

CHIEF INVESTMENT OFFICE

Capital Market Outlook

March 28, 2022

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

IN THIS ISSUE

Macro Strategy—Housing—Unaffordable and Vulnerable: The housing cycle is fenced in by a combination of shortages and potent consumer pent-up demand that has rendered home prices increasingly unaffordable. Now, rising interest rates, geopolitically refueled energy and other commodity prices could mean even higher fencing will surround the housing sector. In our opinion, if the Federal Reserve (Fed) is to succeed in squashing inflation, it must raise the federal funds rate and slash its balance sheet sufficiently to push deeply negative real interest rates into positive territory. This would most likely trigger a recession.

As things stand, home prices relative to income have risen to record highs, participation of first-time homebuyers has fallen, and the multifamily sector is benefiting. That said, the high level of single-family building permits in January and February and the high level of traffic of prospective buyers through March suggest builders may rush to build, and prospective buyers may jump in ahead of higher interest rates.

Market View—China's Internal Challenges: In Crisis, Opportunity: In the midst of the ongoing Russia-Ukraine conflict, China's role on the world stage has come under close scrutiny. But for investors, internal developments within China have been much more important.

We expect China's primary challenge this year to come from domestic policy in three main areas: coronavirus, real estate and regulation. Periodic market intervention by the Chinese authorities is likely to remain a source of volatility as regulators look to enforce policies designed to preserve social stability. But we nonetheless still see an underlying trend of continuing expansion in market segments tied to the strategic aims of the Chinese leadership.

Thought of the Week—Market Returns One Month into the Ukraine Conflict: This time is not different: As in many previous bouts of geopolitical stress, S&P returns are positive one month after the start of the Ukraine crisis. The conflict and attendant uncertainty will continue to weigh on the markets, but, in the long run, market fundamentals will dictate the future path of returns.

MACRO STRATEGY ►

Nora C. Mirshafii

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MARKET VIEW ►

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THOUGHT OF THE WEEK ►

Joseph P. Quinlan

Managing Director and Head of CIO Market Strategy

MARKETS IN REVIEW ►

**Data as of 3/28/2022,
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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Housing—Unaffordable And Vulnerable

Nora C. Mirshafii, Director and Senior Macro Strategy Analyst

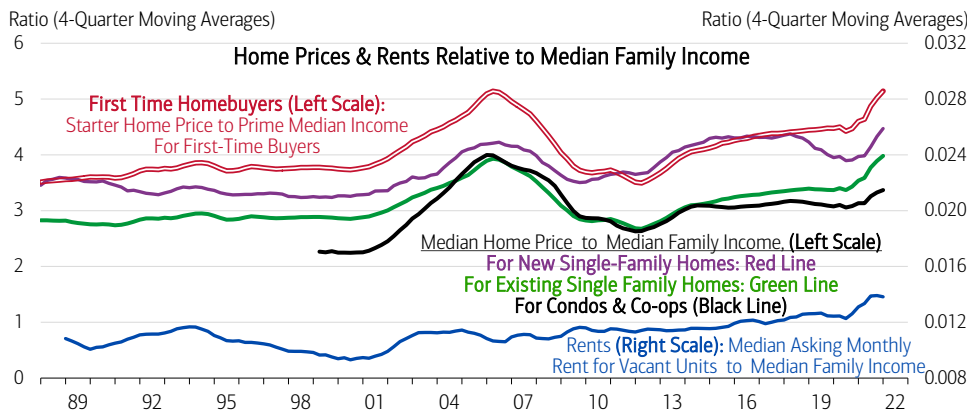
Hobbled Housing Cycle

There has been some payback after the pandemic-induced surge in new construction, home sales and remodeling, while supply-chain and labor shortages have increasingly pushed up construction costs and helped push up new single-family home prices significantly. Indeed, relative to income, new and existing single-family home prices have become as unaffordable as they were at the peak of the last housing cycle, especially for first-time homebuyers (Exhibit 1). As a result, their participation in the market has fallen from an average 35% in the second quarter of 2020 to an average 28% so far this year. Census Bureau data show that by the end of 2021 the U.S. homeownership rate stood slightly above its pre-pandemic level (65.4% versus 65%). While all this has enhanced the relative appeal of the multifamily sector—largely apartment rentals but also condo and co-op purchases—the ratio of rents relative to income now looks quite stretched as well.

Investment Implications

In a high-inflation environment, home prices tend to rise faster than inflation and help offset lost purchasing power in cash balances and other financial assets. With supply constrained and excessive consumer pent-up demand for shelter, this is likely to remain the case in 2022.

Exhibit 1: Housing Highly Unaffordable Especially For First-Time Buyers.



Sources: Census Bureau; National Association of Realtors/Haver Analytics. Data as of March 18, 2022.

Builders enjoy a high level of construction activity; the uptrend in multifamily building permits is robust, and single-family building permits are also rising. There are plenty of projects in the pipeline, but many of these properties have already been sold. Census Bureau data show that, in February, 47% of new single-family homes sold were under construction, 27% of homes sold were authorized/not started, and 26% were completed units.

Homebuilders have been highly optimistic about prospects for new single-family home sales over the next six months, but expectations in March fell substantially even as the already high traffic of prospective buyers increased. Lower sales expectations are due to rising interest rates and some anxiety over rising inventories. The trajectory of builder applications for mortgage loans for the construction of new single-family units portends elevated levels of housing starts rather than significant increases in supply—and suggests even higher single-family home prices in coming months. Mortgage Bankers Association data show that in February, 79% of these applications were for loan amounts of \$300,000 and over. In January and February, the average loan size was 24% above the January 2020 level (the corresponding increase for average single-family home prices was 31%). Increases in the size of new single-family homes contribute modestly to soaring home sales prices. The average price per square foot of a newly started single-family unit rose 17.9% year-to-year Q4 2021; the average size grew just 3.6%.

With prospective buyers increasingly being priced out of the market, the multifamily sector is benefiting, though it offers a somewhat thorny refuge. Rents are at a record high relative to income (Exhibit 1), and the vacancy rate for the more affordable Class B/C apartments—generally older, lower rent properties—is very low, while the vacancy rate for Class A apartments—the

highest quality, generally newer properties—has been on the rise since 2013 and is uncomfortably high. Prior to 2013, Class A and Class B/C apartment vacancy rates had tracked each other closely.

The Foreseeable Future

Soaring single-family home prices and rising mortgage interest rates, low (if mixed) rental vacancy rates and soaring rents favor multifamily construction in the foreseeable future, as suggested by a sturdy uptrend in building permits. The main question is whether new multifamily construction will continue to lean toward the more expensive Class A apartments. The National Association of Home Builders (NAHB) Multifamily Production Index ended 2021 on a fairly strong note, but the composition of production shows that multifamily starts for market rent are the strongest and continue rising. This raises the risk of even higher vacancy rates in Class A properties.

The single-family home arena harbors strong consumer pent-up demand, fast-deteriorating affordability—and rising inventories. With higher home prices already in the construction pipeline and mortgage rates rising, affordability is likely to worsen materially. With U.S. inflation running +8% year-to-year, real interest rates are deeply negative, so the Fed will need to tighten significantly (via fed funds hikes and balance sheet reduction) for rates to turn positive and crush inflation. That would be highly problematic for housing and the economy. What might temper somewhat the effect of monetary tightening on long-term Treasury yields and thus on mortgage interest rates is heightened geopolitical uncertainty triggered by the Russian invasion of Ukraine, which tends to favor dollar-based assets.

Recently released “priced-out” estimates for 2022 by the NAHB show how higher prices and interest rates affect housing affordability. Basically, 39 million or 31% of households qualify for a mortgage for a median-priced single-family home worth \$412,505, but 117,932 would be disqualified for a mortgage after a \$1,000 price increase. Keep in mind, that in 2021, the median price for a new single-family home rose by \$58,067; the median price for an existing single-family home rose \$51,208, and a “starter home” price rose by \$43,750.

The NAHB also estimates that four quarter-point increases on top of a 30-year mortgage fixed rate of 3.5% would disqualify a total of 4.7 million households. By the time rates rise from 4.5% to 6%, an additional 7.3 million households would be disqualified. Subsequent quarter-point increases from 6% would disqualify fewer than a million households each, as only a small number of households at the lower end of the household income distribution are affected. All of this suggests that homeownership will have a hard time expanding. Some builders might thus increase their focus on single-family homes built for rent, which in 2021 made up nearly 9% of all single-family units started.

Existing single-family home sales account for about 80% of all home sales and generate demand for major renovations, so this arena is vulnerable to potential home sales declines as buyers get priced out of the market. The NAHB Remodeling Market Index signals robust spending in the foreseeable future that largely reflects soaring input costs.

The housing cycle thus looks increasingly vulnerable. Already unaffordable home prices are about to become even less affordable, especially if the Fed tightens enough for negative real interest rates to turn positive and defeat inflation. For now, forecasts for housing starts show generally modest growth in 2022 and declines in 2023. The latest Blue Chip Economic Indicators survey shows expectations for total housing starts to stall in 2022, while Consensus Economics Inc. sees nearly 2% growth—and both project -2.5% to -3% declines for 2023. The NAHB projects 4.3% growth in total starts in 2022, with stronger growth in multifamily than in single-family starts. It forecasts a -3.8% drop in total starts in 2023, with similar declines in both single and multifamily units. Fannie Mae projects a 0.7% rise in total starts this year, with modest growth in single-family starts largely offset by a drop in multifamily starts. It projects a -5.3% contraction for 2023 that includes both single and multifamily starts, with a bigger drag from the latter.

China's Internal Challenges: In Crisis, Opportunity

Ehiwario Efejini, Director and Senior Market Strategy Analyst

In the midst of the ongoing Russia-Ukraine conflict, China's role on the world stage has come under close scrutiny. Concerns abound over its links to Russia, its ambitions on Taiwan, its relationship with the new administration in South Korea and, particularly in the wake of talks between President Xi and President Biden earlier this month, its diplomatic relations with the U.S. and Western allies. But for investors, internal developments within China have been much more important. Chinese Equities have been among the worst performing markets globally so far this year, with investors experiencing extreme volatility on the back of major shifts in local policymaking. Its growth target of 5.5%, even if met, would be the slowest outside the pandemic since 1990. And it faces a historic leadership transition at the end of the year, which is almost certain to retain Xi Jinping as head of state for an unprecedented third term. After last year's growth rebound from the pandemic, some deceleration in 2022 was to be expected. But slower activity in the European Union (which accounts for 15% of China's exports) will put further pressure on China's growth this year. And like other major resource importers, China will also be hit by a rise in energy, grains and metals prices.

We nonetheless expect China's primary challenge this year to come from domestic policy, and especially in three main areas: coronavirus, real estate and regulation. New coronavirus cases in China have reached their highest levels since initial outbreak, peaking last week at over 4,000 per day. Though still relatively low by global standards, this has been enough for local authorities to impose either partial or full shutdowns in at least 70 cities, including measures such as transportation limits, business closures and internal border controls. This serves as a reminder that the economic effect of the pandemic has not gone away. Indeed we expect to see China's zero-covid policy kept in place for much, if not all, of this year, primarily to ensure the outbreak remains contained ahead of the 20th Party Congress in Q4. This should continue to squeeze growth in domestic demand and local offline services such as travel, leisure and traditional retail for most of 2022.

The real estate sector should also remain a drag on activity in China this year. The fixed investment boom of recent decades has built up a mature housing stock that is now running up against opposing forces. Weaker demographics in terms of both the ageing of the population and a slower reallocation of labor from rural to urban areas remains a structural check on housing demand. And in the more immediate term, policy tightening measures targeted at the sector over the past two years have put constraints on leverage for both developers and homebuyers. Slower activity in the Real Estate sector represents a major risk for Chinese growth given the share of construction, related products and services in China's gross domestic product (GDP), which is estimated at 29% according to a recent high-profile paper from Harvard and the International Monetary Fund.¹ For those firms that are most at risk, the government appears committed to ensuring an orderly wind-down, and this should reduce the risk of contagion to the wider economy. But without an outright shift toward policy support, this is unlikely to prevent continuing weakness in the sector.

In terms of the regulatory environment, the past year has seen accelerated state intervention across a range of industries within the Technology sector, including online retail, digital media and food delivery. In each of these cases, the regulatory target has been different, but the underlying motivation of the authorities has been the same—to preserve the legitimacy of the central government by maintaining social stability and so-called “common prosperity.” And this, along with the ongoing threat of delisting from U.S. exchanges, has contributed to a major de-rating of the Chinese market. But the selloff has not been uniform, either by sector or by exchange. The most digitally oriented sectors of Information Technology, Consumer Discretionary and Communication services have led the downdraft, and shares listed outside mainland exchanges have also been the hardest hit. China-listed shares, by contrast, have performed much better across the broad market. The onshore Shanghai Composite Index, which is also the most

Portfolio Positioning

Chinese Equities have trended lower over the past year and have come under severe pressure over recent weeks on the back of spillovers from the Russia-Ukraine conflict in addition to policy headwinds in the key areas of coronavirus, Real Estate and Technology sector regulation. Investors may experience more policy-related volatility in the near term, but in our view the recent turmoil should enhance the potential for longer-term gains in selected industries tied to the strategic aims of the Chinese leadership.

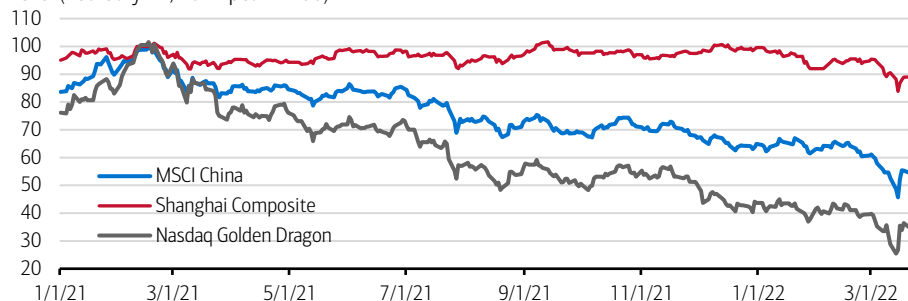
¹ Has China's Housing Production Peaked? (Rogoff and Yang, 2021)

diversified by sector, has registered the smallest peak-to-trough decline from last year's highs (-17%). The Nasdaq Golden Dragon China Index, which includes only U.S.-listed companies and has 85% of its market capitalization in technology, consumer discretionary and communication services, has seen the largest drop (-75%). And the MSCI China Index, which still has a more than 50% concentration in the three most tech-driven sectors but is also the most diversified across U.S., Hong Kong and mainland China exchanges, has fallen in between the two (-54%) (Exhibit 2).

Exhibit 2: China's Internal Challenges Have Produced Steep But Differentiated Drawdowns Across Equity Markets.

China equity indexes

Level (February 17, 2021 peak = 100)



Source: Bloomberg. Data as of March 23, 2022.

The market effect of these combined pressures from coronavirus, real estate and regulation escalated in mid-March after the People's Bank of China failed to cut the medium-term bank lending rate as expected, producing sharp moves lower in Chinese Equities. This was followed by aggressive verbal intervention from the Chinese vice-premier, calling for the government to "actively introduce policies that benefit markets." Investors have since enjoyed a massive surge in Chinese Equities from extremely depressed levels. But as we have seen in past episodes, more concrete policy support measures may be needed before the broad market can continue higher on a sustained basis.

However, instead of avoiding China as an investment destination altogether, this in our view emphasizes the need for investors to remain focused on market segments that are aligned with China's longer-term strategic goals rather than those viewed as potential sources of instability. And this spans a broad range of industries, including semiconductors, cloud computing, robotics, artificial intelligence, cybersecurity, advanced manufacturing, biotechnology and clean energy—groups that are less likely to be vulnerable to coronavirus-related shutdowns, hit by slower real estate activity, or subject to regulatory restrictions.

Indeed these areas should receive more official support as China's technological capacity remains critical to its aim of becoming a high-income economy by 2025 and delivering on national priorities of indigenous innovation, inclusive growth and economic self-sufficiency. In this regard, it is instructive that the latest Five-Year Plan adopted last year abandoned explicit projections for economic growth and instead focused on more specific industrial targets. These included increasing the value-added share of GDP in digital industries from 8% to 10%, maintaining annual growth in research and development spending at over 7%, doubling the number of high-value patents per 10,000 people from six to 12, and decreasing carbon intensity by 18%. Despite the recent turbulence in Chinese markets, we expect these priorities to support growth in related areas over the years ahead.

As we have seen over recent weeks, the risk of periodic market intervention by the Chinese authorities, whether on coronavirus, real estate or regulation, is likely to remain a source of volatility as regulators look to enforce policies designed to preserve social stability. But we nonetheless still see an underlying trend of continuing expansion in market segments tied to the strategic aims of the Chinese leadership. The Chinese term for crisis ("Wei-Ji") is composed of two words meaning "danger" and "opportunity." For investors, the recent market turmoil stemming from China's internal challenges should, in our view, only enhance the potential for longer-term gains in selected Chinese industries.

THOUGHT OF THE WEEK

Market Returns One Month into the Ukraine Conflict

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

It has been choppy and fluid, but one month into the conflict with Russia and Ukraine, S&P 500 returns are positive, with the index up 5.4% since February 24, the first day of the Russian invasion. That is not surprising given past geopolitical shocks and subsequent S&P 500 market returns (Exhibit 3A). As we have outlined in the past few weeks, geopolitical events tend to have limited effects on economic and market fundamentals, and this time—thus far—is no different. Leading the way: Energy (18.5%), Utilities (11.5%), Materials (9.8%) and Industrials (7.4%). Laggards: Technology (4.4%), Communication Services (3.4%) and Consumer Staples (2.1%) (Exhibit 3B for subsector performance over the same period).

Europe's main indexes have not been as fortunate because of its 1) proximity to the conflict and 2) overdependence on Russian energy supplies. The attendant spike in global energy prices (notably oil and natural gas) is pushing Europe closer to recession; meanwhile, the U.S. is far more energy independent and far less reliant on Russia for trade and corporate earnings. No, the U.S. isn't immune to global shocks, but, as we look past the crisis, market fundamentals like economic growth, inflation, interest rates and corporate profits will ultimately determine the future direction of the markets.

That said, it has hardly been smooth sailing here in the U.S. All three major indexes—S&P, Dow Jones Industrial Average and NASDAQ—have seen max drawdowns from year-to-date highs of 13.0%, 11.3% and 20.5%, respectively, following a rather tranquil 2021. Roiling the waters: mounting inflationary pressures and a more hawkish Fed forced to play catch-up with rates. There is now a 70% probability, according to the CME FedWatch Tool, that the Fed will boost the fed funds rate by 50 bps in May, which is quite a turnaround for an institution that thought inflation was still “transitory” less than six months ago.

As we enter the second month of the conflict, investors should expect more choppiness and volatility, underscoring the importance of portfolio diversification and high-quality assets. We continue to favor FAANG 2.0: Fuels, Aerospace & Cybersecurity, Agriculture, Nuclear and renewables, and Gold and precious/base metals.

Portfolio Considerations

Amid the fog of Ukraine/Russia turmoil, we continue to prefer Energy, Industrials (notably defense and cybersecurity), agriculture, renewables and base/precious metals. High-quality assets, solid-paying dividends and high-quality technology also remain core pillars of our investment bias.

Exhibit 3: Geopolitical Events Market Performance.

A) Major Geopolitical Events and Subsequent Market Returns

Geopolitical events and S&P 500 price returns					
Event	Date	1 day	1 month	6 months	12 months
Cuban Missile Crisis	16-Oct-62	-0.3%	5.4%	21.1%	27.8%
John F. Kennedy Assassination	22-Nov-63	-2.8%	6.3%	16.0%	23.5%
Arab-Israel Six-Day War	5-Jun-67	-1.5%	3.3%	7.5%	13.5%
Bretton Woods System Collapse	15-Aug-71	3.2%	0.9%	6.9%	13.1%
Arab Oil Embargo	19-Oct-73	-1.0%	-8.6%	-14.9%	-34.4%
Iranian Shah Overthrown	11-Feb-79	0.3%	1.7%	9.4%	20.1%
Fall of Berlin Wall	9-Nov-89	-0.5%	4.5%	2.2%	-6.8%
Start of Gulf War	17-Jan-91	3.7%	12.6%	17.5%	27.7%
9/11 Terrorist Attacks	11-Sep-01	-4.9%	-0.1%	6.7%	-16.8%
Fukushima Japan Nuclear Disaster	11-Mar-11	-0.6%	1.5%	-10.9%	5.1%
Russia Annexes Crimea	20-Feb-14	-0.2%	1.8%	8.4%	14.7%
U.K. Brexit Vote	23-Jun-16	-3.6%	2.6%	7.0%	15.4%
Russia/Ukraine Crisis	24-Feb-22	1.5%	5.4%	?	?
Average		-0.5%	2.9%	6.4%	8.6%

B) 10 Leaders and Laggards Subsector Returns over Russia/Ukraine Conflict

subsector	Price Return, %	subsector	Price Return, %
Fertilizers & Agricultural Chemicals	30.8	Home Furnishings	-5.5
Steel	30.4	Movies & Entertainment	-5.8
Food Retail	28.3	Personal Products	-6.2
Agriculture & Farm Machinery	27.3	Housewares & Specialties	-6.6
Construction & Engineering	23.5	Electronic Manufacturing Services	-7.4
Agricultural Products	23.3	Casino & Gaming	-8.3
Oil & Gas Equipment & Services	21.4	Household Appliances	-8.5
Automobile Manufacturers	20.9	Leisure Products	-8.9
Integrated Oil & Gas	20.1	Healthcare Supplies	-9.8
Oil & Gas Exploration & Production	18.8	Auto Parts & Equipment	-10.7

(Exhibit A) Sources: Chief Investment Office; Bloomberg. Data as of March 25, 2022. One-day return for 9/11 attacks after reopening of market on 9/17/01. (Exhibit B) Source: Bloomberg. Data as of March 25, 2022. These index returns are based on the S&P sub industry indexes. **Past performance is no guarantee of future results.**

Equities

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
DJIA	34,861.24	0.3	3.0	-3.6
NASDAQ	14,169.30	2.0	3.1	-9.3
S&P 500	4,543.06	1.8	4.0	-4.3
S&P 400 Mid Cap	2,712.43	0.2	2.0	-4.3
Russell 2000	2,077.98	-0.4	1.6	-7.2
MSCI World	3,049.11	1.3	2.5	-5.3
MSCI EAFE	2,159.53	0.2	-0.6	-7.1
MSCI Emerging Markets	1,125.01	0.2	-3.7	-8.4

Fixed Income†

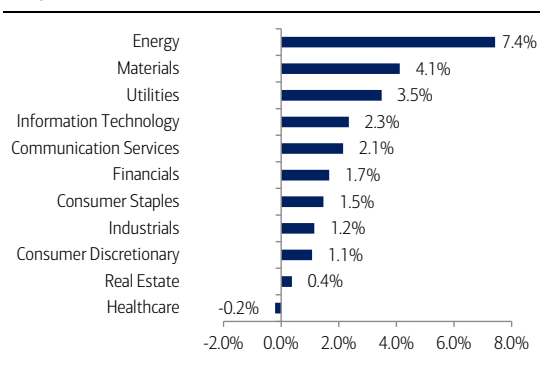
	Total Return in USD (%)			
	Current	WTD	MTD	YTD
Corporate & Government	2.99	-1.76	-3.87	-7.32
Agencies	2.55	-1.21	-2.67	-4.52
Municipals	2.57	-1.37	-3.20	-6.19
U.S. Investment Grade Credit	3.04	-1.82	-3.76	-6.89
International	3.76	-1.73	-3.95	-9.04
High Yield	6.23	-0.64	-2.02	-5.68
90 Day Yield	0.52	0.37	0.29	0.03
2 Year Yield	2.27	1.94	1.43	0.73
10 Year Yield	2.47	2.15	1.83	1.51
30 Year Yield	2.58	2.42	2.16	1.90

Commodities & Currencies

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
Commodities				
Bloomberg Commodity	277.51	5.3	13.4	31.0
WTI Crude \$/Barrel††	113.90	8.8	19.0	51.4
Gold Spot \$/Ounce††	1958.29	1.9	2.6	7.1

	Total Return in USD (%)			
	Current	Prior Week End	Prior Month End	2020 Year End
Currencies				
EUR/USD	1.10	1.11	1.12	1.14
USD/JPY	122.05	119.17	115.00	115.08
USD/CNH	6.38	6.37	6.31	6.36

S&P Sector Returns



Sources: Bloomberg; Factset. Total Returns from the period of 3/21/2022 to 3/25/2022. †Bloomberg Barclays Indices. ††Spot price returns. All data as of the 3/25/2022 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 3/25/2022)

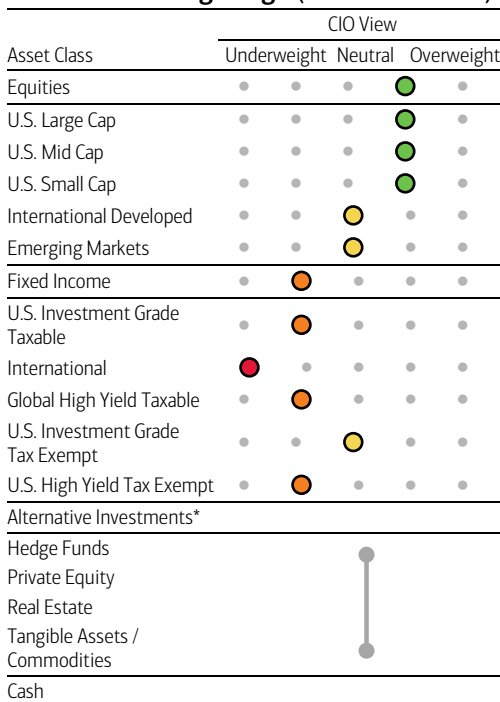
	2021A	Q1 2022E	Q2 2022E	Q3 2022E	Q4 2022E	2022E
Real global GDP (% y/y annualized)	6.0	-	-	-	-	3.6
Real U.S. GDP (% q/q annualized)	5.7	1.0	3.5	2.5	1.8	3.3
CPI inflation (% y/y)	4.7	7.9	8.4	7.5	6.4	7.5
Core CPI inflation (% y/y)	3.6	6.3	5.6	5.3	5.0	5.6
Unemployment rate (%)	5.4	3.8	3.4	3.2	3.1	3.4
Fed funds rate, end period (%)	0.07	0.38	1.13	1.88	2.38	-

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.**

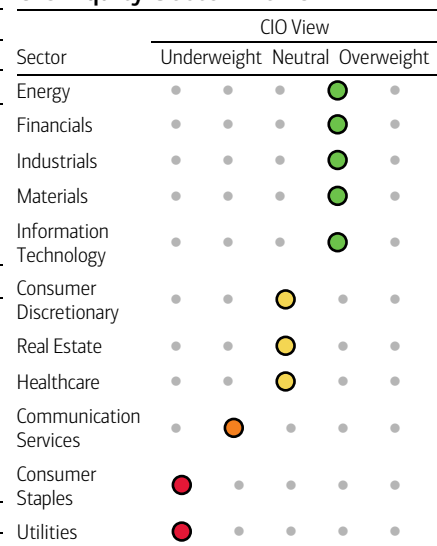
A = Actual. E/* = Estimate.

Sources: BofA Global Research; GWIM ISC as of March 25, 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)



CIO Equity Sector Views



*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.

National Association of Home Builders (NAHB) Multifamily Production Index is a weighted average of the three components. An index is similarly calculated for each component of the MOI (Class A, B and C apartments)

NAHB Remodeling Market Index is based on a quarterly survey of NAHB remodeler members that provides insight on current market conditions as well as future indicators for the remodeling market.

Shanghai Composite Index is a stock market index of all stocks that are traded at the Shanghai Stock Exchange.

Nasdaq Golden Dragon China Index is a modified market capitalization weighted index.

MSCI China Index captures large and mid cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs).

Dow Jones Industrial Average is a price-weighted measurement stock market index of 30 prominent companies listed on stock exchanges in the United States.

NASDAQ is an American stock exchange based in New York City.

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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. 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. 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 risks 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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