AI-01820 BoA Report Top 10 FAQ July 2025

Owner	Ⓡ Rigel Arcayan
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Here is a summary of the Top FAQs and their answers from the RIC Report [1]:

1. **Will global growth rebound, and what's the outlook for interest rates?** [2]
    - BofA expects **3% global GDP growth in 2025** [2] and **no Fed rate cuts in 2025** [2, 3]. Global growth is projected to rise 3.0% over 2025-2026 and 3.3% in 2027, with global inflation around 2.5% [4, 5]. The US is expected to "muddle through" [4]. The team's forecast for no Fed cuts due to inflation pressures has been correct so far, with 100bps of cuts possible in 2026 [3].
2. **Are tariffs having a visible effect on profits?** [2]
    - **Not yet** [2], but effects are expected to become **more visible in the second half of 2025** [6]. Earnings expectations and some macro data suggest a rebound, but Q3 results should be watched [2]. While BofA's transportation & shipping analyst notes improved shipper confidence and multi-industry analyst found no material demand destruction related to tariffs, the US equity strategy team expects only 3% profit growth for 2025 versus a 9% bottom-up consensus [6]. Earnings revision ratios in the US improved, indicating a ten-month high in stocks seeing consensus estimates rise more than fall [7].
3. **Have "soft" surveys rebounded in line with "hard" market data?** [2]
    - **No, surveys are still weak despite strong data** [2, 8]. "Hard data" measures remained stable in June 2025, while sentiment measures like

ISM new orders and Conference Board consumer confidence weakened [8]. A **rebound in expectations could be the key catalyst for H2** [2, 8].

4. **Will global equities outperform US equities in 2025?** [2]
   - **Global stocks are on pace to outperform the US by 11ppt** in 2025, which would be the best showing since 2009 [2, 9]. A higher allocation to global stocks is justified given valuations, a likely fiscal shift from the US to the EU/China, and the need for a weaker dollar to finance US public debt [10].
5. **Will value stocks outperform growth?** [11]
   - In the US, Russell 1000 value and growth stocks are about tied year-to-date, but BofA remains **bullish on value**, especially as value stocks declined by about half as much as growth stocks during the spring market selloff [11, 12]. **Globally, value investing has reliably outperformed** [11], outpacing growth by more than 4ppt/year in Europe, 6ppt in Japan and APAC, and 8ppt in emerging markets since 2000 [13].
6. **Is deregulation already priced in for key US sectors?** [11]
   - **Not yet** [11]. BofA analysts are **bullish on efficiencies for financials, multi-industrials, and consumer sectors** due to potential regulatory changes [11, 14, 15]. The "regulatory shift is underway" for banks, with expected EPS upside and rerating [14].
7. **Is artificial intelligence overhyped as an investment theme?** [11]
   - **Not yet** [11]. Business adoption is accelerating, with over 9% of US companies using AI tools, up from less than 4% two years ago [11, 16]. BofA sees **upside for both suppliers and users** of AI [11, 16].
8. **What does the NATO agreement mean for investments in defense?** [11]
   - The **5% of GDP target is credible**, with major beneficiaries expected in **Europe and the US** [11]. European defense companies could see an annualized growth rate of over 12% through 2028, with 80-100% of near-term incremental spending expected to stay in Europe [17, 18]. Key investment areas include electronics, air defense systems, and new technologies [18].
9. **When is it time to raise allocations to small and mid-cap stocks?** [19]

- The **earnings recession could end in 2025**, but stronger odds of **rate cuts would be the big catalyst** for small and mid-cap (SMID) stocks [19, 20]. Small cap valuations are more negatively correlated to rates than ever [21].

10. **Will bonds keep lagging equities amid deficit fears?** [19]
    - **Probably** [19]. Spikes in yields are likely, fiscal discipline seems unlikely, and buyers are wary [19, 22]. The US 30-year yield is expected to be around 5% at the end of 2025 [22]. Treasuries are in a multi-year bear market, and for longer-term investors, the "End of 60/40" view seems intact, recommending other prudent sources of yield [23].

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Here's a succinct, concise, and direct summary of the main points mentioned in the document:

1. **New tariffs** recently announced are expected to **raise the effective tariff rate by about 2 percentage points (pp)**, with potential for further increases if 15-20% blanket tariffs are implemented, introducing **at least 10-15 basis points (bp) of stagflationary risks** [1-3].
2. The latest tariffs, if implemented, **wouldn't be fully reflected in revenues until October**, and their impact on **inflation could be felt even later**, potentially leading to a **persistent inflation shock lasting into 2026** as retailers turn over inventories [1, 2, 4, 5].
3. There is **still room for these tariffs to be negotiated down** before the August 1 deadline, but **policy uncertainty could make it harder for the Fed to cut interest rates** [1, 6-8].
4. Notable tariff escalations starting August 1 include **Japan and Korea (both 25%), Brazil (50%), and Canada (35% for 'fentanyl' tariffs)**, along with a **50% tariff on copper imports** [3, 9].
5. Next week's economic focus is on **CPI and retail sales data** [10, 11]. BofA forecasts **June headline and core CPI at 0.3% month-over-month (m/m)** [11, 12] and **0.9% increases in ex-auto and control group retail sales**, potentially aided by tariffs [11, 13].

6. The **June FOMC minutes showed mixed signals**, including discussion of tariffs as both risks, with "a couple" members open to rate cuts, and a lean towards **greater transparency (unlikely to shelve the dot plot)**, but **no clear bottom line** [10].
7. BofA projects **core PCE inflation to peak at 3.1% in Q4 2025** [14, 15], driven by stronger price hikes in core goods and services [12], which **lowers the likelihood of a September Fed rate cut** [12].
8. BofA's **2Q GDP tracking is down two-tenths to 2.3%** quarter-over-quarter seasonally adjusted annual rate (q/q saar), primarily due to **lower-than-expected May personal income and spending** [16-18].
9. BofA forecasts **no Fed rate cuts in 2025**, but expects **100 basis points of cuts in the second half of 2026 (2H 2026)**, anticipating the Fed will not ignore a tariff-driven inflation spike [15, 19, 20]. Chair Powell has stated that the Fed would have cut rates further without expanded tariffs [21].
10. BofA has **raised job growth projections by roughly 25,000 per month** due to a smaller immigration impact, with the **unemployment rate expected to peak at 4.6% in 2Q 2026** [15, 22].
11. BofA Securities discloses a potential **conflict of interest** due to business relationships with covered issuers [1] and explicitly prohibits the use of its documents or content for **training or developing Artificial Intelligence (AI) models** or as input in any AI application without explicit written permission [23].