2016-2019)	The Pandemic Disruption Era (2020-2021)	The Great New Dawn Era (2022 – beyond)
<b>Real Growth</b>	Remained anemic near 2%	Historically high near 4–6%	Should glide lower to trend levels
<b>Inflation</b>	Generally below Federal Reserve's (Fed) target	Rose to over 7% for consumer price index	Persistently high
<b>Money supply</b>	Normal 3–7% expansion	Exploded higher to 13–25%	Likely slows substantially
<b>Fed funds rate</b>	Gradual increase to 2.50%	At zero bound	Multiple hikes expected
<b>Fed balance sheet</b>	Increased to ~\$4.5 trillion	Increased to ~\$9 trillion	Quantitative tightening
<b>Fiscal stimulus</b>	Tax cuts to improve U.S. corporate competitiveness	Stimulus to support households, state & local governments, small businesses	Fiscal drag given less likelihood of new spending
<b>Company fundamentals</b>	U.S. earnings outpaced International; shareholder returns favored over capital expenditures (capex) companies maintained leverage over labor	Profit margins rose; large companies fared better from pandemic disruptions; technology began to reshape business models; capex rose	Cyclical earnings revival; dispersion based on pricing power and economic moat; accelerating creative disruption; labor gains leverage

Sources: Chief Investment Office. Data as of 3/9/2022.

#### The Slow Expansion Era (2016–2019)

In this era, the U.S. economy was in the back half of a 128-month-long economic expansion, the longest in history dating back to 1854.<sup>1</sup> While the duration of this expansion was above average, the pace was unusually slow, with real annual gross domestic product (GDP) in the U.S. expanding by 2.3%<sup>2</sup> on average in the years leading up to 2020. Inflation consistently fell short of 2%, business spending was sluggish, and the global economic outlook was clouded with uncertainty amid increasing trade tensions between the U.S. and China. Monetary and fiscal policies remained supportive, and sentiment continued to steadily improve. The labor market finally recovered from the 2008 crisis, with unemployment hovering near 4% for the last 24 months of the expansion.<sup>3</sup>

During this period, U.S. Equities averaged a 14% annual return, outpacing the rest of the world by about 3%.<sup>4</sup> Earnings grew by an average of 5% annually, and valuations gradually moved higher, with the S&P 500 Index ending the period with a forward price-to-earnings (P/E) multiple of 18x. Given the lower profile for interest rates, investors exhibited a strong preference for long-duration Growth stocks, which outperformed Value stocks by about 30% from 2016 to 2019, according to Bloomberg. Bonds also benefited in this environment, as frequent bouts of deflationary headwinds made Fixed Income appear more attractive, with the ICE BofA U.S. Broad Market Index returning 16% cumulatively over the period.

*Primary drivers of asset allocation:* Low inflation, supportive monetary and fiscal policy, low but positive real rates, U.S. growth shines but trade/technology war creates uncertainty.

#### The Pandemic Disruption Era (2020–2021)

The slow expansion era came to a grinding halt in March 2020, when the coronavirus ushered in the sharpest global recession in history. In the U.S., the ensuing recovery marked a paradigm shift

<sup>1</sup> National Bureau of Economic Research, June 8, 2020.

<sup>2</sup> Federal Reserve Economic Data, annual average growth rate for real GDP from 2016 to 2019.

<sup>3</sup> Center on Budget and Policy Priorities, March 8, 2022.

<sup>4</sup> Bloomberg, Annual equivalent rate total returns for the S&P 500 Index and the MSCI World Index from December 31, 2015 to December 31, 2019.

#### Portfolio Positioning

In our view, 2022 marks the beginning of a new era in which the primary drivers of asset allocation will shift to tighter financial conditions, persistent inflation, lower returns from traditional assets, higher volatility, and geopolitical uncertainty. From an investment perspective, we suggest exposure to areas offering high-quality sustainable dividend growth and pricing power, as part of a balanced portfolio.

in monetary policy as the Fed let the economy “run hot” in an effort to spur labor market growth, ending the disinflationary trend of the previous cycle. The Fed’s balance sheet increased to roughly 38% of GDP as record levels of fiscal stimulus were deployed, leaving consumers flush with cash and advancing personal savings to levels not seen since World War II. Business spending recovered as companies responded to the scarcity of labor by investing in productivity-boosting digitization, with the technology-led capex cycle topping \$1 trillion by the end of 2021.<sup>5</sup> Amid the confluence of these events, growth came roaring back, with real U.S. GDP expanding by 5.7% in 2021 and inflation hitting the highest levels since the 1980s.

Equities handily outperformed Fixed Income after the economy started to reopen and supercharged nominal GDP growth of 7 to 10% powered corporate earnings to 25% above prepandemic levels. A 40% growth in money supply pushed up the valuation for the S&P 500 Index into the 20x–22x range, the highest levels since 2000. A rotation to cyclical and Value-oriented sectors started to gather steam toward the end of this period, driven by the long-ignored Energy and Financials sectors, which returned 54% and 35% in 2021, respectively.<sup>6</sup>

*Primary drivers of asset allocation:* Rising inflation levels adding to nominal growth, historic money supply growth, low and negative real rates, higher commodity prices, generally low market volatility post March-2020 selloff.

### **The Great New Dawn Era (2022 and beyond)**

In our view, 2022 marks the beginning of a new era involving some hangover from the pandemic excesses, a more normal pace of economic growth, geopolitical uncertainty and massive innovation and technological advances. Fiscal spending of \$3.6 trillion since the start of the pandemic will turn into a fiscal drag, while central banks in developed economies tighten policy by raising rates and shrinking their balance sheets. Inflation will remain persistently high given commodity shortages and accelerating wage growth, in our view. The pace of economic growth will likely moderate, but activity should remain supported by increasing capital investment, productivity growth, consumer pent-up demand for services, and continued progress toward a full labor market recovery.

Volatility should persist given the wide range of outcomes for the conflict in Eastern Europe, inflation, rates and monetary policy—the Chicago Board Options Exchange’s (CBOE) Volatility Index (VIX) recently spiked above 35 and is likely to remain elevated, in our view. In the near term, U.S. Equities will be in a grind-it-out phase, but remain attractive on a risk-adjusted basis compared to international stocks amid heightened geopolitical risk. For the S&P 500, the ongoing correction has fully erased the valuation expansion during the 2020–21 era, creating a more attractive entry point for long-term investors. Profit growth should persist, with earnings for the S&P 500 expected to grow in the mid- to high-single digit range in 2022, though there may be more dispersion at the individual company level based on pricing power. Areas such as Value, high-quality, dividend-growth, exposure to underlying real assets like Commodities are likely to outperform, in our opinion.

*Primary drivers of asset allocation:* Tighter financial conditions, persistent inflation, lower returns from traditional assets, higher volatility, geopolitical uncertainty.

### **Conclusion**

A different set of macro drivers will likely keep average levels of market volatility higher in 2022 and 2023 than the years preceding the pandemic. We would not suggest making sentiment-driven shifts in portfolio allocations given recent geopolitical events but monitoring changes in the profit cycle and the central banks’ reaction function to inflation data. We believe investors will need to be “nimble” along with the Fed as the endgame for inflation remains uncertain. Rebalancing opportunities may come up with long-term investors looking to increase exposure to High-Quality Equities at lower prices every now and then, income-seeking investors looking at better yields in the bond market, and savers starting to see more reasonable returns from their cash holdings.

<sup>5</sup> U.S. Bureau of Economic Analysis, December 31, 2021.

<sup>6</sup> Bloomberg, Total return for the S&P 500 Energy Sector Global Industry Classification Standard (GICS) Level 1 Index and the S&P 500 Financials Sector GICS Level 1 Index from December 31, 2020 to December 31, 2021.

## What Happens in Europe Doesn't Stay in Europe: An Earnings Hit to the U.S.?

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

Europe has emerged as the weak link in the global economy, staggered by the conflict in Ukraine and soaring energy costs. Even before tensions erupted in the heart of the continent, the pace of growth was cooling across the pond, notably in Europe's largest economy: Germany.<sup>7</sup> The upshot: Weaker-than-expected real growth in Europe, coupled with a stronger U.S. dollar versus the euro could spell some downside S&P earnings pressures in the months ahead.

As the accompanying exhibits highlight, Europe matters to the bottom line of Corporate America, with the region accounting for over 60% of foreign affiliate income, a proxy for global earnings. Asia ranks a distant second (21%), followed by North American Free Trade Agreement (NAFTA) partners Canada and Mexico (10%), according to the Bureau of Economic Analysis. Why Europe? Because the region is large, wealthy and relatively integrated. It also possesses a large pool of skilled labor, a business environment in sync with America's, and is a world leader in innovation and knowledge-based activities. What's not to like about Europe?

Europe's importance to U.S. multinationals is disguised by traditional trade figures. Note from Exhibit 2 that U.S. exports to Europe (goods and services) have flat-lined for the past decade; however, also note that what the U.S. exports to Europe (\$622 billion in 2020) is just a fraction of what U.S. affiliates sell directly in-country (\$3.1 trillion in 2020, the last year of available data). Trade figures—the standard benchmark of Wall Street to gauge global integration—don't even begin to capture the depth and integration of Corporate America in Europe, and hence the risk to U.S. earnings. The U.S. sectors most leveraged to Europe: Technology, Pharmaceutical, Food and Beverages, Energy, and Capital Goods.

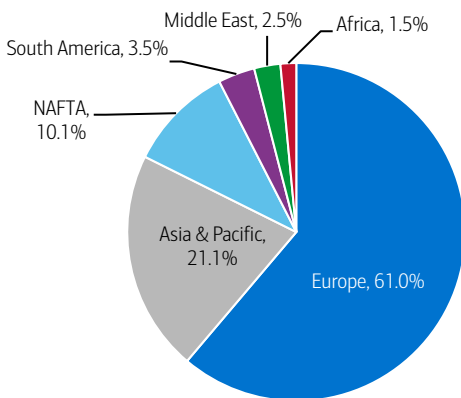
### Portfolio Considerations

Weaker-than-expected growth in Europe could emerge as a downside earnings surprise for U.S. firms; sectors most exposed include Technology, Pharmaceutical, Food and Beverages, Energy, and Capital Goods.

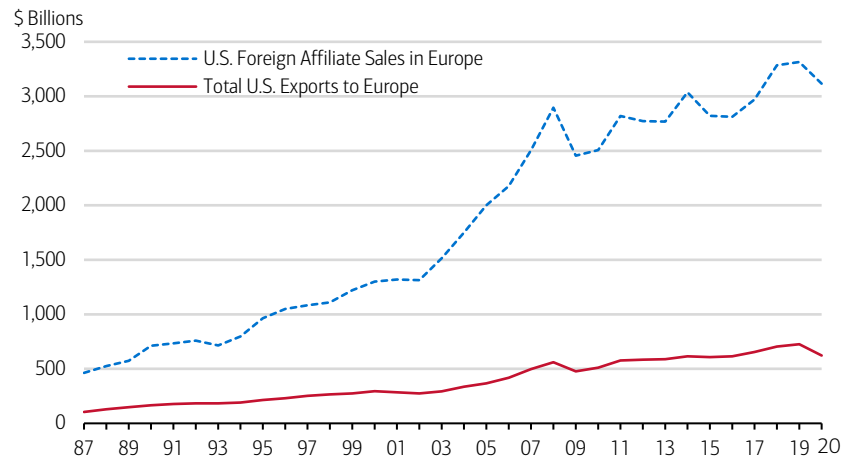
### Exhibit 2: Europe as a Wildcard to U.S. Earnings.

A) Passport for Profits

U.S. Affiliate Income Earned Abroad  
Share of Global Total 2000-3Q2021



B) Sales of U.S. Affiliates in Europe vs. U.S. Exports to Europe



Majority-owned nonbank affiliate's data: 1987–2008. Majority-owned bank and nonbank affiliates: 2009–2020. \*Foreign Affiliate Sales: Estimates for 2020. Latest data available. Source: Bureau of Economic Analysis. Data as pulled on 3/9/2022.

<sup>7</sup> The definition of Europe includes: EU-27 (remaining 27 member states of the European Union), the U.K., Norway, Switzerland, Baltic states, Turkey, Russia, Ukraine and smaller states along periphery of developed Europe.

Equities

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
DJIA	32,944.19	-1.9	-2.7	-8.9
NASDAQ	12,843.81	-3.5	-6.6	-17.8
S&P 500	4,204.31	-2.8	-3.8	-11.5
S&P 400 Mid Cap	2,570.76	-1.7	-3.4	-9.3
Russell 2000	1,979.67	-1.0	-3.3	-11.7
MSCI World	2,840.05	-1.9	-4.6	-11.9
MSCI EAFE	2,043.94	0.5	-6.1	-12.2
MSCI Emerging Markets	1,085.66	-5.1	-7.2	-11.7

Fixed Income<sup>†</sup>

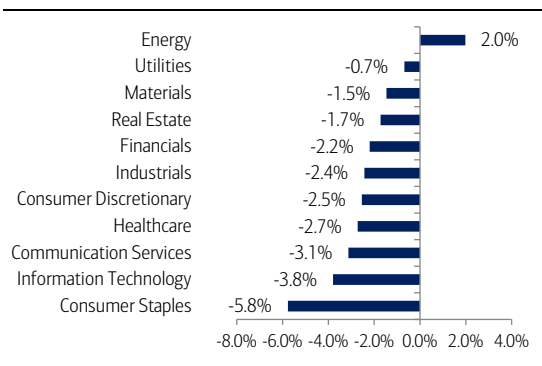
	Total Return in USD (%)			
	Current	WTD	MTD	YTD
Corporate & Government	2.56	-1.98	-1.83	-5.35
Agencies	2.02	-0.98	-0.85	-2.73
Municipals	2.15	-1.13	-1.35	-4.39
U.S. Investment Grade Credit	2.60	-1.76	-1.60	-4.79
International	3.50	-2.69	-2.83	-7.98
High Yield	6.19	-1.54	-1.89	-5.55
90 Day Yield	0.36	0.31	0.29	0.03
2 Year Yield	1.75	1.48	1.43	0.73
10 Year Yield	1.99	1.73	1.83	1.51
30 Year Yield	2.35	2.16	2.16	1.90

Commodities & Currencies

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
Commodities	270.08	-0.5	10.3	27.5
Bloomberg Commodity	270.08	-0.5	10.3	27.5
WTI Crude \$/Barrel <sup>††</sup>	109.33	-5.5	14.2	45.4
Gold Spot \$/Ounce <sup>††</sup>	1988.46	0.9	4.2	8.7

	Total Return in USD (%)			
	Current	Prior Week End	Prior Month End	2020 Year End
Currencies				
EUR/USD	1.09	1.09	1.12	1.14
USD/JPY	117.29	114.82	115.00	115.08
USD/CNH	6.36	6.33	6.31	6.36

S&P Sector Returns



Sources: Bloomberg; Factset. Total Returns from the period of 3/7/2022 to 3/11/2022. <sup>†</sup>Bloomberg Barclays Indices. <sup>††</sup>Spot price returns. All data as of the 3/11/2022 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 3/11/2022)

	2021A	Q1 2022E	Q2 2022E	Q3 2022E	Q4 2022E	2022E
Real global GDP (% y/y annualized)	6.0	-	-	-	-	3.6
Real U.S. GDP (% q/q annualized)	5.7	1.0	3.5	2.5	1.8	3.3
CPI inflation (% y/y)	4.7	7.9	8.3	7.3	5.9	7.3
Core CPI inflation (% y/y)	3.6	6.3	5.6	5.1	4.5	5.4
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 March 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 3/1/2022)

Asset Class	CIO View		
	Underweight	Neutral	Overweight
Equities	●	●	●
U.S. Large Cap	●	●	●
U.S. Mid Cap	●	●	●
U.S. Small Cap	●	●	●
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	●	●	●

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 March 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 Equity 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.

**Consumer Price Index (CPI)** is an index of the variation in prices paid by typical consumers for retail goods and other items.

**ICE BofA US Broad Market Index** measures the performance of US dollar-denominated, investment grade debt securities, including US Treasury notes and bonds, quasi-government securities, corporate securities, residential and commercial mortgage-backed securities and asset-backed securities.

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

**MSCI World Index** is a market cap weighted stock market index of 1,546 companies throughout the world and is used as a common benchmark for 'world' or 'global' stock funds intended to represent a broad cross-section of global markets.

**S&P 500 Energy Sector Global Industry Classification Standard (GICS) Level 1 Index** comprises those companies included in the S&P 500 that are classified as members of the GICS® energy sector.

**S&P 500 Financials Sector GICS Level 1 Index** comprises those companies included in the S&P 500 that are classified as members of the GICS® financials sector.

## Important Disclosures

**Investing involves risk, including the possible loss of principal. Past performance is no guarantee of future results.**

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All recommendations must be considered in the context of an individual investor's goals, time horizon, liquidity needs and risk tolerance. Not all recommendations will be in the best interest of all investors.

Asset allocation, diversification and rebalancing do not ensure a profit or protect against loss in declining markets.

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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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