

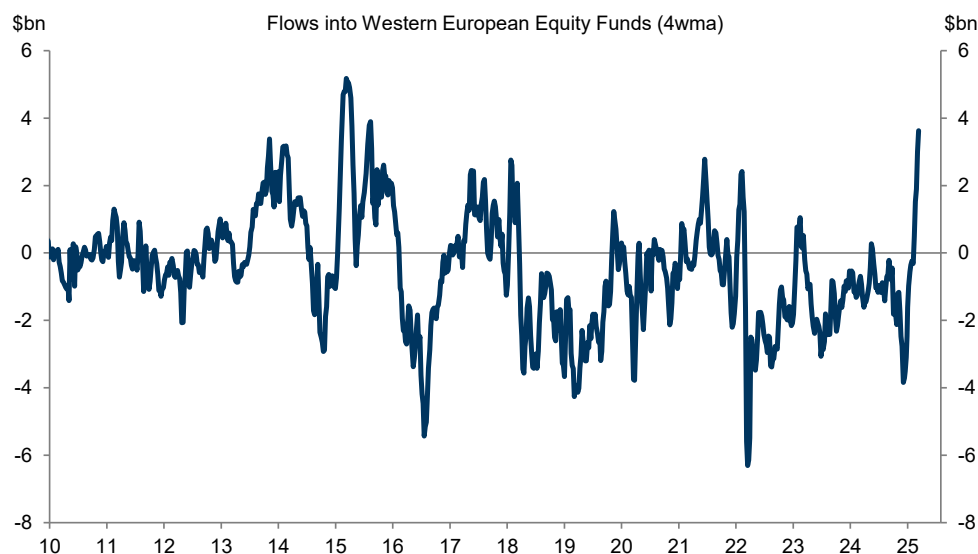
## FX & EM Comment: A Closer Look at US and European Equity Flows

Investors are looking for evidence to support a rotation out of US assets and into Euro area assets. Recent fund flows data show some moves in this direction, but broader positioning remains intact, especially among foreign investors.

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By some measures, the inflows into Europe have been historically large. The last four weeks of flows into European equities are in total the largest we have seen since 2015 (Exhibit 1). This is meaningful given the high degree of optimism on Europe at the time. US equities only started to see outflows last week, and in small amounts.

**Exhibit 1: The last four weeks of inflows into European equities are in total the largest since 2015**



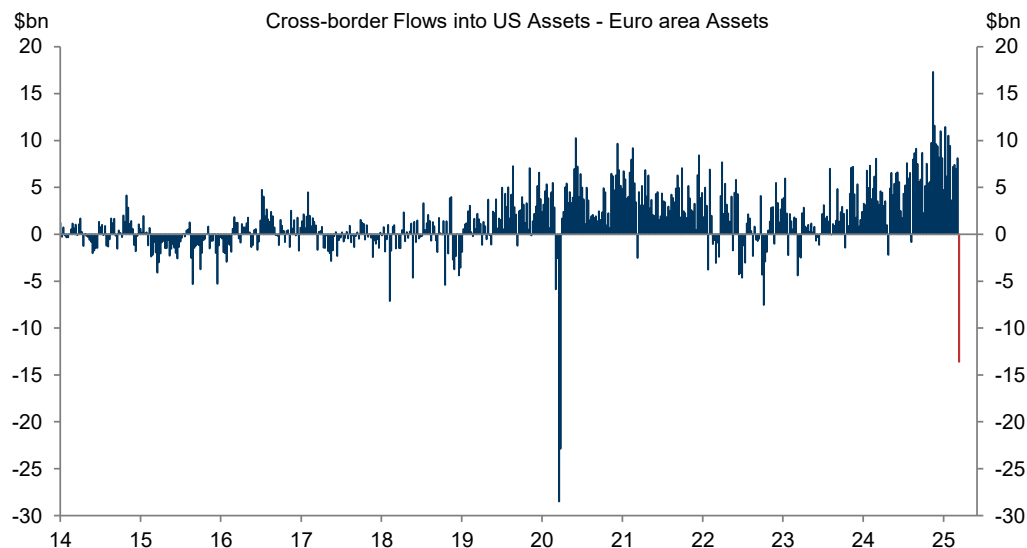
Source: EPFR, Haver Analytics, Goldman Sachs Global Investment Research

The cross-border flows tell a different story though. Foreign flows into Euro area assets have been much more subdued, totaling only about 0.1% of AUM over the past four weeks, though the pace increased last week. Net foreign outflows from the US were similarly cautious as a share of total assets. Taken together though, and in Dollar terms, it is clear that the Euro area inflows and US outflows of this size together in the same week is a rare occurrence (Exhibit 2). Other European economies such as Switzerland, Sweden, and Norway also saw stronger net foreign inflows as a share of AUM. In historical terms, judging by z-scores, these numbers are still relatively small. On the whole, cross-border flows turned negative last week,

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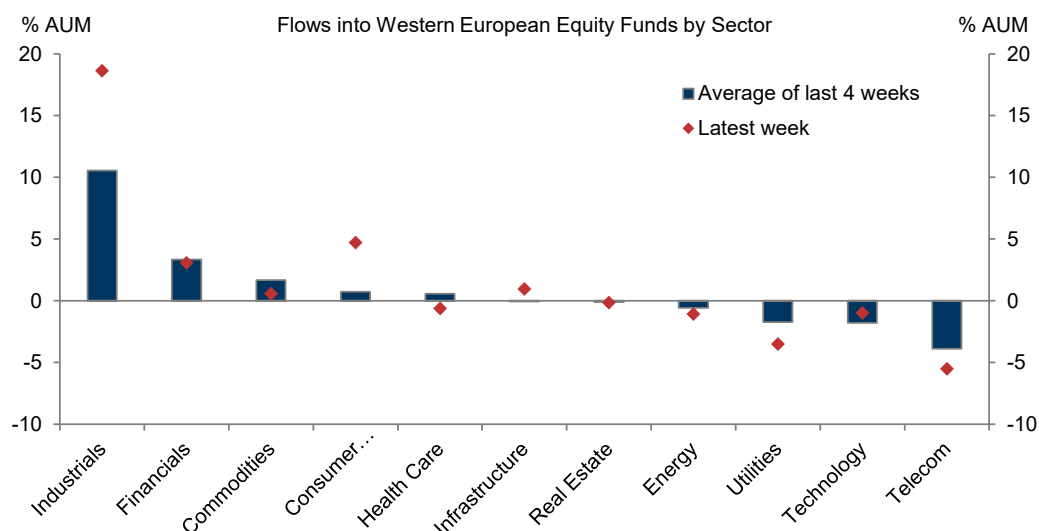
not just on US outflows, but with participation from Asia and LatAm as well. Total cross-border flows are usually a reliable signal of broad risk appetite, suggesting a more downbeat view in markets rather than a specific view on US assets in particular.

**Exhibit 2: While cross-border flows were modest in AUM terms, taken together and in Dollar-terms, they were more significant**



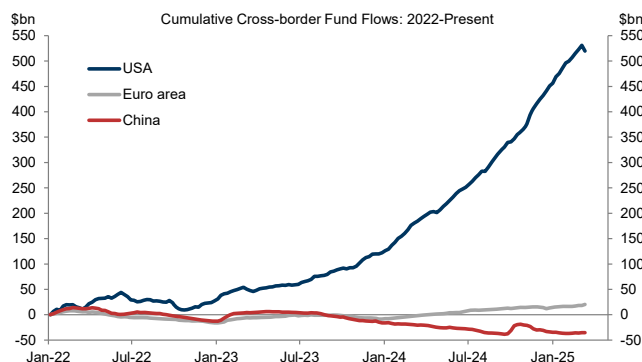
Source: EPFR, Haver Analytics, Goldman Sachs Global Investment Research

At the sector level, European industrials saw very strong demand over the past four weeks, and that accelerated last week ([Exhibit 3](#)). While in dollar terms these flows were small, they were substantial as a percentage of holdings of European industrial stocks. Consumer goods, usually an indicator of strong growth, also saw a more boost in demand.

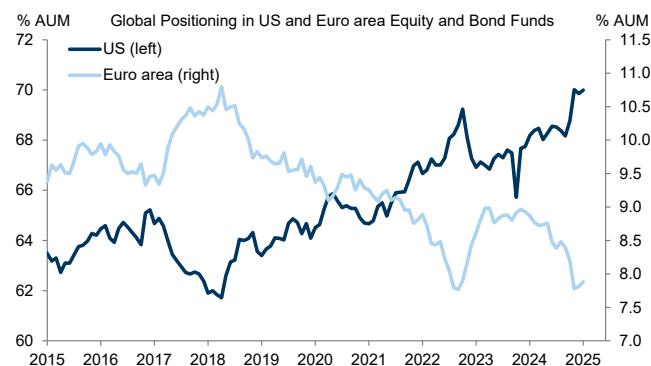
**Exhibit 3: European industrial sector funds saw the clearest surge in net inflows**

Source: EPFR, Haver Analytics, Goldman Sachs Global Investment Research

Taking stock of the latest data, there are indicators of growing optimism on European asset returns and waning optimism on the US. But the latest flows have done little to erode the substantial positioning that has built up the Dollar over the past ten years, or even since 2023 ([Exhibit 4](#)). US assets as a share of global portfolio assets are still close to historical highs ([Exhibit 5](#)). And despite the equity outflows, US government bond funds saw solid demand last week, particularly in short-term bonds. Credit funds did see some outflows, but TIPS and Agg-type fund flows remained firm. Meanwhile, positioning in European assets remains close to the historical 2022 lows.

**Exhibit 4: The latest foreign outflows from the US have done little to erode the recent build-up in positioning**

Source: EPFR, Haver Analytics, Goldman Sachs Global Investment Research

**Exhibit 5: Positioning in Euro area assets remains close to historical lows**

Source: EPFR, Haver Analytics, Goldman Sachs Global Investment Research

There are different ways to read the positioning data. One could argue that the historically large positioning in US assets leaves it vulnerable to large-scale outflows, just as the underweight in European assets opens a lot of room for net inflows into the region. On the other hand, there are years of strong asset returns underlying the positioning in US equities, and it is not clear that we are entering a regime of structurally

lower US returns versus rest of world. This factor is key for Dollar performance. We have argued that the Dollar's high valuation is in large part a consequence of a long period of superior asset market returns versus rest of world. And the "exceptional" positioning in US assets that built up as a result of this outperformance provides structural support for the Dollar's high valuation

We will continue to monitor these data in our Weekly Fund Flows report.

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