European Fund Flow Report: May 2024

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This report analyzes fund flows in the European fund industry in an attempt to identify underlying trends and developments.

Executive Summary

- The promoters of mutual funds (+€2.3 bn) and the promoters of ETFs (+€25.1 bn) enjoyed estimated net inflows for the month, as well as over the course of 2024 so far—mutual funds (+€39.2 bn), ETFs (+€84.6 bn).

- Long-term products (+€34.8 bn) enjoyed inflows for the month as well as over the course of 2024 so far (+€87.4 bn).

- Bond products (+€24.5 bn) was the best-selling asset type for the month and enjoyed also the highest estimated net inflows (+€137.2 bn) for 2024 so far.

- Equity Global (+€15.8 bn) was the best-selling Lipper Classification for May, as well as over the course of 2024 so far (+€35.8 bn).

- BlackRock was the best-selling fund promoter in Europe for May (+€26.5 bn), as well as for the year 2024 so far (+€41.9 bn).

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European Fund Flow Trends Report, May 2024

The European fund industry enjoyed general inflows over the course of May 2024. These inflows occurred in a positive market environment. The positive investor sentiment was driven by some stronger than expected earnings for Q1 2024. Nevertheless, there were also some companies which didn't meet the expectations of analysts and saw their stock prices declining. These market reactions on lower-than-expected numbers showed how vulnerable the markets are. In addition, the geopolitical tensions in Middle East—especially the developments around the Red Sea—are still seen as a risk for general economic growth in Western countries since a number of shipping companies these days avoid the passage of the Suez channel. It is, therefore, to be expected that the prolonged delivery times will cause some tensions for the still vulnerable delivery chains.

Market sentiment was further driven by hopes that central banks will start to lower the key interest rates. While the European Central Bank (ECB) is expected to be the first in line, it is still unclear if and when the U.S. Federal Reserve will start to lower the interest rates in the U.S. That said, the statements from the U.S. Fed over the first quarter of 2024 about future interest rate policy might have caught some investors on the wrong foot since the central bank indicated that it may start the lowering of interest rates later and with less steps in 2024 than some investors expected. These statements might have impacted the estimated net flows in bond and money market ETFs.

In addition, some investors may have also reviewed their expectations for bonds, as there is the risk that the inflation in the major economies might be more sticky than expected and central banks are held responsible to reach their inflation targets. This is also true for the Eurozone, even as the ECB will be the first major central bank which will start to lower interest rates in June.

Additionally, there are still some concerns about the possibility of a recession in the U.S. and other major economies around the globe. These fears have been raised by a lack of growth in some economies and the long-term inverted yield curves, which are seen as an early indicator for a possible recession. The normalization of inverted yield curves might be another short-term challenge for the bond markets.

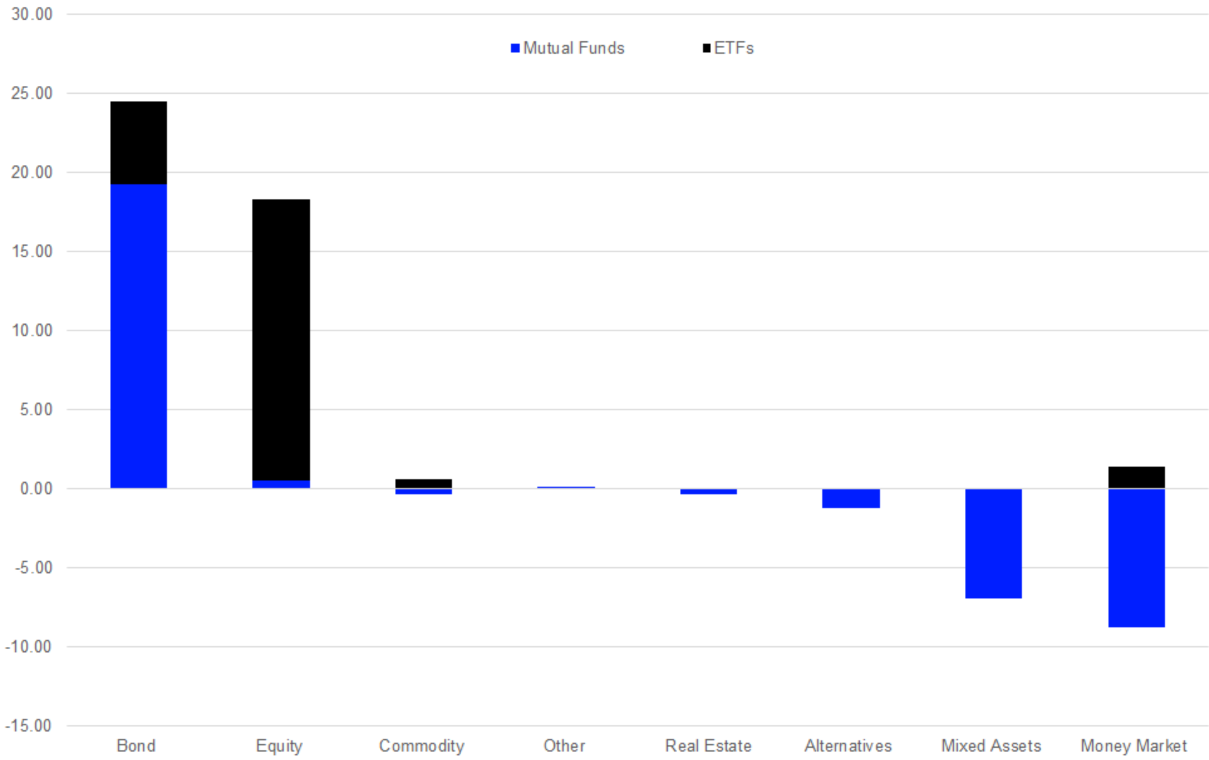
Asset Type Flows

Mutual funds (+€2.3 bn) and ETFs (+€25.1 bn) enjoyed inflows for the month. This flow pattern led to overall estimated net inflows of €27.4 bn over the course of May 2024.

Asset Type Flows May 2024

In more detail, bond funds (+€24.5 bn) were once again the best-selling asset type overall for May 2024. The category was followed by equity funds (+€18.3 bn), commodities funds (+€0.3 bn), and "other" funds (+€0.2 bn), while real estate funds (-€0.3 bn), alternatives funds (-€1.2 bn), mixed-assets funds (-€7.0 bn), and money market funds (-€7.3 bn) faced outflows.

Graph 1: Estimated Net Flows by Asset and Product Type – May 2024 (in bn EUR)



Source: LSEG Lipper

Asset Type Flows Year to Date

The flow pattern for May drove the estimated overall net flows in the European fund industry up to €123.9 bn for the year 2024 so far.

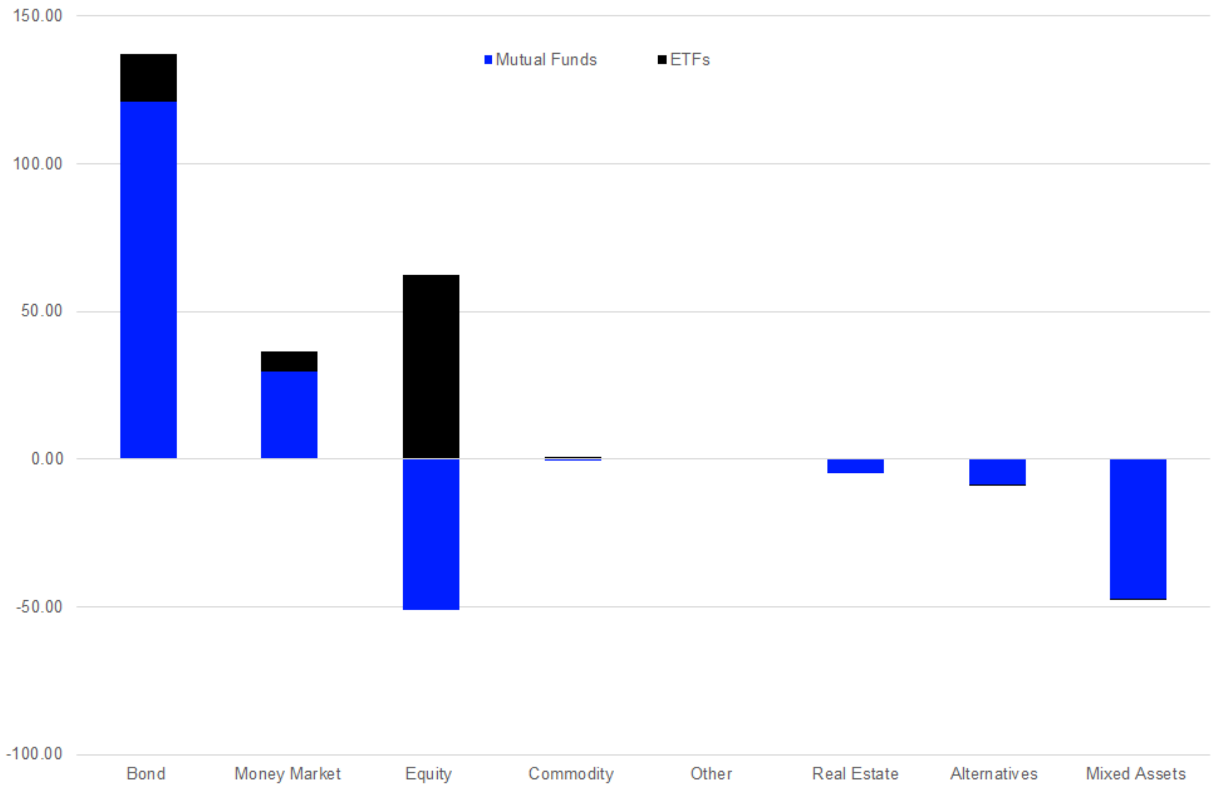
On closer inspection, mutual funds (+€39.2 bn) and ETFs (+€84.6 bn) enjoyed inflows over the course of the year 2024 so far. These inflows within the still somewhat uncertain market environment are not considered unusual and might be a sign that European investors are somewhat in risk-on mode.

With regard to the inverted yield curves for the Eurozone and other major economies in the world, it is somewhat surprising that European investors favored bond products over the course of the year. That said, the inflows into bonds might be seen as a sign that European investors may anticipate the ending of the interest hiking cycle of central banks around the globe led by the ECB rather sooner than later. That said, the U.S. Federal Reserve seemed to postpone its first interest rate cut further.

Overall, long-term investment products (+€87.4 bn) and money market funds (+€36.5 bn) enjoyed inflows for the year so far. That said, the estimated net flows for equities were dominated by the inflows into ETFs, while the inflows into bond funds were dominated by mutual funds.

Taking a closer look, bond funds (+€137.2 bn) were the asset type with the highest estimated net inflows overall for 2024 so far. It is followed by money market funds (+€36.5 bn), equity funds (+€11.1 bn), commodities funds (+€0.6 bn), and "other" funds (+€0.1 bn). On the other side of the table, real estate funds (-€4.7 bn), alternatives funds (-€9.0 bn), and mixed-assets funds (-€47.8 bn) faced outflows for the year so far.

Graph 2: Estimated Net Sales by Asset and Product Type, January 1 – May 31, 2024 (Euro Billions)



Source: LSEG Lipper

The high outflows from mixed-assets funds might be caused by investors who used mixed-income funds to achieve their income goals during the low interest rate environment, switching their market exposure back to bonds, given the current interest rate environment.

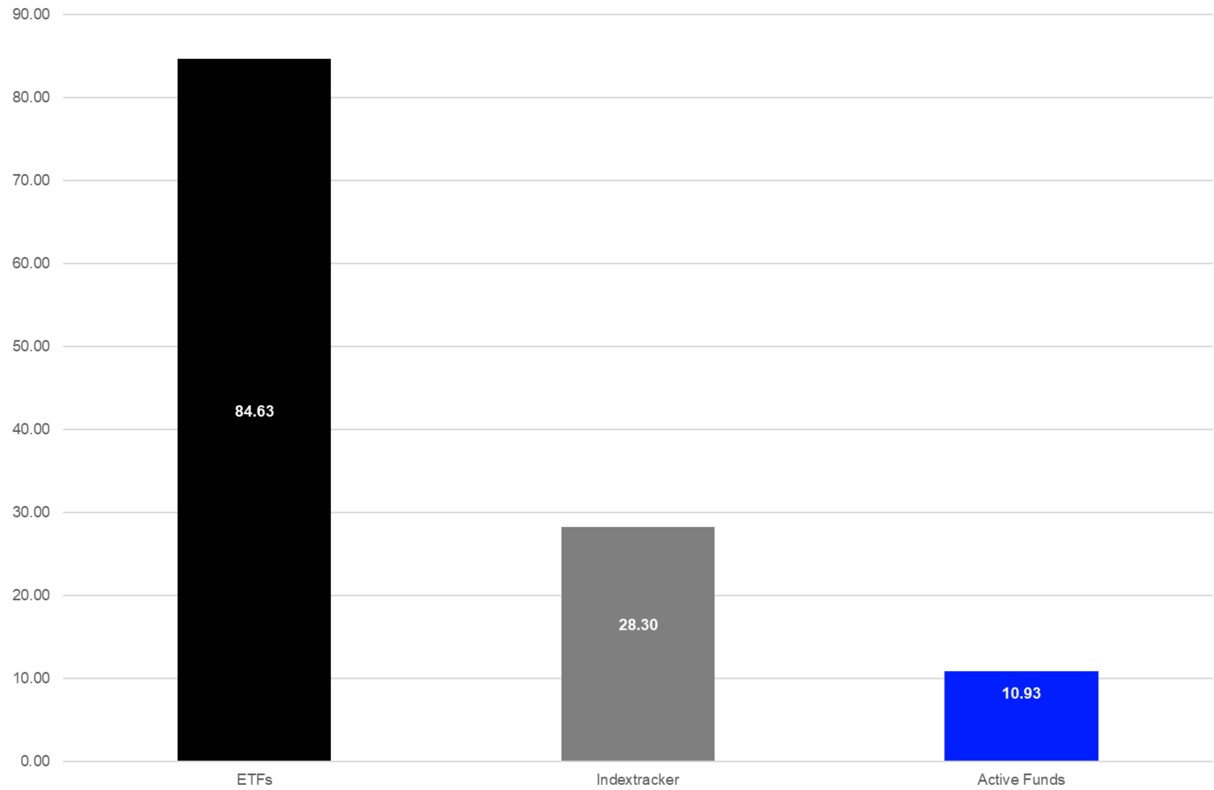
In addition, one needs to bear in mind that the flows in money market products are impacted by a combination of asset allocation decisions of portfolio managers and corporate actions such as cash dividends or cash payments since money market funds are also used by corporations as replacements for cash accounts.

Given the inverted yield curves, it can be assumed that a number of investors use money market products as a replacement for cash accounts and in some cases even bonds, since money market products offer a comparably high yield within the current interest rate environment. Therefore, it can be expected that the inflows in money market products may revert once the yield curves start to normalize.

Fund Flows Active vs Passive Products

The trend toward passive investment vehicles is widely discussed by market observers and asset managers, so it is worthwhile to highlight this topic, especially as not all passive products are ETFs. In fact, the flows into ETFs (+€84.6 bn) were outpacing the flows into passive index mutual funds (+€28.3 bn) by a large margin. In line with this, actively managed long-term mutual funds enjoyed inflows (+€10.9 bn) for the first five months of 2024.

Graph 3: Estimated Net Flows by Management Approach and Product Type (January 1 – May 31, 2024)



Source: LSEG Lipper

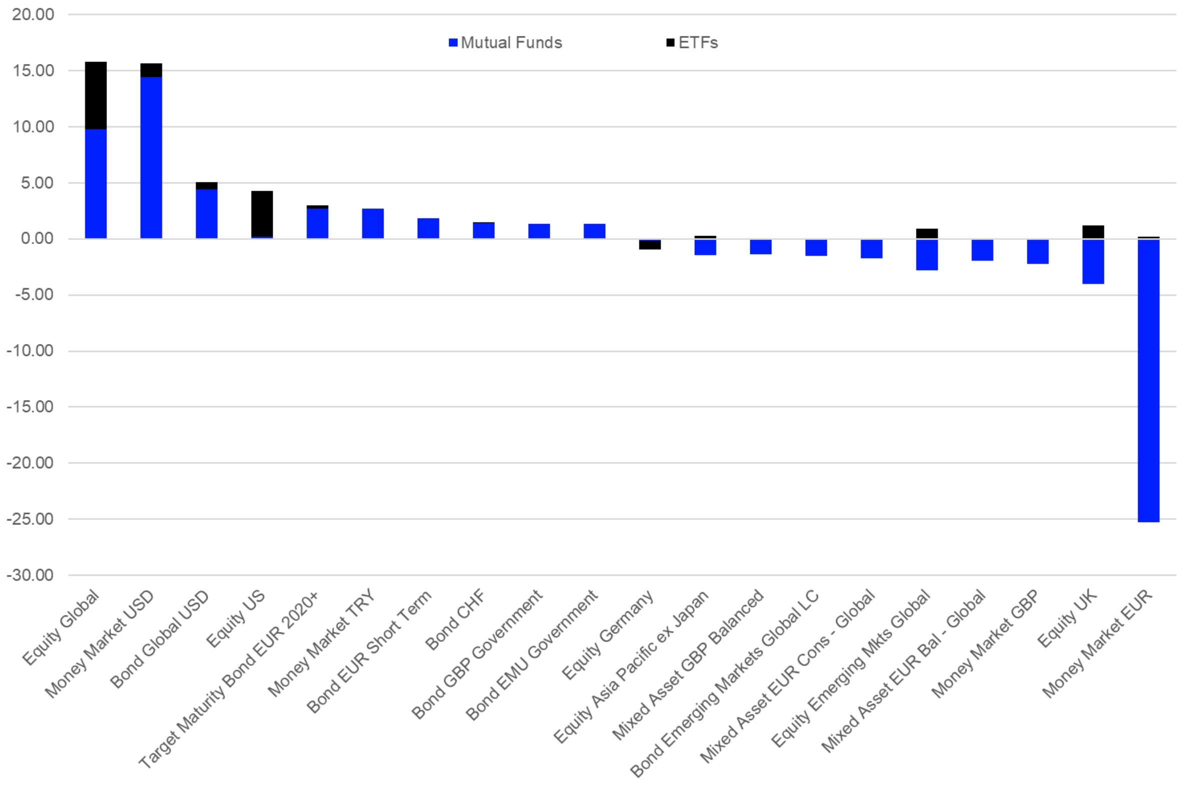
Some market observers may speculate that European investors are selling actively managed products and buying back passive products, especially within the Lipper global classification Equity U.S. Generally speaking, one could agree with this thesis by looking at the high-level numbers, but since this can’t be proven by facts I would not totally agree with this assumption.

Fund Flows by Lipper Global Classifications

Fund Flows by Lipper Global Classifications, May 2024

Given the general fund flows trend in Europe, it was surprising that Equity Global (+€15.8 bn) and Money Market USD (+€15.6 bn) dominated the table of the 10 best-selling peer groups by estimated net flows for May, while the first bond classification – Bond Global USD (+€5.1 bn) – came in as third. These three classifications were followed by Equity U.S. (+€4.3 bn) and Target Maturity Bond 2020+ (+€3.0 bn).

Graph 4: Ten Best- and Worst Lipper Global Classifications by Estimated Net Sales, May 2024 (Euro Billions)



Source: LSEG Lipper

On the other side of the table, Money Market EUR (-€25.1 bn) faced the highest estimated net outflows for May, bettered by Equity U.K. (-€2.9 bn) and Money Market GBP (-€2.3 bn).

A closer look at the best and worst Lipper Global Classifications by estimated net sales for May shows that European investors have somewhat returned to risk-on mode with regard to their risk appetite over the course of the month. On one hand, European investors increased their positions in equities, but also in money market and bond classifications mainly not in EUR. On the other hand, they further reduced their exposure to mixed-assets products since these products may have been used to generate yield and income over the low interest rates period.

In addition, European investors seem to reduce their exposure to the GBP, since Equity U.K. (-€2.9 bn), Money Market GBP (-€2.3 bn), and Mixed Asset GBP Balanced (-€1.4 bn) were among the 10 Lipper classifications with the highest outflows. Another explanation for this flow pattern might be that these flows have been caused by U.K. investors who are readjusting their portfolios to the current market environment.

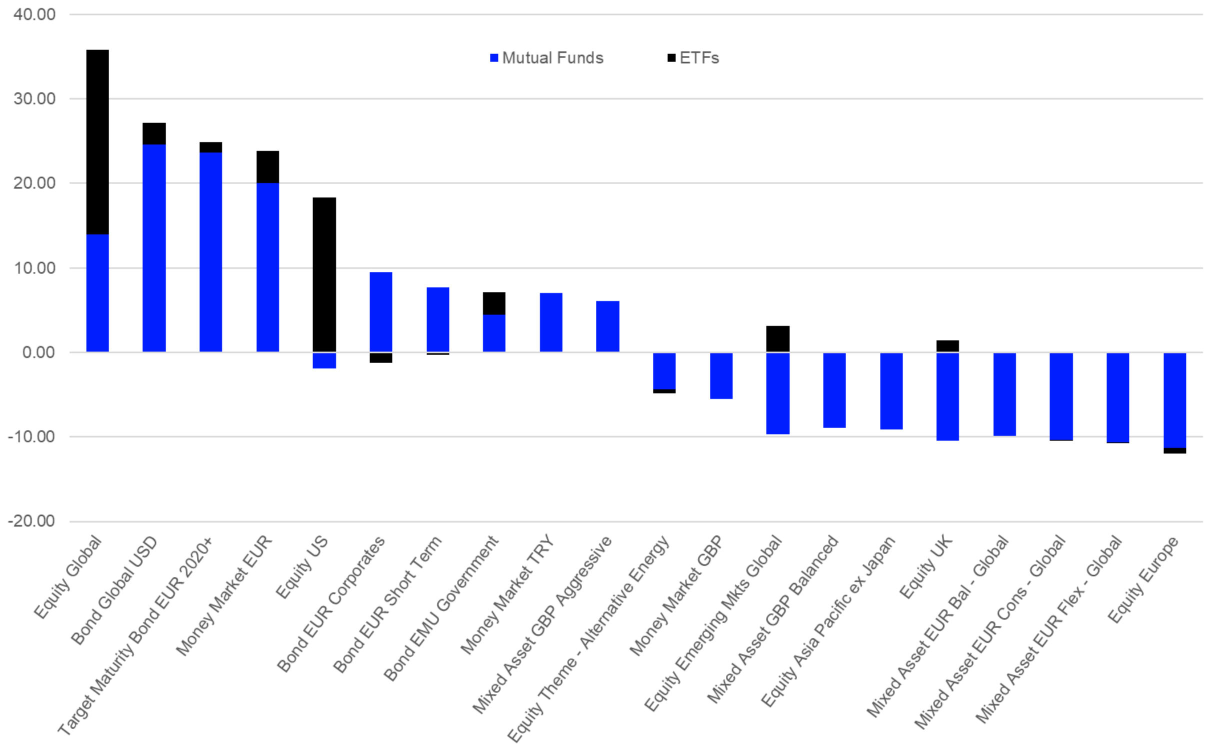
Fund Flows by Lipper Global Classifications, Year to Date

A closer look at the best and worst Lipper Global Classifications by estimated net sales for the first five months of 2024 also shows that European investors are somewhat in a risk-on mood with regard to their risk appetite since bond classifications are dominating the table of the best-selling Lipper Global Classifications.

As graph 2 shows, mixed-assets products faced the highest outflows over the course of the year 2024 so far, while bond products enjoyed the highest estimated net inflows. Given the overall trend it was not surprising that the table of the best-selling Lipper Global Classifications is dominated by bond classifications, while mixed-asset classifications dominated the other side of the table.

Nevertheless, Equity Global (+€35.8 bn) was the best-selling Lipper global classification for the year so far. It was followed by Bond Global USD (+€27.2 bn), Target Maturity Bond EUR 2020+ (+€24.9 bn), Money Market EUR (+€23.8 bn), and Equity U.S. (+€16.5 bn).

Graph 5: Ten Best- and Worst Lipper Global Classifications by Estimated Net Sales, January 1 – May 31, 2024 (Euro Billions)



Source: LSEG Lipper

Given the current market environment, it was not surprising to see so many mixed-assets classifications on the opposite side of the table since European investors seem to be readjusting their portfolios to the new environment in the bond markets after the central banks around the globe started to end their interest rate hiking cycles and reduce their currently high interest rates over the course of 2024. Equity Europe (-€11.9 bn), faced the highest outflows for the year so far. It was bettered by Mixed Asset EUR Flexible - Global (-€10.7 bn), Mixed Asset EUR Conservative - Global (-€10.4 bn), Mixed Asset EUR Balanced – Global (-€9.8 bn), and Equity U.K. (-€9.0 bn).

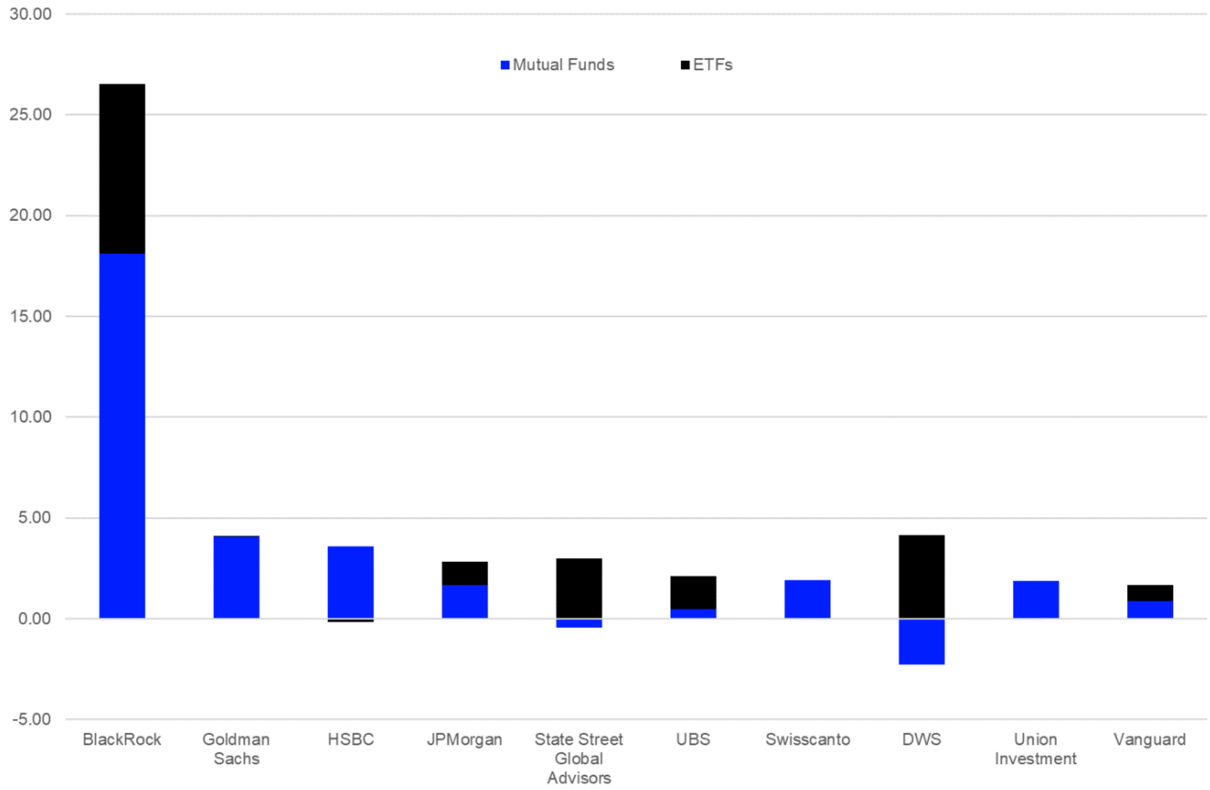
As mentioned above, it is noteworthy that the estimated flows in money market sectors are not only a reflection of asset allocation decisions of investors since these products are also used by corporates as a replacement for cash accounts. In addition, it is also important to recall that the yield curves in the Eurozone and other parts of the world are currently inverted, which means that money market instruments offer a higher yield than medium- or long-term bonds.

Fund Flows by Promoters

Fund Flows by Promoters, May 2024

BlackRock (+€26.5 bn) was the best-selling fund promoter in Europe for May, far ahead of number two promoter Goldman Sachs (+€4.1 bn), HSBC (+€3.4 bn), JPMorgan (+€2.8 bn), and State Street Global Advisors (+€2.5 bn). Given the product ranges of the 10-top promoters and the overall fund flow trends, it was not surprising to see that ETFs played a vital role for the positions of the leading fund promoters in Europe.

Graph 6: Ten Best-Selling Fund Promoters in Europe, May 2024 (Euro Millions)

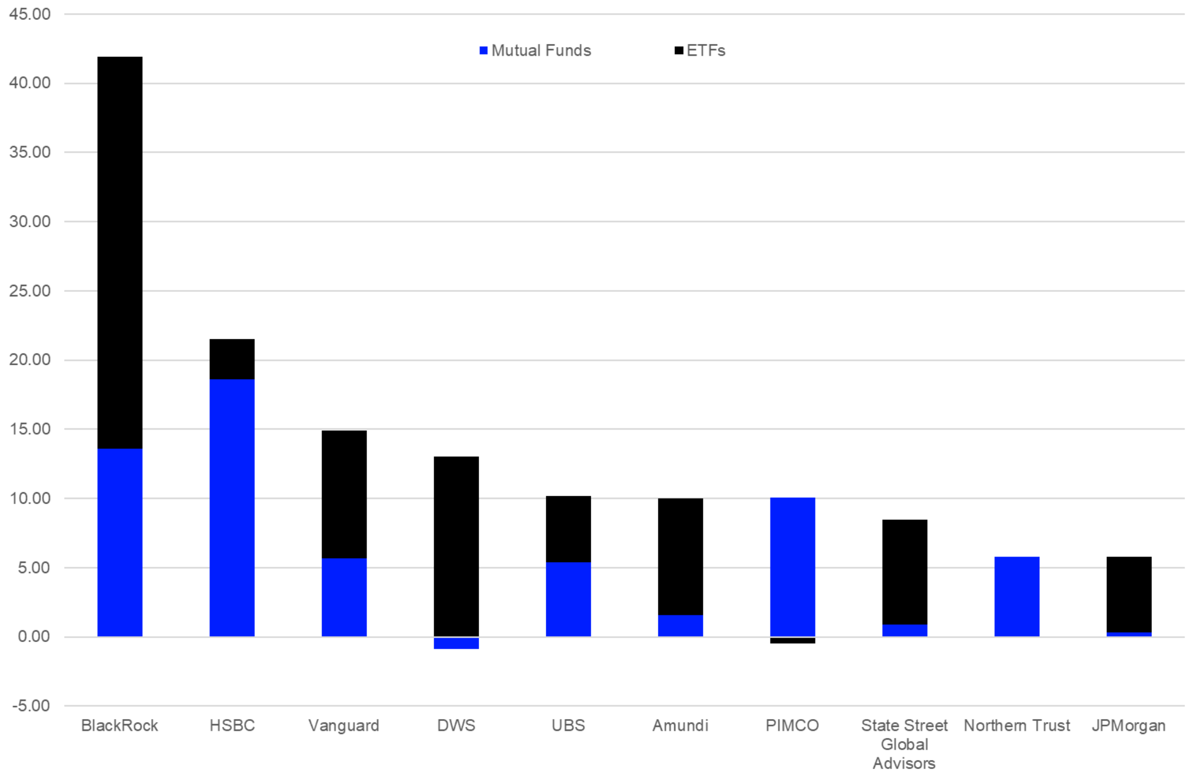


Source: LSEG Lipper

Fund Flows by Promoters, Year to Date

BlackRock (+€41.9 bn) is the best-selling fund promoter in Europe over the course of the year so far, ahead of HSBC (+€21.5 bn), Vanguard (+€14.9 bn), DWS (+€12.2 bn), and UBS (+€10.3 bn). A view of the flow split by products over the year-to-date period gives an even clearer view on the importance of ETFs for the sales success of those promoters who have a respective product offering since BlackRock, Vanguard, DWS, Amundi, State Street Global Advisors, and JPMorgan, all enjoyed higher inflows into ETFs than into their mutual funds.

Graph 7: Ten Best-Selling Fund Promoters in Europe, January 1 – May 31, 2024 (Euro Billions)



Source: LSEG Lipper

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