

\$20bn of Risk-Off

Talking Points

Risk-Off: biggest weekly outflows in 2015 from both equity funds (\$17.2bn) and HY bond funds (\$2.6bn); so roughly \$20bn redeemed from risk assets past week

Reversal: first outflows from European equity funds in 17 weeks (\$1.5bn – Chart 5)

Disconnect: largest outflows from US equity funds since Aug'14 (\$15.8bn)... disconnect between flows & S&P500 price action persists (Chart 1), yet to be resolved

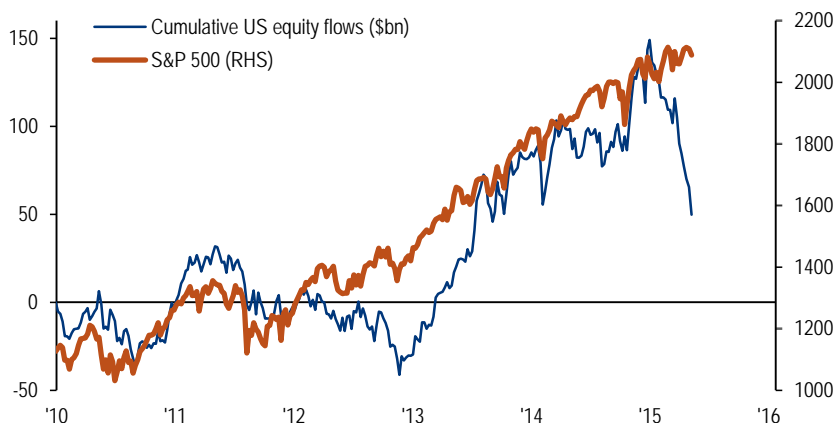
Pain: YTD returns (stocks +5%, bonds -1%, commodities +6%, dollar +4%) mask ongoing Pain Trade era (Table 1); all were positioned in Jan for US macro liftoff, higher US\$, low/stable rates; Fed's "blink" at March caused immediate US\$ peak, biotech selloff, trough in oil, carry-trade re-ignition; and positioning clearly way offside in April as weak US consumer, higher EU inflation expectations drive rout of long US\$, short oil positions & selloff in German bunds

Exacerbation: exacerbating price action... "flash crash" fears (driven by tech, regulation, illiquidity... reversal of systematic macro performance - note correlation of CTA returns & US dollar (Chart 2 – correlation with oil, bunds, biotech also high)

Did-You Know: since August of last year, as Fed ending QE3, return from equal-weighted global equity & bond index is down 0.1%; throw in commodities and cash to clone a benchmark asset allocation and portfolio is down 2.5% in the past 9 months; so much liquidity...so little return

Payroll: risk will like UK election result but payroll key; US payrolls historically correlated with US profits (Chart 3), and profits no longer growing; April payroll <175-200K = \$ capitulation & risk retreat, >250-275K = \$ bounce & risk reload

Chart 1: Disconnect between US flows & S&P 500 price action persists...yet to be resolved



Source: BofAML Global Investment Strategy, EPFR Global



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Table 1: Pain trades by month

Month	
Jan	UST rallies, NKY falls
Feb	EEM rallies, CNY reverses
Mar	US internet (QNET) falls
Apr	UST rallies further
Jun	UTIL (Utilities) rallies
July	HYG falls Eurozone corrects, SHCOMP rallies
Aug	Oil falls merger arbitrage (MERFX) falls
Sept	EFA, EEM, RTY, Energy stocks fall
Oct	FMCC, FNMA fall
Nov	HY energy, energy stocks, EM debt falls
Dec	SHCOMP surges
Jan	Swiss franc surges. SX5E rallies
Feb	Util, REITs fall
Mar	SHCOMP surges
Apr	Bund falls, SHCOMP falls, oil surges

Source: BofAML Global Investment Strategy

Table 2: Global asset class flows, \$mn

	Wk % AUM	YTD	YTD %AUM
Equities	-0.2%	-17,685	-0.2%
ETFs	-0.4%	27,419	1.2%
LO	-0.1%	-45,042	-0.8%
Bonds	0.0%	126,927	3.7%
Commodities	-0.2%	7,774	6.2%
Money-market	0.1%	-78,423	-2.2%

* week of 5/06/15

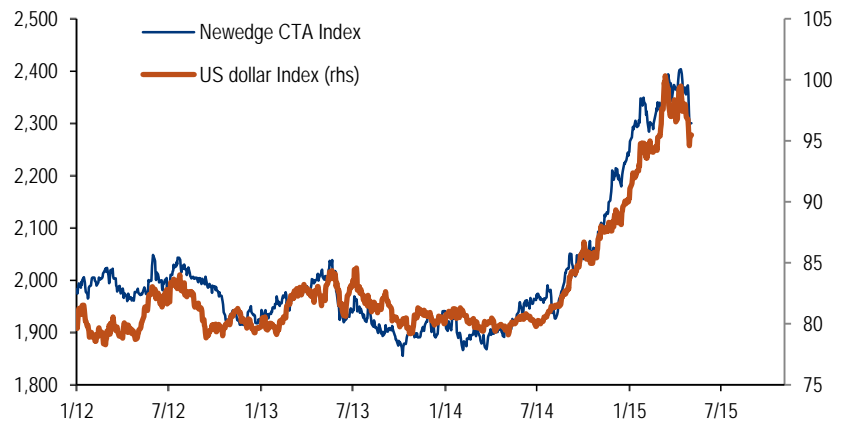
Source: BofAML Global Investment Strategy, EPFR Global

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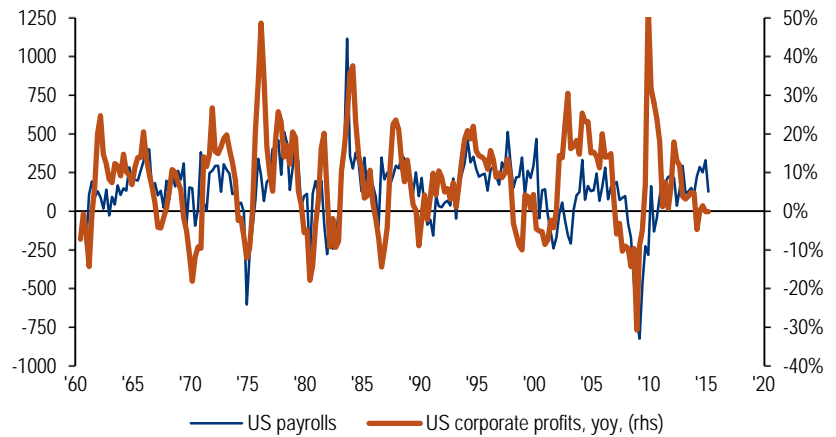
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Chart 2: CTA Index & USD



Source: BofAML Global Research, Bloomberg

Chart 3: US payrolls & US profits



Source: BofAML Global Research, Bloomberg

Table 3: Net fund flows to global equities, \$mn

	Wk % AUM	YTD
Total Equities	-0.2%	-17,685
long-only funds	-0.1%	-45,042
ETF's	-0.4%	27,419
Total EM	0.0%	-20,160
Brazil	-0.8%	-587
Russia	0.0%	648
India	0.1%	5,143
China	-0.6%	-20,223
Total DM	-0.2%	2,475
US	-0.4%	-99,340
Europe	-0.1%	55,929
Japan	0.4%	16,383
International	0.0%	28,304

Total Equities = Total EM + Total DM

Source: BofAML Global Research, EPFR Global

Asset Class Flows (Table 2)

Equities: \$17.2bn outflows (note \$10bn outflows via ETF's – SPY, IWM, QQQ, IYR)

Bonds: small \$0.4bn inflows (18 straight weeks)

Precious metals: \$0.3bn inflows

MMF: \$5.2bn inflows

Equity Flows (Table 3)

Europe: first outflows in 17 weeks (\$1.5bn)

EM: small \$0.2bn outflows (outflows in 9 out of past 10 weeks)

US: \$15.8bn outflows (outflows in 11 out of past 12 weeks)

Japan: 11 straight weeks of inflows (\$1.2bn)

Fixed Income Flows (Chart 4)

Big \$2.6bn outflows from **HY bond funds** (largest in 2015)

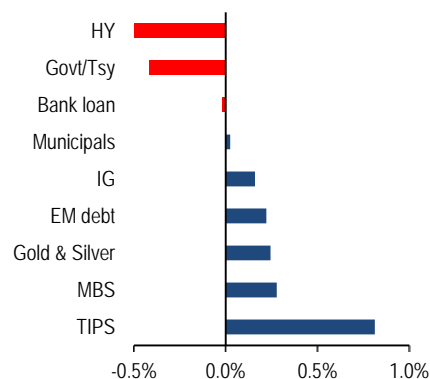
72 straight weeks of inflows to **IG bond funds** (\$2.9bn)

8 straight weeks of inflows to **TIPS funds** (\$0.7bn)

7 straight weeks of inflows to **EM debt funds** (\$0.6bn)

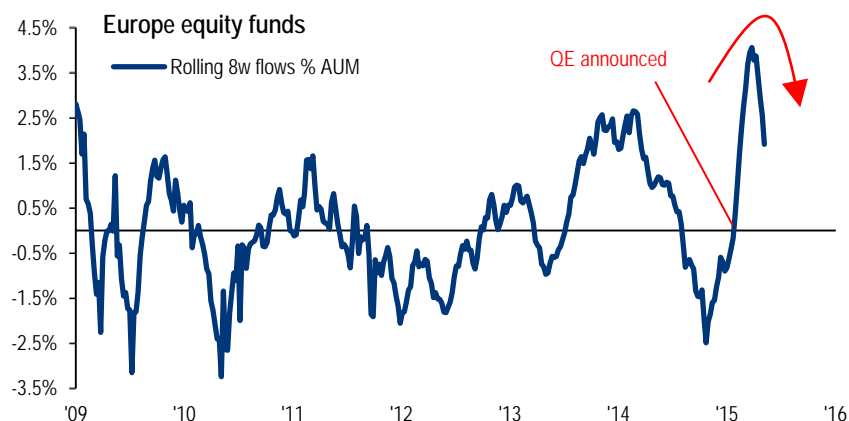
\$1.5bn outflows from **govt/tsy funds** (biggest outflows in 9 weeks)

Chart 4: Weekly FICC flows as % AUM



Source: BofAML Global Research, EPFR Global

Chart 5: First outflows from European equity funds in 17 weeks (\$1.5bn)



Source: BofAML Global Research, EPFR Global

Market takeaways

Table 4: 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	38,393	-0.4	4.2	2.9	1.0	16.3	2.2	2.4	3.2	12.5	11.7
Developed	34,222	-0.3	3.7	2.8	1.0	17.0	2.3	2.4	1.9	12.5	11.7
US	19,442	-0.3	1.4	2.5	0.9	17.5	2.9	2.0	0.7	13.1	12.6
Canada	1,316	-0.2	-0.4	-1.2	1.1	17.4	2.0	2.8	-10.9	19.5	15.8
Europe	8,769	-0.5	6.3	2.8	1.2	16.3	1.9	3.2	3.1	12.6	11.0
UK	2,709	-1.2	3.2	0.4	1.1	15.9	1.9	3.7	-10.6	13.2	12.5
Japan	2,994	-0.1	13.2	7.8	1.0	15.7	1.5	1.7	24.6	13.4	10.6
Australia	963	-0.3	2.6	-2.7	1.0	16.7	2.0	4.4	1.9	-1.4	4.3
Hong Kong	443	-0.6	14.1	8.6	0.8	16.6	1.4	2.5	-0.4	8.6	-
Emerging	4,171	-0.7	8.8	3.6	1.1	12.5	1.6	2.5	11.7	12.4	11.7
China	1,026	-2.6	22.8	16.4	0.9	12.0	1.8	2.5	3.7	13.3	9.9
Korea	614	-1.5	9.2	2.6	1.0	10.0	1.0	1.4	32.5	5.9	8.8
Taiwan	524	0.1	8.8	6.3	0.8	13.3	1.9	2.7	11.1	7.4	8.0
India	272	-0.2	-2.0	-5.8	1.0	16.9	3.1	1.4	13.8	18.1	11.4
South Africa	320	-1.9	5.5	2.3	1.3	17.0	2.9	2.7	4.0	13.8	18.3
Russia	176	3.8	44.4	8.1	1.5	5.7	0.8	4.4	29.2	15.8	12.7
Brazil	334	0.3	-1.5	-9.7	1.5	13.0	1.4	4.0	-14.6	23.9	20.3

* 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 5/6/2015, BV as of 4/30/2015, Forward E as of 4/30/2015, EPS as of 4/30/2015

All price returns expressed in \$ terms

Source: MSCI / Datastream

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