BANK OF AMERICA

CHIEF INVESTMENT OFFICE

Investment Strategy Overview — Executive Summary

From The Great Separation To The Reset Period

July 2022

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

As we have been discussing for most of the first half of 2022, we are in a period we define as *The Reset*. This period is one in which asset markets are repricing in the midst of challenging economic trends, and a new macro regime of above-average inflation and much tighter global central banks.

High volatility in money supply (extreme growth in 2020-2021 to fund a large deficit which financed the pandemic recovery to a major balance sheet contraction which forces money growth to go negative) is causing significant variances in economic trends, which could eventually bring inflation down sharply. However, the average rate should still be well above the Federal Reserve's (Fed) long term average target rate of 2%.

This dynamic mixed with a strong dollar, a potential additional inversion of the yield curve if growth stalls too much, and an extended crisis in Ukraine could cause financial stress in Europe. This is likely when the Fed fully backs off of a tight monetary policy. Trying to time all of this is an unsuccessful endeavor in our view. Therefore, investors should consider raising portfolio diversification with a more defensive posture until the tighter money policy is paused.

We believe we are in the third stage (see side bar on the Chief Investment Office's (CIO) *Five Stages of The Reset Period*) of a cyclical bear market period in which earnings are guided lower from lofty expectations. This is likely to take place in the next few quarters before stability resumes later in 2023. We expect frequent rallies and selloffs in the coming months. Recession risks have risen, and growth is visibly slowing, particularly in housing, but the broad economy is still showing some resiliency primarily due to the built-up excess savings across the consumer and corporate landscape. Rising input costs, higher wage costs and, ultimately, slower growth as energy prices remain high and rates increase should ultimately pressure corporate margins prior to year-end. However, we do not expect significant earnings declines like prior "recessionary" cycles produced. Some inflation measures are coming down, and others remain sticky. This dichotomy is likely to last into 2023, but, eventually, the year-over-year comparisons should improve and help turn consumer prices down.

To put this story line together, we expect corporate margins to show some signs of pressure and earnings to be guided lower relative to current consensus forecasts in the near term. At the same time, the Fed is expected to remain vigilant on breaking the

"We expect frequent rallies and sell-offs in the coming months. Investors should consider raising portfolio diversification with a more defensive posture until the tighter money policy is paused."

Christopher Hyzy
Chief Investment Officer

Listen to the audio cast

CIO's FIVE STAGES OF THE RESET PERIOD

One: An initial move off the highs with a big rally in the equity markets that ultimately fades.

Two: Conditions tighten.

Three: Financial conditions tighten further as central banks raise rates and/or contract the balance sheet.

Four: Economic data is weak but begins to stabilize.

Five: A new market cycle is firmly established which converges back into the long-term secular bull market trend.

back of inflation. Lastly, the very strong U.S. dollar and extended crisis in Ukraine should continue to add to the complexity. This creates, in our view, an environment that can produce, potentially, four macro scenarios (bull, base, angry bear, grizzly bear) in the next 12 months. From our perspective:

Scenario one (an approximate 10% possibility outcome) represents the "bull case" in which the economy stabilizes prior to year-end, inflation turns lower across the board, the Fed engineers a soft landing, and earnings growth remains positive.

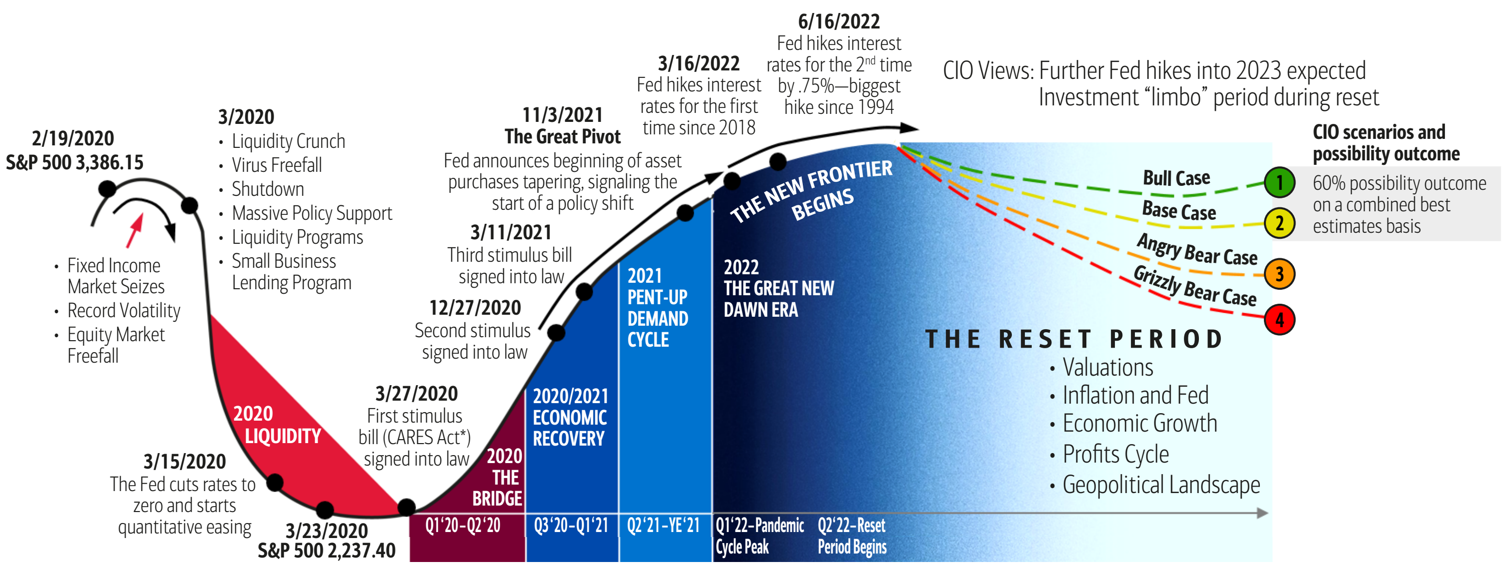
Scenario two (an approximate 50% possibility outcome)—our "base case"—is that this "limbo" period does not lead to an economic hard landing in the U.S. but rather a profits and interest rates reset. A reset from the most recent cycles of low inflation, record low rates, excessive liquidity, narrow corporate spreads, and a historically low cost of capital overall. In order to slow down aggregate demand and bring inflation back in check, tighter monetary policy would need to be in place for the foreseeable future. A tighter monetary policy mixed with no additional fiscal stimulus is designed to bring down elevated demand, which should ultimately lead to a better balance with supply. However, this takes time and, in some cases, requires putting on the brakes aggressively. This is the juxtaposition we are in for a variety of reasons. Earnings growth in this scenario is likely to deteriorate some but not as much as prior recession-like cycles. Here the Fed pauses once inflation gets to acceptable levels, earnings stability occurs, and the long-term bull market is back on track as growth picks back up.

Scenario three—an "angry bear case"—(about a 20% possibility outcome) includes a larger earnings decline than scenario two, a deeper stagflationary environment, a Fed policy that ultimately goes too far, and equity valuation taking another leg lower. In this case, investors would likely watch for some sort of financial instability to present itself similar to the European debt problems in 2012.

Finally, **scenario four** is the full "grizzly bear case" (about a 20% possibility outcome) that includes a sharp economic hard landing that lasts longer than expected and requires new emergency measures by policymakers to foster stability. This scenario contains the sharpest fall in corporate profits, which could match declines from the global financial crisis period. Valuation could also decrease by two notches.

Overall our top first two scenarios represent around a 60% possibility outcome when all is said and done, in our view. To this point, in the next nine to 12 months, we expect an environment of confusing economic and market signals *(The Reset)* but ultimately we expect that once the Fed pauses its tightening campaign, earnings stability will occur and the secular bull market in Equities will resume. As earnings stability is restored, consumer and corporate confidence increases, and inflation settles in at a much lower level than today but still above the Fed's target rate. The new cycle catalyst that emerges, in our opinion, is the "automation revolution." The automation revolution is likely to take over across all sectors of the economy. Companies will need to deploy automation from end to end in order to combat the above-average level of inflation and the lack of long-term labor supply. This should naturally increase productivity and ultimately help bring long-run inflation down to more acceptable levels. We expect this phenomenon to be one of the major themes of the next decade. Productivity-fueled automation, global digitization, healthcare and energy innovation, wealth transfer, and the fact that Gen Y and Gen Z will be heading into their highest income earning years supports a re-ignition of the housing cycle and the broader economy at large. We are bullish on the long-term future for the profit cycle and expect the Equity asset class to produce attractive total returns on average post *The Reset* period.

Exhibit 1: The Great Separation To New Frontier And The Reset Period.



SCENARIO 1 BULL CASE (approximately 10% possibility outcome)	SCENARIO 2 BASE CASE (approximately 50% possibility outcome)	SCENARIO 3 ANGRY BEAR CASE (approximately 20% possibility outcome)	SCENARIO 4 GRIZZLY BEAR CASE (approximately 20% possibility outcome)	NEW CYCLE, NEW POSITIONING ERA BUT SECULAR BULL MARKET REMAINS A NEW CYCLE AND THE RESET PERIOD
• Economy stabilizes prior to year end • Inflation turns lower across the board • Fed engineers a soft landing • Earnings growth for 2023 remains positive • U.S. dollar begins to weaken	• A 'limbo" period that includes a growth "recession" • Earnings and interest rates reset • Liquidity gets tighter • Earnings deteriorate but not as much as prior recession-like period • Fed pauses once inflation gets to more accessible levels • Long-term bull market resumes once earnings stabilize	• Deeper stagflation environment than expected • Fed policy remains overly tight for longer • Earnings decline more than 20% for 2023 • Equity valuation takes another leg lower • Financial instability becomes visible in stressed areas (e.g., Europe)	• Sharp economic hard landing not just deterioration • Fed policy requires new emergency measures • Contains the sharpest fall in earnings for 2023 • Equity valuations turn lower by two or more notches	• Increased portfolio diversification and total return approach • Higher-quality exposure overall • Increased exposure for Alternative Investments** for qualified investors • Increased use of Real Assets • Bonds provide diversification again • Weaker dollar cycle could develop • Non-U.S. assets become more attractive

—— Black line represents the lifecycle of the CIO economic workout process and is not meant to represent any specific investment, index or performance of any kind. *Coronavirus Aid, Relief, and Economic Security Act. ****Many products that pursue Alternative Investment strategies, specifically Private Equity and Hedge Funds, are available only to qualified investors.** Source: CIO. Data as of July 5, 2022. CIO views are subject to change. The economic and market forecasts presented are for informational purposes as of July 5, 2022. Economic or financial forecasts are inherently limited and should not be relied on as indicators of future investment performance. **Please refer to important disclosures at the end of this report.**

In the near term, it is important to be "on guard" while liquidity is being removed and risks to the global economy continue to rise. We believe the most important question out there is not whether there is a recession on the horizon, but, rather, how much earnings ultimately deteriorate because this is what sets up the base from which the next profit cycle builds. Between now and year-end investors are likely to continue to hang on every economic data point in order to determine the extent of the earnings risk. The recent fall in commodity prices and the subtle decline in longer-dated yields are suggesting that a larger slowdown is already afoot. We are not fully convinced at this point. Corporate surveys and employment-trend activity outside of the long-duration growth areas of technology and technology-like areas (or the areas that over hired) are not showcasing a large pending rise in unemployment. Furthermore, although volumes are showing some declines and pricing power is beginning to wane, it is not in large magnitude.

In the end, as we shift from one regime to another, this is a time for a high degree of portfolio diversification, an increase in defensive posture, and to be on watch for developing opportunities as we work through this reset period. Eventually, we see opportunities developing in higher-quality growth areas (levered to automation) as the Value end of the market is more vulnerable to a larger-than-expected slowdown. A diversified mix between both Value and Growth but with a slight tilt to Value makes sense. Additionally, we prefer to increase some defensiveness in Equity sector tilts via increasing Consumer Staples and Utilities and lowering Consumer Discretionary and Materials. In Fixed Income, we see opportunities to extend duration at this time. In addition, the high-yield bonds opportunity set has improved, as yields have increased and spreads have widened. Although we expect further moves higher in yield and the default cycle to pick up, we are on watch for increasing exposure later in the cycle. We believe it is just a little too early in multi-asset portfolios at this time. Similarly, once the Fed signals it is ending the tightening campaign, the U.S. dollar strength should peak, which should open better opportunities in Emerging Markets (EM). For now, we remain neutral in EM and underweight the non-U.S. Developed markets given the strong dollar trend and elevated risks in Europe.

Lastly, in the Alternative Investment space, strategically, we believe Real Assets are in a bull cycle but will likely go through periods of high volatility—particularly Commodities. Our core investment thesis regarding Alternative Investments, for qualified investors, is that diversified exposure across Private Equity, Real Estate, Commodities and Hedge Funds can help dampen portfolio volatility and help compound total returns more consistently over time. Capital allocation should be disciplined, and patient and allocated across multiple disciplines over various vintage years. In the upcoming cycle, we expect better values and new growth opportunities to develop in the areas across a few pockets within the Alternative Investments landscape. Within the universe of Hedge Funds, we continue to favor global macro and equity long/short strategies, though in the latter category, strategies managed with low net exposures are particularly appealing given their lower market-based profiles. In the Private Equity and Real Assets space, we favor traditional buyout as well as core/core-plus Real Estate, though the rapidly shifting market environment may open up new areas of opportunity as we work through the latest pressure.

Important Disclosures

Opinions and market data are current as of July 5, 2022 unless otherwise specified.

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

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.

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.

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 Bank of America Corporation ("BofA Corp.").

The Global Wealth & Investment Management Investment Strategy Committee (GWIM ISC) is responsible for developing and coordinating recommendations for short-term and long-term investment strategy and market views encompassing markets, economic indicators, asset classes and other market-related projections affecting GWIM.

BofA Global Research is research produced by BofA Securities, Inc. ("BofAS") and/or one or more of its affiliates. BofAS is a registered broker-dealer, Member SIPC, and wholly owned subsidiary of Bank of America Corporation.

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

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

Investments have varying degrees of risk. Some of the risks involved with equity securities include the possibility that the value of the stocks may fluctuate in response to events specific to the companies or markets, as well as economic, political or social events in the U.S. or abroad. Investing in fixed-income securities may involve certain risks, including the credit quality of individual issuers, possible prepayments, market or economic developments and yields and share price fluctuations due to changes in interest rates. When interest rates go up, bond prices typically drop, and vice-versa. Bonds are subject to interest rate, inflation and credit risks. Investments in high-yield bonds (sometimes referred to as "junk bonds") offer the potential for high current income and attractive total return, but involves certain risks. Changes in economic conditions or other circumstances may adversely affect a junk bond issuer's ability to make principal and interest payments. Investments in foreign securities (including ADRs) involve special risks, including foreign currency risk and the possibility of substantial volatility due to adverse political, economic or other developments. These risks are magnified for investments made in emerging markets. Investments in a certain industry or sector may pose additional risk due to lack of diversification and sector concentration. There are special risks associated with an investment in commodities, including market price fluctuations, regulatory changes, interest rate changes, credit risk, economic changes and the impact of adverse political or financial factors.

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, 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 appropriate for all investors.