Top 10 January FMS tweets
1. Pre-inauguration FMS shows investors positioning for stronger growth/inflation under Trump (Exhibit 1); but few willing to turn max bull & slash cash
2. Cash @ 5.1% is UP from 4.8% in Dec, above 10-yr avg (4.5%). No “sell” signal for risk. Q1 wobble but no big correction
3. # of investors expecting “above-trend” growth/inflation hits 5.5-year high; China sole impediment to max bull on macro
4. Why high cash? 3 big “tail risks” are trade war/protectionism (29%), US policy error (24%), China FX deval (15%)
5. Asked what 10-year Treasury yield triggers equity bear market: 53% say 4%, 20% say 5%, 16% say 3%
6. Contrarians note “long US dollar” = most crowded trade by country mile. And highest % since Apr’03 think EUR “undervalued”
7. Investors buying Eurozone, tech, equities, REITs in Jan, selling industrials, EM equities & commodities
8. Record # say small-cap stocks will outperform large-cap; 2nd highest ever say value outperforms growth
9. 1st EM short in 9-months...yet 5-year high in long energy sector positions. Weird. Means EM last cyclical catch-up trade
10. Post-inauguration contrarian traders would be long staples, EM, UK, EUR, commodities, large-cap growth; short USD, banks, small-cap value

Exhibit 1: The Longs & Shorts, relative to Global FMS history**
Charts of the Month

Exhibit 2: Global FMS average cash balance (%)

Cash @ 5.1% is UP from 4.8% in Dec and well above 10-year average (4.5%) = no “sell” signal for risk assets yet.

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

Contrarians note “long US dollar” seen as most crowded trade by a country mile.

% who think USD is overvalued is also highest since Nov’06 (net 22%).

Exhibit 4: Relative FMS positioning: EM equities vs Energy stocks

Bullish energy sector positions (5-year high) disconnected from 1st EM UW in 9 months...EM & UK are last cyclical catch-up trades.
Positioning & how it’s changing...

Exhibit 5: Month-on-Month changes to Global FMS positioning (Jan’17 vs Dec’16)

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

- Rotation out of industrials, EM, commodities, materials & discretionary
- Rotation into Eurozone, tech, equities & REITs

Source: BofA Merrill Lynch Global Fund Manager Survey

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

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

- Contrarians would go long EUR, GBP, staples, bonds & EM
- Contrarians would short banks, USD, REITs, discretionary & US

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

Source: BofA Merrill Lynch Global Fund Manager Survey

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

Most crowded trades in Jan’17:

- Long US dollar (47%) by far
- Short govt bonds (11%)
- Long high quality/minimum vol (11%)

Source: BofA Merrill Lynch Global Fund Manager Survey
On Macro

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

Global growth expectations improve to 2-year highs (net 62% from net 57% last month).

Source: BofA Merrill Lynch Global Fund Manager Survey

Exhibit 9: Inflation expectations

Global inflation expectations remain elevated at the 5th highest reading on record (at net 83% from net 84% 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 is at 5.5-year highs (17% from 12% last month).

Source: BofA Merrill Lynch Global Fund Manager Survey
**On Macro (cont’d)**

**Exhibit 11: What level of sustained 10-year Treasury yields would cause an equity bear market?**

- 4% - 53%
- 5% - 20%
- 3% - 16%
- Higher - 14%

Asked what 10-year Treasury yield triggers equity near market...

- 53% say 4%
- 20% say 5%
- 16% say 3%.

**Source:** BofA Merrill Lynch Global Fund Manager Survey

**Exhibit 12: Which of the following is likely to be the biggest driver of equity prices next 6 months?**

- Treasury bond yields (41%)
- US dollar (28%)
- European risk premium (14%)
- Credit spreads (10%)
- Chinese FX (7%)
- Oil price (4%)

FMS says biggest equity driver next 6 months = Treasury yields (41%), followed by US dollar (28%) and European risk premium (14%).

**Source:** BofA Merrill Lynch Global Fund Manager Survey

**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...?**

- It will only continue in H1 2017 - 57%
- It will continue well into 2017 (support from strong USD and higher rates) - 28%
- It is already over (market overreaction to US-elections results) - 14%

Majority of investors (41%) now think the rotation to cyclical styles and inflationary sectors will only continue in H1 2017. 36% think it will continue well into 2017. 14% think it is already over.

**Source:** BofA Merrill Lynch Global Fund Manager Survey
## On Risk

### Exhibit 14: What do you consider the biggest ‘tail risk’?

Biggest ‘tail risks’:

1. Trade war/ protectionism (29%)
2. US policy error (24%)
3. China FX deval/property bubble (15%)

### Exhibit 15: BofAML Risk and Liquidity Indicator

BofAML Risk & Liquidity Indicator is unchanged at 40. Current risk appetite remains in neutral territory (just 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: Have you taken out any protection against a sharp fall in equity markets in the next three months?

Net % of investors who say they have taken out protection falls to the lowest since Jul’14 (net -44% from net -38% last month).
On Corporates

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

60% of investors want companies to increase capex spending (highest in 2.5 years).

18% of investors want companies to improve balance sheets (up from 17% last month).

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

Source: BofA Merrill Lynch Global Fund Manager Survey

**Exhibit 18: Earnings expectations (will rise 10% or more next 12 months)**

Big jump in % expecting corporate earnings to rise 10% or more in the next 12 months (to net -22% from net -47% last month).

This is the most bullish reading since Jun’14.

Source: BofA Merrill Lynch Global Fund Manager Survey

**Exhibit 19: Margins expectations**

Margin expectations are also on the mend...highest reading since 2015.

Source: BofA Merrill Lynch Global Fund Manager Survey
On Asset Allocation

Exhibit 20: Net % AA Say they are OW Equities

Allocation to equities rises to 13-month highs (net 39% OW from net 31% OW last month).
Current allocation is 0.4 stdev above its long-term average.

Source: BofA Merrill Lynch Global Fund Manager Survey

Exhibit 21: Net % AA Say they are OW Bonds

Allocation to bonds falls to 13-month lows (net 63% UW from net 58% UW last month).
Current allocation is 1.1 stdev below its long-term average.

Source: BofA Merrill Lynch Global Fund Manager Survey

Exhibit 22: Net % AA Say they are OW Commodities

 Allocation to commodities drops to net 3% UW from net 5% OW last month.
Current allocation is neutral relative to its long-term average.

Source: BofA Merrill Lynch Global Fund Manager Survey
On Style

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

- Net 43% expect value to outperform growth (up from net 39% last month).
- Net 39% expect high-yield bonds to outperform high-grade (up from 31% last month).

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

Record % of investors think small-cap will outperform large-cap over the next 12 months.

Exhibit 25: EUR Valuation and Trade weighted index

Highest % of investors thinks EUR is undervalued since Apr’03 (net 13%).
On Regional Equity Allocation

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

Allocation to US equities dips to net 14% OW from net 15% OW last month.
Current allocation remains 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

Allocation to Eurozone equities surges to 7-month highs (net 17% OW from net 1% UW last month).
This is the biggest MoM jump in 2 years.
Current allocation is just 0.1 stdev above its long-term average.

Source: BofA Merrill Lynch Global Fund Manager Survey

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

First EM equity UW in 9 months (net 6% UW from net 3% OW last month).
Current allocation is 1.1 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

Allocation to Japanese equities is unchanged at net 21% OW.
Current allocation is 0.6 stdev above its long-term average.

Source: BofA Merrill Lynch Global Fund Manager Survey

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

Allocation to UK equities improves modestly to net 24% UW from net 29% UW last month.
Current allocation remains 1.0 stdev below its long-term average.

Source: BofA Merrill Lynch Global Fund Manager Survey

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

Relative EM vs DM positioning falls to 10-month lows (-23ppt vs -9ppt last month).

Source: BofA Merrill Lynch Global Fund Manager Survey
On Sector Allocation

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

In January, investors rotate out of industrials, materials & consumer sectors into tech, telcos & energy.

Exhibit 33: Global Staples

Allocation to staples falls to 3-year lows (net 26% UW from net 22% UW last month).
Current allocation is 1.4 stdev below its long-term average.

Exhibit 34: Global Materials

Allocation to materials drops to net 2% UW from net 4% OW last month.
Current reading is neutral relative to its long-term average.
On Sector Allocation (cont’d)

Exhibit 35: Global Energy

Allocation to energy is highest since May ’12 (net 16% OW from net 11% OW last month).
Current reading is 0.2 stdev above its long-term average.

Source: BofA Merrill Lynch Global Fund Manager Survey

Exhibit 36: Global Technology

Allocation to technology jumps to net 35% OW from net 25% OW last month.
Current reading is 0.6 stdev above its long-term average.

Source: BofA Merrill Lynch Global Fund Manager Survey

Exhibit 37: Global Banks

Allocation to banks remains stretched at net 30% OW (little changed from net 31% OW last month).
Current reading is 2.0 stdev above its long-term average.

Source: BofA Merrill Lynch Global Fund Manager Survey
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

<table>
<thead>
<tr>
<th>Structure of the panel - by position</th>
<th>Jan-17</th>
<th>Dec-16</th>
<th>Nov-16</th>
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<tr>
<td>Chief Investment Officer</td>
<td>21</td>
<td>19</td>
<td>23</td>
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<tr>
<td>Asset Allocator / Strategist / Economist</td>
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<td>72</td>
<td>59</td>
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<tr>
<td>Portfolio Manager</td>
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<td>Global Specialists Only</td>
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<td>114</td>
<td>97</td>
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<tr>
<td>Regional Specialists With a Global View</td>
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<td>59</td>
<td>49</td>
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<tr>
<td>Total # of Respondents to Global Questions</td>
<td>176</td>
<td>173</td>
<td>146</td>
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## Which of the Following Best Describes the Type of Money You are Running?

- Institutional funds (e.g. pension funds / insurance companies) | 64 | 66 | 53 |
- Hedge funds / proprietary trading desks | 24 | 24 | 20 |
- Mutual funds / unit trusts / investment trusts | 61 | 56 | 46 |
- None of the above | 27 | 27 | 27 |

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

| Up to $250mn | 35 | 29 | 25 |
| Around $500mn | 26 | 23 | 19 |
| Around $1bn | 31 | 29 | 23 |
| Around $2.5bn | 20 | 18 | 18 |
| Around $5bn | 10 | 11 | 8 |
| Around $7.5bn | 7 | 10 | 7 |
| Around $10bn or more | 25 | 25 | 21 |
| No Funds Under Direct Control | 22 | 27 | 25 |
| Total (USD bn) | 455 | 473 | 386 |

## What best describes your investment time horizon at this moment?

| 3 months or less | 48 | 54 | 41 |
| 6 months | 59 | 50 | 48 |
| 9 months | 19 | 17 | 13 |
| 12 months or more | 47 | 47 | 41 |
| Weighted average | 7.1 | 7.0 | 7.1 |
| DK/NA | 3 | 5 | 3 |

Source: BofA Merrill Lynch Global Fund Manager Survey
Disclosures

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<th>Investment rating</th>
<th>Total return expectation (within 12-month period of date of initial rating)</th>
<th>Ratings dispersion guidelines for coverage cluster*</th>
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<td>Buy</td>
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<td>Underperform</td>
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* 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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