CHIEF INVESTMENT OFFICE

Capital Market Outlook

April 25, 2022

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

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Macro Strategy—*Stagflation Ahead:* The markets are revaluing across sectors and asset classes to better align with the structural shift from low nominal growth and low interest rates to a new environment of higher nominal growth and interest rates.

In addition to this secular shift, which is evident, for example, in the new commodities supercycle, the markets are undergoing a late-cycle shift to more defensive sectors that tend to outperform as real growth slows down. Stagflation will reinforce both shifts, in our view.

Market View—*Remain Vigilant, But It May Be Too Early To Become Cautious:* Our view is that the economy has entered the early stages of the late-cycle. Growth is likely to moderate from here as the Federal Reserve (Fed) engineers tighter financial conditions, but we don't expect economic activity and corporate profits to peak in 2022.

Risk assets like Equities may remain volatile and range bound in the near term, but negative real rates, still positively sloping yield curves, a reasonably strong nominal growth environment and bearish investor sentiment argues for staying invested and not becoming overly cautious.

Thought of the Week—*Transparent Fed, Opaque Risk:* The historic drawdowns in Fixed Income are not all bad news. The ability to reinvest cash flows at higher yields is a welcome outcome for savers penalized by years of financial repression.

Market value declines on high-quality bonds are not permanent impairments of capital for investors with the ability and willingness to hold to term, in our view. Market value losses do not affect principal at maturity—only the present values of that principal. Finally, it is possible that a good portion of market value losses are behind us. The market expects the terminal federal funds (fed funds) rate to be in the low 3% range, longer-dated yield curves are already flattening, and 10-year Treasurys have moved from 0.5% to close to 3% already. Unless the 10-year rises to 5.5% quickly, the vast majority of market value losses may have already occurred.

MACRO STRATEGY ▶

Chief Investment Office Macro Strategy Team

MARKET VIEW ▶

Niladri Mukherjee
Managing Director and Head of CIO Portfolio Strategy

Kirsten Cabacungan
Assistant Vice President and Investment Strategist

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Matthew Diczok
Managing Director and Head of Fixed Income Strategy

MARKETS IN REVIEW ▶

Data as of 4/25/2022, and subject to change

Portfolio Considerations

Within Equities, we emphasize positioning for higher inflation through cyclical exposures, which include Value and Small-cap exposure, and we prefer cyclical sectors that are most likely to benefit from real asset growth and increasing free cash flow, such as Energy, Materials and Mining. Within Fixed Income, we are positioning for rising interest rates and prefer shorter duration versus benchmarks, and corporate and municipal credit versus Treasurys. 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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MACRO STRATEGY

Stagflation Ahead

Chief Investment Office, Macro Strategy Team

For the first time in over 40 years, the U.S. economy is facing stagflation in 2023 and 2024 as the Fed tries to get a handle on inflation, which keeps surprising it and the consensus to the upside. In a March 15, 2022, *Washington Post* article, Harvard Professor Larry Summers described the situation as follows: “The Fed’s current policy trajectory is likely to lead to stagflation, with average unemployment and inflation both averaging over 5% over the next few years—and ultimately a major recession.” As Professor Summers notes, (1) a year ago they expected inflation around 2% for the next year; (2) six months ago they were sure it was transitory; (3) well into the winter, the Fed was still buying mortgage-backed securities after home prices had risen by 20%. Importantly, he notes, “no explanation has been offered for these rather momentous errors,” which raises questions about the Fed’s understanding of the inflation process.

Stagflation arose in the 1970s under similar circumstances, which the famed economist Milton Friedman had predicted in his December 1967 Presidential Address to the American Economic Association. According to the conventional wisdom at the time, economic policy could maintain a lower unemployment rate by tolerating a higher rate of inflation. Professor Friedman explained how this provided only a temporary benefit that would ultimately be reversed and even worsened by the need to eventually stop inflation expectations from continually rising. The process of reducing inflation and inflation expectations would ultimately raise unemployment even as the lagged response of inflation to prior excessive demand stimulation would be pushing prices higher. Higher unemployment with rising inflation was dubbed “stagflation” a decade later, when the spiraling uptrend in inflation expectations eventually forced the Fed to respond, causing the biggest sustained rise in unemployment since the 1930s.

As Professor Summers notes, the most important change in the latest Monetary Policy Report to Congress “was in the wrong direction—the removal of the discussion of various monetary policy rules that had suggested policy was dangerously loose.” As we noted in past reports, economic research over the last century has documented that inflation is always and everywhere a monetary phenomenon. In particular, high inflation requires rapid money-supply growth, which has been true across countries and historical time frames. High inflation like that in the 1970s is associated with much higher money-supply growth and, conversely, decades of low inflation are associated with below-average money-supply growth, as during the decade after the Great Financial Crisis (GFC) of 2008-2009. Currently, the Consumer Price Index (CPI) shows inflation up 8.5% over the 12 months through March 2022, which ranks with the highest rates of the past century, as does the growth rate of the M2 money-supply over the past two years.

The Fed’s refusal to acknowledge this primary source of inflation is similar to its policy failure in the late 1970s, when it kept raising interest rates but kept them below the rapidly accelerating inflation rate as money-supply growth was allowed to remain excessive. Eventually, Fed Chairman Paul Volcker had to raise interest rates far above inflation to slow the money-supply growth rate and bring down inflation. He explicitly set a money-supply target that did the trick.

Just as the easy money policies of the late 60s and 70s helped finance the “guns and butter” fiscal deficits of that era, Mr. Powell’s extremely easy money policy has financed the biggest deficit since World War II, with similar results. There is always political pressure for the government to spend more, and the Phillips Curve[1] tradeoff between unemployment and inflation provided the theoretical rationale for easy money in the 60s and 70s. This time around, Modern Monetary Theory (MMT)[2] provided the rationale for easy money by positing that a fiscal deficit could always be financed with money printing if the Fed would only go along. The downside of both theories

Investment Implications

Rising interest rates are driving price-earnings (PE) multiple compression, offsetting the positive effect of still growing earnings on overall equity index prices. Within the market, faster relative earnings growth and relative PE improvement are sustaining the ongoing rotation out of Growth stocks into Value stocks across the globe.

[1]Phillips curve is an economic concept developed by A. W. Phillips stating that inflation and unemployment have a stable and inverse relationship.

[2]Modern Money Theory is a heterodox macroeconomic framework that says monetarily sovereign countries, which spend, tax, and borrow in a fiat currency that they fully control, are not operationally constrained by revenues when it comes to federal government spending.

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turned out to be raging inflation, the cruelest tax of all, since it hits the world's lower-income people the hardest because they spend most of their income on food, energy, housing and other necessities with soaring prices.

For investors, it is also important to recognize the implications of this new volatile inflation environment. Bringing down inflation without a recession is very difficult given how far behind the curve the Fed has fallen. Also, in the current environment, risk-parity strategies don't work. In the old, low-inflation environment, Treasurys offered positive returns when equity returns went south. However, historical data show that in high-inflation environments, bond and stock returns are positively correlated. It is thus not surprising to see both broad stock and bond indexes down by mid-single digits in Q1.

Other relationships that held when inflation expectations were anchored around 2% have broken down as well in this new environment of rising inflation. Many inflation forecasting models estimated based on data from the disinflationary environment of the past 40 years are registering huge errors that are reflected in massive underestimation of actual inflation. For example, Benderly Economic Insights noted this unusual discrepancy in its recent analysis of the March Producer Price Index (PPI) report. Commenting on the more complete pass-through of raw materials prices to downstream intermediate and finished-goods prices, the analysis concludes: "This is unprecedented in the history of these data, and it is boosting, and will continue to boost, the rate at which "core" goods in the CPI are increasing." Our analysis also indicates that "core" CPI inflation is likely to reach around 10% year-over-year later this year, averaging above 7% in 2022 and around 6% in 2023. This would bring cumulative "core" inflation to 34% over the decade from 2015 to 2024.

The massive outperformance of Value stocks and severe bear market in long-duration Growth stocks is another implication of this new environment. Year-to-date, MSCI World Index Value (+6.3%) has outperformed Growth (-5.6%) by over 10 percentage points, according to BofA Global Research. Growth stocks benefited from the low interest rate/slow growth environment after the GFC, and investors crowded into the Growth theme and avoided Value stocks. The new environment has caught them by surprise. This research finds that "the majority of funds do not appear well positioned for the current environment of slowing growth and high inflation...Funds are underweight Energy in all regions and underweight Materials in most regions, so do not appear positioned for continued inflation."

Q1 earnings reports to date show why Value is outperforming. While Value and Growth stocks are delivering similar revenue growth of just over 10%, Value is delivering stronger earnings per share (EPS) growth of about 8% versus 4% for Growth, according to Credit Suisse tally of Q1 earnings reported through mid-April. In the early stage of the inflation breakout last year, most companies could pass on price increases, and margins were maintained pretty much across the board. A year later, with real incomes declining as inflation outpaced wage gains, consumers are becoming more price conscious, and more companies are having difficulty passing on higher costs, squeezing margins. Value stocks are winning, as they are better able to maintain margins. Forward-looking indicators of profits, like earnings revisions ratios (ERR) find that while overall downward revisions have begun to outnumber upward revisions, Value sectors, such as Energy, Financials and Materials, continue to see relative strength in their earnings outlook, with more upward revisions than downward revisions. As growth slows over the next year or two, this pattern is likely to continue, in our view. In addition, rising rates are likely to continue shrinking the big relative valuation difference between Growth and Value stocks. Slower revenue and earnings growth along with higher interest rates are headwinds for Equities, especially Growth stocks.

This new macro environment is also shaping relative performance within sectors. For example, in the Financials sector, Insurance stocks have been relative outperformers. This makes sense if the economy is transitioning to a new, higher-interest-rate environment, where the asset side of their balance sheets will earn a bigger, faster-growing interest revenue stream. On the liability side, long-tailed obligations to clients are significantly reduced in present-value terms by higher interest rates. This widening value gap between strengthening asset earnings power and reduced liability burdens caused by higher inflation and interest rates is also reflected in the recent relative strength of Real-Estate assets, which are often financed by rapidly depreciating Fixed Income debt. After all, stock prices ultimately reflect the net present value of the balance sheets the companies manage.

MARKET VIEW

Remain Vigilant, But It May Be Too Early To Become Cautious

Niladri Mukherjee, Managing Director and Head of CIO Portfolio Strategy

Kirsten Cabacungan, Assistant Vice President and Investment Strategist

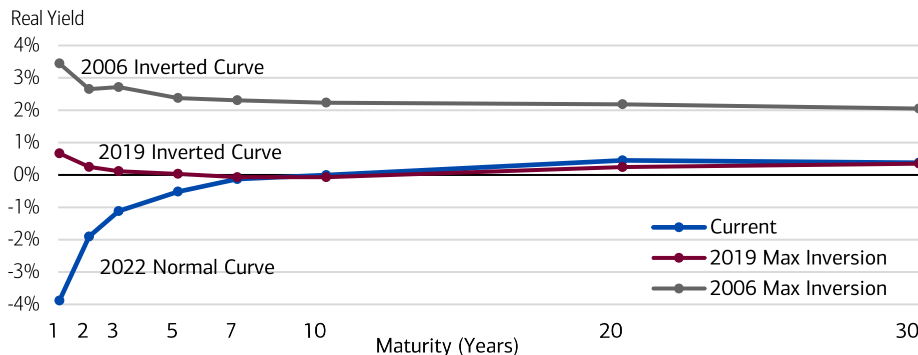
So far this year, risk appetite has suffered due to a rising "Wall of Worries," including a steep rise in interest rates, slowing growth, Fed tightening mixed in with 40-year-high inflation and the Russia/Ukraine conflict threatening supplies of key commodities. In fact, prices of major commodities are higher by 20% to 40% this year, creating further upside risk for inflation and potentially slowing economic momentum. Meanwhile, the market is pricing in roughly a cumulative 2.5% in Fed rate hikes along with balance sheet runoff this year, which if it were to pan out, would be the most aggressive hiking cycle since 1994. The prospect of a growth slowdown along with elevated inflation has pressured Equity and bond valuations, with the flattening (and in some instances briefly inverted) yield curves leading some investors to contemplate recession probabilities.

Our view is that the U.S. economy has entered the early stages of the late cycle. Economic growth is likely to moderate from here as the Fed engineers tighter financial conditions but we don't expect economic activity and corporate profits to peak in 2022. Risk assets like Equities may remain volatile and range bound in the near term, but negative real rates, still positively sloping yield curves, a reasonably strong nominal growth environment and bearish investor sentiment argues for staying invested and not becoming overly cautious.

The yield curve still signaling easy financial conditions: The recent, brief inversion of the 2s/10s yield curve set off concerns of economic downturn. It's true that an inversion of the 2s/10s curve preceded every recession in the last four decades, but the signal has generally told us little about timing. The lead time from the first sustained 2s/10s inversion to recession has been as short as six months to as far out as three years. During the last six curve inversions that led to a recession within a 24-month time frame, the S&P 500 saw a 7% price gain on average from the date of the first sustained inversion to the start of the recession.[3]

Other parts of the yield curve, like the more important spread between the fed funds rate and the 10-year Treasury yield remain in a steepening trend. Meanwhile, the yield curve for real interest rates is positively sloped. Real yields tell us about the real cost of money. During past inversions of the nominal curve that were subsequently followed by a recession, the real yield curve also inverted, signaling tight financial conditions (Exhibit 1). For now, with real yields still in negative territory and the curve upward sloping, Equities remain more attractive relative to bonds.

Exhibit 1: Real Yield Curve Still Upward Sloping, Signaling Still Easy Financial Conditions.



Note: Real yields are based on inflation-indexed U.S. Treasurys. 2019 max inversion represents data on August 27, 2019, and the 2006 max inversion represents data on November 27, 2006. Sources: Bloomberg; Federal Reserve Bank of Cleveland; Fundstrat. Data as of April 19, 2022.

Portfolio Positioning

Given the various upside and downside risk factors in the market, investors should continue to remain vigilant. We remain constructive on Equities relative to Fixed Income. Within Equities, our preference for U.S. Equities over International has been further boosted given deteriorating fundamentals in Europe and China. Commodity-based sectors like Energy and Materials have the best outlook, in our view, while Healthcare is exhibiting positive absolute and relative price trends.

[3]Chief Investment Office; Bloomberg. Data as of April 2022.

The U.S. economy has good momentum: Positive economic data keep defying the gloomy outlook dominating headlines. Strong growth in employment has helped to bring the unemployment rate lower, ticking down to 3.6% in March, or the lowest level since the start of the pandemic. Demand for workers remains robust, with job openings at 11.27 million, roughly 5 million more openings than unemployed workers. Higher wages are attracting more people back to seek employment, with labor force participation improving.

The consumer continues to show a willingness to spend, and a strong shift in consumption trends toward services reflects a normalization of economic activity as pandemic worries fade. The latest data from Bank of America card data showed credit and debit card spending was up 11% year-over-year for March. While rising prices, especially for food and gasoline, remain a headwind, the consumer remains cushioned by large liquid savings, with household deposit holdings still up over $2.5 trillion from pre-pandemic levels. Lingering effects from the massive fiscal stimulus the last few years is also still likely filtering through the economy, especially given that state and local governments saw their highest budget surplus in 80 years in 2021, according to Strategas Research.

Robust demand dynamics and rising inflation should be tailwinds for solid nominal earnings growth ahead. While higher costs could challenge margins, corporate balance sheets are healthy in aggregate, and they maintain some pricing power given a strong consumer. In fact, given our view that a peak in earnings is unlikely this year, Equities could continue to grind higher.

Extreme bearishness tends to be a positive for Equities: The growing list of concerns from inflation to geopolitical tensions has soured investor sentiment in the last several months. The results from the American Association of Individual Investors (AAII) survey are showing extreme bearishness among investors. With bears significantly outnumbering bulls, the bull-bear spread is now at its lowest level since 2013. Overly pessimistic readings tend to actually bode well for Equities. Historically, the S&P 500 has seen positive returns in the six months and 12 months following an AAII bull-bear spread level at the current level of bearishness or more of an average of roughly 11% and 13%, respectively.

We are watching key data points to assess asset allocation shifts: Rising inflation expectations have weighed on consumer sentiment. The University of Michigan Consumer Sentiment Index fell to its lowest level since 2011 in March. While some near term optimism over job growth and higher wages has helped to brighten consumers' outlook, boosting the index for April, rising prices remains a top concern. If inflation continues to outpace wage growth, it would increase the risks of consumers materially cutting back on spending as well as raise major questions over the sustainability of the business cycle.

International developments also remains a key risk. The Russia/Ukraine conflict continues to weigh on business and consumer confidence in Europe, and trade disruptions and rising commodity prices have dealt a blow to the growth outlook for the region. With major uncertainty about economic activity, the International Monetary Fund lowered its 2022 real gross domestic product (GDP) growth forecast for the euro area from 3.9% to 2.8%. A slowdown in economic activity in China has also led to cuts to growth forecasts. BofA Global Research lowered its forecast for China 2022 GDP growth from 4.8% to 4.2%. Shutdowns across the country aimed at bringing the coronavirus wave under control have likely stalled some of the growth momentum the economy possessed at the start of the year. Q2 growth is expected to weaken, especially as more of the effects of the shutdowns are captured by the data. A dimming global growth outlook could contribute to more elevated volatility and further weigh on confidence.

Conclusion

A growing list of market risks has caused many investors to become cautious on risk assets. While we remain underweight Fixed Income, which is likely to continue to be pressured by an upward shift in the yield curve, Equities can still grind higher given that the U.S. economy is likely to grow at an above-trend level and financial conditions are accommodative. We prefer exposure to areas levered to inflation such as Energy, Materials, Natural Resources, Value and Small-caps. Portfolio diversification can be enhanced by incorporating Real Assets such as Commodities, Real Estate and Infrastructure, as appropriate. We continue to monitor consumer sentiment in the U.S. and the deterioration in growth prospects for Europe and China to assess appropriate asset allocation shifts.

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THOUGHT OF THE WEEK

Transparent Fed, Opaque Risk

Matthew Diczok, Managing Director and Head of Fixed Income Strategy

The government's pandemic response created monetary-financed deficits that led to the highest inflation in four decades. The Fed was slow to understand this, initially diagnosing inflation as "transitory." That myth is dispelled, now in our 13th month above the Fed's inflation target with CPI at 8.5%.

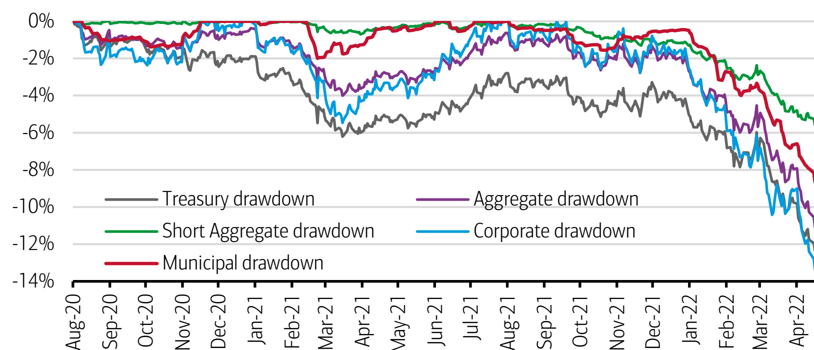
Fed transparency led to market opacity. The bond market listened; but unfortunately the Fed did not know what it was talking about. In June 2021, the Fed had conditioned the market to expect one rate hike by June 2023. As of today, the market expects the equivalent of another 11 25-basis-point (bps) rate hikes by June 2023 (via 25 or 50 bps hikes at each meeting, after the one already done). *This is the largest pivot in modern-day Fed history.* The Fed's abrupt about-face to get out from behind the curve has created some of the largest Fixed Income drawdowns to date, especially on Treasurys and short-dated securities.

In reality, this is not all bad news. First, the ability to reinvest cash flows at higher yields is a welcome outcome for savers penalized by years of financial repression. Second, market value declines on high-quality bonds are not permanent impairments of capital for investors with the ability and willingness to hold to term. Total returns on high-quality bond portfolios will trend back to their acquisition yield, as bonds are "pulled to par" closer to maturity. Market value losses never affect principal at maturity—only present values of that principal. Finally, while the future is far from certain, it is possible that a good portion of market value losses are behind us. The market expects the terminal fed funds rate to be in the low 3% range, longer-dated yield curves are already flattening, and 10-year Treasurys have moved from 0.5% to close to 3% already. Unless the 10-year rises to 5.5% quickly—a level not seen in 20 years, completely out of context of low yields globally—then the vast majority of market value losses may have already occurred.

Portfolio Considerations

Higher rates are a welcome opportunity to reinvest cash flows at higher yields, even at the expense of market value declines on existing holdings. Investors should continue to be underweight Fixed Income, modestly short duration, underweight Treasurys, and prudently overweight spread products. Unless an investor's goals, risk tolerance, or liquidity needs have changed, no significant portfolio changes are necessary and this may be a good time to consider rebalancing Fixed Income back to tactical and strategic targets.

Exhibit 2: The Aggressive Fed Pivot, While Necessary, Has Led To Historic Market Value Losses On Fixed Income.



	Current Drawdown	Worst Drawdown Amount	Worst Drawdown Date	Data Since
Treasurys	-12.4%	Current	Current	Jan-73
Corporates	-13.4%	-19.3%	Feb-80	Jan-73
Municipals	-8.7%	-22.4%	Aug-81	Jan-80
Aggregate	-11.1%	-12.7%	Feb-80	Jan-76
Short Aggregate	-5.6%	Current	Current	Jan-00

Source: Bloomberg Bond Indices. Data as of April 20, 2022. **Past performance is no guarantee for future results.**

Equities

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
DJIA	33,811.40	-1.8	-2.4	-6.4
NASDAQ	12,839.29	-3.8	-9.7	-17.8
S&P 500	4,271.78	-2.7	-5.6	-10.0
S&P 400 Mid Cap	2,583.21	-1.7	-4.1	-8.7
Russell 2000	1,940.67	-3.2	-6.2	-13.3
MSCI World	2,882.45	-2.6	-5.5	-10.4
MSCI EAFE	2,081.96	-1.5	-4.4	-10.0
MSCI Emerging Markets	1,075.60	-3.3	-5.6	-12.2

Fixed Income†

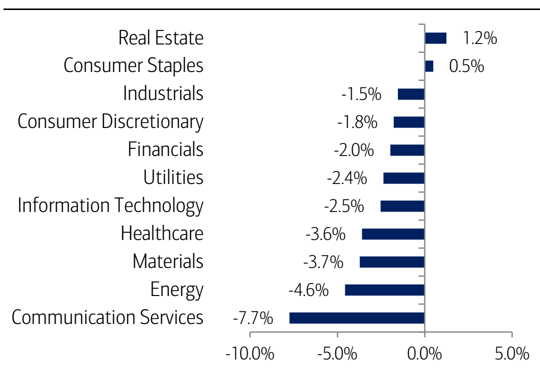
	Total Return in USD (%)			
	Current	WTD	MTD	YTD
Corporate & Government	3.40	-0.92	-3.79	-9.89
Agencies	2.93	-0.59	-1.63	-5.77
Municipals	3.13	-1.17	-2.52	-8.59
U.S. Investment Grade Credit	3.48	-1.04	-3.78	-9.49
International	4.25	-1.43	-5.08	-12.38
High Yield	6.74	-0.88	-2.67	-7.37
90 Day Yield	0.77	0.75	0.48	0.03
2 Year Yield	2.67	2.45	2.33	0.73
10 Year Yield	2.90	2.83	2.34	1.51
30 Year Yield	2.94	2.91	2.45	1.90

Commodities & Currencies

	Total Return in USD (%)			
Commodities	Current	WTD	MTD	YTD
Bloomberg Commodity	275.91	-2.6	3.8	30.3
WTI Crude $/Barrel††	102.07	-4.6	1.8	35.7
Gold Spot $/Ounce††	1931.6	-2.4	-0.3	5.6

	Total Return in USD (%)			
Currencies	Current	Prior Week End	Prior Month End	2020 Year End
EUR/USD	1.08	1.08	1.11	1.14
USD/JPY	128.50	126.46	121.70	115.08
USD/CNH	6.53	6.38	6.35	6.36

S&P Sector Returns



Sources: Bloomberg; Factset. Total Returns from the period of 4/18/2022 to 4/22/2022. †Bloomberg Barclays Indices. ††Spot price returns. All data as of the 4/22/2022 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 4/22/2022)

	2021A	Q1 2022A	Q2 2022E	Q3 2022E	Q4 2022E	2022E
Real global GDP (% y/y annualized)	6.0	-	-	-	-	3.4
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	8.0	7.9	7.2	6.2	7.3
Core CPI inflation (% y/y)	3.6	6.3	5.4	5.2	5.0	5.5
Unemployment rate (%)	5.4	3.8	3.4	3.2	3.1	3.4
Fed funds rate, end period (%)	0.07	0.33	1.38	2.13	2.63	-

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 April 22, 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 4/1/2022)

	CIO View				
Asset Class	Underweight		Neutral		Overweight
Global Equities				●	
U.S. Large Cap Growth			●		
U.S. Large Cap Value				●	
U.S. Small Cap Growth				●	
U.S. Small Cap Value				●	
International Developed			●		
Emerging Markets			●		
Global Fixed Income		●			
U.S. Governments		●			
U.S. Mortgages		●			
U.S. Corporates				●	
High Yield		●			
U.S. Investment Grade Tax Exempt			●		
U.S. High Yield Tax Exempt		●			
International Fixed Income	●				
Alternative Investments*					
Hedge Funds			●		
Private Equity			●		
Real Assets			●		
Cash					

CIO Equity Sector Views

	CIO View				
Sector	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 April 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.

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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) an index of the variation in prices paid by typical consumers for retail goods and other items.

Producer Price Index (PPI) is a price index that measures the average changes in prices received by domestic producers for their output.

University of Michigan Consumer Sentiment Index is a consumer confidence index published monthly by the University of Michigan.

MSCI World Growth and Value Index captures large and mid cap securities exhibiting overall growth style characteristics across 23 Developed Markets (DM) countries.

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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.

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.

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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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