Investors haven't been this excited about the economy in 2 years

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·Reporter
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n This Article:

- ^IXIC-1.51%
- ^GSPC-0.87%
- ^DJI-0.20%

As the stock market surge in the last month indicates, investors are feeling their most bullish in more than two years.

Broad-based investor sentiment hit a rating of 4.1 in Bank of America's February Global Fund Manager Survey released on Tuesday, up from 2.9 the month prior and the highest since January 2022. Bank of America noted that cash levels, equity allocation, and economic growth expectations all played a key role in sentiment improvement.

Chart 2: BofA FMS sentiment most bullish since Jan'22

Percentile rank of FMS growth expectations,

Source: BofA Global Fund Manager Survey

BofA GLOBAL RESEARCH

The survey of roughly 200 participants with more than $500 billion in assets under management showed that two-thirds of investors expect a soft landing for the economy this year where inflation returns to the Federal Reserve's 2% goal without a severe economic downturn. Notably, investors aren't projecting a global recession for the first time since April 2022.

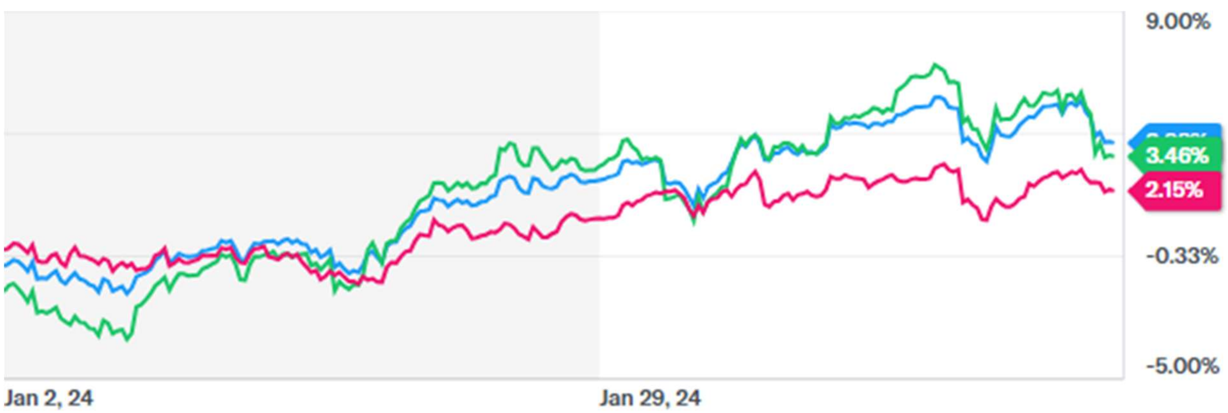
The more positive outlook comes as economic data in the US has largely surprised to the upside this year. And some believe that will continue with the the Atlanta Fed currently projecting economic growth at an annualized pace of 3.4% in the first quarter. Last week, the upside growth prospects, along with little signs of a deteriorating labor market, prompted Deutsche Bank to remove its long-held call that the US economy would enter a recession.

"When we first adopted a mild recession as our baseline forecast, a key element was that, with an economy far from the Fed's objectives, the history of central bank-induced disinflations showed the path to a soft landing was narrow if not unprecedented," Deutsche Bank chief US economist Matthew Luzzetti wrote in a research note on Feb. 5.

"We now think the economy will land on this narrow path and that a recession will be averted with limited cost in the labor market."

As Luzzetti and others have backed off their recession calls, investors have become more bullish on the overall prospects for the stock market in 2024 as many believe the path forward for interest rates is likely lower. A record 46% of investors described global fiscal policy as "too stimulative."

This optimism was seen throughout investor positioning expressed in the survey. Investor allocations to US stocks hit their highest level since November 2021 while the allocation to tech stocks hit its highest point since August 2021.



This comes as investors are increasingly moving out of cash positions. Fund managers' average cash level is now 4.2%, a 55 basis point drop from the January survey. Bank of America noted that a greater than 50 basis point drop in cash allocations has typically been followed by an average 4% return for equities in the next three months.

But the decline did come with a caveat, as a reading of 4% cash allocations or lower typically triggers a "sell" signal, per BofA.

The exuberance seen in Tuesday's report has been a hot debate on Wall Street as the S&P 500 recently crossed above 5,000 for the first time ever.

"The ways things are going, our upbeat forecast for the S&P 500 of 5,500 at the end of this year may be realized in a matter of months,*"* Capital Economics chief markets economist John Higgins wrote in a note on Monday. "We doubt the rally would end there, though."

Higgins noted that valuations are lower than they were in the tech bubble of the late 1990s and therefore stocks likely have further to run before any proverbial stock bubble is popped. JPMorgan takes a different stance, though.

"With the market priced for perfection, equity market internals unhealthy given extreme concentration, elevated investor positioning, expensive valuations, the Fed pushing back on market dovishness, and underappreciated inflation and geopolitical risks, we believe the risk-reward remains unfavorable for equities that are trading at all-time highs," JPMorgan chief market strategist Marko Kolanovic wrote in a note to clients on Monday night.

Traders work on the floor of the New York Stock Exchange in New York, the United States, on Jan. 31, 2024. (Michael Nagle/Xinhua via Getty Images) (Xinhua News Agency via Getty Images) *Josh Schafer is a reporter for Yahoo Finance. Follow him on X @_joshschafer*.