

Viewpoint

An Attractive Rebalancing Environment

February 2022

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

IN BRIEF

- For now, strong nominal growth is powering robust corporate earnings that will help serve to reinforce the business cycle expansion. Leading economic indicators point toward above trend real economic growth over the balance of the year. This is a positive backdrop for Equities.
- Given our view that ultimately solid profits should be the arbiter of the market's trend, we would use this correction in Equities as a rebalancing opportunity for long term investors.
- This month we are reducing our allocation to Mortgage-backed-securities (MBS) within a multi-asset class portfolio due to a number of headwinds including the quicker pace of Federal Reserve (Fed) policy reduction, and the current backdrop of higher rates and volatility which we expect to persist. The proceeds of this adjustment will be invested in Investment-grade corporate bonds which have historically outperformed both MBS and Treasuries in the early stages of Fed rate increases.
- Increasing exposure to Alternative Investments for qualified investors may also have the potential to benefit investors during times of heightened volatility. We currently see favorable opportunities for select Hedge Fund strategies and we believe Private Credit strategies should benefit from the concerns of higher interest rates, as many of these investments are more credit- than interest rate-sensitive.

As we close out the first month of 2022, the S&P 500 has experienced its eighth worst January drop in history (-5.3% through January 31, 2022) and largest since 2008 (-6.1%). After sharply increasing earlier in the month, Equity volatility has remained elevated and has only been higher 12% of the time since 1990. In addition, investor sentiment continues at one of its most bearish levels since the spring of 2020. Inflation across the most widely watched industry gauges is still, on a year-over-year basis, up significantly and more than four times higher at the market-based core personal consumption expenditure level (a closely followed gauge by economists and monetary policy analysts) versus the last time the Federal Reserve (Fed) lifted rates off the zero bound in 2015 (4% December 2021 versus 1% December 2015).

With the concerns over slower economic growth in the U.S., the potential aggressiveness by the Fed, and rising geopolitical risks, investors have increased their risk aversion throughout the month. This march to the sidelines is particularly pronounced with investors that have

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CIO ASSET CLASS VIEWS

This month, the Global Wealth & Investment Management Investment Strategy Committee reduced our allocation to Mortgage-backed securities from neutral to slightly underweight, with the proceeds moving to Investment-grade corporate bonds. We reaffirm our positive view on Equities relative to Fixed Income with a preference for U.S. Equities relative to International. Diversification across asset classes and within Equities increases in importance as yields rise.

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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	•	•	•
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 multi-asset portfolio.

shorter-term time horizons and use more model-driven and technical factors in their investment strategies. We call this segment the “meerkats,” which tend to burrow in the ridge at the first sign of danger. Given our view that ultimately solid profits should be the arbiter of the market’s trend, we would use this correction in Equities as a rebalancing opportunity for long-term investors.

Our conviction for Equities relative to Fixed Income is based on our view on what we believe is priced into the markets at this time. We believe the market has priced in four to five hikes by the Fed, which would take the federal funds rate to around 1.00% to 1.25% or 1.25% to 1.5% at year end. If inflation continues to remain uncomfortably above the Fed’s own targets, the market will likely begin to price in additional hikes. BofA Global Research recently raised its forecasts to a quarter-point increase each meeting starting in March, which is a total of seven hikes. If this process were to unfold, we would expect further outperformance of Value relative to Growth and specifically, underperformance by the lower-quality, less profitable areas of the equity markets. In addition, investors are beginning to price in slower growth globally, and higher-than-expected oil prices, in our opinion.

What’s not priced in, from our perspective, is a true confrontation and escalation in Ukraine or a sharp rise in oil prices well above \$100 per barrel. If these issues increase in probability, we will likely experience further weakness in risk assets. Geopolitical events and commodity price swings are traditionally difficult to forecast and can contain large unknowns. We believe this is another reason to stay well diversified and balanced in your investment process with an emphasis on higher quality. Ultimately, the most important catalyst for potential relief rallies and an overall uptrend for Equity prices in the coming months is the level of growth in corporate profits, which we expect to be attractive.

Furthermore, although financial conditions in the credit markets have tightened somewhat, spreads are in the normal range at this point in the cycle, the yield curve has flattened but not to levels that give us pause, and the U.S. dollar has strengthened with a speed that makes sense, in our view. Equally important, the Q4 earnings season is unfolding above expectations with margins holding steady while guidance is still generally upbeat. The current investment environment is being dominated by headline risk and a rotation wave that is still trying to get to more balanced exposure and away from the overbuilt allocation to the longer-duration, less profitable areas of the equity markets. This rotation takes time and can cause broader market pressure like we experienced in January. We continue to emphasize higher-quality areas with a focus on Financials, Industrials, Energy and Materials, more established companies in Technology, the U.S. relative to the rest of the world, and find value in small capitalization shares, which are the cheapest they have been in 20 years as measured by the S&P Small-cap Index relative to the S&P 500.

CIO INVESTMENT DASHBOARD

The outlook for global economic activity remains strong in 2022 given elevated consumer net worth, pent-up demand and job growth. However, in the near term the risk for a slowdown has risen given the decline in consumer spending. Corporate earnings continue to demonstrate considerable momentum across styles, sectors and regions. Persistently high inflation levels will lead the Fed to tighten monetary policy, which could bring higher volatility for financial markets. Corporate credit conditions are generally supportive, as a result of past measures taken by the Fed and rising corporate earnings and cash flows. Relative valuations continue to favor Equities over Fixed Income, although a disorderly move higher in yields would be considered a headwind for Equities. Investor sentiment has moved to bearish levels following recent volatility.

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

Factor	Implication for Equities			CIO View	
	Negative	Neutral	Positive		
Earnings				In Q4, the S&P 500 has so far reported profits that have positively surprised the aggregated consensus estimate by roughly 5.2%, according to Bloomberg. This magnitude has fallen since peaking in Q1. After year-over-year (YoY) growth in S&P 500 profits of 40% in Q3, the consensus estimate calls for an appreciation of 22.5% in Q4, which would mark four straight quarters of growth above 20%, according to FactSet. Annual 2022 S&P 500 earnings growth is expected at 9.1%. Generally upward earnings revisions in the U.S., Europe and Japan suggest positive earnings trends for these markets.	
Valuations				U.S. Equity valuations remain extended on an absolute basis but are still attractive compared to Fixed Income. S&P 500 price-to-earnings (P/E) ratio (next 12 months) has fallen under 20x, though remains higher than the historical average. It has declined due to both price volatility and rising earnings estimates. The S&P 500 earnings yield is 340 basis points (bps) above the 10-year Treasury yield, indicating upside for Equities relative to Fixed Income. The recent rise in rates has pressured richly valued, long-duration Equities, while supporting cyclical areas.	
U.S. Macro				U.S. economic growth reaccelerated in Q4 by 6.9% seasonally adjusted annual rate, driven by a buildup of inventories, according to the Commerce Department. This results in 2021 growth of real gross domestic product (GDP) of 5.7%, the most since 1984. On the demand side, consumer spending remains supported by an improving labor market, economic reopening, record-high household net worth and excess savings. The Purchasing Managers' Index (PMI) for the manufacturing sector signals robust business conditions. However, the indicator tracking the services sector has weakened, influenced by the recent wave of the coronavirus. Supply-chain challenges and labor shortages remain impediments to growth. BofA Global Research expects growth of 3.6% for 2022.	
Global Growth				Despite recent normalization across the global economy, uncertainty remains high due to elevated new cases of the coronavirus, fueled in part by the Omicron variant and geopolitical developments. Elevated energy prices, particularly in Europe, also pose a risk to the economic outlook. Led by China, the global economy is expected to have grown by 6.0% in 2021 and is expected to expand by 4.3% in 2022, according to BofA Global Research.	
Monetary Policy / Inflation				The Federal Open Market Committee (FOMC) began tapering the central bank asset purchases in November. Should conditions allow, it's likely the Fed will begin raising interest rates at the March meeting, as stated by Fed Chairman Jerome Powell, which have helped sustain anticipation for a quicker pace of tightening monetary policy, including multiple rate hikes and balance sheet runoff in 2022. Overall, inflation data, such as the Consumer Price Index (CPI), the Producer Price Index (PPI) and consumer expectation for prices, has surprised to the upside, driven by strong demand and 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. Momentum toward approving the entire Build Back Better bill through the reconciliation process by the Democratic-controlled Congress has diminished. President Biden has instead proposed a piece-meal approach.	
Corporate Credit				Corporate credit conditions remain generally benign as a result of past measures taken by the Fed and rising corporate earnings and cash flows. High Yield (HY) credit spreads remain within a range in place since around mid-2021. Investment-grade (IG) spreads have risen above their early December highs. Financial conditions remain accommodative and economic fundamentals are strong.	
Yield Curve				While most yield curves continue to flatten, the all-important Fed Funds/10s curve has been steepening, signaling a positive economic outlook. Rates on the front end have moved higher to reflect higher expectations for Fed hikes sooner rather than later. Rates on the back end have recently risen on expectations for more persistent inflation, Fed policy and strong GDP growth. Some sections of the yield curve may reflect some emerging concern of its sustainability.	
Technical Indicators				Throughout January, the Chicago Board Options Exchange (CBOE) Volatility Index (VIX) had risen to 30, a historically elevated level. Market breadth has deteriorated. The cumulative advance/decline line for New York Stock Exchange (NYSE) Equities has broken down to its lowest since early March 2021. Meanwhile, the percentage of NYSE stocks above their 200-day moving average has fallen to 35%.	
Investor Sentiment					Bears now outnumber bulls by the most since March 2020, according to the American Association of Individual Investors. Meanwhile, institutional portfolio cash levels continue to signal a contrarian "buy" signal, according to the Fund Manager Survey. However, the BofA Global Research Bull & Bear Indicator is at 3.7, signaling a neutral reading.

Source: Chief Investment Office. Data as of February 1, 2022.

EQUITIES

We expect Equities to outperform Fixed Income: Global Equities should benefit from higher nominal growth levels, healthy corporate profits, rising consumer spending and an improvement in the service sectors. Bond yields may further rise as the Fed begins to hike interest rates and potentially does quantitative tightening. The Omicron variant continues

to create uncertainty in the near term; however cases are declining in many parts of the world, raising the possibility of a growth acceleration. We continue to favor U.S. Equities and are neutral International Developed Equities and Emerging Markets (EM).

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 \$220 in 2022, with potential for upside as earnings estimates trend higher. U.S. Equity valuations are still higher than historical averages, but the recent selloff has brought the forward price to earnings (P/E) to a more reasonable 19.5x level from 21.5x in December. Near-term risks for Equities come from ongoing coronavirus concerns, China's slowdown and its effect on multinational company's earnings, geopolitical tensions, and a rise in energy prices. We would expect volatility to continue as financial conditions tighten as the Fed begins their hiking cycle.

We remain constructive toward the Financials, Industrials, Energy and Materials sectors, which should benefit from the continued economic recovery and elevated inflation, and maintain our positive long-term outlook on Technology due to a secular rise in spending on innovation, productivity and the continued digitalization of the economy. We continue to maintain a positive outlook for the consumer; however, the Consumer Discretionary sector is discounting the reopening, and rising input costs pose a risk to margins. Healthcare is a diverse sector with a mix of defensive bond proxies and high-growth stocks that could continue to face headwinds in this part of the cycle. However, we still believe the long-term trends in global healthcare spending are positive.

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 benefit from an improved pace of earnings growth and economic normalization. We also favor Small-cap Equities, given their cyclical nature, correlation to interest rates and inflation and the rising capital expenditures (CapEx) cycle. Both Value and small-caps are trading at discounted relative valuations.

We are neutral Emerging Market Equities: Emerging Market Equities remain attractively valued, but continue to face headwinds from lower fiscal capacity and lower coronavirus vaccination rates. Looking forward, we see further challenges stemming from weaker economic growth in China and upside risks from U.S. interest rates. We nonetheless continue to expect a wide return dispersion between individual EM countries and regions. Cyclically oriented markets in Latin America and EMEA (Europe, Middle East and Africa) should be well positioned as global economic activity continues to recover, while markets in Asia with high exposure to digital industries remain longer-term beneficiaries of the expanding digital economy. For the heavyweight Chinese market, we also see ongoing policy risks related to industry-specific regulation. The continued 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 management¹ when investing in EM, as fundamentals differ across countries based on commodity exposure, external funding needs, corporate governance and other factors.

¹ 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 were mixed last year, as the pace of economic reopening, earnings recovery and the pandemic's effect differed across countries. European Equities have performed well through 2021 amid improving growth and elevated positive earnings revisions, while Japanese Equities remain well supported by high levels of inoculation and strong fiscal stimulus. Both Europe and Japan have strong sensitivities to global economic activity and should benefit as output continues to normalize. International Developed Equities have the potential to add cyclical and Value orientation in portfolios.

EQUITY WATCH LIST

- Regional economic reopenings, coronavirus case trends, vaccination distribution timeline
- Rising expectations for 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

FIXED INCOME

We are underweight Fixed Income: We prefer portfolios to be positioned short duration relative to a Fixed Income benchmark aligned to specific investment goals. The Fed was hawkish at its January meeting, and seems to have even higher conviction that it must withdraw monetary policy accommodation at a somewhat faster pace. The Fed signaled that the market should expect every FOMC meeting to be “live” in terms of potential rate hikes. In addition to more rate hikes, the Fed also signaled quantitative tightening may begin at any time after the first rate hike, which is now expected in March. Treasury market volatility may therefore continue to increase in the coming months as the market grapples with persistent inflation and a more aggressive and proactive Fed.

The 10s/30s spread stopped narrowing over the last month, even after this last FOMC meeting, which is encouraging, for now. The current 10s/30s level is not at a worrying level, but if the flattening trend started again it would bear watching. The 2s/10s curve, however, did significantly flatten, but is still not anywhere near a level that signals a recession is a near-term risk. We expect Treasury rates to rise overall, with sharper increases on the shorter end.

While there should be upside to Treasury rates over the medium term, Treasuries 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 to one-year wides (around 105bps) on concerns regarding tightening monetary policy, higher Treasury yields, and negative total return pressures. Technicals have also weakened amid a deterioration in sentiment and investor outflows. That being said, while volatility could remain elevated over the near term, spreads have been relatively resilient, and we believe that credit should modestly outperform Treasuries as the global economic recovery

continues to support strong underlying corporate credit fundamentals. We continue to believe that excess returns versus duration-matched Treasuries are likely to come mostly from carry and likely not from significant spread tightening. Further widening in credit spreads in response to an unexpected or large move in Treasury yields, inflation or both remains a key risk; however, with the strong earnings/fundamental backdrop a more material move wider in spreads should be viewed as a repositioning opportunity.

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 Treasuries this year and are now approaching normal levels, as measured on a historical (pre-pandemic) basis. We believe fundamental conditions for munis remain strong, with improving tax collections, stronger pension funding levels and generous fiscal stimulus. However, technicals have weakened; demand has slackened due to rising yields and the lower likelihood of tax rate increases, while tax-exempt supply may grow moderately due to issuers leveraging infrastructure stimulus funds. We still expect munis to provide value over Treasuries for tax-sensitive investors in 2022, particularly carefully researched mid-to-lower-quality credits. However, current tight credit spreads make it less likely that munis will outperform as strongly as they did in 2021, in our view.

We have moved to slightly underweight Mortgage-Backed Securities: This month we are reducing our allocation to Mortgage-backed securities within a multi-asset class portfolio due to a number of headwinds including the quicker pace of Fed policy reduction, and the current backdrop of higher rates and volatility which we expect to persist. The proceeds of this adjustment will be invested in Investment-grade corporate bonds which have historically outperformed both MBS and Treasuries in the early stages of Fed rate increases. Due to concerns about Fed tapering/quantitative tightening, along with reduced demand from commercial banks as long demand recovers, we expect MBS spreads to come under pressure. 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 4s, according to the Bloomberg U.S. MBS Index. Further duration extension may be more limited from here, as duration remains near multi-year highs. 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 Treasuries, and the sector is a large component of the high-quality bond market. Therefore, investors should maintain exposure in the sector as appropriate for their particular investment objectives and risk tolerance.

FIXED INCOME WATCH LIST

- Potential Fed policy error, in either direction
- The 10s/30s spread, which may signal slowing growth if it narrows more dramatically
- Uneven Treasury market sell-off as taper progresses and fed funds rate hikes begin
- Signs of any risk aversion 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

ALTERNATIVE INVESTMENTS

Given the differences in liquidity characteristics between Alternative Investments (AI) and traditional investments, the Chief Investment Office (CIO) asset class views on AI portfolio positioning continue to be 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: In line with our overall overweight view on Equities, we currently see favorable opportunities for select Hedge Fund strategies for qualified investors, such as Equity Long/Short. U.S. GDP dipped in Q3, but growth rebounded strongly in Q4, and the economy has started 2022 with a full head of steam. Even though the Omicron variant is widespread through the U.S., it looks (so far) to have a more limited effect on the economy than previous waves. With a significantly lower hospitalization and mortality rate, it appears that people are learning to live with the coronavirus. The larger effect on markets has been the focus on the timing and path of the Fed's interest rate policy.

As mentioned above, we are maintaining our moderately positive view for Equity Hedge strategies, unchanged from previous quarters. We continue to believe the market environment is attractive for skilled stock pickers. As the interest rate environment changes, managers are generally optimistic that company fundamentals should be a more significant driver of stock performance going forward. We believe such an environment to be conducive to alpha generation on both longs and shorts.

Equity Hedge Funds tend to have a quality bias in their long books. At the start of an economic recovery, low-quality stocks tend to lead the early stages of a rally but then underperform once the recovery peaks after a few quarters and until the next recession. Some fund managers believe we are entering this second phase during which higher-quality stocks tend to outperform. If true, this could be a tailwind to Equity Hedge Funds' alpha generation going forward. If stock correlations are low, this should contribute to a favorable stock selection backdrop for Equity Hedge managers, as stocks are more likely to trade on fundamentals. Valuation levels are not favorable and are elevated relative to their five- and 10-year averages. However, this could be conducive to an attractive opportunity set for short sellers. Despite the challenging shorting environment in 2021, managers generally maintained their discipline although some decided to reduce the practice of shorting individual stocks. Managers focused on alpha shorts are generally constructive on the prospect of this practice, as they expect there will be less competition going forward.

Recently, we have become more cautious on Event Driven and Relative Value strategies, as credit spreads have tightened meaningfully and now are well below historical levels. Rising interest rates may also be a headwind for some strategies, with the yield on the 10-year now in a higher range; while still low from a historical perspective, the trend for short-term interest rates is clearly upward. In addition, there is a lack of opportunities for distressed strategies. For qualified investors seeking diversified return streams, trading strategies (especially trend-following strategies) are currently benefiting from greater and more diverse opportunities than seen in recent years and have the potential to provide competitive and less-correlated returns. There is also a level of asset class diversification to consider, as these managers invest across all parts of the investment spectrum: stocks, bonds, currencies and commodities.

We favor a strategic approach when allocating to Private Equity: We view these strategies as long-term potential portfolio return enhancers with unique access to specialized investments and strategies unavailable in traditional portfolio construction. We

see opportunities in buyout and Growth Equity as the global economy continues to rebound. Mergers & Acquisitions activity continues to be robust and deal activity and exits remained strong through the end of 2021. Many companies under Private Equity ownership generally showed good resilience during the pandemic, with Technology and Healthcare doing particularly well, and we believe this should continue into 2022. The strength of deal activities is observed across the board with the Technology sector continuing to dominate. Deal size has increased dramatically. Exit activity has soared, with a \$670 billion global buyout-backed deal value through September 31, 2021, already passing the yearly record of \$521 billion in 2014, according to Dealogic.

Private Credit strategies are benefiting from the concerns of higher interest rates, as many of these investments are more credit- than interest rate-sensitive. Also, many of these types of investments are floating rate, offering some buffer to higher rates compared to a traditional Fixed Income portfolio. These strategies may be of interest to qualified investors seeking potentially enhanced yield and may complement traditional Fixed Income holdings.

We favor a strategic approach when allocating to Private Real Estate: The Commercial Real Estate market continues to rebound, and returns in Q3 were stronger than Q2 as the momentum in the sector accelerates. Industrial continues to lead, benefiting from the surge in logistical needs. Multifamily housing also did well as there is strong residential demand. Hotels, office and retail posted positive returns but muted compared to other sectors as these areas will likely be the last to recover from the fallout of the coronavirus. We still favor the Industrial sector (warehousing, data centers, onshoring).

The macro backdrop is supportive of the investment case for Core/Core-Plus Real Estate, which emphasizes quality investments in well-located and well-positioned assets in growing and liquid primary and secondary markets. While we do not necessarily expect returns over the next year to match the outperformance seen in 2021, we do believe that 2022 has the potential to be another strong year for Core/Core-plus Real Estate, and we maintain a positive view on the asset class longer term, given attractive supply/demand characteristics. A large increase in new supply would likely lead us to reevaluate, but various barriers to new construction (as well as the visibility afforded by permitting and construction timelines) significantly reduce the supply-side risks over the near term.

Commodities and the dollar: For investors, there is a growing list of reasons to shore up strategic exposure to commodity prices. Supply-side shortcomings related to coronavirus, bad weather and crop failures are short-term factors that may fade as tailwinds, but rising geopolitical risk and positive commodity supply/demand dynamics related to de-carbonization efforts appear to have staying power. A weaker dollar, potentially driven by valuations, could eventually emerge as an additional catalyst. At the same time, investor flows are revisiting the diversification benefits of Commodities. From a business cycle timing perspective, Commodity allocations often exhibit relative outperformance versus stocks and bonds when the labor market is tight and inflation is bubbling over. Ultimately, global growth anchors demand, in our view, and is the most important factor to consider when allocating to Commodities and that outlook is positive for 2022 despite recent downward revisions to global growth forecasts.

Positioning within Commodities could be important to help mitigate the risk of rising real interest rates. Rising real interest rates would have the biggest effect on Commodities like gold because the price of gold is largely determined by speculation relative to other more fundamental commodities. For this reason and others, we favor cyclical commodities (industrial commodities and energy, for example) over gold.

The U.S. dollar continues to benefit from relatively stronger economic growth and a Fed that has shifted its rhetoric to acknowledge higher inflation and a tight labor market, and that extremely accommodating monetary policy is coming to an end and higher interest rates are in the future. This has helped the dollar to remain strong, exploiting the relative interest rate advantage versus the developed world. However, relatively higher inflation

expectations as compared to other developed countries could weigh on longer-term valuations.

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 position for higher inflation, generating cash flows and providing possible favorable social-impact opportunities.

MACRO STRATEGY

- For now, strong nominal growth is powering robust corporate earnings that will help serve to reinforce the business cycle expansion. Leading economic indicators point toward above trend real economic growth over the balance of the year. This is a positive backdrop for Equities.
- With the economy overheating and inflation far above target the Fed is likely to have a difficult time reining in inflation without causing a recession. This is likely to keep markets volatile.

ECONOMIC FORECASTS (AS OF 1/28/2022)

	2021A	Q1 2022E	Q2 2022E	Q3 2022E	Q4 2022E	2022E
Real global GDP (% y/y annualized)	5.9*	-	-	-	-	4.3
Real U.S. GDP (% q/q annualized)	5.7	1.0	5.0	3.0	2.0	3.6
CPI inflation (% y/y)	4.7	7.2	6.1	5.2	3.9	5.6
Core CPI inflation (% y/y)	3.6	6.0	5.1	4.7	4.0	5.0
Unemployment rate (%)	5.4	3.7	3.4	3.1	3.0	3.3
Fed funds rate, end period (%)	0.07	0.38	0.88	1.38	1.88	-

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 4600; end period 10-year Treasury estimate is 2.00%; 2022 average West Texas Intermediate Oil estimate is \$82/barrel. Sources: BofA Global Research; GWIM ISC as of February 1, 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 February 1, 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 improving global growth. Corporate profits remain in an uptrend as forward estimates have increased, policy remains supportive and global growth continues to accelerate. We remain overweight the U.S., neutral International Developed and neutral EM.
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 an improved pace of earnings growth and economic normalization. We believe portfolios should incorporate both Growth and Value factors. At the sector level, we continue to favor Technology for long-term secular growth exposure but are also constructive near term on cyclical sectors like Industrials, Financials, Energy and Materials.
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	●	●	●	●	●	Global economic recovery is expected to continue, which should benefit more cyclically oriented International Developed markets. A substantial monetary and fiscal policy drive in Europe and Japan paired with relatively attractive valuations is a support for International Equities, though underlying rates of nominal growth are expected to trail behind U.S. levels.
Emerging Markets	●	●	●	●	●	We are neutral EM Equities overall with cyclical regions well positioned for normalization in global activity and Asian markets geared to long-term growth in the digital economy. Potential risks from rising U.S. interest rates, industry-specific regulation in China and greater vulnerability to new coronavirus outbreaks.
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 continues to reopen.
Eurozone	●	●	●	●	●	An increased level of fiscal policy coordination across the European Union (EU) should provide additional support for domestic demand, while exposure to cyclical sectors should benefit from normalization of economic activity.
U.K.	●	●	●	●	●	Post-Brexit withdrawal from the EU single market remains a negative for medium-term growth. Large weighting in cyclical sectors should benefit from normalization of economic activity. Ongoing coronavirus concerns could present a potential headwind.
Japan	●	●	●	●	●	Large fiscal and monetary stimulus are 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*	●	●	●	●	●	Large weighting in financials and other cyclical sectors should benefit from normalization of economic activity. China exposure and international shifts on foreign policy toward Hong Kong remain an ongoing source of uncertainty for 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					Comments
	Underweight	Neutral	Overweight			
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	●	●	●	●	●	Yields are very expensive relative to inflation. Some allocation to Treasuries for liquidity and principal preservation is still advised, as Treasuries 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	●	●	●	●	●	The Fed has successfully initiated the tapering cycle without upsetting the market. Going forward, any miscommunication or negative surprise due to elevated inflation, particularly related to balance sheet reduction, is going to be a key risk. Furthermore, MBS purchases from banks may slow as the economy opens up, presenting a headwind. However, with fair valuations, we expect MBS to outperform Treasuries near-term and suggest a conservative positioning in shorter duration assets.
U.S. Corporates	●	●	●	●	●	Credit spreads have moved off the lows, but at 100bps, still relatively close to post pandemic tights. With the Fed's commitment to markets, improving fundamentals, and yields well above Treasuries, spread product should provide modest positive excess return over the medium term. We see relative value opportunities in select BBB-rated Industrials and also U.S. Financials. We see the least value in the front end of the credit curve given the compression in yields and spreads. Higher Treasury yields amid tightening monetary policy remains a risk to the demand backdrop – but should be manageable longer term.
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 timeframe. Within HY, we prefer more floating-rate loan exposure versus HY unsecured.
U.S. High Yield Tax Exempt	●	●	●	●	●	HY muni credit spreads have narrowed and remain supported for now by improving credit conditions, strong technicals and investors' search for yield.
U.S. Investment-grade Tax Exempt	●	●	●	●	●	Muni fundamentals are benefiting from growing tax collections, generous fiscal stimulus, and higher pension funding levels, with muni credit spreads at record post-2007 tights. Technicals have weakened however; demand has slackened due to rising yields and the lower likelihood of tax rate increases, while tax-exempt supply may grow moderately due to issuers leveraging infrastructure stimulus funds. We still believe munis provide value over Treasuries over the medium term for tax-sensitive investors, particular well-researched, lower-quality credits.
Alternative Investments*						Given the differences in liquidity characteristics between AI and traditional investments, the CIO asset class views on AI portfolio positioning continue to be 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
Hedge Funds						The shift in Fed policy has led to greater volatility in the equity and rate markets. An allocation to hedge funds has the potential to lower the impact of the volatility and possibly take advantage of the dislocation and sector rotation. For a hedge fund allocation at the strategy level, we continue to recommend incremental overweight to equity long/short strategies as part of a diversified portfolio of hedge fund strategies. Additionally, we continue to see opportunities in the macro space given the potential for uneven economic growth, interest rate differentials and inflation expectations between countries and regions and its impact on rates, commodities and foreign currencies.
Private Equity						We see opportunities across a number of different PE strategies. With the strong GDP numbers, we believe that buyout and Venture/Growth Equity managers will benefit from the robust economic activity. Private credit strategies will likely outperform a traditional Fixed Income portfolio as interest rates rise as many of these investments are more credit- than interest rate-sensitive, generally have a shorter duration and tend to be floating-rate securities.
Real Assets						Demand for many Commodities remains strong and we are seeing significant price appreciation across a wide swath of sectors. Problems and dislocations in global logistics are causing bottlenecks and aggravating the supply/demand imbalance, adding upward pressure on prices. Our outlook remains positive over the short and medium terms. An allocation to Tangible Assets/Commodities could be a good buffer to rising inflation.

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. **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 1, 2022.

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
	Underweight	Neutral	Overweight			
Energy	●	●	●	●	●	Strong global energy demand, tight inventories and spare capacity and the inflationary environment are supportive for energy stocks. Higher energy prices combined with substantial cost-cutting initiatives over recent years built significant operating leverage into energy companies. Further, earnings and free cash flow outlooks remain solid for upstream energy companies on higher realized oil and natural gas prices and continued capital discipline. Additional cyclical and value rotations could improve flows, positioning and sentiment, and potentially pull some investors back into the sector. Lower CapEx budgets and fewer long cycle investments in the Energy sector over recent years could support higher oil prices in the near- and intermediate-term. Positive view on energy for its cyclical reflation trade, but, longer-term the secular headwinds still confront the sector. Headwinds include the transition to clean energy, lower renewable energy costs and increasing Environmental, Social and Governance (ESG) focus by investors. Continue to emphasize companies that are low-cost producers with high free cash flows, balance sheet strength and low break-evens. Even given year-to-date gains, Energy still provides attractive valuations with positive momentum.
Financials	●	●	●	●	●	Banks resumed stock buybacks and dividend increases based on excess capital instead of earnings power. In addition, loan loss reserve release should moderate after significant reserve releases last year given a better macro backdrop and loan portfolio performance, which could be a modest tailwind to earnings and help enhance 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 for qualified investors, 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, in our view, are likely to return more capital to shareholders in coming quarters in buybacks and dividends, and provide some attractive Price/Book valuations.
Materials	●	●	●	●	●	Remain constructive on the Materials sector given the inflationary backdrop, low inventories, strong demand trends and tight commodity markets. Supply constraints are helping to keep prices elevated. Low inventory levels relative to consumption are helping companies to pass through cost inflation and help protect margins, and could extend the cycle, as inventories need to be rebuilt. There is high potential operating leverage embedded in the sector, driven by lower-cost profiles when compared to prior cycles, which could help enhance profitability if volume growth trends persist. Packaging and specialty chemicals are benefiting from healthy U.S. consumer demand, while the greatest improvement in marginal demand is occurring in cyclical commodities exposed to automotive, construction and aerospace end markets, which have yet to fully recover. Valuation and momentum are both neutral after recent consolidations.
Industrials	●	●	●	●	●	The economic reopening and recovery are driving better fundamentals despite supply chain issues in cyclical end markets, including transportation, automotive, power, machinery and manufacturing, although aerospace is still relatively weaker given international flights are still below pre-coronavirus levels. Higher volumes amidst somewhat constrained supply are driving sequential earnings and prices higher. Broad-based improvements in orders and increasing backlogs signal healthy activity levels and volume trends could continue over the near-to-medium term. Further, potential improvements in the global CapEx cycle could support the transportation, machinery, and freight and logistics industries longer-term. Cyclical rotations and fund flows could also continue to support the Industrial stocks. Valuation is elevated and momentum is neutral.
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, data centers, software, cybersecurity and semiconductors. We are in the early innings for machine learning and Artificial Intelligence, and the pandemic increasing 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, and a move higher in interest rates could pressure multiples for high-growth and high-valuation tech stocks; 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. Technology is deflationary by nature, therefore long term investors should look to add to transformational and industry leading businesses on weakness from the Fed's pivot and the re-rating of Technology stocks. Avoid companies that trade at very high valuations and without profits. Elevated valuations and declining momentum.
Real Estate	●	●	●	●	●	The outlook for Real Estate improved and is reflected in stronger performance driven by progress in the reopening of the economy. Consumer and corporate changes like remote work, eCommerce, less business travel, etc., are potential longer-term headwinds for CRE companies (e.g., office), leisure (e.g., hotels), mall operators and owners. However, Real Estate's positive correlation with inflation, relative underweight positioning and opportunity to provide both a potential inflation hedge and reopening exposure makes the sector more attractive. Continue to emphasize longer-term secular trends in data centers, communication infrastructure and industrial real estate with a focus on eCommerce distribution facilities. Consider being selective in the sector with mixed outlooks for different sub-sectors of the Real Estate industry. Neutral valuation and stalling momentum.

Sector	CIO View			Comments
	Underweight	Neutral	Overweight	
Healthcare	●	●	●	Underperformance of the high-growth and high-valuation biotech and healthcare tech companies is overshadowing some of the opportunities presenting themselves in large pharmaceuticals (pharma) and life science equipment, and is creating some headwinds for the healthcare sector during the current economic recovery. Over the long term, we still expect rising spending on global healthcare—focused primarily on diagnostics, healthcare consumables, and drug development equipment/tools and differentiated medical devices. Emergency department visits and inpatient hospital admissions remain areas to watch and could have a notable effect on capital equipment spending and labor pressures. Drug pricing pressures appear to be fading in the near term with the assumption that pricing reforms are likely to be passed and viewed by investors as a clearing event. Large pharmaceutical companies are becoming more attractive as they trade at a large discount to healthcare sector peers and the broader market. Further, significant cash on strong balance sheets, combined with more aggressive business development efforts and a greater focus on explaining long-term growth drivers make large pharma more attractive over the intermediate term. Over a longer duration, drug pricing headwinds may return as demographic shifts put more pressure on government payors and as value-based care initiatives pick up momentum. Emphasize exposure to long-term, positive trends in animal health, cost-savings medical technology and telemedicine, tools, diagnostics and select biotech, as well as more intermediate opportunities in large-cap pharma. Valuation is a bit extended in certain subsectors with lower momentum.
Consumer Discretionary	●	●	●	Consumer Discretionary's relative performance peaked and made a turn lower, and higher costs could potentially pressure margins and earnings going forward. The consumer reopening cadence is entering the "mobility phase" as consumers are out of the house and engaging in pre-pandemic activities and events. The ongoing shift to omnichannel retailing should continue to alter consumer behaviors due to the pandemic. 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. Despite a solid outlook for the consumer, rising input costs, higher freight costs, increased labor costs and supply chain disruptions could provide potential headwinds. Valuation is elevated, and momentum is stalling.
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 in the sector. 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. Recent new headlines increased scrutiny on some internet- and social media-focused companies. Long duration stocks without profits could see additional valuation re-ratings in 2022. Valuation is neutral and momentum has deteriorated.
Consumer Staples	●	●	●	Consumer Staples face tougher revenue and earnings comps as we lap the pandemic-driven stay-at-home benefits. Ongoing risks of a rotation out of defensive positioning and into risk-on positioning with greater visibility and availability of vaccines and the anticipation of a return to reopening activities. The potential for increases in labor, input, freight and packaging costs could further pressure year-over-year profitability as companies potentially increase promotional activity in an attempt to retain pandemic-affected consumers. Historically, Consumer Staples performance is a function of relative earnings growth and the sector could face decelerating earnings growth early in 2022, especially compared to cyclical areas that are expected to see improving earnings growth. Neutral valuation and better momentum recently.
Utilities	●	●	●	Expect consistent earnings results however, higher interest rates could potentially weigh on this interest rate sector and be a potential headwind for this bond proxy sector. 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. Neutral valuation and improving momentum recently.

Source: Chief Investment Office as of February 1, 2022. BofA Global Research is research produced by BofA Securities, Inc. ("BofAS") and/or one or more of its affiliates. BofAS is a registered broker-dealer, Member SIPC, and wholly owned subsidiary of Bank of America Corporation. All 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.

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 post-pandemic world will likely demand a new wave of Infrastructure investments, both mineral and material-intensive for cleaner and greener infrastructure. The fusion of Healthcare 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 ESG factors and metrics promotes the shift toward stakeholder capitalism.

Source: Chief Investment Office as of February 1, 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 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.

S&P Small-cap Index tracks a broad range of small-sized companies that meet specific liquidity and stability requirements.

Important Disclosures

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

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

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

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. Small cap and mid cap companies pose special risks, including possible illiquidity and greater price volatility than funds consisting of larger, more established companies. 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. Municipal securities can be significantly affected by political changes as well as uncertainties in the municipal market related to taxation, legislative changes, or the rights of municipal security holders. Income from investing in municipal bonds is generally exempt from federal and state taxes for residents of the issuing state. While the interest income is tax-exempt, any capital gains distributed are taxable to the investor. Income for some investors may be subject to the Federal Alternative Minimum Tax. Investments in high-yield bonds (sometimes referred to as "junk bonds") offer the potential for high current income and attractive total return, but involves certain risks. Changes in economic conditions or other circumstances may adversely affect a junk bond issuer's ability to make principal and interest payments. Treasury bills are less volatile than longer-term fixed income securities and are guaranteed as to timely payment of principal and interest by the U.S. government. Mortgage-backed securities are subject to credit risk and the risk that the mortgages will be prepaid, so that portfolio management may be faced with replenishing the portfolio in a possibly disadvantageous interest rate environment. Investments in foreign securities (including ADRs) involve special risks, including foreign currency risk and the possibility of substantial volatility due to adverse political, economic or other developments. These risks are magnified for investments made in emerging markets. Investments in a certain industry or sector may pose additional risk due to lack of diversification and sector concentration. Investments in real estate securities can be subject to fluctuations in the value of the underlying properties, the effect of economic conditions on real estate values, changes in interest rates, and risk related to renting properties, such as rental defaults. There are special risks associated with an investment in commodities, including market price fluctuations, regulatory changes, interest rate changes, credit risk, economic changes and the impact of adverse political or financial factors.

Alternative investments are speculative and involve a high degree of risk.

Alternative investments are intended for qualified investors only. Alternative Investments such as derivatives, hedge funds, private equity funds, and funds of funds can result in higher return potential but also higher loss potential. Changes in economic conditions or other circumstances may adversely affect your investments. Before you invest in alternative investments, you should consider your overall financial situation, how much money you have to invest, your need for liquidity, and your tolerance for risk.

Nonfinancial assets, such as closely-held businesses, real estate, 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.

Impact investing and/or Environmental, Social and Governance (ESG) managers may take into consideration factors beyond traditional financial information to select securities, which could result in relative investment performance deviating from other strategies or broad market benchmarks, depending on whether such sectors or investments are in or out of favor in the market. Further, ESG strategies may rely on certain values based criteria to eliminate exposures found in similar strategies or broad market benchmarks, which could also result in relative investment performance deviating.

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