CHIEF INVESTMENT OFFICE

Investment Insights

Uncertainty At Its Highest

April 2022

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

AUTHORED BY:

Chris Hyzy
Chief Investment Officer

Data as of 04/27/2022 and subject to change.

It is well known that markets, especially risk asset markets, do not like uncertainty. It is also well understood that with extreme uncertainty, consistent tailwinds are needed over time to turn poor sentiment around and re-establish an uptrend. This may all seem far gone at this point given the sharp decline in global Equity and Bond markets, elevated volatility on a weekly basis, and the long and deep list of concerns that dominate the headlines each day. Policy makers are draining investment liquidity, a few of the world's largest cities in China are in shutdown, some currencies outside the U.S. are establishing close to two decade lows relative to the U.S. dollar, the Federal Reserve (Fed) is playing catch up to help squash inflation with higher short rates and sharp balance sheet contraction, and the crisis in Ukraine has been extended. Is it any wonder that risk assets have been in correction mode, longer duration, more highly valued investments and companies are in bear market downdrafts, and asset class correlations, which typically balance each other out, are trading pretty much in lock step as investment outflows have gathered momentum? In addition, what if the Fed's balance sheet contraction (quantitative tightening) plan goes too far and has to be reversed? Will this bring down yields, force a cut in interest rates, and kick-start inflows back into long-term growth Equities? These types of questions are likely to come and go as we head into and through 2023. It is difficult to simply dismiss all of this as somewhat normal, particularly as major business cycle pivots occur like this one. However, we have experienced multiple major correction periods in the past when interest rate trends change significantly, valuation starting points are at premium levels, and recession concerns build. With various potential scenarios out there, it's important to be on guard. We believe this is not an environment to be overly cyclical and, at the same time, too defensive. We would consider using market gyrations in the coming weeks to become even more balanced at the sector level in Equities and diversified at the asset allocation level according to your risk profile.

In today's investment marketplace, corrections seem to happen with more velocity and with greater connectivity. This, in our view, creates more concern and adds to the uncertainty. But short term uncertainty, even in the face of sudden downdrafts, does not change the principles of asset allocation and the benefits of long-term investing and diversification. Trend reversals are difficult to develop until the largest concerns begin to fade but remaining disciplined with a core portfolio strategy that is designed to compound returns over time continues to be paramount.

The clouds are dark but our view is that the larger concerns should begin to fade beginning around mid year. This should help lower volatility, exhaust the weekly outflows and turn investor focus back on fundamentals and specifically toward areas that have

Trust and fiduciary services are provided by Bank of America, N.A., Member FDIC, and a wholly owned subsidiary of Bank of America Corporation ("BofA Corp.").
Investment products:

Are Not FDIC Insured	Are Not Bank Guaranteed	May Lose Value

Please see last page for important disclosure information.

become too oversold and/or investments that benefit from this next leg of the long-term secular bull market. The catalysts that we expect to begin to turn sentiment for the better are: the widely expected Fed hikes become reality; signs that inflation has peaked emerge (higher rates, strong dollar, a slowdown in housing with the sharp increase in mortgage rates are all helping to do the Fed's job already), even though estimate revisions exhale to a lower overall level, the profit cycle does not peak (slower earnings growth but not a decline); longer dated bond yields stabilize; and, the credit markets maintain stability.

The mix of strong household and corporate balance sheets, high capital levels in the banking system remain a foundation of stability as we transition later into the business cycle. Capital investments in Corporate America are growing and consistent. Job growth continues at a healthy clip and although consumer confidence—driven by large inflationary concerns—is at a low point, consumer spending continues to show vigor. We recognize that strong fundamentals can turn quickly as higher interest rates and lower liquidity filter through. However, we believe the market environment is one that is more akin to a sharp slowdown off the ultra high growth rates, excessive liquidity and premium multiples coming out of the pandemic than what is still fresh in many investors' minds from the global credit crisis some 13 years ago.

This new cycle and new market regime requires adjustments in portfolio positioning. A rotation has been occurring for months and we suspect there will be more consolidation in the foreseeable future. We continue to emphasize diversification across and within asset classes, with an overweight in Equities relative to Fixed Income. We prefer higher quality investments across the board and maintain our stance of adding Real Assets to a core portfolio as inflation stays above trend. We also continue to emphasize Energy and Materials in a core sector-based portfolio and an overweight in U.S. Equities relative to the rest of the world. Furthermore, we are beginning to witness attractive absolute levels in some yields in the Bond markets. We suspect that given the rise in yields in 2022 global asset allocators have been subtly adjusting their asset allocation back into Fixed Income, which could be exacerbating the weakness in Equities. Portfolio balance and diversification are critical characteristics to emphasize as we work through this cycle.

Important Disclosures

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.").

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. Bonds are subject to interest rate, inflation and credit risks. 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. Bonds are subject to interest rate, inflation and credit risks. 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.

Nonfinancial assets, such as closely-held businesses, real estate, fine art, 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 in the best interest of all investors. Always consult with your independent attorney, tax advisor, investment manager, and insurance agent for final recommendations and before changing or implementing any financial, tax, or estate planning strategy.

© 2022 Bank of America Corporation. All rights reserved.