CHIEF INVESTMENT OFFICE

Capital Market Outlook

September 12, 2022

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

IN THIS ISSUE

Macro Strategy—*Monetary Policy Unanchored*: The lack of a framework that explains the Federal Reserve's (Fed) recent forecast errors and policy mistakes is a source of heightened economic uncertainty and financial-market volatility. Until the Fed understands the reason for its big inflation overshoot, the risk that it will overshoot in the other direction remains a significant possibility.

In our view, a monetary framework consistent with historical evidence would help prevent these major policy errors and avoid unnecessary negative shocks to the economy. Such a framework would explicitly control the money supply to prevent the destabilizing fluctuations that create high inflation and deflation.

Market View—*How Europe's Recession Will Be Transmitted to the U.S.:* What happens in Europe doesn't stay in Europe—the odds of recession are rising in Europe, and the aftershocks will be transmitted to the U.S. via various channels.

Of particular note, Large-cap U.S. earnings could be at risk due to the one-two punch of weak European demand-cum-strong U.S. dollar.

Thought of the Week—*King Dollar Going From Strength To Strength:* A long list of drivers has supported dollar strength this year, including Fed hawkishness, an ongoing global growth slowdown, and rising risk aversion.

The greenback has soared amid these conditions, recently reaching the highest level since 2002. In our view, dollar strength will continue in the near term with various implications for the global economy and portfolio strategy.

Chief Investment Office
Macro Strategy Team

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

Lauren J. Sanfilippo
Director and Senior Investment Strategy Analyst

Emily Avioli
Assistant Vice President and Investment Strategist

Data as of 9/12/2022, and subject to change

Portfolio Considerations

We maintain a neutral view on Equities, with a preference for U.S. Equities relative to International, as risks to economic growth and corporate profits remain skewed to the downside. We still expect high-quality Fixed Income to be a diversifier. We continue to emphasize broad portfolio diversification across asset classes, including Alternatives for qualified investors where appropriate, as we continue to monitor a post pandemic cycle that is unlike any other.

Monetary Policy Unanchored

Chief Investment Office, Macro Strategy Team

Numerous eminent economists have pointed out the need for a framework for monetary policy that is consistent with the recent surge in inflation. Rather than a coherent and proven system, the Fed and consensus economists have concocted ad-hoc explanations for their biggest forecasting error in at least four decades, epitomized by Fed Chair Powell's confident reassurances in 2021 that inflation would be transitory.

The focus on supply chain problems as the cause of inflation is similarly inadequate to other popular views about what causes inflation, such as technological change and demographics, which were espoused prior to the pandemic to rationalize why inflation was structurally low and constantly fell below the Fed's 2% target. The problem with this reasoning is that despite ongoing aging demographics and accelerating technological change, inflation has jumped to the highest level since the early 1980s.

Also showing that pandemic-related excuses for inflation do not hold up to scrutiny is the wide variation in inflation across the globe. High inflation is especially pronounced in the U.S., U.K. and Europe, for example, but much lower in China and Japan despite pandemic-related disruptions and supply chain problems that presumably would have created a surge in inflation everywhere.

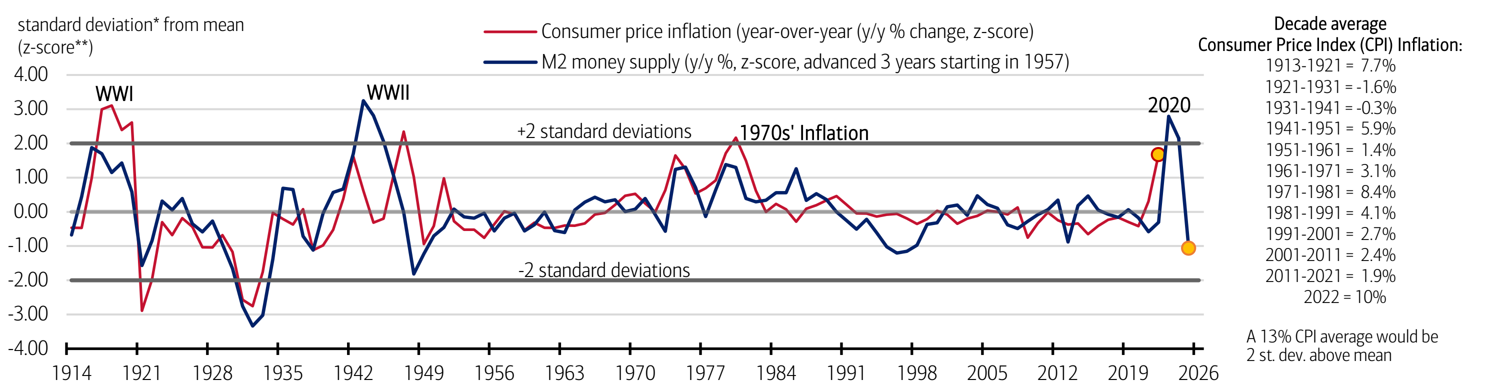
Obviously, these large differences in inflation rates point to some other source of the biggest U.S. inflation surge in 40 years, and once again events have validated the only theory that is consistent with the historical experience across all time and countries. That is, inflation is always and everywhere a monetary phenomenon, with different inflation outcomes across the globe reflecting different monetary policy responses to the pandemic.

Indeed, the U.S., UK, and Europe printed massive amounts of new money to fund huge fiscal deficits. In the U.S., the surge in the money-financed deficits was the greatest since World War II (WWII) (Exhibit 1). China, on the other hand, chose not to rely on massive money-financed fiscal spending. As a result, its inflation rate is less than half that in the U.S. despite a prior history of higher inflation than in the U.S.

Investment Implications

Risks of Fed overtightening in response to the 40-year high inflation and tight labor market suggest investors should stay defensive, in our view, with higher bond yields making Fixed Income more attractive along with high-quality dividend-paying stocks that can help weather a downturn.

Exhibit 1: Collapse of M2 Growth Forecasts A Sharp Drop In Inflation Similar To The 1947-1949 Period.



*Standard deviation=a quantity calculated to indicate the extent of deviation for a group as a whole. **Z-score= indicates how much a given value differs from the standard deviation. Last data points show 2022 running rates to date. Sources: Bureau of Labor Statistics; Fed Board/Haver Analytics. Data as of July 27, 2022.

Unfortunately, the latest validation of the monetarist view that inflation is caused by excessive money-supply growth is still ignored by those like Fed Chair Powell, who recently dismissed this view as inconsistent with the low-inflation era before the pandemic. A September 5, 2022 GaveKal Research report summarized the conventional case against monetarism with the same example as Mr. Powell did. Claiming that nobody understands what causes inflation, the article goes on to dismiss the best explanation: "The old monetarist doctrine that inflation is 'Always and everywhere a monetary phenomenon,' caused simply by central banks printing too much money, has been convincingly refuted by experience, first in Japan from 1990 onwards, and then in the world as a whole since 2009."

The problem with these refutations of monetarism is that they're not true, in our opinion. A closer examination of each example shows that in both cases inflation remained low because money-supply growth was not abnormally high, as the critics assume. Japan's deflationary funk has continued since 1990 precisely because Japanese money-supply growth has been very weak

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during this period despite zero interest rates and massive bond purchases by the Bank of Japan. Just as monetarism would predict, without a surge in money-supply growth, Japanese inflation has been very low and remains less than half the U.S. pace.

Similarly, the low inflation era of the post-Great Financial Crisis (GFC), pre-pandemic period is exactly what would be expected from the modest money-supply growth rates of that time. In the U.S., for example, money-supply growth remained in a moderate range within one standard deviation of its historical range, keeping inflation and nominal gross domestic product (GDP) in the narrow range characterizing the Great Moderation (Exhibit 1). As shown in Exhibit 1, high-inflation periods are always characterized by breaks outside that range. In addition, the pre-WWII history shows depressionary, deflation experiences are characterized by big drops in money-supply growth below trend, such as that which caused the Great Depression of the 1930s, for example.

One reason the monetarism deniers make false claims about these examples, which supposedly refute the view that money supply growth causes inflation, is they assume that because policy appeared ultra-easy—with zero rates and quantitative easing (QE) in Japan after 1990 and in the U.S. after the GFC—that money growth was high as well overlooking the fact that money-supply growth remained weak, nevertheless, and thus inconsistent with higher inflation.

For example, as shown in Exhibit 1, during the 30 years up until the pandemic, money-supply growth and inflation in the U.S. were below historical trend levels, consistent with the monetarist view that inflation would therefore be low as well. Despite low nominal interest rates and QE, weaker-than-normal money-supply growth kept inflation low and the disinflation trend intact.

Particularly enlightening is the differential effects of the first rounds of QE compared to those during the pandemic. While the monetary base surged during the first rounds of QE in the 2011-2014 period, the money-supply growth rate remained generally below trend (Exhibit 1).The surge in monetary base piled up as excess reserves in the banking system rather than being multiplied into a spendable M2 money supply for consumers and businesses. As a result, inflation remained low, as monetarism would expect.

In contrast, the pandemic policy guaranteed this "pushing on a string "effect would not happen. Through its QE program, the Fed purchased huge amounts of government debt that was directly financing disbursements to businesses and consumers that immediately became spendable M2 bank and cash deposits. Thus, the first rounds of QE did not translate into above-normal M2 growth, while the pandemic QE translated into massive above-normal M2 growth not seen since WWII (Exhibit 1). As monetarism would predict, the first rounds of QE weren't inflationary, while the pandemic rounds were highly inflationary because M2 responded strongly.

The conceptual mistakes that permeate Fed and consensus economists' thinking about how monetary policy works are behind the big forecast errors of the past two years, as well as behind the prior inflation shortfalls from target. The Fed's response to the inflation mess it created threatens to result in another big mistake, this time to the downside because of the unprecedented monetary tightening implicit in its quantitative tightening (QT) schedule.

Indeed, starting this month, the Fed is scheduled to shrink the monetary base by $95 billion per month for the indefinite future. That amounts to over $1 trillion in 12 months, an unprecedented reduction in its balance sheet. In 1933, the Fed refuted claims that it was too tight by rightly asserting that it was keeping the monetary base from shrinking. However the M2 money supply measure fell anyway because of a massive collapse in the money multiplier as depositors withdrew their balances from banks. The decline in M2 caused massive deflation and the Great Depression of the 1930's (Exhibit 1).

As Professor Milton Friedman repeatedly warned in the 1970s, interest rates are an unreliable guide to whether monetary policy is too tight or too easy. A 10% federal funds rate (FFR) in the world with 12% inflation is much less restrictive than a 2% FFR when inflation is -10%. Using nominal rates as guide posts is just one of many reasons why the Fed's framework is causing the economic instability we see in the U.S. and many other major economies.

Just as former Fed Chair Paul Volcker adopted the thought leadership behind the monetarist revolution of the late 1970s to slay the inflation dragon with explicit focus on reducing the money-supply growth rate, a new framework for Fed policy should explicitly incorporate the wisdom of the ages rather than denying it based on false counterexamples. Big swings in the M2 growth rate are always associated with big swings in inflation and nominal GDP. Currently, the Fed is on course for the biggest monetary downswing since the 1940s, creating an unfavorable environment for risk assets. Historical experience clearly suggests the Fed should adopt operating procedures that prevent the wild money-supply swings that are always associated with economic instability.

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MARKET VIEW

How Europe's Recession will be transmitted to the U.S.

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

Lauren Sanfilippo, Director and Senior Investment Strategy Analyst

With natural gas in parts of Europe now trading at what would equate to over $1,000 per barrel of oil, the odds of recession in Europe are rising, and as they do, the ripple effects will be felt far and wide.[1] The U.S. will not be spared—at risk are U.S. corporate earnings, critical capital inflows for a savings-deficit America, trade flows, and foreign exchange prices. That's just for starters. Also hanging in the balance are geopolitics—or more precisely Europe's ability to stand shoulder-to-shoulder with the U.S. in defending Ukraine in its history-defining conflict with Russia.

Portfolio Implications

A recession in Europe represents another significant headwind to U.S. earnings given Corporate America's deep roots across the pond. Our more cautious investment stance—we are neutral U.S. Equities—is due in part to weakening global demand, notably in Europe. On the positive side, Europe's energy crisis and search for non-Russian energy sources are bullish and supportive of our overweight to the Energy sector.

Why Europe matters

In a world fixated on the U.S.-China great power rivalry, it's easy to overlook Europe's place in the global economic hierarchy. Start with the fact that Europe (defined here as the 27-member European Union plus the U.K., Norway, Switzerland and Iceland) is home to over 500 million people, with a nominal GDP equal to 23% of world output in 2021.[2] That's slightly lower than the U.S. share of global output (24%) but greater than China's (18%). Based on purchasing power parity basis, Europe's share was greater than that of the U.S. but less than that of China in 2021.

Now consider that Europe is not only large—it's wealthy. Fourteen of the 25 wealthiest nations in the world are European, with the per capita of the European Union ($38,234 in 2020) significantly higher than both China ($12,556) and India ($2,277), according to the World Bank.

And wealth drives consumption, with Europe accounting for roughly 21% of global personal consumption expenditures in 2020. That's a lower share than that of the U.S. (30%) but well above that of China (12%), India (3.4%) and even the BRICs (Brazil, Russia, India and China) combined (18.9%).[2]

Finally, add to this mix a large, highly skilled and productive workforce; a currency (euro) second only to the U.S. dollar in terms of world currency reserve status; and an overarching business-friendly environment that makes many European economies the most competitive in the world. Stir it all up and what do you have? A critical portion of the global economy—a slice of the global pie that is hugely important to Corporate America in particular and the U.S. economy in general.

How Europe's recession will be transmitted to the U.S.

Given the continent's economic heft, Europe's economic pain will not be contained to just the continent. It will jump the pond and manifest itself in the U.S. via various channels examined below.

Channel 1: Trade

Here the news is relatively positive. The U.S. has run a merchandise trade deficit with Europe every year this century, and 2022 will be no different. What is different, however, is that the deficit is set to narrow this year owing to Europe's mad scramble to wean itself off Russian energy and the attendant jump in U.S. energy exports to Europe. The latter surged to $43 billion in the first six months of 2022, up 190% from the same period a year ago. Total U.S. exports to Europe rose by nearly 29% in the first half of the year (Y/Y), while imports rose by half that rate, helping to trim America's trade deficit with Europe by 11% in the first half of 2022 versus a year ago.[3] Overall, America's energy complex has emerged as a significant beneficiary of Europe's energy crisis and is one reason why we remain overweight energy.

Channel 2: Foreign affiliate sales and income

Here is where the pain will be most acute for U.S. multinationals because Corporate America's foreign direct investment (FDI) roots are deepest and thickest in Europe. On a historic cost basis, Europe accounted for nearly 60% of total U.S. FDI in 2020, the last year of available data.

[1] See "The side-effects of war", The Economist, August 27, 2022.

[2] Figures in this paragraph are from the International Monetary Fund, 2021.

[3] All figures from the Department of Commerce.

In real life, this means U.S. companies are commercially bound to Europe primarily through foreign investment and the activities of their foreign affiliates. Think in-country sales of U.S. affiliates versus traditional exports. The former, some $3.3 trillion in 2019, the last year of available data, was not only more than four times larger than U.S. exports to Europe the same year ($735 billion), but also accounted for roughly 50% of total U.S. global foreign affiliate sales. Meanwhile, more sales means more income for affiliates. The latter is a proxy for U.S. global earnings, with affiliate income earned in Europe in 2021 ($305 billion) three times that of income earned in the entire Asia-Pacific region ($98 billion). The upshot: As Europe goes, so goes the near-term outlook for U.S. global earnings. As final demand in Europe sinks, the greater the risks to U.S. Large-cap corporate earnings over the next few quarters.[4] Investors should not be surprised if more companies warn of lower earning guidance in Q3 thanks to weaker-than-expected European demand.

Channel 3: Foreign exchange

U.S. corporate earnings are also at risk to an even stronger greenback versus the euro and pound. The former has declined by roughly 13% against the U.S. dollar this year, while the pound is off 15%. True, the dollar's strength reflects in part the Fed's aggressive move to boost U.S. interest rates relative to other central banks. But it also mirrors the crumbling economic prospects of Europe, with many nations net energy importers versus the relative energy-independent U.S. Falling European demand juxtaposed against a strong dollar represents a one-two punch to the bottom line of many U.S. firms. As an aside, roughly one-third of S&P 500 sales are generated overseas (and therefore exposed to a stronger dollar), with technology and materials having the highest overseas exposure.

Channel 4: Portfolio inflows

Little appreciated by investors is the fact that Europe's excess savings has long been a key source of portfolio inflows for savings-deficit America. Importing capital is a prerequisite for one of the world's largest debtor nations (the U.S.), with Europe currently holding more U.S. Treasurys ($2.5 trillion) than Japan and China combined ($2.4 trillion). The continent is a key source of external financing to Uncle Sam, but the risk today is the following: As Europe's terms of trade deteriorates with soaring energy prices, the region's current account surplus (excess savings) will continue to narrow, leaving Europe less surplus capital available to send to the U.S. As a point of reference, the eurozone's current account surplus plummeted nearly 70% between June 2022 ($112 billion) and June 2021 ($364 billion). What's more, rising government spending to shore up European households and businesses in the face of soaring energy bills also suggests less European capital inflows to the U.S. over the near term.[4]

Channel 5: Geopolitics

Geopolitics is harder to quantify but no less important. A recession in Europe will test the resolve and will of European leaders to stick together/cooperate in the face of an epic energy crisis and a Russian-led conflict right at their door step. More than six months into this conflict, Europe remains resolute in backing Ukraine and steadfast in assisting the U.S. in defending the integrity of Ukraine sovereignty. Europe's resolve has been impressive thus far. However, this determination will be tested in the months ahead. The risk is that as this conflict drags on and the recession unfolds, European solidarity will be put to a severe test, potentially creating cracks and fissions across the region. That, in turn, could undermine U.S. efforts to maintain a united western front not only against Russia but also against the Russian-Chinese partnership that has morphed into a strategic challenge to the U.S. and western liberal order.

In the end, neither man nor nation is an island. We're all connected—notably the U.S. and Europe. Due in part to Europe's economic travails and the potential aftershocks to the U.S., our U.S. equity market posture remains cautious and defensive. We maintain our "on guard" stance by remaining neutral U.S. Equities as risks to economic growth and corporate earnings remain skewed to the downside. In this moderating growth environment we continue to prefer U.S. Equities relative to International, with a slight underweight to Fixed Income.

[4] All figures from the Department of Commerce.

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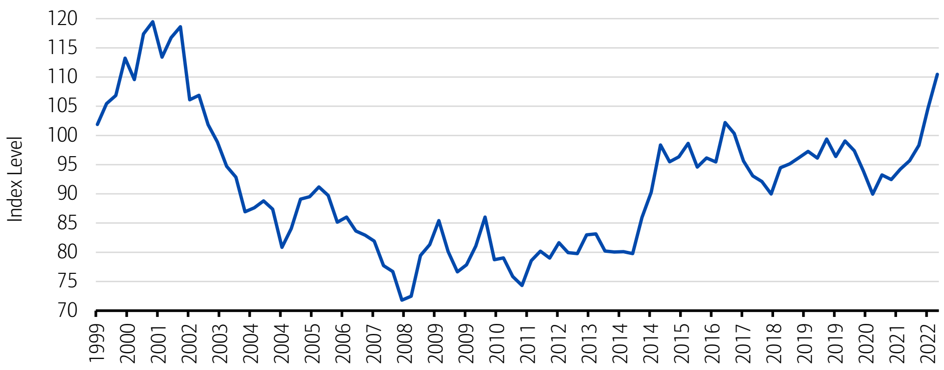
THOUGHT OF THE WEEK

King Dollar Going From Strength To Strength

Emily Avioli, Assistant Vice President and Investment Strategist

The dollar has been on a tear this year, with the U.S. Dollar Index recently reaching the highest level in two decades (Exhibit 2). We see a long list of drivers behind the surging greenback, including increasing central bank hawkishness especially on the Fed's part, an ongoing global growth slowdown, and rising risk aversion. It's our view that dollar strength will continue in the near term, with various implications for the global economy and portfolio strategy.

Exhibit 2: The U.S. Dollar Index Is At The Highest Level Since The Early 2000s.



Source: Bloomberg. September 7, 2022. Quarterly data shown.

Inflation in the U.S. is hovering near multidecade highs, and the labor market remains historically tight, which is pressuring the Fed to continue to aggressively tighten policy. The market is pricing in almost 150 basis points of additional hikes this year and QT has kicked into second gear, with the Fed doubling its balance sheet runoff cap to $95 billion per month starting in September. This has contributed to a diminishing risk appetite among investors and subsequent weakness in Equities—since August 9, the dollar is up 4%, while global equities are lower by 6%.[5] Meanwhile, the risk of a global slowdown has risen amid elevated energy prices and growing geopolitical instability. All of these conditions support the dollar, which is generally seen by investors as a "safe haven" during times of economic uncertainty.

Amid the confluence of these events, the dollar now stands near record highs versus other major currencies.The euro has fallen below dollar parity for the first time since 2002, and both accelerating inflation and recession risk in the eurozone could add to further downside pressure. The Japanese yen, the worst performer among G10 currencies this year, has reached its weakest level against the dollar since 1998, as the Bank of Japan continues with its dovish stance.[6] The yuan recently fell against the dollar to a two-year low[6] amid China's policy easing, growing property sector concerns and weakening economic outlook.

This has various implications for global markets. On the upside, a strong dollar could help curb inflation domestically by making imports cheaper. On the downside, a strong dollar pressures earnings for large multinational companies, as their international sales become less valuable at home. It will likely intensify inflation abroad, as dollar denominated goods and commodities become more expensive for other countries. It could also further destabilize weaker emerging- and frontier-market economies and their currencies, particularly those with large dependency on dollar denominated debt and with declining foreign exchange reserves.

Portfolio Implications

A strong dollar is one reason we maintain a preference for the U.S. over International Developed and Emerging Market Equities. We continue to suggest exposure to high-quality areas of the market on skittish investor risk-appetite and to certain defensive sectors that have more domestically sourced revenues.

[5] Bloomberg. September 6, 2022. Refers to U.S. Dollar Index and MSCI World Index.

[6] Bloomberg. September 6, 2022.

Equities

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
DJIA	32,151.71	2.7	2.1	-10.2
NASDAQ	12,112.31	4.1	2.5	-22.2
S&P 500	4,067.36	3.7	2.9	-13.7
S&P 400 Mid Cap	2,498.05	4.4	2.8	-11.2
Russell 2000	1,882.85	4.1	2.1	-15.4
MSCI World	2,682.90	3.0	2.2	-16.0
MSCI EAFE	1,838.80	0.9	0.1	-19.5
MSCI Emerging Markets	970.29	-0.1	-2.3	-19.4

Fixed Income†

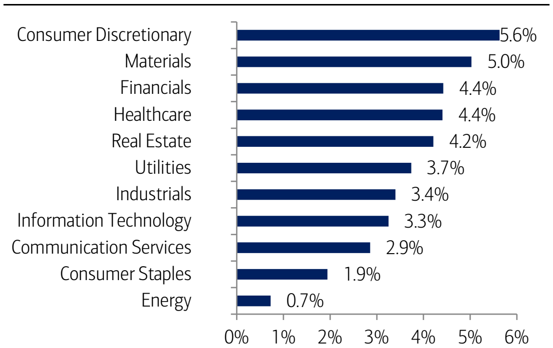
	Total Return in USD (%)			
	Current	WTD	MTD	YTD
Corporate & Government	4.08	-0.56	-0.83	-12.23
Agencies	3.78	-0.36	-0.34	-6.87
Municipals	3.44	-0.37	-0.90	-9.45
U.S. Investment Grade Credit	4.11	-0.70	-0.91	-11.56
International	4.95	-0.42	-0.87	-14.95
High Yield	8.21	1.31	1.14	-10.21
90 Day Yield	3.01	2.87	2.90	0.03
2 Year Yield	3.56	3.39	3.49	0.73
10 Year Yield	3.31	3.19	3.19	1.51
30 Year Yield	3.45	3.34	3.29	1.90

Commodities & Currencies

	Total Return in USD (%)			
Commodities	Current	WTD	MTD	YTD
Bloomberg Commodity	255.24	-0.43	-2.50	20.51
WTI Crude $/Barrel††	86.79	-0.09	-3.08	15.40
Gold Spot $/Ounce††	1716.83	0.27	0.34	-6.14

	Total Return in USD (%)			
Currencies	Current	Prior Week End	Prior Month End	2020 Year End
EUR/USD	1.00	1.00	1.01	1.14
USD/JPY	142.47	140.20	138.96	115.08
USD/CNH	6.94	6.92	6.91	6.36

S&P Sector Returns



Sources: Bloomberg; Factset. Total Returns from the period of 9/5/2022 to 9/9/2022. †Bloomberg Barclays Indices. ††Spot price returns. All data as of the 9/9/2022 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 9/9/2022)

	2021A	Q1 2022A	Q2 2022A	Q3 2022E	Q4 2022E	2022E
Real global GDP (% y/y annualized)	6.1	-	-	-	-	3.3
Real U.S. GDP (% q/q annualized)	5.7	-1.6	-0.6	1.0	0.5	1.6
CPI inflation (% y/y)	4.7	8.0	8.6	8.0	6.4	7.7
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	3.6	3.6	3.6
Fed funds rate, end period (%)	0.07	0.33	1.58	3.13	3.88	-

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 September 9, 2022.

Asset Class Weightings (as of 9/6/2022)

	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					

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	●				

*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 September 6, 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.

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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.

Consumer Price Index measures the overall change in consumer prices based on a representative basket of goods and services over time

U.S. Dollar Index is an index of the value of the United States dollar relative to a basket of foreign currencies, often referred to as a basket of U.S. trade partners' currencies.

MSCI World Index is a market cap weighted stock market index of 1,546 companies throughout the world.

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

Dividend payments are not guaranteed, and are paid only when declared by an issuer's board of directors. The amount of a dividend payment, if any, can vary over time.

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. 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.

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.