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Bank of America Sees Strong Investor Optimism Driving Sector Shifts, Not Market Exit

July 15, 2025

— Categories: *Finance*



Investor confidence surged to its highest level since February, according to Bank of America's most recent Global Fund Manager Survey. This rise is driven by the largest increase in profit expectations in five years and a notable boost in risk appetite. However, rather than signaling an overheated market about to pull back, analysts at the bank believe the

environment points to a rotation across asset classes, not a retreat from equities.

Cash levels among fund managers fell to 3.9 percent, a threshold typically viewed as a “sell signal.” But Bank of America noted that equity allocations have not reached overly aggressive levels. Bond market volatility remains modest, which the bank interprets as a sign of stability rather than stress. In its commentary, the bank stated that while current sentiment appears stretched, it expects a season of “hedging and rotation,” with investors moving between sectors instead of fleeing the market altogether.

The U.S. stock market continues to break records, with the S&P 500 index pushing to new highs. Meanwhile, capital has been flowing into alternative assets such as Bitcoin, partially due to optimism that recently proposed U.S. tariffs might be delayed or canceled altogether. With volatility subdued in equities, bonds, and currencies, there is little immediate pressure for investors to take cover.

On the fixed income side, long-duration bonds have been under pressure, driven by expectations of increased federal borrowing and growing political uncertainty. President Donald Trump has publicly criticized Federal Reserve Chairman Jerome Powell, and speculation over potential leadership changes at the central bank is mounting. The survey found that 81 percent of fund managers anticipate one or two interest rate cuts before the end of the year, with many viewing Treasury Secretary Scott Bessent as a likely candidate to succeed Powell.

In currency markets, fund managers are increasing their euro exposure, the highest since early 2005, benefiting from the euro’s nearly 13 percent

gain against a weakening U.S. dollar. Although many consider shorting the dollar a crowded trade, fewer investors are now hedging against further declines, signaling that expectations for continued dollar weakness are beginning to moderate.

From a center-right perspective, the current environment rewards disciplined asset allocation over panic selling. The best approach in this climate is not reactionary government intervention, but fiscal prudence, stable monetary policy, and a regulatory framework that encourages investment and market confidence. Smart rotation, not retreat, is the strategy for navigating today's complex financial landscape.