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CHIEF INVESTMENT OFFICE

Investment Insights

The Journey of Long-term Investing

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

AUTHORED BY:

Chief Investment Office

Data as of 02/04/2022 and subject to change.

During the recent three years of 2019 through 2021, the S&P 500 Index returned a cumulative 100% on a total return basis, an annual rate that is significantly higher than the historical norm.[1] While an impressive recovery in economic activity and corporate profits from the pandemic lows contributed to stock market gains, another significant tailwind was the accompanying accommodative monetary policy of zero interest rates, quantitative easing and historically high growth in money supply.

However, with higher-than-anticipated levels of inflation becoming the primary economic concern, the Federal Reserve and other central banks have now shifted to a tightening mode in order to rein in the possibility of a further acceleration in inflation levels. As central banks reduce liquidity from the markets, forward returns may shift lower to adjust for the recent outperformance and higher absolute valuations, and volatility should remain elevated across Equities, rates and the Foreign Exchange markets.

Volatility Is Considered Normal

We believe volatility can be integral to investing in the financial markets and pullbacks may create an opportunity for long-term investors to consider adding high-quality investments. Shallow 5% pullbacks happen quite regularly—on average three times a year for the S&P 500—and the market tends to bounce back quickly from these.[2] Declines of 10% to 20% are also not that uncommon and occur about once every 2.5 years, with the markets recovering the selloff in roughly four months. Severe declines of 20% to 40% are usually associated with recessions and occur about once every 8.6 years, but even those recover fairly quickly from the perspective of a long-term investor—14 months on average.

Exhibit 1: S&P 500 Drawdowns And Recovery Times (since 1946).

Decline	Number of Declines	Average Decline	Average Length of Decline from Peak to Trough (Months)*	Average Time to Recover From Trough to Previous Peak Level (Months)*	Average Length Between Declines (Years)**
10%–20%	30	-14%	4	4	2.5
20%–40%	9	-28%	8	14	8.6
40%+	3	-51%	22	57	23.6

* Based off of number of complete months in the period. **Trough Date to Trough Date. Sources: Chief Investment Office; Yardeni Research; Bloomberg. Data as of January 31, 2022. **Past performance is no guarantee of future results. Please refer to index definitions at the end of this report.**

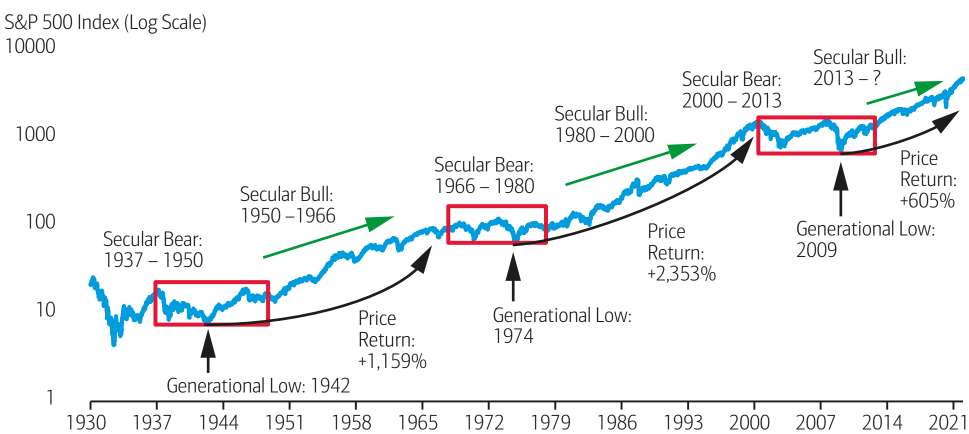
[1] Bloomberg. Data reflects total return from December 31, 2018 to December 31, 2021.

[2] BofA Global Research. January 2022.

It is expected that there will always be volatility with investing in Equities given changes in liquidity conditions, interest rate fluctuations, and the path of the business cycle. However, the proven ability of companies to adjust to these cyclical conditions while creating businesses to capture long-term structural changes in the economy, technology and consumer preferences, has historically led to a rising trend in corporate earnings, which is the foundation for long-term Equity gains.

From the generational lows in 2009, the secular bull market continues in our opinion, driven by accelerating innovation, the Millennial generation ageing into their prime consumption and investing years, higher productivity, building of domestic supply chains alongside 'new economy' capital expenditure (capex) growth. Secular bull markets, and secular bear markets for that matter, comprise both cyclical bull and bear markets along with economic expansions and contractions. Relative to previous secular bulls (1950-1966 and 1980-2000), the current one has performed relatively modestly at best. The S&P 500 price return since the low in 2009 to the end of 2021 comes in at only +605%, a sign that perhaps there is more room to rise given that the previous two secular bull Equity advances from the generational low to secular peak were +1,159% and +2,353%.

Exhibit 2: The Content Of The Secular Bull Market Relative To Previous Ones.



Sources: Chief Investment Office; BofA Global Research; Bloomberg. Data as of December 31, 2021. **Past performance is no guarantee of future results.**

Portfolio Considerations in the Era of Tightening Financial Conditions

During the next phase of the market cycle characterized by higher inflation and lower liquidity and lower investment returns, we suggest that investors consider the following:

- There is a wide range of outcomes around our base case for the pandemic, inflation and interest rates. Investors should continue to remain anchored in their long-term asset allocation; ensure appropriate diversification across asset classes, regions, styles etc.; consider risk-appropriate tactical tilts and rebalance opportunistically to ensure optimal exposures. These are all tenets of our disciplined investment process that we apply to managing Chief Investment Office (CIO) portfolios.

- Persistent inflation means that long-term investors should consider accessing and staying invested in assets that have a history of providing real returns i.e., returns above inflation. In our opinion, growth assets like public Equities and certain similar private assets make sense.

- Seek total return opportunities. When starting valuations are higher, dividends and other forms of yield become a more significant contributor to total returns. In our view, dividend growth strategies can provide potential income and benefit from rising prices in the economy which add to company cash flows.

- Positioning may need to be more micro than macro as the effect of rising rates and inflation will be specific to sectors, industries and companies, leading to a higher dispersion in earnings. High quality, free cash flow, pricing power, operating leverage, sustainable yields, and relative earnings strength are features that are likely to be rewarded in the marketplace. We believe the opportunity set for fundamental research-driven active management[3] strategies has improved.
- Having some allocation to Alternative Investments, for qualified investors, aimed at the purposes of capital appreciation, yield, inflation protection, and non-correlated exposure to traditional asset classes should be beneficial to portfolios from a risk/return perspective. The amount allocated to alternative assets depends on an investor's financial goals, liquidity needs, risk tolerance and time horizon, and diversification.

The Importance of Knowing Yourself As An Investor

Before developing a disciplined investment plan, process and overall framework, it is important to understand who you are as an investor. This is the foundational element of the overall investment framework and can significantly determine your response to major turning points in the economy and markets and, in particular, during periods of heightened volatility.

These areas highlighted on the right affect the type of investor you are and may help inform your original plan and the responses during bull markets as well as sharp, short term stressful periods. Creating your ultimate blue print involves understanding your financial goals, risk level, time horizon, liquidity needs, tax status, and, importantly, the type of investor you are. All of this may seem like an overly complex undertaking. At times, it can be. However, if you have a disciplined investment process, utilize a consistent research and due diligence framework, understand the type of investor you are, and work with an advisor that can help you manage all of this, stressful market periods may be viewed as an opportunity and not a daunting experience.

ARE YOU AN INVESTOR THAT...

- has a well-developed plan and rebalances back to your asset allocation targets during times of excess market gains or stresses?
- attempts to "time market gyrations" by moving in and out of specific investment exposures and then back in again?
- typically takes advantage of corrections or sell during more fearful periods?
- has a highly diversified portfolio which allows for more subtle adjustments across and/or within asset classes during market stress periods?
- aims to beat a specific benchmark, outpace the popular industry gauges such as the S&P 500 or MSCI World Index, or do you prefer to set your own asset-weighted personal benchmark based on your goals and objectives?
- mostly invests in U.S. assets and is not interested in non-U.S. exposure and is comfortable potentially missing out on international opportunities or their potential diversification benefits?
- invests in Alternative Investments,[4] if qualified, to help mitigate against large market drawdowns, to capture potential excess returns, or to help diversify the return streams of traditional investments?
- leverages areas such as due diligence of managers, solutions, and individual investments, plus taxes, portfolio turnover, and the overall costs of developing, managing and maintaining your portfolio?

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

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

Index Definitions

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

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

MSCI World Index is a market cap weighted stock market index of 1,546 companies throughout the world.

Important Disclosures

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

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

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

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

Investments have varying degrees of risk. Some of the risks involved with equity securities include the possibility that the value of the stocks may fluctuate in response to events specific to the companies or markets, as well as economic, political or social events in the U.S. or abroad. 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. Investing directly in Master Limited Partnerships, foreign equities, commodities or other investment strategies discussed in this document, may not be available to, or appropriate for, clients who receive this document. However, these investments may exist as part of an underlying investment strategy within exchange-traded funds and mutual funds.

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.