

# Viewpoint

## Weak Periods May Be Buying Opportunities

January 2021

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

### IN BRIEF

- Unprecedented fiscal stimulus, a soft U.S. dollar, and positive trends in economic and earnings growth are among the factors that we believe will continue to support an equity uptrend in 2021.
- We expect a “grind-it-out” year in equity returns that far outpace Fixed Income, and what matters most is our expectation for a broad market advance relative to the narrow advances we have recently experienced, in our view.
- This month we raised our overall allocation to Equities slightly and lowered our Cash allocation to position for continued economic recovery and to add cyclical to portfolios. Within Equities, we upgraded U.S. Small-cap Value (where applicable) to slight overweight, and Emerging Markets (EMs) to neutral; while lowering our allocation to U.S. Large-caps (but we remain overweight).
- We remain underweight Fixed Income, and prefer shorter duration relative to a benchmark. We also raised our allocation to Mortgage-Backed Securities (MBS) to neutral, and further lowered our allocation to U.S. Treasuries.

Now that the unprecedented and historic year of 2020 is fully in the books, what capital market activity and potential asset allocation implications do we expect in 2021?

We see capital market activity likely transitioning in a major way, which could have a meaningful effect on asset allocation. The main developments we see in 2021 are:

- a slight increase in inflation expectations
- higher longer-dated Treasury yields, leading to steeper yield curves as rates drift higher
- a “grind-it-out” equity return environment that follows the square-root-shape trend we highlighted in the May 2020 Chief Investment Office (CIO) Insights “*The Great Convergence*” report
- the cyclical/economic sensitive sectors (such as Financials, Materials, Industrials), small capitalization stocks, and Value—but not necessarily deep value—pockets of the market continue to build on the momentum from late 2020

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### CIO ASSET CLASS VIEWS

This month, the Global Wealth & Investment Management Investment Strategy Committee raised our overall equity exposure slightly and lowered our cash allocation. Within Equities we raised our allocation to Small-cap and EM equities; and within Fixed Income, we raised MBS to neutral and further lowered our allocation to U.S. Treasury bonds. Investors should continue to maintain well-diversified portfolios.

[View the CIO Asset Allocation Guidelines](#)

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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	●	●	●
International 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 pre-qualified clients. CIO asset class views are relative to the CIO Strategic Asset Allocation (SAA) of a multi-asset portfolio.

- International equities—more specifically EM—are likely upgraded by the investment community, supported by, among other variables, the continued downtrend in the U.S. dollar
- stock-to-stock correlations decline, and the opportunity set in active management\* widens
- emerging growth themes gain a strong footing and begin to separate from the “big story and promise but little-to-no-profit” areas

In terms of asset allocation highlighted in our Investment Strategy Overview December 2020 Year Ahead—*The Gateway to the New Frontier*—report, we believe the “gateway” year of 2021 represents a pivotal moment. This is likely to be the base year in which the long-standing typical thinking about asset allocation changes significantly. We expect the changes to include a mix shift, a more diversified rotation within equities, accelerated inclusion of developing new frontier growth themes, and a re-examining of alternative investing solutions. For longer-term investment objectives, we believe 2021 is likely to include:

- higher equity exposure in order to meet long-standing return objectives
- bond portfolios built for a trend toward a pickup in long-dated yields (albeit still low)
- a more diversified mix of Growth and Value, cyclicals and high-quality core
- greater rebalancing as new cycles develop as the Federal Reserve (Fed) pivots in the coming years
- inclusion of less liquid strategies in alternatives for qualified investors across asset classes
- a major increase in the inclusion of sustainable investing metrics and emerging growth themes

Investors will likely be considering moving up the risk profile spectrum in order to meet their objectives and/or liability targets. Some may decide to increase their level of accepted illiquidity in order to achieve long-term growth objectives. At the same time, we expect a new wave of investors to begin to enter the investment environment given the rising need to invest for retirement and the acceleration of stock enthusiasts born out of the pandemic. We believe there are seven supporting mechanisms for the equity uptrend to continue in 2021:

1. Unprecedented fiscal stimulus, relief and liquidity plus increase in money supply to continue and have further wide effect.
2. Continuation of the soft dollar trend supporting non-U.S. economies, reflation assets, industrial activity, manufacturing.
3. Strong positive surprises in economic and earnings growth are currently building. Watch for earnings revision trends and pent-up demand from the U.S. consumer.
4. Positive flow momentum in equity allocations to continue in our view as yields back up in Treasuries.
5. A back-up in yields should lead to changes to asset allocation favoring equities further, in our opinion.
6. A slight uptick in inflation thereby supporting cyclical positioning further.
7. Lower equity volatility throughout 2021 as coronavirus vaccine rollouts continue and economic progress gathers momentum.

We expect the following five risks to stay front and center in the first half of 2021:

1. Political volatility to remain high
2. Potential coronavirus vaccine roll-out and distribution challenges
3. Geopolitical concerns—namely the U.S. and China relationship

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

4. Valuation levels
5. Any sharp surprise in inflation

We believe investors should re-examine their strategic and tactical asset allocation policies to consider adding cyclical exposure in the context of both the supporting mechanisms and potential risks early in the new year in order to explore where they can take advantage of trends that we expect to build throughout the year and well into “The New Frontier.”

The key question for those interested in market targets for year-end 2021 is what level S&P 500 earnings could reach in 2022. The market looks ahead and begins to discount the following year’s fundamentals prior to the current year closing its books. If our expectations of strong profit momentum come through over the next two years, given our view of strong operating leverage in the private sector and a high level of pent-up consumer demand in the broader economy, the likelihood of upside to consensus return projections for the S&P 500 of approximately 5 to 7% for 2021 could be quite high. Market sentiment was a little ahead of itself, in our opinion, as we turned the calendar, which makes stocks somewhat vulnerable to begin the year. A market exhale to begin Q1 is possible. We would view weakness as a buying opportunity particularly in the more cyclical areas for investors who are aligned with the base-case environment of a full economic recovery in 2021 and continued strong momentum in profits in 2022 as “The New Frontier” unfolds.

In the end, for asset allocators, we expect a “grind-it-out” year in equity returns that far outpace fixed income, and what matters most is our expectation for a broad market advance relative to the narrow advances we have recently experienced, in our view. The bull market for equities continues in 2021, in our opinion, and investors should consider reassessing their portfolio allocations early in Q1.

#### **Our Bullish Thesis Remains: Increasing Cyclical Exposure**

- This month we are increasing our overall equity exposure slightly to position for continued economic recovery and to add cyclical to portfolios, and lowering our allocation to cash.
- We are also increasing our allocation to small-capitalization stocks this month by slightly lowering large caps. Both are still overweight.
- We are upgrading emerging market stocks to neutral from underweight.
- For U.S. equity sectors, we are increasing exposure to Industrials (slight overweight), Financials (slight overweight) and Materials (neutral) and lowering exposure to Communication Services (neutral) and Consumer Staples (slight underweight). We maintain our overweight to Information Technology.
- Within fixed income, which remains a large underweight, we are increasing exposure slightly to MBS (now neutral) and lowering Treasuries to a larger underweight.

#### **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 should add support for individuals and small businesses, in particular. Corporate credit conditions have generally improved as a result of measures taken by the 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 the American Association for Individual Investors and fund flows into more cyclical assets. Institutional cash levels have fallen; however there still remains almost \$4.3 trillion of cash on the sidelines, nearly \$700 billion higher than at the end of 2019. 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 political 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.

## CIO INVESTMENT DASHBOARD

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				Companies in the S&P 500 reported better-than-expected results in Q3, likely marking an earnings trough in Q2. Companies are also providing more and better guidance. The positive trend in global earnings expectations continues, and 2021 consensus expectations have picked up. 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 3.5%, versus the historical average of 3.4%. This places it at the 66 <sup>th</sup> percentile, compared to the 71 <sup>st</sup> percentile in late November. 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 has remained in expansionary territory since June, while historic lows in the national 30-Year fixed mortgage rate have 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. Real GDP growth for Q3 rebounded by a record 33.1%. BofA Global Research expects Q4 growth to moderate to 5% on an annualized quarterly basis.
Global Growth				The pandemic represents an unprecedented shock to global economic activity. We expect global GDP to contract by -3.6% in 2020 but rebound by 5.4% in 2021. The duration and shape of economic recovery depends 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. The Federal Open Market Committee (FOMC) has reiterated its dovish stance, emphasizing the commitment to using its full range of tools to support economic growth given the tremendous hardship from the pandemic, and indicating the central bank will likely seek to achieve an average inflation rate of 2% over time. Certain emergency facilities and Treasury funding are poised to wind down.
Trade/Fiscal Policy				After passing over 19% of U.S. GDP in fiscal stimulus throughout 2020, in late December, policymakers in Washington approved additional relief totaling roughly \$900 billion. Initiatives within the package include checks for individuals and support for small businesses, among other measures. 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 +83 basis points (bps) versus about -74 bps in early March.
Technical Indicators				The Chicago Board Options Exchange (CBOE) Volatility Index (VIX), measuring equity volatility, briefly spiked to roughly 30 before falling back to near the lowest levels since August. Fixed income volatility, measured by The MOVE index, has also settled lower. The percentage of New York Stock Exchange (NYSE) stocks above their 200-day moving average now stands just above 84%, 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 December 30, 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. Looking forward, there remains uncertainty given the path of the coronavirus, vaccine deployment timeline and political uncertainty. We believe investors should balance Quality and Growth in their equity allocations with Cyclical exposure, especially if one is significantly under-allocated there. We continue to favor U.S. equities, are neutral International Developed equities and are upgrading Emerging Markets from underweight to neutral.
- **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. This month we are raising allocations within Small-caps specifically to Small-cap Value (where applicable), upgrading it to overweight from neutral.

We expect earnings per share (EPS) for the S&P 500 to drop to \$138 for 2020 but improve to \$165 in 2021. Earnings estimate revisions have risen considerably in the U.S., with upgrades outnumbering downgrades 1.8-to-1 in December 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. This month we are upgrading the Industrials and Financials sectors to slightly overweight, and Materials to neutral, to position for continued economic recovery and to add more cyclicality to portfolios. In turn, we have also downgraded Communication Services to neutral as cord-cutting pressure and regulatory uncertainty continues, and Consumer Staples to underweight, as year-over-year comparables and pricing power may be a challenge following the pantry-loading of 2020.

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 3.5% and in the 66<sup>th</sup> 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, 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 coronavirus 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. Higher levels of nominal growth in 2021 and beyond have given investors greater confidence to step into Value and cyclicals, which, in our opinion, should see better demand, pricing power and cash flows in 2021.

- **We are upgrading Emerging Market (EM) equities from underweight to neutral this month:** Fundamentals appear to be improving into 2021 as global synchronized growth picks up, manufacturing and trade further improve, China activity reaches 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.

- **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 nearly 74% of GDP of combined stimulus, and the Eurozone adding approximately 50%, according to Cornerstone Macro Research. The new shared fiscal relief plan of the European Union (EU) could potentially provide grants to hard-hit countries like Italy and Spain and likely boost investor confidence in the sustainability of the Euro while the Brexit resolution should help reduce uncertainty. 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 cyclical 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 fiscal stimulus packages
- Reorganization of global supply chains and U.S.-China relationship
- Fiscal policy uncertainty

## FIXED INCOME

- **We are slightly underweight fixed income:** Consider a short-duration positioning relative to a stated benchmark that is aligned to investment goals. Current interest rates are extremely low, and the Fed is not expected to move policy rates into negative territory, which makes another large drop in rates less likely. Furthermore, the Fed's "flexible average inflation" targeting framework means that it will likely no longer preemptively raise rates to curb potential inflation before it occurs. It should let the economy "run hot," potentially allowing the Consumer Price Index (CPI) to move near 3% before raising rates. The Fed believes that employment and inflation risks are to the downside in a zero-rate environment and could be dovish until proven otherwise. 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 Treasuries' effectiveness to counterbalance equity volatility. The S&P 500 has had two significant drops during the post-coronavirus rally— -10% in September 2020 and -8% in October 2020—and in both instances, Treasury rates actually rose slightly. This is a market development we are watching carefully; 10-Year Treasury rates have now moved ~40 bps from their all-time lows. Treasuries should always be considered as an asset class for most investors' portfolios, especially to complement portfolios with equity risk. However, investors with less need to manage short-term, day-to-day equity volatility, with all fixed-income portfolios, or who have higher ability to withstand price volatility, should minimize Treasury allocations as much as practicable while favoring high-quality, investment-grade spread products. We still expect overall fixed income to be a diversifier in the long term, as coupon income becomes more of a determining factor to total returns, and, therefore, spread products (corporates, 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, in our opinion, should continue to outperform Treasuries 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, in our view. The technical backdrop should remain supportive underpinned by continued 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 are likely to continue to rise and may meaningfully reduce total returns. The yields now available in HY (< 4.25%) provide very meager compensation for investors with a long-term time frame. For HY allocations, consider an equal weighting between HY unsecured bonds and secured leveraged loans, and caution that near-term, strong performance may not be sustainable.

We expect only light muni issuance this month; in combination with bond maturities and calls, this produces a strong technical environment. For the rest of 2021, we expect modest growth in tax-exempt issuance, driven by infrastructure spending and deficit borrowing. The 2020 fiscal stimulus bill included funds for many municipal revenue bond issuers in the Transportation, Education and Healthcare sectors, but no direct aid for state and local governments. However, state and local government tax revenues were down only 3.6% in Q2 and Q3 2020, and we believe the vast majority of municipal issuers will likely retain their investment grade status. The Democrat's apparent win of the two Senate runoff races and control of the Senate is bullish for munis. We expect a boost in demand due to the potential for higher federal income tax rates, as well as the increased likelihood of additional fiscal stimulus for states and local governments.

- **We have upgraded Mortgage-Backed Securities (MBS) to neutral this month** in a diversified portfolio. Spreads have settled at fair levels of the pre-crisis seven-year range. Fed purchases that now total over \$1 trillion since March have stabilized at \$40 billion/month, 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 and volatility in the market, higher dollar prices of the mortgage bonds, and the still very-much-unclear economic and housing pictures that could result in heightened risk of rising default rates from unemployment. While MBS look attractive versus Treasury rates and are starting to look cheap versus corporates, we feel that uncertainties around prepayments and extensions remain a headwind for sector performance. We 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

- Treasuries' recent lack of negative correlation to equity market
- Outlook for additional fiscal stimulus 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
- Default and recovery statistics in corporate HY and leveraged loan markets
- Increased utilization of the Fed's liquidity and credit programs

## 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 subasset 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, reducing 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, may also 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, multi-year commitment strategy that builds portfolio diversity among different managers, styles, geographies and vintages.
- **We favor a strategic approach when allocating to Private Real Estate:** The coronavirus has had a profound effect on the commercial real estate (CRE) market. In the near term, we think conditions will be closely tied to the duration and severity of the pandemic and could continue to weigh on pricing, volume and cash flows in certain parts of the core real estate market (hospitality, retail, office). It is worth noting that prior to the pandemic economic conditions were on solid footing for CRE. Generally speaking, the supply and demand for rentable space were relatively balanced across the country, with a few property types and market exceptions, such as regional malls and power centers in the retail category, and in some multifamily and central business district (CBD) office markets. For prospective prequalified investors, we would place emphasis on direct investments in well-located properties in strong regions of the country that will likely 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 for the foreseeable future 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.
- **Commodities and the dollar:** Risk-on sentiment has bolstered the Euro, helping to push the trade-weighted dollar lower. Further dollar softness would help the global economy and the reflation effort. Commodity prices (for example, copper) have rebounded sharply as the dollar has weakened and reflation gains traction. Gold is currently benefiting from 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 slowed as the coronavirus case count picked up, but overall global growth continues 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 are reaching 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 continues to trend lower as the shock dissipates 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 DECEMBER 31, 2020)

	Q1 2020A	Q2 2020A	Q3 2020A	Q4 2020A	2020A	Q1 2021E	2021E
Real global GDP (% y/y annualized)	-	-	-	-	-3.6*	-	5.4
Real U.S. GDP (% q/q annualized)	-5.0	-31.4	33.1	5.0*	-3.5*	1.0	4.6
CPI inflation (% y/y)	1.5	0.6	1.4	1.2*	1.2*	1.5	2.1
Core CPI inflation (% y/y)	2.1	1.2	1.7	1.6*	1.7*	1.5	1.8
Unemployment rate (%)	3.8	13.0	8.8	6.8*	8.1*	6.6	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	1.00	1.50
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	41	43	39	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 January 5, 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 earnings per share (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
\$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. **Past performance is no guarantee of future results.**

## CIO ASSET CLASS VIEWS

Asset Class	CIO View					Comments
	Negative		Neutral		Positive	
<b>Equities</b>	•	•	•	●	•	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 this month we upgraded EMs to neutral.
<b>U.S. Large -Cap Growth</b>	•	•	•	●	•	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.
<b>U.S. Large-Cap Value</b>	•	•	•	●	•	
<b>U.S. Small-Cap Growth</b>	•	•	•	●	•	Small-caps have more leverage in this cycle but have relatively attractive valuations and could benefit in a more cyclical rotation. This month we upgraded Small-cap Value (where appropriate).
<b>U.S. Small-Cap Value</b>	•	•	▶	●	•	
<b>International Developed</b>	•	•	●	•	•	Global economic recovery is expected to continue in 2021, 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.
<b>Emerging Markets</b>	▶	◊	●	•	•	We are upgrading EM equities to neutral from underweight as fundamentals appear to be improving into 2021 as global synchronized growth picks up, manufacturing and trade further improve, China activity reaches pre-pandemic levels, and the U.S. dollar weakens.
<b>International</b>						
<b>North America</b>	•	•	•	●	•	The U.S. remains our preferred region on corporate earnings and balance sheet strength, with a domestic demand-driven economy likely to remain resilient in the face of rising coronavirus cases. Aggressive fiscal stimulus, Fed support and record-low interest rates still favor equities over bonds, in addition to higher market exposure to Growth in digitization through Technology-related sectors.
<b>Eurozone</b>	•	•	●	•	•	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 from crossborder activity due to coronavirus-mitigation measures.
<b>U.K.</b>	•	•	●	•	•	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 is a relative support given large international revenue exposure.
<b>Japan</b>	•	•	●	•	•	Large fiscal and monetary stimulus are key sources of support for growth in the domestic economy, with policy continuity expected under the new government. Long-term tailwinds from exposure to automation machinery including from robotics, while valuations remain attractive.
<b>Pac Rim*</b>	•	•	●	•	•	Exposure to economic recovery in China supports regional growth. Low occupancy rates and 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			Comments
	Negative	Neutral	Positive	
Global Fixed Income	•	●	•	Bonds provide portfolio diversification, income and stability. Below-benchmark duration is recommended, as rates are extremely low, and the Fed is not expected to move rates into negative territory.
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. Treasuries 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 Treasuries, 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, 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 time frame as further drawdowns are possible. 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	•	•	●	AAA muni valuations have fully recovered to pre-coronavirus levels, making it more likely that lower-quality IG munis would outperform higher quality. The "January effect" should provide a strong technical tailwind, while late December 2020 fiscal stimulus could help transportation, education and healthcare revenue bond sectors. The Democrat's apparent win of the two Senate runoff races and control of the Senate is bullish for munis. We expect a boost in demand due to the potential for higher federal income tax rates, as well as the increased likelihood of additional fiscal stimulus for states and local governments.
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, reducing 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 lower real interest rates, and ultimately stabilizing global growth, should provide support for commodity prices. Gold is currently benefiting from 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 pre-qualified clients.

Source: Global Wealth & Investment Management Investment Strategy Committee as of January 5, 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		
<b>Information Technology</b>	●	●	●	●	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.
<b>Consumer Discretionary</b>	●	●	●	●	The ongoing shift to omnichannel retailing should continue to alter consumer behaviors due to the pandemic. 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. Neutral valuation.
<b>Healthcare</b>	●	●	●	●	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 precedent. 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.
<b>Financials</b>	●	●	▶	●	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 improving momentum.
<b>Industrials</b>	●	●	▶	●	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. Extended valuation on a relative basis and softening momentum.
<b>Communication Services</b>	●	●	●	◀	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 sector.
<b>Materials</b>	●	▶	●	●	Specialty chemicals and agriculture may benefit from a consumer-led recovery in the U.S. and China, while reshoring and 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.
<b>Consumer Staples</b>	●	●	◀	●	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 weakening momentum.

Sector	CIO View			Comments
	Under-weight	Neutral	Over-weight	
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 January 5, 2021.

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## 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
<b>Big Data</b>	The massive growth in unstructured data being created by connected machines, devices and systems is fueling data processing and <b>Data Analytics</b> . Complementing <b>Artificial Intelligence</b> technologies are replete with applications for big data. The size of the digital world and <b>Internet of Things (IoT)</b> is accelerating the migration of data and applications to a <b>Cloud Computing</b> environment. <b>Data Centers</b> and cloud-based <b>Storage</b> will likely capture incremental data created.
<b>Demographics</b>	Several demographic transitions serve as important arbiters of future growth. With elongated life expectancies globally, <b>Longevity</b> 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 <b>Millennials</b> (born 1981-1996) and <b>Gen Z</b> (born 1997-2012) could have greater influence over the next decade on consumer spending and preferences. Even given the shorter-term impairments to the EM asset class view, we believe the <b>EM Consumer</b> represents a powerful middle class consuming cohort over the longer term. Uplifting the <b>Bottom Billions</b> , or poorest socioeconomic group with growing access to electricity, internet and sanitation can also offer a demographic dividend for multinational companies.
<b>Climate Change</b>	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 ( <b>Solar</b> , <b>Wind</b> and <b>Hydrogen</b> ), <b>Energy-Efficiency</b> such as building systems, <b>Water/Waste Management</b> , and <b>Energy Storage &amp; Distribution</b> .
<b>Future Mobility</b>	The future of mobility hinges on <b>Next-Gen Infrastructure</b> . This includes the telecom industry's deployment of the <b>5G</b> network, which is expected to prove to be the greatest accelerant and enabler to <b>Smart Cities</b> (smart buildings, safety and security), <b>Autonomous Vehicles</b> and unmanned <b>Drones</b> . The growing <b>Electric Vehicle</b> market will likely demand installation of charging equipment and fuel peripheral industries such as battery material demand.
<b>Security</b>	Expanding the <b>IoT</b> 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 <b>Payments/FinTech</b> ), <b>Data Privacy/Surveillance</b> and governance is expected to play a larger role in a post-pandemic world, as will bolstering <b>Cybersecurity</b> defenses and budgets. With the commercialization of space, cybersecurity will likely extend to <b>Space</b> -based assets (think satellites, data links, weather monitoring and GPS).
<b>Post-coronavirus World</b>	In the post-pandemic economic recovery, the factory of the future tends to be based closer to home and driven by <b>Robotics (Industrial/Service Automation)</b> not humans, hastening reshoring by creating <b>Dual/Local Supply Chains</b> , notably in high-end activities and manufacturing. The fusion of Health and Technology through <b>HealthTech</b> capabilities, should result in greater investments in telemedicine, disease surveillance and patient monitoring. Just as healthcare has gone digital, technology could increasingly dictate <b>e-Everything</b> , as we've seen <b>eCommerce</b> , <b>eSports</b> and <b>eLearning</b> gain traction. An increased focus on <b>environmental, social, governance (ESG)</b> factors and metrics promotes the shift toward stakeholder capitalism.

Source: Chief Investment Office as of January 5, 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 EM 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.

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All recommendations must be considered in the context of an individual investor's goals, time horizon, liquidity needs and risk tolerance. Not all recommendations will be in the best interest of all investors.

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

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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.

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

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