

30 October 2020
Rates and Credit

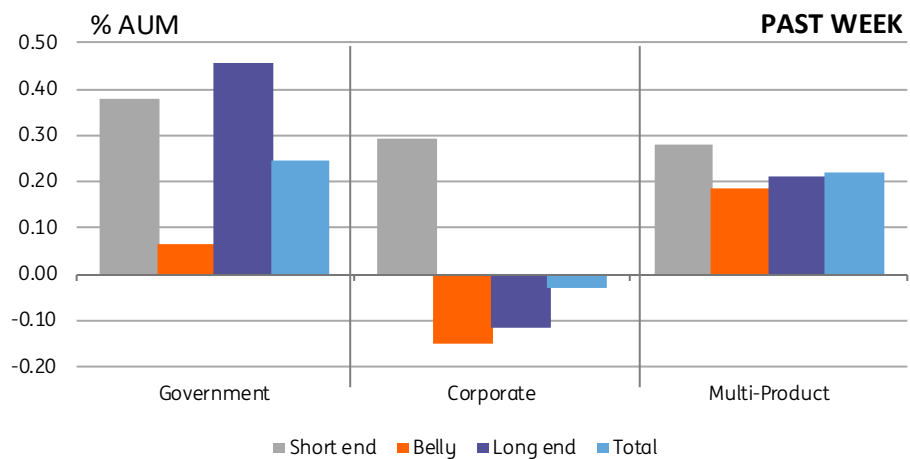
Note: The data in this report relies heavily on EPFR Global data and references the week ended October 28th 2020

Global debt flows

Buying of duration mutes steepening theme

The curious combination of inflows to inflation linked funds alongside outflows from money market funds continues. The reflation aspect of this has been reflected in a steeper US Treasury curve. However, latest flows show that managers have been buyers of governments. In contrast they have been sellers of corporates and high yield, while steady inflows to emerging markets continue.

Graph of the week: Inflows to governments versus outflows from corporates



Source: EPGR Global, ING estimates

Six things learnt from latest flows data

- The US Treasury market continues to trade with a nod towards a reflation bias, despite the angst and gloom that is keeping Bund yields deep in negative territory. Flows against that backdrop have in fact been into government bonds. Had there been outflows, the rise in US Treasury yields could have been more severe.
- As it is, the long duration inflows process is muting the extent of directional US curve steepening. At the same time there has been a clear tint of risk-off in the bond flows, as net liquidations have been a feature of the past week or so in the investment grade and high yield corporate space.
- Emerging markets has been a steady beneficiary of inflows in recent months, and that process has continued right up to the latest week. While there has been some clear underperformances (eg, Turkey), there has been no contagion tail associated with Covid.
- Rather, the focus has more been on the immediate hit to developed market economies and finances. The higher beta emerging markets have looked less battered against a wider backdrop that is chock full of angst.
- Most of the flows have been into hard currency, but local currency has been a steadier recipient of late, and in fact has outperformed hard currency in total returns for October.
- In corporate high yield, the issue is that the implied default risk backed out from where the market trades is quite benign relative to previous recessions. Hence the outflows and re-widening.

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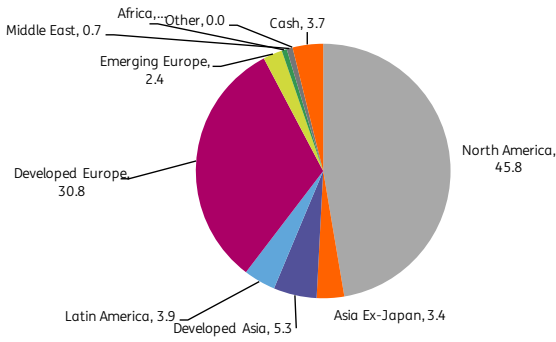
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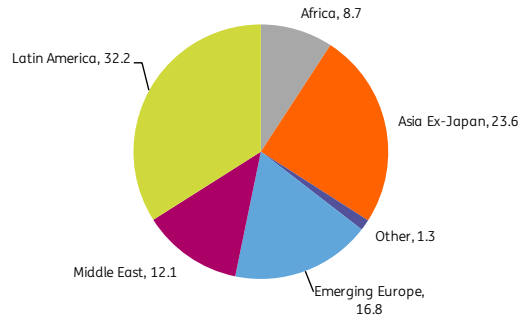
Global Manager (average) Allocations by Region

Fig 1 Global allocations for latest month (%)



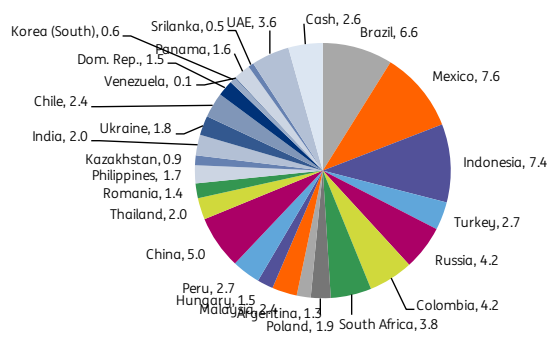
Source: EPFR Global, ING estimates

Fig 2 EM allocations for latest month (%)



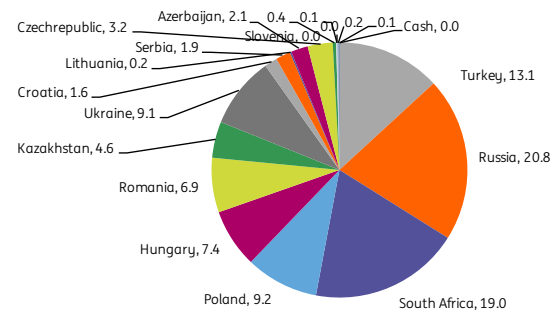
Source: EPFR Global, ING estimates

Fig 3 EM detailed allocations for latest month (%)



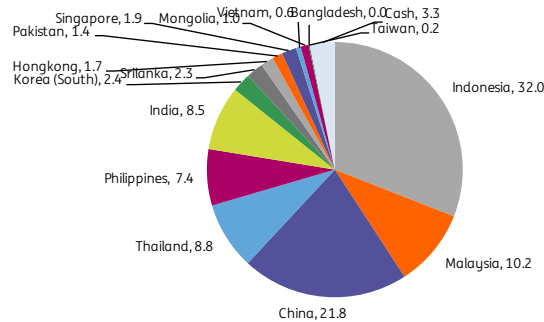
Source: EPFR Global, ING estimates

Fig 4 EMEA allocations for latest month (%)



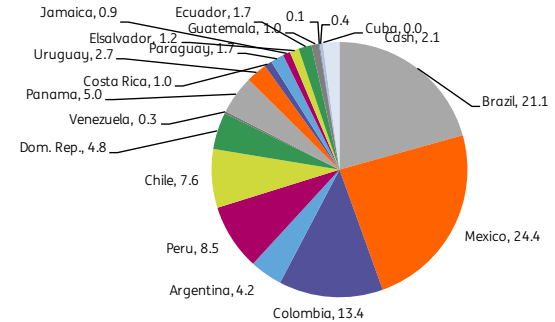
Source: EPFR Global, ING estimates

Fig 5 Asia EM allocations for latest month (%)



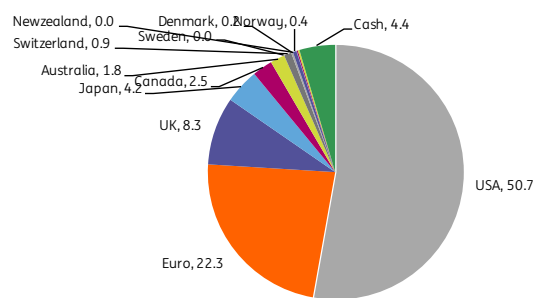
Source: EPFR Global, ING estimates

Fig 6 Latam allocations for latest month (%)



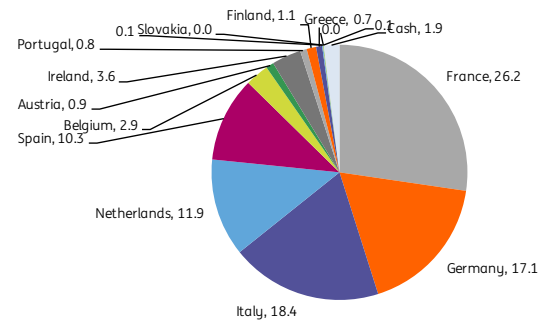
Source: EPFR Global, ING estimates

Fig 7 Developed allocations for latest month (%)



Source: EPFR Global, ING estimates

Fig 8 Eurozone allocations for latest month (%)



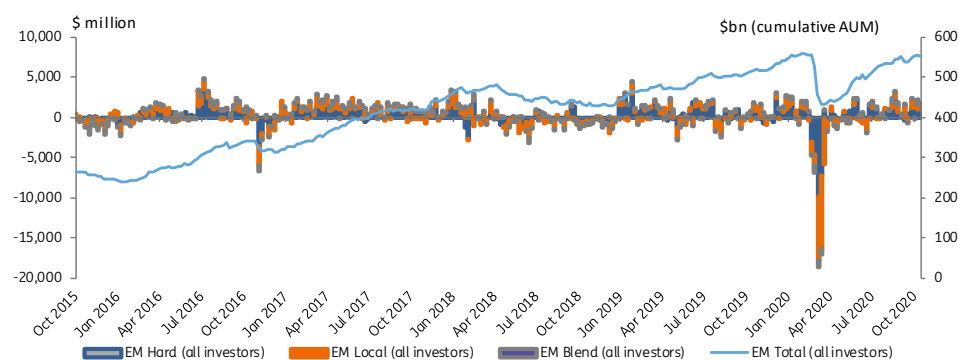
Source: EPFR Global, ING estimates

**Emerging
markets**

Emerging Markets – Summary themes

- A steady if unspectacular inflow process to emerging markets continues. And even though inflows to hard currency have had the edge, in fact the inflows process has been quite balanced in recent months, with local currency and blend (Figure 12).
- To put some numbers on it, EM assets under management increased by 1.5% in the past month and by 3.6% in the past quarter. This is running comfortably ahead of inflows into corporates, whether investment grade or high yield.
- The blue line in the graph below (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 has been followed up by steady inflows.

Fig 9 Feature Chart: Inflows continue to dominate; not dramatic but persistent



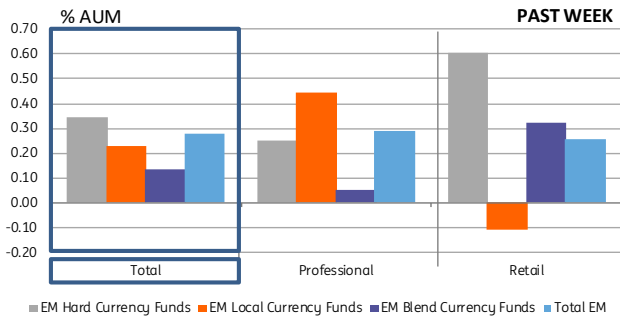
Source: EPFR Global, ING estimates

- In EMEA, we note that allocation to Turkey is steady in the most recent month after prior falls. Allocation to Russia, Poland and Romania has eased lower for the latest month, while allocation to S Africa and Hungary has increased (Figure 26 vs Figure 27). Latest data show resumed outflows from Turkey (Figure 34).
- In Asia, allocation to Indonesia, India and Malaysia is moderately down while allocation to Philippines and China is moderately up (Figure 28 vs Figure 29). Latest data show recent strong flows into China (Figure 42).
- In Latam, allocation to Brazil is up while allocation to Mexico is down, as is allocation to Colombia (Figure 30 vs Figure 31).
- In Africa and Middle East allocation Saudi Arabia is down, while allocation to UAE is up (Figure 32 vs Figure 33).

BOTTOM LINE: Emerging markets has been a steady beneficiary of inflows in recent months, and that process has continued right up to the latest week. While there has been some clear underperformances (eg, Turkey), there has been no contagion tail associated with Covid. Rather, the focus has more been on the immediate hit to developed market economies and finances. The higher beta emerging markets have looked less battered against a wider backdrop that is chock full of angst. Most of the flows have been into hard currency, but local currency has been a steadier recipient of late, and in fact has outperformed hard currency in total returns for October.

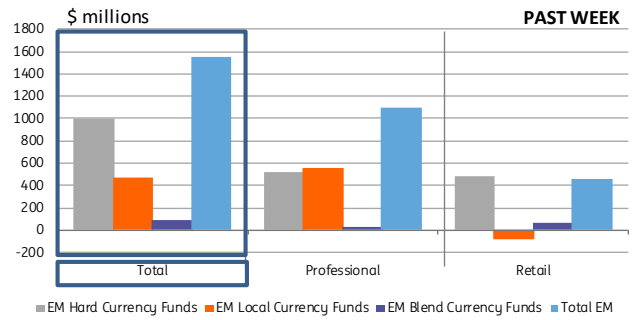
Emerging market Fund Flows

Fig 10 Change in the past week (%)



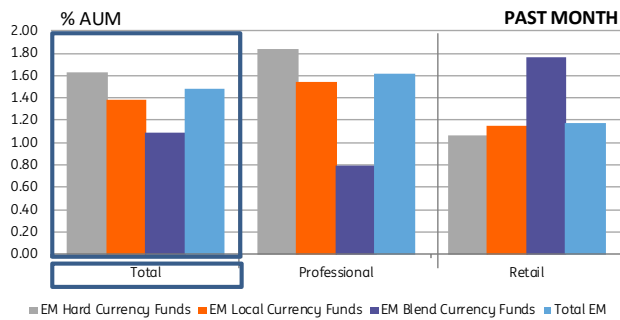
Source: EPFR Global, ING estimates

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



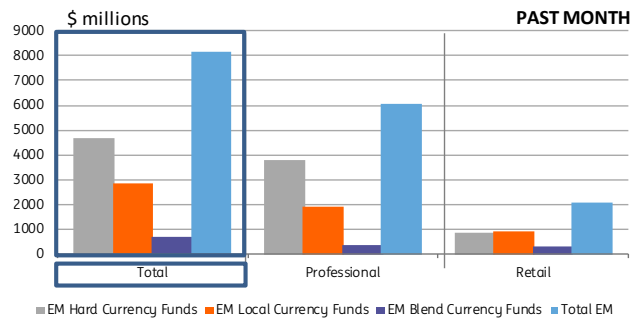
Source: EPFR Global, ING estimates

Fig 12 Change in the past month (%)



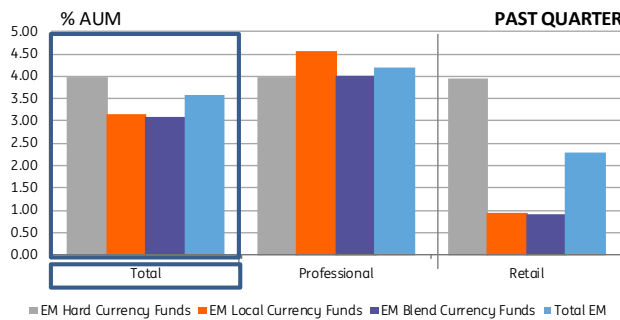
Source: EPFR Global, ING estimates

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



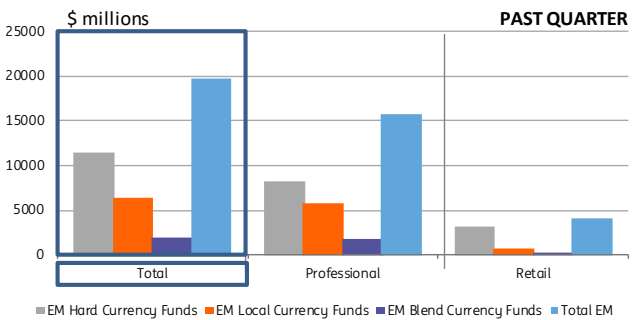
Source: EPFR Global, ING estimates

Fig 14 Change in the past quarter (%)



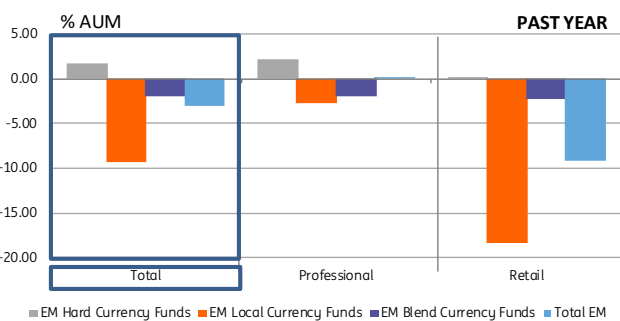
Source: EPFR Global, ING estimates

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



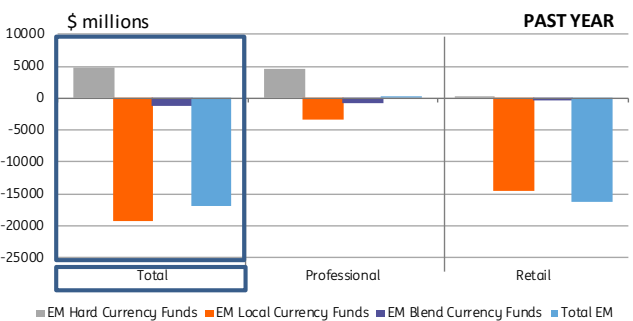
Source: EPFR Global, ING estimates

Fig 16 Change in the past year (%)



Source: EPFR Global, ING estimates

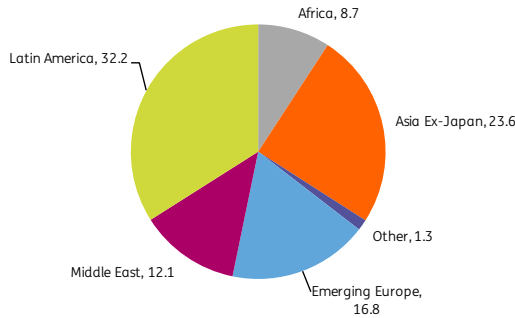
Fig 17 Change in the past year (US\$m)



Source: EPFR Global, ING estimates

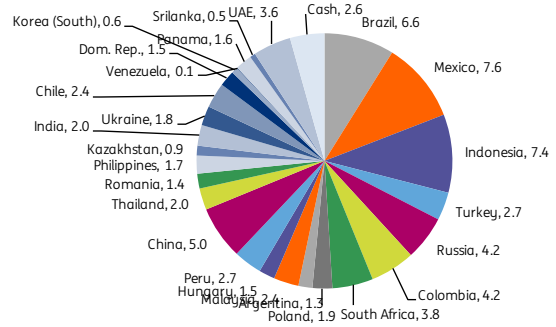
Global EM Manager Asset Allocations

Fig 18 GEM allocations for latest month (%)



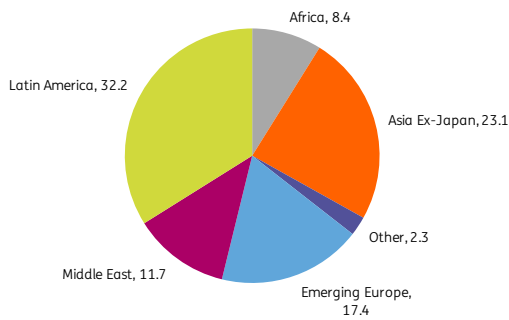
Source: EPFR Global, ING estimates

Fig 19 GEM detailed allocations for latest month (%)



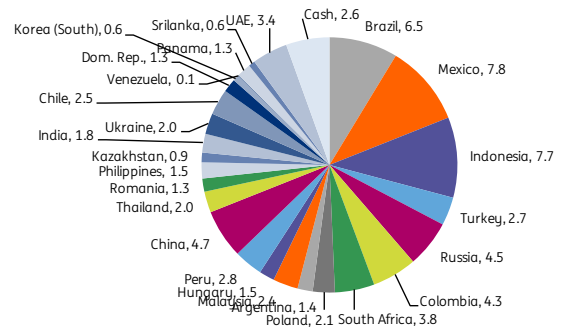
Source: EPFR Global, ING estimates

Fig 20 GEM allocations one month ago (%)



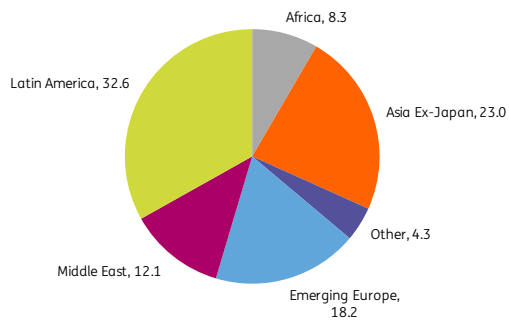
Source: EPFR Global, ING estimates

Fig 21 GEM detailed allocations one month ago (%)



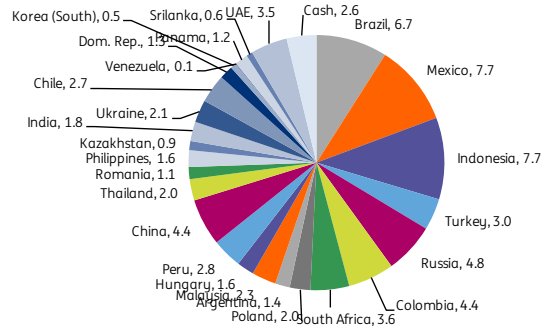
Source: EPFR Global, ING estimates

Fig 22 GEM allocations one quarter ago (%)



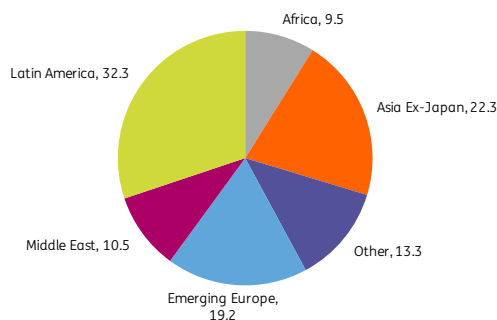
Source: EPFR Global, ING estimates

Fig 23 GEM detailed allocations one quarter ago (%)



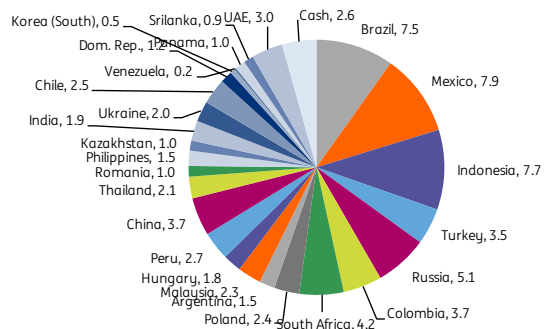
Source: EPFR Global, ING estimates

Fig 24 GEM allocations one year ago (%)



Source: EPFR Global, ING estimates

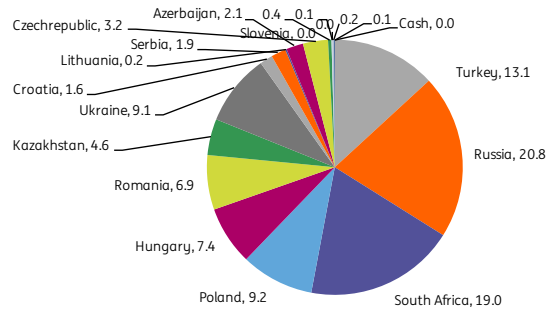
Fig 25 GEM detailed allocations one year ago (%)



Source: EPFR Global, ING estimates

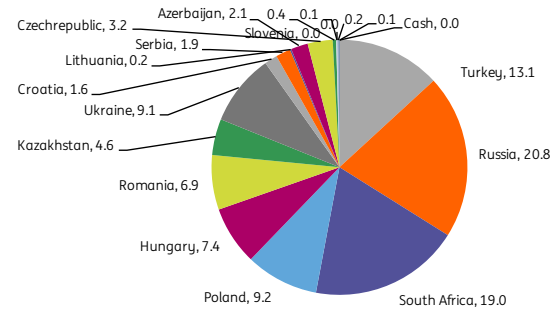
Regional EM Manager Asset Allocation

Fig 26 EMEA allocations for latest month (%)



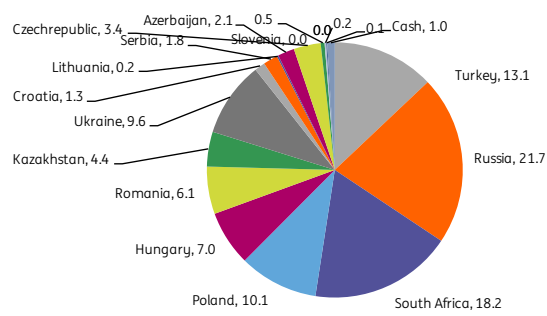
Source: EPFR Global, ING estimates

Fig 27 EMEA allocations for previous month (%)



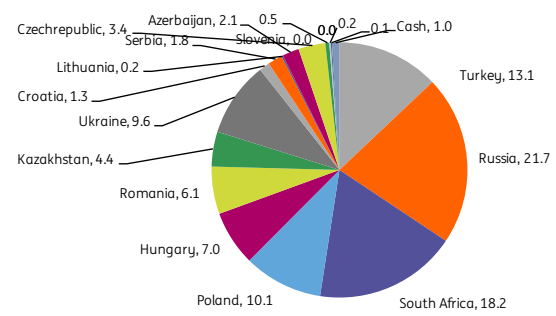
Source: EPFR Global, ING estimates

Fig 28 Asia allocations for latest month (%)



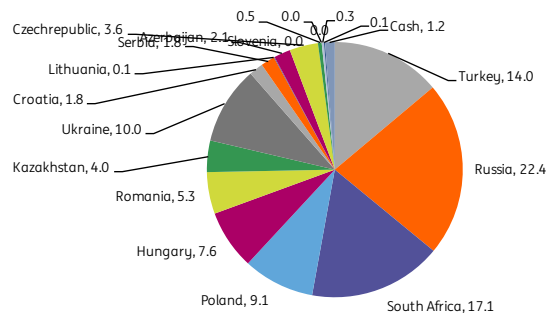
Source: EPFR Global, ING estimates

Fig 29 Asia allocations for previous month (%)



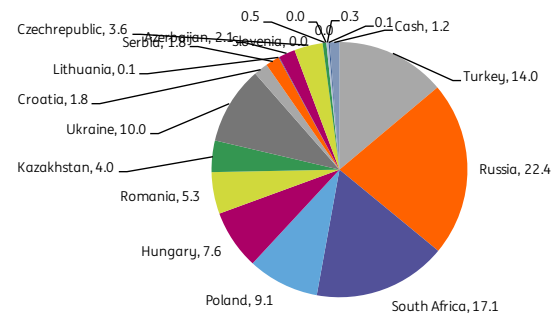
Source: EPFR Global, ING estimates

Fig 30 Latam allocations for latest month (%)



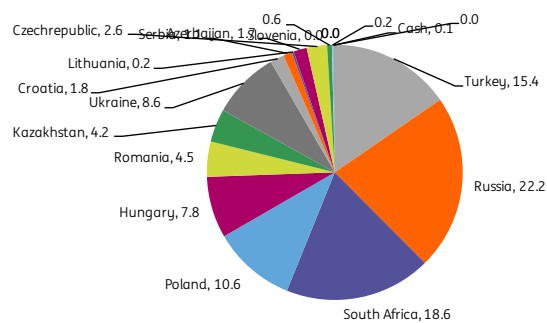
Source: EPFR Global, ING estimates

Fig 31 Latam allocations for previous month (%)



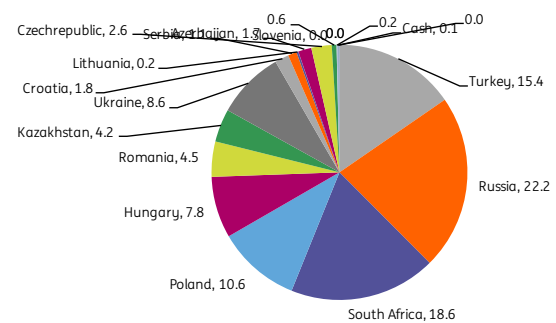
Source: EPFR Global, ING estimates

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



Source: EPFR Global, ING estimates

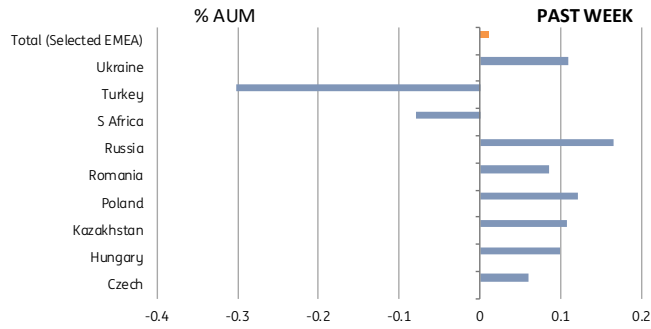
Fig 33 Africa & ME allocations for previous month (%)



Source: EPFR Global, ING estimates

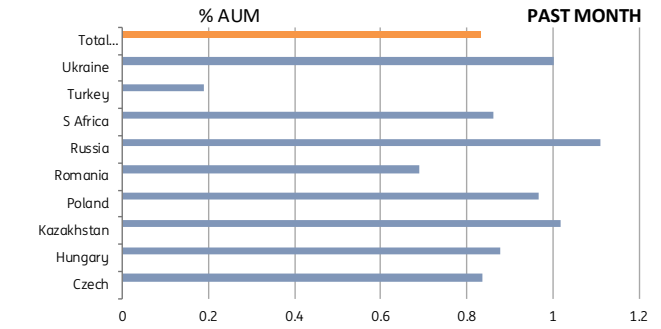
Selected EMEA and Latam Country Flows

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



Source: EPFR Global, ING estimates

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



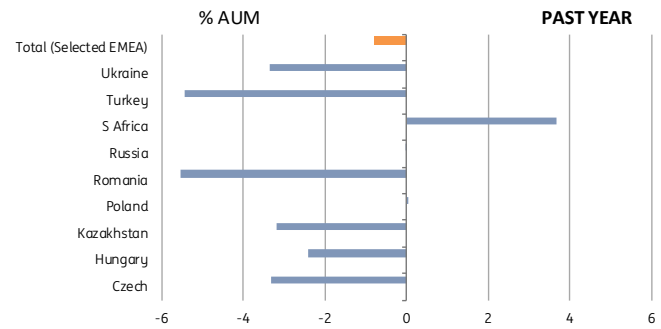
Source: EPFR Global, ING estimates

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



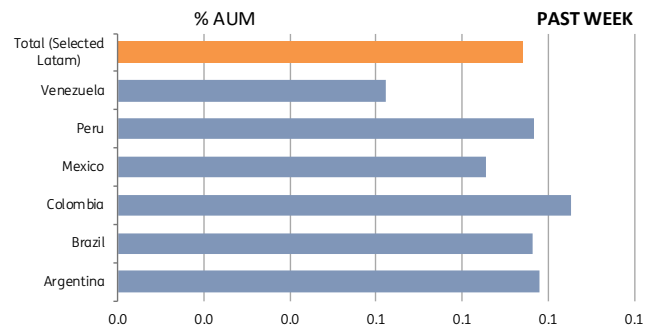
Source: EPFR Global, ING estimates

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



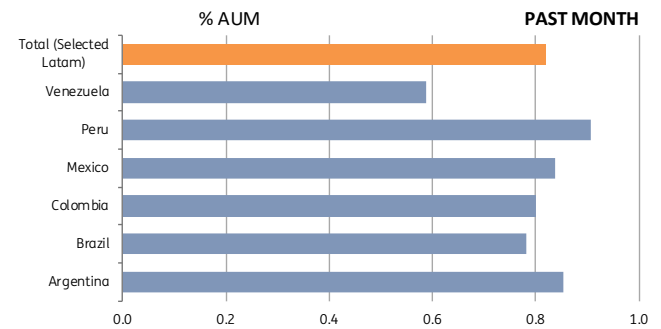
Source: EPFR Global, ING estimates

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



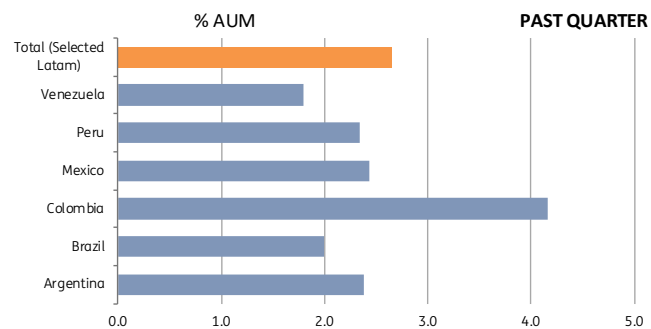
Source: EPFR Global, ING estimates

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



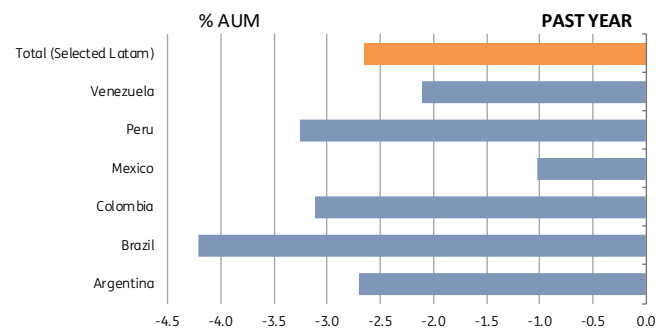
Source: EPFR Global, ING estimates

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



Source: EPFR Global, ING estimates

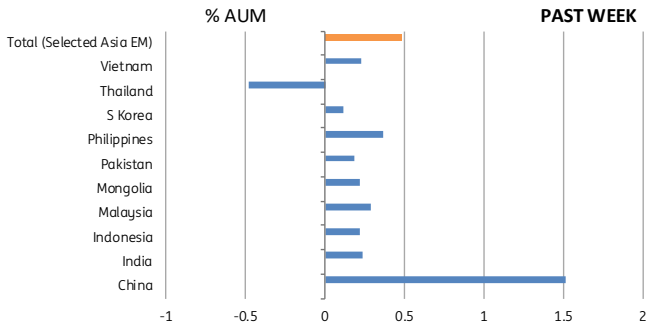
Fig 41 Latam – Change in the past year (%)



Source: EPFR Global, ING estimates

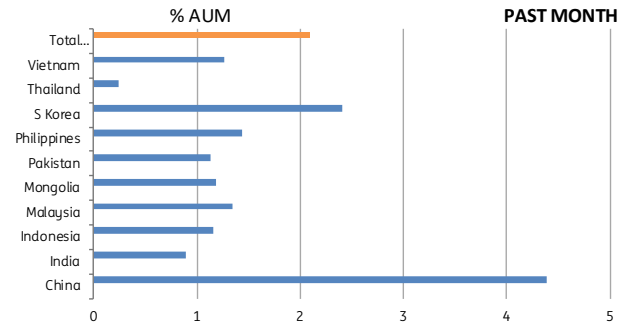
Selected Asia and ME/Africa Country Flows

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



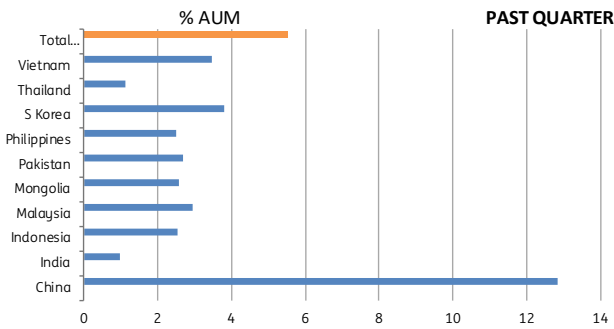
Source: EPFR Global, ING estimates

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



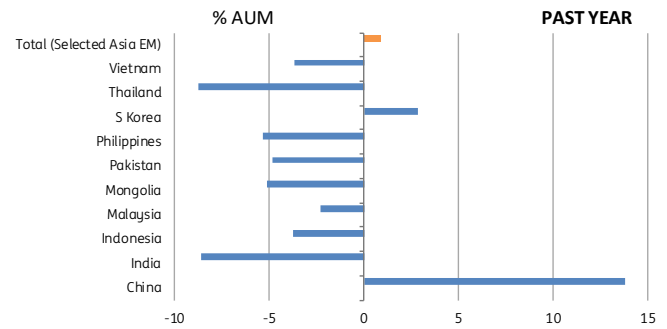
Source: EPFR Global, ING estimates

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



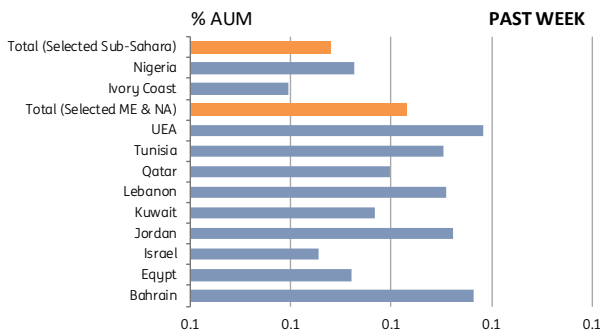
Source: EPFR Global, ING estimates

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



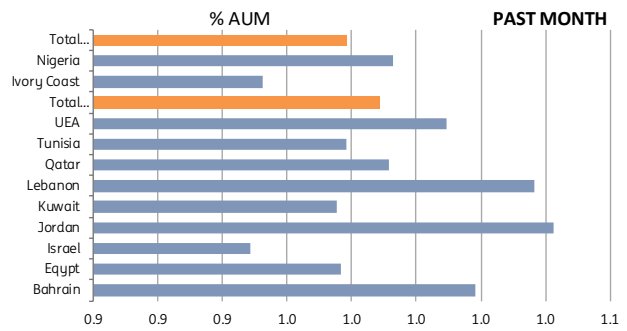
Source: EPFR Global, ING estimates

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



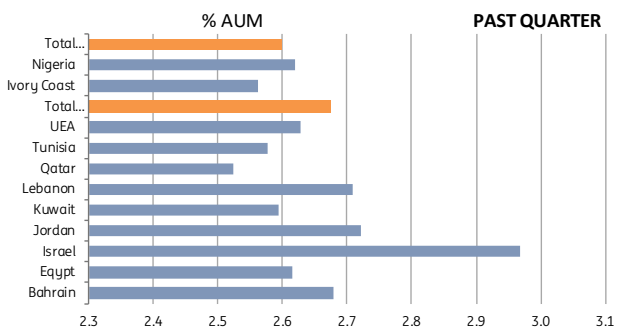
Source: EPFR Global, ING estimates

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



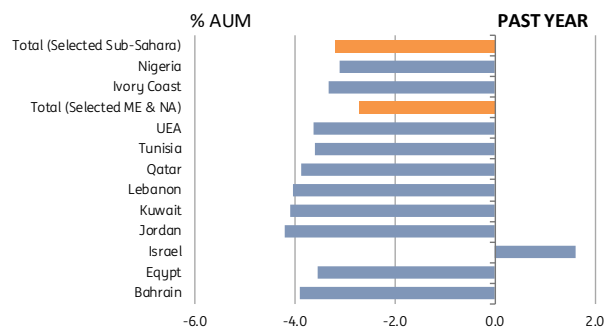
Source: EPFR Global, ING estimates

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



Source: EPFR Global, ING estimates

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



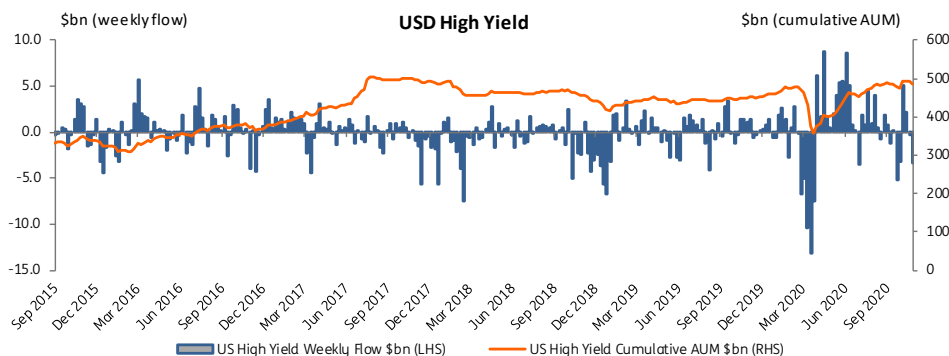
Source: EPFR Global, ING estimates

High Yield

High Yield – Summary themes

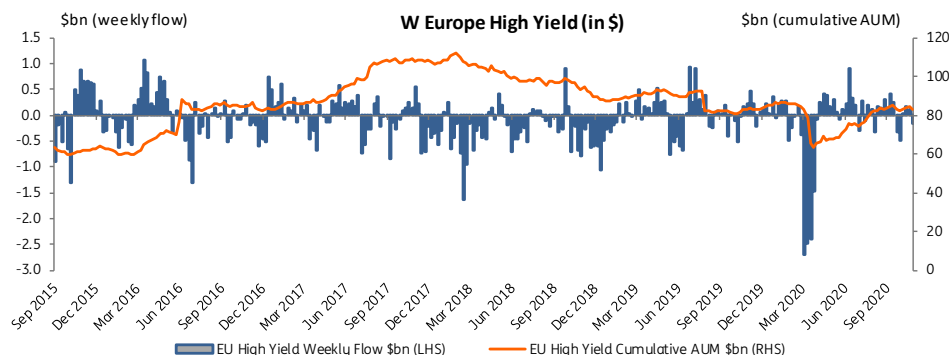
- Moderate inflows to high yield have morphed to moderate outflows for the latest week. High yield inflows have been lagging the flows seen into investment grade corporates over the past quarter. Total returns in consequence are beginning to flat-line after prior gains.

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



Source: EPFR Global, ING estimates

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



Source: EPFR Global, ING estimates

- The orange line in the graphs above is cumulative assets under management, in the sense that it captures not just the flows but also the change in valuations, including FX effects (all translated back to USD). The precipitous fall in March 2020 captures the prior outflows and big build in discount to par. The subsequent rise is a reflection of inflows and price appreciation right across the high yield space. The recovery in USD high yield (Figure 50) has been more impressive than that of EUR high yield (Figure 51), but outflows have been seen for the latest week.

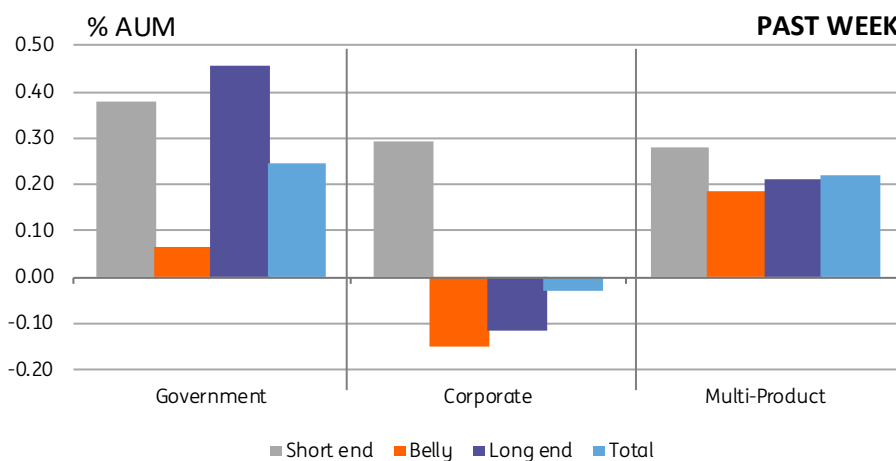
BOTTOM LINE: Not only was there a classic elevation in default risk as economies jumped to a recessionary state, but the collapse in the oil price was an additional stress factor in this space, in particular for US high yield. Hence the prior outflows. Fast forward to the summer months and there had been a re-rating of prospects in high yield. However, in more recent weeks, high yield spreads have begun to re-widen alongside outflows. The issue here is that the implied default risk backed out from where the market trades is quite benign relative to previous recessions; hence the re-widening.

**Developed
Markets**

Developed Markets – Summary themes

- Even though US Treasury yield have shown a tendency to ease higher in recent weeks, there have been inflows into core bond markets. This suggests that the rise in US yields is not a bear market for bonds just yet. Long duration inflows still offer good support.
- The latest outflows story is coming from the corporate space, and especially longer duration corporates. Investment grade corporates and high yield corporates saw outflows for the latest week. That is a change from the inflows process that has dominated in previous weeks, and especially in the investment grade space.

Fig 52 Feature Chart: Long end fund outflows dominate in the past week



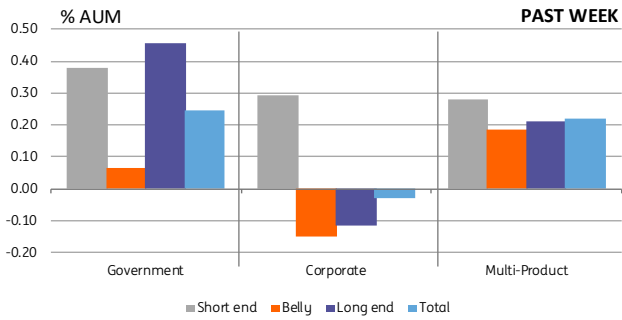
Source: EPFR Global, ING estimates

- Inflows to USD inflation funds continued last week (Figure 54), and are still showing large inflows in the past quarter. Outflows from EUR funds still dominate though (Figure 58), although there were some mild inflows in the past week. There is an implied belief there that the US stands a greater chance of building some inflation.
- Money market funds continue to see a trickle of outflows. Most of the outflows in recent weeks and month have been from US money market funds, although for the latest week it was European money market funds that saw the big outflows.

BOTTOM LINE: The US Treasury market continues to trade with a nod towards a reflation bias, despite the angst and gloom that is keeping Bund yields deep in negative territory. The give here is a wider Treasury-Bund spread, and flows against that backdrop have in fact been into government bonds. Had there been outflows, the rise in US Treasury yields could have been more severe. As it is, the long duration inflows process is muting the extent of directional US curve steepening. At the same time there has been a clear tint of risk-off in the bond flows, as net liquidations have been a feature of the past week or so in the investment grade and high yield corporate space. Meanwhile, the curious combination of inflation linked inflows and money market fund outflows continue.

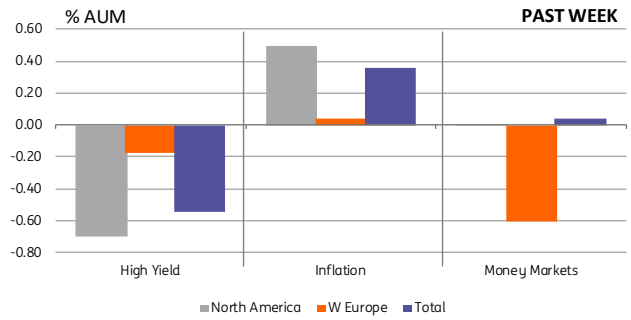
Developed Markets Net Fund Flows

Fig 53 Change in the past week (%)



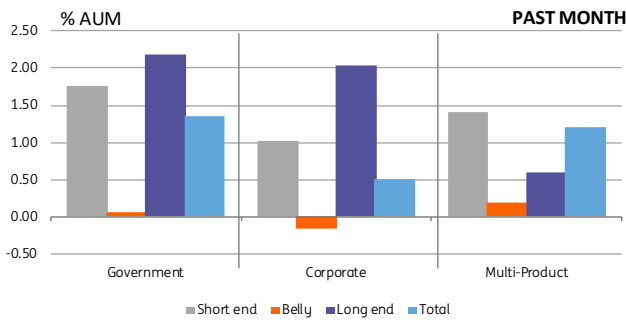
Source: EPFR Global, ING estimates

Fig 54 Change in the past week (%)



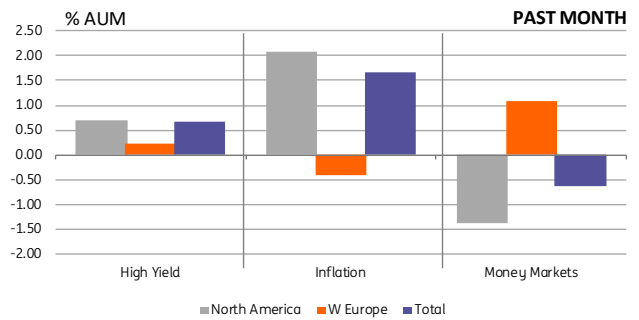
Source: EPFR Global, ING estimates

Fig 55 Change in the past month (%)



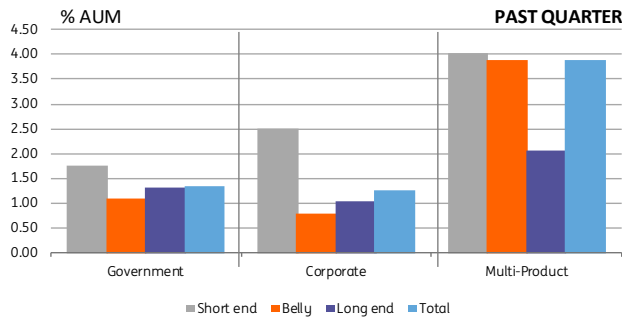
Source: EPFR Global, ING estimates

Fig 56 Change in the past month (%)



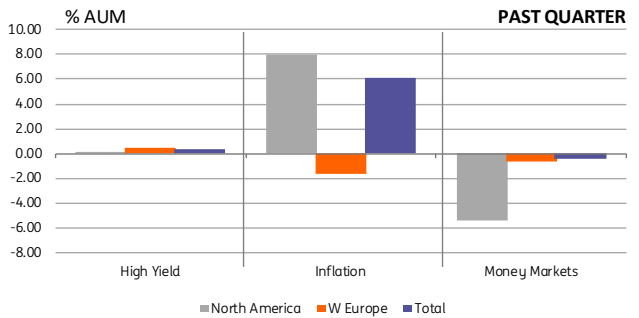
Source: EPFR Global, ING estimates

Fig 57 Change in the past quarter (%)



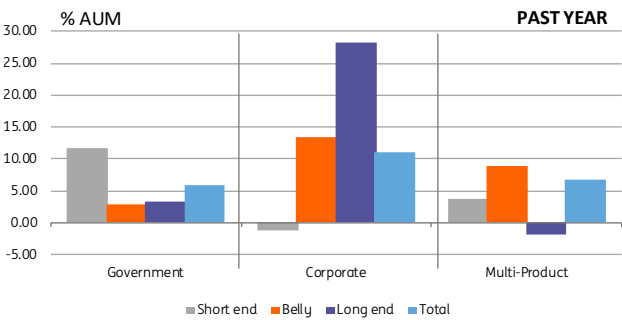
Source: EPFR Global, ING estimates

Fig 58 Change in the past quarter (%)



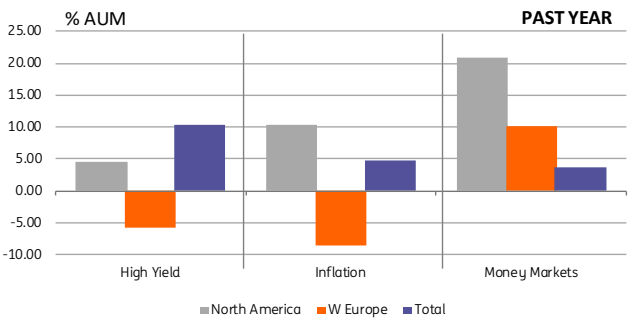
Source: EPFR Global, ING estimates

Fig 59 Change in the past year (%)



Source: EPFR Global, ING estimates

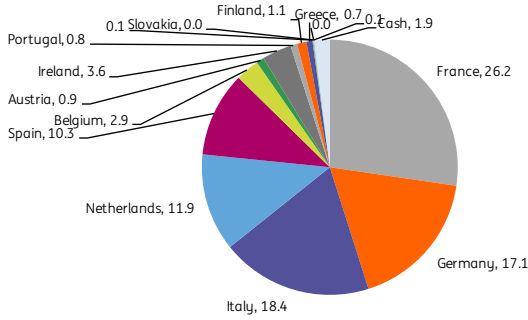
Fig 60 Change in the past year (%)



Source: EPFR Global, ING estimates

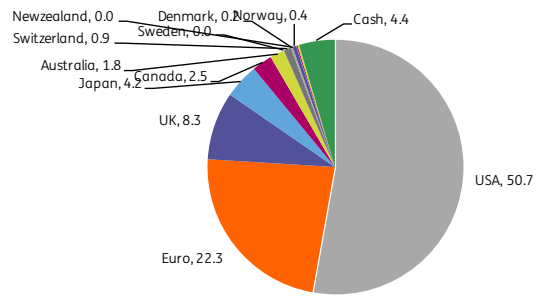
Global DM Manager Asset Allocations

Fig 61 Eurozone allocations for the last month (%)



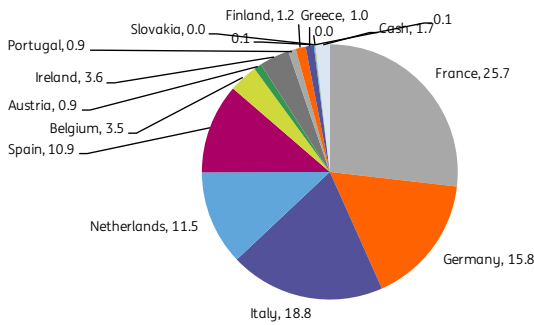
Source: EPFR Global, ING estimates

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



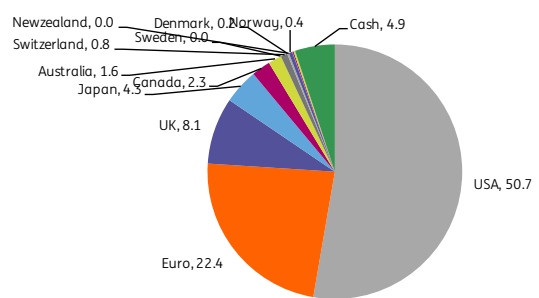
Source: EPFR Global, ING estimates

Fig 63 Eurozone allocations one month previous (%)



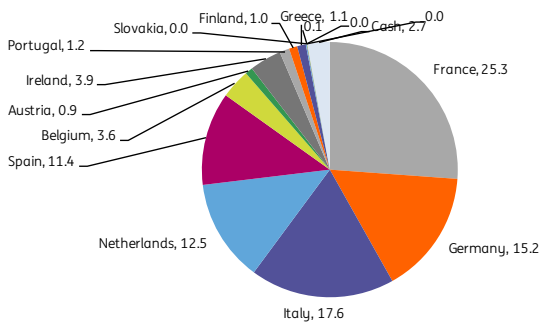
Source: EPFR Global, ING estimates

Fig 64 Global DM allocations one month previous (%)



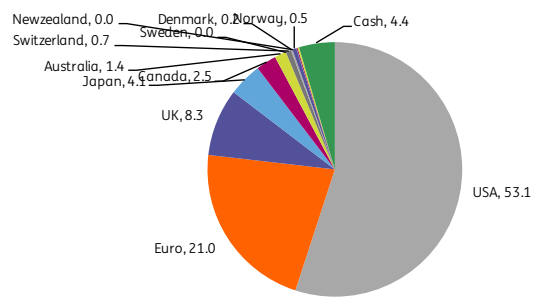
Source: EPFR Global, ING estimates

Fig 65 Eurozone allocations one quarter ago (%)



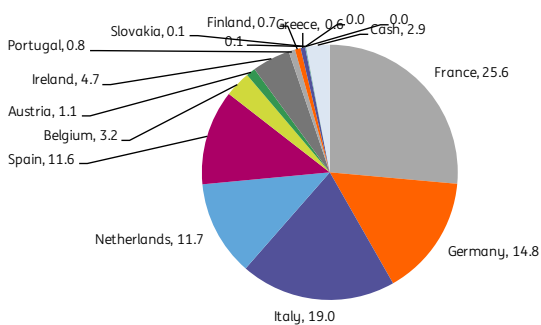
Source: EPFR Global, ING estimates

Fig 66 Global DM allocations one quarter ago (%)



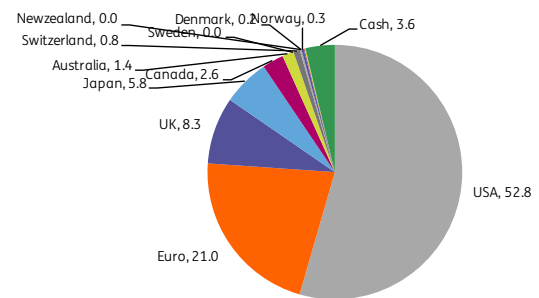
Source: EPFR Global, ING estimates

Fig 67 Eurozone allocations one year ago (%)



Source: EPFR Global, ING estimates

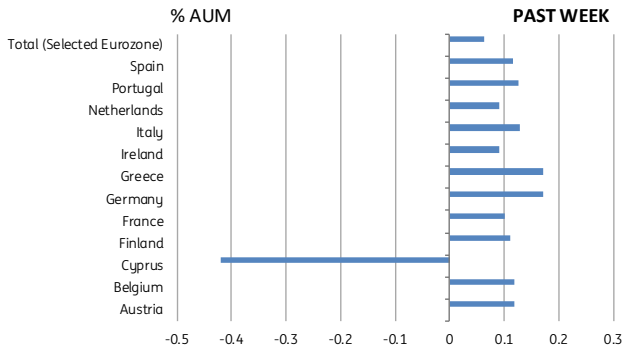
Fig 68 Global DM allocations one year ago (%)



Source: EPFR Global, ING estimates

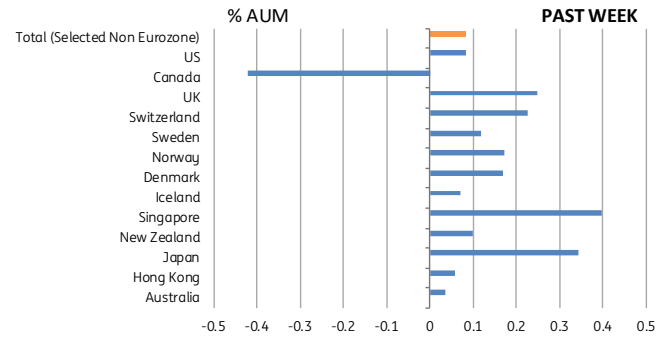
Developed Markets Country Flows

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



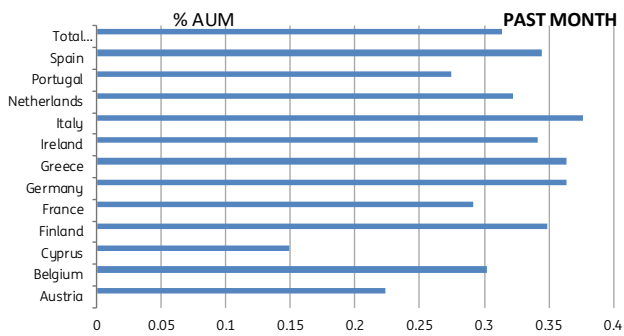
Source: EPFR Global, ING estimates

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



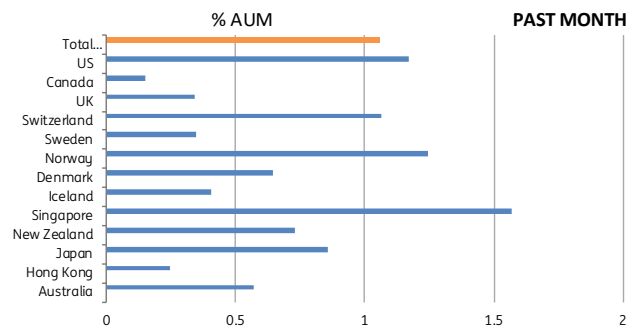
Source: EPFR Global, ING estimates

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



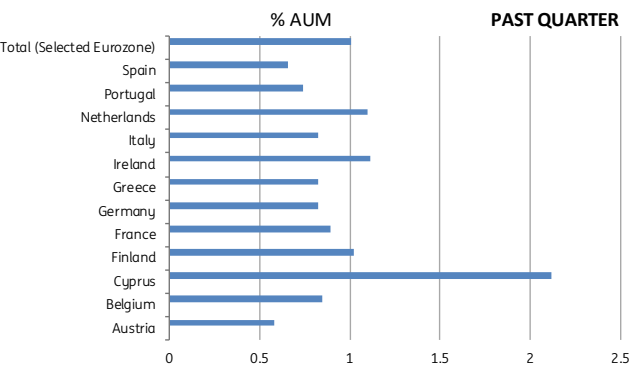
Source: EPFR Global, ING estimates

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



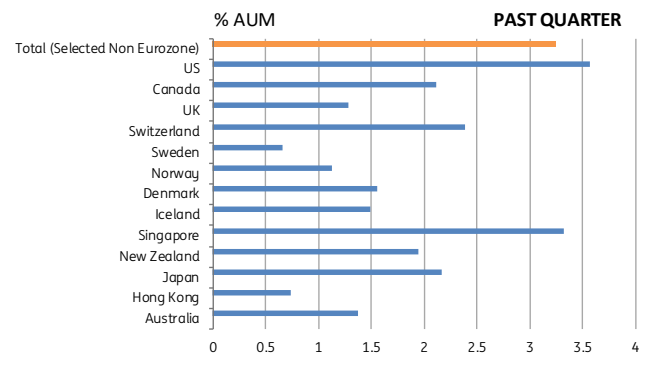
Source: EPFR Global, ING estimates

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



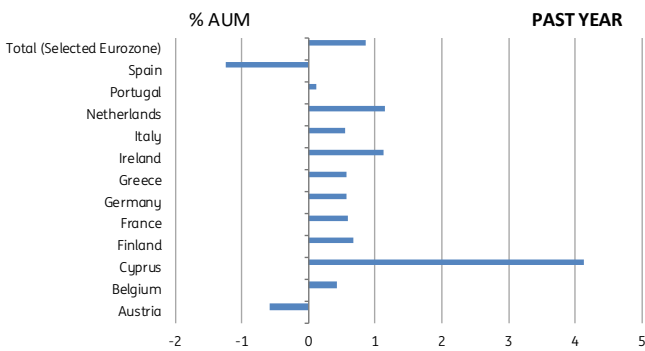
Source: EPFR Global, ING estimates

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



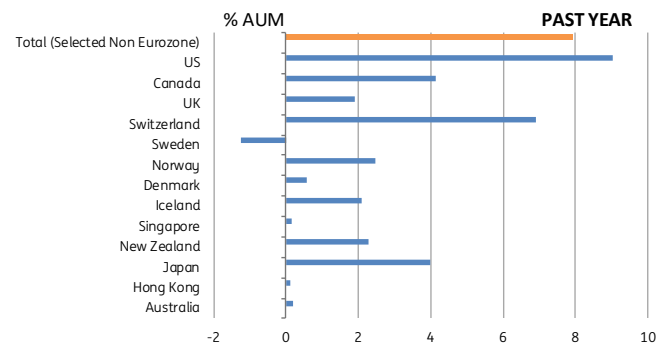
Source: EPFR Global, ING estimates

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



Source: EPFR Global, ING estimates

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



Source: EPFR Global, ING estimates

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