

Viewpoint

The Rotation is Underway

October 2021

All data, projections and opinions are as of the date of this report and subject to change.

IN BRIEF

- Leading economic indicators suggest cyclical momentum is picking back up as the most recent coronavirus wave eases. The macro backdrop continues to support cyclical, reflationary positioning. We believe this is a positive backdrop for Equities.
- The U.S. remains our preferred equity region relative to the rest of the world, with stronger balance sheets on aggregate, robust economic growth prospects, and strong earnings revisions.
- The Federal Reserve (Fed) indicated at its September Federal Open Market Committee (FOMC) meeting that tapering of asset purchases is likely to begin in November and finish toward the middle of next year.
- We expect volatility to rise as financial conditions tighten as the Fed begins to taper and interest rates drift higher.

Over the past few weeks, investors have been grappling with a number of confusing economic signals, heightened geopolitical risk, fiscal and monetary policy clouds, and risk assets that have been consolidating with a negative trend bias. Much of this trend can be considered seasonal, transitory and expected given the oversized move to most equity indexes since the beginning of the year. Sector and factor rotation has had multiple episodes throughout the year and is here yet again as we speak.

We believe the ladder of concerns is likely to remain quite high for a number of reasons. We have a complex workout process still ahead of us in the global economy. Our view is that many of these concerns are likely to fade in the coming months and others require a more diversified portfolio strategy to help cushion volatility, particularly as we enter a period in which the Fed is removing the emergency accommodation that has been in place since March of 2020.

In the short term, what are the larger concerns that we should continue to watch?

- Global supply chain disruptions
- A shortage in global energy
- Lack of labor supply and rising labor costs
- High oil and gas prices

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CIO ASSET CLASS VIEWS

This month, the Global Wealth & Investment Management Investment Strategy Committee did not make any tactical asset allocation adjustments. We reaffirm our positive view on Equities relative to Fixed Income with a preference for U.S. Equities relative to International. We continue to emphasize portfolio diversification both across and within asset classes, and a disciplined approach to rebalancing.

[▶ View the CIO Asset Allocation Guidelines](#)

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Asset Class	CIO View				
	Underweight	Neutral	Overweight		
Global Equities	•	•	•	●	•
U.S. Large-cap Growth	•	•	•	●	•
U.S. Large-cap Value	•	•	•	●	•
U.S. Small-cap Growth	•	•	•	●	•
U.S. Small-cap Value	•	•	•	●	•
International Developed	•	•	●	•	•
Emerging Markets	•	•	●	•	•
Global Fixed Income	•	●	•	•	•
U.S. Governments	•	●	•	•	•
U.S. Mortgages	•	•	●	•	•
U.S. Corporates	•	•	•	●	•
High Yield	•	●	•	•	•
U.S. Investment Grade Tax Exempt	•	•	●	•	•
U.S. High Yield Tax Exempt	•	●	•	•	•
International Fixed Income	●	•	•	•	•
Alternative Investments*					
Hedge Funds				●	
Private Equity				●	
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.

- Continued climate disruptions
- The potential for higher taxes
- Fed tapering and interest rate policy
- Higher inflation for longer
- Rising geopolitical risk
- U.S. debt ceiling and funding the government
- Peak profits and peak accommodation
- The coronavirus Delta variant
- China's property debt and collateral effects

What could investors with large cash positions consider heading into the final quarter of 2021 and into 2022, where appropriate for their particular investment objectives and risk tolerance?

- Maintain an Equity overweight relative to Fixed Income overall.
- Be diversified across the equity asset class, which includes a solid balance between Value and Growth.
- Maintain a U.S. Equity bias relative to non-U.S.
- Leverage weak periods to add to value-biased areas including Financials, Energy and Materials as yields rise and inflation remains.
- Try not to shift from one side of the boat to the other: Maintain long-term positioning in higher-quality growth—namely Technology—as many long-term demographics and themes are still in their early stages.
- Consider tax-aware strategies as well as dividend growth strategies particularly in the large capitalization areas.
- Have a disciplined portfolio rebalancing strategy particularly as asset prices begin to reflect changes in the business and market cycles.
- Alternative investments potentially become more attractive for qualified investors as volatility rises, the Fed removes their emergency accommodation, and demand for inflation hedges increases.

CIO INVESTMENT DASHBOARD

The outlook for global economic activity remains strong, with 90% of proprietary growth indicators (a range of indicators across different economies, strategies, markets and asset classes) flagging a bullish or neutral signal, according to BofA Global Research. Elevated consumer net worth, savings and job growth should remain powerful supports, while risks from the spread of a more infectious coronavirus variant remain. Corporate earnings are demonstrating considerable momentum across styles, sectors and regions. Monetary and fiscal policy continues to provide an accommodative backdrop for Equities, with combined stimulus measures so far totaling 57% of gross domestic product (GDP) in the U.S., according to Cornerstone Macro Research. Corporate credit conditions are generally benign, with credit spreads remaining in a tight range across Investment-grade (IG) and High Yield (HY). Relative valuations continue to favor Equities over Fixed Income, although a disorderly move higher in yields would be a headwind.

Investor sentiment is neutral, having moderated recently. We are mindful of the potential for some profit-taking by investors in the near term amid concerns about inflation. However, any

pullback is likely to be an opportunity to add to cyclical areas of the market, given higher levels of nominal growth and profits.

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

Factor	Implication for Equities			CIO View
	Negative	Neutral	Positive	
Earnings				Q2 profits in the U.S. and Europe were much better-than-expected with historically high beats on the top and bottom lines. Upward earnings revisions point to a continued robust profits picture. U.S. profit margins have trended higher on better-than-expected nominal growth and productivity improvements. For Q3, the consensus estimate is for growth of roughly 27% on a year-over-year basis, according to FactSet.
Valuations				U.S. equity valuations are extended on an absolute basis but remain attractive compared to Fixed Income. S&P 500 price-to-earnings (P/E) ratio (next 12 months) is at 20x, higher than the historical average, but has declined this year as earnings have risen. The S&P 500 earnings yield is 338 basis points (bps) above the 10-year Treasury yield, indicating more upside for Equities relative to Fixed Income. Low but positive interest rates have been underpinning higher valuations for Equities by maintaining easier financial conditions while keeping deflationary concerns at bay.
U.S. Macro				U.S. economic growth remains strong, with Q2 GDP growing by 6.7%, following Q1 growth of 6.3%. Consumer spending is supported by an improving labor market, economic reopening, record-high household net worth and excess savings. Purchasing Managers' Index (PMI) surveys indicate the manufacturing sector remains robust, though recent strength in the service sector is showing signs of cooling. Rising coronavirus cases and supply chain disruptions and shortages remain a risk to growth continuing to surprise to the upside. BofA Global Research expects full-year real U.S. GDP growth of 5.9%. Encouragingly, new cases of the coronavirus have declined on a global basis. However, reflecting the potential for an uneven recovery, rising energy prices pose an emerging headwind for economic growth in China and Europe. BofA Global Research expects the global economy to grow by 5.9%, led by China and the U.S. For 2022, growth is expected to be 4.6%.
Global Growth				The Fed has maintained its ultra-accommodative stance, aiming to achieve an average inflation rate of 2% over time and broad inclusive improvement in the labor market. However, the FOMC has signaled that due to improvement in the economy, it may begin tapering the central bank's asset purchases by November, while expectations for an increase in the policy interest rate next year have risen. Overall, inflation data, such as Consumer Price Index (CPI), Producer Price Index (PPI) and consumer expectation for prices has surprised to the upside, driven by strong demand and constrained supply in the global economy.
Federal Reserve/Inflation				Including relief passed in March, which contained payments for individuals and support for small business, among other measures, U.S. authorities have now authorized fiscal stimulus equating to roughly 28% of GDP since the start of the pandemic. Policymakers are deliberating the appropriate steps towards approving additional fiscal stimulus, including a bipartisan agreement on infrastructure that would add roughly \$550 billion to baseline spending and a \$3.5 trillion budget plan to be put through the reconciliation process by the Democratic-controlled Congress. Lack of an agreement to raise or suspend the debt ceiling remains a risk.
Trade/Fiscal Policy				Corporate credit conditions remain benign as a result of measures taken by the Fed and rising corporate earnings and cash flows. Despite recent volatility, credit spreads remain tight across IG and HY, indicating financial conditions remain accommodative, and economic fundamentals are strong.
Corporate Credit				While yield curves have flattened since earlier in the year, there has been recent stabilization. The 2/10 Treasury curve is at 118 bps, up from 103 bps in late August, though down from its peak of 157 bps in March. Rates on the front end have ticked higher to reflect higher expectations for Fed hikes sooner rather than later. Rates on the back end have been weighed down, partly due to low rates globally and coronavirus-related uncertainty. Still, broadly, the curve indicates a positive outlook for growth.
Yield Curve				In September, the Chicago Board Options Exchange (CBOE) Volatility Index (VIX) level has spent more time above 20, compared to July and August. Market breadth has continued to deteriorate, as the percentage of New York Stock Exchange (NYSE) stocks above their 200-day moving average has declined to around 60%, off the peak of 87% for the year. The cumulative advance/decline line for NYSE equities peaked around mid-June, though has maintained some resilience.
Technical Indicators				Among individual investors, bears now outnumber bulls, according to the American Association of Individual Investors. Meanwhile, cash levels in money market funds remain elevated, which could be deployed to buy market pullbacks. BofA Global Research Bull & Bear Indicator is at 5.6, signaling a neutral reading.
Investor Sentiment				

Source: Chief Investment Office. Data as of October 5, 2021.

EQUITIES

We expect Equities to outperform Fixed Income: Global Equities have pulled back some recently but remain near their historic highs as the economic recovery continues and as medical advances and historic levels of global monetary and fiscal stimulus potentially offer faster-than-expected economic normalization. The Fed's commitment to maintaining accommodation lends confidence for higher nominal growth and corporate earnings, while Equities remain reasonably valued relative to other asset classes from a cash-flow and yield perspective. We are monitoring the possibility of higher bond yields and persistent higher levels of inflation, although we generally would expect an increase in price levels to favor Equities over Fixed Income. We continue to favor U.S. Equities and are neutral International Developed Equities and Emerging Markets (EM).

We are overweight U.S. Equities overall: The U.S. remains our preferred equity region relative to the rest of the world, with stronger balance sheets on aggregate, robust economic growth prospects, and strong earnings revisions. U.S. Large-caps generally offer a balance of Quality, Yield and Growth factors, while Small-caps offer higher cyclical and more attractive relative valuations.

We expect earnings per share (EPS) for the S&P 500 to improve to \$204 in 2021, with potential for upside as earnings estimates trend higher. A strong manufacturing sector, capital expenditures (CapEx) and margin improvement also bolster the case for a stronger-than-expected earnings recovery, although the prospect of higher taxes is a potential headwind. U.S. Equity valuations are extended on an absolute basis but remain attractive compared to Fixed Income. The rising exposure of the S&P 500 to secular growth industries, lower levels of global interest rates and improving profit margins support higher multiples longer term, but, in the near term, performance will likely be influenced by economic reopening, sentiment and policy developments. We expect volatility to rise as financial conditions tighten as the Fed begins to taper and interest rates drift higher.

We remain constructive toward the Financials, Industrials, Energy and Materials sectors, which should benefit from the continued economic recovery and a steeper yield curve, and maintain our positive long-term outlook on Technology due to a secular rise in spending on innovation, productivity and the continued digitalization of the economy. We continue to maintain a positive outlook for the consumer; however, the Consumer Discretionary sector is discounting the reopening, and rising input costs pose a risk to margins. Healthcare is a diverse sector with a mix of defensive bond proxies and high-growth stocks that could face headwinds in this part of the cycle. However, we still believe the long-term trends in global healthcare spending are positive. We believe portfolios should have a balance of both Growth and Value factors that would simultaneously gain from cyclical and secular forces gaining traction. Growth should continue to benefit from accelerated secular investments in 5G, artificial intelligence, cloud computing, robotics and health infrastructure globally. Value has higher exposure to cyclical sectors that benefit from an improved pace of earnings growth and economic normalization.

We are neutral Emerging Market equities: EM equities have been relative underperformers so far this year given weaker fiscal support, slower vaccination rollouts in lower-income countries, a moderation in the growth outlook for China, and upside risks for U.S. inflation and interest rates. We nonetheless continue to expect a wide return dispersion between individual EM countries and regions. Cyclically oriented markets in Latin America and EMEA (Europe, Middle East and Africa) should be well positioned as global economic activity continues to normalize, while markets in Asia with high exposure to digital industries remain long-term beneficiaries of the expanding digital economy. We also see trade tensions with the U.S. and intermittent shifts in regulatory policy causing periodic bouts of volatility for the heavyweight China market. This risk bears watching as China comprises roughly 35% of broad EM indexes and, therefore, can create a policy-driven overhang in the medium term. The continued rise in EM consumer spending remains a big reason why we believe investors should maintain a strategic allocation to EM equities. The emerging world now constitutes around 40% of global personal consumption expenditures (PCE) according to the United Nations, and ongoing convergence with developed economies should support GDP growth and corporate earnings over the longer term. We favor active management¹ when investing in EM, as fundamentals differ across countries, based on key vulnerabilities to commodity prices, borrowing costs, external financing conditions and other factors.

We are neutral International Developed Market equities: International equities have been mixed this year as the pace of economic reopening, earnings recovery and relative valuation differs across countries. Europe has performed well on the back of improving growth and record positive earnings revisions. Japanese equities have recently rallied as their vaccine rollout has ramped higher, earnings revisions have picked up, and investors have been expecting more fiscal stimulus given the change in leadership. Both Europe and

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

Japan have strong sensitivities to global economic activity and should benefit as output continues to normalize. As we move through 2021, monetary and fiscal stimulus should continue to be a potential tailwind, with Japan having committed approximately 74% of GDP combined stimulus and the Eurozone adding nearly 51%, according to Cornerstone Macro Research. International Developed equities have the potential to add cyclical and Value orientation in portfolios.

EQUITY WATCH LIST

- Regional economic reopenings, coronavirus case trends, vaccination distribution timeline
- Rising expectations for Fed tightening as inflationary pressures persist
- Economic data for production, labor, consumer expectations, and credit and liquidity conditions
- Acceleration of earnings estimate upgrades
- Fiscal policy adjustments, including additional spending packages and taxes
- Reorganization of global supply chains and U.S.-China relationship

FIXED INCOME

We are slightly underweight Fixed Income: We prefer short duration relative to a stated fixed income benchmark that is aligned to investment goals. The Fed indicated at its September FOMC meeting that tapering of Treasury and agency Mortgage-backed Securities (MBS) asset purchases is likely to begin in November and finish toward the middle of next year. This tightening of monetary policy should be a catalyst for rates to eventually move higher. Inflation is still high, but the inflation expectations curve is inverted, and there is a significant difference between actual and expected inflation, highlighting the market's view that this recent increase in inflation is transitory. The Fed concurs and believes it has time to slowly withdraw accommodation, which somewhat increases the risk of a quicker pace of interest rate hikes eventually if inflation does not prove to be transitory. Treasury market volatility may therefore increase in the coming months as the market grapples with more persistent inflation and a slow pace of removing accommodation. On balance, Fed policy, therefore, continues to be positive for risk assets, credit risk, economic growth and inflation and negative for interest-rate risk.

10-year Treasury rates have successfully broken out of their five-month downtrend, increasing almost 40 bps from their 2021 lows to the 1.55% area. While there should be upside to Treasury rates over the medium term, Treasuries should still be considered for most investors' portfolios, especially to complement portfolios with equity risk. However, investors less focused on managing short-term equity volatility, with all Fixed Income portfolios, or with better ability to withstand price volatility, should still underweight Treasury allocations while favoring high-quality, IG spread products—corporates, municipals and agency MBS. We still expect Fixed Income to be a diversifier—in the long term, coupon income becomes more of a determining factor to total returns. Treasury/Equity correlations—which had broken down short term earlier in the year—have reasserted themselves consistent with our expectations, however, bear watching if rates continue to rise at an accelerated pace.

We remain slightly overweight Investment-grade and slightly underweight High Yield: Investment-grade corporates should continue to outperform Treasuries as the global economic recovery continues to play out. That said, with spreads in the 80 bps to 90 bps range, we believe that excess returns versus duration-matched Treasuries are likely to come almost exclusively from current spread levels, and likely not from any significant spread tightening. The technical backdrop should remain supportive, underpinned by strong demand and waning supply through the balance of 2021. Spread volatility in response to an unexpected or large move in Treasury yields remains a key risk, although

spreads have been resilient, thus far. However, given expected improvement in fundamentals, any move wider is likely to be short term in nature and should be viewed as a potential buying opportunity.

We believe credit losses in IG are manageable and not a large component of spreads, but the same cannot be said in HY. Despite an improving fundamental backdrop, credit losses may rise and meaningfully reduce total returns. The yields now available in HY (roughly 4%) provide very meager compensation. Within HY allocations, we prefer larger allocations to secured floating-rate leveraged loans versus unsecured high-yield bonds, although both should be included, and we caution investors to be aware that strong near-term performance may not be sustainable.

Municipal bond valuations are rich, as measured on a historical basis, versus Treasuries. However, we believe they are well supported by expected tax rate increases, improving credit conditions, and generous federal fiscal stimulus. Muni credit spreads have tightened through prepandemic levels and are currently at or near post-2007 tight. We expect munis will continue to provide value to tax-sensitive investors, particularly carefully researched, mid-to-lower-quality credits. However, current elevated valuations and tight credit spreads make it less likely that munis will outperform as strongly in the second half of 2021 as they did in the first half. We caution that valuations could cheapen temporarily, if net supply increases or if fiscal policy uncertainty causes a flight to quality. Furthermore, while not in our base case expectations, munis could be vulnerable to lower-than-expected tax rate increases or infrastructure initiatives that adversely affect demand/supply dynamics on a sustained basis.

We are neutral Mortgage-Backed Securities: The current quarter brought volatility to both rates and mortgage markets. With a rapid move in Treasury yields, in particular in the 5-year and 10-year part of the curve, mortgages have experienced a large duration extension from the low 2s to high 4s, as measured by the Bloomberg U.S. MBS Index. Sizable duration extension is limited from here as duration stands within 1.25 year from the high mark seen in the last two decades. In addition, worries originating from Fed tapering caused spreads in MBS to widen from single digits to high-20s in a short period of time. The move would have been worse had the composition of mortgage investors been as it once was, with much larger shares of the market in the Government-Sponsored Enterprise (GSE) portfolios, mortgage Real Estate Investment Trusts (REITs) and other investors sensitive to interest rates. However, according to Credit Suisse, at least 65% of the MBS market is currently in the hands of non-hedgers, with the Fed alone accounting for around one-third or \$2.5 trillion. The Fed's commitment to continuing to buy MBS at \$40 billion per month, with over \$2.5 trillion in purchases since March 2020, remained an overwhelming positive technical for the market, which helped remove demand uncertainties for mortgage investors. Even with tapering expected, the MBS market is steady, as spread widening has already occurred in anticipation while Fed messaging lacked any major surprise. Going forward, increased volatility and oscillating mortgage rates mean higher prepayment risk. That, in turn, means that MBS spreads may widen further to compensate for the added risks. In this environment, we feel it is prudent to continue to take a conservative view on the sector that is facing some headwinds from rates, markets and volatility. In the longer run, MBS still look attractive versus Treasuries with additional yield spread. We feel that uncertainties about prepayments and duration extensions/contractions, depending on rates move, suggest conservative positioning in securities that are less sensitive to extension/contraction. Therefore, we continue to suggest that investors maintain a significant weight to the sector as appropriate for their particular investment objectives and risk tolerance, as it is a large component of the high-quality bond market and a direct beneficiary of Fed intervention, but the opportunity set is currently still greater in the IG corporate sector.

FIXED INCOME WATCH LIST

- Potential Fed policy error, letting inflation run too hot

- Uneven Treasury market sell-off as taper approaches
- Signs of any risk aversion in terms of spreads, yields or new issue activity
- Infrastructure plan and potential changes in the tax code
- Dislocations in Commercial Real Estate (CRE) markets

ALTERNATIVE INVESTMENTS

Given the differences in liquidity characteristics between alternative investments (AI) and traditional investments, the CIO asset class views on AI portfolio positioning continue to be neutral-rated versus our strategic allocations. These types of investments, in our opinion, should not be viewed at the asset class level on a tactical basis, but rather the tactical positioning should be expressed at the sub-asset class level.

We will continue to provide strategy-level guidance for qualified AI investors. We believe allocations to AI can introduce differentiated returns that can help complement existing traditional holdings by potentially enhancing returns, helping to reduce risk and capitalizing on opportunities not available through traditional investments.

We favor a strategic approach when allocating to Hedge Funds: In line with our overall overweight view on Equities, we currently see favorable opportunities for select hedge fund strategies, such as equity long/short and equity market neutral. The tenacity of the coronavirus Delta variant and the slowing of the vaccination rate in the U.S. might cause the U.S. GDP rate to decline slightly from expectations in the third quarter. Even though growth will likely be strong by recent historical standards, it could be below recent expectations. Growth is likely to pick up in Q4, but future GDP growth is somewhat opaque, as the stages of the coronavirus are unpredictable. Another risk to robust growth next year is the possibility that the large infrastructure bill before Congress does not pass, thereby eliminating a source of stimulus just when the U.S. economy might need it.

Not all equity sectors will benefit equally from the economic recovery, with a widening gulf between the leaders and laggards. We think correlations between stocks could continue to decrease while dispersion increases. In this environment, skilled stock pickers stand to benefit, and qualified investors may want to consider looking to equity long/short and equity market-neutral strategies as a means of generating differentiated equity returns that place an emphasis on alpha generation through active management. Recently, merger spreads have widened significantly due to regulatory concerns and an imbalance between the large number of deals and capital allocated to this strategy, suggesting better-than-average returns going forward, albeit with higher risk and volatility. Some of our multi-strategy managers could take advantage of this dislocation. On the other hand, we have become more cautious on relative value strategies as credit spreads have tightened meaningfully and now are well below historical levels. Rising interest rates may also be a headwind for some strategies, however, rates have seemed to level off in a narrow trading range for the moment. For qualified investors seeking diversified return streams, global macro strategies, which are currently benefiting from greater and more diverse opportunities than seen in recent years, also have the potential to provide competitive and less correlated returns given the current backdrop where macroeconomic forces are increasingly dictating price action across all parts of the investment spectrum: stocks, bonds, currencies and commodities.

We favor a strategic approach when allocating to Private Equity: We view these strategies as long-term potential portfolio return enhancers with unique access to specialized investments and strategies unavailable in traditional portfolio construction. We see opportunities across a number of different sectors as the global economy continues to rebound. After dislocations caused by the coronavirus, managers that allocated to buyout and distressed areas of the market last year are starting to see robust returns as the U.S. economy regains its footing. Within the broad private equity universe, we continue to favor special-situation strategies that could benefit from pockets of stress resulting from the

pandemic and from secular shifts across sectors due to disruptive technologies. Private credit strategies are benefiting from the fear of higher interest rates, as many of these investments are more credit than interest rate sensitive. Also, many of these types of investments are floating rate, offering some buffer to higher rates compared to a traditional fixed income portfolio. These strategies may be of interest to qualified investors seeking enhanced yield and may complement traditional fixed income holdings. As per usual, and even more important in markets like these, consider a disciplined, multiyear commitment strategy that can help build portfolio diversity among different managers, styles, geographies and vintages.

We favor a strategic approach when allocating to Private Real Estate: While conditions across the CRE market continue to be closely tied to the return to office scenario, we are starting to see some “green shoots” across a variety of Real Estate (RE) sectors. Industrial RE (particularly logistics and infrastructure) is rebounding strongly from 2020, demand for multifamily housing continues to grow, and even hotels and office properties are showing small incremental gains. For prospective qualified investors, we continue to place emphasis on direct investments in well-located properties in strong regions of the country that exhibit attractive rent-roll and cash-flow characteristics and have the potential to bridge into the next cycle, helping to provide a long-term hedge against rising inflation. Additionally, given the increasing importance of eCommerce, we continue to believe the Industrial sector (warehouses, data centers, etc.) will be an area of growth as companies compete for position in an on-demand economy. Looking out further, there is a case to be made for adaptive reuse in certain parts of the CRE market. This strategy, which is primarily the domain of opportunistic/value-add managers, involves converting nonproducing assets into performing properties. In today’s environment, that could mean converting retail, office or mall properties into residential, medical or fulfillment centers.

Commodities and the dollar: As global economic growth accelerates, and commodity demand rises with the economic recovery, we expect the upward trend of price pressure to continue across commodities. For those who incorporate real assets and commodities into their allocations, we are maintaining our positive outlook. This view for commodities is in concert with our slight overweight view of the Energy and Materials sectors. Oil and natural gas have rallied substantially so far in 2021 as economic activity accelerates. Industrial commodity prices (for example, lumber, copper) rose sharply in the spring as bottlenecks in the supply chain have led to tight supply and sharp price increases. Some of these factors have ameliorated recently, but other commodities have taken up the charge higher, such as coal, natural gas and steel. Crude and oil derivatives continue their upward trend, which is positive for the Commodity Trading Advisors, as they generally rely on trend-following models. Some specialty metals, such as Lithium, have skyrocketed this year on strong and growing demand. The Fed and many economists think the price spikes are temporary and not signaling long-term inflation, but the outlook is opaque. With the Fed in a reflationary mode, and with rising geopolitical tensions and high economic uncertainty, we believe some exposure to gold (outside of your typical core allocation) remains appropriate. In the near term, the U.S. dollar is benefiting from relatively stronger economic growth and a Fed that is increasingly shifting its rhetoric to acknowledge higher inflation and a tight labor market, helping boost its relative interest rate advantage versus the developed world. Importantly, any near-term dollar strength will eventually give way as relatively higher inflation weighs on longer-term valuations, in our view.

Tangible assets: Over the long term, especially given the unprecedented fiscal stimulus and monetary reflation now in place, tangible assets—such as real estate, timber, and farm and ranch land—may benefit portfolios through increasing diversification, helping to position for higher inflation, generating cash flows and providing possible favorable social-impact opportunities.

MACRO STRATEGY

- The double-digit pace in U.S. nominal GDP growth forms the economic backbone for the strong company revenue and earnings growth being reported. Leading indicators suggest cyclical momentum is picking back up as the most recent coronavirus wave eases. The macro backdrop continues to support cyclical, reflationary positioning. We believe this is a positive backdrop for Equities.
- With inflation already running well above its 2.0% target and likely to stay that way, inflation expectations well anchored, and key leading indicators of the labor market flashing green, the Fed will likely begin tapering asset purchases by year-end. While consensus does not expect rate hikes next year, the balance of risk is for the Fed to pull hikes forward.

ECONOMIC FORECASTS (AS OF 10/1/2021)

	Q1 2021A	Q2 2021A	Q3 2021A	Q4 2021E	2021E
Real global GDP (% y/y annualized)	-	-	-	-	5.9
Real U.S. GDP (% q/q annualized)	6.3	6.7	4.5*	6.0	5.9
CPI inflation (% y/y)	1.9	4.8	5.2*	5.3	4.3
Core CPI inflation (% y/y)	1.4	3.7	4.1*	4.1	3.4
Unemployment rate (%)	6.2	5.9	5.2*	4.5	5.5
Fed funds rate, end period (%)	0.06	0.08	0.06	0.13	0.13

The forecasts in the table above 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. **Past performance is no guarantee of future results.** 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. Note: BofA Global Research 2021 end period S&P 500 estimate is 4250; 2021 end period 10-year Treasury estimate is 1.55%; 2021 average West Texas Intermediate Oil estimate is \$65/barrel.

Sources: BofA Global Research; GWIM ISC as of October 5, 2021.

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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.

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 2022 and price-to-earnings (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.

S&P 500 SCENARIOS BASED ON FORWARD P/E AND 2022 EPS

Forward P/E (Next 12 months)

2022EPS	Forward P/E (Next 12 months)				
	18.0x	19.0x	20.0x	21.0x	22.0x
\$235	4,230	4,465	4,700	4,935	5,170
\$225	4,050	4,275	4,500	4,725	4,950
\$215	3,870	4,085	4,300	4,515	4,730
\$205	3,690	3,895	4,100	4,305	4,510
\$195	3,510	3,705	3,900	4,095	4,290
\$185	3,330	3,515	3,700	3,885	4,070
\$175	3,150	3,325	3,500	3,675	3,850

For illustrative purposes only. Forecasts are subject to change. Source: Chief Investment Office as of October 5, 2021.

CIO ASSET CLASS VIEWS

Asset Class	CIO View					Comments
	Underweight		Neutral	Overweight		
Global Equities	•	•	•	●	•	We retain our positive view on Equities based upon favorable relative valuations and improving global growth. Corporate profits remain in an uptrend as forward estimates have increased, policy remains supportive, and global growth continues to accelerate. We remain overweight the U.S., neutral International Developed and neutral EM.
U.S. Large-cap Growth	•	•	•	●	•	Growth should continue to benefit from accelerated secular trends, but Value, which has higher exposure to cyclical sectors, should benefit from an improved pace of earnings growth and economic normalization. We believe a balance of both is appropriate. At the sector level, we continue to favor Technology for long-term secular growth exposure but are also constructive near term on cyclical sectors like Industrials, Financials, Energy and Materials.
U.S. Large-cap Value	•	•	•	●	•	
U.S. Small-cap Growth	•	•	•	●	•	Small-caps have relatively attractive valuations and could benefit from further cyclical rotation.
U.S. Small-cap Value	•	•	•	●	•	
International Developed	•	•	●	•	•	Global economic recovery is expected to continue which should benefit more cyclically oriented International Developed markets. A substantial monetary and fiscal policy drive in Europe and Japan paired with relatively attractive valuations is a support for international equities, though underlying rates of nominal growth is expected to trail behind U.S. levels.
Emerging Markets	•	•	●	•	•	We are neutral EM equities overall with cyclical regions well positioned for normalization in global activity and Asian markets geared to long-term growth in the digital economy. Potential risks from rising U.S. interest rates, domestic and U.S.-focused China policy and slower vaccination rollouts in lower-income markets.
International						
North America	•	•	•	●	•	The U.S. remains our preferred region on corporate earnings and balance sheet strength, with a domestic demand-driven recovery likely to remain resilient as the economy continues to reopen. The U.S. also has greater fiscal and monetary stimulus in place which supports reflationary assets including equities.
Eurozone	•	•	●	•	•	Increased level of fiscal policy coordination across the European Union (EU) should provide additional support for domestic demand and may limit relative economic weakness, while exposure to cyclical sectors should benefit from normalization of economic activity.
U.K.	•	•	●	•	•	Post-Brexit withdrawal from the EU single market remains a negative for medium-term growth. Ongoing caution over uncertainty about final EU deal on financial services given significant economic and market exposure. Large weighting in cyclical sectors should benefit from normalization of economic activity. Rising coronavirus cases could present a potential headwind.
Japan	•	•	●	•	•	Large fiscal and monetary stimulus are key sources of support for growth in the domestic economy, though market-based inflation expectations remain among the lowest for the major developed economies. We expect long-term tailwinds from exposure to automation machinery and equipment including from robotics, while valuations remain attractive.
Pac Rim*	•	•	●	•	•	Large weighting in financials and other cyclical sectors should benefit from normalization of economic activity. China exposure and International shifts on foreign policy toward Hong Kong remain an ongoing source of uncertainty for the region.

* Pacific Rim refers to the geographic area surrounding the Pacific Ocean. The Pacific Rim covers the western shores of North America and South America, and the shores of Australia, eastern Asia and the islands of the Pacific.

CIO ASSET CLASS VIEWS (CONTINUED)

Asset Class	CIO View					Comments
	Underweight	Neutral	Overweight			
Global Fixed Income	•	●	•	•	•	Bonds diversify multi-asset class portfolios by providing income and relative stability. Below-benchmark duration is preferred, as fiscal and monetary policy supports higher inflation, stronger nominal growth and higher long-term rates over the medium term.
U.S. Governments	•	●	•	•	•	Yields are very expensive relative to inflation. Some allocation to Treasuries for liquidity and principal preservation is still advised, as Treasuries continue to provide one of the best short-term diversification benefits to equities among fixed income assets.
U.S. Mortgages	•	•	●	•	•	The Fed's significant MBS purchases remain a tailwind, and recent spread widening with the expectation of a Fed taper brings MBS more in line with other high-grade bonds. MBS purchases from banks may slow as the economy opens up, presenting a potential headwind. However, with fair valuations from a decade-long perspective, we expect MBS to outperform Treasuries near term and suggest conservative positioning in shorter-duration assets.
U.S. Corporates	•	•	•	●	•	Credit spreads have been range bound at 80 bps to 90 bps. With the Fed's commitment to markets, improving fundamentals, and yields well above Treasuries, spread product should provide modest positive excess return over the medium term. We see relative value opportunities in select BBB-rated Industrials and also U.S. Financials. The front end of the credit curve is less compelling given the compression in yields and spreads. Higher Treasury yields remain a risk to the demand backdrop—but should be manageable.
International Fixed Income	●	•	•	•	•	Compressed yields and risk premiums around the globe compared to the U.S., combined with potentially higher volatility in non-U.S. markets, present unfavorable risk/reward conditions for non-U.S. Fixed Income, in our view, justifying an underweight position.
High Yield	•	●	•	•	•	Valuations present mediocre absolute long-term returns after estimating credit losses. CCCs in particular are extremely expensive. Near-term performance may be reasonable—given where the economy is in the business cycle—however, we don't view the risk/reward favorably. Any additions to HY risk need to have a long time frame. Within HY, we prefer more floating-rate loan exposure versus HY unsecured, while allocating to both.
U.S. High Yield Tax Exempt	•	●	•	•	•	HY muni credit spreads have narrowed and remain supported for now by improving credit conditions, strong technicals, and investors' search for yield.
U.S. Investment Grade Tax Exempt	•	•	●	•	•	Rich muni valuations are well supported for now by expected tax rate increases, improving credit conditions, and generous fiscal stimulus. Muni credit spreads are at record post-2007 tights. While rich, we believe munis continue to provide value over Treasuries for tax-sensitive investors, particular well-researched, lower-quality credits with greater carry.
Alternative Investments*						Given the differences in liquidity characteristics between alternative investments (AI) and traditional investments, the Chief Investment Office (CIO) asset class views on AI portfolio positioning continue to be neutral-rated versus our strategic allocations. These types of investments, in our opinion, should not be viewed at the asset class level on a tactical basis, but rather the tactical positioning should be expressed at the sub-asset class level. We will continue to provide strategy-level guidance for qualified AI investors. We believe allocations to AI can introduce differentiated returns that can help complement existing traditional holdings by potentially enhancing returns, helping to reduce risk and capitalizing on opportunities not available through traditional investments
Hedge Funds						We favor equity long/short strategies for differentiated equity returns. Global macro strategies, currently seeing a wide opportunity set, may help investors seeking to diversify equity exposure.
Private Equity						We see opportunities across a number of different sectors as the global economy continues to rebound. After dislocations caused by the coronavirus, managers that allocated to buyout and distressed areas of the market last year are starting to see robust returns. Within the broad private equity universe, we continue to favor special-situation strategies that could benefit from secular shifts across sectors due to disruptive technologies. Private credit strategies are benefiting from the fear of higher interest rates, as many of these investments are more credit than interest rate sensitive and tend to be floating rate securities. Consider a disciplined multiyear commitment strategy that builds portfolio diversity among different managers, styles, geographies and vintages.
Real Assets						Reflationary policy and currently negative real interest rates in the U.S., and ultimately stabilizing global growth, should provide support for commodity prices. Gold is currently benefiting from this environment and the possibility of higher inflation in the future. The oil market is surprisingly resilient as global economic growth increases demand, with both Brent crude and West Texas Intermediate (WTI) prices recently over \$70 per barrel.







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 36-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. **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.**

* Many products that pursue Alternative Investment strategies, specifically Private Equity and Hedge Funds, are available only to qualified investors.

Source: Global Wealth & Investment Management Investment Strategy Committee as of October 5, 2021.

CIO EQUITY SECTOR VIEWS

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	
Energy	•	•	•  •	The reopening of the economy, inflation, potential pent-up demand and oil and gas producer discipline is a supportive macro backdrop for energy. Higher energy prices combined with substantial cost-cutting initiatives over recent years built significant operating leverage into energy companies. Earnings and free cash flow outlooks are improving considerably for upstream energy companies on higher realized oil and natural gas prices and additional earnings revisions are probable. Additional cyclical and value rotations could improve flows, positioning and sentiment, and potentially pull some investors back into the sector. Investor demands for greater capital discipline have reduced CapEx budgets and investments in the Energy sector over recent years and could support higher oil prices near term. Positive view on energy for cyclical reflation trade, but longer term the secular headwinds still confront the sector. Headwinds include the transition to clean energy, lower renewable energy costs and increasing environmental, social and governance focus by investors. Continue to emphasize companies that are low-cost producers with balance sheet strength and low breakevens. Relatively attractive valuation and improving momentum.
Financials	•	•	•  •	Banks resumed stock buybacks and dividend increases based on excess capital instead of earnings power. In addition, loan loss reserve release should moderate after significant reserve releases in the first half of the year given a better macro backdrop and loan portfolio performance, which could be a modest tailwind to earnings and help enhance capital return. Given structural headwinds in Insurance, we prefer market exchanges that evolved into fee-based data and analytics providers. We also favor alternative asset managers, like private equity for qualified investors, which consistently draw fund inflows, typically benefit from low interest rates, and maintain pricing power in management fees. U.S. banks remain well capitalized and in our view are likely to return more capital to shareholders in coming quarters in buybacks and dividends, and provide some attractive Price/Book valuations.
Industrials	•	•	•  •	The economic reopening and recovery are driving better fundamentals in cyclical end markets, including transportation, automotive, power, machinery and manufacturing, although aerospace is still lagging. Higher volumes amidst somewhat constrained supply are driving sequential earnings and prices higher. Broad-based improvements in orders and increasing backlogs signal healthy activity levels and volume trends could continue over the near-to-medium-term. Further, potential improvements in the global CapEx cycle could support the transportation, machinery, and freight and logistics industries longer-term. Cyclical rotations and fund flows could also continue to support the Industrial stocks. Valuation is elevated, and momentum is neutral.
Materials	•	•	•  •	Remain constructive on the Materials sector given the inflationary backdrop, low inventories, strong demand trends and tight commodity markets. Supply constraints are helping to keep prices elevated. Low inventory levels relative to consumption are helping companies to pass through cost inflation and help protect margins, and could extend the cycle as inventories need to be rebuilt. There is high potential operating leverage embedded in the sector driven by lower cost profiles when compared to prior cycles, which could help enhance profitability if volume growth trends persist. Packaging and specialty chemicals are benefitting from healthy U.S., consumer demand, while the greatest improvement in marginal demand is occurring in cyclical commodities exposed to automotive, construction, and aerospace end markets, which have yet to fully recover. Valuation and momentum is neutral after recent consolidations.
Information Technology	•	•	•  •	The pandemic accelerated the digital transitions for many industries and supports the secular growth trends for cloud computing, machine learning and artificial intelligence (AI), data centers, software, cybersecurity and semiconductors. We are in the early innings for machine learning and AI, and the pandemic forced the adoption of digital payments by older generations who are now frequent users. This accelerated the digital payments industry by several years without cannibalizing future sales. Traditional hardware exposure is still increasingly commoditized. Valuation is extended and a move higher in interest rates could pressure multiples for high-growth and high-valuation tech stocks, therefore, look for GARP (growth at a reasonable price) in software and cyclical exposure in semiconductors. Free cash flow, balance sheet strength, dividend growth and earnings growth remain strong fundamental drivers for the sector. Neutral on valuation and momentum.
Consumer Discretionary	•	•	•  •	Consumer Discretionary's relative performance peaked and made a turn lower, and higher costs could potentially pressure margins and earnings going forward. The consumer reopening cadence is entering the "mobility phase" as consumers are out of the house and engaging in pre-pandemic activities and events. The ongoing shift to omnichannel retailing should continue to alter consumer behaviors due to the pandemic. Favor strong global consumer brands with solid balance sheets and a history of dividend growth over weaker brick-and-mortar retailers that could face declining store traffic trends. Cyclical tailwinds from both housing and autos could provide additional potential upside opportunities to the growth outlook. The pent-up demand for reopening activities and services could be an additional catalyst for the consumer. Despite a solid outlook for the consumer in the back half of 2021, rising input costs, higher freight costs, increased labor costs, and supply chain disruptions could provide potential headwinds. Valuation is elevated, and momentum is stalling.

Sector	CIO View					Comments
	Underweight		Neutral		Overweight	
Healthcare	•	•	●	•	•	At this point in the cycle, Healthcare's sector composition of large pharmaceutical companies that are considered defensive bond proxies, combined with high-growth and high valuation biotech and healthcare tech companies present some potential short-term headwinds in the current economic recovery. Over the long term, we still expect rising spending on global healthcare—focused primarily on diagnostics, healthcare consumables, and drug development equipment/tools and differentiated medical devices. Emergency department visits and inpatient hospital admissions remain areas to watch and could have a notable impact on capital equipment spending and labor pressures. Drug pricing headwinds are beginning to re-emerge as the recovery from the pandemic moves forward and as new Medicare pricing challenges potentially develop. Emphasize exposure to long-term, positive trends in animal health, cost-savings medical technology and telemedicine, tools, diagnostics and select biotech. Valuation is a bit extended in certain subsectors with lower momentum.
Communication Services	•	•	●	•	•	Traditional media continues to see pressure from cord-cutting, a negative trend for traditional cable and media companies, but the positive trends for internet usage, video streaming and gaming can provide growth in the sector. However, some of this growth was pulled forward last year due to the pandemic and work-from-home trends. Advertising could see a rebound to some degree, but regulatory uncertainties and concerns could be a near-term overhang for the sector. Valuation is attractive and momentum has deteriorated.
Real Estate	•	●	•	•	•	The outlook for Real Estate has improved in 2021 and is reflected in stronger performance driven by progress in the reopening of the economy and Real Estate provides cyclical exposure for equity portfolios. Consumer and corporate changes like remote work, eCommerce, less business travel, etc., are potential longer-term headwinds for CRE companies (e.g., office), leisure (e.g., hotels), mall operators and owners. However, Real Estate's positive correlation with inflation, underweight positioning and opportunity to provide both a potential inflation hedge and reopening exposure makes the sector more attractive. Continue to emphasize longer-term secular trends in data centers, communication infrastructure and industrial real estate with a focus on eCommerce distribution facilities. Consider being selective in the sector with mixed outlooks for different sub-sectors of the Real Estate industry. Relatively attractive valuation and improving momentum.
Consumer Staples	●	•	•	•	•	Consumer Staples face tougher revenue and earnings comps in 2021 as we lap the pandemic-driven stay-at-home benefits from last year. Ongoing risks of a rotation out of defensive positioning and into risk-on positioning is becoming more apparent with greater visibility and availability of vaccines and the anticipation of a return to reopening activities. The potential for increases in labor, input, freight, and packaging costs could further pressure year-over-year profitability as companies potentially increase promotional activity in an attempt to retain pandemic impacted consumers. Historically, Consumer Staples performance is a function of relative earnings growth and the sector could face decelerating earnings growth in 2021, especially compared to cyclical areas expected to see improving earnings growth. Relatively attractive valuation and lower momentum.
Utilities	●	•	•	•	•	Expect consistent earnings results; however, post the crisis, rotations out of defensive stocks continues to be a potential headwind. Further, the potential for rising interest rates are an additional headwind for this bond proxy sector. Emphasize utilities with growing renewable power generation from wind and solar and de-emphasize ones that rely strictly on coal-power generation. Earnings and dividend growth opportunities remain for utilities that can capitalize on the transition to greater renewable power generation and positive demographic trends. Relatively unattractive valuation and lower momentum.

Source: Chief Investment Office as of October 5, 2021.

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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

Taking the long view, the following themes and subthemes are considered among the most powerful structural forces in the world. They are macro in nature but carry significant risks and reward for companies, both large and small. Although constructed with a global lens, in today's tightly woven world, what transpires or disrupts in Asia has a tendency to emerge in Europe or North America, and vice versa. These themes are transformational and carry long-term implications for economic growth, the cost of capital and global earnings. Gaining exposure to these themes is a key ingredient to investing.

Theme	Comments
Big Data	The massive growth in unstructured data being created by connected machines, devices and systems is fueling data processing and Data Analytics . Complementing Artificial Intelligence technologies are replete with applications for big data. The size of the digital world and Internet of Things (IoT) is accelerating the migration of data and applications to a Cloud Computing environment. Data Centers and cloud-based Storage will likely capture incremental data created.
Demographics	Several demographic transitions serve as important arbiters of future growth. With elongated life expectancies globally, longevity for older populations will likely mean a renewed focus on healthcare, aged-care, financials, and consumer products and services for longer, serving as a multitrillion-dollar potential opportunity. Both the Millennials (born 1981-1996) and Gen Z (born 1997-2012) could have greater influence over the next decade on consumer spending and preferences. While we are neutral the EM asset class on a tactical basis, we believe the EM Consumer represents a powerful middle-class consuming cohort over the longer term. Uplifting the Bottom Billions , or poorest socioeconomic group with growing access to electricity, internet and sanitation can also offer a demographic dividend for multinational companies.
Climate Change	With emphasis from the new administration, a much greater focus is on health, renewable energy, clean water and sanitation, and other industries that tend to support a more sustainable future. Companies that embrace more climate-friendly business models and operations, as well as consumer products and services, are likely to enjoy sustained growth opportunities over the long term. Key investment opportunities: Renewable Energy (Solar, Wind and Hydrogen), Energy-Efficiency such as building systems, Water/Waste Management , and Energy Storage & Distribution .
Future Mobility	The future of mobility hinges on Next-Gen Infrastructure . This includes the telecom industry's deployment of the 5G network, which is expected to prove to be the greatest accelerant and enabler to Smart Cities (smart buildings, safety and security), Autonomous Vehicles and unmanned Drones . The growing Electric Vehicle market will likely demand installation of charging equipment and fuel peripheral industries such as battery material demand.
Security	Expanding the IoT means security for a growing ecosystem of devices and end points. With the increase in time spent on online platforms, (as well as adoption of online Payments/FinTech), Data Privacy/Surveillance and governance is expected to play a larger role in a post-pandemic world, as will bolstering Cybersecurity defenses and budgets. With the commercialization of space, cybersecurity will likely extend to Space -based assets (think satellites, data links, weather monitoring and GPS).
Post-coronavirus World	In the post-pandemic economic recovery, the factory of the future tends to be based closer to home and driven by Robotics (Industrial/Service Automation) not humans, hastening reshoring by creating Dual/Local Supply Chains , notably in high-end activities and manufacturing. The post-pandemic world will likely demand a new wave of Infrastructure investments, both mineral and material-intensive for cleaner and greener infrastructure. The fusion of Healthcare and Technology through HealthTech capabilities, should result in greater investments in telemedicine, disease surveillance and patient monitoring. Just as healthcare has gone digital, technology could increasingly dictate e-Everything , as we've seen eCommerce , eSports and eLearning gain traction. An increased focus on environmental, social and governance (ESG) factors and metrics promotes the shift toward stakeholder capitalism.

Source: Chief Investment Office as of October 5, 2021.

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 (CBOE) Volatility Index (VIX) is a real-time market index that represents the market's expectation of 30-day forward-looking volatility.

Personal Consumption Expenditures (PCE) Price Index are imputed household expenditures defined for a period of time and used as the basis for the PCE Price Index.

Bloomberg US Mortgage Backed Securities Index tracks fixed-rate agency mortgage backed pass-through securities guaranteed by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC).

Consumer Price Index (CPI) is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food, and medical care.

Producer Price Index (PPI) program measures the average change over time in the selling prices received by domestic producers for their output.

Purchasing Managers' Index (PMI) is a measure of the prevailing direction of economic trends in manufacturing.

Important Disclosures

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

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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.

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.

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