

Capital Market Outlook

Chief Investment Office



The opinions are those of the author(s) and subject to change.

NOVEMBER 5, 2018

IN THIS ISSUE

MACRO STRATEGY

Markets are waking up to the fact that a major shift in the global economic order has just begun as restraints on globalization are necessary to assuage a growing populist backlash.

GLOBAL MARKET VIEW

It's been two years since candidate Donald Trump was elected the 45th President of the United States, marking the beginning of a regime change in the markets. Ahead of the mid-term elections, we highlight three key market lessons learned two years on.

THOUGHT OF THE WEEK

Currently rising mortgage rates and home prices are pressuring affordability in the housing sector. We see price appreciation slowing in the near term and demographic tailwinds for the sector in the longer term.

PORTFOLIO CONSIDERATIONS

We continue to maintain our favorable view on equities and would continue to have a higher allocation in shorter dated fixed income (inclusive of cash) relative to longer duration. Within equities, we maintain our higher quality bias with a preference for the U.S. and we are still neutral on commodities and non-U.S. developed markets, given Europe's political and economic headwinds.

MACRO STRATEGY

THE LIMITS OF GLOBALIZATION

Chief Investment Office Macro Strategy Team

Rapid industrialization of major Emerging Market (EM) economies, a whirlwind of technological advancements in telecommunications, information technology, transportation and logistics—along with the search for low costs of production, have resulted in dizzying economic integration in recent decades. Favorable government policies, such as the implementation of the North American Free Trade Agreement (NAFTA) 24 years ago and the admission of China into the World Trade Organization (WTO) 17 years ago, have supercharged the process and created expectations for inexorably deeper globalization.

Yet, signs that globalization has occurred too fast and at greater costs than promised have accumulated. The result has been a growing political backlash embodied in populism, which has ousted much of the old political elite around the world, most recently in Brazil, Italy, and Germany. In fact, as suggested by Harvard University Professor of International Political Economy, Dani Rodrik, in his new book *"Straight Talk on Trade: Ideas for a*

Chartered Financial Analyst® and CFA® are registered trademarks owned by CFA Institute.

Sane World Economy"¹, some slowing down and reconsideration of the premises and objectives of globalization is critical in order to achieve economic prosperity, financial stability and social inclusion at home, as well as to prevent outright protectionism or even a collapse of democracy.

Indeed, along with increased globalization came economic dislocations and a growing burden on government safety nets that is creating more-intense-than-expected economic, social and political tensions, especially in Europe and the United States. Increasingly ambitious international trade and economic integration policies have spurred an associated push for expanding global governance (to converge and monitor policies), another source of discomfort with unchecked globalization.

Global governance in a world of still deeply ingrained and strongly defended national sovereignty and domestic preferences appears increasingly unappealing in light of the Eurozone's travails and intensifying geopolitical struggles for influence. Different risk preferences, values and institutional arrangements, combined with different government policies, motives and objectives

¹ "Straight Talk on Trade: Ideas for a Sane Economy" written by Dani Rodrik published October 9, 2017.

Data as of 11/5/2018 and subject to change.



Merrill Lynch Wealth Management makes available products and services offered by Merrill Lynch, Pierce, Fenner & Smith Incorporated (MLPF&S), a registered broker-dealer and Member SIPC, and other subsidiaries of Bank of America Corporation (BoFA Corp.). Investment products:

Are Not FDIC Insured	Are Not Bank Guaranteed	May Lose Value
----------------------	-------------------------	----------------

pose serious challenges to global governance. The fact that international institutions have not proven immune to special interests—and are becoming less representative of their remote constituents—raises additional concerns for democracy and heightens political tensions. Rising nationalism is aimed at curbing the power of supranational bureaucrats.

As recent political trends in the Eurozone demonstrate, there is a strong conflict between national sovereignty, democracy and extensive cross-border economic integration. The ongoing European integration project gives great pause to anybody who cares to observe a “miniglobalization” experiment, where national interests are subservient to the broader community’s interests.

Basically, the deeper economic integration becomes, the greater the pressure for member states to relinquish their sovereignty (i.e., their right to economic, social and political self-determination). It looks increasingly unlikely that the U.S. and European Union countries will choose further economic integration at the expense of democracy and national sovereignty. The European project highlights the limits of economic integration when political integration is not possible.

The “cost of globalization” also appears to be a destabilized socio-political balance in the United States, with a growing resentment toward the “establishment” for exposing large sections of the U.S. economy and labor force to unmitigated shocks from international trade. It turns out that the proponents of increased trade liberalization over the past 25 years may have lacked a full understanding of its true costs and effects despite promises that all would benefit as the “economic pie” grew with increased trade. Or, more disheartening, they may have deliberately hidden them, under pressure to appear open minded, cosmopolitan and/or magnanimous towards the world’s poor. According to Professor Rodrik, *“it has long been an unspoken rule of public engagement for economists that they should champion trade and not dwell too much on the fine print”* even though *“the standard models of trade with which economists work typically yield sharp distributional effects: income losses by certain groups of producers or workers are the flip side of the ‘gains from trade.’”*¹

Armed with elegant arguments related to market efficiency and comparative advantage, supporters of increasingly vast and ambitious trade agreements shamed opponents into feeling parochial, narrow-minded and selfish, convincing them to relent. Besides, even if some didn’t win, increased government safety nets would mitigate the negative impacts, allowing the process to continue its natural and noble course.

Given its more limited appetite for government safety nets, the U.S. was particularly exposed to deep social cracks caused by polarized gains and losses from globalization despite a 35%

increase in the economic “pie” as measured by real gross domestic product (GDP) since China’s accession to the WTO, for example, according to Haver Analytics. A bigger welfare state expanding along with an 18% increase in the Eurozone economy over the same period of deepening regional and global economic integration has not spared it from intensifying economic, financial, political and social problems either, suggesting deeper ails at work.

The issues related to economic integration, globalization and international trade are multiple and complex. Disentangling the effect of technological change on low-skilled labor, which tends to be most affected, adds an extra layer of difficulty. Ignoring the uncertainty and risks related to possible negative impacts from globalization—including the inevitably greater role for government assistance as a flipside of deepening globalization—has spread confusion, socio-political disaffection, and backlash against trade and the “elite.” Attributing rising inequality to technological change alone may have been politically expedient, but it seems to have cost intellectuals and establishment politicians their credibility, legitimacy and support.

After all, whereas technological advancement is perceived as undisputable and is rarely taken personally, it was “somebody’s decision” to expose vast parts of the economy and labor to low-cost, foreign-made products without policies to protect dislocated workers, to create offsetting incentives to parties hurt by new competition or to encourage businesses to compete on quality instead of cost. Allowing businesses to get locked in hard-to-reverse supply chains overseas, captive to vast, intentionally planned networks of suppliers, engineers and cheap labor is hard to ignore. So is overlooking trade partners’ mercantilist policy of strengthening economic growth, employment and national power through state-business cooperation while simply focusing on the pursuit of the lowest possible cost for tradable goods for the domestic market.

Never mind that owners of internationally-mobile labor, capital, and talent would become disengaged and disinterested in local communities’ prosperity and future. Never mind that trade in identical products is different from the exchange of differentiated products that benefited both sides of trade in previous periods of significant international-trade expansion.

Never mind that China was accepted in the WTO as a non-market economy for the first 15 years of its membership, which by definition implied an uneven playing field and a distorted outcome compared to that from a partnership based on symmetric rules. Indeed, government subsidies, protections for its young industries, an unquenched thirst for technology and growth have caused it to increasingly come into conflict with foreign investors’ intellectual property rights, international trade principles and a healthy, balanced globalization process.

Because a market economy designation would dramatically weaken many countries' trade defenses against a flood of cheap Chinese goods, China has been fighting for recognition as a market economy. However, it has done little to meet the requirements for this status, having caused snowballing negative effects and difficult trade adjustment problems elsewhere. What's more, as detailed in "Remarks by Vice President Pence on the Administration's Policy Toward China"² to the Hudson Institute on October 4, 2018, there are rising concerns that China's economic liberalization has in fact slowed or reversed, with the role of the state growing and becoming increasingly problematic for foreign firms operating there. Essentially, it has chosen to remain a non-market economy, contrary to WTO rules.

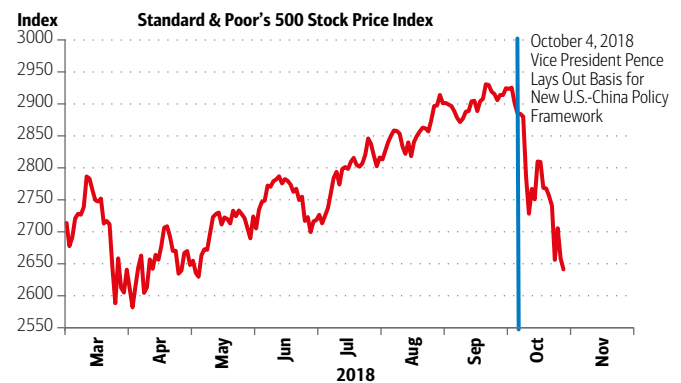
In sum, inherent conflicts between globalization, social stability and national sovereignty must be resolved for globalization to continue. This raises questions about the limits of global governance and suggests that a major reset in the globalization process, including in the European integration effort, is both likely and necessary for a more balanced and politically viable world-development process.

Also, international trade has operated in a less benign fashion than promised. The pursuit of deeper and accelerating globalization

² See "Remarks by Vice President Pence on the Administration's Policy Toward China," The Hudson Group, October 4, 2018.

at the cost of a growing welfare state, lack of social cohesion and political turmoil has become questionable, suggesting that a fundamental reevaluation of objectives is necessary. As Professor Rodrik wrote, "the best way in which nations can serve the global good in the economic sphere is by putting their own economic houses in order."¹ In our view, this shift in the geopolitical and economic order is a recipe for increased market volatility, as it creates a new dimension of long-term uncertainty.

Exhibit 1: Fed Chair Powell Speech on October 3 and Mike Pence Speech on October 4 Create Equity-market Volatility.



Source: Wall Street Journal/Haver Analytics. Data as of 10/30/2018. **Past performance is no guarantee of future results.** Performance would differ if a different time period was displayed. Short term performance shown to illustrate more recent trend.

GLOBAL MARKET VIEW

THREE KEY LESSONS SINCE THE LAST PRESIDENTIAL ELECTION

Joseph P. Quinlan, Head of CIO Market Strategy

Lauren J. Sanfilippo, Vice President and Market Strategy Analyst

It has been two years since candidate Donald Trump stunned the United States and the world by becoming President-elect Trump on November 8, 2016. To understate the obvious, much has transpired since that day.

While the mid-term elections are front and center this week, we thought it might be a good time to reflect on some of the important lessons learned since Donald Trump was elected the 45th President of the United States.

LESSON ONE: HE MEANS WHAT HE SAYS AND SAYS WHAT HE MEANS.

Recall the oft-repeated narrative about candidate Trump: take him seriously but not literally. That was code for the following: Mr. Trump, if elected, would either walk back or jettison the campaign rhetoric about pulling out of various trade deals (aka the Trans Pacific Partnership, or TPP) and multilateral agreements (e.g., the Paris Agreement on Climate Change and the Iran nuclear agreement). He would also dial back the talk

about building walls; ease up on tough immigration reform; retract some of the harsh campaign rhetoric against China; and tune down many of his populist/unilateral impulses.

Well guess again.

While the president has not gotten everything he wished for in the past two years, that's hardly surprising. What president has not run headlong into the Washington bureaucracy? And what president has not said one thing on the campaign trail only to turn tack after reaching the White House?

That said, there is more than enough evidence to suggest that President Trump means what he says and says what he means. That "America First" isn't an empty slogan but an ideological marker that guides how the president and his advisors think and view the world.

Flummoxing the Washington establishment, as well as friends and foes around the world, and Wall Street, the administration has pulled the U.S. out of TPP, walked away from the Paris Climate Accord, withdrawn from the Iran nuclear deal, renegotiated NAFTA, and followed through on trade sanctions and tariffs. Along the way, the administration has also succeeded with tax reform, lightened the regulatory hand of government and adopted tough

immigration rules. And then there is China and Vice President Pence's controversial speech of October 4 at the Hudson Institute, critiqued as "broader and deeper in its criticism of China than any other U.S. government statement of the past several decades."³ To the worry of Wall Street, the administration—at least thus far—means what it says and says what it means about getting tough with China (for what this means for investors, see our Capital Market Outlook October 29, 2018, "*China confronts something worse than a recession.*")

In the end, two years into the Trump presidency, the conventional view is that this administration is unconventional and not bound to the international rules-based order of the past seventy years. Contrary to the consensus shortly after Mr. Trump was elected, it's not President Trump who is adapting to the world, the world is having to adapt to him.

LESSON TWO: THERE'S NO PLACE LIKE HOME—THE U.S. ECONOMY REMAINS THE MOST DYNAMIC IN THE WORLD.

We have long advocated the belief that the U.S. economy is among the most competitive in the world, although pushback over the years has come via the "secular stagnation" thesis—that the U.S. was stuck in a slow growth mode, unable to break free from muddling 2% annual average growth for a variety of reasons, including an aging workforce, declining productivity and intense global competition.

However, if we have learned anything in the past two years, it's that the U.S. economy, when unbound, remains among the most dynamic/resilient in the world. Corporate tax reform, a lighter regulatory touch from Washington, rising fiscal spending—all of these policies have given a jolt to the U.S. economy over the past 24 months, upending the argument that the U.S. was preordained to trek an uninspiring 2% growth path. As noted by the head of CIO Macro Strategy, many times in the past, the U.S. economy has "broken out to the other side," with the animal spirits of corporate America unleashed by one of the most pro-business administrations in U.S. history.

As Exhibit 2 highlights, the U.S. economy has traveled a significant distance since the 2016 election. The U.S. economy is now a \$20 trillion behemoth, having expanded at a 3.5% clip. Real growth averaged 3.3% in the first nine months of this year, significantly above the average for two Obama terms (1.9%). The unemployment rate has continued to decline, while both oil prices and the 10-year yield have spiked since the election of Donald Trump, reflecting, in large part, the improving fundamentals of the economy at this point in time.

Also moving higher since the presidential election—U.S. equities returns (see Exhibit 3). Even after accounting for the October 2018 market carnage, the S&P 500, Dow Jones

Industrial Average and Nasdaq have all posted solid gains over the past two years, handily outperforming the rest of the world, including both developed and emerging markets.

Exhibit 2: U.S. Economy: From Secular Stagnation to Liftoff (11/2/16 – 11/2/18).

	THEN	NOW
U.S. Nominal GDP (Trillion \$)*	18.8	20.7
Real GDP growth*	1.9	3.5
U.S. Unemployment Rate (%)**	4.9	3.8
10-year yield***	1.80	3.21
Oil prices (WTI, \$/barrel)***	45.34	63.14

*Q3 2016; Q3 2018. / **October 2016; October 2018. / ***November 2, 2016; November 2, 2018.

Exhibit 3: Capital Markets: The Outperformance of the U.S. vs. The Rest of the World (11/2/16 – 11/2/18).

	THEN	NOW	Percent Change
S&P 500	2,097.94	2,723.06	29.8%
Dow Jones Industrial Average	17,959.64	25,270.83	40.7%
NASDAQ Index	5,105.57	7,356.99	44.1%
MSCI All World Index ex. U.S.	244.48	270.98	10.8%
MSCI Emerging Market Index	890.21	996.72	12.0%

Source: Bloomberg, data as of 11/02/2018. **Past performance is no guarantee of future results.** Performance would differ if a different time period was displayed. Short term performance shown to illustrate more recent trend.

Exhibit 4, meanwhile, underscores the weighted presence of foreign investors in the U.S. capital markets, a presence that has changed only slightly since the election of Donald Trump. According to the latest available data, foreign investors still own a commanding share of marketable U.S. Treasuries (nearly 37% in Q2 2018) and corporate bonds (36%). Foreign ownership of U.S. equities, meanwhile, has jumped 22% since November 2016, pushing the foreign share up to 18.4%. Finally, note that among the world's central banks, reserve holdings remain dominated in U.S. dollars (62.3% according to the latest data), reflecting the world reserve currency status of the greenback.

Exhibit 4: Foreigners Demand of U.S. Assets Remains Strong.

	Q3 2016	Q2 2018
U.S. Treasuries (Trillions, \$) [†]	6.2	6.3
% of Total	39.3	36.8
U.S. Government Agency (Trillions, \$) [†]	1.0	1.0
% of Total	12.0	11.5
Corporate Bonds [†]	3.5	3.7
% of Total	35.3	36.1
U.S. Equities [†]	5.7	7.3
% of Total	18.0	18.4
U.S. Dollar Share of Currency Reserves (\$) ^{††}	5.4	6.6
% of Total	64.7	62.3

[†]Federal Reserve Board as of Q2 2018. / ^{††}IMF as of Q1 2018.

All of the above—currently improving economic fundamentals, healthy U.S. market returns, solid foreign demand for U.S. securities—reflects Lesson Two: while hardly perfect, the U.S. economy remains the most competitive and resilient in the world.

LESSON THREE: BE CAREFUL WHAT YOU WISH FOR.

The third and final lesson is summarized by the standard refrain "be careful what you wish for." In other words, since Mr. Trump's

³ See "The Crisis in U.S.-China Relations," Richard Hass, The Wall Street Journal, October 20, 2018.

election, investors have had many of their wishes granted: lower corporate taxes, a lighter regulatory touch, pro-business government policies and an administration firmly on the side of business when it comes to global trade and investment. All of which has bolstered real GDP growth thus far and kept one of the longest U.S. economic expansions in U.S. history humming.

Now the more worrisome news—all of the above goes hand-in-hand with more restrictive monetary policies from the Federal Reserve (Fed) and currently rising interest rates, a potentially toxic brew for equities and other parts of the credit market. By proclaiming in an October 3 statement that short-term interest rates were a “long way from neutral at this point, probably,”⁴ Fed Chairman Jerome Powell spooked investors worried that the Fed was being too aggressive with raising rates, therefore putting at risk the U.S. economic expansion and bull market in equities. With 2-Year Treasury yields now

⁴ Question and answer session with Judy Woodruff of PBS airing October 3, 2018.

above the dividend yield of the S&P 500, the one-way bet on higher-yielding equities appears to be over.

There is now competition between and among asset classes, a byproduct of, among other things, a president who says what he means, a \$20 trillion economy having expanded over 3% and strong foreign demand for U.S. securities.

Broadly put, the past two years have created a regime change in the markets. The era of secular stagnation (think subpar growth, weak inflation readings, ultra-low interest rates, low volatility) is giving way to an era of reflation—or stronger cyclical growth, rising interest rates, an upturn in inflation and a pick-up in volatility. Everything just mentioned is currently constructive for equities, in our view, hence why we believe the bull market is not over.

What will be the lessons of the next two years under President Trump? No one knows, but the first glimpses of what to expect will emanate from the mid-term elections. More on that in the coming days.

THOUGHT OF THE WEEK

HOUSING: LOWER AFFORDABILITY AND SLOWER RISE

Elizabeth Jacobi, Analyst, CIO Portfolio Strategy

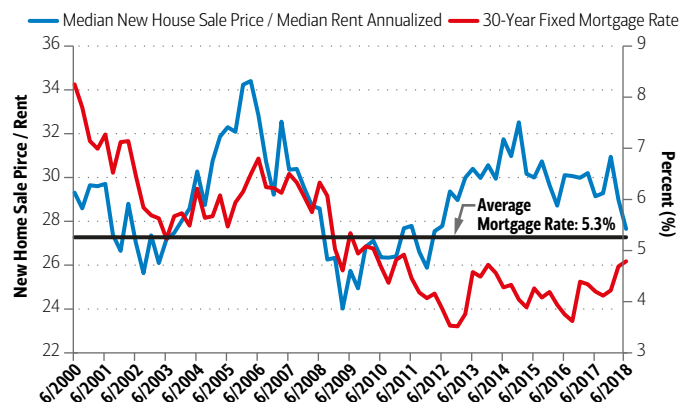
The housing sector has slowed this year as higher prices and borrowing costs have led to lower affordability. Mortgage rates, according to Bloomberg, have reached their highest level in seven years as the Fed has continued to hike their policy rate, and interest rates across all maturities have risen. As of mid-October, mortgage rates for the Mortgage Bankers Association (MBA) 30-year fixed rate mortgage have risen by 0.95% in the past year in higher payments for mortgage holders, according to the S&P CoreLogic Case-Shiller Home Price Indices. As economic growth expectations remain robust, mortgage rates can reasonably be expected to maintain their ascent.

In previous years an improving economy, a tighter job market and rising income levels have supported demand for homes and prices. This trend should continue in the immediate term with BofA Merrill Lynch (BofAML) Global Research expecting national home prices, as measured by the S&P CoreLogic Case-Shiller Index, to grow 5.0% in 2018. All of the top 20 metropolitan statistical areas have had price appreciation year over year, ranging from a low of 2.8% in Washington DC to a high of 13.7% in Las Vegas. As home sales have cooled, concerns have grown that house prices could experience another damaging decline. We think the chances of an outright decline in prices, nationally, are low as the economy and consumer income continue to grow, and inventory levels remain close to record lows. However, affordability challenges should likely continue to pressure demand and cause price appreciation

to slow. In fact, BofAML Global Research is expecting a slowdown to 3% growth in home prices for both 2019 and 2020.

Over the longer term, there are demographic tailwinds for the housing sector, in our view. According to the U.S. Census Bureau, the percentage of young adults (ages 18 to 34) who live with their parents has increased to 31.5% in 2017 from 27% in 2005. Millennials thus present a significant source of pent-up demand as they become empowered by the rising employment prospects and move out on their own. Given that residential construction has remained weak in this cycle compared to historical standards, this pent-up demand suggests that over the longer term, home construction should likely remain on an uptrend.

Exhibit 5: Higher Borrowing Costs Have Led to a Cooling Housing Market.



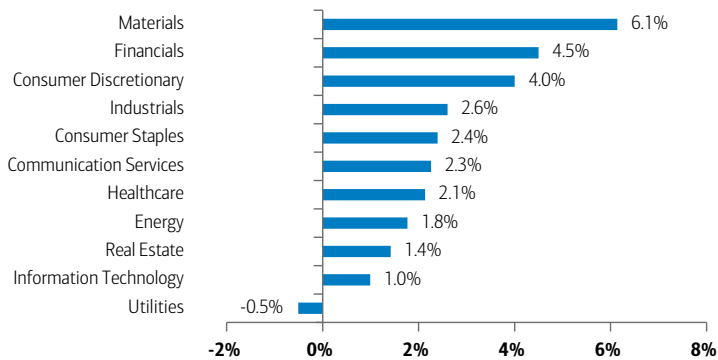
Source: Mortgage Bankers Association, U.S. Census Bureau, Chief Investment Office as of June 30, 2018.

MARKETS IN REVIEW

Equities

	Current	Total Return in USD (%)		
		WTD	MTD	YTD
DJIA	25,270.83	2.4	0.6	4.1
NASDAQ	7,356.99	2.7	0.7	7.5
S&P 500	2,723.06	2.4	0.4	3.4
S&P 400 Mid Cap	1,862.40	3.8	2.1	-0.8
Russell 2000	1,547.98	4.3	2.4	1.8
MSCI World	2,036.70	2.8	0.7	-1.6
MSCI EAFE	1,837.05	3.4	1.2	-8.2
MSCI Emerging Mkts	996.72	6.1	4.3	-12.1

S&P 500 Sector Returns¹



Source: Bloomberg, Factset. ¹Total Returns from the period of 10/29/18 to 11/2/2018. ²Bloomberg Barclays Indices. ³Spot price returns. All data as of the 11/2/18 close. **Past performance is no guarantee of future results.**

Fixed Income²

	Current	Total Return in USD (%)		
		WTD	MTD	YTD
Corporate & Government	3.58	-0.7	-0.2	-2.9
Agencies	3.16	-0.4	-0.2	-0.9
Municipals	3.07	-0.5	-0.3	-1.3
U.S. Investment Grade Credit	3.65	-0.7	-0.3	-2.7
International	4.32	-0.8	-0.2	-4.0
High Yield	6.83	0.2	0.2	1.1

	Current	Prior Week End	Prior Month End	2017 Year End
90 Day Yield	2.25	2.25	2.24	1.32
2 Year Yield	2.91	2.81	2.87	1.89
10 Year Yield	3.21	3.08	3.14	2.41
30 Year Yield	3.46	3.31	3.39	2.74

Commodities & Currencies

Commodities	Current	Total Return in USD (%)		
		WTD	MTD	YTD
Bloomberg Commodity	173.97	-1.3	0.8	-3.3
WTI Crude \$/Barrel ³	63.14	-6.6	-3.3	4.5
Gold Spot \$/Ounce ³	1,232.95	0.0	1.5	-5.4

Currencies	Current	Prior Week End	Prior Month End	2017 Year End
EUR/USD	1.14	1.14	1.13	1.20
USD/JPY	113.20	111.91	112.94	112.69
USD/CNH	6.90	6.95	6.97	6.51

Asset Class Weightings (as of 7/11/18)

	Negative	Neutral	Positive
Global Equities	•	•	•
U.S. Large Cap Growth	•	•	•
U.S. Large Cap Value	•	•	•
U.S. Small Cap Growth	•	•	•
U.S. Small Cap Value	•	•	•
International Developed	•	•	•
Emerging Markets	•	•	•
Global Fixed Income	•	•	•
U.S. Governments	•	•	•
U.S. Mortgages	•	•	•
U.S. Corporates	•	•	•
High Yield	•	•	•
U.S. Investment Grade Tax Exempt	•	•	•
U.S. High Yield Tax Exempt	•	•	•
International Fixed Income	•	•	•
Alternative Investments*	see CIO Asset Class Views		
Hedge Funds	•		
Private Equity	•		
Real Assets	•		
Cash	We are neutral		

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

Economic and Market Forecasts (as of 10/26/18)

	Q1 2018A	Q2 2018A	Q3 2018A	2016A	2017A	2018E	2019E
Real global GDP (% y/y annualized)	-	-	-	3.1	3.8	3.8	3.7
Real U.S. GDP (% q/q annualized)	2.2	4.2	3.5	1.6	2.2	2.9	2.7
CPI inflation (% y/y)	2.2	2.7	2.6	1.3	2.1	2.5	2.2
Core CPI inflation (% y/y)	1.9	2.2	2.2	2.2	1.8	2.1	2.3
Unemployment rate (%)	4.1	3.9	3.8	4.9	4.4	3.9	3.4
Fed funds rate, end period (%)	1.63	1.88	2.13	0.63	1.38	2.38	3.13
10-year Treasury, end period (%)	2.74	2.86	3.06	2.44	2.41	3.25	3.35**
S&P 500, end period	2641	2718	2914	2239	2674	3000	
S&P earnings (\$/share)	37	41	41*	118	132	162	172
U.S. dollar/euro, end period	1.23	1.17	1.16	1.05	1.20	1.20	1.25
Japanese yen/U.S. dollar, end period	106	111	114	117	113	115	105
Oil (\$/barrel), end period	65	74	73	54	60	70	71 ¹

Figures represent economic and market data and forecasts provided by BofA Merrill Lynch Global Research. **Past performance is no guarantee of future results. There can be no assurance that the forecasts will be achieved.**

A=Actual / E=Estimate / *Estimate for Q3 2018 / **Estimate for Q3 2019.

¹ Forecast represents a period average

Sources: BofA Merrill Lynch Global Research; Global Wealth & Investment Management Investment Strategy Committee.

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 dollars.

Dow Jones Industrial Average is a price-weighted measure of 30 U.S. blue-chip U.S. companies. The index covers all industries except transportation and utilities.

NASDAQ Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.

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.

MSCI Emerging Markets Index captures large and mid cap representation across 23 Emerging Markets (EM) countries. With 832 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

MSCI World Index is a broad global equity benchmark that represents large and mid-cap equity performance across 23 developed markets countries. It covers approximately 85% of the free float-adjusted market capitalization in each country and does not offer exposure to emerging markets.

S&P CoreLogic Case-Shiller Home Price Indices are calculated monthly using a three-month moving average and performance is based on non-seasonally adjusted data.

IMPORTANT DISCLOSURES

This material was prepared by the Chief Investment Office (CIO) and is not a publication of BofA Merrill Lynch Global Research. The views expressed are those of the CIO only and are subject to change. This information should not be construed as investment advice. It is presented for information purposes only and is not intended to be either a specific offer by any Merrill Lynch or U.S. Trust entity to sell or provide, or a specific invitation for a consumer to apply for, any particular retail financial product or service that may be available.

Global Wealth & Investment Management (GWIM) is a division of Bank of America Corporation. Merrill Lynch Wealth Management, Merrill Edge®, U.S. Trust, and Bank of America Merrill Lynch are affiliated sub-divisions within GWIM. The Chief Investment Office, which provides investment strategies, due diligence, portfolio construction guidance and wealth management solutions for GWIM clients, is part of the Investment Solutions Group (ISG) of GWIM.

Investing involves risk, including the possible loss of principal. No investment program is risk-free, and a systematic investing plan does not ensure a profit or protect against a loss in declining markets. Any investment plan should be subject to periodic review for changes in your individual circumstances, including changes in market conditions and your financial ability to continue purchases.

Economic or financial forecasts are inherently limited and should not be relied on as indicators of future investment performance.

It is not possible to invest directly in an index.

Asset allocation, diversification, dollar cost averaging and rebalancing do not ensure a profit or protect against loss in declining markets. Dollar cost averaging involves continual investment in securities regardless of fluctuating price levels; you should consider your willingness to continue purchasing during periods of high or low price levels.

Past performance is no guarantee of future results.

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. 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 (AMT).

Investments focused in a certain industry may pose additional risks due to lack of diversification, industry volatility, economic turmoil, susceptibility to economic, political or regulatory risks and other sector concentration risks.

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 risks related to renting properties, such as rental defaults.

Nonfinancial assets, such as closely-held businesses, real estate, 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 suitable for 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.

Investments in tangible assets are highly volatile and are speculative. 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 such as private equity 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.

Neither Merrill Lynch, U.S. Trust nor any of their affiliates or advisors provide legal, tax or accounting advice. You should consult your legal and/or tax advisors before making any financial decisions.

The investments discussed have varying degrees of risk. Some of the risks involved with equities 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. Bonds are subject to interest rate, inflation and credit risks. Investments in high-yield bonds may be subject to greater market fluctuations and risk of loss of income and principal than securities in higher risk categories. Investments in foreign securities 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. 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 (AMT).

© 2018 Bank of America Corporation. All rights reserved.

ARCWFB4W