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Capital Market Outlook

June 8, 2020

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

IN THIS ISSUE

- **Macro Strategy**—The S&P 500 stock price index has posted its strongest 50-day rise ever. This has caught many investors by surprise. In fact, risk assets all around the world had been rallying hard, especially those more correlated with solid economic expansions. This is typical of the transition period out of a recession into a new global expansion.
- **Global Market View**—We expect to see a renewed focus on Research & Development (R&D) by governments and businesses, as countries favor autonomy in the production of critical goods, and as the race for technological leadership in many key industries accelerates. We continue to be overweight technology, healthcare, communication services and consumer discretionary sectors, which contain many important leaders in R&D.
- **Thought of the Week**—Small caps are likely to be supported in the near term by an improvement in the economic data but still face headwinds from higher leverage, shorter debt maturities and non-earners. Consider an allocation to both large and small cap equities within a well-diversified portfolio, but large caps should be preferred for higher-quality exposure, in our opinion, amid near term uncertainty.
- **Portfolio Considerations**—The U.S. remains our preferred equity region relative to the rest of the world and we remain slightly overweight investment-grade credit in fixed income. We expect curves to steepen slightly as the Federal Reserve (Fed) signals forward guidance. Consider staying diversified across growth and value assets and add to cyclical areas, including equities at the asset class level, over time as we still climb that tall "wall of worry."

MACRO STRATEGY

Chief Investment Office Macro Strategy Team

GLOBAL MARKET VIEW

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

THOUGHT OF THE WEEK

Kirsten Cabacungan
Investment Analyst

Data as of 6/8/2020 and subject to change.

MACRO STRATEGY

Conditions In Place For A Potentially Strong Global Expansion

Chief Investment Office Macro Strategy Team

Uncertainty about the economic outlook remains extremely elevated, and there have been doubts about the ability of the hard-hit western developed economies to quickly come out of the coronavirus pandemic shock. Nevertheless, evidence of a trough in economic activity in mid-April and a quick rebound is accumulating. This includes improving credit-card transaction data; stabilizing May purchasing managers' surveys

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in the eurozone and the U.S.; the sharpest V-shaped snap-back ever in the German ZEW economic index[1] (a 6-month economic outlook leading indicator) from a deep April plunge; a return of consumer spending close to pre-pandemic levels in Scandinavia, as well as a sharp jump in French consumer spending to about 94% of pre-pandemic levels by late May. According to Applied Global Macro Research (AGMR) June 1, 2020, "if eurozone mobility data continues to improve at the same pace as over the past two months, the four big euro countries could be back to pre-coronavirus levels in two weeks' time...At the current pace, German truck toll mileage could be back to normal in about one month."

In the U.S., initial claims for unemployment compensation have been declining fast, and the St. Louis Fed financial stress indicator has dropped back to normal from extremely high March-April levels. U.S. mortgage applications for home purchase have bounced back from their April slump, and the yield-curve spread is once more consistent with accelerating growth rather than recession ahead. The fact that manufacturing output has returned to growth in China since March after a deep February dive[2] and car sales/production there have almost recovered their pandemic declines has also boosted confidence in a quick global rebound, as reflected in stronger-than-anticipated global equity-market performance since mid-March. The narrowing of credit spreads confirms stock-market expectations for substantially improving economic conditions, as spreads typically decline when the growth dynamic improves. In our view, the recovery is likely to continue to surprise to the upside in terms of speed and strength, as the massively positive employment report[3] for May seems to confirm.

First, as discussed in recent reports, timely and massive government support both in the U.S. and abroad has set the stage for a faster-than-normal rebound out of recession. U.S. shutdown spending restrictions combined with fiscal stimulus and automatic stabilizers have boosted aggregate personal saving by an unprecedented $4.76 trillion from February to April according to the Bureau of Economic Analysis, increasing consumer spending power and investor sentiment. This helped stabilize consumer expectations as measured by The Conference Board at quite elevated levels considering the dismal current economic conditions and disheartening unemployment levels. In fact, perceptions of labor-market conditions improved from April to May, suggesting a labor-market recovery is already under way, as corroborated by the rapid drop in the pool of people receiving unemployment compensation in recent weeks.

Of note, the share of respondents expecting better business conditions in six months, which typically increases at the beginning of economic expansions, hit a 55-year high in May, according to the same survey. Also, and related, the gap between consumers expecting more jobs versus fewer jobs six months out reached its highest level since 1983, suggesting consumers perceive the surge in unemployment as temporary. This is supported by the fact that the unemployment rate tends to track closely the gap between those responding that "jobs are hard to get" and "jobs are plentiful," which in May was more consistent with about a 6% to 7% unemployment rate than double-digit levels.

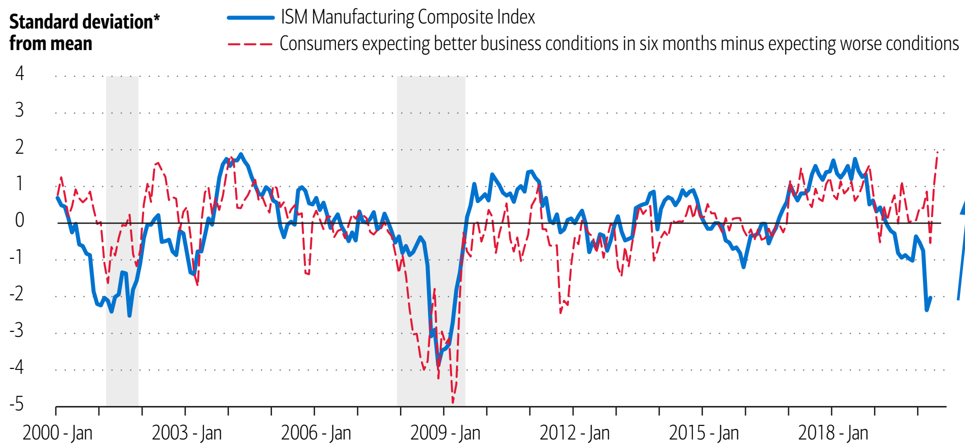
This is important because expectations affect the direction of the economy. That's why they're part of The Conference Board's Leading Economic Index. If people believe that the downturn is temporary, they start spending before long, especially on big-ticket items, which quickly engenders a self-fulfilling prophecy. That's also why the decades-high positive May gap between people expecting improving business conditions in six months and those expecting worse conditions, which is not seen during recessions, points to a quick and significant likely improvement in manufacturing sentiment and activity in coming months (Exhibit 1).

[1] German Zentrum für Europäische Wirtschaftsforschung (ZEW)

[2] China Federation of Logistics & Purchasing, May 2020.

[3] Bureau of Labor Statistics, June 5, 2020.

Exhibit 1: Consumer Optimism About Business Conditions Six Months Hence Suggests V-shaped Institute for Supply Management (ISM) Manufacturing Index Rebound.



*Standard deviation = a measure of the amount of variation or dispersion of a set of values. Sources: ISM; The Conference Board/Haver Analytics. Data as of June 3, 2020. **Past performance does not guarantee future results.**

Second, and related, previous recessions were caused by endogenous excesses or disequilibria that needed time to correct, such as after the Great Financial Crisis of 2008–2009, when prolonged banking and housing problems greatly constrained the recovery. This is not the case in the current downturn. In fact, record-low mortgage rates, a depressed inventory of homes for sale, and pandemic-related changes in consumer preferences are helping housing quickly become an engine of growth this time around. April new-home sales stabilized after a steep decline in March, and mortgage applications for home purchases are 17% above the year-ago level, according to the Mortgage Bankers Association. With sales of existing homes reportedly plunging because of homeowners' reluctance to sell their homes during the pandemic, buyers' interest in new homes is picking up, buoying housing construction activity as conditions normalize.

Third, pro-growth policies and strong economic conditions before the pandemic shock have instilled confidence in a swift rebound. This helps explain why the University of Michigan Consumer survey shows that consumer sentiment about motor-vehicle buying conditions returned to normal in May, another sign of healthy consumer confidence and improving economic outlook.

Fourth, event-driven economic downturns and bear markets tend to be shorter and shallower than those cyclically or structurally driven. Natural disasters, for example, tend to cause quick contractions followed by strong growth. The signals we watch for the direction of the ISM manufacturing index and the economy suggest a similar pattern out of the pandemic-led downturn.

Fifth, because earnings expectations tend to track the manufacturing ISM index, a quicker-than-generally-anticipated corporate profits recovery is also likely in coming quarters if our expectations for a quick rebound in the manufacturing index prove correct. Because U.S. profit margins tend to increase significantly in the immediate recovery period as a result of operational leverage, we expect it to take only a few quarters for earnings to recover from the second-quarter trough to pre-recession peaks. Earnings are more volatile than overall economic activity both on the upside and the downside.

Earnings rebounds tend to lead to a pickup in business investment, which helps create a positive feedback loop of more hiring, faster wage and salary growth, and accelerating revenues and profits growth. An improvement in profit margins and corporate balance-sheet health is usually associated with tightening credit spreads in U.S. recoveries, which is what we have observed in recent weeks.

Sixth, with profits and business-investment growth generally very sensitive to changes in the rest of the economy, even assuming a smaller reaction this time because of unusually high uncertainty, this sensitivity implies a strong capital expenditures (capex) rebound in coming quarters after an estimated year-over-year contraction of about 40% by the fall. While this decline would be the deepest and steepest ever, because it is not due to overinvestment, as often the case in past recessions, it would bring equipment investment to unsustainably low levels once spending picks up with the opening of the economy. Excessive investment cuts eventually deplete businesses' capital stock, forcing them to subsequently invest more lest they lose market share, and vice versa. This implies favorable capex growth dynamics ahead in order to restore investment to sustainable levels, a positive for the economic outlook. The decline in the nonfinancial corporate financing gap and net interest expense (due to low investment and low interest rates), both leading indicators for U.S. business investment, also point to a significant likely reacceleration of equipment capex ahead. The fiscal support aimed at directly helping businesses and the Fed's decisive intervention to maintain access to capital through well-functioning financial markets and low interest rates are favorable as well.

All in all, even assuming only a moderate consumer spending recovery ahead, U.S. business equipment investment is likely to rebound at a record pace over the next year, in our view. Supply-chain implications from the pandemic are also likely to boost business investment and economic growth ahead. Investors have been baffled by the apparent disconnect between strong equity prices and weak current economic conditions. However, leading indicators suggest equity prices are anticipating a very robust global expansion in 2021.

GLOBAL MARKET VIEW

Renewing R&D's Role in the Global Economy

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

R&D has been a key pillar of the world's coronavirus response. Cross-industry collaboration and coordination between the public and private sectors have been instrumental in accelerating the virus vaccine development and building out testing and tracing capabilities. Meanwhile, the coronavirus has highlighted the benefits of sustained investments in R&D to ensure preparedness when an unexpected crisis comes along. along. Interestingly, South Korea, which spends the most on R&D as a percent of GDP (4.6%), has been identified as a model of success for testing and containing the virus' spread.[4]

Looking beyond the immediate response to the crisis, we expect to see a renewed focus on R&D by governments, as countries favor self-sufficiency in the production of critical goods, and as the race for technological leadership in many key industries accelerates. We continue to be overweight technology, healthcare, communication services and consumer discretionary sectors, which contain many important leaders in R&D. Below we outline five key trends and observations relevant to our outlook.

1. Bigger Role of Government Portends Greater Federal R&D Funding

R&D expenditures in Organisation for Economic Co-operation and Development (OECD) countries grew a modest 3.8% in real terms in 2018, with the business sector accounting for 75% of this growth. For decades, public sector investment in R&D has lagged behind, as budgets have been increasingly devoted to mandatory expenditures associated with an aging population and growing entitlement benefits in the case of the U.S. That said, we expect a renewed focus on R&D from central governments around the world as countries fortify their healthcare systems, seek self-sufficiency in developing/producing critical goods and components, and as the tech war between China and the U.S. intensifies.

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[4] Source: UNESCO Institute for Statistics Database. Data retrieved on June 2020.

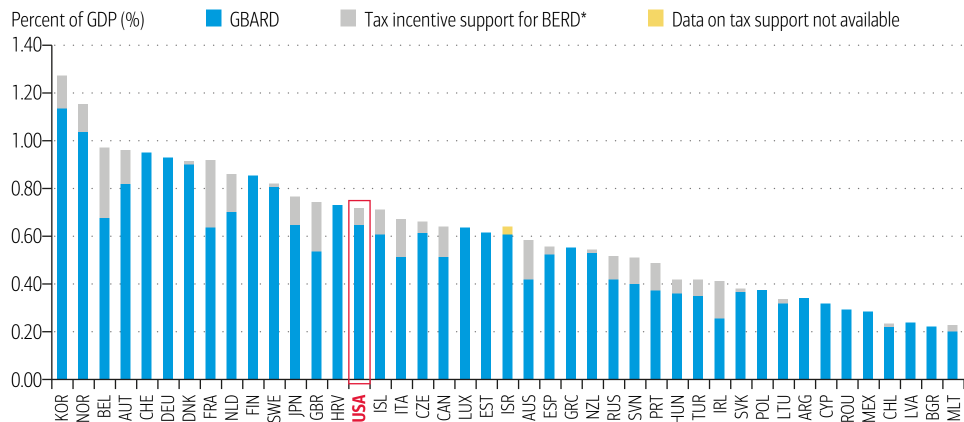
In the U.S., greater spending on R&D has gained bipartisan support. Last week, Congress proposed legislation seeking $100 billion in funding for the National Science Foundation (NSF) to support U.S. innovation capabilities over a five-year period. Investments would support applied technology and a mission-oriented research style, similar to the Defense Advanced Research Projects Agency (DARPA)-led programs, which focus on cross-sector collaboration and have been responsible for many of the most successful innovations in the past.[5]

Meanwhile, Europe has adopted an industrial strategy to support its green and digital transformation over the next few decades.[6] The coronavirus relief proposal by the European Commission called for 25% of the European Union (EU) budget to be spent on climate investments and research and innovation through its “Horizon Europe” program. The historic package, which calls for joint EU debt issuance, is an important step toward fiscal integration in the EU and could potentially open a door to common debt financing of future innovation efforts.

China should continue to prioritize innovation-led growth, with a strong industrial strategy focused on becoming a global leader in the industries of the future. The country had already established itself as a leader in e-commerce, mobile payments, artificial intelligence and 5G. Measured in purchasing-power-parity terms, China’s R&D expenditures are on pace to overtake U.S. R&D this year, according to our estimates.[7]

To counter the rise of China, we believe the U.S. federal government will step up its support for R&D, whether it be through increased funding or greater R&D tax incentives as a percent of GDP. Exhibit 2 shows that the U.S. currently ranks 15th among the developed world in supporting research and development.

Exhibit 2: Government Budgets For R&D (GBARD) and Tax Incentive Support For Business R&D, 2017 Or Latest Year.



*Business Enterprise Research & Development (BERD). Note: GBARD include direct funding provided to all sectors, including contributions to R&D programs abroad. Source: Organisation for Cooperation and Development (OECD). Data as of December 2019.

2. The Business Sector Should Continue to Drive R&D, with More Public-Private Collaboration

Even with this projected increased role for government in R&D, we still expect the business sector to drive investments in innovation. Since the mid-1960s, U.S. businesses have significantly increased their share of total R&D funding—from roughly 30% in 1965 to 70% as of the latest data in 2018.[8] Leading the way in terms

[5] See Bloomberg Opinion, “The U.S. Gets Serious About Catching Up to China in R&D.” As of June 1, 2020.

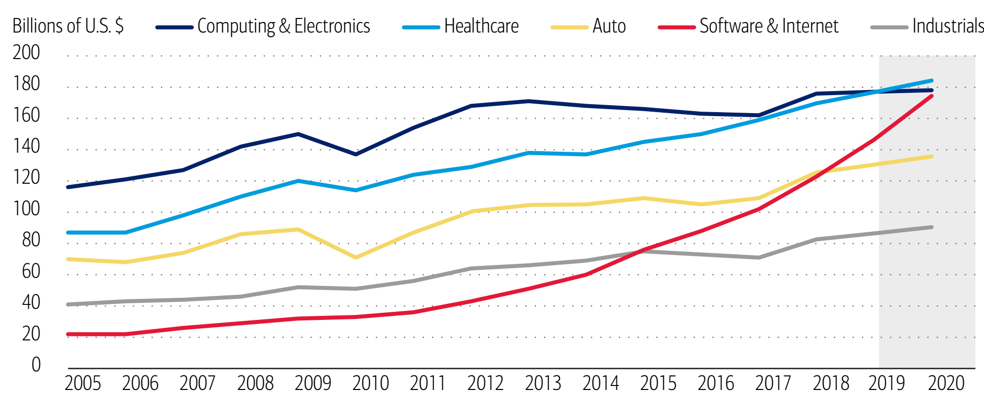
[6] See European Commission, “ A New Industrial Strategy for Europe,” As of March 10, 2020.

[7] Based on OECD Research and Development Expenditures historical data 2000-2018. See Exhibit 4 in Capital Market Outlook from 7-1-2019. “Global R&D: From Apollo, to Apple, to Alibaba?”

[8] We discuss these trends further in our Capital Market Outlook from 7-1-2019. “Global R&D: From Apollo, to Apple, to Alibaba?”

of global business R&D have been such key sectors as computing and electronics, software and internet, healthcare, automobiles and industrials. (Exhibit 3)

Exhibit 3: Global R&D Spending, Top Five Industries.



Sources: Capital IQ data; Thomson Reuters Eikon data; PwC Strategy& analysis. The Global Innovation 1000. Data as of 2019.
Past performance is no guarantee of future results.

Furthermore, a potentially lighter regulatory process for the healthcare industry could help increase the productivity of healthcare R&D. As noted by Deloitte, R&D returns for large-cap biopharma companies have steadily declined since 2010, with the average cost to bring an asset to market increasing by 67% over the ten-year time frame.

Looking forward, greater public-private coordination in R&D could help accelerate innovation even after the virus response. The latest example of this occurred last month when SpaceX, in collaboration with NASA, became the first private company to launch humans into orbit—a giant leap for public-private sector partnerships. In addition, Europe has emphasized "industrial alliances" to develop EU industries such as batteries, plastics, microelectronics, cloud computing and low carbon sectors such as clean hydrogen. Other EU public-private partnerships proposed through its R&D program "Horizon Europe" include a partnership for research on Artificial Intelligence (AI), data and robotics and a partnership for autonomous vehicles.

3. R&D Budgets Should be More Resilient, Less Cyclical than Traditional Capex

Near term, global capex is expected to experience a severe downturn as a result of coronavirus uncertainties. However, intellectual property (IP) capex is relatively more insulated from the economic impact of the virus. In the first quarter of 2020, while traditional capex equipment expenditures declined by an annualized 17%, business investment in IP products rose 1%. This increase in IP was driven by software, +9% annualized growth, and partially offset by slightly weaker R&D expenditures (-4.2%). According to a March 2020 BofA Global Research Technology survey of 175 companies, IT spending is expected to grow 2.5% in 2020, as businesses invest more in their digital software and security capabilities.

In the energy industry, the International Energy Agency (IEA) predicts a 20% decline in total global energy investment in 2020; however, in terms of public energy R&D expenditures, the IEA notes that "in wealthier countries, cuts may be modest or nonexistent as governments pursue countercyclical R&D policy through stimulus measures. In 2009–2011, the American Recovery and Reinvestment Act raised annual energy R&D spending by 75% compared with 2006–2008, before it fell back in 2012–2014."[9]

[9] May 2020, IEA "World Energy Investment 2020 Report."

4. Private Sector R&D Spending Has Become Increasingly Concentrated

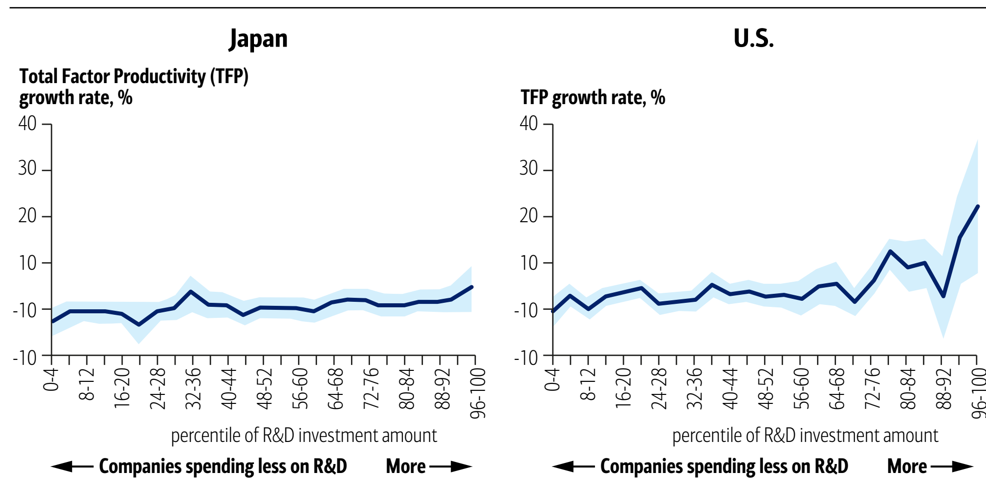
In the U.S., the top 10 largest companies in terms of R&D expenditures spent a combined $42 billion last quarter on R&D, whereas the next 50 largest spent just $30 billion, according to company data we compiled using FactSet. Many of these leading R&D companies have high cash balances and cash flow, a key determinant of R&D expenditures. Moreover, the largest five tech companies actually increased their R&D expenditures by 17% in Q1 from the same period a year ago.[10] Prior investments in automation, big data, cloud technologies and other leading-edge technologies have helped these companies become more resilient during the economic shutdown.

5. Innovative Companies Have Tended to Outperform, Key Risks Include Tech Regulation

So what can R&D tell us about financial market performance? We outline a few dynamics below.

- As noted in their latest Global Innovation 1000 study, PwC finds that companies with better R&D processes and a greater ability to bring products to market are more likely to succeed. One way that R&D processes have become more productive and effective in recent years has been through the increased use of artificial intelligence and machine learning.
- A Boston Consulting Group analysis finds that the 50 "most innovative" companies in 2007 outperformed the market during the recovery from the 2008–2009 crisis. These companies delivered total shareholder returns that were 4% higher per year than the market from 2007–2012.
- In a research paper conducted by the Bank of Japan, U.S. companies with higher R&D expenditure were shown to achieve higher levels of productivity growth than those with a relatively small R&D footprint during the last U.S. recession (Exhibit 4).

Exhibit 4: R&D and Productivity in the U.S.



Note: Solid line represents the average and shaded areas indicate +/- 1 standard deviation. Figures are for manufacturing companies to include 2007–2009 that illustrate productivity growth during prior financial crisis. TFP % is Total Factor Productivity growth rate. R&D investment is R&D/Sales ratio. Source: Nakamura, K., S. Kaithatsu, T. Yagi (2018). "Productivity Improvement and Economic Growth." Bank of Japan Working Paper Series, No. 18-E-10. As of May 2018.

That said, a key risk for these R&D leaders is the growing regulatory scrutiny surrounding Big Tech. Risks include an expansion of tech regulations, antitrust actions, and the adoption of digital service taxes. Per the latter, last week the U.S. Trade Representative office said it would investigate various countries that have introduced or announced plans for digital services taxes, with the potential for retaliatory tariffs. We are carefully monitoring these developments but continue to favor healthcare, communication services and technology companies with leading R&D capabilities for investment portfolios.

[10] Note, roughly 170 companies out of the S&P 500 had R&D expenditures reported in FactSet last quarter. Also, see Wall Street Journal, "Not Even a Pandemic Can Slow Down the Biggest Tech Giants," As of May 23, 2020.

THOUGHT OF THE WEEK

An Update On Small Cap Equities

Kirsten Cabacungan, Investment Analyst

In the last couple of years, and for the better part of the last decade, U.S. large caps have continued to outperform small caps (Exhibit 5). Given the higher risk profile, the smaller size segment faced greater challenges in the face of weaker earnings growth and a slower and often fragile global economic backdrop. This trend continued during the March selloff, but on the tails of massive monetary and fiscal stimulus, small caps, as measured by the Russell 2000 Index, are now up 52% off the lows, although still down 12% from the January high. This small-cap rally ranks high relative to history, with the percent gain over the last 50 trading days second best to the surge off the March 2009 lows, according to Strategas. Large caps, on the other hand, have also seen significant gains, with the Russell 1000 Index now up roughly 44% off the lows and down only 1% year-to-date.

In the near term, small caps are likely to be supported by an improvement in economic activity as states continue the reopening process, economic data looks less bad, and investor risk appetite builds. Rising merger and acquisition activity may also keep valuations supported for those companies with a niche technology or product that may be attractive for larger companies to bolt on. However, small caps still face headwinds from record-high leverage ratios, shorter average debt maturities and an elevated number of non-earners, all signs of lower quality, according to BofA Global Research. Strategas reports the percent of small-cap non-earners is now 42% versus 18% for large caps. Small caps have also seen lower earnings growth over the last three years, averaging 6.4% relative to large caps at 10.9% and, with lower profitability, may face higher dividend pressure in a shock. So far, over 100 mid and small cap companies have cut or suspended dividends, more than double the number of large caps, as reported by *Barron's*. Smaller companies have also been adversely affected during this period of social distancing as larger companies have been seen as "more essential" and remained open and have been able to access the capital markets to bolster their cash positions. The recent reescalation in the trade war between the U.S. and China poses another risk, especially with many small caps serving as suppliers to multinationals or facing challenges themselves in shifting supply chains.

Consider an allocation to both large and small cap equities within a well-diversified portfolio. However, large caps provide a more appropriate balance of Quality, Yield and Growth and should be emphasized from a 12- to 18-month perspective.

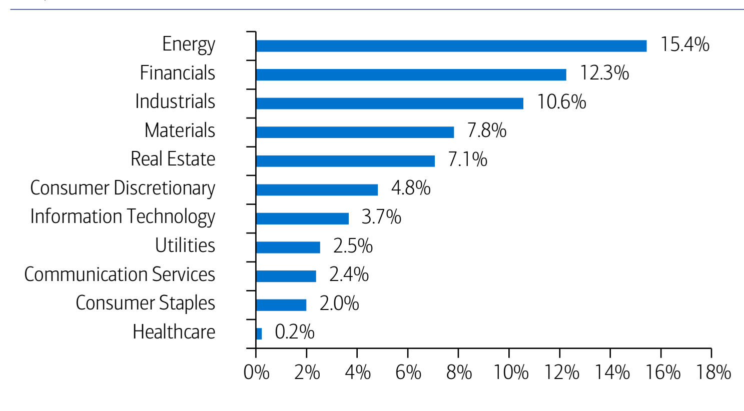
Exhibit 5: Large caps Have Been the Leaders in the Last Decade.

Sources: Bloomberg; Chief Investment Office. Data as of June 3, 2020. **Past performance does not guarantee future results.**

Equities

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
DJIA	27,110.98	6.8	6.8	-3.9
NASDAQ	9,814.08	3.4	3.4	9.9
S&P 500	3,193.93	5.0	5.0	-0.3
S&P 400 Mid Cap	1,911.15	8.4	8.4	-6.6
Russell 2000	1,507.15	8.1	8.1	-9.1
MSCI World	2,266.76	5.6	5.6	-3.1
MSCI EAFE	1,846.51	7.1	7.1	-8.2
MSCI Emerging Markets	1,002.65	7.9	7.9	-9.3

S&P 500 Sector Returns



Fixed Income[1]

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
Corporate & Government	1.37	-0.7	-0.7	5.6
Agencies	0.67	-0.6	-0.6	4.2
Municipals	1.63	0.0	0.0	1.2
U.S. Investment Grade Credit	1.43	-0.5	-0.5	5.0
International	2.31	0.5	0.5	3.5
High Yield	6.06	3.1	3.1	-1.8

	Current	Prior Week End	Prior Month End	2019 Year End
90 Day Yield	0.14	0.12	0.12	1.54
2 Year Yield	0.21	0.16	0.16	1.57
10 Year Yield	0.90	0.65	0.65	1.92
30 Year Yield	1.67	1.41	1.41	2.39

Commodities & Currencies

	Total Return in USD (%)			
Commodities	Current	WTD	MTD	YTD
Bloomberg Commodity	138.02	1.8	1.8	-19.8
WTI Crude $/Barrel[2]	39.55	11.4	11.4	-35.2
Gold Spot $/Ounce[2]	1,685.06	-2.6	-2.6	11.1

Currencies	Current	Prior Week End	Prior Month End	2019 Year End
EUR/USD	1.13	1.11	1.11	1.12
USD/JPY	109.59	107.83	107.83	108.61
USD/CNH	7.07	7.13	7.13	6.96

Source: Bloomberg, Factset.Total Returns from the period of 06/01/20 to 06/05/20. Bloomberg Barclays Indices.[1] Spot price returns.[2] All data as of the 06/05/20 close.
Past performance is no guarantee of future results.

Asset Class Weightings (as of 5/6/2020)

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

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

Economic and Market Forecasts (as of 06/08/20)

	Q3 2019A	Q4 2019A	2019A	Q1 2020A	Q2 2020E	2020E
Real global GDP (% y/y annualized)	–	–	2.9	–	–	-4.4
Real U.S. GDP (% q/q annualized)	2.1	2.1	2.3	-4.8	-40.0	-8.1
CPI inflation (% y/y)	1.8	2.0	1.8	2.1	0.4	0.8
Core CPI inflation (% y/y)	2.3	2.3	2.2	2.2	1.3	1.4
Unemployment rate (%)	3.6	3.5	3.7	3.8	12.7	8.3
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	–	2900
S&P earnings ($/share)	42	42	163.0	34*	25.0	115
Euro/U.S. dollar, end period	1.09	1.12	1.12	1.10	1.02	1.05
U.S. dollar/Japanese yen, end period	108	109	109	108	105	103
Oil ($/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 June 8, 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.

German Zentrum für Europäische Wirtschaftsforschung (ZEW) Economic Sentiment Index gauges the six-month economic outlook. A level above zero indicates optimism; below indicates pessimism.

The Conference Board Leading Economic Index to measure consumer confidence, which is defined as the degree of optimism on the state of the U.S. economy that consumers are expressing through their activities of savings and spending.

ISM Purchasing Manager's Index (PMI) measures manufacturing activity based on a monthly survey of purchasing managers at more than 300 manufacturing firms.

Russell 2000 Index is a small-cap stock market index of the smallest 2,000 stocks in the Russell 3000 Index.

Russell 1000 Index is a stock market index that tracks the highest-ranking 1,000 stocks in the Russell 3000 Index, which represent about 90% of the total market capitalization of that index.

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