CHIEF INVESTMENT OFFICE

Capital Market Outlook

July 12, 2021

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

IN THIS ISSUE

Macro Strategy—Despite massive spare capacity in The Organization of the Petroleum Exporting Countries (OPEC); rebounding U.S. oil production; and the potential for considerably more oil from Iran and Libya, supply concerns are growing because of increasingly ambitious plans to wean the world economy off fossil fuels. Delays and cancellations of existing oil projects combined with a growing reliance on OPEC supply have started to tighten the market. Uncertainty, long-term supply restraints, and unprecedented monetary liquidity are adding further upside bias to oil prices.

Global Market View—There is a fair degree of promise and peril in investing in China, with China's recent regulatory clampdown on overseas listings serving as a timely reminder to investors. A step-by-step approach, deploying various investment options, is one of the best ways to potentially achieve solid returns in one of the world's largest economies.

Thought of the Week—Climate change is the single most important Environmental, Social and Governance (ESG) issue considered by U.S. asset managers, and assessing climate risks relies on good disclosure. As the U.S. Securities and Exchange Commission (SEC) signals tougher rules for corporate climate disclosures, research suggests disclosing on this information may be positive for a company's share price. As fast-flowing capital continues into sustainable investment strategies, corporates and investors alike are paying attention to the "E" in ESG.

Portfolio Considerations—We still expect Equities to outperform bonds and cash and believe that this remains the largest risk management decision in a multi-asset portfolio. Portfolio allocations during this period should continue to emphasize balance across and within asset classes.

MACRO STRATEGY

Chief Investment Office Macro Strategy Team

GLOBAL MARKET VIEW

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

Lauren J. Sanfilippo
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THOUGHT OF THE WEEK

Sarah Norman
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Data as of 7/12/2021, and subject to change

MACRO STRATEGY

Oil-Price Forecasts Run the Gamut

Chief Investment Office, Macro Strategy Team

The global reopening out of the pandemic shutdown has boosted oil demand over the past year and is expected to continue to do so over the next 12 months. However, supply is lagging because of tight OPEC supply control, disciplined U.S. producers, and the repositioning of major oil companies away from fossil fuels. As a result, the unusually large pandemic inventory accumulation has reversed course, pushing oil prices currently higher.

Rising prices have also reflected the unprecedented reflationary environment shaping the U.S. economy. After unusually big declines in crude-oil prices relative to money supply and other commodities caused by the collapse of transportation-fuel demand last year and big inventory buildup, oil prices have caught up with the surge in money supply, copper, and gold prices, for example, as oil-market imbalances diminished over the past nine months. In our view, as excess supply is absorbed and the money supply continues to expand (until the Federal Reserve (Fed) tightens policy enough to stop it), oil prices are likely to move higher, volatility notwithstanding.

Global oil investment dropped 30% in 2020 and is seen rising only marginally this year. A significant number of previously approved projects have been canceled. Assuming that demand growth decelerates rapidly after a reopening surge, as generally expected, existing global production capacity and existing expansions plans should be enough to keep the market well supplied for about five years. However, because currently planned capacity increases outside OPEC are insufficient to meet the demand recovery from the pandemic abyss (and a small demand increase of about 4% between 2019 and 2026, which implies half the average pace of the 2016-2019 period), 70% of the global demand increase from the 2020 low to 2026 will have to be met by OPEC. According to the International Energy Agency (IEA), the reliance on OPEC is likely to continue to grow as aggressive policy prescriptions to achieve net zero CO_2 emissions within the next 30 years limit investment elsewhere and create risks of underinvestment and undersupply in many parts of the world. OPEC knows that its oil is becoming increasingly valuable and is already starving the market to ensure rapid declines in global inventories, increased control over the market for immediate oil delivery, and higher export revenues.

According to the IEA itself, “fast-evolving government plans to accelerate transitions towards a more sustainable future have created a high degree of uncertainty that is testing the oil industry.”[1] On one hand, according to the Agency, it is crucial to invest in the upstream sector as it will still take years to shift global transport fleets to electric vehicles and other low-carbon alternatives. In addition, aviation, shipping and petrochemicals will continue to rely on oil for a long time. On the other hand, according to its May 2021 report *Net Zero by 2050: A Roadmap for the Global Energy Sector*, the IEA calls for an end to investment in the exploration and development of any new oil fields from here on in order to wean the economy off oil consumption 30 years from now, with new investment limited to oil production from fields already approved for development.

Indeed, while the IEA projects a peak in global oil demand in 2026 based on current government policies, it argues that much stricter policies and regulations could keep demand from ever exceeding its 2019 level and may reduce consumption by 75% over the next 30 years to limit global warming. Its Roadmap outlines in detail the policy requirements to this end, such as no investments in new oil fields, as noted above, and a necessary surge in the share of electric vehicles from about 5% of global car sales now to 60% in 9 years, with zero sales of new internal-combustion passenger cars within 14 years, for example. In our view, this outlook implies not only increasingly strict regulations but also higher price pressures to constrain demand, especially in emerging markets (EM).

The problem is global oil demand may not shrink as fast as planned without negative economic-growth effects, so uncertainty about oil demand and investment are contributing to an unusually wide range for oil-price forecasts, from rock bottom to a new supercycle. Restrictions on new oil field exploration and development also imply a concentration of oil investments away from international oil companies and U.S. shale-oil producers to OPEC and other national oil companies that do not face similar emission restrictions. According to an S&P Global Platts June 10, 2021 article, state-owned oil giants in United Arab Emirates, Saudi Arabia, and China have already announced either higher capital budgets or upstream expansion plans since the start of the pandemic.

[1] IEA, March 2021, OIL 2021: Analysis and forecast to 2026.

Since the IEA's Roadmap wouldn't allow the development of new fields, the U.S. market share is seen declining as global supplies become increasingly concentrated in a small number of low-cost producers with existing large fields and slow decline rates, such as in OPEC. U.S. shale oil fields have the highest depletion rates, requiring constant drilling and new fields to maintain/expand production. This raises security of supply risks and puts upward pressure on oil prices.

The oil industry has already consolidated and has taken a more conservative approach to investment than was the case when smaller independent companies were the dominant players. Publicly owned big-oil companies absorbed many of the independent producers' assets and are more sensitive to ESG pressures. They are scaling back conventional, more expensive oil projects as they shift their strategy to fit lower emissions and climate-friendly investments in response to preferential government policies. Smaller producers are also becoming wary of ESG criteria and the potential for burdensome regulations, restraining their typical response to the price surge.

U.S. production growth is also seen decelerating sharply because of the tight-oil industry's newfound focus on disciplined spending, free cash-flow generation, deleveraging, and cash returns for investors. This attention to "value, not volume" has been reinforced by the massive 2020 wave of bankruptcies and consolidation. U.S. producers have maintained output this year at around 15% below pre-pandemic levels by completing previously drilled rigs (which is less expensive than drilling new wells) and focusing on the most prolific fields. All this has put shale players in position for significant free cash flow generation in 2021.

While the industry is so far using the influx of cash to pay down debt and return money to shareholders rather than increase output, rising oil prices are expected to boost supply to pre-pandemic levels next year. According to a Dallas Fed Energy Survey cited by the IEA, oil firms generally need a West Texas Intermediate (WTI) price of $45-50 per barrel (bbl) to profitably drill a new well, with the best locations coming in below $30/bbl. Since prices have long exceeded breakeven levels and the rig count tends to lag by about four months changes in price, the rig count has doubled from its collapsed pandemic level and should continue to increase given the rise in prices to date. The rig count appears to have a lower sensitivity to oil price gains but that's mainly because companies have completed more of their previously-drilled wells. This has helped them maintain production at 15% below pre-pandemic levels with 40% fewer rigs in operation (and thus lower costs and higher profits).

For now, the IEA welcomes small U.S. production increases as it tries to engineer a smooth transition to net-zero CO_2 emissions. Indeed, while prescribing no more investment in new oil fields, it's still calling for continued investment in existing fields to prevent supply shortages. According to the Agency, if all investment in producing fields were to cease immediately, supply would drop 8% per year, which would be way too much even for its aggressive demand-contraction guidelines. If investment were to continue only in producing fields and fields already approved for development, then the average annual loss of supply would be around 4.5%, more in line with the intended 75% cut to consumption between 2020 and 2050.

All in all, many analysts have revised up oil price forecasts to account for higher-than-consensus expected inflation, the surge in demand out of the pandemic, newfound producer discipline, and supply constraints/uncertainty/risks. The structural increase in EM oil demand combined with insufficient investment could create an oil price supercycle, which some are starting to assume. Others believe that a shift away from fossil fuels means ever-declining oil prices. For example, OPEC producers could dump oil in the market to avoid ending up with stranded assets while U.S. shale oil producers could ramp up supply more than expected as prices increase. In our view, lax monetary policy and political pressure to restrict oil production suggest risks to prices are to the upside, but uncertainty rules.

GLOBAL MARKET VIEW

The Art of Investing in China: "Crossing the River by Feeling the Stones"

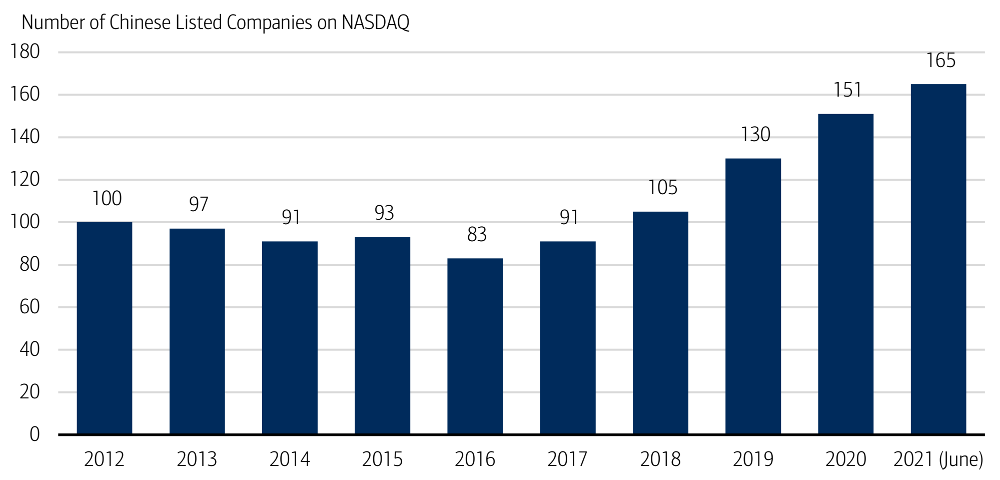
Joseph P. Quinlan, Managing Director and Head of CIO Market Strategy

Lauren J. Sanfilippo, Vice President and Investment Strategist

China's recent regulatory clampdown on overseas listings, notably Chinese technology firms, is a timely reminder to investors that when it comes to investing in China, it's best to remember Deng Xiapoing's famous dictate: "Cross the river by feeling the stones." In other words, proceed incrementally, be adaptive to changing circumstances, and be amenable to all available options. Move step-by-step and expect the unexpected, with the latest restrictions from Beijing on Chinese firms listed abroad as a prime example.

To level set, Chinese firms have raised more than $75 billion from U.S. initial public offering (IPOs) since 2012, according to Dealogic, with some 36 companies from China alone going public this year in the U.S., the same number for all of 2020.[2] Roughly a decade ago, in 2012, 100 Chinese firms were listed on the Nasdaq, although the number has since jumped to 165 firms as of mid-June 2021 (Exhibit 1). Notwithstanding this increase, China's sway over the Nasdaq is miniscule given that Chinese listings account for less than 2% of the total market cap of the Nasdaq. The latter beats to the tune of U.S. technology leaders, not China.

Exhibit 1: Chinese Companies on the NASDAQ.

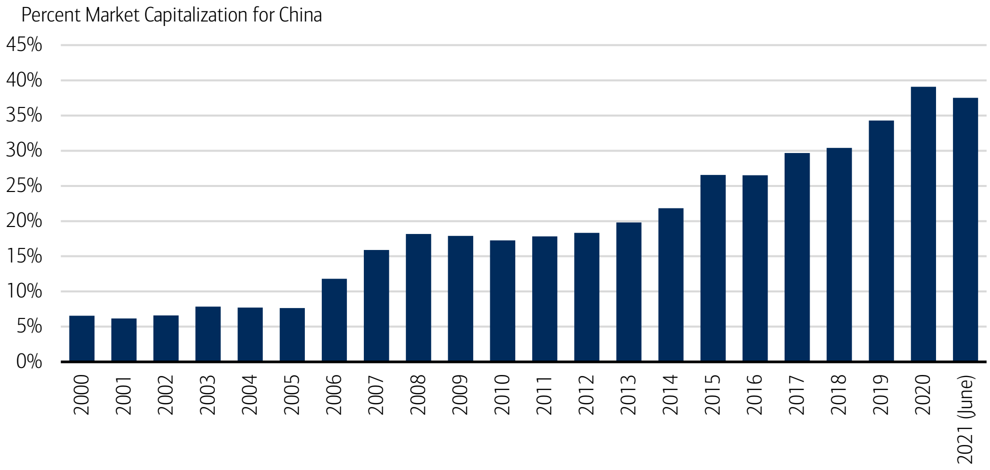


Source: Bloomberg. Data as of June 30, 2021.

However, it's a slightly different story when considering investing in the main emerging market benchmark: MSCI Emerging Markets Index. China's weighting in the index is not insignificant, totaling 37.5% in mid-June, double the level of a decade ago (Exhibit 2). The increased weighting reflects the gradual financial liberalization of China over the past decade—boosting the number of publicly traded companies in China—as well as the inclusion of China A shares in the MSCI EM Index starting in 2018.

[2] See, "China to Tighten Rules for Overseas Listings," *The Wall Street Journal*, July 7, 2021.

Exhibit 2: MSCI EM Index Weight: China.



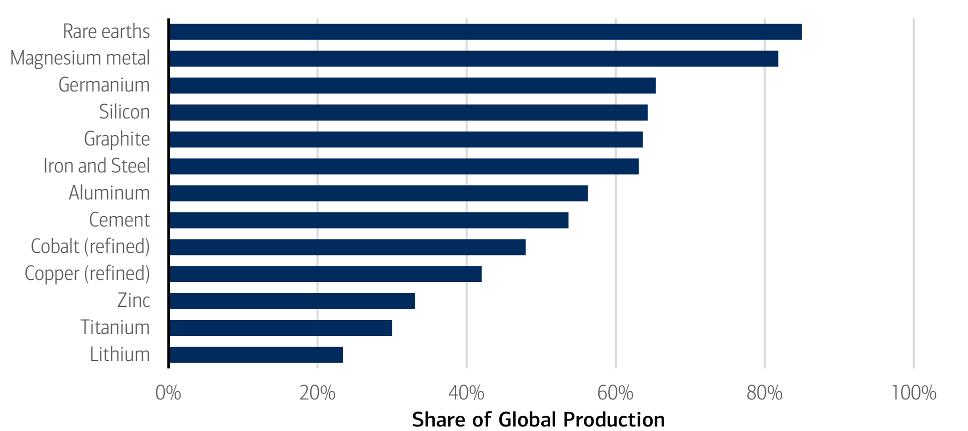
Source: MSCI provider; Bloomberg. Data as of June 30, 2021.

Within our asset allocation framework, we are currently neutral on EM, in part due to China's outsized weighting in the main EM index and the risks to equities associated with U.S.-Sino trade tensions, moderating real growth prospects in China, and the recent rash of regulatory restrictions from Beijing. The latter is a timely reminder that for publicly traded firms in China, the Party trumps profits. Investors must always remember they are investing in a top-down, command-and-control economy, with the Communist Party at the helm. And as *The Economist* recently noted, "Not since Mao's days has society been so tightly controlled."

All of this makes for a slippery investment backdrop for investors looking to gain exposure to China. "Crossing the river while feeling the stones" means deploying various investment strategies, ranging from direct exposure via Chinese American Depositary Receipts to deploying active Chinese fund managers that allow greater access to small- and mid-cap firms in China. The former is risky considering the current regulatory environment, while the latter is more alpha-generating but also highly volatile.

Indirect China investment plays pivot on commodities for one, with China, the second largest economy in the world, a major producer and consumer of various commodities, ranging from rare earth minerals to aluminum (Exhibit 3). Another way to gain exposure is via large cap U.S. and European multinationals with significant exposure to China's emerging middle class—think luxury brands, food and beverage leaders, and high-end automobile manufacturers, among various sectors.

Exhibit 3: China's Production of Selected Minerals.



Rare earths are a group of 17 elements composed of scandium, yttrium, and the lanthanides. Sources: U.S. Geological Survey: *Mineral Commodity Summaries*, Cobalt Institute. Data as of 2020.

Finally, technology, innovation and digitalization are also key avenues by which to invest in China. As we have noted in the past, the post-pandemic global economy is increasingly shifting toward greater automation and digitization in activities such as media, retail, healthcare and manufacturing, with the world's two largest economies—the U.S. and China—at the forefront.

China will need to increase its spending within the key growth segments of the digital economy as it aims to move toward greater self-sufficiency in areas such as semiconductors and mobile operating systems. Indeed this has already been evident in the Chinese government's prioritization of "new infrastructure" investment for the post-coronavirus recovery. Under this plan, China's National Development and Reform Commission aims to spend a total of around $1.4 trillion over the five years to 2025 across seven growth industries including the industrial internet, artificial intelligence and electric vehicles.

For investors, this should mean long-term growth opportunities across information technology software and services, chipmakers, semiconductor capital equipment and hardware applications such as networking equipment, cloud servers, electric vehicles and industrial robots. The growing geopolitical rivalry should also boost defense sector spending on advanced military hardware such as hypersonic missiles and anti-satellite weapons, as well as on enhanced cyber capability. Equities most closely tied to these future trends should remain longer-term market leaders as we move further into the new decade.

In the end, there is a fair degree of promise and peril in investing in China. But a step-by-step approach, deploying various investment options, is one of the best ways to cross the river and to potentially achieve solid returns in one of the world's largest economies.

THOUGHT OF THE WEEK

Disclosure Matters

Sarah Norman, Director and Senior Investment Strategy Analyst

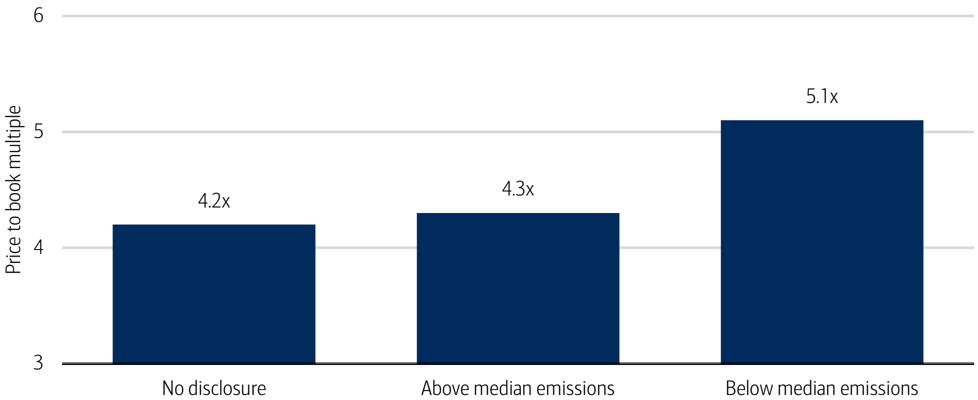
Climate change is the single most important ESG issue considered by U.S. asset managers, according to U.S. SIF[3], the Forum for Sustainable and Responsible Investment. Assessing climate risks relies on good disclosure, and BofA Global Research suggests that disclosing this information is positive for a company's share price: U.S. companies that disclose Scope 1 and 2 emissions and those with lower carbon emissions trade at a premium on book value to those that do not disclose.[4]

The SEC has signaled that there may be tougher rules coming for corporate climate disclosures, making a rapid move to request for comments: *"It's time to move from the question of "if" to the more difficult question of how we obtain disclosure on climate,"* noted Allison Herren Lee, then acting chair for the regulator. Moreover, the Climate-Related Financial Risk Executive Order issued in May will add climate risk to climate plans across all government agencies.

[3] US SIF: Report on US Sustainable and Impact Investing Trends, November 2020.

[4] ESG Matters – US: 10 surprises about the S&P 500 for Earth Day. BofA Global Research. April 21, 2021.

Exhibit 4: S&P 500 Companies With Disclosures and Lower Carbon Emissions Have Been Rewarded With Higher Multiples.



Price-to-book by carbon emissions intensity relative to sector median. Data as of 4/21/2021, Scope 1 emissions intensity refers to metric tons of emissions per $million sales. Sources: BofA Global Research; ICE Data Services; FactSet. Data through June 30, 2021. Past performance is no guarantee of future results.

An even greater accelerant may come from overseas, as the European Union's (EU) new Sustainable Finance Disclosure Regulation (SFDR) requires asset managers to disclose the sustainability of their financial services or products, accelerating their interest in standardized disclosures by their portfolio companies (and the EU Taxonomy provides a common language for sustainable activities).

Regulation, such as that by the SEC et al., will continue to close the gaps in disclosure and provide investors with material information for consideration. And investors also have an important role to play. A recent survey commissioned by Robeco of more than 300 institutional investors, as well as wholesale and insurance investors (accounting for about 20% of global assets), indicated that half of all assets under management will be committed to net-zero in the coming years.[5] Of those surveyed, 86% acknowledged that climate change will be seen as a significant factor in their investment policy over the next two years, and 81% see renewable energy (solar, wind, hydrogen power) leading the decarbonisation drive.

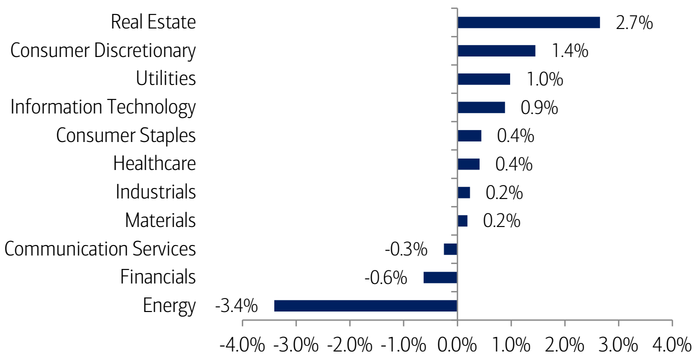
As fast-flowing capital have continued into sustainable investment strategies, the environment is a key driver. Climate activism and green trends now extend into traditional consumer practices; capital markets are getting behind viable solutions; and we are seeing increasing assets flow into companies with climate adaptation or mitigation strategies. Corporates and investors alike are paying attention to the "E" in ESG.

[5] Robeco: 2021 Global Climate Survey, March 2021.

Equities

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
DJIA	34,870.16	0.3	1.1	15.0
NASDAQ	14,701.92	0.4	1.4	14.5
S&P 500	4,369.55	0.4	1.7	17.2
S&P 400 Mid Cap	2,706.42	-0.1	0.4	18.1
Russell 2000	2,280.01	-1.1	-1.3	16.0
MSCI World	3,053.12	0.3	1.2	14.4
MSCI EAFE	2,313.37	-0.1	0.4	9.3
MSCI Emerging Markets	1,318.17	-2.6	-3.9	3.2

S&P 500 Sector Returns



Fixed Income†

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
Corporate & Government	1.34	0.38	0.53	-1.44
Agencies	0.72	0.23	0.32	-0.48
Municipals	0.91	0.58	0.66	1.73
U.S. Investment Grade Credit	1.45	0.31	0.44	-1.18
International	2.01	0.29	0.45	-0.82
High Yield	3.66	0.20	0.40	4.03

	Current	WTD	MTD	YTD
90 Day Yield	0.04	0.04	0.04	0.06
2 Year Yield	0.21	0.23	0.25	0.12
10 Year Yield	1.36	1.42	1.47	0.91
30 Year Yield	1.99	2.04	2.09	1.64

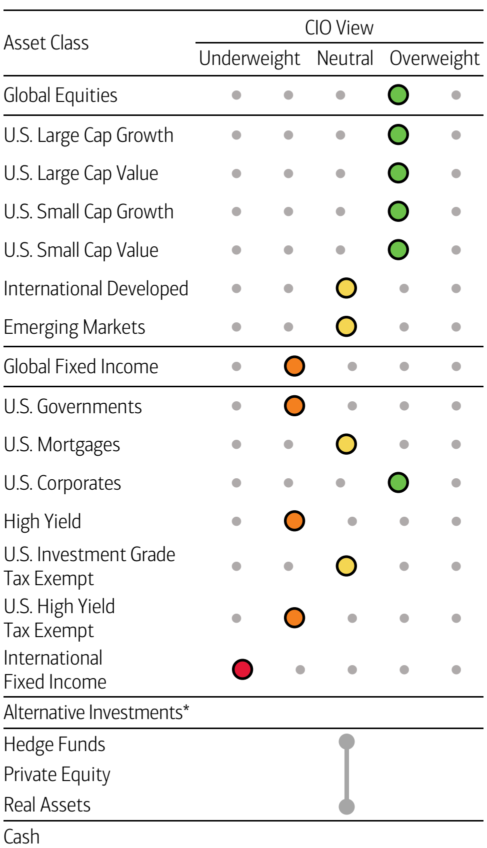
Commodities & Currencies

	Total Return in USD (%)			
Commodities	Current	WTD	MTD	YTD
Bloomberg Commodity	199.64	-1.6	-1.1	19.8
WTI Crude $/Barrel††	74.56	-0.8	1.5	53.7
Gold Spot $/Ounce††	1808.32	1.2	2.2	-4.7

Currencies	Current	Prior Week End	Prior Month End	2020 Year End
EUR/USD	1.19	1.19	1.19	1.22
USD/JPY	110.14	111.05	111.11	103.25
USD/CNH	6.48	6.47	6.47	6.50

Sources: Bloomberg, Factset. Total Returns from the period of 7/5/2021 to 7/9/2021. †Bloomberg Barclays Indices. ††Spot price returns. All data as of the 7/9/2021 close. **Past performance is no guarantee of future results.**

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



*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 7/9/2021)

	Q4 2020A	2020A	Q1 2021A	Q2 2021E	Q3 2021E	Q4 2021E	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	4.7*	4.9	4.7	4.0
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	5.9	5.2	4.2	5.4
Fed funds rate, end period (%)	0.09	0.09	0.06	0.08	0.13	0.13	0.13

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.
Sources: BofA Global Research; GWIM ISC as of July 9, 2021.

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S&P 500 Total Return 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.

MSCI Emerging Markets Index is a selection of stocks that is designed to track the financial performance of key companies in fast-growing nations.

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Investments have varying degrees of risk. Some of the risks involved with equity securities include the possibility that the value of the stocks may fluctuate in response to events specific to the companies or markets, as well as economic, political or social events in the U.S. or abroad. Small cap and mid cap companies pose special risks, including possible illiquidity and greater price volatility than funds consisting of larger, more established companies. Bonds are subject to interest rate, inflation and credit risks. Treasury bills are less volatile than longer-term fixed income securities and are guaranteed as to timely payment of principal and interest by the U.S. government. Investments in foreign securities involve special risks, including foreign currency risk and the possibility of substantial volatility due to adverse political, economic or other developments. These risks are magnified for investments made in emerging markets. Investments in a certain industry or sector may pose additional risk due to lack of diversification and sector concentration. There are special risks associated with an investment in commodities, including market price fluctuations, regulatory changes, interest rate changes, credit risk, economic changes and the impact of adverse political or financial factors. Investing in fixed-income securities may involve certain risks, including the credit quality of individual issuers, possible prepayments, market or economic developments and yields and share price fluctuations due to changes in interest rates.

Impact investing and/or Environmental, Social and Governance (ESG) managers may take into consideration factors beyond traditional financial information to select securities, which could result in relative investment performance deviating from other strategies or broad market benchmarks, depending on whether such sectors or investments are in or out of favor in the market. Further, ESG strategies may rely on certain values based criteria to eliminate exposures found in similar strategies or broad market benchmarks, which could also result in relative investment performance deviating.