

# Pause And Rebalance

*The State Street Risk Appetite Index fell to -0.09 in December, breaking the four consecutive months of risk seeking activity seen previously (see Figure 1 overleaf).*

The State Street Holdings Indicators showed that long-term investor allocations to equities were largely unchanged, remaining at the highest level in sixteen and a half years (Figure 2 overleaf).

Cash holdings rose a modest 10bps, which was entirely funded by a 13bps fall in allocations to fixed income securities.

## [Comments from Michael Metcalfe, Head of Macro Strategy State Street Global Markets](#)

Three things stand out from investor behaviour in December. The first is that when investors looked to reduce risk into year-end they were still more inclined to do so from sovereign bonds than they were from equities. With the allocation to equities largely unchanged in the month, this means long-term investors still begin 2025 with their biggest overweight in equities in sixteen and a half-years.

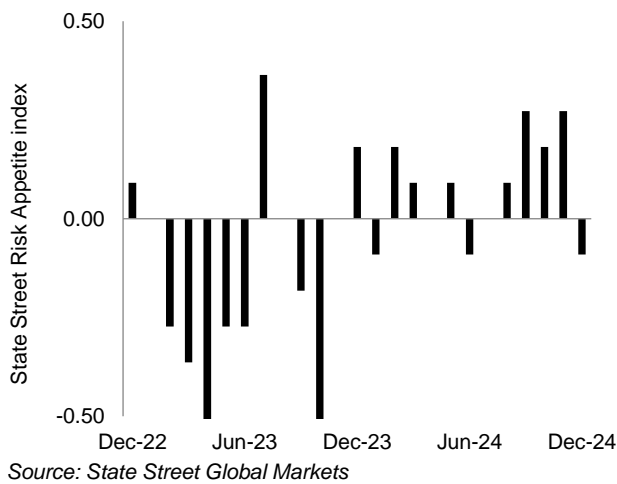
The second is that long-term investors' overweight in equities remains highly concentrated, but investors are beginning to do something about it. Across the regions we track, the US is the only zone investors are overweight, but the size of the overweight was at least reduced across the month of December and is no longer at a twenty-six year high. This reduction could reflect sensible risk management, but could also reflect uncertainties surrounding US monetary, fiscal and trade policy.

The third is that, as optimistic investors are about equities, long-term investor pessimism toward sovereign fixed income markets remains entrenched. It is telling, as risk was reduced into year-end, it was allocations to fixed income which fell. Concerns about holding duration come from fears of a resumption of both inflation and unsustainable fiscal deficits. This seems especially entrenched in the Eurozone where long-term investor demand for French bonds slumped to a six-month low in November and did not recover in December. Demand for Bunds and Bonos has now slipped too, only demand for BTPs has remained steady, rounding off a miserable year for institutional demand for most European assets.

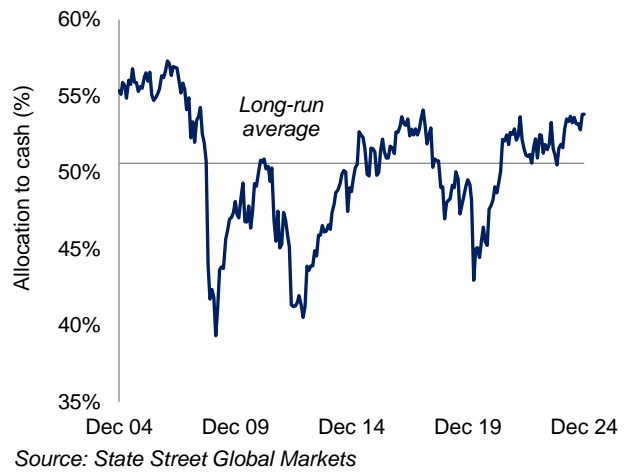
### About the indicators

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 USD 44trn<sup>1</sup> 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 – A four month run broken**



**Figure 2: State Street Risk Holdings indicator – Equity Holdings remain elevated**



<sup>1</sup> As of Q1 2024 [reported State Street earnings](#).

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