

25 October 2019  
Rates and Credit

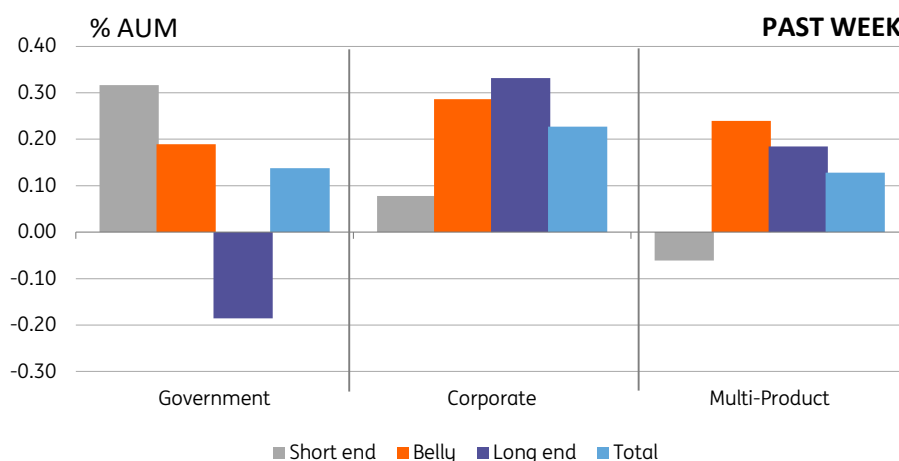
Note: The weekly data in this report reference the week ended Wednesday 23<sup>rd</sup> October 2019

# Global debt flows

## Sweet spot comfort for risk assets

Latest bond flows are consistent with more buying of risk, albeit at a slower pace. Even where flows have slowed, total returns have not - local currency emerging market outflows contrast with accelerated positive total returns. Inflows to US bonds remain firm, with USD allocation now very elevated. Inflows to corporates (including high yield) remain firm too. There has been some shedding of duration in global government space: long end funds have seen outflows. And with inflation funds friend-less, the implied inflation discount remains benign.

Graph of the week: Outflows from long end government vs corporate inflows



Source: EPFR Global, ING estimates

## Six things learnt from latest flows data

- 1) Latest flows evidence points to a duration reduction process in government space. Flows into front end governments and belly plus long end corporates have been thematic in the past fortnight.
- 2) Global inflation linked funds continue to struggle for inflows, and indeed European inflation funds have seen more outflows. This is reflected in a very benign market discount for inflation.
- 3) The geographic focus is on increased allocation to the US and reduced allocation to the Eurozone as a theme. Beyond that we note inflows to the likes of Singapore & Switzerland versus outflows from the UK & Japan.
- 4) Inflows to hard currency emerging markets remain thematic. Outflows from local currency funds remain in play too, but local currency performance has been catching up in the past 6 weeks, despite the (moderate) outflows.
- 5) We note decent inflows to Brazil, Mexico, Russia & S Africa (contained inflation dynamics). Lower allocation has been in play for the likes of China, Hong Kong, Turkey, Poland & Colombia (dominated by idiosyncratic issues).
- 6) High yield has managed to sustain a decent inflow pace in more recent months. The inflow process lately suggests minimal angst as we enter a slowdown episode that typically would see some elevation in default risk.

### Padhraic Garvey

Head of Global Debt and Rates Strategy and Head of Research Americas  
ING Financial Markets LLC / ING Capital Markets LLC  
New York +1 646 424 7837  
padhraic.garvey@ing.com

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# Contents

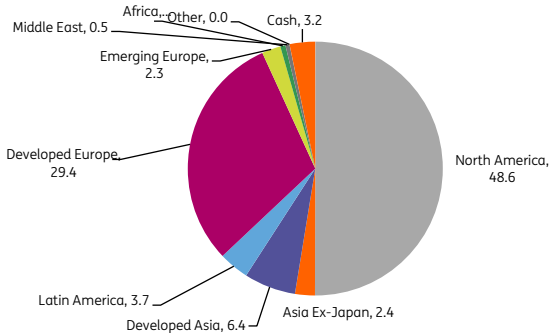
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<b>Global Manager (average) Allocations by Region</b>	<b>3</b>
<hr/>	
<b>Emerging Markets</b>	<b>4</b>
Emerging Markets – Summary themes.....	5
Emerging Markets Net Fund Flows .....	6
Global EM Manager Asset Allocations.....	7
Regional EM Manager Asset Allocation .....	8
Selected EMEA and Latam Country Flows .....	9
Selected Asia and ME/Africa Country Flows .....	10
<hr/>	
<b>High Yield</b>	<b>11</b>
High Yield – Summary themes .....	12
<hr/>	
<b>Developed Markets</b>	<b>14</b>
Developed Markets – Summary themes .....	15
Global DM Manager Asset Allocations .....	17
Developed Markets Country Flows .....	18

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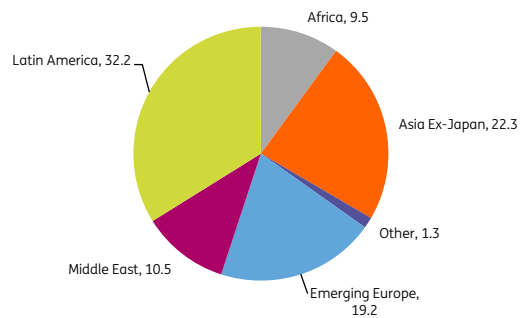
## Global Manager (average) Allocations by Region

**Fig 1 Global allocations one month ago (%)**



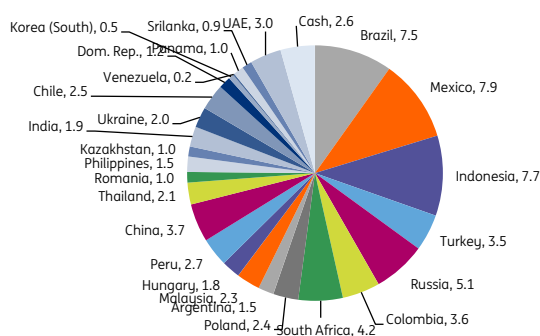
Source: EPFR Global, ING estimates

**Fig 2 EM allocations one month ago (%)**



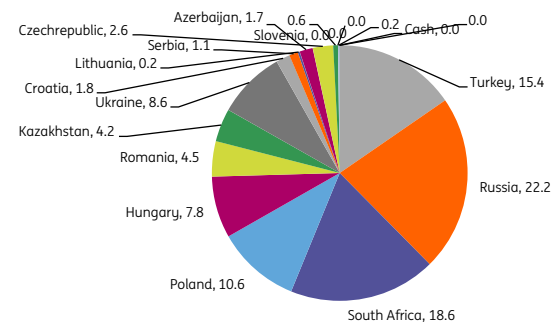
Source: EPFR Global, ING estimates

**Fig 3 EM detailed allocations one month ago (%)**



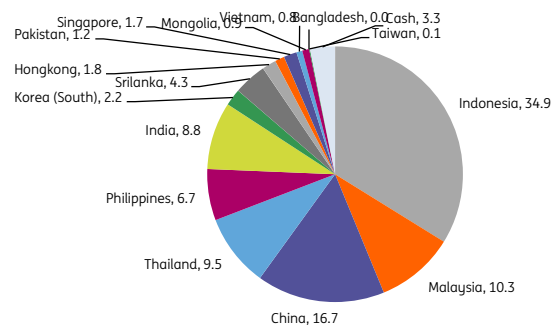
Source: EPFR Global, ING estimates

**Fig 4 EMEA allocations one month ago (%)**



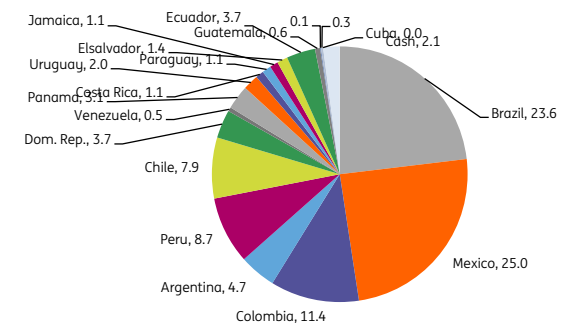
Source: EPFR Global, ING estimates

**Fig 5 Asia EM allocations one month ago (%)**



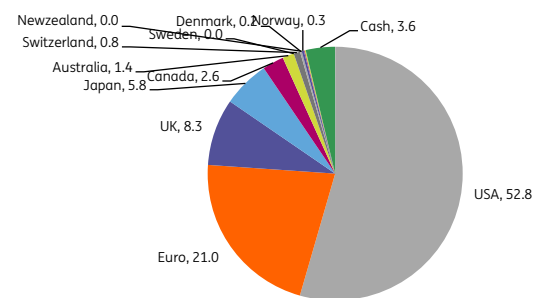
Source: EPFR Global, ING estimates

**Fig 6 Latam allocations one month ago (%)**



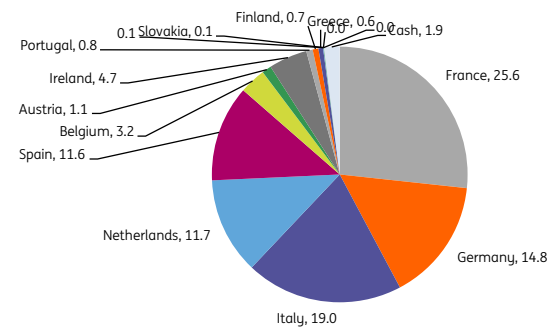
Source: EPFR Global, ING estimates

**Fig 7 Developed allocations one month ago (%)**



Source: EPFR Global, ING estimates

**Fig 8 Eurozone allocations one month ago (%)**



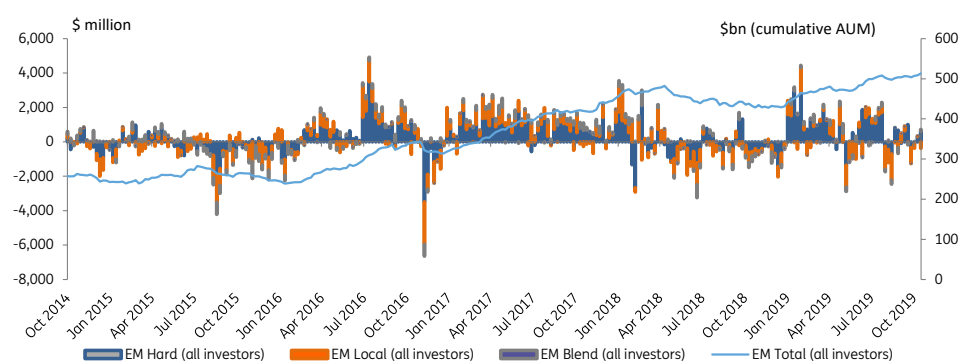
Source: EPFR Global, ING estimates

**Emerging  
Markets**

## Emerging Markets – Summary themes

- A theme of moderate outflows from local currency funds and inflows to hard currency funds continues. It's been the theme for most of 2019. But at the same time there has been a net inflow to emerging market overall (for 2019).
- In the past 12 months, AUM in EM is up 4.8%, within which AUM in hard currency is up 12%. But in more recent months inflows to EM have been more subdued. In fact in the past quarter overall EM flows have been balanced between out and inflows.
- The bulk of the outflows from local currency funds in recent months have been from retail players. Professional players have in fact been net buyers of local currency. Had it not been for the outflows from local currency funds, overall EM flows would have been more comfortably positive in recent months.
- Aggregate outflows from local currency through 2019 have not been detrimental in terms of total returns, which are running at 7.2% YTD. Hard currency on returns of 10.2%, continues to outperform, but the gap has been closing in the past couple of months as local currency has started to outperform (all translated into USD).

**Fig 9 Feature Chart: The light blue line shows changes in AUM plus performance; indicative of a combination of inflows and positive total returns**



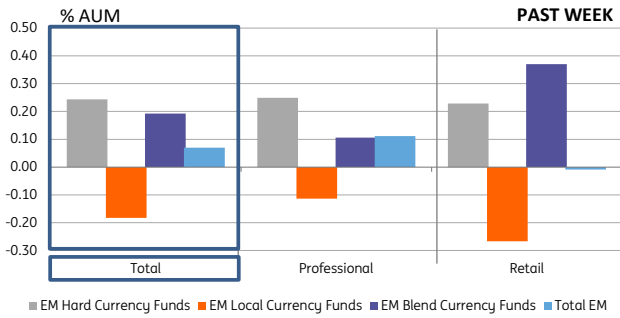
Source: EPFR Global, ING estimates

- Global allocations have not changed dramatically in the past couple of months, apart from a moderate reduction in allocation to Latam and EMEA, versus a moderate increase in allocation to the Middle East & N Africa. This in fact has been a trend in 2019, alongside increased allocation to EM Asia.
- In EMEA, allocation to Russia, S Africa and Ukraine has increased in the past month, while allocation to Poland, Romania and Turkey is down (Figs 26 & 27). In Asia, allocation to China and Hong Kong is down while allocation is up for Thailand (Figs 28 & 29). In Latam, allocation to Brazil and Mexico is up while allocation to Colombia and Chile is down (Figs 30 & 31).

**BOTTOM LINE:** Inflows to hard currency emerging markets remain thematic. Local currency performance has been catching up in the past 6 weeks despite outflows (moderate). Hard currency is still outperforming versus local currency YTD, but local currently has been doing better of late. Professional players have not been big sellers of local currency; most of the local currency outflows have come from retail accounts. In terms of allocation, we note some decent inflows into high yielders like Brazil, Mexico, Russia and S Africa. In contract, reductions in allocation have been in play for the likes of China, Hong Kong, Turkey, Poland and Colombia. Inflow processes have been helped by stable inflation dynamics, while outflows have been dominated by idiosyncratic issues.

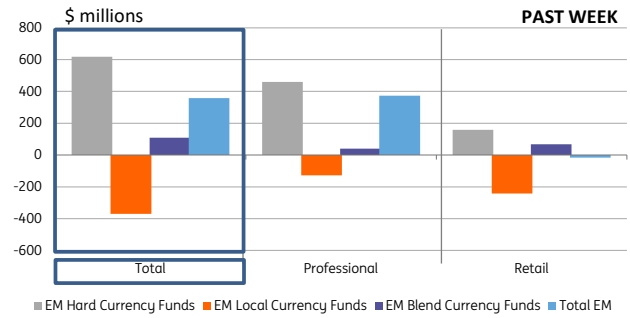
## Emerging Markets Net Fund Flows

**Fig 10 Emerging Markets - Change in the past week (%)**



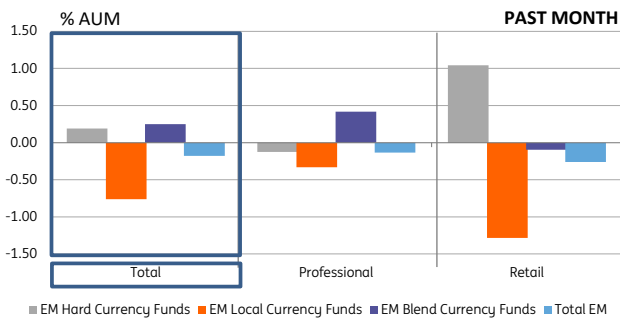
Source: EPFR Global, ING estimates

**Fig 11 Emerging Markets - Change in past week (US\$m)**



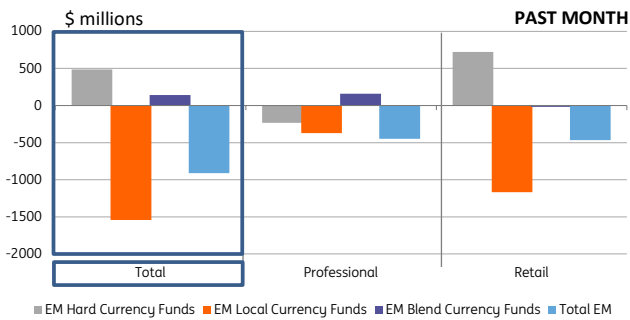
Source: EPFR Global, ING estimates

**Fig 12 Emerging Markets - Change in the past month (%)**



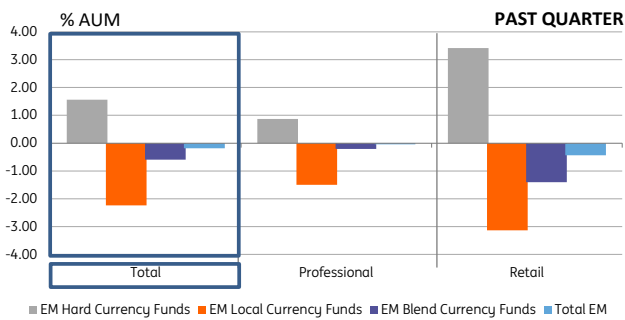
Source: EPFR Global, ING estimates

**Fig 13 Emerging Markets - Change in past month (US\$m)**



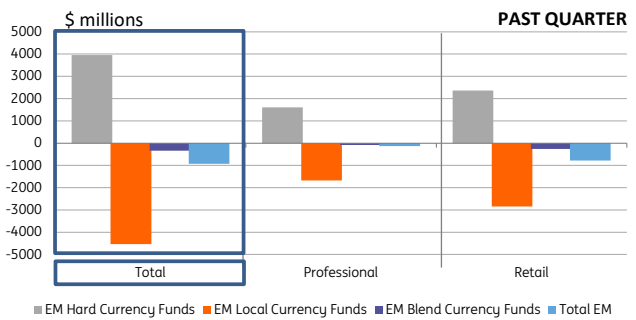
Source: EPFR Global, ING estimates

**Fig 14 Emerging Markets - Change in past quarter (%)**



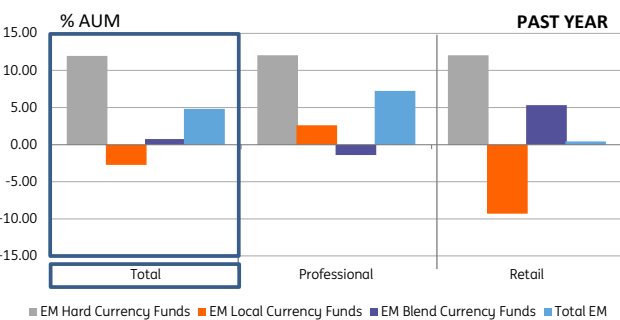
Source: EPFR Global, ING estimates

**Fig 15 EM - Change in past quarter (US\$m)**



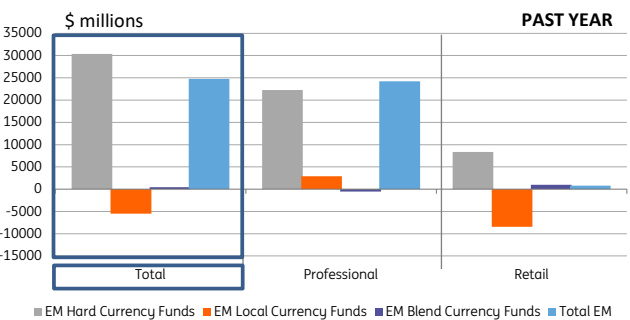
Source: EPFR Global, ING estimates

**Fig 16 Emerging Markets - Change in the past year (%)**



Source: EPFR Global, ING estimates

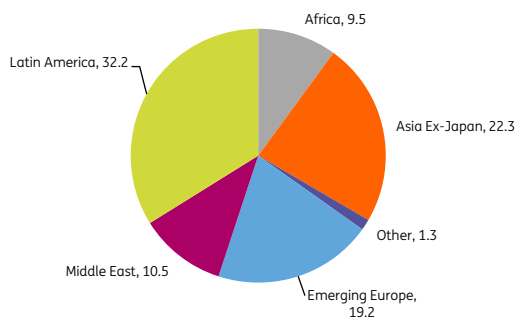
**Fig 17 Emerging Markets - Change in past year (US\$m)**



Source: EPFR Global, ING estimates

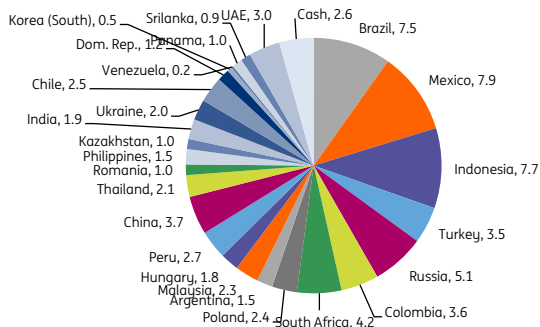
## Global EM Manager Asset Allocations

**Fig 18 GEM allocations one month ago (%)**



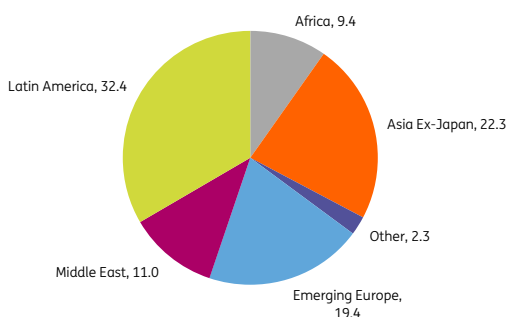
Source: EPFR Global, ING estimates

**Fig 19 GEM detailed allocations one month ago (%)**



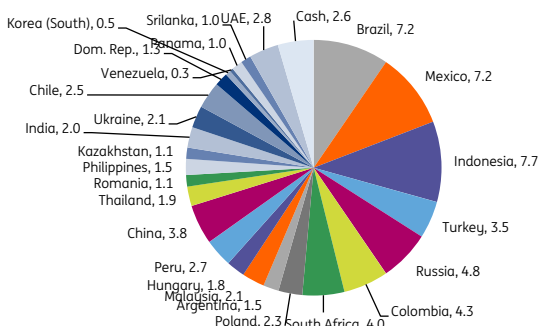
Source: EPFR Global, ING estimates

**Fig 20 GEM allocations two months ago (%)**



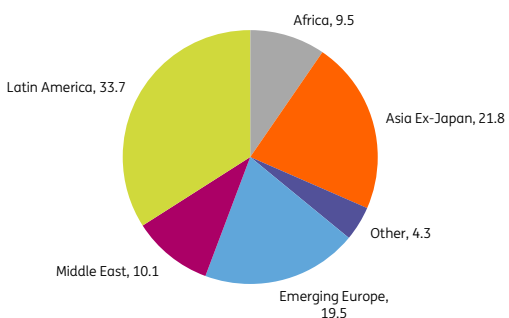
Source: EPFR Global, ING estimates

**Fig 21 GEM detailed allocations two months ago (%)**



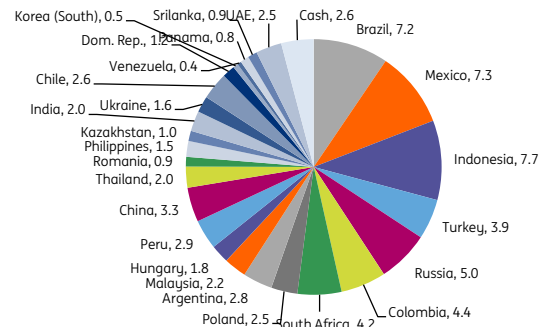
Source: EPFR Global, ING estimates

**Fig 22 GEM allocations one quarter ago (%)**



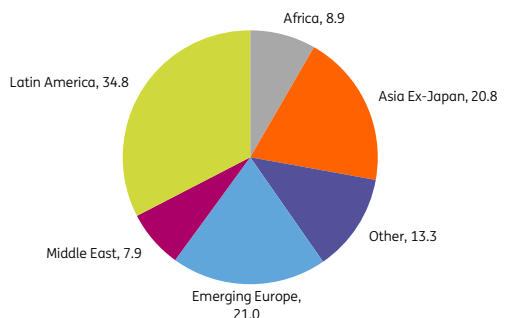
Source: EPFR Global, ING estimates

**Fig 23 GEM detailed allocations one quarter ago (%)**



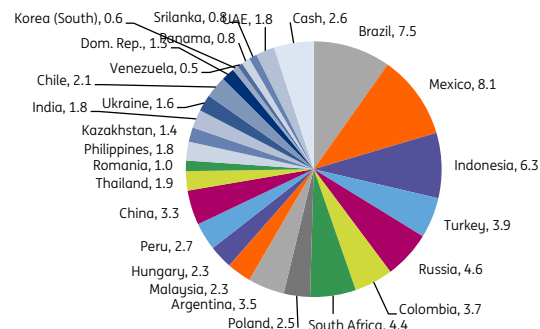
Source: EPFR Global, ING estimates

**Fig 24 GEM allocations one year ago (%)**



Source: EPFR Global, ING estimates

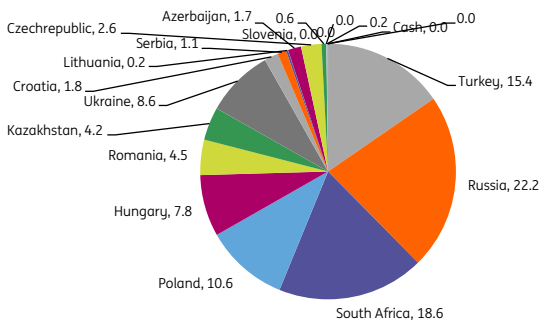
**Fig 25 GEM detailed allocations one year ago (%)**



Source: EPFR Global, ING estimates

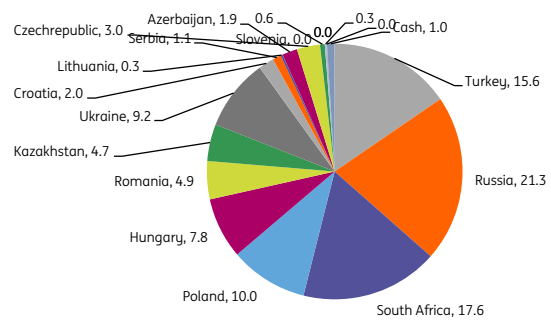
## Regional EM Manager Asset Allocation

**Fig 26 EMEA allocations one month ago (%)**



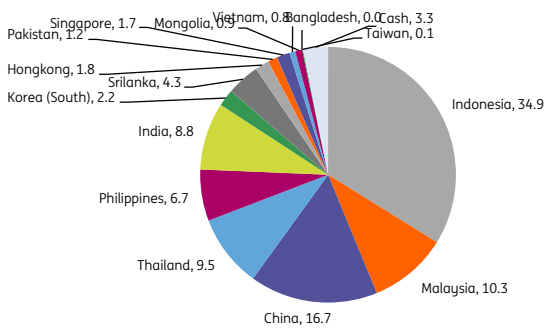
Source: EPFR Global, ING estimates

**Fig 27 EMEA allocations two months ago (%)**



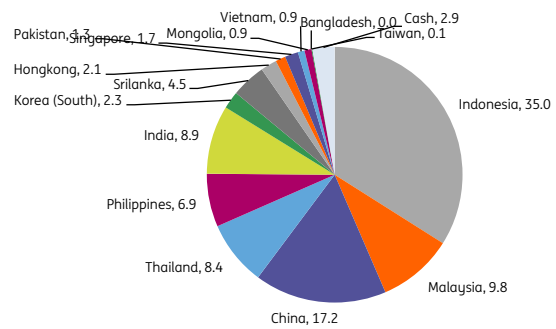
Source: EPFR Global, ING estimates

**Fig 28 Asia allocations one month ago (%)**



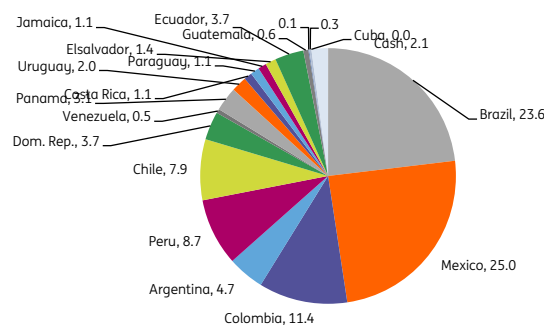
Source: EPFR Global, ING estimates

**Fig 29 Asia allocations two months ago (%)**



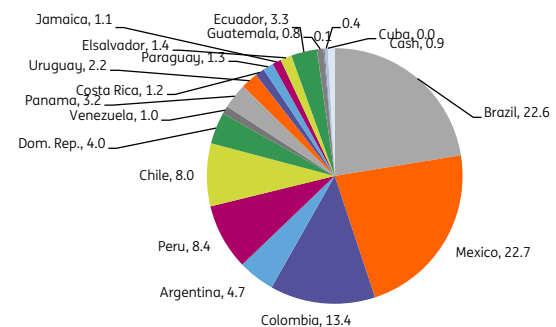
Source: EPFR Global, ING estimates

**Fig 30 Latam allocations one month ago (%)**



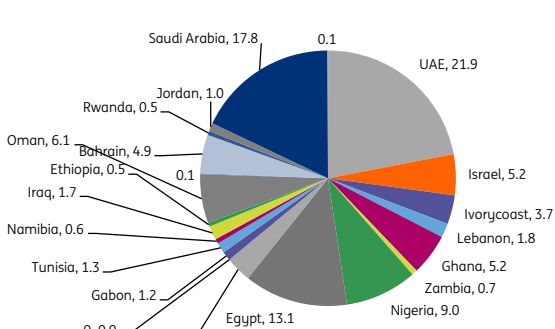
Source: EPFR Global, ING estimates

**Fig 31 Latam allocations two months ago (%)**



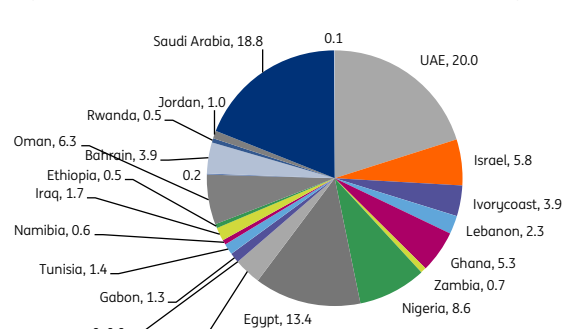
Source: EPFR Global, ING estimates

**Fig 32 Africa & ME allocations one month ago (%)**



Source: EPFR Global, ING estimates

**Fig 33 Africa & ME allocations two months ago (%)**

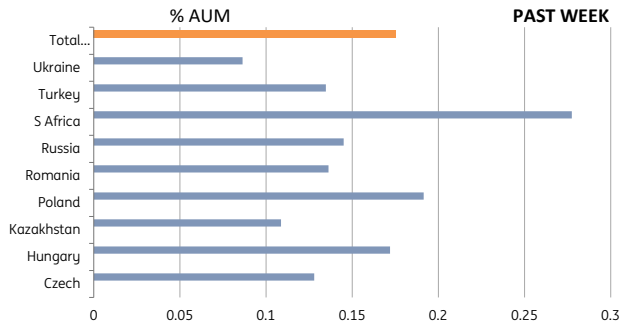


Source: EPFR Global, ING estimates



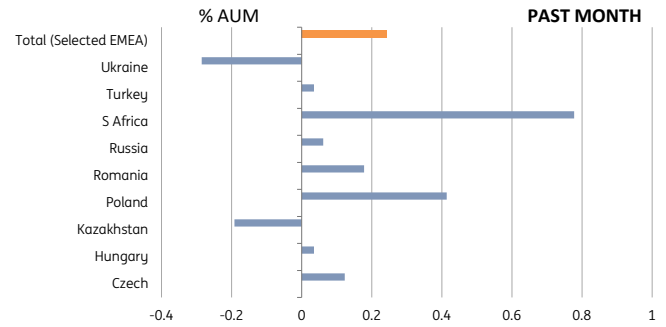
## Selected EMEA and Latam Country Flows

**Fig 34 EMEA – Change in the past week (%)**



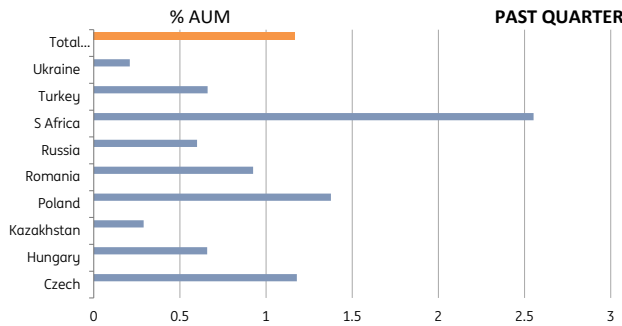
Source: EPFR Global, ING estimates

**Fig 35 EMEA – Change in the past month (%)**



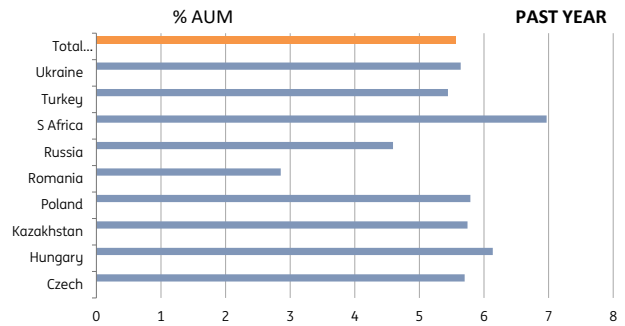
Source: EPFR Global, ING estimates

**Fig 36 EMEA – Change in the past quarter (%)**



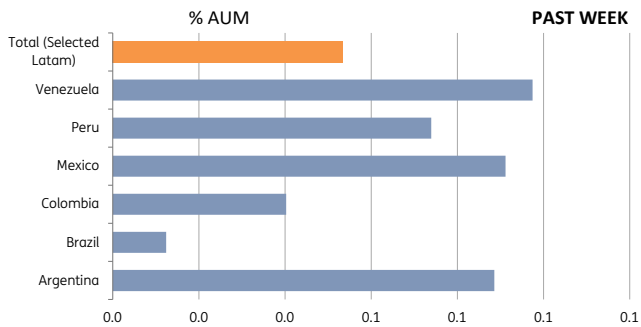
Source: EPFR Global, ING estimates

**Fig 37 EMEA – Change in the past year (%)**



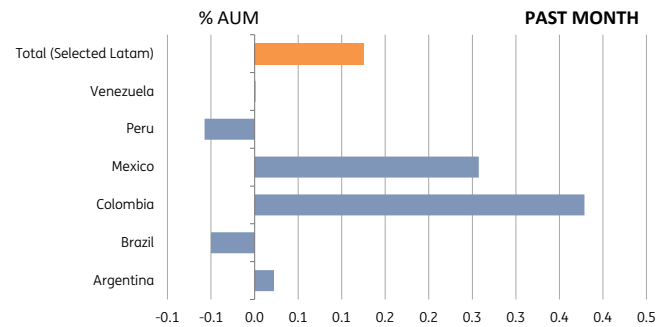
Source: EPFR Global, ING estimates

**Fig 38 Latam – Change in the past week (%)**



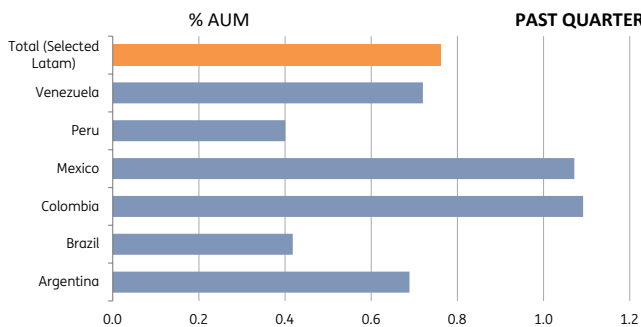
Source: EPFR Global, ING estimates

**Fig 39 Latam – Change in the past month (%)**



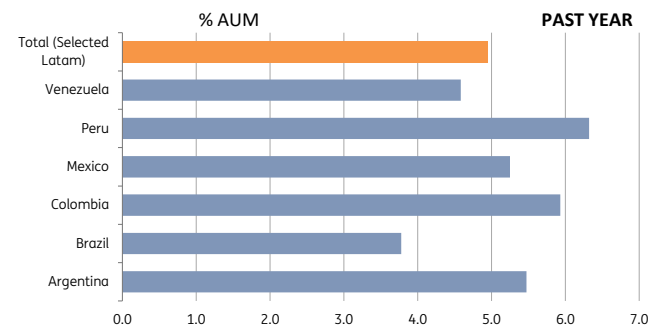
Source: EPFR Global, ING estimates

**Fig 40 Latam – Change in the past quarter (%)**



Source: EPFR Global, ING estimates

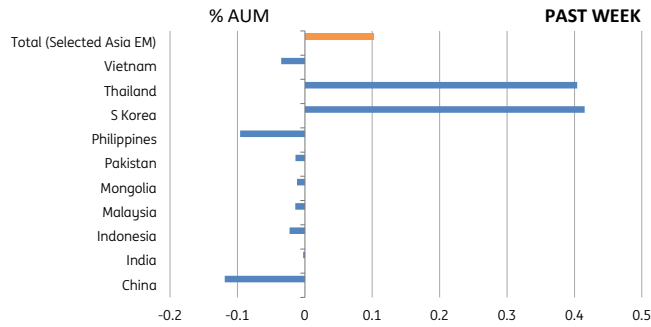
**Fig 41 Latam – Change in the past year (%)**



Source: EPFR Global, ING estimates

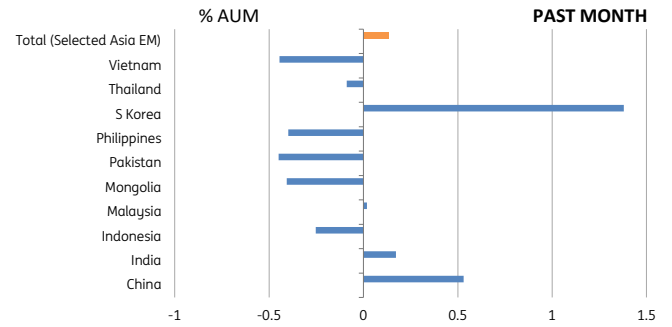
## Selected Asia and ME/Africa Country Flows

**Fig 42 Asia – Change in the past week (%)**



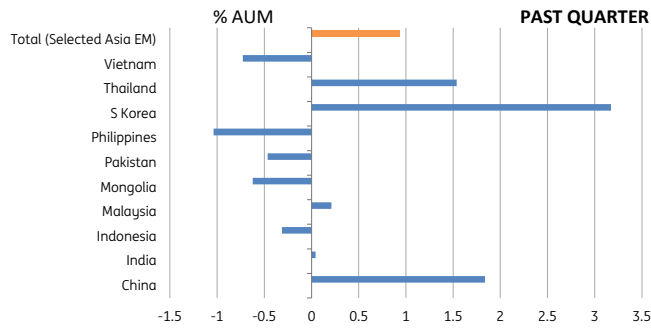
Source: EPFR Global, ING estimates

**Fig 43 Asia – Change in the past month (%)**



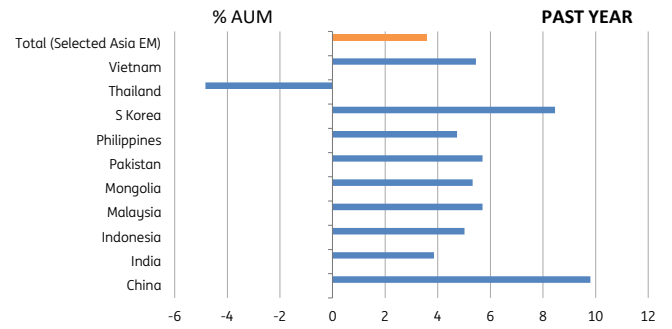
Source: EPFR Global, ING estimates

**Fig 44 Asia – Change in the past quarter (%)**



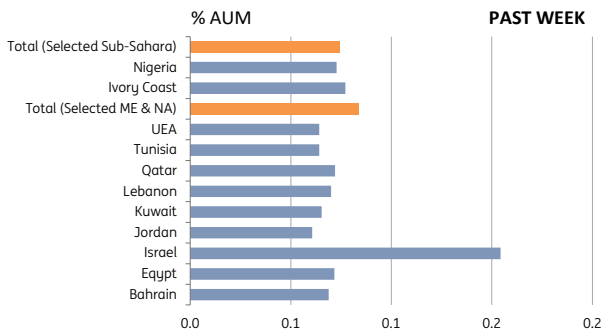
Source: EPFR Global, ING estimates

**Fig 45 Asia – Change in the past year (%)**



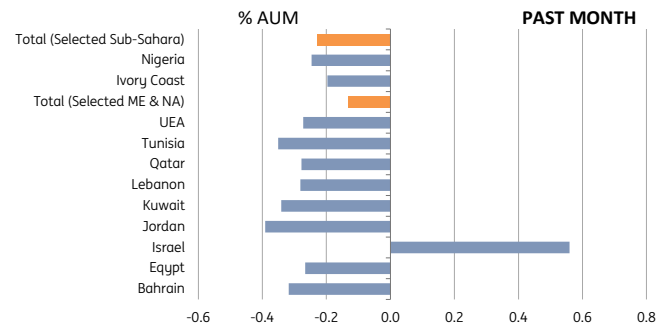
Source: EPFR Global, ING estimates

**Fig 46 Middle East & Africa – In the past week (%)**



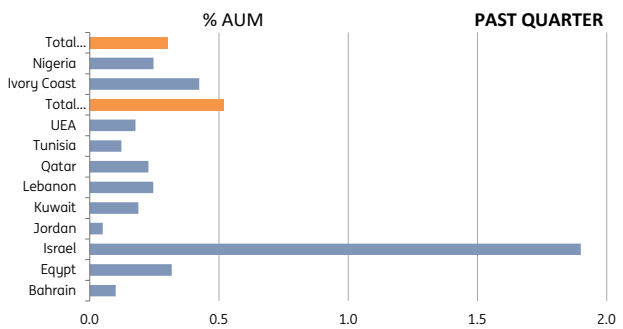
Source: EPFR Global, ING estimates

**Fig 47 Middle East & Africa – In the past month (%)**



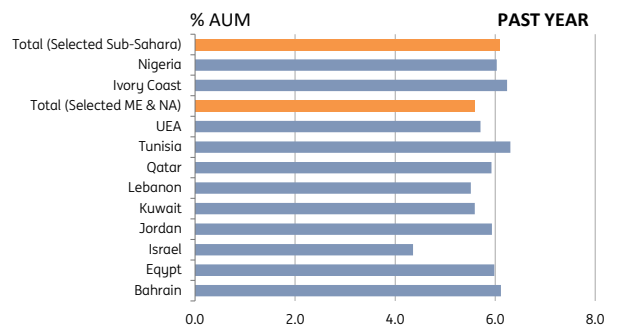
Source: EPFR Global, ING estimates

**Fig 48 Middle East & Africa – In the past quarter (%)**



Source: EPFR Global, ING estimates

**Fig 49 Middle East & Africa – In the past year (%)**



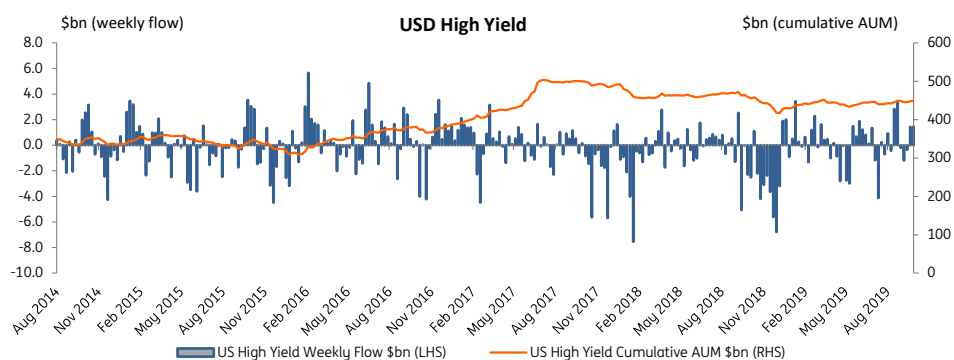
Source: EPFR Global, ING estimates

**High Yield**

## High Yield – Summary themes

- Corporate high yield lagged the inflow process seen by both emerging markets and investment grade corporates earlier in the year, but has managed to share in the general risk-asset-inflow-process in the past quarter.
- Compared with investment grade corporates, high yield corporates have maintained a similar but slightly slower pace of inflows in the past quarter. But high yield inflows have been in excess of EM inflows over the same period.
- Professional accounts have been bigger buyers of HY in the past quarter, adding some 1.9% to AUM. Retail have generated inflows to HY too, but at a slower pace with retail AUM up 1.1% over the same period.

**Fig 50 Feature Chart: The orange line shows the culmination of changes in AUM and performance; upward trajectory as a theme for 2019**

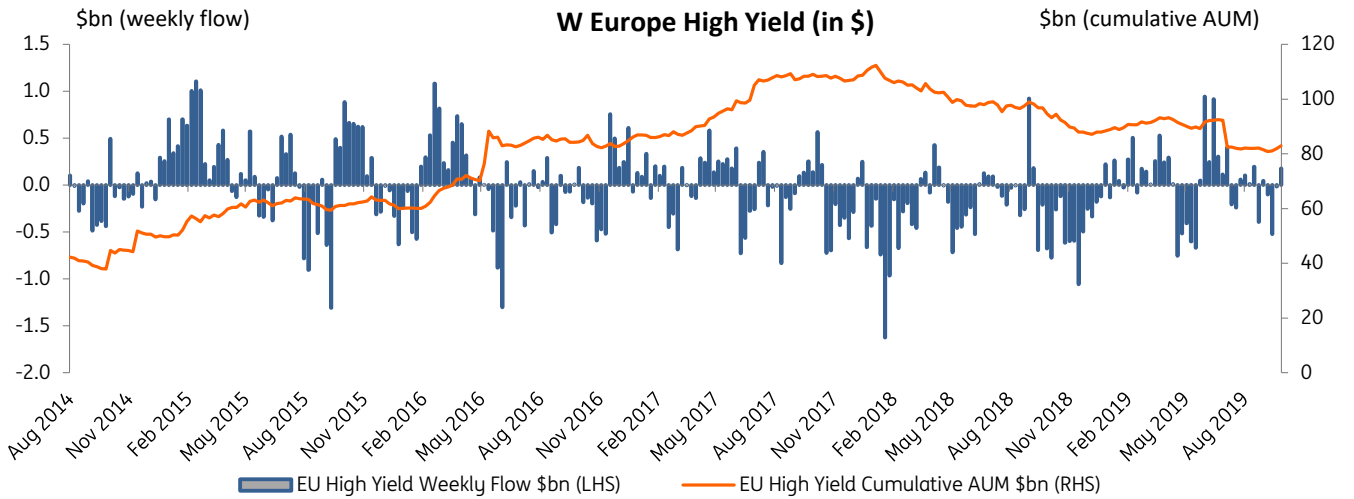


Source: EPFR Global, ING estimates

- A breakout between USD and EUR high yield shows that the bulk of the steady inflows have been into USD high yield. EUR high yield has seen net outflows in recent months. In the past week both EUR and USD HY has seen inflows.
- Performance statistics remain positively impressive, with USD high yield in solid double-digit territory YTD and outperforming EM. EUR high yield has lagged, but mostly on account of translation back into a stronger USD.

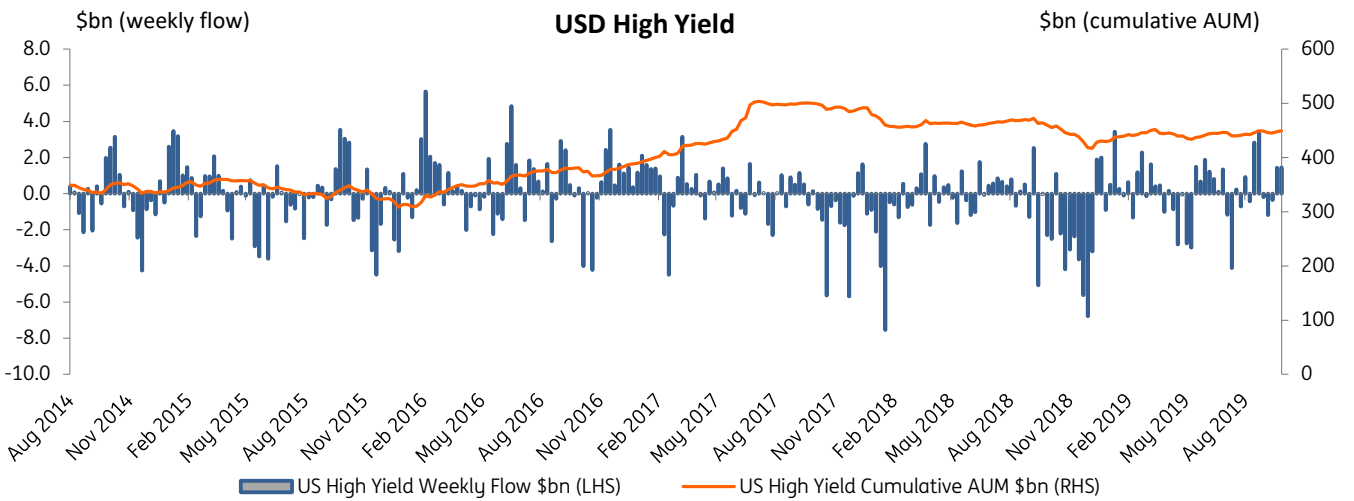
**BOTTOM LINE:** High yield has managed to sustain a decent inflow pace in more recent months, and indeed has seen greater inflows compared with aggregate emerging markets. That said, USD hard currency EM has managed a similar pace of inflows to high yield, and investment grade corporate inflows have been a tad faster. The inflow process in the past week suggests minimal evidence of angst as we enter a slowdown episode that typically would see some elevation in defaults, or at least the risk for them.

**Fig 51 Western Europe High Yield Weekly Flows**



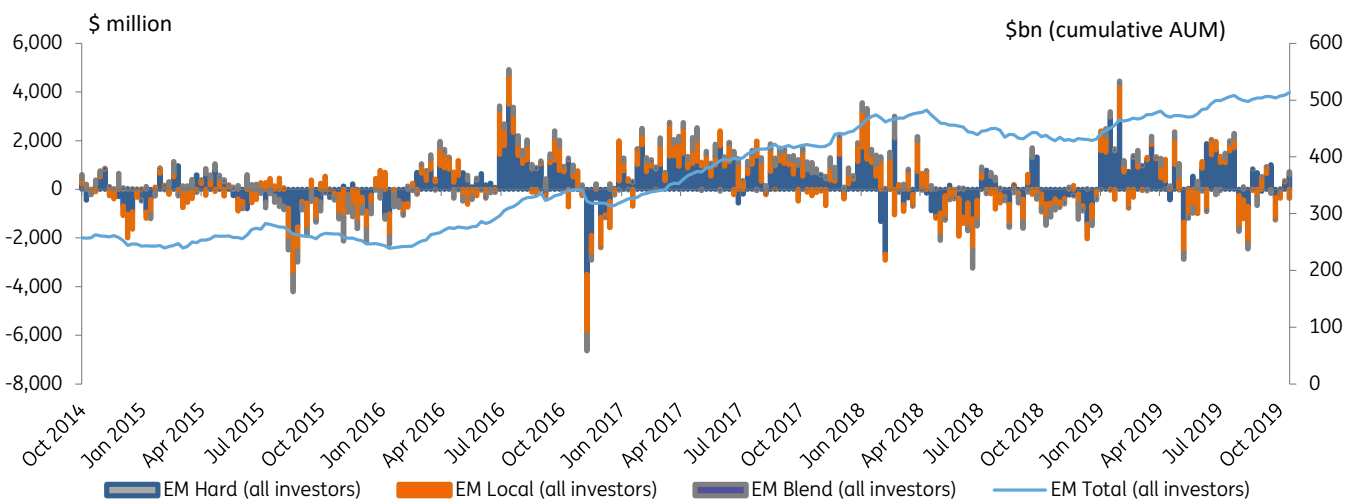
Source: EPFR Global, ING estimates

**Fig 52 US High Yield Weekly Flows**



Source: EPFR Global, ING estimates

**Fig 53 Emerging Markets Weekly Flows – all currencies**



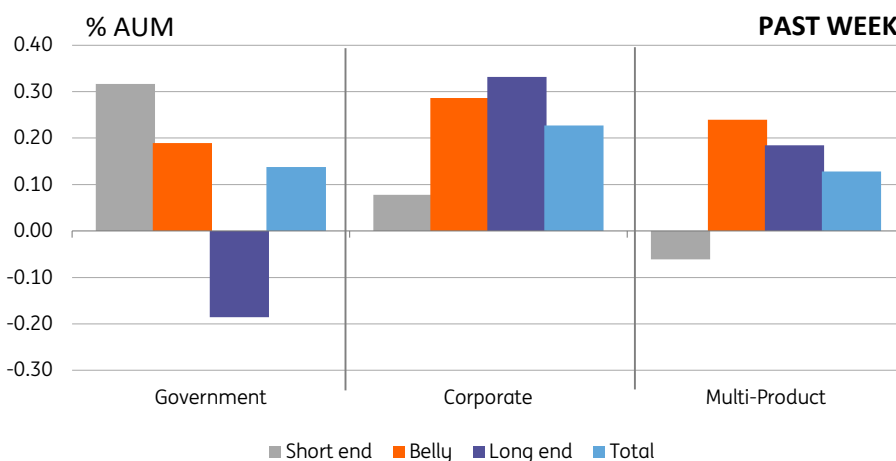
Source: EPFR Global, ING estimates

**Developed  
Markets**

## Developed Markets – Summary themes

- The dominant theme in the past quarter has been inflows to government funds, and especially into long end funds. That morphed to dominant belly fund inflows in the past month, while in the past week there were outflows from long end funds. Bottom line, the duration increment policy is on pause, and in fact at the margin we are now seeing some shedding of duration (long end outflows).
- Inflows to corporate funds have slowed, but remain intact. The bulk of the inflows in the past week have been into belly and long end funds. The most striking theme in the past month has been inflows into corporate long end funds, marking investors not just going out the credit curve, but adding some duration too.

**Fig 54 Feature Chart: Government funds have seen long end outflows in the past week, while long end corporate funds have seen inflows**

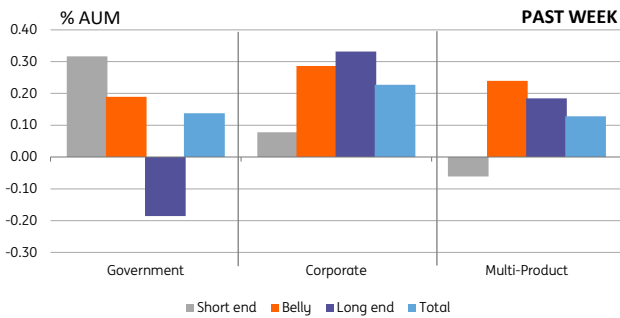


Source: EPFR Global, ING estimates

- Inflows to inflation linked funds perked up for a bit a couple of months back, but have reverted to type since. Outflows from European inflation linked funds in particular have pulled overall (in)flows lower. But even outside of Europe, inflows have been muted-to-negative in the past month or so.
- Allocation to the US, within a global developed markets context, remains very elevated. The latest data shows a near 53% allocation, which is up from 45% a little over a year ago. The Euro allocation has not changed much in the past month or so, but is well down in the past year, from 23.4% to 21.0% (Figs 64 & 66).
- In the past year, the biggest of the inflows have been into the US, Singapore, Switzerland and Denmark. At the other end of the spectrum, the weakest of inflows have been into the UK, Norway, Japan, Sweden and Spain (Fig 77 & Fig 78).

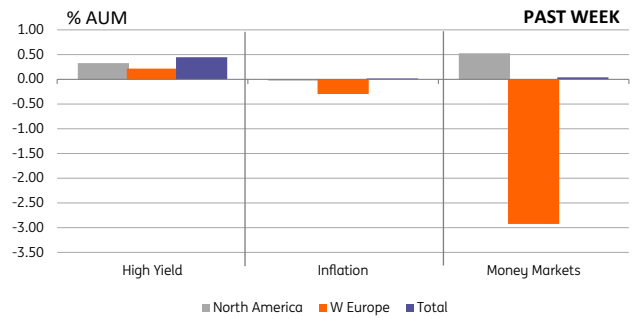
**BOTTOM LINE:** Latest flows evidence points to a duration reduction process in government space. It's early days though, and it comes on the back of a large duration extension process seen in the past few months. Flows into front end governments and belly and long end corporates have been thematic in the past fortnight. The geographic focus is on increased allocation to the US and reduced allocation to the Eurozone. Beyond that we also note outsized inflows to the likes of Singapore and Switzerland versus outflows from the UK and Japan. Global inflation linked funds continue to struggle for inflows, and indeed European inflation funds have seen more outflows. This is reflected in a very benign market discount for inflation.

**Fig 55 Change in the past week (%)**



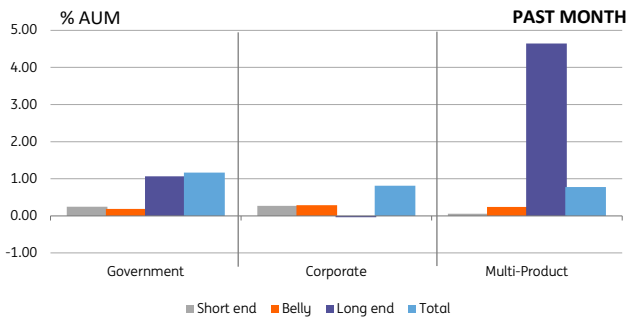
Source: EPFR Global, ING estimates

**Fig 56 Change in the past week (%)**



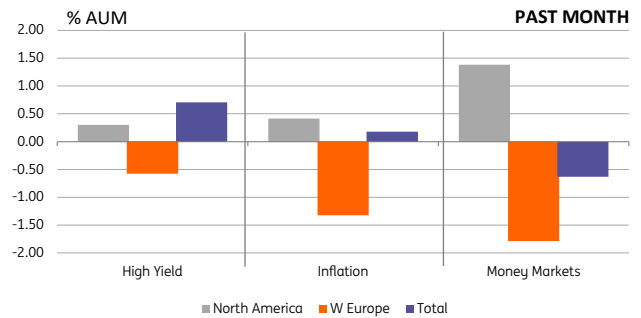
Source: EPFR Global, ING estimates

**Fig 57 Change in the past month (%)**



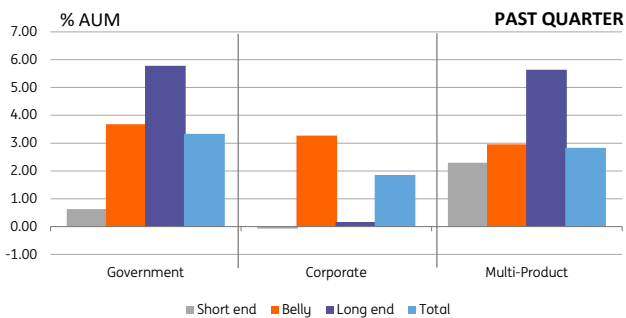
Source: EPFR Global, ING estimates

**Fig 58 Change in the past month (%)**



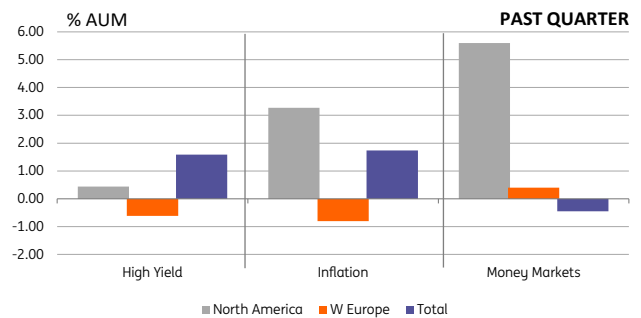
Source: EPFR Global, ING estimates

**Fig 59 Change in the past quarter (%)**



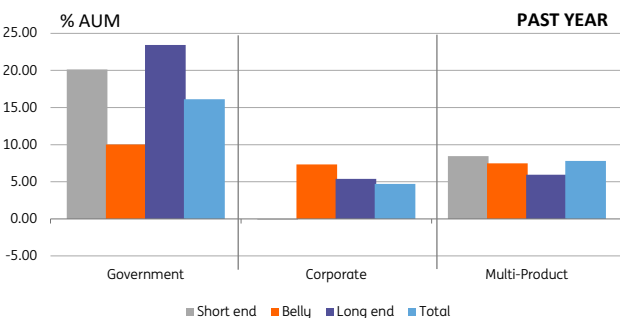
Source: EPFR Global, ING estimates

**Fig 60 Change in the past quarter (%)**



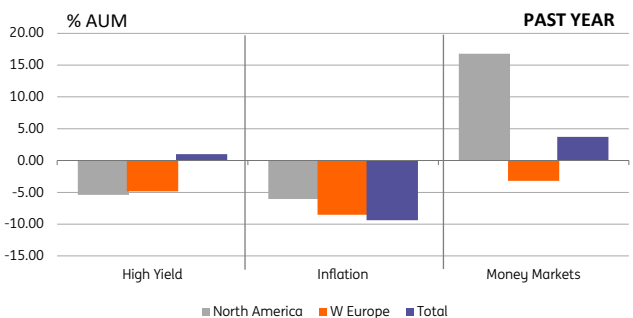
Source: EPFR Global, ING estimates

**Fig 61 Change in the past year (%)**



Source: EPFR Global, ING estimates

**Fig 62 Change in the past year (%)**

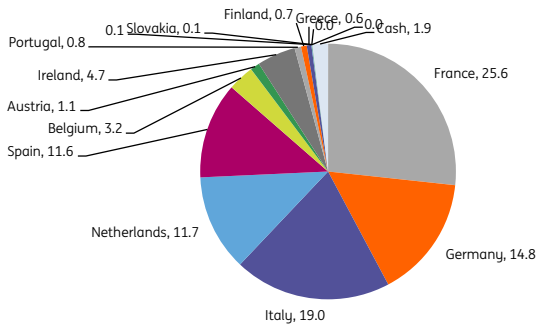


Source: EPFR Global, ING estimates



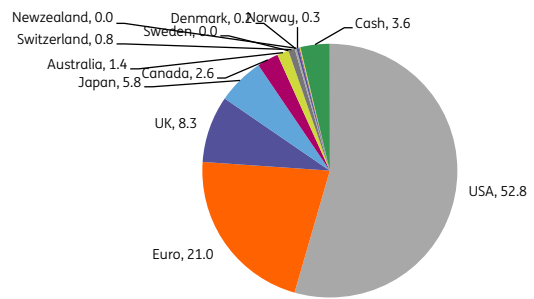
## Global DM Manager Asset Allocations

**Fig 63 Eurozone allocations one month ago (%)**



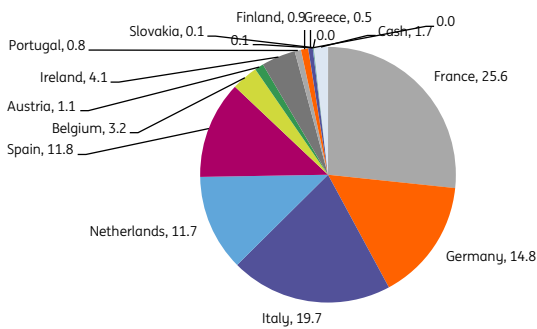
Source: EPFR Global, ING estimates

**Fig 64 Global DM allocations one month ago (%)**



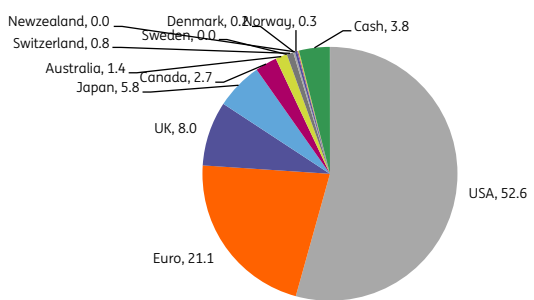
Source: EPFR Global, ING estimates

**Fig 65 Eurozone allocations two months ago (%)**



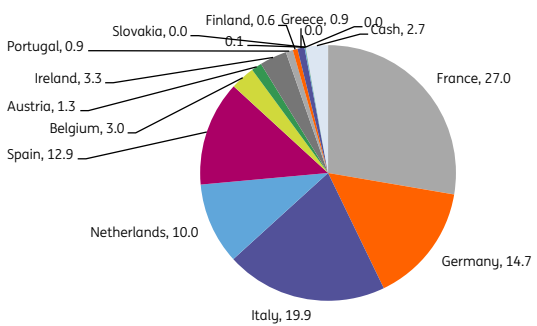
Source: EPFR Global, ING estimates

**Fig 66 Global DM allocations two months ago (%)**



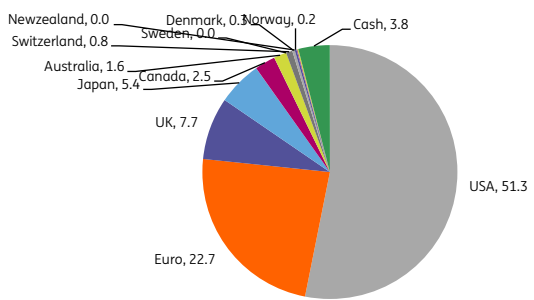
Source: EPFR Global, ING estimates

**Fig 67 Eurozone allocations one quarter ago (%)**



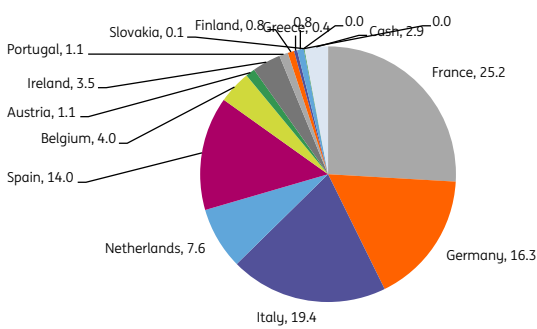
Source: EPFR Global, ING estimates

**Fig 68 Global DM allocations one quarter ago (%)**



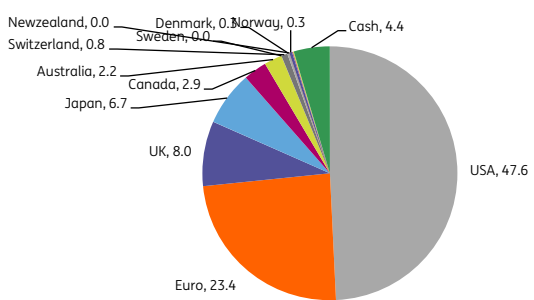
Source: EPFR Global, ING estimates

**Fig 69 Eurozone allocations one year ago (%)**



Source: EPFR Global, ING estimates

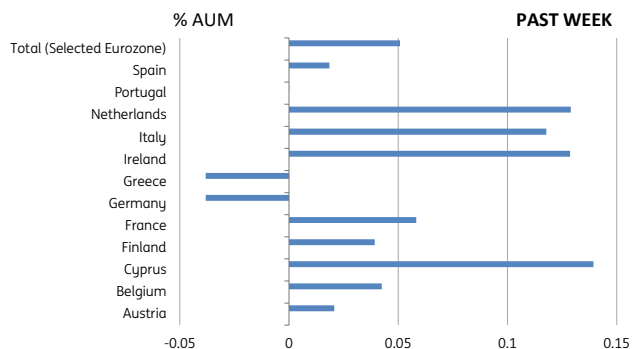
**Fig 70 Global DM allocations one year ago (%)**



Source: EPFR Global, ING estimates

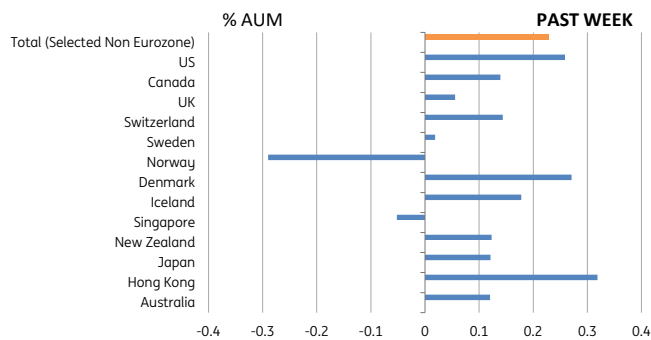
## Developed Markets Country Flows

**Fig 71 Eurozone – Change in the past week (%)**



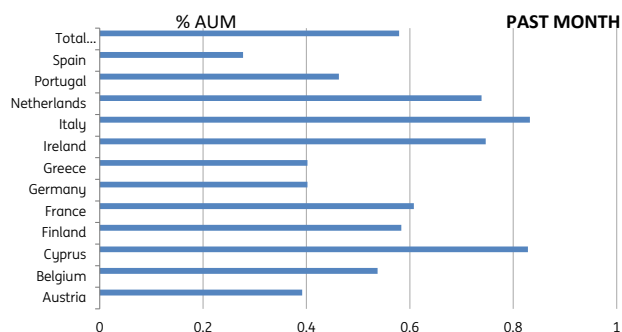
Source: EPFR Global, ING estimates

**Fig 72 Non Eurozone – Change in the past week (%)**



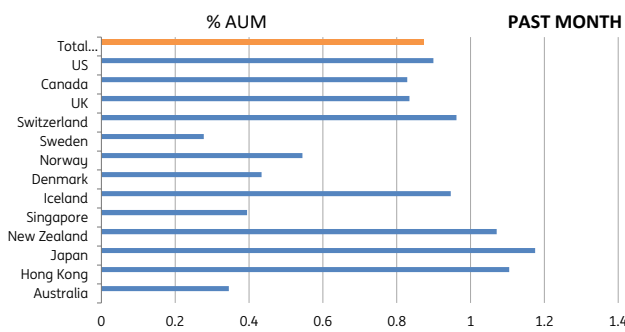
Source: EPFR Global, ING estimates

**Fig 73 Eurozone – Change in the past month (%)**



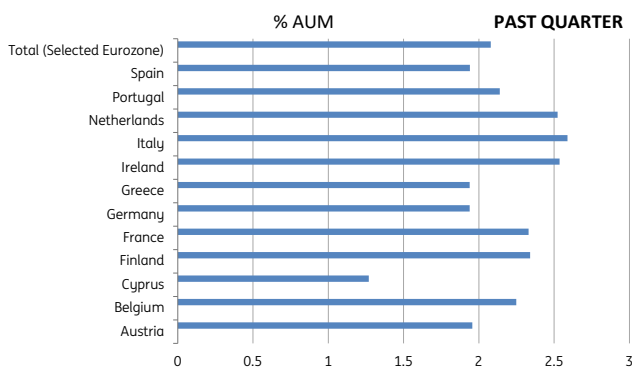
Source: EPFR Global, ING estimates

**Fig 74 Non Eurozone – Change in the past month (%)**



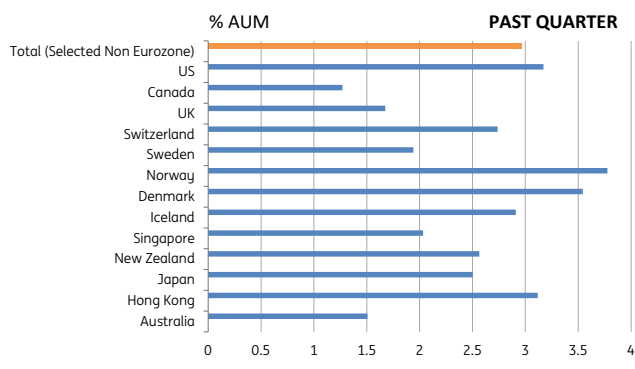
Source: EPFR Global, ING estimates

**Fig 75 Eurozone – Change in the past quarter (%)**



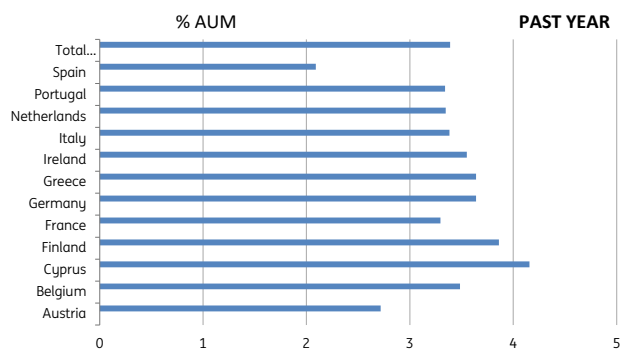
Source: EPFR Global, ING estimates

**Fig 76 Non Eurozone – Change in the past quarter (%)**



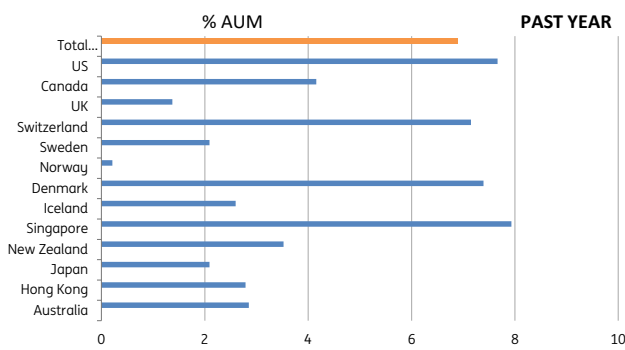
Source: EPFR Global, ING estimates

**Fig 77 Eurozone – Change in the past year (%)**



Source: EPFR Global, ING estimates

**Fig 78 Non Eurozone – Change in the past year (%)**



Source: EPFR Global, ING estimates

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