CHIEF INVESTMENT OFFICE

Viewpoint

2025 Year Ahead: The Advancement Of The Asset-Light Era

December 2024

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

IN BRIEF

- As we close out this calendar year, the concerns of high deficits and government debt, potential policy initiatives from the next Administration, elevated geopolitical risk, and questions surrounding Federal Reserve (Fed) actions are all top of mind. Nonetheless, we find bright spots that break through to maintain the bull market advance, in our view.
- We maintain our tactical Equity overweight relative to Fixed Income with the U.S. as our preferred Equity region relative to the rest of the world given a broad-based and continuous earnings recovery, resilient consumer, and a solid U.S. growth outlook.
- Our highest conviction Fixed Income call remains that the yield curve will normalize as short rates move lower. With that in mind, investors should consider moving out investable cash in Fixed Income to their strategic duration target as cash yields are likely to decrease from here while the short-term backup in yields may be an opportunity.

In 2025, asset allocation is fully back. Diversification across the asset and sub-asset class spectrum drives an attractive combination of risk and return in our opinion. Large unknowns mixed with growth enthusiasm favor an Equity overweight as Fixed Income should provide some balance with stable income and Alternatives, for qualified investors, helping to support our cross market and thematic views.

Lower fixed costs, less credit sensitivity, double digit growth in earnings per share (EPS), broad participation across the market, more flexible business models, and higher productivity will be used to drive the next bull market advance, in our view.

The cash rich, asset-light companies need asset-heavy things (power generation, infrastructure) to support the advancement of productivity initiatives. This barbell allows for broader participation underneath the Equity indexes.

We believe that S&P 500 profits are likely to rise double digit percentages in 2025, which is the main driver for returns in 2025, not multiple expansion. For the S&P 500, specifically, expectations are for around 6,700 by year end 2025.

In the very short term, in the post-Thanksgiving period, we expect the mini melt up phase to close out this year on profit enthusiasm, even in the face of tariff concerns.

BofA Global Research baseline scenario for 2025 is that global real economic growth remains broadly stable around 3.2%, led by the U.S. at 2.4%. In turn, we expect higher inflation with core personal consumption expenditures (PCE) proving sticky between 2.5% and 3.0%, and a higher Fed funds terminal rate of 3.75-4.00% (25 basis points (bps) cuts in December 2024, March, and June 2025). Finally, the expectations are for the 10-year Treasury yield to hover

CIO ASSET CLASS VIEWS

This month, the Global Wealth & Investment Management Investment Strategy Committee (GWIM ISC) did not make any tactical asset allocation adjustments. In a well-diversified portfolio, we maintain an overweight to Equities with a preference for U.S. Equities, both Large- and Small-caps, relative to the rest of the world, while still favoring a significant allocation to bonds. Given any potentially weak equity market periods, leverage portfolio rebalancing to correct areas of over/under exposure.

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	CIO View				
Asset Class	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 Funds					
Private Equity					
Tangible Assets / Commodities					
Real Estate					
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.

around 4.25% and oil prices (West Texas Intermediate) to average about $61 per barrel for 2025.

As we move through many unknowns, we look for areas of high conviction and trends that we think should prevail throughout 2025 and into 2026. While the concerns of high deficits and government debt, potential policy initiatives, elevated geopolitical risk, and questions surrounding Fed actions remain top of mind, we find bright spots that break through and maintain the bull market advance, in our view.

We highlight our top Five For 2025:

1. The U.S. corporate profit cycle powers on with attractive growth expected again in 2025. We expect double-digit growth.
2. The equity markets head into phase two of rebalancing, which would allow for broader participation as the fundamentals are likely to improve across the "rest of the best".
3. Lower short- and intermediate-term interest rates as we expect the Fed to cut rates, which should provide some relief to Small-capitalization shares and support a merger and acquisition (M&A) cycle in Mid-capitalization stocks.
4. A steeper yield curve would provide more normalcy in the Fixed Income markets.
5. Disruptive Innovation led by the Artificial Intelligence (AI) revolution could begin to unfold across a variety of industry groups helping to sustain solid corporate profit margins, increase productivity measurably, and support the build-out of the power generation and infrastructure themes. In this area we focus on software to begin 2025 as hardware spending has been built up front in 2024 to a large scale.

All of the above sustains the global competitiveness and market attractiveness of the U.S. relative to the rest of the world, in our view. Non-U.S. markets have the valuation advantage versus the U.S. but their economies are not as dynamic and lack the productivity tailwinds needed to balance out above average inflation. The cyclicality of non-U.S. markets is a bonus as we expect growth to be solid but uncertainty over the proposed placement of tariffs creates too many gray clouds for us at this time.

The Five For 2025 are all part of our next decade thesis of the Advancement of the Asset-Light Era. "Asset-light" companies tend to have less fixed costs for machinery, infrastructure, and labor which translates into greater flexibility and more efficient use of capital to invest. 2025 is the foundational launchpad year where this overriding theme becomes clear. In this era the economy and corporate America increasingly become more asset-light given rapid innovation and the continued focus on experience spending. At the same time, cash rich, asset-light companies are increasingly in need of asset heavy infrastructure to advance their growth. This combination, along with the fact that investment demand in a wide variety of assets should increase as the need to invest more for retirement, should support our view of rising asset prices, in general, in the years ahead.

While it is natural to focus on the known unknowns, we shift our attention to our Five for 2025. We maintain our tactical Equity overweight relative to Fixed Income, our diversified, balanced approach in Growth versus Value, and continue to favor the U.S. relative to the rest of the world as we close out the choppiness at the end of 2024. We emphasize below the index opportunities as broader participation gathers momentum. We prefer cyclicals over defensive sectors in general and believe our patient Small- and Mid-capitalization favorable view is just beginning.

What do we expect from the macro landscape as the new administration takes over in 2025? The new team coming to Washington D.C. in January is expected to favor private sector growth over big government spending programs funded by higher tax rates. This helps explain why we've seen one of the biggest post-election rallies in the equity market in recent memory. The outlook for profits and growth in a lower tax, reduced regulation economy is stronger. A number one priority for the new Republican majority will be to extend the Trump tax cuts from 2017 which are set to expire at the end of 2025.

A major concern with the deficit averaging about eight percent of gross domestic product (GDP) since 2020 is how to pay for the extension of these lower tax rates. Treasury Secretary Nominee Scott Bessent has borrowed a page from Abenomics's[1] three arrows in discussions of the new

[1] Abenomics is a set of economic policies implemented by the Japanese government under Prime Minister Shinzo Abe from 2012 to 2020.

administration's goals with a 3-3-3 approach to policy including goals of reaching a 3% deficit (down from about 6% currently), a 3% real GDP growth rate and a 3 million barrels per day increase in domestic oil production (to keep energy prices and inflation low).

Since extending the Trump tax cuts might widen the deficit, bringing it under control will require spending cuts and additional revenue sources. The new Department of Government Efficiency (DOGE) is designed, according to the latest discussions, to create cost efficiencies and potentially boost productivity in the government sector. AI is also expected to boost productivity which has started to trend higher in recent years averaging almost 2% since 2019, compared to about 1% in the prior 20 years. This combination is needed to boost real GDP growth towards the target of 3%.

Productivity growth around 2% was the key reason why U.S. GDP growth averaged around 3% before the drop to about 1.8% that Federal Reserve and consensus economists now consider the potential growth rate for the economy. Growth has been averaging close to 3% recently, surprising the consensus and the Fed looking for a slowdown this year based on the presumption that monetary policy is restrictive.

Instead, the economy and profit trends have reaccelerated since Fed Chairman Powell pivoted about a year ago saying the Fed was finished raising rates and the next moves would be cuts which did finally begin in September. Since that pivot the stock market is up over 25% from its lows, profits and the outlook for profits have trended higher, and measures of financial conditions such as credit spreads have eased substantially. With unemployment still near generational lows and growth picking up, it's highly unusual for the Fed to be cutting rates.

It's also highly unusual for deficit spending to be so high with unemployment so low. The surprisingly strong economy is confirmed by the BofA Global Research Global Wave[2] which has risen the past year since the Fed pivot causing the Federal Open Market Committee (FOMC) to backpedal on its view that monetary policy is restrictive.

Views of the neutral policy rate have risen as a result and are approaching the 4% mark. Given the magnitude of the deficit problem and the desire to keep tax rates low, another revenue source is necessary to halve the deficit from current levels. Spending efficiencies can only go so far. This is where tariffs may help, albeit this is not yet known of how much, on what, and where.

The first major legislation passed by the new United States Congress after the constitution was ratified was the Tariff Act of 1789. The Act imposed a 5% tax on many imports and a differential duty that was higher for foreign ships than U.S. ships. Tariffs were the main revenue source for the U.S. government until 1913 with domestic excise taxes and duties also imposed. There was no income tax until 1913. During those years the U.S. economy progressed at a healthy clip despite the reliance on tariffs to fund the government.

There are many ways to apply tariffs because they can achieve many purposes, according to history.

One frequent objection to tariffs is they are believed to be inflationary. Events in the past suggest the contrary. Like any tax, a tariff initially raises the price of the taxed item. Unless the Fed accommodates the higher price with easier money, demand for other things is reduced when the tariff good price rises causing downward pressure on other prices.

This was evident in the 1970s when the Fed accommodated the Organization of the Petroleum Exporting Countries (OPEC) oil shocks with more money and a general inflation ensued, while Japan, to the contrary, did not accommodate the second OPEC price shock and inflation did not follow there. Inflation is a monetary phenomenon at its core not caused by tariffs, taxes, wages, or supply chain snafus unless there is too much money chasing too few goods.

In the same breath, some have touted that the inflationary consequences of tariffs bemoan the impact of the 1930 Smoot-Hawley Tariffs on the Great Depression. Yet the Smoot-Hawley Tariffs were followed by one of the greatest deflationary periods in U.S. history as price indices fell over 30% in the ensuing four years (as did the money supply). Without monetary

[2] The Global Wave is a model used by BofA Merrill Lynch (BofAML) Global Research to assess global economic trends and their potential impact on equity markets. The model tracks seven indexes that represent different aspects of the global economy, and together form a leading indicator.

accommodation, higher tariffs, like higher taxes are more than likely a drag on growth and hence deflationary.

Aside from their restrictive effect on trade, tariffs redirect demand from the taxed item or country to the untaxed domestic item that satisfies the same demand. The threat of much higher tariffs on foreign goods coming to the U.S. helps explain the growing gap between U.S. Equities performance and that of other countries which have generally declined since the U.S. elections.

Finally, with a still-wide deficit and easy financial conditions mixed with the potential for less regulation and lower taxes, inflation could be closer to 3% than 2% in the coming years. "Core" Consumer Price Index (CPI) and "core" Personal Consumption Expenditures (PCE) have already been stalled at 3.3% and 2.8%, respectively, on a year-over-year (YoY) basis since early in the summer. In a stronger U.S. economy this adds up to nominal growth in the 5% to 7% range compared to barely 4%, on average, in the two decades before the pandemic. That translates into a stronger profits' environment especially in a friendlier regulatory regime with a bias toward domestic growth. A stronger profits environment in the U.S. supports our overweight to Equities, U.S. relative to the rest of the world, and our Small- and Mid-capitalization industrial renaissance focus.

What are some of the more actionable investment themes for 2025 and beyond? Which ones may take longer to develop? Now at the midpoint of the decade, tailwinds continue to build for a number of themes and secular stories likely to play out in the coming years. The buildout of AI, the increasingly varied energy mix, and security of supply chains spurred by political directives are three examples of themes likely to provide actionable investment opportunities over the back half of this decade.

Despite concerns around AI overinvesting and its monetization, AI infrastructure spending remains robust thanks to capital expenditures by the hyperscalers, a handful of large-scale data center companies that provide cloud infrastructure and services. Over the near-term, opportunities could extend from the still-significant growth in earnings for AI enablers such as chip companies and cloud service providers to growth in AI business applications. Current investment spans data center real estate, utility infrastructure and construction and thermal management to name some beneficiaries of the multiyear, heavily capital-intensive buildout. Much longer term in our view to be fully realized are the AI benefits to productivity growth across the real economy.

Of strategic matters, future energy production increasingly hinges on the inclusivity of additional sources to bolster a reliable energy system. This entails more natural gas power generation, as well as improved/shorter interconnections queues owing to lower permitting hurdles, more deregulation and additional capex on transmission and distribution infrastructure. A tech-fueled nuclear renaissance is further out on the horizon, including innovation around small module reactors—another costly pursuit being amplified by Big Tech. Elsewhere, nationalist industrial policies, resource protectionism, and government calls for onshoring of manufacturing capacity have placed a premium on hard assets, notably industrial metals and minerals. Geopolitical tensions augers for owning hard power—or defense and cybersecurity leaders. It's our view that gaining exposure to these thematic areas can complement a well-diversified portfolio as the back half of this decade unfolds.

What does the first 100 days look like in terms of what the new Administration would like to get done? President-elect Trump has an ambitious 100-day agenda. We address some of the major priorities below:

Tariffs—The President-elect has promised to impose tariffs on "day 1" of his administration. Investors should take that promise seriously: tariffs are going up. The breadth and significance of the tariffs remain to be seen. Targeted and limited tariffs (on a subset of a country's goods) are generally within presidential powers, so limited (or incremental) tariffs on China and other countries are likely. Threatened tariffs on Mexico and Canada are more complicated (due to the United States-Mexico-Canada Agreement (USMCA)) and may be a negotiating tactic to curb immigration (another 100-day priority). Trump's nomination of Jamieson Greer indicates he is serious about imposing tariffs. But an across-the-board tariff on all imports may exceed his authority and therefore is either unlikely or exposed to judicial review.

Taxes—Republicans have targeted the first 100 days (end of April 2025) to pass a budget resolution which would kick off the broad spending instructions for various congressional committees for purposes of enacting a tax bill. While it may be possible to authorize a reconciliation bill within that timeframe, it is highly unlikely that a tax bill can be passed by then. Given the complexity, scope and cost of extending the 2017 Tax Act and the difficulty of finding revenue offsets and spending cuts, we think a more realistic timeframe for passing a tax bill would be late summer or early fall. A very narrow majority in the House—giving nearly every House Republican a veto power—could make the legislative process even more time-consuming and unpredictable.

Regulations— There will be an emphasis not only on limiting new regulations but also on canceling recently passed regulations. Regulations issued within 60 days prior to the end of the current session of Congress (around the beginning of August 2024) can be disapproved by the new Republican Congress under the Congressional Review Act (CRA), rendering such regulations to have no force or effect. During Trump's first term, the Congressional Review Act was used 16 times to eliminate regulations enacted by agencies under President Obama. Expect some regulations passed under Biden's presidency to be cancelled.

Debt Ceiling—The Federal government reaches its borrowing limit on January 2, 2025. However extraordinary measures can be used to fund the government in lieu of additional borrowing after hitting the ceiling. Raising the borrowing limit will not be addressed within the first 100 days, but will be by the time extraordinary measures run out in the late summer or early fall.

Border—President Trump will likely act immediately to reduce illegal immigration via executive orders. Other measures may take more time as they move through the regulatory process. Additional resources for securing the border will likely come in a reconciliation bill (see Taxes above), but that will not pass within the first 100 days. Deporting unauthorized immigrants will cost significant sums and may be possible but would likely be limited to those who have committed crimes.

Clean Energy Tax Credits—The Inflation Reduction Act (IRA) ushered in significant clean energy subsidies and tax credits that have proven far more expensive than originally projected. While many subsidies are in jeopardy, there will likely be Republican pushback since many clean energy projects are in Republican-controlled districts. We expect significant changes to Electric Vehicle (EV) tax credits as an offset to the tax bill extending the 2017 tax act (see above).

Distractions and Speedbumps—Not all will go smoothly within the first 100 days. Government funding authorized under the Continuing Resolution (CR) passed in late September, runs out on December 20. If the current Congress cannot pass appropriations bills for fiscal 2025 before then, another short-term CR will be passed which would likely delay the funding decisions to March 2025. If that is the case, passing the fiscal 2025 spending bills in the new Congress will be an agenda- and time-consuming distraction. There are other potential speedbumps on the road to the President's 100-day agenda. Controversial nominations could distract the Senate with prolonged hearings. In the House, nearly all Republican votes are needed to pass legislation (assuming no Democratic support) due to a near historically narrow majority. Complicating matters will be the resignation of three House Republicans seeking to join the administration, which could mean a single House Republican can derail the agenda.

Valuations are rich but stocks are grinding ever higher. How should we be positioning U.S. Equities at these levels from the Chief Investment Office (CIO) perspective? Are we worried about the high concentration in the equity markets? What's our view on broader participation in 2025? Equity valuations are stretched above long-term averages and may remain elevated relative to history, considering that this market has significantly different core drivers, factors, and inputs compared to past cycles. Markets also remain highly concentrated in a select few mega-cap names, with the seven largest companies in the S&P 500 representing about 30% of the index's market cap. Looking forward, we expect equity markets to enter the next phase of the current bull market, which would allow for broader participation as fundamentals improve across the "rest of the best". In our view, continued but broader earnings growth will be key to wider sector participation in the next leg of the equity rally. Seven of the eleven S&P 500 sectors saw YoY earnings growth in Q3 and all eleven sectors are expected to see positive earnings growth by mid-2025. Record amounts of cash on the sidelines may begin to funnel into areas like Small-caps and Mid-caps, particularly considering the constructive view on economic growth and the infrastructure buildout. We also see the potential for disruptive innovation led by AI to unfold across a variety of industry groups, helping to sustain margins and increase productivity.

We continue to emphasize the importance of maintaining a fully invested portfolio with a high level of diversification as it relates to holdings size, market capitalization, and style, especially following periods of high market concentration. At these levels, investors could consider adding exposure to areas that trade at a relative discount and may benefit from cyclical forces gaining traction, like Value and Small-cap.

For a new client or one that is significantly underinvested across the board in stocks, where would we suggest putting dollars to work and timeframe? Investing at all-time highs can understandably create discomfort for investors who have cash to put to work, keeping investors on the sidelines and underinvested relative to their strategic targets. History suggests attempting to time the market while sitting in cash for too long could be a costly strategy. Investors who had missed the 10 best days of S&P 500 returns in the 2010s would have only realized 95% compared to 190% for the full decade.[3] Also, the odds cash beat stocks have historically declined the longer an investor held cash. In fact, in every 15- and 20-year holding period in the last four decades, stocks always outperformed cash.[4]

Over the medium term, U.S. Equities could see more potential upside as we expect improvements in key fundamentals including corporate earnings, economic activity, and the level of interest rates. We believe that we are only in the beginning stages of the AI-led technological revolution and expect this shift to span multiple years.

To navigate this environment, we emphasize a disciplined investment approach that focuses on an optimal mix of diversified assets. We suggest using systematic and opportunistic rebalancing and suggest using new money to build back exposures in areas where there may be gaps in the portfolio. On a tactical basis, we maintain a slight overweight to stocks over bonds, with a preference for U.S. Equities and favor both Large- and Small-caps and a balanced approach to Growth and Value. Investors should maintain broad exposure across sectors in their portfolio, though cyclical, interest rate-sensitive sectors may be potential areas to emphasize at this stage of the market cycle. Incorporating thematic exposures may also be a prudent portfolio consideration for long-term investors.

Is the outperformance of U.S. Equities relative to the rest of the world expected to continue in 2025 and the second half of this decade? Both international developed and emerging equity markets underperformed the U.S. in 2024, and we would expect this divergence to persist in 2025 particularly under the policy agenda of the new U.S. administration. The prospect of new U.S. import tariffs on overseas trading partners would represent a relative headwind for international markets, even in the event that they were to provoke retaliatory policies from foreign governments. The U.S. remains far less trade-exposed than other major economies around the world, particularly in goods exports where the tariffs would be levied. By contrast, key markets like Mexico, Europe, China and the rest of emerging Asia would be far more vulnerable to new export barriers; though U.S. dollar strength would nonetheless partly offset the negative impact of tariffs on foreign exporters owing to the consequent decline in the underlying price of their exports in dollar terms. Europe, in particular, is among the most trade-exposed economies in the world through autos and capital goods exports, and would see its growth further undermined by the imposition of U.S. tariffs. Geopolitical risks stemming from the potential for less U.S. defense support could also serve to weaken cohesion across European Union member countries, potentially increasing local credit risk. Japan remains the only major economy in monetary tightening mode (with the potential for the pace of rate hikes to quicken should the yen weaken further). But we continue to expect local drivers from sustained positive inflation and corporate reforms to play a key role in market direction.

Emerging Markets (EM) remain dominated by their two largest economies of China and India, which now account for close to 50% of total EM market capitalization. The monetary and fiscal support plans unveiled by leadership in China in late September sparked a major rally in its equity market from depressed valuation levels. But subsequent measures so far appear insufficient to provide a significant boost to growth, and activity is likely to remain constrained on a structural basis by headwinds from the real estate sector, weak household balance sheets, a tighter domestic regulatory environment and global export controls. Meanwhile India

[3] BofA Global Research. Data as of September 30, 2024.
[4] Chief Investment Office, Bloomberg. Data as of November 30, 2024. Cash = ICE BofA U.S. 3-month Treasury Bill Index. Stocks = S&P 500. Based on rolling monthly total returns since 1979.

should continue to be supported by growth tailwinds from the digitization of the local economy, an expanding domestic consumer class, and the relocation of global manufacturing supply chains. For EM more broadly, we expect only a limited positive impact from Fed rate cuts given stronger fundamentals and more balanced current account positions than in past cycles. Therefore, despite relatively attractive valuations in non-U.S. Equities, we continue to favor the U.S. over international equity markets on a tactical basis. And over the longer term, the U.S. is likely to remain better-positioned relative to international markets due to its sector bias toward innovation and technology-led growth.

Do we see the back up in 10-year yields as an opportunity? It is always worth remembering that lower prices in markets typically imply higher forward returns. In Equities, where price drops can be significant, returns generally improve via higher prices over time. For Fixed Income, however, lower prices bring relief to investors in the form of higher yields immediately, a benefit when allocating new cash or reinvesting coupon and principal payments.

It is within this context that we view current bond market moves. In the last five years, two had negative total returns: 2021 (-1.5%) and 2022 (-13.0%).[5] The returns in 2022 were historically bad; 5-year real (inflation-adjusted) interest rates bottomed at -2% and then peaked at 2.6%, an increase of 460 bps—the highest on record. In our opinion, this was the vast majority of the bond bear market, and a similar move is exceedingly unlikely: if rates moved a similar amount higher, government-guaranteed Treasurys would then be priced as well as Equities!

Therefore, we find the bond market favorably priced overall for a multi-asset class portfolio. While the back-up is a reasonable opportunity, we still caution that rates may re-test the 2023 highs (~5% on 10-year Treasurys). However, valuations on risk assets are high—including Equities, Investment-Grade (IG), and High Yield (HY) corporate bonds. We think Equities are fairly valued, and do not see a catalyst near-term for higher spreads in credit markets but—all things being equal—it is better to have an appreciable allocation to high-quality Fixed Income when valuations are stretched elsewhere. We are therefore prudently overweight U.S. Treasurys and Agency Mortgage-backed Securities (MBS) at these higher nominal and real yields. While we are neutral on duration, our current lean—all things being equal—would be to discuss extending duration if the 10-year Treasury moved back into the 4.5% to 5% range.

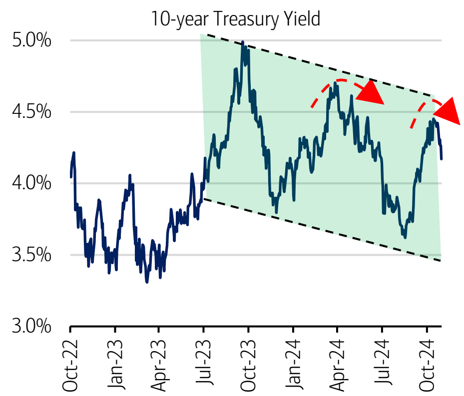
Do we think the bond vigilantes are poised for a comeback given the enlarged federal budget deficit? We are not overly concerned about "bond vigilantes" for several reasons.

First, we believe the primary driver of long-term rates is the path of short-term rates which—in turn—is driven by the Fed reacting to inflation and the economy. Deficits alone—when not financed by the central bank—are not nearly as inflationary as when they are. If the government has a $100 billion deficit (i.e., spends $100 billion extra into the market) and finances that by borrowing $100 billion (i.e., removing that $100 billion back out of market), the initial net effect is no liquidity added: the government provided the exact amount of money needed to finance the purchase of the bonds it is issuing. Inflation or fear of inflation—not a lack of debt buyers—is the primary cause of higher rates in developed economies.

Second, unlike Santa Claus—who our readers (especially younger ones) know is absolutely real—we are not sure the same can be said about bond vigilantes. 10-year U.S. rates peaked at an all-time high near 16% when U.S. debt-to-GDP was 30% in 1981. By 2020, the U.S. had added so much debt that its debt-to-GDP peaked at ~133%—while rates fell to 0.57%.[6] Any fear that massive increases in debt would lead to a buyers' strike on U.S. Treasurys was severely misplaced and would have proved costly for any "bond vigilante" reckless enough to be short U.S. Treasurys during that massive debt binge. If vigilantes existed, they were probably taken out by margin calls decades ago.

Third, initial valuations matter. When rates are excessively low—for example, -2% real—a rate spike blamed on any catalyst (including a "vigilante") is significantly more likely. This applies to the most recent (potential) sighting of vigilantes, in September 2022 in the U.K. At one point that year, U.K. 10-year inflation-adjusted real yields were below -3%! After the massive sell-off, rates spiked to about +1% real and then eventually settled into a range of 0% to 1%. While "vigilantes" are an easy target (and sound bite), a similarly plausible explanation is: yields were excessively low; the budget proposed was viewed as inflationary by the central bank who

The recent back-up in yields as a potential opportunity for investors



Source: Bloomberg. Data as of November 29, 2024. **Past performance is no guarantee of future results.**

[5] Source: Bloomberg U.S. Aggregate Index as of December 2, 2024.
[6] Source: Federal Debt—Total Public Debt as Percent of GDP (Quarterly Seasonally Adjusted) per the White House Office of Management and Budget, Bloomberg as of December 2, 2024.

expected to hike short-term rates if needed; long-term rates follow the expected path of short-term rates; leveraged market players had to adjust positions quickly in an illiquid market. No vigilantes required!

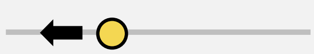
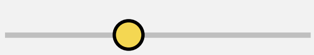
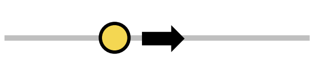
As U.S. valuations are better now—partially on fear of such vigilantes—we think, as stated above, that an appreciable allocation to high quality Fixed Income is attractive. It is not just potential risks that matter; but it is about how markets currently price and therefore account for that risk? We currently find bond markets to fairly price overall risks, so we remain neutral duration.

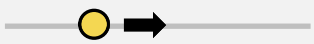
Some strategists are out with very bearish 10-year annualized returns based on current valuations. What's our view on long term Equity Market Assumptions? Some strategists project 10-year Equity returns below the yield on 10-year U.S. government bonds, citing concerns about overvaluation and the concentration of market capitalization in a few U.S. Equities. While we recognize these issues, history shows that equity markets can remain overvalued and concentrated for years, as seen in the late 1990s. Unlike many strategists who rely solely on valuations at the start of their 10-year forecasts, we also account for the business cycle's position at that time. Additionally, our long-term capital market assumptions span horizons beyond 10 years, aligning with longer-term planning and allowing time for markets to recover from setbacks. Consequently, our 2025 long-term U.S. equity return assumption, though lower than for 2024, remains significantly higher than the yield on 10-year U.S. government bonds.

CIO INVESTMENT DASHBOARD AS OF DECEMBER 3, 2024

Closing out 2024, Equities remain well supported by elements like earnings expansion, a relatively solid economic backdrop, and easier monetary policy. However, we continue to see crosscurrents in the market landscape moving forward. Long-term investors should consider using any episodic market volatility to their advantage and remain fully invested and diversified across portfolios.

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

Factor	Implication for Equities Negative Neutral Positive	CIO View
Earnings		U.S. earnings growth remains strong and is growing on a YoY basis. According to FactSet, consensus expects S&P 500 growth in revenue and earnings of 5.1% and 9.6% this year, respectively, followed by an acceleration to 5.7% and 14.7% in 2025. Accordingly, in Q4, revenue and profits are expected to expand YoY by 4.5% and 11.7%, followed by a faster pace of 5.1% and 12.3% in Q1. Meanwhile, according to BofA Global Research, weakness in Emerging Markets dragged on the Global Earnings Revision Ratio in November, suggesting an overall deterioration in international earnings trends. The three-month average of the ratio fell below its long-term average. The number of upgrades to profit estimates surpasses downgrades in 2 of 20 countries and in 3 of 16 tracked industries.
Valuations		The S&P 500 price-to-earnings (P/E) ratio (next 12 months) stands at around 22.2x above its long-term average. This headline measure suggests that Large-cap U.S. Equities in general remain expensive, although relative discounts can be found in areas like Small-cap and Value.
U.S. Macro		Following an expansion of 2.9% last year, growth in real GDP through Q3 of this year has slightly cooled to 2.8% at a seasonally adjusted annual growth rate. Excluding volatile measures in trade and inventories, final sales to domestic purchasers have averaged a solid 3.0% over the same timeframe, from an annual expansion of 2.7% last year. Consistently strong data has raised expectations of a quicker pace of normalized economic growth. BofA Global Research expects GDP growth of 2.0% for Q4 and 2.7% for all of 2024. For 2025, an annual growth rate of 2.4% is anticipated.
Global Growth		Excluding the U.S., pockets of weakness have become more apparent in the global economy. In the Eurozone, a cooling services sector, together with manufacturing weakness, is raising economic uncertainty. In China, new policies have been announced to support the property market, consumption, local government finances, and investor sentiment. Recent mixed economic data suggests some stabilizing elements. Meanwhile in the U.S., consumption in general has remained a sturdy economic support. After growth of 3.3% in 2023, the global economy is expected to grow by 3.1% in 2024, followed by an expansion of 3.2% in 2025 and 3.3% in 2026, according to BofA Global Research. This compares to average growth of 3.8% from 2000 to 2019, according to the International Monetary Fund.
U.S. Monetary Policy / Inflation		After a quarter-point cut in November, the Fed's policy interest rate stands at 4.50%-4.75%. Overall, Fed officials have argued for easing monetary policy while also stressing a cautious approach amid a bumpier downward path in inflation, economic resilience and uncertainty related to fiscal and trade policies. Over the past month, markets have anticipated a lessened pace of interest rate cuts. BofA Global Research expects a 25 bps cut in December. Next year, two cuts are expected in March and June before holding at an expected terminal rate of 3.75%-4.00% through year-end.

Factor	Implication for Equities Negative Neutral Positive	CIO View
Fiscal Policy		U.S. pandemic-era fiscal support totaled nearly 31% of GDP, much of which has faded. Longer-term initiatives include the 2022 CHIPS and Science Act, a $280 billion plan to bolster the country's technological industrial base, and the 2022 IRA, a $370 billion effort largely to develop a renewable energy supply chain, among other elements. Following a $1.2 trillion spending package authorized in March to keep federal agencies funded until October, a bill was passed to fund them through December 20, 2024. The Republican sweep of the U.S. general election has raised the prospect for easing tax policy offset by a greater preference for tariffs as a source of government revenue.
Corporate Credit		Credit spreads overall reflect little concern about an economic slowdown. For both IG and HY, they stand at levels last seen over a decade ago.
Yield Curve		Inversions, whereby longer-dated yields are below shorter-dated ones, have lessened in the fed funds (FF)/10s and 3-month/10s sections. These types of structures may suggest anticipation of policy interest rate cuts in the future, historically as a result of increased near-term economic risk. However, the 2/30s segment portrays a normal yield curve formation which may anticipate firmer inflation expectations and those relating to future fiscal policy, among other factors.
Technical Indicators		The S&P 500 remains above its 200-day moving average, which is also in an uptrend. The percentage of New York Stock Exchange stocks closing above their 200-day moving average and the cumulative advance/decline indicator, measures of market breadth, suggest ample participation within the U.S. equity rally.
Investor Sentiment		According to the American Association of Individual Investors, bullish sentiment remains well above that of bearish sentiment. Meanwhile, the Chicago Board Options Exchange Volatility Index has fallen to its lowest level since July, below its year-to-date (YTD) and 12-month averages. Cash levels in institutional portfolios are at a level just above triggering a "sell" signal, according to the BofA Global Research Fund Manager Survey. Also signaling "neutral" is the BofA Bull & Bear Indicator at 4.7.

Source: Chief Investment Office.

EQUITIES

We are slightly overweight Equities: Elevated geopolitical risk, policy uncertainty, shifting expectations for the pace of interest rate cuts, normalizing economic data, and sticky inflationary pressures could act as potential headwinds. However, we ultimately maintain a positive bias for Equities amid a broad based and continuing earnings recovery, resilient consumer, and a solid growth outlook.

We are slightly overweight U.S. Equities: The U.S. currently remains our preferred Equity region relative to the rest of the world, given relatively stronger balance sheets in aggregate and better consumer fundamentals. Index level valuations remain elevated above long-term averages, but earnings have recently become more supportive. Our view on U.S. Large-caps remains positive on strong fundamentals and the ability to produce free cash flow (FCF) and healthy shareholder payouts. We maintain a slight Small-cap overweight considering expectations for solid economic growth, a broadening profits cycle, and lower costs of capital moving forward.

At this point in the cycle, we suggest a balance in Equity portfolios and broader exposure across sectors. In addition to the leadership and fundamental strength in recent years from the Information Technology (IT) and Communication Services sectors, we are starting to see improvement in earnings from other sectors including Financials, Utilities, Consumer Discretionary and Healthcare. As the cycle starts to broaden out and as financial conditions further ease, it is important to have Equity exposure across cyclical, interest rate-sensitive and growth sectors. We continue to emphasize exposure to Financials amid forecasts for lower interest rates that can help improve credit risks, default rates, revenues, net interest income and asset valuations on Financials balance sheets. We are less favorable on Industrials after mixed results from Q2 and Q3 earnings reports, few green shoots, and cautious company guidance for the end of the year. Infrastructure-related investments and projects related to secular growth trends in electric power demand, energy transmission and distribution, cloud and data center builds, and next-generation AI-focused semiconductor technology that is increasingly power hungry could drive multiyear demand for select growth and cyclical stocks.

Healthcare policies could see potential changes from the new administration and could drive future rebalancing in portfolios, but the sector also provides attractive characteristics including modest positioning, attractive valuation and capital returns, dividend growth, and our preference for quality at a reasonable price. We recently reduced exposure to Energy as weaker demand from China combined with a growing supply outlook for 2025 is a concern and could weigh on oil prices, energy cash flows and earnings in coming quarters. Our

EQUITY WATCH LIST

- Economic data for production, labor, consumer expectations, and credit and liquidity conditions
- Progression of earnings estimates and margins
- Reorganization of global supply chains and U.S.-China relationship
- A sustained broader rotation that favors Small-caps, cyclicals and EM

RISK CONSIDERATIONS

- Heightened geopolitical risk and conflict in the Middle East
- Shifting expectations surrounding the outlook for Fed rate cuts
- Inflationary pressures that remain above the Fed's target level
- Pressures within the Office segment of Commercial Real Estate (CRE)

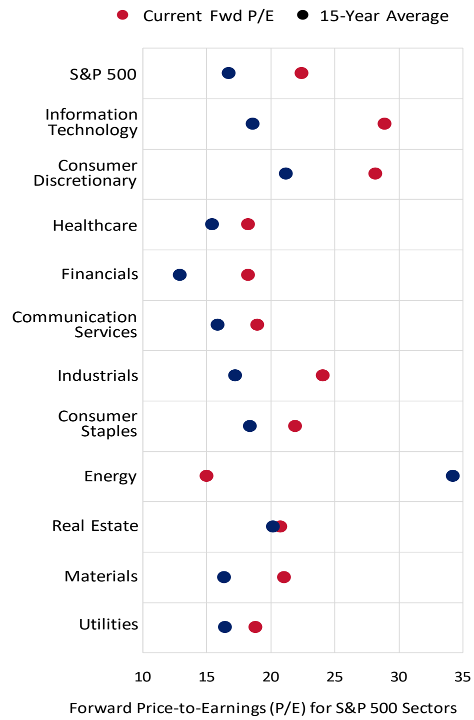
positive outlook for Utilities is based on accelerating electric power demand for the first time since the early 2000s, driven by the growth in AI and increasing electrification of the economy. While we are constructive on IT and Communication Services as longer-term thematic trends, we maintain our neutral view in the near term on elevated valuations, crowded positioning, which was a significant factor in the early August sell-off and declining earnings growth rates sequentially, despite well-above-market earnings growth from these two important sectors. We remain cautious on Materials as demand is weak, especially from China, and pricing power remains questionable. With interest rates moving lower over the last couple of months, we are neutral Real Estate (RE) and prefer being selective in the RE subsectors due to positive fundamentals in some areas of RE but remain cautious of weaker trends in other areas like CRE.

We believe strategic portfolios should continue to incorporate both Growth and Value factors that would simultaneously benefit from the possibility of cyclical and secular forces gaining traction. While we believe that AI and related investments have long-term momentum, the summer reversal in mega-cap Growth stocks acted as a reminder to avoid overexposure. Meanwhile, Value continues to trade at a relative discount to Growth and dividend-oriented Value stocks remain attractive. We suggest a disciplined and balanced approach between Value and Growth for long-term investors and emphasize the importance of diversification in portfolios.

We are neutral Emerging Market Equities: EM Equities appear attractively valued, but the Fed rate cutting cycle is unlikely to have a major positive effect given small current account deficits across the EM universe, and the potential imposition of U.S. import tariffs poses downside risks to more goods trade-oriented economies. We continue to expect a wide return dispersion between individual EM countries and regions. Recent stimulus measures in China so far appear insufficient to provide a significant boost to growth, and activity is likely to remain constrained on a structural basis by headwinds from the real estate sector, weak household balance sheets, a tighter domestic regulatory environment and global export controls. Central and Eastern European markets remain most exposed to the Russia-Ukraine war through trade links and high dependency on natural gas imports, while market direction in Latin America, the Middle East and Africa should remain broadly tied to the direction of natural resource prices, particularly on any broadening of the Middle East conflict. The structural rise in EM consumer spending remains a big reason why we believe investors should consider maintaining a strategic allocation to EM Equities, as appropriate. The emerging world now constitutes around 40% of global Personal Consumption Expenditures, according to the United Nations, and ongoing convergence with developed economies should support GDP growth and corporate earnings over the longer term. We favor active management[7] when investing in EM, as fundamentals differ across countries based on fiscal capacity, external funding needs, corporate governance and other factors.

We are slightly underweight International Developed Equities: We continue to prefer U.S. versus International Developed given our higher-quality view. We remain slightly underweight Europe. Downside risk remains from the potential for fiscal tightening in high-budget-deficit European Union (EU) countries and increased political uncertainty following national and EU parliamentary elections. Potential imposition of U.S. import tariffs and growing competition from China is an additional risk for Germany and other manufacturing-led EU economies. We are slightly overweight Japan Equities. The potential for faster interest rate hikes could represent a headwind for Japan if yen weakness persists, but sustained positive inflation and corporate reforms remain fundamental supports for valuation. As aggregate net energy importers, International Developed markets would also be more vulnerable to a potential rise in energy prices on any broadening of the Middle East conflict. We believe long-term investors should maintain some strategic exposure to International Developed Equities, as appropriate, given that they trade at a discount relative to U.S. Equities, contain more of a balance between Value and Growth sectors, can offer attractive dividend yields, and provide diversification.

Sector Valuations



Source: Bloomberg as of December 3, 2024. The Chief Investment Office (CIO) views and opinions expressed are for informational purposes only, are made as of the date of this material, and are subject to change without notice. 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.

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

FIXED INCOME

We are slightly underweight Fixed Income: We are still favorable on a significant allocation to bonds in diversified portfolios but are currently slightly overweight Equities. The Fed's ability and willingness to change rate policy aggressively to protect the labor market is largely positive for the economy but increases the risk of higher inflation (all things being equal). We therefore moved to a neutral duration position in October. That move was well-timed as the 10-year Treasury is now up around 70 bps from the lows, largely on the belief that a Republican victory in the November elections may be positive for macro risk, and potentially a catalyst for higher deficits, inflation and rates. While we still believe, on balance, that rates may drift lower from here over the medium term, the relative opportunity is not nearly as compelling as when 10-year rates were 5%, and real rates were close to 2.5%. Our highest conviction Fixed Income call remains that the yield curve will normalize by short rates moving lower, and investors, in our opinion, should therefore consider moving out investable cash in Fixed Income to their strategic duration target as cash yields are likely to decrease relatively quickly from here, and the short-term backup in yields may be an opportunity.

We are slightly overweight U.S. Governments: Nominal and real rates are more attractive due to the recent back-up, and provide good income-generating power, in our opinion, as well as a decently priced hedge to macroeconomic risk. Real yields—the yield after inflation, as measured by Treasury Inflation-Indexed Securities—are now 1.80% to 2.20% across the curve, the higher end of the range since 2008. Substantially positive yields higher than inflation levels on U.S. government-guaranteed securities is a welcome relief for savers after years of financial repression. We recommend a neutral duration position versus a stated benchmark, to take advantage of these higher yields, protect against declining rates on cash balances, and as prudent positioning against macro risk in the increased Equity positioning of a diversified portfolio by moving to their long-term strategic duration target.

We remain slightly underweight both Investment-grade Corporates and High Yield: This view is largely predicated on valuations that continue to screen expensive, leaving less room for upside and outperformance relative to duration matched Treasurys. Over the last 12 months, credit markets have fully embraced the improved macro and technical backdrops. With IG at around 80 bps and HY at around 275 bps, spreads have continued to grind post-election and continue to reflect a healthy growth picture in addition to relatively strong demand with yields solidly in the 5-5.5% area for high-quality corporates. More compelling yields, and a continued strong technical backdrop is the single biggest risk to our underweight thesis, in our opinion.

To be clear, we don't see a risk or catalyst for spreads to move meaningfully wider over the short term. Bouts of volatility and mean reversion moves in credit spreads are normal. History has shown that credit spreads can trend at low/rich levels for an extended period (i.e., mid-to-late 1990s and mid-2000s). With the U.S. economy still on strong footing and earnings growth reaccelerating, any move wider in credit spreads could be more contained, in our view. However, the margin for error at current valuations is still slim. On average, at starting spread levels of 100 bps or less, IG underperforms duration-matched Treasurys 12 months forward.

We therefore continue to believe that an up-in-quality and defensive tilt within a corporate allocation is prudent and would look to re-risk portfolios should we see spreads move above 130 bps—all else being equal.

HY yield-to-worst remains around 7%, above the median level seen over the last 25 years and provides modest compensation for credit losses, in our view. However, similar to IG, HY spreads look priced to perfection and continue to price in a soft/no-landing outcome and a continued improvement in default losses. Current spreads in the BB-rated and B-rated cohorts are both roughly inside of the 10th percentile historically, and we would look for substantially wider levels as a more attractive entry point. We therefore maintain our slight underweight positioning and see better risk-adjusted opportunities in other asset classes such as Equities.

FIXED INCOME WATCH LIST

- Economic and fiscal implications of the U.S. election
- Level of real rates in the U.S.
- Credit Spreads
- Global central bank activity
- Global economic growth
- U.S. short-term funding markets
- U.S. inflation

RISK CONSIDERATIONS

- Heightened U.S. deficit spending
- Resilient or accelerating inflation
- Any increase in risk aversion at current tight credit spreads
- Dislocations in CRE markets
- Potential for a short-term liquidity crunch

We remain slightly overweight Mortgage-backed Securities (MBS): MBS spreads continue to screen relatively cheap to other high quality fixed income—particularly investment grade corporates. However, we would argue that this is mostly a function of the significant compression in credit spreads post-election. Interest rate volatility has moderated, and the pressure of a move higher in Treasury yields in response to higher growth and/or inflation is a key risk to our slightly overweight view—and would likely lead to wider MBS spreads, all else being equal. That being said, despite ongoing quantitative tightening (QT), we believe that the demand backdrop for MBS could be positive with the higher likelihood of banking de-regulation, which will be a key catalyst to watch for in 2025. Lastly, duration extension, which is a key risk for MBS investors, has at least been partially mitigated, and is not a major concern for the majority of the coupon stack should Treasury yields remain range bound near current levels.

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 Funds: In October, Hedge Fund (HF) performance was mixed, with overall returns coming in at -0.6% for the month.[8] Early estimates for November suggest a rebound in performance as markets digested the results of the election. Equity Hedge (EH) strategies lead all other HF strategies in terms of YTD performance with gains of 9.7% through October, with November gains potentially adding another 2%+.[9] The primary dynamics impacting EH strategies for the year include: 1) an improved backdrop for alpha[10] generation with lower pair-wise stock correlations, 2) continued high and increasing gross exposures, and the strength of systematic equity strategies. As managers look ahead to the new year and a new administration, focus is quickly shifting to an accelerating M&A environment as well as differential sectoral impacts of new trade, fiscal, and immigration policies.

Macro HF strategies appear to have also bounced back in November based on early estimates. Discretionary macro strategies likely gained the most, though with wide performance dispersion, with concentrated bets on policy-driven themes. Trend-following strategies appear to have generated gains on the back of significant trends in currencies, Equities, and other asset classes. Interest rate volatility round-tripped in October and November[11] as the markets consider the inflationary risks of coming policies, which could create opportunities for Macro strategies broadly, in our view.

CIO Views on Alts Strategies

Hedge Funds

Equity Hedge +	
Bull case	Potential alpha generation opportunities for low net strategies in volatile or high-dispersion markets; sustained improvement in short alpha; low net better positioned if Equities sell off
Bear case	Return of concentrated and beta-driven market would limit opportunity set; short alpha started strong this year but has dissipated
Event Driven	
Bull case	Higher rates pressuring levered balance sheets creating potential for distress; if merger activity were to increase and deal spreads widen; higher risk-free rate positive for merger arbitrage
Bear case	Distress may not materialize in size or may be delayed; if merger activity fails to materialize; lower rates negative
Relative Value	
Bull case	Still in world of higher-though-volatile yields; economic resiliency supportive of credit; decent though declining dispersion in HY
Bear case	Spreads not attractively wide; potential increase in credit risk and defaults in coming year
Macro +	
Bull case	Possible "higher-for-longer" rate regime could create cross-asset volatility in rates and foreign exchange; inflation stickiness could exacerbate macro volatility; sharp-change in policy direction
Bear case	Coordinated Central Bank rate moves could limit dispersion; choppy markets difficult for trend-following; interest rate volatility declining

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

[8] HFR, Inc. As of October 31, 2024.
[9] BofA Securities, Morgan Stanley Prime Brokerage, Goldman Sachs Prime Services. As of November 29, 2024.
[10] Alpha is the excess return of an investment relative to the return of a benchmark index.
[11] Bloomberg. As of December 2, 2024.

Private Equity: Private Equity (PE) notched modest gains of approximately 1.6% in Q2,[12] once again lagging public Equities. Earnings releases from prominent publicly listed Alts asset managers, which can serve as a rough gauge of industry trends, suggest improving positive PE performance in Q3 in the mid-single-digits range. Buyout strategies have been resilient, if muted, over the recent rate-hiking cycle and continue to exhibit outperformance over longer time horizons. Venture Capital (VC) has been enduring a more acute valuation reset that, while not as severe as the dot-com peak-to-trough drawdown, has exceeded declines during the 2008/2009 Global Financial Crisis.[13] Thematically, PE strategies have been contending with a slower velocity of capital recycling, though exit activity has accelerated in Q2 and Q3 and is now up over 50% YoY.[14]

The election outcome could also have significant impacts across private markets. Once again, new policy orientations by the incoming administration are expected to drive increases in M&A activity, which would be warmly welcomed across PE and Private Credit (PC). However, the ultimate policy mix is yet to be determined and therefore the secondary effects continue to be debated, with the inflationary impact being a key unknown variable. It could be that in the near term, a reinvigoration of animal spirits improves the relative outlook for PE strategies, while over a longer-term horizon higher inflation and interest rates pose challenges once more to longer duration and highly leveraged asset classes. Given the less liquid nature of private markets, investors should carefully watch personnel appointments and official policy pronouncements in the new administration's first hundred days.

PC, meanwhile, has continued to perform well. Using private fund performance data, PC generated returns of 1.8% in Q2, bringing the one-year internal rate of return to 8.4%.[15] Other PC indexes show continued positive performance in Q3 of approximately 2.7%.[16] While PC has proven itself resilient, market dynamics throughout most of the year have led to declining yields and spreads. Interest rate cuts will likely depress yields further. As we have communicated, the Goldilocks environment for PC has been slowly receding as new headwinds emerge, including competition from public leveraged credit markets, potential increases in credit losses, and a lack of net new issuance. Mitigating this is the fact that overall yields still remain high and, as discussed, could climb higher depending on policy implementation. The potential pickup in PE deal activity could also help with weak new issuance. The substantial pile of global PE dry powder that will ultimately need to be invested will likely require hundreds of billions of dollars in annual PC financing.

We continue to emphasize partnering with established and well-resourced managers, and think PC is best positioned within a diversified allocation to Alts and should be tactically compared to other Alts asset classes and strategies, in particular PE.

Private Real Estate: Overall, Private Real Estate (PRE) has shown some signs of stabilization although prices in Q3 and October were still modestly negative. Cap rates have similarly been relatively steady over the course of the year, though variations across sectors and geographies remain.[17] PRE entered the year with optimism that the asset class would bottom out and find market clearing prices. Performance momentum and fair value estimates have seemed to bolster that view. Expectations of interest rate declines also fueled part of the improving outlook, but the degree to which mortgage rates ultimately decline given potential policy impacts has tempered enthusiasm. Accordingly, deal activity has remained anemic if stable YoY. Market participants are still hoping for a pickup in activity in the coming year, driven by clarity on the interest rate picture and improving return expectations.

Overall, PRE values have declined 1.5% over the last twelve months and approximately 12% from their recent peak[18] suggesting the valuation reset has been working its way through the system. New supply is hampering rent growth in certain sectors and geographies, such as apartments and industrial; however, supply growth is projected to ease in the coming year. With publicly listed real estate investment trusts (REITs) trading at a premium relative to net asset value, public markets appear to no longer view PRE as overvalued.[19]

Private Equity

Buyout

Bull case	Current vintages likely attractive for long-term given profitability focus; within PE, Secondaries benefiting from secular growth and institutional investors seeking liquidity; deal activity starting to pick up and could surge if momentum builds
Bear case	Higher rates require larger Equity investments; deal and exit activity susceptible to higher-for-longer

Venture/Growth

Bull case	Significant correction benefits providers of capital; AI could drive investment supercycle; early VC stages more insulated than later stages; falling rates would likely be tailwind
Bear case	Ex-AI VC market still challenged; VCs focused on supporting portfolio companies; initial public offering drought could continue; timelines extended plus increased risk of dilution; higher rates drag on unprofitable companies

Special Situations

Bull case	Default rates rising; "higher-for-longer" would increase pressure on levered balance sheets; RE-adjacent opportunities; companies seeking creative financing before maturities
Bear case	Rate cuts could smooth out credit cycle, keeping it more average

Private Credit +

Bull case	High though declining current yields; healthy spread to public credit over time; economic resiliency supportive of credit; secular tailwinds supporting growth; fresh capital can underwrite to current risks
Bear case	Credit risk could rise and lower-quality most at risk; regulatory scrutiny; public leveraged credit competition; significant capital allocating to PC; interest rates declining

REAL ESTATE

Private Real Estate

Bull case	Supply/demand imbalance in Residential driving secular opportunities; sectors like Data Centers rising; cap rates slowly reflecting lower valuations; lower mortgage rates may unlock markets; lending strategies offering compelling profiles; distressed/opportunistic could emerge given stress
Bear case	Transactions remain depressed; risk of mortgage rates not declining as much as market hoped; pressure rising in value-add multifamily financed with floating-rate debt and over-supply in certain markets

Infrastructure +

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

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

[12] Cambridge Associates, PitchBook, Inc. As of June 30, 2024.
[13] PitchBook, Inc. As of September 30, 2024.
[14] PitchBook, Inc. As of September 30, 2024.
[15] Cambridge Associates, Refinitiv EIKON. As of June 30, 2024.
[16] Lincoln International, Lincoln Senior Debt Index. As of September 30, 2024.
[17] MSCI Real Capital Analytics. As of October 31, 2024.
[18] MSCI Real Capital Analytics Commercial Property Price Index. As of October 31, 2024.
[19] Green Street, "U.S. Commercial Property Outlook". December 1, 2024.

We continue to expect systemic issues to be contained but for the PRE cycle to continue to play out as a slow burn. As suggested, reduced interest rate uncertainty would likely spur transaction activity and aid in price discovery. For the longer term, PRE continues to make sense as a strategic allocation given the potential diversification benefits and income features.

Infrastructure: Within the Real Assets space, Infrastructure remains a key long-term theme. The U.S. has a widely acknowledged aging infrastructure base that will require significant public and private investment. Hundreds of billions of dollars have already been earmarked for infrastructure spend through several federal bills in recent years. Infrastructure also has direct links to the energy-related themes, which will play out over the coming decades. In addition, Infrastructure has historically performed well on a relative basis during inflationary periods and has the potential to improve diversification in portfolios. Notably, in this era of higher inflation, PE deal activity, which can serve as a gauge of higher long-term return on investments, has shifted on a relative basis toward Infrastructure and away from Technology over the last three years.[20]

Tangible Assets: Global growth anchors demand for commodities and remains subdued. Market expectations for impactful fiscal and monetary stimulus in China have thus far not been met and the rebound in cyclical commodities since August has stalled for now. Geopolitical risk and geoeconomic maneuvering are wild cards for energy commodity prices. Absent a supply disruption, the oil market appears fundamentally balanced with ample supply and restrained demand. For gold, additional Fed interest rate cuts, a likely weakening of the dollar from overvalued territory, untethered U.S. government debt, and geopolitical tensions should continue to support prices. We continue to believe gold is most effectively implemented as a strategic diversifier.

With the Fed considering an easier monetary policy stance on labor market concerns, the dollar will likely remain under pressure even as it has exhibited bouts of strength. Broad dollar indexes are nearly unchanged year-to-date. Importantly, the U.S. dollar remains overvalued versus a number of major currencies.

TANGIBLE ASSETS

Bull case	Geopolitical risk could spill over and pressure commodities supply; China stimulus could drive demand; macro factors including currency could support oil prices; untethered U.S. gov't debt; potential for diversification and inflation hedge
Bear case	Muted global growth or lack of China follow-through may reduce demand; balanced energy supply has offset Middle East tensions; real rates staying high could pressure "safe" havens like gold

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

[20] Preqin. Infrastructure includes Industrials, Energy, Utilities, Raw Materials and Natural Resources. As of August 5, 2024.

MACRO STRATEGY

- Personal income and spending data were strong in October with both measures continuing to grow at a 5% year-over-year pace. The stronger data caused the Atlanta Fed's GDPNOW estimate for fourth quarter real consumer spending to rise to 3% and its forecast for overall GDP to increase from 2.6% to 3.3% following a 2.8% third-quarter pace.
- Claims for unemployment compensation show layoffs are still very low but continuing claims are rising because it is taking longer for the unemployed to find new jobs because of a lower level of unfilled job openings.
- Core PCE inflation picked up in October to 2.8% on a year-over-year basis from 2.7% in September. Overall PCE inflation rose 2.3% in October compared to 2.1% in the 12 months through September. Core CPI inflation was 3.3% in the 12 months through October. Core inflation has stalled at these levels for several months now as the disinflation trend seems to have ended with core inflation around 3%.
- The profits cycle for large U.S. companies and policy tailwind from existing fiscal stimulus and deregulation remains supportive of economic growth and risk-assets in the near term.
- J.P. Morgan Global Manufacturing purchasing managers' index continues to suggest global cyclical momentum remains weak.

ECONOMIC FORECASTS (AS OF 12/6/2024)

	Q4 2024E	2024E	Q1 2025E	Q2 2025E	Q3 2025E	Q4 2025E	2025E
Real global GDP (% y/y annualized)	-	3.1	-	-	-	-	3.2
Real U.S. GDP (% q/q annualized)	2.0	2.7	2.5	2.3	2.2	2.2	2.4
CPI inflation (% y/y)	2.6	2.9	2.2	2.2	2.5	2.4	2.4
Core CPI inflation (% y/y)	3.2	3.4	2.9	2.8	3.1	3.1	3.0
Unemployment rate (%)	4.2	4.0	4.3	4.3	4.4	4.4	4.3
Fed funds rate, end period (%)	4.38	4.38	4.13	3.88	3.88	3.88	3.88

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 December 6, 2024. Forecasts are subject to change.
When assessing your portfolio in light of our current guidance, consider the tactical positioning around asset allocation in reference to your own individual risk tolerance, time horizon, objectives and liquidity needs. Certain investments may not be appropriate, given your specific circumstances and investment plan. Certain security types, like hedged strategies and private equity investments, are subject to eligibility and suitability criteria. Your advisor can help you customize your portfolio in light of your specific circumstances.

S&P 500 SCENARIOS BASED ON FORWARD P/E AND 2025 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 2025 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.

2025 EPS	EPS Forward P/E (Next 12 months)				
	19.0x	20.0x	21.0x	22.0x	23.0x
$305	5,795	6,100	6,405	6,710	7,015
$295	5,605	5,900	6,195	6,490	6,785
$285	5,415	5,700	5,985	6,270	6,555
$275	5,225	5,500	5,775	6,050	6,325
$265	5,035	5,300	5,565	5,830	6,095
$255	4,845	5,100	5,355	5,610	5,865
$245	4,655	4,900	5,145	5,390	5,635

For illustrative purposes only. Source: Chief Investment Office as of December 3, 2024.

CIO ASSET CLASS VIEWS AS OF DECEMBER 3, 2024

Asset Class	CIO View: Underweight		Neutral	Overweight		Comments
Equities	•	•	•	●	•	We are slightly overweight Equities and continue to view weakness as a buying opportunity for long-term investors. We remain overweight the U.S. and neutral EM, with a slight underweight to International Developed.
U.S. Large-cap	•	•	•	●	•	We have a slight preference for Value over Growth, given better absolute and relative valuations. We believe portfolios should incorporate both Growth and Value factors as appropriate.
U.S. Mid-cap	•	•	•	●	•	We remain positive on the outlook for Mid-caps and potential earnings improvements in this area of Equities.
U.S. Small-cap	•	•	•	●	•	We maintain a slight overweight to Small-caps on attractive valuations, the declining cost of capital and the stable U.S. consumer.
International Developed	•	●	•	•	•	International Developed equity valuations appear attractive, but underlying rates of nominal growth should trail U.S. levels. International markets also remain more vulnerable to any broadening of conflicts in Ukraine and the Middle East, and to potential imposition of U.S. import tariffs.
Emerging Markets	•	•	●	•	•	We are neutral EM Equities overall with regional markets likely to be driven by relative exposures to China, the ongoing Russia-Ukraine conflict and natural resource prices. Valuations appear attractive, but Fed rate cuts are unlikely to have a major positive impact and tariffs pose risks to more goods trade-oriented economies.

Asset Class	CIO View: Underweight		Neutral	Overweight		Comments
International						
North America				●		The U.S. remains our preferred region given balance sheet strength, better fundamentals for consumer spending and healthy shareholder payouts.
Eurozone		●				Risks remain from potential fiscal tightening in high-budget-deficit EU countries, increased political uncertainty and manufacturing pressures from growing competition with China and potential U.S. trade restrictions.
U.K.			●			Domestic demand at risk from still high mortgage rates, alongside higher business taxes from government budget. Withdrawal from EU single market remains a negative for medium-term growth, though trade insulated from potential tariffs by high service share of exports.
Japan				●		Sustained positive inflation and official efforts to increase corporate returns to shareholders remain fundamental supports for valuation. Potential for faster interest rate hikes could represent a potential headwind if yen weakness persists.
Asia Pac ex-Japan		●				Regional market likely to be driven in near-term by expectations around China stimulus measures and impact on consumption and resource demand. Longer-term outlook dampened by exposure to ongoing structural constraints for Chinese economy.
Fixed Income		●				Bonds remain attractive and provide good diversification for multi-asset class portfolios with both reasonable income and the ability to decline substantially in yield in an economic downturn. Neutral positioning recommended, balancing the risk of further tightening/higher yields against significantly better valuations.
U.S. Investment-grade Taxable			●			Preference for Treasurys relative to credit and spread products, as nominal and real rates are some of the most attractive in over a decade, while the economy slows and recessionary signals remain.
International			●			International rates markets remain attractive and are no longer trading at a significant discount to the U.S.
Global High Yield Taxable		●				Valuations present more attractive medium-to-long-term returns even after estimating credit losses. However, increased recession concerns could cause near-term price losses, and spreads are not at recessionary levels. Any additions to HY, therefore, should have a long-time horizon. Within HY, we prefer balanced exposure between floating-rate loans and HY unsecured.

* 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 DECEMBER 3, 2024

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

Sector	CIO View: Underweight		Neutral	Overweight		Comments
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, transmission and distribution. Further, there are also some renewed and lower cost plans for investment in renewable energy and grid-hardening projects at utilities historically provide reliable earnings and outperform in the late cycle and during economic growth slowdowns, especially regulated utilities that provide a defensive hedge to portfolios. Given the better demand outlook from AI and data centers, we see reason to view even this historically low volatility group of stocks in a more constructive light. Over the next decade, the IRA legislation provides a strong runway for future renewable energy investments and projects. We view the need for increasing investment in electric infrastructure as structural and not dependent on any specific piece of legislation. We prefer Utilities with strong balance sheets, constructive regulatory mechanisms, and low-volatility business models. Unregulated Independent Power Producers (IPPs) are a small subsector that we currently favor given exposure to growth from rising AI and data center demand. Valuations based on forward price-earnings multiples are attractive compared to the broader S&P 500 index and momentum is strong. **Risk Considerations: 1) slower power demand growth than forecast, 2) greater regulatory scrutiny, 3) power outage events.**

Sector	CIO View: Underweight	CIO View: Neutral	CIO View: Overweight	Comments
Financials			●	The positive outlook for the Financials sector is concurrent with the start of a Fed easing cycle. Perhaps counterintuitively, a lower Fed funds rate benefits deposit gatherers because of the immediate decline in interest expense paid on deposits. The decline in interest revenue from loans/securities is much more gradual, so net interest income has likely bottomed for this cycle. The risks associated with the regional banking troubles in March 2023 have faded and a pickup in regional bank mergers in recent months suggests confidence has been sufficiently restored to deploy capital. Funding pressure coupled with capital discipline has modestly tightened credit standards and slowed the pace of lending, but the start of Fed cuts would alleviate pressure on both fronts. A lower Fed target rate typically lowers interest rates across the curve (and throughout the U.S. financial system), which would have the effect of increasing bond prices and shrinking losses generated by higher rates. Shrinking unrealized losses in bond portfolios should accrete to equity holders in the form of a higher book value and increased capital flexibility for banks, insurance companies, and asset managers. Capital return will likely remain the cornerstone of the investment case for most of the Financials sector. Lower interest rates should also improve credit quality (especially CRE) and facilitate workouts instead of charge-offs. Overall, the volatility of the Financials sector should improve with the recent addition of large e-payment card networks that have been stable earnings compounders historically (without taking credit risk). We also favor alternative asset managers with proven track records, billions in dry powder, that consistently draw fund inflows, and maintain management fee pricing power. Alts (especially PE) have demonstrated an ability to thrive in all kinds of economic environments, including recession. Overall, valuation is attractive and earnings driven momentum should continue to improve when rates move lower**. Risk Considerations: 1) a persistently inverted yield curve, 2) interest rate volatility, 3) a deep credit cycle for CRE, 4) lost market share to non-bank lenders.**
Healthcare			●	In an environment where financial conditions are in flux, Healthcare stocks provide attractive characteristics, including quality, dividend growth, dividend yield and lower beta. Healthcare fundamentals have been able to withstand much of the macro pressures seen globally, but flow into the sector over the last few years were weak relative to other sectors. Further, in 2023 negative earnings revisions were made by analysts across the sector while lapping difficult COVID comps and easier earnings comparables are driving 2025 estimates. Distributors, medical devices, and managed care are best positioned, in our view, to weather pressures from potential changes to the healthcare policy landscape. As a whole, large pharmaceutical companies remain attractive as they trade at a material discount to Healthcare sector peers and the broader market. Further, significant cash on strong balance sheets, combined with more aggressive business development efforts and a greater focus on explaining long-term growth drivers make large pharma more attractive over the intermediate term. Drug pricing headwinds may return as demographic shifts put more pressure on government payors and as value-based care initiatives gain momentum. Emphasize exposure to long-term positive trends in life science/bioprocessing equipment, innovative and differentiated medical devices and animal health, as well as more intermediate opportunities in Large-cap biopharma and diversified medical technology. Dental and animal health become more attractive as the macro environment improves. Valuation remains attractive, and momentum is slowing. **Risk Considerations: 1) repeal of the Affordable Care Act without another plan in place and uncertainty, 2) drug pricing negotiations broaden out from the current IRA structure.**
Consumer Discretionary			●	With a resilient consumer, a solid job market, lower interest rates on the horizon and a better-than-expected economic backdrop, we are overweight Consumer Discretionary. Slightly lower energy costs, wage increases and a strong job market with only selective job cuts confined largely to the technology-related industries is helping to maintain solid consumer spending. Consumers remain resilient and are finding ways to alter their budgets to accommodate both experiences and necessities. Further, with inflation declining from the highs experienced last summer, and interest rates also moving lower, this is supporting consumer confidence. Consumer retail channels are shifting back to online spending as value-oriented consumers utilize alternative payment methods to supplement their spending and seek out bargains. More evidence of economic strength and a resilient consumer could help support relative earnings growth and relative valuation levels. Valuation for the sector is elevated with positive momentum. **Risk Considerations: 1) economic slowdown, 2) spikes in energy prices or interest rates, 3) geopolitical uncertainty.**
Information Technology		●		The Technology sector is neutral despite improvements in supply chains and AI-driven flows into mega-cap Technology stocks. However, margin risks remain for companies in the sector, and the potential remains for downward earnings revisions that are more likely to affect higher-beta, higher-valuation companies. Despite strong long-term Cloud and AI trends, software margins could continue to deteriorate, as Cloud consumption could potentially come under some pressure near term and is not immune to a macro slowdown. We suggest a neutral weight in IT, with a bias to larger and higher-quality companies with strong earnings growth, FCF and balance sheets. We continue to encourage investors to be careful about unprofitable, expensive, and long-duration IT companies. The pandemic accelerated the digital transitions for many industries, but, over the longer-term, we remain positive on the secular growth trends for Cloud computing, machine learning and AI, data centers, software, cybersecurity, and semiconductors. Valuations in the sector declined in 2022 but were still elevated after rising again in 2023 and 2024, especially after the rally in AI-related companies. Further, any additional moves higher in interest rates could pressure multiples for high-growth and high-valuation technology stocks with low to no profits; therefore, look for GARP (growth at a reasonable price) in software and semiconductors. The IT sector still generates significant FCF, dividend growth and remain long-term fundamental drivers for the sector. Technology is deflationary by nature; therefore, long-term investors should look to add to transformational and industry-leading businesses on market weakness. Valuations remain elevated and momentum is neutral. **Risk Considerations: 1) China exposure and trade wars, 2) supply chain constraints, 3) Generative AI monetization, 4) narrow breadth and premium valuations.**

Sector	CIO View: Underweight · Neutral · Overweight	Comments
Communication Services	○ ○ ● ○ ○	We are neutral on the Communication Services sector, as some of the largest companies in this sector provide high-quality fundamental characteristics and could be more attractive in a slow-growth economic environment. Despite our concern for ongoing regulatory oversight and the never-ending battle over content, management teams are now adjusting their business models to reduce costs and become more efficient. Ad spending is moving from e-commerce to travel and leisure, hence advertisers are having to shift their targeting. Retailers are suffering from rising costs and slowing sales, which could drive changes in advertising spend. We are constructive on the sector based on three key factors: 1) Valuation multiples were largely de-risked last year; 2) Earnings estimates were reduced; and 3) More importantly, broad cost-reduction plans could create potential earnings upside. Valuations are a little rich and momentum tuned positive again. **Risk Considerations: 1) regulatory and anti-trust risks, 2) capital expenditures ramps for AI investments that limit EPS and FCF, 3) lower engagement pressuring growth.**
Industrials	○ ○ ● ○ ○	We are neutral on the Industrials sector after mixed Q3 earnings results, a lack of significant green shoots in the industrial economy outside of AI and electrification, and cautious second-half company guidance. Longer term there are multiple thematic drivers for Industrials over the next three to five years including improving outlooks for international defense budgets outside the U.S. as the global risk environment is elevated, underpinning favorable dynamics for defense companies. Recent safety and manufacturing issues in commercial aerospace weighed on the sector but longer-term aerospace should benefit from a multi-year backlog of commercial plane orders to build and deliver. Potential improvements in the global capital expenditures cycle, including the normalization and reshoring of supply chains and manufacturing, and investment in new equipment after years of focusing on productivity, and fiscal stimulus plans could support the construction, transportation, machinery, and freight and logistics industries longer term. However, weaker import/export demand from Europe and China could be a near-term drag on earnings growth for industrial conglomerates and transport stocks. Secular growth drivers like the evolution of AI and increased power demand support the longer-term view for electrical equipment and Industrials related to this trend. Valuation is slightly elevated, and momentum improved since the early fall. **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.**
Real Estate	○ ○ ● ○ ○	The decline in interest rates from 2023 peak levels reduces some but not all risks regarding refinancing and the cost of capital for RE projects. Further, expectations of additional Fed rate cuts in addition to negative positioning and very bearish sentiment last year in the RE sector could lead to increased Equity portfolio exposure to the sector. However, interest rates are still elevated compared to the zero-rate policy environment, therefore, increased interest expenses could still weigh on RE sector earnings in coming quarters. We would be more selective within the RE sector and prefer neutral sector exposure. There are mixed outlooks among its subsectors because of consumer and corporate changes like remote work, eCommerce, less business travel, etc., that are potential longer-term headwinds for CRE companies (e.g., office), mall operators and retail-related property owners as companies consolidate RE footprints. Furthermore, risks are rising for downward pressure on rental rates as lease contracts expire and new contracts are negotiated. Continue to emphasize longer-term secular trends in data centers, communication infrastructure (towers), storage and industrial RE. Valuation and momentum remains neutral. **Risk Considerations: 1) spike in interest rates and borrowing costs, 2) declining demand for CRE in over supplied markets, 3) workout problems.**
Energy	○ ● ○ ○ ○	We remain concerned for the global oil supply and demand outlook for 2025. Despite tensions and conflicts in the Middle East, production has not been interrupted and therefore has capped oil price upside. Further, growing oil production from both OPEC+ producers and non-OPEC producers in Guyana, Gulf of Mexico, offshore Brazil and other regions could add to inventories in an environment that is already moving towards an oversupplied market. Combined with slower global demand, led by China this year, we see risks to energy company cash flows and earnings estimates in future quarters. OPEC+ indicating they could change the current energy policy by ending the production cuts that supported oil prices in recent quarters is a significant risk and important change in current policy for energy markets. This dynamic has investor sentiment very cautious on the sector. Any potential oil price declines to lower ranges could weigh on energy stocks next year. Energy companies are still returning cash to shareholders through a combination of base dividends, increasingly less variable dividends, and stock buybacks. 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 declining momentum. **Risk Considerations: 1) lower oil and natural gas commodity prices, 2) slower global energy demand.**
Materials	○ ● ○ ○ ○	Pockets of slower global growth and weaker commodity prices factor into our more cautious view on the Materials sector. We are seeing deceleration in the pricing cycle from higher pricing levels in 2022 and 2023. Higher interest rates in the developed world and ongoing trials securing labor and materials are pushing some project timelines to the right, and, with the additional challenge of higher energy costs, we are seeing some formerly profitable projects being reconsidered. On the supply side, concerns remain about too much new capacity in the future for petrochemicals and commodity chemicals with questions regarding demand levels for late 2024 and into 2025. Multiples could expand or contract dependent on pricing across the commodity complex. Downward pricing pressure would give some intermediaries relief on costs, but if they are also experiencing volumes decline, operating leverage could be at risk. We still see some longer-term tailwinds for demand, such as AI growth and power buildouts over the longer term; however, mixed data and the slower-than-expected growth and activity in China makes the risk-reward outlook less attractive with both inflation and pricing power moving lower. Earnings revision trends could be mixed going forward. As a result, the underlying sector valuation is neutral, but momentum is also neutral. **Risk Considerations: 1) slower global economic growth, 2) weaker residential and non-residential construction, 3) oversupplied materials markets.**

Sector	CIO View: Underweight	Neutral	Overweight	Comments
Consumer Staples	● (Underweight)			Remain underweight the more defensive Consumer Staples sector and prefer exposure to the more cyclical Consumer Discretionary sector. Broad-based slowdown in demand for consumer-packaged goods products is a function of trade down, substitution and a more discerning bargain-seeking consumer. Demand for needs and necessities across personal care and household products has held up better than most other consumer packaged goods products. It's too early to tell whether the popularity of the weight-loss drugs is affecting food and beverage volumes or whether consumers are altering their budgets to reflect the still-elevated consumer goods prices. Without a predictable return to positive volume growth, traditional consumer packaged goods companies will likely struggle to show improvement in profits and margins needed to support current relative valuation levels. Valuations are more reasonable, and momentum recently improved. **Risk Considerations: 1) soft demand across consumer-packaged goods, 2) consumer trade down and substitution, 3) ongoing growth in private label and store brands.**

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 DECEMBER 3, 2024

The following themes and subthemes encapsulates 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.

Level 1	Level 2
Transformative Innovation • Generative AI • Robotics/Automation • Digitization	**Generative AI:** 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 • Utility Infrastructure • Supply Chain Reconfiguration	**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 • Cybersecurity • Resource Protectionism	**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 • Great Wealth Transfer • Global Labor Force Distribution	**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.

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

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

MSCI Real Capital Analytics Commercial Property Price Index is computed based on the resale prices of properties whose earlier sales prices and sales dates are known. The index represents the relative change in the price of property over time rather than its absolute price.

Bloomberg U.S. Aggregate Index is a broad base, market-capitalization-weighted bond market index representing intermediate term investment grade bonds traded in the United States. Investors frequently use the index as a stand-in for measuring the performance of the U.S. bond market.

Consumer Price Index is a price index, the price of a weighted average market basket of consumer goods and services purchased by households.

ICE BofA U.S. 3-month Treasury Bill Index is an unmanaged index that is comprised of a single U.S. Treasury issue with approximately three months to final maturity, purchased at the beginning of each month and held for one full month.

Lincoln Senior Debt Index is a quarterly index that tracks the fair market value of 1,600 middle market, direct lending credit investments every quarter across approximately 175+ fund clients in the U.S. and in Europe.

West Texas Intermediate (WTI) is a grade of crude oil and one of the main three benchmarks in oil pricing, along with Brent and Dubai Crude.

Important Disclosures

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

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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.

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. Bond portfolio laddering does not reduce market risk, and the principal and yield of investment securities will fluctuate with changes in market conditions. 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.

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.

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