CHIEF INVESTMENT OFFICE

Investment Insights

The Book of Greats: Lessons Learned and the Path Ahead

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

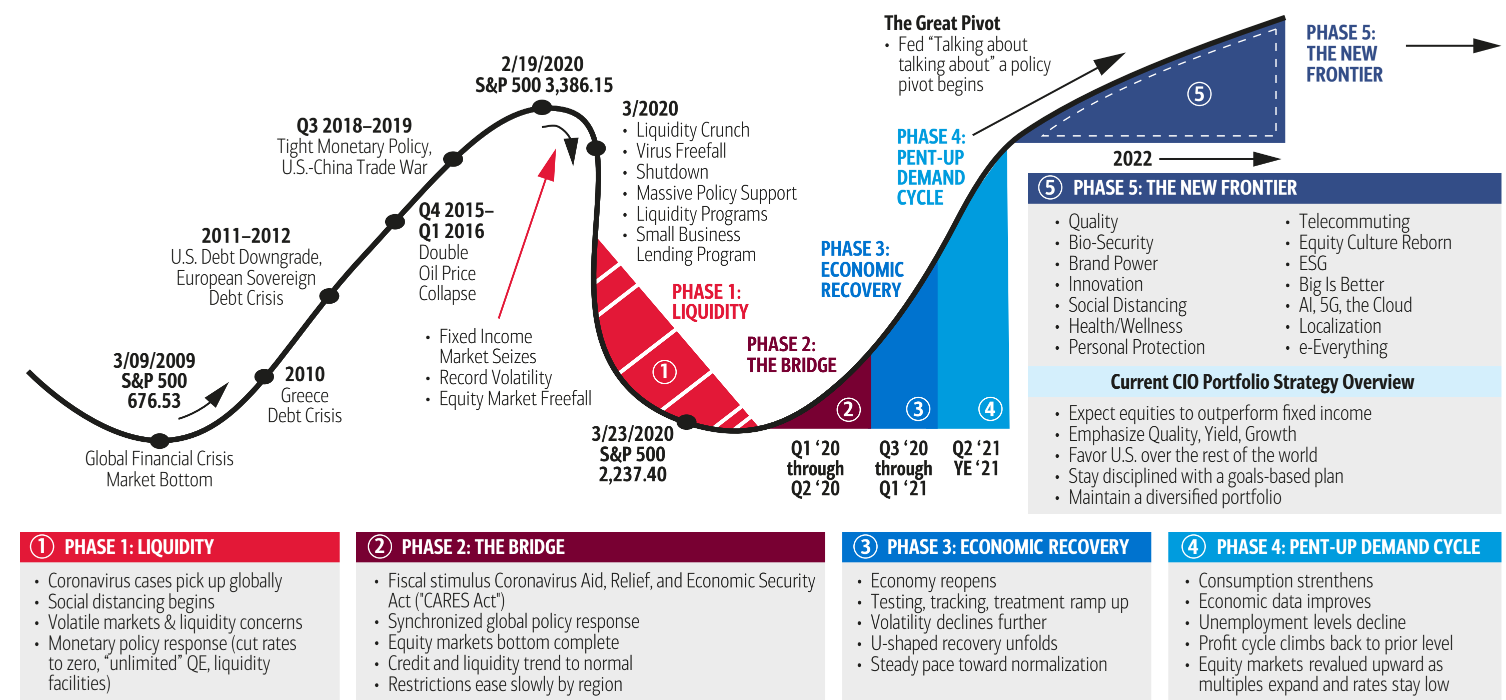
AUTHORED BY

Kirsten Cabacungan
Assistant Vice President
and Investment Strategist

A DEFINING MOMENT

The gap between where the world once stood at the start of the pandemic and where it stands today is incredibly wide. After only 19 months since the health crisis rippled across the world, bringing with it a volatile financial and economic crisis, coronavirus vaccinations are more widely available; economic reopening measures are in full swing; the lingering effects of stimulus continue to prop up the consumer; equity markets currently remain in a bullish uptrend; and the image of what a future post-pandemic world might look like appears clearer. The recovery has made significant progress on the *Journey Along The Great Separation*, charted out by the Chief Investment Office (CIO) over a year ago; we are now moving through the *Pent-Up Demand Cycle* and heading toward the *New Frontier* (Exhibit 1).

Exhibit 1: The Journey Along the Great Separation



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. Phase 5 represents the CIO outlook for potential economic expansion. Source: Chief Investment Office. Data as of October 5, 2021. CIO views are subject to change. The economic and market forecasts presented are for informational purposes as of October 5, 2021. Economic or financial forecasts are inherently limited and should not be relied on as indicators of future investment performance. **Past performance is no guarantee of future results.**

But at this juncture, there is still scope for transformation. With the current environment challenged with risks from resurgent coronavirus variants, a transformed labor market and rising inflation to intensifying climate disasters and a heightened geopolitical arena, new thought will need to be given to how to address these challenges and what the path forward might look like. We expect the lessons learned over the course of the pandemic, which we have laid out in our "*The Great*" series[1], will act as our pillars for a new normal as it continues to be defined.

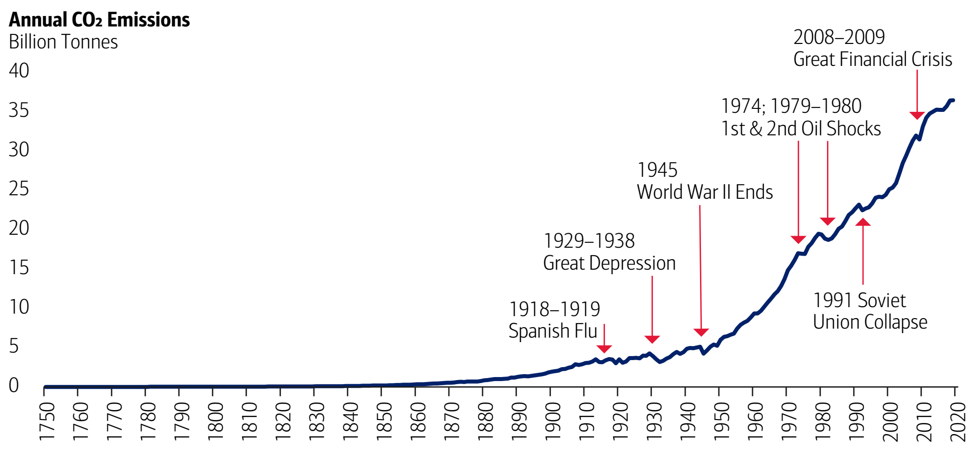
In the spirit that the future is often defined by the past, below we outline some of the key lessons of the pandemic of 2020.

PANDEMICS HAVE CONSEQUENCES: WHAT WE LEARNED FROM THE CORONAVIRUS

Lesson One: Human activity has profound effects on nature

What remains widely accepted and backed by scientific evidence is that humans have played a major role in the rapid increase in the atmospheric concentration of greenhouse gases, especially carbon dioxide (CO_2) but also methane and nitrous oxide.[2] Over the last century, the unrelenting rise in CO_2 emissions reflects the booming industrialization and mechanization of the modern world, with the takeoff of the level of emissions starting in the midst of the Industrial Revolution (Exhibit 2). More greenhouse gas-producing activities like electricity consumption, transportation and manufacturing have had a significant impact on the climate system, but most importantly on global temperatures. Warming temperatures means catastrophic environmental impact, including extreme cold and heat waves, droughts, wildfires, hurricanes, flooding and coastal erosion. These consequences have proven to be much more than just extreme weather; they have shown the potential to create significant feedback events such as human displacement, infrastructure damage, food and water insecurity, biodiversity loss and ecosystem collapse, all of which carry significant health and economic costs to humanity.[3]

Exhibit 2: Global CO_2 Emissions Growth Has Mirrored The Industrialization Of The Modern World



Source: Our World Data. Data as of September 24, 2021.

[1] *The Great Separation*, April 2020; *The Great Acceleration: Speeding Toward a Post-coronavirus World*, May 2020; *The Great Convergence*, May 2020; *The Great Clash: The Crisis Doesn't Stop Change*, June 2020; *The Great Consolidation: Industry and Equity-Market Concentration after the Crisis*, July 2020; *The Great Rivalry: A New U.S.-China Cold War?*, August 2020; *The Great Reset: Work, Play and Live in a Post-coronavirus World*, August 2020; *The Great Rebalance*, September 2020; *The Great Shift: Shareholder to Stakeholder Capitalism*, September 2020; *The Great Pandemic Legacy*, October 2020; *The Great Debt Binge*, March 2021 and *The Great Reopening*, June 2021.

[2] Intergovernmental Panel on Climate Change, *Climate Change 2021: The Physical Science Basis*, August 9, 2021.

[3] World Meteorological Organization. April 2021.

The introduction of the pandemic on the global stage alongside climate change further underscores humanity's influence on nature. While the origin of the virus continues to be debated, the scale of the pandemic was truly born out of how humans live and operate in the world. The power behind that force, however, truly emerged in the abrupt reversal of human activity in an effort to stop the spread of the virus. Shutdowns implemented across the globe left planes grounded, factories closed and humans virtually confined to their homes. That shift of human activity also proved to have a historic impact on the climate crisis. Social-distancing measures put significant limits on carbon-producing activities. Energy demand declined, leading to a 5.8% fall in energy-related CO_2 emissions in 2020, or the largest annual percentage decline since World War II (WWII), according to the International Energy Agency.

Still, despite the dramatic pause on human activity, global temperatures increased in 2020. The last decade ended up being the warmest on record, with global surface temperatures 1.09° Celsius higher than the average between 1850 and 1900, or the period used to represent pre-industrial conditions.[4] Ultimately, the pandemic showed what a shift in human activity might do for the natural world, but it simultaneously unveiled the magnitude of the challenges that the human-induced climate crisis creates. What remains abundantly clear to us is that humanity and nature can no longer be thought of separate as their ties, as we have come to learn over the pandemic, are more closely bound than previously thought.

Lesson Two: Crises are accelerants

Not only did the pandemic push us to buy goods online, it also taught us how to work and learn remotely, get medical advice digitally, consume more virtual entertainment, and lean on robots and software as substitutes to labor. In fact, about 59% of U.S. consumers polled said they have purchased groceries online in the past 12 months, and the same percentage of these shoppers plan to do so at the same frequency or more once the coronavirus crisis subsides, according to a study by Coresight Research. That is up from 52% of consumers in 2020 and 36.8% in 2019.[5] A world in crisis has meant many of the long-standing structural technological shifts that had been underway for over a decade in retail, education, healthcare, entertainment, work and other services gained greater traction in just a matter of months (Exhibit 3).

INVESTMENT CONSIDERATIONS

Companies that embrace more climate-friendly business models and operations, as well as consumer products and services, are likely to enjoy sustained growth opportunities over the long term. Key investment opportunities pivot around renewable energy (solar and wind), electrical vehicles, next-generation batteries, clean technology, energy-efficient electronics and building systems, water/waste management, and semiconductor-based light-emitting diodes (LEDs), among other areas.

INVESTMENT CONSIDERATIONS

Our preference for Equities over Fixed Income, large-caps relative to small-caps, and the U.S. relative to the rest of world, are in line with these thematic trends developing around the world. Main beneficiaries from the acceleration in the digitalization of the economy include robotics, artificial intelligence, 5G and internet of things infrastructure, cloud computing, e-commerce platforms, and cybersecurity.

Exhibit 3: The coronaviurs crisis is expected to accelerate themes already in place

DE-GLOBALIZATION	THE E-EVERYTHING ECONOMY	NEXT-GEN TECH INFRASTRUCTURE	LARGER PUBLIC DEBTS	INEQUALITY
Localization of supply chains; automation, robotics and 3-D printing; re-shoring and trade protectionism	e-commerce, e-health, e-learning, e-work, e-sports, virtual/augmented reality	5G, fiber optics, cloud computing, and related telecom and digital capital expenditures	Modern Monetary Theory, larger role of fiscal spending, big government vs. small	Income inequality, health inequality, digital inequality, potential greater redistribution of wealth
HEALTHCARE INFRASTRUCTURE/ INNOVATION	**BIOSECURITY AND SMART CITIES**	**CYBERSECURITY**	**INCREASED CONSUMER/ BUSINESS SAVINGS**	**ARTIFICIAL INTELLIGENCE**
Increased spending per capita on medical equipment, facilities, mobile health, vaccinations, gene-editing	Pandemic monitoring and contact tracing, embedded in the technologies of smart cities, will accelerate the privacy debate	Protecting business, government, and personal data has become even more important given new trends in telework, health monitoring and contact tracing	Increased savings rates, deleveraging expands from consumer sector to business sector	Big data, predictive health analytics, contact tracing, potential drug/vaccine discovery

Source: Chief Investment Office. October 12, 2021.

[4] Intergovernmental Panel on Climate Change, Climate Change 2021: *The Physical Science Basis*, August 9, 2021.

[5] Supermarket News; Coresight Research. Data as of May 2021.

Why did it take a crisis for some of these trends to be embraced? One reason could be necessity. Just like the labor shortages during WWII led to the introduction of women in the workforce, the need to socially distance in a pandemic drove the introduction of technology as a facilitator of everyday life. It took widespread disruption to ignite a new wave of resourcefulness and adaptability. These adoptions have spawned a greater need for more investment in digitally oriented infrastructure from 5G telecom networks and fiber optics to cloud computing software and artificial intelligence. Operating a more digital economy also helps to open up a treasure trove of data vulnerabilities, prompting more demand for cybersecurity. The lesson here is that much more focus and capital will need to be put to work to sustain these newly adjusted behaviors.

Lesson Three: The policy response to the coronavirus was as transformative as the virus itself

The pandemic marked the beginning of a new policy era. It did not take long for policymakers to synchronize an unprecedented monetary and fiscal policy response to counter a gaping hole in the economy as a result of an economic standstill and illiquid financial markets. In fact, it was the catalyst that helped break through old policy behaviors that kept growth in a pattern of secular stagnation following the 2008/2009 Great Financial Crisis (GFC). The Federal Reserve (Fed) responded by cutting interest rates to zero and implementing a slew of tools to increase liquidity, including lending facilities and the reintroduction of quantitative easing. On the fiscal side, the federal government quickly mirrored the central bankers' response by passing a series of massive fiscal stimulus packages, injecting stimulus at a magnitude not seen since WWII. Many of these policy shifts were not isolated to the U.S. alone; policymakers around the world took similar aggressive stimulative measures (Exhibit 4).

Exhibit 4: The pandemic ushered in a massive synchronized global policy response.
Global Monetary and Fiscal Stimulus to Fight the Coronavirus Impact (Feb 2020 to May 2021)

	Potential Central Bank Liquidity Injection		Potential Fiscal Stimulus		Central Bank Liquidity Injection and Fiscal Stimulus	
	$ Trillion	% GDP*	$ Trillion	% GDP	$ Trillion	% GDP
U.S.	$6.21	29.0%	$6.09	28.4%	$12.30	57.4%
Eurozone	$2.38	17.9%	$4.51	33.9%	$6.90	51.8%
Japan	$1.03	20.0%	$2.79	54.1%	$3.82	74.1%
U.K.	$0.57	20.7%	$0.69	25.1%	$1.26	45.9%
China	$1.43	10.0%	$1.22	8.4%	$2.64	18.4%
Others**	$1.05		$2.99		$4.03	
Global	**$12.66**	**14.6%**	**$18.29**	**21.1%**	**$30.95**	**35.7%**

* Gross domestic product. ** Includes rest of world and Asian Development Bank, International Monetary Fund, World Bank. Source: Cornerstone Macro Research. Data as of September 2021.

Just as the saying goes, "financial markets stopped panicking as soon as policymakers started." Equity markets went from one of the fastest bear markets on record, or greater than a 20% price decline, to a strong bull market uptrend after central bankers stepped in. Only five quarters into the recovery, the S&P 500 is up over 100% on a total return basis since the March 23, 2020, low and has surpassed pre-pandemic highs by over 30%.[6] For context, it took equities four years following the GFC to get back to pre-crisis levels and six years total to surpass those levels by 30%. Economic indicators also started to rebound. The fiscal stimulus passed helped to actually boost disposable personal income for the first time ever during a recession, and U.S. household net worth recovered in just one quarter, even going on to set record highs.

The legacy of this policy response is already showing signs of its far-reaching implications. In August 2020, the Fed announced a revision to its inflation-policy framework. Instead of adhering to an inflation target that meant a policy response would

[6] Bloomberg. Data as of October 20, 2021.

ensue if inflation approached or exceeded 2%, it would modify that approach and use an average inflation target, allowing for inflation to run above target for some time to offset periods of lower levels. The change suggests a message focused on more proactive monetary policy versus reactive and clearly signals a structural policy shift from the past decade. The federal government has also embarked on a more pro-growth, aggressive policy approach, keeping the fiscal spigots flowing, even with upwards of $6 trillion in fiscal stimulus already injected into the economy. Additional stimulus of as much as $4 trillion is currently being debated in Congress, with plans for the new spending to be largely allocated to investments in critical infrastructure and climate change initiatives over several years.

Potential adverse effects of this policy transformation have come more into focus. The most visible consequence has been a sharp move higher in inflation. The Consumer Price Index jumped 5.4% from a year ago in September, one of the highest levels in roughly 13 years, according to Bloomberg. Excess demand created by massive government intervention has strained supply chains and contributed to long backlogs. These bottlenecks, in turn, have created significant upward price pressure, driving up the cost of goods and services, which could eventually lead workers to demand higher wages. National home prices have gradually climbed higher as well, with the S&P CoreLogic Case-Shiller index up 19.7% in July, the highest annual increase on record. Given home prices' close relationship with rental prices, rents could soon drift higher too. In essence, higher wages and rents, which both tend to be sticker in nature, may mean higher, more persistent inflation for longer. Other concerns relate to the surge in debt levels after the government's borrowing binge and after record corporate debt issuance as corporations quickly jumped to take advantage of historically low interest rates. At some point, fiscal discipline will likely be necessary to stabilize debt levels. But if fiscal policy continues to run hot with the Fed facing rising inflationary pressures, risks of rising interest rates and potential bond defaults may become more relevant.

INVESTMENT CONSIDERATIONS

The policy pivot by central banks in combination with fiscal policy coordination reaffirms our view that, in the medium term, a pro-reflationary environment should help propel Equities relative to Fixed Income, allow for both Growth and Value to perform well together—particularly in the more cyclical sectors—help the U.S. to maintain its regional performance, and provide an overall backdrop that supports elevated valuations. But tactical and strategic adjustments may be necessary in the years ahead to navigate the headaches associated with the debt hangover.

Lesson Four: U.S.-China Rivalry—No turning back

Tensions between the U.S. and China are far from resolved. The crux of the strategic rivalry is straightforward: Both powers want to be the dominating force that sets the global tone along economic, geopolitical and technological lines in the decades ahead. It is undeniable that China, over the past two decades, has garnered remarkable momentum toward staking a competitive claim to global leadership. Confronting China's mounting power has been a uniting goal of the last two U.S. administrations. President Biden has taken it a step further, claiming it runs even deeper than just unfair economic policies: "This is a battle between the utility of democracies in the 21st century and autocracies…We've got to prove democracy works."[7]

China's introduction into the World Trade Organization in 2001 marked a turning point for its economic development, giving the country access to new trading partners and granting it a spot among global trade leaders. The country's share of global manufacturing output by 2005 was roughly 8.7% and quickly overtook the U.S. as the world's manufacturing superpower by 2010. By 2019, China accounted for 29% of global manufacturing output far outpacing the U.S. at only 16.8%.[8] And its rapid economic growth helped to improve domestic standards of living, pulling millions of its citizens out of poverty. But the critical point in the timeline comes with the appointment of Xi Jinping as president. The new leadership broadened the country's focus from domestic economic growth to expansion of China's economic influence globally. Efforts to secure China's position as a global superpower have taken shape in various strategic projects: 1) the Belt and Road Initiative (BRI), an investment initiative to build out Chinese infrastructure across Eurasia, Africa and the Middle East; 2) Made in China 2025, a plan targeted at increasing domestic innovation to reduce China's dependence on foreign technology

INVESTMENT CONSIDERATIONS

Escalating tensions between the U.S. and China have the potential to increase market volatility and could pose headwinds for industries and companies with significant cross-border exposure. But as competition grows between the two powers in the wake of the pandemic, we ultimately expect market segments related to technology and the digital economy to benefit from secular demand and innovation drivers in both countries. These include biotechnology, electric vehicles, digital media and internet retail; hardware applications for semiconductors such as telecommunications equipment, consumer electronics, cloud servers and industrial robots; and defense-related areas including next-generation military equipment and cybersecurity.

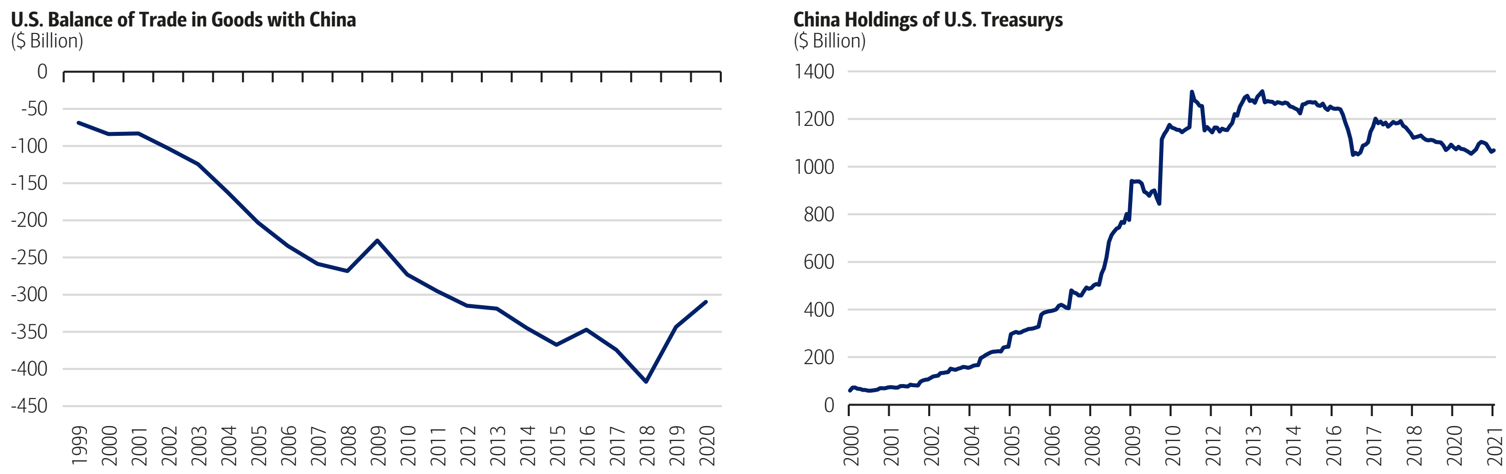
[7] *New York Times*, "Biden Defines His Underlying Challenge With China: 'Prove Democracy Works.'" March 26, 2021.

[8] Output is measured on a value-added basis in current U.S. dollar prices. United Nations Statistics Division. Data as of October 12, 2021.

imports and improve the global competitiveness of Chinese companies; and 3) Common Prosperity, a campaign to narrow the wealth gap and assert tighter controls on dominant companies in various areas of the economy.

The relationship between the U.S. and China has become increasingly complicated over time. Where the U.S. once acted as a negotiator in bringing China into the global market, it now stands in opposition calling out China for failing to adhere to international trade and investment rules, including alleged human rights violations, and challenging the Communist Party's intentions over its data security and censorship ideology. In recent years, the competition has been more focused on trade given the deepening U.S. trade deficit with China, resulting in tit-for-tat tariffs on bilateral trade in goods. But even with an initial trade agreement, progress toward addressing the concerns surrounding China's trade practices has been limited—in other words, more negotiations to come. Even with the competition between the two countries escalating, their bilateral economic linkages raise the stakes for any hard-lined split, or de-coupling (Exhibit 5). It could take years or even decades to gradually unravel those binds, paving a long road ahead for this strategic competition to unfold.

Exhibit 5: U.S. and China's economies remain highly interdependent



Sources: U.S. Census: U.S. Treasury; Haver Analytics; Bloomberg. Data as of September 24, 2021.

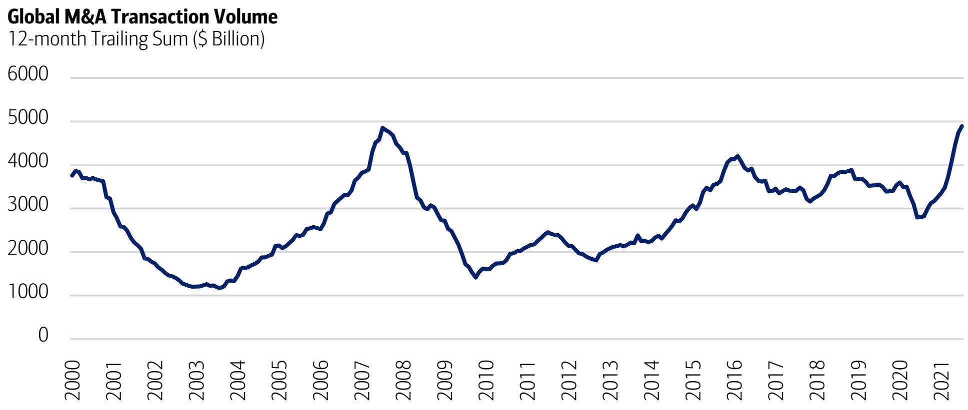
Lesson Five: It's Good to be Big

Big companies are set to get bigger out of the pandemic. Larger firms found themselves better positioned than smaller competitors to weather the shutdowns and shifts in consumer preferences. As a result, harder hit smaller to medium-sized companies saw a massive wave of job loss. This dynamic has only exacerbated the trend toward greater market concentration that has played out since the late 1990s. More than 75% of U.S. industries experienced a rise in market concentration over the past two decades.[9] The stock market has mirrored this transformation with now just as few as five tech companies representing over a quarter of the total S&P 500 market capitalization.

The rise of dominant firms is not a new phenomenon. Following the GFC, larger companies that were more financially disciplined, had a greater focus on innovation, and were proactive participants in mergers and acquisitions (M&A) came out stronger. Similar factors are unfolding again. M&A has rapidly picked up since 2020, when economic uncertainty led to a pullback in deal activity (Exhibit 6). Confidence in the economic reopening and a buildup of dry powder by corporations and buyout firms have underpinned the strong deal volumes.

[9] Grullon, Larkin and Michaely, "Are U.S. Industries Becoming More Concentrated?," April 2019.

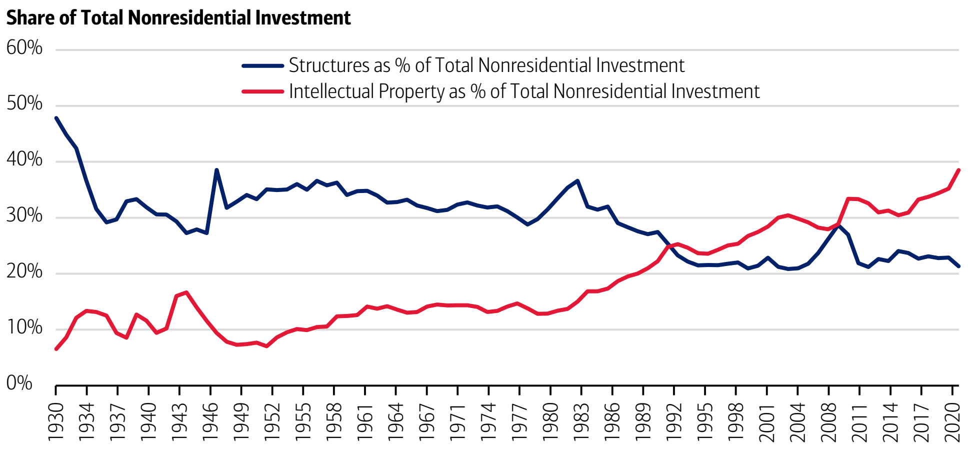
Exhibit 6: A new M&A wave is underway



Source: Bloomberg. Data as of September 24, 2021.

The record levels of cash, with roughly $2.1 trillion sitting on S&P 500 (ex-Financials) company balance sheets, should also lead to a boost in investment in research and development (R&D) with companies focused on developing stronger technology-oriented infrastructure and building out their digital capabilities (Exhibit 7). These companies will likely prove to be more resilient as they keep pace with the accelerating speed of technological change and, ultimately replace declining business models or companies with fewer resources to adapt. In turn, dominant firms will continue to gain more market power as creative destruction weans out the smaller, weaker players. The main takeaway is that the key to coming out strong on the other side is to be big and focus on getting bigger.

Exhibit 7: The future of capital expenditures is digital



Sources: Bureau of Economic Analysis; Haver Analytics. Data as of September 2021.

Lesson Six: We're all Stakeholders Now

Broader adoption of stakeholder capitalism is no longer a remote prospect. What the last few years have come to show is that companies increasingly are being pushed to address social and sustainability issues with the same focus and motivation as their approach to profits and corporate efficiency. Given the prevalence of corporate commitments and statements in support of current issues, companies are demonstrating they are starting to listen. Much of the shift coming from corporations has been driven in part by the acceleration in the proliferation of environmental, social and governance

INVESTMENT CONSIDERATIONS

Diversification strategies are more important than ever in a period with rising equity market concentration. It is important to remain properly diversified within and across industries, asset classes and regions to soften the impact of firm-specific or sector-specific shocks. While we maintain a preference for large-cap stocks, we recommend a diversified allocation among Equities across the market cap spectrum.

(ESG) data and metrics now available as a language and measurement tool, but it also is due in part by the voices of workers, consumers and communities demanding more of the businesses they engage with.

Why now? Globalization played a part. The last two decades saw companies shift a large portion of their production offshore in an effort to increase efficiency and reduce operating costs. For a long time, the underappreciated side effects of these supply chain shifts were stagnant wages, the marginalization of lower-skilled work, and a rising interdependence on other countries. The growing sense of dissatisfaction with globalization eventually all came to a head in the last several years with the onset of heighted trade wars, localization of supply chains, increasingly tighter immigration laws, and the rise of populism, which eventually gave way to the Brexit vote in 2016. These events, as well as climate change and social movements, among others, have formed a strong case for corporations to acknowledge a greater responsibility beyond just shareholders.

But with capitalism still at the core, one important question this restructuring elicits is: What does stakeholder capitalism ultimately mean for businesses and investors? Awareness of factors that were previously not considered economically relevant may open up unconventional pathways to improve business practices and, therefore, drive revenue growth and operating margins. For example, more community goodwill could translate into greater brand loyalty and help drive more sales, or a strong employee relations track record could increase employee satisfaction and reduce costs from lower turnover. During the market sell-off in 2020, companies that had incorporated more sustainable business practices actually came out more resilient during the market shock, and social factors helped to drive alpha[10], even more than good governance factors, which were critical during the GFC.[11] Ultimately, coming out of a global health crisis, stakeholder capitalism remains not only a socially good decision but a financially smart approach to business.

Lesson Seven: It's not about Timing the Market but Time in the Market

It is hard to overstate the negative effect pulling back from the market due to market volatility might have on an investor's portfolio or financial goals. Trying to time the market has proven to be an extremely difficult strategy to successfully execute, with two decisions an investor must correctly decide at the heart of the challenge: when to get out and when to get back in. Missing the 10 best days in any decade drastically cuts down returns (Exhibit 8). If an investor had missed the 10 best days in the 2010s, they would have realized only a 95% gain versus 190% for the full decade.

Exhibit 8: Missing the ten best days in any decade has negatively affected equity returns

Decade	Price return	Excluding Best 10 Days per Decade
1930	-42%	-79%
1940	35%	-14%
1950	257%	167%
1960	54%	14%
1970	17%	-20%
1980	227%	108%
1990	316%	186%
2000	-24%	-62%
2010	190%	95%
2020*	33%	-24%
Since 1930	**19,982%**	**45%**

*The 2020 decade includes data up to September 30, 202. Source: BofA Global Research. Data as of September 30, 2021.

[10] Alpha measures the amount that an investment has returned compared to a market index or a broad benchmark.

[11] BofA Global Research. "ESG Matters—Global." June 11, 2021.

INVESTMENT CONSIDERATIONS

The shift toward stakeholder capitalism reinforces our view that ESG factors may be additive to investment decision-making, both to help evaluate risks and, uncover potential opportunities.

Portfolio strategy in the coming years should allocate more capital to assets backed or underpinned by high sustainability. ESG-related assets have surged recently on the need to improve income inequality, promote diversity and address the challenges of climate change—accentuated by the pandemic. Moreover, structural dynamics like rising political pressure, regulatory change and technological advances are additional planks to sustainable investing and more capital reallocation. Doing well and good have become strategic priorities of many firms and the asset managers that invest in them. Those firms that are the most transparent about their goals, and are better at execution, may reward investors over the long term.

Even the coronavirus crisis demonstrated the challenge with market timing investment decisions. If an investor had missed the 10 best days since the start of 2020, they would have seen a negative return of 24% instead of a 33% gain had they decided to stay invested, even through the sharp decline from February to March 2020.[12] In fact, investors who pulled out of the market as equities fell deep into a bear market at the start of the pandemic crisis would have missed strong rebounds in the market in the days that followed. Generally, the S&P 500's best days follow its worst, and 2020 proved to be no exception. For example, the S&P 500 fell 9.5% on March 12, 2020, but rebounded the next day, gaining 9.3%, one of the best days in the market for the entire year.

Market volatility is only expected to pick up from this point in the economic recovery as investors continue to assess the implications of rising inflation, potential tax increases, margin pressures and geopolitical risks. But by maintaining a disciplined investment strategy that focuses on extending time horizons and staying invested, investors may be able to avoid some of the painful costs associated with trying to time the market.

The Road Ahead: On to the New Frontier

The journey out of the valley, over the bridge and through to the recovery can indeed only be likened to that of something *great*. A historic pandemic met with an unprecedented policy and health response has reshuffled the world. The lessons learned along the way are the key signposts that will guide the recovery through the next phase, where a rebalance is expected to happen for companies, investors, governments and consumers (Exhibit 9).

Exhibit 9: A rebalance lies ahead for companies, investors, governments and consumers

	Pre-coronavirus Considerations	Post-coronavirus Considerations
Companies	Leverage cash flows for stock buybacks	Leverage cash flows for capital expenditures and research & development
	Shareholder capitalism	Stakeholder capitalism
	Incremental innovation and change	Accelerated innovation especially toward digital business models
	China focused supply chains	Globally diversified supply chains in countries deemed allies
	Government intervention perceived as a negative	Accepting of government's role to drive national priorities like infrastructure, 5G, etc.
Investors	Hawkish on higher levels of government debt and deficits	More accepting of deficits and consider it necessary to support household incomes
	Cautious on higher valuations	More inclined to give higher valuation to high-quality assets like U.S. equities given low interest rates
	Fund flows primarily into passive investments*	More discerning about fundamentals and risk management. Shifts focus to active management* and asset allocation
Governments	Cautious on running large deficits	Political acceptance across the aisle on using government spending to support incomes and small businesses
	Central bank balance sheets were being shrunk	Central bank balance sheets maintained at elevated levels.
	Central bank buying mostly concentrated in high quality assets	Direct intervention of central banks into riskier parts of market such as corporate bonds
	Less coordination between fiscal and monetary policy	Fiscal and monetary policy work in tandem
	In advanced nations, government intervention in everyday life was resisted	Citizens more amenable to sacrificing some privacy and individual priorities for broader national priorities like security, innovation and investments
Consumers	Lower savings rate	Higher savings rate as a cushion for economic and macro uncertainty
	Brick and mortar retail and in person exchange of services	More e-commerce and online consumption of services—e-medicine, e-groceries, e-sports.
	Lower levels in healthcare spending outside the U.S.	Increasing healthcare spending in developing countries

*Passive investing is an investment strategy to maximize returns by minimizing buying and selling. Active management seeks to outperform benchmarks through active investment decisions such as asset allocation and investment selection. Source: Chief Investment Office. September 2021.

[12] BofA Global Research. Data as of September 30, 2021.

We believe the *New Frontier* presents a future where technology is the ticket. The digital transformation of how we work, play and live should continue to prompt more capital investment and innovation to keep pace with the speed of change. Greater integration of automation, robotics, artificial intelligence and cybersecurity will be needed to support these developing workplaces, forms of entertainment or e-commerce platforms to shop. New industries will likely be born and old business models replaced. More consideration will need to be given to the climate crisis, the strategic cold war with China, and a macro environment newly minted with rising inflationary pressures and surging debt levels. As a result, the approach to portfolio strategy will likely need to adjust for these new features in the coming decades. For now, we believe that the accelerating trends on the path toward the *New Frontier* reinforce our overweight to Equities over Fixed Income. At the cusp of this next phase, investors should continue to focus on adhering to a disciplined investment process that provides an optimal mix of diversified assets.

Investments Insights "The Great" Series	**Description**
The Great Separation, April 2020	Charting the five phases of the workout process: 1. Liquidity, 2. Bridge, 3. Economic Recovery, 4. Pent-up Demand Cycle, and 5. The New Frontier, our basic allocation holds: Equities remain more attractive over fixed income and we continue to prefer equities offering Quality (U.S. Large-cap), Yield (secure dividends) and Growth-oriented names.
The Great Acceleration: Speeding Toward a Post-coronavirus World, May 2020	The pandemic accelerated many thematic trends for the post-coronavirus world including the "e-Everything" economy, next-generation technology infrastructure, biosecurity and cybersecurity. These trends filter throughout various asset classes and sectors, dictating the trends developing in the years and decades ahead.
The Great Convergence, May 2020	The economic recovery continues to unfold, taking cues from the consumer and progress regarding vaccine and treatment options. Much like the apparent divergence between Wall Street (the financial markets) and Main Street (the real economy), recoveries will take time depending on the depth of the economic recovery and the industry groups involved.
The Great Clash: The Crisis Doesn't Stop Change, June 2020	Collision of two of the most powerful forces in the world right now—climate change and the coronavirus—is triggering a rethink among investors about the relationship between health and wealth, and how climate change affects both. This inflection point is another reminder that while more improvement is needed on the climate front, companies that embrace more climate-friendly business models and operations as well as products and services, are likely to enjoy sustained growth opportunities over the long term.
The Great Consolidation: Industry and Equity-Market Concentration after the Crisis, July 2020	As market concentration intensifies in response to the crisis, so will regulatory pressures on mega-cap names in the technology and communication services sectors and even in some tech-driven consumer discretionary industries. These risks could add to market volatility in these sectors in the near term and should be carefully weighed against long-term secular growth opportunities in these industries.
The Great Rivalry: A New U.S.-China Cold War?, August 2020	We expect the strategic rivalry between the world's two largest economies to persist into the new decade. We nonetheless see continuing longer-term strength within technology-driven sectors in both the U.S. and China. The pandemic should accelerate the underlying global shift toward automation and digitization in traditional segments such as media and retail, and a prolonged period of competition for technological leadership is likely to involve greater levels of government support for investment in research and innovation. This reinforces our view that, as the equity sectors most closely tied to these future trends, information technology, communication services, healthcare and consumer discretionary should retain their market leadership in the new decade.
The Great Reset: Work, Play, and Live in a Post-coronavirus World, August 2020	As the consumer resets in a post-coronavirus world, the way we work, play and live will be transformed, meaning more technology will be needed to support new workplaces, from automation and robotics to artificial intelligence. The pandemic has normalized more digital experiences for consumers from shopping online to consuming entertainment. This shakeout in behavior supports our view that operating leverage in the corporate space mixed with accommodative fiscal and monetary policies leads to reflation over a longer-than-expected time frame.
The Great Rebalance, September 2020	Understanding that markets will undergo episodic volatility is critical to portfolio strategy in the years ahead. This volatility is a convergence of an uncertain geopolitical backdrop and new policies that are still young in their existence and requires a rebalance within both the private and public sectors. Main considerations include: adherence to a disciplined investment process, precious metals as a hedge, geographic diversification and a balance between Growth and Value.

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Investments Insights “The Great” Series	Description
The Great Shift: Shareholder to Stakeholder Capitalism, September 2020	The shift toward stakeholder capitalism reinforces our view that ESG factors may be additive to investment decision-making, both to help evaluate risks and uncover potential opportunities. With this shift comes a meaningful evolution in the investment landscape—an opportunity to revisit sustainable investing with fresh eyes.
The Great Pandemic Legacy, October 2020	Summarizing some of the major lasting themes that have been stimulated, catalyzed or accelerated by the pandemic. In essence, the experiences of 2020 have shaped a long-lasting legacy that will persist years after coronavirus fades into the haze of collective memories.
The Great Debt Binge, March 2021	Governments, companies and households went on a massive debt binge in 2020. Not surprisingly, the fiscal response to the pandemic by governments accounted for more than half of the surge. Aggressive reflationary policy, including the fiscal debt binge, favors Equities over Fixed Income in the near term, but tactical and strategic adjustments will be necessary in the years ahead to navigate the headaches associated with the debt hangover.
The Great Reopening, June 2021	The world is gradually normalizing from the coronavirus pandemic. The recovery has been enabled by a combination of behavioral adaptation and public policy. Vaccine distribution has been the final and most important step in responding to the public health crisis. And widespread global inoculation will ultimately be the most effective means of emerging from the pandemic on a sustained basis.

Index Definitions

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

S&P 500 Index includes a representative sample of 500 leading companies in leading industries of the U.S. economy.

Consumer Price Index (CPI) is a price index, the price of a weighted average market basket of consumer goods and services purchased by households.

S&P CoreLogic Case-Shiller Home Price Indexes measure the price level of existing single family homes in the U.S.

Important Disclosures

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

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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.

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

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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.