CHIEF INVESTMENT OFFICE

Viewpoint

A Marathon Not A Race

February 2021

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

IN BRIEF

- In our view, we remain in the early stages of a cyclical recovery driven by a coronavirus vaccine-led reopening of economies, as well as substantial policy tailwinds across the world. As sentiment exhales, we expect the primary trend in market direction to be driven by the improving fundamentals for growth and corporate earnings.
- A surge in retail volume across a number of smaller equity listings prompted deleveraging pressures and caused a sharp selloff last week; however, we expect the effect on the broader equity market to be short-lived and limited. Investor sentiment may settle in the near term and investors may then look to add more exposure on weakness.
- Positive earnings estimate revisions and upside surprises expected into 2022 should help equity valuations moderate; meanwhile, as yields back up, we expect this to be a pivotal year for portfolio rotation as years of fund flows favoring Fixed Income do not suggest equities are over-owned.
- We recommend short duration in Fixed Income relative to a stated benchmark that is aligned to investment goals, and expect Investment-grade corporates to continue to outperform Treasurys.

CIO ASSET CLASS VIEWS

This month the Global Wealth & Investment Management Investment Strategy Committee did not make any tactical asset allocation adjustments, but we reaffirm our positive view on Equities relative to Fixed Income and expect participation to broaden across sectors, regions and styles. We continue to focus on increasing cyclical exposure and emphasize portfolio diversification both across and within asset classes.

View the CIO Asset Allocation Guidelines

Listen to the audio cast

Asset Class	CIO Views				
	Under-Weight		Neutral	Over-Weight	
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	●				
Alternative Investments*					
Hedge Funds			●		
Private Equity			●		
Real Assets			●		
Cash					

* Many products that pursue Alternative Investment strategies, specifically Private Equity and Hedge Funds, are available only to qualified investors.
CIO asset class views are relative to the CIO Strategic Asset Allocation (SAA) of a multi-asset portfolio.

The starter's gun went off and the race began, leaving those who run the marathon asking many questions about the durability of the bull market's advance that started from the lows in March 2020. Is frothy sentiment just a short term concern or can it lead to a longer-term period of weakness? Are valuations too high to allow for attractive-enough returns in the years ahead? How does the speculative frenzy in a narrow segment of the market affect the broader trend? And, in terms of asset allocation, what type of portfolio positioning makes sense given the current developments and the point in the economic cycle that we are entering? These are all questions we have been receiving lately, which makes sense given the unprecedented stimulus and liquidity in the system, the perceived disconnect between the capital markets and level of economic activity, and the extraordinary amount of flows in fixed income relative to equities over the last decade plus. How do we put the recent volatility into perspective in the context of a marathon relative to a race?

Last week's volatility spike included the largest one-day increase in the Chicago Board Options Exchange (CBOE) Volatility Index (VIX) since last year's pandemic-driven bear market of February and March. Investors faced a "short squeeze" and a major bout of deleveraging pressure, prompted by a surge in retail volume across a number of Small-cap and Mid-cap equity listings. Retail investor buying drove large upside price movements in specific individual equities, forcing larger institutional and hedge fund investors to close out their short positions at higher prices and sell down other portfolio holdings to meet margin calls. This process in turn led to yet more deleveraging and more price weakness for larger, more liquid stocks in a vicious downward cycle that pulled the S&P 500 down by 3.3% on the week.

While the past week's selloff was sharp, we would expect the effect on the broader equity market to be short-lived. Margin debt as a share of total equity market capitalization remains well below past extremes. And while stock-specific volatility could persist, the wide disparity in size between these smaller names and the Large-cap listings that dominate the major indexes should make for a limited effect on any sustained basis for the market as a whole. Throughout the last cycle, major short-term spikes in volatility tended to be followed by outsized gains for equity markets as sentiment recovered and investors bought back on weakness, and we would look for a similar pattern to emerge from this latest period of market turbulence. Investor sentiment was overly frothy heading into the speculative activity last week, which led to some attempted rallies fading. By week's end, investor nervousness rose, and risk-off started to take over. Investor sentiment in the near term is likely to come back to earth as some investors wait out the volatility, in our view.

As sentiment exhales, we expect the primary trend in market direction to be driven by the improving fundamentals for economic growth and corporate earnings. In our view, we remain in the early stages of a cyclical recovery driven by a vaccine-led reopening of the major economies, as well as substantial monetary and fiscal policy tailwinds from central banks and governments around the world. Participation in the market advance is likely to broaden across equity sectors, regions and styles as real activity returns to pre-crisis levels on a global basis and as investor confidence in the recovery becomes more widespread. As a result, we believe that increased portfolio diversification both across and within asset classes will remain a key consideration for investors as we move further into the economic expansion and to the other side of the pandemic.

Currently high equity valuations should decline in coming quarters as earnings shift from a trough level toward a more normalized and much higher level setting the stage for positive estimate revisions, surprises to the upside, and potentially much higher growth in 2022 than currently expected. The driving force could be twofold: a stronger economic recovery than most expect and higher operating leverage in corporate America. The lessons from the pandemic era apply throughout all sectors.

Furthermore, according to Fundstrat Research flow data, 94% of all investment flows into mutual funds and exchange-traded funds since January 2008 have gone into Fixed Income and only 6% into Equities. As yields back up—as we expect this year and next—we see 2021 as a pivotal year for portfolio rotation on the margin. Therefore, we do not believe equities are over-owned at this point. We expect further upside as the marathon moves along.

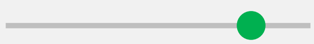
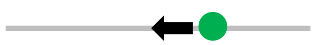
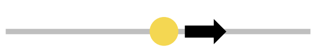
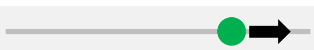
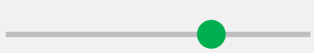
The speculative frenzy is concerning in the short term because it can lead to broader market weakness and high volatility, not to mention extended machine-led or computer-driven re-positioning, which can create further weakness, in our opinion. However, the equity volatility and risk-off mode has not transferred into credit. Spreads have remained narrow even in the lowest-quality areas. This is another sign that fundamentals continue to improve off a low point in 2020. Investors need to be disciplined and focus on the larger trends that are beginning to take shape. An improved global economy, pent-up consumer demand and high savings in consumer land, a manufacturing revival overseas and large growth themes that developed during the pandemic heading into phase two are all reasons for our optimism over the next few years. For now, we are focused on increasing cyclical exposure in portfolios, maintaining high levels of diversification across sectors and an overweight in equities relative to fixed income.

CIO INVESTMENT DASHBOARD

The BofA Global Research Global Wave Indicator continues to point to improving economic activity and rising earnings estimate revisions, suggesting a sustained global upturn in corporate profits. Monetary and fiscal policy continues to provide an accommodative backdrop for equities, with combined stimulus measures so far totaling 49% of gross domestic product (GDP) in the U.S. and approaching 33% globally, according to Cornerstone Macro Research. Additional fiscal stimulus in December is adding support for individuals and small businesses, in particular. Corporate credit conditions have generally improved as a result of measures taken by the Federal Reserve (Fed), with credit spreads remaining in a tighter range across Investment-grade (IG) and High Yield (HY), while relative valuations continue to favor equities over fixed income.

Investor sentiment has risen to more bullish levels as indicated by strong market breadth, bullish investor positioning and fund flows into more cyclical assets. Institutional cash levels have fallen; but remains above pre-coronavirus levels. We are mindful of the potential for some profit-taking by investors in the near term amidst a fragile economic recovery, regional pandemic concerns, and policy uncertainty. However, any pullback is likely to be an opportunity to add to cyclical areas of the market given the prospects for a synchronized global growth environment in 2021.

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		Companies in the S&P 500 have reported better-than-expected results and the earnings trough has likely passed. Companies are also providing better guidance. The positive trend in global earnings expectations continues. On average over the past three months, earnings upgrades outnumber downgrades in every region, most global sectors, and in all global styles.
Valuations		U.S. equity valuations remain attractive compared to fixed income. The equity risk premium, which is especially relevant given particularly low yields, is at 3.4%. This places it at the 64th percentile, compared to the 71st percentile in late November. Currently low-but-positive interest rates should support higher valuations for equities by maintaining easier financial conditions while keeping deflationary fears at bay.
U.S. Macro		U.S. economic activity is choppy but improving. The Institute for Supply Management (ISM) manufacturing index remains in expansionary territory, while historic lows in the national 30-year fixed mortgage rate has underpinned robust housing activity. The U.S. Citi Economic Surprise Index indicates stronger-than-expected data, though the magnitude of these surprises has ebbed somewhat. On an annualized quarterly basis, real GDP growth for Q4 was 4% after a record 33.1% in Q3. BofA Global Research expects Q1 growth to stabilize at 4%, with full year 2021 at 6%.
Global Growth		The pandemic represents an unprecedented shock to global economic activity. We expect global GDP to contract by -3.4% in 2020 but rebound by 5.4% in 2021. For 2022, real GDP is expected to grow by 4.3%. The duration and shape of the recovery depend on the trends in health data and advancements of testing and treatments.
Federal Reserve/Inflation		The Fed has maintained its ultra-accommodative stance in combating the economic effect of the coronavirus outbreak. Most members of the Federal Open Market Committee have reiterated a long-term, dovish stance, emphasizing the commitment to using its full range of tools to support economic growth given the tremendous hardship from the coronavirus pandemic. The Central Bank will seek to achieve an average inflation rate of 2% over time. Certain emergency facilities and Treasury funding have been terminated.
Trade/Fiscal Policy		Including relief passed in late December, comprising of checks for individuals and support for small businesses, among other measures, U.S. authorities have now authorized fiscal stimulus totaling nearly 20% of GDP since the start of the pandemic. The Biden administration is in talks with Congress to provide further aid. Tensions between the U.S. and China remain elevated but have the potential to moderate.
Corporate Credit		Corporate credit conditions have broadly improved as a result of measures taken by the Fed. Despite recent volatility, credit spreads remain tight across IG and HY.
Yield Curve		Accommodative policy by the Fed is reflected in the shape of the yield curve, with the spread between the Fed funds rate and 10-year Treasury yield currently about +95 basis points (bps) versus about -59 bps in early March.
Technical Indicators		The VIX Index recently spiked after hanging around the lowest levels since August. Measured by the MOVE Index, fixed income volatility has remained near its prevailing low levels. The percentage of New York Stock Exchange (NYSE) stocks above their 200-day moving average now stands above 80% and near the peak for the year. At the trough in March, this measure fell to just 3%.
Investor Sentiment		Aggregate positioning has increased. Institutional cash levels have fallen to levels triggering a contrary sell signal, according to the BofA Fund Manager Survey. The BofA Bull & Bear Indicator is at 6.7, still a neutral signal and off its late-March low of 0.0. Investor sentiment has also turned more bullish, according to the American Association of Individual Investors. Flows have turned slightly more mixed. U.S. and tech have seen a bump higher, while Europe and Japan have seen slight outflows.

Source: Chief Investment Office. Data as of February 1, 2020.

EQUITIES

- **We expect equities to outperform fixed income:** Global equities are near their historic highs as the broader economic recovery continues; historic levels of global monetary and fiscal stimulus, and medical advances offer the potential for economic normalization. The Fed's commitment to maintaining accommodation for an extended period lends confidence for higher nominal growth and corporate earnings, while equities remain reasonably valued relative to other asset classes from a cash-flow and yield perspective. Higher levels of inflation would also be expected to favor equities over fixed income. Looking forward, there remains uncertainty given the path of the coronavirus, vaccine deployment timeline and policy uncertainty. We continue to favor U.S. equities and are neutral International Developed equities and Emerging Markets.

- **We are overweight U.S. equities:** The U.S. remains our preferred equity region relative to the rest of the world, with stronger balance sheets on aggregate, greater exposure to secular growth industries, and improving earnings revisions. U.S. Large-caps offer a balance of Quality, Yield and Growth factors, while Small-caps offer higher cyclicality and relatively more attractive valuations.

  We expect earnings per share (EPS) for the S&P 500 to improve to $165 in 2021, with potential upside. Earnings estimate revisions have risen considerably in the U.S., with upgrades outnumbering downgrades 1.93-to-1 since November according to BofA Global Research. Improving manufacturing, housing and capital expenditure data also bolster the case for an earlier-than-expected earnings recovery, which would help support equities. Technology and Healthcare sectors are favored in the long term due to the secular rise in spending on innovation, productivity and health infrastructure. Industrials and Financials sectors should benefit from continued economic recovery and an investor positioning shift toward more cyclicality.

  The current equity risk premium, or the difference between the earnings yield of the S&P 500 and the 10-Year U.S. Treasury, is 3.4% and in the 64th percentile of its historical range, which supports the attractiveness of equities over fixed income. The rising exposure of the S&P 500 to secular growth industries, currently lower levels of global interest rates and stable profit margins supports higher multiples longer term, but in the near term, performance will likely be influenced by the coronavirus, sentiment and policy developments. Earlier in 2020, a historic divergence between Growth and Value developed; however, Value has begun to share in market leadership more recently. We believe portfolios should have a balance of 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. Value has higher exposure to cyclical sectors that benefit from an improved pace of earnings growth and economic normalization.

- **We are neutral Emerging Market equities:** Fundamentals appear to be improving as global synchronized growth picks up, manufacturing and trade further improve, China activity surpasses pre-pandemic levels, and the U.S. dollar weakens—all of which should benefit EMs. Recent fund flows also point to greater investor interest in the region. Risks include the ongoing coronavirus outbreak, the potential for accelerated shifts in global supply chains, and U.S.-China tensions. The continued rise in EM consumer spending remains a big reason why investors should maintain a strategic allocation to EM equities. The developing world now constitutes about 41% of global personal consumption expenditures (PCE) according to the United Nations. This should support GDP growth and corporate earnings in emerging economies, as broad equity indexes such as the MSCI Emerging Markets Index shift toward more consumer-oriented sectors (especially in China). We favor active management* when investing in EMs, as fundamentals differ across countries based on key vulnerabilities to commodity prices, borrowing costs, external financing conditions, sharp declines in economic output and other factors.

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

- **We are neutral International Developed market equities:** International equities, particularly those in Europe and Japan, have strong sensitivities to global manufacturing and trade activity, and should benefit as global output continues to normalize in the medium term. However, economic activity in the Eurozone has softened due to coronavirus outbreaks, warranting near-term caution. As we move through 2021, monetary and fiscal stimulus should continue to be a tailwind, with Japan having committed approximately 74% of GDP of combined stimulus, and the Eurozone adding nearly 50%, according to Cornerstone Macro Research. The shared fiscal relief plan of the European Union (EU) could provide grants to hard-hit countries like Italy and Spain and likely boost investor confidence in the sustainability of the Euro while we also monitor the political cycle heating up across the bloc. Risks remain from a weak banking system, but an increased level of fiscal policy coordination may help promote a cyclical economic expansion and support sectors that are heavily represented in International Developed equity markets. Prospects for a weaker dollar also aid international developed equity performance, which can also add cyclicality and Value-orientation in portfolios.

EQUITY WATCH LIST

- Regional economic reopenings, coronavirus case trends, vaccination timeline
- Economic data around production, labor, consumer expectations, and credit and liquidity conditions
- Acceleration of earnings estimate upgrades
- Further Central Bank support and outlook for additional fiscal stimulus packages
- Reorganization of global supply chains and U.S.-China relationship
- Rising inflation expectations
- Fiscal policy uncertainty

FIXED INCOME

- **We are slightly underweight fixed income:** We recommend short duration relative to a stated benchmark that is aligned to investment goals. Interest rates remain low, and the Fed is not expected to move policy rates into negative territory, making another large drop in rates less likely. Furthermore, the Fed's new framework means that it should let the economy "run hot," potentially allowing the Consumer Price Index (CPI) to move near 2.5% to 3% consistently before raising rates. The Fed believes that employment and inflation risks are to the downside in a zero-rate environment and reiterated its dovish stance at January's meeting. On balance, this is positive for credit risk, growth and inflation over the longer term and negative for interest rate risk.

  Recently, this has limited Treasurys' effectiveness somewhat to counterbalance equity volatility. The S&P 500 has had two significant drops during the post-coronavirus rally—and in both instances, Treasury rates actually rose slightly—a market development we are watching carefully. 10-Year Treasury rates have approximately doubled from their all-time lows. Treasurys should always 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 minimize Treasury allocations while favoring high-quality, Investment-grade spread products. We still expect fixed income to be a diversifier in the long term, as coupon income becomes more of a determining factor to total returns. Therefore, spread products (corporates, Mortgage-backed Securities (MBS), munis)—as they could provide significantly more yield—may be a better diversifier over longer periods of time.

- **We remain slightly overweight Investment-grade and slightly underweight High Yield:** Investment-grade corporates should continue to outperform Treasurys as the global economic recovery continues to play out. That said, with spreads trading near +100 bps, all-in yields hovering at record lows, and effective duration at all-time highs, the margin for error is slim. The technical backdrop should remain supportive, underpinned by strong demand and waning supply into 2021. Although the Fed's asset purchase programs expired at the end of 2020, we do not expect a material market effect—though we could see episodic periods of volatility, which we would likely view as an opportunity to rebalance. Credit losses in IG are 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 (~4.25%) provide very meager compensation. For HY allocations, consider both HY unsecured bonds and secured leveraged loans, and be aware that strong near-term performance may not be sustainable.
- Munis have been running on all cylinders so far this year, amidst expectations of higher tax rates, additional stimulus and increasing economic activity. Retail demand is at record levels, with weekly inflows into municipal bond funds averaging $3.5 billion over the four weeks ending January 27. Furthermore, tax-exempt supply, which was very light in January (only $13.8 billion through January 22), is expected to pick up only modestly in February. As a result, muni valuations have become extremely rich, with 5-year AAA muni-to-Treasury yield ratios dipping below 50% and 10-year AAA muni-to-Treasury yield ratios in the mid-60% range. Meanwhile, lower-quality munis have retraced most of the credit spread widening they experienced in 2020 during the height of the pandemic. We expect technicals to remain strong, valuations to remain rich, and credit spreads on lower quality munis to continue to tighten over the next several months.
- **We are neutral Mortgage-Backed Securities**: Spreads are within fair levels of the pre-coronavirus crisis five-year range, after adjusting for artificially lower volatility due to strong technicals in the market. The Fed yet again renewed its commitment to purchasing at least $40 billion per month, taking total MBS purchases since March of 2020 to close to $1.5 trillion—an overwhelming positive—which helps remove demand uncertainties for mortgage investors. At the same time, the path of prepayments remains a major question with record-low mortgage rates, increasing lending capacity from both banks and non-bank entities, as well as streamlining and simplification of the re-financing processes that could result in heightened risk of rising default rates from unemployment, while housing prices take on new highs across the country. While MBS continue to look attractive versus other alternatives—offering better carry and additional spread versus Treasurys and corporates—spreads have returned closer to fair levels on an options-adjusted basis on recent MBS spread tightening. We feel that uncertainties around prepayments and extensions may remain a headwind for sector performance and continue to suggest conservative positioning in securities with less extension and price risk. Therefore, we continue to counsel that investors maintain a significant weight to the sector, as it is a large component of the high-quality bond market and a direct beneficiary of Fed intervention, but the opportunity set is currently still greater in the IG corporate sector.

FIXED INCOME WATCH LIST

- Treasurys' recent lack of negative correlation to equity market
- Outlook for additional fiscal stimulus packages and potential changes in the tax code
- Signs of any risk aversion in terms of spreads, yields or new issue activity
- Dislocations in commercial real estate markets

ALTERNATIVE INVESTMENTS

Given the differences in liquidity characteristics between alternative investments (AI) and traditional investments, the AI portfolio positioning and CIO asset class views have been neutral rated versus our strategic allocations. These types of investments, in our opinion, should not be viewed at the asset class level on a tactical basis, but rather the tactical positioning should be expressed at the sub-asset class level.

We will continue to provide strategy-level guidance for qualified AI investors. We believe allocations to AI can introduce differentiated returns that can help complement existing traditional holdings by potentially enhancing returns, helping to reduce risk and capitalizing on opportunities not available through traditional investments.

- **We favor a strategic approach when allocating to Hedge Funds:** As stated previously, we are advocates of diversification when investing in this heterogeneous asset class. That said, we currently see a favorable opportunity set for select hedge fund strategies given the effect of the pandemic on a wide range of assets. Recent positive vaccine news, coming on the heels of an unprecedented policy response, has significantly improved the macro backdrop. However, it is becoming clear to us that not all sectors stand to benefit in the same way, and with a widening gulf between winners and losers beginning to emerge, we think correlations between stocks could continue to decrease, while dispersion increases. In this type of environment, skilled stock pickers stand to benefit and, accordingly, consider looking to equity long/short strategies as a means of generating differentiated equity returns that place an emphasis on alpha through active management. For investors seeking diversified return streams, global macro strategies, which are currently benefiting from an opportunity set that is wider than it has been in years, also have the potential to provide compelling returns given the current backdrop where macroeconomic forces are increasingly dictating price action across all parts of the investment spectrum: stocks, bonds, currencies and commodities.
- **We favor a strategic approach when allocating to Private Equity** and view these strategies as long-term potential portfolio return enhancers with unique access to specialized deals unavailable to traditional investors. We continue to see consolidation in a number of different sectors, brought on by the pandemic and its effect on everything from commerce to energy. In light of the dislocations caused by the coronavirus, we expect that savvy managers will likely deploy dry powder opportunistically to buyout and distressed areas of the market, via direct and through secondary investments. Within the broad private equity universe, we continue to favor special-situation strategies that could benefit from pockets of stress resulting from the pandemic and from secular shifts across sectors due to disruptive technologies. Private credit strategies may also see a wider opportunity set should Mergers & Acquisitions (M&A) activity remain buoyant, since creative financing solutions will likely be sought after to support increased deal activity. These strategies may be of interest to investors seeking enhanced yield that may complement traditional fixed income holdings. As per usual, and even more important in markets like these, consider a disciplined, multiyear commitment strategy that builds portfolio diversity among different managers, styles, geographies and vintages.
- **We favor a strategic approach when allocating to Private Real Estate:** Conditions across the commercial real estate (CRE) market continue to be closely tied to the trajectory of the pandemic. Vacancy rates in office and hospitality sectors remain elevated and asking rents continued to slide into year-end while landlords and tenants engaged in lease renegotiations. With the nationwide vaccine rollout having begun, there is reason to be optimistic about a return to normalcy, albeit cautiously so, as challenges will likely remain for many

DUE DILIGENCE VIEW

Equity hedge funds entered January with near-record high exposures but market dynamics intra-month, most notably price increases of high short-interest stocks, led hedge funds to quickly deleverage. Shorts perceived to be at risk of near-term price increases were cut or covered, and longs were trimmed to keep net exposure from growing.

sectors (office, hospitality) and regions (central business districts) for the foreseeable future. For prospective prequalified investors, we continue to place emphasis on direct investments in well-located properties in strong regions of the country that exhibit attractive rent-roll and cash-flow characteristics and have the potential to bridge into the next cycle, helping to provide a long-term hedge against potential inflation. Additionally, given the increasing importance of eCommerce, we continue to believe the Industrial sector (warehouses, data centers, etc.) will be an area of growth as companies compete for position in an on-demand economy. Looking out further, there is a case to be made for adaptive reuse in certain parts of the CRE market. This strategy, which is primarily the domain of opportunistic/value-add managers, involves converting non-producing assets into performing properties. In today's environment, that could mean converting retail, office or mall properties into residential, medical or fulfillment centers.

- **Commodities and the dollar:** The dollar has firmed recently as Europe's recovery lags on lockdowns and vaccine administration problems. Eventual dollar softness would help the global economy and the reflation effort. Commodity prices (for example, copper) have rebounded sharply as reflation gains traction. Precious metals are benefiting from current low real interest rates. With the Fed in a reflationary mode, and with rising geopolitical tensions and high economic uncertainty, we believe some exposure to gold (outside of your typical core allocation) remains appropriate.
- **Tangible assets:** Over the long term, especially given the unprecedented fiscal stimulus and monetary reflation now in place, tangible assets—such as real estate, timber, and farm and ranch land—may benefit portfolios through increasing diversification, helping to provide a hedge against potential future inflation, generating cash flows, and providing possible favorable social-impact opportunities.

MACRO STRATEGY

- Economic reopening has picked up outside of Europe as coronavirus cases are falling, and vaccines are adding to confidence with overall global growth continuing to gain momentum. Lower inflation allows more accommodative monetary policy around the world. Massive fiscal stimulus continues to support a positive, self-reinforcing growth dynamic, boosting profits and jumpstarting growth. We believe this is a positive backdrop for equities.
- Private-sector interest rates remain near all-time lows in the U.S., fueling V-shaped economic recoveries in interest-rate sensitive sectors like Housing and Manufacturing. The Fed indicated that Quantitative Easing (QE) and zero rates are likely until inflation sustainably averages around 2% for an extended period.
- Market volatility is expected to trend lower as the economy reopens and Fed liquidity floods the system. We believe there is potential for more episodic volatility around long-term U.S. and China relations.

ECONOMIC AND MARKET FORECASTS (AS OF JANUARY 29, 2021)

	Q1 2020A	Q2 2020A	Q3 2020A	Q4 2020A	2020A	Q1 2021E	2021E
Real global GDP (% y/y annualized)	-	-	-	-	-3.4*	-	5.4
Real U.S. GDP (% q/q annualized)	-5.0	-31.4	33.1	4.0*	-3.5*	4.0	6.0
CPI inflation (% y/y)	1.5	0.6	1.4	1.2	1.3	1.8	2.6
Core CPI inflation (% y/y)	2.1	1.2	1.7	1.6	1.7	1.5	1.9
Unemployment rate (%)	3.8	13.0	8.8	6.7	8.1	6.5	5.7
Fed funds rate, end period (%)	0.08	0.08	0.09	0.09	0.09	0.13	0.13
10-Year Treasury, end period (%)	0.67	0.66	0.68	0.91	0.91	1.10	1.75
S&P 500 end period	2585	3100	3363	3756	3756	-	3800
S&P earnings ($/share)	33	28	39	38*	138*	36	165
Euro/U.S. dollar, end period	1.10	1.12	1.17	1.22	1.22	1.20	1.25
U.S. dollar/Japanese yen, end period	108	108	105	103	103	103	100
Oil ($/barrel, avg. of period, WTI)**	46	29	40	44	40	46	47

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. S&P 500 represents the year-end target for 2021. **West Texas Intermediate.
Sources: BofA Global Research; GWIM ISC as of February 2, 2021.

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When assessing your portfolio in light of our current guidance, consider the tactical positioning around asset allocation in reference to your own individual risk tolerance, time horizon, objectives and liquidity needs. Certain investments may not be appropriate, given your specific circumstances and investment plan. Certain security types, like hedged strategies and private equity investments, are subject to eligibility and suitability criteria. Your advisor can help you customize your portfolio in light of your specific circumstances.

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 2022 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 2022 EPS

	Forward P/E (Next 12 months)					
		17.0x	18.0x	19.0x	20.0x	21.0x
2022 EPS	$230	3,910	4,140	4,370	4,600	4,830
	$220	3,740	3,960	4,180	4,400	4,620
	$210	3,570	3,780	3,990	4,200	4,410
	$200	3,400	3,600	3,800	4,000	4,200
	$190	3,230	3,420	3,610	3,800	3,990
	$180	3,060	3,240	3,420	3,600	3,780
	$170	2,890	3,060	3,230	3,400	3,570

For illustrative purposes only. Forecasts are subject to change.
Source: Chief Investment Office as of December 17. 2020.

CIO ASSET CLASS VIEWS

Asset Class	CIO View: Negative		Neutral	Positive		Comments
Equities	•	•	•	●	•	We retain our positive view on equities based upon favorable relative valuations and improving global growth. Corporate profits are in an uptrend as forward estimates have increased, policy remains supportive, and global growth grinds higher in a bumpy fashion. We remain overweight the U.S., neutral International Developed, and neutral EMs.
U.S. Large -Cap Growth	•	•	•	●	•	Given our expectation for episodic volatility, we recommend higher-quality exposure. Growth should continue to benefit from accelerated secular trends but Value, which has higher exposure to cyclical sectors, should benefit from an improved pace of earnings growth and economic normalization. We believe a balance of both is appropriate. At the sector level, we continue to favor Technology and Healthcare for secular exposure but have become more constructive on cyclical sectors like Industrials, Financials and Materials.
U.S. Large-Cap Value	•	•	•	●	•	
U.S. Small-Cap Growth	•	•	•	●	•	Small-caps have relatively attractive valuations and could benefit in a more cyclical rotation.
U.S. Small-Cap Value	•	•	•	●	•	
International Developed	•	•	●	•	•	Global economic recovery is expected to continue, alongside the roll-out of the coronavirus vaccines, which may benefit more cyclically oriented International Developed markets. A substantial monetary and fiscal policy thrust in Europe and Japan, paired with relatively attractive valuations is a support for international equities, while ongoing crossborder frictions between the major economies pose a relative headwind given greater international exposure.
Emerging Markets	•	•	●	•	•	We are neutral EMs as fundamentals appear to be improving into 2021 as global synchronized growth picks up, manufacturing and trade further improve, China activity surpasses pre-pandemic levels, and the U.S. dollar has weakened.
International						
North America	•	•	•	●	•	The U.S. remains our preferred region on corporate earnings and balance sheet strength, with a domestic demand-driven recovery likely to remain resilient as the economy gradually reopens. Aggressive fiscal stimulus, Fed support and currently record-low interest rates still favor equities over bonds, in addition to higher market exposure to Growth in digitization through Technology-related sectors.
Eurozone	•	•	●	•	•	Increased level of fiscal policy coordination across the EU should provide additional support for domestic demand and may limit relative economic weakness, while exposure to cyclical sectors may benefit from any sustained improvement from a prospective shift toward widespread coronavirus vaccination. Sensitivity to global trade implies ongoing risk from potential disruptions to crossborder activity due to continuing coronavirus-mitigation measures.
U.K.	•	•	●	•	•	Post-Brexit withdrawal from the EU single market remains a negative for medium-term growth. Low oil prices and longer periods of lower rates remain headwinds for large exposure to Energy and Financials, but cyclical sectors may benefit from a prospective shift toward widespread coronavirus vaccination. Ongoing currency weakness versus the euro—a relative support given large international revenue exposure.
Japan	•	•	●	•	•	Large fiscal and monetary stimulus is key sources of support for growth in the domestic economy, though market-based inflation expectations remain among the lowest for the major developed economies. We expect long-term tailwinds from exposure to automation machinery and equipment including from robotics, while valuations remain attractive.
Pac Rim*	•	•	●	•	•	Exposure to economic recovery in China supports regional growth. Low occupancy rates and currently low interest rates remain headwinds for market exposure to Real Estate and Financials, but cyclical sectors may nonetheless benefit from a prospective shift toward widespread coronavirus vaccination. Ongoing uncertainty from international shifts on foreign policy toward Hong Kong also weighs on the region.

* Pacific Rim refers to the geographic area surrounding the Pacific Ocean. The Pacific Rim covers the western shores of North America and South America, and the shores of Australia, eastern Asia and the islands of the Pacific.

CIO ASSET CLASS VIEWS (CONTINUED)

Asset Class	CIO View: Negative		CIO View: Neutral		CIO View: Positive	Comments
Global Fixed Income		●				Bonds provide portfolio diversification, income and stability. Below-benchmark duration is recommended, as rates are rising off extremely low levels, and fiscal and monetary policy is supportive of higher inflation over the medium term.
U.S. Governments		●				Yields are close to historic lows, very expensive relative to inflation, and close to an effective floor if—as is expected— the Fed does not use negative rates as a policy tool. Some allocation for liquidity is still advised as U.S. Treasurys may continue to provide short-term diversification benefit for equities.
U.S. Mortgages			●			We are turning more positive on Agency MBS. The Fed's more than $1 trillion of purchases since March is an overwhelming positive for the sector. Despite recent tightening, spreads are at slightly cheap to fair value of a five-year range and still lagging the tightening in other fixed income sectors. MBS continue to look cheap to Corporates on spread ratio basis. However, with record-low rates prepayments and hedge-driven volatility still pose risk to MBS performance. Conservative positioning is therefore recommended.
U.S. Corporates				●		Credit spreads have stabilized in the low-100 bps range. With the Fed's commitment to functioning markets, improving growth/earnings outlooks, and all-in yields well above Treasurys, we believe spread product should continue to outperform over the near-term. We see the best relative value opportunities in select BBB-rated Industrials in addition to U.S. Financials. Front end of the credit curve appears less compelling given the compression in yields and spreads.
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 factoring in an appropriate estimate of credit losses. Fundamentals will likely be challenged near term due to economic uncertainty; we expect default rates to rise and recoveries to suffer. Any additions to HY risk need to have a very long timeframe. Within HY, at least an equal allocation to floating-rate loans and HY unsecured is advised.
U.S. High Yield Tax Exempt		●				Improving fundamentals and strong technical conditions have caused municipal credit spreads to narrow, but they are still wide of pre-coronavirus levels.
U.S. Investment Grade Tax Exempt			●			Retail demand is very strong due to the potential for higher tax rates, as well as our outlook for more fiscal stimulus to states and local governments, which would be positive for credit. Supply has been light since mid December, although we expect it grow to more normal levels in February. Valuations of AAA munis versus Treasurys are very rich. Lower-quality Investment-grade credit spreads have retraced most of their widening since last summer; we expect full credit spread retracement by the end of 2021, if not sooner.
Alternative Investments*						Given the differences in liquidity characteristics between AI and traditional investments, the AI portfolio positioning and CIO asset class views have been neutral-rated versus our strategic allocations. These types of investments, in our opinion, should not be viewed at the asset class level on a tactical basis; rather, the tactical positioning should be expressed at the sub-asset level. We will continue to provide strategy-level guidance for qualified AI investors and believe allocations to AI can introduce differentiated returns, which can help complement existing traditional holdings by potentially enhancing returns, helping to reduce risk, and capitalizing on opportunities not available in traditional investments.
Hedge Funds			●			We favor equity long/short strategies for differentiated equity returns. Global macro strategies, currently seeing a wide opportunity set, may help investors seeking to diversify equity exposure.
Private Equity			●			In light of the dislocations caused by the pandemic, we expect that savvy managers will deploy dry powder opportunistically to buy out and distressed areas of the market, via direct and secondary investments. Private credit strategies may also see potential opportunities should M&A activity remain robust. Consider a disciplined multiyear commitment strategy that builds portfolio diversity among different managers, styles, geographies and vintages.
Real Assets			●			Reflationary policy and currently lower real interest rates, and ultimately stabilizing global growth, should provide support for commodity prices. Gold is currently benefiting from currently low real interest rates. The oil market remains well supplied, however. For 2021, Brent crude oil prices are expected to average $50 per barrel and West Texas Intermediate (WTI) prices to average $47 per barrel.

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 and risk tolerance. Not all recommendations will be in the best interest of all investors. **Alternative investments such as derivatives, hedge funds, private equity funds and funds of funds can result in higher return potential, but also higher loss potential. Changes in economic conditions or other circumstances may adversely affect your investments. Before you invest in alternative investments, you should consider your overall financial situation, how much money you have to invest, your need for liquidity and your tolerance for risk.**

* Many products that pursue Alternative Investment strategies, specifically Private Equity and Hedge Funds, are available only to qualified investors.

Source: Global Wealth & Investment Management Investment Strategy Committee as of February 2, 2021.

CIO EQUITY SECTOR VIEWS

The CIO equity sector view is developed by applying a multi-input process combining the CIO's factor views and fundamental bottom-up industry outlook with top-down macro-economic changes and trends. The factor approach emphasizes valuation and momentum as key inputs, with a fundamental overlay taking into consideration forward-looking views of growth, profits, policy, events and sentiment as well as inclusion of certain investment themes. BofA Global Research's sector strategy views are also captured as an input into the CIO process. Our sector views are developed with a 12- to 18-month outlook but are revisited monthly by the GWIM Investment Strategy Committee.

Sector	CIO View					Comments
	Under-weight		Neutral	Over-weight		
Information Technology					●	The pandemic accelerated the digital transitions for many industries and supports the secular growth trends for cloud computing, machine learning and artificial intelligence (AI), data centers, software, cybersecurity and semiconductors. We are in the early innings for machine learnings and AI, and the pandemic forced the adoption of digital payments by older generations who are now frequent users. This accelerated the digital payments industry by several years without cannibalizing future sales. Traditional hardware exposure is still increasingly commoditized. Valuation is extended, therefore look for GARP (growth at a reasonable price) in software and cyclical exposure in semiconductors. Free cash flow, balance sheet strength, dividend growth and earnings growth remain strong fundamental drivers for the sector. Momentum is higher.
Consumer Discretionary				●		The ongoing shift to omnichannel retailing should continue to alter consumer behaviors due to the pandemic. Additional fiscal stimulus and asset value inflation could provide further support to strong consumer sentiment. Favor strong global consumer brands with solid balance sheets and a history of dividend growth over weaker brick-and-mortar retailers that could face declining store traffic trends. Cyclical tailwinds from both housing and autos could provide additional potential upside opportunities to the growth outlook. The pent-up demand for reopening activities and services could be an additional catalyst for the consumer in 2021. Valuation is a bit extended.
Healthcare				●		Expect rising spending on healthcare globally—focused primarily on diagnostics, healthcare consumables, and drug development equipment/tools and differentiated medical devices. Hospital spending on capital equipment could be more pressured over the next few quarters due to coronavirus-related challenges, but expect surgical equipment-exposed companies that have lagged in this recovery to rebound as more individuals get vaccinated globally. Fewer headwinds near term regarding drug pricing amid greater focus on pandemic relief and recovery, with healthcare access taking precedence. Emphasize exposure to positive trends in animal health, medical technology and telemedicine, tools, diagnostics and select biotech. Valuation is a bit extended in certain subsectors with lower momentum.
Financials				●		Bank stock repurchase programs have been reinstated by the Fed and are now tied to earnings power, along with dividends, which should be a tailwind for the sector in the near term. In addition, bank credit costs peaked in the first half of 2020 and loan loss reserves are adequate. Reserve releases are likely over the next 12 months, with the potential to add to earnings and capital return. Given structural headwinds in Insurance, we prefer market exchanges that evolved into fee-based data and analytics providers. We also favor alternative asset managers, like private equity, which consistently draw fund inflows, typically benefit from low interest rates, and maintain pricing power in management fees. U.S. banks remain well capitalized and trade at attractive valuations with higher momentum.
Industrials				●		Relative performance improving with help from a weaker dollar, higher commodity prices, increasing inflation expectations and a recovery in global purchasing managers' indexes. Sequential earnings are recovering and set up for growth year-over-year. Cyclical end markets, including transportation, machinery and general manufacturing, are seeing improvement; however, mixed fundamental outlooks persist as commercial aerospace and oil & gas-related industries are slower to recover. We expect the weakening trend in the dollar to support the multinational industrial companies.
Communication Services			●			Traditional media continues to see pressure from cord-cutting, a negative trend for traditional cable and media companies, but the positive trends for internet usage, video streaming and gaming can provide growth. However, some of this growth was pulled forward last year due to the pandemic and work-from-home trends. Advertising could see a rebound to some degree, but regulatory uncertainties and concerns could be a near-term overhang for the sector.
Materials			●			Specialty chemicals and agriculture may benefit from a consumer-led recovery in the U.S. and China, while reshoring and additional fiscal stimulus are potential tailwinds for construction aggregates and industrial gases. Depressed demand continues to weigh on cyclical commodities although the rally in industrial metals and their performance relative to precious metals in recent months is a positive sign. Nascent improvement in automotive and industrial end markets may lead to an inventory restocking cycle. Materials stocks have extended valuation with soft momentum.
Consumer Staples		●				Consumer Staples face tougher first-half revenue and earnings comps in 2021 as we lap the pandemic-driven stay-at-home benefits from last year. Risks of a rotation out of defensive positioning and into risk-on positioning offsets the strong fundamentals and consistent cash flows in this sector. Historically, Staples performance is a function of relative earnings growth and the sector could face decelerating earnings growth in 2021, especially compared to cyclical areas expected to see improving earnings growth. Relatively attractive valuation and higher momentum.

Sector	CIO View: Under-weight		Neutral		Over-weight	Comments
Energy		●				Even with recent improvements, global energy demand remains depressed compared to pre-pandemic levels, and refinery utilization rates in general sit around the 75%-to-80% range compared to ideal levels north of 90%. However, global demand could recover over the course of 2021 and thereby potentially reduce above-average global inventories (supply). The sector still faces headwinds from the transition to clean energy, lower renewable energy costs and increasing environmental, social and governance focus by investors. Concerns remain that as oil prices move higher, increased production could come online if oil prices appreciate to the $60 range and could slow the global inventory drawdown. This could potentially put a ceiling in place for the sector. Conversely, further rotations into value and cyclical stocks could drive some renewed flows into this out-of-favor sector. Continue to emphasize companies that are low-cost producers with balance sheet strength and low break-evens. Relatively attractive valuation but lower momentum.
Utilities	●					Expect consistent earnings results; however, post the crisis, potential rotations out of defensive stocks is a headwind. Emphasize utilities with growing renewable power generation from wind and solar and de-emphasize ones that rely strictly on coal-power generation. Earnings and dividend growth opportunities remain for utilities that can capitalize on the transition to greater renewable power generation and positive demographic trends. Relatively unattractive valuation and lower momentum.
Real Estate	●					Consumer and corporate changes like remote work, eCommerce, less travel, etc. are headwinds for CRE companies (e.g., office), leisure (e.g., hotels), mall operators and owners. Emphasize data centers, communication infrastructure and industrial real estate with a focus on eCommerce distribution facilities. Relatively attractive valuation and improving momentum.

Source: Chief Investment Office as of February 2, 2021.

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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.

Continue with Thematic Investing on following page

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**), **Energy-Efficiency** such as building systems, **Water/Waste Management,** and **Energy Storage** & **Distribution**.
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-coronavirus World	In the post-pandemic economic recovery, the factory of the future tends to be based closer to home and driven by **Robotics** (**Industrial/Service Automation**) not humans, hastening reshoring by creating **Dual/Local Supply Chains**, notably in high-end activities and manufacturing. The fusion of Health and Technology through **HealthTech** capabilities, should result in greater investments in telemedicine, disease surveillance and patient monitoring. Just as healthcare has gone digital, technology could increasingly dictate **e-Everything,** as we've seen **eCommerce**, eSports and eLearning gain traction. An increased focus on **environmental, social, and governance (ESG)** factors and metrics promotes the shift toward stakeholder capitalism.

Source: Chief Investment Office as of February 2, 2021.

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 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.

MSCI Emerging Market Index is an index used to measure equity market performance in global emerging markets. It is just one index created by MSCI, which has been constructing and maintaining them since the late 1960s.

The MOVE Index calculates the future volatility in U.S. Treasury yields implied by current prices of options on Treasuries of various maturities.

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.

Institute for Supply Management (ISM) Manufacturing Index is a measure of the prevailing direction of economic trends in manufacturing.

Citi Economic Surprise Indices are objective and quantitative measures of economic news. They are defined as weighted historical standard deviations of data surprises.

Consumer Price Index measures changes in the price level of a weighted average market basket of consumer goods and services purchased by households.

Important Disclosures