

Long-term investor sentiment ends 2023 on a high as Fed pivots

BOSTON, January 5th - State Street Global Markets today released the results of the State Street Institutional Investor Indicators for December.

The State Street Risk Appetite Index rose to 0.24 from zero, showing that long-term investor flows were on balance tilted toward adding risk across asset classes in December (see Figure 1 overleaf).

“The continuation of November’s compelling equity and bond market returns fuelled by the Fed’s pivot proved too much to resist for long-term investors in December. Led by changes in asset allocation and in particular a further move out of cash, our risk appetite index moved back into risk seeking territory once more.

Both equity and FX markets have led the improvement in sentiment with notable improvements in demand for cyclical sectors, corporate credit and emerging market equities. There was also demand for high yielding emerging market currencies as well as continued safe haven selling of the USD. There are, though, still pockets of caution, appetite for emerging market debt remains tepid as does demand for commodity related assets. This serves as a reminder that as good news as the Fed’s apparent pivot is, this in part comes from the fact that the global growth outlook for 2024 is at best tepid .” notes Michael Metcalfe, Head of Macro Strategy at State Street Global Markets.

The State Street Holdings indicators showed that long-term investors allocations to cash fell by 0.3 percentage points to 19.9% (Figure 2 overleaf), equity holdings benefited the most from this rising 0.2% to 51.8% while the allocation to fixed income rose by 0.1% to 28.2%.

“Cash holdings fell again in December and are now 1.2% off their high at the end of October. Nevertheless, investors allocation to cash still ends 2023 higher than where it began the year. So even though equity and bond markets have look a little overbought by some price metrics, this is not the case when looking at investors’ actual allocations. Allocations to cash are still more than a full percentage point above long-term averages, which highlights the potential for money to flow back into asset markets if conditions remain compelling. This is especially the case for fixed income securities where long-term investors’ allocation underweight (see Figure 2-overleaf) and close to a 14-year low ” 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 USD40trn¹ 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 – Adding risk once more

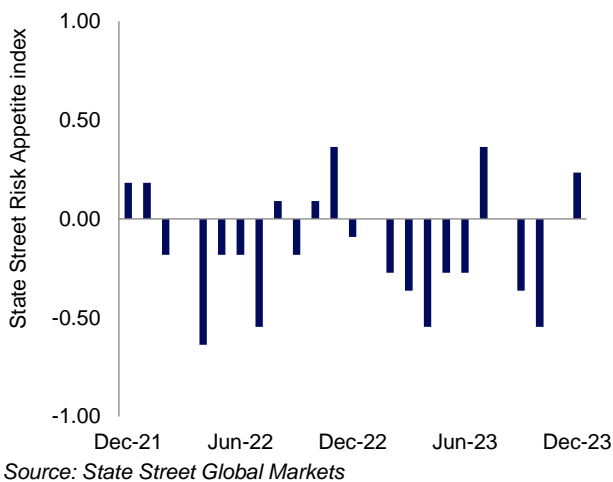


Figure 2: State Street Risk Holdings indicator – Cash holdings have begun to fall



¹ As of Q3 2023 [reported State Street earnings](#).

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