

## Brokers & Asset Managers

### Alert: Mixed Macro Trends And Adverse Seasonality Continue To Weigh On Flows (ICI W/E 7/3)

#### ■ Industry Overview

#### William R Katz

+1-212-816-5394

[william.katz@citi.com](mailto:william.katz@citi.com)

#### Neil Stratton, CFA

[neil.stratton@citi.com](mailto:neil.stratton@citi.com)

#### Steven J Fullerton

[steve.fullerton@citi.com](mailto:steve.fullerton@citi.com)

- **LT flows decelerate** — Per ICI on 7/11, U.S. retail LT MF flows decelerated during the week ended 7/3 as lower bond volumes coincided with accelerated equities attrition, the latter continuing to be driven by domestic equities outflows. We believe weak markets and adverse seasonality are weighing on volumes + mix while lead indicators are mixed. The data to suggest: 1) fixed income volumes continue daisy chain of inflows while investors are reluctant to re-engage into equities, perhaps due to mixed macro trends and summer seasonality; 2) 2012 remains a flow transition year; and, 3) flow prospects among our coverage remain uneven. Industry LT inflows totaled \$1.7B, including \$3.4B of fixed income inflows and \$1.1B of hybrid inflows, partially offset by \$2.8B of equity outflows. The \$1.7B of LT inflows compares to inflows of \$3.2B during the prior week and \$3.1B of inflows one year ago (Figures 1-4).
- **Fixed income volumes extend inflows streak to five weeks (albeit at a lower clip)** — Fixed income inflows totaled \$3.4B, a negative swing of \$900M versus \$4.3B inflows in the prior week. Flows continue to be centered in taxable as inflows totaled \$2.5B (a negative \$700M swing W/W) while munis inflows decelerated to \$900M (down \$200M W/W). Hybrid flows totaled \$1.1B versus flat flows during the prior week.
- **Equities attrition accelerates** — Equities outflows totaled \$2.8B, a negative swing of \$1.7B versus \$1.1B in outflows during the prior week. Domestic equities attrition accelerated to \$3.1B versus \$1.5B in outflows during the prior week. Foreign equities inflows totaled \$300M versus \$400M inflows during the prior week.
- **Portfolio management** — We remain broadly selective given both mixed macro/micro issues across our U.S./non-U.S. coverage universe and we favor U.S. platforms and Alternatives. Monthly AUM updates from EV, BEN, and IVZ continue to point toward mixed flow dynamics – a theme we believe will persist into 2H12 and calls into question potential multiple expansion, see our 7/11 reports, [June AUM Generally In-Line](#); and, [Flows Likely Outpace Forecast](#); [June AUM — Passive Drives The Bus](#); [Active Remains Sluggish](#); as well as our 7/12 report, [June AUM Part II: Attrition Likely Less Than Originally Thought](#). AMG + LM are our highest conviction Traditional selections; BX, KKR, and CG among Alternatives; and FXCM among B/Ds. Reiterate AMG/TROW, BLK/EV, and IVZ/WDR pair trades.

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Figure 1. LT Flows Decelerate During The W/E 7/3...

		<u>Total</u>	<u>Equity</u>	<u>Hybrid</u>	<u>Fixed Income</u>
Week Ended:	6/13/12	5.4	0.9	1.0	3.5
	6/20/12	4.6	-1.5	1.2	4.9
	6/27/12	3.2	-1.1	0.0	4.3
	7/3/12	1.7	-2.8	1.1	3.4
Year Ago:	7/6/11	3.1	-3.8	0.6	6.4
2 Years Ago:	7/7/10	0.4	-4.2	-1.4	6.0

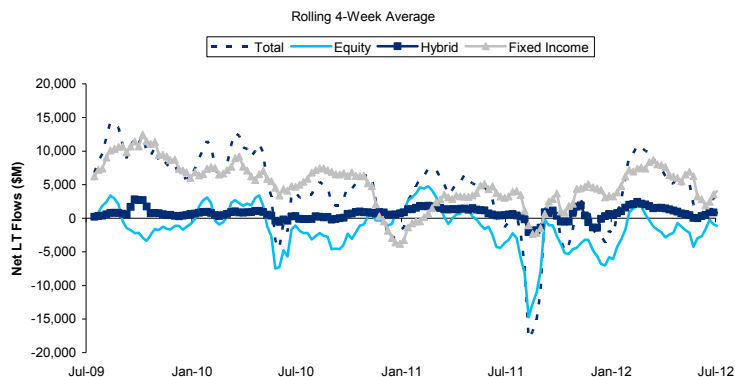
Source: ICI, Citi Research

Figure 2. ...With Inflows Led By Taxable Fixed Income...

		<u>Domestic Equity</u>	<u>Foreign Equity</u>	<u>Taxable Bond</u>	<u>Municipal Bond</u>
Week Ended:	6/13/12	-0.6	1.5	2.9	0.6
	6/20/12	-1.8	0.3	4.0	0.9
	6/27/12	-1.5	0.4	3.2	1.1
	7/3/12	-3.1	0.3	2.5	0.9
Year Ago:	7/6/11	-4.5	0.6	6.1	0.2
2 Years Ago:	7/7/10	-4.0	-0.1	5.0	1.0

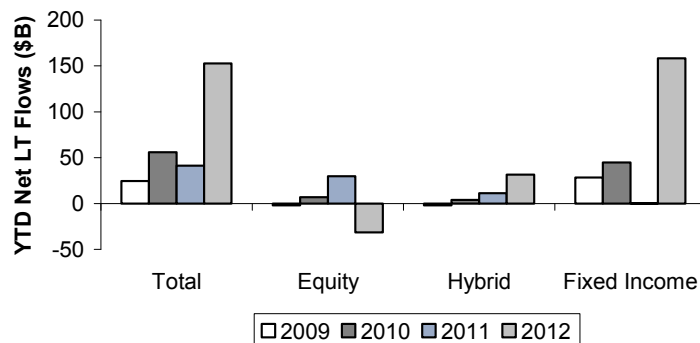
Source: ICI, Citi Research

Figure 3. ...As Retail Investors Remain Skewed Toward Yield, In Our View...



Source: ICI, Citi Research

Figure 4. ...With FI YTD Flows Favorable, But Equities Comparisons Still Difficult



Source: ICI, Citi Research

## Appendix A-1

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