

CHIEF INVESTMENT OFFICE

# Capital Market Outlook

July 26, 2021

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

## IN THIS ISSUE

**Macro Strategy**—The dynamic pattern of incoming economic data confirms that stimulus-fueled demand growth is currently outpacing the supply side’s capacity to increase production. As long as this is the case, higher inflation will likely remain persistent rather than transitory.

**Global Market View**—The pandemic disruption to supply chains has served as a flashpoint in evaluating vulnerabilities and fragilities across a number of industries. The strategy to insulate U.S. supply chains for national security and future technological leadership is supportive of capital expenditure (CapEx) and research and development (R&D) cycles, reinforcing our view on cyclical assets and longer-term investments in tech-related industries.

**Thought of the Week**—One of our key long-term themes is Climate Change, with renewable energy front and center. We believe we are on the road to a more decarbonized future, albeit with some speed bumps (volatility), namely securing a stable and cost-effective mineral supply.

**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

### Too Much of a Good Thing

*Chief Investment Office, Macro Strategy Team*

At any given time, historically markets tend to move back and forth based on competing narratives about underlying economic trends. The narrative that better anticipates these trends dominates the market’s performance over time. The competing false narrative tends to drive corrections by creating doubts about the validity of the primary trend. As the primary narrative regains investors’ confidence, usually by confirmation from incoming data, the doubt raised by the false narrative tends to dissipate, and the primary market trend reasserts itself. Currently, the primary market trend is one of the longest, fastest equity bull markets in modern history, based on a booming economy, fueled by unprecedented stimulus.

## MACRO STRATEGY

**Chief Investment Office  
Macro Strategy Team**

## GLOBAL MARKET VIEW

**Lauren J. Sanfilippo**  
Vice President and Investment  
Strategist

## THOUGHT OF THE WEEK

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

**Data as of 7/26/2021,  
and subject to change**

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The economic trends propelling the bull market date back to March 2020, when it became clear the \$2.2 trillion Coronavirus Aid, Relief, and Economic Security Act (CARES Act) would be signed into law and the Federal Reserve (Fed) committed to its new higher-inflation policy. The market recognized this immediately by beginning to rally, much to the puzzlement of consensus economists and media pundits. Ever since then, the positive outlook has driven the bull market, while naysayers who focused on downside risks have provided fodder for only mild selloffs.

On June 8, 2020, the cycle-dating committee of the National Bureau of Economic Research declared a recession began in February 2020, ending a record-long 128-month expansion that had started in 2009. A year later, on July 19, 2021, the committee officially declared that the recession ended in April 2020, just two months after it began. This means the current expansion is officially already in its 13th month, and, most impressively, it means that the U.S. economy was growing in 141 of the past 143 months, an unprecedented accomplishment.

This confirms that the policy actions put in place in March and April 2020, which included the successful vaccine development launch of Operation Warp Speed, were sufficient to put the economy back on an expansionary track. Yet, policymakers continued to add vast stimulus for another year despite growing evidence that it was not necessary. Indeed, fiscal stimulus has more than doubled since the first CARES Act, and the evidence that it is becoming destabilizing is apparent in the highest inflation readings since the late 1970s. This is why Harvard Professor Larry Summers has dubbed this the most irresponsible fiscal policy since the 1970s.

This brings us back to the competing narratives and where they stand today. The primary narrative, which correctly foresaw the economic upturn last spring after the shortest recession in history, continues to see booming economic growth until the Fed is forced to recognize that excessive stimulus is driving a persistent inflation problem. The competing narrative, which as shown below is not confirmed by the incoming data, is that this inflation is going to prove transitory, magically reverting to the pre-pandemic 2% level. This view also doubts the economy is on a faster growth trajectory and expects a reversion to the secular stagnation and deflation scares of the pre-pandemic era. It is based on the idea that persistent high inflation is impossible in a world of accelerating technological progress and aging demographics.

Collapsing bond yields are the most frequently cited evidence that such a reversion to secular stagnation is coming. Combined with only mildly elevated inflation breakevens, the slow-growth, low-inflation view argues that Growth stocks will reassert their leadership over Value stocks, while the reflation trade is not sustainable. If correct, this view implies that interest rates will remain stuck in historically low territory.

This all sounds plausible if the evidence is confined to the falling level of bond yields. However, there is a more plausible scenario that is more consistent with the broader array of economic data, including low interest rates. This alternative view, which has been driving the primary trend in the markets since March 2020, can be elucidated by focusing on the debate over whether the surge in inflation is transitory or likely to persist.

First, the magnitude of inflation to date has far exceeded economists' predictions, and, an increasing number have moved toward the view that more persistence is likely. Even the Fed has acknowledged this in its latest 2021 inflation outlook with the biggest upward revisions seen in decades. In comments on July 15, Treasury Secretary Yellen also admitted further inflation persistence is likely. Essentially, the low-transitory inflation view has been playing catch-up to a much different reality. Still, its proponents claim that while high inflation may last longer than expected, it will eventually revert to old low levels, and with it, so will interest rates.

The easiest way to understand the surprising magnitude and persistence of inflation to date is to look at the magnitude of demand growth relative to supply growth. Ultimately, sustainable supply growth is determined by labor supply growth and productivity growth.

Coming out of a recession, a high number of unemployed workers find jobs, and the rise in capacity utilization rates, coupled with large early-cycle operating leverage, boost productivity. Eventually, the economy settles around a potential growth rate determined by trends in its two determinants. An optimistic take on potential growth would pin it around 3% to 4%, as productivity growth has been accelerating since 2016 in line with our outlook.

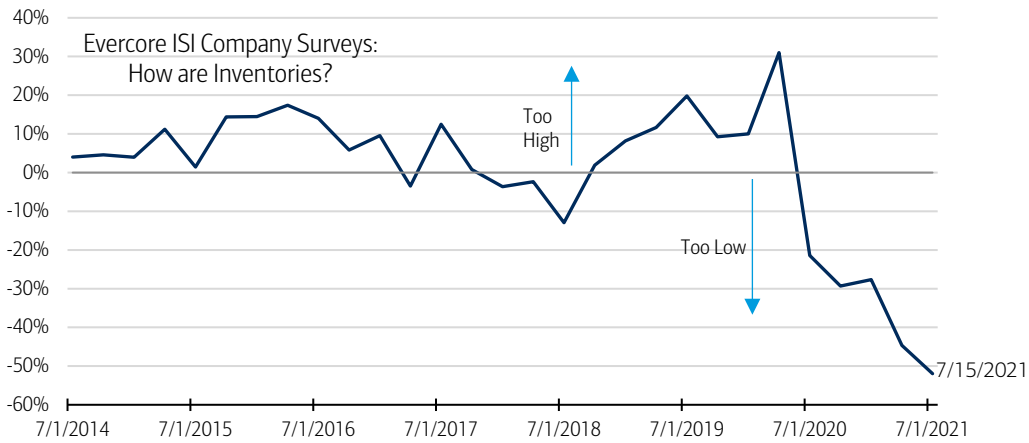
Demand, on the other hand, has been growing between 10% and 15%, fueled by the excessive stimulus added over the past 15 months. As a result, nominal gross domestic product (GDP) grew about 11% in the first quarter of 2021, with just over 6% real growth and over 4% inflation. Q2 GDP, as forecast by the Atlanta Fed GDPNow model, looks for a similar pattern of over 10% nominal growth, divided in a roughly similar manner. The outlook for 2021 GDP overall is for continued high single-digit real growth combined with inflation in the 4% to 6% range. The key point is the current stimulus-led growth in demand is three to four times greater than the economy's ability to produce. This excess manifests itself as inflation. As long as demand growth exceeds supply growth, high inflation will likely persist.

The evolution of the Atlanta Fed GDPNow estimate for the second quarter illustrates how the excess demand problem is playing out. At the end of April, the initial Nowcast saw real Q2 GDP growth of 10.4%, with a six-percentage-point contribution from consumption, just over a point from business equipment spending, a little over a half point from residential investment, and more than 2.5 points from the rebuilding of inventories as "transitory" shortages were presumed to ease. Not surprisingly given excess demand, this pattern had changed dramatically as of July 2021. After the strong June retail sales report, consumption was still expected to grow over 10%, contributing an even greater 7 percentage points to real GDP growth, while equipment spending and residential investment growth have been sharply reduced because of supply constraints, with real GDP down to 7.6% growth from the initial 10.4% estimate. However, most of the downward revision to GDP was due to a sharply reduced outlook for inventory restocking, with its contribution to real growth revised down by more than two percentage points as businesses were unable to keep up with demand.

Signs of shortages and excess demand abound in ways not seen since the double-digit inflation of the 1970s. Purchasing managers' surveys show that delivery time delays have stretched to levels typically seen only in high-inflation environments. It's also increasingly common to hear about unusually long waits for consumer appliances and furniture. Car production and housing starts have stalled not because demand is weak, as the temporary-inflation narrative suggests, but because chip shortages and difficulty getting building materials are holding back production. To reduce wait times, customers are moving to the front of the line by paying higher prices.

The false narrative around flagging stimulus, transitory inflation, and secular stagnation is based on demand faltering, not supply constraints. To the extent it acknowledges supply bottlenecks, they are deemed temporary problems related to reopening frictions. However, the evolution of the data from April 30 to July 15 suggests otherwise. Booming double-digit demand growth still fueled by massive stimulus is overwhelming businesses ability to keep up with demand. A recent Evercore ISI Company survey puts the problem in stark relief, as the share of companies citing low inventories continues to surge (Exhibit 1).

## Exhibit 1: Excess Demand Keeping Inventories Too Low.



Source: Evercore ISI Company; Chief Investment Office as of July 20, 2021.

The transitory inflation narrative was premised on the notion that companies could quickly stock up as reopenings progressed and eliminate the shortages that are driving higher inflation. Instead, Q2 data have confirmed that as long as demand growth exceeds supply growth, inventories will struggle to catch up and inflation will persist. Unless demand growth normalizes, inflation may become a bigger part of the double-digit nominal growth rate as the economy reaches full employment and capacity utilization rates. Reducing demand growth from 10% to 15% to a more normal 4% to 6% pace is not likely to prove easy, however. In the meantime, the strongest nominal growth in decades is currently showing up in surging corporate revenues and earnings, as analysts continue to revise their forecasts higher. The biggest upward revisions continue to be in the cyclical and Value stocks that have led the market since last fall.

Finally, we would note that the last time Treasury rates were near zero while nominal growth and inflation boomed was during World War II and the late 1940s. Not coincidentally, that was the last time double-digit money growth was financing deficits as big as those today. Low rates are being held down by quantitative easing just as they were back then. This has broken the link between nominal interest rates and inflation, allowing record-low real rates to continue fueling excessive demand growth, in our view.

## GLOBAL MARKET VIEW

### The Flashpoint for U.S. Supply Chains

*Lauren J. Sanfilippo, Vice President and Investment Strategist*

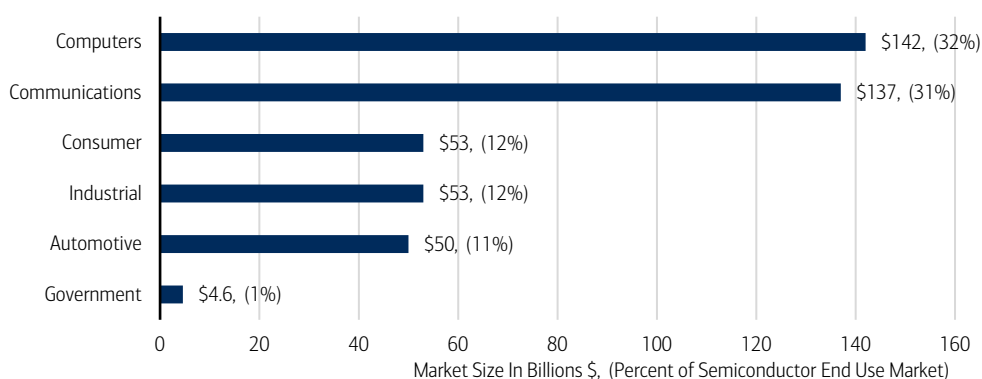
Trade wars, weather interruptions, and supply/demand imbalances have weighed on supply chain production of everything from cars and chips to siding and furniture. In this way, the pandemic disruption to supply chains has served as a flashpoint in evaluating vulnerabilities and fragilities across a number of industries. As outlined by a recent White House report reviewing critical segments, more secure and resilient supply chains are essential in insulating the U.S. economy, national security, and future technological leadership.<sup>1</sup> While the implications of the report are mostly industrial and innovation policy recommendations, from an investment standpoint this policy backdrop is supportive of CapEx and R&D cycles, which reinforces our view on cyclical assets and longer-term investments in tech-related industries.

<sup>1</sup> Building Resilient Supply Chains, Revitalizing American Manufacturing, and Fostering Broad-Based Growth, June 2021, mandated under President Biden's Executive Order 14017.

The four industries of focus are: first, semiconductor manufacturing and advanced packaging; second, large capacity batteries; third, critical minerals and materials; and fourth, pharmaceuticals and advanced pharmaceutical ingredients. Below is a summary.

**Semiconductor manufacturing and advanced packaging:** Although tiny chips, semiconductors are essential components enabling technologies across the telecommunications, industrial and automotive sectors, with Exhibit 2 showing the end uses of chips. When it comes to production of semiconductors, the U.S.'s share of global production has dropped to 12% from a 37% share in 1990. Capacity and production of chips has grown outside of the U.S., particularly in Asia, leading the Semiconductor Industry Association to forecast that by 2030 the U.S.'s share will fall to 10%, with Asia responsible for 83% of global production. Highlighting the U.S.'s foreign dependence, the U.S. relies on sales to China, the largest market for semiconductors, and is heavily dependent on foreign sourcing for materials like silicon wafers from Japan, South Korea or Taiwan.

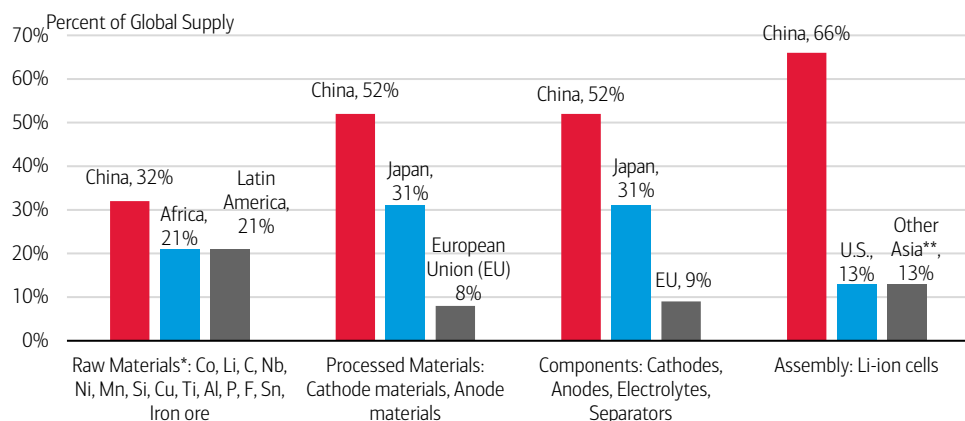
**Exhibit 2: Global Semiconductor Demand by End-Use.**



Source: World Semiconductor Trade Statistics 2020 Annual End Use Survey. Data as of 2020.

**Large Capacity Batteries:** High-capacity batteries such as those used in electric vehicles (EVs) and energy grid storage are critical to our country's interest in "cleaner" and "greener" technologies. EV battery demand is projected to grow from approximately 747 gigawatt hours (GWh) in 2020 to 2,492 GWh globally by 2025. China has a commanding position across the battery value chain, from raw and processed materials to components and assembly (Exhibit 3). China refines 60% of the world's lithium and 80% of the world's cobalt, two core inputs to high-capacity batteries and key to the future auto industry.

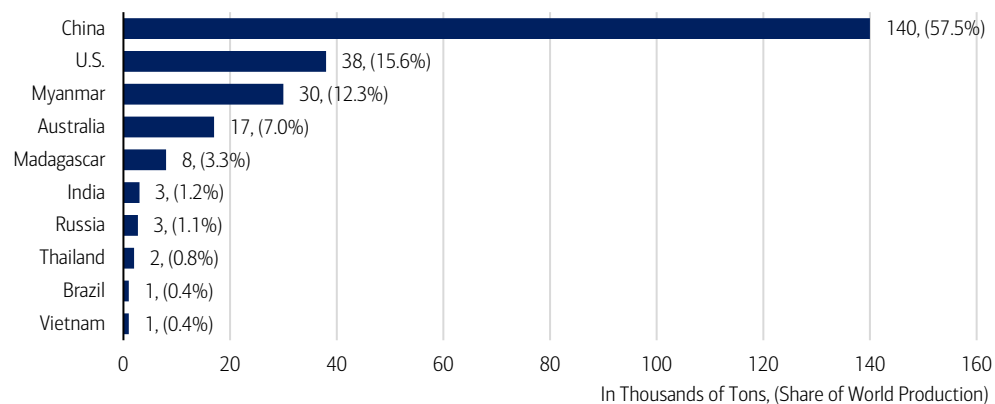
**Exhibit 3: Along the Battery Supply Chain: Top Global Supplier.**



\*Raw Materials: CO=Cobalt, LI=Lithium, C=Carbon, Nb=Niobium, Ni=Nickel, Mn=Manganese, Si=Silicon, Cu=Copper, Ti=Titanium, Al=Aluminum, P=Phosphorus, F=Fluorine, Sn=Tin. \*\*Other Asia=Asia ex-China and Japan. Source: Center for Strategic and International Studies. Data as of March 2021.

**Critical minerals and materials:** Related, rare earths elements, critical in manufacturing most technologies from electronics to fighter jets to weaponry, is controlled by China with its willingness to mine (57% of global capacity) and refine (85% of global capacity) these dirty, yet inherently not so rare, elements. The U.S.'s net import reliance has grown alongside falling production since the Cold War. Exhibit 4 shows the distribution of rare earth minerals worldwide.

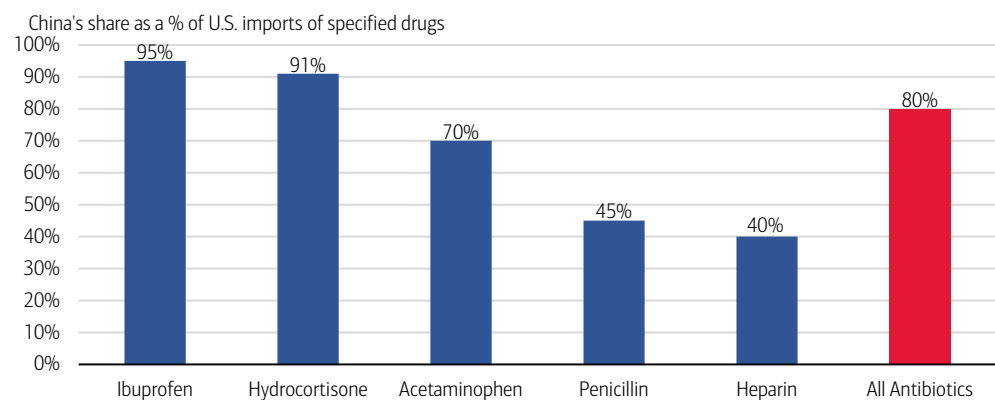
**Exhibit 4: Rare Earths\* Annual Production, by Country.**



\*Group of 17 elements composed of scandium, yttrium, and the lanthanides. Source: U.S. Geological Survey: Mineral Commodity Summaries. Data for year 2020.

**Pharmaceuticals and advanced pharmaceutical ingredients:** The pandemic fueled concerns of “medical protectionism” or hoarding medical supplies for a country’s benefit by curbing exports. The U.S. is among the largest net importers of medical goods and equipment—a byproduct of decades of significant cost savings in a “globalizing” world. China and India became major sources for the active ingredients for drugs beginning in the 1970s. Exhibit 5 shows China’s control of the U.S.’s drug supply chain. India, which supplies 40% of generic pharmaceuticals used in the U.S., imports nearly 70% of its active pharmaceutical ingredients (APIs) from China. Thus, China’s overwhelming control of the medical supply chain is likely underrepresented in the exhibit.

**Exhibit 5: China's Influence on the Supply of U.S. Drugs.**



Source: U.S. Commerce Department. Data as of 2020.

A wide-ranging policy suggestion for the above: Invest in domestic production and innovation capabilities while diversifying sources of supply and reducing concentrated geographic risk. The commonality among the four areas is the apparent U.S. and China linkages, which is why the premium on a CapEx cycle, underway since last year, and R&D cycle has never been greater. Given the policy intentions of the report, a number of catalysts underpin these cycles: 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 supply and demand dynamics. 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 sectors under threat from China, taking a parallel stance.

## Investment Implications

Business spending and CapEx intentions in the U.S. have risen to elevated levels across a number of measures. A proxy for business spending—nonresidential fixed investment—rose 11.7% in Q1,<sup>2</sup> led by growth in software and tech equipment spending. Orders for nondefense capital goods ex-aircraft are near the highest levels dating back to the 1990s, while the Conference Board Measure of CEO Confidence reached an all-time high in the Q2. Echoed during the corporate reporting season, companies cited substantial new growth initiatives ahead. A few notable examples: Apple's five-year \$430 billion spending plan and CapEx boosts by Intel (\$20 billion) and Walmart (\$14 billion).<sup>3</sup>

Investors should consider positioning portfolios toward sectors that stand to benefit from these cyclical and secular dynamics. With the potential of a federal infrastructure package, capital equipment and industrial goods-related stocks could profit, including industries such as materials, metals and mining, machinery, and power generation. We maintain our positive long-term outlook on Technology due to a secular rise in spending on innovation and competitiveness and the continued digitalization of the economy. Pandemic-driven shifts in global supply chains could also boost demand for industrial automation and its related investments. With policy and public investment serving as tailwinds (*Chips for America Act*, which would provide \$23 billion to domestic production of semiconductors), long-term growth opportunities such as software and services, chipmakers, semiconductor capital equipment, and hardware applications such as networking and cloud servers exist within Technology.

## THOUGHT OF THE WEEK

### Market Power that Makes OPEC Green with Envy

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

As highlighted above (see “The Flashpoint for U.S. Supply Chains”), supply chain risks remain a clear and present danger to the growth and the future earnings of a number of industries. One particular sector in the crosshairs: Renewable Energy (think solar, wind and batteries).

As we have noted in the past, the transition toward a clean energy future won't be easy and is fraught with risk—namely supply-side risks. As Exhibit 6 highlights, the production of many energy transition minerals is extraordinarily concentrated in just a few nations, whose interests, in many cases, do not align with Washington or Wall Street. To this point, roughly two-thirds of the global supply of cobalt—a key ingredient of rechargeable batteries—comes from the Democratic Republic of Congo, hardly a bastion of political stability. The global supply of lithium is situated in friendlier locals but just three nations control nearly 87% of global production. Ditto for graphite, whose unique properties make it one of the most important minerals in the world. China holds a commanding position in the production of both graphite and rare earth elements; the latter are critical components in a number of high-tech, strategic industries at the heart of the U.S.-China strategic rivalry.

<sup>2</sup> At a seasonally adjusted annual rate. Source: Commerce Department as of June 2021.

<sup>3</sup> Company releases: Apple/Intel: April 2021. Walmart: February 2021.

## Exhibit 6: Key Producers of Renewable Minerals.

(Share of Total Global Production)

	One	Two	Three	Top Three Total Global Share
Cobalt	Congo* (67.3%)	Russia (4.9%)	Australia (4.4%)	76.6%
Lithium	Australia (46.4%)	Chile (23.9%)	China (16.2%)	86.5%
Graphite	China (71.7%)	Brazil (10.5%)	India (3.7%)	85.9%
Rare Earth	China (52.3%)	Australia (15.5%)	US (14.2%)	82.0%

\* Democratic Republic of Congo. Source: BP Statistical Review of World Energy 2021. Data as of July 8, 2021.

Add it all up, and the Organization of the Petroleum Exporting Countries (OPEC) would be jealous. The 13-member oil cartel accounts for only 39% of world oil production—a fraction of the market concentration/power of leading producers of cobalt, lithium, graphite and rare earth minerals.

Bottom line: One of our key long-term themes is Climate Change, with renewable energy front and center. We believe we are on the road to a more decarbonized future, albeit with some speed bumps (volatility), namely securing a stable and cost-effective mineral supply. To wit: The NASDAQ Clean Edge Green Energy Index is up roughly 83% from levels of a year ago, but down roughly 25% from its record high in February 2021. After a strong run in 2020, most of the renewable complex has sold off this year; however, over the long run, tailwinds include falling costs and rising adoption rates of renewables; public policy support as the push continues toward a more decarbonized future; and rising corporate transparency around environmental, social and governance (ESG). That said, further downside in the main renewable area is a consideration as an attractive entry point for long-term investors willing to accept the geopolitical risks that come with key renewable minerals.

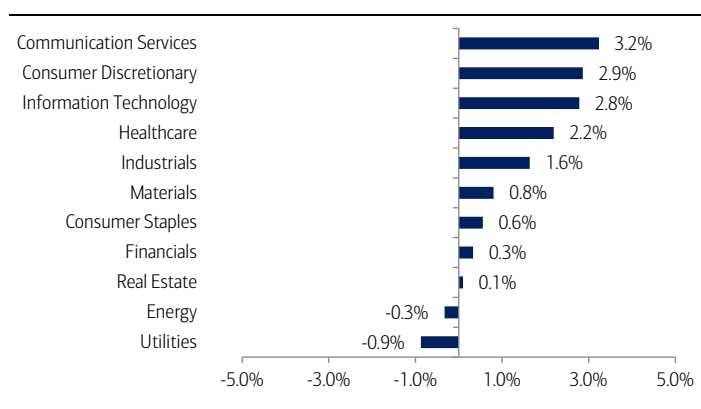


## MARKETS IN REVIEW

### Equities

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
DJIA	35,061.55	1.1	1.7	15.7
NASDAQ	14,836.99	2.8	2.3	15.5
S&P 500	4,411.79	2.0	2.7	18.4
S&P 400 Mid Cap	2,672.74	2.1	-0.8	16.6
Russell 2000	2,209.65	2.2	-4.3	12.4
MSCI World	3,072.38	1.6	1.9	15.2
MSCI EAFE	2,307.08	0.2	0.1	9.0
MSCI Emerging Markets	1,311.30	-2.1	-4.3	2.8

### S&P 500 Sector Returns



Sources: Bloomberg, Factset. Total Returns from the period of 7/19/2021 to 7/23/2021. <sup>1</sup>Bloomberg Barclays Indices. <sup>2</sup>Spot price returns. All data as of the 7/23/2021 close. **Past performance is no guarantee of future results.**

### Asset Class Weightings (as of 7/6/2021)

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<sup>†</sup>

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
Corporate & Government	1.29	0.20	1.03	-0.96
Agencies	0.68	0.14	0.56	-0.24
Municipals	0.88	0.09	0.79	1.86
U.S. Investment Grade Credit	1.39	0.19	0.87	-0.75
International	1.97	0.24	1.01	-0.27
High Yield	3.84	0.07	0.32	3.95
	Current	WTD	MTD	YTD
90 Day Yield	0.04	0.04	0.04	0.06
2 Year Yield	0.20	0.22	0.25	0.12
10 Year Yield	1.28	1.29	1.47	0.91
30 Year Yield	1.92	1.92	2.09	1.64

### Commodities & Currencies

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
Commodities				
Bloomberg Commodity	204.32	1.3	1.2	22.6
WTI Crude \$/Barrel <sup>††</sup>	72.07	0.4	-1.9	48.5
Gold Spot \$/Ounce <sup>††</sup>	1802.15	-0.5	1.8	-5.1
Currencies	Current	Prior Week End	Prior Month End	2020 Year End
EUR/USD	1.18	1.18	1.19	1.22
USD/JPY	110.55	110.07	111.11	103.25
USD/CNH	6.48	6.48	6.47	6.50

### Economic & Market Forecasts (as of 7/23/2021)

	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	8.5*	7.0	6.0	6.5
CPI inflation (% y/y)	1.2	1.2	1.9	4.8	5.1	4.8	4.1
Core CPI inflation (% y/y)	1.6	1.7	1.4	3.7	4.0	4.0	3.3
Unemployment rate (%)	6.7	8.1	6.2	5.9	5.4	4.7	5.5
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 23, 2021.

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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 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.

**NASDAQ Clean Edge Green Energy Index** is a modified market capitalization weighted index designed to track the performance of companies that are primarily manufacturers, developers, distributors and/or installers of clean energy technologies, as defined by Clean Edge.

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Asset allocation, diversification and rebalancing do not ensure a profit or protect against loss in declining markets.

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. 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.

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