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Opinion **The Long View**

## Investors rein in risk for fear of 'doing something stupid' before year end

More cautious mood sinking into markets as economic optimism fades

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Bank of America's latest monthly survey of fund managers — a key gauge of the market mood — showed this week that optimism was “tanking”. Out of the 232 fund managers surveyed this month, with a combined \$800bn in assets, just a small cohort — a net 13 per cent — are now expecting a stronger global economy.

A pullback in almost universal optimism from this spring, when we started to emerge blinking from lockdowns, is inevitable. But a month ago, the proportion of optimists was twice that size. Investors have not been this downbeat since April 2020.

Similarly, expectations for corporate profits have fallen hard. Just 12 per cent think they will improve, down from 41 per cent in the previous month and the lowest since May last year.

The real curiosity, though, is that while optimism is plunging, markets very clearly are not. The upward momentum has waned, for sure. Despite the darker mood, still a net half of the investors in the BofA survey are overweight equities. That is down from a peak of 62 per cent earlier this year but it still represents a rosy asset allocation.

Normally, the bank says, growth expectations are a decent indication of where investors will put their money to work next, but this time round, equity allocation is “lagging”. Allocations to cash — a bolt-hole in times of stress — are rising, but they are still low by historical standards, and “there is no appetite” to seek safety in the government bond market.