DON'T COUNT THE U.S. OUT

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When the Crowd Turns Away, Opportunity Often Knocks

Very often the investment world is characterised by a mix of both the subjective and the objective. In times of market extremes sentiment often reflects emotion, not logic.

The recent past has been overshadowed by the "Trump Tariff Tantrum" which saw capital flee from America towards Europe and the Emerging Markets. In times like this it is particularly important to understand the view of major international investment houses. For this we look at the ever-valuable report from the latest **Bank of America Global Fund Manager Survey** which looks at the positioning and outlooks of managers with a combined $500 Billion in assets.

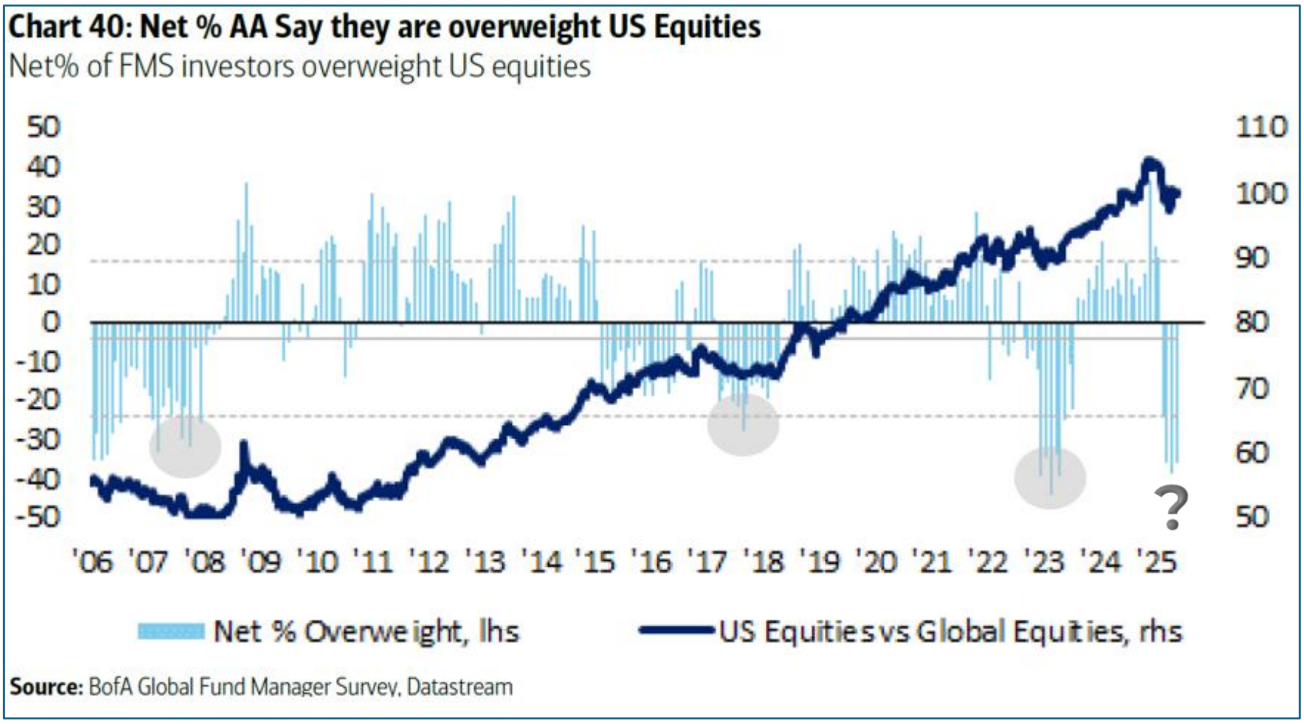
The report highlights that allocations to US stocks have dropped to some of the lowest levels in over two decades. This underweight positioning is not only broad…it is extreme.

Market extremes often coincide with scores of negative news yet also often precede powerful relative returns. This is a reminder that the US equity market, with its depth, diversity, and innovation, is often underestimated at precisely the wrong time.

To illustrate this, we identified three distinct periods over the last 20 years where fund managers' exposure to US equities reached extreme underweight levels, more than one standard deviation below the long-term average. What followed each of these extremes was a notable reversal in relative performance. In the 12 months after each turning point, US equities staged a strong comeback against their European counterparts:

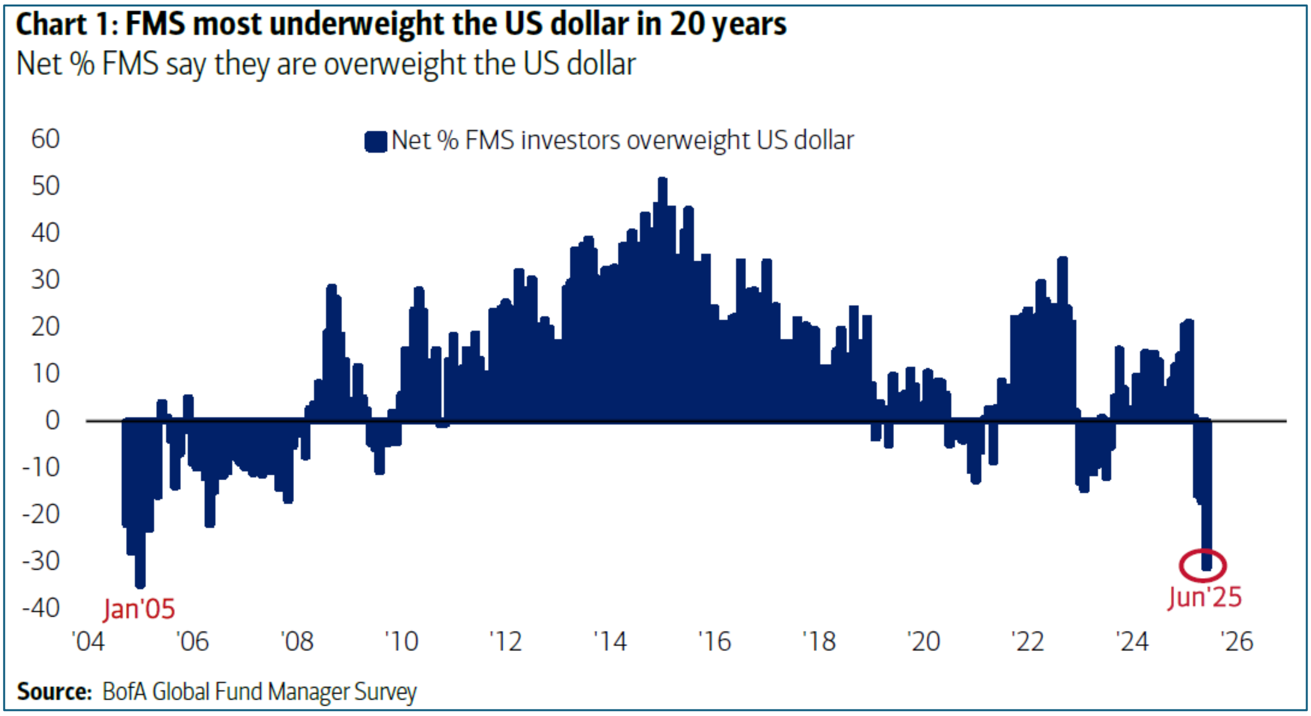
Dates that the allocation Turning Point occurred and following 12 month returns

- **22.94%** Relative outperformance following 1 April 2008
- **17.57%** Relative outperformance following 1 October 2017
- **14.21%** Relative outperformance following 1 April 2023



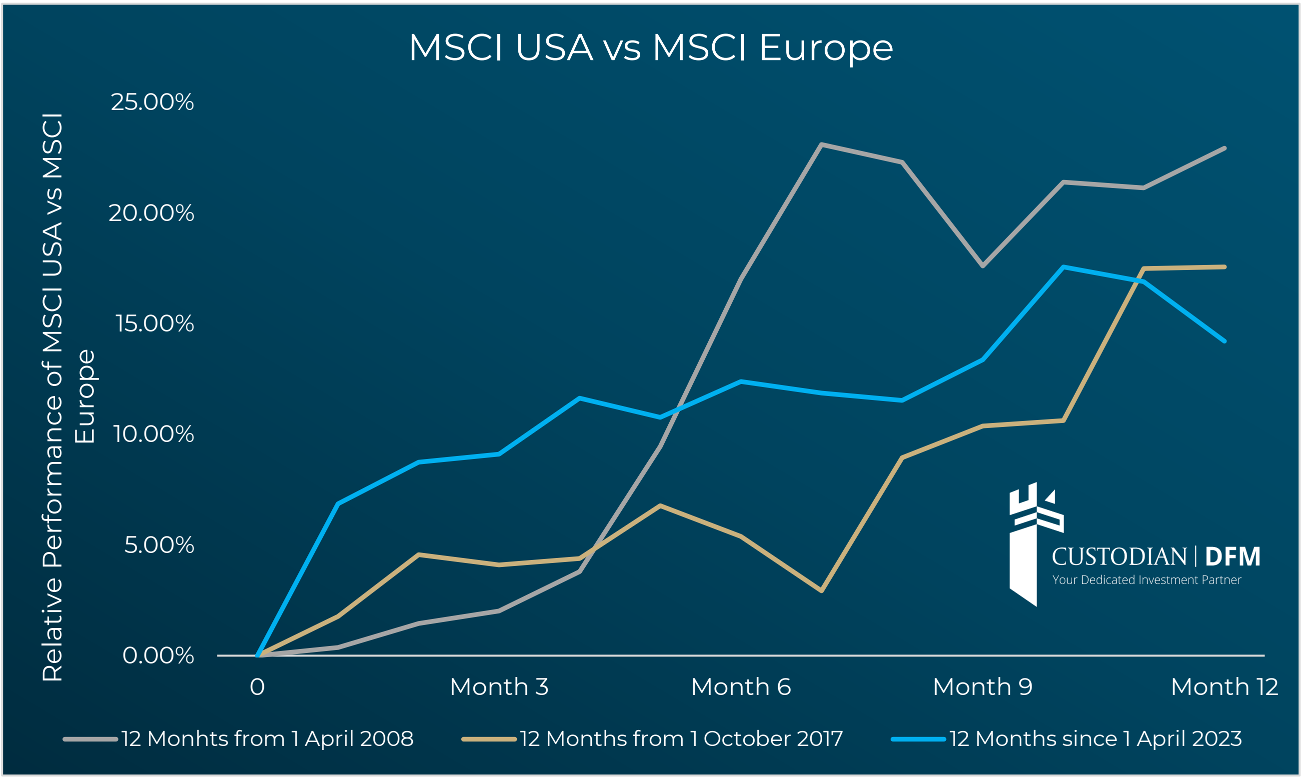
Its Not Just Equity

We see the same underweight position for the US Dollar across surveyed fund managers, a 20year extreme.



US outperformance

In each case the US rebounded from extreme underweights right into delivering powerful outperformance over the next 12months.

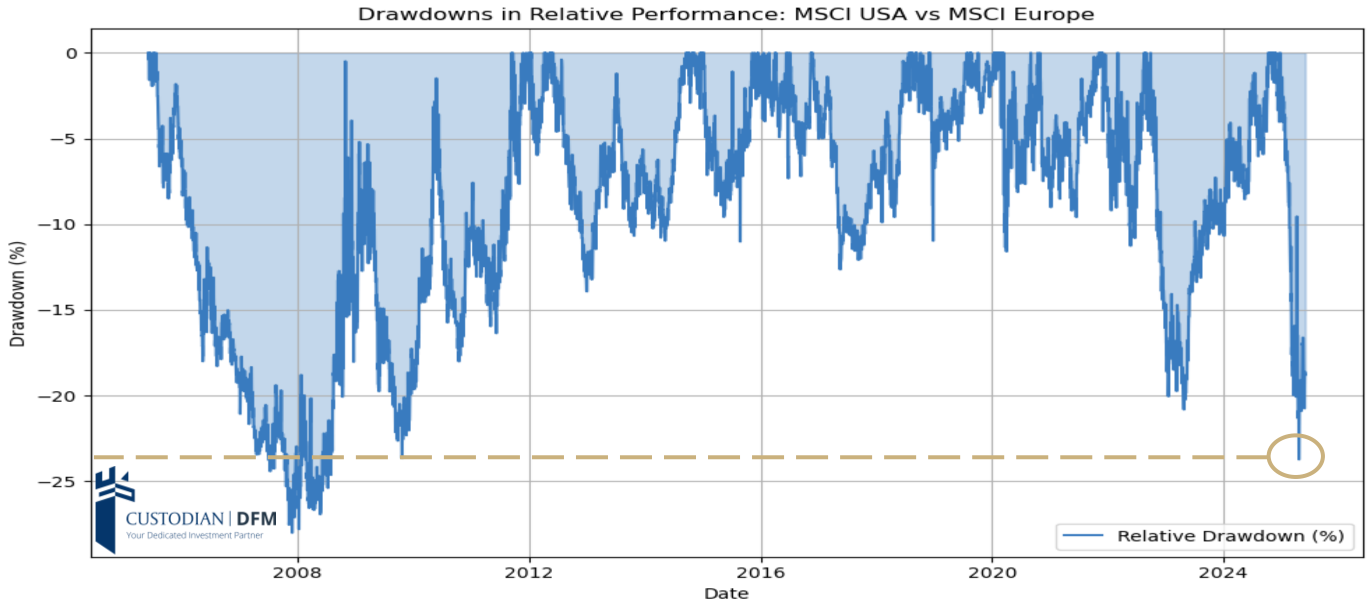


Source: Custodian|DFM & Morningstar

History never repeats itself, yet it often rhymes

These are not forecasts, they're historical observations that reinforce what we found, when markets find themselves in depressed sentiment towards US equities, these times are often followed by Relative surprises to the upside.

What we see is not just the sentiment shying away from the US but when we look at the longer-term drawdown chart of **Relative** performance between MSCI USA and MSCI Europe, where a drawdown indicates US Relative underperformance, it's clear that the current period of underperformance (as of May 2025) is among the most severe since the Global Financial Crisis in 2008. This type of drawdown in US relative strength is unusual, and historically, such moments have been followed by strong periods of recovery.



Much of the recent softness in US Equity performance can be attributed to uncertainty around trade policy, as well as elevated geopolitical risk globally. These are not minor concerns and have added to the elevated levels of uncertainty in the market, often resulting in sentiment overshooting fundamentals.

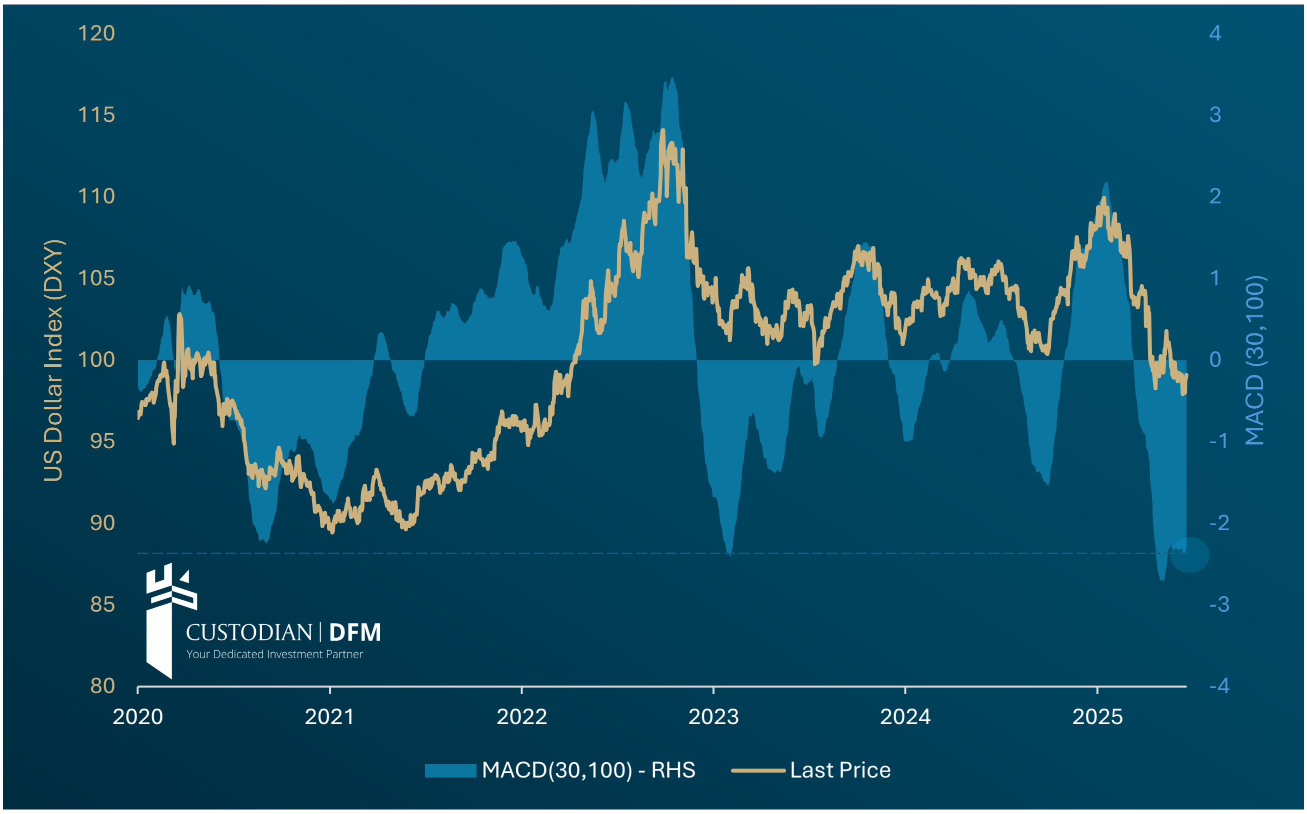
Year-to-date, the US Dollar has also weakened, retracting to levels last seen in April 2022. However, during times of global instability, the dollar has historically served as a safe-haven asset. As Ray Dalio, founder of Bridgewater Associates, has often noted:

"In times of global stress, investors seek safety, and US assets have historically been one of the safest harbours."

Technical Analysis

The MACD or Moving Average Convergence Divergence, in simple terms shows us the difference between a short-term Moving Average [MA] and a long-term Moving Average. This is a wonderfully simple way to track changes in price momentum.

When we look at the MACD of the US Dollar Index [DXY] we can see that MACD has reached a 5-year extreme. Signalling that the US Dollar weakness may be overdone in the short term.



Source: Custodian|DFM & Bloomberg

Couple this with the fact that the DXY recently crossed its 21-day moving average to the upside [chart below], often viewed as a sign of a shift to an upward trend.

These indicators suggest that the moves against the US have been extreme and extreme market movements often underpin opportunity.

We mention these indicators not as predictions, but to highlight that several technical and sentiment-based extremes are aligning. This reinforces the idea that markets may be setting up for a rebalancing. Not because they must, but because they often do.

Source: Custodian|DFM & Bloomberg

What we observe today is likely a crowded trade against US equities and the US dollar, coupled with heightened global risk. History has shown that when sentiment becomes overly bearish and allocations diverge too far from neutral, even small catalysts such as better-than-expected earnings, a shift in tone from policymakers, or a pause in global tension, can spark sharp reversals.

In conclusion, we are not suggesting that US markets will immediately lead again, nor that investors should abandon diversification. Rather, our message is this:

Don't count the US out.

Periods of underperformance are not uncommon, but what often follows is a reminder of why the US continues to play a dominant role in global capital markets. Leading innovation, earnings resilience, deep capital markets, and global investor trust continue to support its long-term relevance.

Extreme pessimism rarely lasts. If you're underweight the US, this may be an opportunity to shift back to a neutral position, locking in relative outperformance achieved and staying positioned to benefit from a potential US rebound. Let data guide your decisions, not the emotional extremes of the crowd.

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About the Bank of America Global Fund Manager Survey

The Bank of America Global Fund Manager Survey is one of the most respected sentiment indicators in the investment world. Published monthly, it reflects the views of hundreds of institutional investors managing over $500 billion globally.

Its strength lies in its consistency, depth, and relevance, tracking investor positioning, risk appetite, macro expectations, and asset allocation trends. With a strong record of highlighting sentiment extremes, the survey offers valuable insights into market turning points and helps investors spot opportunities when consensus positioning becomes stretched.