29 May 2020
Rates and Credit

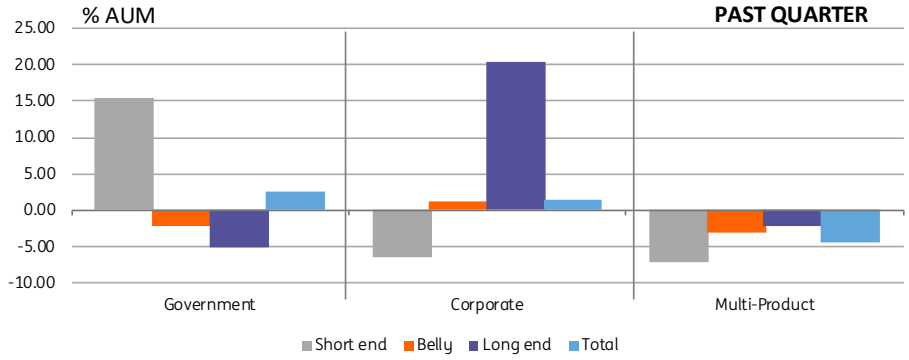
Note: The data in this report relies heavily on EPFR Global data and references the week ended Wednesday, 27 May 2020

Global debt flows

The big mend continues

Covid-19 effects so far centre on flight into short-end government bonds and equivalents, a measure of safety flight. At the same time there has been resumed risk-on in the guise of strong inflows to dollar high yield and corporates generally. The rot has been stopped in emerging markets, but no sign yet of a sustained material return inflow process, reflecting pressures still there. Also, inflation linked bonds globally are friendless as dis-inflation forces dominate.

Graph of the week: Capitulation outflows in high yield



Source: EPGR Global, ING estimates

Seven things learnt from latest flows data

1) Following a dramatic emerging markets outflows process and large price falls as the Covid-19 crisis unfolded, there have been some resumed inflows seen in recent weeks. Most of this has been into hard currency product.

2) Retail remains a seller of EM local currency and was the biggest seller here when the pressure first built in March. There is evidence of flows back into Turkey and S Africa, but no clear evidence of inflows to Brazil; allocation there also remains down.

3) Not only was there a classic elevation in default risk in high yield as economies jumped to a recessionary state, but the collapse in the oil price was an additional stress factor in this space. Hence the prior outflows seen in high yield.

4) However fast forward to more recent weeks and there has been an implied re-rating of prospects in the high yield space, and in particular in the USD space where the prior stress was most elevated.

5) 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.

6) There has been an increase in holding of short duration governments and money market funds, and an increase in corporate holdings right along the maturity spectrum, but especially in the medium-to-longer maturities.

7) Overall in the past three months there has been an increased in holdings of bonds generally, both governments and corporates. But holdings of inflation linked bonds are well down and remain down.

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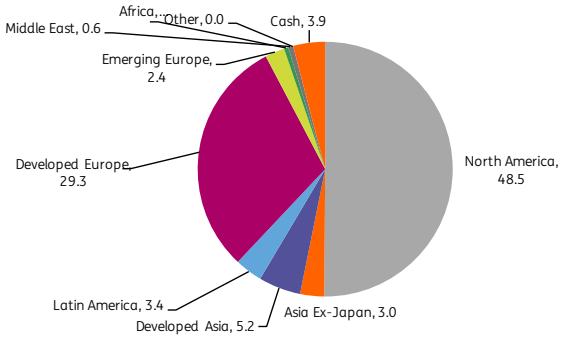
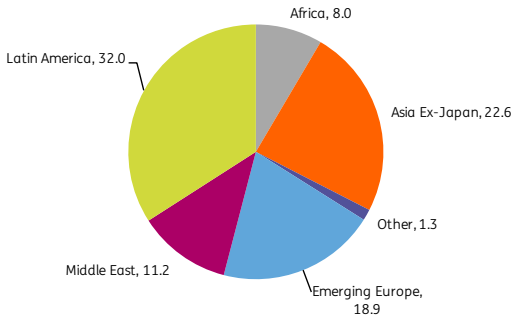
Global Manager (average) Allocations by Region

Fig 1 Global allocations for latest month (%)



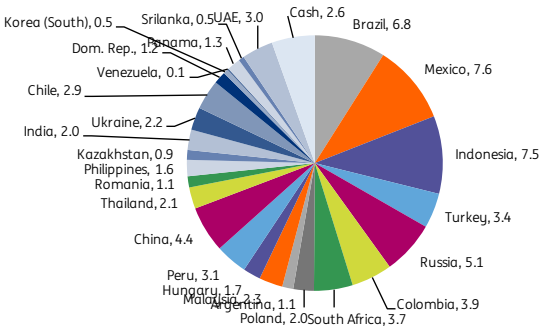
Source: EPFR Global, ING estimates

Fig 2 EM allocations for latest month (%)



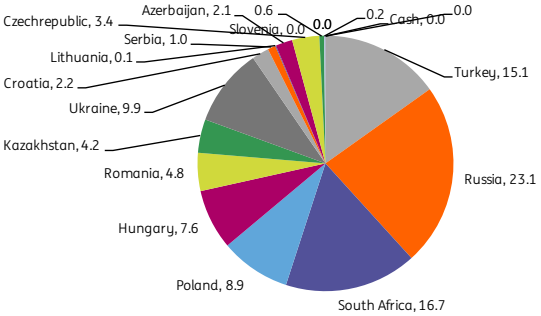
Source: EPFR Global, ING estimates

Fig 3 EM detailed allocations for latest month (%)



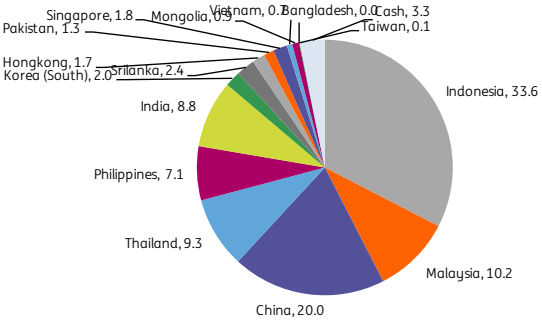
Source: EPFR Global, ING estimates

Fig 4 EMEA allocations for latest month (%)



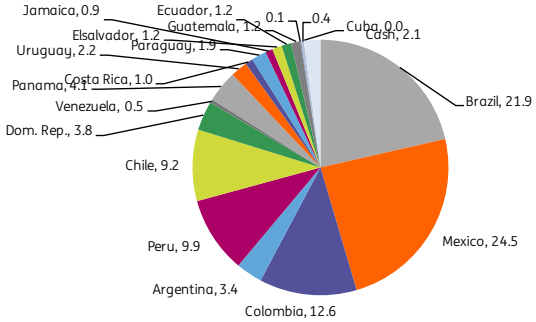
Source: EPFR Global, ING estimates

Fig 5 Asia EM allocations for latest month (%)



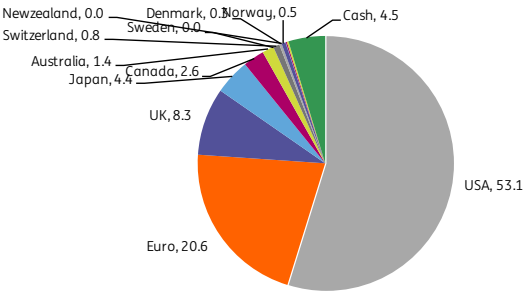
Source: EPFR Global, ING estimates

Fig 6 Latam allocations for latest month (%)



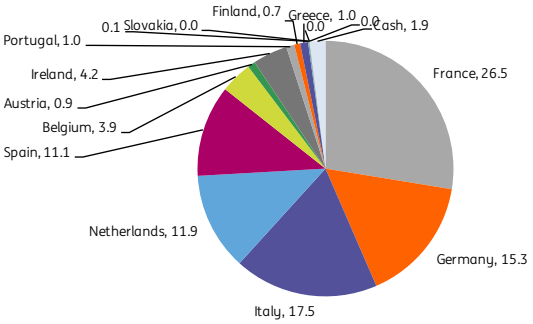
Source: EPFR Global, ING estimates

Fig 7 Developed allocations for latest month (%)



Source: EPFR Global, ING estimates

Fig 8 Eurozone allocations for latest month (%)



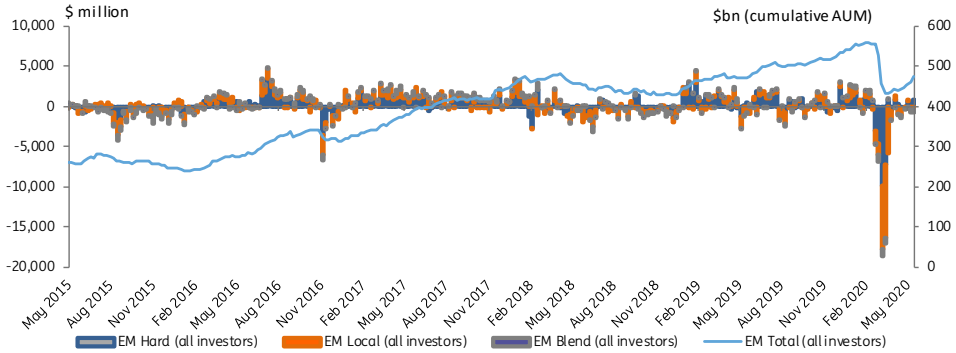
Source: EPFR Global, ING estimates

Emerging markets

Emerging Markets – Summary themes

- Performance in emerging markets has improved. But the flows story is mixed. Moderate inflows to hard currency has resumed in the past couple of weeks. However, outflows persist in local currency and blend funds. Not large outflows but outflows all the same.
- Things have clearly improved though. Emerging markets saw outflows of some 12% of assets under management through March/April. It's been steady through the past couple of weeks, with inflows to hard currency funds broadly offsetting outflows from local currency and blends funds
- We find that retail have been the biggest sellers of local currency. And in fact, retail have liquidated some 20% of their holdings of local currency emerging market funds in the past 3 months (compared with a 10% liquidation in hard currency).

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



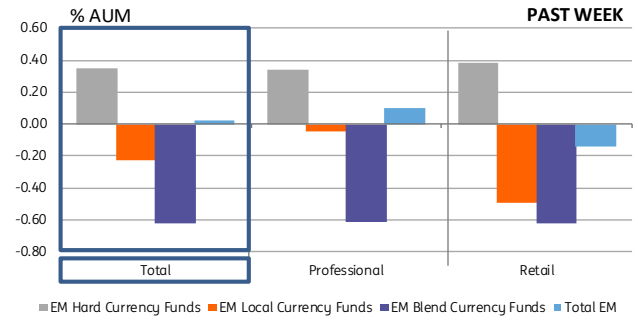
Source: EPFR Global, ING estimates

- Note that the blue 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 the outflows and falls in price. The subsequent rise is more about price than inflows, as these remains quite subdued overall.
- The past month has seen flows back into Turkey and S Africa, versus outflows from Russia, Ukraine, Kazakhstan and Hungary in the EMEA sphere.
- In Latam, allocation to Colombia had fallen through to end April, but there have been resumed inflows in more recent weeks. Allocation to Brazil is also down, but no material inflows yet.
- In Asia, there were flows back into S Korea, Thailand and China in the past month.
- Most of Africa and Middle East have seen outflows in the past month, but that followed an increase in allocations there up to the end of April.

BOTTOM LINE: Following a dramatic outflows process and large price falls as the Covid-19 crisis unfolded, there have been resumed inflows seen in recent weeks. Most of this has been into hard currency product. Retail remains a seller of local currency and was the biggest seller in this space when the pressure first built in March. There is evidence of flows back into Turkey and S Africa, but no clear evidence of inflows to Brazil; allocation there also remains down. Outflows in EMEA in the past month have been from Russia and CIS plus Hungary. Colombia allocations had fallen, but now seeing inflows.

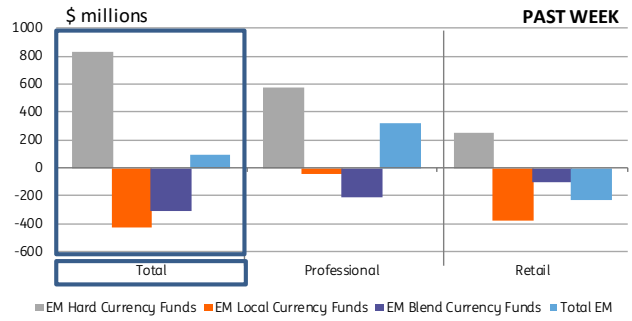
Emerging market Fund Flows

Fig 10 Change in the past week (%)



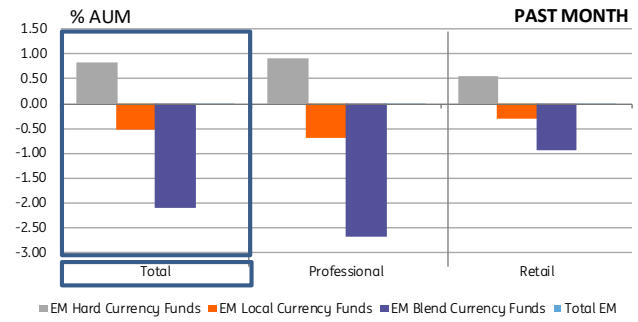
Source: EPFR Global, ING estimates

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



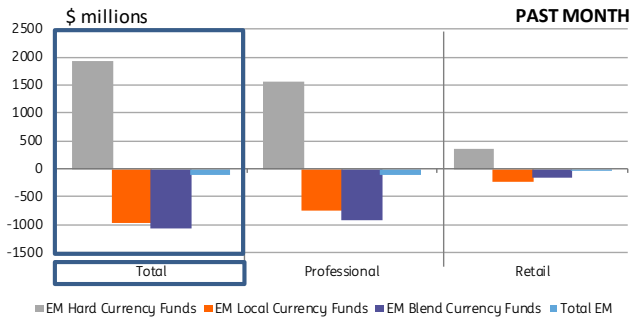
Source: EPFR Global, ING estimates

Fig 12 Change in the past month (%)



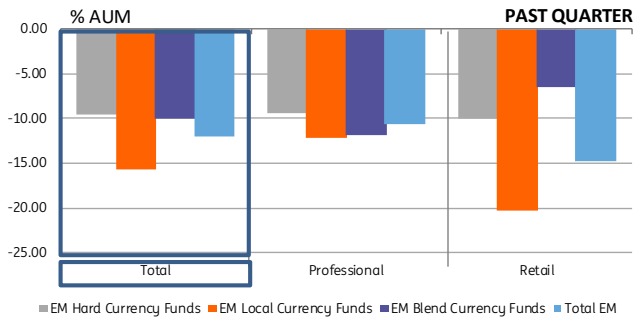
Source: EPFR Global, ING estimates

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



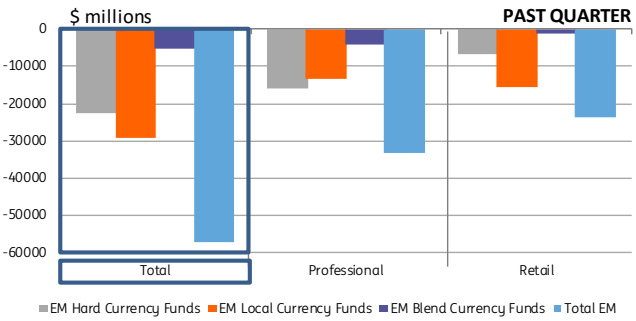
Source: EPFR Global, ING estimates

Fig 14 Change in the past quarter (%)



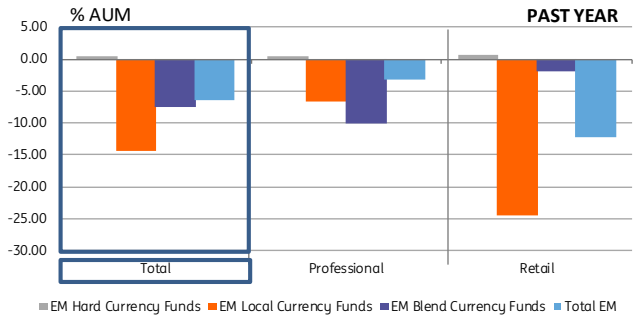
Source: EPFR Global, ING estimates

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



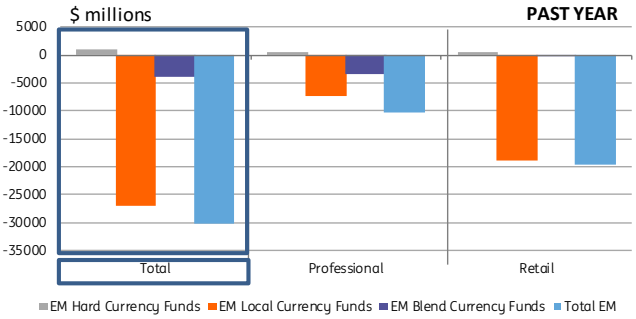
Source: EPFR Global, ING estimates

Fig 16 Change in the past year (%)



Source: EPFR Global, ING estimates

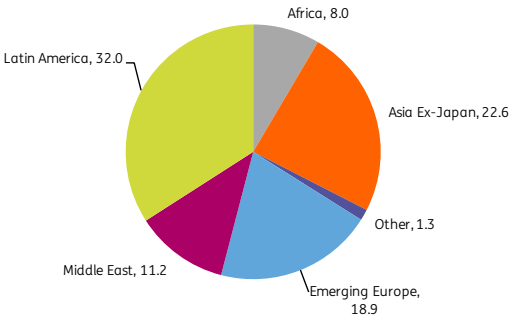
Fig 17 Change in the past year (US$m)



Source: EPFR Global, ING estimates

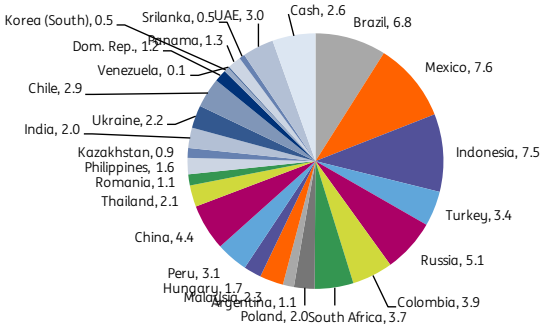
Global EM Manager Asset Allocations

Fig 18 GEM allocations for latest month (%)



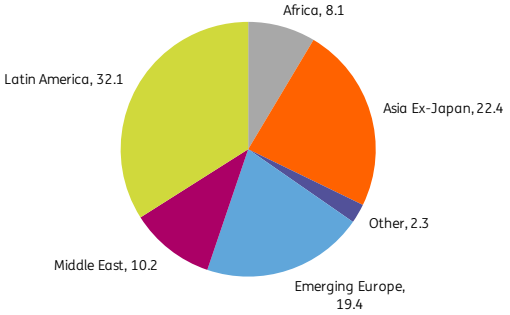
Source: EPFR Global, ING estimates

Fig 19 GEM detailed allocations for latest month (%)



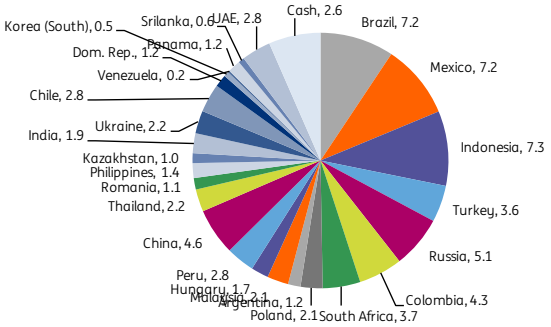
Source: EPFR Global, ING estimates

Fig 20 GEM allocations one month ago (%)



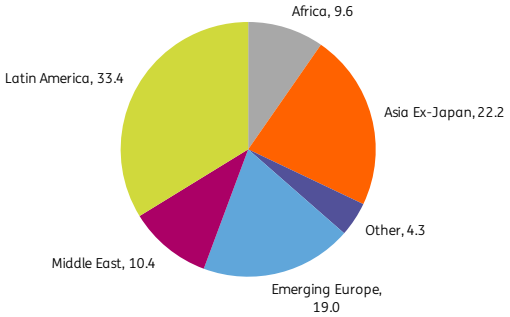
Source: EPFR Global, ING estimates

Fig 21 GEM detailed allocations one month ago (%)



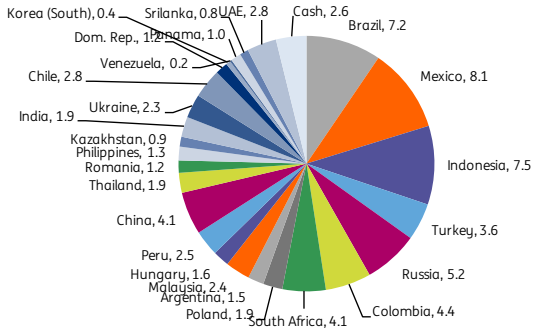
Source: EPFR Global, ING estimates

Fig 22 GEM allocations one quarter ago (%)



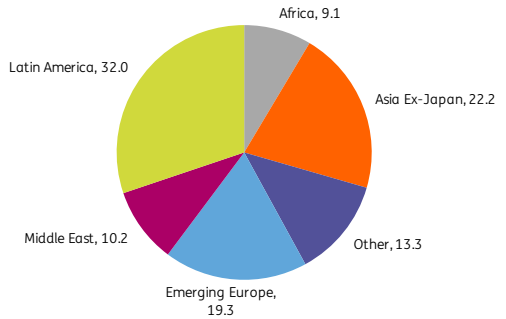
Source: EPFR Global, ING estimates

Fig 23 GEM detailed allocations one quarter ago (%)



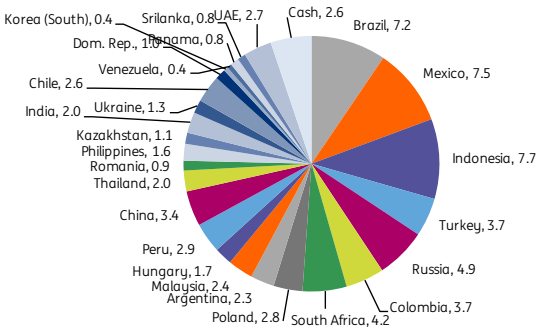
Source: EPFR Global, ING estimates

Fig 24 GEM allocations one year ago (%)



Source: EPFR Global, ING estimates

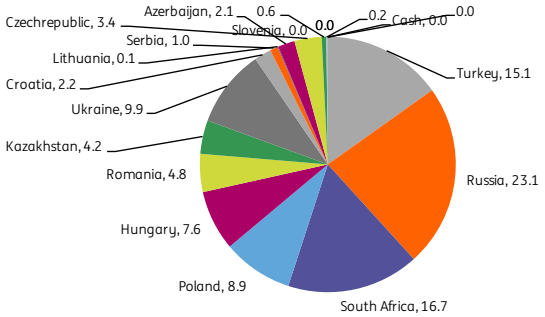
Fig 25 GEM detailed allocations one year ago (%)



Source: EPFR Global, ING estimates

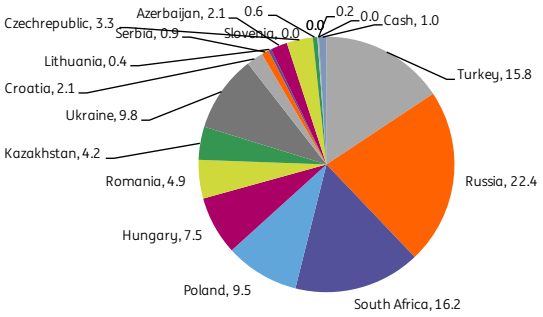
Regional EM Manager Asset Allocation

Fig 26 EMEA allocations for latest month (%)



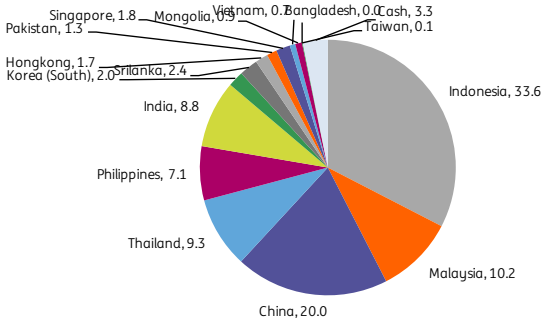
Source: EPFR Global, ING estimates

Fig 27 EMEA allocations for previous month (%)



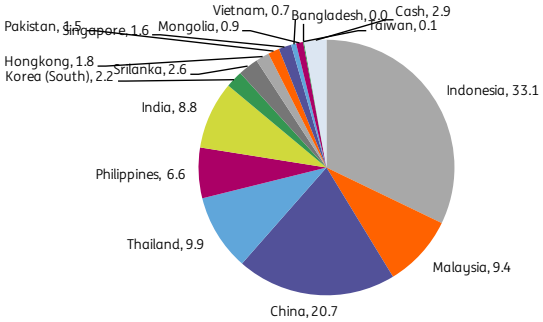
Source: EPFR Global, ING estimates

Fig 28 Asia allocations for latest month (%)



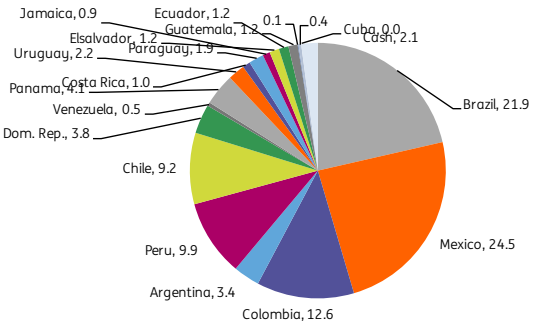
Source: EPFR Global, ING estimates

Fig 29 Asia allocations for previous month (%)



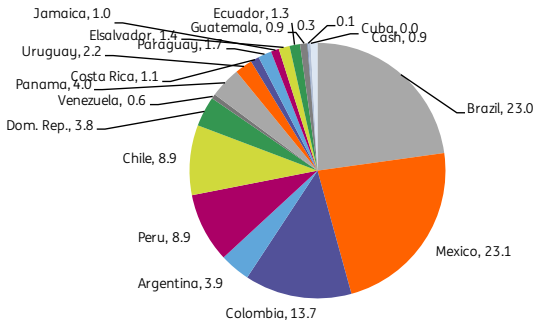
Source: EPFR Global, ING estimates

Fig 30 Latam allocations for latest month (%)



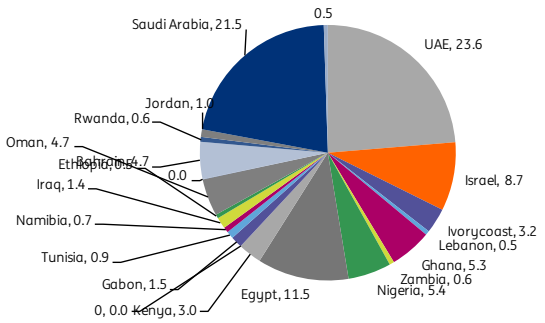
Source: EPFR Global, ING estimates

Fig 31 Latam allocations for previous month (%)



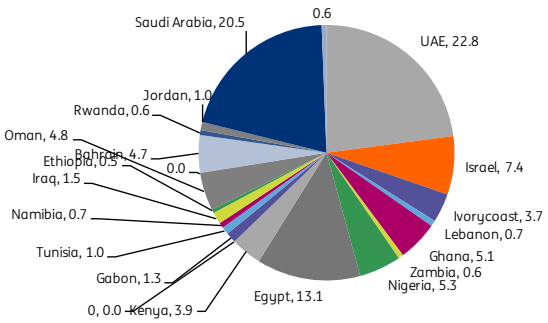
Source: EPFR Global, ING estimates

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



Source: EPFR Global, ING estimates

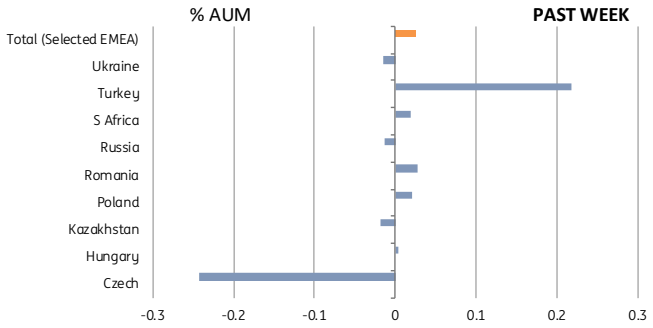
Fig 33 Africa & ME allocations for previous month (%)



Source: EPFR Global, ING estimates

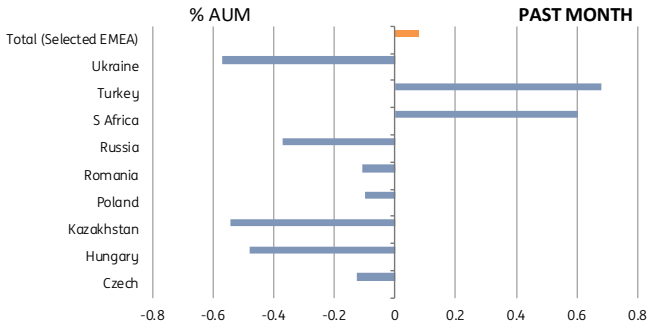
Selected EMEA and Latam Country Flows

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



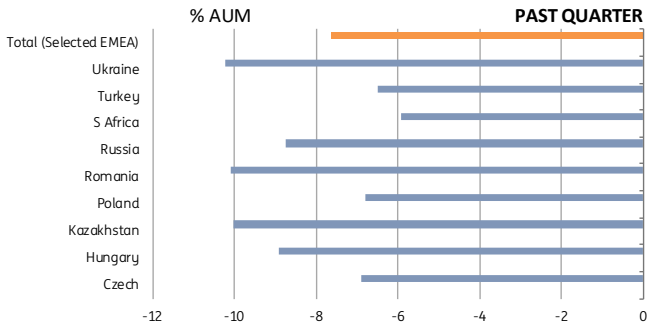
Source: EPFR Global, ING estimates

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



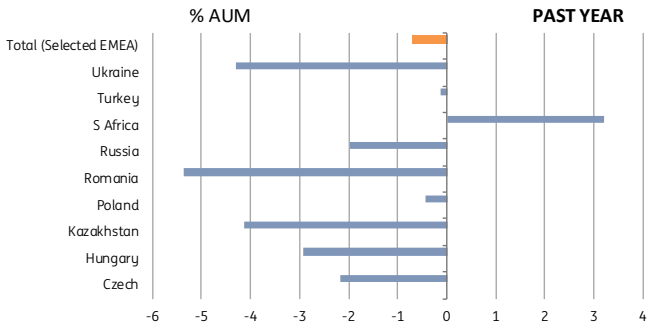
Source: EPFR Global, ING estimates

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



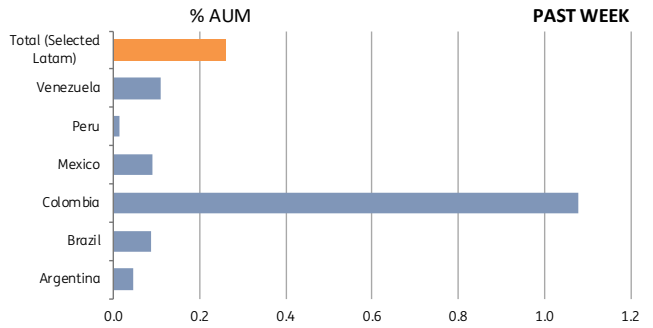
Source: EPFR Global, ING estimates

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



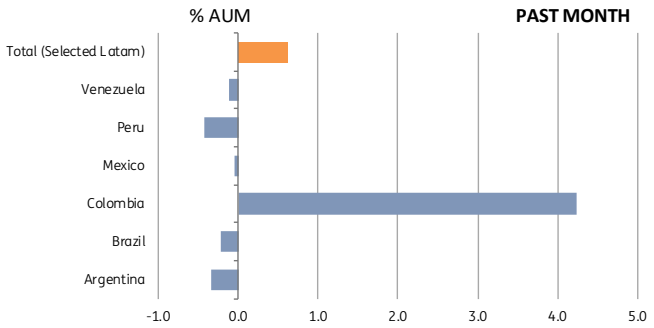
Source: EPFR Global, ING estimates

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



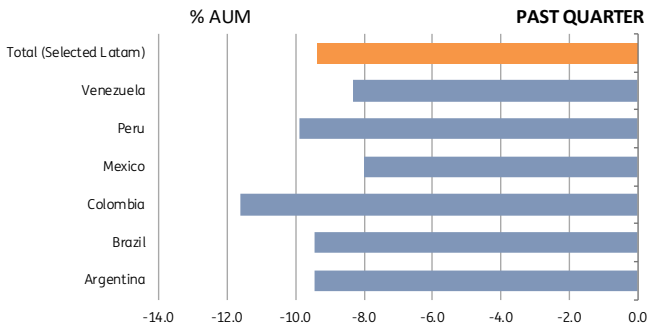
Source: EPFR Global, ING estimates

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



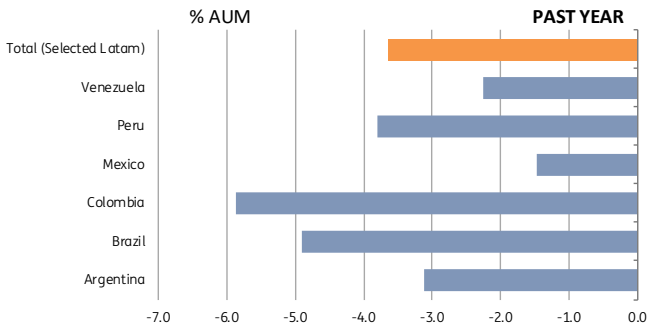
Source: EPFR Global, ING estimates

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



Source: EPFR Global, ING estimates

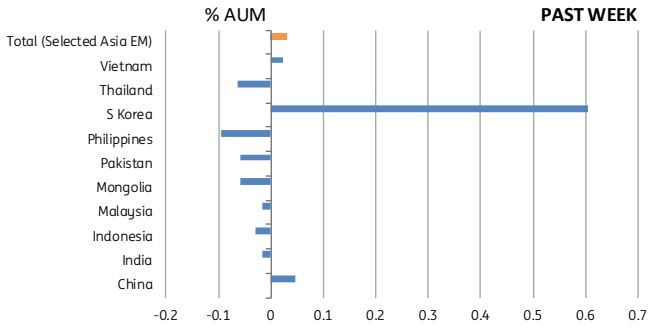
Fig 41 Latam – Change in the past year (%)



Source: EPFR Global, ING estimates

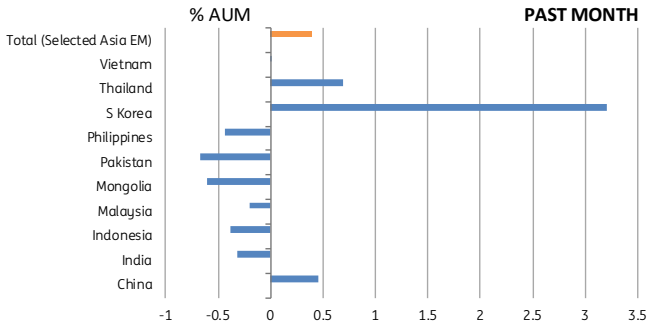
Selected Asia and ME/Africa Country Flows

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



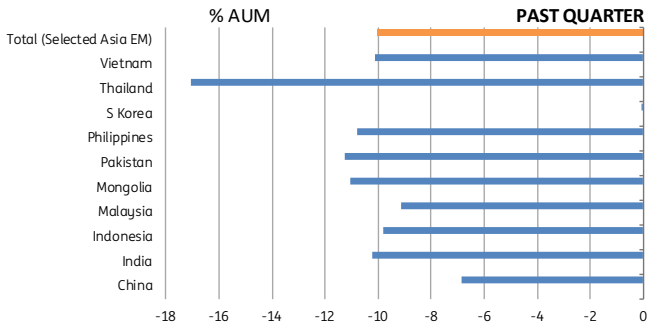
Source: EPFR Global, ING estimates

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



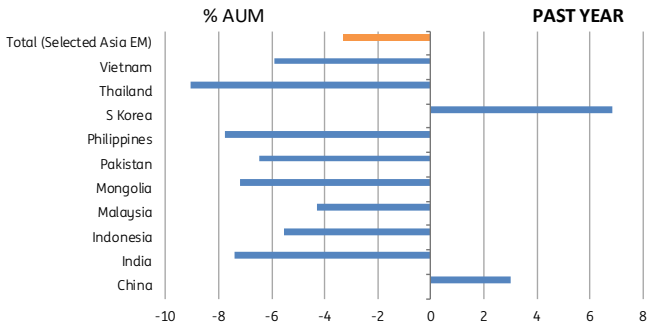
Source: EPFR Global, ING estimates

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



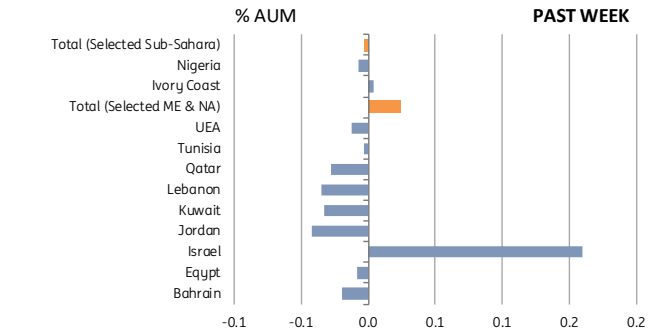
Source: EPFR Global, ING estimates

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



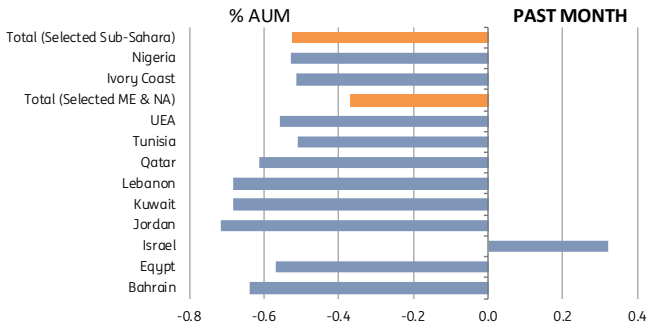
Source: EPFR Global, ING estimates

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



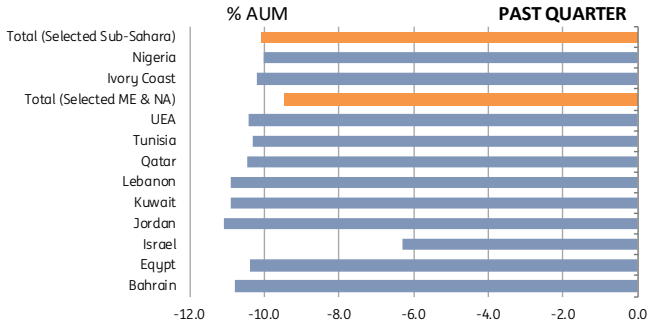
Source: EPFR Global, ING estimates

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



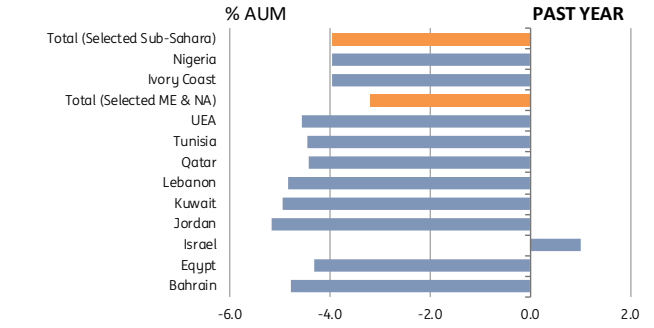
Source: EPFR Global, ING estimates

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



Source: EPFR Global, ING estimates

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



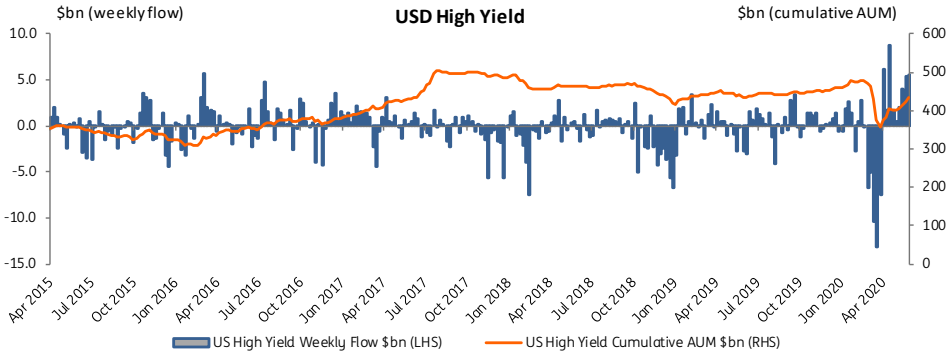
Source: EPFR Global, ING estimates

High Yield

High Yield – Summary themes

- Inflows to USD high yield are particularly impressive. Assets under management there have broadly recovered from the outflows seen at end March / April, now at broadly flat over the past three months. There was another 1.3% increase in assets under management in USD high yield in the past week.
- This contrasts with Western European high yield, where assets under management are still down some 10% relative to pre-crisis, and the inflows seen in the past week were an anaemic 0.2% of assets under management. A similar story obtains in respective primary market circumstances, which is also driving the flows story.

Fig 50 Feature Chart: Outflows morph to renewed inflows



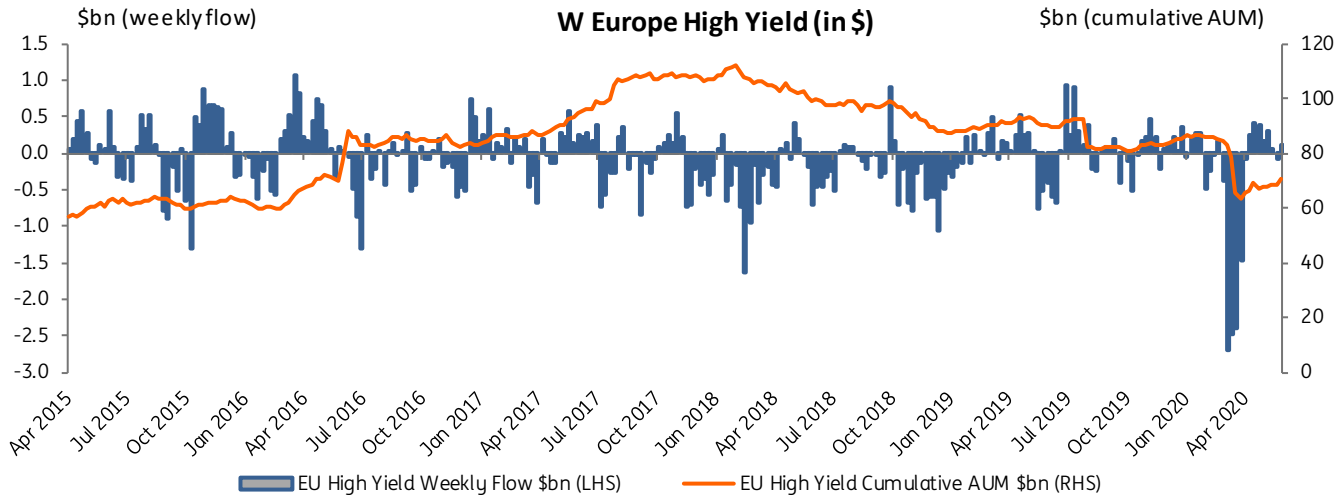
Source: EPFR Global, ING estimates

- 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 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.

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. Hence the prior outflows. However fast forward to more recent weeks and there has been a clear re-rating of prospects in high yield, and in particular in the USD space where the 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.

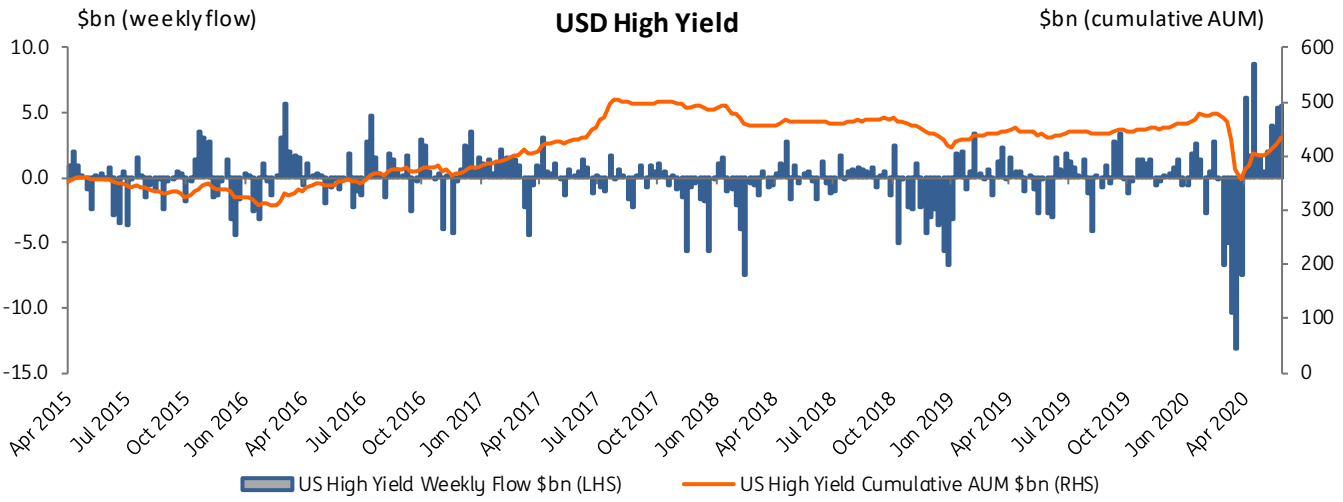
EM (all currency) vs High Yield USD and EU

Fig 51 Western Europe High Yield Weekly Flows



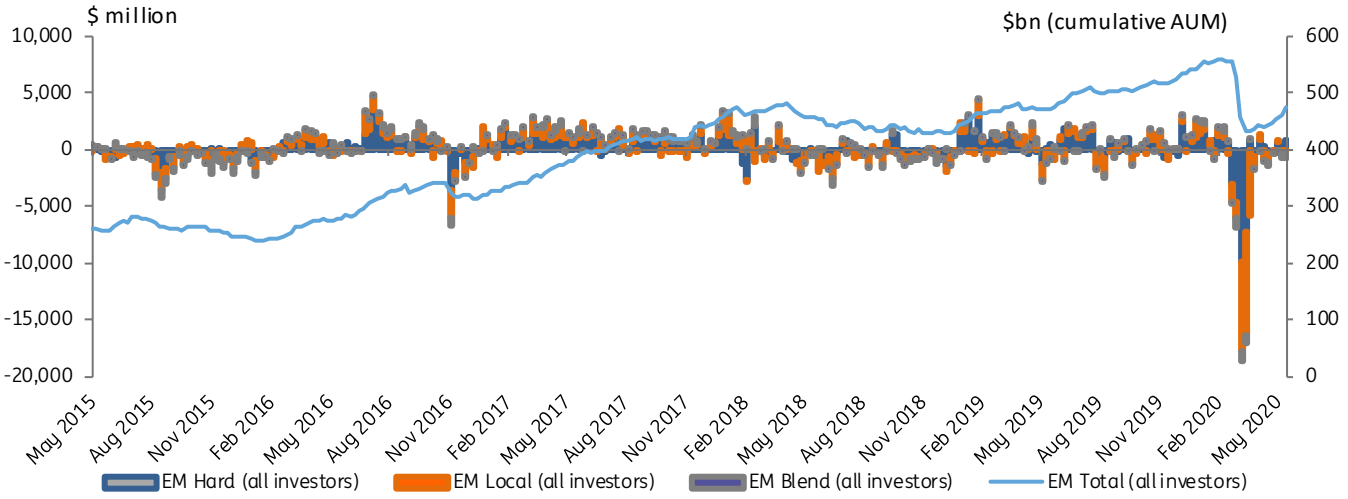
Source: EPFR Global, ING estimates

Fig 52 US High Yield Weekly Flows



Source: EPFR Global, ING estimates

Fig 53 Emerging Markets Weekly Flows – all currencies



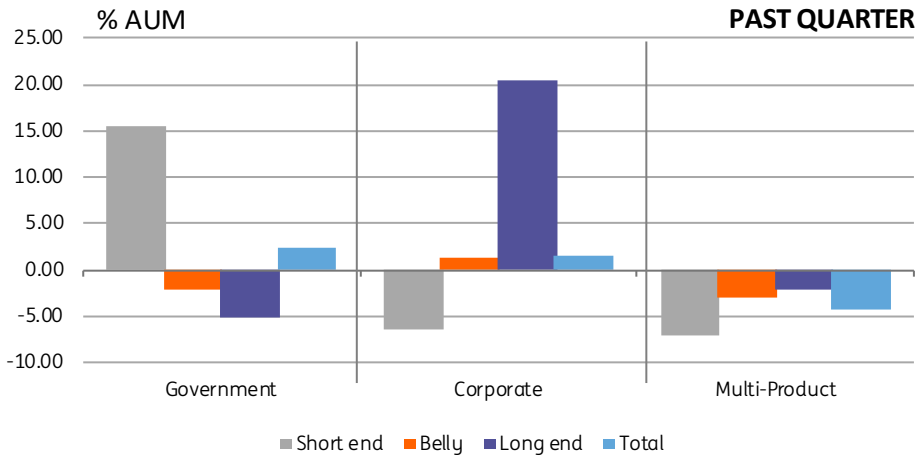
Source: EPFR Global, ING estimates

Developed Markets

Developed Markets – Summary themes

- Government bonds have seen moderate outflows in the past week. The dominant flow in the past three months have been inflows though, but that needs to be qualified by maturity. Inflows have been heaviest in short maturities. The dominant flow for medium to longer maturities has in fact morphed into outflows.
- In contrast to recent outflows from governments, inflows to corporates continue. The past month has seen a 2.5% increase AUM in corporates. The bulk of the inflows have been into longer maturities, but there have been inflows right along the maturity spectrum. In fact, long end AUM is up some 20%.

Fig 54 Feature Chart: Biggest inflow into long end corporates and front end governments



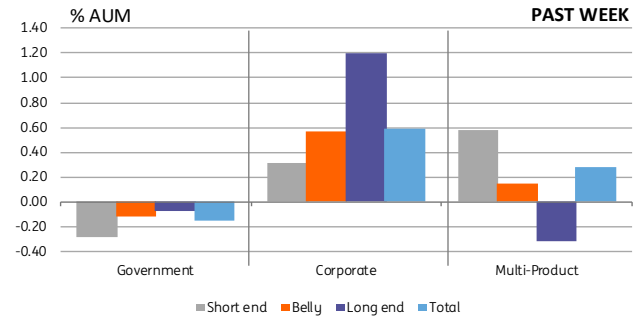
Source: EPFR Global, ING estimates

- The flows in inflation linked funds space are worthy of attention. USD inflation linked bonds have seen inflows of some 2% of AUM in the past month, while EUR inflation funds have seen the polar opposite, a 2.2% outflow. And this continued for the latest week. Overall though, AUM in both USD and EUR inflation is down some 7-9% in the past 3 months, indicative of a disinflationary discount from the Covid-19 crisis.
- Inflows in the past month have been most pronounced into the likes of US, Denmark, Switzerland and Japan. In the Eurozone, the Netherlands and Ireland saw the largest proportional inflows. Allocation to the US remains elevated overall.

BOTTOM LINE: While the impact effect of the crisis was outflows from corporates and inflows to governments, that has been reversed in the past number of weeks. Inflows to longer maturity corporates has been quite marked. The net effect of these two effects has left an increase in holding of short duration governments and an increase in corporates right along the maturity spectrum, but especially in the medium-to-longer maturities. Overall in the past three months there has been an increase in holdings of bonds generally, both governments and corporates. But holdings of inflation linked bonds are well down and remain so. Meanwhile, money market funds in the US and Europe have seen good inflows in the past three months as a whole.

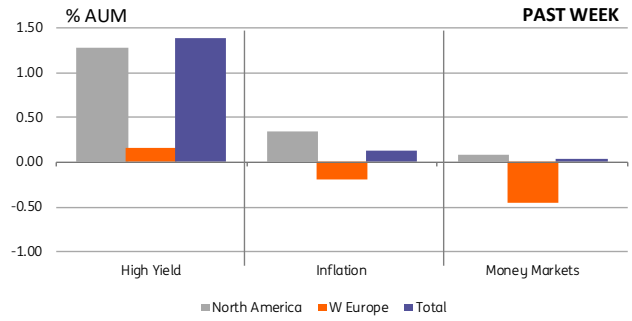
Developed Markets Net Fund Flows

Fig 55 Change in the past week (%)



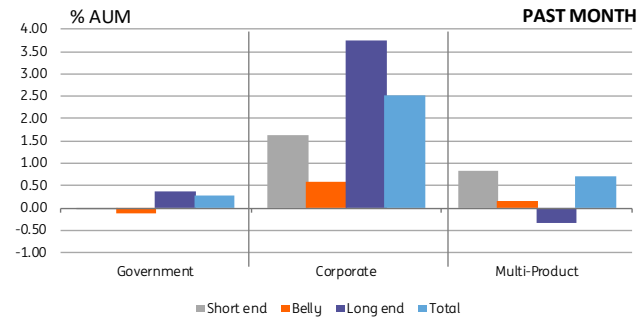
Source: EPFR Global, ING estimates

Fig 56 Change in the past week (%)



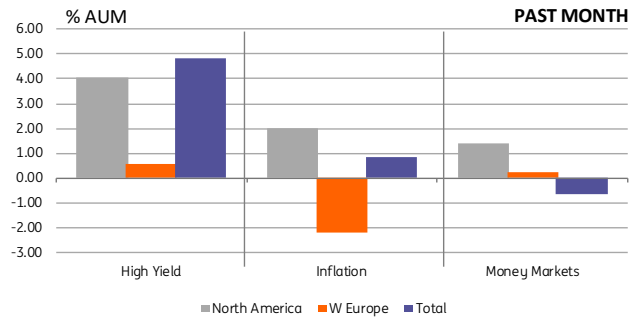
Source: EPFR Global, ING estimates

Fig 57 Change in the past month (%)



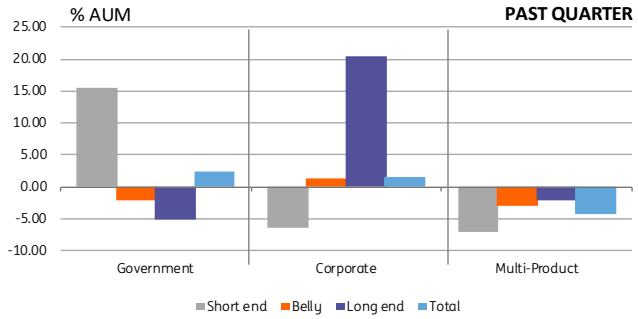
Source: EPFR Global, ING estimates

Fig 58 Change in the past month (%)



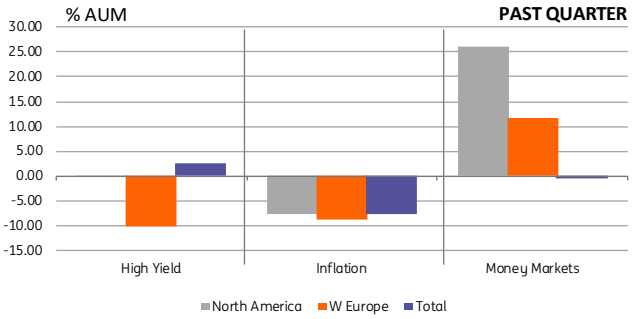
Source: EPFR Global, ING estimates

Fig 59 Change in the past quarter (%)



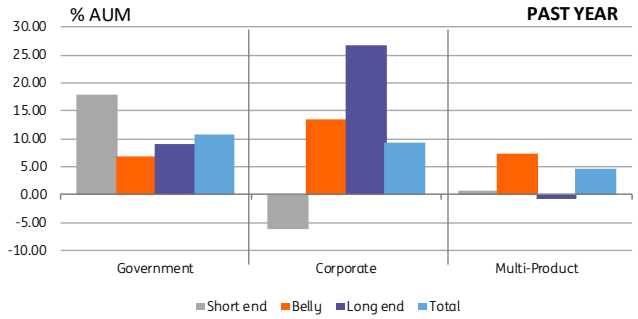
Source: EPFR Global, ING estimates

Fig 60 Change in the past quarter (%)



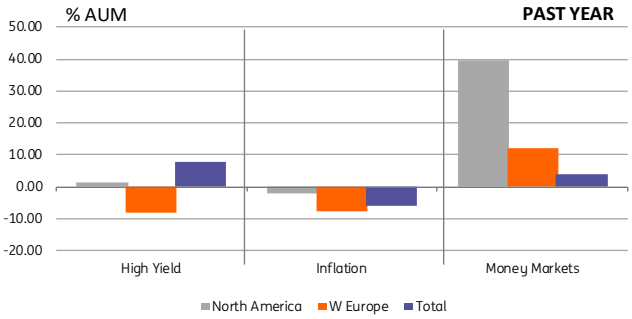
Source: EPFR Global, ING estimates

Fig 61 Change in the past year (%)



Source: EPFR Global, ING estimates

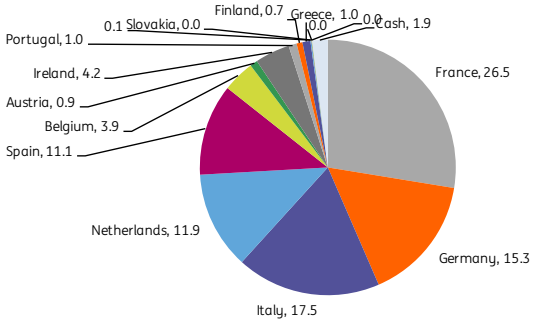
Fig 62 Change in the past year (%)



Source: EPFR Global, ING estimates

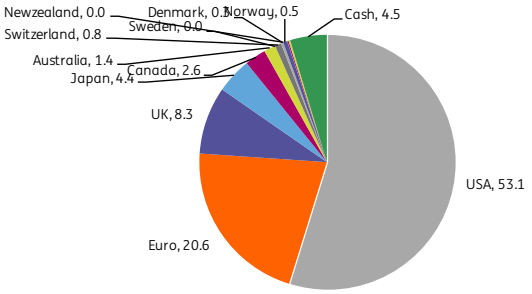
Global DM Manager Asset Allocations

Fig 63 Eurozone allocations for the last month (%)



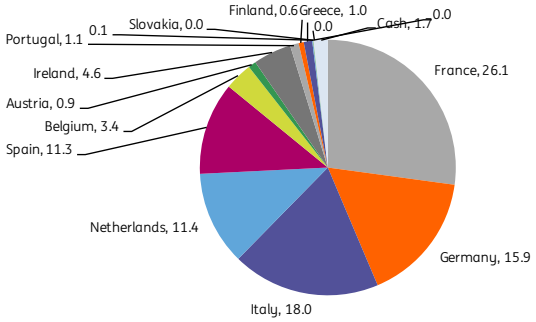
Source: EPFR Global, ING estimates

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



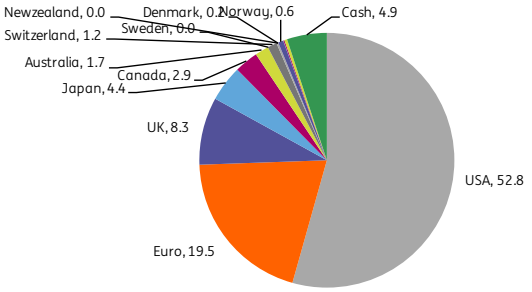
Source: EPFR Global, ING estimates

Fig 65 Eurozone allocations one month previous (%)



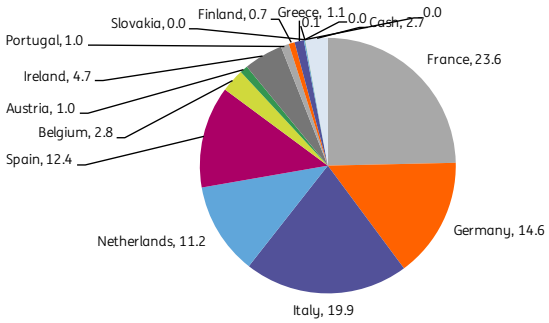
Source: EPFR Global, ING estimates

Fig 66 Global DM allocations one month previous (%)



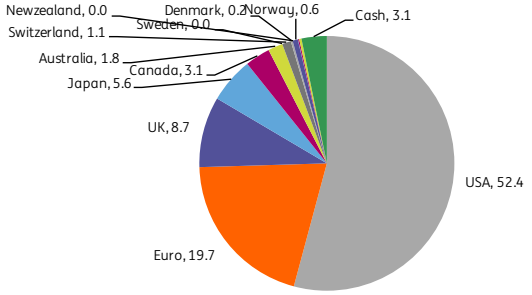
Source: EPFR Global, ING estimates

Fig 67 Eurozone allocations one quarter ago (%)



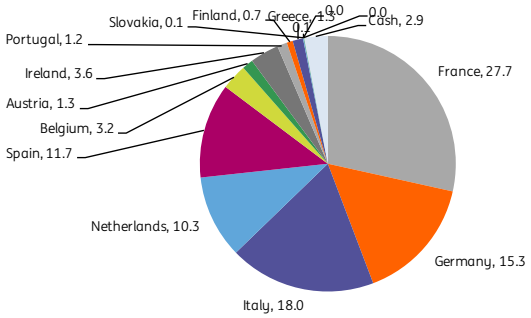
Source: EPFR Global, ING estimates

Fig 68 Global DM allocations one quarter ago (%)



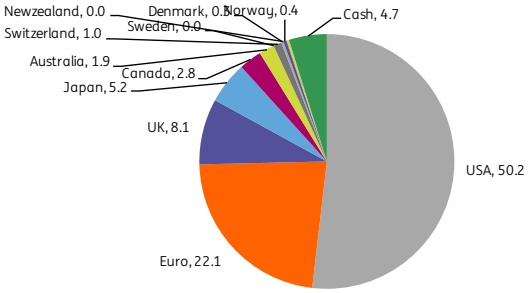
Source: EPFR Global, ING estimates

Fig 69 Eurozone allocations one year ago (%)



Source: EPFR Global, ING estimates

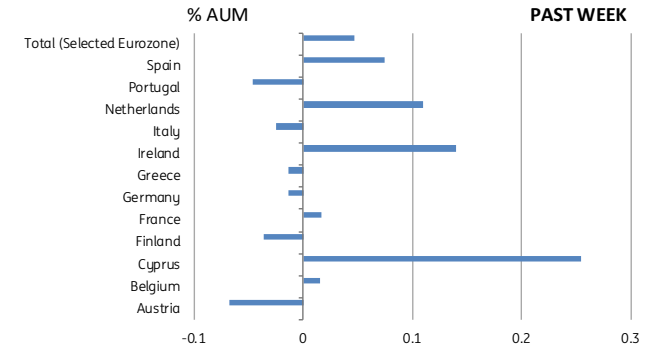
Fig 70 Global DM allocations one year ago (%)



Source: EPFR Global, ING estimates

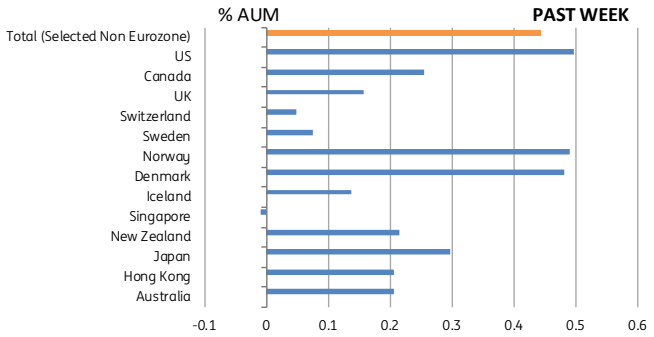
Developed Markets Country Flows

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



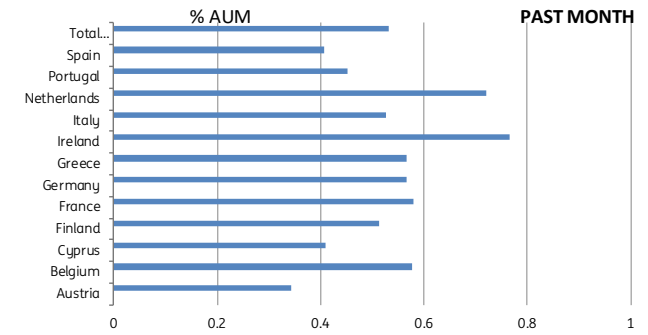
Source: EPFR Global, ING estimates

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



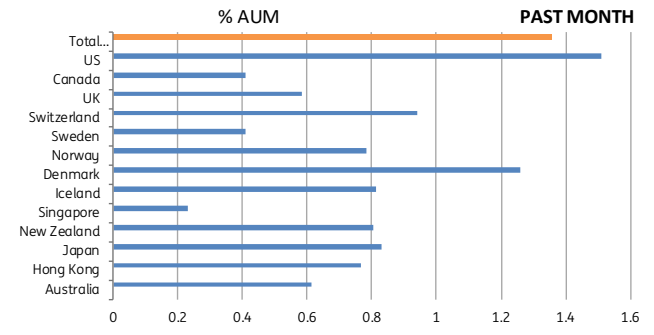
Source: EPFR Global, ING estimates

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



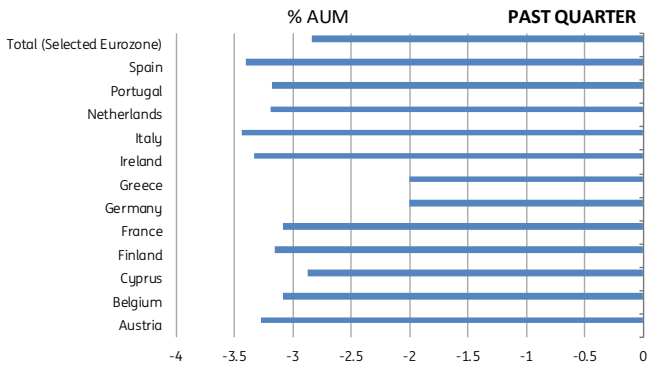
Source: EPFR Global, ING estimates

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



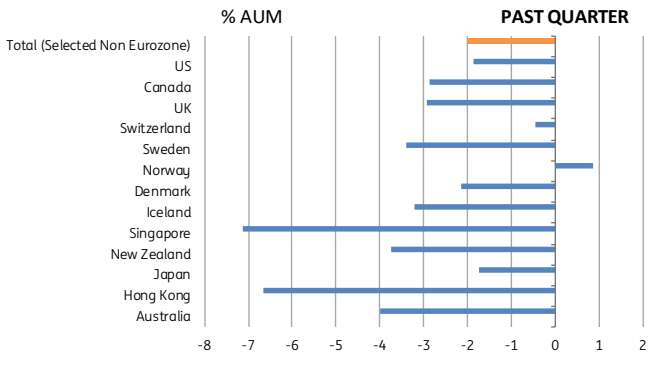
Source: EPFR Global, ING estimates

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



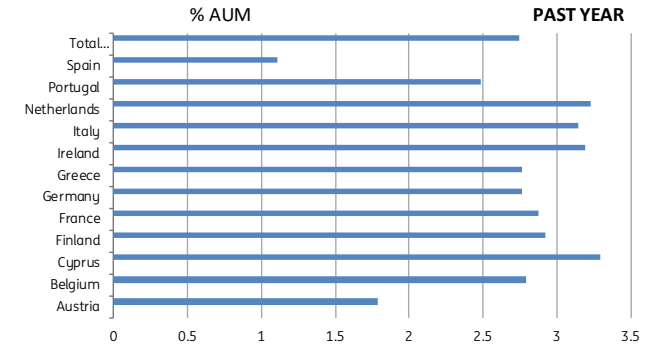
Source: EPFR Global, ING estimates

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



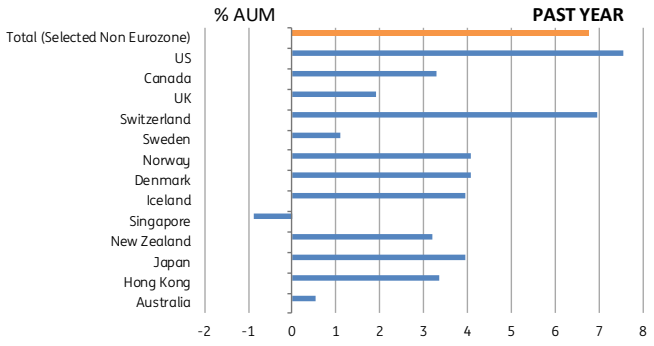
Source: EPFR Global, ING estimates

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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