

# State Street Institutional Investor Risk Appetite and Holdings Indicators

## No spring in institutional investors' step just yet

*Institutional investors remained defensive through April despite hopes that the banking crisis will be contained. Our Risk Appetite index showed broadening defensive behavior across all asset classes, contrasting with the apparent optimism embedded in equity markets (Fig.1). This is an usual divergence as demonstrated by the observation that the average level of the VIX index (a gauge of equity market volatility) when our Risk Appetite Index is as weak as it is now is 24, well above today's sub-17 readings. In short, investors' actions over April are much more cautious and risky asset pricing is overly complacent.*

*Equally troubling is the fact that our holdings indicators (Fig 2 & Fig 3) show that investors' equity holdings are still above, and cash holdings are still below, long-run averages. Both suggest the potential for defensive behavior to continue if debt ceiling concerns, interest rate volatility or stagflation fears flare up again.*

## A brief indicator explainer

Our indicators of highly aggregated and anonymized measures of investor behavior are derived from State Street's USD37trn<sup>1</sup> in assets under custody and administration (*not investors' balances held at State Street itself*).

**Risk Appetite Index.** This is derived from measuring investor flows in twenty-two different dimensions of risk across equities, FX, fixed income, commodity-linked assets and asset allocation trends. The index captures the proportion of the twenty-two risk elements that saw either risk seeking or risk reducing behavior. A positive reading suggests that on balance investors are adding to their risk exposures, while a negative reading suggests risk reduction.

**Holdings indicators.** We capture the share of investor portfolios allocated toward equity, fixed income and cash going back to 1998.

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<sup>1</sup> As of Q1 2023

Figure 1: Institutional investor risk appetite index

Share of flows across, equities, bonds and FX that are risk seeing

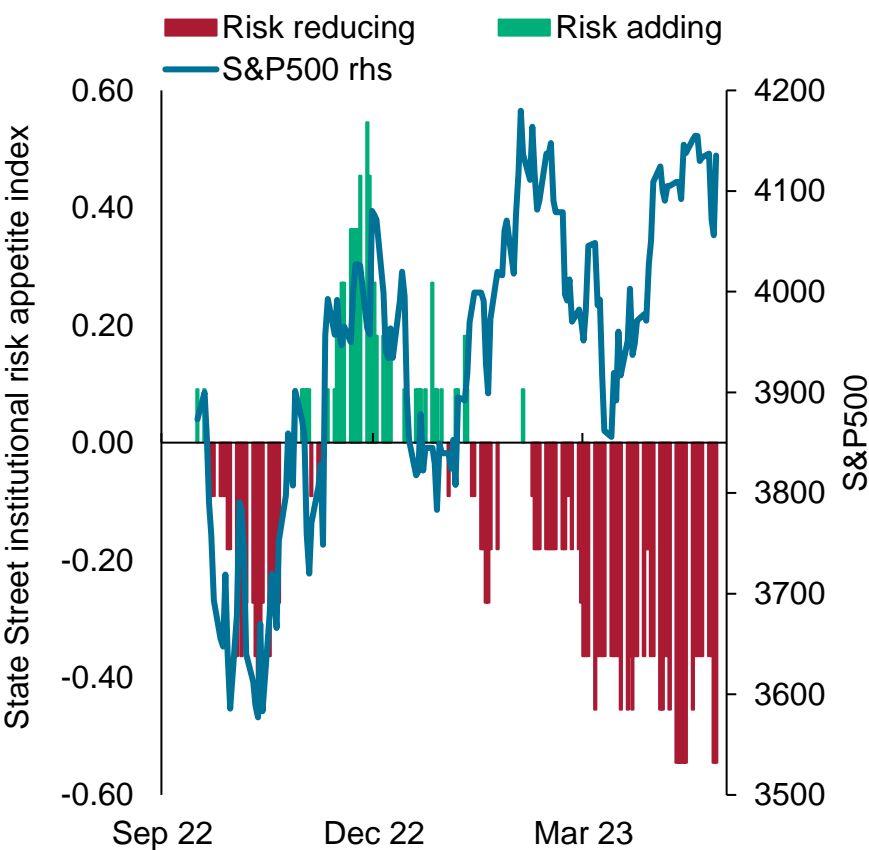
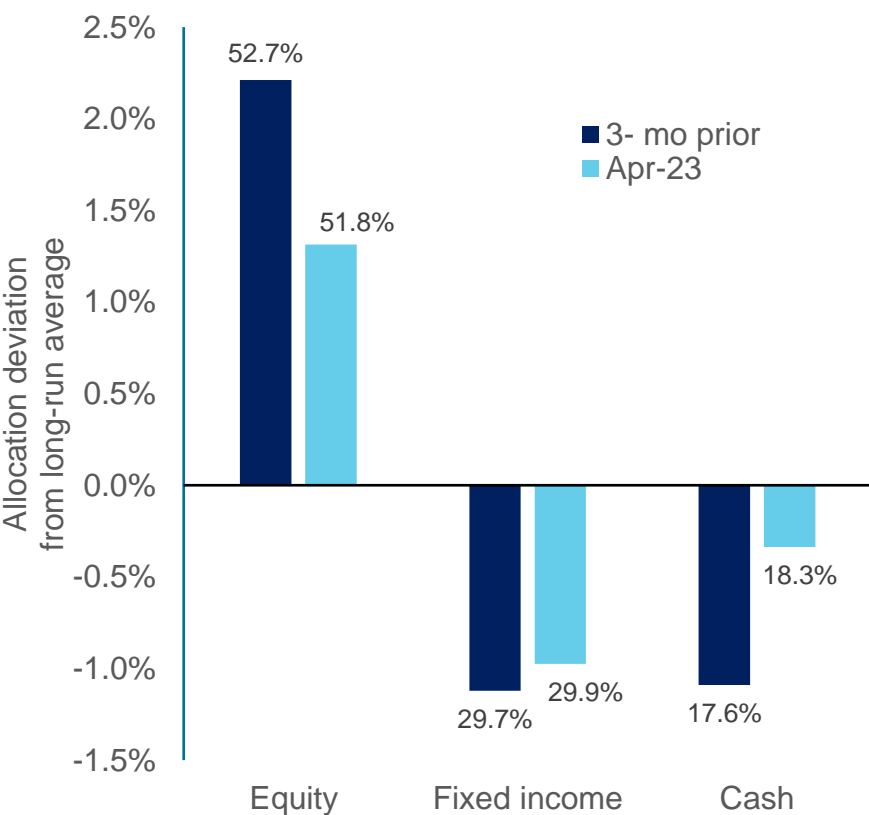
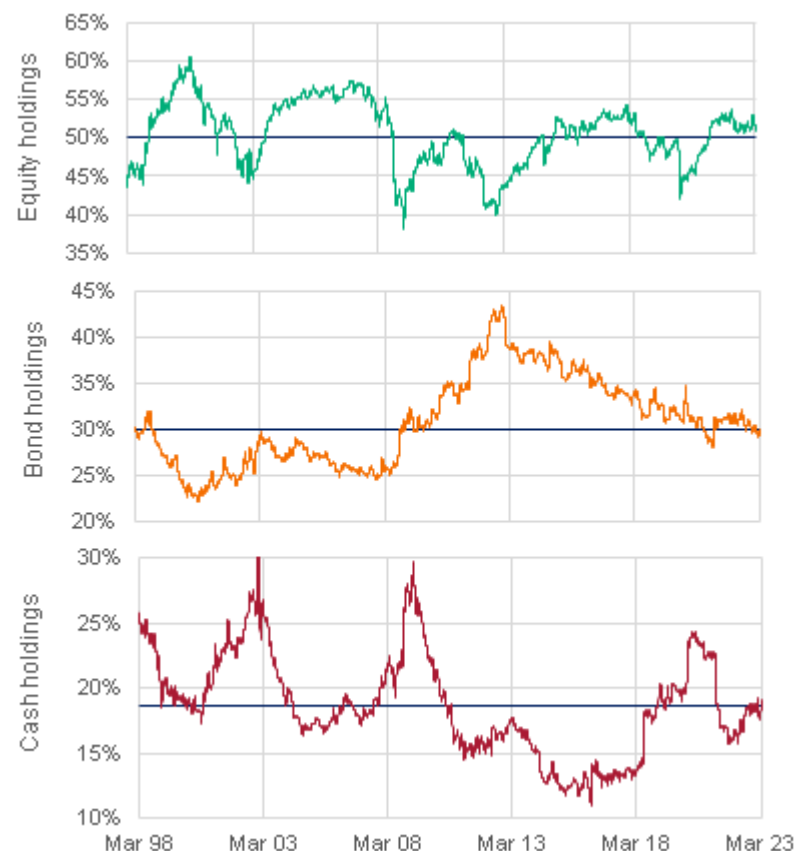


Figure 2: Institutional investor holdings indicators

Changes in long-term investors asset allocation in the past three months



**Figure 3: Long-term trends in asset allocation**



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