

CHIEF INVESTMENT OFFICE

Capital Market Outlook

July 21, 2025

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

IN THIS ISSUE

Macro Strategy—OBBBA To Offset A 20% Effective Tariff Rate, Extending The Expansion: Restrained by negative tariff effects on consumer spending, business investment and labor demand, U.S. economic growth has remained in a midcycle “soft patch,” with private sector employment softening and June inflation running closer to 3% than the Federal Reserves (Fed)’s 2% target. Cooling employment and wage and salary growth, along with downside pressures on housing inflation are likely to contain inflation despite high tariffs. Growing excess supply and deflationary pressures, particularly in China, are also helping limit their effects on inflation.

An average tariff rate of up to 20% would increase inflation risks and would offset more of the tailwinds from the One Big Beautiful Bill Act (OBBBA), keeping the economy on track for only moderate expansion. Still, given S&P 500 Index composition, a continued expansion led by broadening Artificial Intelligence (AI) adoption, reshoring, and massive AI-related capital expenditures (capex) plans suggests sustained healthy profits growth and attractive Equity market returns.

Market View—Revolution Ahead: What Calculators Did To Math, AI Could Do To Language, Learning and More: We believe that what the calculator did to math, AI, specifically large language models (LLMs), will do to language and reasoning— and much, much more. An understanding of the history of the calculator—its evolution and overarching effect on business—helps frame what is coming down the pipe with AI.

Both tools represent a jump in cognitive automation. Like the calculator, LLMs will offload repetitive tasks and free up time and space for more high-level thinking and activities. Already today, LLMs can write and edit text, summarize complex materials, test assumptions, automate repetitive tasks, write code, clean data, learn math, and more. Think of this as cognitive offloading, which, over time, will boost worker/company productivity and the profits of firms. We see the U.S. remaining in the vanguard of technological innovation, hence, our bias for owning and holding U.S. assets in portfolios. AI is about to take us into the future—but think of the calculator as the ignition to the start of this journey.

Thought of the Week—Opportunities for Fixed Income Investors Ahead of Federal Reserve Rate Cuts: Especially around inflection points in Fed policy, the yield curve tends to move in historically consistent patterns that could provide potential opportunities for Fixed Income investors. The market has analyzed these patterns and has already made predictions for how the yield curve will move with Fed rate cuts. Although the current yield curve is inverted, forward yield curves confirm the historical pattern that short-term rates will likely fall more than their longer counterparts. We continue to believe that investors should extend duration out to at least their strategic duration target, locking in higher yields and minimizing reinvestment risk.

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Portfolio Considerations

We remain overweight Equities relative to Fixed Income and bullish over the longer term given our favorable view on the corporate profit cycle and the ability of companies to harness new growth spigots and productivity pathways. We expect short periods of volatility in the second half as geopolitical risk remains high, and equity prices get ahead of themselves from time to time. Exhale periods would be buying and rebalancing opportunities for long-term investors, in our view.

Within Fixed Income, we find both nominal and real yields to be compelling and believe clients should consider extending from cash to a strategic duration target. Rates have been consolidating since 2023, and we are less concerned about a further rate spike from here.

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OBBBA To Offset A 20% Effective Tariff Rate, Extending The Expansion

Chief Investment Office, Macro Strategy Team

The U.S. economy is in the middle of a complex mix of tariff shocks, disruptive policy uncertainty and heightened geopolitical tensions, with softening growth and inflation rekindled in some of the most tariff-exposed consumer goods. Indeed, although the labor market remains balanced, economic growth momentum has fizzled. Real consumer spending has posted a slight but rare year-to-May decline, June private payrolls growth was weak, and both manufacturing and nonmanufacturing Institute for Supply Management surveys showed employment indexes below 50 in June, suggesting downside employment risks in coming months. While initial jobless claims remain low, continuing claims have climbed to a four-year high, already pointing to longer unemployment spells. Consumer credit growth, especially revolving credit, has slowed, also reinforcing a guarded spending outlook. Though stronger than expected, June retail sales still suggest growth in consumer spending adjusted for inflation remains on track for moderate growth this year.

Softer consumer demand and downside pressures on shelter costs have contained inflation despite higher tariffs. Tame energy prices have also helped keep inflation in check and so has the fragile global economic backdrop. Indeed, a growing supply glut has amplified deflationary trends abroad, especially in China, limiting pressures on import prices (Exhibit 1A) despite a weaker dollar (Exhibit 1B). Still, shelter disinflation has not been strong enough to offset both accelerating tariff-related goods inflation and higher non-shelter services inflation in June (led by healthcare). As a result, “core” consumer price index inflation was up at a 2.8% annualized monthly rate and 2.9% year on year—moving further way from the Fed’s 2% target than at any point in four months.

While unemployment remains low and inflation relatively contained for now, the effective tariff rate is seen settling at 20% on August 1—up from 16% in June and closer to the 25% level initially proposed in April—raising new inflation and growth concerns. The risk of potential retaliation and a deeper global downturn as businesses adjust to new trade rules has also increased.

Yet, markets have regained their footing, and the case for a slight overweight in U.S. Equities remains compelling, in our view. A focus on asset-light, high free-cash-flow (FCF) companies and sectors participating in building the infrastructure of the future, including Technology, Industrials, Financials, and Utilities also makes sense, as discussed below:

- OBBBA stimulus is broadly expected to at least offset tariff headwinds for both businesses and consumers. Netting the tariff effects, real gross domestic product (GDP) growth is seen below potential in 2025, at about 1.6%. As fiscal stimulus effects filter through more fully and the economy adjusts to higher tariffs, growth is projected to move back to potential around 2% to 2.5%.
- As discussed above, inflation is likely to remain contained at an average of about 3% in 2025, decelerating toward the 2% target thereafter. New York Fed surveys report lower one-year ahead household inflation expectations from 3.7% in April to 3% in June, and bond markets are pricing in moderate inflation of about 2.7% over the next two years. Thus, nominal GDP is likely to remain around 4.5% to 5.0%, enough for continued healthy profits growth and market returns.
- Credit spreads remain tight, and corporate fundamentals appear solid, consistent with midcycle—not late-cycle—conditions. The S&P 500 Index 50-day moving average crossed above the upward-sloping 200-day average, typically a bullish signal.
- The mix of growth is shifting more toward business fixed investment rather than consumer and government spending. This is good for profits given the over-representation of capital goods and other business-investment-related companies in the S&P 500. Also, business fixed investment has a higher multiplier effect on jobs, a positive for consumer spending.

Portfolio Considerations

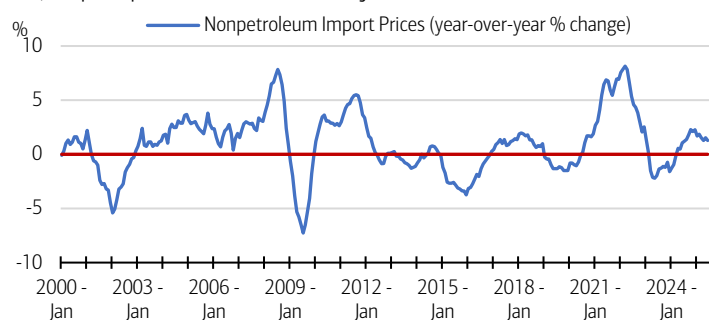
Cautious optimism about Fed easing, fiscal stimulus, and expectations for continued expansion have boosted risk assets. Despite tariffs, mid-single-digit earnings growth estimates supplemented by dividends and buybacks may lift total returns into the high-single-digits. We maintain a slight overweight on U.S. Equities and remain buyers on inevitable dips.

- U.S. manufacturers' profits margins have doubled over the past 25 years, according to Empirical Research Partners. They're likely to benefit further from policy-driven structural tailwinds. Manufacturing production was resilient in June, led by high-technology and tariff-protected industries.
- Exceptional Technology sector free cash flows, growing AI adoption and related investment create strong equity market underpinnings. By stimulating investment, 100% immediate depreciation for capex and research & development boosts cash flows and sets up the economy for stronger productivity and profits growth.
- Q1 S&P 500 earnings per share (EPS) were strong and better than expected, and Q2 estimates have stabilized following earlier concerns. According to BofA Global Research, the U.S. earnings revisions ratio (ERR) has turned sharply positive, indicating more earnings upgrades than downgrades (while remaining mostly negative abroad). AI-driven capex, reshoring, stable interest rates, moderate energy prices, and a weaker dollar support 6% to 7% earnings growth projections for 2025 and potentially higher in 2026 as real GDP growth accelerates. Mid-single-digit earnings growth supplemented by dividends and buybacks would lift total returns into the high single digits, or better.
- A softer dollar enhances earnings as 40% of S&P 500 revenue comes from abroad. Though sharp, the trade-weighted dollar depreciation from 40-year overvaluation remains within historical norms (Exhibit 1).
- Information Technology, Industrials and Financials leadership points to early-to-midcycle economic conditions. Typically late-cycle and recession plays, Utilities now exhibit defensive-growth characteristics because of surging AI-driven electricity demand. Healthcare and Consumer Staples usually underperform until later in the cycle, and overall are also hindered by policy pressures, shifting consumer preferences, and relatively thinner profit-margin prospects.
- With the economy operating below potential and inflation expectations stable, Fed interest rate cuts remain more likely than rate hikes.
- Mega-caps continue to exceed expectations, outshining the broader market. While year-over-year Magnificent 7¹ earnings growth is projected to slow to 14% in Q2 from 26% in Q1, the other S&P 493² companies are seen up just about 2% in aggregate. Still, S&P 500 forward revenues and EPS are expected to hit record highs in coming quarters, and for most sectors.
- Valuations appear reasonable given exceptional FCF generation, technological edge, and high payout ratios (also far higher than abroad) with lessened cyclical to boot. Per Empirical Research, S&P 500 FCF margins are 4x higher than in the early 1990s, driven by asset-light technology. This makes comparisons with historical price-to-earnings ratio apples to oranges.

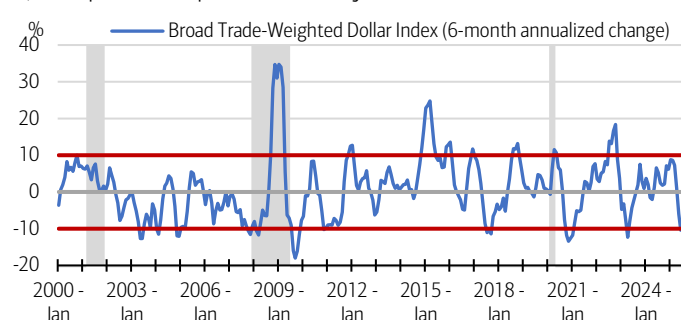
With this in mind, we suggest a U.S. Equity overweight, with exposure to innovation-driven and capex-related areas of the market (i.e., cyclical, interest rate-sensitive, and growth sectors). With an extended expansion, buying on weakness also remains warranted.

Exhibit 1: Dollar Depreciation Puts Upside Pressure On Import Prices. However....

1A) Import prices remain relatively contained...



1B) Sharp dollar depreciation this year is well within historical norms.



Gray bars represent recessionary periods. Source Exhibit 1A and 1B: Haver Analytics. Data as of July 17, 2025. Please refer to index definitions at the end of this report. **Past performance is no guarantee of future results.**

¹ Apple, Amazon, Alphabet, Nvidia, Meta, Microsoft, and Tesla.

² an abbreviation for the S&P 500 Index minus the Magnificent 7 and is not an official index.

Revolution Ahead: What Calculators Did To Math, AI Could Do To Language, Learning and More

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

One way to think about the transformative effects of AI is to think about the evolution and adoption of the humble calculator—a device all but forgotten in a world of super computers, big data, smart phones and everything related to machine learning, LLMs and other subsets of AI.

Rewind to the 1960s and early 1970s. The primary means of computing is through slide rules or log tables. Data entries at firms are done manually by armies of accountants, bookkeepers and clerks—and yes, some of these folks are wearing green visors because the green tint was believed to be soothing on the eyes after long hours spent looking at white papers, reams of figures and ledgers.

Functions like accounting, payrolls, invoicing, forecast modeling—all of these tasks are slow, tedious and prone to human error. Productivity, not unexpectedly, lags, and corporate decision-making does not take place in real time. It takes place in a vacuum.

Things, however, begin to change in 1972 with the release of the HP 35—the pocket scientific calculator from Hewlett Packard. Like most technologies, the adoption rate of calculators was slow but gained momentum over the 1970s and beyond.

Calculations—whether basic or complex—became faster and more accurate. All the folks in green shades perform instant and complex calculations in real time. The productivity of accountants, bankers and financial analysts soars since tasks that used to take hundreds of man-hours are now done in a matter of minutes with laser-like accuracy. This allows firms to run more complex financial models, optimizing corporate planning functions and related activities. The calculator also enables rapid advances in such activities as space, physics and electronics, liberating scientists and engineers to work faster and more effectively and push on the frontiers of innovation.

All of the above helped boost the productivity and profit margins of firms across various sectors. Indeed, early adopters of calculators were able to respond faster and precisely to pricing, quotes, inventory management, invoicing and related functions, building a competitive edge over firms reliant on ledgers and slide rulers. Companies that adopted calculators early gained productive and competitive advantages.

So did countries. Think of Japan, whose early leadership in calculators (production and use) helped position the nation to emerge as an electronics superpower of the 1980s.

More broadly, think of the calculator as the first digital device of the modern-day office—and the bridge from manual/analog to digital computation. The calculator helped usher in the digital transformation of the global economy in the late 20th century, accelerating the adoption of computers, enterprise software and the rise of the knowledge economy.

It was a catalyst for more service-led growth in the U.S. and parts of the world. And as one of the first devices to run on microchips, the pocket calculator also contributed to rising demand for integrated circuits and microprocessors—the building blocks of the digital economy. In the end, think of the calculator as the first ubiquitous digital device that triggered a global wave of productivity and technological innovation.

Did the adoption of calculators result in job losses? Of course. Over time firms needed less bookkeepers and clerical work, although demand for higher-skilled labor rose as new roles emerged for financial analysts, data handlers, systems managers and knowledge workers in general. Demand for the latter soared as the digital revolution gained traction in the latter stages of the 20th century. As history suggests, technological advances are prone to both destroy and create jobs over the long-run.

Now, fast forward to today. We believe that what the calculator did to math, AI, specifically LLMs, will do to language and reasoning—and much, much more.

Investment Implications

Owning U.S. Equities, notably U.S. technology leaders, remains our fundamental bias and belief. We believe the U.S. will continue to lead the AI revolution.

Yes, comparing AI to the calculator seems silly. In terms of impact on society, one's a Ferrari, the other a three-legged horse. But an understanding of the history of the calculator—its evolution and overarching effect on business—helps frame what is coming down the pipe with AI (see Exhibit 2A for the sequencing of these foundational technologies). And besides, while the adoption of the calculator and LLMs are decades apart, there are similarities as to the coming effects on business, work and global competitiveness.

Both tools represent a jump in cognitive automation. Like the calculator, LLMs will likely offload repetitive tasks and free up time and space for more high-level thinking and activities. Already today, LLMs can write and edit text, summarize complex materials, test assumptions, automate repetitive tasks, write code, clean data, learn math, and more. Think of this as cognitive offloading, which, over time, will boost worker/company productivity and the profits of firms.

Will this be disruptive to the labor market? Of course. AI, like calculators, will likely change the skills that matter and require more re-skilling of labor and rethinking of educational curriculums. We believe AI will both destroy and create jobs over the long term.

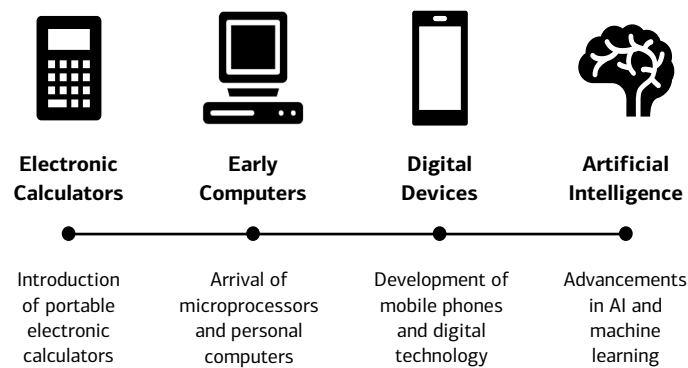
Additionally, while the early adoption of calculators in Japan helped boost the nation's economic competitiveness over the 1980s, AI leadership today could have the same economic and geopolitical effects. On that basis, today, AI is to China what calculators were to Japan—a paradigm-shifting technology supporting the rise of China as a global economic heavyweight. And as Exhibit 2B highlights, all of this is happening at warp speed.

In the end, to say the world is on the cusp of transformational change is an understatement. The unrelenting march of technology continues. This new world will present both risks and rewards, and per the former, plenty has been written about the apocalypse-like effects of AI. That said, however, as stewards of capital and long-term investors, we see more reward than risk in the years ahead. We also see the U.S. remaining in the vanguard of technological innovation, hence our bias for owning and holding U.S. assets in portfolios.

AI is about to take us into the future—but think of the calculator as the ignition to the start of this journey.

Exhibit 2: From Calculator to AI: Putting the Revolution Ahead in Perspective.

2A) A History of Foundational Technologies.



2B) Each Technological Era Brings Faster Adoption.

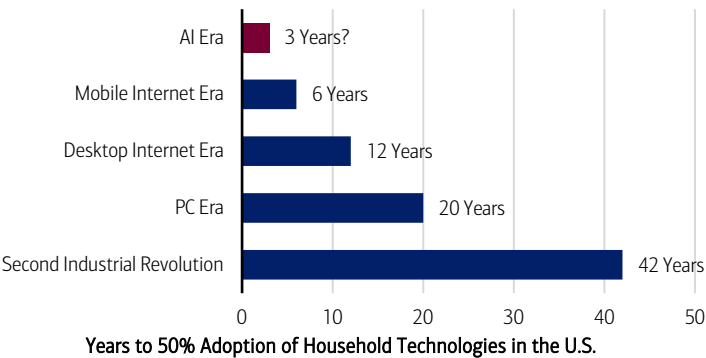


Exhibit 2A) Source: Chief Investment Office. For illustrative purposes only. Data through Q2 2025. Exhibit 2B) Sources: Morgan Stanley; BOND-Venture Capital and Private Equity Firm. Data as of July 2025.

Opportunities for Fixed Income Investors Ahead of Federal Reserve Rate Cuts

Chief Investment Office, Fixed Income Strategy Team

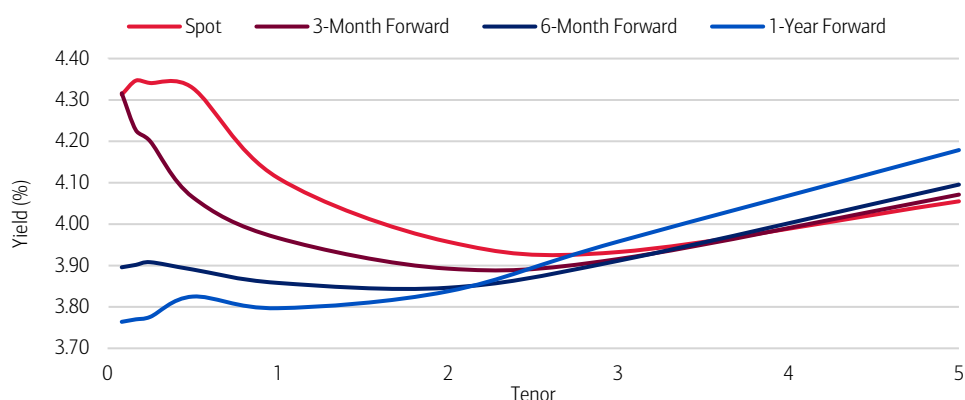
Both the level of interest rates and the shape of the yield curve reflect market expectations for upcoming Fed policy changes. While the longer end of the yield curve (10- to 30-year maturities) anticipates longer-term Fed policy, shorter-maturity securities progressively reflect nearer-term expectations of Fed policy changes, to the extreme case where 1-month (and shorter) Treasury Bill yields only meaningfully change coincident with actual, real-time Fed policy changes. This dynamic can be exploited by positioning Fixed Income portfolios to benefit from possible reductions in the Fed funds policy rate.

The dynamic can also be seen via the use of “forward” yield curves. It is important to understand that these forward yields are simply a mathematical calculation, not a forecast. However, to the extent that these calculations were believed to be very different from what was expected to occur, investors would buy or sell current rates and anticipate a likely profit—i.e., be arbitrated away. Hence, the yield curve is viewed as a good—although imprecise—collective expectation of the market’s view of the forward path of rates, as investors arbitrage away any unlikely rate moves.

As can be seen in Exhibit 3, the current spot curve is inverted, with shorter yields exceeding their longer-maturity counterparts (going out to 5-year maturities). This is unusual and generally only seen when Fed rate cuts are anticipated. As those Fed cuts are implemented, forward curves suggest that shorter maturities respond with larger anticipated rate declines, with, at this time, 4-year and longer rates barely moving.

Given that yield/income is a vitally important component of total return, we believe that extending duration before the Fed actually begins rate cuts, even at the sacrifice of very near-term portfolio yield, is prudent as it takes reinvestment risk—reinvesting short maturities at progressively lower and lower yields as the Fed cuts rates—off the table. The timing and extent of duration extension is highly contingent on the view as to when a cutting cycle might begin, the outlook for the full number of anticipated rate cuts, and the conviction in those forecasts. While arriving at those forecasts is a difficult task, implementing those views into bond portfolios is relatively straightforward—pivot portfolios longer in duration terms before the Fed cuts rates or pivot shorter in duration terms before the Fed raises rates.

Exhibit 3: Forward-Implied Yield Curves.



Source: Bloomberg. Data as of July 15, 2025. 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.**

Investment Implications

Given that an outlook from the Fed itself (via the “dot plot”), the broad market (via the futures markets), and the coalescing around impending Fed rate cuts, we will continue to look for opportunities to extend to longer durations when it becomes appropriate. We see good value in buying longer maturities in shorter-term portfolios several months prior to that initial rate cut and suggest that investors take advantage of this potential opportunity by extending portfolio duration before the next cut occurs.

Equities

Total Return in USD (%)				
	Current	WTD	MTD	YTD
DJIA	44,342.19	-0.1	0.6	5.2
NASDAQ	20,895.66	1.5	2.6	8.6
S&P 500	6,296.79	0.6	1.5	7.8
S&P 400 Mid Cap	3,171.55	0.0	2.3	2.5
Russell 2000	2,240.01	0.2	3.0	1.2
MSCI World	4,065.68	0.5	1.0	10.6
MSCI EAFE	2,640.63	-0.3	-0.5	18.8
MSCI Emerging Markets	1,249.38	1.7	2.4	18.0

Fixed Income†

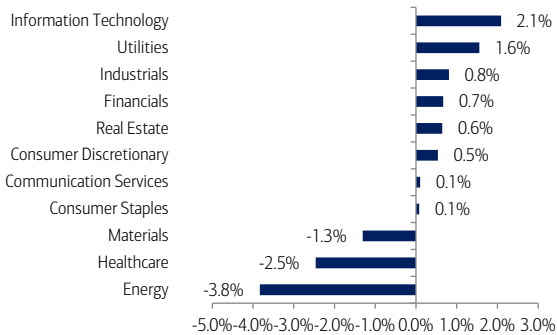
Total Return in USD (%)				
	Current	WTD	MTD	YTD
Corporate & Government	4.52	0.06	-0.79	3.13
Agencies	4.37	0.14	-0.29	3.14
Municipals	4.07	-1.13	-1.05	-1.39
U.S. Investment-Grade Credit	4.67	0.04	-0.77	3.22
International	5.11	0.16	-0.67	3.48
High Yield	7.11	0.14	0.13	4.70
90 Day Yield	4.33	4.33	4.29	4.31
2 Year Yield	3.87	3.89	3.72	4.24
10 Year Yield	4.42	4.41	4.23	4.57
30 Year Yield	4.99	4.95	4.77	4.78

Commodities & Currencies

Total Return in USD (%)				
	Current	WTD	MTD	YTD
Commodities				
Bloomberg Commodity	260.01	1.3	3.3	9.0
WTI Crude \$/Barrel††	67.34	-1.6	3.4	-6.1
Gold Spot \$/Ounce††	3349.94	-0.2	1.4	27.6

Total Return in USD (%)				
Currencies	Current	Prior Week End	Prior Month End	2022 Year End
EUR/USD	1.16	1.17	1.18	1.04
USD/JPY	148.81	147.43	144.03	157.20
USD/CNH	7.18	7.17	7.16	7.34

S&P Sector Returns



Sources: Bloomberg; Factset. Total Returns from the period of 7/14/2025 to 7/18/2025. †Bloomberg Barclays Indices. ††Spot price returns. All data as of the 6/20/2025 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 7/18/2025)

	Q1 2025A	Q2 2025A	Q3 2025E	Q4 2025E	2025E	2026E
Real global GDP (% y/y annualized)	-	-	-	-	3.0	3.0
Real U.S. GDP (% q/q annualized)	-0.5	2.3*	1.0	1.6	1.6	1.6
CPI inflation (% y/y)	2.7	2.5*	2.9	2.8	2.7	2.3
Core CPI inflation (% y/y)	3.1	2.8*	3.1	3.1	3.0	2.6
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.
Sources: BofA Global Research; GWIM ISC as of July 21, 2025.

Asset Class Weightings (as of 7/8/2025)

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 Strategies			
Private Equity & Credit			
Real Assets			
Cash			

CIO Equity Sector Views

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

*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 July 8, 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.

Consumer Price Index is a measure of the average change over time in the prices paid by urban consumers for a basket of consumer goods and services.

Broad-Trade Weighted-Dollar Index measures the value of the dollar against a large set of 26 currencies.

Important Disclosures

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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. 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. Income from investing in municipal bonds is generally exempt from Federal and state taxes for residents of the issuing state. While the interest income is tax-exempt, any capital gains distributed are taxable to the investor. Income for some investors may be subject to the Federal Alternative Minimum Tax (AMT). 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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