ARISTOTLE
CAPITAL BOSTON

Election Impact on the U.S. Equities Market

January 27, 2025

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AGENDA

I. President Trump's Proposed Policies

II. Potential Market Implications

President Trump's Proposed Policies

Proposed Policies

I. Taxes

II. Foreign Policy/Trade

III. Deregulation

IV. Immigration

V. Healthcare

VI. Climate/Environment

VII. Transportation

VIII. Defense

Taxes

- Push to make the 2017 Tax Cuts and Jobs Act (TCJA) cuts permanent.
  - Any significant tax-policy changes will require Congressional approval and enacted changes may be more tempered than campaign-trail proposals due to deficit projections.
  - Individual Income Tax Brackets: Remain at 10%, 12%, 22%, 24%, 32%, 35%, and 37%. Proposing to repeal the State and Local Tax (SALT) cap deduction.
  - Repealing the SALT cap could add about $200B to the federal deficit.
  - Proposing to abolish the tax on Social Security payments.
  - Increased tariffs could offset the cost of making these permanent.
- Corporate Tax Rate: Current rate is 21%. Proposing additional cuts ranging from 1% - 6% with final corporate tax rate to be between 15%-20%. Floating idea to revive the 100% depreciation bonus.
  - May seek to reinstate the Domestic Production Activities Deduction (former Section 199 of the Internal Revenue Code), which was repealed in 2017 to achieve this.
  - Will likely further add to the deficit but may also boost corporate earnings and temporarily cause markets to rally.

Foreign Policy/Trade

- Significant uncertainty remains.
- Proposing new universal 10-20% tariff on most foreign goods with a 60% tariff on Chinese imports.
  - Can be implemented by executive order.
  - Attempting to promote homegrown manufacturing and stop outsourcing. Reshoring.
  - Not a fan of large, multilateral trade deals, so reasonable to expect a return to bilateral trade agreements, including reviewing the Korean-U.S. Trade Agreement (KORUS), NATO and USMCA.
    - Utilize the 6-year renegotiating provision of the United States-Mexico-Canada Agreement (USMCA) to strike a better deal.
  - Potential implications: Negative impact to economic growth (-0.5% to -1%) and upward pressure on inflation (+1% to 2%) with additional price increases for consumers.
  - If tariff increases occur, defensive sectors/stocks will likely benefit as will companies with less exposure to offshore production.
- China: In addition to 60% in tariffs, plans to revoke Most Favored Nation (MFN) trade status to attain economic independence from China and prevent China from buying American real estate.

Deregulation

- **Energy**: Drill-baby-drill. Robust emphasis on fossil fuels, extensive regulatory rollbacks and a scaling back of renewable energy policies.
  - Increases in U.S. crude oil production will add to supply potentially causing a drag on oil prices if no changes from OPEC. Oil and natural gas producers will likely benefit from deregulation.
- **Financial services**: Will likely see reduced regulatory burdens, potentially boosting the banking sector and enhancing M&A activity.
- **Healthcare**: Less stringent requirements in pharmaceuticals and biotechnology, could help those industries by prompting accelerated drug approvals.
- **Cryptocurrencies and blockchain**: May see favorable treatment as President-elect Trump is pro-crypto.
- **Technology**: The overall sector and AI policy may benefit from less federal scrutiny.
- **Clean energy**: Could suffer if clean-energy tax credits are rolled back. The electric vehicle industry and related infrastructure might also see less federal support, impacting growth in the sector.
- **Semiconductors**: Policies supporting the development and reshoring of the semiconductor industry, as well as broader national security concerns such as defense spending and cybersecurity, are expected to remain robust, driven by ongoing geopolitical tensions and the strategic need to reduce reliance on foreign critical materials.

Immigration

- **Deportation**: Seeking to implement mass deportation of undocumented immigrants through expedited removal at mass migrant camps and plans to deploy the military to assist in this effort. Also intends to end "catch and release" and detain immigrants who are caught entering the U.S. without authorization. May move to restore migrant family separations to deter illegal immigration.
- **Pathways to U.S. Citizenship**: Aims to end the Deferred Action for Childhood Arrivals (DACA) program, along with "birthright" citizenship for children born in the U.S. to undocumented parents.
- **Refugees and Asylum Seekers**: Plans to restore the Remain in Mexico program and roll back Temporary Protected Status designations, along with ending the immigration parole program for those in humanitarian crises. Has promised to enact a travel ban for people entering from several Muslim-majority nations and regions, including the Gaza Strip.
- **Securing the Border**: Vows to complete the border wall and use all resources necessary to stop illegal immigration, including moving thousands of troops stationed overseas to the southern border.
- Potential to slow economic growth and cause labor inflation.

Healthcare

- **Medicare**: Promises to keep intact.
- **Patient Protection and Affordable Care Act (ACA)**: Seeking to implement a less-costly replacement.
- **State-Level Control of Reproductive Health**: Supports allowing states to craft their own legislation on reproductive health measures.
- **Prescription Drug Costs**: Supports lowering prescription drug costs. During his first term, signed the Know the Lowest Price Act and Patient Right to Know Drug Prices Act, which prohibit pharmacies from withholding information to enrollees regarding pricing and costs.
- **Veterans' Healthcare**: Focused on expanding access to private care and cutting costs. During his first term, signed the VA MISSION Act, creating the Veterans Community Care Program which allows veterans to receive care at non-U.S. Department of Veterans Affairs (VA) facilities.
- **FDA/Public Health**: Wants to create an "independent" commission to examine the cause of increases in chronic disease. Aligns with many of the positions expressed by Robert F. Kennedy Jr., including FDA reforms such as reduction or elimination of user fees and removal of "chemicals" in food, including limiting pesticide use and addressing risks of artificial foods.

Climate/Environment

- **Rollbacks**: Vows to renew deregulatory efforts. Seeking to stop the flow of American tax dollars subsidizing Chinese EV battery companies and rolling back regulations promoting EV adoption. Proposing to ban ESG investments and plans to rescind funding from the Inflation Reduction Act (IRA).
- **U.S. Environmental Protection Agency (EPA)**: Will likely decrease the EPA’s budget and the size and reach of the agency. Expect to rollback the EPA's interregional enforcement initiatives and its Environmental Justice programming.
- **Fossil Fuels**: Seeking to make the U.S. the dominant energy producer globally and independent of foreign fuel. Vows to increase the domestic production of oil and refill the Strategic Petroleum Reserve while reducing the amount of time it takes to approve drilling permits.
- **Paris Climate Agreement**: Pledges to withdraw the U.S. from the 2015 Paris Climate Agreement.
- **Reforming the NIH, CDC and Possibly FDA**: Reform of several public health agencies is likely to be a focus. Proposals include sharply trimming back the scope of the Centers for Disease Control and Prevention (CDC) and consolidating the National Institutes of Health's (NIH) institutes and centers into a more streamlined agency. Efforts to address perceived conflicts of interest related to external business relations or external funding sources (e.g., U.S. Food and Drug Administration (FDA) user fees and NIH royalties) may also be included.

Transportation

- **Aviation**: Will likely halt a number of pending rulemaking initiatives and expected to reverse current policies on airline mergers and international aviation policies.
- **Drones and Advanced Air Mobility**: Drones were a priority under the first Trump Administration and will likely continue to be under the second. Expected to maintain and expand progress on Advanced Air Mobility but will likely deemphasize the climate benefits of electrification and promote the opportunity for American leadership and growth in U.S. high-skilled manufacturing jobs.
- **Automotive Policy**: Elon Musk will likely have influence in how it's handled. Will likely champion issues that will grow U.S. automotive manufacturing jobs by opposing Chinese manufactured vehicles and foreign manufacturing relocation to Mexico. Potential tariffs on cars made overseas.
- **Autonomous Transportation**: Reinvigorate the Automated Vehicles Comprehensive Plan but cautious on policies that eliminate commercial vehicle driver jobs based on his support from labor unions.
- **Rail**: Expected to reduce funding for high-speed rail projects and roll back safety regulations, including on hazardous gas transit, crew member requirements and fatigue risk.
- **Infrastructure Investment and Jobs Act (IIJA)**: Will conduct a comprehensive review of the IIJA and roll back portions that he deems to be excessive spending. In his first term, President Trump issued executive orders curbing the National Environmental Policy Act, Endangered Species Act and Clean Water Act in order to speed up permits for federal infrastructure projects and will likely do so again.

Defense

- **Modernization**: Expected to modernize the military by investing in advanced technologies, particularly an Iron Dome-style missile defense shield, and increasing the defense budget.
- **Alliances**: Will seek to ensure that allies meet defense obligations and will likely seek to negotiate with Russia. Vocal supporter of Israel but has said the war needs to end soon. Supportive of Indo-Pacific allies but will encourage Taiwan to play a more active role in its defense.
- **Industrial Base**: Aim to revive the industrial base to ensure job creation and defense production, with a focus on domestically manufactured goods utilizing tariffs and leveraging the Defense Production Act to spur domestic production expansion.
- **Critical Infrastructure**: Prioritize the protection of critical infrastructure from cyber threats by raising security standards and enhancing defenses.

Potential Market Implications

Market Implications

- GDP growth likely to soften
- Inflationary pressures to potentially reignite
- Higher for longer rate environment
- Increased volatility
- Stagflation???

Risks

- **Global trade war**: Medium risk; medium-high impact.
  - Key triggers: Other countries respond aggressively to US tariffs
  - Trump administration will impose tariffs on US imports, but retaliatory measures by other countries will likely be designed to avoid escalating tensions, consistent with the experience during the first Trump administration.
  - Additional protectionist measures implemented depending on other countries responses.
    - Ex. Allow currencies to weaken against the dollar in attempt to avoid tariffs which could lead to a global trade war and in extreme scenarios decrease global GDP by 2-3%.

- **Inflation flares up (again)**: Low-medium risk; high impact
  - Key triggers: Broad increase in tariffs, immigration policy, fiscal expansion.
  - Higher tariffs pushes US inflation towards 3% in 2025 leading the Fed to pause its cutting cycle sooner resulting in a higher for longer rate environment.
  - Depending on tariff outcomes, a global trade war could cause inflation to flare up globally.
  - Immigration policy could lead to labor shortages and price pressures in sectors that are dependent on migrant labor resulting in a flare up of inflation.
  - If plans to tighten fiscal policy are pushed back, the result would be (even) larger budget deficits and higher rates of underlying inflation.

Risks

- **Fiscal missteps**: High risk; medium impact
  - Key triggers: Attempts to push through additional deficit-financed tax cuts in the US with a sense in markets that fiscal guardrails in advanced economies are weakening.
  - Several advanced economy governments will run fiscal deficits in 2025 that test the limits of the bond market's patience. Assumption is that they won't go beyond the limit and trigger a fiscally induced crises.
    - Ex. If Trump administration pushes through additional tax cuts financed through higher borrowing, irrespective of market concerns about medium-term fiscal sustainability, this could threaten a sharp rise in bond yields and corresponding tightening of financial conditions.

- **Stock market bubble bursts**: Medium risk; low-medium impact
  - Key triggers: Disappointing big tech earnings; evidence of slowing AI rollout
  - While AI will eventually deliver significant macroeconomic dividends, a bubble keeps inflating as investors attempt to capture the benefits of the technology ahead of them crystalizing in the economy.
  - The bubble bursting would be a headline-grabbing event, but its macro consequences could be limited. May impact consumer spending via wealth effects, but likely to be relatively small, and business investment would suffer, but not a major driver of US economic growth.
  - Larger impact would be GDP stagnating and potentially leading to a possible recession.

Risks

- **Energy glut**: Medium-high risk; medium impact
  - Key triggers: OPEC+ opens the taps
  - OPEC+ has constrained supply to try to prop up prices, but that hasn't delivered the intended results as brent crude prices continue to fall. This increases the probability that OPEC+ members shift from a strategy of trying to prop up prices to one of capturing market share from higher cost producers by opening up the taps. If this were to happen, oil prices could collapse pushing down inflation down.

- **Growth stars align**: Medium risk; high impact
  - Key triggers: Multiple triggers but would need to be facilitated by faster productivity growth
  - 2025 could be the year where the stars align on economic growth. While tariffs are likely to push up inflation in the US, inflation in other major economies is decelerating to 2%, alleviating pressures on household incomes.
  - Most economies are at or close to full employment and bank lending could pick up on the back of interest rate cuts.
  - A positive growth surprise could occur if the U.S. pick-up in productivity growth spreads to other major DMs coupled with Chinese structural reforms to alleviate the headwinds that are weighing on growth. Could push global GDP growth in 2025 from around 3% to closer to 4%.

Portfolio Positioning

- **Value > Growth:** Large Cap Value can hedge duration risk if rates stay higher for longer and offers attractive inflation-protected income. Compared to the Growth index, it is more exposed to old economy cyclical sectors, which have become higher quality over the last decade and can benefit from an "old school" capex cycle. Valuations, positioning and accelerating S&P 500 EPS growth further argue for Value > Growth.

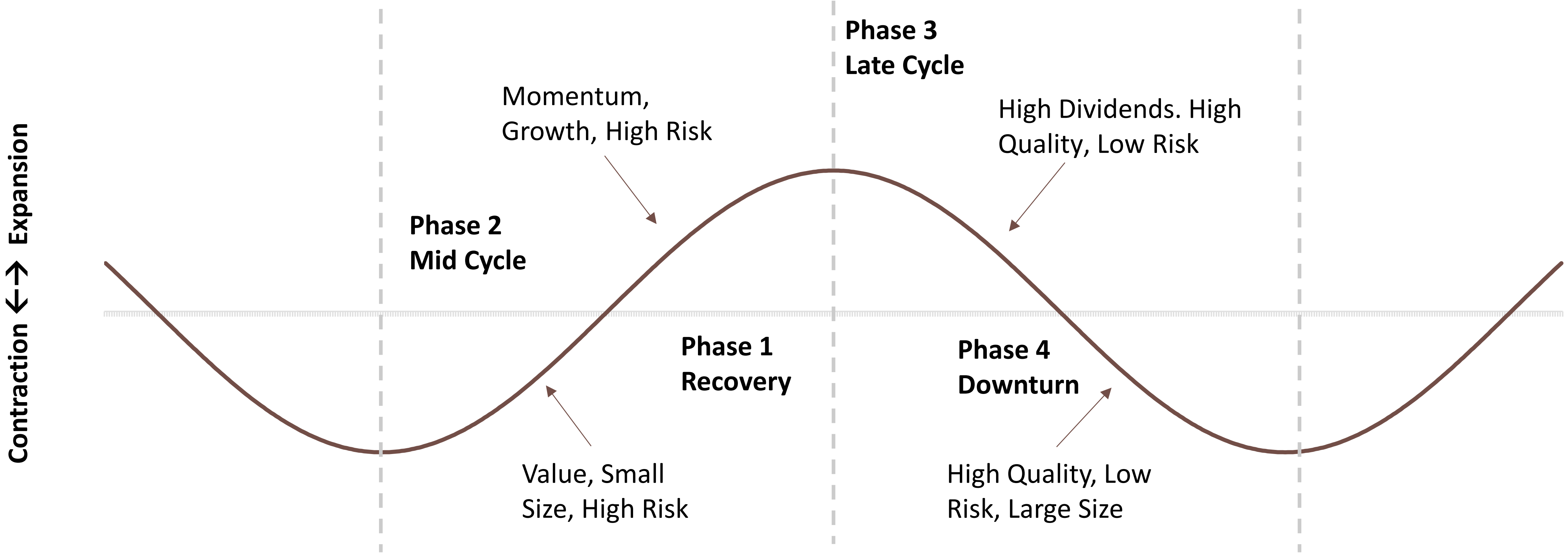
- **Small & Small/Mid (SMID) caps > Mega caps:** Attractive valuations, lower corporate tax-rate, lower interest rate environment, deregulation, reshoring, earnings troughing and starting to reaccelerate along with a U.S. revenue bias benefits small and SMID cap companies over large caps.

- **Micro > Macro:** US large and small cap equity benchmarks have unique and extreme problems relative to history. The largest seven companies make up over 30% of the S&P 500 and trade at a 50% premium to the rest of the index. Meanwhile, the Russell 2000 has a record percentage of non-earners and faces heightened credit risk. Given this backdrop, signs point to a micro-driven market where stock selection strategies are likely to dominate over passive.

Where are we in the Cycle?

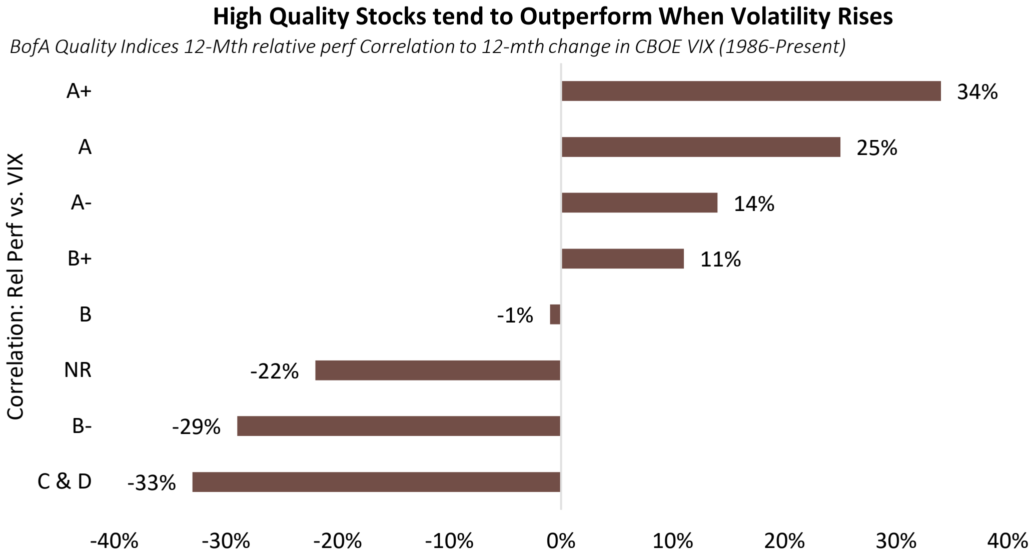
U.S. Regimes

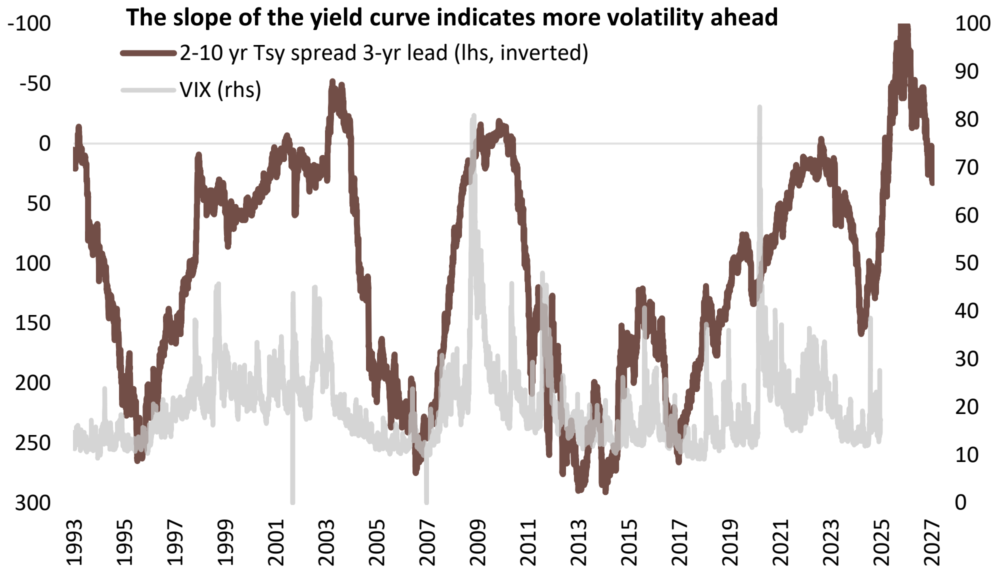
Value, Small Size, High Risk tend to fare well in Recovery

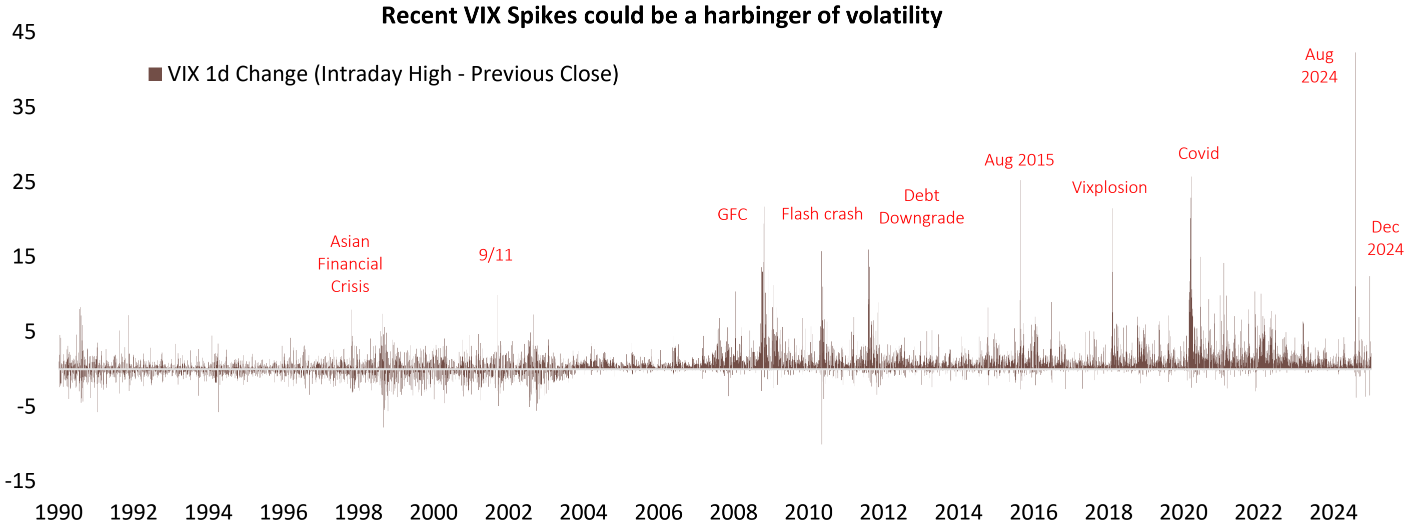


Sources: Bank of America (BofA) Global Research.

Volatility







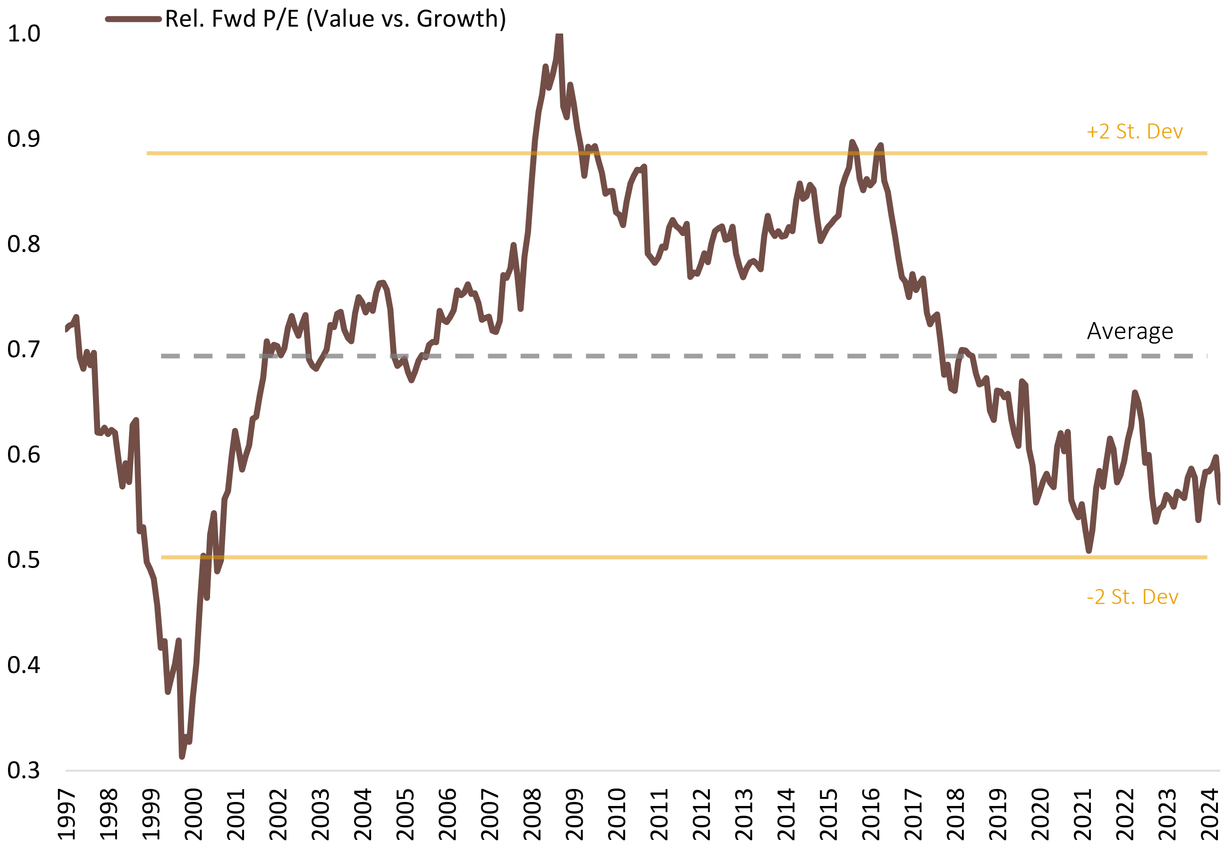
Sources: Bank of America (BofA) Global Research; CBOE; FactSet.

Large Value over Large Growth

As of December 31, 2024

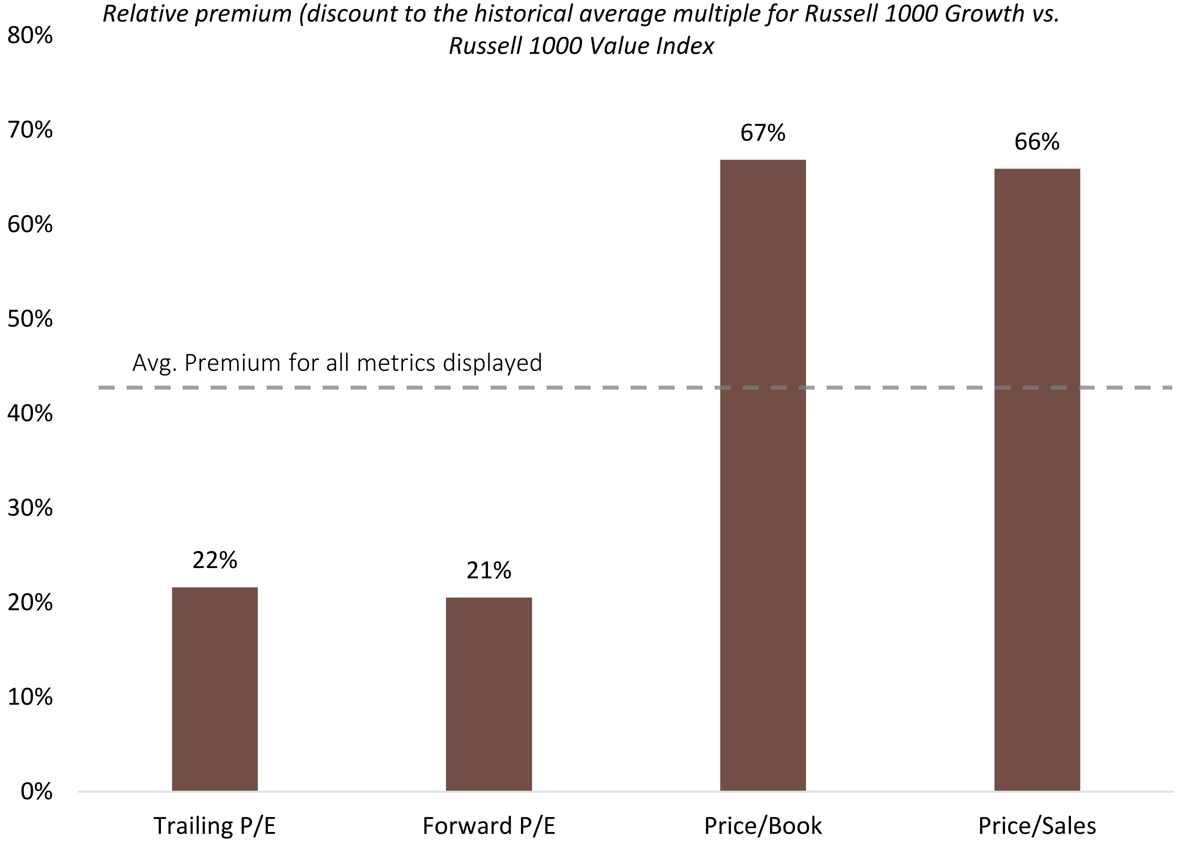
Value trades at a discount to growth on Forward P/E (1997 – 12/2024)

Relative Forward P/E of Russell 1000 Value vs. Growth Index



Large Cap Growth is historically expensive vs. Value on 4 common valuation metrics (1997 – 2024))

Relative premium (discount to the historical average multiple for Russell 1000 Growth vs. Russell 1000 Value Index

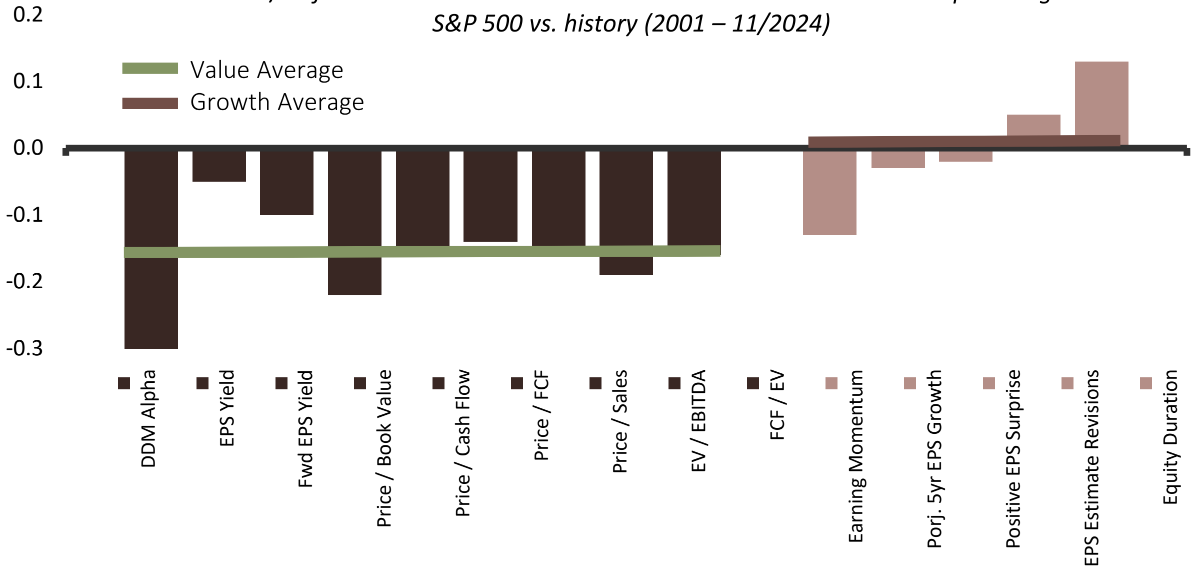


Sources: FactSet, Russell

Large Value over Large Growth

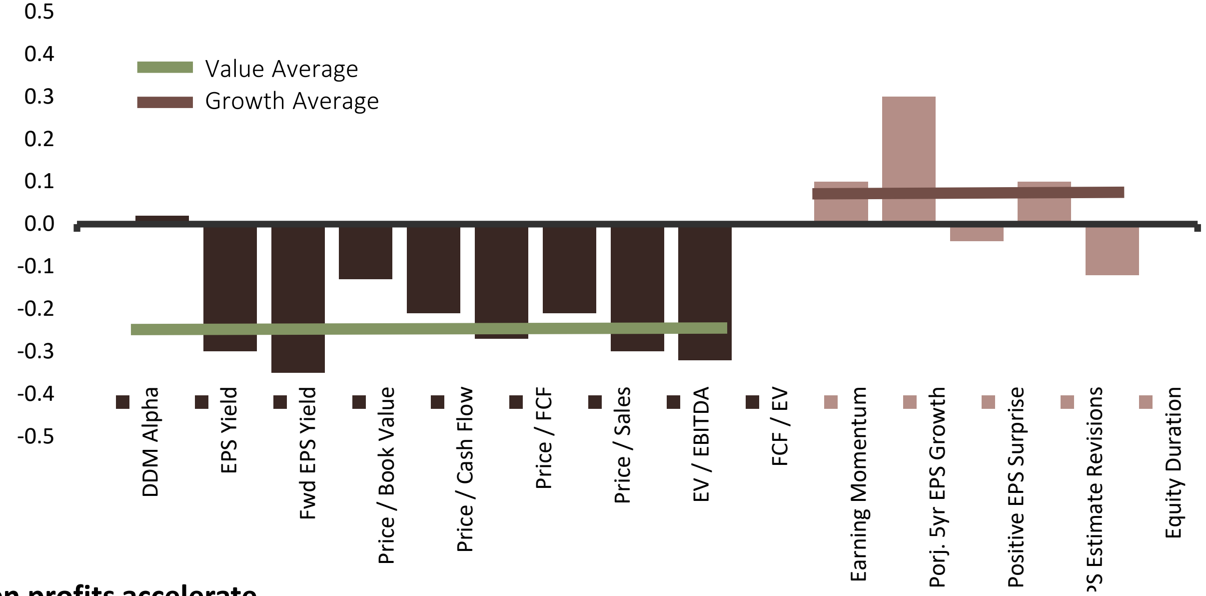
Growth factors are historically expensive vs Value Factors

Forward P/E of unconstrained Value and Growth Factors relative to the equal-weighted S&P 500 vs. history (2001 – 11/2024)



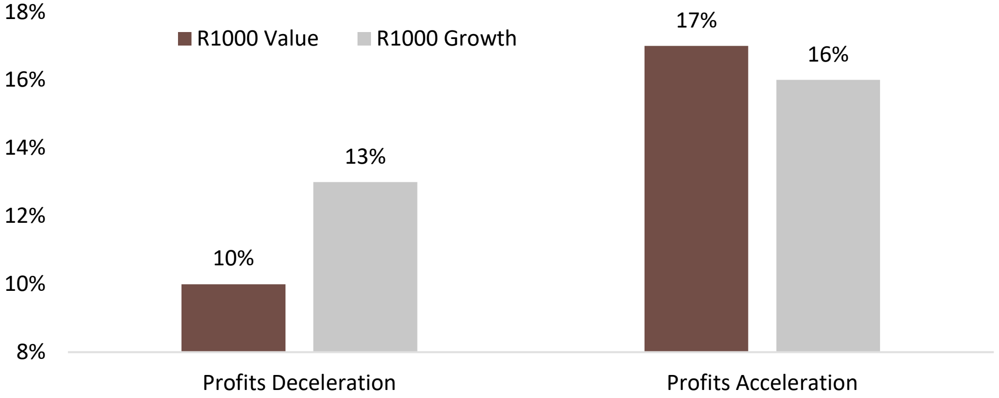
Growth remains crowded and Value under owned

Long-only relative weight vs. S&P 500 (as of 11/2024)



Value > Growth when profits accelerate

Growth vs. Value performance during the profits cycle (1982 – 11/2024)



Sources: FactSet, Bank of America (BofA) Global Research, Russell, Standard & Poor's.

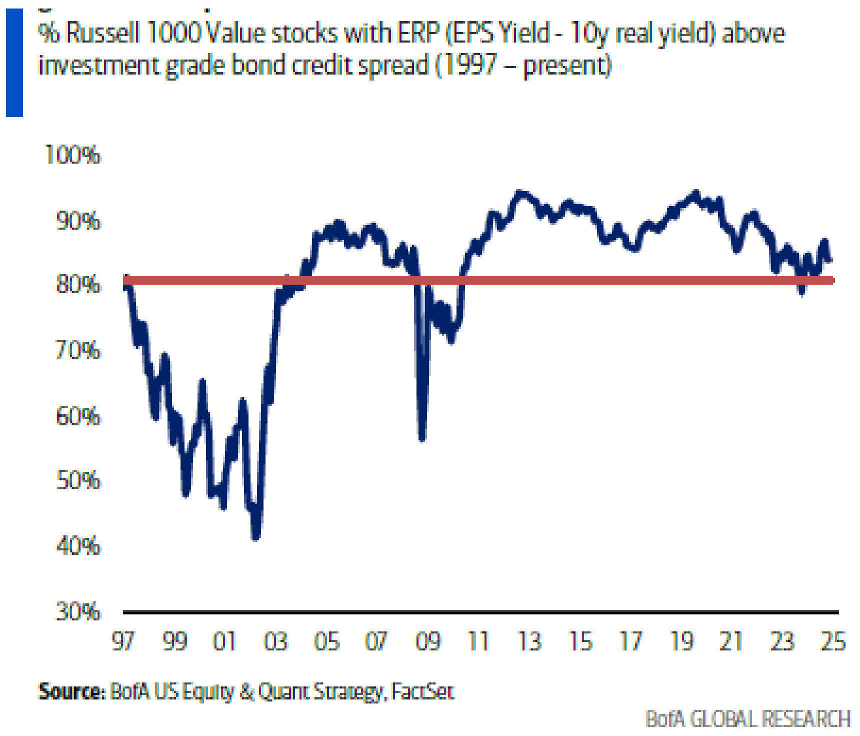
Value stocks vs. Credit

Value stocks remain competitively priced vs. credit: 84% of stocks in the Russell 1000 Value index offer excess earnings yield (i.e., EPS yield – 10-yr real Treasury yield) above investment grade bonds' spread.

	Value	Core	Growth
Large	**Shortest Duration:** LTG: 9% Dividend payout ratio: 36% FCF/EV: 4% % of non-earners: 4%	LTG: 14% Dividend payout ratio: 30% FCF/EV: 3% % of non-earners: 5%	LTG: 19% Dividend payout ratio: 23% FCF/EV: 3% % of non-earners: 6%
Mid	LTG: 12% Dividend payout ratio: 31% FCF/EV: 3% % of non-earners: 5%	LTG: 13% Dividend payout ratio: 30% FCF/EV: 3% % of non-earners: 5%	LTG: 21% Dividend payout ratio: 20% FCF/EV: 3% % of non-earners: 7%
Small	LTG: 17% Dividend payout ratio: 51% FCF/EV: 1% % of non-earners: 31%	LTG: 20% Dividend payout ratio: 50% FCF/EV: 1% % of non-earners: 33%	**Longest Duration:** LTG: 26% Dividend payout ratio: 41% FCF/EV: 1% % of non-earners: 39%

Highest Duration Risk

Highest Duration Risk

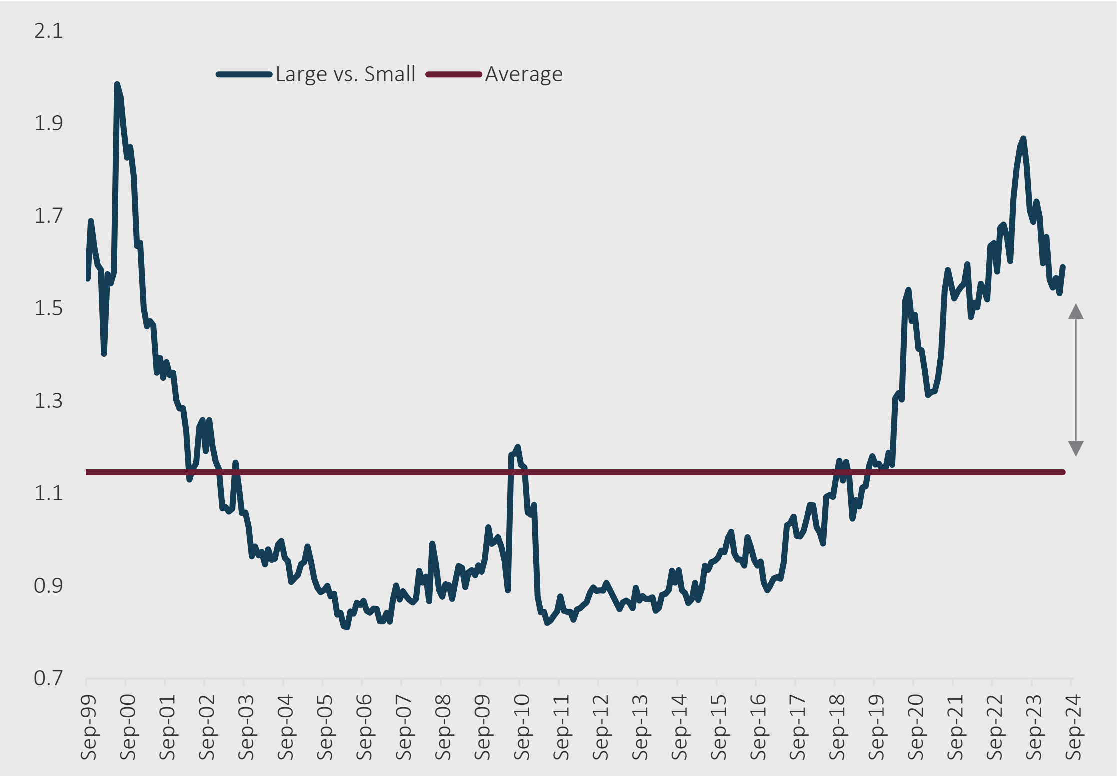


Sources: FactSet, BofA Global Research, Russell. Russell style and size indices and their current metrics as of 11/24

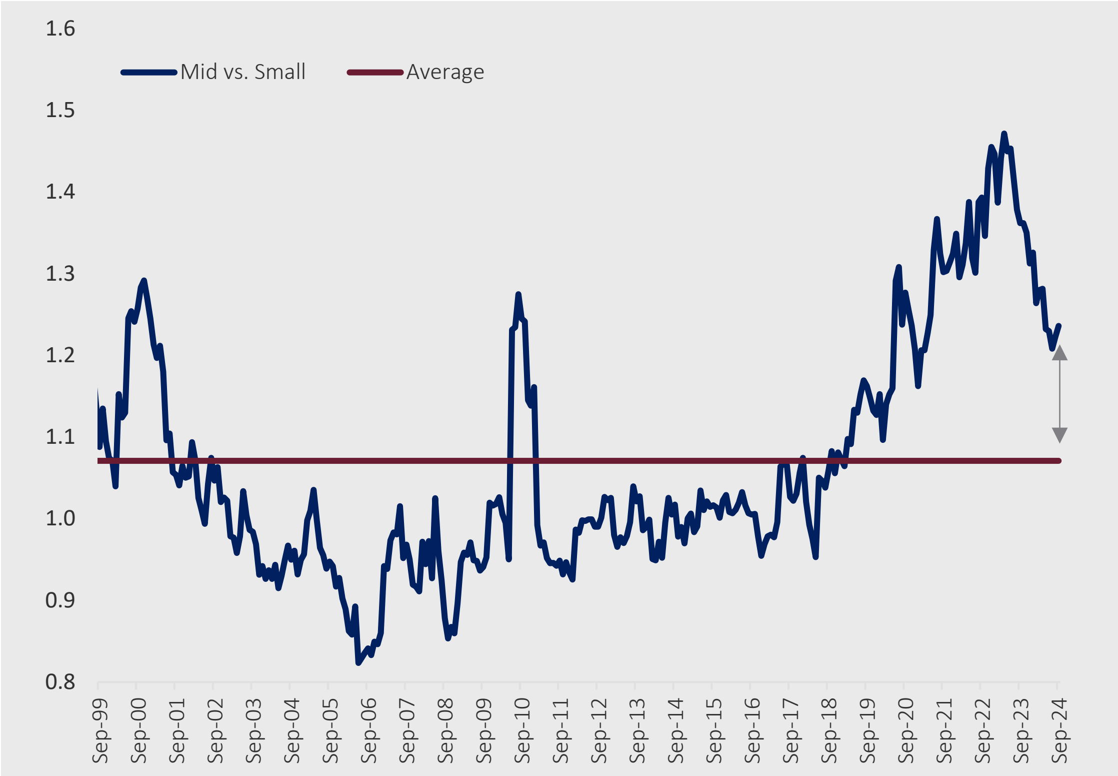
Small Caps are Historically Cheap Relative to both Large & Mid Caps

As of September 30, 2024

Large-caps trade at a premium to small caps not seen since 01'
Relative P/E (LTM) Russell 1000 vs. Russell 2000



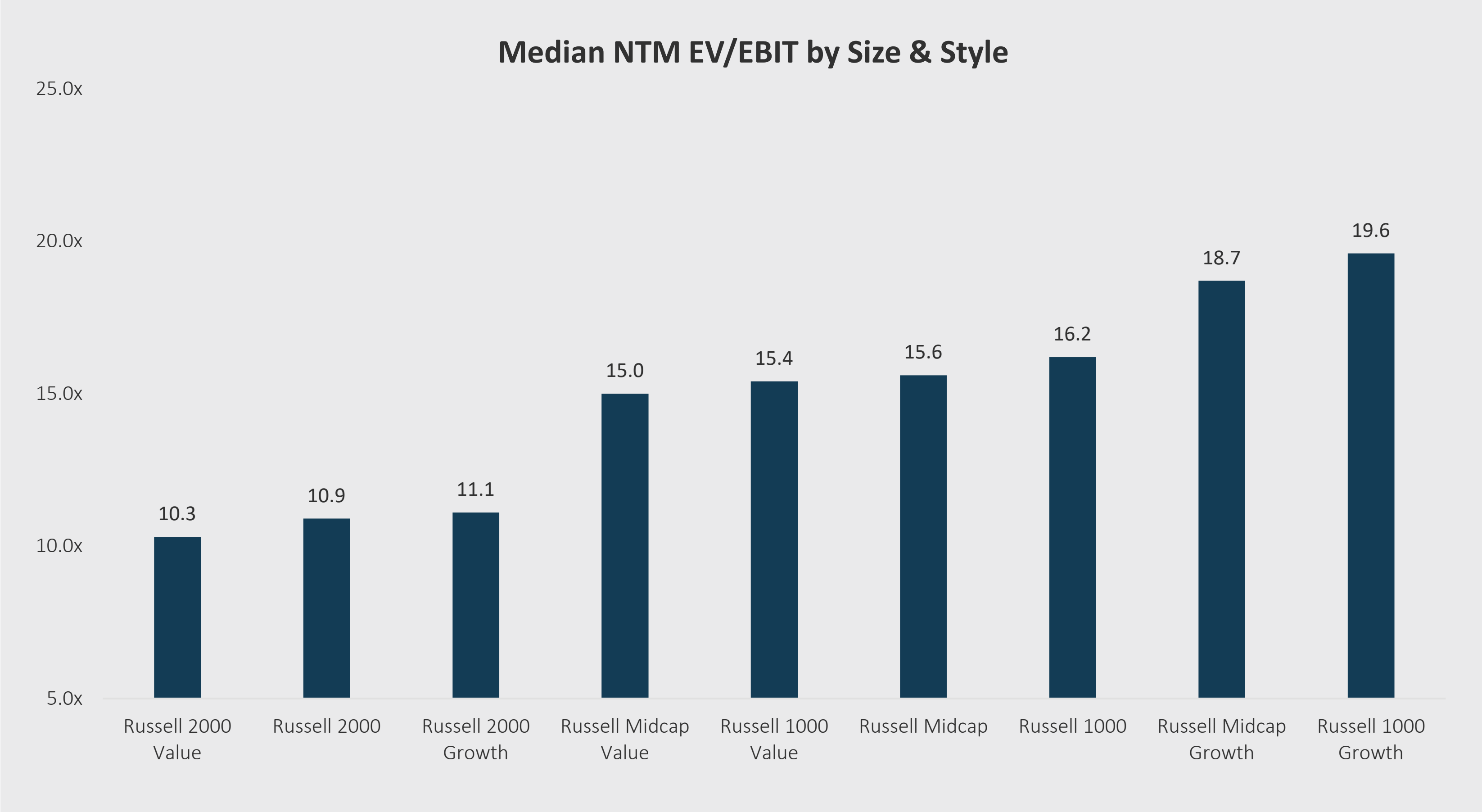
…. While mid-caps also trade near a 25-year high relative to small caps
Relative P/E (LTM) Russell Midcap vs. Russell 2000



Source: FactSet. Based on trailing 12-month earnings. 9/30/1999 – 9/30/2024

Small-Cap Value and Small-Cap Core Remain the Cheapest Among Size and Style Peers

As of September 30, 2024

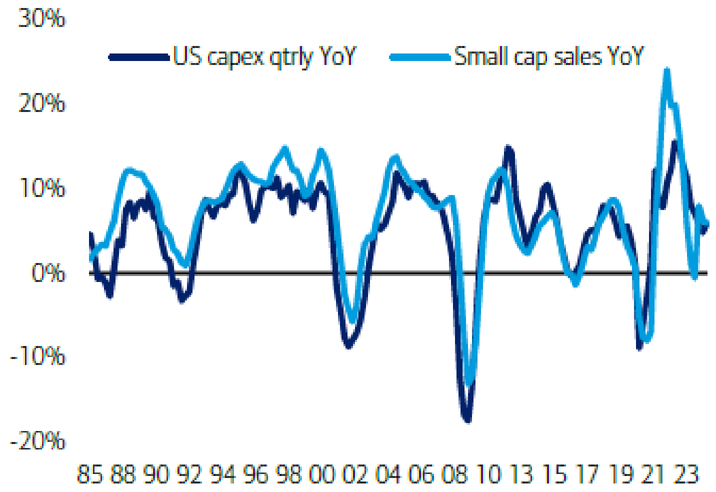


Source: FactSet

Capex Cycle = Small > Large Caps

- "Old school" capex cycle beneficiaries.
- Reshoring is motivated by geopolitical risks, a tech arms race, decarbonization goals and COVID. AI spend will drive more dollars. And more activity taxing aging US infrastructure is adding to the urgency.
- Small/SMID caps: poised to benefit as their sales growth has been highly correlated with "picks & shovels" capex.
- Infrastructure investment provides a multi-year tailwind for old economy sectors like Utilities, Industrials, Materials and Oil.

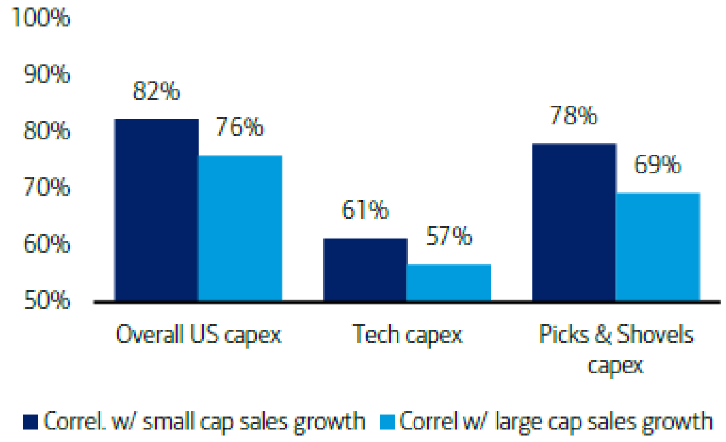
US qtrly. YoY capex growth vs. Russell 2000 YoY sales growth, 1986-3Q24



Source: FactSet, Haver Analytics, BofA US Equity & US Quant Strategy

BofA GLOBAL RESEARCH

Correlation of US capex growth with small cap (Russell 2000) and large cap (S&P500) sales growth, 1985-3Q24

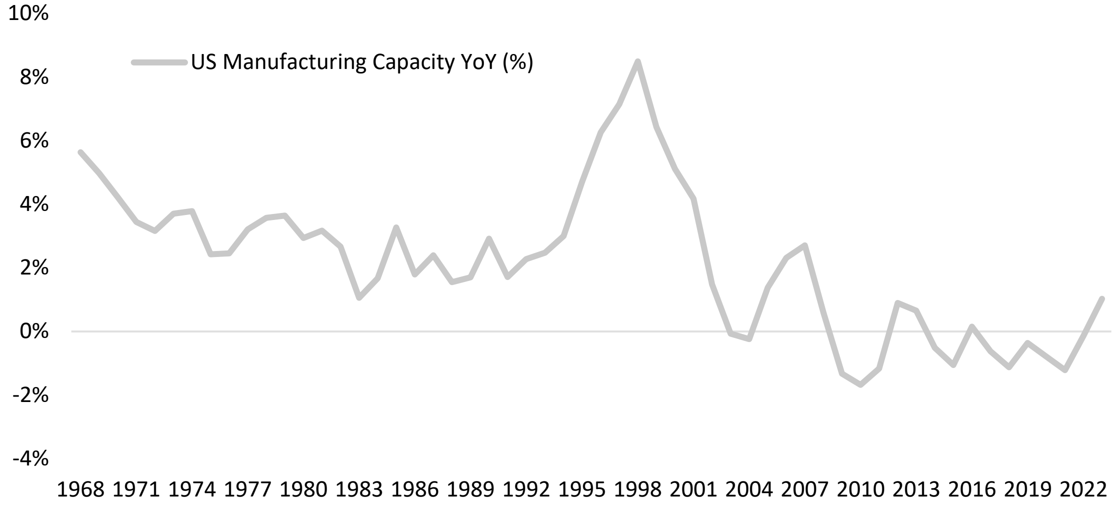


Source: FactSet, Haver Analytics, BofA US Equity & US Quant Strategy

BofA GLOBAL RESEARCH

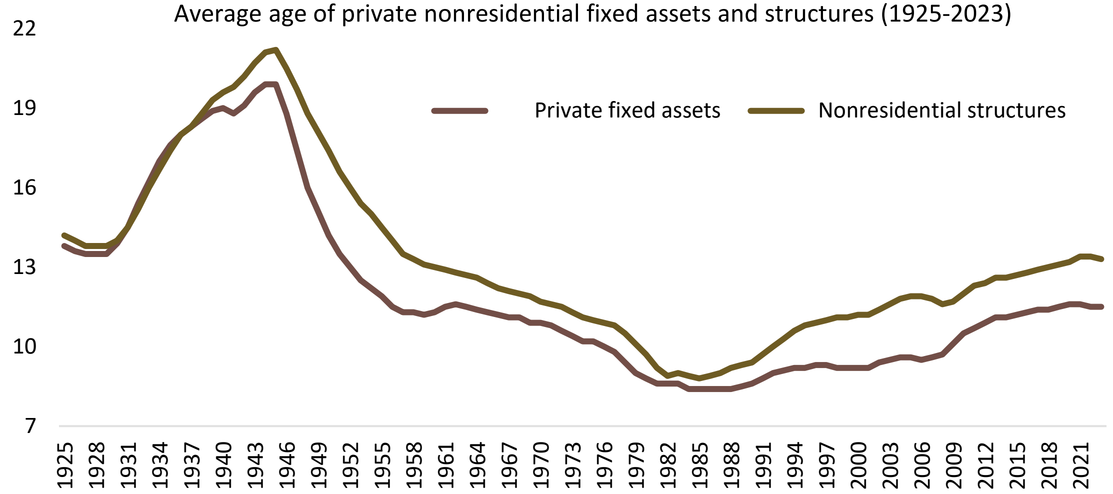
Manufacturing

Domestic Investment is Picking up after 10 years of underinvestment

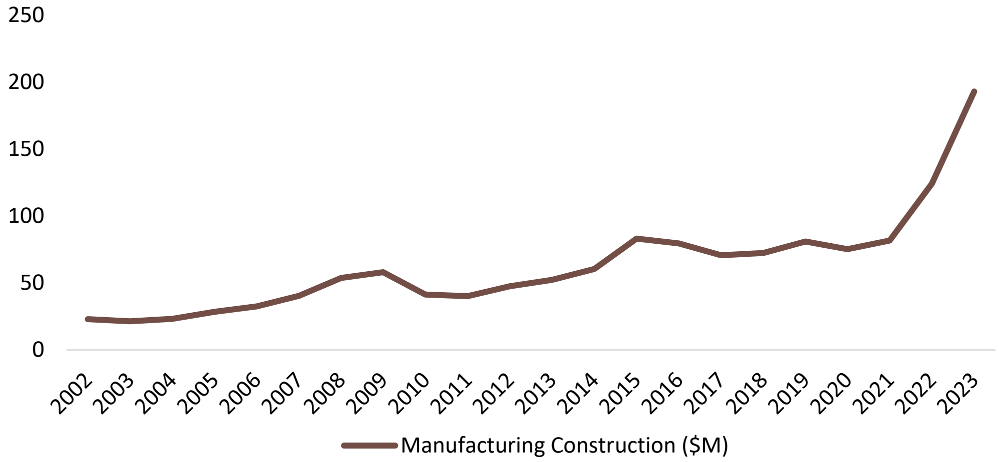


The avg. age of equipment ticked down for the first time since 2000

Average age of private nonresidential fixed assets and structures (1925-2023)



Construction Spend on Manufacturing Soared in Recent Years

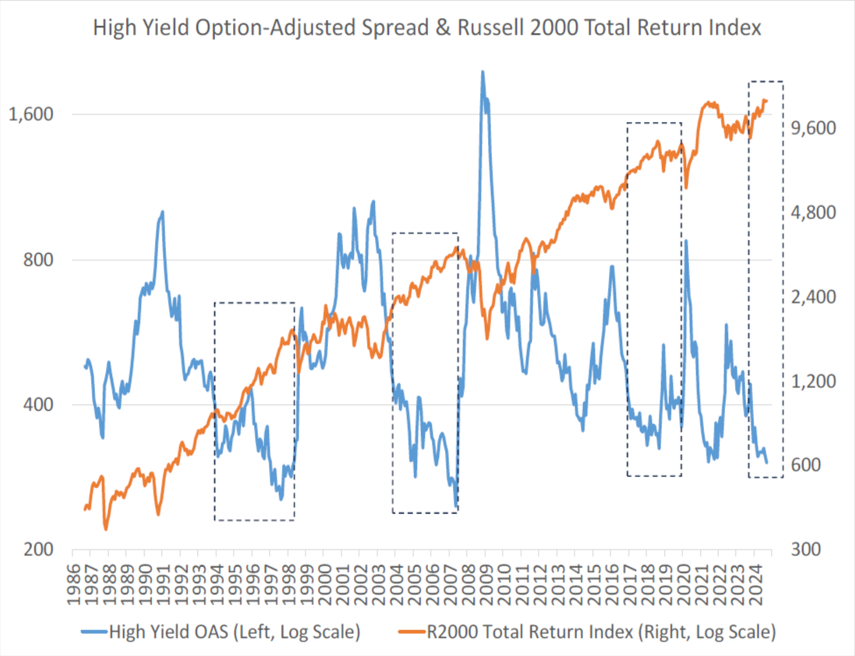


Sources: FactSet, Russell.

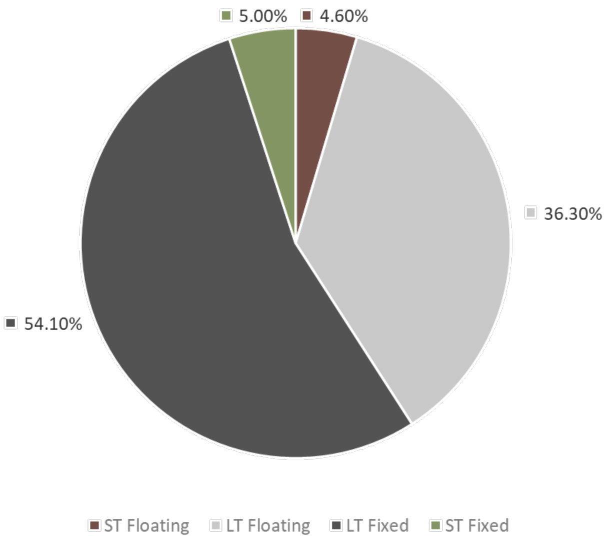
Small Caps and Fixed Income

As of September 30, 2024

Small Caps Have Historically Done Well When High Yield Spreads are below 400 bps



Russell 2000 (ex-Financials) debt profile



Forward Year Returns Have Also Benefitted From Un-inversion of the U.S. Treasury Curve

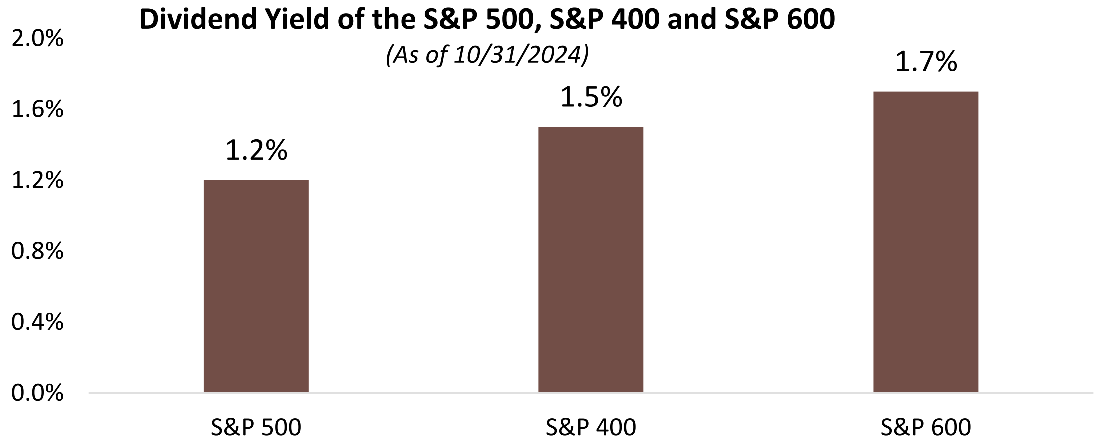
1980 – YTD 2024

Period	Russell 2000 Return	S&P 500 Return
Jul-82 to Jul-83	96.2%	51.9%
Mar-90 to Mar-91	6.9%	14.4%
Dec-00 to Dec-01	3.6%	-10.9%
Jun-07 to Jun-08	-10.2%	-7.9%
Average	**24.1%**	**11.9%**

Period	Relative Return (R2000-S&P500)
Jul-82 to Jul-83	44.3%
Mar-90 to Mar-91	-7.5%
Dec-00 to Dec-01	14.5%
Jun-07 to Jun-08	-2.3%
Average	**12.2%**

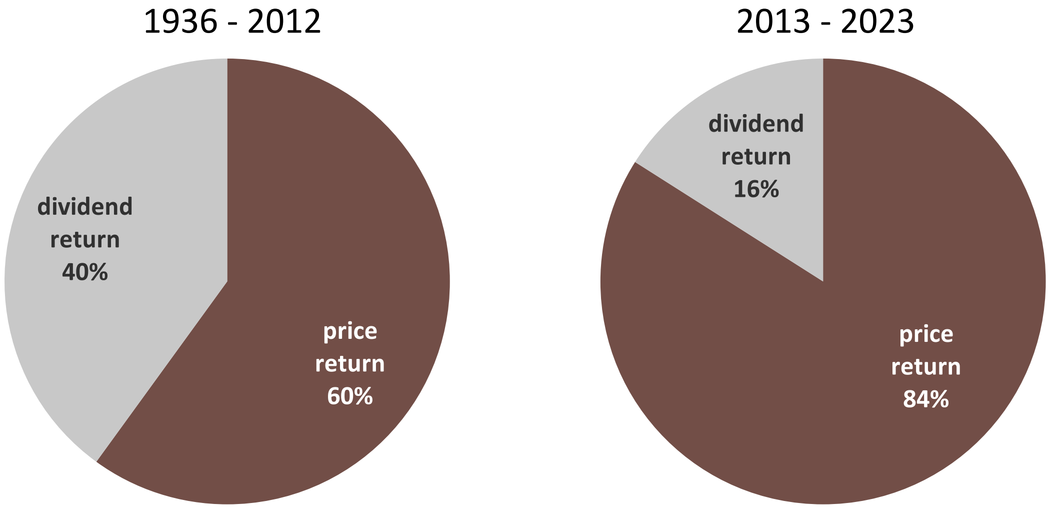
Source: Furey Research Partners Q3 2024, FactSet, Russell.

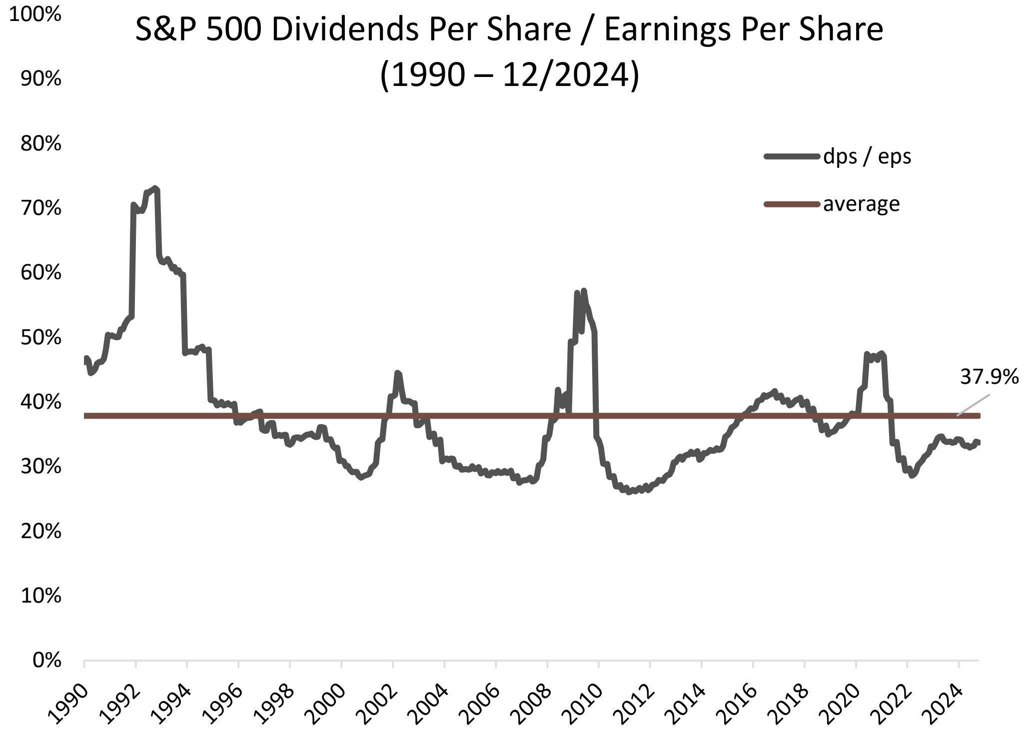
Dividend Yields



Dividends should contribute more to total returns than last decade

S&P 500 total returns decomposition

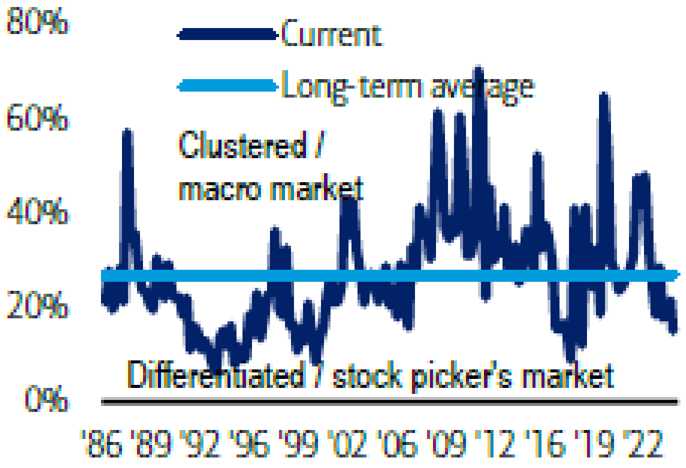




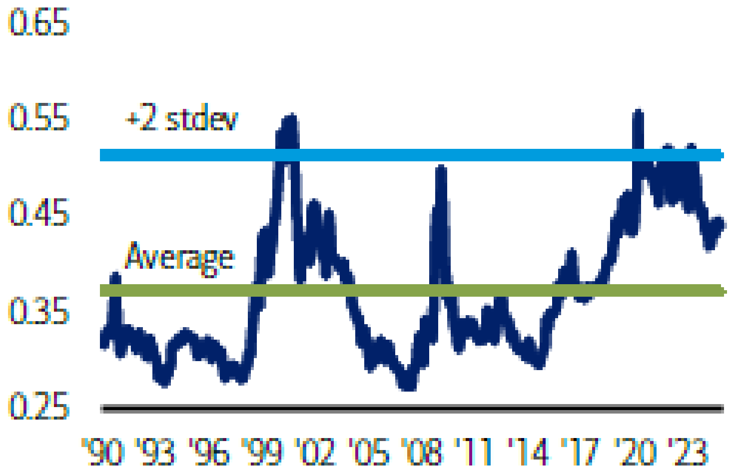
Sources: FactSet, Russell.

Micro > Macro

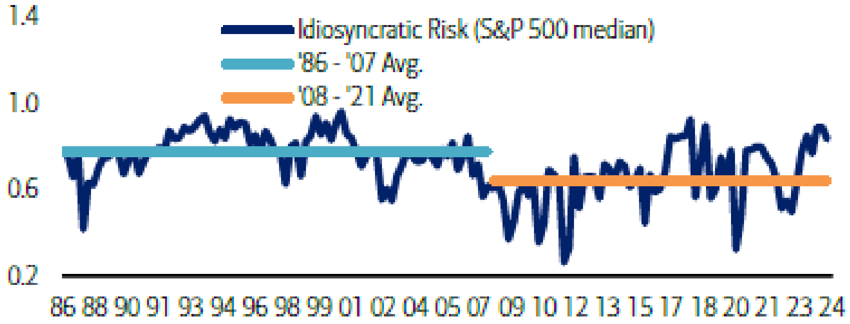
Lower Pair-wise Correlations = more micro, less macro
Average pair-wise stock correlation based on 90-day periods, daily (as of 11/24)



P/E dispersion highs = alpha for value investors
S&P 500 valuation dispersion of forward P/E (Standard deviation/average)(1990-11/24)

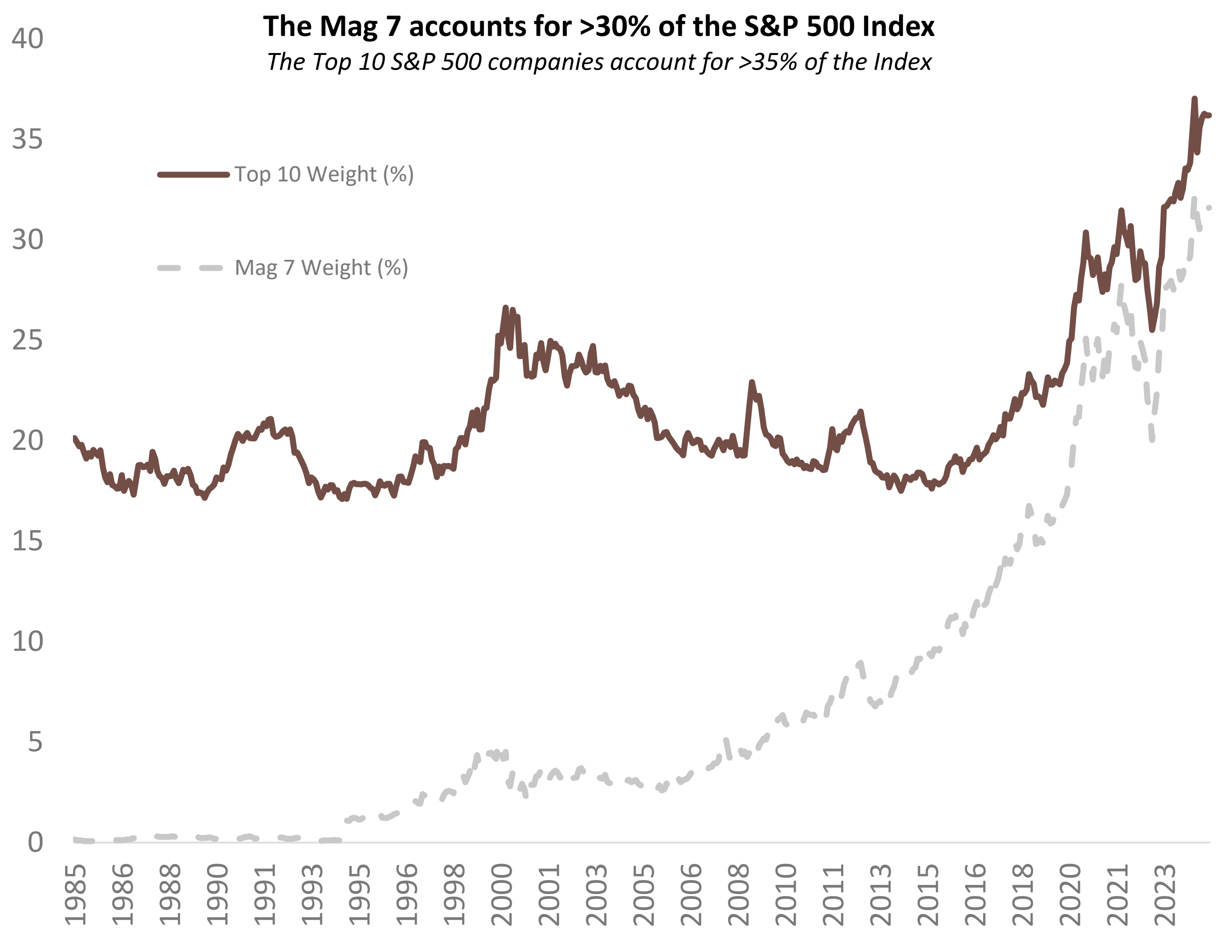


Stock-specific risk near highs
Median 3-month idiosyncratic risk vs equal weighted S&P 500 Index



Sources: BofA Global Research, FactSet. Idiosyncratic risk represents the residual movement of S&P 500 stocks beyond market returns or beta.

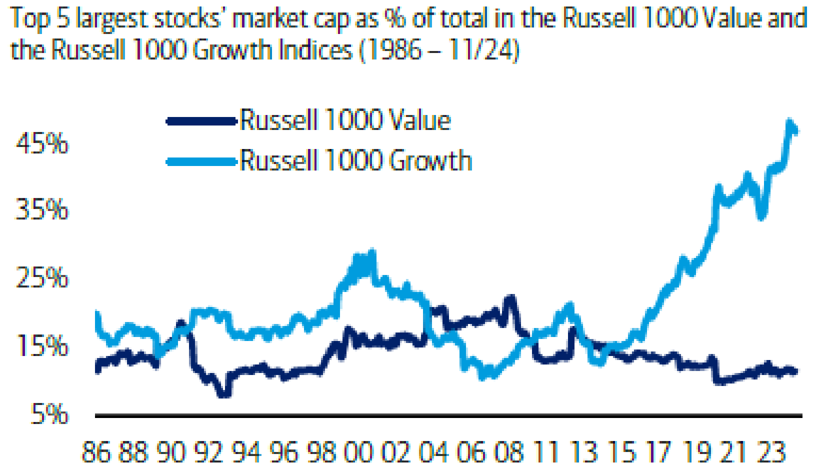
Micro > Macro



The largest 7 stocks in the S&P 500 trade at a 50% premium

Record concentration risks in Growth vs. Value

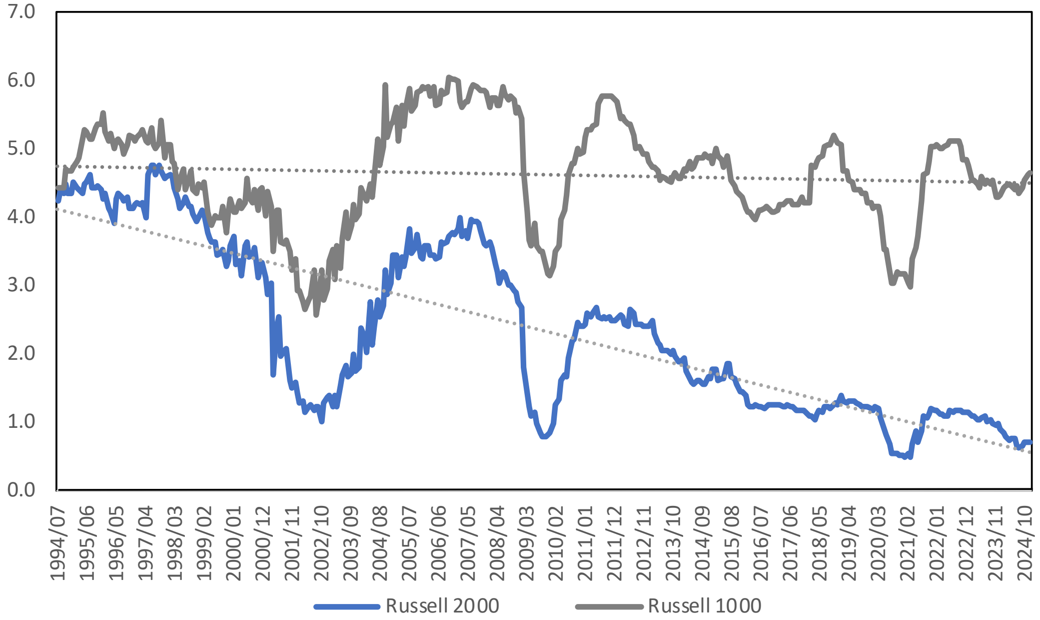
47% of Russell 1000 Growth = 5 stocks



Sources: FactSet, Russell, Standard & Poor's.

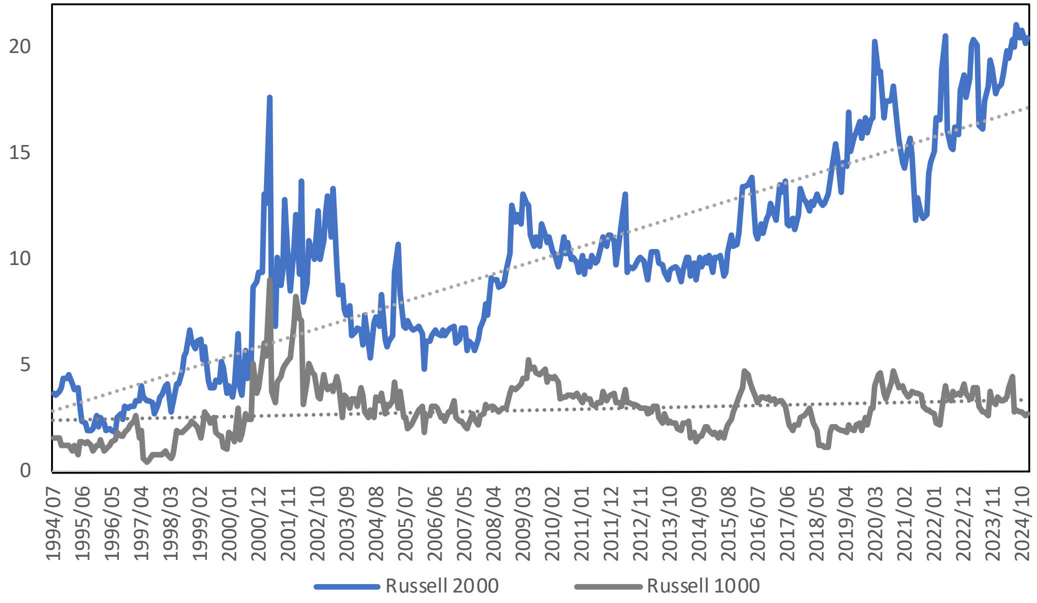
Micro > Macro

Median ROA Has Declined

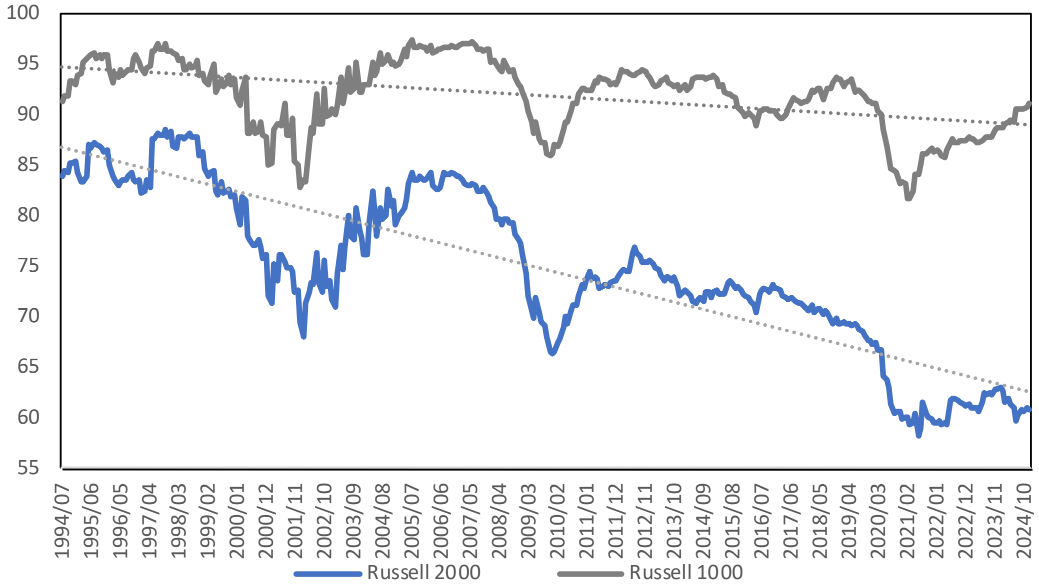


	Annualized Excess Returns	
	Russell 2000	Russell 1000
Positive Net Income	2.19	0.25
Negative Net Income	-5.50	-2.39

Percentage of Stocks in Index with Altman-Z Below 0.5 Has Increased



Percentage of Stocks in Index with Positive Earnings Have Declined



Source: Aristotle Boston Analysis with data from Bloomberg and Russell Investments ®
over the period 7/1994 – 12/2024.

Disclosure Notes

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The Russell 2000® Index measures the performance of the small cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2000 Growth® Index measures the performance of the small cap companies located in the United States that also exhibit a growth probability. The Russell 2000 Value® Index measures the performance of the small cap companies located in the United States that also exhibit a value probability. The Russell Midcap Index is a market capitalization-weighted index comprised of 800 publicly traded U.S. companies with market caps of between $2 and $10 billion. The 800 companies in the Russell Midcap Index are the 800 smallest of the 1,000 companies that comprise Russell 1000 Index. The Russell Midcap Growth® Index measures the performance of the mid cap companies located in the United States that also exhibit a growth probability. The Russell Midcap Value® Index measures the performance of the mid cap companies located in the United States that also exhibit a value probability. The Russell 1000 Index is a subset of the Russell 3000® Index. It includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership. The Russell 1000 Growth® Index measures the performance of the large cap companies located in the United States that also exhibit a growth probability. The Russell 1000 Value® Index measures the performance of the large cap companies located in the United States that also exhibit a value probability. The S&P 500® Index is the Standard & Poor's Composite Index of 500 stocks and is a widely recognized, unmanaged index of common stock prices. The S&P SmallCap 600® seeks to measure the small-cap segment of the U.S. equity market. The index is designed to track companies that meet specific inclusion criteria to ensure that they are liquid and financially viable. The CRSP U.S. Large Cap Index measures the performance of U.S. companies that comprise the top 85% of investable market capitalization and are traded on NYSE, NYSE Market, NASDAQ or ARCA. The CRSP U.S. Mid Cap Index measures the performance of U.S. companies that fall in the top 70-85% of investable market capitalization. It includes securities traded on NYSE, NYSE Market, NASDAQ, or ARCA. The CRSP U.S. Small Cap Index measures the performance of U.S. companies that fall in the bottom 2-15% of investable market capitalization. It includes securities traded on NYSE, NYSE Market, NASDAQ, or ARCA. The volatility (beta) of the portfolios may be greater or less than the benchmarks. It is not possible to invest directly in these indices.

BofA factor groupings– the universe and the factors are rebalanced monthly using month-end data on slide. FactSet is used as the source of all data. A factor's return is calculated as the equal-weighted total return of the top quintile of stocks within the universe by that factor for Quintile 1. Factor data is also compared to the total return of the equal-weighted Russell 2000 as the benchmark return. Performance results do not reflect actual transactions and no assurances can be given about future performance. Valuation factors included in calculation include Book/Price, EBITDA/EV, Free Cash Flow Yield, Earnings/Price, Sales/Price and Sales/EV. Quality factors included in the calculation include: Return on Equity, Return on Assets, Cash Flow return on Invested Capital, Free Cash Flow Return on Assets, and Earners/Non-earnings. Liquidity factors included in the calculation include: 3-month average daily volume, 1-month trading volume and market capitalization. Growth factors included in the calculation include: Sales Growth Trailing 5 Year, EPS Growth Trailing 5 Year, Year over year change in Trailing EPA, Operating Margin, EPS Estimate Revision and Operating Margin Expansion. Risk factors included in the calculation include: 5 Year Beta, Price Volatility, EPS Estimate Dispersion and 5 Year EPS Variability. Momentum factors included in the calculation included: various moving average ratios and price changes over various durations. Leverage factors included in the calculation included: Net Debt/Equity, Net Debt/Market Cap, and Net Debt/EBITA. Cash Deployment Factors included in the calculation included: Dividend Growth, Dividend Payers/Non-payers, Dividend Yield and Share Repurchases. BofA stages of the economic cycle (Early, Mid, Late, Recession) on are determined using a combination of the following macroeconomic or top-down variables: Earnings Revision Ratio, ISM PMI, Inflation, GDP Forecast, Leading Economic Indicators Index, US Capacity Utilization, 10-year US Treasury Bond Yield and the High Yield Corporate Bond Credit Spread.

Factor Composite Definitions: Value Composite consists of Earnings/Price, Free Cash Flow/Price, Sales/Price, Book/Price. Quality Composite consists of Margin, Accrual and Capital Usage sub-composites Margin sub-composite consists of Net Profit Margin, Operating Margin, Gross Margin, Return on Assets. Accruals sub-composite consists of Total Accruals, Short Term Accruals, and Cash Flow Accruals. Capital Usage sub-composite consists of Share Buybacks, Capital Expenditures, and Retained Earnings/Total Assets. Low Variability Composite consists of variability in Net Income, Cash Flow and Sales. Low Volatility Composite consists of Beta and Price Volatility.

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