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CHIEF INVESTMENT OFFICE

Capital Market Outlook

November 2, 2026

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Macro Strategy—*Guide to El Niño: What It Is, Why It Matters, and What to Do About It:* As crude oil flirts with April's highs, and the price of diesel sits comfortably above $6 per gallon, disruption to the global energy complex has emerged as a major theme of 2026. Add yet another variable to the equation: the current "El Niño" event, on track to be one of the strongest on record. The upshot: more extreme weather from droughts to heavy rains, warmer temperatures globally, lower crop production in commodity-exporting economies, and higher prices across major agricultural products. Importantly, these pressures won't be equally distributed and will largely depend on the magnitude and timing of weather events. Among the most vulnerable will be heavily import-dependent countries in the Middle East, Africa and parts of Asia, while developed economies that count food as a smaller share of consumer spending should be better insulated. For investors, the prospect of a very strong El Niño only further reinforces our conviction in several structural trends including a return to higher inflation and higher interest rates, elevated commodity prices amid heightened geopolitical risk and supply chain shortages, and greater investment in energy infrastructure and supply chain resilience. In portfolios, we favor commodities as both an inflation hedge and diversifier.

Market View—*Another Tale of Market Rotation:* October offered another reminder that headline index returns do not always tell the full story. The S&P 500 ended the month slightly lower, but the more muted headline return masked meaningful shifts in market leadership beneath the surface. At the center of the volatility was a sharp unwind in the Artificial Intelligence (AI) trade, particularly across semiconductors and memory stocks. Yet pressure on AI market leaders has not translated into a broad retreat from U.S. Equities. Instead, capital has moved toward previously lagging areas of the market, with Value-oriented, defensive and rate-sensitive stocks gaining ground. While it remains too early to determine whether the shift will prove durable, October's rotation may reflect less a retreat from the AI theme and more a recalibration of valuations and expected returns as market leadership broadens. For investors, the speed of the shift reinforces the importance of diversification as the bull market enters a potentially more mature and differentiated phase.

Thought of the Week—*Reorienting Around AI: From Corporate Plans to Construction to Capital Goods:* AI is reshaping the physical economy, and companies are reorienting capacity and investment plans to meet surging demand for data centers, power and infrastructure. Industrial firms are adding or reviving capacity, while data center construction has increased more than 60% over the past year and is outpacing other major construction categories. At the same time, robust capital goods orders and long lead times for inputs such as generators, switchboards, chillers and transformers highlight both the strength of demand and the supply constraints the buildout faces. Taking stock of these signposts, our view is reinforced that the AI investment cycle remains in its middle innings, creating potential opportunities for companies supplying the equipment and infrastructure behind the buildout.

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Portfolio Considerations

A series of macro shocks, including higher energy prices, rising Treasury yields and shifting Federal Reserve expectations, have tested markets, but resilient economic growth, strong corporate earnings and ongoing artificial intelligence-related investment continue to support a constructive outlook for Equities and risk assets.

We remain overweight Equities, favor U.S. stocks, see potential opportunities in broader market participation and select cyclical sectors, and view higher bond yields as attractive to add income and extend duration.

Guide to El Niño: What It Is, Why It Matters, and What to Do About It

Ariana Chiu, ***Assistant Vice President and Investment Strategist***

As crude oil flirts with April's highs, and the price of diesel sits comfortably above $6 per gallon, disruption to the global energy complex has emerged as a major theme of 2026. Add yet another variable to the equation: the current "El Niño" event, on track to be one of the strongest on record. Below we answer frequently asked questions on El Niño, the potential impact on the global economy and markets and, most importantly, how investors can position portfolios accordingly.

What is El Niño, and what makes this time different? El Niño is the warm phase of the "El Niño-Southern Oscillation," a natural climate pattern occurring every two to seven years. Simply put, El Niño refers to the warming of sea surface temperatures in the eastern Pacific, historically leading to drier conditions in some areas (Southeast Asia, Australia, Central America, southern Africa) and wetter conditions in others (southern U.S., parts of Latin America) (Exhibit 1).

What makes this episode different? Should forecasts prove correct, this El Niño is on track to be historic. The National Oceanic and Atmospheric Administration's latest outlook assigns at least an 83% probability that El Niño's strength during October-December will exceed that of any previous episode since 1950. Already, its impact has been felt via wildfires in Indonesia, the weakest monsoon season in India since 2015,[1] and severe flooding from Paraguay to Peru. The upshot: more extreme weather, hotter temperatures globally, lower crop production in commodity-exporting economies, and higher prices across major agricultural products.

Investment Implications

We expect El Niño to place upward pressure on agricultural goods prices globally. We continue to see commodities as a strategic diversifier and hedge against inflation in portfolios. The U.S. remains our preferred region with companies in Industrials and Materials as potential beneficiaries. Meanwhile, economic impacts to the emerging world will vary by country but the broader Emerging Market (EM) equity market could be less exposed given its significant tilt toward Technology.

Exhibit 1: El Niño's Impact Varies Globally.

Geography	Typical rainfall pattern	Specific impacts
South Asia	Weaker summer monsoon risk	Lower crop yields, water shortages, food inflation
Southeast Asia	Drier	Lower rice and palm oil production, wildfire risk, food inflation
United States	Wetter in the south; warmer/drier in the north	Southern flood risk; lower northern heating demand
Central America & Northern South America	Drier	Drought, lower crop yields, water shortages, food inflation, lower hydropower output
Southern Africa	Drier	Weaker maize harvests, food inflation, lower hydropower output
Western South America	Wetter along the Pacific coast	Flooding, infrastructure damage, disrupted fisheries
Southern South America	Wetter	Flooding and crop damage; potential yield gains in some areas
Australia	Drier	Drought, agricultural losses, elevated wildfire risk, food inflation

Source: National Oceanic and Atmospheric Administration, World Meteorological Organization, Food and Agriculture Organization, Australian Bureau of Meteorology, World Bank. Data as of October 30, 2026.

How will El Niño impact the global economy and markets? Which regions will be most affected? El Niño's impact on the global economy and markets is likely to be felt most via commodity price inflation. Alongside higher energy and fertilizer costs resulting from war in Europe and the Middle East, El Niño could put further upward pressure on commodities like wheat, sugar, corn, soy, cocoa and coffee as drought (or extreme rain) weighs on crop yields and production. Latest estimates from the United Nations Food and Agriculture Organization (FAO) suggest global food prices were up 5.8% year-over-year (YoY) in September (Exhibit 2). Livestock is also likely to be challenged by higher temperatures globally, while flooding has already threatened copper production in Chile. Meanwhile, with hydropower accounting for more than half of the average annual electricity generation in Brazil, Colombia, Peru and other Latin American countries,[2] below-average rainfall in affected areas has huge implications for electricity generation. As an example, Colombia's natural gas demand nearly doubled during the 2023-2024 El Niño event.[2] Another key watchpoint will be whether drier conditions reduce water levels

[1] India Meteorological Department, Bloomberg. Refers to rainfall between June and September as of September 30, 2026.
[2] International Energy Agency, as of October 7, 2026

in the Panama Canal and other key shipping routes, particularly in light of the Strait of Hormuz closure.

These pressures won't be equally distributed and will heavily depend on this El Niño's severity. Among the more vulnerable to higher agricultural prices will be heavily import-dependent countries in the Middle East, Africa, and parts of Asia. So too will economies that count food as a larger share of consumer spending such as the Philippines (36%), Indonesia (33%), Egypt (33%), India (28%), and Vietnam (26%) (Exhibit 3). Developed economies like the U.S. (6%), Canada (10%), and Germany (11%) stand to be better insulated from a food-related shock to headline inflation.

Within the U.S., some impacts could be positive with a potentially milder winter reducing heating costs and wetter conditions in the South improving agricultural conditions. A recent paper from the Federal Reserve Bank of San Francisco found that, in addition to putting upward pressure on personal consumption expenditures (PCE) inflation, strong El Niño episodes have been historically associated with a temporary boost to employment in the following year via better construction conditions in the North and weather-event recovery efforts.[3] In California and parts of the Southwest, El Niño will be yet another stress test for property insurers as flooding and landslide risks increase.

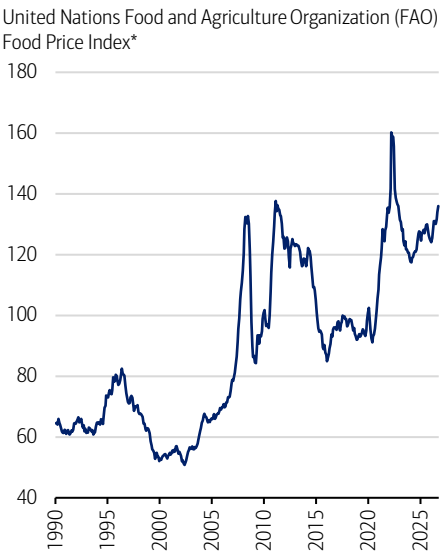
For more vulnerable developing economies, meanwhile, higher food and energy costs could present a policy dilemma. On one hand, governments in vulnerable areas may move to introduce fiscal relief to support households and boost growth. History points to plenty of examples of this, such as Indonesia's cash assistance in late 2023 or Thailand's $1.8 billion in loans to farmers in 2015. On the other hand, elevated inflation expectations and, in some cases, weaker currencies could limit EM central banks' room to ease monetary policy, particularly with several major developed central banks aligned in hiking interest rates. Also complicating matters: Global sovereign debt surpassed $110 trillion in Q2 2026, leaving less fiscal space to absorb incoming shocks.[4]

How can investors position portfolios accordingly? In many ways, the prospect of a very strong El Niño only reinforces structural trends we've identified as defining the coming years: a return to higher inflation and higher interest rates; elevated commodity prices amid heightened geopolitical risk and resource/supply shortages; and greater investment in energy infrastructure and supply chain resilience.

Considering these themes, we continue to like commodities not just as a hedge against higher inflation but also as a diversification tool in portfolios given their negative correlation with Equities and bonds. That's not to mention secular forces placing upward pressure on commodity prices such as the resource-intensive AI buildout and broader protectionism. To wit, the Bloomberg Commodity Index, which spans oil, gold, various metals and agricultural goods has gained nearly 30% this year, handily outperforming the S&P 500 (+11%) and the Bloomberg U.S. Aggregate Bond Index (-1%).

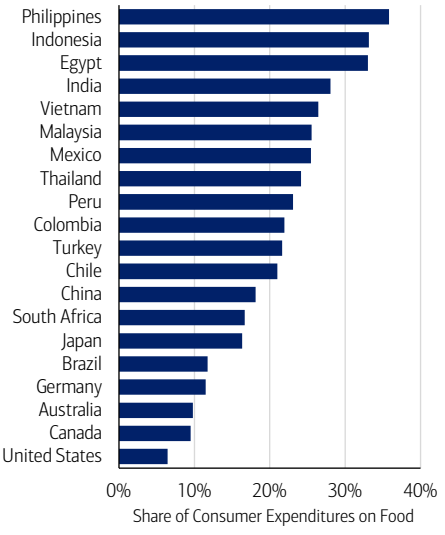
Within Equities, the U.S. is still our preferred region. While upside risk to inflation remains a risk to watch going into 2027, food is a relatively small share of the consumer basket in the U.S., and neither strong services spending nor capital investment should be materially affected by El Niño. Companies within the Industrials and Materials sectors focused on precision agriculture, water management and crop protection may be positioned to benefit. Import-dependent EM economies remain particularly exposed, though impacts will vary widely depending on the magnitude and timing of weather events. It's worth noting too that EM Equities remain heavily concentrated in East Asian markets with substantial exposure to technology, leaving the broader index arguably less exposed to the economic ramifications of El Niño than in past episodes. Indeed, even after recent weakness in semiconductor names, Taiwan, Korea, and China together account for a near-70% of the broader MSCI Emerging Markets Index.[5] We maintain a slight overweight to the region in portfolios given earnings strength but favor an active approach.

Exhibit 2: Global Food Prices Headed Higher.



*Base period price consists of the averages for the year 2014-2026=100. Source: United Nations. Data through September 2026, as of October 2, 2026. Please refer to index definitions at the end of this report. It is not possible to invest directly in an index.

Exhibit 3: Developing World More Vulnerable to Higher Food Prices.



Source: USDA Economic Research Service, Oxford Economics. Data refers to 2025, as of August 11, 2026.

[3] Federal Reserve Bank of San Francisco, October 13, 2026.
[4] Institute of International Finance, as of September 23, 2026.
[5] FactSet, as of October 27, 2026.

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Another Tale of Market Rotation

Kirsten Cabacungan, ***Vice President and Senior Investment Strategist***

October offered another reminder that headline index returns do not always tell the full story. The S&P 500 ended the month slightly lower, down almost 1%, but the more muted headline return masked meaningful shifts in market leadership beneath the surface. At the center of the volatility was a sharp unwind in the AI trade, particularly across semiconductors and memory stocks, with the Philadelphia Semiconductor Index experiencing a 19% intramonth drawdown. The dominant concerns in recent months have centered on the sustainability of AI infrastructure spending and whether the scale of investment will ultimately generate sufficient returns. Those only intensified amid a sharp rise in bond yields after the 10-year U.S. Treasury yield spiked above 5.3% as of October 5 for the first time since 2002, raising scrutiny over AI financing conditions and whether higher borrowing costs could increase hurdle rates for continued investment and slow the pace of capital spending.

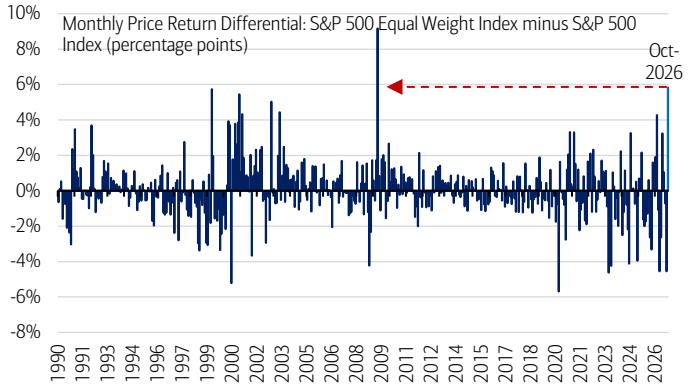
Yet the pressure on AI market leaders has not translated into a broad retreat from U.S. Equities. Instead, capital has moved toward previously lagging areas of the market, with Value-oriented, defensive and rate-sensitive stocks gaining ground. Value defeated Growth in October, with the Russell 1000 Value Index outperforming its Growth counterpart by 10 percentage points, an outcome seen in only about 1% of months since 1979. The move extends Value's outperformance for the year, with the index up 23% year-to-date compared with down almost 1% for Growth. Participation also improved. The equal-weighted S&P 500 outperformed its market-cap-weighted counterpart by its widest monthly gap since 2009 (Exhibit 4A), while the share of S&P 500 constituents trading above their 200-day moving average rebounded to 62% from just 43% at the end of September, and 76% of stocks outperformed the index for the month.

Investment Implications

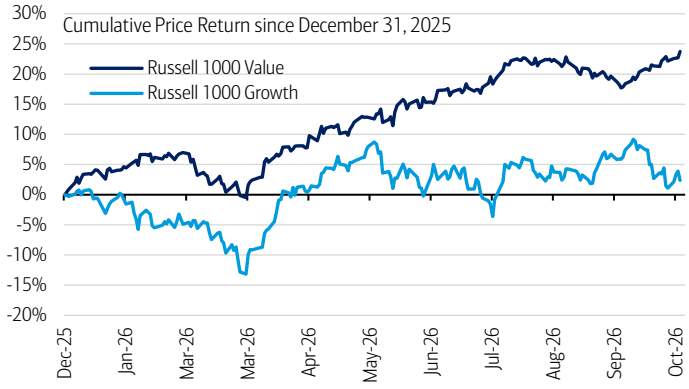
We continue to look for potential missing opportunities and favor diversification across and within asset classes in a multi-asset portfolio. In particular, we see potential opportunities to broaden exposure beyond AI leaders toward areas where earnings, capital spending and productivity trends are improving, including Value, Small- and Mid-caps, and select non-U.S. markets, particularly EMs and Japan. As market leadership evolves, maintaining diversified exposures and periodically rebalancing portfolios can help investors participate in a broader set of possible return drivers without becoming overly dependent on any single theme.

Exhibit 4: Market Leadership Has Been Shifting Beneath the Surface.

A) October Saw a Sharp Broadening in Market Leadership.



B) Value Has Quietly Led Growth in 2026.



Exhibits 4A and 4B) Source: Bloomberg. Data as of October 30, 2026. **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.

The latest rotation is not the first attempt at a change in market leadership this year. The more important question is what that shift represents: a fundamental reassessment of the AI trade or another step toward broader, more mature market leadership? Recent Q3 Technology earnings results have sharpened that debate. Investors are increasingly looking beyond the scale of AI spending to companies' ability to translate that investment into durable growth and attractive returns. The result may be greater dispersion not only between Growth and Value, but also among AI leaders as investors become more discerning about which companies can justify the scale of their investments.

But greater selectivity does not necessarily signal the end of the AI investment cycle. YoY growth rates may become harder to maintain after two years of rapid acceleration as the comparison base rises, but absolute levels of AI capital spending remain elevated. What matters more is whether spending translates into strong productivity and earnings growth ahead and whether AI demand continues to support investment. October's volatility may therefore reflect less a retreat from the AI theme and more a recalibration of valuations and expected returns, as other areas of the market begin to contribute more meaningfully to market performance.

Several developments ahead will help determine whether that rotation has staying power. One important test is whether broader participation can persist if pressure on AI stocks continues. Continued strength outside the AI trade would support the case that investors are reallocating capital rather than broadly reducing risk. The path of monetary policy will also matter as investors assess where borrowing costs may be headed. The Federal Reserve's not-so-hawkish hold in October offered some reassurance, but the path ahead remains dependent on the evolving balance between inflation and growth. Any signs of resolution of geopolitical tensions remain an important swing factor particularly as recent flashpoints in the Middle East have pressured energy prices higher again. Results of the midterm elections should also provide greater visibility into the policy landscape for the next few years. While the market does not need every clearing event to resolve favorably, greater clarity around these uncertainties could help narrow the range of potential outcomes facing investors.

For investors, October's sudden change in leadership reinforces the importance of diversification. Leadership can shift quickly, leaving portfolios that become overly dependent on a single theme, sector or style particularly vulnerable when it does. We remain constructive on U.S. Equities and believe that the market may be transitioning more toward a mid-cycle phase in which returns become broader but also more measured compared to the sharp acceleration earlier in the cycle. That argues not for abandoning the market's long-term winners, but for complementing them with exposure to additional sources of returns across style, size, sector and region.

Reorienting around AI: From Corporate Plans to Construction to Capital Goods

Lauren Sanfilippo, *Director and Senior Investment Strategist*

For all the questions (and recent market weakness) hanging over the AI trade, from monetization and cash burn to financing risk and overcapacity, a measurable aspect is the buildout itself. Data center construction is lifting construction spending and capital goods orders, while companies are adding and reviving capacity to meet AI-related demand. Still, planning delays, access to power, labor scarcity, local politics and the cost of capital remain meaningful constraints on the buildout's pace or profitability.

Corporate Plans. Take Caterpillar as one example that has resumed production of a 10-megawatt natural gas turbine discontinued back in 2022. A 175-year old glassmaker, Corning, is leaning into optical connectivity as AI clusters require faster connections of optical fiber cabling between servers. Caterpillar and Corning are just two companies among others pivoting to supply data centers.

Construction to Capital Goods. The AI reorientation is evident in construction spending as well, where data center construction has outpaced every other major residential and nonresidential category. Over the last year AI-related construction on data centers has surged more than 60% while spending on residential, lodging, commercial or office has declined notably (Exhibit 5A). Data center construction is running at an $85 billion (B) annualized rate this year, versus roughly $49B a year earlier, and now accounts for 11% of private nonresidential construction, up from just 2% in 2022 according to the Census Bureau. Similarly, demand for artificial intelligence business equipment and transportation equipment drove an increase in durable goods orders in September on the back of new orders for U.S.-manufactured capital goods, suggesting business spending on equipment remained robust in Q3. Another factor, see Exhibit 5B, where critical components such as generators, switchboards, chillers and transformers continue to face long lead times that affect delivery timelines and ultimate profitability for new data center development.

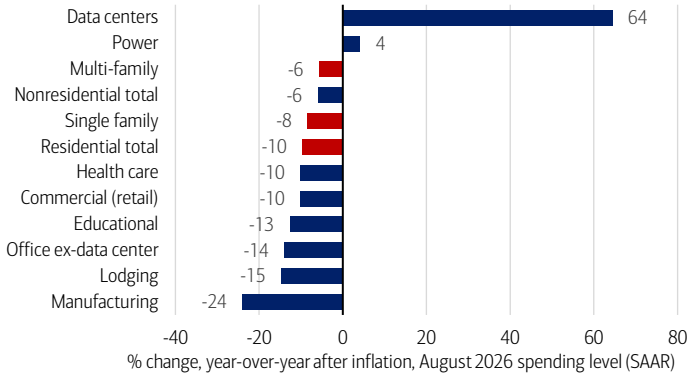
These signposts reinforce our view that we are only in the middle innings of the AI investment cycle. From an investment perspective, huge demand for data centers, power systems, networking infrastructure, specialized chips and other equipment continues to strain supply, creating both bottlenecks and potential opportunities for companies powering the buildout.

Investment Implications

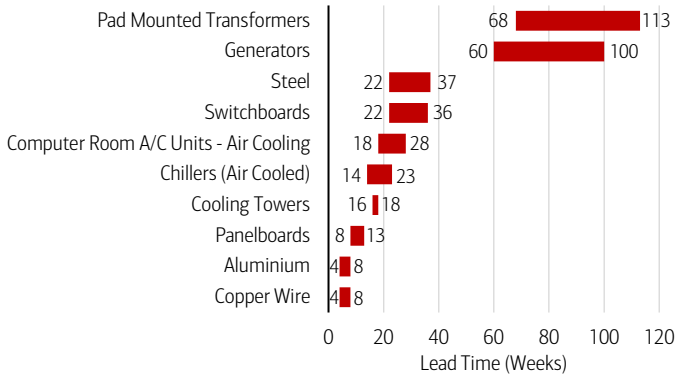
As capacity struggles to keep pace with demand, supply bottlenecks may reinforce the investment case for the companies providing the infrastructure behind the AI buildout.

Exhibit 5: Work Zone: Construction Spending and Input Supply Lead Times.

A) Data Centers and Power are Bright Spots in Construction Spending.



B) AI-Critical Equipment Lead Times.



Exhibits 5A) Red is residential, blue represents nonresidential. Note: Nominal Census spending deflated by the Producer Price Index for Final Demand Construction. Source: Census Bureau. Data as of September 2026. Exhibit 5B) Source: Cushman & Wakefield Research, *Development Cost Guide 2026*, October 2026.

Equities

Equities	Total Return in USD (%) Current	WTD	MTD	YTD
DJIA	51,770.31	-0.8	1.8	9.1
NASDAQ	25,437.00	-2.0	-5.3	10.0
S&P 500	7,580.07	-0.6	-0.9	11.8
S&P 400 Mid Cap	3,662.22	1.3	1.9	12.0
Russell 2000	2,811.84	1.3	0.6	14.4
MSCI World	4,862.38	-0.2	-0.8	10.9
MSCI EAFE	3,100.62	0.9	-0.7	9.5
MSCI Emerging Markets	1,566.63	-0.7	-8.0	13.5

Fixed Income†

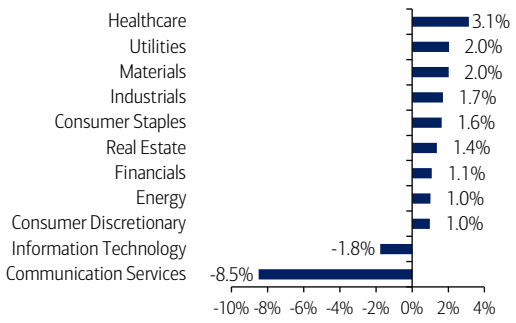
Fixed Income	Total Return in USD (%) Current	WTD	MTD	YTD
Corporate & Government	5.14	0.51	2.27	-0.64
Agencies	4.94	0.40	1.49	0.28
Municipals	4.21	0.66	3.85	-0.48
U.S. Investment-Grade Credit	5.24	0.56	2.44	-0.54
International	5.79	0.48	2.16	-1.02
High Yield	8.31	0.50	0.30	0.40
90 Day Yield	4.08	4.12	4.11	3.63
2 Year Yield	4.59	4.68	4.89	3.47
10 Year Yield	4.93	4.99	5.28	4.17
30 Year Yield	5.31	5.32	5.63	4.84

Commodities & Currencies

Commodities	Total Return in USD (%) Current	WTD	MTD	YTD
Bloomberg Commodity	366.74	-1.7	-0.1	32.8
WTI Crude $/Barrel††	104.12	0.8	15.2	81.3
Gold Spot $/Ounce††	3874.62	-3.0	-6.8	-10.3

Currencies	Total Return in USD (%) Current	Prior Week End	Prior Month End	2025 Year End
EUR/USD	1.12	1.12	1.13	1.17
USD/JPY	157.56	156.87	157.41	156.71
USD/CNH	6.65	6.67	6.71	6.98

S&P Sector Returns



Sources: Bloomberg, Factset. Total Returns from the period of 10/26/2026 to 10/30/2026. †Bloomberg Barclays Indices. ††Spot price returns. All data as of the 10/30/2026 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 10/30/2026)

Economic Forecasts	Q1 2026A	Q2 2026A	Q3 2026A	Q4 2026E	2026E	2027E
Real global GDP (% y/y annualized)	-	-	-	-	3.3	3.4
Real U.S. GDP (% q/q annualized)	2.5	2.2	3.4	2.3	2.4	2.3
CPI inflation (% y/y)	2.7	3.8	3.5	3.7	3.4	2.7
Core CPI inflation (% y/y)	2.5	2.7	2.5	2.7	2.6	2.7
Unemployment rate (%)	4.3	4.3	4.1	4.2	4.2	4.1
Fed funds rate, end period (%)	3.63	3.63	3.88	4.13	4.13	4.38

The forecasts in the table above are the base line view from BofA Global Research. The Global Wealth & Investment Management (GWIM) Investment Strategy Committee (ISC) may make adjustments to this view over the course of the year and can express upside/downside to these forecasts. Historical data is sourced from Bloomberg, FactSet, and Haver Analytics. **There can be no assurance that the forecasts will be achieved. Economic or financial forecasts are inherently limited and should not be relied on as indicators of future investment performance.**
A = Actual. E/* = Estimate. Data as of October 30, 2026.
Sources: BofA Global Research; GWIM ISC as of October 30, 2026.

Asset Class Weightings (as of 10/6/2026)

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 Private Credit Real Assets			●		
Cash					

CIO Equity Sector Views

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

* Many products that pursue Alternative Investment strategies, specifically Private Equity and Hedge Funds, are available only to qualified investors. CIO asset class views are relative to the CIO Strategic Asset Allocation (SAA) of a multi-asset portfolio. Source: Chief Investment Office as of October 6, 2026. 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.

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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/Market-cap Weighted Index is a market-capitalization-weighted index that is widely regarded as the best single gauge of large-cap U.S. equities. The index includes 500 leading companies and covers approximately 80% of available market capitalization.

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

Bloomberg U.S. Aggregate Bond Index is a broad-based, market-capitalization-weighted benchmark that measures the performance of the U.S. investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market

Bloomberg Commodity Index is a broadly diversified financial benchmark that tracks the price movements of physical commodities through futures contracts.

MSCI Emerging Market Index captures large and mid cap representation across 24 Emerging Markets (EM) countries.

United Nations Food and Agriculture Food Price Index is a measure of the monthly change in international prices of a basket of food commodities.

Philadelphia Semiconductor Index is a market-cap-weighted index focusing on 30 leading semiconductor firms, offering insights into the tech market.

Russell 1000 Value Index tracks large- and mid-cap U.S. stocks within the Russell 1000 that exhibit value characteristics, such as lower price-to-book ratios and lower forecasted growth rates.

Russell 1000 Growth Index is a market capitalization-weighted index that tracks large-cap U.S. companies with higher price-to-book ratios and higher forecasted growth rates, operated by FTSE Russell.

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