

Capital Market Outlook

Chief Investment Office



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

SEPTEMBER 4, 2018

IN THIS ISSUE

MACRO STRATEGY

According to the minutes from the July 31–August 1 Federal Open Market Committee (FOMC) meeting, the Federal Reserve (Fed) sees risks to U.S. growth and inflation as balanced. While economic growth will likely continue to surprise to the upside, we believe that the economy is unlikely to overheat, causing the Fed to pause sooner than generally expected.

GLOBAL MARKET VIEW

We point to three key dynamics that will continue to evolve regardless of the Washington narrative given their respective growth prospects and investment potential: the renaissance in U.S. brick-and-mortar stores, the boom in eSports, and the secular growth in global tourism.

THOUGHT OF THE WEEK

In light of recent emerging market tensions, we updated our matrix of international bank exposures showing the extent to which banks are exposed to foreign borrowers. The latest data reflects the breadth and interconnectedness of the international banking system and can be used to supplement traditional credit risk metrics for a more comprehensive view of emerging risks.

PORTFOLIO CONSIDERATIONS

We maintain our current preference for equity versus fixed income across our portfolios. In addition, we continue to overweight the U.S. relative to non-U.S. developed markets and also prefer emerging markets.

MACRO STRATEGY

FED CLOSER TO NEUTRAL THAN IT KNOWS

Chief Investment Office Macro Strategy Team

From strong consumer spending, a robust labor market, and accelerating business investment to surging corporate revenues and profits, elevated business and consumer confidence, normalizing inflation, and still accommodative Fed monetary policy, our view of “goldilocks” U.S. economic conditions and expectations for a prolonged economic expansion have continued to be validated. We expect sustained strength in business investment and consumer spending as well as employment growth as the year progresses, with real gross domestic product (GDP) growth likely continuing to surprise to the upside as its trend strengthens. At the same time, we maintain the view that growth is unlikely to overheat, causing the Fed to pause sooner than is generally expected.

First, the Conference Board’s Leading Economic Index (LEI) increased a solid 0.6% in July, its 10th consecutive month of growth, consistent with the economy continuing to expand at

a firm pace in the second half of 2018. Financing conditions for nonfinancial businesses and households remain supportive of economic activity, and leading indicators of employment, including the weighted average of Institute for Supply Management (ISM) manufacturing and nonmanufacturing surveys of employment expectations, suggest sustained hiring strength as the year progresses.

Following strong second-quarter growth, the consumer sector has continued to surprise to the upside with solid and broad-based retail sales in July, up 6.4% year-over-year, the strongest pace since early 2012, according to the Census Bureau. Reflecting strong jobs growth, increased discretionary income and high confidence, sales at food service and drinking places were the strongest since 1992. Clearly, in our view, consumers are in better shape than had been perceived, which is encouraging for the continuation of the expansion. In fact, as we had expected given the faster pace of economic growth as measured on the income side compared to the product side, recent data revisions have sharply boosted personal income and saving. The personal saving rate reported by the Bureau of Economic Analysis is now

Data as of 9/4/2018 and subject to change.



Merrill Lynch Wealth Management makes available products and services offered by Merrill Lynch, Pierce, Fenner & Smith Incorporated (MLPF&S), a registered broker-dealer and Member **SIPC**, and other subsidiaries of Bank of America Corporation (BoFA Corp.). Investment products:

Are Not FDIC Insured	Are Not Bank Guaranteed	May Lose Value
----------------------	-------------------------	----------------

at about 7% versus just about 3% prior to the revisions, and the 2008–2018 average savings adjusted for population growth and inflation is the same as during the high saving period of 1970–1993. This, along with a close to record-low financial obligations ratio stated by the Fed and strong labor-market conditions indicated by the Bureau of Labor Statistics, suggests robust consumer-spending growth potential ahead.

Business confidence also remains very high. The National Federation of Independent Business (NFIB) small business optimism index reached a 35-year high in July, consistent with a strong outlook for small business hiring, sales and business expansion. The NFIB noted that *“small business owners have never been so optimistic for so long. And despite challenges in finding qualified workers to fill a record number of job openings, they’re taking advantage of this economy and pursuing growth.”*

Indeed, the surge in business optimism over the past year and a half has been accompanied not only by expanding payrolls but also by a reacceleration in business investment. Real non-residential business investment increased 7.3% at an annualized rate in the second quarter following a whopping 11.5% gain in the first quarter. This was the strongest first-half investment growth pace in six years. With robust revenue growth, surging profits, a growing shortage of workers and increasing capacity utilization rates in the economy, the appetite for capital investments should remain healthy.

Indeed, S&P 500 revenue growth has tracked our expectations well, and the outlook remains positive. Second-quarter growth accelerated to about 11% year-over-year, and leading indicators point to a strong 8% to 9% gain for 2018. In this context, bank lending standards have relaxed more in the third quarter and credit spreads have remained narrow, all favorable to sustained business investment. Although the strength of the dollar is restraining revenue growth and capital spending to some extent, conditions are supportive of year-over-year real business investment growth of about 7% to 8% through mid-2019.

That said, as discussed in our April 16, 2018 [Capital Market Outlook](#) *Peaking but Sustainable Global Economic Growth*, we continue to believe that the economy is not likely to overheat. Strong but moderating growth is likely to keep the Fed from having to strongly tap on the breaks to prevent inflation from getting out of hand.

Indeed, dollar appreciation, alarm over a U.S.-led trade war, heightened overseas growth risks and softer domestic housing sector conditions have already caused some backtracking on what we considered excessive early-year worries on the inflation and interest-rate expectations front. As a result, the 10-year Treasury

note yield remains below 3%, equity-market volatility has declined, credit spreads are still narrow, and the yield curve (as measured by the 10-year Treasury note yield and the fed funds rate) remains moderately steep, consistent with continued expansion into 2020.

Strong but moderating growth in the Conference Board index of leading indicators over the past six months suggests peaking U.S. industrial production growth, albeit at a firm pace. While still at healthy levels, the global Markit manufacturing index has continued to moderate through July, indicating that global industrial-production growth, which accelerated the most in seven years through late 2017 (up 4% year over year), is also in the process of moderating further in coming months.

Dollar strength, moderating economic growth indicators overseas and the lagged effects from the credit-market deterioration earlier this year are consistent with a sharp decline in the ISM manufacturing index from 58.1 in July to about 50 by December. This would imply a significant manufacturing slowdown. However, we believe that a number of mitigating factors—including the tax cuts and regulatory reform favorable to business repatriation and domestic investment as well as the unusually steep industrial production dip between 2015 and 2017—may cause the index to continue to surprise to the upside, with a decline to 53 more probable by the end of 2018. Still, the direction of the ISM manufacturing index is likely down ahead.

A decline in the ISM non-manufacturing index to about 53 by December is also likely, further bolstering the case against overheating growth. The index dropped sharply from 59.1 in June to 55.7 in July, and the disappointing U.S. housing sector continues to suggest a restraining effect on this index in coming months. Housing faces a severe shortage of labor and land as well as escalating materials costs. Insufficient new homes for sale are constraining home-sales activity and causing home prices to rise faster than incomes, restraining consumer spending and the non-manufacturing ISM index, given their typical correlations.

Sentiment about home-buying conditions, as measured by the University of Michigan survey of consumer confidence, has soured sharply over the past two years, also consistent with downside pressures on consumer spending and economic growth ahead, if past relationships are any indication. Not surprising given the long lags typically involved between real activity and inflation, the deterioration in this sentiment measure suggests restraining effects on inflation about two years out. This, combined with the fact that survey-based measures of longer-run U.S. inflation expectations have been little changed on balance—and underlying inflation pressures in most foreign economies, especially in some advanced economies, remain subdued,

according to the FOMC minutes noted above—is positive for the U.S. inflation outlook despite its modest acceleration to date.

Also important for the inflation outlook, wage growth doesn't appear to be strong enough to warrant much more Fed tightening. According to the same FOMC minutes, “many participants commented on the fact that measures of aggregate nominal wage growth had so far picked up only modestly.” This is important because an acceleration in this indicator tends to lead to yield-curve flattening in a signal that aggressive Fed rate hikes are needed to prevent excessive inflationary impulses from too much wage growth. Conditions for excessive Fed tightening and further yield-curve flattening or inversion are not in place yet. The

economic growth outlook and aggregate wage growth remain consistent with a low probability of recession and benign credit conditions into late 2020.

The FOMC minutes show that the Fed itself is trying to discover the level of the neutral fed funds rate in order to determine how much more it has to raise rates. The flattening of the curve to date shows the policy is already close to neutral and suggests further moderation in leading indicators in coming months. Dollar strength, rising financial or economic stress overseas, and deteriorating home-buying conditions suggest that the Fed has already increased rates enough to preempt a flaring up of inflation, indicating that a pause may be coming soon.

GLOBAL MARKET VIEW

REALITY CHECK: U.S. BRICK-AND-MORTAR, ESPORTS, AND TOURISM

Lauren J. Sanfilippo, Vice President and Market Strategy Analyst
Joseph P. Quinlan, Head of CIO Market Strategy

Given the length of the current bull market (the longest in history) and the uncertainty emanating from Washington (seemingly non-stop), we thought it would be a good time to widen the lens and take in the bigger picture. Below, we briefly outline three key dynamics that deserve more attention from investors given their respective growth prospects and investment potential. The trio: the renaissance in U.S. brick-and-mortar, the boom in eSports, and the secular growth in global tourism.

THE RENAISSANCE OF U.S. BRICK-AND-MORTAR

Adapt or die just as easily applies to the retail industry as it does to evolution. And some U.S. retailers are acclimating far better than their rivals.

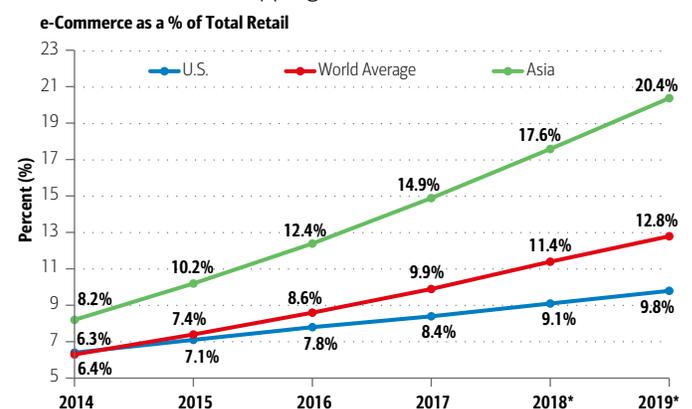
Putting to rest noise about “retailocalypse”—or the death of the brick-and-mortar retail model in the e-Commerce era—was the most recent retailer’s earnings report. The robust performance of the sector was buttressed by solid U.S. consumer spending, equating to stronger results and guidance from retailers of all stripes. Despite fears of the “Amazon effect” killing the U.S. retail sector and mass merchants/department stores, the “new endangered species,” the death of traditional retail may have been exaggerated. To wit, the S&P 500 Retail sector has tacked on 15% gains this year, including 6% in August alone.

Retail is not dying; it is evolving. While online sales were once dominated by pure-play e-tailers, that has changed as more legacy retailers sell online and more e-tailers open physical stores.

In the two decades since Amazon streamlined the e-Commerce process, most retailers have followed suit expanding to platforms

online. Even as e-Commerce sales have grown as a larger percentage of total sales, the share continues to be relatively small for an industry that made upwards of \$5 trillion in 2017. Not until the end of 2017 had e-Commerce accounted for more than 10% of total retail sales in the U.S. And the percentage of e-Commerce sales varies markedly by product segment, from around 2% for grocery, to more than 20% for apparel, to an overwhelming majority in digital deliverables (Think music, books and games). Simply put, e-Commerce accounts for less than half a billion of a \$5 trillion U.S. retail market. Compare this to Asian markets with a greater share of retail spend devoted to online sales than the U.S. or the world average. By 2019, one in five purchases in Asia will be online (Exhibit 1).

Exhibit 1: Online Shopping as a Percent of Total Retail.



*Forecast. Source: eMarketer. Data as of 2017.

Reality check: Old retail dogs are proving they can learn new tricks in the digital era. Physical retail seems to be far from dead.

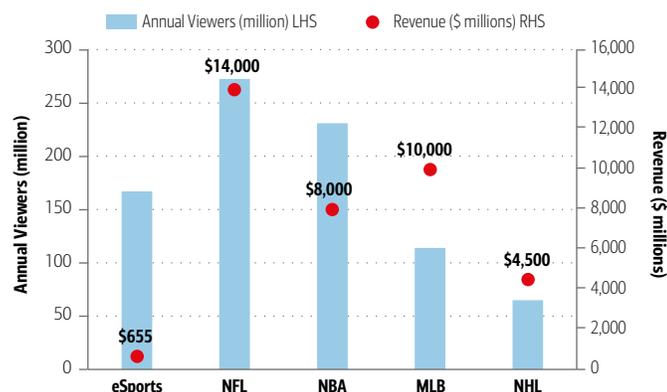
ESPORTS: HERE TO STAY

Cheer up if your child spends day and night fixated on video games. In the depths of many basements, gaming celebrities

are being born. Modern day sports enthusiasts and video gamers have birthed the newest entity in live and electronic entertainment. It has been coined eSports—a broad term encompassing forms of competitive video games. Only recently has growth in the gaming audience and player engagement pushed eSports into mainstream culture.

Indeed, eSports has become a serious business, rivaling established sports especially in viewership. The eSports industry generated more than 6 billion total viewing hours worldwide last year, transforming mainstream sports entertainment and attracting corporate deals and team tribalism that is poised to translate into a multibillion-dollar industry. The lion’s share of eSports revenue comes from corporate sponsorships, with ticket sales, merchandising and broadcasting rights bringing in additional revenue. NewZoo estimates that eSports viewership is higher than the National Hockey League (NHL) or Major League Baseball (MLB), however its revenue still lags the heavy hitters of traditional sports, generating just \$655 million last year (Exhibit 2).

Exhibit 2: Let the Games Begin.



Source: NewZoo. Data as of 2017.

Professional eSports leagues globally are growing more popular with huge numbers of people tuning into livestreams to watch game celebrities play. Meanwhile, venture investments in eSports are accelerating. Since 2013, there has been \$3.3 billion of investment in eSports-related startups. Already in 2018 alone, \$1.4 billion of investment, or 90% more than the total amount of funding in 2017, has been committed.¹ In the U.S., firms are taking notice, with plans underway to build dedicated eSports arenas at two of the largest casinos in Las Vegas.

In Asia, which contributes more than half of the global eSports audience, penetration is just 5%, suggesting plenty of future upside. China is the largest competitive gaming base in the world and also the largest mobile games market, according

to Newzoo, providing huge upside for the next iteration of eSports: mobile. Other nations with an avid eSports fan base include South Korea and Poland, and newest to the table is Japan. Despite being a champion of video games, the Japanese government only recently lifted legal restrictions surrounding competitions offering prize money—arguably the most intriguing component of the industry—boosting the industry’s upside earnings potential.

Reality check: Forget muscles of steel—it’s clear we’re all athletes now.

GLOBAL TOURISM: ROBUST UPSIDE

Summer vacation is all but a distant memory for most people, but the beat of the global travel industry goes on and on. Indeed, global travel is a growth industry with tremendous upside, and hence a key sector we favor for the long term, alongside industry leaders in travel and leisure, transportation, and related activities.

Global tourism enjoys a number of tailwinds, ranging from: 1) people desiring experiences rather than products, with spending on travel outpacing spending on many durable goods; 2) healthy global consumer spending, bolstering the itch to leave home; 3) falling transportation costs, raising the affordability of travel; 4) surging new travelers from the emerging markets, now with the disposable income (in many cases) to see the world; 5) robust levels of corporate travel expenditures, reflecting the strength of the global economy; 6) rising travel receipts among global Baby Boomers, with the health and incomes to take to the road; 7) greater travel among Millennials and solo female travelers; and 8) specific traveling trends like eco-tourism and medical tourism, adding even more fuel to the fire.

Add it all up and the global tourism industry is in rude health, supported by both favorable cyclical and structural forces. Per the latter, it’s interesting to note that as crowded and congested as your local airport may be, less than 20% of the world’s population has ever taken a single flight.² However, more folks are getting their wings. This year alone, for instance, some 100 million people in Asia will fly for the first time, a staggering number fueling the industry’s growth.

While globetrotting Chinese have added rocket fuel to the growth of global tourism in the past decade, the next decade should be led by India, where the number of Indians heading abroad has soared along with rising per capita incomes in one of Asia’s largest economies. According to Gavekal Research, international departures of Indians totaled 22 million people in 2016, nearly three times larger than a decade ago.³ Indians don’t come close to

² Source: The Boeing Company, as of date 2017.

³ See “Why Indian Tourists are the New Chinese,” Gavekal Research, August 15, 2018.

spending that much money overseas as others, but international tourism expenditures from India totaled \$18 billion in 2017, nearly double the levels of 2010.⁴ The Chinese spent in excess of \$250 billion last year, even more than the United States and Germany combined (Exhibit 3). That said, with only around 65 million Indians having a passport out of a population of 1.23 billion, there is tremendous upside to India's future impact on global tourism.⁵

One of the best plays on the emerging market consumer is via global trade tourism, with unfolding trends in India a microcosm of trends in the emerging markets in general. In the end, international tourist arrivals reached a record 1.3 billion last year, according to the World Tourism Organization, and are expected to expand another 4%–6% this year.

⁴ Ibid
⁵ Ibid

Reality check: If you think the friendly skies are crowded now, you haven't seen anything yet.

Exhibit 3: Tourism Receipts.



Source: United Nations World Tourism Barometer. Data as of April 2018.

THOUGHT OF THE WEEK

REVISITING INTERNATIONAL BANK EXPOSURES

Kathryn A. Cassavell, CFA®, Vice President and Market Strategy Analyst

As the world's banking systems have become more integrated over the years—with international banks providing credit to borrowers in many different countries—investors must carefully analyze cross-border banking exposures and associated risks.

The financial crisis 10 years ago provides one clear example of how increasing interdependence in the banking system can cause a financial crisis to spread quickly across sectors and countries. Though financial stress originated in the U.S., European banks' outsized exposure to U.S. markets led to intense spillover effects for the region.

In a more recent example, the persisting turmoil in Turkey has led to fears of financial contagion in the emerging markets. Though any stabilization in the dollar could help alleviate some of this stress, other idiosyncratic, country-specific risks should be closely monitored.

Taking a more granular view, we pulled data from the Bank for International Settlements (BIS) showing the extent to which banks of a given nationality are exposed to foreign borrowers. From Exhibit 4, notice that Spanish banks have more exposure to Turkey than any of the other reporting banks, with claims of \$81 billion or roughly 6% of Spain's GDP.⁶ Reflecting this strong linkage, Spanish

banks declined 10.0% in August as the Turkish lira plummeted, compared to broader European equity losses of 3.8%.⁷

This is just one example of how investors can supplement country risk metrics with bank exposure data to estimate how a foreign shock may be transmitted across financial markets. Granted, there are also upside risks to consider, as positive economic surprises may also flow through to financial institutions. Given the global buildup of debt, we will be closely monitoring these trends, alongside credit metrics and political events in countries such as Italy, Argentina and Brazil, among others.

Exhibit 4: International Bank Exposure Matrix.
Countries' Banks Cross-border Exposure*
Billions of \$, Q1 2018

	French banks	German banks	Italian banks	Spanish banks	UK banks	U.S. banks	Japanese banks
Exposure to:							
France	—	159	63	63	215	171	195
Germany	173	—	217	67	200	293	149
Italy	319	95	—	84	31	53	32
Spain	90	71	71	—	22	42	28
UK	297	320	46	451	—	455	202
U.S.	508	436	52	240	915	—	1,676
Japan	197	31	10	11	194	395	—
Turkey	35	13	18	81	17	18	11
China	64	32	4	9	203	109	85
Russia	26	7	27	0	6	12	9
Brazil	23	8	4	167	15	94	29
Mexico	8	3	2	161	34	93	17

Note: Shading represents cross-border claims as a % of reporting bank's GDP.
 5%-10% of GDP
 10%-20% of GDP
 >20% of GDP

*Claims of reporting banks on different countries' institutions, by nationality of bank, measured on an ultimate risk basis.

Source: Bank for International Settlements, Consolidated Banking Statistics. Data as of July 2018.

⁷ Spanish Banks measured by IBEX Banks Index. European Equities measured by EuroStoxx 50. Bloomberg as of 8/31/2018.

Chartered Financial Analyst® and CFA® are registered trademarks owned by CFA Institute.

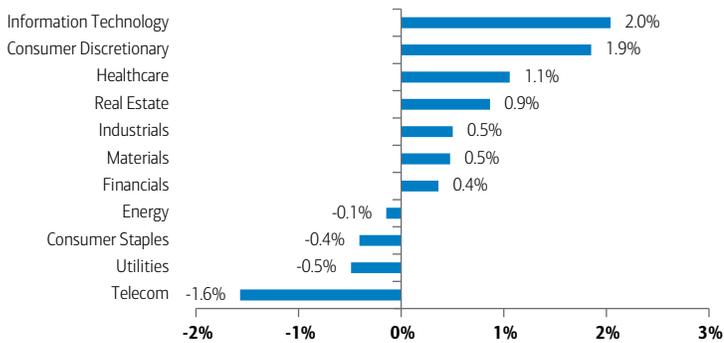
⁶ Measured on an ultimate risk basis. Takes into account credit risk mitigants such as collateral, guarantees and credit protection bought that transfer a bank's credit exposure from one counterparty to another. See BIS Statistics Bulletin for more details.

MARKETS IN REVIEW

Equities

	Current	Total Return in USD (%)		
		WTD	MTD	YTD
DJIA	25,964.82	0.8	2.6	6.7
NASDAQ	8,109.54	2.1	5.9	18.3
S&P 500	2,901.52	1.0	3.3	9.9
S&P 400 Mid Cap	2,044.70	0.5	3.2	8.7
Russell 2000	1,740.75	0.9	4.3	14.3
MSCI World	2,173.42	0.7	1.2	4.8
MSCI EAFE	1,957.13	0.3	-1.9	-2.3
MSCI Emerging Mkts	1,047.13	0.6	-2.7	-7.2

S&P 500 Sector Returns



Fixed Income¹

	Current	Total Return in USD (%)		
		WTD	MTD	YTD
Corporate & Government	3.24	-0.1	0.7	-1.2
Agencies	2.83	0.0	0.6	-0.1
Municipals	2.68	0.0	0.3	0.3
U.S. Investment Grade Credit	3.30	-0.1	0.6	-1.0
International	3.95	-0.2	0.5	-2.0
High Yield	6.27	0.1	0.7	2.0

	Current	Prior Week End	Prior Month End	2017 Year End
90 Day Yield	2.05	2.03	1.95	1.32
2 Year Yield	2.63	2.62	2.67	1.89
10 Year Yield	2.86	2.81	2.96	2.41
30 Year Yield	3.02	2.96	3.08	2.74

Commodities & Currencies

Commodities	Current	Total Return in USD (%)		
		WTD	MTD	YTD
Bloomberg Commodity	173.00	0.1	-1.8	-3.9
WTI Crude \$/Barrel ²	69.80	1.6	1.5	15.5
Gold Spot \$/Ounce ²	1,201.40	-0.4	-1.9	-7.8

Currencies	Current	Prior Week End	Prior Month End	2017 Year End
EUR/USD	1.16	1.16	1.17	1.20
USD/JPY	111.03	111.24	111.86	112.69
USD/CNH	6.85	6.81	6.81	6.51

Source: Bloomberg, Factset. ¹ Bloomberg Barclays Indices. ² Spot price returns. All data as of the 8/31/18 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 8/31/18)

	Q4 2017A	Q1 2018A	Q2 2018A	Q3 2018E	2016A	2017A	2018E
Real global GDP (% y/y annualized)	-	-	-	-	3.1	3.8	3.8
Real U.S. GDP (% q/q annualized)	2.3	2.2	4.2	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	3.9
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	114	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

This material was prepared by the Chief Investment Office (CIO) and is not a publication of BofA Merrill Lynch Global Research. The views expressed are those of the CIO only and are subject to change. This information should not be construed as investment advice. It is presented for information purposes only and is not intended to be either a specific offer by any Merrill Lynch or U.S. Trust entity to sell or provide, or a specific invitation for a consumer to apply for, any particular retail financial product or service that may be available.

Global Wealth & Investment Management (GWIM) is a division of Bank of America Corporation. Merrill Lynch Wealth Management, Merrill Edge®, U.S. Trust, and Bank of America Merrill Lynch are affiliated sub-divisions within GWIM. The Chief Investment Office, which provides investment strategies, due diligence, portfolio construction guidance and wealth management solutions for GWIM clients, is part of the Investment Solutions Group (ISG) of GWIM.

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.

Neither Merrill Lynch, U.S. Trust nor any of their affiliates or advisors provide legal, tax or accounting advice. You should consult your legal and/or tax advisors before making any financial decisions.

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).

© 2018 Bank of America Corporation. All rights reserved.

ARYL678R