

Investors go back to cash as markets are flattened

BOSTON, October 6th - State Street Global Markets today released the results of the State Street Institutional Investor Indicators for September.

The State Street Risk Appetite index fell to -0.18 from 0, showing that, on balance, long-term investors were reducing risk across asset classes in September (see Figure 1 overleaf).

“As bond markets sought to fully price in higher for longer rates from the Federal Reserve and equity markets wobbled, we saw a classic risk off response from long-term investors. There was a sharp rise in allocations to cash, stronger demand for the US dollar and significant outflows from cyclical and emerging market assets.

“Perhaps the only surprise given the price action is that long-term investor flows into Treasuries, as well as other core sovereign bonds, remained strong. Given the economic and now political uncertainties facing the US in Q4, the steadiness of long-term investor demand for Treasuries is one potential positive we can take out of behaviour observed in the past month, assuming of course it lasts!” notes Michael Metcalfe, Head of Macro Strategy at State Street Global Markets.

The State Street Holdings indicators show that long-term investors allocations cash rose a further three-tenths of a percent to 20.4%, fixed income allocations rose 0.2% to 28.5% (see Figure 2 overleaf) all at the expense of equity holdings which fell by 0.5% to 51.1%.

“Investors are hiding in cash once again in the face of combined equity and fixed income market weakness. While cash holdings are now above average, we would caution they remain a few percentage points below their normal crises peaks. Holdings of equities look to be especially vulnerable as allocations to equities are still above their long-run averages, while holdings of bonds are already at their lowest levels in 15 years” added Michael Metcalfe, Head of Macro Strategy at State Street Global Markets.

About the indicators

The Institutional Investor Indicators (the three i's) were developed at State Street Associates, State Street Global Markets research and advisory services business. They measure investor confidence or risk appetite quantitatively by analyzing the actual buying and selling patterns of institutional investors derived from State Street's USD37trn¹ in assets under custody and administration (note not investors' balances held at State Street itself). The *Risk Appetite Index* 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. State Street's *holdings indicators* capture the share of investor portfolios allocated toward equity, fixed income and cash going back to 1998.

Figure 1: State Street Risk Appetite Index – Risk aversion returns

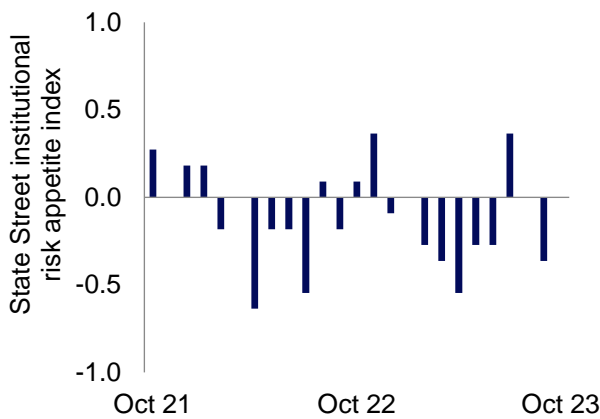


Figure 2: State Street Risk Holdings indicator – Bond holdings



Source: State Street Global Markets

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