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CHIEF INVESTMENT OFFICE

Capital Market Outlook

August 5, 2024

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

IN THIS ISSUE

Macro Strategy—*The Ghosts of August: What's Spooking the Markets and Where do We Go from Here?:* August is typically a volatile time for markets, and this year is no different. Six factors have emerged to rattle the markets: 1), the belief that the Federal Reserve (Fed) is behind the curve in cutting interest rates; 2), that U.S. and Chinese consumers are retrenching; 3), the unwinding of the Artificial Intelligence (AI) trade; 4), the unwinding of the yen-carry trade; 5), the prospects of a tight/close U.S. election in November; and 6), rising geopolitical tensions in the Middle East.

That said, our base case has not changed and pivots on the following: Buy U.S. Equities on weakness; stay in the market—timing the market is a fool's errand; stay U.S.-centric—U.S. assets remain core holdings of portfolios; U.S. elections matter, but economic growth and earnings matter more to returns; and the potential benefits of AI are still in front of us—owing to the coming boost in productivity and operating leverage, the corporate earnings backdrop remains favorable over the long run.

Market View—*Three Investment Takeaways from the Market's Summer Shake-Up:* July was a wild ride for equity markets. Returns were dragged lower by the same mega-cap darlings that have powered this year's bull market, interest rate sensitive areas like Small-caps were suddenly back in the spotlight as expectations for easier monetary policy were pulled forward, and dormant measures of volatility sprang back to life.

Last month's market tumult serves as an opportunity to reflect on the core principles of investing, especially considering our view that the potential for episodic volatility is likely to persist for the remainder of the year. Our three key investment takeaways: 1) avoid overexposure to any one area of the market, 2) stay balanced and diversified, and 3) stick to a disciplined investment process.

Thought of the Week—*Is the Muni Tax Exemption in Jeopardy?:* The unsustainable path of the federal fiscal deficit and sunsetting provisions of the 2017 Tax Cuts and Jobs Act could cause Congress to reconsider many tax expenditures within the U.S. tax code, possibly including the municipal bond tax exemption.

While some tinkering around the edges is possible, all previous muni bond tax reforms have been on a going-forward, not a retroactive basis. We believe any legislation that limits future tax-exempt issuance should only make valuations on existing municipal bonds richer.

MACRO STRATEGY ▶

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

MARKET VIEW ▶

Emily Avioli
Vice President and Investment Strategist

THOUGHT OF THE WEEK ▶

David Litvack
Managing Director and Tax Exempt Strategist

MARKETS IN REVIEW ▶

Data as of 8/5/2024, and subject to change

Portfolio Considerations

We maintain an overweight to Equities, with a preference for higher quality U.S. Large- and Small-caps. We continue to incorporate cyclical-value exposure in our sector views by maintaining overweight allocations to areas like Energy, Industrials and Consumer Discretionary and emphasize Healthcare to reflect a balance between Value and Growth.

We still favor a significant allocation to bonds in a diversified portfolio, re-affirm our view to be slightly long duration and reiterate our preference for rate risk over credit risk generally within Fixed Income.

We view weak episodes in the markets as a buying opportunity for long-term Equity investors.

MACRO STRATEGY

The Ghosts of August: What's Spooking the Markets and Where do We Go from Here?

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

Investment Implications

We expect the markets to remain volatile and choppy over the near-term but continue to recommend that investors buy on weakness and stay in the market.

It's early August but the month is already living up to its reputation as being among the most volatile for the capital markets. In brief, here are six factors creating concerns and volatility in the markets:

Concern #1: The Fed is behind the curve in cutting interest rates in the face of weakening U.S. economic indicators, namely the jump in the U.S. unemployment rate to 4.3% in July. The economy added only 114,000 jobs last month, the slowest rate of gain since last year. The jobless rate has climbed by nearly one percentage point in the past year and comes alongside other factors pointing to slower economic growth like the downturn in manufacturing Institute for Supply Management Purchasing Managers' Index and rising credit card delinquencies. The fed funds futures market is now pricing in an 85% probability of a 50 basis point (bps) cut in September and a 63% probability for another 25 bps in November.

Concern #2: That U.S. and Chinese consumers are pulling back and retrenching, undercutting the twin engines of global consumption since the U.S. and China, combined, account for a staggering 44% of global consumption according to figures from the United Nations. While Q2 U.S. earnings have come in solidly in most cases, one underlying theme from a number of firms has been flagging/weakening U.S. consumer demand amid higher costs of goods and services. Both discretionary and non-discretionary spending in the U.S. has softened this year, prompting concerns that the almighty U.S. consumer, accounting for nearly 70% of U.S. gross domestic product, is set to rollover. While lower income households in the U.S. have pulled back on spending this year, the negative wealth effects from swooning U.S. Equities could cool spending among higher-income households in the months ahead, piling on more downside pressure on U.S. economic prospects.

Concern #3: The unwinding of the AI trade as investors start to question the massive capital spending plans of Large-cap technology companies juxtaposed against when the transformational effects of AI will begin to pay off for technology firms and the economy in general. U.S. technology leaders have spent billions on the buildout of the AI infrastructure this year, and signaled to investors they were not done during Q2 earnings calls. The messaging didn't go down well, triggering a rethink and selloff along the technology complex as investors weigh the costs of the AI revolution versus expected returns. Not helping matters, the unwinding of the yen carry trade.

Concern #4: The unwinding of the yen carry trade as the Bank of Japan (BoJ) raises rates much faster-than-expected and pulls back on bond buying. A hawkish BoJ is a clear signal that the decade of ultra-easy monetary policy is over in Japan; the yen has surged by over 13% since July 10, undermining the popular yen-funded carry trade among investors. Meanwhile, as a funding currency, the yen has helped fuel and fund demand for U.S. technology stocks—ergo, the unwinding of the yen carry trade has filtered into the downdraft in U.S. big technology. It's also hammered the technology-heavy indexes of Taiwan and South Korea—technology makes up 78% of the MSCI Taiwan Index and nearly 50% of the MSCI South Korea Index.

Concern #5: That the U.S. election will be tighter than originally thought given that Kamala Harris, not President Biden, has emerged as the Democratic nominee. Prior to President Biden stepping aside, the markets grew comfortable with the notion that Donald Trump would be re-elected president in November, taking out the drama and uncertainty of the November vote. The script has been flipped, however,

RETURN TO FIRST PAGE

with the unexpected turn in the Democratic ticket. Various polls point to a very tight race for the White House, which is expected to add to market volatility between now and election day.

Concern #6: That rising geopolitical tensions in the Middle East—pitting regional heavyweights Israel vs Iran—boil over, sparking a greater regional conflict that imperils a large share of the world's oil supplies. The markets have come to discount geopolitical risks in Ukraine, the Middle East and the South China Sea, although sentiment can quickly turn negative and add to market gloom/volatility with each new incident of violence.

Where do we good from here?

Given all the moving parts of the moment, we expect the U.S. and global markets to remain volatile and choppy over the near-term. But our base case has not changed and pivots on the following:

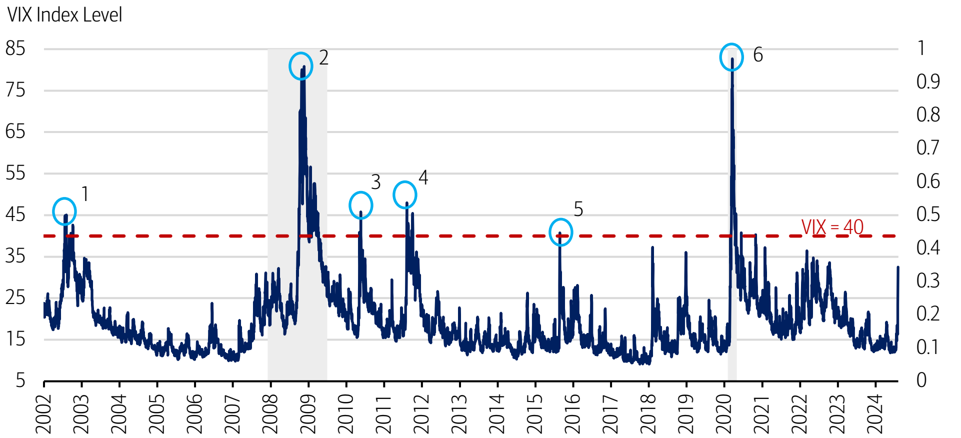
- Buy U.S. Equities on weakness
- Stay in the market—timing the market is a fool's errand
- Stay U.S.-centric—U.S. assets remain core holdings of portfolios
- U.S. elections matter, but economic growth and earnings matter more to returns
- The potential benefits of AI are still in front of us—owing to the coming boost in productivity and operating leverage, the corporate earnings backdrop remains favorable over the long run.

From a macro perspective, a U.S. recession remains a distant concern at this point. BofA Global Research is not forecasting a recession. We believe many parts of the economy—the labor "market", savings rate, interest rates, retail sales—are normalizing following the anomalies created by the pandemic.

In addition, corporate earnings remain healthy, likely to grow 10% this year.

And finally, during times of market spasms, it helps to step back and remember that no economy in the world is as large, diverse and wealthy as the U.S. economy. Episodes of market volatility have been typically followed by resets and an upward grind in Equities. This time, we believe, will be no different.

Exhibit 1: A Longer-term View of the VIX[1] Spiking Around Significant Events.



Gray bars represent recessionary periods. Note: The numbered bear markets correspond to the following events: 1) Post dot-com bubble, 2) Global financial crisis, 3) Europe sovereign debt crisis, 4) U.S. credit downgrade, 5) China currency devaluation, 6) Pandemic. Sources: Bloomberg, Yardeni Research. Data as of August 5, 2024. **Indexes are unmanaged and do not take into account fees or expenses. It is not possible to invest directly in an index. Past performance is no guarantee of future results.**

[1] Volatility Index.

MARKET VIEW

Three Investment Takeaways from the Market's Summer Shake-Up

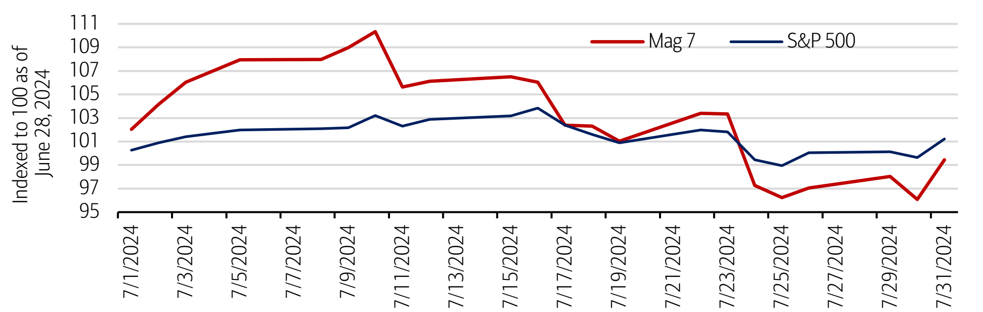
Emily Avioli, Vice President and Investment Strategist

The S&P 500 ended July with an unassuming monthly total return of 1.2%, but a peek below the index level reveals a more complicated picture. In what was dubbed by some as "the great rotation," returns were dragged lower by the same mega-cap darlings that powered the equity market rally in the first half of the year. Interest rate sensitive areas like Small-caps were suddenly back in the spotlight as expectations for easier monetary policy were pulled forward. Meanwhile, long-dormant measures of equity market volatility stirred in the background. Parsing through the noise, we find three key investment takeaways from the market's summer shake-up.

1. **"Mag 7[2]" to "Lag 7" underscores the pitfall of overexposure:** The mega-cap tech stocks that are largely responsible for fueling this year's bull market stumbled in July. After returning 37.0% in the first half of the year, the infamous Mag 7 saw an intra-month peak-to-trough decline of -12.9%.[3] The pullback can be attributed to a confluence of factors, including growing concerns about extended valuations and repositioning amid concentration risk. Profits were in focus as several high-profile earnings misses cast doubt that massive investments in AI will see near-term returns. An additional blow was dealt mid-month by a report that the U.S. is considering trade restrictions that could curb semiconductor business in China. While dip buying toward month-end helped to limit losses on a monthly basis, a resumption of weakness in early August ultimately led the Nasdaq 100 into correction territory.

Investment Implications: AI remains a long-term theme for us, and we ultimately expect that related investments will continue to see momentum. But July's sudden reversal acts as a healthy reminder that the leaders of the market today may look different from the leaders of the future. We suggest emphasizing long-term innovation themes as a part of a balanced portfolio while avoiding overexposure to any one area of the market.

Exhibit 2: The Mag 7 Stumbled Last Month.



Bloomberg Mag 7 Index referenced. Source: Bloomberg. Data as of July 31, 2024. Performance results are extremely short term and do not provide an adequate basis for evaluating performance potential over varying market conditions or economic cycles. **Indexes are unmanaged and do not take into account fees or expenses. It is not possible to invest directly in an index. Past performance is no guarantee of future results.**

2. **"Small-cap Summer" argues for diversification:** Expectations for easier monetary policy were pulled forward after a promising consumer price index report last month, lifting interest rate-sensitive areas of the market. Small-caps, which typically benefit from lower borrowing costs due to higher debt levels, saw an especially impressive run-up. The Russell 2000 returned an eye-popping 10.2% in July, marking the third-largest monthly outperformance versus the S&P 500 on record (Exhibit 3). An anticipated profits recovery also provided a boost amid estimates for YoY Small-cap earnings growth to flip positive and slightly outpace S&P 500 YoY earnings growth beginning in Q3.[4] While Small-caps took the spotlight last month, it's worth noting that the rally extended to other unloved areas of the market, including Value-oriented, cyclical pockets. Real Estate and Financials were among the top-performing sectors in the S&P

Investment Implications

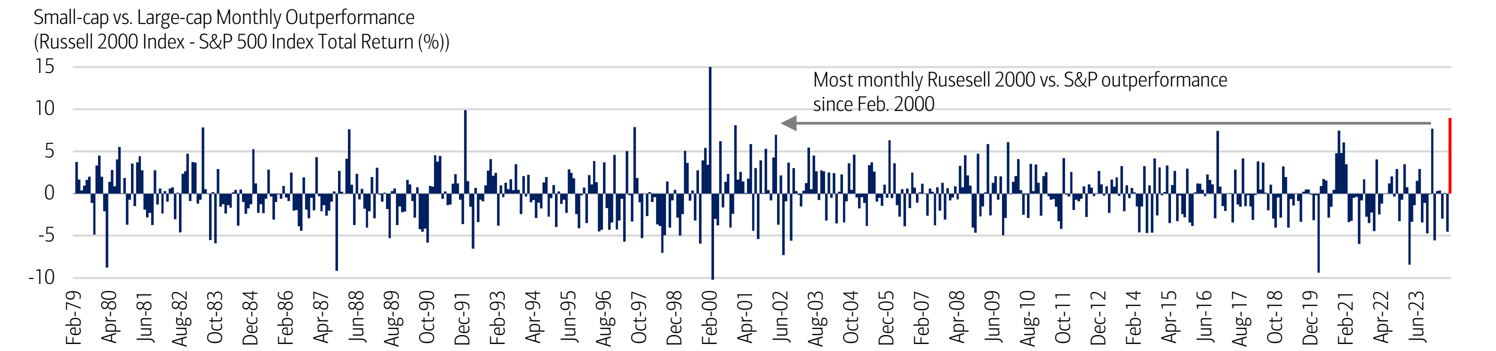
July was a wild ride for markets, and, in our view, the potential for episodic volatility is likely to persist. During periods of heightened uncertainty, we continue to emphasize core principles of investing, including balance, diversification and maintaining a disciplined process.

[2] Magnificent 7: Apple, Microsoft, Alphabet, Amazon, Nvidia, Meta Platforms and Tesla.
[3] Bloomberg. Data as of July 31, 2024. Refers to decline in the Bloomberg Mag 7 Index from 7/10/2024 to 7/30/2024.
[4] FactSet Earnings Scorecard. Data as of July 30, 2024. S&P 600 Index vs. S&P 500 Index estimated YoY earnings per share growth for Q3 2024 referenced.

500 with total returns of 7.2% and 6.5% and Value outpaced Growth by 6.8%.[5] Improvement in measures of market breadth reflects that strength was relatively broad-based, with the S&P 500 Equal Weighted Index beating the market cap weighted version for three straight weeks in July, ultimately outpacing it by 3.3% for the month.[6]

Investment Implications: We continue to emphasize exposure to U.S. Small-caps and select cyclical and Value-oriented sectors on expectations for resilient economic growth, a broadening profits cycle, and easier monetary policy, but risks to this rate-sensitive rally remain as evidenced by early August weakness. Recent market action highlights the importance of spreading investments across various asset classes within a portfolio to take advantage of unexpected shifts. We suggest a disciplined and balanced approach for long-term investors.

Exhibit 3: Small-cap vs. Large-cap Monthly Total Returns.

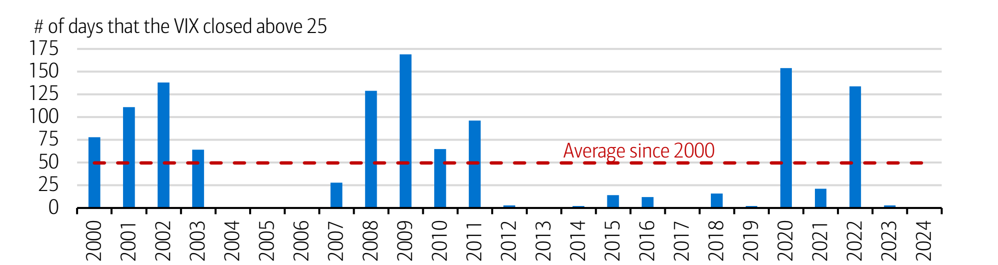


Source: Bloomberg. Data as of July 31, 2024. **Indexes are unmanaged and do not take into account fees or expenses. It is not possible to invest directly in an index. Past performance is no guarantee of future results.**

3. **VIX spike highlights importance of discipline:** After an unusually sanguine stretch for markets, measures of equity market volatility sprang back to life during July's market tumult. Churn extended into the early trading days of August, with the Chicago Board Options Exchange VIX closing above 23 for the first time since March 2023. After a period of relative tranquility, this development serves as an important reminder that volatility is considered normal. The VIX's long-term average is 19.5, and surges well above that figure are not uncommon. Take the turbulent market of 2020, for example, when the VIX closed above the 25 level 154 times throughout the year (Exhibit 4). Market pullbacks, which often accompany higher volatility, are also common, with 5% drawdowns occurring three times a year on average for the S&P 500 since 1930.[7] Last month's churn highlights the importance of having a disciplined investment plan in place to weather the market's inevitable twists and turns.

Investment Implications: The potential for episodic volatility persists amid the upcoming U.S. presidential election, softening economic data and elevated geopolitical risk. We emphasize the importance of staying invested during periods of uncertainty and continue to see market weakness as a buying opportunity for long-term investors.

Exhibit 4: Spikes in Volatility, While Subdued as of Late, Are Historically Common.



Source: Bloomberg. Data as of July 31, 2024. Indexes are unmanaged and do not take into account fees or expenses. It is not possible to invest directly in an index. **Past performance is no guarantee of future results.**

[5] Bloomberg. Data as of July 31, 2024. Russell 1000 Value Index and Russell 1000 Growth Index referenced.
[6] Bloomberg. Data as of July 31, 2024.
[7] BofA Global Research. November 3, 2023. Latest data available.

THOUGHT OF THE WEEK

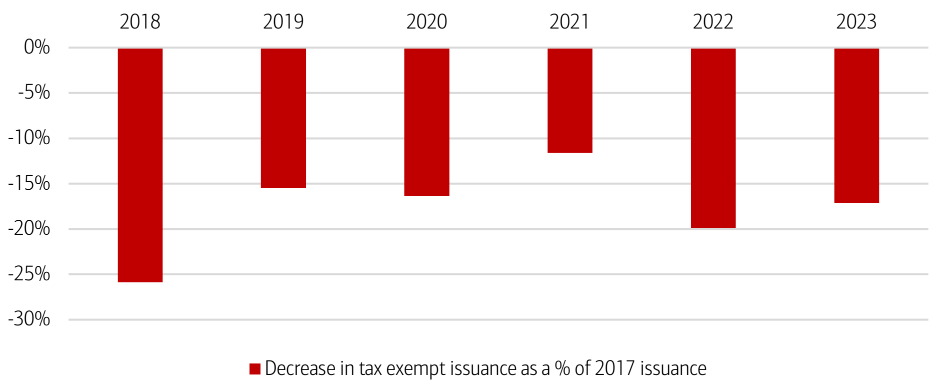
Is the Muni Tax Exemption in Jeopardy?

David Litvack, Managing Director and Tax-Exempt Strategist

We believe Congress will need to address the unsustainable path of the nation's fiscal deficit next year when it decides what to do about sunsetting provisions in the 2017 Tax Cuts and Jobs Act (TCJA). To avoid raising tax rates on large segments of the population, there will likely be a reconsideration of many so-called "tax expenditures," i.e., exclusions, exemptions, deductions and other tax reductions within the U.S. tax code. This could include the municipal bond tax exemption.

Interest on municipal bonds has been exempt from federal income taxes since the establishment of the federal income tax code in 1913. However, the muni tax exemption is not a constitutional right, but rather a legislative grant to the states by Congress, and therefore subject to revision (U.S. Supreme Court, South Carolina v. Baker, 1988). In fact, various reforms have been made to limit the municipal bond tax exemption, notably with the Tax Reform Act of 1986 and more recently with the TCJA, which permanently eliminated tax-exempt advance refundings after 2017 (Exhibit 5).

Exhibit 5: Tax-exempt Muni Issuance Declined After TCJA.



Source: London Stock Exchange Group, as of July 31, 2024.

The muni bond tax exemption costs the federal government $372 billion over 10 years, according to the U.S. Treasury Department. This is not nearly as expensive as some other tax expenditure such as medical insurance premiums ($3.44 trillion), net imputed rental income ($1.95 trillion), employer defined contribution retirement plans ($1.90 trillion), and capital gains ($1.57 trillion). However, it is enough to draw scrutiny, particularly because it does not benefit a large segment of the population; only 4% of personal income tax returns report tax exempt income, and 66% of those are from taxpayers earning over $100,000 in adjusted gross income according to the Internal Revenue Service.

State and local government finance officers will argue that the municipal bond tax exemption is an important and effective tool for the country to maintain and modernize its infrastructure. We agree with this position. However, within Congress, the tax exemption of municipal bonds has critics on both sides of the political spectrum, with some fiscal conservatives viewing it as encouraging wasteful spending and some liberals viewing it as simply a tax loophole for the rich.

We believe it is very unlikely the municipal tax exemption will be completely eliminated. However, Congress could remove a subset of tax-exempt muni issuance, such as private activity bonds. This would not be a reason for investors to avoid tax-exempt munis though. All previous muni bond tax reforms have been on a going-forward, not a retroactive basis, and we believe this would continue to be the case. We believe any legislation that reduces future tax-exempt issuance should make valuations on existing municipal bonds even richer.

Investment Implications

Investors need not avoid municipal bonds on concerns that the muni bond tax exemption will be taken away, which we view as unlikely. While some tinkering around the edges is possible, all previous muni bond tax reforms have been on a going-forward, not a retroactive basis. We believe any legislation that limits future tax-exempt issuance should only make valuations on existing municipal bonds richer.

MARKETS IN REVIEW

Equities

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
DJIA	39,737.26	-2.1	-2.7	6.6
NASDAQ	16,776.16	-3.3	-4.7	12.2
S&P 500	5,346.56	-2.0	-3.2	13.0
S&P 400 Mid Cap	2,948.01	-4.1	-4.8	6.9
Russell 2000	2,109.31	-6.7	-6.4	4.9
MSCI World	3,448.80	-2.1	-3.4	9.8
MSCI EAFE	2,291.33	-2.0	-3.8	4.3
MSCI Emerging Markets	1,061.23	-1.0	-2.2	5.5

Fixed Income†

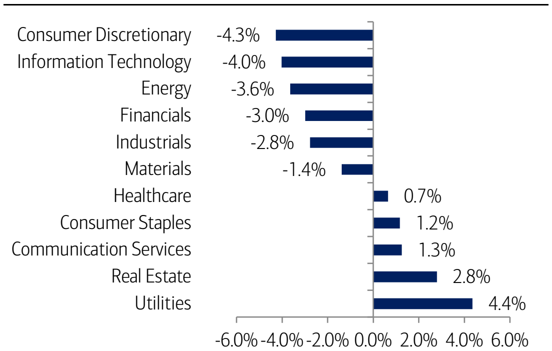
	Total Return in USD (%)			
	Current	WTD	MTD	YTD
Corporate & Government	4.26	2.35	1.50	3.08
Agencies	4.25	1.42	0.96	3.32
Municipals	3.42	1.03	0.95	1.46
U.S. Investment Grade Credit	4.35	2.43	1.58	3.21
International	4.94	2.06	1.20	3.11
High Yield	7.70	-0.05	-0.31	4.26
90 Day Yield	5.17	5.29	5.28	5.33
2 Year Yield	3.88	4.38	4.26	4.25
10 Year Yield	3.79	4.19	4.03	3.88
30 Year Yield	4.11	4.45	4.30	4.03

Commodities & Currencies

	Total Return in USD (%)			
Commodities	Current	WTD	MTD	YTD
Bloomberg Commodity	224.47	-1.2	-1.8	-0.9
WTI Crude $/Barrel††	73.52	-4.7	-5.6	2.6
Gold Spot $/Ounce††	2443.24	2.3	-0.2	18.4

	Total Return in USD (%)			
Currencies	Current	Prior Week End	Prior Month End	2022 Year End
EUR/USD	1.09	1.09	1.08	1.10
USD/JPY	146.53	153.76	149.98	141.04
USD/CNH	7.16	7.26	7.23	7.13

S&P Sector Returns



Sources: Bloomberg; Factset. Total Returns from the period of 7/29/2024 to 8/2/2024. †Bloomberg Barclays Indices. ††Spot price returns. All data as of the 8/2/2024 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 8/2/2024)

	2024E	Q1 2024A	Q2 2024A	Q3 2024E	Q4 2024E	2025E
Real global GDP (% y/y annualized)	3.2	-	-	-	-	3.3
Real U.S. GDP (% q/q annualized)	2.7	1.4	2.8	2.5	2.0	2.2
CPI inflation (% y/y)	2.9	3.2	3.2	2.7	2.5	2.2
Core CPI inflation (% y/y)	3.4	3.8	3.4	3.2	3.1	2.7
Unemployment rate (%)	3.9	3.8	4.0	4.0	4.0	4.1
Fed funds rate, end period (%)	5.13	5.33	5.33	5.38	5.13	4.13

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 August 2, 2024.

Asset Class Weightings (as of 7/9/2024)

	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 Funds Private Equity Real Assets			●		
Cash					

CIO Equity Sector Views

	CIO View				
Sector	Underweight		Neutral	Overweight	
Energy				●	
Healthcare				●	
Consumer Discretionary				●	
Industrials				●	
Information Technology			●		
Communication Services			●		
Financials			●		
Real Estate			●		
Utilities		●			
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 July 9, 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.

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.

MSCI Taiwan Index is designed to measure the performance of the large and mid-cap segments of the Taiwan market.

MSCI South Korea Index is designed to measure the performance of the large and mid cap segments of the South Korean market.

Institute for Supply Management Purchasing Managers' Index is a monthly indicator of U.S. economic activity based on a survey of purchasing managers at manufacturing firms nationwide.

Consumer price index is a price index, the price of a weighted average market basket of consumer goods and services purchased by households.

S&P 500 Equal Weighted Index is the equal-weight version of the widely-used S&P 500. The index includes the same constituents as the capitalization weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight - or 0.2% of the index total at each quarterly rebalance.

Bloomberg Magnificent 7 Index is an equal-dollar weighted equity benchmark consisting of a fixed basket of 7 widely-traded companies classified in the United States and representing the Communications, Consumer Discretionary and Technology sectors.

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.

S&P 600 Index covers roughly the small-cap range of American stocks, using a capitalization-weighted index.

Chicago Board Options Exchange 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.

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

Russell 2000 Index Total Return tracks the roughly 2000 securities that are considered to be US small cap companies that measures the performance of a group of components by assuming that all cash distributions are reinvested, in addition to tracking the components' price movements.

S&P 500 Index Total Return is a total return index that reflects both changes in the prices of stocks in the S&P 500 Index as well as the reinvestment of the dividend income from its underlying stocks.

Russell 1000 Value Index measures the performance of the large- cap value segment of the US equity universe.

Russell 1000 Growth Index measures the performance of the large- cap growth segment of the US equity universe.

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RETURN TO FIRST PAGE