BNY MELLON

iFlow

INVESTOR TRENDS

June 6, 2023

Demystifying Market Consensus: Cash Still King

Our proprietary data (iFlow) shows US short duration fixed-income holdings the highest since 2013

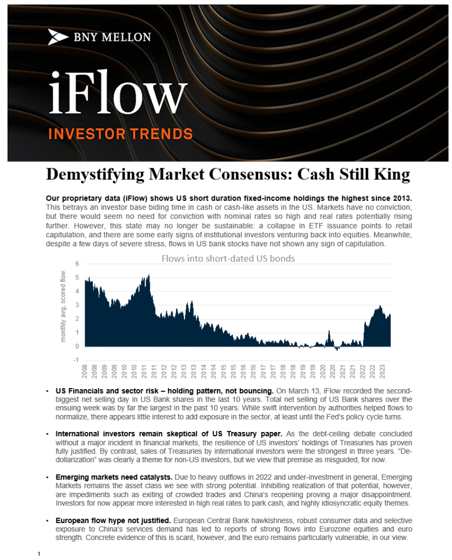
Current holdings in US short-duration instruments betrays an investor base biding time in cash or cash-like assets in the US. Markets have no conviction, but there would seem no need for conviction with nominal rates so high and real rates potentially rising further. However, this state may no longer be sustainable: a collapse in ETF issuance points to retail capitulation, and there are some early signs of institutional investors venturing back into equities.

Meanwhile, despite a few days of severe stress, flows in US bank stocks have not shown any sign of capitulation.

Finally, we see potential for greater investor interest in Emerging Market assets, while the purported flow into Eurozone assets is vastly over-rated and already faltering, based on our data.

To access the paper **click here**.

John Velis, PhD - US Macro Strategist
Geoffrey Yu - EMEA Macro Strategist



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Flows into short-dated US bonds

monthly avg, scored flow

- **US Financials and sector risk – holding pattern, not bouncing.** On March 13, iFlow recorded the second-biggest net selling day in US Bank shares in the last 10 years. Total net selling of US Bank shares over the ensuing week was by far the largest in the past 10 years. While swift intervention by authorities helped flows to normalize, there appears little interest to add exposure in the sector, at least until the Fed's policy cycle turns.
- **International investors remain skeptical of US Treasury paper.** As the debt-ceiling debate concluded without a major incident in financial markets, the resilience of US investors' holdings of Treasuries has proven fully justified. By contrast, sales of Treasuries by international investors were the strongest in three years. "De-dollarization" was clearly a theme for non-US investors, but we view that premise as misguided, for now.
- **Emerging markets need catalysts.** Due to heavy outflows in 2022 and under-investment in general, Emerging Markets remains the asset class we see with strong potential. Inhibiting realization of that potential, however, are impediments such as exiting of crowded trades and China's reopening proving a major disappointment. Investors for now appear more interested in high real rates to park cash, and highly idiosyncratic equity themes.
- **European flow hype not justified.** European Central Bank hawkishness, robust consumer data and selective exposure to China's services demand has led to reports of strong flows into Eurozone equities and euro strength. Concrete evidence of this is scant, however, and the euro remains particularly vulnerable, in our view.

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