

The Flow Show

New Highs Anyone?

Talking Points

Weekly flows: monster \$53bn MMF inflows vs redemptions from equity (\$4.3bn) & fixed income funds (\$2.4bn)...rising cash levels indicate big risk rally (from intraday lows last week SPX +7.7%, EEM +13.5%, HYG +4.2%) driven primarily by short-covering rather than fresh risk-on.

BofAML Trading Rules: all still signalling "buy" + client marketing feedback unanimously bearish/all waiting for default + threat of Oct policy action + failure of oil to hit new lows = big bounce in "crowded shorts" once SPX floor of 1850 held; SPX now approaching big, important resistance at 2040-2062; v v few expect this ceiling to be broken.

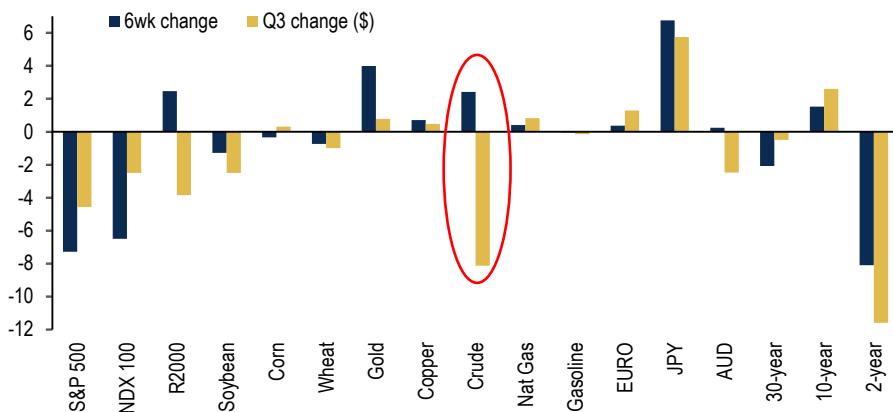
Credit carnage: more pain in HY/IG/EM with 4th consecutive week of IG outflows, 10 out of 11 weeks of HY outflow, 11th consecutive week of EM outflow = worst stretch for credit in more than 2 years (Chart 2). But daily data show inflows Wednesday to both IG & HY for first time in 11/12 days so credit redemption shock easing.

Cracks in "Crowded Longs": Japan funds see largest weekly outflows (\$2.0bn) since Nov'14; Healthcare funds see outflows in 5 out of past 7 weeks, worst stretch since Jun'14; watch October FMS (next Tuesday) for positioning unwind in other "crowded trades" (EU, Tech, Discretionary) or first UW in stocks since Jul'12 to suggest unwind mostly over.

Weekly inflows to energy funds; this corroborates recent CFTC longs to Crude (Chart 1); in addition, staunching of EM equity outflows (smallest since July) illustrates that weak US payroll / \$-weakness was the best news for EM/commodities/resources complex; also indicates crucial that Fed does not rally US\$ in coming months.

In contrast to hedge fund, mutual funds, **no panic from BofAML private clients:** since mid-August, retail have been net buyers of equities to tune of \$5bn.

Chart 1: Large spec net notional change (\$bn)



Source: BofAML Global Research, Commitment of Traders

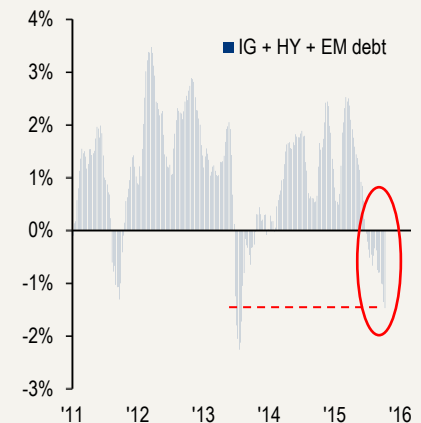
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Chart 2: Rolling 8-week flows as % of AUM to IG/HY/EM debt funds



Source: BofAML Global Investment Strategy, EPFR Global

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Weekly Flows

Asset Class Flows (Table 1)

Equities: \$4.3bn outflows (3 straight weeks) (almost all via ETFs)

Bonds: \$2.4bn outflows (outflows in 8 out of past 9 weeks)

Money-markets: huge \$53bn inflows (largest in 2 years)

Precious Metals: small outflows (\$0.2bn)

Table 1: Global asset class flows, \$mn

	Wk % AUM	YTD	YTD %AUM
Equities	-0.1%	2,069	0.0%
ETFs	-0.2%	121,697	5.5%
LO	0.0%	-119,578	-2.2%
Bonds	-0.1%	82,836	2.4%
Commodities	0.1%	7,468	6.0%
Money-market	1.4%	-2,636	-0.1%

* week of 10/07/15; Source: BofAML Global Investment Strategy, EPFR Global

Fixed Income Flows (Chart 3)

\$2.6bn inflows to **Govt/tsy funds** (14 straight weeks)

\$2.5 outflows from **HY bond funds** (outflows in 10 out of past 11 weeks)

\$2.4bn outflows from **IG bond funds** (4 straight weeks = longest outflow streak since Sep'13)

\$0.6bn outflows from **EM debt funds** (11 straight weeks)

10 straight weeks of outflows from **bank loan funds** (\$0.4bn)

6 straight weeks of **TIPS** outflows (\$0.3bn)

Equity Flows (Table 2)

Japan cracks: \$2.0bn outflows (biggest outflows since Nov'14)

Worst is over for EM: small \$0.6bn outflows (outflows in 13 straight weeks but pace of outflows slowing)

Europe defiant: \$2.0bn inflows (inflows in 19 out of past 21 weeks)

US: \$5.0bn outflows (outflows from both ETFs and mutual funds)

By sector, healthcare funds see \$0.9bn outflows (largest in 6 weeks); conversely, **energy** funds see \$0.4bn inflows

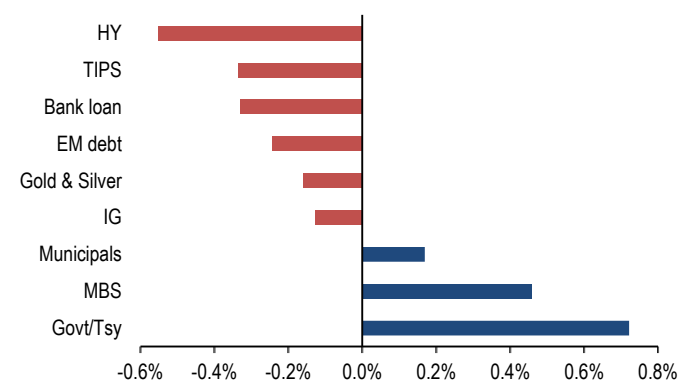
Table 2: Net fund flows to global equities, \$mn

	Wk % AUM	YTD
Total Equities	-0.1%	2,069
long-only funds	0.0%	-119,578
ETFs	-0.2%	121,697
Total EM	-0.1%	-62,696
Brazil	-0.6%	-1,323
Russia	1.4%	149
India	0.1%	4,188
China	-0.1%	-21,680
Total DM	-0.1%	64,765
US	-0.1%	-135,253
Europe	0.2%	97,958
Japan	-0.7%	54,545
International	0.1%	47,255

Total Equities = Total EM + Total DM

Source: BofAML Global Research, EPFR Global

Chart 3: Weekly FICC flows as % AUM



Source: BofAML Global Research, EPFR Global

Market takeaways

Table 3: MSCI ACWI performance and valuations

	Market cap, \$bn	Price performance				Valuation			IBES EPS growth estimates		
		MTD	YTD	% Dev 200dma*	Beta**	12m fwd P/E	P/BV	Div yield	2015	2016	2017
ACWI	35,566	4.8	-4.1	-5.2	1.0	14.7	2.0	2.6	0.9	9.3	12.1
Developed	32,033	4.5	-3.3	-4.6	1.0	15.2	2.1	2.6	1.1	9.2	12.0
US	18,614	3.9	-2.9	-3.4	0.9	16.1	2.7	2.2	0.5	10.1	13.0
Canada	1,104	7.2	-15.7	-9.1	1.1	15.4	1.8	3.0	-14.6	16.0	14.8
Europe	8,094	4.8	-2.9	-5.5	1.2	14.3	1.8	3.4	0.2	8.4	11.5
UK	2,517	5.9	-5.7	-5.8	1.2	14.6	1.8	4.0	-13.7	6.4	13.5
Japan	2,791	5.9	4.5	-4.0	0.9	13.2	1.3	1.9	16.3	10.5	8.0
Australia	803	6.6	-15.9	-14.1	1.0	14.8	1.8	5.0	0.4	8.5	11.0
Hong Kong	375	6.0	-2.9	-8.7	0.9	13.7	1.2	3.0	-9.3	8.9	-
Emerging	3,533	7.4	-11.0	-11.0	1.1	11.0	1.5	2.8	-0.3	10.4	12.6
China	841	9.1	-5.6	-12.5	1.2	9.0	1.3	3.0	2.7	8.8	11.4
Korea	539	5.4	-7.0	-6.5	0.9	10.0	1.0	1.5	17.0	6.9	8.7
Taiwan	431	4.8	-11.3	-12.2	0.8	11.9	1.7	4.1	4.3	4.3	9.1
India	304	3.8	-2.8	-4.5	1.0	17.3	3.3	1.4	11.1	19.8	16.7
South Africa	284	10.0	-10.0	-9.2	1.4	16.0	2.7	2.8	3.5	10.2	18.2
Russia	136	8.1	13.5	-5.2	1.4	4.7	0.7	4.6	-36.6	8.2	12.3
Brazil	229	13.9	-32.7	-26.9	1.5	11.2	1.4	3.9	-26.9	28.2	24.0

* how much the index is trading away from its closing average over a period of 200 consecutive days

** weekly price change of market vs. MSCI ACWI over 3 years

All price data as of 10/7/2015, BV as of 9/30/2015, Forward E as of 10/1/2015, EPS as of 10/1/2015

All price returns expressed in \$ terms

Source: MSCI / Datastream

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