

Red, White & Boom

Wall St. is bullish: expectations of “above trend” growth and inflation at five-year highs; global profit expectations at six-year highs; just 6% forecast lower bond yields in 2017; long US dollar by far world's most “crowded trade”.

The Cyclical Chase

Global bank stock positioning at record highs (Exhibit); small cap to outperform large at record highs; record MoM jump in Japanese equity positioning; big majority of investors say cyclical value will beat quality growth until “well into next year”.

But not yet Peak Greed

Cash drops to 4.8% (from 5.0% in Nov, 5.8% in Oct); on three prior occasions cash down 1ppt in two months (in 2001 & 2002) risk rally “paused”; but FMS does not yet show “peak greed”...cash levels still high relative to bonds (97th percentile), and equities (64th percentile).

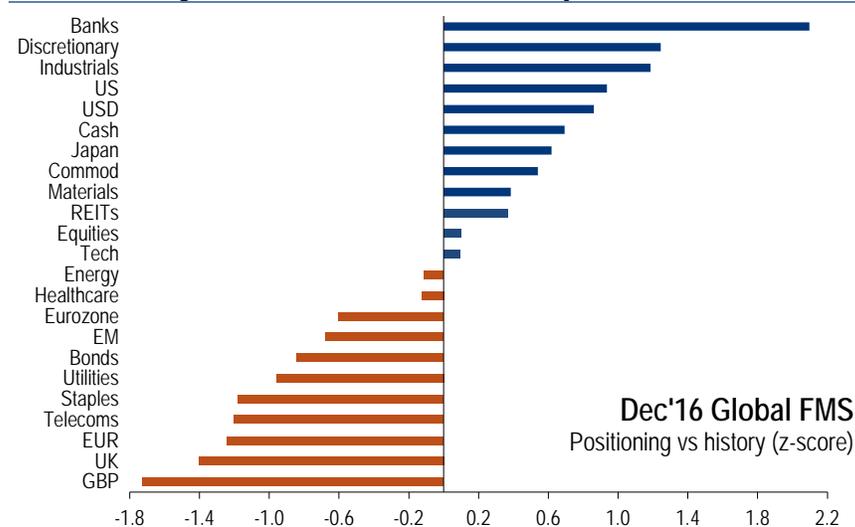
Laggards & Leaders of the Great Rotation

FMS positioning indicates further GR8 Rotation would see laggards (U.K, Eurozone, Energy) play catch up with Rotation leaders (Japan, US, banks, industrials); in contrast, still-heavy absolute positioning in tech and healthcare vulnerable to outflows from “growth” theme.

The Grey Swans

Top two “tail risks”, EU disintegration and a bond crash, corroborated by light EU and bond positions; less anticipated is big China devaluation and trade wars...EM still a slight OW, while gold is once again, with bonds and defensives (staples, utilities), a contrarian long.

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

Survey period 2nd to 8th Dec 2016.

An overall total of 211 panellists with \$568bn AUM participated in the survey.

173 participants with \$473bn AUM responded to the Global FMS questions and 97 participants with \$207bn 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 for the relevant month in which they participate.

** data since 2006 for commodities & real estate; data since 2001 for everything else; note US\$, EUR & GBP based on valuation*

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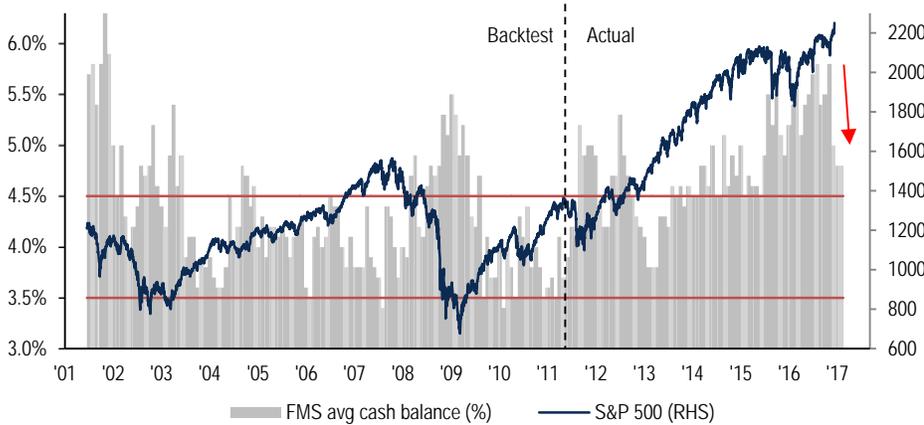
Refer to important disclosures on page 16 to 17.

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Timestamp: 13 December 2016 12:31AM EST

Charts of the Month

Exhibit 2: Global FMS average cash balance (%)

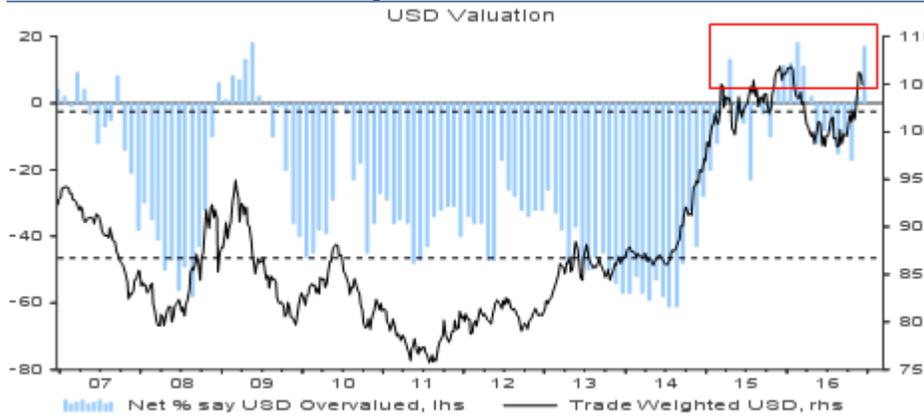


Source: BofA Merrill Lynch Global Fund Manager Survey

Cash drops to 4.8% (from 5.0% in Nov, 5.8% in Oct); on three prior occasions cash down 1ppt in 2 months (in 2001 & 2002) risk rally “paused”; but FMS does not yet show “peak greed”...cash levels still high relative to bonds (97th percentile), and equities (64th percentile).

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.

Exhibit 3: USD Valuation and Trade weighted index



Source: BofA Merrill Lynch Global Fund Manager Survey

% who think US\$ is overvalued at the 3rd highest level in past 10 years.

Investors also think that the most “crowded trade” right now is “long US\$”.

Exhibit 4: Global Banks



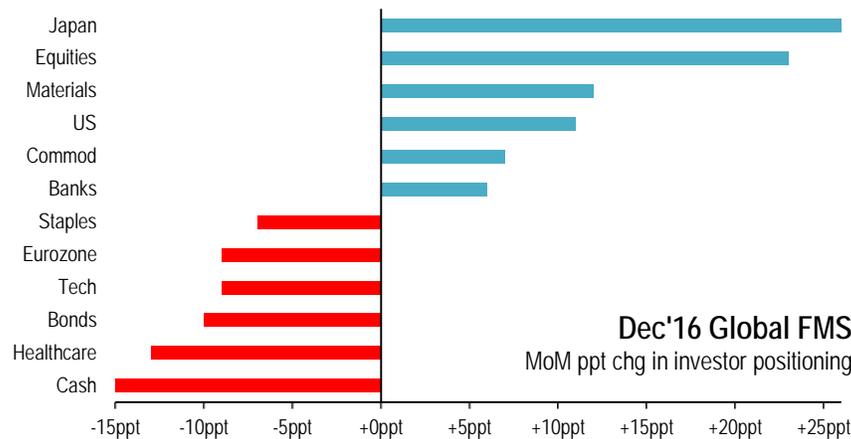
Source: BofA Merrill Lynch Global Fund Manager Survey

Allocation to banks jumps to record highs (net 31% OW from net 25% OW last month).

Current reading is an extreme 2.1 stdev above its long-term average.

Positioning & how it's changing...

Exhibit 5: Month-on-Month changes to Global FMS positioning (Dec'16 vs Nov'16)

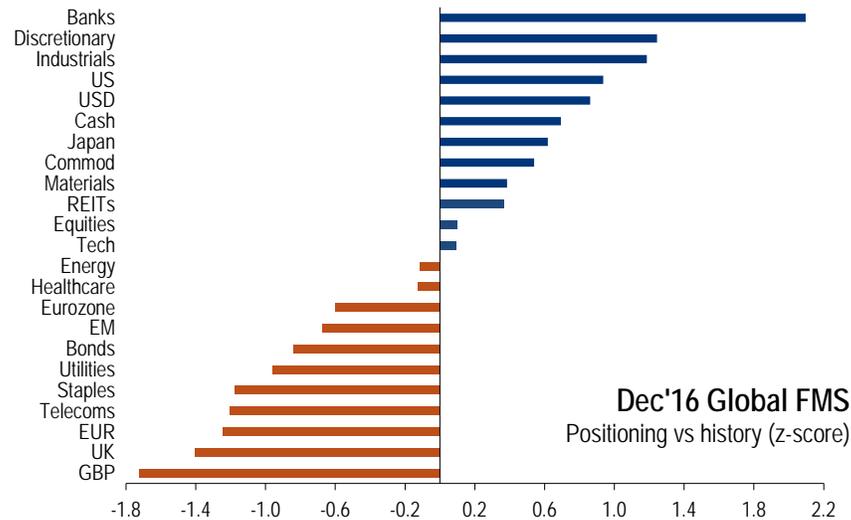


Source: BofA Merrill Lynch Global Fund Manager Survey

Exhibit presents the MONTHLY changes to global investor positioning from the November FMS to the December FMS. Highlights include:

- Rotation out of cash, healthcare, bonds, tech & the Eurozone
- Rotation into Japan, equities, materials and the US

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



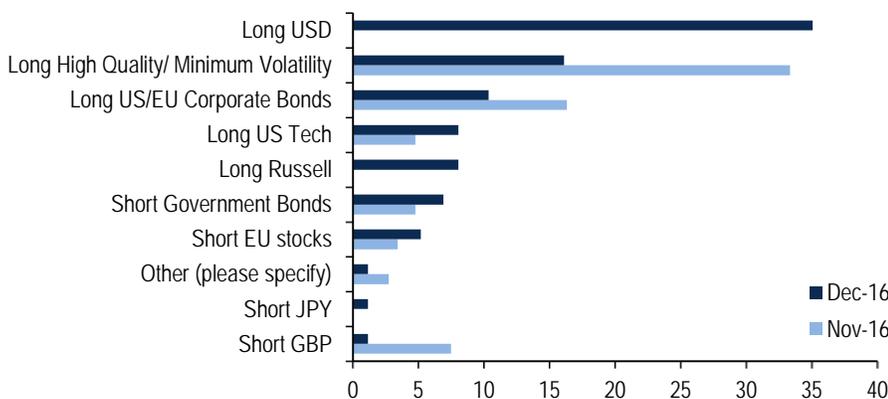
Source: BofA Merrill Lynch Global Fund Manager Survey

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

- Contrarians would go long GBP, EUR, UK, equities and bond proxies (telcos, staples, utilities)
- Contrarians would short banks, discretionary, industrials, US equities & US dollar

** data since 2006 for commodities & real estate; data since 2001 for everything else; note US\$, EUR & GBP based on valuation*

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



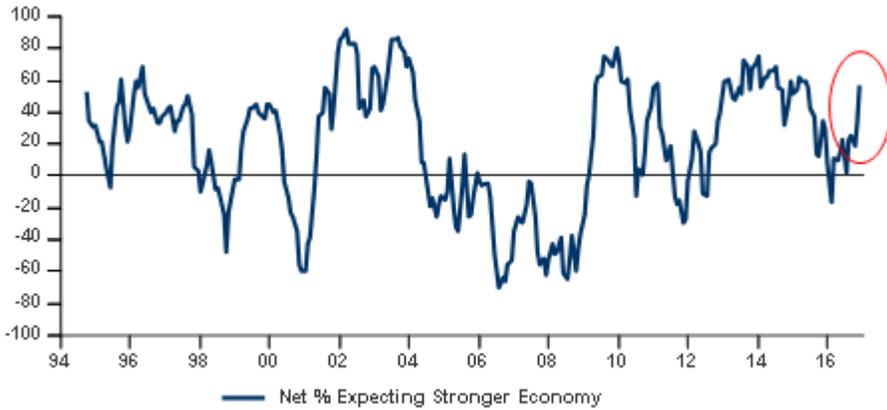
Source: BofA Merrill Lynch Global Fund Manager Survey

Most crowded trades in Dec'16:

- Long US dollar (35%)
- Long high quality/minimum vol (16%)
- Long US/EU corporate bonds (10%)

On Macro

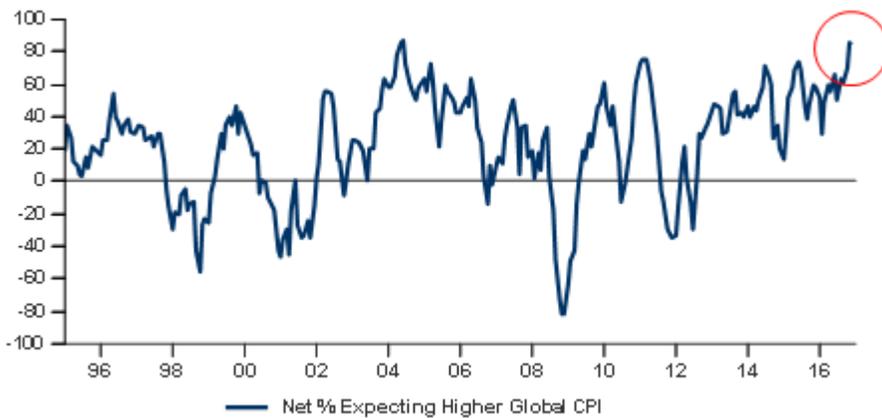
Exhibit 8: How do you think the global real economy will develop over the next 12 months?



Global growth expectations jump to 19-month highs (net 57% from net 35% last month).

Source: BofA Merrill Lynch Global Fund Manager Survey

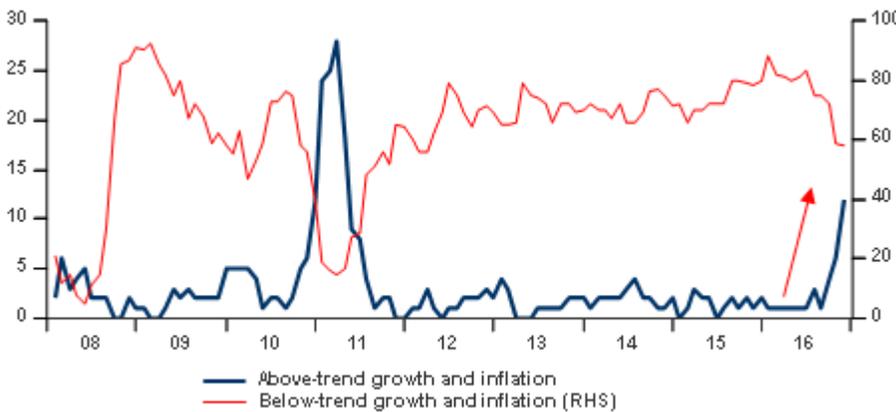
Exhibit 9: Inflation expectations



Global inflation expectations at second highest % since Jun'04 (net 84% vs net 85% last month).

Source: BofA Merrill Lynch Global Fund Manager Survey

Exhibit 10: How do you see the global economy trend in the next 12 months?

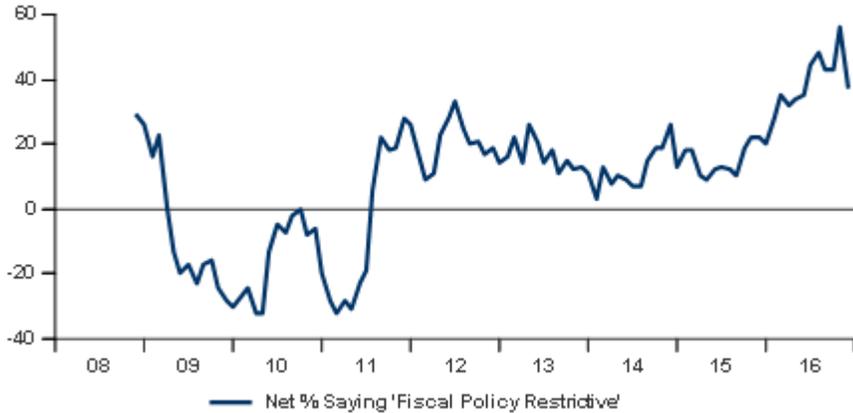


% of investors expecting "above-trend" growth & inflation jumps to 5-year highs (12% from 6% last month).

Source: BofA Merrill Lynch Global Fund Manager Survey

On Macro (cont'd)

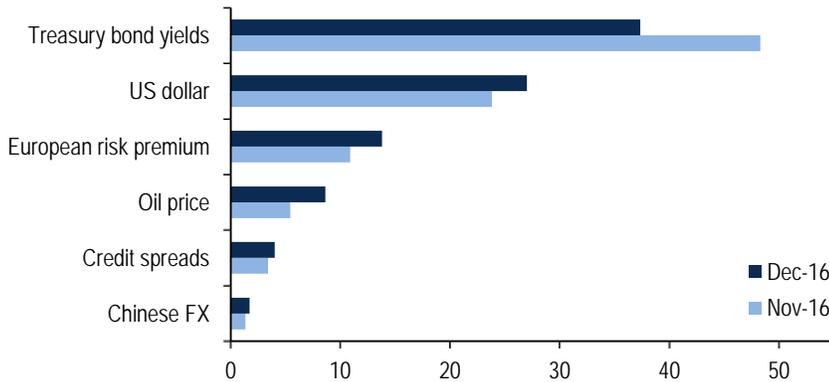
Exhibit 11: Given where we are in the business cycle, do you think global fiscal policy is currently:



Source: BofA Merrill Lynch Global Fund Manager Survey

% of investors who think current fiscal policy is too restrictive falls from record highs (to net 37% from net 56% last month)...consistent with a market that's already started to discount fiscal easing in the US.

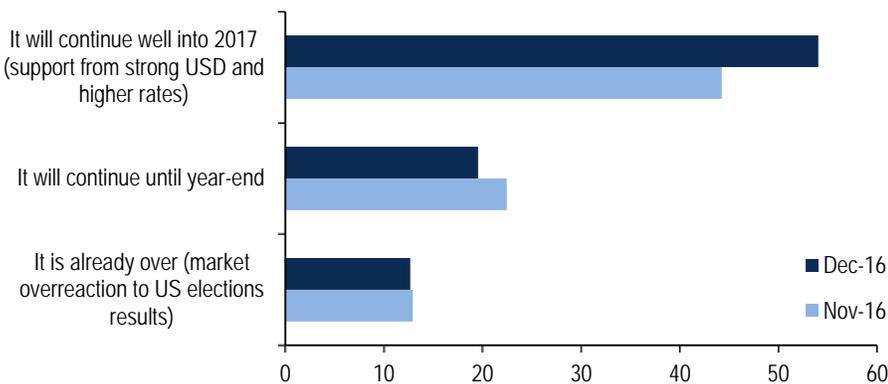
Exhibit 12: Which of the following is likely to be the biggest driver of equity prices next six months?



Source: BofA Merrill Lynch Global Fund Manager Survey

FMS says biggest equity driver next 6 months = Treasury yields (37%), followed by US dollar (27%) and European risk premium (14%).

Exhibit 13: In H2 2016 Cyclical and Value stocks have outperformed Quality and Growth stocks; how long do you think the rotation to cyclical styles and inflationary sectors will continue...?



Source: BofA Merrill Lynch Global Fund Manager Survey

Majority of investors (54%) think the rotation to cyclical styles and inflationary sectors will continue well into 2017 (up from 44% last month).

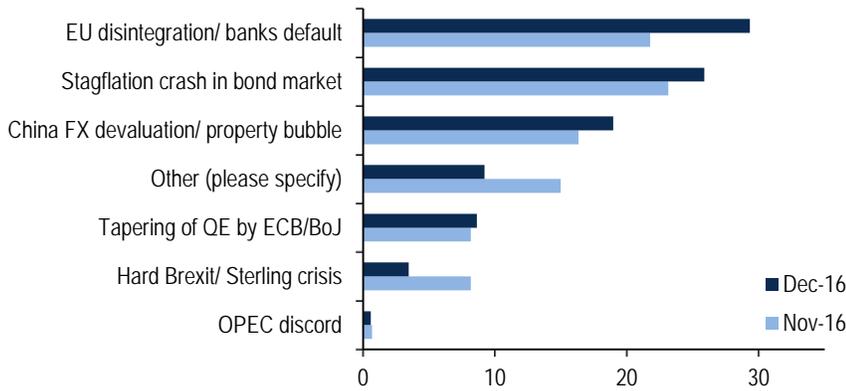
20% think it will only continue until year-end.

13% think it is already over.

Rest of the participants (14%) don't know.

On Risk

Exhibit 14: What do you consider the biggest 'tail risk'?

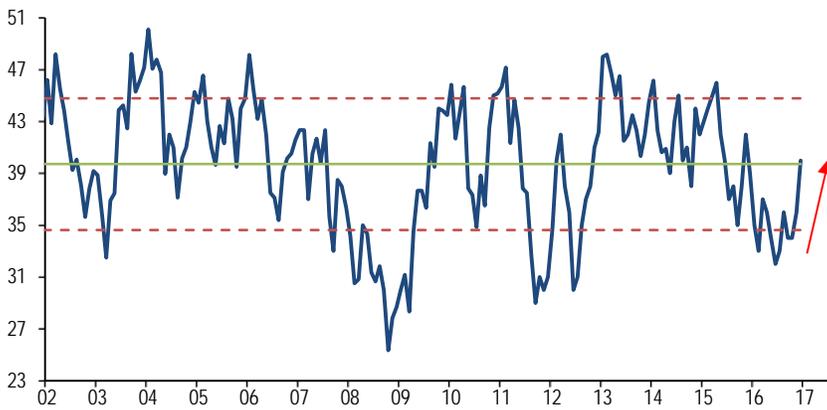


Source: BofA Merrill Lynch Global Fund Manager Survey

Biggest 'tail risks':

1. EU disintegration/banks default (29%)
2. Stagflationary bond crash (26%)
3. China FX deval/property bubble (19%)

Exhibit 15: BofAML Risk and Liquidity Indicator



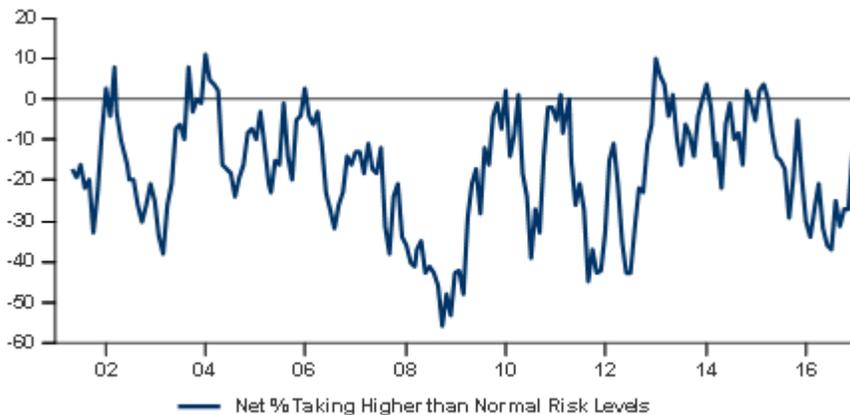
Source: BofA Merrill Lynch Global Fund Manager Survey

BofAML Risk & Liquidity Indicator improves to 13-month highs (40 from 36 last month).

Current risk appetite is 0.1 stdev above average

As a reminder, index is calculated as follows: simple avg of net % investors taking higher-than-normal risk, net % investors having longer-than-normal investment horizon and net % saying OW cash relative to their benchmark (inverse).

Exhibit 16: What level of risk do you think you are currently taking in your investment?

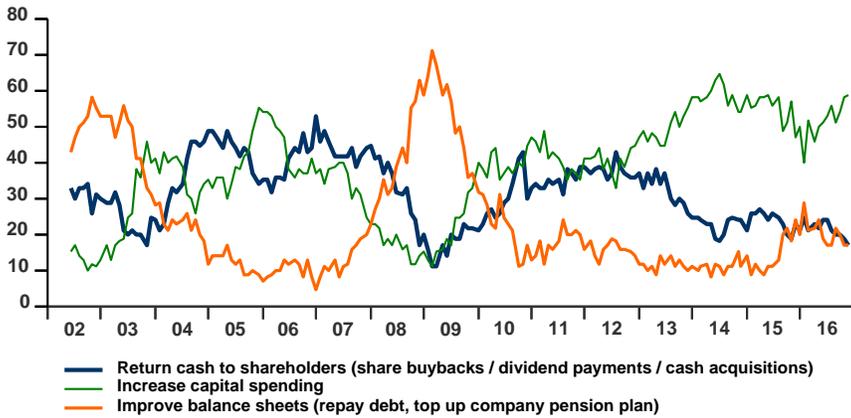


Source: BofA Merrill Lynch Global Fund Manager Survey

% of investors taking higher-than-normal risk is highest in 13 months (-13%).

On Corporates

Exhibit 17: What would you most like to see companies do with cash flow?



Source: BofA Merrill Lynch Global Fund Manager Survey

59% of investors want companies to increase capex spending (highest in 18 months).

17% of investors want companies to return cash to shareholders (down from 19% last month).

17% of investors want companies to improve balance sheets (unchanged from last month).

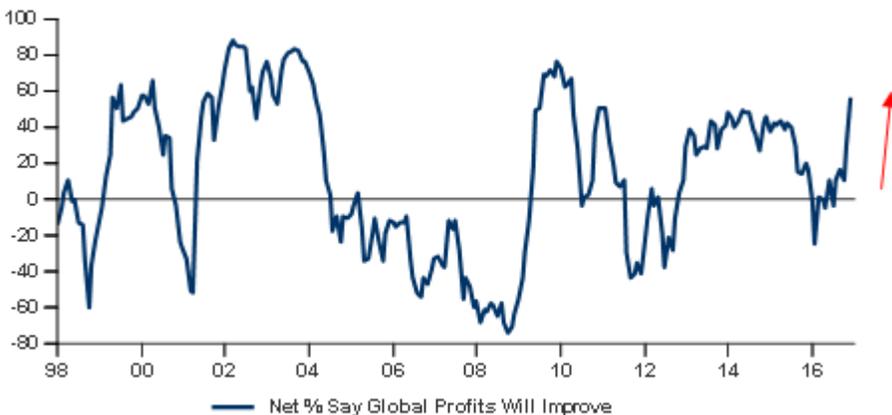
Exhibit 18: Corporate investment



Source: BofA Merrill Lynch Global Fund Manager Survey

A record % of investors (net 74%) think companies are currently under-investing.

Exhibit 19: Profit expectations



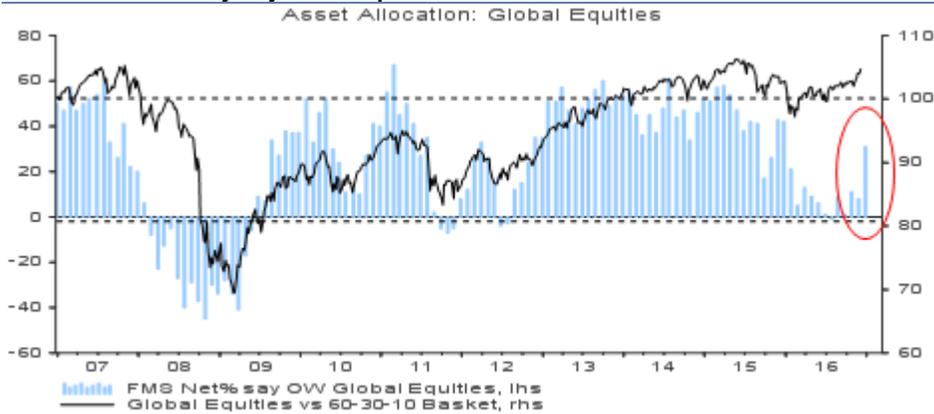
Source: BofA Merrill Lynch Global Fund Manager Survey

Investors are most optimistic about corporate profit expectations in 6.5 years.

A net 56% think global profits will improve next 12 months (up from net 29% last month).

On Asset Allocation

Exhibit 20: Net % AA say they are OW Equities

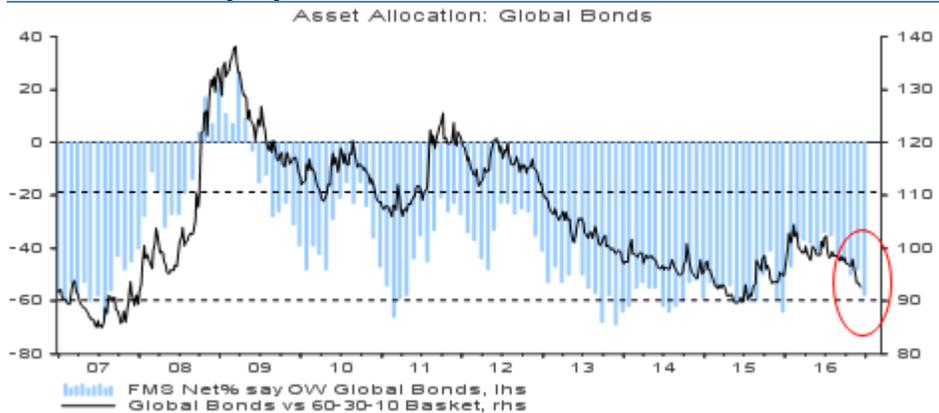


Source: BofA Merrill Lynch Global Fund Manager Survey

Allocation to equities rises to 12-month highs (net 31% OW from net 8% OW last month).

Current allocation is effectively neutral relative to history (0.1 stdev above its long-term average).

Exhibit 21: Net % AA say they are OW Bonds

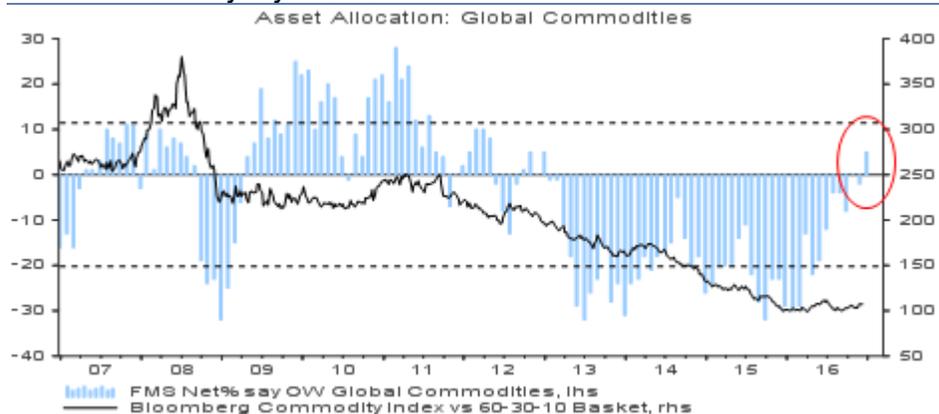


Source: BofA Merrill Lynch Global Fund Manager Survey

Allocation to bonds tumbles to 12-month lows (net 58% UW from net 48% UW last month).

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

Exhibit 22: Net % AA say they are OW Commodities



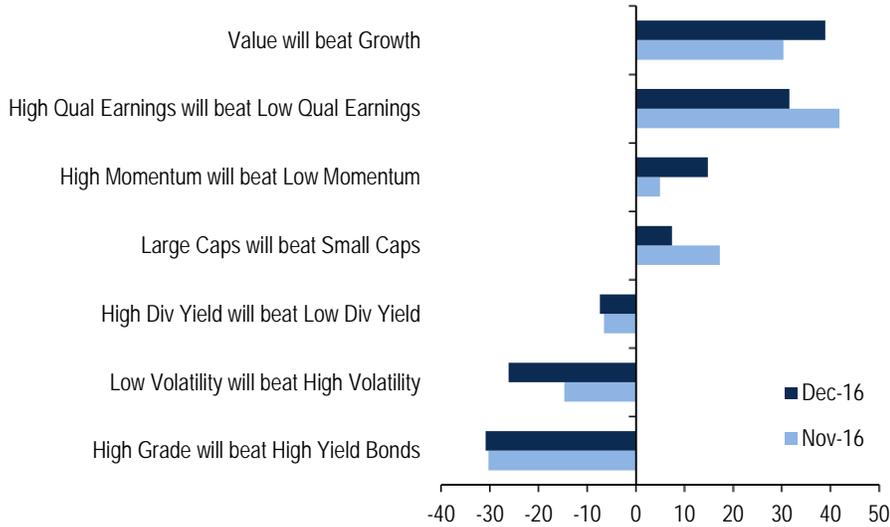
Source: BofA Merrill Lynch Global Fund Manager Survey

Allocation to commodities improves to 4-year highs (net 5% OW from net 2% UW last month).

Current allocation is 0.5 stdev above its long-term average.

On Style

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



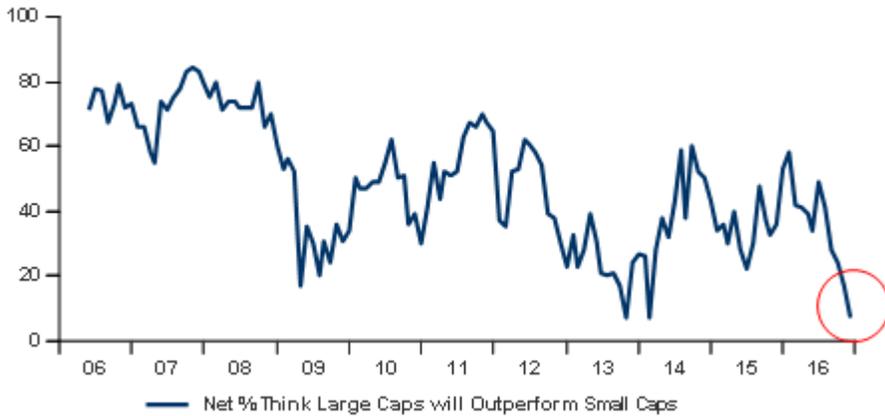
Source: BofA Merrill Lynch Global Fund Manager Survey

Net 39% expect value to outperform growth (up from net 30% last month).

Net 32% expect high-quality stocks to outperform low-quality stocks (down from net 42% last month).

Highest % in 13 months expect high-volatility to outperform low-volatility and HY to outperform HG bonds.

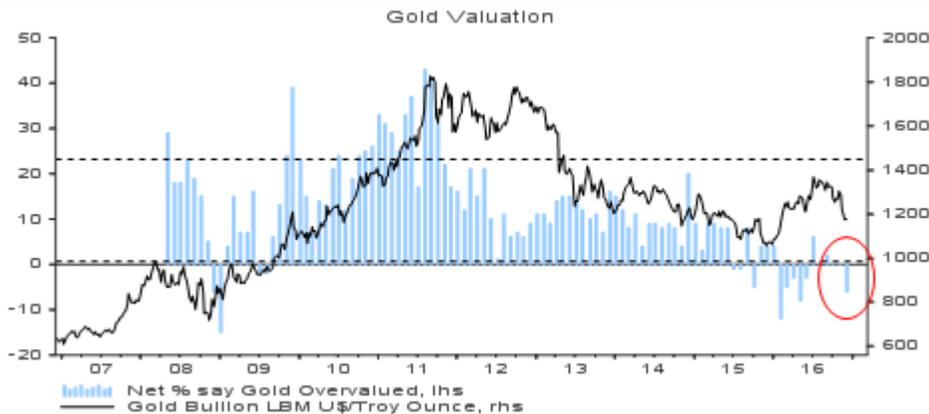
Exhibit 24: Net % Think Large Cap will Outperform Small Caps



Source: BofA Merrill Lynch Global Fund Manager Survey

Record low % of investors think large-cap will outperform small-cap next 12 months (net 7%).

Exhibit 25: Gold Valuation

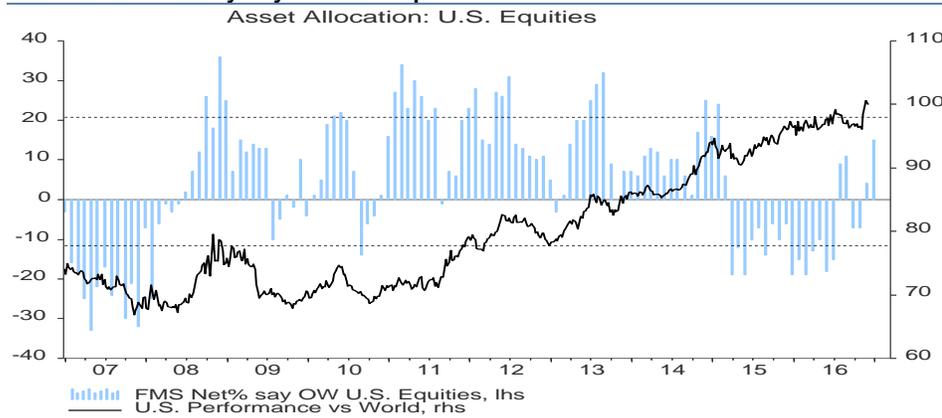


Source: BofA Merrill Lynch Global Fund Manager Survey

A net 6% of investors say gold is now undervalued, the highest reading in 7 months.

On Regional Equity Allocation

Exhibit 26: Net % AA say they are OW US Equities

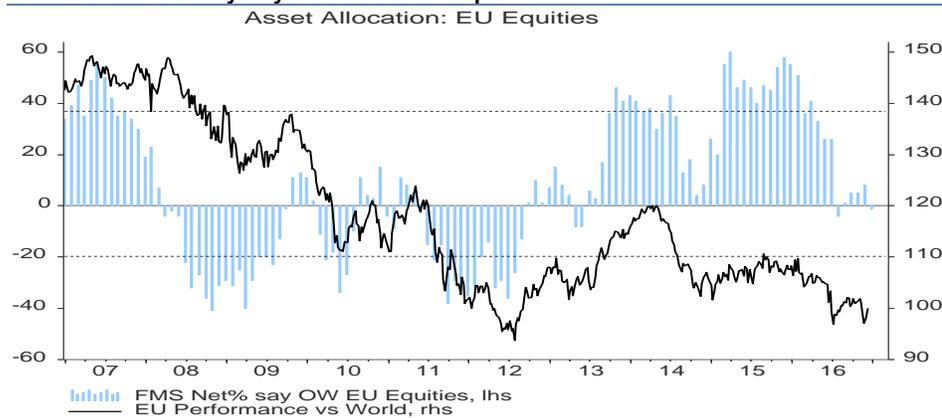


Allocation to US equities improves to 2-year highs (net 15% OW from net 4% OW last month).

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

Source: BofA Merrill Lynch Global Fund Manager Survey

Exhibit 27: Net % AA say they are OW Eurozone Equities

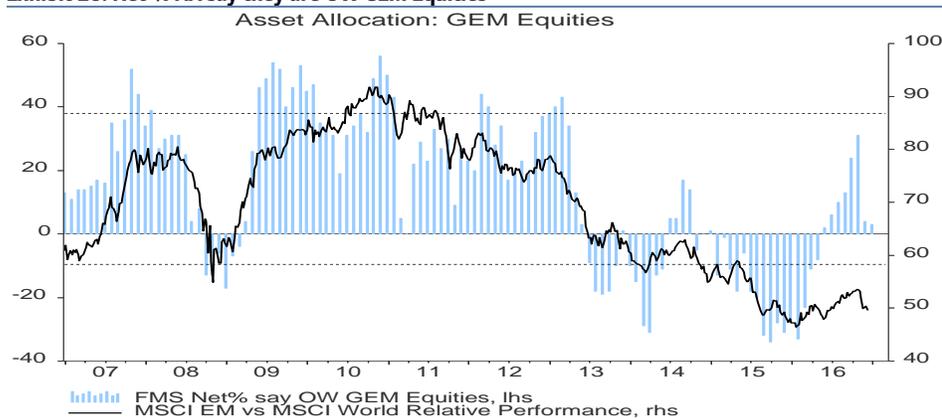


Investors are UW Eurozone equities for the first time in 5 months (net 1% UW from net 8% OW last month).

Current allocation is 0.6 stdev below its long-term average.

Source: BofA Merrill Lynch Global Fund Manager Survey

Exhibit 28: Net % AA say they are OW GEM Equities



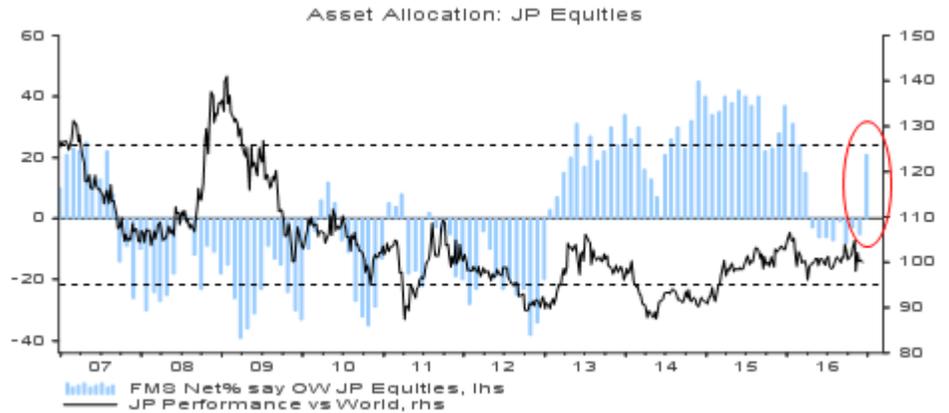
Allocation to EM equities falls to 7-month lows (net 3% OW from net 4% OW last month).

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

Source: BofA Merrill Lynch Global Fund Manager Survey

On Regional Equity Allocation (Cont'd)

Exhibit 29: Net % AA say they are OW Japanese Equities



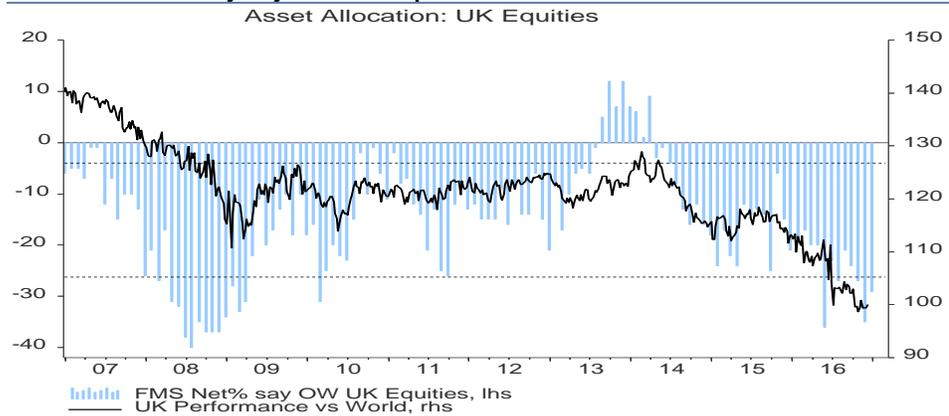
Source: BofA Merrill Lynch Global Fund Manager Survey

Allocation to Japanese equities jumps to 10-month highs (net 21% OW from net 5% UW last month).

This is the biggest MoM jump on record!

Current allocation is 0.6 stdev above its long-term average.

Exhibit 30: Net % AA say they are OW UK Equities



Source: BofA Merrill Lynch Global Fund Manager Survey

Allocation to UK equities improves modestly to net 29% OW from net 35% OW last month.

Current allocation remains 1.4 stdev below its long-term average.

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

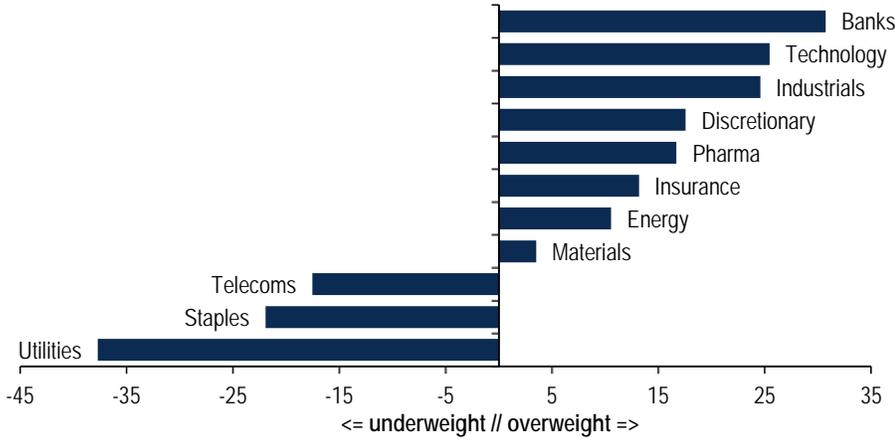


Source: BofA Merrill Lynch Global Fund Manager Survey

Relative EM vs DM positioning falls to 8-month lows (-8.7ppt vs +1.7ppt last month).

On Sector Allocation

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



Source: BofA Merrill Lynch Global Fund Manager Survey

In December, investors rotate out of “growth” (tech, healthcare) and “bond proxies” (utilities, telcos, staples) into resources, banks and cyclicals.

Exhibit 33: Global Industrials

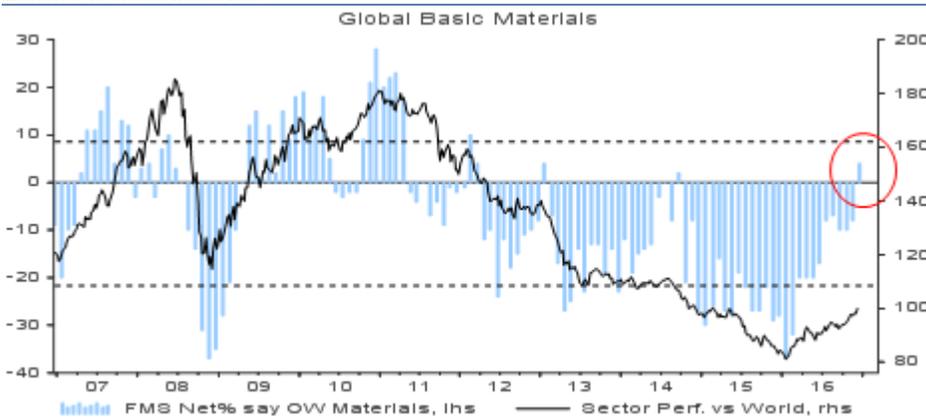


Source: BofA Merrill Lynch Global Fund Manager Survey

Allocation to industrials jumps to 2.5-year highs (net 25% OW from net 19% OW last month).

Current reading is 1.2 stdev above its long-term average.

Exhibit 34: Global Materials



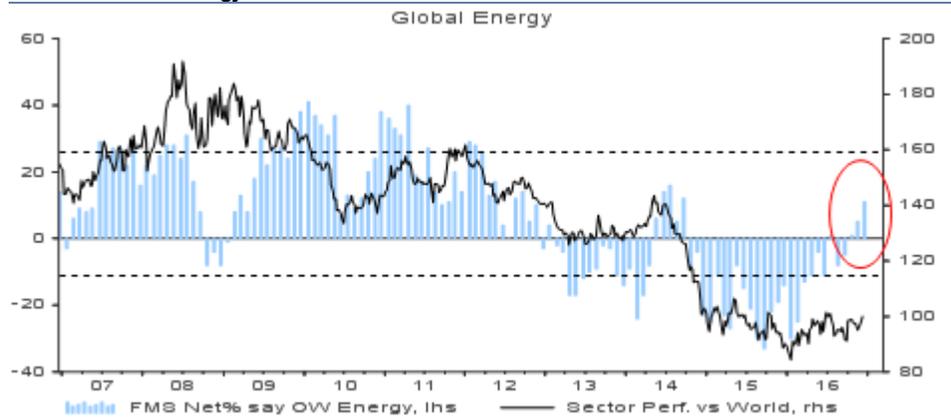
Source: BofA Merrill Lynch Global Fund Manager Survey

Investors are OW materials for the first time in 2 years (net 4% OW). Current allocation is also highest since Jan'13.

Current reading is 0.4 stdev above its long-term average.

On Sector Allocation (cont'd)

Exhibit 35: Global Energy



Source: BofA Merrill Lynch Global Fund Manager Survey

Allocation to energy jumps to 2-year highs (net 11% OW from net 5% OW last month).

Current reading is just 0.1 stdev below its long-term average.

Exhibit 36: Global Technology



Source: BofA Merrill Lynch Global Fund Manager Survey

Allocation to technology falls sharply to 2.5-year lows (net 25 OW from net 34% OW last month).

Current reading is just 0.1 stdev above its long-term average.

Exhibit 37: Global Staples



Source: BofA Merrill Lynch Global Fund Manager Survey

Allocation to staples falls to 18-month lows (net 22% UW from net 15% UW last month).

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

On Regional Sector Allocation

Exhibit 38: U.S. Sector Positioning

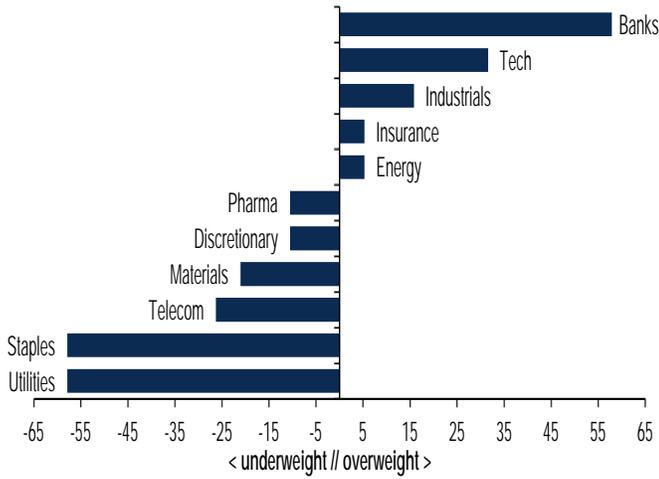


Exhibit 39: Europe Sector Positioning

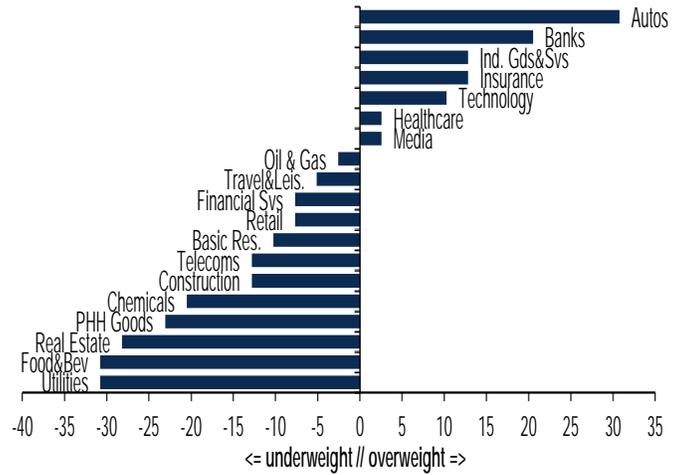


Exhibit 40: Japan Sector Positioning

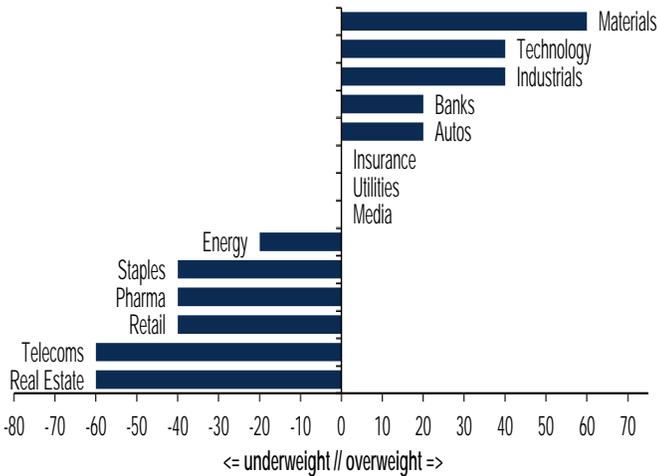
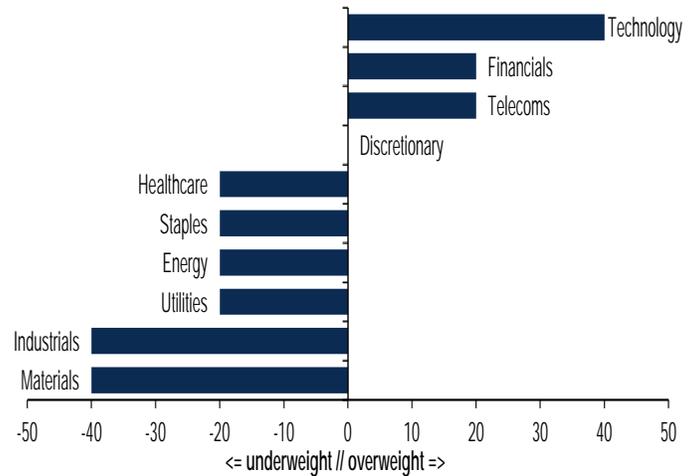


Exhibit 41: GEM Sector Positioning



Global survey demographics data

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

	Dec-16	Nov-16	Oct-16
Structure of the panel - by position			
Chief Investment Officer	19	23	19
Asset Allocator / Strategist / Economist	72	59	68
Portfolio Manager	70	52	74
Other	12	12	10
Structure of the Panel - by expertise			
Global Specialists Only	114	97	116
Regional Specialists With a Global View	59	49	55
Total # of Respondents to Global Questions	173	146	171

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

Institutional funds (e.g. pension funds / insurance companies)	66	53	56
Hedge funds / proprietary trading desks	24	20	22
Mutual funds / unit trusts / investment trusts	56	46	57
None of the above	27	27	36

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

Up to \$250mn	29	25	33
Around \$500mn	23	19	22
Around \$1bn	29	23	31
Around \$2.5bn	18	18	17
Around \$5bn	11	8	13
Around \$7.5bn	10	7	6
Around \$10bn or more	25	21	24
No Funds Under Direct Control	27	25	23
Total (USD bn)	473	386	443

What best describes your investment time horizon at this moment?

3 months or less	54	41	55
6 months	50	48	45
9 months	17	13	22
12 months or more	47	41	47
Weighted average	7.0	7.1	7.1
DK/NA	5	3	2

Source: BofA Merrill Lynch Global Fund Manager Survey

Disclosures

Important Disclosures

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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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