

FX and Rates Sentiment Survey

Getting a long isn't easy

Key takeaways

- The US duration overweight retreated somewhat in the July survey, likely supporting the post CPI rally
- Reduced positioning from June consistent with long risk the most crowded trade in July
- Covering of USD short helps explain outsized depreciation following recent data

Moderation in duration view ahead of rally

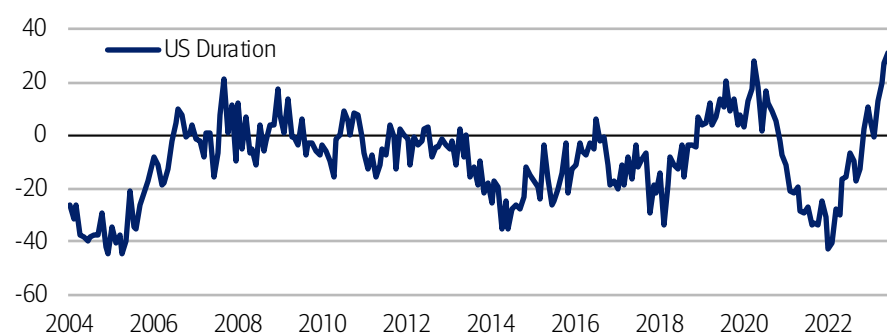
The US duration overweight retreated somewhat in the July survey. While global benchmark investors still hold an elevated overweight position, it is less stretched vs June (Exhibit 1). This moderation in positioning is consistent with the long duration view having been challenged in recent weeks alongside a resilient US economy and hawkish central bank surprises. Less stretched long positioning headed into CPI likely helped support the rally observed following the weaker than anticipated print.

Long risk, bearing in mind concerns about sticky inflation

A retreat in this view is consistent with responses reflected across other survey questions. Duration exposure globally shows a pullback with fewer respondents overweight vs their benchmark (Exhibit 2). There is greater confidence that we will avoid a global recession and less concern about financial stability risk. Sticky inflation continues to be seen as the biggest potential challenge (Exhibit 7). Investors see the most crowded trade as long risk (Exhibit 2), aligning with a more optimistic macro view.

Exhibit 1: Duration overweights moderate in July

Duration overweights now less pronounced than June



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Refer to important disclosures on page 22 to 24. Refer to important disclosures on page 22 to 24.

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Rates and FX
Global

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Analytics



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Our survey was conducted on 7 – 12 July 2023. A total of 66 Fund Managers responded, with USD1056bn 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 contact Ralf Preusser or your BofA sales representative.

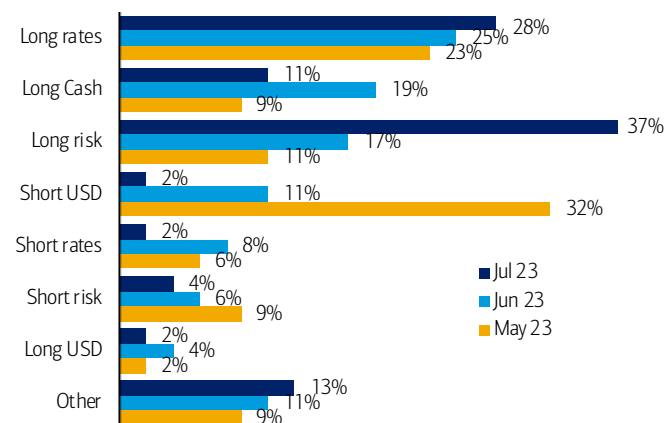
Participants in the survey will receive the full set of monthly results, but only for the relevant month in which they participate.

Setting the stage for new longs

While conviction in the long duration view retreated in the July survey, signs that we may be closer to the last Fed hike has likely paved the way for new longs. We think the long duration trade remains a safer expression vs the cure as we near the end of hikes (see the report: [10y UST: lower but slower](#)). This contradicts a slim majority of respondents that believe the curve will be steeper vs forwards over the next quarter (Exhibit 8).

Exhibit 2: Most crowded trade

Biggest perceived reduction in positioning was short USD

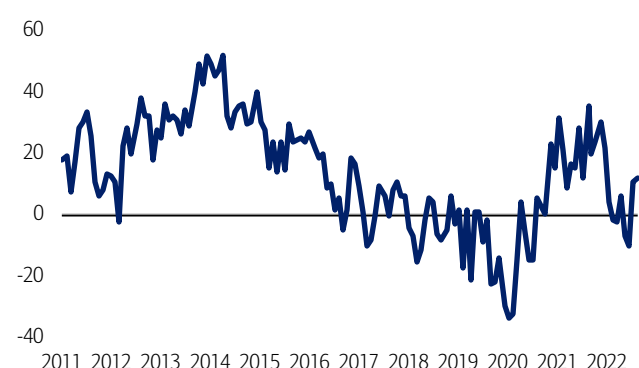


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 3: FX exposure: USD

USD exposure turned slightly longer



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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Is consensus contrarian?

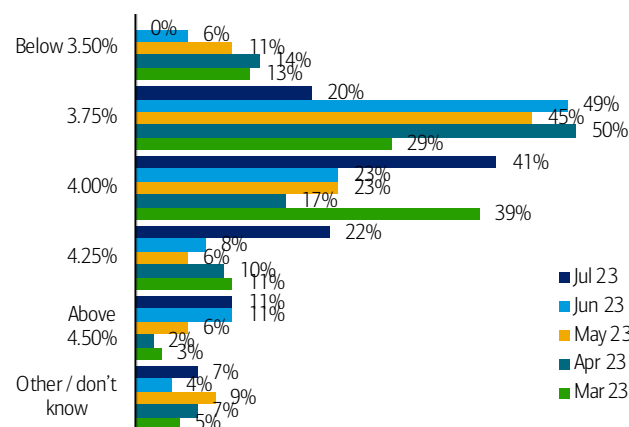
On one hand, long risk is perceived to be the most crowded (Exhibit 2) trade but the price action suggests otherwise. On the other, the biggest drop in perceived exposure in recent months has been short USD. This could help explain the outsized USD move vs. rates after the June US CPI print (see the report: [June \(CPI, NFP\) Swoon for the USD](#)).

Terminal uncertainty

While we were bearish the EUR front end, the sharp rise in terminal rate expectations (Exhibit 4) suggests caution at these levels – we expect EUR rates underperformance to shift to the 5y ([Three stories, same price action 04 July 2023](#)). Meanwhile expectations for a tweak to Bank of Japan's YCC at the upcoming July meeting have reduced but perhaps not as low as recent shifts to economist forecasts may imply (Exhibit 5).

Exhibit 4: I see the terminal ECB depo at:

Sharp rise in respondents expecting 4.00-4.25% terminal rate

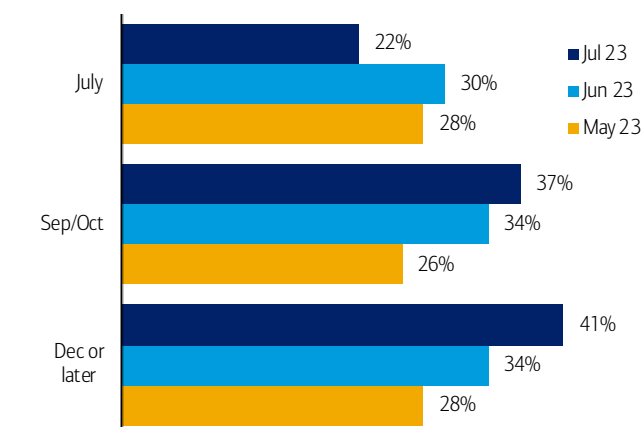


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 5: When do you think BoJ will tweak or remove YCC?

Expectations for July tweak to YCC have fallen but far from trivial



Source: BofA Global Research FX and Rates Sentiment Survey

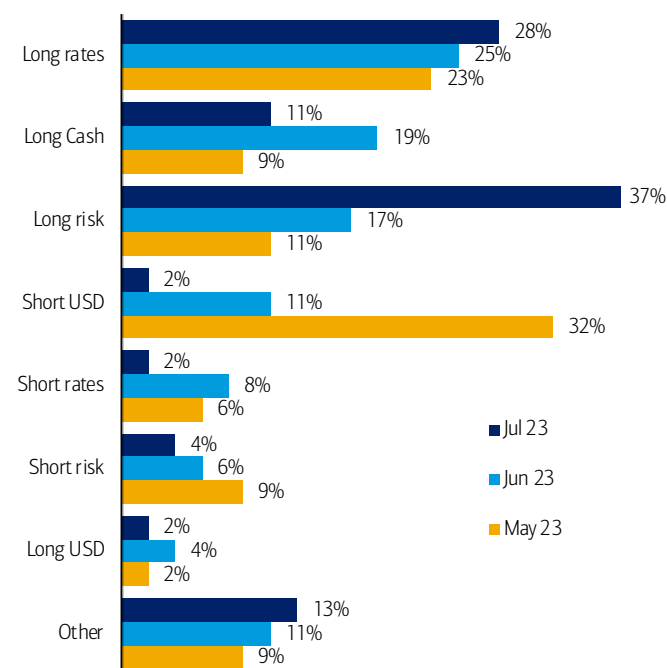
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FX and Rates Sentiment Survey July 2023

Long risk is now perceived as the most crowded trade. Long rates still considered crowded but the USD shorts were seen as reduced, which could help explain the outsized USD move vs. rates after the June US CPI print.

Exhibit 6: Most crowded trade:

Long risk now considered the most crowded trade



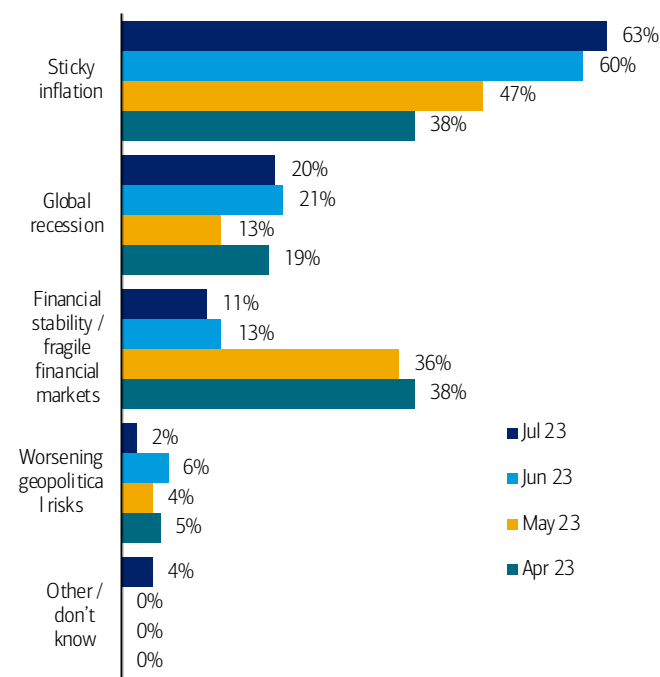
Source: BofA Global Research FX and Rates Sentiment Survey

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Sticky inflation remains top of mind for investors, although this may have changed somewhat following the US June CPI data

Exhibit 7: My biggest concern today is:

Sticky inflation remains top concern



Source: BofA Global Research FX and Rates Sentiment Survey

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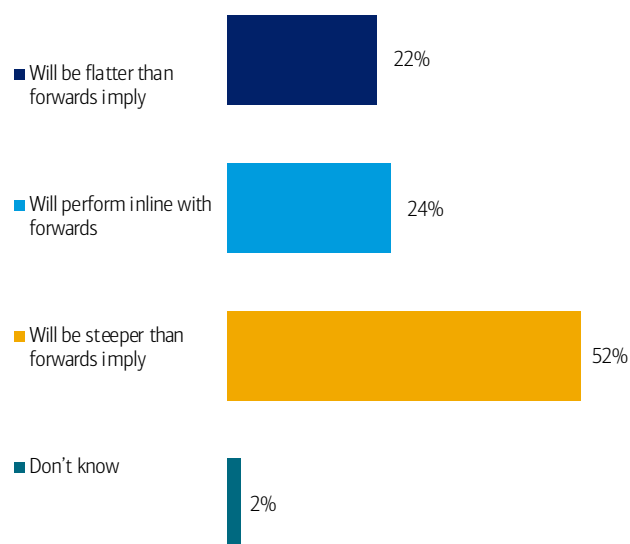


Investors expect curve steepeners to perform, but this would likely require a harder landing scenario that is not a key concern.

Investors keep questioning central banks' commitment to 2% inflation, but few now expect central banks to accommodate more than 3%.

Exhibit 8: For the next quarter, I believe 2s10s curves globally:

Investors have a clear curve steepening bias

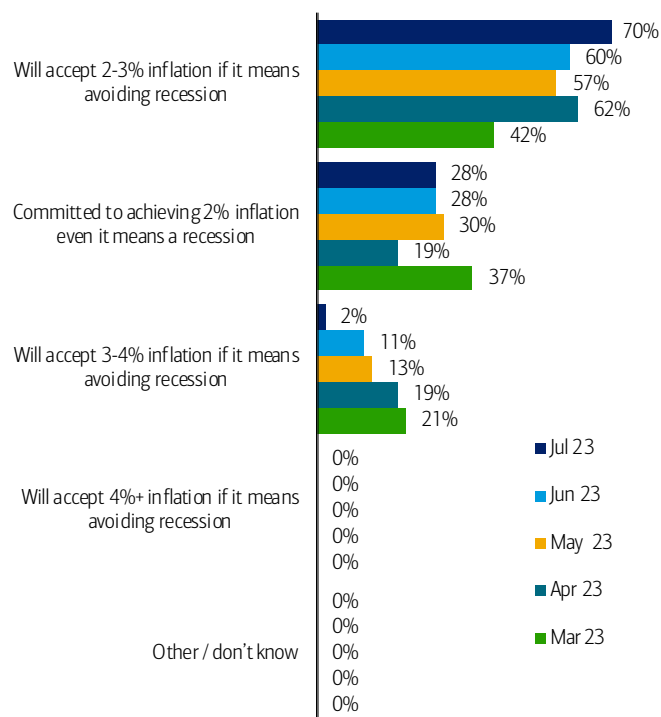


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 9: My view on central bank inflation targets:

2-3% still viewed as acceptable by central banks



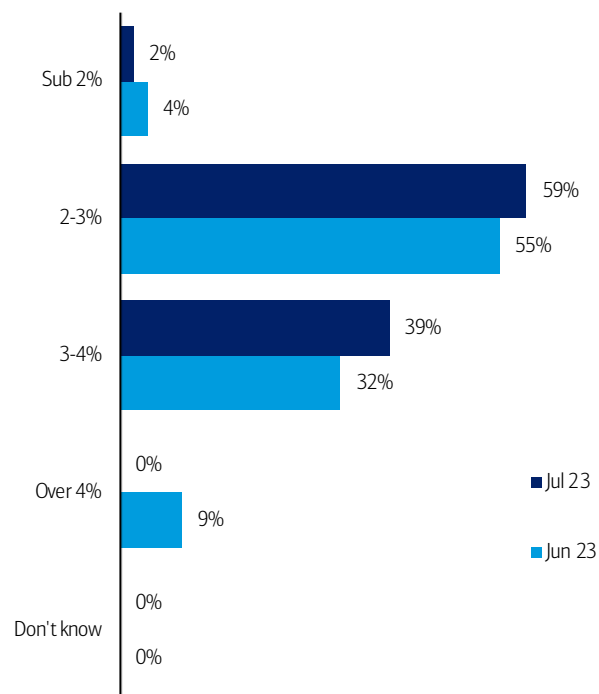
Source: BofA Global Research FX and Rates Sentiment Survey

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The majority continue to see US inflation at 2-3% by end-2024, with risks skewed higher.

Exhibit 10: I expect US inflation at the end of 2024 to be

The majority see US inflation at 2-3% by the end of 2024



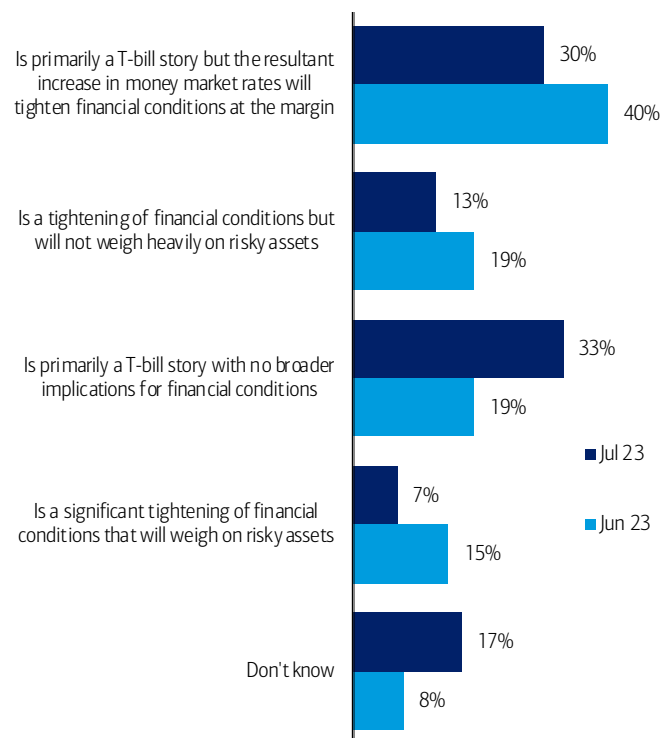
Source: BofA Global Research FX and Rates Sentiment Survey

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Fewer investors expect US Treasury Bill issuance to tighten financial conditions, especially with limited evidence of tighter funding so far.

Exhibit 11: US Treasury's efforts to rebuild cash (TGA) balances post debt ceiling resolution

No major concerns around tighter USD funding for broader asset markets



Source: BofA Global Research FX and Rates Sentiment Survey

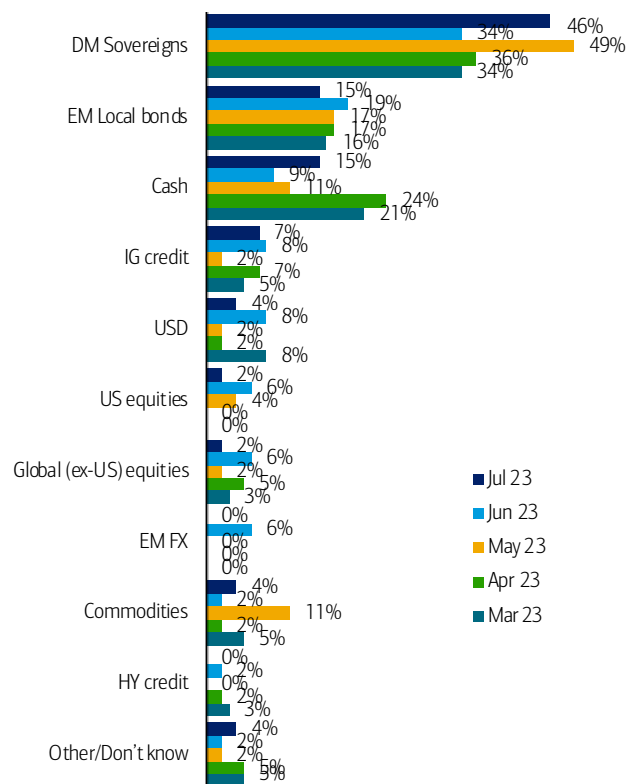
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Almost half see DM Sovereigns as their favourite asset class.

Exhibit 12: Which asset class will outperform over the next 3-6 months

DM sovereigns remain the favourite asset class



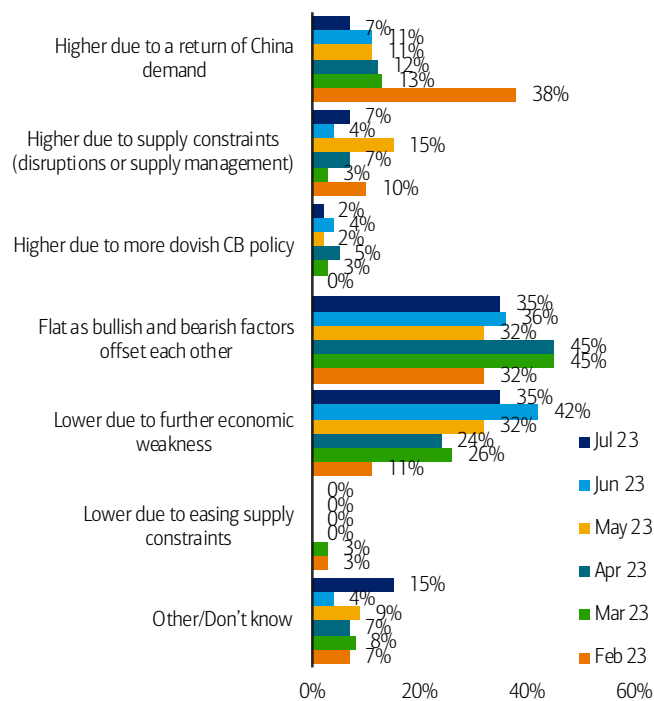
Source: BofA Global Research FX and Rates Sentiment Survey

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Respondents remain net bearish on commodities but their conviction slightly dented.

Exhibit 13: Over the next 6 months commodities will be:

Commodity bearishness continues but lower conviction



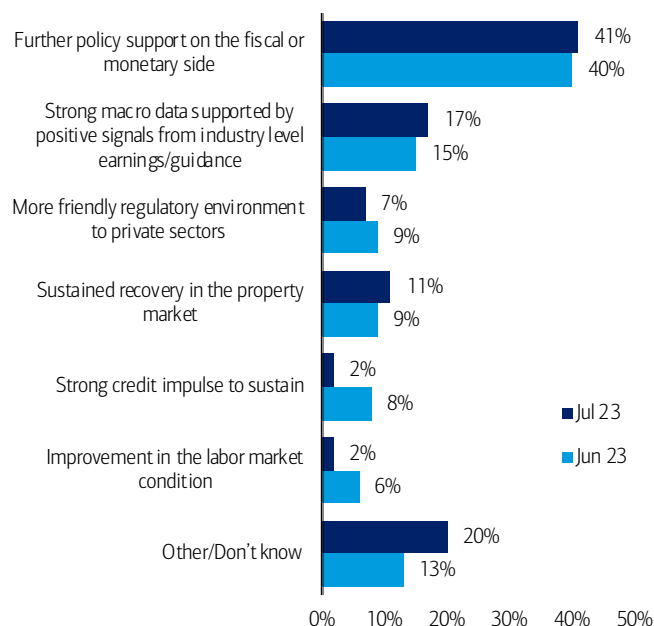
Source: BofA Global Research FX and Rates Sentiment Survey

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Disappointing economic data means policy stimulus is viewed as necessary for investors to reengage in the China trade.

Exhibit 14: What are the signs or catalysts that would make you more bullish on China?

Policy easing is necessary for a recovery in China sentiment



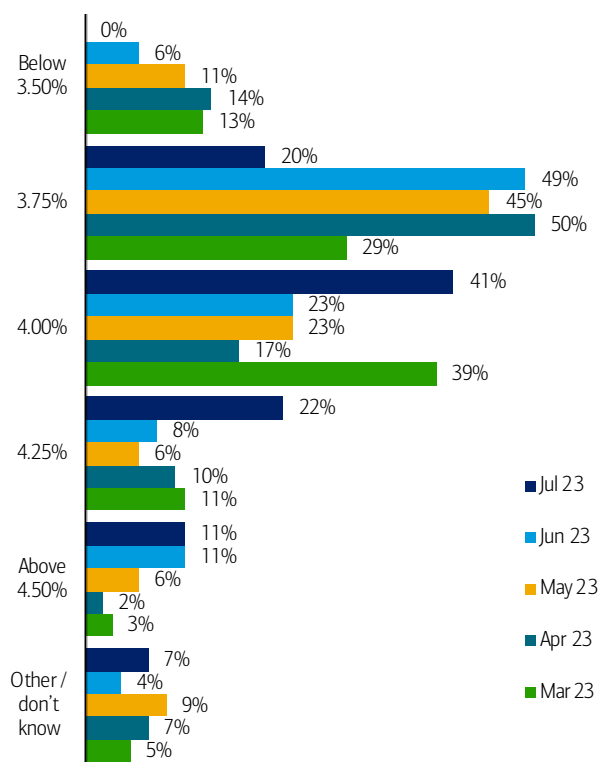
Source: BofA Global Research FX and Rates Sentiment Survey

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Respondents now lean more hawkish on the ECB than markets. While the terminal rate is implied at just under 4%, the survey shows that 33% expect a terminal rate strictly above 4% vs 20% expecting it to be strictly lower.

Exhibit 15: I see the terminal ECB depo at:

4.00% now the base case with risks skewed higher



Source: BofA Global Research FX and Rates Sentiment Survey

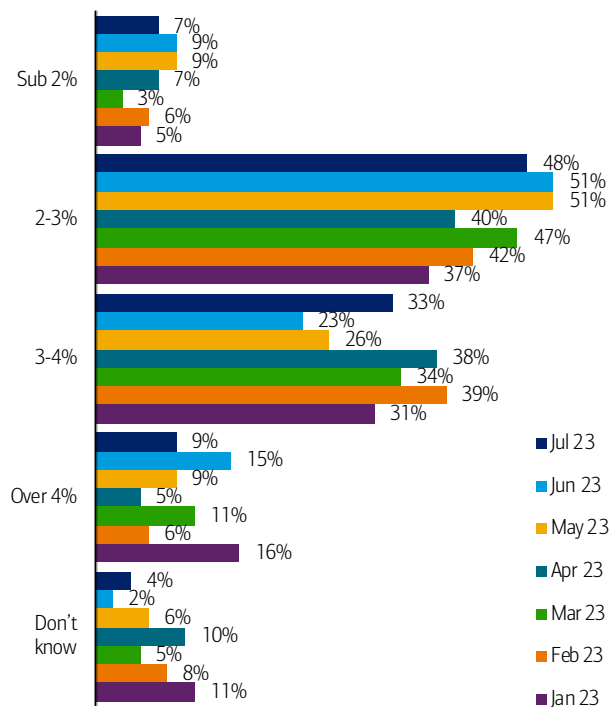
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ECB terminal rate expectations are consistent however with hawkish views on inflation: 42% of respondents expect above 3% Eurozone inflation by end-2024.

Exhibit 16: I expect Eurozone inflation at the end of 2024 to be:

2-3% inflation at end-2024 remains the base case



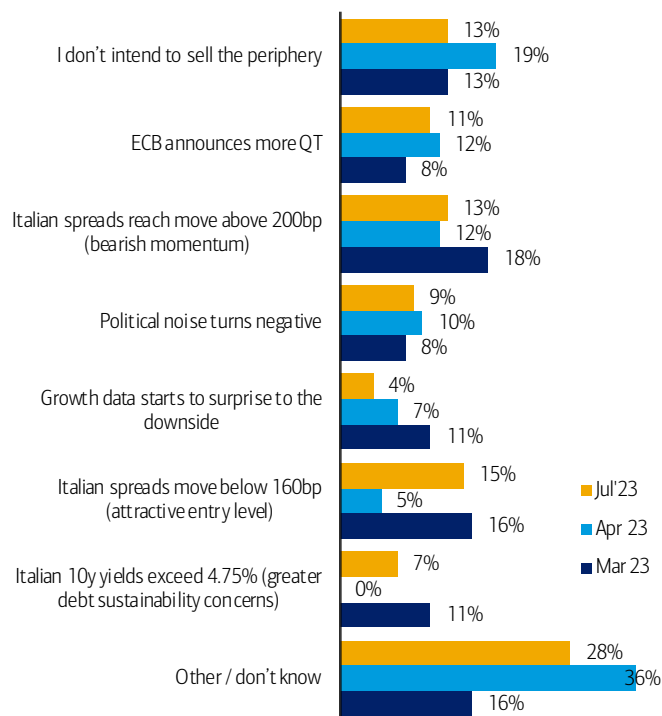
Source: BofA Global Research FX and Rates Sentiment Survey

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No consensus on conditions to sell periphery. BTPs benefit from positive technicals over summer but we like 5s10s steepeners on weaker macro.

Exhibit 17: I will be most likely to enter / add short positions in the periphery, if/when:

No consensus on trigger to sell periphery



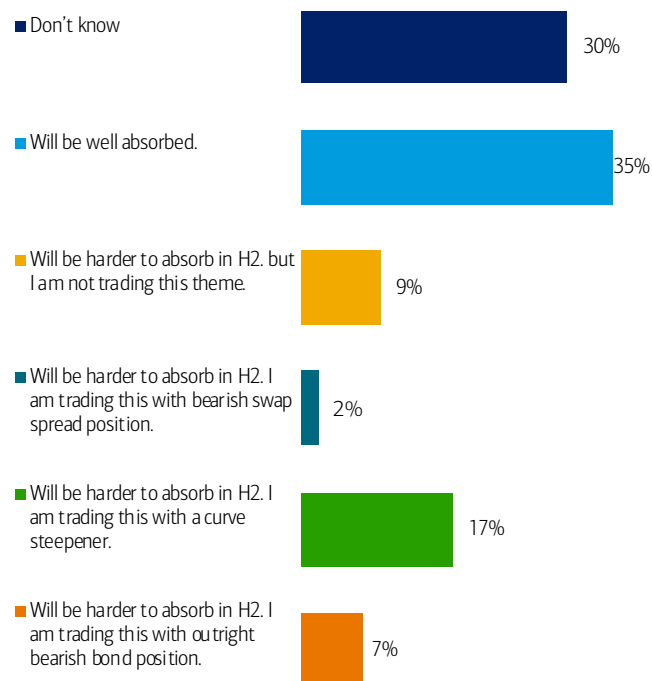
Source: BofA Global Research FX and Rates Sentiment Survey

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Limited concern around core EGB supply, trades focused on steepeners rather than outright duration or spread shorts.

Exhibit 18: I believe core EGB supply:

Limited concern and no clear outright trade around supply surge



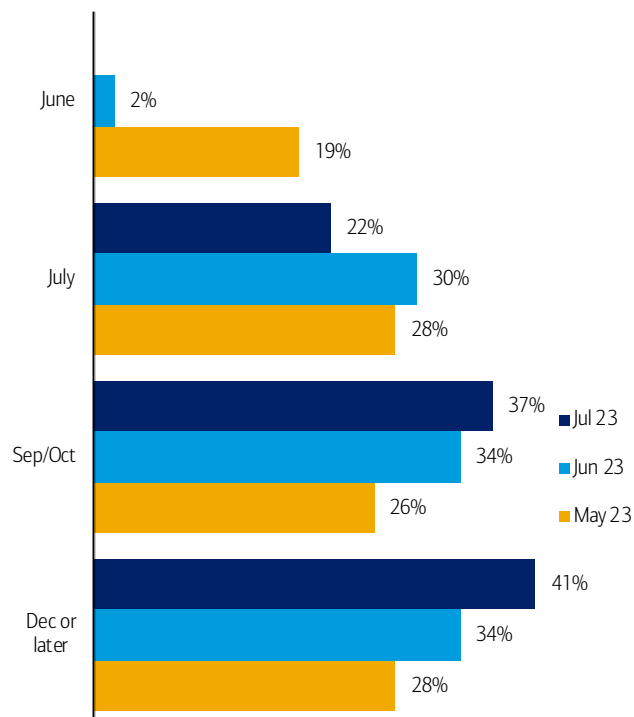
Source: BofA Global Research FX and Rates Sentiment Survey

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Expectations for YCC adjustment have shifted further away from the July meeting, with Sep/Oct remaining the base case.

Exhibit 19: When do you think BoJ will tweak or remove YCC?

Base case shifting further away from July



Source: BofA Global Research FX and Rates Sentiment Survey

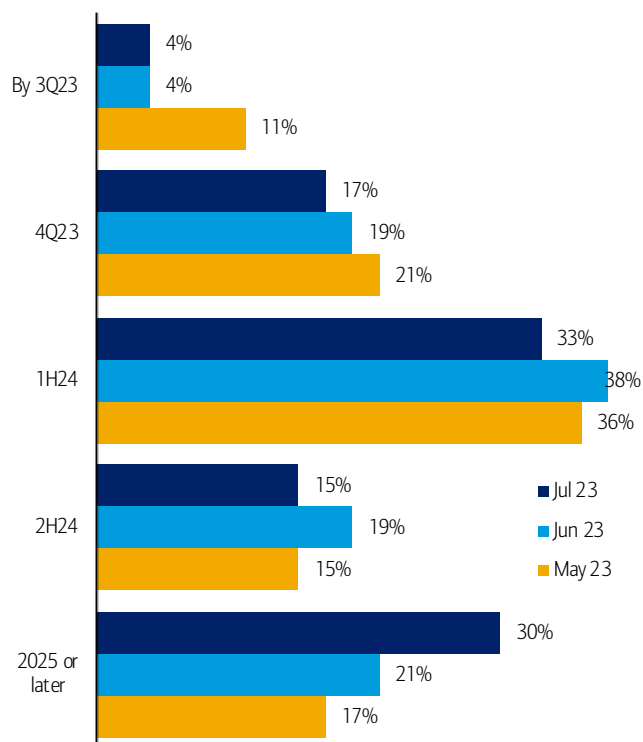
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Most respondents continue to expect the NIRP abandonment by 1H24, but almost a third now expect it in 2025 or later.

Exhibit 20: When do you think BoJ will remove NIRP?

Most continue to expect the NIRP abandonment by 1H24



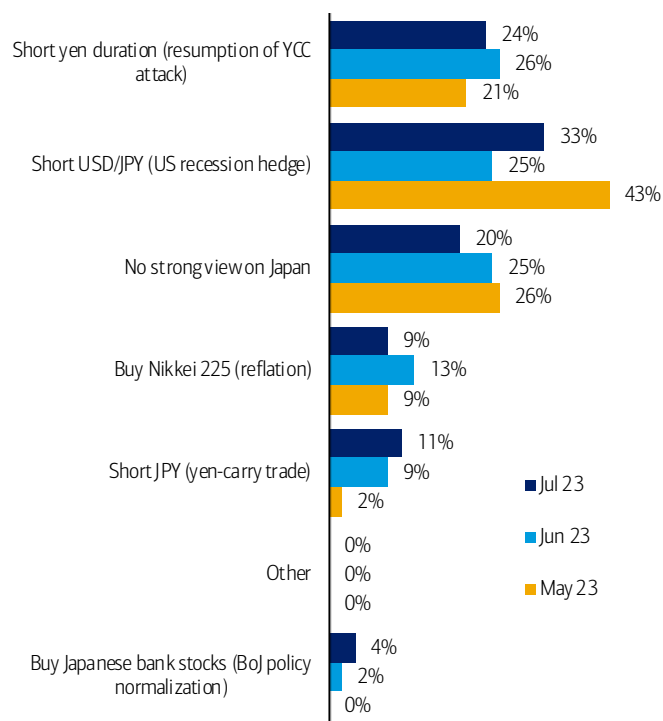
Source: BofA Global Research FX and Rates Sentiment Survey

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Short USDJPY seen again as favourite Japan trade for 2023, now ahead of short yen duration.

Exhibit 21: What is the best Japan trade for 2023?

Short USD/JPY conviction has grown



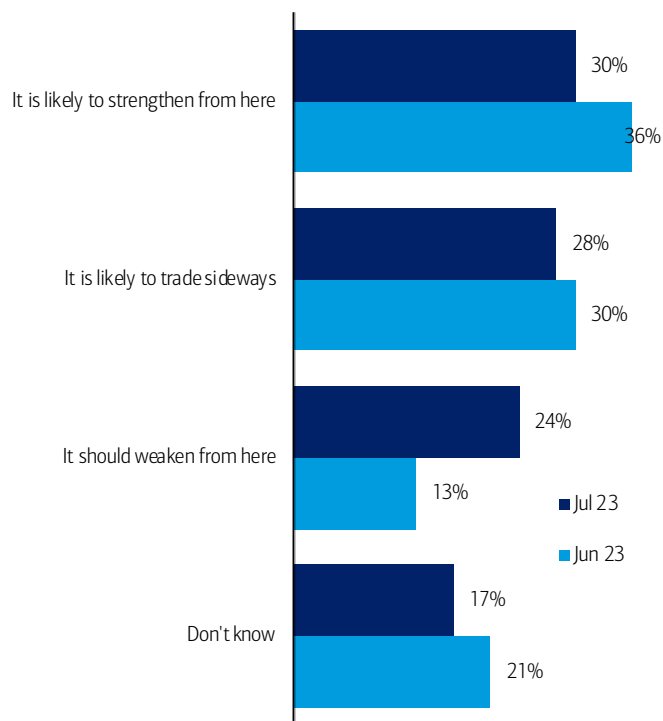
Source: BofA Global Research FX and Rates Sentiment Survey

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On balance respondents remain constructive on EM FX, but views more split at current levels.

Exhibit 22: My view on EMFX in the 3 months is:

On balance respondents remain constructive on EM FX



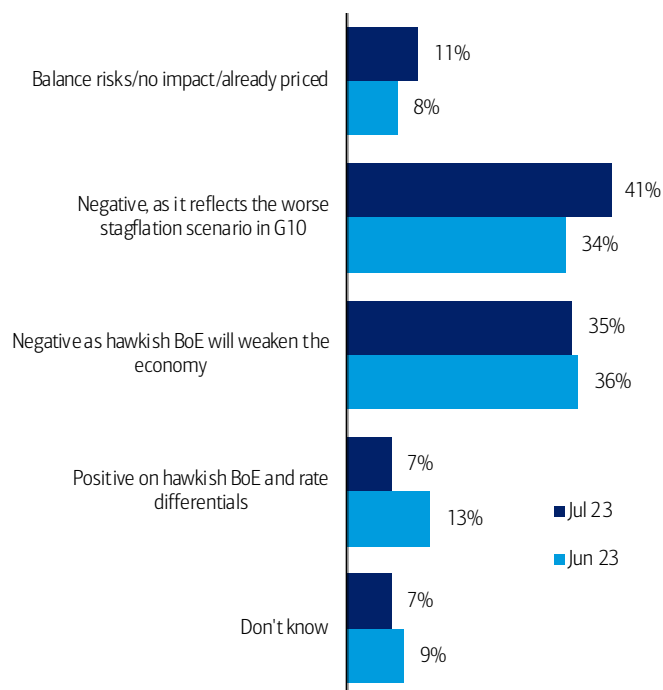
Source: BofA Global Research FX and Rates Sentiment Survey

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Stagflation concerns rose further with core inflation yet to peak, which suggests risks for GBP.

Exhibit 23: The impact of the renewed surge in UK core inflation on GBP is:

Stagflation is bad for GBP



Source: BofA Global Research FX and Rates Sentiment Survey

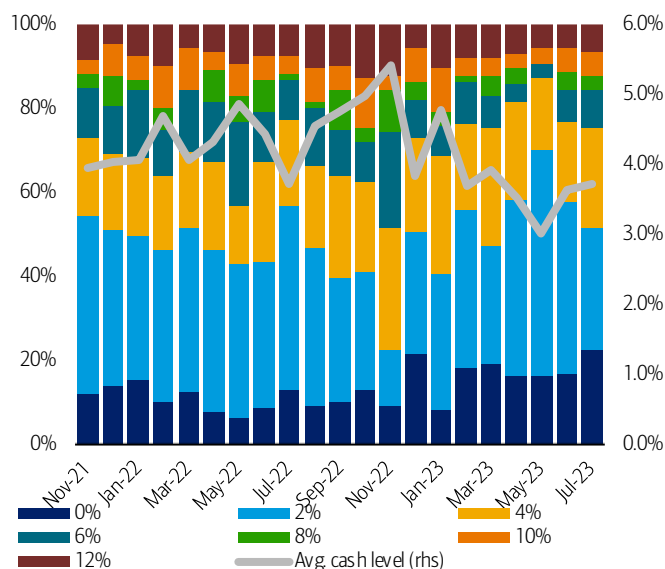
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Global Risk Appetite

Exhibit 24: Which of the following comes closest to your current cash position in your portfolio?

Average cash levels at 3.7%

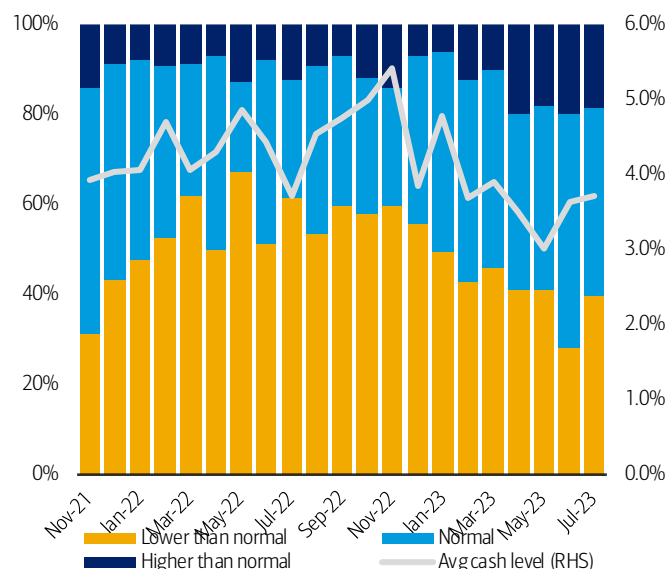


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 25: 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 = skewed lower than normal

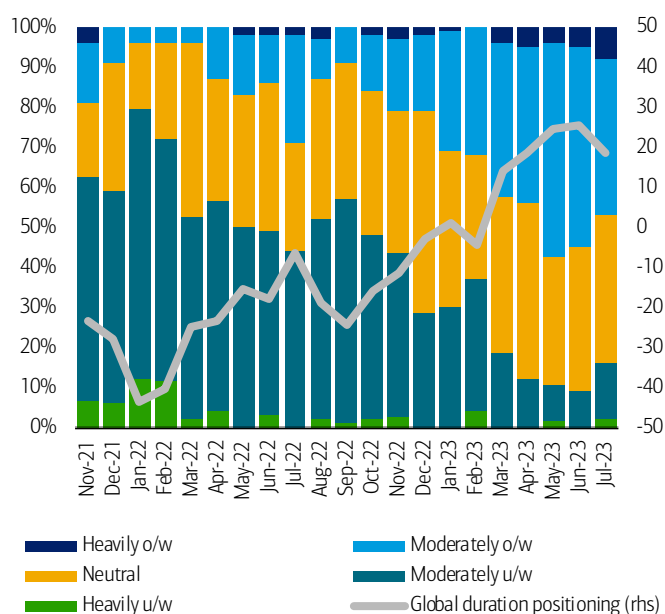


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 26: Duration exposure: Global

Duration exposure pulling back a little...



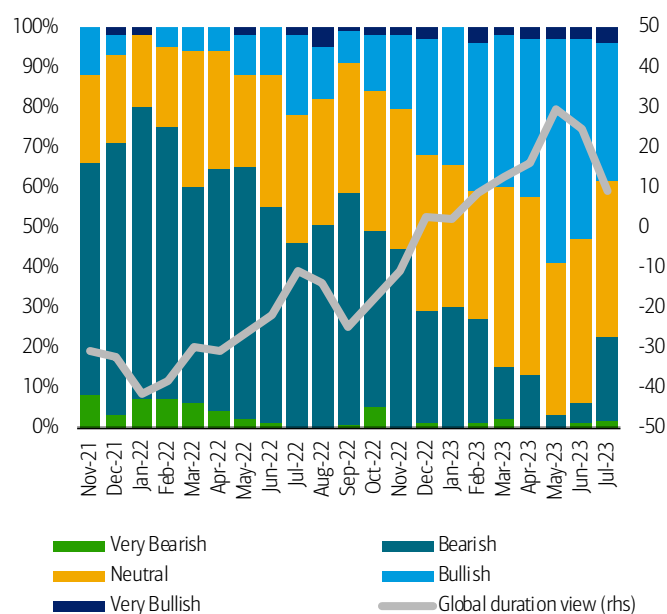
Source: BofA Global Research FX and Rates Sentiment Survey

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 27: Duration view: Global

...in line with bullish duration view retreating further into the US CPI



Source: BofA Global Research FX and Rates Sentiment Survey

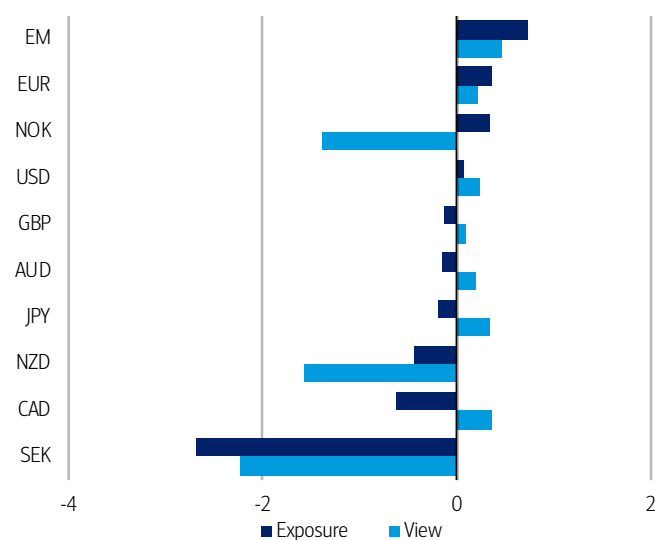
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Positioning and View Summary

Exhibit 28: 1-year FX Exposure and View (z-score)

EM FX view scaled back somewhat as USD view slightly more constructive

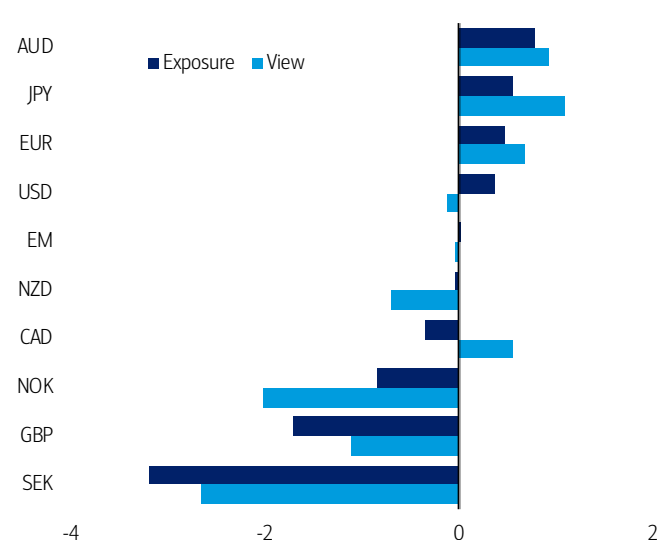


Source: BofA Global Research FX and Rates Sentiment Survey; Note: Data for FX Exposure starts in January 2004 for USD, EUR, GBP, JPY, CAD and EM, while for AUD, NZD, NOK and SEK the start date is January 2016; Data for FX View starts in December 2011 for USD, EUR, GBP, JPY, CAD and EM, while for AUD,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

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Exhibit 29: Full period FX Exposure & View (z-score)

Respondents neutral on USD and EM FX on a longer time-frame

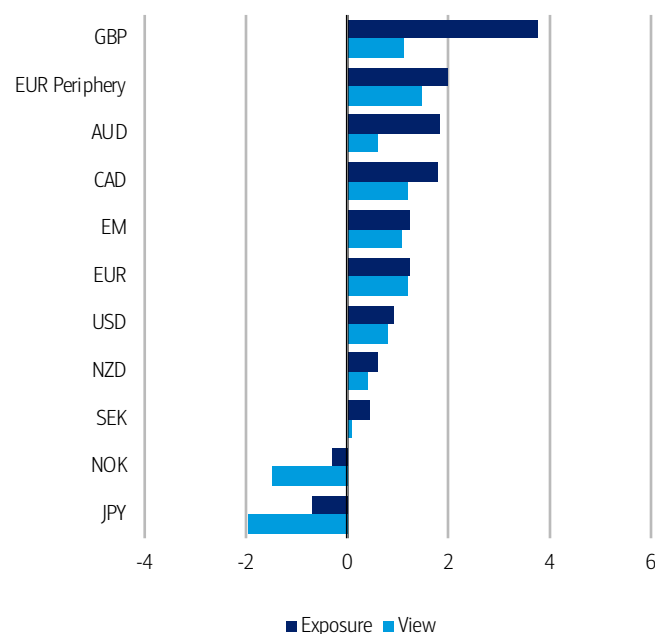


Source: BofA Global Research FX and Rates Sentiment Survey; Note: Data for FX Exposure starts in January 2004 for USD, EUR, GBP, JPY, CAD and EM, while for AUD, NZD, NOK and SEK the start date is January 2016; Data for FX View starts in December 2011 for USD, EUR, GBP, JPY, CAD and EM, while for AUD,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

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Exhibit 30: 1-year Rates Exposure & View (z-score)

Bullish duration views scaled back, largely across the board

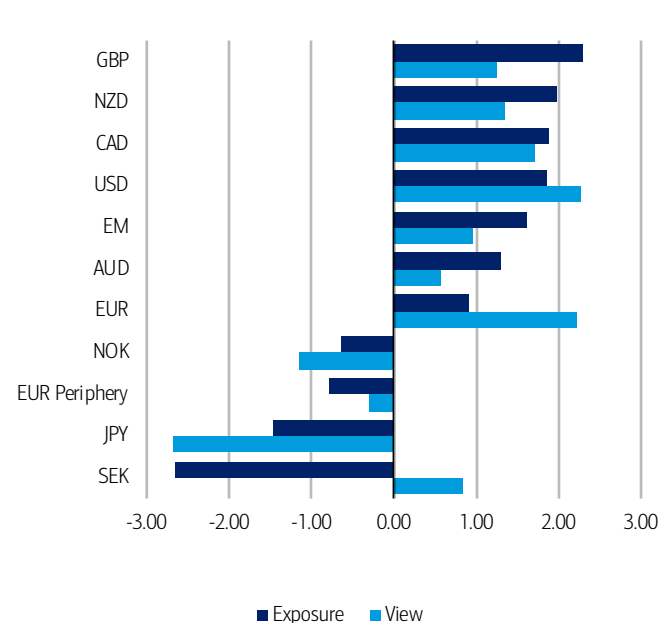


Source: BofA Global Research FX and Rates Sentiment Survey; Note: Data for Rates Exposure starts in January 2004 for USD, EUR, GBP, JPY, CAD and EM, while for AUD, NZD, NOK and SEK the start date is January 2016 and EUR periphery starts in April 2013. Data for Rates View starts in December 2011 for USD, 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 31: Full period Rates Exposure & View (z-score)

GBP, NZD and SEK positions stand out on a longer time-frame



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.

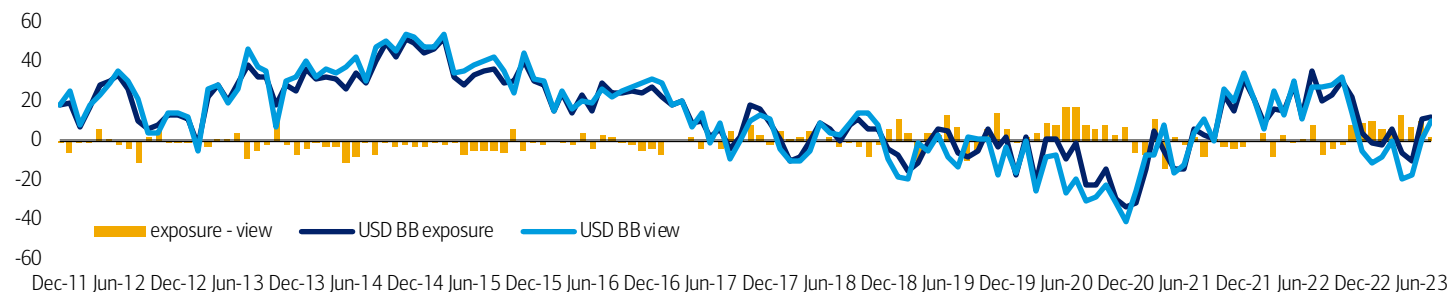
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United States

USD duration exposures has moderated from the June highs (Exhibit 33) while USD longs extended slightly (Exhibit 32). The retreat in positioning likely helped clear the way for the post CPI rally.

Exhibit 32: FX exposure and view: USD

USD exposure turned slightly more long



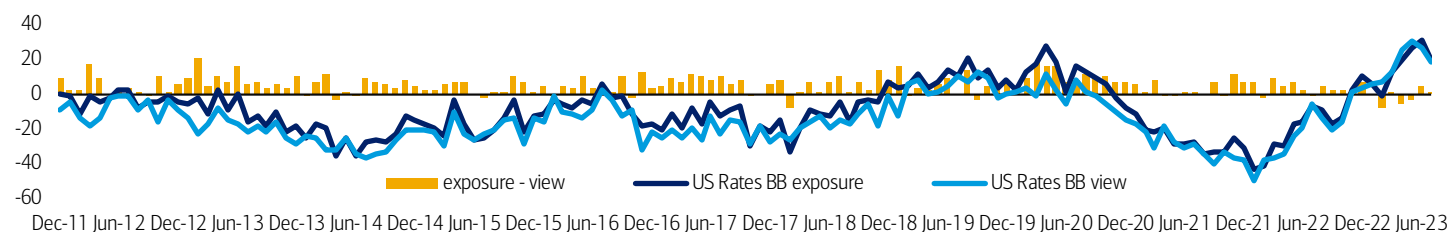
Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 33: Duration exposure and view: USD

USD duration exposures moderated from the June highs



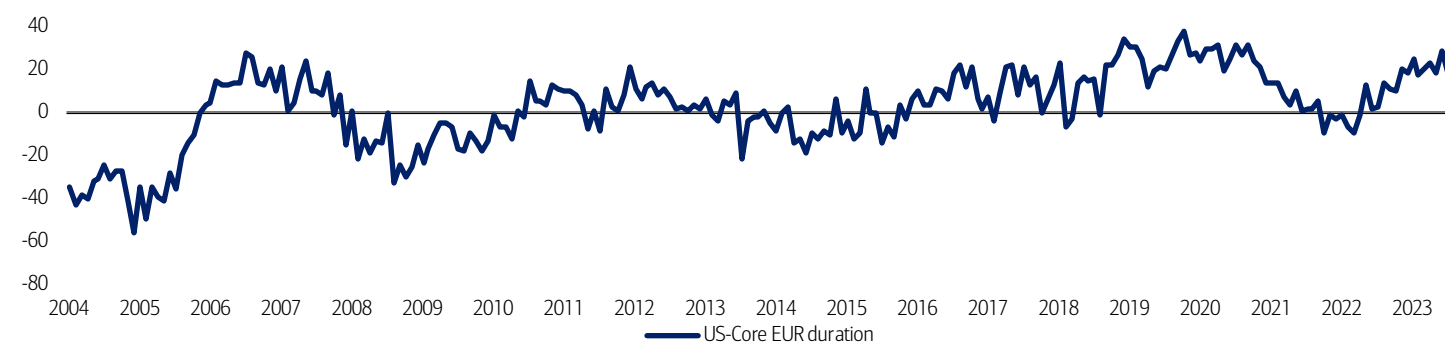
Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 34: US-Core Europe Duration Exposure

US vs Core EUR Bull-Bear rates exposure spread moderated on the cooling in US rates positioning.



Source: BofA Global Research FX and Rates Sentiment Survey

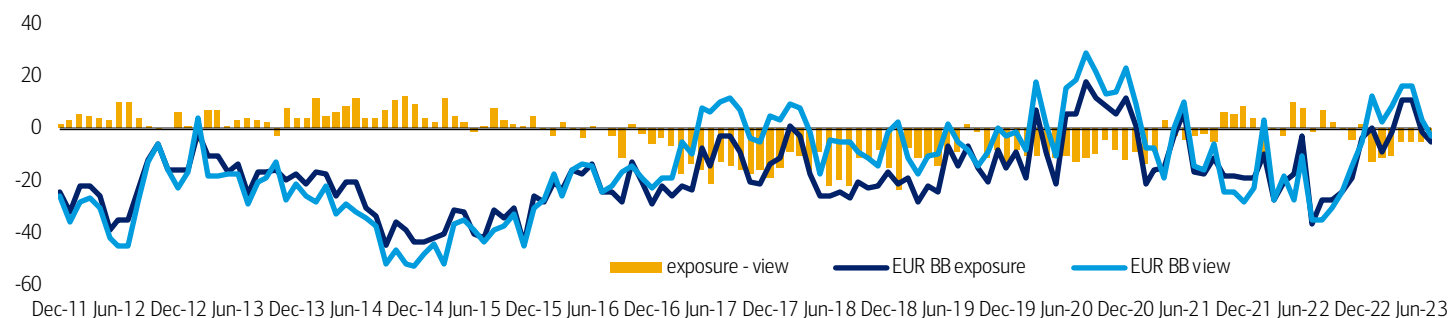
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Eurozone

EUR duration exposure is closer to benchmark weights than the view which remains modestly more long (Exhibit 36). EUR FX exposure moved slightly short in July (Exhibit 35). Periphery exposures and sentiment are largely unchanged, as spreads remain a side show (Exhibit 37).

Exhibit 35: FX exposure and view: EUR

EUR exposures and sentiment take a sharp turn lower



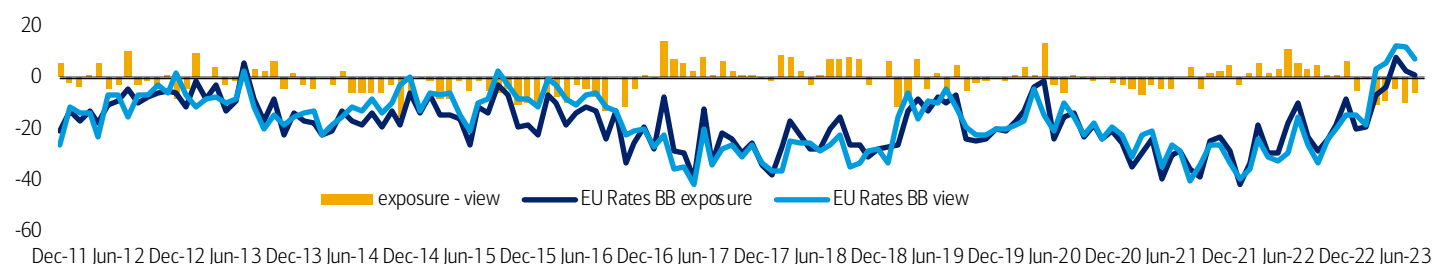
Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 36: Duration exposure and view: Core Europe

Core duration is sold even as sentiment remains bullish



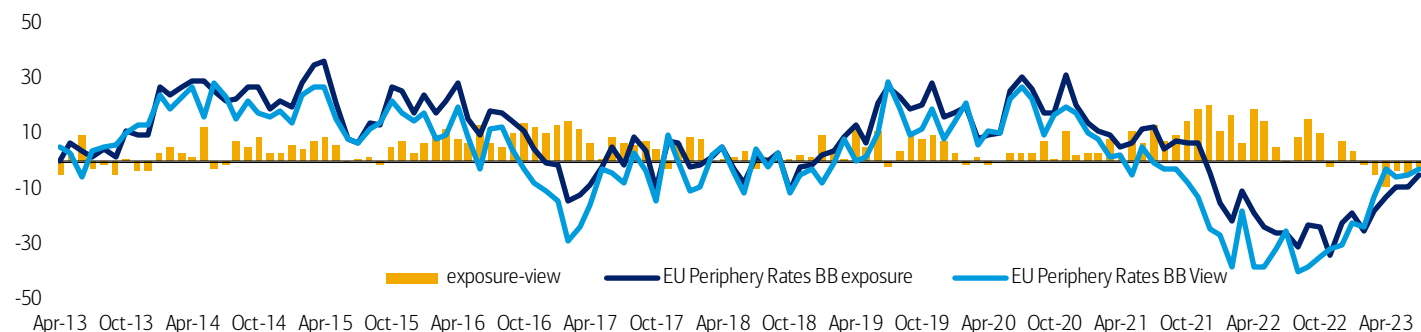
Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 37: Duration exposure and view: Peripheral Europe

Periphery exposures are largely unchanged on the month



Source: BofA Global Research FX and Rates Sentiment Survey

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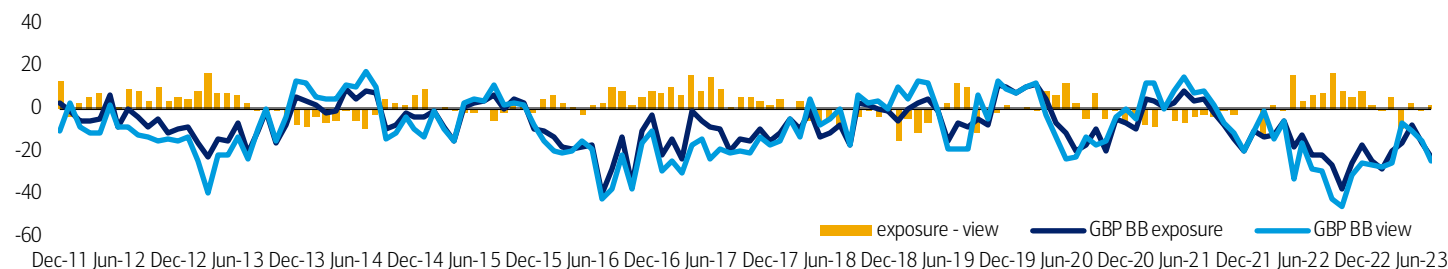
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United Kingdom

GBP was again sold as investors continue to take a negative view of the implication of sticky core inflation for the currency. Gilt short covering continues, despite sentiment remaining weak. The gap between exposure and views is nearing its record high.

Exhibit 38: FX exposure and view: GBP

GBP exposures continue to decline



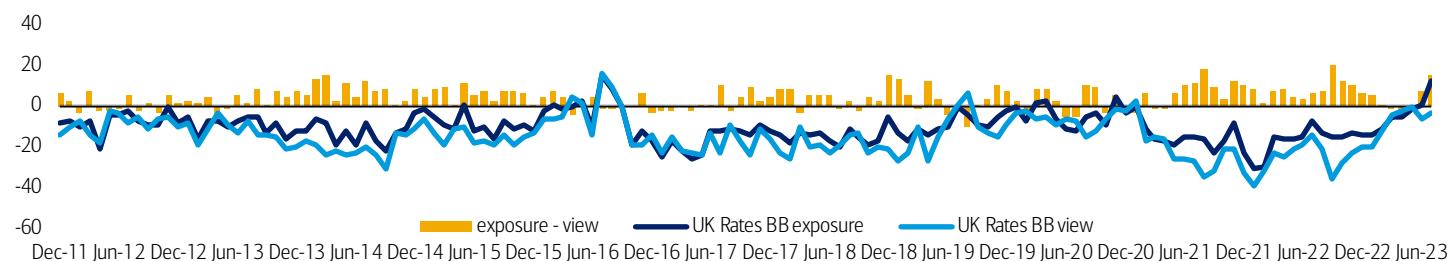
Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 39: Duration exposure and view: UK

Gilt short covering continues, even as sentiment is weaker



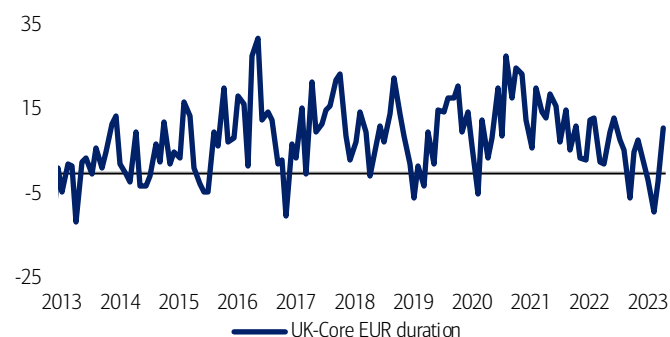
Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 40: UK-Core Europe Duration Exposure

UK vs Core EUR Bull-Bear rates exposure spread

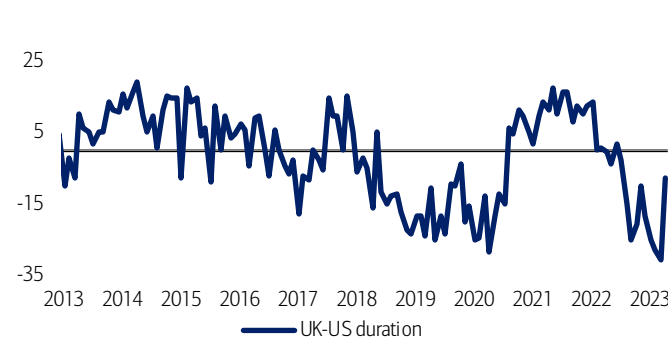


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 41: UK-US Duration Exposure

UK vs US Bull-Bear rates exposure spread



Source: BofA Global Research FX and Rates Sentiment Survey

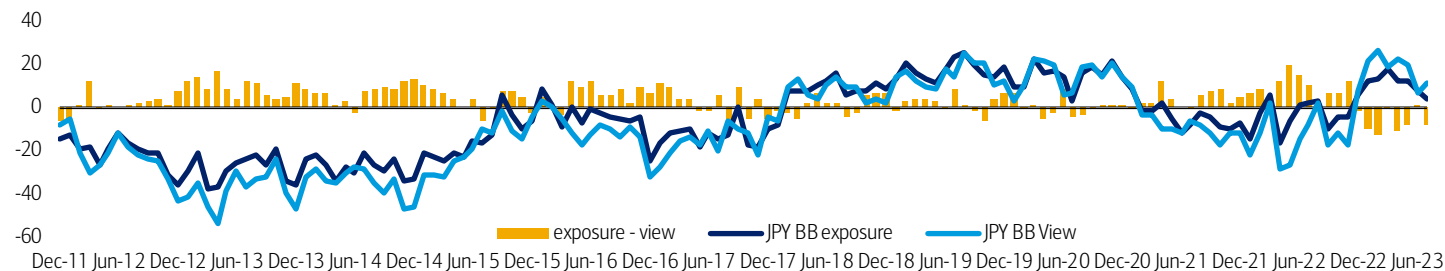
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Japan

JPY longs were reduced modestly despite the short USD/JPY trade growing in popularity as the best Japan trade for 2023. In rates, we actually saw renewed selling of JGB duration, even though the timing of NIRP and YCC abandonment getting pushed out.

Exhibit 42: FX exposure and view: JPY

JPY sentiment deteriorates sharply to catch up with much more sanguine JPY FX exposures which moderate further



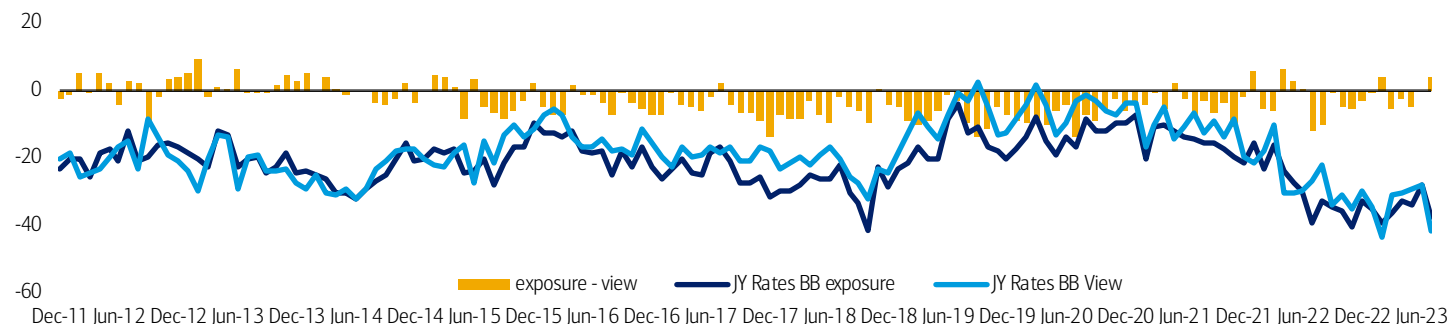
Source: BofA Global Research FX and Rates Sentiment Survey

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 43: Duration exposure and view: JY

JGB shorts are covered back slightly but remain sizeable cross market



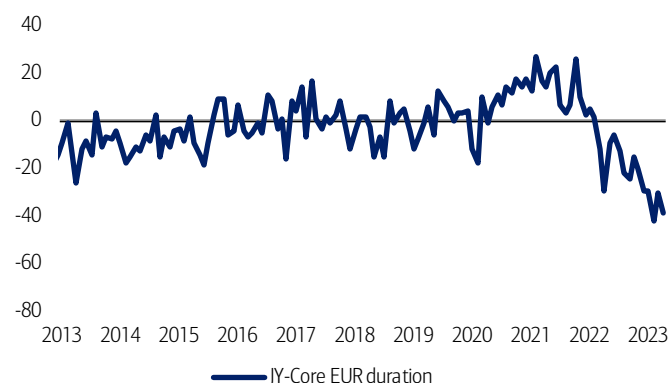
Source: BofA Global Research FX and Rates Sentiment Survey

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: JY-Core Europe Duration Exposure

JY vs Core Europe Bull-Bear rates exposure spread

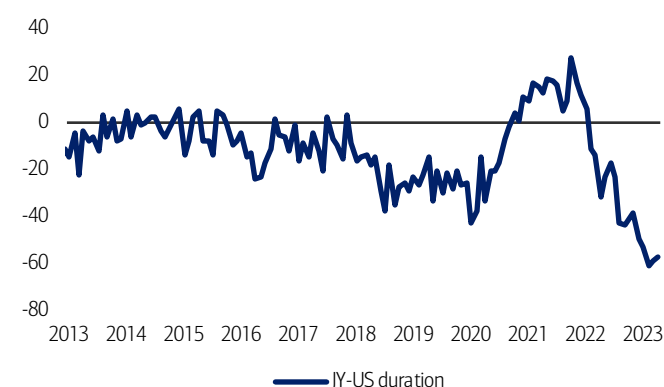


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 45: JY-US Duration Exposure

JY vs US Bull-Bear rates exposure spread



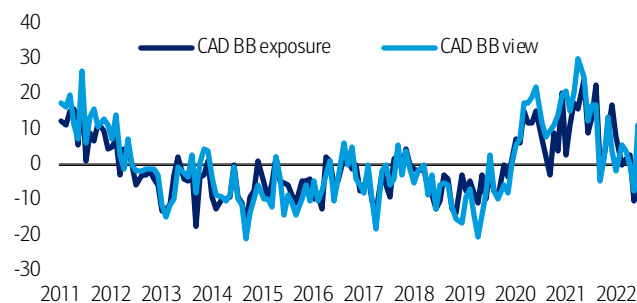
Source: BofA Global Research FX and Rates Sentiment Survey

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Canada, Australia and New Zealand

Exhibit 46: FX exposure and view: CAD

CAD exposure and view hovering around neutral despite hawkish BoC



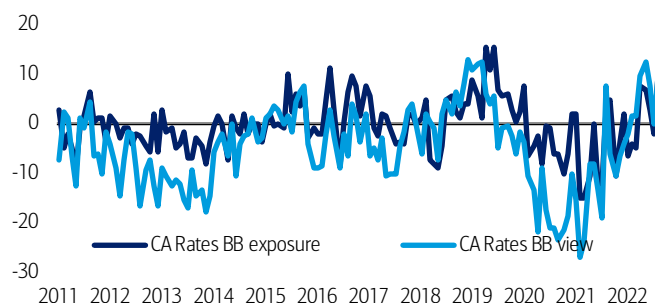
Source: BofA Global Research FX and Rates Sentiment Survey

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 47: Duration exposure and view: CA

CAD duration exposure & view higher into the BoC hike which hit the survey period



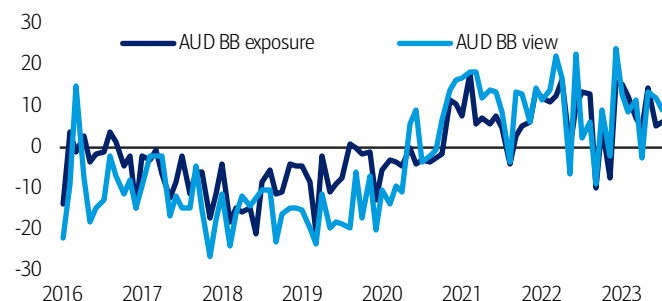
Source: BofA Global Research FX and Rates Sentiment Survey

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: FX exposure and view: AUD

AUD exposure flat but sentiment slightly less constructive



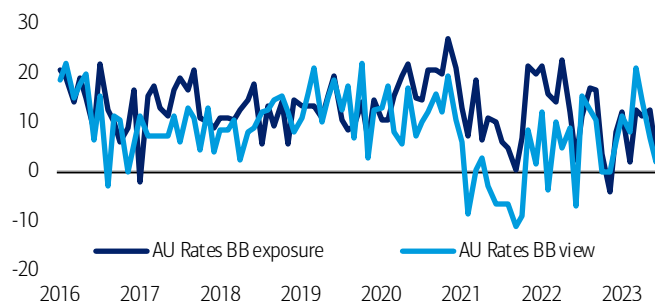
Source: BofA Global Research FX and Rates Sentiment Survey

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: Duration exposure and view: AU

Duration exposure and sentiment recovered as the RBA remained on hold



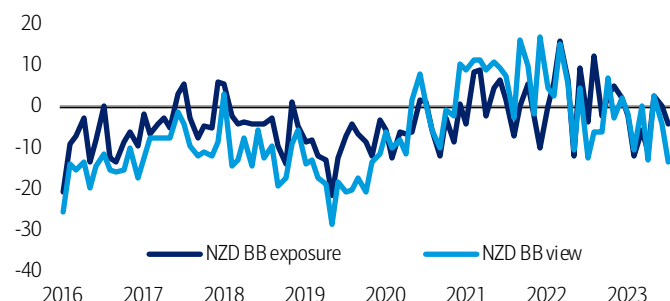
Source: BofA Global Research FX and Rates Sentiment Survey

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: FX exposure and view: NZD

NZD exposure and sentiment falling below neutral



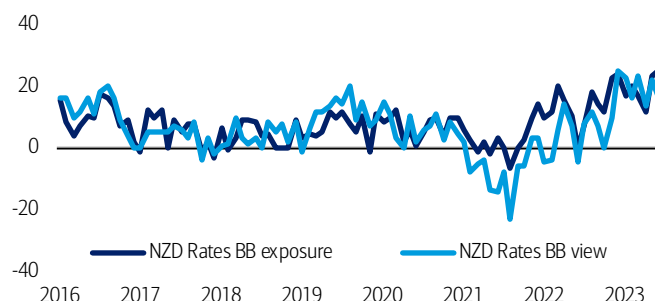
Source: BofA Global Research FX and Rates Sentiment Survey

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: Duration exposure and view: NZD

NZD duration overweights pulled back slightly



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.

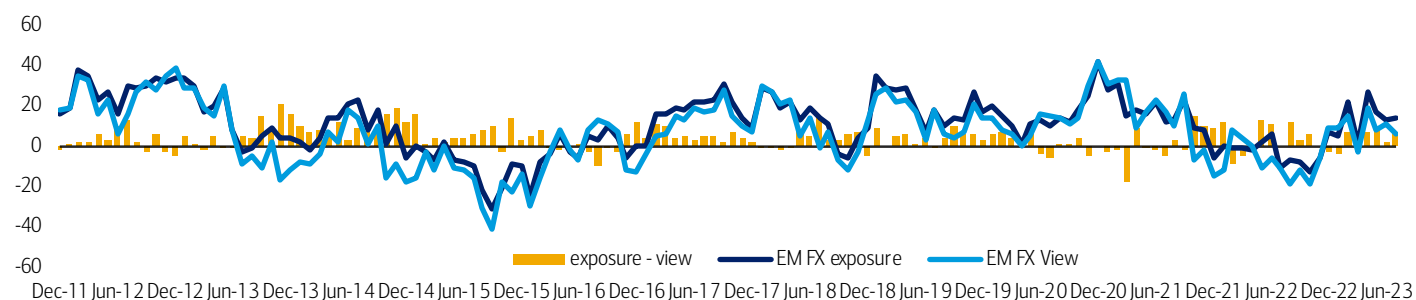
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Emerging Markets

EM FX positioning continues to correct lower after April's sharp bounce in contrast to the reported bullishness on EM FX (Exhibit 28). EM duration exposures modestly lag more conservative sentiment.

Exhibit 52: FX exposure and view: EM

EMFX exposure continues to moderate after April's bounce



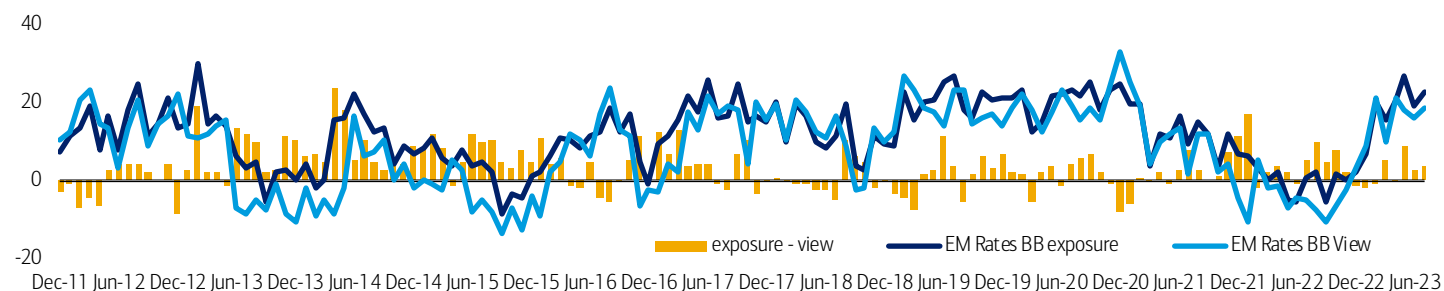
Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 53: Duration exposure and view: EM

Duration exposure increases alongside sentiment



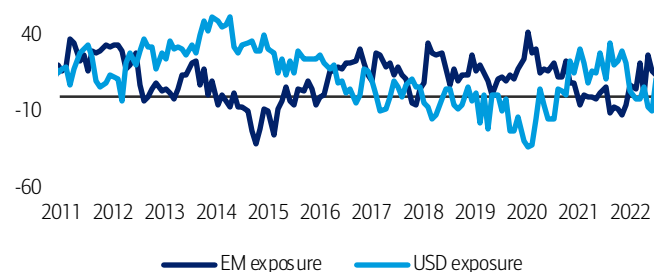
Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 54: EM and USD FX exposure

EM vs US Bull-Bear fx exposure spread

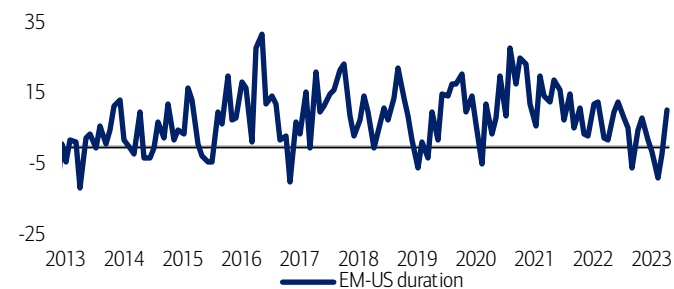


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 55: EM vs. US duration exposure

EM vs US Bull-Bear rates exposure spread



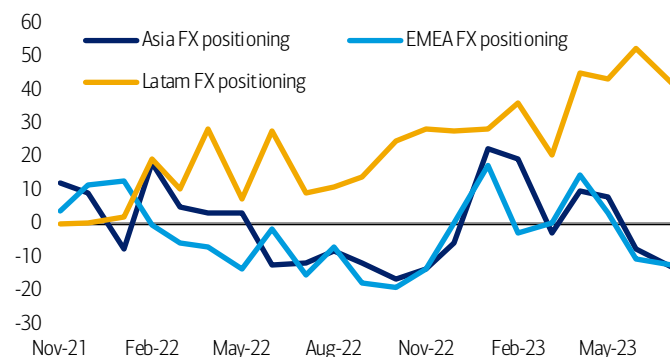
Source: BofA Global Research FX and Rates Sentiment Survey

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Regional EM Rates Positioning and View

Exhibit 56: FX positioning

EM FX exposure slightly lower in all regions, slightly more so in LatAm...

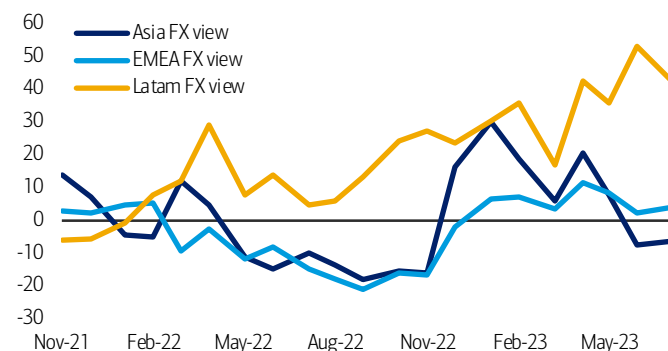


Source: BofA Global Research FX and Rates Sentiment Survey
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Exhibit 57: FX view

...broadly in line with views

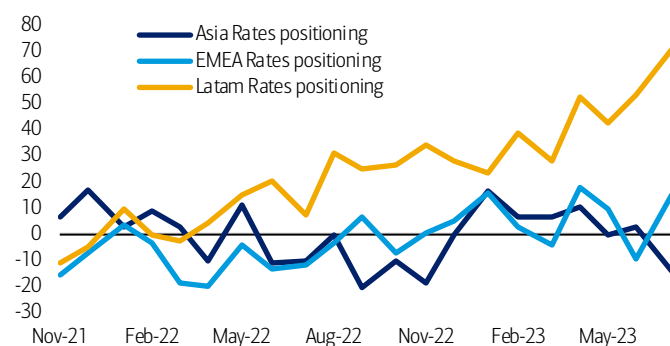


Source: BofA Global Research FX and Rates Sentiment Survey
BB is the Bull-Bear Index for exposure and view. It weights responses to create an index ranging from -100 to +100, zero representing neutral. See appendix for formulas.

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Exhibit 58: Rates local currency positioning

Duration bullishness also sees LATAM as the outlier...

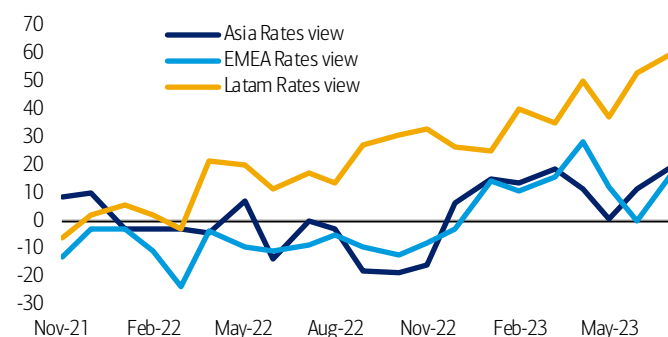


Source: BofA Global Research FX and Rates Sentiment Survey
BB is the Bull-Bear Index for exposure and view. It weights responses to create an index ranging from -100 to +100, zero representing neutral. See appendix for formulas.

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Exhibit 59: Rates local currency view

... with sentiment following closely

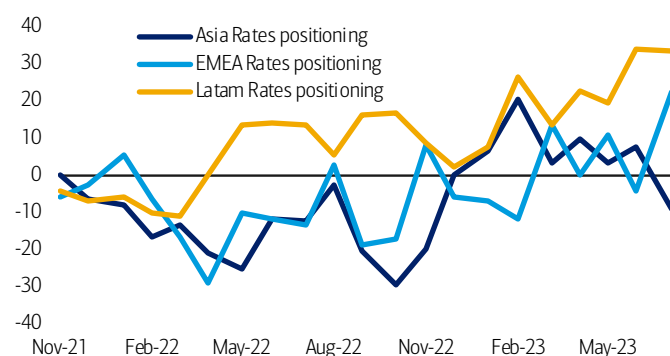


Source: BofA Global Research FX and Rates Sentiment Survey
BB is the Bull-Bear Index for exposure and view. It weights responses to create an index ranging from -100 to +100, zero representing neutral. See appendix for formulas.

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Exhibit 60: Rates hard currency positioning

Hard currency positioning also sees LATAM top, with EMEA catching up...

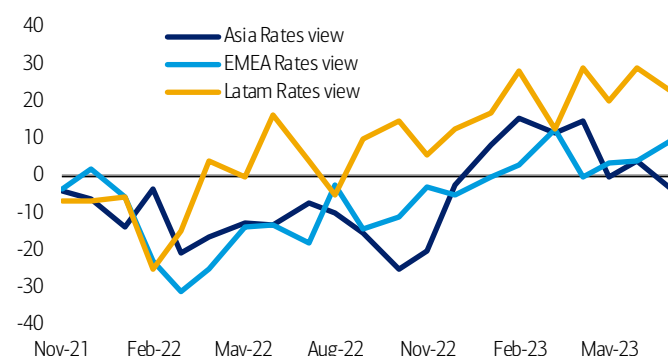


Source: BofA Global Research FX and Rates Sentiment Survey
BB is the Bull-Bear Index for exposure and view. It weights responses to create an index ranging from -100 to +100, zero representing neutral. See appendix for formulas.

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Exhibit 61: Rates hard currency view

...in line with sentiment changes



Source: BofA Global Research FX and Rates Sentiment Survey
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BofA GLOBAL RESEARCH

A Guide to the BofA Global Investor Survey

Our survey was conducted between 7 July 2023 and 12 July 2023. A total of 66 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.

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

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

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

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