

September Smile: Institutional investors react to policy stimulus

The State Street Risk Appetite Index rose to 0.27 by end-September and reversed mid-month weakness in risk-taking following a series of supportive policy announcements (see Figure 1 overleaf).

“Like August before it, September ended with investors moving back into risk assets. Think of it as a September smile: a strong start to the month for risk-taking, followed by a more defensive mid-month, and then a sharp recovery in sentiment towards month-end coincident to policy easing and economic stimulus from the Federal Reserve and the Chinese authorities.

This combination of intra-month caution and sporadic buoyancy resulted in only modest adjustments in asset class exposure: allocations to equities were unchanged on the month, bonds were modestly higher and investors continued their exit from cash. The most notable trend towards the end of the month is a shift from cash and into equities, ostensibly as lower interest rates and policy stimulus moderate recession risks,” noted Dwyfor Evans, Head of Macro Strategy for the APAC region at State Street Global Markets.

Institutional investor allocation adjustments in September were modest but cash holdings fell to their lowest level since the beginning of August. Allocations to bonds rose marginally, while stock allocations were unchanged on the month despite a pick-in equity allocations towards month-end. Stock holdings remain above long-term average (see Figure 2 overleaf).

The move back into risk is not without challenges, notably the outcome of the US election and ongoing geopolitical risks, but this notion that policy easing has diminished recession risks is best highlighted by cyclical relative to defensive equity sector flows, which recovered in September to levels last seen in Q1 2023. The impact of China’s extensive policy stimulus is still playing out, but cross-border equity flows into Chinese stocks rose to the top quintile in the immediate aftermath of the stimulus announcement. Meanwhile, expectations on further Bank of Japan rate tightening saw a sharp reversal in JPY flows with investors sitting on a top quartile overweight. This has cascaded more broadly in the region: all Asian emerging currencies bar the CNY sit on top quartile positioning levels, an indication of bullish bets on regional FX on expectations of further Fed easing and a softer USD, added Dwyfor Evans.

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 – September ends with a rebound in risk taking

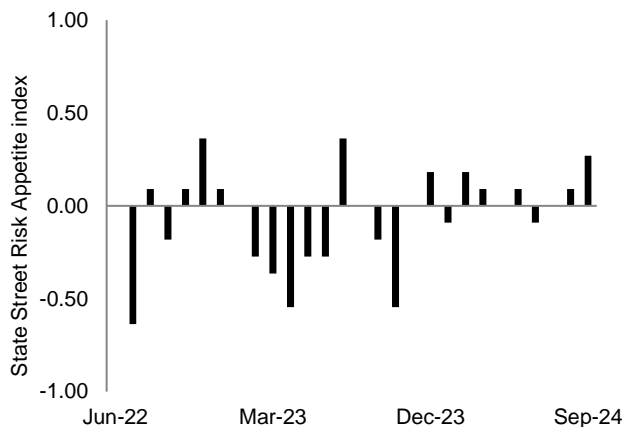


Figure 2: State Street Holdings indicator – Equity weights remain above long-term average



Source: State Street Global Markets

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

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