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CHIEF INVESTMENT OFFICE

Capital Market Outlook

September 8, 2020

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

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- **Macro Strategy**—Policy intervention in the pandemic-era has been nothing short of unprecedented. Governments all over the world, tasked with the role of trying to prevent the spread of the coronavirus and plugging the hole left behind by a decline in production, income and consumption quickly shifted into stimulative mode. Now with the opportunity to set off on a new course, government functioning will evolve in the years ahead and require a shift in investor mindset.
- **Global Market View**—After one of the shortest periods of bear market decline and recovery in the post-war era, the equity market remains close to pre-crisis highs, even in the wake of last week's sell-off. But despite strong gains for the broad index, the market rebound has been uneven across sectors and industries.
- **Thought of the Week**—After a slow start, we're starting to see coronavirus testing capacity pick up following numerous polymerase chain reaction* (PCR) and rapid antigen test approvals around the globe. However, greater supply will be needed to meet the growing demand for faster, more accurate tests, but that will take time to achieve.
- **Portfolio Considerations**—For now, we do expect minor consolidation after earnings season as some enthusiasm wanes, cyclicals attempt to balance out the high growth sectors, and investors remain grounded with the presidential election approaching. This is an opportune time, in our view, to re-examine portfolio strategy and have plans ready for the next "breaking away" period in the economy and equity markets.

MACRO STRATEGY

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GLOBAL MARKET VIEW

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THOUGHT OF THE WEEK

CIO Equity Strategy Team

Data as of 9/8/2020, and subject to change.

Market Volatility: The Momentum Swing Across the Plains

We do not believe this latest sharp momentum swing led by technology and "innovative" healthcare stocks is the beginning of a sharper downturn. In fact, we view this "correction" as a much needed and healthy phase that bull markets tend to have especially in the early stages when the advance is still being viewed with a high level of skepticism.

This sharp reversal of the momentum areas of the market comes without any major headline, catalyst, or policy induced concern that would force a removal of risk in the parts of the market that have rallied the strongest since the lows in March. Excuses for this pull-back will come and go, in our view. But it is clear to us that this is simply an

*Polymerase chain reaction (PCR) is a method widely used to rapidly make millions to billions of copies of a specific DNA sample, allowing scientists to take a very small sample of DNA and amplify it to a large enough amount to study in detail.

episode driven by momentum-based investors that feeds on itself particularly after the strongest month of August in about 30 years and a Nasdaq marketplace that reached 83 percent off its March lows earlier this week.

These same types of investors were largely the reason why 80 percent of the Nasdaq constituents were above their 200 day moving average levels a week ago and why the U.S. Technology sector at a $9 trillion market capitalization, according to BofA Global Research, surpassed the entire equity market cap of Europe including the UK and Switzerland. In addition, relative strength across the technology sector rose above 80—a sign of excessive short-term froth—and within market-based factors the momentum versus value gap was at its widest level ever at the end of August and the first couple days of September. In other words, there was simply too much froth in the market overall and it was time for some of this to exhale. But this is not a change to the overall market's medium term upward trajectory, in our estimation. Prior negative changes to the market's direction contained a major tightening of policy (the fourth quarter of 2018 is one example) or the profit cycle was closer to a peak not coming off a bottom like today!

Today's investment environment is one in which exhales happen much quicker and sharper given the size and high impact of machine led algorithms and model driven trading programs not to mention the wide use of options to express a view or hedge exposure across the equity markets. This can create more angst on the part of investors and also could keep cash on the sidelines. Investable cash has come down recently but is still estimated at around $4.5 to $4.7 trillion (close to the record set earlier this year), according to Fundstrat Global Advisors. Investors remain concerned about the broader environment and episodes like the current volatility in momentum areas of the market are likely to keep investors wondering whether we are in a recovery head fake or not. Obviously time will tell but from our analysis the overwhelming policy accommodation, ultra-low Fed policy change risk, and insights from the leading economic indicators and the negative real rate backdrop for longer is a major foundation that is just beginning to filter into the broader environment overall.

Like most sharp negative swings in the market at the beginning of recoveries, we would have plans ready to add to parts of the market—the areas producing the highest free cash flow mixed with areas benefiting the most from an eventual recovery—and equities overall. We expect stabilization in the next week and two more upward phases though year end driven by better than expected profits. With earnings season over the focus will likely shift to headline risk of the day or week which should create opportunities to re-invest.

The support base of profits should rise, in our opinion, and catch up to the rise in valuation in the coming months. At this point, the clarity of a low discount rate (see the Federal Reserve's latest communication) for longer mixed with unprecedented stimulus and liquidity for a long period of time and a rise in profits globally should create a double tailwind to equities and specifically relative to bonds. This creates a powerful compounding effect that coupled with strong operating leverage in the corporate sector is likely to catch investors by surprise in 2021.

Housing is driving the bus in the U.S. (CIO overweight-rated) as technology and healthcare stocks (CIO overweighted) compound attractive free cash flows. The earnings yield of the S&P 500 (the inverse price to earnings multiple) is priced at about 7 times that of the 10-Year Treasury yield with cash yields at close to zero percent. Reflationary policies and attractive relative valuations are energy to an asset class like equities which rely on the compounding of future cash flows. The industrial sector (CIO neutral-rated) and consumer discretionary (CIO slight overweight-rated) are next at the depot in our view as global manufacturing picks up, the recovery in the consumer sector takes further hold, and multinational profits benefit from the weaker dollar and improved growth overseas. Cyclicals in general are likely to grab some headlines from technology and healthcare but not all of them, in our opinion. The non-U.S. (CIO neutral rated) arena is being pulled up by Europe but more time is needed for the recovery to gather steam. Emerging Markets (CIO Underweight rated) are still struggling with the virus and their collective economic growth outlook is not yet showing signs of an upward re-rating.

We expect the equity risk premium in the U.S. to fall further in the next 12 months as some of the macro risks fade and profits rise (even in the face of uncertainty regarding the election). This should also help support upward phases of the broader equity indices as well, in our opinion. Active management* and more frequent and diversified rebalancing should take on greater importance as the bull market grinds onward.

The plains are vast and long, but the bull has more energy and is stronger than the eyes of the hills and valleys believe.

We believe we are in the early stages of the next long-term synchronized and global economic advancement and bull market. Early stages contain periods of volatility while skepticism battles the transparency of the global recovery. We are now moving into the stage in which a fundamental catalysts is needed for the next leg up. We believe this catalyst is a positive profit surprise in the coming 12 plus months.

Stay the course through the plains.

MACRO STRATEGY

Pandemic Ushering In A New Government Framework

Niladri Mukherjee, Managing Director and Head of CIO Portfolio Strategy
Kirsten Cabacungan, Investment Analyst

Policy intervention in the pandemic-era has been nothing short of unprecedented. Governments all over the world, tasked with the role of trying to prevent the spread of the coronavirus and plugging the hole left behind by a decline in production, income and consumption quickly shifted into stimulative mode. From the Federal Reserve (Fed) cutting interest rates to near zero and creating liquidity programs to prop up risky parts of the credit markets to the federal government deploying trillions of dollars in a matter of weeks to provide financial life lines to consumers and businesses, the crisis has helped to ignite an aggressive monetary and fiscal policy approach to economic recovery.

But what may be the lasting effect on government functioning in the economic recovery years ahead? Policymakers are not following a similar playbook to the last recession amid the enduring legacy of the policies implemented during and after the 2008/2009 Great Financial Crisis (GFC). Preemptive interest rate increases and counteracting monetary and fiscal policy made it difficult for inflation to rise to the 2% target set by the Fed or for gross domestic product (GDP) growth to sustainably move above 3%. Plagued by the policy mistakes of the past, the government now has the opportunity to set off on a new course that follows a more coordinated “whatever it takes” approach for longer. Here are ways government functioning may change, which will require a shift in investor mindset.

Monetary and fiscal policy could work more in tandem

Before the pandemic, monetary and fiscal policy weren’t necessarily complimenting each other. The U.S. has seen the consequences of counteracting policies play out.
The Fed’s move to tighten policy in 2017-2018 by increasing interest rates while at the same time shrinking the balance sheet led to a massive deceleration of money-

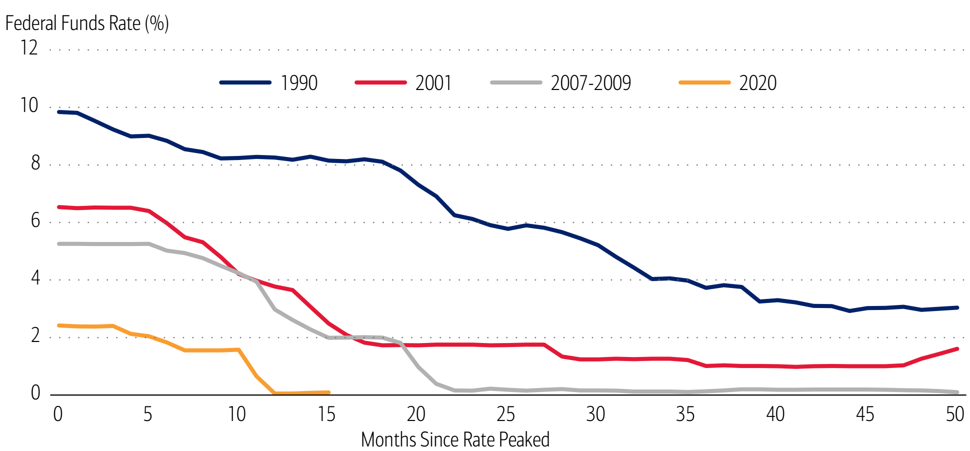
* Active management seeks to outperform benchmarks through active investment decisions such as asset allocation and investment selection.

supply growth. It ultimately thwarted the effects of the fiscal stimulus enacted by the administration at the time and held down nominal growth. Similarly in Europe during and after the sovereign debt crisis, more accommodative monetary policy was negated by a tightening of fiscal screws, which forced austerity on many crisis-ridden countries. As a result, neither inflation or growth ever recovered to desired levels. This time, however, the pro-growth shift both on the monetary and fiscal side to address pandemic-related challenges has reset policy for the moment. And if the hard lessons from the last recovery are taken, then policymakers may follow Japan's lead and keep policy working in tandem to support the reflationary effort.

Japan's Abenomics program focuses on the coordination of the three arrows: monetary policy, fiscal policy and regulatory reform. The proactive nature of monetary policy that introduced ultralow interest rates, and massive bond-buying programs helped to mitigate the massive deflationary spiral faced by the country. While the program faced setbacks following ill-timed consumption tax increases, it would be a mistake to overlook the successes, including lifting Japan's nominal GDP growth rate and boosting inflation. The program made clear that leaning on the central bank alone to generate growth has its limits, and a more coordinated effort across the board may be more effective, especially as the impact of monetary policy weakened following the introduction of negative interest rates.

With interest rates already at the zero lower bound in the U.S. (Exhibit 1) and the Fed signaling their strong desire to keep them there for some time, appropriately targeted fiscal stimulus will be needed given the uncertainty of this fragile recovery and labor market. It will be important that monetary and fiscal policy remain aligned and work in a coordinated fashion to avoid offsetting the intended effect of the other.

Exhibit 1: The Fed responded quickly to cut rates to zero this time around and intends to keep them there for an extended time.



Sources: Federal Reserve, Bloomberg, Wall Street Journal. Data as of September 2020

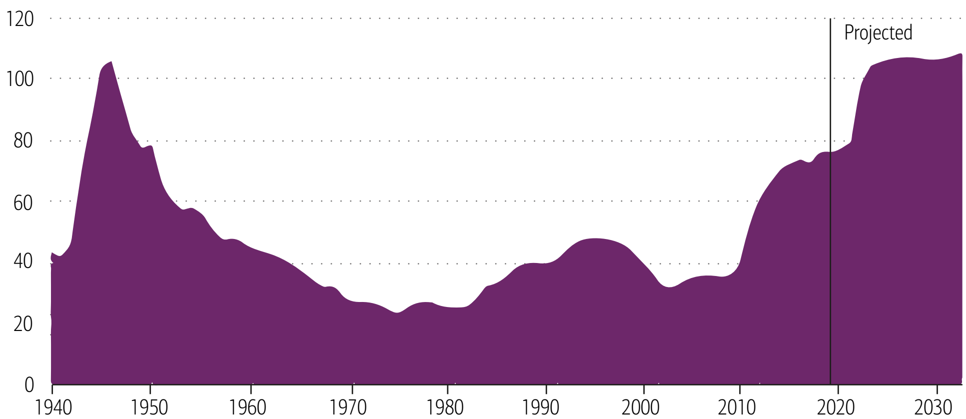
A "win the war" mentality could lead to more debt and a larger deficit.

During the pandemic, the government's primary focus has been and will remain the health and safety of the public above all else. Similar to times of war, the government will worry first about winning (helping to stop the spread of the coronavirus), "whatever it takes" approach, and be willing to deal with the aftermath only after the war is won (coronavirus contained). That was the case during the World War II when the U.S. ramped up defense spending, and the central bank purchased large amounts of Treasury debt to keep interest rates capped at low levels across the yield curve. The consequences of this spending led to a sharp increase in the deficit and debt levels.

Now in the fight to help contain this health crisis, the U.S. has seen greater political acceptance across the aisle on using government spending to support incomes and small businesses. The March 2020 Coronavirus Aid, Relief and Economic Security (CARES) Act was the largest stimulus bill in U.S. history, and additional stimulus continues to be debated. Depending on how long it takes for the economy to recover from the pandemic, the focus will remain on spending enough to "win this war" (Exhibit 2). The 2020 federal budget deficit as of July is already running at $2.8 trillion, a $1.9 trillion increase from this same period in 2019, according to the U.S. Department of the Treasury, and is projected by the Congressional Budget Office to reach $3.3 trillion in 2020, or 16% of GDP. On the same note, the Fed's balance sheet has grown by trillions amid the aggressive monetary response and will likely remain elevated based on their commitment to backstopping the financial markets.

Exhibit 2: U.S. Debt is projected to pass levels only last seen during World War II.

Federal Debt Held by the Public as a percent of GDP (%)



Source: Congressional Budget Office. Data as of September 2, 2020.

Government intervention in pursuit of self-sufficiency and global leadership

Not only has the crisis placed greater responsibility on the government to address public health, but the pandemic-induced economic shutdowns has shone a light on the need for a greater role of government in supporting business resiliency ahead. Big national priorities such as 5G deployment, physical infrastructure updates and maintaining technology superiority among others, will need the combined efforts of policy makers and the private sector to help pull through.

As 13 million Americans remain unemployed, according to the Department of Labor, and technology in an accelerated fashion disrupts dinosaur business models, the government may need to refocus funding and incentivize research and development (R&D) to revive industries or to help support the build out of new ones to get people back to work. The pandemic further highlighted the vulnerabilities facing global supply chains from over-reliance on certain countries for critical materials. A bigger role played by the government in supporting company reshoring efforts may help to promote capital investment, broader job growth and greater self-sufficiency, which in turn would help to protect intellectual property and maintain global technological dominance. Citizens may grow more amenable to allowing greater government intervention for broader national priorities, especially if that means producing higher-quality job opportunities and keeping the country competitive globally.

Conclusion

Investor mindset may need to shift in this new world with a potential of a heavier-handed government involvement in deciding economic outcomes. In prior years, the financial community has been hawkish on bigger governments and their active interventions in various sectors of the economy. Going forward, investors will need to embrace that crisis times would look for big spending and support by policy makers and that naturally would lead to a deterioration in the debt and deficit levels. On the other hand, more coordinated and timely policy responses and a greater urgency on delivering national priorities are long-term positives. This stance lays the foundation for eventually getting to a higher level of growth and productivity.

Portfolio strategy should remain geared toward a higher nominal growth world as we approach 2021 and beyond. We believe the bigger beneficiary of this environment should be equities rather than bonds. Relative valuations for equities are not extended and corporate earnings revisions have started to improve as global economic activity continues to rebound. U.S. Large-cap equities should be considered by global asset allocators for access to companies with secular growth opportunities, greater innovation prowess and higher-quality balance sheets. Precious metals should benefit as well, in our view, given the prevalence of economic uncertainty and negative real interest rates.

GLOBAL MARKET VIEW:

Anatomy of the Coronavirus Equity Market Recovery

Ehiwario Efeyini, Director and Senior Market Strategy Analyst

Last week's equity market selloff included the steepest two-day fall in almost three months. But after one of the shortest periods of bear market decline and recovery associated with recessions in the post-war era, the equity market remains close to its pre-crisis highs. In the 23 trading days between February 19 and March 23, the S&P 500 declined 33.9% to produce the fastest bear market in post-war history. And over the subsequent five months, the market went on to recover all of its losses, taking a total of just six months (Exhibit 3) to complete the move from its February peak to its March trough and back to its February peak on August 18. Even after the sharp drop at the end of last week, U.S. equities still closed above their February pre-crisis high.

Exhibit 3: Coronavirus crisis among the shortest historical periods of bear market decline and recovery.

Post-war recession bear market declines and recoveries

Recession	Market decline	Bear market length (trading days)	Time to regain prior peak (months)
Nov 48 - Oct 49	-20.6%	259	19
Jul 53 - May 54	-14.8%	180	14
Aug 57 - Apr 58	-20.7%	71	14
Apr 60 - Feb 61	-13.9%	321	18
Dec 69 - Nov 70	-36.1%	388	39
Nov 73 - Mar 75	-48.2%	450	89
Jan 80 - Jul 80	-17.1%	31	5
Jul 81 - Nov 82	-27.1%	444	23
Jul 90 - Mar 91	-19.9%	62	7
Mar 01 - Nov 01	-49.1%	663	85
Dec 07 - Jun 09	-56.8%	369	65
Feb 20 - Apr 20	-33.9%	23	6

Sources: Chief Investment Office, Bloomberg. Data as of August 18, 2020.

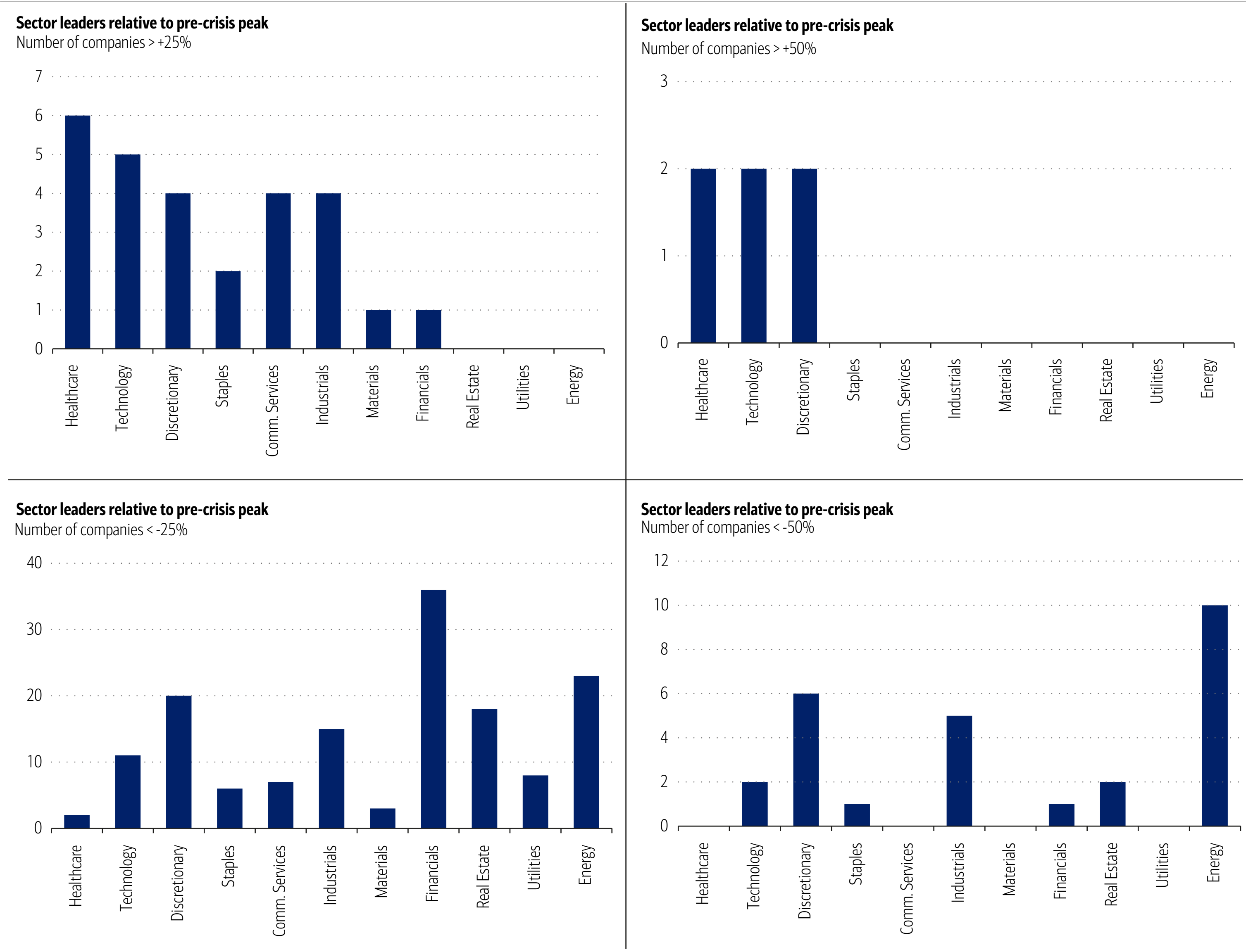
The market rebound of recent months has been rapid, but underneath the broad index it has also been uneven across sectors and industries. As the market returned to its pre-crisis peak last month, only five of the 11 sectors (information technology, healthcare, communication services, consumer discretionary and materials) had regained their February high. And of the remaining six sectors, five (energy, financials, utilities, industrials and real estate) were still 10% or more below their prior peak.

Similarly, most individual constituents within the S&P 500 did not move to new highs with the overall market. In total, only 160 of the 500 index holdings regained their pre-crisis peaks alongside the broad index last month, with the highest number (32) in the information technology sector. The median constituent was 10.7% below its February peak, and therefore more than half of all the companies in the index (255) remained 10% or more below pre-crisis levels even as the broad market broke to new highs.

The market recovery has been led by a relatively small number of firms. Just 83 companies had risen to 10% or more above their pre-crisis peak (only a third of the number at the equivalent threshold below their peak) as the broad market regained its February high last month. Less than 5% of index constituents (27) were 25% or more above their prior peak. And six holdings were up by 50% or more. The most outsized gains have been concentrated in three sectors – information technology, healthcare and consumer discretionary. Of the six companies rising to 50% or more above their pre-crisis high, two were in each of these groups led by healthcare equipment, data processing, semiconductors and internet retail. And of the 27 up by 25%-plus, more than half of the total (15) were spread across these three sectors.

A larger number of individual firms have been major laggards during the recovery of recent months. Close to one-third of holdings (149) in the S&P 500 were still 25% or more below their February peak (over five times the number at the equivalent threshold above their peak) as the index reached new highs last month. The sectors making the biggest contribution to this category were financials (36) and energy (23), predominantly across regional banks and oil and gas exploration and production. And a total of 27 companies were 50% or more below their pre-crisis highs, over a third of which (10) were in energy alone (Exhibit 4).

Exhibit 4: Technology, healthcare and consumer-related companies have led the market recovery; financial and energy firms have lagged the S&P recovery to its pre-crisis peak.



Sources: Chief Investment Office, Bloomberg. Data as of August 18, 2020. Short term performance shown to illustrate more recent trend. **Past performance is no guarantee of future results.**
Relative sector returns at time of S&P 500 recovery from August to February peak.

The equity market rebound therefore remains relatively narrow so far. Despite the strong gains for the broad index, not all sectors and industries have participated to the same extent, and price levels in many segments of the market remain depressed. We believe this is likely to make for episodic periods of rotation away from the top-performing sector and industry groups, such as that seen at the end of last week.

But looking ahead, crisis-induced shifts in consumer and business activity should remain supportive for a number of the leading market segments of the past six months. Healthcare stands of course at the center of the crisis, and we expect more investment and innovation in the sector over the near term and beyond. The coronavirus outbreak has revealed major shortfalls in capacity across healthcare systems around the world, and this highlights a fundamental lack of preparedness not only for medical emergencies but also to meet growing demands over the coming years from ageing populations and rising incidence of chronic disease. We therefore expect spending on healthcare infrastructure to increase globally over the years ahead as medical service providers look to build demand-surge capacity for diagnosis, treatment and monitoring. Healthcare expenditure has remained relatively stable at 9% to 10% of global GDP over the past several years and the pandemic should continue to bring forward much-needed investment in medical equipment, healthcare facilities and advanced drug development techniques. Greater reliance on telehealth is likely to be among the key solutions to emerge from the crisis. And biosecurity practices should also gain in adoption over the period ahead. These are measures aimed at mitigating biological threats from pathogens, such as stricter regulations around sanitation, new health-related screening policies for entry into buildings or the use of contactless payment methods.

The trend toward automation in manufacturing and service operations should also continue to accelerate. Twin supply chain shocks from both the U.S.-China trade war and the pandemic will underscore the need to reduce interdependence in the sourcing of components and finished goods (including medical supplies and pharmaceuticals), not only for operational resilience but also for reasons of national security. Greater efficiencies from automation and the need for more self-sufficiency should therefore support the localization of manufacturing activity through faster adoption of robotics and new techniques such as 3D printing. Automation in services should bring a range of additional benefits. Restrictions for example on travel and migration are likely to exacerbate labor shortages, bringing forward robotics deployment in areas such as ground transportation and agriculture. And a renewed emphasis on hygiene will favor the use of robots over humans in packaged food preparation. In retail, the number of cashierless stores was rising even before the crisis, and this is a trend that will likely be reinforced. Cloud computing should also be adopted more widely. Demand for cloud-based software services in teleconferencing and remote education has risen with physical distancing, and this comes on top of existing structural growth in cloud infrastructure demand for remote storage and processing as global data volumes expand. With increased reliance on remote work for office workers and distance learning in education, we would expect demand for cloud services to remain strong over the period ahead.

Shifts in consumer behavior are also driving new patterns of economic activity. Risks around offline entertainment and large gatherings are being met with greater demand for digital services, and this should only reinforce the trend toward digital media usage in areas such as social networking, online gaming, extended reality and video streaming. This tendency should also apply to internet retail. Demand for online ordering and delivery across a range of consumer categories including household products and consumer staples had already been on a steady increase over recent decades, but has accelerated during the pandemic. And online sales for individual categories such as food and drink remain well below the average, leaving even more scope for greater penetration within these segments. Along with the rise in cloud adoption, acceleration in the uptake of these new online services will only increase the need for investment in next-generation 5G telecommunications infrastructure. As the digital economy commands a larger share of global output, this improvement in network reliability, speed and capacity will be critical in supporting a larger number of wireless connections consuming ever-larger amounts of data over the coming years. Digitization, automation, new online services and investment in telecommunication and healthcare infrastructure are therefore likely to remain major drivers of investor return as the pandemic extends into the latter part of the year. On a sector basis, these themes should continue to favor information technology, communication services, healthcare and consumer discretionary. And with the most exposure to these areas, the U.S. equity market remains well placed to further outperform the rest of the world.

THOUGHT OF THE WEEK:

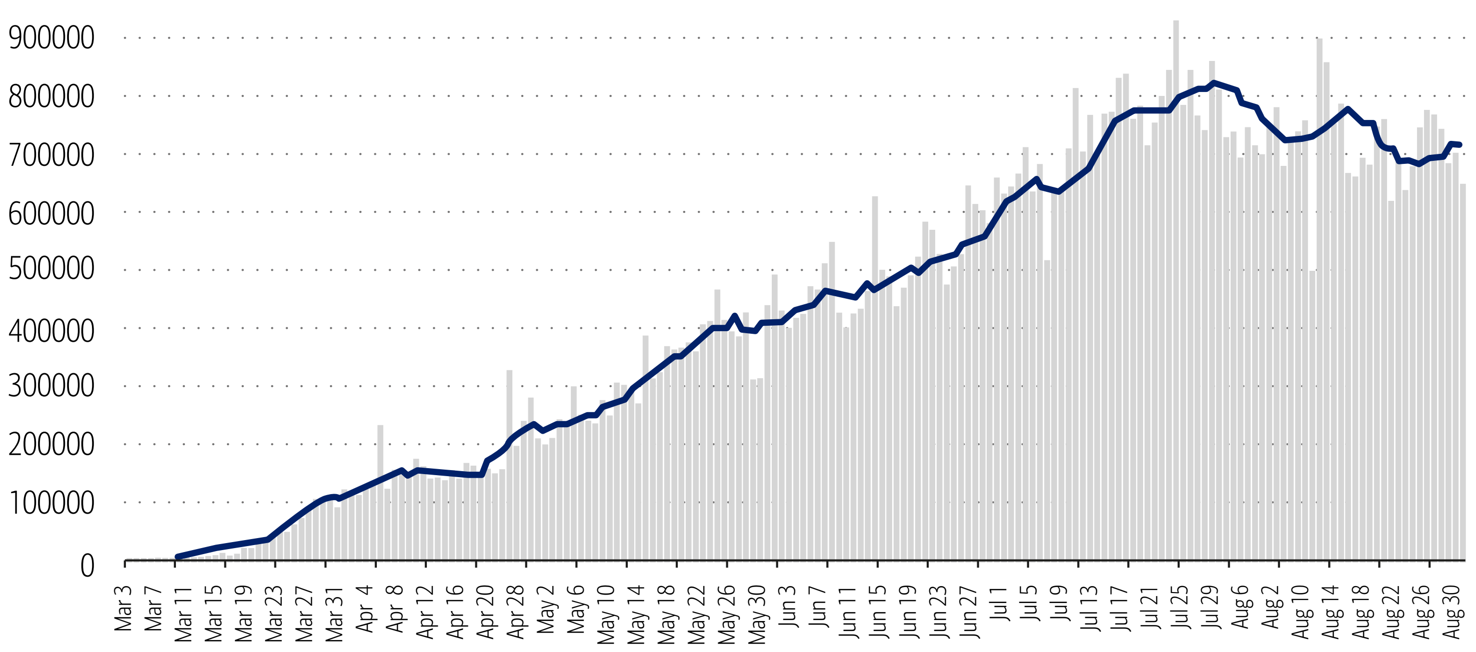
Testing capacity: Better but Still Room to Improve

CIO Equity Strategy Team

During the early months of the coronavirus pandemic in the United States, focus and funds were directed toward the development of vaccines and efforts to increase manufacturing of personal protective equipment versus the manufacturing of testing solutions and equipment. What followed was an outpouring of complaints from the medical community regarding a lack of testing and reagent supplies, which led to only the most symptomatic being offered testing as well as very slow turnaround times that delayed the process of getting proper treatment and accuracy measures that were less than optimal. Since then, we have seen numerous diagnostics companies develop their own coronavirus tests and reagent kits, increasing supply levels from less than one million tests per month in April to about 17 million per month in July according to the Atlantic Monthly Group: The COVID Tracking project. However, demand is expected to rise in the coming fall months as schools get back into session and the economy continues to open up. As a result, those demand estimates could reach closer to 26 million to 28 million tests per month.

Testing capacity should improve with the recent limited approval of a lateral flow rapid (results within 15 minutes) antigen test last week in the U.S. and one more announced last Tuesday in Europe. Even with one of the two approved only for symptomatic patients at this time, the companies' abilities to produce up to between 40 million to 80 million tests each per month that do not need reagents or other equipment to read the results could help improve the speed at which we diagnose and treat patients. That said, more capacity and quicker turnaround times are likely needed to reach social engagement levels similar to where we were in January. Other saliva-based and rapid antigen tests are being tested to get results back more quickly, accurately and in much greater quantity but could be quarters or a year away. If that happens, that is when we would be much more likely to see these products used to enter hotels, airport terminals, schools, sporting events and other social gatherings.

Exhibit 5: U.S. Weekly Reported Tests.

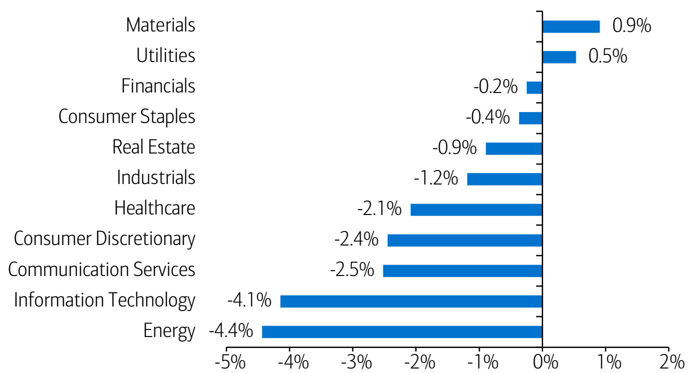


Source: The Atlantic Monthly Group, The COVID Tracking Project as of September 2, 2020.

Equities

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
DJIA	28,133.31	-1.7	-1.0	0.3
NASDAQ	11,313.13	-3.3	-3.9	26.9
S&P 500	3,426.96	-2.3	-2.1	7.5
S&P 400 Mid Cap	1,897.86	-2.5	-1.5	-6.9
Russell 2000	1,535.30	-2.7	-1.7	-7.1
MSCI World	2,399.60	-2.3	-2.3	3.0
MSCI EAFE	1,870.29	-2.1	-2.0	-6.6
MSCI Emerging Markets	1,099.50	-2.0	-0.2	0.3

S&P 500 Sector Returns



Fixed Income[1]

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
Corporate & Government	1.15	0.2	-0.1	8.0
Agencies	0.56	0.0	-0.1	5.1
Municipals	1.33	-0.1	-0.1	3.2
U.S. Investment Grade Credit	1.17	0.2	-0.1	6.8
International	1.98	0.4	0.0	6.9
High Yield	5.51	0.0	-0.1	1.6

	Current	Prior Week End	Prior Month End	2019 Year End
90 Day Yield	0.10	0.10	0.09	1.54
2 Year Yield	0.14	0.13	0.13	1.57
10 Year Yield	0.72	0.72	0.70	1.92
30 Year Yield	1.47	1.50	1.47	2.39

Commodities & Currencies

	Total Return in USD (%)			
Commodities	Current	WTD	MTD	YTD
Bloomberg Commodity	154.49	-1.0	-1.3	-10.2
WTI Crude $/Barrel[2]	39.77	-7.4	-6.7	-34.9
Gold Spot $/Ounce[2]	1,933.94	-1.6	-1.7	27.5

Currencies	Current	Prior Week End	Prior Month End	2019 Year End
EUR/USD	1.18	1.19	1.19	1.12
USD/JPY	106.24	105.37	105.91	108.61
USD/CNH	6.84	6.86	6.85	6.96

Sources: Bloomberg, Factset. Total Returns from the period of 08/31/2020 to 09/04/2020. Bloomberg Barclays Indices.[1] Spot price returns.[2] All data as of the 09/04/2020 close. **Past performance is no guarantee of future results.**

Asset Class Weightings (as of 9/1/2020)

	Under-weight		Neutral	Over-weight	
Equities				●	
U.S. Large Caps Growth				●	
U.S. Large Caps Value				●	
U.S. Small Cap Value			●		
U.S. Small Caps Growth				●	
International Developed			●		
Emerging Markets	●				
Fixed Income		●			
U.S. Governments		●			
U.S. Mortgages		●			
U.S. Corporates				●	
High Yield				●	
US 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 pre-qualified clients.

Economic and Market Forecasts (as of 09/04/2020)

	Q3 2019A	Q4 2019A	2019A	Q1 2020A	Q2 2020A	2020E
Real global GDP (% y/y annualized)	-	-	2.9	-	-	-4.2
Real U.S. GDP (% q/q annualized)	2.6	2.4	2.2	-5.0	-31.7	-5.3
CPI inflation (% y/y)	1.7	2.3	2.3	1.5	0.6	1.2
Core CPI inflation (% y/y)	2.4	2.3	2.3	2.1	1.2	1.6
Unemployment rate (%)	3.6	3.5	3.5	3.8	13.0	9.0
Fed funds rate, end period (%)	1.90	1.55	1.55	0.08	0.08	0.13
10-year Treasury, end period (%)	1.66	1.92	1.92	0.67	0.66	1.00
S&P 500 end period	2977	3231	3231	2585	3100	3250
S&P earnings ($/share)	42	42	163	33	28	125
Euro/U.S. dollar, end period	1.09	1.12	1.12	1.10	1.12	1.14
U.S. dollar/Japanese yen, end period	108	109	109	108	108	103
Oil ($/barrel, avg. of period, WTI**)	56	57	57	39	31	40

The forecasts in the table above are the base line view from BofAML Global Research team. The Global Wealth & Investment Management (GWIM) Investment Strategy Committee (ISC) may make adjustments to this view over the course of the year and can express upside/downside to these forecasts. 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. S&P 500 represents the year-end target for 2020. **West Texas Intermediate.
Sources: BofA Merrill Lynch Global Research; GWIM ISC as of September 04, 2020.

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Index Definitions

Securities indexes assume reinvestment of all distributions and interest payments. Indexes are unmanaged and do not take into account fees or expenses. It is not possible to invest directly in an index.

Indexes are all based in dollars.

S&P 500 is a stock market index that tracks the stocks of 500 large-cap U.S. companies. It represents the stock market's performance by reporting the risks and returns of the biggest companies.

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