

European Fund Manager Survey

From soft landing to no landing

Continued macro resilience is fuelling no-landing hopes

The share of respondents who think the US economy will stay robust, helped by resilient consumption, has surged from 28% last month to 62% this month, with the proportion that see an immediate US slowdown due to monetary tightening down from 61% to 32%. Growth pessimism in Europe remains pronounced, however, with 62% expecting a weaker European economy given the drag from monetary tightening, though this is nonetheless down materially from 83% last month. While a net 37% judge global fiscal policy to be overly supportive, close to a record high, a net 3% think that Europe's fiscal stance is too restrictive. 65% think a soft landing is the most likely outcome for the global economy, with 19% now in the no-landing camp, up from 7% last month.

Minor cracks in the lower inflation / rates consensus

A plurality of 46% of investors see an escalation in the Red Sea or Middle East as inflationary, given the resulting rise in freight rates and the upside risks to the oil price. As a consequence, a plurality of 27% now regard high inflation as the biggest tail-risk for markets, up from 21% last month and overtaking geopolitics, at 24%. A net 69% expect global core inflation to decline over the coming year, down from 76% in November, while a near-record net 95% project European core inflation to decline. A net 87% expect falling short-term interest rates over the coming twelve months, close to last month's record 89%, while a net 29% think 10-year bond yields will fade, down from a peak of 43% in December.

Bullish on equities but the recent rally looks overdone

78% of participants see upside for European equities over the next twelve months, the highest in two years. However, after the sharp rally since October, 51% expect near-term downside for the market (down from 56% last month). Only 54% see lower European EPS ahead in response to slowing growth and fading inflation, a marked decline from 75% last month. 43% think equity upside will be driven by earnings upgrades in response to US growth resilience or China easing, while 41% see a declining discount rate due to dovish central banks as the main driver.

More positive on cyclical, less negative on value

46% of investors expect further upside for European cyclical relative to defensives thanks to easing credit conditions and rebounding PMIs, up sharply from 22% last month. A plurality of 35% expect further downside for European value versus growth stocks on dovish central banks, down from 50% last month. Insurance remains the biggest consensus sector overweight in Europe, ahead of tech and healthcare. Despite building optimism for cyclical overall, cyclical sectors nonetheless dominate the underweights, in particular chemicals, autos and basic resources.

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 21 to 22.

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Notes to readers

An overall total of 249 panellists with \$656bn AUM participated in the survey. 209 participants with \$568bn AUM responded to the global FMS questions and 145 participants with \$331bn AUM responded to the regional FMS questions.

Survey period: 2nd February 2024 to 8th February 2024.

How to join the FMS panel

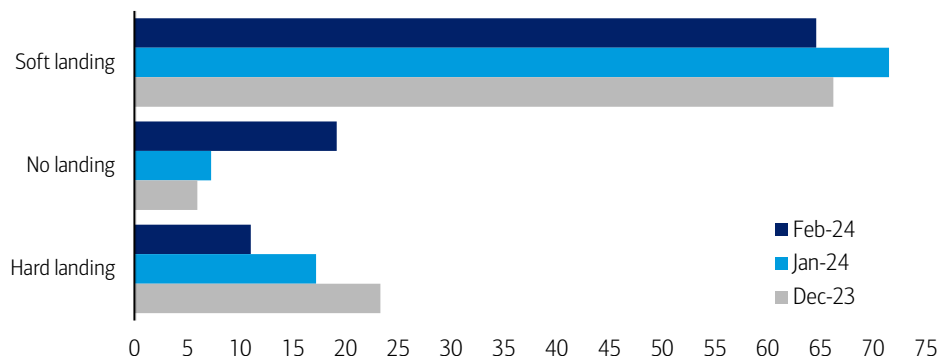
Investors/clients are encouraged to sign up to participate in the Survey. This can be done by contacting [Michael Hartnett](#) or your BofA sales representative.

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

European macro overview

Exhibit 1: 65% see a soft landing as the most likely outcome for the global economy (down from 71% last month), with 19% in the no-landing camp (up from 7%) and 11% in the hard landing camp (down from 17%)

What is the most likely outcome for the global economy in the next 12 months?

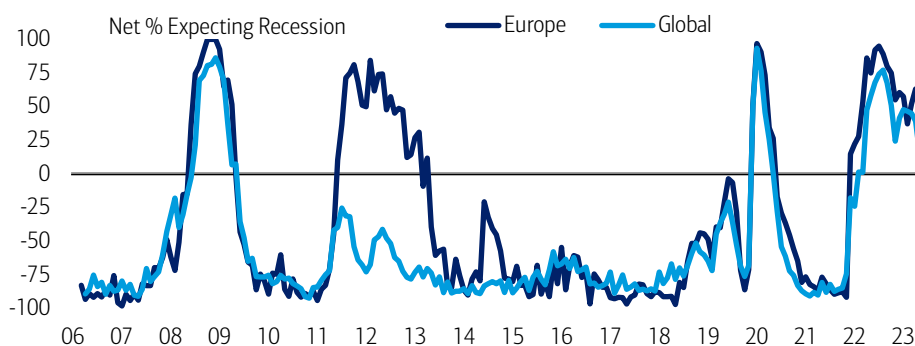


Source: BofA Global Fund Manager Survey

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Exhibit 2: A net 32% of global investors think that the global economy will avoid a recession over the next twelve months, the highest in two years, while a net 16% of European investors still expect a European recession, though this is down sharply from 53% last month

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

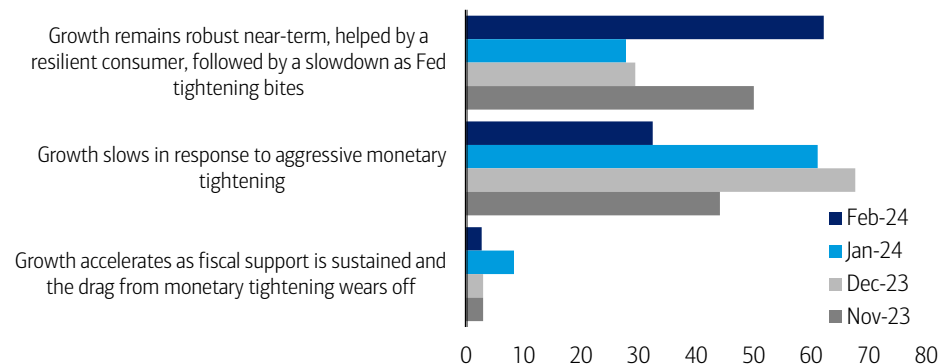


Source: BofA European & Global Fund Manager Survey

BofA GLOBAL RESEARCH

Exhibit 3: 62% of European investors think US growth will remain robust over the coming months, helped by a resilient consumer (up sharply from 28% last month), while 32% expect an immediate slowdown in growth in response to monetary tightening (down from 61%)

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

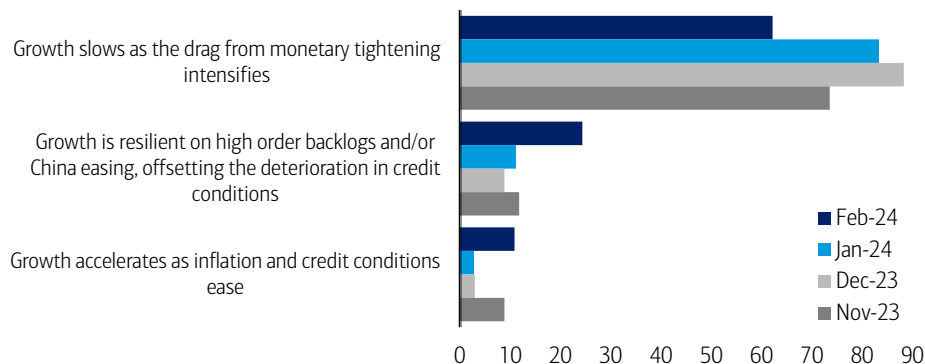


Source: BofA European Fund Manager Survey

BofA GLOBAL RESEARCH

Exhibit 4: 62% of European investors project a slowdown in European growth over the coming months as the drag from monetary tightening intensifies (down from 83% last month), while 24% expect growth to remain resilient (up from 11%)

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

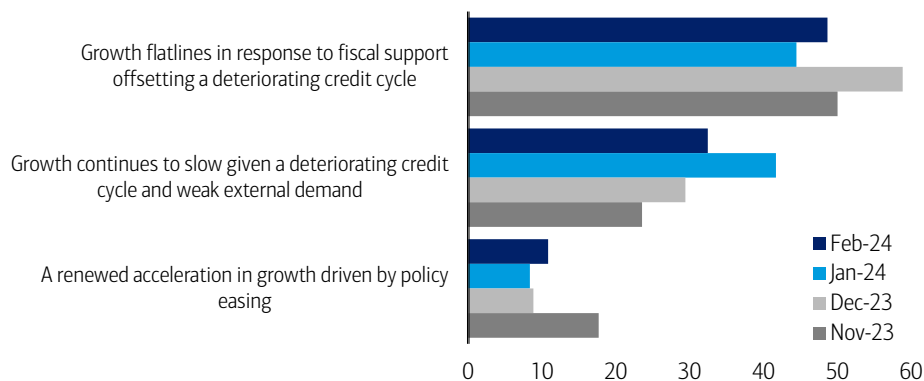


Source: BofA European Fund Manager Survey

BofA GLOBAL RESEARCH

Exhibit 5: 49% of European investors see China growth flatlining over the coming months (up from 44% last month), while 32% think growth will continue to slow, given a deteriorating credit cycle and weak external demand (down from 42%)

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

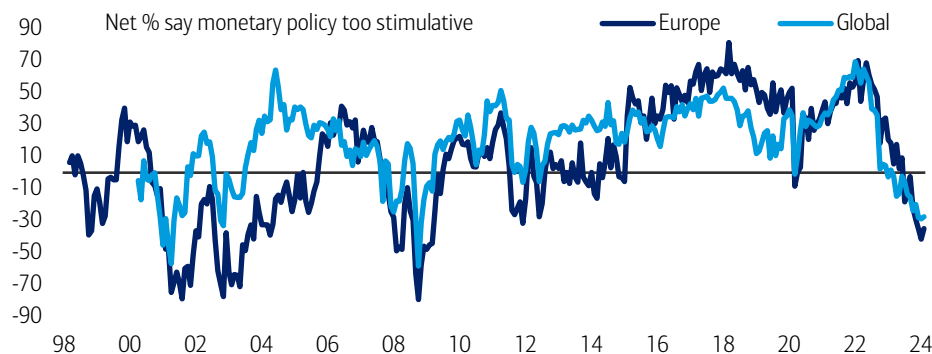


Source: BofA European Fund Manager Survey

BofA GLOBAL RESEARCH

Exhibit 6: A net 28% of global investors consider global monetary policy to be too restrictive, broadly unchanged from last month and the highest reading since 2008, while a net 35% of European investors think this is the case in Europe, still close to 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 7: While a net 37% of global investors judge global fiscal policy to be overly supportive, close to a record high, a net 3% of European investors think that Europe's fiscal stance is too restrictive

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

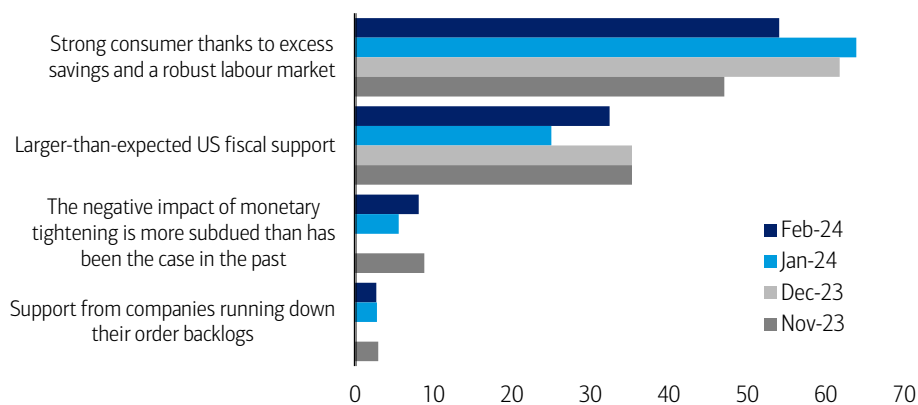


Source: BofA European & Global Fund Manager Survey

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Exhibit 8: 54% of European investors think a strong consumer, helped by excess savings and a robust labour market, has been the main reason why hard-landing fears have not played out

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

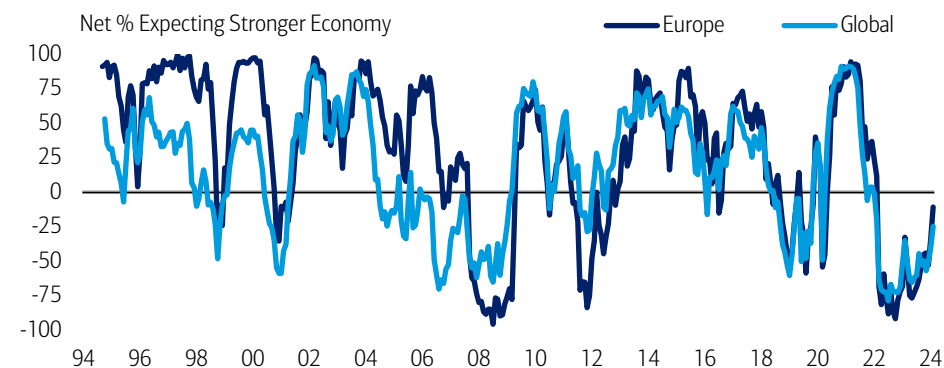


Source: BofA European Fund Manager Survey

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Exhibit 9: A net 11% of European investors think the European economy will weaken over the coming twelve months, down from 33% last month. A net 25% of global investors think global growth is set to slow in the twelve months ahead, down from 40%

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

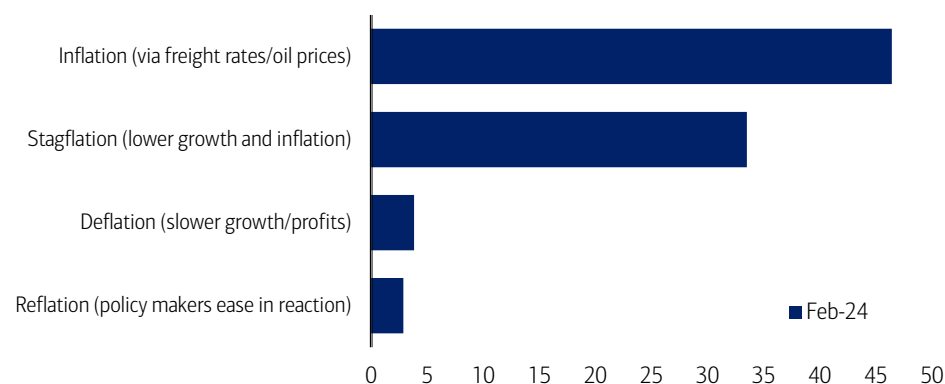


Source: BofA European & Global Fund Manager Survey

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Exhibit 10: A plurality of 46% of global investors see an escalation in the Red Sea or Middle East as inflationary, given higher freight rates or oil prices

Which of the following is most likely macro/market outcome should events in the Red Sea/Middle East escalate?

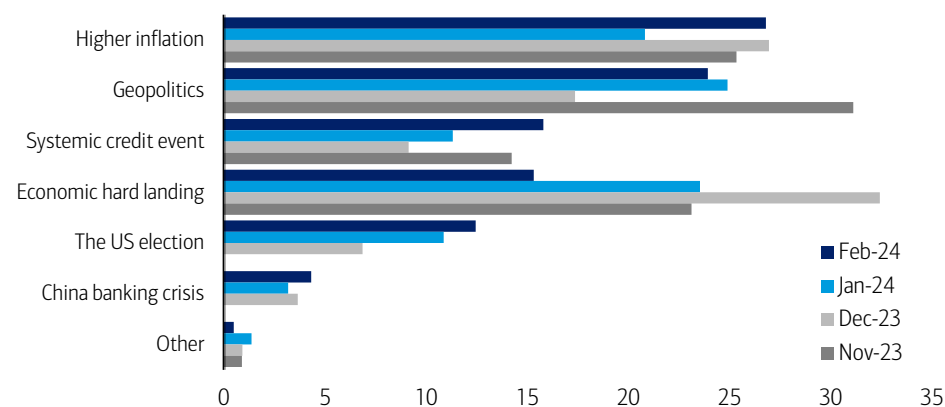


Source: BofA Global Fund Manager Survey

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Exhibit 11: A plurality of 27% of global investors now regard high inflation as the biggest tail-risk for markets, up from 21% last month and overtaking geopolitics, at 24%

What do you consider the biggest 'tail risk'?

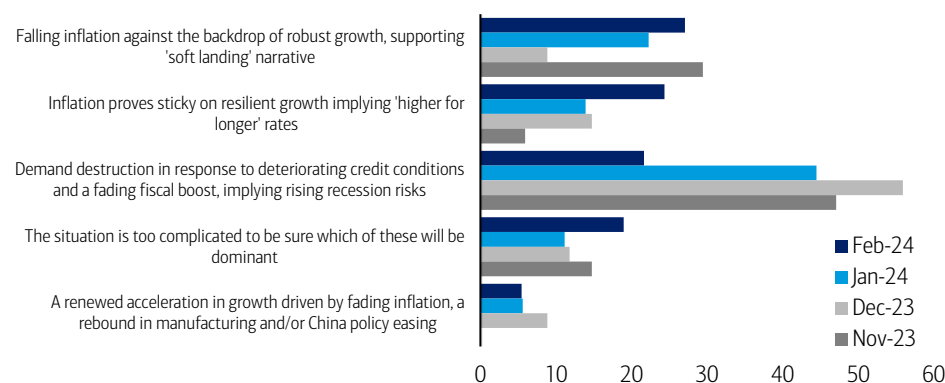


Source: BofA Global Fund Manager Survey

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Exhibit 12: A plurality of 27% of European investors expect falling inflation against the backdrop of robust growth to be the dominant macro theme over the coming months (up from 22% last month), while 24% think inflation will prove sticky, meaning 'higher for longer' will dominate (up from 14%)

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

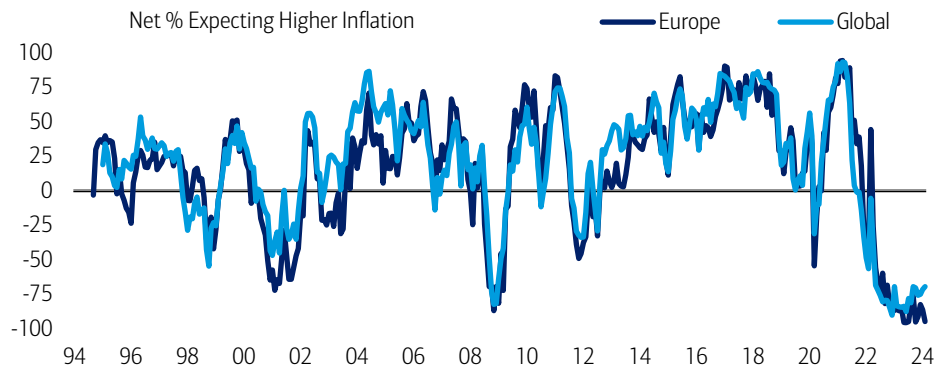


Source: BofA European Fund Manager Survey

BofA GLOBAL RESEARCH

Exhibit 13: A net 69% of global investors expect core inflation globally to decline over the coming year, a steady fade from 76% in November, while a near-record net 95% of European investors project lower European core inflation

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

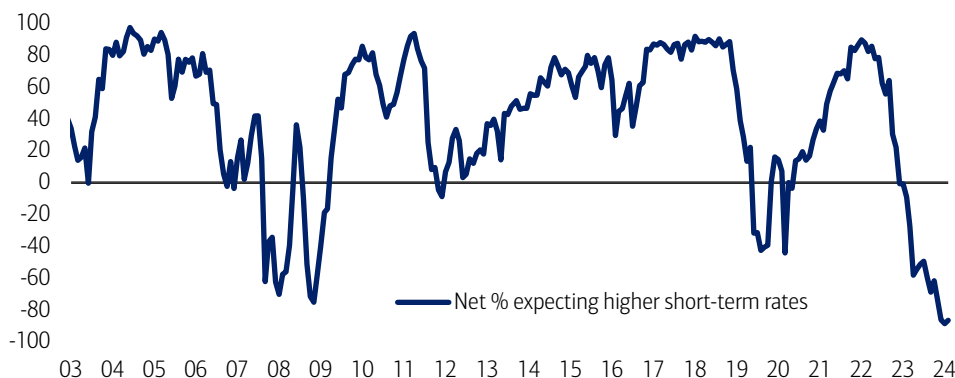


Source: BofA European & Global Fund Manager Survey

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Exhibit 14: A net 87% of global investors expect lower short-term rates over the coming twelve months, down from a record 89% last month

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 15: A net 29% of global investors expect lower 10-year bond yields over the coming twelve months, down from a peak of 43% in December

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



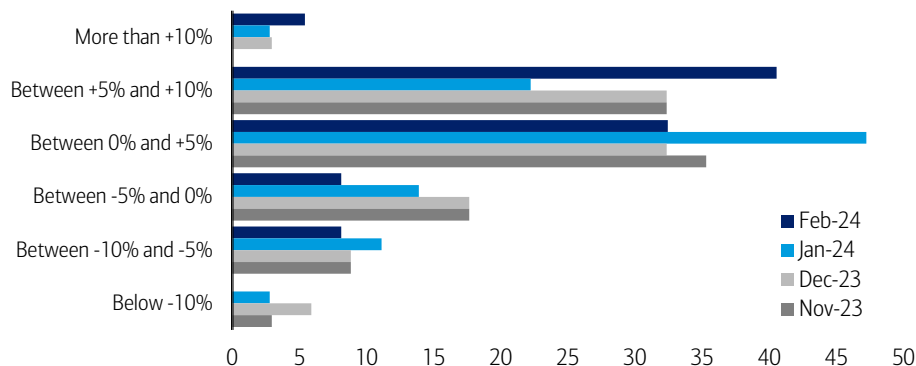
Source: BofA Global Fund Manager Survey

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European equities

Exhibit 16: 78% of European investors see upside for European equities over the coming twelve months (up from 72% last month and the highest in two years), with 41% looking for a gain in the range of 5-10%

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

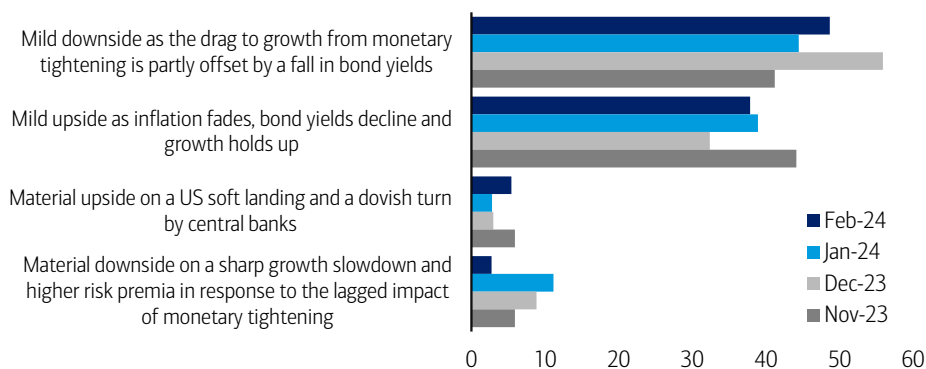


Source: BofA European Fund Manager Survey

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Exhibit 17: After the sharp rally in equities since October, 51% of European investors expect near-term downside for the European market, down mildly from 56% last month

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

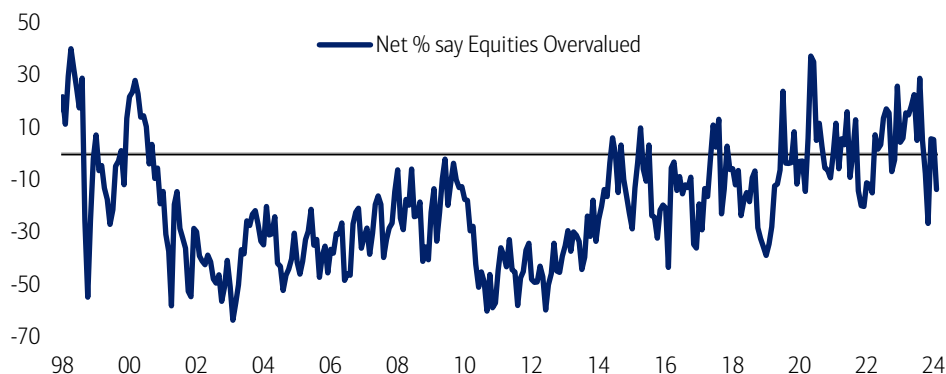


Source: BofA European Fund Manager Survey

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Exhibit 18: A net 14% of European investors see European equities as undervalued, while last month a net 6% thought they were overvalued

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

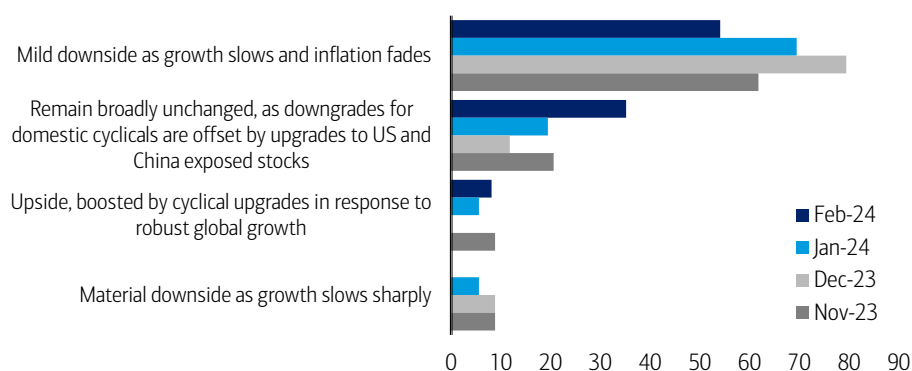


Source: BofA European Fund Manager Survey

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Exhibit 19: 54% of European investors see downside for 12-month forward EPS expectations for Europe over the coming months, down sharply from 75% last month and 88% in December

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

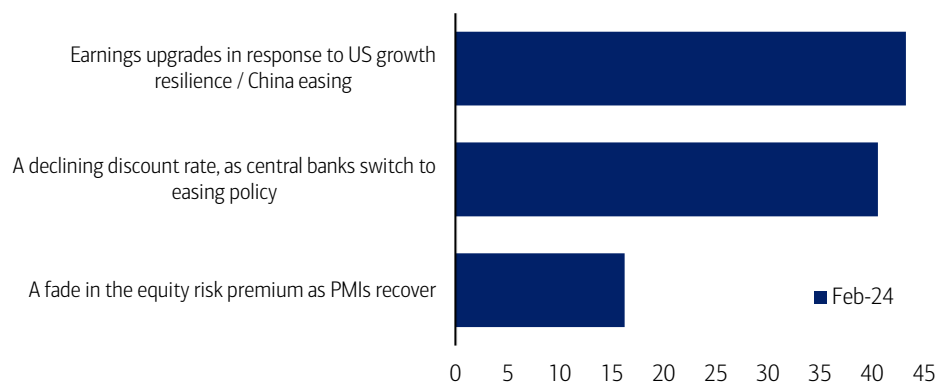


Source: BofA European Fund Manager Survey

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Exhibit 20: A plurality of 43% of European investors see earnings upgrades in response to US growth resilience or China easing as the most likely reason for European equities to move higher, slightly ahead of a declining discount rate in response to central bank easing, at 41%.

What would be the most likely reason for European equities to move higher?

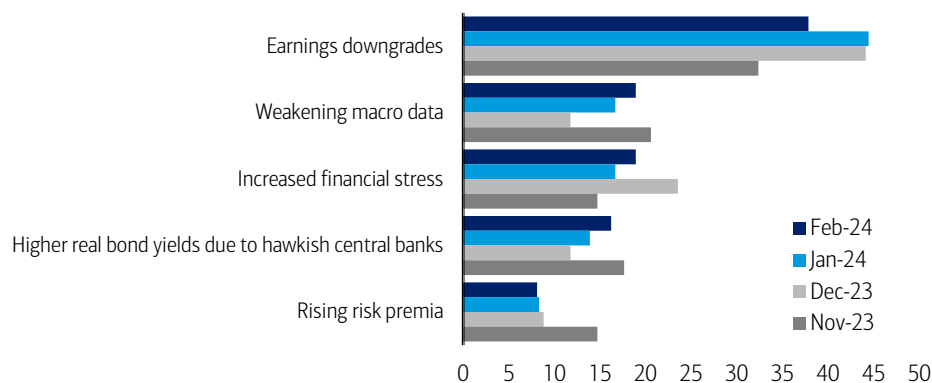


Source: BofA Global Fund Manager Survey

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Exhibit 21: A plurality of 38% of European investors see earnings downgrades as the most likely cause for a market correction (down from 44% last month), followed by weakening macro data, at 19% (up from 17%)

What is the most likely catalyst for a correction?

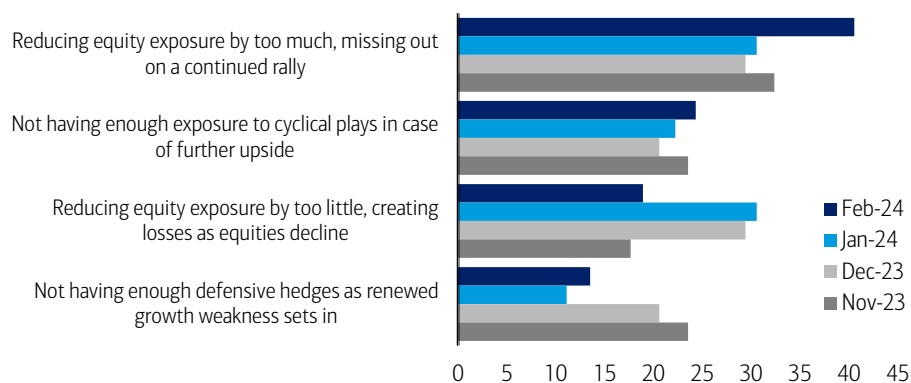


Source: BofA European Fund Manager Survey

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Exhibit 22: A plurality of 40% 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 from 31% last month

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



Source: BofA European Fund Manager Survey

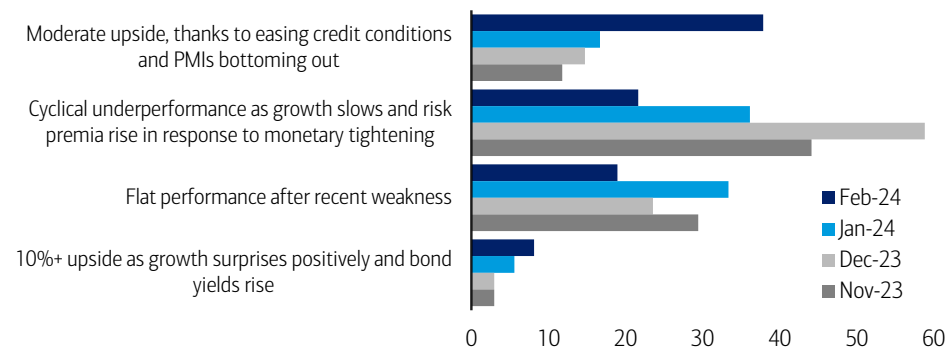
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European styles, sectors and countries

European styles

Exhibit 23: 46% of European investors expect further upside for European cyclicals relative to defensives thanks to easing credit conditions and rebounding PMIs (up sharply from 22% last month), while 22% look for cyclical underperformance ahead (down from 36%)

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

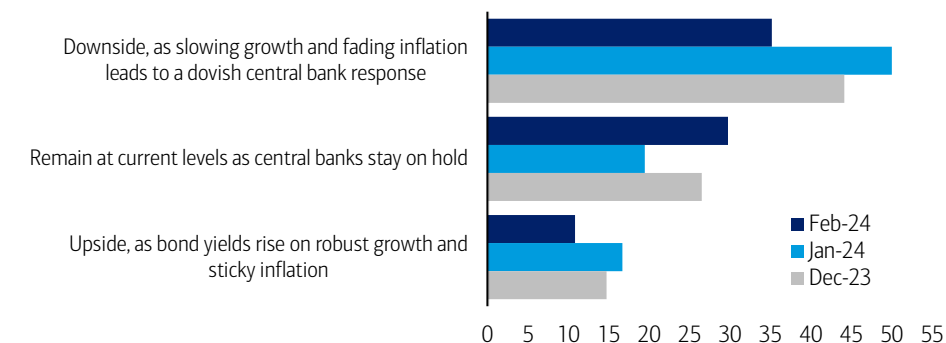


Source: BofA European Fund Manager Survey

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Exhibit 24: A plurality of 35% of European investors expect further downside for European value versus growth stocks on dovish central banks, down from 50% last month

What is your view on value versus growth outperformance?

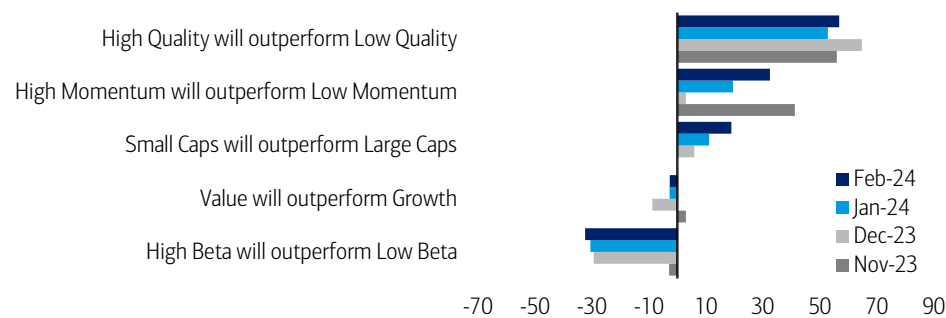


Source: BofA European Fund Manager Survey

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Exhibit 25: The share of European investors expecting high-quality to outperform low quality stocks over the coming year is at 57% (up from 53% last month), whereas the share projecting high beta to underperform low beta is at 32% (up from 31%)

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



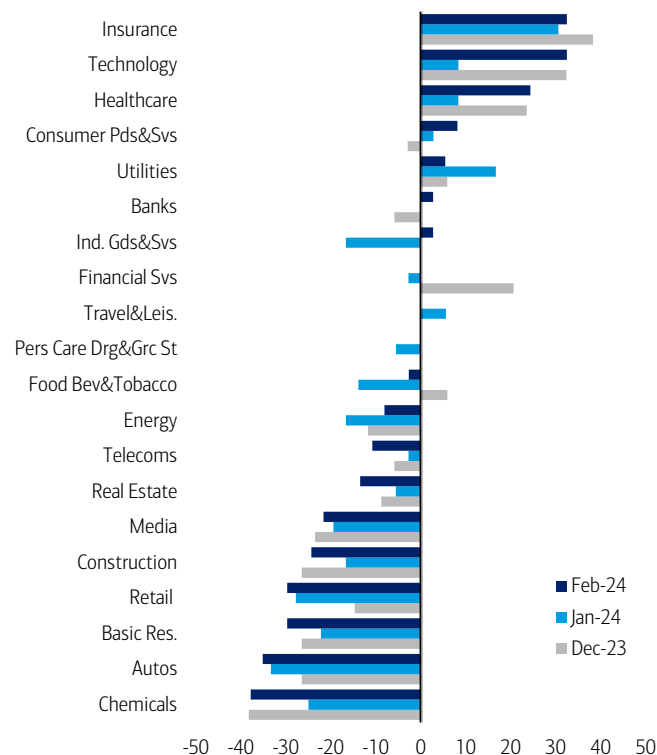
Source: BofA European Fund Manager Survey

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European sectors

Exhibit 26: European insurance, tech and healthcare are the largest sector overweights, while chemicals, autos and basic resources are the largest underweights

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

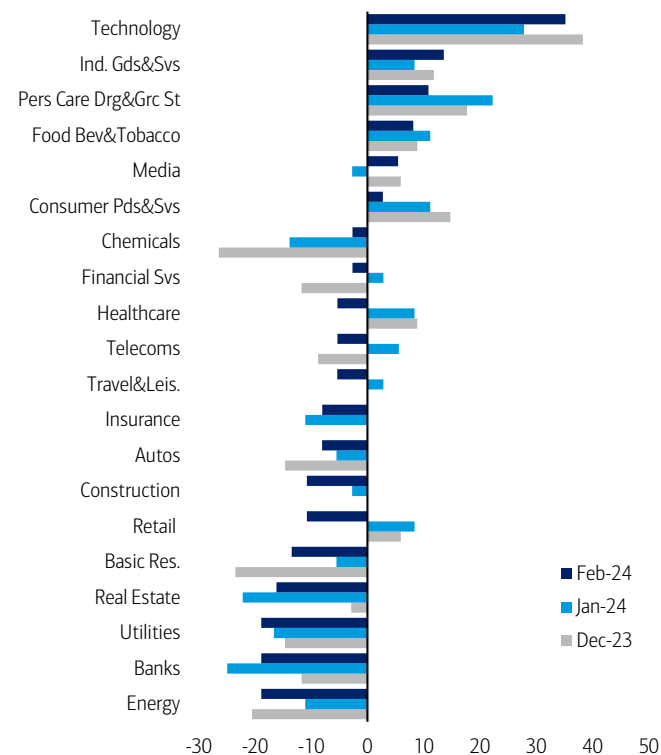


Source: BofA European Fund Manager Survey

BofA GLOBAL RESEARCH

Exhibit 27: European tech, industrials and personal care are seen as the most overvalued sectors, while energy, banks and utilities are seen as the most undervalued

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

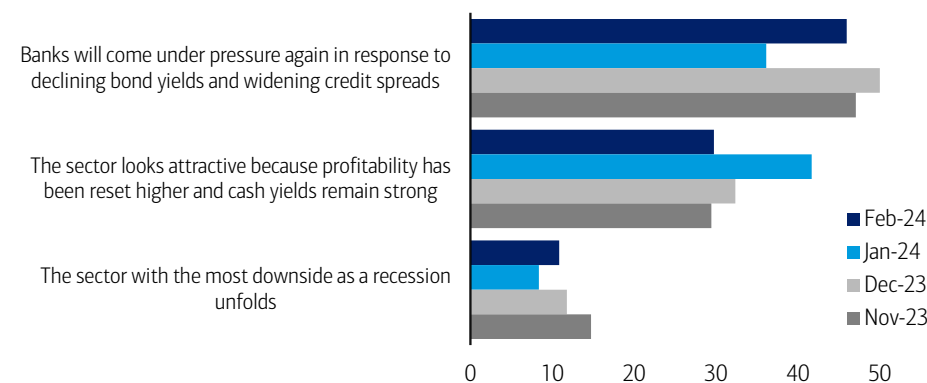


Source: BofA European Fund Manager Survey

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Exhibit 28: 46% of European investors expect banks to come under pressure in response to lower rates and widening credit spreads (up from 36% last month), while 30% see the sector as attractive, given that profitability has been reset higher and cash yields remain strong (down from 42%)

What is your view on European banks?

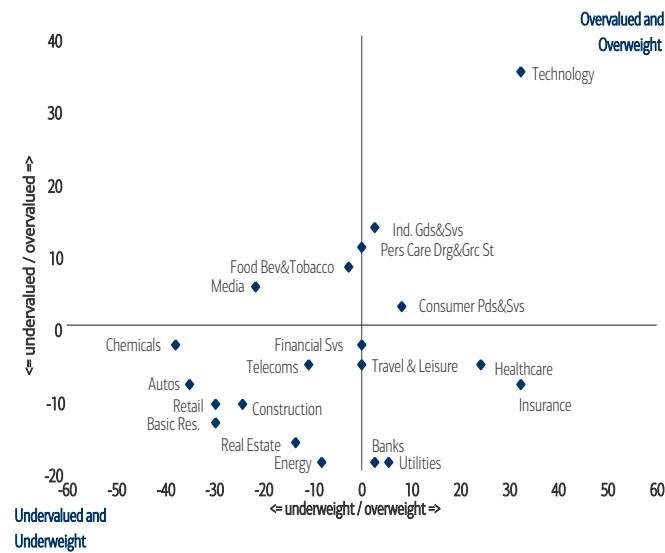


Source: BofA European Fund Manager Survey

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Exhibit 29: European insurance, utilities and healthcare 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 30: Positioning for tech, industrials and healthcare has improved the most from last month, while that of chemicals, utilities and telecoms has dropped the most

Month-on-month change in net positioning and valuation

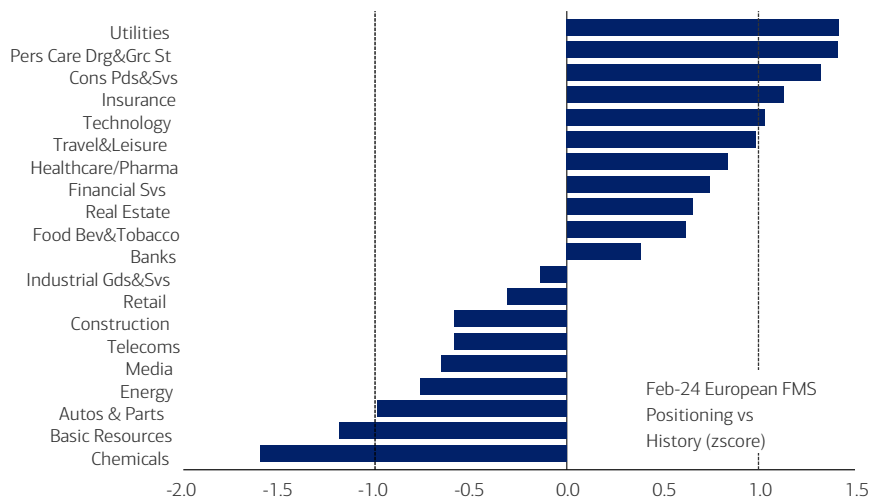
	Positioning	Valuation
Technology	24	7
Ind. Gds&Svs	19	5
Healthcare	16	-14
Food Bev&Tobacco	11	-3
Energy	9	-8
Pers Care Drg&Grc St	6	-11
Consumer Pds&Svs	5	-8
Financial Svs	3	-5
Banks	3	6
Insurance	2	3
Autos	-2	-3
Retail	-2	-19
Media	-2	8
Travel&Leis.	-6	-8
Basic Res.	-8	-8
Construction	-8	-8
Real Estate	-8	6
Telecoms	-8	-11
Utilities	-11	-2
Chemicals	-13	11

Source: BofA European Fund Manager Survey

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Exhibit 31: European utilities, personal care and consumer products & services are the most over-owned sectors relative to history, while chemicals, basic resources and autos are most under-owned

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

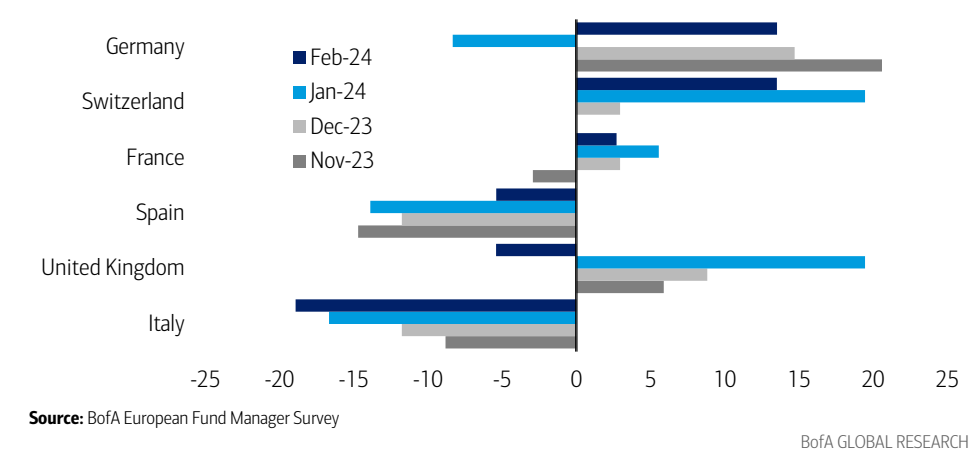


Source: BofA European Fund Manager Survey. Note: z-score based on full time series. Sector history since 2003, except: Consumer Gds & Svs (Personal&& HH Gds), Chemicals, Construction, Financial Svs, Travel & Leisure since 2006, Real estate since 2008, Personal care, drug & grocery stores since Oct 2020

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European countries

Exhibit 32: Country preferences among European investors remain volatile, with Germany the favourite equity market in Europe currently, followed by Switzerland, while Italy is the least preferred, followed by the UK
Which equity markets would you overweight or underweight over the coming twelve months?

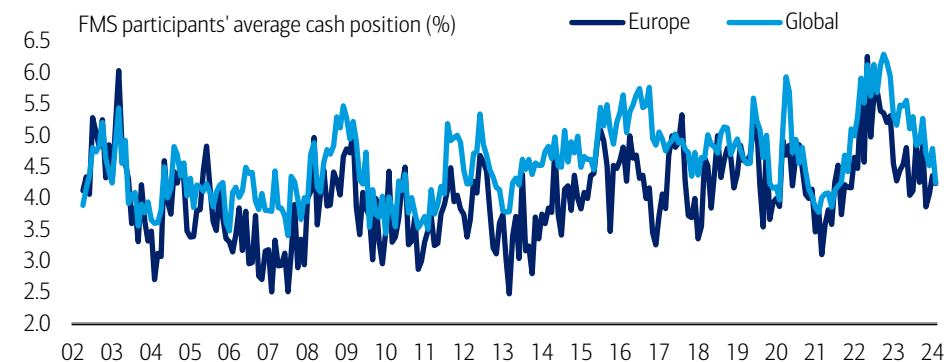


Appendix

Cash levels

Exhibit 33: The average cash position among European investors stands at 4.2% (down from 4.4% last month), while cash levels among global investors are at 4.2% (down from 4.8%)

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



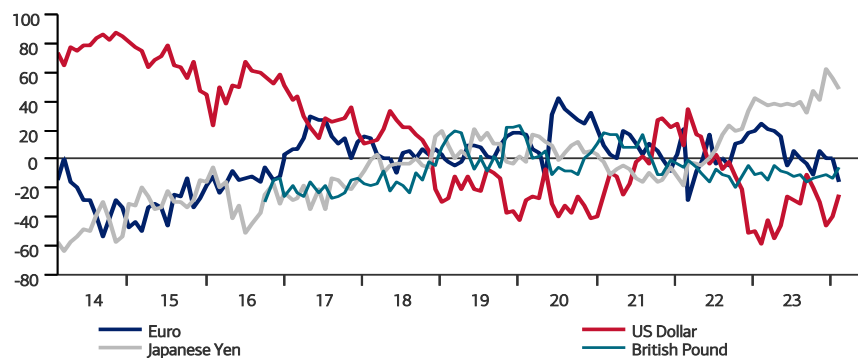
Source: BofA European & Global Fund Manager Survey

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USD sentiment

Exhibit 34: Bearish USD sentiment remains, with a net 24% of global investors expecting the USD to weaken over the coming year, though this is down from 39% last month

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



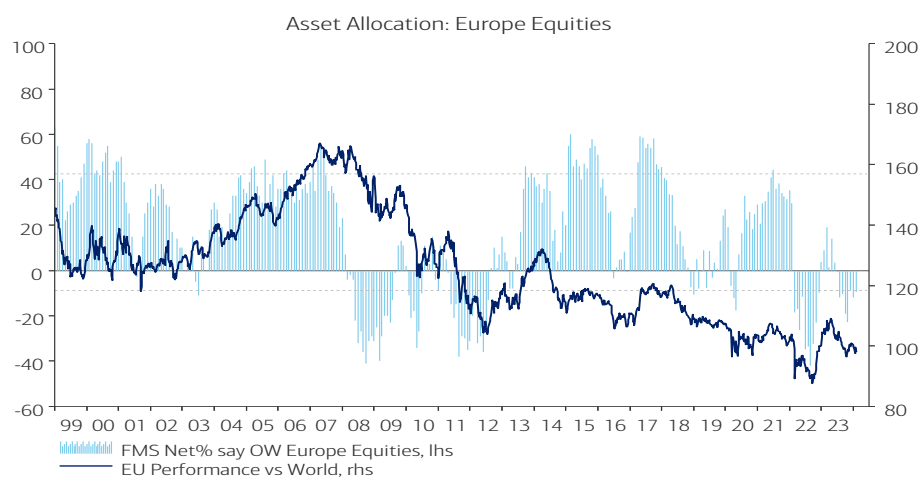
Source: BofA Global Fund Manager Survey

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Europe in the global context

Exhibit 35: A net 10% of global investors say they are underweight European equities, down slightly from 12% 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

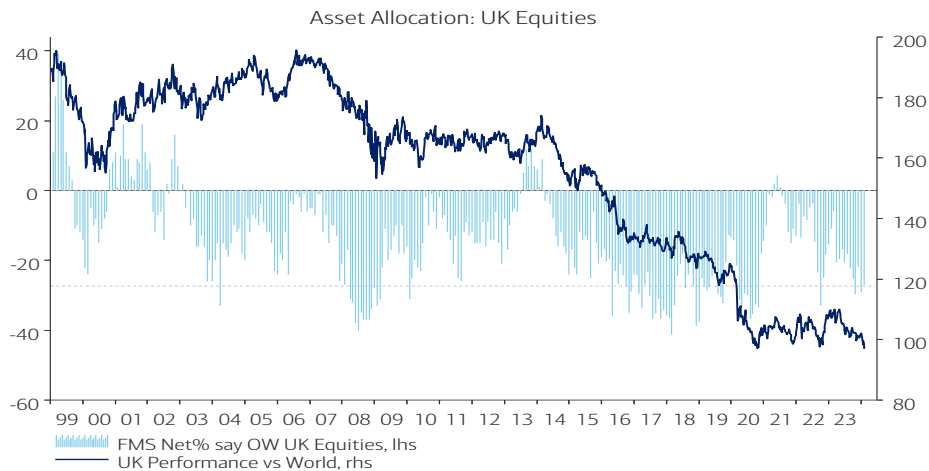


Source: BofA Global Fund Manager Survey

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Exhibit 36: A net 27% of global investors say they are underweight UK equities, down slightly from 29% 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



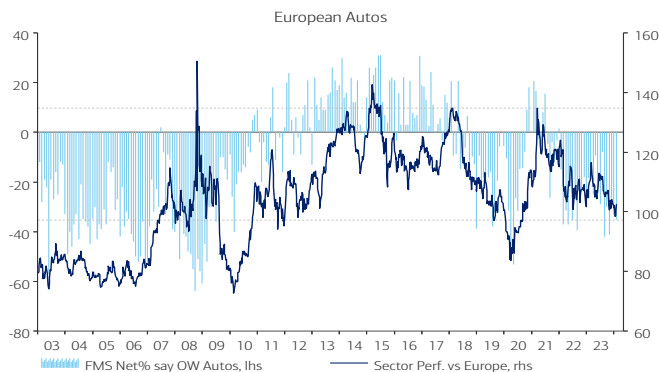
Source: BofA Global Fund Manager Survey

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European sector details

Exhibit 37: European autos & parts

Net 35% of European participants say they are underweight the sector

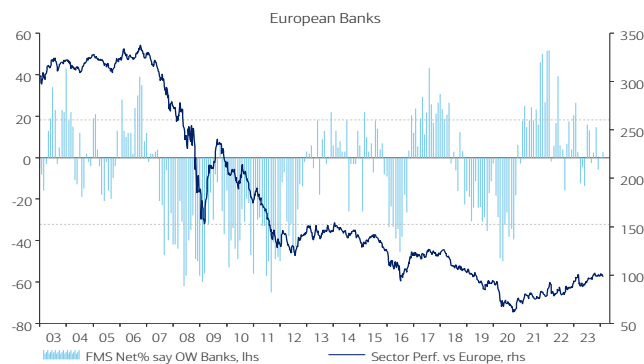


Source: BofA European Fund Manager Survey, Datastream

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Exhibit 38: European banks

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

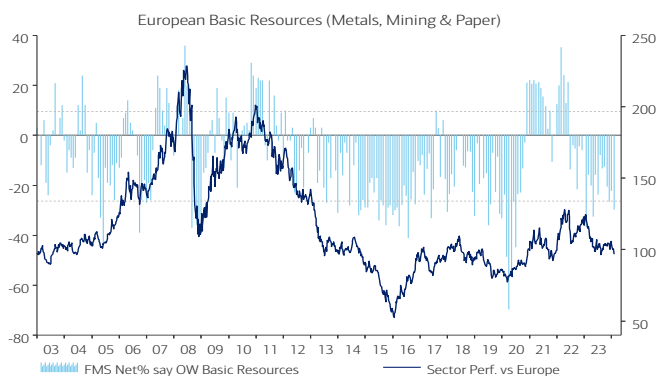


Source: BofA European Fund Manager Survey, Datastream

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Exhibit 39: European basic resources

Net 30% of European participants say they are underweight the sector

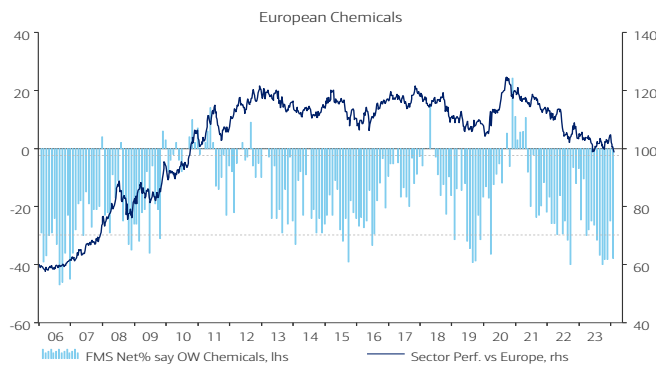


Source: BofA European Fund Manager Survey, Datastream

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Exhibit 40: European chemicals

Net 38% of European participants say they are underweight the sector

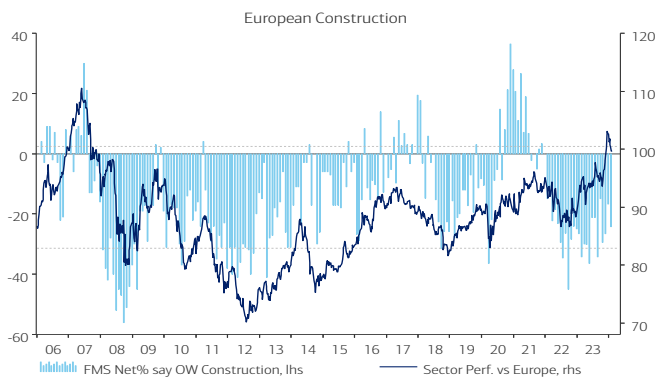


Source: BofA European Fund Manager Survey, Datastream

BofA GLOBAL RESEARCH

Exhibit 41: European construction

Net 24% of European participants say they are underweight the sector

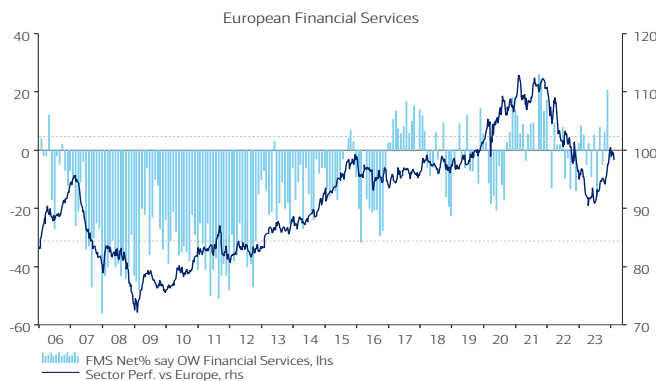


Source: BofA European Fund Manager Survey, Datastream

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Exhibit 42: European financial services

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

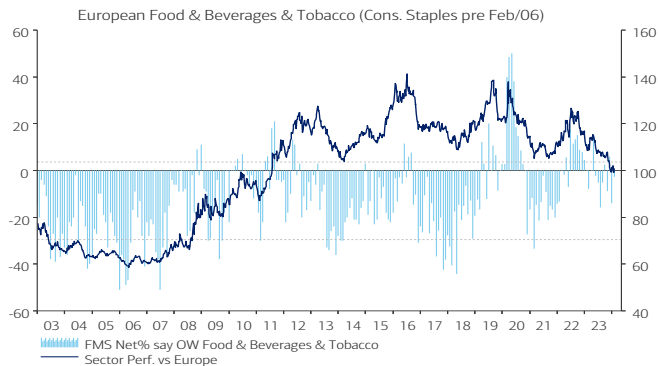


Source: BofA European Fund Manager Survey, Datastream

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Exhibit 43: European food & beverages & tobacco

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

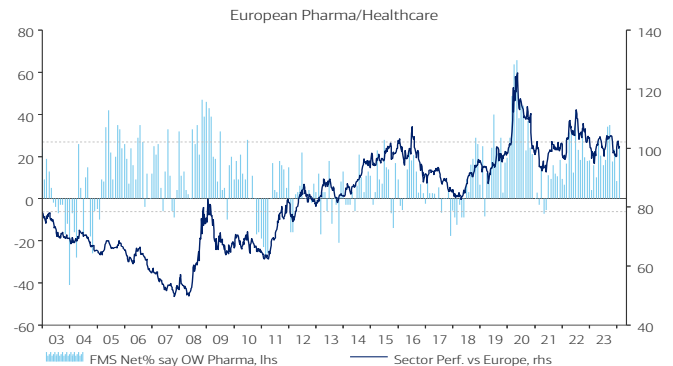


Source: BofA European Fund Manager Survey, Datastream

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Exhibit 44: European healthcare

Net 24% of European participants say they are overweight the sector

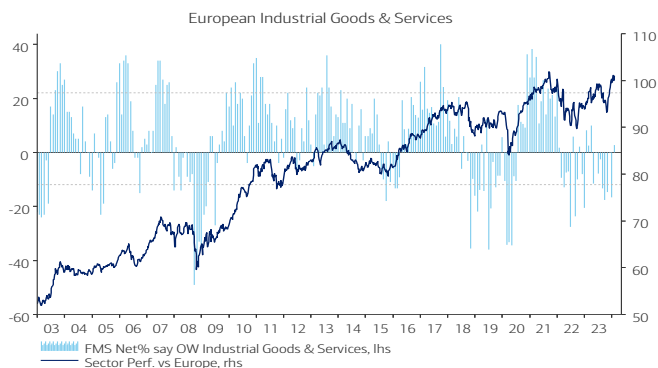


Source: BofA European Fund Manager Survey, Datastream

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Exhibit 45: European industrial goods & services

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

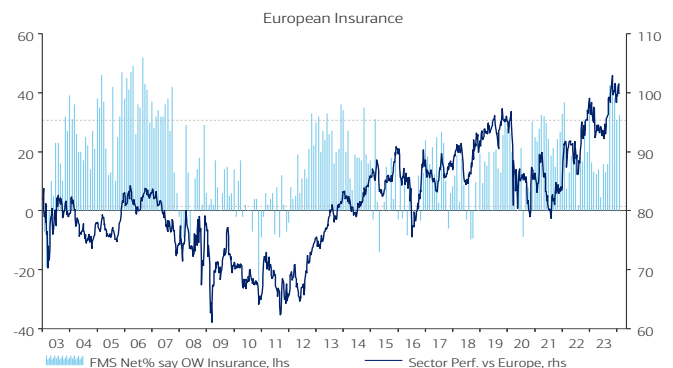


Source: BofA European Fund Manager Survey, Datastream

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Exhibit 46: European insurance

Net 32% of European participants say they are overweight the sector

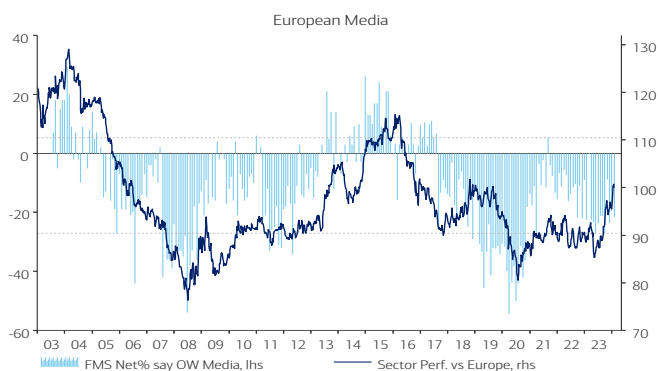


Source: BofA European Fund Manager Survey, Datastream

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Exhibit 47: European media

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

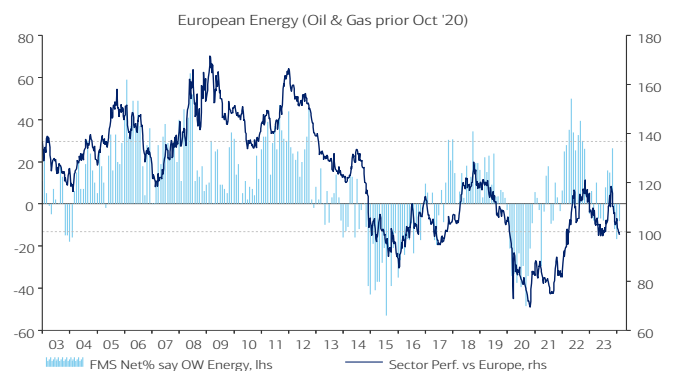


Source: BofA European Fund Manager Survey, Datastream

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Exhibit 48: European energy

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

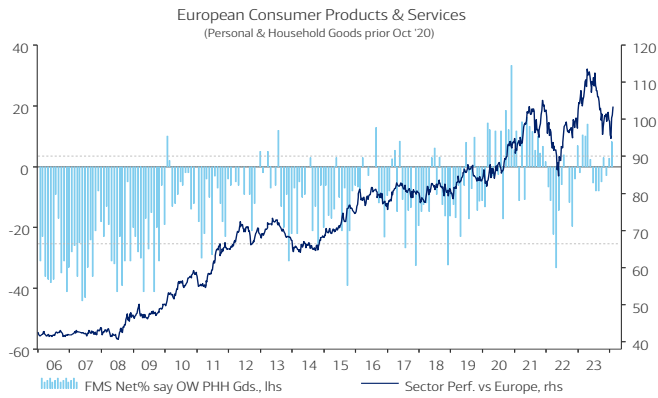


Source: BofA European Fund Manager Survey, Datastream

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Exhibit 49: European consumer products & services

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

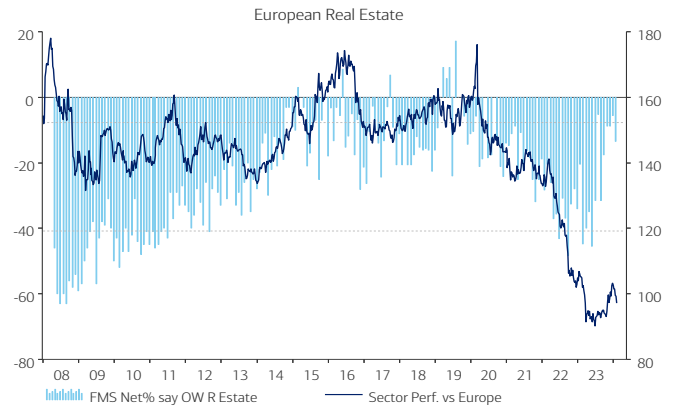


Source: BofA European Fund Manager Survey, Datastream

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Exhibit 50: European real estate

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

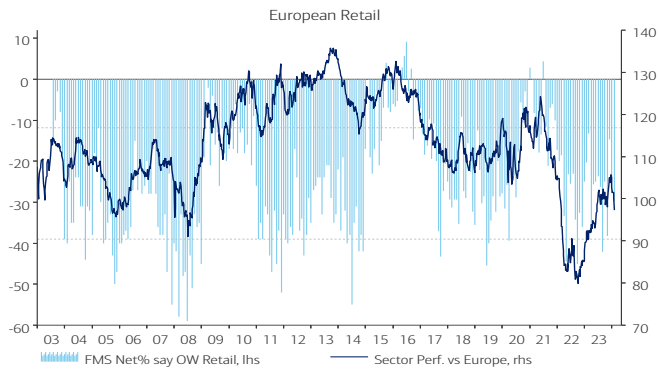


Source: BofA European Fund Manager Survey, Datastream

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Exhibit 51: European retail

Net 30% of European participants say they are overweight the sector

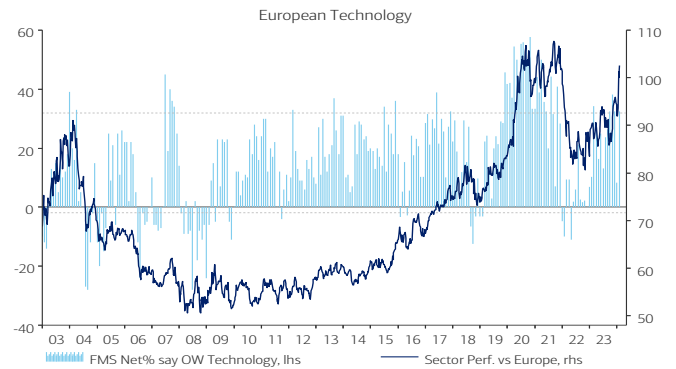


Source: BofA European Fund Manager Survey, Datastream

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Exhibit 52: European technology

Net 32% of European participants say they are overweight the sector

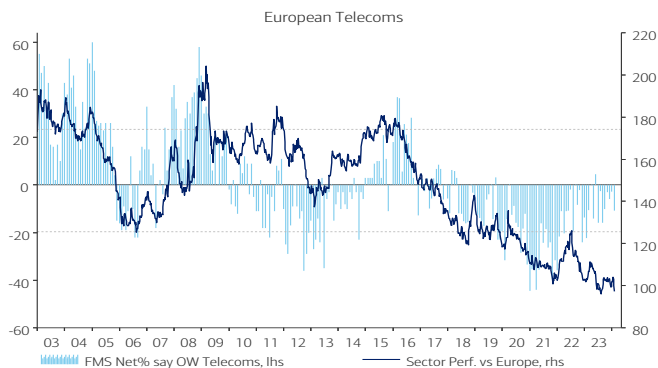


Source: BofA European Fund Manager Survey, Datastream

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Exhibit 53: European telecoms

Net 11% of European participants say they are overweight the sector

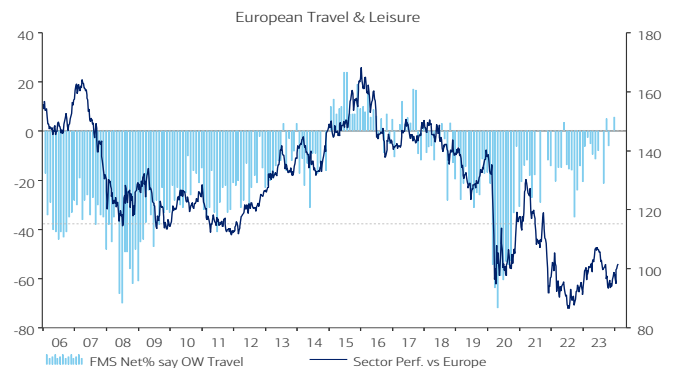


Source: BofA European Fund Manager Survey, Datastream

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Exhibit 54: European travel & leisure

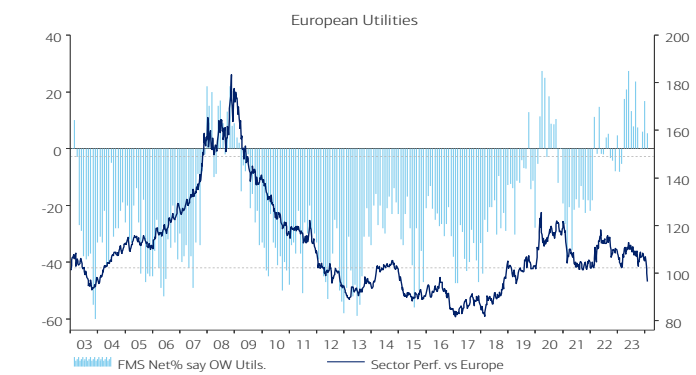
Net 0% of European participants say they are overweight the sector



Source: BofA European Fund Manager Survey, Datastream

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Exhibit 55: European utilities
Net 5% 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 56: Position / institution / approach of participants in the regional survey

Demographics details for regional Fund Manager Survey participants

	Feb-24	Jan-24	Dec-23
Structure of the panel - by position			
Chief Investment Officer	14	14	11
Asset Allocator / Strategist / Economist	33	28	31
Portfolio Manager	87	89	88
Other	11	15	10
Structure of the panel - by expertise			
Regional specialists + EM specialists only	40	35	35
Regional specialists with a global view	105	111	105
Total # of respondents to regional questions	145	146	140
Which of the following best describes the type of money you are running?			
Institutional funds (e.g. pension funds / insurance companies)	50	44	42
Hedge funds / proprietary trading desks	23	25	27
Mutual funds / unit trusts / investment trusts	63	64	58
None of the above	9	13	13
What do you estimate to be the total current value of assets under your direct control?			
Up to \$250mn	29	30	28
Around \$500mn	22	17	20
Around \$1bn	23	28	25
Around \$2.5bn	25	29	25
Around \$5bn	8	10	9
Around \$7.5bn	5	3	4
Around \$10bn or more	15	13	13
No funds under my direct control	18	16	16
Total (USD bn)	319	319	310
What best describes your investment time horizon at this moment?			
3 months or less	37	36	33
6 months	38	50	41
9 months	15	13	15
12 months or more	52	43	49
Weighted average	7.7	7.3	7.7
Don't know	3	4	2
Which region do you specialise in?			
US / North America	35	40	34
Europe / Continental Europe / Eurozone / UK	37	36	34
Asia Pacific / Asia Pacific ex Japan / Japan	48	49	47
South Africa	16	14	15
MENA (Middle East and North Africa)	6	4	6
None of the above	3	3	4

Source: BofA European Fund Manager Survey

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