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- ➔ **Rise of the “bottom billions”:** The rise of the world’s “bottom billions” into the middle-class is one of the themes we identify in “*A Transforming World*,” our guide to global forces that are transforming lives and creating potential investment opportunities. We encourage investors aiming to implement the theme of the burgeoning middle-class to focus on leading companies in four sectors—Consumer, Information and Communication Technologies, Financials and Healthcare, and to mind the numerous risks that emerging economies face, including the potential for rising inequality.
- ➔ **Markets in Review:** Last week equities ended lower, with the S&P 500 Index down 1.1%, while international equities, as represented by the MSCI EAFE Index, fell 2.8%. Bonds rose on the week, with the 10-year Treasury yielding 1.61%, down from 1.64% the prior week. Commodities as measured by the Bloomberg Commodity Index fell 0.2% in part due to a 2.2% decline in WTI crude oil to \$48.00. Gold rose by 2.0%, to \$1,299.00 per ounce.
- ➔ **Looking Ahead:** On Thursday Markit releases its preliminary June Purchasing Manager’s Index (PMI) for U.S. manufacturing and its Composite PMI for the Eurozone. On Friday, the U.S. Census Bureau reports non-defense capital goods orders excluding aircraft.

Rise of the “bottom billions”

The rise of the “bottom billions” is one of the themes we identify in “[A Transforming World](#),” our guide to global forces that are transforming lives and creating potential investment opportunities. The consuming class may be the world’s next big engine of economic expansion. We believe that in a world with lower-for-longer interest rates and underwhelming growth, the roughly 4.5 billion people at the base of the economic pyramid may be a critical factor as a significant portion of them enter the middle class.¹

Rising consumer class

The bottom billions earn only \$1 to \$10 a day, but have \$5 trillion in purchasing power and \$7.4 trillion in wealth, according to BofA Merrill Lynch (BofAML) Global Research. They are urban, young (60% under 30), educated (12 years of expected schooling), connected (there are two billion Emerging Market Internet users) and have more disposable income than ever before. Bottom billions consumers and households, while still poor, are experiencing improving living conditions and standards, and are looking increasingly middle-class.

¹ BofAML Global Research. June 13, 2016. “Theme Watch: Rise of Bottom Billions”.

² McKinsey Global Institute. April, 2016. “Urban world: The global consumers to watch”.

³ BofAML Global Research. May 10, 2016. “Thematic Investing”.

⁴ Brazil, China, Egypt, India, Indonesia, Malaysia, Mexico, Nigeria, Pakistan, Philippines, South Africa and Turkey.

The weight of consumption is shifting rapidly toward emerging economies—and overwhelmingly to their cities, according to the McKinsey Global Institute. In 2015, EM cities accounted for just 23% of global consumption, but between 2015 and 2030 they could generate 56% of consumption growth.²

Historical commerce opportunity

The rise of the bottom billions may drive middle-class spending from \$5 trillion today to \$56 trillion by 2030 and \$84 trillion by 2050, according to BofAML Global Research. China and India are expected to be the greatest drivers of the shift in consumer spending to EM through 2050 and the growth in those expenditures. India is expected to be the number-one nation of middle-class consumers by 2050, growing from 1% of total spending in 2009 to 31% by 2050.³ The top 12 EMs are expected to account for 33% of global consumer spending by 2030, according to BofAML Global Research.⁴ While food and non-alcoholic beverages account for the largest portion of consumer expenditure for these 12 nations, we are also seeing growing demand for transportation, entertainment and media.



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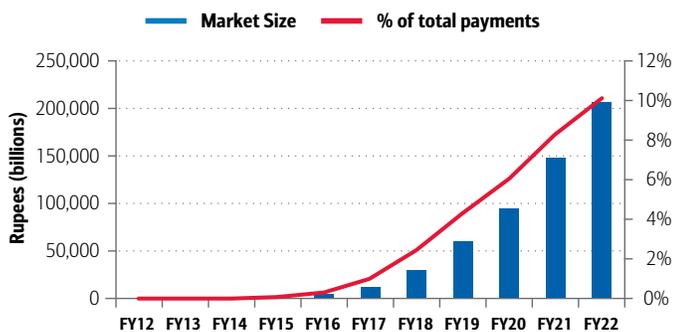
Technology access is key

We believe the current digital revolution will be instrumental in transforming the lives of the bottom billions. In fact this technological revolution is reaching and permeating EM economies and societies at a much more rapid pace than previous ones and is creating rapid, sustainable and resource-efficient growth. We find it intriguing that more EM households have a mobile device than electricity or a supply of clean water. Improved internet access in EMs is projected to generate more than 140 million jobs, or \$600 per person in annual income gains. The Information & Communication Technologies (ICT) sector's enablement of economic growth through enhanced productivity could boost EM gross domestic product by \$2.2 trillion, according to BofAML Global Research.

Financial inclusion a driver

Around two billion adults globally don't have access to basic financial services; by 2020 this number is expected to be halved. In EMs, only 54% of adults have an account at a financial institution or via a mobile money provider vs. 94% in high-income developed markets. Digital finance is likely to play an integral role in enabling financial inclusion for the bottom billions. Recall that in 2014 Narendra Modi, prime minister of India, issued a national mission statement to serve the unbanked. The number of mobile wallets in India is now double the number of credit cards and the market size is expected to accelerate in coming years (see Exhibit 1). The global market for mobile money is expected to grow to \$78 billion by 2019, while financial inclusion is seen as a \$380 billion opportunity for banks.⁵

Exhibit 1: Mobile payments in India expected to accelerate



Source: BofA Merrill Lynch Global Research estimates and Merrill Lynch Chief Investment Office. There can be no assurance that the forecast will be achieved.

Healthcare funding an issue

The global healthcare sector is expected to grow from \$7.3 trillion currently to \$10.3 trillion by 2020, with EMs

driving demand. It's estimated that around a third of global health spending will come from EMs by 2022. However, EM healthcare funding is still insufficient; low government spending means high out-of-pocket expenses for consumers. Increased participation from the private sector may help alleviate the imbalance; between 2002 and 2010, the private sector created over 70% of the new hospital beds, according to BofAML Global Research.

Inequality remains a key risk

While the rise of the bottom billions poses potential opportunities, it will not be easy. In 2015, 14% of the world's population still lived in extreme poverty (on less than \$1.25 per day), 2.4 billion lacked access to proper sanitation, 795 million went chronically hungry and 780 million adults were illiterate, according to BofAML Global Research. Thus, inclusive growth will be key in reducing inequality of income and opportunity. We believe that governments, businesses and other stakeholders play critical roles in bridging the wealth gap and combating social unrest and instability.

Portfolio Considerations: We have a positive view on EM consumers and their purchasing power in the years ahead. Assuming that the bottom billions will drive growth of the global middle-class, we encourage investors to identify and monitor companies that stand to benefit from the shift in spending from necessities to discretionary goods, paying particular attention to Consumer, ICT, Financials and Healthcare.

Market Volatility

Financial markets have been on edge recently. Since rising by nearly 16% from this year's bottom on Feb 11th, recently the S&P 500 has pulled back a bit. We've seen bond investors turn more risk-averse. The 10-year U.S. Treasury yield dropped below 1.6% last week, in Germany the 10-year rate turned negative for the first time, and in Japan it fell to -0.19%. The near-term macro concern is the British referendum to leave the European Union, which takes place on June 23. Given the rise in populism, a choppy economic picture and monetary policy uncertainty, **it makes sense to be tactically neutral on international developed market stocks going forward.**

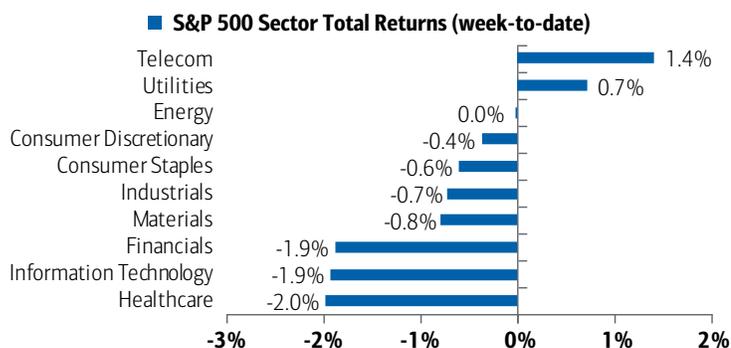
⁵ BofAML Global Research. May 10, 2016. "Thematic Investing".

Markets in Review

Trailing Economic Releases

- The National Association of Homebuilders (NAHB) housing index for June came in at 60, better than the consensus estimate of 59 and an increase from May's reading of 58. A figure above 50 signals expansion.
- The U.S. Census Bureau reported that housing starts in May fell 0.3% month-over-month, versus the consensus expectation of a decline of 1.9%. April's gain was revised lower, from 6.6% to 4.9%.
- Eurostat reported that core inflation in the eurozone in May was 0.8% year-over-year. This was in line with the consensus estimate.

S&P 500 Sector Returns (as of last Friday's market close)



Equities

	Level	Total Return in USD (%)		
		WTD	MTD	YTD
DJIA	17,675.2	-1.0	-0.5	2.8
NASDAQ	4,800.3	-1.9	-2.9	-3.5
S&P 500	2,071.2	-1.1	-1.1	2.4
S&P 400 Mid Cap	1,480.0	-1.2	-0.8	6.7
Russell 2000	1,144.7	-1.6	-0.8	1.5
MSCI World	1,635.8	-1.7	-2.2	-0.5
MSCI EAFE	1,595.3	-2.8	-4.2	-5.3
MSCI Emerging Mkts	806.2	-2.1	0.1	2.4

Fixed Income

	Yield (%)	Total Return in USD (%)		
		WTD	MTD	YTD
ML US Broad Market	1.95	0.1	1.1	4.6
US 10-Yr Treasury	1.61	0.2	1.8	6.3
ML Muni Master	1.70	0.4	1.2	4.0
ML US Corp Master	2.99	-0.1	1.2	6.5
ML High Yield	7.42	-0.7	0.2	8.3

Commodities & Currencies

	Level	Total Return in USD (%)		
		WTD	MTD	YTD
Bloomberg Commodity	179.0	-0.2	4.0	13.1
WTI Crude \$/Barrel	48.0	-2.2	-2.3	29.5
Gold Spot	1,299.0	2.0	6.9	22.4

Level	Current	Prior	Prior	2015
		Week End	Month End	Year End
EURUSD	1.13	1.13	1.11	1.09
USDJPY	104.16	106.97	110.73	120.22

Source: Bloomberg.¹ Spot price returns. All data as of last Friday's close.
Past performance is no guarantee of future results.

Looking Ahead

On Thursday Markit releases its preliminary June Purchasing Manager's Index (PMI) for U.S. manufacturing and its Composite PMI for the eurozone. On Friday, the U.S. Census Bureau reports non-defense capital goods orders excluding aircraft.

Upcoming Economic Releases

- On Thursday, Markit releases its preliminary June report for U.S. manufacturing. The consensus expectation is for a reading of 50.9, up from 50.7 in May. This would mark a marginal expansion in the sector (50 demarcates expansion from contraction).
- On Friday, the U.S. Census Bureau is set to report May's non-defense capital goods orders excluding aircraft, an important proxy for business investment. BofAML Global Research expects orders to have fallen 0.2% month-over-month, following a decline of 0.6% in April.
- In the eurozone, on Thursday Markit publishes the June preliminary reading of its Composite Purchasing Managers Index for the region. The consensus expectation is for 53.0, little change from the prior month's reading of 53.1.

BofA Merrill Lynch Global Research Key Year-End Forecasts

S&P 500 Outlook	2016 E
S&P 500 Target	2,000
EPS	\$120.00
Real Gross Domestic Product	2016 E
Global	3.1%
U.S.	1.8%
Euro-Area	1.5%
Emerging Markets	4.0%
U.S. Interest Rates	2016 E
Fed Funds (eop)	0.63%
10-Year T-Note (eop)	2.00%
Commodities	2016 E
Gold (period avg.)	\$1,234
WTI Crude Oil (eop)	\$54.00

All data as of last Friday's close.

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