

Viewpoint

Missing Opportunities Part 2: From Shocks To Shock Absorbers

October 2026

All data, projections and opinions are as of October 6, 2026 and subject to change.

IN BRIEF

- A series of shocks have defined the year, including rising energy prices driven by Middle East tensions, a surge in Treasury yields to multi-decade highs, a shift from expected Federal Reserve (Fed) rate cuts to rate hikes, and what could be a forthcoming midterm election shock. To date, those shocks have been absorbed by above-average economic and corporate earnings growth that continues to support the bull market.
- The healthy equity market rebalancing seen for much of the year has reversed in recent weeks, with Mega-cap Technology stocks reasserting leadership while Financials, Industrials, and Consumer Discretionary have lagged. As Q3 earnings season approaches, the outlook remains constructive as we look for missing opportunities that could include wider participation across industry groups, themes and sectors in the months ahead.
- Elevated volatility across Fixed Income markets persisted in September as Treasury yields continued their normalization higher across the curve. With both nominal and real yields offering compelling income and a meaningful cushion against further rate increases, we continue to believe investors should take advantage of periodic market weakness to extend duration toward strategic benchmarks and capture yields that remain near the most attractive levels of the past two decades.

Throughout much of 2026, the internals of the equity markets could be described as healthy, more balanced and as having better breadth, with small capitalization shares performing well, cyclicals experiencing upward pressure and Value handily outperforming Growth. Early in this period, software stocks came under significant downward pressure over concerns that Artificial Intelligence (AI) would disintermediate most of the industry group. Then the focus shifted to additional shocks that were more macro in nature.

As the conflict in the Middle East entered another escalation phase, the price of oil and gas rose back close to 2026 highs with diesel hitting a record high. Moreover, Treasury yields backed up with the 10-year U.S. Treasury yield reaching 5.3% (as of October 6 according to Bloomberg)—a multi-decade high. Another shock this year, as highlighted in our 9/28 Capital Market Outlook Macro Strategy article—*The Five Shocks of 2026-And the Extraordinary Resilience of the U.S. Economy*—was the shift from rate cut expectations to hikes. The shift in expectations has caused additional pressure across the capital markets within the past month or so. The final potential “shock” is the forthcoming midterm elections, which could create increased volatility if concerns unfold over future policy.

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CIO ASSET CLASS VIEWS

This month the Global Wealth & Investment Management Investment Strategy Committee (GWIM ISC) did not make any tactical asset allocation adjustments. 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 leverage market weaknesses and excessive strength to rebalance tactical exposures in Q4.

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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				●	
Private Credit				●	
Real Assets				●	
Cash					

*Many products that pursue Alternative Investment strategies, specifically Private Equity, Private Credit 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.

All these concerns have contributed to adjustments within the markets. The S&P 500 was basically flat in September and did not come under the typical downside volatility that is traditionally associated with the month during midterm election years. However, taking a closer look, the healthy rebalancing that occurred for much of this year unwound with the Mega cap Technology stocks resuming their leadership once again as Financials, Industrials and Consumer Discretionary significantly underperformed. Moreover, so far year-to-date (YTD), there are only two sectors outperforming the broader S&P 500—Technology and Energy, approximately seven of the 25 GICS (Global Industry Classification Standard) industry groups are outperforming the broader index, and about half of S&P 500 stocks are down more than 15% (according to Bloomberg) from their 52-week highs. *Did we have that correction most investors expected? Did the negative shocks throw a few body blows as we head into Q4?* We believe that is the case, and now we expect the "shock absorbers" to take over in the final three months of the year. The shock absorbers, which include well-above-average economic and corporate earnings growth, record margins and solid 2027 guidance, and an exhale on bond yields, should all support the proud Bull market rally in the coming months. In addition, we expect a healthier market backdrop with many missing opportunities that include wider participation across industry groups, themes and sectors. This does not mean we believe the Technology sector becomes a drag on the overall market while the rest play catch-up. In our view, with earnings season right around the corner, we expect broader momentum to ensue including both software and hardware segments of Technology as the AI buildout moves on. We also believe Financials and Industrials are "on sale", as we expect solid fundamentals to pull through as earnings season unfolds.

On the risk side of the equation, an area worth watching closely in the coming months is the health of the credit markets given the sharp back up in yields overall. We will continue to watch Investment-grade (IG) and High Yield (HY) credit spreads plus the 5-year credit default swaps spreads market for any signs of deteriorating fundamentals.

Despite periodic volatility from negative shocks, strong earnings, a resilient consumer and economic fundamentals, and ongoing capital investment continue to support a constructive outlook for Equities. Higher bond yields provide an attractive entry point for those seeking income.

Missing Opportunities, in our view, are:	
Broader equity market participation in Q4.	Attractive yields across Fixed Income.
Weaknesses in Financials, Industrials, Emerging Markets and Small Capitalization shares are overdone.	Software and Hardware in Technology are still powering earnings growth for the broader market. The focus remains on cybersecurity and semiconductor segments.
Healthcare is becoming a primary AI adopter, creating both efficiencies and potential revenue opportunities.	Commodities and Materials are still in the early innings of a supply-led shock with upward pressure.
Low index volatility alongside elevated stock-specific volatility and macro uncertainty may present favorable conditions for certain Hedge Fund strategies for qualified investors.	

What is our outlook for the global macroeconomic environment as we approach year-end? The new U.S. administration made significant changes to the U.S. and global policy environment in 2025. Policy makers referred to it as “setting the table” for 2026. Changes included tax cuts for consumers and businesses, investment incentives, deregulation and major cuts in the Federal workforce and tighter border security. The results are largely in for 2026, and they show an accelerating U.S. and global economic environment, based on both strengthening consumer and business demand driven by a rotation away from the public sector to private sector-driven growth. The U.S.-first approach of the new geopolitics has forced more policy changes abroad, with the general effect that countries are making more proactive efforts to stimulate their domestic economies, for example, by spending more on their own defense, with the result that the pickup in growth has been global in nature. One surprising result: Instead of shrinking as predicted by those opposed of tariffs, global trade has continued to expand.

The resultant accelerating expansion is evident in the 2026 economic data. In the U.S., the manufacturing sector Institute for Supply Management Purchasing Managers' Index breached the breakeven 50 level back in January and hasn't looked back, posting nine straight monthly readings in solid growth territory. The BofA Research Global Wave¹ has been positive for eight months, with six of its seven components positive in September. Ongoing upward revisions to analysts' earnings estimates around the world are solid evidence that one of the strongest earnings uptrends on record still has legs. Naturally, as the recent upward revisions to U.S. growth have revealed, the data agencies are slow to catch up when major trend changes occur.

Against this unusually strong economic backdrop, the negativity of day-to-day noise has dominated perceptions of the economy despite the accelerating accumulation of wealth emanating from the new profits' windfall. Foremost among the bricks in the wall of worry is the Energy sector disruption caused by the U.S./Iran war. It still has the potential to pull the rug out from under the strong economic engine moving global growth forward. Nevertheless, in our view, eventually the conflict is likely to be settled, with the result that the global energy glut will reemerge and impart a strong disinflationary impulse to the world economy as well as a positive stimulus to growth. Bottom line: Stronger growth and lower inflation are likely to surface again as the new policies take shape.

Will higher interest rates undermine the otherwise constructive economic outlook?

The return of long-term bond yields to levels last seen before the 2008/2009 Global Financial Crisis (GFC) has prompted concerns that interest rates may remain higher for longer. Long-term yields tend to gravitate around the growth rate of nominal gross domestic product (GDP). In the aftermath of the GFC, nominal growth averaged just 4%, or a bit less, the lowest average growth rate for such an extended period in the U.S. since the 1930s. Thus, it was not surprising that U.S. interest rates also averaged the lowest levels in over seven decades. The U.S. economy has jumped up onto a stronger long-term nominal growth trend more consistent with the pre-GFC era, in our view. We believe the era of secular stagnation is over.

The more recent rise in long-term rates also reflects the dramatic shift in Fed policy expectations since Jackson Hole. Short-term rates have priced in too much Fed tightening in our view, and the yield curve has dramatically flattened. The likely extension of the U.S./Iran war past the midterms has raised inflation concerns from a protracted energy shock. On the other hand, a more favorable resolution for the U.S. could support lower energy prices in 2027 and reduce the need for additional Fed tightening if it ultimately materializes.

Are higher interest rates a concern for Equities, and could they slow the AI buildout?

Rising rates are not an automatic negative for Equities, in our view, though historically there are threshold levels that have mattered. BofA Global Research notes that when the 10-year U.S. Treasury yield rises above 5%, investors tend to become more agnostic between stocks and bonds; above 6%, bond/stock correlations have turned negative; and above 7%, equity valuations compress. However, the reason rates are rising may matter more than the level itself.

We believe rates are moving higher to reflect a different economic environment than what investors became accustomed to in the post-GFC era. Today's backdrop is characterized by stronger economic growth, a higher resting inflation level and a higher neutral Fed policy rate compared to the zero-rate world that prevailed for much of the last decade. While higher rates can create volatility, we believe stronger nominal growth remains supportive of corporate profits and, in turn, stocks. The key risk is a larger gap up in rates where tighter financial conditions could begin to undermine growth and earnings.

The same framework applies to the AI buildout. We continue to believe we are only in the early- to middle-stages of the multi-year AI investment cycle. Significant investment is still needed across computing infrastructure, semiconductors, data centers, power generation and other areas supporting broader AI adoption, as demand for many of these resources continues to outpace supply. While higher borrowing costs warrant close monitoring, we do not believe they have become restrictive enough to materially disrupt the buildout at this stage, particularly given the financial strength, strong balance sheets and cash-flow generation of

¹ BofA Global Research Global Wave is an indicator that quantifies global economic trends, and it is used to forecast stock market performance.

many of the AI leaders. That said, debt issuance levels, credit spreads, and broader financing conditions remain on our watch list. As the buildout progresses, attention will increasingly turn to whether AI investments translate into productivity gains, earnings growth, and attractive returns on invested capital. Ultimately, some of these hurdles and delays could create speed bumps, but an extended timeline on the AI buildout is not the same as a broken thesis longer term, in our view.

What is our outlook for Equities through year-end, and where could investors look for potential opportunities? From a seasonality perspective, historical trends suggest a positive setup for the remainder of the year. Q4 tends to be the strongest for U.S. Equities. Moreover, over the last eight decades, when the S&P 500 has been up more than 10% through the first three quarters, the index finished the year higher 89% of the time, with an average Q4 total return of roughly 5%. The fading of political uncertainty following midterm elections adds another potential tailwind. In fact, in the post-war era, the S&P 500 delivered positive total returns after midterm elections 100% of the time over both the six and 12 months that followed, averaging 15% and 18% respectively.²

More importantly, fundamentals remain supportive. Economic growth continues to be backed by strong consumer spending and robust business investment, supporting a positive earnings backdrop heading into 2027. While we could see earnings growth moderate from the outsized +20% year-over-year (YoY) gains expected in each quarter of 2026, we expect corporate profits to continue to expand at a healthy, above-average pace, driven by the AI buildout, manufacturing strength, productivity gains and continued economic resilience. That keeps us constructive on our Equity overweight and buyers on weakness. We continue to look for potential missing opportunities and believe investors should remain diversified across and within asset classes in a multi-asset portfolio. In particular, we continue to favor broadening exposure beyond AI leaders and toward areas where earnings, capital spending and productivity trends are improving, including opportunities in areas such as Value, Small- and Mid-caps and select non-U.S. markets, particularly Emerging Markets (EM) and Japan. As market leadership continues to broaden, maintaining a diversified portfolio and periodically rebalancing exposures may help investors participate in a wider set of return opportunities.

What are our investable themes to consider? The most investable themes over the next decade are likely to emerge from areas benefiting from sustained capital spending, structural demand, and secular tailwinds capable of delivering positive surprises to growth and earnings.

AI remains an important catalyst across many of these opportunities. Agentic AI, robotics and automation have the potential to drive a meaningful productivity boom while increasing demand for semiconductors, software, cloud infrastructure and secure data systems. Rising power demand from data centers, industrial reshoring and electrification are creating potential investment opportunities across energy production, transmission, and grid modernization.

Cybersecurity is a clear long-term investment theme as economies become increasingly digitized. An increasing need to protect data, networks, critical infrastructure, and AI systems is ballooning alongside cloud adoption. Rising geopolitical tensions, cyber warfare and AI-enabled risks should support sustained spending on security software, cloud protection, digital identity and infrastructure resilience across virtually every sector/industry.

Geopolitical competition and global rearmament also reinforce the case for commodities and critical minerals. Copper, uranium, rare earths, lithium and other strategic resources are essential inputs for semiconductors, electrification, energy storage, defense systems and advanced manufacturing. Years of underinvestment combined with growing demand from AI infrastructure, energy security initiatives and defense spending, create a favorable backdrop for the sector.

Finally, biotechnology is poised for a renaissance globally. AI-enabled drug discovery, genomic medicine, diagnostics, and lab automation are accelerating innovation while improving research productivity. Biotechnology is also getting a lift from demographics/aging populations, rising healthcare demand, and expanding access to advanced therapies, creating a favorable backdrop for the medium to longer term.

² Source: Bloomberg. Data range from 1946-2025.

All these areas are engines of innovation, growth and earnings that can help drive the market narrative and/or momentum.

What is the yield curve telling us? Despite the significant move higher in yields, the short answer is that the market trusts the Fed—for now. The shape of the Treasury curve is arguably one of the most informative signals for Fixed Income investors—providing insight into growth, inflation and future expected monetary policy. While the speed and magnitude of repricing in the Treasury curve have been notable, we do not see any major warning signals from the yield curve, yet.

In fact, we would argue that curve shape dynamics reflect investor confidence that Chair Warsh and the Federal Open Market Committee (FOMC) will maintain restrictive policy until inflation is more firmly on a path toward the Fed's 2% target. Said another way, the market doesn't believe that the Fed is willing to let inflationary pressures build or is behind the curve. Fed funds futures are pricing in just over three hikes through the end of next year, with an implied terminal rate around 4.75%. Elevated front-end yields, with the two-year Treasury just under 5%, are consistent with this view.

Looking out to the longer end, the message is the same—while inflation remains above target, 10- and 30-year Treasury yields do not reflect expectations that inflation has become unanchored. First and foremost, elevated interest rates are reinforced by the very robust macro/growth backdrop with 6% to 7% nominal GDP. While inflation is above target, it should slowly move in the right direction and Treasury Inflation-Protected Securities (TIPS) breakevens suggest to us that the market is not concerned about longer term inflation.

So while the peak may not be in for Treasury yields, we continue to believe that both real and nominal yields are becoming more competitive relative to other income vehicles. That being said, we continue to watch closely how the curve is being influenced by fiscal pressures, Treasury supply, term premiums, and capital competition with other high-quality Fixed Income alternatives.

Why have munis cheapened and why does it matter? September proved to be a perfect storm for Fixed Income investors, with few places to hide as yields repriced sharply higher and total returns came under broad pressure. Municipals were among the hardest hit, underperforming duration-matched Treasuries by a wide margin. The ICE BofA Municipal Index returned -4.0% for the month, trailing its taxable Broad Market counterpart by nearly 150 basis points (bps).

Technical pressure drove most of the underperformance and not concerns regarding fundamentals. Tax-loss selling, elevated issuance and modest retail fund outflows combined to outweigh demand. A drawdown of this size isn't unprecedented for the asset class, but it has pushed valuations to compelling levels, particularly for tax-sensitive investors. Taxable-equivalent yields on AAA-rated munis now sit in the 7% to 9% range across 10- to 30-year maturities. That's a pickup of roughly 70 bps to more than 200 bps over comparable Treasuries. We believe current yield levels could attract renewed investor interest, particularly among buyers seeking higher after-tax income.

That said, near-term headwinds may persist. The fourth quarter is seasonally weak for munis, so further underperformance is possible before the stronger seasonal pattern of December and early next year sets in.

What has been working in Alternative Investments (Alts) for qualified investors, and what do we expect to continue performing well next year? Several areas within Alts have delivered solid results despite persistent factor volatility and market uncertainty. Hedge Strategies (HS) have generated positive alpha³ and attractive gains across both Equity Hedge and Macro, with technology and the evolving AI theme creating a substantial, though at times, volatile, opportunity set. Wide performance dispersion among individual stocks continues to provide skilled Equity long/short managers with potential opportunities across both long and short portfolios. Within Macro, trend-following managed futures strategies have produced

³ Alpha is a measure of an investment's performance that indicates its ability to generate returns in excess of its benchmark.

strong results by capitalizing on significant moves across sovereign Fixed Income and Commodities, providing meaningful diversification within multi-asset portfolios. In private markets, Venture Capital (VC) has performed strongly and driven significant transaction activity and remains a key channel for accessing AI-driven innovation beyond public markets, particularly at earlier stages of company formation and disruption. We expect these potential opportunity sets to remain relevant into next year, although selectivity and diversification will be critical. Within VC, investors should diversify across stages, managers and vintage years given the growing concentration of capital among a relatively small group of AI-focused companies.

CIO INVESTMENT DASHBOARD AS OF OCTOBER 6, 2026

While we could see some market choppiness in the months ahead, particularly as midterm elections come into great focus, we believe the Bull market remains supported by a resilient economy, broadening earnings growth and strong business investment. We continue to see the potential for a more durable expansion powered by accelerating productivity, infrastructure investment, energy transformation, and global shifts in defense and technology. Long-term investors should remain fully invested and consider episodic weakness as a potential buying opportunity.

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

Earnings		Our U.S. Equity overweight remains supported by a strong earnings outlook. Earnings estimates for the S&P 500 have recently moved higher following a strong reporting season, with the index on track for double-digit earnings growth in 2026 and 2027. The BofA Global Earnings Revision Ratio moderated to 1.03 in September though upgrades outnumbered downgrades in developed markets.
Valuations		U.S. equity market valuations remain elevated relative to long-term averages but have compressed from premium levels a year ago led by strong Q2 earnings growth. Relative discounts exist in areas like Value, Small-caps and EM.
U.S. Macro		The U.S. economy remains resilient. Business investment continues to be robust, led by an AI investment boom that should continue to be a substantial tailwind for growth as supply constraints across key inputs underscore the durability of underlying demand. AI investment is generating positive second-order effects across the economy, supporting manufacturing activity, construction employment and consumer spending through positive wealth effects. The labor market remains stable in a low-hire, low-fire environment. BofA Global Research expects U.S. real GDP of 2.2% in 2026 and 2027.
Global Growth		The AI investment boom continues to extend beyond the U.S., benefiting key countries integrated into the global technology value chain. These positive spillover effects are helping support global growth even as geopolitical tensions and supply disruptions create periodic headwinds. BofA Global Research expects global real GDP growth of 3.3% in 2026 and 3.4% in 2027. Europe's growth outlook remains subdued, weighed down by structural headwinds, elevated energy prices and tighter financing conditions. EM Asia ex-China should continue to benefit from robust demand for technology goods and AI-related investment. China remains challenged by slowing domestic demand and limited policy support, though export growth strength still underpins BofA Global Research's growth forecast of 4.5% in 2026 and 4.2% in 2027.
U.S. Monetary Policy / Inflation		The Federal Reserve raised its fed funds rate target range to 3.75%-4.00% in September. Recent data suggests the labor market remains balanced, while inflation continues to run above the Fed's 2% target. Price pressures however could moderate if the U.S. and Iran reach a diplomatic agreement and energy prices move lower. BofA Global Research expects two additional 25 bps hikes by year-end, followed by an extended pause through 2027. Given the economy's continued resilience, it may be able to absorb some tightening, leaving the Equity outlook still supportive.
Fiscal Policy		Fiscal policy remains supportive of corporate earnings and business investment, with tax incentives encouraging capital spending, and tariff refunds providing additional support for companies. While elevated defense spending and rising interest costs keep U.S. government debt levels in focus, healthy consumer and corporate balance sheets alongside resilient nominal growth should help keep debt manageable for now.
Corporate Credit		IG and HY credit spreads have widened modestly but overall remain near multidecade tight, reflecting continued economic resilience and healthy corporate fundamentals. While elevated issuance could create near-term technical pressure on spreads, credit conditions remain supportive of earnings and the broader Equity market backdrop. We maintain a neutral stance across sectors in low-tax all-Fixed Income portfolios.
Yield Curve		The yield curve remains positively sloped, though Treasury yields have repriced higher as markets contend with strong growth and rising debt-funding needs. While higher rates and tighter financial conditions warrant monitoring, the economy and corporate sector have remained resilient, helping support Equities despite the rise in yields. We believe the key risk is when borrowing costs begin to undermine growth and earnings, which does not appear to be the case so far. Nominal and real yields remain attractive from an income perspective.

Technical Indicators



Technical indicators weakened in September as the percent of S&P 500 stocks above their 200-day moving average fell sharply to 43%, while all sectors experienced a similar decline. Breadth indicators narrowed, with the S&P 500 Equal Weighted Index, Russell 2000 Index, and international indexes underperforming the S&P 500. With market performance largely driven at the index level, it reinforces the importance of diversification and maintaining a balanced portfolio.

Investor Sentiment



Sentiment indicators remain mixed. The latest American Association of Individual Investors (AAII) reading showed bears outnumbered bulls in the last four weeks, where bear readings held in buy signal territory. Meanwhile, BofA metrics remain in sell signal territory as the BofA Bull & Bear Indicator fell to 8.8 on wider spreads and narrowing breadth, and the BofA Global Fund Manager Survey cash levels rose to 3.9%.

Source: Chief Investment Office. Gradient slides go from positive green, yellow neutral and negative red factors to ISC views.

EQUITIES

We are overweight Equities. While crosscurrents in the economic landscape remain, positive global growth, stronger-than-expected earnings and increased innovation remain supportive for global Equities. We maintain an Equity overweight relative to our strategic targets.

We are overweight U.S. Equities. The U.S. remains our preferred Equity region, as it remains among the strongest and most innovative economies in the world and earnings growth continues to beat even the most bullish estimates. The S&P 500 marked its seventh consecutive quarter of double-digit YoY earnings-per-share (EPS) growth in Q2. Earnings strength continues to broaden, with all 11 S&P 500 sectors expected to see earnings growth accelerate for the full year 2026, according to FactSet. Index-level valuations have repriced from their premium levels a year ago, reflecting robust earnings estimate upgrades rather than multiple contraction.

Diversification across and within Equities has already proven to be valuable this year as new pockets of market leadership have emerged. Large-caps continue to exhibit strong fundamentals, strong earnings growth, and the ability to generate substantial free cash flow (FCF). The recent move higher in interest rates consolidated some Small-caps' YTD gains, but Small-caps are still well positioned for growth. Small- and Mid-caps are benefiting from a more constructive earnings outlook, an uptick in domestic manufacturing and increased capital markets activity. We emphasize the importance of incorporating both Large- and Small-caps into strategic portfolios.

We believe secular tailwinds related to innovation will continue to support Growth over the long term. However, we continue to emphasize the importance of avoiding overexposure to any one area of the market. Value-oriented Equities continue to trade at a relative valuation discount and may offer attractive defensive characteristics against a backdrop of elevated uncertainty. We maintain a barbell approach between Large-cap Value and Growth in portfolios as market dynamics evolve.

From a sector perspective, we continue to propose diversification across Equity sectors given elevated volatility and uncertainty. As market leadership broadens, we are overweight Industrials, Financials and Healthcare. Industrials are overweight as capex budgets continue to grow, 100% bonus depreciation has been enacted again, strong order backlogs and AI-oriented infrastructure plans will be in development for the next couple of years. The overall outlook for Financials remains positive, especially for banks with tailwinds from deregulation, loan growth, net interest income (NII) growth, capital markets activity and reasonable valuations.

We are neutral Information Technology (IT), Energy, Consumer Discretionary and Materials. IT has positive longer-term thematic exposure, but there are near-term concerns on capex funding. The outlook for the Energy sector is more muted given ongoing uncertainty about the Middle East conflict, which has now entered its eighth month. We are neutral Materials on improved pricing and demand for commodities in general. We have underweight exposure to Utilities, Communication Services, Real Estate (RE) and Consumer Staples on weaker growth expectations in those sectors. Utilities provide the potential for multi-year earnings growth and are fairly valued but face local pressures and rising interest rates.

EQUITY WATCH LIST

- Monetary policy outlook and shifting expectations for interest rates
- Trajectory of Middle East conflict
- Impact of oil prices on inflation and the consumer
- The outlook for AI investment and competition
- Progression of global earnings estimates
- Evolving dynamics within Private Credit

RISK CONSIDERATIONS

- Protracted conflict in the Middle East and higher-for-longer oil prices posing a risk to earnings, inflation and capital expenditures (capex)
- Escalation in AI concerns due to an earnings miss, supply shock or tighter credit conditions
- Potential for a pullback in high-income consumer spending
- Sharper moves higher in U.S. interest rates. Global fiscal concerns, as well as sticky inflation and its potential impact on Fed policy ahead
- Geopolitical uncertainty and heightened global protectionism measures

We are slightly overweight Emerging Market Equities. We continue to view the Asia-Pacific as a major beneficiary of expected growth in IT-related capital spending and expanding AI adoption, with the region remaining heavily tilted toward IT hardware in Korea and Taiwan, in addition to more diversified exposure in China. Strong balance of payments positions also leave the region more resilient to external shocks. Latin America remains exposed to longer-term growth expected in demand for key materials used in technology and clean energy investment, while smaller markets in Central and Eastern Europe should benefit from increased European Union (EU) fiscal outlays, including higher defense and infrastructure spending. 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, and convergence with developed economies should support GDP growth and corporate earnings over the longer term. We favor active⁴ management when investing in EM, as fundamentals differ across countries based on fiscal capacity, credit quality, corporate governance and other factors.

We are slightly underweight International Developed Equities. European markets remain among the least exposed globally to technology-related market segments and are therefore likely to experience limited gains on a relative basis from growth in AI spending. Manufacturing-led EU economies also remain at risk from growing competition from China in key industries such as auto manufacturing and volatility in industrial energy costs, but should benefit from higher fiscal outlays in defense and infrastructure. Corporate sector reforms remain a fundamental tailwind for Japan, with additional support from fiscal expansion and ongoing exchange rate competitiveness despite official currency market intervention. While we are less constructive on International Developed Equities, we believe long-term investors should maintain some strategic exposure, 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 for Mega-cap Technology stocks.

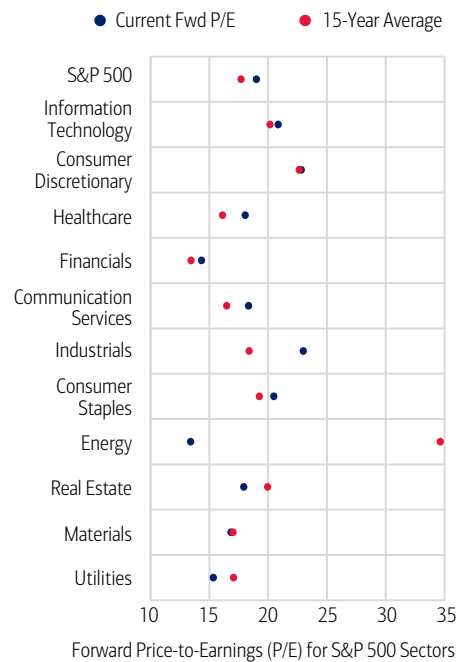
FIXED INCOME

We remain slightly underweight Fixed Income within multi-asset class portfolios, primarily reflecting the need to fund an overweight in Equities. Within all-Fixed Income portfolios with low tax sensitivity, we are positioned neutral across sectors, supported by a constructive economic backdrop, historically tight credit spreads, but compelling all-in yields, which have risen during much of the summer. In high tax-sensitivity-Fixed Income-only portfolios, we favor IG and HY tax-exempt over IG taxable, particularly as Municipal valuations have retraced from the extremely rich levels observed earlier in the year. We believe the current relative-value case for Municipals is very compelling given attractive taxable-equivalent yields versus taxable IG and HY.

Elevated volatility across Fixed Income markets persisted in September as Treasury yields continued their normalization higher across the curve. Economic data released following the Jackson Hole Symposium largely validated the case for tighter monetary policy. Labor markets remained resilient, economic activity continued to expand at a healthy pace with 6% to 7% nominal GDP growth, capital spending stayed robust, and inflation made only modest progress while remaining well above the Fed's 2% target. Against this backdrop, it was not surprising to see rises in both market expectations for additional rate hikes and Treasury yields.

Chair Warsh delivered a widely anticipated rate hike during the month, reinforcing the Fed's commitment to restoring price stability and helping anchor longer-term inflation expectations. Notably, while Treasury yields have risen materially this year, long-term inflation expectations have remained remarkably well contained. Ten-year TIPS breakeven inflation rates have changed little, while 10-year real yields have risen nearly 70 bps to approximately 2.9%, approaching multidecade highs. In other words, the rise in yields is being driven less by concerns about runaway inflation and more by stronger growth

Sector Valuations



Source: Bloomberg as of October 6, 2026. Please refer to index definitions at the end of this report. It is not possible to invest directly in an index.

FIXED INCOME WATCH LIST

- Path of 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 geopolitical 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

⁴ Active management is an investment strategy where a professional manager, team, or individual makes hands-on decisions to buy, hold, and sell assets with the goal of outperforming a market benchmark.

expectations, higher real interest rates, persistent fiscal deficits and Treasury supply, and an increase in the term premium investors demand to hold longer-duration assets.

While risks remain that rates and volatility could move higher in the near term, we believe current yield levels are increasingly attractive. Both nominal and real yields offer compelling income and a meaningful cushion against further rate increases. As a result, we continue to believe investors should take advantage of periodic market weakness to extend duration toward strategic benchmarks and capture yields that remain near the most attractive levels of the past two decades.

In multi-asset class portfolios, we are slightly underweight U.S. Corporates and High Yield, in favor of Equities. We remain slightly underweight IG and HY credit, reflecting historically tight spreads and a less compelling risk-reward profile relative to duration-matched Treasuries. The spread weakness we anticipated entering September largely materialized, as credit underperformed amid higher Treasury yields, elevated rate volatility and a heavy new issue calendar.

While spreads have moved modestly off their lows, valuations remain historically rich and continue to reflect resilient economic growth and healthy corporate fundamentals. We remain focused on releveraging trends within Technology and the hyperscalers, where increasing capital spending needs and future debt issuance could continue to pressure spreads.

Although fund flows have softened somewhat, we believe demand for high-quality Fixed Income should remain supported by attractive all-in yields. With yields on IG and HY markets near multi-year highs—approximately 6% and 8%, respectively—the return outlook remains favorable given the strong historical relationship between starting yields and forward returns.

Key risks we continue to monitor include geopolitical tensions, persistent interest-rate volatility and a meaningful pickup in corporate issuance next year that could drive further spread widening and a repricing of credit risk premiums.

In multi-asset class portfolios, we remain slightly underweight U.S. Investment-grade Tax Exempt and U.S. High Yield Tax Exempt. For highly tax-sensitive investors, we continue to see compelling value in IG municipal bonds. The Bloomberg Municipal Bond Index currently yields approximately 4.9%, or roughly 8.3% on a taxable-equivalent basis for investors in the highest federal tax bracket. This compares favorably with many taxable Fixed Income alternatives, including HY corporates, while offering materially lower credit risk. Recent rate volatility has pushed muni yields higher across the curve, improving valuations and creating more attractive entry points, particularly in longer maturities.

September's weakness was driven largely by technical rather than fundamental factors, as rising Treasury yields, elevated issuance, and tax-loss selling pressured performance. While seasonal reinvestment demand is expected to moderate and supply remains elevated through the fall, municipal credit fundamentals remain broadly healthy. Credit spreads continue to trade near year-to-date tights, supported by strong balance sheets, positive ratings momentum and stable tax revenues.

We do expect greater dispersion across sectors as the effects of reduced federal funding and rising operating costs become more evident. As a result, we continue to favor select mid-to-lower IG potential opportunities, particularly within healthcare, higher education, and prepaid energy, where investors can earn incremental spread without materially increasing credit risk. In a more differentiated market environment, disciplined credit selection remains critical.

In multi-asset class portfolios, we remain slightly underweight U.S. Mortgage-backed Securities, in favor of Equities. After reaching multiyear tights in January, driven in part by expectations for incremental demand from government-sponsored enterprises (GSEs), Agency Mortgage-backed Securities (MBS) spreads have widened meaningfully and now trade in the low-40 basis point range. More recently, spread widening accelerated alongside a sharp rise in Treasury yields, increased expectations of Fed tightening, and elevated uncertainty surrounding inflation. These developments pushed interest rate volatility back toward levels last observed during the March geopolitical shock and subsequently weighed on MBS

performance. While spreads now sit modestly above their 10-year historical average, current valuations offer more compelling risk-reward relative to other high-quality Fixed Income sectors, including investment-grade corporates.

Despite the improvement in valuations, we continue to monitor key risks to the MBS sector. The demand landscape for Agency MBS continues to evolve, with domestic banks and GSEs providing limited sponsorship relative to historical norms. We are also monitoring potential housing-related legislation ahead of midterm elections, adjustments to the pace of GSE MBS purchases, and broader Fixed Income fund flow trends.

ALTERNATIVE INVESTMENTS

CIO's Key Alternative Investment Principles

With their diverse strategies and historical progress, Alternative Investments (Alts) can potentially enhance portfolio resilience and long-term performance for qualified investors. However, unlike traditional assets, allocating to Alts is a long-term process constrained by liquidity. They should be viewed primarily as strategic holdings, with tactical opportunities playing only a secondary, incremental role for new investment.

- **Think long-term:** Illiquidity demands a multi-year horizon.
- **Invest consistently—even in downturns:** Pulling back during volatility can erode benefits and lead to underallocation.
- **Diversify:** Spread across strategies, managers and vintages.
- **Choose high-conviction managers:** Performance varies widely; manager selection matters.

Hedge Strategies: September closed with another mixed month characterized by shifting market dynamics and sharp factors and thematic rotations. Early estimates suggest that fundamentally oriented Equity Hedge (EH) strategies declined modestly, as beta losses were partly offset by positive alpha. While U.S.- and Europe-focused managers generally faced a more challenging backdrop, Asia-focused strategies advanced, building on strong YTD performance. Technology-oriented EH managers generated some of the strongest gains, while systematic equity strategies once again demonstrated resilience amid a difficult factor environment. Performance within Macro strategies was more dispersed. Discretionary Macro managers generally faced headwinds from sovereign Fixed Income markets in the U.S. and Europe, including the unwinding of certain relative value positions held by Macro and multi-manager platforms. Managed futures strategies, by contrast, extended their strong performance in September, lifting YTD gains above the mid-teens. Overall, the month reinforced the benefits of diversification across HS, as differences in geography, investment approach, and return drivers continued to produce meaningfully varied outcomes.

Private Equity: Coming into the year, there was an expectation that lower rates would support larger transactions and a more favorable financing environment. Instead, inflation and interest-rate expectations have shifted higher, leaving sponsors more selective and approaching larger platform investments with deliberate caution. Liquidity remains the defining challenge across private markets. Distribution activity remains below historical levels, and the growing inventory of mature portfolio companies continues to pressure fundraising and Limited Partner liquidity budgets. As a result, secondary transactions, continuation vehicles, and other General Partner-led solutions are taking on a larger role within the market. Importantly, the issue is generally not portfolio company performance. Underlying operating fundamentals have held up reasonably well, with many managers reporting stable earnings growth and continued operational progress. The challenge is less about asset quality and more about assets' fundamentals supporting entry assumptions and finding attractive paths to liquidity in a still-constrained exit environment. We expect performance dispersion at both the asset and fund level to expand, highlighting the importance of prudent manager selection.

HEDGE STRATEGIES

EH will likely benefit from decent equity dispersion, driving alpha generation. Micro-dominated markets should be better for stock selection. Hedged approach is appealing given high uncertainty.

Macro is appealing for low correlations to Equities/Fixed Income in uncertain policy environment.

+ Equity Hedge
Event Driven
Relative Value
+ Macro

PRIVATE EQUITY

VC/Growth Equity expected to benefit if AI theme proves durable. Early-stage capital also tied to trend of companies staying private for longer and incubating next gen tech disruptors.

BO expected to benefit from lower rates, though conflict-driven higher rates could dampen dealmaking opportunity set.

Buyout
+ Venture Capital/ Growth Equity
Special Situations

+ symbol indicates the strategies CIO views as having the most favorable opportunity set for new investment within the Alts asset classes.

Venture capital (VC) remains highly concentrated. Capital raising, investment activity, and liquidity continue to be driven by a relatively small group of AI-related companies and established managers, while much of the broader ecosystem remains subdued. In this environment, access to top-tier managers and disciplined portfolio construction remain critical differentiators.

Private Credit: Redemption pressures remained elevated in Q2 for some PC strategies; however, 2026 flows have shown continued institutional commitment. PC spreads have widened modestly since the start of the year against the backdrop of spread widening in the public credit markets and lower DL volumes. While PC markets have largely moved beyond the peak dislocation concerns that emerged earlier in 2026, focus remains on how debt capital markets address the remaining volume of software transactions originated during the 2020 to 2022 period. Debt markets have historically evolved to accommodate refinancing needs, particularly against a backdrop of healthy economic growth and private markets sponsor-borrower relationships remain an important factor in facilitating debt refinancings. To date, successful refinancings have been concentrated in infrastructure software and vertical application software businesses, segments generally viewed as having lower susceptibility to AI-driven disruption. These subsectors have also experienced a Q2 and Q3 rebound in public loan prices, a rebound that highlights the credit differentiation within the software space with businesses that function as systems of record, control proprietary data, operate in regulated end markets, or support complex workflows best positioned and best performing. Thus far, private software companies have continued to demonstrate operating performance generally in line with broader portfolios and software currently ranks as one of the lowest-defaulting sectors in PC. While AI may drive disruption in the years ahead, the impact will not be uniform across software businesses and the disruption will not be confined to direct lending, nor will it be confined to software.

Real Assets: Private Real Estate (PRE) has taken a shift in stride with demand remaining robust while supply has dropped off significantly across all major property sectors. The NCREIF Open End Diversified Core Equity (ODCE) Index has now posted eight consecutive quarters of positive returns, with Q2 2026 returns being the strongest since 2022 (up 2.7% YTD).⁵ U.S. Commercial Real Estate (CRE) transaction volumes improved significantly while lending conditions have also become more favorable towards real estate. Improving price discovery, stabilizing cap-rates and recovering transaction volumes suggest a gradual normalization in PRE markets, though momentum remains sensitive to interest rate developments. Net operating income growth will be the primary driver of returns in the next cycle in the absence of cap-rate compression. We are returning to an environment where fundamentals matter most, and property selection will be a key driver of returns. Commercial property values have already undergone a significant multiyear adjustment, and market expectations do not currently imply a rapid or disorderly rise in rates.

Infrastructure remains relatively stable heading into the second half of 2026 despite ongoing geopolitical tensions, energy price volatility and higher interest rates. Infrastructure continues to benefit from steady demand and long-term investment needs in essential areas like energy, transport and digital services. Infrastructure posted solid gains of 1.2% in Q1, bringing one-year internal rate of returns (IRRs) to approximately 8.9%⁶ and extending the asset class's track record of high-single- to low-double-digit returns across both tightening and easing policy cycles. Long-term potential opportunities remain strong, especially in Europe, driven by the need for cleaner energy and digital infrastructure. Capital has historically concentrated on energy assets but has increasingly started to gravitate toward scalable, contracted power solutions. At the sector level, renewables, power and transmission strategies expanded significantly, while data centers remain highly sought after given the rapid adoption of AI across industries. The U.S. is entering a power capacity expansion, driven mostly by data centers, electric vehicles and broader electrification. Geopolitical conflicts have introduced some near-

PRIVATE CREDIT

Neutral across PC. DL to see declining returns with lower rates and climbing credit losses. Primary focus on software exposure; geopolitical volatility could weigh further. Potential positive: More PE deals should increase DL deployment opportunities, potentially with wider spreads.

Direct Lending
Subordinated Capital
Asset Based/Specialty Finance

REAL ASSETS

Infrastructure tied to global trends of energy demand and digitization, with inflation-hedge characteristics. PRE should continue to stabilize with outlook improving; higher rates could slow recovery.

Private Real Estate
+ Infrastructure
+ symbol indicates the strategies CIO views as having the most favorable opportunity set for new investment within the Alts asset classes.

⁵ NCREIF ODCE Index Returns, Q2 2026.
⁶ Cambridge Associates, LSEG. As of July 1, 2026.

term volatility across key infrastructure sectors, but structural tailwinds remain firmly intact. Renewable energy, power infrastructure, digital assets, and select transportation and utility-related investments continue to attract capital, supported by long-term secular demand trends. Balancing near-term risks with longer-term growth fundamentals should result in resilient returns. Infrastructure remains well positioned given its combination of income generation, inflation protection and exposure to long-term secular growth trends.

As for tangible assets, despite oil price volatility global growth remains solid with rising corporate profits evident around the world. The global economic expansion led by the U.S. is positive for commodity prices and is confirmed by the relative strength in industrial metals prices like copper compared to precious metals prices like gold. Precious metals have undergone a sharp correction from their bubble peaks, and a long period of consolidation would not be surprising before their secular uptrend reasserts itself in a world of persistent positive inflation. The dollar is overvalued compared to major Asian currencies like the Japan yen and the China renminbi. A reversion toward fair value is just a matter of time in our view. An end to hostilities in the Middle East would provide a major additional positive boost to global growth and a likely collapse in oil prices from current levels.

MACRO STRATEGY

- U.S. growth continues paced by strong investment and solid consumer spending supported by low unemployment, positive wealth effects, and income growth. GDP data show an acceleration in domestic private sector final demand to about a 4% real growth pace. The Atlanta Fed's GDPNOW estimate for Q3 GDP growth is tracking over 3%.
- Inflation has likely peaked as wage pressures are slight, productivity gains are suppressing unit labor costs, and housing prices and rents are coming down from overheated extremes since immigration has slowed. Long-term inflation expectations are at levels consistent with the Fed's 2% inflation target.
- Corporate profit growth has broadened out around the world as the global expansion matures. Profit margins are rising with the increasing share of economic activity concentrated in high margin technology companies. The profit cycle is also broadening in other areas, helped by new tax and regulatory policies.

ECONOMIC FORECASTS (AS OF 10/2/2026)

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

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 October 6, 2026. 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.

S&P 500 SCENARIOS BASED ON FORWARD PRICE-TO-EARNINGS (P/E) RATIO AND 2026 (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 2026 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.

2026 EPS	EPS Forward P/E (Next 12 months)				
	19.0x	20.0x	21.0x	22.0x	23.0x
\$395	7,505	7,900	8,295	8,690	9,085
\$385	7,315	7,700	8,085	8,470	8,855
\$375	7,125	7,500	7,875	8,250	8,625
\$365	6,935	7,300	7,665	8,030	8,395
\$355	6,745	7,100	7,455	7,810	8,165
\$345	6,555	6,900	7,245	7,590	7,935
\$335	6,365	6,700	7,035	7,370	7,705

For illustrative purposes only. Source: Chief Investment Office as of October 6, 2026.

CIO ASSET CLASS VIEWS AS OF OCTOBER 6, 2026

Asset Class	Underweight		CIO View Neutral	Overweight		
Global Equities	•	•	•	●	•	We are overweight Equities and continue to view weakness as a potential buying opportunity for long-term investors. We are overweight the U.S., overweight EM, and underweight International Developed.
U.S. Large-cap Growth	•	•	•	●	•	Large-caps continue to look attractive on solid fundamentals, strong FCF and the ability to produce healthy shareholder payouts. We maintain an equal balance between Large-cap Value and Large-cap Growth in portfolios.
U.S. Large-cap Value	•	•	•	●	•	
U.S. Small-cap Growth	•	•	•	●	•	
U.S. Small-cap Value	•	•	•	●	•	Small-caps are supported by improved earnings, potential deregulation, increased domestic manufacturing and an uptick in merger & acquisitions activity. We continue to suggest a balance of Value and Growth factors.
International Developed	•	●	•	•	•	Europe is likely to see limited relative gains from expansion in AI given lack of market exposure, but local defense and infrastructure spending remain supportive. Japan should benefit from domestic structural reforms, fiscal expansion and a competitive exchange rate.
Emerging Markets	•	•	•	●	•	We are slightly overweight EM overall, with the heavyweight Asia region particularly well positioned to benefit from exposure to global IT investment spending and AI adoption. Latin America is exposed to growth in key materials used in technology and clean energy investment.
International						
North America	•	•	•	●	•	The U.S. remains our preferred region relative to the rest of the world amid balance sheet strength, better fundamentals for consumer spending and healthy shareholder payouts.
Eurozone	•	•	●	•	•	Expansionary fiscal policy combined with attractive relative valuations are potential market tailwinds. Exposure to growth in AI spending is limited, while risks remain from volatility in energy prices and growing competition with China in key industries.
U.K.	•	●	•	•	•	Fiscal uncertainty under current government policy agenda represents a potential headwind for the corporate sector. Limited market exposure to growth in AI spending.
Japan	•	•	•	●	•	Shareholder-friendly deployment of corporate cash remains a fundamental source of support. Large fiscal expansion is an additional tailwind alongside low interest rates and ongoing exchange rate competitiveness.
Asia Pac ex-Japan*	•	●	•	•	•	Regional outlook dampened by slower economic growth in China and its impact on domestic demand and regional exports.
Global Fixed Income	•	●	•	•	•	Yields are attractive, providing good diversification for multi-asset class portfolios and reasonable income. Neutral duration recommended.
U.S. Governments	•	●	•	•	•	Nominal and real yields remain attractive across the curve relative to the last several decades. 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.
U.S. Mortgages	•	●	•	•	•	After reaching a multiyear low in January, the tightest level since 2022, MBS spreads have widened meaningfully throughout the year driven by an aggressive rate sell-off, shifting Fed expectations, and rising interest rate volatility. Spreads are now in the low-40s, modestly above their 10-year historical average, improving their relative attractiveness to Treasuries and IG corporate bonds.
U.S. Corporates	•	●	•	•	•	IG spreads have exhibited modest widening in September primarily driven by interest rate volatility and new issuance. That said, outside of select sectors such as Technology, valuations are still rich. All-in yields are very attractive and should continue to support demand. As we look toward year-end, our primary concern around valuations is technical rather than fundamental as heavy new issuance is likely to persist.
International Fixed Income	•	●	•	•	•	International rates markets are at normal valuation levels on a U.S. dollar-hedged basis.
High Yield	•	●	•	•	•	Similar to IG, HY valuations have widened but still remain expensive. However, a positive macroeconomic environment may limit spread volatility and credit losses as default rates have begun to improve modestly. This leaves us comfortable at a neutral positioning. Within a HY allocation, we continue to suggest a balanced mix between loans and bonds, with a slight preference for bonds.

Asset Class	Underweight		CIO View Neutral		Overweight	
U.S. Investment-grade Tax Exempt	•	●	•	•	•	Recent rate volatility has created attractive entry points across the IG muni curve, particularly beyond 10 years, where taxable-equivalent yields near 8% exceed most taxable alternatives. Fundamentals remain solid, supported by positive ratings momentum (upgrades > downgrades), strong balance sheets, and stable revenues, though reduced federal funding and rising costs may increase sector dispersion. While spreads remain near tighter end of recent ranges, select lower IG credits offer incremental spread income and a buffer against higher yields.
U.S. High Yield Tax Exempt	•	●	•	•	•	HY munis currently appear reasonably valued relative to IG, providing a potential opportunity for HY outperformance if economic conditions remain favorable.

*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 OCTOBER 6, 2026

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	Underweight		CIO View Neutral		Overweight	
Industrials	•	•	•	•	●	Capex budgets continue to grow, some uncertainties have been removed, 100% bonus depreciation has been enacted again, strong order backlogs 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 multiyear backlogs for commercial aerospace, evolution of generative AI, increased power demand and improving outlooks for defense budgets outside the U.S. Valuation is elevated, and momentum recently stalled, particularly across early-cycle stocks. Indexes of industrial and manufacturing activity reported several months of expansion and growth, with participation broadening across a large number of firms. Risk Considerations: 1) short-cycle recovery timing still debated though appears supportive, 2) inflation resurgence drives up input costs, pressuring margins, 3) continued supply chain stress.
Financials	•	•	•	•	●	We see multiple potential catalysts in the second half of 2026 as investment banking and equity/debt capital markets activity was robust in 1H and should have continued momentum in the second half for the largest banks. We expect increased mergers & acquisitions activity among regionals supported by deregulation and a positive net interest income outlook. Robust loan growth and a steeper yield curve, portend record NII for second half which should mostly fall to the bottom-line. Solid earnings from the large digital payment networks highlight a resilient consumer base and strong net inflows & realizations for alternative asset managers suggest headline risk around private credit software investments might be overdone. Risks include persistent geopolitical headline risk, the possibility of Fed rate hikes, and a lower EPS growth outlook compared to the broader market. That said, we do not think deregulatory benefits are baked into consensus estimates. Overall, valuation is attractive, and earnings-driven momentum should continue to improve despite near term headwinds. Risk Considerations: 1) a persistently inverted yield curve, 2) interest rate volatility, 3) private credit overhang, 4) lost market share to non-bank lenders.
Healthcare	•	•	•	●	•	The fundamental landscape surrounding the healthcare space is holding up better than many anticipated and, in fact, is gradually improving. Utilization trends and procedural volumes remain solid, funding for new biotech and pharmaceutical research projects is improving, cost trends are not accelerating over projected estimates, and capital budgets appear to be under less pressure than was feared just a few quarters ago. Policy headwinds have become less of an overhang for the Healthcare sector in recent quarters with drug pricing agreements reached in 2025. We believe there could be some volatility ahead with the midterm elections upon us, but we view that as short-term in nature. We maintain strong conviction in Large Biopharma and Small- and Mid-cap Biotech. Our conviction is growing in Medtech and Life Science tools after recent underperformance, and they look to be more intriguing areas for investment. Diagnostics and certain areas within Managed Care/Providers are areas to be selective. We remain optimistic on the long-term outlook for the Healthcare sector amid demographic changes, innovative pipelines and a focus on driving down cost to consumers. Valuation is attractive and momentum has improved in recent months. Risk Considerations: 1) policy changes that materially impact companies' profitability; 2) a slowdown in innovation; 3) margin and profitability pressures resulting from increased tariffs or higher labor/supply costs.

Sector	CIO View					
	Underweight		Neutral		Overweight	
Consumer Discretionary	•	•	●	•	•	While consumer spending remains resilient, there are a number of potential macroeconomic headwinds. With prior tax-related tailwinds fading, earnings growth is expected to moderate in the latter half of the year, given elevated cost pressures, and an increasingly value-conscious consumer. In addition, potential for higher interest rates could pressure discretionary spending across parts of the sector, while elevated energy prices and ongoing geopolitical tensions continue to weigh on consumer sentiment and purchasing power. Sector valuations also remain elevated relative to both historical levels and other sectors, and concentration risk remains significant, with the three largest companies accounting for roughly 60% of the sector. Balancing out these concerns, a relatively solid job market, healthy wage growth, the wealth effect from a buoyant equity market and continued strength in consumer spending trends provide a supportive backdrop. Risk Considerations: 1) the potential for an economic slowdown, 2) prolonged spikes in energy prices or interest rates, 3) weakness in the job market, and 4) one or more of the three companies that make up around 60% of the sector have a significant pullback.
Information Technology	•	•	●	•	•	We remain neutral on the IT sector due to elevated valuations, crowded positioning and margin risks, despite strong earnings growth and AI-driven flows. Despite weakness in software, the long-term outlook remains positive for Cloud, AI, data centers and semiconductors, but investors should focus on high-quality companies and add on market weakness. Risk Considerations: 1) China exposure and trade wars, 2) supply chain constraints, 3) AI monetization and overspend.
Energy	•	•	●	•	•	We remain neutral on the Energy sector despite concerns at the beginning of 2026 on the growing oil and liquefied natural gas supply outlooks, the conflict in U.S./Iran has quickly erased that excess supply. Damage to energy infrastructure in the Middle East will take some time to fix. Continue to emphasize refiners and upstream companies that are low-cost producers with high FCF, balance sheet strength and low break-even oil prices. Energy stocks still provide attractive valuations and strong dividends with positive momentum. Risk Considerations: 1) lower oil and natural gas commodity prices, 2) slower global energy demand.
Materials	•	•	●	•	•	There is improved pricing and demand for commodities in general, and specifically for metals and mining and more recently for chemicals due to supply disruptions. Longer-term concerns remain regarding too much new capacity in the future for petrochemicals and commodity chemicals which could turn very quickly. We still see some longer-term tailwinds for demand, such as AI growth and power buildouts for copper demand and strong investment flows into precious metals. The underlying sector valuation and momentum is neutral. Risk Considerations: 1) slower global economic growth, 2) weaker residential and non-residential construction, 3) oversupplied materials markets.
Utilities	•	●	•	•	•	The need to accelerate investment in electrical infrastructure is a clear tailwind for the sector, however, policy and affordability concerns leave us cautious, and we reduced exposure to Utilities in September. Data center development is expected to drive higher demand for power in coming years but is increasingly meeting resistance in many jurisdictions. Slowing buildout could delay or reduce planned investment by Utilities, pressuring earnings growth. Valuation screens as neutral based on historical levels, relative to the rest of the market. Risk Considerations: 1) affordability concerns driving adverse regulatory or legislative solutions, 2) slower power demand growth than forecast, 3) power outage events.
Communication Services	•	●	•	•	•	Communication Services sector faces pressure from weaker operating cash flow and FCF trends amid aggressive capital spending increases. While valuations for top companies are rich, overall sector valuation is aligned with the market, and momentum remains neutral. Risk Considerations: 1) regulatory and anti-trust risks, 2) capex ramps for AI investments that limit EPS and FCF, 3) lower engagement pressuring growth.
Real Estate	•	●	•	•	•	We continue to be selective in Real Estate exposure. 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 healthcare, data centers, communication infrastructure (towers), storage and industrial RE. Valuation is fair and momentum recently improved. Risk Considerations: 1) spike in interest rates and borrowing costs, 2) declining demand for CRE in oversupplied markets, 3) workout problems.
Consumer Staples	●	•	•	•	•	Consumer Staples are facing headwinds from tariffs, higher input costs, and weaker earnings growth, while consumers increasingly trade down and favor private labels, pressuring branded product profitability. Given muted category demand, premium valuations, the expiration of tariff-related benefits, and ongoing energy cost pressures, we remain cautious on the sector heading into the second half of 2026. Risk Considerations: 1) soft demand across consumer-packaged goods, 2) consumer trade down and substitution, 3) ongoing growth in private label and store brands.

Source: Chief Investment Office. 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 THEMATIC INVESTING AS OF OCTOBER 6, 2026

The following themes and subthemes encapsulate the Chief Investment Office’s thinking on some of the most convincing undercurrents of future areas of growth around: Transformative Innovation, Resilient Infrastructure, Future Security and Changing Demographics. These themes carry long-term implications for economic growth, the cost of capital and global earnings. We’d consider exposure to these themes a key ingredient to investing.

Transformative Innovation
Generative Artificial Intelligence: Power demand/generation, productivity wave
Robotics/Automation: Industrial/service robotics
Digitization: Cloud computing, data analytics, digital payments, internet of things, augmented reality and virtual reality, electrified transportation

Resilient Infrastructure
Energy Addition: Nuclear renaissance, solar, natural gas generation, hydrogen, battery storage
Utility Infrastructure: Data centers, grid (transmission/distribution), thermal management, water management, power generation
Supply Chain Reconfiguration: Onshoring/nearshoring buildout

Future Security
Aerospace & Defense: Remilitarization, space, drones
Cybersecurity: Network security, cloud evolution/security, endpoint security
Resource Protectionism: Food/agriculture/commodity scarcity (water), natural resources, metals/mining

Changing Demographics
Healthcare Innovation: Aging, longevity, drug discovery, biotechnology (gene therapy, personalized medicine)
Great Wealth Transfer: Wealth creation, NextGen consumer/investor base
Global Labor Force Distribution: Immigration/migration, global fertility bust, automation “cobots”

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.

Institute for Supply Management Purchasing Managers' Index is a leading economic indicator that measures the health and direction of the private sector, particularly in manufacturing and services.

ICE BofA Municipal Index tracks the performance of U.S. dollar-denominated investment grade tax-exempt debt publicly issued by U.S. states, territories and their political subdivisions.

ICE BofA Broad Market Index tracks the performance of investment grade debt publicly issued in the major domestic and eurobond markets, including sovereign, quasi-government, corporate, securitized and collateralized securities.

S&P Equal-Weighted Index is a variation of the traditional S&P 500 that treats every company the same regardless of its size. While the traditional index weighs companies by their total market capitalization (giving giants like Apple and Nvidia massive influence), the equal weight index gives every stock exactly a 0.20% allocation.

Russell 2000 Index is a stock market index that tracks the performance of roughly 2,000 small-cap (smaller value) companies in the United States

Bloomberg Municipal Bond Index covers the USD-denominated long-term tax exempt bond market.

Nasdaq Index is a stock market index that tracks the performance of thousands of stocks traded on the Nasdaq stock exchange.

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

NCREIF Open End Diversified Core Equity Index is a capitalization-weighted, time-weighted benchmark index tracking the investment returns of private, institutional core real estate funds in the United States.

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

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