

CHIEF INVESTMENT OFFICE

Capital Market Outlook

April 17, 2023

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

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Macro Strategy—*Housing Stocks: Bear Market Rally Or A New Bull Market?* Housing was one of the first sectors to fall into recession when the Federal Reserve (Fed) began to raise interest rates, with various measures of activity down 20%, or more, since the cycle peak.

Homebuilder stocks were among the biggest laggards in the first half of 2022, but they have since recovered about a third of those losses in anticipation of a widely expected Fed interest-rate pivot. While there are positive fundamentals for the group longer term, we suspect another leg lower is likely in a recession.

Market View—*Still the King: Ten Questions & Answers on U.S. Dollar Hegemony:* Rumors of the dollar’s demise are greatly exaggerated. The greenback remains the world’s dominant reserve currency, supported by America’s dynamic financial system and competitive economy.

That said, however, worriers over the Fed’s creditability in fighting inflation, concerns over the U.S. federal budget deficit, the “weaponization of finance”—these factors could weigh on the dollar’s attractiveness in the near term. Over the long term, the world is glacially moving towards a multi-reserve currency world, with the dollar first among lesser equals.

Thought of the Week—*An Update on Small Businesses—Optimism Fading:* The National Federation of Independent Business’s (NFIB) March Small Business Economic Trends Survey revealed that headwinds are intensifying for small businesses in light of recent macroeconomic volatility.

Notable elements of this report include the decline in general optimism and outlook for business conditions, the worsening of credit conditions and the general downward trend of hiring plans by small businesses.

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**Data as of 4/17/2023,
and subject to change**

Portfolio Considerations

This month, we adjusted our U.S. Equity sector allocations by lowering Financials to neutral from slight overweight, lowering Real Estate to slight underweight from neutral, and raising Communication Services to neutral from underweight. With markets trying to price in two main scenarios at once (recession on its way and a Fed that “blinks” by pivoting to looser policy), we continue to remain neutral Equities and Fixed Income. The macro backdrop warrants near-term caution on risk-assets like Equities and High Yield and points to elevated volatility overall, but we continue to believe it will create opportunities for long-term investors over the rest of the year.

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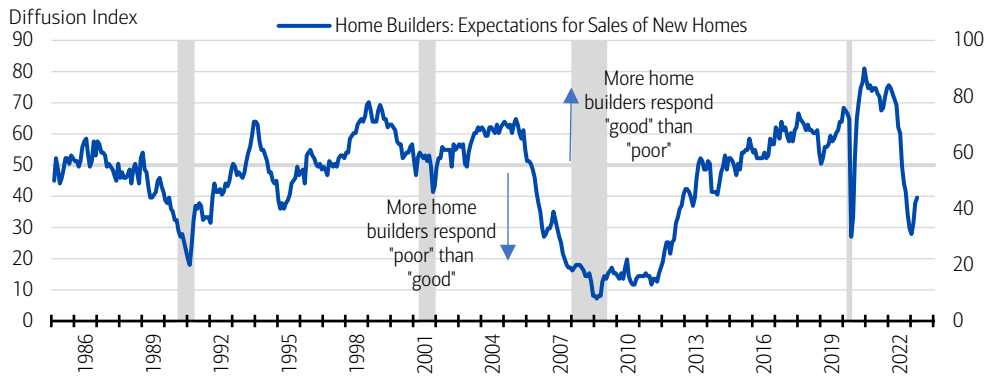
Housing Stocks: Bear Market Rally Or A New Bull Market?

Robert T. McGee, Managing Director and Head of CIO Macro Strategy

Not surprisingly, housing was one of the first casualties of the Fed's rate-hiking cycle. According to research at Moody's Analytics, the average monthly mortgage payment soared about 45% over the past eighteen months, from \$1300 to \$1900. Rate hikes contributed the bulk of this increase, but prices were also up about 30% from pre-pandemic levels. As housing became unaffordable for a large segment of the population, especially those hoping to buy their first home, sales and building activity declined about 30% from the peaks reached during the pandemic boom.

A broad index of housing stocks peaked in December 2021, about the same time the overall market peaked, and fell about 40% by mid-June 2022, much more than the overall market. Since then, it has increased by roughly 25%, with housing stocks performing well in Q1, helped by unseasonably warm winter weather that boosted sales during a normally slow period. Builder sentiment, which collapsed in 2022, bottomed in December at 31 and has risen for three straight months to 44 in March 2023, which is still below the 50 breakeven point, but much improved (Exhibit 1).

Exhibit 1: Builder Sentiment Still In Housing Contraction Territory Below 50.



Gray areas represent recession periods. Sources: National Association of Home Builders/Haver Analytics. Data as of April 11, 2023.

Another factor that has helped housing stocks recently is the sharp drop in 10-year Treasury yields, which tend to set the framework for mortgage rates. After peaking last fall, yields have declined about 100 basis points, allowing for lower mortgage rates early in the year and further strengthening activity during the mild winter. Nevertheless, mortgage rates remain roughly double where they were at the low point, when many homeowners locked in fixed rates way below current levels. Not helping is the fact that the spread between mortgage rates and the 10-year Treasury yield has blown out to unusually wide levels.

As with some other groups of Consumer Discretionary stocks that performed well in Q1, and buoyed by some technical analysts seeing signs of an overall stock market bottom, this recovery in housing stocks has been cited as evidence the economy is headed for a soft landing and a new housing expansion that will lead a soon-to-come economic recovery. Still as of April 14 the S&P Homebuilders Select Industry Index was down more than 20% from its cycle peak at the end of 2021, with overall activity still deep in recession territory.

Housing stocks are especially dependent on interest rates, so the ongoing debate about a Fed pivot is a big driver of prices for traders. It is typical for housing and other highly cyclical stocks to rally as a Fed pivot approaches, as is anticipated in the months ahead. If a soft landing follows a Fed pivot, then it is probable that a new cyclical bull market has begun, and housing stocks will play their typical role as early-cycle leaders.

Investment Implications

While early-cycle stocks such as homebuilders have rallied in 2023 on Fed pivot hopes, a recession is likely to reverse those gains, in our view. Longer term, the fundamentals for homebuilders look positive.

However, when the Fed pivot is a prelude to a recession, the early-cycle leaders, such as housing, tend to make new lows as the Fed cuts rates to brake a worsening economic decline. Rising unemployment during a recession tends to offset the positive effect of falling interest rates and declining house-price inflation on demand. Since there are very powerful leading indicators pointing to a recession ahead, housing stocks are likely to take another leg lower, in our view.

From a longer-term perspective, however, there are good reasons to be bullish on housing stocks, and a sell-off from current levels would provide a timely entry point for investors in the sector. Fundamentally, the housing market suffers from a shortage of about 1.5 million units, according to various estimates. That's about a year's supply that needs to be made up in the next cycle.

Also adding to the bullish outlook for builder stocks is the fact that many current homeowners are frozen in place because the gap between their existing mortgage rates and the rate on a new mortgage is so great. This has kept the supply of existing homes very low, forcing buyers into the new home market, where builders are happy to oblige. Homebuilders have more flexibility on pricing compared to existing homeowners, using incentives and mortgage buydowns to move inventory. This bifurcation between the existing and new-home markets has reduced the typical ratio of 10 existing-home sales for each new-home sale to between 4 and 5 to one, according to a BTIG Research homebuilding analysis.

In addition to the shift toward new-home sales, today's publicly held homebuilders are in a much stronger financial position than during the last housing crisis. According to a recent *Barron's* article, the 11 publicly held builders account for about a 42% share of the market versus just 20% in 2005. Also, their debt-to-capitalization ratio was just 26% in December 2022 compared to 42% in 2005. Furthermore, they are generally priced at very low valuations based on standard metrics and stand to benefit from the rotation from Growth to Value stocks we expect in the next bull market. The consolidation of the industry into fewer companies also means they have positive Growth as well as Value attributes, an optimal combination.

Importantly, while more consumers are finding housing unaffordable and a rising unemployment rate will damp demand in a recession, household balance sheets are going into this recession with the lowest debt-service ratio in about 40 years, reducing the likelihood of a severe housing contraction like that of the 2007-2009 recession. Obviously, there are big regional differences in housing, which have been accentuated by the pandemic flight from congested areas to more affordable locales suitable for working-from-home lifestyles. Still, as this flow ebbs, builders are seeing more demand from locals that have been priced out of their home markets but are responsive to growing supply, lower interest rates and lower prices.

Price adjustments are likely to play more of a role in this down cycle than was typical before the 2007-2009 recession, which saw the first nationwide house-price deflation since the 1930s. A lot will depend on how the institutional investors who have moved into the single-family rental market respond. Will they expand and help support house prices, or will they feel pressure to liquidate houses in a declining price market? The favorable gap between renting and buying suggests rental demand will remain strong and support the expansion of this relatively new market segment.

At the end of the day, interest rates and orders drive the outlook for builder stocks. The turn in interest rates should help make housing more affordable when the economy strengthens again. The winter upturn in housing suggests the drop in orders late last year will make for more positive comparisons by year-end, assuming housing stabilizes around current levels. On the other hand, in a longer, more severe recession, it may take a while to see a bottom in housing since a bigger leg down is likely if unemployment rises and stays higher while the inflation excesses from the pandemic stimulus are worked off. Eventually, however, the fundamental need for more housing and the healthier, more consolidated structure of the homebuilder industry suggests a positive longer-term investment opportunity is shaping up.

Still the King: Ten Questions & Answers on U.S. Dollar Hegemony

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

Lauren J. Sanfilippo, Director and Senior Investment Strategy Analyst

Rumors of the dollar's demise are greatly exaggerated. The greenback remains the world's dominant reserve currency, although the world is glacially moving toward a multi-reserve currency system. We explain.

Starting with the basics, what is a reserve currency? A reserve currency—aka the U.S. dollar—makes the world go round. It's the currency for the planet, lubricating global trade, investment, foreign exchange transactions, cross-border loans, debt issuances and related activities. It's the preferred currency for central banks, foreign multinationals, sovereign wealth funds and other global institutions. The dominate role of the dollar in driving global commerce is succinctly depicted in Exhibit 2A. In a nutshell, the global economy runs on dollars.

What are the main forces underpinning the U.S. dollar? A number of factors structurally support the reign of the dollar—notably America's capital markets, the deepest, widest, most liquid and most innovative in the world. America's military might, the country's favorable demographics, and the economy's record of flexibility, openness and resiliency are other key dynamics supportive of the dollar. Also consider the near-40,000 foreign affiliates of U.S. multinationals operating in every corner of the world, a global footprint that necessitates massive cross-border dollar-financing every day. Institutional inertia is another factor to consider, as is the related fact that the post-war global economy has prospered greatly under the dollar's reign. Hence, why rewire something that has been hugely successful?

What are the benefits to the U.S. economy from the dollar's status as the world's dominant currency? As the world's top currency, there is constant foreign demand for U.S. dollars and dollar-backed securities like U.S. Treasuries. This demand, in turn, means the U.S. can borrow more cheaply (at lower interest rates) than it would otherwise. That's a big deal for one of the world's largest debtor nations: the U.S. Another big deal: Borrowing in dollars from foreign creditors mitigates against foreign exchange rate risks for the U.S. government and other U.S. borrowers. That's a "privilege" other governments, firms and individuals don't have because when they borrow in foreign currencies, they incur the risks that come with swings in exchange rates.

Are there downside risks associated with the dollar's hegemony? Yes, namely that 1) low borrowing costs can lead to excess debt accumulation; and 2) constant global demand for dollars can lead to bouts of excess dollar strength—notable during crises—undermining U.S. export competitiveness and, therefore, the incomes and jobs of some U.S. workers.

What are the current challenges to the dollar's global reign? The dollar's reign isn't a given. Worriers over the Fed's creditability in fighting inflation, concerns over the U.S. federal budget deficit, the deployment of economic and financial sanctions that prohibit access to the U.S. capital markets (or the "weaponization of finance")—all of these factors, if left unresolved or unaddressed, could erode the dollar's attractiveness as a reserve currency over time. The anti-inflationary policies of the U.S. are key, as is the avoidance of dysfunctional politics (e.g., the coming debt ceiling debate). Finally, geopolitics can't be ignored—the West's "weaponization of finance" has spurred a number of countries to look for alternatives to the dollar in conducting cross-border transactions. A few examples: India is now settling some trade in rupees; Brazil, Russia, India, China, and South Africa (BRICS) are considering creating a new reserve currency; and Russia and Saudi Arabia are taking some payments for oil exports to China in renminbi (RMB). China has also recently concluded RMB clearing arrangements with Pakistan, Argentina and Brazil.

Could the rise of China de-throne the dollar as the world's reserve currency? For decades, China has actively encouraged the greater use of the RMB in bilateral transactions. To date, however, and due to China's capital controls and investor concerns over Beijing's active intervention in the economy, the RMB plays only a marginal role in global finance. According to the Bank for International Settlements (BIS), the RMB is the 8th most traded currency in the world, well behind the U.S. dollar, of which close to 90% of all foreign exchange trades are involved. As a store of value, less than 3% of global central bank holdings are in RMB versus roughly 60% held in U.S. dollars. Meanwhile, while around 40% of global transactions are

Portfolio Considerations

We remain anchored to U.S. dollar-denominated assets. We believe the concerns about the debasement of the U.S. dollar are overblown; backstopped by the wealthiest, largest and most competitive economy in the world, our investment bias remains U.S.-focused across all asset classes.

conducted in dollars, the similar share of the RMB is just 3%. Finally, at some \$22.4 trillion, the U.S. treasury market is some two and a half times larger than China's government bond market (\$8.9 trillion). However, one area to watch per China lies with the central bank's development of a digital currency; according to a 2021 BIS survey, 90% of central banks are engaged in work related to digital currencies, with China the furthest along this road.¹

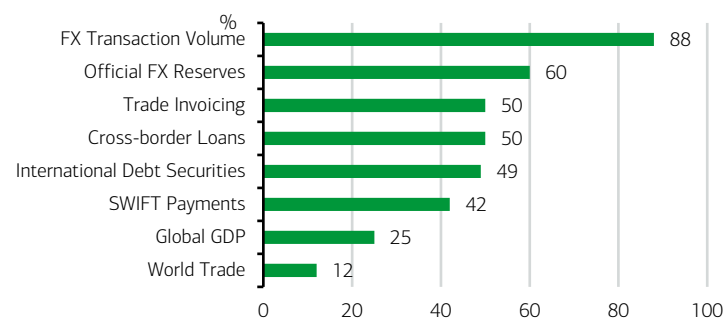
How much of a threat do central bank digital currencies (CBDC) pose to the U.S. dollar? CBDCs bear close watching—digitalization is a hallmark of the global economy and imagining a more digitalized international monetary future is hardly a stretch. However, the rise in CBDC programs has been largely designed for domestic/internal reasons, rather than cross-border transactions. The lack of common global standards, incompatible infrastructures, and regulatory barriers—due to these factors, CBDCs are not expected to impinge on the dollar's reserve status anytime soon.

Besides digital currencies and China, what other alternatives are there to the greenback? The euro ranks as the world's second-largest reserve currency, with the euro accounting for nearly 21% of central bank reserves at the end of 2022. That's just one-third the dollar's global share and reflects the fragmented and shallow capital markets of Europe. The region has successfully created a single currency but not a pan-European capital market that would pool and allocate capital more effectively. As for the pound and the yen, the sun has already set on these two currencies. As of the end of 2022, some 4.9% of central bank reserves were held in pounds, while 5.5% were held in yen. Japan's "lost decades" in terms of economic growth, and the United Kingdom's exit from the European Union, have undercut the global appeal of their respective currencies.

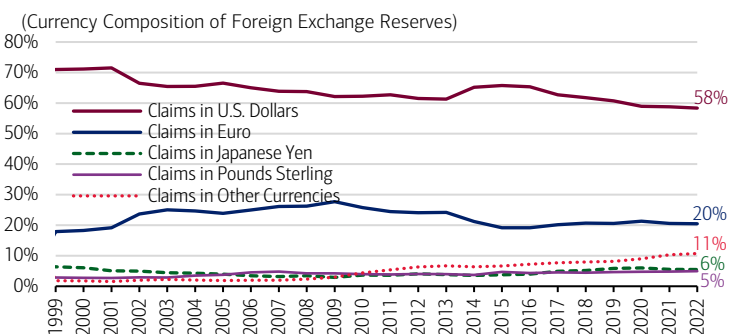
What about the rising role of nontraditional currencies in global finance? This is where it gets interesting and where one can see the future contours of a multipolar currency world take shape. Note from Exhibit 2B that the reduced role of the U.S. dollar in global foreign exchange reserves has not been matched by increases in the shares of other traditional reserve currencies—the euro, yen and pound. Rather, the gains have come from "other currencies," or the currencies of Australia, Canada, Sweden, South Korea, Singapore and China. According to the International Monetary Fund (IMF), the share of nontraditional reserve currencies rose from virtually zero at the turn of the century to roughly 11% in 2022, with the RMB accounting for one-quarter of the shift away from the dollar, and the other currencies just mentioned accounting for three-fourths of the shift. The rising appetite for nontraditional currencies reflects 1) the growing liquidity of these currency markets and falling transaction costs with the deployment of more electronic trading platforms, 2) the more active management of central bank reserve managers in search of yield, and 3) lower yields on government bonds in the U.S., Europe, Japan and U.K.²

Exhibit 2: The Global Economy Beats To The Tune of The Buck.

2A) The U.S. Dollar's Hegemonic Role by Activity.



2B) The Dollar Easily Outpaces The Rest.



Source Exhibit 2A: Drehmann, M. and V. Sushko (2022): "The global foreign exchange market in a higher-volatility environment," BIS Quarterly Review, pp 36-37. Data as of April 10, 2023.

Source Exhibit 2B: International Monetary Fund. Data as of April 11, 2023.

What does all of this mean for U.S. investors? By default and design, the dollar's global reign continues and is one key reason (among many) why we prefer/favor U.S. dollar-denominated assets relative to non-U.S. dollar assets. Yes, shifting geopolitics, advancing technologies, digitalization, polarized U.S. politics and related activities could chip away at the dollar's preeminent global standing over the long term. However, and for now, the reign of the U.S. dollar continues.

¹ "The U.S. Dollar as the World's Dominant Reserve Currency," Congressional Research Service, September 15, 2022.

² "The Stealth Erosion of Dollar Dominance," International Monetary Fund, March 2022.

An Update on Small Businesses—Optimism Fading

Theadora Lamprecht, Investment Analyst

The NFIB's March Small Business Economic Trends Survey revealed that headwinds are intensifying for small businesses considering recent macroeconomic volatility. Notable elements of this report include the decline in general optimism and outlook for business conditions, the worsening of credit conditions and the general downward trend of hiring plans by small businesses.

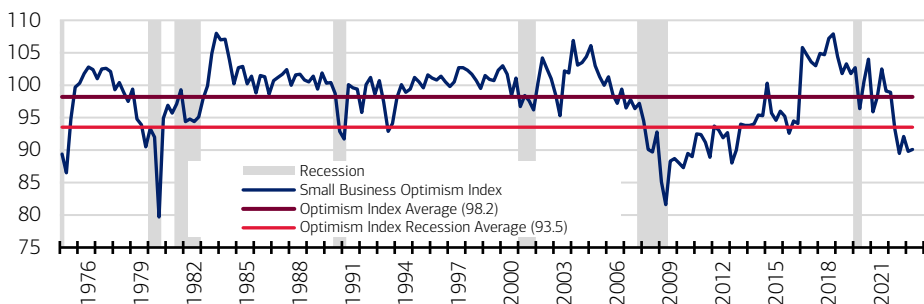
The headline optimism index reached a three-month low of 90.1, denoting its 15th consecutive month below the long-term average of 98.2.³ Looking at past recessions going back to 1974,⁴ the recession average for the index was around 93.5, suggesting small business sentiment may have already been in recessionary territory for the last five quarters (Exhibit 3). Additionally, small business owners' outlook for general business conditions over the next six months remained flat at the lowest level in history, apart from June 2022's reading of -61.0%. Small businesses have had to withstand elevated levels of inflation and higher costs of operation, which has put pressure on profits. For example, based on internal data from Bank of America, the ratio of inflows to outflows in Bank of America small business checking and savings accounts, which could be considered a proxy for profits, reached its lowest reading at 1 over the past five years, while average rent payment growth was nearly 20% year-over-year.⁵ While this suggests small businesses are still operational, if this ratio were to decrease, this could indicate a further deterioration of profits.

As we progress through the later stage of the cycle and toward a recession, credit conditions appear to have worsened for small businesses. The ability to access available loans decreased significantly in March, reaching its lowest point, -9.0%, since 2012.⁶ While this has been a relatively downward trend since the Fed began hiking interest rates, last month's instability in the regional U.S. banking system could have contributed to the reading. Small businesses typically have more difficulty obtaining access to credit, as they could be considered riskier than larger companies given that the failure rate in the earlier stages of the business is higher relative to later years.⁷ The recent stress in the banking system, and other macro factors, may generate tighter lending standards, especially in the medium term, making it more difficult for businesses to receive loans.

As of 2022, around 46.4% of people in the U.S. worked for a small business.⁸ Small business labor market components, such as plans to hire and positions not able to be filled, have come down slightly in March. Plans to hire are currently at their lowest level since mid-2020. These elements are trending weaker and suggest small businesses remain under pressure. In general, the labor market hasn't reached recessionary territory yet and is still firm.

Overall, small business conditions continued to weaken in March and suggest potential downside ahead given the uncertain macroeconomic situation.

Exhibit 3: Small Business Optimism Index from 1974-March 31, 2023.



Sources: NFIB; Bloomberg. Note: Data collection is the first month of every quarter. Data as of March 31, 2023.

³ National Federation of Independent Business. Data as of April 11, 2023.

⁴ Recession time frame as defined by the National Bureau of Economic Research.

⁵ Data for the month of February. Bank of America Institute, "Small Business Checkpoint: Feeling the Squeeze," March 16, 2023.

⁶ Bloomberg. Data as of March 31, 2023.

⁷ Board of Governors of the Federal Reserve System, "Availability of Credit to Small Businesses," November 10, 2022.

⁸ Chamber of Commerce, "Small Business Statistics," 2023.

Investment Implications

The NFIB's small business survey data is consistent with our view of an economy heading toward a recession later this year. With a cautionary view toward risk assets, we remain neutral Equities and emphasize a higher-quality positioning in both Equities and Fixed Income.

Equities

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
DJIA	33,886.47	1.2	1.9	2.8
NASDAQ	12,123.47	0.3	-0.8	16.1
S&P 500	4,137.64	0.8	0.8	8.3
S&P 400 Mid Cap	2,489.47	1.8	-0.9	2.9
Russell 2000	1,781.15	1.5	-1.1	1.6
MSCI World	2,825.75	1.3	1.3	9.1
MSCI EAFE	2,145.72	2.2	2.7	11.4
MSCI Emerging Markets	1,000.49	1.7	1.1	5.1

Fixed Income[†]

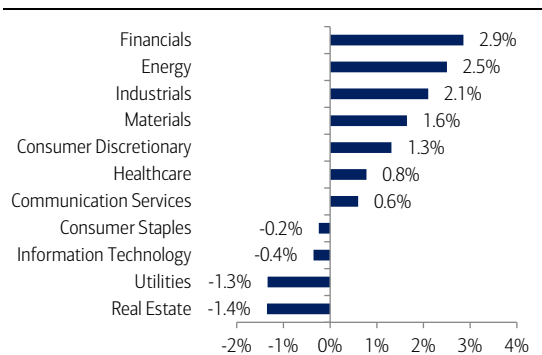
	Total Return in USD (%)			
	Current	WTD	MTD	YTD
Corporate & Government	4.35	-1.10	0.00	3.17
Agencies	4.38	-0.67	0.02	2.11
Municipals	3.09	0.13	1.03	3.83
U.S. Investment Grade Credit	4.41	-1.10	0.01	2.97
International	5.15	-0.95	0.12	3.63
High Yield	8.40	0.77	0.84	4.44
90 Day Yield	4.99	4.79	4.69	4.34
2 Year Yield	4.10	3.83	4.03	4.43
10 Year Yield	3.51	3.31	3.47	3.87
30 Year Yield	3.73	3.55	3.65	3.96

Commodities & Currencies

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
Commodities				
Bloomberg Commodity	238.25	1.6	2.4	-3.1
WTI Crude \$/Barrel ^{††}	82.52	2.3	9.1	2.8
Gold Spot \$/Ounce ^{††}	2004.17	-0.2	1.8	9.9

	Total Return in USD (%)			
	Current	Prior Week End	Prior Month End	2022 Year End
Currencies				
EUR/USD	1.10	1.09	1.08	1.07
USD/JPY	133.79	131.78	132.86	131.12
USD/CNH	6.87	6.88	6.87	6.92

S&P Sector Returns



Sources: Bloomberg, Factset. Total Returns from the period of 4/10/2023 to 4/14/2023. †Bloomberg Barclays Indices. ††Spot price returns. All data as of the 4/14/2023 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 4/14/2023)

	2022A	Q1 2023A	Q2 2023E	Q3 2023E	Q4 2023E	2023E
Real global GDP (% y/y annualized)	3.4*	-	-	-	-	2.5
Real U.S. GDP (% q/q annualized)	2.1	1.0*	0.5	-1.0	-2.0	0.9
CPI inflation (% y/y)	8.0	5.8	4.3	3.6	3.2	4.2
Core CPI inflation (% y/y)	6.1	5.6	5.0	4.2	3.4	4.5
Unemployment rate (%)	3.6	3.5*	3.2	3.5	4.0	3.5
Fed funds rate, end period (%)	4.33	4.83	5.13	5.13	5.13	5.13

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. **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 April 14, 2023.

Asset Class Weightings (as of 4/4/2023)

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
Healthcare	●	●	●
Energy	●	●	●
Utilities	●	●	●
Consumer Staples	●	●	●
Information Technology	●	●	●
Communication Services	▶	●	●
Industrials	●	●	●
Financials	●	●	◀
Materials	●	●	●
Real Estate	●	●	◀
Consumer Discretionary	●	●	●

*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 April 4, 2023. 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 includes a representative sample of 500 leading companies in leading industries of the U.S. economy. Although the index focuses on the large-cap segment of the market, with approximately 75% coverage of U.S. equities, it is also an ideal proxy for the total market.

Small Business Optimism Index is a composite of ten seasonally adjusted components.

S&P Homebuilders Select Industry Index represents the homebuilding sub-industry portion of the S&P Total Markets Index.

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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.

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. When interest rates go up, bond prices typically drop, and vice versa. Bonds are subject to interest rate, inflation and credit risks. Income from investing in municipal bonds is generally exempt from Federal and state taxes for residents of the issuing state. While the interest income is tax-exempt, any capital gains distributed are taxable to the investor. Income for some investors may be subject to the Federal Alternative Minimum Tax (AMT). Changes in economic conditions or other circumstances may adversely affect a junk bond issuer's ability to make principal and interest payments. Treasury bills are less volatile than longer-term fixed income securities and are guaranteed as to timely payment of principal and interest by the U.S. government. 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 or 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.

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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