

Investors cash out and go back to neutral

BOSTON, September 8th, 2023 — State Street Global Markets today released the results of the State Street Institutional Investor Indicators for August.

The *State Street Risk Appetite Index* showed that long-term investors were *neutral* on risk assets over the past month. Improved appetite for some cyclical equities and evidence of lower equity borrowings, was offset by continued defensive behavior in fixed income and a return of defensive behavior in FX markets, in particular the resumption of USD buying. This marked a reduction in risk appetite following a more positive outlook in July (Figure 1).

“There was good and bad news from investor behavior in August. The large jump in allocations to cash reflects continued uncertainty surrounding the market outlook along with the lingering risks of concurrent declines in equity and bond markets that so dogged returns last year” commented Michael Metcalfe, Head of Macro Strategy at State Street Global Markets.

The August *holdings indicators* showed the biggest jump of investors’ cash allocations in over a year to 20.1% (Figure 2). This was largely at the expense of investors’ overall allocation to equities where the share of equities in long-term investor portfolios fell to 51.6% in August from 53.2% in July.

“Better news on US growth is nevertheless helping investor sentiment. We saw more robust demand and less short of the most cyclically exposed stocks, which may also have played a role in improved long-term investor demand for the US dollar in August. However, the news on growth was less promising outside of the US: Europe’s recession appears to have arrived and long-term investors have returned to selling European equities, where demand for German equities sunk to a six-month low. In APAC, China’s recovery continues to disappoint as does the policy response, which is keeping appetite for commodity linked countries and currencies suppressed, along with Pacific ex-Japan equities.” Michael Metcalfe added.

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 USD37trn¹ 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

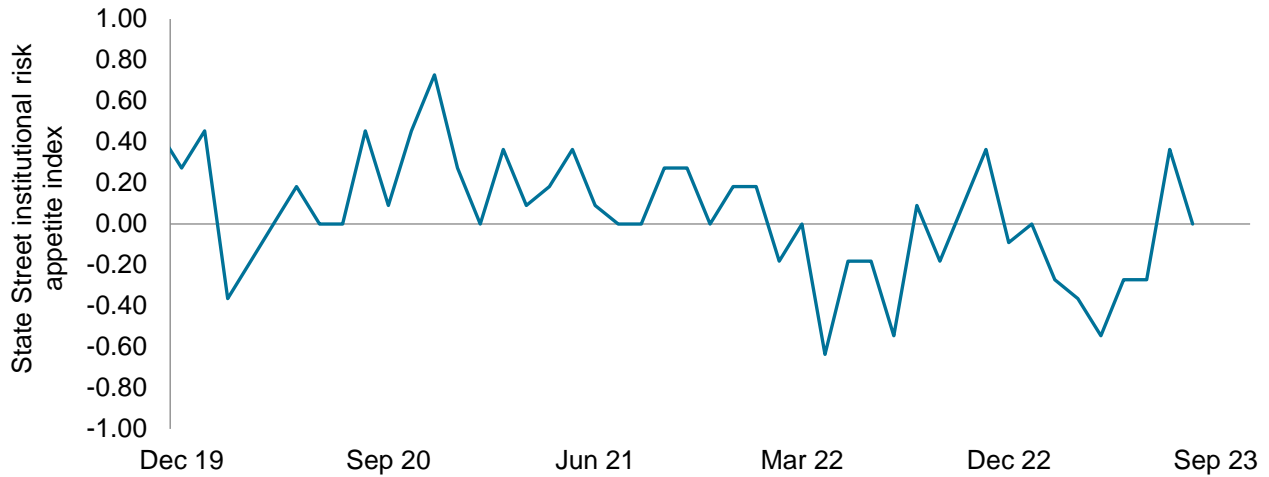


Figure 2: State Street holdings allocation: Cash (%)



Source: State Street Global Markets

¹ As of Q1 2023

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