

Follow The Flow

Headwinds ahead

Credit Analysis

Higher rates and rates vol will soften the inflow trend

A Goldilocks scenario of lower inflation, slow-growth (but no recession) and no more hikes is driving risk assets higher over the past weeks. However, amid higher “risk-free” rates in the back end we see increasing risks that flows will continue to gravitate towards relatively “safer” assets. Last week flows into high-grade slowed down w-o-w while inflows into government debt funds have increased. As rates vol (SMOVEU3M) has moved back above the 100pts level, and yields are back on the ascent, we think fixed income investors will continue to resort to money-market and government debt funds to reach for yield. Within credit we see a similar reach for quality trend, with high-grade funds seeing better flow trends vs. high-yield funds.

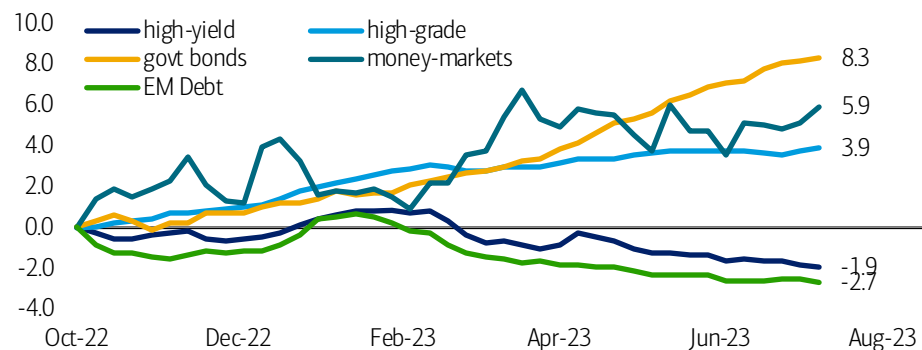
Over the past week...

High grade funds recorded a sizable inflow last week, the second week of inflows in a row. However, we need to note that ~\$1bn of inflow was attributed to a newly captured fund under the dataset. On the duration front, inflows were recorded across mid-term, and long-term high-grade funds, with short-term funds recording outflows.

High-yield funds recorded an outflow last week, the fourth week in a row of outflows. Similarly, HY ETF funds saw a marginal outflow last week, the first outflow in six weeks. Looking into the domicile breakdown of HY funds (Chart 12), Global-, European- and US-focused funds all recorded outflows, with Global-focused funds underperforming.

Exhibit 1: Inflows gravitate to “safer” assets over the past months

Government debt and money-market funds over credit has been the theme in 2023



Source: EPFR Global. Cumulative weekly flows, % of AUM.

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Government bond funds recorded yet another inflow last week, the 23rd in a row.

Money market funds also recorded an inflow last week, the second week of inflows in a row. Also note that the pace more than doubled w-o-w. **Global EM debt** funds saw an outflow last week, the first outflow in three weeks. Overall, **fixed income** funds recorded a significant inflow last week, the fifth week of inflows in a row. **Equity** funds suffered yet another outflow last week, the 21st week of outflows in a row. **Commodity** funds saw an outflow last week, the second week of outflows in a row. Note the asset class has seen only one week of inflows over the past 11 weeks.

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Timestamp: 04 August 2023 07:22AM EDT

04 August 2023

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Table 1: Weekly and YTD European retail flows

Weekly fund flows data across assets

Sector	This Week	1 Wk (%)	YTD	YTD (%)
HY	(\$356)	(0.1%)	(\$3,321)	(1.4%)
HY (ETFs)	(\$34)	(0.1%)	\$2,493	10.1%
IG	\$2,432	0.1%	\$44,354	2.9%
in euros	\$1,871	0.2%	\$17,447	2.3%
in sterling	(\$238)	(0.1%)	\$3,122	1.5%
in usd	\$320	0.1%	\$10,444	3.5%
IG (ETFs)	\$567	0.3%	\$18,454	11.9%
Loan	(\$31)	(0.2%)	(\$2,142)	(12.9%)
Govies	\$764	0.1%	\$36,840	7.6%
Fixed Income	\$2,668	0.1%	\$68,048	2.6%
MM	\$12,652	0.8%	\$70,947	4.7%
Equities	(\$3,302)	(0.2%)	(\$37,940)	(2.7%)
Equities (ETFs)	(\$2,533)	(0.8%)	\$6,042	2.1%
Commodities	(\$839)	(0.6%)	(\$3,358)	(2.4%)
Global EM debt	(\$922)	(0.2%)	(\$7,295)	(1.6%)

Source: EPFR Global

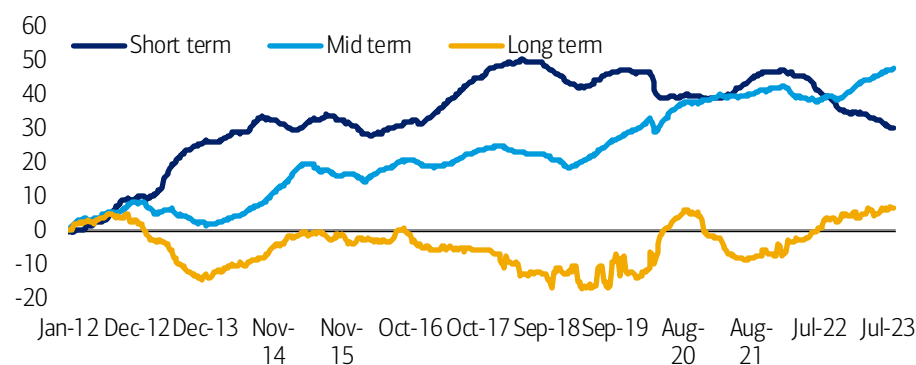
In \$mn; week ending 02nd August. Data refers to European domiciled funds, except for EM debt funds that refer to global. Some IG funds can also allocate to government bonds. Note that IG funds are also split into other currencies away from Euro, USD and GBP.

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Flow chart book

Chart 1: IG flows by maturity - Cumulative weekly flows (% of AUM)

Mid-term IG funds have fared better than short- and long-term funds

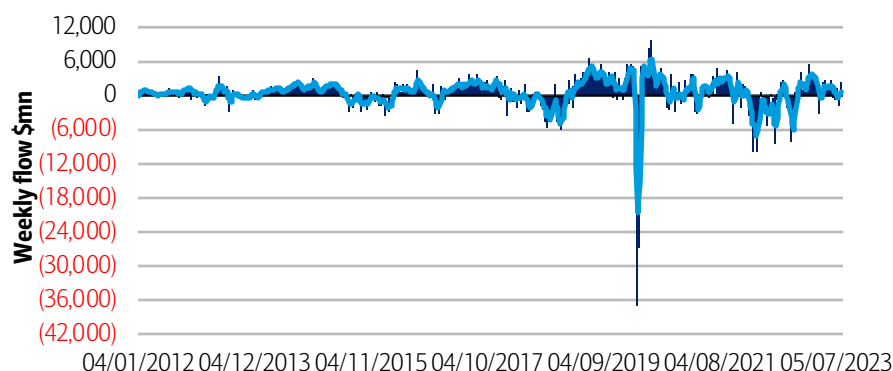


Source: EPFR Global. Maturity segments: short-term funds: up to 4yr; mid-term funds: 4-6yr; long-term funds: 6yr +

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Chart 2: High-grade weekly inflows/outflows

Last week's 4wk average has been \$489mn; Blue line is 4wk average

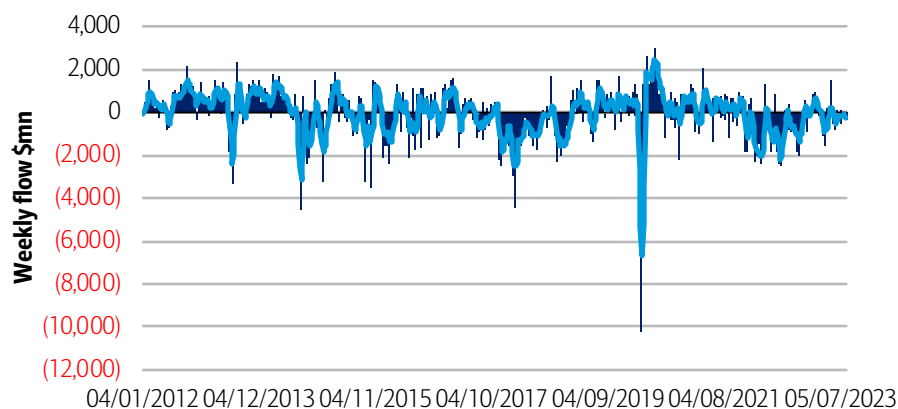


Source: EPFR Global

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Chart 3: High-yield weekly inflows/outflows

Last week's 4wk average has been -\$224mn; Blue line is 4wk average

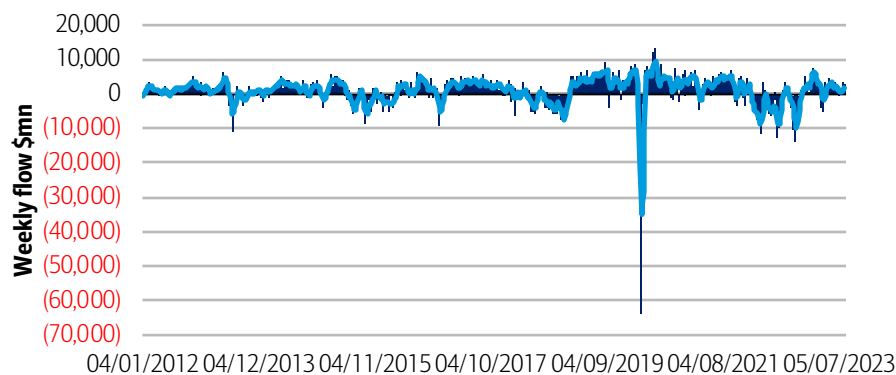


Source: EPFR Global

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Chart 4: Fixed-income weekly inflows/outflows

Last week's 4wk average has been +\$1.9bn; Blue line is 4wk average

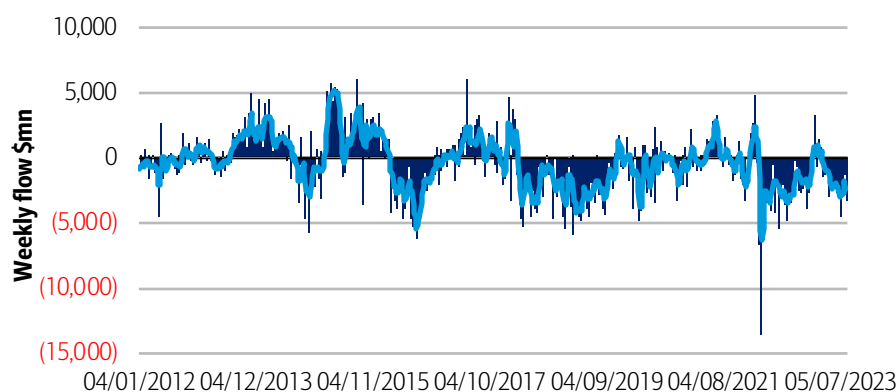


Source: EPFR Global

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Chart 5: Equity weekly inflows/outflows

Last week's 4wk average has been -\$2.3bn; Blue line is 4wk average

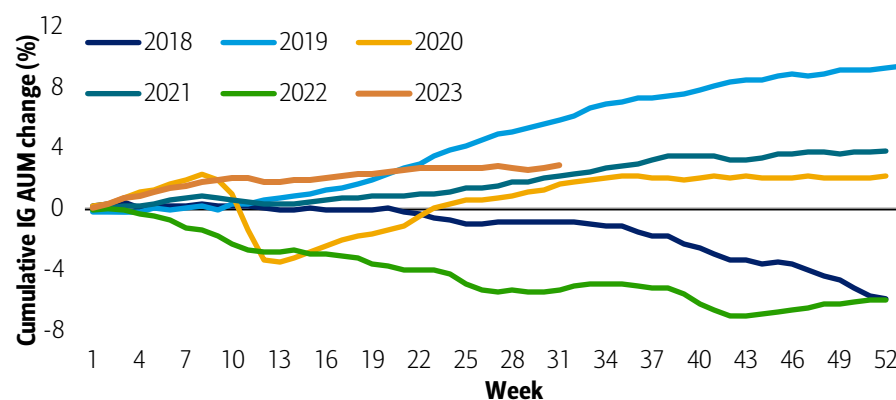


Source: EPFR Global

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Chart 6: Cumulative AUM increase/decrease

High-grade funds have seen inflows YTD of +2.9%



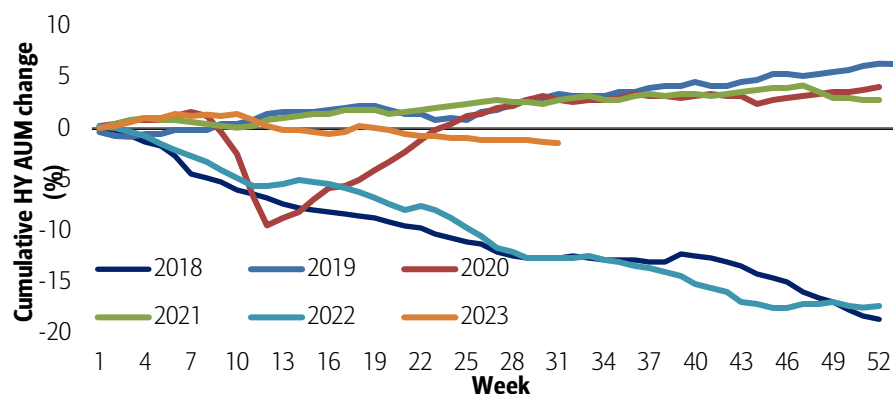
Source: EPFR Global

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Chart 7: Cumulative AUM increase/decrease

High-yield funds have seen inflows YTD of -1.4%

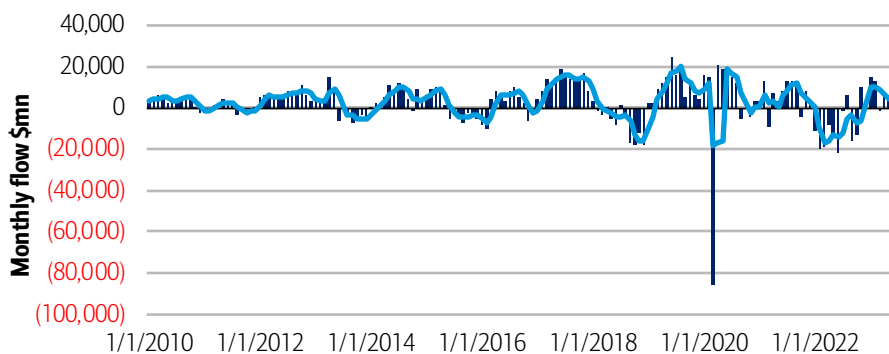


Source: EPFR Global

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Chart 8: High-grade monthly inflows/outflows

Last month's quarterly average has been +\$4.5bn; Blue line is quarterly average

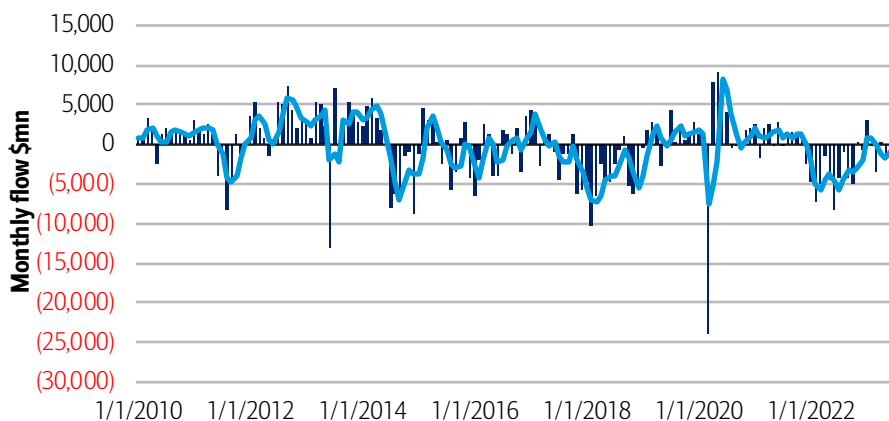


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Chart 9: High-yield monthly inflows/outflows

Last month's quarterly average has been -\$886bn; Blue line is quarterly average

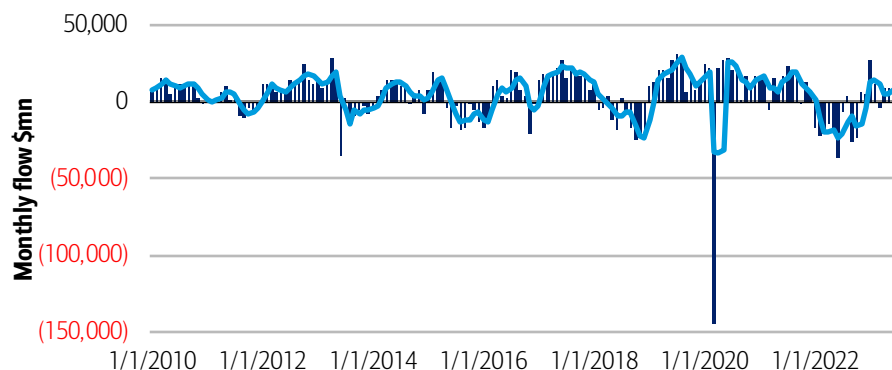


Source: EPFR Global

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Chart 10: Fixed income monthly inflows/outflows

Last month's quarterly average has been +\$7.1bn; Blue line is quarterly average

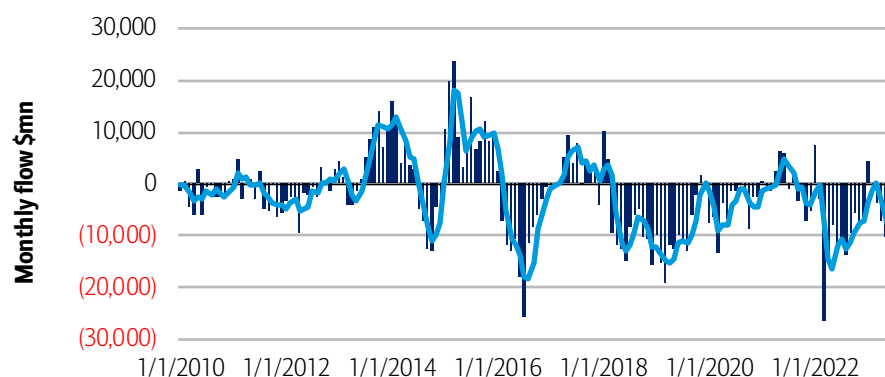


Source: EPFR Global

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Chart 11: Equities monthly inflows/outflows

Last month's quarterly average has been -\$9.9bn; Blue line is quarterly average

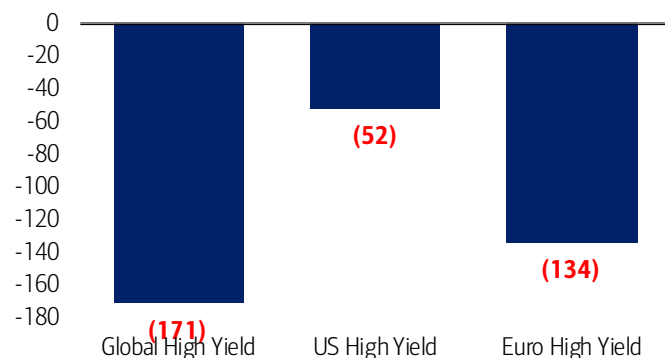


Source: EPFR Global

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Chart 12: European domiciled HY fund flows, split by fund focus

Global, US-focused funds all recorded outflows last week, with Global-focused funds recording inflows



Source: EPFR Global, BofA Global Research

We classify the funds following their nomenclature. "US High Yield" includes all "US" and "USD", "Euro High Yield" includes all "Europe", "Euro" and "Sterling".

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Chart 13: Europe domiciled HY credit fund flows by fund focus

Weekly cumulative fund flows (\$mn)



Source: EPFR Global, BofA Global Research. Cumulative since Jan 2018.

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