CHIEF INVESTMENT OFFICE

Viewpoint

Transforming Markets

April 2025

All data, projections and opinions are as of April 1, 2025 and subject to change.

IN BRIEF

- Equity markets and the global economy are transforming. There is a clear rebalancing taking place, which we believe is likely to result in another bull market advance.
- Portfolio diversification across and within asset classes in a core framework with targeted thematic overlays is our preferred strategy as markets and the world transform.
- We maintain our Equity overweight relative to Fixed Income within multi-asset portfolios and are buyers on weakness.
- Within Fixed Income, we are neutral across all segments in all-Fixed Income portfolios with our view that rates are range-bound around current levels, with credit spreads generally tame as well.

How are investors reacting to the high level of uncertainty that has developed in the last couple of months? The most obvious impact has been filtering into both the macroeconomic environment and across various markets and asset classes since the S&P 500 Index reached an all-time high on February 19, 2025. Since that date investor bearishness has reached its highest levels since the Equity market lows seen in October 2022. Before then, the last time bearishness was this high was in late 2008. Equity market volatility, as measured by the Chicago Board Options Exchange (CBOE) Volatility Index (VIX), spiked around 40% to over 27 in mid-March after spending much of January and February below its long-term average of 19.5.

The so-called Magnificent 7[1] leaders of the bull run in Equities over the last few years have significantly underperformed the broader S&P 500 year-to-date (YTD) as their price-to-earnings (P/E) multiples have declined by around 20% or more. Meanwhile, collectively, the non-U.S. Developed markets have handily outperformed the U.S. markets with Europe leading the way. Despite concerns over tariffs with various trading partners, we expect the better relative performance overseas to continue for much of this year (the U.S. dollar is also expected to continue its weaker trend as well) as fiscal spending is anticipated to largely increase abroad while the U.S. retrenches, and many central banks maintain an easing bias across Europe. However, we believe dollar-based investors should still maintain their home country bias in the U.S. as the choppy market environment is producing attractive opportunities to consider below the index level. The Financial sector has sold off back to valuation discounts and the Information Technology (IT) sector is beginning to

[1] Apple, Amazon, Alphabet, Nvidia, Meta, Microsoft and Tesla.

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, driven by U.S. Equities, with a preference for Large-caps over Small-caps, and we are neutral outside of the U.S. We still favor a significant allocation to bonds in a well-diversified portfolio. Through periods of volatility, we emphasize portfolio diversification and are buyers on weakness.

View the CIO Asset Allocation Guidelines ▶

Listen to the audiocast ▶

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.

Merrill Lynch, Pierce, Fenner & Smith Incorporated (also referred to as "MLPF&S" or "Merrill") makes available certain investment products sponsored, managed, distributed or provided by companies that are affiliates of Bank of America Corporation ("BofA Corp."). MLPF&S is a registered broker-dealer, registered investment adviser, Member SIPC and a wholly owned subsidiary of BofA Corp.
Investment products:

Are Not FDIC Insured	Are Not Bank Guaranteed	May Lose Value

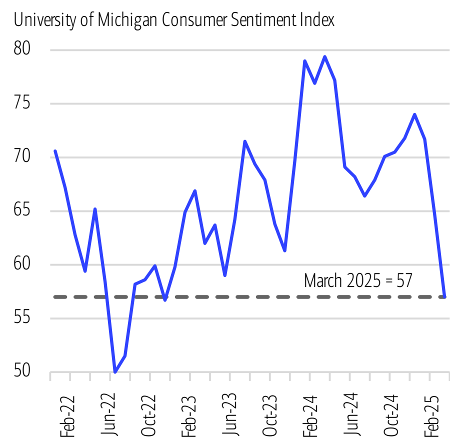
Please see last page for important disclosure information. 7775097 4/2025

separate the highly valued slower growth areas from the "new leaders" that are more leveraged to the software and cybersecurity advancement cycles, in our view. Meanwhile, onshoring developments and infrastructure investment opportunities are beginning to gain traction. In this regard, we continue to favor both active[2] and passive[3] investment management.

Moreover, on the macro front the most visible impact has been on consumer and business confidence (Exhibit 1). Both have wiped away all the pro-business enthusiasm expressed post-election back in the fall of 2024. Much of this concern has been accelerated by tariff worries and the noted risk for slower growth, higher prices and potential supply chain disruptions. To this point, on the back of the latest uncertainty, BofA Global Research has revised their forecasts to better reflect trade policy developments and the recent data flow. They have marked down Q4-over-Q4 growth this year from 2.3% to 1.8% and have also raised their inflation forecasts. They now expect core personal consumption expenditures (PCE) inflation to reach 3.0% year-over-year (YoY) in the second half of 2025.

In summary, equity markets and the global economy are transforming. There is a clear rebalancing taking place, which we believe is likely to result in another bull market advance. However, this time around, it is going to be more broad-based, include other regions of the world, be slightly choppier in terms of price action and, ultimately, produce an annual return closer to the multidecade average of around 10% to 11% for the S&P 500, in our opinion. Portfolio diversification across and within asset classes in a core framework with targeted thematic overlays is our preferred strategy as markets and the world transform. In the short term, as we move through 2025 and into 2026, we expect the current uncertainty to fade somewhat and believe that equity markets, once again, climb the wall of worry toward high levels on the S&P 500. The main catalysts remain solid corporate earnings growth and a stable consumer, all things considered. We maintain our Equity overweight relative to Fixed Income within multi-asset portfolios and are buyers on weakness. We still favor the U.S. but are now neutral Equity investments overseas. We prefer higher-quality exposure overall and the rotation within the equity markets to continue. We also prefer large-capitalization shares relative to small-capitalization and favor a solid split in diversification between Value and Growth. In terms of the mid-capitalization segment, we expect the main catalysts to be deregulation and the potential for the long, stalled-out merger and acquisition (M&A) cycle to unfold. In Fixed Income, we are neutral across all segments in all-Fixed Income portfolios with our view that rates are range-bound around current levels, with credit spreads generally tame as well.

Exhibit 1: Consumer Sentiment Is At Lowest Level Since 2022.



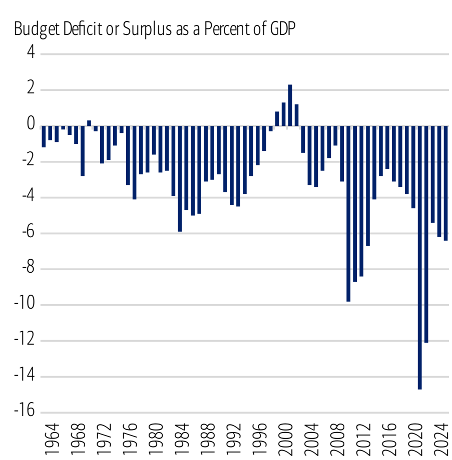
Source: Bloomberg. Data as of March 31, 2025. It is not possible to invest directly in an index. Please refer to index definitions at the end of this report.

How would we describe the macro outlook around the world as it relates to major differences between the U.S. and non-U.S. regions? The global economy is in the midst of a major remixing of growth that could have the effect of raising overall gross domestic product (GDP) more than the consensus expects. Expectations have been dampened by the higher uncertainty created by the dramatic revamp of trade policy in the new administration. Concerns of a trade war that hurts growth are widespread. Yet hard data and asset markets are signaling a more positive outcome suggesting trade war concerns are overblown. That may be why the markets are telling a different story from consensus.

Adding to the heightened uncertainty is the U.S. transition from fiscal-deficit fueled expansion to a more prominent reliance on private sector growth fueled by the rising trend in productivity. Since the pandemic the fiscal deficit has been running over 6% of GDP, double the historical average before the pandemic, and a recipe for an eventual U.S. debt crisis that knowledgeable observers have been warning about (Exhibit 2). Job growth during the past two years was overwhelmingly in the government and sectors dependent on government spending, like Healthcare.

A big part of U.S. exceptionalism, at least in terms of faster GDP growth and higher inflation compared to other developed economies in Europe and Asia, can be traced to bigger deficits,

Exhibit 2: Deficit Reached 6.4% of GDP in Fiscal Year 2024.



Source: Congressional Budget Office. Data as of March 31, 2025.

[2] Active management seeks to outperform benchmarks through active investment decisions such as asset allocation and investment selection.
[3] Passive management is a strategy where investment portfolios aim to replicate the performance of a market index or benchmark by holding the same or similar securities in the same proportions.

faster government spending growth and easier monetary policies. Never outside of wartime have government spending and budget deficits exploded at the pace of the past five years.

To prevent this from becoming the severe debt crisis that observers are cautioning about, the new administration has set a goal of bringing the deficit down to 3% of GDP, which is more in line with the historical average and sustainable over the longer run. Cutting the deficit from current levels to 3% quickly is politically unlikely and potentially unsafe, in our opinion, as it could cause a severe recession. But reducing it gradually over the next four years to achieve that goal would be a major accomplishment that would put the U.S. on a more sustainable fiscal footing. To prevent an overly slow growth period of fiscal retrenchment, stronger private sector investment and demand needs to accelerate from recent levels. Massive investments into the U.S. from foreign governments and businesses which tally in the hundreds of billions of dollars have been announced over the past few months. Foreign businesses and governments are anxious to get on the good side of the new U.S. administration and get positive leverage in the trade negotiations that are reshaping the global economy for more domestic production in the U.S. Expectations of major deregulation and tax incentives are big spurs for this new investment in U.S. production capacity. At the same time a cyclical pickup in investment is already under way. For example, the Atlanta Fed's GDPNow model for Q1 GDP growth is tracking stronger growth for equipment spending, intellectual property investment and non-residential investment.

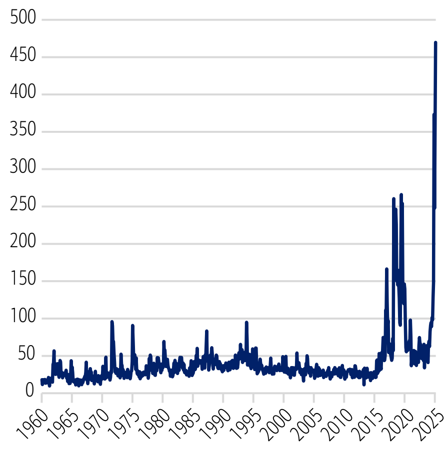
While the switch from government-fueled growth to private sector expansion involves risks, it ultimately should create a more sustainable basis for the U.S. economic future. Key to this is the goal of boosting productivity and restoring U.S. potential growth rate to its historical average of about 3% compared to the current consensus of just 1.8% which was an anomaly of the prepandemic secular stagnation era and subpar productivity growth. While the U.S. undergoes this major transition green shoots have popped up in the rest of the world. Despite all the doom and gloom manufacturing data shows that the global factory sector is beginning to pick up. It helps that European consumer spending picked up significantly in the second half of 2024, and the outlook remains positive. Falling inflation and rising real wage growth along with increasing employment are a recipe for continued European growth. Lower interest rates have sparked a cyclical increase in bank lending and business investment.

The new geopolitical climate has triggered a big change in European attitudes toward growth led by the new government in Germany, which has quickly reversed the stodgy fiscal restraints that have held back the continent for a decade. The positive stock market reaction tells the story. Growth estimates are rising for 2025 and 2026 as a result. China has also responded to the new global incentives. Its fiscal policies, like Europe's, are moving in the opposite direction from the U.S. helping to explain its stock market's world-leading performance this year to date. The lopsided move into big U.S. Technology stocks in 2024 caused huge valuation gaps to develop between the Magnificent 7 and other stocks, both in the U.S. and especially outside the U.S. As prospects for rest of the world growth have improved this year these valuation gaps have begun to close. Worries about U.S. fiscal retrenchment have also helped reduce the growth expectation differential between the U.S. and the rest of the world. Signs that China will give the U.S. a run for its money in Artificial Intelligence (AI) have taken some air out of the Magnificent 7 balloon. Japan and its ongoing progress in its long reflation and corporate governance reform efforts leave it poised to benefit from the rising global growth trade that consensus hasn't fully appreciated given the trade war fog.

The main risk to this optimistic global outlook is that confidence deteriorates to the point that U.S. consumers pull the plug on spending. Yet so far sentiment seems to be moving further and further from the underlying economic reality of jobs, spending and profits, which remain quite healthy.

From an Equity and Fixed Income market perspective, what type of impact do we expect to occur as (or if) potential tariffs are implemented? Over the last few months, the U.S. administration has imposed a multitude of tariffs, ranging from 10% to 25%, on various imports from Canada, China, Mexico and the rest of the world. These tariffs impact a wide range of industries including metals, agriculture, energy and autos. Recently, policy uncertainty has surged as investors evaluate the overarching impact of these tariffs on U.S. growth, business/consumer confidence, and corporate earnings (Exhibit 3). Additionally, higher prices for goods and services may cause inflation to remain sticky which may affect the global easing cycle. Even in light of these concerns, it is important to remember that the U.S. is well positioned for retaliatory actions, or a possible trade war, given that U.S. economy is comparatively self-contained (less trade dependent), has an abundance of natural resources, and has major consumption power.

Exhibit 3: Trade Policy Uncertainty Reaches All-Time Highs.



Source: Caldara et al., Haver Analytics. Data as of March 1, 2025. Latest data available.

Digging deeper, sectors such as IT, Materials, and Communication Services with high international revenue exposure may feel some heat from these tariffs as companies import vast amounts of electronics, metals and other goods, potentially increasing the costs of goods sold and, therefore, impacting margins. Whether companies pass on additional cost to consumers remains to be seen. On the other hand, sectors with higher domestic revenue exposure, such as Utilities and Financials, may be better positioned to navigate tariffs implemented by the U.S. and retaliatory measures. Sustained U.S. economic growth, albeit slowing, should provide these sectors the opportunity to be flexible with their margins.

Given all of this, we believe trade restrictions, and potential retaliatory actions, ultimately call for diversification across the board, as the impact of protectionist measures varies by region, sector and size. From an Equity standpoint, we believe investors should focus on high-quality companies with strong margins and balance sheets, in addition to a balance between Growth (IT) and Value (Healthcare, Industrials, Financials). Dividend stocks appear attractive, and we continue to highlight areas related to defense and cybersecurity leaders. Looking abroad, we have become more positive on developed Europe and the China Technology sector as geographic diversified plays.

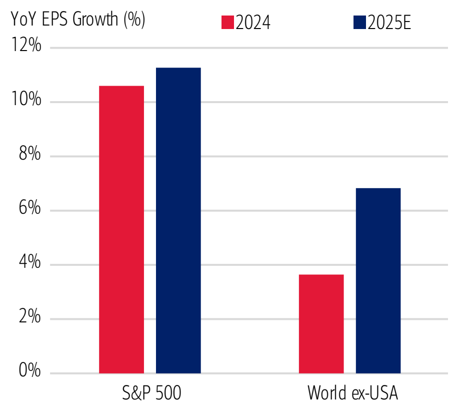
From a Fixed Income market perspective, neither we nor the Federal Reserve (Fed) are currently overly concerned about tariffs. Tariffs may lead to a temporary bump in inflation that could gradually fade as consumers adjust spending behavior. This was confirmed as the Fed's current thinking as well at March's Federal Open Market Committee (FOMC) meeting. We will watch consumer credit—particularly, borrowing against increased house values—to verify that an initial inflation bump does not lead to incremental consumer spending and turn an inflationary pressure into actual economy-wide inflation. If escalating tariffs lead to a more protracted trade war—not our base case—that would be negative for economic growth and therefore quite favorable for Fixed Income market returns, in our opinion. Ultimately, we continue to emphasize the importance of flexibility and rebalancing amongst asset classes within this era of shifting trade dynamics.

What else is expected on the U.S. fiscal and monetary policy front in the coming months and how might that impact markets? And what is the latest Fed forecast coming out of the March meeting? The Republican leadership in the House and Senate is on track to reach an agreement on passing a budget sometime in April, which is consistent with finishing a reconciliation bill before the August recess begins. A bill consistent with the House budget that accommodates most of President Trump's tax priorities "could be modestly expansionary from a fiscal impulse perspective in the short run (about 0.2% of GDP) while becoming modestly contractionary thereafter," according to analysis by PSC Macro Research. As a result, not much fiscal policy drama is anticipated over the next few months. Monetary policy has taken a back seat to trade policy as the Fed is content with the current state of the economy and awaiting signs that trade policies might tip the scales on inflation and growth one way or the other. Fed commentary suggests any upward price pressure from higher tariffs is likely to prove a "one-off" or "transitory" effect rather than a persistent source of inflation. This implies the Fed is more likely to react to any negative growth impact from trade frictions and look through temporary price pressures. While some consumer surveys show rising inflation expectations in segments of the population this is not confirmed by a broader array of data, such as market-based inflation expectations, which remain well anchored in the Fed's view.

The net result is FOMC participants on balance still anticipate a few rate cuts later in the year as inflation cools but for now remain in a wait-and-see mode. BofA Global Research maintains their forecast of no interest rate cuts for 2025 at this time. The absence of budget drama and the willingness of the Fed to cut rates if the economy falters suggest monetary and fiscal policies will be supportive of the markets in coming months, in our view.

What are the major catalysts as well as risks that could unfold heading into mid-year and what are the key indicators to watch to assess whether our bull base case is on track? Heading into mid-year, we continue to monitor risks that could unfold in the coming months. Policy uncertainty remains high, and an escalated trade war could weigh on U.S. growth, corporate profits and more trade-dependent economies overseas. Potential revisions to U.S. earnings estimates will be key to watch, with equity valuations still elevated versus historical levels. While we believe inflation has stalled between 2% to 3%, a sustained reacceleration could exacerbate existing affordability challenges for consumers across the income spectrum. Whether recent declines in select consumer and corporate sentiment measures filter into weak consumer spending or higher layoffs bears watching. Equity outperformance in Europe and China could prove to be more short-lived if earnings revisions fail to improve (Exhibit 4).

Exhibit 4: U.S. Earnings Continue to Outpace the Rest of the World.



E=estimate. Source: FactSet. MSCI World Index ex-U.S. referenced. Data as of March 31, 2025. It is not possible to invest directly in an index. Please refer to index definitions at the end of this report. **Past performance is no guarantee of future results.**

Major catalysts in the U.S. could include stronger-than-expected economic growth, above-forecasted profits acceleration, and signs of easing inflationary pressures. Consumer spending could surprise to the upside following weather-related disruptions in Q1 2025. Meanwhile, existing fiscal stimulus, potential deregulation and AI-driven productivity gains could provide positive tailwinds for U.S. company earnings across sectors.

Overseas, in addition to plans to boost defense and infrastructure spending in Germany, expansion of defense funding across European Union (EU) member countries could lend to better growth prospects in Europe. A weaker dollar and positive earnings revisions could support a more sustainable European Equity rally. Major stimulus targeted at reviving consumption in China could also serve as a catalyst for China Equities, though structural weakness (real estate, demographics, high savings) persists. Potential peace agreements in Ukraine and the Middle East could drive eventual reconstruction and cyclical strength globally.

What are the major trends and themes taking place within the equity markets around the world, and what is unfolding in the IT sector, in our view? Several major trends are unfolding within equity markets around the world. A rebalancing of U.S. vs. non-U.S. equity markets has begun, with European and China Equities well outperforming the U.S. YTD. We believe this represents a natural reset rather than the death of U.S. exceptionalism, driven in part by a relative weakening of the U.S. dollar, extreme positioning to start the year, and discounted valuations overseas. European Equities have benefited from expectations of fiscal spending plans, while stimulus measures in China appear to be supporting the country's IT sector after prolonged underperformance. In our view, further efforts to boost weak household balance sheets and the property sector will likely be required for China's growth prospects to improve sustainably.

Back at home, more broad-based earnings growth in the U.S. is supporting broader Equity performance compared to the last two years. The S&P 500's equal-weighted index is outperforming the market cap-weighted S&P 500, and Value has outperformed Growth to start the year as prior leadership in the form of the Magnificent 7 takes a back seat. Per the latter, we believe that the Generative AI (GAI) theme is entering a second phase wherein competition drives adoption and productivity gains across corporate America. In the meantime, we expect the ongoing Equity market rotation to develop further as the earnings backdrop improves across sectors within the Large-cap space. Small-caps, meanwhile, continue to underperform.

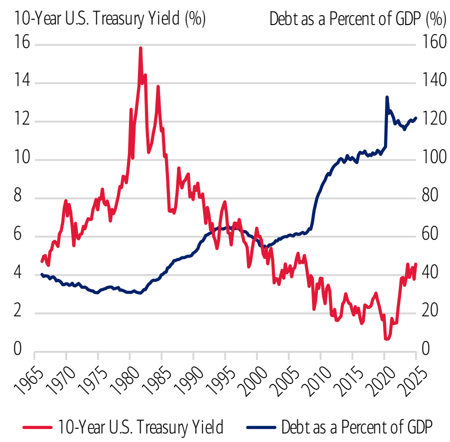
What are our thoughts on rates across the curve given the rising interest costs on our national debt? And our thoughts on credit? We remain relatively unconcerned about a significant near-term rise in Treasury rates from higher U.S. interest costs and debt levels, provided that the Fed does not re-emerge as a significant buyer of U.S. Treasurys to directly finance government deficits.

The primary driver of long-term rates is the expected path of short-term rates. Short-term rates are driven by Fed policy to manage inflation and the economy. Debt and deficits—again, when not financed by a central bank—do not affect interest rates in the conventional way that many market commentators suggest (Exhibit 5).

A cursory review of the last 40 years makes this self-evident. In 1980, the 10-year Treasury peaked at almost 16% while U.S. Debt/GDP was 31%, with total U.S. Treasury supply of less than $1 trillion. In the ensuing four decades, debt increased by a factor of over 32 times to $28 trillion—a phenomenal increase, causing U.S. debt/GDP to hit 132% (a four-fold increase). Not only did Treasury rates not skyrocket, however—they fell. Ten-year Treasurys hit a low of 50 basis points (bps) (0.50%) in 2020. While there are other factors at play—including, crucially, demographics—a simplistic read-across that higher debt levels will automatically lead to higher interest rates (especially over the short-term) is fallacious. In fact, research backs the empirical evidence: Higher federal government debt levels can be less productive, slow the economy, and create a disinflationary environment, which ultimately lowers short- and long-term rates. This will be exacerbated in an environment of declining demographics including lower birth rates and higher retiree rates.

What fundamentally changes that picture? When the central bank becomes a key creditor to the federal government. In both World War II and the COVID-19 pandemic, the Fed expanded its balance sheet massively to effectively finance excessive high federal spending—this version of digital "helicopter money" can increase money supply dramatically, which can be quite inflationary. When the Fed is then forced to adjust short-term rate policy to deal with the consequences of its own balance sheet expansion—as it did in 2022, moving rates from 0% to over 5%—only then do longer-term rates move significantly higher. In other words, the method of how and by whom government deficits are financed is much more important to long-term interest rates than how much overall debt levels rise. We will be watching Fed policy closely from this perspective.

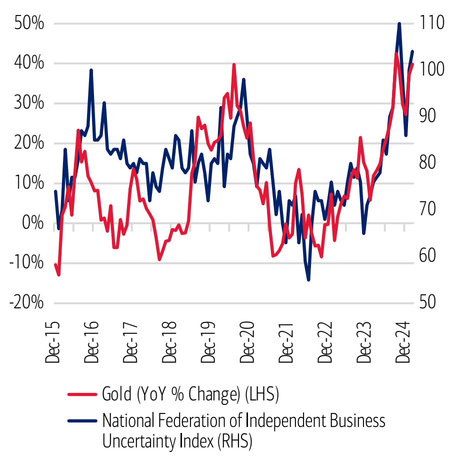
Exhibit 5: Massively Higher Debt Levels–When Not Financed By a Central Bank–Have Led to Lower Interest Rates.



Source: Federal Reserve Bank of St. Louis, U.S. Office of Management and Budget, Bloomberg. Data as of March 31, 2025.

What are our main reasons for Gold rallying to an all-time high? After rising by a torrid 27.2% in 2024, the price of Gold has continued to climb in 2025. YTD through March, the yellow metal has risen by 19.0%, achieved 17 fresh all-time highs, and crossed the $3,000/oz threshold for the first time. The recent bullishness toward bullion has been supported by a myriad of factors. Central bank buying has helped to buoy prices, with 2024 marking the third year in a row of net purchasing exceeding 1,000 tonnes. The recent bout of weakness in the U.S. dollar has added additional support by making Gold, which is priced in U.S. dollars, more attractive to global buyers (Exhibit 6). Concerns about shifting trade dynamics, the path of inflation, policy uncertainty and geopolitical conflict have helped to fuel demand for the precious metal, which is often perceived as a "safe haven" asset.

Exhibit 6: Gold Surges as Small Business Uncertainty Mounts.



Source: Bloomberg as of 2/28/2025. It is not possible to invest directly in an index. Please refer to index definitions at the end of this report. **Past performance is no guarantee of future results.**

We see the potential for more tailwinds ahead. Continued central bank reserve diversification is likely to remain a key support. An uptick in interest from global buyers like China, whose insurance industry can now invest 1% of its assets in Gold, could also bolster prices. A weaker U.S. dollar could provide an additional boost. As the market "transforms," bouts of volatility and economic uncertainty are likely to keep demand elevated among investors. Against this backdrop, BofA Global Research recently raised their year-end Gold target to $3,300/oz. Risks to this outlook include the potential for U.S. fiscal consolidation, reduced geopolitical tensions and a return to collaborative inter-governmental relations. From a portfolio perspective, we continue to believe gold is most effectively implemented as a strategic diversifier.

What is our portfolio strategy through the remainder of the year? What are our scenarios across the bull, base and bear cases? The U.S. economy entered 2025 on strong footing, with both structural and cyclical tailwinds underpinning growth including a stable labor market and strong productivity momentum. Amid a pickup in policy uncertainty and noisier soft economic data, the range of potential risks to the outlook have widened.

Four possible outcomes could play out this year, in our view, but we believe the likelihood of each scenario varies significantly.

Our base case scenario, which we assign a 60% probability, envisions trend-like growth for the U.S. economy for 2025. Inflation remains sticky but does not materially accelerate. The Fed remains on hold but maintains the ability to cut rates if needed. The U.S. dollar is stable-to-slightly weak, and the yield on the 10-year U.S. Treasury hovers around 4.5%. The corporate earnings outlook remains solid, and earnings momentum continues to broaden out, supporting improved market breadth. The U.S. still leads the rest of the world, but the opportunity set for international markets improves.

Our bull case sees the U.S. economy growing above trend as a new economic re-expansion builds out. In this scenario, financial conditions remain easy while inflation simultaneously trends lower. Fed rate cuts normalize the yield curve in the second half of the year, and strong economic growth supports further yield curve steepening. A higher-than-expected rise in corporate earnings boosts the long-term bull market in U.S. Equities. Cyclical areas of the Equity market take the lead, and Growth stock momentum surges. Given the current set of risks, we recently lowered our estimated probability for this outcome from 20% to 10%, though that still leaves the combined bull and base case probability at 70%.

On the flip side, our bear case considers what could go wrong this year. If economic growth slows below trend as inflation remains elevated relative to the Fed's target, stagflation worries likely build. That could be amplified if tariff policy concerns over the potential upside risks to inflation and downward pressure on economic growth become reality. As recession risks rise, labor market conditions would likely deteriorate, with the unemployment rate possibly rising above 5%. The corporate earnings cycle would likely stumble, with earnings growth declining 10% or more for the year. High-quality Growth would outperform low-quality Value, and cyclical areas would lag. We would expect easier monetary policy expectations to recalibrate given these economic challenges. Risks of this scenario have moved up slightly since the beginning of the year, pushing our probability of this outcome to 25% from 15%.

Our grizzly case, or our even worse downside scenario, which we assign only a 5% probability, anticipates the U.S. economy entering a hard landing that requires the Fed to tap into emergency measures. The corporate earnings cycle plummets into recession, with earnings growth falling by 20% or more. Major widespread stress hits both the office property and regional banking sectors. The U.S. dollar rallies sharply amid a flight to safety. Risk aversion emerges. Fixed Income outperforms Equities, and more defensive areas of the market lead.

Overall, our base case keeps us constructive on the outlook, but to navigate this environment, we emphasize a disciplined investment approach that focuses on an optimal mix of diversified assets. On a tactical basis, we favor Equities over Fixed Income in multi-asset portfolios. We continue to emphasize a U.S. bias, but international market exposure looks interesting again. We believe a bottoming process is underway for U.S. Equities following the recent 10.1% market correction in the S&P 500 and expect the index to recover in the months ahead as market internals repair. Historically, the S&P 500 recaptures its peak in 3.7 months on average from the trough in market corrections.[4] We therefore expect volatility to persist and suggest leaning on systematic and opportunistic rebalancing and using new money to build back exposures in areas where there may be gaps in the portfolio.

CIO INVESTMENT DASHBOARD AS OF APRIL 1, 2025

As equity markets and the global economy undergo this period of transformation, we see the potential for more uncertainty surrounding new policy initiatives, the outlook for inflation and monetary policy, the trajectory for GAI, and geopolitical tensions—all of

[4] Reflects the average length of time it took for the S&P 500 to recapture its prior peak from the trough in a market correction looking at market corrections since 1998. Source: Bloomberg. Data as of March 27, 2025.

which could lead to more choppiness within a broader uptrend. 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:

Factor	Implication for Equities (Negative / Neutral / Positive)	CIO View
Earnings		Strong U.S. earnings growth remains on a YoY basis. According to FactSet, growth in S&P 500 revenue and earnings for 2024 was 5.2% and 10.6%, respectively. This year, consensus expects an acceleration to 5.5% and 11.4% accordingly. In Q4 2024, revenue and profits expanded YoY by 5.3% and 18.3%. Respectively, consensus anticipates a pace of 4.3% and 7.1% in Q1 2025. More broadly, a small improvement in March in the three-month average of the Global Earnings Revision Ratio was underpinned by Emerging Markets and Japan, according to BofA Global Research. Over the past three months, the average number of upgrades to profit estimates surpassed downgrades in 2 of 20 countries and in 2 of 16 tracked industries.
Valuations		The S&P 500 P/E ratio (next 12 months) has declined and stands at around 20.5x, above its long-term average and off its recent high of 22.5x. While this headline measure suggests that Large-cap U.S. Equities in general remain expensive, relative discounts can be found in areas like Small-cap and Value.
U.S. Macro		A third estimate of Q4 real GDP indicated seasonally adjusted annual growth of 2.4%, leading to annual 2024 growth of 2.8%. Excluding volatile measures in trade and inventories, final sales to domestic purchasers grew by 3.0% in Q4. For 2025, BofA Global Research expects GDP growth of 1.5% for Q1 and 2.1% for this year. For 2026, an annual growth rate of 2.0% is anticipated for 2025.
Global Growth		In the Eurozone, the prospects of looser fiscal and monetary policy, stable energy prices, and clarity on China's growth outlook may become positive catalysts, improving relative earnings growth. However, amid a gradual cooling of the services sector, alongside manufacturing weakness, a dynamic geopolitical backdrop and U.S. tariffs remain risks. Trade-related policy uncertainty also remains a risk for Asia. In China, elements of stability in recent economic data may reflect the effects of announced stimulus policies. After growth of 3.3% in 2023, the global economy is expected to have grown by 3.2% in 2024, followed by a forecasted expansion of 3.1% in 2025 and 3.2% in 2026, according to BofA Global Research. This compares to average growth of 3.8% from 2000 to 2019, according to the International Monetary Fund.
U.S. Monetary Policy / Inflation		The policy interest rate stands at 4.25% to 4.50%. Stalled progress in disinflation and uncertainty related to fiscal and trade policy has prompted a more cautious approach from the Fed in easing monetary policy. BofA Global Research expects the Fed to hold at this interest rate level, seen as the terminal rate, through year-end. Meanwhile, markets anticipate a possibility of additional cuts this year.
Fiscal Policy		On March 14, a "continuing resolution" was approved, funding federal agencies until the end of the fiscal year on September 30. Meanwhile, the budget process, which includes reconciliation, consists of ongoing dual tracks in Congress. The House has focused on a one-bill approach containing a broad portion of the administration's priorities, including an extension of the 2017 Tax Cuts and Jobs Act and an increase in the national debt ceiling. A separate effort led by the Senate aims to deliver on the administration's initiatives in two parts, with budget-related plans shifted to later in the year.
Corporate Credit		Credit spreads for Investment-grade (IG) and High Yield (HY) reflect very slight concerns about an economic slowdown overall, as HY spreads have underperformed IG significantly recently, but both are still relatively low. Both are off their near-term tights, which were around levels last seen nearly two decades ago.
Yield Curve		The majority of the Treasury yield curve (2-years and out) has normalized, returning to being positively sloped from its inversion. It has mostly steepened this year as long-end rates have been underperforming, consistent with positive macroeconomic growth. At the same time, there is a small inversion between 3-month and 2-year rates, which is consistent with the market's expectation for a few more rate cuts this cycle. BofA Global Research believes the Fed will be on hold through 2025.
Technical Indicators		The S&P 500 has fallen below its 200-day moving average, which remains in an uptrend. The percentage of New York Stock Exchange stocks closing above their 200-day moving average has notably declined, reflecting U.S. Equity volatility. The cumulative advance/decline indicator, another measure of market breadth, suggests has also weakened, though by a lessened rate.
Investor Sentiment		Sentiment indicators have turned more pessimistic. According to the American Association of Individual Investors, retail investors have turned quite bearish. Moreover, the CBOE VIX signals an expectation of greater volatility than the year-to-date and 12-month averages. Meanwhile, as of March 28, BofA Global Research's Bull & Bear Indicator signals "neutral" at 5.2. In the Global Fund Manager Survey, the "sell" signal, reflected in a low average cash level in institutional portfolios, has ended.

Source: Chief Investment Office.

EQUITIES

We are slightly overweight Equities: Looking beyond recent volatility, Equities remain well supported by a broad-based earnings expansion and a relatively healthy consumer. While we continue to see crosscurrents in the market landscape, fundamentals should ultimately provide Equities with a solid foundation moving forward. Against this backdrop, 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, given solid earnings growth, strong balance sheets in aggregate, and sturdy consumer fundamentals. Index-level valuations have declined this year but remain elevated relative to long-term averages. Meanwhile, earnings have continued to become more supportive, with the S&P 500 registering 18.3% YoY earnings per share (EPS) growth in Q4 2024, marking the greatest quarterly YoY EPS acceleration since Q4 2021, according to FactSet. Large-caps remain attractive given strong fundamentals and the ability to produce free cash flows (FCF) and healthy shareholder payouts. Tariff concerns and higher-for-longer rate structures could present headwinds for Small-caps, but we maintain a constructive longer-term view considering the potential for a broadening profits cycle and attractive valuations.

At this point in the cycle, we emphasize the importance of incorporating both Growth and Value factors in strategic portfolios. While we believe that secular tailwinds will support Growth over the long-term, the recent pullback in mega-cap Growth stocks underscores the importance of avoiding overexposure to any one area of the market. Meanwhile, Value continues to trade at a relative discount to Growth, and dividend-oriented Value stocks remain attractive. We suggest a disciplined and balanced approach between Value and Growth for long-term investors.

Considering the ongoing Equity market rotation, we suggest broader exposure across sectors. We are starting to see improvement in earnings from sectors including Financials, Utilities, Consumer Discretionary and Healthcare. As the cycle continues to broaden out, it is important to have Equity exposure across cyclical, interest rate-sensitive and growth sectors. We continue to emphasize exposure to Financials despite our expectation that the Fed will pause interest rate cuts for the duration of the year. The cuts that the Fed has already implemented along with a steeper yield curve can help improve credit risk and default rates going forward, especially in CRE (commercial real estate). 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 industrywide (>40% of earnings assets). We maintain neutral exposure to Industrials after mixed results from recent earnings reports, few green shoots and guarded company guidance. However, infrastructure-related investments and projects related to secular growth trends in electric power demand, energy transmission and distribution, data center builds, and next-generation GAI-focused semiconductor technology that is increasingly power hungry could drive multiyear demand for select growth and cyclical stocks. The relative view on Consumer Staples is more constructive after underperformance against both the broader Equity market and the Consumer Discretionary sector last year, valuation measures at multiyear lows, and early signs of fundamentals stabilizing.

Uncertainties pertaining to potential changes to Healthcare policies and potential tariff impacts differ across Healthcare subsectors which could drive rebalancing in portfolios; therefore, we maintain a neutral exposure and see opportunity beneath the sector level. We also remain cautious on the Energy sector, as the growing oil supply outlook for 2025 is a concern and 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 GAI and increasing electrification of the economy. While we are constructive on IT and Communication Services as longer-term thematic trends, we maintain our neutral view in the near term on elevated valuations, crowded positioning and recent developments in the GAI trend that generated a correction. 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.

We are neutral Emerging Market Equities: Emerging Markets (EM) Equities appear attractively valued, but the past Fed rate cuts are unlikely to have the typical positive effect given small current account deficits across the EM universe, and U.S. import tariffs poses downside risks to more goods trade-oriented economies. We continue to expect a wide return dispersion between individual EM countries and regions. Domestic drivers in China may support the heavyweight IT sector following a long period of underperformance. However, recent stimulus measures so far appear insufficient to provide a significant boost to growth, and activity is likely to remain constrained on a structural basis by headwinds from the RE sector and weak household balance sheets. Central and Eastern European markets stand as potential beneficiaries of any progress on Russia-Ukraine conflict resolution, while market direction in Latin America, the Middle East and Africa should remain broadly tied to the direction of natural resource prices. The

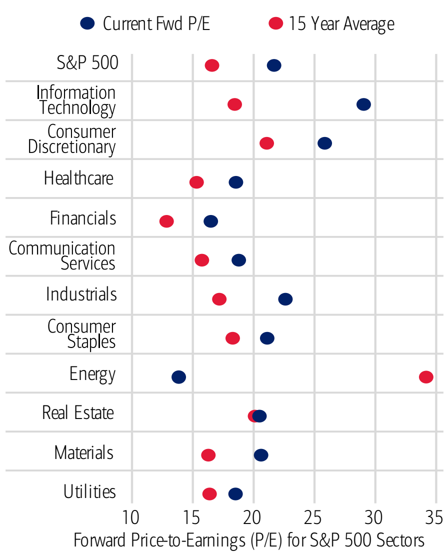
EQUITY WATCH LIST

- Global manufacturing recovery/expansion
- Potential cyclical catalyst of global reconstruction projects (Ukraine, Gaza and Syria)
- Pace of GAI investment/ competition
- Dollar weakening and exposure to non-U.S. regions
- Progression of earnings estimates

RISK CONSIDERATIONS

- Escalated trade war/retaliatory tariffs
- Geopolitical uncertainty and heightened global protectionist measures
- Reacceleration of inflation
- Structural pressures within the Office segment of CRE

Sector Valuations



Source: Bloomberg as of March 21, 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.

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 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 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 more 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, alongside additional interest rate cuts from the European Central Bank (ECB). Manufacturing-led EU economies nonetheless remain at risk from U.S. import tariffs and 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 if yen weakness persists, but sustained positive inflation and corporate reforms remain fundamental supports for valuation. 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.

FIXED INCOME

We are slightly underweight Fixed Income: Our underweight is necessary to fund our overweight to Equities; we are still constructive on Fixed Income in diversified portfolios.

At the March 19 FOMC meeting, its inflation forecast moved higher, while their economic growth forecast moved lower, implying both parts of their dual mandate (price stability and maximum employment) are moving in the wrong direction. Nevertheless, the FOMC—just barely—reaffirmed baseline expectations for two interest rate cuts this year. Given concerns on near-term inflation due to tariffs, the balance of risks suggests potentially less cuts than the FOMC currently anticipates.

Nominal and real yields still provide attractive compensation for inflation and market risk. We maintain neutral duration as 10-year Treasury rates are around 55 bps below recent highs, and the path of Fed policy seems less clear. Longer-term Fixed Income provides meaningful returns relative to cash and diversifies equity risk, in our opinion. 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.

We remain neutral across Fixed Income in all-Fixed Income portfolios. Valuations are tight, yet the ISC does not foresee spread widening, as our macro view is positive, corporate fundamentals are in decent shape, and all-in yields are attractive. We therefore do not advocate for large sector tilts relative to strategic Fixed Income benchmarks.

In multi-asset class portfolios, **we are slightly underweight in U.S. Governments**. Real yields—the yield after inflation—are around 1.40% to 2.30% across the curve, still the higher end of the range since 2008. Yields substantially higher than inflation are positive for savers.

In multi-asset class portfolios, **we are slightly underweight Investment-grade Corporates and neutral for High Yield.** This view is predicated on expensive valuations, balanced by supportive macro and fundamental backdrops. Demand should remain robust given higher all-in yields.

Forward excess returns in credit are positively correlated with higher spreads. With IG around 80 and HY around 275 bps, valuations are near multidecade tights and fully reflect a strong U.S. economy and healthy corporate credit fundamentals, as well as strong investor flows given the higher-yield environment. Continuing good news is currently priced into valuations.

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

That being said, additional spread compression is limited, and the risk/reward appears asymmetric, as is typically the case when the economy has been strong, and spreads are tight. The setup for 2025 is a "carry-like" environment, with spreads remaining range-bound near cycle tights and volatility likely more contained and temporary. Spreads have trended at these or tighter levels for many years (mid-to-late-1990s, mid-2000s.) Over the next 12 months, we expect more subdued spread volatility, assuming our ISC macro views are correct.

In multi-asset class portfolios**, we are slightly underweight for U.S. Investment-grade Tax Exempt and remain slightly underweight U.S. High Yield Tax Exempt.** We note that tax exempt bonds have underperformed Treasury securities YTD due to a combination of technical and fundamental factors: strong new issue muni supply; a seasonal lull in muni redemptions; possible selling by some investors to fund their Tax Day liabilities; a flight to quality in late February to early March due to economic growth and inflation concerns; uncertainty on federal aid to states, local governments and other municipal issuers; and uncertainty on future tax treatment of municipal bonds. However, with a seasonal increase in redemptions expected from May to August, the end of Tax Day selling after mid-April, stabilizing economic conditions, and greater certainty to be gained with regard to federal fiscal policy, we believe muni valuations could be poised to rally over the summer months.

In multi-asset class portfolios, **we are slightly underweight for Mortgage-backed Securities**. 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 occurred, but interest rate volatility remains elevated and risk-reward for this rate-sensitive sector is more balanced, in our view. Importantly, MBS spreads are now below the 10-year average, limiting potential upside and increasing downside risk, especially if Treasury yields move higher. 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: Overall, Hedge Strategies lost 0.5% in February, reversing some of the positive momentum from the start of the year.[5] Equity Hedge (EH) similarly declined 0.7% in February as volatility surged in the second half of the month.[5] Strong technical dynamics dominated late in the month and extending into March, including sizable de-grossing of

[5] HFR, Inc. As of March 26, 2025.

CIO Views on Alts Strategies

HEDGE STRATEGIES

Equity Hedge +	
Bull case	Potential alpha*generation opportunities for low net strategies in volatile or high-dispersion markets; sustained improvement in short alpha; low net better positioned if Equities sell off
Bear case	Return of concentrated and beta**-driven market would limit opportunity set; a challenging environment for shorting could limit alpha
Event Driven	
Bull case	Higher rates pressuring levered balance sheets creating potential for distress; 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; economic resiliency supportive of credit; decent though declining dispersion in HY
Bear case	Spreads not attractively wide; potential increase in credit risk and defaults in coming year
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; sharp-change in policy direction
Bear case	Coordinated central bank rate moves could limit dispersion; choppy markets difficult for trend-following; if rate volatility declined

*Alpha is a measure of how well an investment performs relative to a benchmark or what's expected based on its risk level.**Beta is a financial metric that measures how volatile an investment is compared to the market. **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.

exposures and factor rotations.[6] Momentum, crowded names, and IT/AI themes were most acutely impacted as funds rushed to step out of the way of big reversals. As volatility began to ease later in March, EH strategies clawed back some of their recent losses while selectively scooping up battered stocks. Notably, quantitative EH strategies appear to have continued to post strong performance throughout the recent volatility, generating significant alpha. Overall, we expect a continued favorable backdrop for alpha generation, including lower pair-wise stock correlations and higher dispersion. The potential for renewed volatility could bolster low net strategies given the uncertain environment. Macro strategies, meanwhile, declined 1.4% in February given large reversals in currencies and Fixed Income. Despite recent weakness, however, Macro strategies may be well suited to navigate the regional divergences in fiscal and monetary postures across global asset classes.

Private Equity & Credit: Private Equity (PE) performance improved, with gains of approximately 3% in Q3 2024.[7] Earnings releases from prominent publicly listed Alts asset managers, which can serve as a rough gauge of industry trends, suggested further gains in Q4 2024 of approximately 2%, once again failing to outpace public Equities.[8] The biggest theme across PE has been reduced transaction activity, which has had the effect of slowing distributions to limited partners (LP) and increasing the average age of portfolio holdings in older fund vintages—the median holding period of buyout-backed companies in PE funds has increased more than 20% during the slowdown in the last two years.[9] In a positive sign, deal activity already started to pick up in the back half of 2024, and expectations are for even greater transaction volumes in 2025 amid an accommodative antitrust and regulatory regime. Uncertainty from policy implementation and potentially higher interest rates remain risks to a PE bull market.

Private Credit (PC), meanwhile, has continued to generate consistent positive returns. Using private fund performance data, PC gained approximately 3% in Q3 2024, bringing the one-year internal rate of return to 10%.[10] Other PC indexes showed continued positive performance in Q4 2024 of approximately 2.8%.[11] Though the asset class is in a secular upward trajectory, it continues to battle cyclically with public leveraged credit markets—gaining share in certain environments. More recently, spreads have widened across the leveraged credit universe during the early-March volatility, which could have spillover effects into PC. Overall, yields remain attractive, and fundamentals have been stable thus far. The growing risks of inflation and stagnation could especially challenge the lower end of the market given smaller liquidity cushions. On the flipside, should conditions ease, a strong PE deal market could open up net new issuance, which has been stagnant in recent years. We continue to emphasize working with established and well-resourced managers, and think PC is best positioned within a diversified allocation to Alts and should be tactically compared to other Alts asset classes and strategies, in particular PE.

Private Real Estate: Private Real Estate (PRE) showed signs of stabilization in 2024 with prices appearing to bottom and transactions climbing into year-end. Momentum for both has continued in the first two months of 2025, with prices and deal volumes increasing 1.3% and 23% YoY, respectively.[12] After a multiyear adjustment, the forward-looking opportunity set is improving. But near-term uncertainty remains high, and the asset class is highly leveraged to interest rate dynamics. Encouraging signposts include Office reaching levels that are enticing buyers, multifamily oversupply in certain markets likely to fade rapidly, and a growing number of larger banks beginning to return to the CRE lending market after taking the necessary write-downs.

We continue to expect systemic issues to be contained but for the PRE cycle to continue to play out as a slow burn. As suggested, reduced interest rate uncertainty would likely spur transaction activity and aid in price discovery. For the longer term, PRE continues to make sense as a strategic allocation given the potential diversification benefits and income features.

Infrastructure: Infrastructure remains a key long-term theme. The U.S. has a widely acknowledged base of aging infrastructure that will require significant public and private investment. Hundreds of billions of dollars have already been earmarked for infrastructure spend through several federal bills in recent years. Though some of those public dollars

[6] BofA Securities, Morgan Stanley Prime Brokerage, Goldman Sachs Prime Services. As of March 26, 2025.
[7] Cambridge Associates, PitchBook. Bloomberg. As of March 26, 2025.
[8] Bloomberg, PitchBook. As of March 26, 2025.
[9] PitchBook. As of March 26, 2025.
[10] Cambridge Associates, Refinitiv EIKON. As of March 26, 2025.
[11] Lincoln International. Lincoln Senior Debt Index. As of March 26, 2025.
[12] MSCI Real Capital Analytics. As of March 26, 2025.

PRIVATE EQUITY & CREDIT

Buyout	
Bull case	Current vintages likely attractive for long-term given profitability focus; within PE, Secondaries benefiting from secular growth and institutional investors seeking liquidity; deal activity starting to pick up and could surge if momentum builds
Bear case	Higher rates require larger Equity investments; deal and exit activity susceptible to higher-for-longer

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

Special Situations	
Bull case	Default rates rising; higher-for-longer would increase pressure on levered balance sheets; RE-adjacent opportunities; companies seeking creative financing before maturities
Bear case	Rate cuts could smooth out credit cycle, keeping it more average

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

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 depressed; risk of mortgage rates not declining as much as market hoped; pressure rising in value-add multifamily financed with floating-rate debt and over-supply in certain markets

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 Infra now in cross-hairs; higher rates challenging project financing; lower inflation could mitigate relative attractiveness

Tangible Assets	
Bull case	Geopolitical risk could spill over and pressure commodities supply; China stimulus could drive demand; macro factors including currency could support oil prices; untethered U.S. government debt; potential for diversification and inflation hedge
Bear case	Muted global growth may reduce demand; balanced energy supply has offset Middle East tensions

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.

may be at risk given new executive and congressional priorities, expectations are for more surgical changes to existing funding. In addition, the private sector opportunity set in Infrastructure remains large and will likely be minimally impacted by potential legislative changes over the long term. The rapid growth of the digitization and data center's themes, for example, is predominantly driven by capital expenditures from the private sector (e.g., the hyperscalers) and is independent of government largesse. Given the long-term tailwinds, which remain intact for the time being, as well as the strong and consistent returns and the potential to serve as a hedge against rising inflation, Infrastructure continues to remain an attractive allocation.

Tangible Assets: Global growth is stirring, with signs that the manufacturing cycle is starting to pick up supporting copper and other commodity prices. Market expectations for impactful fiscal and monetary stimulus in China have started to appear and helped stabilize commodity prices. Geopolitical risks are wild cards for energy commodity prices. Absent a supply disruption, the oil market appears fundamentally balanced with ample supply and restrained demand. For gold, geopolitical tensions should continue to support prices. We continue to believe gold is most effectively implemented as a strategic diversifier. Importantly, the U.S. dollar remains overvalued versus a number of major currencies, especially those in Asia.

MACRO STRATEGY

- Personal Income and spending data were strong in 2024, with both measures growing at a 5% YoY pace. The strong data caused real PCE, a measure of total real consumer spending to grow at a 4% pace in Q4 2024. Income growth remains solid in 2025, but consumption was hit hard by cold winter weather in January. However, with income growth still solid spending should get back on track.
- Claims for unemployment compensation are still very low despite rising government layoffs, while job openings remain plentiful relative to unemployment.
- Overall PCE inflation rose 2.5% in the 12 months through February the same as in January. Core inflation has stalled around 3% for several months now as the disinflation trend seems to have ended.
- The profits cycle for large U.S. companies and policy tailwind from additional tax cuts and deregulation remain supportive of economic growth and risk assets with volatility likely as tariffs remain a concern.

ECONOMIC FORECASTS (AS OF 3/28/2025)

	Q4 2024A	2024A	Q1 2025E	Q2 2025E	Q3 2025E	Q4 2025E	2025E
Real global GDP (% y/y annualized)	-	3.2	-	-	-	-	3.1
Real U.S. GDP (% q/q annualized)	2.4	2.8	1.5	1.5	2.0	2.0	2.1
CPI inflation (% y/y)	2.7	3.0	2.8	2.9	3.2	3.0	3.0
Core CPI inflation (% y/y)	3.3	3.4	3.2	3.3	3.5	3.3	3.3
Unemployment rate (%)	4.2	4.0	4.1	4.2	4.2	4.2	4.2
Fed funds rate, end period (%)	4.38	4.38	4.38	4.38	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 April 1, 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.

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 April 1, 2025.

CIO ASSET CLASS VIEWS AS OF APRIL 1, 2025

Asset Class	CIO View: Underweight		CIO View: Neutral	CIO View: Overweight		Comments
Global Equities				●		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.
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 emphasize the importance of incorporating both Growth and Value, as appropriate.
U.S. Large-cap Value				●		
U.S. Small-cap Growth				●		While headwinds persist, we maintain a slight overweight to Small-caps on attractive valuations and the potential for an earnings inflection later this year. We continue to suggest a balance of Value and Growth factors
U.S. Small-cap Value				●		
International Developed			●			We are neutral International Developed Equities. Valuations appear attractive on a relative basis, with potential upside catalysts from fiscal and monetary policy in Europe and domestic reforms in Japan. Imposition of U.S. import tariffs remains a prospective downside risk.
Emerging Markets			●			We are neutral EM overall with regional markets likely to be driven by relative exposures to China, potential progress on Russia-Ukraine conflict resolution and natural resource prices. Valuations appear attractive, but Fed rate cuts are unlikely to have a major positive impact and tariffs pose risks to more goods trade-oriented economies
International						
North America				●		The U.S. remains our preferred region given balance sheet strength, better fundamentals for consumer spending and healthy shareholder payouts.
Eurozone			●			Expansionary fiscal policy combined with additional ECB rate cuts and attractive relative valuations are potential market tailwinds. Risks remain from growing competition with China in key industries and imposition of U.S. trade restrictions.
U.K.			●			Domestic demand at risk from still high mortgage rates alongside higher business taxes from government budget. Withdrawal from EU single market remains a negative for medium-term growth, though trade may be insulated from potential tariffs by high service share of exports.
Japan				●		Sustained positive inflation and official efforts to increase corporate returns to shareholders remain fundamental supports for valuation. Potential for faster interest rate hikes could represent a potential headwind if yen weakness persists.
Asia Pac ex-Japan*		●				Regional market likely to be driven in near term by slower economic growth in expectations around China economic growth and impact on consumption and resource demand. Longer-term outlook dampened by exposure to ongoing structural constraints for China's economy.
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 10 to 15 years. A Treasury allocation for liquidity, principal preservation, and diversification is advised, as Treasurys provide the best short-term diversification benefits to Equities among Fixed Income sectors. Rate volatility has increased and may remain high.
U.S. Mortgages		●				MBS spreads have tightened to the mid-30s (bps) and are now inside of their longer-term average. This reduces their appeal and potential for additional upside relative to Treasurys, in our view. That said, on a relative basis, MBS remains attractive compared to high-quality corporates.
U.S. Corporates		●				All-in yields are still compelling, which combined with still supportive macro and fundamental backdrops, should contain spread widening in response to lingering policy uncertainties. That said, valuations are still rich and excess returns are likely to be driven more by carry versus additional spread tightening over the next 12 months.
International Fixed Income			●			International rates markets are at normal valuation levels on a U.S. dollar-hedged basis.
High Yield			●			High yield valuations remain expensive, but a positive macroeconomic environment may limit spread volatility and credit losses. Within high yield allocation, we continue to suggest a balanced mix between loans and bonds.
U.S. Investment-grade Tax Exempt		●				Tax-exempt bond valuations have improved due to a combination of technical and fundamental factors including increased new issue supply, a seasonal lull in redemptions, pre-Tax Day selling, a flight to quality, uncertainty on federal funding to municipal issuers, and potential tax policy changes. We believe most of these factors will be resolved over the near term, at which point muni valuations could be poised to rally.
U.S. High Yield Tax Exempt		●				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 APRIL 1, 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	•	•	•	●	•	The positive outlook for the Financials sector is concurrent with the start of a Fed easing cycle that is now paused. More importantly, prospects of a lighter regulatory touch under Trump 2.0 has the potential to increase profitability sector-wide (especially for banks). 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. **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.**
Consumer Discretionary	•	•	•	●	•	With a resilient consumer, a solid job market, lower interest rates on the horizon and a better-than-expected economic backdrop, we are overweight Consumer Discretionary. Slightly lower energy costs, wage increases and a strong job market with only selective job cuts confined largely to the technology-related industries 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 is supporting consumer confidence. 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 fading momentum to start the year. **Risk Considerations: 1) economic slowdown, 2) spikes in energy prices or interest rates, 3) geopolitical uncertainty.**
Utilities	•	•	•	●	•	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, transmission and distribution (T&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. Over the next decade, IRA legislation supports a strong runway for future renewable energy investments and projects, and we see long-term demand for renewables as sustainable under most policy backdrops. 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&P 500 index and momentum is neutral. **Risk Considerations: 1) slower power demand growth than forecast, 2) greater regulatory scrutiny, 3) power outage events.**
Information Technology	•	•	●	•	•	The Information Technology sector is neutral despite improvements in supply chains and AI-driven flows into 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. **Risk Considerations: 1) China exposure and trade wars, 2) supply chain constraints, 3) GAI monetization, 4) narrow breadth and premium valuations.**

Sector	CIO View (Underweight – Neutral – Overweight)	Comments
Communication Services	○ ○ ● ○ ○	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 turned negative to start this year. **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.**
Healthcare	○ ○ ● ○ ○	We are neutral on the Healthcare sector in 2025 on a confluence of macro, micro, and policy uncertainties that we believe reduce the probability of a sustained rally in the Healthcare sector. 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 incoming administration increases 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. M&A is a recurring talking point amongst investors moving into the new year as rates declined slowly over recent quarters, but we believe M&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 improved. **Risk Considerations: 1) repeal of the Affordable Care Act without another plan in place and uncertainty, 2) drug pricing negotiations broaden out from the current IRA structure.**
Industrials	○ ○ ● ○ ○	We are neutral on the Industrials sector after mixed earnings results, a lack of significant green shoots in the industrial economy outside of AI and electrification, and cautious second-half company guidance. 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 multiyear 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 neutral. **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.**
Real Estate	○ ○ ● ○ ○	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 fewer but 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, eCommerce, 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. **Risk Considerations: 1) spike in interest rates and borrowing costs, 2) declining demand for CRE in over supplied markets, 3) workout problems.**
Energy	○ ● ○ ○ ○	We remain concerned about the global oil supply and demand outlook for 2025. Despite tensions and conflicts in the Middle East, production has not been interrupted and therefore has capped oil price upside. Further, growing oil production from both OPEC+ producers and non-OPEC producers in Guyana, Gulf of Mexico, offshore Brazil and other regions could add to inventories in an environment that is already moving towards an oversupplied market. Combined with slower global demand, led by China, we see risks to energy company cash flows and earnings estimates in future quarters. OPEC+ recently changed their policy by ending the production cuts and is an important change in current policy for energy markets. This dynamic has investor sentiment very cautious on the sector. Expectations of sanctions on Iranian oil supported a recent rally in oil prices and energy stocks after starting the year in down trends. Any potential oil price declines to lower ranges could weigh on energy stocks this year. Energy companies are still returning cash to shareholders through a combination of base dividends, increasingly less variable dividends, and stock buybacks. Longer term, secular headwinds still confront the sector, including the transition to clean energy, lower renewable energy costs, declining short-cycle inventories and sustainability-focused investors. Continue to emphasize 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 neutral momentum. **Risk Considerations: 1) lower oil and natural gas commodity prices, 2) slower global energy demand.**

Sector	CIO View					Comments
	Underweight		Neutral		Overweight	
Materials		●				Pockets of slower global growth and weaker commodity prices factor into our continued cautious view on the Materials sector. We are seeing deceleration in the pricing cycle from higher pricing levels of recent years and some signs of oversupply in specific areas. Higher interest rates in the developed world and ongoing trials securing labor and materials are pushing some project timelines to the right, and, with the additional challenge of higher energy costs, we are seeing some formerly profitable projects being reconsidered. On the supply side, concerns remain about too much new capacity in the future for petrochemicals and commodity chemicals with questions regarding demand levels for 2025. Multiples could expand or contract dependent on pricing across the commodity complex. Downward pricing pressure would give some intermediaries relief on costs, but if they are also experiencing volumes decline, operating leverage could be at risk. We still see some longer-term tailwinds for demand, such as AI growth and power buildouts over the longer term; however, mixed data and the slower- than-expected growth and activity in China makes the risk-reward outlook less attractive with both inflation and pricing power moving lower. Earnings revision trends could be mixed going forward. As a result, the underlying sector valuation is neutral, but momentum declined into year-end. **Risk Considerations: 1) slower global economic growth, 2) weaker residential and non-residential construction, 3) oversupplied materials markets.**
Consumer Staples		●				The recent directional change in our Consumer Staples sector view is 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 increase 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 approaching multi-year lows. Valuations are fair to undervalued, and momentum is showing some modest improvement in recent weeks. **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 APRIL 1, 2025

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.

Level 1	Level 2
Transformative Innovation • Generative AI • Robotics/Automation • Digitization	**Generative AI:** 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 • Utility Infrastructure • Supply Chain Reconfiguration	**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 • Cybersecurity • Resource Protectionism	**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 • Great Wealth Transfer • Global Labor Force Distribution	**Healthcare Innovation:** Ageing, 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.

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

University of Michigan Consumer Sentiment Index is a monthly survey of consumer confidence levels in the U.S. and is based on telephone interviews that gather information on consumer expectations for the economy.

MSCI World Index ex-U.S. is an equity index that tracks the performance of companies from 22 developed markets worldwide, excluding the United States, capturing large and mid-cap representation.

National Federation of Independent Business Uncertainty Index measures the level of uncertainty among small business owners regarding their future business conditions and decisions.

S&P 500 Equal Weight Index is an alternative version of the S&P 500 index that assigns equal weight to each of the 500 constituent stocks, rather than weighting them by market capitalization, providing a more diversified exposure to the US equity market.

S&P 500 Market Capitalization Weighted index assigns weights to its component stocks based on their total market capitalization, meaning larger companies have a greater influence on the index's performance.

Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. Equity universe. It includes those Russell 1000 companies with relatively lower price-to-book ratios, lower I/B/E/S forecast medium term (2 year) growth and lower sales per share historical growth (5 years).

Russell Growth Index measures the performance of the large- cap growth segment of the US equity universe. It includes those Russell 1000 companies with relatively higher price-to-book ratios, higher I/B/E/S forecast medium term (2 year) growth and higher sales per share historical growth (5 years).

Trade Policy Uncertainty Index Uncertainty Index measures the frequency of articles discussing trade policy and uncertainty in major newspapers, normalized to a value of 100 for a 1% article share, and is a tool to gauge economic uncertainty related to trade policies.

Lincoln Senior Debt Index is a quarterly index that tracks the fair market value of 1,600 middle market, direct lending credit investments every quarter across approximately 175+ fund clients in the U.S. and in Europe.

Important Disclosures

Investing involves risk, including the possible loss of principal. Past performance is no guarantee of future results.

This material does not take into account a client's particular investment objectives, financial situations, or needs and is not intended as a recommendation, offer, or solicitation for the purchase or sale of any security or investment strategy. Merrill offers a broad range of brokerage, investment advisory (including financial planning) and other services. There are important differences between brokerage and investment advisory services, including the type of advice and assistance provided, the fees charged, and the rights and obligations of the parties. It is important to understand the differences, particularly when determining which service or services to select. For more information about these services and their differences, speak with your Merrill financial advisor.

Bank of America, Merrill, their affiliates, and advisors do not provide legal, tax, or accounting advice. Clients should consult their legal and/or tax advisors before making any financial decisions.

This information should not be construed as investment advice and is subject to change. It is provided for informational purposes only and is not intended to be either a specific offer by Bank of America, Merrill or any affiliate to sell or provide, or a specific invitation for a consumer to apply for, any particular retail financial product or service that may be available.

The Chief Investment Office (CIO) provides thought leadership on wealth management, investment strategy and global markets; portfolio management solutions; due diligence; and solutions oversight and data analytics. CIO viewpoints are developed for Bank of America Private Bank, a division of Bank of America, N.A., ("Bank of America") and Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S" or "Merrill"), a registered broker-dealer, registered investment adviser and a wholly owned subsidiary of Bank of America Corporation ("BofA Corp.").

The Global Wealth & Investment Management Investment Strategy Committee (GWIM ISC) is responsible for developing and coordinating recommendations for short-term and long-term investment strategy and market views encompassing markets, economic indicators, asset classes and other market-related projections affecting GWIM.

BofA Global Research is research produced by BofA Securities, Inc. ("BofAS") and/or one or more of its affiliates. BofAS is a registered broker-dealer, Member SIPC and wholly owned subsidiary of Bank of America Corporation.

All 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.

Asset allocation, diversification and rebalancing do not ensure a profit or protect against loss in declining markets.

Dividend payments are not guaranteed, and are paid only when declared by an issuer's board of directors. The amount of a dividend payment, if any, can vary over time.

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. Bond portfolio laddering does not reduce market risk, and the principal and yield of investment securities will fluctuate with changes in market conditions. 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.

Alternative investments are speculative and involve a high degree of risk.

Alternative investments are intended for qualified investors only. Alternative Investments such as derivatives, hedge funds, private equity funds, and funds of funds can result in higher return potential but also higher loss potential. Changes in economic conditions or other circumstances may adversely affect your investments. Before you invest in alternative investments, you should consider your overall financial situation, how much money you have to invest, your need for liquidity, and your tolerance for risk.

Nonfinancial assets, such as closely-held businesses, real estate, fine art, oil, gas and mineral properties, and timber, farm and ranch land, are complex in nature and involve risks including total loss of value. Special risk considerations include natural events (for example, earthquakes or fires), complex tax considerations, and lack of liquidity. Nonfinancial assets are not in the best interest of all investors. Always consult with your independent attorney, tax advisor, investment manager, and insurance agent for final recommendations and before changing or implementing any financial, tax, or estate planning strategy.

Sustainable and Impact Investing and/or Environmental, Social and Governance (ESG) managers may take into consideration factors beyond traditional financial information to select securities, which could result in relative investment performance deviating from other strategies or broad market benchmarks, depending on whether such sectors or investments are in or out of favor in the market. Further, ESG strategies may rely on certain values based criteria to eliminate exposures found in similar strategies or broad market benchmarks, which could also result in relative investment performance deviating.

© 2025 Bank of America Corporation. All rights reserved.