

# Global Fund Manager Survey Through the Valuation Glass

**Bank of America  
Merrill Lynch**



Investment Strategy

12 April 2016 Corrected

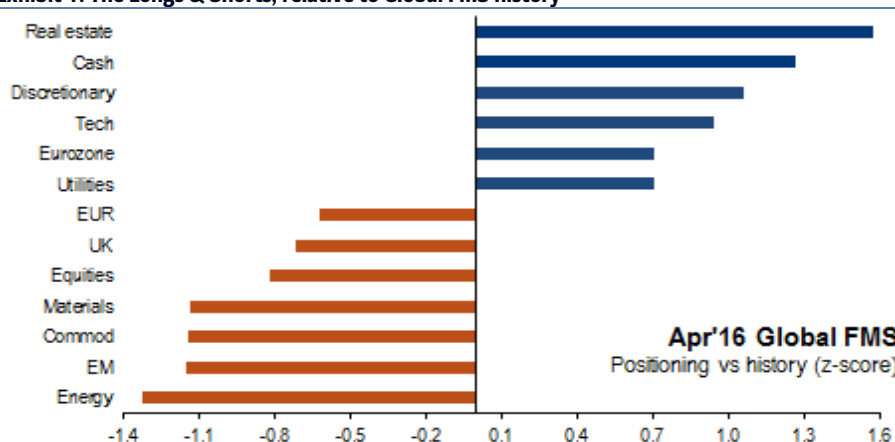
## FMS takeaways

- **Cash** levels jump to 5.4% from 5.1%; FMS “conviction” drops to 18-month low
- April **rotation** to staples & cash, from Japan, discretionary, commodities, Eurozone
- **Growth & EPS** expectations low but stable: 82% say recession “unlikely”
- **Fed rate** expectations: 54% say 2 hikes, 27% say 1 hike, 9% say 3 hikes
- **Tail risks**: Quantitative Failure (21%), BREXIT (19%), US recession/China devaluation/EM default (11%)
- Most **crowded trades**: long US\$ (20%), short EM (19%), long quality stocks (17%)
- 1<sup>st</sup> UW **Japan** equities since Dec’12; big UW positions in Japan & Eurozone **banks**
- 14<sup>th</sup> consecutive month UW **US** equities; **Eurozone** = biggest regional long
- FMS disconnect: equity bias = **quality>junk**; bond bias = **high yield>high grade**
- Big **FMS longs** = REITs, cash, discretionary, tech, Eurozone, utilities
- Big **FMS shorts** = energy, EM, commod, materials, equities, UK, euro

## FMS themes & trades

- **Mixed messages**: April FMS sentiment symbolized by jump in cash, low “conviction”, fear of Quantitative Failure, no follow-through to March short-covering in commodities/resources/EM, and stubborn (albeit smaller) long positions in discretionary, tech, Eurozone & quality stocks
- **Through the Valuation Glass**: Cash level superficially bullish but rare for cash to jump so much during risk rally (only happened 9 times since Jan’98); valuation of bonds & equities 7<sup>th</sup> highest reading in 13 years = best explanation; cash protects downside, valuation constrains upside, trading range in risk assets set to continue
- **The Big Shocks**: “Quantitative Success” (best played via long Japan/EU banks) or China GDP recovery (long CNY/CRB/resources/EM) = Q2 upside risks; EPS recession (best played via Tech/Discretionary/Industrial shorts) or BREXIT (only 14% say “likely”) = downside risks

**Exhibit 1: The Longs & Shorts, relative to Global FMS history\***



Source: BofA Merrill Lynch Global Fund Manager Survey

Investment Strategy  
Global

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## Notes to Readers

Source for all tables and charts:  
BofA Merrill Lynch Fund Manager  
Survey, DataStream

Survey period 1<sup>st</sup> to 7<sup>th</sup> April 2016.

An overall total of 200 panellists  
with \$596bn AUM participated in  
the survey.

164 participants with \$493bn AUM  
responded to the Global FMS  
questions and 93 participants with  
\$210bn AUM responded to the  
Regional FMS questions.

## 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  
Merrill Lynch sales representative.

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

*\* data since 2006 for commodities & real  
estate; data since 2001 for equities &  
cash; note EUR is based on valuation*

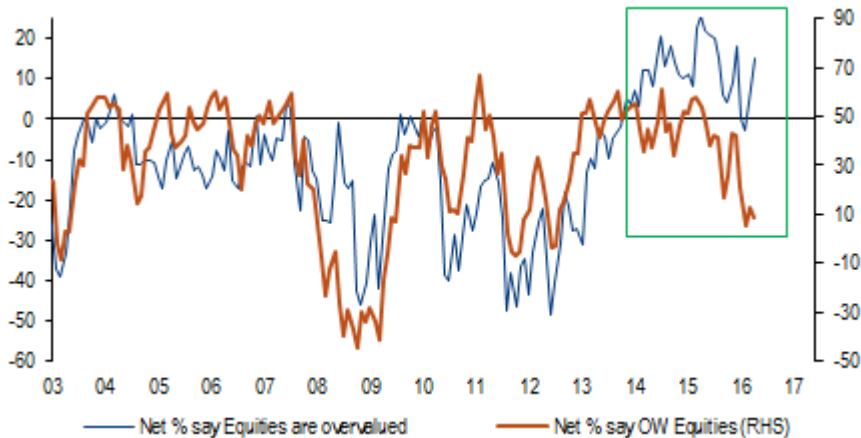
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Refer to important disclosures on page 16 to 17.

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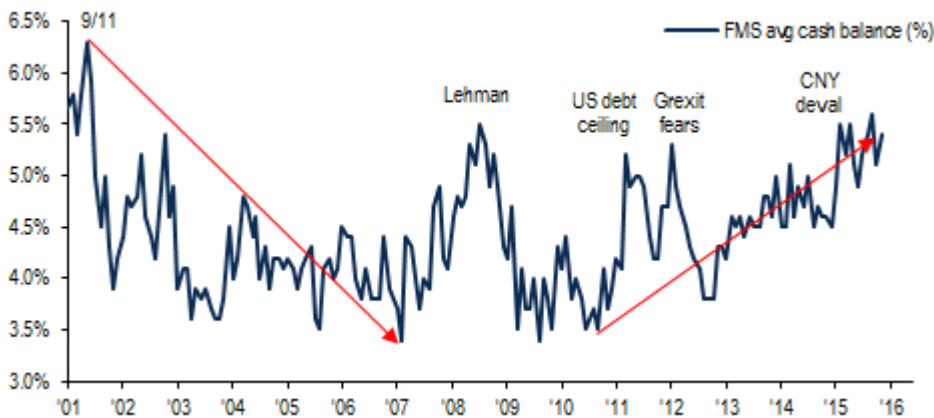
# Charts of the Month

**Exhibit 2: Equity market valuation vs equity market positioning**



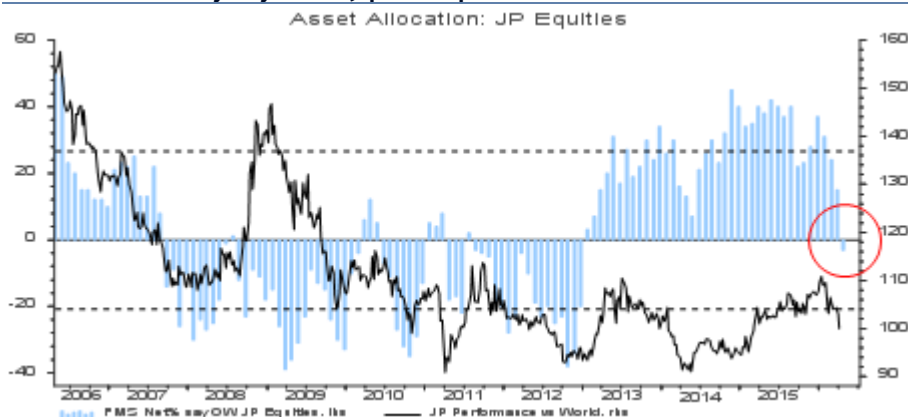
Source: BofA Merrill Lynch Global Fund Manager Survey

**Exhibit 3: Global FMS average cash balance (%)**



Source: BofA Merrill Lynch Global Fund Manager Survey

**Exhibit 4: Net % AA Say they are OW Japanese Equities**



Source: BofA Merrill Lynch Global Fund Manager Survey

## April FMS takeaways

FMS sentiment symbolized by jump in cash to 5.4% from 5.1%, FMS “conviction” at 18-month low, fear of Quantitative Failure (1st UW Japan equities since Dec’12), no follow-through to March short-covering in commod/resources/EM, and stubborn (albeit smaller) longs in discretionary, tech, Eurozone & quality stocks

Exhibit shows that FMS equity valuation & allocation have decoupled for first time in years; FMS cash protects risk downside, FMS valuation constrains risk upside; risk assets to stay in trading range.

Cash jumps back up to 5.4% from 5.1% last month.

*As a reminder, the FMS Cash Rule works as follows: when average cash balance rises above 4.5% a contrarian buy signal is generated for equities. When the cash balance falls below 3.5% a contrarian sell signal is generated.*

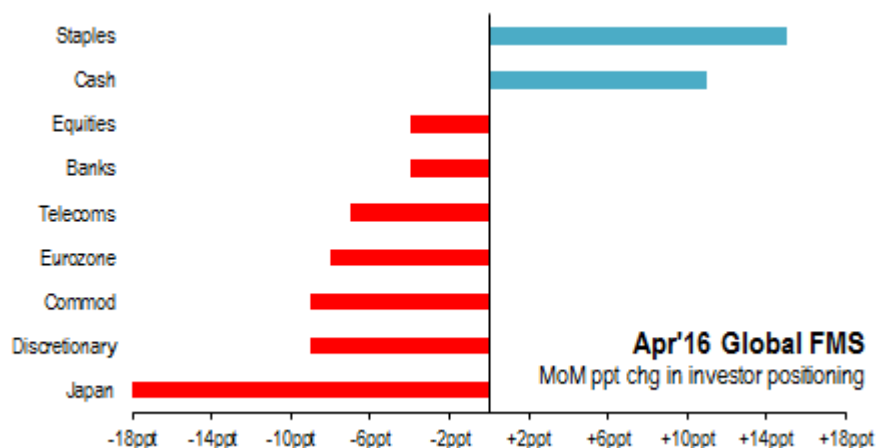
Quantitative failure...investors are UW Japan equities for the time since Dec’12.

Allocation to Japanese equities falls to net 3% UW from net 15% OW last month.

Current allocation is 0.3 stdev below its long-term average.

# Positioning & how it's changing...

**Exhibit 5: Month-on-Month changes to Global FMS positioning (Apr'16 vs Mar'16)**

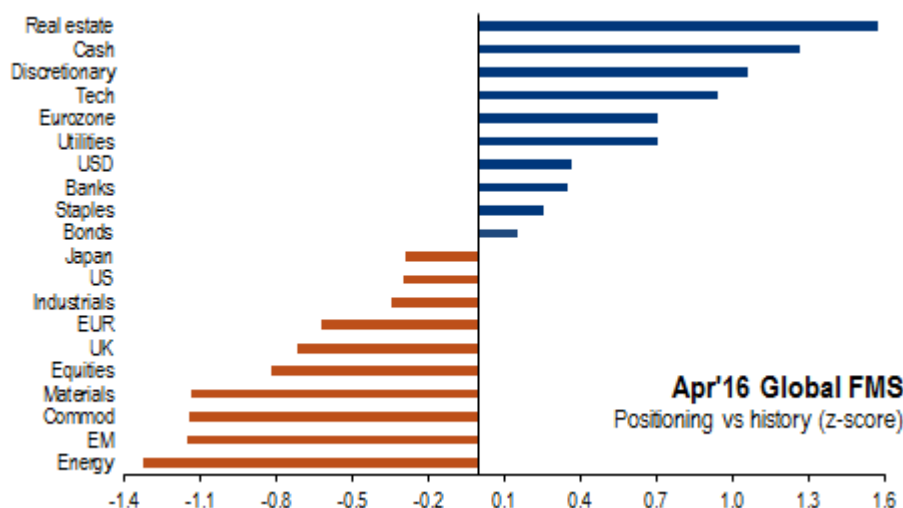


Source: BofA Merrill Lynch Global Fund Manager Survey

Exhibit presents the MONTHLY changes to global investor positioning from the March FMS to the April FMS. Highlights include:

- Rotation out of Japan, discretionary, commodities & the Eurozone
- Rotation into staples & cash

**Exhibit 6: The Longs & Shorts, relative to Global FMS history\***



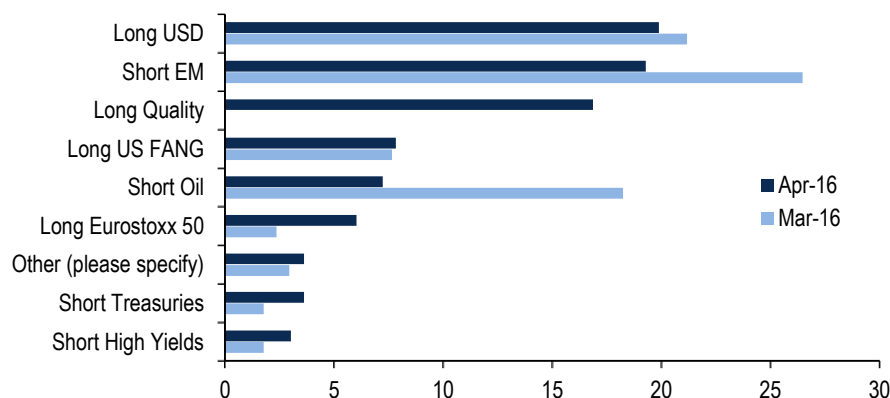
Source: BofA Merrill Lynch Global Fund Manager Survey

Exhibit presents the April investor positioning relative to history, following the MoM changes highlighted above:

- Contrarians would go long energy, EM, commodities & materials
- Contrarians would short real estate (incl REITs), discretionary, tech & the Eurozone

*\* data since 2006 for commodities & real estate; data since 2001 for equities, bonds & cash; note USD & EUR are based on valuation*

**Exhibit 7: What do you think is currently the most crowded trade?**



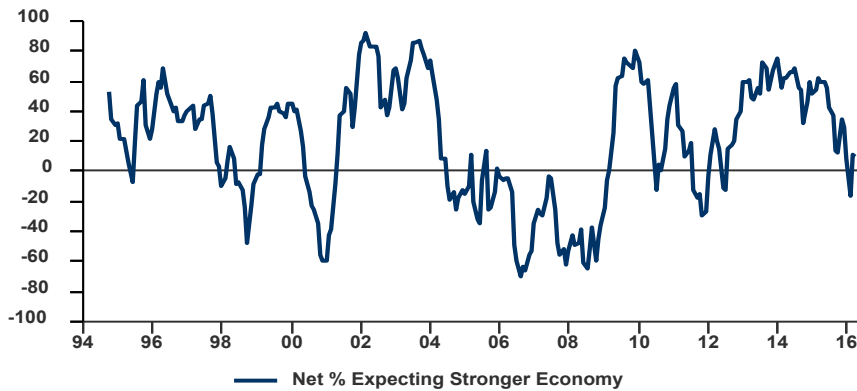
Source: BofA Merrill Lynch Global Fund Manager Survey

The most "crowded trades":

1. Long US\$ (20%)
2. Short EM (19%)
3. Long high quality stocks (17%)

# On Macro

**Exhibit 8: How do you think the global real economy will develop over the next 12 months?**



Source: BofA Merrill Lynch Global Fund Manager Survey

Global growth expectations low but stable.

Reading is little changed from last month (net 10% expect stronger economy in April vs net 11% in March).

82% say recession “unlikely” in the next 12 months.

**Exhibit 9: Inflation expectations**

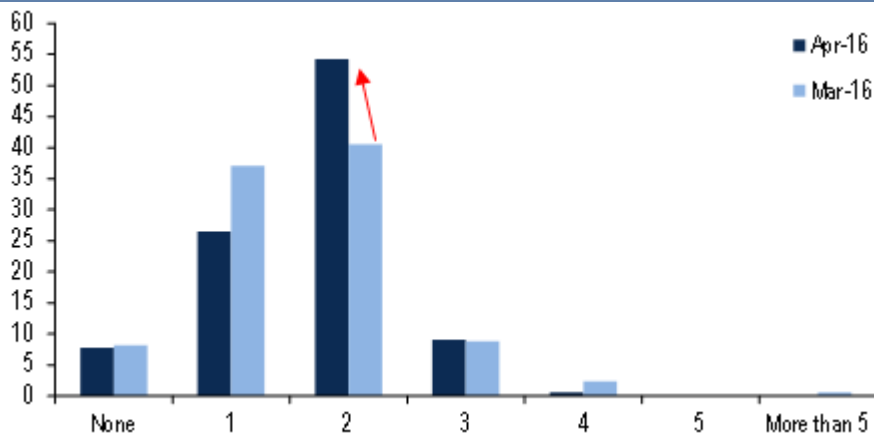


Source: BofA Merrill Lynch Global Fund Manager Survey

Global inflation expectations improves for the second straight month (to net 60% from net 49% last month).

Current reading is at 9-month highs.

**Exhibit 10: How many hikes do you think the Fed will enact over the next 12 months?**



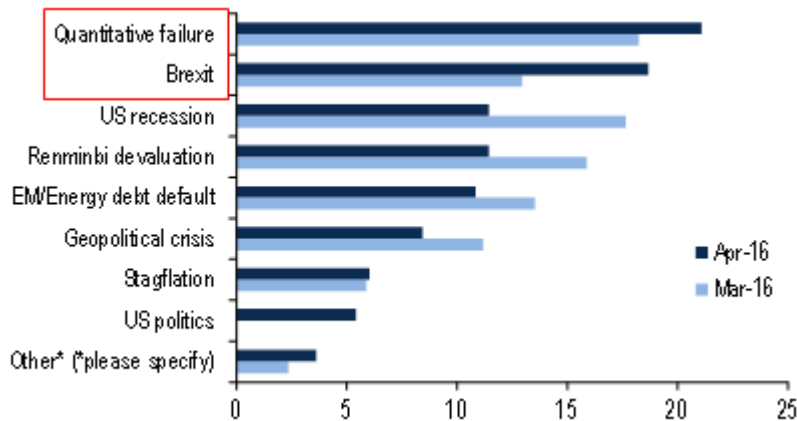
Source: BofA Merrill Lynch Global Fund Manager Survey

## Fed rate hike expectations:

- Two hikes 54% (up from 41%)
- One hike 27% (down from 37%)
- Three hikes 9% (same as last month)

# On Risk

**Exhibit 11: What do you consider the biggest 'tail risk'?**

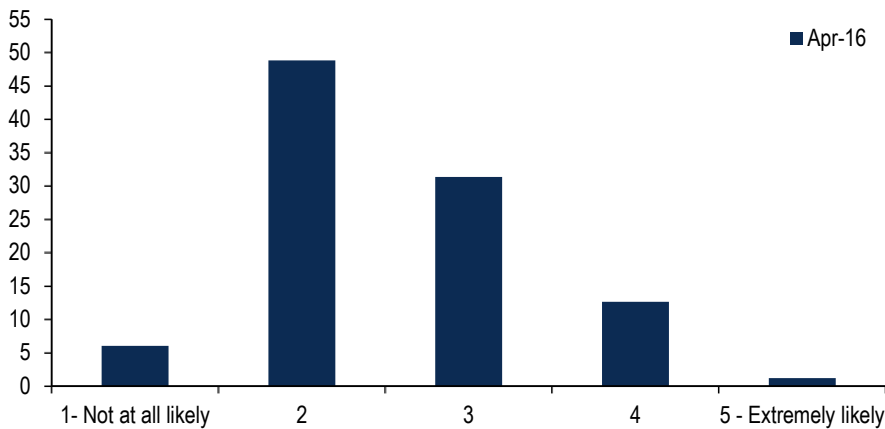


Source: BofA Merrill Lynch Global Fund Manager Survey

## Biggest tail risks:

1. Quantitative Failure (21%)
2. BREXIT (19%)
3. US recession/China devaluation/EM default (11%)

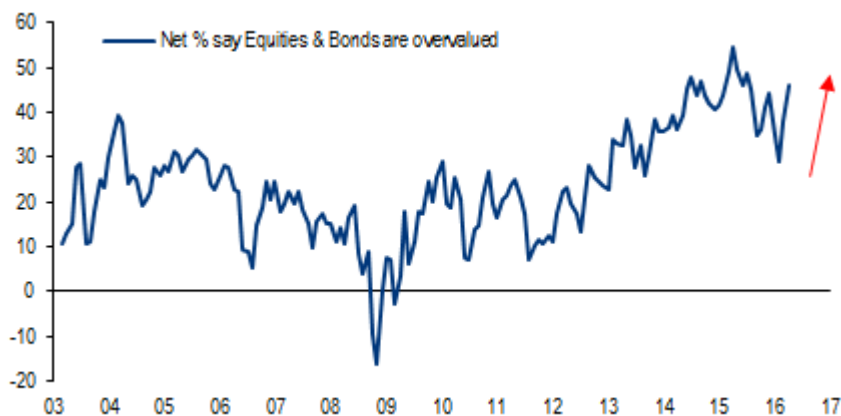
**Exhibit 12: On a scale from 1 to 5, where 1 is 'Not at all likely' and 5 is 'Extremely likely', how likely do you think it is that Britain will leave the European Union after June's referendum?**



Source: BofA Merrill Lynch Global Fund Manager Survey

"BREXIT": seen as risk not reality (just 14% say BREXIT "likely").

**Exhibit 13: Equity and bond market valuation**

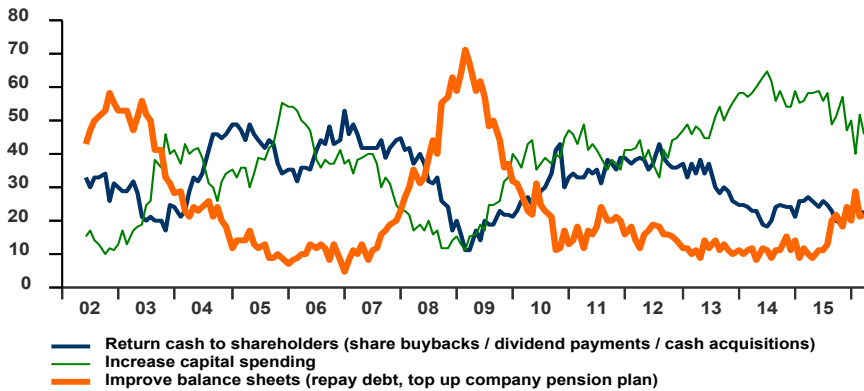


Source: BofA Merrill Lynch Global Fund Manager Survey

Net % saying both equity & bond markets are overvalued is 7<sup>th</sup> highest on record (data since 2003)... helps explain the persistently high cash levels in recent months.

# On Corporates

**Exhibit 14: What would you most like to see companies do with cash flow?**

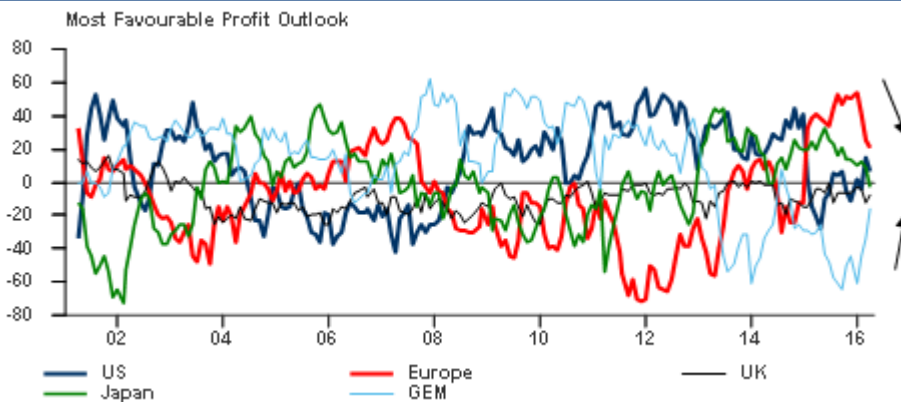


Source: BofA Merrill Lynch Global Fund Manager Survey

Capex-demand falls to 46% from 52% last month.

Appetite for balance-sheet improvement & cash-return to shareholders remains at modest/low levels.

**Exhibit 15: In which Region is the Profits Outlook Most Favourable / Least Favourable?**



Source: BofA Merrill Lynch Global Fund Manager Survey

EM's profits outlook improves drastically in April to net 16% unfavorable from net 34% unfavorable.

Conversely, Europe's profits outlook has fallen from net 41% favorable two months ago to net 21% favorable in April.

**Exhibit 16: View on corporate payout ratios**



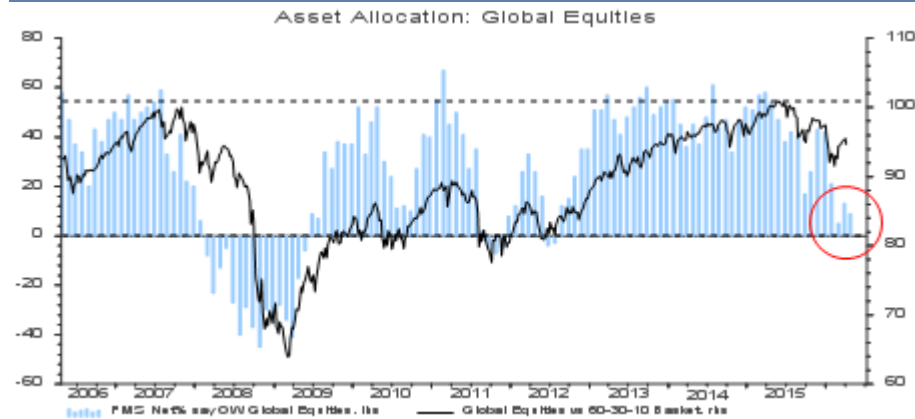
Source: BofA Merrill Lynch Global Fund Manager Survey

FMS continues to show investor fatigue with financial engineering, as a net 18% of investors think corporate payout ratios (dividends & buybacks) are too high.

This is a record low reading (tied with Mar'09)!

# On Asset Allocation

**Exhibit 17: Net % AA Say they are OW Equities**

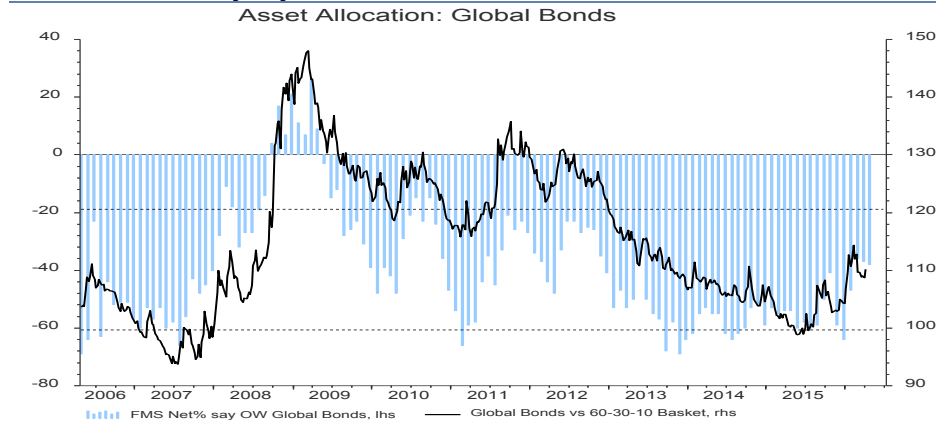


Source: BofA Merrill Lynch Global Fund Manager Survey

Allocation to equities falls to net 9% OW from net 13% OW last month.

Current allocation is 0.8 stdev below its long-term average.

**Exhibit 18: Net % AA Say they are OW Bonds**

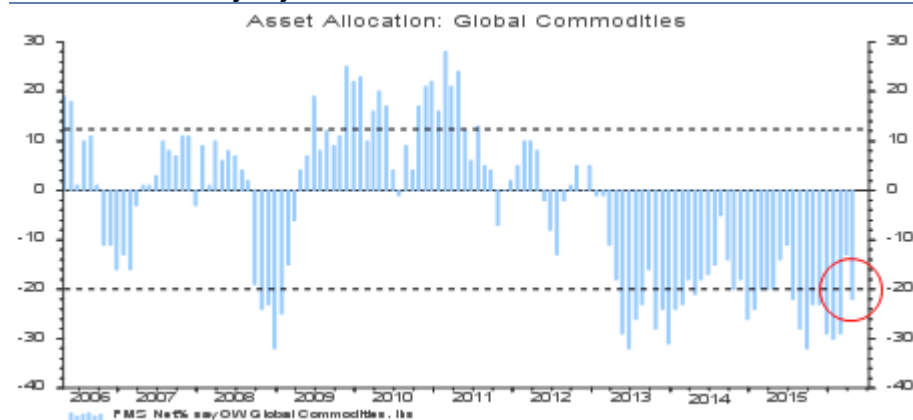


Source: BofA Merrill Lynch Global Fund Manager Survey

Allocation to bonds little changed (net 38% UW from net 37% UW last month).

Current allocation is 0.2 stdev above its long-term average.

**Exhibit 19: Net % AA Say they are OW Commodities**



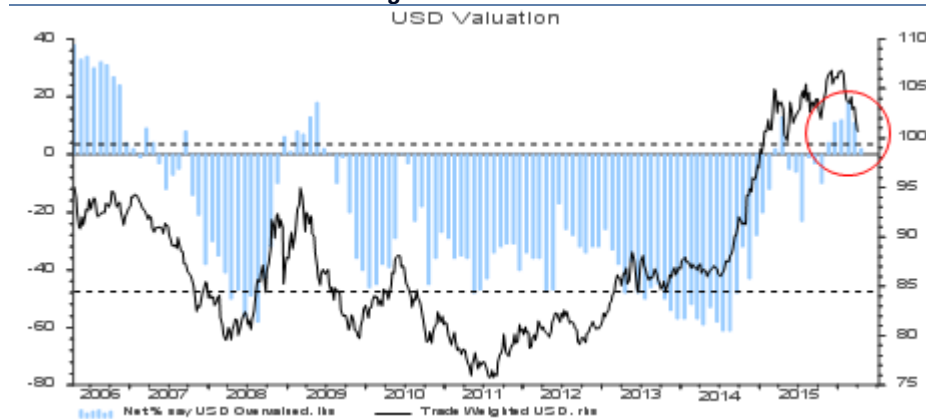
Source: BofA Merrill Lynch Global Fund Manager Survey

Allocation to commodities falls to net 22% UW from net 13% UW last month.

Current allocation is back down to 1.1 stdev below its long-term average.

# On FX

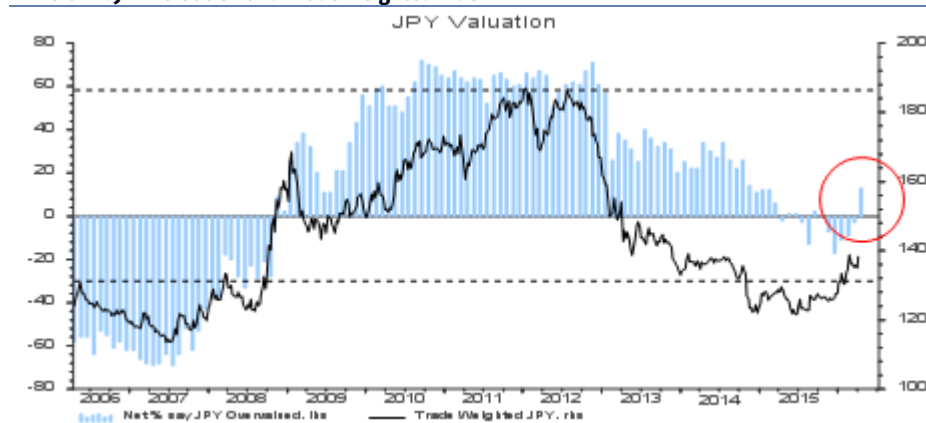
**Exhibit 20: USD Valuation and Trade weighted index**



Source: BofA Merrill Lynch Global Fund Manager Survey

Only a net 2% of investors think US\$ is overvalued = 6-month low reading.

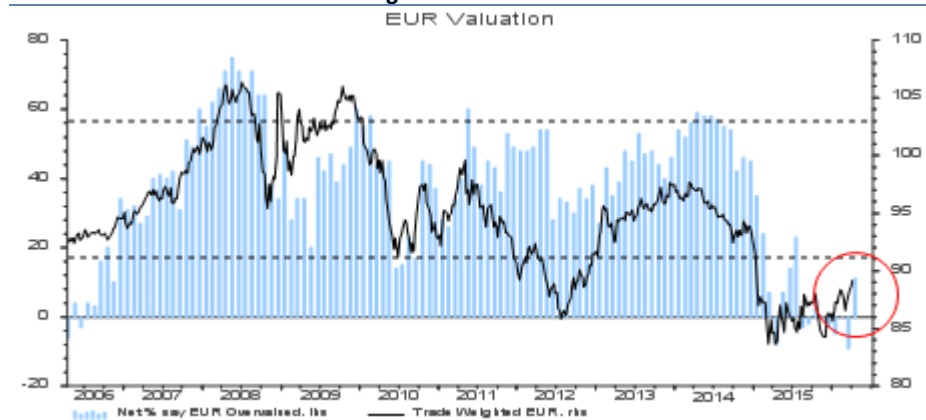
**Exhibit 21: JPY Valuation and Trade weighted index**



Source: BofA Merrill Lynch Global Fund Manager Survey

A net 13% of investors now think JPY is overvalued, the highest reading since Nov'14.

**Exhibit 22: EUR Valuation and Trade weighted index**



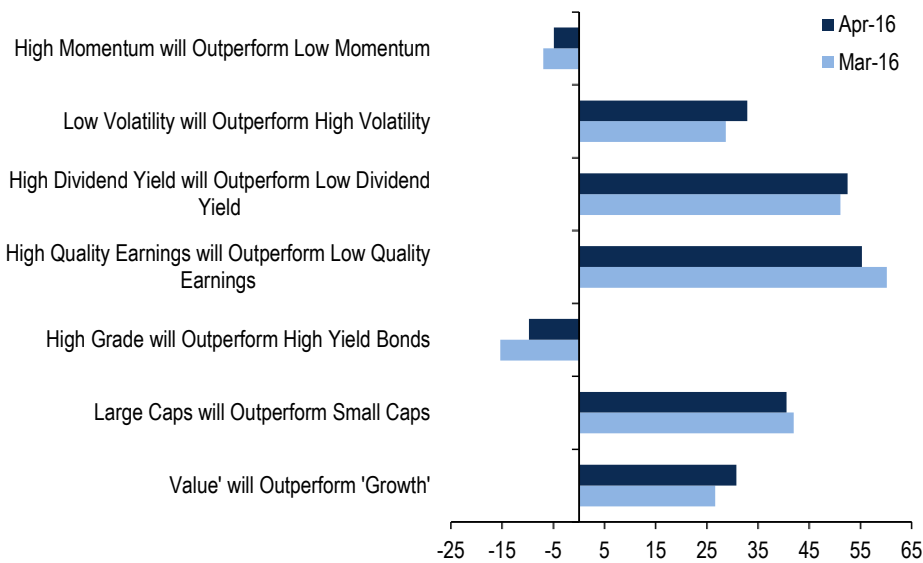
Source: BofA Merrill Lynch Global Fund Manager Survey

A net 11% of investors think EUR is overvalued, the highest reading since Jul'15.



# On Style

**Exhibit 23: Over the next 12 months, how likely do you think it is that...**



Source: BofA Merrill Lynch Global Fund Manager Survey

Net 55% expect high-quality stocks to outperform low-quality stocks

Net 52% expect high-dividend to outperform low-dividend

Net 41% expect large-cap to outperform small-cap

**Exhibit 24: Net % Think 'Value' stock will Outperform 'Growth' stocks**

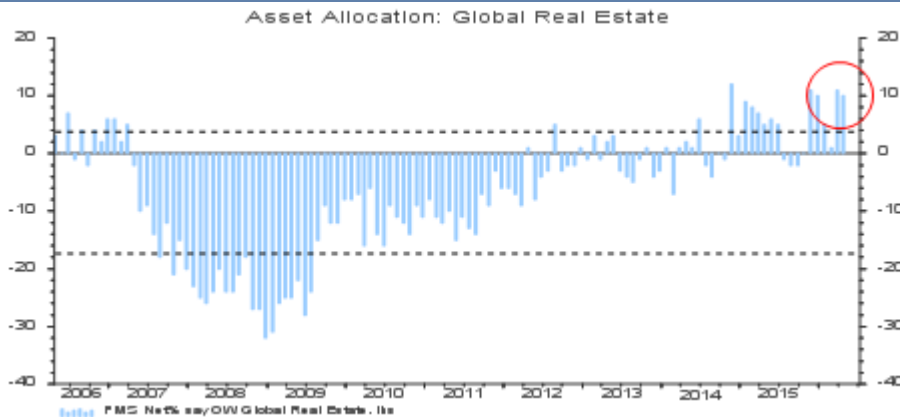


Source: BofA Merrill Lynch Global Fund Manager Survey

A net 31% of investors think Value will outperform Growth over the next 12 months.

This is the strongest reading since Aug'14.

**Exhibit 25: Net % AA Say they are OW Real Estate (incl REITs)**



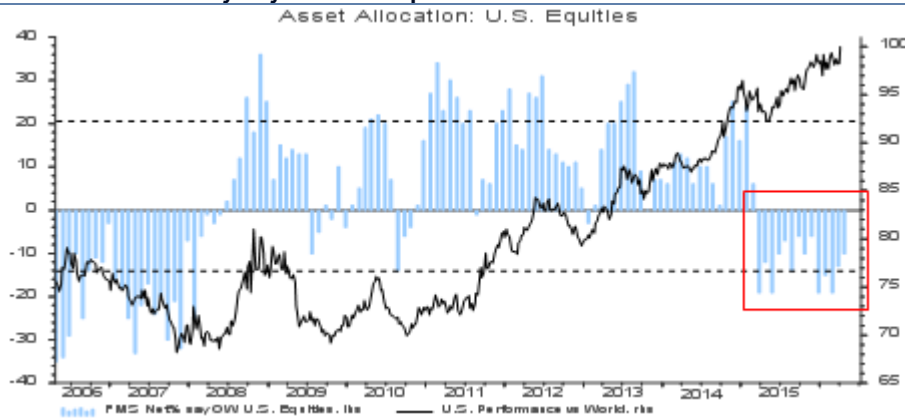
Source: BofA Merrill Lynch Global Fund Manager Survey

Allocation to real estate (incl. REITs) stays high at net 10% OW (down slightly from net 11% OW last month).

Current allocation is 4<sup>th</sup> highest on record (data since 2006).

# On Regional Equity Allocation

**Exhibit 26: Net % AA Say they are OW US Equities**

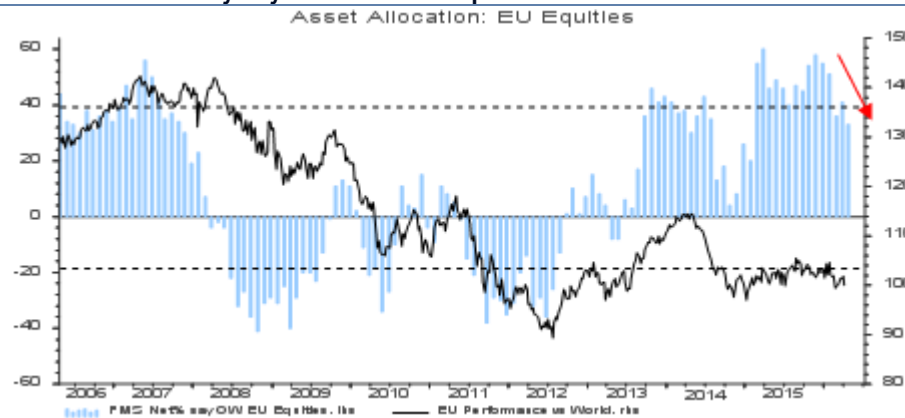


Source: BofA Merrill Lynch Global Fund Manager Survey

Allocation to US equities improves modestly to net 10% UW from net 13% UW last month.

Investors are now UW US equities for 14 straight months and current allocation is 0.3 stdev below its long-term average.

**Exhibit 27: Net % AA Say they are OW Eurozone Equities**

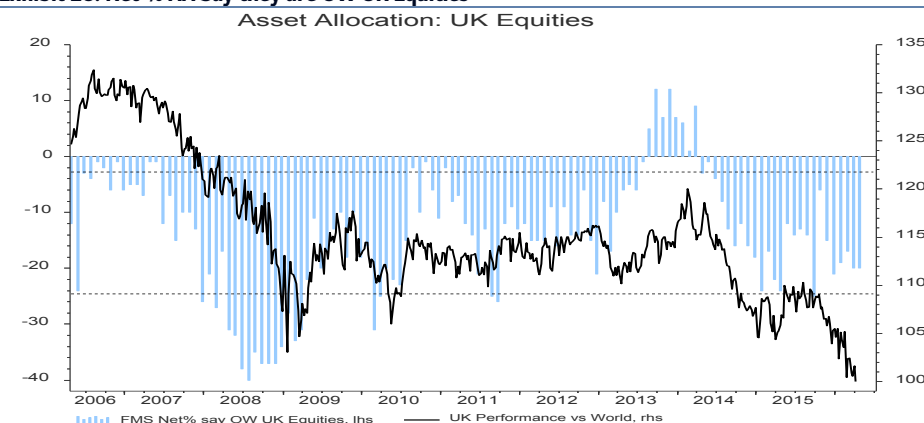


Source: BofA Merrill Lynch Global Fund Manager Survey

Allocation to Eurozone equities drops to 15-month lows (net 33% OW from net 41% OW last month).

Current allocation is just 0.7 stdev above its long-term average.

**Exhibit 28: Net % AA Say they are OW UK Equities**



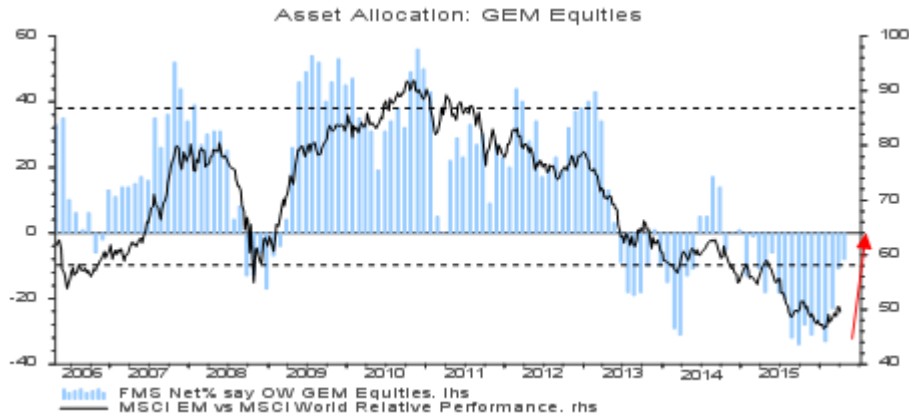
Source: BofA Merrill Lynch Global Fund Manager Survey

Allocation to UK equities stays low at net 20% UW (unchanged from last month).

Current allocation is 0.7 stdev below its long-term average.

# On Regional Equity Allocation (Cont'd)

**Exhibit 29: Net % AA Say they are OW GEM Equities**



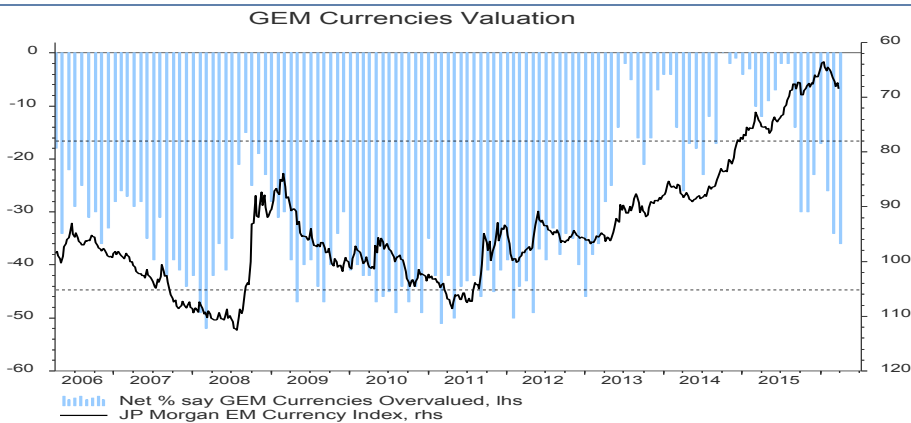
Source: BofA Merrill Lynch Global Fund Manager Survey

Allocation to EM improves to 11-month highs (to net 8% UW from net 11% UW last month).

This is the 16<sup>th</sup> straight month of EM equity UW (longest on record).

Current allocation is 1.2 stdev below its long-term average.

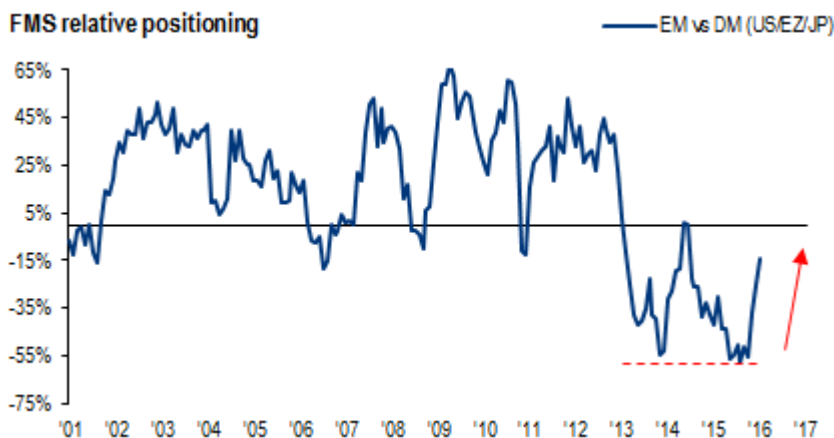
**Exhibit 30: GEM Currencies Valuation**



Source: BofA Merrill Lynch Global Fund Manager Survey

A net 36% of investors now think GEM currencies are undervalued, highest since Mar'13.

**Exhibit 31: Relative positioning: EM vs DM (US/EZ/JP)**

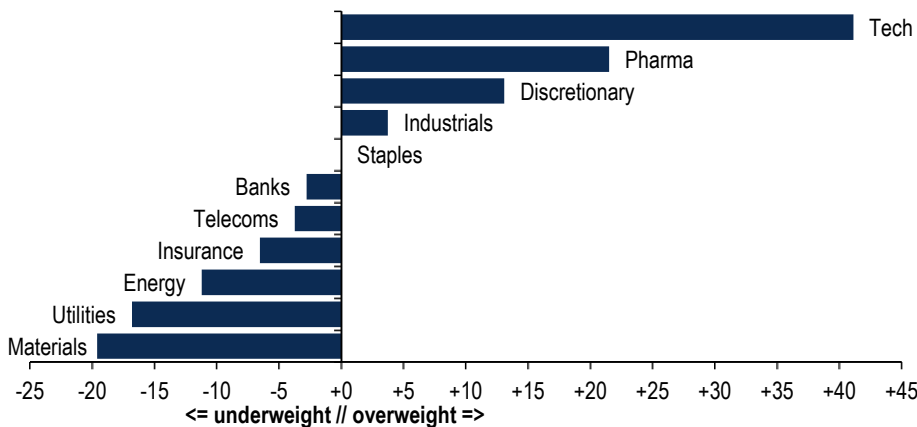


Source: BofA Merrill Lynch Global Fund Manager Survey

Relative positioning between EM and DM equities recovers to a 19-month high.

# On Sector Allocation

**Exhibit 32: Global sector sentiment (% saying overweight - % saying underweight)**



Source: BofA Merrill Lynch Global Fund Manager Survey

In April, investors rotate out of discretionary, banks & telcos into staples & tech.

**Exhibit 33: FMS Equity Sector "Conviction" Index**

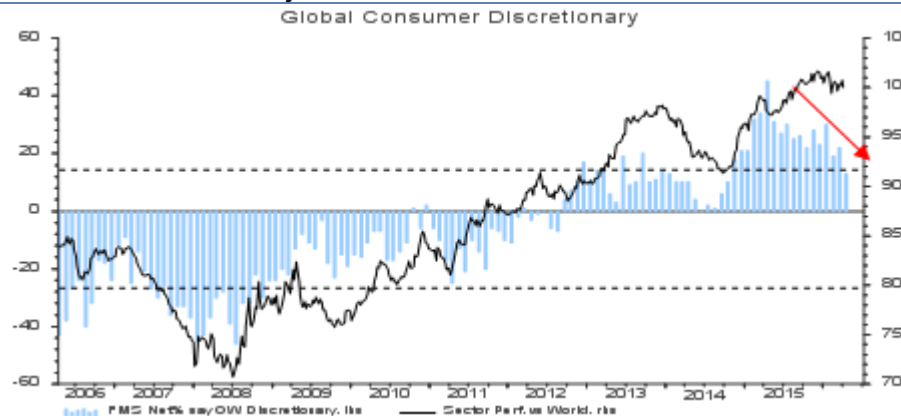


\* we define "conviction" as the difference between allocation to the top 3 sector OW's and allocation to the top 3 sector UW's

Source: BofA Merrill Lynch Global Fund Manager Survey

FMS Equity Sector "Conviction" index drops to lowest level since Sep'14.

**Exhibit 34: Global Discretionary**



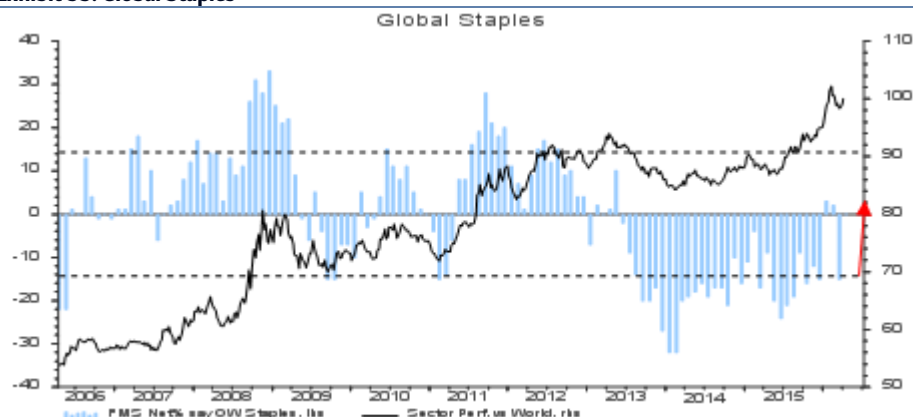
Source: BofA Merrill Lynch Global Fund Manager Survey

Allocation to discretionary falls to 18-month lows (net 13% OW from net 22% OW last month).

Current allocation remains 1.1 stdev above its long-term average.

# On Sector Allocation (cont'd)

**Exhibit 35: Global Staples**

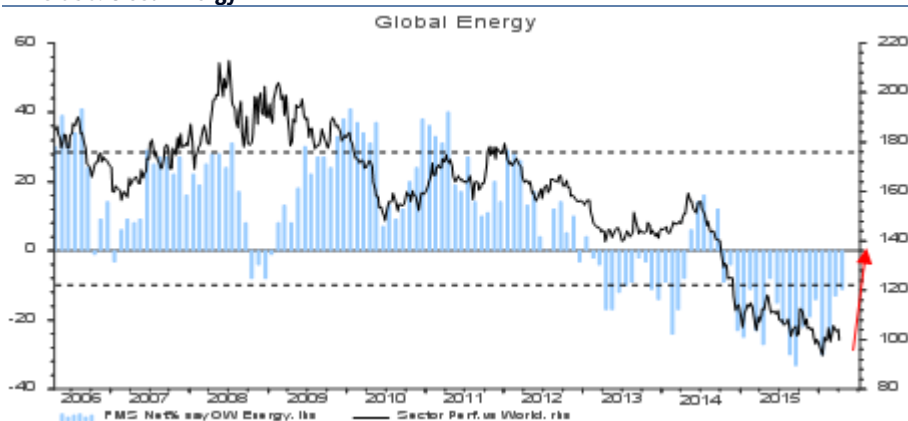


Source: BofA Merrill Lynch Global Fund Manager Survey

Allocation to staples snaps back from net 15% UW last month to neutral in April.

Current positioning is 0.3 stdev above its long-term average.

**Exhibit 36: Global Energy**

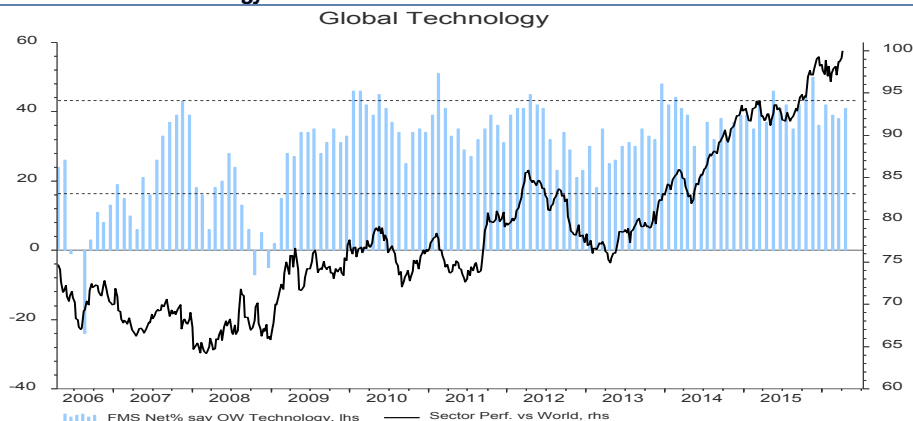


Source: BofA Merrill Lynch Global Fund Manager Survey

Allocation to energy improves to net 11% UW from net 13% UW last month.

Current reading is at 11-month highs, but remains 1.3 stdev below its long-term average.

**Exhibit 37: Global Technology**



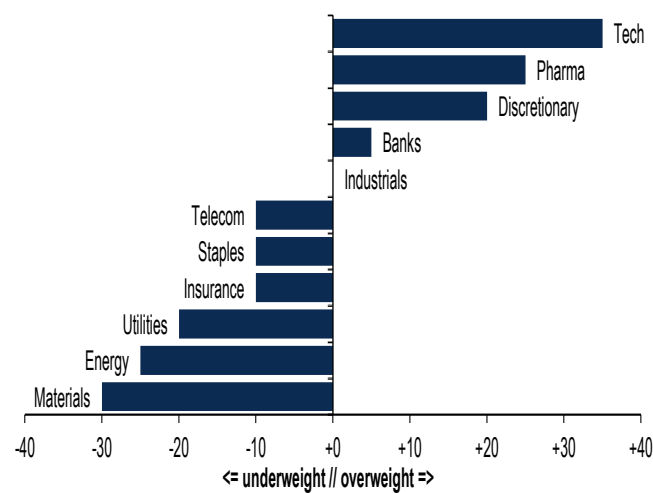
Source: BofA Merrill Lynch Global Fund Manager Survey

Allocation to tech improves to net 41% OW, up from net 38% OW last month.

Current reading is 0.9 stdev above its long-term average.

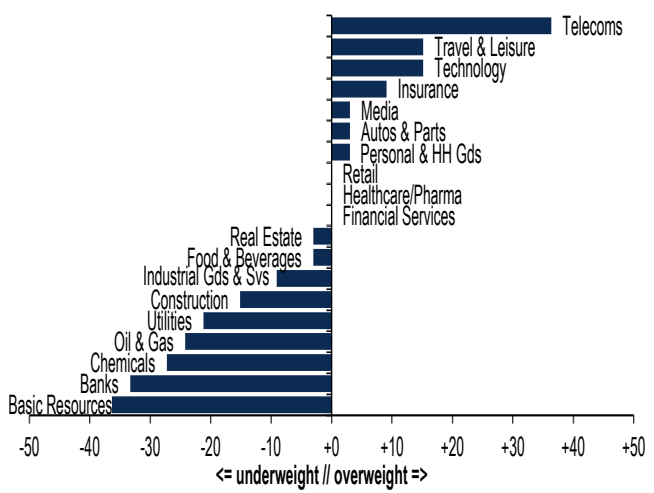
# On Regional Sector Allocation

Exhibit 38: U.S. Sector Positioning



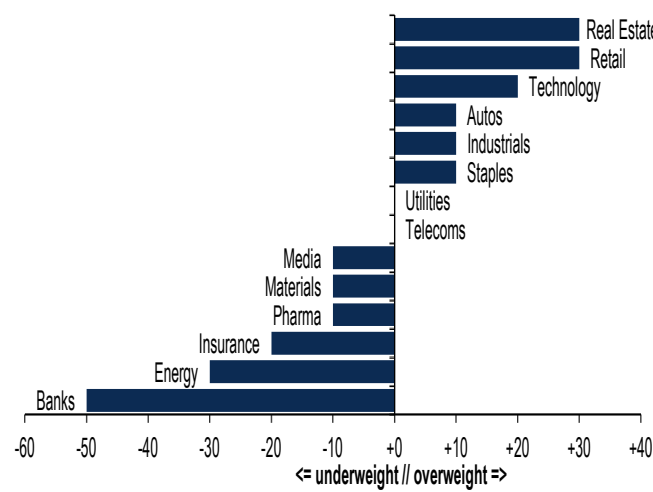
Source: BofA Merrill Lynch Global Fund Manager Survey

Exhibit 39: Europe Sector Positioning



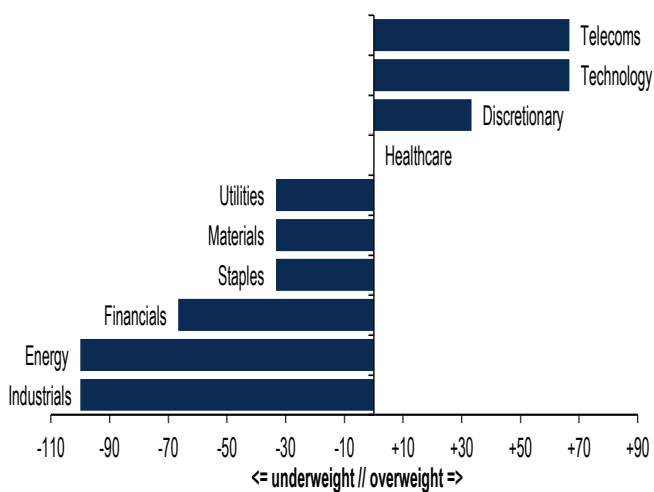
Source: BofA Merrill Lynch Global Fund Manager Survey

Exhibit 40: Japan Sector Positioning



Source: BofA Merrill Lynch Global Fund Manager Survey

Exhibit 41: GEM Sector Positioning



Source: BofA Merrill Lynch Global Fund Manager Survey

# Global survey demographics data

**Table 1: Position / Institution / Approach to Global Equity Strategy**

	Apr-16	Mar-16	Feb-16
Structure of the panel - by position			
Chief Investment Officer	24	20	19
Asset Allocator / Strategist / Economist	63	65	60
Portfolio Manager	67	74	73
Other	10	10	13
Structure of the Panel - by expertise			
Global Specialists Only	107	114	112
Regional Specialists With a Global View	57	55	53
<b>Total # of Respondents to Global Questions</b>	<b>164</b>	<b>169</b>	<b>165</b>

Which of the Following Best Describes the Type of Money You are Running?

Institutional funds (e.g. pension funds / insurance companies)	66	60	63
Hedge funds / proprietary trading desks	22	20	22
Mutual funds / unit trusts / investment trusts	52	60	56
None of the above	24	29	24

What Do You Estimate to be the Total Current Value of Assets Under Your Direct Control?

Up to \$250mn	25	27	28
Around \$500mn	21	19	23
Around \$1bn	24	32	28
Around \$2.5bn	24	20	18
Around \$5bn	10	11	12
Around \$7.5bn	7	7	4
Around \$10bn or more	29	29	31
No Funds Under Direct Control	24	24	21
<b>Total (USD bn)</b>	<b>493</b>	<b>496</b>	<b>492</b>

What best describes your investment time horizon at this moment?

3 months or less	47	56	55
6 months	43	44	42
9 months	22	15	12
12 months or more	46	50	52
<b>Weighted average</b>	<b>7.3</b>	<b>7.1</b>	<b>7.1</b>
DK/NA	6	4	4

Source: BofA Merrill Lynch Global Fund Manager Survey

# Disclosures

## Important Disclosures

**FUNDAMENTAL EQUITY OPINION KEY:** Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of a stock's: (i) absolute total return potential and (ii) attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). There are three investment ratings: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

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

\* Ratings dispersions may vary from time to time where BofA Merrill Lynch Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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