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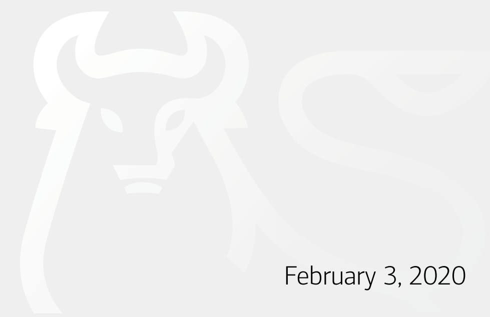
# Capital Market Outlook



February 3, 2020

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

IN THIS ISSUE

- **Macro Strategy**—Reflation refers to central-bank policies to make inflation higher. Before 2000, central banks generally worried about keeping inflation low. Since then, they have worried about inflation being too low, or even becoming deflation. There are some early signs that the reflation process is starting to bear fruit, at least in the United States, where the Federal Reserve (Fed) has led the reflation effort.
- **Global Market View**—These are interesting times for the United States and Europe. The world's largest and most important bilateral commercial relationship remains under considerable strain due to rising U.S.-EU trade tensions. This fact is not well understood or priced into the capital markets but one we are watching carefully.
- **Thought of the Week**—The outbreak of the Wuhan coronavirus produced a risk-off reaction. Events such as epidemics aren't baked into base-case assumptions and introduce uncertainty for the financial markets, often leading to broad selling of risk assets and a flight to safety. The severity and duration of the epidemic can increasingly pressure stocks and bond yields, but ultimately asset prices typically revert back to the fundamentals when the concerns lessen.
- **Portfolio Considerations**—We still remain underweight international developed equities overall but cut the large underweight approximately in half. We also raised emerging market (EM) equities slightly to neutral from a slight underweight. On the back of these adjustments, we still remain overweight the U.S. and maintain our overall overweight in equities.


MACRO STRATEGY

**Chief Investment Office Macro Strategy Team**

GLOBAL MARKET VIEW

**Joseph P. Quinlan**
Managing Director and
Head of CIO Market Strategy

**Kathryn C. McDonald, CFA®**
Vice President and
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THOUGHT OF THE WEEK

**Neel Mukherjee**
Managing Director and
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**Nick Giorgi, CFA®**
Vice President,
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Data as of 2/3/2020 and subject to change.

MACRO STRATEGY

## Reflation: Is it working?

Chief Investment Office Macro Strategy Team

Over the past 20 years, central banks in the U.S., Eurozone and Japan have consistently fallen short of achieving 2% inflation targets. One reason is the process of formally targeting 2% has evolved in stages and remains incomplete to varying degrees in each case. The failure to back stated inflation objectives with credible operating procedures reflects a tendency for monetary policy to be sidetracked by other considerations, such as financial stability and labor-market conditions, rather than staying focused on inflation. It also reflects divisions among policymakers over the importance or even desirability of this objective. Nevertheless, there has been a clear trend toward adjusting monetary policy and its operating procedures more and more toward better achieving the 2% target over time.


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The Fed stands out as the leader in this regard. It is currently reviewing its operating procedures. In its overview of the review, the Fed states: "The review will take the Federal Reserve's statutory mandate as given, and will also take as given that an inflation objective of 2% is the most consistent, over the longer run, with the assigned mandate of price stability." Practically, this means the Fed will need to let inflation run above 2% sometimes to compensate for the extended periods, including the past two decades, when it has consistently averaged below this level. How it does this is a key focus of the review.

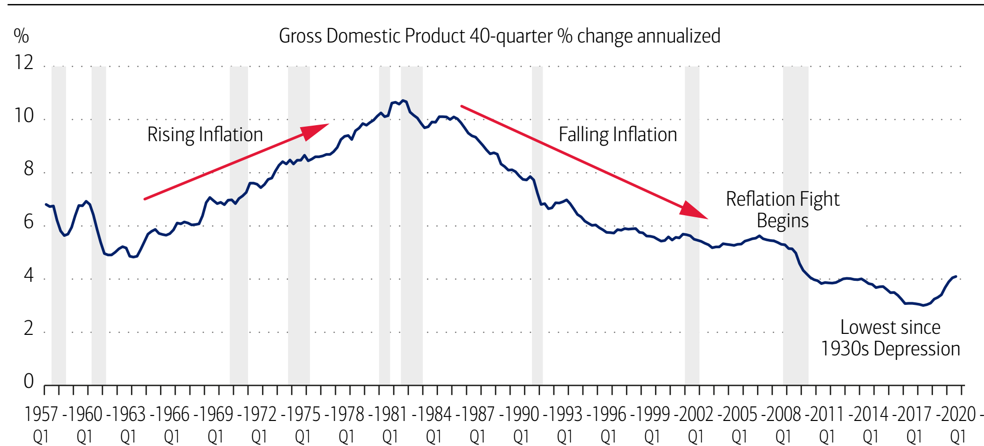
Over the past two decades, the Fed has moved in fits and starts toward this stated objective, as for example, when it began to describe the 2% target as symmetrical starting in January 2012. The European Central Bank, in contrast, has tended to lag behind the Fed, for example, in adopting quantitative easing and now just beginning a similar review that will debate the idea of a symmetrical 2% target. Up to now, the German view that the target is not symmetric but rather an upper limit has kept Euro area inflation expectations well below 2%.

The case of Japan similarly lags U.S. progress toward the 2% target, at least, as suggested by Yen-based inflation expectations, which lag those of the U.S. and Europe. It wasn't until "Abenomics" began in 2013 that Japan got serious about explicit inflation targeting. The key point is market-based inflation expectations do not reflect much confidence that any of the major central banks will hit their targets over the longer term. This is reflected in the fact that the term premium in the Treasury-bond market has been mostly negative over the past three years, "telling us that investors no longer see a need for insurance against upside surprises in the nominals," according to Michael Goldstein of Empirical Research Partners.

Low expectations for nominal magnitudes is a direct result of central-bank failures to generate inflation despite all the extraordinary efforts since the financial crisis, including quantitative easing and negative interest rates in some markets. Relative to the rest of the developed world, the U.S. has fared better. U.S.-based inflation expectations are closer to 2%, and U.S. nominal gross domestic product (GDP) growth is well above that in Europe and Japan. Better nominal growth means better earnings, helping to explain why U.S. equities have outperformed those elsewhere by a wide margin over the past decade. In fact, there are early signs that U.S. reflation efforts are starting to bear fruit as the Fed increasingly takes its 2% inflation mandate seriously.

Nominal GDP growth is the sum of the inflation rate and the real growth rate of the economy. It sets the limit on the cash-flow growth of retail sales, household incomes, corporate revenues and profits throughout the economy. As seen in Exhibit 1, at the lowpoint of the secular-stagnation "scare," the ten-year growth rate of nominal GDP fell to about 3%, reflecting a decade that averaged less than 2% inflation and less than 2% real growth.

**Exhibit 1: Nominal GDP Trend Is Rising Off Secular-Stagnation Bottom.**




Source: Bureau of Economic Analysis/Haver Analytics. Data as of January 29, 2020.

Nominal growth has picked up from that low point to just over 4% in the past ten years, as real GDP helped by rising productivity growth has topped 2% by more than enough to offset the continuing inflation shortfall. Ultimately, with inflation running between 2% and 2.5% in coming years, as the Fed sticks to its strengthened reflation agenda, nominal GDP should move more firmly into a 4% to 5% trend growth range. Notice the rise in the 10-year average of nominal GDP growth from its low point of 3% is the biggest since the early 1960s.

Essentially, inflation accelerated continuously until the early 1980s and decelerated thereafter. Central banks have been struggling to stop that deceleration from turning into deflation since about 2000. The financial crisis in 2008 almost caused a deflationary collapse like the 1930s, but the Fed's extraordinary measures stopped that from happening. Still, the decade from 2007 to 2016 saw the weakest nominal GDP growth since the 1930s. This weak cash flow growth kept the deflation threat alive, causing investors to gravitate to safety and yields to plummet because the debt burden in the economy was too heavy for "normal" interest rates. As nominal GDP settles into the 4% to 5% range, interest rates can stabilize around low levels that still allow the economy to grow and the debt to be serviced. For 10-year Treasuries that probably means a range of 1.5% to 3.5% over cycles and a somewhat wider range of money-market rates with a lower average over the cycle.

This "new normal" of 4% to 5% nominal GDP growth is unlike any other period in American history. A monetary policy aimed at keeping inflation stable around 2%, even with the persistent shortfall of recent years, means inflation volatility is extremely low. The standard deviation of 15-year averages of inflation since 2000 is about 1/6 of that during the 1948–1999 period. This unprecedented stability in inflation translates into more stable cash flows through the economy and helps explain why valuations are fluctuating around much higher levels than in the past, as we discussed in our January 21 Capital Market Outlook, "*Structural Shift in Equity Valuations.*"

The other half of the nominal GDP formula, real GDP, is much more stable than in the past as well. That's why the four longest expansions in U.S. history have occurred in the past 60 years. Before WWII, recessions were about five times more frequent. Higher valuations reflect a growing belief that this less volatile nominal GDP environment will persist in the future. Remember, more stable nominal GDP growth translates into more stable corporate revenue and earnings growth.

Whether that continues to be true remains to be seen. In the meantime, if central-bank inflation targeting continues to keep inflation much less volatile than in the past and the absence of big inflation overshoots allows more accommodative polices then the trend toward longer expansions should continue to feed into more stable longer-term expectations about profits and interest rates.

Finally, there is a widespread belief that central banks' longstanding failure to meet inflation objectives is proof that deflationary structural headwinds from forces like technology and demographics make higher inflation impossible and monetary policy impotent. The counterexample of Venezuela, where hyperinflation is rampant, proves the falsity of that view. Coupling monetary expansion with fiscal spending can create any level of inflation desired. A responsible policy approach to overcoming the limits of monetary policy to solve the reflation dilemma by itself is the subject of a recent study by the Black Rock Investment Institute, "*Dealing with the next downturn: From unconventional monetary policy to unprecedented policy coordination*" (August 2019). The study provides a blueprint from "best thinking" about how policy works should a downturn hit the global economy before nominal GDP is comfortably in its higher "new-normal" range with inflation averaging symmetrically around 2%. In the meantime, the persistently high valuations and low volatility in the equity market might just be flashing accurate signals about the benefits of this "new normal."

GLOBAL MARKET VIEW

## Should Investors “Curb Their Enthusiasm” about U.S. Trade Prospects?

Joseph P. Quinlan, Managing Director and Head of CIO Market Strategy

Kathryn C. McDonald, CFA® Vice President and Market Strategy Analyst

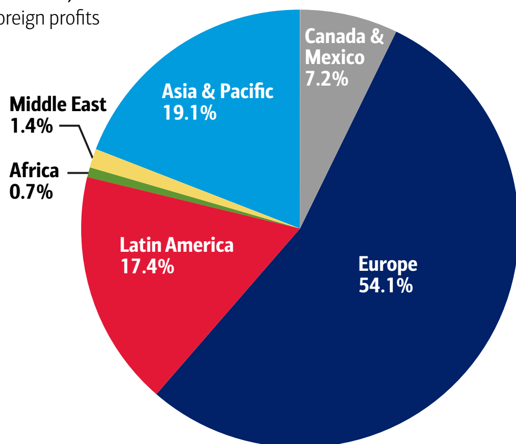
Channeling Larry David, perhaps investors should “curb their enthusiasm” when it comes to U.S. trade prospects in 2020. While a revamped North American Free Trade Agreement (NAFTA) agreement with Mexico and Canada, along with the Phase One deal with China have assuaged market fears over trade, there is one more front in the U.S. trade battle: Europe.

Escalating U.S.-Europe trade tensions represent a tail risk to the capital markets this year because if the two parties do end up tangling over trade, it would be another heavyweight match akin to the U.S. and China bout, with global reverberations.

The European Union is hardly a lightweight—inclusive of the United Kingdom, the European Union is an $18.3 trillion economic behemoth, with a population of 500 million people and a per capita income of around $37,000. China: $14.1 trillion in output, with 1.4 billion people and a per capita income ($10,000) a fraction of Europe’s.

Wealth equates to income, which drives consumer spending, which determines corporate profits. Hence, when it comes to the bottom line of Corporate America, Europe matters more—much more—than China and any other part of the world for that matter. As Exhibit 2 depicts, Europe accounted for 54% of total U.S. foreign affiliate income (a proxy for U.S. global earnings) in the first nine months of 2019, with Asia (19.1%) and Latin America (17.4%) a distant second and third.

**Exhibit 2: Europe Accounts for Over Half of U.S. Global Corporate Earnings.**




*Latin America includes Caribbean and Other Western Hemisphere, excludes Mexico.
Source: Bureau of Economic Analysis. Data as of January 2020.

Worrisomely, it is Europe that is now in the cross hairs of U.S. trade negotiators, with the U.S. threatening tariffs on autos, in addition to the tariffs already levied on French wine, Italian cheese and other goods, stemming from the Airbus trade dispute. Complicating the picture: the United Kingdom’s post-Brexit attempts to broker a trading agreement with both the European Union and the United States. How each agreement is crafted and implemented will ultimately affect trade and investment flows between the United Kingdom and Europe, and the United States and the United Kingdom.

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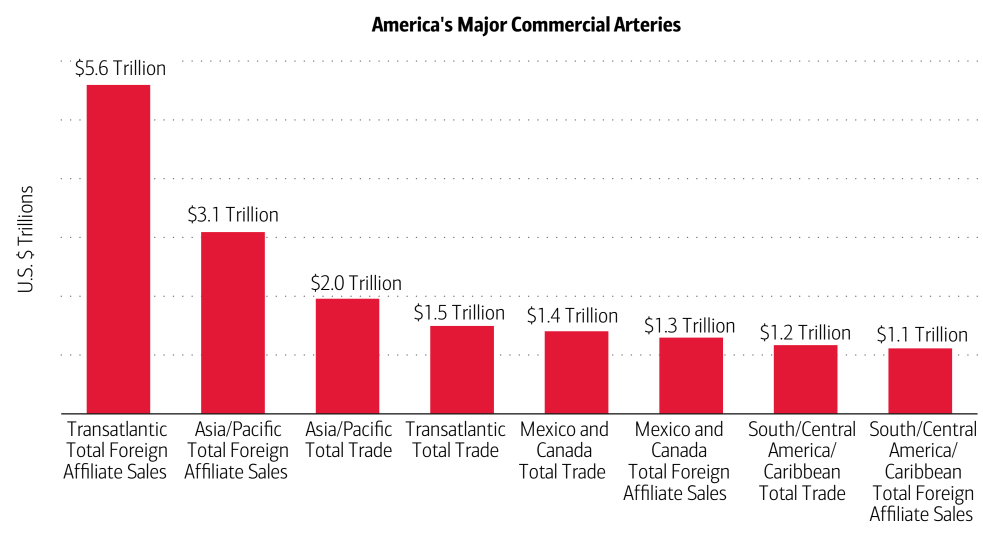
Exhibit 3 vividly underscores the importance of U.S.-Europe linkages. Of all the commercial arteries in the world, the most important—thickest—is between the United States and Europe. No commercial artery in the world is as large: Total transatlantic foreign affiliate sales were estimated at $5.6 trillion in 2018, easily outranking other U.S. arteries of commerce based on either trade (total trade=exports + imports) or foreign direct investment (measured by foreign affiliate sales).

**Exhibit 3: America's Major Commercial Arteries.**




Majority-owned Foreign Affiliate Sales: Estimates for 2018. Total sales includes U.S. sales in foreign markets plus foreign companies' sales in the U.S.
Source: Bureau of Economic Analysis. Data as of January 2020.

Investors should realize—notably against a backdrop of rising U.S.-Europe trade tensions—that the United States and the European Union (EU) remain each other's most important foreign market in the world. This is not likely to change any time soon given the deep and entangled commercial ties that link the transatlantic economy.

And speaking of the transatlantic economy, there is probably no more important component of the global economy. Thanks to the dense inter-linkages of investment, trade, technology, innovation and jobs that bind the two sides of the North Atlantic together, the transatlantic economy remains a key pillar of the global economy. The combined output, for instance, of the United States and the European Union (plus Norway, Switzerland and Iceland) accounted for roughly one-third of world GDP in terms of purchasing power parity in 2019. Even if one excludes the United Kingdom, the U.S. and the EU account for a substantial 30% of world GDP—higher than the combined output of China and India (one-quarter of world GDP).

The transatlantic economy is not only larger than the twin giants of Asia but also significantly wealthier. And because wealth matters, it's little wonder that consumers in the U.S. and the EU easily outspend their counterparts in China and India. The U.S. and EU combined accounted for 52% of global personal consumption in 2018, versus a combined share of just 14.3% for China and India.

In addition to the above, the transatlantic economy is a repository of innovation and technological advancement, and at the forefront of global foreign direct investment and global mergers and acquisitions activity. Taken together, U.S. and European merchandise exports to the world accounted for 27% of global exports in 2018, the last year of complete data; combined imports represented 32% of the world total.[1] Meanwhile, the U.S. and Europe together accounted for 58% of inward stock of foreign direct investment (FDI) and 63% of outward stock of FDI.

[1] Excluding intra-EU trade.

Other pertinent transatlantic metrics include the following:

**Skilled workforce.** Wealth in Europe is also correlated with a highly skilled and productive workforce, advanced innovation capabilities, and a world-class research and development (R&D) infrastructure—underpinning the attractiveness of the EU to Corporate America. Of the 14.4 million foreign workers on the payrolls of U.S. foreign affiliates in 2017, the last year of available data, the bulk, 4.8 million, were in Europe. Meanwhile, Europe accounted for roughly 58% of total U.S. foreign affiliate R&D spending in 2017.

Europe has been attracting a larger share of **U.S. FDI flows** each decade, from under 50% in the 1970s to almost 60% this decade. This runs counter to the narrative that multinational firms are increasingly looking to EMs for investment opportunities. In other words, what happens in Europe now matters more than ever for the future of U.S. firms. **The total stock of U.S. FDI in Europe** was $3.6 trillion as of 2018. That represents 61% of the total U.S. FDI stock abroad and is seven times the combined U.S. investment in Mexico and Canada.

**Foreign affiliate sales.** U.S. companies are bound to the European continent primarily through the activities of their foreign affiliates. In 2018, we estimate that sales delivered through U.S. affiliates in Europe were roughly $3.2 trillion, well in excess of U.S. exports to Europe ($684 billion). Europe represents 48% of U.S. foreign affiliate sales, far more than the 28% share for the Asia-Pacific region, which is home to some five billion people.

### The bottom line

"May you live in interesting times" is purported to be a Chinese curse, but the expression succinctly applies to the transatlantic partnership. These are interesting times for the United States and Europe. The world's largest and most important bilateral commercial relationship remains under considerable strain due to rising U.S.-EU trade tensions. This fact is not well understood or priced into the capital markets but one we are watching carefully. It's "not all clear" on the U.S. trade front—so investors might be wise to curb their enthusiasm about U.S. trade prospects.

THOUGHT OF THE WEEK

## What to Make of the Wuhan Coronavirus

Neel Mukherjee, Managing Director and Head of CIO Portfolio Strategy

Nick Giorgi, CFA®, Vice President, Investment Strategist

The outbreak of the Wuhan coronavirus produced a risk-off reaction causing global equities to pull back from historic highs, bond prices to rise, and yield curves to flatten. Events such as epidemics aren't baked into base-case assumptions, and their economic impact is difficult to project. Therefore, they introduce uncertainty for the financial markets, often leading to broad selling of risk assets and a flight to safety. The severity and duration of the epidemic can increasingly pressure stocks and bond yields, but ultimately asset prices typically revert back to the fundamentals such as global growth, corporate profits and interest rates.

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**Exhibit 4:**

| What | Where | Cases (deaths) | Economic impact | Markets During* | Markets After (3 months**) |
|---|---|---|---|---|---|
| **Severe Acute Respiratory Syndrome (SARS)** *Late 2002-2003* | 17 countries, mostly Southeast Asia | 8,098 (774) | Greater effect in China—weaker consumer spending and growth but bounce back in subsequent quarters. | S&P 500: -14%<br>10 Yr TSY: -68 bps<br>WTI Crude: 48%<br>VIX: 50% | S&P 500: 24%<br>10Yr TSY: -42bps<br>WTI Crude: -17%<br>VIX: -39% |
| **Middle East Respiratory Syndrome (MERS)** *South Korea outbreak May-July 2015* | 27 countries, mainly Arabian Peninsula and South Korea | 2,494 (858) globally<br>186 (36), South Korea | South Korea GDP decline of 0.5% in 2Q2015, 26% decline in retail sales from May through July, central bank rate cut of 25bps | S&P 500: -4%<br>10 Yr TSY: -36bps<br>WTI Crude: -23%<br>VIX: 67% | S&P 500: -2%<br>10 Yr Tsy: -9bps<br>WTI Crude: -2%<br>VIX: -11% |
| **Ebola Virus Disease (EVR)** *Mid-late 2014* | 10 countries, mainly West Africa | 28,652 (11,325) | Negligible affects to U.S. growth | S&P 500: -7%<br>10 Yr TSY: -48bps<br>WTI Crude: -22%<br>VIX: 139% | S&P 500: 7%%<br>10 Yr TSY: -42bps<br>WTI Crude: -43%<br>VIX: -15% |
| **Wuhan coronavirus** *Late 2019- present* | 21 countries, mostly Southeast Asia | 9,776 (213) | 2020 China GDP expectations downgraded from 5.8% to 5.6% | S&P 500: -3%<br>10Yr TSY: -35bps<br>WTI Crude: -19%<br>VIX: 58% | TBD |

Sources: Chief Investment Office, Center for Disease Control; World Health Organization; Johns Hopkins CSSE; Statistics Korea, BofA Global Research. Data as of January 31, 2020
*From peak-to-trough within timeframe of outbreak ** From equity trough

It is expected that the latest virus outbreak is likely to be contained in the coming months. The global healthcare industry is more adept at handling outbreaks today than during prior episodes, and greater coordination and transparency across the research community and governments could help advance a vaccine. However, the fast-paced nature of modern media may give rise to paranoia, leading to more volatility. As a corollary, the SARS epidemic occurred during a time in which China was still in its infancy of emerging on the global economic stage. China's economy has grown by $12.6 trillion (862%) since 2003 in becoming the second largest in the world. A near-term hit to Chinese GDP will be a headwind for budding signs of global reacceleration. It's also more integrated within global capital markets. The Chinese economy has become more service oriented, which may deepen the effects of the current epidemic, as industries such as transportation, lodging and retail were hit hardest during prior episodes. The extended mobility of populations has changed the potential for viral contagion and deepened the economic impact, especially within global tourism, as monthly international air travel from China has increased by over 600% since 2006.

**We are watching the following key indicators to gauge the economic impact from this outbreak:**

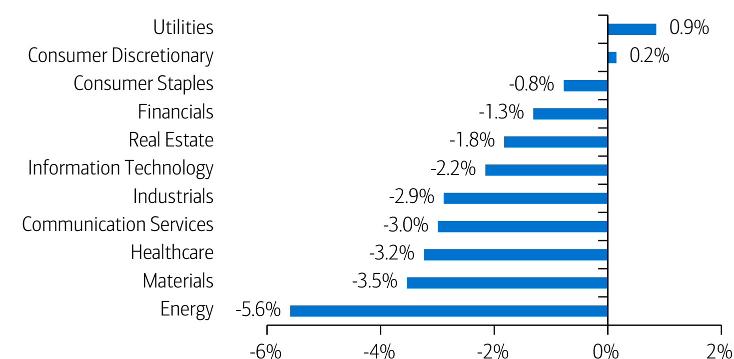
- Chinese economic activity, especially retail sales
- Potential fiscal and/or monetary response from Chinese policymakers
- Financial market volatility and impact on U.S. consumer and business confidence
- Company guidance on global growth, capital expenditures (capex)
- Excessive flattening of the yield curve
- Credit spreads indicating tightening financial conditions
- Impacts on foreign exchange markets, especially the dollar

**The bottom line** is that some volatility in stocks was to be expected given the 15% rally since October, and a current price-to-earnings (PE) ratio of 18x- much higher than that coming into the SARS epidemic. We recommend discipline in not acting rash and emphasize diversification across asset classes. Our thesis for a fourth mini wave expansion remains intact with easier financial conditions, support from policymakers, an improving manufacturing backdrop bolstering corporate earnings, and a rebound in business confidence and capex helping to buffer any near-term shocks. If risk assets fall further in the coming weeks, it may be a good opportunity to rebalance upward into equity allocations.

## Equities

| | | Total Return in USD (%) | | |
|---|---|---|---|---|
| | Current | WTD | MTD | YTD |
| DJIA | 28,256.03 | -2.5 | -0.9 | -0.9 |
| NASDAQ | 9,150.94 | -1.7 | 2.0 | 2.0 |
| S&P 500 | 3,225.52 | -2.1 | 0.0 | 0.0 |
| S&P 400 Mid Cap | 2,007.22 | -2.8 | -2.6 | -2.6 |
| Russell 2000 | 1,614.06 | -2.9 | -3.2 | -3.2 |
| MSCI World | 2,342.41 | -2.2 | -0.6 | -0.6 |
| MSCI EAFE | 1,993.71 | -2.5 | -2.1 | -2.1 |
| MSCI Emerging Markets | 1,062.34 | -5.1 | -4.7 | -4.7 |

## S&P 500 Sector Returns




## Fixed Income[1]

| | Total Return in USD (%) | | | |
|---|---|---|---|---|
| | Current | WTD | MTD | YTD |
| Corporate & Government | 1.93 | 0.8 | 2.4 | 2.4 |
| Agencies | 1.61 | 0.6 | 1.5 | 1.5 |
| Municipals | 1.47 | 0.4 | 1.8 | 1.8 |
| U.S. Investment Grade Credit | 2.02 | 0.6 | 1.9 | 1.9 |
| International | 2.58 | 0.5 | 2.3 | 2.3 |
| High Yield | 5.52 | -0.3 | 0.0 | 0.0 |

| | Current | Prior Week End | Prior Month End | 2019 Year End |
|---|---|---|---|---|
| 90 Day Yield | 1.51 | 1.48 | 1.49 | 1.49 |
| 2 Year Yield | 1.31 | 1.49 | 1.57 | 1.57 |
| 10 Year Yield | 1.51 | 1.68 | 1.92 | 1.92 |
| 30 Year Yield | 2.00 | 2.13 | 2.39 | 2.39 |

## Commodities & Currencies

| | Total Return in USD (%) | | | |
|---|---|---|---|---|
| Commodities | Current | WTD | MTD | YTD |
| Bloomberg Commodity | 159.35 | -3.2 | -7.4 | -7.4 |
| WTI Crude $/Barrel[2] | 51.56 | -4.9 | -15.6 | -15.6 |
| Gold Spot $/Ounce[2] | 1,589.16 | 1.1 | 4.7 | 4.7 |

| Currencies | Current | Prior Week End | Prior Month End | 2019 Year End |
|---|---|---|---|---|
| EUR/USD | 1.11 | 1.10 | 1.12 | 1.12 |
| USD/JPY | 108.35 | 109.28 | 108.61 | 108.61 |
| USD/CNH | 7.00 | 6.93 | 6.96 | 6.96 |

Source: Bloomberg, Factset.Total Returns from the period of 1/27/20 to 1/31/20. Bloomberg Barclays Indices.[1] Spot price returns.[2] All data as of the 1/31/20 close.
**Past performance is no guarantee of future results.**

## Asset Class Weightings (as of 1/9/2020)

| | Under-weight | | Neutral | | Over-weight |
|---|---|---|---|---|---|
| Global Equities | • | • | • | ● | • |
| U.S. Large Cap Growth | • | • | • | ● | • |
| U.S. Large Cap Value | • | • | • | ● | • |
| U.S. Small Cap Growth | • | • | • | ● | • |
| U.S. Small Cap Value | • | • | ● | • | • |
| International Developed | • | ● | • | • | • |
| 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* | see CIO Asset Class Views | | | | |
| Hedge Funds | | | ● | | |
| Private Equity | | | ● | | |
| Real Assets | | | ● | | |
| Cash | | | | | |

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

## Economic and Market Forecasts (as of 1/31/20)

| | Q2 2019A | Q3 2019A | Q4 2019A | 2019A | Q1 2020E | 2020E |
|---|---|---|---|---|---|---|
| Real global GDP (% y/y annualized) | – | – | – | 2.9 | – | 3.1 |
| Real U.S. GDP (% q/q annualized) | 2.0 | 2.1 | 2.1 | 2.3 | 1.0 | 1.7 |
| CPI inflation (% y/y) | 1.8 | 1.8 | 2.0 | 1.8 | 2.3 | 2.3 |
| Core CPI inflation (% y/y) | 2.1 | 2.3 | 2.3 | 2.2 | 2.3 | 2.4 |
| Unemployment rate (%) | 3.6 | 3.6 | 3.5 | 3.7 | 3.5 | 3.5 |
| Fed funds rate, end period (%) | 2.40 | 1.90 | 1.55 | 1.55 | 1.63 | 1.63 |
| 10-year Treasury, end period (%) | 2.01 | 1.66 | 1.92 | 1.92 | 1.80 | 1.80 |
| S&P 500 end period | 2942 | 2977 | 3231 | 3231 | – | 3300 |
| S&P earnings ($/share) | 41 | 42 | 41.5* | 164.1* | 40.5 | 177 |
| Euro/U.S. dollar, end period | 1.14 | 1.09 | 1.12 | 1.12 | 1.10 | 1.15 |
| U.S. dollar/Japanese yen, end period | 108 | 108 | 109 | 109 | 110 | 103 |
| Oil ($/barrel, avg. of period, WTI**) | 60 | 56 | 57 | 57 | 59 | 57 |

The forecasts in the table above are the base line view from BofA Global Research team. The Global Wealth & Investment Management (GWIM) Investment Strategy Committee (ISC) may make adjustments to this view over the course of the year and can express upside/downside to these forecasts.

**Past performance is no guarantee of future results. There can be no assurance that the forecasts will be achieved. Economic or financial forecasts are inherently limited and should not be relied on as indicators of future investment performance.**

A = Actual. E/* = Estimate. S&P 500 represents a fair value estimate for 2020. **West Texas Intermediate

Sources: BofA Global Research; GWIM ISC as of January 31, 2020.

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## 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** is a stock market index that tracks the stocks of 500 large-cap U.S. companies. It represents the stock market's performance by reporting the risks and returns of the biggest companies.

**West Texas intermediate (WTI)** is a grade of crude oil used as a benchmark in oil pricing.

**The CBOE Volatility Index (VIX)** is a popular measure of the stock market's expectation of volatility implied by S&P 500 index options.

**The FTSE Corporate Investment Grade (TSY) Index** is a US Dollar-denominated index that measures the performance of investment- grade corporate debt.

## Important Disclosures

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