

Help!

FMS Bottom Line: Not quite Maximum Bearish, but close

Not quite Maximum Bearish, but close; optimism collapses back to lows of autumn 2011; significant policy failure now needed for fresh equity price lows; Big Bang policy response could potentially elicit a sizeable rally

On Macro & Policy: Help!

Sharp decline in global growth expectations (+15% to -11%); only 5% of investors see "above-trend" growth next 12 months; big rise in QE expectations; in next 4 months 73% expect ECB QE & 44% now expect Fed QE3

On Cash & Risk: Dash to Cash

Cash balances jump to 5.3%, third highest level on record after 3/2003 & 12/2008; 5.3% = buy signal from FMS Cash trading rule; Risk Index plunges to 30, lowest since 9/2011; key to note investor perceptions of liquidity conditions turn negative for first time since ECB's LTRO (= policy catalyst)

On Asset Allocation & Sectors: Death of Commodities

First Equity UW in 7 months; allocation to Commodities plunges to lowest since Feb'09; investors running massive UW of Materials & Energy; big rotation to Pharma, Telcos and Utilities; Banks shunned, Tech loved

On Regions: Buy the USA

3rd highest ever OW of US equities; allocation to Rest of World reduced; EM still an overweight; Eurozone shunned (4th largest UW on record)

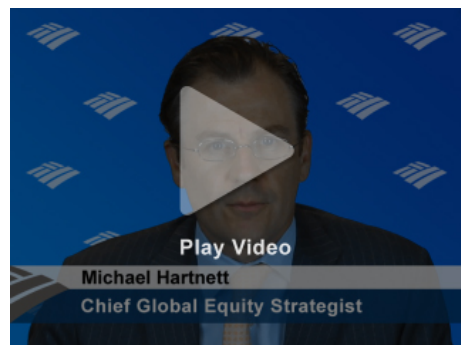
The Contrarian Trades

Long Commodities, short Cash; long Materials, short Staples; long European banks, short US tech; long Australia, short China; long LatAm, short Asia

Investment Strategy | Global
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Click the image above to watch the video.

Notes to Readers

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

Survey period 31st May to 7th June 2012.

An overall total of 260 panellists with
\$689bn AUM participated in the survey.

188 participants with \$522bn AUM
responded to the Global FMS questions
and 141 participants with \$297bn AUM
responded to the Regional FMS
questions.

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

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Refer to important disclosures on page 15 to 17. Link to Definitions on page 14.

On Macro & Policy

Global growth expectations fell sharply from +15% to -11% this month, the largest MoM drop since Aug'11. This suggests new orders to inventories ratio will roll over.

The outlook for global profits also deteriorated, with a net 19% expecting profits to decline over the next 12 months. Last month, a net 1% actually expected profits to improve.

Somewhat surprisingly, growth & profit expectations fell the most in the US (-25%) and fell the least in the Eurozone (-5%).

Chart 1: Global Growth Expectations & New Orders / Inventories ratio (3m avg)

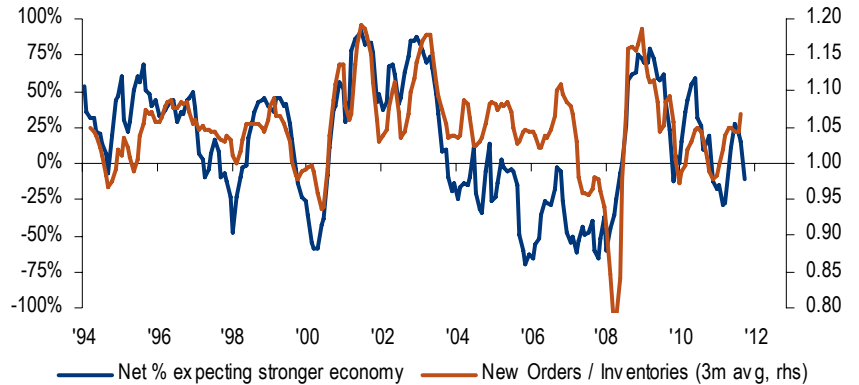


Chart 2: Global profit expectations & Global Earnings Revision Ratio (3m avg)

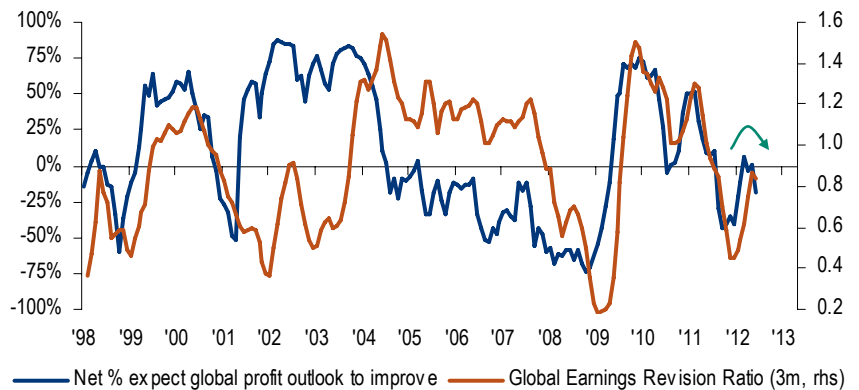
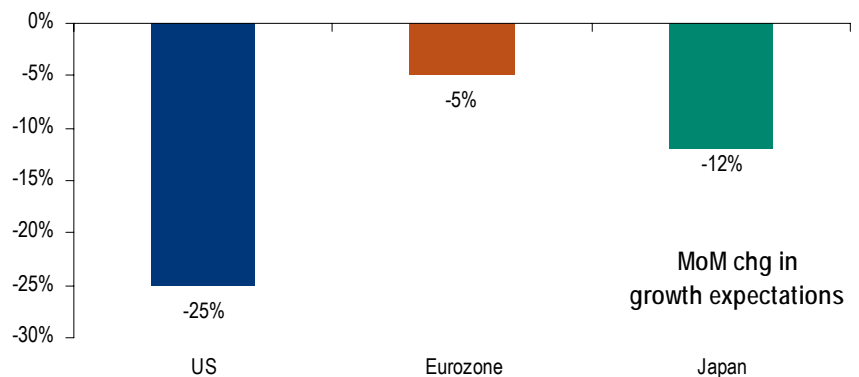
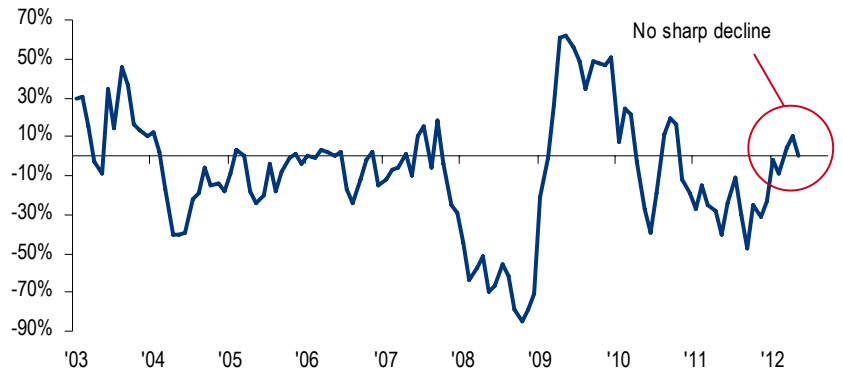


Chart 3: Econ & Profit growth expectations for the US, Eurozone and Japan



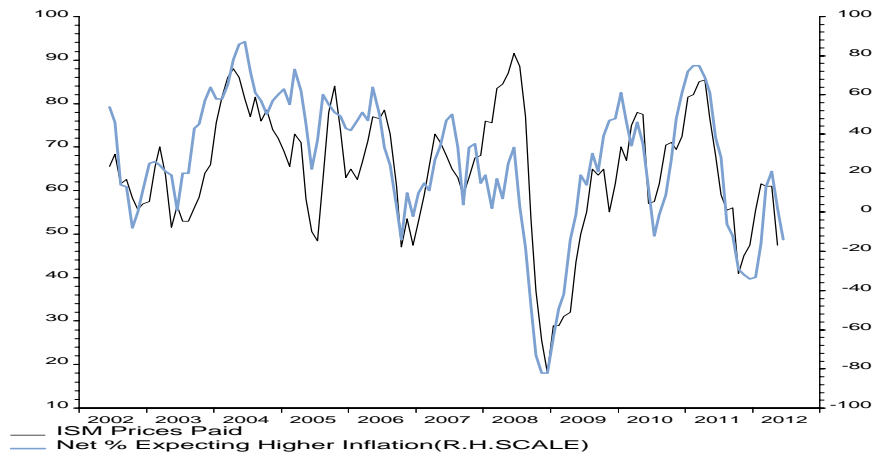
Despite weakness in global growth expectations, fund managers have not yet discounted a materially weaker Chinese economy. Indeed, our EM & Asia FMS shows that investors are still OW China.

Chart 4: Net % of regional FMs expecting stronger Chinese economy



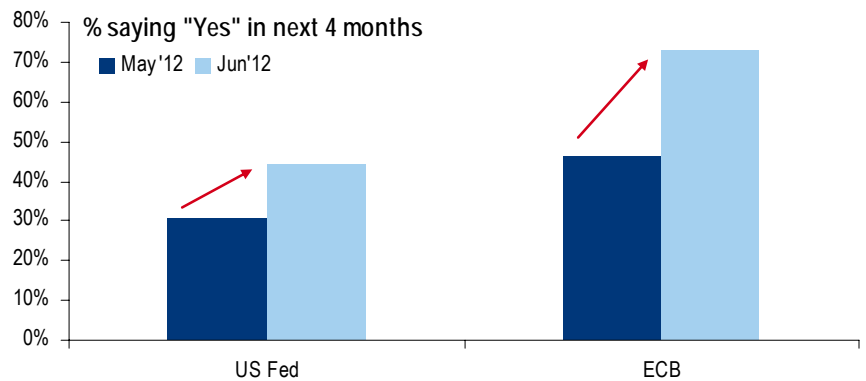
Inflation expectations declined sharply in June. A net 14% expect inflation to fall in the next 12 months, a deflationary signal. But the good news is that this paves the way for policy easing.

Chart 5: Inflation expectations and ISM 'Prices Paid'



Expectations for additional quantitative easing rose sharply in June, particularly in Europe. A net 73% expect more ECB QE within next 4 months (up from 46%). 44% expect Fed QE3 within next 4 months (up from 31%).

Chart 6: Do you expect the ECB and US Fed to engage in additional Quantitative Easing?



On Risk

FMS questions on cash positions address both global investors and asset allocators.

Average cash balances surged to 5.3% (from 4.7%) this month, the third highest reading on record. The % of investors OW cash also rose to 36%, highest since Mar'09.

Average cash levels at an elevated 5.3% means our contrarian "buy" signal for equities is in tact.

Last months cash "buy" signal proved premature (global equities fell 2% between surveys), but equity prices are finally bouncing, as US stocks just capped off their best week (+3.7%) of the year.

Chart 9 presents an overall view of Risk & Liquidity, combining readings on risk appetite, investor time horizons and cash weightings.

Risk appetite plummeted. The FMS Risk & Liquidity indicator fell from 36 to 30 this month (the sixth worst reading on record).

Chart 7: Global Investors Net Overweight Cash and their Mean Cash Balance

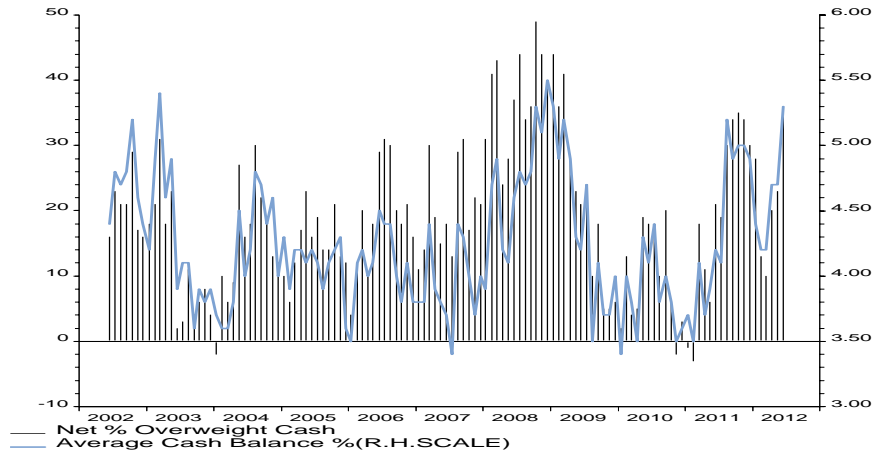


Chart 8: FMS Cash Rule & Global Equities

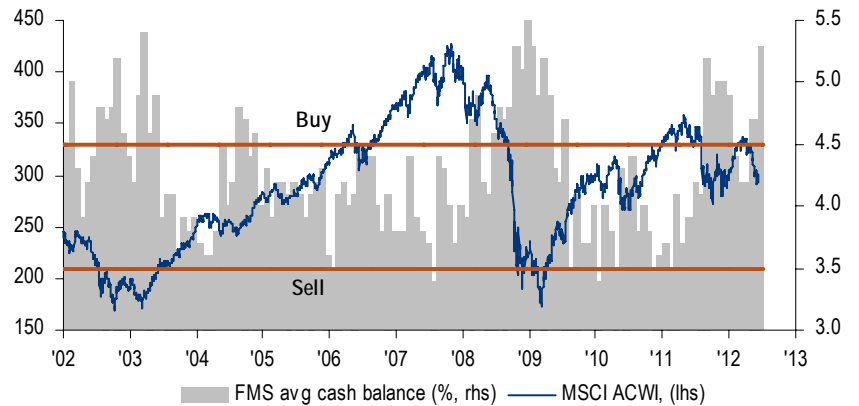
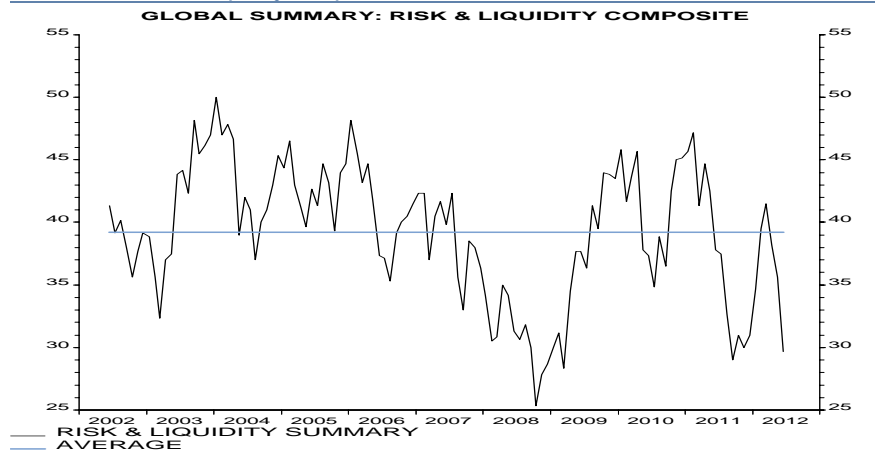
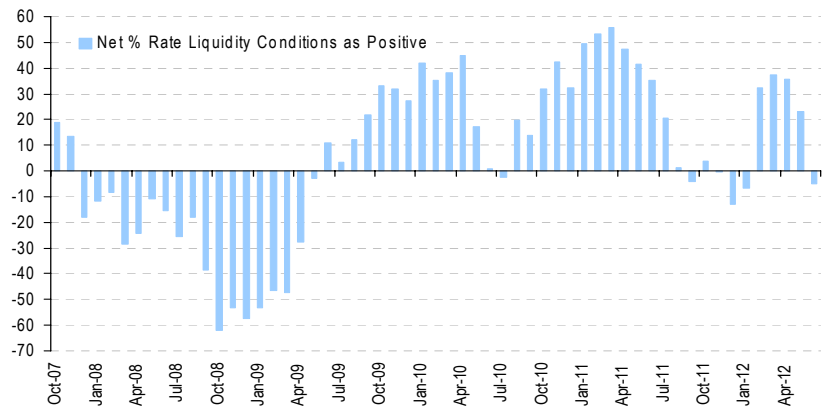


Chart 9: FMS Risk & Liquidity Composite Indicator



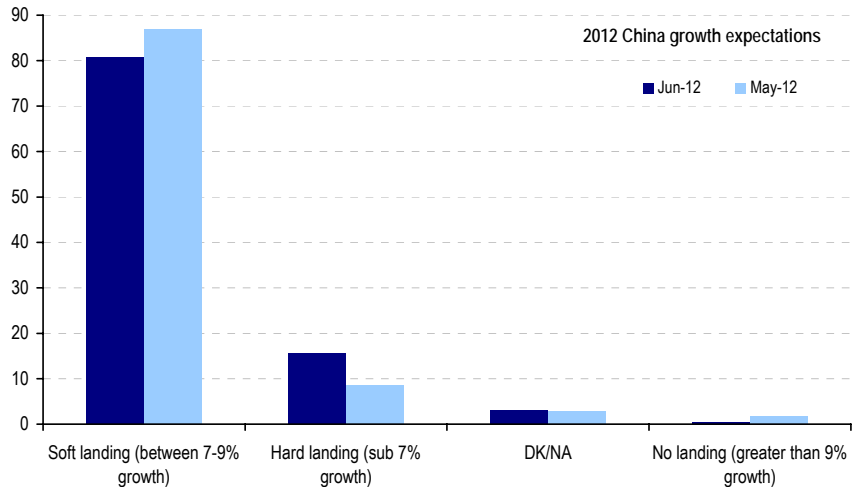
Investor perceptions of liquidity conditions turned negative (-5%) for first time since ECB's LTRO (= policy catalyst)

Chart 10: How would you rate liquidity conditions (e.g. depth of markets, narrowness of bid-offer spreads, ease of execution, etc) at this time?



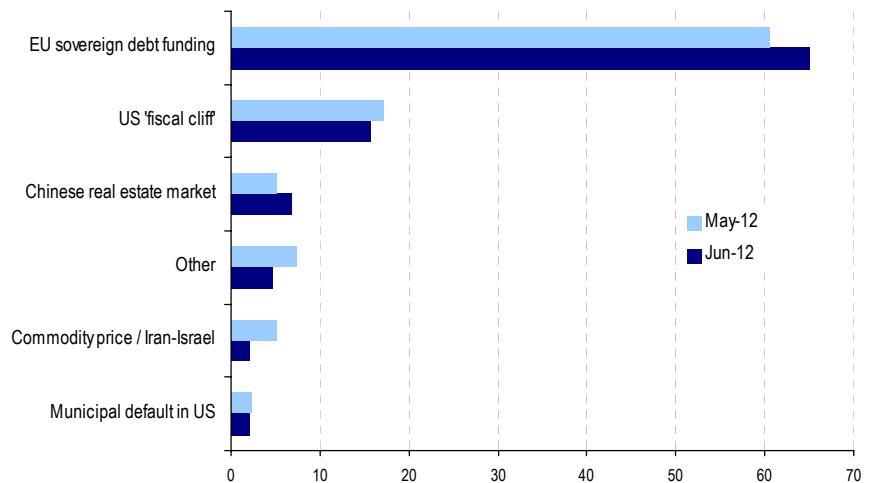
China "hard landing" risks edged higher to a net 16% from 9% last month. But 81% of investors still think "soft landing."

Chart 11: In 2012 will China have a...



EU sovereign debt funding (65%) is by far the biggest 'tail risk' fears. US 'fiscal cliff' is a distant second at 17%.

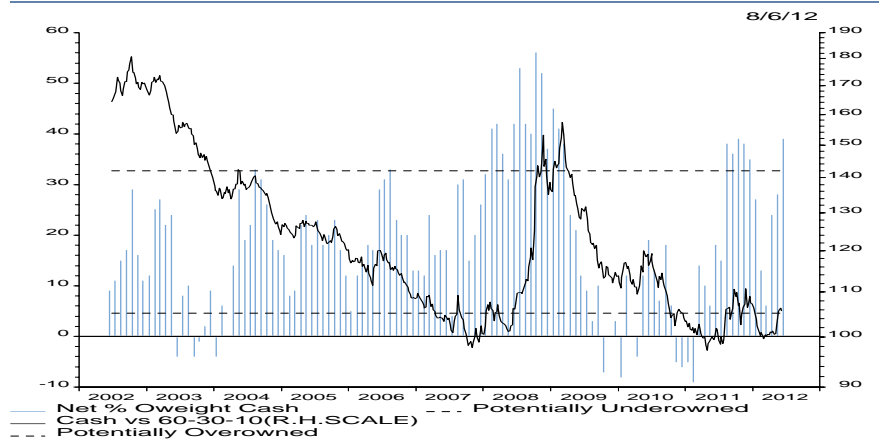
Chart 12: What do you consider the biggest 'tail risk':



On Asset Allocation

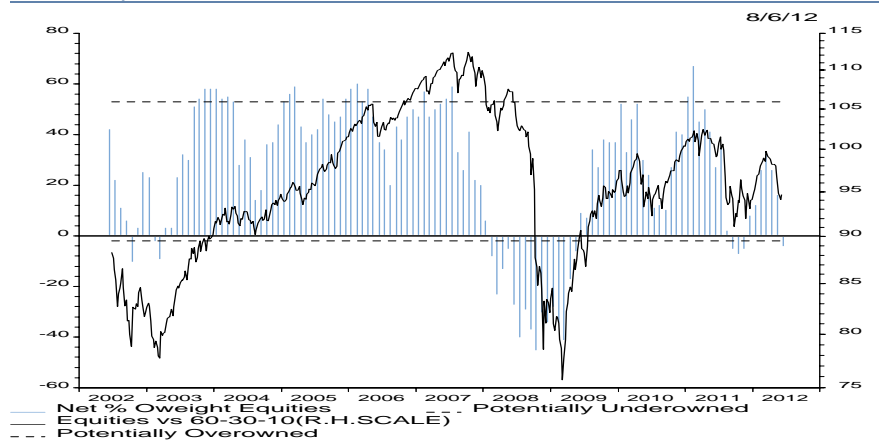
Cash allocations sharply higher in June on the back of EU sovereign debt 'tail risk' fears. A net 39% are OW cash, highest since Oct '11. Cash allocations are now more than 1 standard deviation above the historical norm.

Chart 13: Cash¹



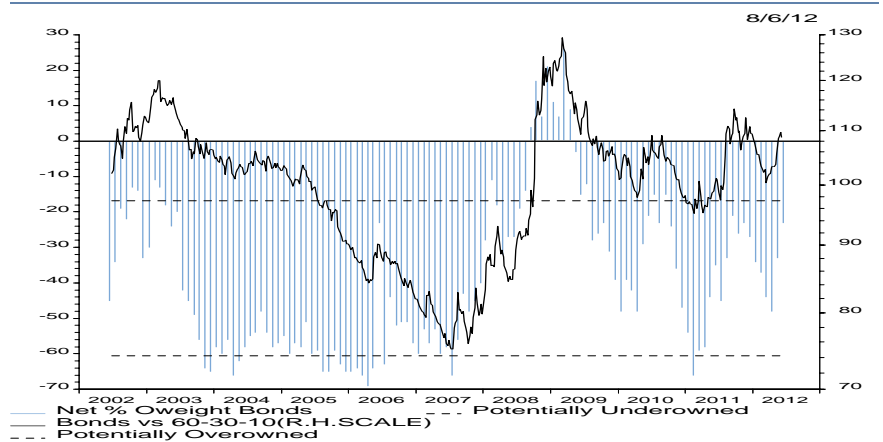
Equity allocations turned negative for the first time in 7 months, consistent with only 5% of investors believing there will be above-trend global growth over the next 12 months.

Chart 14: Equities



Along with cash, bond allocations rose in June as risk appetite waned. A net 23% are UW bonds, up from a net 33% UW last month.

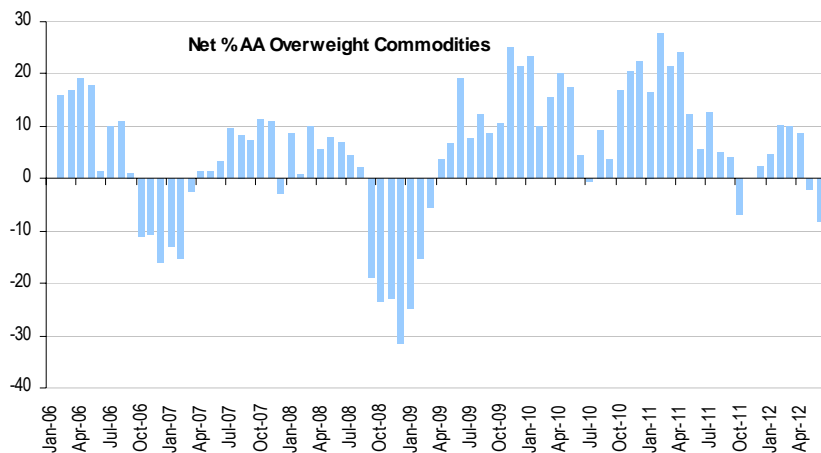
Chart 15: Bonds



¹ In Charts 13-15 we plot the performance of each asset class relative to a synthetic asset allocation benchmark comprising: 60% global equities, 30% global bonds and 10% US cash. The base currency is USD.

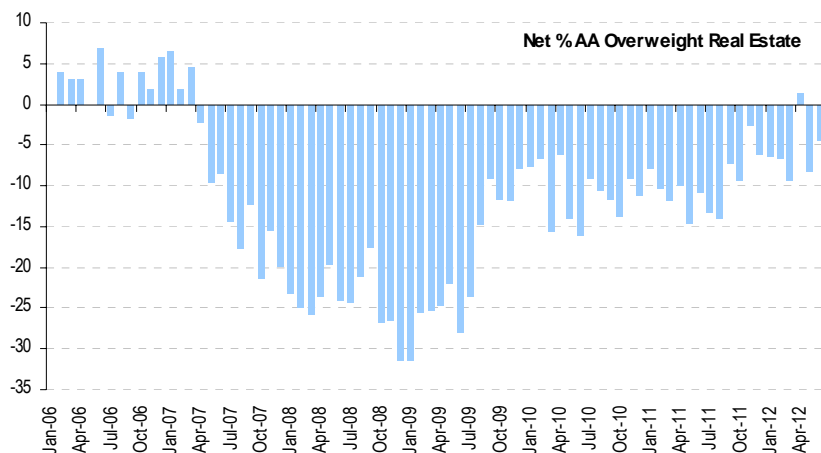
Allocations to commodities plunged to their lowest level (net 8% UW) since Feb'09.

Chart 16: Commodities



Fund managers are a net 4% UW real estate, up slightly from a net 8% UW in May.

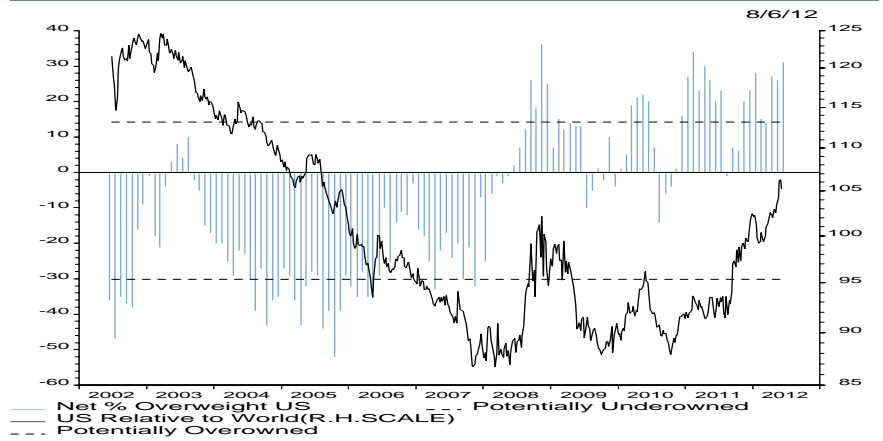
Chart 17: Real Estate (including REITS)



On Equity Allocation

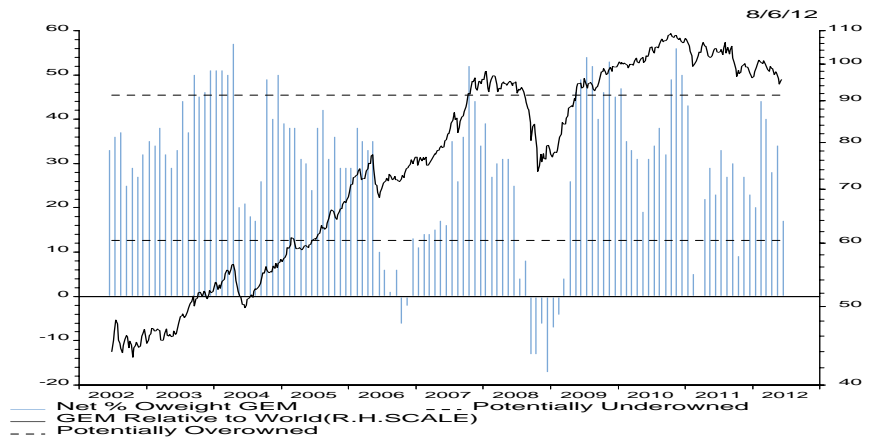
3rd highest ever OW of US equities. A net 31% of asset allocators are OW US equities, up from last month's reading of 26%.

Chart 18: U.S. Equities²



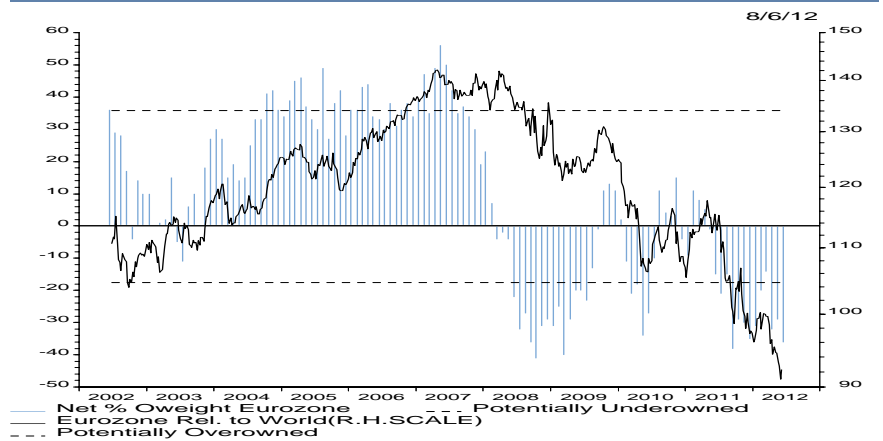
Allocation to Emerging Market equities fell to a net 17% OW, down from 34% OW last month. This is the lowest level since Oct' 11.

Chart 19: Global Emerging Markets Equities



4th largest UW of Eurozone equities on record. A net 36% are UW EU equities versus 29% UW last month. This is the biggest UW since Sep' 11.

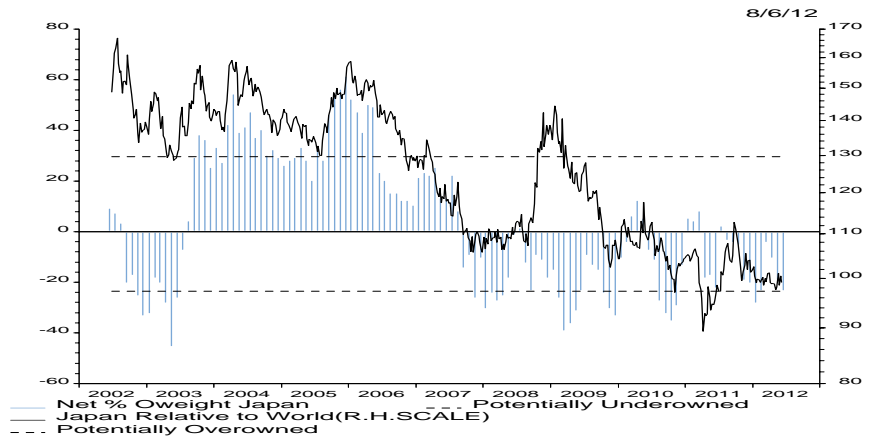
Chart 20: Eurozone Equities



² On Charts 18-22, in addition to the asset class or equity region relative we have featured two lines labeled "potentially overowned" and "potentially underowned". These lines reflect the avg stance plus/minus one stdev.

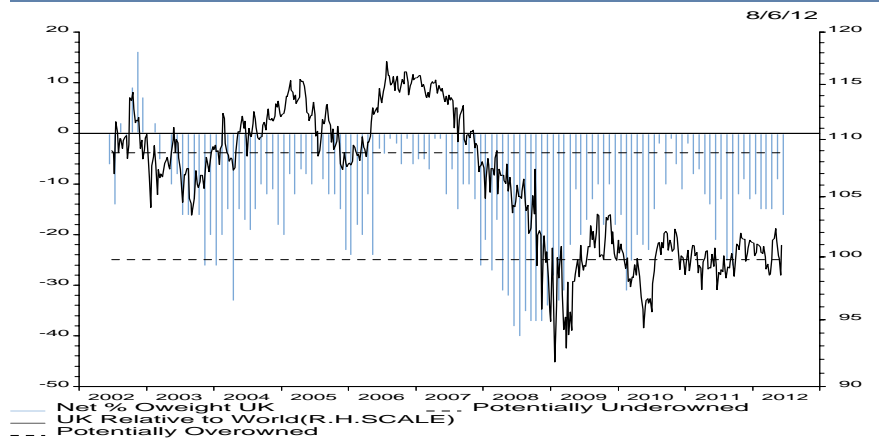
Japan also remains a big underweight. A net 23% are UW the region, down from 19% UW last month.

Chart 21: Japanese Equities



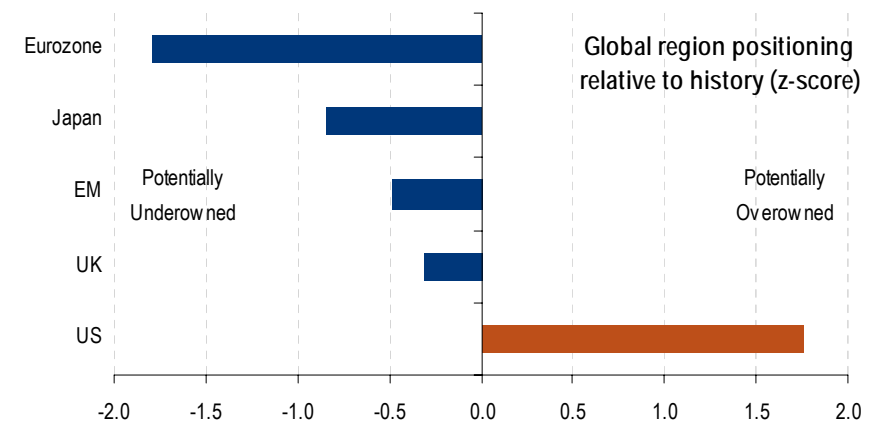
Asset allocators reduced their weighting to UK equities, with a net 16% saying they are UW the region, down from 9% UW last month. This is the lowest level since Sep'11.

Chart 22: UK Equities



US equities are overowned at 1.8 stdev above historical norm. Eurozone equities are underowned at 1.8 stdev below historical norm.

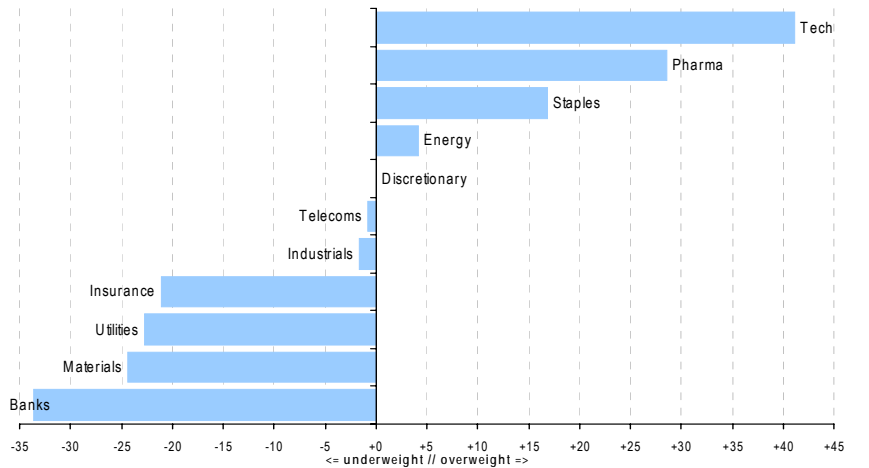
Chart 23: Global region positioning relative to history



On Global Sector Allocation

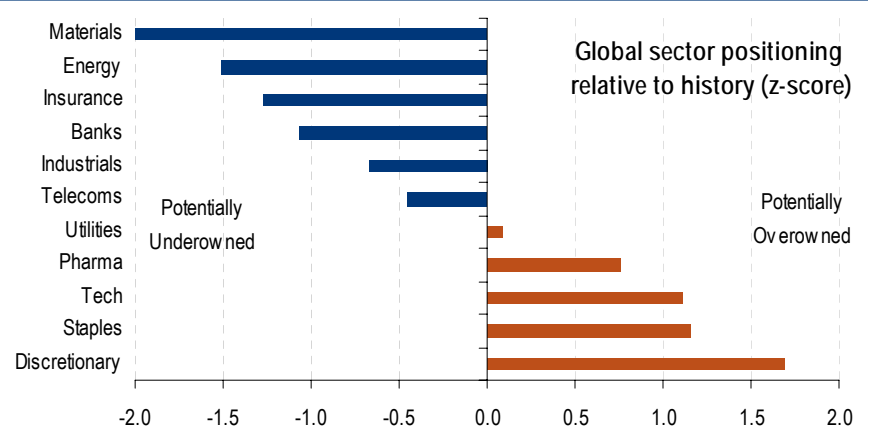
Tech is still the most loved sector by far. Clear defensive rotation as investors dump Materials and Energy for Pharma, Telcos and Utilities.

Chart 24: Current Global Sector Positioning



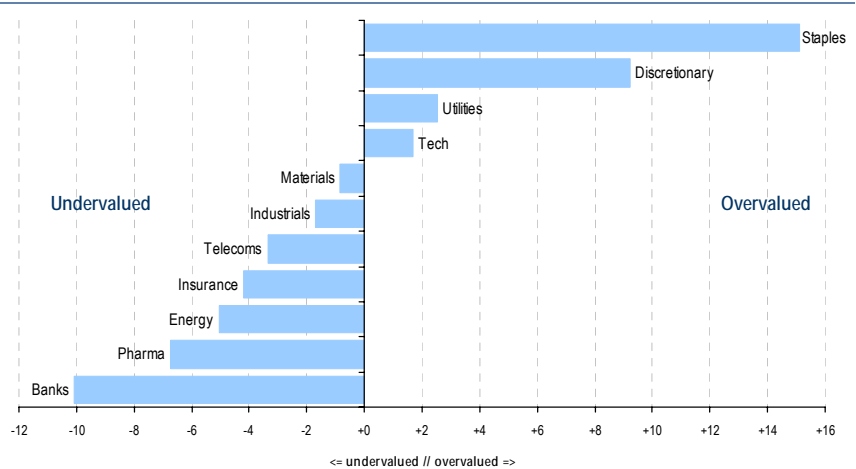
Relative to history, Discretionary and Staples are the most overowned sectors while Materials and Energy are the most underowned.

Chart 25: Global sector positioning relative to history



Staples continue to be viewed as the most "overvalued" sector (+15%) while Banks are viewed as the most "undervalued" sector (-10%).

Chart 26: Current Global Sector Valuation Assessment



On Global Sector Allocation (cont'd)

Allocations to resources (materials and energy) are at their lowest level since Jan'09.

Global materials are currently 2 standard deviations underowned relative to the FMS 10-year history.

Similarly, global energy is currently 1.5 standard deviations underowned relative to the FMS 10-year history.

Tech remains a stubborn, very outsized OW relative to the rest of the market (net 41% OW).

Chart 27: Net % overweight Basic Materials

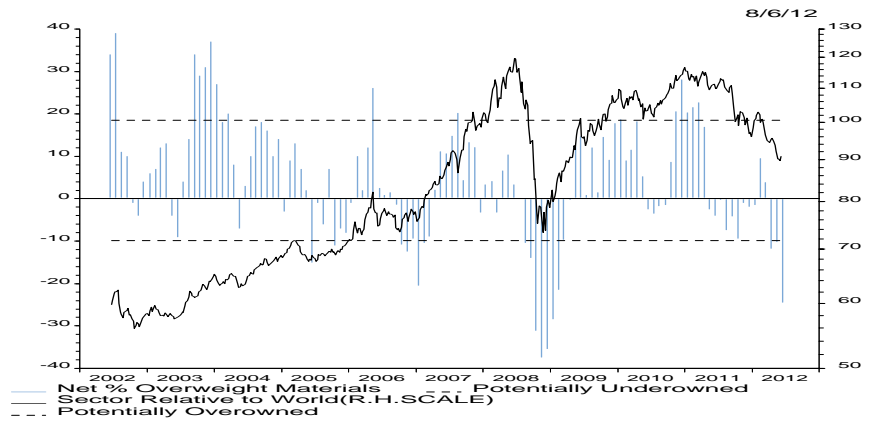


Chart 28: Net % overweight Energy

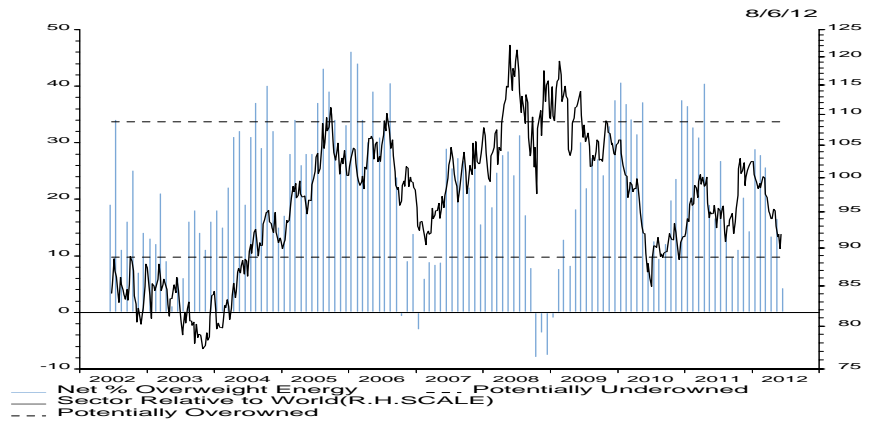
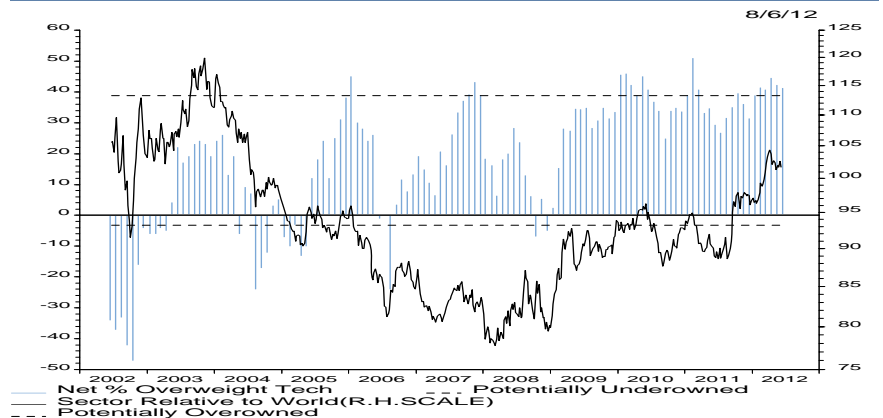


Chart 29: Net % overweight Technology



On Regional Sector Allocation

Contrarian Trades: Long Commodities, short Cash; long Materials, short Staples; long European banks, short US tech; long Australia, short China; long LatAm, short Asia

Chart 30: U.S. Sector Positioning

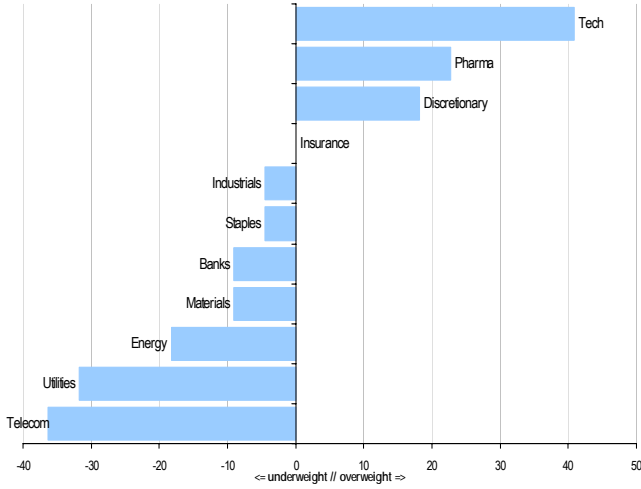


Chart 31: Europe Sector Positioning

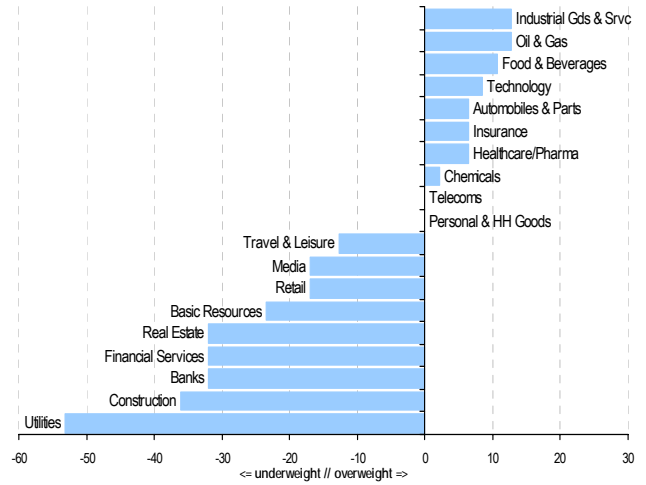


Chart 32: Japan Sector Positioning

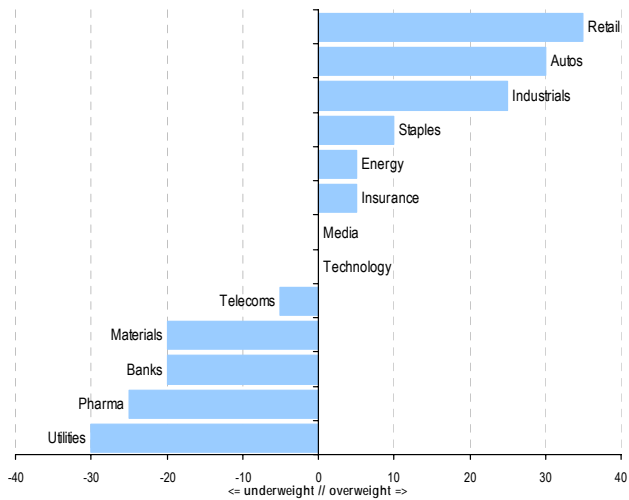
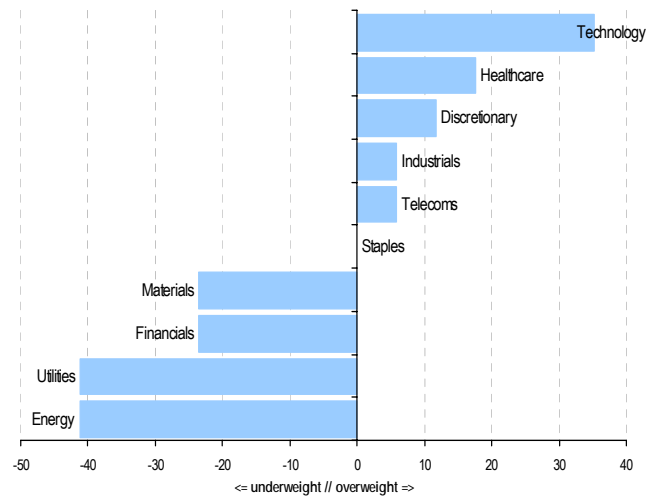


Chart 33: GEM Sector Positioning



Global survey demographic data

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

	Jun	May	Apr	Mar
Structure of the panel by position				
Chief Investment Officer	21	22	25	22
Asset Allocator / Strategist / Economist	70	72	74	83
Portfolio Manager	85	68	83	96
Other	12	11	9	11
Structure of the panel by expertise				
Global Specialists	119	109	119	133
Regional Specialists With A Global View	69	64	72	79
Total # of Respondents to Global Question	188	173	191	212
Which of the Following Best Describes the Type of Money You are Running?				
Institutional Fund	82	78	81	88
Hedge Fund	24	24	30	27
Retail Fund	56	47	54	71
Other	26	24	26	26
What Do You Estimate to be the Total Current Value of Assets Under Your Direct Control?				
Up to \$250mn	36	29	35	36
Around \$500mn	19	14	18	21
Around \$1bn	23	22	26	26
Around \$2.5bn	21	22	26	30
Around \$5bn	19	17	16	19
Around \$7.5bn	11	8	10	12
Around \$10bn or more	25	29	29	33
No Funds Under Direct Control	32	32	30	35
Total (USDbn)	522	526	554	636
What best describes your investment time horizon at this moment? (Global Respondents)				
3 months or less	80	63	67	68
6 months	43	37	40	55
9 months	13	15	27	25
12 months or more	46	54	49	54
Weighted average	6.4	7.1	7.0	7.0
Don't know	6	4	8	10

Additional information on how the survey works

TNS begins fieldwork on the day the U.S. payroll data is released. Fieldwork continues through the following week and is closed on the following Thursday. TNS sends a link to the website containing the unprocessed results to survey panellists (who completed the survey) on Friday. All *bona fide* institutional fund managers are welcome to participate in the panel.

Link to Definitions

Macro

Click [here](#) for definitions of commonly used terms.

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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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