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Capital Market Outlook

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While closing in on two years without making a new high, over the last year the index has been up over 20%. This week we look at some of the macro-level sources of resilience for the S&P 500 and the likelihood they persist.

Market View—*A Refresher for the Next Phase of Inflation:* In our view, we are in the midst of a macroeconomic transition away from the previous environment of low inflation, low growth and low rates. During this period of regime change, it may be worth exploring the fundamentals of inflation as we think about how to approach portfolio strategy during the next phase.

While investors should be mindful of the areas of the market that have historically fared well following the peak in inflation, we believe that a well-diversified portfolio is the best approach for long-term financial success.

Thought of the Week—*The Israel-Hamas War: What Might an Extended Conflict Mean for Global Markets?* The launch of a new ground phase in the Israel-Hamas war raises the risk of a more protracted conflict over the period ahead. We expect the bulk of the economic fallout to stay confined for now to Israel and the Palestinian territories, and the greatest market impact has so far been felt by local Israeli Equities and to a much lesser extent other regional markets in Saudi Arabia and Egypt.

But as the conflict extends over the coming weeks, the possible implications for energy prices are likely to be the most significant for global investors.

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Data as of 10/16/2023, and subject to change

Portfolio Considerations

Our strategy is to maintain a high level of diversification and to use excess cash to add to higher-quality areas that have drifted below strategic asset allocation targets in both Equities and Fixed Income. As more economic data confirms that a lower-growth path is indeed unfolding, we'd be active in rebalancing early next year. This month, we increased our exposure to Agency Mortgage-backed Securities and upgraded Investment-grade Tax-Exempt while decreasing our exposure to Investment-grade Corporates. We also lowered Utilities and upgraded Energy as technical factors and higher yields are weighing on certain sectors.

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MACRO STRATEGY

Resilient

Jonathan W. Kozy, Managing Director and Senior Macro Strategy Analyst

The S&P 500 Index has been resilient in the face of aggressive monetary tightening, a domestic housing recession, an economywide profits recession, secular shifts in the CRE sector, weak global growth, and a barrage of geopolitical shocks. While closing in on two years without making a new high, over the last year the index has been up over 20%. The sources of resilience are diverse. For one, thus far the Federal Reserve (Fed) has spared the market a "no mercy" attitude, frequently flinching when financial conditions tighten. Because of this, the economywide profits recession has been mild, with larger firms faring better than smaller firms. Smaller businesses appear to be more exposed to macroeconomic stresses. Fiscal stimulus has also been a massive support for the economy, including the fragile CRE sector. Additionally, the housing recession is so far advanced many investors likely see any additional weakness as an opportunity to capitalize on pent-up demand. Lastly, the evolution of the global energy system has provided resilience to geopolitical risk, and several U.S. industries are benefiting from the geopolitical backdrop on an absolute and relative basis.

Equity investors like that the Fed consistently stops short of "no mercy." At the September 20 Fed meeting press conference, Chairman Powell was asked, "Would you call the soft landing now a baseline expectation?" His response: "No, no—I would not do that."[1] His hawkish answer contradicted the Fed's forecasts which showed below trend, but positive real gross domestic product (GDP) growth (a soft landing). Equities were under pressure in the days and weeks after and long-term yields moved higher as investors concluded rates would be higher for longer.

But just when the Fed seemed like it were ready to turn up the heat, it softened. Last week several Fed officials reinforced the focus on returning inflation to its 2% target but softened the language by embracing the idea that rising private sector rates did some of the work for them, implying fewer rate hikes were necessary. Overall, the equity market likes the caution because inflation staying higher for longer implies a more resilient near-term profits cycle and a less tight credit environment.

Realized earnings have also been better than expected. Inflation is only coming down gradually and real growth is holding up further support for the market. Revisions to U.S. National Accounts data also showed an upward revision to already high nonfinancial profit margins. At this stage, forecasting margins is about figuring out whether labor cost growth or top-line growth slows faster, but the starting point makes the overall profits cycle appear more resilient. And equity market volatility is closely linked to the profit margin cycle. Forecasts for the next stage of the profits cycle vary widely but on balance have an upward bias. Because of the relationship between inflation and profits, some of the profits resilience also relies on the Fed.

Small businesses have been the shock absorbers in the post-pandemic cycle to the benefit of the S&P 500. According to the National Federation of Independent Business (NFIB) Small Business Optimism Index, small businesses have been in a recession since early 2022. While they are experiencing the same labor market challenges that large businesses are, many lack the ability to substitute capital for labor given the challenging economywide profits backdrop and more acute credit tightening. The NFIB survey showed that the percentage of small businesses reporting that credit is harder to get is at a level more consistent with recessions, and the cost of capital is much higher even if small businesses can get access.

Smaller companies with more leverage are more sensitive to slowing nominal growth and contracting margins. As a result, the profits recession has been deeper for Small-cap companies when comparing S&P 500 earnings to Russell 2000 earnings. We maintain our preference for higher-quality earnings, which favor Large-cap companies over Small-cap companies.

Investors have lived with a housing recession for two years and recognize pent-up demand. Housing cycles are by nature the most domestic and independent economic cycles across countries, and interest rate sensitive. Residential investment in the GDP accounts has not contributed to growth for over two years. Total home sales (new and existing single-family homes) are deep in recession territory, back to 2011 levels. When the S&P 500 peaked at the

Investment Implications

The S&P 500 Index has been resilient in the face of aggressive monetary tightening, a domestic housing recession, an economywide profits recession, secular shifts in the CRE, weak global growth, and a barrage of geopolitical shocks. We maintain our balanced, diversified approached and are neutral weight Equities. We continue to emphasize quality, which includes large-caps over small-caps.

[1] Transcript of Chair Powell's Press Conference, September 20, 2023 (federalreserve.gov).

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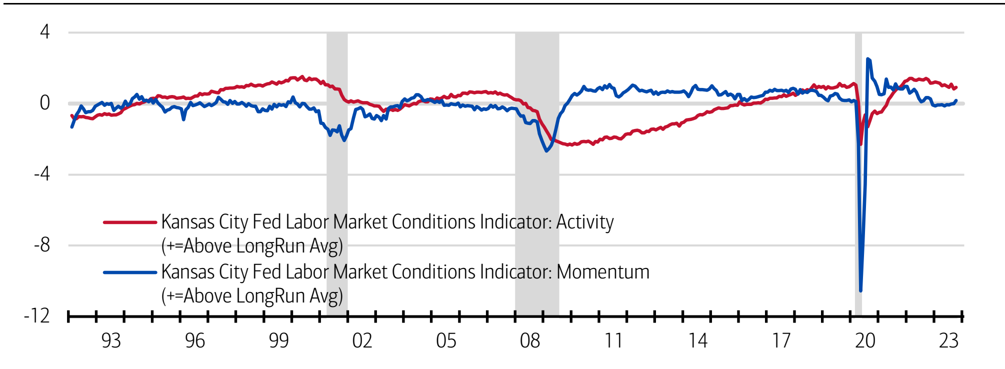
end of 2021, total home sales were 6.3 million and have since declined to 4.3 million, according to National Association of Realtors. Importantly, the decline has not been an unwinding of excesses but pushing against demographic demand. Long-term investors like pent-up demand. While it could get worse before it gets better given the affordability challenge, the housing-related stocks within the S&P 500 will have a secular tailwind from demographically driven pent-up demand once the Fed pivots.

Industrial policy and the shift to e-commerce is easing anxiety around CRE. Construction of industrial and manufacturing structures spurred on by fiscal stimulus (Inflation Reduction Act & CHIPS) related to green energy, semiconductor manufacturing and other infrastructure like data centers has been a significant source of resilience for the CRE sector. For example, the value of private construction put in place for manufacturing has been up over 140% in the last two years, according to Census Bureau, even as the S&P has failed to make new highs. At the same time, e-commerce penetration continues to push on. Office space in suburban sprawl locations has at times being rescued by e-commerce warehousing projects, acting as a buffer from the strains of the post-pandemic trimming of office square footage. Both e-commerce penetration and fiscal stimulus have legs, in our view, and should help dampen pain from the office CRE space.

The labor market has been resilient. The labor market is an important transmission mechanism from weaker demand to a deeper contraction and deeper pullback in risk-assets. Over the last few cycles, the S&P 500 has been more coincident with labor market data. The Kansas City Federal Reserve summarizes 24 key labor market variables in its Labor Market Conditions Indicator. September data released last week showed a pickup in both activity and momentum with multiyear trends showing very gradually slowing activity and "flattish" momentum. The historical data show that momentum can shift mid-cycle and can move fast, and persistence in declining activity has been typically slower moving late-cycle phenomenon. An important question is whether the Fed is willing to break the labor market (Exhibit 1).

Exhibit 1: Will The Fed Break The Labor Market In An Election Year?



Source: Federal Reserve Bank of Kansas City. Data as of October 11, 2023.

S&P 500 companies in defense, energy, technology and other industries related to onshoring initiatives add to resilience given the increasingly dynamic geopolitical backdrop. Energy markets have decades of experience adjusting to geopolitical shocks that can trigger recessions, and, thus far, we have not experienced a physical supply shock that would push gasoline prices high enough to derail consumers. Even where sanctions have been applied, they have been loosely enforced. Further, the energy markets have evolved to include more extensive fuel sharing treaties and more abundant strategic reserves. Domestically, the shale revolution has added a large, stable producer of both oil and natural gas. Investors have taken notice of S&P 500 energy companies, while cheaper domestic natural gas prices support a number of S&P 500 industries.

While U.S. energy companies offer diversification in an inflationary environment with elevated geopolitical risk premiums, physical supply shocks in the form of infrastructure destruction or disrupted transit would be different animals altogether for risk assets.

Bottom line: Geopolitical recession? Yes. Housing recession? Yes. Small business recession? Yes. Profits recession? Yes, but the next phase is most important. Nonresidential investment/CRE recession? No, and industrial policy has legs. Is this all negative for S&P 500 stocks? No. And as we know, consumers have been resilient with the tight jobs market. With consumers and businesses in reasonable shape, the ball is in the Fed's court to decide what is next.

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MARKET VIEW

A Refresher for the Next Phase of Inflation

Kirsten Cabacungan, Vice President and Investment Strategist

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For some time, economists and investors insisted that the rise in inflation in the aftermath of the pandemic shock would eventually dissipate once supply side disruptions subsided. As those bottlenecks normalized, however, inflation continued to accelerate, touching multidecade highs, in a sign that the surge in prices was not as transitory as initially expected. Inflation eased from its peak after the Fed embarked on aggressive monetary policy tightening, but uncertainty looms over whether the moderation will continue or whether it could spike again especially as the economy has shown unexpected resilience against tighter financial conditions. What is clear though is that there seems to have been a structural upending of the previous environment of low inflation, low growth and low rates, and that inflation, not deflation,[2] may be the bigger challenge in the next decade. Living in this period of macroeconomic regime change, it may be worth exploring the fundamentals of inflation as we think about how to approach portfolio strategy in an environment in transition.

Investment Implications

While portfolio performance can be heavily influenced by inflation outcomes, the volatility and uncertainty of inflationary regimes argue for diversification of assets. We continue to advocate for an appropriately balanced portfolio, which we believe is more likely to lead to long-term financial success.

What role does the Fed play? The Fed operates under a "dual mandate"—to both maximize sustainable employment and ensure price stability—and conducts monetary policy by influencing short-term interest rates. Essentially, the central bank aims to set the economy on course to employ the highest number of workers that also keeps broad increases in prices stabilized and predictable so to not alter business or consumer decisions. The Fed has explicitly targeted 2% inflation growth a year since 2012, and it updated its policy framework in August 2020 to include average inflation targeting, where the goal is to average 2% inflation "over time." If inflation runs below 2% for an extended period, for example, the Fed may allow inflation to run over 2% for an extended period so that over longer time frames inflation averages 2%. Now that inflation has run well above the Fed's target for the last few years, some economists point out that under this framework, inflation would theoretically need to fall below target for a period to achieve that average. How committed the Fed stays to that inflation policy is yet to be seen. If the Fed decides to cut rates before inflation meets its average target, it likely seals a structurally higher inflationary environment relative to the last decade.

How is inflation measured, and what causes it? The Fed monitors several price indexes to measure inflation but focus most often falls on the Consumer Price Index (CPI) and the Personal Consumer Expenditures (PCE) deflator. The PCE deflator is the Fed's preferred measure and is often heralded for being a broad measure with fewer biases and measurement issues. In terms of the causes of inflation, the drivers are dynamic and often debated. Money supply seems to play a role, especially in the case of the most recent inflationary episode. A combination of massive monetary and fiscal stimulus set off a surge in money supply beginning in 2020 and preceded the rise in inflation beginning in 2021, echoing the dynamics of the inflationary environment of World War II. Despite some modest reacceleration in the spring and early summer of 2023, money supply has been generally declining and inflation gauges have subsequently moved lower. Perceptions of inflation and subsequent consumer behaviors is another influence. Expectations for higher costs in the future may encourage workers to demand higher wages, embolden businesses to raise their prices, or lead households to make big-ticket purchases sooner rather than later, pulling demand forward and driving up prices. On the other side of the coin, falling inflation expectations could set forces into motion that lead to a deflationary spiral where consumers and businesses delay purchases as they anticipate lower prices in the future which in turn pushes prices even lower. Other factors such as the introduction of new technologies, the direction of commodities prices, the state of the labor market, and shifts in demographics are also often credited for swaying the path of inflationary trends.

How should investors think about positioning for inflation? It can be challenging to form a general view of inflation and its effect on asset prices in isolation. Every episode of inflation is unique, and other factors such as economic growth, level and trajectory of interest rates and monetary policy and credit spreads, among others, also play a role. That said, during previous periods of accelerating inflation, in which the CPI increased over 2% on a year-over-

[2] Deflation describes a fall in the general price levels in a economy.

year basis, Equities generally outperformed Fixed Income from the inflationary trough-to-peak. Generally Fixed Income has offered little insulation against the erosion of purchasing power in an inflationary environment, though there have been periods when bonds have provided higher yields, helping to insulate against price declines. International Developed and Emerging Market (EM) Equities have fared well during periods of rising inflation. Gold has exhibited a high degree of volatility through inflationary episodes. Likewise, broader Commodities have also exhibited volatility but generally have performed well.

Examining asset class performance post the peak in inflation may be more beneficial in today's environment, with the latest CPI reading measuring an annual increase of 3.7% versus 9.1% from last year.[3] Inflation expectations are also mostly stable, with median inflation expectations falling to 2.8% at the five-year-ahead horizon, slightly above the Fed's target.[4] Generally, the macroeconomic backdrop has potential to improve after inflation peaks and begins to move lower, as risks that the Fed will tighten conditions into a recession may subside and consumers may have more room to spend. On a two-year forward return basis from the inflationary peak, performance dynamics begin to shift with areas like Small-cap outperforming Large-cap and Value outperforming Growth. While U.S. Equities have historically outperformed, International and EM Equities also fared relatively well. Fixed Income has tended to perform better in a post-inflationary peak environment than in one where it is accelerating. Gold and Commodities continue to exhibit volatility but generally have been the laggards.

While investors should be cognizant of the areas of the market that have historically fared well following the peak in CPI, we believe that a well-diversified portfolio is the best approach, as inflation is only one factor to consider and correlations between financial assets and inflation are imperfect and easily influenced by a variety of outside factors.

Exhibit 2: Previous Episodes of CPI Increasing Over 2% Year-over-Year.

	Previous Episodes of CPI Increasing Over 2% Year-over-Year											
	Trough to Peak	Jun-1972 Dec-1974	Dec-1976 Mar-1980	Jul-1983 Mar-1984	Dec-1986 Oct-1990	Mar-1998 Mar-2000	Jan-2002 Sep-2005	Oct-2006 Jul-2008	Jul-2009 Sep-2011	Apr-2015 Jul-2018	May-2020 Jun-2022	Average Annualized Returns
	Duration (Months)	30	39	8	46	24	43	21	25	39	24	
Percentage Point Change	CPI (YoY)	9.6%	9.9%	2.3%	5.2%	2.4%	3.6%	4.3%	6.0%	3.1%	9.0%	--
	10-year U.S. Treasury (Start Yield)	6.2%	6.8%	11.8%	7.2%	5.7%	5.0%	4.6%	3.5%	2.0%	0.7%	--
	10-year U.S. Treasury (End Yield)	7.4%	12.6%	12.5%	8.6%	6.0%	4.3%	3.9%	1.9%	3.0%	3.0%	--
	10-year U.S. Treasury Yield	1.3%	5.8%	0.7%	1.4%	0.4%	-0.7%	-0.7%	-1.6%	0.9%	2.4%	--
	10-year U.S. TIPS** Yield	--	--	--	--	0.3%	-1.7%	-0.7%	-1.6%	0.7%	1.2%	--
	Effective Fed Funds Rate	-0.6%	15.7%	0.7%	-4.8%	0.3%	2.1%	-3.2%	-0.1%	1.8%	1.5%	--
	Credit Spreads	1.2%	0.9%	-0.1%	-0.4%	0.7%	-1.1%	1.7%	0.2%	-0.8%	-0.8%	--
Trough to Peak Total Return	S&P 500	-29.9%	12.5%	0.8%	43.0%	39.7%	15.9%	-4.8%	19.8%	44.5%	28.4%	5.5%
	Large Cap	--	--	-1.9%	37.0%	41.4%	19.5%	-4.0%	20.5%	43.1%	27.2%	7.6%
	Large-Cap Growth*	--	--	-9.4%	43.7%	71.8%	3.5%	2.1%	24.4%	55.9%	20.8%	8.1%
	Large-Cap Value*	--	--	5.5%	29.9%	11.7%	36.3%	-10.1%	16.8%	30.8%	33.0%	7.0%
	Small Cap*	--	--	-12.2%	-4.6%	15.0%	44.7%	-4.7%	19.0%	43.2%	25.5%	3.6%
	International Developed	-25.3%	52.5%	25.3%	41.5%	32.7%	61.4%	1.8%	2.5%	14.3%	12.5%	9.4%
	Emerging Markets*	--	--	--	--	--	122.0%	32.9%	9.6%	12.5%	13.0%	11.4%
	Gold	196.1%	267.7%	-7.9%	-5.9%	-7.3%	66.1%	50.7%	70.2%	3.4%	4.5%	16.1%
	Commodities	326.4%	130.7%	6.2%	99.6%	2.0%	114.6%	31.2%	11.1%	-15.7%	85.1%	21.5%
	U.S. Aggregate Bond*	--	-2.8%	6.2%	33.3%	8.5%	21.0%	8.7%	16.2%	3.9%	-10.0%	3.8%
2-year Forward Total Return from CPI Peak	S&P 500	70.1%	21.8%	63.7%	46.7%	-21.5%	29.0%	-8.9%	55.4%	20.9%	--	13.6%
	Large Cap	--	21.7%	65.7%	51.1%	-22.1%	28.9%	-8.6%	57.2%	21.0%	--	11.8%
	Large-Cap Growth*	--	16.6%	65.4%	55.5%	-43.9%	26.6%	-6.3%	54.1%	43.9%	--	11.2%
	Large-Cap Value*	--	26.2%	65.6%	46.7%	4.7%	31.2%	-11.1%	60.1%	-1.1%	--	12.4%
	Small Cap*	--	47.1%	48.6%	73.7%	-3.5%	23.5%	-6.1%	71.6%	-8.8%	--	13.5%
	International Developed	38.8%	13.7%	89.0%	-7.2%	-31.8%	48.8%	-17.8%	40.8%	-4.2%	--	7.8%
	Emerging Markets*	--	--	--	--	--	90.5%	-0.3%	18.1%	4.2%	--	12.2%
	Gold	-26.8%	-35.3%	-11.5%	-10.1%	8.4%	58.4%	29.2%	-18.2%	61.4%	--	1.8%
	Commodities	8.9%	-12.4%	-14.2%	-8.8%	10.1%	9.8%	-34.1%	-9.2%	-16.8%	--	-4.1%
	U.S. Aggregate Bond*	--	24.2%	50.9%	27.2%	18.5%	9.0%	17.5%	3.4%	19.0%	--	9.9%

*Style and Small Cap total returns data begins December 29, 1978. Emerging Markets total returns data begins December 29, 2000. Bloomberg U.S. Aggregate Bond Index data begins January 30, 1976. **Treasury Inflation-Protected Securities. Note: Light blue shade represents economic indicators; pink shade represents negative performance; and green shade represents positive performance. Credit spreads represented by Moody's Seasoned Baa Corporate Bond Yield Relative to the 10-year Treasury Yield. Indexes Represented: S&P 500 Total Return (TR), Russell 1000 TR, Russell 1000 Growth TR, Russell 1000 Value TR, Russell 2000 TR, MSCI EAFE Net TR, MSCI Emerging Markets Net TR, Gold Spot Price $USD per Troy Ounce, Bloomberg Commodities TR, Bloomberg Barclays U.S. Aggregate TR Unhedged. Sources: Chief Investment Office; Bloomberg. Data as of October 12, 2023. **Past performance is no guarantee of future results. Please refer to index definitions and important disclosures at the end of this report. It is not possible to invest directly in an index.**

[3] Bureau of Labor Statistics. October 12, 2023.

[4] Federal Reserve Bank of New York. October 10, 2023.

The Israel-Hamas War: What Might an Extended Conflict Mean for Global Markets?

Ehiwario Efeyini, Director, Senior Market Strategy Analyst

Ten days on from the start of the Israel-Hamas war, the launch of a new ground phase raises the risk of a more protracted conflict. With limited involvement from neighboring countries in the region at this stage, the bulk of the economic fallout is likely for now to stay confined to Israel and the Palestinian territories through lower inward investment (a leading U.S. semiconductor manufacturer had, for example, announced plans to build a new plant in southern Israel earlier this year), tourism and consumption. And as a result, the greatest market impact has so far been felt by local Israeli Equities and, to a much lesser extent, other regional markets in Saudi Arabia and Egypt.

But the wider global economic impact remains minimal. Israel and the Middle East and North Africa (MENA) region account for a respective 0.5% and 3.8% of GDP, and an even smaller 0.2% and 0.9% of the MSCI All-Country World Equity benchmark. On an industry basis, what could well mark a permanent shift in regional security perceptions is likely to mean a rise in local defense spending. Here, both Israel ($23.4 billion) and MENA ($167.8 billion) spend roughly twice the global average as a share of GDP, according to Stockholm International Peace Research Institute. But at 1.1% and 7.7%, respectively, according to MSCI, their absolute military expenditures are also still a relatively small share of the world total.

Globally, the immediate-term market consequences have been a reversal of the upward trend in bond yields, an uptick in oil and gas prices and a correction in the U.S. dollar. Equity markets have risen with the energy and defense sectors leading, and bond proxies in utilities and telecoms benefiting from the fall in yields. International markets have been in a relative downtrend for much of this year (Exhibit 3), but in the short run this has moderately favored non-U.S. Equities overall given their greater exposure to these four sectors: 32% in the eurozone, 33% in Japan and 38% in EM compared to just 24% for U.S. Equities. On a regional basis, energy producers outside MENA (particularly in Latin America) have been the biggest outperformers.

Exhibit 3: International Markets Remain In A Relative Downtrend Versus U.S. Equities Despite Recent Bout Of Outperformance.

Sources: Chief Investment Office; Bloomberg. Data as of October 11, 2023. Equity indexes are MSCI All-Country World ex-U.S. and MSCI U.S. Indexes shown in price terms (USD). Performance 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. Please refer to index definitions and important disclosures at the end of this report. It is not possible to invest directly in an index.**

As the conflict extends over the coming weeks, the possible implications for energy prices should be the most significant for global investors. Geopolitical ramifications could potentially reduce output from the world's second and eighth largest oil producers Saudi Arabia and Iran. And as occurred following the outbreak of the 1973 Yom Kippur War, a larger geopolitically-driven increase in the oil price would likely come as a major setback for global equity markets—particularly in the major net importers of Europe, Japan and emerging Asia. Net exporters in Latin America would remain relatively well-positioned.

Recent events therefore reinforce our tactical caution on international markets. But while we remain of the view that current conditions do not warrant a tactical upgrade, we nonetheless still prefer that investors maintain longer-term exposure. Both International Developed and EM continue to trade at a discount relative to U.S. Equities, contain more of a balance between Value and Growth sectors and offer relatively attractive dividend yields.

Investment Implications

The Israel-Hamas war has so far affected local equity markets hardest, while global markets have risen alongside a reversal of the upward trend in bond yields, an uptick in oil and gas prices, and a correction in the U.S. dollar. But as the conflict extends over the coming weeks, investors will need to monitor the risks stemming from a larger potential increase in energy prices.

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Equities

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
DJIA	33,670.29	0.8	0.5	3.3
NASDAQ	13,407.23	-0.2	1.4	28.9
S&P 500	4,327.78	0.5	1.0	14.2
S&P 400 Mid Cap	2,442.80	-0.5	-2.3	1.8
Russell 2000	1,719.71	-1.5	-3.6	-1.2
MSCI World	2,862.14	0.6	0.3	11.5
MSCI EAFE	2,012.68	1.0	-0.9	6.1
MSCI Emerging Markets	951.31	1.5	-0.1	1.7

Fixed Income†

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
Corporate & Government	5.33	1.05	-0.13	-0.99
Agencies	5.19	0.44	0.12	1.52
Municipals	4.26	1.22	0.58	-0.82
U.S. Investment Grade Credit	5.44	0.95	-0.23	-1.43
International	6.10	1.25	-0.21	-0.19
High Yield	9.11	0.53	-0.68	5.14
90 Day Yield	5.48	5.51	5.45	4.34
2 Year Yield	5.05	5.08	5.04	4.43
10 Year Yield	4.61	4.80	4.57	3.87
30 Year Yield	4.75	4.97	4.70	3.96

Commodities & Currencies

	Total Return in USD (%)			
Commodities	Current	WTD	MTD	YTD
Bloomberg Commodity	238.94	2.8	0.6	-2.8
WTI Crude $/Barrel††	87.69	5.9	-3.4	9.3
Gold Spot $/Ounce††	1932.82	5.4	4.6	6.0

		Total Return in USD (%)		
Currencies	Current	Prior Week End	Prior Month End	2022 Year End
EUR/USD	1.05	1.06	1.06	1.07
USD/JPY	149.57	149.32	149.37	131.12
USD/CNH	7.31	7.31	7.29	6.92

S&P Sector Returns

Sector	Return
Energy	4.5%
Utilities	3.6%
Real Estate	2.4%
Industrials	1.0%
Financials	0.5%
Consumer Staples	0.2%
Healthcare	0.2%
Information Technology	0.2%
Communication Services	-0.2%
Materials	-0.4%
Consumer Discretionary	-0.7%

Sources: Bloomberg; Factset. Total Returns from the period of 10/9/2023 to 10/13/2023. †Bloomberg Barclays Indices. ††Spot price returns. All data as of the 10/13/2023 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 10/13/2023)

	Q4 2022A	2022A	Q1 2023E	Q2 2023E	Q3 2023E	Q4 2023E	2023E
Real global GDP (% y/y annualized)	3.6	-	-	-	-	3.0	3.6
Real U.S. GDP (% q/q annualized)	1.9	2.2	2.1	2.0	1.5	2.1	1.9
CPI inflation (% y/y)	8.0	5.8	4.0	3.5	3.4	4.2	8.0
Core CPI inflation (% y/y)	6.1	5.6	5.2	4.4	3.9	4.8	6.1
Unemployment rate (%)	3.6	3.5	3.5	3.6	3.8	3.6	3.6
Fed funds rate, end period (%)	4.33	4.83	5.08	5.33	5.63	5.63	4.33

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 October 13, 2023.

Asset Class Weightings (as of 10/3/2023)

	CIO View				
Asset Class	Underweight		Neutral		Overweight
Global Equities	•	•	● (yellow)	•	•
U.S. Large Cap Growth	•	•	● (yellow)	•	•
U.S. Large Cap Value	•	•	•	● (green)	•
US. Small Cap Growth	•	•	● (yellow)	•	•
US. Small Cap Value	•	•	● (yellow)	•	•
International Developed	•	● (orange)	•	•	•
Emerging Markets	•	•	● (yellow)	•	•
Global Fixed Income	•	•	● (yellow)	•	•
U.S. Governments	•	•	•	● (green)	•
U.S. Mortgages	•	•	▶	● (green)	•
U.S. Corporates	•	● (orange)	◀	•	•
International Fixed Income	•	•	● (yellow)	•	•
High Yield	•	● (orange)	•	•	•
U.S. High Yield Tax Exempt	•	● (orange)	•	•	•
U.S. Investment-grade Tax Exempt	•	▶	● (yellow)	•	•
Alternative Investments*					
Hedge Funds			●		
Private Equity			|		
Real Assets			●		
Cash					

CIO Equity Sector Views

	CIO View				
Sector	Underweight		Neutral		Overweight
Energy	•	•	•	▶	● (dark green)
Healthcare	•	•	•	•	● (dark green)
Utilities	•	•	● (yellow)	◀	•
Consumer Staples	•	•	● (yellow)	•	•
Information Technology	•	•	● (yellow)	•	•
Communication Services	•	•	● (yellow)	•	•
Industrials	•	•	● (yellow)	•	•
Financials	•	•	● (yellow)	•	•
Materials	•	● (orange)	•	•	•
Real Estate	•	● (orange)	•	•	•
Consumer Discretionary	● (red)	•	•	•	•

*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 October 3, 2023. 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 Total Return (TR) is a stock market index tracking the stock performance of 500 of the largest companies listed on stock exchanges in the United States.

S&P 500 Annual Total Return is the investment return received each year, including dividends, when holding the S&P 500 index. The S&P 500 index is a basket of 500 large US stocks, weighted by market cap, and is the most widely followed index representing the US stock market.

S&P 500 sub-sectors and industry groups Global Industry Classification Standard Index including Information Technology Total Return (TR) USD; Consumer Discretionary TR USD; Industrials TR USD; Real Estate TR USD; Communication Services TR USD; Materials TR USD; Financials TR USD; Consumer Staples TR USD; Utilities; Energy TR USD; Healthcare TR USD; Pharmaceuticals; Banks; Telecommunications; REITS.

National Federation of Independent Business (NFIB) Small Business Optimism Index a composite of ten seasonally adjusted components.

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

Large-Cap/Russell 1000 Index TR is a stock market index that tracks the highest-ranking 1,000 stocks in the Russell 3000 Index, which represent about 93% of the total market capitalization of that index.

Growth/Russell 1000 Growth Index TR is a stock market index that tracks the highest-ranking 1,000 stocks in the Russell 3000 Index, which represent about 93% of the total market capitalization of that index.

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

Small-cap/Russell 2000 Index TR is a small-cap U.S. stock market index that makes up the smallest 2,000 stocks in the Russell 3000 Index.

International Developed/MSCI EAFE Net Index TR is an equity index which captures large and mid cap representation across 21 Developed Markets countries around the world, excluding the US and Canada.

Emerging Markets/MSCI Emerging Markets Net Index TR is used to measure the financial performance of companies in fast-growing economies around the world.

Gold reflects the gold spot price and is quoted in U.S. dollars per Troy Ounce.

Commodities/Bloomberg Commodities Index TR is a broadly diversified commodity price index distributed by Bloomberg Index Services Limited.

Bonds/Bloomberg U.S. Aggregate TR Index Unhedged is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market.

Bloomberg U.S. Aggregate Bond Index is a broad base, market capitalization-weighted bond market index representing intermediate term investment grade bonds traded in the United States.

MSCI All-Country World (ACWI) is a stock index designed to track broad global equity-market performance.

MSCI All-Country World ex-U.S. Index captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 24 Emerging Markets (EM) countries.

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

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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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