27 March 2020

Rates and Credit

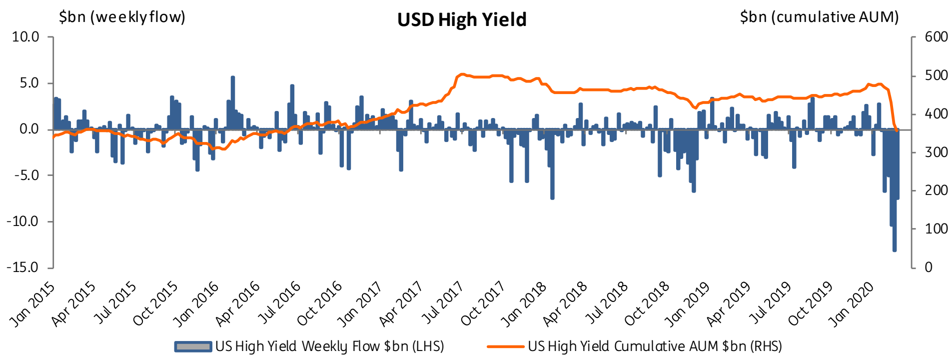
**Note: The data in this report relies heavily on EPFR Global data and references the week ended March 25th 2020**

# Global debt flows

## Eye-watering outflows, and just one big buyer

**No surprise that the global shutdown has had a striking impact on mutual fund flows in the past month. Like the 12% increase in front end government holdings, and the 6% reduction in investment grade corporate holdings. Add to that a 10% reduction in emerging market assets under management, and a 9% reduction in high yield. And the little matter of a 5% fall in inflation linked bond holdings. The implied discount is not just severe disruption, but also one with a clear deflationary tint. Central banks are the only dedicated buyers right now.**

**Graph of the week: Capitulation outflows in high yield**




Source: EPGR Global, ING estimates

## Five things learnt from latest flows data

1) Outflows from emerging markets have been severe. In the past four weeks there has been a 10% reduction in assets under management in emerging markets among mutual funds. That likely eased off through this week, but on latest data through to Wednesday of this week the outflows were running at 4%.

2) High yield assets under management at mutual funds have fallen by some 9% in the past four weeks, a significant outflow. USD high yield is broadly in line with that, but the outflows has been even more dramatic in W Europe currencies where the outflows has been in excess of 12%.

3) Developed market government bonds have seen an inflow of almost 2.5% of assets under management in the past month. The bulk of the inflows have been into the front end, with assets under management there up over 12%. There have in fact been outflows in longer maturities, but here the flow is from mutual funds to the Federal Reserve as it really ramped up its QE program.

4) In corporates, the key flow has been liquidation in shorter maturities. The implied flow has been out of short dated corporates and into short dated governments. There have also been large outflows from belly maturity funds, but inflows to long maturity funds. Overall though, it has been a story of outflows for investment grade corporates, with assets under management down by almost 6% in a month.

5) We note also outflows from inflation linked funds as markets discount the shut-down process as being deflationary. Such funds have seen outflows in the region of 5% of assets under management in the past month.

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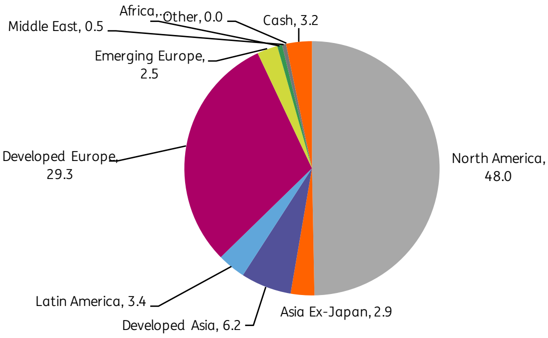
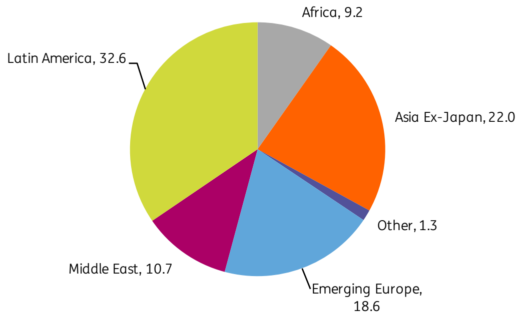
# Global Manager (average) Allocations by Region

### Fig 1 Global allocations for latest month (%)



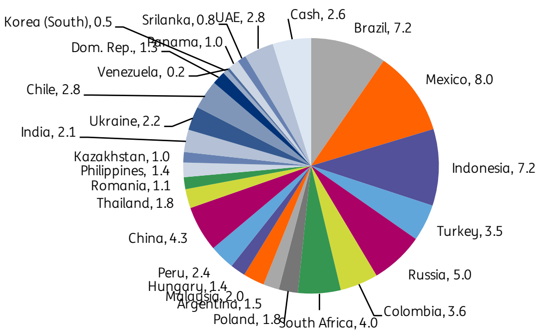

Source: EPFR Global, ING estimates

### Fig 2 EM allocations for latest month (%)



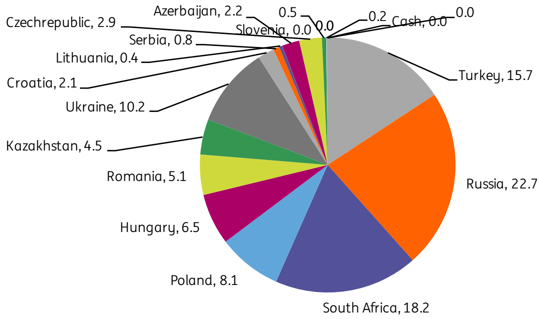

Source: EPFR Global, ING estimates

### Fig 3 EM detailed allocations for latest month (%)



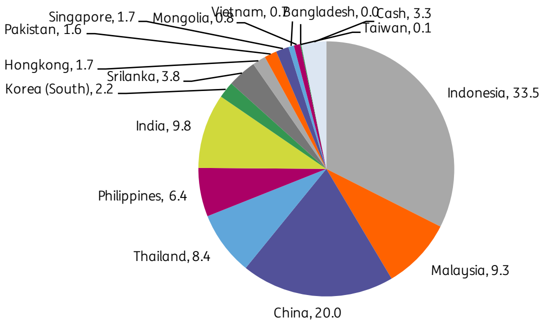

Source: EPFR Global, ING estimates

### Fig 4 EMEA allocations for latest month (%)



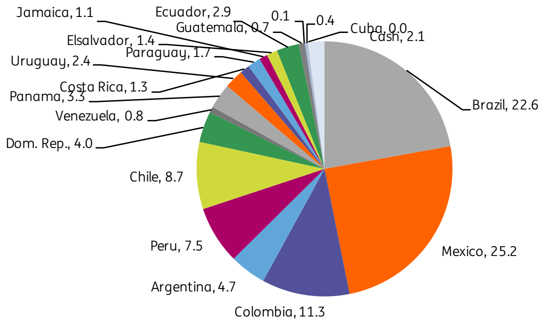

Source: EPFR Global, ING estimates

### Fig 5 Asia EM allocations for latest month (%)



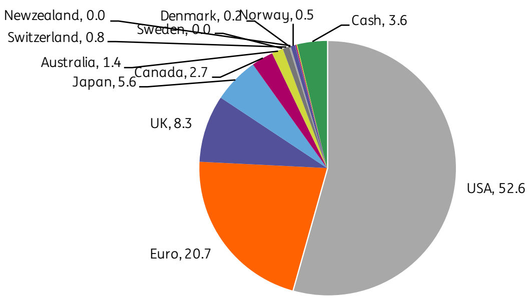

Source: EPFR Global, ING estimates

### Fig 6 Latam allocations for latest month (%)



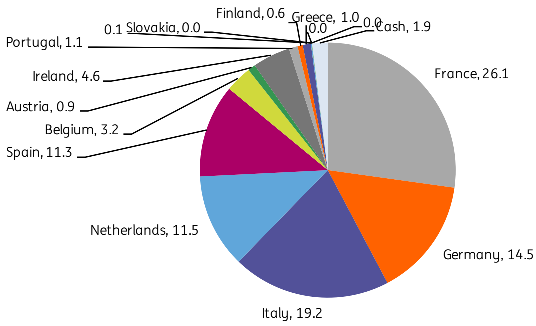

Source: EPFR Global, ING estimates

### Fig 7 Developed allocations for latest month (%)




Source: EPFR Global, ING estimates

### Fig 8 Eurozone allocations for latest month (%)



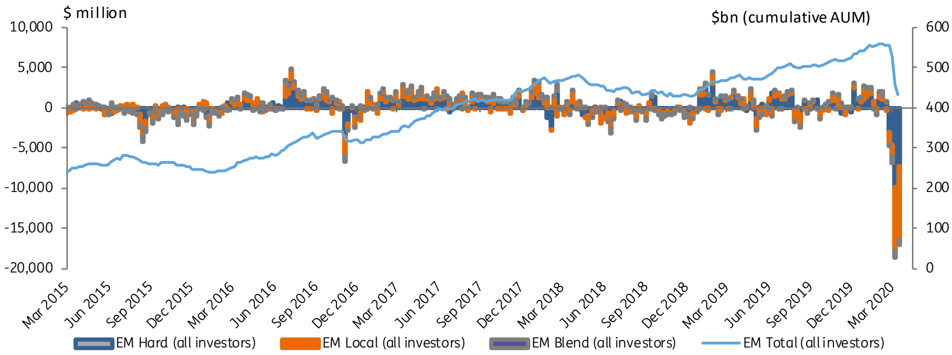

Source: EPFR Global, ING estimates

# Emerging markets

## Emerging Markets – Summary themes

- Outflows from emerging markets have been severe. In the past four weeks there has been a 10% reduction in assets under management in emerging markets among mutual funds. That likely eased off through this week, but on latest data through to Wednesday of this week the outflows were running at 4%.
- Note that the blue line in the graph below 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 shown captures well the pain felt in terms of emerging markets valuations.

**Fig 9 Feature Chart: Big outflows**



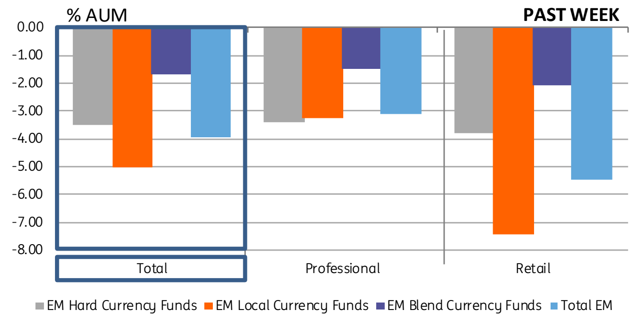

Source: EPFR Global, ING estimates

- The outflows have been practically equally split between hard currency and local currency, although in the past week local currency funds have seen a more marked outflow process. The other feature is that outflows have been more concentrated in dedicated hard currency or local currency funds, but less from blend funds.
- Also, retail have been bigger seller than professionals. And under the bonnet we see that retail have been heavier sellers of local currency emerging markets, while professionals have been bigger sellers of hard currency. This reflects the natural tendency for retail to be more biased towards holding local currency product.

**BOTTOM LINE:** The outflows from emerging markets have been severe, and are reminiscent of an EM contagion event. They have coincided with a series of rating down grades for corporates and sovereigns with an oil exporting or producing underpinning. The selling so far has been broadly indiscriminate in high beta space. That said, instigation of QE in many EM centres adds an element of support that is quite new for many emerging market bond markets, and will curb some of the pain.

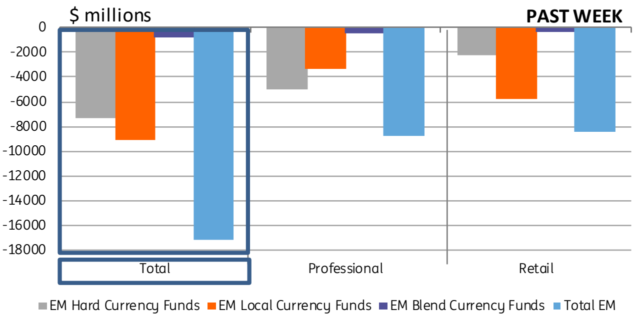
# Emerging market Fund Flows

## Fig 10 Change in the past week (%)



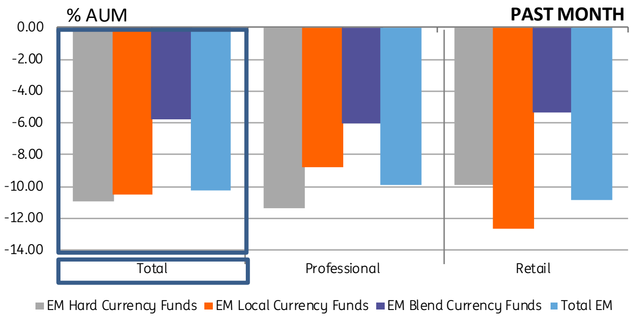

Source: EPFR Global, ING estimates

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



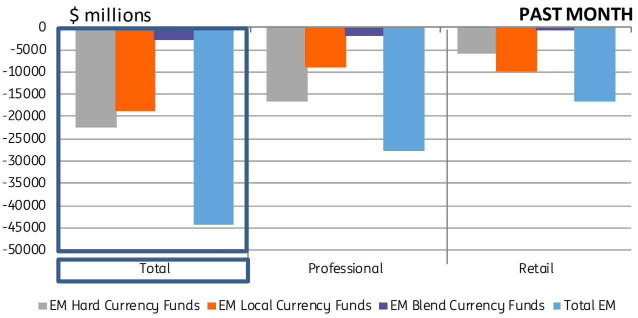

Source: EPFR Global, ING estimates

## Fig 12 Change in the past month (%)



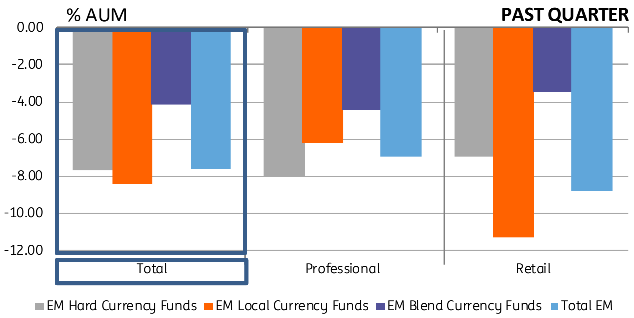

Source: EPFR Global, ING estimates

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



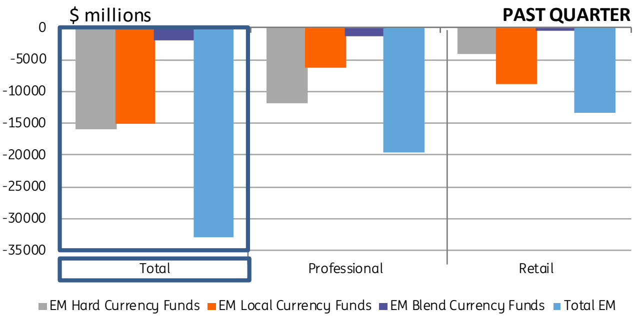

Source: EPFR Global, ING estimates

## Fig 14 Change in the past quarter (%)



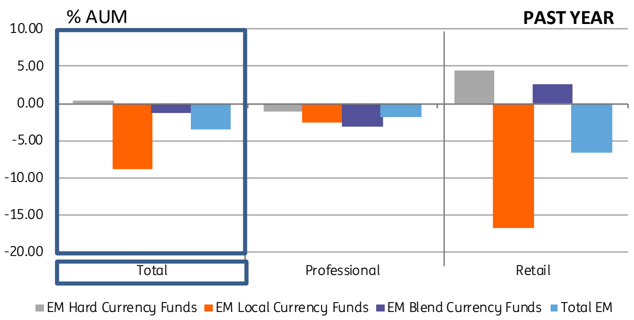

Source: EPFR Global, ING estimates

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



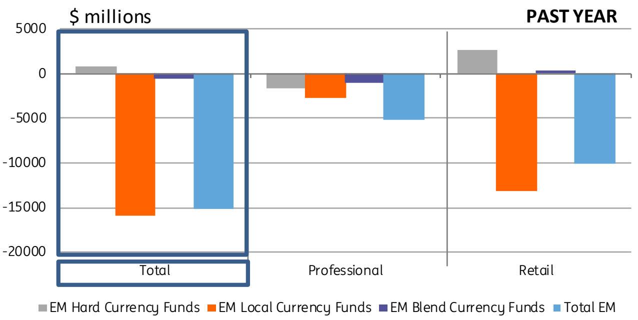

Source: EPFR Global, ING estimates

## Fig 16 Change in the past year (%)




Source: EPFR Global, ING estimates

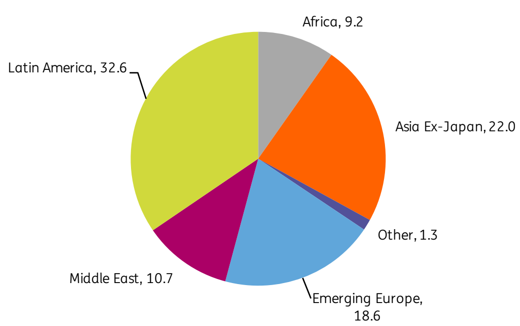
## Fig 17 Change in the past year (US$m)




Source: EPFR Global, ING estimates

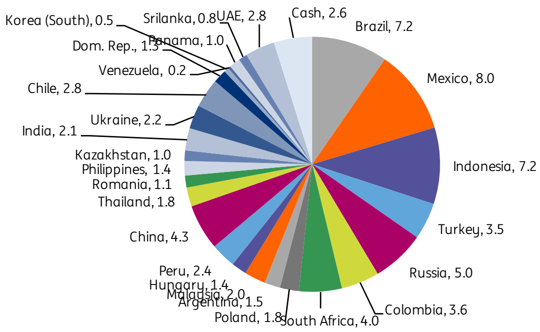
# Global EM Manager Asset Allocations

## Fig 18 GEM allocations for latest month (%)



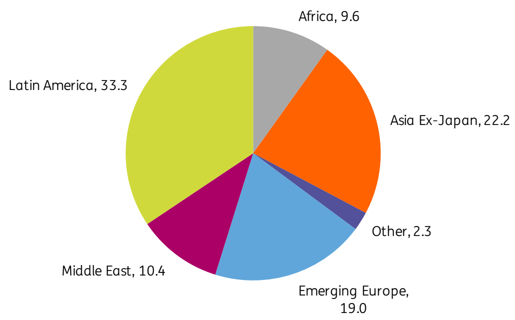

Source: EPFR Global, ING estimates

## Fig 19 GEM detailed allocations for latest month (%)



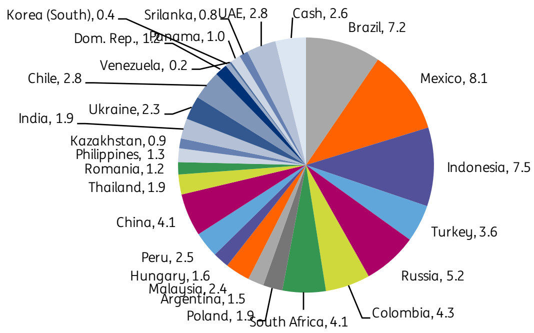

Source: EPFR Global, ING estimates

## Fig 20 GEM allocations one month ago (%)



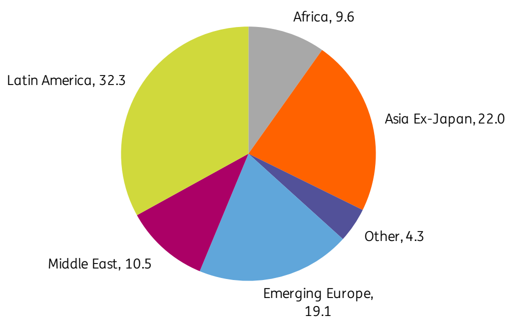

Source: EPFR Global, ING estimates

## Fig 21 GEM detailed allocations one month ago (%)



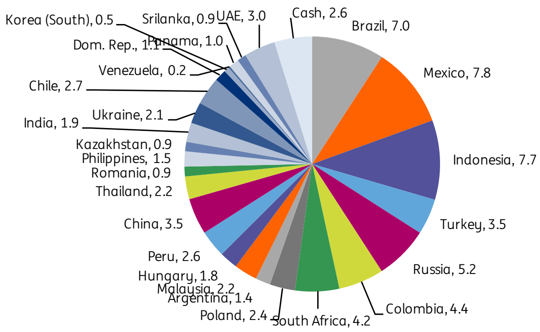

Source: EPFR Global, ING estimates

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



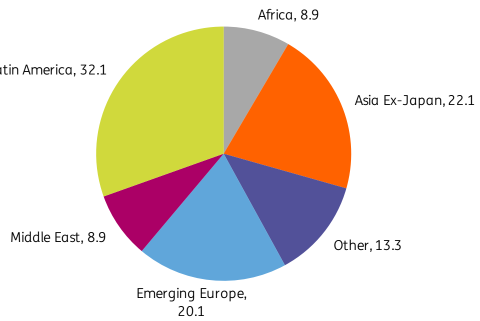

Source: EPFR Global, ING estimates

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



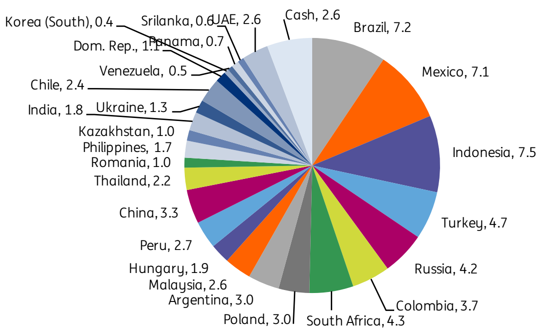

Source: EPFR Global, ING estimates

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




Source: EPFR Global, ING estimates

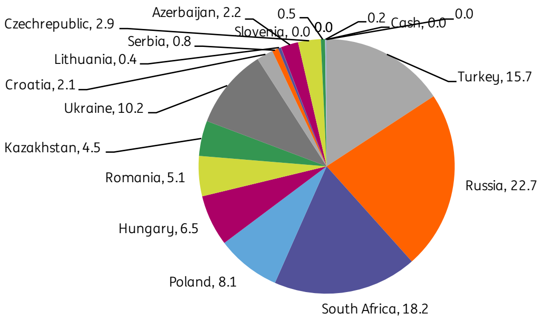
## Fig 25 GEM detailed allocations one year ago (%)




Source: EPFR Global, ING estimates

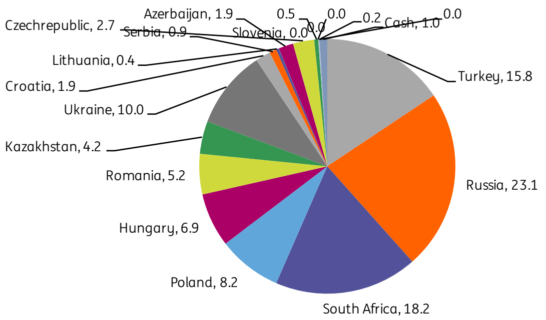
# Regional EM Manager Asset Allocation

### Fig 26 EMEA allocations for latest month (%)



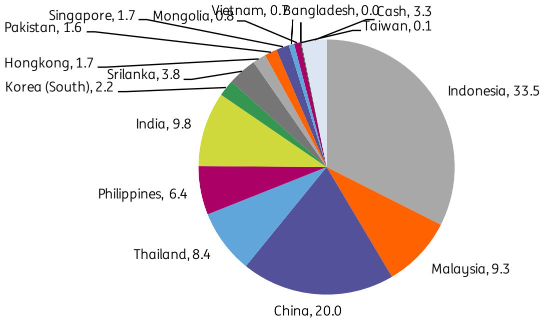

Source: EPFR Global, ING estimates

### Fig 27 EMEA allocations for previous month (%)



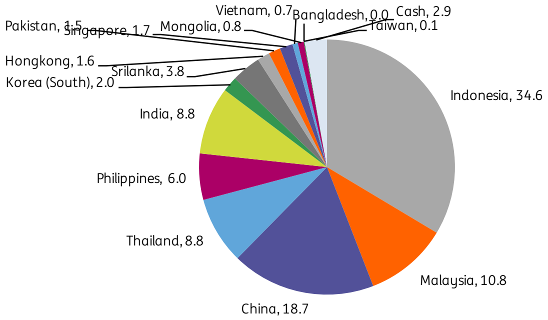

Source: EPFR Global, ING estimates

### Fig 28 Asia allocations for latest month (%)



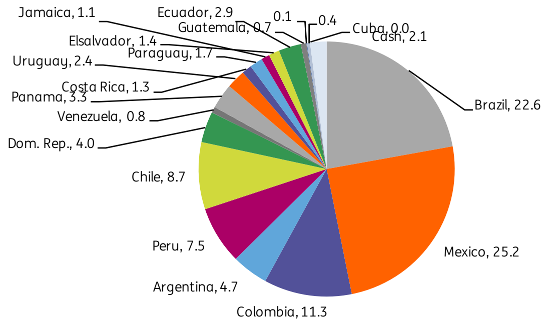

Source: EPFR Global, ING estimates

### Fig 29 Asia allocations for previous month (%)



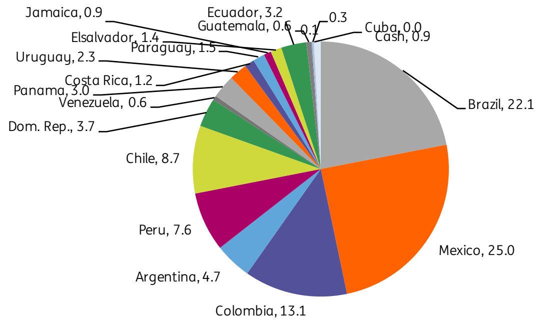

Source: EPFR Global, ING estimates

### Fig 30 Latam allocations for latest month (%)



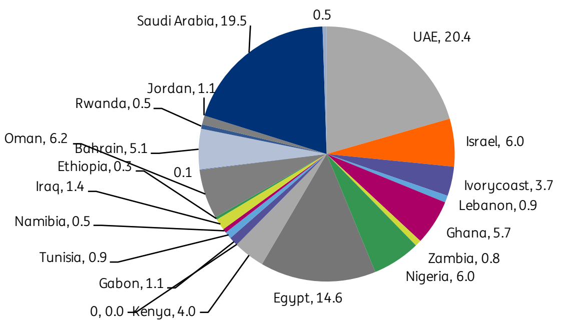

Source: EPFR Global, ING estimates

### Fig 31 Latam allocations for previous month (%)



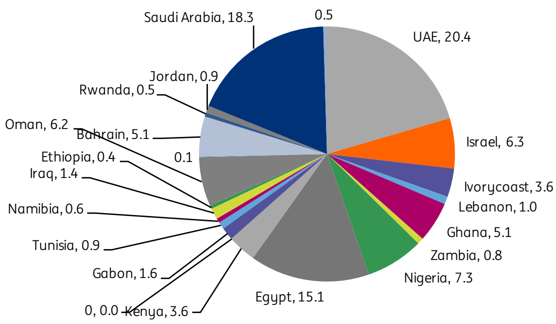

Source: EPFR Global, ING estimates

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




Source: EPFR Global, ING estimates

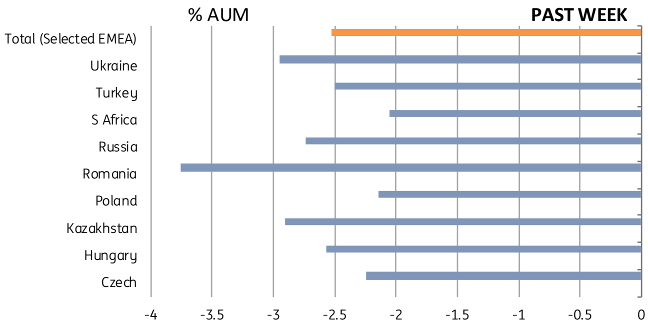
### Fig 33 Africa & ME allocations for previous month (%)




Source: EPFR Global, ING estimates

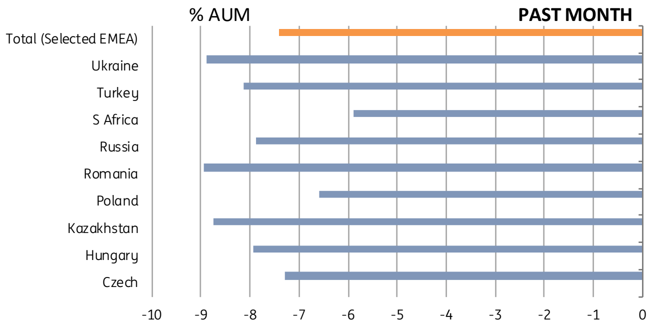
# Selected EMEA and Latam Country Flows

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



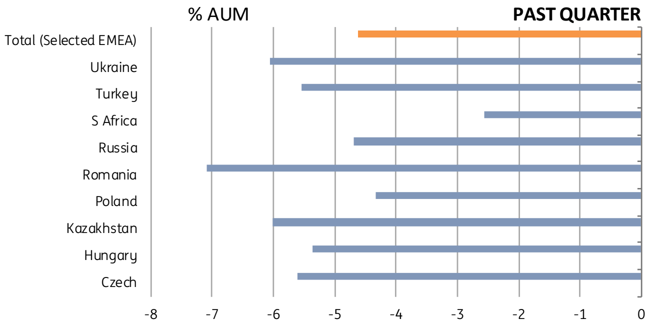

Source: EPFR Global, ING estimates

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



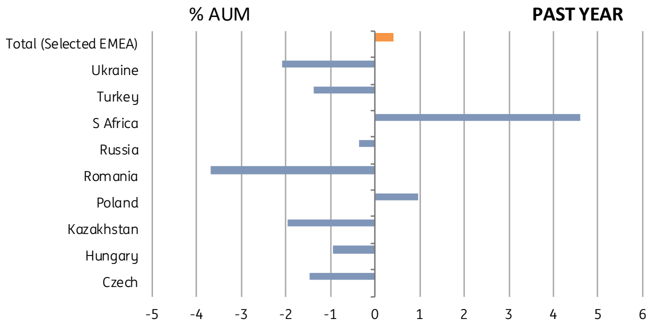

Source: EPFR Global, ING estimates

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



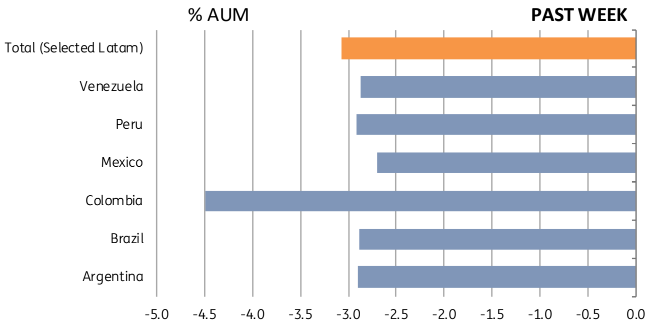

Source: EPFR Global, ING estimates

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



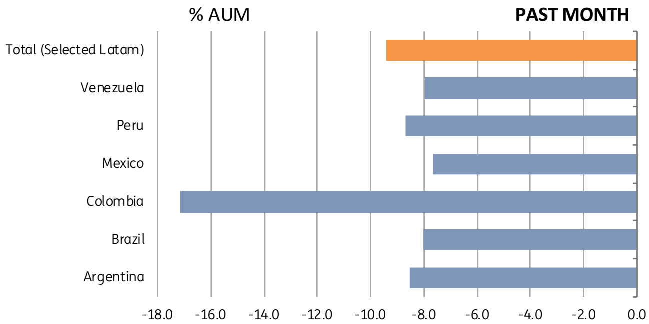

Source: EPFR Global, ING estimates

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



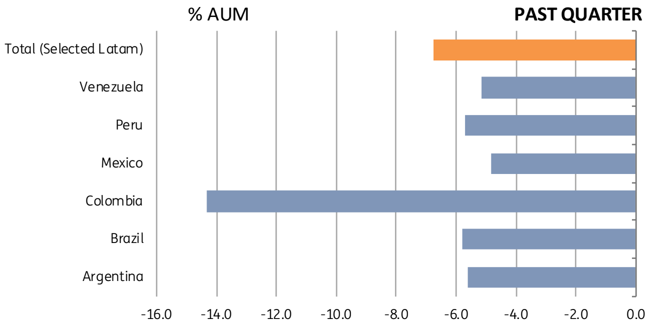

Source: EPFR Global, ING estimates

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



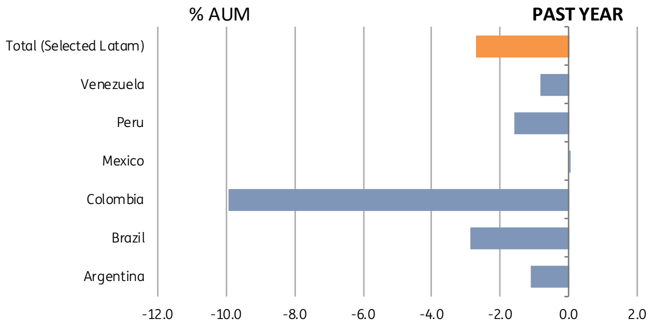

Source: EPFR Global, ING estimates

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




Source: EPFR Global, ING estimates

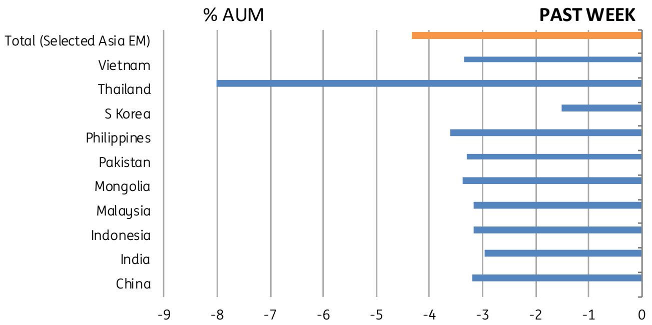
### Fig 41 Latam – Change in the past year (%)




Source: EPFR Global, ING estimates

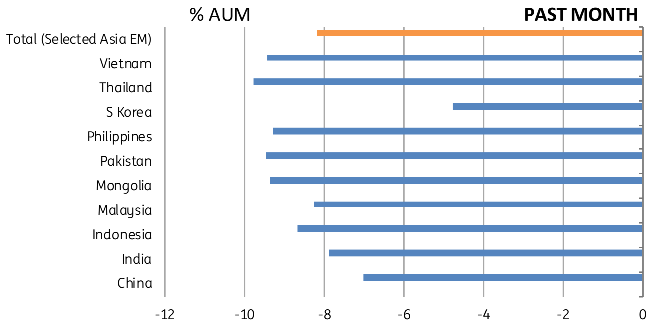
# Selected Asia and ME/Africa Country Flows

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



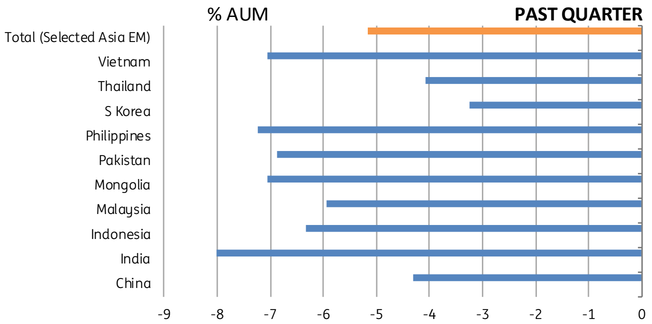

Source: EPFR Global, ING estimates

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



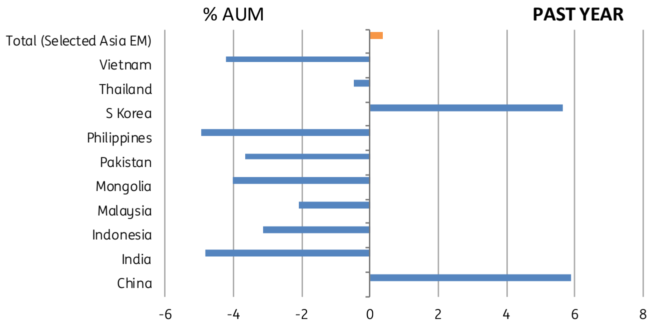

Source: EPFR Global, ING estimates

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



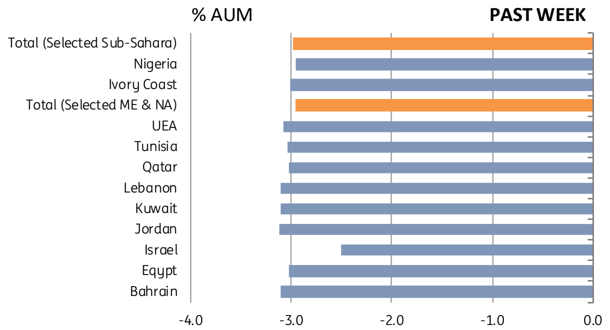

Source: EPFR Global, ING estimates

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



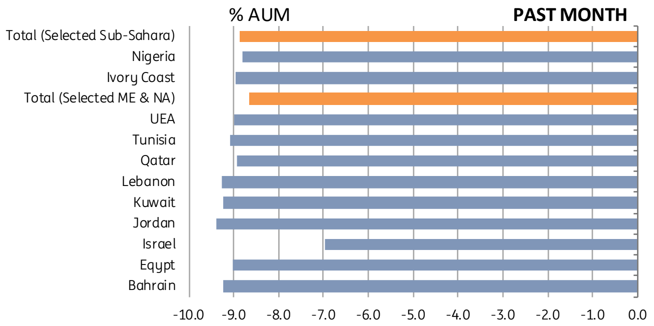

Source: EPFR Global, ING estimates

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



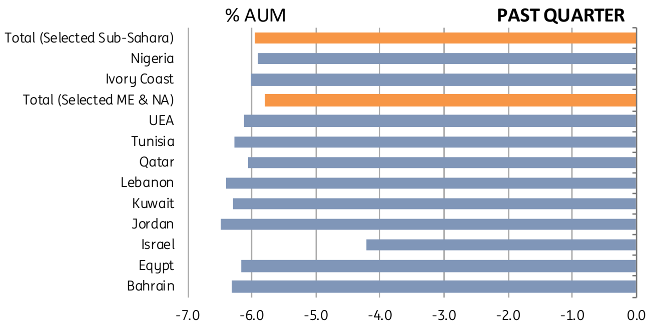

Source: EPFR Global, ING estimates

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



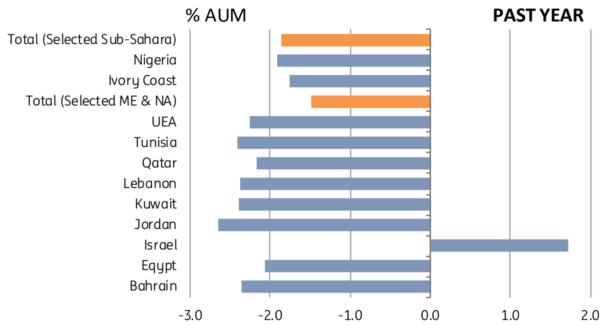

Source: EPFR Global, ING estimates

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




Source: EPFR Global, ING estimates

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



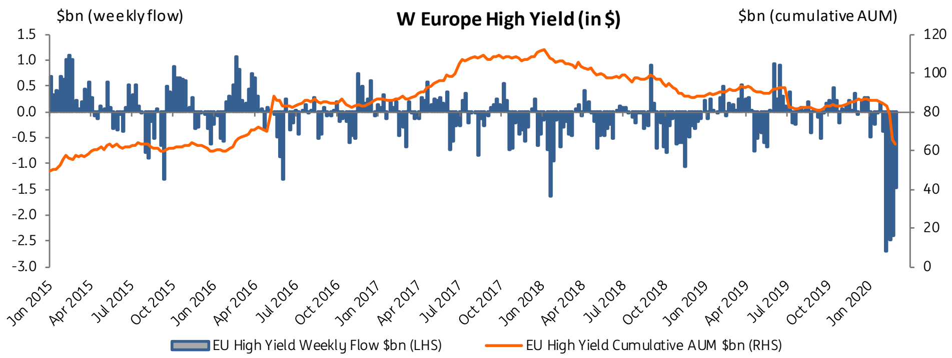

Source: EPFR Global, ING estimates

# High Yield

## High Yield – Summary themes

- High yield assets under management at mutual funds have fallen by some 9% in the past four weeks, a significant outflow. USD high yield is broadly in line with that, but the outflows has been even more dramatic in W Europe currencies where the outflows has been in excess of 12%.
- The issue in high yield centres not just on high weighting in the energy sector, but also the fact that the shut-down of economies really elevates default risk, and this is where high yield players would typically be the first to fall. Also, most of the measures instigated are more geared towards investment grade than high yield.

**Fig 50 Feature Chart: Painful outflows**



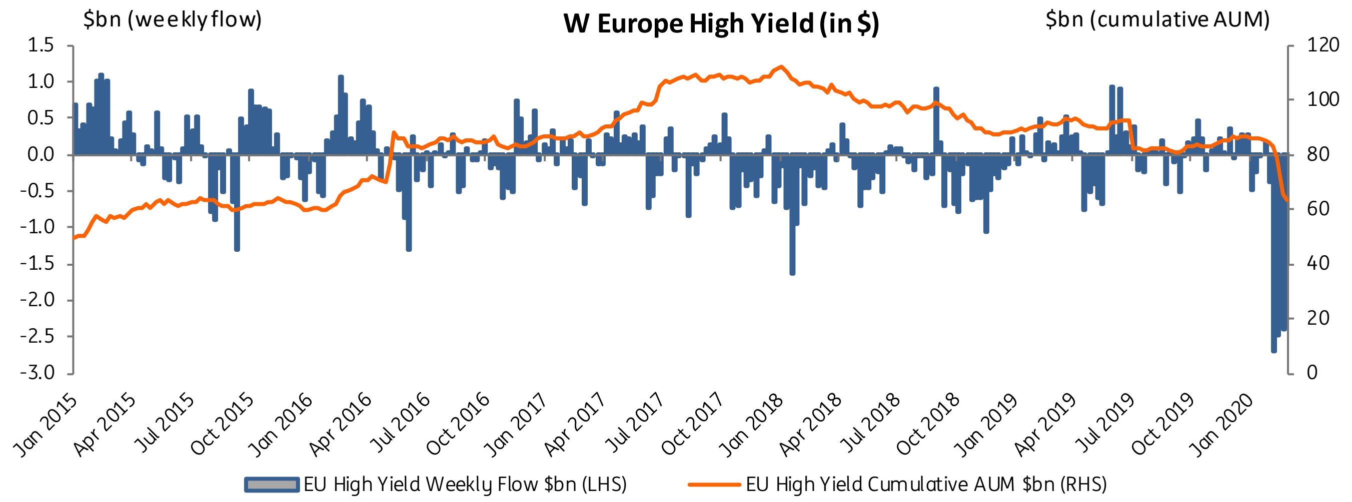

Source: EPFR Global, ING estimates

- Note that 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 shown captures well the pain felt in terms of high yield valuations.

**BOTTOM LINE:** The drawing of credit line revolvers have been particularly marked in high yield where the stresses are greatest. Not only is there a classic elevation in default risk as economies jump to a recessionary state, but the collapse in the oil price is an additional stress factor in this space. Hence the outflows of some 9% seen in the past month. And the pressure remains elevated despite the positive week just gone by, as high yield will remain more exposed than other asset classes even when things re-open.

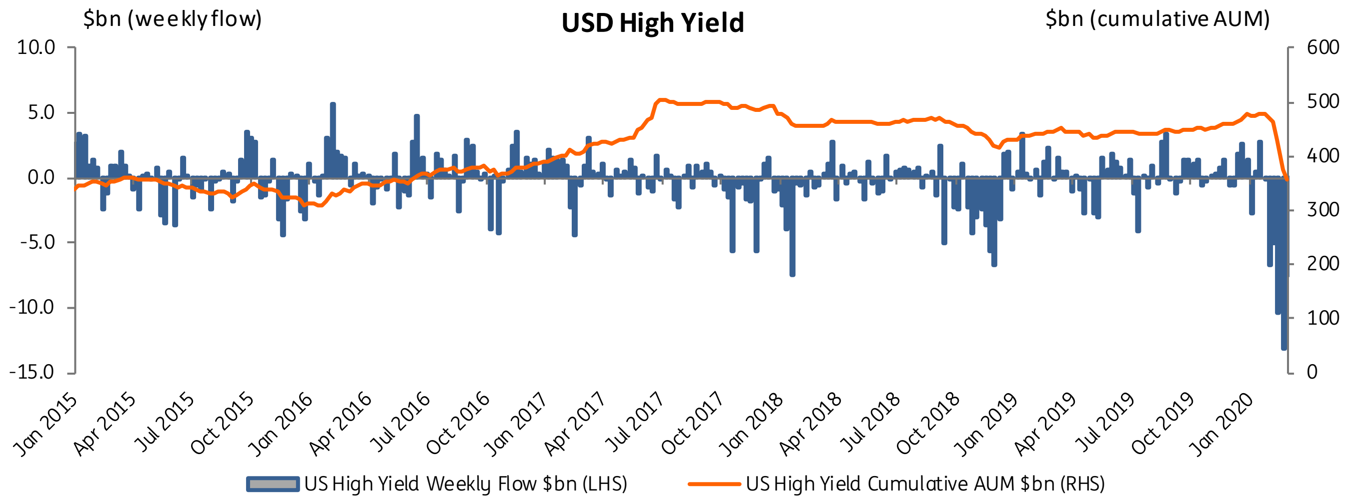
## EM (all currency) vs High Yield USD and EU

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



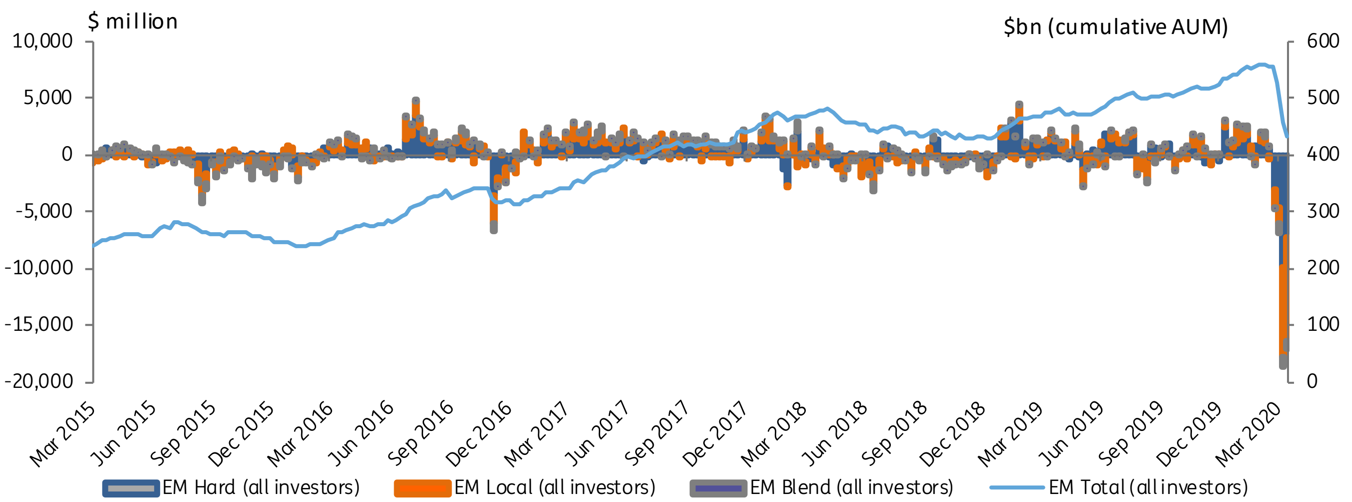

Source: EPFR Global, ING estimates

**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

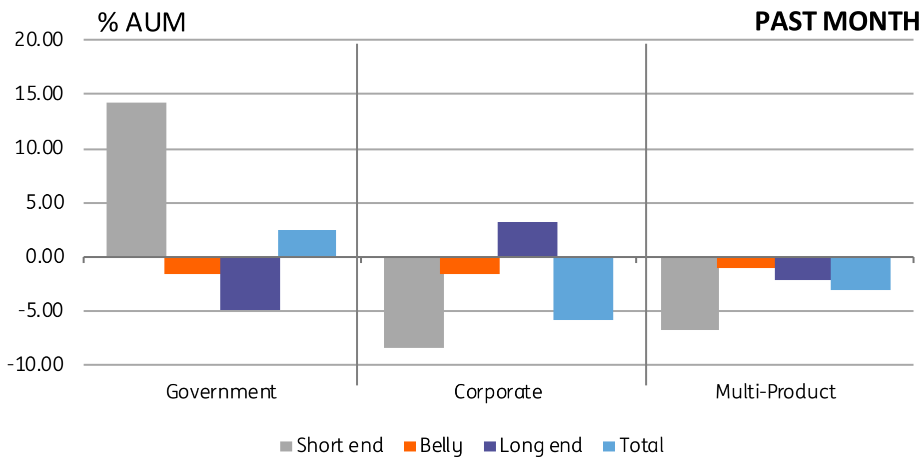
# Developed Markets

## Developed Markets – Summary themes

- Developed market government bonds have seen an inflow of almost 2.5% of assets under management in the past month. The bulk of the inflows have been into the front end, with assets under management there up over 12%. There have in fact been outflows in longer maturities, but here the flow is from mutual funds to the Federal Reserve as it really ramped up its QE program.

- In corporates, the key flow has been liquidation in shorter maturities. The implied flow has been out of short dated corporates and into short dated governments. There have also been large outflows from belly maturity funds, but inflows to long maturity funds. Overall though, it has been a story of outflows for investment grade corporates, with assets under management down by almost 6% in a month.

**Fig 54 Feature Chart: Flight into Government bonds, in particular to the front end**



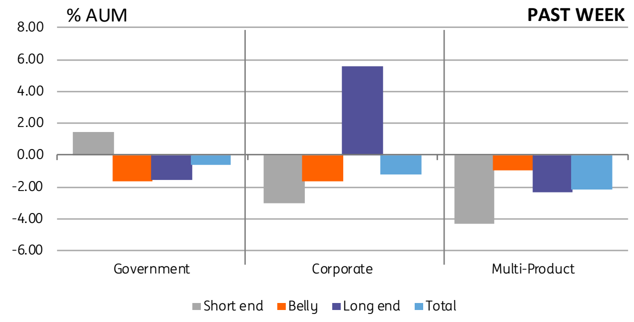

Source: EPFR Global, ING estimates

- We note also outflows from inflation linked funds as markets discount the shut-down process as being deflationary. Such funds have seen outflows in the region of 5% of assets under management in the past month.

**BOTTOM LINE:** A pronounced flow into front end government bonds no doubt reflects a flight to safety. Investment grade corporates by the same token saw large outflows, with the focus on short and medium-term maturities. The stress in high yield quickly moved down the credit curve to infect investment grade as the close-down intensified. The parallel outflow from inflation linked funds signals a deflationary effect from this too. Meanwhile, the Federal Reserve has been a big player in this space of late, as has the ECB, dominating as a big buyer in the government bond space in particular.

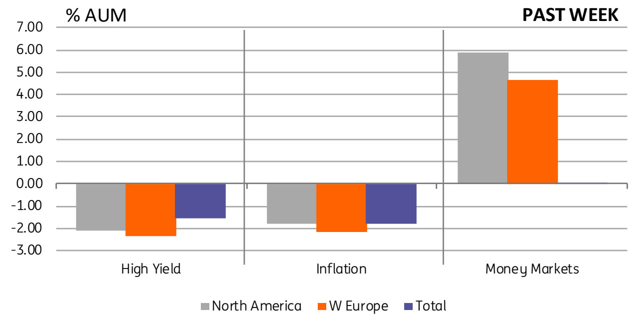
# Developed Markets Net Fund Flows

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



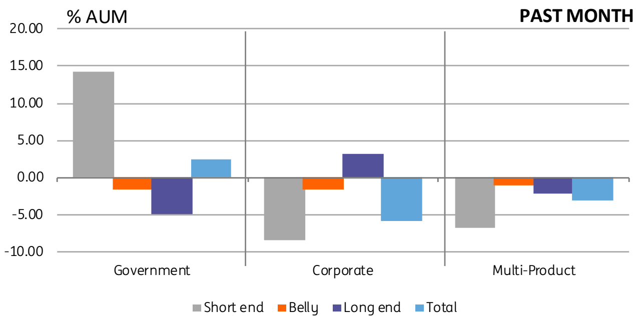

Source: EPFR Global, ING estimates

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



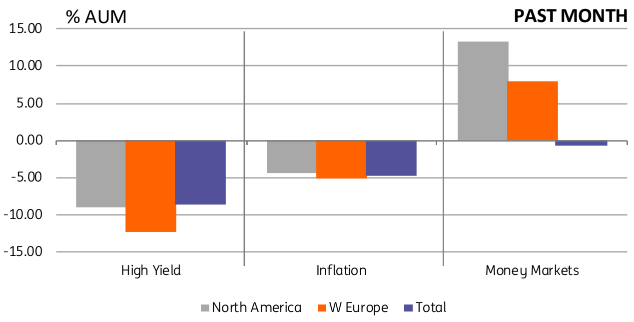

Source: EPFR Global, ING estimates

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



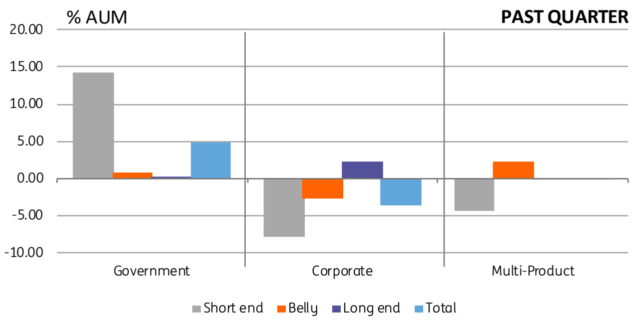

Source: EPFR Global, ING estimates

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



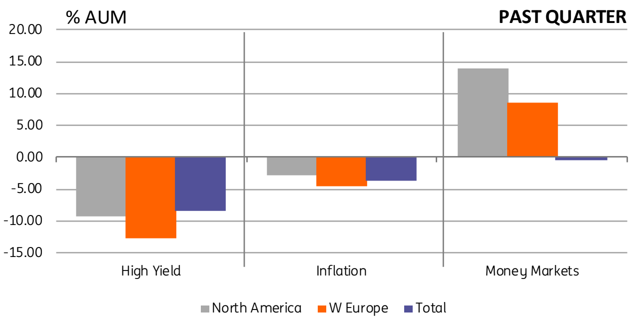

Source: EPFR Global, ING estimates

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



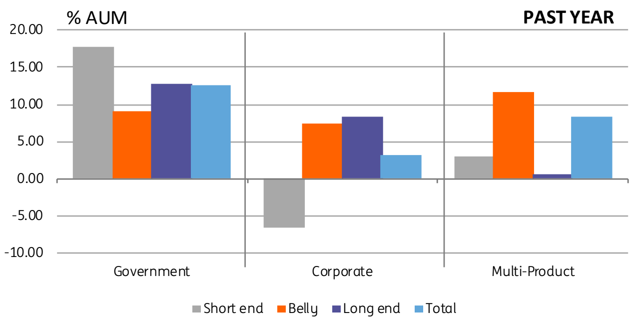

Source: EPFR Global, ING estimates

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



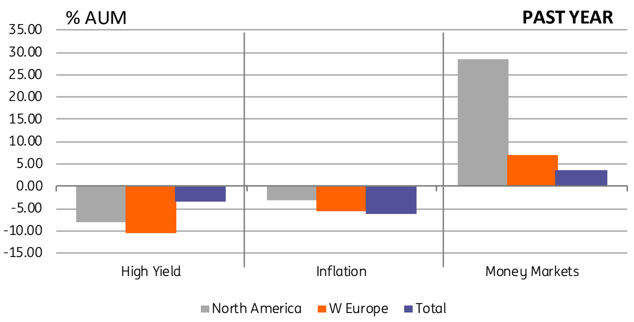

Source: EPFR Global, ING estimates

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




Source: EPFR Global, ING estimates

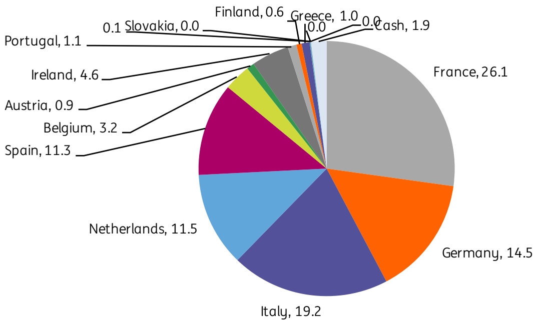
### Fig 62 Change in the past year (%)




Source: EPFR Global, ING estimates

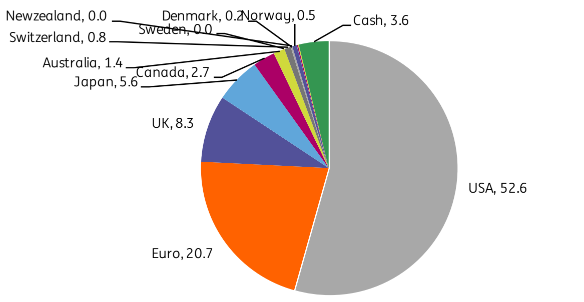
# Global DM Manager Asset Allocations

## Fig 63 Eurozone allocations for the last month (%)



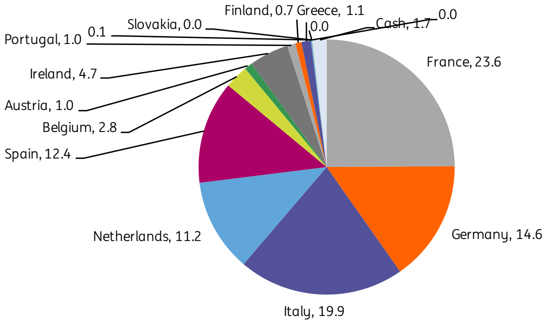

Source: EPFR Global, ING estimates

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



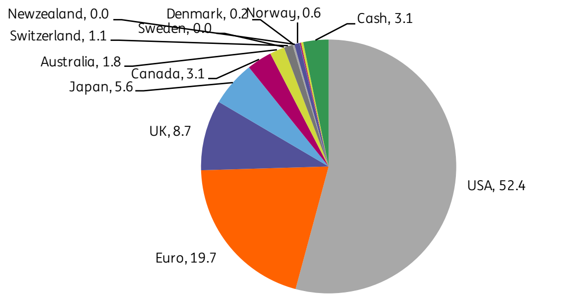

Source: EPFR Global, ING estimates

## Fig 65 Eurozone allocations one month ago (%)



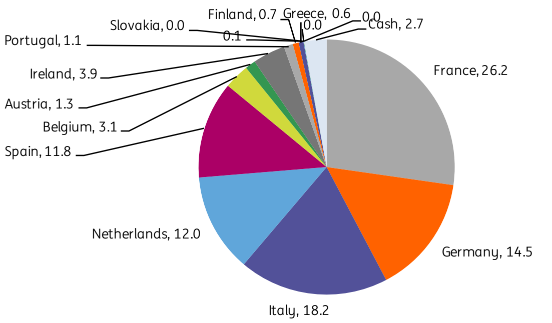

Source: EPFR Global, ING estimates

## Fig 66 Global DM allocations one month ago (%)



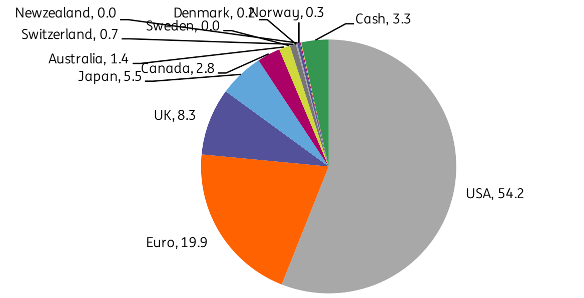

Source: EPFR Global, ING estimates

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



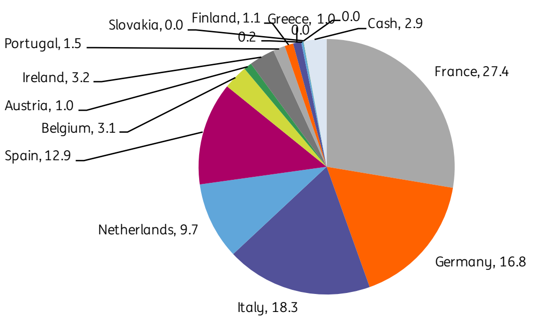

Source: EPFR Global, ING estimates

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



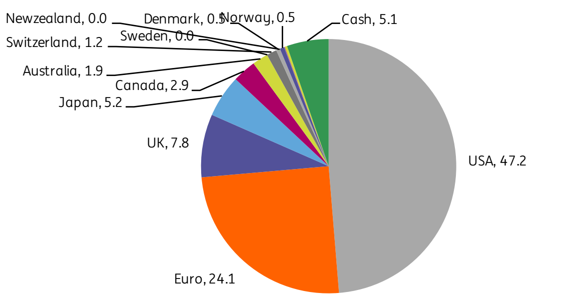

Source: EPFR Global, ING estimates

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




Source: EPFR Global, ING estimates

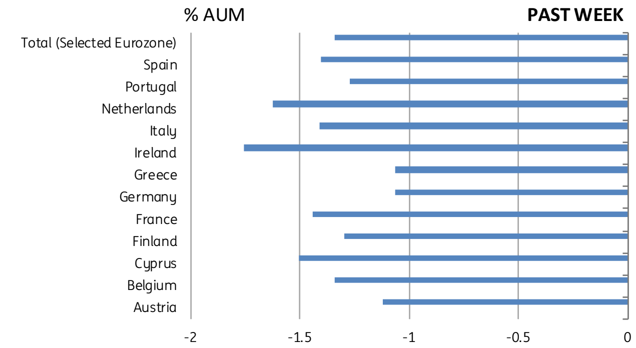
## Fig 70 Global DM allocations one year ago (%)




Source: EPFR Global, ING estimates

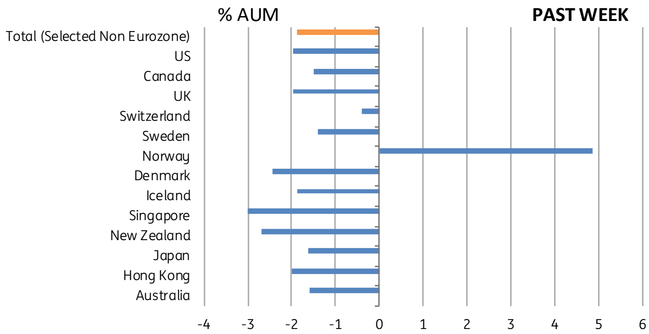
# Developed Markets Country Flows

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



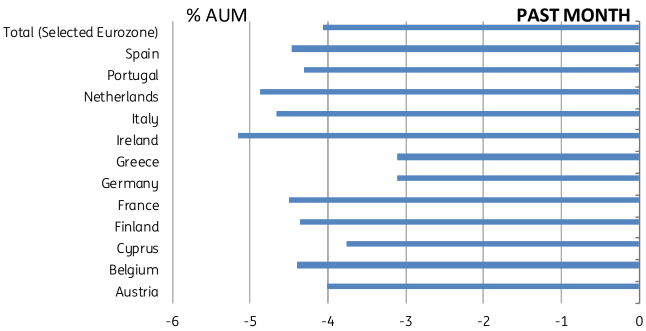

Source: EPFR Global, ING estimates

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



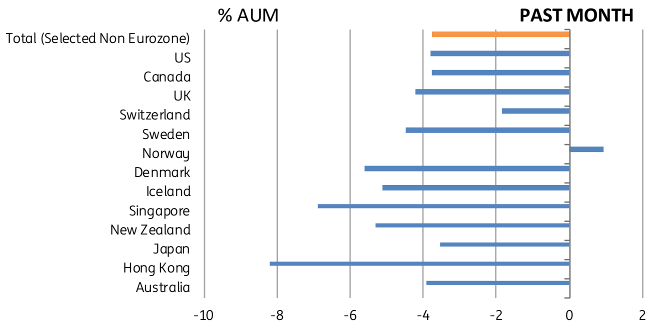

Source: EPFR Global, ING estimates

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



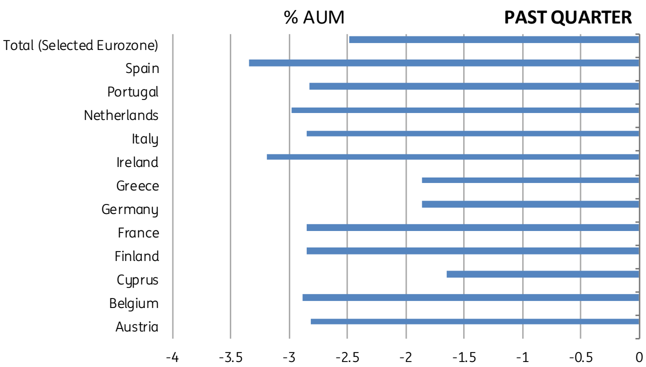

Source: EPFR Global, ING estimates

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



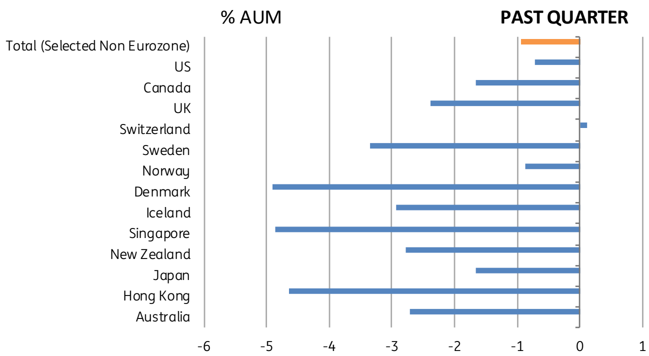

Source: EPFR Global, ING estimates

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



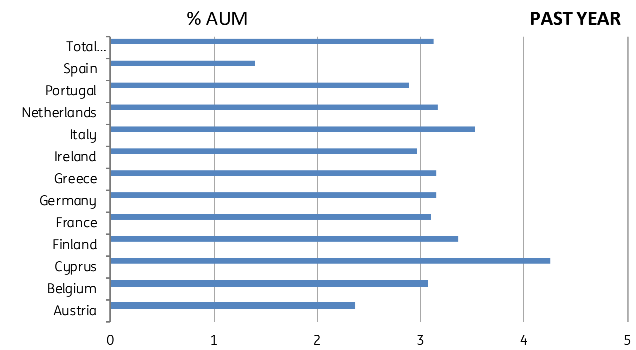

Source: EPFR Global, ING estimates

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



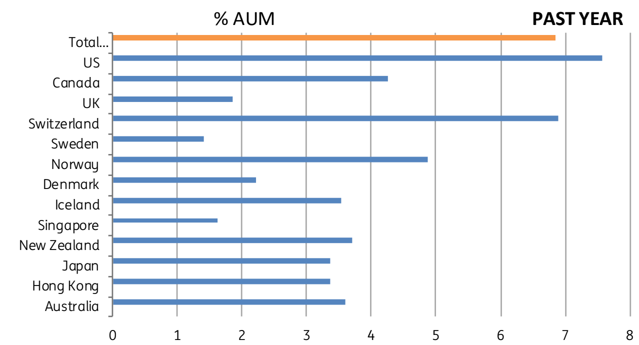

Source: EPFR Global, ING estimates

## 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

## Disclaimer