A growing number of investors believe the US economy is headed for a "no landing" scenario, in which inflation doesn't reach the Fed's 2% target, but the US economy keeps growing.

Thirty-six percent of respondents to Bank of America's Global Fund Manager Survey, released on Tuesday, said they believe the most likely outcome for the global economy is a "no landing." This was a noted move higher from the 23% who saw the outcome a month ago and the highest level seen since June 2023, the earliest date on BofA's graph.

Meanwhile, 54% of respondents believe a soft landing — where economic growth slows but not to the point of recession, and inflation returns to its historical average — is the most likely outcome.This shows a shift in the discussion on Wall Street, as just 7% of respondents believe a hard landing, where restrictive policy forces the economy into recession, is the base case. Last year, much of the debate on Wall Street was whether a hard or soft landing was in the cards for the economy.

Now, the debate has shifted to whether recent better-than-expected economic data could prohibit further progress on inflation.

"Recessions don't hit the US economy without a catalyst of some sort, and we just don't see what is going to stop consumer spending," Jefferies US economist Tom Simons wrote in a note on April 12. "With demand still solid, it is hard to see how inflation will continue to slow down, and thus it is hard to see how the Fed can cut rates."

On Monday, retail sales data for March supported this point. Retail sales in the control group, which strips out volatile categories such as autos, building materials, and gas stations, increased 1.1% during the month. This measure feeds directly into GDP and, combined with revisions higher to February's release, prompted economists to boost their projections for economic growth in the first quarter.

Goldman Sachs now believes quarter-over-quarter growth in the US economy hit 3.1%, up from a prior projection of 2.5%. Meanwhile, the Atlanta Fed's GDP Now tool now sees growth at 2.8% in the first quarter, up from a prior forecast of 2.4%.

These revisions higher come as expectations for inflation have also been on the rise after several hotter-than-expected consumer price readings through the first three months of the year. This has pushed an increasing number of economists to suggest the Fed may not cut rates this year, resulting in a "no landing" for 2024.

"The lack of moderation in consumer spending and inflation will undermine Fed officials’ confidence that inflation is on a sustainable course back to 2%," Nationwide chief economist Kathy Bostjancic wrote in a note on Monday. "[Recent data] likely delays rate cuts to September at the earliest and could push off rate reductions to next year."The market has been pricing in signs of a "no landing" scenario in recent weeks, according to Morgan Stanley chief investment officer Mike Wilson.

Wilson cited a recent surge in 10-year Treasury yields (^TNX) and a fall in interest rate-sensitive areas like the small-cap Russell 2000 Index (^RUT) as examples. Such a scenario isn't bad for all areas of the stock market, Wilson noted, and could lead to a healthier backdrop for earnings growth.

"With rates now posing more of a risk to valuation, we prefer large cap areas of the market that are underpriced for a better than expected growth regime, such as large cap Energy," Wilson wrote.