

CHIEF INVESTMENT OFFICE

Capital Market Outlook

August 4, 2025

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

IN THIS ISSUE

Macro Strategy—Markets Give Debt Sustainability the Benefit of the Doubt: Concerns related to U.S. government debt sustainability are back. Yet, the credit market has remained more stable than expected, with steady demand for Treasuries keeping interest rates in check. Understanding why requires looking beyond attention-grabbing headlines and into the resilience of the U.S. economy, growth prospects, structure of debt ownership and other specifics. Debt projections are highly sensitive to nominal gross domestic product (GDP) growth assumptions, for example. In turn, tame inflation expectations are key to a favorable growth path. They have so far remained anchored, with higher interest rates broadly reflecting normalized economic conditions.

The Federal Reserve's (Fed) credibility and independence are critical for healthy growth and government debt sustainability. Talk about potential "fiscal dominance"—whereby the central bank is pressured to suppress rates for debt-sustainability considerations—has intensified, though. This would risk higher inflation and interest rates. As long as monetary policy remains committed to the inflation mandate, growth has the potential to surprise to the upside, with government debt continuing to be absorbed at manageable yields helped by growing global wealth and portfolio diversification needs.

Market View—International Equity Markets: Four Features to Follow: International Equities have led the U.S. market for much of 2025, but their advantage has narrowed over recent months. This has been a relative rather than absolute story. Like the S&P 500 Index, international markets are rising and have climbed to all-time highs. But their early-year leadership has been significantly eroded.

Trade and tariffs have been the dominant themes for much of 2025. And uncertainties remain, not least over the extent of eventual passthrough from higher tariff rates into economic aggregates and the eventual shape of a China-U.S. agreement. But with the market seemingly moving past peak tariff uncertainty, we examine some of the key features of non-U.S. markets, which could be important return drivers over the remainder of the year.

Thought of the Week—Overcoming Equity Sticker Shock: As the S&P 500 index notched record after record in July, investors who took risk off the table during the onslaught of volatility this spring may have been left wondering if they missed the boat. Putting dry powder to work when equity prices are near historic highs can feel intimidating, but avoiding Equities altogether due to their hefty price tag could lead to missed opportunities for returns. History tells us that investing on the day of a new all-time high has resulted in solid returns on average over a one-, two-, three-, and five-year period, and drawdowns of greater than 10% have occurred less than 5% of the time one year after a new all-time high has been reached since 1990. Record highs have typically been clustered together during bull market periods when Equities tend to have forward momentum. Starting valuations are important inputs in the portfolio construction process and may influence long-term outcomes, but they are ultimately just one of many factors to consider when deciding to invest. While it's understandable for investors to feel some sticker shock at these price levels, they should not be deterred from maintaining equity exposure that is in-line with their long-term financial goals.

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Portfolio Considerations

We remain overweight Equities relative to Fixed Income and bullish over the longer term given our favorable view on the corporate profit cycle and the ability of companies to harness new growth spigots and productivity pathways. We expect short periods of volatility in the second half as geopolitical risk remains high, and equity prices get ahead of themselves from time to time. Exhale periods would be buying and rebalancing opportunities for long-term investors, in our view.

Within Fixed Income, we find both nominal and real yields to be compelling and believe clients should consider extending from cash to a strategic duration target. Rates have been consolidating since 2023, and we are less concerned about a further rate spike from here.

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Markets Give Debt Sustainability the Benefit of the Doubt

Chief Investment Office, Macro Strategy Team

Apprehension about the size and trajectory of the U.S. government debt has long rankled market commentators. Unprecedented pandemic-related emergency spending, intractable political resistance to deficit reduction, and a surge in interest costs (Exhibit 1A) have intensified debt-sustainability concerns. Focus on debt-related risks to inflation, interest rates, the dollar and asset returns has also rarely been more intense. After all, inflation has already significantly exceeded the Fed's 2% target since 2020, interest rates are at 20-year highs, and the dollar has depreciated this year.

Headlines are indeed eye-popping. Already at roughly \$30 trillion and 100% of GDP, publicly held federal debt is expected to shoot even higher (Exhibit 1B, blue dotted line). Among advanced economies, only Japan and Italy carry higher debt relative to GDP, and both have experienced long-run economic stagnation. With no appetite for fiscal austerity, an aging population, and a higher interest rate environment, budget deficits are seen staying around 5.5% of GDP. Interest expense alone accounts for 50% of the deficit and is seen at 70%, or \$1.8 trillion, by 2035. A drop in appetite for Treasury debt would raise rates and push interest expense even higher, setting the country on an unsustainable debt path.

For now, however, aside from brief hiccups, markets have continued to defy expectations for debt-related stress and instability. At about 4.3%, the 10-year Treasury yield is in the middle of its 3.6% to 5% two-year range, and below 4.8% in early January. Investors have not demanded outsized Treasury yields relative to nominal GDP growth, and rate volatility has declined. Though slightly up this year, long-term market inflation expectations remain benign around 2.4%¹. Also, demand for Treasuries has continued to increase in times of heightened risk aversion, indicating that they remain perceived as a relative “safe haven.” Even foreign holdings of Treasury debt increased this year to new records, belying concerns of an exodus. With firm demand for dollar assets, the trade-weighted dollar depreciation this year has been within historical norms, far from panic selling. Also positive, corporate credit spreads have narrowed significantly, inconsistent with impending credit-market stress.

Here's a look into why the Treasury market may have stayed calm despite big deficits, high and rising debt-to-GDP (debt/GDP) projections, and a tripling of the interest bill since 2020 to about \$1 trillion:

- Although Treasury debt has surged over the past decade, its share of the aggregate global stocks and bonds portfolio rose only from roughly 7% to 13%, as the pool of investable assets also increased. As wealth accumulated, declining foreign central bank holdings have been more than offset by foreign private sector demand for dollar-denominated “safe assets” boosting overseas holdings to records. The 15-year-high real rates of the past two years enhanced their appeal for risk-averse savers.
- Still, 70% as of Q1² (or about \$20 trillion) of the publicly held Treasury debt is in domestic hands, mostly households. Treasuries account for just about 14% of the \$129 trillion in U.S. household financial assets, and roughly \$700 billion in interest this year goes to domestic savers.
- At the heart of the U.S. fiscal resilience lie its economic might and the dollar's global reserve status. This, plus the fact that the government can print its own currency, significantly increases its capacity to borrow at lower cost than otherwise. Indeed, borrowing in foreign currency is riskier than domestic currency debt. For instance, instead of being a destabilizing force, a dollar depreciation boosts U.S. multinationals' earnings and improves external competitiveness, a positive for domestic growth and debt-servicing capacity. Though taken as an ominous sign of fading confidence in the sustainability of the U.S. fiscal position, the trade-weighted dollar's 7% decline year to

Investment Implications

Reindustrialization and Artificial Intelligence (AI)-related productivity growth suggest strengthening potential GDP growth and higher, more normal interest rates than in the 2010s. Growing government debt also suggests upside pressures on interest rates. Strategies aligned with business investment and productivity-led growth, rather than government spending and abnormally low interest rates are likely to benefit. The risk of “fiscal dominance” and a likely weaker dollar underscores the need for inflation hedges. Selective international exposure also makes sense.

¹ Treasury Inflation Protected Securities data as of July 25, 2025

² U.S. Treasury and Federal Reserve data as of Q1 2025.

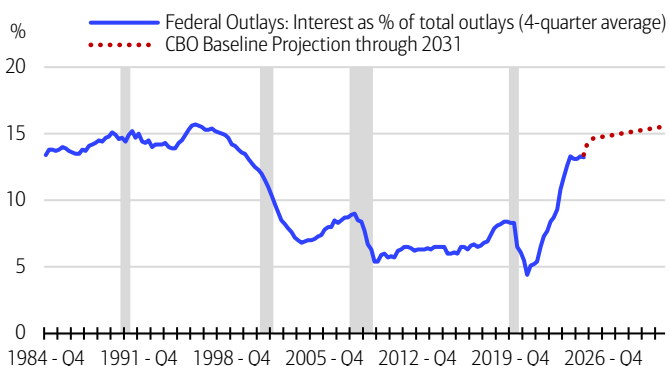
date has been modest given its massive overvaluation and is rather favorable from a debt-sustainability perspective.

- Unlike countries where deficits often fund inefficient and inflationary undertakings—causing currency depreciations that harm their dollar-debt repayment capacity—U.S. deficit spending has helped support productive activities such as advanced research, education, and infrastructure investment, helping set up the country for an unparalleled technological edge, high-value added production capabilities, and potentially stronger growth and tax revenues. Government deficits have also filtered into record high corporate earnings and solidified household balance sheets.
- Markets seem to believe that servicing that debt is not wasteful. In fact, because of its positive implications for productivity and potential growth, they have also welcomed the One Big Beautiful Bill Act for its favorable business investment provisions related to infrastructure, technology and domestic manufacturing. Even sharply higher tariffs are now seen as broadly favorable to domestic GDP growth, which is important because debt/GDP projections are highly sensitive to nominal GDP growth and other assumptions. For instance, according to the Congressional Budget Office (CBO), *“If TFP³ in the nonfarm business sector grew 0.5 percentage points more quickly than CBO projects in each year, federal debt held by the public in 2055 would be 113 percent of GDP instead of the 156 percent it amounts to in the extended baseline.”⁴*
- Successful management of the large and rising U.S. debt is also highly dependent on interest rates staying anchored to nominal GDP growth. So far, sharply higher real interest rates seem to reflect the shift to a more normal macroeconomic backdrop: an end to ultra-stimulative pandemic policy and expectations for stronger potential growth. Still, firm confidence in the Fed’s commitment to low and stable inflation is critical for interest rates to remain in line with nominal GDP growth. Unanchored inflation and inflation expectations would increase the risk premia on Treasury debt and the interest rate burden. High inflation would also muddle relative price signals, resulting in a misallocation of capital and lower productivity growth, further undermining debt sustainability.

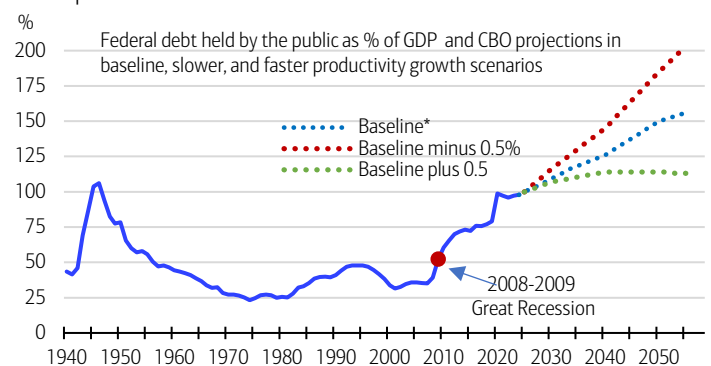
All in all, the U.S. fiscal position is far from ideal. Yet, the situation is not unstable, and a crisis is not inevitable. The private sector balance sheet is strong, and possibly firmer economic growth than assumed in baseline projections (Exhibit 1B) plus some revenue and spending tweaks have a good shot at improving the debt outlook. For now, despite worries to the contrary, financial markets remain cautiously optimistic that debt sustainability pillars—economic dynamism, Fed independence, and global demand for Treasuries—remain in place. The margin of error is narrowing, however.

Exhibit 1: Concerns About The Government Debt Trajectory Have Increased...

1A) ...With high deficits and interest costs surging since the pandemic.



1B) However, projections are highly sensitive to economic variables assumptions.



Gray bars represent recessionary periods. Exhibit 1A) Source: CBO. Data as of March 2025. Exhibit 1B) *Assumes total factor productivity grows at an average annual rate of 1.0% over the next 30 years. For reference: 1956-1976 = 1.6%, 1976-1996=0.85%, 2005-2025=1%. Source: CBO. Data as of May 2025.

³ Total factor productivity is the average output adjusted for inflation per unit of combined labor and capital services in the nonfarm business sector.

⁴ The Long-Term Budget Outlook Under Alternative Scenarios for the Economy and the Budget, CBO, May 2025.

International Equity Markets: Four Features to Follow

Ehiwario Efeiyini, Director and Senior Market Strategy Analyst

International Equities have led the U.S. market for much of 2025, but their advantage has narrowed over recent months. Since mid-April, the MSCI All-Country World ex-U.S. Index has given back just over 40% of its total return advantage for the year. At its relative peak, the non-U.S. market was around 17 points ahead of the S&P 500, but now stands only 10 points ahead (Exhibit 2). To be clear, this has been a purely relative rather than absolute story. Like the S&P 500, international markets are rising and have climbed to all-time highs. But their early-year leadership has been significantly eroded. Trade and tariffs have been the dominant themes for much of 2025. And uncertainties remain, not least over the extent of eventual passthrough from higher tariff rates into economic aggregates and the eventual shape of a U.S.-China agreement. But with the market seemingly moving past peak tariff uncertainty, we examine some of the key features of non-U.S. markets, which could be important return drivers over the remainder of the year.

Exhibit 2: International Equity Return Advantage Has Narrowed Over Recent Months.



Source: Bloomberg, Chief Investment Office. Data as of July 30, 2025. Total returns in USD. Please refer to index definitions at the end of this report. **Past performance is no guarantee of future results.**

Technology exposure—favors emerging markets over developed markets.

Information Technology (IT) and related exposure in the Communications Services sector have been two of the leading segments across global markets since the lows of early April. Continuing advancement in AI capability and large-scale investment in AI infrastructure remain key sources of growth for the global economy. With close to 35% concentration in IT alone, in addition to the majority of both the Communications Services and Consumer Discretionary sectors, the U.S. market has been a major beneficiary of the surge in technology-related areas over the past few months.

By contrast, low market share in IT has been a disadvantage for most major developed markets, including the eurozone (12%), Japan (14%) and the UK (1%). But emerging markets (24%) have participated to a greater extent. In particular Korea (41%) and Taiwan (80%) have been among the top-performing country indexes globally since April, significantly outpacing the S&P 500. China has also gained on the back of its exposure to the technology sector, though to a lesser degree. Destabilizing price competition among China’s leading internet retailers has contributed to deflationary pressures from manufacturing overcapacity and raised the specter of more regulatory intervention of the type seen earlier in the 2020s.

China’s growth slowdown—headwind for China consumption and resource

producers. Ongoing weakness in the real economy is an additional challenge for China. The traditional real estate investment growth engine remains in structural decline, with both new and existing property prices still contracting on a year-on-year basis. This not only represents a persistent drag on the fixed investment portion of China’s GDP, but also a weight on household balance sheets and consumer spending. Notably, the most recent meeting of the

Investment Implications

As investors likely move past peak tariff uncertainty, we see a range of local developments driving the major international markets over the remainder of the year. Our view remains that a more cautious stance on non-U.S. markets relative to the U.S. remains appropriate for now, particularly given their weaker relative price momentum over recent months. Relative valuation remains favorable, even after the outperformance in 2025. But absent the conditions for a more sustained improvement, we prefer to maintain a neutral stance on International Equities in the current environment.

Politburo held last month made no mention of the real estate sector for the first time since 2019, suggesting no intention to deliver any new stimulus measures in the near term.

The most official support continues to be directed toward new economy sectors like advanced manufacturing, robotics and clean energy, which, while fast-growing, are not sufficient in size to offset these other areas of weakness. The net effect is that GDP growth is expected to fall below the 5% threshold to 4.7% in 2025 and 4.2% in 2026 according to consensus across 80 private analyst forecasts. For resource-dependent markets elsewhere in the Asia-Pacific and Latin America such as Australia and Brazil, China's physical infrastructure investment outlook is pivotal. And these markets may not receive the same boost while its real estate and construction engines remain impaired.

Fiscal expansion in Europe—supportive for European defense and industrials.

Europe's aerospace and defense industry has been one of the top-performing market segments globally in 2025, returning close to 65% for the year so far⁵. The significant increase in European Union (EU) defense spending under the so-called Readiness EU package unveiled in March allocates €800 billion annually to defense spending over four years, with the aim of reaching 3% of GDP by 2030. At the same time, the incoming German government has approved a constitutional relaxation of its national debt brake to uncap defense expenditures and unveiled a €500 billion fund to boost spending on clean energy, transportation and digital infrastructure.

These measures signify a major shift in approach to balanced budgets in Europe, with fiscal flexibility as the largest source of funding for the Readiness EU program and Germany's historic decision to amend its constitution. Both suggest a multiyear period of public funding ahead, which should support the heavyweight industrials sector in Europe—particularly within the aerospace and defense industry. Indeed, the EU has since raised its defense spending target to 5% of GDP by 2035, in line with new North Atlantic Treaty Organization commitments outlined in June.

Inflation in Japan—a potential challenge for local Japan Equities. Japan's return to a sustained period of positive inflation for the first time since the early 1990s has been a positive development after its decades-long deflation fight. But in the wake of the July Upper House parliamentary election, persistently above-target inflation could potentially become a greater challenge. The erosion of household real incomes was a major factor behind the loss of the ruling coalition's majority in last month's vote, and the result could make for a period of policy paralysis, with the government already having lost its majority in the lower chamber last October. Core inflation remains near cycle highs at 3.3% year-on-year⁶, well above the Bank of Japan (BoJ) 2% target. And the Cabinet Office Consumer Confidence survey suggests that 49% of Japanese households expect inflation rates of above 5% over the coming year.

Japan's corporate sector reforms to encourage more shareholder-friendly activity in the form of industrial consolidation, share buybacks and higher payouts remain fundamental supports. But Japan has underperformed other major international markets in common currency terms this year, and the majority of its dollar total return has come from exchange rate appreciation rather than local market gains. Japan government bond yields across the curve have moved up further than in other major developed markets including the U.S., Europe and UK. And rising inflation and higher inflation expectations are likely to see the BoJ raise interest rates later this year.

On balance, our view remains that a more cautious stance on international developed and emerging markets relative to the U.S. remains appropriate for now, particularly given the weaker price momentum in the rest of world over the past few months. Relative valuation continues to favor non-U.S. markets, even after their outperformance in 2025. But absent the conditions for a more sustained improvement, we prefer to maintain a neutral stance on International Equities in the current environment.

⁵ MSCI Europe Aerospace and Defense Index as of July 31, 2025; Bloomberg as of July 31, 2025.

⁶ Statistics Bureau of Japan.

Overcoming Equity Sticker Shock

Emily Avioli, Vice President and Investment Strategist

Equities have been expensive. The S&P 500 Index recently briefly crossed the 6,400 threshold for the first time and has logged 15 new all-time closing highs year-to-date, 12 of which have been concentrated in the last 30 trading days. As the index notched record after record in July, investors who took risk off the table during the onslaught of volatility this spring may have been left wondering if they missed the boat.

Putting dry powder to work when equity prices are near historic highs can feel intimidating, but this kind of thinking is tied to timing the market—an investment strategy we continuously advocate against. Avoiding Equities altogether due to their hefty price tag could lead to missed opportunities for returns. In fact, history tells us that investing on the day of a new all-time high has resulted in slightly higher returns on average over a one-, two-, three-, and five-year period compared to investing on any other day since 1990 on a total return basis (Exhibit 3A).

That’s likely because all-time highs have typically been clustered together during bull market periods, when Equities tend to have forward momentum (Exhibit 3B). Looking out one year from each all-time high that the S&P 500 has achieved on a total return basis since 1990, drawdowns of greater than 10% have occurred less than 5% of the time.⁷ Economic downturns have also rarely coincided with fresh records—since 1990 there have been 24 years with all-time highs for the S&P 500 index, only four of which have overlapped with a recession.⁸

Today, equity market momentum could be sustained by factors like corporate earnings expansion, a resilient consumer, rapid technological innovation and the evolution of asset-light companies. Economic data is likely to remain noisy and there could be a few pit-stops along the way, but it’s our view that any choppiness is likely to occur within a broader uptrend. The opportunity cost of over-allocating to cash should be considered against this backdrop.

Starting valuations are important inputs in the portfolio construction process and may influence long-term outcomes, but they are ultimately just one of many factors to consider when deciding to invest. While it’s understandable for investors to feel some sticker shock when price levels are near all-time highs, they should not be deterred from maintaining Equity exposure that is in-line with their long-term financial goals.

Portfolio Considerations

We continue to emphasize the importance of being fully invested in a diversified portfolio. If lump-sum investing feels intimidating at these levels, investors could consider adding to areas that are trading at a relative discount or incorporating dollar-cost averaging strategies as a more comfortable alternative.

Exhibit 3: International Equity Return Advantage Has Narrowed Over Recent Months.

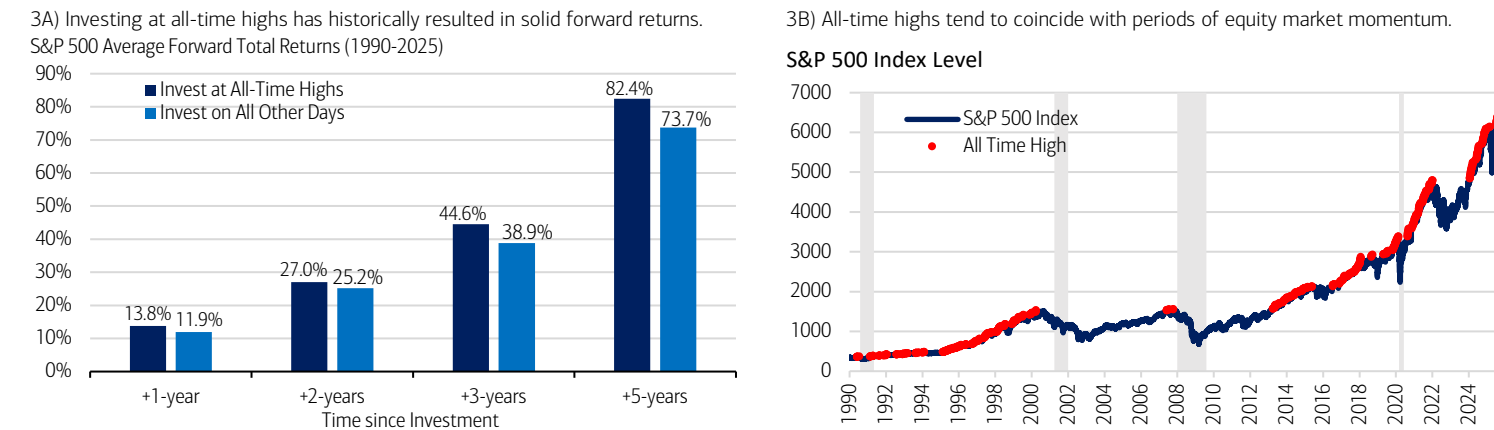


Exhibit 3A) Source: Bloomberg. Data as of July 30, 2025. All-time high dates based on total return levels for the S&P 500. Exhibit 3B) Source: Bloomberg. Data as of July 30, 2025. Gray represents recessionary periods. Please refer to index definitions at the end of this report. **Past performance is no guarantee of future results.**

⁷ Bloomberg. Data as of July 30, 2025.
⁸ Bloomberg. Data as of July 30, 2025.

Equities

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
DJIA	43,588.58	-2.9	-1.2	3.4
NASDAQ	20,650.13	-2.2	-2.2	7.3
S&P 500	6,238.01	-2.3	-1.6	6.9
S&P 400 Mid Cap	3,104.60	-3.5	-1.5	0.3
Russell 2000	2,166.78	-4.2	-2.0	-2.1
MSCI World	4,022.69	-2.5	-1.3	9.4
MSCI EAFE	2,606.40	-3.1	-0.4	17.3
MSCI Emerging Markets	1,226.18	-2.5	-1.4	15.9

Fixed Income†

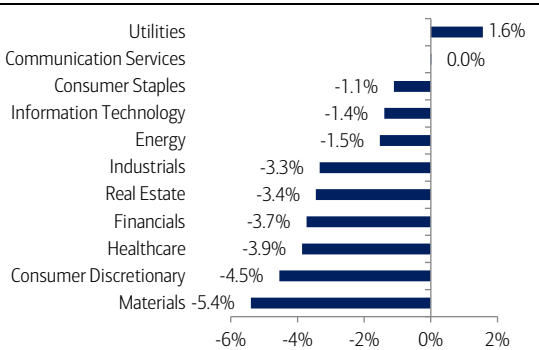
	Total Return in USD (%)			
	Current	WTD	MTD	YTD
Corporate & Government	4.33	0.95	0.78	4.53
Agencies	4.19	0.63	0.59	3.94
Municipals	3.93	0.85	0.39	-0.16
U.S. Investment-Grade Credit	4.48	0.95	0.81	4.59
International	4.94	0.84	0.66	4.93
High Yield	7.11	-0.16	-0.13	4.90
90 Day Yield	4.27	4.35	4.34	4.31
2 Year Yield	3.68	3.92	3.96	4.24
10 Year Yield	4.22	4.39	4.37	4.57
30 Year Yield	4.82	4.93	4.90	4.78

Commodities & Currencies

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
Commodities				
Bloomberg Commodity	249.30	-2.7	-0.5	4.5
WTI Crude \$/Barrel††	67.33	3.3	-2.8	-6.1
Gold Spot \$/Ounce††	3363.48	0.8	2.2	28.2

	Total Return in USD (%)			
	Prior Week End	Prior Month End	2022 Year End	
Currencies				
EUR/USD	1.16	1.17	1.14	1.04
USD/JPY	147.40	147.69	150.75	157.20
USD/CNH	7.19	7.17	7.21	7.34

S&P Sector Returns



Sources: Bloomberg; Factset. Total Returns from the period of 7/28/2025 to 8/1/2025. †Bloomberg Barclays Indices. ††Spot price returns. All data as of the 8/1/2025 close. Data would differ if a different time period was displayed. Short-term performance shown to illustrate more recent trend. **Past performance is no guarantee of future results.**

Economic Forecasts (as of 8/1/2025)

	Q1 2025A	Q2 2025A	Q3 2025E	Q4 2025E	2025E	2026E
Real global GDP (% y/y annualized)	-	-	-	-	3.0	3.1
Real U.S. GDP (% q/q annualized)	-0.5	3.0*	1.0	1.6	1.7	1.7
CPI inflation (% y/y)	2.7	2.5*	2.9	2.8	2.7	2.3
Core CPI inflation (% y/y)	3.1	2.8*	3.1	3.1	3.0	2.6
Unemployment rate (%)	4.1	4.2*	4.3	4.4	4.2	4.5
Fed funds rate, end period (%)	4.38	4.38	4.38	4.38	4.38	3.38

The forecasts in the table above are the base line 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. Historical data is sourced from Bloomberg, FactSet, and Haver Analytics. **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. *Data as of August 1, 2025.
Sources: BofA Global Research; GWIM ISC as of August 1, 2025.

Asset Class Weightings (as of 7/8/2025)

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

*Many products that pursue Alternative Investment strategies, specifically Private Equity and Hedge Funds, are available only to qualified investors. CIO asset class views are relative to the CIO Strategic Asset Allocation (SAA) of a multi-asset portfolio. Source: Chief Investment Office as of July 8, 2025. 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

Sector	CIO View		
	Underweight	Neutral	Overweight
Financials	●	●	●
Utilities	●	●	●
Consumer Discretionary	●	●	●
Communication Services	●	●	●
Information Technology	●	●	●
Healthcare	●	●	●
Industrials	●	●	●
Real Estate	●	●	●
Consumer Staples	●	●	●
Energy	●	●	●
Materials	●	●	●

Index Definitions

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

S&P 500 Index is a stock market index tracking the stock performance of 500 leading companies listed on stock exchanges in the United States.

MSCI All-Country World ex-U.S. index captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries--excluding the United States.

MSCI Europe Aerospace and Defense Index is composed of large and mid cap stocks across 15 Developed Markets (DM) countries in Europe.

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

Keep in mind that dollar cost averaging cannot guarantee a profit or prevent a loss. Since such an investment plan involves continual investment in securities regardless of fluctuating price levels, you should consider your willingness to continue purchasing during periods of high or low price levels.

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. 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. Income from investing in municipal bonds is generally exempt from Federal and state taxes for residents of the issuing state. While the interest income is tax-exempt, any capital gains distributed are taxable to the investor. Income for some investors may be subject to the Federal Alternative Minimum Tax (AMT). 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. Bonds are subject to interest rate, inflation and credit risks. 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. There are special risks associated with an investment in commodities including market price fluctuations, regulatory changes, interest rate changes, credit risk, economic changes and the impact of adverse political or financial factors.

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

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

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

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