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CHIEF INVESTMENT OFFICE

Viewpoint

Clash of Competing Forces

May 2022

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

IN BRIEF

- Given our view that competing forces—inflation and slower growth—are likely to cast large shadows through the balance of the year, we are lowering our risk budget across our portfolios where appropriate. We continue to emphasize a diversified, balanced and measured approach to asset allocation and expect risk assets to be "on guard" until there are concrete signs that inflation has peaked.
- We have lowered our Equity overweight and downgraded International Developed Markets, given our continued concerns in Europe, and Small-caps evenly. With these changes, Equities are positioned broadly as a slight overweight relative to Fixed Income. The allocations from the downgraded areas are being added to cash and Fixed Income in a balanced approach, on average, across the Chief Investment Office (CIO) portfolios where appropriate. This month, we are also adjusting our sector allocations to balance our cyclical positioning with some defensive sectors.
- Our downgrade of European Equities and International Developed Market Equities to underweight from neutral is driven by our view that Euro area growth is likely to weaken on the back of the energy price shock, declining business and consumer confidence and slowing money supply growth.

Market volatility gathered momentum at the close of April. The S&P 500 had its worst month in terms of performance since March of 2020 and the NASDAQ saw its worst performance since October 2008. The rotation within the equity markets continues to shift toward areas that are higher in quality and more defensive in nature as yields have backed up and concerns over the global growth outlook have grown. We continue to expect a choppy market environment with elevated volatility, particularly as the Federal Reserve (Fed) is widely expected to raise interest rates this week by 50 basis points (bps) and again in both June and July by the same amount.

Given our view that competing forces—inflation and slower growth—are likely to cast large shadows through the balance of the year, we are lowering our risk budget across our portfolios where appropriate. We continue to emphasize a diversified, balanced and measured approach to asset allocation and expect risk assets to be "on guard" until there are concrete signs that inflation has peaked. To lower our risk budget and further increase balance we have lowered our Equity overweight (downgraded International Developed Markets, given our continued concerns in Europe, and Small-caps evenly). With these changes, Equities are positioned broadly as a slight overweight relative to Fixed Income. The allocations from the downgraded areas are being added to cash and Fixed Income in a

CIO ASSET CLASS VIEWS

This month, the Global Wealth & Investment Management Investment Strategy Committee reduced our Equity overweight relative to Fixed Income, by lowering International Developed Market Equities to a slight underweight, and trimming our overweight to Small-cap Value. We will add the balance allocations from the downgraded areas to Fixed Income and cash evenly. This month we also adjust our sector allocations to balance cyclical and defensive positioning. We continue to emphasize a diversified, balanced and measured approach to asset allocation.

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Asset Class	CIO View: Underweight		Neutral	Overweight	
Global Equities				●	
U.S. Large Cap Growth			●		
U.S. Large Cap Value				●	
U.S. Small Cap Growth				●	
U.S. Small Cap Value				●	
International Developed		●	◀		
Emerging Markets			●		
Global Fixed Income		●			
U.S. Governments		●			
U.S. Mortgages		●			
U.S. Corporates				●	
High Yield		●			
U.S. Investment Grade Tax Exempt			●		
U.S. High Yield Tax Exempt		●			
International Fixed Income	●				
Cash					

CIO asset class views are relative to the CIO Strategic Asset Allocation (SAA) of multi-asset portfolio.

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balanced approach, on average, across the CIO portfolios where appropriate. Although Fixed Income yields could drift higher, they have started to become competitive again. In Equities, we continue to advocate a total return approach as the importance of dividend yield is likely to rise as the wall of worry remains high in the foreseeable future.

Moreover, sticking with our "on guard" theme, we have also adjusted our Equity-sector-based portfolios with an increase to Real Estate (up to slight overweight), Healthcare (up to slight overweight) and Utilities (up to neutral), and a decrease to Consumer Discretionary (down to slight underweight), Technology (down to neutral), Industrials (down to neutral) and Communication Services (down to underweight).

Overall, the principles of diversification, in our view, rise in importance as more complex market cycles develop and mature. Frequent pull-backs and rallies in risk assets should be expected in the next couple of years. We do not want to time these gyrations. Rather, we prefer to have a solid balance in portfolios to help smooth out some volatility.

Finally, for investors able to assume a lower level of liquidity, we believe Alternative Investments for qualified investors, including Real Assets, can also help diversify and balance out risks in a multi-asset portfolio, particularly in a complex market cycle such as this one.

CIO INVESTMENT DASHBOARD

Economic growth in the U.S. should remain healthy, however the risk for a slowdown has risen as inflation runs hot, the Fed has pivoted to a more aggressive tightening bias, and geopolitical uncertainty has increased. Corporate profits currently remain supportive, with consensus estimating annual earnings growth of 9.7%, but recently upward earnings revisions have cooled. Corporate credit conditions remain generally supportive due to solid corporate earnings and cash flows. Absolute valuations for U.S. Equities have become less extended, but still remain higher than the historical average. Investor sentiment has returned to extremely bearish levels seen earlier this year. We continue to believe that volatility will remain in a higher range as compared to pre-pandemic levels and expect the "grind-it-out" environment to persist for markets.

Current readings on the key drivers of Equities for investors to consider, with arrows representing the recent trend:

Factor	Implication for Equities: Negative Neutral Positive	CIO View
Earnings		For 2021, S&P 500 earnings grew by 48.4%, according to FactSet. For Q1 this year, the blended year-over-year (YoY) growth rate, which combines companies that have already reported with the consensus analysts' estimates of those that haven't, has increased to 7.9% from 5.4% on April 1. Annual growth is expected at 9.7%, also revised higher since then. Moreover, over 80% of companies have positively surprised profit expectations, according to Bloomberg. However, earnings revisions across major regions and many sectors are declining. Scarce upgrades largely reflect the effects of higher commodities prices and bond yields, as well as chip shortages.
Valuations		Absolute valuations for U.S. Equities have become less extended, though they remain higher than the historical average. The S&P 500 price-to-earnings (P/E) ratio (next 12 months) has fallen to 17.7x from 21.5x in late 2021, due to both price volatility and rising earnings estimates. Relative to Fixed Income, valuations are still attractive, but are becoming less so due in part to an increase in both rates and the price of the S&P 500. Its earnings yield is 269 bps above the 10-year Treasury yield, indicating some upside for Equities relative to Fixed Income.
U.S. Macro		Growth of U.S. real gross domestic product (GDP) in the first quarter of 2022 contracted by 1.4% on a seasonally adjusted annual growth rate, compared to a 6.9% expansion to end 2021. Despite weakness in trade and an inventory drawdown, final sales to private domestic purchasers, an underlying measure of demand accelerated, indicating inherent strength in consumption and investment. On the demand side, consumer spending remains supported by an improving labor market, economic reopening, record-high household net worth and excess savings. Supply-chain challenges and labor shortages to a lesser extent remain impediments to growth. BofA Global Research expects growth of 2.7% for 2022.
Global Growth		Geopolitical developments are sustaining global uncertainty, exacerbating commodity-related inflation and destabilizing the economic outlook in Europe. Meanwhile, despite recent economic normalization across the global economy, as populations and many governments increasingly learn to live with the coronavirus, China remains an exception. Recent lockdowns are dragging on consumption and the services sector, among other effects. The global economy is expected to expand by 3.3% in 2022, according to BofA Global Research.
Monetary Policy / Inflation		The Federal Open Market Committee (FOMC) began its policy interest rate upcycle, hiking by 0.25% at its March meeting. Fed Chairman Jerome Powell and others have suggested a notable likelihood for larger increases should conditions warrant, sustaining anticipation for a quicker pace of tightening monetary policy,

Factor	Implication for Equities (Negative / Neutral / Positive)	CIO View
		including the runoff of the Fed's balance sheet in 2022. Overall, inflation data, such as the Consumer Price Index (CPI), the Producer Price Index (PPI) and consumer expectation for nearer-term price inflation, has surprised to the upside. Trailing strong demand, the Ukraine/Russia geopolitical conflict and lockdowns in China risk renewed strains for already constrained supply in the global economy.
Fiscal Policy		Including the Bipartisan Infrastructure Framework approved in October, fiscal relief in the U.S. equates to nearly 31% of GDP since the start of the pandemic. Undermined by persistent inflation, momentum towards approving President Biden's Build Back Better economic agenda through the reconciliation process by the Democratic-controlled Congress has stalled. The 2023 budget proposal calls for greater military and social spending along with taxes on the wealthiest Americans, aimed at cutting federal deficits over the longer-term.
Corporate Credit		While past measures taken by the Fed and rising corporate profitability have underpinned benign corporate financing conditions, High yield (HY) and Investment-grade (IG) credit spreads have widened a bit this year, though these levels still imply accommodative financial conditions, amid strong economic fundamentals.
Yield Curve		The all-important fed funds/10s curve has remained in a steepening trend. While signaling a positive economic outlook, a flattening trend in other yield curves may reflect growing concern over the sustainability of the business cycle, amid an aggressive interest-rate upcycle by the Fed. Rates on the back end have recently risen on expectations for robust growth of nominal GDP and Fed policy.
Technical Indicators		At April-end, the Chicago Board Options Exchange (CBOE) Volatility Index (VIX) moved to the upperpart of a general range between 20 and 30. Market breadth has begun to deteriorate again. The cumulative advance/decline line for New York Stock Exchange (NYSE) Equities fell to its lowest level since March 2021. Meanwhile, the percentage of New York Stock Exchange (NYSE) stocks above their 200-day moving average has declined to around 36%.
Investor Sentiment		Bearish sentiment is approaching an extreme, according to the American Association of Individual Investors. Institutional portfolio cash levels continue to signal a tactical contrarian "buy" signal, according to BofA Global Research's Fund Manager Survey, while its Bull & Bear Indicator is near a "buy" reading, at 2.1.

Source: Chief Investment Office. Data as of May 3, 2022.

EQUITIES

We expect Equities to outperform Fixed Income: This month the Global Wealth & Investment Management Investment Strategy Committee trimmed the magnitude of our Equity overweight relative to Fixed Income, and we remain slightly overweight. While risks remain, global Equities should benefit from higher nominal growth levels, healthy corporate profits, rising consumer spending, and an improvement in the service sectors in the near-term. However, rising bond yields are likely to remain a headwind for valuation multiples as the Fed pursues a more aggressive tightening bias, with BofA Global Research expecting three 50 bps hikes in May, June and July, and 25 bps for all other meetings this year. While we continue to favor U.S. Equities on a risk-adjusted basis, we acknowledge that tightening monetary policy and rising bond yields could continue to pressure the riskier areas of the markets. Therefore we are trimming our allocation to Small-cap Value, while maintaining an overweight stance. Additionally, we are downgrading European Equities and International Developed Market Equities to underweight from neutral given that Eurozone growth is likely to weaken on the back of the energy price shock, declining business and consumer confidence and slowing money supply growth.

We are overweight U.S. Equities overall: The U.S. remains our preferred Equity region relative to the rest of the world, with stronger balance sheets on aggregate, prospects for higher levels of nominal growth and a favorable earnings backdrop. U.S. Large-caps generally offer a balance of Quality, Yield and Growth factors, while Small-caps offer higher cyclicality and more attractive relative valuations.

We expect earnings per share (EPS) for the S&P 500 to improve to $221 in 2022. U.S. Equity valuations are still higher than historical averages, but the recent selloff has brought the forward P/E to a more reasonable 17.7x level from 21.5x in December 2021. Near-term risks for Equities come from uncertainty surrounding the conflict in Eastern Europe, ongoing coronavirus concerns, China's slowdown and elevated levels of inflation. We would expect volatility to continue as financial conditions tighten as the Fed continues their hiking cycle.

This month we are adjusting our sector allocations to balance our cyclical positioning with some defensive sectors. We continue to prefer certain cyclical sectors with strong free cash flows and attractive valuations like Energy, Materials and Financials given the current macroeconomic backdrop. Recently we have become more constructive on defensive sectors like Real Estate and Healthcare, which are likely to provide some stability; this month we raise both to a slight overweight from neutral. In addition, we are raising our allocation to Utilities to neutral from underweight. Given our view that we are in the early stages of a late cycle environment, we are lowering our outlook for Information Technology and Industrials to neutral, and we are increasing the magnitude of our underweight to Communication Services. We continue to maintain a positive outlook for the health of the U.S. consumer; however, rising input costs pose a risk to margins, so we are moving to a slight underweight in Consumer Discretionary from neutral, and remain underweight Consumer Staples. We view this month's sector adjustments as another step toward a well-diversified and balanced stance.

We believe portfolios should incorporate both Growth and Value factors that would simultaneously gain from cyclical and secular forces gaining traction. Growth should continue to benefit from accelerated secular investments in 5G, artificial intelligence, cloud computing, robotics and health infrastructure globally. However, current economic conditions suggest that investors may want to consider emphasizing Value, which has higher exposure to cyclical sectors that may benefit from higher inflation. We maintain a slight overweight to Small-cap Equities, given their cyclical nature, correlation to interest rates and inflation, and the rising capital expenditures (CapEx) cycle.

We are neutral Emerging Market Equities: Emerging Market (EM) Equities appear attractively valued but remain vulnerable to further escalation of the conflict in Eastern Europe and the lingering effects of the pandemic. Looking forward, we see further challenges stemming from slower economic growth in China and rising U.S. interest rates. We nonetheless continue to expect a wide return dispersion between individual EM countries and regions. Central and Eastern European markets are most exposed to further fallout from the Ukraine/Russia crisis through the effect of international sanctions and high dependency on natural gas imports from Russia. Cyclically-oriented markets in Latin America, the Middle East and Africa should be relatively well positioned as commodity prices remain high, while markets in Asia remain more at risk from high energy and food import prices. For the heavyweight Chinese market, we also see ongoing policy risks related to industry-specific regulation. The structural rise in EM consumer spending remains a big reason that we believe investors should maintain a strategic allocation to EM Equities. The emerging world now constitutes around 40% of global personal consumption expenditures (PCE) according to the United Nations, and ongoing convergence with developed economies should support GDP growth and corporate earnings over the longer term. We favor active management[1] when investing in EM, as fundamentals differ across countries based on fiscal capacity, external funding needs, corporate governance and other factors.

We are downgrading International Developed Market Equities to a slight underweight: We continue to prefer U.S. versus International Developed given our higher-quality view. This month we are downgrading Europe and International Equities to underweight from neutral given headwinds to economic growth and corporate profits from higher energy prices, elevated inflation and the potential for the European Central Bank to become more hawkish than currently assumed. European Equities are now experiencing more earnings downgrades than upgrades for the first time since November 2020, as macroeconomic conditions have begun to deteriorate.

EQUITY WATCH LIST

- Regional economic reopenings, coronavirus case trends, vaccination distribution timeline

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

- Continued Fed tightening as inflationary pressures persist
- Economic data for production, labor, consumer expectations, and credit and liquidity conditions
- Progression of earnings estimates amid margin pressures
- Fiscal policy adjustments and taxes
- Reorganization of global supply chains and U.S.-China relationship
- Ongoing conflict in Eastern Europe

FIXED INCOME

We are underweight Fixed Income: While we remain underweight Fixed Income, this month we are trimming the magnitude of the underweight slightly given valuations, by adding to IG Corporates and Treasuries where appropriate. We prefer portfolios to be positioned short duration relative to the duration of a stated benchmark that is specifically aligned to investment goals. The Fed is as far behind the curve as it has been in more than 40 years. The Fed has pivoted hawkishly, and has even higher conviction that it must withdraw monetary policy accommodation at a somewhat faster pace to deal with high inflation. Quantitative tightening is expected imminently, at a much faster pace than last time. Treasury market volatility has increased significantly, and all major Fixed Income sectors are now negative year-to-date (YTD). This has been a historically bad start to the year, given the abrupt and historic change of the Fed's policy stance.

Yield curves have flattened significantly over the past twelve months, with numerous inversions having occurred at different parts of the curve, but some mild steepening has occurred leading to un-inversions. The yield curve is extremely flat to mildly inverted between three and 10 years. As long as the fed funds/10-year curve remains this positive—alongside other positive data, like leading economic indicators—the chances of a recession near-term is low, although there is greater risk in 2023 and 2024. Inflation expectations are high; however, they have moved down dramatically. The 5-year inflation breakeven hit an all-time record high of 3.73% on March 25, and is now closer to 3.25%. This still seems to leave the Fed two unattractive options, in our view: maintain the current expected path of policy tightening and allow for a continued overshoot of inflation; or adjust policy further to get inflation back down to their 2% target, at the expense of a markedly higher chance of a recession.

While there may be more upside to Treasury rates over the medium term, with a move from 50 bps to 3% the majority of the near-term rate move may have occurred. Treasurys should still be considered for most investors' portfolios, especially to complement portfolios with Equity risk. However, investors less focused on managing short-term Equity volatility, with all Fixed Income portfolios, or with better ability to withstand price volatility, should still underweight Treasury allocations while favoring high-quality, IG spread products—corporates and municipals. We still expect Fixed Income to be a diversifier—in the long run, coupon income is a larger determinant to total returns than price changes due to rate moves—and this diversification effect has proven true when rate volatility decreases.

We remain slightly overweight Investment-grade corporates and slightly underweight High Yield: Investment-grade credit spreads have widened during the month of April, giving up roughly 50% of the recent rally and are now trading at +130-140 bps. We continue to believe that recent weakness in IG is primarily a reflection of monetary policy uncertainty and technical factors—and not building credit stresses in the market. Issuance has been pulled forward, and fund flows remain under pressure amid historically significant price drawdowns, for long duration IG corporates (10+ years), in particular. Despite uncertainties with regard to the macro backdrop next year, we believe that credit could modestly outperform Treasurys this year given strong underlying corporate credit fundamentals. Further widening in credit spreads in response to an unexpected or large move in Treasury yields, inflation or both remains a key risk; however,

a move wider in spreads toward ~150 bps should be viewed as a repositioning opportunity absent a pickup in recession risk in 2023.

Credit losses in IG are generally manageable and not a large component of spreads, but the same cannot be said in HY. Despite an improving fundamental backdrop, credit losses may rise and meaningfully reduce total returns. The yields now available in HY (roughly 4%) provide very meager compensation. Within HY allocations, we prefer larger allocations to secured floating-rate leveraged loans versus unsecured high yield bonds, although both should be included, and we caution investors to be aware that strong near-term performance may not be sustainable.

Municipal bond valuations have cheapened significantly versus Treasurys this year and are now quite cheap versus historical averages. We believe fundamental conditions remain strong, with municipal issuers benefitting from strong growth in tax collections and generous fiscal stimulus passed by the federal government in 2020 and 2021. However, technicals remain weak because retail demand has slackened due to high inflation, sharply tightening monetary policy, and the reduced likelihood of tax rate increases. Muni credit spreads (e.g., BBB vs AAA) have also widened modestly, although we believe this too is based on technical, not fundamental weakness. We still expect munis to provide value over Treasurys for tax-sensitive investors in 2022, particularly carefully researched mid-to-lower-quality credits. However, munis are unlikely to outperform as strongly as they did in 2021 due to the weaker technicals, in our view.

We are slightly underweight Mortgage-Backed Securities: Due to concerns about Fed quantitative tightening, along with reduced demand from commercial banks as loan demand recovers, Mortgage-Backed Securities (MBS) spreads have come under pressure and are leaking wider. The rapid move in Treasury yields has also caused mortgage duration to extend from the low 2s seen in mid-last year to the high 5s, according to the Bloomberg U.S. MBS Index. Because of the higher mortgage rates, only a small percentage of mortgages are currently eligible for refinancing, so duration extensions may be limited in the future. Going forward, increased volatility and fluctuating mortgage rates may mean a higher prepayment risk. Furthermore, any miscommunication or negative surprise as a result of rising inflation, particularly as it relates to balance sheet reduction, is a material risk. Hence, it is prudent to position conservatively within the sector, in our opinion. In the long run, MBS appears attractive versus Treasurys, and the sector is a large component of the high-quality bond market. Therefore, we believe investors should maintain exposure in the sector as appropriate for their particular investment objectives and risk tolerance.

FIXED INCOME WATCH LIST

- Deeper or new inversions in the yield curve, particularly in 2s/10s and 10s/30s, which would be interpreted as increased recessionary risk. Signs of significantly negative Fixed Income fund flows
- Inflation breakevens for signs of stabilization, or an “un-anchoring” of inflation expectations
- Signs of any risk aversion or recessionary risk in terms of spreads, yields or new issue activity
- Potential tax changes if consensus is eventually reached on the Build Back Better bill
- Dislocations in Commercial Real Estate (CRE) markets

MACRO STRATEGY

- Consumer spending and business investment grew at an above-trend pace in Q1, a key positive dynamic emerging from a negative headline growth print. We think recession risks are low this year, but with inflation far above target, the Fed is likely to have a difficult time reining in inflation without eventually causing a recession. Elevated geopolitical risk adds to this risk. We believe this is likely to keep markets volatile.
- Growth risks in the rest of the world, particularly China and Europe, have increased as well. We maintain our preference for U.S. assets versus the rest of the world.

ECONOMIC FORECASTS (AS OF 4/29/2022)

	2021A	Q1 2022A	Q2 2022E	Q3 2022E	Q4 2022E	2022E
Real global GDP (% y/y annualized)	6.1	-	-	-	-	3.3
Real U.S. GDP (% q/q annualized)	5.7	-1.4	3.5	2.5	1.8	2.7
CPI inflation (% y/y)	4.7	8.0	7.7	7.2	6.2	7.3
Core CPI inflation (% y/y)	3.6	6.3	5.4	5.2	5.0	5.5
Unemployment rate (%)	5.4	3.8	3.4	3.2	3.1	3.4
Fed funds rate, end period (%)	0.07	0.33	1.38	2.13	2.63	-

The forecasts in the table above are the baseline view from BofA Global Research. The Global Wealth & Investment Management (GWIM) Investment Strategy Committee (ISC) may make adjustments to this view over the course of the year and can express upside/downside to these forecasts. **Past performance is no guarantee of future results.** There can be no assurance that the forecasts will be achieved. Economic or financial forecasts are inherently limited and should not be relied on as indicators of future investment performance.

A = Actual. E/* = Estimate. Note: BofA Global Research 2022 end period S&P 500 estimate is 4500; end period 10-year Treasury estimate is 2.50%; 2022 average West Texas Intermediate Oil estimate is $100/barrel. Sources: BofA Global Research; GWIM ISC as of May 3, 2022.

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The table below provides a rough indication of where the S&P 500 Index's central tendency could be, given various scenarios for EPS in 2023 and price-to-earnings (P/E) ratio multiples. These scenarios are not official price targets and are not meant to signal levels where portfolio actions may always be needed. However, during times of market volatility, it's useful to keep this basic framework in mind when considering whether to incrementally add to or trim risk from portfolios while staying invested in one's strategic asset allocation framework.

S&P 500 SCENARIOS BASED ON FORWARD P/E AND 2023 EPS

Forward P/E (Next 12 months)

2023 EPS	Forward P/E (Next 12 months)				
	18.0x	19.0x	20.0x	21.0x	22.0x
$275	4,950	5,225	5,500	5,775	6,050
$265	4,770	5,035	5,300	5,565	5,830
$255	4,590	4,845	5,100	5,355	5,610
$245	4,410	4,655	4,900	5,145	5,390
$235	4,230	4,465	4,700	4,935	5,170
$225	4,050	4,275	4,500	4,725	4,950
$215	3,870	4,085	4,300	4,515	4,730

For illustrative purposes only. Forecasts are subject to change. Source: Chief Investment Office as of May 3, 2022.

CIO ASSET CLASS VIEWS

Asset Class	CIO View					Comments
	Underweight		Neutral		Overweight	
Global Equities				●		We retain our positive view on Equities based upon favorable relative valuations and solid global growth. We remain overweight the U.S. and neutral EM, with a slight underweight to International Developed.
U.S. Large-cap Growth			●			Growth should continue to benefit from accelerated secular trends, but Value, which has higher exposure to cyclical sectors, should benefit from higher inflation and economic reopening. We believe portfolios should incorporate both Growth and Value factors.
U.S. Large-cap Value				●		
U.S. Small-cap Growth				●		Small-caps have relatively attractive valuations and could benefit from further cyclical rotation.
U.S. Small-cap Value				●		
International Developed		●	◄			International Developed Equities remain more vulnerable to rising oil and gas prices and elevated geopolitical risk, and underlying nominal growth is expected to trail behind U.S. levels.
Emerging Markets			●			We are neutral EM Equities overall, with cyclically-oriented markets relatively well positioned as commodity prices remain high. Key risks stem from escalation of conflict in central and Eastern Europe, ongoing fallout from the pandemic, rising U.S. interest rates and industry-specific regulation in China.
Global Fixed Income		●				Bonds diversify multi-asset class portfolios by providing income and relative stability. Below-benchmark duration is preferred, as fiscal and monetary policy supports higher inflation, stronger nominal growth and higher long-term rates over the medium term.
U.S. Governments		●				While yields are still expensive relative to inflation, they provide significantly better value and lower risk-to-reward than at any point since the pandemic. Some allocation to Treasurys for liquidity and principal preservation is still advised, as Treasurys continue to provide one of the best short-term diversification benefits to Equities among Fixed Income assets. Interest rate volatility has increased and may remain high.
U.S. Mortgages		●				Although the Fed has successfully started to tighten monetary policy without markets overreacting, any miscommunication or persistent inflation leading to increased MBS balance sheet reduction remains a key risk. Furthermore, MBS purchases from banks may slow as lending increases, presenting a potential headwind. Finally, recent geopolitical challenges can increase interest rate volatility, a negative driver of MBS performance. In the short term, we expect MBS to underperform Treasurys and recommend conservative positioning in short-duration assets.
U.S. Corporates				●		Credit spreads have continued to widen amid interest rate volatility and weaker technical dynamics. With IG at +130 to140 bps, the index is well off last 12 months lows in spread, and also at a level which we continue to believe is consistent with a technical selloff and not indicative of fundamental deterioration or recession. While markets could remain choppy, we continue to prefer high grade Corporates over Treasurys given incremental carry and see best opportunities in in the front end of the curve (i.e. 1-3 years).
International Fixed Income	●					Compressed yields and risk premiums around the globe compared to the U.S., combined with potentially higher volatility in non-U.S. markets, present unfavorable risk/reward conditions for non-U.S. Fixed Income, in our view, justifying an underweight position.
High Yield		●				Valuations present mediocre absolute long-term returns after estimating credit losses. Near-term performance may be reasonable—given where the economy is in the business cycle – however we don't view the risk/reward favorably. Any additions to HY risk need to have a long time frame. Within HY, we prefer more floating-rate loan exposure versus HY unsecured.
U.S. High Yield Tax Exempt		●				HY muni valuations and credit spreads have widened due to weak technicals but fundamentals remain solid.
U.S. Investment-grade Tax Exempt			●			Municipal bond valuations have cheapened significantly versus Treasurys and are now quite cheap versus historical averages. Muni credit continues to benefit from growing tax collections and generous fiscal stimulus passed over the previous 2 years. However, demand is weak due to high inflation, monetary tightening, and the lower likelihood of tax rate increases. We still believe munis provide value over Treasurys for tax-sensitive investors, particular well-researched, mid-to-lower quality credits.

Tactical qualitative investment strategy weightings are relative in nature versus the strategic weightings for a fully diversified portfolio. Weightings are based on the relative attractiveness of each asset class. Tactical strategy weightings are for a 12- to 36-month time horizon. CIO asset class views are relative to the CIO Strategic Asset Allocation (SAA) of a multi-asset portfolio. Because economic and market conditions change, recommended allocations may vary in the future. Asset allocation cannot eliminate the risk of fluctuating prices and uncertain returns. All sector and asset allocation 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. Changes in economic conditions or other circumstances may adversely affect your investments. Source: Global Wealth & Investment Management Investment Strategy Committee as of May 3, 2022.

CIO THEMATIC INVESTING

Taking the long view, the following themes and subthemes are considered among the most powerful structural forces in the world. They are macro in nature but carry significant risks and reward for companies, both large and small. Although constructed with a global lens, in today's tightly woven world, what transpires or disrupts in Asia has a tendency to emerge in Europe or North America, and vice versa. These themes are transformational and carry long-term implications for economic growth, the cost of capital and global earnings. Gaining exposure to these themes is a key ingredient to investing.

Theme	Comments
Big Data	The massive growth in unstructured data being created by connected machines, devices and systems is fueling data processing and data analytics. Complementing artificial intelligence technologies are replete with applications for big data. The size of the digital world and Internet of Things (IoT) is accelerating the migration of data and applications to a cloud computing environment. Data centers and cloud-based storage will likely capture incremental data created.
Demographics	Several demographic transitions serve as important arbiters of future growth. With elongated life expectancies globally, longevity for older populations will likely mean a renewed focus on healthcare, aged-care, financials, and consumer products and services for longer, serving as a multitrillion-dollar potential opportunity. Both the Millennials (born 1981-1996) and Gen Z (born 1997-2012) could have greater influence over the next decade on consumer spending and preferences. While we are neutral the EM asset class on a tactical basis, we believe the EM consumer represents a powerful middle-class consuming cohort over the longer term. Uplifting the bottom billions, or poorest socioeconomic group with growing access to electricity, internet and sanitation can also offer a demographic dividend for multinational companies.
Climate Change	With emphasis from the new administration, a much greater focus is on health, renewable energy, clean water and sanitation, and other industries that tend to support a more sustainable future. 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: Renewable energy (solar, wind and hydrogen), as well as energy-efficiency such as building systems, water/waste management, and energy storage & distribution. An increased focus on ESG factors and metrics promotes the shift toward stakeholder capitalism.
Future Mobility	The future of mobility hinges on next-gen infrastructure. This includes the telecom industry's deployment of the 5G network, which is expected to prove to be the greatest accelerant and enabler to smart cities (smart buildings, safety and security), autonomous vehicles and unmanned drones. The growing electric vehicle market will likely demand installation of charging equipment and fuel peripheral industries such as battery material demand.
Security	Expanding the IoT means security for a growing ecosystem of devices and end points. With the increase in time spent on online platforms, (as well as adoption of online payments/FinTech), data privacy/surveillance and governance is expected to play a larger role in a post-pandemic world, as will bolstering cybersecurity defenses and budgets. With the commercialization of space, cybersecurity will likely extend to space-based assets (think satellites, data links, weather monitoring and GPS).
Post-crisis World	In the post-crisis world, reshoring policies are increasingly focused on building more resiliency into their supply chains, helping to sculpt tri-polar supply chains pivoting between North America, Asia and Europe. A number of labor force dynamics have converged to place unprecedented demand on labor not only in the U.S. but around the world, hastening the need for industrial and service automation/robotics. The extraction, sourcing, use and management of the world's resources will stay in focus as both the agriculture and commodity complexes are stretched given the geopolitical backdrop. If the future entails increased investments into electric vehicles and greener energies, then the future will be mineral and material-intensive, calling for more mining of copper, lithium, nickel, manganese, cobalt and graphite, etc. Lastly, real assets in the post-crisis world is a key buffer to above-trend inflation.

Source: Chief Investment Office as of May 3, 2022.

Table 1: CIO U.S. Low Tax Sensitivity (Tier 0 liquidity) Asset Allocation Guidance for Merrill Clients

Tier 0 (highest liquidity): Highest liquidity needs with none of the portfolio invested in less liquid alternative asset categories

	All Fixed Income		Conservative		Moderately Conservative		Moderate		Moderately Aggressive		Aggressive		All Equity	
	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical
Equity	**0%**	**0%**	**26%**	**28%**	**43%**	**45%**	**59%**	**61%**	**74%**	**76%**	**88%**	**90%**	**98%**	**98%**
U.S. Large Cap Growth	0%	0%	7%	7%	12%	12%	17%	17%	21%	21%	25%	25%	29%	27%
U.S. Large Cap Value	0%	0%	8%	10%	15%	17%	19%	21%	24%	26%	28%	30%	31%	33%
U.S. Small Cap Growth	0%	0%	1%	2%	1%	2%	2%	3%	2%	3%	3%	4%	3%	3%
U.S. Small Cap Value	0%	0%	1%	2%	1%	2%	2%	3%	2%	3%	3%	4%	3%	4%
International Developed Equity	0%	0%	6%	4%	10%	8%	13%	11%	17%	15%	20%	18%	22%	21%
Emerging Markets	0%	0%	3%	3%	4%	4%	6%	6%	8%	8%	9%	9%	10%	10%
Fixed Income	**98%**	**98%**	**58%**	**54%**	**55%**	**51%**	**39%**	**35%**	**24%**	**20%**	**10%**	**6%**	**0%**	**0%**
U.S. Government	28%	25%	17%	13%	16%	12%	12%	8%	7%	3%	3%	1%	0%	0%
U.S. Mortgages	24%	22%	12%	11%	13%	12%	10%	9%	6%	5%	2%	0%	0%	0%
U.S. Corporates	25%	35%	17%	20%	16%	19%	13%	16%	8%	11%	3%	4%	0%	0%
U.S. High Yield	6%	4%	3%	2%	3%	2%	2%	1%	2%	1%	2%	1%	0%	0%
International Fixed Income	15%	12%	9%	8%	7%	6%	2%	1%	1%	0%	0%	0%	0%	0%
Cash	**2%**	**2%**	**16%**	**18%**	**2%**	**4%**	**2%**	**4%**	**2%**	**4%**	**2%**	**4%**	**2%**	**2%**

Source: Chief Investment Office as of May 3, 2022.

Table 2: CIO U.S. High Tax Sensitivity (Tier 0 liquidity) Asset Allocation Guidance for Merrill Clients

Tier 0 (highest liquidity): Highest liquidity needs with none of the portfolio invested in less liquid alternative asset categories

	All Fixed Income		Conservative		Moderately Conservative		Moderate		Moderately Aggressive		Aggressive		All Equity	
	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical
Equity	**0%**	**0%**	**24%**	**26%**	**41%**	**43%**	**57%**	**59%**	**72%**	**74%**	**88%**	**90%**	**98%**	**98%**
U.S. Large Cap Growth	0%	0%	7%	6%	12%	12%	17%	17%	21%	21%	26%	26%	29%	27%
U.S. Large Cap Value	0%	0%	8%	10%	14%	16%	19%	21%	24%	26%	29%	31%	31%	33%
U.S. Small Cap Growth	0%	0%	1%	2%	1%	2%	1%	2%	2%	3%	3%	4%	3%	3%
U.S. Small Cap Value	0%	0%	1%	2%	1%	2%	2%	3%	2%	3%	3%	4%	3%	4%
International Developed Equity	0%	0%	5%	3%	9%	7%	13%	11%	17%	15%	20%	18%	22%	21%
Emerging Markets	0%	0%	2%	3%	4%	4%	5%	5%	6%	6%	7%	7%	10%	10%
Fixed Income	**98%**	**97%**	**74%**	**70%**	**57%**	**53%**	**41%**	**37%**	**26%**	**22%**	**10%**	**6%**	**0%**	**0%**
U.S. Government	0%	0%	11%	11%	0%	1%	0%	1%	0%	1%	0%	1%	0%	0%
U.S. Mortgages	0%	0%	5%	4%	2%	0%	0%	0%	0%	0%	0%	0%	0%	0%
U.S. Corporates	7%	9%	8%	11%	4%	7%	0%	1%	0%	1%	0%	1%	0%	0%
U.S. High Yield	9%	8%	3%	0%	4%	1%	4%	1%	3%	1%	0%	0%	0%	0%
U.S. Investment Grade Tax Exempt	60%	63%	28%	28%	29%	29%	32%	32%	19%	16%	6%	3%	0%	0%
U.S. High Yield Tax Exempt	9%	6%	4%	2%	4%	2%	4%	2%	4%	3%	4%	1%	0%	0%
International Fixed Income	13%	11%	15%	14%	14%	13%	1%	0%	0%	0%	0%	0%	0%	0%
Cash	**2%**	**3%**	**2%**	**4%**	**2%**	**4%**	**2%**	**4%**	**2%**	**4%**	**2%**	**4%**	**2%**	**2%**

Source: Chief Investment Office as of May 3, 2022.

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. Although the index focuses on the large-cap segment of the market, with approximately 75% coverage of U.S. equities, it is also an ideal proxy for the total market.

Chicago Board Options Exchange (CBOE) Volatility Index (VIX) is a real-time market index that represents the market's expectation of 30-day forward-looking volatility.

Bloomberg US Mortgage-backed Securities (MBS) Index tracks fixed-rate agency mortgage backed pass-through securities guaranteed by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC).

Consumer Price Index (CPI) is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food, and medical care.

Producer Price Index (PPI) program measures the average change over time in the selling prices received by domestic producers for their output.

Purchasing Managers' Index (PMI) is a measure of the prevailing direction of economic trends in manufacturing.

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