



March 15, 2018

2018 SGV Economic Forecast Summit

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Global & National Forecast

Christopher Ainsworth, Managing Director

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Bank of America Private Wealth Management

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The CIO “Bulls Eye”



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An succinct and objective perspective on new developments during the quarter and key ongoing macro drivers.

Recent Developments

Republican tax plan signed into law, handing President Trump a major legislative achievement

Jerome Powell chosen as next Federal Reserve Chairman, seen as a continuation of accommodative monetary policy

U.K. and the European Union agree to separation financial bill, setting up talks for future trade relationship

Republican electoral defeats potentially signal shift in political winds

Quantitative Easing Roll Off (QERO) begins in U.S. while global central banks tiptoe towards tightening monetary policy

Angela Merkel, recently elected Chancellor of Germany, finds it difficult to form a government

North Korea, categorized as state-sponsor of terrorism, fires another ICBM*

Bitcoin futures begin trading on the Chicago Board Options Exchange and Chicago Mercantile Exchange

Positive Factors

Broad global synchronized recovery drives earnings growth

Monetary policy worldwide remains accommodative

Healthy consumer and job growth drives U.S. economy

Growth of European economy reduces political risk

On Watch

Geopolitical and trade tensions (protectionism)

China's deleveraging campaign and economic transition

QERO and FOMC** composition

Italian elections (March 4th) / Identity Politics

Source: Chief Investment Office. Data as of December 31, 2017. *Intercontinental ballistic missile; **Federal Open Market Committee

2018 Outlook: The Next Great Odyssey

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We see 2018 as a year of continued transition.

The progression from the prolonged period of secular stagnation and extraordinarily low interest rates to rising economic growth, enhanced by secular forces, and rising interest rates may generate episodes of concern, which could eventually set the stage for a new upcycle.

Our outlook of expected dynamics to drive the new upcycle can be seen through a 5 by 5 prism

Expected growth sources

Capital investment via repatriation

Millennial housing cycle

Emerging market middle-class consumers

Second wave of an innovation cycle

Global infrastructure redevelopment

New demographic & inflation dynamics expected to allow...

Central banks to normalize large balance sheets

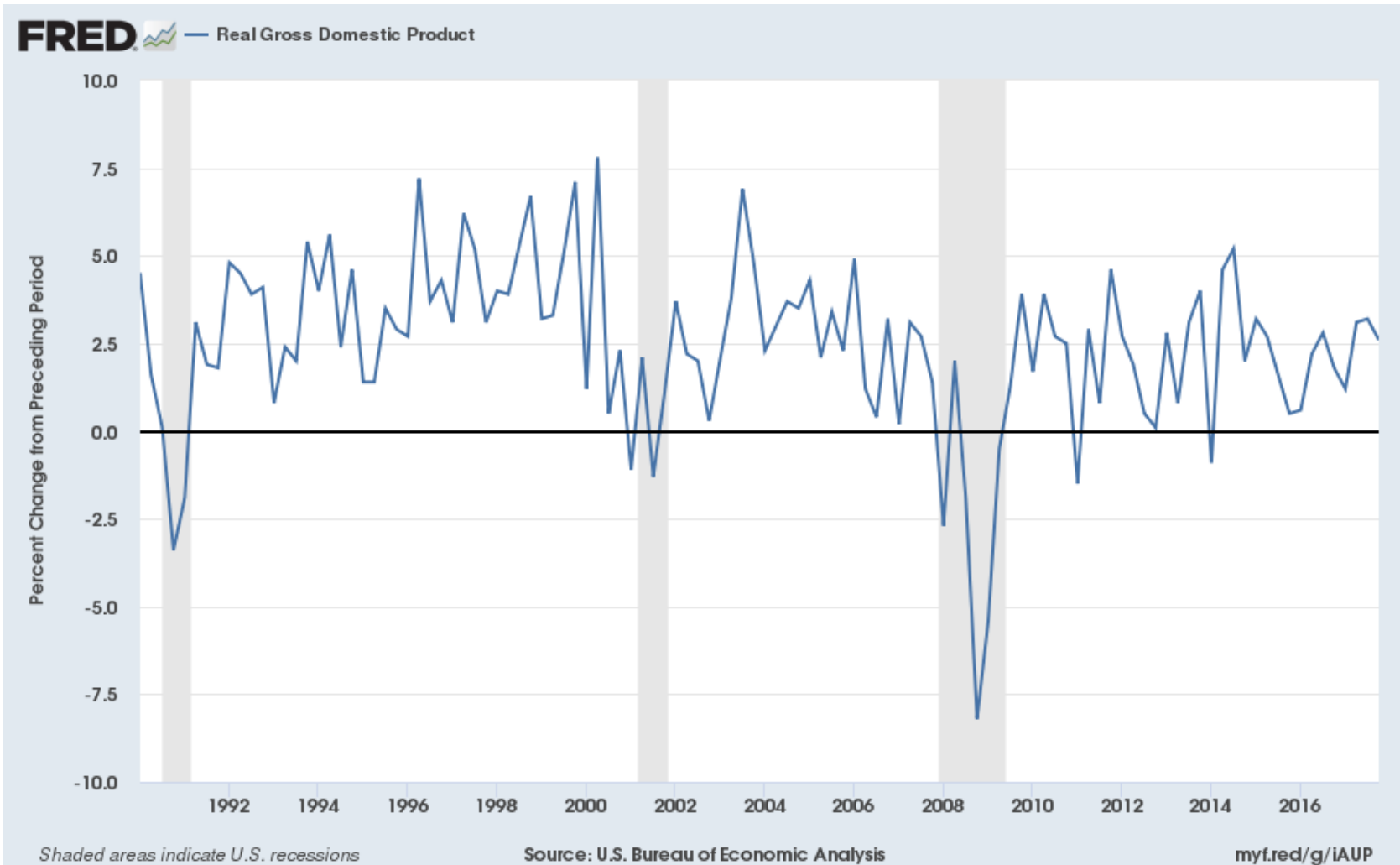
Tapering of central bank bond-buying programs

A nudge higher in interest rates

Trillions of dollars to fade to positive rate structure

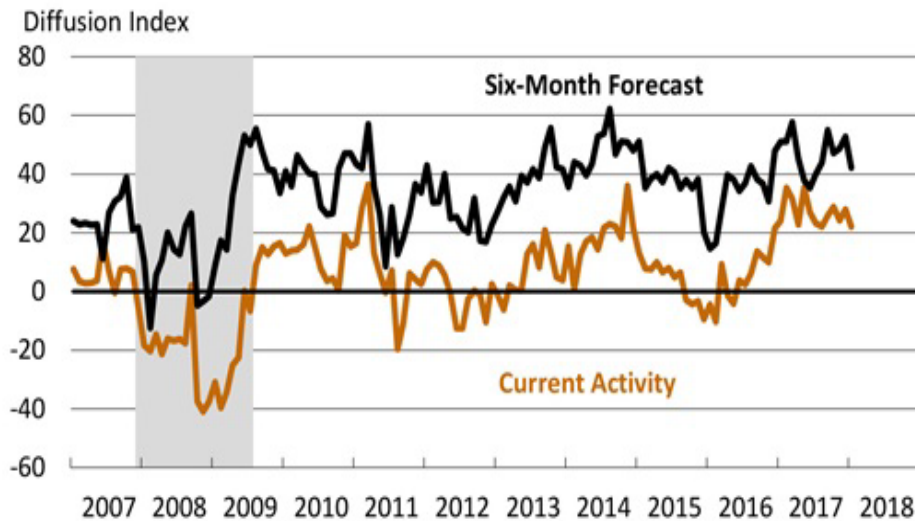
Debt servicing costs to remain at acceptable levels, as growth hovers at or above trend levels

U.S. GDP Quarterly % Change



Manufacturing Survey

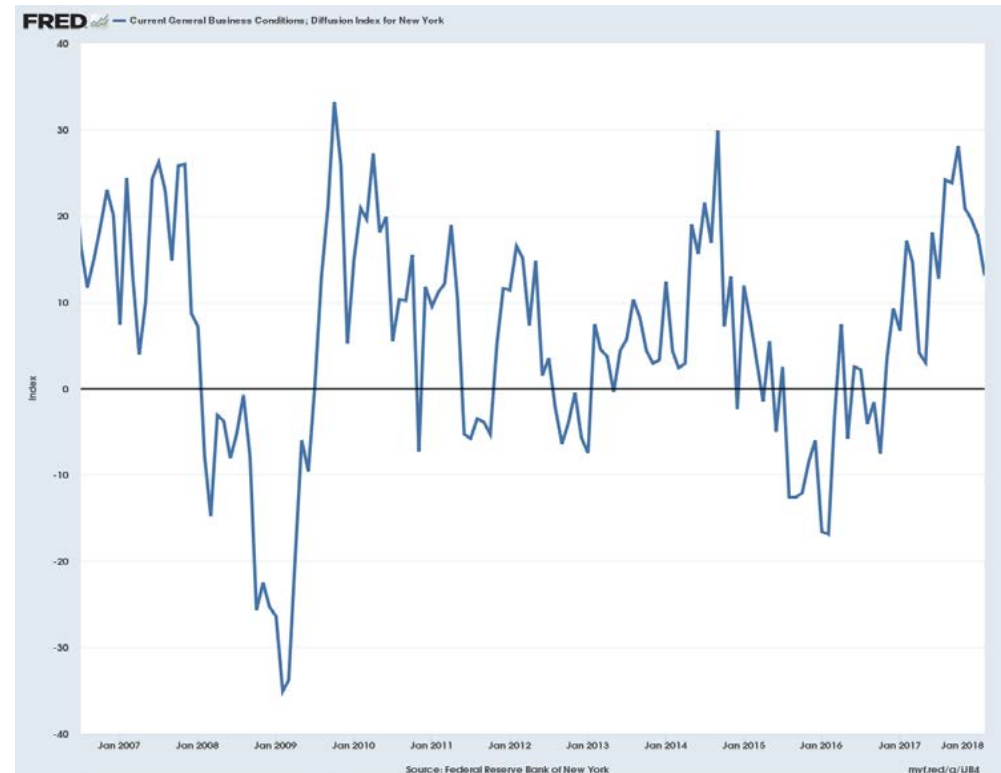
Chart 1. Current and Future General Activity Indexes
January 2007 to January 2018



Note: The diffusion index is computed as the percentage of respondents indicating an increase minus the percentage indicating a decrease; the data are seasonally adjusted.

Source: www.philadelphiafed.org/manufacturing-BOS

Current General Business Conditions



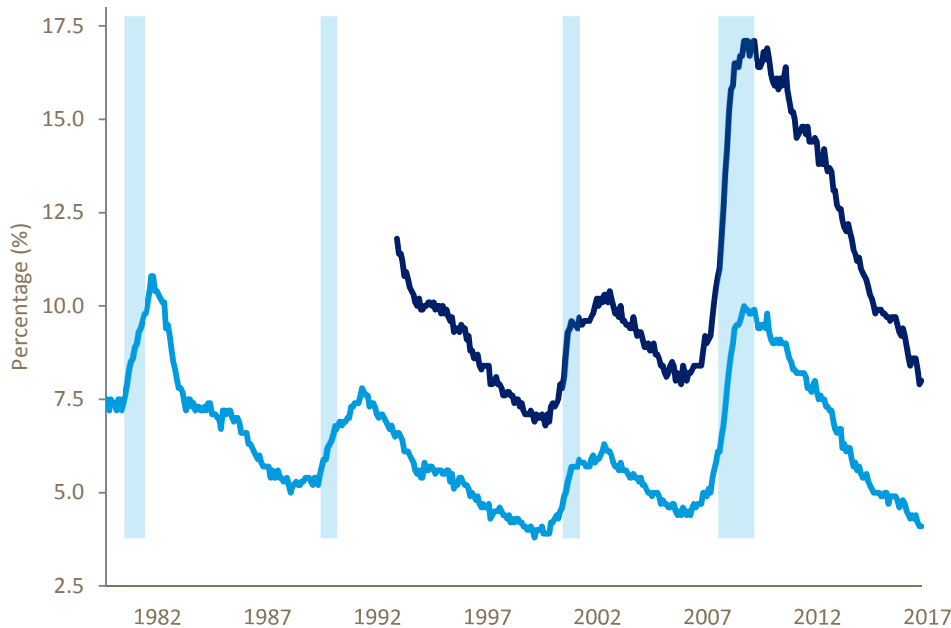
Source: Research.stlouisfed.org

Tight Labor Market

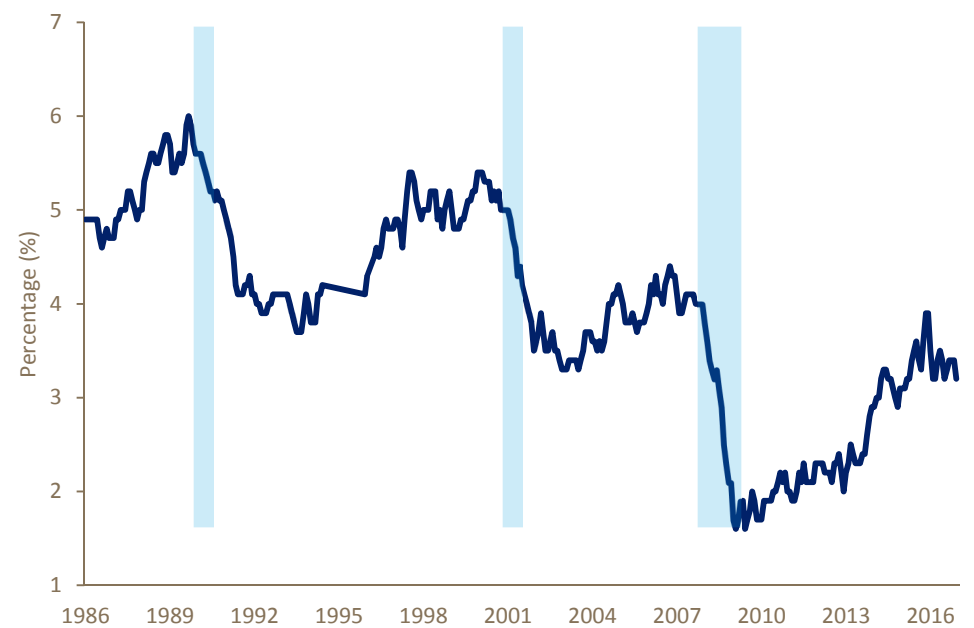
A tight labor market supports faster wage growth.

Unemployment rate has declined, which may pressure wage growth

Broader Measure of Unemployment*, SA, %
Civilian Unemployment Rate: 16 yr +, SA, %



Wage Growth Tracker: Overall:
3-Mo Moving Avg of Median Wage Growth Non-Seasonally Adjusted, %



*Broader measure of unemployment: Total unemployed plus all marginally attached workers, plus total employed part time for economic reasons as a percent of the civilian labor force, plus all marginally attached workers. Source: (Left) Bureau of Labor Statistics/ Haver Analytics. As of December 15, 2017. (Right) Federal Reserve Bank of Atlanta / Haver Analytics. As of January 3, 2018. Shaded are recessions.

Past performance is no guarantee of future results. Please refer to appendix for asset class disclosures and index definitions.

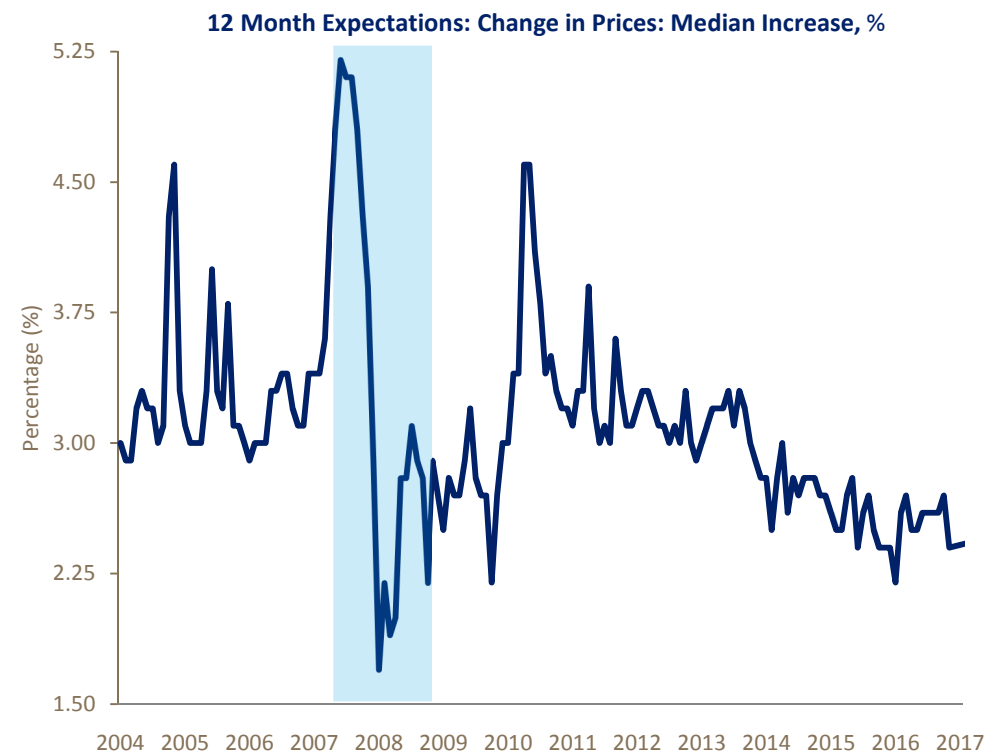
Inflation Expectations are Soft

Inflation running below policy target adds to the case for a cautious Fed tightening cycle. Core inflation should return to trend over the medium term.

Market-based inflation expectations are still historically low...



...a mood increasingly reflected by consumers.



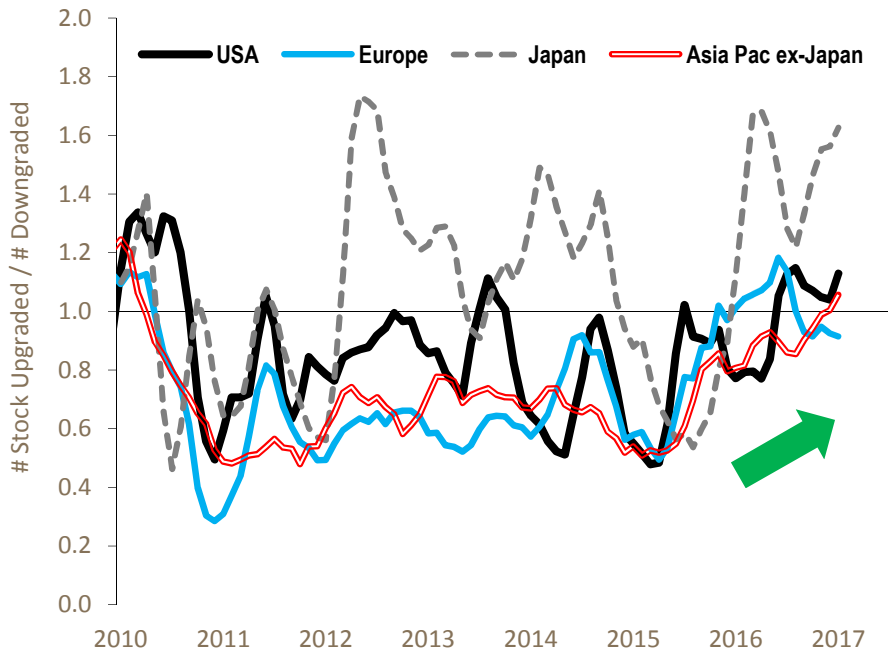
Source: (Left) Federal Reserve Board /Haver Analytics. As of January 3, 2018. (Right) University of Michigan /Haver Analytics. As of January 3, 2018.

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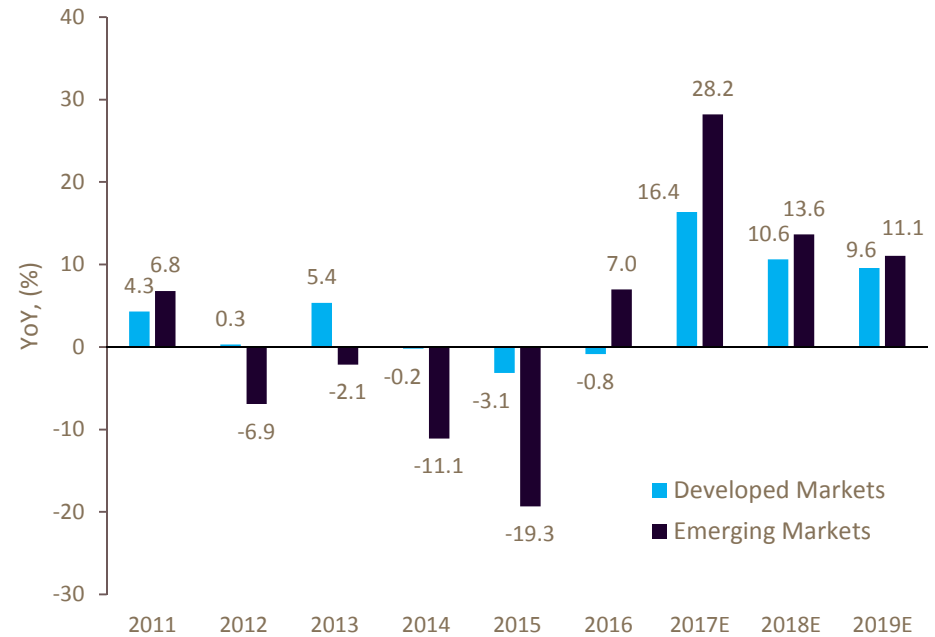
Global Profit Outlook

Synchronized global earnings expansion is expected to continue.

Analyst earnings revisions are headed higher across most regions.



Earnings growth has been synchronized across regions, a trend expected by analysts to continue.



Source: (Left) BofA Merrill Lynch Global Research. Data as of November 30, 2017. Source: (Right) FactSet consensus estimates. Data as of January 4, 2017.

Past performance is no guarantee of future results. Please refer to appendix for asset class proxies and index definitions.

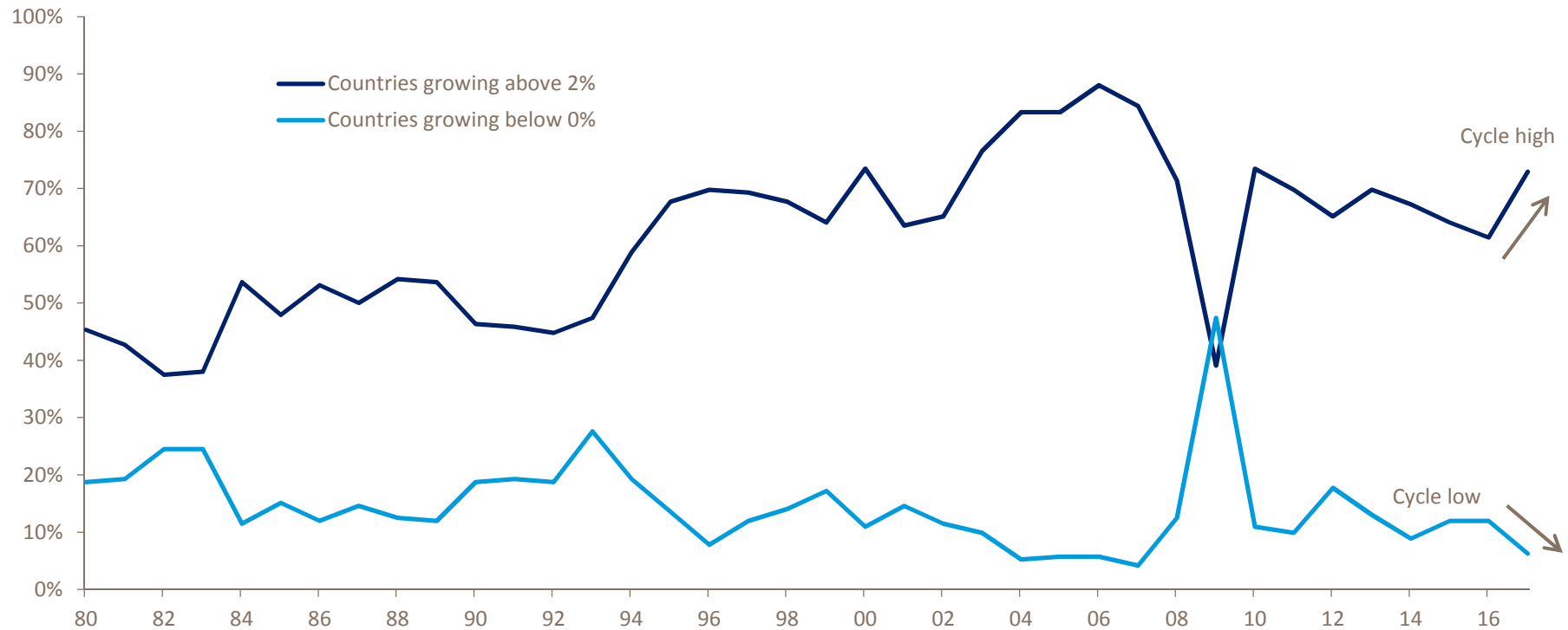
Inside the Global Synchronized Economic Pickup

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More country economies have been growing at faster rates, while those contracting have fallen to a cycle low.

Countries growing above 2% and below 0%

Share of all countries



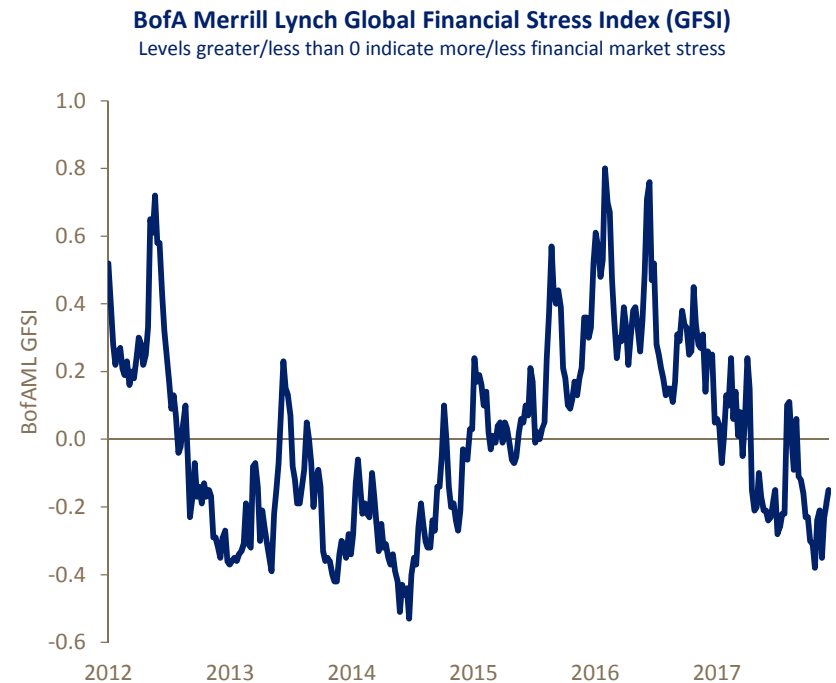
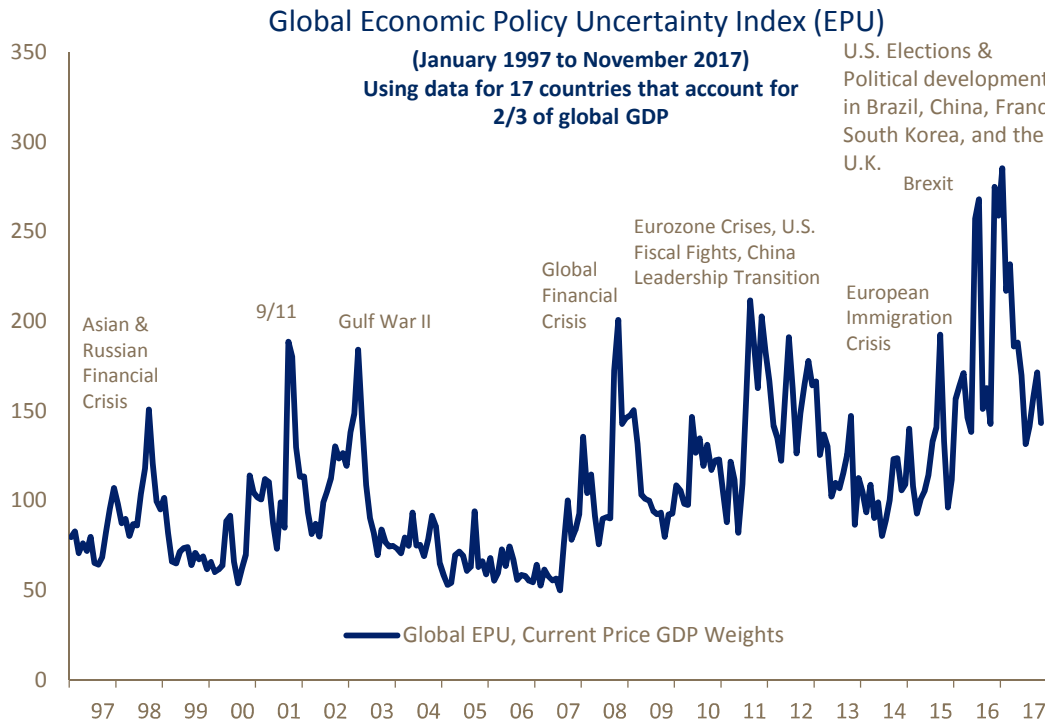
Source: International Monetary Fund. Data as of 2017.

Past performance is no guarantee of future results. The economic and market forecasts presented are for informational purposes as of the date of this report. There can be no assurance that the forecasts will be achieved. **Please refer to appendix for asset class proxies and index definitions.**

Global Economic Policy Uncertainty

Policy uncertainty is off its highs post-French election, while financial stress remains benign.

Policy uncertainty has declined, financial stress is low



Source: (Left) www.policyuncertainty.com. Data as of December 14, 2017. (Right) Bloomberg and Chief Investment Office. Data as of December 14, 2017.

Notes: Global EPU calculated as the GDP-weighted average of monthly EPU index values for U.S., Canada, Brazil, Chile, UK, Germany, Italy, Spain, France, Netherlands, Russia, India, China, South Korea, Japan, Ireland, Sweden, and Australia, using GDP data from the International Monetary Fund (IMF) World Economic Outlook Database. National EPU index values are from www.PolicyUncertainty.com and Baker, Bloom and Davis (2016). Each national EPU Index is renormalized to a mean of 100 from 1997 to 2015 before calculating the Global EPU Index.

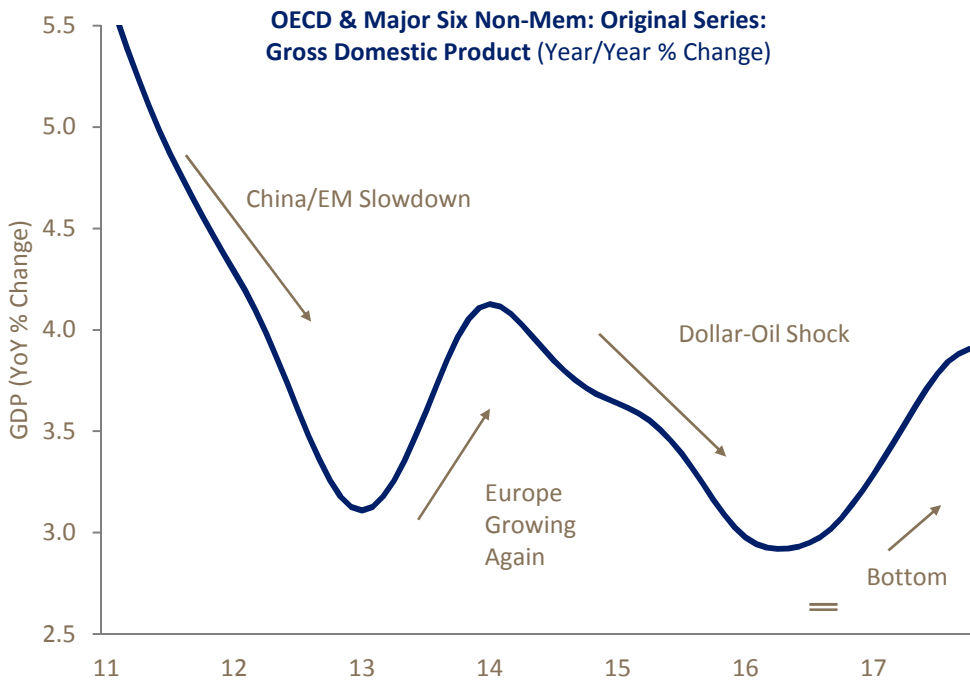
Past performance is no guarantee of future results. fees or expenses. It is not possible to invest directly in an index.

Please refer to appendix for asset class proxies and index definitions.

Global Economy Improving

The synchronized global growth upturn that began last year continues and has broadened.

Global aggregate economic data continue to improve



Global Wave suggests continued outperformance for equities and cyclical rotation

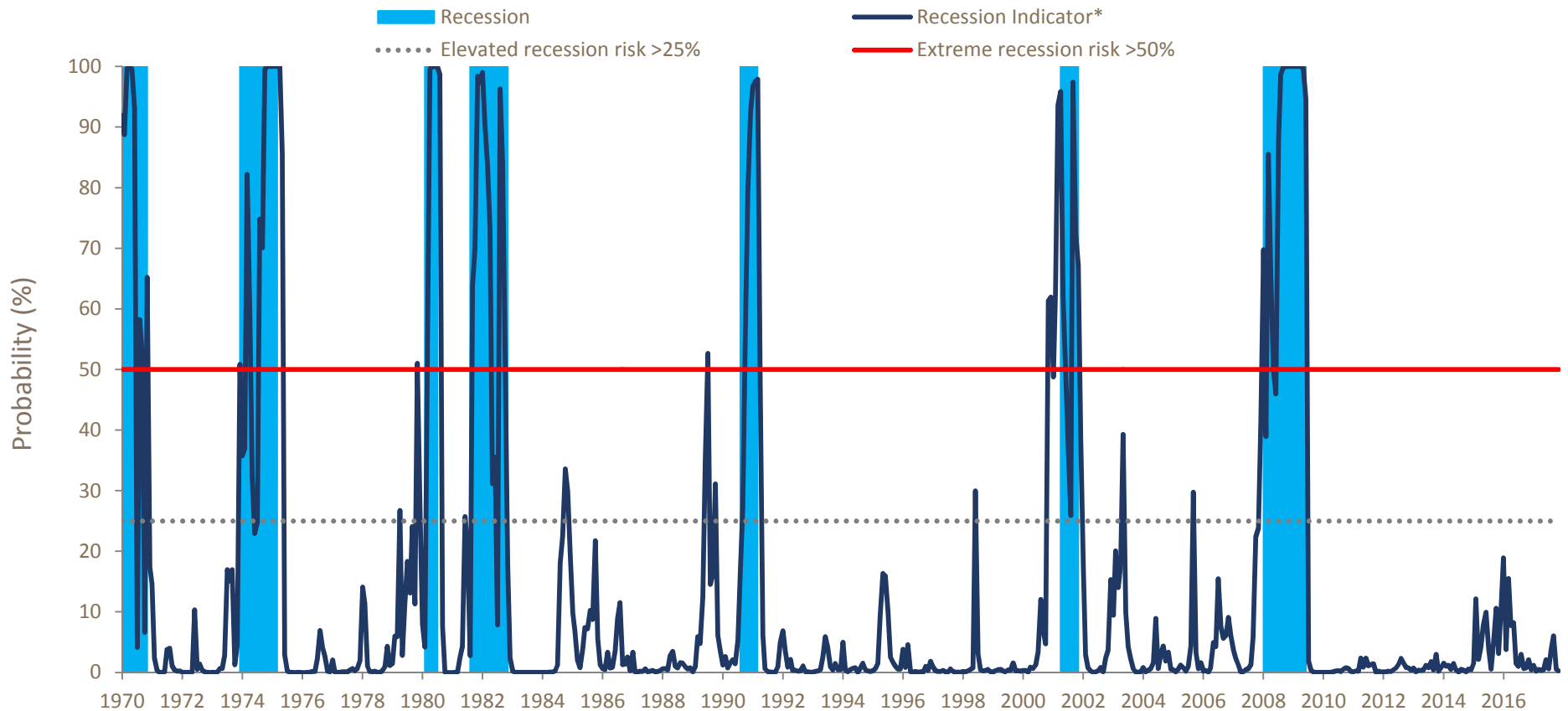


The Global Wave quantifies trends in global economic activity and is an amalgamation of seven macroeconomic and market components.**

*Organization for Economic Co-operation and Development. **Components of Global Wave: Global Industrial Confidence (Output), Global Consumer Confidence (Demand), Global Capacity Utilization (Investment), Global Unemployment Labor (Market), Global Producer Prices (Prices), Global Credit Spreads (Bond Market) and Global Earnings Revision Ratio (Equity Market). Source: (Left) OECD /Haver Analytics. As of December 2017. (Right) BofA Merrill Lynch Global Quantitative Strategy, MSCI, IBES, Bloomberg, OECD, IMF. As of December 2017. **Past performance is no guarantee of future results.** 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. **Please refer to appendix for asset class disclosures and index definitions.**

CIO U.S. Recession Indicator

Changes in economic gauges we track are aggregated into the CIO U.S. Recession Indicator. At its current reading, the risk of recession in the U.S. appears to be currently low.



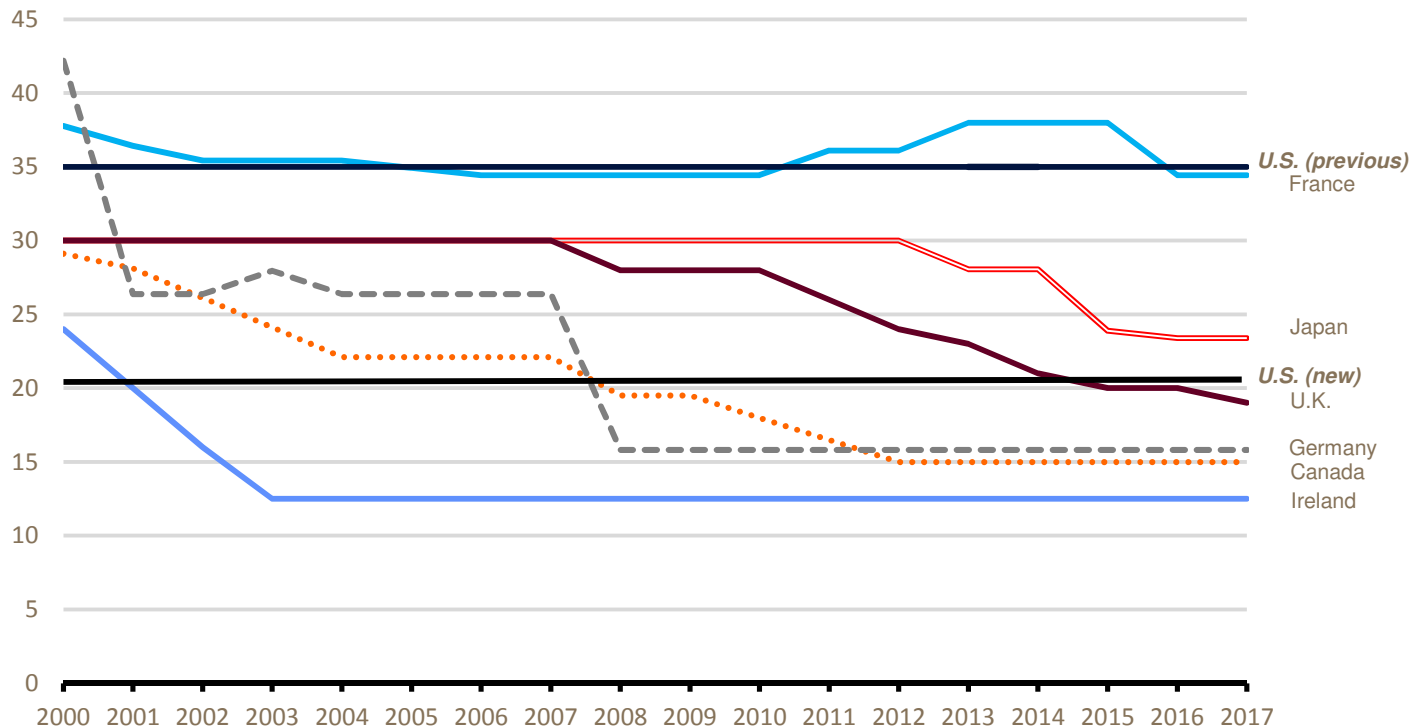
Source: GWIM Chief Investment Office, Bloomberg, National Bureau of Economic Research. *Logistic regression of six macroeconomic variables (initial claims, housing starts, industrial production, domestic vehicle sales, 10yr-3m yield curve, commercial bank loans and leases) against recessionary and non-recessionary periods since January 1970. The start of past recessions has generally been contemporaneous with increases in the indicator above 50%. Data as of November 2017.

Past performance is no guarantee of future results. Please refer to appendix for asset class proxies and index definitions.

Tax Reform in a Global Context

Tax reform aims to make American firms more competitive and spark a capital expenditure cycle. This along with household tax cuts are ingredients for stimulating growth in the U.S.

Headline national corporate tax rates, excluding regional or state levies (%)



Corporate tax rates around the world have been trending lower for years. We believe tax reform helps realign the U.S. with other major economies.

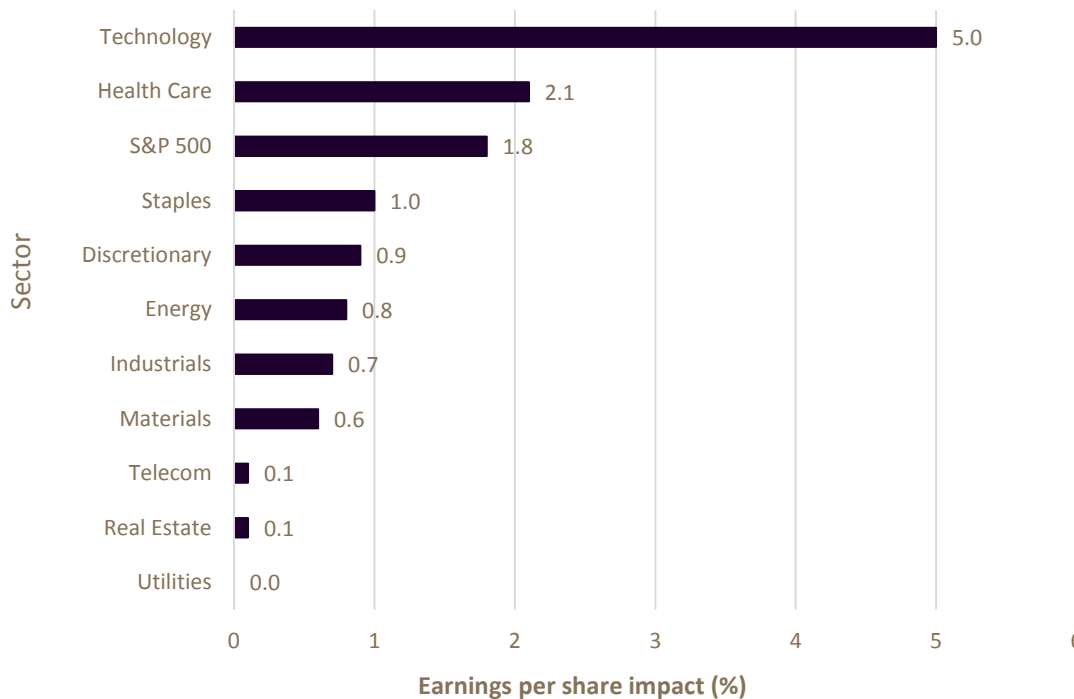
We believe tax reform, along with other pro-growth fiscal and regulatory policies, should strengthen U.S. firms' standing in the global economy.

Source: OECD. Data as of December 2017. The key on the right hand side of the chart classify the lines by country, while the top shows what the lines are. **Neither Merrill Lynch nor any of its affiliates or financial advisors provide legal, tax or accounting advice. Clients should consult their legal and/or tax advisors before making any financial decisions. Past performance is no guarantee of future results. Please refer to appendix for asset class disclosures and index definitions.**

Repatriation: Over \$1 Trillion to Return to the U.S.?

S&P 500 companies potentially returning over one-trillion dollars may boost earnings per share by two to three dollars on share buybacks. Tech and Health Care may benefit the most.

Earnings per share impact by sector from repatriated cash used for buybacks



Top 20 firms with overseas cash as a % of market cap*

CSCO Cisco Systems, Inc.	36
GILD Gilead Sciences, Inc.	33
NTAP NetApp, Inc.	33
QCOM QUALCOMM Incorporated	31
AMGN Amgen Inc.	30
ORCL Oracle Corporation	30
AAPL Apple Inc.	28
WDC Western Digital Corporation	22
NWS News Corporation Class B	21
STX Seagate Technology PLC	20
WAT Waters Corporation	20
MSFT Microsoft Corporation	20
XLNX Xilinx, Inc.	18
LRCX Lam Research Corporation	18
GE General Electric	18
RL Ralph Lauren Corporation Class A	17
CA CA, Inc.	17
CTXS Citrix Systems, Inc.	16
JNPR Juniper Networks, Inc.	15
VRSN VeriSign, Inc.	14

Source: BofAML Global Research. Data on report published December 20, 2017. *For reference purposes only.

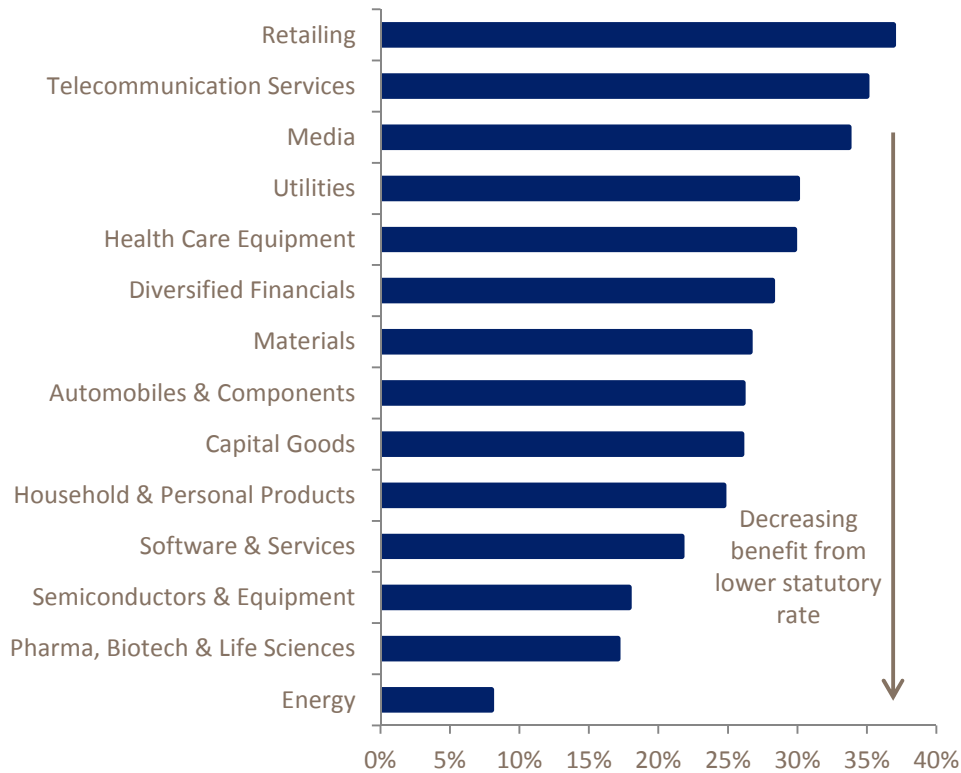
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U.S.: Effective Corporate Tax Rates by Industry

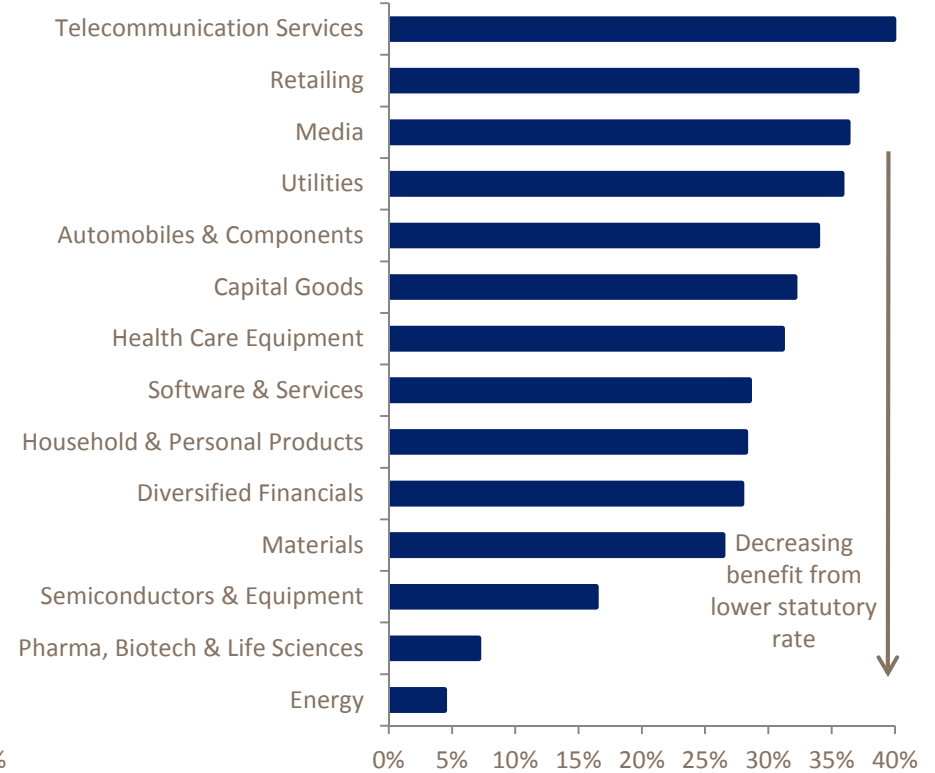


Retail, Telecom, and Media companies may see the largest windfall from the recently passed Republican tax plan.

Large cap Russell 1000 corporate tax rates
Effective rate



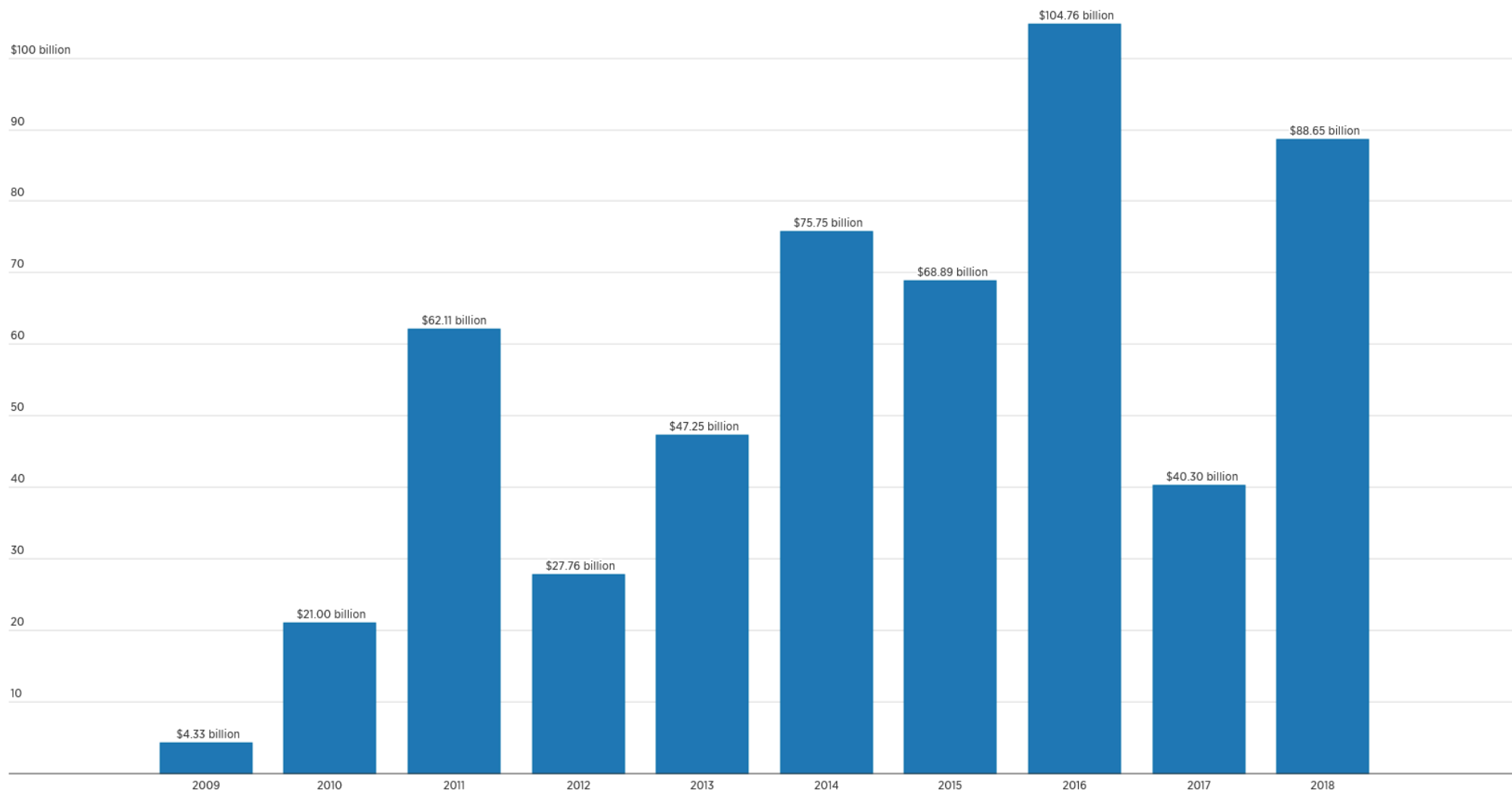
Small cap Russell 2000 corporate tax rates
Effective rate



Source: Credit Suisse, S&P Capital IQ/ClariFi, Compustat. Data as of 2016. **Past performance is no guarantee of future results.** The economic and market forecasts presented are for informational purposes as of the date of this report. There can be no assurance that the forecasts will be achieved. **Neither Merrill Lynch nor any of its affiliates or financial advisors provide legal, tax or accounting advice. Clients should consult their legal and/or tax advisors before making any financial decisions. Please refer to appendix for asset class disclosures and index definitions.**

Buybacks Reach 2nd Highest Amount Since 2009

Corporate buybacks **year-to-date**, as of Feb. 6, in billions.

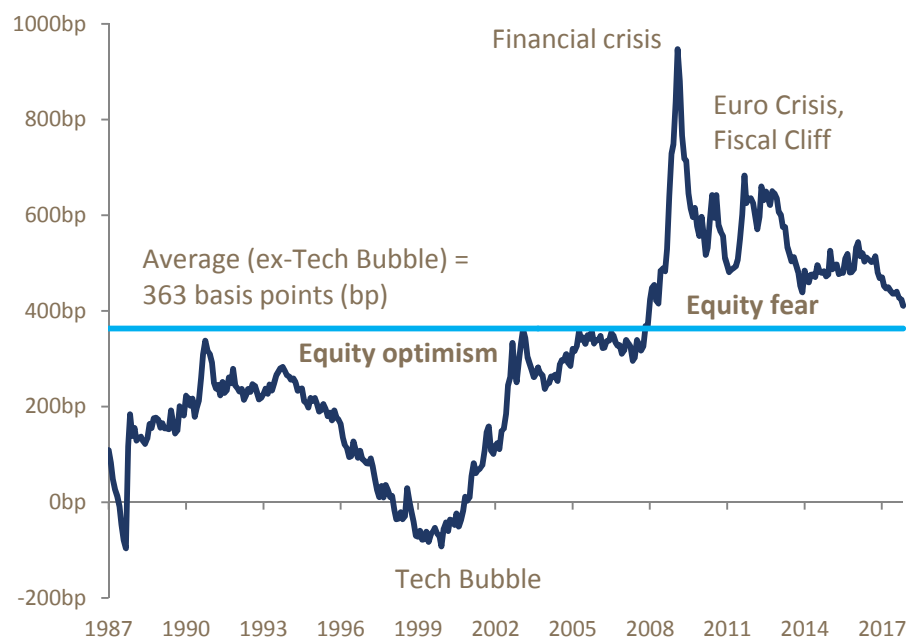


Source: Birinyi Associates

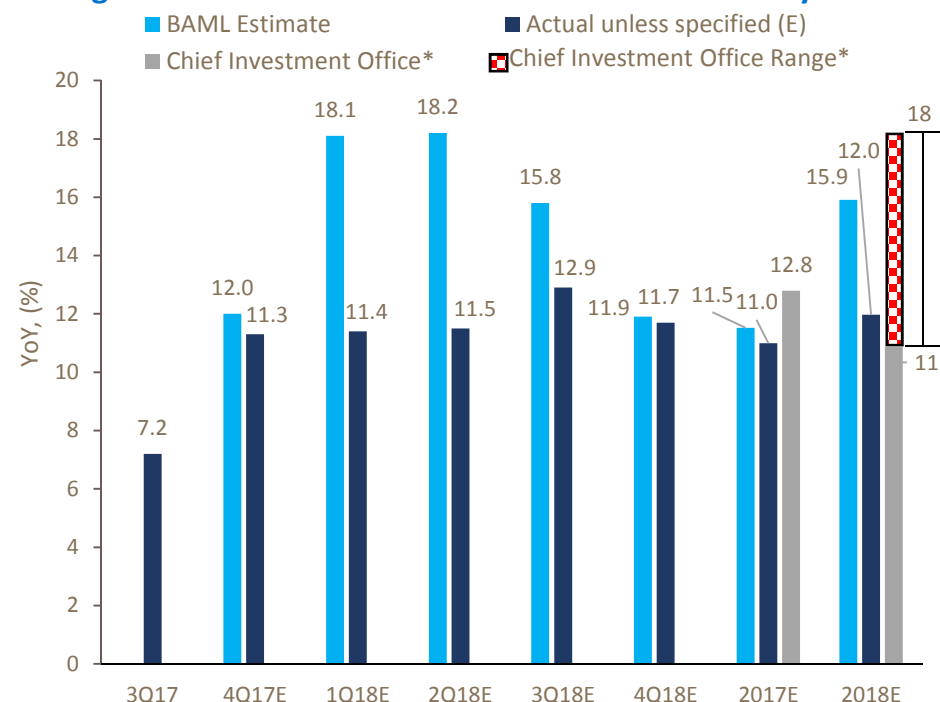
U.S. Equity Fundamentals and Valuations

Equity valuations are full on an absolute basis, but more attractive versus fixed income. Earnings growth may be key for further equity upside.

The normalized equity risk premium* usually undershoots during bull markets



Earnings momentum for the S&P 500 is forecasted to carry into 2018



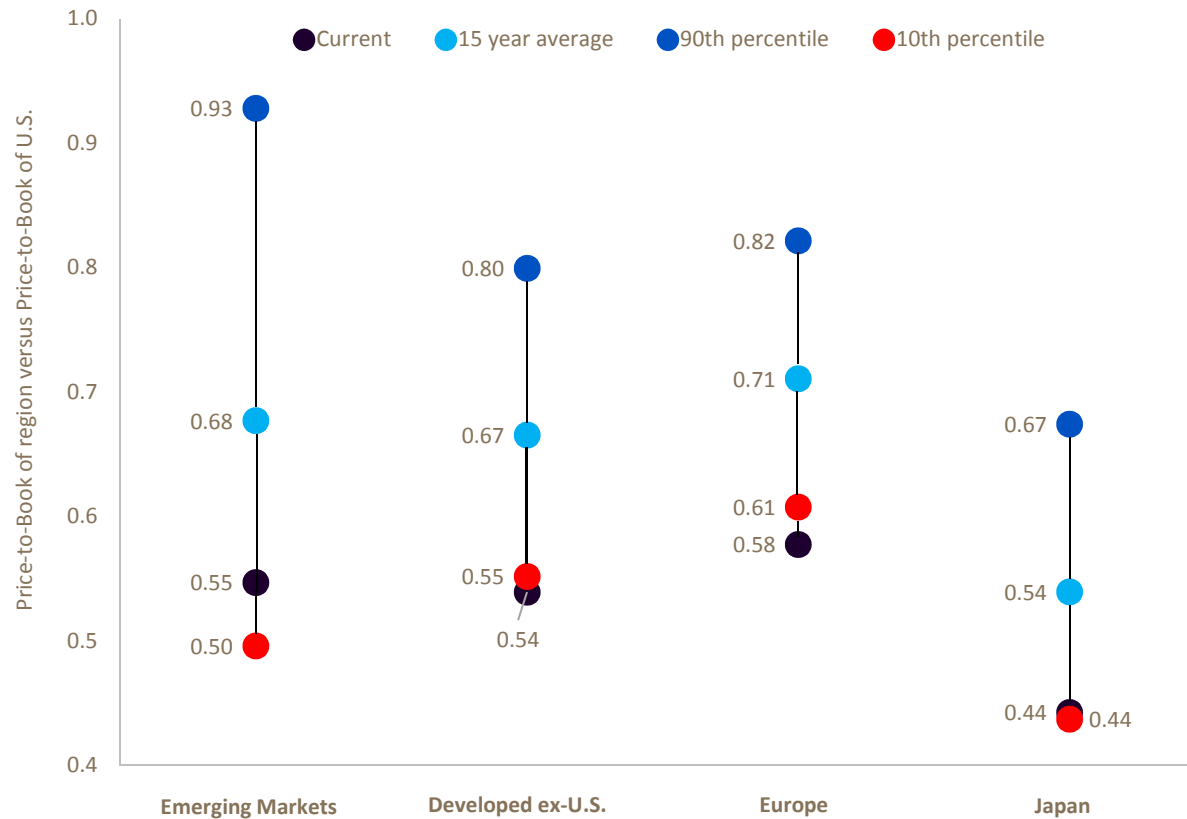
Note: Specified (E) is the consensus expectation, an average of analysts' forecasts surveyed by First Call.

Source: (Both) BofA Merrill Lynch US Equity & US Quant Strategy. *Note: Normalized equity risk premium is the spread between normalized earnings per share (EPS) yield and the normalized risk-free rate (RFR). Normalized EPS is based on a log linear regression of S&P 500 operating EPS. The normalized RFR is the difference between 1) the average of the 30-year Treasury yield and the 5-year rolling average 10-year Treasury yield and 2) the 10-year TIPS spread and the 5-year rolling average CPI inflation rate. Data as of November 30, 2017. (Right) Source: BofAML Global Research; Chief Investment Office. *The Chief Investment Office forecasts a S&P 500 2018 earnings per share (EPS) target range of \$148–\$158, which is depicted by the checkered box. E = Estimate. **Past performance is no guarantee of future results. Please refer to appendix for asset class proxies and index definitions.**

Non-U.S. Equity Valuations

Across the world, equity valuations relative to the U.S. appear appealing.

Price-to-Book ratios versus the U.S. (MSCI indices)



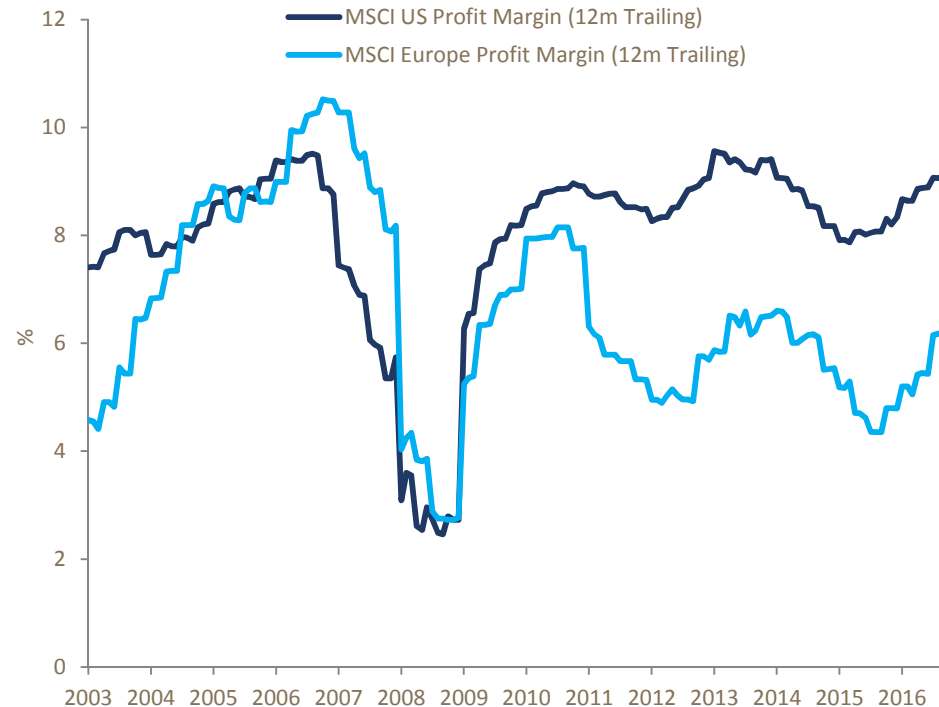
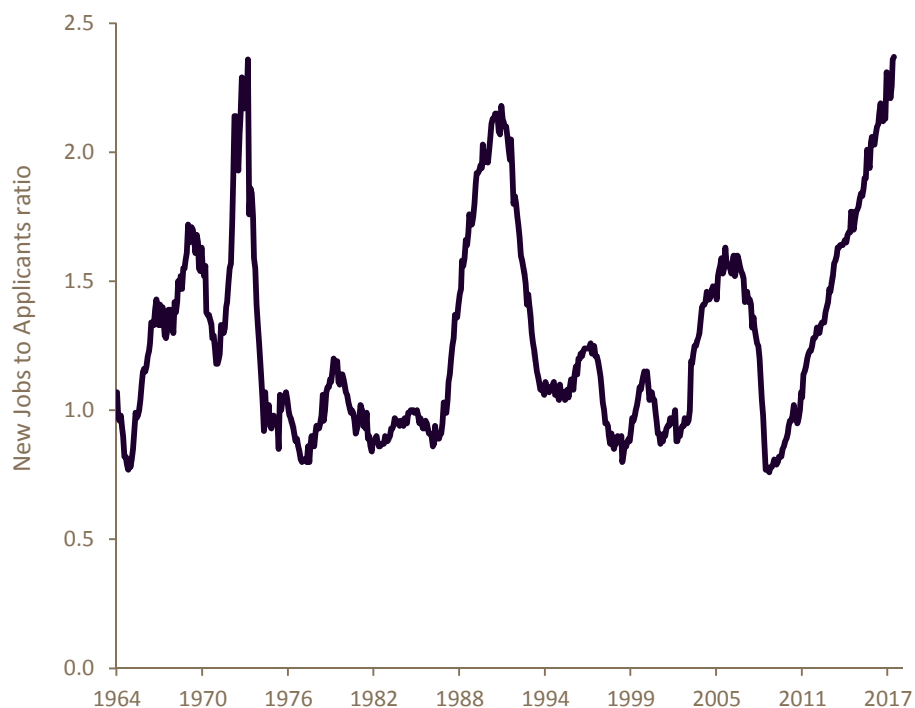
Source: Chief Investment Office, Bloomberg. Data as of December 29, 2017. Indexes are unmanaged and do not take into account fees or expenses. It is not possible to invest directly in an index. Please refer to appendix for asset class proxies and index definitions.

In Europe & Japan, Purchasing Power is Key

In Japan, rising wages would increase consumer purchasing power and may be instrumental in defeating its population's "deflationary mindset." In Europe, purchasing power would lift low margins off the mat, potentially boosting upside.

The Japanese labor market is tight, which may result in rising wages as employers struggle to fill vacancies. Higher inflation may boost attractive equity valuations.

Profit margins are near a peak in the U.S. but sub-trend in Europe with room to expand.



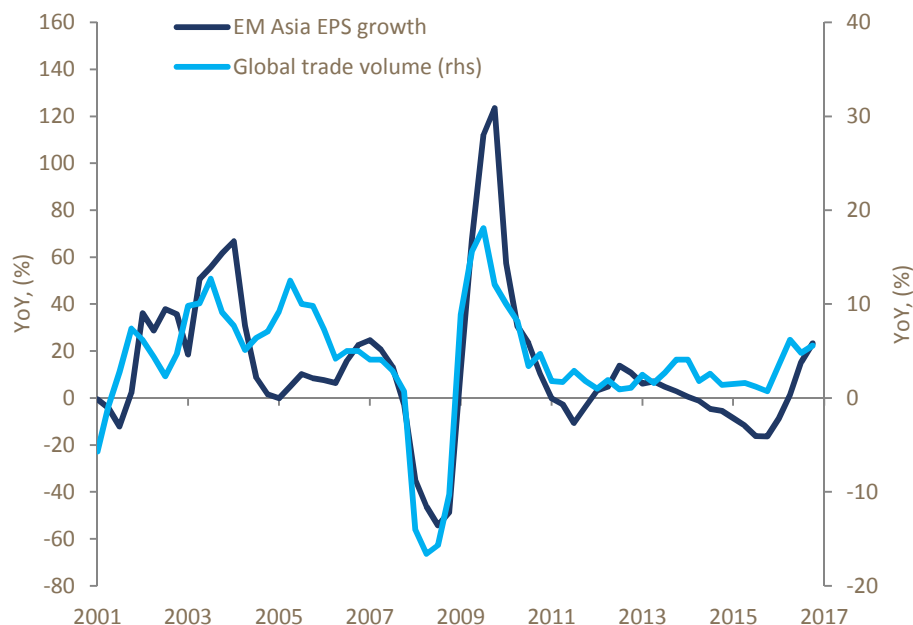
Source: Chief Investment Office. MSCI, Bloomberg. (Left) Data as of November 30, 2017. (Right) Data as of December 29, 2017

Past performance is no guarantee of future results. Please refer to appendix for asset class proxies and index definitions.

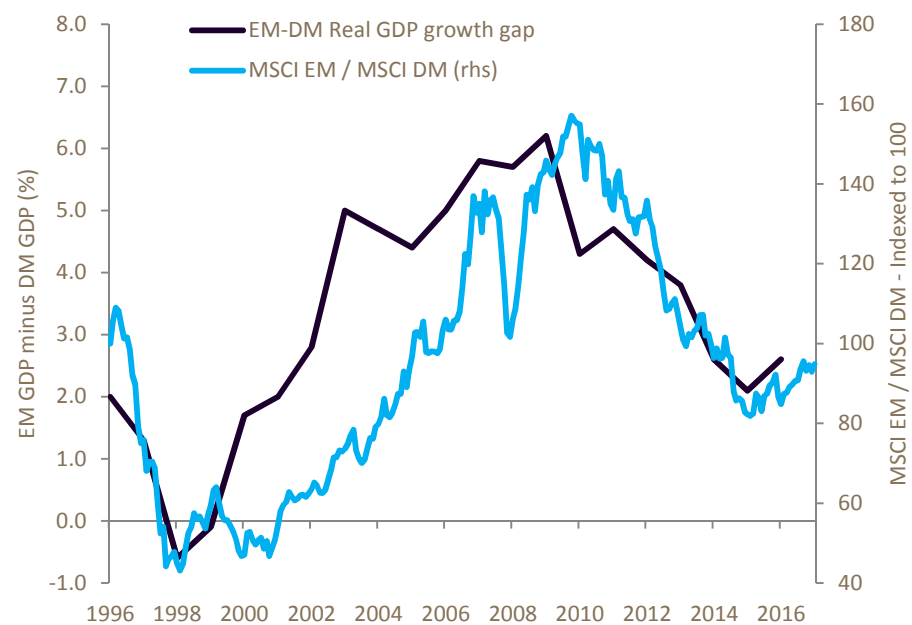
Global Pickup May Favor Emerging Markets

In our view, a rebound in global trade, along with the rise of the consumer are trends favoring Emerging Markets, particularly in Asia.

Growth in global trade volumes have historically been a tailwind for earnings in Asian Emerging Markets.



On a relative price basis, Emerging Markets appear to have plenty of runway for appreciation if they lead global economic growth.



A pickup in economic growth relative to Developed Markets suggests strength for Emerging Market equities

Note: MSCI DM represented by MSCI World Index

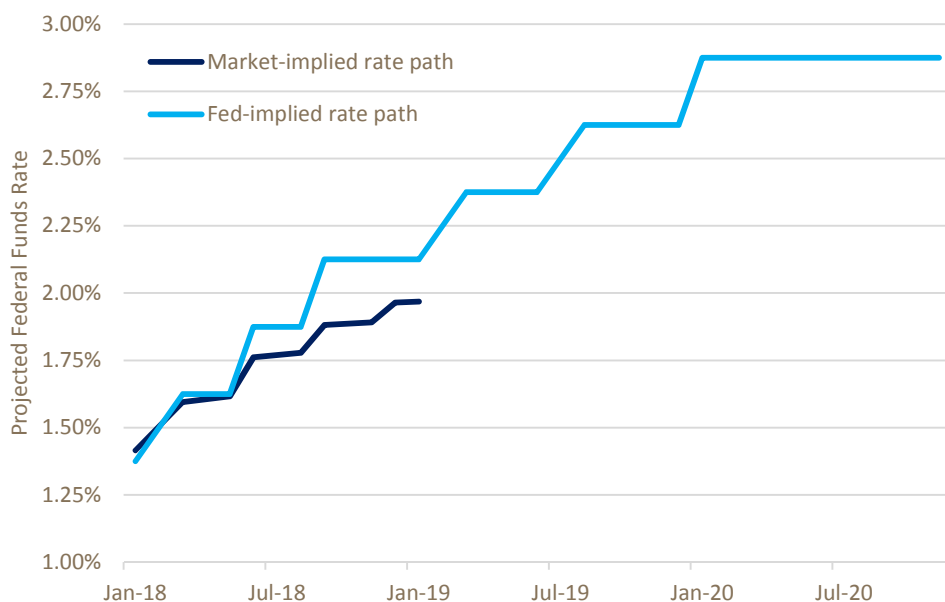
Source: Chief Investment Office. IMF. Bloomberg, MSCI. (Left) Data as of September 30, 2017. (Right) Data as of December 29, 2017.

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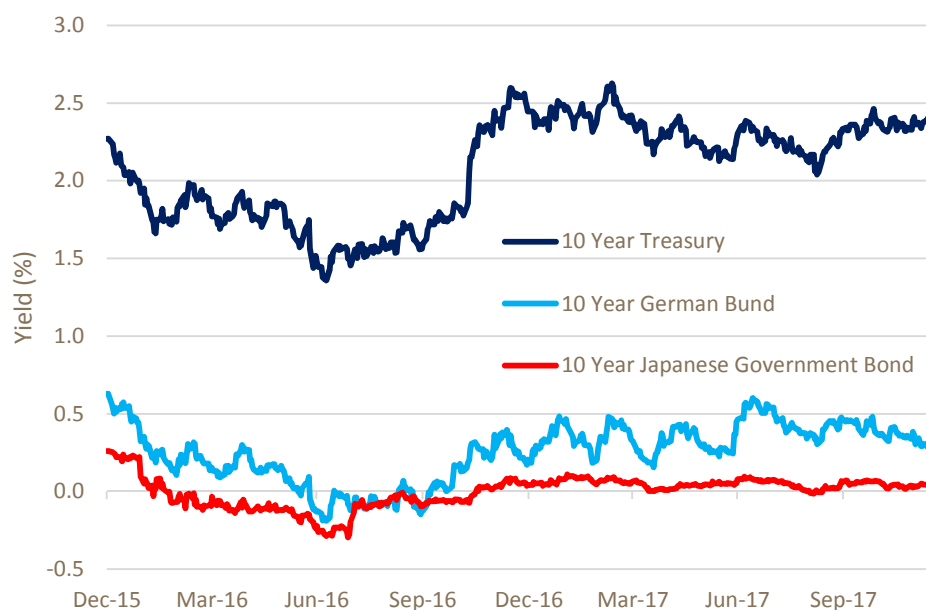
Fixed Income Market Trends

The disconnect between Federal Reserve projections and market expectations is something to watch, though it has narrowed. Negative policy rates continue to drive divergences in sovereign yields.

Gap between Fed and market rate hike expectations has narrowed



Ex-U.S. global sovereign yields remain close to zero



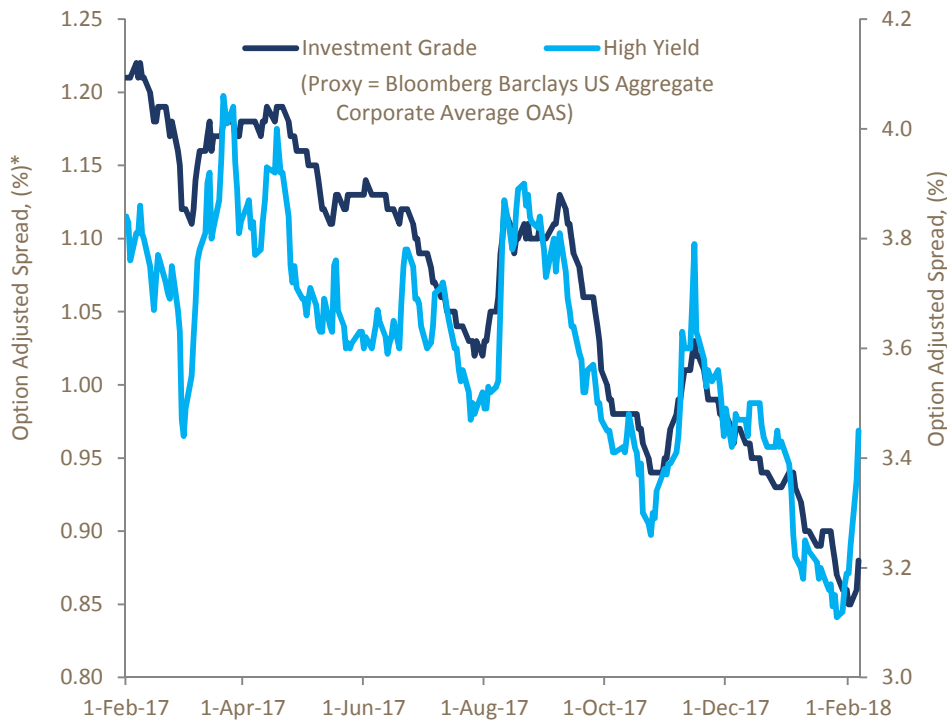
In our view, the search for yield, the low supply of sovereign bond inventory, and the negative yield backdrop outside the U.S., have all led to money flow into U.S. government yields pushing the curve down and long dated yields close to record levels. As central banks move toward policy to help lift the yield curve, we believe longer dated bond yields will creep higher.

Source: Bloomberg, Chief Investment Office. Left chart: data as of December 31, 2017. Right chart: data as of December 31, 2017. The economic and market forecasts presented are for informational purposes as of the date of this report. There can be no assurances that the forecasts will be achieved.

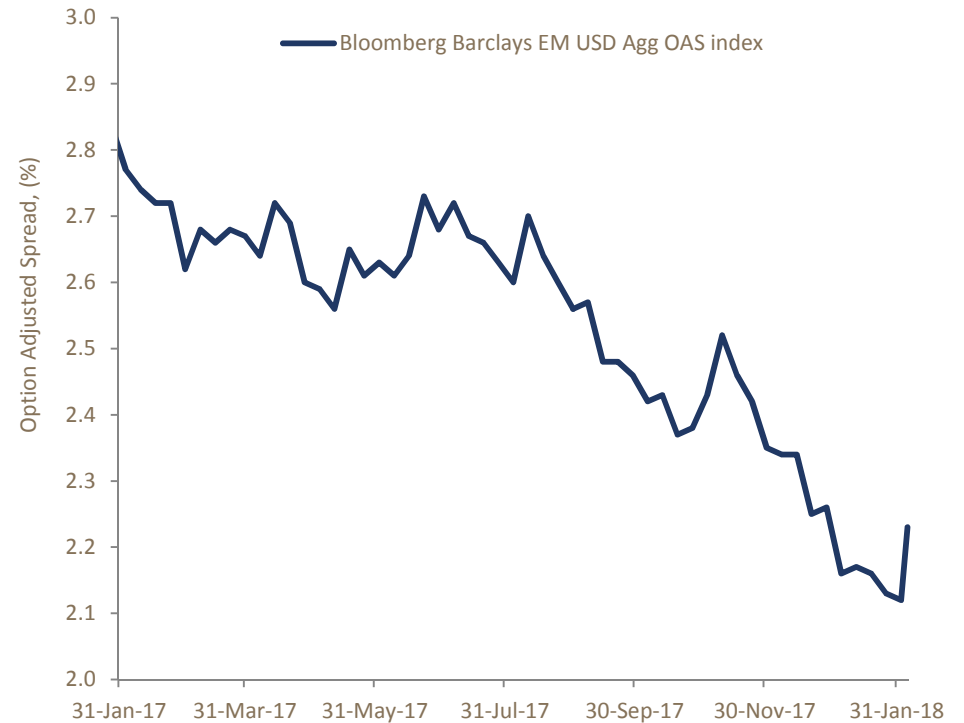
Past performance is no guarantee of future results. Please refer to appendix for asset class proxies and index definitions.

There's no Smoke From Credit Markets

High yield sold off moderately while investment grade moved only slightly, but in the context of the rally, neither move was outsized.



Emerging Market U.S. Dollar-denominated debt has not shown signs of stress during the equity sell-off.



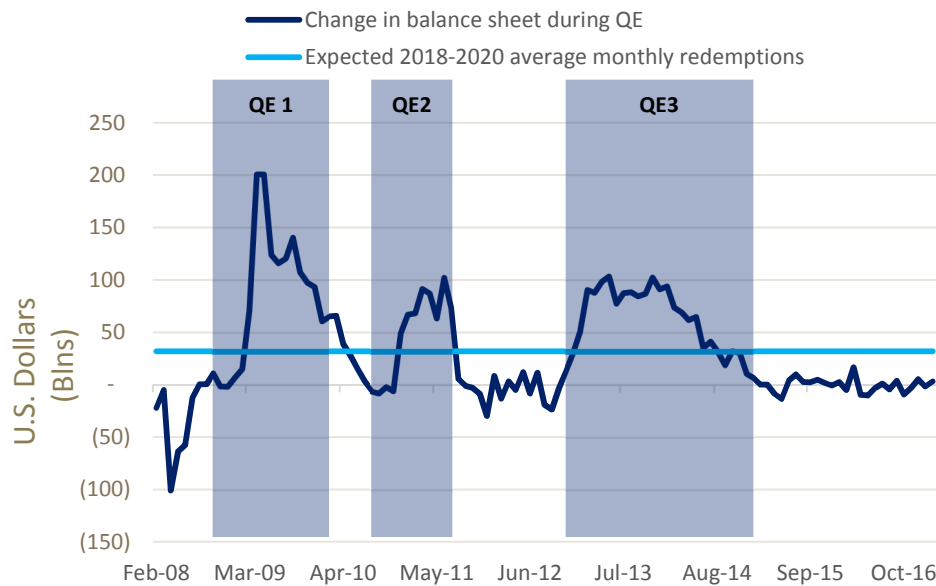
Source: Bloomberg, Chief Investment Office. Data as of February 6, 2018.

*The Option Adjusted Spread is the spread between a fixed income security and the risk-free rate of return, taking into account embedded options within the security. It is not possible to invest directly in an index. Past performance is no guarantee of future results.

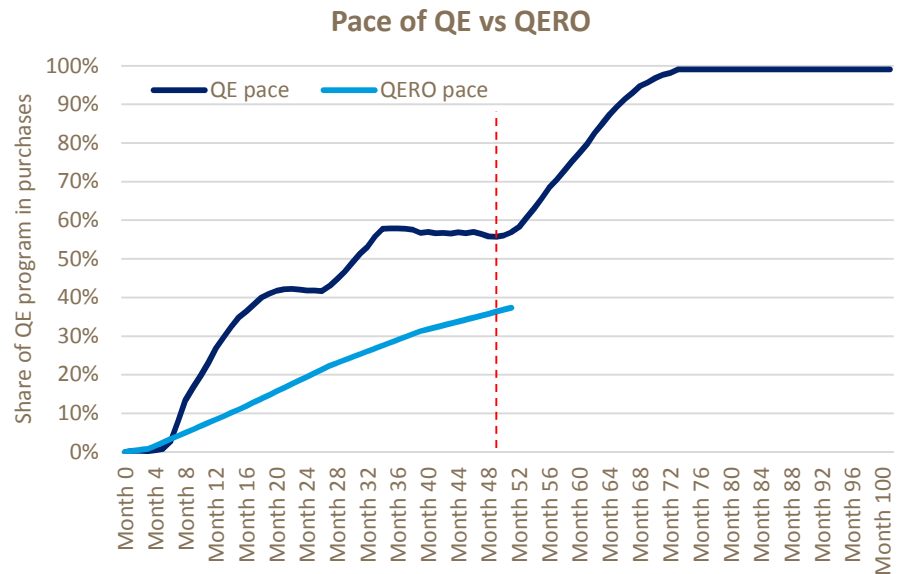
The End of an Era – Quantitative Easing Roll-Off (QERO) Begins

QERO was officially announced at September’s FOMC meeting, designed to gradually reduce monetary accommodation. The strategy was put into action in October.

QE versus Normalization: QERO flows are very reasonable relative to QE flows ...



... leading to ~10% effective reduction in QE per year, very manageable



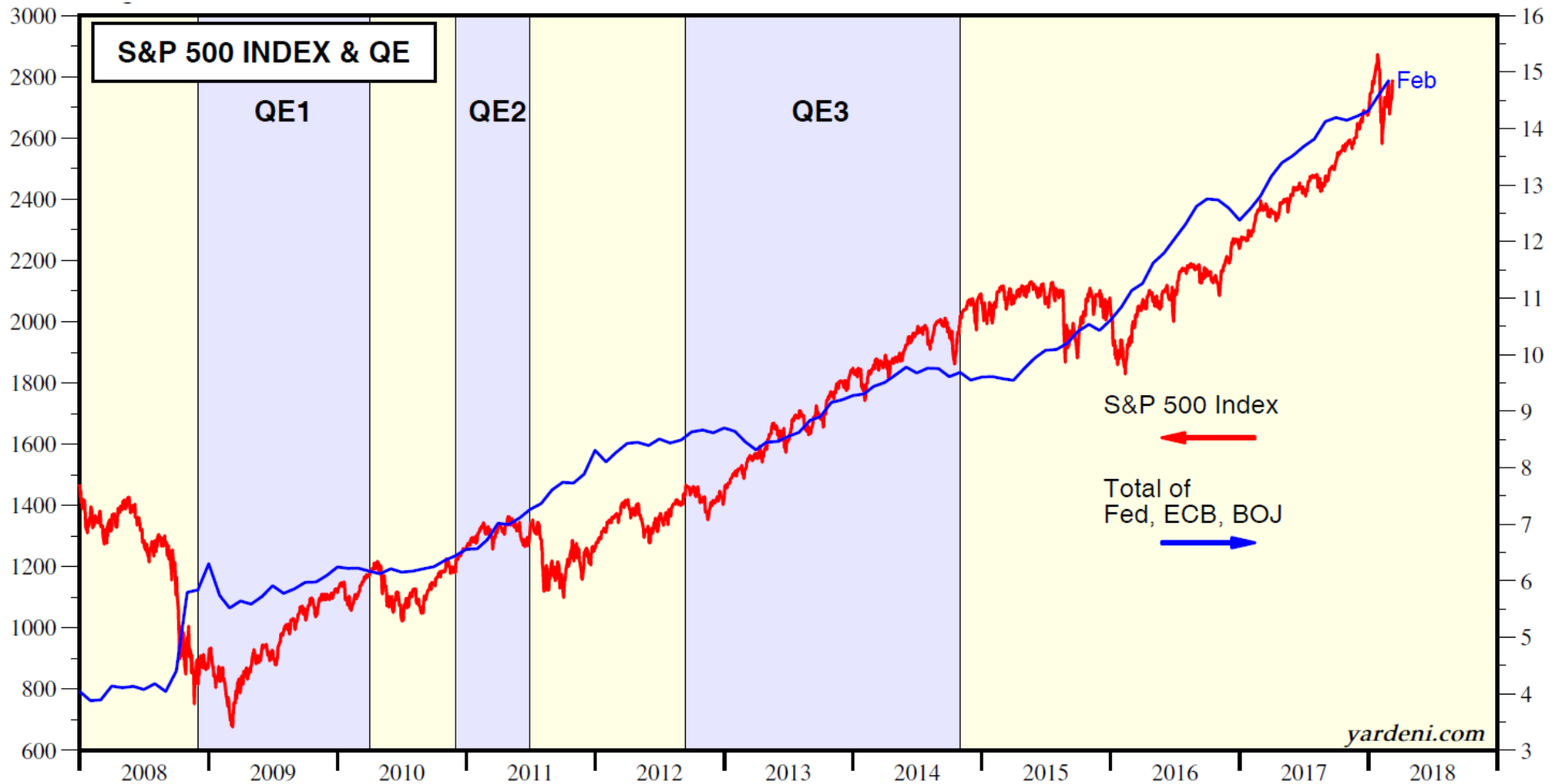
- QE added \$3.7 trillion securities to the Fed’s balance sheet
- QERO, however, is only forecasted to reduce the Fed’s securities holdings by 1/3 of that over three years

- Since the program was well-telegraphed and is relatively modest in scope, we do not think it will lead to significant market moves, but it should add further pressure on long-term rates, in our opinion.

Source for all charts: Federal Reserve, Bloomberg, U.S. Trust. Data as of September 22, 2017.

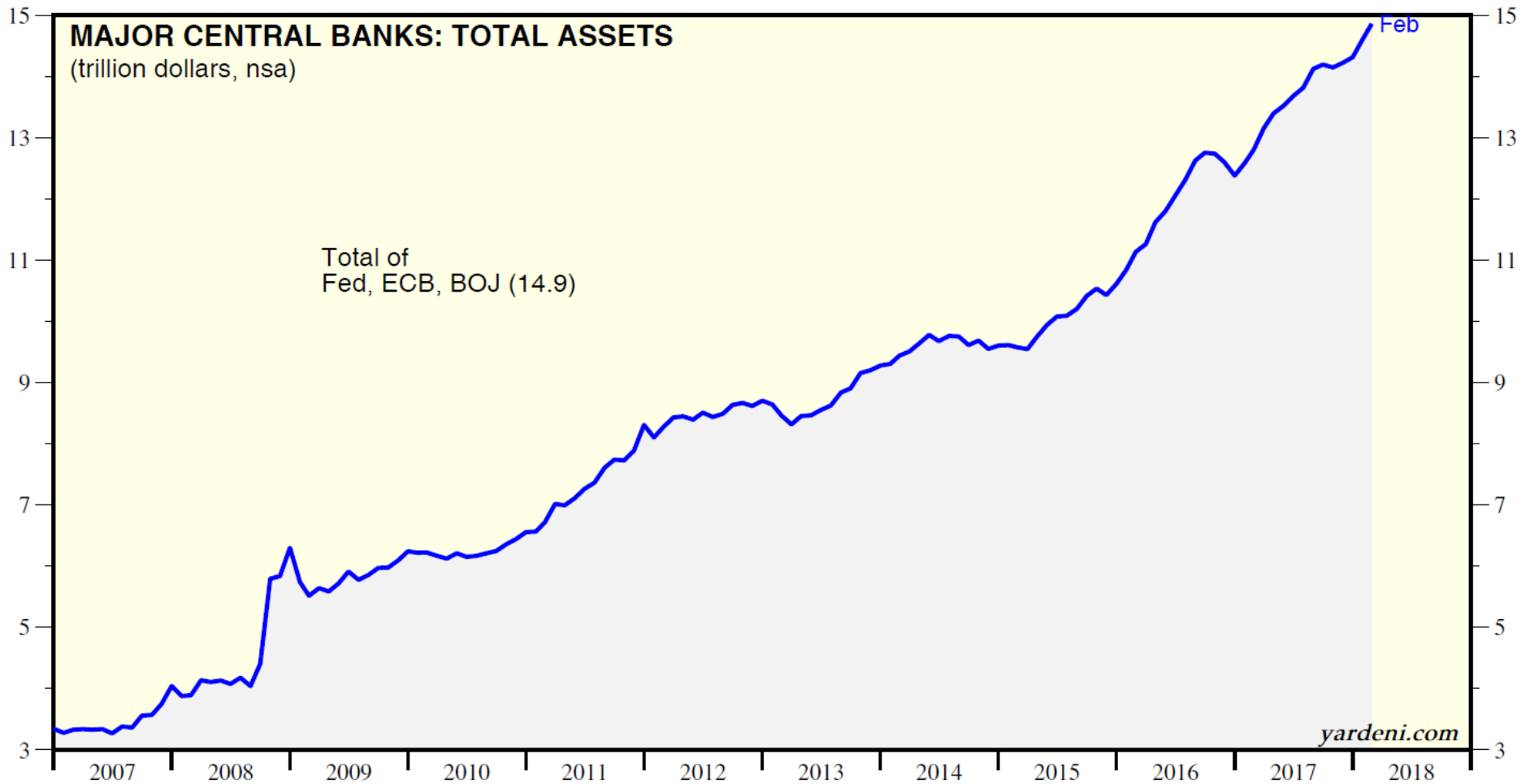
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S&P 500 Index & QE



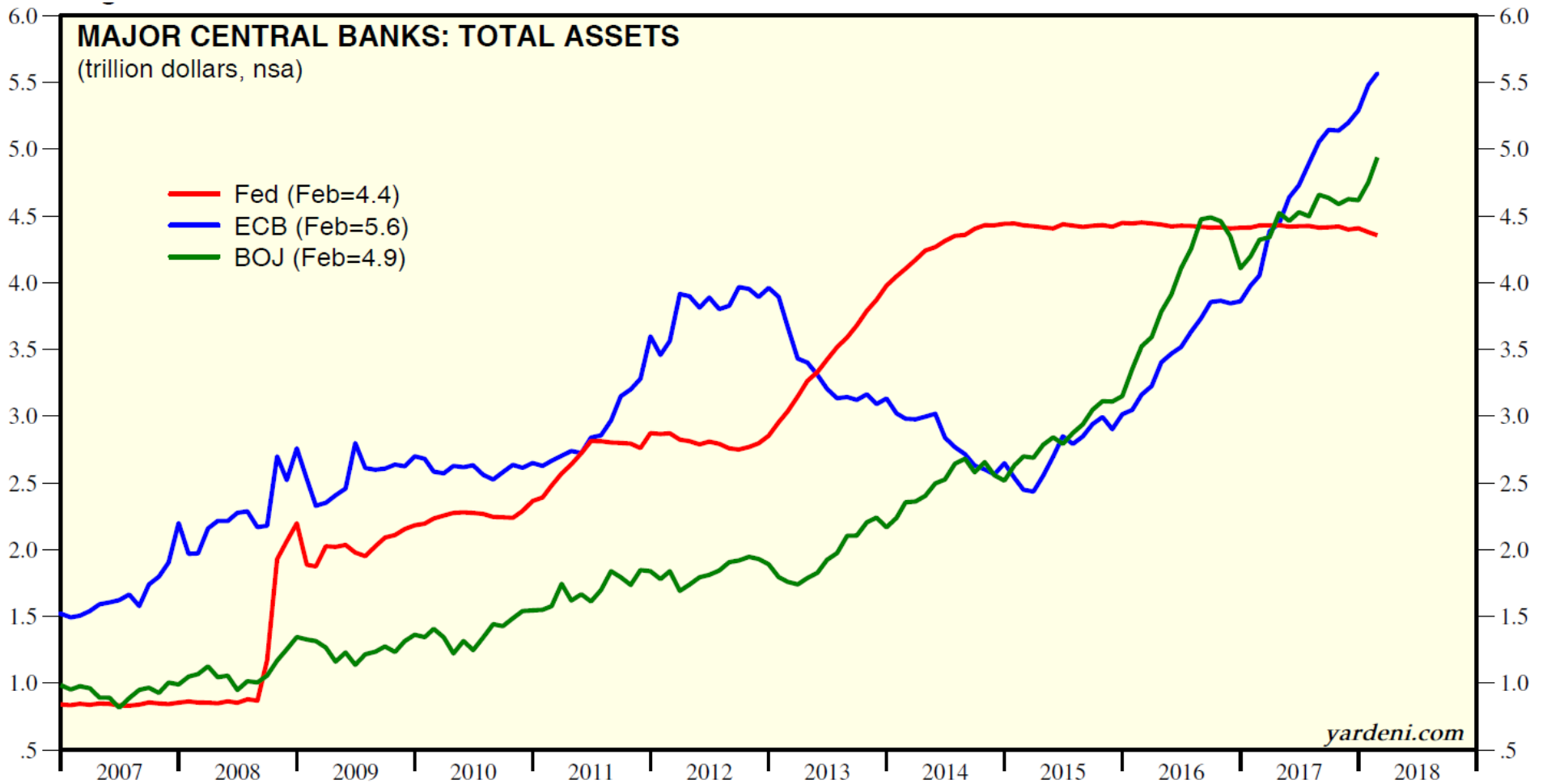
Note: QE1 (11/25/08) = Fed starts buying \$1.24tn in mortgage securities. QE1 expanded (3/16/2009) = Fed starts buying \$300bn in Treasuries. QE2 (11/3/10) = Fed starts buying \$600bn in Treasuries. QE3 (9/13/12) = Fed starts buying \$40bn/month in mortgage securities (open ended). QE3 expanded (12/12/12) = Fed starts buying \$45bn/month in Treasuries.
Source: Federal Reserve Board, Standard & Poor's and Haver Analytics.

Total Assets of Major Central Banks



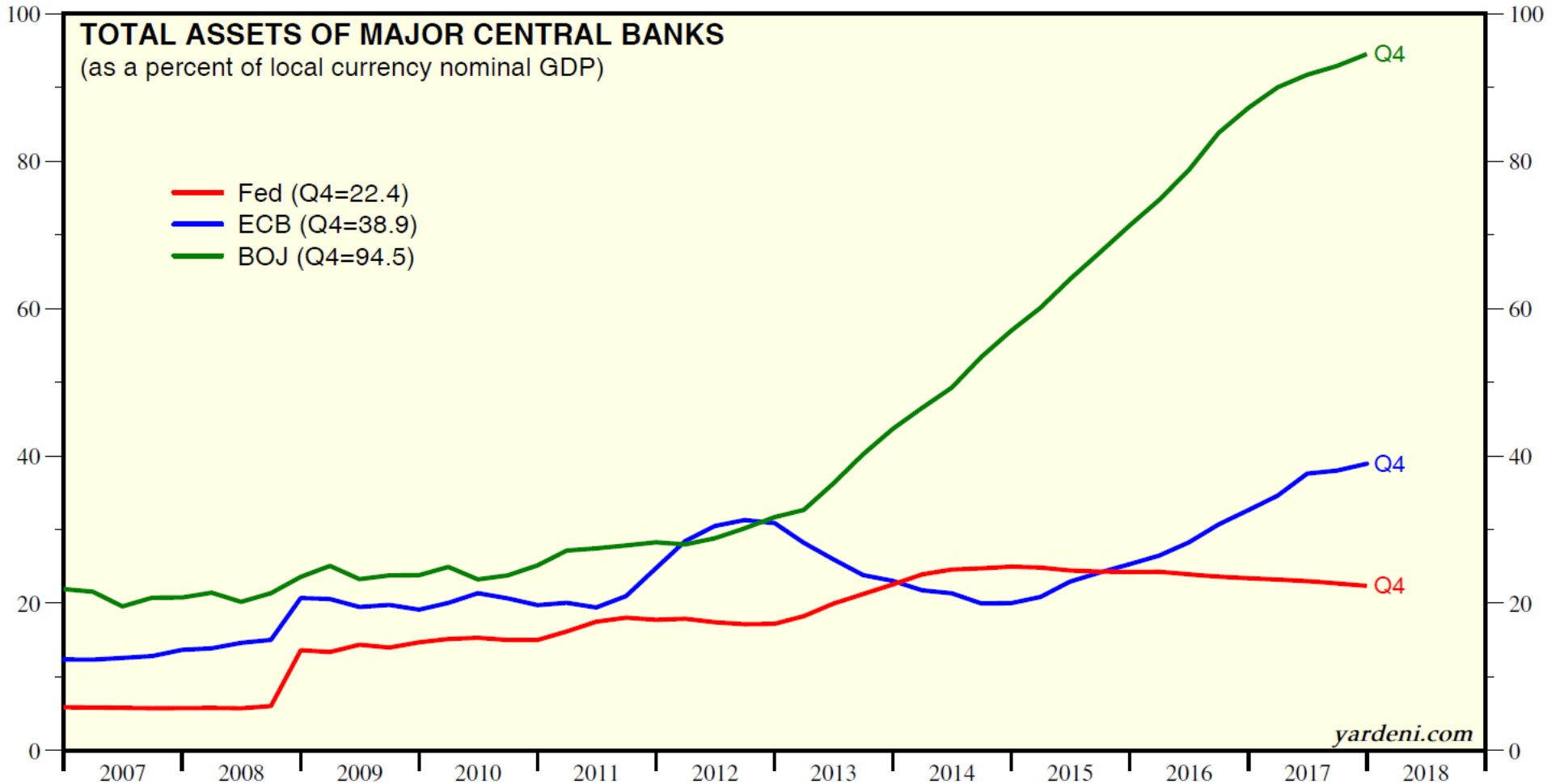
Source: Haver Analytics.

Total Assets: FED, ECB & BOJ



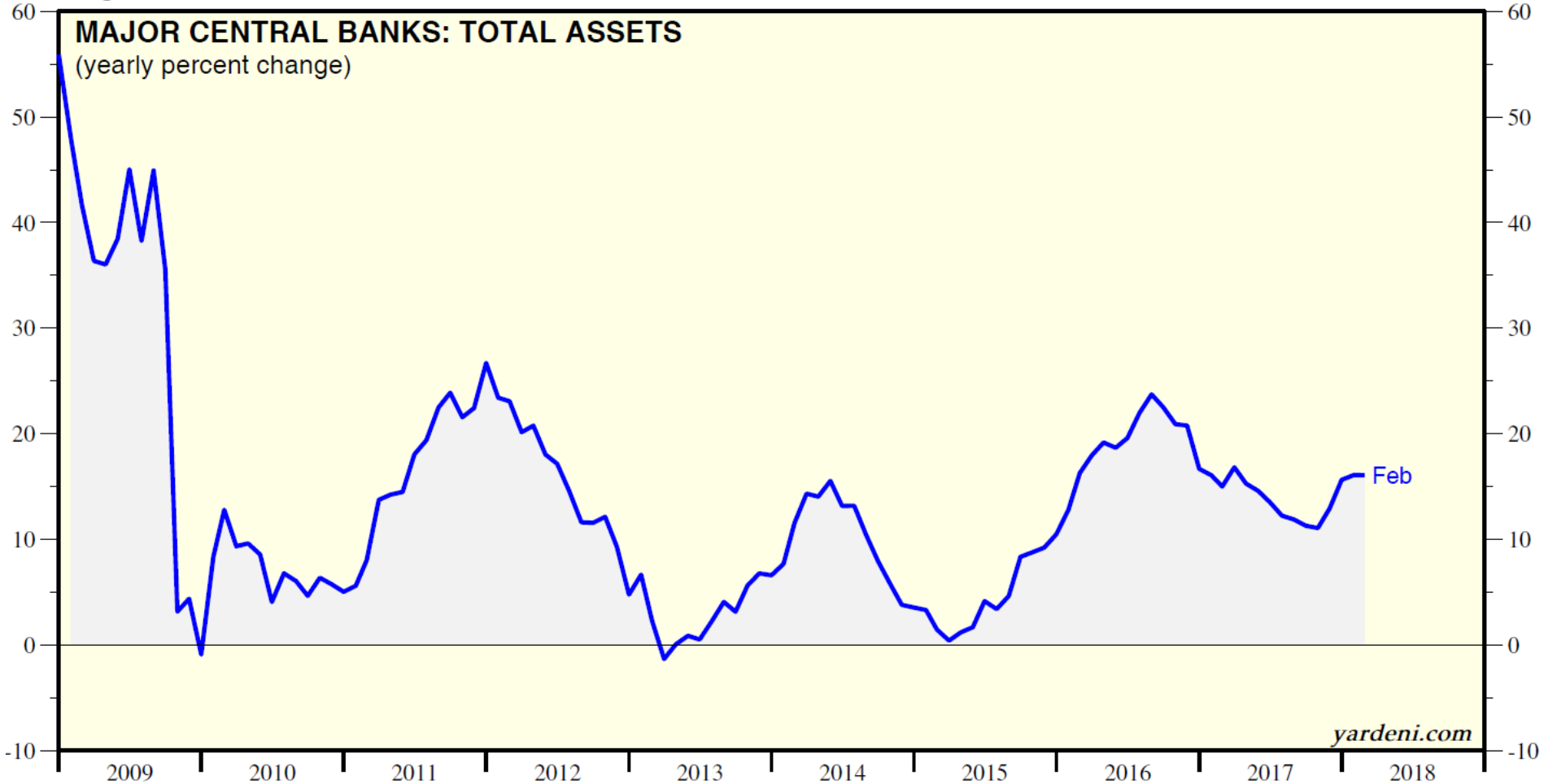
Source: Haver Analytics.

Total Assets: % of Local Currency GDP



Source: Haver Analytics.

Total Assets: Yearly Percent Change



yardeni.com

Source: Haver Analytics.

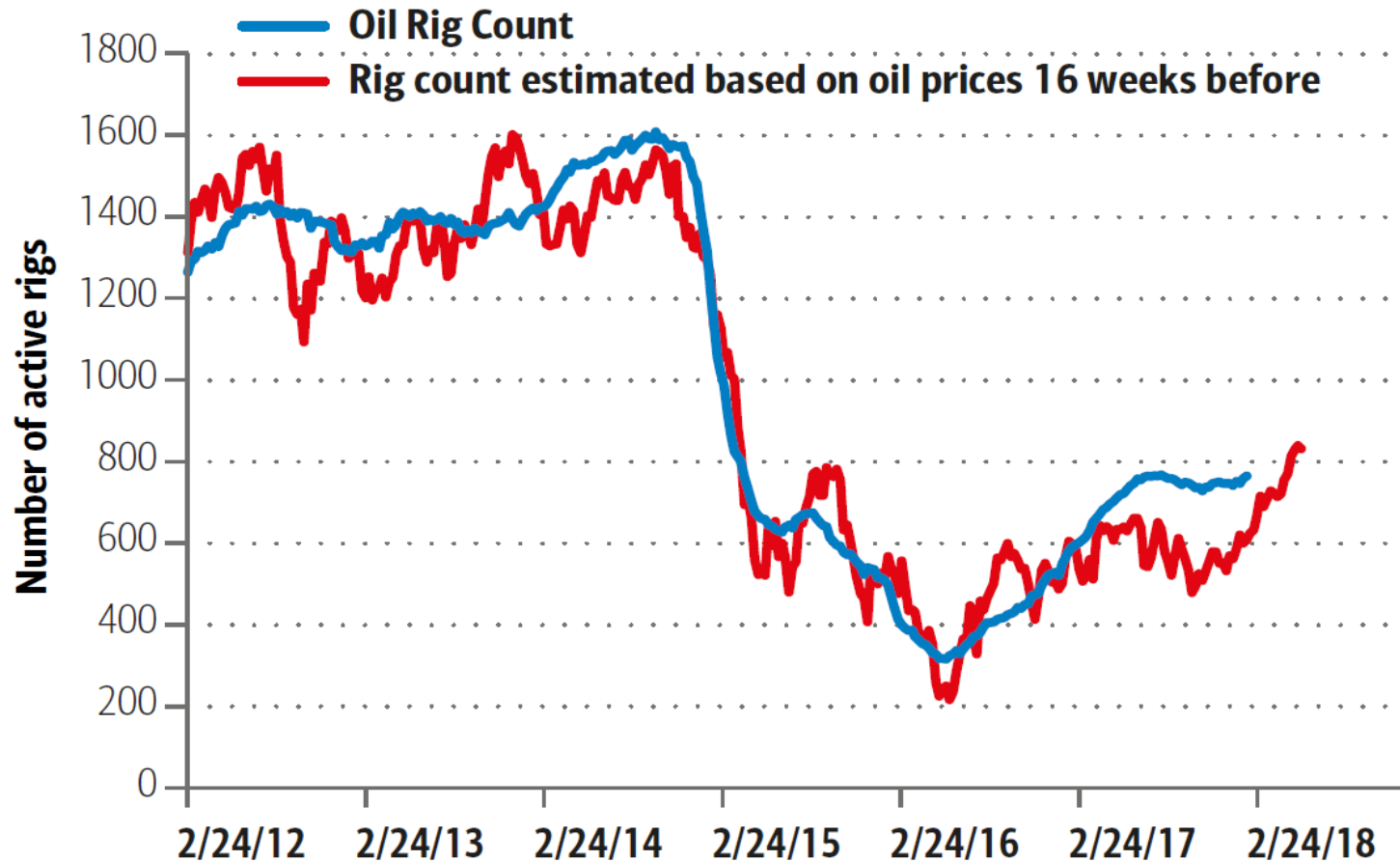
Economic Breakdown

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Etc.

Oil Overview

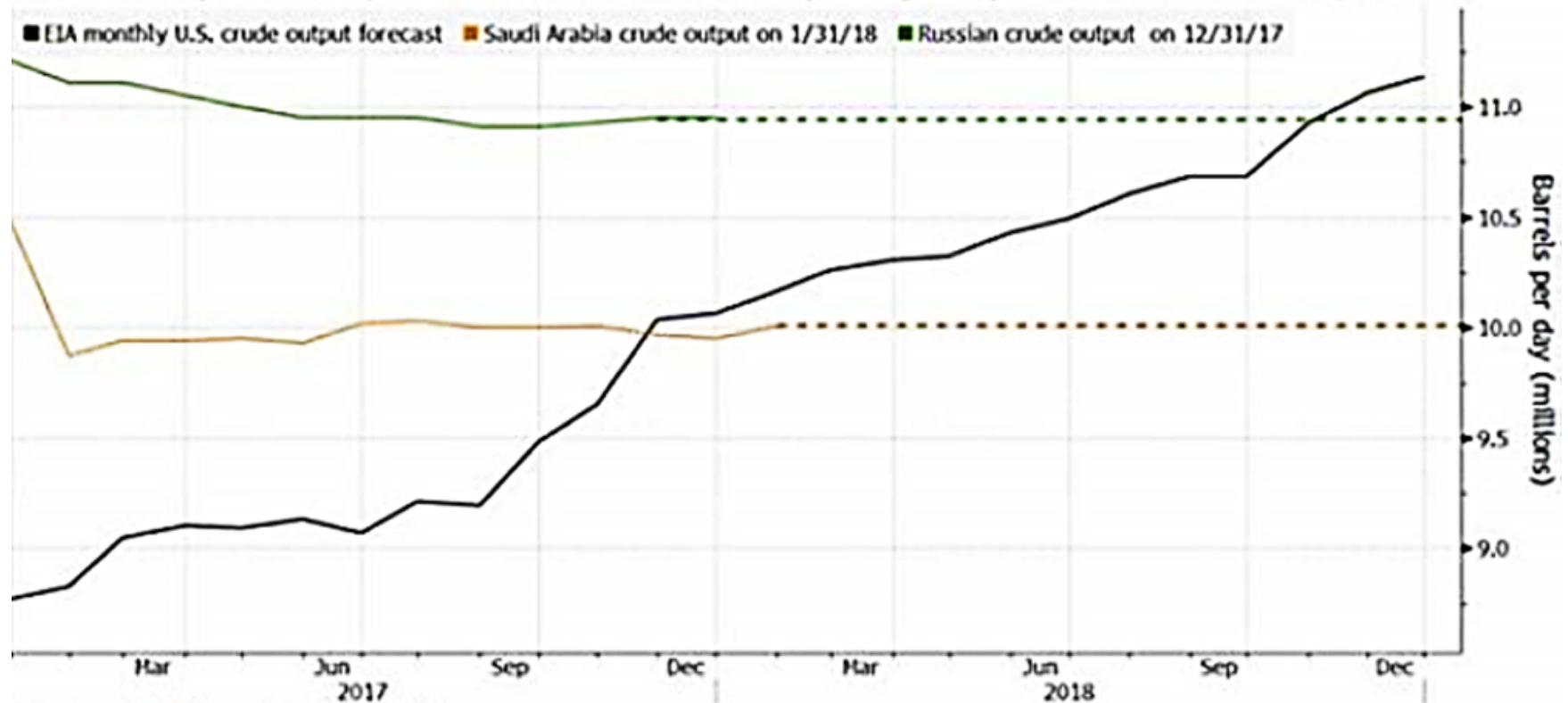
The U.S. oil rig count has more than doubled in response to the oil recovery since January 2016, and the price rally over the past few months suggests potential strengthening ahead.



Source: Baker Hughes; U.S. Trust® Macro Research Team. Data as of February 6, 2018.

U.S. Crude Oil Output

U.S. output eclipses Saudi Arabia's, may top Russia's this year



Source: EIA, Bloomberg, CDU TEK

ST09H Index (DOE Short Term Outlook Total Crude Oil Production Forecast Monthly)

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Money Supply Concerns

We're investigating why money supplies are slowing around the world, including the US. Whatever the reason, it's probably not a good sign, but it does at the margin reduce overheating fears.



Aluminum & Steel Product Imports

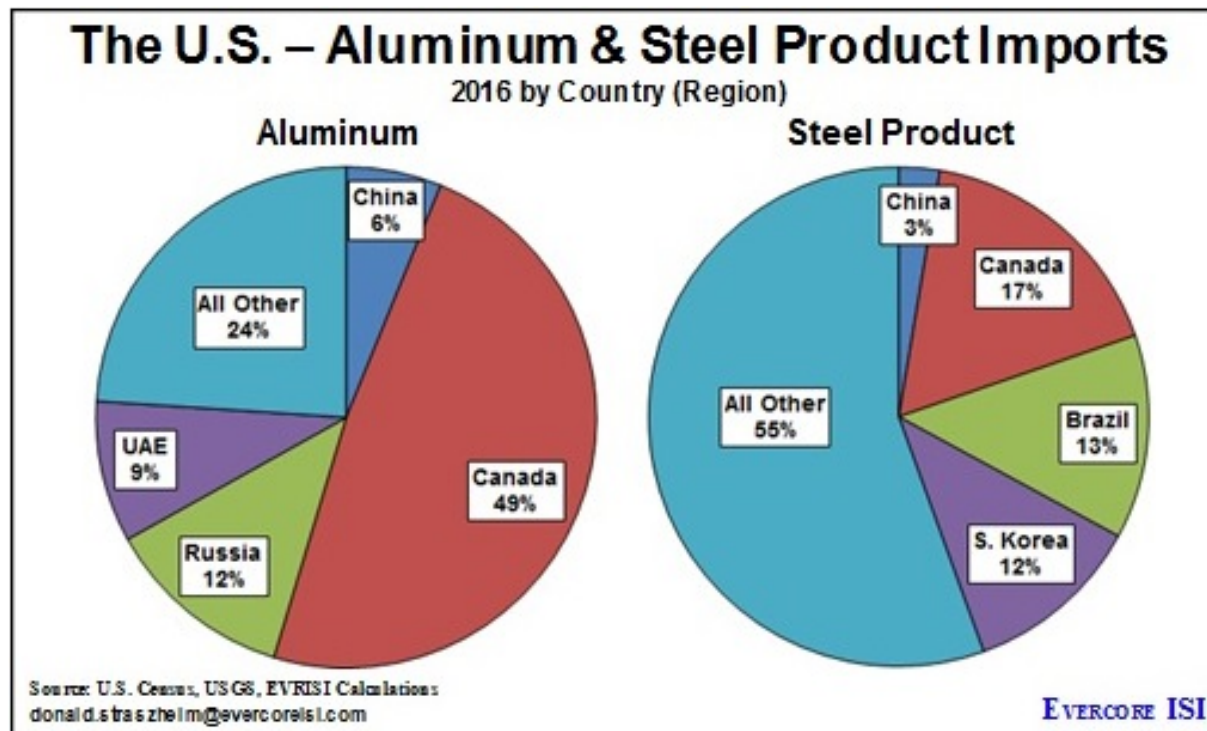


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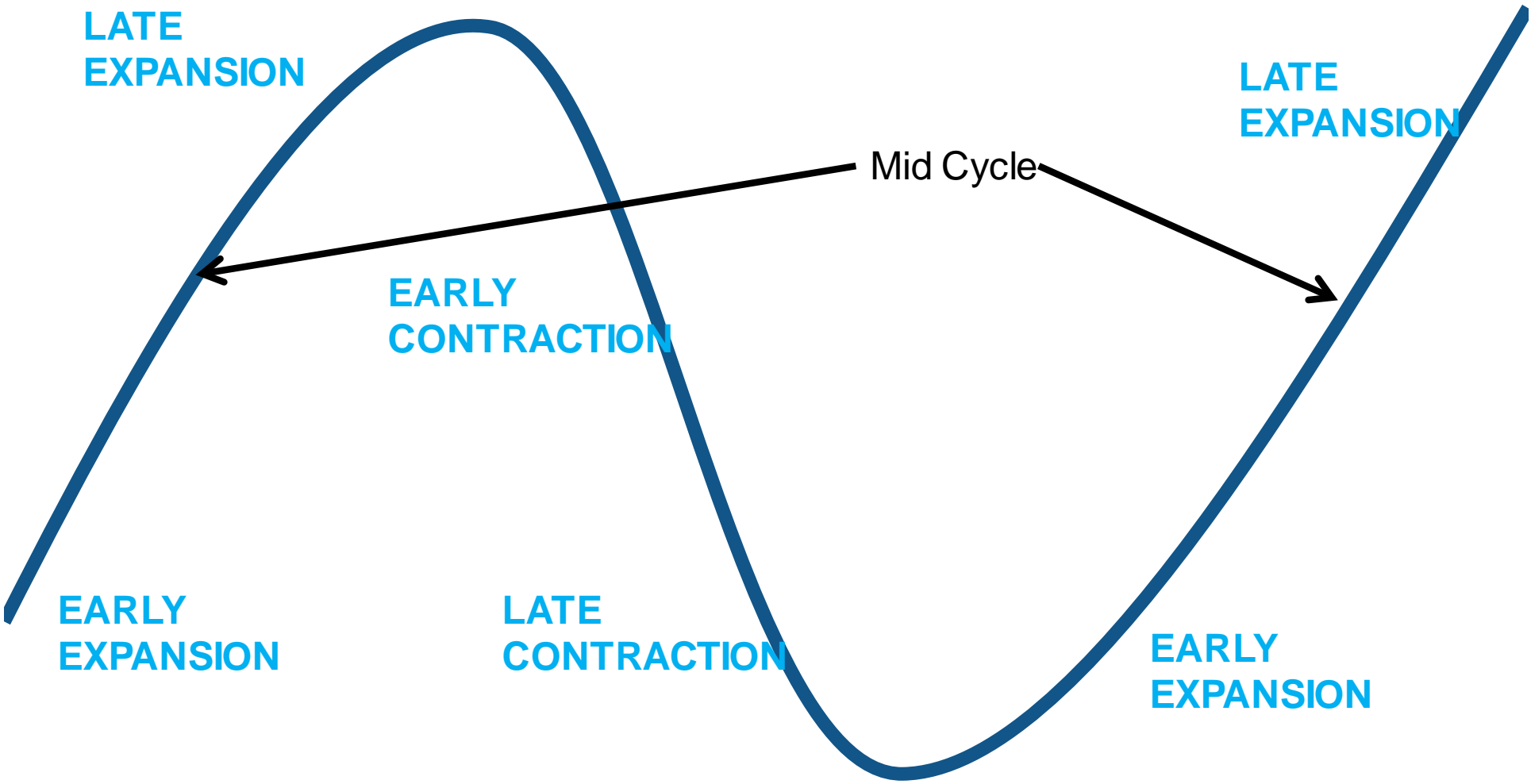
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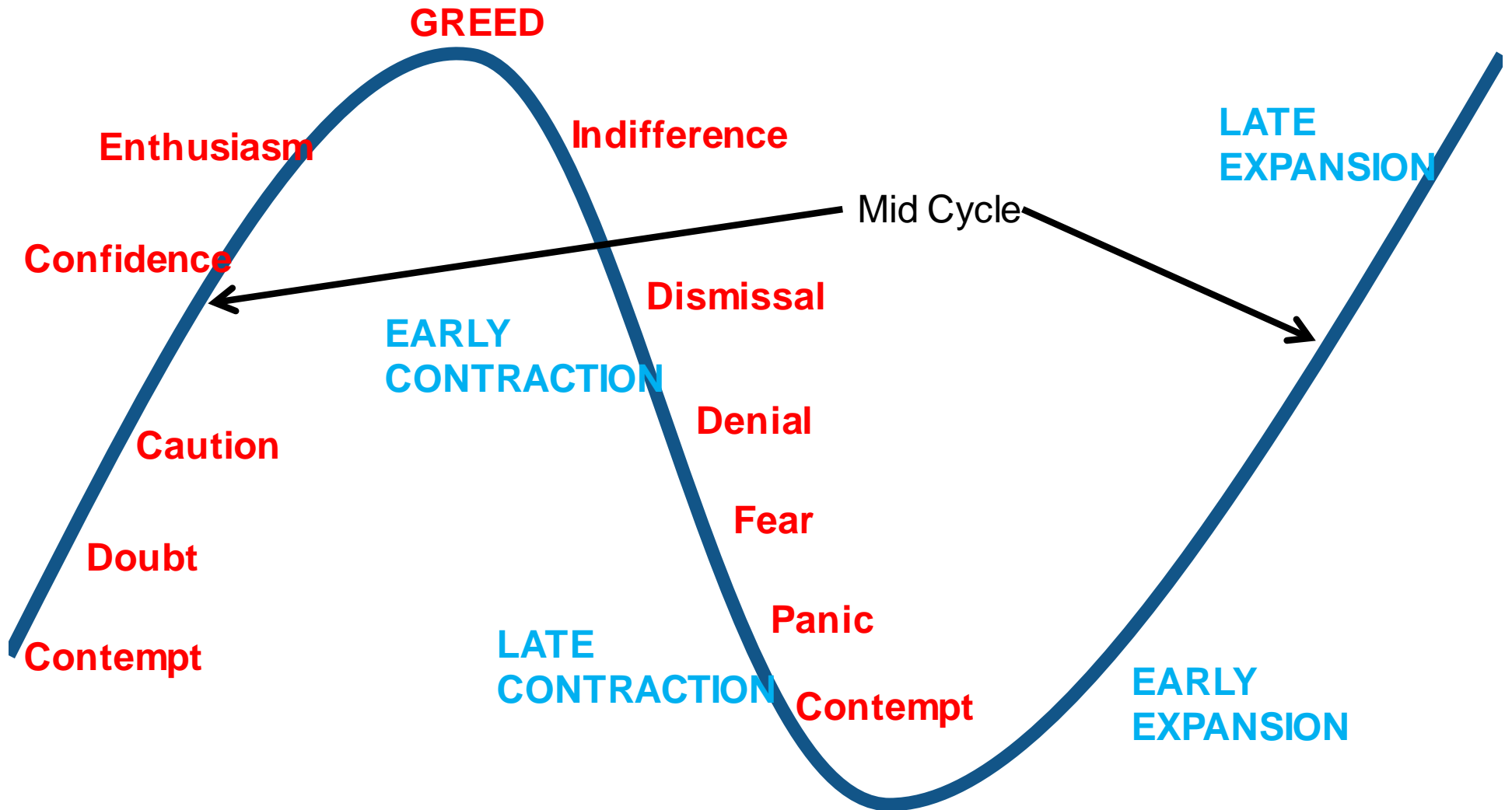
Source: Bank of America Merrill Lynch Global Research. Data as of February 5, 2018.

*Morgan Stanley Capital International All Country World Index.

It is not possible to invest directly in an index. Past performance is no guarantee of future results.

The chart is based on analyzing every instance of a pullback in the ACWI by 6-7% throughout its history since data began in 1988, then averaging the subsequent stock price recoveries of all such instances. The average is thus a signal number, used to produce an average time frame for recovery.





Questions?

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