CHIEF INVESTMENT OFFICE

Capital Market Outlook

August 19, 2019

The opinions are those of the author(s) and subject to change.

IN THIS ISSUE

- **Macro Strategy**—Global equities have been on a roller coaster ride in the past 12 months, and the U.S. has outperformed Europe, Japan and the emerging markets. The two big macro questions confronting investors are: 1) can the U.S. and China arrive at a trade deal or ceasefire as the calendar flips to the 2020 election season? And 2) can the Federal Reserve (Fed) and other major central banks cut rates fast enough to thwart the negative impact from trade uncertainty on current indicators showing potential for weakening economic growth? Meanwhile, our check on the fundamentals such as earnings, valuations and sentiment leads us to maintain our preference for the U.S. and caution on international equities.
- **Global Market View**—Through the recent market fears over slowing growth in trade and manufacturing, consumer activity has remained a positive contributor to the global economic expansion. A major growth category has been food retail alternatives to livestock protein, and a range for thematic supports should act to sustain this trend over the medium to longer term.
- **Thought of the Week**—The 2-year/10-year Treasury curve inverted briefly on Wednesday, an important move psychologically for markets that confirms what we have been saying since late 2018: The Fed's monetary policy is too restrictive. The longer the Fed stays behind the curve, the greater the risk of longer and more sustained yield-curve inversions, and the higher the probability of a recession.
- **Portfolio Considerations**—We remain overweight equities expecting the Fed to get more aggressive in the coming months. We favor U.S. equities over the rest of the world and prefer large caps to small caps. Long-term investors should wait for the dust to settle in the near term but consider adding to diversified portfolios as the Fed gets more aggressive.

MACRO STRATEGY

Kishan Chhatwal
Assistant Vice President and Investment Analyst

Niladri "Neel" Mukherjee
Head of CIO Portfolio Strategy

GLOBAL MARKET VIEW

Ehiwario Efeyini
Senior Vice President and Senior Market Strategy Analyst

THOUGHT OF THE WEEK

Chief Investment Office

Data as of 8/19/2019 and subject to change.

MACRO STRATEGY

Taking the Temperature of Fundamentals After a Summer Cold for Global Stocks

Kishan Chhatwal, Assistant Vice President and Investment Analyst
Niladri "Neel" Mukherjee, Head of CIO Portfolio Strategy

Equities have been on a roller coaster ride in the past 12 months. While global stocks[1] have fallen during this time (-3% since 8/14/18), U.S. equities[2] have been flat, outperforming

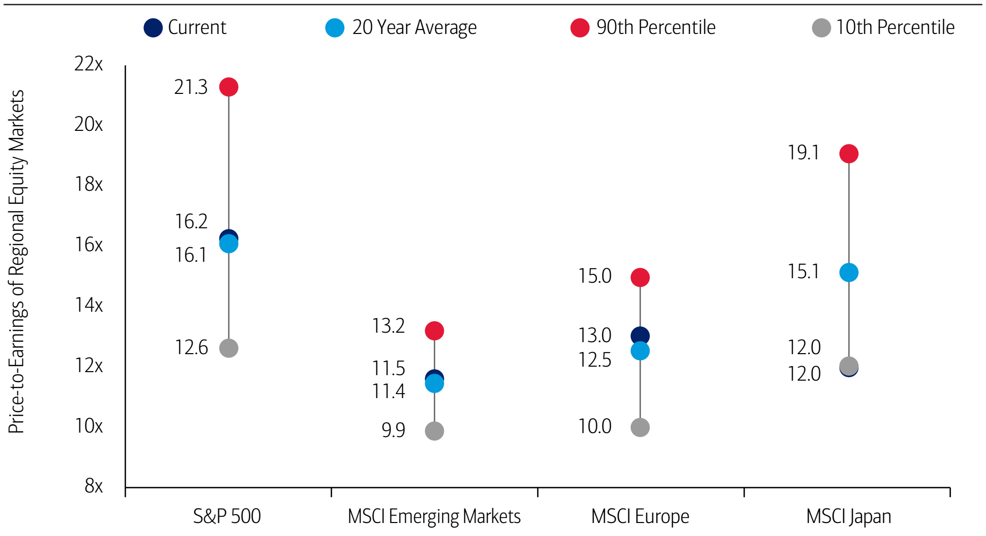
[1] MSCI ACWI as of August 14, 2019.
[2] MSCI USA as of August 14, 2019.

European, emerging markets and Japanese markets that have declined by 5%, 7% and 11%, respectively. In the interim, stocks had experienced a massive selloff in the fourth quarter of 2018, only to recover those losses through April, as central banks pivoted to a more accommodative stance before the latest trade hostilities between the U.S. and China brought additional volatility. As we enter the back half of the year and look ahead to 2020, our check on fundamentals such as earnings, valuations and sentiment leads us to maintain our preference for U.S. large caps and caution on international equities.

U.S Equities—Deteriorating Earnings Fundamentals Meets an Easier Fed

Rising corporate earnings have acted as a tailwind for U.S. equity outperformance throughout this cycle. Better economic growth has aided the top line, while tight cost management and moderate wage growth has helped corporate margins. As economic activity has slowed this year and wages have started to firm, S&P 500 profit growth has shifted down from the unsustainable level of +20% in 2018 to our expected rate of 2% this year. In the near term, downward pressure on earnings estimates is likely as companies incorporate the effects of new tariffs on Chinese imports, while global manufacturing Purchasing Managers Indexes (PMIs) have been below 50 for three consecutive months, oil prices have been falling, and the dollar has reasserted its upward trend. The silver lining is that expectations for corporate profits are low going forward—consensus forecasts call for about -3%, 5% and 11% in Q3, Q4 and 2020, respectively, according to FactSet. Therefore, a stabilization in economic growth, especially outside the U.S., and inflation expectations, as a result of Fed rate cuts, could enable companies to beat these forecasts, adding to upside for equities.

Exhibit 1: Outside Japan, Current Valuations Are Mostly In Line With Historic Averages but Not in Excessive Territory.



Source: Chief Investment Office, Bloomberg. Data as of August 14, 2019.

Valuations for the S&P 500 are not excessive but are in line with historic averages and should be supported by historic lows in interest rates in many parts of the world (Exhibit 1). However, relative to fixed income, stocks remain cheap, with the equity risk premium well above its historic average and in the 88th percentile range according to Bloomberg. It's also worth noting that investor sentiment has remained bearish for most of 2019, with individual investors choosing the safety of bonds rather than the long-term growth potential of equities. Year-to-date inflows into bonds are nearing a staggering $300 billion, while equity outflows have exceeded $175 billion, according to EPFR Global. This will likely reverse only when the global economy strengthens pulling up inflation expectations, interest rates and corporate profits. In addition, institutional investors are keeping higher-than-average cash levels indicating risk-aversion and buying power for when fundamentals improve.

International Equities: Hostage to Global Trade and China Slowdown

In Europe, growth momentum continues to disappoint relative to other regions, especially within key trade-sensitive economies such as Germany. The German economy contracted in the second quarter, and the latest manufacturing PMI fell to 43.2, its lowest level since 2012, according to Haver Analytics. In the absence of meaningful fiscal stimulus, investors remain concerned that Europe's largest economy may slip into its first recession in more than six years.

Meanwhile, there is $13.5 trillion of negative yielding debt in Europe and Japan, accounting for nearly 90% of the global aggregate, according to Bloomberg. German, Swiss and Japanese 10-year sovereign yields have dipped to -65 basis points (bps), -106 bps, and -23 bps respectively, as of 8/14/2019, as lower inflation expectations are expected to create a negative drag on nominal growth. This is especially crippling for the profitability of European banks, whose share prices are lower by 46% since August 2014, when negatively yielding debt started showing up, compared to a 37% rise for U.S. banks.[3] Theoretically, the 3.5% dividend yield offered by European stocks[4] should be attractive for income-seeking investors, but risks are skewed to the downside as recessionary sentiment gathers on the lack of meaningful structural reforms, an ineffective monetary policy roadmap and Brexit uncertainties.

The story for Japanese equities has been one in which tailwinds at the micro level, such as shareholder-friendly actions, have been mitigated by slowing global growth and trade, heavily impacting the automotive and machinery industries. The Nikkei reported that profits declined 14% year-over-year (YoY) in the second quarter, with 56% of firms reporting lower earnings, the highest level since the global financial crisis. Japanese equities have underperformed recently as the yen continues to strengthen on geopolitical uncertainty, yet valuation metrics are trading near the bottom of their historical ranges. We are monitoring developments on global trade as well as additional fiscal stimulus measures ahead of the the planned October tax hike.

As it relates to emerging markets (EMs), a plethora of headwinds remain—from trade uncertainty to a slowdown in the Chinese economy and weaker profit expectations. Consensus profit estimates for 2019 peaked at 11% last year but now depict about a -5% decline YoY. That said, easier financial conditions could provide some support, with a number of major central banks like India and Korea stepping in to cut rates. On the other hand, further depreciation of the Chinese yuan could pressure EM currencies lower, dampen commodity prices and prompt capital outflows from EM equities and debt. While we remain slightly underweight EM equities in the near term, this is a heterogeneous asset class with plenty of differentiation based on country and sector fundamentals. While emerging economies should continue to exhibit higher gross domestic product (GDP) growth rates than developed markets, we recommend gaining exposure to their rising middle-class consumption through technology, healthcare, education, travel and leisure, as well as the robotics and automation sectors. EMs account for more than 40% of global personal consumption, which has doubled since the start of the century, and, according to the McKinsey Global Institute, their annual consumption could reach $30 trillion by 2025, nearly half of the global total.

Portfolio Strategy

Volatility across most asset classes such as currencies, bonds and equities has picked up recently on mounting concerns about weakening prospects for global economic growth. We remain in a dual-track economy, with the U.S. outperforming Europe and China, while consumer spending remains healthy as manufacturing and trade volumes stagnate. Meanwhile, geopolitical risks have ramped up with rising tensions between the U.S. and China on trade and technology, Hong Kong protests, Brexit, Argentina fiscal concerns,

[3] Returns from 07/31/2014 - 8/14/2019.
[4] MSCI Europe as of 8/14/2019

among others. Fundamentally, corporate earnings are clearly under pressure, while equity valuations are reasonable on an absolute basis and cheap relative to bonds.

For the markets to reclaim their uptrend, two conditions are important, in our view—(1) a U.S. / China trade ceasefire that is, no additional tariffs; and (2) the Fed cuts interest rates multiple times sooner rather than later to fix yield curve inversions. If these come through then there is potential for bond yields to rise, the yield curve to steepen, the trade backdrop improves, manufacturing activity picks up, and growth and profit expectations improve. Absent these, more volatility is in the cards. Tactically, we recommend investors consider maintaining a higher quality tilt in portfolios, favoring U.S. large-cap stocks over international.

GLOBAL MARKET VIEW

Food 2.0: The Growing Market for Plant-Based Alternatives

Ehiwario Efeyini, Senior Vice President and Senior Market Strategy Analyst

Through the recent market fears over slowing growth in trade and manufacturing, consumer activity has remained a positive contributor to the global economic expansion. Even as industrial production undershoots GDP in the largest economies of the U.S., the eurozone and China, retail spending is continuing to outpace headline rates of growth in economic output. Within the consumer staples segment, a major growth category has been food retail alternatives to products traditionally sourced from livestock. These are grocery items that use plant-based ingredients to substitute for animal protein across a range of food types including dairy substitutes from soybeans, nuts and grains egg substitutes from bean protein and alternative meat products made using soy, peas or wheat. Plant-based meat in particular has received greater investor attention over recent months, with an increasing number of restaurant chains and food retail stores offering new vegetarian meat alternatives, more large food producers developing their own plant-based substitutes and a high-profile initial public offering for a maker of next-generation plant-based protein alternatives in May.

This trend aligns with a number of our long-term investment themes and will bear watching over the years ahead. First is the growing global consumer class. Per United Nations (UN) projections, the world population will rise to 8.5 billion by 2030, up from 7.4 billion in 2015. And even more people are expected to join the consumer class over the same period as per capita incomes rise. According to the Brookings Institution, the global middle class (as defined by those earning between $11 and $110 per day) is expected to reach 5.4 billion in 2030, compared to 3 billion in 2015. This means an additional 2.4 billion individuals consuming a range of discretionary items including higher-protein diets. Data from the Organisation for Economic Co-operation and Development and the UN Food and Agriculture Organization forecast an 11% rise in global meat consumption between 2019 and 2028, and plant-based substitutes are likely to capture a growing share of this future demand as new production techniques better replicate the texture and taste of animal-sourced protein, and as improvements in manufacturing, sourcing and scale contribute to lower prices. These have been two major areas of product innovation for new market entrants.

Within the U.S. market, growth in plant-based protein demand has far outstripped that of animal-based equivalents over the past year. Retail sales across all plant-based food alternatives grew at 20% to reach $3.3 billion in the 12 months to June 2018, up from 8% in 2017 and outpacing growth in total food sales (2%) by 10 times. Within the category, sales of plant-based meat grew at 24%, versus just 2% for meat sourced from livestock, with double-digit growth rates also posted for a range of other individual plant-based substitutes including eggs and dairy products (Exhibit 2).

Exhibit 2: Retail Sales For Plant-based Alternatives by Food Type.

Plant-based alternatives sales volume and growth (12-months to June 2018)

Food type	Sales ($ million)	Growth
Meat	670	24%
Milk	1,600	9%
Ice Cream	222	38%
Yogurt	162	55%
Cheese	124	43%
Creamer	109	131%
Butter	68	23%
Dressings	12	32%
Meals	210	28%
Tofu/Tempeh	108	11%
Eggs/Mayo	42	16%
Total Plant-Based	**3,327**	**20%**

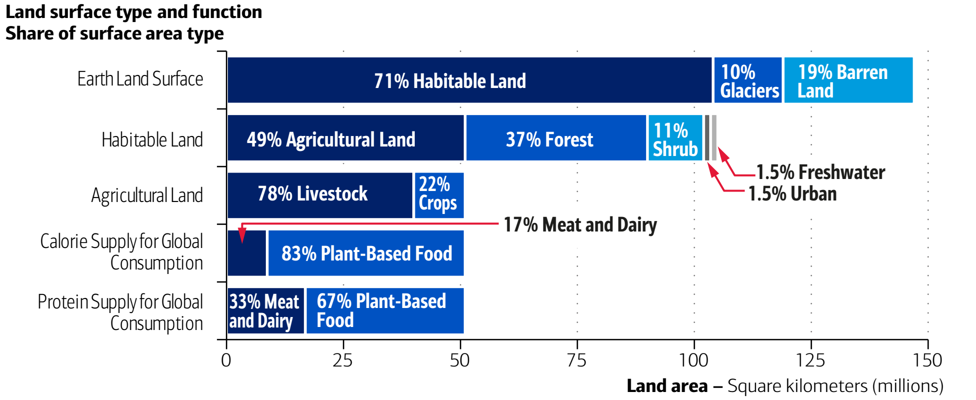
Source: Plant Based Foods Association. Data as of 2018.

Future demand growth should gain further support from shifts in consumer preferences, including the health benefits associated with reduced consumption of red meat. In China, the dietary guidelines released by the Ministry of Health in 2016 recommended a 50% cut in meat consumption by 2030, in part to help curb a rise in chronic conditions such as obesity, heart disease and diabetes. And in North America, next-generation meat substitutes are more likely to appeal to health-conscious millennials and other young-age cohorts—a tendency already reflected in the demographic makeup of the vegetarian population. A 2016 Harris Poll conducted for the Vegetarian Resource Group found a rising share of vegetarians across younger U.S. age groupings: 5.3% of 18- to 34-year-olds, 3.1% of those aged 35 to 44, 2.2% of the 45- to 54-year-old population, 2.7% of people aged 55 to 64 and 1.8% of those aged 65 and over. A 2017 Nielsen survey reported that 39% of Americans and 43% of Canadians were actively aiming to incorporate more plant-based foods into their diets.

Alongside this trend, the environmental benefits of plant-based alternatives are likely to act as an additional driver of future demand growth and, along with the consumer class tailwinds and public health implications, also correspond with our long-term investment themes. Specifically, a shift toward more protein sourced from plants would require less land and less water in the production process, and would result in lower emissions of greenhouse gases.

Close to 90% of the earth's habitable land surface is either used for agriculture or covered by forest. And of the half used for agriculture, the overwhelming majority (78%) is allocated to livestock both for grazing and for animal feed, with only 22% occupied by crops for human consumption. This relatively small share of land used for crop growth however generates 83% of global calorie supply and 67% of global protein production (Exhibit 3). Increasing the share of human protein intake sourced from plants would therefore reduce the amount of deforestation needed to meet future increases in demand.

Exhibit 3: Global Land Surface Area by Characteristics and Allocated Uses.

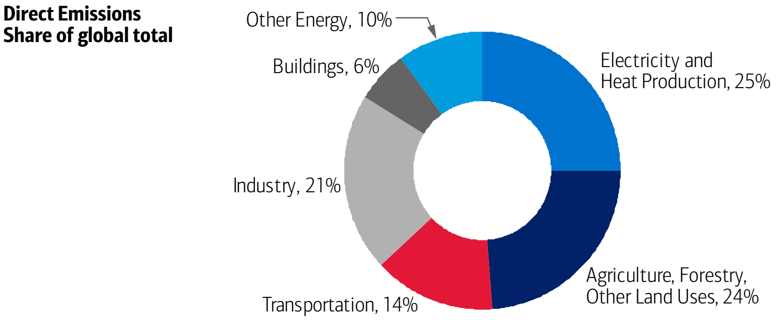


Source: United Nations Food and Agricultural Organization. Data as of 2019.

Similarly, agriculture overall accounts for around 70% of global freshwater withdrawals, but much more water is consumed by livestock than by crops per unit of food produced. According to the UN Educational, Scientific and Cultural Organization, it takes, for example, as much as 15,000 liters of water (mostly for animal feed) to produce a single kilogram of beef, compared to 1,200 liters for one kilo of barley; and while 4,800 liters of water are needed to make one kilogram of pork, just 800 liters are required to produce a kilo of wheat. Shifting away from animal-based protein would therefore greatly reduce the pressure on global water supply expected over the coming decades.

Agriculture, Forestry and Other Land Use (AFOLU) is also the second largest source of global greenhouse gas emissions after electricity and heat production, responsible for close to one-quarter of direct emissions, according to the latest comprehensive review by the UN Intergovernmental Panel on Climate Change (Exhibit 4).

Exhibit 4: Global Greenhouse Gas Emissions by Industry.



Source: Contribution of Working Group III to the Fifth Assessment Report of the United Nations Intergovernmental Panel on Climate Change. Data as of 2014.

Emissions from AFOLU include carbon released by deforestation and nitrous oxide from fertilizer, but the largest contributor (around two-thirds of the total) is methane expelled by livestock. Similar to energy switching from fossil fuels to renewables in electricity generation, energy efficiency in buildings and the use of electric powertrains in transportation, a move to more plant-based food consumption would therefore also contribute to climate change mitigation. And not only could changing consumer attitudes motivate a shift in this direction, policy changes are also likely to play a role. Over recent years, lawmakers in Germany, Sweden, Denmark and China have considered the introduction of livestock-related taxes designed in part to reduce greenhouse emissions. And in a more extreme measure, a London university recently announced a ban on the sale of beef across campus food outlets as part of its effort to become carbon neutral by 2025.

A range for thematic supports should therefore act to sustain growth in plant-based alternative food sales over the medium to longer term. Underlying demand for higher-protein diets is expected to grow with an expanding global consumer class. Public health concerns from governments and individuals are likely to redirect consumer buying patterns toward lower per capita levels of animal-sourced meat. The global push to decarbonize is beginning to involve the agricultural sector to a greater degree, in the same way that other sources of greenhouse gas emissions such as transportation and power generation are exploiting more environmentally friendly resources. And for makers of plant-based alternatives themselves, current innovations to improve product quality and reduce prices should also act as drivers of future demand.

THOUGHT OF THE WEEK

What is the Yield Curve Telling Us?

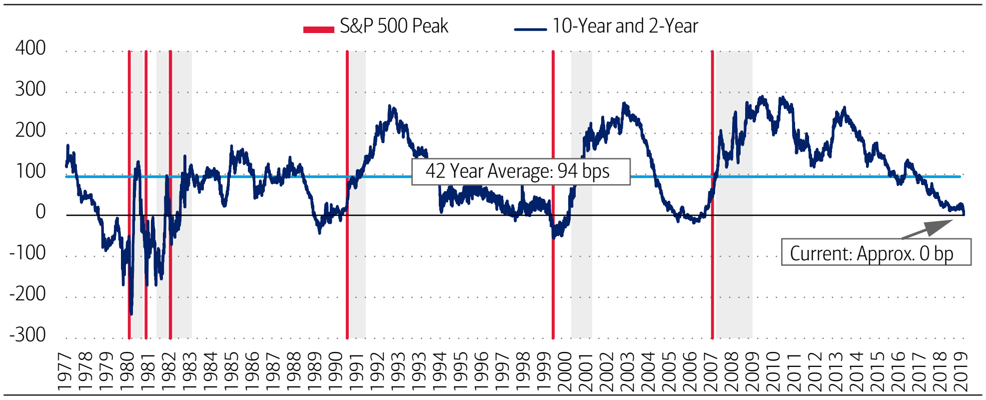
Chief Investment Office

The 2-year and 10-year Treasury curve inverted briefly last Wednesday. While this move was important psychologically for markets, it simply confirms what we have been saying since late 2018: The Fed's monetary policy is too restrictive. The longer the Fed stays behind the curve—literally and figuratively—the greater the risk of longer and more sustained yield-curve inversions, and the higher the probability of a recession. This move is just the latest in a long string of signals that the Fed needs to react relatively quickly and aggressively if it wants the economic expansion to continue.

In addition, the 3-month and 10-year part of the curve has been inverted intermittently since March as global growth and inflation expectations have moved lower. This is not insignificant as previous inversions have presaged recessions. We are monitoring this important development and watching the short and long ends of the curve, but note that the yield curve has provided mixed signals for recessions and equities. Historically, recessions have come with a significant lag, and equities have typically rallied after the inversion. On average, recessions have started 15 months after the inversion, ranging between 8 and 24 months, going back to 1956.[5] Also, in a sentiment driven risk off move, equities tend to first decline post-inversion by an average of 5% but then rally on average by 17% ranging between 2% and 28.5%. Markets still have a chance to rebound and continue their trend higher contingent upon a more aggressive policy response by the Fed, along with signs that global economic conditions are beginning to stabilize. In coming weeks, we will be assessing trends within 7Cs (three of which have been highlighted by BofA Merrill Lynch (BofAML) Global Research): China, the Curve, Credit, Central Banks, Confidence (business and consumer), Claims and Contagion (from geopolitical risk like Brexit, Italy, Hong Kong etc.).

For now we advise an eighth C: Caution. It's important to allow markets to settle down given the high emotion and machine and computer model based trading occurring on a day-to-day basis. Headline risk is likely to be an overhang for equity and credit markets in the short term. Investors should keep an eye on a few key dates: the release of the July Federal Open Market Committee (FOMC) meeting minutes on August 21, the Jackson Hole Symposium from August 22 to 24, speaking events with James Bullard and Charles Evans on September 4, and the next FOMC meeting from September 17 to 18. Reflecting lower inflation and inflation expectations in the U.S., as well as record-low interest rates in many parts of the world, especially Europe, our BofAML research partners have revised lower their year-end forecast for the 10-year Treasury yield, to 1.25%. Over the near term, the potential for continued risk-off sentiment surrounding trade and global growth should continue to pressure U.S. interest rates lower until more aggressive easing from the Fed, among other variables, takes hold to re-steepen the yield curve. Long-term investors should consider having well-diversified investment strategies ready in order to add to higher-quality equity exposure at attractive prices as we believe the Fed increasingly gets more assertive and right-sizes the yield curve. We expect markets to remain on pins and needles until enough of the 7Cs stabilize and/or negate rising recession concerns.

Exhibit 5: U.S. Yield Curve Inverted Well Ahead of Equity Market Peaks & Recessions.



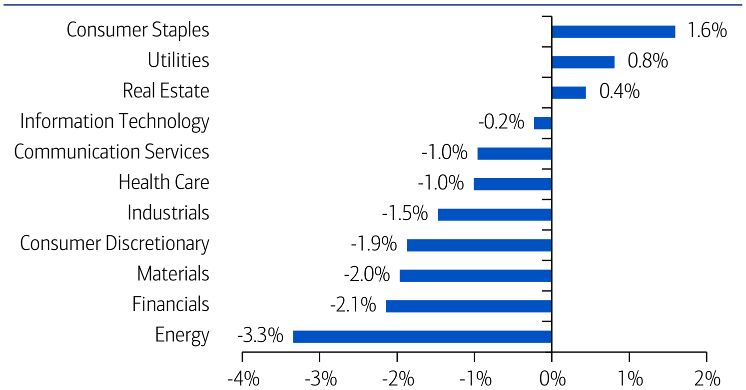
Source: CIO, Bloomberg. Data as of August 14, 2019. *Note: Yield-curve data point must have a minimum of five consecutive business days of inversion to be considered. Market Return calculated on a price return basis, from yield-curve inversion date to market peak date. Shaded region indicates recession.

[5] BofAML Global Research as of August 12, 2019.

Equities

		Total Return in USD (%)		
	Current	WTD	MTD	YTD
DJIA	25,886.01	-1.4	-3.4	12.7
NASDAQ	7,895.99	-0.7	-3.3	19.8
S&P 500	2,888.68	-0.9	-2.9	16.7
S&P 400 Mid Cap	1,873.22	-1.4	-4.7	13.8
Russell 2000	1,493.64	-1.2	-5.1	11.7
MSCI World	2,108.50	-1.2	-3.5	13.5
MSCI EAFE	1,811.86	-1.5	-4.3	7.8
MSCI Emerging Markets	970.27	-1.0	-6.3	2.3

S&P 500 Sector Returns



Fixed Income[1]

		Total Return in USD (%)		
	Current	WTD	MTD	YTD
Corporate & Government	2.09	1.2	2.9	10.2
Agencies	1.76	0.8	2.0	6.3
Municipals	1.62	0.5	1.6	7.6
U.S. Investment Grade Credit	2.16	1.0	2.3	8.8
International	2.87	1.2	2.6	13.3
High Yield	6.14	-0.2	-0.8	9.7

	Current	Prior Week End	Prior Month End	2018 Year End
90 Day Yield	1.81	1.93	1.99	2.36
2 Year Yield	1.48	1.65	1.87	2.49
10 Year Yield	1.55	1.74	2.01	2.68
30 Year Yield	2.03	2.26	2.52	3.01

Commodities & Currencies

		Total Return in USD (%)		
Commodities	Current	WTD	MTD	YTD
Bloomberg Commodity	162.20	-0.8	-2.7	1.6
WTI Crude $/Barrel[2]	54.87	0.7	-6.3	20.8
Gold Spot $/Ounce[2]	1,513.38	1.4	7.0	18.0

Currencies	Current	Prior Week End	Prior Month End	2018 Year End
EUR/USD	1.11	1.12	1.11	1.15
USD/JPY	106.38	105.69	108.78	109.69
USD/CNH	7.04	7.10	6.91	6.87

Source: Bloomberg, Factset.Total Returns from the period of 8/12/19 to 8/16/19. Bloomberg Barclays Indices.[1] Spot price returns.[2] All data as of the 8/16/19 close.
Past performance is no guarantee of future results.

Asset Class Weightings (as of 8/7/19)

	Under-weight		Neutral	Over-weight	
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	•	•	●	•	•
High Yield	•	●	•	•	•
U.S. Investment Grade Tax Exempt	•	•	●	•	•
U.S. High Yield Tax Exempt	•	●	•	•	•
International Fixed Income	●	•	•	•	•
Alternative Investments*	see CIO Asset Class Views				
Hedge Funds					
Private Equity					
Real Assets					
Cash					

* Many products that pursue Alternative Investment strategies, specifically Private Equity and Hedge Funds, are available only to pre-qualified clients.

Economic and Market Forecasts (as of 8/16/19)

	Q4 2018A	Q1 2019A	Q2 2019A	Q3 2019E	2018A	2019E
Real global GDP (% y/y annualized)	–	–	–	–	3.6	3.2
Real U.S. GDP (% q/q annualized)	1.1	3.1	2.1	1.7	2.9	2.3
CPI inflation (% y/y)	2.2	1.6	1.8	1.7	2.4	1.6
Core CPI inflation (% y/y)	2.2	2.1	2.1	2.3	2.1	2.2
Unemployment rate (%)	3.8	3.9	3.6	3.7	3.9	3.7
Fed funds rate, end period (%)	2.40	2.43	2.40	1.88	2.40	1.63
10-year Treasury, end period (%)	2.68	2.41	2.01	1.35	2.68	1.25
S&P 500 end period	2507	2834	2942	–	2507	2900
S&P earnings ($/share)	41	39	41*	42	161.5	165
Euro/U.S. dollar, end period	1.15	1.12	1.14	1.14	1.15	1.17
U.S. dollar/Japanese yen, end period	110	111	108	105	110	101
Oil ($/barrel, avg. of period, WTI**)	59	55	60	56	65	56

The forecasts in the table above are the base line view from BofAML Global Research team. 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.

Past performance is no guarantee of future results. 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. S&P 500 represents a fair value estimate for 2019. **West Texas Intermediate

Sources: BofA Merrill Lynch Global Research; GWIM ISC as of August 16, 2019.

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

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 dollars.

S&P 500 Index includes a representative sample of 500 leading companies in leading industries of the U.S. economy. Although the index focuses on the large-cap segment of the market, with approximately 75% coverage of U.S. equities, it is also an ideal proxy for the total market.

ISM Purchasing Managers Index are economic indicators derived from monthly surveys of private sector companies.

MSCI Emerging Markets Index is an index used to measure equity market performance in global emerging markets. According to its fact sheet, the MSCI Emerging Market Index captures mid and large caps across more than two dozen emerging market countries

MSCI Europe Index, a free float-adjusted market capitalization index that is designed to measure developed market equity performance in Europe.

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

Nikkei is a price-weighted index composed of Japan's top 225 blue-chip companies traded on the Tokyo Stock Exchange.

Important Disclosures

This material was prepared by the Chief Investment Office (CIO) and is not a publication of BofA Merrill Lynch Global Research. The views expressed are those of the CIO only and are subject to change. This information should not be construed as investment advice. It is presented for information purposes only and is not intended to be either a specific offer by any Merrill or Bank of America entity to sell or provide, or a specific invitation for a consumer to apply for, any particular retail financial product or service that may be available.

Global Wealth & Investment Management (GWIM) is a division of Bank of America Corporation. The Chief Investment Office, which provides investment strategies, due diligence, portfolio construction guidance and wealth management solutions for GWIM clients, is part of the Investment Solutions Group (ISG) of GWIM.

Investing involves risk, including the possible loss of principal. No investment program is risk-free, and a systematic investing plan does not ensure a profit or protect against a loss in declining markets. Any investment plan should be subject to periodic review for changes in your individual circumstances, including changes in market conditions and your financial ability to continue purchases.

Economic or financial forecasts are inherently limited and should not be relied on as indicators of future investment performance.

It is not possible to invest directly in an index.

Asset allocation, diversification, dollar cost averaging and rebalancing do not ensure a profit or protect against loss in declining markets. Dollar cost averaging involves continual investment in securities regardless of fluctuating price levels; you should consider your willingness to continue purchasing during periods of high or low price levels.

Past performance is no guarantee of future results.

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

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. Bonds are subject to interest rate, inflation and credit risks. Small cap and mid cap companies pose special risks, including possible illiquidity and greater price volatility than funds consisting of larger, more established companies. 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. Investments in foreign securities 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.

Currency risk is the risk that exchange rate fluctuations will reduce the value of returns. This arises when investments denominated in foreign currencies are purchased.