

Capital Market Outlook

Chief Investment Office



The opinions are those of the author(s) and subject to change.

AUGUST 13, 2018

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MACRO STRATEGY

Notwithstanding the recent relaxation of production caps in the Organization of the Petroleum Exporting Countries (OPEC) and 10 non-OPEC partners in response to large supply disruptions around the world, the global market remains undersupplied and is getting tighter, in our view. This suggests that risks to prices remain to the upside in the coming quarters despite their moderation over the past month or so. We believe prices would have to top \$100 per barrel before they would have a significant restraining influence on the strong global economy.

GLOBAL MARKET VIEW

The threat of a U.S.-led global trade war has exposed the earnings vulnerability of many global indexes. Of the 18 different international indexes we analyzed, the U.S. ranked in the top three markets in terms of total revenue generation, underscoring America's commanding presence when it comes to global top-line growth. The region most dependent on the U.S. for revenue growth: Europe.

THOUGHT OF THE WEEK

Equity performance after a U.S. midterm election has historically been positive. In addition to solid U.S. economic growth and robust earnings into 2019, moderation of trade policy may serve as an additional driver of positive equity performance should political history repeat itself.

PORTFOLIO CONSIDERATIONS

We reaffirm our positive view on equities and negative view on fixed income given the growth momentum building, particularly in the U.S.

MACRO STRATEGY

OIL-PRICE RISKS REMAIN TO THE UPSIDE

Chief Investment Office Macro Strategy Team

Despite a massive 14% year-over-year increase in U.S. crude-oil production between January and July, according to the Energy Information Administration (EIA), Brent oil prices averaged about 35% higher than during the same period in 2017. Solid global demand, big supply disruptions around the world, and OPEC-plus-Russia production restraint have caused the market to remain undersupplied in the first half of the year after a growing supply shortage and inventory drawdown in 2017. While prices dropped to about \$73 per barrel from \$78 per barrel after this group's June 22 agreement to ease self-imposed output restrictions in response to plunging production in Venezuela and impending Iran export restrictions, supply-and-demand conditions along with

typical late-cycle commodity price dynamics suggest that risks to prices remain to the upside, in our view.

Supply disruptions have been underestimated to date. For example, the International Energy Agency (IEA) February long-term projections through 2023 expected production in Venezuela to decline from 1.75 million barrels per day (mbd) at the end of 2017 to 1.20 mbd by the end of 2019, with a stabilization at around 1.0 mbd thereafter. The actual situation has deteriorated much faster, however, a major cause of the oil-price surge over the past year. According to industry reports, production dropped to 1.3 mbd by June 2018 (IEA July 2018) and reached 1.20 mbd by early August. Its 40% (or 0.8 mbd) plunge since June 2017 has offset 40% of the 2.0 mbd supply increase from the U.S., restraining the expected global supply. Financial, political and economic problems suggest that Venezuela's output is poised to decline further.

Data as of 8/13/2018 and subject to change.



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Tightening market conditions have caused oil-price forecasts to increase, including at the EIA, for example, which has raised its 2018 estimate for Brent from \$62 per barrel in February to \$72 per barrel in its August *Short-Term Energy Outlook* report. According to the report, a slight anticipated increase in inventories next year suggests a Brent price average of \$71 in 2019. Although higher than its \$62-per-barrel 2019 estimate of just six months ago, risks are that expectations for supply and prices may again prove overly optimistic, in our view.

First, U.S. and global inventories have declined significantly since the late-2016 OPEC-plus-10-countries' pact to restrain supply, reversing their 2014–2016 accumulation, consistent with the cartel's objectives. OPEC has undersupplied the market again this year, only recently relaxing quotas in response to heavy global supply declines, including about 0.7 mbd combined cuts in Venezuela, Libya and Nigeria since April. Indeed, OPEC production at about 31.9 mbd in June was still 0.7 mbd below last year's level and short of its self-imposed 32.5 mbd output cap. A boost to Saudi Arabia production of about 0.4 mbd and another 0.3 mbd combined increase in Iraq, Kuwait, the United Arab Emirates (UAE) and Russia in recent months have helped stabilize prices. So has a supply rebound in Nigeria and the prospect of additional supply increases in Russia, which has disclosed intentions to boost production by about 0.2 mbd in the second half.

Despite these positive recent supply developments and surging U.S. production, which is on track to increase about 13% this year and another 8% in 2019, according to the IEA, we believe that strong U.S. and world oil demand are likely to keep upside pressure on prices. Year-to-date U.S. liquid-fuel demand has been strong, up 3% from the same period last year, and global economic growth remains robust, boosting oil demand at a fast clip for a fifth consecutive year even as the number of production "hot-spots" has increased.

Indeed, while many supply disruptions this year are temporary, including Canada and Brazil (technical) and the North Sea (strike), more intractable problems in Libya, Nigeria, Venezuela and Iran pose persistent threats to global supply. As noted above, there is no end in sight to the Venezuelan plight. At the same time, the extent to which Libya will rebound from current disruptions due to renewed instability remains unclear. The combination of sizable 30%–40% supply cuts in June and July (or around 0.35 mbd) and its big output potential is just one source of uncertainty about the outlook for global oil supply and prices.

Furthermore, increased capacity utilization rates—mainly possible in Saudi Arabia—are reducing global spare capacity,

increasing market vulnerability to unforeseen disruptions. The importance of spare-capacity availability as insurance against technical or deliberate supply cuts has been clear this year. The prospect of additional declines in surplus capacity due to Iran export restrictions coming later this year poses upside risks to prices.

Though welcome, the U.S.-led surge in non-OPEC supply this year doesn't appear to be enough to keep prices in check. Notwithstanding temporary disruptions noted above, non-OPEC supply was up a whopping 2 mbd in June from year-ago levels, but this was partially offset by a decline of 0.7 mbd in OPEC production. All told, global supply has fallen short of demand this year, causing oil stocks to continue drawing down. What's more, non-OPEC production growth is expected to moderate from 2 mbd in 2018 to 1.8 mbd in 2019 as slower U.S. production growth is only partly offset by rebounding production and distribution relief in Canada as well as new projects in Brazil.

High operational efficiency, prolific basins, rising oil prices, and strong domestic and global demand for U.S. oil and refined oil products have caused big upside revisions to U.S. liquid-fuel production, with a 13% gain now seen for 2018 and an 8% gain in 2019, according to the IEA July *Oil Market Report*. This increase has substantially contributed to strong U.S. investment and economic growth, and has accounted for most of the global supply growth this year. Net U.S. oil and oil-product imports have collapsed to the lowest level in about 60 years as imports have dropped and exports expanded eightfold to 8 mbd since 2006. Both natural-gas-liquids (NGLs) and crude-oil production expansion are contributing to the U.S. liquid-fuel production boom. Surging natural-gas production is a major factor behind the ramp-up in NGLs supply, low domestic natural-gas prices, and rising exports of liquefied natural gas, which also help bring down energy prices around the world.

Even as U.S. production growth moderates in 2019—from +1.7 mbd in 2018 to +1.2 mbd in 2019—the country is again poised to contribute disproportionately to global supply. The slowdown is mainly attributed to pipeline constraints affecting the Permian basin. As the most prolific and lowest-cost oil-producing region, it has experienced almost the entire U.S. rig-count expansion this year. Road congestion, labor shortages, cost increases and investment discipline are also seen restraining production in the region.

As we had expected, the lack of excess pipeline capacity and other constraints have impeded as quick a response to

currently high oil prices as the large U.S. shale-oil base and short production lead times would have suggested, and this is likely to remain the case. For example, an increase to around \$85 per barrel due to unexpected supply disruptions would be consistent with about 20% more U.S. rigs in operation, if the past relationship between oil prices and the U.S. rig count four months later are any indication. Such an increase would put even more pressure on resources and distribution capacity. Producers may shift to the Bakken and Eagle Ford fields, which are not pipeline-constrained but have higher production costs, either way suggesting that new shocks to supply would push prices up.

All in all, the oil market has tightened more this year as global demand has remained robust and supply has continued to lag. Recent supply increases from OPEC and its allies have lowered prices somewhat but at the same time are reducing global

surplus capacity and increasing the market’s vulnerability to supply disruptions. The IEA’s February 2018 *Oil Market Outlook* projections for production capacity expansions of 24% in Libya, 12% in Iraq and 9% in Iran through 2023 (a 1.24 mbd combined increase) suggest high geopolitical risks to oil supply prospects.

With global production capacity not well-positioned to meet future demand, in our view, as well as late-cycle dynamics typically favoring upside risks to oil prices, we believe prices are likely to stay in a high and wide range of about \$65 to \$85 per barrel, with a higher probability of prices averaging in the upper half of the range than in the lower half. Prices would have to top \$100 per barrel to reach the share of spending that has typically squeezed global economic growth in the past.

GLOBAL MARKET VIEW

GLOBAL REVENUES: MANY ROADS LEAD TO THE UNITED STATES

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The rise of China, the economic heft of the European Union, the burgeoning middle classes of the emerging markets—despite the economic importance and potency of each one of these cohorts, the world still largely beats to the tune of America.

That’s all too evident from Exhibit 1, which ranks country revenue exposure for major stock indexes. We aggregated data on 18 different international indexes (with a wide geographic profile), and the results are quite telling: per each index, the U.S. ranked in the top three markets in terms of total revenue generation, underscoring America’s commanding presence when it comes to global top-line growth. Take the German DAX, for instance, comprising 30 of the largest publicly traded German stocks. According to the latest figures, almost one-quarter of revenue earned from Germany’s largest companies is derived from the United States, followed by Germany and China, a distant third.

Large cap Germany, in other words, is highly leveraged to the United States, as are other European nations like France, the United Kingdom, Belgium, the Netherlands and Switzerland. Switzerland is the most exposed to the U.S., with the U.S. accounting for nearly 30% of total revenue of the Swiss

Exhibit 1: Revenue Exposure by Country.

Index	Top 3 markets, % of total revenue exposure		
	Ranking 1	Ranking 2	Ranking 3
EuroStoxx 50	U.S. 18.7%	France 9.3%	Germany 8.5%
Germany DAX	U.S. 22.0%	Germany 19.2%	China 5.9%
France CAC 40	France 18.9%	U.S. 16.3%	Germany 5.1%
UK MSCI	UK 23.2%	U.S. 22.3%	China 5.9%
Italy MSCI	Italy 42.8%	U.S. 9.7%	Germany 6.5%
Spain IBEX 35	Spain 36.3%	U.S. 10.8%	Brazil 7.5%
Belgium BEL-20	Belgium 17.4%	U.S. 15.2%	Brazil 6.8%
Ireland ISEQ	Ireland 24.3%	UK 19.2%	U.S. 18.5%
Netherlands AEX	U.S. 19.0%	Netherlands 11.9%	China 5.2%
Norway OSE	Norway 49.0%	U.S. 8.5%	Sweden 4.6%
Switzerland SMI	U.S. 28.7%	Switzerland 8.0%	China 5.1%
China MSCI	China 92.5%	U.S. 2.2%	Hong Kong 1.0%
Japan MSCI	Japan 57.1%	U.S. 12.9%	China 7.5%
Korea Kospi	S. Korea 57.5%	China 9.1%	U.S. 7.7%
India Sensex	India 69.3%	U.S. 11.4%	China 2.4%
Taiwan TAIEX	Taiwan 35.6%	U.S. 20.4%	China 18.5%
Mexico S&P/BMV IPC	Mexico 65.1%	U.S. 11.4%	Brazil 4.4%
Brazil Bovespa	Brazil 70.6%	China 6.0%	U.S. 3.3%
S&P 500	U.S. 62.0%	China 5.5%	Japan 2.9%

Index constituents represent ~60% of World Equity Market Capitalization

Note: Revenue for last 12 months. Source: FactSet. Data as of August 2018.

Market Index (SMI). The least leveraged: Italy and Norway, with the U.S. accounting for 9.7% of total revenue in the former and just 8.5% in the latter. Of Europe's largest companies, represented by the EuroStoxx 50, note that nearly one-fifth of total revenue comes from the United States, more than double the exposure to France (9.3%) and Germany (8.5%).

Against this backdrop, domestic earnings are secondary for many European equity markets, with the proportion of revenue generated domestically under 25% of the total in such nations as Germany, France the United Kingdom, Belgium, Ireland, Switzerland and the Netherlands. European revenues are highly globalized, in other words. And juxtaposed against a strained global trading environment, as well as rising foreign direct investment barriers and increasing U.S. trade protectionism, it's little wonder that many of Europe's main indexes have emerged as global laggards this year. To this point, while the S&P 500 is up 7.2% year-to-date (total return), Germany's DAX has underperformed, falling 3.8% since the start of the year, in local-currency terms, and 8.8% in dollar terms.

In Asia, the region's earnings exposure to the United States is not as great as Europe's, although setting aside domestic revenue, the U.S. ranks as the most important foreign market for revenues for firms from China, Japan, Taiwan and India, according to FactSet. In Latin America, Mexico and Brazil are overwhelmingly oriented toward the domestic market, although Mexico's exposure to the U.S. economy is borne out more by cross-border trade and investment than by corporate revenue. This same dynamic holds sway in China, where, according to FactSet revenue data on the China MSCI index, domestic sales account for over 90% of total revenues, with the bulk of Chinese firms leveraged to the massive local market. The linkage and exposure to the U.S., however, comes via trade and the need for intermediate parts and components for final assembly. Indeed, this reliance on intermediate trade in goods and China's position as the primary U.S. target in a trade war have contributed to the weak performance of Chinese equities this year. Other trading partners in the Asian region at risk from a reordering of global supply chains have also underperformed, while Indian equities, relatively unexposed to the trade war, have remained resilient.

As an aside to all of the above, since the indexes shown above vary in terms of number of constituents, market cap of securities (large cap vs. mid cap) and sector allocation, differences in global revenue exposure may arise. For instance, Germany's DAX, which focuses on a subsection of large multinationals, naturally represents some of the most globally exposed companies in the country. Meanwhile, the MSCI

indexes listed above, which consist of both mid cap and large cap companies, could be more domestically driven. However, after comparing across indexes, we believe this impact to be relatively minor.

In terms of overall asset allocation, understanding the geographic revenue exposures of companies and global equity indexes is especially important for investors positioning portfolios in an environment of trade policy uncertainty. Whether it's a Japanese auto maker selling a car in China, a British pharmaceutical company developing products for the U.S. market, or a Swiss bank providing financial services for Asian investors, the global activities of multinational companies are much more complex than traditionally thought. Thus, traditional diversification methods—whereby investors allocate funds according to company domicile—can be misleading. Companies' revenue exposure to different consumers around the world is more telling and important. Understanding these exposures is critical for portfolio positioning and diversification.

THE MULTIPLE LEVERS OF THE U.S.

All of the above underscores the fact that when it comes to trade skirmishes between the United States and the rest of the world, the United States enjoys considerable leverage. As we outlined in a previous report ([Capital Market Outlook July, 16 2018, Investing in the Era of Geo-Economics](#)), it's America's large and wealthy consumer market, along with the U.S. dollar's global reign, that gives the United States so much economic punch relative to the rest of the world. Per the former, no market in the world—including China—offers foreign countries and companies as much commercial opportunity as the United States, home to less than 5% of the world's population yet 29% of total global personal consumption. The U.S. consumer remains one of the most potent economic forces on earth—and a key source of revenue for firms around the world.

Similarly, for decades, no market in the world has been as open to foreign competition as the United States, home to some of the lowest general tariffs on trade on the planet. The latter is by design since liberal cross-border trade and investment regulations have long suited America's consumption-led economy. The lower the tariffs on imports, the lower the cost of foreign goods and services to U.S. consumers and the more the choices of goods from which to choose—and the greater the revenue opportunity for firms from Germany, France, Japan and others. The U.S. remains the world's largest importer, accounting for 13% of total global imports in 2017.

Beyond America’s sizable and wealthy consumer market, the nation’s pre-eminent geo-economic lever is the U.S. dollar and the fact that the global financial architecture pivots on the greenback. While the world can do without many currencies, it cannot survive, at least for now, without the greenback. The U.S. dollar is the primary grease of global commerce, lubricating virtually every foreign transaction, every day of the year.

Think of the U.S. Federal Reserve, the Department of the Treasury, and Wall Street as the financial plumbers of the global economy. The global payments system runs on dollars and is routed through the canyons of Wall Street, giving Washington tremendous leverage to deny virtually any foreign country or

company access to U.S. dollars. And being without dollars is like being without oxygen—you cannot function or survive for long.

In the end, there is a reason the S&P 500—notwithstanding all the daily headline risks—is up over 7% for the year (total return), trading just 1.4% off its all-time high, and outperforming the rest of the world. In addition to solid U.S. economic growth, strong earnings and corporate tax reform, the markets sense that in an unfolding environment of trade and investment restrictions, the world has more to lose than the United States does. The threat of a U.S.-led global trade war has exposed the earnings vulnerability of many global indexes. When it comes to global revenue, much of the world beats to the tune of the United States.

THOUGHT OF THE WEEK

U.S. MIDTERMS: A GUARDRAIL OF SORTS

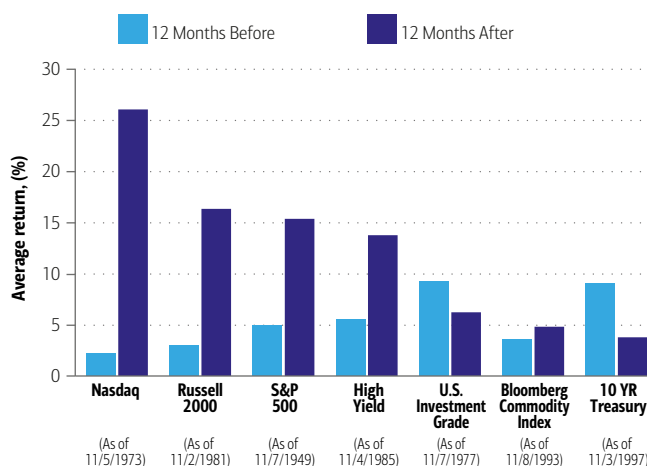
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 Kishan Chhatwal, Analyst, CIO Portfolio Strategy

Let’s begin with some eye-catching stats: First, in the 12 months following every midterm ballot since 1945, the S&P 500 has posted average returns of 15%.¹ Second, since 1934, the president’s party has on average lost 27 seats in the House of Representatives (House) and nearly four in the Senate after the election based on our calculation using data from The American Presidency Project. And third: Since 1945, a Republican president and split Congress have on average produced an annual S&P 500 return of 5.9% according to Strategas Research Partners, second-lowest among all potential partisan control scenarios and a far cry from the 15.7% return produced under a Republican president and a Republican Congress.

What all of the above means for the markets: Even if the Democrats regain the House in November 2018, the implications, in our opinion, for equities are hardly dire. And supportive of the general post-midterm positive performance of U.S. equities is the following: solid U.S. economic growth, robust earnings into 2019, and the favorable effects of corporate tax reform, to list a few upside catalysts (Exhibit 2).

Meanwhile, amid prevalent political discord between Democrats and Republicans, we observe patches of Congressional consensus, notably on trade policy. The Trump administration’s tariffs on American allies such as Canada, Mexico and the European Union have triggered Congressional

Exhibit 2: Historically, Post-Midterm Performance Has Been Solid for Risk Assets.



Source: Chief Investment Office, Bloomberg. Data as of August 2018. Past performance is no guarantee of future results.

pushback, particularly from Republicans.² A midterm defeat for the party may galvanize this movement, effectively placing a guardrail on trade policy and relieving U.S. allies. Indeed, we have seen signs of a tactical policy shift already, amid rising optimism in a North American Free Trade Agreement (NAFTA) 2.0³—Mexican equities have recently entered a bull market in U.S. dollar terms—and the recent détente between the European Union and the U.S.⁴ Sustainability of this shift may have positive market implications for risk assets—at home and abroad.

² Republican Senators Ratchet Up Pressure on Trump Over Tariffs—*The Wall Street Journal* (July 20, 2018).
³ Trump, Mexico expect progress in stalled NAFTA talks—*Reuters* (July 23, 2018).
⁴ U.S. and Europe Outline Deal to Ease Trade Feud—*The New York Times* (July 25, 2018).

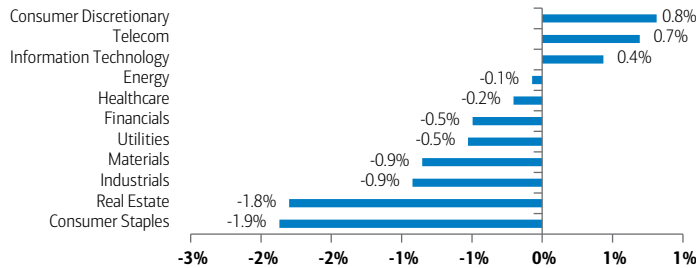
¹ Sources: CIO and Bloomberg, as of August 2018. Chartered Financial Analyst® and CFA® are registered trademarks owned by CFA Institute.

MARKETS IN REVIEW

Equities

	Level	Total Return in USD (%)		
		WTD	MTD	YTD
DJIA	25,313.14	-0.4	-0.2	3.8
NASDAQ	7,839.11	0.4	2.2	14.3
S&P 500	2,833.28	-0.2	0.7	7.2
S&P 400 Mid Cap	1,996.02	-0.2	0.6	6.0
Russell 2000	1,686.80	0.8	1.0	10.6
MSCI World	2,139.84	-0.7	-0.5	3.0
MSCI EAFE	1,950.80	-1.5	-2.6	-3.0
MSCI Emerging Mkts	1,062.37	-1.0	-2.2	-6.7

S&P 500 Sector Returns (For the week ending 8/10/18)



Fixed Income¹

	Yield (%)	Total Return in USD (%)		
		WTD	MTD	YTD
Corporate & Government	3.23	0.4	0.5	-1.3
Treasury Bills	2.05	0.0	0.1	1.0
Treasury Notes and Bonds	2.74	0.5	0.6	-0.9
Agencies	2.83	0.3	0.4	-0.3
Municipals	2.67	0.2	0.1	0.0
U.S. Investment Grade	3.28	0.4	0.5	-1.1
International	3.93	0.3	0.4	-2.1
High Yield	6.26	0.1	0.3	1.5

Commodities & Currencies

	Level	Total Return in USD (%)		
		WTD	MTD	YTD
Bloomberg Commodity	173.81	-0.7	-1.3	-3.4
WTI Crude \$/Barrel ²	67.63	-1.3	-1.6	11.9
Gold Spot \$/Ounce ²	1,211.70	-0.2	-1.0	-7.0

Level	Current	Prior	Prior	2017
		Week End	Month End	Year End
EUR/USD	1.14	1.16	1.17	1.20
USD/JPY	110.83	111.25	111.86	112.69

Source: Bloomberg, Factset. ¹Bloomberg Barclays Indices. ²Spot price returns. All data as of the 8/10/18 close. **Past performance is no guarantee of future results.**

Asset Class Weightings (as of 7/11/18)

	Negative	Neutral	Positive
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. IG Tax Exempt	•	•	•
U.S. HY Tax Exempt	•	•	•
International Fixed Income	•	•	•
Alternative Investments*	see CIO Asset Class Views		
Hedge Funds	•		
Private Equity	•		
Real Assets	•		
Cash	We are neutral		

* 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 8/10/18)

	Q4 2017A	Q1 2018A	Q2 2018A	Q3 2018E	2016A	2017A	2018E
Real global GDP (% y/y annualized)	-	-	-	-	3.1	3.8	3.9
Real U.S. GDP (% q/q annualized)	2.3	2.2	4.1	3.4	1.6	2.2	2.9
CPI inflation (% y/y)	2.1	2.3	2.6	2.6	1.3	2.1	2.5
Core CPI inflation (% y/y)	1.7	1.9	2.2	2.3	2.2	1.8	2.2
Unemployment rate(%)	4.1	4.1	3.9	3.8	4.9	4.4	3.8
Fed funds rate, end period (%)	1.38	1.63	1.88	2.13	0.63	1.38	2.38
10-year Treasury, end period (%)	2.41	2.74	2.86	3.15	2.44	2.41	3.25
S&P 500, end period	2674	2641	2718	-	2239	2674	3000
S&P earnings (\$/share)	34	37	40*	40	118	132	159
U.S. dollar/euro, end period	1.20	1.23	1.17	1.12	1.05	1.20	1.14
Japanese yen/U.S. dollar, end period	113	106	111	116	117	113	112
Oil (\$/barrel), end period	60	65	74	62	54	60	63

Figures represent economic and market data and forecasts provided by BofA Merrill Lynch Global Research. **Past performance is no guarantee of future results. There can be no assurance that the forecasts will be achieved.**

A=Actual

E=Estimate

* Estimate for Q2 2018

Sources: BofA Merrill Lynch Global Research; Global Wealth & Investment Management Investment Strategy Committee.

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.

Dow Jones Industrial Average is a price-weighted measure of 30 U.S. blue-chip U.S. companies. The index covers all industries except transportation and utilities.

NASDAQ Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.

S&P 400 Mid Cap Index is representative of 400 stocks in the mid-range sector of the domestic stock market, representing all major industries.

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 Small Cap 600 measures the small-cap segment of the U.S. equity market. The index is designed to track companies that meet specific inclusion criteria to ensure that they are liquid and financially viable.

MSCI EAFE (Europe, Australasia, and Far East) Index comprises 21 MSCI country indices, representing the Developed Markets outside of North America.

MSCI Emerging Markets Index captures large and mid cap representation across 23 Emerging Markets (EM) countries. With 832 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

MSCI World Index is a broad global equity benchmark that represents large and mid-cap equity performance across 23 developed markets countries. It covers approximately 85% of the free float-adjusted market capitalization in each country and does not offer exposure to emerging markets.

IMPORTANT DISCLOSURES

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Investing involves risk, including the possible loss of principal. No investment program is risk-free, and a systematic investing plan does not ensure a profit or protect against a loss in declining markets. Any investment plan should be subject to periodic review for changes in your individual circumstances, including changes in market conditions and your financial ability to continue purchases.

Economic or financial forecasts are inherently limited and should not be relied on as indicators of future investment performance.

It is not possible to invest directly in an index.

Asset allocation, diversification, dollar cost averaging and rebalancing do not ensure a profit or protect against loss in declining markets. Dollar cost averaging involves continual investment in securities regardless of fluctuating price levels; you should consider your willingness to continue purchasing during periods of high or low price levels.

Past performance is no guarantee of future results.

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. When interest rates go up, bond prices typically drop, and vice versa. 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 (AMT).

Investments focused in a certain industry may pose additional risks due to lack of diversification, industry volatility, economic turmoil, susceptibility to economic, political or regulatory risks and other sector concentration risks.

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 risks related to renting properties, such as rental defaults.

Nonfinancial assets, such as closely-held businesses, real estate, 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 suitable for 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.

Investments in tangible assets are highly volatile and are speculative. 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 such as private equity 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.

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The investments discussed have varying degrees of risk. Some of the risks involved with equities 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. Bonds are subject to interest rate, inflation and credit risks. Investments in high-yield bonds may be subject to greater market fluctuations and risk of loss of income and principal than securities in higher rated categories. Investments in foreign securities 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. 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 (AMT).

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