



Welcome to THE ALTA REPORT

Welcome to the Alta Report, a compilation of BNY Mellon perspectives derived from seeing 20% of the world's asset flows. From this vantage point we can decipher the trends shaping today's markets and deliver unique insights.



Mixed Signals on US Economy

By John Velis
FX and Macro Strategist, Americas

While there are encouraging signs that the risks of a severe US recession are moderating, our data suggest inflation stickiness may again become a concern.

Equity Demand About to Resume?

As interest rates moved higher last year, bonds became more attractive relative to equities (Q3 2022 data; see "Bond Appetite Normalizes"). Investors may have also viewed bonds favorably because of waning fears of inflation moving even higher. That said, our more recent institutional-only data indicate that US equity selling has troughed and that demand for US fixed income is beginning to wane. Could we be seeing a rotation out of the recession trade?

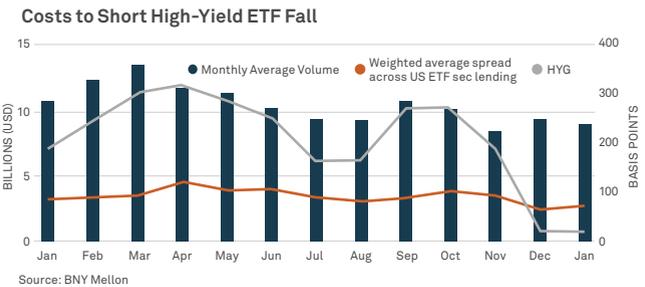
US Equity and Bond Flows



Source: BNY Mellon
Scored flow means average daily net buying or selling scored by the series standard deviation. The chart represents a 22 day moving average.

High-Yield ETF No Longer "In the Hot Seat"?

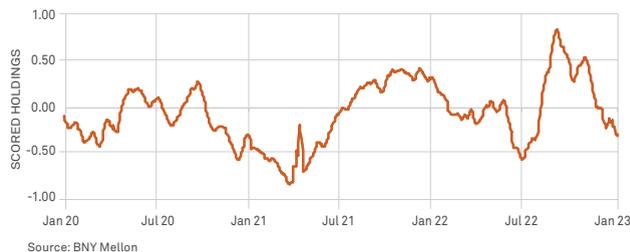
The cost of borrowing the high-yield ETF "HYG," which is commonly shorted when investors anticipate economic downturns, has fallen. This trend reflects the effects of increased supply in the ETF itself, as well as the belief by investors that any potential recession may be mild enough so as not to challenge higher-risk borrowers.



Strong Dollar Trade Looks To Be Over

After a large increase in late 2022, holdings of the US dollar have since fallen, and the majority of investors are now short the dollar. The strong dollar trade looks to be over, with the euro and yen prime candidates to appreciate.

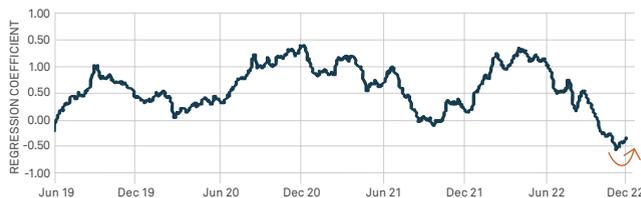
US Trade-Weighted Dollar Holdings



Inflation Shocks May Return

A decline in inflation-related flows over the last several months indicated that US inflation would top out and begin to decline in 2023. Now that trend has turned, suggesting that the series of recent inflation shocks may continue.

Inflation-Related US Equity Flows



Sources: BNY Mellon, Bloomberg



The Economic Virtues of Efficiency

Industry efforts to modernize the systems underpinning payments, securities finance and even bond settlements are under way, as market participants leverage technology to mitigate risks and improve efficiency.

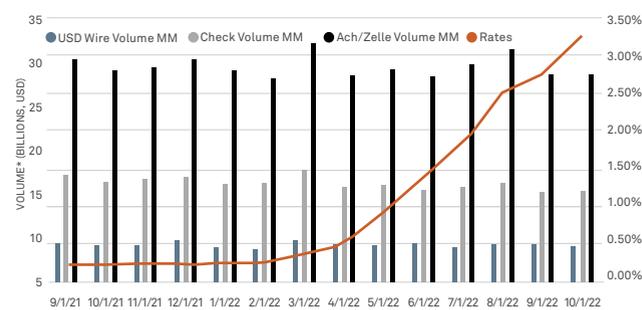
New Age in Sec Finance

After many years of bilateral execution, it is becoming common practice for broker-dealer securities finance transactions to be routed to central counterparties (CCPs). Pershing, for example, sends triple the volume of trades to CCPs than it did two years ago. This shift, coupled with more trades being executed automatically, is enabling those desks to handle more volume and making the trades more balance-sheet friendly.

Cash Availability Is King

Rising rates are driving companies to explore faster payments as they seek to boost the cash they have available for investments. This is putting a renewed focus on digital payments, cash flow forecasting, FX hedging and cash sweep products.

Time for a Digital Payments Revolution

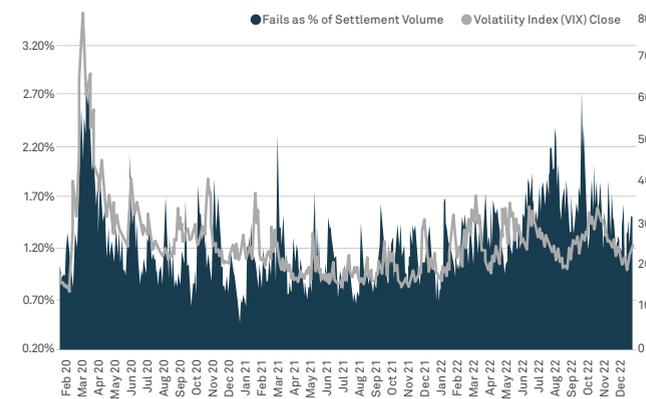


Source: BNY Mellon
*Transactional flows processed by Treasury Services.

Fixing Treasury Fails

In 2022, settlement fails as a percentage of settlement volumes briefly touched levels seen in March 2020. By reducing fails and optimizing settlement, the industry can mitigate not only fails charges (totaling \$835MM* in 2022) but also capital, liquidity and operational overhead.

Fails in Focus



Sources: BNY Mellon, CBOE, NY Fed/TMPG
*Fails charges between counterparties are voluntary and our estimation of industry-recommended fees does not represent the actual penalties exchanged across all asset classes, including US Treasuries, Agencies and Mortgages.

Cash Back in the Spotlight

Since rates started rising, corporates and investors are taking cash off the sidelines and putting it into higher yielding investments.



Dry Powder Building

Endowments and foundations raised their cash allocations to 21% as of Q3 2022, compared to 14% in 2019.

Source: BNY Mellon (custody data – AUC total \$6.3T – as of Q3, 2022)

Pivoting from Non-Cash to Cash Collateral

Cash collateral is becoming increasingly attractive for securities lenders, with more cash being reinvested over longer time horizons. The USD cash collateral reinvestment spread was at historical lows at the end of 2021, then it started spiking with the rise in global rates and potential for reinvestments in term assets.

Source: BNY Mellon

Bond Appetite Normalizes

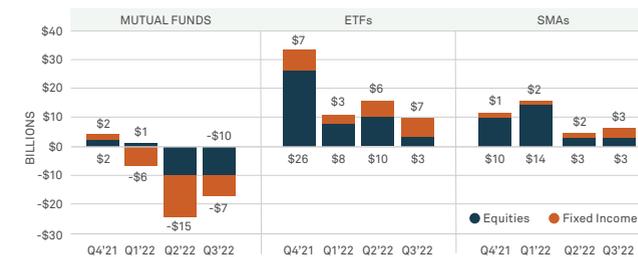
What with interest rates moving higher, investors found fixed income assets attractive relative to stocks – a sign that retail investors' fears of rising inflation were beginning to wane.

Finally, With Yield

In the second half of 2022, inflows into bond ETFs were greater than inflows into US equity ETFs for the first time since Q2 2020, according to our retail data. Long and intermediate government bond ETFs drove fixed income sales in Q3 2022. Meanwhile, we saw muni fixed income separately managed accounts (SMA) net sales trump all SMA sales. (Our recent institutional data indicators, however, are showing demand for US fixed income may be beginning to wane; see "Equity Demand About to Resume?")

Source: BNY Mellon

Fee-Based Net Sales: Equity and Fixed Income

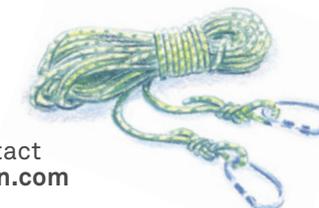


Source: BNY Mellon
*National Broker-Dealer Advisory Programs.

Defensive Stance

Although our data suggest institutional demand for US fixed income may be beginning to wane, as of the third quarter, larger US pension plans (public and corporate), endowments, foundations and other asset owners over \$5B had made a conscious decision to be invested in it – even at a time when it was heavily beaten down. As of Q3, these accounts were still allocated* to fixed income, increasing their investment in 11 of the 12 months through October 2022 for plans above \$5B, and in 5 out of the 12 months for plans \$1-5B in size.

Source: BNY Mellon
*Levels include cash flow decisions and performance.



For more information, contact TheAltaReport@bnymellon.com

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Seeing

20%

of the world's investable assets

Safekeeping

\$44.3T

in assets (custody and/or administration) as the world's largest custodian

Settling

\$10T

in US government securities daily

Servicing

\$5.5T

in US and international collateral

Processing

\$2.5T

of US dollar payments daily

Managing

\$1.8T

in assets for our asset & wealth management clients

THE ALTA REPORT.

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