MERRILL
A BANK OF AMERICA COMPANY

CHIEF INVESTMENT OFFICE

Viewpoint

As The River Runs

June 2024

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

IN BRIEF

- We see four visible catalysts for the market's bullish tendencies to continue: liquidity/easy financial conditions; solid earnings and positive revisions; range-bound bond yields with an eventual path to normalization; and, a powerful wave of innovations within the Technology sector but with cross-economy applications.
- Economic data was mostly in line to weaker this month, with a slightly softer employment report. Rates have been range-bound, and inflation data has been largely in line.
- In Equities, we are still buyers on weakness given our belief that earnings have a solid base with small positive revisions and bond yields still remain in a range that investors have been experiencing for quite some time.
- Within Fixed Income, we maintain our preference for quality across the segments and curve while considering liquidity and a slight above benchmark weight in duration.

In this month's Viewpoint, we outline our thoughts on the ultimate drivers of the economic and market-based trends in the coming months. As we see it, the trends should be more of those we experienced in May—to a certain degree. In other words, "as the river runs," reflects our expectations for more of the same, with a few twists and turns along the way. We expect the economic backdrop to continue to showcase a slowing in overall growth in the U.S. and globally. However, we do not expect so-called sharp rocky fronts. The consumer is likely to continue to be selective and look for pricing values as the substitution effect moves on, but given the still healthy employment market we do not expect below-trend growth in consumer spending overall. Corporate capital investment should remain robust even if there is some subtle slowdown off the high-water marks due to generative artificial intelligence (GAI) spending. The profit picture, which is still our most important fundamental supporting the equity markets, is winding down the earnings season in a positive fashion with guidance improving from our perspective. Finally, the Federal Reserve (Fed) should remain on hold with no interest rate cuts until the end of the year. On the flip side, a small "whirlpool" could be developing in manufacturing given the recent data in new orders, which showed a pretty sharp downturn. We will watch this closely.

In terms of our view on Equities, we are still buyers on weakness given our belief that earnings have a solid base with small positive revisions, and bond yields still remain in a range that investors have been experiencing for quite some time. We continue to favor quality across the board with an emphasis in Healthcare, Industrials, Energy and Consumer Discretionary. We also still expect enthusiasm for innovation in the Technology sector to

CIO ASSET CLASS VIEWS

This month, the Global Wealth & Investment Management Investment Strategy Committee (GWIM ISC) did not make any tactical asset allocation adjustments. We maintain an overweight to Equities, with a preference for higher quality U.S. Large- and Small-caps, and still favor a significant allocation to bonds in a diversified portfolio. We would be buyers on weakness in Equities and continue to emphasize a diversified approach to portfolio construction.

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

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

CIO asset class views are relative to the CIO Strategic Asset Allocation (SAA) of a multi-asset portfolio.

remain through the balance of this year. We emphasize a diversified approach to capitalization and style in terms of Value and Growth. Finally, we remain overweight the U.S. relative to non-U.S. until we enter a weak dollar cycle. We are not there yet. In Fixed Income, we maintain our preference for quality across the segments and curve while considering liquidity and a slight above-benchmark weight in duration. Credit is rich, but spreads are likely to stay tighter for longer while we continue to expect supply and demand characteristics to drive valuation in municipals.

In summary, “as the river runs” is our description of the current cycle. We see four visible catalysts for the market’s bullish tendencies to continue: liquidity/easy financial conditions; solid earnings and positive revisions; range-bound bond yields with an eventual path to normalization; and a powerful wave of innovations within the Technology sector but with cross-economy applications. In regard to investment themes, we continue to emphasize our view that the supply of assets overall is low relative to the demand for assets, the infrastructure build-out is wide and early, and the wealth transfer—from one generation to another—is already unfolding. This all supports our thesis and overweight to Equities relative to Fixed Income.

CIO INVESTMENT DASHBOARD AS OF JUNE 4, 2024

Our view for the remainder of 2024 remains constructive. While valuations for U.S. Equities remain elevated relative to long-term averages, with the S&P 500 forward price-to-earnings (P/E) ratio hovering around 20.3x, earnings are becoming more supportive with consensus estimating annual earnings growth of 10.9% for 2024, according to FactSet. We continue to see crosscurrents in the market landscape and anticipate bouts of choppiness, but ultimately maintain a positive bias for equity markets this year.

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

Factor	Implication for Equities: Negative Neutral Positive	CIO View
Earnings		According to FactSet, S&P 500 revenue and earnings grew by 2.8% and 1.0%, last year, respectively. Accordingly, for 2024, consensus expects growth of 5.0% and 10.9%. Revenue growth for Q2 is expected to be 4.5%, slightly above an expansion in Q1 of 4.2%. Profits for Q2 are anticipated to have grown by 9.2%, after a Q1 result of 5.9%. Meanwhile, according to BofA Global Research, a continued global earnings recovery is signaled by the ongoing improvement in the three-month average of the Global Earnings Revision Ratio. However, the number of downgrades to profit estimates still surpass upgrades in 14 of 20 countries and in 14 of 16 tracked industries.
Valuations		The S&P 500 P/E ratio (next 12 months) stands just over 20.3x, above its long-term average and slightly below its highest level in over two years. This headline measure suggests that U.S. Equities remain expensive, though relative discounts can be found in areas like Small-cap and Value.
U.S. Macro		Following an expansion of 2.5% last year, real gross domestic product (GDP) grew by 1.3% in Q1 2024 at a seasonally adjusted annual growth rate. Excluding volatile measures in trade and inventories, final sales to domestic purchasers rose by a solid 2.5%, cooling from 3.5%. BofA Global Research expects GDP growth of 2.0% for Q2 and 2.4% for all of 2024.
Global Growth		The global economy has shown resilience in the face of diverse headwinds. Growth in the Euro area has stabilized to begin the year, while cooling inflation has raised anticipation for looser monetary policy. Meanwhile, an unwind of extraordinary programs to buffer against energy market volatility and a budget consolidation in Germany have factored into an overall tightening fiscal stance. In China, officials have taken greater measures to help combat weakness in the property market and financial stress. In the U.S., consumption in general has remained a sturdy economic support. After growth of 3.5% in 2022, the global economy expanded by 3.0% in 2023 and should also grow by 3.0% in 2024, according to BofA Global Research. This compares to average growth of 3.8% from 2000 to 2019, according to the International Monetary Fund.
U.S. Monetary Policy / Inflation		While holding its benchmark interest rate steady, the Federal Open Market Committee (FOMC) in May unveiled a plan beginning in June to temper the pace at which Treasury bond holdings mature and roll off the Central Bank’s balance sheet. Market expectations call for one to two cuts of 0.25% this year. BofA Global Research expects one cut in December. This would take the present target range of 5.25%-5.50% to 5.00%-5.25% by the end of the year.

Factor	Implication for Equities: Negative Neutral Positive	CIO View
Fiscal Policy		U.S. pandemic-era fiscal support totaled nearly 31% of GDP, much of which has faded. Longer-term initiatives include the 2022 CHIPS and Science Act, a $280 billion plan to bolster the country's technological industrial base, and the 2022 Inflation Reduction Act (IRA), a $370 billion effort largely to develop a renewable energy supply chain, among other elements. More recently, a $1.2 trillion spending package was authorized in March, avoiding a government shutdown, and keeping federal agencies funded until October. There are also ongoing talks to finalize a tax bill which aims to retroactively enhance the child tax credit while liberalizing certain corporate tax provisions.
Corporate Credit		U.S. High Yield (HY) and Investment-grade (IG) credit spreads continue to reflect lessened concern about an economic slowdown. Overall, spreads remain within a range near those registered in late 2021 to early 2022.
Yield Curve		Inversions, whereby longer-dated yields are below shorter-dated ones, exist in most sections across the U.S. Treasury yield curve. These include the fed funds (FF)/10s, 3-month/10s and 2/10s segments. While the magnitude of these inversions has decreased, the Treasury market suggests a heightened probability of a recession in the U.S. overall.
Technical Indicators		The S&P 500 remains above its 200-day moving average, which is also in an uptrend. Measures of market breadth, such as the percentage of New York Stock Exchange stocks closing above their 200-day moving average and the cumulative advance/decline indicator, show slight improvement. The Chicago Board Options Exchange (CBOE) Volatility Index (VIX) has recently risen from its lowest level since late-2019 to above its year-to-date average. It remains below its 12-month average.
Investor Sentiment		According to the American Association of Individual Investors, bullish sentiment continues to outweigh bearish sentiment. Still signaling "neutral," cash levels in institutional portfolios have declined more significantly, according to the BofA Global Research Fund Manager Survey. The BofA Bull & Bear Indicator is also flashing a neutral signal at 5.5.

Source: Chief Investment Office.

EQUITIES

We are slightly overweight Equities: After taking a brief breather in April, Equities resumed their climb in May amid solid corporate earnings results, gradually cooling inflation, and reinforced expectations for lower interest rates in the future. A variety of risks remain, but we continue to see tailwinds for Equities moving forward. These include a sustained earnings recovery, Equity fund inflows, broadening market leadership, still relatively healthy consumers, and the potential for easier monetary policy later this year.

We are slightly overweight U.S. Equities: The U.S. currently remains our preferred Equity region relative to the rest of the world, given relatively stronger balance sheets in aggregate and better consumer fundamentals. Our outlook for U.S. Large-caps is positive, with strong fundamentals and the ability to produce healthy shareholder payouts. We maintain a slight overweight to Small-cap Equities on very attractive valuations, lower interest rates and cost of capital, improving technical trends, and a potential earnings inflection in 2025. Small-caps could be leaders of the next decade if interest rates remain at reasonable levels and fundamentals improve.

We continue to incorporate cyclical exposure in our sector views by maintaining overweight allocations to areas like Energy, Consumer Discretionary and Industrials. Infrastructure-related investments and projects related to secular growth trends in electric power demand, energy transmission and distribution, cloud and data center builds and next-generation Artificial Intelligence (AI)-focused semiconductor technology that is increasingly power hungry could drive multiyear demand for cyclical stocks. We continue to emphasize Healthcare to reflect a balance between Value and Growth, low positioning and negative sentiment coming out of 2023, and our preference for quality at a reasonable price. After a strong run late in Q1 that was followed by a pullback in energy prices and energy stocks, we maintain overweight exposure to Energy for strong free cash flows (FCF), capital return to shareholders, and as a hedge for energy security, inflation reaccelerating and geopolitical tensions. Energy remains the cheapest sector on valuation metrics and can provide attractive FCF yields. We are less favorable on defensive sectors like Consumer Staples where some consumers are trading down for better pricing and value. The picture for Utilities is mixed driven by the higher cost of capital that could delay some renewable energy projects, but on the other hand, the trends in AI and data centers could drive increased power demand. While we are constructive on Information Technology (IT) and Communications Services as longer-term thematic trends, we maintain our neutral view in the near term on elevated valuations and crowded positioning post-strong outperformance. We deemphasize Materials as demand slows, supplies

EQUITY WATCH LIST

- Heightened geopolitical risk and conflict in the Middle East
- Inflationary pressures are moving lower but remain above the Fed's target level
- 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
- Pressures within the Office segment of Commercial Real Estate (CRE)
- A broader rotation that favors Small-caps, cyclicals and Emerging Markets

increase, and pricing power remains questionable. With interest rates moving lower over the last couple of months, we are neutral Real Estate (RE) and prefer being selective in the RE subsectors due to positive fundamentals in some areas of RE but weaker trends in other areas like CRE. We remain neutral Financials, as higher interest rates and higher capital reserves could increase volatility, but valuations are attractive, and banks rerated in 2023. Risks remain for higher costs of deposits, and the higher cost of capital could weigh on earnings for both the Financials and RE sectors in coming quarters.

We believe strategic portfolios should continue to incorporate both Growth and Value factors that would simultaneously benefit from the possibility of lower cyclical and secular forces gaining traction. Growth should continue to benefit from accelerated secular investments in AI moving forward. Meanwhile, Value continues to trade at a relative discount to Growth and may benefit from lower interest rates later this year. We continue to suggest a disciplined and balanced approach between Value and Growth for long-term investors.

We are neutral Emerging Market Equities: Emerging Market (EM) Equities appear attractively valued, but any prospective Fed rate cuts are unlikely to have a major positive effect given small current account deficits across the EM universe. We continue to expect a wide return dispersion between individual EM countries and regions. Growth in the heavyweight China market is likely to remain soft on a protracted basis, given structural weakness in the construction sector and constraints on the Technology sector from a tighter domestic regulatory environment and global export controls. Stronger domestic demand in the broader Asia-Pacific region should help to offset external weakness from China exposure. Central and Eastern European markets remain most exposed to the Russia-Ukraine war 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, particularly on any broadening of the Israel-Hamas conflict. The structural rise in EM consumer spending remains a big reason why we believe investors should consider maintaining a strategic allocation to EM Equities, as appropriate. The emerging world now constitutes around 40% of global Personal Consumption Expenditures 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[1] 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 Europe. Region-wide growth appears to have stabilized, but downside risk remains from the potential for fiscal tightening in high-budget-deficit European Union (EU) countries. Natural gas prices have fallen from their crisis peaks, but ongoing curtailment of Russian supply and growing demand from Asia mean that supply constraints could reemerge at a later stage. We maintain a neutral view on Japanese Equities. Uncertainty over future Bank of Japan (BoJ) interest rate and intervention policy should make for further yen volatility, though tailwinds from sustained positive inflation and corporate reforms remain intact. As aggregate net energy importers, International Developed markets would also be more vulnerable to any potential rise in energy prices on any broadening of the Middle East conflict. We believe long-term investors should maintain some strategic exposure to International Developed Equities, as appropriate, given that they trade at a discount relative to U.S. Equities, contain more of a balance between Value and Growth sectors, can offer attractive dividend yields, and provide diversification.

FIXED INCOME

We are slightly underweight Fixed Income: We are still favorable on a significant allocation to bonds in diversified portfolios but are slightly overweight Equities currently.

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

Economic data was mostly in line to weaker this month, with a slightly softer employment report. Rates have been range-bound, and inflation data has been largely in line.

We are slightly positive on U.S. Governments. Nominal and real rates are still some of the most attractive in 20 years. Longer-term yields—not witnessed since the pre-Global Financial Crisis (GFC) of the 2008/2009 era—provide good income-generating power, in our opinion. Real yields—the yield after inflation, as measured by Treasury Inflation-Indexed Securities—are 2.15% to 2.25% across the curve, the high end of the range since 2008. Earning a positive, substantial yield after inflation on U.S. government-guaranteed securities is a welcome relief for savers after years of financial repression. We still suggest a slightly long-duration position versus a stated benchmark to take advantage of these higher yields, and as prudent positioning against macro risk in the increased Equity positioning of a diversified portfolio.

We are slightly underweight both Investment-grade Corporates and High Yield. For IG, this reflects our view that despite relatively attractive all-in yields of around 5.5%, credit spreads screen rich—exceedingly so in some parts of the market, such as high-quality Industrials. Credit markets have fully embraced the improved macro and technical backdrops and while tighter monetary policy could linger longer than expected, we believe this has little effect on the intermediate-term outlook, with recent data supporting the case of a reacceleration of growth in the U.S.—which is positive for risk assets over the short term.

That being said, current valuations already fully reflect this improved macro backdrop, as IG spreads trend near post-GFC lows of around 85 to 90 basis points (bps). Investor demand has surprised to the upside, with new deals well oversubscribed and, in some cases, pricing with negative concessions. As supply moderates into the summer, the seasonal technical tailwind could drive a modest grind tighter over the short term—or at least range-bound spreads at historically low levels. While certainly a welcomed sign of investor risk appetites, these conditions are not sustainable over the long term, and the bottom line is that we don't see that much room for further compression in spreads.

To be clear, we don't see a risk or catalyst for spreads to move materially wider over the intermediate term, and history has shown that credit spreads can trend at low/rich levels for an extended period (i.e., late 1990s and mid-2000s). With the U.S. economy on strong footing, any move wider in credit spreads would likely be more contained, in our view. However, the margin for error at current valuations remains slim. On average, at starting spread levels of 100 bps or less, IG underperforms duration-matched Treasurys 12 months forward.

We therefore believe that an up-in-quality and defensive tilt within a corporate allocation is prudent and would look to re-risk portfolios should we see spreads move above 100 bps—all else being equal.

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 around 8%. Valuations provide modest compensation for credit losses and suggest reasonable returns over medium-to-longer time frames. Spreads, however, are currently in the 300 bps range, below the 650 bps to 800+ bps level seen in many recessions, and, similar to IG, fully reflect a soft/no-landing outcome and a moderation or improvement in default losses over the next 12 months. We therefore maintain our slight underweight positioning and see better risk-adjusted opportunities in other asset classes such as Equities. Within HY allocations, we prefer a balanced allocation between secured floating-rate leveraged loans and unsecured HY bonds.

We are slightly underweight both U.S. Investment-grade Tax Exempt and U.S. High Yield Tax Exempt: Muni valuations cheapened further in May, due to higher issuance levels and fewer maturities. However, we believe technical conditions will strengthen and valuations are likely to richen again in the summer months, due to disproportionately large levels of bond maturities in June, July and August, the proceeds of which would likely be mostly reinvested back into munis. Municipal credit quality remains generally solid, with most states projecting near-record levels of rainy-day funds at the end of fiscal 2024. However, with over 20,000 municipal issuers, there will certainly be some credit outliers to the downside, and some subsectors such as private higher education and health care face particular challenges. Therefore, credit selection will remain an important determinant of portfolio returns.

FIXED INCOME WATCH LIST

- Resilient or resurgent inflation
- Increased risk aversion or recessionary risk via spreads, yields or new issue activity
- Signs of significantly negative Fixed Income fund flows
- Dislocations in CRE markets
- Potential credit deterioration if economic weakness

We are slightly overweight Mortgage-backed Securities: Aiming to bring down stubbornly high inflation, the Fed has steadily tightened financial conditions by raising interest rates and engaging in quantitative tightening (QT). Weaker technical dynamics led to a material widening of Mortgage-backed Securities (MBS) spreads last year, breaking into the 70 bps range in October 2023 before retracing back to the current low-50 bps range. In our opinion, the current level of MBS spreads after the rally still represents value when compared to corporates, using the long-term average.

Duration extension, which is a key risk for MBS investors, has been substantially mitigated, with MBS duration now significantly lengthened. Another important risk, interest rate volatility, remains elevated at levels that make MBS bonds more appealing, as their spreads are likely to outperform should interest rate volatility subside. Although weak demand from the Fed, financial institutions holding two-thirds of the MBS market, and an unsettling geopolitical/macro environment make it possible for MBS spreads to widen further, MBS spreads and yields appear attractive relative to Treasurys and IG corporate bonds over the long term.

ALTERNATIVE INVESTMENTS

Unlike Traditional asset classes, establishing and exiting allocations to Alternative Investments (Alts) can be a long-dated process given liquidity constraints. Because of their illiquid and long-term nature, Alts should be viewed in terms of strategic allocations. Therefore, our views on Alts strategies within each asset class reflect potential tilts in new dollar deployment based on relative opportunity, in contrast to a tactical repositioning in public markets.

Some key CIO principles for qualified investors to consider when investing in Alts include:

- **Think strategically and long term:** Alts are largely illiquid and therefore require a long time horizon when incorporating into portfolios.
- **Invest methodically, including in downturns:** A properly implemented Alts program requires a consistent commitment, particularly within private markets strategies; withdrawing during periods of volatility can undermine the long-term benefits of the asset classes and result in underallocation.
- **Diversify:** Seek diversification by strategies and managers. Investing methodically within private markets strategies also improves vintage year diversification.
- **Prioritize high-conviction managers:** Performance dispersion is significantly wider within Alts than in Traditional investment strategies; manager selection is therefore a potential opportunity.

Hedge Funds: Hedge Funds (HF) gave back some ground amid broader volatility in April. HFs overall returned -0.7% in April and 3.7% year-to-date (YTD), while Equity Hedge strategies returned -1.6% in April and 3.5% YTD[2]. As previously noted, the environment to start the year has been conducive to stock selection for both fundamental and quantitative long/short strategies with strong alpha generation from both the long and short sides of the book. Continued high levels of Equity dispersion would likely keep the opportunity set attractive even with uncertainty around monetary policy.

Macro strategies continued their streak of strong performance, returning 0.9% in April and 7.2% YTD[3]. Systematic/trend-following strategies in particular were able to capitalize on short U.S. bond and long U.S. dollar positions. As the world shifts from hawkish monetary policy toward central bank easing cycles the opportunity set for Macro strategies may evolve, though the potential divergence of the U.S. compared to other developed economies is increasingly in focus. Relative value trades may take precedence in an environment lacking large trends. In addition, Macro strategies can offer significant

[2] HFR, Inc. HFRI Fund Weighted Composite Index. HFRI Equity Hedge (Total) Index. As of April 30, 2024.
[3] HFR, Inc. HFRI Macro (Total) Index. As of April 30, 2024.

CIO Views on Alts Strategies

Hedge Funds

Equity Hedge +	
Bull case	Potential alpha* generation opportunities for low net strategies in volatile or high dispersion markets; short alpha improving after difficult start last year; low net better positioned if Equities sell off
Bear case	Though market breadth has improved, return of concentrated and beta**-driven market would limit opportunity set
Event Driven	
Bull case	Higher rates pressuring levered balance sheets creating potential for distressed; merger deal spreads moderately wide and higher risk-free rate positive for merger arbitrage
Bear case	Distress may not materialize in size or may be delayed; low mergers & acquisition volumes and high regulatory uncertainty
Relative Value	
Bull case	Still in world of higher yields; economic resiliency supportive of credit; decent dispersion in HY
Bear case	Spreads not attractively wide; potential increase in credit risk and defaults in coming year
Macro +	
Bull case	Possible "higher-for-longer" rate regime could create cross-asset volatility in rates and foreign exchange; next leg down in inflation could prove more challenging to achieve
Bear case	Fed pause could take direction out of Fixed Income; choppy markets difficult for trend-following; interest rate volatility declining

Private Equity

Buyout	
Bull case	Current vintages likely attractive for long-term given lower valuations and profitability focus; within PE, Secondaries benefiting from secular growth and institutional investors seeking liquidity; deal activity likely to surge if rates and inflation fall
Bear case	Higher rates require larger Equity investments; deal and exit activity still low
Venture/Growth	
Bull case	Significant correction in the last two years benefits capital providers; AI could drive investment supercycle; early VC stages more insulated than later stages; falling rates would likely be tailwind
Bear case	Ex-AI VC market still challenged; VCs focused on supporting portfolio companies; initial public offering drought continues; timelines extended plus increased risk of dilution; higher rates drag on unprofitable companies
Special Situations	
Bull case	Default rates rising; "higher-for-longer" would increase pressure on levered balance sheets; RE-adjacent opportunities; companies seeking creative financing before maturities
Bear case	Fed-engineered soft or no landing could smooth out credit cycle, keeping it more average
Private Credit +	
Bull case	High current yields; healthy spread to public credit over time; economic resiliency supportive of credit; secular tailwinds supporting growth; fresh capital can underwrite to current risks
Bear case	Credit risk likely to rise & lower-quality most at risk; regulatory scrutiny; public leveraged credit competition; significant capital allocating to PC

* Alpha is the excess return of an investment relative to the return of a benchmark index **Beta is a measure of a stock's volatility in relation to the overall market. **Bull case** is an environment or set of factors that could represent tailwinds for the strategy. **Bear case** is an environment or set of factors that could represent headwinds for the strategy. **+ symbol** indicates the strategies CIO views as having the most favorable opportunity set for new investment within the Alts asset classes.

portfolio utility by virtue of low historical correlations to Equities and Fixed Income and a propensity to generate "crisis alpha."

Private Equity: Private Equity (PE) notched modest gains in Q4, though full year 2023 performance notably lagged public Equities[4]. Earnings releases from the set of prominent publicly listed Alternatives asset managers, which can serve as a rough gauge of industry trends, suggest modestly positive PE performance in Q1 2024 in the low single-digits range, but once again still trail public Equities. Buyout strategies have been resilient, if muted, over the recent rate-hiking cycle and continue to exhibit outperformance over time horizons extending back three years and longer. Venture Capital (VC) has been enduring a more acute valuation reset that, while not as severe as the dot-com peak-to-trough drawdown, has exceeded declines during the GFC[5]. Thematically, PE strategies have been contending for more than two years with a slower velocity of capital recycling. With higher interest rates and a changed relative value landscape across asset classes, institutional investors have in turn placed even greater emphasis on distributions from their PE allocations. The need for capital remains high across private markets, particularly in the startup ecosystem where VC and PE growth investors have retrenched. For now, PE strategies are still contending with high interest rates, making the comparison versus debt more challenging.

The improved macro backdrop has strengthened the fundamental outlook for Private Credit (PC) while at the same time bringing renewed competition from public leveraged credit markets. The premiums that PC maintained to start the year combined with greater risk appetite have unleashed a wave of refinancings and caused spreads to narrow. The interest expense burden on borrowers will be a growing risk factor the longer interest rates stay at these levels and may give rise to higher default rates. Importantly, the earnings outlook for middle market borrowers remains positive and is expected to keep widespread distress at bay into 2025. We continue to expect PC and public credit markets to engage in push-and-pull competition over the course of the cycle even while PC continues growing on a structural basis. The multi-trillion-dollar pile of PE dry powder alone is expected to drive a sizable opportunity set for PC over the coming years. We continue to emphasize partnering with established and well-resourced managers, and think PC is best positioned within a diversified allocation to Alternatives and should be tactically compared to other Alts asset classes and strategies.

Private Real Estate: Private Real Estate (PRE) entered the year with optimism that the asset class would bottom-out and find market clearing prices. The increase in interest rates has likely pushed back the beginning of a recovery, though performance momentum and fair value estimates still suggest a bottom may be in sight. Accordingly, deal activity in Q1 remained anemic, with transaction volumes down 30% year-over-year but flat quarter-over-quarter[6]. Market participants still hope for a pick-up in activity in the second half of the year driven by clarity on the interest rate picture and slowly improving return expectations.

Overall, PRE values have declined 7% in the past year and approximately 20% from the peak in 2022[7], suggesting the valuation reset has been working its way through the system. New supply is hampering rent growth in certain sectors and geographies, such as apartments and industrial; however, supply growth is projected to ease in the coming year. Publicly listed real estate investment trusts (REITs) have traded close to neutral relative to net asset value (NAV) and other estimates of fair value (including relative to bonds) suggest PRE valuations are neither rich nor cheap overall, though with significant variation by sector.

We continue to expect systemic issues to be contained but for the PRE cycle to continue to play out as a slow burn. As suggested, reduced interest rate uncertainty would likely spur transaction activity and aid in price discovery. New capital deployment in general, and PRE lending strategies in particular look interesting. For the longer term, PRE continues to

[4] Cambridge Associates, PitchBook, Inc. As of December 31, 2023.
[5] PitchBook, Inc. As of December 31, 2023.
[6] Green Street. As of May 10, 2024.
[7] Ibid.

Real Assets

Private Real Estate

Bull case	Supply/demand imbalance in Residential driving secular opportunities; sectors like Data Centers rising; transaction cap rates slowly reflecting lower valuations; lower mortgage rates may unlock markets; lending strategies offering compelling profiles; distressed/opportunistic could emerge given stress
Bear case	Appraisal cap rates slower to fully adjust; transactions remain depressed; pressure rising in value-add multi-family financed with floating-rate debt

Infrastructure +

Bull case	Within RE, Infrastructure to continue benefiting from fiscal spend; large need for energy transition and upgrading ageing infrastructure; potential to be inflation beneficiary if new resting rate structurally higher
Bear case	Higher rates challenging project financing; lower inflation could mitigate relative attractiveness

Tangible Assets

Bull case	Geopolitical risk could spill over and pressure commodities supply; macro factors including currency could support oil prices; potential for diversification and inflation hedge
Bear case	Muted global growth may reduce demand support; increasing energy supply has offset Mid-East tensions; real rates staying high could pressure "safe" havens like gold

Bull case is an environment or set of factors that could represent tailwinds for the strategy. **Bear case** is an environment or set of factors that could represent headwinds for the strategy. **+ symbol** indicates the strategies CIO views as having the most favorable opportunity set for new investment within the Alts asset classes.

make sense as a strategic allocation given the diversification benefits and income features.

Infrastructure: Within RE, Infrastructure remains a key long-term theme. The U.S. has a widely acknowledged ageing infrastructure base that will require significant public and private investment. Hundreds of billions of dollars have already been earmarked for infrastructure spend through several federal bills in recent years. Infrastructure also has direct links to the Energy Transition theme, which will play out over the coming decades. In addition, Infrastructure has historically performed well on a relative basis during inflationary periods and has the potential to improve diversification in portfolios.

Tangible Assets: Cyclical commodities rallied in April and May on China growth optimism and supply concerns (in copper, for example), but JP Morgans Global Manufacturing Purchasing Managers' Index (PMI) remains muted and suggests the demand backdrop is stable but weak. We believe global growth and commodity demand will remain muted, but geopolitical risk and geoeconomic maneuvering are wild cards for energy commodity prices. Elevated geopolitical risk, ample monetary liquidity and deficit spending continue to support gold prices, but interest rate volatility has caused the asset class to oscillate. We continue to believe gold is most effectively implemented as a strategic diversifier.

With the Fed eventually shifting to an easier monetary policy stance, the dollar will likely remain under pressure even as it has exhibited bouts of strength as other central banks also consider rate cuts. Importantly, the U.S. dollar remains overvalued versus a number of major currencies.

MACRO STRATEGY

- Massive fiscal stimulus and ample monetary liquidity remain supportive of economic growth and risk-assets in the near term, but the outlook for monetary liquidity is uncertain over the rest of the year.
- On the fiscal side, recent legislation should provide a significant boost to domestic growth over the next few quarters.
- Low financial obligations relative to firm nominal personal income gains and rising net worth continues to support robust consumer spending. The labor market is softening but remains supportive.
- The global manufacturing PMI continues to suggest global cyclical momentum is weak.

ECONOMIC FORECASTS (AS OF 5/31/2024)

	Q1 2024A	Q2 2024E	Q3 2024E	Q4 2024E	2023A	2024E
Real global GDP (% y/y annualized)	-	-	-	-	3.0	3.0
Real U.S. GDP (% q/q annualized)	1.2	2.0	2.0	2.0	2.5	2.4
CPI inflation (% y/y)	3.2	3.5	3.2	3.0	4.1	3.2
Core CPI inflation (% y/y)	3.8	3.6	3.6	3.5	4.8	3.6
Unemployment rate (%)	3.8	3.8	3.9	3.9	3.6	3.9
Fed funds rate, end period (%)	5.33	5.38	5.38	5.13	5.33	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 June 4, 2024. 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 2024 EPS

The table below provides a rough indication of where the S&P 500 Index's central tendency could be, given various scenarios for EPS in 2024 and P/E ratio multiples. These scenarios are not official price targets and are not meant to signal levels where portfolio actions may always be needed. However, during times of market volatility, it's useful to keep this basic framework in mind when considering whether to incrementally add to or trim risk from portfolios while staying invested in one's strategic asset allocation framework.

2024 EPS	EPS Forward P/E (Next 12 months)				
	17.0x	18.0x	19.0x	20.0x	21.0x
$265	4,505	4,770	5,035	5,300	5,565
$255	4,335	4,590	4,845	5,100	5,355
$245	4,165	4,410	4,655	4,900	5,145
$235	3,995	4,230	4,465	4,700	4,935
$225	3,825	4,050	4,275	4,500	4,725
$215	3,655	3,870	4,085	4,300	4,515
$205	3,485	3,690	3,895	4,100	4,305

For illustrative purposes only. Source: Chief Investment Office as of June 4, 2024.

CIO ASSET CLASS VIEWS AS OF JUNE 4, 2024

Asset Class	CIO View: Underweight		Neutral		Overweight	Comments
Global Equities				●		We are slightly overweight Equities and see the potential for a sustained rotation into cyclicals and Small-caps, while mega cap growth stocks remain core positions in Equity portfolios. We remain overweight the U.S. and neutral EM, with a slight underweight to International Developed.
U.S. Large-cap Growth			●			We have a slight preference for Value over Growth, given better absolute and relative valuations. We believe portfolios should incorporate both Growth and Value factors as appropriate.
U.S. Large-cap Value				●		
U.S. Small-cap Growth				●		We maintain a slight overweight to Small-caps on the historically wide valuation gap between Large-caps and Small-caps, the declining cost of capital, improving technical trends and the resilient U.S. consumer.
U.S. Small-cap Value				●		
International Developed		●				International Developed Equities appear attractively valued, but underlying rates of nominal growth are expected to trail U.S. levels. International markets also remain more vulnerable to any potential broadening of the Middle East conflict.
Emerging Markets			●			We are neutral EM Equities overall with regional markets likely to be driven by relative exposures to weaker China growth, the ongoing Russia-Ukraine conflict and natural resource prices. Valuations appear attractive, but any Fed rate cuts are unlikely to have a major positive impact.
International						
North America				●		The U.S. remains our preferred region given balance sheet strength, better fundamentals for consumer spending and healthy shareholder payouts.
Eurozone		●				Regional growth appears to have stabilized, but risks remain from potential fiscal tightening in high-budget-deficit EU countries and the potential for energy supply constraints to reemerge amid the ongoing Russia-Ukraine and Middle East conflicts.
U.K.			●			Domestic demand at risk from still high mortgage rates, alongside near-term election uncertainty. Withdrawal from EU single market remains a negative for medium-term growth.
Japan			●			Uncertainty over future BoJ interest rate and intervention policy should make for further yen volatility. Sustained positive inflation and official efforts to increase corporate returns to shareholders a potential boost for valuation.
Pac Rim*			●			Regional activity to be dampened by exposure to weaker Chinese growth but offset by relative strength in domestic demand. Large weighting in Financials increases vulnerability to any potential broadening in banking sector stress.
Global Fixed Income		●				Bonds remain 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. Slightly long-duration positioning recommended, balancing the risk of further tightening/higher yields against significantly better valuations.
U.S. Governments				●		Nominal and real yields are very attractive across the curve relative to the last 10 to 15 years. A Treasury allocation for liquidity, principal preservation and diversification is advised, as Treasurys can provide short-term diversification benefits to Equities among Fixed Income sectors. Rate volatility has increased and may remain high.
U.S. Mortgages				●		MBS spreads have tightened to 52 bps after a notable rally since the beginning of Q4 in 2023. This is still 1.4x the 10-year average and continues to make MBS more attractive relative to Treasury and Corporate in terms of yield and spreads. With a longer-term horizon in mind, we are slightly overweight on the asset class, recognizing that there are near-term upside risks in spreads due to the unpredictability of QT and the macro environment.
U.S. Corporates		●				We are slightly underweight IG Corporates. This reflects our view that while all in yields may still be compelling, credit spreads have rallied sharply, and at around 90 bps, are fully priced for a strong macro backdrop. Furthermore, at current valuations, IG tends to underperform Treasurys modestly on an excess return basis 12-months forward. Therefore, a slightly underweight position is appropriate until a better entry point presents itself.
International Fixed Income			●			International rates markets have become significantly more attractive as global Central Banks raise rates to fight inflation, no longer trading at a significant discount to the U.S. except in Japan where the BoJ is still keeping longer-term rates artificially low.
High Yield		●				Valuations present more attractive medium-to-long-term returns even after estimating credit losses. However, increased recession concerns could cause 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 cheapened somewhat in May due to robust new issue volume, but they remain rich on a long-term historical basis. Valuations could richen again in June due to higher levels of bond maturities in the summer months. Fundamental conditions remain generally favorable, and so low credit quality could outperform high credit quality. However, investors should be selective in certain muni subsectors like private higher education and health care that face particular challenges.
U.S. High Yield Tax Exempt		●				HY munis are rich relative to IG munis, with tighter than average credit spreads. An up-in-quality focus should help mitigate increased credit risk due to potential 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. Tactical qualitative investment strategy weightings are relative in nature versus the strategic weightings for a fully diversified portfolio. Weightings are based on the relative attractiveness of each asset class. Tactical strategy weightings are for a 12- to 18-month time horizon. CIO asset class views are relative to the CIO Strategic Asset Allocation (SAA) of a multi-asset portfolio. Because economic and market conditions change, recommended allocations may vary in the future. Asset allocation cannot eliminate the risk of fluctuating prices and uncertain returns. All sector and asset allocation recommendations must be considered in the context of an individual investor's goals, time horizon, liquidity needs and risk tolerance. Not all recommendations will be in the best interest of all investors.

CIO EQUITY SECTOR VIEWS AS OF JUNE 4, 2024

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
Energy			●	Despite signs of slowing demand, we remain overweight the Energy sector for three key reasons: 1) Attractive valuation as the lowest valued sector in the S&P 500 on cash flows and earnings; 2) High FCF generation at current oil price levels and attractive FCF yields and; 3) The decline in Energy in 2023 combined with negative sentiment and low conviction for Energy provides an attractive hedge for energy security, inflation, disruptions in energy production and geopolitical risks. OPEC+ extended their production cuts through the end of 3Q'24, and the decline in capital expenditures for long-cycle energy investments in recent years also supports Energy prices and stocks. Above-average energy prices combined with substantial cost-cutting initiatives and capital discipline over recent years built significant operating leverage into Energy companies. We also highlight higher cash returns to shareholders through base dividends, variable dividends, and stock buybacks. Longer term, secular headwinds still confront the sector, including the transition to clean energy, lower renewable energy costs and Sustainability-focused by investors. Continue to emphasize companies that are low-cost producers with high FCF, balance sheet strength and low break-even oil prices. Energy stocks still provide attractive valuations and strong dividends with moderating momentum.
Healthcare			●	Consider positions in larger biopharma stocks with attractive relative valuations and upcoming catalysts. In an environment where financial conditions are in flux, Healthcare stocks provide attractive characteristics, including quality, dividend growth, dividend yield and lower beta. Healthcare fundamentals have been able to withstand much of the macro pressures seen globally, but flows last year were weak in the Healthcare sector. Further, in 2023 negative earnings revisions were made by analysts across the sector. Distributors, medical devices, and large biopharma are best positioned, in our view, to weather pressure on margins, while a return to a more normalized environment should benefit life science equipment and tools companies as we progress through 2024. As a whole, 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 medical technology. Valuation remains attractive and momentum is neutral.
Consumer Discretionary			●	With a resilient consumer, strong job market and better-than-expected economic backdrop, we are overweight Consumer Discretionary. Slightly lower energy costs, wage increases and a strong job market with only selective job cuts confined largely to the technology-related industries is helping to maintain solid consumer spending. Consumers remain resilient and are finding ways to alter their budgets to accommodate both experiences and necessities. Further, with inflation declining from the highs experienced last summer and interest rates also moving lower, this is helping to improve consumer confidence. Consumer retail channels are shifting back to online spending as value-oriented consumers utilize alternative payment methods to supplement their spending and seek out bargains. More evidence of economic strength and a resilient consumer could help support relative earnings growth and relative valuation levels. Valuation for the sector is elevated and momentum is neutral.
Industrials			●	There are multiple thematic drivers for Industrials over the next three to five years including improving outlooks for international defense budgets outside the U.S. as the global risk environment is elevated, underpinning favorable dynamics for defense companies. Aerospace is benefiting as well from the ongoing recovery in consumer and business air travel and a multiyear backlog of commercial plane orders to build and deliver. Potential improvements in the global capital expenditures cycle, including the normalization and reshoring of supply chains and manufacturing, and investment in new equipment after years of focusing on productivity, and fiscal stimulus plans could support the construction, transportation, machinery, and freight and logistics industries longer term. However, weaker import/export demand from Europe and China could be a near-term drag on earnings growth for industrial conglomerates and transport stocks. Secular growth drivers like the evolution of AI and increased power demand support the longer-term view for Industrials, and near term the sector provides exposure to short-cycle/early-cycle areas. Valuation is slightly elevated and momentum is neutral.

Sector	CIO View: Underweight	CIO View: Neutral	CIO View: Overweight	Comments
Information Technology		●		The Technology sector is neutral despite improvements in supply chains and AI-driven flows into mega-cap Technology stocks. However, margin risks remain for companies in the sector and the potential remains for downward earnings revisions that are more likely to affect higher-beta, higher-valuation companies. Despite strong long-term Cloud and AI trends, software margins could continue to deteriorate, as Cloud consumption could potentially come under some pressure near term and is not immune to a macro slowdown. We suggest a neutral weight in IT, with a bias to larger and higher-quality companies with strong earnings growth, FCF and balance sheets. We continue to encourage investors to be careful about unprofitable, expensive, and long-duration IT companies. The pandemic accelerated the digital transitions for many industries, but, over the longer-term, we remain positive on the secular growth trends for Cloud computing, machine learning and AI, data centers, software, cybersecurity, and semiconductors. Valuations in the sector declined in 2022 but were still elevated after rising again in 2023 and to start 2024, especially after the rally in AI-related companies. Further, any additional moves higher in interest rates could pressure multiples for high-growth and high-valuation technology stocks with low to no profits; therefore, look for GARP (growth at a reasonable price) in software and semiconductors. The IT sector still generates significant FCF, dividend growth and remain long-term fundamental drivers for the sector. Technology is deflationary by nature; therefore, long-term investors should look to add to transformational and industry-leading businesses on market weakness. Valuations remain elevated and momentum improved in recent weeks.
Communication Services		●		We are neutral on the Communication Services sector, as some of the largest companies in this sector provide high quality fundamental characteristics and could be more attractive in a slow-growth economic environment. Despite our concern for ongoing regulatory oversight and the never-ending battle over content, management teams are now adjusting their business models to reduce costs and become more efficient. Ad spending is moving from e-commerce to travel and leisure, hence advertisers are having to shift their targeting. 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; and 3) More importantly, broad cost-reduction plans could create potential earnings upside. Valuations are a little rich and momentum improved in May.
Financials		●		We are neutral on the Financials sector but would note incremental fundamentals seem to be improving in some sub-sectors. U.S. banks collectively had roughly $0.5 trillion in deposit outflows last year, according to Fed data, and more than $0.75 trillion since peaking in April 2022. Depositors have sought the perceived "safety" of the biggest banks and the higher yield offered by money market funds. Funding pressure coupled with capital discipline has modestly tightened credit standards and slowed the pace of lending, but anticipated Fed cuts later this year would alleviate pressure on both fronts. Despite headwinds, bigger banks are better positioned than regional peers (especially regarding CRE exposure) and valuations still remain below the thru-the-cycle median level which is supportive of additional merger & acquisitions activity. Risks to the downside appear balanced compared to potential upside for banks. Capital return will remain the cornerstone of the investment case for banks. Overall, the volatility of the Financials sector should improve with the recent addition of large e-payment and credit card 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, for qualified investors, alternative asset managers, like PE, that consistently draw fund inflows, typically find their most lucrative investment opportunities in times of economic stress and maintain pricing power in management fees. Overall, valuation is attractive, and momentum improved in 2024, but fundamentals won't markedly improve until rates move lower and there is increased clarity around regulatory capital requirements.
Real Estate		●		The recent decline in interest rates from 2023 peak levels reduces some but not all risks regarding refinancing and the cost of capital for RE projects. Further, expectations of Fed rate cuts in the future in addition to negative positioning and very bearish sentiment last year in the RE sector could lead to increased Equity portfolio exposure to the sector in 2024. However, interest rates are still elevated compared to the zero-rate policy environment, therefore increased interest expenses could still weigh on RE sector earnings in coming quarters. We would be more selective within the RE sector and prefer neutral sector exposure. There are mixed outlooks among its subsectors because of consumer and corporate changes like remote work, eCommerce, less business travel, etc., that are potential longer-term headwinds for CRE companies (e.g., office), mall operators and retail-related property owners as companies consolidate RE footprints. Furthermore, risks are rising for downward pressure on rental rates as lease contracts expire and new contracts are negotiated. Continue to emphasize longer-term secular trends in data centers, communication infrastructure (towers), storage and industrial RE. Valuations and momentum are neutral.

Sector	CIO View Underweight Neutral Overweight	Comments
Utilities	• ⬤ • • •	Utility investors continue to balance implications from a still elevated cost of capital compared to the past decade with accelerating electricity demand forecasts driven by the AI boom, which are expected to drive a renewed push for investment in renewable energy and grid hardening projects at utilities. Regulatory reviews are an important risk factor for the sector, and we note this risk is elevated in 2024 as state-level regulators have become increasingly sensitive to passing along increases to ratepayers who are financially stretched by lingering inflation. Utilities historically provide reliable earnings and outperform in the late cycle and during economic growth slowdowns, especially regulated utilities that provide a defensive hedge to portfolios. Utilities have provided greater balance and lower beta and helped diversify cyclical Equity exposure in portfolios. For the longer-term, we emphasize Utilities with growing renewable power generation from solar and de-emphasize ones that rely strictly on coal-power generation. Over the next decade, the IRA legislation provides a strong runway for future renewable energy investments and projects—though we expect noise about potential IRA repeal to dominate much of the coming year ahead of the November election, with potential for volatility among Utility stocks perceived as IRA "leaders." Prefer Utilities with strong balance sheets, constructive regulatory mechanisms, and low-volatility business models. Unregulated Independent Power Producers (IPPs) are a small sub-sector that we currently favor given exposure to growth from rising AI and data center demand. Valuation is slightly elevated, and momentum recently improved as Utilities outperformed the broader market over recent weeks.
Materials	• ⬤ • • •	Pockets of slower global growth and weaker commodity prices factor into our more cautious view on the Materials sector for 2024. We are seeing deceleration in the pricing cycle from higher pricing levels in 2022 and 2023. Higher interest rates in the developed world and ongoing trials securing labor and materials are pushing some project timelines to the right, and, with the additional challenge of higher energy costs, we are seeing some formerly profitable projects being reconsidered. On the supply side, concerns remain around too much new capacity in the future for petrochemicals and commodity chemicals with questions regarding demand levels for 2024. Multiples could expand or contract dependent on pricing across the commodity complex. Downward pricing pressure would give some intermediaries relief on costs, but if they are also experiencing volumes decline, operating leverage could be at risk. We still see some longer-term tailwinds for demand, such as bipartisan support for U.S. infrastructure and energy transition spending, AI growth and renewable power buildouts over the longer term; however, mixed data and the slower-than-expected growth and activity in China makes the risk-reward outlook less attractive with both inflation and pricing power moving lower. Earnings revision trends could be mixed this year. As a result, the underlying sector valuation and momentum are neutral.
Consumer Staples	⬤ • • • •	Remain underweight the more defensive Consumer Staples sector and prefer exposure to the more cyclical Consumer Discretionary sector. Broad-based slowdown in demand for consumer-packaged goods products is a function of trade down, substitution and a more discerning bargain seeking consumer. Demand for needs and necessities across personal care and household products has held up better than most other consumer packaged goods products. It's too early to tell whether the popularity of the new weight loss drugs is having an effect on food and beverage volumes or whether consumers are altering their budgets to reflect the still elevated consumer goods prices. Without a predictable return to positive volume growth, traditional consumer packaged goods companies will struggle to show improvement in profits and margins needed to support current relative valuation levels. Valuations are rich and momentum neutral.

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 JUNE 4, 2024

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 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.

ARTIFICIAL INTELLIGENCE (AI)	Building on last year's AI-enthusiasm, the next act for **Generative AI** is about adoption and deployment. The promise that AI will eventually aid productivity and efficiencies while reducing costs is also hastening the need for complementary industrial and service **Robotics/Automation**. Use cases of Generative AI and robotics within **Healthcare Innovation** abound, with the potential to aid drug discovery, age-related disease treatments and gene therapies/ mapping. The massive growth in unstructured data being created and processed by machines, devices and systems is feeding **Big Data Analytics and Storage**. An ongoing migration of data and applications to **Cloud Computing** infrastructure as well as hardware providers supports the AI data boom.
DEMOGRAPHICS	Several demographic transitions serve as important arbiters of future growth. That's true about the **Great Wealth Transfer** of over $84 trillion in assets likely to be inherited through 2045, according to Cerulli Associates. As main recipients, both the Millennials (born 1981-1996) and Gen Z (born 1997-2012) could have greater influence on consumer spending patterns and preferences. Tax treatment and business regulation continue to drive an intra-U.S. migration, while a **Global Migration** cycle is also underway given displaced populations owing to conflict, forced migration and other factors. Changing the face of consumerism globally is the **Emerging Market Consumer**, which represents a powerful middle-class cohort with rising incomes and improved health outcomes. With lengthening life expectancies globally, **Global Ageing** puts a renewed focus on healthcare, aged-care, financial, and consumer products and services. So too does the **Silver Tsunami** of ageing and wealthy Baby Boomers, who represent the bulk of consumer spending in the U.S.
INFRASTRUCTURE	Infrastructure needs today span physical infrastructure well beyond its useful life, to energy assets, both traditional and renewable. As the sought-after **Energy Transition** toward renewable energy sources such as solar, wind, hydrogen, and nuclear remain in focus, so does reliable **Energy Storage** and **Distribution** of our energy sources. If the **Future Mobility** of the global car fleet is electric, Electric Vehicle (EV) production demands more mining of copper, lithium, nickel, manganese, cobalt and graphite, etc. to produce EVs as compared to internal combustion engines. Other key investment opportunities exist given disruptions through climate related events, cyber threats, or general impairments to the **National Grid**; but also globally, the risk of scarcity/stress to resource facilities among **Water/Waste Management**.
SECURITY	**Industrial Policies** are in, as the "visible hand" of the government is just as prominent as the "invisible hand" of the private sector, with hundreds of billions of dollars committed from the White House to incentivize security and self-reliance of suppliers and resources. Regulation pertaining to **Surveillance** and adjacent technologies, as well as legislation of data privacy rights will be a topic on Capitol Hill in 2024. Of national security concern, defense spending in the years ahead likely remains elevated given ongoing Ukraine-Russia and Israel-Hamas wars in addition to simmering U.S.-China tensions. **Aerospace and Defense** should benefit from the remilitarization in the wake of shrinking stockpiles. Ongoing and sophisticated ransomware and data breaches bolsters **Cybersecurity** budgets across industries. With the commercialization of space, security extends to **Space** and space-based assets (such as drones, satellites, data links, weather monitoring and Global Positioning System (GPS).
POLYCRISIS	Growing conflict and crisis globally can be described as **Multipolar Disorder,** leading to unforeseen realities for the macroeconomic backdrop and markets. **Resource Protectionism** has been on the rise as the extraction, sourcing and management of the world's resources will stay in focus with commodities, metals and mining complexes already stretched. Although net zero commitments are widespread, the current path to **Decarbonization** targets remains narrow. Also at crisis levels, global debt reached a staggering $307 trillion last year according to Institute of International Finance, putting in focus **Debt and Deficit** concerns. A million people in the U.S. have died of drug overdose since 2000 while suicide rates are at their highest level in over 80 years—All tragedies related to **Deaths of Despair**, and of particular impact to our healthcare system.

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.

Equity/S&P 500 Index includes a representative sample of 500 leading companies in leading industries of the U.S. economy. Although the index focuses on the large-cap segment of the market, with approximately 75% coverage of U.S. equities, it is also an ideal proxy for the total market.

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

Global manufacturing purchasing managers' index (PMI) is an index of the prevailing direction of economic trends in the manufacturing and service sectors.

J.P. Morgan Global Manufacturing PMI data gives a detailed look at the manufacturing sector including the pace of manufacturing growth and the direction of growth for this sector.

HFRI Fund Weighted Composite Index is a global, equal-weighted index of hedge funds with minimum assets under management of USD $500MM which report to the HFR Database and are open to new investments.

HFRI Equity Hedge (Total) Index is designed to be representative of the Equity Hedge strategy of the UCITS-Compliant hedge fund universe.

HFRI Macro (Total) Index is when investment managers which trade a broad range of strategies in which the investment process is predicated on movements in underlying economic variables and the impact these have on equity, fixed income, hard currency and commodity markets.

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All recommendations must be considered in the context of an individual investor's goals, time horizon, liquidity needs and risk tolerance. Not all recommendations will be in the best interest of all investors.

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

Investments have varying degrees of risk. Some of the risks involved with equity securities include the possibility that the value of the stocks may fluctuate in response to events specific to the companies or markets, as well as economic, political or social events in the U.S. or abroad. Small cap and mid cap companies pose special risks, including possible illiquidity and greater price volatility than funds consisting of larger, more established companies. Investing in fixed-income securities may involve certain risks, including the credit quality of individual issuers, possible prepayments, market or economic developments and yields and share price fluctuations due to changes in interest rates. When interest rates go up, bond prices typically drop, and vice versa. Bonds are subject to interest rate, inflation and credit risks. Municipal securities can be significantly affected by political changes as well as uncertainties in the municipal market related to taxation, legislative changes, or the rights of municipal security holders. Income from investing in municipal bonds is generally exempt from federal and state taxes for residents of the issuing state. While the interest income is tax-exempt, any capital gains distributed are taxable to the investor. Income for some investors may be subject to the Federal Alternative Minimum Tax. Investments in high-yield bonds (sometimes referred to as "junk bonds") offer the potential for high current income and attractive total return, but involves certain risks. Changes in economic conditions or other circumstances may adversely affect a junk bond issuer's ability to make principal and interest payments. Treasury bills are less volatile than longer-term fixed income securities and are guaranteed as to timely payment of principal and interest by the U.S. government. Mortgage-backed securities are subject to credit risk and the risk that the mortgages will be prepaid, so that portfolio management may be faced with replenishing the portfolio in a possibly disadvantageous interest rate environment. Investments in foreign securities (including ADRs) involve special risks, including foreign currency risk and the possibility of substantial volatility due to adverse political, economic or other developments. These risks are magnified for investments made in emerging markets. Investments in a certain industry or sector may pose additional risk due to lack of diversification and sector concentration. Investments in real estate securities can be subject to fluctuations in the value of the underlying properties, the effect of economic conditions on real estate values, changes in interest rates, and risk related to renting properties, such as rental defaults. There are special risks associated with an investment in commodities, including market price fluctuations, regulatory changes, interest rate changes, credit risk, economic changes and the impact of adverse political or financial factors.

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

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

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

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