CHIEF INVESTMENT OFFICE

Investment Insights

The Great Reset: Work, Play, and Live in a Post-coronavirus World

August 2020

The opinions are those of the author(s) and subject to change.

AUTHORED BY:

Lauren J. Sanfilippo
Vice President and
Market Strategy Analyst

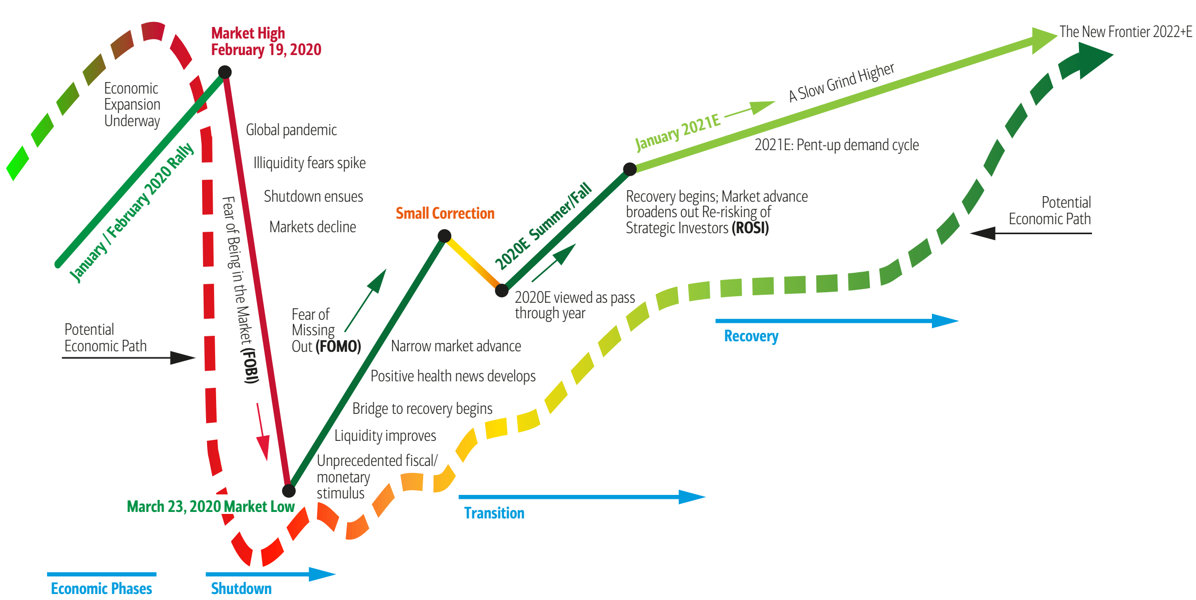
Kirsten Cabacungan
Investment Analyst

Muhammad A. Wainwright
Investment Analyst

Data as of 8/18/2020 and subject to change.

Following on the previous releases of the Chief Investment Office (CIO) Investment Insights, "The Great" series[1] comes *The Great Reset*. As we move through this health crisis, it's clear the coronavirus (COVID-19) has recalibrated consumer and business behavior. Some changes we expect will be temporary, owing to the restrictions of mobility or consumer coping mechanisms such as panic-buying. Other changes, however, will lead to structural shifts. While this pandemic was a major shock, the effect across sectors has been divergent, and each road to normalization will vary. We expect the economic recovery to gain momentum over the second half of this year and into 2021, with pent-up consumer demand shaping the contours for the New Frontier (Exhibit 1). The post-coronavirus shift and resulting shakeout in consumer behavior is what we've dubbed *The Great Reset*. While the list is not all-encompassing, we've looked at the shape of the industries that are most central to consumer behavior. The Great Reset further supports our view that operating leverage in the corporate space mixed with accommodative fiscal and monetary policies lead to reflation over a longer than expected time frame. On an asset allocation basis, this combination tends to provide a tailwind to Equities relative to Fixed Income and a more diversified exposure to core Growth and Value, and more cyclical areas within Equities. Therefore, we maintain our tactical and strategic overweight to Equities as the Great Reset unfolds further.

Exhibit 1: A "Square Root" Type Recovery Makes Way for The Great Reset



E=Estimate. Source: Chief Investment Office as of 2020. **Past performance is no guarantee of future results.** For illustrative purposes only. CIO views are subject to change.

[1] See CIO Investment Insights: The Great Separation, April 2020; The Great Acceleration, May 2020; The Great Convergence, May 2020; The Great Clash, June 2020; The Great Consolidation. July 2020; The Great Rivalry, August 2020.

In the U.S. Consumer We Trust

As goes the U.S. consumer, so goes the U.S. economy. Long the foundation of the economy, U.S. personal consumption expenditures totaled more than $14.5 trillion in 2019 according to the Bureau of Economic Analysis, an amount greater than aggregate consumer spending in China, Japan, Germany, the United Kingdom and India combined. American consumers are considered leaders when it comes to spending (and racking up debt on autos, houses, credit cards and student loans), so when spending collapsed in the second quarter of this year—by 34.6%—the broader U.S. economy crumbled. Real gross domestic product (GDP) in the U.S. fell 5.0% in the first quarter followed by a record decline of 32.9% in the second quarter (quarter-over-quarter SAAR, according to U.S. Bureau of Economic Analysis, capturing a full quarter's extent of the coronavirus pandemic and business shutdowns. We expect second quarter consumer spending put the worst behind us in terms of consumption, and we believe spending will likely snap back by 20% in the third quarter, begin normalizing into the fourth quarter and 2021. We've long been of the belief that the employment picture and progress on vaccinations and treatment will heavily influence both consumer behavior and the shape of the recovery.

The sooner the U.S. consumer recovers is not only good for the U.S. but also the world, in that the U.S. consumer, while less than 5% of world population, nevertheless accounts for 29% of world consumption according to the United Nations. That said, a savings rate of 19%,[2] the pent-up demand cycle, and government aid are all supportive factors; however, a great deal remains in flux.

The Great Reset outlines how we will work, live, and play post-coronavirus, giving way to the consumption-led recovery we expect for the U.S. The new innovation cycle born from the pandemic has the potential to add to overall productivity. Business-model resiliency is gathering pace, and operating leverage is growing in areas able to accelerate new efficiencies learned during the various stages of the pandemic.

PART I: WORK

An abrupt yet extended transition to the work-from-home posture has many employees wondering if they'll ever work-from-work again. It's our base case that the economic recovery following the coronvirus recession will likely chart an uneven path, especially given the economic effect on the services sectors that employ a large percentage of low-income workers.

The Future of Work

Even as the economy moves to reopen, a number of questions remain: Will all workers return to their jobs? Will consumers pull back spending in certain areas? What will happen to the labor that supports vulnerable industries? As the pandemic-induced economic shutdown hampered demand, employment suffered a major hit, with job losses and an unemployment rate reaching a record high of 14.7% in April and coming down to 10.2% by July's measure from the Bureau of Labor Statistics. Now, with the economy starting to emerge from the crisis, recent data showed a meaningful increase in nonfarm payrolls in June and July, signaling the initial stage of a labor market recovery. These encouraging gains, however, are not necessarily indicative of the labor market gains for the remainder of the year. So much so that the Congressional Budget Office projects that, by the end of the fourth quarter, 17 million fewer people will be employed than in the fourth quarter of 2019, with 4.4 million people a result of a reduction in the size of the labor force and the remaining 12.6 million a reflection of reduced operations and permanent business closings.

INVESTMENT IMPLICATIONS

To summarize our key investment implications relative to the rest of the world, the U.S. remains our favored equity region given our preference for strong consumer brands with attractive balance sheets and exposure to secular cash flow streams (robotics, cloud migration, Information Technology (IT) infrastructure security, contactless payments/e-Wallets, at-home fitness, eSports etc.). More broadly, benefiting sectors for equities include communication services, technology, consumer discretionary and healthcare, driving the renewed equity culture we expect from these trends and themes. As the consumer resets, capital will find new homes.

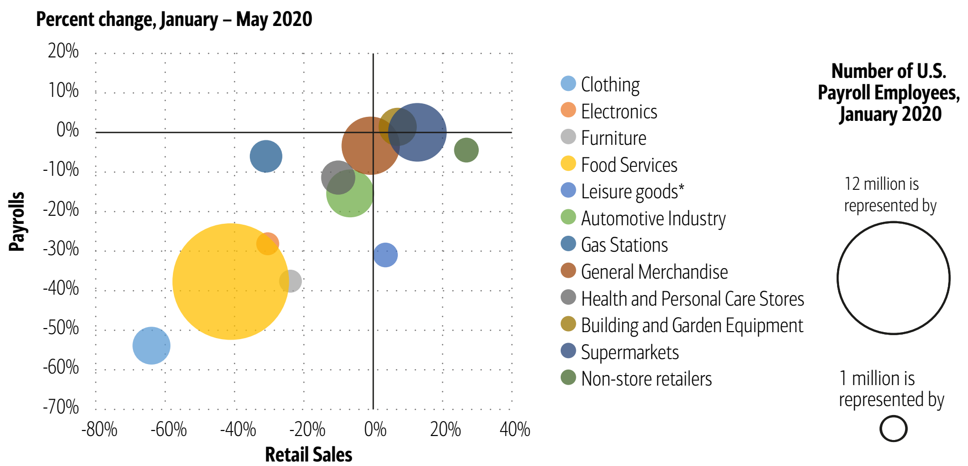
"From remote teamwork and learning to sales and customer service to critical cloud infrastructure and security, we are working alongside customers every day to help them stay open for business in a world of remote everything."

— Satya Nadella, CEO of Microsoft (April 29, 2020)

[2] U.S. Bureau of Economic Analysis, data for the month of June 2020.

Recessions generally lead to leaner firms as companies reevaluate their workforce in the wake of an uncertain earnings path. Jobs could face major disruption in the near-term, with consumers and businesses more focused on the integration of technology. Even the areas that experienced sales growth in pandemic-times saw some job losses (Exhibit 2), like supermarkets or non-store retailers, while restaurants and clothing stores saw large job and sales losses.

Exhibit 2: Job Losses Seen Even Among Pandemic-Beneficiaries



* Sporting goods, hobby, musical instruments, bookstores. **Size of each marker represents the number of payroll employees as of January 2020. Sources: U.S. Census Bureau; Bureau of Labor Statistics, The Economist. Data of as of June 2020.

Companies in these vulnerable industries have laid off a large percentage of their employees, a population of workers that tend to be less equipped to withstand income volatility. With a certain population of workers set to be permanently displaced, it magnifies the need to reskill or upskill the labor force.

A Digital Workforce

An abrupt transition to the work-from-home posture enabled continuity during the shutdowns and will likely prove to be more permanent for some businesses with continued health and safety challenges ahead. Recent corporate announcements have suggested this could be the case for not only the remainder of 2020 but well into 2021 and beyond. A study done by the National Bureau of Economic Research estimates that 31% of workers employed in early March had transitioned to telework by the first week in April.[3] Even after social distancing measures are lifted, telecommuting may afford companies an opportunity to save on overhead costs and increase worker productivity with shorter commutes and greater tech adoption. Workers have even signaled a preference to work remotely, with an IBM study finding 75% of adults interested in continuing to work remotely some of the time and 54% with a preference for their position to be fully remote.[4]

"Even before COVID, we had a long-term goal of enabling more remote work since the ability to feel present even when you're remote is a core aspect of our own product work on video presence, Workplace, and virtual and augmented reality... I expect that up to 50% of our employees will be remote long-term, within the next 5 to 10 years. This will enable us to attract and retain broader pools of talent regardless of where they live."

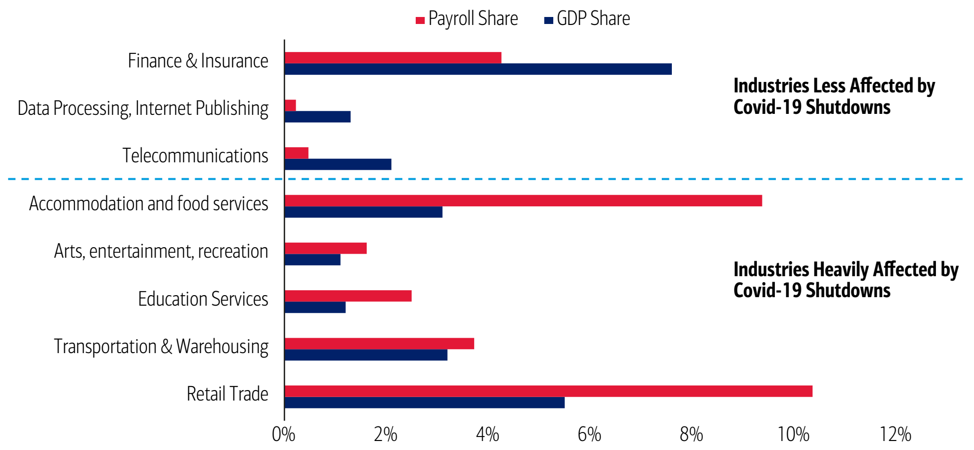
— Mark Zuckerberg, Founder and CEO of Facebook, (July 30, 2020).

While the number of people receiving unemployment benefits still sits over 16 million according to the Department of Labor, a level that cannot be ignored, the coronavirus pandemic has hurt industries that represent the greatest share of the labor market, such as retail, transportation and warehousing, and education services (Exhibit 3). Industries less affected by coronavirus shutdowns, such as finance and insurance or data processing, were more easily brought online through alternative locations. Our expectation over time is that the labor market will likely head toward a "new normal" characterized by more remote, higher-skilled work, which in turn should support a stronger future consumer.

[3] Brynjolfsson, Erik, et al. "COVID-19 and Remote Work: An Early Look at U.S. Data." National Bureau of Economic Research. June 2020.

[4] IBM, "COVID-19 is Significantly Altering U.S. Consumer Behavior and Plans Post-Crisis", May 1, 2020.

Exhibit 3: Industries Hit Hardest by Coronavirus Shutdowns Represent a Disproportionate Share of the U.S. Labor Market



Sources: Bureau of Economic Analysis; Bureau of Labor Statistics. Data as of June 2020.

A more remote workforce is a swing factor and brings additional pressure not felt before by cities and metropolitan areas, which have proven their resiliency in the past in recovering from various infectious diseases, the great financial crisis, and terrorist attacks. The ability to teleconference and proven work-from-home models, on top of fears of density and transit systems, may drive some city residents to more rural environments, trading skyscrapers for backyards over the fears of urban proximity and health risks posed. We expect work-from-home initiatives to continue post-coronavirus, accelerating many other secular shifts such as cloud migration and cloud-based security, team messaging platforms (internal workplace communications), and performance monitoring markets.

While IT budgets could be constrained over the near-term, we believe spending should increase for major security segments including network, endpoints, and identity management as the amount of data creation grows along with enterprise security for employees across devices and off-premises.

PART II: LIVE

With the housing market typically accounting for between 15% and 18% of the U.S. economy according to the National Association of Home Builders, and with autos a significant indicator of consumer sentiment and demand, we look to these sectors for guidance on the shape of the consumption-led recovery.

Housing and Autos: Betting on Structural Factors

It's true the coronavirus has influenced the housing sector over the immediate-term, given risk aversion of densely populated areas. Note the 420,000 New Yorkers who fled the city between March and May, and another 137,000 who forwarded their mail to addresses outside the city in March and April, making it possible the city's population could have decreased by 4%–5%.[5] It's also true, however, that the shifts underway pre-pandemic will move the residential housing market in the coming years. The most influential dynamics in housing pivot on the ultra-low interest rates, demographic shifts, and the already declining metropolitan growth rates, now to be exacerbated by the pandemic. It is difficult to estimate the long-term extent of this reverse-urbanization exodus, with coronavirus shock leading to a preference away from densely populated areas. Nonetheless, the pent-up demand stage will help prop up the housing market, as evidenced by the strong indicators already seen in July housing data, consistent with robust growth in mortgage applications, recovering sentiment for home purchases, and the sharp rebound in the National Association of Home Builders housing foot traffic component.

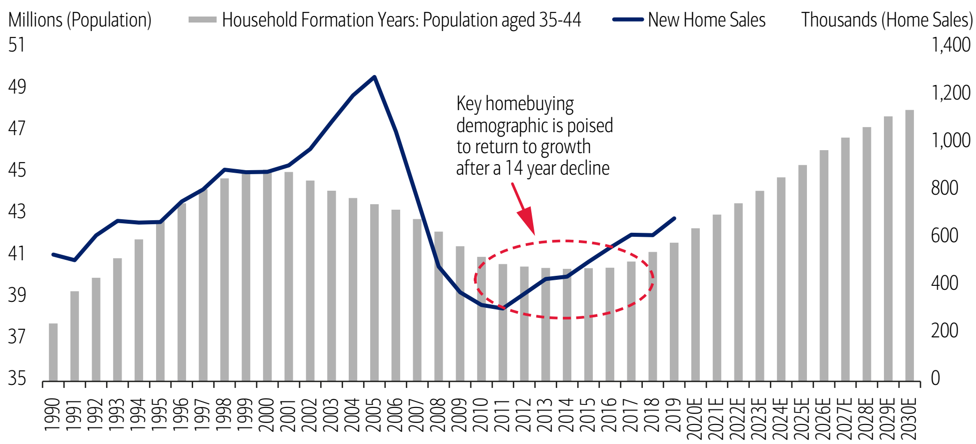
"Homes sold nationwide in April, May and June at an annualized rate of 15 million, according to seasonally-adjusted data released last week by the Commerce Department and National Association of Realtors. Meanwhile, 12.6 million renters say they were unable to pay rent last month, according to the latest Household Pulse survey from the U.S. Census."

— The Washington Post, '2020 is the summer of booming home sales—and evictions', (July 28, 2020).

[5] The New York Times, "The Richest Neighborhoods Emptied Out Most as Coronavirus Hit New York City", May 15, 2020.

A few demographically significant shifts are under way for the housing market. With current low interest rates aiding affordability, our expectation is that the cohort aged 35-44 (prime household formation years) and numbering 42 million remains intact and is supported by the de-urbanization narrative (Exhibit 4). Over the more immediate-term, BofA Global Research estimates housing activity will stage a recovery forecasting 1.22 million starts, 5.0 million existing sales, and 690,000 new sales in 2020 and ultimately reaching pre-coronavirus levels by late 2021.

Exhibit 4: A Key Home Buying Demographic Shift is Under Way



Sources: Census Bureau, BofA Global Research, Haver Analytics. Data as of June 2020. E=estimate.

An impairment remains to the Millennials[6] home buying narrative: Millennials' share of household wealth remains low, just 3% of household wealth. Millennials have the lowest median net worth for adults younger than 35 in every pre-crisis period dating back to 1989.[7] Comparatively, in the 1990's, Baby Boomers entered their 30s holding 21% of U.S. household wealth.[8] An important transition for the housing market as Baby Boomers age into their 70s and 80s, over the next two decades, they are expected to vacate roughly 21 million homes. That's one-quarter of the U.S. for-sale housing stock returning to the market.[9]

And while Americans who have savings, a job and good credit take advantage of the cheapest mortgage rates on record, on the flip side, the worst downturn since the 1929 Great Depression has hit low-income workers—who are typically renters—the hardest. The majority, or 60%, of renter households have had at least one person in the home suffer a pay cut or, worse, lose a job, versus 45% of homeowner households—setting up the labor market and housing market for an uneven recovery.[10]

Autos: Consumer demand set to overdrive?

Riding on the de-urbanization trend, we believe suburbanites could create a demand spike in the need for new or used cars as people rely less on public transportation in more rural areas and prefer to drive their own vehicle. BofA Global Research forecasts around 14.4 million 2020 Seasonally Adjusted Annual Rate (SAAR) compared to last year's 16.9 million. This recovery is in the works as U.S. vehicle sales dropped 33% in March and hit a decade low in April, recording only 8.7 million units sold and a decline of 48% Year-over-Year (YoY). Following these large declines, however, demand has rebounded faster than expected. Total sales in May rose to 12.4 million units, down

"We recognized the current environment has accelerated the shift in consumer buying behavior. Customers are seeking safety, personalization and convenience now more than ever in how they shop for and buy a vehicle... And the current environment creates a unique opportunity for us to accelerate our omni-channel experience and other digitally driven investments."

— William Nash, President & CEO, CarMax, (June 19, 2020).

[6] (As a note: The youngest Millennials are 24 and oldest are 39, while the average is age 31.)
[7] Bloomberg. "Millennials could be ready to save the economy." September 2019.
[8] Financial Times, "The generation scarred by two recessions", July 9, 2020.
[9] Wall Street Journal, *Ok Boomer, Who's Going to Buy Your 21 Million Homes?*, November 23, 2019.
[10] Census survey data from July 9-14, 2020.

30% YoY, and June and July data showed continued improvement of 13.1 million and 14.5 million respectively, according to WARD's Automotive Group. Behind the rapid recovery in sales could be a strengthening consumer, supported by low interest rates and incentivized by dealer offers, but also could be the first sign of consumers tapping into pent-up, deferred demand following months of sheltering at home. With a renewed focus on health, hygiene and solidarity, spending on bicycles in the U.S. increased 55% YoY in April and doubled in May with continued momentum into June.[11] Ultimately, the sustainability of these trends depends on continued economic recovery and whether pandemic-related behavior changes hold, like alternatives to public transportation, or favoring auto travel over air and cruise vacations. If this behavioral shift plays out, the rebound in personal auto and bicycle sales could continue.

These signs point to a fiscally-cushioned, cooped-up consumer in search of travel alternatives to flying, training or cruising. The auto industry, and eventually electric vehicles, may benefit from shifts in behaviors caused by the pandemic. And it seems plausible that with more consumers buying homes, a car may be an accessory to city-life to the 'burbs.

E-Commerce: The Only Game in Town

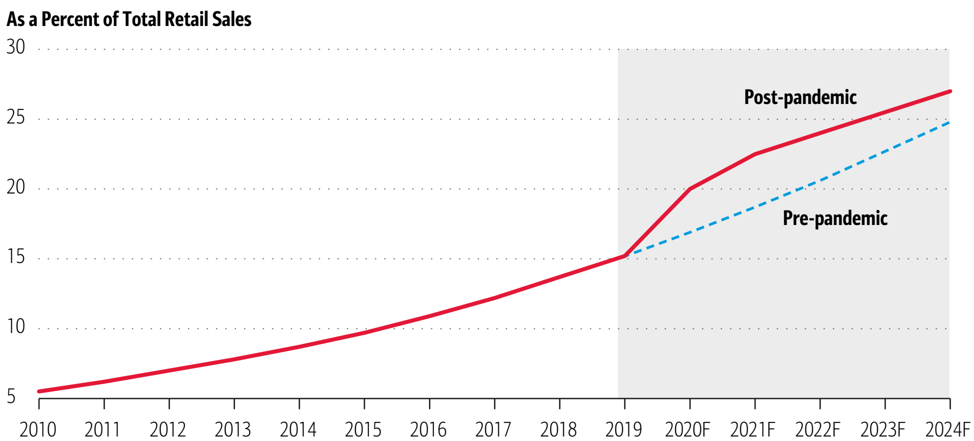
2020 has been an inflection year for online retail. E-Commerce proved to be the saving grace for both pandemic-battered retailers and the stay-at-home consumer economy. Euromonitor research estimates that for full year 2020 overall, retail sales in the U.S. is likely to fall 4% to $3.2 trillion, while e-Commerce sales should grow 20% YoY to $615 billion, illustrative of the bifurcation in on- and off-line spending. When coronavirus hit, e-Commerce became the only game in town, pulling forward years of online retail growth as a share of total retail. Although buying online was a well-entrenched behavior, according to Adobe Analytics, consumer spending exceeded non-pandemic expectations by nearly $52 billion, a level trending above the expected holiday season.

"As shelter-in-place orders were rolled out across the country in mid to late March, we saw our digital businesses accelerate from approximately 30% growth in early March to triple-digit growth by the end of April. In fact, daily traffic to homedepot.com reached new records towards the end of the quarter. During the last three weeks of the quarter, traffic to homedepot.com was consistently above Black Friday levels. And as a result of our continued investment in our digital infrastructure and with the great work of our technology teams, we provided continuous service to our customers, and our conversion rate continued to increase."

— Edward Decker, Executive Vice-President Merchandising, Home Depot, (May 19, 2020).

Keeping with the monthly trends, March was categorized by panic buying, while into April essentials and home items were all the rage, with underpenetrated categories increasing adoption online (think grocery). In April, while clothing sales fell 79%, the largest decline since records began, tracksuits and sweatpants sales were up 70% and 80% respectively. By May and into early June, YoY spending had converged to pre-coronavirus levels, an important inflection point, but the question remains—will some online behavior categorically and demographically prove sticky on the "other side"? As mobility increases, we expect consumers may resume in-store shopping, and the share of retail e-Commerce sales may give back some share growth normalizing at these levels in the coming years (Exhibit 5).

Exhibit 5: U.S. e-Commerce Sales Reset



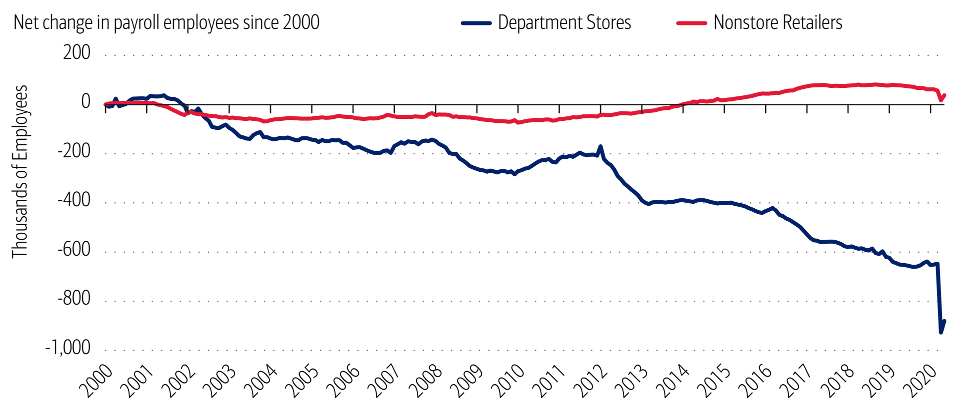
2020F-2024F are forecasts. Sources: Euromonitor, Prologis Research. Data as of June 2020.

Another important dynamic for retailers is the accelerated pace of store closings, reorganizations, and bankruptcies over the immediate-term is likely for retailers bearing the brunt of this digital disruption. According to CoreSight Research, more than 10,000

[11] BofA Global Research, Bicycle Primer, June 29, 2020.

closures were announced in 2019, double the 2018 rate.[12] U.S. retailers could announce between 20,000 and 25,000 closures this year, of which an estimated 55% are situated in America's malls. Expanding on the technology disruption seen in the retail sector and in reference to changing labor market dynamics, department stores have seen significant job losses since 2000 (Exhibit 6).

Exhibit 6: Tech Disruption in Retail: Nonstore Surprisingly Gains



Source: Bureau of Labor Statistics. Data as of June 2020.

But as industries evolve, more investment in technology should help increase productivity and help to boost profit margins, which will allow companies to further invest and support broader job growth. These labor trends, however, will play out over a long period of time. As the duration and number of the shut downs remain uncertain, resilient companies so far have been those with strong digital platforms and also those with increased optionality around buying online or picking up in-store. A knock-on effect given ease of use, the pandemic will serve as a tailwind for the digital payments space, including digital wallets and contactless payments.

PART III: PLAY

2020 will shape up as a tough year for the media and entertainment industry with the derailed sports, closing theaters and theme parks, and canceled theatrical performances and postponed travel. As much as we say it's science and technology that will get us through this pandemic and onto the other side, it's been media and entertainment that got us through the stay-at-home period.

Media and entertainment: Stay Home and Chill

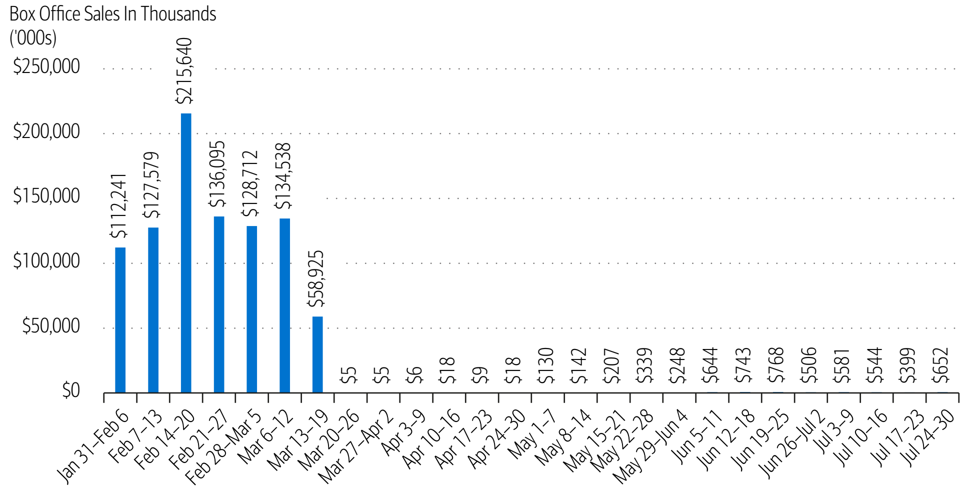
The significant changes to media consumption since shelter-in-place orders were implemented has shifted how and where people consume entertainment. Services for streamed, on-demand and virtually-interactive content has increased amid new limits placed on traditional and in-person entertainment forms. Theme parks have closed, live events have been canceled, and major league and college sports have been suspended for now. Movie-going has also halted, with box office sales across the U.S. dropping 95% since the first week of March (Exhibit 7),[13] and production of television and films temporarily stalled. A long backlog of feature films may be another area content delivery services may tap into if theaters reopen later than expected, potentially broadening the direct-to-consumer film release trend. In recent news: The exclusivity period for theatrical debut is shortening from a window of three months to as little as 17 days.

"We've already seen this with the younger generation of consumers where gaming is more an integrated part of their social and entertainment fabric, and times like these will make that activity, we believe, even more mainstream. We're obviously trying to lean into this and welcome as many players into our ecosystem as possible, and bring more gamers into our communities and give them a compelling experience that hopefully turns them into long-term fans."

— Dennis Durkin, CFO & President, Activision Blizzard, (May 5, 2020).

[12] Barron's, "The Pandemic is Forcing Retailers to Do What They Should Have Done Long Ago", June 11, 2020.
[13] Strategas—Daily Research Summary and Reports for June 25, 2020.

Exhibit 7: No Movie-Goers: Weekly Domestic Box Office Sales



Source: Internet Movie Database (IMDb). Data as of July 2020.

Video streaming via content delivery services has benefitted, with streaming and web video consumption up 35% since the onset of the shutdowns according to Comcast. Weekly watch-time increased by eight additional hours since the beginning of March, from 57 to 66 hours a week.[14] Investment in premium content should rise, as the value for quality television increases amid depressed supply of new content.[15] Content creation will likely face many challenges ahead with new pandemic-related safety and labor protocols needed but less availability of capital.

Subscription services rolled out by most major media houses should continue to be prioritized, especially as more Gen Z and Millennials are consuming significantly more online content than Gen X and Baby Boomers. Ultimately, as consumers remain confined to their homes, digital media consumption will steal time away from non-digital services. Elsewhere in entertainment but related, media conglomerates will suffer hugely from the lost profits of theme park closures until social-distancing guidelines are lifted, limiting theme-park capacity significantly.

Major sports leagues face challenges with plans to restart play, which would provide content relief for sports networks (and enthusiasts). The eSports industry was already on the rise prior to the pandemic, but has gained in popularity as an alternative to live sporting experiences. At-home fitness also benefited from the accelerated shift away from traditional gyms amid transmission concerns of enclosed, communal spaces. Even the most loyal gym-goers opted for at-home workout apps and equipment, sending the subscription base of Peloton users to 886,100, a doubling in its most recent quarter.[16]

Travel: A Flighty Customer

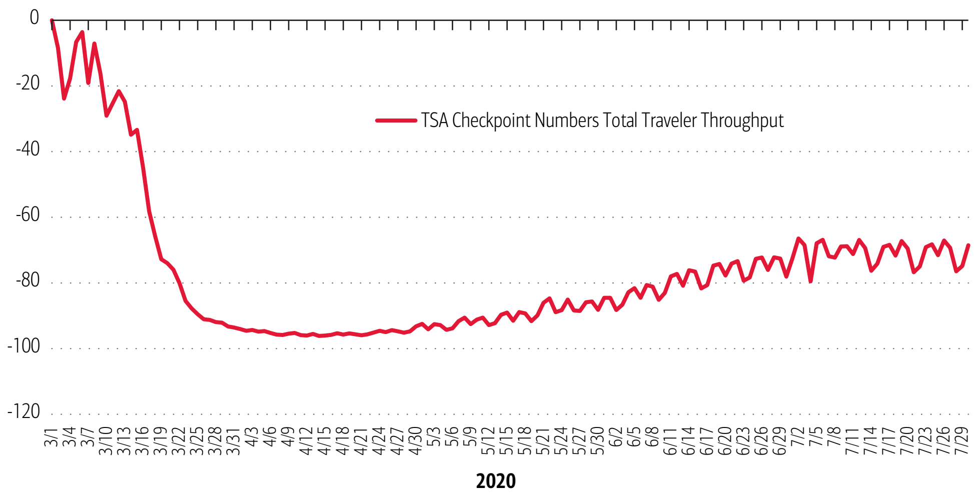
It's safe to say that few industries have been as disrupted by the virus as the travel industry. By April 2020, almost 60% of the global fleet was grounded and capacity was down more than 70% YoY. As measured by Transportation Security Administration (TSA) throughput, travel demand remains at extremely depressed levels. To illustrate, as of the middle of July, passenger traffic was around 70% of the early-March rate (Exhibit 8). Demand fell from 2.2 million passengers on March 1 to a low of 87,534 on April 14, and now to an average of 662,000 in the most recent week's data.[17]

"Companies are not going to have their top 500 salespeople [fly] in at the end of the year for a big party and a celebration until we're past the pandemic and there's a widely available vaccine. So, you add all of that up, I think we're going to be on a gradual trajectory from today's level of demand up to 50%, where we'll plateau. And then, I think there'll be a rapid recovery once we get to kind of a widespread vaccine."

— J. Scott Kirby, CEO, United Airlines (July 22, 2020).

[14] Comcast, "COVID-19 TV Habits Suggest the Days are Blurring Together." May 2020.
[15] BofA Global Research, "Media & Entertainment: Back in Business." June 17, 2020.
[16] Wall Street Journal, *Peloton Rides a Coronavirus Surge*, May 6, 2020.
[17] Average of passenger data July 23, 2020 - July 29, 2020.

Exhibit 8: An Unwanted Travel Companion: Coronavirus Empties Airports



Indexed to March 1, 2020. Sources: Bloomberg, TSA. Data as of July 31, 2020.

As highlighted by Trivago data, Americans' appetite for travel remains strongly correlated with coronavirus case numbers. An obvious linkage given health considerations clearly at the fore, changes are already afloat for many U.S. airlines. We expect a new industry standard among safety, health and hygiene measures necessary to restore confidence for passengers, such as temperature checks, frequent plane disinfecting, mandated masks onboard, and reduced capacity in observance of distancing, etc.

Greatest at stake for airlines is the business travel segment of passengers, making up 60% to 70% of industry sales according to estimates by the trade group Airlines for America. Half the respondents in a survey of Fortune 500 CEOs said business trips at their companies would never return to what they were before the coronavirus. Indicative of this trend is the reversal in combined market capitalization fortunes of the six largest U.S. airlines,[18] now equaling less than the single market cap of Zoom Communications, the video conferencing platform. With these changes afoot, the industry faces an extended recovery from a demand bottom in mid-April, led by domestic leisure and other regional traffic sooner than international and business travel. This widening divergence is already apparent, especially in the absence of the usual post-Labor Day demand for business travel in bookings. An adjacent industry hinges on the same demand recovery story: Corporate bookings for hotel rooms, a segment especially profitable for mid-week travel.

With travel as a bellwether for the experiential sector, these industries are most at-risk of facing sustained pressure over an extended period of time. The real recovery gathers steam once there are material improvements on the health front, which leads us to forecast a multi-year recovery for demand to return to levels seen pre-pandemic. Some estimates suggest it's unlikely the sector will recover to pre-crisis levels until 2023 or later.[20] It'll be a turbulent recovery for the aviation industry in the months and years to come.

Underscoring the depth of the crisis and the losses for the domestic airlines industry (totaling $23 billion this year),[19] consolidations in an already concentrated industry could occur, especially if Federal aid runs out and if the sector continues to display significant weakness. (For more on the matter, see *The Great Consolidation*, July 2020.)

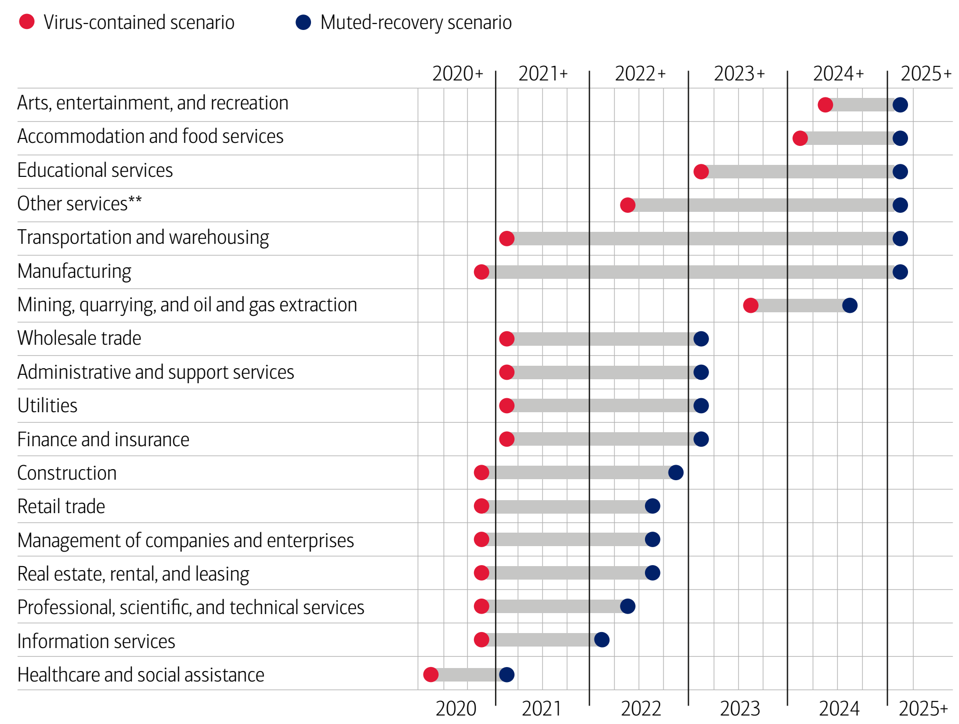
Exhibit 9 shows the time to recover for various sectors, with the worst-case scenario suggesting the recovery for most sectors could take three or more years to get back to thier 2019 level of GDP contribution. In either scenario, McKinsey & Company shows the longest recoveries for manufacturing, food services, and arts, entertainment and recreation sectors, out to 2025 for the worst-case scenario. In a contained scenario, healthcare, construction, and real estate face the quickest recoveries.

[18] Six largest U.S. airlines = American Airlines, Delta, Southwest, United, Alaska, JetBlue.

[19] Wall Street Journal, "Delta Curbs Plans to Add Flights As It Records a $5.7 Billion Loss", July 15, 2020.

[20] McKinsey & Company, "Coronavirus: Airlines brace for severe turbulence", June 2020.

Exhibit 9: Estimated Time to Recover to Pre-coronavirus Sector GDP*



* Data as of June 15, 2020. ** Excluding public administration. + Estimates
Source: Oxford Economics; McKinsey analysis, McKinsey Global Institute analysis.

As younger generations take up a larger share of spending power, more socially conscious trends could unfold, including greater brand accountability and loyalty. Especially in the aftermath of the pandemic, consumers may evaluate how companies respond and support their workers through a crisis, in addition to how well they align with their values socially, environmentally and politically. There will be a greater focus on health, renewable energy, clean water and sanitation, and other industries supporting a more sustainable future. It's our belief that companies with stronger environmental, social and governance (ESG) factors and records tend to be stronger financially. Along these lines, promising sectors for equities include communication services, technology, consumer discretionary and healthcare, driving the renewed equity culture we expect from these trends and themes.

On the path to the Great Frontier, we expect various tailwinds and headwinds to present themselves as outlined in the below table (Exhibit 10). All in all, as the consumer resets, capital will find new homes.

Exhibit 10: The Great Reset Beneficiaries and Challenged categories

		Beneficiaries	Challenged
WORK	Labor Market Work from Home	Telco service providers, communication services, cybersecurity, tech hardware, cloud migration, casual wear.	Commuter demand, municipal budgets, business wear, commercial and multifamily real estate, small businesses.
LIVE	Housing Automobiles E-Commerce	Homebuilders/home improvement, Do-It-Yourself, paper & packaging waste, residential mortgage demands, multichannel retailers, ESG factors.	Pressure on housing supply, public transportation, physical retail, foreign brands.
PLAY	Entertainment Travel	Streaming services, "cord cutters", eSports, Augmented /Virtual Reality, staycations.	Old media, business travel/long-haul travel, hotels, luxury goods.

Source: Chief Investment Office. Data as of August 2020.

INVESTMENT IMPLICATIONS

The foundation for the great consumer reset is evolving and will develop as economic reopenings stabilize, in turn, unleashing the pent-up demand phase. The transformation in how consumers work, live and play means more technology will be needed to support new workplaces, from automation and robotics to artificial intelligence, and it also means more digital experiences, from shopping online to consuming entertainment. Further, the pandemic's influence will drive a rebound in sectors such as housing and autos, as a demographic shift of the last few years was already under way. Evident in manufacturing, housing, and even autos, the trend is turning up to varying degrees. Above all else, healthcare trends will gauge the direction of consumer and business confidence.

Given recent data around the consumer, spending has improved relative to late March and April, bolstered by the unprecedented government stimulus and central bank liquidity programs. As detailed, we see 2021 as a pent-up-demand year, where consumer spending will give way to a wavy economic recovery and help the profit cycle normalize sometime in 2022. And this is a key area the market will be watching next year—when earnings stage a recovery. Earnings and profitability will ultimately be what matter most. What remains clear is that consumers are on the path to rebuilding and should prove their resiliency along the way. And because of that resiliency and expected improvement of consumption/demand supportive of company earnings, on a strategic and tactical basis, we favor Equities relative to Fixed Income overall, U.S. equities over the rest of the world, disruptive innovation companies and core multinationals relative to defensive utilities and lower quality balance sheets, and we still prefer Credit within Fixed Income.

Important Disclosures

The Chief Investment Office (CIO) provides thought leadership on wealth management, investment strategy and global markets; portfolio management solutions; due diligence; and solutions oversight and data analytics. CIO viewpoints are developed for Bank of America Private Bank, a division of Bank of America, N.A., ("Bank of America") and Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S" or "Merrill"), a registered broker-dealer, registered investment adviser and a wholly owned subsidiary of BofA Corp. This information should not be construed as investment advice and is subject to change. It is provided for informational purposes only and is not intended to be either a specific offer by Bank of America, Merrill or any affiliate to sell or provide, or a specific invitation for a consumer to apply for, any particular retail financial product or service that may be available.

Bank of America, Merrill, their affiliates, and advisors do not provide legal, tax, or accounting advice. Clients should consult their legal and/or tax advisors before making any financial decisions.

Investing involves risk, including the possible loss of principal. Past performance is no guarantee of future results.

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.

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. 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.

Impact investing and/or Environmental, Social and Governance (ESG) managers may take into consideration factors beyond traditional financial information to select securities, which could result in relative investment performance deviating from other strategies or broad market benchmarks, depending on whether such sectors or investments are in or out of favor in the market. Further, ESG strategies may rely on certain values based criteria to eliminate exposures found in similar strategies or broad market benchmarks, which could also result in relative investment performance deviating.