Investing under Trump

Equity investors show ‘irrational exuberance’, says BoAML survey

Report reveals record number of fund managers believe stocks are overvalued

Some high-profile investors have warned that equities gains have gone too far, cautioning that a pullback may be on the horizon © AFP

YESTERDAY Adam Samson

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Investors are increasingly showing signs of “irrational exuberance”, putting more chips on the table even as they worry equities markets have become “overvalued”, according to a closely watched survey by Bank of America Merrill Lynch.

Forty-eight per cent of investors in BofA Merrill’s November survey said equities were “overvalued”. This is a record proportion that sent the three-month moving average of the monthly survey’s responses to this question above the level that came at the turn of the millennium — ahead of the bursting of the dotcom bubble.

Owning the technology-heavy Nasdaq Composite was ranked as the “most crowded trade” for the sixth time this year, while the bank found that a record high (net 16 per cent) of investors said that “they are taking above-normal levels of risk in their investment”. The Nasdaq has risen 25.5 per cent since January.

“Icarus is flying ever closer to the sun,” said Michael Hartnett, chief investment strategist at the bank. “Investors’ risk-taking has hit an all-time high. A record high percentage of investors say equities are overvalued yet cash levels are simultaneously falling, an indicator of irrational exuberance.”

The average cash balance among the 178 fund managers with $610bn in combined assets under management that BofA Merrill surveyed slipped to 4.4 per cent from 4.7 per cent.

It marked the lowest level in more than four years and was below the 10-year average of 4.5 per cent. The decline brings cash levels below BofA Merrill’s contrarian “buy” threshold that suggests investors deploy cash while others are hoarding it (it still remains notably well above the “sell” signal of 3.5 per cent).

Some high-profile investors have warned that the gains have gone too far, cautioning that a pullback may be on the horizon.

But others argue that corporates are in stellar shape. In the US, for instance, technology companies that have driven the rally in that market have reported third-quarter earnings-per-share growth of 22 per cent on aggregate, double expectations and dimming concerns over valuations.

The upbeat mood of investors comes as stocks have climbed to all-time peaks, helped by years of stimulative monetary policies from global central banks and a generally benign economic environment.

Forecasts for solid growth in years to come across developed and emerging markets have underpinned expectations that the bullish streak will continue.

In fact, a record high 56 per cent of investors surveyed have bet on “Goldilocks” conditions, defined as high growth with low inflation, persisting.

The survey results also highlighted that pessimism toward UK equities rose further with a net 37 per cent underweight, marking a level not seen since the financial crisis.

Investors increased their allocation to Japanese equities to net 23 per cent overweight, the highest level in two years.

The consequences of the Federal Reserve reducing its balance sheet and the European Central Bank tapering its bond buying in 2018 prompted a mixed reaction among investors. While 42 per cent expected lower equity prices, 35 per cent said the market would rise.

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