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CHIEF INVESTMENT OFFICE

Capital Market Outlook

August 22, 2022

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Macro Strategy—*Better-Than-Expected Oil Supply Situation Fuels Equity Relief Rally*: Pressures to suppress global oil consumption are likely to remain strong given increasingly ambitious climate change policies, suggesting sustained high fossil-fuel prices ahead.

However, sharply slower money-supply growth and better-than-expected oil-supply conditions into the second half suggest that, cyclically, the worst is over in terms of commodity-related inflation pressures. This has helped lower interest-rate expectations, calm credit markets, stabilize consumer sentiment, and boost Equities. In our view, investors' perception that the worst is behind us in terms of the effect of the Ukraine/Russia conflict on global oil supply has contributed significantly to the spectacular stock market rebound out of its first half turmoil.

Market View— *10 Questions on the Outlook for China:* China was a relative bright spot in the global economy during the early stages of the pandemic, but it has more recently been set back by a range of economic and policy challenges.

Regulatory intervention in fast-growing digital industries, rolling coronavirus flare-ups and persistent weakness in the housing market have all buffeted domestic activity in China this year, causing its equity market to underperform. Rising geopolitical stresses have only added uncertainty to the investment outlook, leading more market participants to raise concerns over China's prospects. Here we address 10 questions that reflect our most frequently received topics of inquiry, covering China's economy, policy actions, financial markets and international relations.

Thought of the Week—*Should Investors Worry About Net Interest Payments On U.S. Government Debt?:* For over a decade, Uncle Sam has had its cake and eaten it too—aka, despite the rapid growth in public debt, net interest payments as a percent of gross domestic product (GDP) have held steady due to falling interest rates.

However, the tables have turned with the backup in interest rates, the jump in inflation, and rising federal outlays. Debt-servicing costs are set to rise modestly over the near term but not, in our opinion, unsettle the capital markets.

MACRO STRATEGY ▶

Chief Investment Office
Macro Strategy Team

MARKET VIEW ▶

Ehiwario Efeyini
Director and Senior Market Strategy Analyst

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

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Data as of 8/22/2022,
and subject to change

Portfolio Considerations

We maintain a neutral view on Equities as risks to economic growth and corporate profits remain. As growth moderates, profit estimates are likely to follow as the Fed pursues a more aggressive tightening bias. We still expect high-quality Fixed Income to be a diversifier—in the long run, coupon income is a larger determinant of total returns than price changes due to rate moves—and this diversification effect has historically proven true when rate volatility decreases. An allocation to Hedge Funds, for qualified investors, has the potential to lower the effect of the volatility and possibly take advantage of the dislocation and sector rotation.

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MACRO STRATEGY

Better-Than-Expected Oil Supply Situation Fuels Equity Relief Rally

Chief Investment Office, Macro Strategy Team

Global oil-supply disruptions tend to have large negative effects on economic growth. Not surprisingly, a slow oil-supply response to the burst of demand out of the pandemic shutdown; concerns of tightening market conditions in light of sharply lower oil and gas investment around the world due to the pandemic as well as to ambitious new green-energy targets; Organization of the Petroleum Exporting Countries (OPEC) supply disruptions, and concerns about restricted access to Russian oil exports in the wake of its conflict with Ukraine caused prices to surge in the first half of 2022, resulting in economic hardship, weakening economic growth momentum, and heightening concerns of a global recession.

Confirming concerns about dwindling global surplus production capacity and suggesting that meaningful further OPEC output increases are unlikely in the coming months, OPEC has recently noted that “severely limited” spare capacity should be used with “great caution in response to severe supply disruptions,” according to the International Energy Agency (IEA). Much of the supply growth would thus have to come from non-OPEC countries, where green energy ambitions have discouraged investment in fossil fuel, raising questions about the ability to meet future oil demand and suggesting sustained upside pressures on crude-oil prices.

While prices are thus likely to remain elevated, in our view, for a number of reasons discussed below, the situation has turned out less dire than was expected after Russia invaded Ukraine, helping Brent oil prices drop from an average of $117 per barrel in June to a more tolerable $93 per barrel most recently, with positive effects on inflation, consumer sentiment, and investor risk appetite.

- With surging prices and greater resource profitability, U.S. crude oil production has increased 7.5% year-to-date from the same period a year ago, helping retrace almost the entire 3.3 million barrels per day (mbd), or a 25% drop from its early 2020 peak to its pandemic trough. Indeed, following two months of stagnation, domestic crude oil production reaccelerated in early June, so that by mid-August it was only 0.9 mbd below its pre-pandemic record and expected to reach a new record in 2023.
- This increase, combined with a massive U.S. government Strategic Petroleum Reserve (SPR) crude oil release in the wake of the Ukraine conflict (SPR stocks are down about 22% since the beginning of the year to their lowest level since 1985) as well as a softening of demand following unsustainably strong gains out of the pandemic shutdown and some demand destruction, helped stabilize U.S. commercial inventories of crude and petroleum products by early summer.
- In addition, Canada has been making progress debottlenecking and expanding its oil distribution capacity, while Brazil and Guyana continue to contribute particularly large increases to global oil supply.
- This, together with large additional emergency stocks that remain to be released around the world based on early-year commitments, explains why the IEA anticipates global oil inventory accumulation of around 0.9 mbd during the rest of this year and about 0.5 mbd in the first half of 2023, which should help reduce the current Organisation for Economic Co-operation and Development (OECD) inventory shortfall from its 5-year average and keep prices in check for the foreseeable future, barring unexpected new supply shocks.

  Indeed, according to the IEA’s August Oil Market Report, June saw the largest SPR release by its member countries since March, helping OECD industry stocks increase marginally. Still, around 150 million barrels (potentially equivalent to 1 mbd for five months) had yet to find their way to the market by the end of June. With OECD industry stocks about 290 million barrels below their five-year average, these yet-to-be-released volumes should further ease market tensions.
- While OPEC production remains vulnerable to potential disruptions due to unstable political, social, and economic conditions in a number of member countries, the return of 1 mbd of Libyan supply since mid-June following several months of interruption has helped lower oil prices. Domestic fighting caused a drop in Libyan supply from about 1.2 mbd during the January-April period to a rock-bottom 0.2 mbd level by mid-June, a

Investment Implications

High energy prices accounted for most of the S&P 500 earnings growth over the year through June, helping Energy remain the best performing equity market sector so far in 2022. While sharply slower money supply growth and easing Russian sanctions take steam out of oil prices and inflation, we believe that lower inflation and weaker growth prospects are a double whammy for nominal GDP, constraining profits and Equity prices in 2023.

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major blow to an already tense global oil market. An Iran nuclear deal could add an estimated 1 mbd of additional supply.

- Much more limited declines in Russian oil supply than had been expected have also helped oil prices drop to pre-Ukraine conflict levels. According to the IEA, Russian oil exports were just 0.6 mbd below pre-conflict levels by July, as it rerouted its crude and oil products from Western world importers to India, China, Turkey and other countries willing to buy Russian oil at a discount to market prices. Given the lack of alternatives, Russia's oil export income actually increased $700 million in June to $20 billion (40% higher than a year ago), according to the IEA's July 2022 Oil Market Report.
- As the European Union (EU) embargo on Russian crude and product imports comes into full effect in February 2023, another 1 mbd of Russian refined oil products and 1.3 mbd of crude oil would also have to find new homes. Given ambitious fossil-fuel consumption reduction targets constraining oil consumption growth in an increasing number of countries, and absent new Western initiatives barring other countries' access to discounted Russian oil exports (which as discussed below appear unlikely at this point), global prices are likely to remain under downside pressure in this context.
- Indeed, the EU has played down its firm initial intentions to cut worldwide access to Russian oil, while the UK's commitment to a global insurance ban also appears to be wavering. For example, in early June, the EU announced an insurance ban that would prevent euro-bloc companies from writing new insurance for any vessel carrying Russian oil anywhere around the world. However, concerns over surging oil prices have delayed its implementation.

  For example, according to a July 31, 2022, Financial Times (FT) article, the EU insurance ban has been amended to permit European companies to deal with some Russian state-owned entities for the purpose of transporting oil to countries outside the bloc in order to avoid any potential negative consequences for food and energy security around the world. In addition, according to the same article, there is no current UK ban affecting shipments of Russian oil to countries other than the UK. The UK legislation only prohibits UK firms from providing insurance to vessels carrying Russian oil to the UK after December 31.

  At the same time, worried that a global ban on maritime insurance would push oil prices to excessively high levels, U.S. officials have tried to impose a price cap on exported Russian oil to diminish its revenues, while allowing export flows in order to reduce U.S. and global inflation. This mechanism would allow countries to import Russian oil as long as they agree to purchase it "at or below a price to be agreed on in consultations with international partners," according to an August 2 Reuters article.

  Not surprisingly, however, the Russian central bank has warned that Russia will not sell oil to countries that impose a price cap on its oil. What's more, according to the same Reuters article, a similar backtracking to that observed on the European maritime insurance ban is detected in recent G7 statements related to this price-cap proposal, which notes that "in considering this and other options, we will also consider mitigation mechanisms alongside our restrictive measures to ensure the most vulnerable and impacted countries maintain access to energy markets including from Russia."

All in all, according to various sources quoted by the FT, "the new EU sanctions effectively permit the lifting of Russian crude by European companies…the EU's sanctions amendment was a 'big retreat,' and …lawyers had also been expecting 'more robust' measures by now from the UK." The G7 price-cap mitigation promises noted above come along the same line of retreat in the face of a lack of unity in response to the Russian aggression across the world, high inflation, and fears of weakening global growth and political/social instability.

In our view, the strong global equity market rally since oil prices peaked in mid-June likely reflects investors' sense that the worst effect from the Ukrainian conflict on oil prices may be over. Easing Western sanctions on Russian oil, fertilizer, and agricultural commodity exports to alleviate global food and fuel shortages and receding inflation appears to have given investors the basis for a major relief rally.

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10 Questions on the Outlook for China

Ehiwario Efeyini, Director and Senior Market Strategy Analyst

China was a relative bright spot in the global economy during the early stages of the pandemic, but it has more recently been set back by a range of economic and policy challenges. Regulatory intervention in fast-growing digital industries, rolling coronavirus flare-ups and persistent weakness in the housing market have all buffeted domestic activity in China this year, causing its equity market to underperform. Rising geopolitical stresses have only added uncertainty to the investment outlook, leading more market participants to raise concerns over China's prospects. Here we address 10 questions that reflect our most frequently received topics of inquiry, covering China's economy, policy actions, financial markets and international relations.

How severe is China's economic slowdown and are conditions likely to improve this year?
Growth in China most likely troughed in April, with a 2.6% real GDP contraction recorded for the Q2 overall. The economy has since staged a moderate recovery, but the government has effectively abandoned its 5.5% target for 2022, and the current consensus projection across 76 private analysts is for full-year growth of 3.8%. This would be the slowest outside the pandemic since 1990. The latest data released for July have shown early signs of deceleration in Q3, with industrial production, retail sales and private sector credit growth all slowing down compared to June and youth unemployment rising to a record high of 20%. Official statements from Premier Li Keqiang last week expressed unease over the growth outlook, but, without large-scale policy support, the prospects for a material improvement in the second half appear limited.

How big a challenge is the property market? Can the effect on the wider economy remain contained?
The policy-tightening measures targeted at China's Real Estate sector over the past two years have placed significant borrowing constraints on developers, with liquidity shortages forcing some firms to halt building projects entirely. New construction starts slumped by 45.4% in July from the prior year, and a growing number of homebuyers have declared boycotts on pre-sold homes until building activity resumes. Estimates for the size of China's construction and related activity range to as high as 29% of GDP according to a recent high-profile paper from Harvard and the International Monetary Fund,[1] and, as a result, the authorities have expressed their commitment to limiting the fallout by financing the construction and purchase of unfinished projects. But with no consensus on a coordinated response between the central government (which remains concerned about moral hazard) and local governments (which have insufficient resources) to decisively address the problem and restore confidence, housing construction and demand activity are likely to remain weak.

Will China's zero-Covid policy be lifted anytime soon?
Having fallen below 100 at their recent trough in June, new daily coronavirus cases in China have risen again to approach 3,000, with close to half concentrated in the popular tourist destination of Hainan province. Many fewer cities are now under shutdown than at the peak of the resurgence in April, but the susceptibility of China's homegrown vaccines to new variants and low vaccination uptake among older populations have kept the government from relaxing its zero-Covid approach. Most China analysts do not expect the policy to be abandoned at least until early next year after the conclusion of the upcoming leadership transition and the rollout of new domestic vaccines that are currently under development.

Are we likely to see any major stimulus from Beijing to revive growth?
An emphasis on longer-term stability has constrained policy support from Chinese policymakers in the key areas of real estate and economic reopening, as well as through traditional monetary policy. The central bank last week cut its one-year and seven-day lending rates unexpectedly but only by 10 basis points, with the scope for larger-scale monetary stimulus constrained by the risk of outflows as rates rise in the rest of the world. Moreover, the transmission channel for more significant monetary easing remains restricted by weak credit demand and tighter lending standards. Public support has instead focused on

Portfolio Implications

China continues to face a range of challenges from weakness in its Real Estate sector to zero-Covid policy, tension in international relations and a lack of government support. Though we would expect strategic growth areas related to the digital economy and the green transition to lead the market over the longer-term, China's current economic constraints may continue to weigh on near-term investment returns.

[1] Has China's Housing Production Peaked? (Rogoff and Yang, 2021).

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local government borrowing via state-owned banks to fund infrastructure investment, particularly in the digital economy and the green transition.

Is the regulatory crackdown in the technology sector finally behind us?
Last year's surge of regulatory interventions aimed primarily at consumer internet firms was intended to address a range of strategic concerns in the areas of data security, industry competition, content moderation, financial stability and inequality. These will remain major priorities for the Chinese government. But as companies adjust to the new environment, the need for tough crackdown measures should be replaced by routine supervision. The authorities will not want to undermine the important role played by internet companies in domestic innovation and employment, particularly given the growing strategic competition with the U.S. and the structural slowdown in growth driven by productivity and demographics.

Is the forced delisting of Chinese firms from U.S. exchanges likely to go ahead?
Under the 2020 Holding Foreign Companies Accountable Act, Chinese companies that fail to comply with the reporting requirements (including financial statement audits) of the U.S. Securities and Exchange Commission (SEC) will be prohibited from maintaining their U.S. listings from early 2024. Plans announced last week for the voluntary delisting of five state-owned enterprises by the end of August reflect Beijing's preference for a piecemeal approach, but whether this will be acceptable to the SEC remains unclear. Companies ultimately forced off U.S. exchanges would most likely move to a primary listing in Hong Kong, where local and mainland Chinese inflows would offset liquidity lost from investors unwilling or unable to hold non-U.S listed shares.

Should we expect any significant market fallout from the recent frictions over Taiwan?
This month's escalation in China-Taiwan tensions has understandably generated headlines, but the market implications should remain limited. For the foreseeable future, China is likely to prioritize its domestic economy over any territorial ambitions. And given its ongoing dependence on the international system, this should help reduce the risk of any major conflict given the severe economic consequences that would result.

Can we expect to see any improvement in U.S.-China relations?
China's strategic rivalry with the U.S. for economic, technological and geopolitical leadership is likely to influence its interactions on trade, investment and diplomacy for years and even decades to come. The Biden administration has considered rolling back of some of the tariffs imposed on China over recent years with the aim of reducing domestic inflation. But this has been tempered by China's failure to meet its purchase requirements of U.S. exports under the 2020 Phase One agreement, particularly in light of its recent actions in Taiwan. An expected meeting between President Xi and President Biden at the November Asia-Pacific Economic Cooperation summit in Thailand may shed more light on the state of current relations.

How important is China's upcoming leadership transition?
The exact timing of China's 20th Party Congress is expected to be announced later this month for either October or November. The process will appoint new members to the country's ruling Politburo for another five-year term and is expected to return incumbent President Xi Jinping as leader for an indefinite period. The priority in the runup to the transition will be internal stability, but no major shift in economic strategy is likely at least until the next Five-Year Plan is drafted in late-2025.

What is the outlook for China's equity market?
After a full year of persistent de-rating, China's equity market has stabilized from its March lows but remains well below its early-2021 peak. Though inflation remains relatively low, uncertainty over the real estate market, the zero-Covid policy and the lack of any major official support are still overhangs for near-term investor sentiment. We would continue to favor strategic growth segments such as semiconductors, cloud computing, robotics, biotechnology and clean energy over the longer-term, especially from current valuations. But the broad market may struggle to trend higher until a more durable economic recovery is underway.

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THOUGHT OF THE WEEK

Should Investors Worry About Net Interest Payments On U.S. Government Debt?

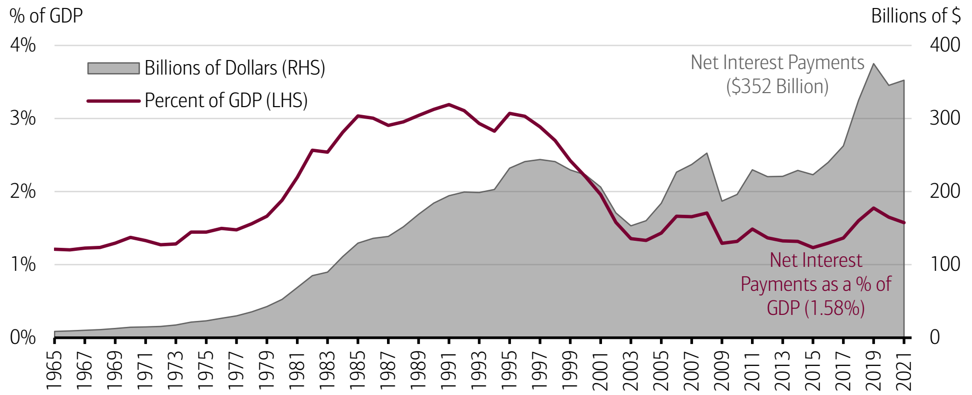
Joseph P. Quinlan, Managing Director and Head of CIO Market Strategy

The short answer to our question is “not yet.” We believe investors should not sweat net interest payments on Uncle Sam’s debt as of now, but with that said, nor should investors ignore it.

The good news: Thanks in part to relatively low interest rates, net interest payments as a percent of GDP remain quite manageable, at roughly 1.6% in fiscal 2021. That’s below the 50-year average of 2%, according to the Congressional Budget Office. Since 2007, net interest outlays have remained steady relative to GDP despite rapid growth in debt held by the public due to falling interest rates. The upshot: Uncle Sam had its cake and ate it too.

The less encouraging news: As the accompanying exhibit makes clear, net interest payments are hardly insignificant, totaling $352 billion in fiscal year 2021. That equates to roughly 5% of total federal spending. Meanwhile, over the past decade or so, annual interest payments have climbed ever higher, along with larger deficits and increased government spending/borrowing. Indeed, interest payments doubled from $187 billion in 2009 to a peak of $375 billion in 2019, before declining slightly thereafter. What’s more, there’s a crowding out effect when it comes to interest payments: The U.S. government currently spends more on interest than on science, space, transportation and education combined. In other words, there are direct and indirect costs associated with America’s debt-servicing obligations.

Exhibit 1: Cost of Money: U.S. Government Net Interest Payments.



Net Interest Payments: Grey shading indicates values in billions of USD, Red line indicates values as % of GDP.
Sources: Congressional Budget Office; U.S. Department of the Treasury. Data as of May 2022.

Now add in the fact that the federal government’s net interest costs are largely dictated by the level of interest rates, the amount of debt held by the public, the rate of inflation, and the maturity structure of outstanding securities. Collectively, all of the above factors have turned negative, which portends higher net interest outlays in the near-term.

How much higher remains to be seen. A slight backup in net interest payments as a percent of GDP would not surprise us in the next few years, although we don’t expect outlays to rise to the costs of the 1980s (+3% of GDP) due to the pullback in inflation-cum-attendant decline in interest rates. We are not sweating U.S net interest payments as of now but are certainly cognizant of their importance and future trajectory.

Portfolio Implications

The backup in U.S. interest rates alongside rising federal debt levels portends higher net interest costs in the next few years. Rising interest rates = rising net interest payments. That said, net interest payments as a percent of GDP remain quite manageable and below the 50-year annual average.

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Equities

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
DJIA	33,706.74	0.0	2.8	-6.0
NASDAQ	12,705.21	-2.6	2.6	-18.4
S&P 500	4,228.48	-1.2	2.5	-10.4
S&P 400 Mid Cap	2,578.06	-1.4	2.7	-8.4
Russell 2000	1,957.35	-2.9	3.9	-12.1
MSCI World	2,787.71	-1.6	1.6	-12.8
MSCI EAFE	1,919.50	-2.2	-0.7	-16.2
MSCI Emerging Markets	1,001.46	-1.5	1.1	-16.9

Fixed Income[†]

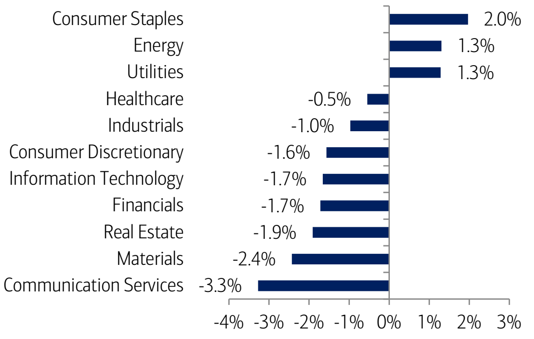
	Total Return in USD (%)			
	Current	WTD	MTD	YTD
Corporate & Government	3.74	-0.88	-1.59	-10.57
Agencies	3.46	-0.31	-1.08	-5.99
Municipals	3.14	-1.21	-1.40	-7.89
U.S. Investment Grade Credit	3.74	-0.89	-1.68	-9.70
International	4.58	-1.23	-1.52	-12.96
High Yield	7.73	-1.21	0.38	-8.78
90 Day Yield	2.65	2.52	2.32	0.03
2 Year Yield	3.23	3.24	2.88	0.73
10 Year Yield	2.97	2.83	2.65	1.51
30 Year Yield	3.21	3.11	3.01	1.90

Commodities & Currencies

	Total Return in USD (%)			
Commodities	Current	WTD	MTD	YTD
Bloomberg Commodity	262.99	-0.7	0.6	24.2
WTI Crude $/Barrel[††]	90.77	-1.4	-8.0	20.7
Gold Spot $/Ounce[††]	1747.06	-3.1	-1.1	-4.5

		Total Return in USD (%)		
Currencies	Current	Prior Week End	Prior Month End	2020 Year End
EUR/USD	1.00	1.03	1.02	1.14
USD/JPY	136.97	133.42	133.27	115.08
USD/CNH	6.84	6.74	6.75	6.36

S&P Sector Returns



Sources: Bloomberg; Factset. Total Returns from the period of 8/15/2022 to 8/19/2022. [†]Bloomberg Barclays Indices. [††]Spot price returns. All data as of the 8/19/2022 close. 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.**

Economic Forecasts (as of 8/19/2022)

	2021A	Q1 2022A	Q2 2022A	Q3 2022E	Q4 2022E	2022E
Real global GDP (% y/y annualized)	6.1	-	-	-	-	3.0
Real U.S. GDP (% q/q annualized)	5.7	-1.6	-0.9	-0.5	-2.0	1.2
CPI inflation (% y/y)	4.7	8.0	8.6	8.2	6.7	7.9
Core CPI inflation (% y/y)	3.6	6.3	6.0	6.0	5.5	6.0
Unemployment rate (%)	5.4	3.8	3.6	3.5	3.8	3.7
Fed funds rate, end period (%)	0.07	0.33	1.58	2.88	3.63	-

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. **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 August 19, 2022.

Asset Class Weightings (as of 8/2/2022)

	CIO View				
Asset Class	Underweight		Neutral		Overweight
Global Equities	·	·	🟡	·	·
U.S. Large Cap Growth	·	·	🟡	·	·
U.S. Large Cap Value	·	·	·	🟢	·
US. Small Cap Growth	·	·	🟡	·	·
US. 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. Source: Chief Investment Office as of August 2, 2022. All sector and asset allocation recommendations must be considered in the context of an individual investor's goals, time horizon, liquidity needs and risk tolerance. Not all recommendations will be in the best interest of all investors.

CIO Equity Sector Views

	CIO View				
Sector	Underweight		Neutral		Overweight
Energy	·	·	·	🟢	·
Utilities	·	·	·	🟢	·
Healthcare	·	·	·	🟢	·
Financials	·	·	·	🟢	·
Real Estate	·	·	·	🟢	·
Information Technology	·	·	🟡	·	·
Consumer Staples	·	·	🟡	·	·
Industrials	·	·	🟡	·	·
Materials	·	🟠	·	·	·
Consumer Discretionary	🔴	·	·	·	·
Communication Services	🔴	·	·	·	·

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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 includes a representative sample of 500 leading companies in leading industries of the U.S. economy. Although the index focuses on the large-cap segment of the market, with approximately 75% coverage of U.S. equities, it is also an ideal proxy for the total market.

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All recommendations must be considered in the context of an individual investor's goals, time horizon, liquidity needs and risk tolerance. Not all recommendations will be in the best interest of all investors.

Asset allocation, diversification, dollar cost averaging 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. 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. When interest rates go up, bond prices typically drop, and vice versa. 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. Investments in real estate securities can be subject to fluctuations in the value of the underlying properties, the effect of economic conditions on real estate values, changes in interest rates, and risks related to renting properties, such as rental defaults.

Alternative Investments are speculative and involve a high degree of risk.

Alternative investments are intended for qualified investors only. Alternative Investments such as derivatives, hedge funds, private equity funds, and funds of funds can result in higher return potential but also higher loss potential. Changes in economic conditions or other circumstances may adversely affect your investments. Before you invest in alternative investments, you should consider your overall financial situation, how much money you have to invest, your need for liquidity and your tolerance for risk.

Nonfinancial assets, such as closely-held businesses, real estate, fine art, oil, gas and mineral properties, and timber, farm and ranch land, are complex in nature and involve risks including total loss of value. Special risk considerations include natural events (for example, earthquakes or fires), complex tax considerations, and lack of liquidity. Nonfinancial assets are not in the best interest of all investors. Always consult with your independent attorney, tax advisor, investment manager, and insurance agent for final recommendations and before changing or implementing any financial, tax, or estate planning strategy.

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