

# Viewpoint

## The Owl Is Watching

August 2025

All data, projections and opinions are as of August 5, 2025 and subject to change.

### IN BRIEF

- While economic data has recently exhibited some signs of softening, relatively sturdy fundamentals should ultimately provide Equities with a solid foundation. This includes an earnings outlook that remains positive and a capital expenditure boom just beginning in our view, with the S&P 500 poised for further upside in the years ahead.
- We maintain our overweight in Equities and preference for the U.S. relative to the rest of the world and believe a neutral stance is warranted in International Equities overall given our weaker dollar view. We would use weakness on the back of “soft patch” concerns as a buying opportunity in Equities.
- As for Fixed Income, higher nominal and real yields provide attractive compensation for inflation and market risk. We maintain neutral duration. Longer-term Fixed Income provides meaningful returns relative to cash and therefore diversifies equity risk over time with more stable income.
- This month the ISC adjusted our U.S. Equity sector views, by upgrading Industrials to a slight overweight from neutral and Financials to a full overweight from slight overweight. Furthermore, we downgraded Energy to a full underweight from slight underweight and Healthcare to slight underweight from neutral.

Earlier in the year during the depths of the bear market move in Equities, we discussed the market workout cycle in four phases. The first phase was the Repricing of Risk as longer-dated yields spiked on the back of the much higher than expected tariff rates that were announced in April. Once there was the initial decision to relax the imposition of the tariffs, and some early deals and frameworks were announced, we believed the market would enter a period of Relief. We continued to believe that markets would recover, and no recession was imminent. The Relief phase culminated around May and carried through into early June. This phase removed the roughly 20% drawdown in the S&P 500 and helped propel the mega capitalization Growth sector back into a leadership position. Since June, we have experienced broader leadership across the Large-cap space with Financials, Industrials and even parts of the Utilities sector re-gathering momentum. This month, we are upgrading Industrials to a slight overweight from neutral and Financials to a full overweight from slight overweight. Furthermore, we are downgrading Energy to a full underweight from slight underweight and Healthcare to slight underweight from neutral. These sector changes are based on positive profit momentum and potential policy concerns that could impact earnings particularly in Healthcare. Non-U.S. markets have held their ground but have not increased their outperformance relative to the U.S. from the beginning of the year. Overall, this activity, in

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### CIO ASSET CLASS VIEWS

This month the Global Wealth & Investment Management Investment Strategy Committee (GWIM ISC) adjusted the U.S. Equity sector views by moving Industrials to a slight overweight, Financials to a full overweight, Energy to a full underweight and Healthcare to a slight underweight. We maintain an overweight to Equities with a preference for U.S. Equities relative to the rest of the world, and still favor a significant allocation to bonds in a well-diversified portfolio. We would use any weakness in equity markets over the second half of the year as an opportunity to rebalance.

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Asset Class	CIO View		
	Underweight	Neutral	Overweight
Global Equities	•	•	•
U.S. Large-cap Growth	•	•	•
U.S. Large-cap Value	•	•	•
U.S. Small-cap Growth	•	•	•
U.S. Small-cap Value	•	•	•
International Developed	•	•	•
Emerging Markets	•	•	•
Global Fixed Income	•	•	•
U.S. Governments	•	•	•
U.S. Mortgages	•	•	•
U.S. Corporates	•	•	•
International Fixed Income	•	•	•
High Yield	•	•	•
U.S. Investment-grade Tax Exempt	•	•	•
U.S. High Yield Tax Exempt	•	•	•
Alternative Investments*			
Hedge Strategies			
Private Equity & Credit			
Real Assets			
Cash			

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

our opinion, is a much healthier type of market environment in spite of above-average valuations.

Additionally, the Small-cap arena has been closing the gap of its Large-cap under-performance with a strong rally in the last two months. We call this timeframe the Re-examine phase which has produced an Owl type of market. An Owl market is firmly in a bull phase, which includes solid earnings, stable interest rates, improving economic fundamentals for 2026, easy enough financial conditions, a weakish U.S. dollar, with tariff and geopolitical risks at bay. In this phase, the Owl peers around 360 degrees to look for confirmation signs that this type of environment is not fading but increasing in momentum as low expectations are surpassed. We expect the Owl to remain on its high perch through the autumn months. After a brief soft patch in economic data, particularly slower job growth, we believe the fourth and final phase kicks into gear in the next couple of months or so. We call it the Regrowth phase. The core tailwind here is positive momentum in profit growth supported by the new fiscal bill and increasing potential for rate cuts.

We maintain our overweight in Equities and preference for the U.S. relative to the rest of the world but believe a neutral stance is warranted in International Equities overall given our weaker dollar stance. We would use weakness on the back of “soft patch” concerns as a buying opportunity in Equities. The capital expenditure (capex) boom is just beginning in our view and the S&P 500 is poised for further upside in the years ahead.

### CIO INVESTMENT DASHBOARD AS OF AUGUST 5, 2025

Equities continued their climb higher in July, ending the month near all-time highs. Economic data is likely to be noisy moving forward, and we see the potential for more volatility related to trade policy, the fiscal and monetary policy outlook, and the trajectory of inflation. Long-term investors should remain fully invested and consider episodic weakness as a potential buying opportunity given worst case scenarios have been generally averted, and the profit cycle continues to move forward with earnings growth.

**Current readings on the key drivers of Equities for investors to consider, with arrows representing the recent trend:**

Factor	Implication for Equities			CIO View
	Negative	Neutral	Positive	
Earnings				<p>According to FactSet, S&amp;P 500 revenue and earnings grew by 5.2% and 10.6%, respectively, on a year-over-year (YoY) basis in 2024. Subsequently they grew by 4.9% and 13.3% in Q1 2025. In Q2, growth is expected at 6.0% and 10.3%. Overall, for 2025, consensus expects a slight acceleration in revenue growth to 5.4% and a slight deceleration in profit growth to 10.0%. In July, the Global Earnings Revision Ratio improved for a third straight month. The advance was led by the U.S. as the ratio hit a 14-month high, with upgrades now surpassing downgrades. While globally the inverse remains in place, ratios improved, according to BofA Global Research.</p>
Valuations				<p>The S&amp;P 500 price-to-earnings (P/E) ratio (next 12 months), at around 22.5x, nears its late-2020 high of 23.4x and stands above its long-term average of 16.5x. While this headline measure suggests that U.S. Large-cap Equities, in general, remain expensive, relative discounts can be found in areas like Small-cap and Value.</p>
U.S. Macro				<p>A first estimate for Q2 real gross domestic product (GDP) indicated the economy rebounded by a seasonally adjusted annual growth rate of 3.0% from Q1 growth of -0.5%. Compared to Q1, stronger growth in consumption and a swing in net exports drove the expansion. Private-sector inventories dragged on investment. Real final sales to private domestic purchasers, which excludes the volatile trade and inventory measures, grew by 1.2% in Q2 after expanding by 1.9% in Q1. For 2025, BofA Global Research expects real GDP growth to decelerate in Q3 to 1.0% before rebounding to 1.6% in Q4 for an annual expansion of 1.7%. For 2026, it also forecasts 1.7% growth.</p>
Global Growth				<p>Evolving U.S. trade policy and geopolitical tensions remain uncertainties in the outlook. For the euro area, these dynamics have countered positive elements in looser fiscal and monetary policy, resulting in limited growth in the services and industrial sectors. In China, stimulus efforts contend with property market weakness and trade-related uncertainty, also a headwind for broader Asia. After growth of 3.3% in 2023, the global economy grew by 3.2% in 2024. BofA Global Research expects 3.0% growth for 2025 and 3.1% growth for 2026. This compares to average growth of 3.8% from 2000 to 2019, according to the International Monetary Fund.</p>
U.S. Monetary Policy / Inflation				<p>The Federal Reserve (Fed) kept its policy interest rate at 4.25% to 4.50% in its July meeting, maintaining this stance since December. However, for the first time since 1993, two governors on the monetary policy committee dissented in favor of a 0.25% cut. Amid intensifying debate, the central bank continues to take a patient approach to monetary policy. This has been due to heightened economic uncertainty regarding the impacts of trade and fiscal policy, despite cooling inflation. The market expects two Fed rate cuts this year. BofA Global Research expects the Fed to hold its interest rate level until the second half of 2026, when it anticipates 100 basis points (bps) worth of cuts.</p>

Factor	Implication for Equities			CIO View
	Negative	Neutral	Positive	
Fiscal Policy				The reconciliation measure dubbed the "One Big Beautiful Bill" has been signed into law. It extends the 2017 Tax Cuts and Jobs Act and includes new tax breaks, among other elements. BofA Global Research expects the bill will provide a moderate growth impact to U.S. GDP later this year and likely add to the deficit, though tariff revenue, if sticky, could potentially cover most of the cost of the bill.
Corporate Credit				In July, credit spreads for Investment-grade (IG) and High Yield (HY) reflected lessened concerns about an economic slowdown. Overall, their levels neared levels last seen nearly two decades ago.
Yield Curve				The Treasury yield curve two years and out has normalized, returning to being positively sloped from its inversion. During July, the curve rose overall, amid a slight flattening in its shape. A decrease in the size of the inversion between the three-month and two-year rates reflected lessened anticipation of more rate cuts this cycle. Meanwhile, the fed funds and the three-month rates remained near to that of the 10-year, flirting with inversions.
Technical Indicators				Since May the S&P 500 has remained above its 200-day moving average, itself moving higher. This suggests positive momentum fueled by the latest market rally. The cumulative advance/decline indicator, a measure of market breadth, fully recovered from its decline earlier this year. A similar indicator, the percentage of New York Stock Exchange stocks closing above their 200-day moving average also trended higher last month, moving to roughly 55% from 45%. This level remains below its average in 2024 of just over 60%, which coincided with a notable bull run for the S&P 500.
Investor Sentiment				Investor sentiment has improved. According to the American Association of Individual Investors, the large imbalance of dominant retail investor bearishness compared to reduced bullishness has receded from its early-April extreme, standing today in more neutral territory. Meanwhile, the Chicago Board Options Exchange Volatility Index stands slightly above its year-to-date (YTD) average. BofA Global Research's Bull & Bear Indicator still flashes a "neutral" signal at 6.3 as of July 31. However, according to the July Global Fund Manager Survey, the average cash level in institutional portfolios fell to 3.9%, triggering a "sell" signal.

Source: Chief Investment Office.

## EQUITIES

**We are slightly overweight Equities:** We continue to see crosscurrents in the market landscape, and economic data has recently exhibited some signs of softening, but relatively sturdy fundamentals should ultimately provide Equities with a solid foundation. The earnings outlook remains positive, and private sector investment in areas like innovative infrastructure could act as an additional tailwind for corporate profits moving forward. We maintain an Equity overweight relative to our strategic targets.

**We are slightly overweight U.S. Equities:** The U.S. remains our preferred Equity region relative to the rest of the world. Index-level valuations have risen amid a swift equity market recovery from the April lows, but earnings currently remain supportive. The BofA Global Research Earnings Revisions Ratio suggests that the U.S. is the only region where earnings upgrades now outnumber downgrades. Q2 is on track to be the eighth consecutive quarter of YoY profits acceleration for the S&P 500 index. Delays, supply chain disruptions, and dampened demand may start to filter through in future quarters, but we ultimately expect full-year earnings growth in the high single digits for the S&P 500 Index.

Large-caps maintain relatively strong fundamentals and have led the recovery from the April 8 low, but leadership remains relatively narrow with much of the gains concentrated in mega-cap Technology stocks. Small-caps have recently gained some momentum and may benefit from future interest rate cuts, though tariff concerns could present headwinds. We emphasize the importance of incorporating both Large-caps and Small-caps in strategic portfolios.

While we believe that secular tailwinds will support Growth over the long term, we emphasize the importance of avoiding overexposure to any one area of the market. Value continues to trade at a relative discount to Growth, and dividend-oriented Value stocks remain attractive. We suggest a balanced approach between Value and Growth for long-term investors.

From a sector perspective, it is important to have Equity exposure across cyclical, interest rate-sensitive and Growth sectors. This month we increase our exposure to Financials on increased activity supported by deregulation and a positive net interest income outlook. The interest rate cuts that the Fed implemented last year, along with a steeper yield curve, can help improve credit risk and default rates going forward, especially in Commercial Real Estate (CRE). Moreover, we anticipate U.S. banks could generate record spread revenue this year even without meaningful loan growth, given the repricing trend in securities portfolios industry wide. We increase exposure to Industrials as capex budgets continue to

## EQUITY WATCH LIST

- Trade policy developments and negotiations
- Fiscal and monetary policy outlook
- Dollar movement and exposure to non-U.S. regions
- Progression of earnings estimates
- Trajectory of global manufacturing
- Pace of AI investment/competition
- Geopolitics in the Middle East

## RISK CONSIDERATIONS

- Geopolitical uncertainty and heightened global protectionist measures
- Escalated trade war/sustained retaliatory tariffs
- Reacceleration of inflation
- Potential for slower economic growth

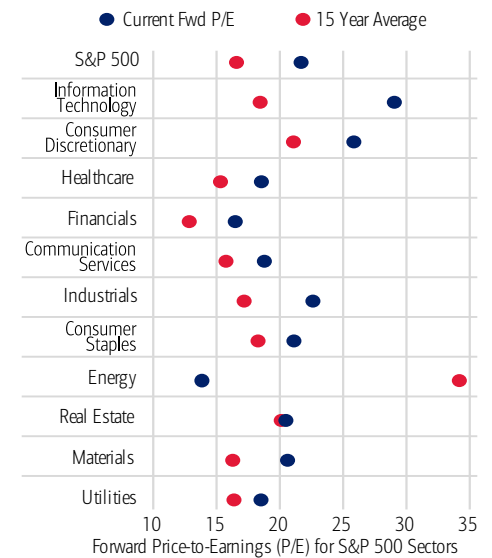
grow, some uncertainties have been removed, 100% bonus depreciation has been enacted again and infrastructure plans are accelerating compared to recent years. Growth in infrastructure-related investments related to secular growth trends in electric power demand, energy transmission and distribution, data center builds, and next-generation Artificial Intelligence (AI)-focused semiconductor technology that is increasingly power hungry could drive multiyear demand for select growth and cyclical stocks.

Uncertainties pertaining to Healthcare policies and pricing as well as potential tariff impacts across Healthcare subsectors could drive rebalancing in portfolios; therefore, we are reducing exposure and stress subsector selection for Healthcare exposure. We also remain cautious on the Energy sector and lower our exposure. The growing oil supply outlook for 2025 could weigh on oil prices, energy cash flows, and earnings in coming quarters. Our positive outlook for Utilities is based on accelerating electric power demand for the first time since the early 2000s, driven in part by the growth in Generative AI (GAI) and increasing electrification of the economy. While we are constructive on Information Technology (IT) and Communication Services as longer-term thematic trends, we maintain our neutral view in the near term on elevated valuations and the recent rally. We remain cautious on Materials, as demand is weak, and pricing power and potential tariff impacts remain questionable. With interest rate volatility in recent months, we are neutral Real Estate (RE) and prefer being selective in the RE subsectors due to positive fundamentals in some areas of RE but remain cautious about weaker trends in other areas like CRE. The consumer remained resilient throughout the first half given macro volatility, and we continue to see positive consumer spending trends despite some pressure from high prices of specific goods and services. We remain more constructive on the Consumer Discretionary sector and less positive on the more defensive Consumer Staples sector, as inflation is well off the peak of recent years and consumer income growth is solid.

**We are neutral Emerging Market Equities:** Emerging Markets (EM) relative valuations still appear attractive, but we continue to expect a wide return dispersion between individual EM countries and regions. Trade-dependent Asian markets should be supported by a reduction in tariff-related uncertainty and appreciation of undervalued exchange rates. The heavyweight China market is likely to benefit from its exposure to leading Growth sectors, though regulatory intervention remains an ongoing risk. Growth in China may also remain constrained by structural headwinds for the RE sector and weak household balance sheets, while stimulus measures so far appear insufficient to provide a significant boost to domestic demand. Smaller markets in Central and Eastern Europe should benefit from increased European Union (EU) fiscal outlays, while market direction in Latin America, the Middle East and Africa is likely to remain broadly tied to the direction of natural resource prices. The structural rise in EM consumer spending remains a big reason why we believe investors should consider maintaining a strategic allocation to EM Equities as appropriate. The emerging world now constitutes around 40% of global personal consumption expenditures (PCE), according to the United Nations, and ongoing convergence with developed economies should support GDP growth and corporate earnings over the longer term. We favor active management<sup>1</sup> when investing in EM, as fundamentals differ across countries based on fiscal capacity, external funding needs, corporate governance and other factors.

**We are neutral International Developed Equities:** While we continue to prefer U.S. Equities over International Developed, we remain constructive on non-U.S. markets and maintain a neutral position. We expect European markets to benefit from a major potential fiscal expansion driven by infrastructure and defense spending, on top of attractive relative valuations. Manufacturing-led EU economies nonetheless remain at risk from growing competition from China in key industries. We are slightly overweight Japan Equities. The potential for faster interest rate hikes could represent a headwind for Japan but sustained positive inflation and corporate reforms remain fundamental supports. As aggregate net energy importers, International Developed markets should also be more sensitive to the direction of energy prices. We believe long-term investors should maintain some strategic exposure to International Developed Equities, as appropriate, given that they trade at a discount relative to U.S. Equities, contain more of a balance between Value and Growth sectors, can offer attractive dividend yields, and provide diversification.

## Sector Valuations



Source: Bloomberg as of August 1, 2025. All sector and asset allocation recommendations must be considered in the context of an individual investor's goals, time horizon, liquidity needs and risk tolerance.

<sup>1</sup>Active management seeks to outperform benchmarks through active investment decisions such as asset allocation and investment selection.

## FIXED INCOME

**We are slightly underweight Fixed Income within multi-asset class portfolios.** We are constructive on Fixed Income, but our underweight is necessary to fund our Equity overweight. We are neutral across Fixed Income sectors in all-Fixed Income low-tax-sensitivity portfolios. In all-Fixed Income high-tax-sensitivity portfolios, we prefer Investment-grade and High Yield Tax-Exempt relative to Investment-grade Taxable.

On July 1, Fed Chair Powell spoke at a conference in Sintra, Portugal and implied that he expects two rate cuts this year. The Fed has plenty of room for policy accommodation to help the economy avoid a recession, if needed.

Higher nominal and real yields provide attractive compensation for inflation and market risk. We maintain neutral duration. Longer-term Fixed Income provides meaningful returns relative to cash and therefore diversifies equity risk over time with more stable income. We are still slightly more favorable on duration than when the 10-year was below 4% and believe investors should move investment cash to at least their strategic duration target.

**In multi-asset class portfolios, we are slightly underweight U.S. Governments in favor of Equities.** Real yields—that is to say, yields after expected inflation—are around 1.40% to 2.60% across the curve, the higher end of the range since 2008. Yields substantially higher than inflation is positive for savers.

In multi-asset class portfolios, **we remain slightly underweight U.S. Corporates and neutral High Yield in favor of Equities.** This view is predicated on expensive valuations—somewhat offset by still attractive all-in yields, which could continue to drive robust demand for high-quality Fixed Income

Credit spreads have retraced widening that we saw during April and are currently trending at YTD tight. With IG spreads around 75 basis points (bps) and HY spreads around 285 bps, valuations still screen relatively rich, in our view, with more limited room for further spread compression—which is the primary driver of our slightly cautious stance on credit in multi-asset class portfolios.

With that being said, we generally expect a positive environment to persist for credit over the short term with several caveats. Economic data has defied the odds—continuing to point to a healthy consumer, positive (albeit slowing) GDP growth, and inflation that is gradually moving towards the Fed's long-term target. Credit fundamentals remain on sound footing with positive top- and bottom-line growth, resilient margins and gross leverage continuing its improving trend. HY fundamental trends are more mixed relative to IG; however, default rates are expected to move lower over the next 12 months, which should support HY spreads.

The technical backdrop remains the strongest argument for IG and HY to outperform, in our view. Credit continues to be a yield-driven market, and the bottom line is that yields remain at levels that will attract incremental buyers (and few sellers). Further, we expect that net supply will contract through the summer, providing an additional tailwind to our positive view on technical dynamics. Fed policy, namely a more dovish pivot by the Federal Open Market Committee, and potentially lower Treasury yields are key risks to watch regarding demand for credit.

In multi-asset class portfolios, **we remain slightly underweight U.S. Investment-grade Tax Exempt and U.S. High Yield Tax Exempt.** However, for highly tax-sensitive investors, we maintain a preference for IG and HY tax-exempt securities at current valuations. We note that tax-exempt municipal bonds significantly underperformed Treasury securities in the first half and have become attractively valued. We see muni valuations richening in August due to increased reinvestment demand from seasonally heavy principal and interest payments, although increased new money issuance may ameliorate this effect. We believe cuts in federal funding from the “One Big Beautiful Bill” will be manageable for the vast majority of municipal issuers, although healthcare and private higher education continue to face challenges.

In multi-asset class portfolios, **we are slightly underweight Mortgage-backed Securities in favor of Equities.** Mortgage-backed Securities (MBS) spreads continue to look slightly favorable compared to other high-quality Fixed Income, particularly IG corporates. The primary concern for MBS investors—duration extension—has largely

### FIXED INCOME WATCH LIST

- Impacts of reduced government spending and uncertainty about fiscal policies including tariffs
- U.S. short-term funding markets, with the interplay of quantitative tightening and drawdown of Treasury General Account
- Trend and level of U.S. nominal and real rates and inflation
- Fed and global central bank activity
- Global economic growth, especially with trade and tariff concerns
- Credit spreads and Muni/Treasury ratios

### RISK CONSIDERATIONS

- Resilient or accelerating inflation
- Change in Fed policy stance
- Slowing economic growth or confidence based on uncertainty

occurred, but interest rate volatility remains somewhat elevated compared to the last decade. In our view, the risk-reward profile for this rate-sensitive sector is now more balanced. Importantly, MBS spreads are now close to their 10-year average, which limits the potential upside in a relatively uncertain interest rate environment. Banking deregulation and potential government-sponsored enterprise privatization are two developments that could have implications for MBS valuations that we are watching closely.

## ALTERNATIVE INVESTMENTS

Unlike Traditional asset classes, establishing and exiting allocations to Alternative Investments (Alts) can be a long-dated process given liquidity constraints. Because of their illiquid and long-term nature, Alts should be viewed in terms of strategic allocations. Therefore, our views on Alts strategies within each asset class reflect potential tilts in new dollar deployment based on relative opportunity, in contrast to a tactical repositioning in public markets.

Some key CIO principles for qualified investors to consider when investing in Alts include:

- **Think strategically and long-term:** Alts are largely illiquid and therefore require a long time horizon when incorporating into portfolios.
- **Invest methodically, including in downturns:** A properly implemented Alts program requires a consistent commitment, particularly within private markets strategies; withdrawing during periods of volatility can undermine the long-term benefits of the asset class and result in underallocation.
- **Diversify:** Seek diversification by strategies and managers. Investing methodically within private markets strategies also improves vintage year diversification.
- **Prioritize high-conviction managers:** Performance dispersion is significantly wider within Alts than in Traditional investment strategies; manager selection is therefore a potential opportunity.

**Hedge Strategies.** Hedge Strategies (HS) broadly weathered a turbulent first half of 2025, delivering dampened volatility and portfolio diversification. Most strategies posted positive returns over the six-month period, with Equity Hedge (EH) leading the pack and generating gains (around 6% YTD through June<sup>2</sup>) as well as solid alpha overall, whereas Macro strategies lagged expectations. Early estimates for July suggest continued positive performance for fundamental EH managers (largely driven by beta<sup>3</sup> gains), while quantitative equity strategies have come under notable pressure.<sup>4</sup> Sharp factor rotations, including momentum unwinds and rallies in high beta/lower quality stocks, have contributed to drawdowns for quantitative equity strategies that otherwise were posting strong performance in the first half.

**Private Equity & Credit:** As anticipated, Private Equity (PE) activity decelerated in Q2 amid heightened trade-related uncertainty. U.S. PE deal volume dropped 18% from Q1 to \$228 billion, though the pace of investment in the first half of 2025 remains 29% above last year's. Exit volumes fell more sharply, down 46% quarter-over-quarter, highlighting how sentiment-driven volatility has curtailed liquidity.<sup>5</sup> As a corollary, secondary transactions have remained robust, with first-half volumes setting new records and surpassing \$100 billion.<sup>6</sup> Notwithstanding the challenges to start the year, the outlook for the second half and into 2026 is rapidly improving. Given the declining trade uncertainty and a solid macro backdrop, expectations for a healthier deal environment are increasing.

Private Credit (PC) sentiment has improved relative to April, as easing trade fears helped temper near-term credit risk concerns. That said, high interest costs continue to weigh on smaller or highly leveraged borrowers, driving increased payment-in-kind (PIK) and other related maneuvers.<sup>7</sup> Earnings trends have been stable, if not strong, and the possibility of a lower-rate environment in 2026 could provide a mixed backdrop with marginally lower expected returns (but potentially better risk-adjusted outcomes). Compared to the largely tailwind-driven performance of recent years, today's environment appears more balanced between challenges and opportunity.

**Private Real Estate:** Q2 proved uneven for Private Real Estate (PRE), with transaction volumes holding steady but divergent dynamics across sectors. Activity in the U.S. rose 13% YoY in the

<sup>2</sup> HFR, Inc. As of July 31, 2025

<sup>3</sup> Beta is an indicator of the price volatility of a stock or other asset in comparison with the broader market.

<sup>4</sup> BofA Securities, Morgan Stanley Prime Brokerage, Goldman Sachs Prime Services. As of July 31, 2025.

<sup>5</sup> PitchBook. As of July 31, 2025.

<sup>6</sup> Evercore. As of July 31, 2025.

<sup>7</sup> PitchBook. As of July 31, 2025.

## CIO Views on Alts Strategies

### HEDGE STRATEGIES

#### Equity Hedge +

Bull case	Potential alpha* generation opportunities in high-dispersion or volatile markets; resumption of micro-dominated market would benefit stock selection; low net better positioned for market sell-off
Bear case	Macro-driven market dominated by trade challenging for fundamental stock pickers

#### Event Driven

Bull case	Pressure of high rates could create distressed opportunities; if merger activity were to increase and deal spreads widen; higher risk-free rate positive for merger arbitrage
Bear case	Distress may not materialize in size or may be delayed; if merger activity fails to materialize; lower rates negative

#### Relative Value

Bull case	Still in world of higher-though-volatile yields; tariff capitulation should support growth; decent dispersion in HY and Leveraged Loan.
Bear case	Spreads very tight; potential increase in credit risk and defaults

#### Macro +

Bull case	Possible "higher-for-longer" rate regime could create cross-asset volatility in rates and foreign exchange; inflation stickiness could exacerbate macro volatility; possible transition to new trade regime could create long-term trends
Bear case	Choppy markets driven by erratic trade policy difficult for trend-following; if rate volatility structurally declined

## PRIVATE EQUITY & CREDIT

### Buyout

Bull case	Current vintages likely attractive for long-term given profitability focus; within PE, Secondaries benefiting structural expansion; deal activity to increase if trade uncertainty declines
Bear case	Trade volatility could slow deals/exits, hurt margins; persistence of higher rates a headwind

### Venture/Growth

Bull case	Significant correction benefits capital providers; AI could drive investment supercycle; early Venture Capital (VC) stages more insulated than later stages; falling rates would likely be tailwind Ex-AI VC market still challenged; VC focus on supporting portfolio companies; initial public offering drought could continue; timelines extended plus increased risk of dilution; higher rates drag on unprofitable companies
Bear case	

### Special Situations

Bull case	Default rates rising; higher-for-longer and tariffs would pressure levered balance sheets; companies seeking creative financing before maturities
Bear case	Trade policy capitulation or rate cuts could smooth out credit cycle keeping it more average

### Private Credit +

Bull case	High-though-declining yields; healthy spread to public credit over time; economic resiliency supportive of credit; secular tailwinds; fresh capital can underwrite to current risks
Bear case	Credit risk could rise & lower-quality most at risk; regulatory scrutiny; public leveraged credit competition; significant capital allocating to PC; rates falling

\*Alpha is a measure of how well an investment performs relative to a benchmark or what's expected based on its risk level. **Bull case** is an environment or set of factors that could represent tailwinds for the strategy. **Bear case** is an environment or set of factors that could represent headwinds for the strategy. + symbol indicates the strategies CIO views as having the most favorable opportunity set for new investment within the Alts asset classes.

first half,<sup>8</sup> but uncertainty around interest rates and policy has clouded the outlook. Pricing has broadly bottomed out, though signs of an accelerating recovery remain elusive. Cap rates continue to adjust upward, reflecting higher rates and financing costs. On the positive side of the ledger, new supply has declined significantly into 2025 and could be further constrained by tariffs, which may bode well for the asset class into the coming year. Given the mixed backdrop, the recovery in PRE is expected to continue to remain slow and fragmented.

**Infrastructure:** Infrastructure remains a key long-term theme, though the asset class is not immune to trade effects. While the investment need is vast given the aging infrastructure base in the U.S. and globally, the direct and indirect impacts of tariffs on raw materials, supply chains, and economic growth could hamper infrastructure in the near term. However, as trade concerns have receded, public market proxies suggest that infrastructure has recovered and exceeded initial drawdown.<sup>9</sup> Absent trade volatility, the private investment opportunity remains substantial over the long term. The rapid expansion of the digitization/data center themes, for example, is predominantly driven by capital expenditures from the private sector (e.g., the hyperscalers), which is insulated from potential public funding reductions. Given the long-term tailwinds, as well as a consistent return profile and the potential to serve as a hedge against rising inflation, Infrastructure continues to remain an attractive allocation.

**Tangible Assets:** Notwithstanding particular commodity demand-and-supply situations, we expect moderate upside pressures on commodity prices overall in coming quarters. Barring renewed geopolitical flareups, oil prices are likely to remain contained amid expectations for comfortable supply-demand conditions into late 2026. Given the central role of energy in commodity production and transportation costs, this should also help anchor broader commodity prices. On the other hand, further dollar depreciation—given its still elevated level on a real broad trade-weighted basis—is likely to provide tailwinds to commodity demand and pricing. Moreover, the global manufacturing cycle appears poised to rebound as tariff uncertainty fades, U.S. fiscal stimulus takes hold, and increased European government spending supports industrial activity. With inflation normalizing, the Fed is unlikely to restrain the economy for the foreseeable future. Accommodative monetary policy and stronger global growth should support metals prices going forward.

## REAL ASSETS

### Private Real Estate

Bull case	Supply/demand imbalance in Residential driving secular opportunities; sectors like Data Centers rising; cap rates slowly reflecting lower valuations; lower mortgage rates may unlock markets; lending strategies offering compelling profiles; distressed/opportunistic could emerge given stress
Bear case	Transactions remain muted; risk of mortgage rates not declining as much as market hoped

### Infrastructure +

Bull case	Opportunity bolstered by large need for energy investments and upgrading aging infrastructure; high demand for digitization & data centers, including international opportunities; potential inflation hedge
Bear case	Fiscal spend on Infrastructure now in cross-hairs; higher rates challenging project financing; lower inflation could mitigate relative attractiveness

### Tangible Assets

Bull case	Geopolitical risk and trade wars could spill over and pressure commodities supply; potential for diversification and inflation hedge
Bear case	Trade wars could mute global growth; energy supply has offset Middle East tensions; weak Dollar could be headwind

**Bull case** is an environment or set of factors that could represent tailwinds for the strategy. **Bear case** is an environment or set of factors that could represent headwinds for the strategy. + symbol indicates the strategies CIO views as having the most favorable opportunity set for new investment within the Alts asset classes.

## MACRO STRATEGY

- Consumer spending growth firmed in Q2 as unemployment claims remain low, job openings are comfortable relative to unemployment, wage-and-salary growth has remained solid, and tariff uncertainty faded. Q2 GDP growth surprised to the upside at 3% as the Q1 surge in imports ahead of tariffs reversed sharply, reducing the trade deficit.
- Headline PCE inflation was as expected in June, up 2.6% YoY compared to 2.4% in May. Excluding food and energy, core inflation also was sticky at 2.8% YoY. Relatively calm energy and housing markets bode well for continued disinflation.
- Q2 corporate profits are coming in much stronger than expected fueled by the AI boom. Despite inching slightly lower, domestic profit margins remain around a 60-year high. The profit cycle is likely to be extended by tailwinds from fiscal stimulus and deregulation, all supportive of economic growth and risk assets. Equity market leadership, tight credit spreads, normalized volatility and a softening dollar from overvalued levels suggest the midcycle is likely to continue despite a temporary tariff-induced soft patch.

## ECONOMIC FORECASTS (AS OF 8/1/2025)

	Q1 2025A	Q2 2025A	Q3 2025E	Q4 2025E	2025E	2026E
Real global GDP (% y/y annualized)	-	-	-	-	3.0	3.1
Real U.S. GDP (% q/q annualized)	-0.5	3.0*	1.0	1.6	1.7	1.7
CPI inflation (% y/y)	2.7	2.5*	2.9	2.8	2.7	2.3
Core CPI inflation (% y/y)	3.1	2.8*	3.1	3.1	3.0	2.6
Unemployment rate (%)	4.1	4.2*	4.3	4.4	4.2	4.5
Fed funds rate, end period (%)	4.38	4.38	4.38	4.38	4.38	3.38

The forecasts in the table are the baseline 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. 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 August 5, 2025. Forecasts are subject to change. When assessing your portfolio in light of our current guidance, consider the tactical positioning around asset allocation in reference to your own individual risk tolerance, time horizon, objectives and liquidity needs. Certain investments may not be appropriate, given your specific circumstances and investment plan. Certain security types, like hedged strategies and private equity investments, are subject to eligibility and suitability criteria. Your advisor can help you customize your portfolio in light of your specific circumstances.

<sup>8</sup> MSCI Real Capital Analytics. As of July 31, 2025.

<sup>9</sup> Bloomberg. As of July 30, 2025.

## S&P 500 SCENARIOS BASED ON FORWARD P/E AND 2025 EARNINGS PER SHARE (EPS)

The table below provides a rough indication of where the S&P 500 Index's central tendency could be, given various scenarios for EPS in 2025 and P/E ratio multiples. These scenarios are not official price targets and are not meant to signal levels where portfolio actions may always be needed. However, during times of market volatility, it's useful to keep this basic framework in mind when considering whether to incrementally add to or trim risk from portfolios while staying invested in one's strategic asset allocation framework.

2025 EPS	EPS Forward P/E (Next 12 months)				
	19.0x	20.0x	21.0x	22.0x	23.0x
\$305	5,795	6,100	6,405	6,710	7,015
\$295	5,605	5,900	6,195	6,490	6,785
\$285	5,415	5,700	5,985	6,270	6,555
\$275	5,225	5,500	5,775	6,050	6,325
\$265	5,035	5,300	5,565	5,830	6,095
\$255	4,845	5,100	5,355	5,610	5,865
\$245	4,655	4,900	5,145	5,390	5,635

For illustrative purposes only. Source: Chief Investment Office as of August 5, 2025.

Asset Class	CIO View					Comments
	Underweight	Neutral	Overweight			
<b>Global Equities</b>	●	●	●	●	●	We are overweight Equities and continue to view weakness as a buying opportunity for long-term investors. We are overweight the U.S. and neutral EM and International Developed.
<b>U.S. Large-cap Growth</b>	●	●	●	●	●	Large-caps continue to look attractive on solid fundamentals, strong free cash flow (FCF) and the ability to produce healthy shareholder payouts. We emphasize the importance of incorporating both Growth and Value, as appropriate.
<b>U.S. Large-cap Value</b>	●	●	●	●	●	
<b>U.S. Small-cap Growth</b>	●	●	●	●	●	While headwinds persist, Small-caps may benefit from future interest rate cuts and a potential earnings inflection. We continue to suggest a balance of Value and Growth factors.
<b>U.S. Small-cap Value</b>	●	●	●	●	●	
<b>International Developed</b>	●	●	●	●	●	We are neutral International Developed Equities. Valuations appear attractive on a relative basis, with potential upside catalysts from fiscal policy in Europe and domestic reforms in Japan.
<b>Emerging Markets</b>	●	●	●	●	●	We are neutral EM overall with regional disparities expected across Asia and smaller markets in Europe, Latin America, the Middle East, and Africa. Heavyweight China market continues to face economic constraints, but likely supported by exposure to leading Growth sectors.
<b>International</b>						
<b>North America</b>	●	●	●	●	●	The U.S. remains our preferred region given balance sheet strength, better fundamentals for consumer spending and healthy shareholder payouts.
<b>Eurozone</b>	●	●	●	●	●	Expansionary fiscal policy combined with attractive relative valuations are potential market tailwinds. Risks remain from growing competition with China in key industries.
<b>U.K.</b>	●	●	●	●	●	Higher business taxes from government budget represent a headwind for the corporate sector, while mortgage rates remain elevated. Government moves toward closer EU cooperation may reduce negative impact of withdrawal from single market.
<b>Japan</b>	●	●	●	●	●	Sustained positive inflation and official efforts to increase corporate returns to shareholders remain fundamental supports. Potential for faster interest rate hikes could represent a potential headwind for the local market.
<b>Asia Pac ex-Japan*</b>	●	●	●	●	●	Regional market likely to be driven in near term by slower economic growth in China and its impact on consumption and resource demand. Longer-term outlook dampened by exposure to ongoing structural constraints for China's economy.
<b>Global Fixed Income</b>	●	●	●	●	●	Yields are attractive, providing good diversification for multi-asset class portfolios and reasonable income. Neutral duration recommended.
<b>U.S. Governments</b>	●	●	●	●	●	Nominal and real yields remain attractive across the curve relative to the last 10 to 15 years. A Treasury allocation for liquidity, principal preservation, and diversification is advised, as Treasuries provide the best short-term diversification benefits to Equities among Fixed Income sectors. Rate volatility has increased and may remain high.
<b>U.S. Mortgages</b>	●	●	●	●	●	MBS spreads are now range-bound near their ten-year average, in the high-30s (bps). This reduces their appeal and potential for additional upside relative to Treasuries, in our view. That said, on a relative basis, MBS remains attractive compared to high-quality corporate bonds.
<b>U.S. Corporates</b>	●	●	●	●	●	Investment grade spreads are trending at YTD lows – a function of improving fundamentals, weaker than expected supply, and strong demand amid still relatively attractive all-in yields. That being said, valuations from a spread perspective remain expensive – and we expect that forward excess returns are likely to be driven more by carry versus spread tightening over the next 12 months. Our base case is that spreads remain range-bound near current levels.
<b>International Fixed Income</b>	●	●	●	●	●	International rates markets are at normal valuation levels on a U.S. dollar-hedged basis.
<b>High Yield</b>	●	●	●	●	●	HY yield valuations remain expensive. However, a positive macroeconomic environment may limit spread volatility and credit losses. This leaves us comfortable at a neutral positioning. Within a high yield allocation, we continue to suggest a balanced mix between loans and bonds.
<b>U.S. Investment-grade Tax Exempt</b>	●	●	●	●	●	Tax-exempt bonds remain attractively valued. We see valuations richening in August due to strong technical conditions, particularly reinvestment demand from seasonally-heavy principal and interest payments. We expect credit to remain stable, despite cuts in federal funding to municipal issuers, thanks to abundant state rainy-day funds, which are still at near-record levels. However, certain sectors, e.g., healthcare and private higher education, face challenges.
<b>U.S. High Yield Tax Exempt</b>	●	●	●	●	●	High yield munis are rich relative to IG munis, based on historical valuations. However, we do not see a catalyst for spread widening in the near future.

\*Asia Pac ex-Japan refers to the geographic area surrounding the Pacific Ocean. The Asia Pac ex-Japan covers the western shores of North America and South America, and the shores of Australia, eastern Asia and the islands of the Pacific. Tactical qualitative investment strategy weightings are relative in nature versus the strategic weightings for a fully diversified portfolio. Weightings are based on the relative attractiveness of each asset class. Tactical strategy weightings are for a 12- to 18-month time horizon. CIO asset class views are relative to the CIO Strategic Asset Allocation (SAA) of a multi-asset portfolio. Because economic and market conditions change, recommended allocations may vary in the future. Asset allocation cannot eliminate the risk of fluctuating prices and uncertain returns. All sector and asset allocation recommendations must be considered in the context of an individual investor's goals, time horizon, liquidity needs and risk tolerance. Not all recommendations will be in the best interest of all investors.

## CIO EQUITY SECTOR VIEWS AS OF AUGUST 5, 2025

The CIO Equity sector view is developed by applying a multi-input process combining the CIO's factor views and fundamental bottom-up industry outlook with top-down macro-economic changes and trends. The factor approach emphasizes valuation and momentum as key inputs, with a fundamental overlay taking into consideration forward-looking views of growth, profits, policy, events and sentiment as well as inclusion of certain investment themes. BofA Global Research's sector strategy views are also captured as an input into the CIO process. Our sector views are developed with a 12- to 18-month outlook but are revisited monthly by the GWIM Investment Strategy Committee.

Sector	CIO View			Comments
	Underweight	Neutral	Overweight	
Financials	● ● ● ▶ ●			<p>We increase our exposure to Financials on increased activity supported by deregulation and a positive net interest income outlook. The interest rate cuts that the Fed implemented last year, along with a steeper yield curve, can help improve credit risk and default rates going forward, especially in CRE. Moreover, we anticipate U.S. banks could generate record spread revenue this year even without meaningful loan growth, given the repricing trend in securities portfolios industry wide. Policy implementation is ultimately where the rubber will meet the road for investors, but potential changes to (or elimination of) the Consumer Financial Protection Bureau (CFPB), Fed stress testing, and "gold-plating" American banks' balance sheets with capital buffers above international standards, all have potential to enhance profitability. Capital return will likely remain the cornerstone of the investment case for most of the Financials sector. Lower interest rates should also improve credit quality (especially CRE) and facilitate workouts instead of charge-offs. Overall, the volatility of the Financials sector should improve with the recent addition of large e-payment card networks that have been stable earnings compounders historically (without taking credit risk). We also favor alternative asset managers with proven track records and billions in dry powder and that consistently draw fund inflows and maintain management fee pricing power. Alts (especially PE) have demonstrated an ability to thrive in all kinds of economic environments, including recession. Overall, valuation is attractive, and earnings-driven momentum should continue to improve when rates move lower. <b>Risk Considerations: 1) a persistently inverted yield curve, 2) interest rate volatility, 3) a deep credit cycle for CRE, 4) lost market share to non-bank lenders.</b></p>
Utilities	● ● ● ● ●	●		<p>We favor exposure to Utilities on accelerating electricity demand forecasts driven by the AI boom which looks to be a positive long-term tailwind for the sector, catalyzing growing electricity demand for the first time since the early 2000s and supporting even higher investment in power generation and transmission and distribution (T&amp;D). Utilities historically provide reliable earnings and outperform in the late cycle and during economic growth slowdowns, especially regulated utilities that provide a defensive hedge to portfolios. Given the better demand outlook from AI and data centers, we see reason to view even this historically low-volatility sector in a more constructive light. We view the need for increasing investment in electric infrastructure as structural and not dependent on any specific piece of legislation. We prefer Utilities with strong balance sheets, constructive regulatory mechanisms, and low-volatility business models. Unregulated Independent Power Producers (IPPs) are a small subsector that we currently favor given exposure to growth from rising AI and data center demand. Valuations based on forward price-earnings multiples are attractive compared to the broader S&amp;P 500 index and momentum is neutral. <b>Risk Considerations: 1) slower power demand growth than forecast, 2) greater regulatory scrutiny, 3) power outage events.</b></p>
Consumer Discretionary	● ● ● ● ●	●		<p>With a resilient consumer, a relatively solid job market, lower interest rates on the horizon and a positive economic backdrop, we are overweight Consumer Discretionary. Slightly lower energy costs, wage increases, and a still relatively healthy job market is helping to maintain solid consumer spending. Consumers remain resilient and are finding ways to alter their budgets to accommodate both experiences and necessities. Further, with inflation declining from its previous highs and interest rates also gradually moving lower, this should support consumer confidence when policy uncertainty clears. Consumer retail channels are shifting back to online spending as value-oriented consumers utilize alternative payment methods to supplement their spending and seek out bargains. More evidence of economic strength and a resilient consumer could help support relative earnings growth and relative valuation levels. Valuation for the sector is elevated with momentum neutral. <b>Risk Considerations: 1) economic slowdown, 2) spikes in energy prices or interest rates, 3) geopolitical uncertainty.</b></p>
Industrials	● ● ▶ ● ●			<p>We increase exposure to Industrials as capex budgets continue to grow, some uncertainties have been removed, 100% bonus depreciation has been enacted again and infrastructure plans are accelerating compared to recent years. Longer term there are multiple thematic drivers for Industrials over the next three to five years including improving outlooks for international defense budgets outside the U.S. Recent safety and manufacturing issues in commercial aerospace weighed on the sector but longer-term aerospace should benefit from a multi-year backlog of commercial plane orders to build and deliver. Potential improvements in the global capital expenditures cycle, including the normalization and reshoring of supply chains and manufacturing, and investment in new equipment after years of focusing on productivity, and fiscal stimulus plans could support the construction, transportation, machinery, and freight and logistics industries longer term. However, weaker import/export demand from Europe and China could be a near-term drag on earnings growth for industrial conglomerates and transport stocks. Secular growth drivers like the evolution of GAI and increased power demand support the longer-term view for electrical equipment and Industrials related to this trend. Valuation is slightly elevated, and momentum is improving. <b>Risk Considerations: 1) short-cycle recovery timing continues to be pushed back, 2) inflation resurgence drives up input costs, pressuring margins, 3) continued supply chain stress.</b></p>
Communication Services	● ● ● ● ●	●		<p>We are neutral on the Communication Services sector, as some of the largest companies in this sector provide high-quality fundamental characteristics and could be more attractive in a slow-growth economic environment. Despite our concern for ongoing regulatory oversight and the never-ending battle over content, management teams are now adjusting their business models to reduce costs and become more efficient. Ad spending is moving from e-commerce to travel and leisure, hence advertisers are having to shift their targeting. Some retailers are suffering from rising costs and slowing sales, which could drive changes in advertising spend. We are constructive on the sector based on three key factors: 1) Valuation multiples were largely derisked in 2023; 2) Earnings estimates were reduced and are moving higher for the sector leaders; and 3) More importantly, broad cost-reduction plans could create potential earnings upside. Valuations are rich for sector leaders and momentum recently improved. <b>Risk Considerations: 1) regulatory and anti-trust risks, 2) capital expenditures ramps for AI investments that limit EPS and FCF, 3) lower engagement pressuring growth.</b></p>

Sector	CIO View			Comments
	Underweight	Neutral	Overweight	
Information Technology	● ● ● ● ●	●	●	<p>The Information Technology sector is neutral on questions surrounding supply chains and AI-driven flows for mega-cap Technology stocks. However, margin risks remain for certain companies in the sector, and the potential remains for downward earnings revisions that are more likely to affect higher-beta, higher-valuation companies. Despite strong long-term Cloud and AI trends, software margins could continue to deteriorate, as Cloud consumption could potentially come under some pressure near term and is not immune to a macro slowdown. We suggest a neutral weight in IT, with a bias to larger and higher-quality companies with strong earnings growth, FCF and balance sheets. We continue to encourage investors to be careful about unprofitable, expensive, and long-duration IT companies. The pandemic accelerated the digital transitions for many industries, but, over the longer term, we remain positive on the secular growth trends for Cloud computing, machine learning and AI, data centers, software, cybersecurity, and semiconductors. Valuations in the sector declined in 2022 but are still elevated after rising again in 2023 and 2024, especially after the rally in AI-related companies. Further, any additional moves higher in interest rates could pressure multiples for high-growth and high-valuation technology stocks, especially stocks with low to no profits; therefore, look for GARP (growth at a reasonable price) in software and semiconductors. The IT sector still generates significant FCF, dividend growth and remain long-term fundamental drivers for the sector. Technology is deflationary by nature; therefore, long-term investors should look to add to transformational and industry-leading businesses on market weakness. Valuations remain elevated and momentum is declining. <b>Risk Considerations: 1) China exposure and trade wars, 2) supply chain constraints, 3) GAI monetization, 4) narrow breadth and premium valuations.</b></p>
Real Estate	● ● ● ● ●	●	●	<p>The decline in interest rates from 2023 peak levels reduces some but not all risks regarding refinancing and the cost of capital for RE projects. Recent increases in rates added pressure to the sector and remains a key risk in 2025. Expectations of additional Fed rate cuts in addition to cautious positioning and sentiment in the RE sector could lead to increased Equity portfolio exposure to the sector, especially if rates decline. However, interest rates are still elevated compared to the zero-rate policy environment; therefore, increased interest expenses could still weigh on RE sector earnings in coming quarters. We would be more selective within the RE sector and prefer neutral sector exposure. There are mixed outlooks among its subsectors because of consumer and corporate changes like remote work, e-commerce, less business travel, etc., that are potential longer-term headwinds for CRE companies (e.g., office), mall operators and retail-related property owners as companies consolidate RE footprints. Furthermore, risks are rising for downward pressure on rental rates as lease contracts expire and new contracts are negotiated. Continue to emphasize longer-term secular trends in data centers, communication infrastructure (towers), storage and industrial RE. Valuation and momentum are neutral. <b>Risk Considerations: 1) spike in interest rates and borrowing costs, 2) declining demand for CRE in over supplied markets, 3) workout problems.</b></p>
Healthcare	● ● ● ● ●	●	●	<p>Uncertainties pertaining to Healthcare policies and pricing and potential tariff impacts across Healthcare subsectors could drive rebalancing in portfolios; therefore, we are reducing exposure and stress subsector selection for healthcare exposure. We see a confluence of macro, micro and policy uncertainties that we believe reduce the probability of a sustained rally. These uncertainties could last throughout 2025, creating a lack of clarity on out-year earnings potential and, as a result, less new money entering the sector near term. Also, some of the "pro-growth" policies from the current administration increase the probability of a more "pro-cyclical" trading environment that is not an ideal backdrop for Healthcare outperformance. For 2025, we are focused on policy changes that could impact the Managed Care, Providers and Biopharma subsectors. Questions remain regarding the development of China's stimulus program and the level of biopharma funding that will materialize in 2025. Mergers &amp; Acquisitions (M&amp;A) are a recurring talking point amongst investors moving into the new year as rates declined slowly over recent quarters, but we believe M&amp;A activity may be slowed by policy concerns. As a result, in 2025, we emphasize greater exposure to high-quality companies with material catalysts. The medtech subsector is our strongest conviction, while distributors, diagnostics, vision and dental remain intriguing areas for investment. We find the large biopharma, diabetes and tools and equipment subsectors to be areas where stock selection will be most important in 2025. Looking out toward 2030, we continue to view the healthcare sector as one loaded with innovation and opportunity. Driving down costs, introducing drugs and equipment to battle previously unmet needs and indications, and the ability of AI and technology to improve operations in and out of the hospital are all opportunities that should drive greater efficiency in healthcare over the long term. Unfortunately, until we get through some of these macro and policy-related headwinds, it is difficult to forecast how quickly those innovations could make a difference to the sector. Valuation is fair and momentum recently declined. <b>Risk Considerations: 1) Adjustments to the Affordable Care Act without another plan in place and uncertainty, 2) drug pricing negotiations impact of new tax bill on drug price negotiations.</b></p>
Consumer Staples	● ● ● ● ●	●	●	<p>The directional change in our Consumer Staples sector view in January was meant to acknowledge the recent Q4 2024 underperformance versus the broader market and versus the Consumer Discretionary sector. The Consumer Staples sector encountered numerous headwinds beginning with the September 2024 Fed Policy shift, the presidential election outcome, and ongoing sluggish fundamentals. On the fundamental side, a more discerning consumer continues to seek ways to optimize their discretionary spending budgets with new behaviors like product substitution and trade down. Increased sale of private label and store brands have pressured branded consumer product profitability. In addition, some product categories are experiencing further pressure from the increased usage of weight loss drugs. Adding to the negative investor sentiment is the perceived risk from the new administration's focus on government oversight of health and wellness trends. Recently, the recommendation to put health risk labels on alcoholic beverages has added to putting further pressure on the traditional consumer packaged goods companies. Global consumer packaged goods companies are responding to the headwinds that they can control, by altering their product mix and package sizes to include more better-for-you products while sharpening their price points to remain relevant to a budget-constrained consumer. Underlying fundamentals are beginning to stabilize, and traditional Staples companies are beneficiaries of the advantageous food-at-home versus food-away-from-home budget proposition. Food-at-home is more economical and allows consumers to stretch their meal budgets. In addition, the stronger multinational consumer packaged goods companies have embarked on sizable cost savings programs that are meant to act on those things in their control. An uptick in capital spending on AI initiatives is likely to drive future cost reductions in supply chain, factory floor automation and productivity, and diversify their global sourcing options. While investor sentiment remains subdued, underlying fundamentals are showing early signs of stabilization with lower break-even profitability along with easier revenue and earnings comparisons that could provide for better-than-feared earnings results in 2025. Valuation appears to have overreacted to the increase in both actual and perceived headwinds. Valuation measures such as relative dividend yield and enterprise value/sales are near multi-year lows. Valuations are fair to undervalued, and momentum is showing modest improvement recently. <b>Risk Considerations: 1) soft demand across consumer-packaged goods, 2) consumer trade down and substitution, 3) ongoing growth in private label and store brands.</b></p>



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

**Chicago Board Options Exchange Volatility Index** is a real-time market index that represents the market's expectation of 30-day forward-looking volatility.

## Important Disclosures

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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. Bonds are subject to interest rate, inflation and credit risks. Municipal securities can be significantly affected by political changes as well as uncertainties in the municipal market related to taxation, legislative changes, or the rights of municipal security holders. 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. 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. 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. Mortgage-backed securities are subject to credit risk and the risk that the mortgages will be prepaid, so that portfolio management may be faced with replenishing the portfolio in a possibly disadvantageous interest rate environment. 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. Investments in real estate securities can be subject to fluctuations in the value of the underlying properties, the effect of economic conditions on real estate values, changes in interest rates, and risk related to renting properties, such as rental defaults. There are special risks associated with an investment in commodities, including market price fluctuations, regulatory changes, interest rate changes, credit risk, economic changes and the impact of adverse political or financial factors. Investing in Gold involves special risks, including market price fluctuations, regulatory changes, interest rate changes, credit risk, economic changes, and the impact of adverse political or financial factors.

Investments in Infrastructure Assets will be subject to risks incidental to owning and operating infrastructure projects, including risks associated with the general economic climate, geographic or market concentration, government regulations and fluctuations in interest rates. The industries targeted for investment may be highly regulated by governmental agencies. Such regulations may impact an investor's ability to acquire, dispose of and/or manage investments.

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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.

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