

Capital Market Outlook

May 13, 2024

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

IN THIS ISSUE

Macro Strategy—Why U.S. Equity Markets Are Less Volatile During Periods of Elevated Global Conflict: U.S. Equity volatility around geopolitical conflict tends to be short-lived and followed by below average volatility. The seminal paper on this topic in 1989 showed that, counterintuitively, stock volatility was relatively low during periods of military conflict. It is referred to as the “war volatility puzzle.” Investigating this further, a National Bureau of Economic Research (NBER) paper in March 2022 concluded: “Indeed, stock volatility is 33 percent lower during major wars and periods of conflict since 1921.” How has this played out given recent global military engagements? U.S. Equity volatility spiked around Russia’s invasion of Ukraine in February 2022, but has trended lower even as U.S.-China tensions simmer and the Israel/Hamas war persists. Over the last year, the Volatility Index (VIX) has been below the long-term average. Are U.S. equity markets underpricing geopolitical risk? No—they do not have enough information to price geopolitical risk. In short, volatility is lower because markets are pricing in a lower probability of a U.S. recession. In response to the geoeconomic backdrop, policymakers have pumped in massive stimulus. But there are other fundamental reasons why Equity volatility can be tame during periods of elevated global conflict that are worth considering.

Market View—Emerging Markets and the Fed Hiking Cycle: The Dog That Didn’t Bark: One of the major market trends of recent years has been the rising U.S. dollar exchange rate. But more remarkable has been the relative resilience of emerging market currencies, which, on an equal-weighted basis, have depreciated by less than developed market currencies since the U.S. Federal Reserve (Fed) started to raise interest rates in 2022.

Like the Sherlock Holmes case of “the dog that didn’t bark in the night,” this atypical pattern may point to a fundamental change in market conditions for Emerging Market (EM) exchange rates in the current cycle, and may therefore be instructive for the EM currency and asset price outlook over the months ahead.

Thought of the Week—Tracking the AI Boom: The explosion of Generative Artificial Intelligence (GAI) enthusiasm last year has been a driving force for this equity bull market. The bulk of S&P 500 Equity gains since the bear market low in October 2022 have been concentrated in mega-cap Technology GAI players. While the power of AI is not new, the latest advancements have investors calling it the advent of the next technological revolution.

Major technological transitions take time though. Given that GAI has only just emerged, we have only seen the early phases of AI optimism translated into actual business spending. Secular forces, from further digitalization of the economy and business operation automation to a need for labor shortage solutions amid an aging workforce, will likely keep AI investment a top priority for companies. We expect this push toward broad AI development and adoption to play out over many years and would consider AI as a longer-term investment theme within portfolios.

MACRO STRATEGY ►

Jonathan Kozy
Managing Director and Senior Macro Strategy Analyst

MARKET VIEW ►

Ehiwario Efeyini
Director and Senior Market Strategy Analyst

THOUGHT OF THE WEEK ►

Kirsten Cabacungan
Vice President and Investment Strategist

MARKETS IN REVIEW ►

Data as of 5/13/2024,
and subject to change

Portfolio Considerations

We maintain an overweight to Equities, with a preference for higher quality U.S. Large- and Small-caps, and still favor a significant allocation to bonds in a diversified portfolio. We maintain our view of buying into equity market weakness and maintaining exposure to Fixed Income for the purpose of cash flow and diversification benefits. Within Fixed Income, we still suggest a slightly long-duration position versus a stated benchmark to take advantage of higher yields, and as prudent positioning against macro risk in the increased Equity positioning of a diversified portfolio.

Why U.S. Equity Markets Are Less Volatile During Periods of Elevated Global Conflict

Jonathan Kozy, Managing Director and Senior Macro Strategy Analyst

The nearly Pavlovian response from investment strategists with respect to questions about elevated geopolitical risk and military conflict is often something like this: “It adds to economic uncertainty and equity volatility.” The problem is that this is not supported by the data. Counterintuitively, U.S. Equity volatility tends to be lower when the U.S. is on a war footing. The seminal paper on this topic in 1989 showed that stock volatility was relatively low during periods of military conflict.¹ It is referred to as the “war volatility puzzle.” Investigating this further, a NBER paper in March 2022 concluded: “Indeed, stock volatility is 33 percent lower during major wars and periods of conflict since 1921.”²

Ultimately, **geopolitical acts often induce fiscal responses that reduce earnings dispersion and lower the probability of a recession, thus dampening volatility.**

Considering the academic literature and our own view, below we consider a number of potential factors.

First, **the “war volatility puzzle” seems to be playing out in real time.** U.S. Equity volatility spiked around Russia’s invasion of Ukraine in February 2022, but has trended lower even as U.S.-China tensions simmer and the Israel/Hamas war persists. Over the last year, the VIX has averaged around 15, well below the long-term average of 20. Are U.S. equity markets underpricing geopolitical risk? No—they do not have enough information to price geopolitical risk. In short, volatility is lower because markets are pricing in a lower probability of a U.S. recession.

In part, the “war volatility puzzle” exists because, since the civil war, all major U.S. conflicts have been fought on foreign soil, reducing the kinetic threat to the domestic capital stock, a foundational source of productivity and growth. We think this explanation has some merit, but the risk is that the benefit of geographic isolation is fading. Cyber and information warfare are undeterred by geographic barriers. The biggest threat right now to critical domestic infrastructure may be from a cyberattack. Additionally, the continued advancement of intercontinental ballistic missiles also calls into question this advantage if the U.S. were to get directly involved in a global conflict. For now, that is not the case.

Second, addressing global threats indirectly and from abroad has the benefit of deterrence. Thinking back to the global war on terror, the goal was to engage abroad to avoid conflict in the U.S. Interestingly, in “Stock volatility and the war puzzle,” the authors find that Navy spending in particular has a higher negative correlation to equity market volatility versus Army and Air Force spending, probably related to the Navy’s forward role in deterrence. From this perspective, investors might want to consider the mix of defense spending going forward.

Most importantly, massive fiscal stimulus related to current geoeconomic tensions is contributing to the buildout of valuable capital stock in the name of national security.

The academic research suggests the type of fiscal spending matters, with Procurement and research & development (R&D) noted as having higher spillover to the private sector. Recent fiscal efforts to support Ukraine, Israel and Taiwan include these types of spending, and there is a budding venture capital effort to fund hard and soft defense technology. The effect has been investment in an interconnected technology ecosystem that includes AI, semiconductors, and next generation defense technology, to name just a few. For example, the CHIPS Act brings \$280 billion in Federal subsidies over 10 years. To move from Chip design to production requires an entire technology ecosystem that pulls in R&D efforts and energy transformation. Cars need semiconductors and AI, but so do

Investment Implications

Counterintuitively, U.S. Equity volatility has been significantly below the long-term average over the last year, despite elevated global conflict. In our view, massive fiscal stimulus related to geoeconomic security imperatives have significantly reduced the risk of a recession, thus contributing to relatively lower growth uncertainty and Equity volatility.

We continue to believe owning real assets in a geopolitically volatile environment is prudent for diversification.

¹ Schwert, G.W. (1989): “Why does stock market volatility change over time?” *Journal of Finance*, 44, 1115-1153.

² Cortes, Gustavo S., Angela Vossmeier and Marc D. Weidenmier (2022): “Stock volatility and the war puzzle” *National Bureau of Economic Research, Working Paper 29837*.

missiles. The U.S. is also building out other domestic supply chains in the name of economic security related to China/Taiwan tensions, providing a boost to U.S. growth. In brief, there is a rich history of defense innovations amplifying domestic economic innovation and productivity, and that is playing out.

Growing defense spending in the U.S. and globally also reduces earnings dispersion for the aerospace and defense segment of U.S. Equity indexes, because military contracts are long-term contracts. In the current environment, the necessary restocking and upgrading of defense inventories to maintain readiness brings longer term earnings transparency to defense companies, reducing uncertainty and volatility.

Policymakers also recognize that energy shocks related to global conflict can cause recessions. For investors, recessions are what cause large spikes in volatility and drawdowns of more than 10%. In the U.S., policymakers tapped the Strategic Petroleum Reserve to buffer global oil supplies, for example. The U.S. also utilizes economic sanctions but does not necessarily enforce them when there are concerns over aggregate global oil supplies. It is economic warfare with the understanding that we can't shoot ourselves in the foot.

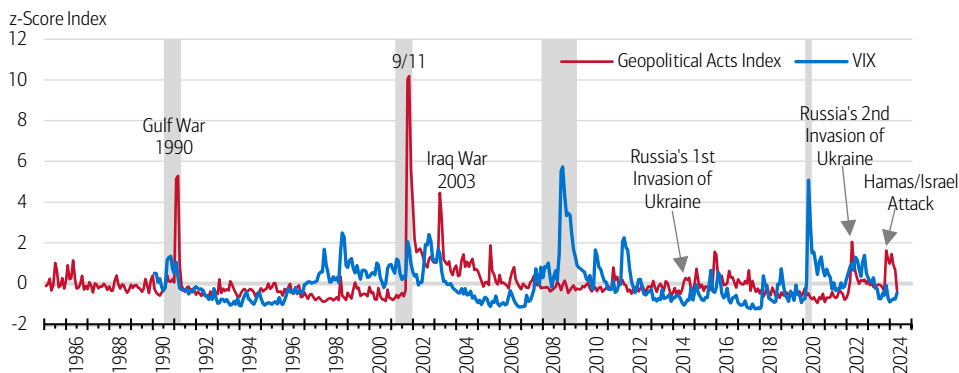
Bottom line—all this combined means the risk of a recession is lower, not higher. A key finding of the referenced NBER paper was that “empirical analysis demonstrates that defense expenditures as a fraction of total expenditures has a large and significant negative effect on stock volatility.” Over the last few quarters Federal defense spending has made significant contributions to gross domestic product (GDP), not even taking into consideration the private sector amplifier effects.

What are the risks? As with any historical analysis, the risk is that this time is different. Taiwan independence is a unique risk, with the potential for a \$10 trillion disruption to the global economy in the event of a geopolitical act, according to Bloomberg Geoeconomics estimates. We are also in an election year, which brings its own influx of economic uncertainty.

The U.S. shifting to a command economy (for now at least) could also be setting ourselves up for overcapacity while losing the benefits of comparative advantage. The effort to increase semiconductor capacity means the U.S. is moving from specialization in a high margin business (chip design), to the manufacturing production side that has lower margins. Across sectors, moving away from comparative advantages in the name of economic security could raise prices/inflation in the long-term.

For now, though, the **geoeconomic security imperative for U.S. policymakers is driving a fiscal spigot that significantly reduces the risk of a recession, thus dampening Equity volatility.**

Exhibit 1: U.S. Equity Volatility Spikes Are Short-Lived Around Geopolitical Acts.



*z-score=the number of standard deviations from the mean value of the reference population. Standard deviation from mean is a quantity calculated to indicate the extent of deviation for a group as a whole. Gray shaded area represents recession periods.

Sources: Wall Street Journal; PolicyUncertainty.com/Haver Analytics. Data as of May 6, 2024. **Past performance is no guarantee of future results. It is not possible to invest directly in an index. Please refer to index definitions at the end of this report.**

Emerging Markets and the Fed Hiking Cycle: The Dog That Didn't Bark

Ehiwario Efejini, Director and Senior Market Strategy Analyst

One of the major market trends of 2024 and the post-pandemic period of recent years has been the rising U.S. dollar exchange rate. But more remarkable has been the relative resilience of EM currencies, which, on an equal-weighted basis, have depreciated by less than developed market currencies since the U.S. Fed started to raise interest rates in 2022. Like the Sherlock Holmes case of “the dog that didn't bark in the night,” this atypical pattern may point to a fundamental change in market conditions for EM exchange rates in the current cycle and may therefore be instructive for the EM currency and asset price outlook over the months ahead.

In past decades, U.S. monetary policy tightening cycles have resulted in greater financial stress and often periods of crisis in emerging economies. Perhaps most emblematic, the Asian financial crisis of 1997-1998 was (alongside those in Mexico and Russia) the furthest-reaching of three major episodes during the 1990s. Following the so-called lost decade of the 1980s in Latin America, this was the last period of widespread EM currency crisis, and it followed the 1994-1995 U.S. interest rate tightening cycle—the last time the Fed raised rates as rapidly as it has since 2022.

It should, however, be remembered that what came before the late-1990s Asian crisis was also a period of strong performance for economies and markets across the region. Indeed, it was the economic boom of the first half of the 1990s that would lay the groundwork for the financial collapse in the second half of the decade. The experience of the five main markets involved—Thailand, Indonesia, Malaysia, Korea and the Philippines—was different in each case, but at least four major factors created the conditions for the crisis that would eventually unfold:

- Central banks in the region had kept interest rates high relative to the rest of the world, attracting inflows of foreign portfolio capital and bank loans into local markets and driving up equity and bond prices.
- Levels of external debt in the region moved higher, mainly among banks and other private corporate borrowers looking to fund new economic activity.
- Local credit growth boomed, leading to an increase in regional investment, faster GDP growth and deteriorating current account positions.
- Governments allowed local imbalances to grow—official policy aimed at boosting economic growth encouraged riskier domestic private investment, and fixed exchange rates against the U.S. dollar incentivized excessive borrowing in foreign currency.

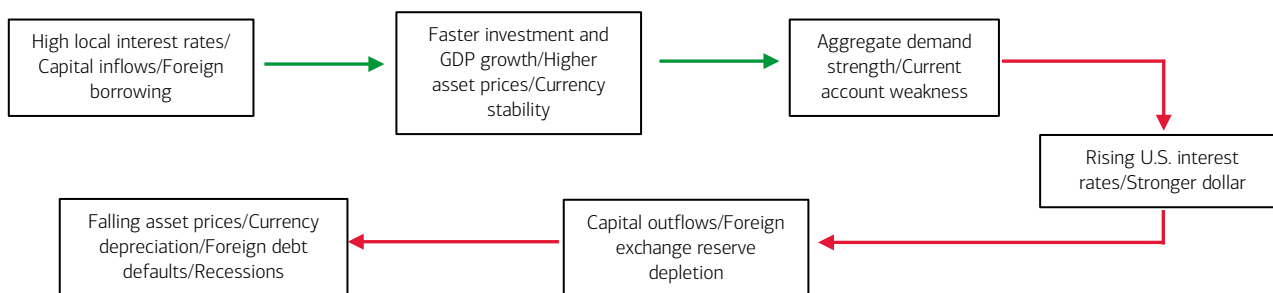
The sum of these factors produced rapid growth rates across the region, but the shift in U.S. monetary policy that started in 1994 would ultimately become the main catalyst for boom to turn to bust (Exhibit 2).

Investment Implications

In past decades, U.S. monetary policy tightening cycles have resulted in greater financial stress and often periods of crisis in emerging economies. But as we look ahead into the rest of 2024, current conditions suggest that the direction of Fed policy (whether it cuts interest rates, remains on hold or even hikes further) and the direction of the U.S. dollar should be less consequential for EM asset prices and EM currencies than in the past.

Exhibit 2: Asian Financial Crisis Anatomy: From Boom to Bust.

Pre-Crisis Boom Phase



Crisis Bust Phase

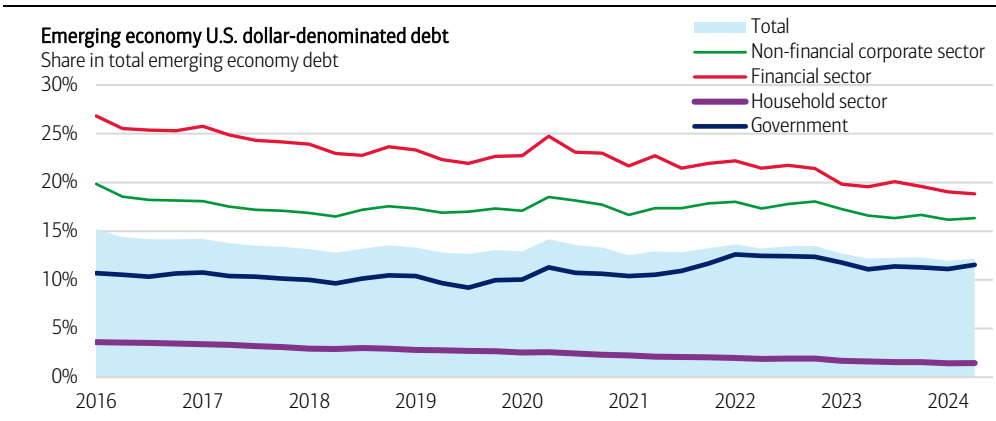
Source: Chief Investment Office. Data as of April 2024.

This is the typical pattern of overinvestment followed by capital flight and deleveraging that has characterized past EM crises. U.S. interest rates rise causing the dollar to strengthen. International investment capital flows away from EM countries (particularly those with large

current account deficits) and into the U.S. market, reducing support for local EM asset prices and currency values. Where exchange rates are pegged to the dollar, a loss of export competitiveness further undermines current account positions, forcing central banks to run down their foreign exchange reserves. And where exchange rates are floating, foreign debts rise in local currency terms, resulting in widespread defaults, debt downgrades, recessions and further exchange rate depreciation.

Fast forward to the current period of rising U.S. rates and dollar strength, and conditions across much of the emerging world have essentially been the mirror image of past pre-crisis phases. Post-pandemic interest rates across emerging economies have been near historic lows. Market valuations have been below historical averages. The share of EM debt denominated in U.S. dollars has been falling for close to a decade, led by the private sector across households, corporates and banks (Exhibit 3). Fixed exchange rates have largely been abandoned. Across 20 major emerging economies included in the MSCI Emerging Markets Index, foreign currency reserves have almost doubled as a share of GDP since the mid-1990s. And for the same benchmark countries, roughly 70% of the market capitalization is in outright current account surplus.

Exhibit 3: Share of U.S.D-Denominated Debt in Emerging Economies Has Fallen, Particularly in the Private Sector.



Source: Institute of International Finance. Data as of Q1 2024. Countries included (equal-weighted): Brazil, Chile, China, Colombia, Czech Republic, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Poland, Russia, Saudi Arabia, South Africa, Thailand, Turkey.

Smaller current account deficits have also limited the need for emerging market central banks to raise domestic interest rates (and hurt domestic growth) to compete for global capital flows. Since the start of its tightening campaign in March 2022, the Fed has raised rates by 525 basis points. But over the same period, only three major emerging markets (Egypt, Turkey and Colombia, whose deficits have averaged of 3.8%, 4.5%, and 5.0% of GDP respectively) have been forced to hike by more. This contrasts with the steep interest rate hikes by emerging world monetary authorities during the crises of the 1980s and 1990s. Separately in this regard, the outlook for energy prices will also bear watching against a backdrop of rising geopolitical risks. A higher oil price would undermine current account balances and, all else equal, increase external funding needs for net energy importers mainly concentrated in Asia (with the exceptions of Indonesia and Malaysia) and EM Europe (with the exception of Russia).

But as we look ahead into the rest of 2024, current conditions suggest that the direction of Fed policy and the direction of the U.S. dollar should be less consequential for EM asset prices and EM currencies than in the past. The aggressive tightening of U.S. monetary policy over the past two years and the post-pandemic phase of dollar strength have not resulted in widespread economic and financial instability or significant exchange rate depreciation across emerging markets. And by the same token, whether the Fed cuts interest rates, remains on hold or even hikes further in 2024, we would expect a limited impact on exchange rates, interest rates and asset prices across the bulk of the emerging world. A higher-for-longer Fed would likely keep EM currencies in check, but additional depreciation should remain relatively modest. And though a shift toward rate cuts could be moderately supportive, we would expect to see the greatest impact in the few, smaller, deficit markets (such as Turkey, Egypt, Colombia and Chile), which have generally experienced the most depreciation pressure over recent years.

Tracking the AI Boom

Kirsten Cabacungan, Vice President and Investment Strategist

The explosion of GAI enthusiasm last year has been a driving force for this equity bull market. The S&P 500 is up an impressive 46% since the October 2022 low, with the bulk of Equity gains concentrated in mega-cap Technology GAI players.³ While the power of AI is not new, the latest advancements have investors calling it the advent of the next technological revolution.

GAI takes traditional AI to the next level. Expanding on pattern recognition and trend prediction, GAI learns from data to generate original content. Judging by the positive market reaction, investors seem confident the application of these capabilities could lead to future productivity and corporate profit gains. **Major technological transitions take time though.** Given that GAI only recently emerged, how much AI optimism has translated into actual business spending?

Looking at the overall business investment trend, capital expenditures (capex) has moderated over the last year. Real private nonresidential fixed investment continued to slow last quarter as overhangs from higher interest rates, tighter lending standards and economic uncertainty persisted. **Technology-focused capex, however, remained a bright spot.** Investments in both computer equipment and software have seen noticeable pickups (Exhibit 4). Q1 corporate earnings results echoed that AI-related investment increase. The 2024 capex estimate for S&P 500 “hyperscalers” (companies with large data sets, software expertise and cloud infrastructure cost advantages) was revised up by \$16 billion to an estimated \$193 billion capex, or 31% year-over-year expected.⁴ And there could be further upside, with 39% of CEOs expecting higher overall capital spending over the next 6 months in the latest Business Roundtable CEO Economic Outlook survey, the highest share since 2022 and a jump up from 32% during the prior quarter.⁵

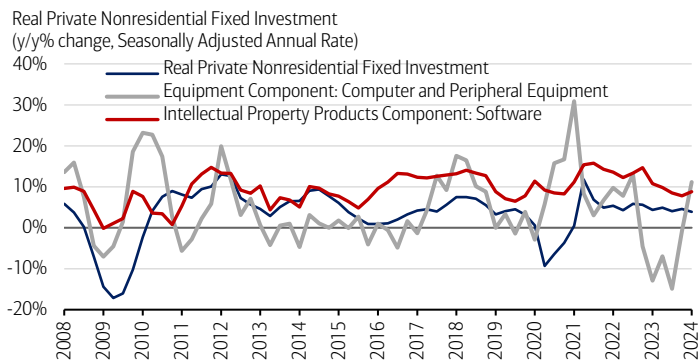
The latest expansion in AI-related investment only marks the start of this broad AI development and adoption cycle. Secular forces, from further digitalization of the economy and business operation automation to a need for labor shortage solutions amid an aging workforce, will likely keep AI investment a top priority for companies. The International Data Corporation (IDC) estimates that the global AI software market will grow from \$64 billion in 2022 to nearly \$251 billion in 2027 at a compound annual growth rate of 31.4%.⁶ We expect this AI shift to play out over many years and would consider AI a longer-term investment theme within portfolios.

Portfolio Considerations

AI is one of our investment megatrends that we believe should form a solid foundation for the longer-term Equity uptrend. We maintain a positive view on Growth stocks as we expect them to continue to benefit from the AI shift. We still believe strategic portfolios should incorporate both Growth and Value factors that would simultaneously benefit from cyclical and secular forces gaining traction.

Exhibit 4: The Start of an AI Investment Cycle.

4A) AI-related investments have trended higher...



4B) ...picking up from the momentum started in the pandemic.

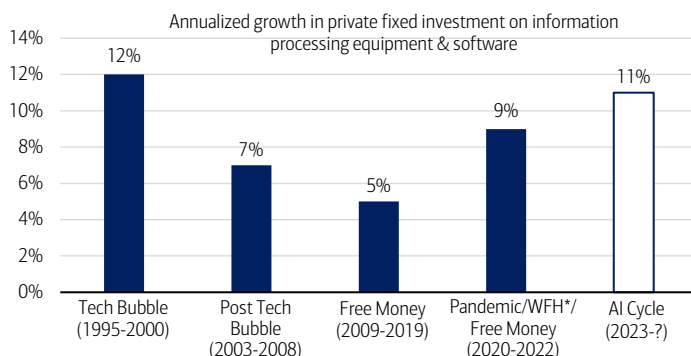


Exhibit 4A) Sources: Bureau of Economic Analysis; Federal Reserve Bank of St. Louis. Data as of May 8, 2024. Exhibit 4B) *WFH refers to work from home. AI cycle’s 11% growth represents Q1 2024 vs. Q3 2023 annualized. Sources: BofA Global Research; Bloomberg. Data as of May 6, 2024.

³ Bloomberg. Data as of May 10, 2024.

⁴ BofA Global Research. Data as of May 6, 2024.

⁵ Business Roundtable. Haver Analytics. Data reflects Q1 2024 survey results as of May 8, 2024.

⁶ International Data Corporation. Data as of December 20, 2023.

Equities

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
DJIA	39,512.84	2.2	4.5	5.5
NASDAQ	16,340.87	1.2	4.4	9.1
S&P 500	5,222.68	1.9	3.8	10.0
S&P 400 Mid Cap	2,993.96	2.2	4.7	8.2
Russell 2000	2,059.78	1.2	4.4	2.1
MSCI World	3,419.92	1.8	3.6	8.6
MSCI EAFE	2,346.16	1.8	3.1	6.3
MSCI Emerging Markets	1,071.64	1.0	2.6	5.5

Fixed Income[†]

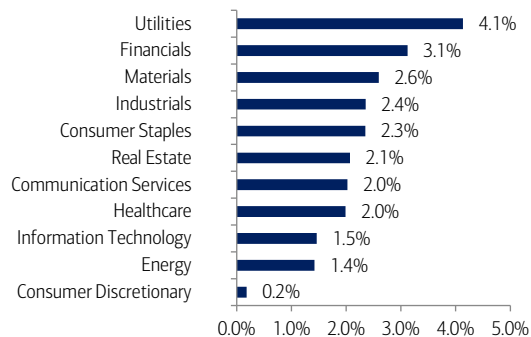
	Total Return in USD (%)			
	Current	WTD	MTD	YTD
Corporate & Government	5.02	0.06	1.20	-1.92
Agencies	5.04	0.01	0.69	-0.22
Municipals	3.61	0.48	1.08	-0.55
U.S. Investment Grade Credit	5.11	0.09	1.36	-1.97
International	5.55	0.02	1.34	-1.63
High Yield	7.92	-0.02	0.93	1.46
90 Day Yield	5.40	5.39	5.39	5.33
2 Year Yield	4.87	4.82	5.04	4.25
10 Year Yield	4.50	4.51	4.68	3.88
30 Year Yield	4.64	4.66	4.78	4.03

Commodities & Currencies

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
Commodities				
Bloomberg Commodity	240.58	1.5	1.2	6.2
WTI Crude \$/Barrel ^{††}	78.26	0.2	-4.5	9.2
Gold Spot \$/Ounce ^{††}	2360.5	2.6	3.2	14.4

	Total Return in USD (%)			
	Current	Prior Week End	Prior Month End	2022 Year End
Currencies				
EUR/USD	1.08	1.08	1.07	1.10
USD/JPY	155.78	153.05	157.80	141.04
USD/CNH	7.23	7.19	7.25	7.13

S&P Sector Returns



Sources: Bloomberg; Factset. Total Returns from the period of 5/6/2024 to 5/10/2024. [†]Bloomberg Barclays Indices. ^{††}Spot price returns. All data as of the 5/10/2024 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 5/10/2024)

	2023A	Q1 2024A	Q2 2024E	Q3 2024E	Q4 2024E	2024E
Real global GDP (% y/y annualized)	3.0*	-	-	-	-	3.0
Real U.S. GDP (% q/q annualized)	2.5	1.6	2.0	2.0	2.0	2.5
CPI inflation (% y/y)	4.1	3.2	3.5	3.3	3.0	3.3
Core CPI inflation (% y/y)	4.8	3.8	3.6	3.6	3.4	3.6
Unemployment rate (%)	3.6	3.8	3.8	3.9	3.9	3.9
Fed funds rate, end period (%)	5.33	5.33	5.38	5.38	5.13	5.13

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 May 10, 2024.

Asset Class Weightings (as of 5/7/2024)

Asset Class	CIO View		
	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 Funds			
Private Equity			
Real Assets			
Cash			

*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 May 7, 2024. 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.

CIO Equity Sector Views

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

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.

U.S. Equities/S&P 500 Total Return Index is the investment return received each year, including dividends, when holding the S&P 500 index.

Geopolitical Acts Index is calculated from the frequency of articles that contain keywords in the following six categories: geopolitical threats, war threats, terrorist threats, nuclear threats, war acts, and terrorist acts.

Volatility Index (VIX) is the ticker symbol and the popular name for the Chicago Board Options Exchange's CBOE Volatility Index, a popular measure of the stock market's expectation of volatility based on S&P 500 index options.

MSCI Emerging Markets Index captures large and mid cap representation across 24 Emerging Markets (EM) countries.

Important Disclosures

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

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

Dividend payments are not guaranteed, and are paid only when declared by an issuer's board of directors. The amount of a dividend payment, if any, can vary over time.

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. 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.

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