

# Viewpoint

## The Era Of Transformation Part 1: R You Ready?

May 2026

All data, projections and opinions are as of May 5, 2026 and subject to change.

### IN BRIEF

- Equities remain anchored by resilient fundamentals despite elevated headline risk. While geopolitical tensions, energy price volatility, and policy uncertainty may persist as near term headwinds, earnings momentum, fiscal stimulus, and rising productivity continue to underpin the growth outlook. We expect the supply driven economic cycle to extend this era of transformation and support asset price reflation ahead.
- We maintain our Equity overweight, led by a continued bias toward U.S. Equities. Robust earnings growth, improving breadth across sectors, and strong capital investment supporting the Artificial Intelligence (AI) infrastructure build out to reinforce this view. Earnings estimates remain resilient, and we continue to expect the S&P 500 Index to deliver double digit earnings growth in 2026. We would view any episodic volatility ahead as a potential buying opportunity.
- We remain constructive on Fixed Income overall but maintain our underweight to fund our Equity overweight. We continue to expect range bound yields, given sticky inflation and real gross domestic product (GDP) growth remaining near or above 2%. As a result, we maintain a neutral duration stance, reinforced by the Federal Reserve's (Fed) recent decision to hold rates steady and the potential for upcoming changes to the Federal Open Market Committee (FOMC). Current nominal and real yields provide reasonable compensation for both inflation and market risk.

After another spike in equity market volatility in March, indices reached a low point at the end of the month. The significant rise in uncertainty regarding the military campaign in the Middle East, the sharp rise in oil and gas prices, and a multidecade low in consumer sentiment all led to an approximate 9% to 10% correction across U.S. equity markets. This weakness was followed by a rapid rebound, with the S&P 500 reaching new all-time highs in early April; the shortest recovery period on record.

Recently, a robust earnings season led by strong capital investment from the hyperscalers and positive estimate revisions across the AI infrastructure chain of industry groups have paved a pathway for mega-cap Technology to resume leadership within the equity market complex once again. This has all occurred as the duration of the military campaign has extended, oil prices remain above \$100 per barrel, a forthcoming leadership transition at the Fed, short-term inflation well above the Fed's target, and poor consumer sentiment. We highlight our CIO view for the shorter term (approximately three to 12 months) below, which is Part 1 in the three-part series *The Era of Transformation: R You Ready?* We will release the medium-term (approximately 12 to 24 months) and long-term (approximately 24 months plus) in our June and July Viewpoints.

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### CIO ASSET CLASS VIEWS

This month the Global Wealth & Investment Management Investment Strategy Committee (GWIM ISC) did not make any tactical asset allocation adjustments. We maintain an overweight to Equities with a preference for U.S. Equities relative to the rest of the world and still favor a significant allocation to bonds in a well-diversified portfolio. We would leverage market weaknesses and excessive strength to rebalance tactical exposures in the coming months.

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Asset Class	CIO View		
	Underweight	Neutral	Overweight
Global Equities	•	•	•
U.S. Large-cap Growth	•	•	•
U.S. Large-cap Value	•	•	•
U.S. Small-cap Growth	•	•	•
U.S. Small-cap Value	•	•	•
International Developed	•	•	•
Emerging Markets	•	•	•
Global Fixed Income	•	•	•
U.S. Governments	•	•	•
U.S. Mortgages	•	•	•
U.S. Corporates	•	•	•
International Fixed Income	•	•	•
High Yield	•	•	•
U.S. Investment-grade Tax Exempt	•	•	•
U.S. High Yield Tax Exempt	•	•	•
Cash	•	•	•

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

The Short-term: Through the balance of the year, we believe there are:



- Risks elevated (headlines, geopolitics, mid-term concerns, oil/gas prices)
- Robust corporate earnings (positive revisions, operating leverage increasing)
- Rotation across Equities (multiple leadership groups, increased non-U.S. allocation)
- Resilient consumer (attractive asset price returns helping boomers while decent wage gains support lower-income cohorts)

Conclusion: Headline risk, mid-term election uncertainty, and potential oil and gas price pressures are likely to lead to slower growth, which could lead to another bout of volatility, choppy trading and some consolidation. But we believe it's still a buying-on-weakness environment given the strong capital investment growth, resilient consumer and robust earnings outlook into next year.

As developments shift from the short- and medium-term to the longer-term, we continue to expect major transformations to unfold. The transformations are likely to be supported by a supply-driven economic cycle around the world, which we expect to be supportive of asset price reflation. In other words, a cycle that supports an equity overweight based on robust profits, wide margins, rising productivity, a weaker U.S. dollar, a reindustrialization, and the need to rebalance world trade and rebuild world infrastructure. We maintain our Equity overweight, continue with a preference for a high level of portfolio diversification, expect interest rates to remain locked in a range, and profits to hit record highs in the intermediate term. We are buyers on weakness in the equity markets, as our base and bull case for Equity positioning remain firm.

#### CIO INVESTMENT DASHBOARD AS OF MAY 5, 2026

While uncertainty surrounding the Middle East conflict persists, underlying fundamentals remain relatively solid. We still see the potential for a new phase of economic and market growth powered by accelerating productivity, infrastructure investment, energy transformation, and global shifts in defense and technology. Long-term investors should remain fully invested and consider episodic weakness as a potential buying opportunity.

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

Earnings		<p>Our U.S. Equity overweight remains supported by a strong earnings outlook. Earnings estimates for the S&amp;P 500 Index have remained resilient, with the index on track for double-digit earnings growth for 2026. On a global basis, higher oil prices and potential supply chain issues have started to dampen earnings expectations, with the BofA Global Research Global Earnings Revisions ratio slightly declining in April.</p>
Valuations		<p>On an absolute basis, U.S. equity market valuations increased last month. Relative discounts remain in areas like Small-cap and Value. Discounts also exist overseas, including for Emerging Markets (EM), underscoring the importance of incorporating all of these areas into diversified portfolios.</p>
U.S. Macro		<p>U.S. economic data remains broadly healthy, with inflation-adjusted GDP increasing by an annualized 2% in Q1. In 2026, we anticipate above-average growth driven by supportive fiscal policy and resilient consumption and business investment, bolstering corporate earnings growth.</p>
Global Growth		<p>In 2026, we anticipate global real GDP growth of 3.1%, though the outlook remains relatively fragile amid ongoing geopolitical uncertainty. Regionally, the impact of the Middle East war may weigh on euro area growth, expected at 0.6%. In China, recent firmer-than-expected economic data suggests some traction from incremental stimulus efforts, which are expected to remain modest. BofA Global Research forecasts 4.5% growth, reflecting relative strength increasingly underpinned by innovative segments. While we remain watchful over energy price volatility affecting regions such as Asia, improving fundamentals in EM longer term may help sustain their appeal as a portfolio diversifier.</p>
U.S. Monetary Policy / Inflation		<p>The Fed interest rate policy remains in a 3.50% to 3.75% range. There was no change to this rate at the April 29 FOMC meeting as policymakers maintained a firm pause. BofA Global Research sees the potential for two cuts later in the year. Uncertainty about the impact of the war on core inflation remains elevated. Longer-term, easier monetary policy should be supportive of diversified Equity portfolios.</p>

<b>Fiscal Policy</b>		Fiscal stimulus, dubbed the One Big Beautiful Bill Act (OBBBA), includes new tax breaks, among other elements. This added stimulus throughout the year should support U.S. GDP growth through stronger consumption, investment and productivity, helping support margins and earnings and ultimately providing tailwinds for Equities.
<b>Corporate Credit</b>		While credit spreads for Investment-grade (IG) and High Yield (HY) corporate bonds are off their year-to-date (YTD) lows, they remain near multi-decade tights, reflecting limited near-term market concern over an economic slowdown. We believe that neutral positioning across these segments in low-tax all-Fixed Income portfolios is appropriate.
<b>Yield Curve</b>		Treasury yields were volatile in April, shifting modestly higher across the curve with some bear flattening as the front end repriced higher amid pared back market expectations for Fed rate cuts and ongoing geopolitical risks. The curve however remains positively sloped across all maturities. Rates appear fairly priced, providing good diversification benefits for multi-asset class portfolios and reasonable income overall.
<b>Technical Indicators</b>		The S&P 500 has recovered above its 50-day and 200-day moving averages, supporting its recent rally and additional new all-time highs. However, relative strength indicators show the index hovering near overbought conditions, potentially creating near-term pressures. Breadth indicators continue to show narrow conditions, in line with recent market volatility.
<b>Investor Sentiment</b>		Sentiment indicators remain mixed. The latest American Association of Individual Investors (AAII) reading showed bears outnumbered bulls following the first positive reading in two months in the previous week. Meanwhile, the BofA Bull & Bear Indicator remains unchanged at 6.6, below its 8.0 sell signal.

Source: Chief Investment Office. Gradient slides go from positive green, yellow neutral and negative red factors to ISC views.

## EQUITIES

**We are overweight Equities.** While crosscurrents in the economic landscape persist, positive global growth, better earnings trends, and increased innovation remain supportive for global Equities. We maintain an Equity overweight relative to our strategic targets.

**We are overweight U.S. Equities.** The U.S. remains our preferred Equity region. Despite recent uncertainty, the U.S. is still among the strongest and most innovative economies in the world. Valuations increased in April as the S&P 500 rebounded from the brink of correction territory to reach a new all-time high above 7,000. Earnings growth remains supportive, with the S&P 500 on track for its sixth consecutive quarter of double-digit year-over-year (YoY) earnings-per-share (EPS) growth for Q1 2026.

Diversification across and within Equities has been valuable this year amid shifting market leadership. Large-caps continue to exhibit strong fundamentals, solid earnings growth, and the ability to generate substantial free cash flow (FCF). Small-caps have seen strong performance year-to-date and may continue to benefit from a lower interest rate environment, a more constructive earnings outlook, and increased capital markets activity in 2026, though persistently elevated energy prices could present headwinds. We emphasize the importance of incorporating both Large-caps and Small-caps into strategic portfolios.

We view AI investment and deployment themes as fundamentally intact and believe secular tailwinds related to innovation will continue to support Growth over the long term. However, we continue to emphasize the importance of avoiding overexposure to any one area of the market. Value-oriented Equities continue to trade at a relative valuation discount and may offer attractive defensive characteristics against a backdrop of elevated uncertainty. We maintain a barbell approach between Large-cap Value and Growth in portfolios as market dynamics evolve.

From a sector perspective, we continue to recommend diversification across Equity sectors given elevated volatility and uncertainty. Importantly, we continue to suggest overweight exposure to Industrials, Consumer Discretionary, and Financials. Industrials are overweight as capital expenditures (capex) budgets continue to grow, 100% bonus

### EQUITY WATCH LIST

- Middle East conflict and the impact on oil prices
- Monetary policy outlook and shifting expectations for interest rates
- The outlook for AI investment and competition
- Progression of global earnings estimates
- Lingering tariff uncertainty

### RISK CONSIDERATIONS

- Protracted conflict in the Middle East
- Escalation in AI concerns due to an earnings miss, supply shock, or tighter credit conditions
- Potential for a pullback in high-income consumer spending
- Potential for slower-than-expected labor market stabilization
- Global fiscal concerns, as well as sticky inflation and its potential impact on the Fed's easing cycle
- Geopolitical uncertainty and heightened global protectionism measures

depreciation has been enacted again, and AI-oriented infrastructure plans are not slowing. The consumer remains resilient despite the volatility as spending and wages continue to grow. The overall outlook for Financials remains positive, especially for banks with tailwinds from deregulation, earnings growth, and reasonable valuations, though the potential for fewer interest rate cuts could present headwinds. We are neutral Information Technology (IT), Energy, Materials, Utilities, and Healthcare. IT has positive longer-term thematic exposure, but there are near-term concerns on positioning. The outlook for the Energy sector has improved as damaged energy infrastructure in the Middle East and transportation bottlenecks support higher energy prices than before the conflict. We are neutral Materials on improved pricing and demand for commodities in general. Utilities relative valuations have moved sharply higher and no longer trade at a discount to the market. We have underweight exposure to Communication Services, Real Estate (RE), and Consumer Staples on weaker growth expectations in those sectors.

**We are slightly overweight Emerging Market Equities.** Energy supply risks across large Asian net importers are partially offset by large China stockpiles and index exposure to natural resource-producing markets. The Asia-Pacific market now constitutes close to 80% of total EM market capitalization, and we view the region as a major beneficiary of expected growth in IT-related capital spending and the expanding adoption of AI. Asian markets, in particular, also appear well positioned to benefit from appreciation of undervalued exchange rates. Smaller markets in Central and Eastern Europe should benefit from increased European Union (EU) fiscal outlays, including higher EU defense and infrastructure spending. The structural rise in EM consumer spending remains a big reason why we believe investors should consider maintaining a strategic allocation to EM Equities as appropriate. The emerging world now constitutes around 40% of global personal consumption expenditure (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<sup>1</sup> when investing in EM, as fundamentals differ across countries based on fiscal capacity, external funding needs, corporate governance and other factors.

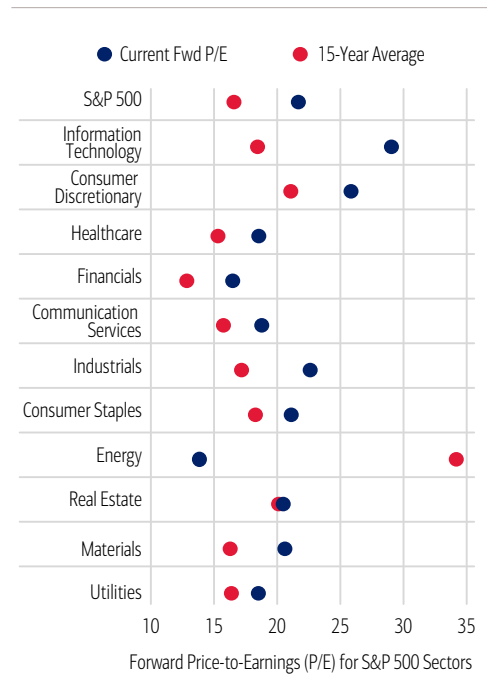
**We are slightly underweight International Developed Equities.** European markets should benefit from higher fiscal outlays in defense and infrastructure but remain among the least exposed globally to IT-related market segments and are therefore likely to experience limited gains on a relative basis from AI infrastructure spending. Manufacturing-led EU economies also remain at risk from growing competition from China in key industries and higher industrial energy costs. In the UK, higher business taxes represent a headwind for the corporate sector. Sustained positive inflation and corporate reforms remain fundamental tailwinds for Japan, with large fiscal expansion as an additional support despite exposure to high energy prices. While we are less constructive on International Developed Equities, we believe long-term investors should maintain some strategic exposure, as appropriate, given that they trade at a discount relative to U.S. Equities, contain more of a balance between Value and Growth sectors, can offer attractive dividend yields and provide diversification for mega-cap Technology stocks.

## FIXED INCOME

**We are slightly underweight Fixed Income within multi-asset class portfolios.**

We are constructive on Fixed Income overall but are underweight to fund our Equity overweight. We are neutral across Fixed Income sectors in all-Fixed Income low-tax-sensitivity portfolios given our constructive economic view, supported by stable spread levels even in the midst of ongoing geopolitical developments. In all-Fixed Income high-tax-sensitivity portfolios, we prefer IG and HY Tax-Exempt relative to IG Taxable, particularly now that tax-exempt valuations have cheapened, as expected, from extremely rich levels earlier in the year.

## Sector Valuations



Source: Bloomberg as of May 1, 2026. Please refer to index definitions at the end of this report. It is not possible to invest directly in an index.

### FIXED INCOME WATCH LIST

- Path of government spending and uncertainty about fiscal policies including tariffs
- U.S. short-term funding markets, with the interplay of quantitative tightening and drawdown of Treasury General Account
- Trend and level of U.S. nominal and real rates and inflation
- Fed and global central bank activity
- Global economic growth, especially with trade and geopolitical concerns
- Credit spreads and Muni/Treasury ratios

### RISK CONSIDERATIONS

- Resilient or accelerating inflation
- Change in Fed policy stance
- Slowing economic growth or confidence based on uncertainty

<sup>1</sup> Active management seeks to outperform benchmarks through active investment decisions such as asset allocation and investment selection.

In April, the Fed decided to hold rates steady with four officials dissenting against the official decision—the most since 1992. With hawkish and dovish dissents, we expect a dispersion of potential outcomes with accompanying volatility. Overall, we believe the Fed is focused on the cooling (yet stabilizing) labor market along with incremental costs passed onto the consumer. We continue to expect range-bound yields, given sticky inflation and real GDP remaining near or above 2%.

We maintain a neutral duration stance, reinforced by the Fed's decision and potential changes to the FOMC. Current nominal and real yields provide reasonable compensation for inflation and market risk; the U.S. is one of the cheapest developed-market sovereign bond markets relative to inflation across the globe. Longer-term Fixed Income provides meaningful returns relative to cash over longer time periods and therefore diversifies equity risk with more stable income. We believe investors should move investment cash to their strategic duration target.

**In multi-asset class portfolios, we are slightly underweight U.S. Governments.**

Real yields—that is to say, yields after expected inflation—are from 1.30% to 2.70% across the curve, the higher end of the range since 2008. Yields substantially higher than inflation are positive for investors.

**In multi-asset class portfolios, we are slightly underweight U.S. Corporates and High Yield, in favor of Equities.**

Our view reflects valuations that remain relatively expensive amid recent technical pressures and persistent geopolitical risks, which are partially offset by still compelling all-in yields. Despite a broader risk off tone across markets during March, credit spreads proved resilient, retracing the majority of widening in April. While spreads have moved off YTD tights, valuations continue to screen rich relative to history, leaving limited scope for meaningful further compression. This lack of upside potential is the primary factor preventing us from moving to a slightly overweight stance, as spreads remain near multidecade tights.

That said, corporate fundamentals and earnings remain solid despite geopolitical uncertainty. Revenue and earnings growth are healthy, margins have been resilient, and gross leverage has remained stable even as capital expenditures increase. While demand has moderated recently, we do not expect material outflows absent a more pronounced deterioration in the macro backdrop. Increased issuance this year represents a modest headwind, but one we view as manageable.

**In multi-asset class portfolios, we remain slightly underweight U.S. Investment-grade Tax Exempt and U.S. High Yield Tax Exempt.** For highly tax-sensitive investors, we maintain a preference for IG and HY tax-exempt securities. As expected, tax-exempt munis cheapened markedly versus Treasury securities during March and early April due to weaker technical conditions (lower redemptions and some pre-Tax Day selling). However, munis remain one of the few tax-advantaged vehicles for high-income investors, and now that we are past Tax Day and higher redemptions are expected beginning in May, muni technicals have begun to strengthen again. We expect these stronger technical conditions to persist through August.

We believe municipal credit quality will remain generally strong based on resilient state and local government tax revenues and strong issuer balance sheets. However, we expect idiosyncratic credit risks to emerge from time to time within the otherwise low-risk state and local government and essential services subsectors, and certain already-challenged municipal subsectors (e.g., higher education and not-for-profit healthcare) will experience increasing pressures due to adverse demographic trends and less federal government support.

Currently, we believe that munis maturing beyond 10 years are especially attractive, given higher yields, cheaper valuations and a steeply sloped yield curve. We also like munis in the mid-to-lower IG portion of the credit spectrum, although prudent credit selection is important to capture excess spread while avoiding credit-related losses.

**In multi-asset class portfolios, we remain slightly underweight U.S. Mortgage-backed Securities, in favor of Equities.** After reaching a multiyear low in January, driven by the government-sponsored enterprises' plan to purchase mortgage-backed securities (MBS), spreads have drifted wider into the low-20 basis points (bps) range. Spreads are now in line with, and in some cases slightly richer than, other high-quality Fixed Income sectors, particularly IG Corporates. Recent geopolitical tensions have driven modest duration extension and swings in rate volatility, though the impact on valuations remains contained. Option-adjusted spreads are holding in the 20 to 25 bps range, still below their 10-year average. We remain attentive to potential government-sponsored enterprise MBS purchases, privatization efforts, and banking deregulation, all of which could have implications for the MBS sector.

## MACRO STRATEGY

- Consumer spending growth remains firm as unemployment remains low and wage and salary growth remain solid. GDP growth was 2.0% in Q1, helped by ongoing consumer and business investment spending.
- Core PCE inflation has broken out above the 2.5% to 3% range of the past year. The spike in energy prices has lifted the near-term inflation outlook while longer-term expectations remain well anchored near the Fed's target.
- Corporate profits are strong, fueled by the boom in AI spending and a pickup in global economic growth. Domestic profit margins remain around a 60-year high. The profit cycle is likely to be extended by tailwinds from fiscal stimulus and deregulation, all supportive of economic growth and risk assets. Higher energy prices are shifting the mix of profits toward that sector.

## ECONOMIC FORECASTS (AS OF 5/1/2026)

	Q1 2026A	Q2 2026E	Q3 2026E	Q4 2026E	2026E	2027E
Real global GDP (% y/y annualized)	-	-	-	-	3.1	3.4
Real U.S. GDP (% q/q annualized)	2.0	2.5	1.9	1.9	2.2	2.2
CPI inflation (% y/y)	2.7	4.4	4.0	3.8	3.7	2.3
Core CPI inflation (% y/y**)	2.5	2.8	2.7	2.9	2.7	2.6
Unemployment rate (%)	4.3	4.5	4.5	4.4	4.4	4.3
Fed funds rate, end period (%)	3.63	3.63	3.38	3.13	3.13	3.13

The forecasts in the table 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. 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. Sources: BofA Global Research; GWIM ISC as of May 5, 2026. Forecasts are subject to change. 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.

## S&P 500 SCENARIOS BASED ON FORWARD P/E AND 2026 EARNINGS PER SHARE (EPS)

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 2026 and 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.

2026 EPS	EPS Forward P/E (Next 12 months)				
	22.0x	23.0x	24.0x	25.0x	26.0x
\$330	7,260	7,590	7,920	8,250	8,580
\$320	7,040	7,360	7,680	8,000	8,320
\$310	6,820	7,130	7,440	7,750	8,060
\$300	6,600	6,900	7,200	7,500	7,800
\$290	6,380	6,670	6,960	7,250	7,540
\$280	6,160	6,440	6,720	7,000	7,280
\$270	5,940	6,210	6,480	6,750	7,020

For illustrative purposes only. Source: Chief Investment Office as of May 5, 2026.

CIO ASSET CLASS VIEWS AS OF MAY 5, 2026

Asset Class	Underweight		CIO View Neutral		Overweight	
<b>Global Equities</b>	•	•	•	●	•	We are overweight Equities and continue to view weakness as a potential buying opportunity for long-term investors. We are overweight the U.S., overweight EM, and underweight International Developed.
<b>U.S. Large-cap Growth</b>	•	•	•	●	•	Large-caps continue to look attractive on solid fundamentals, strong FCF and the ability to produce healthy shareholder payouts. We maintain an equal balance between Large-cap Value and Large-cap Growth in portfolios.
<b>U.S. Large-cap Value</b>	•	•	•	●	•	
<b>U.S. Small-cap Growth</b>	•	•	•	●	•	
<b>U.S. Small-cap Value</b>	•	•	•	●	•	Small-caps are supported by interest rate cuts, improved earnings, potential deregulation and an uptick in M&A activity. We continue to suggest a balance of Value and Growth factors.
<b>International Developed</b>	•	●	•	•	•	Higher energy prices are a relative headwind given reliance on net imports. Europe likely to see limited relative gains from expansion in AI given lack of market exposure, but fiscal easing remains supportive. Japan to benefit from structural reforms and fiscal support
<b>Emerging Markets</b>	•	•	•	●	•	We are slightly overweight EM overall, with the heavyweight Asia region particularly well positioned to benefit from exposure to global IT investment and exchange rate appreciation. EM Asia import exposure to higher energy prices partially offset by China stockpiles, with higher commodity prices a regional positive for Latin America.
<b>Global Fixed Income</b>	•	●	•	•	•	Yields are attractive, providing good diversification for multi-asset class portfolios and reasonable income. Neutral duration recommended.
<b>U.S. Governments</b>	•	●	•	•	•	Nominal and real yields remain attractive across the curve relative to the last 10 to 15 years. A Treasury allocation for liquidity, principal preservation and diversification is advised, as Treasuries provide the best short-term diversification benefits to Equities among Fixed Income sectors. Rate volatility has increased and may remain high.
<b>U.S. Mortgages</b>	•	●	•	•	•	After reaching a multiyear low in January, the lowest since 2022, spreads have drifted wider into the low 20s. They remain below their 10-year average and now largely in line with, and in some cases, richer than, other high-quality fixed income sectors. This level reduces their relative appeal and limits potential upside compared to Treasuries and IG corporate bonds.
<b>U.S. Corporates</b>	•	●	•	•	•	Despite the broader risk-off tone/sentiment across markets during the month of March, credit spreads were resilient in April—retracing majority of widening. While spreads remain off YTD tights, valuations continue to lean rich from a historical perspective and the potential for meaningful compression still appears limited. That being said, all-in yields have moved higher amid the selloff in Treasury yields and should continue to drive demand for high quality fixed income.
<b>International Fixed Income</b>	•	●	•	•	•	International rates markets are at normal valuation levels on a U.S. dollar-hedged basis.
<b>High Yield</b>	•	●	•	•	•	Similar to IG, HY valuations remain expensive but have backed up modestly—led by the leveraged loan market. However, a positive macroeconomic environment may limit spread volatility and credit losses as default rates have begun to improve modestly. This leaves us comfortable at a neutral positioning. Within a high yield allocation, we continue to suggest a balanced mix between loans and bonds.
<b>U.S. Investment-grade Tax Exempt</b>	•	●	•	•	•	Tax-exempt munis cheapened markedly versus Treasury securities in March and early April due to weaker technical conditions. We expect technical conditions to strengthen again from May to August. Munis still enjoy generally stable credit conditions, although idiosyncratic risks exist, and certain sectors such as health care and higher education face challenges. We note particularly attractive valuations for munis maturing in 10 years and longer, as well as credits in the mid-to-low portion of the rating spectrum, assuming careful credit selection.
<b>U.S. High Yield Tax Exempt</b>	•	●	•	•	•	High yield munis currently appear reasonably valued relative to IG, providing an opportunity for HY outperformance if economic conditions remain favorable.

\*Asia Pac ex-Japan refers to the geographic area surrounding the Pacific Ocean. The Asia Pac ex-Japan covers the western shores of North America and South America, and the shores of Australia, eastern Asia and the islands of the Pacific. 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 18-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.

## CIO THEMATIC INVESTING AS OF MAY 5, 2026

The following themes and subthemes encapsulate the Chief Investment Office's thinking on some of the most convincing undercurrents of future areas of growth around: Transformative Innovation, Resilient Infrastructure, Future Security and Changing Demographics. These themes carry long-term implications for economic growth, the cost of capital and global earnings. We'd consider exposure to these themes a key ingredient to investing.

### Transformative Innovation

**Generative Artificial Intelligence:** Power demand/generation, productivity wave

**Robotics/Automation:** Industrial/service robotics

**Digitization:** Cloud computing, data analytics, digital payments, internet of things, augmented reality and virtual reality, electrified transportation

### Resilient Infrastructure

**Energy Addition:** Nuclear renaissance, solar, natural gas generation, hydrogen, battery storage

**Utility Infrastructure:** Data centers, grid (transmission/distribution), thermal management, water management, power generation

**Supply Chain Reconfiguration:** Onshoring/nearshoring buildout

### Future Security

**Aerospace & Defense:** Remilitarization, space, drones

**Cybersecurity:** Network security, cloud evolution/security, endpoint security

**Resource Protectionism:** Food/agriculture/commodity scarcity (water), natural resources, metals/mining

### Changing Demographics

**Healthcare Innovation:** Ageing, longevity, drug discovery, biotechnology (gene therapy, personalized medicine)

**Great Wealth Transfer:** Wealth creation, NextGen consumer/investor base

**Global Labor Force Distribution:** Immigration/migration, global fertility bust, automation "cobots"

## Table 1: CIO U.S. Low Tax Sensitivity (Tier 0 liquidity) Asset Allocation Guidance for Merrill Clients

Tier 0 (highest liquidity): Highest liquidity needs with none of the portfolio invested in less liquid alternative asset categories.

	All Fixed Income		Conservative		Moderately Conservative		Moderate		Moderately Aggressive		Aggressive		All Equity	
	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical
<b>Equity</b>	<b>0%</b>	<b>0%</b>	<b>22%</b>	<b>27%</b>	<b>41%</b>	<b>46%</b>	<b>57%</b>	<b>62%</b>	<b>73%</b>	<b>78%</b>	<b>90%</b>	<b>95%</b>	<b>99%</b>	<b>99%</b>
U.S. Large Cap Growth	0%	0%	8%	9%	14%	15%	20%	21%	25%	26%	31%	32%	33%	33%
U.S. Large Cap Value	0%	0%	8%	9%	14%	15%	20%	21%	25%	26%	31%	32%	33%	33%
U.S. Small Cap Growth	0%	0%	0%	1%	1%	2%	1%	2%	2%	3%	2%	3%	3%	3%
U.S. Small Cap Value	0%	0%	0%	1%	1%	2%	1%	2%	2%	3%	2%	3%	3%	4%
International Developed Equity	0%	0%	4%	3%	7%	6%	10%	9%	12%	11%	15%	14%	18%	15%
Emerging Markets	0%	0%	2%	4%	4%	6%	5%	7%	7%	9%	9%	11%	9%	11%
<b>Fixed Income</b>	<b>99%</b>	<b>99%</b>	<b>73%</b>	<b>68%</b>	<b>58%</b>	<b>53%</b>	<b>42%</b>	<b>37%</b>	<b>26%</b>	<b>21%</b>	<b>9%</b>	<b>4%</b>	<b>0%</b>	<b>0%</b>
U.S. Government	29%	29%	18%	17%	17%	16%	14%	13%	9%	8%	4%	1%	0%	0%
U.S. Mortgages	23%	23%	13%	12%	12%	11%	9%	8%	3%	2%	0%	0%	0%	0%
U.S. Corporates	26%	26%	17%	16%	16%	15%	14%	13%	12%	11%	5%	3%	0%	0%
U.S. High Yield	5%	5%	3%	2%	3%	2%	2%	1%	1%	0%	0%	0%	0%	0%
International Fixed Income	16%	16%	22%	21%	10%	9%	3%	2%	1%	0%	0%	0%	0%	0%
<b>Cash</b>	<b>1%</b>	<b>1%</b>	<b>5%</b>	<b>5%</b>	<b>1%</b>	<b>1%</b>	<b>1%</b>	<b>1%</b>	<b>1%</b>	<b>1%</b>	<b>1%</b>	<b>1%</b>	<b>1%</b>	<b>1%</b>

Source: Chief Investment Office as of May 5, 2026.

## Table 2: CIO U.S. High Tax Sensitivity (Tier 0 liquidity) Asset Allocation Guidance for Merrill Clients

Tier 0 (highest liquidity): Highest liquidity needs with none of the portfolio invested in less liquid alternative asset categories.

	All Fixed Income		Conservative		Moderately Conservative		Moderate		Moderately Aggressive		Aggressive		All Equity	
	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical
<b>Equity</b>	<b>0%</b>	<b>0%</b>	<b>20%</b>	<b>25%</b>	<b>41%</b>	<b>46%</b>	<b>57%</b>	<b>62%</b>	<b>73%</b>	<b>78%</b>	<b>90%</b>	<b>95%</b>	<b>99%</b>	<b>99%</b>
U.S. Large Cap Growth	0%	0%	7%	8%	14%	15%	20%	21%	25%	26%	31%	32%	33%	33%
U.S. Large Cap Value	0%	0%	7%	8%	14%	15%	20%	21%	25%	26%	31%	32%	33%	33%
U.S. Small Cap Growth	0%	0%	0%	1%	1%	2%	1%	2%	2%	3%	2%	3%	3%	3%
U.S. Small Cap Value	0%	0%	0%	1%	1%	2%	1%	2%	2%	3%	2%	3%	3%	4%
International Developed Equity	0%	0%	4%	3%	7%	6%	10%	9%	12%	11%	15%	14%	18%	15%
Emerging Markets	0%	0%	2%	4%	4%	6%	5%	7%	7%	9%	9%	11%	9%	11%
<b>Fixed Income</b>	<b>99%</b>	<b>99%</b>	<b>75%</b>	<b>70%</b>	<b>58%</b>	<b>53%</b>	<b>42%</b>	<b>37%</b>	<b>26%</b>	<b>21%</b>	<b>9%</b>	<b>4%</b>	<b>0%</b>	<b>0%</b>
U.S. Government	0%	0%	9%	8%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
U.S. Mortgages	1%	1%	6%	5%	2%	0%	0%	0%	0%	0%	0%	0%	0%	0%
U.S. Corporates	13%	8%	7%	6%	4%	3%	0%	0%	0%	0%	0%	0%	0%	0%
U.S. High Yield	1%	1%	3%	2%	1%	0%	1%	1%	0%	0%	0%	0%	0%	0%
U.S. Investment Grade Tax Exempt	59%	64%	28%	28%	34%	34%	36%	33%	23%	19%	8%	4%	0%	0%
U.S. High Yield Tax Exempt	9%	9%	4%	4%	4%	4%	4%	3%	3%	2%	1%	0%	0%	0%
International Fixed Income	16%	16%	18%	17%	13%	12%	1%	1%	0%	0%	0%	0%	0%	0%
<b>Cash</b>	<b>1%</b>	<b>1%</b>	<b>5%</b>	<b>5%</b>	<b>1%</b>	<b>1%</b>	<b>1%</b>	<b>1%</b>	<b>1%</b>	<b>1%</b>	<b>1%</b>	<b>1%</b>	<b>1%</b>	<b>1%</b>

Source: Chief Investment Office as of May 5, 2026.

# 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.

**S&P 500 Price Returns 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. Price return is the rate of return on an investment portfolio, where the return measure takes into account only the capital appreciation of the portfolio.

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