



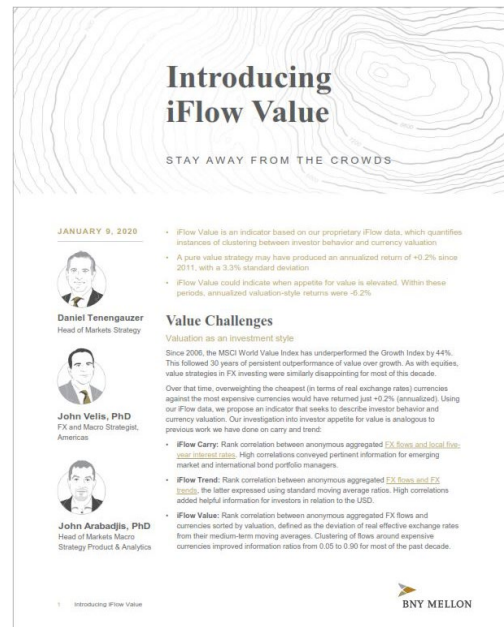
Introducing iFlow Value

iFlow Value is a new indicator designed to identify instances of clustering between investor behavior and currency valuation.

Built on BNY Mellon's iFlow® data, the signal can be utilized to better understand when investor appetite for value may be elevated.

Using back-tested data and simple intuitive strategies, iFlow Value can provide an additional data point which could identify instances where investor flows are chasing value, raising the risk of a valuation-led drawdown.

To learn more about iFlow Value, its composition and how the indicator can detect extraordinary demand for value, click the thumbnail to the right for a deep dive.



Introducing iFlow Value
STAY AWAY FROM THE CROWDS

JANUARY 9, 2020

- iFlow Value is an indicator based on our proprietary iFlow data, which quantifies instances of clustering between investor behavior and currency valuation.
- A pure value strategy may have produced an annualized return of +0.2% since 2011, with a 3.3% standard deviation.
- iFlow Value could indicate when appetite for value is elevated. Within these periods, annualized valuation-style returns were -0.2%.

Daniel Tenengauzer
Head of Markets Strategy

John Vellis, PhD
FX and Macro Strategist, Americas


John Arabadjis, PhD
Head of Markets Macro Strategy Product & Analytics

Value Challenges
Valuation as an investment style

Since 2008, the MSCI World Value Index has underperformed the Growth Index by 44%. This followed 30 years of persistent outperformance of value over growth. As with equities, value strategies in FX investing were similarly disappointing for most of this decade. Over that time, (re)weighting the cheapest (in terms of real exchange rates) currencies against the most expensive currencies would have returned just +0.2% (annualized). Using our iFlow data, we propose an indicator that seeks to describe investor behavior and currency valuation. Our investigation into investor appetite for value is analogous to previous work we have done on carry and trend:

- iFlow Carry:** Rank correlation between anonymous aggregated FX flows and local flow: [see chart here](#). High correlations conveyed pertinent information for emerging market and international bond portfolio managers.
- iFlow Trend:** Rank correlation between anonymous aggregated FX flows and FX trends, the latter expressed using standard moving average ratios. High correlations added helpful information for investors in relation to the USD.
- iFlow Value:** Rank correlation between anonymous aggregated FX flows and currencies sorted by valuation, defined as the deviation of real effective exchange rates from their medium-term moving averages. Clustering of flows around expensive currencies improved information ratios from 0.05 to 0.90 for most of the past decade.

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