At U.S. Trust, our outlook for 2014 might best be described as “Back to the Future” — because you have to go all the way back to the mid- to late-1990s in order to find a combination of market and growth opportunities similar to what we foresee for the year ahead.

The mid-1990s witnessed the emergence of the personal computer and the dawn of the Internet Age. In our wildest imaginations we never anticipated the extent to which the wired world would redefine industries, drive growth, and fundamentally alter the ways we work, communicate and live. Today it’s mobile-to-mobile communications, software and cloud computing.

And the implications seem just as momentous. Innovations in these areas will advance growth over the next couple of decades in ways we’re only beginning to understand.

After years of painfully slow recovery, market and economic conditions appear ready to fully support this new wave of innovation. As in the mid 1990’s, economic fundamentals are healthy and look to be getting healthier.

Cyclical tailwinds are just beginning to come through. We are in the middle of a replacement cycle for automobiles and homes in the United States, asset volatility is down, and we’re seeing a resurgence of capital expenditures.

A steepening yield curve, meanwhile, indicates the economy is gaining rather than losing momentum. Indeed, we are experiencing a manufacturing renaissance in the United States and are possibly on the verge of the first coordinated global economic expansion since 2010.
In 2014 we expect:
- 10-year treasuries to rise as high as 3.5–3.75%
- S&P 500 index to approach 1,950 to 2,000
- Downward pressure on bond prices
- Rotation back towards stocks
- Potential equity returns between 10-12%

We expect the yield on 10-year Treasuries to rise as high as 3.5–3.75%, and the S&P 500 index, which just nosed above 1,800 in November for the first time ever, to approach 1,950 to 2,000 by the end of 2014.

As interest rates rise in the coming year we expect to see downward pressure once again on bond prices. While this trend should be slow and steady rather than steep and precipitous, it only underscores that, for investors, the great rotation away from bonds and back towards stocks remains firmly on course in 2014. It’s a year when stock investors might reasonably anticipate equity returns, including dividends, of between 10–12%.

In other words, investors who watched from the sidelines during the last couple of years and witnessed the strong growth in equities should not assume that they missed the bus. Nor is there any need to rush headlong into buying. Rather, we suggest a coordinated, well-constructed plan to rebalance equities back into one’s portfolio. This may be a longer bull cycle than many people might imagine, and we’re still in the early to mid stages, very similar to the mid-1990s.

In terms of specific areas of growth, we see investment opportunities continuing to develop around five major themes that we highlighted back in May:
- The Accelerating Change in Technology and Economic Innovation
- The Rise of the Emerging Markets Middle-Class Consumer
- The Revolution of Energy and Natural Resources
- The Evolution of Global Real Estate and
- The Great Global Income Convergence and Transforming Demographics

Whether you address such evolving trends one by one, or through a strategy such as the U.S. Trust Mega Trends Portfolio, your advisor can help you position your portfolio to benefit over the long term as these developments reshape societies and economies all around the world.

Of course, even periods of growth come with risks and uncertainties.

Inflation, for example, is always on investors’ minds when growth picks up. Yet we believe inflation will remain in check in the United States and globally, since employment and wages remain relatively low. We foresee U.S. inflation pushing past 2% and then settling in at about 2.5% in 2014.

Likewise, resurgent growth may lead to concern over a “skill gap” — in other words, whether there are enough skilled workers to meet the engineering and infrastructure demands of evolving industries such as energy and technology. Yet we believe any difficulty in this area will be temporary, and that ultimately the need for skilled labor represents not a problem, but an opportunity for a new generation of workers.

As these positive trends solidify in 2014, we expect investors to become more comfortable and confident with the economy.

Just like the mid 1990s, when we stood at the cusp of an extraordinary new era that we were only beginning to grasp, the year ahead should only add to our enthusiasm over where we’re headed as investors, as a country and as a world.
The Evolution of Global Real Estate

The Great Global Income Convergence and Transforming Demographics

An approach based on your life and needs.
IMPORTANT INFORMATION:

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Investing involves risk. There is always the potential of losing money when you invest in securities. All asset classes are not suitable for all investors. Each investor should select the asset classes for them based on their goals, time horizon and risk tolerance.

Equity securities are subject to stock market fluctuations that occur in response to economic and business developments.

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 generally drop and vice versa.

International investing involves special risks, including foreign taxation, currency risks, risks associated with possible differences in financial standards, and other risks associated with future political and economic developments. Investing in emerging markets may involve greater risks than investing in more developed countries. In addition, concentration of investments in a single region may result in greater volatility.

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.

Energy and natural resources stocks have been volatile. They may be affected by rising interest rates and inflation and can also be affected by factors such as natural events (for example, earthquakes or fires) and international politics.

Investments in real estate securities can be subject to fluctuations in the value of the underlying properties, the effect of economic conditions on real estate values, changes in interest rates and risks related to renting properties, such as rental defaults.

Technology stocks may be more volatile than stocks in other sectors.

Dividend payments are not guaranteed. The amount of a dividend payment, if any, can vary over time.

The Standard & Poor’s (S&P) 500 index tracks the performance of 500 widely held, large capitalization U.S. stocks.

Always consult with your independent attorney, tax advisor, investment manager and insurance agent for final recommendations and before making any tax-related investment decisions or changing or implementing any financial, tax or estate planning strategy.

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AR6XD67A Exp 12/2014