



iFlow

VISION

April 13, 2022

Introducing iFlow Mood

Gauging Investor Risk Appetite

Today we're excited to launch a unique barometer of market behavior, iFlow Mood. It leverages BNY Mellon's \$46.7Tr in custody and servicing assets to deliver an assessment of the current investment climate.

Using intelligence from those global equity and bond flows, we can determine the prevailing market sentiment: Exuberant (risk-seeking), Neutral and Fear (risk-averse).

The signal last entered "fear" territory on Feb. 22.

We will be updating iFlow Mood in our weekly iFlow publication released every Wednesday after the market close.

To read **iFlow Mood**, click the thumbnail to the right.



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Introducing iFlow Mood

iFlow Mood is an indicator of investor sentiment, leveraging the \$46.7Tr in assets supported by BNY Mellon's custody and servicing platforms. It uses investors' global equity flows and net buying of low-duration government bonds to assess the current investment climate.

Gauging Investor Risk Appetite

iFlow Mood is an equity buying signal that can be used as a proxy for investor risk appetite. It aggregates scored flows across all equity and sovereign safe low-duration bond markets serviced by BNY Mellon (roughly 20% of the world's tradable assets) in three simple steps, as outlined below.

First, we define scored flow as daily net buying (the sum of buy trades minus the sum of sell trades) scaled by its 1yr trailing standard deviation. Marginal equity buying is then estimated using the difference between short- and long-dated scored flows.

Next, we execute the same marginal net buying exercise using aggregated flows into liquid sovereign bonds. Lastly, we calculate the difference between marginal global equity flow and marginal sovereign bond flows. The output is a value that tends to be correlated with capital flows into risky or safe assets.

• **High = Exuberance.** High, positive readings reflect positive investor risk appetite. Risk parity returns since 2005 have been steady, at 5.2% compounded on average annually. As a result, iFlow Mood consistently shows a net buying bias for global equities.

• **Low = Fear.** Fear is contagious. While average marginal flows over the past couple of decades into equities have been positive, the median observation was negative. On a daily basis, investors were buying safe assets more often.

We propose a timing system for iFlow Mood, mapping flows to three investment climates or "regimes": Exuberance, Neutral and Fear. This timing system aims to highlight investors' behavioral changes.

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