MERRILL
A BANK OF AMERICA COMPANY

CHIEF INVESTMENT OFFICE

Viewpoint

Whispering Winds

July 2021

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

IN BRIEF

- For the second half of 2021, we still expect Equities to outperform bonds and cash and believe that this remains the largest risk management decision in a multi-asset portfolio.
- This month, we are adjusting our sector views to reflect the ongoing recovery and reopening in the economy by upgrading Materials to a slight overweight and Real Estate to a slight underweight. We are funding these upgrades by downgrading Consumer Discretionary and Healthcare to neutral on relative performance turning lower and momentum declining.
- Within Fixed Income, below-benchmark duration is favored, as rates are rising off extremely low levels, and fiscal and monetary policy is supportive of higher inflation over the medium term.
- Portfolio allocations during this period should continue to emphasize balance across and within asset classes.

After about a year of continuous unprecedented stimulus, relief and liquidity support, current markets and economies sharply recovered. We are now in the fourth phase—Pent-up Demand Cycle—of economic recovery during which growth in the economy and corporate profits have hit their highest levels. However, recently there have been whispers by Federal Reserve (Fed) officials subtly highlighting high asset valuations, some speculative excesses, and the potential for “talking about talking about tapering” (slowing down its bond buying) before the end of the year.

We view these “whispering winds” as the early stages of, yet again, another great pivot by the Fed. This time it’s back the other way toward removing some liquidity, as some inflation gauges easily supersede the Fed’s average target level by a large amount. This pivot back designed to stabilize price activity while achieving full employment is like threading a needle with a clothesline, in our view. Investors will be watching every move by the Fed closely and analyzing the jobs and inflation data with each release. Fed governors are likely to use words wisely and communicate well ahead of any major action on tapering, not to mention short-term rate adjustments. The yield curve and, in particular, long-term yields and the U.S. dollar activity should provide visible clues on the timing of the actual pivot, in our opinion.

We expect risk assets to remain supported throughout the balance of this year and into early 2022, with nominal economic growth climbing to levels not experienced in some four

CIO ASSET CLASS VIEWS

This month the Global Wealth & Investment Management Investment Strategy Committee made a tactical asset allocation adjustment to the sector views. We raised Materials to a slight overweight and raised Real Estate to a slight underweight. These upgrades were balanced by downgrades to Consumer Discretionary and Healthcare both to neutral. We reaffirm our positive view on Equities relative to Fixed Income and emphasize balance across and within asset classes.

View the CIO Asset Allocation Guidelines

Listen to the audio cast

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 a multi-asset portfolio.

decades. This is not expected to be a smooth straight line without uncertainty. In fact, we expect the next move to be a rebound higher that is choppy and in a grind-it-out fashion given all of the concerns over potentially higher taxes, Fed discussions about tapering, geopolitical agitation, and fiscal policy questions. Investment cash on the sidelines continues to grow and market sentiment is still one of a general cautious tone versus the "consensus wisdom," which suggests there is perhaps too much enthusiasm for risk assets. The cautious tone mixed with both positively surprising growth data and "concerns that overhang" decision-making are what may create a choppy but upward trend environment as long as yields remain stable and corporate profits surpass expectations, in our view.

Our main Chief Investment Office (CIO) objective, where appropriate, is to invest in key longer-term themes and strategies while maintaining a disciplined risk management approach at the core portfolio level during the great pivot. Portfolio allocations during this period should continue to emphasize balance across and within asset classes. A balance between Growth and Value, sector and geographic positioning with an overall Equity overweight. Non-U.S. markets are beginning to perform better but they need a weaker U.S. dollar and more consistent fiscal growth that is lasting to outperform U.S.-based assets over the medium to long term. Non-U.S. markets are inherently more cyclical, more Value-oriented, and tend to have less exposure overall to Technology stocks in their respective indexes. Therefore, as economic growth surprises and long-term yields back up again, international assets should generally have reflationary tailwinds at their backs. Maintaining a neutral position here is appropriate (all things considered), in our view.

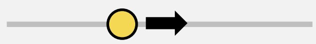
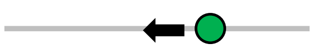
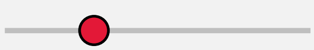
As we learn more from the timing and sharpness of the Fed's great pivot, we will look to adjust our CIO asset allocations further over time. For the second half of 2021, we still expect Equities to outperform bonds and cash and believe that this remains the largest risk management decision in a multi-asset portfolio.

CIO INVESTMENT DASHBOARD

The outlook for global economic activity remains strong, with 95% of proprietary growth indicators—a range of indicators across different economies/strategies/ markets/asset classes—flagging a bullish or neutral signal, according to BofA Global Research. Elevated consumer net worth, savings and job growth should remain powerful supports while risks from the spread of a more infectious variant remains. Corporate earnings are currently demonstrating considerable momentum across styles, sectors and regions. Monetary and fiscal policy continues to provide an accommodative backdrop for Equities, with combined stimulus measures so far totaling 57% of gross domestic product (GDP) in the U.S., according to Cornerstone Macro Research. Corporate credit conditions are generally benign, with credit spreads remaining in a tight range across Investment-grade (IG) and High Yield (HY), recently hitting their lowest levels since 2007. Relative valuations continue to favor Equities over Fixed Income, although a disorderly move higher in yields would be considered a headwind.

Investor sentiment is more bullish on balance as indicated by investor positioning and fund flows into more cyclical assets. Institutional cash levels have fallen but remain above pre-coronavirus levels. We are mindful of the potential for some profit-taking by investors in the near term amid concerns about inflation. However, any pullback is likely to be an opportunity to add to cyclical areas of the market given that credit conditions are supportive, and the Fed may have potentially lengthened the cycle by reigning in inflation expectations.

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

Factor	Implication for Equities (Negative / Neutral / Positive)	CIO View
Earnings		For Q1, profits in the S&P 500 grew by 47%, soundly beating consensus, according to FactSet. Globally, the positive trend in global earnings expectations remains supportive. On average over the past three months, earnings upgrades outnumber downgrades in every region, for roughly 81% of all global sectors and in all the global styles. When the headline reading has been near its current levels, the MSCI All Country World Index has averaged a return of 12.7% over the next 12 months, and returns were positive in all eight instances, according to BofA Global Research.
Valuations		U.S. equity valuations are extended on an absolute basis but remain attractive compared to Fixed Income. The equity risk premium,* which is especially relevant given particularly low yields, is at 3.2% through June. This places it at the 60th percentile, compared to the 71st percentile in late November. Low but positive interest rates have been underpinning higher valuations for equities by maintaining easier financial conditions while keeping deflationary concerns at bay.
U.S. Macro		Overall, the U.S. economic recovery has proceeded more in line with expectations according to the U.S. Citi Economic Surprise Index. The Institute for Supply Management (ISM) Purchasing Managers' Index (PMI) reflects a robust manufacturing sector and acceleration in the service sector reflects a broader economic reopening across the nation. While the national 30-year fixed mortgage rate remains just off its historic lows, tight inventory has underpinned rising home prices, which has dented affordability and home sales activity. Despite the number of job openings suggesting plentiful demand, job creation recently has underperformed expectations. BofA Global Research expects full-year real GDP growth of 7.0%.
Global Growth		Unprecedented in scope, the shock of the coronavirus pandemic led to global growth to contract by -3.2% in 2020. BofA Global Research expects a rebound of 6.1% this year and by 4.8% in 2022. Reflecting the potential of an uneven recovery, emerging market countries, such as Brazil and Indonesia, have seen a persistently high propagation of the coronavirus. Meanwhile, the U.K., a leader in the vaccination drive, has seen cases rise, as of late.
Federal Reserve/Inflation		The Fed has maintained its ultra-accommodative stance and is aiming to achieve an average inflation rate of 2% over time and broad inclusive improvement in the labor market. The Fed has pulled forward its rate hike timeline to two hikes in 2023 and is discussing tapering its asset purchases. Overall, inflation data has surprised to the upside—Core Personal Consumption Expenditures (PCE) Price Index—the Fed's preferred measure of inflation—climbed to 3.4% in May from a year ago.
Trade/Fiscal Policy		Including relief passed in March, which contained payments for individuals and support for small business, among other measures, U.S. authorities have now authorized fiscal stimulus equating to roughly 28% of GDP since the start of the pandemic. A bipartisan agreement on infrastructure was reached that would add $579 billion to baseline spending if passed. This is in addition to recent legislation aimed to boost US competitiveness with China.
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, recently hitting their lowest levels since 2007.
Yield Curve		Yield curves have flattened recently. The 2/10 curve is at 121 basis points (bps), down from its peak of 157 bps in March. Rates on the front-end have risen to reflect higher expectations for Fed hikes sooner rather than later and rates on the back-end have declined to reflect lower inflation expectations. Broadly, the curve indicates a robust outlook for growth.
Technical Indicators		The Chicago Board Options Exchange (CBOE) Volatility Index (VIX) has remained below 20 for most of June. In contrast, Fixed Income volatility, measured by the MOVE Index, has remained relatively higher. Since bottoming at roughly 50 in early June, it has increased. The percentage of New York Stock Exchange (NYSE) stocks above their 200-day moving average remains around 80%, off the peak of 87% for the year. Though also of note, the percent of S&P 500 constituents above their 50-day moving average, a narrower measure of breadth, has shown declining participation.
Investor Sentiment		Individual Investor sentiment is bullish, according to the American Association of Individual Investors. Meanwhile, institutional cash levels have again risen to levels associated with a contrarian sell signal, according to the BofA Global Research Global Fund Manager Survey. Yet, the BofA Global Research Bull & Bear Indicator is at 6.4, shifting farther away from a bearish contrarian signal. Inflows have decreased into bonds, though those into IG have persisted for 15 weeks. For equities, Japan has seen rising inflows, while those into Europe have declined to the lowest in 10 weeks. Emerging Markets (EM) saw its largest outflow since September 2020.

Source: Chief Investment Office. Data as of July 6, 2021. *An equity risk premium is an excess return earned by an investor when they invest in the stock market over a risk-free rate. This return compensates investors for taking on the higher risk of equity invest with average range of 3% to 3.5% for a one-year horizon, and 5% to 5.5% for a 30-year horizon.

EQUITIES

We expect Equities to outperform Fixed Income: Global Equities are currently near their historic highs as the economic recovery continues and as historic levels of global monetary and fiscal stimulus and medical advances potentially offer faster-than-expected economic normalization. The Fed's commitment to maintaining accommodation 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. We are monitoring the possibility of higher yields and higher levels of inflation, although we generally would expect an increase in price levels to favor Equities over Fixed Income. We continue to favor U.S. Equities and are neutral International Developed Equities and EM.

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, robust economic growth prospects, and historically high earnings revisions. 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 $185 in 2021, with potential upside. Earnings estimates revisions remain strong in the U.S., with three-month average upgrades outnumbering downgrades 2.2 to 1, according to BofA Global Research. A strong manufacturing sector, capital expenditures (CapEx) and elevated commodity prices also bolster the case for a stronger-than-expected earnings recovery, although the prospect of higher taxes could be a potential headwind. This month, we are adjusting our sector views to reflect the ongoing recovery and reopening in the economy by upgrading Materials from neutral to a slight overweight for its cyclicality, recent consolidation and tight markets in an inflationary environment. In addition, we are upgrading Real Estate one notch to a slight underweight to reflect correlation with inflation, valuation, under-owned positioning and improving performance as the reopening accelerates. We are funding these upgrades by downgrading Consumer Discretionary and Healthcare to neutral on relative performance turning lower and momentum declining. We continue to maintain a positive outlook for the consumer in the back half of the year, however, the sector is discounting the reopening and input costs are rising. Healthcare is a diverse sector with a mix of defensive bond proxies and high growth stocks that could face headwinds in this part of the cycle, however, we still believe the long-term trends in global healthcare spending are positive. We remain constructive toward Financials, Industrials and Energy sectors, which should benefit from the continued economic recovery and a steeper yield curve, 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.

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 3.2% and in the 60th percentile of its historical range, which still 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 improving profit margins support higher multiples longer term, but in the near term, performance will likely be influenced by economic reopening, sentiment and policy developments. We expect volatility to rise as financial conditions tighten as the Fed begins to taper and interest rates rise. We believe portfolios should have a balance of both Growth and Value factors that would simultaneously gain from cyclical and secular forces gaining traction. Growth should continue to benefit from accelerated secular investments in 5G, artificial intelligence, cloud computing, robotics and health infrastructure globally. Value has higher exposure to cyclical sectors that benefit from an improved pace of earnings growth and economic normalization.

We are neutral Emerging Market equities: EM equities have been relative underperformers this year with weaker fiscal support, slower vaccination rollouts in lower-income countries, a moderation in the growth outlook for China, and upside risks for U.S. inflation and interest rates. However, a global synchronized growth environment later this year and a positioning pivot toward cyclicality should benefit EM, as would a weaker U.S. dollar. An underappreciated risk could be rising U.S.-China tensions on trade, technology and more. The continued rise in EM consumer spending remains a big reason why we believe 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 (UN). This should support GDP growth and corporate earnings in emerging economies, as broad equity indexes such as the MSCI EM Index shift toward more consumer-oriented sectors, especially in the Asia-Pacific region. We favor active management* when investing in EM, as fundamentals differ across countries based on key vulnerabilities to commodity prices, borrowing costs, external financing conditions and other factors.

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

We are neutral International Developed Market equities: International equities have been mixed this year as the pace of economic reopening, earnings recovery and relative valuation differs across countries. Europe, for example, has performed well as of late on the back of improving growth and record positive earnings revisions. Japan has lagged as their vaccine rollout is more nascent but green shoots for earnings growth are emerging with the three-month revision ratio at 1.5, according to BofA Global Research. Both countries have strong sensitivities to global economic activity and should benefit as output continues to normalize. As we move through 2021, monetary and fiscal stimulus should continue to be a potential tailwind, with Japan having committed approximately 74% of GDP of combined stimulus and the Eurozone adding nearly 51%, according to Cornerstone Macro Research. The shared fiscal relief plan of the European Union (EU) intended to provide grants to hard-hit countries like Italy and Spain has boosted investor confidence in the sustainability of the Euro, but the political cycle should heat up across the bloc. International Developed equities has the potential to add cyclicality and Value orientation in portfolios.

EQUITY WATCH LIST

- Regional economic reopenings, coronavirus case trends, vaccination distribution timeline
- Economic data for production, labor, consumer expectations, and credit and liquidity conditions
- Acceleration of earnings estimate upgrades
- Fiscal policy adjustments, including additional spending packages and taxes
- Reorganization of global supply chains and U.S.-China relationship
- Rising inflation expectations and Fixed Income yields

FIXED INCOME

We are slightly underweight Fixed Income: We prefer short duration relative to a stated benchmark that is aligned to investment goals. Inflation expectations have moderated recently but are still above the 2% level across the curve for the first time in over five years, the inflation expectations curve is inverted, however, highlighting that the market thinks any increase in inflation will be transitory. The Fed believes that employment and inflation risks are to the downside in a zero-rate environment and has reiterated its dovish stance repeatedly. Its most recent meeting seemed more hawkish than expected, but Fed commentary in the week following re-emphasized their accommodative stance. On balance, Fed policy continues to be positive for credit risk, economic growth and inflation over the medium-to-longer-term and negative for interest-rate risk.

10-Year Treasury rates have slowly declined over the last three months, dropping approximately 25bps in yield to approximately 1.50%. While there should be upside to these rates over the medium term, Treasurys should 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, municipals and agency Mortgage-backed Securities (MBS). We still expect Fixed Income to be a diversifier—in the long term, coupon income becomes more of a determining factor to total returns. Treasury/Equity correlations—which had broken down short term—have re-asserted themselves consistent with our expectations.

We remain slightly overweight Investment-grade and slightly underweight High Yield: Investment-grade corporates should continue to outperform Treasurys as the global economic recovery continues to play out. That said, with spreads trading near +85 bps, we believe that excess returns versus duration-matched Treasurys are likely to come almost exclusively from current spread levels, not from any significant spread tightening. The technical backdrop should remain supportive, underpinned by strong demand and waning supply through the balance of 2021. Spread volatility in response to an unexpected or large move in Treasury yields remains a key risk. However, given improvement in fundamentals, any move wider is likely to be short term in nature and should be viewed as a potential buying opportunity.

We believe credit losses in IG are manageable and not a large component of spreads, but the same cannot be said in HY. Despite an improving fundamental backdrop, credit losses may rise and meaningfully reduce total returns. The yields now available in HY (~4%) 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.

Munis remain at very rich valuations relative to historical levels, supported by extremely strong demand from retail investors due to expected tax rate increases. This comes on top of strong seasonal reinvestment needs, limited tax-exempt supply, improving credit conditions, and significant fiscal stimulus. We expect munis to continue to provide value to tax-sensitive investors, particularly carefully-researched, mid-to-lower credits. However, current elevated valuations make it less likely that munis will outperform as strongly in the second half of 2021 as they did in the first half, and munis may be vulnerable to lower-than-expected tax rate increases or infrastructure initiatives that could adversely affect the demand/supply dynamics.

We are neutral Mortgage-Backed Securities: The last couple of months brought back volatility to both rates and mortgage markets not seen since March of 2020. With a rapid move in Treasury yields, in particular in the 5-Year and 10-Year part of the curve, mortgages have experienced a large duration extension from low 2s to low 4s, its widest since 2019, as measured by the Bloomberg Barclays U.S. Mortgage Backed Securities Index. This sudden move triggered hedging activities to pick up, exacerbating the effects of rising rates and causing spreads on MBS to first widen from single digit and later snap back to the mid-twenties in a short period of time. The move would have been worse had the composition of mortgage investors today been as it once was, with much larger shares of the market in the Government Sponsored Enterprise (GSE) portfolios, mortgage Real Estate Investment Trusts (REITs) and other investors sensitive to interest rates. However, today about 65% of the MBS market is in the hands of non-hedgers, with the Fed alone accounting for around 30% or $2.3 trillion. The Fed's commitment to continuing to buy MBS at $40 billion per month, with over $2.2 trillion in purchases since last March, remains an overwhelming positive technical for the market, which helps remove demand uncertainties for mortgage investors. However, increased volatility and higher mortgage rates mean less prepayment risk and longer durations for mortgage bonds. That, in turn, means that MBS spreads have to widen to compensate for the added risks, and that is exactly what we have seen. Still, MBS spreads are tight by historical measures and further widening is possible and likely to bring the market back into equilibrium. In this environment, we feel it is prudent to continue to take a conservative view on the sector that is facing some headwinds from rates, markets and volatility. In the longer run, MBS still look attractive versus Treasurys with additional yield spread. We feel that uncertainties about prepayments and extensions may remain a potential headwind for sector performance for some time and continue to suggest conservative positioning in securities with less extension and price risk. Therefore, we continue to suggest that investors maintain a significant weight to the sector as appropriate for their particular investment objectives and risk tolerance, 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

- Potential Fed policy error
- Inflation expectations response to continued high inflation
- Signs of any risk aversion in terms of spreads, yields or new issue activity
- Infrastructure plan and potential changes in the tax code
- Dislocations in Commercial Real Estate (CRE) markets

ALTERNATIVE INVESTMENTS

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

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

We favor a strategic approach when allocating to Hedge Funds: As stated previously, we are advocates of diversification when investing in this heterogeneous asset class. We currently see favorable opportunities for select hedge fund strategies, particularly equity centric strategies, such as equity long/short and equity market neutral, as the effect of the coronavirus continues to recede and the economy in the U.S. reopens. With close to 60% of all adults in the U.S. being fully vaccinated, in conjunction with the unprecedented monetary and fiscal policy responses, the macroeconomic backdrop has significantly improved. However, it is becoming clear that not all sectors stand to benefit in the same way, and with a widening gulf between leaders and laggards beginning to emerge, we think correlations between stocks could continue to decrease while dispersion increases. In this environment, skilled stock pickers stand to benefit, and qualified investors may want to consider looking to equity long/short and equity market neutral strategies as a means of generating differentiated equity returns that place an emphasis on alpha through active management. We recently became more cautious on relative value strategies as credit spreads have tightened meaningfully and now are well below historical levels. Potentially rising interest rates will also be a headwind for these strategies. For qualified investors seeking diversified return streams, global macro strategies, which are currently benefiting from greater and more diverse opportunities than seen in recent years, also have the potential to provide competitive and less correlated 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 investments and strategies unavailable in traditional portfolio construction. We see opportunities across a number of different sectors as the global economy continues to rebound. After dislocations caused by the coronavirus, managers that allocated to buyout and distressed areas of the market last year are starting to see robust returns as the U.S. economy regains its footing. 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 are benefiting from the fear 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 bond portfolio. These strategies may be of interest to qualified investors seeking enhanced yield and may complement traditional Fixed Income holdings. As per usual, and even more important in markets like these, consider a disciplined, multiyear commitment strategy that can help build portfolio diversity among different managers, styles, geographies and vintages.

We favor a strategic approach when allocating to Private Real Estate: Conditions across the CRE market continue to be closely tied to the work-from-home scenario, with negative implications for CRE occupancy and prices. Vacancy rates in office and Hospitality sectors remain elevated while landlords and tenants continue to engage in negotiations over rents. As the adult vaccination rate in the U.S. approaches 60%, there is reason to be optimistic about a return to normalcy, albeit cautiously so, as challenges will likely remain for many sectors (office, hospitality) and regions (central business districts) for the foreseeable future. For prospective qualified investors, we continue to place emphasis on direct investments in well-located properties in strong regions of the country that exhibit attractive rent-roll and cash-flow characteristics and have the potential to bridge into the next cycle, helping to provide a long-term hedge against potential inflation. Additionally, given the increasing importance of eCommerce, we continue to believe the Industrial sector (warehouses, data centers, etc.) will be an area of growth as companies compete for position in an on-demand economy. Looking out further, there is a case to be made for adaptive reuse in certain parts of the CRE market. This strategy, which is primarily the domain of opportunistic/value-add managers, involves converting nonproducing assets into performing properties. In today's environment, that could mean converting retail, office or mall properties into residential, medical or fulfillment centers.

Commodities and the dollar: As global economic growth accelerates, and commodity demand rises with the economic recovery, we expect the upward trend of price pressure to continue across commodities. For those who incorporate real assets and commodities into their allocations, we are maintaining our positive outlook. This view for commodities is in concert with our slight overweight view of the Energy and Materials sectors. Oil and natural gas have rallied substantially as economic activity accelerates. Industrial commodity prices (for example, lumber, copper) have rebounded sharply as bottlenecks in the supply chain have led to tight supply and sharp price increase. The Fed and many economists think the price spikes are temporary and not signaling long-term inflation, but the outlook is opaque. 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. In the near term, the U.S. dollar is benefiting from relatively stronger economic growth and a Fed that is increasingly shifting its rhetoric to acknowledge faster inflation growth and a tight labor market, helping boost its relative interest rate advantage versus the developed world. Importantly, any near term dollar strength will eventually give way as relatively higher inflation weighs on longer-term valuations, in our view.

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 in the U.S. has picked up as coronavirus vaccines continue to add to confidence. Reopening has lagged the U.S. in much of the world, but growth in some emerging markets like China is back near trend.
- Overall, global growth remains strong, and monetary and fiscal policy remain accommodative. However, inflation pressures are building in the U.S. and globally, and central banks are on watch.
- Given our expectation for faster nominal growth, the macro backdrop continues to support cyclical, reflationary positioning. We believe this is a positive backdrop for Equities.

ECONOMIC AND MARKET FORECASTS (AS OF 7//2/2021)

	Q4 2020A	2020A	Q1 2021A	Q2 2021A	Q3 2021E	Q4 2021E	2021E
Real global GDP (% y/y annualized)	-	-3.2	-	-	-	-	6.1
Real U.S. GDP (% q/q annualized)	4.3	-3.5	6.4	10.0*	9.0	5.0	7.0
CPI inflation (% y/y)	1.2	1.2	1.9	4.7*	4.7	4.6	4.0
Core CPI inflation (% y/y)	1.6	1.7	1.4	3.6*	3.9	3.9	3.2
Unemployment rate (%)	6.7	8.1	6.2	5.9	5.4	4.6	5.5
Fed funds rate, end period (%)	0.09	0.09	0.06	0.08	0.13	0.13	0.13

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 2021 end period S&P 500 estimate is 3800. BofA Global Research 2021 end period 10-year Treasury estimate is 1.90%. BofA Global Research 2021 average West Texas Intermediate Oil estimate is $65/barrel.
Sources: BofA Global Research; GWIM ISC as of July 6, 2021.

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

The table below provides a rough indication of where the S&P 500 Index's central tendency could be, given various scenarios for EPS in 2022 and price-to-earnings (P/E) ratio multiples. These scenarios are not official price targets and are not meant to signal levels where portfolio actions may always be needed. However, during times of market volatility, it's useful to keep this basic framework in mind when considering whether to incrementally add to or trim risk from portfolios while staying invested in one's strategic asset allocation framework.

S&P 500 SCENARIOS BASED ON FORWARD P/E AND 2022 EPS

Forward P/E (Next 12 months)

	18.0x	19.0x	20.0x	21.0x	22.0x
$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
$205	3,690	3,895	4,100	4,305	4,510
$195	3,510	3,705	3,900	4,095	4,290
$185	3,330	3,515	3,700	3,885	4,070
$175	3,150	3,325	3,500	3,675	3,850

For illustrative purposes only. Forecasts are subject to change.
Source: Chief Investment Office as of July 6, 2021.

CIO ASSET CLASS VIEWS

Asset Class	CIO View (Underweight / Neutral / Overweight)	Comments
Global Equities	• • • ● •	We retain our positive view on Equities based upon favorable relative valuations and improving global growth. Corporate profits are in an uptrend as forward estimates have increased, policy remains supportive, and global growth continues to accelerate. We remain overweight the U.S., neutral International Developed and neutral EM.
U.S. Large-Cap Growth **U.S. Large-Cap Value**	• • • ● • • • • ● •	Given our expectation for episodic volatility, we suggest 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 for long-term secular growth exposure but are also constructive near term on cyclical sectors like Industrials, Financials, Energy and Materials
U.S. Small-Cap Growth **U.S. Small-Cap Value**	• • • ● • • • • ● •	Small-caps have relatively attractive valuations and could benefit from further cyclical rotation.
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 is expected to trail behind U.S. levels.
Emerging Markets	• • ● • •	We are neutral EM equities as fundamentals appear to be improving with global synchronized pickup in growth along with manufacturing activity, trade and relatively attractive valuations. Potential risks are from rising U.S. interest rates, U.S.-China frictions and slower vaccine rollouts in lower-income markets.
International		
North America	• • • ● •	The U.S. remains our preferred region on corporate earnings and balance sheet strength, with a domestic demand-driven recovery likely to remain resilient as the economy gradually reopens. The U.S. also has greater fiscal and monetary stimulus in place which supports reflationary assets including equities.
Eurozone	• • ● • •	Increased level of fiscal policy coordination across the EU should provide additional support for domestic demand and may limit relative economic weakness, while exposure to cyclical sectors should benefit from normalization of economic activity.
U.K.	• • ● • •	Post-Brexit withdrawal from the EU single market remains a negative for medium-term growth. Ongoing caution over uncertainty around final EU deal on financial services given significant economic and market exposure. Large weighting in cyclical sectors should benefit from normalization of economic activity. Rising coronavirus cases could present a 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*	• • ● • •	Exposure to economic recovery in China supports regional growth. Low occupancy rates remain a headwind for market exposure to Real Estate, but cyclical sectors should nonetheless benefit from normalization of economic activity. 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: Underweight		Neutral		Overweight	Comments
Global Fixed Income		●				Bonds provide portfolio diversification, income and stability. Below-benchmark duration is preferred, as rates are rising off extremely low levels, and fiscal and monetary policy is supportive of higher inflation over the medium term.
U.S. Governments		●				Yields are still slightly expensive in a global context relative to inflation. Some allocation to Treasurys for liquidity and principal preservation is still advised, as Treasurys continue to provide one of the best short-term diversification benefits for Equities among Fixed Income assets.
U.S. Mortgages			●			The Fed's significant MBS purchases through the rest of 2021 remain a tailwind for the sector. In addition, recent spread widening from extremely tight levels brings MBS more in line with other high-grade bonds. On the other hand, MBS purchases from banks may slow as the economy opens up, presenting a headwind. Despite tight valuations from an historical perspective, we expect MBS to outperform Treasurys in the near-term and suggest conservative positioning in shorter duration assets.
U.S. Corporates				●		Credit spreads are trending in the low 80 bps range—post pandemic tights. With the Fed's commitment to markets, improving fundamentals, and yields well above Treasurys, spread product should provide modest positive excess return over the medium term. Better relative value opportunities in select BBB-rated Industrials and U.S. Financials. Front-end is less compelling given the compression in yields and spreads. Higher Treasury yields remain a risk to the demand backdrop but should be manageable.
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. CCCs in particular are extremely expensive. 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, while allocating to both.
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 valuations remain rich versus Treasurys from a historical perspective, supported by expected tax rate increases, seasonal reinvestment needs, limited supply, improving credit conditions, and generous fiscal stimulus. Muni credit spreads have recovered to—and in some cases through—pre-pandemic levels. We believe munis continue to provide value over Treasurys for tax-sensitive investors, particularly well-researched, lower-quality credits with greater carry.
Alternative Investments*						Given the differences in liquidity characteristics between AI and traditional investments, the AI portfolio positioning and CIO asset class views have been neutral-rated versus our strategic allocations. These types of investments, in our opinion, should not be viewed at the asset class level on a tactical basis; rather, the tactical positioning should be expressed at the sub-asset level. We will continue to provide strategy-level guidance for qualified AI investors and believe allocations to AI can introduce differentiated returns, which can help complement existing traditional holdings by potentially enhancing returns, helping to reduce risk, and capitalizing on opportunities not available in traditional investments.
Hedge Funds						We favor equity long/short strategies for differentiated equity returns. Global macro strategies, currently seeing a wide opportunity set, may help investors seeking to diversify equity exposure.
Private Equity						In light of the dislocations caused by the pandemic, we expect that savvy managers will deploy dry powder opportunistically to buy out and distressed areas of the market, via direct and secondary investments. Private credit strategies may also see potential opportunities should mergers & acquisitions activity remain robust. Consider a disciplined multiyear commitment strategy that builds portfolio diversity among different managers, styles, geographies and vintages.
Real Assets						Reflationary policy and currently lower real interest rates, and ultimately stabilizing global growth, should provide support for commodity prices. Gold is currently benefiting from currently low real interest rates. The oil market remains well supplied, however. For 2021, Brent crude oil prices are expected to average $68 per barrel and West Texas Intermediate (WTI) prices to average $65 per barrel.

Tactical qualitative investment strategy weightings are relative in nature versus the strategic weightings for a fully diversified portfolio. Weightings are based on the relative attractiveness of each asset class. Tactical strategy weightings are for a 12- to 36-month time horizon. CIO asset class views are relative to the CIO Strategic Asset Allocation (SAA) of a multi-asset portfolio. Because economic and market conditions change, recommended allocations may vary in the future. Asset allocation cannot eliminate the risk of fluctuating prices and uncertain returns. All sector and asset allocation recommendations must be considered in the context of an individual investor's goals, time horizon and risk tolerance. Not all recommendations will be in the best interest of all investors. **Alternative investments such as derivatives, hedge funds, private equity funds and funds of funds can result in higher return potential, but also higher loss potential. Changes in economic conditions or other circumstances may adversely affect your investments. Before you invest in alternative investments, you should consider your overall financial situation, how much money you have to invest, your need for liquidity and your tolerance for risk.**

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

Source: Global Wealth & Investment Management Investment Strategy Committee as of July 6, 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
	Underweight	Neutral	Overweight	
Energy			●	The reopening of the economy, inflation, potential pent-up demand and oil and gas producer discipline is a supportive macro backdrop for energy. Higher energy prices combined with substantial cost-cutting initiatives over recent years built significant operating leverage into energy companies. Earnings and free cash flow outlooks are improving considerably for upstream energy companies with oil trading around $70 and additional earnings revisions are probable on higher realized oil and natural gas price. Additional cyclical and value rotations could improve flows, positioning and sentiment, and potentially pull some investors back into the sector. Investor demands for greater capital discipline has reduced CapEx budgets and investments in the Energy sector over recent years and could support higher oil prices near term. Positive view on energy for 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 focus by investors. Continue to emphasize companies that are low-cost producers with balance sheet strength and low breakevens. Relatively attractive valuation and improving momentum.
Financials			●	Banks should resume capital return based on excess capital in the second half of the year. Stock repurchase programs and dividends will no longer be tied to earnings power, but revert to excess capital. In addition, loan loss reserve release should accelerate over the next 12 months given a better macro backdrop and loan portfolio performance, which could be a tailwind to earnings and 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 are likely to return more capital to shareholders in coming quarters in buybacks and dividends, and provide some attractive Price/Book valuations.
Industrials			●	The economic reopening and recovery are driving better fundamentals in cyclical end markets, including transportation, automotive, power, machinery and manufacturing, although aerospace is still lagging. Sequential earnings are recovering and set up for growth year-over-year as healthy demand and somewhat constrained supply are supportive in the near-to-medium term. Broad based improvements in orders, increasing backlogs and rising PMIs are coinciding with stronger pricing and volumes. Further, potential improvements in the global CapEx cycle could drive additional improvements. Cyclical rotations and fund flows could continue to support the Industrial stocks. Valuation is elevated and momentum is neutral.
Materials		►	●	Upgrading the Materials sector to Overweight on inflationary backdrop, low inventories and improved operating leverage compared to previous cycles, pent-up demand and tight commodity markets. Low inventory levels relative to consumption could allow companies to pass through cost inflation and protect margins. Consumer strength is driving robust volumes for some packaging and specialty chemicals, but the greatest improvements in marginal demand are occurring in cyclical commodities as a result of rising activity in automotive, residential construction, and infrastructure markets as the economic recovery spreads. Valuation and momentum is neutral after recent consolidations
Information Technology			●	The pandemic accelerated the digital transitions for many industries and supports the secular growth trends for cloud computing, machine learning and artificial intelligence (AI), data centers, software, cybersecurity and semiconductors. We are in the early innings for machine learning 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 and recent move higher in interest rates could pressure multiples and drive some profit-taking near term; 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. Neutral valuation.
Consumer Discretionary		●	◄	Downgrading Consumer Discretionary to Neutral as relative performance peaked and made a turn lower, in addition to higher costs that could potentially pressure margins and earnings. 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 in the second half of 2021. Despite a solid outlook for the consumer in the back half of 2021, rising input costs, higher freight costs, increased labor costs, and supply chain disruptions could provide headwinds. Valuation is elevated and momentum is stalling.

Sector	CIO View Underweight Neutral Overweight	Comments
Healthcare	• • ● ◄ •	Downgrading Healthcare to Neutral as relative performance is declining. At this point in the cycle, Healthcare's sector composition of large pharmaceutical companies that are considered defensive bond proxies, combined with high growth and high valuation biotech and healthcare tech companies present some potential short-term headwinds in 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 as we move into the second half of the year, and could have a notable impact on capital equipment spending and labor pressures. Drug pricing headwinds are beginning to re-emerge as the recovery from the pandemic moves forward and as new Medicare pricing challenges potentially develop. Emphasize exposure to long-term, positive trends in animal health, cost-savings medical technology and telemedicine, tools, diagnostics and select biotech. Valuation is a bit extended in certain subsectors with lower momentum.
Communication Services	• • ● • •	Traditional media continues to see pressure from cord-cutting, a negative trend for traditional cable and media companies, but the positive trends for internet usage, video streaming and gaming can provide growth. However, some of this growth was pulled forward last year due to the pandemic and work-from-home trends. Advertising could see a rebound to some degree, but regulatory uncertainties and concerns could be a near-term overhang for the sector. Valuation is attractive and momentum has improved.
Real Estate	► ● • • •	Upgrading the Real Estate sector to slight underweight on improving performance, progress in re-opening the economy and Real Estate provides cyclical exposure. 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, underweight positioning and opportunity to provide both a potential inflation hedge and re-opening 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. Relatively attractive valuation and improving momentum.
Consumer Staples	● • • • •	Consumer Staples face tougher revenue and earnings comps in 2021 as we lap the pandemic-driven stay-at-home benefits from last year. Ongoing risks of a rotation out of defensive positioning and into risk-on positioning is becoming more apparent 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 impacted consumers. 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 lower momentum.
Utilities	● • • • •	Expect consistent earnings results; however, post the crisis, rotations out of defensive stocks is a potential headwind. Further, rising interest rates are an additional 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. Relatively unattractive valuation and lower momentum.

Source: Chief Investment Office as of July 6, 2021.

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

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 **environmental, social and governance (ESG)** factors and metrics promotes the shift toward stakeholder capitalism.

Source: Chief Investment Office as of July 6, 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 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.

MSCI Emerging Market (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.

MSCI All Country World Index is a stock index designed to track broad global equity-market performance.

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

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

Personal Consumption Expenditures (PCE) Price Index are imputed household expenditures defined for a period of time and used as the basis for the PCE Price Index.

Bloomberg Barclays 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).

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The Global Wealth & Investment Management Investment Strategy Committee (GWIM ISC) is responsible for developing and coordinating recommendations for short-term and long-term investment strategy and market views encompassing markets, economic indicators, asset classes and other market-related projections affecting GWIM.

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

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

Investments have varying degrees of risk. Some of the risks involved with equity securities include the possibility that the value of the stocks may fluctuate in response to events specific to the companies or markets, as well as economic, political or social events in the U.S. or abroad. Small cap and mid cap companies pose special risks, including possible illiquidity and greater price volatility than funds consisting of larger, more established companies. 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 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.

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

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.