

Capital Market Outlook

November 13, 2023

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

IN THIS ISSUE

Macro Strategy—Fixed Income: Hope For A Soft Landing But Position For Economic And Inflation Uncertainty: The Federal Reserve (Fed) delivered an expected pause two weeks ago, and the market is pricing in almost no additional hikes this cycle. However, we see risks of sticky inflation keeping the higher-for-longer rate regime in play. Regarding duration, we remain slightly long versus strategic benchmarks and would not look to add to duration positions until long rates move toward 5% again.

Market View—Elections 2024: A Pivotal Year In The U.S. And Around The World: Globally, some 40 national elections are expected to be held next year, representing more than half of world gross domestic product (GDP)—roughly 55%—and some 45% of the world’s population. Rarely has the global political calendar been so stacked. And rarely have the political stakes been higher as the global economy churns through one of the most intense geopolitical periods in decades. The election results of 2024 will sculpt the geopolitical landscape for the rest of the decade and could either propel or repel the global shift toward more polarization, protectionism, deglobalization, anti-immigration, climate mitigation and armed conflict, among other things. Each one of these variables, in turn, could influence U.S. asset prices over the near term.

Thought of the Week—The Lesson In The Latest Rally: The U.S. equity market underwent quite a rebound at the start of November. Whether a broader Equity advance materializes from here, however, may take some time to reveal itself. In the near term, conditions may be in place for the “relief rally” to continue, with positive year-end seasonality trends and some improvements in market internals, including market breadth. From a longer-term perspective, it is reasonable to expect that the market environment may remain choppy, as the market still faces possible headwinds from slowing economic growth, heightened geopolitical risks, and consequences of tighter financial conditions coming to the service. Looking for the lessons in the latest market moves, one remains clear: Trying to time the market continues to be a difficult investment strategy.

Market Update: Moody’s Rating Change of U.S. Credit Moody’s Investors Service changed the credit rating outlook of the U.S. government from “stable” to “negative” last Friday, while affirming its top Aaa rating for U.S. credit. Per the latter—of maintaining America’s top credit rating—Moody’s cited the “exceptional economic strength” of the U.S. economy, and the “unique and central role of the U.S. dollar and Treasury bond market in the global financial system.” However, the decision to downgrade the credit outlook was based on the nation’s deteriorating fiscal position and increased political polarization, and “risks that successive governments will not be able to reach consensus on a fiscal plan to slow the decline in debt affordability.”

The political backdrop likely leads to somewhat elevated volatility, but this move by Moody’s is not entirely unexpected. That said, the Chief Investment Office, while monitoring the increase in funding needs and higher debt service levels, considers U.S. Treasury debt as an ultra-high-quality investment with deep and consistent liquidity.

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MACRO STRATEGY ►

Chief Investment Office
Fixed Income Team

MARKET VIEW ►

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THOUGHT OF THE WEEK ►

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MARKETS IN REVIEW ►

Data as of 11/13/2023,
and subject to change

Portfolio Considerations

We believe a risk-neutral approach across asset classes makes sense for the foreseeable future. A balanced approach that is fully invested and uses Fixed Income for cash flow and Equities for long-term growth in this transition phase. We recommend a slightly long-duration position versus a stated benchmark to take advantage of higher nominal and real yields and as prudent positioning against macro risk in the Equity portion of a diversified portfolio.

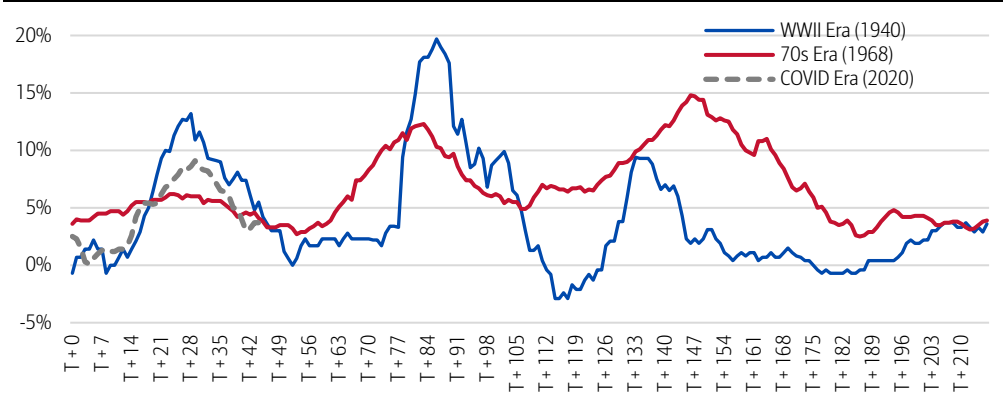
Fixed Income: Hope For A Soft Landing But Position For Economic And Inflation Uncertainty

Chief Investment Office, Fixed Income Team

Amid recent market turbulence, our view has been steadfast and focused on long-term returns. For several months now, we have believed that the Fed was close to being done, or done, with the rate-hike cycle, inflation was moderating—and real yields looked more attractive. Yet we remained wary of declaring any premature victory in the inflation fight. While the Fed meeting two weeks ago exacerbated market volatility, in our opinion, the Fed delivered more “heat than light,” and we did not learn anything substantially new; therefore, our views have not changed.

There remains a possibility of another rate hike, although that seems much less likely at either of the next two meetings—with the market continuing to price in a full cut by mid-2024. We are closer to a more slowdown in economic activity, which should result in either a soft landing or an outright recession. Furthermore, the Fed’s growing confidence in a soft landing, disinflation, and an end to rate hikes have spurred a bond market rally that if left unchecked could—paradoxically, by easing financial conditions—lead to its own demise. The history of central banking is filled with instances of easing monetary policy too soon, and high inflation has often proved more stubborn than policymakers expect.

Exhibit 1: High Inflation Episodes Often Have Multiple Spikes And Have Not Been As Transitory As Policymakers Hoped.



Note: T (January of each legend year)+[X] = X months. Sources: Bloomberg; Bureau of Labor Statistics; Chief Investment Office. Data as of October 30, 2023.

Investment-grade Credit—Stay Up-in-Quality and Wait for More Attractive Entry Point

While all-in yields of around 6% remain attractive, trading at a 90th percentile over the last 20 years, we don’t believe that credit spreads reflect the risks of slowing growth later in 2024. The economic cycle continues to mature amid a significant tightening in financial conditions, which will likely only be exacerbated in a higher-for-longer interest rate regime that has only just begun to bite consumers and small businesses.

We estimate that at a spread of 125 basis points (bps), the Investment-grade (IG) market is pricing only a 15% chance of a recession over the next 12 months, which, assuming a recession every seven to 10 years, is a roughly average probability. While economic data remains resilient, leading economic indicators continue to point to weakness in the months ahead. Our base case is for below-trend, albeit positive, GDP growth in 2024—with risks weighted to the downside. Against this backdrop, we suggest lean toward high quality and stay slightly underweight IG corporates relative to other higher-quality and more defensive asset classes such as Treasuries, Munis and Mortgage-backed Securities (MBS). To be clear, we don’t expect IG spreads to gap wider to recessionary levels of around 200 bps. Corporate balance sheets remain in good shape, and the higher-yield

Portfolio Considerations

We remain slightly long duration, with an eye toward extending if long-end yields again move back toward 5%. Consider leaning slightly defensive across Fixed Income asset classes including Investment-grade, Mortgage-backed Securities and Municipals.

backdrop should support continued investor demand, likely helping contain spread widening absent an unforeseen exogenous shock. However, with weaker economic and earnings growth expected, risk premiums should be higher than current levels, in our view.

MBS Forward Excess Return Could Improve on Wider Spreads and Easing of Interest Rate Volatility There are several factors that should benefit the MBS sector over the next 12 months, in our view. These include the Fed nearing the end of its hiking cycle, a moderation in interest rate volatility, less duration-extension risk and, most importantly—more attractive MBS valuations with option-adjusted spread (OAS) on the ICE BofA U.S. Mortgage-Backed Securities Index at around 70 bps, up from 40 bps to 50 bps to start the year.

MBS have underperformed other high-quality Fixed Income asset classes by a wide margin this year so far, particularly on a duration-adjusted basis. The year-to-date excess return for the MBS index of -0.7% has been negatively affected by wider spreads, given weaker demand for the asset class. Technical headwinds have included MBS outflows from mutual funds, continued runoff in MBS positions from the Fed's balance sheet, and reduced demand from U.S. banks. While U.S. banks, which collectively own roughly 30% of the agency MBS market, could remain on the sidelines given significant unrealized losses on existing MBS portfolios totaling \$558.4 billion as of Q2, according to Bloomberg, we do expect banks to slowly come back to the sector over time. This should lead to modestly tighter spreads for MBS, all else being equal. Furthermore, should credit concerns rise in the corporate market, MBS should exhibit less volatility relative to IG.

Munis More Attractive Based on Cheaper Valuations, Improving Technicals and Stable Fundamentals Our muni strategy view is based on more attractive valuations, an improved technical outlook and stable municipal credit fundamentals. Our tax-exempt bonds strategy view is based on rich valuations, low primary market issuance, and strong flows into municipal mutual funds in early 2023, which collectively caused AAA muni-to-Treasury (M-T) yield ratios to fall below 60%. At that time, investors could earn a higher after-tax yield in comparable-maturity Treasuries, even if they were in the highest tax bracket—a scenario that is unsustainable longer term, in our view. We believed munis would cheapen to more reasonable levels in the fall, after the expected seasonal increase in maturities and calls from June to August ended and primary market issuance picked up.

The tax-exempt market did indeed cheapen in September and October, with M-T yield ratios near or above their long-term averages for most points along the curve. Our outlook is for technical conditions to improve, as is typical in December and January, and potentially further supported by higher borrowing costs and healthy issuer reserves, which could keep new supply subdued. Investor demand for muni funds has been adversely affected by negative total returns pressures. However, once interest rate volatility stabilizes, we believe investors will be increasingly turning to the asset class for its attractive tax-equivalent yields. Finally, muni fundamentals appear to be generally stable, and we believe muni default rates will remain low, even if the economy goes into a recession.

Elections 2024: A Pivotal Year in the U.S. and Around the World

Joseph P. Quinlan, Managing Director and Head of CIO Market Strategy

Ariana Chiu, Wealth Management Analyst

There will be no shortage of election drama in 2024—and we’re not just talking about the U.S. presidential election a year from now. Rather, we’re speaking to the fact that globally some 40 national elections are expected to be held next year, representing more than half of world GDP (roughly 55%) and some 45% of the world’s population (Exhibit 2A).

Rarely has the global political calendar been so stacked. And rarely have the political stakes been higher as the global economy churns through two hot wars (Ukraine-Russia; Israel-Hamas), a cold war (U.S.-China), increased global economic fragmentation, and record levels of climate stress.

Think of it this way: The election results of 2024 will sculpt the geopolitical landscape for the rest of the decade and could either propel or repel the global shift toward polarization, protectionism, deglobalization, anti-immigration, climate mitigation and armed conflict, among other things. Each one of these variables, in turn, could influence U.S. asset prices over the near term.

As we scan the global election calendar, and monitor the key nations in play, the following points stand out by country or region:

The consensus in **Taiwan**, which goes to the polls in January, is that the next president of Taiwan will continue the ambiguous status quo as it relates to relations with Mainland China. Cross-strait tensions will remain elevated over the near term, while bread and butter issues like rising youth unemployment, unaffordable housing and rising consumer prices will help determine the election outcome. In that Taiwan remains an acute tension point between the U.S. and China, how the next president of Taiwan toggles between pro-independence Taiwan vs. China’s claim for “reunification” will help determine the geopolitical temperature between the U.S. and China. Taiwan will certainly be a hot button foreign policy issue in the U.S. presidential election.

In **India**, Prime Minister Narendra Modi is the odds-on favorite to be reelected when the nation goes to the polls in April. That should soothe investor fears of any significant departure from “Modi-nomics”—or the gradual and selective liberalization of various sectors of the economy, and greater participation/acceptance of foreign direct investment. The nation has not only emerged as one of the fastest growing economies in the world under Modi, but also as a strategic alternative to China when it comes to foreign direct investment. India’s benchmark Sensex Index has been among the best performing in the world, but further gains will rest on India’s ability to promote sustainable economic growth. The nation prides itself on its historic “non-aligned” stance toward the rest of the world, although deteriorating Indo-Sino relations is something investors are watching very carefully.

Elections in **Indonesia**, with voters going to the polls in February, matter since the nation is an integral supplier of metals/minerals to the global Green Revolution and a critical global supplier of agricultural products. Hence Indonesia’s resource protectionism is being watched very closely by investors. Under the current administration, export bans have been slapped on palm oil and rice, as well as bauxite, copper and nickel ore. Other commodities that could be banned for export in the future include coal, gold, silver, oil and natural gas. The export bans are intended to lure foreign investment to downstream activities, with Chinese firms notably active in investing in Indonesia’s commodity infrastructure. Like India, Indonesia has tried to remain neutral between the U.S. and China.

Closer to home, **Mexico** will go to the polls in June and is likely to elect the nation’s first female president. The front runner is Claudia Sheinbaum, the former mayor of Mexico City, and a confidant of current president Andrés Manuel López Obrador (AMLO). The nation’s left-leaning, state-activist economic role is not expected to be radically altered any time soon. The energy sector will remain in the grips of the state, with the lack of private sector investment opportunities in Mexico a key bone of contention between Mexico and the U.S.

Investment Implications

Politics and policies matter to investors, and the global political backdrop in 2024 could result in more market volatility but also opportunity. On our watch list: U.S.-Sino tension points over Taiwan; resource protectionism in Indonesia and Mexico; investment in India; border politics with Mexico; and U.S.-EU relations, notably when it comes to industry regulation.

Under AMLO, private sector auctions for new oil fields have been suspended, the electricity market has shifted to the public sector and the nation's lithium reserves, among the largest in the world, were nationalized. In that the U.S. is counting on Mexico to emerge as a key node in its China diversification strategy (via greater near-shoring to North America), the more closed and protectionist the Mexican government remains, the harder it will be for the U.S. to leverage the proximity and resources of its neighbors for its global supply chain security. And the harder it will be to secure the border with Mexico. In short, Mexico's election holds significant relevance to the U.S.

Ditto for the European Commission. Indeed, of all the elections outside the U.S. next year, the most consequential for Corporate America will likely be the parliamentary elections of the **European Commission**. Over 700 members of the European Parliament will be elected in June and while the majority of MEPs—Members of the European Parliament—are unknown to U.S. investors, remember this cohort represents one the largest and wealthiest economic blocs in the world. And this bloc isn't afraid to use its heft when it comes to determining and setting global standards for the global digital economy, decarbonization, artificial intelligence and related activities. In a nutshell, the EU is a regulatory superpower many U.S. firms have run afoul of in the past, notably the U.S. Technology sector.

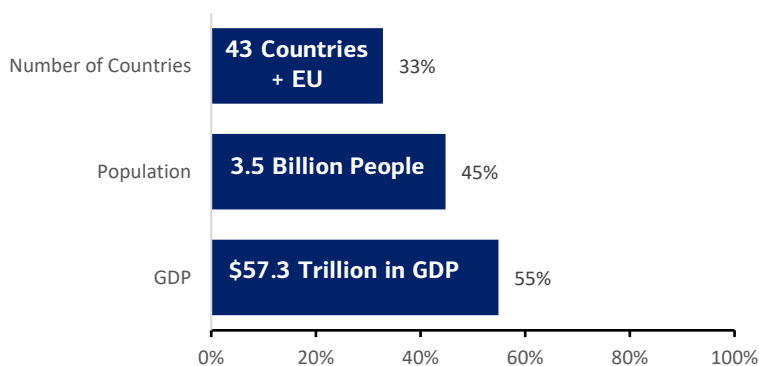
The Parliament also approves the budget for the European Union (EU), monitors how money is being spent by member states, and elects the president and various commissioners of the EU, as well as the head of the European Central Bank. The composition of the EU Parliament will also help shape the debate over Europe's ongoing support for Ukraine, as well as trade with both China and the U.S. In short, the MEPs represent a formidable group in a part of the world that accounts for over half of U.S. foreign affiliate income (Exhibit 2B).

Besides the handful of nations and regions mentioned above, other key elections of 2024 include those in Russia, South Africa, the United Kingdom and Venezuela.

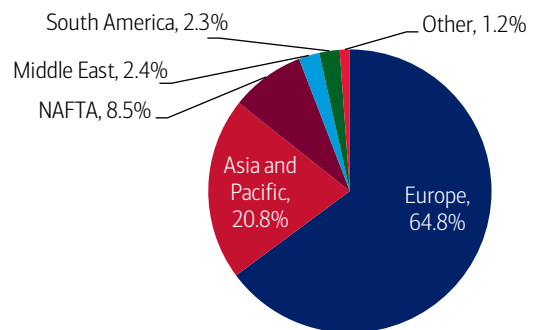
As for the U.S. election, it's worth noting that since 1932, the S&P 500 Index has returned an average of 7% during the 12 months preceding the election versus 9% outside of election years. Election-year returns, however, have averaged only 4% since 1984.¹ With less than a year away from the U.S. election, we will have plenty more to say on this topic. In the aggregate, the geopolitical calendar next year is one of the most consequential in decades.

Exhibit 2: The World Gets Ready To Vote and Europe is Key.

2A) 2024 Elections at a Glance. Percent of Global Total



2B) U.S. Affiliate Income Earned Abroad: By Region. % of World Total; Average of 2013-2022



Left Exhibit: Estimates include EU parliamentary elections. Source: International Monetary Fund. Data as of October 2023. Right Exhibit: Source: Bureau of Economic Analysis. Data as of November 8, 2023.

¹ See "US Weekly Kickstart", Goldman Sachs, November 3, 2023

The Lesson in the Latest Rally

Kirsten Cabacungan, Vice President and Investment Strategist

The U.S. equity market underwent quite a rebound at the start of November. The S&P 500 notched its longest winning streak in two years and posted its best weekly performance since November 2022 in the first week of the month. The recent rally follows three consecutive months of losses that sent the S&P 500 into a correction, or a decline of at least 10%, which had trimmed the index's advance for the year to 7%, down from roughly 20% during the summer highs in July.² In just the short period since the end of October, the index has gained around 7% and is now back up 15% for the year.³

A wide range of catalysts contributed to this sharp rise in stocks. Among them include the latest decision by the Fed to leave rates unchanged and a growing market consensus that the Fed may be at the end of its rate hiking cycle. Bonds also rallied, as the Fed's decision accelerated a decline in the 10-year U.S. Treasury yield off a 16-year high that had started after the Treasury Department announced a slower pace of growth in longer-term debt issuance. Signs of a cooling economy following a weaker October jobs report that showed a slowdown in U.S. jobs growth and an uptick in the unemployment rate to an almost two-year high also reinforced investor's more dovish interpretation of the Fed's policy path.

Whether a broader Equity advance materializes from here may take some time to reveal itself. In the near term, conditions could be in place for the "relief rally" to continue with bullish year-end seasonality trends and amid some improvements in market internals, including market breadth. According to BofA Global Research, the New York Stock Exchange signaled its 33rd breadth thrust since 1931 at the start of November, which tends to see the S&P 500 up 78% of the time in the 250 days that follow with an average return of 14.3%.⁴ From a longer-term fundamentals perspective, however, it may be reasonable to expect choppiness ahead as the market still faces challenges from slowing economic growth, heightened geopolitical risks, and consequences of tighter financial conditions coming to the service.

Looking for the lessons in the latest market moves, one is straightforward: Trying to time the market continues to be a difficult investment strategy. The turn lower in markets over the last few months could have created some anxiety for investors, and had those emotions led to indiscriminately pulling back from the market it could have meant missing out on the recent gains. History suggests that drawdowns are not all that uncommon, and in fact the market tends to have recovered fairly quickly from the perspective of a long-term investor (Exhibit 3). As the final stages of the transition phase in the business cycle works itself out, what remains clear is that market volatility will likely continue.

And as such, we continue to emphasize a more balanced and diversified approach to portfolios and reinforce the core principles of long-term investing including maintaining a longer-term outlook and staying invested.

Exhibit 3: S&P 500 Drawdowns and Recovery Times (Since 1946).

Declines in S&P 500 (Since 1946)					
Decline	Number of Declines	Average Decline	Average Length of Decline from Peak to Trough (Months)*	Average Time to Recover From Trough to Previous Peak Level (Months)*	Average Length Between Declines (Years)**
10%-20%	30	-14%	4	4	2.5
20%-40%	9	-28%	8	14	8.6
40%+	3	-51%	22	57	23.6

*Based off number of complete months in the period. **Trough Date to Trough Date. Table excludes the 2022 bear market drawdown. Sources: Chief Investment Office; Yardeni Research; Bloomberg as of November 9, 2023. **Past performance is no guarantee of future results. It is not possible to invest directly in an index.**

² Bloomberg. Data reflects performance as of October 27, 2023 when the S&P 500 breached a decline of 10%.

³ Bloomberg. Data as of November 10, 2023.

⁴ BofA Global Research, "Chart Blast: Breadth thrust= bullish." As of November 6, 2023. Note: A breadth thrust means market breadth has improved from weak to strong over a short period of time. According to BofA Global Research, it occurs when the 10-day exponential moving average of advancing issues divided by advancing issues plus declining issues (Advances / (Advances + Declines)) moves from a weaker breadth reading of below 0.40 to a stronger breadth reading of above 0.615 within ten trading days. This indicator was developed by Dr. Martin Zweig.

Portfolio Considerations

We continue to emphasize a more balanced and diversified approach to portfolios and reinforce the core principles of long-term investing including maintaining a longer-term outlook and staying invested. If a soft landing in the economy unfolds, this approach should allow investors to participate in the prevailing trends in the markets. Moreover, if a deeper slowdown were to materialize, this balanced active approach also makes sense, in our view.

Equities

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
DJIA	34,283.10	0.7	3.8	5.3
NASDAQ	13,798.11	2.4	7.4	32.8
S&P 500	4,415.24	1.4	5.3	16.6
S&P 400 Mid Cap	2,439.62	-1.5	3.1	1.8
Russell 2000	1,705.33	-3.1	2.7	-1.9
MSCI World	2,900.76	0.6	4.8	13.1
MSCI EAFE	2,011.90	-0.9	3.3	6.2
MSCI Emerging Markets	948.32	0.0	3.7	1.4

Fixed Income†

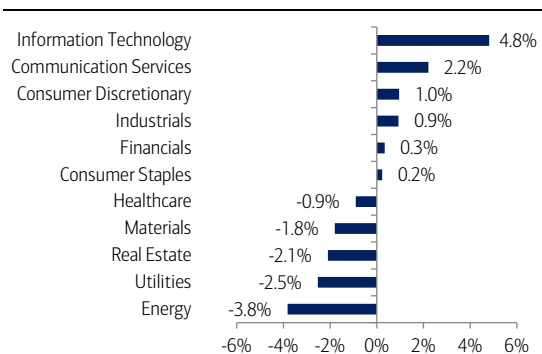
	Total Return in USD (%)			
	Current	WTD	MTD	YTD
Corporate & Government	5.32	-0.19	1.86	-0.45
Agencies	5.19	-0.28	0.66	1.89
Municipals	4.12	0.80	2.66	0.38
U.S. Investment Grade Credit	5.41	-0.29	2.00	-0.82
International	6.07	0.01	2.48	0.57
High Yield	8.93	-0.30	2.15	6.87
90 Day Yield	5.40	5.39	5.46	4.34
2 Year Yield	5.06	4.84	5.09	4.43
10 Year Yield	4.65	4.57	4.93	3.87
30 Year Yield	4.76	4.77	5.09	3.96

Commodities & Currencies

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
Commodities				
Bloomberg Commodity	231.56	-3.3	-2.7	-5.8
WTI Crude \$/Barrel**	77.17	-4.1	-4.8	-3.8
Gold Spot \$/Ounce**	1940.2	-2.6	-2.2	6.4

	Total Return in USD (%)			
	Current	Prior Week End	Prior Month End	2022 Year End
Currencies				
EUR/USD	1.07	1.07	1.06	1.07
USD/JPY	151.52	149.39	151.68	131.12
USD/CNH	7.31	7.29	7.34	6.92

S&P Sector Returns



Sources: Bloomberg; Factset. Total Returns from the period of 11/6/2023 to 11/10/2023. *Bloomberg Barclays Indices. **Spot price returns. All data as of the 11/10/2023 close. Data would differ if a different time period was displayed. Short-term performance shown to illustrate more recent trend. **Past performance is no guarantee of future results.**

Economic Forecasts (as of 11/10/2023)

	Q1 2023A	Q2 2023A	Q3 2023A	Q4 2023E	2023E	2024E
Real global GDP (% y/y annualized)	-	-	-	-	3.1	2.9
Real U.S. GDP (% q/q annualized)	2.2	2.1	4.9	1.5	2.4	1.5
CPI inflation (% y/y)	5.8	4.0	3.6	3.4	4.2	3.1
Core CPI inflation (% y/y)	5.6	5.2	4.4	4.1	4.8	3.4
Unemployment rate (%)	3.5	3.5	3.7	3.9	3.7	4.2
Fed funds rate, end period (%)	4.83	5.08	5.33	5.63	5.63	4.88

The forecasts in the table above are the base line view from BofA Global Research. The Global Wealth & Investment Management (GWIM) Investment Strategy Committee (ISC) may make adjustments to this view over the course of the year and can express upside/downside to these forecasts. Historical data is sourced from Bloomberg, FactSet, and Haver Analytics. **There can be no assurance that the forecasts will be achieved. Economic or financial forecasts are inherently limited and should not be relied on as indicators of future investment performance.**

A = Actual. E/* = Estimate.

Sources: BofA Global Research; GWIM ISC as of November 10, 2023.

Asset Class Weightings (as of 11/7/2023) CIO Equity Sector Views

Asset Class	CIO View			Sector	CIO View		
	Underweight	Neutral	Overweight		Underweight	Neutral	Overweight
Global Equities	●	●	●	Energy	●	●	●
U.S. Large Cap Growth	●	●	●	Healthcare	●	●	●
U.S. Large Cap Value	●	●	●	Utilities	●	●	●
U.S. Small Cap Growth	●	●	●	Consumer Staples	●	●	●
U.S. Small Cap Value	●	●	●	Information Technology	●	●	●
International Developed	●	●	●	Communication Services	●	●	●
Emerging Markets	●	●	●	Industrials	●	●	●
Global Fixed Income	●	●	●	Financials	●	●	●
U.S. Governments	●	●	●	Materials	●	●	●
U.S. Mortgages	●	●	●	Real Estate	●	●	●
U.S. Corporates	●	●	●	Consumer Discretionary	●	●	●
International Fixed Income	●	●	●	Cash	●	●	●
High Yield	●	●	●				
U.S. High Yield Tax Exempt	●	●	●				
U.S. Investment-grade Tax Exempt	●	●	●				

CIO asset class views are relative to the CIO Strategic Asset Allocation (SAA) of a multi-asset portfolio. Source: Chief Investment Office as of November 7, 2023. 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.

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.

ICE BofA U.S. Mortgage-Backed Securities Index tracks the performance of U.S. dollar-denominated, fixed-rate and hybrid residential mortgage pass-through securities publicly issued by U.S. Agencies in the domestic market.

Sensex Index is the benchmark stock index of India's economy and represents 30 of the country's largest and most well-capitalized stocks listed on the BSE.

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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.

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. 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. 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. 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 directly in Master Limited Partnerships, foreign equities, commodities or other investment strategies discussed in this document, may not be available to, or appropriate for, clients who receive this document. However, these investments may exist as part of an underlying investment strategy within exchange-traded funds and mutual funds.

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

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