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CHIEF INVESTMENT OFFICE

Capital Market Outlook

May 4, 2020

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- **Macro Strategy**—Alongside a sharp contraction in economic activity, the equity market has already seen a rally from the March bottom, has already recovered close to half of the total peak-to-trough decline. The drivers of the current crisis have been exceptional, but similarities with previous episodes suggest that investors should continue to look through the macro weakness.
- **Global Market View**—The ongoing pandemic will likely bring fundamental shifts in the global economy and behavioral changes among consumers and corporates, and given that, investment portfolios will have to adapt. Here we present three strategies for long-term portfolios to navigate the post-crisis economic and investment landscape.
- **Thought of the Week**—Considering the structural shift in equity valuations, a healthier earnings contribution, and the fact that technology tends to be a beneficiary of the secular rise in spending on innovation, productivity, healthcare infrastructure, and emerging consumer trends, we continue to favor the sector for long-term investors to consider.
- **Portfolio Considerations**—We prefer equities over fixed income as valuations in bonds are at extreme levels, and equities are in our rebalancing range in terms of price 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 continue to have long-term plans ready to re-risk (rebalance) portfolios back to strategic and tactical targets as the bottoming process continues to unfold. There are five signs to watch for 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 the virus and the overall economy/corporate profits 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 5/4/2020 and subject to change.

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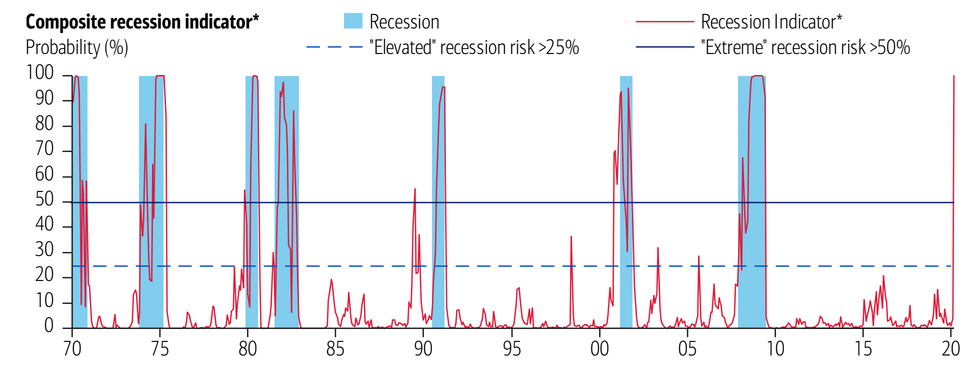
Macro Weakness vs. Market Rebound: Observations from Three Recent Crises

Ehiwario Efeyini, Senior Vice President and Senior Market Strategy Analyst

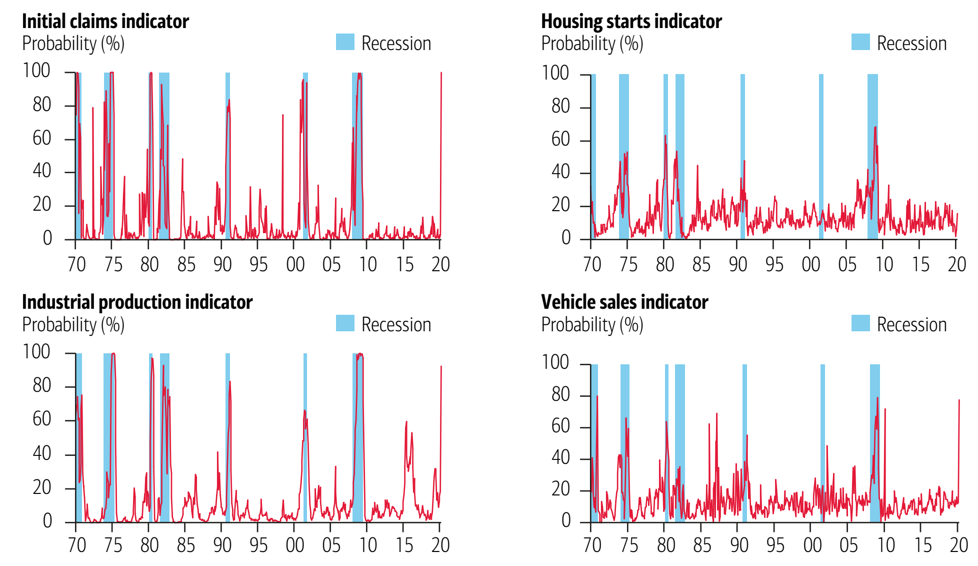
Driven by a 7.6% fall in real consumption and an 8.6% decline in business investment spending, the 4.8% annualized drop in first-quarter U.S. real gross domestic product (GDP) released last week confirmed that a period of sharp economic contraction began in March. With the impact of pandemic-related shutdowns in consumer and business activity only captured in the final two weeks of Q1, the bulk of the Coronavirus fallout will be reflected in the current quarter, and consensus across 75 private forecasters measured by Bloomberg is for a -26% collapse in real gross domestic product (GDP) for Q2. The onset of a recession will nonetheless not be made official until it is dated by the National Bureau of Economic Research (NBER), which requires the downturn to be both spread across the economy and to last for more than a few months. Our internal composite recession indicator, however, crossed the 50% threshold for extreme recession risk with the unemployment claims figures released in mid-March, and it has since spiked to 100% with broader weakness across its industrial production and vehicle sales components (Exhibits 1 and 2).

Exhibit 1: Composite Recession Indicator.



Source: Chief Investment Office, Bloomberg, National Bureau of Economic Research. *Logistic regression of four macroeconomic variables (initial claims, housing starts, industrial production, vehicle sales) against recessionary and non-recessionary periods since January 1970. Data as of March 2020.

Exhibit 2: Recession Probabilities for Four Indicator Variables.



Source: Chief Investment Office, Bloomberg, National Bureau of Economic Research. Data as of March 2020.

The depth of the economic contraction expected this quarter would dwarf the -8.4% recorded in the fourth quarter of 2008 and the -10.0% recorded in the first quarter of 1958 (the worst single quarters in post-World War II history so far). But if the current downturn ends in the third quarter as expected, it will not only be the deepest economic contraction of the post-war era but also the shortest. This is where allusions to the Great Depression made frequently by media headlines and commentators break down. The projected weakness in sequential GDP this quarter would be the most severe since the 1930s, but the policy environment and the underlying drivers of the downturn represent critical differences that should make for a far more benign market outcome. On the policy side, the key structural differences between the Depression era and the current period are that monetary authorities of the early 1930s were constrained by the gold standard and that pre-war fiscal orthodoxy before the Keynesian revolution emphasized balanced budgets rather than deficit spending even in the face of a deep recession. Post-war crises by contrast have typically been cushioned by central bank and federal government support, making them far less protracted. The average length of NBER-dated recessions prior to World War II was 21 months, whereas the average duration since 1945 has been just 11 months. Counter-cyclical monetary and fiscal policy in the post-war era has allowed retrenchment in the private sector to be offset by official intervention. And as a result, it would be very difficult today to repeat the uninterrupted three-and-a half-year slump of 1929 to 1933 without a major policy mistake.

When looking for parallels with previous crises, it is therefore more appropriate to consider other contemporary examples. The drivers of the current crisis have of course been exceptional in the post-war period, but we nonetheless see some characteristics that overlap with other episodes from the recent past (Exhibit 3). At just 21 days from the February peak to the -20% bear market threshold and 33 days to the March trough of -34%, the market decline earlier this year was the fastest drawdown in post-war history but is most closely comparable with the crash of 1987. The consensus estimates for a peak unemployment rate of 12.9% in Q2 and a 19% full-year contraction for S&P 500 earnings would be similar to the labor market and corporate profit declines of the 2008 financial crisis. And the classification of the current crisis as a milestone event originating outside the financial markets but with major implications for business and investor confidence is shared with the 9/11 attacks of 2001.

Exhibit 3: Economic, Market and Policy Trends Around Major Recent Crises.

	1987 Market Crash	9/11 Attacks	2008/2009 Global Financial Crisis	COVID-19 Outbreak
Crisis causes	Unexpected collapse in market liquidity related to portfolio insurance and program trading strategies	Coordinated terrorist attacks on major U.S. financial and military targets	Worldwide credit contraction precipitated by decline in debt instruments tied to falling U.S. home prices	Widespread shutdown of global economic activity driven by spread of novel coronavirus
Recession length	None	None	18 months	March 2020 – present
GDP peak-to-trough	N/A	N/A	-4.0%	-4.8% (Q1), -26% (Q2)*
Subsequent 12-month growth	+3.8%	+2.2%	+2.8%	N/A
S&P 500 peak-to-trough (time taken)	-21% (49 days)	-12% (11 days)	-57% (517 days)	-34% (33 days)
Number of trough retests	2	None	None	None
Time to recover 50%, 200-dma, peak (days)	32, 103, 321	7, 86, 20	290, 38, 1480	22, N/A, N/A
Earnings-per-share (EPS) peak-to-trough	+14%	Flat	-32%	-19% (2020)*
Time to recover EPS peak	N/A	N/A	935 days	N/A
VIX level (trough, peak)	Not available	32, 44	16, 81	14, 83
VIX median	Not available	33	22	42
Best 3 sectors	Utilities, Telecommunications, Financials	Telecommunications, Healthcare, Technology	Consumer Staples, Consumer Discretionary, Healthcare	Healthcare, Consumer Staples, Consumer Discretionary
Worst 3 sectors	Technology, Materials, Industrials	Utilities, Consumer Staples, Industrials	Financials, Telecommunications, Materials	Energy, Financials, Industrials
Initial jobless claims ('000s) peak (12 months later)	319 (298)	517 (409)	665 (459)	6,867 (N/A)

Exhibit 3 continued on next page →

	1987 Market Crash	9/11 Attacks	2008/2009 Global Financial Crisis	COVID-19 Outbreak
Unemployment rate peak (12 months later)	6.0% (5.4%)	6.3% (5.6%)	10.0% (9.4%)	12.9% (Q2)* (6.9%)*
Policy response	Fed rate cuts (75 basis points (bps)), Fed-induced bank lending to securities firms through moral suasion and liquidity provision	Four-day market closure, 50bps Fed rate cuts on 9/17 reopening with additional 125bps by year-end, Fed liquidity provision, financial assistance for affected individuals and firms	Interest rate cuts by Fed (500bps) and other global central banks, quantitative easing, creation of several new emergency liquidity facilities, government guarantees on bank debt and purchases of troubled assets, opening of USD swap lines with global central banks, fiscal stimulus in major economies	Interest rate cuts by Fed (150bps) and other global central banks, quantitative easing, creation of several new emergency liquidity facilities, opening of USD swap lines with global central banks, fiscal stimulus and direct financial assistance for most affected individuals and firms in major economies
Equity returns from trough (1yr, 2yrs, 5yrs):				
S&P 500	21%, 57%, 93%	-12%, 7%, 36%	69%, 95%, 178%	N/A
Wilshire 5000	22%, 56%, 94%	-10%, 13%, 48%	74%, 104%, 194%	N/A
MSCI World	28%, 45%, 29%	-11%, 10%, 59%	70%, 95%, 144%	N/A
MSCI World ex-US	32%, 41%, 3%	-8%, 15%, 91%	73%, 94%, 112%	N/A
MSCI Europe	18%, 38%, 41%	-8%, 14%, 95%	74%, 94%, 125%	N/A
MSCI Japan	37%, 40%, -25%	-12%, 8%, 59%	46%, 62%, 68%	N/A
MSCI EM	Not available	15%, 56%, 215%	103%, 134%, 99%	N/A

Source: Chief Investment Office, Bloomberg. Data as of April 29, 2020. *Consensus expectations. Negative developed market returns 1 year from 9/11 trough driven by ongoing fallout from dotcom bust. MSCI EM and VIX data not available during 1987 market crash as event predated inception of both indices. Best 3 sectors, worst 3 sectors and VIX median from initial market peak to subsequent recovery of peak (to 4/29/20 for COVID-19 outbreak).

Alongside extreme weakness in the economic data, the equity market rally from the March bottom has already recovered close to half of the total peak-trough decline. With the exception of the post 9/11 rebound (which occurred within the dotcom-led market de-rating), gains of this magnitude have not typically been followed by a return to prior lows. And even in the case of the financial crisis, equities began a sustained recovery long before economic activity stopped contracting. Unemployment rose for a full seven months after the market troughed in 2009, and the S&P 500 was up more than 50% by the time the unemployment rate reached its 10% peak later that year.

Across all three historical episodes, the unemployment rate has tended to fall back only slowly in the year following its peak (by roughly one-twentieth of a percentage point per month on average). But the consensus expectation today is for a much faster decline of half a percentage point per month over the same 12-month period from the 2020 peak. Similarly it took over two-and-a-half years to recover the earnings contraction of 2008–2009, but the consensus 19% S&P 500 EPS decline expected in 2020 is forecast by the consensus to reverse by the end of 2021. This suggests that the equity market recovery of recent weeks is looking through what should be a short and sharp deterioration in economic data for the first half of the year and pricing a relatively swift rebound in economic activity and earnings over subsequent quarters. Double-digit and even triple-digit percentage gains have typically been posted one to two years out from the market price low in global equities. And as in past crises of the post-war period, counter-cyclical monetary and fiscal policy has been a key catalyst for the market turnaround. Indeed the policy response on this occasion has included the most aggressive monetary measures from the financial crisis: zero interest rates and emergency Fed programs to support money markets, commercial paper, asset-backed securities, municipals and corporate bonds; in addition to a larger package of fiscal stimulus and, as in 2001, direct financial support for the most affected individuals and firms.

As the economic shutdowns are gradually relaxed over the coming weeks, the key risk for investors to watch in the expected recovery will be any self-defeating resurgence in new infection cases. Germany for example has seen an increase in its virus reproduction rate over recent days following moves to begin a limited reopening of its domestic retail stores. This has led to growing concern that local restrictions on economic activity may need to be reimposed. Any similar trend followed by the U.S. in the period ahead could

potentially interrupt the market recovery if it causes investors to reassess the expected pace of the economic rebound. But we would nonetheless caution against overstating this risk for now. As outlined in the federal government's three-phase guidelines on reopening, the epidemiological consequences of lifting lockdown measures should be mitigated by more widespread testing and tracing, limits on capacity and continued physical distancing in public settings, and selective quarantining for more vulnerable populations. Altogether, this suggests that investors should continue to look through the macro weakness and that the market advance should extend further.

GLOBAL MARKET VIEW

Post-Virus, Three Strategies for Long-Term Investors

Niladri "Neel" Mukherjee, Managing Director and Head of CIO Portfolio Strategy
Brian T. Wilczynski, Assistant Vice President and Investment Analyst

The ongoing pandemic will likely bring fundamental shifts in the global economy and behavioral changes among consumers and corporates, and given that, investment portfolios will have to adapt. Despite the massive fiscal and monetary stimulus, the economic recovery will be gradual, and consumers will remain tentative about social engagements like shared community experiences and travel.

Investors should prepare for interest rates to remain lower for much longer, an accelerated diversification of global supply chains, and a surge in innovation in areas related to health, productivity, security, 5G connectivity, manufacturing etc. Investor behavior changes will likely exhibit themselves in a higher comfort level with ballooning government deficits and central bank balance sheets in the developed world, valuation premiums for industry leaders and sustainable growers and more government interference in economic and business decisions, often accepting these as the new normal.

With these expectations in mind, below we present three strategies for long-term portfolios to navigate the post-crisis economic and investment landscape.

Strategy #1 Secular Growth and Large Gets Larger

From a historical perspective, pandemics lead to sharp cyclical economic slowdowns, but also long-term structural changes. A recent paper from San Francisco Fed[1] researchers examined major pandemics dating back to the 14th century and found that interest rates typically decline and stay low after a pandemic, finishing an average of 150 bps below where they would've been if it never occurred. For instance, in the years following the Spanish Flu from 1918–1920, the Spanish real interest rate fell from about 5% to as low as -15% by 1942 and did not reach its pre-pandemic level until the 1980s. Similarly, after the Hong Kong Flu ended in 1969, the global real interest rate dropped from 2.3% to as low as -1% in 1976 before eventually recovering in 1980.[2]

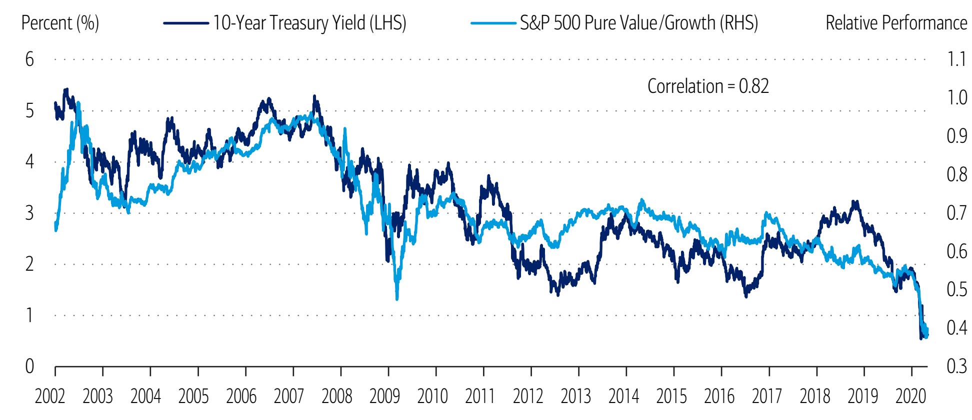
The potential for persistently-low interest rates around the world should perpetuate the outperformance of companies whose cash flow and earnings are levered to areas of secular growth (Exhibit 4). Low but positive interest rates should also support higher valuations for equity markets overall by maintaining easier financial conditions while keeping deflationary fears at bay. This suggests that despite seemingly high valuations, mega-caps and technology and healthcare-centric areas of the market like the S&P 100 and NASDAQ 100 (P/E of 21x and 24x on forward earnings respectively)[3] can continue to perform well as the biggest companies get bigger and as secular growth themes continue to gain momentum in the post-virus world.

[1] "Longer-Run Economic Consequences of Pandemics," Federal Reserve Bank of San Francisco as of March 2020..

[2] "Eight centuries of global real interest rates, R-G, and the 'suprasecular' decline, 1311–2018," as of January 2020. Bank of England. Data are presented by the piece as a seven-year moving average.

[3] According to Bloomberg as of April 29, 2020.

Exhibit 4: Lower for Longer Interest Rates Support Secular Growth Over Value Segments of the Market.



Source: Bloomberg. Data as of April 29, 2020. **Past performance is no guarantee of future results.**

What are these secular trends? Within Technology and Communication Services, we expect to see an acceleration of ongoing trends such as video streaming, e-commerce, digital goods consumption and online education. The trend toward working from home is likely to become more deeply entrenched in our culture, increasing demand for internet bandwidth and deployment of 5G technologies. Within healthcare, a recent survey from the American Medical Association noted that most physicians plan to adopt advanced technologies like augmented intelligence for research and development, clinical applications and personalized medicine within the next three years. They also found that use of televisits and remote monitoring is already gaining traction, and we believe the current pandemic could help accelerate these efforts.

Strategy #2: High-quality Dividends and Sources of Income

Following periods of deep economic stress, personal savings rates have historically increased as households rebuild wealth lost during the downturn, becoming wary of future slowdowns in the economy. This was the case after the Financial Crisis, which helped reverse the decades-long downward trend in U.S. savings rates, which rose from 4% in 2007 to 13% today. Savings rates in the U.S. also increased by about 2% coming out of recessions in 1990 and 2001 as households shored up their balance sheets.

With interest rates on Treasury bonds near all-time lows, households may need to look for alternative sources of savings and yield, raising the allure of dividend-paying equities. Currently there are 396 companies in the S&P 500 that pay a dividend yield higher than the 10-year Treasury, and the spread between the S&P 500 dividend yield and the Treasury yield has hit 1.4%, which is in the 99th percentile as of April 29.

However, with economic activity remaining suboptimal and company cash flows fragile, higher-quality sustainable dividends will be in demand over those providing just high yield levels where quality of those dividend steams may be compromised. In fact, 85 companies in the S&P 1500 have already cut their dividends since the end of February, underperforming the index by 31% on a median basis. There could be further dividend cuts in the energy, travel/leisure and retail space, and BofA Global Research expects a 10% decline in S&P 500 dividends overall, in line with its historical average during earnings recessions. Encouragingly, Technology and Financials currently make up the largest share of S&P 500 dividends (16% and 15%, respectively) and should be relatively well-positioned to maintain their payouts given the strength of their balance sheets. For sustainable yields, investors should look for those companies with relatively wide economic moats, less leverage, stable earnings and low payout ratios.

Strategy #3: U.S.-Centric Exposure Over International

We believe investors should emphasize Quality, Yield and Growth in portfolios, favoring U.S. equities over the rest of the world. U.S. large caps especially should benefit over the long-term from more resilient balance sheets as well as stronger corporate earnings fundamentals relative to international, including a higher return on equity, profit margins and earnings growth (Exhibit 5).

U.S. equities may seem expensive at first blush with P/E multiples having rebounded from 13.4x on forward earnings on March 23 to 20.7x currently,[4] however, on the other side of the pandemic, the U.S. should differentiate itself as capital favors regions with the greatest access to a large domestic consumer base, natural resources, education, healthcare, skilled labor and innovation. Near-term hope rallies aside, international regions (and equities) lack the equivalent gravitas in the post-virus world given rising structural growth headwinds. Index composition is not a friend either for international developed equities, which have a higher weight than the U.S. in value-oriented sectors such as Financials and Energy (20% combined versus 14%), while the U.S. has a higher weight in growth-oriented sectors like Technology and Communication Services (36% versus 13%).

Exhibit 5: U.S. Equities Provide an Appropriate Mix of Quality, Yield and Secular Growth.

3-Year Average (2017–2019)	Return on Equity (%)	Profit Margin (%)	Earnings Growth (Annualized)	Dividend per Share Growth (Annualized)	Dividend Yield (%)	Net Debt/ EBITDA*	Current Forward Price/Earnings Percentile	Top 3 Sectors
U.S. Large Cap	14.7	9.7	10.9%	7.9%	1.9	1.6	94	Technology (26%) Health Care (15%) Financials (11%)
Europe, Australasia, Far East (EAFE)	10.2	7.4	8.6%	5.7%	3.3	2.5	98	Financials (16%) Health Care (14%) Industrials (14%)
Emerging Markets	11.7	9.3	5.8%	9.2%	2.6	1.7	87	Financials (22%) Technology (17%) Consumer Discretionary (15%)

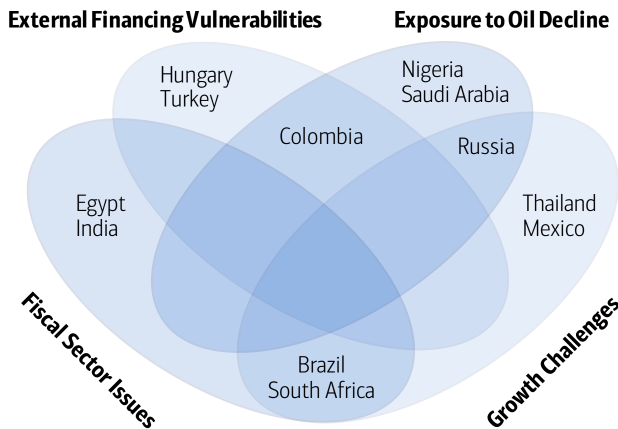
*EBITDA is Earnings Before Interest, Taxes, Depreciation and Amortization. Source: EPS and Dividend per share growth data are according to FactSet; all other data are according to Bloomberg. Indexes include the S&P 500, MSCI EAFE and MSCI Emerging Markets. ROE is Return on Common Equity. Data as of April 29, 2020. MSCI sector weights as of March 31, 2020. **Past performance is no guarantee of future results.**

Even before the impact from the current virus outbreak, the trend of globalization to localization was already gaining momentum due to rising trade tensions, declining labor and tax arbitrage opportunities and national security concerns. This will accelerate as more companies start to re-shore production to manage risk to their businesses from future supply chain shocks. A survey this month by the Institute for Supply Management noted that 95% of U.S. companies are or expect to be affected by virus-related supply chain disruptions, highlighting that average lead times for inputs are about twice as long as normal, including 222% as long from China, 217% from Korea, 209% from Japan, and 201% from Europe. Shorter and more diversified supply chains will be a detriment to many emerging markets (EMs) which have historically benefited from increased outsourcing of manufacturing production by developed economies. Accelerating automation will be a headwind for labor as well, with the Harvard Business Review highlighting that EMs could be among the biggest losers, with China and India alone potentially accounting for over 700 million affected workers.

EMs also face headwinds from less fiscal flexibility compared to developed markets to fight this crisis. According to the International Monetary Fund (IMF), EMs entered the current pandemic with higher debt burdens, less room to cut interest rates and increased reliance on foreign portfolio investors than even before the Financial Crisis. For long-term investors in EMs, we emphasize the active management route as fundamentals differ across countries, based on key vulnerabilities to lower oil prices, higher borrowing costs, external financing pressure and sharp declines in economic output (Exhibit 6).

[4] According to Bloomberg as of April 29, 2020.

Exhibit 6: Key Vulnerabilities of Major Emerging and Frontier Market Economies.



Source: International Monetary Fund. As of April 2020.

Long-Term Portfolio Implications:

In the post-crisis world, investors should consider the following strategies: 1. Secular growth and large caps; 2. HIgh-quality Dividend payers and dividend growers; and 3. U.S. over international investments. Technology and Healthcare sectors globally are the biggest beneficiaries.

THOUGHT OF THE WEEK

The New Economy Charges Ahead

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Kishan Chhatwal, Assistant Vice President and Investment Analyst

Incredibly, the NASDAQ market capitalization has now caught up to that of the international stock markets. This accomplishment came after impressive gains during the last few years, with the Nasdaq Composite outperforming the S&P 500 in eight of the last 10 calendar years. And in just the last five years, it has outperformed the S&P 500 by roughly 33% in aggregate and the MSCI World ex-U.S. index by a whopping 87%.[5] The simple explanation is that nearly 50% of the index comprises the largest technology companies in the world, which have benefited from new economic forces where software, digitization, cloud and data have become central to corporate and consumer experiences. This is the new normal, in our view.

At the height of the tech bubble, the technology sector traded at a 2.7x premium to the overall market on a trailing price-to-earnings basis, exceeding the 20-year average premium of 1.4x. The P/E ratio for technology stood at over 74x in March of 2000, in the 99th percentile, despite the fact that many of these firms lacked sustainable business plans or profits. The technology sector of today is much healthier and fundamentally astute, trading at a 25x PE, below the historic average and in the 75th percentile.

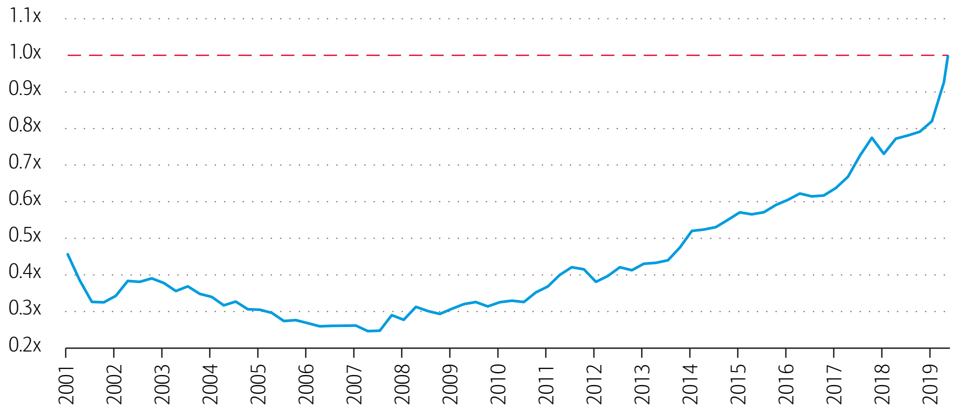
Importantly, during the dotcom era, technology used to represent a much larger portion of the S&P 500's market capitalization, but its earnings contribution was far lower. At the peak of tech's market cap in 2000, it accounted for 35% of the S&P 500 index, but its earnings contribution was 25%. Today that story has changed, with technology's earnings contribution nearly double its weight. And over the past three years, earnings growth for technology stocks has outpaced that of the broader index by 5% per annum,

[5] As of April 29, 2020

on average, and over the past five years, the earnings growth for technology shares has nearly doubled that of the S&P 500 index, at 11.5% and 6.8%, respectively.

Considering the structural shift in equity valuations, a healthier earnings contribution, as well as the fact that this sector tends to be a beneficiary of the secular rise in spending on innovation, productivity, healthcare infrastructure and emerging consumer trends, we continue to favor technology for long-term investors to consider.

Exhibit 7: Market Cap of Nasdaq Composite Index Relative to MSCI World ex. US.



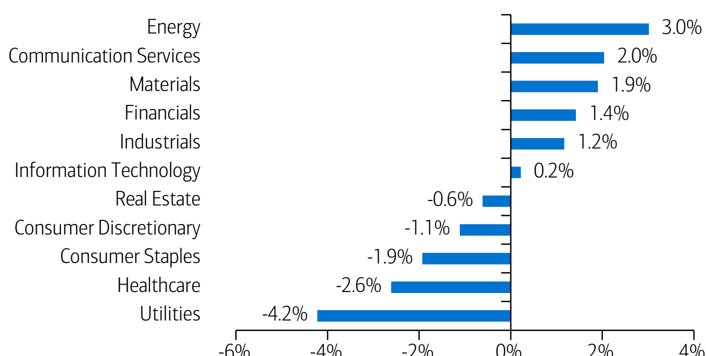
Sources: Bloomberg; Chief Investment Office. Data as of April 29, 2020.

MARKETS IN REVIEW

Equities

		Total Return in USD (%)		
	Current	WTD	MTD	YTD
DJIA	23,723.69	-0.2	-2.6	-16.3
NASDAQ	8,604.95	-0.3	-3.2	-3.8
S&P 500	2,830.71	-0.2	-2.8	-11.8
S&P 400 Mid Cap	1,590.48	2.6	-3.4	-22.5
Russell 2000	1,260.48	2.2	-3.8	-24.1
MSCI World	2,004.79	0.9	-2.3	-14.5
MSCI EAFE	1,635.82	3.1	-1.3	-18.9
MSCI Emerging Markets	916.77	4.3	-0.9	-17.3

S&P 500 Sector Returns



Fixed Income[1]

		Total Return in USD (%)		
	Current	WTD	MTD	YTD
Corporate & Government	1.44	-0.3	-0.2	5.5
Agencies	0.68	0.0	0.0	4.6
Municipals	2.19	-0.4	0.3	-1.6
U.S. Investment Grade Credit	1.34	-0.1	-0.1	4.9
International	2.72	-0.4	-0.3	1.1
High Yield	8.05	0.7	-0.2	-8.9

	Current	Prior Week End	Prior Month End	2019 Year End
90 Day Yield	0.08	0.10	0.08	1.54
2 Year Yield	0.19	0.22	0.20	1.57
10 Year Yield	0.61	0.60	0.64	1.92
30 Year Yield	1.25	1.17	1.28	2.39

Commodities & Currencies

		Total Return in USD (%)		
Commodities	Current	WTD	MTD	YTD
Bloomberg Commodity	129.50	0.8	-0.3	-24.7
WTI Crude $/Barrel[2]	19.78	16.8	5.0	-67.6
Gold Spot $/Ounce[2]	1,700.42	-1.7	0.8	12.1

Currencies	Current	Prior Week End	Prior Month End	2019 Year End
EUR/USD	1.10	1.08	1.10	1.12
USD/JPY	106.91	107.51	107.18	108.61
USD/CNH	7.13	7.09	7.08	6.96

Source: Bloomberg, Factset.Total Returns from the period of 04/27/20 to 05/01/20. Bloomberg Barclays Indices.[1] Spot price returns.[2] All data as of the 05/01/20 close.
Past performance is no guarantee of future results.

Asset Class Weightings (as of 04/08/2020)

	Under-weight		Neutral	Over-weight	
Global Equities	•	•	•	● (green)	•
U.S. Large Cap Growth	•	•	•	● (green)	•
U.S. Large Cap Value	•	•	•	● (green)	•
U.S. Small Cap Growth	•	•	•	● (green)	•
U.S. Small Cap Value	•	•	● (yellow)	•	•
International Developed	•	● (orange)	•	•	•
Emerging Markets	● (red)	◀	•	•	•
Global Fixed Income	•	● (orange)	•	•	•
U.S. Governments	•	● (orange)	•	•	•
U.S. Mortgages	•	● (orange)	◀	•	•
U.S. Corporates	•	•	▶	● (green)	•
High Yield	•	● (orange)	•	•	•
U.S. Investment Grade Tax Exempt	•	•	● (yellow)	•	•
U.S. High Yield Tax Exempt	•	● (orange)	•	•	•
International Fixed Income	● (red)	•	•	•	•
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 05/01/20)

	Q3 2019A	Q4 2019A	2019A	Q1 2020A	Q2 2020E	2020E
Real global GDP (% y/y annualized)	–	–	2.9	–	–	-3.0
Real U.S. GDP (% q/q annualized)	2.1	2.1	2.3	-4.8	-30.0	-5.6
CPI inflation (% y/y)	1.8	2.0	1.8	2.1	0.3	0.7
Core CPI inflation (% y/y)	2.3	2.3	2.2	2.2	1.8	1.7
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 the year-end target for 2020. **West Texas Intermediate.
Sources: BofA Global Research; GWIM ISC as of May 1, 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.

S&P 1500 is a stock market index of US stocks made by Standard & Poor's. It includes all stocks in the S&P 500, S&P 400, and S&P 600. This index covers approximately 90% of the market capitalization of U.S. stocks.

MSCI EAFE Index is a stock market index that is designed to measure the equity market performance of developed markets outside of the U.S. & Canada.

MSCI Emerging Markets Index is an index used to measure equity market performance in global emerging markets.

MSCI World is a market cap weighted stock market index of 1,644 stocks from companies throughout the world.

MSCI ACWI Ex-U.S. is a stock market index comprising of non-U.S. stocks from 23 developed markets and 26 emerging markets.

MSCI Europe Index is a free float-adjusted market capitalization index that is designed to measure developed market equity performance in Europe.

MSCI Japan Index is designed to measure the performance of the large and mid cap segments of the Japanese market.

NASDAQ Composite is a stock market index of the common stocks and similar securities listed on the Nasdaq stock market.

Wilshire 5000 Total Market Index is a market-capitalization-weighted index of the market value of all US-stocks actively traded in the United States.

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