

European Fund Manager Survey

The fear of overtightening

High inflation and rates are seen as yesterday's problem

A net 95% of respondents expect European inflation to decline over the coming year, up from 75% last month and the highest proportion on record (with data going back to 2000). While central bank hawkishness in response to high inflation remains the biggest tail-risk for markets for a plurality of 31% of investors (followed by geopolitics, at 23%), this nonetheless marks the lowest share since May, down from 45% in August. A net 62% see short-term interest rates coming down over the coming twelve months, close to a 15-year high, while a net 31% think 10-year bond yields will fade, a 20-year high.

The fallout from monetary tightening is the key concern

A net 24% of investors think global monetary policy is too restrictive, up from 15% last month and the highest level since 2008. 50% consider demand destruction due to monetary tightening and a fading fiscal boost as the main macro theme for the coming months. 55% expect US growth to slow in response to tight monetary policy, while 40% think US growth can remain resilient near term but will slow next year as Fed tightening bites. 73% expect European growth to weaken in response to tight monetary policy, down from 89% last month. However, only 30% of investors see a 'hard landing' as the most likely outcome for the global economy (though this is up from 20% last month).

Still bearish on equities near-term, positive medium-term

55% of investors see downside for European equities over the coming months in response to monetary tightening (down from 63% last month), but 52% project upside over the next year (down from 61%). 75% see downside for European EPS in response to slowing growth and fading inflation, with a plurality of 35% regarding earnings downgrades as the most likely cause of a market correction, followed by higher bond yields, at 28%. Not having enough defensive hedges to protect against weakening growth is the key portfolio construction risk for a plurality of investors, at 35%.

The surge in bond yields rekindles interest in value

A net 20% of participants expect value to outperform growth stocks (up from 11% last month), likely in response to the recent rise in bond yields, with insurance now the largest sector overweight in Europe, following a jump in positioning, ahead of pharma and tech. However, the optimism on value does not extend to banks, with positioning in the sector remaining close to neutral, as 65% think slowing growth, declining bond yields and widening credit spreads will be a headwind (up from 50% last month). Cyclical dominate investors' sector underweights, with chemicals, autos and media ranking as the least preferred sectors. A plurality of 40% of respondents see downside for European cyclicals relative to defensives over the coming months (down from 53% last month), while 25% see mild upside after the recent weakness (up from 11%).

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 21.

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Notes to readers

An overall total of 295 panellists with \$736bn AUM participated in the survey. 259 participants with \$664bn AUM responded to the global FMS questions and 165 participants with \$334bn AUM responded to the regional FMS questions.

Survey period: 6th October 2023 to 12th October 2023.

How to join the FMS panel

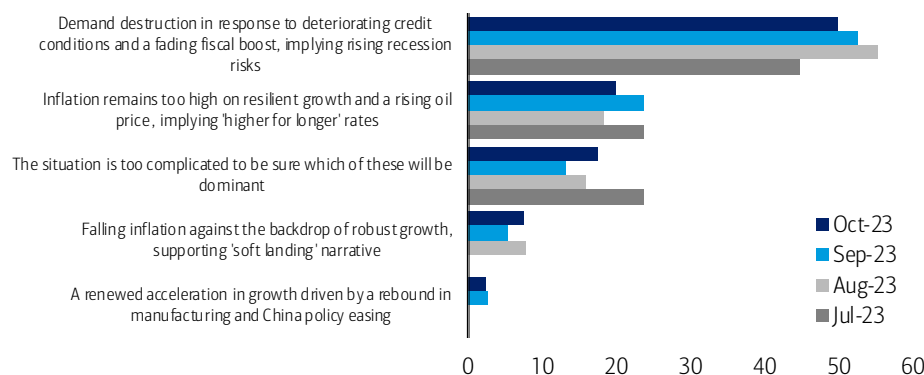
Investors/clients are encouraged to sign up to participate in the Survey. This can be done by contacting [Michael Hartnett](#) or your BofA sales representative.

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

European macro overview

Exhibit 1: 50% of European investors expect demand destruction to be the dominant macro theme over the coming months (slightly down from 53% last month), while 20% think high inflation and further monetary tightening will dominate (down from 24%)

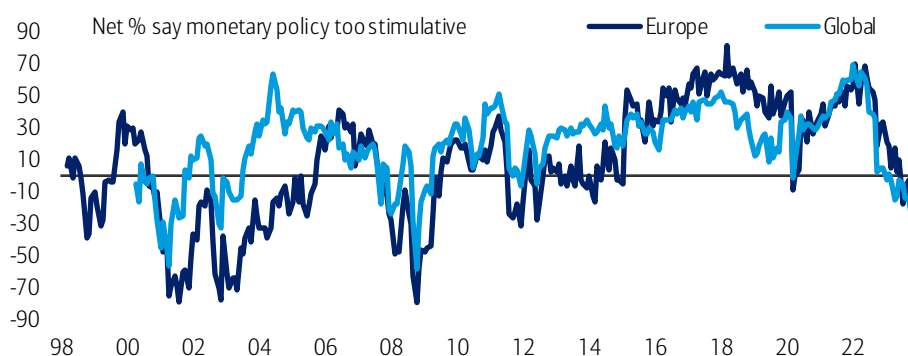
What do you think will be the dominant macro theme in the months ahead?



Source: BofA European Fund Manager Survey

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Exhibit 2: A net 24% of global investors consider global monetary policy to be too restrictive, the highest level since 2008, while a net 23% of European investors think this is the case in Europe
Do you think monetary policy in this region is currently...?

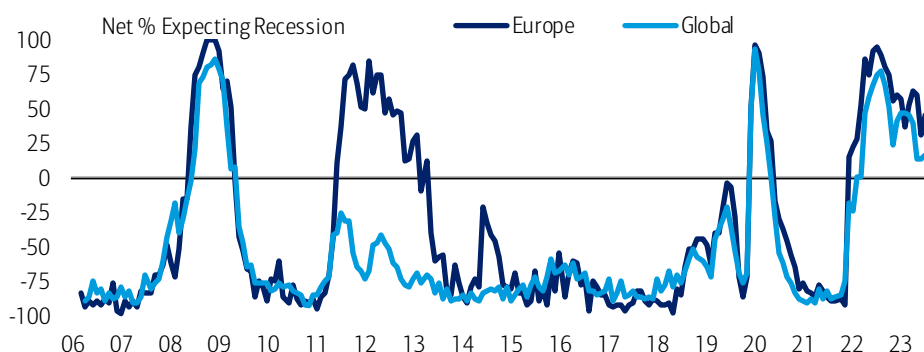


Source: BofA European & Global Fund Manager Survey

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Exhibit 3: A net 45% of European investors expect a recession in Europe over the next twelve months (up from 32% last month), while a net 17% of global investors think the global cycle will enter a recession (up from 14%)

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

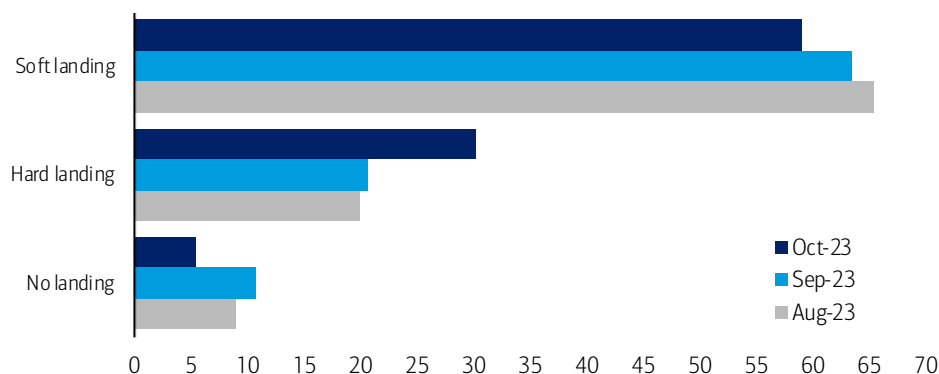


Source: BofA European & Global Fund Manager Survey

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Exhibit 4: 59% see a 'soft landing' as the most likely outcome for the global economy (down from 64% last month), with 30% in the 'hard landing' camp (up from 21%)

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

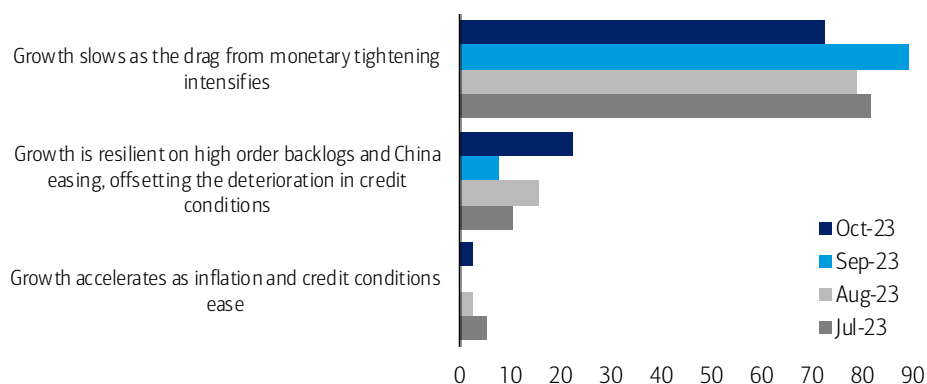


Source: BofA Global Fund Manager Survey

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Exhibit 5: 73% of European investors project a slowdown in European growth momentum over the coming six months as monetary tightening kicks in (down from 89% last month), while 23% expect growth to remain resilient on high order backlogs and China easing (up from 8%)

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

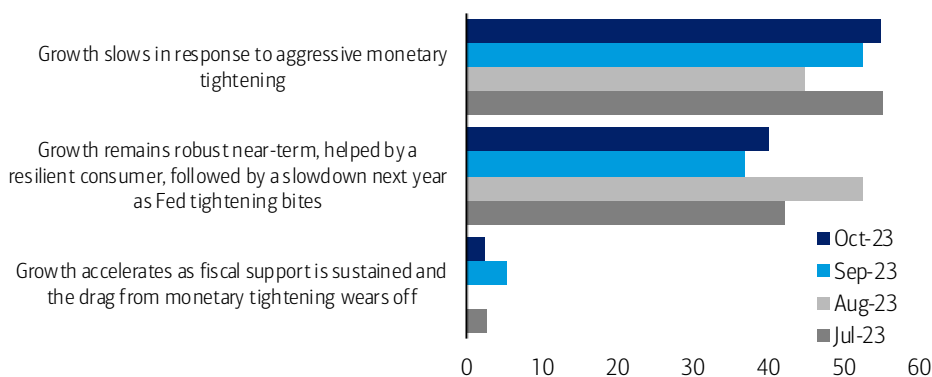


Source: BofA European Fund Manager Survey

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Exhibit 6: 55% of European investors project US growth to slow over the coming months due to monetary tightening (up marginally from 53% last month), with the share that expects US growth to remain resilient in the near term but to slow next year up from 37% last month to 40%

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

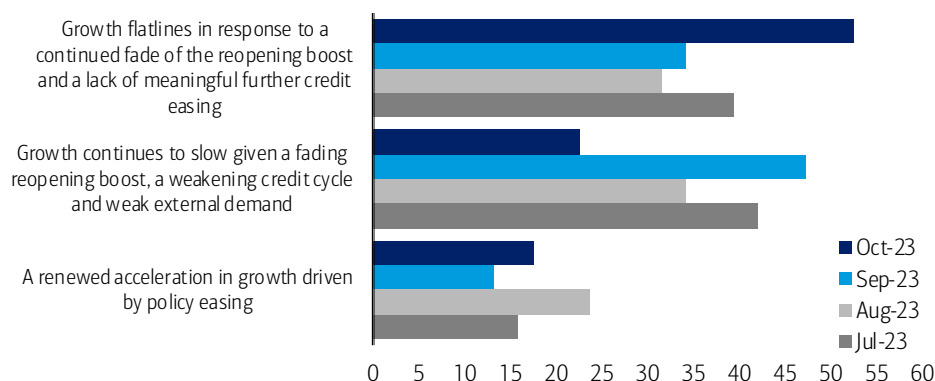


Source: BofA European Fund Manager Survey

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Exhibit 7: 53% of European investors see China growth flatlining over the coming months (up sharply from 34% last month), while 23% think growth will continue slowing (down from 47%)

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

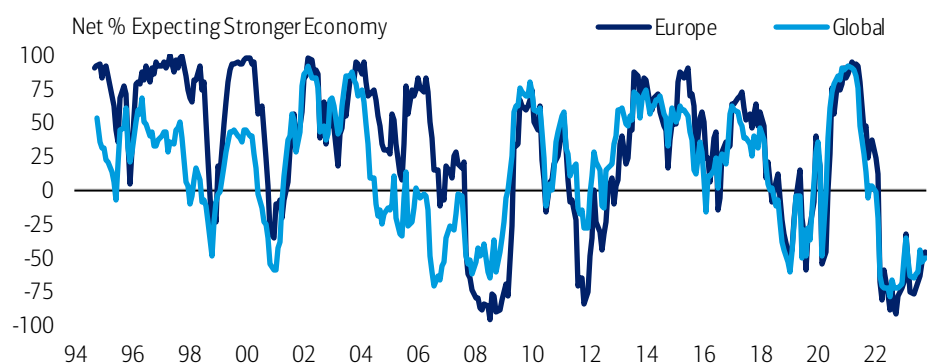


Source: BofA European Fund Manager Survey

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Exhibit 8: A net 45% of European investors think the European economy will weaken over the coming twelve months, down from 53% last month. A net 50% of global investors think global growth is set to slow in the twelve months ahead, down from 53%

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

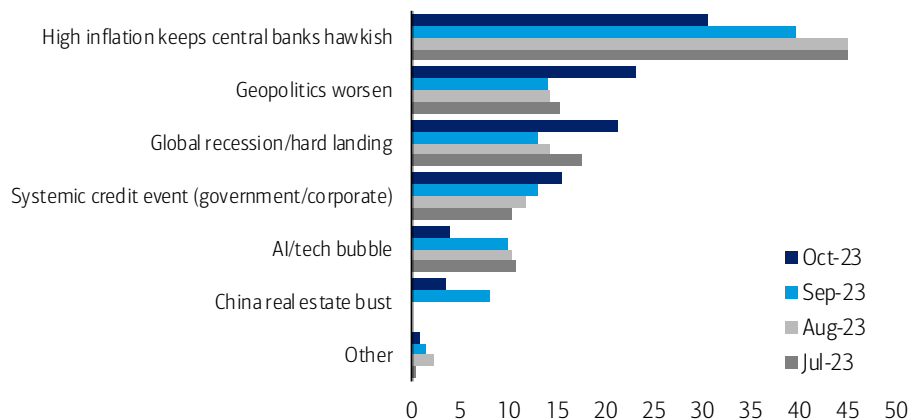


Source: BofA European & Global Fund Manager Survey

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Exhibit 9: A plurality of 31% of global investors see high inflation keeping central banks hawkish as the biggest tail-risk for markets (down from 40% last month), followed by geopolitics, at 23% (up from 14% last month)

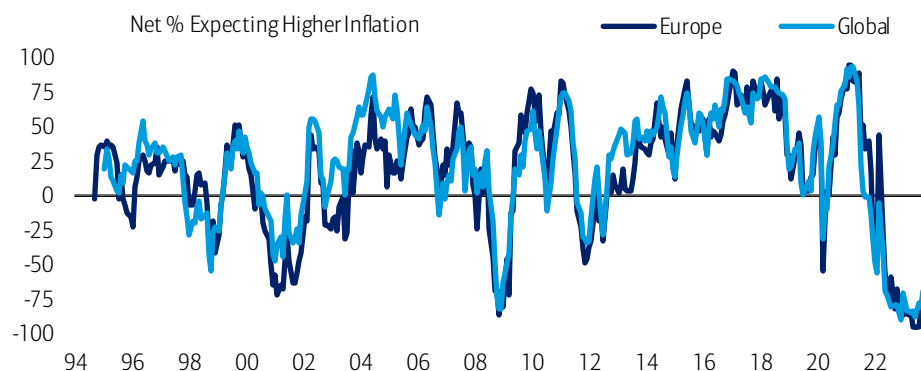
What do you consider the biggest 'tail risk'?



Source: BofA Global Fund Manager Survey

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Exhibit 10: A net 95% of European investors expect European core inflation to fall over the coming twelve months, up from 76% last month and the highest on record. A net 70% of global investors think global core inflation will decline over the coming twelve months, up marginally from 69%
 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 11: A net 62% of global investors expect lower short-term rates over the coming twelve months, down from the 14-year high of 69% reached 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 12: A net 31% of global investors expect lower 10-year bond yields over the coming twelve months, up from 22% last month and the highest reading on record
 In twelve months' time, do you think global long-term interest rates (i.e. 10-year rates) will be...?



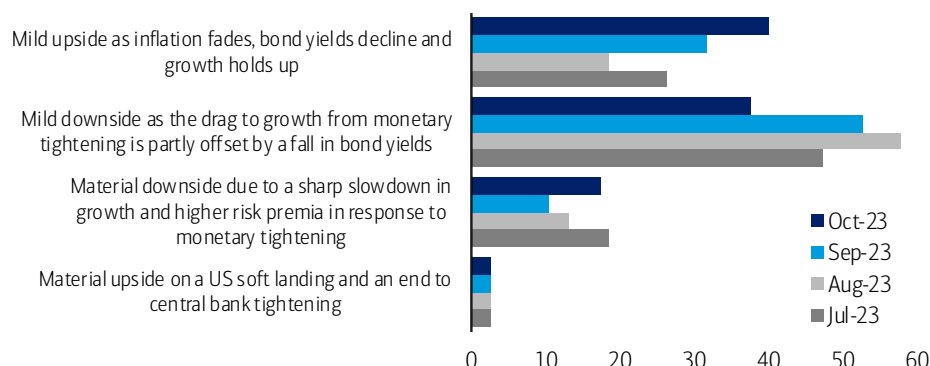
Source: BofA Global Fund Manager Survey

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European equities

Exhibit 13: 55% of European investors expect downside for the European market over the coming months in response to monetary tightening, down from 63% last month

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

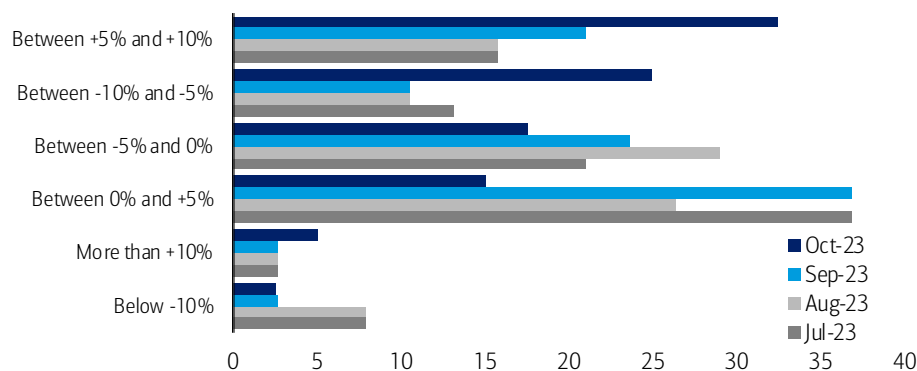


Source: BofA European Fund Manager Survey

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Exhibit 14: 52% of European investors see upside for European equities over the coming twelve months (down from 61% last month), with 33% looking for a gain in the range of 5-10%

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

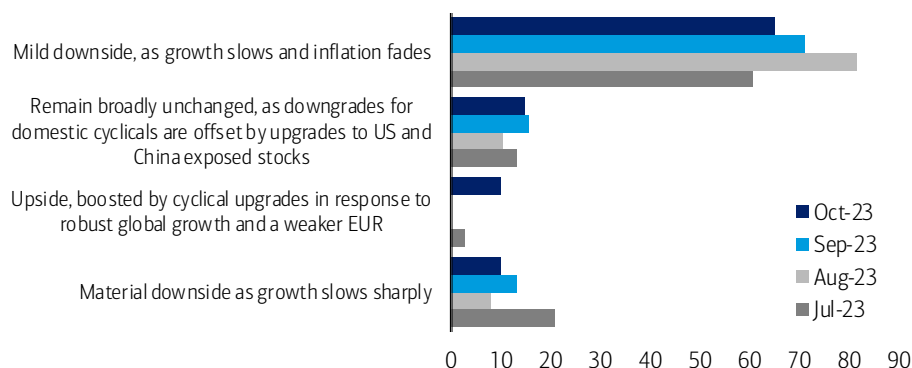


Source: BofA European Fund Manager Survey

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Exhibit 15: 65% of European investors see mild downside for 12-month forward EPS expectations for Europe over the coming months (down from 71% last month), with a further 10% expecting material downside (down from 13%)

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

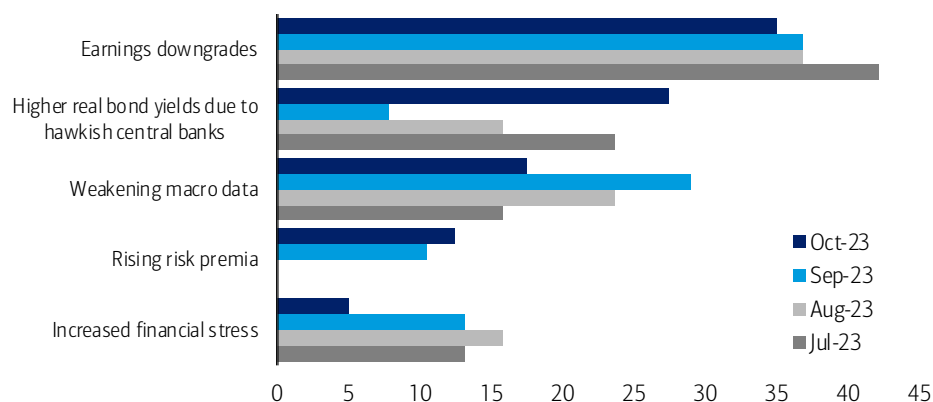


Source: BofA European Fund Manager Survey

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Exhibit 16: A plurality of 35% of European investors see earnings downgrades as the most likely cause for a market correction (down marginally from 37% last month), followed by higher bond yields, at 28% (up sharply from 8%)

What is the most likely catalyst for a correction?

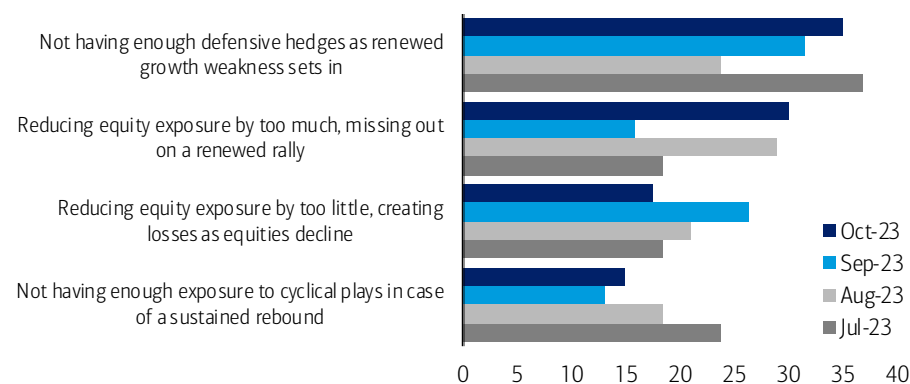


Source: BofA European Fund Manager Survey

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Exhibit 17: A plurality of 35% of European investors judge not having enough defensive hedges as growth weakness sets in as the key risk to their portfolios (up slightly from 32% last month)

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



Source: BofA European Fund Manager Survey

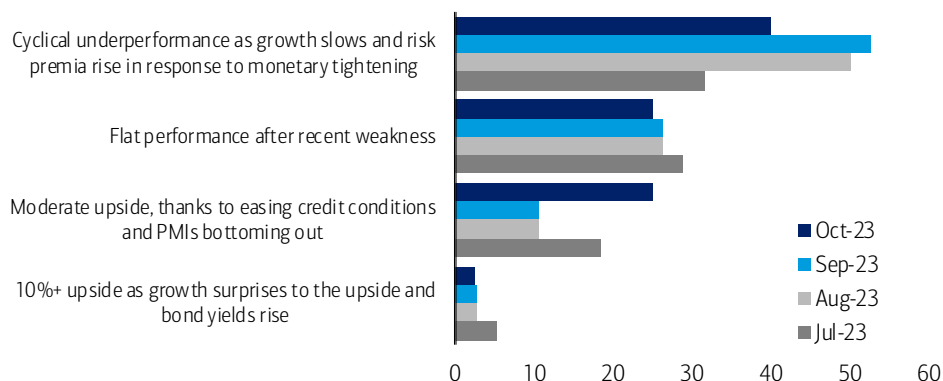
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European styles, sectors and countries

European styles

Exhibit 18: A plurality of 40% of European investors expect further downside for cyclicals versus defensives (down from 53% last month), while 25% project flat performance (hardly changed from last month) and a further 25% look for moderate upside after the recent weakness (up from 11%)

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

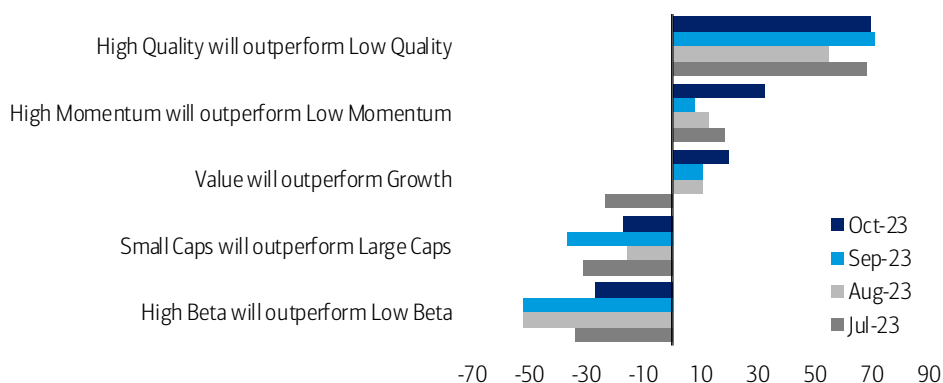


Source: BofA European Fund Manager Survey

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Exhibit 19: The share of European investors expecting high-quality to outperform low quality stocks over the coming year is broadly unchanged at 70%, whereas the share projecting high momentum to outperform low momentum and value to outperform growth stocks has risen notably

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



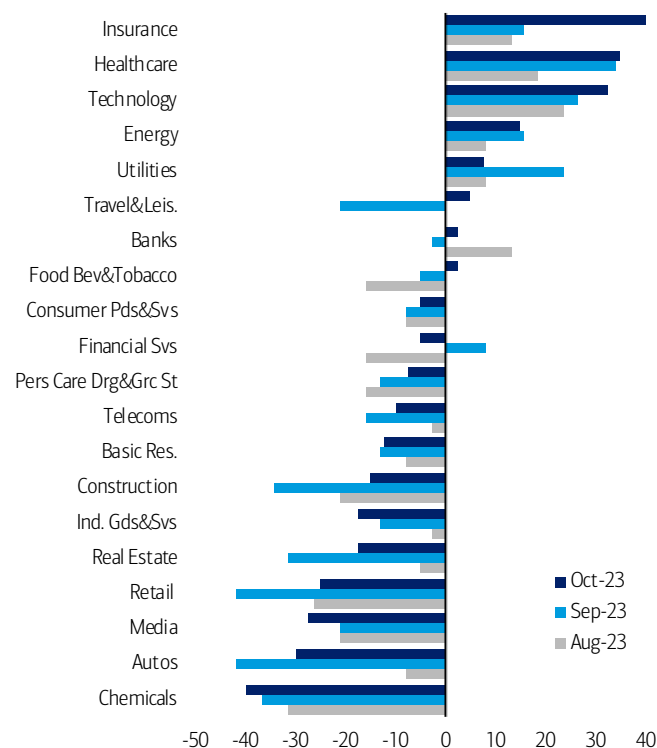
Source: BofA European Fund Manager Survey

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European sectors

Exhibit 20: European insurance, healthcare and tech are the largest sector overweights, while chemicals, autos and media are the largest underweights

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

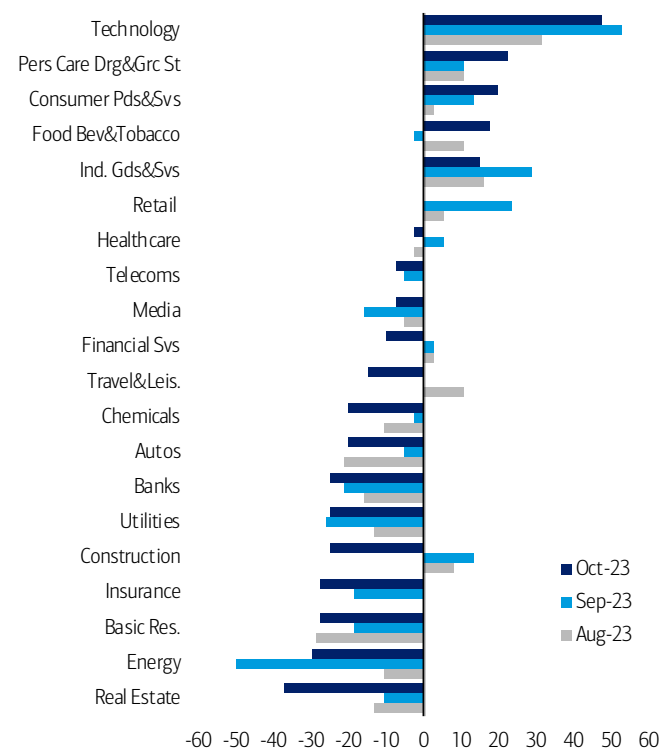


Source: BofA European Fund Manager Survey

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Exhibit 21: European tech, personal care and consumer products are seen as the most overvalued sectors, while real estate, energy and basic resources are seen as the most undervalued

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

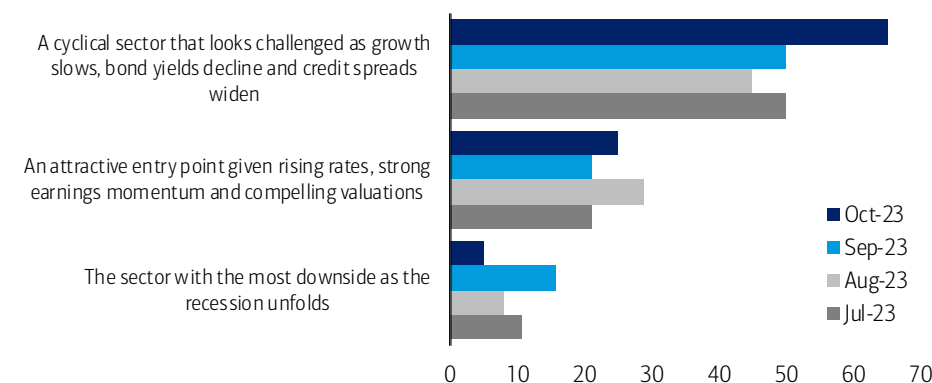


Source: BofA European Fund Manager Survey

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Exhibit 22: 65% of European investors think slowing growth, declining bond yields and widening credit spreads will be headwind for European banks, up from 50% last month

What is your view on European banks?

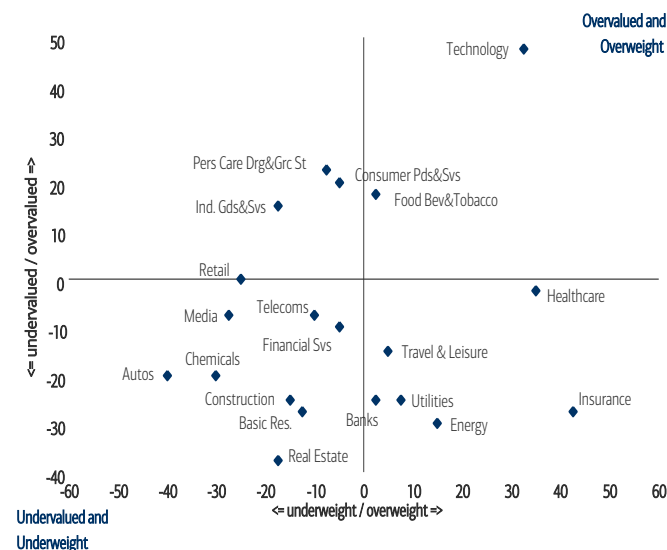


Source: BofA European Fund Manager Survey

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Exhibit 23: European insurance, energy, 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 24: Positioning for insurance, travel & leisure and construction has improved the most from last month, while that of utilities, financial services and media has dropped the most

Month-on-month change in net positioning and valuation

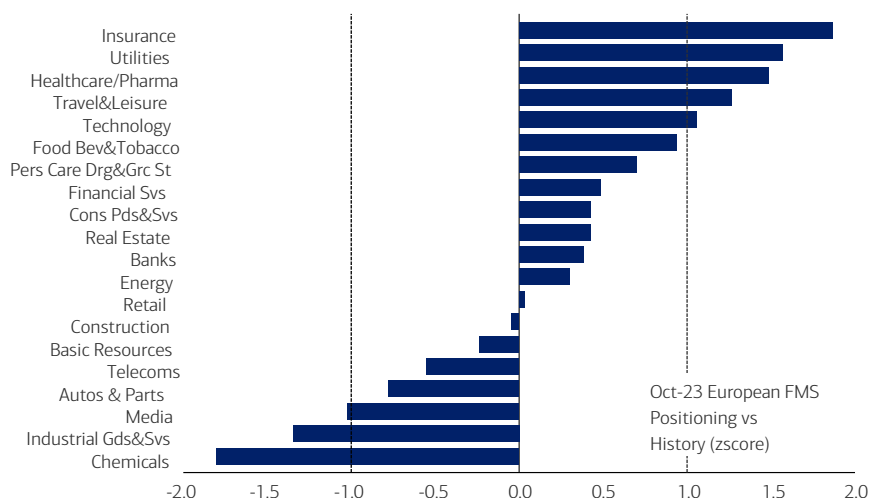
	Positioning	Valuation
Insurance	27	-9
Travel&Leis.	26	-15
Construction	19	-38
Retail	17	-24
Real Estate	14	-27
Autos	12	-15
Food Bev&Tobacco	8	20
Technology	6	-5
Telecoms	6	-2
Pers Care Drg&Grc St	6	12
Banks	5	-4
Consumer Pds&Svs	3	7
Healthcare	1	-8
Basic Res.	1	-9
Energy	-1	20
Chemicals	-3	-17
Ind. Gds&Svs	-4	-14
Media	-6	8
Financial Svs	-13	-13
Utilities	-16	1

Source: BofA European Fund Manager Survey

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Exhibit 25: European insurance, utilities and healthcare are the most over-owned sectors relative to history

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

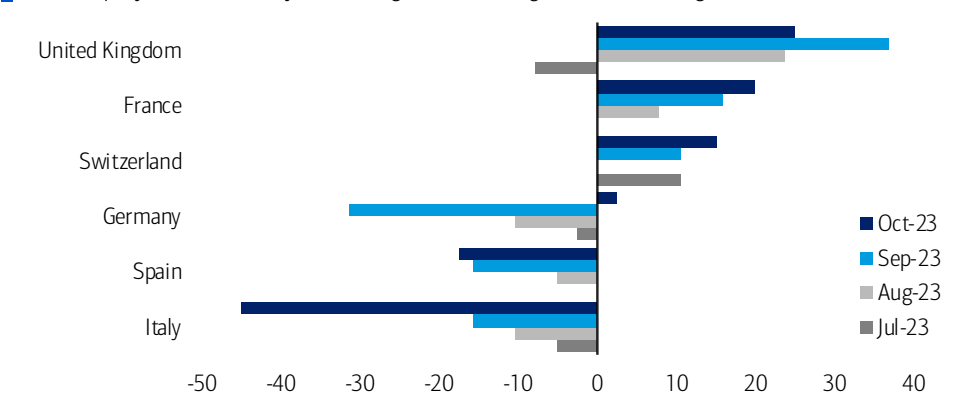


Source: BofA European Fund Manager Survey. Note: z-score based on full time series. Sector history since 2003, except: Consumer Gds & Svs (Personal& HH Gds), Chemicals, Construction, Financial Svs, Travel & Leisure since 2006, Real estate since 2008, Personal care, drug & grocery stores since Oct 2020

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European countries

Exhibit 26: The UK remains the favourite equity market in Europe, followed by France and 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

Macro overview

Exhibit 27: A net 31% of global investors judge fiscal policy to be too stimulative globally, while a net 8% of European investors think that is the case in Europe (both little changed from last month)

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



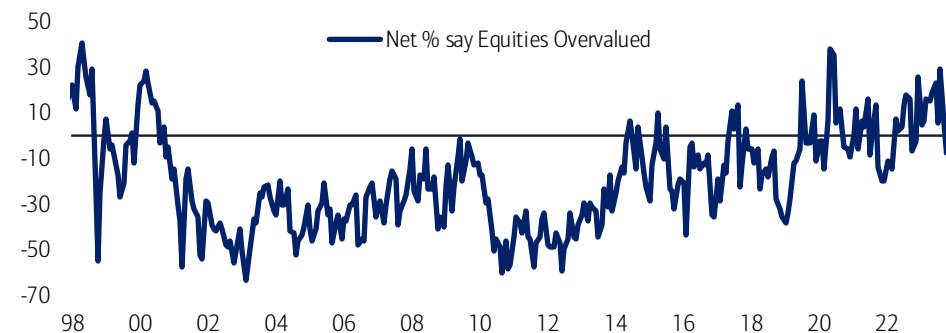
Source: BofA European & Global Fund Manager Survey

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Market valuation & cash levels

Exhibit 28: A net 8% of European investors see European equities as undervalued, a notable decline from the 5% that thought equities were overvalued last month

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

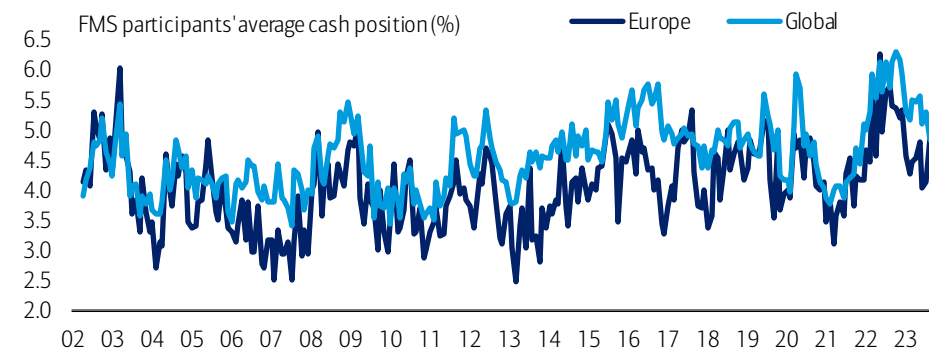


Source: BofA European Fund Manager Survey

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Exhibit 29: The average cash position among European investors stands at 4.8% (up from 4.3% last month), while cash levels among global investors are at 5.3% (up from 4.9%)

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



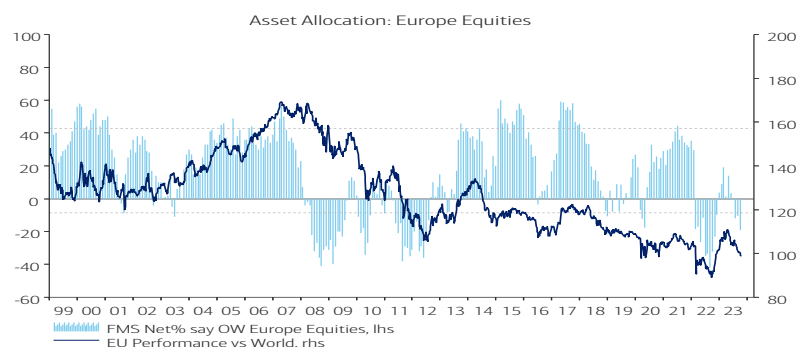
Source: BofA European & Global Fund Manager Survey

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Europe in the global context

Exhibit 30: A net 19% of global investors say they are underweight European equities, up from 10% last month and the highest proportion since November 2022

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

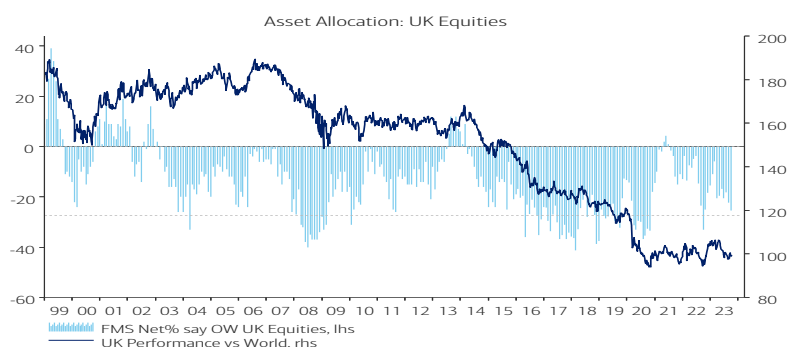


Source: BofA Global Fund Manager Survey

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Exhibit 31: A net 25% of global investors say they are underweight UK equities, up from 22% last month and the highest in a year

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

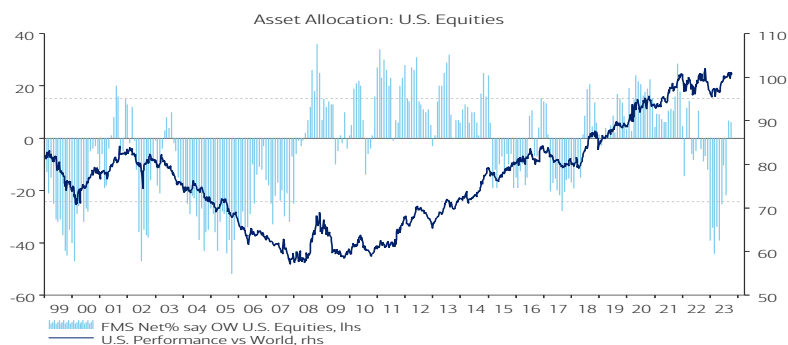


Source: BofA Global Fund Manager Survey

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Exhibit 32: A net 6% of global investors say they are overweight US equities, hardly changed since 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

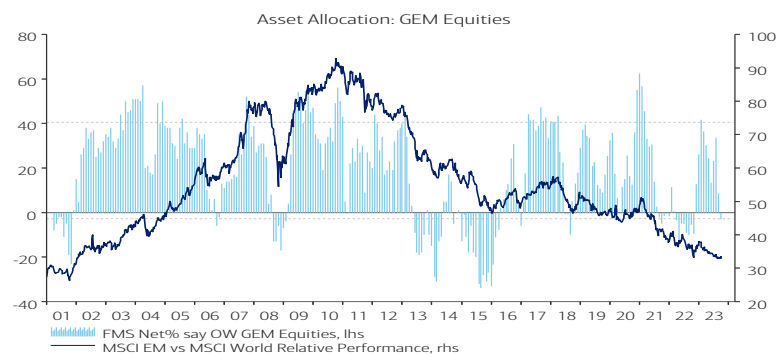


Source: BofA Global Fund Manager Survey

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Exhibit 33: A net 3% of global investors say they are underweight EM equities, while last month a net 9% said they were overweight

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

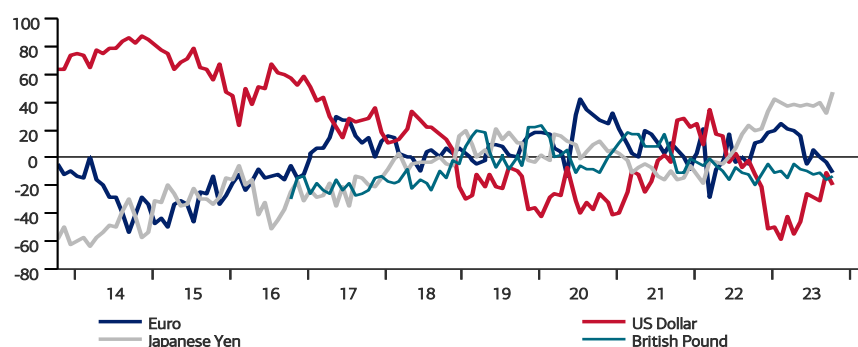


Source: BofA Global Fund Manager Survey

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Exhibit 34: Bearish USD sentiment has built up again, with a net 20% of global investors expecting the USD to weaken over the coming year, up from 11% last month

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



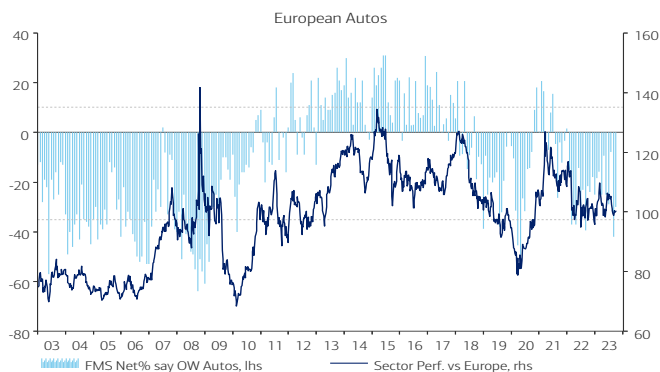
Source: BofA Global Fund Manager Survey

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European sector details

Exhibit 35: European autos & parts

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

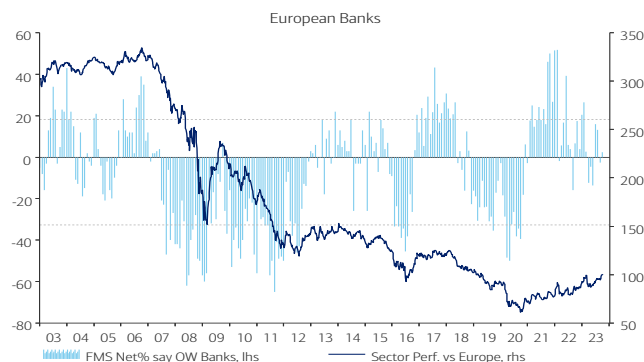


Source: BofA European Fund Manager Survey, Datastream

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Exhibit 36: European banks

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

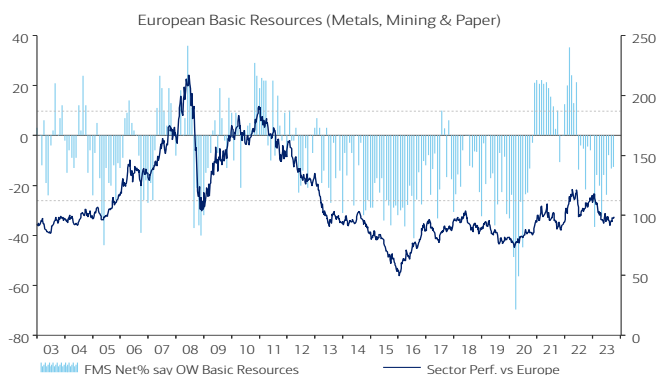


Source: BofA European Fund Manager Survey, Datastream

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Exhibit 37: European basic resources

Net 13% of European participants say they are underweight the sector

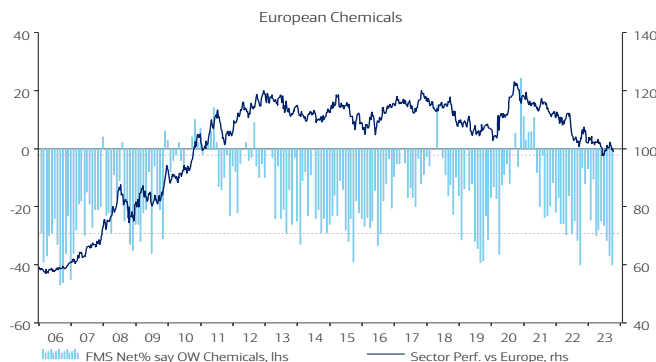


Source: BofA European Fund Manager Survey, Datastream

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Exhibit 38: European chemicals

Net 40% of European participants say they are underweight the sector

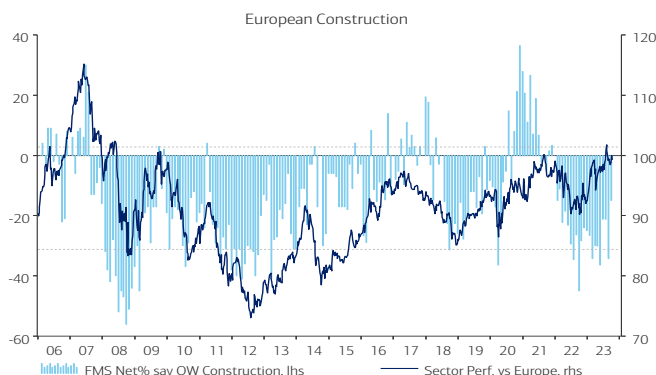


Source: BofA European Fund Manager Survey, Datastream

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Exhibit 39: European construction

Net 15% of European participants say they are underweight the sector

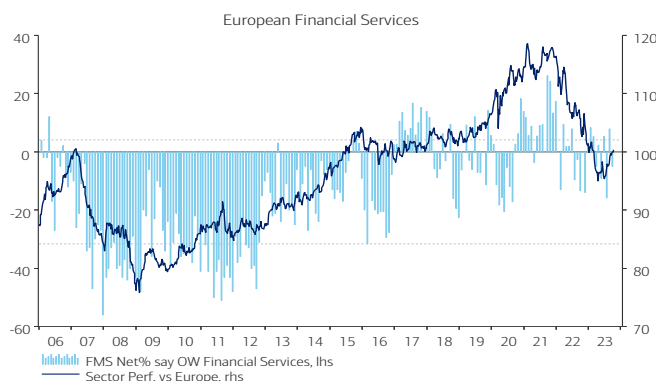


Source: BofA European Fund Manager Survey, Datastream

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Exhibit 40: European financial services

Net 5% of European participants say they are underweight the sector

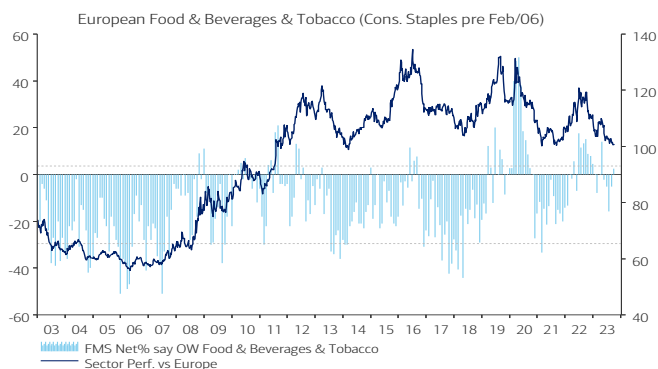


Source: BofA European Fund Manager Survey, Datastream

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Exhibit 41: European food & beverages & tobacco

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

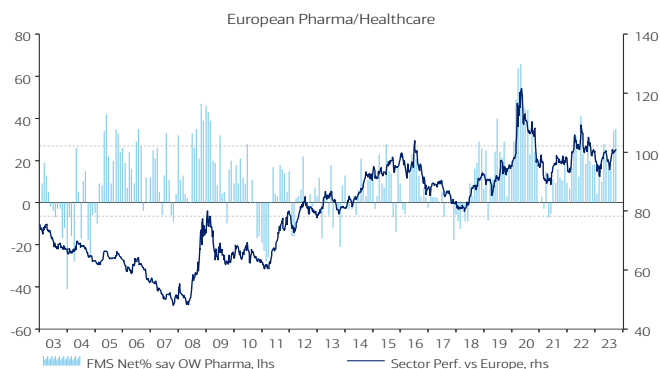


Source: BofA European Fund Manager Survey, Datastream

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Exhibit 42: European healthcare

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

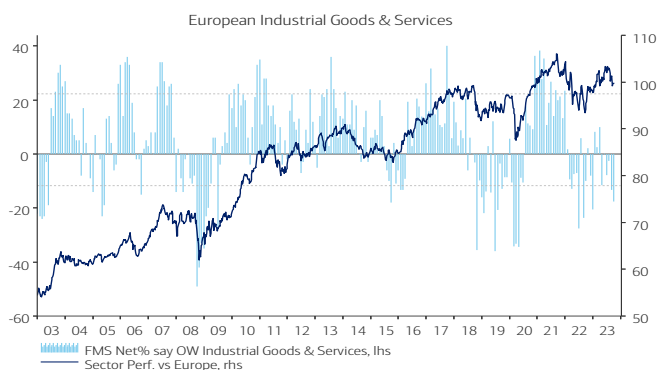


Source: BofA European Fund Manager Survey, Datastream

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Exhibit 43: European industrial goods & services

Net 18% of European participants say they are underweight the sector

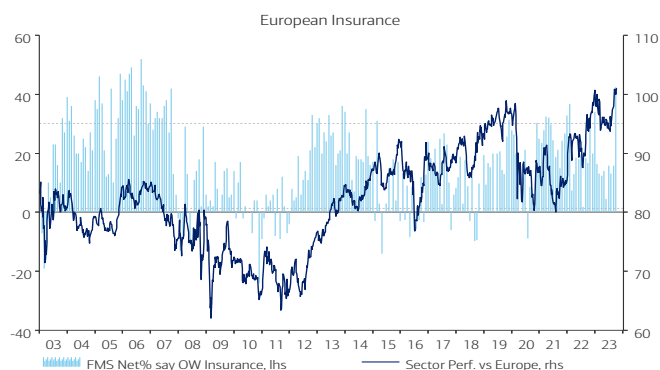


Source: BofA European Fund Manager Survey, Datastream

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Exhibit 44: European insurance

Net 43% of European participants say they are overweight the sector

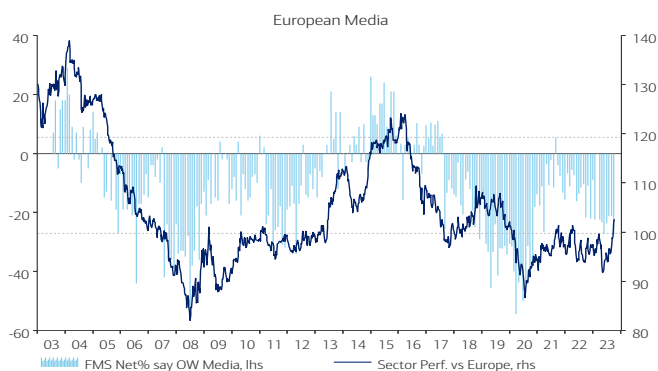


Source: BofA European Fund Manager Survey, Datastream

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Exhibit 45: European media

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

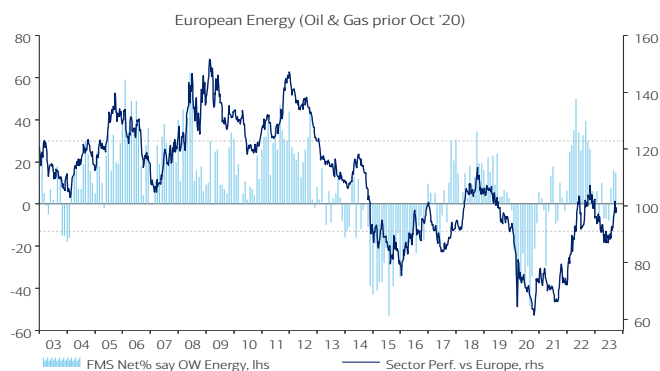


Source: BofA European Fund Manager Survey, Datastream

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Exhibit 46: European energy

Net 15% of European participants say they are overweight the sector

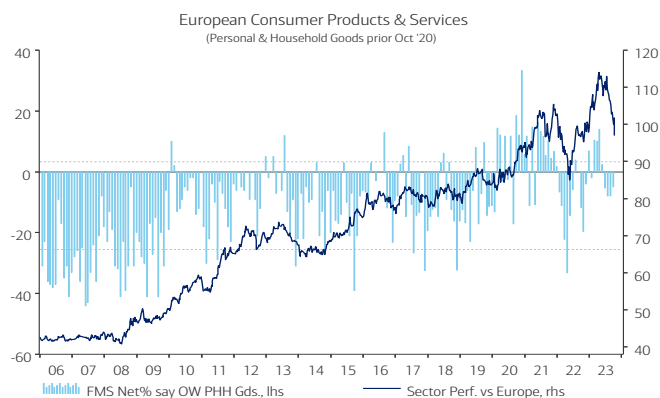


Source: BofA European Fund Manager Survey, Datastream

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Exhibit 47: European consumer products & services

Net 5% of European participants say they are underweight the sector

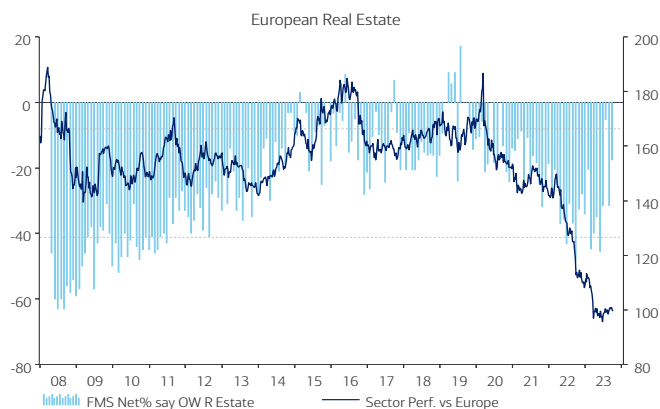


Source: BofA European Fund Manager Survey, Datastream

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Exhibit 48: European real estate

Net 18% of European participants say they are underweight the sector

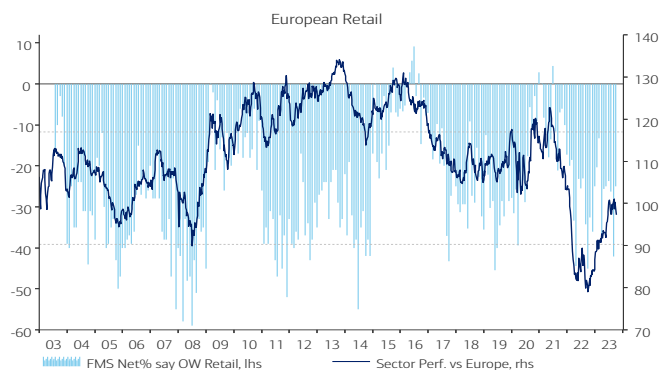


Source: BofA European Fund Manager Survey, Datastream

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Exhibit 49: European retail

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

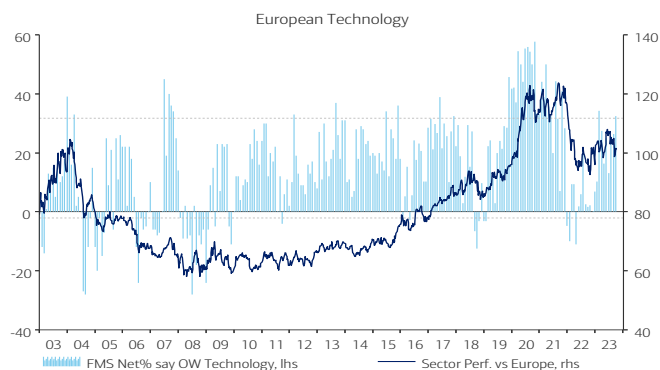


Source: BofA European Fund Manager Survey, Datastream

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Exhibit 50: European technology

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

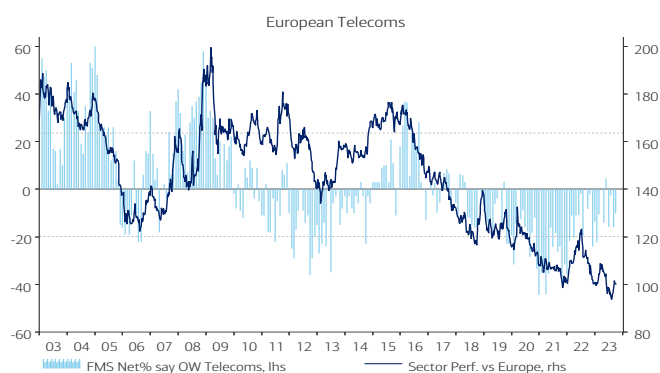


Source: BofA European Fund Manager Survey, Datastream

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Exhibit 51: European telecoms

Net 10% of European participants say they are underweight the sector

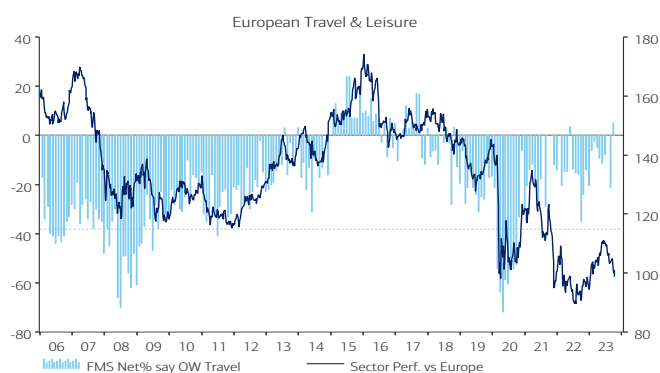


Source: BofA European Fund Manager Survey, Datastream

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Exhibit 52: European travel & leisure

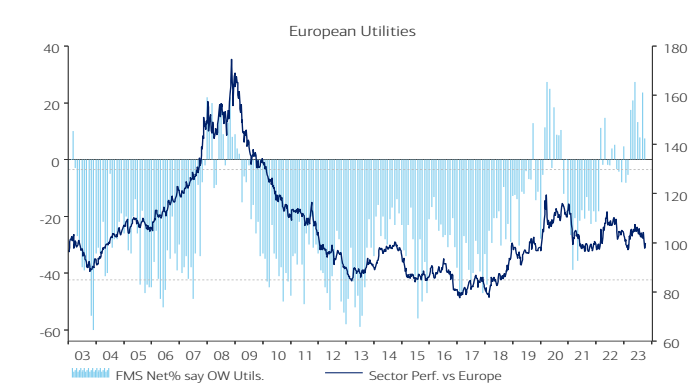
Net 5% of European participants say they are overweight the sector



Source: BofA European Fund Manager Survey, Datastream

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Exhibit 53: European utilities
Net 8% 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

	Oct-23	Sep-23	Aug-23
Structure of the panel - by position			
Chief Investment Officer	15	13	15
Asset Allocator / Strategist / Economist	31	24	25
Portfolio Manager	104	87	86
Other	15	17	11
Structure of the panel - by expertise			
Regional specialists + EM specialists only	36	36	36
Regional specialists with a global view	129	105	101
Total # of respondents to regional questions	165	141	137
Which of the following best describes the type of money you are running?			
Institutional funds (e.g. pension funds / insurance companies)	52	41	37
Hedge funds / proprietary trading desks	32	29	27
Mutual funds / unit trusts / investment trusts	63	58	60
None of the above	18	13	13
What do you estimate to be the total current value of assets under your direct control?			
Up to \$250mn	29	30	32
Around \$500mn	26	20	22
Around \$1bn	34	26	24
Around \$2.5bn	32	26	21
Around \$5bn	10	9	8
Around \$7.5bn	4	3	5
Around \$10bn or more	12	10	10
No funds under my direct control	18	17	15
Total (USD bn)	334	276	273
What best describes your investment time horizon at this moment?			
3 months or less	48	38	38
6 months	49	42	42
9 months	9	11	13
12 months or more	56	47	40
Weighted average	7.4	7.5	7.2
Don't know	3	3	4
Which region do you specialise in?			
US / North America	35	31	30
Europe / Continental Europe / Eurozone / UK	40	38	38
Asia Pacific / Asia Pacific ex Japan / Japan	60	39	31
South Africa	18	11	17
MENA (Middle East and North Africa)	8	10	9
None of the above	4	5	6

Source: BofA European Fund Manager Survey

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