

# Institutional investors timely turn on bonds

**The State Street Risk Appetite Index fell to 0.0 from 0.09 revealing a modest retreat in risk bias across the month of April back toward neutral (see Figure 1 overleaf).**

“Institutional investor risk appetite moderated in April led by a surge in demand for the US dollar, with inflows close to a five-year high over the month. Risk appetite in equities was more mixed, with weaker demand for high beta stocks, including tech, offset by firmer demand for emerging markets. And even though investors returned to fixed income as a whole in April, demand was concentrated in Treasuries, with little appetite for riskier emerging market debt or high yielding corporate credit.” noted Michael Metcalfe, Head of Macro Strategy at State Street Global Markets.

**The State Street Holdings Indicators showed that long-term investor allocations to equities and cash fell by 0.2 percentage points each to 53.3% and 18.7% respectively. Cash holdings are now back to their long-run average (see Figure 2) overleaf. This left fixed income holdings as the prime beneficiary this month, with allocations rising 0.4 percentage points to 27.9%, the biggest monthly rise in fixed income allocations since March 2023.**

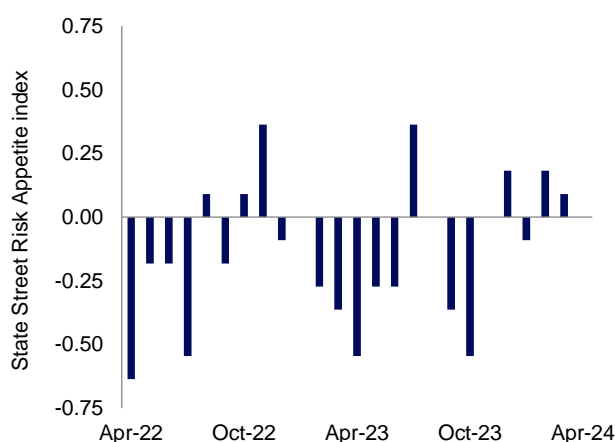
“April was a frightful month for bond and equity market returns, but the reaction of institutional investors was telling. Rather than hide out in cash, they increased their allocation to fixed income by the most in more than a year. A prescient move given the high, not higher, for longer message on rates from the Fed at the beginning of May.

As encouraging as it may be for risk appetite that a US interest rate rise is unlikely, the fact that long-term investor allocations to cash have now fallen back to a long-run average is a little more troubling as it suggests ‘excess’ cash on the sidelines is now exhausted. Given equity holdings are still close to a 15-year high, the bar for good news to pull more money into equities has now been raised as investors would likely need to fund this with an ‘underweight’ in cash. In contrast, if US interest rates really are going to be high and stable for now, investors may begin to re-assess their significant underweight in fixed income and look to have begun doing this in April.” added Michael Metcalfe, Head of Macro Strategy at State Street Global Markets.

## About the indicators

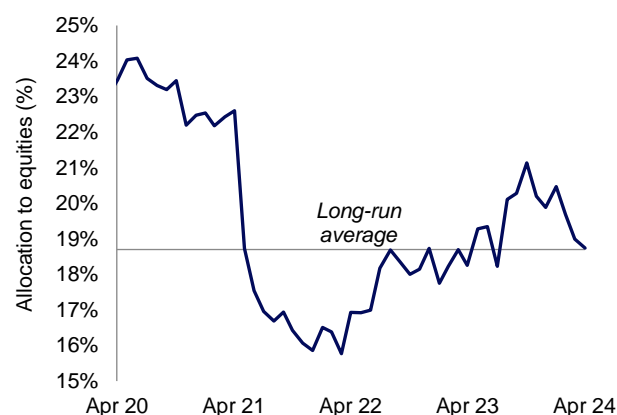
The Institutional Investor Indicators (the three i's) were developed at State Street Associates, State Street Global Markets research and advisory services business. They measure investor confidence or risk appetite quantitatively by analyzing the actual buying and selling patterns of institutional investors derived from State Street's USD42trn<sup>1</sup> in assets under custody and administration (note not investors' balances held at State Street itself). The *Risk Appetite Index* is derived from measuring investor flows in twenty-two different dimensions of risk across equities, FX, fixed income, commodity-linked assets, and asset allocation trends. The index captures the proportion of the twenty-two risk elements that saw either risk seeking or risk reducing behavior. A positive reading suggests that on balance investors are adding to their risk exposures, while a negative reading suggests risk reduction. State Street's *holdings indicators* capture the share of investor portfolios allocated toward equity, fixed income and cash going back to 1998.

**Figure 1: State Street Risk Appetite Index – slips in April**



Source: State Street Global Markets

**Figure 2: State Street Risk Holdings indicator – Cash holdings back to neutral**



Source: State Street Global Markets

<sup>1</sup> As of Q4 2023 [reported State Street earnings](#).

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