

Risk seeking among the noise

The State Street Risk Appetite Index rose to 0.36 in January, resuming the risk seeking activity seen previously before the pause in December (see Figure 1 overleaf).

The State Street Holdings Indicators showed that long-term investor allocations to equities slightly increased, remaining at the highest level in sixteen and a half years (Figure 2 overleaf).

Cash holdings declined 3bps, entirely driven by a 5bps inflow into equities. This was offset by an outflow of fixed income of 1.3bps into cash.

Comments from Noel Dixon, Senior Macro Strategist State Street Global Markets

Three things stand out from investor behavior in January. The first is that investors reverted back to risk seeking mode after taking a pause in December. The allocation to equities increased 5bps largely driven by cash inflows. Investors also pulled money from fixed income as well to fund their equity exposure. This keeps investors with the biggest equity overweight in over 16 years.

The second is that long-term investors' overweight in equities remains concentrated, but spreading out on the margins. The US still commands the lion share of investors equity exposure. That said, Europe including the UK have recently seen a noticeable pick up over the past month. Meanwhile, emerging market holdings remain relatively flat and Japan has seen outflows.

The third is that Fixed Income continues to see a steady decline as it relates to investor allocation. The pessimism in the space is palpable as investors continue to fret over negative fiscal prospects in the US and the rest of the world. Furthermore, the implementation of tariffs could introduce an increase in inflation expectations which also challenges the appetite for Fixed Income. This weakness currently within Fixed Income is pronounced not just in the US, but in the Eurozone, and parts of Emerging Markets as well.

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 USD 44trn¹ 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 – resuming risk seeking posture

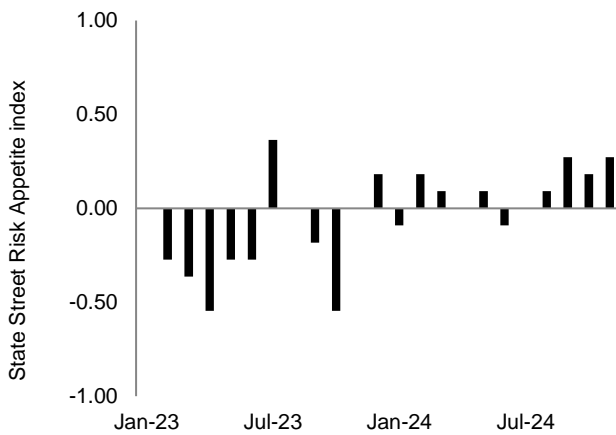


Figure 2: State Street Risk Holdings indicator – Equity Holdings still elevated



¹ As of Q1 2024 [reported State Street earnings](#).

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