BANK OF AMERICA

CHIEF INVESTMENT OFFICE

Viewpoint

The Answer: Hunting For Collateral Impacts

April 2023

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

IN BRIEF

- In the April Global Wealth & Investment Management Investment Strategy Committee (GWIM ISC) meeting, we continue to emphasize higher quality positioning. Although we are encouraged by the latest stability in the banking sector and do not expect systemic deterioration in the Real Estate sector overall, we do believe the negative sentiment hanging over these areas is likely to continue for many months.
- This month, we are downgrading Real Estate to slight underweight and Financials to neutral as both areas have recently come under pressure due to regional bank stress and concerns regarding commercial Real Estate. In turn, we are upgrading Communication Services to neutral after being the worst performing sector in 2022.
- Given the combination of a weak demand backdrop and recent banking and liquidity events we expect lending standards and financial conditions to tighten in the medium term. This is likely to pull forward the much-anticipated recession, which is still expected to be mild overall, but even this outcome is not reflected in S&P 500 earnings estimates.
- The macro backdrop warrants near-term caution on risk-assets like Equities and High Yield and points to elevated volatility overall, but we continue to believe it will create opportunities for long-term investors over the rest of the year.

This edition of the Viewpoint is our quarterly report that answers the top questions on your mind. In our discussions over the course of the last month, we highlighted questions and concerns that have dominated the headlines and market positioning. Each quarter, we continue to discuss the areas that are most important to you and the markets.

In the April GWIM ISC meeting, we continue to emphasize higher-quality positioning. Although we are encouraged by the latest stability in the banking sector and do not expect systemic deterioration in the Real Estate sector overall, we do believe the negative sentiment hanging over these areas is likely to continue for many months. And in the context of the expected headwinds to economic activity in the near future, we have made a few Equity sector changes within our portfolios.

We lowered the Financials sector from slight overweight to neutral and Real Estate from neutral to slight underweight. On the back of these downgrades, we raised Communication Services to neutral from underweight. Our most favorable sectors now include Healthcare, Energy, and Utilities with next in line being Technology, Communication Services,

CIO ASSET CLASS VIEWS

This month, the GWIM ISC adjusted our U.S. Equity sector allocations by lowering Financials to neutral from slight overweight, lowering Real Estate to slight underweight from neutral, and raising Communication Services to neutral from underweight. With markets trying to price in two main scenarios at once (recession on its way and a Federal Reserve (Fed) that "blinks" by pivoting to looser policy), we continue to remain neutral Equities and Fixed Income. We expect the "grind-it-out" environment for markets to continue in the near term.

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Asset Class	CIO View: Underweight		Neutral	Overweight	
Equities			●		
U.S. Large-cap				●	
U.S. Mid-cap				●	
U.S. Small-cap			●		
International Developed		●			
Emerging Markets			●		
Fixed Income			●		
U.S. Investment-grade Taxable				●	
International			●		
Global High Yield Taxable		●			
U.S. Investment-grade Tax Exempt		●			
U.S. High Yield Tax Exempt		●			
Alternative Investments*					
Hedge Funds			●		
Private Equity			●		
Real Estate			●		
Tangible Assets / Commodities			●		
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 multi-asset portfolio.

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Investment products:

Are Not FDIC Insured	Are Not Bank Guaranteed	May Lose Value

Please see last page for important disclosure information. 5603109 04/2023

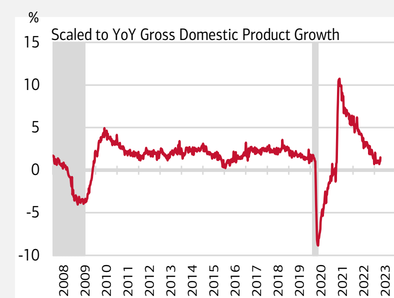
Industrials, Consumer Staples, and Financials. Our least favored sectors are now Real Estate, Materials and Consumer Discretionary.

In the following pages, we outline our views on the top questions across the investment landscape and the prospects for various asset classes. We are encouraged by the most recent rally in Equities, which has been dominated by the mega-cap Growth stocks, but we remain cautious—neutral Equities and Fixed Income—as headwinds to the economy blow harder. Earnings announcements for Q1 are beginning in mid-April, and we expect a mixed bag overall but are concerned that negative estimate revisions could gather pace and weigh on the market. As such, we have diversified our sector allocations to add more balance as growth slows.

With the S&P 500 trading back up to the 4100-level as of March 31, positive price momentum has developed. We could see further gains in the very short term as momentum positioning increases, but, given our view that slower growth is coming, we expect a continued "grind-it-out", choppy environment through the spring, with vulnerability extended into the summer months as the debt ceiling negotiations drag on. We continue to hunt for collateral effect from the regional banking crisis and plan to use capital market activity to reposition portfolios as we move through an eventual Fed pause and the recession time frame.

What are the latest macro developments and their effect on our asset allocation viewpoints? Following 11 straight monthly declines in the Conference Board's Leading Economic Index, coincident indicators of economic activity are starting to buckle as both real growth and inflation slow (Exhibit 1). Industrial production, for example, declined four out of the last five months. And jobs growth continues to slow, led by small businesses, where employment contracted for the fourth straight month in February, according to ADP data. The most recent data point from the New York Fed's Weekly Economic Index points to real growth of just 1% year-over-year (YoY). Thus, the economy appears to be near stall speed and susceptible to ongoing bouts of financial stress.

EXHIBIT 1: WEEKLY ECONOMIC INDEX



Gray area represents recession periods. Source: Federal Reserve Bank of New York/Haver Analytics. Data as of March 30, 2023. **Please refer to index definitions at the end of this report.**

Given the combination of a weak demand backdrop and recent banking and liquidity events, we expect lending standards and financial conditions to tighten in the medium term. This is likely to pull forward the much-anticipated recession, which is still expected to be mild overall, but even this outcome is not reflected in S&P 500 earnings estimates. With consensus earnings per share (EPS) still above $220 for 2023, BofA Global Research expects actual profits closer to $200 per share. We think there is downside risk to that number as top-line growth slows and margins come under pressure.

The macro backdrop warrants near-term caution on risk-assets like Equities and High Yield (HY) and points to elevated volatility overall, but we continue to believe it will create opportunities for long-term investors over the rest of the year.

What are the latest thoughts regarding the liquidity concerns in the banking industry? Deposit strain has slowed dramatically or stopped altogether. We do not currently have major concerns.

According to Fed data, recent stress in the bank market had initially caused significant deposit outflows from smaller U.S. depository institutions: 2.1% of their total deposit base, or -$120 billion (bn). These deposits went into large banks ($67 bn) and money market funds.[1] To replace deposit outflows, smaller banks went to the Federal Home Loan Banks (FHLBs) for advances and to the Fed for funding via the discount window and the new Bank Term Funding Program. Emergency funding to solvent banks across both Fed programs spiked to $165 bn initially.[2]

Encouragingly, however, these outflows stopped. Looking at week-over-week data as of March 23, the amount of stressed bank lending from the Fed decreased considerably on

[1] "Assets and Liabilities of Commercial Banks in the United States - H.8." Federal Reserve, March 24, 2023.
[2] "Factors Affecting Reserve Balances of Depository Institutions and Condition Statement of Federal Reserve Banks – H.4.1." Federal Reserve, March 24, 2023.

the week.[3] The Federal Deposit Insurance Corporation (FDIC) guaranteeing the uninsured depositors of two failed banks, and Secretary Treasury Janet Yellen adjusting testimony to highlight that the administration would "certainly … be prepared to take additional actions if warranted" about deposit insurance, were both calming for markets. More importantly, the Fed is clearly monitoring financial conditions closely and already has the tools in place to solve for future liquidity problems if needed. While we watch the data carefully, we are not concerned about systemwide deposit stress that cannot be quickly contained by policymakers. The market funding and liquidity indicators that we watch closely—credit spreads, short-term bank spreads versus risk-free rates, repurchase agreement rates and availability—have not been stressed.

What's our view on the debt ceiling negotiations? The U.S. hit the debt ceiling of $31.4 trillion on January 19. Without congressional authorization to increase this debt limit, additional borrowing by the federal government is prohibited. Given that the federal government operates with a deficit, the Treasury is expected to run down its cash balance at the Fed and employ "extraordinary measures," which are a variety of accounting maneuvers that help the government avoid defaulting on existing obligations while awaiting congressional action. These measures will likely be exhausted at some point between June and September of this year (the consensus view being mid-August), also known as the "X-date." Facing a slowing economy and an election in 2024, congressional leadership on both sides of the aisle will be motivated to arrive at an agreement ahead of the "X-date" to avoid the economic fallout of going to the brink of a debt ceiling breach. Congressional Republicans will be under pressure to pass a bill that can gain the support of a Democrat-controlled Senate and President Biden or else they risk being portrayed as the cause of the economic disaster resulting from a default. This is easier said than done given their narrow House majority. Failing that, the Senate would likely move first and send the House a more moderate bill that can jam the House with a short window to pass the Senate's version. This Senate-led scenario could become a more likely outcome if we see the "X-date" moved forward, a potential result of the larger deficits being projected by the Office of Management and Budget, or if Treasury funds are again allocated to support financial institutions. But in our view, the current extent of the turmoil in the banking sector hasn't changed the timing or the politics of the debt limit. While the path to resolving the debt ceiling remains uncertain, we believe that an agreement will be reached ahead of the "X-date" that will prevent the U.S. from defaulting. However, we expect uncertainty surrounding the timing and outcome of the resolution to add to the volatile backdrop for risk assets over the next several months.

What are next few moves by the Federal Reserve? The Fed has two key roles in our view. One is to regulate the banking sector and maintain integrity and confidence in the U.S. financial system. The second is to manage monetary policy to balance maximum employment and price stability. Currently, these roles conflict. To help calm markets, the Fed increased liquidity via the "Bank Term Funding Program." At the same time, and on the other hand, the Fed is decreasing liquidity (via quantitative tightening (QT)) and making it more expensive (by raising the fed funds rate). To our knowledge, this is the first time in recent memory the Fed has raised rates in an era of elevated systemic banking stress. This makes forecasting future rate moves by the Fed impossible; no one—least of all the Fed—knows precisely what they will do, especially as inflation is still a real near-term concern. Markets, economic data and sentiment will ultimately determine the correct path for policy. The Fed is messaging that policy will get tighter through rate hikes, elevated market stress, or both but that rates will not be cut this year. The market disagrees and thinks that while there may be one more rate hike in 2023, Fed rate cuts will likely start by July at the latest with at least 50 basis points (bps) of cuts in 2023. Therefore, we see an era of increased relative rate volatility, a likely Fed pause starting this summer, and increased chance of rate cuts as we get into the back half of the year.

What are our latest thoughts across Real Estate and Venture Capital? The estimated $21 trillion commercial Real Estate (CRE) market has been in the spotlight

[3] Ibid

given macro conditions, though different property sectors and geographies are facing their own unique dynamics. The recent turmoil spreading through the banking system, however, may have tipped the tug-of-war between favorable fundamentals and financing pressures in favor of the latter.

Sectors such as Industrial and Rental Housing are still seeing rental income growth but are contending with the higher cost of capital environment. Others, such as Office, face both fundamental and financing/valuation challenges. The potential for tightening lending standards by banks as CRE mortgages mature this year and next is a significant risk—banks are estimated to hold approximately $1.4 trillion of CRE loans, $270 bn of which comes due in 2023, according to the Mortgage Bankers Association. Meanwhile, CRE is predominantly privately held and marked infrequently (often quarterly or annually), creating a valuation gap between private CRE cap rates and implied cap rates of publicly traded Real Estate Investment Trusts. Given that gap, investors are acutely focused on the degree to which private CRE valuations will have to decline to reflect the higher rate environment. Moving through the current market gridlock will take one - two quarters, in our view, with the price discovery phase, including distressed opportunities, likely beginning late this year and into 2024.

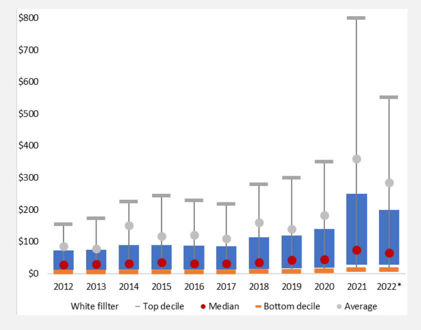
This high-growth asset class has similarly been under pressure from rising interest rates since last year. Then, last month Silicon Valley Bank (SVB) collapsed, adding to Venture Capital (VC) challenges. SVB played a unique role in the VC ecosystem, and its withdrawal as the leading lender in the space comes amid a turbulent moment for the asset class. Perhaps counterintuitively, it could also potentially help set the stage for better prospective returns once valuations eventually bottom out.

As suggested, a sizable revaluation process has already been underway for VC dollars "in the ground"—i.e., valuations of VC-backed companies in aggregate have been declining for several quarters, given the macro headwinds of higher inflation and interest rates. Exhibit 2 shows that late-stage pre-money valuations declined in 2022 from 2021's exuberant highs, with the average falling 21%, and the median falling 13%. The expectation is for this trend to continue in the near term.

And yet, while current VC investments will likely continue to work through this phase of rest, "fresh capital" may be looking at an attractive opportunity set. According to analysis from PitchBook Data, Inc., total value to paid in (TVPI) capital from VC funds that invested during periods of below-trend pre-money valuations have historically been higher than TVPIs from funds that invested during above-trend periods. Given that relationship, VC vintages from this year and next could ultimately see strong performance.

With the near-term prospects for both CRE and VC coming under pressure, the knock-on effects to economic activity and overall growth should begin to filter through in a more assertive way in the back half of this year. These major headwinds create a negative feedback loop in deal activity, the jobs market, and corporate and consumer spending, which will likely be another reason why the long-awaited "mild recession" is pulled forward. Looking out over the next few years, we believe new vintage years should have much more attractive valuations and better future return prospects. Diversification across vintage years is very important in this regard.

EXHIBIT 2: LATE-STAGE VC VALUATIONS DECLINED IN 2022



Source: Pitchbook, Q4 2022 U.S. VC Valuations Report as of *December 31, 2022. Chart depicts late-stage VC pre-money valuations annually.

How do we see Equity markets trends unfolding for the remainder of the year?
Global equity markets remain in a "grind-it-out", choppy pattern. Investors are still on edge with new banking concerns and a growing realization that a "mild recession" is being pulled forward. In addition, the analyst community has yet to fully price in a material enough earnings effect for this year, in our view. Therefore, we continue to remain neutral Equities on a tactical basis. We do believe that there are interesting storylines developing, however, below the broad indexes that continue to provide attractive opportunities. Overall, we emphasize the characteristics of higher-quality, free cashflow and dividend growth, solid balance sheets, and attractive valuations. Investors continue to allocate to more defensive positioning across a wide spectrum of industry groups. Most recently, the

Technology and Communication Services sectors have been outperforming again as rates have come down and investors seek some growth as recession winds have been blowing a little more clearly. It has been the opposite for banks, particularly the regionals, given worries over individual liquidity positions and prospects for increased pressure on earnings as financial conditions tighten. Healthcare has been a recent bright spot given the traditional, more defensive nature to the sector as a whole.

For the time being, we continue to emphasize diversification across sectors, sizes and style but continue to expect large-capitalization shares to outperform through the expected recession. We are warming up to non-U.S. Equities, but in a much slower growth environment it could prove difficult for non-U.S. developed economies to weather a "growth storm" better than the U.S., in our view. In Emerging Markets (EM), we are encouraged by their collective ability, at this point, to attract investment flows this year. EMs have experienced stronger currencies and should continue to benefit in the medium term from the growing need for natural resources coming out of the recessionary period. As for investors looking for entry points to rebalance Equity exposure, we expect two to three periods of weakness between now and the end of the year, which should likely unfold over the summer during debt ceiling negotiations, again in the fall and around year-end as earnings are reset lower. On the brighter side, a Fed pause, a strong enough consumer, and a new earnings-driven cycle should develop again in 2024, and we expect this to re-engineer a new long-term bull market.

What are the prospects for Fixed Income? Coming into 2023, the Chief Investment Office (CIO) suggested a neutral weighting to Equities and Fixed Income. While we had a very favorable view on Fixed Income, we were concerned that any Equity drawdown may occur too quickly to take advantage of, and, hence, we suggested neutral weighting across both asset classes. For Fixed Income, real and nominal yields, while not as high as a month ago, are still quite attractive versus the last 10 to 15 years and should provide both decent returns and diversification, in our opinion.

Within Fixed Income, we advised extending duration to at least neutral as the 10-year approached 4%. With the 10-year near 3.5% at the moment, that positioning was prudent; we maintain a neutral position for now while we look for opportunities to potentially extend duration. We prefer government exposure versus spread products (corporates, municipals, agency Mortgage-backed Securities (MBS)), which has also proved reasonable; Investment-grade (IG) spreads recently widened out to close to their widest levels since the pandemic. While we have a slight underweight position on IG municipals, this must be understood within the right context: we do not have concerns on muni credit, and it is a good defensive asset class in this environment, in our opinion. Munis are simply expensive versus other asset classes relative to current market risk, and we hope to move to a more favorable weighting when this expensiveness abates. HY and leveraged loans are close to recessionary levels in terms of yields, but not spreads; We maintain a slight underweight, but for clients with longer time horizons and higher risk tolerance, the returns should be quite reasonable on a held-to-maturity basis at these levels. We believe the suggested positioning overall correctly and judiciously balances return versus our expectations for higher volatility this year, which has been realized. This positioning will hopefully allow us to "rerisk" in a cautious and circumspect manner later in the year if spread products continue to get more attractive versus lower-yielding risk-free assets.

In summary, our overall message is that with markets trying to price in two main scenarios at once—recession on its way and a Fed that "blinks" by pivoting to looser policy—we continue to remain neutral Equities and Fixed Income. Ultimately, when looking back on this full year of 2023, we believe in diversification across both to collectively produce foundational returns overall. We view 2023 as a base year in which we transition from late cycle to early cycle. The strong Q1 in Equities has typically led to attractive full-year returns when examining prior cycles. However, more importantly, we believe that with inflation coming down, the Fed about to pause, and a new profits cycle on the horizon (i.e., 2024), we see a new long-term bull market developing in the next 12 months. For the time being, markets are fragile, investor sentiment is still poor, and the overall economic growth

picture is slowing. This should continue to keep investors relatively on edge as the yield curve remains inverted and the S&P 500 stuck in a choppy range.

CIO INVESTMENT DASHBOARD AS OF APRIL 4, 2023

A global growth slowdown is continuing to unfold, with economic data broadly weakening, global central banks continuing to tighten policy to combat inflationary pressures, and most recently, stress appearing in the banking sector. In the U.S., inflation has moderated from the peak in mid-2022 but is still well above the Fed's 2% target. U.S. corporate profit trends are less supportive as downgrades continue, with consensus now estimating annual earnings growth of 1.0% for 2023, according to FactSet. Financial conditions remain generally tight, reflecting investor worries over the prospect of an economic slowdown. Absolute valuations for U.S. Equities are still not cheap given the cloudy earnings picture, while investor sentiment remains generally bearish. We continue to believe that market volatility will be elevated for most asset classes and expect the "grind-it-out" environment to persist for markets in the near term before stabilizing later this year. In our view, asset allocation decisions could be more frequent this year as we move through the final phase of the reset period.

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	←	●		According to FactSet, actual S&P 500 revenue and earnings growth in 2022 was 11.1% and 3.6%. respectively. Accordingly, this year, consensus expects growth of 2.1% and 1.0%. In Q1, estimates call for sales growth of 2.4%, but profits decline of 6.9%, on a YoY basis. Estimates continue their decline. According to BofA Global Research the Global Earnings Revision Ratio has displayed resilience, though analyst earnings downgrades still outnumber upgrades in 18 of 20 countries and in 15 of 16 tracked industries.
Valuations	←	●		U.S. Equities have become more attractive but are still not cheap given the cloudy earnings picture. The S&P 500 price-to-earnings (P/E) ratio (next 12 months) is around 18.2x, down from roughly 21.4x in late 2021. Elevated interest rates will likely continue to reduce the relative appeal of Equities versus Fixed Income in the first half of the year.
U.S. Macro	←	●		Real gross domestic product (GDP) grew by 2.6% in Q4 2022 at a seasonally adjusted annual growth rate. The Atlanta Fed's GDPNow tracker estimates growth of 1.7% in Q1 2023, led by consumption and net exports. Inventories and residential investment are detractors. On the demand side, a strong labor market and a cushion of savings have helped support consumer spending. Less clear is their durability in the face of a burdensome cost of living and rising interest rates. BofA Global Research expects growth of 0.9% for 2023.
Global Growth	←	●		Elevated inflation and monetary tightening by global central banks are raising uncertainty over the trajectory for global economic growth. In Europe, inflation has been fueled by the conflict in Ukraine and resilient business activity. Meanwhile, authorities in the U.S. have taken steps to ease bank-related stress. In China, measures of economic growth are recovering after the government shifted away from restrictive economic policies late last year. Overall, the global economy is expected to have expanded by 3.4% in 2022. This year, it's expected to grow by 2.6%, according to BofA Global Research.
U.S. Monetary Policy / Inflation	●			The target policy interest rate, set by the Federal Open Market Committee (FOMC), stands at 4.75% to 5.00%. BofA Global Research anticipates a terminal range of 5.00% to 5.25% to be reached by May. More volatile shifts in market expectations of the future trajectory may reflect resilient inflation data versus heightened expectations for its sharper decline later on, brought by a recent bout of financial instability. The pace of the balance sheet runoff continues, with the cap at $95 bn per month in Treasury bonds and MBS.
Fiscal Policy	←	●		According to the Brookings Institution, the fading of pandemic-era fiscal support, which totaled nearly 31% of GDP, has been dragging on U.S. economic growth. Since that initiative, a $280 bn plan to strengthen the country's industrial base, by investing in semiconductor production and research and development of new technologies, has been authorized. Also approved was the 2022 Inflation Reduction Act. Alongside measures to reduce the public fiscal deficit, it provides nearly $370 bn over 10 years for energy security and climate change projects, among other initiatives. Recently, the Treasury Department has employed temporary measures to postpone breaching the federal debt limit as policymakers negotiate to raise it.
Corporate Credit	←	●		HY and IG credit spreads vacillated in 2022. After declining since October, they have quickly widened, due to worries that financial system stress may tighten credit markets abruptly. Financial conditions remain generally tight, also reflecting investor worries over the prospect of a notable economic slowdown.
Yield Curve	●			Inversions, whereby longer-dated yields are below shorter-dated ones, exist across the Treasury yield curve. This includes the 3-month/10s and the fed funds/10s segments. The 2s/10s spread remains deeply inverted, though by a lesser magnitude, as anticipation builds for an end to the interest rate upcycle. Overall, the Treasury market suggests a higher probability of a recession in the U.S.

Factor	Implication for Equities: Negative / Neutral / Positive	CIO View
Technical Indicators	Neutral	The Chicago Board Options Exchange (CBOE) Volatility Index (VIX) is close to the 18 level, near historical averages and one which has marked a floor as of late. Measures of market breadth, such as the percentage of NYSE stocks closing above their 200-day moving average, have shown recent weakness. The BofA Global Breadth Indicator is signaling "neutral."
Investor Sentiment	Positive (arrow pointing toward Neutral)	Though improving, bearish sentiment remains at a high level, according to the American Association of Individual Investors. Institutional portfolio higher cash levels continue to signal a tactical contrarian "buy" signal, according to BofA Global Research's Fund Manager Survey. The BofA Bull & Bear Indicator now signals "neutral," at 4.3.

Source: Chief Investment Office.

EQUITIES

We are neutral Equities: We maintain a neutral view on Equities, as risks to economic growth and corporate profits remain skewed to the downside. The Fed is likely to continue to hike policy rates in the near term, with BofA Global Research anticipating a final 25 bps hike in May, bringing the terminal rate to 5.00% - 5.25%. We expect stability in risk assets to come with peak labor market weakness, a stabilization in earnings downgrades, a spike in volatility, core inflation moving lower toward the Fed's target, and restored confidence in the health of the banking sector. Since these conditions are likely to materialize over the next few months, a defensive and high-quality bias is warranted in the near term. We favor U.S. Equities on a risk-adjusted basis for now, but as interest rate differentials narrow and the dollar weakens, non-U.S. markets could see new tailwinds. We remain slightly underweight European Equities and International Developed Market Equities.

We are slightly overweight U.S. Equities overall: The U.S. currently remains our preferred Equity region relative to the rest of the world, given relatively stronger balance sheets on aggregate, healthy shareholder payouts, better consumer fundamentals and a greater degree of energy independence. We maintain a slight overweight to U.S. Large-caps given our higher-quality bias, with a preference for Value over Growth. We remain neutral Small-cap Equities, which have lower-quality balance sheets, rising cost of capital, a higher proportion of non-earning companies within the index, and less financial flexibility to generate shareholder payouts, which can be detrimental during an economic slowdown. In our view, Small-caps could be leaders of the next decade but need to stabilize further in 2023, and margins need to expand relative to Large-caps to outperform consistently.

We expect EPS for the S&P 500 to decline in 2023 by 9% to $200 on economic weakness and margin pressures. S&P 500 valuations remain attractive compared to the levels seen a year ago but are still not cheap given elevated interest rates and the uncertain earnings picture, helping to drive our neutral view on Equities. The valuation compression in 2022 was mostly due to the rise in rates; however, multiples could see another leg lower once the focus shifts to weaker fundamentals for earnings. Near-term risks for Equities come from a global slowdown in growth and profits, persistently elevated levels of inflation, higher interest rates, a Fed policy error, and sustained instability in the banking sector. We expect volatility to continue in the near term.

Our "on guard" stance continues to tilt more defensive. From a sector perspective, we remain overweight Healthcare to reflect our preference for quality at a reasonable price. We are slightly overweight Energy, which has strong free cash flows (FCF) and attractive valuations, and Utilities, which is likely to provide relative earnings stability in a slowing economic growth environment. Despite some cyclical sectors outperforming year-to-date (YTD), we remain neutral Industrials and Information Technology. We remain slightly underweight Materials as recession risk rises and pricing power may have peaked in this sector and remain fully underweight Consumer Discretionary. This month, we are downgrading Real Estate to slight underweight and Financials to neutral as both areas have recently come under pressure due to regional bank stress and concerns regarding CRE. With the Fed already tightening monetary conditions with higher interest rates and

EQUITY WATCH LIST

- Continued Fed tightening as inflationary pressures persist
- Economic data for production, labor, consumer expectations, and credit and liquidity conditions
- Progression of earnings estimates amid margin pressures
- Reorganization of global supply chains and U.S.-China relationship
- Ongoing conflict in Eastern Europe
- Broadening banking sector stress
- Pressures within Commercial Real Estate

QT, the regional bank stress could reduce liquidity further and banks are likely to tighten lending standards. The higher costs of deposits and higher cost of capital are likely to weigh on earnings for both the Financials and Real Estate sectors in coming quarters. In turn, we are upgrading Communication Services to neutral to after being the worst performing sector in 2022. Performance is improving this year as company management teams are adjusting their business models for greater efficiency and lower costs. In addition, consensus earnings estimates have been reduced and valuation multiples compressed.

Also worth noting, the recent sector rebalances by the major index providers resulted in a handful of stocks moving from the Information Technology sector to the Financials sector. In addition, some stocks moved from the Consumer Discretionary sector to the Consumer Staples sector. As a result, the Financials and Consumer Staples sector weights in the S&P 500 Index increased, and Information Technology and Consumer Discretionary sector weights declined in the S&P 500 Index.

We believe strategic portfolios should continue to incorporate both Growth and Value factors that would simultaneously gain from cyclical and secular forces gaining traction. We currently maintain a preference for Value, which is trading at a relative discount to Growth, is seeing better earnings trends, and has led Growth when the Fed paused in past periods of elevated inflation. However, in the long run, Growth should benefit from accelerated secular investments in 5G, artificial intelligence, cloud computing, robotics and health infrastructure globally.

We are neutral Emerging Market Equities: EM Equities appear attractively valued but may struggle to sustain a return advantage in an environment of high and still rising global interest rates, a still relatively strong U.S. dollar and any potential broadening in banking sector stress. We continue to expect a wide return dispersion between individual EM countries and regions. The heavyweight Chinese market stands to benefit from an acceleration in growth following the dismantling of zero-Covid restrictions, policy support for the real estate market and regulatory relief in the Technology sector. Asian markets more broadly should see positive spillovers from the improvement in Chinese consumer demand. Central and Eastern European markets remain most exposed to the Russia-Ukraine crisis through trade links and high dependency on natural gas imports, while market direction in Latin America, the Middle East and Africa should remain broadly tied to the direction of natural resource prices. The structural rise in EM consumer spending remains a big reason that we believe investors should consider maintaining a strategic allocation to EM Equities, as appropriate. The emerging world now constitutes around 40% of global Personal Consumption Expenditures (PCE) according to the United Nations, and ongoing convergence with developed economies should support GDP growth and corporate earnings over the longer term. We favor active management[4] when investing in EM, as fundamentals differ across countries based on fiscal capacity, external funding needs, corporate governance and other factors.

We are slightly underweight International Developed Market Equities: We continue to prefer U.S. versus International Developed given our higher-quality view. We remain slightly underweight in Europe given headwinds to economic growth and corporate profits, greater economic exposure to any potential broadening in banking sector stress, upward pressures on core inflation and a hawkish European Central Bank (ECB). Natural gas prices have fallen from their crisis peaks, but ongoing curtailment of Russian supply and growing demand from China mean that supply constraints could re-emerge at a later stage. We maintain a neutral view on Japanese Equities, which could see additional tailwinds from China's economic reopening, though less monetary accommodation, higher interest rates, and a stronger currency are likely to be relative hurdles for export-exposed Japanese markets. We believe long-term investors should maintain some strategic exposure to International Developed Equities, as appropriate, given that they trade at a discount

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

relative to U.S. Equities, contain more of a balance between Value and Growth sectors, offer an attractive dividend yield and provide strong diversification benefit.

FIXED INCOME

We are neutral on Fixed Income: Even after the recent rally, nominal and real rates are some of the most attractive in over a decade, while banking system stress is increasing, the economy is deteriorating later in the economic cycle and recessionary signals increase. Ten-year Treasurys are currently around 3.5%. Real yields—the yield after inflation is considered, as measured by Treasury Inflation-Protected Securities (TIPS)—are approximately 1.25% - 1.5% across the curve. Earning a positive, substantial yield on U.S. government-guaranteed securities after inflation is a welcome reprieve for savers after years of financial repression. We are therefore favorable on Fixed Income near term while being slightly positive on U.S. Governments, although our positioning is neutral relative to Equities on the 12- to 18-month time horizon.

Recently, banking sector stress has severely affected the market landscape. There were deposit outflows from the banking system this month, particularly from smaller banks, as two bank failures roiled markets. These flows seem to have abated based on recent Fed data, but banking issues will only further tighten lending conditions. Leading economic indicators remain weak, money supply growth is still negative and yield curves remain inverted, although they have steepened dramatically in recent weeks as short bonds reflect significantly fewer rate hikes. Inflation expectations remain stable at around 2.25% to 2.5% across the curve, highlighting that the market believes the inflation spike is behind us and that Fed policy will eventually be enough to get back to lower inflation. Fixed Income has diversified multi-asset class portfolios in this recent episode and will continue to do so, in our opinion. With rates lower on this risk-off environment, we are therefore currently neutral duration versus a stated benchmark but will continue to look for prudent opportunities to potentially extend duration in the future.

We are neutral Investment-grade corporates and remain slightly underweight High Yield: IG spreads have widened to YTD wides of 152 bps on stress that has emerged in the banking sector in March. While volatility should be expected to remain elevated, we believe that for most banks with assets of $50-$75 bn, fundamentals and capital remain healthy. Swift policy response from the government should help prevent additional bank failures and help contain contagion/fallout, and we don't see asset quality issues across the sector like 2008. The downstream effect that tighter lending and financial conditions brought on by the failure of SVB and Signature Bank complicate our forward view on the macro backdrop. While too early to tell, our view is that the odds of a near-term recession have increased. Despite the backup in credit spreads, valuations still do not appropriately reflect the risk of a recession over the next 12 months. Therefore, we continue to believe a modest up-in-quality/defensive tilt within a corporate allocation is prudent at this time. We believe that 175 to 200 bps remains a more attractive level to potentially reposition Fixed Income portfolios in credit.

Credit losses in IG are generally minimal and not a large component of spreads or yields, but the same cannot be said in HY. Fortunately, HY yields-to-worst—while volatile of late—remain roughly around 9%. Valuations provide modest compensation for credit losses and suggest reasonable returns over medium to longer time frames. However, as sentiment remains depressed and as concerns of a recession become more prevalent, yields could rise again, so there may still be additional price losses to come. Spreads, moreover, are in the 500 bps range, below the 650 to 800+ level seen in many recessions. We therefore maintain our slight underweight positioning. Within HY allocations, we prefer a balanced allocation between secured floating-rate leveraged loans and unsecured high yield bonds.

We remain slightly underweight U.S. Investment-grade Tax Exempt and U.S. High Yield Tax Exempt: Muni valuations remain excessively rich relative to Treasurys and corporate bonds. We attribute this to low primary market issuance, which is down about

FIXED INCOME WATCH LIST

- Deeper yield-curve inversions
- Signs of any risk aversion or recessionary risk in terms of spreads, yields or new issue activity
- Signs of significantly negative Fixed Income fund flows
- Dislocations in CRE markets
- Potential credit deterioration in the economic weakness

24% YTD, and strong fundamental conditions for most municipal issuers. Within the muni market, high yield is currently expensive relative to IG, with tighter-than-average credit spreads. We do expect muni valuations relative to Treasurys to cheapen later this year, through a combination of higher supply and potentially deteriorating economic conditions. If that occurs, we would consider upgrading our view on the tax-exempt sector, which generally has lower credit risk than most other non-Treasury Fixed Income asset classes. We believe credit conditions are still strong for munis, but budget pressures are likely to emerge due to weakening tax revenues, increased operating expenses, and higher required pension contributions. Positively, muni issuers were able to add to reserves over the last couple of years, and states' balance sheets are close to their strongest positions in decades. Therefore, we expect defaults on IG muni bonds to remain low. However, a focus on higher credit quality and lower-risk sectors (e.g., general obligations and essential service revenue bonds) should help mitigate the risk of spread widening in a weakening economy. Extra caution may be warranted in higher-risk sectors, e.g., hospitals—which are experiencing higher labor and supply costs; transit—which is affected by the secular, post-coronavirus shift to remote work; and private higher education—which has seen declines in enrollment and weak revenue growth.

We are neutral Mortgage-backed Securities: Aiming to combat high inflation, which has risen to a four-decade high, the Fed has steadily tightened financial conditions by raising interest rates and engaging in QT since last year. As a result, MBS spreads have been under pressure and have widened significantly before retracing most of it and are now close to 60 bps. At current levels, MBS spreads appear only modestly attractive relative to Treasurys and IG corporate bonds.

A portion of the key sector risk has been at least partially mitigated, with MBS duration now significantly lengthened and further extension limited in a rising-rate environment. However, interest rate volatility remains elevated at levels last seen during the height of the pandemic, which is negative for MBS investors. Furthermore, the technical picture for MBS demand appears challenged by banks' liquidity concerns, reduced savings, and increased lending activity. Effectively, the Fed and financial institutions, which collectively own two-thirds of the MBS market, are less active participants currently. Given the Fed's lack of experience with QT and the unsettling geopolitical situation, it's probable that the MBS spreads will resume widening. Consequently, we believe the rewards and risks of the MBS sector are now more balanced.

ALTERNATIVE INVESTMENTS

We favor a strategic approach when allocating to Hedge Funds: The turmoil created by the bank failures of SVB and Signature and the stress seen across much of the medium- to small-cap banking sector will most likely have more effect on Event Driven (ED) and Relative Value (RV) versus other Hedge Fund (HF) strategies, but in an indirect way. These banks may fear that they could be the next target and they are likely to raise their liquidity profile and tighten their credit standards. This would be bad news for companies depending on rolling over their bonds or loans or needing to access fresh capital. If the banks are reluctant to lend to companies that are experiencing declining sales or earnings, they might have to look for alternative sources of capital. This would play into the strengths of ED and RV strategies, that have the resources to evaluate individual companies and take positions at advantageous prices. Often what is bad news for companies and the economy could translate into good opportunities for these types of strategies. The stress from the banking crisis did not have a direct effect on HF overall but did inject a level of uncertainty into the market, leading to higher volatility. This can often be a boon to these types of managers. Within HF strategies, we remain constructive on Equity Hedge and Macro trading. Macro trading did get upended in March as the events in the banking sector put a possible top on the terminal rate for fed funds. Many market analysts believe that tightening credit will help the Fed in slowing the economy and lowering inflation, making the end to rate hikes likely by the end of Q2. This belief sent bond prices higher and yields lower, and many macro managers were on the wrong side of

ALTERNATIVE INVESTMENTS

We believe allocations to AI, for qualified investors, 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.

this positioning. This caused some losses and the reduction in short interest rate exposure in March. For Equity Hedge, with the higher volatility seen in March, shorting opportunities remain favorable, in our opinion. Higher interest rates and slowing global growth will likely result in declining corporate earnings, creating good shorting candidates.

We favor a strategic approach when allocating to Private Equity: While the final numbers for Private Equity (PE) for 2022 are not yet in, it is likely to be a down year. Some strategies, like VC, so far are showing declines that are close to public market equities, while Buyout funds are generally posting less severe losses. For Venture, Buyout and Growth Equity, we expect to see valuation pressures over the medium term for existing portfolios, while attractive opportunities emerge for fresh capital. In the near term, we anticipate an increase in the prevalence of down-rounds (financing in which a company sells shares of its capital stock at a price that is less than the price attained from an earlier round), although companies will exhaust other options to conserve cash, with a view to delaying fundraising as much as possible. On the positive side, it is important to remember that there are still complicated problems that need solving, and there will continue to be innovative private companies striving to solve them. As always, we suggest investing methodically throughout a cycle to enhance vintage-year diversification and capitalize on new opportunities. In 2022, Private Credit (PC) delivered for investors by providing positive and growing income and generally outperformed most other Fixed Income investments. With many PC funds now yielding 8% to 10%, income-oriented investors will likely be well served by continuing to hold or add to this strategy. Direct lending portfolios were largely insulated from credit issues in 2022, though with the banking crisis in March, we are likely to see some fallout from exposure to SVB and Signature Bank. Historically, PC has withstood recessions well in terms of defaults and recoveries compared to high yield bonds and other areas of consumer debt. Default rates are likely to climb off historic lows to more average levels in the coming year. While it appears that the Fed has successfully ring-fenced the two troubled banks and the shotgun marriage of UBS and Credit Suisse coordinated by the Swiss government, it was certainly a wake-up call to credit investors. The other major PE strategy, Special Situations, has recently seen a transformation with the rapid repricing of yields and spreads over the past six months from very limited and uninspiring to more attractive, in our view. At a minimum, we believe we have rapidly returned to a neutral posture with our eye on a potentially sizable future opportunity set.

We favor a strategic approach when allocating to Private Real Estate: In 2023, we remain constructive on Core/Core-plus Real Estate (RE) as a strategic, long-term portfolio allocation, even as the macroeconomic landscape has changed dramatically from a year ago. Our outlook for 2023 includes continued moderation of performance expectations, driven by potential for further pressure on capitalization rates and tapering of the outsized rental income growth achieved in 2022. In a more challenging environment due to higher interest rates and recessionary pressures, we expect to see performance dispersion between funds driven by portfolio construction and sector allocations. Opportunistic RE remains a neutral asset category for Q1 2023. Rising interest rates adds to some uncertainty in this strategy, although RE has a good historic record of outperforming during periods of inflation and economic growth. For larger investment managers with a broad sourcing network, the uneven recovery from the pandemic in the RE substrategies (i.e., Retail, Office, Leisure) continues to create pockets of opportunities. With public market dislocations, larger general partners now have attractive areas to buy through public to private transactions. We remain favorably disposed to strategies with the scale and wherewithal to invest in broad based and diversified portfolios.

Commodities: Global growth anchors demand for commodities and is near stall speed as the U.S. economy cools. Thus, cyclical commodities remain under pressure. China's re-opening is a key pillar of support but growth in other parts of the world is slowing. As evidence, the JPMorgan Global Manufacturing Purchasing Managers' Index is at "50" suggesting global manufacturing is neither expanding nor contracting. The Organisation for Economic Co-operation and Development Global Leading Indicator for G20 also suggests global growth will remain under pressure. BofA Global Research projects West Texas Intermediate (WTI) and Brent crude oil prices average over $80 over the medium term. Financial stress and elevated geopolitical risk are giving some tactical support to

gold but we continue to believe gold is most effectively implemented as a strategic diversifier.

The U.S. dollar is following the path of U.S. relative real interest rates versus other major currencies. Financial stress has pushed the Fed to inject liquidity the bond market is pricing in a Fed pause and eventual rate cuts, pressuring the dollar. Over the medium term, the dollar continues to look expensive, in our view.

Tangible assets: As inflation remains elevated, tangible assets—such as real estate, timber, and farm and ranch land—have historically done well in a high-inflationary environment and can add a real diversification benefit to a traditional portfolio. It can also add a diversification benefit to Hedge Funds and PE investments.

MACRO STRATEGY

- Following 11 straight monthly declines in the Conference Board's Leading Economic Index, coincident indicators of economic activity like industrial production are starting to buckle as both real growth and inflation slow. The most recent data point from New York Fed's Weekly Economic Index points to real growth of just 1% YoY. Overall, the economy appears to be near stall speed and susceptible to ongoing bouts of financial stress. We expect tighter financial conditions to pull forward the much-anticipated recession, which is still expected to be mild overall, but even this outcome is not reflected in consensus S&P 500 earnings estimates.
- The macro backdrop warrants near-term caution on risk-assets like Equities and HY and points to elevated volatility overall, but we continue to believe it will create opportunities for long-term investors over the rest of the year.

ECONOMIC FORECASTS (AS OF 4/3/2023)

	2022A	Q1 2023A	Q2 2023E	Q3 2023E	Q4 2023E	2023E
Real global GDP (% y/y annualized)	3.4*	-	-	-	-	2.6
Real U.S. GDP (% q/q annualized)	2.1	1.0*	0.5	-1.0	-2.0	0.9
CPI inflation (% y/y)	8.0	5.8*	4.3	3.6	3.2	4.2
Core CPI inflation (% y/y)	6.1	5.5*	5.0	4.1	3.4	4.5
Unemployment rate (%)	3.6	3.5*	3.5	3.7	4.2	3.7
Fed funds rate, end period (%)	4.33	4.83	5.13	5.13	5.13	5.13

The forecasts in the table are the baseline view from BofA Global Research. The Global Wealth & Investment Management (GWIM) Investment Strategy Committee (ISC) may make adjustments to this view over the course of the year and can express upside/downside to these forecasts. There can be no assurance that the forecasts will be achieved. Economic or financial forecasts are inherently limited and should not be relied on as indicators of future investment performance.
A = Actual. E/* = Estimate.
Sources: BofA Global Research; GWIM ISC as of April 4, 2023. Forecasts are subject to change.
When assessing your portfolio in light of our current guidance, consider the tactical positioning around asset allocation in reference to your own individual risk tolerance, time horizon, objectives and liquidity needs. Certain investments may not be appropriate, given your specific circumstances and investment plan. Certain security types, like hedged strategies and private equity investments, are subject to eligibility and suitability criteria. Your advisor can help you customize your portfolio in light of your specific circumstances.

S&P 500 SCENARIOS BASED ON FORWARD P/E AND 2023

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 2023 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.

2023 EPS	EPS Forward P/E (Next 12 months)				
	15.0x	16.0x	17.0x	18.0x	19.0x
$240	3,600	3,840	4,080	4,320	4,560
$230	3,450	3,680	3,910	4,140	4,370
$220	3,300	3,520	3,740	3,960	4,180
$210	3,150	3,360	3,570	3,780	3,990
$200	3,000	3,200	3,400	3,600	3,800
$190	2,850	3,040	3,230	3,420	3,610
$180	2,700	2,880	3,060	3,240	3,420

For illustrative purposes only. Source: Chief Investment Office as of April 4, 2023.

CIO ASSET CLASS VIEWS AS OF APRIL 4, 2023

	CIO View					
Asset Class	**Underweight**		**Neutral**		**Overweight**	**Comments**
Equities			●			We are neutral Equities as risks to economic growth and corporate profits have recently increased. We remain overweight the U.S. and neutral EM, with a slight underweight to International Developed.
U.S. Large-cap				●		We have a slight preference for Value over Growth, given better absolute and relative valuations. Higher interest rates should pressure Growth more, especially higher multiple, non-earning areas. We believe portfolios should incorporate both Growth and Value factors as appropriate.
U.S. Mid-cap				●		Our preference to stay higher up in the size scale keeps us favoring Large- and Mid-caps compared to Small-caps.
U.S. Small-cap			●			We are neutral Small-caps, as they have lower-quality balance sheets, a higher proportion of non-earning companies within the index, and less financial flexibility to generate shareholder payouts. However, they maintain reasonably attractive absolute and relative valuation versus Large-caps.
International Developed		●				International Developed Equities remain attractively valued, but additional central bank policy tightening is likely to exceed the U.S. Underlying rates of nominal growth are also expected to trail U.S. levels.
Emerging Markets			●			We are neutral EM Equities overall with regional markets likely to be driven by relative exposures to Chinese growth, the ongoing Russia-Ukraine conflict and natural resource prices. Valuations appear attractive, but high and still rising global rates remain a headwind.
International						
North America				●		The U.S. remains our preferred region given balance sheet strength, better fundamentals for consumer spending and healthy shareholder payouts.
Eurozone		●				Lower natural gas prices are a source of relief, but key risks stem from elevated inflation, hawkish central bank policy, weaker economic growth and the potential for energy supply constraints to re-emerge amid the ongoing Russia-Ukraine conflict.
U.K.			●			Domestic demand at risk from still high household fuel prices and mortgage rates. Historically weak exchange rate risks compounding inflation pressures. Withdrawal from European Union single market remains a negative for medium-term growth.
Japan			●			Some positive spillover expected from rising consumption in China, but headwinds likely to increase from rising domestic interest rates. Nominal growth expectations remain among the lowest for the major developed economies.
Pac Rim*			●			Regional activity stands to benefit from improvement in Chinese consumer demand. Large weighting in Financials increases vulnerability to any potential broadening in banking sector stress.
Fixed Income			●			Bonds are more attractive and provide good diversification for multi asset class portfolios with both reasonable income and the ability to decline substantially in yield in an economic downturn. Neutral duration is suggested, balancing continued inflation risk against significantly better valuations.
U.S. Investment-grade Taxable				●		Preference for Treasurys relative to credit and spread products, as nominal and real rates are some of the most attractive in over a decade, while the economy deteriorates later in the economic cycle and recessionary signals increase.
International			●			International rates markets have become significantly more attractive as global central banks raise rates to help fight inflation, no longer trading at a significant discount to the U.S. except in Japan where the Bank of Japan is keeping longer-term rates artificially low.
Global High Yield Taxable		●				Valuations now present more attractive medium-to-long term returns even after estimating credit losses. However, poor near-term sentiment and rising recession concerns may exacerbate near-term price losses, and spreads are not at recessionary levels. Any additions to HY, therefore, should have a long-time horizon. Within HY, we prefer balanced exposure between floating rate loans and HY unsecured.
U.S. Investment-grade Tax Exempt		●				Muni valuations remain excessively rich relative to Treasurys and corporate bonds. We attribute this to low primary market issuance and strong fundamental conditions for most municipal issuers. We do expect muni valuations relative to Treasurys to cheapen later this year, through a combination of higher supply and potentially deteriorating economic conditions. If that occurs, we would consider upgrading our view on the tax-exempt sector, which generally has lower credit risk than most other non-Treasury fixed income asset classes. However, a focus on higher credit quality and lower-risk sectors (e.g., general obligations and essential service revenue bonds) should help mitigate the risk of spread widening in a weakening economy.
U.S. High Yield Tax Exempt		●				High yield munis are rich relative to Investment-grade munis, with tighter-than-average credit spreads. An up-in-quality focus should help mitigate increased credit risk due to economic weakening.

* 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.

Asset Class	CIO View: Underweight	CIO View: Neutral	CIO View: Overweight	Comments
Alternative Investments*		●		Given the differences in liquidity characteristics between 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.
Hedge Funds				The shift in Fed policy has led to greater volatility in the Equity and rate markets. An allocation to Hedge Funds has the potential to lower the effect of the volatility and possibly take advantage of the dislocation and sector rotation. For a Hedge Fund allocation at the strategy level, we continue to suggest incremental overweight to Equity Hedge strategies as part of a diversified portfolio of Hedge Fund strategies. Additionally, we continue to see opportunities in the macro space given the rise in geopolitical risk, the potential for uneven economic growth, interest rate differentials and inflation expectations between countries and regions and its effect on rates, commodities and foreign currencies.
Private Equity				While we remain positive on Buyout and Venture/Growth strategies, there could be headwinds in the near future with higher interest rates and possible down-rounds. Generally, Private Credit (PC) strategies outperformed traditional Fixed Income portfolios in 2022, as PC has floating rate resets, and we expect these funds to continue to do well. The rapid repricing of yields and spreads over the past six months has improved the outlook for the Special Situations strategy, in our view, from very limited to more attractive levels.
Tangible Assets / Commodities				Recently, commodity prices have stalled as the global economy slows and the likelihood of recession increases. Many commodities are stuck in a trading range, as the path of global economic growth is uncertain. However, over the long term, we believe that positive fundamentals remain in place, and a moderate allocation in an investors' portfolio could be additive. Commodities tend to do well in periods of elevated geopolitical risk and high inflation.
Real Estate		●		Higher interest rates and the possibility of a recession have started to slow down the CRE market. Four out of the five major subsectors posted moderate positive performance in Q3 2022, with Office putting up the first negative number in a while. Performance was in the low-single digits after several quarters of strong growth, particularly in Industrial and Multi-Family. The macro backdrop is still positive for Core/Core-Plus Real Estate, which emphasizes quality investments in well-located and well-positioned assets in growing and liquid primary and secondary markets. Private Infrastructure offers interesting opportunities as many of these hard assets move up with inflation and can potentially provide a relatively good yield.

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

CIO EQUITY SECTOR VIEWS AS OF APRIL 4, 2023

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: Underweight	CIO View: Neutral	CIO View: Overweight	Comments
Healthcare			●	Consider using recent weakness to position in larger biopharma stocks with attractive valuations. In an environment where financial conditions are tightening and economic growth is slowing, Healthcare stocks provide attractive characteristics, including quality, dividend growth, dividend yield and lower beta. Healthcare fundamentals to date have been able to withstand much of the macro pressures seen globally. Distributors, life science equipment and large biopharma are best positioned, in our view, to weather pressure on margins, while innovation and breadth of portfolio should continue to allow for modest price taking in areas of medical technology and devices. Large pharmaceutical companies remain attractive as they trade at a material discount to Healthcare sector peers and the broader market. Further, significant cash on strong balance sheets, combined with more aggressive business development efforts and a greater focus on explaining long-term growth drivers make large pharma more attractive over the intermediate term. Over a longer duration, drug pricing headwinds may return as demographic shifts put more pressure on government payors and as value-based care initiatives gain momentum. Emphasize exposure to long-term positive trends in life science/bioprocessing equipment, innovative and differentiated medical devices and animal health, as well as more intermediate opportunities in Large-cap biopharma and diversified med tech. Valuation remains attractive and momentum is neutral for the Healthcare sector.

Sector	CIO View (Underweight – Neutral – Overweight)	Comments
Energy	• • • ● •	Declining but still solid global energy demand, tight global supplies, limited spare capacity, risk of potential global disruptions, and the decline in long-cycle energy investments are supportive for Energy stocks. Higher energy prices combined with substantial cost-cutting initiatives and capital discipline over recent years built significant operating leverage into Energy companies. Despite declines in energy prices this year, earnings and free cash flow outlooks remain strong for energy companies relative to other sectors. There remains room for positioning to improve for the sector despite strong outperformance over the last two years. Despite tougher YoY comps in 2023, remain positive on the Energy sector due to valuation, earnings power and higher cash returns to shareholders through base dividends, variable dividends, and stock buybacks. Further, China's reopening, while likely choppy and not linear, could add to global demand for energy and support prices at higher levels as the year progresses. Longer term, secular headwinds still confront the sector, including the transition to clean energy, lower renewable energy costs and Environmental, Social and Governance (ESG) focus by investors. Continue to emphasize companies that are low-cost producers with high free cash flows, balance sheet strength and low break-evens. After two years as the top-rated Equity sector, we remain overweight the Energy sector, but, due to tougher comps YoY it moves down on the sector list. Energy stocks still provide attractive valuations and strong dividends but slowing momentum.
Utilities	• • • ● •	Utilities provide stable and consistent earnings outlooks, especially relative to other more cyclical sectors. In addition, as we progress through later stages of this economic cycle, Utilities historically outperform in the late cycle and during economic growth slowdowns, especially regulated utilities. Utilities provide greater balance, lower beta, and help pair with our cyclical exposure in Equity portfolios. We expect consistent earnings results despite slowing economic growth. There is also the potential for higher interest rates that could potentially weigh on this interest rate-sensitive sector and be a potential headwind near term as a bond proxy sector. For the longer term, we emphasize Utilities with growing renewable power generation from wind and solar and de-emphasize ones that rely strictly on coal-power generation. The 2022 Inflation Reduction Act legislation provides a strong runway for future renewable energy investments and projects while also providing visibility and greater certainty for future earnings and dividend growth. Prefer utilities that can capitalize on the energy transition to greater renewable power generation and positive demographic trends. Valuation is above historical averages and momentum is weakening, but defensive qualities remain.
Consumer Staples	• • ● • •	The prospects for continued consistent demand for essential consumer packaged goods (CPG) products from an even more conservative consumer may support relatively better top-line revenue growth, when also coupled with selective but moderating retail price increases. Input and ingredient cost pressures could moderate further and may provide some downside gross margin protection over time. The Consumer Staples sector has historically outperformed other cyclical areas of the market during a period of negative earnings revisions due to the recurring nature of consumer product company revenue streams, leading to better relative earnings growth. More visible and predictable earnings and a less severe period of downside earnings revisions help support the sector's relative valuation. Consistent cash flows through varying economic cycles help support higher dividend payouts and increased shareholder capital returns. The defensive characteristics of the sector could potentially attract "safe haven" investment flows over various cycle outcomes despite the already elevated valuations. Valuations are expensive, but momentum and relative performance has improved.
Information Technology	• • ● • •	The Technology sector is neutral despite improvements in supply chains and recent flight-to-quality flows into mega-cap Technology stocks. However, margin risks remain for companies in the sector as IT budgets and technology investments are showing signs of slowing. Despite some of the most expensive Technology stocks experiencing significant valuation re-ratings last year, we remain concerned about 2023 enterprise spending being under greater scrutiny on tighter spending budgets and the potential for additional valuation re-ratings in the sector. Further, the potential remains for downward earnings revisions that are more likely to affect higher-beta, higher-valuation companies. Investors are debating whether a bottom is in for semiconductor stocks, as the group is looking more attractive. Despite strong long term Cloud trends, software margins could continue to deteriorate, as cloud consumption could potentially come under some pressure near term and is not immune to a macro slowdown. We suggest a neutral weight in Tech, with a bias to higher-quality and more fairly valued companies with both strong FCF and balance sheets. We continue to encourage investors to be careful about unprofitable, expensive, and long-duration Tech companies. The pandemic accelerated the digital transitions for many industries, but, over the longer term, we remain positive on the secular growth trends for cloud computing, machine learning and artificial intelligence, and data centers, software, cybersecurity, and semiconductors. Valuations in the sector declined in 2022 but are still elevated, and any additional moves higher in interest rates could pressure multiples for high-growth and high-valuation tech stocks with low to no profits; therefore, look for GARP (growth at a reasonable price) in software and semiconductors. The Tech sector still generates significant FCF and dividend growth and remain long term fundamental drivers for the sector. Technology is deflationary by nature; therefore, long-term investors should look to add to transformational and industry leading businesses on weakness from the Fed's tightening and the re-rating of Technology stocks. Valuations remain elevated and momentum is improving.
Communication Services	▶ • ● • •	We are upgrading the Communication Services sector to Neutral after extremely poor performance in 2022 when valuations significantly re-rated. Some of the largest companies in this sector have higher quality fundamental characteristics and could be more attractive in an economic slowdown. Despite our concern for ongoing regulatory oversight and the never-ending battle over content, management teams are now adjusting their business models to reduce costs and become more efficient. Ad spending is moving from e-commerce to travel and leisure, hence advertisers are having to shift their targeting. Retailers are suffering from rising costs and slowing sales, which could drive changes in advertising spend. We are more constructive on the sector based on three key factors: 1) valuation multiples were largely de-risked last year; 2) earnings estimates were reduced; 3) and more importantly, broad cost reduction plans could create potential earnings upside. Valuations have declined and momentum improved to start the year.

Sector	CIO View (Underweight / Neutral / Overweight)	Comments
Industrials	Neutral	The Industrial sector is neutral, driven by divergent fundamental outlooks across subsectors. Softening domestic end markets, ongoing supply chain issues, elevated labor and energy costs, cautious guidance, and weaker export demand driven by Europe and China are weighing on the outlook for industrial conglomerates and transports. On the positive side, the global threat environment is heating up and driving an improving outlook for defense budgets in the U.S., Europe, and Southeast Asia, underpinning favorable dynamics for defense companies. Aerospace is benefiting as well from the ongoing recovery in consumer and business air travel, which remain below pre-pandemic levels. Potential improvements in the global capex cycle, including re-shoring of supply chains and manufacturing, and investment in new equipment after years of focusing on productivity, could support the construction, transportation, machinery, and freight and logistics industries longer term. However, elevated inflation, tighter monetary policy and slower growth are weighing on general sentiment for Industrials. Valuation is slightly elevated, and momentum is stalling.
Financials	Neutral (◄ downgraded from slight Overweight)	We are downgrading the Financials sector to Neutral. Despite the arrival of a high-interest rate regime U.S. banks collectively have seen nearly $0.5 trillion in deposit outflows so far this year, according to Fed data, exacerbated by the recent high-profile bank failures. Depositors have sought the perceived safety of the biggest banks and the higher yield offered by money market funds. Funding pressure will likely lead to tighter credit standards and slow the pace of lending going forward. Despite headwinds, net interest income is still expected to grow modestly this year and improve earnings power, and valuations appear to already discount a lot of potential bad news. Risks to the downside appear balanced compared to potential upside for banks, with prospects for big banks relatively better than smaller regional banks. Capital return will remain the cornerstone of the investment case for banks. Overall, the volatility of the financial sector should improve with the recent addition of large e-payment networks that have been stable earnings compounders historically. We also favor life insurers which gain significant tailwinds from higher interest rates with higher-yielding investment portfolios. Investment income accounts for roughly one-third of life insurance revenues. Given structural headwinds in property and casualty insurance, we prefer alternative asset managers, like PE, which consistently draw fund inflows, typically find their most lucrative investment opportunities in times of economic stress and maintain pricing power in management fees.
Materials	Slight Underweight	Slower global growth, weaker commodity prices and tighter monetary conditions factor into our more cautious view on the Materials sector. We are seeing deceleration in the positive pricing cycle that has been driven by favorable supply and demand conditions over the last two years. Higher interest rates in the developed world and ongoing trials securing labor and materials are pushing industrial project timelines to the right, and with the additional challenge of higher energy costs, we are seeing some formerly profitable projects be reconsidered. Meanwhile, the supply side continues working at maximum capacity to meet the demand levels and thus may end up overshooting. We see this reflected in rising inventory level data across some value chains and are increasingly cautious as the dynamic may spread and become a trend. We want to reposition investment portfolios ahead of a potential contraction in the pricing cycle, as rising inventories and slowing volumes give buyers more bargaining power. Multiples could meaningfully contract if we start to see persistent pricing declines across the commodity complex. Such a trend would give some intermediaries relief on costs, but if they are also experiencing volumes decline, operating leverage could be at risk. We still see some near-term tailwinds for demand, such as bipartisan support for U.S. infrastructure spending and reopening policies in China, but on balance risks for performance are growing relative to potential rewards. Amidst softening demand trends and expected supply growth in the near term, consensus estimates appear elevated. As a result, the underlying sector valuation is neutral, while momentum is stalling.
Real Estate	Slight Underweight (◄ downgraded from Neutral)	Downgrading the Real Estate sector on CRE concerns. Tighter financial conditions and higher cost of capital could slow growth and weight on earnings in the RE sector. Higher interest rates could increase refinancing risks and increase interest expenses which could be a downside risk to sector earnings in 2023. RE was a higher conviction sector when inflation was rising, but with some inflation measures moderating and higher costs of capital for the industry, we would be more selective within the RE sector. There are mixed outlooks among its sub-sectors because of consumer and corporate changes like remote work, eCommerce, less business travel, etc., that are potential longer-term headwinds for CRE companies (e.g., office), mall operators and retail related property owners as companies consolidate real estate footprints. With interest rates moving higher, the cost of capital for real estate growth projects could be a headwind depending how long rates remain elevated. Furthermore, risks are rising for downward pressure on rental rates as lease contracts expire and new contracts are negotiated. Continue to emphasize longer-term secular trends in data centers, communication infrastructure (towers), storage and industrial real estate. Valuations are neutral and momentum turned negative.
Consumer Discretionary	Underweight	Following a protracted period of above-trend post-pandemic spending levels, the consumer is facing persistent and troublesome inflation headwinds that could result in a more conservative discretionary spending pattern as a slowing economy and potential employment security issues weigh on consumer confidence. Big-ticket purchases of autos and homes have been deferred due to supply restraints and higher average selling prices, and, as a result, the consumer has pivoted to travel and leisure experiences that drove demand for hotels, airlines and theme parks. The potential exists for consumers to retrench and assess their personal financial position, further deferring big-ticket purchases, including travel and leisure, until they feel more confident about the economy and other macro headwind factors. A retrenched consumer may revert back to normalized spending patterns that drive demand for essentials only as the consumer attempts to deleverage their balance sheet and draw down savings balances for everyday needs. The ongoing period of declining real disposable income is being punctuated by stubbornly high energy costs and ongoing consumer goods inflation and potentially exacerbated by the removal of the student loan forbearance that has been extended into 2023, which could provide an additional strain on household incomes. The earnings revision life cycle has historically led to several quarters of negative earnings estimate revisions and declining relative valuations versus the more stable consumer products companies. Valuation for the sector is still elevated and momentum is negative.

Source: Chief Investment Office. All sector and asset allocation recommendations must be considered in the context of an individual investor's goals, time horizon, liquidity needs and risk tolerance. Not all recommendations will be in the best interest of all investors.

CIO THEMATIC INVESTING AS OF APRIL 4, 2023

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. 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, in our view.

Big Data	Demographics	Climate Change
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.	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, financial, 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 bns, or poorest socioeconomic group with growing access to electricity, internet and sanitation can also offer a demographic dividend for multinational companies.	With emphasis from the White House, 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. Globally, nuclear energy is re-emerging and increasingly acknowledged as a 'green' energy solution. Other key investment opportunities: Renewable energy (solar, wind and hydrogen), as well as energy-efficiency such as building systems, water/waste management, and energy storage and distribution.

Future Mobility	Security	Post-crisis World
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.	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).	In the post-crisis world, reshoring policies are increasingly focused on building more resiliency into supply chains, helping to sculpt tripolar supply chains pivoting between North America, Asia and Europe. A number of labor force dynamics have converged to place unprecedented demand on labor not only in the U.S. but around the world, hastening the need for industrial and service automation/robotics. The extraction, sourcing, use and management of the world's resources will stay in focus as both the agriculture and commodity complexes are stretched given the geopolitical backdrop. If the future entails increased investments into electric vehicles and greener energies, then the future will be mineral and material-intensive, calling for more mining of copper, lithium, nickel, manganese, cobalt and graphite, etc. Lastly, real assets in the post-crisis world are a key buffer to above-trend inflation.

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.

Conference Board's Leading Economic Index is an American economic leading indicator intended to forecast future economic activity.

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.

New York Fed's Weekly Economic Index s an index of ten indicators of real economic activity, scaled to align with the four-quarter GDP growth rate.

JPMorgan Purchasing Managers' Index (PMI) consists of a diffusion index that summarizes whether market conditions, as viewed by purchasing managers, are expanding, staying the same, or contracting

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

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

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

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