CHIEF INVESTMENT OFFICE

Viewpoint

Here Comes The Pivot

November 2021

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

IN BRIEF

- In early November, the Federal Reserve (Fed) has communicated the adjustment to their bond purchase plan, or tapering, and the futures markets will begin to further discount when interest rate hikes are potentially coming. This is the “pivot” we have been discussing since the summer months.
- Given the outsized gains in equity prices off the lows in March 2020 (in the past 20 months) it is natural, in our opinion, for future gains to slow down back to more “normal” levels. This is our base case, but the attractiveness of Equities relative to Fixed Income currently remains fully in place.
- Maintain a high level of diversification across sectors and Value/Growth exposure. We continue to prefer economic sensitive sectors such as Industrials, Materials, Energy, Financials and Growth through large-cap Technology.
- Within Fixed Income, we remain lower duration. A rising yield backdrop plus changes to the yield curve are the main story in the coming months and through 2022.

Throughout much of the past two years as we worked through various stages of the pandemic and witnessed extraordinary monetary and fiscal support, the capital markets have not only reminded us of their resiliency and strength but also the fact that the profit cycle remains the core catalyst to rising equity prices. In our view, Equity valuations are elevated, given the low level of yields, the underlying makeup of the broader indexes (much more “Growth” exposure than previous decades), the abundant liquidity, the growing equity culture driven by the younger cohorts, and the fact that investors are simply more comfortable paying a higher multiple for a dollar of earnings in today’s rapidly changing innovation economy.

We don’t see this dynamic changing anytime soon, even as inflation stays elevated and sticky, the Fed signals the ”pivot”, and eventually profit growth slows down to lower levels. We will still likely be in an environment of above-average growth and still-low yields even after they have adjusted higher.

In early November, the Fed has communicated the adjustment to their bond purchase plan, or tapering, and the futures markets will begin to further discount when interest rate hikes potentially arrive. This is the “pivot” we have been discussing since the summer months. It is our view that the speed and magnitude of this pivot is the largest swing factor for capital markets and asset price direction in 2022. Having said this, we still expect some

CIO ASSET CLASS VIEWS

This month, the Global Wealth & Investment Management Investment Strategy Committee did not make any tactical asset allocation adjustments. We reaffirm our positive view on Equities relative to Fixed Income with a preference for U.S. Equities relative to International. Maintain a disciplined approach to portfolio construction, rebalancing and goals based planning.

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.

trends to remain positive and supportive of Equity markets heading into next year and likely through the first half. However, we also expect broad Equity returns to resemble more "normal" levels—a central tendency of single-digit percentages—as the more cyclical and Value segment of the market works overtime to cushion the increasingly tired Growth side of the market, which has a much larger overall weight in the index. The more interesting story for the remainder of this year and next is the action and trends underneath the indexes, in our opinion. The action underneath the indexes is where our tactical positioning within Equities is important. We highlight our areas of emphasis below.

We remain optimistic on equity markets for six primary reasons as we close out this year:

1. Nominal gross domestic product (GDP) growth is about to head higher as the third wave of reopening unfolds, supply chain woes begin to ease, consumer pent-up demand continues to unfold, and inflation remains sticky.
2. With higher nominal growth comes better revenue growth (which helps alleviate the pressure from increasing labor and input costs), and we expect operating leverage to remain robust, which continues to feed into attractive profit growth overall.
3. Although the Fed is beginning its pivot, its monetary policy is still overly dovish, therefore the liquidity backdrop should remain robust as well.
4. Job growth is about to pick back up and head toward full employment next year, in our opinion. This should support income, alleviate the labor (and product) shortages, and cushion consumer spending as excess savings is worked off.
5. China's growth curve stabilizes after falling to post-pandemic lows, which helps support global economic growth overall.
6. Innovation doesn't stop. Private sector innovation is accelerating like never before. This should help support capital investment at elevated levels versus prior cycles and underpin productivity, which is greatly needed as inflation stays elevated and the labor market remains tight.

Given the outsized gains in Equity prices off the lows in March 2020 (in the past 20 months), it is natural, in our opinion, for future gains to slow down back to more "normal" levels. This is our base case, but the attractiveness of Equities relative to Fixed Income currently remains fully in place. Therefore, we maintain our Equity overweight. We continue to monitor the shorter-term well-discussed risks such as increasing energy prices, slow China growth, supply chain disruptions, policy pivots, the coronavirus path, elevated inflation and longer-term concerns like climate change, the growing debt shelf, and the interplay between China and the U.S.

Do these risks overwhelm the positive fundamental support to economic development and the corporate profit cycle? Will the Fed eventually capitulate more aggressively than the market is prepared for as they remove emergency policies and suppress inflation? Time will tell of course. But we remain optimistic that innovation, the flexibility of our more modern-day economy relative to the rest of the world, the building equity culture in the younger cohorts, the large wealth creation still early in its cycle, and the potential for productivity in corporate America to support attractive margins in the years ahead to underpin this bull market.

Our portfolio considerations in the coming months:

- Maintain Equity overweight relative to Fixed Income.
- Maintain a U.S. overweight relative to the rest of world but be prepared for opportunities in non-U.S. developed markets to unfold if the U.S. dollar begins to weaken.
- Consider adding to small-capitalization stocks (namely Value relative to Growth), given the view that supply chain disruptions are easing and pricing power remains. Small-caps could play catch up relative to large-caps' large decade-long outperformance.

- Maintain a high level of diversification across sectors and Value/Growth exposure. In this regard, we prefer economic sensitive sectors such as Industrials, Materials, Energy, Financials and Growth through large-cap Technology.

- Consider staying lower duration across Fixed Income. A rising yield backdrop plus changes to the yield curve are the main story in the coming months and through 2022. Fixed income portfolio positioning is likely to be more about how to manage the maturity spectrum as yields rise versus the actual level of yields itself.

- Commodities should remain supported by the consumer pent-up demand cycle even as supply chain woes ease. We prefer exposure to Commodities through specific Equity sectors and companies.

- Consider adding long-term investment themes to your core portfolio as the innovation cycle powers on.

- Maintain a disciplined approach to portfolio construction, rebalancing and goals-based planning. Within this construct, consider being more active as markets potentially become more volatile as the Fed pivots.

CIO INVESTMENT DASHBOARD

The outlook for global economic activity remains strong despite having gradually moderated, with 80% of proprietary growth indicators (a range of indicators across different economies, strategies, markets and 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 coronavirus variant remain. Corporate earnings continue to demonstrate 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 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). Relative valuations continue to favor Equities over Fixed Income, although a disorderly move higher in yields would be a headwind for Equities.

Investor sentiment is currently neutral. 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 higher levels of nominal growth and profits.

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				With roughly half of the constituents of the S&P 500 and Europe STOXX 600 having reported, aggregated Q3 profits have positively surprised the analyst consensus estimate by 11% and 7.6%, respectively, according to Bloomberg. While positive, these surpluses have diminished compared to earlier quarters. Still, upward earnings revisions point to a continued robust profits picture. In the U.S., profit margins overall remain resilient, as strong demand has boosted sales and offset higher costs. Year-over-year (YoY) growth in profits is forecasted to be over 30% for the quarter, according to FactSet.
Valuations				U.S. Equity valuations are extended on an absolute basis but remain attractive compared to Fixed Income. S&P 500 price-to-earnings (P/E) ratio (next 12 months) is at 21x, higher than the historical average, but has declined this year as earnings have risen. The S&P 500 earnings yield is 317 basis points (bps) above the 10-year Treasury yield, indicating more upside for Equities relative to Fixed Income. 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				U.S. economic growth has shown signs of cooling in Q3, due largely to supply-side challenges. On the demand-side, consumer spending remains supported by an improving labor market, economic reopening, record-high household net worth and excess savings. Purchasing Managers' Index (PMI) surveys indicate the Manufacturing and Services sectors remains robust. Q3 real GDP grew by 2.0% quarter-over-quarter at a seasonally adjusted annualized rate, down from 6.7% in Q2. BofA Global Research expects growth of 5.6% for the full-year 2021, followed by 4.8% for 2022.

Factor	Implication for Equities: Negative	Neutral	Positive	CIO View
Global Growth				We continue to move through the third reopening wave in the global economy, however, reflecting the potential for an uneven recovery, rising energy prices pose an emerging headwind for economic growth in China and Europe. Led by China and the U.S., the global economy is expected to grow by 5.7% in 2021 and 4.4% in 2022, according to BofA Global Research.
Federal Reserve/Inflation				The Fed has maintained its ultra-accommodative stance, aiming to achieve an average inflation rate of 2% over time and broad inclusive improvement in the labor market. However, the Federal Open Market Committee (FOMC) announced it will begin tapering the central bank asset purchases this month, while expectations for an increase in the policy interest rate next year have risen. Overall, inflation data, such as Consumer Price Index (CPI), Producer Price Index (PPI) and consumer expectation for prices has surprised to the upside, driven by strong demand and constrained supply in the global economy.
Trade/Fiscal Policy				Including fiscal 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. Policymakers are deliberating the appropriate steps toward approving additional fiscal stimulus, including a bipartisan agreement on infrastructure that would add roughly $550 billion to baseline spending and a broader budget plan to be put through the reconciliation process by the Democratic-controlled Congress. Lack of an agreement to raise or suspend the debt ceiling remains a risk.
Corporate Credit				Corporate credit conditions remain benign as a result of measures taken by the Fed and rising corporate earnings and cash flows. Despite recent volatility, credit spreads remain tight across IG and HY, indicating financial conditions remain accommodative, and economic fundamentals are strong.
Yield Curve				While yield curves have flattened since earlier in the year, there has been recent stabilization. The 2/10 Treasury curve is at around 107 bps, up from 103 bps in late August, though down from its peak of 157 bps in March. Rates on the front end have ticked higher to reflect higher expectations for Fed hikes sooner rather than later. Rates on the back end have been weighed down, partly due to low rates globally and coronavirus-related uncertainty. Still, broadly, the curve indicates a positive outlook for growth.
Technical Indicators				In October, the Chicago Board Options Exchange (CBOE) Volatility Index (VIX) level has declined from over 20 to a near post-pandemic low of about 15. Market breadth has improved somewhat. The cumulative advance/decline line for New York Stock Exchange (NYSE) Equities has rebounded, nearing its peak of around mid-June. Meanwhile, the percentage of NYSE stocks above their 200-day moving average has risen to around 60%, off its recent low of 52%.
Investor Sentiment				Amid more volatile individual investor sentiment, bulls now outnumber bears, according to the American Association of Individual Investors. Meanwhile, institutional portfolio cash levels have risen have risen to their highest level since July 2020, according to the Fund Manager Survey. The organization's Bull & Bear Indicator is at 5.1, signaling a neutral reading.

Source: Chief Investment Office. Data as of November 2, 2021.

EQUITIES

We expect Equities to outperform Fixed Income: Global Equities remain near their historic highs as the economic recovery continues and as medical advances and historic levels of global monetary and fiscal stimulus 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 bond yields and persistent 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 Emerging Markets (EM).

We are overweight U.S. Equities overall: The U.S. remains our preferred equity region relative to the rest of the world, with stronger balance sheets on aggregate, robust economic growth prospects, and strong 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 $201 in 2021, with potential for upside as earnings estimates trend higher. A strong manufacturing sector, capital expenditures (CapEx) and margin improvement also bolster the case for a stronger-than-expected earnings recovery, although the prospect of higher taxes is a potential headwind. U.S. Equity valuations are extended on an absolute basis but remain attractive compared to 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. In the near term however, performance will likely be influenced by economic reopening, sentiment and policy developments. Near-term risks for Equities come from China's slowdown and its impact on multinational earnings, a rise in energy prices and the upcoming debt ceiling negotiations. We would expect volatility to rise as financial conditions tighten as the Fed begins to taper and interest rates drift higher.

We remain constructive toward the Financials, Industrials, Energy and Materials 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. We continue to maintain a positive outlook for the consumer; however, the Consumer Discretionary sector is discounting the reopening, and rising input costs pose a risk to margins. Healthcare is a diverse sector with a mix of defensive bond proxies and high-growth stocks that could face headwinds in this part of the cycle. However, we still believe the long-term trends in global healthcare spending are positive. We believe portfolios should 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 so far this year given 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. We nonetheless continue to expect a wide return dispersion between individual EM countries and regions. Cyclically oriented markets in Latin America and EMEA (Europe, Middle East and Africa) should be well positioned as global economic activity continues to normalize, while markets in Asia with high exposure to digital industries remain long-term beneficiaries of the expanding digital economy. We also see trade tensions with the U.S. and intermittent shifts in regulatory policy causing periodic bouts of volatility for the heavyweight China market. This risk bears watching, as China comprises roughly 35% of broad EM indexes and, therefore, can create a policy-driven overhang in the medium term. The continued rise in EM consumer spending remains a big reason why we believe investors should maintain a strategic allocation to EM equities. The emerging world now constitutes around 40% of global personal consumption expenditures (PCE) according to the United Nations, and ongoing convergence with developed economies should support GDP growth and corporate earnings over the longer term. We favor active management[1] when investing in EM, as fundamentals differ across countries, based on key vulnerabilities to commodity prices, borrowing costs, external financing conditions and other factors.

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 has performed well on the back of improving growth and record positive earnings revisions. Japanese equities remain well supported as their vaccine rollout has ramped higher, earnings revisions have picked up, and investors continue to expect more fiscal stimulus given the change in leadership. Both Europe and Japan 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 combined stimulus and the Eurozone adding nearly 51%, according to Cornerstone Macro Research. International Developed Equities have the potential to add cyclicality and Value orientation in portfolios.

EQUITY WATCH LIST

- Regional economic reopenings, coronavirus case trends, vaccination distribution timeline

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

- Rising expectations for Fed tightening as inflationary pressures persist
- Economic data for production, labor, consumer expectations, and credit and liquidity conditions
- Progression of earnings estimates amid margin pressures
- Fiscal policy adjustments, including additional spending packages and taxes
- Reorganization of global supply chains and U.S.-China relationship

FIXED INCOME

We are slightly underweight Fixed Income: We prefer short duration relative to a stated Fixed Income benchmark that is aligned to investment goals. The Fed indicated at its November FOMC meeting that tapering of Treasury and agency mortgage-backed securities (MBS) asset purchases will begin this month and finish toward the middle of next year. This tightening of monetary policy should be a catalyst for rates to eventually move higher. Though market inflation indicators have recently moved up, there remains a significant difference between actual and expected inflation, highlighting the market's view that this recent increase in inflation is likely to fade in the coming years.

The Fed concurs and believes it has time to slowly withdraw accommodation, which somewhat increases the risk of a quicker pace of interest rate hikes eventually if inflation does not prove to be transitory. This has become more consensus in the market recently, as the rates market is now pricing in two fed funds rate hikes in 2022 versus none previously. Treasury market volatility may therefore increase in the coming months as the market grapples with more persistent inflation and a slow pace of removing accommodation. While Treasury maturities between two- and 10-years are rising, the 10s/30s spread continues to narrow. While not at a worrying level, the trend bears watching. We expect a bear flattening of the Treasury curve over the comings months; rates rising overall but sharper increases at the shorter end of the curve. On balance, Fed policy continues to be positive for risk assets, credit risk, economic growth and inflation, and negative for interest rate risk.

10-year Treasury rates have successfully broken out of their five-month downtrend, increasing almost 40 bps from their 2021 lows to the 1.65% area. While there should be upside to Treasury rates over the medium term, Treasurys should still be considered for 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 MBS. We still expect Fixed Income to be a diversifier—in the long run, coupon income becomes more of a determining factor to total returns than price changes driven by interest rate moves. Treasury/Equity correlations—which had broken down short term earlier in the year—have reasserted themselves consistent with our expectations. However, they bear watching if rates start rising at a more accelerated pace.

We remain slightly overweight Investment-grade corporates 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 in the 80 bps to 90 bps range, we believe that excess returns versus duration-matched Treasurys are likely to come almost exclusively from higher yields and likely not from any significant spread tightening. The technical backdrop should remain supportive, underpinned by strong demand, particularly from institutional investors, and waning supply through the balance of 2021. Spread volatility in response to an unexpected or large move in Treasury yields and/or inflation remains a key risk; however, spreads have been resilient, thus far. However, given some of the strongest fundamental trends in decades, any move wider spreads 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 (roughly 4%) provide very meager compensation. Within HY allocations, we prefer larger allocations to secured floating-rate leveraged loans versus unsecured high-yield bonds, although both should be included, and we caution investors to be aware that strong near-term performance may not be sustainable.

Municipal bond valuations have cheapened recently but are still somewhat rich versus Treasurys, as measured on a historical basis. We believe fundamental conditions for munis remain strong, with improving tax collections and generous fiscal stimulus. These support narrow muni credit spreads, which have tightened through pre-pandemic levels and are currently at or near post-2007 tights. However, reported negotiations of the Build Back Better Act make it appear that technical conditions may be vulnerable; demand could weaken if previously anticipated individual and corporate income tax rate increases do not materialize, and supply could increase next year if certain provisions like tax-exempt advance refundings and Build America Bonds are reauthorized. We expect munis will continue to provide value to tax-sensitive investors over the near-to-intermediate term, particularly carefully researched mid-to-lower-quality credits. However, current elevated valuations and tight credit spreads make it less likely that munis will outperform as strongly as they did in the first half of 2021.

We are neutral Mortgage-Backed Securities: The current quarter brought volatility to both rates and mortgage markets. 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 the low 2s to high 4s, as measured by the Bloomberg U.S. MBS Index. Sizable duration extension is limited from here as duration stands within 1.25 year from the high mark seen in the last two decades. In addition, worries originating from Fed tapering caused spreads in MBS to widen from single digits to mid-20s in a short period of time. The move would have been worse had the composition of mortgage investors 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, according to Credit Suisse, at least 65% of the MBS market is currently in the hands of non-hedgers, with the Fed alone accounting for around one-third, or $2.6 trillion. The Fed's commitment to continuing to buy MBS at $40 billion per month, with over $2.6 trillion in purchases since March 2020, remained an overwhelming positive technical for the market, which helped remove demand uncertainties for mortgage investors. Going forward, increased volatility and oscillating mortgage rates mean higher prepayment risk. That, in turn, means that MBS spreads may widen further to compensate for the added risks. 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 duration extensions/contractions, depending on rates move, suggest conservative positioning in securities that are less sensitive to extension/contraction. 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, letting inflation run too hot
- The 10s/30s spread, which if it continues to narrow may signal slowing growth
- Uneven Treasury market sell-off as taper approaches
- 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 CIO asset class views on AI portfolio positioning continue to be neutral-rated versus our strategic allocations. These types of investments, in our opinion, should not be viewed at the asset class level on a tactical basis, but rather the tactical positioning should be expressed at the sub-asset class level.

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

We favor a strategic approach when allocating to Hedge Funds: In line with our overall overweight view on Equities, we currently see favorable opportunities for select Hedge Fund strategies for qualified investors, such as Equity long/short and equity market neutral. The tenacity of the coronavirus Delta variant caused U.S. GDP to dip in Q3 to the slowest pace since the recovery began in the spring of 2020. GDP growth appears to be regaining steam in Q4, and we are optimistic that the U.S. economy will be robust in 2022. That being said, future GDP growth is somewhat opaque, as the stages of the coronavirus are unpredictable. Another risk to robust growth next year is the possibility that the large infrastructure bill before Congress does not pass, thereby eliminating a source of stimulus just when the U.S. economy might need it.

Not all equity sectors will benefit equally from the economic recovery, with a widening gulf between the leaders and laggards. 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 generation through active management. Merger spreads have remained wide, due to regulatory concerns both here and in China. The Biden administration has taken a more aggressive stance on antitrust policy, injecting additional risk into this strategy. Many funds have pulled back from this space, as they see an unfavorable risk/reward imbalance. Wide deal spreads suggest better-than-average returns going forward, albeit with higher risk and volatility.

Recently, we have become more cautious on relative value strategies, as credit spreads have tightened meaningfully and now are well below historical levels. Rising interest rates may also be a headwind for some strategies, with the yield on the 10-year now in a higher range, while still low from a historical perspective, the trend is most likely upward. For qualified investors seeking diversified return streams, global macro and trend-following 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: We view these strategies as long-term potential portfolio return enhancers with unique access to specialized investments and strategies unavailable in traditional portfolio construction. We see opportunities 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 seeing robust returns as the U.S. consumer continues to spend, even as there was a dip in Q3 GDP number. 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 concerns of higher interest rates, as many of these investments are more credit- than interest rate-sensitive. Also, many of these types of investments are floating rate, offering some buffer to higher rates compared to a traditional Fixed Income portfolio. These strategies may be of interest to qualified investors seeking 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: While conditions across the CRE market continue to be closely tied to the return-to-office scenario, we are seeing some "green shoots" across a variety of Real Estate (RE) sectors. Industrial RE (particularly logistics and infrastructure) is the leading sector and has rebounded strongly from the 2020 lows. Demand for multifamily housing continues to grow, and hotels and office properties have put up back-to-back positive numbers in Q2 and Q3. 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 rising 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. Problems and dislocations in global logistics are causing bottlenecks and aggravating the supply/demand imbalance, adding upward pressure on prices. Our outlook remains positive over the short and medium terms. This view for commodities is in concert with our slight overweight to the Energy and Materials sectors. Oil and natural gas have continued to rally, with U.S. crude recently hitting a seven-year high. This is positive for Commodity Trading Advisors, as they generally rely on trend-following models. Industrial commodity prices (for example, lumber, copper) rose sharply in the spring, as bottlenecks in the supply chain have led to tight supply and sharp price increases. Some of these factors have ameliorated recently, but other commodities have taken up the charge higher, such as coal, natural gas and steel. Some specialty metals, such as lithium, have skyrocketed this year on strong and growing demand.

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

Tangible assets: Over the long term, especially given the unprecedented fiscal stimulus and monetary reflation now in place, tangible assets—such as real estate, timber, and farm and ranch land—may benefit portfolios through increasing diversification, helping to position for higher inflation, generating cash flows and providing possible favorable social-impact opportunities.

MACRO STRATEGY

- The double-digit pace in U.S. nominal GDP growth forms the economic backbone for the strong company revenue and earnings growth being reported. Leading indicators suggest cyclical momentum is picking back up as the most recent coronavirus wave eases. The macro backdrop continues to support cyclical, reflationary positioning. We believe this is a positive backdrop for Equities.
- With inflation already running well above its 2.0% target and likely to stay that way and with key leading indicators of the labor market flashing green, the Fed is set to begin tapering asset purchases. The consensus now expects rate hikes later next year with the balance of risk for more aggressive rate hikes if inflation remains far above target.

ECONOMIC FORECASTS (AS OF 10/29/2021)

	Q1 2021A	Q2 2021A	Q3 2021A	Q4 2021E	2021E
Real global GDP (% y/y annualized)	-	-	-	-	5.7
Real U.S. GDP (% q/q annualized)	6.3	6.7	2.0	6.0	5.6
CPI inflation (% y/y)	1.9	4.8	5.3	6.0	4.5
Core CPI inflation (% y/y)	1.4	3.7	4.1	4.4	3.4
Unemployment rate (%)	6.2	5.9	5.1	4.5	5.4
Fed funds rate, end period (%)	0.06	0.08	0.06	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 4250; end period 10-year Treasury estimate is 1.65%; average West Texas Intermediate Oil estimate is $69/barrel.

Sources: BofA Global Research; GWIM ISC as of November 2, 2021.

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

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

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

Forward P/E (Next 12 months)

2022EPS	**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 November 2, 2021.

CIO ASSET CLASS VIEWS

Asset Class	CIO View					Comments
	Underweight		Neutral		Overweight	
Global Equities				●		We retain our positive view on Equities based upon favorable relative valuations and improving global growth. Corporate profits remain in an uptrend as forward estimates have increased, policy remains supportive, and global growth continues to accelerate. We remain overweight the U.S., neutral International Developed and neutral EM.
U.S. Large-cap Growth				●		Growth should continue to benefit from accelerated secular trends, but Value, which has higher exposure to cyclical sectors, should benefit from an improved pace of earnings growth and economic normalization. We believe 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. Large-cap Value				●		
U.S. Small-cap Growth				●		Small-caps have relatively attractive valuations and could benefit from further cyclical rotation.
U.S. Small-cap Value				●		
International Developed			●			Global economic recovery is expected to continue, which should benefit more cyclically oriented International Developed markets. A substantial monetary and fiscal policy drive in Europe and Japan paired with relatively attractive valuations is a support for international equities, though underlying rates of nominal growth are expected to trail behind U.S. levels.
Emerging Markets			●			We are neutral EM equities overall with cyclical regions well positioned for normalization in global activity and Asian markets geared to long-term growth in the digital economy. Potential risks from rising U.S. interest rates, domestic and U.S.-focused China policy, and slower vaccination 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 continues to reopen. 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 European Union (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 about 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 potential headwind.
Japan			●			Large fiscal and monetary stimulus are key sources of support for growth in the domestic economy, though market-based inflation expectations remain among the lowest for the major developed economies. We expect long-term tailwinds from exposure to automation machinery and equipment including from robotics, while valuations remain attractive.
Pac Rim*			●			Large weighting in financials and other cyclical sectors should benefit from normalization of economic activity. China exposure and international shifts on foreign policy toward Hong Kong remain an ongoing source of uncertainty for the region.

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

CIO ASSET CLASS VIEWS (CONTINUED)

Asset Class	CIO View: Underweight		Neutral		Overweight	Comments
Global Fixed Income		●				Bonds diversify multi-asset class portfolios by providing income and relative stability. Below-benchmark duration is preferred, as fiscal and monetary policy supports higher inflation, stronger nominal growth and higher long-term rates over the medium term.
U.S. Governments		●				Yields are very expensive relative to inflation. Some allocation to Treasurys for liquidity and principal preservation is still advised, as Treasurys continue to provide one of the best short-term diversification benefits to Equities among Fixed Income assets.
U.S. Mortgages			●			The Fed's significant MBS purchases remain a tailwind, and recent spread widening with the expectation of Fed taper brings MBS more in line with other high-grade bonds. Going forward, as the Fed initiates taper (reduction in MBS purchases), any miscommunication or negative surprise due to elevated inflation is going to be a key risk. Furthermore, MBS purchases from banks may slow as the economy opens up, presenting a headwind. However, with fair valuations, we expect MBS to outperform Treasurys near-term and recommend conservative positioning in shorter-duration assets.
U.S. Corporates				●		Credit spreads have been range bound at 80 bps to 90 bps. 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. We see relative value opportunities in select BBB-rated Industrials and also U.S. Financials. The front end of the credit curve 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. 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 time frame. 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 fundamentals are benefiting from growing tax collections and fiscal stimulus, with muni credit spreads at record post-2007 tights. Technical factors face uncertainty, depending on whether income tax rates are increased and tax-exempt advance refundings and taxable direct pay munis (Build America Bonds) are reauthorized in the Build Back Better Act. We believe munis provide value over Treasurys over the medium term for tax-sensitive investors, particularly well-researched, lower-quality credits.
Alternative Investments*						Given the differences in liquidity characteristics between alternative investments (AI) and traditional investments, the Chief Investment Office (CIO) asset class views on AI portfolio positioning continue to be neutral-rated versus our strategic allocations. These types of investments, in our opinion, should not be viewed at the asset class level on a tactical basis, but rather the tactical positioning should be expressed at the sub-asset class level. We will continue to provide strategy-level guidance for qualified AI investors. We believe allocations to AI can introduce differentiated returns that can help complement existing traditional holdings by potentially enhancing returns, helping to reduce risk and capitalizing on opportunities not available through traditional investments
Hedge Funds			●			We favor Equity long/short strategies for differentiated equity returns. A hedged approach to equity investments might offer a buffer in a higher volatility environment. We have recently become more cautious on some Relative Value strategies as credit spreads are historically tight and rising interest rates could be a headwind.
Private Equity			●			We see opportunities across a number of different sectors as the global economy continues to rebound. After dislocations caused by the coronavirus, venture, buyout and equity-growth managers are seeing robust returns. Within the broad Private Equity universe, we continue to favor special-situation strategies that could benefit from secular shifts across sectors due to disruptive technologies. Private credit strategies will likely outperform a traditional Fixed Income portfolio as interest rates rise as many of these investments are more credit- than interest rate-sensitive, generally have a shorter duration and tend to be floating-rate securities. Consider a disciplined multiyear commitment strategy that builds portfolio diversity among different managers, styles, geographies and vintages.
Real Assets			●			As the global economy continues to recover, demand for many commodities remains strong, and we are seeing significant price appreciation across a wide swath of sectors. Problems and dislocations in global logistics are causing bottlenecks and aggravating the supply/demand imbalance, adding upward pressure on prices. Our outlook remains positive over the short and medium terms. An allocation to Real Assets could be a good buffer to rising inflation.

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

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

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

CIO EQUITY SECTOR VIEWS

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

Sector	CIO View: Underweight / Neutral / Overweight	Comments
Energy	• • • ● •	The reopening of the economy, inflation, potential consumer 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 on higher realized oil and natural gas prices, and additional earnings revisions are probable. 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 have 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 resumed stock buybacks and dividend increases based on excess capital instead of earnings power. In addition, loan loss reserve release should moderate after significant reserve releases in the first half of the year given a better macro backdrop and loan portfolio performance, which could be a modest tailwind to earnings and help enhance capital return. Given structural headwinds in Insurance, we prefer market exchanges that evolved into fee-based data and analytics providers. We also favor alternative asset managers, like Private Equity for qualified investors, which consistently draw fund inflows, typically benefit from low interest rates, and maintain pricing power in management fees. U.S. banks remain well capitalized and, in our view, are likely to return more capital to shareholders in coming quarters in buybacks and dividends, and provide some attractive Price/Book valuations.
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. Higher volumes amidst somewhat constrained supply are driving sequential earnings and prices higher. Broad-based improvements in orders and increasing backlogs signal healthy activity levels and volume trends could continue over the near-to-medium term. Further, potential improvements in the global CapEx cycle could support the transportation, machinery, and freight and logistics industries longer-term. Cyclical rotations and fund flows could also continue to support the Industrial stocks. Valuation is elevated, and momentum is neutral.
Materials	• • • ● •	Remain constructive on the Materials sector given the inflationary backdrop, low inventories, strong demand trends and tight commodity markets. Supply constraints are helping to keep prices elevated. Low inventory levels relative to consumption are helping companies to pass through cost inflation and help protect margins, and could extend the cycle, as inventories need to be rebuilt. There is high potential operating leverage embedded in the sector, driven by lower-cost profiles when compared to prior cycles, which could help enhance profitability if volume growth trends persist. Packaging and specialty chemicals are benefiting from healthy U.S., consumer demand, while the greatest improvement in marginal demand is occurring in cyclical commodities exposed to automotive, construction, and aerospace end markets, which have yet to fully recover. Valuation and momentum 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 a move higher in interest rates could pressure multiples for high-growth and high-valuation tech stocks; therefore, look for GARP (growth at a reasonable price) in software and cyclical exposure in semiconductors. Free cash flow, balance sheet strength, dividend growth and earnings growth remain strong fundamental drivers for the sector. Neutral on valuation and momentum.
Consumer Discretionary	• • ● • •	Consumer Discretionary's relative performance peaked and made a turn lower, and higher costs could potentially pressure margins and earnings going forward. The consumer reopening cadence is entering the "mobility phase" as consumers are out of the house and engaging in pre-pandemic activities and events. The ongoing shift to omnichannel retailing should continue to alter consumer behaviors due to the pandemic. Favor strong global consumer brands with solid balance sheets and a history of dividend growth over weaker brick-and-mortar retailers that could face declining store traffic trends. Cyclical tailwinds from both housing and autos could provide additional potential upside opportunities to the growth outlook. The pent-up demand for reopening activities and services could be an additional catalyst for the consumer. Despite a solid outlook for the consumer in the back half of 2021, rising input costs, higher freight costs, increased labor costs, and supply chain disruptions could provide potential headwinds. Valuation is elevated, and momentum is stalling.

Sector	CIO View					Comments
	Underweight		Neutral		Overweight	
Healthcare			●			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 and could have a notable impact on capital equipment spending and labor pressures. Drug pricing pressures appear to be fading in the near term, as efforts to increase buyers' negotiation powers have been met with resistance. Longer term, drug pricing headwinds remain as demographic shifts put more pressure on government payors and as value-based care initiatives pick up momentum. Emphasize exposure to long-term, positive trends in animal health, cost-savings medical technology and telemedicine, tools, diagnostics and select biotech. 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 in the sector. However, some of this growth was pulled forward last year due to the pandemic and work-from-home trends. Advertising could see a rebound to some degree, but regulatory uncertainties and concerns could be a near-term overhang for the sector. Recent new headlines increased scrutiny on some internet- and social media-focused companies. Valuation is attractive, and momentum has deteriorated.
Real Estate		●				The outlook for Real Estate has improved in 2021 and is reflected in stronger performance driven by progress in the reopening of the economy, and Real Estate provides cyclical exposure for Equity portfolios. 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 reopening exposure makes the sector more attractive. Continue to emphasize longer-term secular trends in data centers, communication infrastructure and industrial real estate with a focus on eCommerce distribution facilities. Consider being selective in the sector with mixed outlooks for different sub-sectors of the Real Estate industry. 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, Consumer 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 continues to be a potential headwind. Further, the potential for rising interest rates is 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 November 2, 2021.

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

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 November 2, 2021.

Index Definitions

Securities indexes assume reinvestment of all distributions and interest payments. Indexes are unmanaged and do not take into account fees or expenses. It is not possible to invest directly in an index. Indexes are all based in U.S. dollars.

S&P 500 Index includes a representative sample of 500 leading companies in leading industries of the U.S. economy. Although the index focuses on the large-cap segment of the market, with approximately 75% coverage of U.S. equities, it is also an ideal proxy for the total market.

Chicago Board Options Exchange (CBOE) Volatility Index (VIX) is a real-time market index that represents the market's expectation of 30-day forward-looking volatility.

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 US Mortgage Backed Securities Index tracks fixed-rate agency mortgage backed pass-through securities guaranteed by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC).

Consumer Price Index (CPI) is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food, and medical care.

Producer Price Index (PPI) program measures the average change over time in the selling prices received by domestic producers for their output.

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

Europe STOXX 600 Index is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the STOXX Global 1800 Index.

Important Disclosures

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

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

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

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

Nonfinancial assets, such as closely-held businesses, real estate, fine art, oil, gas and mineral properties, and timber, farm and ranch land, are complex in nature and involve risks including total loss of value. Special risk considerations include natural events (for example, earthquakes or fires), complex tax considerations, and lack of liquidity. Nonfinancial assets are not in the best interest of all investors. Always consult with your independent attorney, tax advisor, investment manager, and insurance agent for final recommendations and before changing or implementing any financial, tax, or estate planning strategy.

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