

CHIEF INVESTMENT OFFICE

Capital Market Outlook

March 23, 2026

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

IN THIS ISSUE

Macro Strategy—AI and Creative Destruction: Artificial Intelligence (AI) is the latest manifestation of the process by which technological progress transforms the economy. In free markets where creative destruction is given leeway to take advantage of the expanding frontiers of knowledge, it is especially disruptive. Because this process is accelerating, there is increasing uncertainty about the longevity of the businesses in the equity market with the software industry in the bullseye of this issue most recently. Diversification can be even more helpful than usual in this environment as is indexation to indexes that drop the failed companies from creative destruction while incorporating the new technology leaders into their index as the S&P 500 does.

Market View—China’s Five-Year Plan: Local Stability Amid Global Uncertainty: Throughout the conflict-driven volatility of recent weeks, China’s equity market has been among the most stable of the major global benchmarks. Despite being the largest net importer of energy by volume, China has remained more insulated from the turbulence in oil and gas markets than most other economies in Asia. Reinforced by the economic direction outlined in its 15th Five-Year Plan, we expect to see China’s local market remain relatively insulated from both internal and external headwinds. And even as its headline rate of economic growth decelerates further, China’s pace of development and adoption in new technologies should remain high.

Thought of the Week—The AI In Between: We are somewhere in between AI’s economic and labor impacts having emerged but not yet fully realized. Generative AI is operating at a speed and scale that would have seemed implausible only a few years ago. The occupational mix has begun to be disrupted, without causing widespread displacement of entire job categories. Accordingly, the multiyear runup in business formation activity highlights the U.S. economy’s capacity to adapt and generate new forms of work amid technological disruption. Long-run AI driven productivity gains hinge on the buildout of U.S. infrastructure, which should benefit technology hardware, data centers build outs, network infrastructure, power grid modernization, and related electrical and cooling systems.

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Portfolio Considerations

We see equity market pullbacks driven by headline noise as potential opportunities, supported by improving growth, clearer interest-rate visibility, favorable dollar dynamics, strong earnings prospects, and limited impact from geopolitical risks. Diversification beyond U.S. mega-caps is increasingly important as market leadership broadens, with added exposure to Small-caps, EMs, and selective sector shifts, including our recent move to neutral on Materials and a slight underweight to Communication Services.

We remain constructive on Fixed Income but underweight it to fund Equities, expecting tariffs to have a marginal economic impact and yields to stay range-bound amid sticky inflation and gross domestic product (GDP) near or above 2%.

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AI and Creative Destruction

Chief Investment Office, Macro Strategy Team

As the world approaches the singularity point where machine intelligence is poised to surpass human intelligence by orders of magnitude, the economy is being radically transformed. The increasing speed of this transformation implies the process of creative destruction is becoming more powerful. The realization that longstanding commercial franchises are unlikely to last as long as in the past because of this process has most recently impacted the valuations of software companies that are judged particularly vulnerable to creative destruction by AI.

AI is currently the focus of how technology will reshape the economy. It raises many of the same issues that prior technological innovation waves have created for humanity. When the industrial revolution began in the late 1700s, a process of replacing hand labor with machines began. In England, weaving machines replaced skilled craftsmen who wove by hand giving rise to the Luddite movement where protesting laborers began destroying the new machines with hammers. Concerns about their jobs, working conditions and incomes drove the protests. The term “Luddite” became synonymous with anyone who is opposed to new technology, automation and more modern working conditions. But in its broadest original sense, the protest movement anticipated the general set of changes that affect workers when creative destruction transforms the economy.

While the first phases of this process mainly hit workers who produce goods, AI is much more impactful for the knowledge workers who have prospered during the digital information age of the past 60 or 70 years. Software programmers are the weavers of our current time. Knowledge workers in general are most vulnerable to AI’s creative destruction potential, while certain “hands-on” professions are relatively insulated. That said, the transformation coming from AI and digital technology in general is impacting much more than just knowledge workers as we have already seen in places like the automotive and agricultural industries, for example.

While the laborers who were displaced by machines during the industrial revolution were able to move into new and growing service industries, allowing the economy to keep expanding and unemployment to stay low while incomes and living standards rose, with the higher productivity that comes from technological progress, there are major doubts about where the jobs and incomes will come from if AI is eventually able to do everything that workers do today. These same doubts have been around ever since the Luddites, yet the progress that follows rising productivity and new technologies has always created new industries that provide incomes for labor.

However, one of the consequences of digital technology has been an increasing share of income going to the owners of capital and a declining share to labor (Exhibit 1A). AI is likely to exacerbate this trend even more. The growing share of capital as opposed to labor income is also implicit in the rising level of wealth relative to income. Since the 1960s the ratio of household wealth to income has risen from around five times to about eight times (Exhibit 1B).

An important implication of this transition from most labor income to mostly capital income is a need to broaden ownership of capital to mitigate the effects of a shrinking labor income share on the broader population. To some extent, this is already happening, at least in the U.S., where there is much wider ownership of Equities compared to most other economies. Without policies to make the ownership of capital and its growing income share more widespread, political polarization and instability are likely to increase as we have seen in recent years.

To some extent, this process of widening capital ownership is already under way, for example, with sovereign wealth funds like that in Norway, which surpassed a record value

Investment Implications

Diversification and market indexation may provide some defense in a world where accelerating creative destruction may shorten the lifespan of companies.

of \$2 trillion in early 2026, representing several hundred thousand dollars per Norwegian. Starting Individual Retirement Account (IRA) saving programs at birth is also a new policy idea to address this issue. Employee ownership of firms (ESOPs) is another approach that's been around for a while. A key issue for these programs is how to guard the integrity of these plans from the possible corrupting influence of politicians. In any event, without these policy attempts to broaden ownership of an economy with a shrinking labor share of income, political tensions are likely to continue to rise.

For investors, the growing share of capital income is a plus, but the accelerating pace of technological change creates uncertainties, as it can shorten the lifespan of companies they own as obsolescence comes sooner and creative destruction becomes more widespread.

While diversification is useful for many reasons, heightened uncertainty about the duration of a particular company's business model adds to the attractiveness of more eggs in the portfolio basket. It also makes diversifying across sectors and industries potentially more helpful.

The speed with which new companies are born and die is faster in a world with accelerating creative destruction. The constituents of market indexes like those for the S&P 500 are always changing as companies go through life cycles; as the victims of creative destruction fall out of the index, the new successful innovators come into the index as their businesses grow. This provides a bit of a dynamic hedge against the creative destruction process.

While past innovation waves have always paved the way for new jobs to replace the old ones, AI is likely to bring especially radical changes to society and the labor market. For one thing, its creative destruction is focused on the knowledge workers who were beneficiaries of the earlier innovations displacing workers in goods-producing and manufacturing industries. For another, it's clear that digital technology has fostered a trend toward a diminishing labor share of the economic pie. AI has the potential to put that trend on steroids in our view. If so, this implies a policy debate needs to focus on ways for the general population to share in the abundance that this technological progress makes possible.

Exhibit 1: Capital Income Rising Compared to Labor Income in the Digital Age.

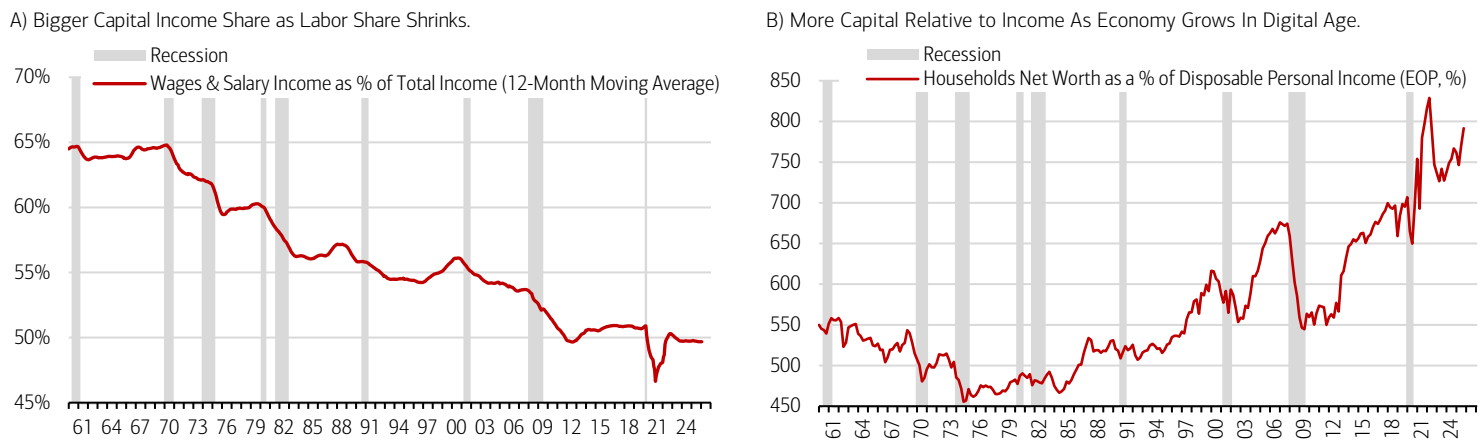


Exhibit 1A) Sources: Bureau of Economic Analysis/Haver Analytics. Data as of March 13, 2026. Exhibit 1B) Sources: Federal Reserve Board/Haver Analytics. Data as of January 9, 2026.

China’s Five-Year Plan: Local Stability Amid Global Uncertainty

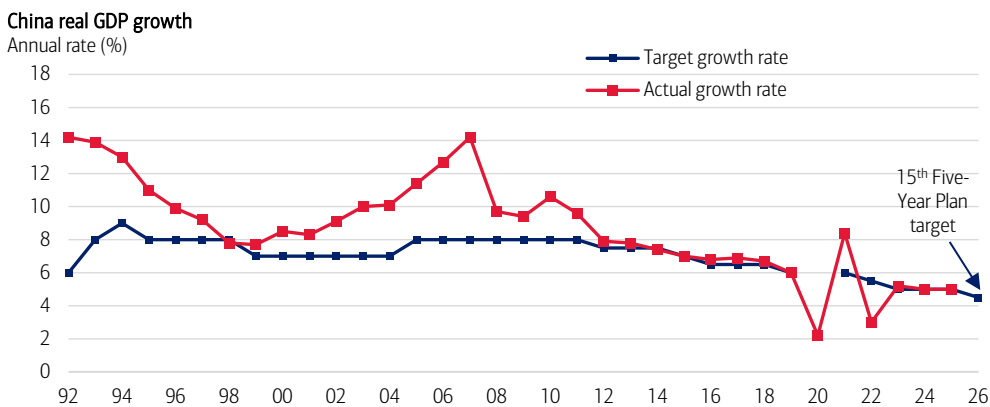
Ehiwario Efejini, Director and Senior Investment Strategist

Throughout the conflict-driven volatility of recent weeks, China’s equity market has been among the most stable of the major global benchmarks. Despite being the largest net importer of energy by volume, China has remained more insulated from the turbulence in oil and gas markets than most other economies in Asia. Its large oil stockpiles, estimated at around 1.2 billion barrels (at least three times the amount pledged for release by the International Energy Agency) cover three to four months of domestic supply. And the diversification of its energy sources away from imported fossil fuels in transportation and electricity generation has further shielded China’s economy from the current energy shock. At just over 40% of EM GDP, close to 30% of EM market capitalization and as the largest trading partner for the majority of emerging economies, China remains the economic anchor for the emerging world.

Above all else, China’s leadership prioritizes economic and, ultimately, social stability. And against the backdrop of conflict uncertainty in the Middle East, China’s 15th Five-Year Plan—initially adopted last October—was formally approved this month at the conclusion of its annual National People’s Congress. China’s five-year plans are the principal framework for the strategic aims of its leadership and the main guidepost for its economic direction, setting national priorities over the medium term. And they highlight the sectors and industries to which China authorities are committing the most resources at the national and provincial level through both state-owned enterprises and private companies. For the 15th Five-Year Plan, these priorities span the remainder of the current decade from 2026-2030.

In terms of the aggregate macroeconomy, the latest five-year plan sets a growth target for China of 4.5% to 5%—the lowest since the 1990s (Exhibit 2)—while still aiming to double per capita GDP from 2020 levels by 2035, which would raise it to over \$20,000.

Exhibit 2: China’s Trend Economic Growth Rate Continues to Decline.



Sources: National Bureau of Statistics; Bloomberg. Data as of 2026. Growth target shown is the lower bound when set as a range.

Without setting an explicit target, the Plan also has a stated objective of directly increasing the rate of household consumption, which at 40% of GDP remains well below the 55% to 60% typical of higher-income economies. Nonetheless with the growth rate of per capita income likely to slow in line with GDP, this will require a lower household savings rate even against the backdrop of an ongoing slump in property prices, a lackluster labor market and weak consumer confidence. Increased fiscal spending on public services and social welfare is expected to be a key driver here, with specific initiatives in the Plan to widen access to healthcare, pensions and insurance, as well as to expand paid leave and strengthen consumer rights protections.

But beyond absolute growth rates, the main focus of the Plan is the composition of China’s economic activity over the next five years (Exhibit 3). On natural resource consumption, the 15th Five-Year Plan period is expected to mark the peak in consumption of oil and coal by 2030 on the way to net zero emissions by 2060. And a projected 17% reduction in carbon dioxide emissions per unit of GDP further reinforces the view that China will become a much smaller driver of global fossil fuel demand over the years ahead, just as its impact on global demand for industrial metals has diminished with the structural decline of its traditional

Investment Implications

Despite a range of both internal and external challenges in the current environment, we expect China’s local equity market to stay relatively insulated, remaining an anchor for the wider EM benchmark. And even as its headline rate of economic growth decelerates further, China’s pace of development and adoption in new technologies should remain high, reducing its dependence on foreign suppliers and boosting its local technology-linked market segments.

growth engines of real estate and construction. This also underlines China's relative insulation from current and future energy shocks given its increasingly diversified energy mix.

Exhibit 3: China's 15th Five-Year Plan—Key Strategic Economic Aims.

Key targets under China's 15 th Five-Year Plan (2026 to 2030)			
Category	Indicator	2025 baseline	2030 target
Macroeconomy	Real GDP growth (%)	5	4.5 - 5
	Productivity growth (%)	6.1	> GDP growth
	Per capita disposable income growth (%)	5	In line with GDP growth
	Urbanization rate (%)	67.9	71
Innovation	Annual growth of research & development (R&D) expenditure (%)	9.1	>7
	High value patents (per 10,000 people)	16	> 22
	Value-added share of digital industries in GDP (%)	10.5	12.5
Decarbonization	Reduction in carbon emissions per unit of GDP (%)	17.7	17
	Non-fossil fuel share in total energy consumption (%)	21.7	25

Sources: National People's Congress, Chief Investment Office. Data as of 2026.

Technological improvement has now been a multiyear priority for China's leadership, but it remains at the center of the 15th Five-Year Plan. And this latest iteration in fact reaches a high watermark for emphasis in these domains, with the terms "scientific and technological innovation" and "high-quality development" mentioned more times in the official text than in the last two plans combined. This also comes alongside the new term "technological self-reliance." China's strategic aim to reduce its technological dependence on the rest of the world and become more self-sufficient has only been reinforced in recent years by pandemic supply chain disruptions, rounds of U.S. semiconductor export controls and now the risks to energy supply emanating from the conflict in the Persian Gulf. The government, in its latest five-year plan, aims to increase its overall national R&D spending by an average of at least 7% each year over the next five years. And it also proposes raising digital economy industries to a 12.5% value-added share of GDP by 2030, up from 10.5% at the end of the 2021 to 2025 period.

At its core, this means moving further up the output value chain by boosting investment in advanced manufacturing, implying that competitive pressures on European manufacturers are likely to persist in key areas such as electric vehicle production. And crucially it also means investing more into strategic technologies such as semiconductors, quantum computing, next-generation 6G telecommunications networks, biotechnology and AI which could ultimately also reduce its dependence on the U.S. and its allies for the most advanced chips and leading-edge chip manufacturing equipment.

For China's domestic economy, the Plan also includes an "AI-plus" initiative to integrate AI across a range of sectors including manufacturing, mining, chemicals, textiles, logistics and healthcare. The aim here is to modernize these traditional industries with the stated goal of reaching penetration rates of 70% by 2027 and 90% by 2030. This should also boost China's local Information Technology hardware and equipment makers, as well as its leading internet companies and local startups as open-source models and applications are adopted both within China and across other emerging economies.

China still faces a range of internal challenges from its maturing economy, still weak household consumption, persistent drag from the property sector and deflationary pressures from industrial competition; in addition to external challenges from trade and technology restrictions, supply-chain vulnerabilities and most recently conflict-induced risks to its energy supply. But reinforced by the economic direction outlined in its latest five-year plan we nonetheless expect China's local market to stay relatively insulated from these headwinds, remaining an anchor for the wider EM benchmark. And even as its headline rate of economic growth decelerates further, China's pace of development and adoption in new technologies should remain high.

The AI In Between

Lauren Sanfilippo, Director and Senior Investment Strategist

Before reaping the full economic benefits and employment consequences of AI we are currently in an “in between” period. At a speed and scale thought implausible just a few years ago, generative AI drafts text, writes code, analyzes data, generates visuals, and automates routine cognitive tasks. Generally, this has led firms to employ and embed AI into workflows without a significant contribution to joblessness. The Census Bureau finds that over 94% of firms using AI have not reduced headcount.

At least not yet. Roles at acute risk of disruption include customer support, paralegal work, content generation and data entry, according to Anthropic analysis.¹ That adds up, considering the higher levels of task automation in those roles. But to borrow a line from Jensen Huang, Nvidia’s CEO, AI won’t take jobs; the people who leverage AI better than you will. And so, we are living through an “AI in between” moment, an intermediate phase in which task automation within existing jobs and is advancing faster than the creation or elimination of job categories. Future roles could emerge that didn’t exist before large-scale AI model deployment, including prompt engineers, AI compliance officers, model risk managers and digital worker supervisors.

Already, the occupational mix has shifted over the past three years at a pace comparable to the periods following two major technological inflection points: the commercial computer era and Internet era (Exhibit 4A). Measured differently, business creation has structurally moved higher in recent years and likely remained higher with the advent of AI as a contributing factor. The Census Bureau shows business formation (measured by employer identification numbers) has surged during the pandemic and since remained relatively elevated (Exhibit 4B). That point underscores the entrepreneurial DNA of the U.S. economy, with small business startups a long-time job generator.

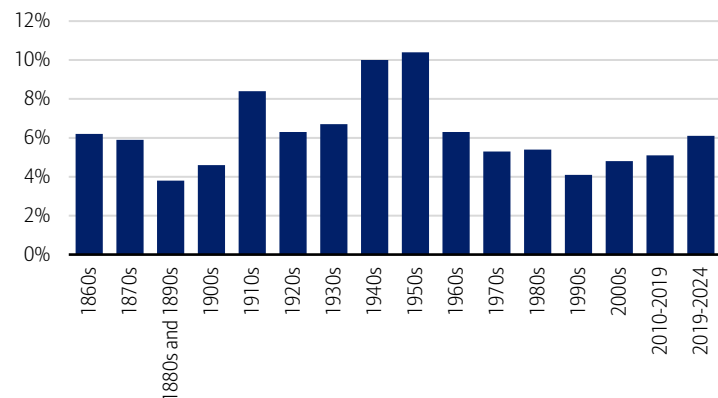
The bottom line being, AI’s impact is now observable rather than hypothetical, but its full implications have yet to materialize. Future iterations will challenge these assumptions on the labor market, but the bottom line is this: Labor is being reconfigured as AI becomes more embedded in the U.S. economy.

Investment Implications

Realizing AI-driven productivity gains depends on the buildout of foundational AI infrastructure. Accordingly, we would align investment positioning with long-cycle capital spending across technology hardware, power grid modernization, electrical and cooling equipment, data centers, and network infrastructure.

Exhibit 4: Job Genesis Afoot as Business Formation Surges.

A) Rate of Change of Occupational Mix by Decade.



B) Weekly Business Applications in Thousands, Seasonally Adjusted (4-week moving average).



Exhibit 4A) Source: Hamilton Project, Brookings Institute. Bars represent rate of change across occupational sectors, by decade or by decadalized rate for non-decade time periods. Data as of 2024. Exhibit 4B) Sources: Census Bureau, Haver Analytics. Data as of March 2026.

¹ Anthropic Research, “Labor market impacts of AI: A new measure and early evidence,” March 5, 2026

Asset Class Weightings (as of 3/4/2026)

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	●		
Private Credit	●		
Real Assets	●		
Cash	●		

CIO Equity Sector Views

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

*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 March 4, 2026. 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.

Economic Forecasts (as of 3/20/2026)

	Q4 2025A	2025A	Q1 2026E	Q2 2026E	Q3 2026E	Q4 2026E	2026E
Real global GDP (% y/y annualized)	-	3.5*	-	-	-	-	3.5
Real U.S. GDP (% q/q annualized)	0.7	2.1*	3.3	3.0	2.0	2.0	2.7
CPI inflation (% y/y)	2.7	2.7*	2.8	4.0	3.5	3.2	3.3
Core CPI inflation (% y/y)	2.7	2.9*	2.5	2.8	2.6	2.6	2.6
Unemployment rate (%)	4.5	4.3*	4.4	4.5	4.4	4.3	4.4
Fed funds rate, end period (%)	3.63	3.63	3.63	3.38	3.13	3.13	3.13

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 March 20, 2026.

Sources: BofA Global Research; GWIM ISC as of March 20, 2026.

Equities

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
DJIA	45,577.47	-2.1	-6.8	-4.8
NASDAQ	21,647.61	-2.1	-4.4	-6.7
S&P 500	6,506.48	-1.9	-5.3	-4.7
S&P 400 Mid Cap	3,296.29	-1.3	-7.7	0.0
Russell 2000	2,438.45	-1.7	-7.3	-1.5
MSCI World	4,244.09	-2.0	-6.8	-4.0
MSCI EAFE	2,840.61	-2.1	-10.5	-1.5
MSCI Emerging Markets	1,463.33	-0.3	-9.0	4.5

Commodities & Currencies

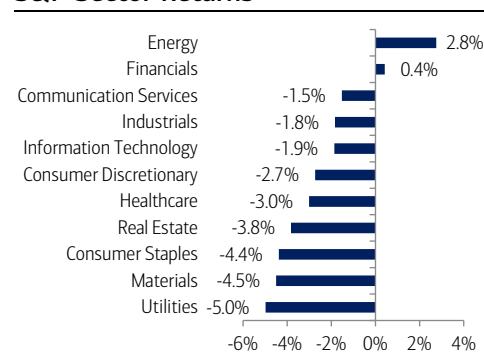
Commodities	Total Return in USD (%)			
	Current	WTD	MTD	YTD
Bloomberg Commodity	340.42	-0.5	10.4	23.2
WTI Crude \$/Barrel ^{††}	98.32	-0.4	46.7	71.2
Gold Spot \$/Ounce ^{††}	4492.42	-10.5	-14.9	4.0

Currencies	Total Return in USD (%)			
	Current	Prior Week End	Prior Month End	2024 Year End
EUR/USD	1.16	1.14	1.18	1.17
USD/JPY	159.23	159.73	156.05	156.71
USD/CNH	6.91	6.91	6.86	6.98

Fixed Income[†]

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
Corporate & Government	4.56	-0.46	-2.38	-0.78
Agencies	4.28	-0.41	-1.36	-0.15
Municipals	3.67	-0.49	-1.92	0.23
U.S. Investment-Grade Credit	4.66	-0.51	-2.38	-0.68
International	5.22	-0.27	-2.63	-1.20
High Yield	7.46	-0.31	-1.51	-0.82
90 Day Yield	3.70	3.68	3.66	3.63
2 Year Yield	3.90	3.72	3.37	3.47
10 Year Yield	4.38	4.28	3.94	4.17
30 Year Yield	4.94	4.90	4.61	4.84

S&P Sector Returns



Sources: Bloomberg, Factset. Total Returns from the period of 3/16/2026 to 3/20/2026. [†]Bloomberg Barclays Indices. ^{††}Spot price returns. All data as of the 3/20/2026 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.**

Index Definitions

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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.

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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, such as gold, including market price fluctuations, regulatory changes, interest rate changes, credit risk, economic changes and the impact of adverse political or financial factors.

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Alternative investments are intended for qualified investors only. Alternative Investments such as derivatives, hedge funds, private-credit, 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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