

ESG Matters - Global

Fighting for DEI while battling inflation

Thematic Investing

*This is a redaction of a 54 page report published on March 03, 2023.***Gender gap shows progress and new obstacles**

Ahead of International Women's Day, this year we explore the theme of the disproportionate impact of inflation on women. The good news is we've seen economic progress for women over the last year: gender parity has narrowed by four years. But we fear post-pandemic inflation may unravel some of the social progress helping to close this gap. Women may be less likely to get pay raises that keep up with inflation: women make up 75% of the Healthcare & Education sectors, which saw the second lowest nominal wage increase across sectors in the US in 2022 (source: BLS). Women may also have less accumulated wealth to draw on in times of crisis, while spending more.

Soaring childcare costs drive women out the workforce

The pandemic made the childcare crisis undeniably worse, and inflationary pressures are adding fuel to the fire. Childcare costs have outpaced income growth, jumping 25% in the last decade and 214% since 1990 (Exhibit 9). A 10% increase in median childcare prices is associated with a 1ppt reduction in county-level maternal employment rates in the US (BLS).

Women spend more for healthcare, but get less

Rising cost of care can disproportionately affect women as they tend to have lower incomes than men, use more medical services, and have reproductive and maternal healthcare needs. Single women spend nearly twice as much of their income (6.8%) on health insurance as single men (3.9%) and spend more on health insurance than men do (BLS).

Inflation could put education gains at risk

In the US, women have overtaken men and now account for more than half of the college-educated labor force (Pew Research Center). Inflationary pressures could disproportionately affect women, who may already face difficulties in affording education and other career-related training (e.g., certification programs).

Culture and benefits make employees "feel richer"

Workers' pay raises in many cases lag inflation, creating financial stress for c. two-thirds of employees, regardless of income level or gender (source: Employee Minds). Companies who offer benefits such as Paid Parental Leave, Childcare, and Flexible Work can help "inflation-proof" employees' wallets, defray costs and attract and retain employees. Companies (often old-economy sectors) that offer such benefits tend to trade at premiums vs those that don't. Investing in Diversity, Equity and Inclusion (DEI) can also help promote diversity of thought and innovation, increasingly important as slowing growth ups the ante for risk avoidance, innovation, and competition.

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Refer to important disclosures on page 12 to 13.

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Equity and Quant Strategy
Global
Environmental, Social and
Governance



Dimple Gosai, CFA
US ESG Strategist
BofAS

Megan Mantaro
US ESG Strategist
BofAS

Kay Hope
Research Analyst
MLI (UK)

Jill Carey Hall, CFA
Equity & Quant Strategist
BofAS

Panos Seretis >>
EMEA ESG Strategist
MLI (UK)

Menka Bajaj >>
EMEA ESG Strategist
MLI (UK)

Girish Nair >>
Quant Strategist
Merrill Lynch (Australia)

Savita Subramanian
Equity & Quant Strategist
BofAS

David Beker >>
Bz Econ/FI & LatAm EQ Strategy
Merrill Lynch (Brazil)

See Team Page for List of Analysts

Did you know?

- On average across countries, long-run GDP per capita would be ~20% higher if gender employment gaps were closed. (World Bank)
- The average increase in salaries budgeted for 2023 in the US was 4.2%, lower than inflation of 6.4%. (Mercer's 2023 US Compensation Planning Survey)
- Childcare costs in the U.S. have outpaced income growth, jumping 25% in the last decade and 214% since 1990. (BLS)
- Globally, 42% of women cannot get jobs because they are responsible for all the family's caregiving, compared to just 6% of men. (Oxfam)
- In the U.S., 20% of women have skipped a recommended medical test or treatment due to costs, compared to 15% of men. (KFF, 2020)
- Women perform 3x more unpaid care work than men. It will take 210 years to close the gender gap in unpaid care work. (ILO)
- Unpaid female labor contributes an estimated \$10.8trn to the global economy every year which is three times the size of the global tech industry. (Oxfam)
- The gender parity gap for labor-force participation rate stands at 62.9%, the lowest score registered since the index was first compiled. (WEF)
- Recent shocks such as the COVID-19 pandemic cost women globally around \$800bn in income—more than the combined GDP of 98 countries. (Oxfam)
- Recent research shows that the childcare crisis costs the U.S. economy \$122bn a year in the form of lost earnings, productivity, and revenue. (ReadyNation)
- Over a 15-year period, women who took just one year off from work had annual earnings that were 30% lower than women who did not take time off. (IFS)
- Nearly one in five female leaders have left a job that failed to prioritize inclusion according to an October. (McKinsey and LeanIn.org)
- 71% of HR leaders say that remote work helped their organization hire and retain more diverse employees. (McKinsey)
- In the US, gender diversity on the board correlates with 19% higher ROE in the subsequent year and 43% lower earnings risk in the subsequent 3 years (median since 2005). (BofA)
- 79% of large EU companies had at least one-third of their board seats held by women (vs. 15% in 2012) and none of the companies had all-male boards in the past four years, compared with 11% in 2012. (BofA)



Gender parity... it's a 132-year journey

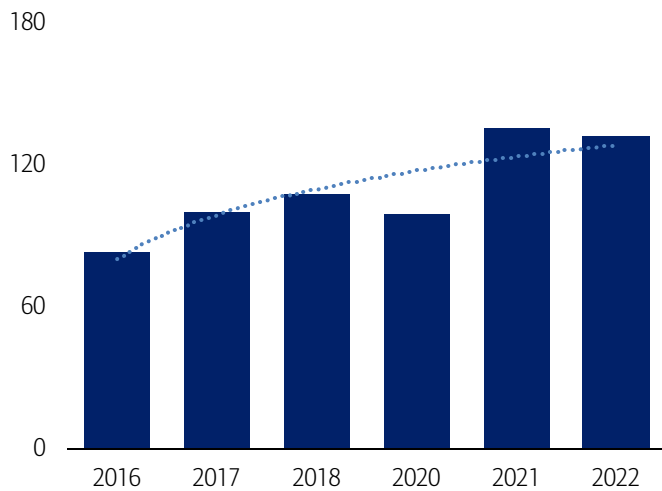
Let's start with the good news... The gender gap has been closed by four years. To reach full parity it will take another 132 years at the current rate of progress (World Economic Forum). More importantly, the biggest contributor to this was women's economic opportunity where the gap now stands at 151 years vs 260 years the prior year. A few positive trends...

- In 2021, half of start-up businesses were formed by women (28% in 2019).
- Women on average, are earning 2% more than they were last year.
- Women's share of technical roles has increased by 6.7ppt.
- The share of women in senior, managerial and legislative roles is up 5.4ppt.

Source: Gusto, WEF.

Exhibit 1: Time to gender parity has slightly improved since '21

Years to close overall Global Gender Gap, based on progress each year

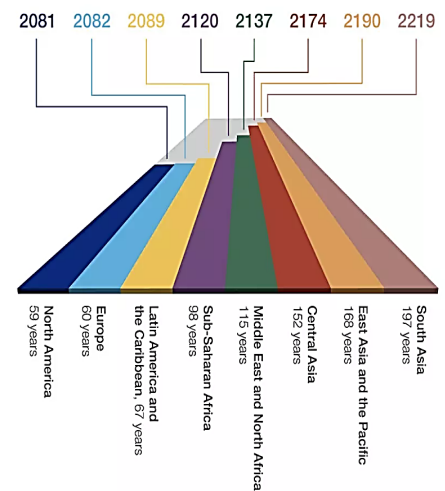


Source: WEF Global Gender Gap Reports, 2016-2022.

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Exhibit 2: At the current pace, when are regions likely to close the gap

Number of years it will take to close gender gap, by region (by current trends)



Source: Global Gender Report, 2022.

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One step forward, two steps back... While women have made strides in the workforce, it's important to note that progress on women's rights is not linear, and setbacks have occurred in recent years. Recent shocks such as COVID-19 led to women globally to lose around \$800bn in income (more than the combined GDP of 98 countries) (Oxfam). Social unrest in Iran, and the Russia/Ukraine war has also worsened gender inequality by directly affecting women's lives and livelihoods or keeping them out of school and work.

We fear "post-pandemic" inflation is threatening to wipe out the progress women have achieved. In fact, the Ellevest Women's Financial Health Index (which considers 12 indicators such as the pay gap, inflation, and employment rates) shows that the landscape for women was worse last year than in any point during COVID-19. The sharp drop in early 2022 also corresponds to inflation trends, with nearly double-digit year over year growth in prices.



Inflation exacerbates the gender gap

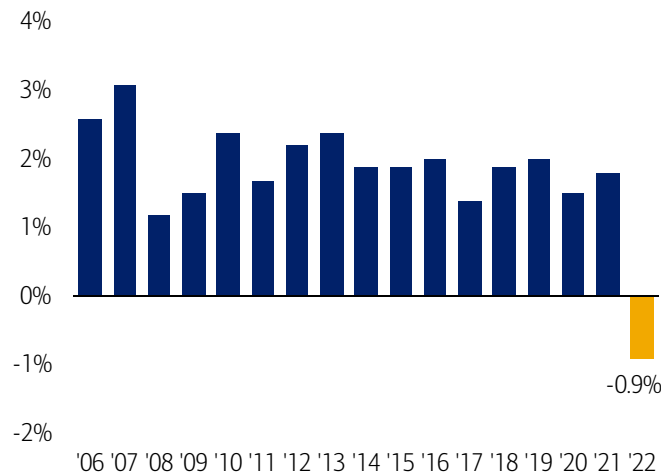
Are wages keeping up with inflation? Not quite.

Global real monthly wages fell 0.9% on average in 2022, marking the first decline in real earnings in the 21st century (ILO). BofA's global economist suggests that while inflation is likely to ease in the next few years, it could remain higher than normal. Elevated one-year-ahead inflation expectations mean core inflation may be hard to bring back to target quickly. Today, women are especially at risk of real wage losses. Here's why:

1. **Unpaid care crisis:** Childcare costs are surging and have outpaced income growth. This is a significant barrier preventing women from getting into, remaining, and progressing in the labor force. Recent research shows that the childcare crisis costs the U.S. economy \$122bn a year in the form of lost earnings, productivity, and revenue (ReadyNation).
2. **Healthcare affordability:** Global medical benefit costs are projected to rise more than 10% in 2023, the highest in 15 years (WTW). This can disproportionately affect women given they tend to have lower incomes than men and spend 37% more on out-of-pocket healthcare costs than men do (Peterson-KFF, 2019).
3. **Education costs:** The rising cost of tuition and student loans could disproportionately affect women and minorities who may already face affordability constraints to accessing education. While in the US, women are outpacing men in college completion, they also hold two thirds of student debt. Overall, this may hinder or delay women from becoming more financially independent.
4. **Unequal representation in the job market:** Women and minorities have lower representation in "high-paying" industries that are more "insulated" from inflation pressures, such as technology or finance. With increased cost pressures, DEI budgets are sometimes the first to go, potentially hindering progress toward equal representation.

Exhibit 3: First negative real wage growth in over a decade as inflation cuts into paychecks

Estimated global real monthly wage growth

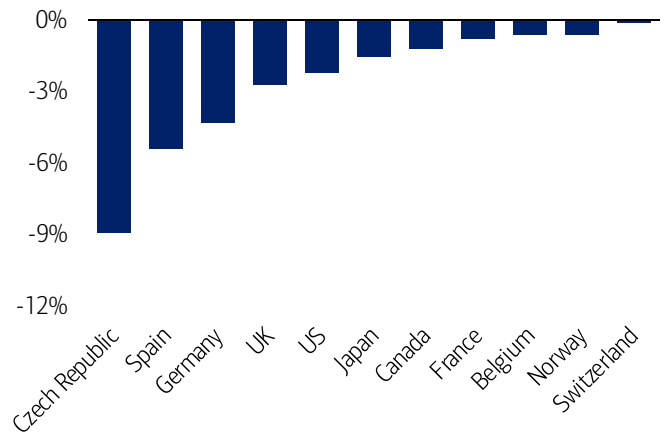


Source: International Labour Organization. *2022 figures based on ILO's estimates from H1 2022.

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Exhibit 4: Real wages are falling in many major countries

Change in real wages per employee in selected OECD countries in Q3 2022 vs Q3 2021



Source: Organisation for Economic Co-operation and Development. Based on a comparison of the amount of goods and services households can purchase with their earnings. National averages.

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Inflation threatens equality

Is there's a gender bias to inflation?

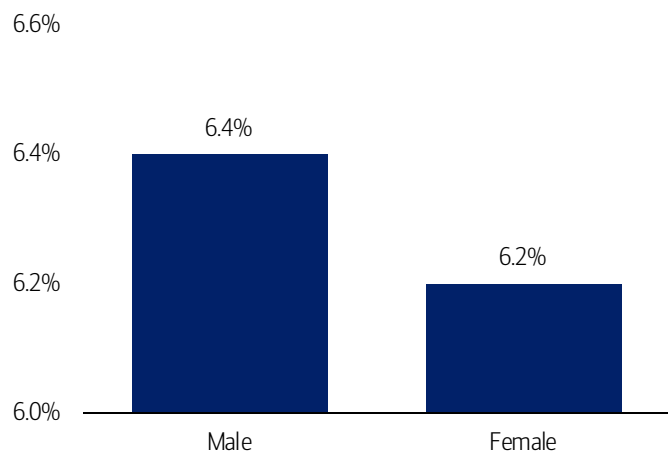
Men and women's shopping carts often look quite similar, but products that are targeted towards women are often more expensive. This is especially true for non-durable goods, for example. In the US, personal-care products were 13% more expensive for women (AARP). This is also true for Britain, where the average cost for man or woman's plain T-shirt rose by 33% and 27% respectively between June 2020 and June 2021. Similarly, women's formal shoes have seen a price increase of 75% vs those for men, which increased by only 14% (Exhibit 4). Women are fighting back, but proposed federal legislation to correct for gender biases in pricing (Pink Tax Repeal Act) remains pending in the US Congress.

While women are paying more, they also earn less

An analysis of 83 countries shows that women earn between 10% and 30% less than men on average (ILO). Gaps are particularly acute in the Middle East and North Africa, but also persist in high-income OECD countries. For example, women in the US face significant pay disparities and are overrepresented in low-paying occupations, as shown by a study by the National Women's Law Center. Q4 2022 data from the Bureau of Labor Statistics (BLS) shows that minority women tend to earn less than white women and men overall. Median weekly earnings for Black women were \$856, while median weekly earnings for Hispanic or Latina women were \$774, compared to \$991 for white women and \$1,194 for white men. These challenges may limit women's ability to accumulate wealth.

Exhibit 5: Higher wage growth for men than women

Average YoY median wage growth for men and women in the US, last 12 months as of 1/2023

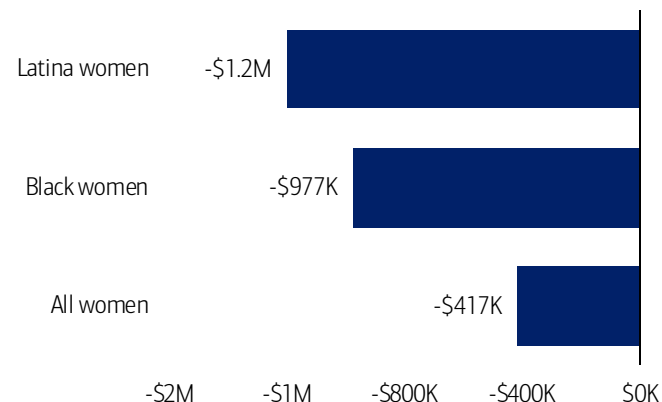


Source: Current Population Survey, Bureau of Labor Statistics, Federal Reserve Bank of Atlanta, BofA US Equity & Quant Strategy

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Exhibit 6: Wealth accumulation gap greatest for minority women

Lifetime earnings losses due to the wage gap by race/ethnicity, 2020



Source: Center for American Progress; National Partnership for Women and Families, "America's Women and the Wage Gap" (2022). Note: Wage gap data for women of color are for full-time, year-round workers and are relative to white men's earnings. Wage gap data for all women are for full-time, year-round workers and are relative to all men's earnings. Calculations assume that the wage gap will remain at its current level over a 40-year time horizon and that women will work full-time, year-round for their entire careers (ages 25 to 64). www.americanprogress.org

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Women in developing countries most vulnerable

Higher energy prices and food insecurity are burdening many developing economies, with the heaviest burden falling on households who are living hand-to-mouth. In fact, of the estimated 828 million people globally, who were affected by hunger in 2021, ~60% were women (CARE). What's worse... women account for more than half of the world's poor, and their poverty rates are higher than men's in every region of the world.

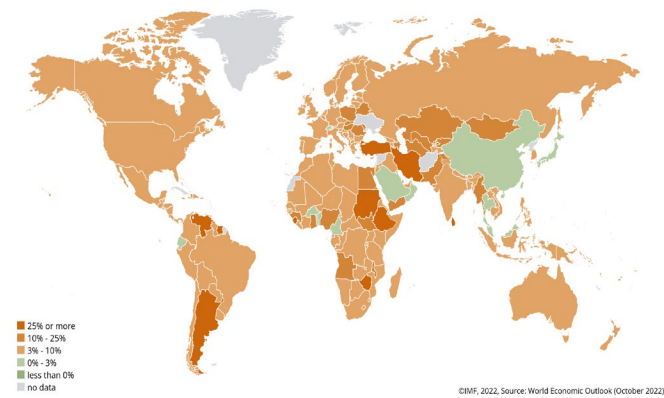


Gender inequality in the economy costs women in developing countries \$9 trillion a year (Oxfam).

Globally, 42% of all women workers are employed in the informal sector vs 32% of men. This is more than double for low-income countries—with up to 92% of all employed women working in the informal sector (World Bank). The average informal worker was earning 64% of their pre-COVID wages in mid-2021 pushing many to the brink poverty and essentially exacerbating existing gender disparities (IDRC).

Exhibit 7: Most of the world seeing high inflation...

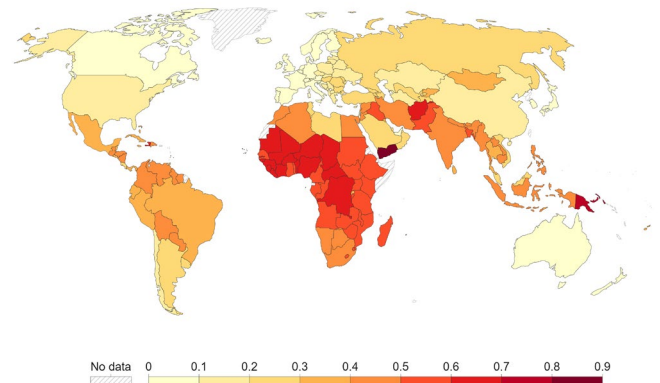
Inflation rate, average consumer prices (annual percent change, 2023)



Source: International Monetary Fund; World Economic Outlook (Oct 2022)
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Exhibit 8: EM also facing greater gender inequalities

Gender Inequality Index, 2021



Source: United Nations Development Programme, Our World in Data. Note: This index covers three dimensions: reproductive health, empowerment, and economic status. Scores are between 0-1 and higher values indicate higher inequalities.

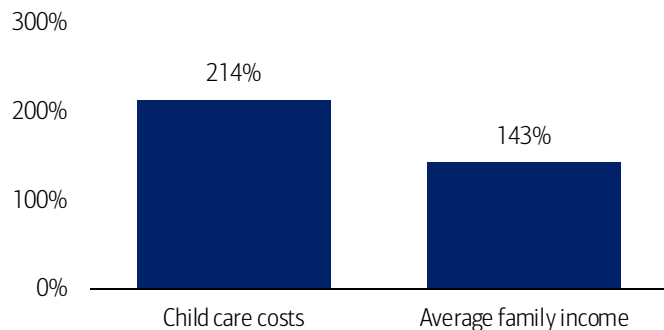
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Soaring childcare costs drive women out the workforce

The pandemic made the childcare crisis undeniably worse, and inflationary pressures are adding fuel to the fire. Childcare costs have outpaced income growth, jumping 25% in the last decade and 214% since 1990 (Exhibit 9). Surprisingly, over 50% of parents spend over 20% of their income on childcare in the US (care.com). This is not a US-only phenomenon; families in Switzerland, Czech Republic, and Ireland are paying one third of their income on childcare (Exhibit 10). A 10% increase in median childcare prices is associated with a 1ppt reduction in county-level maternal employment rates in the US (BLS).

Exhibit 9: Childcare inflation has outpaced income gains in last 3 decades

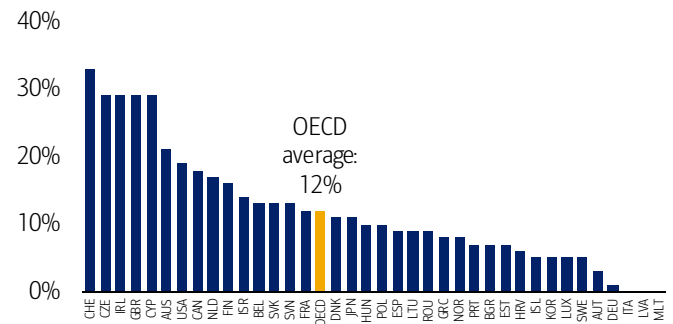
Increase in childcare costs and average family income, 1990-2022



Source: Bureau of Labor Statistics (BLS) Consumer Price Index
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Exhibit 10: High childcare costs across the globe...

Childcare cost as % of average wage in OECD countries, 2021



Source: Organisation for Economic Co-operation and Development, BofA US Equity & Quant Strategy

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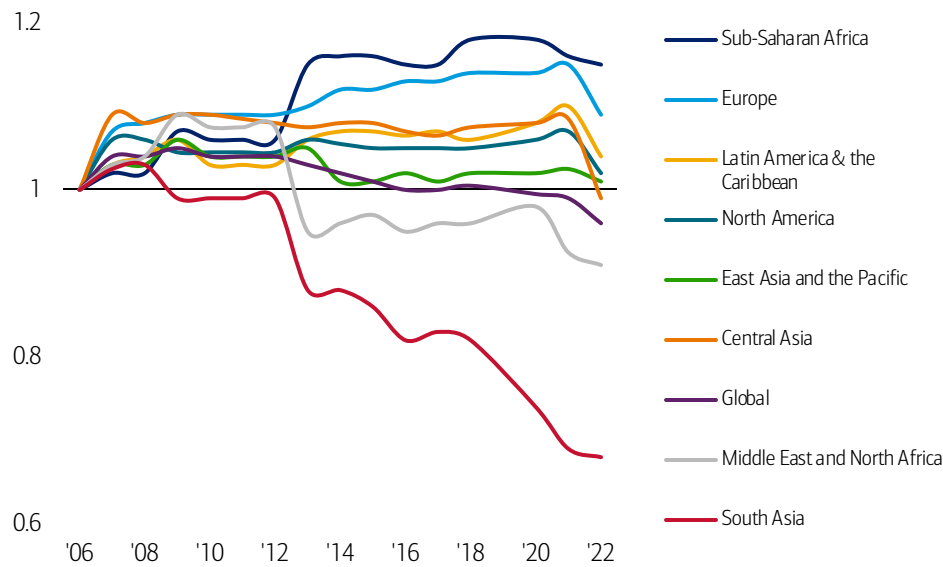


How are families coping? Many are torn between spending a large portion their paycheck on childcare, substituting care with lower-quality care options, or leaving the workforce altogether to become full-time caregivers. 26% of parents are reducing hours at work, while 21% said they're leaving the workforce (care.com's 2022 survey). Caregiving responsibilities are preventing more women from getting into, remaining, and progressing in the labor force. This is more the norm than the exception. Even before the pandemic, women performed 76% (80% in Asia and the Pacific) of total hours of unpaid domestic work globally, more than 3x as much as men (ILO, 2018). The pandemic worsened this gap, with women taking on more of the additional childcare burden than men.

The gender parity gap for labor-force participation rate stands at 62.9%, the lowest score registered since the index was first compiled (Exhibit 11).

Exhibit 11: Labor-force participation been on the decline since '09

Change in gender parity for labor-force participation rate, from 2006



Source: Global Gender Gap Index data, based on International Labour Organization data. Note: Calculations on the basis of global averages for 102 countries included in the constant sample since 2006.

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Lost earnings, productivity and revenue = \$122bn?! That's how much the childcare crisis costs the U.S. economy a year (more than double 2018's estimated \$57bn cost) (ReadyNation). Globally over 40% of women cannot get jobs because they are responsible for caregiving, compared to just 6% of men (Oxfam).

Unpaid female labor contributes an estimated \$10.8trn to the global economy every year which is three times the size of the global tech industry (Oxfam).

The motherhood penalty...

Mothers that take time away from work after the birth of their first child face financial consequences. Over a 15-year period, women who took just one year off work had



annual earnings that were 30% lower than women who did not take time off (IFS). What's more... a greater burden falls on single mothers. Single mothers are often both the primary earner and caregiver in their households, making childcare access a necessity for these mothers to stay employed. In the US, employment rates fell from 84% among single mothers who found a childcare program to 67% among those who did not (GAP). Other than forgone salaries, women could also see lost retirement savings and benefits. The Bank of America Institute recently mentioned that women's 401(k) balances are around two-thirds that of men in the US (see [Bank of America Institute report: Transforming retirement](#)).

Women spend more for healthcare, but get less

Healthcare benefit costs are on course to rise to the highest level in 15 years. This amounts to a global average of 10% in 2023 vs 8.8% in 2022 and 8.2% in 2021 (WTW survey).

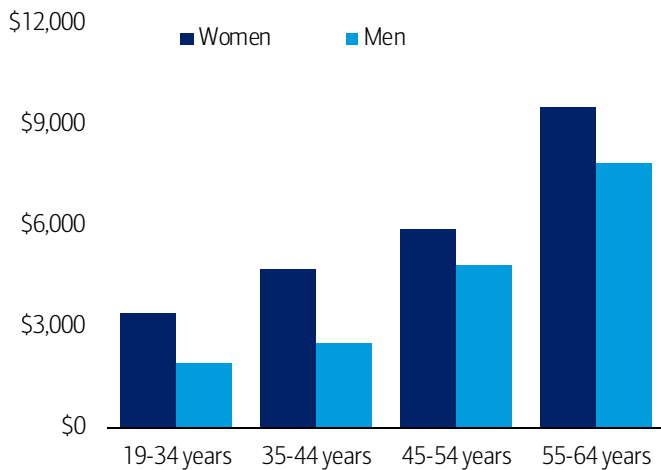
The result: In the US, one in four (24%) women report having had problems paying medical bills in the past 12 months, over half (57%) of whom say this was due, at least in part, to the COVID-19 pandemic (KFF).

Rising cost of care can disproportionately affect women as they tend to have lower incomes than men, use more medical services, and have reproductive and maternal healthcare needs. In fact, 20% of women in the US have skipped a recommended medical test or treatment due to costs, compared to just 15% of men (KFF). Single women spend nearly twice as much of their income (6.8%) on health insurance as single men (3.9%) and spend more on health insurance than men do (BLS).

It's not all bad news...In the US specifically, the Inflation Reduction Act (IRA) will extend the Affordable Care Act's (ACA) enhanced subsidies for another three years, essentially preventing 2 million people from losing coverage. The IRA also reduces prescription drug prices and out-of-pocket costs for Medicare participants (of whom close to 60% are women).

Exhibit 12: Health care costs more for women, particularly during reproductive years

Average health spending per capita by age in the US, 2015

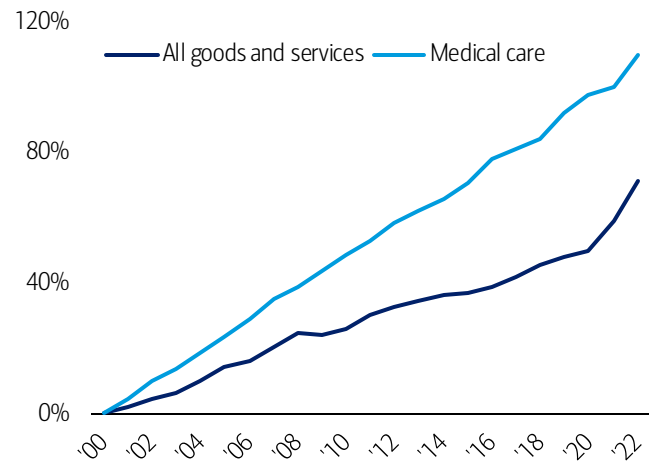


Source: Kaiser Family Foundation 2019 analysis. Original data and detailed source information are available at: kff.org/JAMA_6-11-2019

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Exhibit 13: Health care costs have risen faster than inflation

Cumulative percent change in Consumer Price Index for All Urban Consumers (CPI-U) for medical care and for all goods and services, 10/2000-10/2022



Source: Kaiser Family Foundation; Bureau of Labor Statistics (BLS) Consumer Price Index (CPI) data. Note: Medical care includes medical services as well as commodities such as equipment and drugs.

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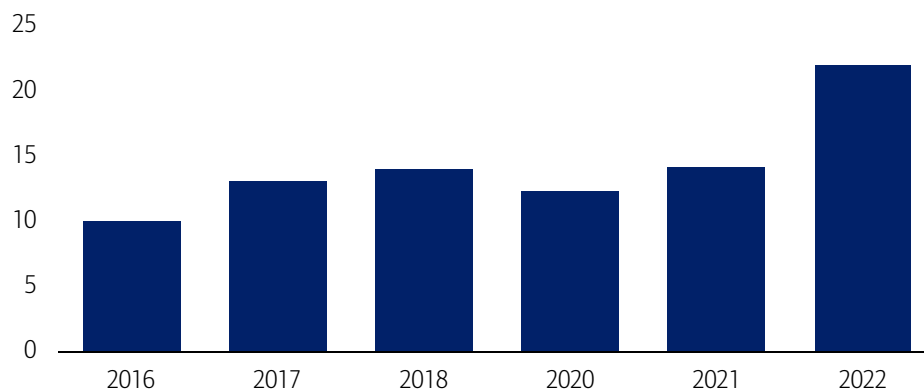
Another challenge... insurance may not cover or may cover only a portion of women-specific needs. Analysis from WTW's survey found that health insurance often has exclusions related to gender: approximately three-quarters of all group policies exclude fertility treatments worldwide, a figure that is even higher in Asia Pacific (85%) and in the Middle East and Africa (90%). The lack of insurance coverage for certain procedures can further increase gender disparities in healthcare costs.

Inflation could put education gains at risk

4.7 percentage points? That's how close we are to achieving full gender parity in the Global Educational Attainment gender gap. Of the four areas the WEF monitors, it's also the area closest to achieving parity (just 22 years away). In the US, women have overtaken men and now account for more than half of the college-educated labor force (Pew Research Center). Inflationary pressures could disproportionately affect women, who may already face difficulties in affording education and other career-related training (e.g., certification programs).

Exhibit 14: '22 saw setbacks in bridging the education gender gap

Years to close Educational Attainment Gap, based on progress as of that year



Source: World Economic Forum. Global Gender Gap Reports, 2016-2022

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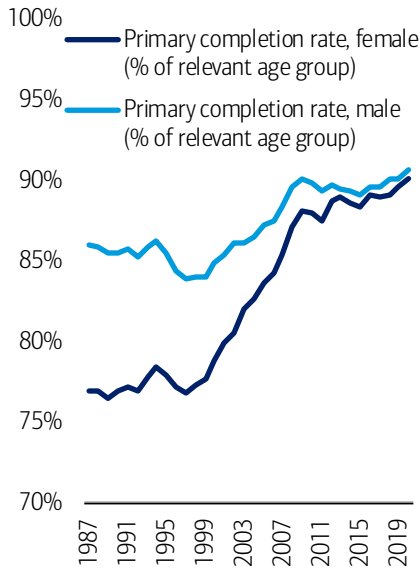
Education gaps in low-income countries at risk of widening

While there have been significant improvements in female primary and secondary education in recent decades, a gap remains between girls and boys in low-income countries (Exhibit 17). The gaps are even starker in countries affected by fragility, conflict, and violence, where girls are 2.5x more likely to be out of school than boys (UNICEF). Poverty is one of the most important factors for determining whether a girl can access and complete her education, and this could worsen as high inflation reduces real income and savings. Girls in the poorest households and in rural areas complete upper secondary school at a rate of just 11.5% vs 72.2% for urban girls from the richest households (UN Women).

Opportunity cost: Each additional year of schooling can boost a girl's earnings as an adult by up to 20% (UN Women).

Exhibit 15: Gender gap in primary education has nearly closed

Worldwide primary completion rate (% of relevant age group), 1987-2020

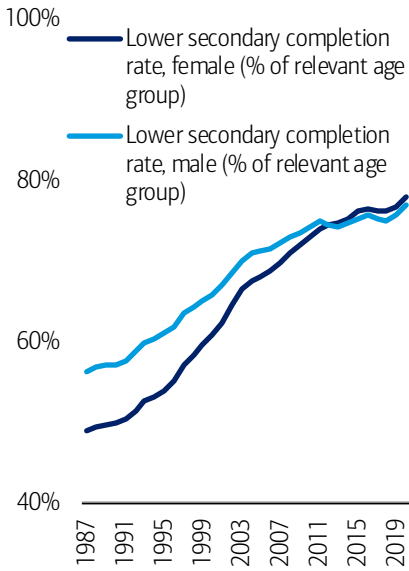


Source: World Bank, 2023

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Exhibit 16: The secondary education gap has fully closed

Worldwide lower secondary completion rate (% of relevant age group), 1987-2020

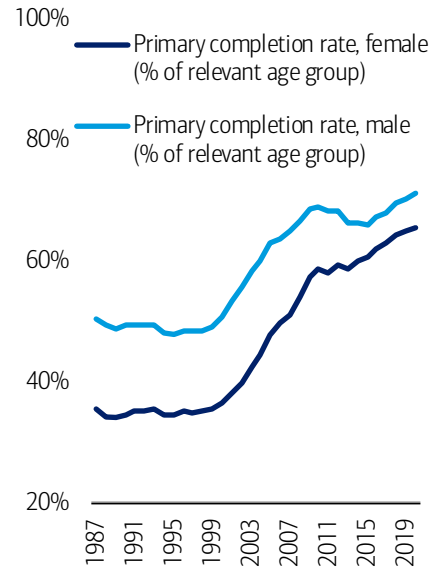


Source: World Bank, 2023

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Exhibit 17: But in low-income countries, gap persists

Primary completion rate (% of relevant age group) in low-income countries, 1987-2020



Source: World Bank, 2023

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Higher education: Student loan disparities between men and women

The US tops the list for student debt load. While it was once the first nation in the world for producing college graduates with a four-year degree, the United States is now 12th, mainly due to affordability and access. Women hold nearly two-thirds of this debt (~\$929bn). They are also more likely to take on more debt and to stay in debt longer, than men: 41% of female undergraduates take on student debt vs 35% of male undergraduates. Further, women with bachelor’s degrees who work full time make 26% less than their male peers on average, making it more difficult to make or exceed loan payments. As a result, women take an average of two years longer to pay of their student loans (AAWU). This could delay or deter women from becoming financially independent.

Inflation widens job discrepancies

Today, women earn \$0.82 for every dollar men make (World Economic Forum), Inflation could worsen the wage gap and impact groups that are already underrepresented in certain service industries or roles (such as hospitality, retail, and care work). What’s worse... women feel less satisfied with pay and are also less likely to ask for a raise.



Solution: make employees “feel richer”

To help workers face inflation, it pays for companies to invest in the well-being of their employees. Employees increasingly want jobs that allow them to live their lives on their own terms, while meeting their financial needs.

While personnel are the largest single line item for many companies, cutting staff or DEI budgets could have repercussions for culture, innovation, and growth. Inclusive companies are more successful in employee hiring and retention. There is a correlation between diversity & inclusion and greater innovation, higher cash flows, and a stronger bottom line.

Benefits matter for employee retention & satisfaction

Employers have no choice but to innovate. The average increase in salaries budgeted for 2023 in the US was 4.2%, lower than inflation of 6.4% (2023 US Compensation Planning Survey). As employers face salary pressures and employees face added financial stress, offering attractive benefits can be a differentiator and the key to retention in the war for talent. A survey by Inside Employees’ Minds of 4,000 US workers found that covering monthly expenses is now the #1 concern of workers - up from #9 in 2021, and current economic conditions are creating financial stress for about two-thirds of employees, regardless of their income level.

Companies that offer DEI-related programs generally trade at a premium to those that do not – while not true for every metric, we found this is currently true for Paid Parental Leave, Child Family Care, Tuition Reimbursement, and Flexible Work Options.

Healthcare benefit enhancements: The top three reasons employees would consider leaving their job in 2022 are insufficient pay (54%), burnout (34%) and insufficient healthcare benefits (27%) (Inside Employees’ Minds). Providing benefits supporting reproductive health could go a long way, as women’s health needs have long been disadvantaged in health programs.

Subsidized childcare can attract and retain workers: Childcare benefits are the second-highest reason parents stay at their job, behind health insurance, per KinderCare, which partnered with the Harris Poll to survey 2,800 U.S. parents with children under 12. Work-provided childcare benefits are particularly important in countries like the US where governments provide little financial support for childcare, meaning families must cover a higher proportion of childcare expenses.

Flexible work arrangements: Remote work can help companies cut down on real estate costs, utility bills, office furniture while enabling employees to enjoy more flexibility, relocate to more affordable cities and save on transportation expenses. In fact, calculations from Global Workplace Analytics suggest that companies can save around \$11,000 per employee per year if they allow their employees to work remotely 50% of the time—taking into account productivity levels, lower real estate costs, reduced absenteeism and turnover.

Flexibility can also help companies diversify their workforce: 71% of HR leaders say that remote work helped their organization hire and retain more diverse employees (McKinsey). Flexible work arrangements are ranked more highly by women, who can use increased flexibility to better meet family demands (such as picking up children from school). Women also experience fewer microaggressions when they work remotely 20% of women who switched jobs in the last two years cited flexibility as a reason, compared to just 13% of men (McKinsey).



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Research Analysts

Dimple Gosai, CFA
US ESG Strategist
BofAS

Megan Mantaro
US ESG Strategist
BofAS

Kay Hope
Research Analyst
MLI (UK)

Rupert Xu
Research Analyst
MLI (UK)

Jill Carey Hall, CFA
Equity & Quant Strategist
BofAS

Nicolas Woods
Equity & Quant Strategist
BofAS

Savita Subramanian
Equity & Quant Strategist
BofAS

Panos Seretis >>
EMEA ESG Strategist
MLI (UK)

Menka Bajaj >>
EMEA ESG Strategist
MLI (UK)

Girish Nair >>
Quant Strategist
Merrill Lynch (Australia)

Gabriel Angelini
APAC ESG Strategist
BofAS

Tim Zhang, CFA >>
APAC ESG Strategist
Merrill Lynch (Australia)

David Beker >>
Bz Econ/FI & LatAm EQ Strategy
Merrill Lynch (Brazil)

Paula Andrea Soto >>
LatAm Equity Strategist
Merrill Lynch (Brazil)

Ethan S. Harris
Global Economist
BofAS

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