

Viewpoint

One Clap Four Times

January 2026

All data, projections and opinions are as of January 6, 2026 and subject to change.

IN BRIEF

- We expect the equity market uptrend to extend further in 2026, supported by four key catalysts: above-average capital spending, double-digit S&P 500 Index earnings growth, significant productivity gains, and resilient consumer spending. Additional momentum from improved business activity and deal flow, fiscal stimulus, lower rates, and potential deregulation should further reinforce the bull market. This backdrop sets the stage for potential broader market participation across equity markets, a more diversified mix of sector leaders, and Emerging Markets strength.
- The GWIM ISC maintains its overall Equity overweight and Fixed Income underweight as we begin 2026. Within Equities, we upgraded Emerging Markets to overweight from neutral while slightly trimming U.S. Large-cap and downgrading International Developed. Although we lowered International Developed, we maintain our slight overweight view on Japan Equities and instead trimmed UK Equities. At the sector level, we raised Healthcare to neutral from underweight and reduced Real Estate to underweight from neutral.
- Within Fixed Income, we adjusted our allocation guidance to better reflect GWIM ISC views across portfolios and in coordination with our 2026 strategic asset allocation adjustments. Within multi-asset portfolios, we lowered Global High Yield to slightly underweight, aligning with our tactically neutral view across Fixed Income sectors. We maintain our neutral duration stance.

As we begin 2026, we look back to project forward. 2025 was not particularly volatile across the capital markets, except for the “tariff turmoil” episode earlier in the year and Artificial Intelligence (AI) spending worries later in the year. Equity markets worldwide generally applauded increased fiscal spending and solid profits growth, which drove many indexes to new highs. Fixed Income markets were somewhat tame except for longer-term sovereign bonds overseas, and the U.S. dollar trended on the weak side while oil prices proved deflationary. Looking back, it was a very good year, all things considered.

What’s in store for 2026? In our view, an extension of 2025 to a certain degree but, given premium valuations in U.S. equity markets, we expect more of a proud bull market that simply tracks earnings growth rather than another stampeding one that includes additional price-to-earnings (P/E) ratio multiple expansion. This year, we believe investors are likely to call for “one clap” for four separate catalysts. One clap for another year of well-above-average capital spending. Another clap for double-digit earnings growth for the S&P 500. And two final claps for significant productivity gains and resilient consumer spending led by the boomers again. One clap four times is our base case which should drive the S&P 500 to a record high. Within this scenario, we expect a continuation of the broadening across equity markets, a more diversified mixture of sectors leading the way, and Emerging Markets (EM)

CIO ASSET CLASS VIEWS

This month the Global Wealth & Investment Management Investment Strategy Committee (GWIM ISC) adjusted our tactical asset allocation in coordination with our 2026 long-term strategic asset allocation adjustments. We maintain an overweight to Equities with a preference for U.S. Equities relative to the rest of the world. We upgraded Emerging Markets to slight overweight and trimmed U.S. Large-cap and downgraded International Developed. At the sector level, we upgraded Healthcare to neutral and downgraded Real Estate. In multi-asset portfolios, we favor no significant Fixed Income sector tilts, so we reduced Global High Yield. We continue to emphasize a well-diversified portfolio and recommend leveraging market weakness and excessive strength to rebalance tactical exposures.

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Asset Class	CIO View		
	Underweight	Neutral	Overweight
Equities	•	•	•
U.S. Large-cap	•	•	•
U.S. Mid-cap	•	•	•
U.S. Small-cap	•	•	•
International Developed	•	•	•
Emerging Markets	•	•	•
Fixed Income	•	•	•
U.S. Investment-grade Taxable	•	•	•
International	•	•	•
Global High Yield Taxable	•	•	•
Alternative Investments*			
Hedge Strategies			
Private Equity			
Private Credit			
Private Real Estate			
Tangible 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.

Trust and fiduciary services are provided by Bank of America, N.A., Member FDIC and a wholly owned subsidiary of Bank of America Corporation (“BoFA Corp.”).
Investment products:

Are Not FDIC Insured	Are Not Bank Guaranteed	May Lose Value
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punching above their weight again. The additional positive momentum force we expect throughout 2026 that was missing in 2025 is business activity and deal flow across sectors. Improving growth, productivity gains, benefits from the new fiscal bill, a lower rate structure, and potential deregulation should all create a “flywheel” effect in business activity, in our view.

To begin 2026, the GWIM ISC raised Healthcare to neutral from underweight and reduced Real Estate to underweight from neutral. Additionally, we downgraded EM to an overweight from neutral while lowering U.S. Large-cap and International Developed Markets exposure slightly. We also made adjustments to Fixed Income in coordination with our 2026 strategic asset allocation changes. Our overall Equity overweight and Fixed Income underweight remains.

Our top 10 viewpoints and expectations for 2026 support our Equity overweight in the U.S. and Emerging Markets across our portfolios as we begin 2026.

1. Economic and profit growth surprises to the upside in the U.S. and worldwide

2. Equity market performance matches earnings growth but premium valuations are vulnerable to any growth shock

3. 10-year U.S. Treasury yields remain in a range between 4.0% and 4.5% for much of the year

4. Gold and Silver prices remain in an uptrend as fiscal deficits remain wide and industrial usage rises

5. Business activity ramps up and surprises to the upside supporting Financials, Small- and Mid-cap shares

6. The U.S. dollar should slightly weaken on a relative basis

7. Capital investment in digital infrastructure remains robust supporting the AI build-out

8. Mid-term election years tend to include higher than average volatility, but tend to be potential buying opportunity in Equities

9. EMs continue their outperformance in worldwide equity indexes




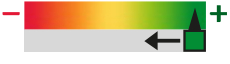

10. Job growth remains a mixed bag, which keeps the Federal Reserve (Fed) leaning toward cutting rates a couple of times

CIO INVESTMENT DASHBOARD AS OF JANUARY 6, 2026

While we continue to see crosscurrents in the macroeconomic landscape, underlying fundamentals remain solid heading into 2026. We see the potential for a new phase of economic and market growth, powered by AI innovation, infrastructure investment, energy transformation, and global shifts in defense and technology. Long-term investors should remain fully invested and consider episodic weakness as a potential buying opportunity.

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

Earnings		For the S&P 500, we forecast double-digit earnings growth for 2026. A consistently strong earnings backdrop comprises a key pillar of our U.S. Equity overweight. Globally, earnings trends remain positive overall. An improvement in EMs is a factor behind our upgrade to this segment.
Valuations		On an absolute basis, U.S. equity markets are somewhat overvalued. Yet relative discounts can be found in areas like Small-cap and Value. Moreover, discounts also exist overseas, including EMs, underscoring the importance of incorporating these areas to diversify portfolios.
U.S. Macro		U.S. economic growth has consistently topped analysts' expectations, bolstering corporate earnings growth. In 2026, we anticipate above-average growth driven by strong consumer spending and business investment.
Global Growth		We anticipate that real gross domestic product (GDP) in the euro area will grow by 1.0% on a year-over-year basis in 2026, a rate hampered by geopolitical uncertainty. In China, stimulus efforts appear challenged in contending with weakness in investment and the property market. BofA Global Research forecasts 2026 real GDP growth of 4.7% from China reflecting relative strength, increasingly underpinned by innovative segments. Improving fundamentals in EMs may raise the appeal of this region as a portfolio diversifier.
U.S. Monetary Policy / Inflation		The Fed's policy interest rate stands at 3.50% to 3.75%. While tariffs may temporarily spur inflation, progress afterwards should allow the Fed to continue easing monetary policy in 2026.

Fiscal Policy		Fiscal stimulus dubbed the One Big Beautiful Bill Act includes new tax breaks, among other elements. This added stimulus throughout the year should support U.S. GDP growth through stronger consumption, investment and productivity, helping to sustain margins and earnings and ultimately provide tailwinds for Equities.
Corporate Credit		Overall, credit spreads for Investment-Grade and High-Yield corporate bonds reflect lessened concern over an economic slowdown. However, on average both are off their 12-month lows. We believe that neutral positioning across these segments in all-Fixed Income portfolios is appropriate.
Yield Curve		Beyond two years, the Treasury yield curve remains positively sloped. Conversely, a shorter-dated inversion reflects anticipation for more interest rate cuts, a condition supporting our view for easing monetary policy. Rates are fairly priced, providing good diversification benefits for multi-asset class portfolios and reasonable income overall.
Technical Indicators		The S&P 500 remained above its 200-day moving average for a number of months, indicative of strong upward momentum. While some measures of breadth have recently lagged, recent record highs in Small-caps and better performance abroad overall suggest an overall broadening participation in the Equity rally.
Investor Sentiment		Overall, investor sentiment indicators have turned more optimistic, a contrarian indicator. Retail investors, tracked by the American Association of Retail Investors (AARI), have become more bullish. Meanwhile, BofA Global Research has noted that the average cash level managed by institutional investors has declined to a historically low level while its proprietary Bull/Bear Ratio also now signals "sell," as of December 18.

Source: Chief Investment Office. Gradient slides go from positive green, yellow neutral and negative red factors to ISC views.

EQUITIES

We are overweight Equities. The backdrop for Equities remains strong. AI and data infrastructure investment is accelerating, corporate earnings growth is expected to continue, and investors are gradually rotating back into Equities with elevated levels of cash still on the sidelines. We maintain an Equity overweight relative to our strategic targets.

We are overweight U.S. Equities. The U.S. remains our preferred Equity region relative to the rest of the world. Index level valuations are elevated relative to historical averages, but earnings currently remain supportive with growth broadening across sectors. Delays, supply chain disruptions, various tariff impacts, and dampened demand could selectively filter through in future quarters, but we ultimately expect full-year earnings growth to be in the double digits for the S&P 500 Index in 2026.

Diversification across and within Equities will be imperative this year, in our view. While concentration risk persists within Large-caps, they generally exhibit strong fundamentals, solid earnings growth, and the ability to generate substantial free cash flow (FCF). Meanwhile, Small-caps have recently gained momentum and may benefit from a lower interest rate environment, leading to a more constructive earnings outlook. In addition, deregulation may spur increased capital markets activity and more mergers and acquisitions (M&A) in 2026. We emphasize the importance of incorporating both Large-caps and Small-caps in strategic portfolios.

While we believe that secular tailwinds related to innovation will support Growth over the long term, investors should avoid overexposure to any one area of the market. Value continues to trade at a relative discount to Growth, cyclical areas of the market improved during 2025, and dividend-oriented Value stocks remain attractive. We recently adjusted the magnitude of our Large-cap Value exposure to reflect a more equal balance between Large-cap Value and Large-cap Growth in portfolios.

From a sector perspective, it's important to have Equity exposure across cyclical, interest rate-sensitive and Growth sectors. We maintain overweight exposure to Financials on increased activity supported by deregulation and a positive net interest income outlook. Recent interest rate cuts, along with a steeper yield curve, can help improve credit risk and default rates going forward. Moreover, we anticipate U.S. banks can generate strong spread revenue even without meaningful loan growth, given the repricing trend in securities portfolios industrywide. We are overweight Industrials as capital expenditures (capex) budgets continue to grow, 100% bonus depreciation has been enacted again, and infrastructure plans are accelerating compared to recent years. Growth in infrastructure investments related to electric power demand, energy transmission and distribution (T&D),

EQUITY WATCH LIST

- Fiscal and monetary policy outlook
- Dollar movement and exposure to non-U.S. regions
- Pace of AI investment and competition
- Supreme Court decision on legality of tariffs under the IEEPA*
- Progression of earnings estimates
- Trajectory of global manufacturing

RISK CONSIDERATIONS

- Softer-than-expected labor market and slower economic growth
- Potential for a pullback in high-income consumer spending
- AI momentum shift due to an earnings miss, supply shock, or tighter credit conditions
- Global fiscal concerns, as well as sticky inflation and its potential impact on the Fed's easing cycle
- Geopolitical uncertainty and heightened global protectionism measures

*International Emergency Economic Powers Act

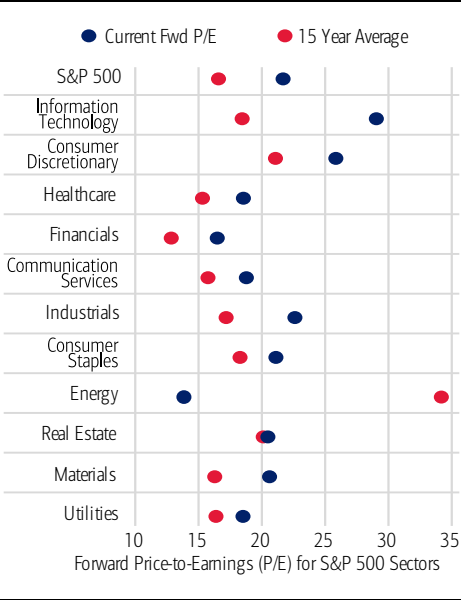
data center builds, and next-generation AI-focused semiconductor technology could drive multiyear demand for select growth and cyclical stocks.

Policy uncertainty has been a significant overhang for the Healthcare sector for years, but drug pricing agreements in recent months, some clarity on Healthcare issues, and policy and proposed expedited timelines for new product development provide potential upside. Therefore, we are increasing exposure to the Healthcare sector in 2026. We remain cautious on the Energy sector. The growing oil supply outlook could weigh on oil prices, energy cash flows, and earnings in coming quarters. Our positive outlook for Utilities is based on accelerating electric power demand for the first time since the early 2000s, driven in part by the growth in Generative AI and increasing electrification of the economy. While we are constructive on Information Technology (IT) and Communication Services as longer-term thematic trends, we maintain our neutral view in the near term on elevated valuations and the recent rallies. We remain cautious on Materials, as demand is mixed and potential tariff impacts remain questionable. We have recently become more cautious on the Real Estate (RE) sector which consensus estimates suggest will post the most subdued earnings growth of any sector in the S&P 500 in 2026. The consumer has remained resilient overall, and we continue to see positive consumer spending trends from the higher-income cohort despite some pressure from high prices of specific goods and services. We remain more constructive on the Consumer Discretionary sector and less positive on the more defensive Consumer Staples sector, as inflation is well off the peak of recent years, consumer related stimulus is expected in the first half of 2026, and consumer income growth is generally solid.

This month, we upgraded Emerging Market Equities to slightly overweight from neutral. EM relative valuations still appear attractive. The Asia-Pacific market now constitutes close to 80% of total EM market capitalization, and we view the region as a major beneficiary of expected growth in Information Technology-related capital spending and the expanding adoption of AI. Currency strength relative to the U.S. dollar was a major contributor to the common currency outperformance of non-U.S. markets in 2025, and emerging Asian markets in particular also appear well-positioned to benefit from appreciation of undervalued exchange rates. China’s economy may nonetheless remain constrained by structural headwinds for the RE sector and weak household balance sheets. Smaller markets in Central and Eastern Europe should benefit from increased European Union (EU) fiscal outlays, with smaller markets in emerging Europe seeing support from EU defense and infrastructure spending. Market direction in Latin America, the Middle East, and Africa is likely to remain broadly tied to the direction of natural resource prices, with ongoing strength in metals prices representing a tailwind for mining-exposed resource producers. 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 (PCE), according to the United Nations, and ongoing convergence with developed economies should support GDP growth and corporate earnings over the longer-term. We favor active management¹ when investing in EM, as fundamentals differ across countries based on fiscal capacity, external funding needs, corporate governance and other factors.

This month, we downgraded International Developed to slight underweight from neutral, reflecting a weaker outlook for the UK and a positive outlook for Japan. European markets remain among the least exposed globally to Information Technology and related market segments and are therefore likely to experience limited gains on a relative basis from increased AI infrastructure spending and adoption. Manufacturing-led EU economies also remain at risk from growing competition from China in key industries. In the UK, lack of exposure to growth in AI spending and adoption represents a relative headwind, and higher business taxes from government budget represent a headwind for the corporate sector. The potential for faster interest rate hikes could represent a headwind for Japan but sustained positive inflation and corporate reforms remain fundamental supports. As aggregate net

Sector Valuations



Source: Bloomberg as of December 31, 2025. Please refer to index definitions at the end of this report. It is not possible to invest directly in an index.

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

energy importers, International Developed markets should also be more sensitive to the direction of energy prices. While we have recently become less constructive on International Developed Equities, we believe long-term investors should maintain some strategic exposure, 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 in mega-cap Technology stocks.

FIXED INCOME

We are slightly underweight Fixed Income within multi-asset class portfolios. We are constructive on Fixed Income, but our underweight is necessary to fund our Equity overweight. We are neutral across Fixed Income sectors in all-Fixed Income low-tax-sensitivity portfolios.

The Federal Open Market Committee (FOMC) cut rates for the third time in 2025 in December. The Fed also stopped draining liquidity by ending Quantitative Tightening and immediately started purchasing Treasury bills (\$40 billion per month) to alleviate strains in short-term markets, in line with our expectations for the Fed to manage risk and over-liquify markets.

While the Committee is divided on the correct near-term path for the fed funds rate, overall, we believe the Fed is focusing on the cooling employment market rather than quickly reducing inflation to 2%, which should be risk-positive for 2026. We continue to project range-bound yields given sticky inflation and real GDP remaining near or above 2% for the next few years. However, we specifically acknowledge that volatility may be high in either direction, especially as leadership of the FOMC will likely change with a new Fed chair appointment.

We maintain a neutral duration stance against expectations for slightly lower rates, but with high volatility and a dispersion of potential outcomes. Current nominal and real yields provide reasonable compensation for inflation and market risk. Longer-term Fixed Income provides meaningful returns relative to cash over longer time periods—despite somewhat lower long rates—and therefore diversifies equity risk with more stable income. We believe investors should move investment cash to their strategic duration target.

In multi-asset class portfolios, **we are slightly underweight Investment-grade Taxable, which includes U.S. Governments, in favor of Equities.** Real yields—that is to say, yields after expected inflation—are around 1.40% to 2.60% across the curve, the higher end of the range since 2008. Yields substantially higher than inflation is positive for savers.

In multi-asset class portfolios, **we are slightly underweight both Investment-grade Taxable, which includes U.S. Corporates, and Global High Yield, in favor of Equities.** Our view is driven by valuations that remain relatively expensive—partially offset by still compelling all-in yields that continue to support demand for high-quality Fixed Income.

Credit spreads, however, sit near the richer end of the spectrum. With IG spreads around 80 basis points (bps) and HY near 300 bps, the potential for further compression appears limited. This is the primary reason for our slightly cautious posture within multi-asset portfolios—there’s simply not much upside left.

Importantly, we are not calling for a dislocation. Near-term conditions still favor credit: Economic data has been “good enough,” fundamentals remain solid with healthy revenue and earnings growth, margins are resilient, and gross leverage is trending lower. Technicals remain the strongest argument for staying long credit. Even as all-in yields drift lower, credit remains yield-driven—and current levels are still attractive enough to draw buyers. One technical risk we are monitoring is a potential uptick in gross issuance this year, fueled by M&A activity and AI/data center capex. For now, this appears manageable.

In multi-asset class portfolios, **we are slightly underweight Investment-grade Taxable, which includes U.S. Mortgage-backed Securities (MBS), in favor of Equities.** MBS spreads compressed in 2025 and are now in line with other high-quality

FIXED INCOME WATCH LIST

- Impacts of reduced government spending and uncertainty about fiscal policies including tariffs
- U.S. short-term funding markets, with the interplay of quantitative tightening and drawdown of Treasury General Account
- Trend and level of U.S. nominal and real rates and inflation
- Fed and global central bank activity
- Global economic growth, especially with trade and tariff concerns
- Credit spreads

RISK CONSIDERATIONS

- Resilient or accelerating inflation
- Change in Fed policy stance
- Slowing economic growth or confidence based on uncertainty

Fixed Income sectors, particularly IG Corporates. While risks from duration extension and interest rate volatility have eased, valuations are less compelling, with spreads in the 20 bps to 25 bps range—significantly below their 10-year average. We remain attentive to potential government-sponsored enterprise privatization and banking deregulation, both of which could have implications for the MBS sector.

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 class 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 Strategies: Hedge Strategies (HS) returned 0.6% in November, extending 2025 year-to-date (YTD) gains to roughly 11%, marking one of the strongest full-year results since the Global Financial Crisis.² Equity Hedge (EH) strategies rose 0.8% for November and are now up 15.5% for the year. Fundamental EH managers have delivered their best alpha generation in more than a decade, with both long and short books contributing meaningfully over the full year. Quantitative EH approaches also performed well, navigating multiple rounds of factor rotations with consistent alpha capture. Meanwhile, Macro strategies continued to regain footing after a difficult start to the year marked by sharp reversals around shifting trade policy. As a group, HS offered strong, diversifying returns in 2025 and remain well positioned as investors look toward a more two-sided macro and policy backdrop in 2026.

Private Equity: Buyout Private Equity (PE) funds produced preliminary Q3 gains of about 2%, putting one-year IRRs near 9%. Venture and Growth strategies fared better, rising approximately 5% in Q3 and lifting one-year IRRs to 14%.³ Dealmaking re-accelerated in 2025, as debt costs have fallen while valuation multiples remain reasonable. Leverage levels—having compressed for several years—are now inching higher, supporting renewed transaction activity.⁴ Liquidity needs continue to drive robust demand for secondary solutions and net asset value financing, while Growth Equity remains well bid as VC-backed companies seek capital to extend runways or fund strategic M&A.

Private Credit (PC) also posted solid Q3 results, with preliminary returns near 2.4% and one-year IRRs above 9%.⁵ Yields compressed to roughly 9.7% in Q3 as spreads tightened to about 500 bps and dipped below that for competitive deals.⁶ While concerns about rising credit risk persist, lower policy rates may ultimately ease borrower stress and help stabilize defaults. Even so, return expectations for 2026 are likely to moderate—base rates are falling, and capital losses may emerge as underwriting normalizes. In addition, PC may face increased allocation pressure from PE: After a three-year stretch in which PC

HEDGE STRATEGIES

+	Equity Hedge (EH)
	Event Driven
	Relative Value
+	Macro
	EH will likely benefit from decent equity dispersion, driving alpha generation. Micro-dominated markets should be better for stock selection. Hedged approach appealing given high equity valuations.
	Macro appealing for low correlations to Equities/Fixed Income in uncertain policy environment.

PRIVATE EQUITY

	Buyout (BO)
+	Venture Capital (VC)/ Growth Equity (GE)
	Special Situations
	VC/GE expected to benefit if AI theme proves durable. Early-stage capital also tied to trend of companies staying private for longer and incubating next gen tech disruptors.
	BO to also expected to benefit from lower rates.

PRIVATE CREDIT

	Direct Lending (DL)
	Subordinated Capital
	Asset Based/Specialty Finance
	Neutral across PC. DL to see declining returns with lower rates and climbing credit losses. Positive: more PE deals should increase DL deployment opportunities, potentially with wider spreads.

+ symbol indicates the strategies CIO views as having the most favorable opportunity set for new investment within the Alts asset classes.

² HFR, Inc.
³ Cambridge Associates, Refinitiv EIKON.
⁴ PitchBook, Inc.
⁵ Cambridge Associates, Refinitiv EIKON.
⁶ BofA Global Research.

met or outperformed PE, relative performance is likely to favor PE in 2026, prompting some institutions to reduce overweight PC exposures.

Private Real Estate: Private Real Estate (PRE) remained steady through Q3. Commercial property prices rose 1.6% year over year in November, though momentum has slowed, and recent annualized gains point to a more modest pace of appreciation.⁷ PRE private funds—primarily value add and opportunistic—declined about 0.9% in Q3 on preliminary estimates, underscoring still fragile sentiment.⁸

Even so, several structural improvements are setting the stage for a firmer 2026. Deal activity for 2025 has already surpassed 2024, helped by a series of Fed rate cuts and more competitive lending conditions. Across most property types, financing is now materially easier to secure than it was two years ago, and both liquidity and pricing have begun to stabilize. With recession risk low and potential regulatory easing ahead, 2026 may be characterized by better lender liquidity, rising transaction volumes, tightening loan spreads, and clearer pricing. Sidelined owners and lenders who have delayed sales or restructurings may increasingly act, creating a positive feedback loop that supports greater market clarity and activity.

Infrastructure: Infrastructure private funds returned an estimated 3.4% in Q3, lifting one-year IRRs to about 10%.⁹ Despite a slowdown during the rate hike cycle, the asset class has maintained mid-to-high single-digit performance and continues to serve as a critical component of inflation-sensitive portfolios.

While investor focus often gravitates toward the semiconductor side of the AI boom, the more consequential opportunity may lie in the surge in energy demand required to power advanced AI systems. Existing infrastructure in many regions remains insufficient to meet this load. As a result, investment needs are growing across energy transmission networks, data centers, and advanced cooling technologies. These segments remain central themes for infrastructure investors positioning for the next wave of real asset demand.

Tangible Assets: Notwithstanding particular commodity demand and supply situations, we expect moderate upside pressures on commodity prices overall in coming quarters. Barring renewed geopolitical flareups, oil prices are likely to remain contained amid expectations for comfortable supply-demand conditions into late 2026. Given the central role of energy in commodity production and transportation costs, this should also help anchor broader commodity prices. On the other hand, further dollar depreciation—given its still elevated level on a real broad trade-weighted basis—is likely to provide tailwinds to commodity demand and pricing. Moreover, the global manufacturing cycle appears poised to rebound as tariff uncertainty fades, U.S. fiscal stimulus takes hold, and increased European government spending supports industrial activity. With inflation normalizing, the Fed is unlikely to restrain the economy for the foreseeable future. Accommodative monetary policy and stronger global growth should support metals prices going forward. Given their historical role as a medium of exchange and a store of value, gold and silver have traditionally been viewed as alternative reserve assets to the U.S. dollar and have tended to move inversely with the exchange rate value of the dollar over recent decades.

PRIVATE REAL ESTATE

Private Real Estate	
+	Infrastructure
	<ul style="list-style-type: none">Infrastructure tied to global trends of energy demand and digitization, with inflation-hedge characteristics.PRE should continue to stabilize with outlook improving.

TANGIBLE ASSETS

Commodities / Natural Resources	
+	symbol indicates the strategies CIO views as having the most favorable opportunity set for new investment within the Alts asset classes.

⁷ MSCI Real Capital Analytics.
⁸ Cambridge Associates, Refinitiv EIKON.
⁹ Cambridge Associates, Refinitiv EIKON

MACRO STRATEGY

- Consumer spending growth remains firm as unemployment claims remain low, job openings are plentiful relative to unemployment, wage and salary growth have remained solid, and tariff uncertainty faded. GDP growth is tracking around 3% for Q4, helped by strong consumer and business investment spending.
- Core PCE inflation has been stuck in a 2.5% to 3% range for over a year. Well-contained energy prices and housing price disinflation are helping to offset upward pressure from higher tariffs.
- Corporate profits are coming in strong fueled by the boom in AI spending and a pickup in global economic growth. Despite inching slightly lower, domestic profit margins remain around a 60-year high. The profit cycle is likely to be extended by tailwinds from fiscal stimulus and deregulation, all supportive of economic growth and risk assets. Equity market leadership, tight credit spreads, normalized volatility and a softening dollar suggest solid growth ahead.

ECONOMIC FORECASTS (AS OF 1/2/2026)

	Q4 2025E	2025E	Q1 2026E	Q2 2026E	Q3 2026E	Q4 2026E	2026E
Real global GDP (% y/y annualized)	-	3.4	-	-	-	-	3.3
Real U.S. GDP (% q/q annualized)	1.4	2.0	2.5	2.8	2.3	2.0	2.4
CPI inflation (% y/y)	3.0	2.8	2.9	3.0	2.9	2.6	2.9
Core CPI inflation (% y/y)	3.0	3.0	2.9	3.1	2.9	2.8	2.9
Unemployment rate (%)	4.5	4.3	4.5	4.5	4.4	4.3	4.5
Fed funds rate, end period (%)	3.63	3.63	3.63	3.38	3.13	3.13	3.13

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 January 6, 2026. 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 2026 EARNINGS PER SHARE (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 2026 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.

2026 EPS	EPS Forward P/E (Next 12 months)				
	22.0x	23.0x	24.0x	25.0x	26.0x
\$330	7,260	7,590	7,920	8,250	8,580
\$320	7,040	7,360	7,680	8,000	8,320
\$310	6,820	7,130	7,440	7,750	8,060
\$300	6,600	6,900	7,200	7,500	7,800
\$290	6,380	6,670	6,960	7,250	7,540
\$280	6,160	6,440	6,720	7,000	7,280
\$270	5,940	6,210	6,480	6,750	7,020

For illustrative purposes only. Source: Chief Investment Office as of January 6, 2026.

CIO ASSET CLASS VIEWS AS OF JANUARY 6, 2026

Asset Class	CIO View					Comments
	Underweight	Neutral	Overweight			
Equities	●	●	●	●	●	We are overweight Equities and continue to view weakness as a buying opportunity for long-term investors. We are overweight the U.S. overweight EM, and underweight International Developed.
U.S. Large-cap	●	●	●	●	●	Large-caps continue to look attractive on solid fundamentals, strong FCF and the ability to produce healthy shareholder payouts. We recently adjusted the magnitude of our Large-cap exposure to reflect a more equal balance between Large-cap Value and Large-cap Growth in portfolios.
U.S. Mid-cap	●	●	●	●	●	We remain constructive on the outlook for Mid-caps and have seen early signs of earnings improvements in this area of Equities.
U.S. Small-cap	●	●	●	●	●	Interest rate cuts should be supportive for Small-caps, the earnings outlook has recently become more constructive, and potential deregulation is a tailwind. We continue to suggest a balance of Value and Growth factors.
International Developed	●	●	●	●	●	We are slightly underweight International Developed Equities. Europe is likely to see limited relative gains from expansion in AI given lack of market exposure. Higher rates may represent a near-term headwind for Japan despite fundamental support from corporate sector reforms.
Emerging Markets	●	●	●	●	●	We are slightly overweight EM overall, with the heavyweight Asia region particularly well-positioned to benefit from exposure to growth sectors and exchange rate appreciation relative to smaller markets in Europe, Latin America, the Middle East, and Africa.
International						
North America	●	●	●	●	●	While the magnitude of our overweight to North America has been slightly reduced, the U.S. remains our preferred region relative to the rest of the world. The U.S. maintains balance sheet strength, better fundamentals for consumer spending, and healthy shareholder payouts.
Eurozone	●	●	●	●	●	Lack of market exposure to growth in AI spending and adoption represents a relative headwind. Risks remain from growing competition with China in key industries.
U.K.	●	●	●	●	●	We are slightly underweight the U.K. Lack of exposure to growth in AI spending and adoption represents a relative headwind. Higher business taxes from government budget represent a headwind for the corporate sector.
Japan	●	●	●	●	●	Sustained positive inflation and official efforts to increase corporate returns to shareholders remain fundamental support. Potential for faster interest rate hikes could represent a potential headwind for the local market.
Asia Pac ex-Japan*	●	●	●	●	●	The outlook has become more constrictive as Asia-Pacific now constitutes close to 80% of total EM market capitalization, and we view the region as a major beneficiary of expected growth in Information Technology-related capital spending and the expanding adoption of AI. Longer term, the outlook remains dampened by exposure to ongoing structural constraints for China's economy.
Fixed Income	●	●	●	●	●	Yields are attractive, providing good diversification for multi-asset class portfolios and reasonable income. Neutral duration recommended.
U.S. Investment-grade Taxable	●	●	●	●	●	Nominal and real rates are very attractive in a short- and long-term historical context. Neutral positioning with no significant sector tilts within all-Fixed Income portfolios.
International	●	●	●	●	●	International rates markets are at normal valuation levels on a U.S. dollar-hedged basis.
Global High Yield Taxable	●	●	●	●	●	Similar to IG, HY valuations remain expensive—although not quite as rich as IG from a historical perspective. However, a positive macroeconomic environment may limit spread volatility and credit losses. Tight valuations from a spread and yield perspective leave us at a slight underweight. Within a HY allocation, we continue to suggest a balanced mix between loans and bonds.

*Asia Pac ex-Japan refers to the geographic area surrounding the Pacific Ocean. The Asia Pac ex-Japan 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 JANUARY 6, 2026

The CIO Equity sector view is developed by applying a multi-input process combining the CIO's factor views and fundamental bottom-up industry outlook with top-down macro-economic changes and trends. The factor approach emphasizes valuation and momentum as key inputs, with a fundamental overlay taking into consideration forward-looking views of growth, profits, policy, events and sentiment as well as inclusion of certain investment themes. BofA Global Research's sector strategy views are also captured as an input into the CIO process. Our sector views are developed with a 12- to 18-month outlook but are revisited monthly by the GWIM Investment Strategy Committee.

Sector	CIO View					Comments
	Underweight	Neutral	Overweight			
Financials	●	●	●	●	●	We expect increased activity supported by deregulation and a positive net interest income outlook for Financials. Interest rate cuts, along with a steeper yield curve, can help improve credit risk and default rates going forward. Overall, valuation is attractive, and earnings-driven momentum should continue to improve as rates move lower. Risk Considerations: 1) a persistently inverted yield curve, 2) interest rate volatility, 3) a deep credit cycle for Commercial RE, 4) lost market share to non-bank lenders.
Utilities	●	●	●	●	●	We favor exposure to Utilities on accelerating electricity demand forecasts driven by the AI boom which looks to be a positive long-term tailwind for the sector, catalyzing growing electricity demand for the first time since the early 2000s and supporting even higher investment in power generation and T&D. We view the need for increasing investment in electric infrastructure as structural and not dependent on any specific piece of legislation. Valuations based on forward price-earnings multiples are attractive compared to the broader S&P 500 index and momentum is neutral. Risk Considerations: 1) affordability concerns driving adverse regulatory or legislative solutions, 2) slower power demand growth than forecast, 3) power outage events.
Consumer Discretionary	●	●	●	●	●	With a resilient consumer, a relatively solid job market, lower interest rates on the horizon, consumer tax stimulus coming in 2026 and a positive economic backdrop, we are overweight Consumer Discretionary. Consumers are finding ways to alter their budgets to accommodate both experiences and necessities. 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. Valuation for the sector is elevated with momentum neutral. Risk Considerations: 1) potential for an economic slowdown, 2) spikes in energy prices or interest rates, 3) sustained weakness in job market.
Industrials	●	●	●	●	●	We are overweight Industrials as capex budgets continue to grow, some uncertainties have been removed, 100% bonus depreciation has been enacted again, and infrastructure plans are accelerating compared to recent years. Longer term there are multiple thematic drivers for Industrials over the next three to five years including multi-year backlogs for commercial aerospace, evolution of generative AI, increased power demand and improving outlooks for international defense budgets outside the U.S. Valuation is elevated, and momentum is neutral. Risk Considerations: 1) short-cycle recovery timing continues to be pushed back, 2) inflation resurgence drives up input costs, pressuring margins, 3) continued supply chain stress.
Communication Services	●	●	●	●	●	We remain neutral on the Communication Services sector, based on three factors 1) Valuation multiples are still reasonable given earnings growth; 2) Earnings estimates have been moving higher for the sector leaders; and 3) More importantly, broad cost-reduction plans could create potential earnings upside. While valuations for top companies are rich, overall sector valuation is aligned with the market, and momentum remains neutral. Risk Considerations: 1) regulatory and anti-trust risks, 2) capex ramps for AI investments that limit EPS and FCF, 3) lower engagement pressuring growth.
Information Technology	●	●	●	●	●	We remain neutral on the IT sector due to elevated valuations, crowded positioning, and margin risks, despite strong earnings growth and AI-driven flows for mega-cap tech stocks. Long-term outlook remains positive for Cloud, AI, data centers, and semiconductors, but investors should focus on high-quality companies and add on market weakness. Risk Considerations: 1) China exposure and trade wars, 2) supply chain constraints, 3) AI monetization and overspend, 4) premium valuations.
Healthcare	●	●	●	●	●	We are increasing exposure to the Healthcare sector to neutral. Policy uncertainty has been a significant overhang for the Healthcare sector for years, but following drug pricing agreements in recent months, some clarity on Healthcare issues and policy and proposed expedited timelines for new product development provides potential upside. The medtech subsector is our strongest conviction, while distributors, diagnostics, vision and dental remain intriguing areas for investment. We find the large biopharma, diabetes, and tools and equipment subsectors to be areas where stock selection will likely be most important. Looking out toward 2030, we continue to view the Healthcare sector as one loaded with innovation and opportunity. Valuation is fair and momentum recently improved. Risk Considerations: 1) adjustments to the Affordable Care Act without another plan in place and uncertainty, 2) impact of 2025 tax bill on drug price negotiations.
Real Estate	●	●	●	●	●	We downgraded RE this month. Despite an easing Fed, 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 are underweight sector exposure. 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. Valuation is low and momentum has declined. Risk Considerations: 1) spike in interest rates and borrowing costs, 2) declining demand for CRE in over supplied markets, 3) workout problems.
Consumer Staples	●	●	●	●	●	The Consumer Staples sector has faced headwinds from tariffs, higher input costs, and weaker earnings growth, while consumers increasingly trade down and favor private labels, pressuring branded product profitability. Although momentum is weak, fair-to-undervalued valuations and early signs of stabilization—along with AI-driven cost efficiencies—could support better-than-expected earnings in 2026. Risk Considerations: 1) soft demand across consumer-packaged goods, 2) consumer trade down and substitution, 3) ongoing growth in private label and store brands.

Sector	CIO View			Comments
	Underweight	Neutral	Overweight	
Materials	●	●	●	Pockets of slower global growth and mixed commodity price outlooks factor into our continued cautious view on the Materials sector. We still see some signs of oversupply in specific areas. Concerns remain about too much new capacity in the future for petrochemicals and commodity chemicals with questions regarding demand levels for 2026. We still see some longer-term tailwinds for demand, such as AI growth and power buildouts for copper demand and strong investment flows into precious metals. The underlying sector valuation and momentum are neutral. Risk Considerations: 1) slower global economic growth, 2) weaker residential and non-residential construction, 3) oversupplied materials markets.
Energy	●	●	●	We remain cautious on the Energy sector on the growing oil supply outlook, and potential for weaker energy cash flows and earnings in coming quarters. OPEC+ recently changed their policy by ending the production cuts—this is an important change in policy for energy markets. Longer term, secular headwinds still confront the sector, including the transition to clean energy, lower renewable energy costs, declining short-cycle inventories and sustainability-focused 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 neutral momentum. Risk Considerations: 1) lower oil and natural gas commodity prices, 2) slower global energy demand.

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 JANUARY 6, 2026

The following themes and subthemes encapsulate the Chief Investment Office's thinking on some of the most convincing undercurrents of future areas of growth around: Transformative Innovation, Resilient Infrastructure, Future Security and Changing Demographics. These themes carry long-term implications for economic growth, the cost of capital and global earnings. We'd consider exposure to these themes a key ingredient to investing.

Transformative Innovation

Generative Artificial Intelligence: Power demand/generation, productivity wave
Robotics/Automation: Industrial/service robotics
Digitization: Cloud computing, data analytics, digital payments, internet of things, augmented reality and virtual reality, electrified transportation

Resilient Infrastructure

Energy Addition: Nuclear renaissance, solar, natural gas generation, hydrogen, battery storage
Utility Infrastructure: Data centers, grid (transmission/distribution), thermal management, water management, power generation
Supply Chain Reconfiguration: Onshoring/nearshoring buildout

Future Security

Aerospace & Defense: Remilitarization, space, drones
Cybersecurity: Network security, cloud evolution/security, endpoint security
Resource Protectionism: Food/agriculture/commodity scarcity (water), natural resources, metals/mining

Changing Demographics

Healthcare Innovation: Ageing, longevity, drug discovery, biotechnology (gene therapy, personalized medicine)
Great Wealth Transfer: Wealth creation, NextGen consumer/investor base
Global Labor Force Distribution: Immigration/migration, global fertility bust, automation "cobots"

Index Definitions

Securities indexes assume reinvestment of all distributions and interest payments. Indexes are unmanaged and do not take into account fees or expenses. It is not possible to invest directly in an index. Indexes are all based in U.S. dollars.

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

MSCI Europe Index is an equity index which tracks the return of stocks from European developed markets.

NASDAQ Index is a market capitalization-weighted index encompassing over 2,500 stocks, with a strong focus on the technology sector.

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

Important Disclosures

Investing involves risk, including the possible loss of principal. Past performance is no guarantee of future results.

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The Chief Investment Office (CIO) provides thought leadership on wealth management, investment strategy and global markets; portfolio management solutions; due diligence; and solutions oversight and data analytics. CIO viewpoints are developed for Bank of America Private Bank, a division of Bank of America, N.A., ("Bank of America") and Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S" or "Merrill"), a registered broker-dealer, registered investment adviser and a wholly owned subsidiary of Bank of America Corporation ("BoFA Corp.").

The Global Wealth & Investment Management Investment Strategy Committee (GWIM ISC) is responsible for developing and coordinating recommendations for short-term and long-term investment strategy and market views encompassing markets, economic indicators, asset classes and other market-related projections affecting GWIM.

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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.

Dividend payments are not guaranteed, and are paid only when declared by an issuer's board of directors. The amount of a dividend payment, if any, can vary over time.

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. Investing in Gold involves special risks, including market price fluctuations, regulatory changes, interest rate changes, credit risk, economic changes, and the impact of adverse political or financial factors.

Investments in Infrastructure Assets will be subject to risks incidental to owning and operating infrastructure projects, including risks associated with the general economic climate, geographic or market concentration, government regulations and fluctuations in interest rates. The industries targeted for investment may be highly regulated by governmental agencies. Such regulations may impact an investor's ability to acquire, dispose of and/or manage investments.

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.

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