BNY MELLON

iFlow

MACRO REVIEW

March 2024

Key Themes

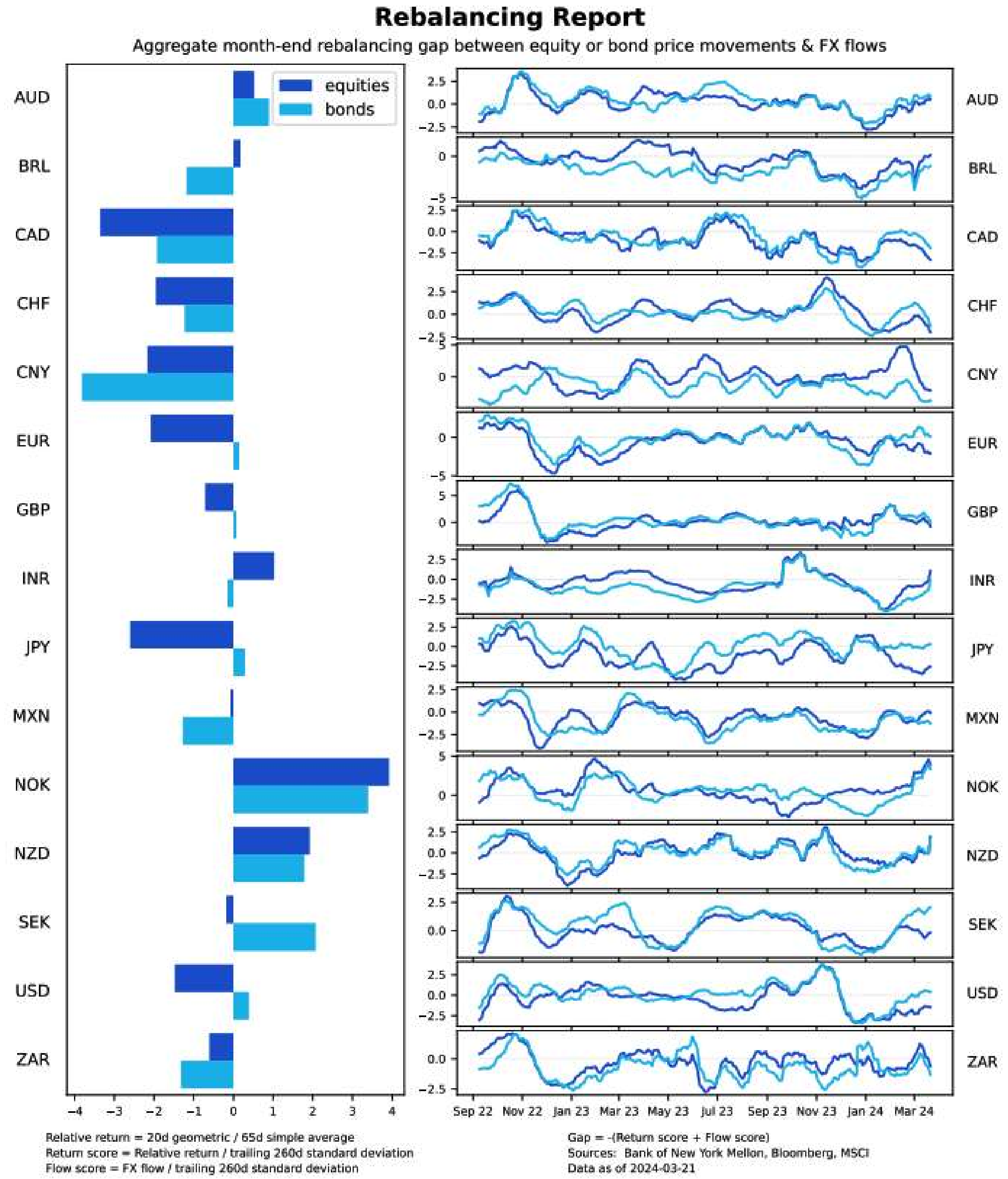
Rebalancing: China asset recovery requires FX adjustment, Nordics require inflows

US Equity Styles: Cyclical and Inflation flows remain flat

International Equity Styles: Cyclical and Growth flows take the lead in APAC

iFlow Green: EM ESG alignment collapses, DM also struggling

Click on the image below to launch a PDF with all graphics.*



Source:BNY Mellon

Rebalancing Update

Policy decisions featured heavily in March, but the general tone was risk-on and soft landings, which would have generated rebalancing needs for equity and bond markets that performed well. Currency flows were mixed, but there was clear evidence of recovery interest in EMFX: ZAR, MXN and CNY ranked second to fourth in absolute currency flow, finishing the month with daily scored flow averages above 0.2 despite ongoing uncertainty over respective policy and growth outlooks. BRL was also net bought. INR struggled, particularly after the FOMC meeting. CAD remains the outperformer in G10 and looks set to end the month as the only major currency with a monthly flow average above 0.7. Irrespective of equity or fixed income performance, the strong marginal performance of CAD and NOK (in the opposite direction) continued to anchor rebalancing needs.

Equity returns continue to dominate asset allocation. Month-to-date, only two of the 15 markets we track appear set to end the month with negative return scores, both of which are in EM (Mexico and India). As MXN was strongly bought, flows managed to offset each other and left the peso with a flat rebalancing score. INR likely requires purchases on account of weak equity and FX performance, but the aggregate flow gap is not large. Only NOK likely requires purchases, this a function of strong selling as well as the Oslo OMX 20 the second-worst performing bourse in developed markets. All other signals are for FX selling due to strong equity performance. Unsurprisingly, CAD has led the way, but CNY and EUR also likely require net selling due to good performance in the currency and equity market, respectively. Unsurprisingly, JPY selling is required due to Nikkei strength, though the market is still struggling to reconcile such needs with Bank of Japan policy.

Fixed-income rebalancing contains the usual suspects. China easing remains a prevalent theme which will continue to support local bond markets, but likely also trigger rebalancing demand. CAD buying very nearly triggered a rebalancing score above 2.0. However, as Canadian bonds underperformed there was a sufficiently large offset in place. Even so, we expect combined rebalancing of CAD exposures given the currency's current strongly held position. Otherwise, the only signals of significance are in NOK and SEK: both likely require significant selling, but largely due poor FX performance rather than underlying fixed income weakness. Given the timing of the Riksbank decision, SEK purchase flow may soften into month-end if a dovish outcome results in a strong month-end for Swedish fixed income.

iFlow Equities 2.0 Style Indices - Flows Of Significance

1. US Equity Styles

- The prospect of 'no-landing' remains an anchoring factor in US equities. A strong push into Cyclical and Growth stocks would be self-defeating if the loosening in financial conditions is seen by the Fed as too excessive. As such, Cyclical flows are no longer outperforming Defensive. Growth is now softer relative to Value.
- A more optimal situation would be improved productivity growth. Inflation flows have fallen, faltering again after several months at more elevated levels. This is congruent with the Fed's current view that growth in the US economy can remain relatively robust without upward revisions in inflation outcomes.
- Leverage flows are under-performing again, and at this rate could challenge the 2023 lows. It's possible that these flows are finding their way into private credit, but we would be cautious of any Fed reaction to an augmentation in the credit cycle.

2. International Equity Styles

- Considering the near-capitulation last month in regional equities, the bar was relatively low for improved performance in Cyclical flows relative to Defensive. EM APAC Cyclical flows are outperforming again, but in DM APAC have fallen to neutral. The strongest performance here is coming from Growth in EM APAC, which is heavily outperforming Value.
- The current stabilisation in European data is providing some support for European Growth and Cyclical equities, though the bulk of the outperformance is currently in DM EMEA Cyclical flows relative to Defensive. EM EMEA Growth is picking up relative to Value, potentially a reaction to easier financial conditions.

3. iFlow Green

- There is now a total collapse in flow alignment between ESG factor flows and EM equity flows. Each factor indicates reduced exposures, led by EM Americas, where ESG-Governance flow has pushed the aggregate ESG factor deeply negative.
- Developed markets are not faring much better, as ESG-Governance and UN Global Compact-Anti Corruption are showing negative alignment. Other factors are neutral at best. DM Americas is the best-performing region with most factors positively aligned, but this is not proving sufficient to support overall ESG factor interest. Clearly, return preference is outweighing other considerations in asset allocation.

***iFlow Macro Review PDF contains the following:**

- Monthly Rebalancing index, based on marginal equity and fixed income returns, offset against marginal FX flow scores generated by iFlow.
- US Equity Styles, detailing US equity purchases across different style indices.
- International Equity Flows, assessing asset allocation preferences across developed and developing markets on a regional basis
- iFlow Green, assesses alignment between ESG factor flows and general equity flows

Disclaimer & Disclosures

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