CHIEF INVESTMENT OFFICE

Capital Market Outlook

February 10, 2025

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

IN THIS ISSUE

Macro Strategy—*Strong Fundamentals Carry The Day:* Despite trade-policy drama, risk-asset prices have remained well supported given otherwise robust underpinnings. Indeed, the economy has entered 2025 with positive momentum, and monetary policy is unlikely to restrain growth anytime soon. As a result, profit growth estimates remain in low double-digit territory for 2025. Without clarity on the ultimate tariff regime and its duration, the base case thus remains for continued expansion and risk-asset outperformance.

The potential economic and financial market damage for the parties involved in a tit-for-tat trade war suggests that cooler heads are likely to prevail. Also, the tariff drama may force countries to finally address their structural imbalances. European policymakers, for example, are giving some hints of a potential shift in response to ambitious U.S. government economic plans, failed domestic policies to date, increased competition from China, and U.S. prodding. Any effort to redress deficient growth overseas would be positive for global growth, international trade and the profits cycle.

Market View—*Tariffs Cometh: What Investors Need to Know about U.S. Trade:* It's time to revisit the basics of international trade. The reality is bilateral commerce is complicated and nothing like archaic trade math ("exports – imports = global commerce") would suggest. We urge investors to keep the following in mind. First, while the U.S. is one of the globe's largest trading partners, the impact of tariffs will be felt more at the industry/sector level. Major economies in Europe, Asia and the emerging markets, meanwhile, remain far more trade-exposed. Second, foreign investment drives foreign trade, with America's army of foreign affiliates heavily exposed to tariffs and potential retaliation. Third, companies trade, not countries; "related party trade," or trade exchanged within the same company, accounts for a large percentage of U.S. imports. Finally, despite what consensus suggests, small and medium-sized firms are big traders and stand well embedded into the global economy, leaving them potentially vulnerable to tariffs.

Thought of the Week—*Where We Stand: CIO Tariff Scorecard:* Just weeks into President Trump's second term, investors have a case of headline-induced whiplash. Tariffs: On or not? Targeted at whom? For how long? And, most importantly, at what cost? While debate swirls around whether tariffs simply serve as a negotiation tactic, we believe that tariffs are likely to remain a blunt instrument of U.S. diplomacy and remain watchful of the prospect of sustained tariffs—and what that could mean for growth, inflation, earnings, revenue, and more. Below we highlight potential effects of tariffs from various sources.

MACRO STRATEGY ▶

Chief Investment Office
Macro Strategy Team

MARKET VIEW ▶

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

Ariana Chiu
Wealth Management Analyst

THOUGHT OF THE WEEK ▶

Ariana Chiu
Wealth Management Analyst

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

MARKETS IN REVIEW ▶

Data as of 2/10/2025, and subject to change

Portfolio Considerations

We continue to expect Equities to outperform Fixed Income throughout 2025. We maintain an overweight to Equities, with a preference for U.S. Equities, both Large- and Small-caps, relative to the rest of the world, and still favor a significant allocation to bonds in a well-diversified portfolio.

We focus on potential opportunities in Equities for total return, Fixed Income for stable cash flow, and for qualified investors, private markets for long-term growth and attractive yield.

We would use weakness in the equity markets as buying opportunities and major volatility (up or down) as rebalancing events over the course of the year.

Merrill Lynch, Pierce, Fenner & Smith Incorporated (also referred to as "MLPF&S" or "Merrill") makes available certain investment products sponsored, managed, distributed or provided by companies that are affiliates of Bank of America Corporation ("BofA Corp."). MLPF&S is a registered broker-dealer, registered investment adviser, Member SIPC and a wholly owned subsidiary of BofA Corp.
Investment products:

Are Not FDIC Insured	Are Not Bank Guaranteed	May Lose Value

Please see last page for important disclosure information. 7612274 2/2025

MACRO STRATEGY

Strong Fundamentals Carry The Day

Chief Investment Office, Macro Strategy Team

Trade tensions have dominated headlines, causing markets to nervously oscillate between concerns and optimism. Beneath the noise, however, the U.S. economy continues to chart a resilient course led by robust consumer fundamentals and policymakers' close attention to economic and financial market signals. While trade-related risks loom large, the economic self-interest of all parties involved suggests a negotiated resolution with minimal damage to their economies is the most probable outcome. Thus, with much at stake, especially in a retaliatory scenario, the rational expectation is that cooler heads will ultimately prevail, allowing the expansion momentum to continue, with the potential for reducing global imbalances.

For now, risk assets seem to agree. With vague contours around the ultimate duration and intensity of the trade battle, credit spreads have remained narrow, and the equity market well supported. Basically, investors have largely shrugged off concerns about trade wars, instead focusing on continued economic growth, strong corporate profitability, the Federal Reserve's (Fed) aggressive rate cuts to date, and perceptions that it will promptly act as a backstop if growth wobbles.

In terms of growth, recent data show that despite a softer-than-expected Q4 gross domestic product (GDP) headline, the U.S. economy entered 2025 with considerable momentum. While GDP growth slowed to 2.3% in Q4 from 3.0% in both Q2 and Q3, according to the Bureau of Economic Analysis (BEA), this understates domestic-demand strength because of an almost one-percentage-point drag from inventories, which is likely to be reversed.

Indeed, boosted by real wage growth, still ample excess pandemic savings and wealth effects, real consumer spending increased at a much-above-average annualized pace of 5.8% in November and 5% in December, according to BEA data. Though partly reflecting hurricane-related vehicle replacements and preemptive purchases ahead of anticipated tariffs, durable goods spending surged at a 12.1% annualized pace in Q4 adjusted for inflation. With production lagging domestic-demand strength, inventories didn't increase much, amounting to a large drag on Q4 real GDP growth. Inventories are typically neutral for growth over time, so this drag is likely to reverse in coming quarters as inventories are rebuilt in the face of resilient demand.

Wealth effects and still ample pandemic-related excess savings have emboldened consumers to spend strongly and should remain tailwinds to growth. Households have increasingly drawn on their financial cushions to boost consumption in excess of income growth, however. According to BEA data, the personal savings rate dropped to 3.8%, its lowest in two years, and excess pandemic savings have thinned out. A prolonged period of weak saving out of income would cause households to run out of excess savings at some point, leaving them more vulnerable to future shocks and the economy at risk of slower growth.

For now, however, the labor market remains solid, and our analysis indicates sufficient employment and income growth in the months ahead to sustain consumption and economic growth momentum. The January employment report reaffirmed resilience of the economy, with the unemployment rate declining from 4.1% to 4%. While job openings continued to drop in December, according to JOLTS[1] data, they remain around prepandemic highs. Quits and hiring have also substantially moderated. However, they tend to move in lockstep. As efforts to increase federal government efficiency move into full force, both are likely to rebound as labor shifts from the public to the private sector. A meaningful rise in layoffs would create risks to the outlook, but they are still quite subdued.

With energy prices also likely to remain low relative to wages, as discussed in recent reports, the consumer sector remains in good shape to keep the economy humming. This, combined with the need to rebuild inventories and signs that pro-growth policies are reviving the manufacturing sector, is positive for a sustained and more balanced growth outlook.

Investment Implications

Until tariffs turn from hypothetical to real and persistent, profits growth is likely to remain robust and risk assets are likely to advance and outperform. Still, uneven valuations, broadening growth (more cyclical companies beginning to experience improved fundamentals), and tariff-related risks argue for increased diversification.

[1] Job Openings and Labor Turnover Survey, Bureau of Labor Statistics.

The sharp rebound in the widely followed ISM[2] manufacturing index back into expansion territory following an unusual 2-year malaise suggests that the pro-business climate is beginning to revitalize the industrial side of the economy. The spike in its new orders, employment, and production subcomponents indicates that a self-reinforcing positive dynamic may finally be at hand in this space.

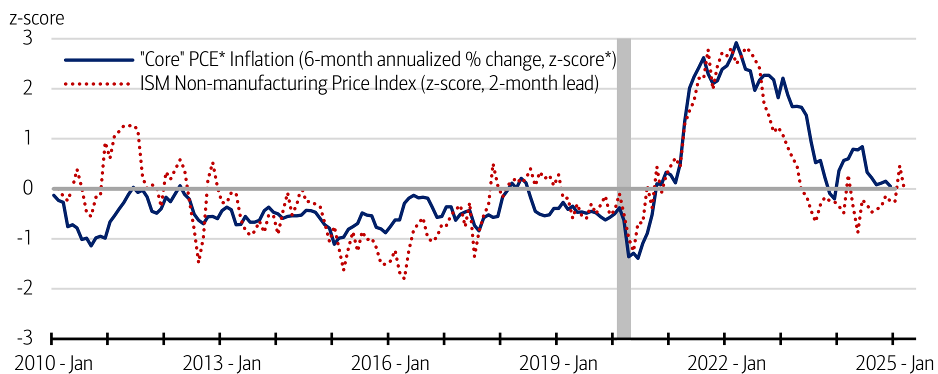
The January ISM non-manufacturing index disappointed but remains in expansion territory, with its employment component strengthening to a 16-month high. Rising ISM manufacturing and nonmanufacturing employment subcomponents hint at sustained employment growth in coming months. The NFIB[3] index has been particularly strong since November. While businesses have expressed sharply stronger plans to expand across the size spectrum, small business and smaller capitalization stocks stand to benefit most from deregulation, a rebound in manufacturing activity, and broadening profits growth.

Still, trade policy remains a wild card. The tit-for-tat tariff actions in Canada and Mexico create large downside risk to each economy. If maintained as announced, tariffs are estimated to push inflation back up from 1.8% currently to over 5% by year-end in Canada, hurting its already modest growth and potentially pushing unemployment from 6.7% to nearly 8% over the same period. Mexico faces an even harsher recession/high-inflation scenario in the case of prolonged tit-for-tat retaliation. While the U.S. would not emerge unscathed, its economy is much less dependent on trade as well as relatively stronger and better positioned for sustained growth. Still, according to February 3, 2025, BofA Global Research, "We estimate that 25% tariffs on Canada and Mexico plus 10% incremental tariffs on China translates into a 2% hit to earnings per share (EPS), all else equal...However, if it escalates into bilateral tariffs, we estimate an 8% hit to EPS..." The latter scenario would cut 2025 S&P 500 profits growth from about 12% to 14% currently expected to 5% to 6%, potentially creating headwinds for risk appetite, especially if long-term Treasury yields were to increase again.

Overall, the broader picture remains one of continued expansion. Consumer spending is robust, labor markets are resilient, and pro-growth policies are taking effect. Corporate earnings are still strong, balance sheets are healthy, and rising productivity—especially with increased Artificial Intelligence (AI)-driven automation—is likely to support growth. With a balanced labor market and moderate inflation, the Fed can afford to patiently await more certainty on the tariff front.

Still, markets tend to eventually become overconfident. Given abrupt policy changes and the risk of policy mistakes, volatility is likely to stay elevated. Companies with strong cash flows and pricing power are best positioned in an uncertain environment. While recent service-sector price data have been encouraging (Exhibit 1), inflation must be closely watched. Also, we recommend staying diversified. One of our top themes for 2025 is a broadening set of market leaders. The economic winds are blowing toward more cyclical companies beginning to experience improved fundamentals, helping to bolster risk-asset optimism.

Exhibit 1: January ISM Services Price Index Lower, Favorable For Inflation.



*Personal Consumption Expenditures. Gray bars represent recessionary periods. z-score = number of standard deviations from the mean of the data set. Sources: ISM, Bureau of Economic Analysis/Haver Analytics. Data as of February 6, 2025.

[2] Institute for Supply Management.

[3] National Federation of Independent Business.

MARKET VIEW

Tariffs Cometh: What Investors Need to Know about U.S. Trade

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

Ariana Chiu, Wealth Management Analyst

Because trade tariffs are likely to remain a popular tool of diplomacy for the Trump administration, it is time to bone up on the basics of international trade. Forget what you have been taught since bilateral commerce is much more than just exports, imports and the attendant trade balance. If only it were that elementary. It's complicated, as we discuss below.

First, America is one of the largest trading nations in the world, but, on a relative basis, trade accounts for only a nominal share of U.S. GDP. America is an anomaly when it comes to trade because 1) outside of China, the U.S. remains the globe's largest exporter and importer of goods and services, but 2) U.S. exports make up just 11% of total U.S. GDP. Trade is more of a residual in a U.S. consumption-led economy that produces some $30 trillion in annual output. The U.S. is not as trade-dependent as others, as shown in Exhibit 2A.

What does this mean for investors? It means that the effects of tariffs will be felt more at the micro or sector level than at the macro level. Given the first volley of tariffs, the most exposed U.S. sectors are autos, pharmaceuticals, oil and gas, and semiconductors. Retail and the food and beverage sectors are also at risk. In addition, when one of the world's largest trading nations goes down the path of protectionism, the risks fall disproportionately on the trading nations of Europe, Asia and the emerging markets. Their economic prospects dim, their currencies weaken, and their financial assets swoon owing to global trade uncertainty. Against this backdrop, we continue to prefer U.S. Equities over the rest of the world, remaining neutral on the emerging markets and slightly underweight the developed nations.

Two, trade is the wrong metric per global commerce—foreign affiliate sales are a better benchmark. While well into the 21st century, global commerce is still measured through the theoretical lens established over 200 years ago by David Ricardo and Adam Smith. This is misguided since the archaic math of exports - imports = global commerce doesn't even remotely match the real world. To the contrary, the primary means by which U.S. firms (and foreign multinationals) deliver goods and services to foreign customers is via foreign investment in foreign affiliates, not trade. Yet Wall Street keeps looking at trade channels (all is fine—low exposure) and not investment channels/linkages (all is not fine—higher exposure) when assessing the effect of tariffs.

Think of U.S. affiliates as the global foot soldiers of Corporate America, numbering over 37,000, according to the latest data from the Bureau of Economic Analysis (BEA). America's army of affiliates now produces some $1.6 trillion in output, employ 14 million workers globally, and tallied some $8.1 trillion in affiliate sales in 2022, the last year of available data. That figure is some 2.7 times the size of U.S. exports; conversely, what U.S. foreign affiliates of foreign multinationals sell in America ($5.9 trillion) is larger than actual U.S. imports ($4 trillion).

The key takeaway for investors is this: Foreign investment drives foreign trade, and when U.S. tariffs are imposed on imported goods—and then met by reciprocal tariffs from overseas—the effect is to throw sand in the gears of the global operations of U.S. multinationals. Supply chains are disrupted, boosting costs while potentially lowering profit margins and earnings. And in retaliation against U.S. tariffs, targeted nations (think China) can make life miserable for U.S. foreign affiliates via tighter local regulations, subsidized local competition, and state-led informal boycotts of U.S. brands.

Three, companies trade, not countries, and oftentimes firms trade with themselves. While trade is often considered an exchange between two countries, the fact is that cross-border trade, in most cases, reflects a decision by a corporation to either import or export from another corporate entity for profit maximization. In other words, countries create the playing field for trade, but companies are the actual players or traders. What's more, a large share of U.S. trade is considered "related-party trade," which is the trade of goods and services exchanged within the same company. Roughly 50% of U.S. imports are related-party; the percentage is even higher—roughly two-thirds, per the Census Bureau (Think General Motors Michigan trading with General Motors Mexico).

Portfolio Considerations

The U.S. is far less trade-dependent than other key economies in Europe, Asia and the emerging markets. We continue to prefer U.S. Equities over the rest of the world but remain watchful of the effect of tariffs and any retaliatory measures on U.S. multinationals across the cap spectrum.

Tariffs effect related-party trade by increasing the costs for multinationals that move goods between subsidiaries across borders. There is no scope to pass on costs to a third party because there is no third party—the transaction fully takes place within the firm. Companies can either absorb the cost or pass it on to the customer. Meanwhile, finding new suppliers or shifting production is time consuming and prohibitively expensive. Against this backdrop, by some estimates, a 25% tariff on Mexico could potentially add some $3,000 to the price of a vehicle. Along with the auto sector, U.S. related-party trade is most common in such sectors as electronics (i.e., semiconductors), pharmaceuticals, and oil and gas.

Four, small businesses are big traders. The consensus is that large-cap companies, with operations all over the world, are the most exposed and most at risk in a world increasingly divided and fragmented by tit-for-tat trade restrictions. Not necessarily. Small and medium-sized firms are in fact big traders, accounting for one-third of total U.S. goods imports in 2022, the last year of full data (Exhibit 2D).

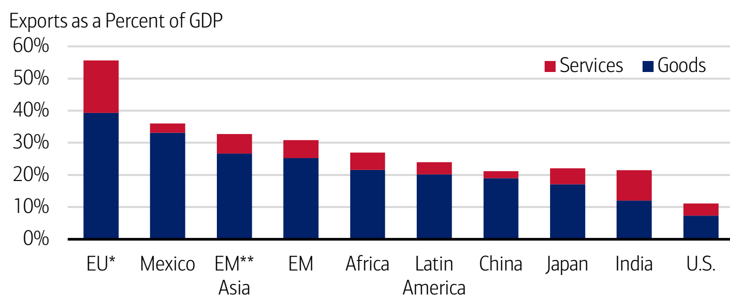
Like multinationals, small businesses have reaped the rewards of a world trading system more open than closed. Falling communications costs, declining shipping rates, the digitalization of cross-border trade, and liberalized trade and investment regimes—all of these factors have helped local U.S. businesses become more embedded in the global economy over the past few decades, helping to drive growth and profits.

The key takeaway is this: We maintain a slight Small-cap overweight on the expectations of solid U.S. economic growth, a broadening profits cycle, potential for increased M&A activity, and lower costs of capital. However, we are keeping a close eye on tariffs and the potential negative impact on small businesses, who unbeknownst to investors, are big traders.

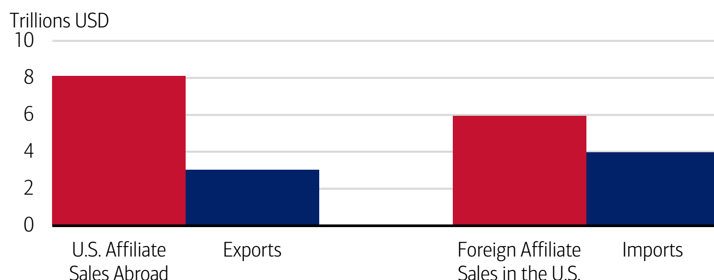
The bottom line: As we said at the outset, U.S. trade is complicated. There are multiple moving parts. The U.S. embrace of tariffs means that investors need to 1) keep a close watch at the industry/sector level; 2) understand how U.S. firms actually deliver goods to foreign customers (investment, not trade); 3) realize the importance of related-party trade and tariffs; 4) and not fall for the false narrative that small businesses are immune to wider global trade wars.

Exhibit 2: Revisiting the Basics of International Trade.

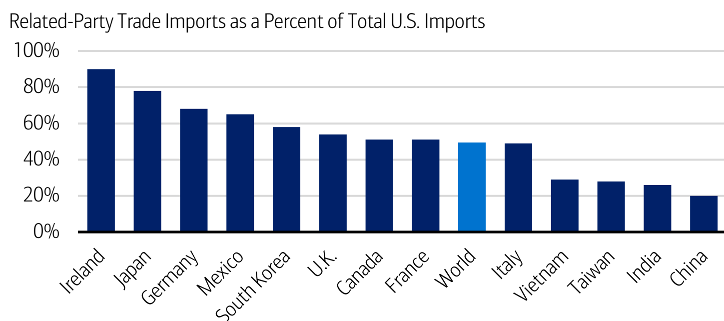
2A) The World is More Trade Dependent than the U.S.



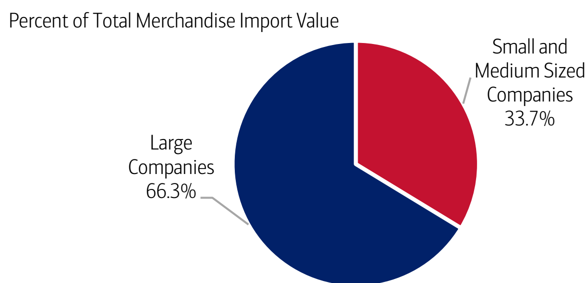
2B) Global Commerce is Led More by Investment than Trade.



2C) Companies Trade, Not Countries.



2D) Small Businesses Are Big Traders.



*European Union. **Emerging Markets. Exhibit 2A) Source: United Nations Trade and Development. Data refers to 2023, as of January 2025. Exhibit 2B) Imports and exports include goods and services. Source: BEA. Data refers to 2022, as of January 2025. Exhibit 2C) Source: Census Bureau. Data refers to 2023, as of January 2025. Exhibit 2D) Small and medium-sized defined as those companies with fewer than 500 employees. Source: Census Bureau. Data refers to 2022, as of January 2025.

THOUGHT OF THE WEEK

Where We Stand: CIO Tariff Scorecard

Ariana Chiu, Wealth Management Analyst

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

Tariffs, in our opinion, are likely to remain a blunt instrument of U.S. diplomacy—and therefore a wildcard to the future trajectory of real economic growth, corporate earnings, inflation, and other key metrics. Pulling from various sources, we outline below some potential macro effects of tariffs:

Not good for earnings: According to BofA Global Research, a 25% tariff on Canada and Mexico and a 10% incremental tariff on China could result in a 2% drag on S&P 500 earnings. The effect to earnings depends on the extent of retaliation from other countries. Estimates suggest an 8% hit to S&P 500 earnings per share, if current tensions escalate to a bilateral trade war scenario.

Not good for growth in the U.S.: If fully implemented, 25% tariffs on Canada and Mexico and a 10% incremental tariff on China could shave 1% off U.S. real GDP, according to Piper Sandler.

….in Mexico and Canada…: Estimates suggest a greater hit to GDP in Canada (-5%) and Mexico (-8%) in the case of 25% tariffs from the U.S., per Piper Sandler. Roughly 14% of Canadian GDP and 16% of Mexican GDP are exposed to goods exports aimed for the U.S., according to Bloomberg Economics.

…and the world: Simulations suggest that a 10% increase in U.S. tariffs across the board could result in a 0.2% reduction in global growth, according to World Bank, assuming no additional retaliatory tariffs from other countries.

Challenging for inflation: Estimates from BofA Global Research and Goldman Sachs suggest 10% incremental tariffs on China could add 5 to 10 basis points to core personal consumption expenditures (PCE) inflation. If 25% tariffs on Mexico and Canada are sustained, headline PCE could see a 0.7% increase, per Bloomberg Economics estimates. Given that Canada and Mexico supply more than 70% of crude oil imports to U.S. refineries, gas prices could rise by as much as 50 cents per gallon in the Midwest according to the Council on Foreign Relations. Mexico is also America's largest source of fresh produce: think higher prices for avocados and the like.

Challenging for Small-caps…: Sustained tariffs would present a greater headwind to small-caps and mid-caps versus their large-cap counterparts. Estimates point to a potential 8% drag on Russell 2000 earnings and 4% drag on S&P 400 earnings in the case of 25% tariffs on Mexico and Canada and 10% tariffs on China. A bilateral trade war would produce more pain for these companies, estimated at a 28% and 7% to 8% hit to Small-cap and Mid-cap earnings, respectively, according to BofA Global Research.

…and autos: Certain industries remain more exposed to tariffs. For example, the U.S. imports more than $200 billion in vehicle and auto part imports from Mexico and Canada. Estimates suggest that a $3,300 per-unit increase in auto prices would be required to offset the cost of 25% tariffs, according to BofA Global Research.

Not much revenue raised: The proposed tariffs on Mexico, Canada and China would generate around $100 billion in revenue per year, a mere blip in government revenues, according to the Tax Foundation.

With all of this in mind, the ultimate macro and market implications of tariffs will depend on their duration and intensity in addition to potential retaliatory measures implemented by targeted countries.

Portfolio Considerations

Sustained, far-reaching tariffs on U.S. imports could drag on corporate earnings and growth in the U.S. On balance, however, targeted economies like Mexico and Canada have more to lose given their export-dependent economies. Impacts to U.S. companies will vary by sector and market capitalization, with estimates suggesting greater headwinds to autos and small-cap companies, for examples.

Equities

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
DJIA	44,303.40	-0.5	-0.5	4.2
NASDAQ	19,523.40	-0.5	-0.5	1.1
S&P 500	6,025.99	-0.2	-0.2	2.6
S&P 400 Mid Cap	3,206.60	-1.0	-1.0	2.8
Russell 2000	2,279.71	-0.3	-0.3	2.3
MSCI World	3,832.82	-0.1	-0.1	3.4
MSCI EAFE	2,385.34	0.2	0.2	5.5
MSCI Emerging Markets	1,108.48	1.4	1.4	3.2

Fixed Income†

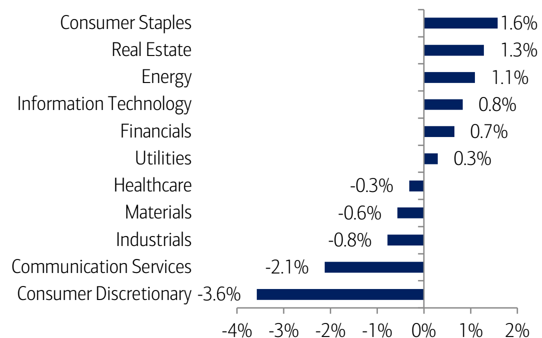
	Total Return in USD (%)			
	Current	WTD	MTD	YTD
Corporate & Government	4.75	0.38	0.38	0.91
Agencies	4.60	0.13	0.13	0.67
Municipals	3.61	0.43	0.43	0.94
U.S. Investment Grade Credit	4.85	0.39	0.39	0.92
International	5.30	0.37	0.37	0.92
High Yield	7.25	0.00	0.00	1.36
90 Day Yield	4.33	4.28	4.28	4.31
2 Year Yield	4.29	4.20	4.20	4.24
10 Year Yield	4.49	4.54	4.54	4.57
30 Year Yield	4.69	4.79	4.79	4.78

Commodities & Currencies

	Total Return in USD (%)			
Commodities	Current	WTD	MTD	YTD
Bloomberg Commodity	252.94	2.0	2.0	6.0
WTI Crude $/Barrel††	71.00	-2.1	-2.1	-1.0
Gold Spot $/Ounce††	2861.07	2.2	2.2	9.0

	Total Return in USD (%)			
Currencies	Current	Prior Week End	Prior Month End	2022 Year End
EUR/USD	1.03	1.04	1.04	1.04
USD/JPY	151.41	155.19	155.19	157.20
USD/CNH	7.30	7.32	7.32	7.34

S&P Sector Returns



Sources: Bloomberg, Factset. Total Returns from the period of 02/03/2025 to 02/07/2025. †Bloomberg Barclays Indices. ††Spot price returns. All data as of the 02/07/2025 close. Data would differ if a different time period was displayed. Short-term performance shown to illustrate more recent trend. **Past performance is no guarantee of future results.**

Economic Forecasts (as of 2/7/2025)

	Q4 2024A	2024A	Q1 2025E	Q2 2025E	Q3 2025E	Q4 2025E	2025E
Real global GDP (% y/y annualized)	-	3.1*	-	-	-	-	3.2
Real U.S. GDP (% q/q annualized)	2.3	2.8	2.5	2.3	2.2	2.2	2.5
CPI inflation (% y/y)	2.7	3.0	2.6	2.6	2.9	2.7	2.7
Core CPI inflation (% y/y)	3.3	3.4	3.0	3.0	3.2	3.2	3.1
Unemployment rate (%)	4.2	4.0	4.2	4.2	4.2	4.2	4.2
Fed funds rate, end period (%)	4.33	4.33	4.38	4.38	4.38	4.38	4.38

The forecasts in the table above are the base line view from BofA Global Research. The Global Wealth & Investment Management (GWIM) Investment Strategy Committee (ISC) may make adjustments to this view over the course of the year and can express upside/downside to these forecasts. Historical data is sourced from Bloomberg, FactSet, and Haver Analytics. **There can be no assurance that the forecasts will be achieved. Economic or financial forecasts are inherently limited and should not be relied on as indicators of future investment performance.**
A = Actual. E/* = Estimate.
Sources: BofA Global Research; GWIM ISC as of February 7, 2025.

Asset Class Weightings (as of 2/4/2025)

Asset Class	Underweight		Neutral		Overweight
Global Equities				●	
U.S. Large Cap Growth			●		
U.S. Large Cap Value				●	
U.S. Small Cap Growth				●	
U.S. Small Cap Value				●	
International Developed		●			
Emerging Markets			●		
Global Fixed Income		●			
U.S. Governments				●	
U.S. Mortgages				●	
U.S. Corporates		●			
International Fixed Income			●		
High Yield		●			
U.S. Investment-grade Tax Exempt			●		
U.S. High Yield Tax Exempt		●			
Alternative Investments*					
Hedge Strategies			●		
Private Equity & Credit			●		
Real Assets			●		
Cash					

CIO Equity Sector Views

Sector	Underweight		Neutral		Overweight
Financials				●	
Consumer Discretionary				●	
Utilities				●	
Information Technology			●		
Communication Services			●		
Healthcare			●		
Industrials			●		
Real Estate			●		
Energy		●			
Materials		●			
Consumer Staples		●			

*Many products that pursue Alternative Investment strategies, specifically Private Equity and Hedge Funds, are available only to qualified investors. CIO asset class views are relative to the CIO Strategic Asset Allocation (SAA) of a multi-asset portfolio. Source: Chief Investment Office as of February 4, 2025. All sector and asset allocation recommendations must be considered in the context of an individual investor's goals, time horizon, liquidity needs and risk tolerance. Not all recommendations will be in the best interest of all investors.

RETURN TO FIRST PAGE

Index Definitions

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

S&P 500 Index is a market-capitalization-weighted index that is widely regarded as the best single gauge of large-cap U.S. equities. The index includes 500 leading companies and covers approximately 80% of available market capitalization.

Institute for Supply Management (ISM) manufacturing index is a monthly economic indicator that measures the health of the US manufacturing sector.

Institute for Supply Management non-manufacturing index is an index that measures the economic condition and performance of service-based companies.

Institute for Supply Management Services Price Index is a monthly index that measures the prices paid by businesses in the US services sector.

National Federation of Independent Business Index is a monthly report that measures the outlook of small business owners in the United States.

Russell 2000 Index is a small-cap U.S. stock market index that makes up the smallest 2,000 stocks in the Russell Index.

S&P 400 Index is a stock market index that tracks the performance of 400 mid-sized U.S. companies.

Important Disclosures

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

This material does not take into account a client's particular investment objectives, financial situations, or needs and is not intended as a recommendation, offer, or solicitation for the purchase or sale of any security or investment strategy. Merrill offers a broad range of brokerage, investment advisory (including financial planning) and other services. There are important differences between brokerage and investment advisory services, including the type of advice and assistance provided, the fees charged, and the rights and obligations of the parties. It is important to understand the differences, particularly when determining which service or services to select. For more information about these services and their differences, speak with your Merrill financial advisor.

Bank of America, Merrill, their affiliates and advisors do not provide legal, tax or accounting advice. Clients should consult their legal and/or tax advisors before making any financial decisions.

This information should not be construed as investment advice and is subject to change. It is provided for informational purposes only and is not intended to be either a specific offer by Bank of America, Merrill or any affiliate 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.

The Chief Investment Office ("CIO") provides thought leadership on wealth management, investment strategy and global markets; portfolio management solutions; due diligence; and solutions oversight and data analytics. CIO viewpoints are developed for Bank of America Private Bank, a division of Bank of America, N.A., ("Bank of America") and Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S" or "Merrill"), a registered broker-dealer, registered investment adviser and a wholly owned subsidiary of Bank of America Corporation ("BofA Corp.").

The Global Wealth & Investment Management Investment Strategy Committee ("GWIM ISC") is responsible for developing and coordinating recommendations for short-term and long-term investment strategy and market views encompassing markets, economic indicators, asset classes and other market-related projections affecting GWIM.

BofA Global Research is research produced by BofA Securities, Inc. ("BofAS") and/or one or more of its affiliates. BofAS is a registered broker-dealer, Member SIPC and wholly owned subsidiary of Bank of America Corporation.

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

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

Investments have varying degrees of risk. Some of the risks involved with equity securities include the possibility that the value of the stocks may fluctuate in response to events specific to the companies or markets, as well as economic, political or social events in the U.S. or abroad. Small cap and mid cap companies pose special risks, including possible illiquidity and greater price volatility than funds consisting of larger, more established companies. 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. Investments in high-yield bonds (sometimes referred to as "junk bonds") offer the potential for high current income and attractive total return, but involves certain risks. Changes in economic conditions or other circumstances may adversely affect a junk bond issuer's ability to make principal and interest payments. Treasury bills are less volatile than longer-term fixed income securities and are guaranteed as to timely payment of principal and interest by the U.S. government. Bonds are subject to interest rate, inflation and credit risks. Investments in foreign securities (including ADRs) involve special risks, including foreign currency risk and the possibility of substantial volatility due to adverse political, economic or other developments. These risks are magnified for investments made in emerging markets. Investments in a certain industry or sector may pose additional risk due to lack of diversification and sector concentration. 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 are speculative and involve a high degree of risk.

Alternative investments are intended for qualified investors only. Alternative Investments such as derivatives, hedge funds, private equity funds, and funds of funds can result in higher return potential but also higher loss potential. Changes in economic conditions or other circumstances may adversely affect your investments. Before you invest in alternative investments, you should consider your overall financial situation, how much money you have to invest, your need for liquidity and your tolerance for risk.

Nonfinancial assets, such as closely-held businesses, real estate, fine art, 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 in the best interest of 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.

© 2025 Bank of America Corporation. All rights reserved.