

FMS talking points for GEM & Asia

Global investors bullish on growth and risk

The January FMS shows global investors maintain a bullish growth outlook, expect the first Fed hike in September and are adding risk. Asset allocators are raising equity exposure, but contrarians should note global cash balances have dropped to a very low 3.4%.

EM positioning remains near all-time highs

Despite global rotation to Japan and global banks, investors remain OW EM equities. Strong China growth expectations and higher inflation expectations are factors behind the net 47% of asset allocators OW EM. Positioning is at historically extreme levels (chart 1) so any correction in global equities would be felt deeply in EM.

GEM investor preferences

EMEA is now the most preferred GEM region for the first time since Sep-08 thanks to big OW's in high beta Russia and Turkey. By contrast investors are underweight all the low beta plays: Malaysia, Israel and Chile. GEM investors scaled back their overweights in China and Korea.

Sector preferences are narrowly focused on the EM consumer, with consumer discretionary and staples the overweights. GEM investors are neutral energy, industrials and financials and underweight defensive sectors such as utilities and healthcare.

Asia Pac investor preferences

Asia Pac investors have rotated further toward cyclicals and the consumer. OW positions in tech, retail, energy, materials have been raised while telcos and utilities are stubborn underweights. Overweight stance on China, Taiwan and Korea were reduced. Australia and Malaysia remain the regions' biggest underweights.

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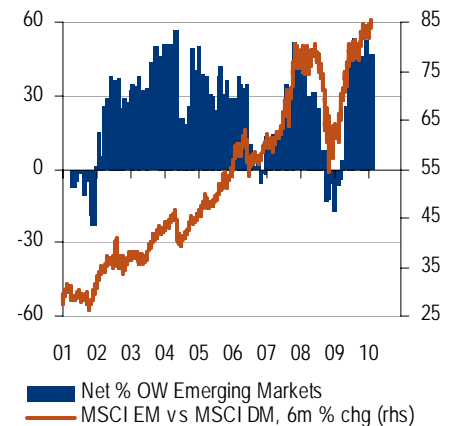
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Chart 1: Net % OW emerging market equities



Source: BofA Merrill Lynch Fund Manager Survey, Thomson Datastream

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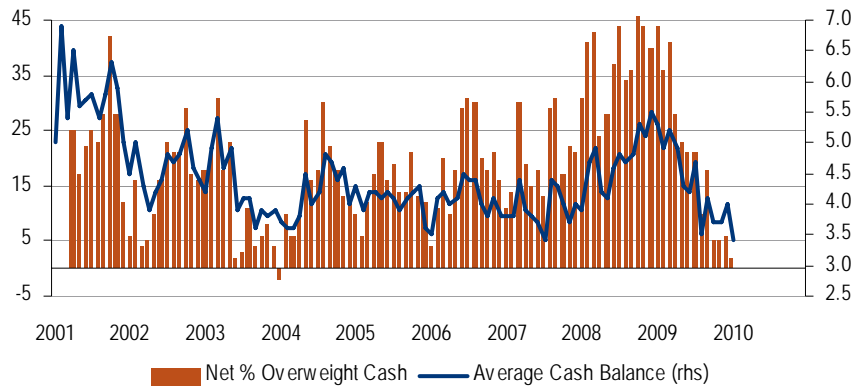
Refer to important disclosures on page 5 to 7.

Global investor views

The January FMS shows global investors maintain a bullish growth outlook, expect the first Fed hike in September and are adding risk.

Avg cash balance = 3.4%, the lowest level since mid-07 and one of the lowest readings since the survey began.

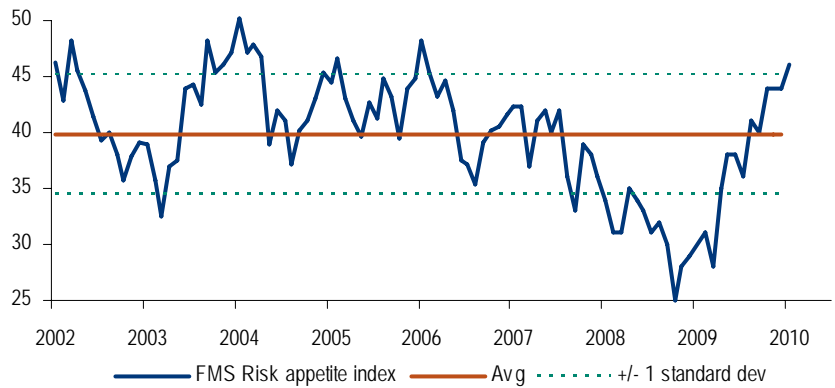
Chart 2: Net overweight cash and mean cash balance



Source: BofA Merrill Lynch Fund Manager Survey

The FMS risk appetite index has risen to 46, the highest reading in four years. The index is now more than 1 standard deviation above the long-run average.

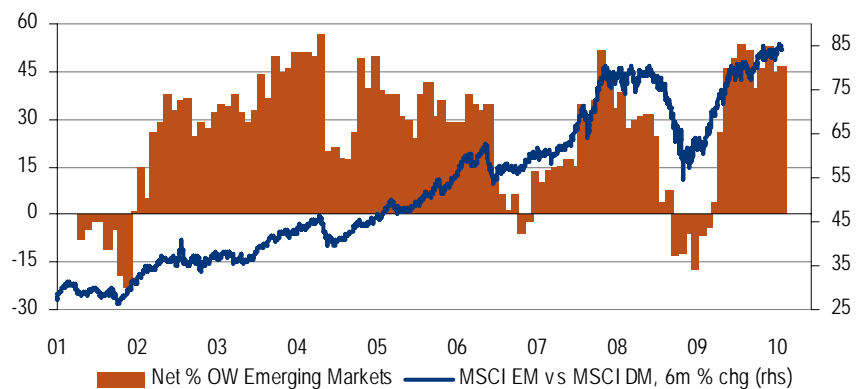
Chart 3: The BofA-ML Risk and Liquidity Appetite Indicator



Source: BofA Merrill Lynch Fund Manager Survey

Strong China growth expectations and higher inflation expectations are factors behind the net 47% of asset allocators OW EM. Positioning is at historically extreme levels so any correction in global equities would be felt deeply in EM.

Chart 4: Global asset allocators net % overweight emerging market equities

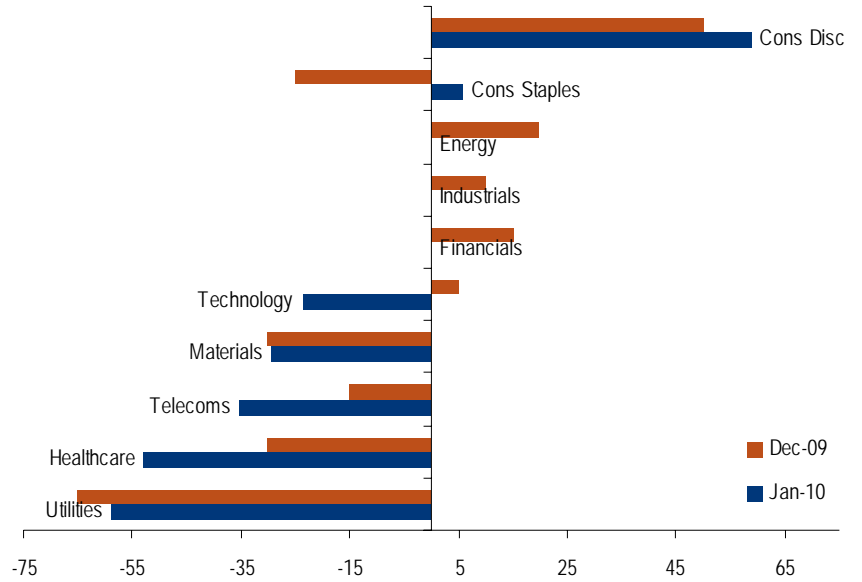


Source: BofA Merrill Lynch Fund Manager Survey, Thomson Datastream

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GEM investor views

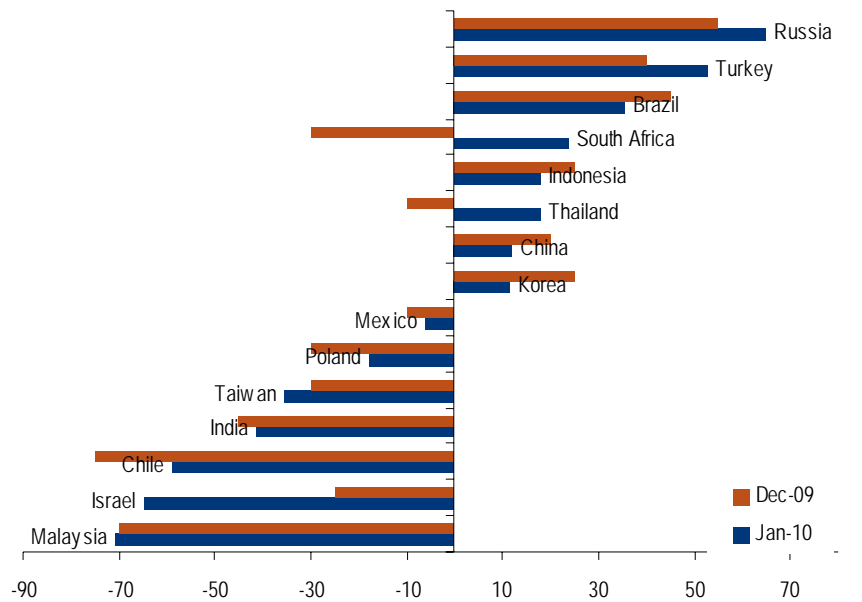
Chart 5: GEM investor sector preferences



Source: BofA Merrill Lynch Fund Manager Survey

EMEA is now the most preferred GEM region for the first time since Sep-08 thanks to big OW's in high beta Russia and Turkey. By contrast investors are underweight all the low beta plays: Malaysia, Israel and Chile. GEM investors scaled back their overweights in China and Korea.

Chart 6: GEM investor country preferences

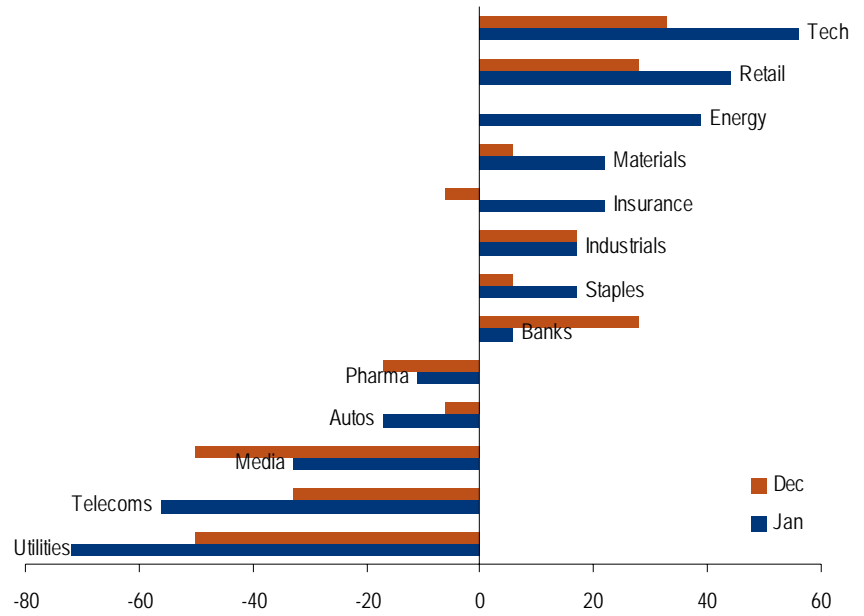


Source: BofA Merrill Lynch Fund Manager Survey

Asia Pac investors have rotated further toward cyclicals and the consumer. OW positions in tech, retail, energy, materials have been raised while telcos and utilities are stubborn underweights.

Asia Pac investor views

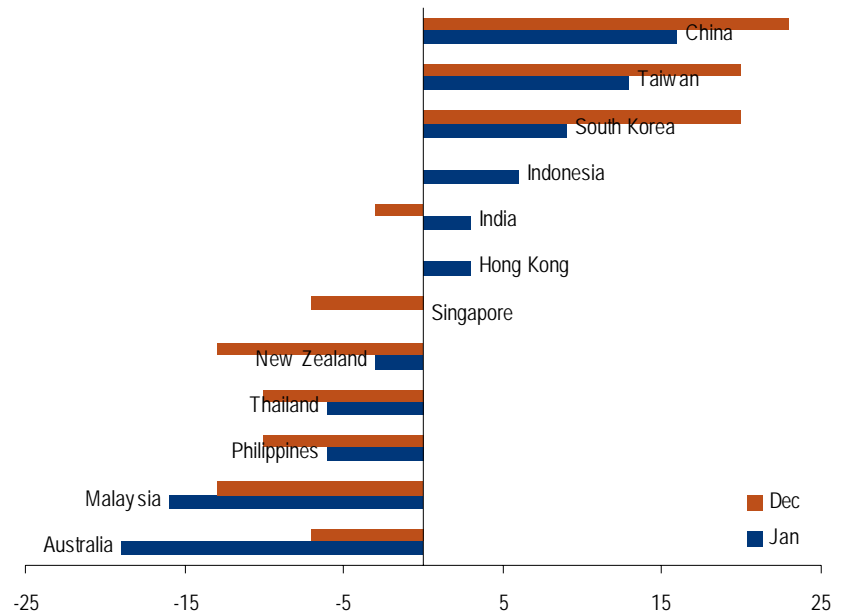
Chart 7: GEM investor sector preferences



Source: BofA Merrill Lynch Fund Manager Survey

Overweight stance on China, Taiwan and Korea were reduced. Australia and Malaysia remain the regions' biggest underweights.

Chart 8: Asia Pac investor country preferences



Source: BofA Merrill Lynch Fund Manager Survey

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