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CHIEF INVESTMENT OFFICE

Capital Market Outlook

June 1, 2021

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

IN THIS ISSUE

- **Macro Strategy—**Since March, investors have continued to position for faster inflation, while also turning a bit more risk-off. Although market signals have appeared inconsistent, they have reflected the unusual environment created by excessive fiscal stimulus and an exceptionally laid-back Federal Reserve (Fed). With the Fed going out of its way to promise no restraint any time soon, the economy will likely continue to expand at a red-hot rate, even though much-higher-than-consensus inflation will take increasing bites out of real growth. In our view, investing for strong growth and higher inflation continues to make sense.
- **Global Market View—**For over a year, investors have been consumed with the pandemic and the corresponding policy responses to the crisis. But as the health recovery forges ahead and economic growth picks up steam, we identify key global developments to watch and potential catalysts that might drive markets going forward.
- **Thought of the Week—**The minutes from the latest Federal Open Market Committee (FOMC) meeting have raised the prospect of a shift in Fed policy. Exactly eight years on from the 2013 "taper tantrum," it may be instructive for investors to review past patterns of market return around the initial stages of Fed tightening.
- **Portfolio Considerations—**When it comes to assessing the market environment, we prefer to choose "half full." In terms of the broader economic environment, we believe we are closer to mid-cycle than late cycle and that growth is currently flashing bright green and surprising more than expected. We will remain vigilant for rebalancing opportunities in our asset allocation models as we expect rates and equities to potentially drift higher.

MACRO STRATEGY

Chief Investment Office Macro Strategy Team

GLOBAL MARKET VIEW

Emily Avioli
Assistant Vice President and Investment Strategist

THOUGHT OF THE WEEK

Ehiwario Efeyini
Director and Senior Market Strategy Analyst

Data as of 5/31/2021, and subject to change

MACRO STRATEGY

Inflation Fears Create Ambiguous Market Signals

Chief Investment Office, Macro Strategy Team

Over the past three months there have been hints of risk aversion in financial markets. A consolidation was to be expected following the boom in risk assets over the past year. However, the slight retrenchment in risk appetite also seems to have coincided with the enactment of the $1.9 trillion American Rescue Plan (ARP) on March 11, 2021, shortly after $3 trillion in government support had already been introduced into the economy by the previous Administration, amplifying concerns over inflation and economic stability.

Indeed, the dollar also resumed its downtrend starting around the same time while commodities continued their reopening and reflation-related ascent even as demand for riskier assets (such as Small-caps) and illiquid assets [such as Treasury Inflation-Protected Securities (TIPS)] became slightly less exuberant.

As discussed in past reports, inflation concerns are justified and likely to be confirmed by much higher than generally anticipated inflation readings over the next year or so, because of the fastest money-supply growth in 120 years and a very accommodative Fed, whose reaction function has changed dramatically over the past year. Shortages and price increases, the typical consequence of excess demand caused by explosive money-supply growth, have already become a fact of life. Here we address aspects of the inflation process that in our view strongly argue in favor of more upside inflation surprises ahead:

- The sharp V-shaped economic rebound out of the pandemic left not only economists and analysts scrambling to catch up with stronger-than-predicted growth, inflation, and corporate profits. The business sector has also struggled to respond to the demand shock from the $5 trillion in fiscal stimulus [25% of gross domestic product (GDP)] enacted since March 2020. Some of this money only starts to be disbursed in July in the form of monthly checks of $250 to $300 per child for families making up to $175,000 per year in income, further boosting incomes over the following 12 months and suggesting sustained strong demand for goods and services. In addition to this program possibly becoming permanent, another estimated $4 trillion stimulus package is anticipated based on current proposals, though more gradually distributed over a 10-year period. The Federal Bank of Atlanta's GDPNow forecast for second-quarter real consumer spending is 9.5% and, in our view, fiscal spending and unusually large aggregate saving are likely to support real spending growth of about 10% per year over the next two-three years, the fastest pace in 60 years, suggesting that neither supply shortages nor inflation will prove transitory or moderate.
- Not surprisingly, private-sector firms across the U.S. report unprecedented business activity expansion, according to the IHS Markit purchasing managers' index (PMI) for May, led by the fastest upturn in service-sector activity on record and still accelerating manufacturing production. Inflation pressures typically show up first in commodity prices, and that has been the case again this time around, pushing the April Institute for Supply Management (ISM) manufacturing PMI input price to its highest level in 13 years and sending producer prices flying. Prices for everything from shipping costs to metals, fuels, lumber, diapers, cars and services are surging. According to IHS Markit, "average selling prices for goods and services are both rising at unprecedented rates, which will feed through higher consumer inflation in coming months," and because of extraordinary demand strength, producers are concerned input shortages could persist.
- As discussed in past reports, based on past experience both here and abroad, the biggest U.S. money-supply surge in 120 years was bound to spur an acceleration in inflation, and "core" consumer price index (CPI) inflation has indeed accelerated month to month this year, surging at an eye-popping annualized rate of 12% in April, the most since the early 1980s. While supply disruptions have occurred in other countries as well, the U.S. appears to be an outlier in terms of the inflation pickup to date. This makes sense given that it is also an outlier in terms of its "helicopter-money" experiment. Most countries either couldn't afford such largesse or remained faithful to prudent debt limits to prevent an inevitable, eventual hard landing. So, as it always does, too much money chasing limited supply is showing up in U.S. inflation rising the most. With the pandemic-related stimulus on track to reach about 50% of GDP, dwarfing that of other countries, U.S. money-supply growth will also remain much higher, further expanding the gap between U.S. inflation and that of other developed countries (and most other countries, for that matter), with a negative effect on the greenback and upside pressure on commodity prices. A weaker dollar also tends to

boost nonpetroleum import prices, which also directly feed into higher consumer prices.

- Excess U.S. demand increases pressure on supply from our trading partners, further boosting their pricing power, U.S. import prices, and inflation. U.S. consumption cannot be expected to grow 3 or 4 times faster than in the past without major strains on the global supply system. According to the Bureau of Economic Analysis, disposable income was up $5,400 billion from March 2020 to March 2021, up at a 16% annualized two-year rate and more than three times faster than the average two-year increase of the past 30 years. ARP-related monthly child tax credit payments starting in July are estimated to boost the bottom 20% of the income distribution spending power by about 35% on the heels of previous massive boosts to disposable income.

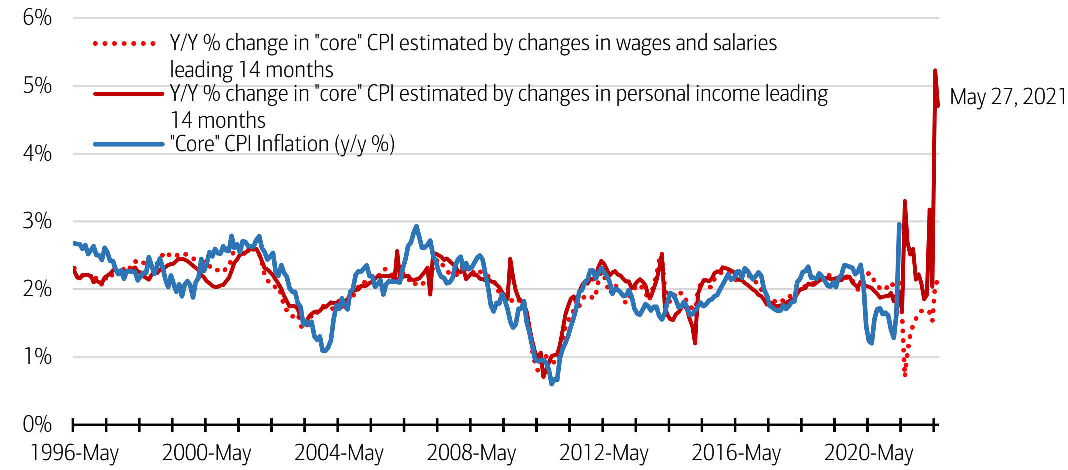
  The surge in disposable income has been too abrupt to expect a smooth supply response, and we believe it is bound to continue. As of now, the International Monetary Fund's (IMF) *World Economic Outlook* projects global growth of 6% this year (almost double its normal 3.5% pace) and 4.4% in 2022, led by U.S. real GDP of 6.4% in 2021 and only 3.5% in 2022. These estimates will likely prove low, so pressure on global supply chains will likely remain extreme for longer than anticipated. It is unreasonable to expect global supply chains to adjust as fast as needed to respond to the surge in global growth and a three-to-four-times-faster U.S. consumer demand growth than normal without glitches and shortages both here and abroad, from production to shipment. What's more, since the money has not been gradually earned in the production process, the U.S. supply response is bound to lag demand, despite indications that businesses are trying hard to expand activity, putting unusual pressure on overseas producers and distribution networks. Shortages caused by excess demand tend to result in higher prices.

- The argument that inflation is temporary also ignores the possibility that there can be a self-feeding cycle of excess demand as animal spirits heat up. Asset prices have surged, the stimulus has not fully filtered through, and there's evidence of strong wage pressures at small and large businesses alike. There are numerous reports of double-digit wage increases and sign-up bonuses or incentives to attract labor at big corporations. The National Federation of Independent Business (NFIB) shows the most job openings and difficulty filling open positions ever. Given labor market and domestic demand conditions, our analysis indicates an unusually-quick likely rebound in average hourly earnings back to their pre-pandemic 4% pace over the next year.

- Wage growth is not written in stone. It's influenced by Fed policy. With productivity growth estimated at about 2% per year, the Fed used to slow the economy down when wage growth reached 4% in order to keep inflation at 2%. Its new policy objectives and willingness to tolerate more than 2% inflation for an unspecified period of time suggest that it will likely turn a blind eye to 4% wage growth until the economy achieves full and inclusive employment.

- Usually, moderate wage growth is inconsistent with a sustained increase in inflation. However, the fact that wage growth is still moderate is less of a constraint on inflation now because of the big gap that has opened between wages and personal income, which includes transfer payments, as noted above. For example, a simple estimate of consumer price inflation based on either wages or personal-income growth used to result in similar inflation forecasts. However, the gap between the two measures has sharply increased, causing significantly different inflation signals, as shown in Exhibit 1. In March, transfer payments reached 34% of personal income and almost equaled income from wages and salaries (84% of wages). With transfer payments boosting personal income by 30% year-over-year (Y/Y), inflation is more likely to approach 5% over the next year than the 2% predicted by the more moderate wage growth to date.

Exhibit 1: Still-Slow Wage Growth Not Representative Of Underlying Inflation When Fiscal Stimulus Surges.



Sources: Bureau of Economic Analysis; Bureau of Labor Statistics/Haver Analytics; and Chief Investment Office. Data as of May 27, 2021.

The big gap between income and wages means businesses can pass through price increases to consumers, as we are seeing now. This suggests that inflation could be higher than 5% and last more than "transitory" might suggest.

GLOBAL MARKET VIEW

Global Catalysts to Watch

Emily Avioli, Assistant Vice President and Investment Strategist

For over a year, investors have been consumed with the pandemic and the corresponding policy responses to the crisis. Some parts of the world continue to deal with surges in cases, but the 1.68 billion vaccines administered globally, according to Bloomberg, offer some hope that the crisis could soon be in the rearview. This begs the question: What will drive the markets in a post-coronavirus world? Here, we identify key global developments to watch as potential catalysts moving forward (Exhibit 2).

Exhibit 2: Catalyst Dashboard: Upcoming Events Could Effect Global Markets.

Catalyst		Start Date	Potential Market Effect
Monetary & Fiscal Policy	2021 FOMC Meetings	Jun. 15 Jul. 17 Sep. 21 Nov. 2 Dec. 14	Medium - low chance of policy change but verbiage will be monitored
	U.S. Debt Ceiling Expires	Aug. 1, 2021	High - U.S. funding stresses to build into Fall
	FOMC Chair Term Ends	Feb. 5, 2022	Medium - slight potential for change in policy direction and effect regulation
	FOMC Vice Chair of Board Term Ends	Sep. 17, 2022	
Geopolitical	100th anniversary of CCP	Jul. 1, 2021	Low - likely continuation of policy
	Germany Elections	Sep. 26, 2021	Medium - relatively strong implications for Europe's largest economy
	Japan Elections	Oct. 22, 2021	Medium - may disrupt nearly continuous leadership of Japan by the Liberal Democratic Party since 1955
Macroeconomic	G7 Finance Minister Summit	Jun. 4 2021	High - global tax policy effects
	Summer Olympics	Jul. 23, 2021	Low - reflection on Japanese leadership and symbolic nod to post-pandemic normalization
	Jackson Hole Economic Symposium	Aug. 2021	High - potential staging ground for tapering discussion
	G20 Summit	Oct. 30, 2021	Medium - potential global policy calibration
	United Nations Climate Change Conference	Nov. 1, 2021	Low - likely introduction of new initiatives

Sources: Chief Investment Office; Bloomberg. Dates current as of May 25, 2021, but are subject to change. Data as of May 2021.

Political Developments

Among the most consequential elections in 2021 may take place in Germany in September, when Chancellor Angela Merkel will step down from helming Europe's largest economy. If the progressive Greens party becomes an important coalition member, the European Union (EU) could experience a more environmentally focused agenda and more ambitious fiscal spending. It could also shift the stance on global policy, as the Greens have also called for closer European and Transatlantic coordination towards China.

China's 20th Congress isn't until 2022, but the 100th anniversary of the Chinese Communist Party (CCP) in July may hint toward policy direction. It is widely expected that President Xi will seek an unprecedented third term, likely signaling a continuation of the existing U.S./China dynamic. Any shakeup in policy could have global implications, so announcements made this summer including those pertaining to commodities, technology, and credit impulse should be monitored.

In Japan, Prime Minister Yoshihide Suga will seek re-election in October, the results of which could be influenced by the success of the Tokyo Summer Olympics. With the games rapidly approaching and Bloomberg tracking just 2.1% of the population vaccinated, new coronavirus outbreaks and international travel bans could pose headwinds. The combined outcome of both events will be crucial to watch, as a successful Olympics could symbolize further progress toward a post-coronavirus world, while a leadership change in the world's third largest economy could have policy implications.

Meanwhile, the U.S. will be gearing up for midterms in 2022, and beginning later this year, President Biden will decide the fate of key FOMC leadership positions as they come up for renewal, including the FOMC Chair, the Vice Chair of the Board and the Vice Chair for Bank Supervision. A continuation of dovish monetary policy is expected and would likely remain a positive catalyst; however, greater regulation could be forthcoming.

Global Policy Updates

Policy should continue to shape global economies, especially in the U.S. as debate centers upon a combined $4 trillion fiscal proposal aimed at recalibrating the economy with public investment in workers, research and infrastructure. A portion of this spend is proposed to be funded by tax hikes on individuals and corporations across a variety of formats. The likelihood of legislation passing as currently proposed may be low, and raising the debt ceiling ahead of the August 1 expiration could prove challenging without a bipartisan infrastructure bill. Still, the negotiation and settlement toward final policy will be top of mind for investors, who will parse the offsetting tradeoffs between higher taxes with stimulative spending.

Beyond the shores of the U.S., global tax policy is also under a microscope. A decision could be reached as early as July on the Organisation for Economic Cooperation and Development (OECD) two-pillar approach for a global tax overhaul, which aims to set a minimum global corporate tax rate and rewrite the rules for how that tax revenue is allocated among countries. The Biden Administration recently agreed to a minimum 15% tax on overseas profits as part of negotiations with OECD members, and the June G7 Finance Ministers Conference could help the proposal gain momentum if international leaders voice support. If passed, the OECD estimates that $100 billion of annual additional revenue could improve fiscal accounts and fund spending programs.

Global policy could be further shaped at one of the many conferences being held for world leaders this year, including the Jackson Hole Economic Symposium in August, the G20 Summit in October, and the United Nations climate change conference in November.

Global Economic Data

The first half of 2021 has been unequivocally driven by the macro backdrop, and we expect more of the same going forward. Rightfully, much attention is given to data points that help indicate the strength of the consumer, the recovery of the labor market, robust manufacturing activity, and budding pricing pressures. We would expect any sustained divergence from the current trends to represent a potential catalyst.

From the standpoint of consumption, the focus will be on housing, retail sales, personal savings, and confidence. As it pertains to the labor market, more holistic measures of recovery may be more relevant to policymakers than traditional unemployment rates. These include the employment-to-population ratio (currently at 57.9% but 3.2% below pre-pandemic high), labor force participation (now 61.7%, but 1.7% off highs) and the employment cost index (up 2.6% year-over-year).

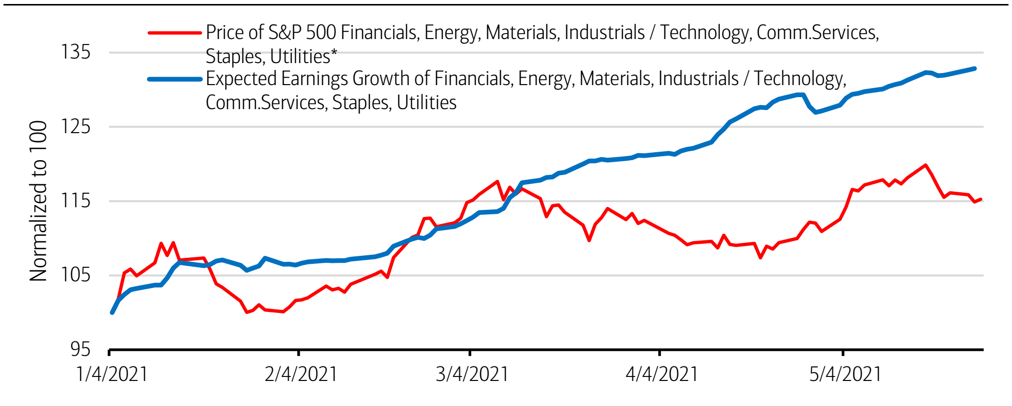
Inflation is clearly in focus. The CPI logged a 12-month increase of 4.2% in April—its largest jump since 2008, according to the Bureau of Labor Statistics. Market-implied and consumer expectations also suggest pricing pressures as five-year break-evens are at their highest level since 2008 and the Conference Board's 12-month consumer inflation rate expectations surged to 6.5% in May. The Fed is all but telegraphing their intention to look past immediate inflation pressures, giving deference to transitory and base-effects. Tapering may eventually be a catalyst once the Fed sees "substantial future progress," but we look towards signaling effects beginning in the back half of 2021, with any tapering unlikely to happen until next year.

From a regional perspective, many observers are expecting to witness a handoff in global growth momentum from the U.S. to international markets later in the year. In part, this is due to a pickup in coronavirus inoculations in Europe relative to the U.S. As the pace of health normalization improves overseas, we would monitor international data for confirming evidence of that narrative.

Earnings and Valuation

Ultimately, corporate earnings drive equities, and so far this year they have accounted for more than all of the gains in the S&P 500, as price-earnings multiples have pulled back by approximately 5%. Strong economic recovery in the U.S. has coincided with impressive earnings growth, especially in more cyclical pockets (Exhibit 3). These profit trends may continue to benefit from broadening and accelerated top-line sales through further reopening and strong operating margins, which in many cases have more than recovered during the pandemic. Analysts have taken note, and according to BofA Global Research, the U.S. earnings revision ratio sits at a record high of 3.23, and consensus Y/Y S&P 500 expected earnings growth has moved to 34% in 2021 and 12% in 2022, according to FactSet.

Exhibit 3: A Change In Leadership Of S&P 500 Sector Performance And Expected Earnings Growth.



*Equal-Weighted basket of each Global Industry Classification Standard (GIC) S&P 500 sector. Sources: Chief Investment Office; Bloomberg. Data as of May 25, 2021. 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.

From a valuation perspective, we continue to monitor bond yields and credit spreads as a function of the discount rate for cash flows. In a benign credit environment, with yields grinding slightly higher in an orderly basis, we would expect valuations to remain elevated.

Spreads have increased slightly most recently but remain near multi-year lows. Any disruption to that backdrop could present headwinds.

Market Data

The capital markets can also provide their own clues towards future price movement. Fund flows, sentiment, and market internals can all play a reflexive role in driving price movement. The current backdrop has been defined by a marked improvement in aggregate investor sentiment across both retail and institutional segments following one of the most bearish periods in history, and a flow of funds toward more cyclically-oriented pockets. According to BofA Global Research, year-to-date flows into equities total $495 billion and are being deployed unevenly across the market—technology funds recently saw the largest weekly outflow (-$1.1 billion) since 2018, while more cyclically oriented segments have generally experienced more inflows, as investors position for faster earnings growth. Performance has moved inline as sectors including Energy, Materials, Financials, and Industrials have performed well while longer-duration and defensive pockets have trailed on a relative basis.

An extreme pickup in investor sentiment via positioning and survey measures could eventually trigger a contrarian warning signal; however, we find that the runway for optimism should be longer given the depth and duration of the preceding bearish backdrop. BofA Global Research's Bull & Bear Indicator resides at 6.9, a neutral but still-elevated level.

Conclusion

We continue to believe that the macro backdrop is favorable toward equities on balance, and expect the broadening of leadership to include value and cyclical-oriented segments of the markets going forward. We continue to emphasize diversification within portfolios against episodes of volatility.

THOUGHT OF THE WEEK

What Fed Tapering Could Mean for Equity Markets

Ehiwario Efeyini, Director and Senior Market Strategy Analyst

The minutes from the late-April FOMC meeting released last month have raised the prospect of a shift in Fed policy through the tapering of its $120 billion-per-month bond buying program. With the economy in recovery, policymakers suggested that "it might be appropriate at some point in upcoming meetings to begin discussing a plan for adjusting the pace of asset purchases." Since the FOMC meeting, U.S. consumer price inflation for April has come in higher than expected. And investors are looking for consumer demand to improve on the back of economic reopening, government stimulus, strong consumer balance sheets and an improving labor market. A start to the tapering process still appears unlikely before 2022, and the first increase in the federal funds target rate would not be expected to follow until several quarters later. But the Fed could potentially begin to hint at a shift in this direction at its annual economic symposium at Jackson Hole in late August.

Since the 1970s, there have been seven hiking cycles undertaken by the Fed, beginning in August 1980, May 1983, December 1986, February 1994, June 1999, June 2004 and December 2015. And prior to this most recent hiking cycle, the Fed signaled its first move toward a tapering of its post-financial-crisis quantitative easing program in May 2013. Now, exactly eight years on from the 2013 "taper tantrum," it may be instructive for investors to review past patterns of market return around the initial stages of Fed tightening.

The data vary from cycle to cycle. But, on average, the market has tended to tread water immediately after the first move to tighten monetary policy, with performance improving thereafter. Higher-yielding sectors such as Utilities, Telecommunications and Consumer Staples have typically been among the weakest as the Fed starts to tighten. And Energy and Technology have historically been the biggest outperformers (Exhibit 4).

Exhibit 4: Market Returns and Historical Fed Tightening Cycles.

S&P 500 and relative sector returns around start of Fed tightening
Average returns for past seven tightening cycles*

		-3 months	+3 months	+6 months	+12 months
	S&P 500	7.2%	0.3%	6.5%	10.9%
Relative to S&P 500	Energy	-0.4%	5.3%	4.9%	8.3%
	Materials	4.1%	1.6%	2.0%	-2.0%
	Industrials	3.1%	1.6%	0.3%	0.0%
	Consumer Discretionary	1.5%	0.4%	1.1%	-3.5%
	Consumer Staples	-0.4%	-5.8%	-5.3%	-8.1%
	Healthcare	-1.5%	0.0%	-1.8%	6.4%
	Financials	-0.5%	-3.1%	-5.1%	-3.8%
	Technology	1.5%	3.3%	6.8%	8.0%
	Telecommunications	-3.5%	-1.1%	-1.6%	-3.7%
	Utilities	-4.7%	-0.1%	-3.4%	-2.2%

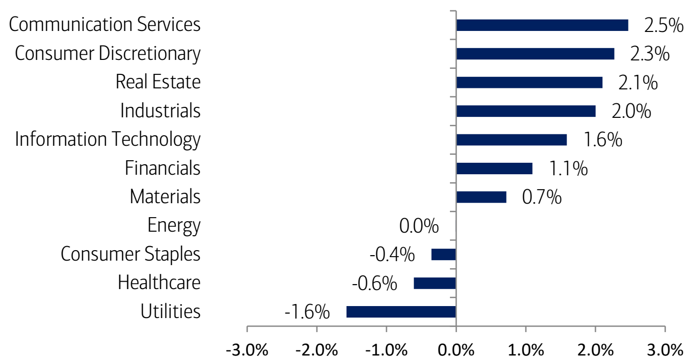
*Average around May 2013 taper tantrum and 7 hiking cycles beginning August 1980, May 1983, December 1986, February 1994, June 1999, June 2004, December 2015. Sector returns shown relative to S&P 500. Performance in total return terms. Sources: Bloomberg; Chief Investment Office. Data as of April 2021. Data would differ if a different time period was displayed. Past performance is no guarantee of future results.

Through its influence on discount rates and the cost of capital, the future direction of monetary policy will likely be a fundamental driver of asset prices. But equity markets may also be driven by a range of other factors, including the path of economic reopening, the outlook for inflation, commodity prices, government spending priorities, tax policy, and the growth of the digital economy. Therefore, while the volume of chatter about the Fed's next move will no doubt grow louder over the coming months, it will nonetheless remain critical to keep in mind the broader array of macro factors that are likely to influence prospective returns.

Equities

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
DJIA	34,529.45	1.0	2.2	13.8
NASDAQ	13,748.74	2.1	-1.4	7.0
S&P 500	4,204.11	1.2	0.7	12.6
S&P 400 Mid Cap	2,727.44	1.4	0.2	18.8
Russell 2000	2,268.97	2.4	0.2	15.3
MSCI World	2,979.30	1.3	1.6	11.5
MSCI EAFE	2,341.39	1.2	3.6	10.4
MSCI Emerging Markets	1,360.78	2.4	1.1	6.0

S&P 500 Sector Returns



Fixed Income†

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
Corporate & Government	1.40	0.43	0.51	-2.95
Agencies	0.70	0.20	0.27	-0.91
Municipals	1.02	0.20	0.30	0.78
U.S. Investment Grade Credit	1.50	0.35	0.33	-2.29
International	2.11	0.55	0.77	-2.85
High Yield	4.03	0.36	0.30	2.25

	Current	WTD	MTD	YTD
90 Day Yield	0.00	0.00	0.00	0.06
2 Year Yield	0.14	0.15	0.16	0.12
10 Year Yield	1.59	1.62	1.63	0.91
30 Year Yield	2.28	2.32	2.30	1.64

Commodities & Currencies

	Total Return in USD (%)			
Commodities	Current	WTD	MTD	YTD
Bloomberg Commodity	198.20	2.1	2.7	18.9
WTI Crude $/Barrel††	66.32	4.3	4.3	36.7
Gold Spot $/Ounce††	1903.77	1.2	7.6	0.3

Currencies	Current	Prior Week End	Prior Month End	2020 Year End
EUR/USD	1.22	1.22	1.20	1.22
USD/JPY	109.85	108.96	109.31	103.25
USD/CNH	6.36	6.44	6.47	6.50

Sources: Bloomberg, Factset. Total Returns from the period of 5/24/2021 to 5/28/2021. †Bloomberg Barclays Indices. ††Spot price returns. All data as of the 5/28/2021 close. **Past performance is no guarantee of future results.**

Asset Class Weightings (as of 5/4//2021)

Asset Class	CIO View				
	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					

*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.

Economic & Market Forecasts (as of 5/28/2021)

	Q4 2020A	2020A	Q1 2021A	Q2 2021E	Q3 2021E	Q4 021E	2021E
Real global GDP (% y/y annualized)	-	-3.2	-	-	-	-	6.0
Real U.S. GDP (% q/q annualized)	4.3	-3.5	6.4	10.0	9.0	5.0	7.0
CPI inflation (% y/y)	1.2	1.2	1.9	4.5	4.2	4.1	3.7
Core CPI inflation (% y/y)	1.6	1.7	1.4	3.4	3.4	3.4	2.9
Unemployment rate (%)	6.7	8.1	6.2	5.8	5.0	4.2	5.3
Fed funds rate, end period (%)	0.09	0.09	0.06	0.13	0.13	0.13	0.13
10-year Treasury, end period (%)	0.91	0.91	1.74	1.85	2.00	2.15	2.15
S&P 500 end period	3756	3756	3973	-	-	-	3800
S&P earnings ($/share)	42	140	42*	46	48	49	185
Euro/U.S. dollar, end period	1.22	1.22	1.17	1.18	1.16	1.15	1.15
U.S. dollar/Japanese yen, end period	103	103	111	107	110	113	113
Oil ($/barrel, avg. of period, WTI**)	44	40	58	64	60	58	60

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. S&P 500 represents the year-end target for 2021. **West Texas Intermediate.
Sources: BofA Global Research; GWIM ISC as of May 28, 2021.

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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 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 measures the average change in prices over time that consumers pay for a basket of goods and services.

IHS Markit Purchasing Managers' Index™ (PMI) is a survey-based economic indicator designed to provide a timely insight into business conditions.

Institute for Supply Management (ISM) manufacturing Index is a monthly indicator of U.S. economic activity based on a survey of purchasing managers at more than 300 manufacturing firms.

Employment cost Index is a quarterly economic series detailing the changes in the costs of labor for businesses in the United States economy.

Important Disclosures

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