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# Capital Market Outlook

April 6, 2020

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## IN THIS ISSUE

- **Macro Strategy**—Leading up to the coronavirus economic downturn, U.S. consumer balance sheets were relatively healthy, though pockets of weakness existed in non-mortgage debt sectors and among certain income cohorts. The recently enacted $2 trillion of fiscal stimulus includes measures to help low-income and middle-class workers meet financial obligations coming due, but more support would be needed in the case of a more protracted recession.
- **Global Market View**—Emerging markets (EMs) are home to over 80% of the global population yet they only account for 21% of coronavirus-confirmed cases. While the size of this virus' impact remains unknown, deficient healthcare systems, density of populations riddled with preexisting diseases, and poor sanitation begin to explain EMs' vulnerability to the pandemic. Considering the unfavorable outlook for the emerging markets over the near-to-medium term, the coronavirus outbreak reinforces our portfolio bias toward U.S. equities versus the rest of the world.
- **Thought of the Week**—Given the remarkable speed and severity of the current sell-off in equities, there's a tendency among many investors to compare this crisis to those of the past to understand what the extent of the damage and shape of the recovery could be. However, there are a number of reasons why a continuation of the current sell-off toward a 1930s-style depression seems highly unlikely.
- **Portfolio Considerations**—We prefer equities over fixed income as valuations in bonds are at extreme levels. With Treasury yields still close to historically low levels, oil prices correcting aggressively, and investor sentiment in equities at previous crisis levels, we would have long-term plans ready to re-risk (rebalance) portfolios back to strategic and tactical targets as the bottoming process in equity markets unfolds over the coming weeks. There are five signs to watch to help determine the bottoming process, in our view:
  1. Capital needs to flow freely. This is being addressed by the various facilities put in place by the Federal Reserve (Fed) and Treasury. We are watching credit improvement and liquidity in the daily funding markets.
  2. The relationship between stocks and bonds needs to shift back to a somewhat normal inverse relationship.
  3. Volatility as measured by the Chicago Board Options Exchange (CBOE) Volatility Index (VIX) needs to recede when the markets are experiencing down days.
  4. Strength of the U.S. dollar needs to slow down and crest.
  5. News flow regarding this virus and the overall economy/corporate profits should begin to slow and be ignored by the broader market.

MACRO STRATEGY

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GLOBAL MARKET VIEW

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THOUGHT OF THE WEEK

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Data as of 4/6/2020 and subject to change.

### MARKET TAKEAWAYS

- capital is flowing more freely and fixed income markets have stabilized.
- equity volatility has settled in and declined from record highs as we move from the liquidity phase to the economic bridge phase.
- economic announcements are beginning to show the effect of the shutdown measures with employment and claims taking the initial brunt.
- technology and healthcare sectors have been holding up as volatility hit record highs. We suspect this is due to their high free cash flow characteristics and, clearly, their higher demand given the work from home posture and rising biotechnology/science needs.
- investment-grade fixed income has become more attractive as fixed income markets have stabilized.

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## Consumer Credit Risks of the Coronavirus

Kathryn C. McDonald, CFA® Vice President and Market Strategy Analyst

As evident from the latest flood of negative data, the coronavirus has managed to stall the once-dominant engine of economic growth: U.S. consumers. A massive spike in jobless claims, declining consumer confidence and weak spending estimated from Bank of America card transaction data point to a sharp reversal in the financial well-being of U.S. households and consumption. The weak unemployment picture painted in the latest jobs report is just a preview of what's to come, with the survey reflecting an early March labor market, prior to the coronavirus disruption. Recent forecasts from BofA Global Research indicate unemployment could peak at 15.6%.

Leading up to the crisis, U.S. consumers had been in good financial shape due to low interest rates, rising incomes and strong employment growth. Debt service payments as a percent of disposable income have been near record lows in the history of the data going back to 1980. The more comprehensive financial obligations ratio, which includes non-debt monthly payments such as rent and property taxes, has also hovered near cycle lows. Meanwhile, the personal savings rate continued to trend higher, coming in at 8.2% in February 2020.

That said, and as we have outlined in the past, the headline consumer debt figures tend to mask important details regarding pockets of pressure that had been building in other sectors of household debt prior to the coronavirus outbreak.[1] Given the sharp and sudden contraction in jobs, with almost 10 million job losses recorded in just the past two weeks, we expect consumer credit fundamentals to deteriorate, especially among subprime borrowers. Amid the economic headwinds, delinquencies and defaults are likely to rise at a faster pace, but federal aid programs could mitigate the impact.[2]

### Student, Auto, Credit Card Debt Showed Signs of Stress Pre-Virus

Looking beyond the headline figures, we break down key differences among different sectors of consumer debt. Mortgages represent a significant portion (68%) of U.S. household debt, and thus tend to drive trends in the data.

- **Decreased leverage:** Most of the deleveraging that occurred after the 2008–09 financial crisis was done in the housing sector, with mortgage debt falling from nearly 65% of gross domestic product (GDP) in 2008 to under 45% by Q4 2019.
- **Improving credit quality:** Mortgage credit quality has also improved, with a greater portion of new mortgage originations being taken on by borrowers with higher credit scores. 90+ day delinquency rates were near all-time lows, or 1.1% as of Q4 2019.
- **Record-low mortgage rates:** The rate for a 30-year fixed mortgage averaged 3.8% in March 2020, down from 4.8% in November 2018.

The non-mortgage debt data tell a different story.

- **Increased leverage:** Since 2008, U.S. consumers have increased leverage in sectors such as student loans, auto loans and credit card debt, with total consumer credit in these three categories rising from 15.8% of GDP in 2008 to over 17.3% last year.
- **Weaker credit quality:** The percent of student loan balances 90+ days delinquent has hovered around 11%, while auto loan and credit card delinquencies have been increasing since 2014–2016.

[1] See CIO Capital Market Outlook 2-18-2020, "Trouble with the Trifecta of U.S. Debt?" and CIO Capital Market Outlook 11-12-2018, "Headline Consumer Debt Figures Mask Potential Warning Signs."

[2] See BofA Global Research Securitization Weekly, March 29, 2020.

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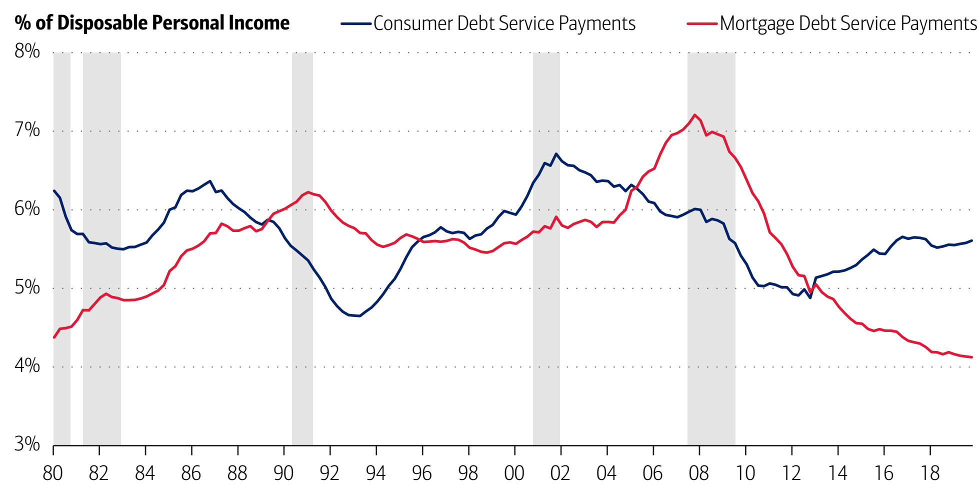
- **Higher interest rates:** Interest rates on federal student loans are currently above five-year averages. Auto loan rates have been trending higher since 2016, and bank credit card interest rates are near the highest level in decades at roughly 15%. As a result, consumer credit payments (excluding mortgages) have been taking up a greater share of consumer disposable incomes, putting pressure on consumer finances long before the coronavirus impact reached U.S. labor markets (See Exhibit 1).

**Exhibit 1: Rising Debt Service Payments on Consumer Credit.**




Note: Consumer debt service payments excludes mortgages. Source: Federal Reserve. Data as of March 2020.

## Debt by Income Level

Heterogeneity in consumer debt also exists among types of borrowers. In general, households with higher income levels tend to also have higher debt levels. That's not surprising given that more affluent Americans are more likely to own homes and attend college and graduate school.[3] However, as shown by Exhibit 2, low- and middle-income households are more likely to have higher debt-to-income ratios and more trouble making payments.

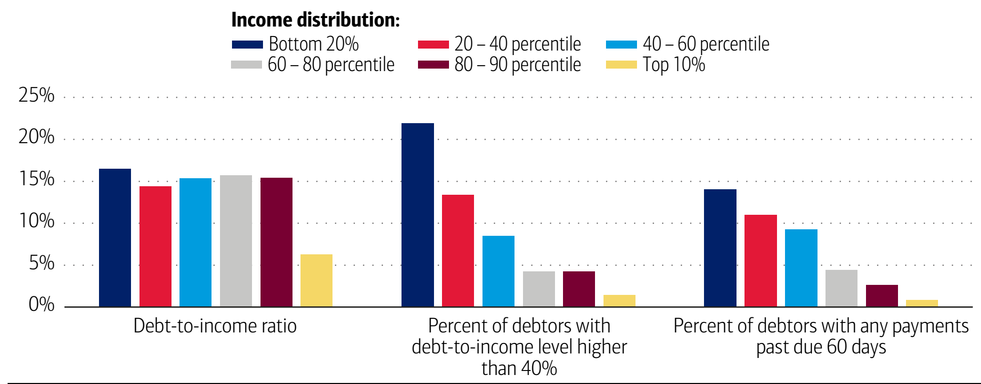
Indeed, roughly four in ten Americans surveyed by the Fed said they would not be able to cover an emergency expense of $400 using cash or equivalents.[4] About one-third of Americans noted they would have to take on additional debt in order to cover the expense.

Meanwhile, the sharp decline in economic activity in 2020 is most likely to be felt by low- and middle-income workers. Most of the unemployment claims to date have been cited in lower-wage, service industries, particularly accomodation and food service, and retail. Higher-income workers in the professional and business services industries, who can more easily work from home, are less at risk.

[3] In fact, 48% of the total value of student loan debt outstanding is held by borrowers with a graduate degree.

[4] Federal Reserve, 2019 *Report on the Economic Well-Being of U.S. Households.*

**Exhibit 2: Low-Income Americans Face Greater Financial Pressures.**



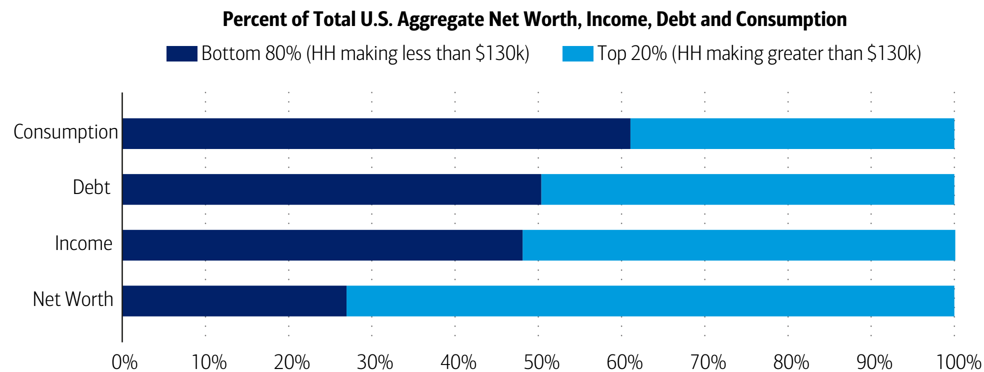

Note: Debt to income ratio is the ratio of an individual's monthly debt payment to his or her monthly gross income.
Source: Federal Reserve, Survey of Consumer Finances. Data for 2016, latest available.

### Why This Matters for Economic Growth?

How middle-class and low-income households emerge from the crisis will be critical in determining the trajectory and strength of the post-coronavirus economic recovery. These low-wage and middle-class households are significant drivers of U.S. consumption, making up almost two-thirds of total consumption. As a side note, the bottom 80% of households are defined as households earning less than $130,000 a year (with the average household consisting of 2.5 people), according to the Census Bureau.

Compared to statistics on wealth inequality—where household net worth is concentrated at the top—consumption is much more evenly distributed (Exhibit 3).

**Exhibit 3: Low- and Middle-Income Households Contribute Larger Share of Consumption.**




Sources: Federal Reserve Flow of Funds (net worth and debt for year-end 2019); Federal Reserve Consumer Expenditure Survey (consumption for full-year 2018); Census Bureau (income data for 2018). Data as of March 2020.

According to the latest forecasts by BofA Global Research, consumer spending is expected to turn positive in Q3 as the economy slowly opens. The recovery in aggregate GDP growth (including business and residential investment) will come in Q4, with a sharp +30% annualized gain for the quarter (seasonally adjusted at annual rates). The speed to market of stimulus programs and effectiveness of government to respond to weaker growth with additional stimulus will be important factors in determining the trajectory of economic growth after the health fears fade. U.S. households are likely to have significant pent-up demand following the sharp decline in economic activity—that is, if consumers can avoid the severe scenario in which credit quality rapidly deteriorates and household debt interest payments snowball to unsustainable levels.

### Not Quite '08

There are important differences between the current crisis and the previous one. In the case of the coronavirus shock, consumer debt was not the cause of the crisis. Instead, this is a health crisis that will have spillover effects on consumer debt and spending. In other words, consumers started off on much firmer financial footing, helping to ease the impact of the shock.

Also, this time the debt build-up has been in the non-mortgage sector, which is not as systemically important as the housing sector was in 2008. That said, a sudden surge of mortgage delinquencies following the spike in unemployment is a significant risk if the coronavirus disruption lasts longer than expected.

Finally, the scale and speed of the policy response to this evolving economic crisis have been unprecedented. Much of what has been enacted over the past few weeks was implemented over the course of a year during the Great Financial Crisis 2008–2009.

The massive $2 trillion in stimulus enacted through the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") will help to offset some of the economic hardship through generously expanded unemployment benefits, rebates to low- and middle-income households, student loan relief and mortgage loan forbearance provisions, among other measures.[5] Current policy is designed to address a relatively temporary economic shutdown (approximately 2-3 months). If the labor market stress lasts longer, more stimulus will likely be deployed to further assist consumer credit. In our view, given low inflation and interest rates, the U.S. federal government has the fiscal space to shoulder a larger debt burden, which would help prevent a more severe drawdown in economic activity.

GLOBAL MARKET VIEW

## Tipping the Scale

Lauren J. Sanfilippo, Vice President and Market Strategy Analyst

It was only one month ago when 80% of confirmed coronavirus cases were in China, mainly clustered in the Hubei province. Today, roughly the opposite is true, with 90% of cases outside China's borders. While the spread of this virus was inevitable, the disruption related to coronavirus has amounted to a deeper global slowdown than initially penciled in, closing national borders, shuttering factories, slashing consumer demand and slowing global trade. The staggered hits to GDP forecasts suggest a first-quarter-growth decline of 6.0% yoy[6] for China, followed by second-quarter double-digit contractions for both the U.S. and Europe, unfolding country by country and quarter by quarter. The world economy has been brought to a standstill, with BofA Global Research anticipating a 2.7% decline in global output this year, among the weakest performances of the post-war era.

The Global Health Security index which grades each country on it's pandemic preparedness has given the U.S. a score of 83.5—the highest ranking of any country, meaning the U.S. is the most ready to deal with a health pandemic. The developed world, in general, has better healthcare infrastructures, stockpiles of supplies, the resources to spend on medical research and development and deep-rooted institutions to battle the contagion's spread. However, the same cannot be said of many developing nations. The world's poorest areas are disadvantaged for a number of reasons and therefore rank lower on the Global Health Security Index. An inability to fund an efficient healthcare system just begins to explain poorer nations' vulnerability to a pandemic. Other contributing factors are the density of populations riddled with preexisting communicable and noncommunicable diseases and, importantly, poor sanitation with limited plumbing and/or scarcity of water. This leaves billions of people's health on

[5] See Investment Insights 3-31-2020, "Whatever it Takes: The U.S. Policy Response to COVID-19"

[6] BofA Global Research forecasts unless otherwise noted.

the brink of calamity during non-pandemic times—never mind current circumstances. Perhaps the greatest impediment to this part of the world is the uncertainty and lack of testing to even size the risk. All of this points to the likely belated and dangerously unaccounted-for the coronavirus disturbance taking place in the emerging markets.

As of April 5, of the world's total confirmed cases of the coronavirus, 1.2 million, some 21% were recorded in the emerging markets, including China. Excluding China, the figure was just 15% but is set to rise sharply as this virus jumps to the world's poorest and most vulnerable nations. To wit, according to epidemiological models, some 1 million people could die from this virus in India alone by July.[7]

In addition to the stress the spread of this virus will place on public health capabilities, add in the synchronized plunge in commodity prices, led by oil, the collapse in global trade, and the strengthening U.S. dollar (making it even more burdensome to repay dollar-denominated debt)—and the EMs are left as the most vulnerable to the unfolding the coronavirus crisis.

### Tipping Point: The Healthcare Pandemic Reaches the Emerging World

Emerging markets are home to the largest share of the world's population, but healthcare spending there is less than half that of developed markets. The combined value of the EM healthcare sector is just $1.7 trillion, while comparatively, the U.S. healthcare sector alone is nearly double that number. While developing economies average around $300 per capita in healthcare spend, the worse-off fortunes in parts of Africa such as Kenya ($77) or Liberia ($57), to Latin American countries like Venezuela ($94) and Haiti ($62), to developing Asia such as Bangladesh ($36) or India ($69) are not even $100 per person. From Exhibit 4, it's evident that the number of confirmed cases merely serves as a floor to how many cases could be brewing. Case in point: It's unlikely 86% of the global population living in the developing world is harboring only 21% of coronavirus cases.

**Exhibit 4: Number of Confirmed Coronavirus Cases as a Floor To How Many Cases Could Be Brewing.**

| Economy | Share of Global Economy (%) | Total Confirmed Cases | Total Cases/1M Population | Healthcare Expenditure Per Capita (US$) | Pandemic Readiness Rank |
|---|---|---|---|---|---|
| **Advanced Economies** | **59.8** | **1,014,725** | **946** | **3,946** | |
| U.S. | 24.5 | 336,851 | 1,018 | 10,246 | 83.5 |
| Japan | 5.9 | 3,654 | 29 | 4,169 | 59.8 |
| Germany | 4.5 | 100,133 | 1,195 | 5,033 | 66.0 |
| France | 3.2 | 92,839 | 1,422 | 4,380 | 68.2 |
| UK | 3.2 | 47,806 | 704 | 3,859 | 77.9 |
| Italy | 2.3 | 128,948 | 2,133 | 2,840 | 56.2 |
| Canada | 2.0 | 15,512 | 411 | 4,755 | 75.3 |
| Spain | 1.6 | 135,032 | 2,888 | 2,506 | 65.9 |
| **Emerging World** | **40.2** | **273,138** | **41** | **305** | |
| China | 16.3 | 81,708 | 57 | 441 | 48.2 |
| India | 3.4 | 4,314 | 3 | 69 | 46.5 |
| Brazil | 2.2 | 11,298 | 53 | 929 | 59.7 |
| Mexico | 1.4 | 2,143 | 17 | 495 | 57.6 |
| Indonesia | 1.3 | 2,491 | 9 | 115 | 56.6 |
| Turkey | 0.8 | 27,069 | 321 | 445 | 52.4 |
| Iran | 0.6 | 60,500 | 720 | 475 | 37.7 |
| Thailand | 0.6 | 2,220 | 32 | 247 | 73.2 |

Sources: IMF, Johns Hopkins University, World Health Organization, United Nations, GHS Index. Data as of April 6, 2020, 09:00AM.

Cases in Africa, the world's second-most populous continent, counted 3,800 infected, according to the World Health Organization (WHO), which equates to as many cases as

[7] Gavekal Research, *India and the Virus,* April 2020.

there are in the state of Tennessee.[8] According to WHO, African nations will experience community transmission, the phase when the disease spreads rapidly within a locale without massive mitigating efforts to slow it down such as lockdowns or social distancing—both of which can be viewed as a privilege. Consider this: Social distancing is not possible for 587 million Africans,[9] or 60% of the continent's urban residents, who live in overcrowded and substandard housing.

Then there's emerging Asia (excluding China) with only 21,000 reported cases for 2.5 billion people. At 4,300 infected, coronavirus cases in India are up ten times since the nationwide lockdown was enforced on March 22. While India's low number of coronavirus testing is a concern (47,951 total for a population of 1.3 billion), its pace of testing has ramped up to 4,000 per day. A recent report jointly published by three American universities and the Delhi School of Economics claimed that India could have as many as 1.3 million coronavirus infections by mid-May.

Latin America, who's no stranger to infectious diseases, was home to the epicenter of the 2009 swine flu pandemic in Mexico. Last year Mexico's public investment had its worst year on record, with the peso as the worst-performing currency relative to the U.S. dollar. Pile on a pandemic and the attendant shutdown could prove challenging for the country, and particularly harsh for 60% of the labor force in the informal sector. The Centers for Disease Control and Prevention (CDC) has projected that Mexico, population 130 million, should be planning for a worst-case scenario of 84.5 million infections, of which 4.2 million could require intensive care.

There are two mitigating factors to consider. First is a narrative that warm climates could hamper the virus's spread over the coming summer months. Bear in mind, Africa will not feel this reprieve as it moves into winter starting in June. The second may be youth populations in much of the emerging world like Africa with an average age of 20 years old, according to the UN seeing as coronavirus mortality rates rise rapidly above age 65.

**The Going Gets Tough**

With a heavy reliance on commodity and tourism receipts, workers and small local businesses are bearing the brunt of the economic fallout in many emerging markets. The disruption of industry cuts demand for copper producers from Chile to Peru or oil exporters such as Colombia or Mexico. In tourist economies like Thailand, Indonesia and others, the imposition of most major economies under lockdown is threatening mass unemployment in tourist-fueled industries (think hotel, restaurant and leisure). Concerns over the pandemic's reach and impending damage have triggered a reversal of investment leading to capital outflows in EMs in a risk-off environment. According to the Institute of International Finance, foreign investors' liquidating EM stocks and bonds totaled $41.7 billion since the onset of this virus outbreak at the end of January. That's double the outflows over the same 51-day period after September 8, 2008.

Another important dynamic among the EMs is remittance flows sent back to home countries helping to prop up consumption and stabilize external reserves. Economies that rely heavily on remittance flows, such as India or the Philippines, are set to shrink as migrant workers lose their jobs domestically and are unable to send money home. If the 2009 crisis is any comparison, migrants' capacity to send money to relatives dropped by at least 10%.

**The Aftermath**

A number of themes are likely to emerge from this pandemic gone global. Addressing EM healthcare, the coronavirus will exacerbate the shift for the already rising demand for

[8] Johns Hopkins University, data as of April 5, 2020.
[9] According to the United Nations, data as of April 2020.

modern healthcare services from urban middle classes in Asia, Africa and Latin America. This virus has exposed glaring deficiencies in the global healthcare systems of the world. This, along with aging populations and the global proliferation of chronic diseases, will pull forward much-needed investment in the global healthcare infrastructure—increased spending on medical equipment, healthcare facilities, remote and mobile diagnostic capabilities, vaccinations, gene-editing technology. This virus has pointed to an obvious growth opportunity for telehealth globally. For example, in China 95% of medical consultations take place face to face. While China's online consumption is nearly 30% of its total retail,[10] one of the lowest penetration rates among all product categories are pharmaceutical products, a low 2% sold online. We see greater penetration of e-Commerce globally, boosting e-related platform/services providers as consumer behavior shifts toward the digital world and virtual networks.

In the end, we don't reach the tipping point of this crisis until the impact of this pandemic works its way through the developing world. The outbreak reinforces our portfolio bias toward U.S. equities versus the rest of the world, including the bleak outlook for the emerging markets.

THOUGHT OF THE WEEK

## Far from the Great Depression

Brian T. Wilczynski, Assistant Vice President and Investment Analyst
Kishan Chhatwal, Assistant Vice President and Investment Analyst

Given the remarkable speed and severity of the current sell-off in equities, there's a tendency among many investors to compare this crisis to those of the past to understand what the extent of the damage and shape of the recovery could be. Understandably, the benchmark for any 'worst-case scenario' is often the Great Depression, a period which saw the S&P 500 experience a stunning 86% decline that it didn't recover until 1954. While much can be learned from history about how to respond to periods of extreme economic and financial stress, Evercore ISI points to key differences between the policy/financial backdrop in the 1930s versus today, which compounded the severity of the downturn and transformed a sharp market sell-off into a Depression.

1. **Monetary Policy:** The Fed was in a rate hiking cycle in the late 1920s, raising its discount rate from 3.5% to 6% in 1928. In contrast, today the Fed has cut rates to zero and restarted its quantitative easing (QE) program.

2. **Banking:** The 1930s experienced a banking panic, which led to the collapse of one in every five banks by 1933. Today, U.S. banks remain well-capitalized thanks to regulations put in place after the 2008 Financial Crisis.

3. **Money Supply:** Money supply fell over 20% from 1929–1933, leading to sharp deflation and a drop in consumer spending and output. Today, M2 is growing by 7.4%, the Fed has increased its balance sheet by $1.6T over the past month, according to Bloomberg.

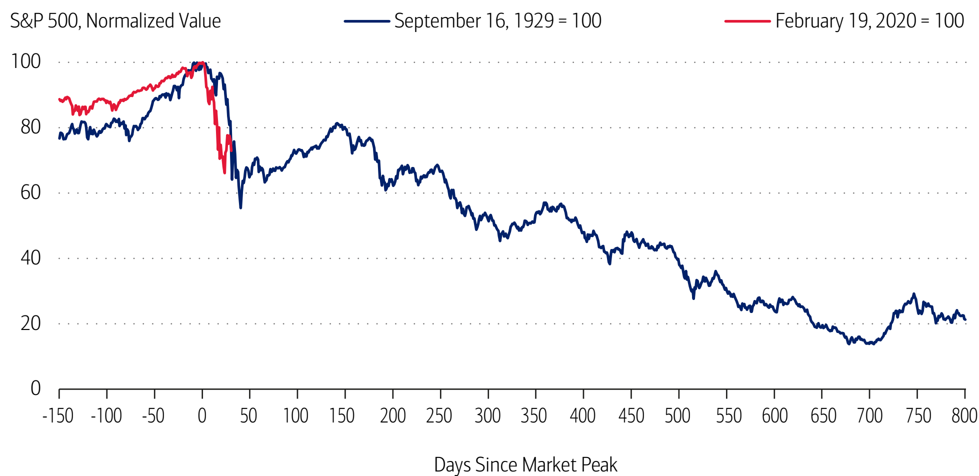
4. **Trade:** In the 1930s, The Smoot-Hawley Tariff Act raised the average tariff by approximately 20%. Protectionist trade policy back then was far broader than today, with about two dozen countries retaliating against the U.S., whereas the current trade war is primarily between the U.S. and China.

5. **Fiscal Policy:** The Revenue Act of 1932 raised taxes on households and corporations to balance the budget, creating an additional drag on the economy. Today the government has implemented $2.8T in fiscal stimulus over just the past two months, bringing the global total to $5T, or 5.8% of GDP.

[10] Euromonitor, data as of December 2019.

The magnitude and velocity of this sell-off are similar to the market crash in 1929 (Exhibit 5), but we believe the market bottoming process has begun. U.S. large cap stocks remain attractive from a long-term perspective, given weak investor sentiment and attractive relative valuations compared to bonds.

**Exhibit 5: 2020 Pales in Comparison to the Great Depression.**

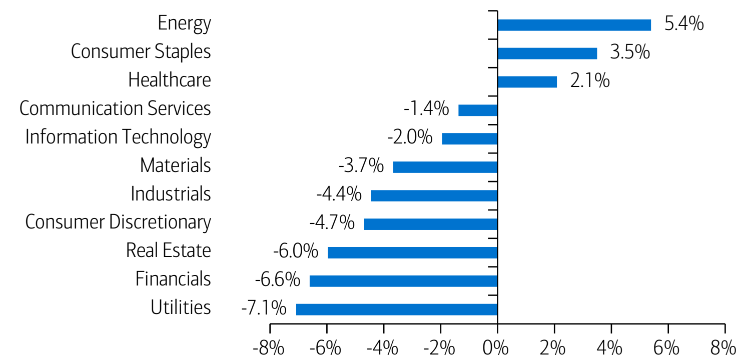



Source: FactSet. Data as of April 1, 2020.

## Equities

| | Current | Total Return in USD (%) WTD | MTD | YTD |
|---|---|---|---|---|
| DJIA | 21,052.53 | -2.6 | -3.9 | -25.7 |
| NASDAQ | 7,373.08 | -1.7 | -4.2 | -17.6 |
| S&P 500 | 2,488.65 | -2.0 | -3.7 | -22.6 |
| S&P 400 Mid Cap | 1,337.95 | -5.9 | -7.3 | -34.8 |
| Russell 2000 | 1,052.05 | -7.0 | -8.7 | -36.7 |
| MSCI World | 1,776.86 | -2.6 | -4.1 | -24.3 |
| MSCI EAFE | 1,487.08 | -3.8 | -4.7 | -26.4 |
| MSCI Emerging Markets | 831.72 | -1.2 | -2.0 | -25.1 |

## S&P 500 Sector Returns




## Fixed Income[1]

| | Current | Total Return in USD (%) WTD | MTD | YTD |
|---|---|---|---|---|
| Corporate & Government | 1.67 | 0.9 | 0.3 | 3.7 |
| Agencies | 0.88 | 0.6 | 0.3 | 4.4 |
| Municipals | 2.34 | -2.1 | -1.8 | -2.4 |
| U.S. Investment Grade Credit | 1.58 | 0.7 | 0.3 | 3.4 |
| International | 3.48 | 1.3 | -0.3 | -3.9 |
| High Yield | 9.97 | -0.6 | -2.1 | -14.5 |

| | Current | Prior Week End | Prior Month End | 2019 Year End |
|---|---|---|---|---|
| 90 Day Yield | 0.05 | -0.04 | 0.06 | 1.54 |
| 2 Year Yield | 0.23 | 0.24 | 0.25 | 1.57 |
| 10 Year Yield | 0.59 | 0.67 | 0.67 | 1.92 |
| 30 Year Yield | 1.21 | 1.26 | 1.32 | 2.39 |

## Commodities & Currencies

| Commodities | Current | Total Return in USD (%) WTD | MTD | YTD |
|---|---|---|---|---|
| Bloomberg Commodity | 132.66 | -0.8 | 0.5 | -22.9 |
| WTI Crude $/Barrel[2] | 28.34 | 31.8 | 38.4 | -53.6 |
| Gold Spot $/Ounce[2] | 1,620.81 | -0.5 | 2.8 | 6.8 |

| Currencies | Current | Prior Week End | Prior Month End | 2019 Year End |
|---|---|---|---|---|
| EUR/USD | 1.08 | 1.11 | 1.10 | 1.12 |
| USD/JPY | 108.55 | 107.94 | 107.54 | 108.61 |
| USD/CNH | 7.11 | 7.09 | 7.09 | 6.96 |

Source: Bloomberg, Factset.Total Returns from the period of 03/30/20 to 04/03/20. Bloomberg Barclays Indices.[1] Spot price returns.[2] All data as of the 04/03/20 close.
**Past performance is no guarantee of future results.**

## Asset Class Weightings (as of 1/9/2020)

| | Under-weight | | Neutral | | Over-weight |
|---|---|---|---|---|---|
| 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* | see CIO Asset Class Views | | | | |
| Hedge Funds | | | ● | | |
| Private Equity | | | ● | | |
| Real Assets | | | ● | | |
| Cash | | | | | |

* Many products that pursue Alternative Investment strategies, specifically Private Equity and Hedge Funds, are available only to pre-qualified clients.

## Economic and Market Forecasts (as of 04/03/20)

| | Q3 2019A | Q4 2019A | 2019A | Q1 2020A | Q2 2020E | 2020E |
|---|---|---|---|---|---|---|
| Real global GDP (% y/y annualized) | – | – | 2.9 | – | – | -2.7 |
| Real U.S. GDP (% q/q annualized) | 2.1 | 2.1 | 2.3 | -7.0* | -30.0 | -6.0 |
| CPI inflation (% y/y) | 1.8 | 2.0 | 1.8 | 2.0* | -0.2 | 0.8 |
| Core CPI inflation (% y/y) | 2.3 | 2.3 | 2.2 | 2.1* | 0.9 | 1.4 |
| Unemployment rate (%) | 3.6 | 3.5 | 3.7 | 3.8 | 15.6 | 10.6 |
| Fed funds rate, end period (%) | 1.90 | 1.55 | 1.55 | 0.08 | 0.13 | 0.13 |
| 10-year Treasury, end period (%) | 1.66 | 1.92 | 1.92 | 0.67 | 0.50 | 1.00 |
| S&P 500 end period | 2977 | 3231 | 3231 | 2585 | – | 2600 |
| S&P earnings ($/share) | 42 | 42 | 163 | 34* | 25 | 115 |
| Euro/U.S. dollar, end period | 1.09 | 1.12 | 1.12 | 1.10 | 1.02 | 1.05 |
| U.S. dollar/Japanese yen, end period | 108 | 109 | 109 | 108 | 105 | 103 |
| Oil ($/barrel, avg. of period, WTI**) | 56 | 57 | 57 | 46 | 20 | 32 |

The forecasts in the table above are the base line view from BofA Global Research team. 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.

**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. S&P 500 represents a fair value estimate for 2020. **West Texas Intermediate.
Sources: BofA Global Research; GWIM ISC as of April 3, 2020.

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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 dollars.**

**S&P 500** is a stock market index that tracks the stocks of 500 large-cap U.S. companies. It represents the stock market's performance by reporting the risks and returns of the biggest companies.

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

**Global Health Security Index** presents the results of an assessment of global health security capabilities in 195 countries prepared by the Johns Hopkins Center for Health Security, the Nuclear Threat Initiative and the Economist Intelligence Unit.

# Important Disclosures

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Economic or financial forecasts are inherently limited and should not be relied on as indicators of future investment performance.

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