

CHIEF INVESTMENT OFFICE

Capital Market Outlook



June 21, 2021

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

IN THIS ISSUE

- **Macro Strategy**—Because of deeply negative current real interest rates, profit margins are unlikely to decline much from elevated current levels before 2023, in our view, despite accelerating wage growth and other input-price inflation. Combined with strong revenue growth likely averaging 10% to 15% this year and next, this points to an outlook of sustained profits growth and narrow credit spreads. As a result, equity-market pullbacks will likely remain just normal corrections following unprecedented gains out of the pandemic shutdown.
- **Global Market View**—Heading into mid-year, global equity performance has proven somewhat uneven, with the U.S. and Europe surging ahead while Japan and the Emerging Markets (EM) lag behind. We believe there are several drivers and risks investors should consider if within their risk tolerance as we move into the second half of the year.
- **Thought of the Week**—Spending on research and development (R&D) is an essential building block of future growth and prosperity for nations and companies alike, and a critical differentiator of global competitiveness. Given this new global arms race around innovation, we continue to be overweight sectors containing many important leaders in R&D, such as Technology, Healthcare, Communication Services and Consumer Discretionary.
- **Portfolio Considerations**—We are monitoring the possibility of higher yields and higher levels of inflation, although we generally would expect an increase in price levels to favor equities over fixed income. Consider rebalancing through the summer months if risk assets drift materially higher over and above target allocation levels.

MACRO STRATEGY

Elevated Narrow Range for Margins Likely Through 2022

Chief Investment Office, Macro Strategy Team

Accelerating inflation and upside wage pressures have raised concerns about Federal Reserve (Fed) policy, the economic outlook, and profit margins, causing yields on long-term Treasury securities to decline and U.S. equity market gains to slow in recent months. The consumer price index (CPI) has been rising at a 7% to 10% annualized monthly rate since March and was up 5% year-over-year (YoY) in May, its biggest 12-month increase in 13 years. The producer price index for intermediate goods was up 22% in May, the sharpest 12-month increase since 1975.

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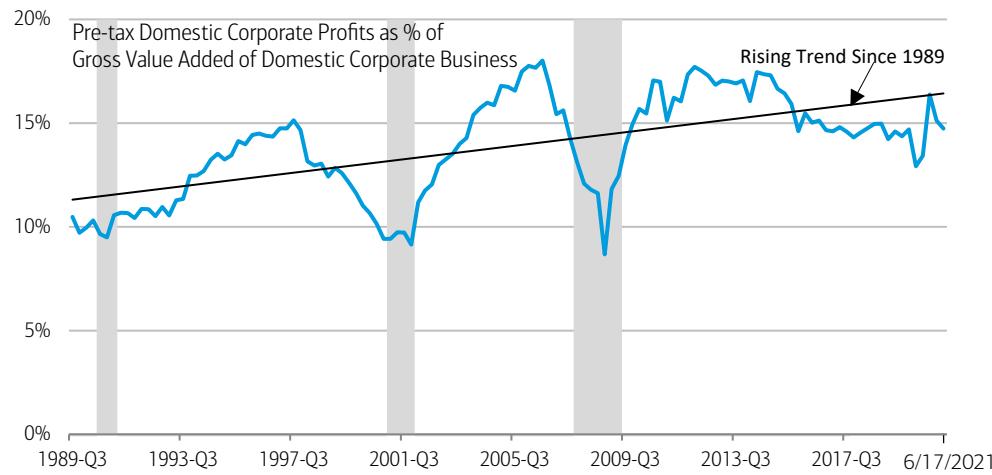
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In addition, significant supply-chain strains remain widespread, and labor shortages have become the most pressing problem for most businesses. Indeed, not only did unfilled job openings reach a 20-year high in April (with particularly big increases in manufacturing, leisure/hospitality, and transportation/ warehousing), but, according to the latest Bureau of Labor Statistics' (BLS) Job Openings and Labor Turnover Survey (JOLTS) report, the quits rate has spiked to levels far above those seen in the past 20 years.

With the labor force participation rate (LFPR) depressed and quits surging, it's not surprising that reports of upside labor-cost pressure have become pervasive. This is reflected in the BLS employment cost index (ECI), for example, which posted a 3.7% annualized quarterly gain in the first quarter, the most in 15 years. While this still left the ECI only 2.7% higher on a YoY basis, labor market conditions suggest an acceleration in labor cost growth to 3% to 4% over the next year and 5% in 2023, in our view, which would be the strongest in 20 years.

Still, because of offsetting long-lagged effects from increasingly negative real interest rates to date and other factors discussed below, we believe that this wage-growth path and other input cost inflation are not likely to pose significant risks to domestic profit margins over the next year and a half. That said, accelerating labor costs are likely to cap margins for the foreseeable future, and risks to margins are to the downside. Overall, our base-case scenario indicates that margins are likely to remain in a much narrower, moderate range compared to past cycles through the end of 2022, increasing less than in previous expansions but only after also declining much less during the pandemic than in past recessions (Exhibit 1).

Exhibit 1: Past Relationships Suggest Steady Profit Margins Continue Next Year.



Sources: Bureau of Economic Analysis/Haver Analytics. Data as of June 17, 2021. Forecasts may not come to pass. Past performance is no guarantee of future results.

First, consumer pent-up demand, operating leverage, and productivity, which typically help boost margins and profits out of recessions, have been underestimated, causing profits to vastly surprise to the upside over the past year. According to the May 19, 2021, Empirical Research Partners report, Q1 S&P 500 earnings were again "extraordinary," the result of "impressive" operating leverage and broad-based pre-tax margin expansion. Furthermore, while cost pressures surged, the Q1 earnings reporting season reflected broad confidence in companies' perceived ability to pass through rising costs, another generally underappreciated characteristic of the current expansion.

This ability to pass through cost inflation has been corroborated by the surge in the National Federation of Independent Business (NFIB) share of businesses raising or planning to raise prices to its highest level since the early 1980s in May, as well as by the 8.5% annualized gain over the past three months in CPI inflation, and is related to the new

ultra-dovish Fed monetary policy. Basically, as long as the Fed accommodates higher inflation, input cost increases shouldn't meaningfully hurt margin.

Because of the lags involved between changes in policy and their effects on economic conditions, ongoing government stimulus and deeply negative Fed interest rates are likely to continue to keep the demand side of the economy red hot over the next two years, with double-digit S&P 500 revenues and profits growth, absent a wage growth spiral that quickly takes labor cost growth above 5%, which is not our base-case scenario. Our analysis also suggests that it would take a sharp increase in real interest rates to meaningfully depress domestic profit margins from current levels, but only starting in 2023. However, large imminent Fed rate increases are unlikely since they would run counter to its inflation and employment objectives as well as stated interest rate intentions two years out. With inflation likely to accelerate further and the Fed on hold this year, real rates are unlikely to turn less negative (and less accommodative) soon, extending their support to growth and margins at least into 2023.

Second, depressed labor-force participation is also likely to continue to keep profit margins structurally higher than in previous cycles. As discussed in past reports, and in spite of the Fed's efforts, the labor force participation rate (LFPR) is unlikely to increase much above 62% (from 61.6% in May), let alone revisit its pre-pandemic peak of 63.4%, because of an aging population, pandemic fears and dislocations, disincentives to work, and other frictions. Importantly, its pre-pandemic peak was way above trend, the result of substantial work incentives introduced after 2016, while the bemoaned current 61.6% level is precisely on the LFPR downtrend line established since 2000. If we are correct, employment gains are likely to average around 350,000 per month between 2021 and 2023, potentially 20% less than implied by expectations for a revisit of the 63.4% pre-pandemic LFPR peak, keeping employers scrambling for workers and wage pressures to the upside. At the same time, however, the decline in LFPR points to profit margin support for the foreseeable future, given past correlations.

Third, as we expected and as discussed in past reports, productivity growth doubled from a 2010–2016 average of just 0.7% per year to 1.5% on average between 2016 and 2019, with a much faster than generally anticipated 4% annual gain through the Q1 of 2021. Our expectations for sustained strong annual productivity growth of around 3% from 2021 to 2023 suggest offsetting margin pressures to those coming from employment and wage increase.

Fourth, commodity prices tend to spike early in global expansions as demand exceeds retrenched supply and the dollar tends to depreciate. However, because of operating leverage and strengthening demand, early-cycle commodity price inflation have a tendency to accompany margin expansion. Usually it's decelerating revenue growth caused by restrictive interest rates and weakening demand that hurts margins most, especially since they tend to occur when cost inflation approaches cycle peaks.

Also positive for profit margins is the robust upturn in global growth momentum reflected in the strong IHS Markit global composite purchasing managers' index (PMI) for May, global trade growth, and the Organisation for Economic Co-operation and Development (OECD)+7 largest emerging markets leading indicator, for example. With the U.S. currently way ahead of the rest of the world in terms of government stimulus, vaccinations, and reopening, the rebound in foreign profits has lagged that of domestic profits, which have already reached new highs. With foreign profits very sensitive to improvements in global manufacturing and trade activity as well as a softening dollar, we would not be surprised to see them taking the lead in 2021, helping boost overall National Income and Product Accounts (NIPA) pretax profits by double digits in 2021 and 2022 to new records.

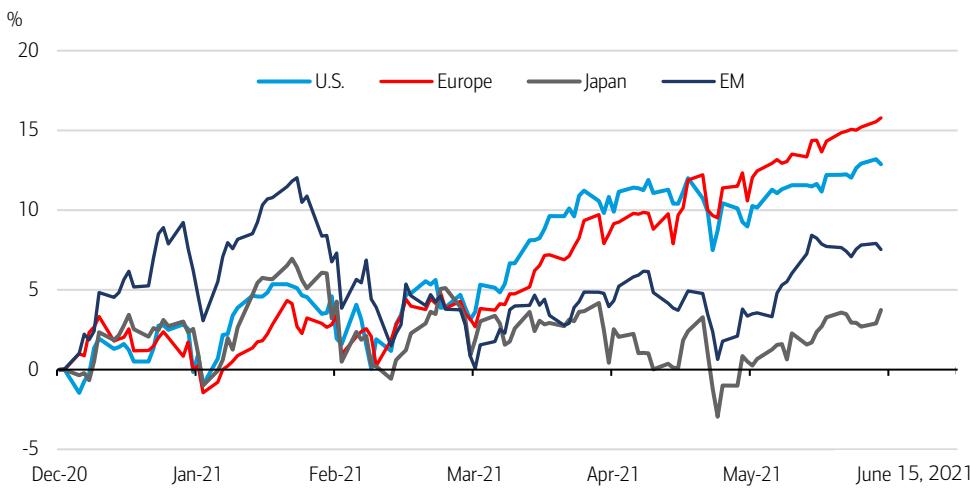
A Mid-year Glimpse at Global Equities

Kirsten Cabacungan, Assistant Vice President and Investment Strategist

Emily Avioli, Assistant Vice President and Investment Strategist

Heading into mid-year, global equity performance has proven somewhat uneven with the U.S. and Europe surging ahead while Japan and the EM lag behind (Exhibit 2). Here we recount what we have seen so far and what investors should consider into the second half of the year as potential drivers for further performance differentials shape out.

Exhibit 2: Global Equities Have Performed Unevenly So Far This Year.



Source: Bloomberg. Data as of June 15, 2021. Indexes referenced: MSCI USA Net Total Return, MSCI Europe Net Total Return, MSCI Japan Net Total Return, MSCI Emerging Markets Net Total Return. 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.

U.S.

The U.S. currently continues to be a leader in the global recovery on the back of strong economic data, an improving coronavirus situation and a stimulative policy mix. Several factors suggest that further upside for growth and corporate profits lie ahead, with a pickup in spending, an expected increase in labor market engagement as coronavirus risks subside and as elevated corporate cash levels drive a new capital expenditures (capex) cycle, building out a positive backdrop for U.S. equity performance. So far, U.S. equities have done well under these conditions, with the S&P 500 up 13.8% on total return basis year-to-date (YTD).

Strong earnings have helped to solidify investor confidence in the economic recovery. The first quarter saw S&P 500 earnings beat consensus estimates by a record 21%.¹ Given that we still remain at the early stages of the consumer pent-up demand cycle, expectations for revenues should continue to move higher. BofA Global Research expects earnings growth of 29.4% for 2021 and 10.8% for 2022, although potential tax hikes remain a primary downside risk. The strengthening earnings recovery has been a major driver of the recent rally, which is typical in the second year of a recovery. Whereas multiple expansion fueled much of the equity returns last year, valuations have compressed with the forward price-to-earnings (P/E) multiple down 6% since the start of the year, moving from 22.6x to 21.3x.

Participation remains broad, with roughly 92% of companies in the S&P 500 trading above their 200-day moving average. As vaccination progress boosts broader reopening

¹ BofA Global Research. May 9, 2021.

prospects and profit momentum accelerates across the board, the rotation toward more economically-sensitive areas of the market should continue, in our opinion. So far, Value has trounced Growth, with the Russell 1000 Value up 18.2% while the growth index lagged, now up only 8.9%. Value outperformance is closely tied to the economic cycle given its higher exposure to cyclical sectors like Energy and Financials, both sector leaders so far this year. These areas of the market have seen higher earnings revisions relative to more secular growth sectors, and should continue to benefit from a rising inflation and interest rate environment. From a valuation perspective, improving earnings have supported more attractive valuations for Value, with the Value forward P/E at 17.7x compared to 28.4x for growth. Small-caps have similarly outperformed large-caps, on the back of an improving economic outlook and stronger earnings recovery, with the next 12 month's earnings estimates for the Russell 2000 above the highs from 2018.²

Recently, U.S. equities have traded in a narrower range as investors try to digest implications of rising inflation on monetary policy after the U.S. CPI for May reported a 5% YoY increase, the first report of its kind since 2008. Fed officials continue to present any near term inflation as "transitory," essentially affirming the central bank's accommodative policy stance. For now, the trajectory for U.S. equities remains positive.

International Developed

Looking beyond the shores of the U.S., international equity performance has been relatively strong with the MSCI World Ex-U.S. Index up 13.6% YTD. Earnings recovery has picked up with estimated growth of 41% this year, and valuations remain attractive.³ However, the pace of economic reopening has varied across countries. The U.K. for instance, continues to struggle with new coronavirus variants and resulting economic shutdowns, while reopening has gathered momentum more quickly in other areas. Performance dispersion will likely remain until the health front normalizes, but as inoculations continue there may be a sustained pickup in growth momentum across International Developed markets. We are already seeing signs of this in some places, with certain International Developed markets far outpacing the U.S. this year.

European equities have surged ahead of the U.S. and other global peers in recent months as an acceleration in vaccinations pushed the region closer toward reopening. The MSCI Europe Index is now up 16.3% on a total return basis YTD, widening out the performance differential with the rest of the world. May marked the fourth consecutive month of positive performance for the region, with the index up 4.7% and June on track for a fifth as new all-time highs continue to be reached. The region's more value-dominated stock market has benefited from the improving economic recovery and rising interest rates, with Banks up 27% and Energy and Consumer Discretionary up 20.3% each YTD.⁴ Further economic surprises support a strong corporate earnings outlook. Following record Q1 earnings beats, Europe's earnings revision ratio jumped to 2.20 in May, the highest level ever. Consensus expectations are calling for earnings to grow 44% for 2021 and 10% for 2022.⁵

European stocks have benefited from the latest advance in the recovery and from strong inflows, following nine straight weeks of positive fund flows, according to BofA Global Research, but not all risks have been abated. A combination of coronavirus setbacks, a slower recovery in consumption, political cycle volatility, and input cost pressures and supply chain shortages all pose a risk, but for now the European Central Bank remains committed to its accommodative policy. That said, European equities should continue to stay afloat given attractive valuations relative to the U.S. with the MSCI Europe forward P/E at 16.6x, rising bond yields rewarding banks stocks and economic growth momentum in place.

² Strategas. Data as of June 9, 2021.

³ FactSet. Data as of June 14, 2021.

⁴ Bloomberg. Data as of June 15, 2021.

⁵ FactSet. Data as of June 9, 2021.

While economic recovery is gathering momentum in Europe, Japan seems to be at a standstill. Japan's core consumer prices have been negative since August 2020, and gross domestic product (GDP) contracted by an annualized 3.9% in Q1 2021, according to Bloomberg. A sluggish economic recovery has resulted in equity underperformance, with the MSCI Japan Index trailing both the MSCI U.S. Index and MSCI Europe Index YTD. Weaker growth in Japan is underpinned by a slow vaccine rollout and political uncertainty, with investors eyeing the upcoming October elections. Another term for Prime Minister Yoshihide Suga could signal a continuation of accommodative fiscal and monetary policy, while any leadership breakup in the world's third largest economy could create uncertainty. Still, there is reason to believe that Japanese equities could start to participate in the global rally. Swift economic recovery in the U.S. and China has helped to fuel Japanese exports, with domestic factory production in April reaching the highest level since 2019.⁶ Household spending is up and policy should remain accommodative, as Bank of Japan Governor Haruhiko Kuroda has indicated that he will keep 10-year yields pinned near 0%. Valuations are also attractive—with a forward P/E of 16.3x, Japanese equities are relatively cheap compared to the MSCI World at 19.7x.⁷

Emerging Markets

Emerging market equities are also lagging Europe and the U.S. YTD, despite a strong pickup in sentiment. Emerging markets indices tend to be skewed toward tech-driven north Asian markets like China, which have struggled amid a reflationary backdrop and the broader Value rotation this year. Additional pressure has been added by supply shortages in semiconductors, which continue to present near-term challenges for chip manufacturing markets like Taiwan. U.S.-China relations have deteriorated as tensions have heated up on trade, technology and more. All of this has resulted in a moderation of China's growth outlook and relative equity underperformance, with the MSCI China Index down -0.2% YTD. Elsewhere in EM, persistent coronavirus outbreaks continue to pose concerns to equities. Investors seem to be divesting from the hardest hit areas, with India and Brazil seeing net combined outflows of about \$2 billion this year.⁸

A weaker health infrastructure means a longer road to recovery, but there are reasons to remain invested in EM equities. A global synchronized growth environment should benefit corporate profits, which are already expected to grow 48% this year.⁹ Commodity-producing emerging economies could be especially primed to benefit from a weaker U.S. dollar, as a softer greenback makes commodities less expensive to users of other currencies. Looking further out, EM corporate earnings and GDP growth could be supported by shifts toward more consumer-oriented sectors, as the developing world now constitutes about 41% of global personal consumption expenditures according to the United Nations.

Potential Drivers Ahead and Portfolio Implications

While global equity performance has been less than synchronized this year and various drivers and risks lie ahead (Exhibit 3), we continue to reiterate our suggested position for a well-diversified equity exposure in a portfolio context. The U.S. remains our preferred region for equities relative to the rest of the world, but we continue to suggest healthy allocations to Europe, Japan, and other international markets. Some exposure to EM equities is suggested as the global economic recovery continues to gather steam as we move into the second half of the year.

⁶ Bloomberg. Data as of June 7, 2021.

⁷ Bloomberg. Data as of June 15, 2021.

⁸ BofA Global Research. June 3, 2021.

⁹ FactSet. Data as of June 14, 2021.

Exhibit 3: Short- to Medium-term Potential Drivers and Risks for Equity Market Returns.

	Drivers	Risks
U.S.	<ul style="list-style-type: none"> • Accommodative monetary policy • Lagged effects of fiscal stimulus • Less political risk • Vaccination acceleration • Pent-up consumer demand • Labor market engagement • Potential for additional fiscal spending • High corporate cash levels 	<ul style="list-style-type: none"> • Sharp and persistent rise in inflation • Policy errors • Trade war tensions with China • Rising taxes • Cybersecurity threats / Geopolitical Risks • Coronavirus outbreaks and shutdowns
Europe	<ul style="list-style-type: none"> • Rising interest rate environment • Vaccination acceleration • Global trade revival • Cyclical shift beneficiary • Relatively attractive valuations • Pick up in services sector activity 	<ul style="list-style-type: none"> • Vaccination hesitancy and rollout • Sharp and persistent rise in inflation • Elections in Germany and France • Strong Euro • Consumer slow to spend excess savings
Japan	<ul style="list-style-type: none"> • Accommodative monetary policy • Lagging effects of fiscal stimulus • Rising household spending • Relatively attractive valuations • Improving global demand • Beneficiary of digitization 	<ul style="list-style-type: none"> • Lagging Vaccination efforts • Coronavirus outbreaks and shutdowns • Political uncertainty • Global spending shift toward services • Weak demographics story
Emerging Markets	<ul style="list-style-type: none"> • Cyclical shift beneficiary • Global trade revival • Weaker U.S. dollar • Strong demographics story 	<ul style="list-style-type: none"> • Weaker health care systems • Vaccination supply issues and slow rollout • Supply chain shortages • China credit impulse slowing • Trade war tensions • Coronavirus outbreaks and shutdowns

Source: MSCI. Data as of 2020. Based on MSCI equity indices.

THOUGHT OF THE WEEK

R&D As a Key Driver of Global Growth and Competitiveness

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

The world has entered a new global arms race around innovation, with the leaders likely to be those nations/companies that sink the most into research and development (R&D). The latter, remember, is an essential building block of future growth and prosperity, and a critical differentiator when it comes to global competitiveness.

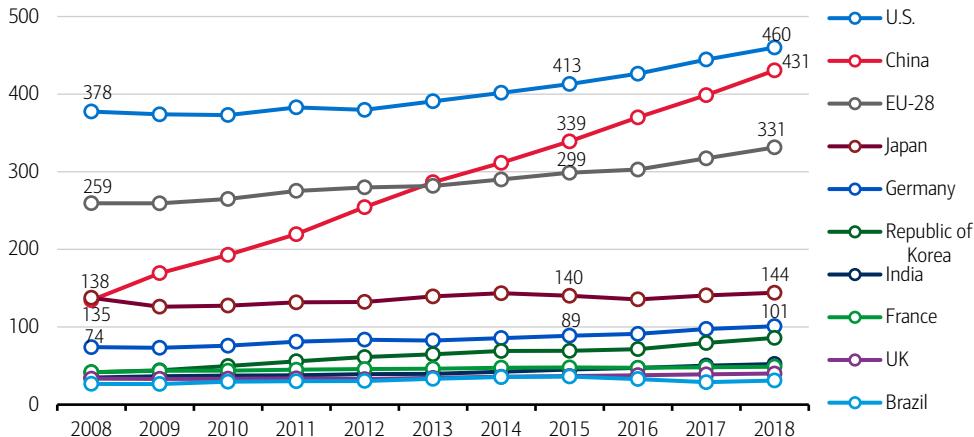
The premium on R&D will never be greater than in the next few years, owing to a number of factors. Nations favoring self-sufficiency in the production of critical goods; the accelerating race for technological leadership in various industries; and the urgent need to grapple with the multiple challenges of climate change—all are catalysts underpinning the coming boom in R&D. Rising U.S.-China tensions will have a similar effect, with the U.S. Innovation and Competition Act—designed to boost U.S. R&D spending in a number of key sectors under threat from China—just the most recent example of renewed R&D spending by governments.

Meanwhile, beyond the U.S., Europe has adopted an industrial strategy to support more R&D in renewable energy and the digital economy. Japan has similar plans, while China continues to prioritize innovation-led growth through greater state-led R&D in such key sectors as E-commerce, Mobile Payments, Artificial Intelligence and 5G. As Exhibit 4 makes clear, China's drive to innovate via rising R&D expenditures has been nothing short of stunning, with gross domestic expenditures on R&D rising from just \$137 billion in 2008 to \$439 billion in 2018, the last year of available data from the United Nations.

Exhibit 4: Leaders in the Global Innovation Arms Race.

Top 10 countries for gross domestic expenditure on R&D

In Purchasing Power Parities \$ billions (constant 2005 prices)



Source: United Nations Educational, Scientific and Cultural Organization. Report run date as of June 16, 2021. Data available through 2018 and is latest data available.

The exhibit serves as a wakeup call to the rest of the world of China's expanding technological capabilities; it's triggered a rethink among governments and corporations as to the importance of R&D in driving future growth and earnings. That said, and over the long-term, we continue to be overweight Technology, Healthcare, Communication Services and Consumer Discretionary sectors, with these sectors containing many important leaders in R&D. Also, consider staying long U.S. and China technology leaders.

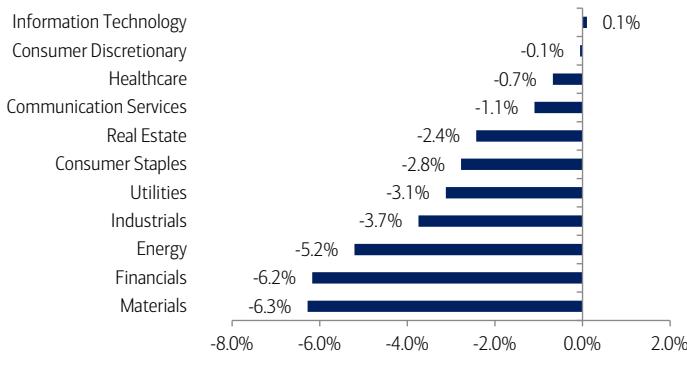
MARKETS IN REVIEW

Equities

Total Return in USD (%)

	Current	WTD	MTD	YTD
DJIA	33,290.08	-3.4	-3.5	9.8
NASDAQ	14,030.38	-0.3	2.1	9.2
S&P 500	4,166.45	-1.9	-0.8	11.7
S&P 400 Mid Cap	2,611.94	-5.1	-4.2	13.9
Russell 2000	2,237.75	-4.2	-1.3	13.8
MSCI World	2,954.19	-1.9	-0.7	10.6
MSCI EAFE	2,308.52	-2.4	-1.0	8.9
MSCI Emerging Markets	1,361.25	-1.5	-0.9	6.2

S&P 500 Sector Returns



Sources: Bloomberg, Factset. Total Returns from the period of 6/14/2021 to 6/18/2021. [†]Bloomberg Barclays Indices. ^{††}Spot price returns. All data as of the 6/18/2021 close. **Past performance is no guarantee of future results.**

Asset Class Weightings (as of 6/1/2021)

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.

Fixed Income[†]

Total Return in USD (%)

	Current	WTD	MTD	YTD
Corporate & Government	1.40	0.30	1.10	-1.88
Agencies	0.82	-0.18	0.11	-0.80
Municipals	1.00	-0.35	0.31	1.10
U.S. Investment Grade Credit	1.51	0.11	0.71	-1.60
International	2.05	0.58	1.68	-1.22
High Yield	3.96	-0.07	0.70	2.96
	Current	WTD	MTD	YTD
90 Day Yield	0.03	0.02	0.00	0.06
2 Year Yield	0.25	0.15	0.14	0.12
10 Year Yield	1.44	1.45	1.59	0.91
30 Year Yield	2.01	2.14	2.28	1.64

Commodities & Currencies

Total Return in USD (%)

Commodities	Current	WTD	MTD	YTD
Bloomberg Commodity	194.16	-4.3	-2.0	16.5
WTI Crude \$/Barrel ^{††}	71.64	1.0	8.0	47.7
Gold Spot \$/Ounce ^{††}	1764.16	-6.0	-7.5	-7.1
Currencies	Current	Prior Week End	Prior Month End	2020 Year End
EUR/USD	1.19	1.21	1.22	1.22
USD/JPY	110.21	109.66	109.58	103.25
USD/CNH	6.46	6.40	6.37	6.50

Economic & Market Forecasts (as of 6/18/2021)

	Q4 2020A	2020A	Q1 2021A	Q2 2021E	Q3 2021E	Q4 2021E	2021E
Real global GDP (% y/y annualized)	-	-3.1	-	-	-	-	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	4.7	4.7	4.5	3.9
Core CPI inflation (% y/y)	1.6	1.7	1.4	3.6	3.9	3.9	3.2
Unemployment rate (%)	6.7	8.1	6.2	5.8	4.9	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	1.44	1.65	1.90	1.90
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	66	69	65	65

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 June 18, 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 (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods.

Producer Price Index is a family of indexes that gauges the average fluctuation in selling prices.

Employment Cost Index (ECI) is a quarterly economic series published by the Bureau of Labor Statistics that details the growth of total employee.

IHS Markit global composite purchasing managers' index (PMI) are leading economic indicators and are widely used by economists and financial market analysts due to their ability to provide timely insights into changing worldwide business conditions.

MSCI China Index measures large and mid-cap representation across **China** securities listed on the Shanghai and Shenzhen exchanges.

MSCI U.S. Net Total Return Index is designed to measure the performance of the large and mid cap segments of the **US** market.

MSCI Europe Net Total Return Index are cash settled upon expiration. This **index** covers approximately 85% of the free float-adjusted market capitalization across the **European** Developed Markets equity universe (large and mid cap).

MSCI Japan Net Total Return Index is designed to measure the performance of the large and mid-cap segments of the **Japanese** market, covering about 85% of the free float-adjusted market capitalisation in **Japan**.

MSCI Emerging Markets Index captures large and mid cap representation across 27 Emerging Markets (EM) countries.

MSCI World ex USA Index captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries **excluding** the United States.

Russell 1000 Value Index measures the performance of the large-cap **value** segment of the U.S. equity universe.

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