

CHIEF INVESTMENT OFFICE

# Market Outlook 2020

Navigating headwinds and tailwinds in the markets



Investment Research

**Investing involves risk including possible loss of principal.** Information is current as of the date of this material.

Any opinions expressed herein are from a third party and are given in good faith, are subject to change without notice, and are considered correct as of the stated date of their issue.

**Merrill Lynch, Pierce, Fenner & Smith Incorporated is not a tax or legal advisor. Clients should consult a personal tax or legal advisor prior to making any tax or legal related investment decisions.**

Bank of America Corporation (“Bank of America”) is a financial holding company that, through its subsidiaries and affiliated companies, provides banking and investment products and other financial services.

Merrill Lynch, Pierce, Fenner & Smith Incorporated (also referred to as “MLPF&S” or “Merrill”) makes available certain investment products sponsored, managed, distributed or provided by companies that are affiliates of Bank of America Corporation (“BofA Corp.”). MLPF&S is a registered broker-dealer, registered investment adviser, Member SIPC and a wholly owned subsidiary of BofA Corp. Merrill Lynch Life Agency Inc. (“MLLA”) is a licensed insurance agency and a wholly owned subsidiary of BofA Corp.

Merrill offers a broad range of brokerage, investment advisory and other services. There are important differences between brokerage and investment advisory services, including the type of advice and assistance provided, the fees charged, and the rights and obligations of the parties. It is important to understand the differences, particularly when determining which service or services to select. The views and opinions expressed in this presentation are not necessarily those of Bank of America Corporation; Merrill Lynch, Pierce, Fenner & Smith Incorporated; or any affiliates. Merrill has not participated in preparing this presentation and accepts no responsibility for the accuracy of the information contained herein. **For more information about these services and their differences, speak with your Financial Advisor.**

Nothing discussed or suggested in these materials should be construed as permission to supersede or circumvent any Bank of America, Merrill Lynch, Pierce, Fenner & Smith Incorporated policies, procedures, rules, and guidelines.

Investment products offered through MLPF&S and insurance and annuity products offered through Merrill Lynch Life Agency Inc.:

<b>Are Not FDIC Insured</b>	<b>May Lose Value</b>	<b>Are Not Bank Guaranteed</b>
<b>Are Not Insured by Any Federal Government Agency</b>	<b>Are Not Deposits</b>	<b>Are Not a Condition to Any Banking Service or Activity</b>

# Potential risks heading into 2020

Consumer confidence erodes

Earnings growth and investment decline

U.S.-China trade talks break down

Inflation surprise

U.S. presidential election

Source: Chief Investment Office, as of January 2020

# Potential surprises in 2020



The consumer stays positive & strong

Business sentiment fuels investment

A comprehensive U.S.-China trade deal

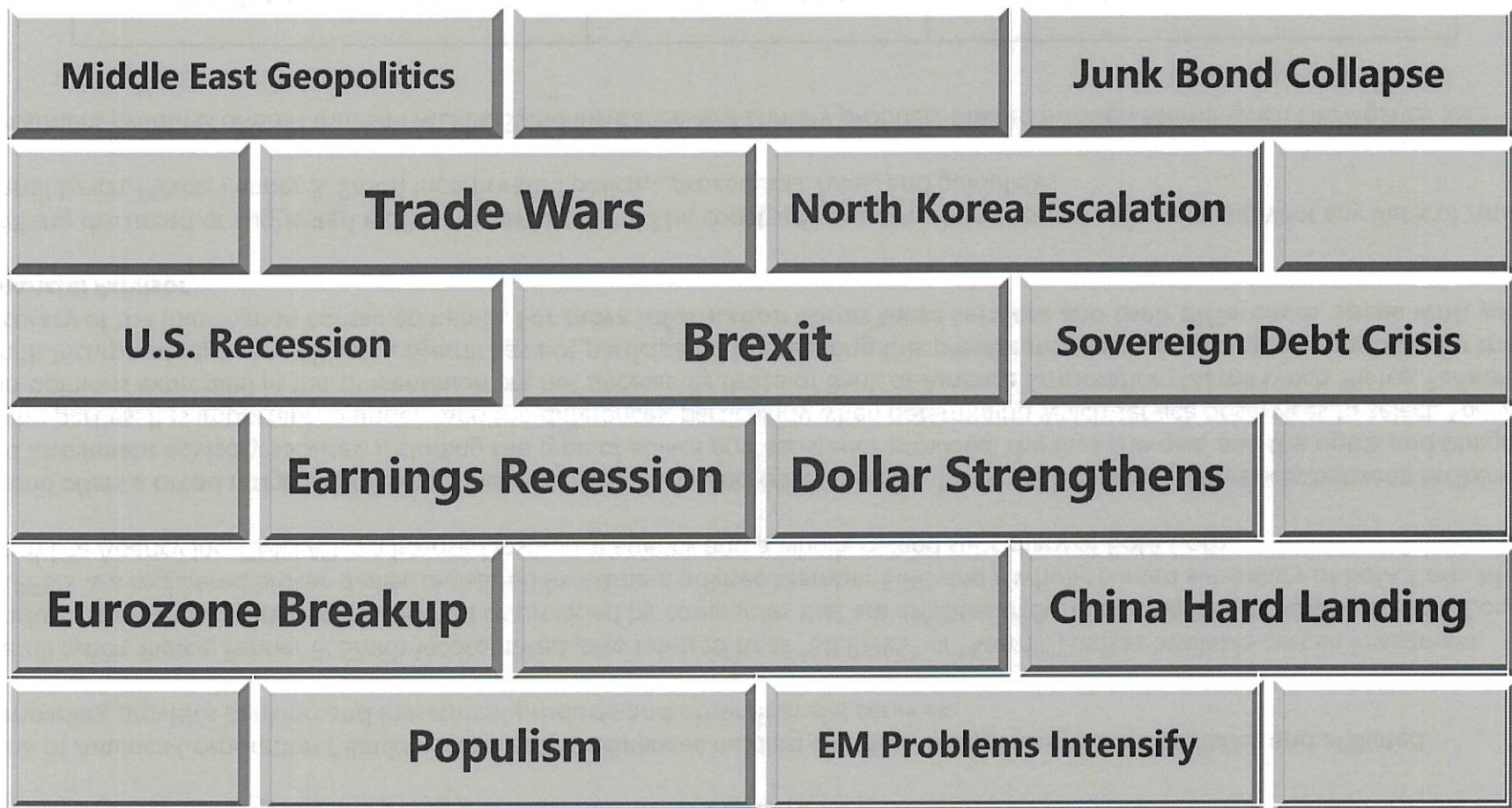
Accommodative central banks globally

Improved growth across all regions

Source: Chief Investment Office, as of January 2020

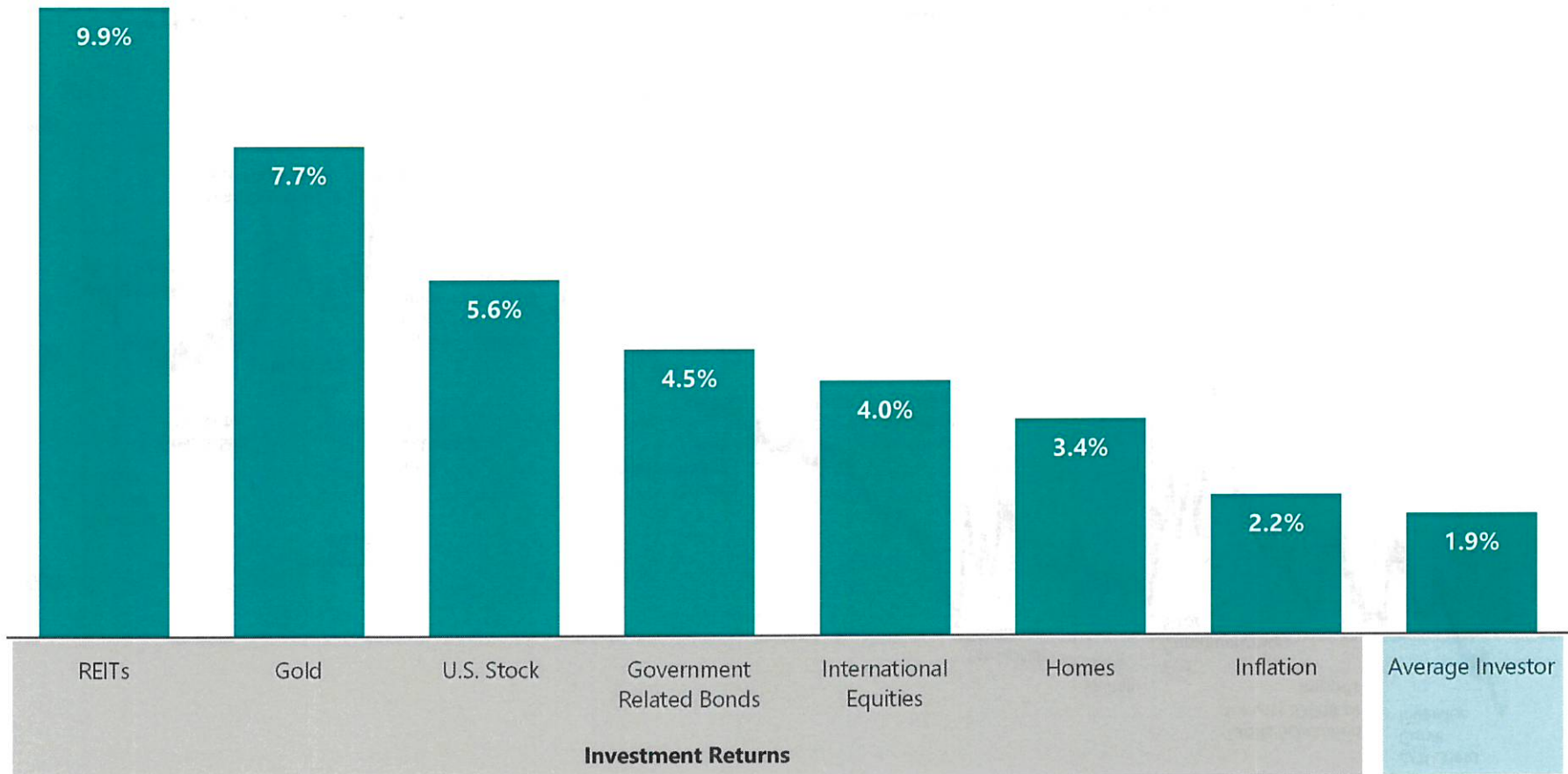
# Probabilities vs. Possibilities

The Wall of Worry



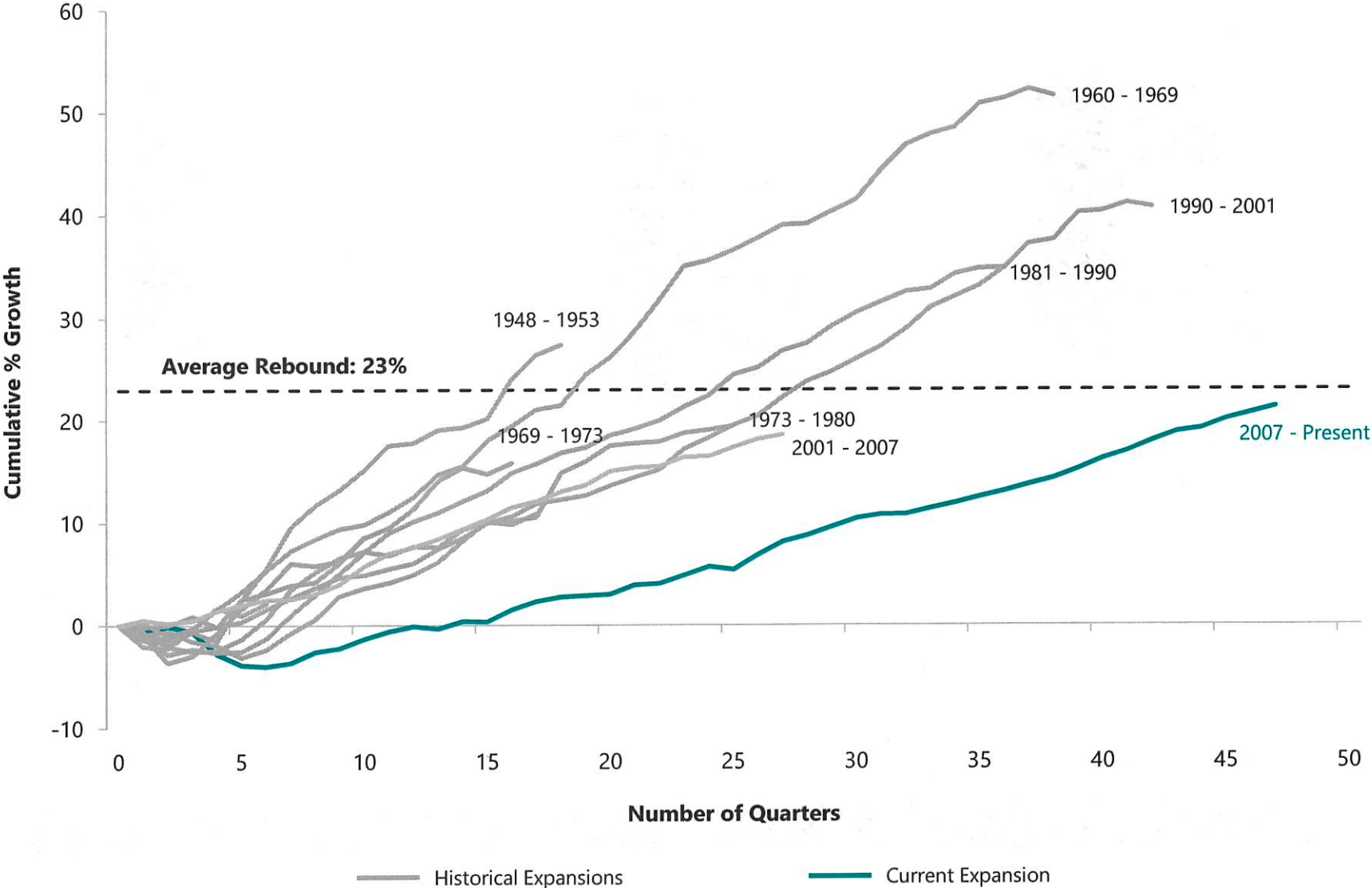
# Effects of Panic Attacks on Average Investors

## 20 Years Annualized Returns (1999-2018)

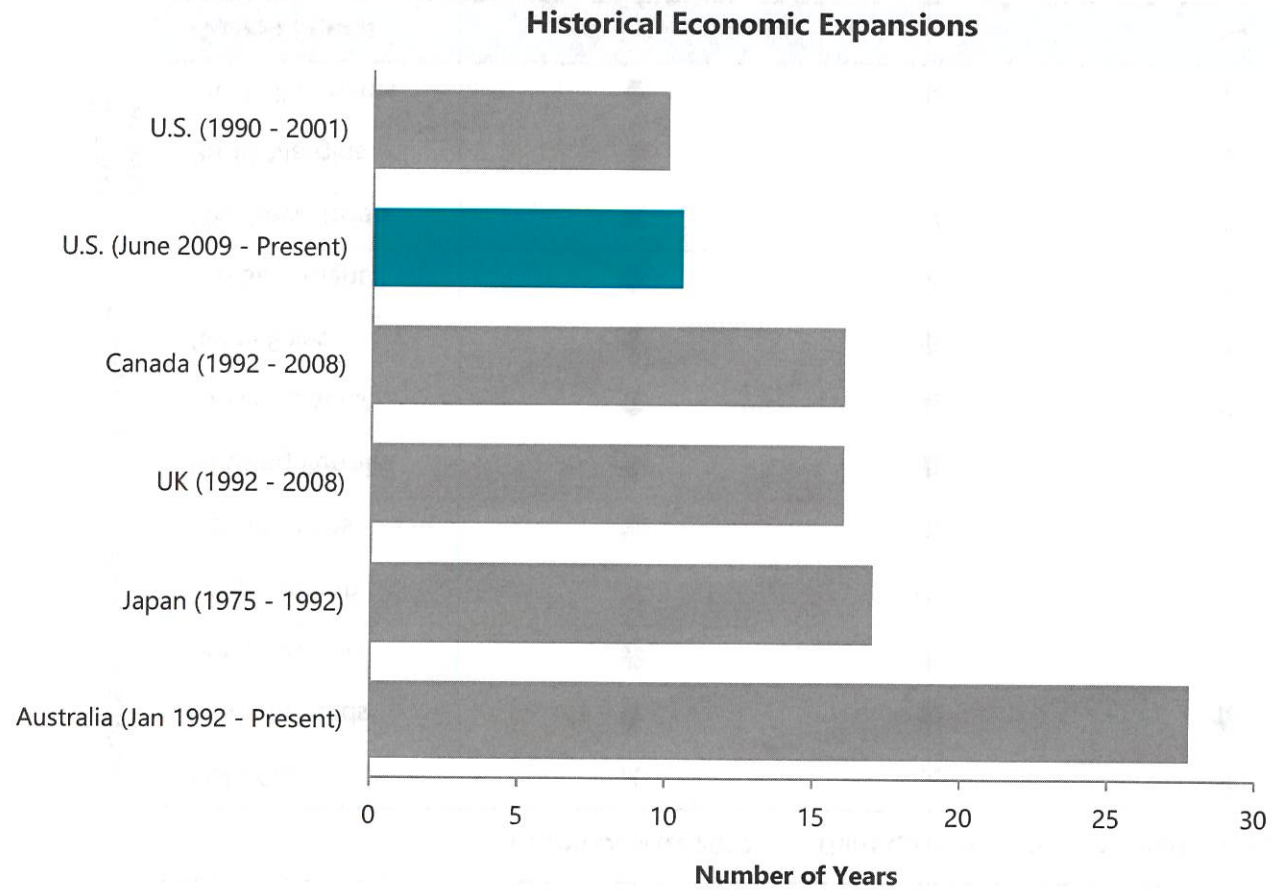


Source: Bloomberg, June 30, 2019. Average asset allocation investor return is based on an analysis by DALBAR, Inc., which utilizes the net of aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior. Indices shown are as follows: REITs are represented by the NAREIT Equity REIT Index, U.S. Stocks are represented by the S&P 500 Index, International Equities are represented by the MSCI EAFE Index, Government-Related Bonds are represented by the Bloomberg Barclays U.S. Aggregate Bond Index, Homes are represented by U.S. existing home sales median price, Gold is represented by the U.S. dollar spot price of one troy ounce, Inflation is represented by the Consumer Price Index. Indices are unmanaged and cannot be purchased directly by investors. Index performance is shown for illustrative purposes only and does not predict or depict the performance of any investment. **Past performance is no guarantee of future results.**

# Strength of Economic Expansions



# Just How Long Can The Cycle Continue?



► **Extended economic expansions are more common outside of the U.S.**



# U.S. Recession Risk Indicators

- 12 variables have historically foreshadowed a looming recession
- The overall signal suggests caution

		Fourth Quarter 2019	Third Quarter 2019	Second Quarter 2019
Financial	Yield Curve	✘	✘	✘
	Credit Spreads	↑	↑	↑
	Money Supply	●	●	●
Inflation	Wage Growth	✘	●	●
	Commodities	●	✘	✘
Consumer	Housing Permits	↑	↑	↑
	Jobless Claims	↑	↑	↑
	Retail Sales	↑	↑	↑
	Job Sentiment	↑	↑	●
Business Activity	ISM New Orders	✘	✘	●
	Profit Margins	●	●	↑
	Truck Shipments	↑	↑	↑
<b>Overall Signal</b>		●	●	●

↑ Expansion      ● Caution      ✘ Recession

# U.S. Recession Risk Indicators

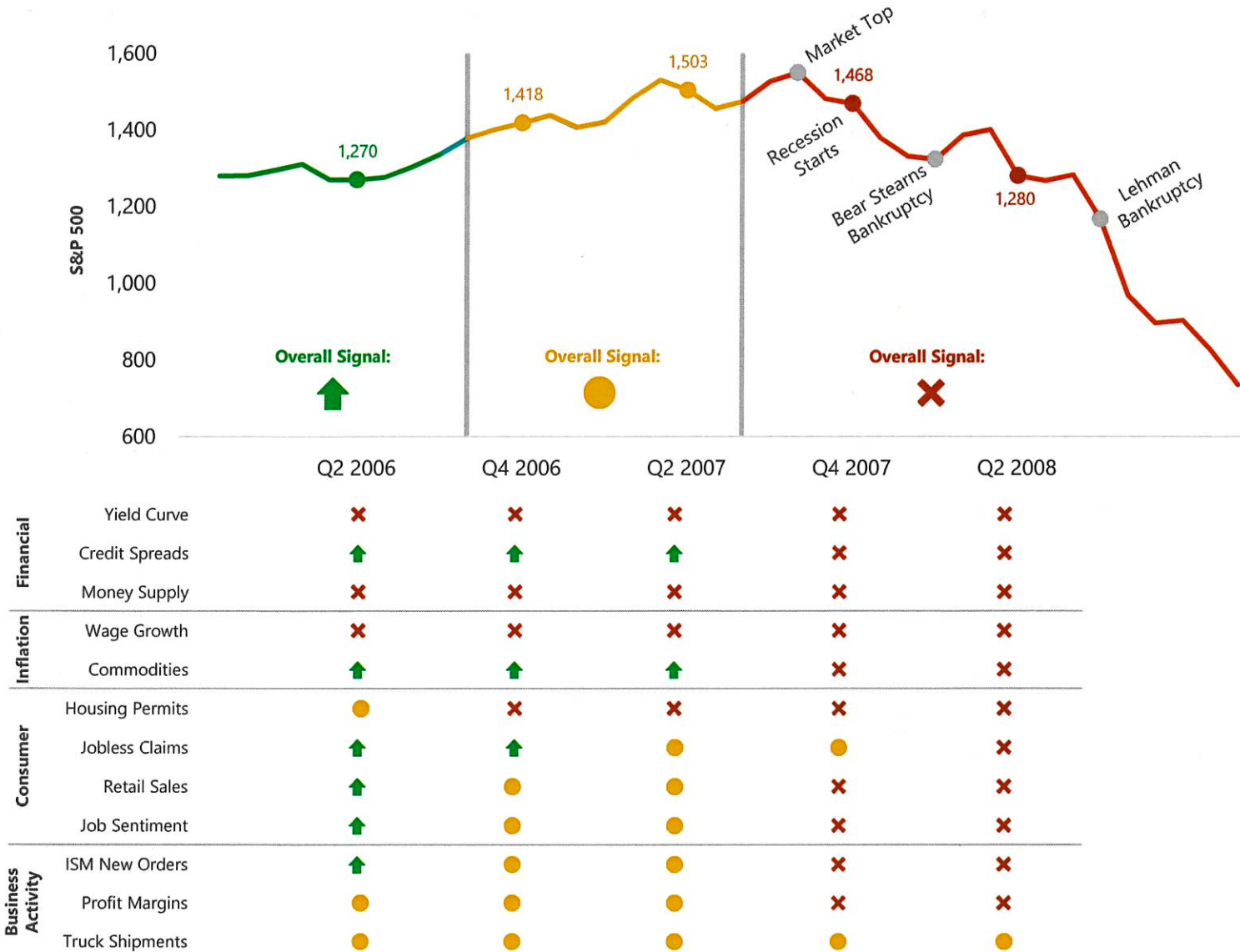
- 12 variables have historically foreshadowed a looming recession
- The overall signal suggests caution

		Recession							
		Current	2007-2009	2001	1990-1991	1981-1982	1980	1973-1975	1969-1970
Financial	Yield Curve	✗	✗	✗	✗	✗	✗	✗	✗
	Credit Spreads	↑	✗	✗	✗	✗	✗	↑	●
	Money Supply	●	✗	✗	✗	✗	✗	✗	✗
Inflation	Wage Growth	✗	✗	✗	✗	✗	✗	✗	✗
	Commodities	●	✗	✗	✗	✗	●	●	●
Consumer	Housing Permits	↑	✗	●	✗	✗	✗	✗	✗
	Jobless Claims	↑	●	✗	✗	✗	✗	↑	✗
	Retail Sales	↑	✗	✗	✗	✗	✗	●	✗
	Job Sentiment	↑	✗	✗	✗	✗	●	●	●
Business Activity	ISM New Orders	✗	✗	✗	✗	✗	✗	✗	✗
	Profit Margins	●	✗	✗	✗	✗	✗	●	✗
	Truck Shipments	↑	●	✗	✗	✗	✗	n/a	n/a
<b>Overall</b>		●	✗	✗	✗	✗	✗	●	✗

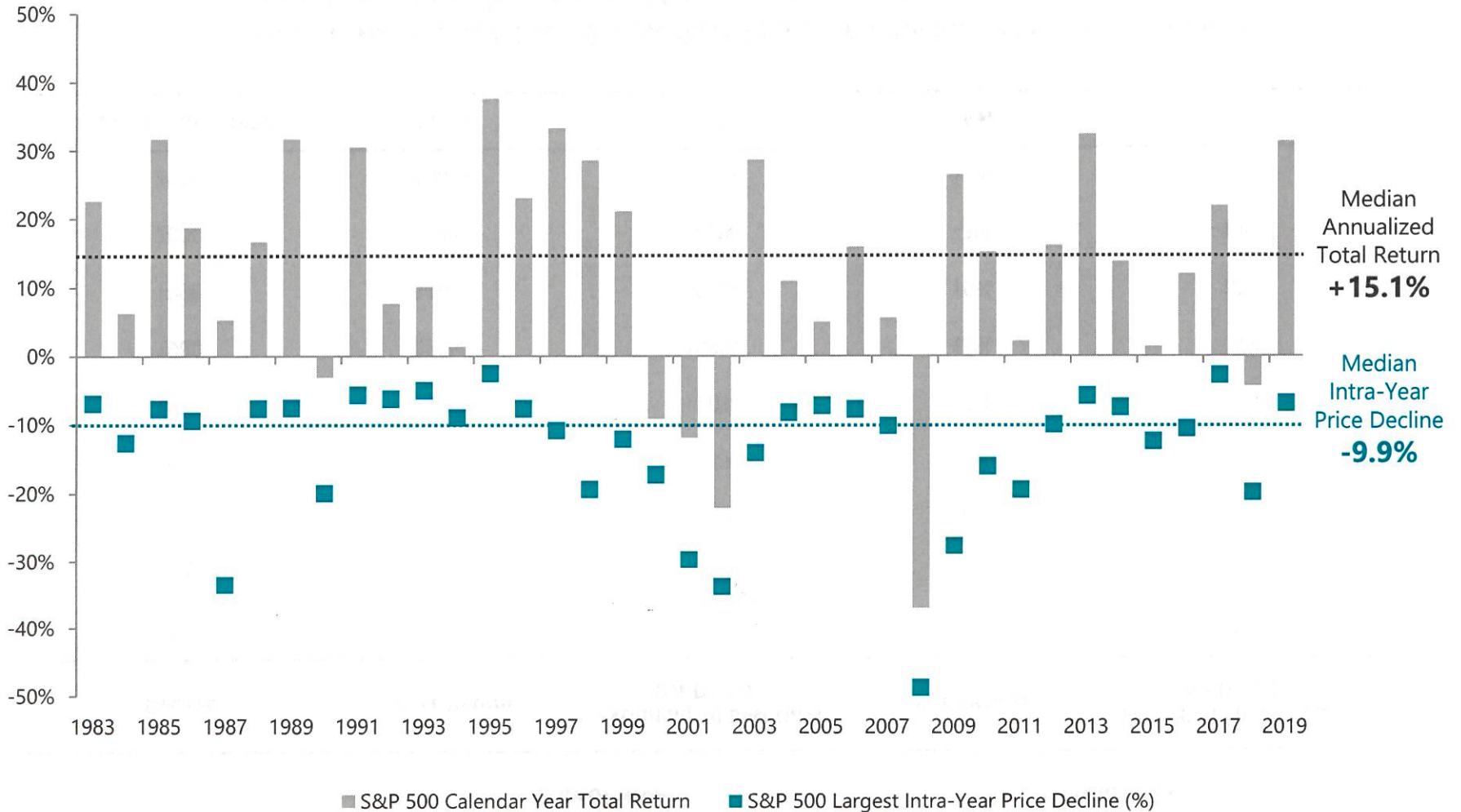
↑ Expansion      ● Caution      ✗ Recession

# U.S. Recession Dashboard

Case Study: 2006-2009



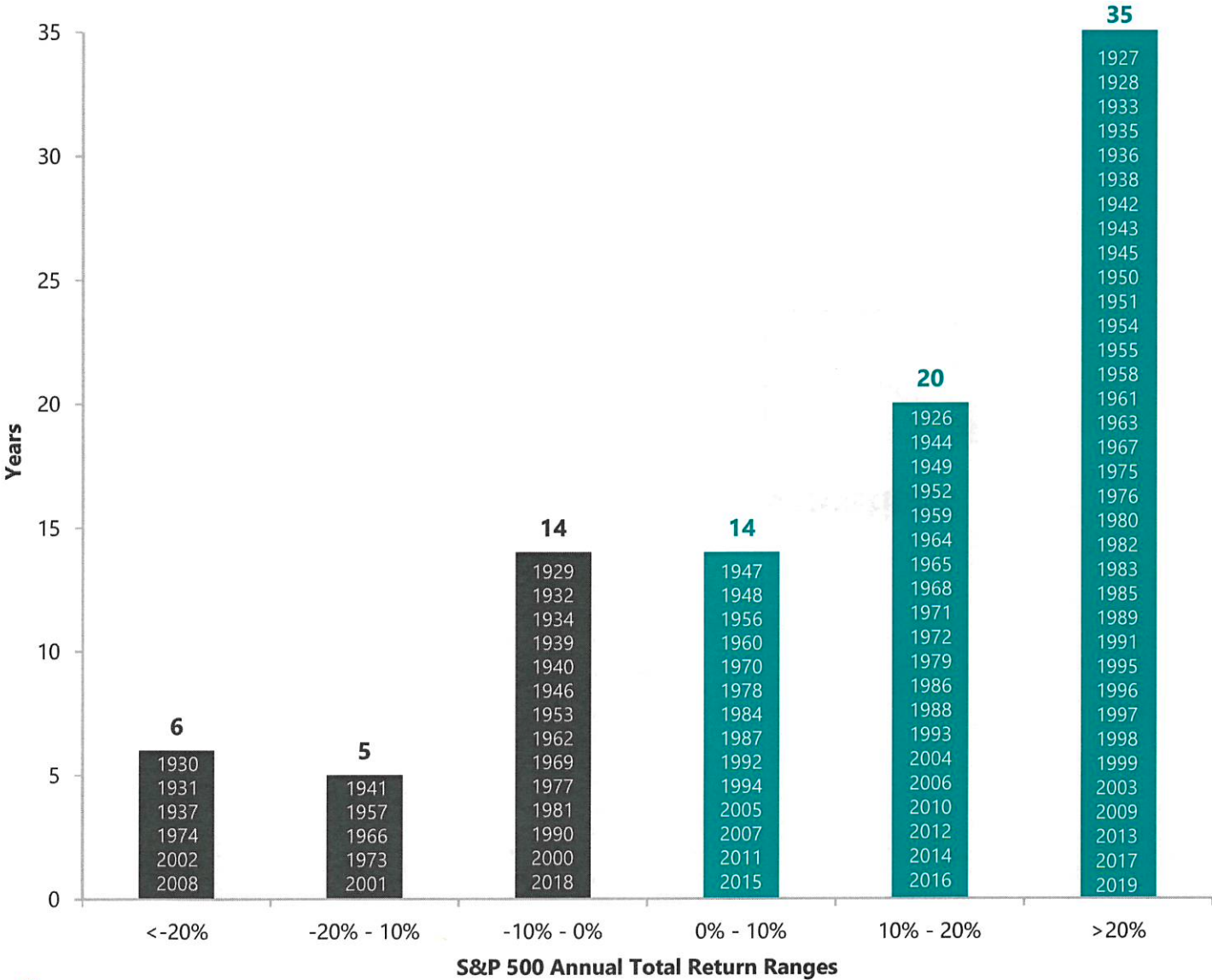
# Volatility Does Not Equal a Financial Loss Unless You Sell



Median Annualized Total Return  
**+15.1%**  
  
 Median Intra-Year Price Decline  
**-9.9%**

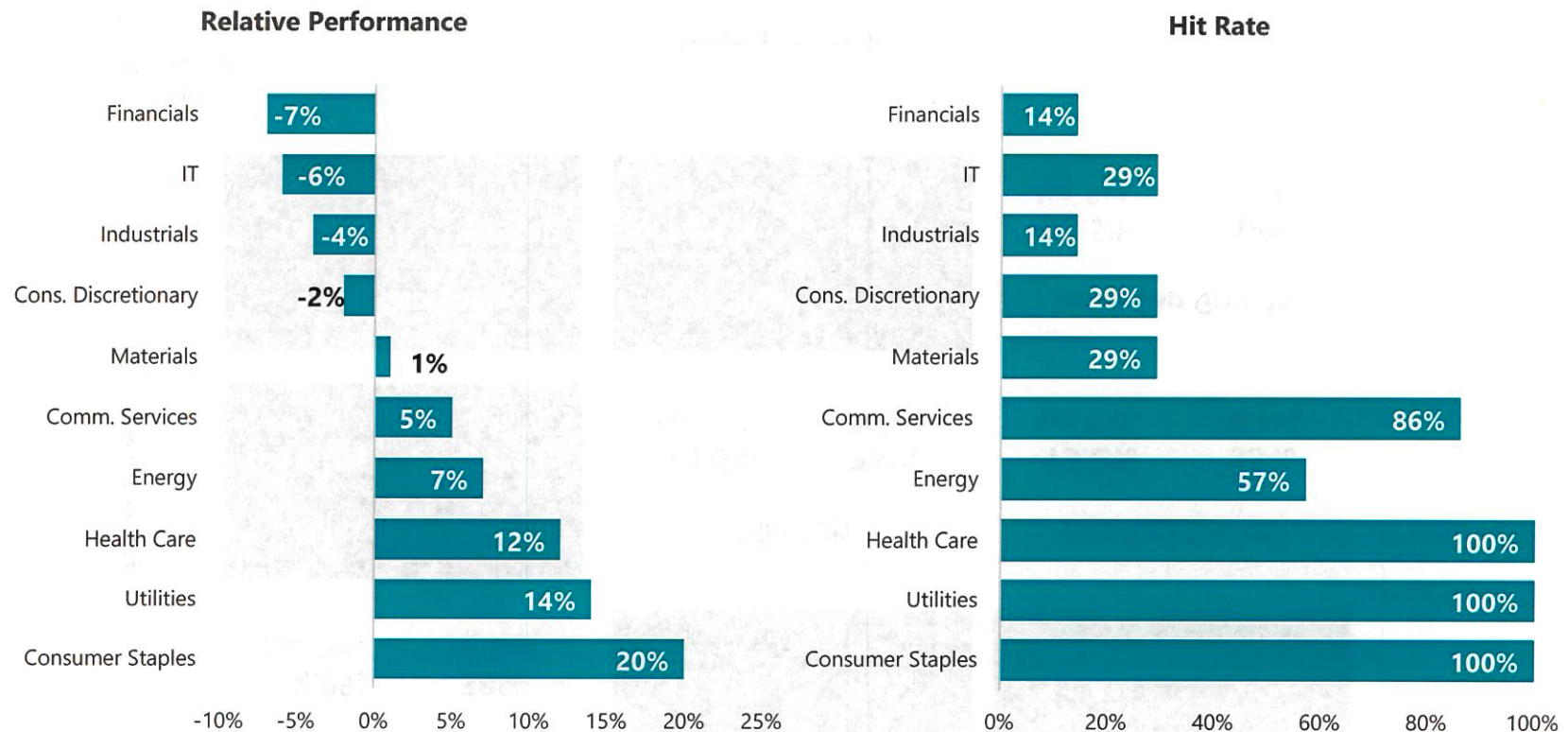
# Market Annual Returns

Distribution of S&P 500 Total Returns Since 1926



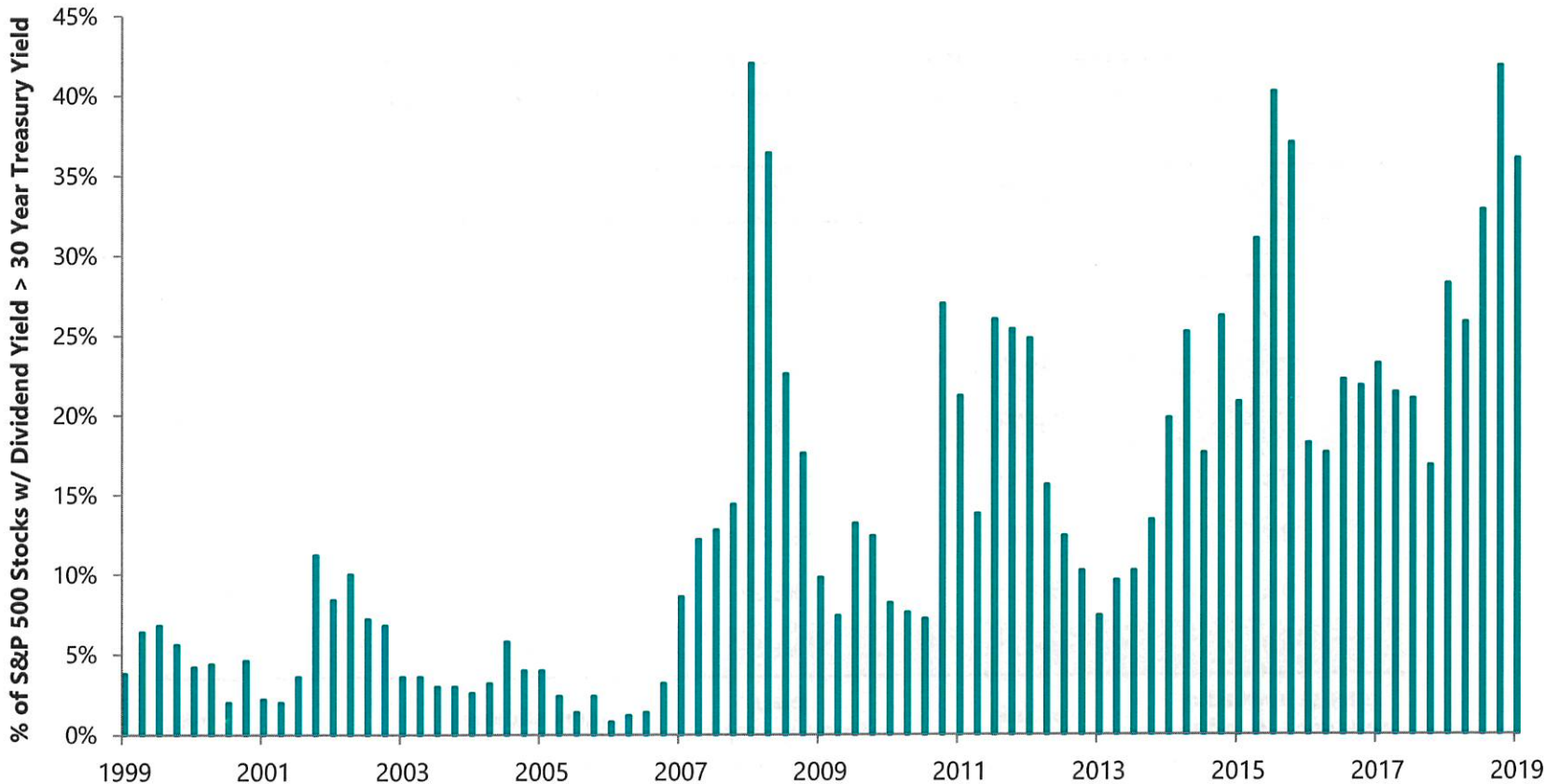
# Which Equities Do Well During Periods of Market Volatility?

During the Last Seven Major Market Drawdowns, Some Sectors Held Up Better than Others



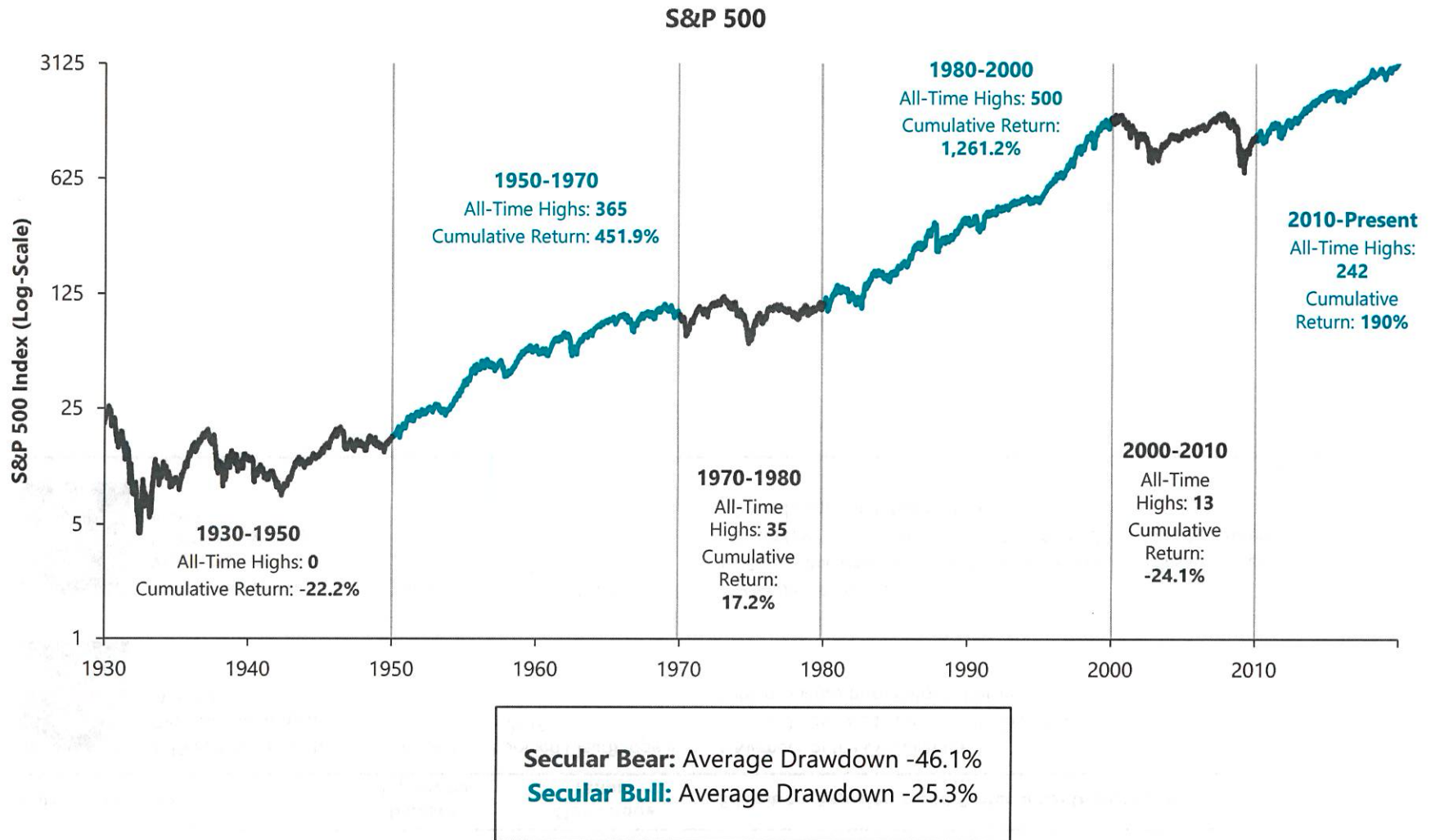
► During periods of market turmoil, defensive sectors such as Staples, Utilities, and Health Care have historically tended to deliver better relative performance.

# Dividend Paying Equities Attractive



▶ **36% of S&P stocks now have a dividend yield greater than the 30-year Treasury.**

# New Secular Bull Market?





# Important disclosures

*Please see additional Important Risk Disclosures at the end of this presentation.*

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

Global Wealth & Investment Management (GWIM) is a division of Bank of America Corporation. The Chief Investment Office, which provides investment strategies, due diligence, portfolio construction guidance and wealth management solutions for GWIM clients, is part of the Investment Solutions Group (ISG) of GWIM.

Bank of America, Merrill, their affiliates, and advisors do not provide legal, tax, or accounting advice. Clients should consult their legal and/or tax advisors before making any financial decisions.

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

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

Merrill Lynch, Pierce, Fenner & Smith Incorporated (also referred to as "MLPF&S" or "Merrill") makes available certain investment products sponsored, managed, distributed, or provided by companies that are affiliates of Bank of America Corporation ("BofA Corp."). MLPF&S is a registered broker-dealer, registered investment adviser, Member SIPC and a wholly owned subsidiary of BofA Corp.

Investment products:

<b>Are Not FDIC Insured</b>	<b>Are Not Bank Guaranteed</b>	<b>May Lose Value</b>
-----------------------------	--------------------------------	-----------------------

© 2020 Bank of America Corporation. All rights reserved. | 2900027 1/2020