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CHIEF INVESTMENT OFFICE

Capital Market Outlook

April 28, 2025

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

IN THIS ISSUE

Macro Strategy—*Decoupling from China Won't Be Easy: Here Is One Way to Think About It:* U.S.-Sino bilateral relations are at multidecade lows, stoking concerns and uncertainty among businesses and investors that, after decades of expanding trade and investment linkages, the world's two largest economies are headed for an economic divorce. While that's not our base case, any decoupling between the U.S. and China will be painful. To prove our point, consider this: What would a typical U.S. household be left with if everything "Made in China" were removed from the premises?

The answer: Very little. From sneaks to hoodies to bed frames to refrigerators to toys to ibuprofen, U.S. households are chock-full of products either made in China, produced by a China firm in another country, or made with components from China. So too are U.S. factories, which after years of co-dependency with the Mainland are stuffed with industrial goods, parts and components from China. The stakes of a U.S.-China break-up are huge for both U.S. consumers and U.S. businesses, in other words, and we continue to believe that there is no "all clear" on the trade front until the U.S. and China square away their differences on commerce.

Market View—*What's Next for the Hibernating Bear?:* Spring has arrived, and, with it, the S&P 500 Index bear market has come dangerously close to awakening from a deep 30-month slumber. The index recently fell -18.9% from its February peak, narrowly dodging the unofficial -20% bear market threshold before clawing back some losses. We're still monitoring the risk that the bear could ultimately stir as volatility persists. When contemplating this possibility, investors should keep in mind that no two bear markets are created equal, recoveries have followed past downturns, and diversification has helped to limit downside on the road to recovery. During times of Equity market turbulence, we encourage investors to keep a long-term perspective in mind and stick to the core principles of investing.

Thought of the Week—*Investor Escape Velocity:* With both rampant policy uncertainty and market volatility having moved decisively higher, Equities shed more than 10% in two days following Liberation Day (April 2). The setup has been challenging, considering the ongoing backdrop of extreme investor bearishness, with the current nine-week stretch in bearish American Association of Individual Investor readings the longest on record.

So what follows? Specific to the 10 largest pullbacks on record, Equities are higher three months on from the selloff and more than 4% higher six months later. Through this period of heightened uncertainty, we remain overweight Equities and would use periods of excessive volatility as rebalancing opportunities in the coming months.

MACRO STRATEGY ▶

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

Ariana Chiu
Wealth Management Analyst

MARKET VIEW ▶

Emily Avioli
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THOUGHT OF THE WEEK ▶

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MARKETS IN REVIEW ▶

Data as of 4/28/2025, and subject to change

Portfolio Considerations

Equity markets and the global economy are transforming. We expect uncertainty around the level of U.S. economic growth and corporate earnings to persist in the coming months.

We continue to emphasize Equity exposure for growth and total return, Fixed Income for cash flow production, Alternative Investments, for qualified investors, for a variety of less correlated return streams, and investable cash for potential investment opportunities that develop over time.

We emphasize playing both defense and offense. We favor a diversified high-quality approach geared towards more insulated sectors exhibiting low volatility, where appropriate. Meanwhile, crafting repositioning and rebalancing plans may better position investors to take advantage of discounted markets.

MACRO STRATEGY

Decoupling from China Won't Be Easy: Here Is One Way to Think About It

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

Ariana Chiu, Wealth Management Analyst

U.S.-Sino bilateral relations are at multidecade lows, stoking concerns and uncertainty among businesses and investors that, after decades of expanding trade and investment linkages, the world's two largest economies are headed for an economic divorce. That is not our base case—but let's face it, any decoupling between the world's two largest economies will be painfully felt far and wide.

Along those lines, consider for a moment what your typical U.S. household would look like if everything "Made in China—or produced by a Chinese firm in another country or a good that contained a Chinese component—was removed from the premises. If you China-proofed your home, you would have the makings for one heck of a yard sale. Walk with us through this exercise:

Start in the foyer and open the coat closet. After removing all the jackets, fleeces, hoodies, hats, gloves, umbrellas and the like that were "Made in China," you'd be staring at a lot of unused hangers. But since China is the largest source of hangers, you would have to toss many of them as well. Your running shoes would have to go since, whatever the brand, there is a good chance that the foam for the midsole, the polyester lining the shoe, and rubber for the bottom were all sourced from China.

Moving into the kitchen, by the time you stripped bare all the goods that were either made in China or contained a part or component from the Mainland, you would have to order takeout and eat standing up. You would most likely be minus a stove, microwave, toaster, blender, coffee maker and a refrigerator, and down some plates and eating utensils like basic forks, spoons and knives.

Walking into the living room, don't even think about watching your favorite show tonight. Whatever the brand of your television, there is a very good chance that components like the LCD panel, power board, screen and other components were sourced from China. Decluttering your living room of "Made in China" goods means probably doing without a sofa, end tables and lamps (Exhibit 1).

Exhibit 1: A U.S.-China Breakup Won't Be Easy for U.S. Consumers.

Household Product	% of Imports from China
Smartphones	81.1%
Microwaves	87.7%
Blenders	79.9%
Refrigerators	69.2%
Toasters	99.7%
Lamps	93.5%
Sofas	30.7%
Quilts/comforters	92.4%
Pillows	84.5%
Curtains	93.3%
Electric Toothbrushes	80.6%
Hair Dryers	70.9%
Ibuprofen	90.3%
Wooden picture frames	78.0%
Toys	75.8%
Tennis shoes	73.6%
Bicycles	89.0%

Sources: Census Bureau. Data refers to 2024, as of April 2025.

Investment Implications

Tariff-related volatility in the headlines and in markets is likely to persist. While successful negotiations with select countries may offer temporary reprieve for investors, we remain primarily focused on U.S.-China tensions. An extended deterioration in bilateral relations poses a longer-term headwind for both U.S. businesses and consumers, in our view.

In the den, you would probably have to toss your favorite reclining chair and coffee table and ditch the throw rug. You can keep all the family pictures, but you would have to remove the frames because...you guessed it—"Made in China."

Next, you head upstairs to the bedroom. If you are tired, sleeping in your own bed may not be an option since China remains one of the largest suppliers of U.S. bed frames and mattresses. Your sheets, pillows and linens are also primarily supplied from China or Chinese firms producing in other low-cost locales. Ditto for your lamps, dressers and nightstands. Without a bed, you might opt to grab your sleeping bag, but since nearly 90% of U.S. sleeping bags sold in the U.S. are from China, that's not going to work.

In the bathroom, you will have to toss some towels since China accounts for around 20% of U.S. imports of cotton terry towels and similar products. Other "Made in China" products that will have to go include soap, bathroom mirrors, blow dryers, shower heads and toilets since China remains a leading supplier to the U.S. of these products.

You open the medicine cabinet in search of relief, but you are prevented from using many drugs because the essential components of these medications—active pharmaceutical ingredients (APIs)—are supplied from China. Generic medications are cheaper because they often depend on cost-effective APIs from India and China. By some estimates, roughly 30% of raw ingredients required in U.S. drug manufacturing are sourced from China.

Clearing out the attic of "Made in China" means chucking Christmas decorations, lights, toys and the like. When it comes to toys, China manufactured around 75% of the dolls, tricycles, scooters and other toys imported to the U.S. last year.

Outside, the last stops are the garage, shed and patio and on the list to heave are bats, balls, baseball gloves, beach chairs, hiking boots, skis, coolers, rakes, tents, knapsacks, pottery, garden equipment, grills and patio furniture. You never knew you had that much space in the shed and garage until you decluttered "Made in China" products.

Breaking Up Is Hard To Do. All of the above illustrates how embedded and connected U.S. consumers have become with Chinese producers over the past few decades (and vice versa). The level of co-dependency runs deep—and has been mutually beneficial to both parties. U.S. consumers have benefitted handsomely from China's role as the "factory to the world," while China has benefitted from rising employment and incomes for millions of Chinese workers.

Meanwhile, it's not just U.S. households that are chock-full of China products and inputs. So too are many U.S. factories. The latter are stuffed full of China industrial goods, as well as parts and components, that drive production across multiple sectors. So by the same token, if U.S. companies de-cluttered their plants and factories of "Made in China" products, a great deal of shop space would be empty.

The downside to all of this, of course, has been structural loss of U.S. manufacturing jobs and an ever-expanding U.S. trade deficit with the Mainland. It's the latter ($295 billion deficit in goods last year) that has brought U.S.-China trade relations to a boil. April's tit-for-tat trade war between the U.S. and China has effectively brought bilateral trade flows to a standstill and put investors on edge as to what comes next in the impasse between the world's two largest economies. U.S. equities have been on a roller coaster ride with each new headline about U.S.-China trade, and the ride will continue until there are clearer signs of de-escalation. There is no "all clear" on the trade front and threat of tariffs until the U.S. and China square away their differences on commerce.

That said, the stakes are huge for both countries—and for both U.S. businesses and consumers. To understand the magnitude of the trade clash, just take a walk around your house.

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MARKET VIEW

What's Next for the Hibernating Bear?

Emily Avioli, Vice President and Investment Strategist

Spring has arrived, and, with it, the S&P 500 bear market[1] has come dangerously close to awakening from a deep 30-month slumber. Amid an onslaught of turbulence in early April, the index fell -18.9% from its February peak, narrowly dodging the unofficial -20% bear market threshold. Meanwhile, the Small-cap oriented Russell 2000 Index and the technology-heavy Nasdaq 100 Index have already notched declines of over -20%. While Equities have since clawed back some losses, they continue to oscillate between sizeable intraday moves in either direction as volatility persists (Exhibit 2A). We're monitoring the risk that this noisy environment could ultimately stir the hibernating S&P 500 bear. When contemplating this possibility, investors should keep a few key considerations in mind.

- **No two bear markets are created equal.** Each equity market decline observed throughout history has had a unique set of catalysts behind it and has varied in degree of severity. Not all corrections (<-10%) turn into bear markets. In fact, since 1950, just 28% of corrections have reached bear territory. Even when bear market status is achieved, an economic pullback doesn't always follow suit—36% of S&P 500 bear markets since 1950 have occurred without an accompanying recession.[2] The drivers behind the dip are relevant when considering the potential array of outcomes. Downturns that have been driven by a specific catalyst, like the pandemic, have looked very different from those related to the breakdown of something more structural in nature, like the global financial crisis. Zeroing in on these two examples, the 2020 bear market lasted 33 days with a peak-to-trough decline of -33.9% and took 148 days to reach a new record high. Comparatively, the 2008 bear market lasted 517 days, with a peak-to-trough decline of -56.8% and took 1,480 days to reach a new record high.[3] While difficult to call in real time, the current drawdown appears to be more event-driven in nature considering that major equity markets tumbled in tandem following the "liberation day" shock on April 2. If history is a guide, the nature of this pullback could bode well for the outlook moving forward.

- **Recoveries have followed downturns.** While every bear market differs in terms of catalyst, duration and decline, major downturns in the past have been followed by a recovery (Exhibit 2B). These recoveries tend to be much longer and stronger than the downturn itself: Since 1950, the average bear market declined 34.6% and lasted roughly one year on average, while the average bull market gained roughly 191% and lasted more than five years on average.[4] This underscores the conventional wisdom to avoid indiscriminately selling out of the market during times of turbulence. Case in point, 66% of the 50 best days in the S&P 500 since 1990 have occurred during either a bear market or a 10% correction (Exhibit 2C). Time in the market is preferable to timing the market. Pulling this thread into today's context, we find that missing the 10 best days in the S&P 500 so far in 2025 would have resulted in a decline of -29%, compared to a fully invested year-to-date decline of -10%.[5]

- **Diversification is key.** Diversification can be a helpful tool in limiting potential downside when navigating an uncertain path to recovery. We've long emphasized the importance of spreading investments across various asset classes within a portfolio to take advantage of unexpected shifts. Currently, the benefits of diversification are playing out in real time—since "liberation day," benchmarks comprising a mix of

Portfolio Considerations

The S&P 500 has turned back from the cusp of bear market territory, but we see the potential for volatility to persist. We continue to emphasize the importance of maintaining a well-balanced portfolio and adhering to an investment plan that is aligned to long-term goals.

[1] Bear markets occur when an index closes >-20% below a recent high.

[2] Yardeni Research, Bloomberg, NBER. Data as of April 22, 2025.

[3] Yardeni Research, Bloomberg. Data as of April 22, 2025.

[4] Yardeni Research, Bloomberg. Data as of April 9, 2025. S&P 500 Index price returns referenced.

[5] Bloomberg. Data as of April 22, 2025. S&P 500 Index price returns referenced.

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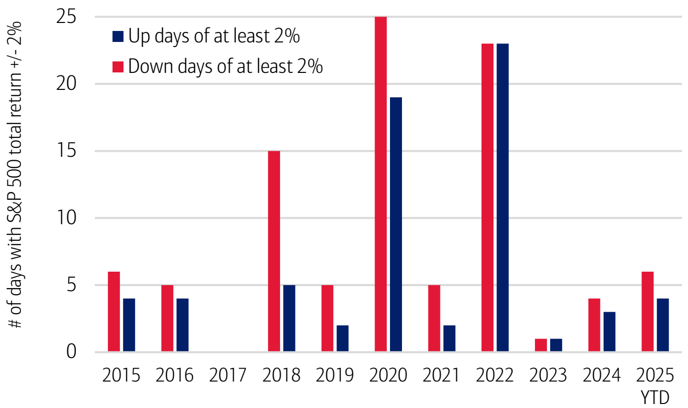
Equities and Fixed Income, like the Bloomberg U.S. 60:40 Index and the Bloomberg Global 60:40 Index, have outperformed the S&P 500 Index by 2.2% and 4.6%, respectively (Exhibit 2D).

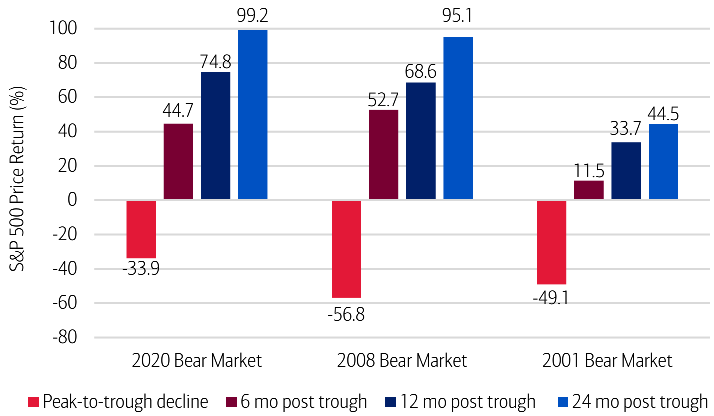
The Bottom Line: While it's unclear when the next S&P 500 bear market will emerge, we expect volatility to persist and would not rule out the possibility that this correction could deepen. During times of equity market turbulence, we encourage investors to keep a long-term perspective in mind and stick to the core principles of investing.

Exhibit 2: Considerations for a Volatile Backdrop.

2A) The S&P 500 continues to log sizeable up and down days.

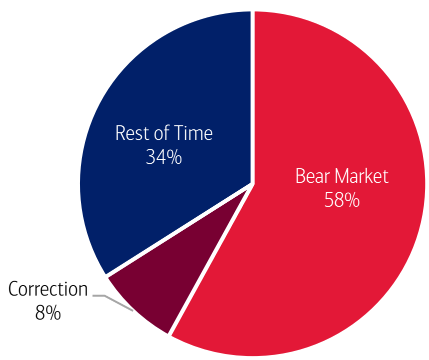


2B) Robust recoveries have followed past bear markets.



2C) Most of the S&P 500's best days have occurred during bear markets or corrections.

S&P 500 Index 50 Best Days: 1990 - 2025



2D) Diversification may help mute downside.

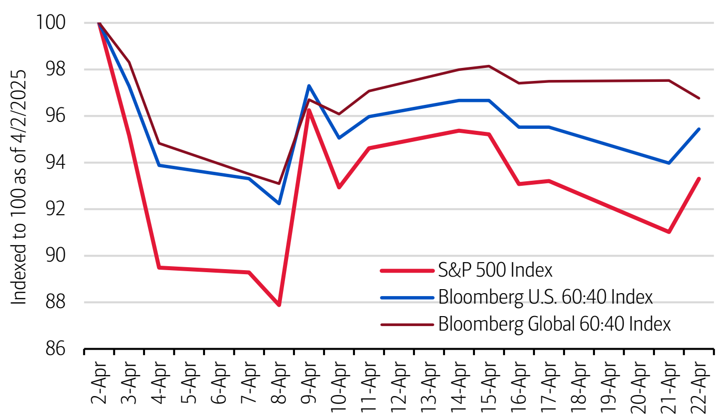


Exhibit 2A) Source: Bloomberg. Data as of April 23, 2025. Exhibit 2B) Sources: Bloomberg, Yardeni Research. Data as of April 24, 2025. Exhibit 2C) Source: Bloomberg. Data as of April 23, 2025. Exhibit 2D) Source: Bloomberg. Data as of April 22, 2025. Performance results are extremely short term and do not provide an adequate basis for evaluating performance potential over varying market conditions or economic cycles. It is not possible to invest directly in an index. Please refer to index definitions at the end of this report. **Past performance is no guarantee of future results.**

Investor Escape Velocity

Lauren J. Sanfilippo, Director and Senior Investment Strategist

The two days following "Liberation Day"[6] on April 2 was only the third time this decade that the S&P 500 shed 9%-plus in two trading sessions. In bad company, the largest pullbacks on record were recurrent during crises such as the 2008/2009 Great Financial Crisis and the 2020 pandemic (See Exhibit 3A for how the tariff tantrum two-day slide stacks up.) Under duress from Liberation Day, stocks fell within a whisker of a definitional bear market.[7] And since, the index remains 3% lower than its April 2 level. Among S&P 500 constituents, only 90 stocks in the index have gained over that time, while the other 410 stocks are in negative territory.

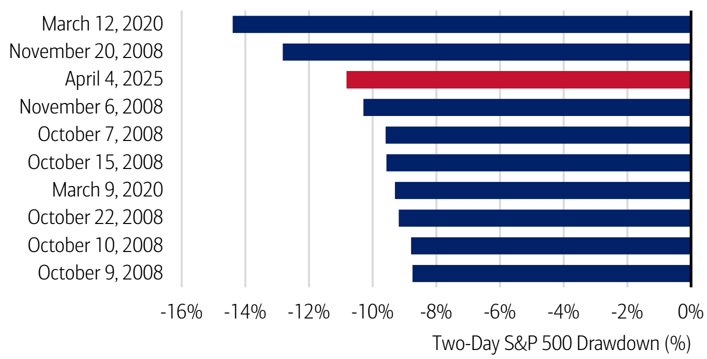
Both rampant policy uncertainty and the volatility of the equity market have moved decisively higher (Exhibit 3B). The Chicago Board Options Exchange Volatility Index,[8] or VIX, has swung viciously this month, spiking to its highest level since the pandemic, only to notch its largest daily percentage decline on record the following day. The setup has been challenging, considering the ongoing backdrop of extreme investor bearishness. The current nine-week stretch in bearish American Association of Individual Investor readings is the longest on record. All this in sympathy, with the shock and awe of stocks tumbling fast and far, had some investors heading for the exits. Trading volumes have exploded to the upside, with more than 98 billion shares changing hands on the New York Stock Exchange and Nasdaq, the highest weekly volume on record according to Dow Jones Market Data.[9]

Investment Implications

As illustrated over the month of April, risk sentiment remains at the mercy of tariff developments. Moments of excessive fear, or capitulation in investor behavior, are often indicative of market lows. Through this stretch to July, investors should expect elevated volatility.

Exhibit 3: Selloffs and Spikes in the VIX and Policy Uncertainty Indexes.

3A) Liberation Day Selloff Among Other Two-Day Pullbacks.



3B) The VIX and Policy Uncertainty Index.

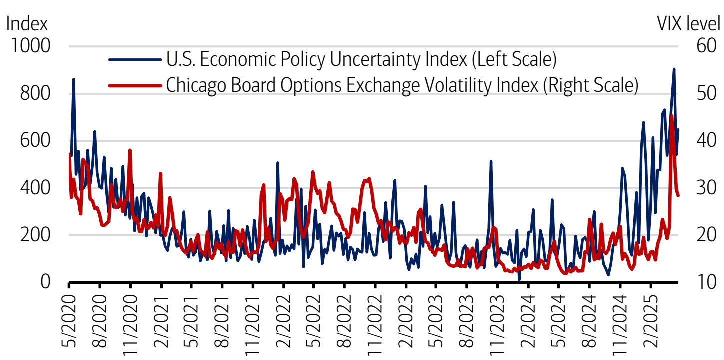


Exhibit 3A) Dates reflect end point of two-day pullback. Source: Bloomberg. Data as of April 23, 2025. Exhibit 3B) Source: Bloomberg. Data as of April 2025. It is not possible to invest directly in an index. Please refer to index definitions at the end of this report. **Past performance is no guarantee of future results.**

The anatomy of a market "flush." In search of a market bottom, some barometers suggest the indiscriminate selling of Equities in early April. The percentage of members in the S&P 500 making new four-week lows jumped to 76% on April 4 (a level over 50% is suggestive of that indiscriminate selling), while breadth measures such as the 200-day moving average have deteriorated sharply to 23% on April 4 (the percentage of constituents trading above their 200-day moving average tends to move lower at points of capitulation). While having deteriorated, these measures remain off levels seen at most market lows.

So what follows? Specific to the 10 largest pullbacks shown above, Equities are higher three months on from a two-day 10% selloff and more than 4% higher six months on. While some technical damage has been done, that's cold comfort knowing the ambiguity around tariff policy likely festers through the 90-day tariff pause expiring in early July.

[6] U.S. President Trump declared April 2 "Liberation Day" in the United States to mark the implementation of new tariffs on imported goods.

[7] Bear Market broadly defined as a decline of 20%. The S&P 500 fell 18.9% from its all-time high reached February 19, 2025.

[8] The VIX measures the expected 30-day volatility of the S&P 500 based on options prices.

[9] For the week of April 7, 2025.

Equities

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
DJIA	40,113.50	2.5	-4.4	-5.2
NASDAQ	17,382.94	6.7	0.5	-9.8
S&P 500	5,525.21	4.6	-1.5	-5.7
S&P 400 Mid Cap	2,831.67	3.2	-2.9	-8.9
Russell 2000	1,957.62	4.1	-2.6	-11.9
MSCI World	3,618.48	4.2	-0.2	-1.9
MSCI EAFE	2,460.46	2.9	2.8	9.9
MSCI Emerging Markets	1,097.10	2.7	-0.2	2.8

Fixed Income†

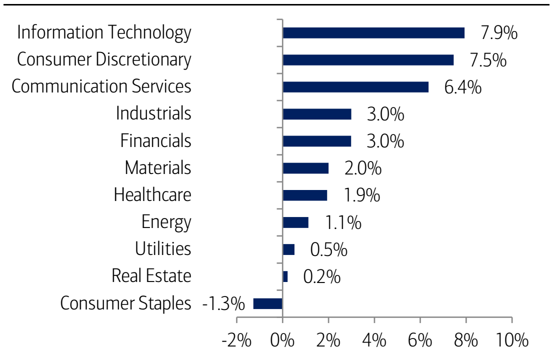
	Total Return in USD (%)			
	Current	WTD	MTD	YTD
Corporate & Government	4.47	0.68	-0.07	2.63
Agencies	4.30	0.33	0.25	2.37
Municipals	4.14	0.07	-1.41	-1.62
U.S. Investment Grade Credit	4.61	0.69	-0.10	2.68
International	5.21	1.02	-0.29	2.01
High Yield	7.80	1.29	0.10	1.11
90 Day Yield	4.29	4.31	4.29	4.31
2 Year Yield	3.75	3.80	3.88	4.24
10 Year Yield	4.24	4.32	4.21	4.57
30 Year Yield	4.70	4.80	4.57	4.78

Commodities & Currencies

	Total Return in USD (%)			
Commodities	Current	WTD	MTD	YTD
Bloomberg Commodity	251.32	-0.2	-3.3	5.3
WTI Crude $/Barrel††	63.02	-2.6	-11.8	-12.1
Gold Spot $/Ounce††	3319.72	-0.2	6.3	26.5

	Total Return in USD (%)			
Currencies	Current	Prior Week End	Prior Month End	2022 Year End
EUR/USD	1.14	1.14	1.08	1.04
USD/JPY	143.67	142.18	149.96	157.20
USD/CNH	7.29	7.31	7.27	7.34

S&P Sector Returns



Sources: Bloomberg, Factset. Total Returns from the period of 4/21/2025 to 4/25/2025. †Bloomberg Barclays Indices. ††Spot price returns. All data as of the 4/25/2025 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 4/25/2025)

	Q1 2025E	Q2 2025E	Q3 2025E	Q4 2025E	2025E	2026E
Real global GDP (% y/y annualized)	-	-	-	-	3.1	3.2
Real U.S. GDP (% q/q annualized)	0.8*	0.9	0.6	1.6	1.5	1.5
CPI inflation (% y/y)	2.7	2.5	3.1	3.1	2.9	2.6
Core CPI inflation (% y/y)	3.1	3.0	3.5	3.7	3.3	3.0
Unemployment rate (%)	4.1	4.2	4.3	4.5	4.3	4.5
Fed funds rate, end period (%)	4.38	4.38	4.38	4.38	4.38	3.38

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. *As of April 25, 2025.

Sources: BofA Global Research; GWIM ISC as of April 25, 2025.

Asset Class Weightings (as of 4/1/2025)

	CIO View				
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

	CIO View				
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 April 1, 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.

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.

Nasdaq Composite Index is a broad-based market index that includes more than 3700 stocks listed on the Nasdaq stock exchange.

Dow Jones Industrial Average Index is a stock market index of 30 prominent companies listed on stock exchanges 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.

Nasdaq 100 Index is a stock market index made up of equity securities issued by 100 of the largest non-financial companies listed on the Nasdaq stock exchange. It is a modified capitalization-weighted index.

Bloomberg U.S. 60:40 Index is a benchmark that tracks the performance of a portfolio composed of 60% U.S. equities and 40% U.S. fixed income assets. It's designed to measure the overall performance of a diversified portfolio, with a focus on U.S. assets.

Bloomberg Global 60:40 Index represents a global asset allocation strategy of 60% equities and 40% fixed income. This index is designed to measure the performance of a balanced portfolio across global markets, rebalancing monthly to maintain the specified asset allocation. The equity portion is typically represented by a developed market large and mid-cap total return index, while the fixed income portion is represented by a global aggregate index.

Chicago Board Options Exchange Volatility Index is a widely used indicator that measures the market's expectation of volatility over the next 30 days. It's often referred to as the "fear gauge" because it tends to rise during periods of market uncertainty.

U.S. Economic Policy Uncertainty Index measures the level of policy-related economic uncertainty in the United States.

Important Disclosures

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

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