

15 June 2010

## **FUND MANAGERS LESS BULLISH ON EQUITIES, NEUTRAL ON BONDS**

*\*\*\*Over half of fund managers are underweight towards European equities\*\*\*  
\*\*\*The majority of fund managers favour emerging markets equities and bonds\*\*\*  
\*\*\*No fund manager overweight on cash\*\*\**

A fifth of fund managers (20%) polled in HSBC's quarterly Fund Managers Survey are holding an underweight view towards equities in the second quarter of 2010.

Last quarter, 50 per cent of fund managers were neutral while the other half were overweight towards equities. The majority of fund managers (75%) are neutral towards bonds this quarter, up from 56 per cent in 1Q10. There are no fund managers holding an overweight view towards cash in 2Q10.

Charles Genocchio, Head of Global Investments for HSBC in Australia, said: "Our survey shows that fund managers have become less bullish on equities compared to the past few months and have turned lukewarm towards bonds as the current European debt crisis continues to impact the global economic recovery. However, fund managers do not view cash as a strong alternative and will continue to invest selectively in more risky assets."

Three in four respondents (75%) are bullish on emerging markets equities in 2Q10, up from 60 per cent in the previous quarter. The majority (88%) also hold an overweight view on global emerging markets/high yield bonds, a jump from 38 per cent in 1Q10. While no fund managers are underweight towards Asia-Pacific ex-Japan equities, 63 per cent hold a neutral view in 2Q10 as compared with 30 per cent in 1Q10.

Over half (56% vs 40%) of the respondents are underweight towards European equities, while the proportion of those who are bullish towards European bonds declined to 29 per cent from 50 per cent.

North American assets remained attractive with only 11 per cent of respondents holding an underweight view on US equities (vs 20% in 1Q10). None hold an underweight view on US bonds (vs 11% in 1Q10).

Mr Genocchio added: "Investors have become more attuned to global economic developments and are reacting quickly to the volatility caused by fast-changing events by rebalancing their portfolios. In general, investors remain cautious, favouring bonds that provide diversified exposure and equities in regions such as the US and emerging markets, where economic recovery is more apparent and sustainable."

## Fund managers less bullish on equities, neutral on bonds/2

The quarterly HSBC survey analysed 13 of the world's leading fund management houses<sup>1</sup> by their funds under management (FUM), their asset allocation views and their global money flows. The net money flow<sup>2</sup> estimates are derived from movements in FUM versus index movements in the equivalent class. At the end of 1Q10, the fund houses covered in the survey reported aggregated FUM of US\$3.82 trillion, representing about 16.5 per cent of the estimated total global FUM<sup>3</sup>.

The survey shows that at the end of 1Q10, FUM increased by US\$35 billion, up 0.93 per cent from 4Q09. Bond funds led the rise in FUM, posting an increase of US\$65.5 billion in 1Q10, while equity funds rose US\$36.4 billion. Balanced funds and other funds increased by US\$8.5 billion and US\$7.5 billion, respectively, while money market funds declined US\$82.8 billion.

Below are the net fund flows derived by subtracting market growth from FUM growth during 1Q10 in various asset classes:

### Net flows as percentage of FUM for selected sectors

| Asset class                    | End 1Q10 | End 4Q09 |
|--------------------------------|----------|----------|
| Emerging markets equities      | +5.6%    | +6.9%    |
| North American equities        | +3.0%    | +0.2%    |
| Asia-Pacific ex-Japan equities | +1.9%    | +3.8%    |
| Greater China equities         | +1.6%    | +3.3%    |
| Global equities                | -5.8%    | 3.2%     |
| Europe including UK equities   | +0.5%    | -3.9%    |
| Global bonds                   | +22.5%   | +8.0%    |
| High yield/EM bonds            | +9.6%    | +5.6%    |
| US bonds                       | -6.7%    | -2.3%    |
| Europe including UK bonds      | -0.6%    | -6.6%    |

Across all asset classes, global bonds posted the biggest inflows of US\$20.5 billion, rising 22.5 per cent in 1Q10 compared to the previous quarter's 8 per cent growth. High yield/emerging market bonds recorded US\$6.1 billion of inflows, up 9.6 per cent in 1Q10. Inflows of US\$5.1 billion were invested in emerging markets equities, up 5.6 per cent, but lower than the 6.9 per cent growth recorded in 4Q09. Inflows to Greater China equities slowed to US\$330 million in 1Q10 from US\$607 million last quarter, reflecting weak sentiment in the Mainland equities market.

The HSBC Fund Flow Tracker, which represents cumulative dollar value of money flows since 3Q06 showed that equity funds posted outflows of US\$12.04 billion in 1Q10 as opposed to an inflow of US\$20.1 billion last quarter. Bond funds continued to see record volumes, with inflows of US\$68.2 billion in 1Q10, up from US\$44.3 billion in 4Q09. North American equity flows also saw a record high with inflows of US\$8.6 billion in 1Q10, over 16 times that of 4Q09 at US\$525 million, and two-thirds the amount of inflows at the peak of the market in 1Q07 at US\$12.9 billion.

## **Fund managers less bullish on equities, neutral on bonds/3**

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### **Notes to editors**

#### **Footnotes**

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<sup>1</sup> The 13 participating fund managers in the survey are: AllianceBernstein, Allianz Global Investors, Baring Asset Management, BlackRock, Fidelity Investment Management, Franklin Templeton Investments, HSBC Global Asset Management, Invesco Asset Management, Investec Asset Management, J.P. Morgan Asset Management, Prudential Asset Management, Schroders Investment Management and Société Générale.

<sup>2</sup> Net fund flows are derived by subtracting market growth from funds under management (FUM) growth during 1Q10.

<sup>3</sup> According to the Investment Company Institute, total global FUM at the end of the fourth quarter of 2009 was US\$22.88 trillion.

#### **More details of the survey**

Please see the attached report *HSBC Fund Managers Survey: Tracking Global Money Flows* for more information. The survey was conducted in April and May 2010.

#### **HSBC Bank Australia**

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