

CHIEF INVESTMENT OFFICE

Capital Market Outlook

September 15, 2025

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

IN THIS ISSUE

Macro Strategy—*The Expansion Still Has Legs*: Massive downward revisions to employment data suggest that labor market strength had been overstated long before the tariff policy shock. By blunting the effects from 100 basis points (bps) of Federal Reserve (Fed) easing between September and December 2024, tariff uncertainty further weakened employment growth while rekindling inflation. Still, resilient consumption, strong productivity growth, solid corporate fundamentals, and expectations for supportive policy have sustained confidence in the expansion and risk asset prices. While not strong, incoming data offer early signs that the economy may improve following significant financial conditions easing since the April tariff shock.

The revised payrolls data enhance the productivity picture, bringing it more in line with robust corporate earnings and record S&P 500 forward earnings estimates. Investors may want to remain overweight U.S. Large-caps, where productivity tailwinds, scalability and pricing power are strongest—thereby increasing earnings “quality.” Small-caps may benefit from rate cuts this year but remain more vulnerable to cost pressures and demand weakness in the short term.

Market View—*5 Portfolio Considerations for 2025 and Beyond*: The return to record highs and market calm after a turbulent start to the year raises an important question for investors: What could happen next? The uptrend in stocks has shown no signs of stalling, but fading volatility has not yet translated into more positive investor sentiment.

Our base case remains constructive, but a year marked by massive amounts of uncertainty can make it easy for investors to fall into behavioral pitfalls and for emotions to cloud investment decisions. Therefore, consider these five portfolio considerations as we navigate the rest of 2025 and beyond.

Thought of the Week—*From Sixty to Zero: Immigrant Workers and the U.S. Labor Force*: Recent soft employment data and a massive negative payroll revision to the year through March 2025 have triggered concerns of a dramatic labor-related slowing of the U.S. economy. We don’t harbor these concerns—but we are keeping a close eye on tighter U.S. immigration standards and the attendant impact on the U.S. labor force.

Why? Because immigrants have been a huge growth catalyst for the U.S. labor market this decade, with foreign-born workers accounting for roughly 88% of U.S. labor force growth between 2019 and 2024. Now, after reaching a record 20% share of the labor force earlier this year, the supply of immigrant labor has reversed direction. This bears watching, particularly for sectors like the construction industry, with demand to build everything from data centers to homes relying heavily on immigrant labor. Taking the long view, U.S. cyclical and structural labor constraints should only fuel more productivity-led investment in Artificial Intelligence (AI), robotics and automation, and hence our bull positioning on Industrials and Technology.

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MACRO STRATEGY ►

MARKET VIEW ►

THOUGHT OF THE WEEK ►

MARKETS IN REVIEW ►

Portfolio Considerations

Heading into the final four months of the year with inflation running above trend and the employment data producing mixed signals, we’d use any equity weakness to increase tactical positioning through the new growth cycle.

We maintain an overweight in Equities with a preference for the U.S. relative to the rest of the world. The profit cycle is likely to be extended by tailwinds from fiscal stimulus and deregulation, all supportive of economic growth and risk assets.

As for Fixed Income, higher nominal and real yields provide attractive compensation for inflation and market risk. Longer-term Fixed Income offers meaningful returns relative to cash and therefore diversifies Equity risk over time with more stable income.

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The Expansion Still Has Legs

Chief Investment Office, Macro Strategy Team

That economic data have generally surprised to the upside in recent weeks doesn't mean they've been strong. With tepid, uneven growth—evident across manufacturing, housing, services and small business—it's not surprising the labor market is now revealed to be much weaker than had been assumed. The lagged effects of post-pandemic rate hikes, the tariffs shock and demographic constraints on labor supply have all weighed on employment and economic growth.

Indeed, preliminary Bureau of Labor Statistics data show about 900,000 fewer jobs created in the 12 months to March 2025. Instead of averaging 146,000 per month as reported, payrolls grew just 70,000 per month. This aligns better with other indicators that had long signaled softer labor demand than reported—such as weak Institute for Supply Management (ISM) employment subcomponents, falling job openings and declining temporary jobs. According to Empirical Research Partners, AI-related job losses have so far been modest and narrowly based, as most jobs still consist of daily “portfolios” of tasks, not all replaceable by AI.

The tariff shock has worsened the preexisting slowdown in the employment growth trend. Post-revision, June saw a rare decline in payrolls outside of recession, and August added a scant 22,000, bringing the three-month average to just 29,000. Since March, hiring weakness has been broad based: 42,000 jobs lost in manufacturing, 8,000 in construction and 73,000 in federal government. Private education saw almost no gains, and involuntary part-time work inched up. The household survey—used to calculate the unemployment rate—was even weaker this year, falling well short of the estimated 50,000 to 100,000 monthly gains needed to keep unemployment stable amid an aging population and reduced immigration. Unemployment rose from 4% in January to (a still low) 4.3% by August as a result.

Still, growth has shown resilience, with the economy adjusting to the new policies rather than crumbling under their weight—with support from strong productivity, positive wealth effects, moderating uncertainty, solid corporate balance sheets and booming AI-led investment. In fact, there are early signs of a potential rebound from the tariff shock, and expectations for further Fed easing and One Big Beautiful Bill Act (OBBBA) fiscal stimulus have strengthened the growth outlook.

While real consumer spending has been disappointing this year, it rose strongly in July. Motor-vehicle sales exceeded Q2 levels in July and August, and the Johnson Redbook weekly retail survey show 6%+ year-over-year (YoY) growth both in August and through September 6—all raising Q3 real spending expectations to 2.3% annualized (near its past 25-year average) after weak 0.5% and 1.6% gains in Q1 and Q2.

Additional signs of improvement are also coming from the August ISM manufacturing and nonmanufacturing surveys. While the manufacturing index barely edged up and remained weak in “muddle through” territory, its new-orders component jumped into expansion for the first time since January—hinting at improving conditions. Its service-sector counterpart did even better, rising from a 50.1 to 52.0, still below average but its highest reading since February. Importantly, this was led by broadening growth across industries and a significant increase in new orders and business activity (Exhibit 1).

This ISM improvement aligns with an expanding economy and is reflected in small-business sentiment, which also rose in August and remains above its historical average. With tariff uncertainty easing, real sales and earnings expectations have rebounded, while hiring and worker compensation plans have inched further above their long-term averages—all positive for the outlook. Booming AI-related business investment remains a powerful growth pillar, with spending on computers and peripheral equipment the main

Portfolio Considerations

With productivity stronger than has been reported, the environment remains supportive of earnings growth and risk-asset prices. A tilt towards Large-cap Equities, AI beneficiaries, and rate-sensitive sectors poised to benefit from renewed Fed easing makes sense, in our view. Fixed Income markets have already priced in rate cuts but should continue to provide ballast if growth disappoints and interest rates fall more than expected.

driver of the first half of 2025 capital expenditures growth. Industrial equipment investment has also picked up, and, as OBBBA incentives roll out, investment and hiring are likely to benefit in 2026.

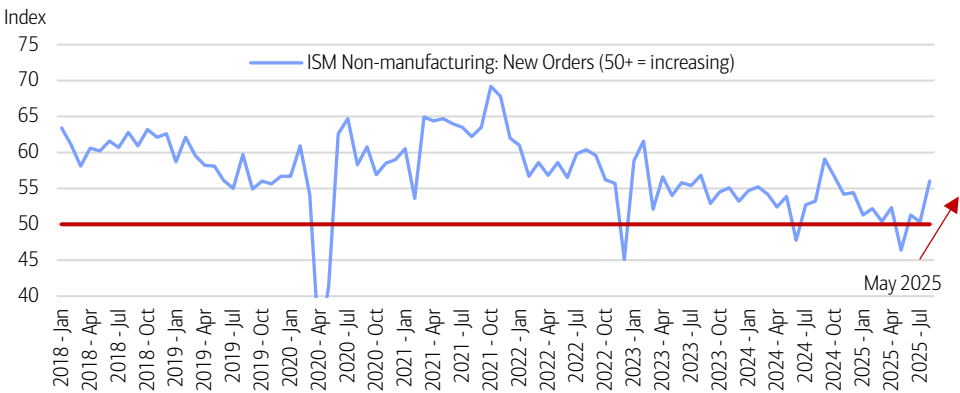
The monetary policy environment is also on track to become more growth supportive. After holding rates at a 23-year high for most of 2024, the Fed cut rates by 100 bps between September 2024 and December 2024. However, the tariff shock and earlier financial-market upheaval dampened their stimulative impact. According to Oxford Economics, hiring tends to slow two to three months after such shocks, consistent with this summer’s jobs weakness.

Conversely, with policy uncertainty much reduced and easing financial conditions, the worst may be behind us on the employment front. What’s more, markets now price in a resumption of the Fed easing cycle, with around three additional cuts expected by year-end. With inflation still relatively restrained by earlier tightening and employment softer than previously reported, the Fed can afford a somewhat lighter touch in support of growth and jobs.

Robust productivity is another positive, and downside payroll revisions imply it has likely been understated and will probably be revised higher. This helps explain why S&P 500 profits and margins have outperformed expectations. Despite the tariff squeeze, S&P 500 earnings rose 12% YoY in Q2, and forward earnings expectations for Large-caps have hit new highs amid upside data surprises. Mid- and Small-cap forward earnings have continued to lag, reflecting both business model differences (e.g., less scalability, lower operating leverage) as well as different macro exposure across business types and sizes. These differences help explain both the uneven, “muddle through” macro environment this year and market performance divergences across capitalization size.

All in all, the economy appears to have a thinner cushion to absorb new shocks given sticky above-target inflation, the downshift in employment, and downside risks to jobs growth into year-end. Still, while risks remain, the data suggest the economy is resetting rather than retreating. We expect the expansion to continue as structurally softer employment growth is counterbalanced by gains in productivity, earnings, and AI-led investment. The durability and firmness of the path for growth and profits hinge on whether the boost from Fed easing and fiscal incentives comes soon enough to broaden economic activity and sustain adequate labor demand while keeping inflation contained, as we expect.

Exhibit 1: Significantly Improved ISM Non-Manufacturing New Orders Since The April Tariff Shock.



Source: ISM/Haver Analytics. Data as of September 11, 2025.

5 Portfolio Considerations for 2025 and Beyond

Kirsten Cabacungan, Vice President and Investment Strategist

The return to record highs and market calm after a turbulent start to the year raises an important question for investors: What could happen next? The S&P 500 has increased over 30% since its April 8 low, and despite low-single-digit return expectations for 2025 following back-to-back years of greater than 20%+ gains, the index is already up over 10% year-to-date (YTD). Even during a seasonally weaker period over the summer months, the uptrend in stocks has shown no signs of stalling. Equity market volatility has retreated with the Volatility Index down roughly 70% since its April peak. Interest rates have also stabilized, and U.S. dollar weakness has slowed.

But fading volatility has not yet translated into more positive investor sentiment. The American Association of Individual Investors sentiment survey still reflects more bears than bulls. Bearish sentiment at 49.5% remains unusually high and above its historical average of 31.0% for the 41st time in 43 weeks.¹ Concerns including the potential for an AI bubble, stagflation, delayed consequences of higher tariffs, elevated market valuations among others continue to weigh on investor optimism. And understandably, investors may still be cautious after feeling whiplashed from the sharp market swings earlier in the year.

Of course, a range of scenarios has the potential to play out ahead—from more bullish outcomes to bleaker ones. Our base case remains constructive, but a year marked by massive amounts of uncertainty can make it easy for investors to fall into behavioral pitfalls and for emotions to cloud investment decisions. Therefore, consider these five portfolio considerations as we navigate the rest of 2025 and beyond.

One: Take advantage of equity market volatility. Solid momentum continues to build for U.S. Equities as tailwinds from strong corporate earnings growth and the prospects for easier financial conditions propel stocks to record highs. Still, investors may contend with choppy equity market conditions. Given the solid fundamental backdrop, long-term investors may want to consider these pockets of equity market weakness as buying opportunities to rebalance and capitalize on improving market dynamics to diversify their portfolios, especially into areas outside of the dominate mega-cap Technology Growth stocks.

Two: Lean into the megatrends shaping the future. We believe we are in the early stages of a multiyear super cycle. Megatrends across AI, infrastructure, aerospace and defense, and power generation should transcend short-term volatility and will likely be the main drivers of economic growth over the longer term.

Three: Tap into higher bond yields for income. While bond yields have trended cyclically lower against a backdrop of labor market cooling, current yields still provide investors with good income-generating power. The 10-year U.S. Treasury yield is down roughly 75 bps from its high earlier this year (Exhibit 2A) but remains in its highest range since the 2008/2009 Global Financial Crisis (GFC) (Exhibit 2B). Moreover, real yields, or yields after inflation, also remain attractive from a historical perspective, a positive shift for savers who experienced low to negative real yields in the post-GFC period.

Ahead, yields are likely to continue to trend lower once the Fed starts cutting rates again. The CME FedWatch Tool reflects a greater than 90% probability of a 25 bps Fed rate cut at the September meeting. BofA Global Research is also now forecasting a 25 bps Fed rate cut in September followed by another 25 bps cut in December and 75 bps of cuts in 2026. Against that backdrop, investors should consider stepping out of cash and extending their duration to at least their strategic target to take advantage of still elevated yields and help protect against declining rates on cash balances.

Portfolio Considerations

We view the last four months of the year as “an invitation to buy” long-term equity market exposure on weakness and use growth investment themes to increase tactical positioning through the new growth cycle. We would use any weakness in equity markets over this seasonally challenging period as an opportunity to rebalance.

¹ American Association of Individual Investors Sentiment Survey. Data as of September 11, 2025.

Exhibit 2: Nominal And Real Bond Yields Remain Attractive.

2A) Yields have trended cyclically lower...



2B) ...but they remain attractive relative to the post-GFC period.

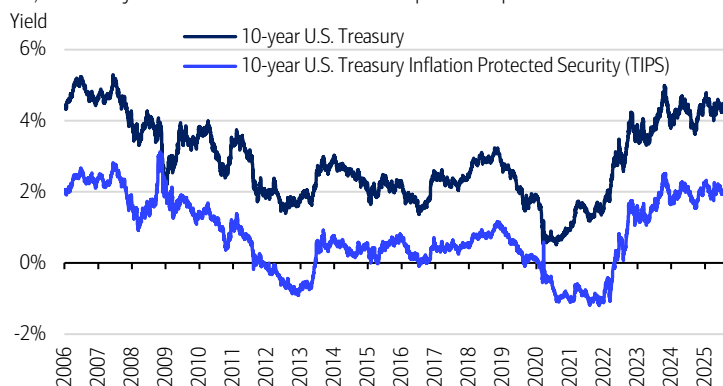
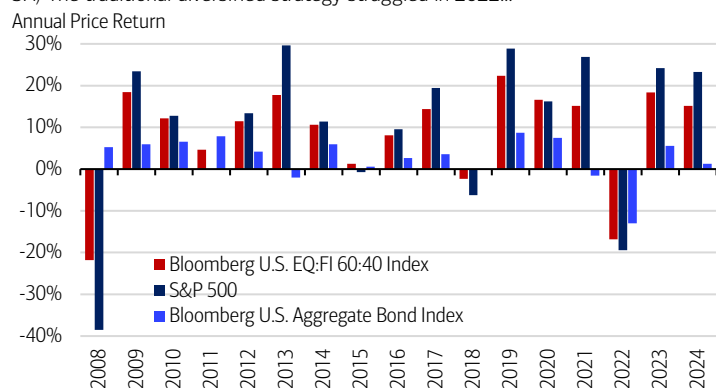


Exhibit 2A) Source: Bloomberg. Data as of September 10, 2025. Exhibit 2B) Source: Bloomberg. Data as of September 10, 2025.

Four: Focus on diversification. There has been a lot of debate in recent years about traditional diversified strategies, specifically a 60/40 allocation (60% stocks/40% bonds²). The rationale behind the 60/40 is straightforward: use stocks for long-term capital appreciation and growth and use bonds for income and to mitigate equity risk during downturns. That strategy broke down in 2022 amid bear markets in both stocks and bonds. It marked the strategy's worst performance since 2008 (Exhibit 3A) and sparked discussions on its continued viability. That failure however proved short-lived, with the 60/40 redeeming itself in the following years returning 18% in 2023 and 15% in 2024.² And in 2025, even though bond yields spiked in the wake of the tariff turbulence, bonds still offered some stability during the equity market selloff. The Bloomberg U.S. Aggregate Bond index gained 1% as the S&P 500 neared a bear market from mid-February to early April (Exhibit 3B). We therefore remain favorable on a significant allocation to bonds within diversified portfolios.

Exhibit 3: Diversification Is Not Dead.

3A) The traditional diversified strategy struggled in 2022...



3B) ...but bonds offered stability in the 2025 market selloff.

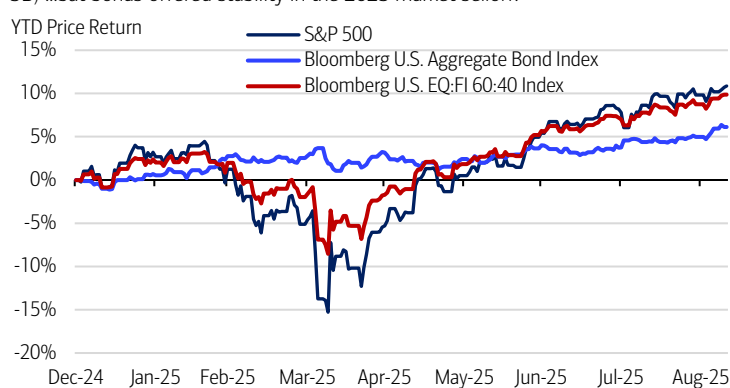


Exhibit 3A) Source: Bloomberg. Data as of September 10, 2025. Exhibit 3B) Source: Bloomberg. Data as of September 10, 2025. **Past performance is no guarantee of future results.** Please refer to index definitions at the end of this report. It is not possible to invest directly in an index.

Five: Patience can help. Long-term investing is just that: long-term. It takes time to build wealth and requires staying invested even when the market faces inevitable ups and downs. Extending time horizons has historically helped to smooth out returns and boosted the chances of positive outcomes over time. Since 1950, S&P 500 total returns were positive only 80% of the time over one-year rolling periods compared to 97% for 10-year rolling periods.³ As long-term investors, we stress the importance of a disciplined investment process and staying invested in your long-term strategic asset allocation.

² 60/40 refers to Bloomberg U.S. EQ:FI 60:40 Index. Bloomberg. Data as of September 10, 2025.

³ Based on monthly total returns. Bloomberg. Data as of September 10, 2025.

From Sixty to Zero: Immigrant Workers and the U.S. Labor Force

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

There is a great deal of fog surrounding the U.S. labor force, with soft employment figures for August, followed by massive negative payroll revisions in the year through March 2025, triggering concerns among investors of a dramatic labor-related slowing of the economy. We don't harbor these concerns. But we are keeping a close eye on tighter U.S. immigration standards and the cumulative effects on the supply of labor in the U.S.

As the accompanying exhibits highlight, immigrants have been a huge growth catalyst for the U.S. labor market this decade. Indeed, according to government data, immigrant workers accounted for roughly 88% of the U.S. labor force growth from 2019 to 2024. Some 3.6 million foreign-born workers were added to U.S. payrolls over the period, compared to just 479,000 U.S.-born workers. This influx of workers helped boost the share of foreign-born workers in the U.S. labor force to a record high of nearly 20% early this year (Exhibit 4A).

However, since March the foreign-born labor force (absolute numbers/share of total) has gone into reverse owing to tighter U.S. immigration policies. This has contributed to the weaker-than-expected U.S. labor market—and bears close watching in sectors that are overly dependent on immigrant labor. Case in point: the U.S. construction industry.

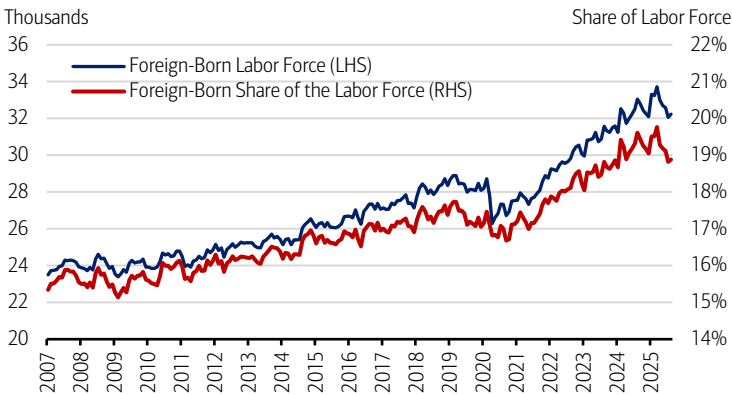
As Exhibit 4B depicts, the U.S. construction industry's dependence on foreign labor is extraordinary. Plasterers, drywall installers, roofers, painters—more than half of these jobs are done by immigrants; meanwhile, 45% of U.S. flooring installers are immigrants, while one-third of U.S. carpenters are foreign born. At a time when U.S. construction activity is poised to shift higher thanks to lower interest rates and generous capital depreciation allowances, the workers to build more data centers, factories, roads, bridges, and homes are in short supply due in part to the immigration crackdown. This could impede new construction activity near term; however, and taking the long-view, the labor squeeze should only accelerate the productivity-enhancing deployment of AI, robotics and automation across multiple U.S. industries.

Investment Implications

Recent weaker-than-expected employment figures in part reflect a notable decline in the foreign-born labor force. We wouldn't be surprised to see this dynamic continue in the near term given tighter immigration policy. Amid evolving labor supply dynamics, productivity-enhancing AI, robotics and automation remain key themes for us.

Exhibit 4: Immigrants Fuel the U.S. Labor Force.

4A) U.S. Labor Force Growth Depends on Immigrants.



4B) Immigrants Are Key to U.S. Construction Sector.

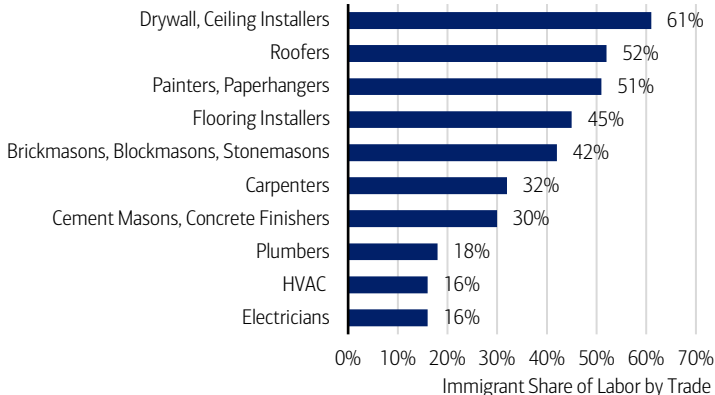


Exhibit 4A) Source: BLS, Haver Analytics. Data as of September 5, 2025. Exhibit 4B) Source: National Association of Home Builders. Data refers to 2023.

Equities

Total Return in USD (%)				
	Current	WTD	MTD	YTD
DJIA	45,834.22	1.0	0.7	9.1
NASDAQ	22,141.10	2.0	3.2	15.2
S&P 500	6,584.29	1.6	2.0	13.0
S&P 400 Mid Cap	3,282.40	-0.4	0.9	6.3
Russell 2000	2,397.06	0.3	1.3	8.5
MSCI World	4,252.63	1.5	1.8	15.9
MSCI EAFE	2,758.96	1.2	1.4	24.5
MSCI Emerging Markets	1,325.73	4.0	5.4	25.5

Fixed Income†

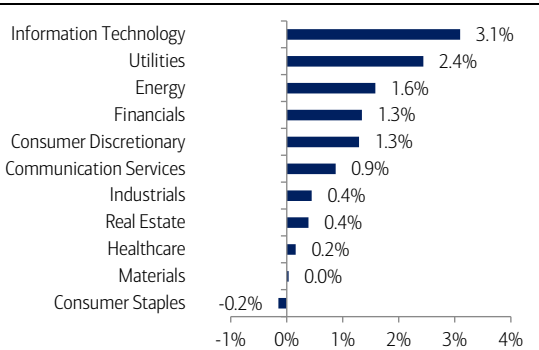
Total Return in USD (%)				
	Current	WTD	MTD	YTD
Corporate & Government	4.17	0.37	1.30	6.17
Agencies	4.04	0.09	0.52	4.91
Municipals	3.58	1.48	2.38	2.70
U.S. Investment-Grade Credit	4.29	0.41	1.34	6.40
International	4.74	0.59	1.76	7.15
High Yield	6.64	0.27	0.59	6.98
90 Day Yield	4.02	4.00	4.14	4.31
2 Year Yield	3.56	3.51	3.62	4.24
10 Year Yield	4.06	4.07	4.23	4.57
30 Year Yield	4.68	4.76	4.93	4.78

Commodities & Currencies

Total Return in USD (%)				
	Current	WTD	MTD	YTD
Commodities				
Bloomberg Commodity	258.39	1.4	1.1	8.3
WTI Crude \$/Barrel††	62.69	1.3	-2.1	-12.6
Gold Spot \$/Ounce††	3643.14	1.6	5.7	38.8

Total Return in USD (%)				
	Prior Week End	Prior Month End	2024 Year End	
Currencies				
EUR/USD	1.17	1.17	1.04	
USD/JPY	147.68	147.43	157.20	
USD/CNH	7.12	7.13	7.34	

S&P Sector Returns



Sources: Bloomberg, Factset. Total Returns from the period of 09/8/2025 to 09/12/2025. †Bloomberg Barclays Indices. ††Spot price returns. All data as of the 09/12/2025 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 9/12/2025)

	Q1 2025A	Q2 2025A	Q3 2025E	Q4 2025E	2025E	2026E
Real global GDP (% y/y annualized)	-	-	-	-	3.1	3.0
Real U.S. GDP (% q/q annualized)	-0.5	3.3*	1.5	1.6	1.8	1.7
CPI inflation (% y/y)	2.7	2.5*	2.9	3.0	2.8	2.9
Core CPI inflation (% y/y)	3.1	2.8*	3.1	3.1	3.0	2.9
Unemployment rate (%)	4.1	4.2*	4.3	4.4	4.2	4.5
Fed funds rate, end period (%)	4.38	4.38	4.13	3.88	3.88	3.13

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. *Data as of September 12, 2025.
Sources: BofA Global Research; GWIM ISC as of September 12, 2025.

Asset Class Weightings (as of 9/2/2025)

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			

*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 September 2, 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.

CIO Equity Sector Views

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

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.

Equity/S&P 500 Index Annual Return is sum total of the index's highs and lows tracking the stock performance of 500 leading companies listed on stock exchanges in the United States.

Equity/S&P 500 Index Price Return is a stock market index tracking the stock performance of 500 leading companies listed on stock exchanges in the United States. The price return represents the return generated by price changes in the S&P 500 index. The return from reinvesting dividends distributed by the companies in the index is labeled as the dividend return. Total return is the sum of the price return and dividend return.

S&P 500 Index is a stock market index tracking the stock performance of 500 leading companies listed on stock exchanges in the United States.

Bonds/Bloomberg US Aggregate Bond Index Annual Return is sum total of the index's highs and lows of the broad base, market capitalization-weighted bond market index representing intermediate term investment grade bonds traded in the United States.

Bonds/Bloomberg US Aggregate Bond Index Price Return measures the percentage change in an asset's or index's value due to capital appreciation alone, completely ignoring any income from dividends or interest payments. It tracks the broad base, market capitalization-weighted bond market index representing intermediate term investment grade bonds traded in the United States.

Bloomberg U.S. EQ:FI 60:40 Index is designed to measure cross-asset market performance globally. The index rebalances monthly to 60% equities and 40% fixed income and are represented by Bloomberg Developed Markets Large & Mid Cap Total Return Index DMTR and Bloomberg Global Aggregate Index LEGATRUU respectively.

Institute for Supply Management Manufacturing Index a monthly gauge on the level of economic activity in the U.S. manufacturing sector versus the previous month.

Chicago Board Options Exchange Volatility Index (VIX) measures the market's expectation of 30-day volatility for the S&P 500. VIX values above 30 indicate greater market fear and uncertainty, while values below 20 suggest stability. Investors use VIX to assess market risk and sentiment, and trade VIX-linked futures and options.

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