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CHIEF INVESTMENT OFFICE

Capital Market Outlook

November 23, 2026

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Macro Strategy—*AI Implies Dramatic Shift in the Structure of the U.S. Economy:* The structural shift under way in the U.S. economy from the accelerating deployment of Artificial Intelligence (AI) is creating dramatic changes that require society to adapt much faster than in the past. Essentially, decades of change are likely in just the next few years, straining an already challenged government's ability to deal with intensifying social problems. For example, the relentless yet slow-motion rise in income inequality over the past half century is speeding up and set to accelerate because of the increasing role AI will play in shaping the U.S. economy. For the sake of political stability, new policies are likely to be needed for people to share more fully in the fruits AI promises.

Market View—*Too Connected to Fail: When the Jetsons Meet the Flintstones:* This month, when a leading U.S. technology company went dark, planes across America were grounded, and major banks went offline, investors learned that interconnectivity is both a strength and a weakness—and that the digital economy of the future rests upon the shaky infrastructure of the past. We live in a world where AI is advancing at warp speed. Computing power is expanding exponentially. And financial transactions move around the globe in milliseconds.

Yet our digital world is juxtaposed against a physical infrastructure of aging radar systems, antiquated telecommunications equipment, half-century-old transmission lines, vulnerable undersea cables and decades-old software. Because there is so much riding on our digital connectivity, the cost of failure or disruption continues to soar. We believe the recent string of technological failures will accelerate U.S. infrastructure spending. The leaders from the "too connected to fail" theme include electrical equipment manufacturers, engineering firms, utilities, telecommunications infrastructure providers, industrial automation companies, and specialized construction firms. Specialists in maritime surveillance, underwater sonar detection, and fiber- optics sensing capabilities are well positioned in this new world. We also favor commodities over the long term, as well as cybersecurity leaders.

The Ticker Tape—*Top Questions Answered Directly by Our Chief Investment Officer (CIO).*

- In our view, what does the market want and need to see to establish a firmer base?

AUTHORS

Chief Investment Office
Macro Strategy Team

Joseph Quinlan
Managing Director and Head of Market Strategy

Christopher Hyzy
Chief Investment Officer

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Portfolio Considerations

We believe conditions for a potential year-end rally are building, as investor focus may shift from the recent uncertainty, volatility and rotation toward solid economic growth, record margins and rising productivity.

We remain constructive on Equities given the supportive fundamental backdrop, and we view the recent sharp declines in Financials, parts of Industrials, higher-quality semiconductors and power generation as potentially overdone. We would use weakness as a potential opportunity to rebalance portfolios while emphasizing diversification as market rotation creates new pockets of leadership.

Higher yields, with 10-year Treasury yields near 5% and real yields above 2.5%, may offer attractive income potential, and we favor moving out of cash and the front end of the curve to extend duration.

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AI Implies Dramatic Shift in the Structure of the U.S. Economy

Chief Investment Office, *Macro Strategy Team*

On November 16, Federal Reserve Chairman Kevin Warsh moderated three conference sessions at a symposium focused on how AI will ripple through the economy. The event was the first public look at one of the five task forces Warsh created to review the Federal Reserve (Fed) processes for doing its job. The task forces are meant to help reform the Fed by building a consensus for overhaul to address shortcomings Mr. Warsh has raised about the Fed's performance over the years. The outsized role of AI in the evolution of the U.S. economy is reflected in the task force to consider AI's impact on employment and productivity. This is, perhaps, the least controversial of the various issues the task forces are charged with considering but nevertheless one of major importance.

Investment Implications

AI's creative destruction is likely to leave a lot of laggards in its wake while creating a stronger, more profitable economy for investors. As a result, we believe a diversified investment approach favoring high-quality balance sheets and reliable free cash flows is warranted.

The main takeaway from the symposium was that various scenarios remain possible with quite different implications for the future of U.S. growth, employment and interest rates. The wide range of outcomes has contributed to the recent volatility in equity markets, especially the parts of the market most closely associated with the buildout of AI data centers. Estimating the payoff from the buildout naturally remains a key focus for investors but one that is subject to uncertainty because of the rapid pace of technological innovation and the political pressures that are arising from public concerns over the changes AI is bringing.

Exhibit 1 helps shed light on the dramatic consequences AI is likely to create for the structure of the U.S. economy and employment. The cost structure of corporate output as of 2025 includes about half of each dollar for labor. An estimate for the cost structure of a dollar spent on inferential AI after the data center buildout reaches a net stock centered around $5 trillion in 2030 requires only a fourth as much labor per unit of revenue or output. The bigger the share of overall value inferential AI becomes in gross domestic product (GDP) the lower the labor share of income will become. This is not a new trend. The labor share of income has been gradually declining ever since the digital economy began to develop over a half century ago. What is new is the speed of the transformation. Self-generative AI is representative of the singularity, the point when the spread of this digital transformation becomes exponential.

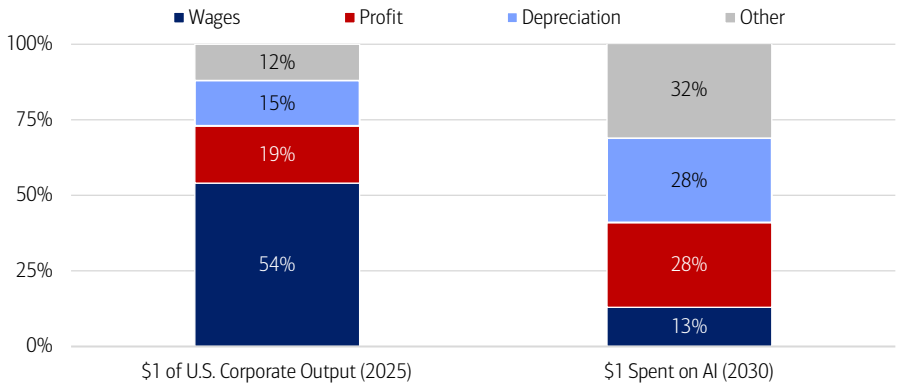
The drastically lower labor share of value implied by AI output implies that other costs comprise bigger shares. For example, the exhibit shows the profit share of revenue is much higher (28% vs.19%) for AI-generated output. This is already evident in the profit profile of the S&P 500 where the margins and profit growth of the AI-related companies are orders of magnitude greater than the profit profiles of non-AI-related businesses. Presumably, as the old economy increasingly transforms to this new economy cost structure, the productivity benefits of AI will increasingly transfer over to traditional businesses and transform their cost structures in the direction of those of inferential AI builders. This analysis suggests profit growth is moving toward a bigger share of output over the next few years.

Competition naturally eats away at "excess" profits, those not justified by costs. Exhibit 1 partly illustrates the justification for higher AI profits. AI is capital-intensive compared to the non-AI economy. This can be seen in the much higher depreciation-cost share in the AI economy (28% vs.15%). AI capital is more short-lived than average, reflecting the quicker obsolescence that naturally results from accelerating technological change and less durable infrastructure (short-lived chips). This issue of rapid depreciation has surfaced in the debate over potential AI profitability, with analysts trying to figure the right life span of data centers to model their profit outlook.

Finally, "other costs" make up about a third of AI output cost compared to just 12% for non-AI output. Among these are the increased power costs associated with intensive compute processing. Electricity costs are going to replace a lot of labor costs. As the midterms made clear, rules and regulation for data centers, including power and water issues, are likely to come under much greater scrutiny as well as other environmental and "quality-of-life" issues.

Ultimately, this new cost structure for the AI economy will be the focus of innovation to bring down costs and remove bottlenecks. Technology is ultimately deflationary. Monetary policy is the cause of inflation. This "deflationary" or declining cost aspect of technological progress is a key factor behind the notion that the promise of the singularity is a world of superabundance. Intelligence, power and compute costs are likely to become cheaper and cheaper as innovators work to create this superabundance.

Exhibit 1: Comparison of Corporate Cost Structure to Produce 2025 Output to Corporate Cost Structure to Produce Inference Compute Revenue from AI Data Center Buildout by 2030.



Source: "The AI Capex Boom--Rewiring the U.S. Economy," Applied Global Macro Research, November 5, 2026.

Employment and AI. The dramatic reduction in labor needed to run an AI cost structure promises a much higher level of productivity and therefore higher levels of wealth and income. As the cost structure in Exhibit 1 illustrates, however, a much bigger share of output goes to capital and therefore shareholders in an AI-dominated economic structure. There are various ways this change could sort itself out. In a society with an increasingly older population, more capital income solves the problem of more retirees needing to live on investment income. AI also promises to increase longevity. Therefore, the future is likely to include more elderly people living on capital income as well as more elderly people working. In addition, the bounty from higher productivity is likely to support demand for new goods and services as past technology breakthroughs have shown. People will be required to produce those new goods and services.

Nevertheless, it's clear from the distribution of capital income that's becoming more, not less, concentrated, that policies that spread wealth ownership across a broader swath of the population could potentially help ease the social tensions plaguing the population under the guise of "affordability." The proliferation of gifts from the wealthy to Trump Accounts is a reflection of the recognition that this issue needs to be addressed. The U.S. Treasury rolled out temporary regulations at the end of September that allow Trump Accounts to hold donated individual stocks instead of just diversified index funds. There is likely to be a push to expand the growth of large philanthropic donations from the private sector to fund retirement-type accounts for the broader population. This is an alternative to higher tax rates that fund government spending rather than long-term saving. A society that shares more broadly in the fruits of AI is more likely to tolerate AI's profound changes.

MARKET VIEW

Too Connected to Fail: When the Jetsons Meet the Flintstones

Joseph Quinlan, Managing Director and Head of Market Strategy

This month, when a leading U.S. technology company went dark, planes across America were grounded, and major banks went offline, investors learned an unsettling lesson on the fragility of America's digital economy. We learned that interconnectivity is both a strength and a weakness—and that the digital economy of the future rests upon the shaky infrastructure of the past.

We live in a world where AI is advancing at warp speed. Computing power is expanding exponentially. Financial transactions move around the globe in milliseconds. And cloud computing keeps billions of people and businesses connected every day. It is a world where everything is faster, digital and connected.

The U.S. digital economy now accounts for roughly 12% of GDP, expanding about three times faster than the economy overall this century. Digital gross output totaled $3.7 trillion in 2021, the last year of available data from the Commerce Department; that said, the figure almost certainly understates the current size of the U.S. digital economy. Digital commerce now accounts for nearly 18% of all retail sales ($350 billion), although again, this number is understated. Add in business-to-business digital transactions and digitally delivered professional services, and the amount of daily digital commerce in the U.S. is massive and growing robustly. Each one of these transactions ultimately depends on communications services, electricity, computing facilities, and digital payments networks.

Yet here's the rub: our digital world is juxtaposed against a physical infrastructure of aging radar systems, antiquated telecommunications equipment, half-century-old transmission lines, vulnerable underwater subsea cables and decades-old software. Here we are, well into the 21st century, and a handful of Federal Aviation Administration facilities are still using floppy disks to support aviation travel. Our world is a world where the space-age Jetsons have collided with the Stone Age Flintstones.

Something had to give, and it did this November: business communications were disrupted, planes were grounded, ATMs were frozen and investors were left wondering "what's next"?

In our opinion, "what's next" entails a renewed focus and commitment on the part of the U.S. public and private sectors to build America's physical infrastructure back better and faster. The recent disruptions, we believe, are a reminder that a nation's infrastructure is essentially its backbone, and every nation, like every human being, is only as strong as its skeletal framework.

A healthy backbone allows an economy to move, pivot, grow, innovate and compete. An impaired spine, in contrast, constrains mobility, undermines nimbleness and flexibility and is prone to setbacks.

So, think of roads, bridges, ports, airports, electrical grids, communication networks and, increasingly, digital networks not merely as conveniences of modern life. Rather, think of them as foundational components of economic activity, national security and global competitiveness. Without them, even the world's most sophisticated economy can be brought to a standstill.

The great irony—and potential opportunity—of the "too connected to fail" is that while the U.S. leads the world in AI, cloud computing, and other advanced technological capabilities, the physical infrastructure of the nation continues to show its age. Electrical grids are struggling to accommodate increasing demand. Transmission networks are plagued with bottlenecks. Aviation communications systems built in the 1970s are overwhelmed.

None of the above is new—America's infrastructure deficiencies have been widely acknowledged but frequently tolerated for decades. The grid held up most of the time, while airline safety remained relatively stellar. Power outages during storms and heat waves were expected and tolerated—no matter the misery created. All good.

Investment Implications

The future is digital, which requires more capital investment on America's aging physical infrastructure. We continue to favor Industrials, infrastructure-related firms, and commodities for the long-run.

Today, however, it's different. Because there is so much riding on our digital connectivity—think trillions of dollars of daily commerce—the cost of failure or disruption continues to soar. Case in point: America's recent aviation meltdown. The communications malfunction triggered a national four-hour ground stop, resulting in nearly 20,000 flight cancellations over four days, at a potential cost to the airlines of more than $1 billion in profits. Adding more salt to the wound, fried and frizzled passengers absorbed an estimated $1.9 billion in additional economic costs. All because the communications infrastructure supporting the world's most sophisticated aviation system failed to handle a technical upgrade.

Where are the Jetsons when you need them? We believe the recent technological failures will accelerate infrastructure spending for a number of reasons. One, as shown above, the economic costs of digital failures are rising. Two, America's digital economy is now too big—and too connected—to fail. Three, the extraordinary power needed to run the AI revolution makes it absolutely essential that the U.S. stop talking about fixing its aging infrastructure and start doing it. Four, with the stakes so large for America's largest technology companies, with enormous incentives of their own, these firms are contributing their private capital of their own to build back America's infrastructure faster and better. And fifth, an aging air traffic control system, an unreliable national grid, and weathered transmission lines—these are more than just economic and financial challenges. They are challenges to America's national security—notably to the great power rivalry between the U.S. and China. This rivalry, in our opinion, will help create more bipartisan support for increased infrastructure spending and greater public-private sector cooperation.

Investment summary. It's taken a series of technological snafus, but here we are—America's infrastructure is gaining the attention—and capital—it needs. It's also garnered the attention of Congress. Just last week, the Bipartisan American Affordability Act, which reduces permitting burdens on a number of projects, passed a key procedural vote in the Senate. Whether the House votes in favor of the bill remains to be seen but in general, the U.S.'s cumbersome permitting and regulatory systems are coming under more scrutiny.

To this point, the bipartisan National Governors Association recently outlined recommendations designed to cut through the permitting and regulatory red tape. The Department of Energy has developed a coordinated federal transmission permitting framework designed to clear and approve projects at a faster pace. Yes, it will take some time to cut through the labyrinth of federal, state and local approvals, permits, and regulations. But the need for reforms has become quite evident and urgent, with political inaction less acceptable to an electorate increasingly worried and wary of the next technology glitch.

So, who potentially benefits in our theme of "too connected to fail"? In our opinion, the winners will include electrical equipment manufacturers, engineering firms, utilities, telecommunications infrastructure providers, industrial automation companies, and specialized construction firms. Specialists in maritime surveillance, underwater sonar detection, and fiber-optics sensing capabilities are well positioned in this new world.

In terms of asset allocation, this means considering more exposure to infrastructure-related industrial companies and leaders in renewables (solar, wind, electric vehicles, biomass) and the required infrastructure behind each renewable energy source. Leaders in electricity distribution, charging stations, batteries, as well as low-carbon hydrogen, biomethane, and advanced biofuels should also be considered in portfolios. Ditto for leaders in low-carbon technologies (LED lighting, smart energy meters, and storage), and leaders in transmission technologies like high-voltage direct current (HVDC), which transfers wind and solar power from where it is created to where it is needed. We also still favor commodities over the long term, as well as cybersecurity leaders.

In our view, what does the market want and need to see to establish a firmer base?

Christopher Hyzy, *Chief Investment Officer*

IInvestors are looking to reprice uncertainty for 2027. A lot has been digested by this market since semiconductor stocks peaked in June. Inflation, Fed policy, geopolitics, the funding of the AI buildout, CEO changes and future power adjustments out of the midterm elections all in a matter of months.

Most importantly, investors kept clinging to the base—earnings and profitability. As long as the base remained strong and growing, investors were willing to take the risk of a market led by technology and the AI buildout more specifically.

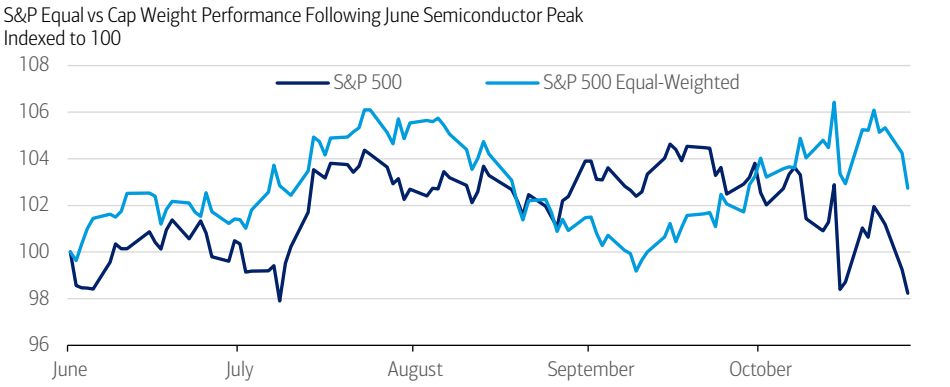
Recently, investors have shifted to wanting more certainty: certainty around higher-quality, transparency in FCF, the ability to secure financing if needed, reasonable valuations and strong moats that last beyond peak profitability. This is why we have experienced a shift from the more highly cyclical semiconductors to the hyperscalers in terms of positioning.

The market wants to see that AI spending remains robust but with more reasonable expectations for 2027 and perhaps 2028. A reset of expectations by the leaders of the buildout can go a long way to finalizing this "flush" stage, in our view. We remain diversified Equity and are proud Bulls overall.

Investment Implications

Investors are seeking greater certainty around AI spending, earnings durability, FCF, financing and valuations, favoring higher-quality companies while remaining constructive on diversified Equities.

Exhibit 2: A Broader Market Base Begins to Take Shape.



Source: Bloomberg. Data as of November 17, 2026. Performance results are extremely short term and do not provide an adequate basis for evaluation performance potential over varying market conditions or economic cycles. **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.

Equities

Equities	Total Return in USD (%) Current	WTD	MTD	YTD
DJIA	48,147.33	-8.0	-6.9	1.6
NASDAQ	22,617.73	-10.0	-11.0	-2.2
S&P 500	6,910.39	-8.6	-8.8	2.0
S&P 400 Mid Cap	3,424.66	-6.9	-6.4	4.8
Russell 2000	2,581.79	-7.4	-8.1	5.1
MSCI World	4,460.12	-8.1	-8.2	1.8
MSCI EAFE	2,908.75	-6.3	-6.1	2.9
MSCI Emerging Markets	1,420.01	-8.4	-9.3	2.9

Fixed Income†

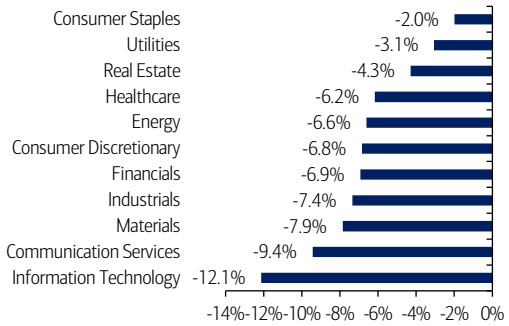
Fixed Income	Total Return in USD (%) Current	WTD	MTD	YTD
Corporate & Government	5.19	1.11	0.03	-0.61
Agencies	4.97	0.95	0.22	0.50
Municipals	4.29	-0.27	-0.14	-0.62
U.S. Investment-Grade Credit	5.28	1.18	0.06	-0.49
International	5.87	0.84	-0.12	-1.14
High Yield	8.62	-0.86	-0.72	-0.32
90 Day Yield	4.22	4.22	4.08	3.63
2 Year Yield	4.65	4.84	4.59	3.47
10 Year Yield	4.94	5.14	4.93	4.17
30 Year Yield	5.33	5.47	5.31	4.84

Commodities & Currencies

Commodities	Total Return in USD (%) Current	WTD	MTD	YTD
Bloomberg Commodity	332.32	-4.3	-9.4	20.3
WTI Crude $/Barrel††	83.98	-5.2	-19.3	46.3
Gold Spot $/Ounce††	3538.49	-8.9	-8.7	-18.1

Currencies	Total Return in USD (%) Current	Prior Week End	Prior Month End	2025 Year End
EUR/USD	1.10	1.10	1.12	1.17
USD/JPY	158.57	159.71	157.56	156.71
USD/CNH	6.67	6.67	6.65	6.98

S&P Sector Returns



Sources: Bloomberg, Factset. Total Returns from the period of 11/16/2026 to 11/20/2026. †Bloomberg Barclays Indices. ††Spot price returns. All data as of the 11/20/2026 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 11/20/2026)

Economic Forecasts	Q1 2026A	Q2 2026A	Q3 2026A	Q4 2026E	2026E	2027E
Real global GDP (% y/y annualized)	-	-	-	-	3.4	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	2.6
Core CPI inflation (% y/y)	2.5	2.7	2.5	2.8	2.6	2.8
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	4.63

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 November 20, 2026.
Sources: BofA Global Research; GWIM ISC as of November 20, 2026.

Asset Class Weightings (as of 11/3/2026)

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 November 3, 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 Index is a stock market index tracking the stock performance of 500 leading companies listed on stock exchanges in the United States.

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 is the equal-weight version of the widely-used S&P 500, in which each constituent company is given the same weight (approximately 0.2% each), rather than weighting by market capitalization.

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Investments have varying degrees of risk. Some of the risks involved with equity securities include the possibility that the value of the stocks may fluctuate in response to events specific to the companies or markets, as well as economic, political or social events in the U.S. or abroad. Small cap and mid cap companies pose special risks, including possible illiquidity and greater price volatility than funds consisting of larger, more established companies. Investing in fixed-income securities may involve certain risks, including the credit quality of individual issuers, possible prepayments, market or economic developments and yields and share price fluctuations due to changes in interest rates. When interest rates go up, bond prices typically drop, and vice versa. Investments in high-yield bonds (sometimes referred to as "junk bonds") offer the potential for high current income and attractive total return, but involves certain risks. Changes in economic conditions or other circumstances may adversely affect a junk bond issuer's ability to make principal and interest payments. Income from investing in municipal bonds is generally exempt from Federal and state taxes for residents of the issuing state. While the interest income is tax-exempt, any capital gains distributed are taxable to the investor. Income for some investors may be subject to the Federal Alternative Minimum Tax (AMT). Treasury bills are less volatile than longer-term fixed income securities and are guaranteed as to timely payment of principal and interest by the U.S. government. Bonds are subject to interest rate, inflation and credit risks. Investments in foreign securities (including ADRs) involve special risks, including foreign currency risk and the possibility of substantial volatility due to adverse political, economic or other developments. These risks are magnified for investments made in emerging markets. Investments in a certain industry or sector may pose additional risk due to lack of diversification and sector concentration. There are special risks associated with an investment in commodities, such as gold, including market price fluctuations, regulatory changes, interest rate changes, credit risk, economic changes and the impact of adverse political or financial factors.

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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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