

Investors hesitate as equity holdings approach 15-year high and dry powder drains

The State Street Risk Appetite Index rebounded to 0.09 from 0.18 revealing a modest retreat in risk bias across the month of March back toward neutral (see Figure 1 overleaf).

“In a month where most central banks continued to encourage hopes of interest rate reductions and where the Swiss National Central bank actually began its rate cutting cycle, institutional investors were reluctant to add to their holdings of risky assets. On balance our risk appetite index showed that investors remained risk seeking in equities, but remain hesitant in fixed income despite the coming rate reductions. And the fact that risk appetite was completely balanced in FX and commodity linked assets shows that even with equity markets at record highs, institutional investors are still wary of the most cyclical assets ” noted Michael Metcalfe, Head of Macro Strategy at State Street Global Markets.

The State Street Holdings Indicators showed that long-term investor allocations to equities rose by 0.6 percentage points to 53.4% (Figure 2 overleaf), this was funded by a similar percentage point fall in cash holdings to 19.0% and a tiny 0.1 percentage point rise in fixed income allocations to 27.5%.

“Perhaps the biggest reason for investor caution going into the second quarter, is that institutional investors’ allocation to equities is within a whisker of its pre-GFC high. At the same time allocations to cash are within 0.3% of their long-run average; ‘excess’ cash levels relative to average at least are now close to exhausted, just as equity holdings reached their cyclical high. Good macro or micro news will be needed from here, over and above simple momentum one would assume, to tempt investors to actively underweight their cash holdings when yield levels are so attractive. ” 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 USD42trn¹ 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 – slips in March

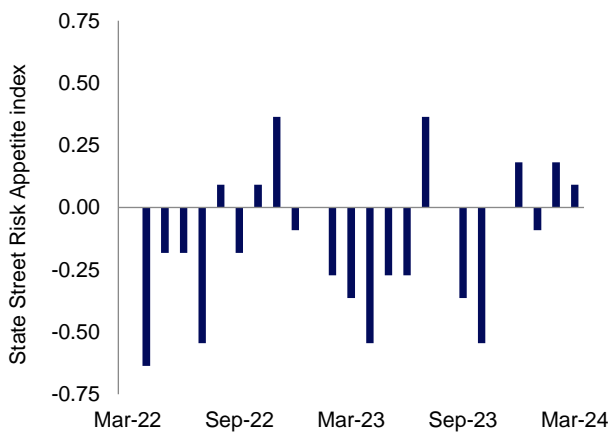


Figure 2: State Street Risk Holdings indicator – Equity holding close to pre-GFC high



¹ As of Q4 2023 [reported State Street earnings](#).

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