

Institutional investors positioned for change

The State Street Risk Appetite Index remained positive at 0.18 in October, only modestly less risk seeking than the 0.27 reading in September (see Figure 1 overleaf).

The State Street Holdings Indicators showed that long-term investor allocations to equities fell back 39bps to 52.7%. Allocations to cash rose a similar amount (42bps) to 19.2% (see Figure 2 overleaf), leaving fixed income holdings largely unchanged.

Comments from Michael Metcalfe, Head of Macro Strategy State Global Markets

“Long-term investors went into November with their largest allocation to equities ahead of an election in two decades, so they were well-positioned for the initially positive market reaction to the election result.

Within equities long-term investors remain overweight US equities relative to both European equities and emerging market equities, so are well also well prepared for the potential negative implications of US tariffs if they are enacted.

Investor holdings of bonds were already at historically low levels, but demand for long-dated Treasuries suffered a serious wobble in October with demand across the month falling to a four-year low. With fiscal sustainability gaining more media and market attention this will be an important behaviour to watch in 2025.

Long-term investors flows into UK Gilts had been positive through much of October, so investors will be have been on the wrong-side of the sharp spike in yields following the UK budget. Watching how long-term investor demand for Gilts evolves in the coming months in the aftermath of the budget will be crucial to judge whether the question of fiscal sustainability escalates further

Having hesitated on their US dollar holdings over the summer, long-term investors had only a modest overweight in the currency ahead of the election, suggesting plenty of potential room for the US dollar to overshoot in response to the result.

Foreign demand for Chinese equities reached a three year high by mid- October, but is now beginning too fade gradually. Investors will need to weigh the threat of potential US tariffs against the likelihood of further China stimulus.”

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 USD44trn¹ 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 – Still positive

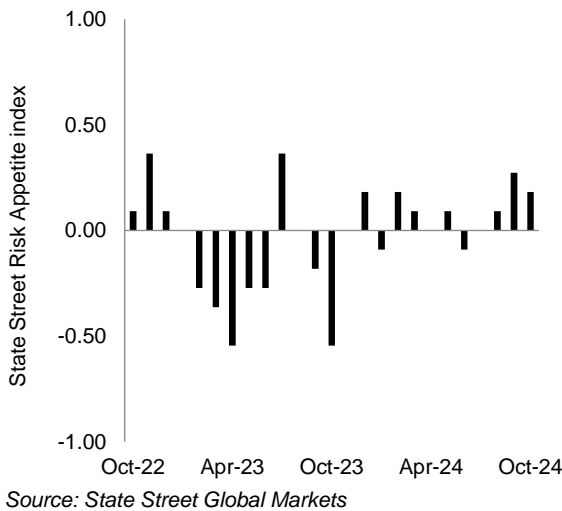


Figure 2: State Street Risk Holdings indicator – Cash holdings close neutral



¹ As of Q1 2024 [reported State Street earnings](#).

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