

# FX and Rates Sentiment Survey

## Hung jury

### Key takeaways

- US duration overweights retreated back to early '23 levels despite majority of respondents expecting more Fed cuts vs market
- The moderate reversal of consensus trades has spilt year ahead views on rates and FX outlook
- Fed is still viewed as more likely to deliver a hawkish surprise than others but views have converged over the past month

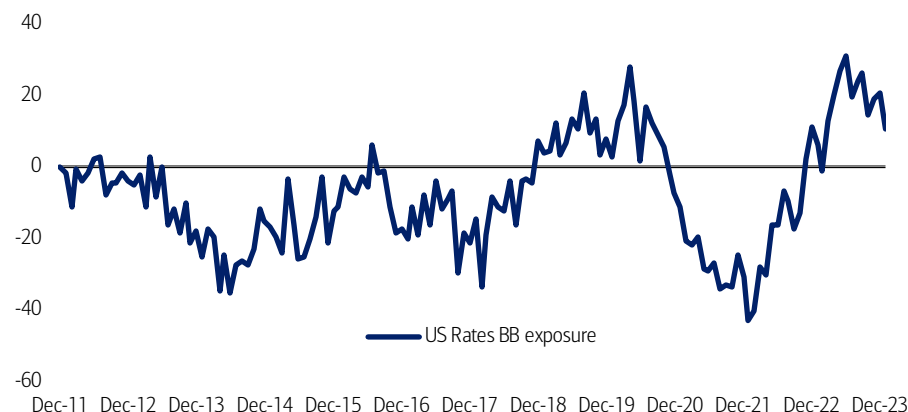
### Retreat in US duration longs

US duration overweights retreated back to levels not seen since early '23 (Exhibit 1). While 63% of survey respondents think that the Fed will cut to a terminal rate below where the market is currently priced (Exhibit 15), our survey reflects some skepticism on the drivers behind the dovish Fed pivot.

About half of respondents believe that the biggest motivation for the Fed's dovish communication was an improving inflation outlook (Exhibit 5). However, a larger share of respondents vs last month see upside risks to inflation in the US (Exhibit 13). This discrepancy is likely one factor that underpins survey respondents' more limited conviction on the US rates outlook.

#### Exhibit 1: Duration exposure: USD

Duration longs somewhat pared back, catching up with sentiment



Source: BofA Global Research FX and Rates Sentiment Survey

BB is the Bull-Bear Index for exposure and view. It weights responses to create an index ranging from -100 to +100, zero representing neutral. See appendix for formulas.

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12 January 2024

Rates and FX  
Global

BofA

Data  
Analytics



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Our survey was conducted on 5 – 10 January 2024. A total of 73 Fund Managers responded, with USD948bn AUM. Responses came from the UK, Continental Europe, Asia & the US.

### Invitation to join

If you are a benchmarked investor and would like to participate in this survey, please click the [sign-up link](#), contact the authors, or your BofA sales representative.

Participants in the survey will receive the full set of monthly results, but only for the relevant month in which they participate.

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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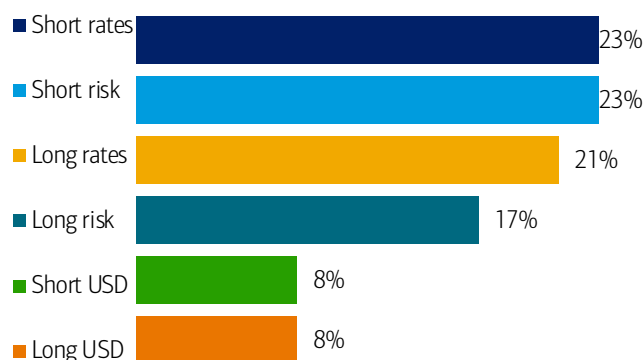
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## 2024 conviction split down the middle

The moderate reversal of consensus trades (short USD, long rates, long risk) at the start of 2024 has spilt year ahead views, especially on the rates outlook, while considerably diluting conviction on USD FX (Exhibit 2). Bullish duration sentiment has fallen back from the highs (Exhibit 28) while USD views and positioning are close to neutral (Exhibit 33). It doesn't help that the risks to the soft-landing consensus (hard vs. no landing) appear evenly balanced to investors (Exhibit 3). Data should help resolve the uncertainty but market risks look a lot more symmetric than in early December.

### Exhibit 2: My highest conviction view to start '24:

2024 convictions split down the middle



Source: BofA Global Research FX and Rates Sentiment Survey

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### Exhibit 3: US soft landing into '24 was consensus, what is greatest risk to this view:

Risks to US soft landing consensus evenly split



Source: BofA Global Research FX and Rates Sentiment Survey

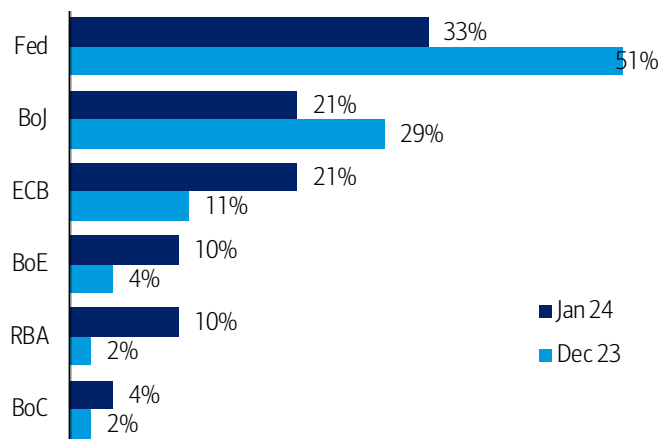
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## Hawkish concerns remain

Central banks repeated (no policy changes) but did not rhyme in December. The dovish Fed and BoJ contrasted with others (ECB and BoE) pushing back against rate cut pricing. This was at odds with last month's opinions of where hawkish risks were present. Despite meaningful convergence, the Fed is still viewed as more likely to deliver a hawkish surprise than others (Exhibit 4). The uncertainty around "immaculate disinflation" in the US is likely also behind this residual concern (Exhibit 5). Expectations around inflation at the end of 2024 shifted to the right in both the US and EZ.

### Exhibit 4: Which central bank is most likely to deliver a more hawkish outcome by YE 2024 than current market pricing:

Fed still seen as most likely to disappoint forwards but its lead narrowed

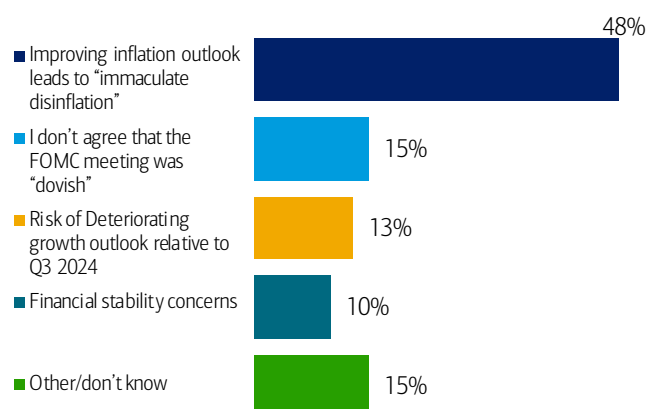


Source: BofA Global Research FX and Rates Sentiment Survey

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### Exhibit 5: What was the biggest motivation for the Fed's recent "dovish" communication?

Improving inflation outlook behind the Fed's dovish pivot in December



Source: BofA Global Research FX and Rates Sentiment Survey

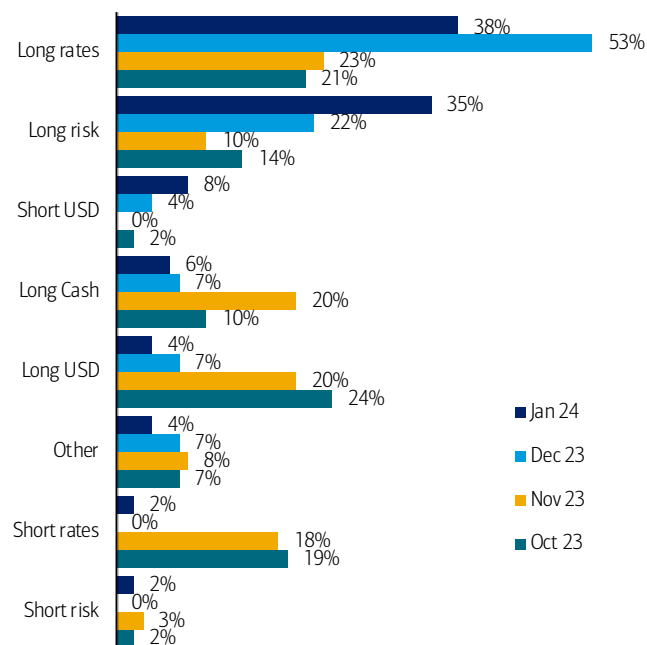
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# FX and Rates Sentiment Survey January 2024

Long rates is still seen as the most crowded trade, but it lost ground to mainly long risk and, to some extent, short USD.

## Exhibit 6: Most crowded trade:

Long rates still most crowded trade but lost ground to long risk



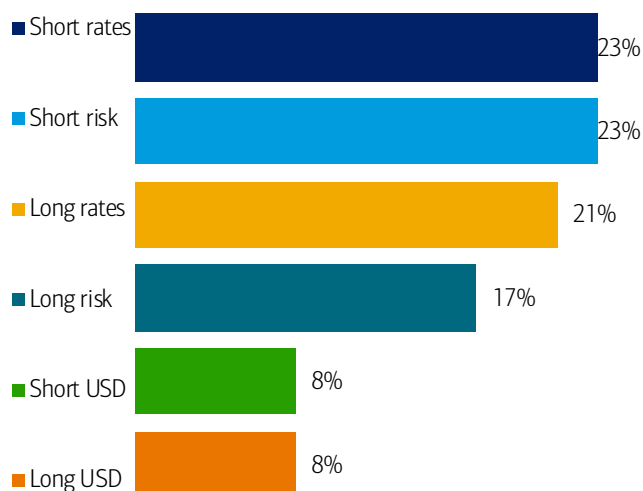
Source: BofA Global Research FX and Rates Sentiment Survey

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No consensus in highest conviction views for 2024, with respondents split between short and long rates; between short and long risk; and between short and long USD.

## Exhibit 7: My highest conviction view to start '24:

2024 convictions split down the middle



Source: BofA Global Research FX and Rates Sentiment Survey

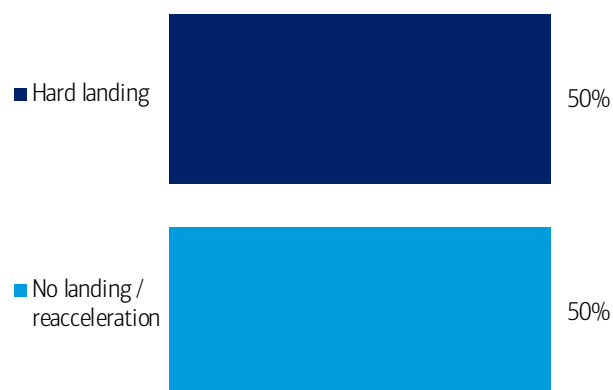
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Respondents evenly split on risks to US soft landing consensus.

**Exhibit 8: US soft landing into '24 was consensus, what is greatest risk to this view:**

Risks to US soft landing consensus evenly split



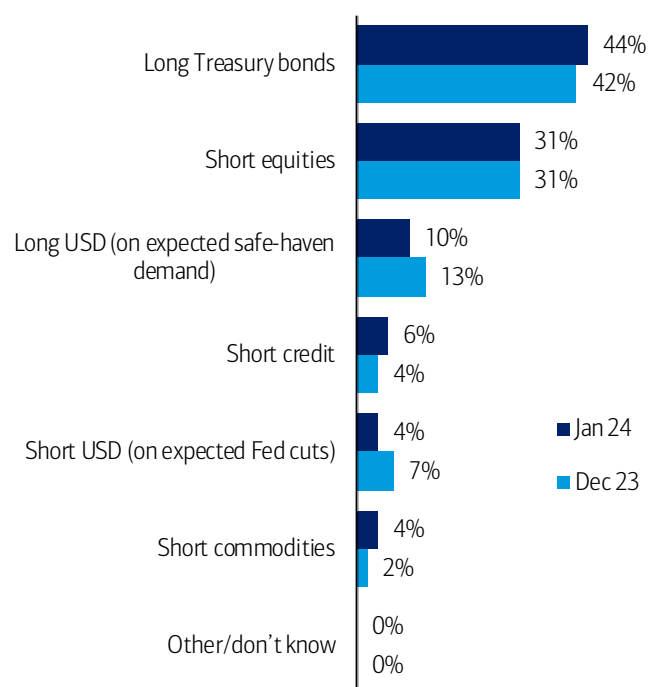
Source: BofA Global Research FX and Rates Sentiment Survey

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Long USTs still considered the best “hard landing” hedge, slightly extending their lead over short equities.

**Exhibit 9: What would you expect to initially perform the best if “hard landing” becomes a consensus scenario?**

Long USTs continue to beat short equities as the best hard landing trade



Source: BofA Global Research FX and Rates Sentiment Survey

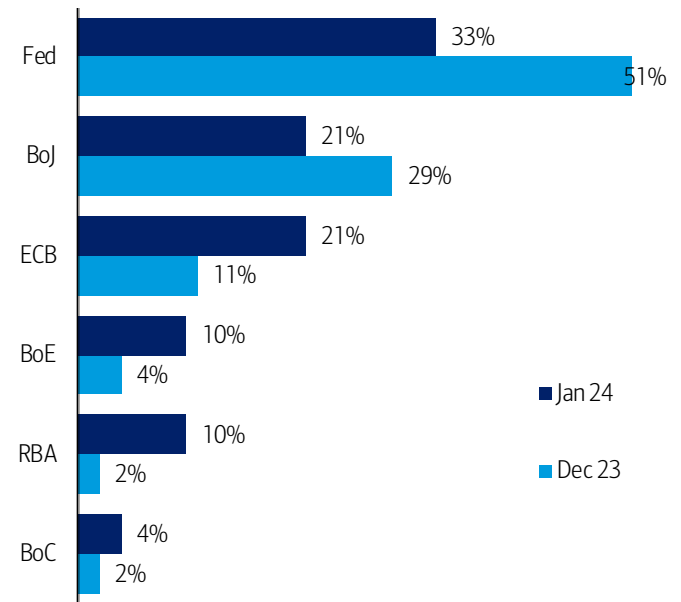
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The Fed is still viewed as the most likely to surprise hawkishly but its lead narrowed following the dovish December FOMC. Investors see hawkish risks as having increased most for the ECB, relative to current market pricing...

... At the same time, the ECB is viewed as the central bank most likely to surprise dovishly by end of 2024. This suggests larger divergences of views for the ECB and/or increased uncertainty around the EA outlook and the ECB's reaction function.

#### Exhibit 10: Which central bank is most likely to deliver a more hawkish outcome by YE 2024 than current market pricing:

Fed still seen as most likely to disappoint forwards but its lead narrowed

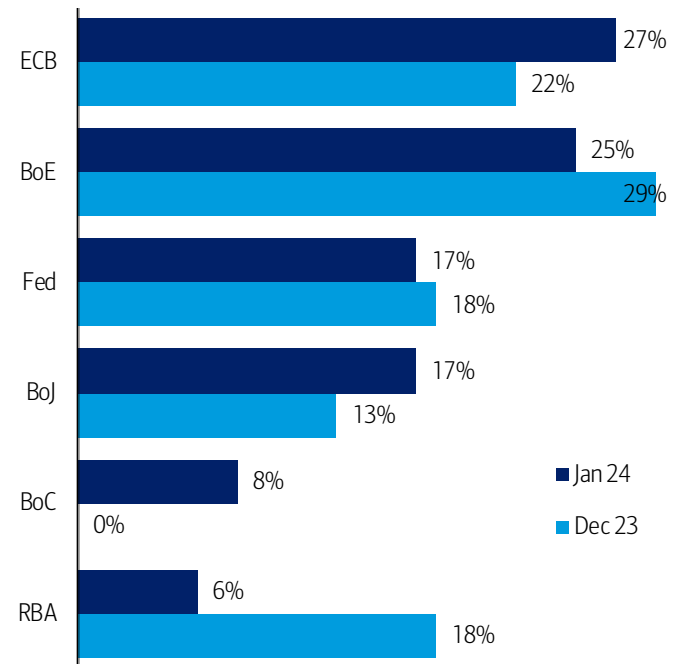


Source: BofA Global Research FX and Rates Sentiment Survey

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#### Exhibit 11: Which central bank is most likely to deliver a more dovish outcome by YE 2024 than current market pricing:

ECB seen as most likely to surprise dovishly after the hawkish Dec meeting



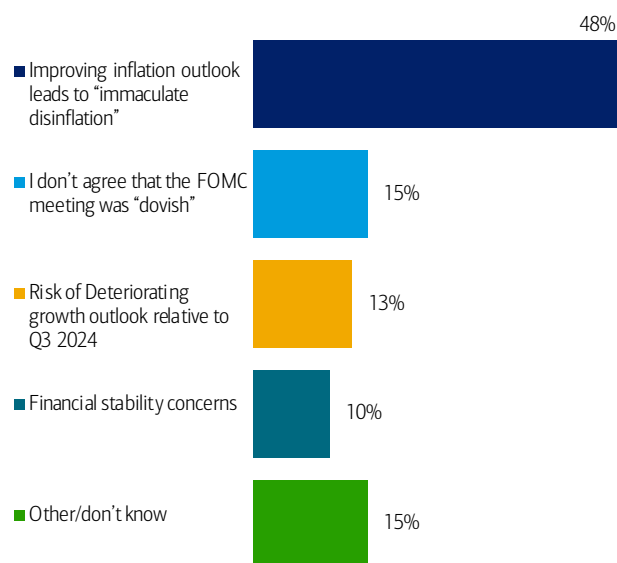
Source: BofA Global Research FX and Rates Sentiment Survey

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The Fed's dovish pivot is down to an improving inflation outlook, according to most respondents.

### Exhibit 12: What was the biggest motivation for the Fed's recent "dovish" communication?

Improving inflation outlook behind the Fed's dovish pivot in December



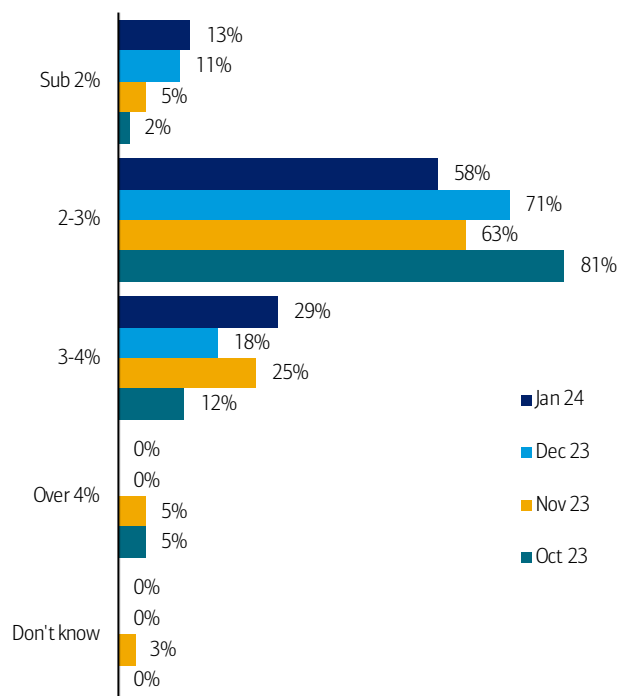
Source: BofA Global Research FX and Rates Sentiment Survey

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Most respondents still expect 2-3% inflation at end-24, but upside risks have slightly risen...

### Exhibit 13: I expect US inflation at the end of 2024 to be

2-3% still the modal expectation for US inflation but upside risks rose



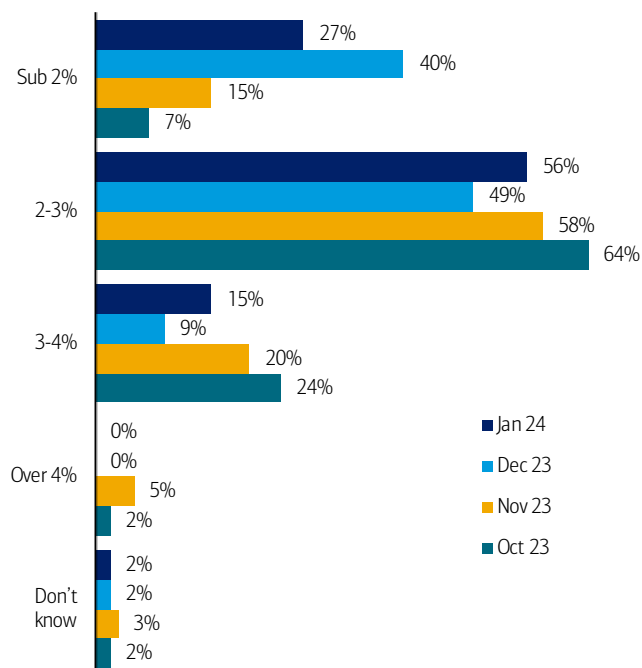
Source: BofA Global Research FX and Rates Sentiment Survey

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...while in the Euro area the distribution remains left-tailed but less than before.

#### Exhibit 14: I expect Eurozone inflation at the end of 2024 to be:

...while in Europe downside risks fell



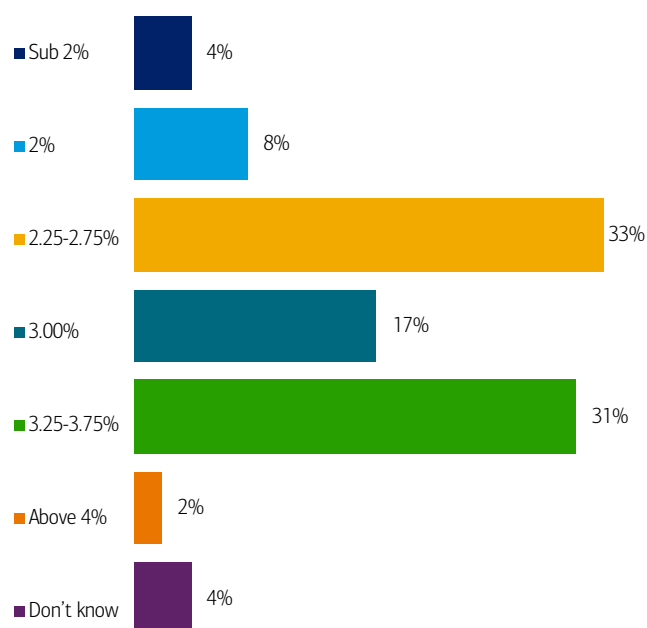
Source: BofA Global Research FX and Rates Sentiment Survey

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Almost half expect a higher terminal than that in the long-run dot and 63% expect a trough below what the market is currently pricing.

#### Exhibit 15: I expect the Fed to cut rates to a terminal rate:

Almost half expect a higher US terminal rate than that in the long-run dot



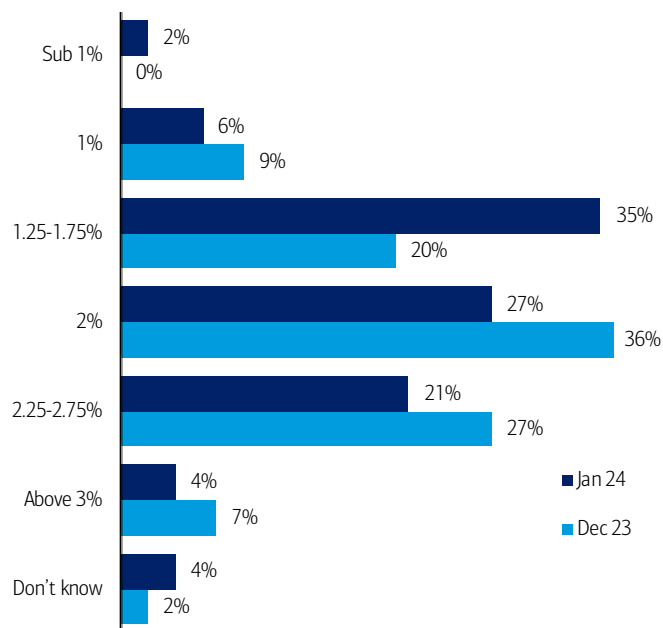
Source: BofA Global Research FX and Rates Sentiment Survey

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ECB terminal rate expectations moved lower despite the hawkish ECB.

#### Exhibit 16: I expect the ECB to cut rates to a terminal rate:

ECB terminal rate expectations moved lower



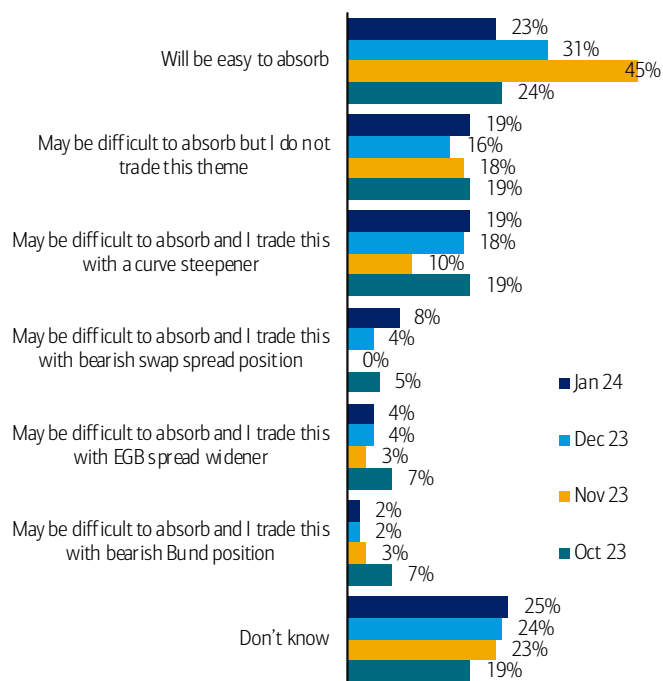
Source: BofA Global Research FX and Rates Sentiment Survey

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Investors are even less sanguine about supply and continue to see steepeners as the way to trade it.

#### Exhibit 17: I believe EGB supply in the rest of the year:

Supply concerns rose further



Source: BofA Global Research FX and Rates Sentiment Survey

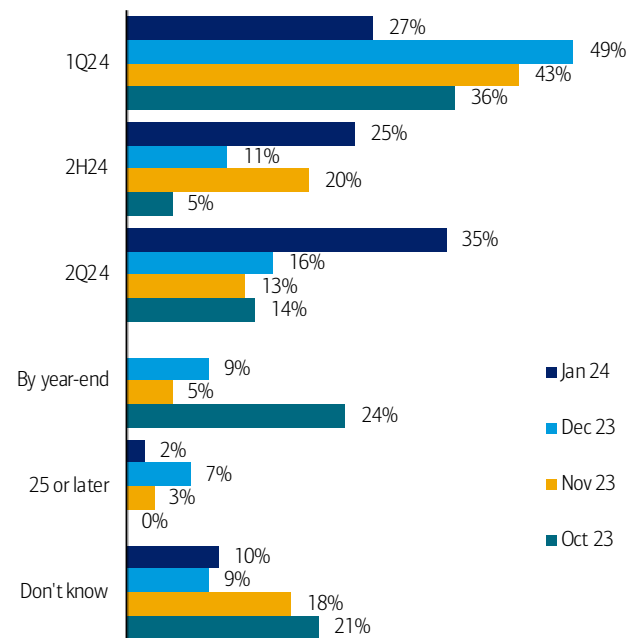
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Most respondents expect the BoJ to remove NIRP in 2Q or later.

### Exhibit 18: When do you think BoJ will remove NIRP?

Most now expect the NIRP removal in 2Q or later



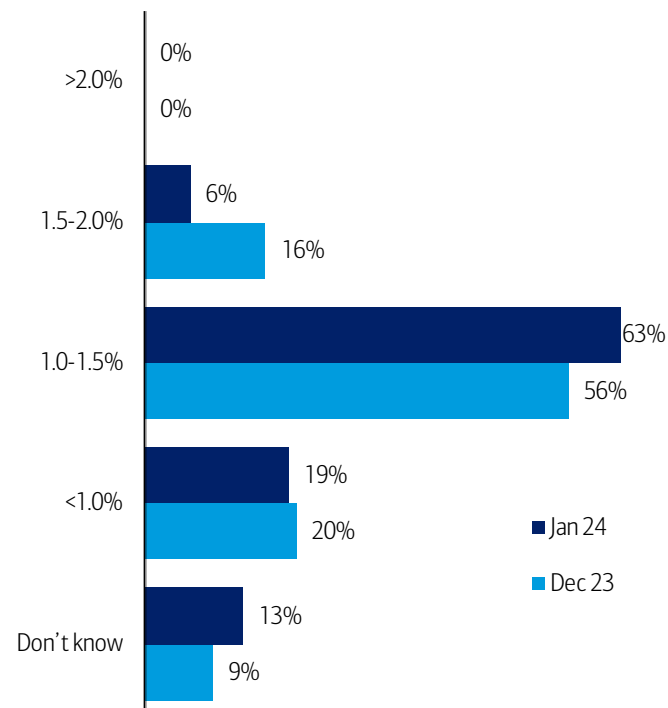
Source: BofA Global Research FX and Rates Sentiment Survey

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Most respondents expect 10y JGBs to trade above 1% after NIRP and YCC removal, however we see downside risk near term (see our report, JGB yields to rise but more gradually).

### Exhibit 19: Where do you see 10y JGBs trade after NIRP and YCC removal:

1.0-1.5% considered most likely



Source: BofA Global Research FX and Rates Sentiment Survey

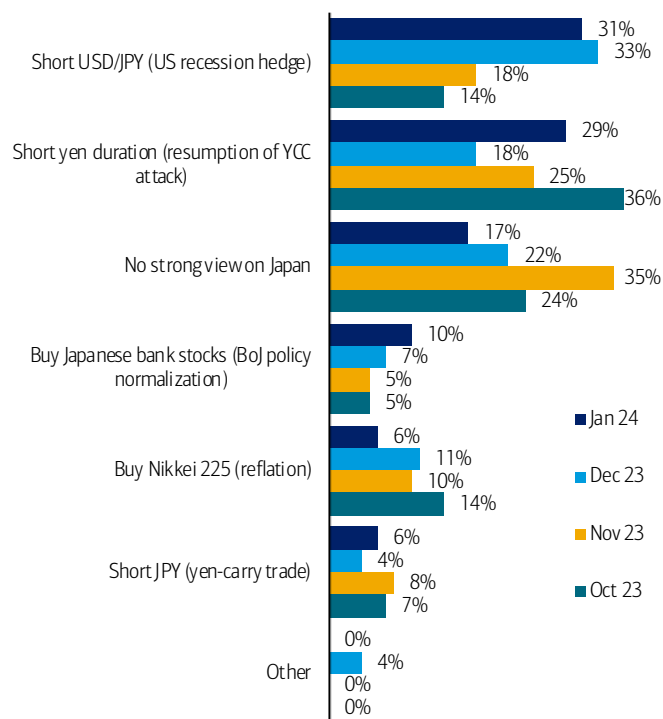
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Respondents almost evenly split between short USD/JPY and short JGBs.

## Exhibit 20: What is the best Japan trade for 2024?

Respondents split between short USD/JPY and short JGBs



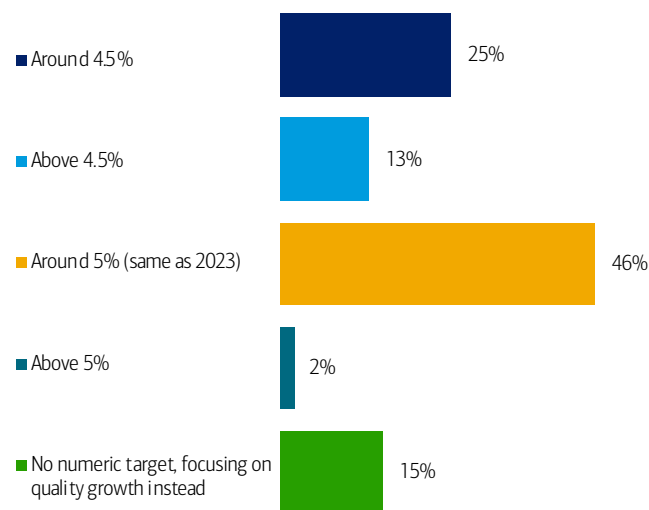
Source: BofA Global Research FX and Rates Sentiment Survey

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For choice respondents remain mildly constructive on China growth...

## Exhibit 21: What do you think is China's GDP growth target for 2024?

Most agree with our above consensus 4.8% growth forecast



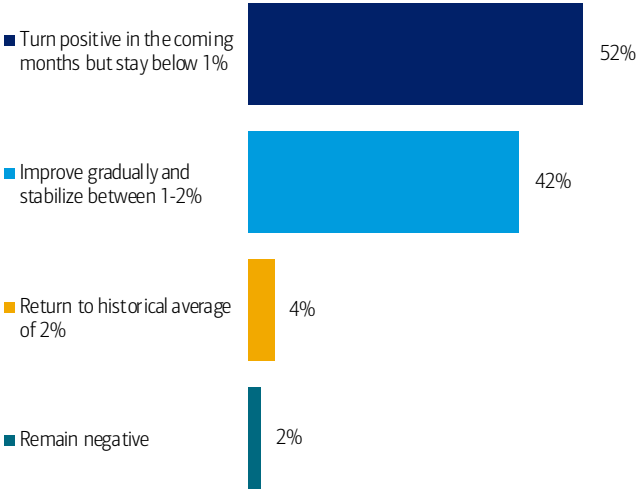
Source: BofA Global Research FX and Rates Sentiment Survey

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...and expect China inflation to turn positive, but are almost evenly split on whether it will recover to above 1% in 2024.

**Exhibit 22: What’s your expectation of China’s CPI inflation by the end of 2024?**

Respondents expect China CPI inflation to improve



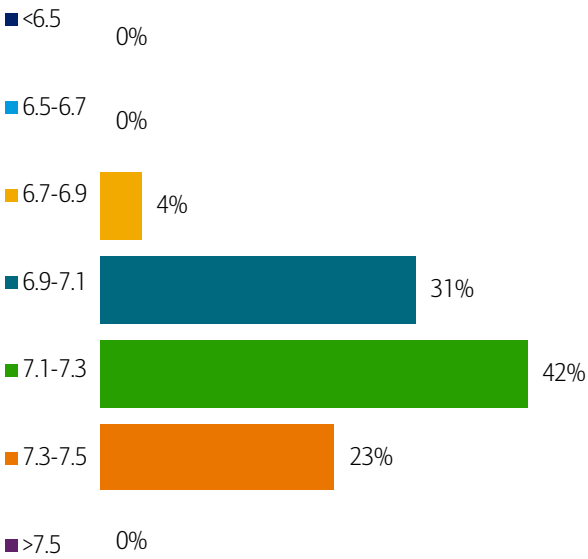
Source: BofA Global Research FX and Rates Sentiment Survey

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USD/CNY distribution almost symmetric around 7.1-7.3.

**Exhibit 23: What is your expectation for the average USDCNY exchange rate in 2024:**

7.1-7.3 is the range most expect



Source: BofA Global Research FX and Rates Sentiment Survey

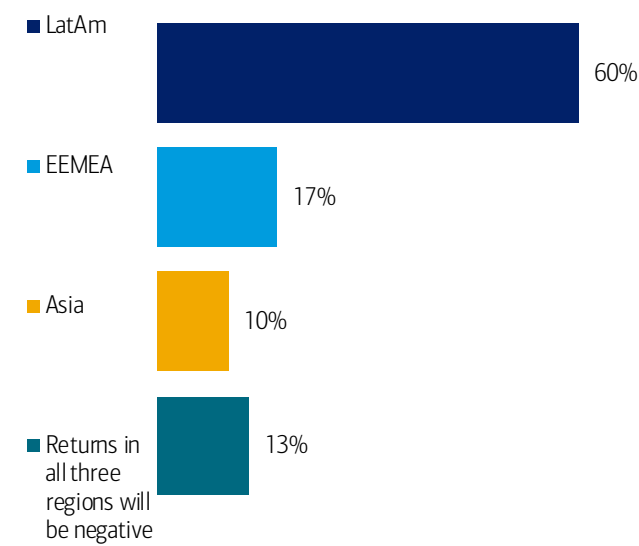
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Resondents strongly favour LatAm for FX-unhedged positions in local bonds.

**Exhibit 24: Which EM region is likely to have the highest total return for FX-unhedged positions in local bonds in 2024?**

Strong consensus for LatAm



Source: BofA Global Research FX and Rates Sentiment Survey

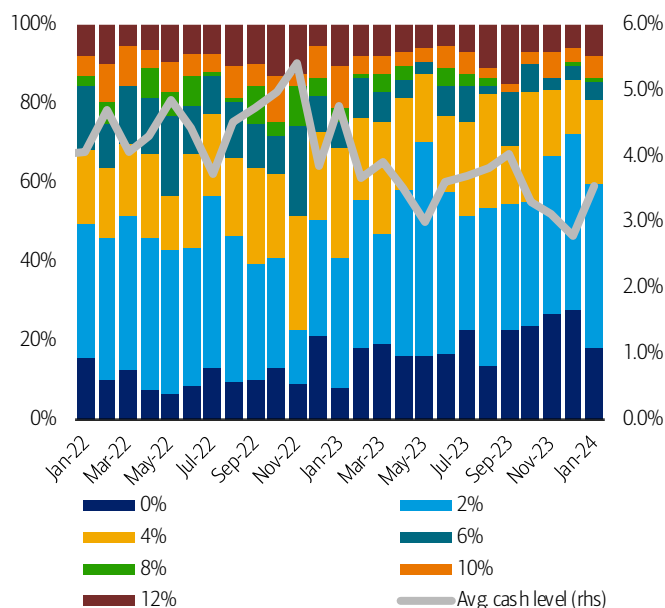
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# Global Risk Appetite

## Exhibit 25: Which of the following comes closest to your current cash position in your portfolio?

Average cash levels at 3.6%

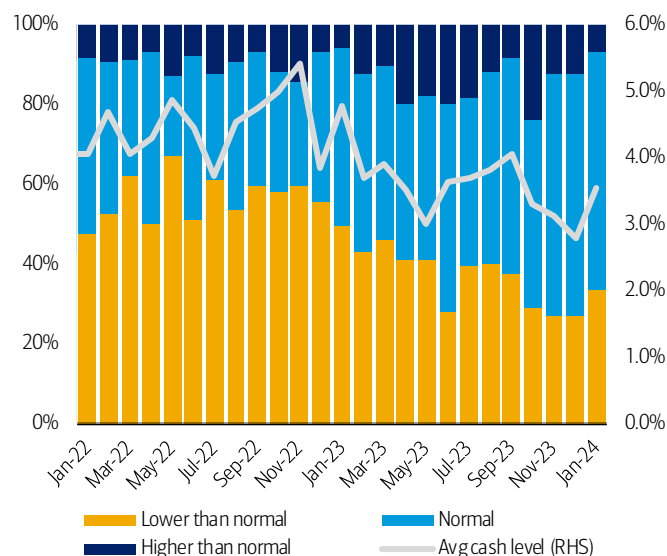


Source: BofA Global Research FX and Rates Sentiment Survey

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## Exhibit 26: What level of risk do you feel you're currently taking in your investment strategy / portfolio, relative to your benchmark?

Appetite for risk taking in portfolios remains skewed lower than normal

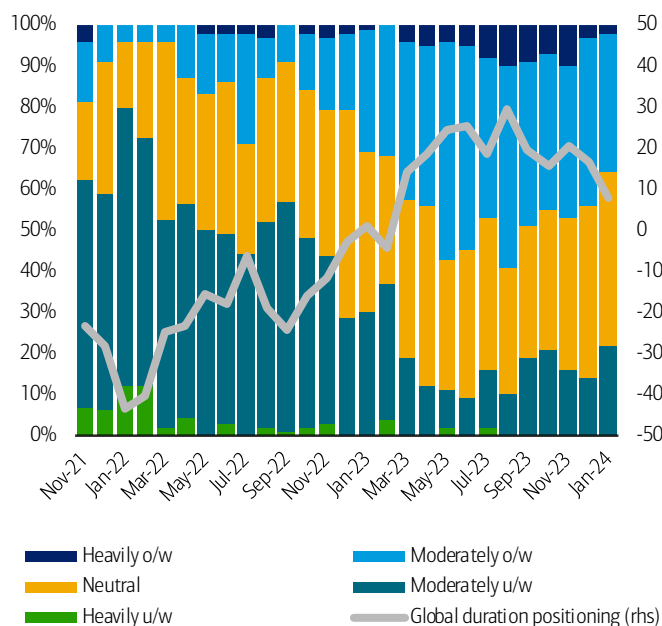


Source: BofA Global Research FX and Rates Sentiment Survey

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## Exhibit 27: Duration exposure: Global

Global duration exposure declined further...



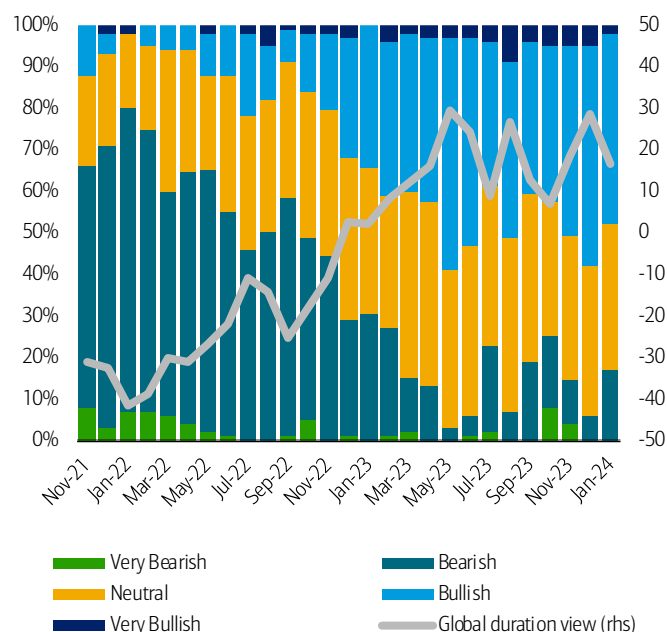
Source: BofA Global Research FX and Rates Sentiment Survey

BB is the Bull-Bear Index for exposure and view. It weights responses to create an index ranging from -100 to +100, zero representing neutral. See appendix for formulas.

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## Exhibit 28: Duration view: Global

...with duration views easing from record highs



Source: BofA Global Research FX and Rates Sentiment Survey

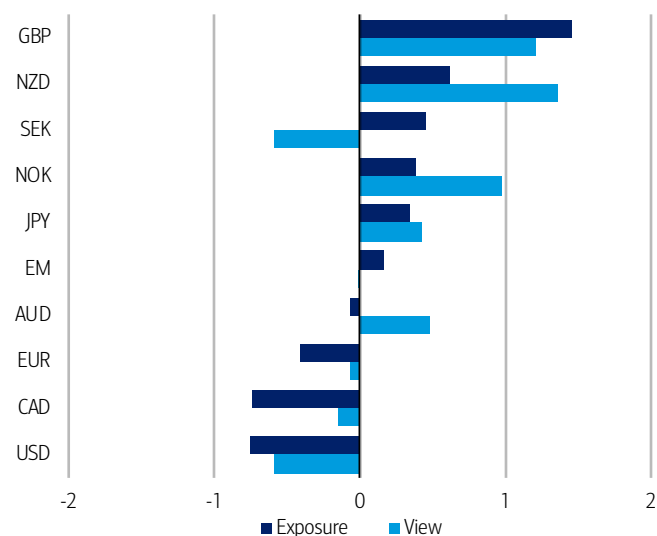
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# Positioning and View Summary

## Exhibit 29: 1-year FX Exposure and View (z-score)

GBP longs and USD shorts stand out

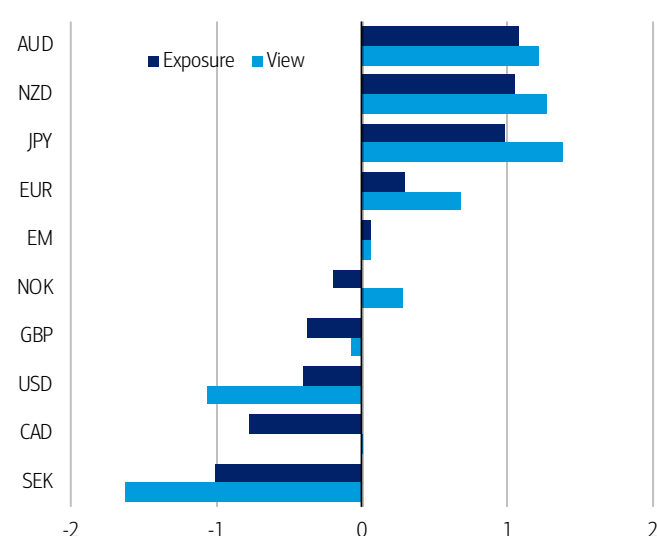


**Source:** BofA Global Research FX and Rates Sentiment Survey; Note: Data for FX Exposure starts in January 2004 for USD, EUR, GBP, JPY, CAD and EM, while for AUD, NZD, NOK and SEK the start date is January 2016; Data for FX View starts in December 2011 for USD, EUR, GBP, JPY, CAD and EM, while for AUD, NZD, NOK and SEK the start date is January 2016

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## Exhibit 30: Full period FX Exposure & View (z-score)

Over longer time-frame, AUD longs and SEK shorts stand out

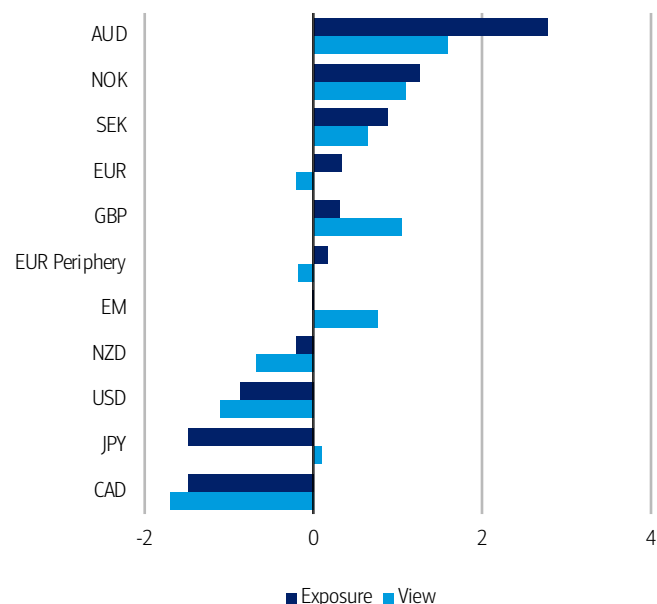


**Source:** BofA Global Research FX and Rates Sentiment Survey; Note: Data for FX Exposure starts in January 2004 for USD, EUR, GBP, JPY, CAD and EM, while for AUD, NZD, NOK and SEK the start date is January 2016; Data for FX View starts in December 2011 for USD, EUR, GBP, JPY, CAD and EM, while for AUD, NZD, NOK and SEK the start date is January 2016

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## Exhibit 31: 1-year Rates Exposure & View (z-score)

AUD and NOK rates top the ranking with USD closer to the bottom

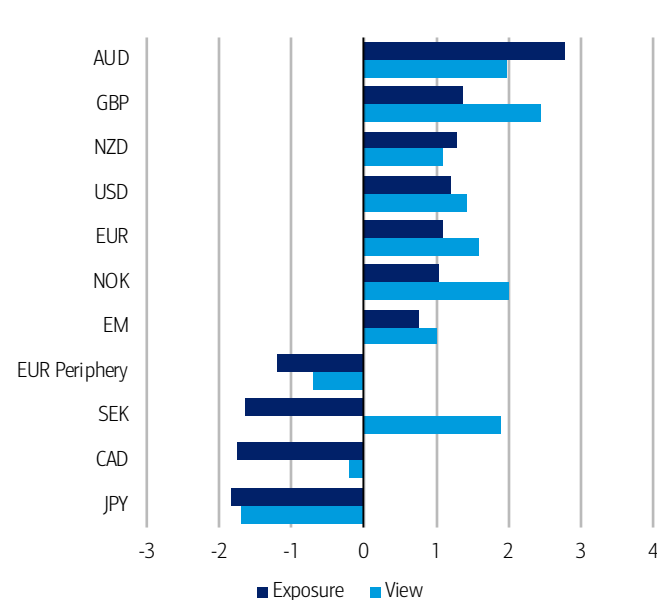


**Source:** BofA Global Research FX and Rates Sentiment Survey; Note: Data for Rates Exposure starts in January 2004 for USD, EUR, GBP, JPY, CAD and EM, while for AUD, NZD, NOK and SEK the start date is January 2016 and EUR periphery starts in April 2013. Data for Rates View starts in December 2011 for USD, EUR, GBP, JPY, CAD and EM, while for AUD, NZD, NOK and SEK the start date is January 2016 and EUR periphery starts in April 2013.

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## Exhibit 32: Full period Rates Exposure & View (z-score)

...but longer term USD duration views remain relatively pronounced



**Source:** BofA Global Research FX and Rates Sentiment Survey; Note: Data for Rates Exposure starts in January 2004 for USD, EUR, GBP, JPY, CAD and EM, while for AUD, NZD, NOK and SEK the start date is January 2016 and EUR periphery starts in April 2013. Data for Rates View starts in December 2011 for USD, EUR, GBP, JPY, CAD and EM, while for AUD, NZD, NOK and SEK the start date is January 2016 and EUR periphery starts in April 2013.

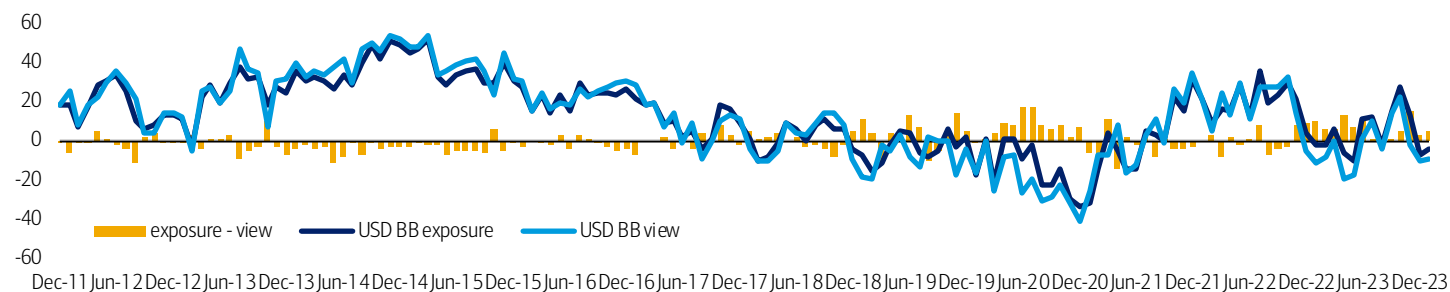
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# United States

USD selling stopped, with investors now neutral (Exhibit 33). Duration longs somewhat pared back, catching up with sentiment as investors are likely somewhat skeptical that the Fed can meet the cut expectations now priced (Exhibit 34).

## Exhibit 33: FX exposure and view: USD

USD selling stopped, with investors now neutral



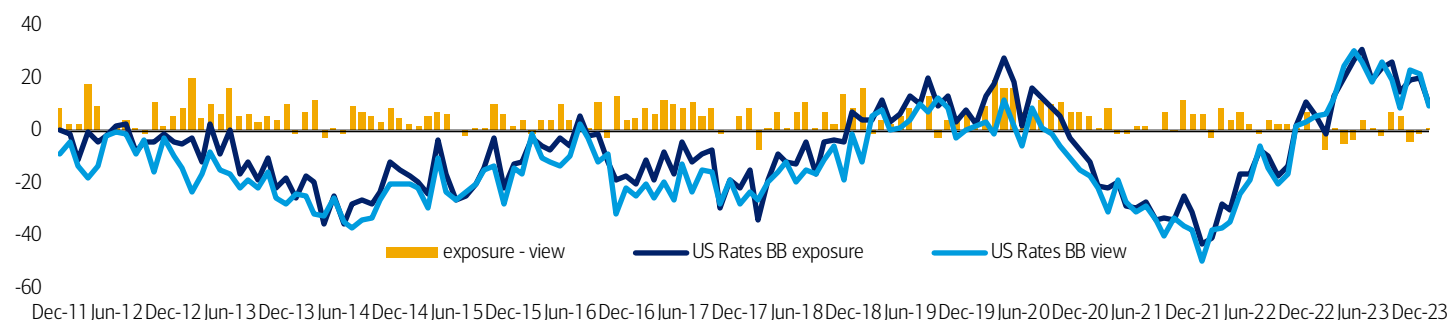
Source: BofA Global Research FX and Rates Sentiment Survey

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## Exhibit 34: Duration exposure and view: USD

Duration longs somewhat pared back, catching up with sentiment



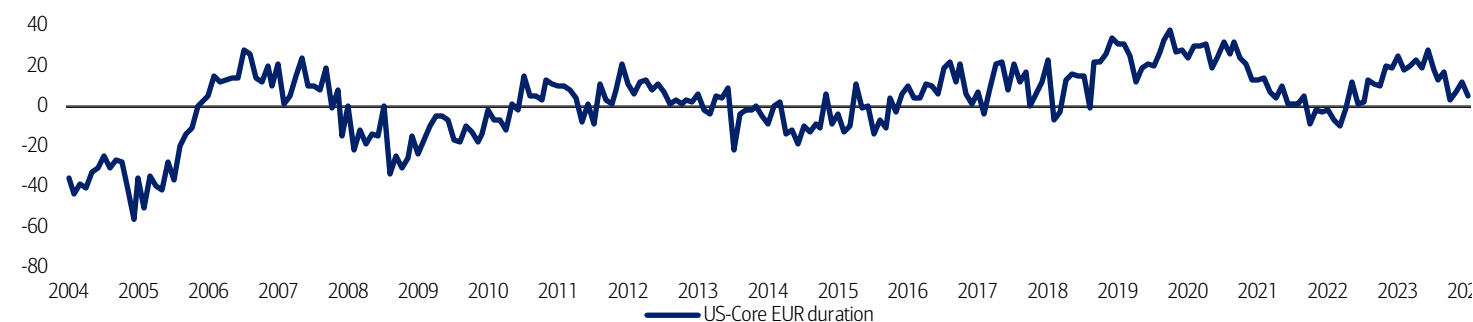
Source: BofA Global Research FX and Rates Sentiment Survey

BB is the Bull-Bear Index for exposure and view. It weights responses to create an index ranging from -100 to +100, zero representing neutral. See appendix for formulas.

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## Exhibit 35: US-Core Europe Duration Exposure

US vs Core EUR Bull-Bear rates exposure spread



Source: BofA Global Research FX and Rates Sentiment Survey

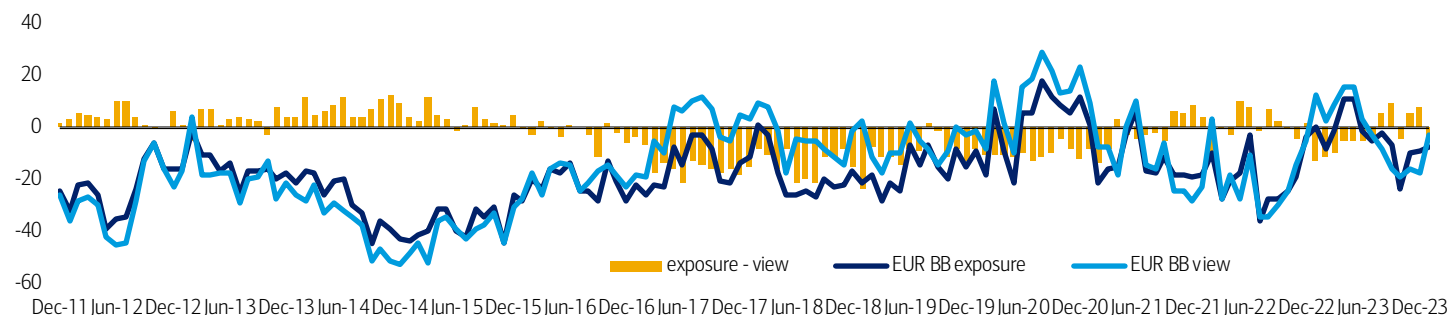
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## Eurozone

EUR FX positions little changed on the month despite improved sentiment, although only to a neutral level (Exhibit 36). Duration overweights were cut back further in line with sentiment (Exhibit 37), which turned negative in the periphery (Exhibit 38).

### Exhibit 36: FX exposure and view: EUR

EUR FX positions little changed on the month despite improved sentiment, although only to a neutral level



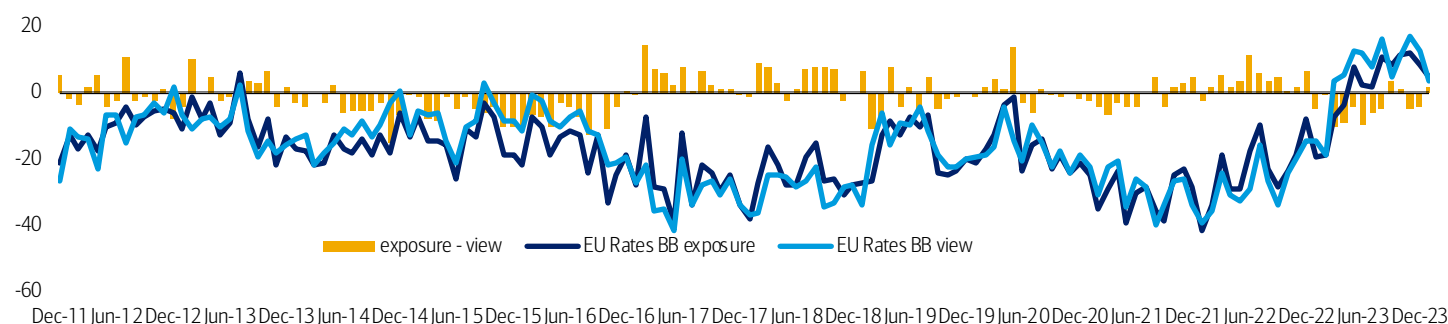
Source: BofA Global Research FX and Rates Sentiment Survey

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### Exhibit 37: Duration exposure and view: Core Europe

Duration overweights were cut back further in line with sentiment..



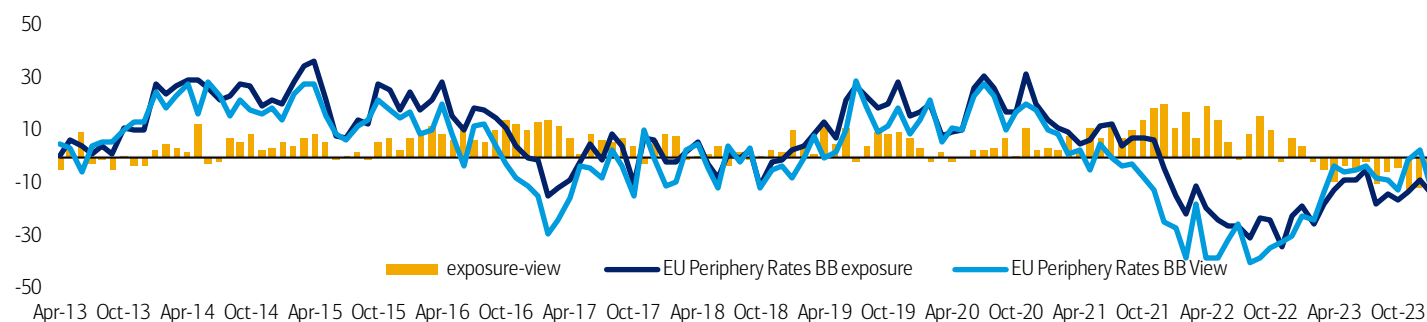
Source: BofA Global Research FX and Rates Sentiment Survey

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### Exhibit 38: Duration exposure and view: Peripheral Europe

...which turned negative in the periphery



Source: BofA Global Research FX and Rates Sentiment Survey

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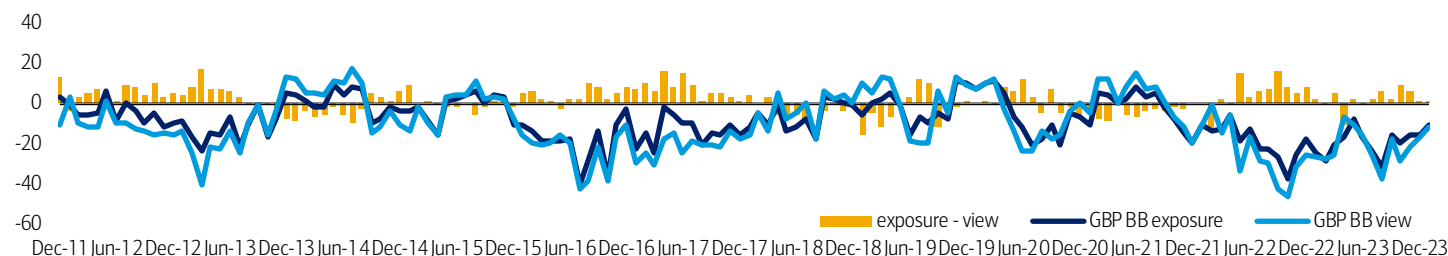


# United Kingdom

GBP FX positions slightly improved in line with the recovering but still bearish sentiment (Exhibit 39). Signs of profit taking in GBP duration continue as does the sense that the BoE could surprise on the dovish side (Exhibit 40).

## Exhibit 39: FX exposure and view: GBP

GBP FX positions slightly improved in line with the recovering but still bearish sentiment



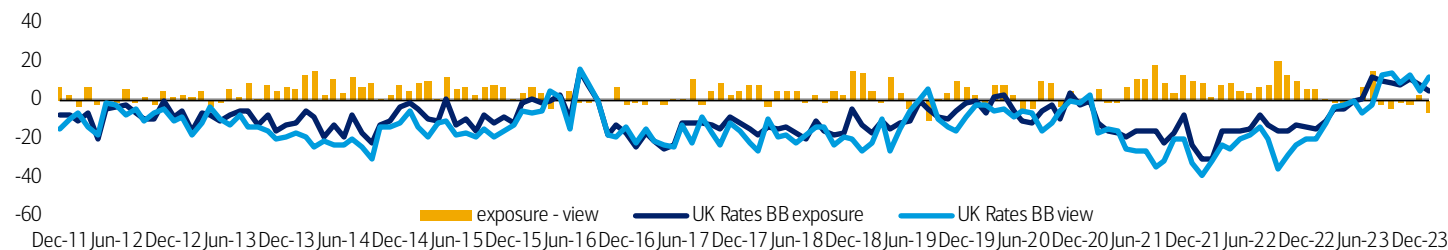
Source: BofA Global Research FX and Rates Sentiment Survey

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## Exhibit 40: Duration exposure and view: UK

Duration overweights moderate further in contrast with sentiment



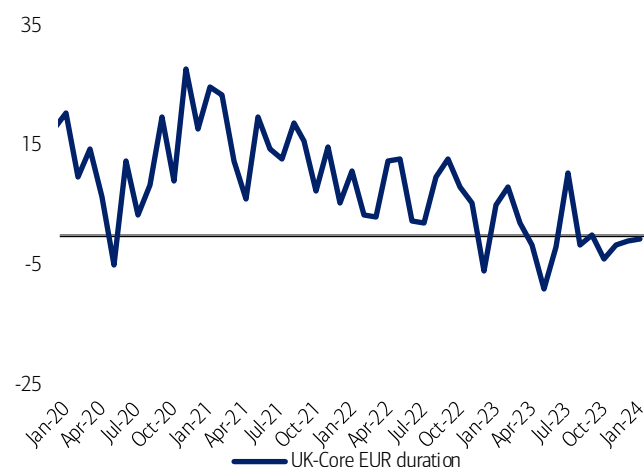
Source: BofA Global Research FX and Rates Sentiment Survey

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## Exhibit 41: UK-Core Europe Duration Exposure

UK vs Core EUR Bull-Bear rates exposure spread

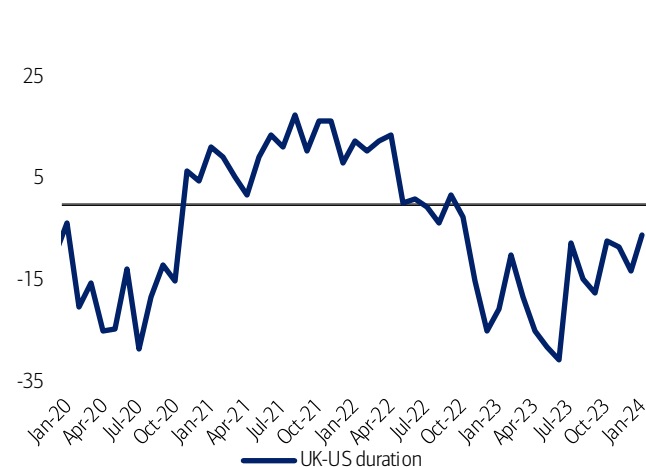


Source: BofA Global Research FX and Rates Sentiment Survey

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## Exhibit 42: UK-US Duration Exposure

UK vs US Bull-Bear rates exposure spread



Source: BofA Global Research FX and Rates Sentiment Survey

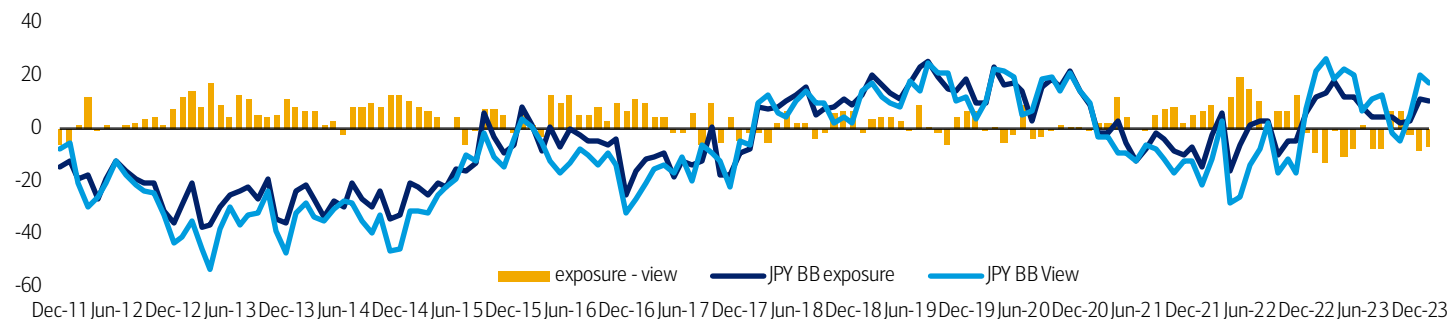
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# Japan

JPY exposure continues to lag view, both moving sideways from last month (Exhibit 43). Investors added to their duration shorts even if sentiment turned slightly less bearish (Exhibit 44).

## Exhibit 43: FX exposure and view: JPY

JPY exposure continues to lag view, both moving sideways from last month



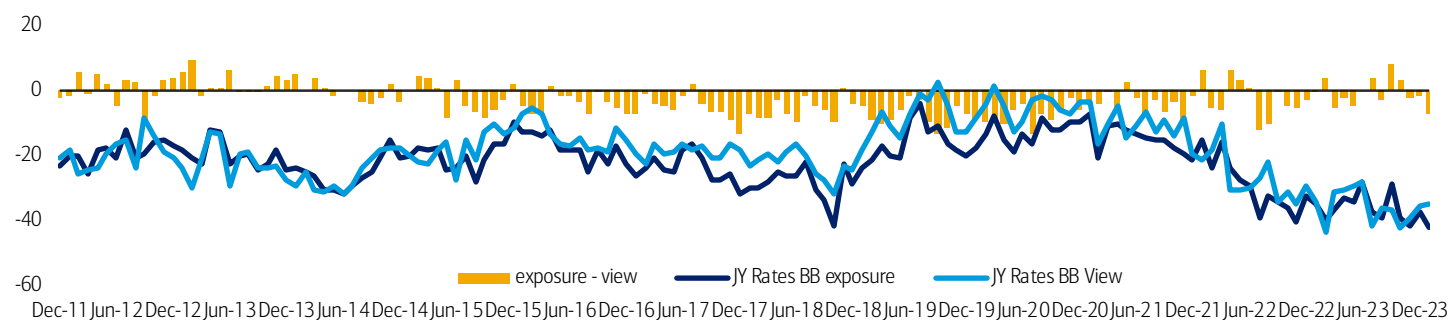
Source: BofA Global Research FX and Rates Sentiment Survey

BB is the Bull-Bear Index for exposure and view. It weights responses to create an index ranging from -100 to +100, zero representing neutral. See appendix for formulas.

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## Exhibit 44: Duration exposure and view: JPY

Investors added to their duration shorts even if sentiment turned slightly less bearish



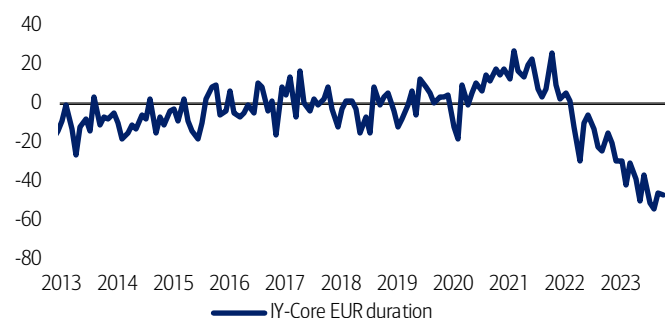
Source: BofA Global Research FX and Rates Sentiment Survey

BB is the Bull-Bear Index for exposure and view. It weights responses to create an index ranging from -100 to +100, zero representing neutral. See appendix for formulas.

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## Exhibit 45: JY-Core Europe Duration Exposure

JY vs Core Europe Bull-Bear rates exposure spread

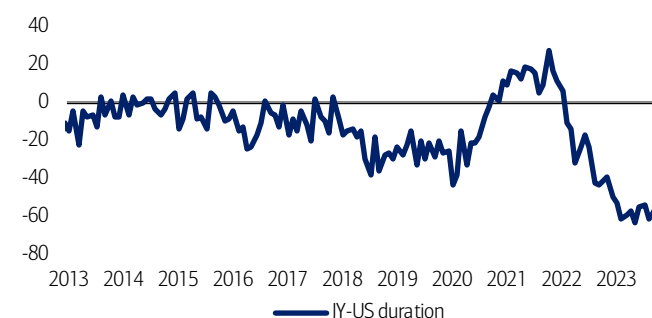


Source: BofA Global Research FX and Rates Sentiment Survey

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## Exhibit 46: JY-US Duration Exposure

JY vs US Bull-Bear rates exposure spread



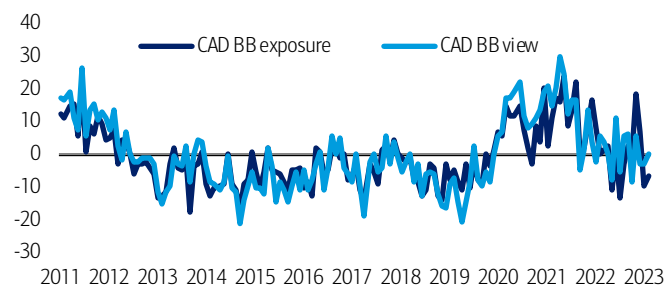
Source: BofA Global Research FX and Rates Sentiment Survey

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# Canada, Australia and New Zealand

## Exhibit 47: FX exposure and view: CAD

CAD exposure continues to lag sentiment



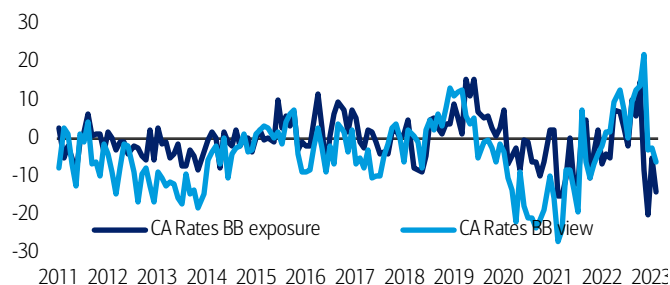
Source: BofA Global Research FX and Rates Sentiment Survey

BB is the Bull-Bear Index for exposure and view. It weights responses to create an index ranging from -100 to +100, zero representing neutral. See appendix for formulas.

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## Exhibit 48: Duration exposure and view: CA

Investors added to their duration shorts as sentiment slightly worsened



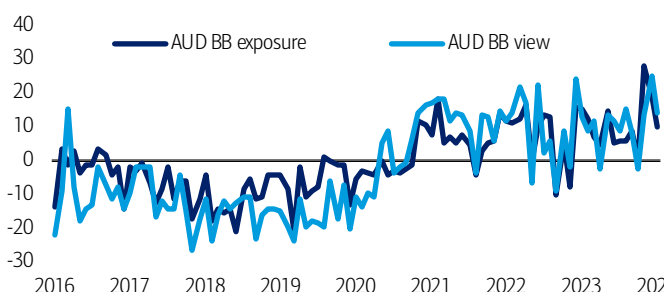
Source: BofA Global Research FX and Rates Sentiment Survey

BB is the Bull-Bear Index for exposure and view. It weights responses to create an index ranging from -100 to +100, zero representing neutral. See appendix for formulas.

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## Exhibit 49: FX exposure and view: AUD

AUD positions somewhat pared back in line with sentiment...



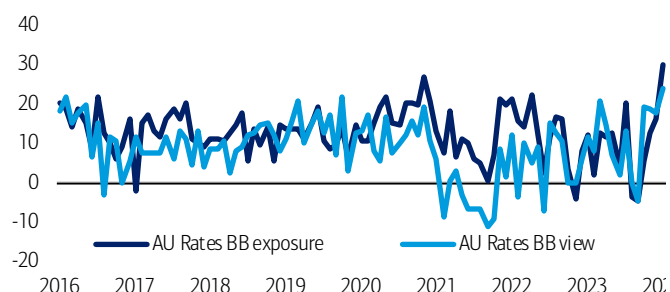
Source: BofA Global Research FX and Rates Sentiment Survey

BB is the Bull-Bear Index for exposure and view. It weights responses to create an index ranging from -100 to +100, zero representing neutral. See appendix for formulas.

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## Exhibit 50: Duration exposure and view: AU

...as duration exposure rises sharply



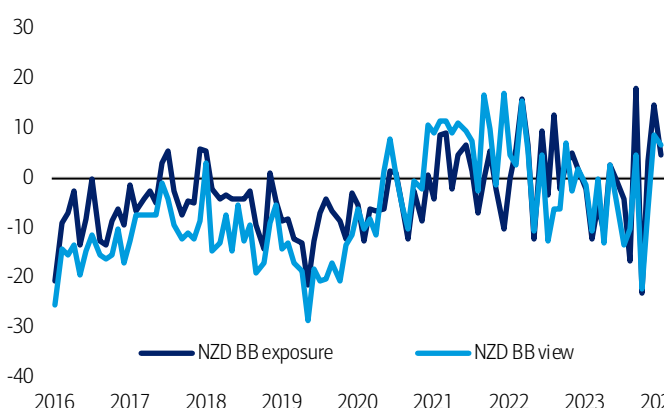
Source: BofA Global Research FX and Rates Sentiment Survey

BB is the Bull-Bear Index for exposure and view. It weights responses to create an index ranging from -100 to +100, zero representing neutral. See appendix for formulas.

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## Exhibit 51: FX exposure and view: NZD

NZD exposure reduced in line with easing sentiment



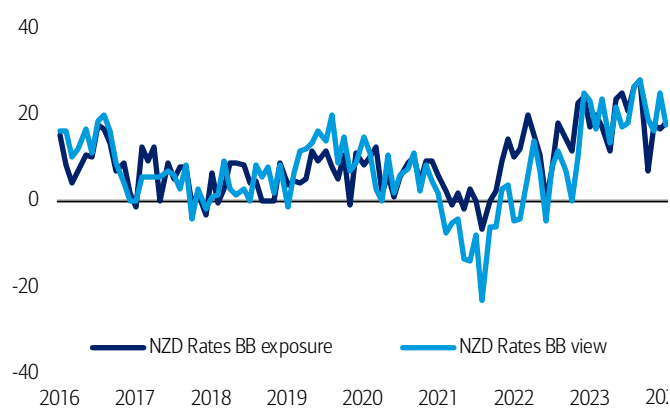
Source: BofA Global Research FX and Rates Sentiment Survey

BB is the Bull-Bear Index for exposure and view. It weights responses to create an index ranging from -100 to +100, zero representing neutral. See appendix for formulas.

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## Exhibit 52: Duration exposure and view: NZD

NZD exposure moving sideways but now in line with sentiment



Source: BofA Global Research FX and Rates Sentiment Survey

BB is the Bull-Bear Index for exposure and view. It weights responses to create an index ranging from -100 to +100, zero representing neutral. See appendix for formulas.

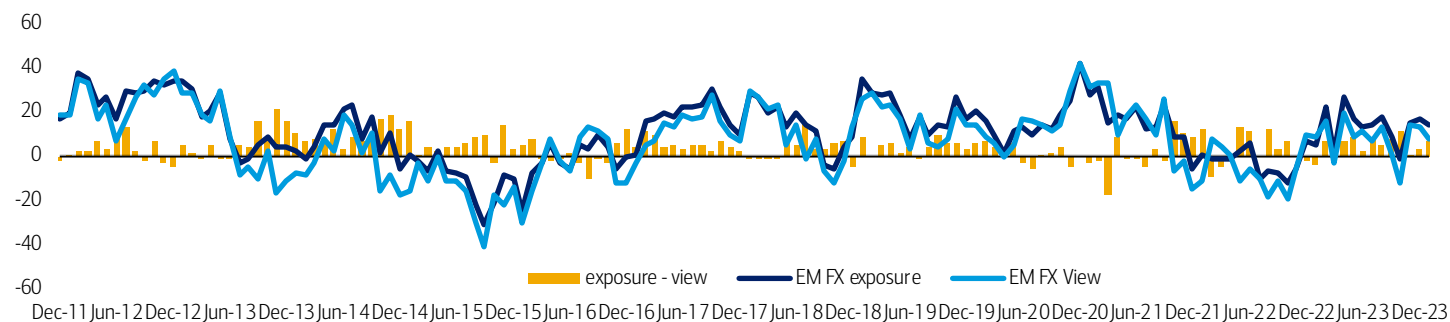
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# Emerging Markets

EM FX positioning and sentiment is little changeschanged on the month.

## Exhibit 53: FX exposure and view: EM

Little changed EM FX exposure despite slightly easing sentiment



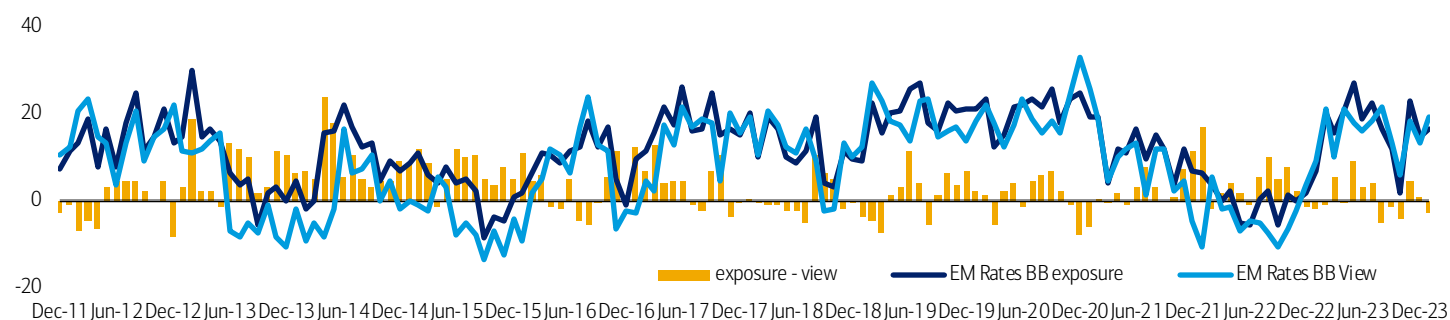
Source: BofA Global Research FX and Rates Sentiment Survey

BB is the Bull-Bear Index for exposure and view. It weights responses to create an index ranging from -100 to +100, zero representing neutral. See appendix for formulas.

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## Exhibit 54: Duration exposure and view: EM

Investors slightly added to their longs in line with sentiment



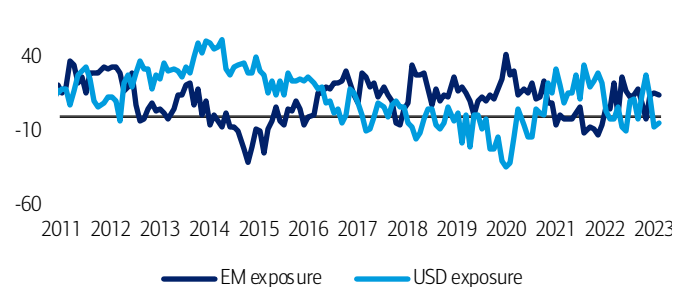
Source: BofA Global Research FX and Rates Sentiment Survey

BB is the Bull-Bear Index for exposure and view. It weights responses to create an index ranging from -100 to +100, zero representing neutral. See appendix for formulas.

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## Exhibit 55: EM and USD FX exposure

EM vs US Bull-Bear fx exposure spread

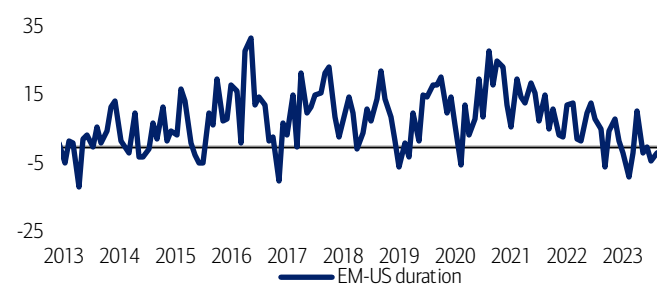


Source: BofA Global Research FX and Rates Sentiment Survey

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## Exhibit 56: EM vs. US duration exposure

EM vs US Bull-Bear rates exposure spread



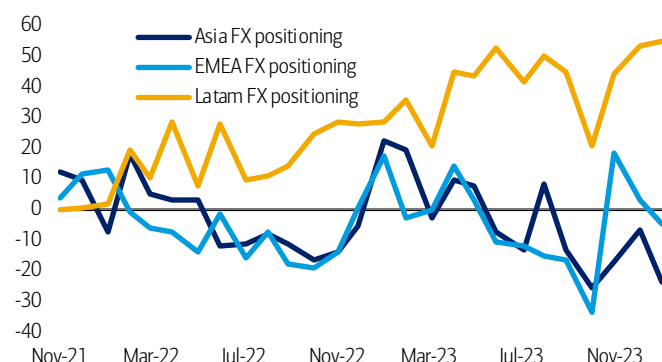
Source: BofA Global Research FX and Rates Sentiment Survey

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# Regional EM Rates Positioning and View

## Exhibit 57: FX positioning

New record longs in LatAm, as investors turn neutral EMEA and shorter Asia



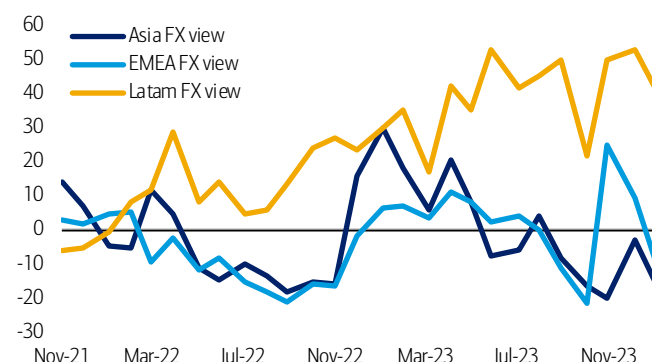
Source: BofA Global Research FX and Rates Sentiment Survey

BB is the Bull-Bear Index for exposure and view. It weights responses to create an index ranging from -100 to +100, zero representing neutral. See appendix for formulas.

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## Exhibit 58: FX view

But FX sentiment worsens in all regions



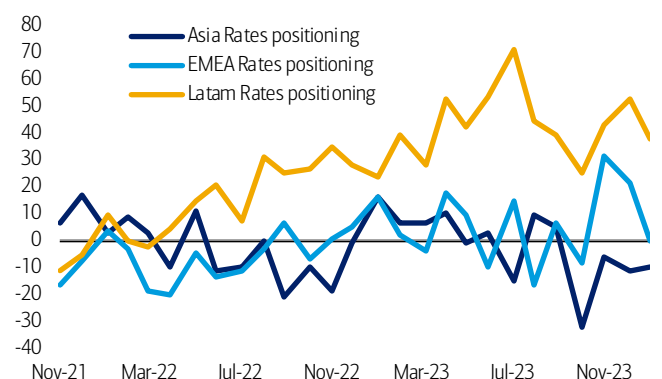
Source: BofA Global Research FX and Rates Sentiment Survey

BB is the Bull-Bear Index for exposure and view. It weights responses to create an index ranging from -100 to +100, zero representing neutral. See appendix for formulas.

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## Exhibit 59: Rates local currency positioning

Local rate longs somewhat pared back in LatAm and fully in EMEA..



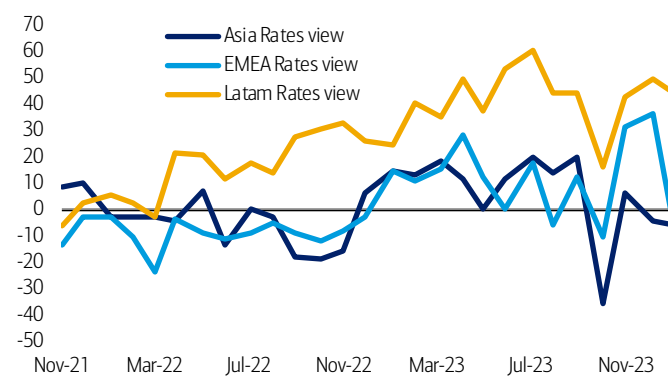
Source: BofA Global Research FX and Rates Sentiment Survey

BB is the Bull-Bear Index for exposure and view. It weights responses to create an index ranging from -100 to +100, zero representing neutral. See appendix for formulas.

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## Exhibit 60: Rates local currency view

...in line with views



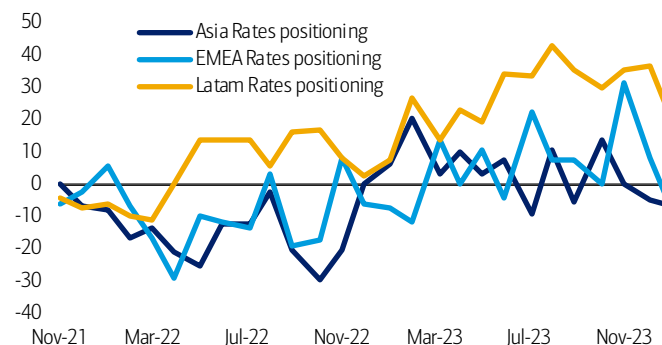
Source: BofA Global Research FX and Rates Sentiment Survey

BB is the Bull-Bear Index for exposure and view. It weights responses to create an index ranging from -100 to +100, zero representing neutral. See appendix for formulas.

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## Exhibit 61: Rates hard currency positioning

Hard currency longs pared back in LatAm and fully in EMEA..



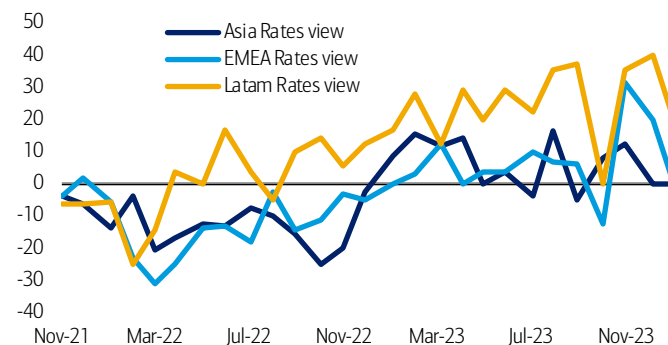
Source: BofA Global Research FX and Rates Sentiment Survey

BB is the Bull-Bear Index for exposure and view. It weights responses to create an index ranging from -100 to +100, zero representing neutral. See appendix for formulas.

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## Exhibit 62: Rates hard currency view

...in line with sentiment



Source: BofA Global Research FX and Rates Sentiment Survey

BB is the Bull-Bear Index for exposure and view. It weights responses to create an index ranging from -100 to +100, zero representing neutral. See appendix for formulas.

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# A Guide to the BofA Global Investor Survey

Our survey was conducted between 5 January 2024 and 10 January 2024. A total of 73 global fixed income fund managers responded to the survey. Responses came from the UK, Continental Europe, APAC and the US.

Our monthly survey has asked the same two questions since its May 1989 start date: “Relative to your own benchmark: 1) How is your portfolio structured in terms of currency exposure? and 2) How is your portfolio structured in terms of duration exposure?”. In December 2011 we added two questions: 1) “How would you describe your view on the following currencies? And 2) How would you describe your view on the following bond markets?”. Regarding “exposure” there are five responses from which to choose: Heavily Overweight, Moderately Overweight, Neutral, Moderately Underweight, and Heavily Underweight, while for “view” the equivalent responses are: Very Bullish, Bullish, Neutral, Bearish, and Very Bearish. In both cases responses are weighted to create a Bull-Bear index from -100 to 100, with zero representing neutral.

<sup>1</sup> The formula used to calculate the Bull-Bear Index (B/B) is as follows:

$$B/B \text{ (exposure)} = (\% \text{ Heavy Overweight} * 1.0) + (\% \text{ Moderately Overweight} * 0.5) + (\% \text{ Neutral} * 0) - (\% \text{ Moderately Underweight} * 0.5) - (\% \text{ Heavily Underweight} * 1.0).$$

$$B/B \text{ (view)} = (\% \text{ Very Bullish} * 1.0) + (\% \text{ Bullish} * 0.5) + (\% \text{ Neutral} * 0) - (\% \text{ Bearish} * 0.5) - (\% \text{ Very Bearish} * 1.0)$$

*BofA makes no representations or warranties whatsoever as to the data and information provided in any referenced website and shall have no liability or responsibility arising out of or in connection with any referenced website. BofA Global Research did not participate in the gathering of data for this survey.*

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