26 June 2020

Rates and Credit

Note: The data in this report relies heavily on EPFR Global data and references the week ended June 24th 2020

Global debt flows

A reflective mood in risk assets

Flows still have a flavour of risk-on. Large rear-view inflows into high yield corporates are indicative of this, but these inflows have slowed in more recent weeks. In emerging markets, local currency remains in a subdued space flow wise. Hard currency has done much better, but there too inflows have slowed of late. Flows into investment grade corporates remain convincing though. And outflows from government bonds are still thematic too, although in the past week there were some inflows into long dated governments. There is still on aggregate risk buying happening, but a period of reflection can also be gleaned from latest data.

Graph of the week: Outflow from core governments versus inflows to corporates

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, emerging markets have not quite made a convincing escape velocity from the Covid-19 driven crisis.

2) That said, inflows to hard currency remain a positive development. Local currency funds, though, continue to struggle to attract material inflows. The bulk of the performance and inflows have been in hard currency emerging markets.

3) Default risk remains elevated and will become more acute beyond September when most of the Fed's support facilities are due to be taken off the shelf. These concerns are reflected in more cautious flows into high yield in more recent weeks.

4) Core yields remain hammered down, but this reflects a combination of expectations and central bank buying rather than investor inflows. There were long end inflows in the past week, but outflows have dominated in the past month.

5) In contrast, the dominant theme in corporates has been strong inflows. Elevated primary issuance remains a factor here, as inflows are registered, as issuance exceeds redemptions - which it currently does; comfortably.

6) Interesting to note return flows into inflation linked funds; a pure relative value impact we think. And some outflows from the safety of money market funds.

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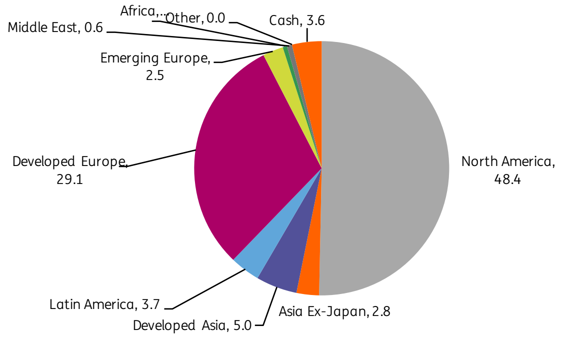
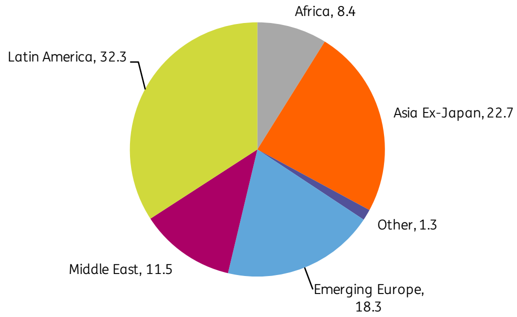
Global Manager (average) Allocations by Region

Fig 1 Global allocations for latest month (%)



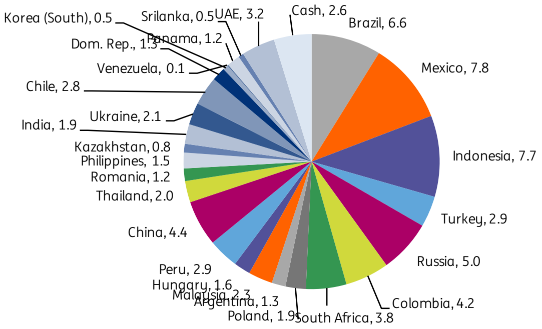
Source: EPFR Global, ING estimates

Fig 2 EM allocations for latest month (%)



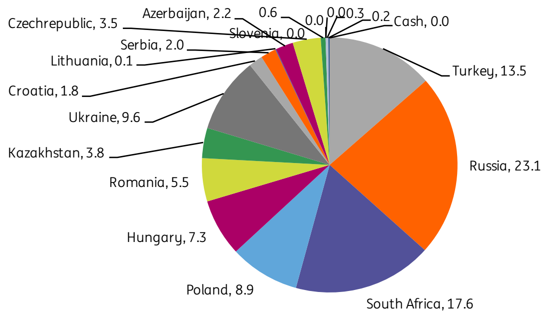
Source: EPFR Global, ING estimates

Fig 3 EM detailed allocations for latest month (%)



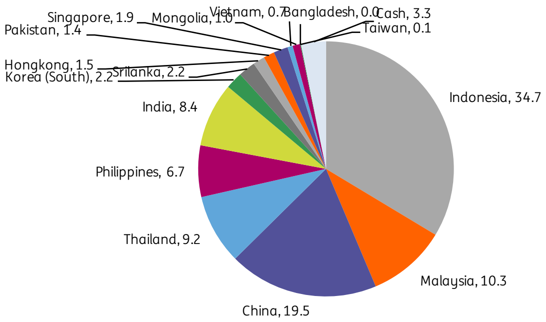
Source: EPFR Global, ING estimates

Fig 4 EMEA allocations for latest month (%)



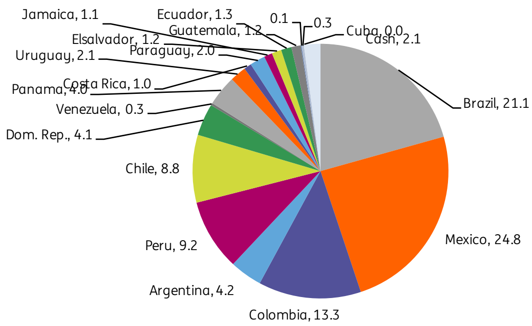
Source: EPFR Global, ING estimates

Fig 5 Asia EM allocations for latest month (%)



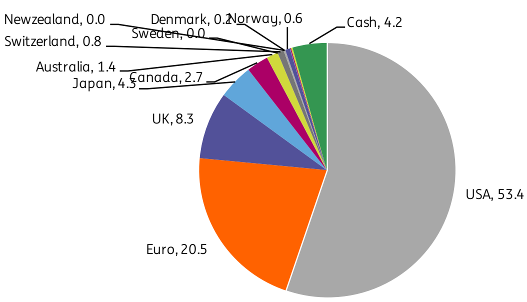
Source: EPFR Global, ING estimates

Fig 6 Latam allocations for latest month (%)



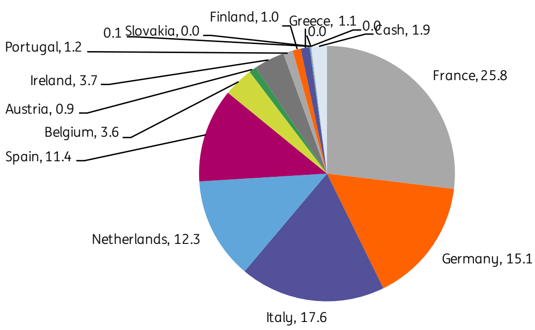
Source: EPFR Global, ING estimates

Fig 7 Developed allocations for latest month (%)



Source: EPFR Global, ING estimates

Fig 8 Eurozone allocations for latest month (%)



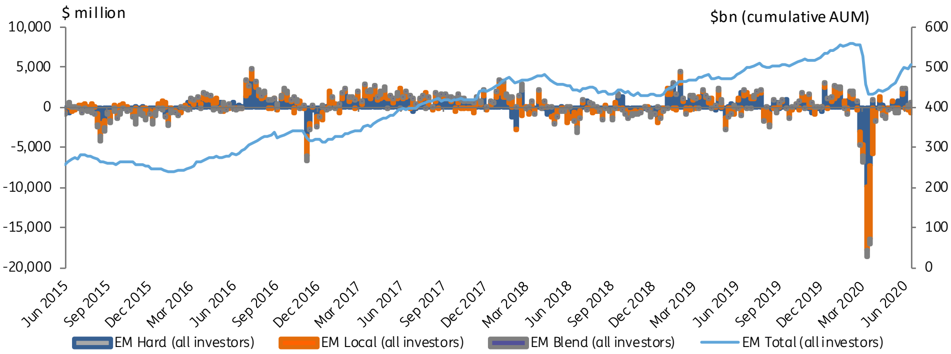
Source: EPFR Global, ING estimates

Emerging markets

Emerging Markets – Summary themes

- Local currency remains a drag for overall emerging market flows. There were outflows in that space in the past week (Figure 10), and over the past quarter assets under management in local currency funds remains down over 5% (Figure 14). There has yet to be material return inflows here.
- Hard currency in contrast has seen resumed inflows. They were quite muted in size for the most recent week (Figure 10), but over the past quarter assets under management in this space are up over 3% (Figure 14). That said, this is not quite at the level of return flows seen back into developed market high yield (which is now running with assets under management up 12% in the past quarter).
- This is being reflected in performance, as hard currency continues to outperform versus local currency. High beta local currency and EMEA generally has underperformed year-to-date. Meanwhile, high yield hard currency has bounced back impressively in the past month or so but is still showing negative returns YTD.

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



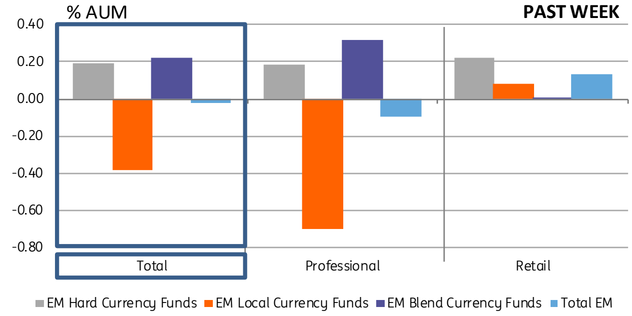
Source: EPFR Global, ING estimates

- 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 an increased allocation to Romania and S Africa versus a reduction in Turkey. Allocation to Kazakhstan is also lower while allocation to Ukraine is up (Figure 26 vs Figure 27).
- In Asia, allocation to Indonesia and China is up while allocation to India and Philippines is down (Figure 28 vs Figure 29).
- In Latam, allocation to Brazil, Peru and Chile is down, while allocation to Mexico, Argentina and Dominican Republic is up (Figure 30 vs Figure 31).
- In Africa and Middle East allocations to Saudi Arabia and Israel are down, while allocation to Egypt 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. The bulk of the performance and inflows have been in hard currency emerging markets. Ahead, we see hard currency and high beta local currency FX as routes to outperformance.

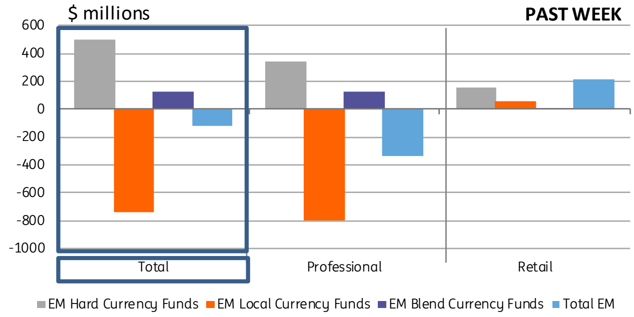
Emerging market Fund Flows

Fig 10 Change in the past week (%)



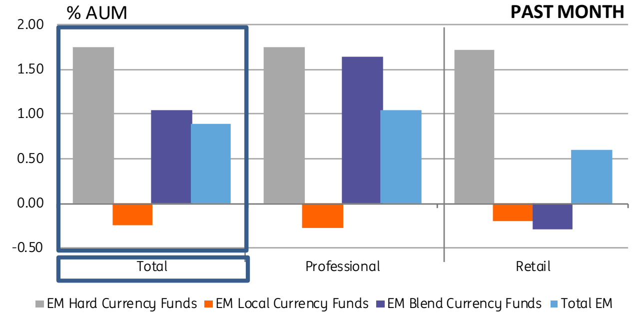
Source: EPFR Global, ING estimates

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



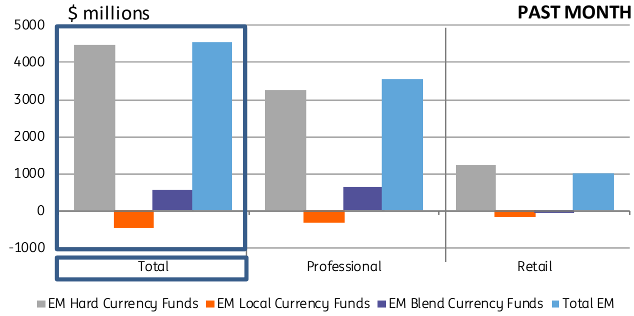
Source: EPFR Global, ING estimates

Fig 12 Change in the past month (%)



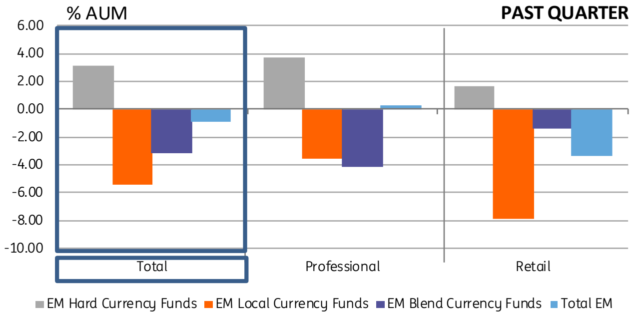
Source: EPFR Global, ING estimates

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



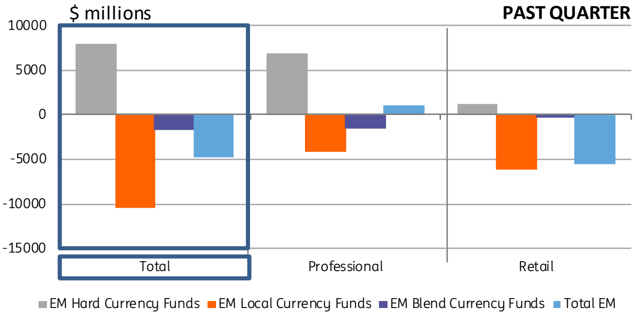
Source: EPFR Global, ING estimates

Fig 14 Change in the past quarter (%)



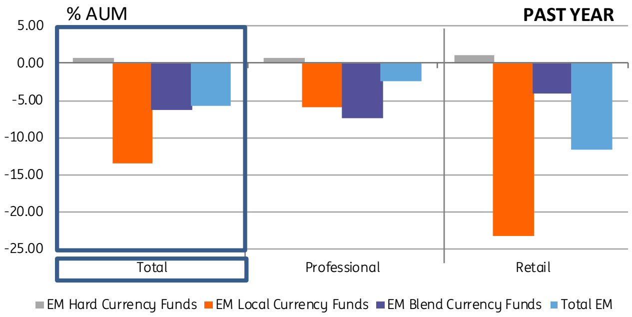
Source: EPFR Global, ING estimates

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



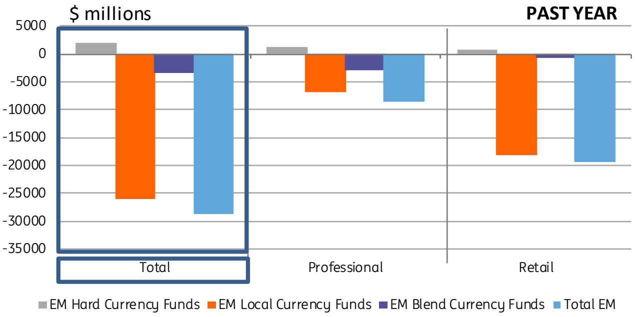
Source: EPFR Global, ING estimates

Fig 16 Change in the past year (%)



Source: EPFR Global, ING estimates

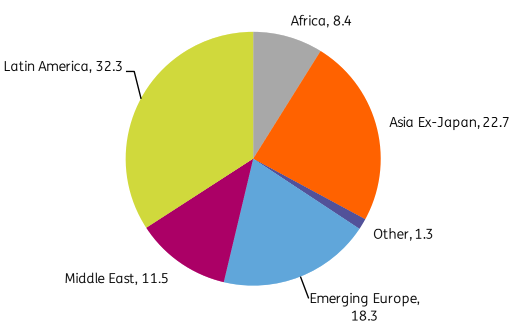
Fig 17 Change in the past year (US$m)



Source: EPFR Global, ING estimates

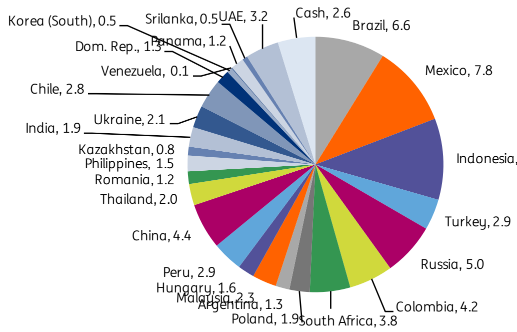
Global EM Manager Asset Allocations

Fig 18 GEM allocations for latest month (%)



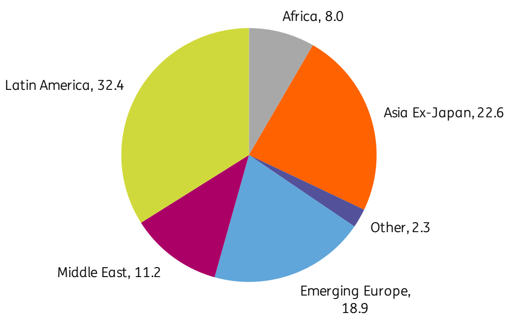
Source: EPFR Global, ING estimates

Fig 19 GEM detailed allocations for latest month (%)



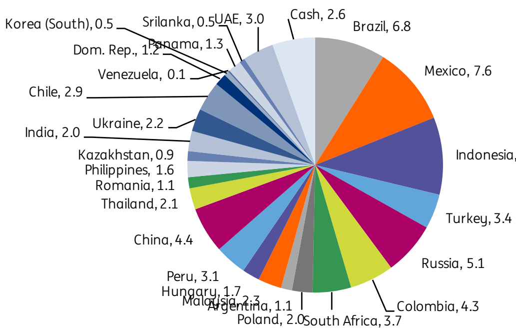
Source: EPFR Global, ING estimates

Fig 20 GEM allocations one month ago (%)



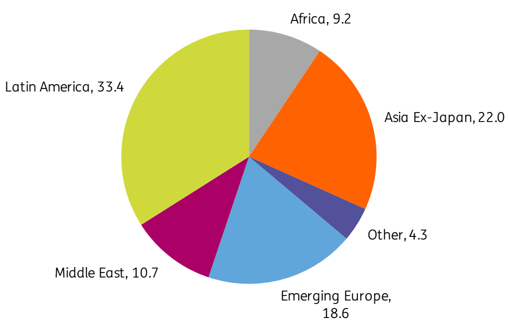
Source: EPFR Global, ING estimates

Fig 21 GEM detailed allocations one month ago (%)



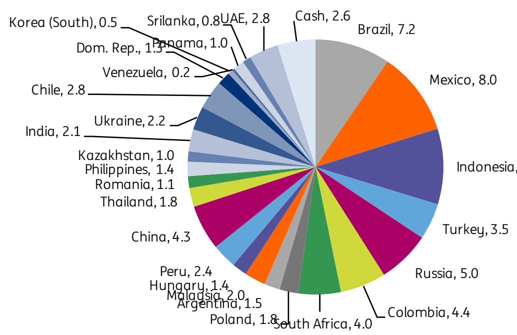
Source: EPFR Global, ING estimates

Fig 22 GEM allocations one quarter ago (%)



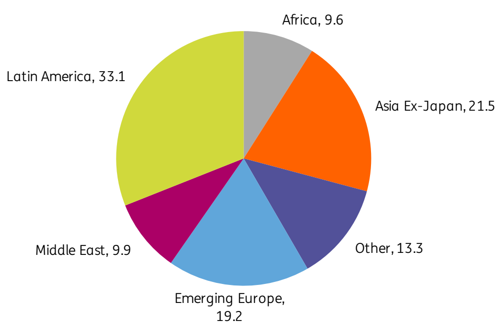
Source: EPFR Global, ING estimates

Fig 23 GEM detailed allocations one quarter ago (%)



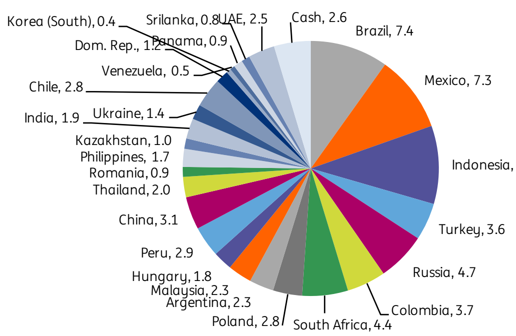
Source: EPFR Global, ING estimates

Fig 24 GEM allocations one year ago (%)



Source: EPFR Global, ING estimates

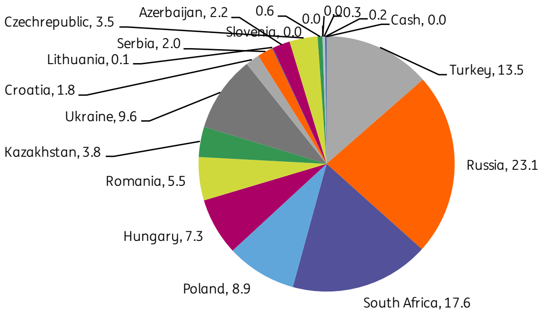
Fig 25 GEM detailed allocations one year ago (%)



Source: EPFR Global, ING estimates

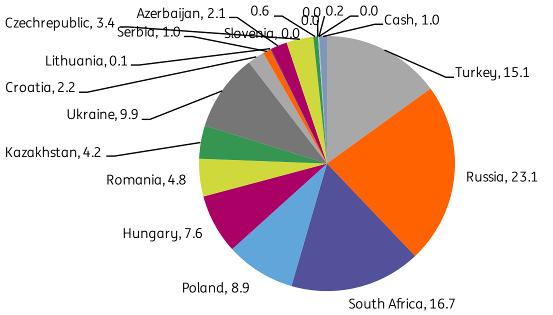
Regional EM Manager Asset Allocation

Fig 26 EMEA allocations for latest month (%)



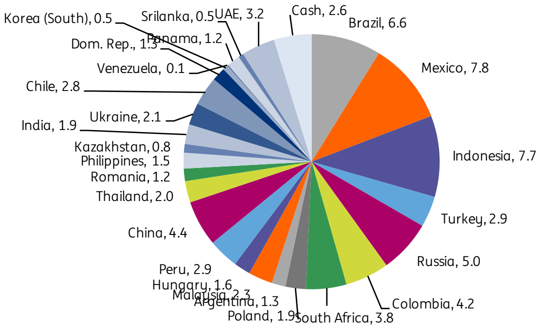
Source: EPFR Global, ING estimates

Fig 27 EMEA allocations for previous month (%)



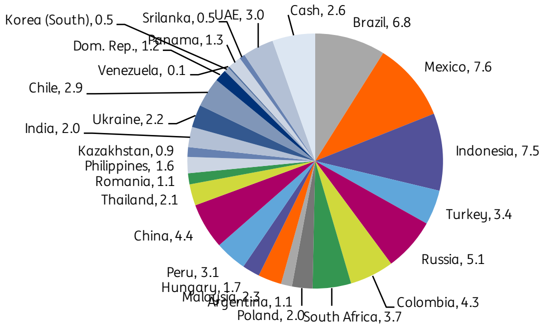
Source: EPFR Global, ING estimates

Fig 28 Asia allocations for latest month (%)



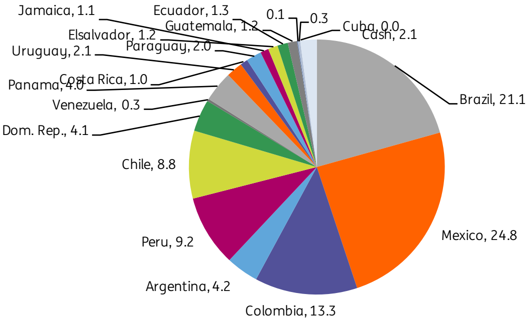
Source: EPFR Global, ING estimates

Fig 29 Asia allocations for previous month (%)



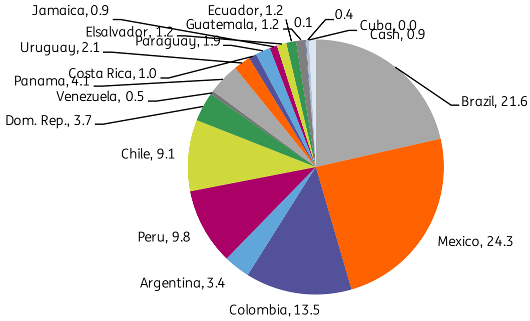
Source: EPFR Global, ING estimates

Fig 30 Latam allocations for latest month (%)



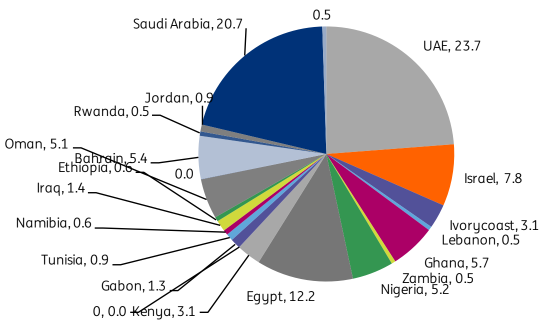
Source: EPFR Global, ING estimates

Fig 31 Latam allocations for previous month (%)



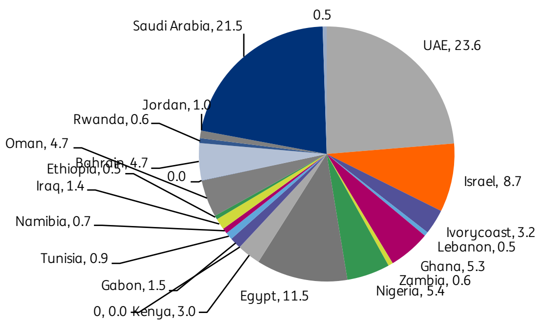
Source: EPFR Global, ING estimates

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



Source: EPFR Global, ING estimates

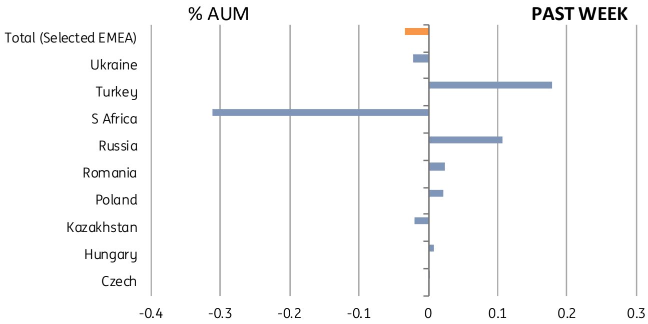
Fig 33 Africa & ME allocations for previous month (%)



Source: EPFR Global, ING estimates

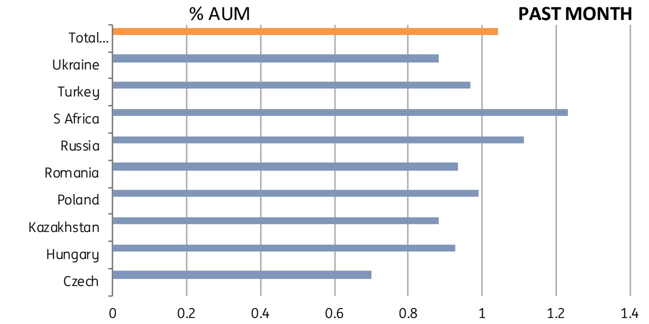
Selected EMEA and Latam Country Flows

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



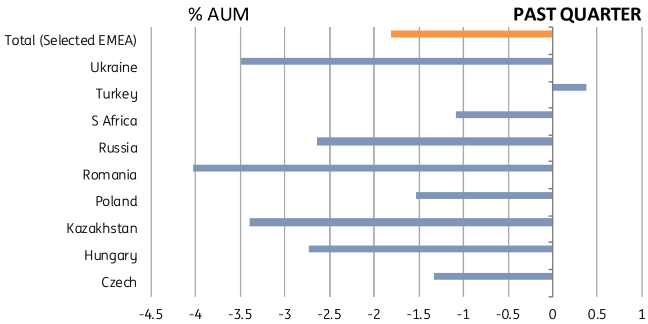
Source: EPFR Global, ING estimates

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



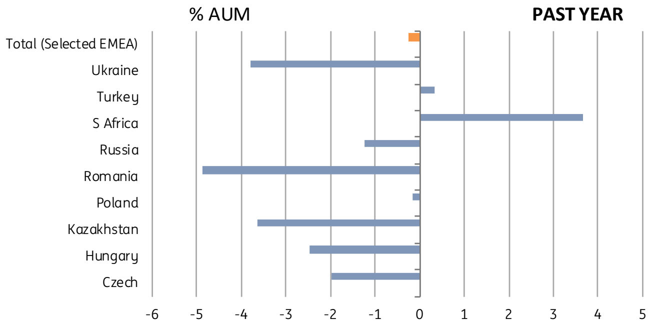
Source: EPFR Global, ING estimates

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



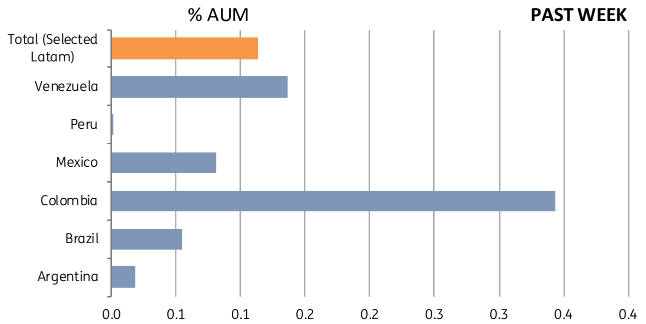
Source: EPFR Global, ING estimates

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



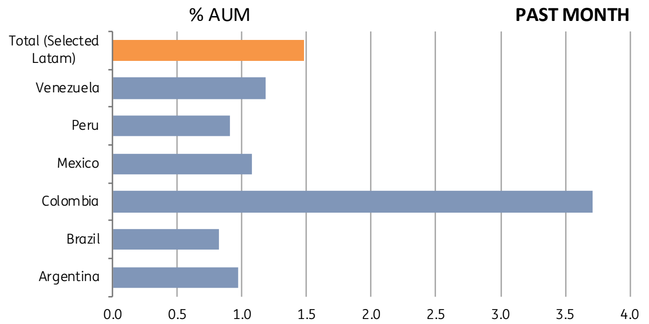
Source: EPFR Global, ING estimates

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



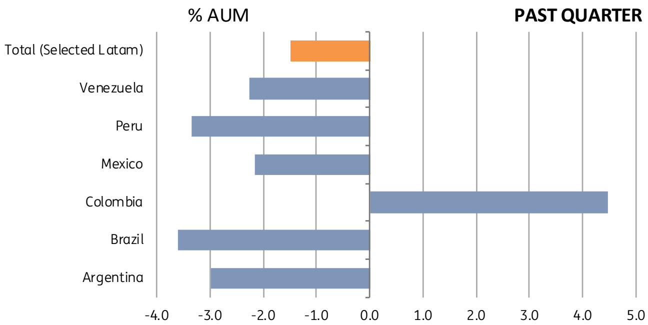
Source: EPFR Global, ING estimates

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



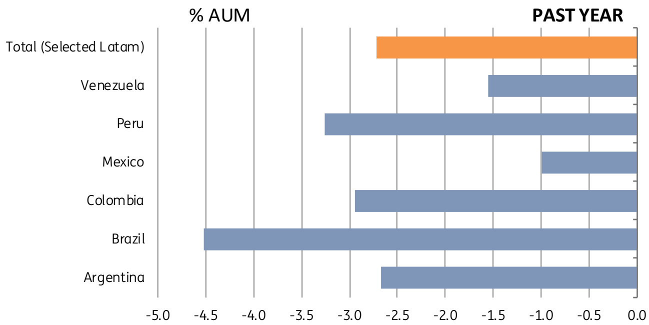
Source: EPFR Global, ING estimates

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



Source: EPFR Global, ING estimates

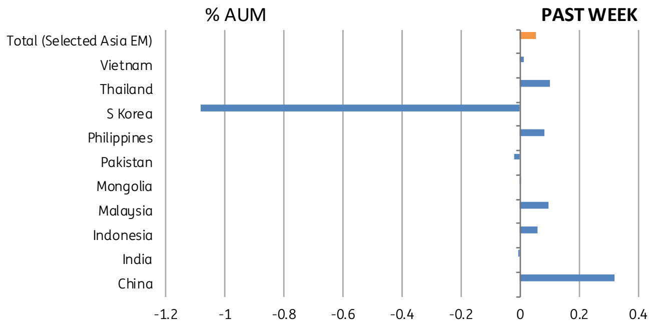
Fig 41 Latam – Change in the past year (%)



Source: EPFR Global, ING estimates

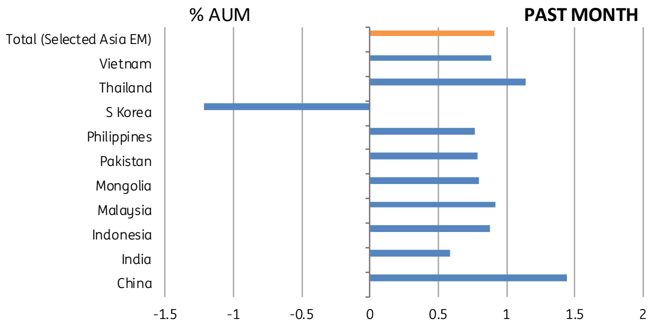
Selected Asia and ME/Africa Country Flows

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



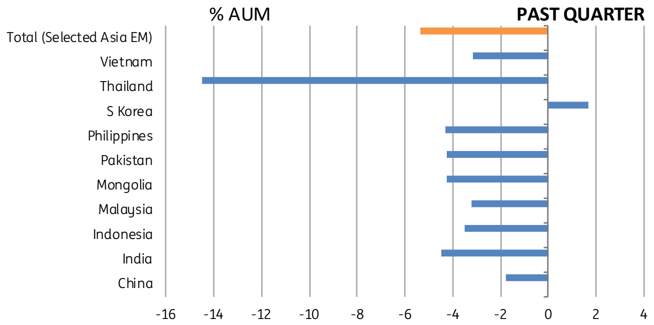
Source: EPFR Global, ING estimates

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



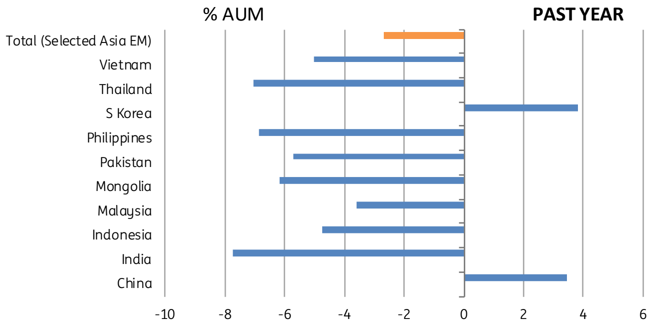
Source: EPFR Global, ING estimates

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



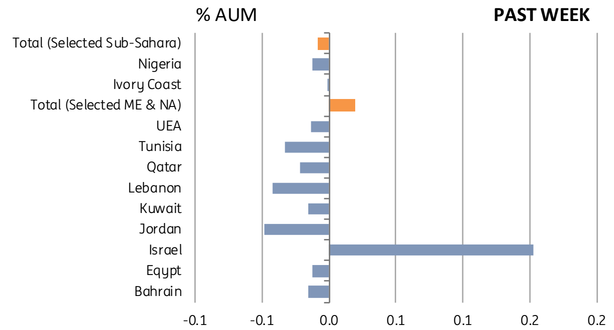
Source: EPFR Global, ING estimates

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



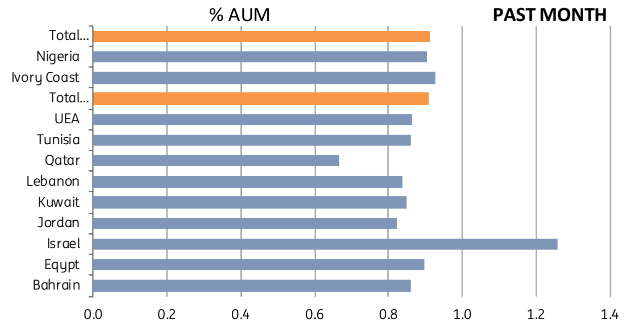
Source: EPFR Global, ING estimates

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



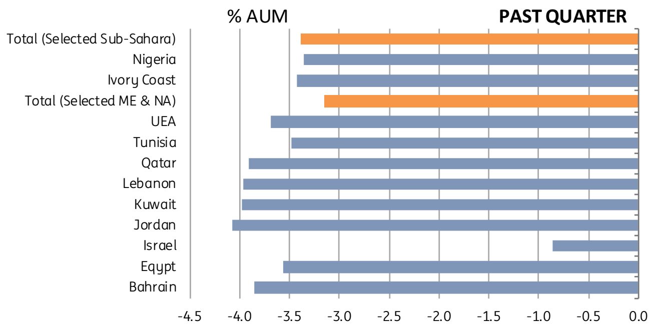
Source: EPFR Global, ING estimates

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



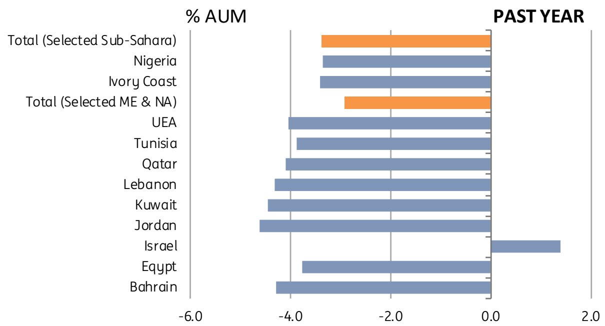
Source: EPFR Global, ING estimates

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



Source: EPFR Global, ING estimates

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



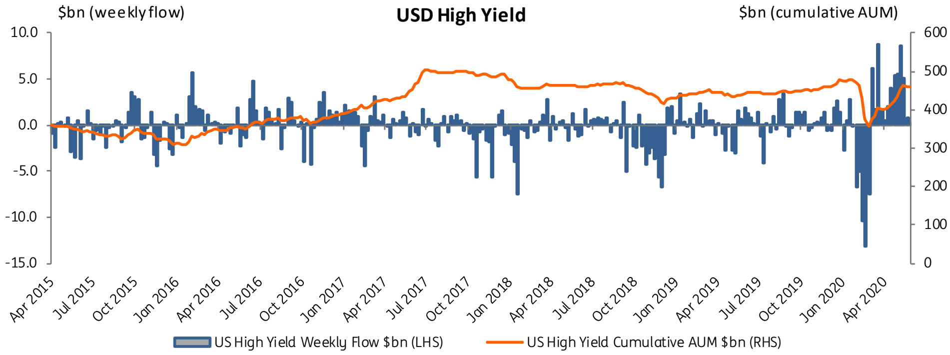
Source: EPFR Global, ING estimates

High Yield

High Yield – Summary themes

- Inflows to high yield slowed in the past week or so, in fact they have been completely flat for US high yield (Figure 56). This is a pause from the dramatic inflows seen in previous weeks and months. In fact, over the past quarter, inflows to US high yield are running at a whopping 12% (Figure 60).
- W Europe high yield has also seen decent inflows, but nowhere near the pace seen into US HY. In the past quarter, W European high yield has seen inflows of 4.4% (Figure 60), and half of this inflow has happened in the past month (Figure 58).
- Returns are still running negative year-to-date but have shown a decent bounce back in the past month or two, with performance reflective of the relative flows story. Europe saw the biggest falls, but now seeing a strong belated bounce higher.

Fig 50 Feature Chart: Outflows morph to renewed robust inflows, but now slowing



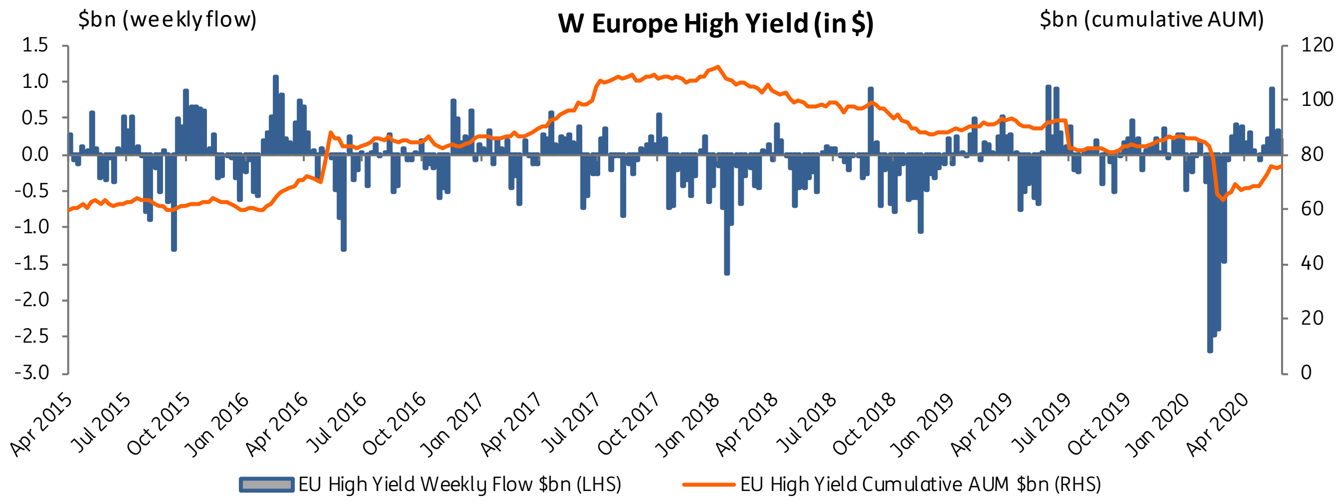
Source: EPFR Global, ING estimates

- The orange line in the graph 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 USD inflows and price appreciation right across the high yield space; albeit slowing significantly in the past week or so.

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, and in particular in the USD space where prior stress was most elevated. Too early to tell whether this is a sustainable inflow process, as default risk remains elevated and will become more acute beyond September when most of the Fed's support facilities are due to be taken off the shelf. Some of these concerns have been reflected in more cautious flows and performance in the past couple of weeks.

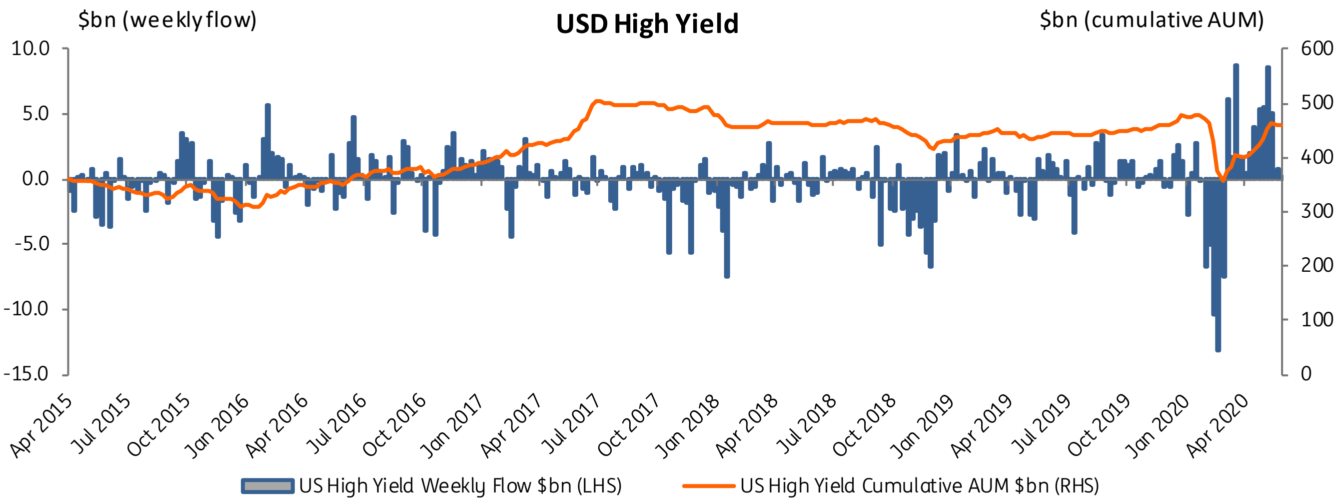
EM (all currency) vs High Yield USD and EU

Fig 51 Western Europe High Yield Weekly Flows



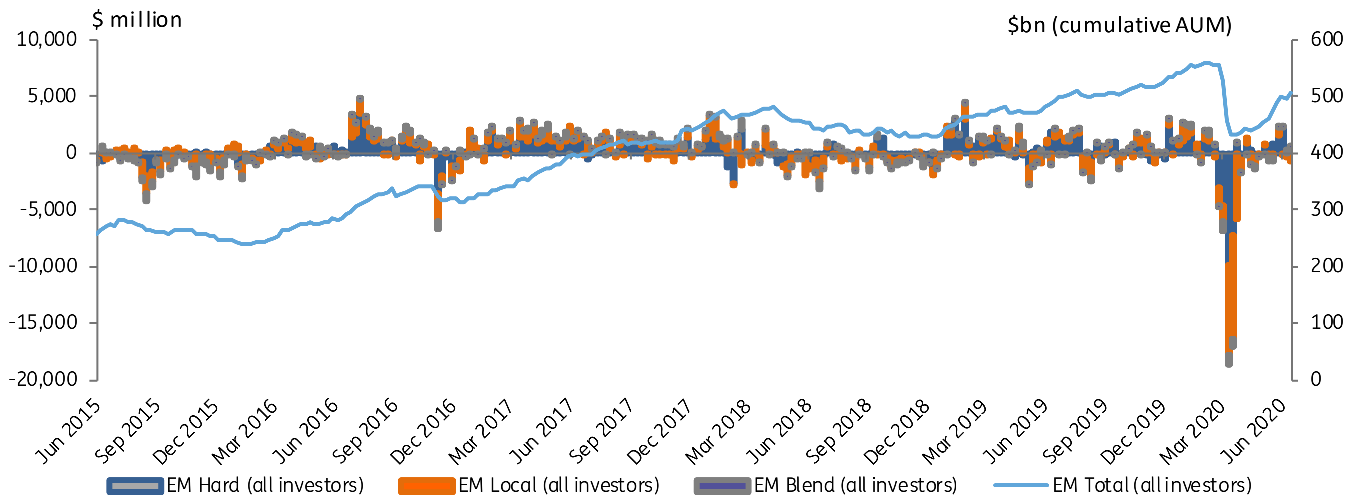
Source: EPFR Global, ING estimates

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

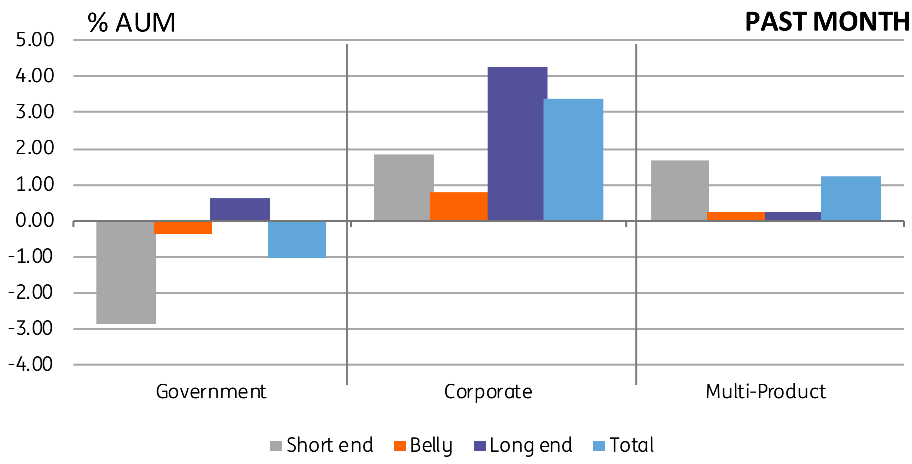
Developed Markets

Developed Markets – Summary themes

- Flows into core government bonds have been slow to negative in the past number of weeks. For the latest week they are flat, while for the past month assets under management in government funds are down a little over 1% (Figure 57). Most of the outflows have been from short tenor funds; in fact there were small inflows to long tenor funds – a decent chunk of this happened in the past week.

- In contrast, inflows to corporates remain impressive. Even if they have slowed in the past week, over the past month inflows of some 3.4% have been seen (Figure 57). The bulk of these inflows have been into belly and long tenor funds, reflecting the maturity of new issuance in many cases. New bonds mean new inflows, as issuance continues to exceed redemptions. This remains an important driver.

Fig 54 Feature Chart: Outflow from government funds vs inflow to corporate funds



Source: EPFR Global, ING estimates

- The past week has seen a jump in inflows to US inflation linked funds, with assets under management there up 2.9% (Figure 56). That brings the increase in US inflation linked funds to 3.6% in the past month (Figure 58). We think this is more reflective of a pure relative value play on cheap linkers rather than any material up-move in underlying inflation expectations.

- US money market funds saw a decent 11% increase in assets under management in the past quarter (Figure 60), but have been shedding for the latest month (Figure 58). W European money market funds saw an outflow of over 5% in the past month. The struggle in this space is a lack of return, plus a reduced flight to safety.

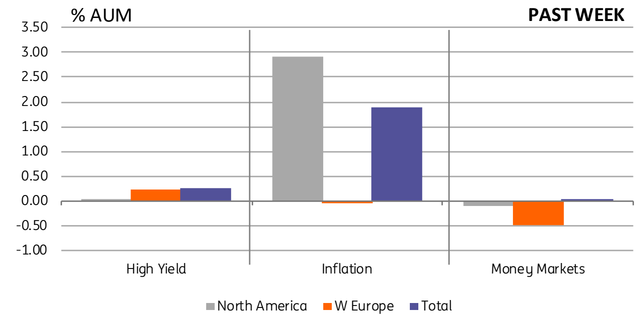
BOTTOM LINE: Core yields remain hammered down, but the bulk of this reflects a combination of expectations and central bank buying rather than investor inflows. There have been some long end inflows in the past week, but the dominant flow in the past month has been outflows. In contrast, the dominant theme in corporates has been strong inflows. Elevated primary issuance remains a factor here, as inflows are registered when issuance exceeds redemptions - which it currently does; comfortably. Interesting to note return flows into inflation linked funds; a pure relative value impact we think. And some outflows from the safety of money market funds.

Developed Markets Net Fund Flows

Fig 55 Change in the past week (%)

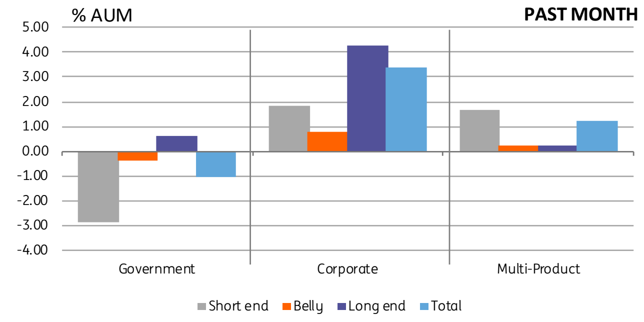
Source: EPFR Global, ING estimates

Fig 56 Change in the past week (%)



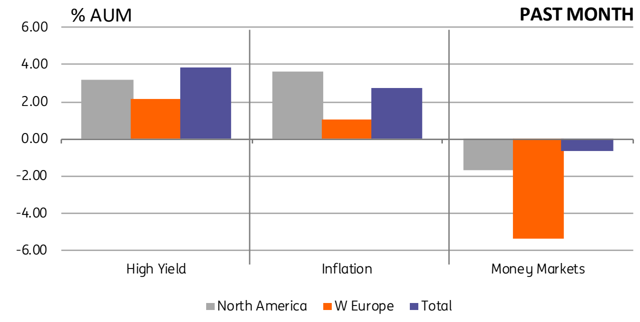
Source: EPFR Global, ING estimates

Fig 57 Change in the past month (%)



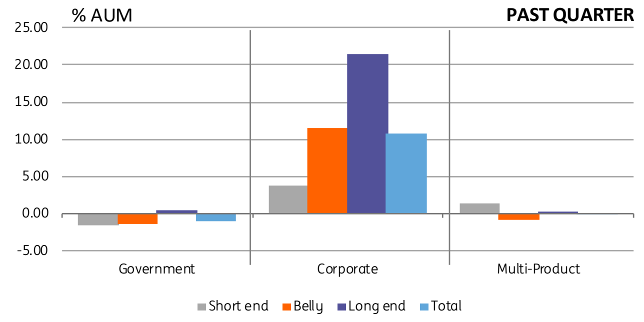
Source: EPFR Global, ING estimates

Fig 58 Change in the past month (%)



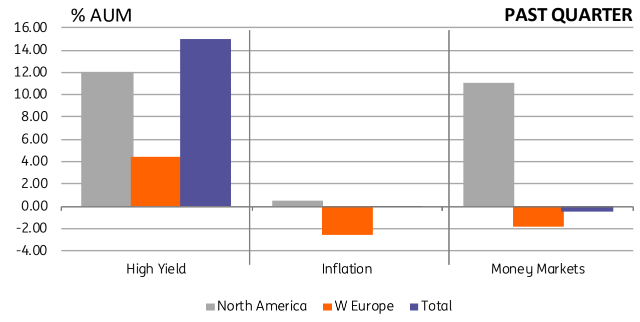
Source: EPFR Global, ING estimates

Fig 59 Change in the past quarter (%)



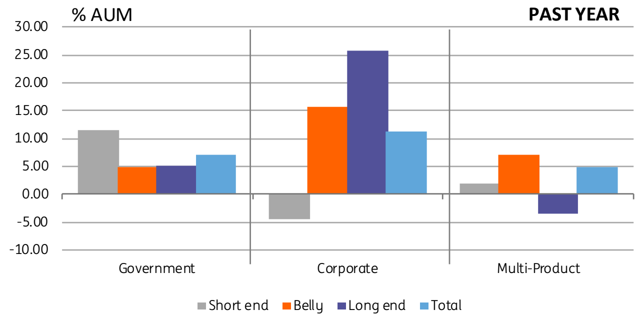
Source: EPFR Global, ING estimates

Fig 60 Change in the past quarter (%)



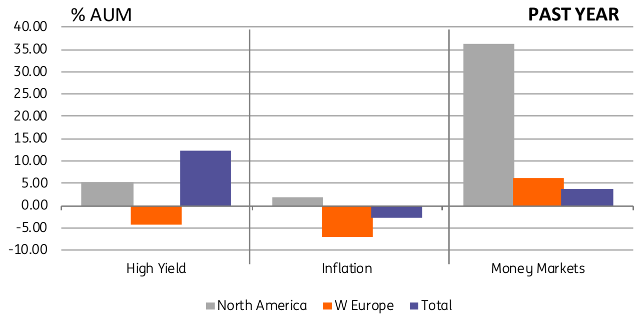
Source: EPFR Global, ING estimates

Fig 61 Change in the past year (%)



Source: EPFR Global, ING estimates

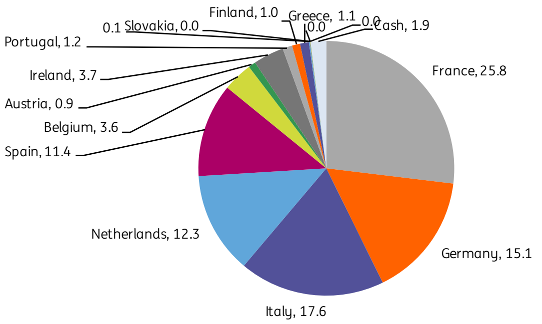
Fig 62 Change in the past year (%)



Source: EPFR Global, ING estimates

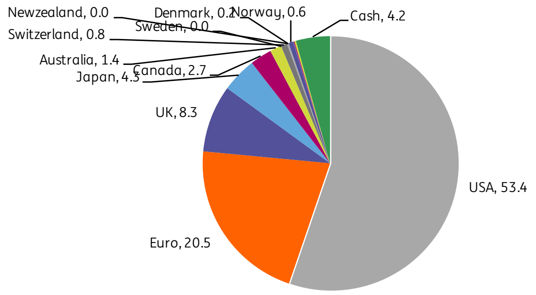
Global DM Manager Asset Allocations

Fig 63 Eurozone allocations for the last month (%)



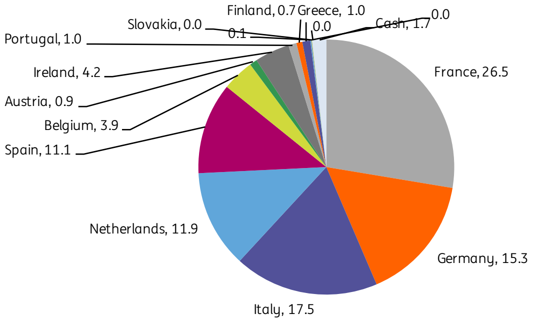
Source: EPFR Global, ING estimates

Fig 64 Global DM allocations for the last month (%)



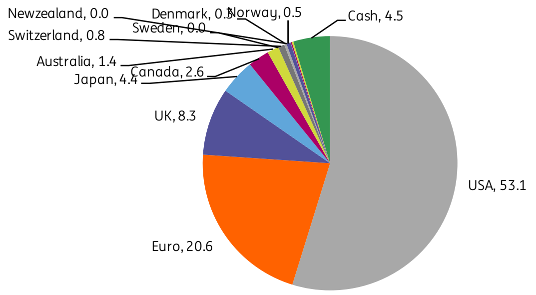
Source: EPFR Global, ING estimates

Fig 65 Eurozone allocations one month previous (%)



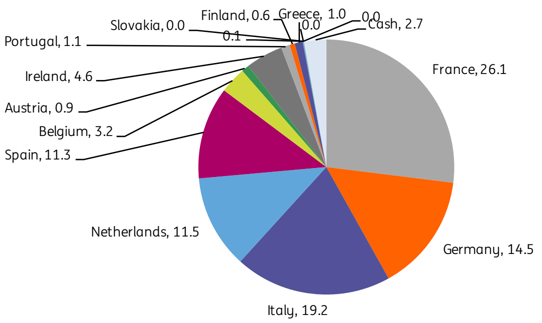
Source: EPFR Global, ING estimates

Fig 66 Global DM allocations one month previous (%)



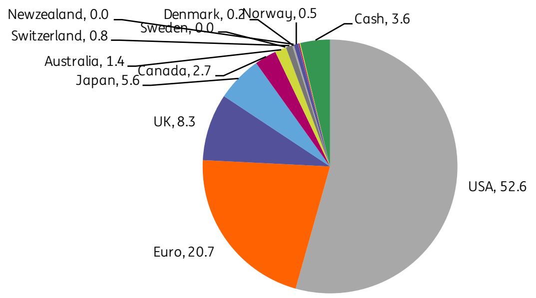
Source: EPFR Global, ING estimates

Fig 67 Eurozone allocations one quarter ago (%)



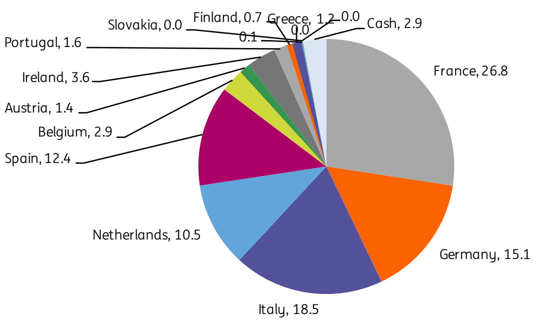
Source: EPFR Global, ING estimates

Fig 68 Global DM allocations one quarter ago (%)



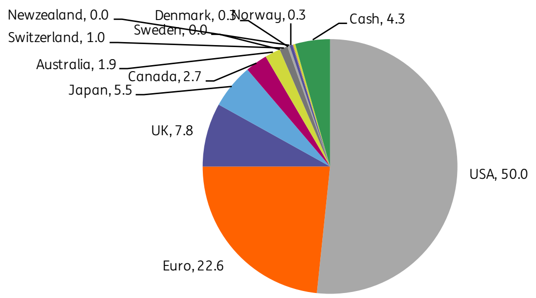
Source: EPFR Global, ING estimates

Fig 69 Eurozone allocations one year ago (%)



Source: EPFR Global, ING estimates

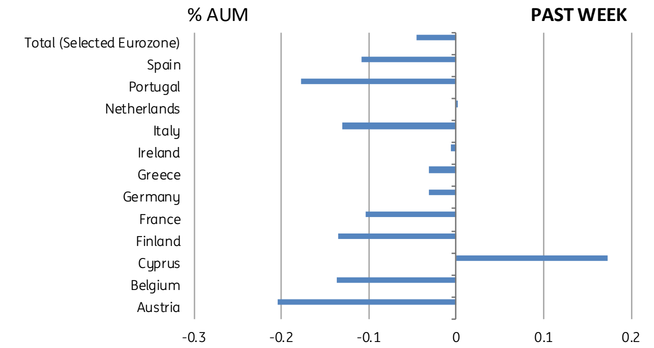
Fig 70 Global DM allocations one year ago (%)



Source: EPFR Global, ING estimates

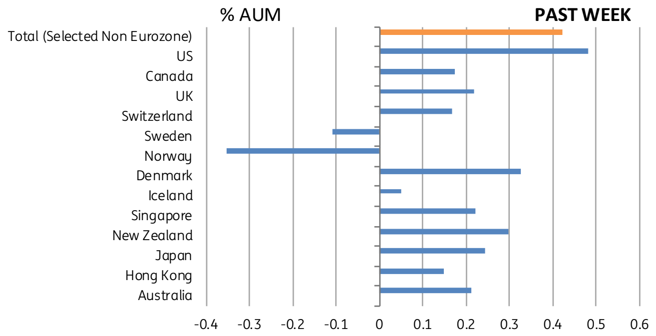
Developed Markets Country Flows

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



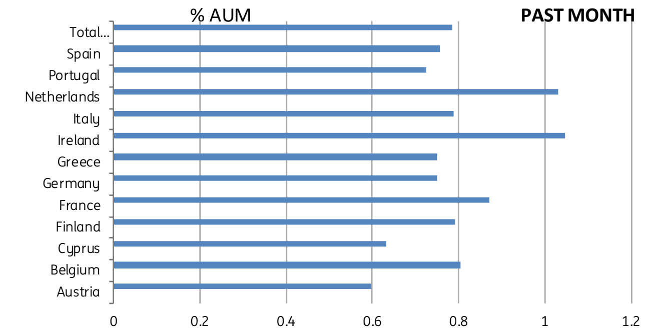
Source: EPFR Global, ING estimates

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



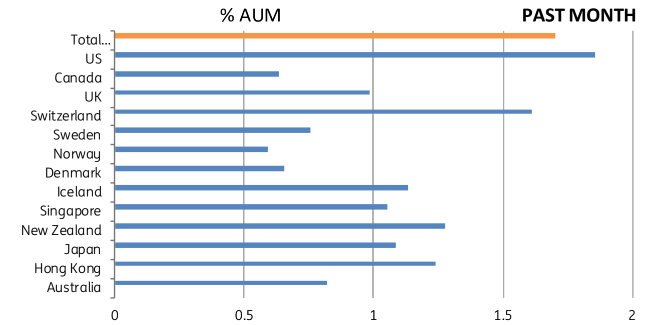
Source: EPFR Global, ING estimates

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



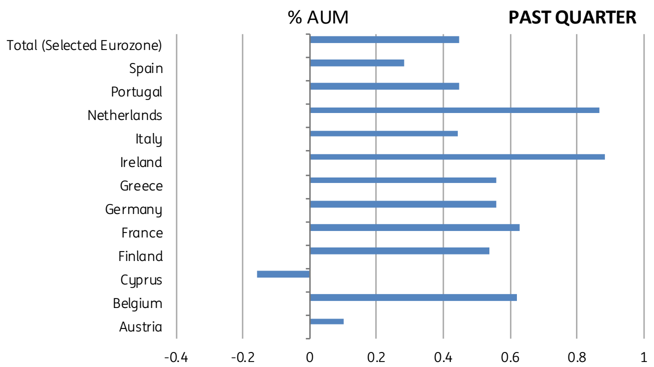
Source: EPFR Global, ING estimates

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



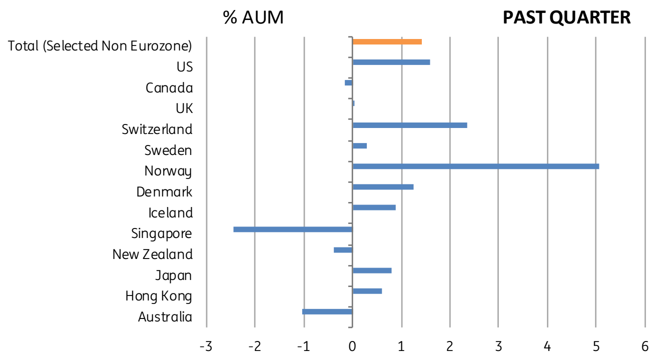
Source: EPFR Global, ING estimates

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



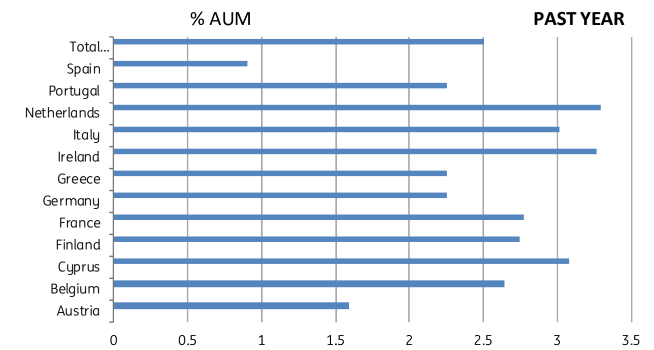
Source: EPFR Global, ING estimates

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



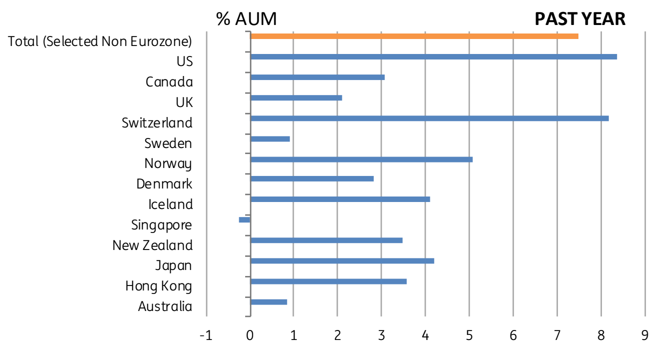
Source: EPFR Global, ING estimates

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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