24 July 2020
Rates and Credit

Note: The data in this report relies heavily on EPFR Global data and references the week ended July 22nd 2020

Global debt flows

Weaker dollar not yet impacting core inflows

Core government bond yields are being held down by a benign market discount, but also on evidence of receptive end investor inflows. The inflow process to investment grade corporate duration continues uninterrupted, and high yield has seen resumed inflows following a breather in the previous week. Flows into USD dominates here. There is a similar theme in emerging market where inflows to hard currency continue to drive overall flows, albeit running slower than has been seen into corporate high yield. Cash is also flowing back into money funds.

Graph of the week: Inflows to long end governments and corporates in past month

Source: EPGR Global, ING estimates

Six things learnt from latest flows data

1) Emerging markets are in a better shape than they were a couple of months back, but even given return inflows, it has not quite made a convincing escape velocity from the Covid-19 driven crisis. That said, inflows to hard currency remain a positive.

2) Local currency funds continue to struggle to attract material inflows. The bulk of the performance and inflows have been in hard currency emerging markets. Ahead, we high beta local currency FX as routes to outperformance as the dollar slips.

3) There has been some re-rating of prospects in high yield. Total returns are still running in the red year-to-date though, especially for EUR high yield. But, inflows have more than matched prior Covid-driven outflows.

4) Core yields remain beaten down. The bulk of this reflects a combination of expectations and central bank buying, but also investor inflows. The dominant flow in the past month has been long end inflows.

5) The dominant theme in corporates has been ongoing inflows. Elevated primary issuance in recent months remains a factor here, as inflows are registered when issuance exceeds redemptions - which it currently does; comfortably.

6) We also note return inflows to money market funds, following outflows in previous weeks – mostly centred on pre and post the US 15 July tax deadline.

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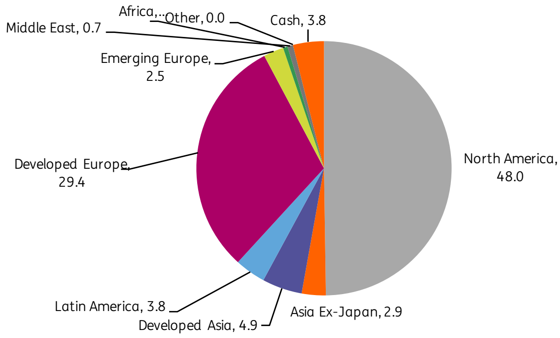
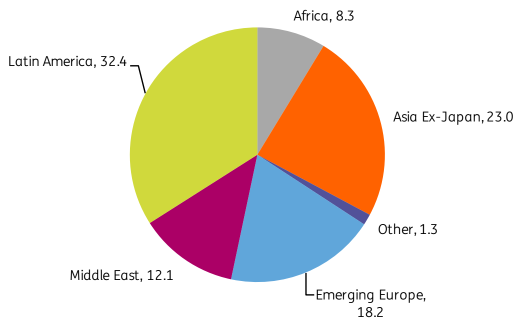
Global Manager (average) Allocations by Region

Fig 1 Global allocations for latest month (%)



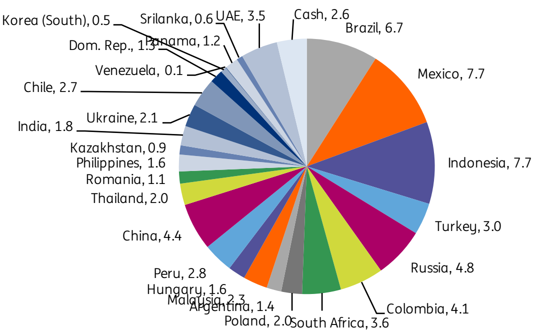
Source: EPFR Global, ING estimates

Fig 2 EM allocations for latest month (%)



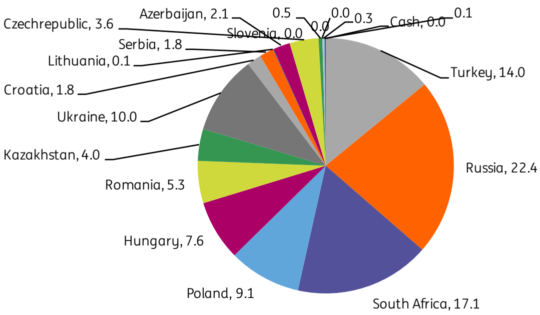
Source: EPFR Global, ING estimates

Fig 3 EM detailed allocations for latest month (%)



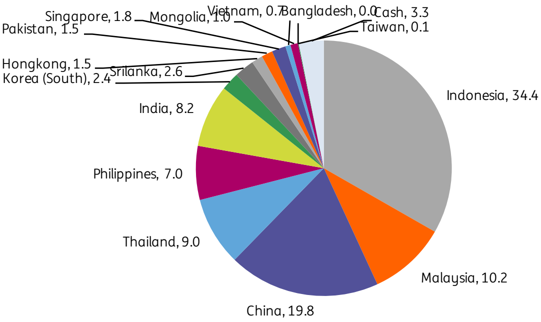
Source: EPFR Global, ING estimates

Fig 4 EMEA allocations for latest month (%)



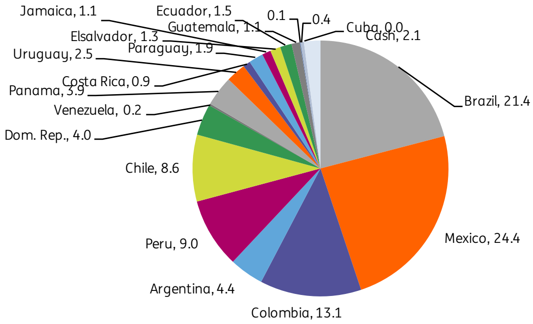
Source: EPFR Global, ING estimates

Fig 5 Asia EM allocations for latest month (%)



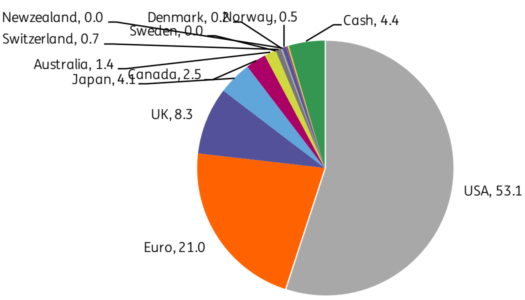
Source: EPFR Global, ING estimates

Fig 6 Latam allocations for latest month (%)



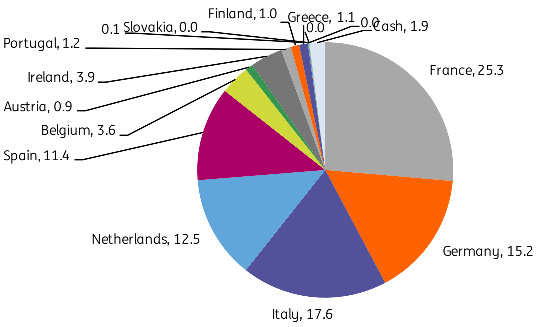
Source: EPFR Global, ING estimates

Fig 7 Developed allocations for latest month (%)



Source: EPFR Global, ING estimates

Fig 8 Eurozone allocations for latest month (%)



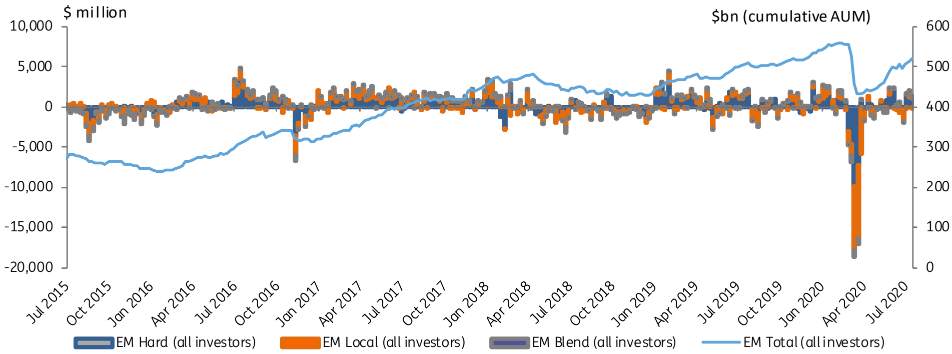
Source: EPFR Global, ING estimates

Emerging markets

Emerging Markets – Summary themes

- Inflows to emerging markets continue to be dominated by hard currency buying, although there has also been a pickup in buying of blend funds in the past week (Figure 10).
- Outflows from local currency funds continues (Figure 12), but at a slower pace in the past week (Figure 10). The weaker dollar, should it continue, is a factor that could change this dynamic in the weeks ahead.
- Overall, emerging markets are seeing inflows, but not especially significant. Still it has been a steady trickle in the past number of months, led by hard currency inflows (Figure 14).

Fig 9 Feature Chart: Mixed flows in recent weeks, but performance has perked up



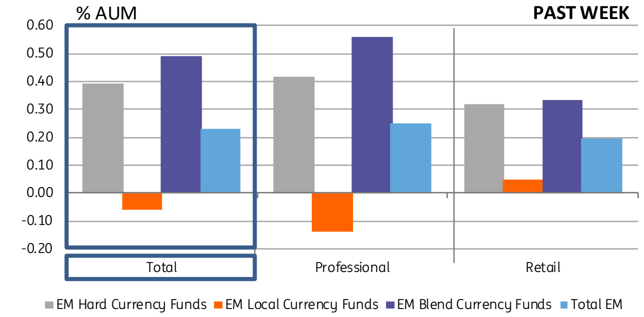
Source: EPFR Global, ING estimates

- The blue line in the graph above (Figure 9) is a catch-all for cumulative assets under management, in the sense that it captures not just the flows but also the change in valuations, including FX effects (all translated back to USD). The precipitous fall in March captures outflows and falls in price. The subsequent rise was initially more about price than inflows, but hard currency inflows have been a driver of late.
- In terms of allocation, we note a reduced allocation to Romania and S Africa versus an increase in Turkey. Allocation to Kazakhstan is also higher while allocation to Ukraine is up too (Figure 26 vs Figure 27).
- In Asia, allocation to Philippines and China is up while allocation to Indonesia and India is down (Figure 28 vs Figure 29).
- In Latam, allocation to Mexico, Peru, Colombia and Chile is down, while allocation to Brazil and Argentina is up (Figure 30 vs Figure 31).
- In Africa and Middle East allocations to Egypt is down, while allocation to UAE is up (Figure 32 vs Figure 33).

BOTTOM LINE: Emerging markets are in a better shape than they were a couple of months back, but even given return inflows, it has not quite made a convincing escape velocity from the Covid-19 driven crisis. That said, inflows to hard currency remain a positive development, as has been the improved performance in high yield FX. Still local currency funds continue to struggle to attract material inflows. But watch the dollar here, as a persistent weakness should see local currency FX outperform for a change. The bulk of the performance and inflows have been in hard currency emerging markets. Ahead, we see high beta local currency FX as routes to outperformance.

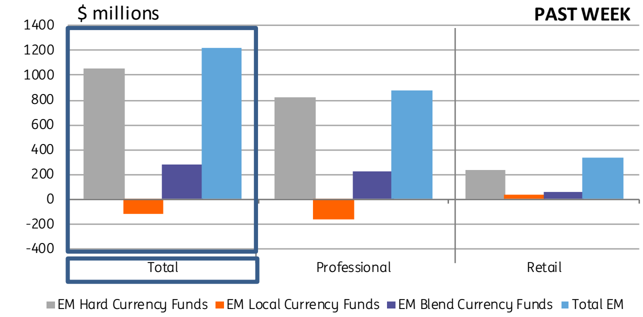
Emerging market Fund Flows

Fig 10 Change in the past week (%)



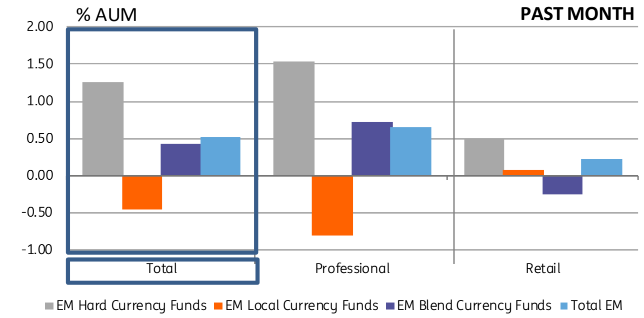
Source: EPFR Global, ING estimates

Fig 11 Change in the past week (US$m)



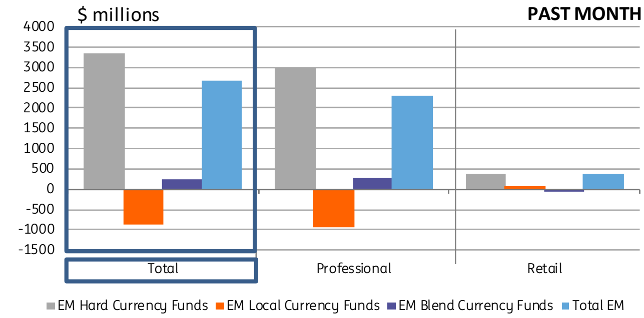
Source: EPFR Global, ING estimates

Fig 12 Change in the past month (%)



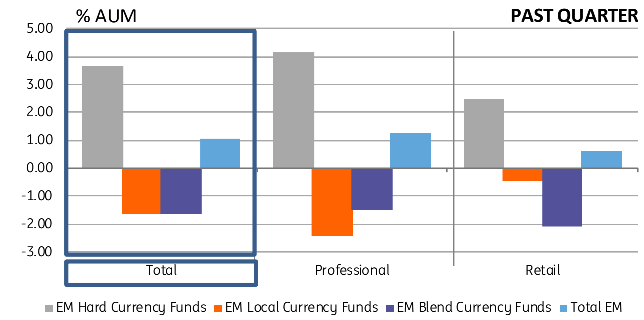
Source: EPFR Global, ING estimates

Fig 13 Change in the past month (US$m)



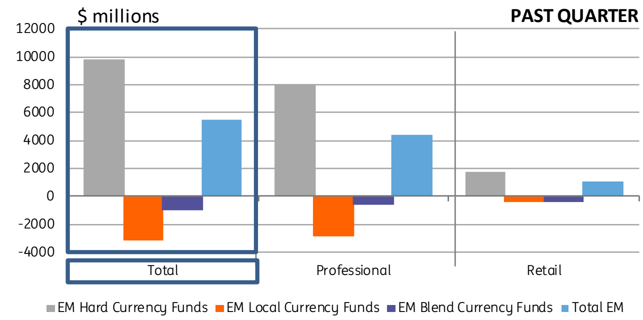
Source: EPFR Global, ING estimates

Fig 14 Change in the past quarter (%)



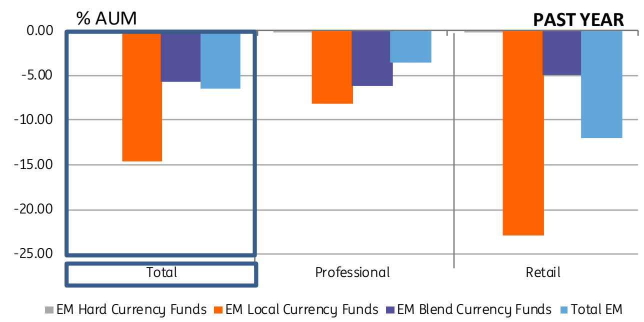
Source: EPFR Global, ING estimates

Fig 15 Change in the past quarter (US$m)



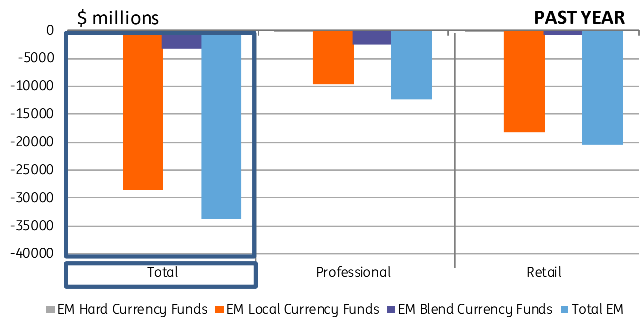
Source: EPFR Global, ING estimates

Fig 16 Change in the past year (%)



Source: EPFR Global, ING estimates

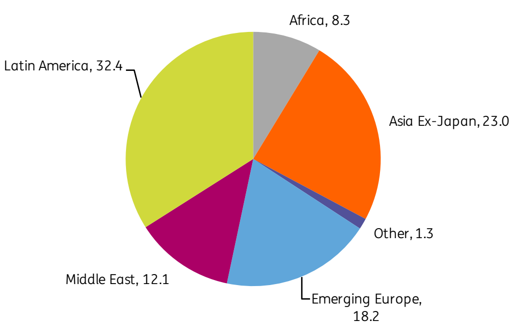
Fig 17 Change in the past year (US$m)



Source: EPFR Global, ING estimates

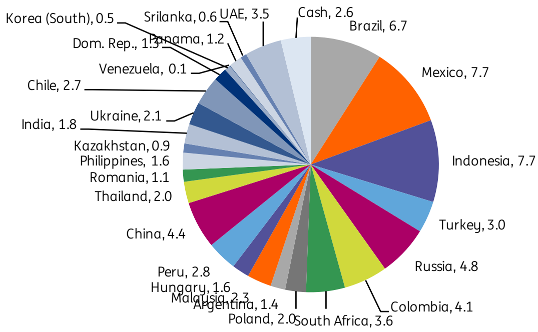
Global EM Manager Asset Allocations

Fig 18 GEM allocations for latest month (%)



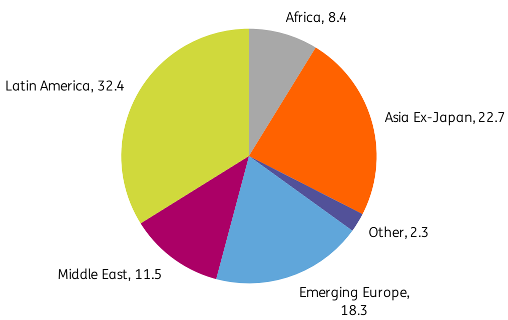
Source: EPFR Global, ING estimates

Fig 19 GEM detailed allocations for latest month (%)



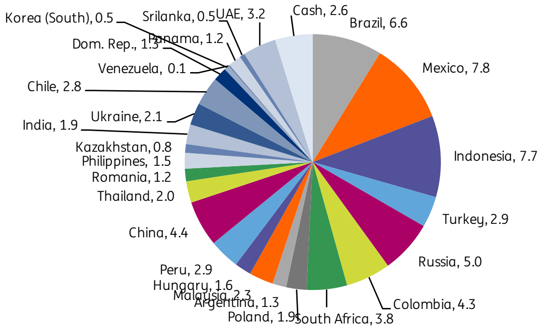
Source: EPFR Global, ING estimates

Fig 20 GEM allocations one month ago (%)



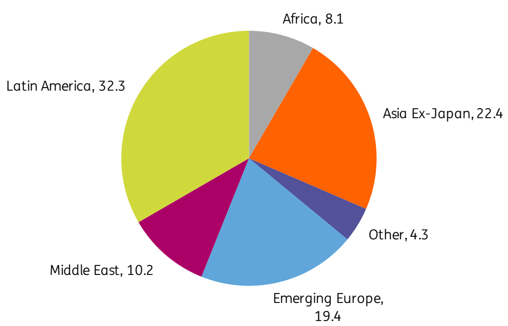
Source: EPFR Global, ING estimates

Fig 21 GEM detailed allocations one month ago (%)



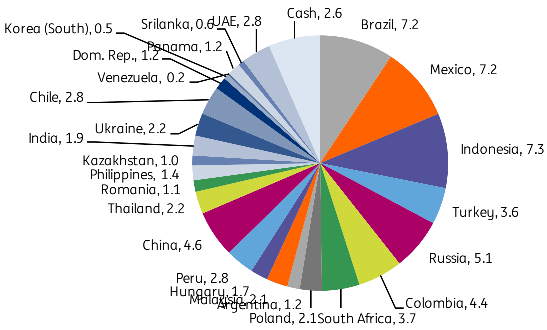
Source: EPFR Global, ING estimates

Fig 22 GEM allocations one quarter ago (%)



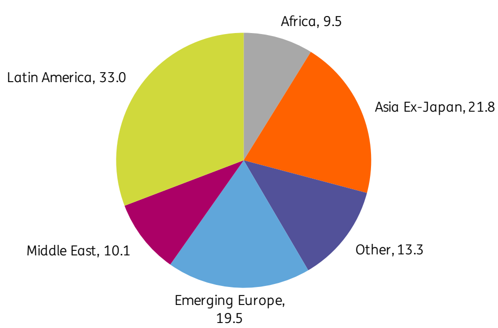
Source: EPFR Global, ING estimates

Fig 23 GEM detailed allocations one quarter ago (%)



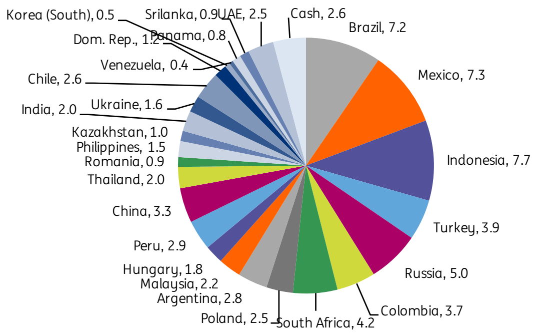
Source: EPFR Global, ING estimates

Fig 24 GEM allocations one year ago (%)



Source: EPFR Global, ING estimates

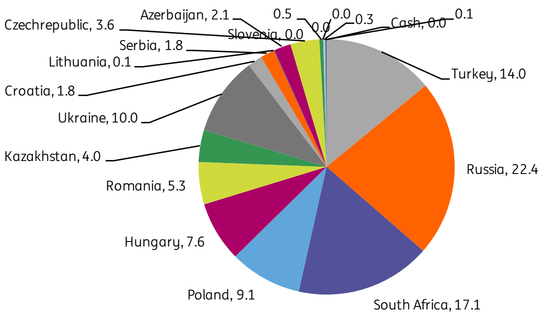
Fig 25 GEM detailed allocations one year ago (%)



Source: EPFR Global, ING estimates

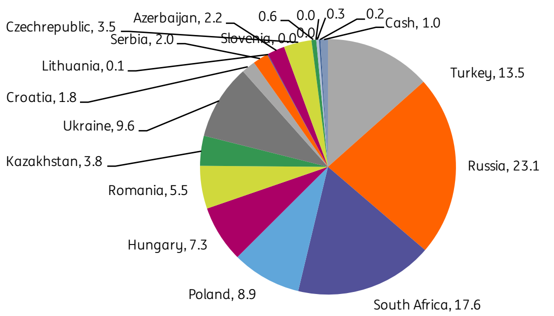
Regional EM Manager Asset Allocation

Fig 26 EMEA allocations for latest month (%)



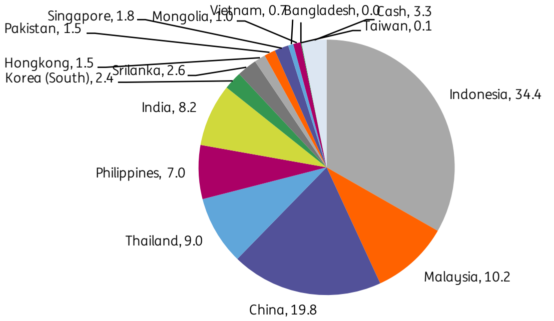
Source: EPFR Global, ING estimates

Fig 27 EMEA allocations for previous month (%)



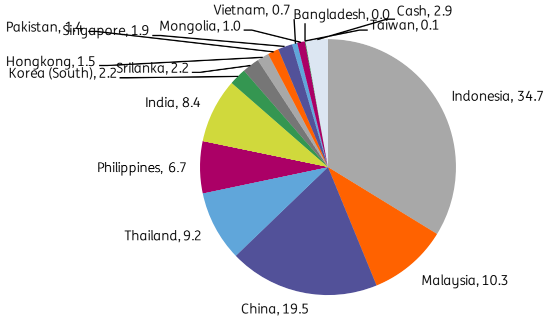
Source: EPFR Global, ING estimates

Fig 28 Asia allocations for latest month (%)



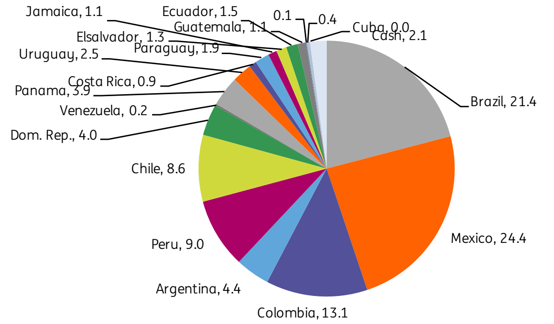
Source: EPFR Global, ING estimates

Fig 29 Asia allocations for previous month (%)



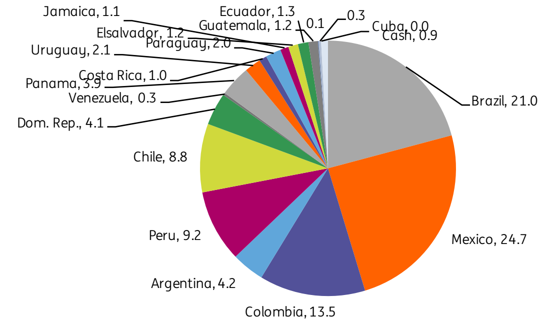
Source: EPFR Global, ING estimates

Fig 30 Latam allocations for latest month (%)



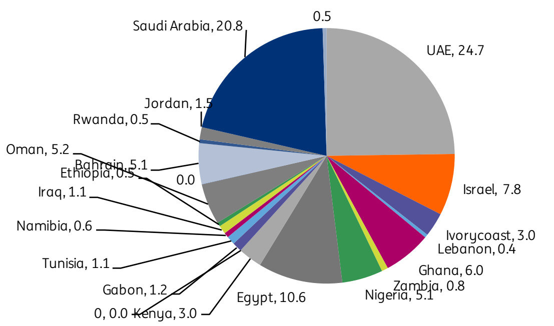
Source: EPFR Global, ING estimates

Fig 31 Latam allocations for previous month (%)



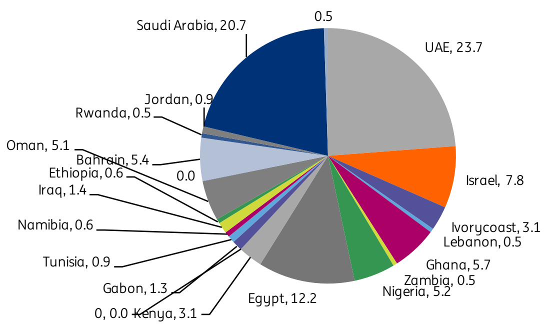
Source: EPFR Global, ING estimates

Fig 32 Africa & ME allocations for latest month (%)



Source: EPFR Global, ING estimates

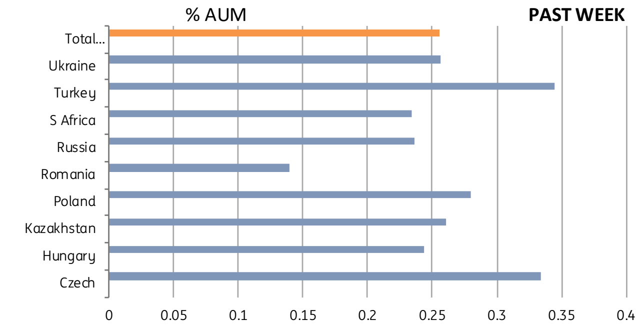
Fig 33 Africa & ME allocations for previous month (%)



Source: EPFR Global, ING estimates

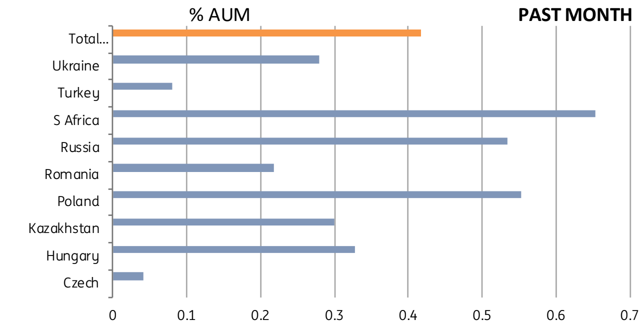
Selected EMEA and Latam Country Flows

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



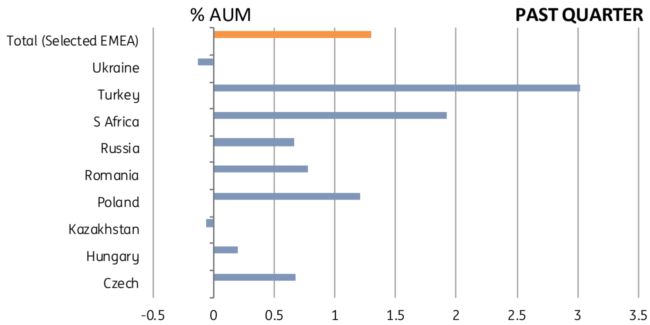
Source: EPFR Global, ING estimates

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



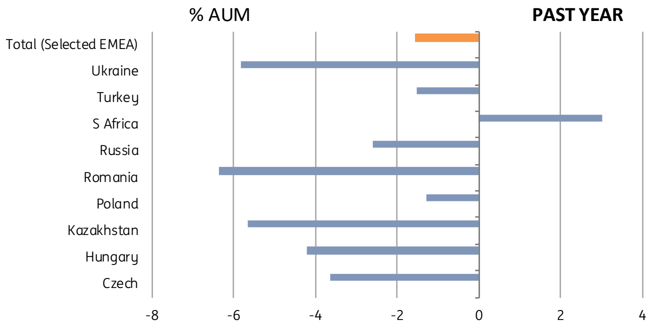
Source: EPFR Global, ING estimates

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



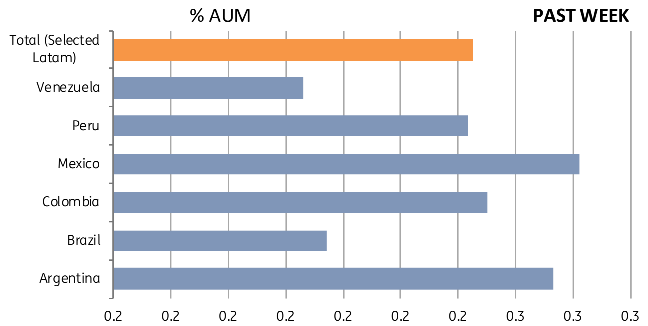
Source: EPFR Global, ING estimates

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



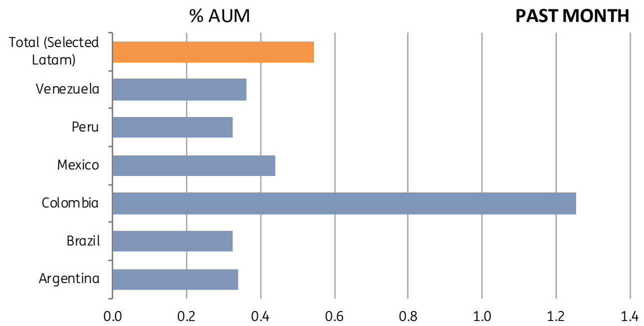
Source: EPFR Global, ING estimates

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



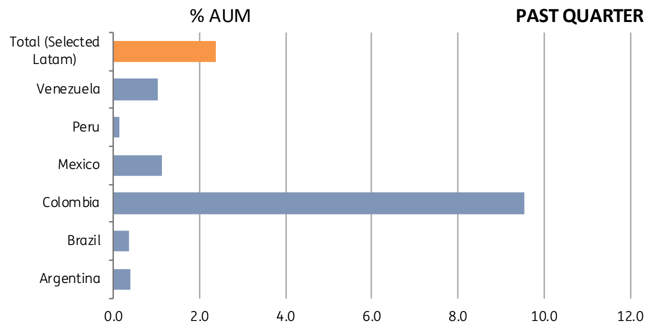
Source: EPFR Global, ING estimates

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



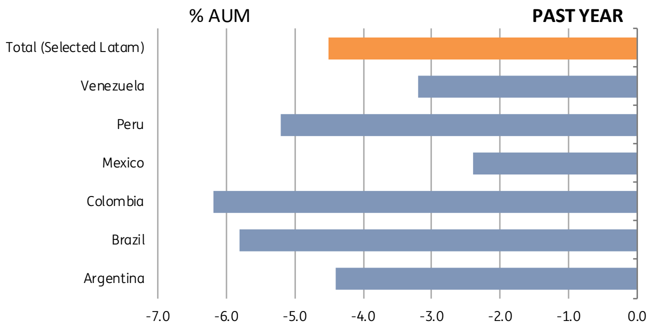
Source: EPFR Global, ING estimates

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



Source: EPFR Global, ING estimates

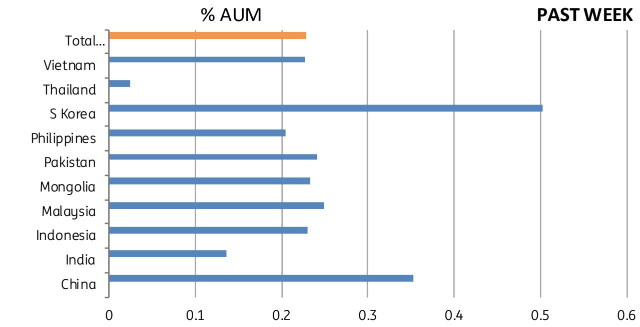
Fig 41 Latam – Change in the past year (%)



Source: EPFR Global, ING estimates

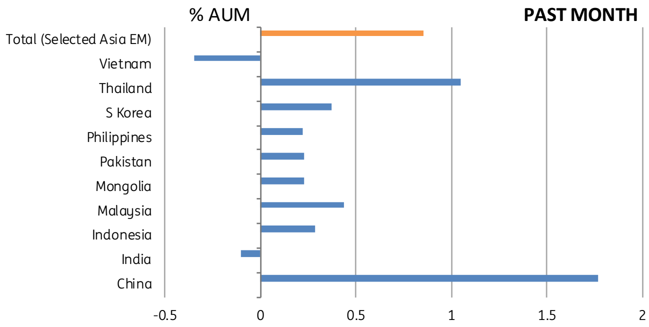
Selected Asia and ME/Africa Country Flows

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



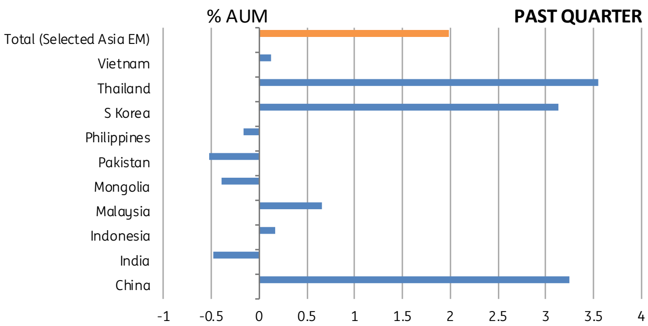
Source: EPFR Global, ING estimates

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



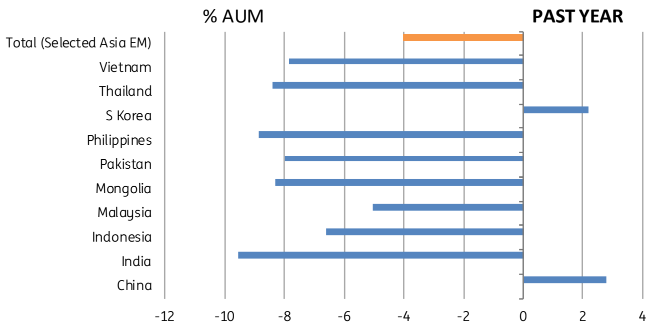
Source: EPFR Global, ING estimates

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



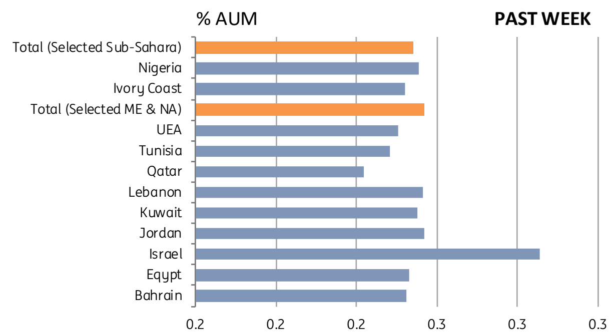
Source: EPFR Global, ING estimates

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



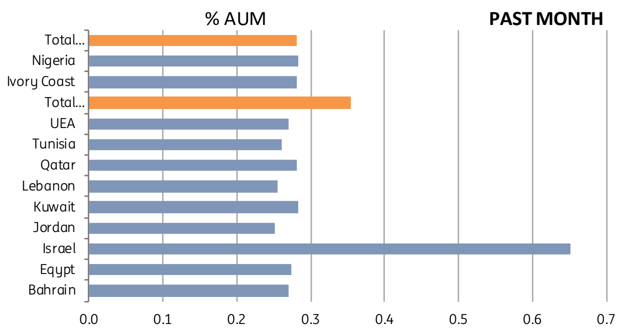
Source: EPFR Global, ING estimates

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



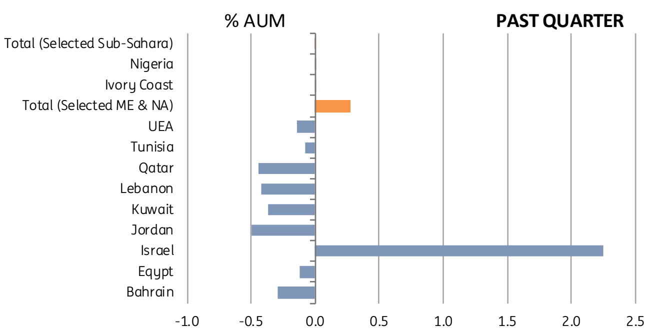
Source: EPFR Global, ING estimates

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



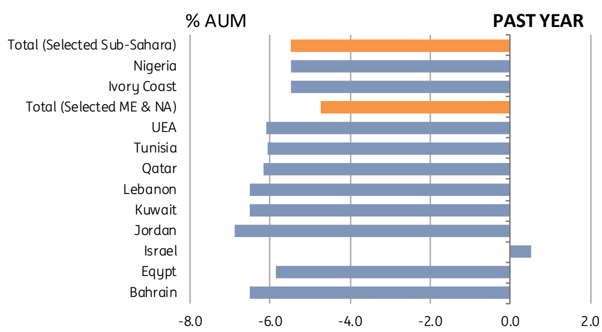
Source: EPFR Global, ING estimates

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



Source: EPFR Global, ING estimates

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



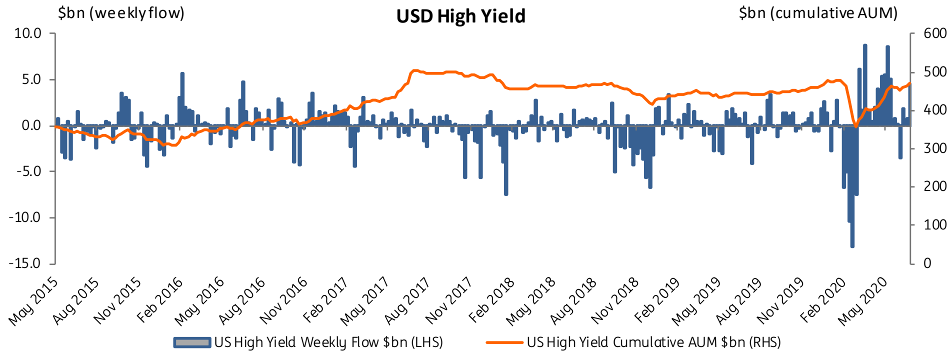
Source: EPFR Global, ING estimates

High Yield

High Yield – Summary themes

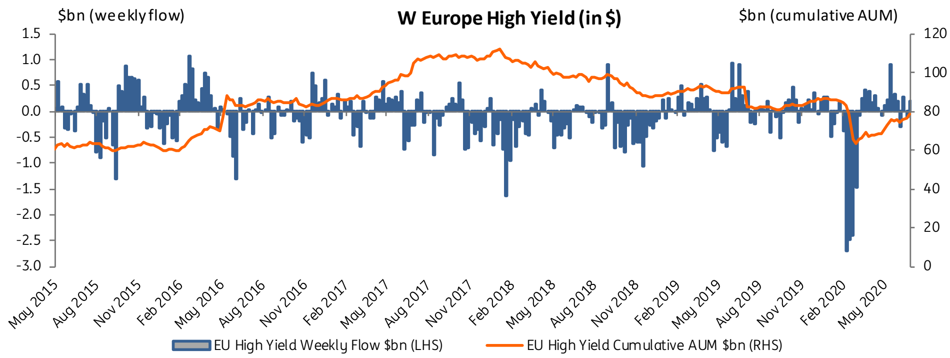
- Inflows to high yield picked up again in the past week or so (Figure 56), having slowed to a trickle for the previous week.
- The bulk of the inflows in a relative sense continue to be into USD high yield, which continues to run at three times the pace of EUR high yield (Figure 59).

Fig 50 USD high yield: Outflows morph to renewed robust inflows, leading the way



Source: EPFR Global, ING estimates

Fig 51 EUR high yield: Outflows morph to renewed robust inflows, but more subdued



Source: EPFR Global, ING estimates

- The orange line in the graphs above is a catch-all for cumulative assets under management, in the sense that it captures not just the flows but also the change in valuations, including FX effects (all translated back to USD). The precipitous fall in March 2020 captures the prior outflows and big build in discount to par. The subsequent rise is a reflection of inflows and price appreciation right across the high yield space. The recovery in USD high yield (Figure 50) has been more impressive than that of EUR high yield (Figure 50)

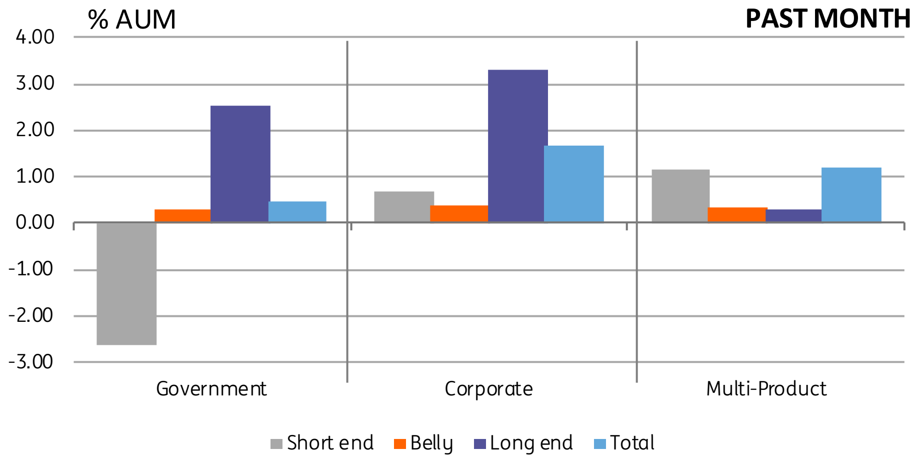
BOTTOM LINE: Not only was there a classic elevation in default risk as economies jumped to a recessionary state, but the collapse in the oil price was an additional stress factor in this space, in particular for US high yield. Hence the prior outflows. However fast forward to the past couple of months and there has been a re-rating of prospects in high yield. Total returns are still running in the red year-to-date, especially for EUR high yield. But, inflows have more than matched prior outflows.

Developed Markets

Developed Markets – Summary themes

- The front end of government curves and money market funds saw resumed inflows in the past week (Figure 55 & Figure 56). Prior weeks had seen outflows, especially from US money market funds ahead of the 15 July tax deadline.
- The theme for the latest week has centred on mild outflows from government long end funds. However, this appears to be a mild adjustment to large inflows seen into long end government funds in previous weeks (Figure 57).
- Inflows to investment grade corporate funds remains persistent, with the bias more towards inflows to longer tenor funds. In fact, inflows to long tenor corporate funds are up an impressive 3.3% of assets under management in the past quarter.

Fig 52 Feature Chart: Long end fund inflows dominate in the past month



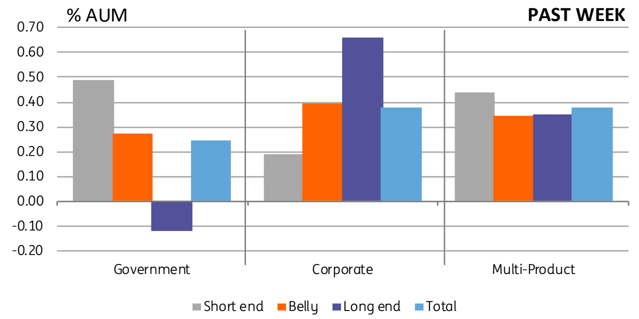
Source: EPFR Global, ING estimates

- Inflows to USD inflation funds slowed last week (Figure 56), but are still showing a large inflows in the past quarter. Outflows from EUR funds still dominate though (Figure 60).

BOTTOM LINE: Core yields remain hammered down, but the bulk of this reflects a combination of expectations and central bank buying, but also investor inflows. There have been some long end outflows in the past week, but the dominant flow in the past month has been long end inflows. The dominant theme in corporates has been strong inflows. Elevated primary issuance in recent months remains a factor here, as inflows are registered when issuance exceeds redemptions - which it currently does; comfortably. We also not return inflows to money market funds, following outflows in previous weeks – mostly centred on pre and post the US 15 July tax deadline.

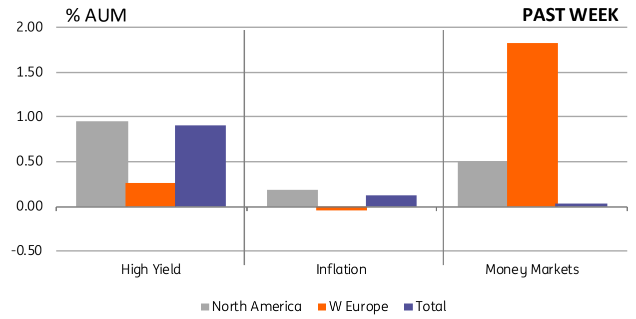
Developed Markets Net Fund Flows

Fig 53 Change in the past week (%)



Source: EPFR Global, ING estimates

Fig 54 Change in the past week (%)

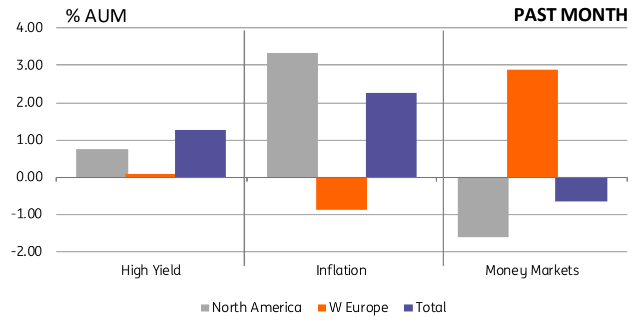


Source: EPFR Global, ING estimates

Fig 55 Change in the past month (%)

Source: EPFR Global, ING estimates

Fig 56 Change in the past month (%)

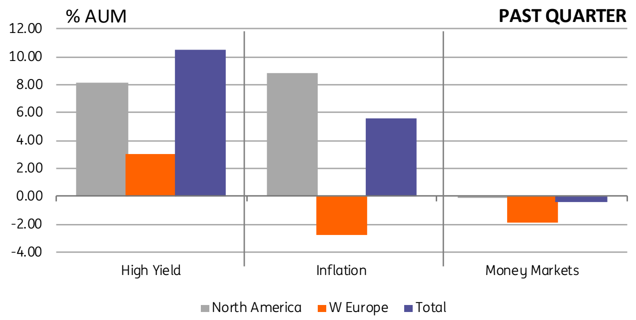


Source: EPFR Global, ING estimates

Fig 57 Change in the past quarter (%)

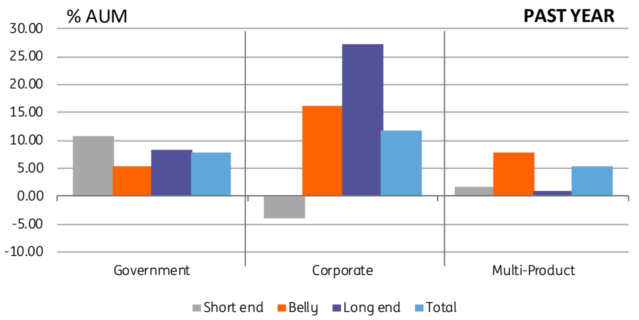
Source: EPFR Global, ING estimates

Fig 58 Change in the past quarter (%)



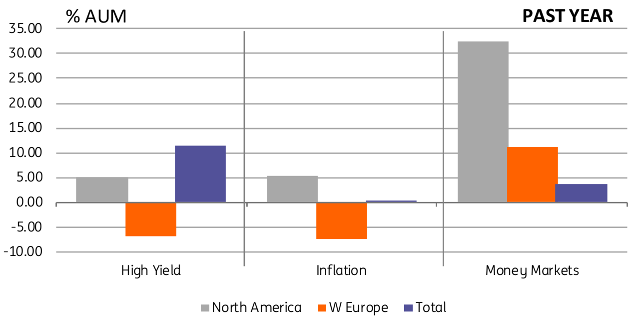
Source: EPFR Global, ING estimates

Fig 59 Change in the past year (%)



Source: EPFR Global, ING estimates

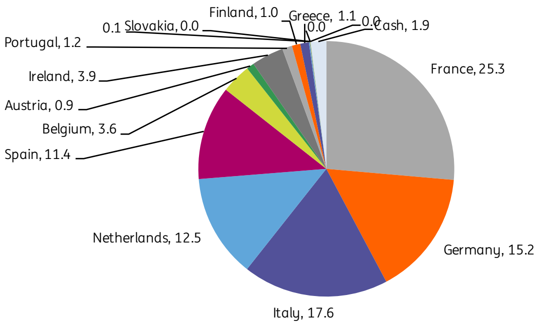
Fig 60 Change in the past year (%)



Source: EPFR Global, ING estimates

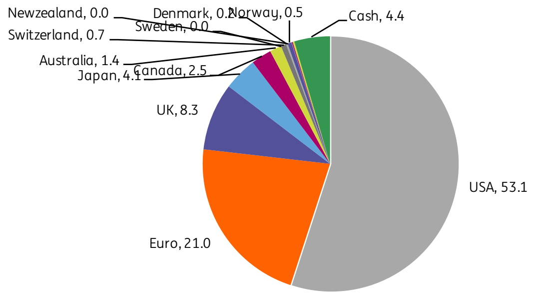
Global DM Manager Asset Allocations

Fig 61 Eurozone allocations for the last month (%)



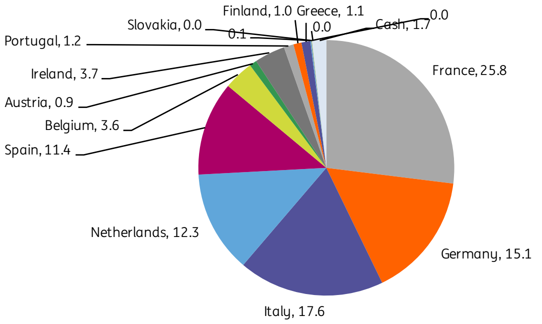
Source: EPFR Global, ING estimates

Fig 62 Global DM allocations for the last month (%)



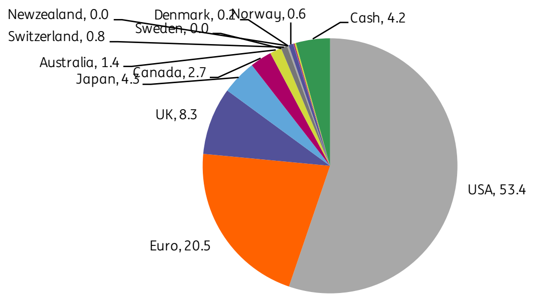
Source: EPFR Global, ING estimates

Fig 63 Eurozone allocations one month previous (%)



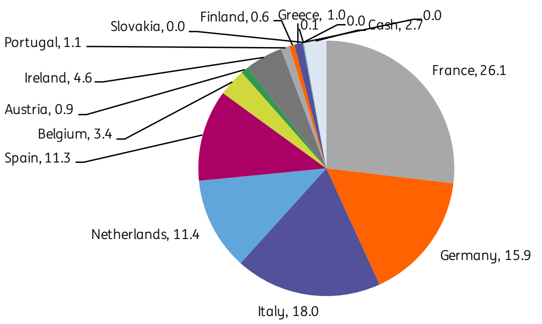
Source: EPFR Global, ING estimates

Fig 64 Global DM allocations one month previous (%)



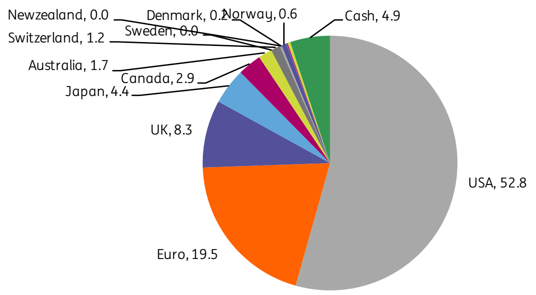
Source: EPFR Global, ING estimates

Fig 65 Eurozone allocations one quarter ago (%)



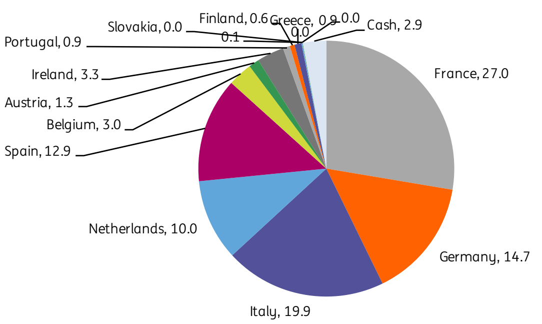
Source: EPFR Global, ING estimates

Fig 66 Global DM allocations one quarter ago (%)



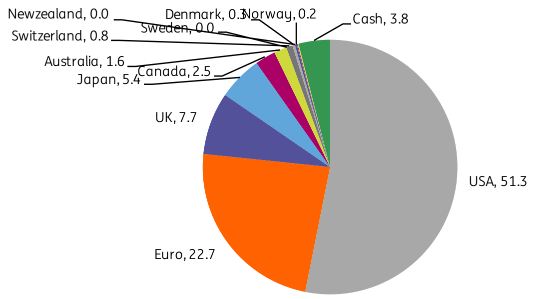
Source: EPFR Global, ING estimates

Fig 67 Eurozone allocations one year ago (%)



Source: EPFR Global, ING estimates

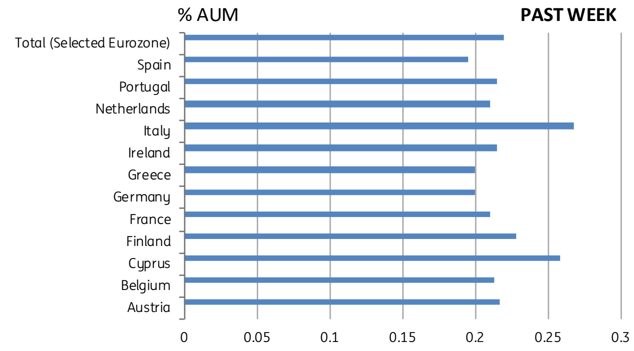
Fig 68 Global DM allocations one year ago (%)



Source: EPFR Global, ING estimates

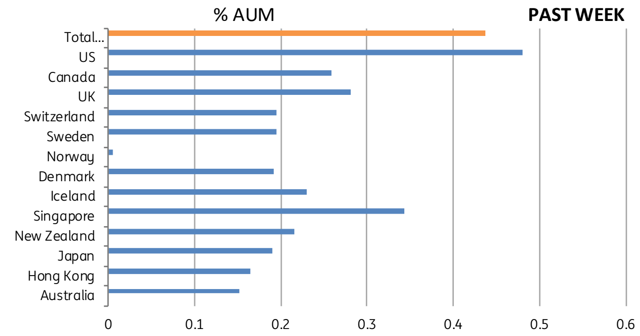
Developed Markets Country Flows

Fig 69 Eurozone – Change in the past week (%)



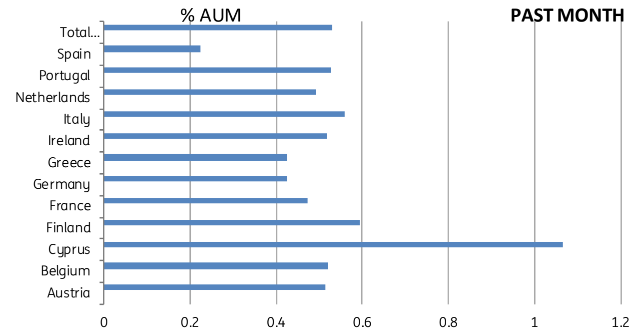
Source: EPFR Global, ING estimates

Fig 70 Non Eurozone – Change in the past week (%)



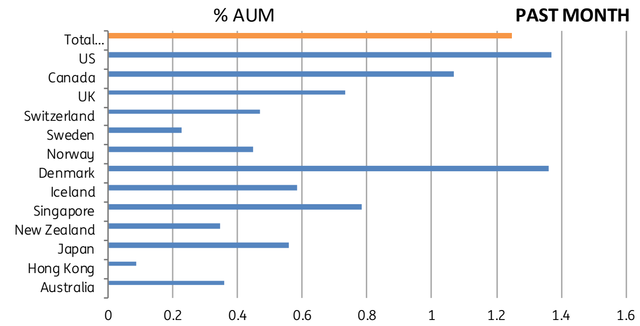
Source: EPFR Global, ING estimates

Fig 71 Eurozone – Change in the past month (%)



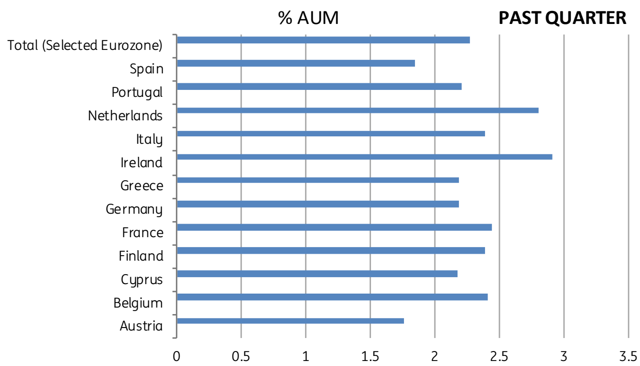
Source: EPFR Global, ING estimates

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



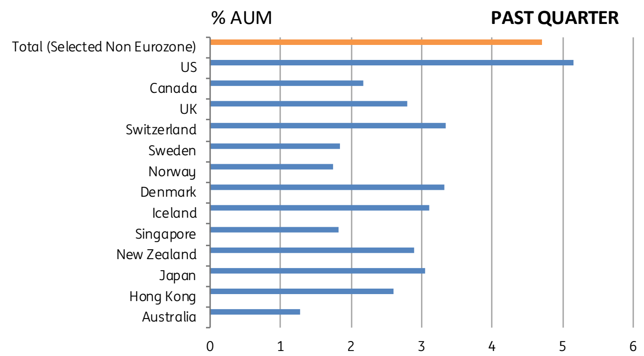
Source: EPFR Global, ING estimates

Fig 73 Eurozone – Change in the past quarter (%)



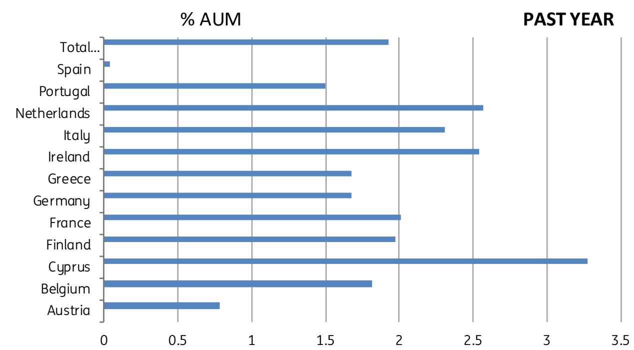
Source: EPFR Global, ING estimates

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



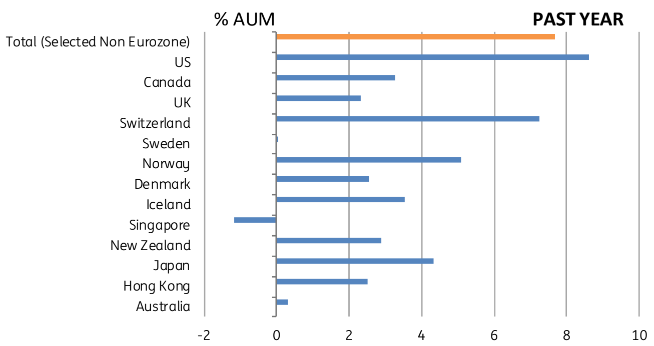
Source: EPFR Global, ING estimates

Fig 75 Eurozone – Change in the past year (%)



Source: EPFR Global, ING estimates

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



Source: EPFR Global, ING estimates

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