

# European Fund Manager Survey

## Bullish on soft-landing hopes

### Growth expected to slow but without recession

A mere net 2% of participants in the BofA European Fund Manager Survey think that the global economy will go into a recession over the next twelve months, the lowest level since June 2022 and down from 47% last May. However, the proportion of respondents expecting a European recession remains elevated, at a net 53%, though this is down from 71% last month. 83% think European growth is set to slow, while 61% project weaker growth in the US, both in response to monetary tightening (down from 88% and 68%, respectively). A net 29% of respondents think global monetary policy is too restrictive, the highest level since 2008, with a net 42% thinking this is the case in Europe, the highest since 2009. A net 26% judge global fiscal policy to be overly supportive, but only a net 3% think the same is true for Europe's fiscal stance.

### Strong conviction on fading inflation and lower rates

A net 86% of survey respondents expect European core inflation to decline over the coming year, with 71% projecting lower global core inflation, both close to record highs. Only 21% see inflation as the biggest tail-risk for markets, trumped by concerns about worsening geopolitics (25%) and a hard landing (24%). A net 89% see short-term interest rates coming down over the coming twelve months, the highest share on record, while a net 36% think 10-year bond yields will fade, close to a record high.

### Bullish on equities by year-end despite near-term risks

72% of participants see upside for European equities over the next twelve months, the highest in almost two years. However, after the sharp rally since October, 56% expect near-term downside for the European market, though this is lower than the 65% last month. 75% of investors see downside for European EPS in response to slowing growth and fading inflation, down from 88% last month, while a net 6% see European equities as overvalued, unchanged from December. A plurality of 44% regard EPS downgrades as the most likely cause of a market correction, followed by weakening macro data, at 17%.

### Less doubts on cyclicals, more doubts on value

Only 36% of respondents see further downside for European cyclicals relative to defensives after the recent weakness, down sharply from 59% last month but still constituting a plurality. 50% see downside for European value versus growth stocks in response to dovish central banks, up from 44%. Insurance remains the biggest consensus sector overweight in Europe, ahead of utilities (following a jump in positioning) and pharma. Conviction levels are low, however, with the net 8% that say they are overweight pharma, the lowest proportion for a top-3 sector in more than four years. Despite the reduced concern about cyclicals overall, cyclical sectors nonetheless dominate the underweights, in particular autos, retail and chemicals.

Trading ideas and investment strategies discussed herein may give rise to significant risk and are not suitable for all investors. Investors should have experience in relevant markets and the financial resources to absorb any losses arising from applying these ideas or strategies.

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**Refer to important disclosures on page 20 to 22.**

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### Notes to readers

An overall total of 256 panellists with \$669bn AUM participated in the survey. 221 participants with \$589bn AUM responded to the global FMS questions and 146 participants with \$319bn AUM responded to the regional FMS questions.

Survey period: 5<sup>th</sup> January 2024 to 11<sup>th</sup> January 2024.

### How to join the FMS panel

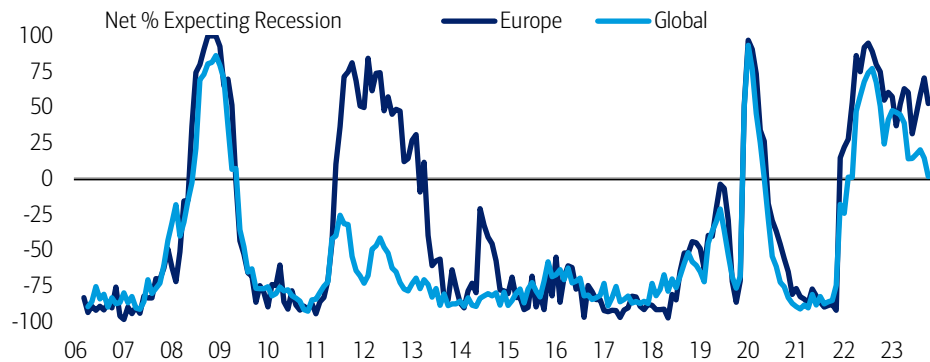
Investors/clients are encouraged to sign up to participate in the Survey. This can be done by contacting [Michael Hartnett](#) or your BofA sales representative.

Participants in the survey receive the full set of results for the months in which they participate.

# European macro overview

**Exhibit 1: A net 2% of global investors think that the global economy will go into a recession over the next twelve months, the lowest level since June 2022. The share of European investors expecting a European recession remains elevated, at a net 53%, though this is down from 71% last month**

How likely do you think it is that the economy in this region will see a recession over the next 12 months?

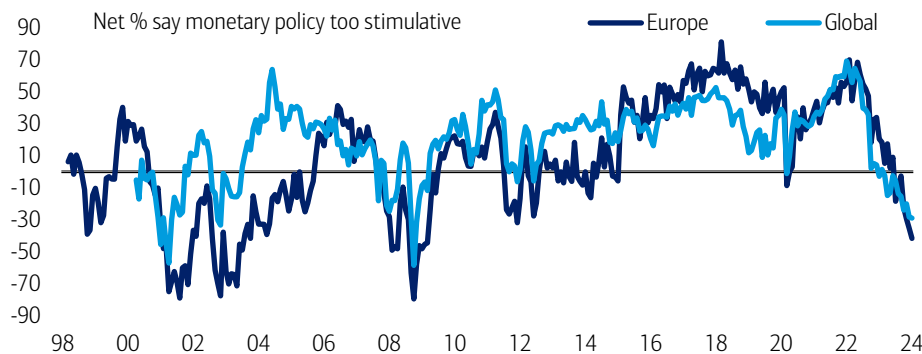


Source: BofA European & Global Fund Manager Survey

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**Exhibit 2: A net 29% of global investors consider global monetary policy to be too restrictive, up from 20% last month, the highest reading since 2008, while a net 42% of European investors think this is the case in Europe, the highest level since 2009**

Do you think monetary policy in this region is currently...?



Source: BofA European & Global Fund Manager Survey

BofA GLOBAL RESEARCH

**Exhibit 3: A net 26% of global investors judge fiscal policy to be too stimulative globally, while only a net 3% think the same is true for Europe's fiscal stance**

Given where we are in the business cycle, do you think fiscal policy in your region is currently...?

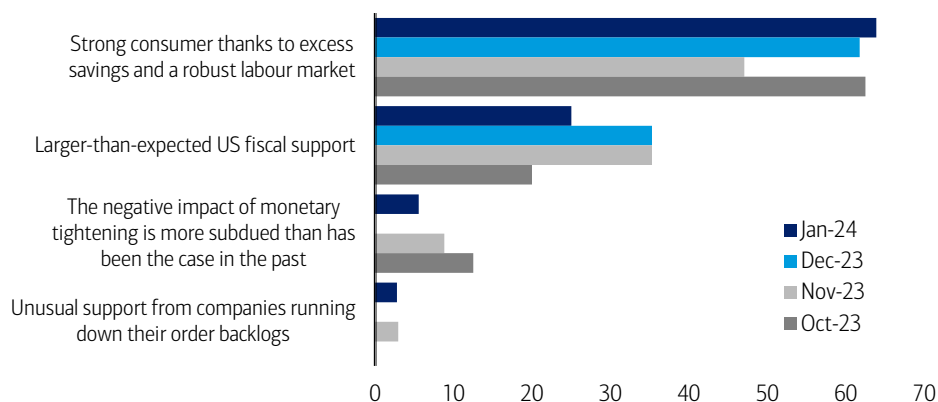


Source: BofA European & Global Fund Manager Survey

BofA GLOBAL RESEARCH

**Exhibit 4: 62% of European investors think a strong consumer, helped by excess savings and a robust labour market is the main reason why a weakening credit cycle has not sparked a recession last year**

What do you think has been the main reason why 'hard landing' fears have not played out?

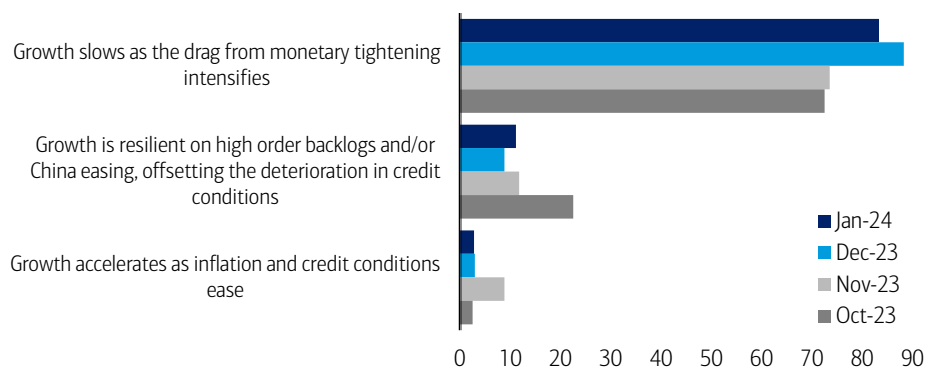


Source: BofA European Fund Manager Survey

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**Exhibit 5: 83% of European investors project a slowdown in European growth over the coming six months as monetary tightening kicks in (down from 88% last month), while 11% expect growth to remain resilient (up slightly from 9%)**

What do you expect to happen to European growth momentum over the coming months?

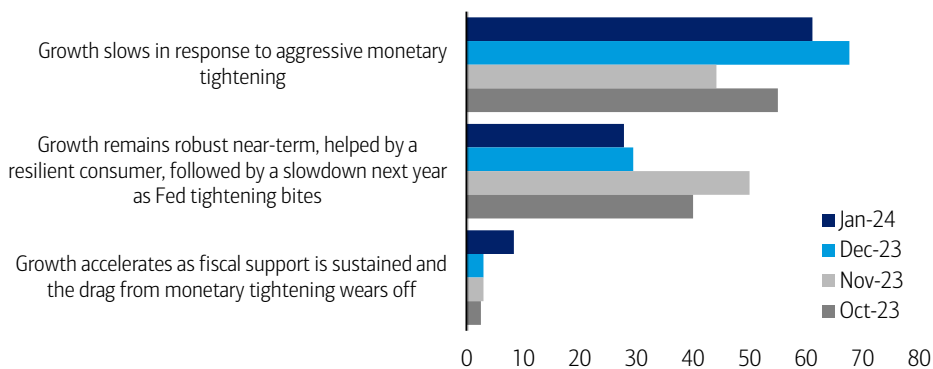


Source: BofA European Fund Manager Survey

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**Exhibit 6: 61% of European investors think US growth will slow over the coming month in response to aggressive monetary tightening (down from 68% last month), while 28% expect growth resilience (down marginally from 29%)**

What is the outlook for the US economy over the coming months?

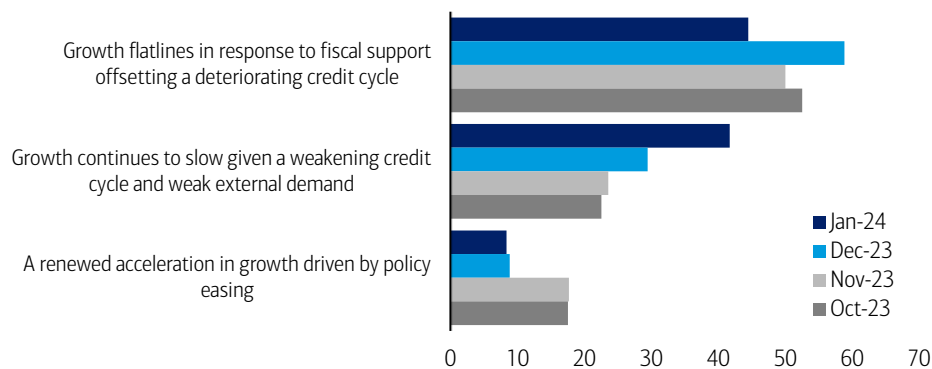


Source: BofA European Fund Manager Survey

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**Exhibit 7: 44% of European investors see China growth flatlining over the coming months (down sharply from 59% last month), while 42% think growth will continue slowing (up from 29%)**

What is your view on the outlook for China's economy over the coming months?

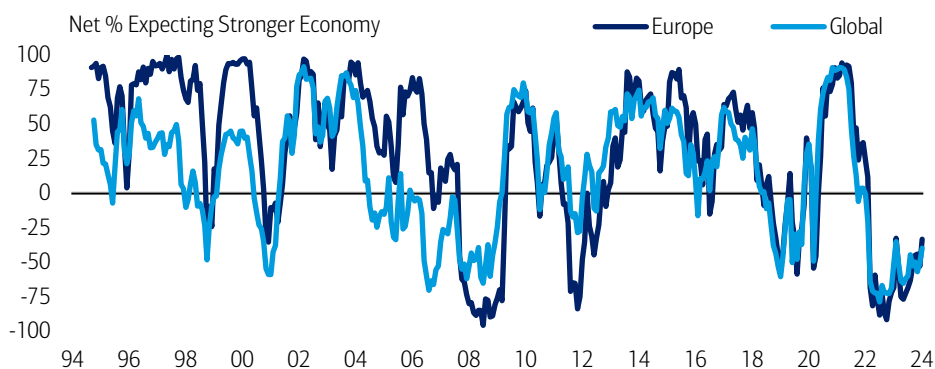


Source: BofA European Fund Manager Survey

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**Exhibit 8: A net 33% of European investors think the European economy will weaken over the coming twelve months, up from 44% last month. A net 50% of global investors think global growth is set to slow in the twelve months ahead, down from 57%**

How do you think the region's economy will develop over the next twelve months?

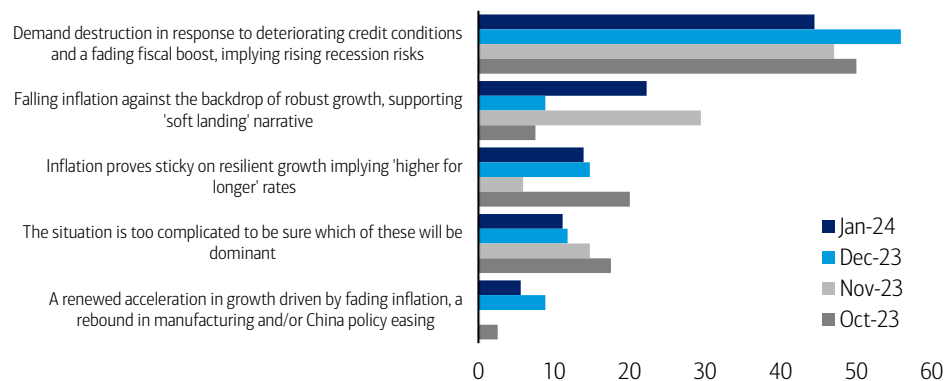


Source: BofA European & Global Fund Manager Survey

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**Exhibit 9: a plurality of 44% of European investors expect demand destruction to be the dominant macro theme over the coming months (down from 56% last month), while 22% think falling inflation against the backdrop of robust growth will dominate (up from 9% last month)**

What do you think will be the dominant macro theme in the months ahead?

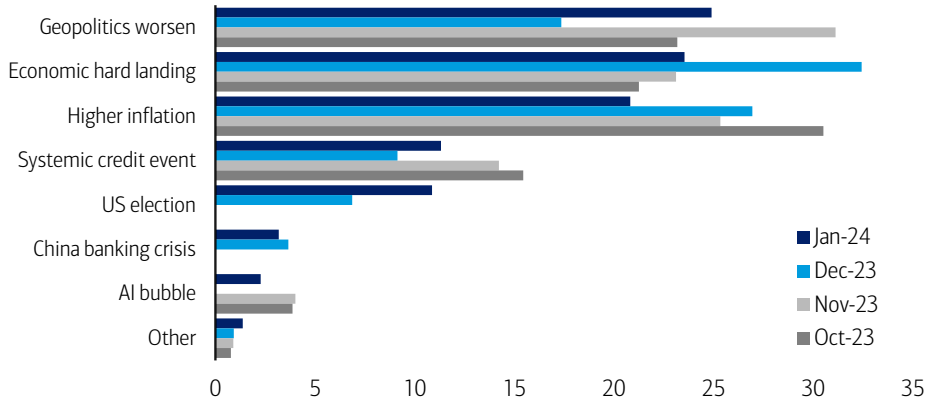


Source: BofA European Fund Manager Survey

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**Exhibit 10: A plurality of 25% of global investors see worsening geopolitics as the biggest tail-risk for markets (up from 17% last month), followed by an economic hard landing, at 24% (down from 32%) and higher inflation, at 21% (down from 27%)**

What do you consider the biggest 'tail risk'?

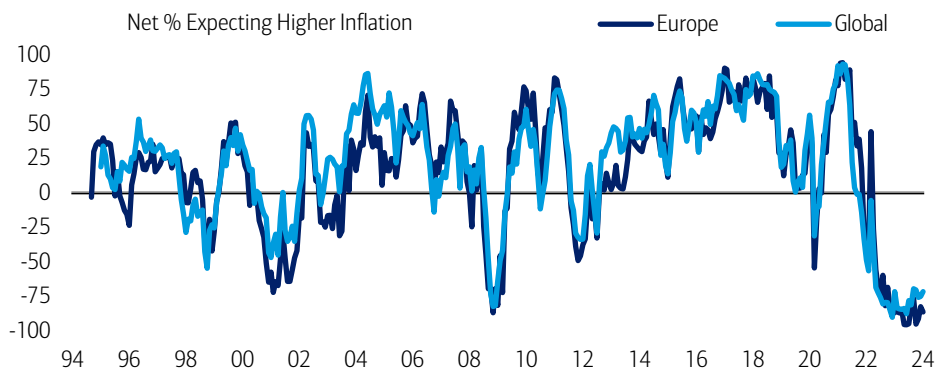


Source: BofA Global Fund Manager Survey

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**Exhibit 11: A net 86% of European investors expect European core inflation to fall over the coming twelve months, up from 82% last month. A net 71% of global investors think global core inflation will decline over the coming twelve months, down from 75% last month**

In twelve months' time, do you think core consumer price inflation rate (in y-o-y terms) will be...?



Source: BofA European & Global Fund Manager Survey

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**Exhibit 12: A net 89% of global investors expect lower short-term rates over the coming twelve months, up from 86% and the highest level on record**

In twelve months' time, do you think global short-term interest rates (i.e. 3-month rates) will be...?



Source: BofA Global Fund Manager Survey

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**Exhibit 13: A net 36% of global investors expect lower 10-year bond yields over the coming twelve months, close to last month's record high of 43%**

In twelve months' time, do you think global long-term interest rates (i.e. 10-year rates) will be...?

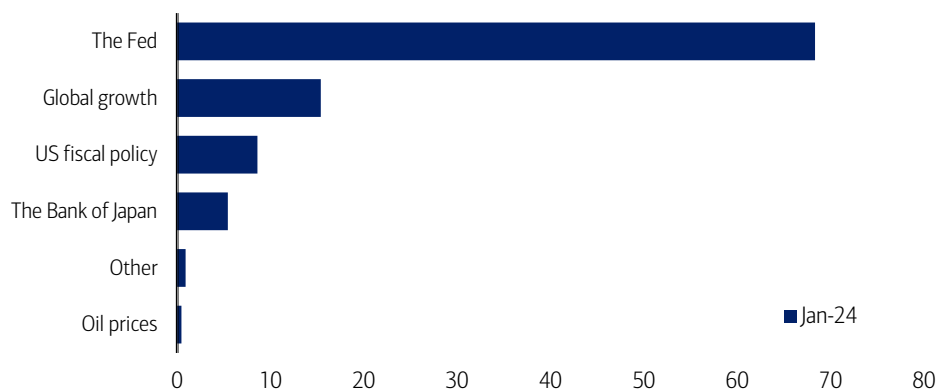


Source: BofA Global Fund Manager Survey

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**Exhibit 14: 68% of global investors expect the US Fed to be the most important driver of bond yields this year, followed by global growth, at 15%**

What will be the most important driver of bond yields in 2024?



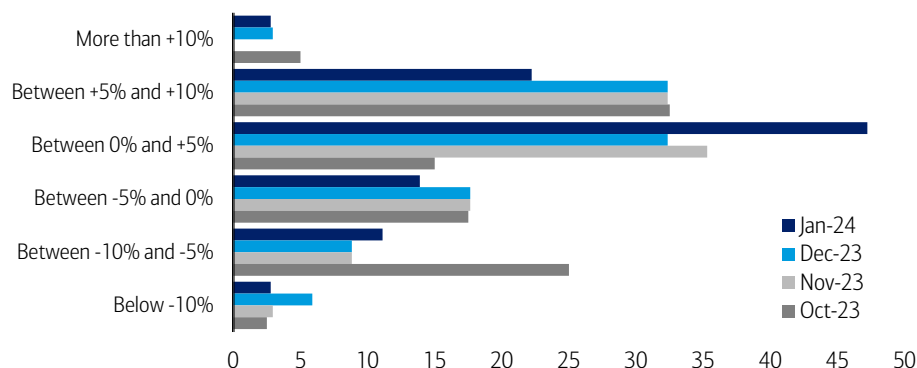
Source: BofA Global Fund Manager Survey

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# European equities

## Exhibit 15: 72% of European investors see upside for European equities over the coming twelve months (up slightly from 68% from last month), with 47% looking for a gain in the range of 0-5%

How much upside do you expect for European equities over the coming twelve months?

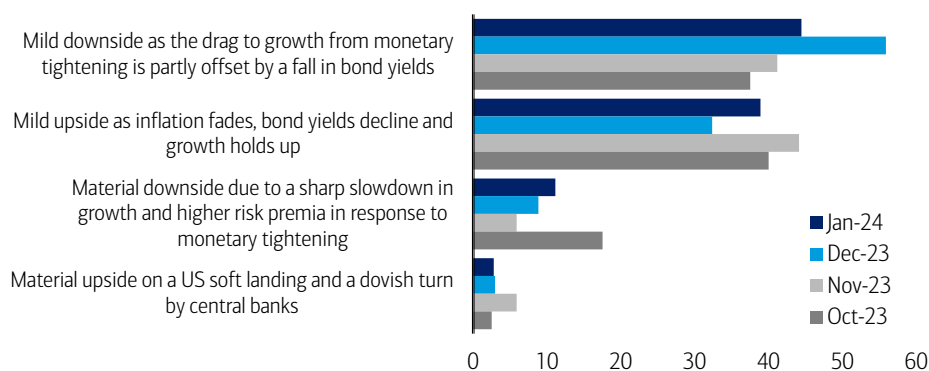


Source: BofA European Fund Manager Survey

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## Exhibit 16: After the sharp rally in equities since October, 56% of European investors expect near-term downside for the European market, though this is down from 65% last month

What is the outlook for European equities over the coming months?

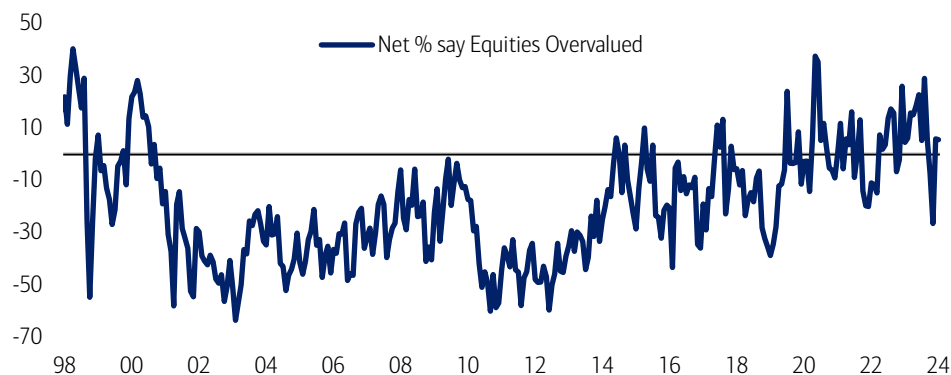


Source: BofA European Fund Manager Survey

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## Exhibit 17: A net 6% of European investors see European equities as overvalued, unchanged from last month and up from a net 26% that thought equities were undervalued in November

Do you think that the European equity market is currently overvalued, fairly valued or undervalued?

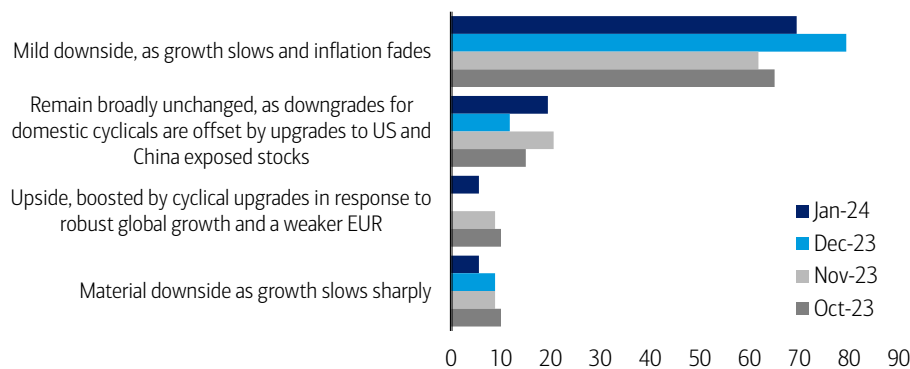


Source: BofA European Fund Manager Survey

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**Exhibit 18: 75% of European investors see downside for 12-month forward EPS expectations for Europe over the coming months, down from 88% last month**

How do think 12-month forward EPS expectations for Europe will develop over the coming months?

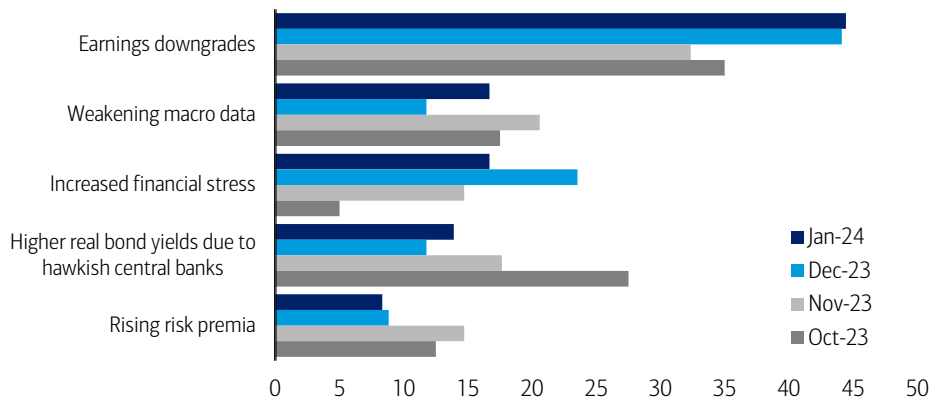


Source: BofA European Fund Manager Survey

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**Exhibit 19: A plurality of 44% of European investors see earnings downgrades as the most likely cause for a market correction (unchanged from last month), followed by weakening macro data, at 17% (up from 12%)**

What is the most likely catalyst for a correction?

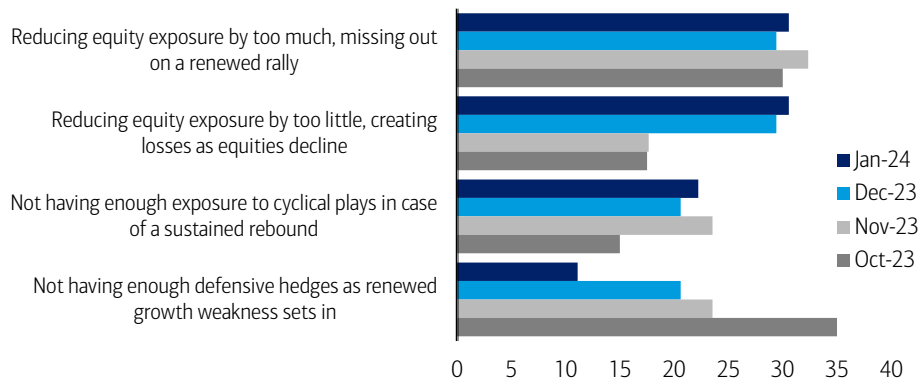


Source: BofA European Fund Manager Survey

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**Exhibit 20: A plurality of 31% of European investors judge reducing equity exposure by too much and thus missing out on a continued rally as the key risk to portfolios, up slightly from 29% last month**

Which of the following risks are you most worried about when making portfolio decisions?



Source: BofA European Fund Manager Survey

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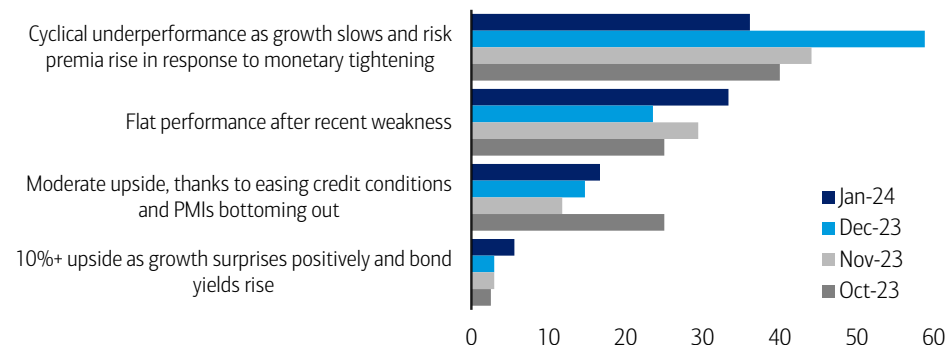


# European styles, sectors and countries

## European styles

**Exhibit 21: A plurality of 36% of European investors expect downside for cyclicals versus defensives over the coming months (down sharply from 59% last month), while 33% look for flat performance ahead (up from 24%)**

What is the likely next move for European cyclicals versus defensives?

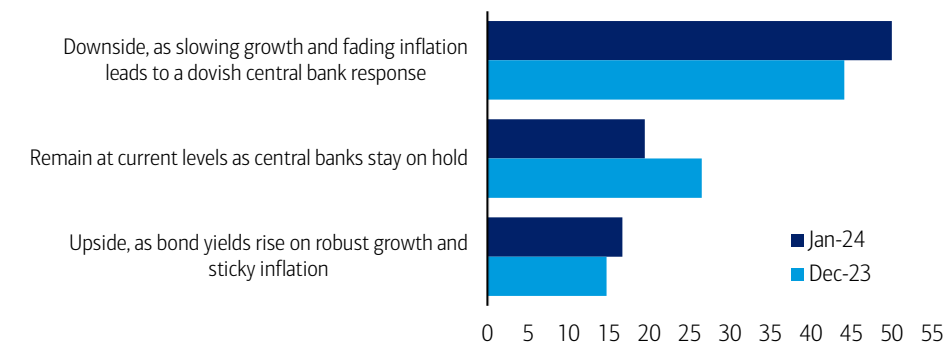


Source: BofA European Fund Manager Survey

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**Exhibit 22: 50% expect value to underperform growth, as slowing growth and fading inflation leads to a more dovish central bank response, up from 44% last month**

What is your view on value versus growth outperformance?

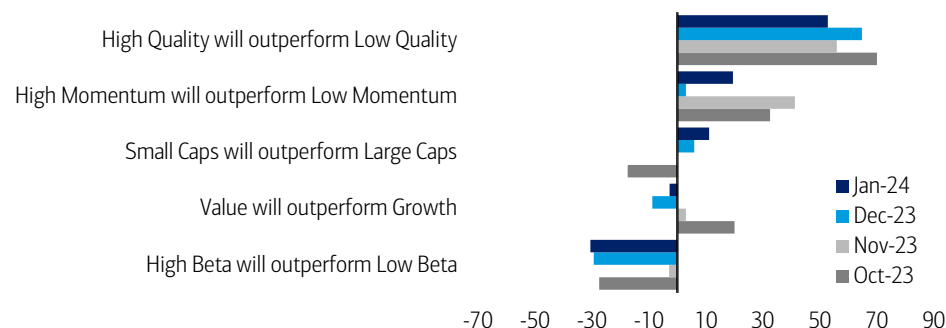


Source: BofA European Fund Manager Survey

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**Exhibit 23: The share of European investors expecting high-quality to outperform low quality stocks over the coming year is at 53% (down from 65% last month), whereas the share projecting high beta to underperform low beta is at 31% (up from 29%)**

How do you see investment style performance in Europe over the next twelve months?



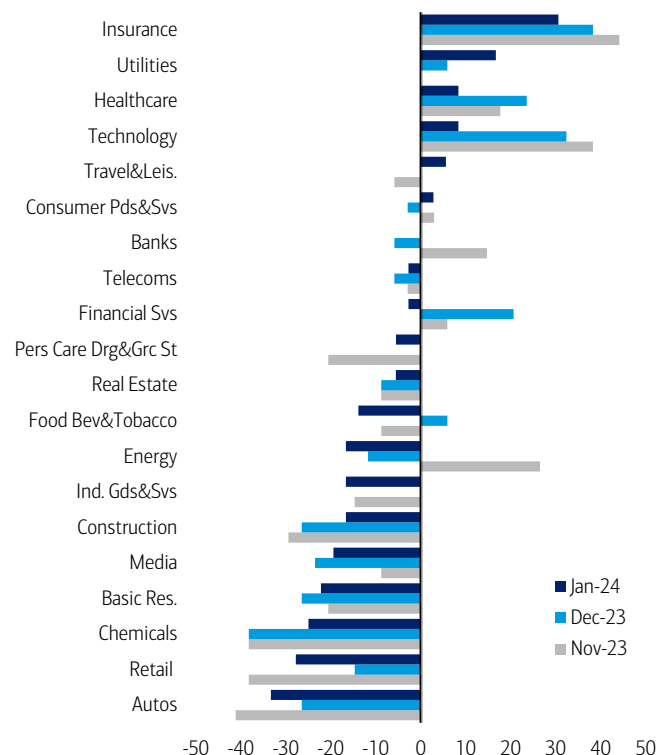
Source: BofA European Fund Manager Survey

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## European sectors

### Exhibit 24: European insurance, tech and healthcare are the largest sector overweights, while chemicals, autos and construction are the largest underweights

European sector positioning (% saying overweight-% saying underweight)

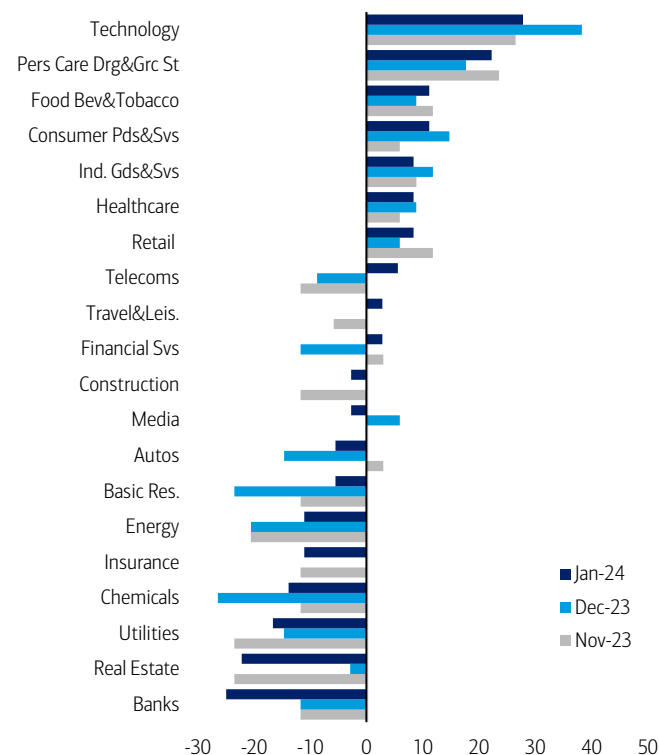


Source: BofA European Fund Manager Survey

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### Exhibit 25: European tech, personal care and consumer products & services are seen as the most overvalued sectors, while chemicals, basic resources and energy are seen as the most undervalued

European sector valuation (% saying overvalued-% saying undervalued)

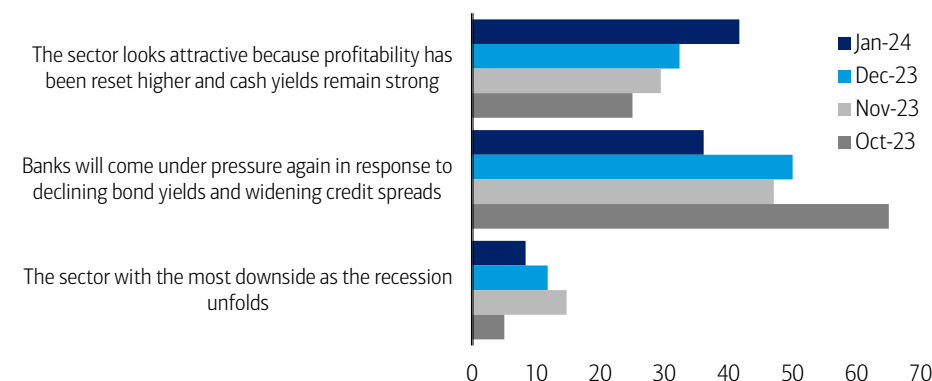


Source: BofA European Fund Manager Survey

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### Exhibit 26: 42% of European investors see European banks as attractive, given that profitability has been reset higher and cash yields remain strong (up meaningfully from 32% last month), whereas the proportion that expects banks to come under pressure is down from 50% last month to 36%

What is your view on European banks?

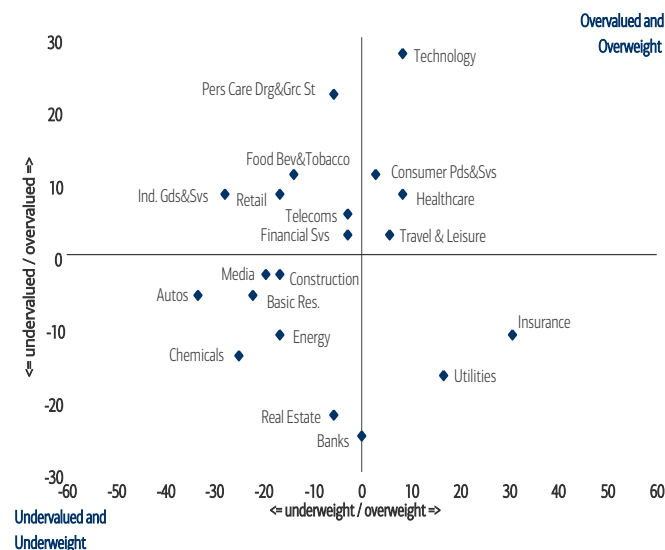


Source: BofA European Fund Manager Survey

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### Exhibit 27: European insurance and utilities are the sectors most overweight and undervalued, according to European survey respondents

European sectors net valuation versus net positioning



Source: BofA European Fund Manager Survey

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### Exhibit 28: Positioning for chemicals, utilities and construction has improved the most from last month, while that of tech, financials services and food & beverages has dropped the most

Month-on-month change in net positioning and valuation

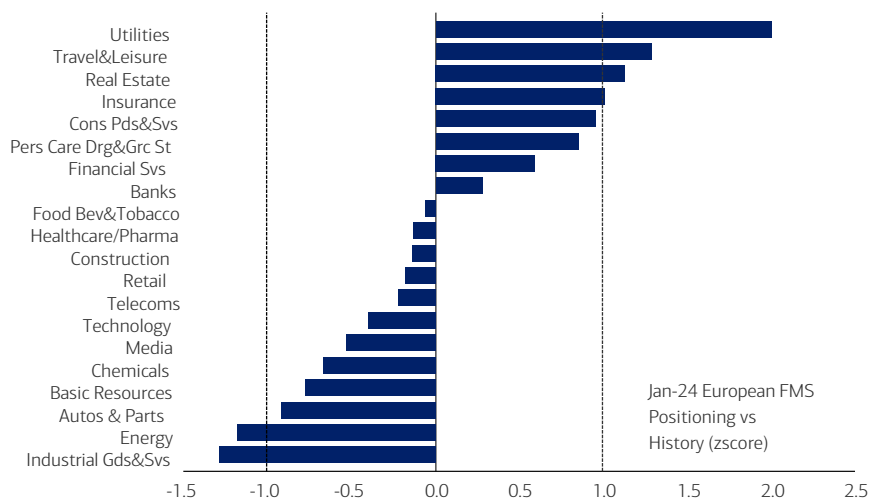
	Positioning	Valuation
Chemicals	13	13
Utilities	11	-2
Construction	10	-3
Banks	6	-13
Consumer Pds&Svs	6	-4
Travel&Leis.	6	3
Basic Res.	4	18
Media	4	-9
Real Estate	3	-19
Telecoms	3	14
Energy	-5	9
Pers Care Drg&Grc St	-6	5
Autos	-7	9
Insurance	-8	-11
Retail	-13	2
Healthcare	-15	0
Ind. Gds&Svs	-17	-3
Food Bev&Tobacco	-20	2
Financial Svs	-23	15
Technology	-24	-10

Source: BofA European Fund Manager Survey

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### Exhibit 29: European utilities, travel & leisure and real estate are the most over-owned sectors relative to history, while industrials and energy are most under-owned

Current European sectors positioning relative to history (z-scores)



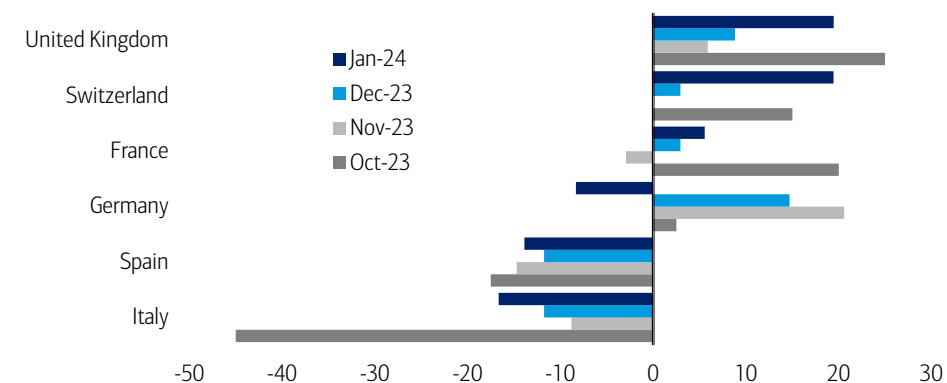
Source: BofA European Fund Manager Survey. Note: z-score based on full time series. Sector history since 2003, except: Consumer Gds & Svs (Personal&& HH Gds), Chemicals, Construction, Financial Svs, Travel & Leisure since 2006, Real estate since 2008, Personal care, drug & grocery stores since Oct 2020

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## European countries

### Exhibit 30: the UK is the favourite equity market in Europe, followed by Switzerland, while Italy is the least preferred, followed by Spain

Which equity markets would you overweight or underweight over the coming twelve months?



Source: BofA European Fund Manager Survey

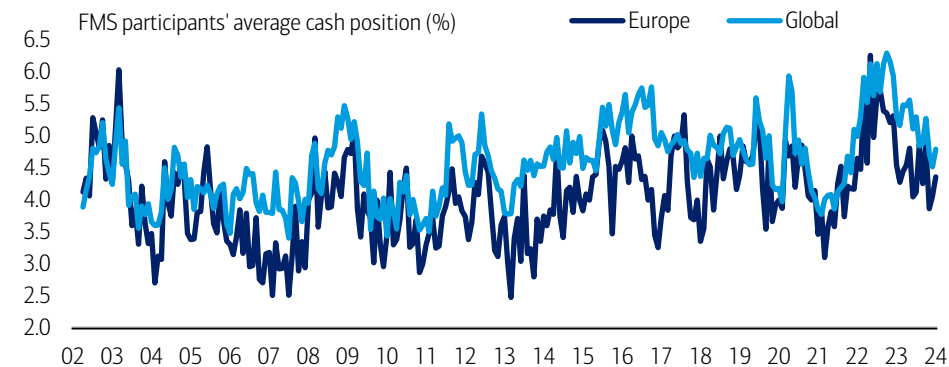
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# Appendix

## Cash levels & USD sentiment

**Exhibit 31: The average cash position among European investors stands at 4.4% (up from 4.1% last month), while cash levels among global investors are at 4.8% (up from 4.5%)**

What comes closest to your current cash position in your portfolio?

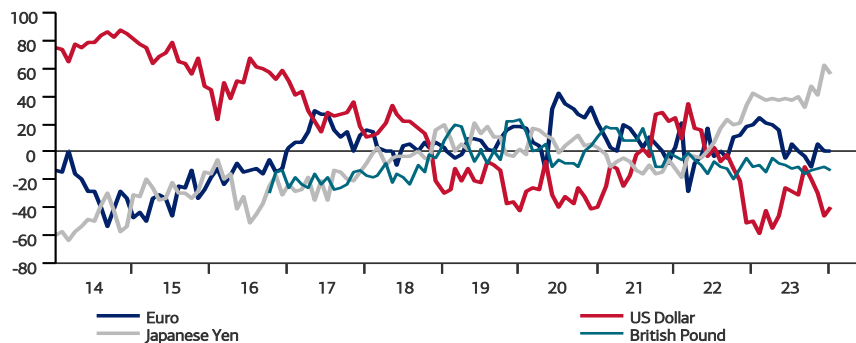


Source: BofA European & Global Fund Manager Survey

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**Exhibit 32: Bearish USD sentiment remains, with a net 39% of global investors expecting the USD to weaken over the coming year, though this is down from 47% last month**

Over the next twelve months, which FX do you expect to appreciate / depreciate the most on a TWI basis?



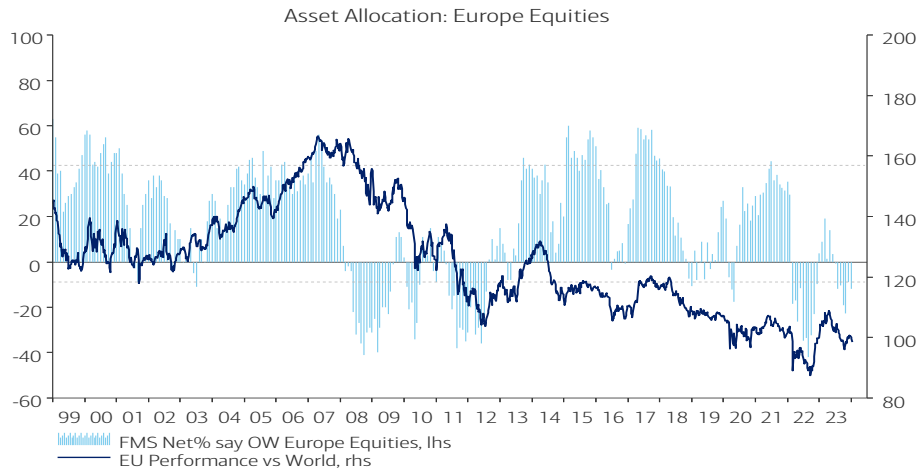
Source: BofA Global Fund Manager Survey

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## Europe in the global context

### Exhibit 33: A net 12% of global investors say they are underweight European equities, up slightly from 9% last month

Please indicate for each of the following equity markets, how overweight or underweight you consider your position to be relative to your internal benchmark

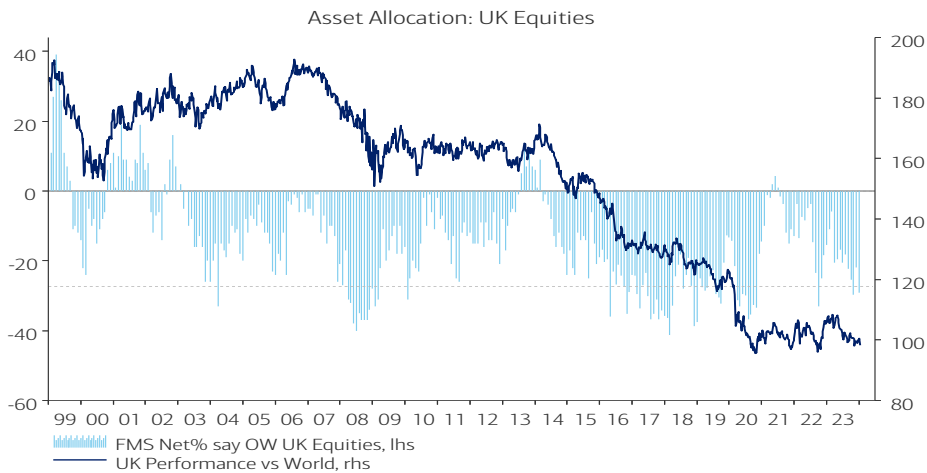


Source: BofA Global Fund Manager Survey

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### Exhibit 34: A net 29% of global investors say they are underweight UK equities, up from 22% last month

Please indicate for each of the following equity markets, how overweight or underweight you consider your position to be relative to your internal benchmark



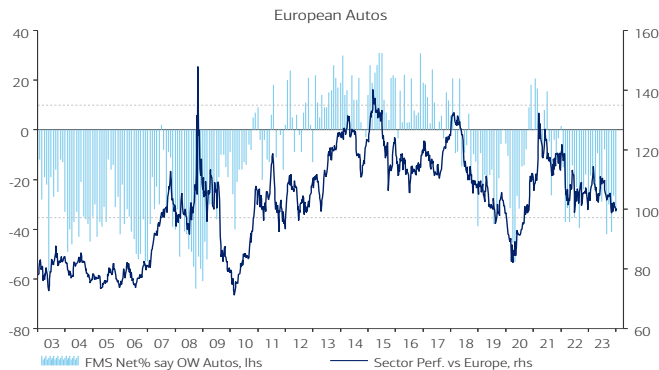
Source: BofA Global Fund Manager Survey

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## European sector details

### Exhibit 35: European autos & parts

Net 33% of European participants say they are underweight the sector

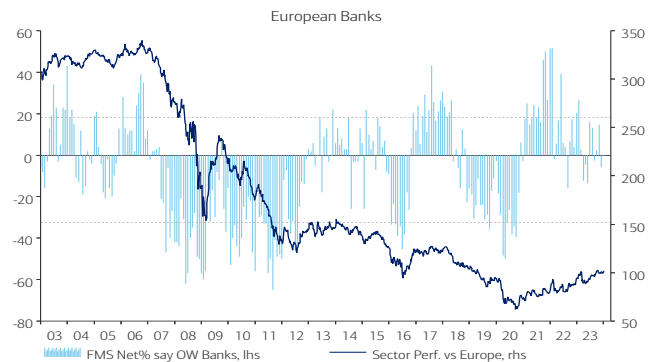


Source: BofA European Fund Manager Survey, Datastream

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### Exhibit 36: European banks

Net 0% of European participants say they are overweight the sector

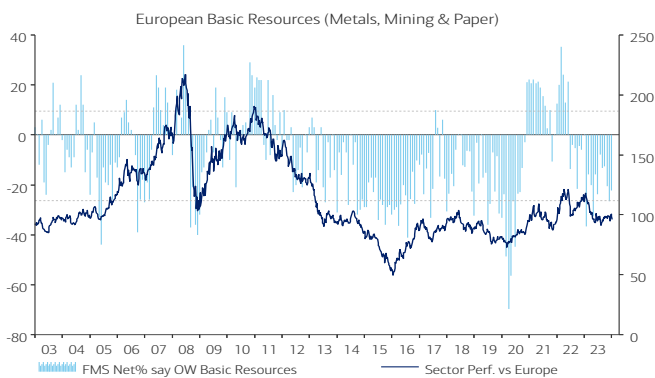


Source: BofA European Fund Manager Survey, Datastream

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### Exhibit 37: European basic resources

Net 22% of European participants say they are underweight the sector

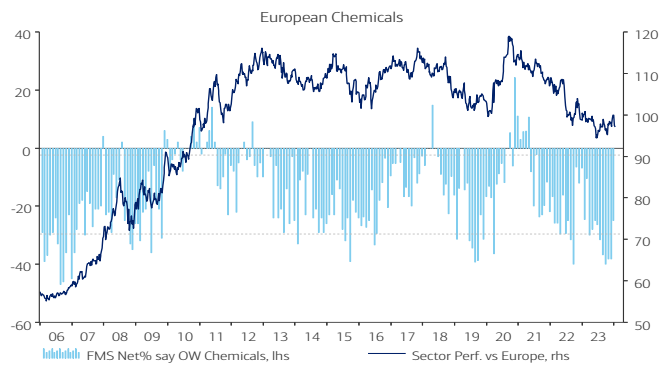


Source: BofA European Fund Manager Survey, Datastream

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### Exhibit 38: European chemicals

Net 25% of European participants say they are underweight the sector

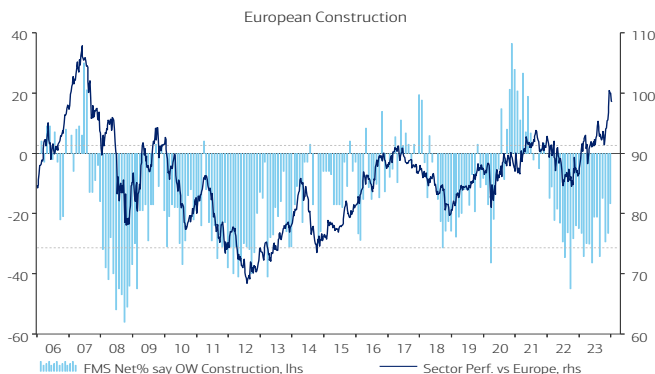


Source: BofA European Fund Manager Survey, Datastream

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### Exhibit 39: European construction

Net 17% of European participants say they are underweight the sector

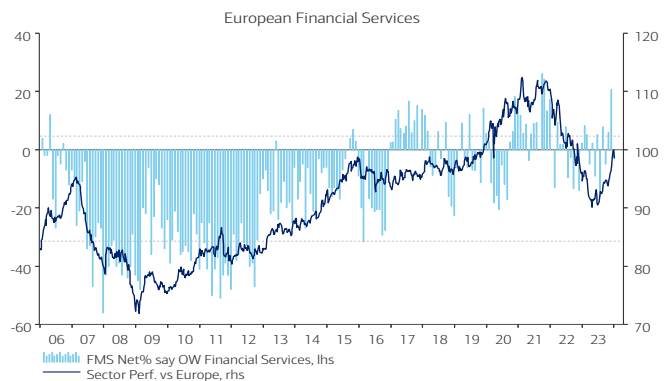


Source: BofA European Fund Manager Survey, Datastream

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### Exhibit 40: European financial services

Net 3% of European participants say they are underweight the sector

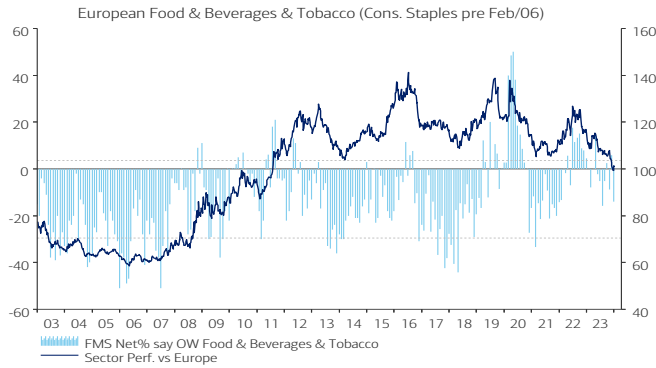


Source: BofA European Fund Manager Survey, Datastream

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**Exhibit 41: European food & beverages & tobacco**

Net 14% of European participants say they are overweight the sector

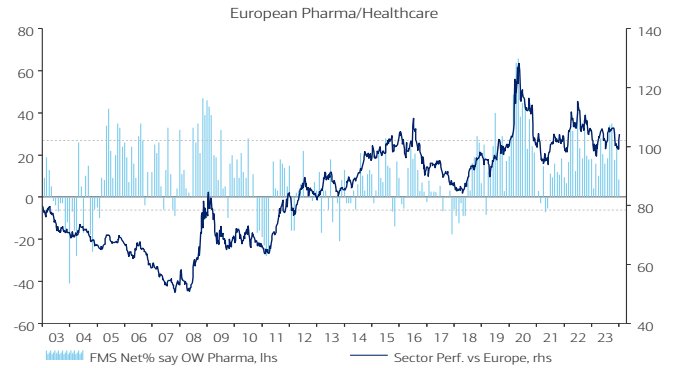


Source: BofA European Fund Manager Survey, Datastream

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**Exhibit 42: European healthcare**

Net 8% of European participants say they are overweight the sector

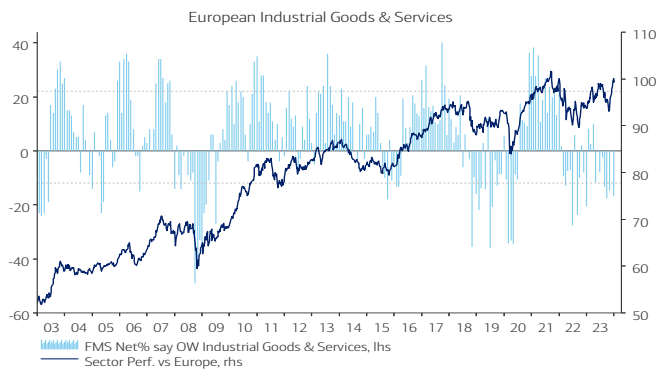


Source: BofA European Fund Manager Survey, Datastream

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**Exhibit 43: European industrial goods & services**

Net 17% of European participants say they are overweight the sector

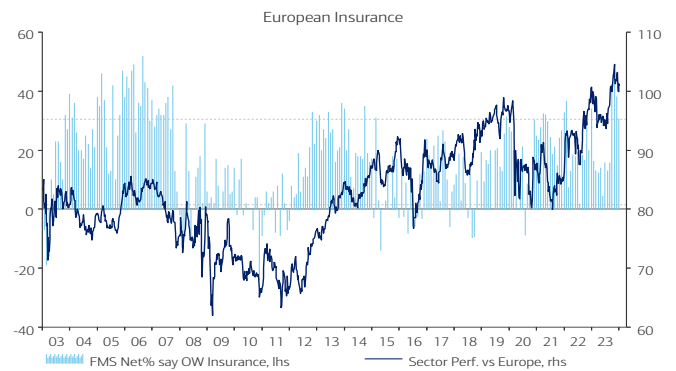


Source: BofA European Fund Manager Survey, Datastream

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**Exhibit 44: European insurance**

Net 31% of European participants say they are overweight the sector

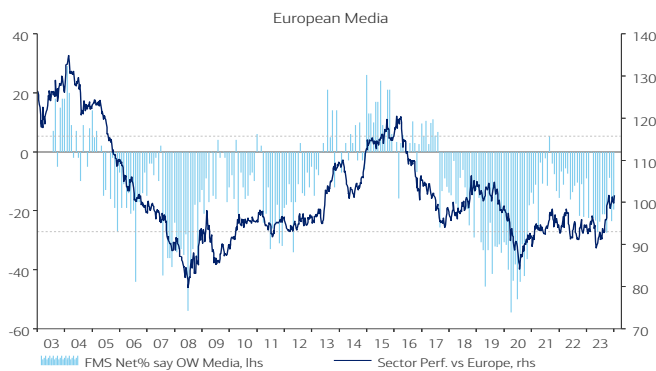


Source: BofA European Fund Manager Survey, Datastream

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**Exhibit 45: European media**

Net 19% of European participants say they are overweight the sector

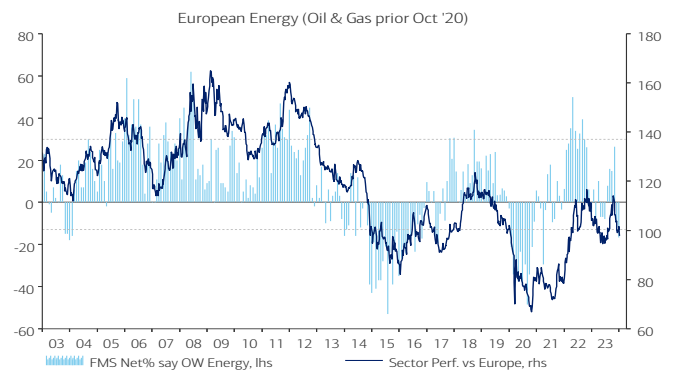


Source: BofA European Fund Manager Survey, Datastream

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**Exhibit 46: European energy**

Net 17% of European participants say they are overweight the sector



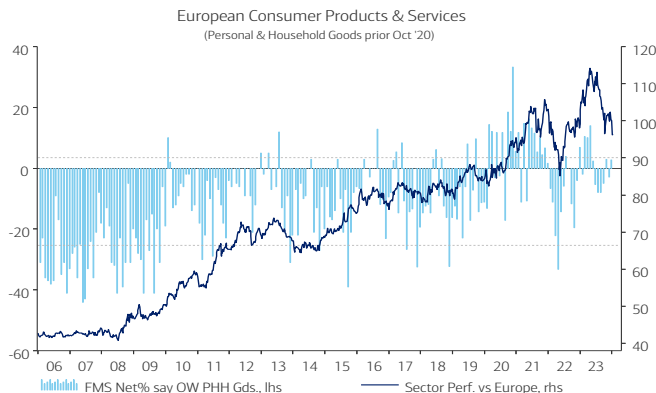
Source: BofA European Fund Manager Survey, Datastream

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**Exhibit 47: European consumer products & services**

Net 3% of European participants say they are overweight the sector

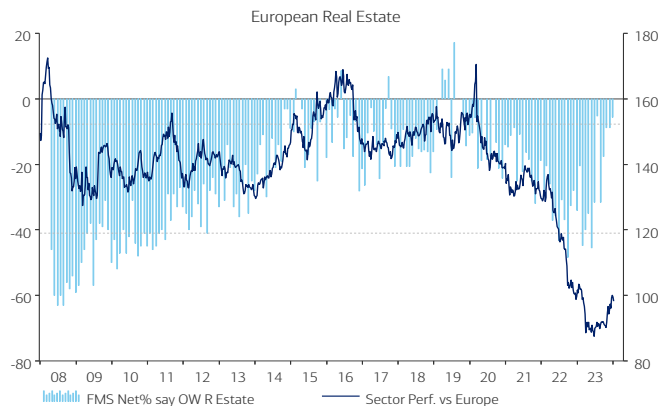


Source: BofA European Fund Manager Survey, Datastream

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**Exhibit 48: European real estate**

Net 6% of European participants say they are overweight the sector

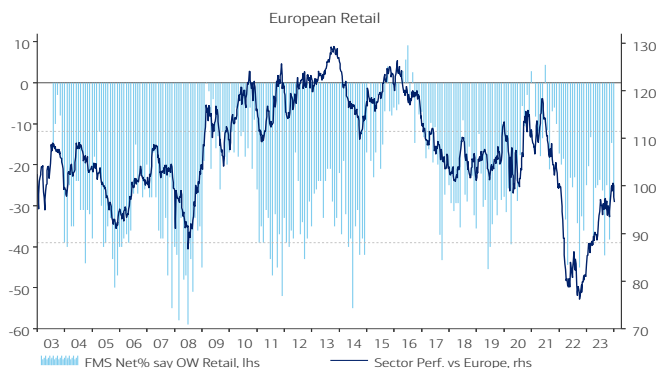


Source: BofA European Fund Manager Survey, Datastream

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**Exhibit 49: European retail**

Net 28% of European participants say they are overweight the sector

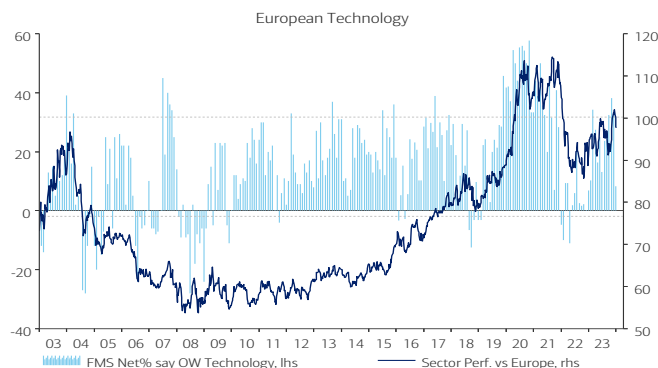


Source: BofA European Fund Manager Survey, Datastream

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**Exhibit 50: European technology**

Net 8% of European participants say they are overweight the sector

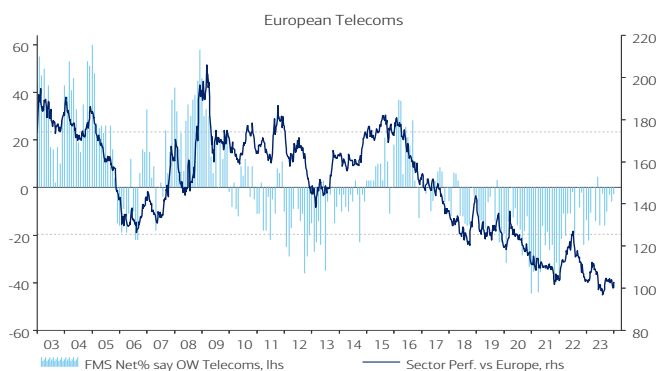


Source: BofA European Fund Manager Survey, Datastream

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**Exhibit 51: European telecoms**

Net 3% of European participants say they are overweight the sector

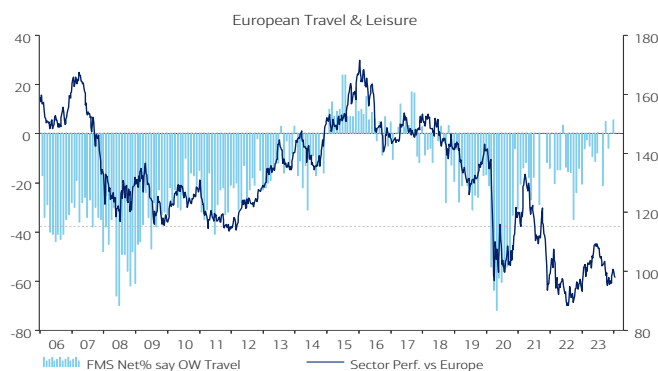


Source: BofA European Fund Manager Survey, Datastream

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**Exhibit 52: European travel & leisure**

Net 6% of European participants say they are overweight the sector

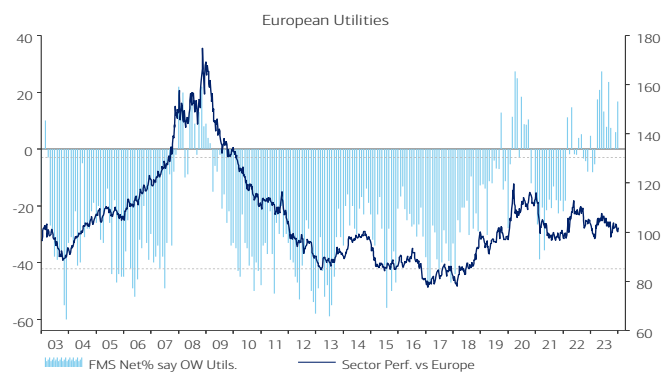


Source: BofA European Fund Manager Survey, Datastream

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**Exhibit 53: European utilities**

Net 17% of European participants say they are overweight the sector



Source: BofA European Fund Manager Survey, Datastream

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# Regional survey demographics data

## Exhibit 54: Position / institution / approach of participants in the regional survey

Demographics details for regional Fund Manager Survey participants

	Jan-24	Dec-23	Nov-23
<b>Structure of the panel - by position</b>			
Chief Investment Officer	14	11	15
Asset Allocator / Strategist / Economist	28	31	28
Portfolio Manager	89	88	91
Other	15	10	17
<b>Structure of the panel - by expertise</b>			
Regional specialists + EM specialists only	35	35	40
Regional specialists with a global view	111	105	111
<b>Total # of respondents to regional questions</b>	<b>146</b>	<b>140</b>	<b>151</b>
<b>Which of the following best describes the type of money you are running?</b>			
Institutional funds (e.g. pension funds / insurance companies)	44	42	45
Hedge funds / proprietary trading desks	25	27	32
Mutual funds / unit trusts / investment trusts	64	58	57
None of the above	13	13	17
<b>What do you estimate to be the total current value of assets under your direct control?</b>			
Up to \$250mn	30	28	39
Around \$500mn	17	20	23
Around \$1bn	28	25	27
Around \$2.5bn	29	25	23
Around \$5bn	10	9	8
Around \$7.5bn	3	4	3
Around \$10bn or more	13	13	10
No funds under my direct control	16	16	18
<b>Total (USD bn)</b>	<b>319</b>	<b>310</b>	<b>268</b>
<b>What best describes your investment time horizon at this moment?</b>			
3 months or less	36	33	44
6 months	50	41	41
9 months	13	15	16
12 months or more	43	49	47
<b>Weighted average</b>	<b>7.3</b>	<b>7.7</b>	<b>7.3</b>
Don't know	4	2	3
<b>Which region do you specialise in?</b>			
US / North America	40	34	38
Europe / Continental Europe / Eurozone / UK	36	34	34
Asia Pacific / Asia Pacific ex Japan / Japan	49	47	55
South Africa	14	15	14
MENA (Middle East and North Africa)	4	6	7
None of the above	3	4	3

Source: BofA European Fund Manager Survey

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R1</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R1</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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