



# Asset Allocation Investor Positioning And Flows

## Equity Funds Raise Exposure As Election Polls Shift

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Parag Thatte  
Strategist  
Deutsche Bank New York  
212-250-6605  
parag.thatte@db.com

Rajat Dua  
Strategist  
Deutsche Bank New York  
212-250-2964  
rajat.dua@db.com

Binky Chadha  
Chief Global Strategist  
Deutsche Bank New York  
212-250-4776  
bankim.chadha@db.com

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# Equity Funds Raise Exposure As Election Polls Shift



- **Equity funds raise exposure to overweight as election polls shift.** Historically, close elections have seen a rising uncertainty premium and equities flat in the 4 months leading up to the election, followed by a 5% rally (A Higher Bar Near Term, Jul 2016). However in the last two weeks, polls have moved sharply in favor of Hillary Clinton, while those favoring Republicans to retain control of the House have also edged up again after a small pullback. Polls are thus pointing to a continuation of the political status-quo which combined with already positive data surprises and a strong start to the Q3 earnings season has seen US equity funds raise their exposure to overweight.
- **Rising active equity fund positioning offset by continued outflows but demand-supply balance to improve after earnings blackout.** Even as active equity funds have raised exposure, end investors have continued to pull money out of developed market equities (-\$10bn in the last two weeks) despite positive data surprises in the US and also in Europe. The demand-supply backdrop for equities should improve however, as an increasing proportion of companies exit buyback blackout periods after reporting earnings (70% of S&P 500 market cap by end of next week).
- **Third straight week of outflows from defensive bond-like equity funds.** The \$3bn outflow in the last 3 weeks is the largest in over a year but still a small fraction of the cumulative inflows of \$50bn ytd and over \$180bn since 2010.
- **Large outflows from money market funds beyond prime-government fund rotation.** While the massive rotation in flows within MM funds out of prime and into government funds has been in the spotlight, there has also been a large net overall outflow (-\$79bn last 3 months). These outflows go against typical seasonality which points to strong inflows in the 2nd half of the year. With equities seeing persistent outflows and bank deposits flat over the last 2 months, the outflows from money market funds are benefiting fixed income funds.

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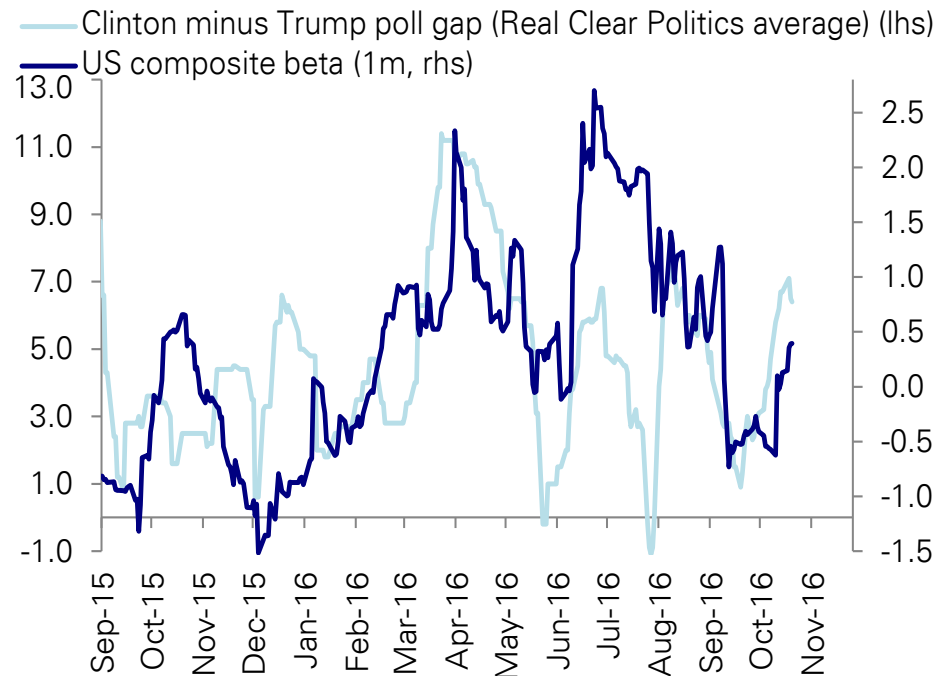
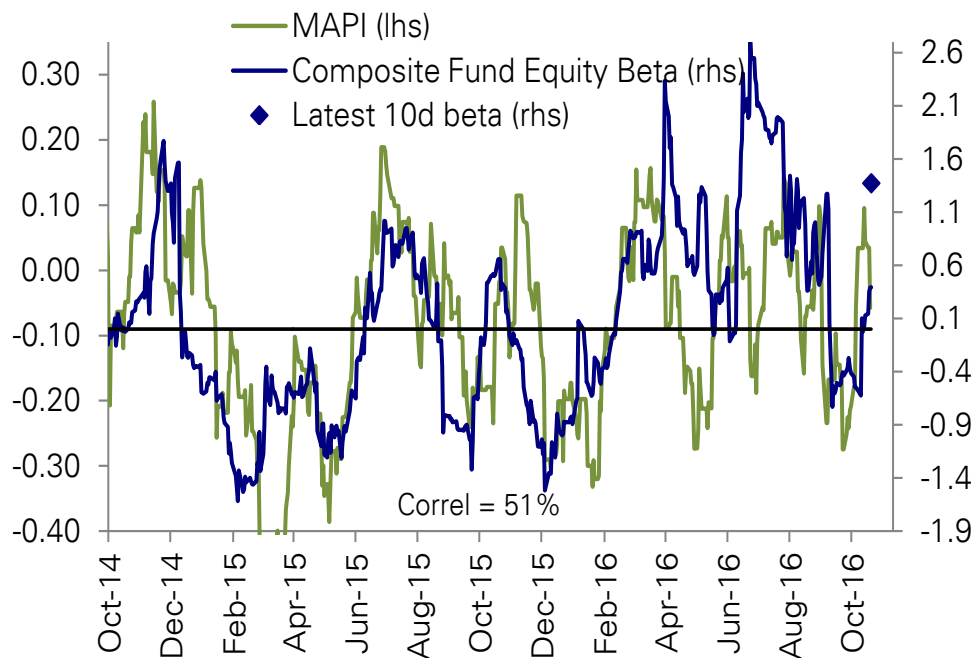
- **Active managers in fixed income markets positioned for a rate hike but bond funds continue to get inflows.** Aggregate positions in bond futures are extremely short while shorts in Libor rates futures are also at 2 year lows. Across maturities, futures positions are already very short in long-dated bonds (25y+) and in the 5y and have fallen to neutral across the rest. Active bond funds have largely outperformed with rising yields over the last 3.5 months and look to be underweight duration and overweight credit. Solid inflows into bond funds have continued, mainly benefiting credit while government bond funds are seeing outflows.
- **Dollar creeps higher as long positions rise.** Rising Fed rate hiking expectations have seen the dollar moving higher. The dollar is now 4/5th of the way up the flat range it has been in over the last 21 months, accompanied by rising long speculative dollar positions. Short positions have risen across most other currencies, led by the euro and the pound while yen longs have fallen. Mexican peso shorts however have fallen sharply in the last two weeks.
- **Oil prices now more than 30% overvalued, at extreme of historical valuation band, as long positioning jumps to record highs.** Oil prices are now more than 30% above our estimate of fair value (\$38) based on the dollar and global growth, a level of overvaluation that has marked historical extremes. The strong rally has been accompanied by net speculative long positions rising to new record highs as gross longs rose to extremes while gross shorts fell sharply. Oil long positions are worth over 7 days of global oil production, a record high, and have also disconnected from their earlier tight relationship with dollar longs. History suggests that the multiple channels of linkage between the dollar and oil will re-assert themselves and see prices converge (Oil and The Dollar, Nov 2004).



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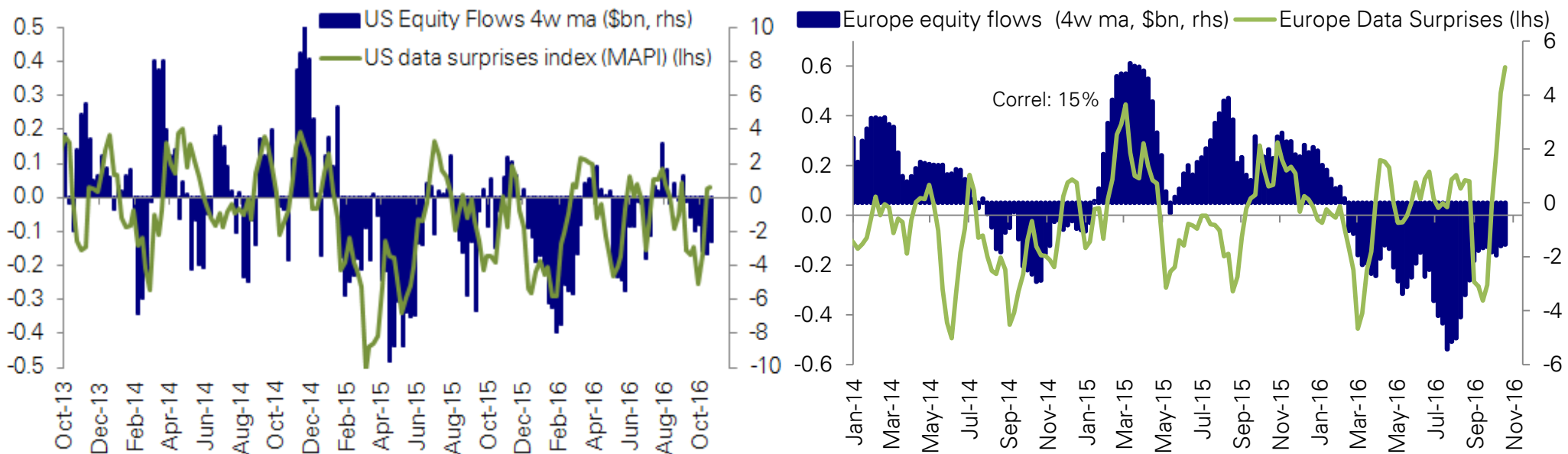


# Equity Funds Raise Exposure As Election Polls Shift



Rising active equity fund positioning offset by continued outflows but demand-supply balance to improve after earnings blackout

- Even as active equity funds have raised exposure, end investors have continued to pull money out of developed market equities (-\$10bn in the last two weeks) despite positive data surprises in the US and also in Europe. The demand-supply backdrop for equities should improve however, as an increasing proportion of companies exit buyback blackout periods after reporting earnings (70% of S&P 500 market cap by end of next week)

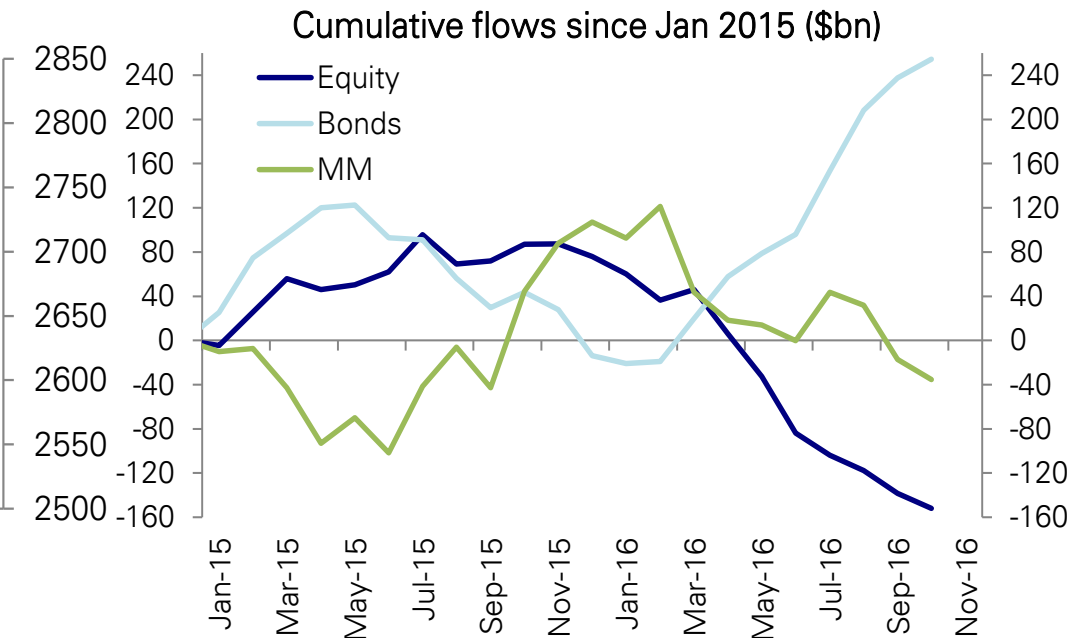
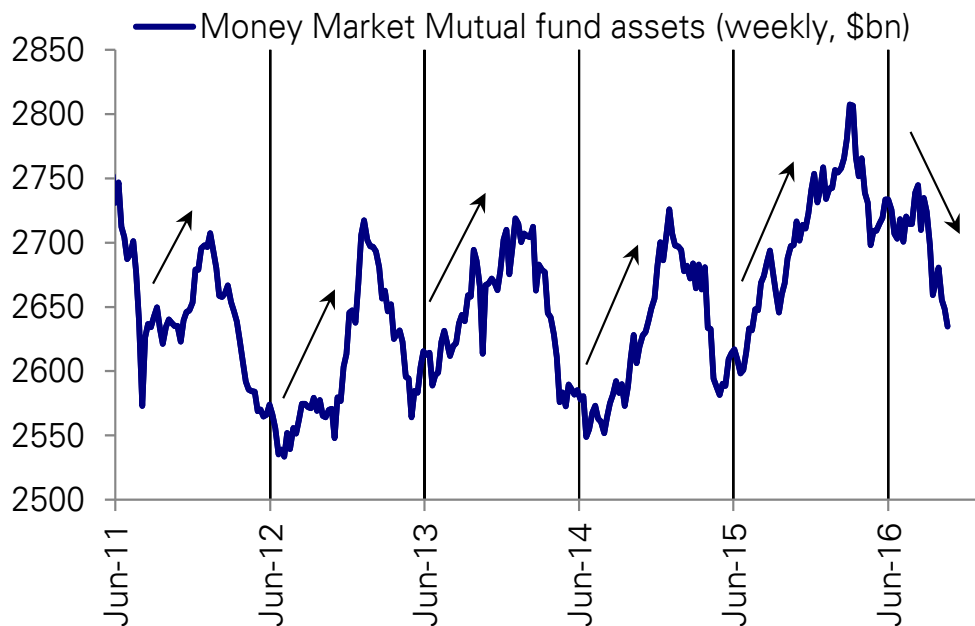


# Equity Funds Raise Exposure As Election Polls Shift



## Large outflows from money market funds beyond prime-government fund rotation

- While the massive rotation in flows within MM funds out of prime and into government funds has been in the spotlight, there has also been a large net overall outflow (-\$79bn last 3 months). These outflows go against typical seasonality which points to strong inflows in the 2nd half of the year. With equities seeing persistent outflows and bank deposits flat over the last 2 months, the outflows from money market funds are benefiting fixed income funds

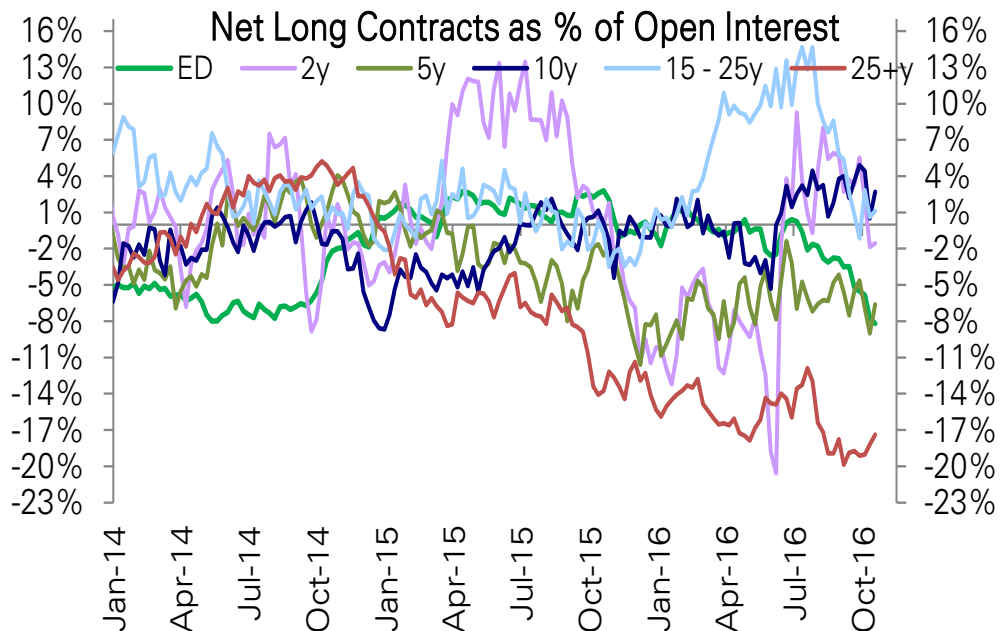
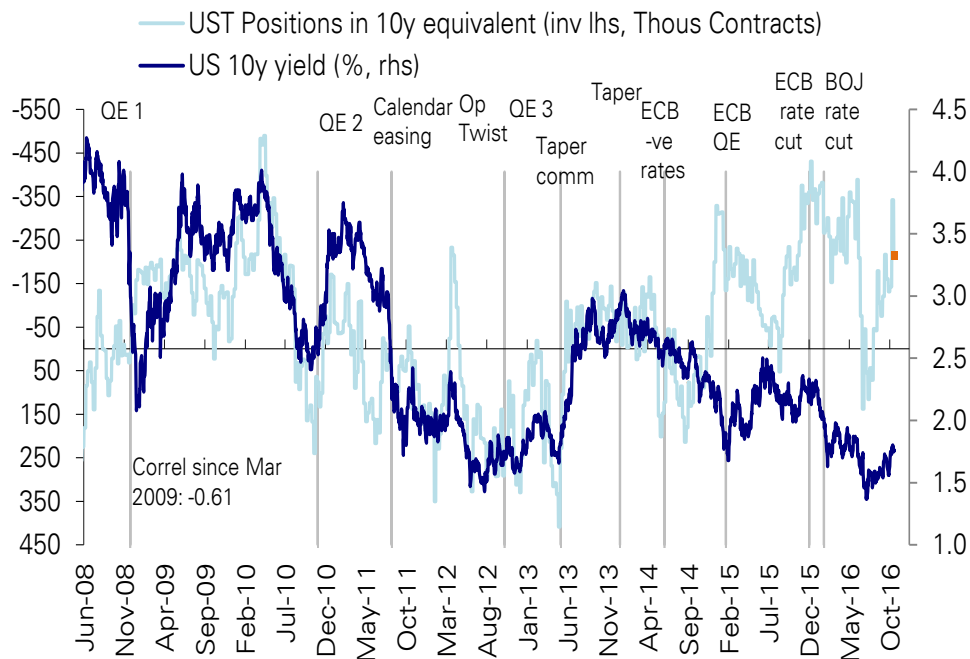


# Equity Funds Raise Exposure As Election Polls Shift



Active managers in fixed income markets positioned for a rate hike but bond funds continue to get inflows

- Aggregate positions in bond futures are extremely short while shorts in Libor rates futures are also at 2 year lows. Across maturities, futures positions are already very short in long-dated bonds (25y+) and in the 5y and have fallen to neutral across the rest. Active bond funds have largely outperformed with rising yields over the last 3.5 months and look to be underweight duration and overweight credit. Solid inflows into bond funds have continued, mainly benefiting credit while government bond funds are seeing outflows.

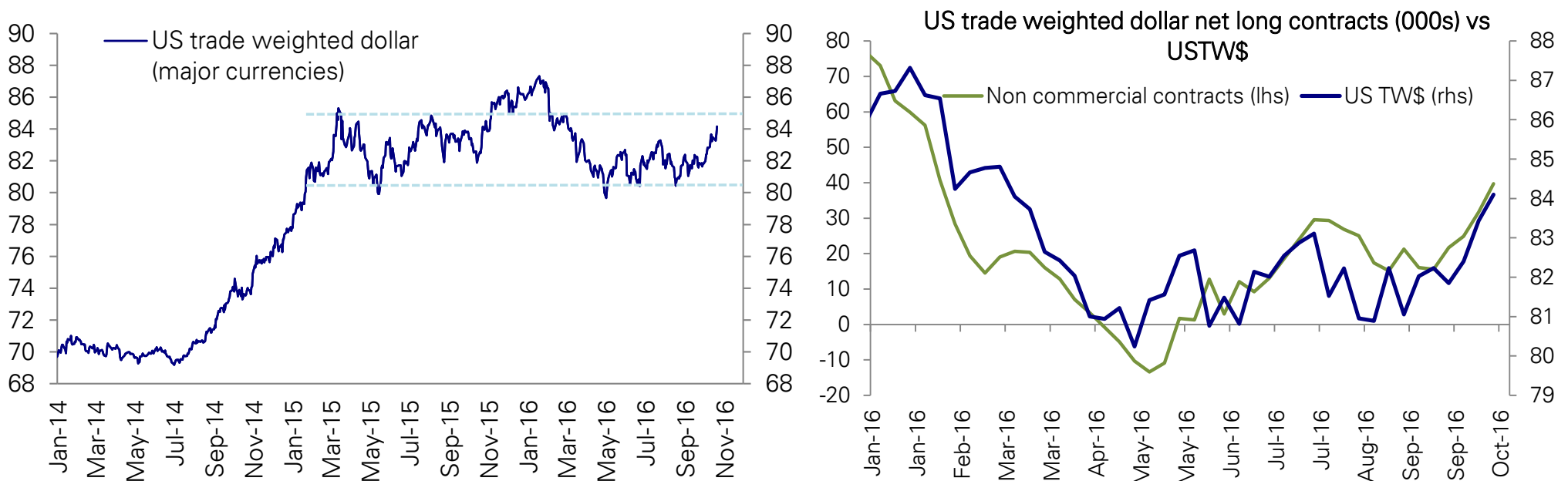


# Equity Funds Raise Exposure As Election Polls Shift



## Dollar creeps higher as long positions rise

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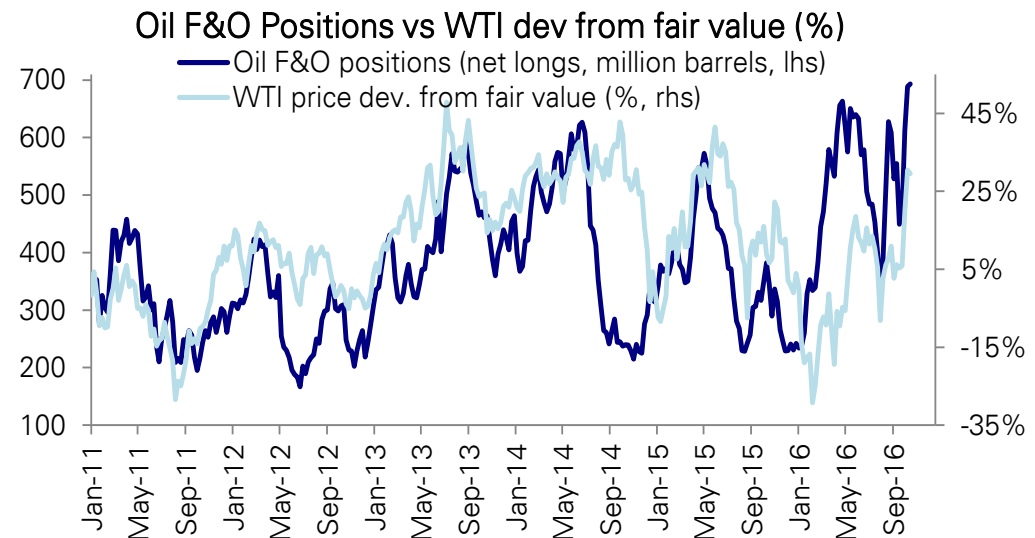
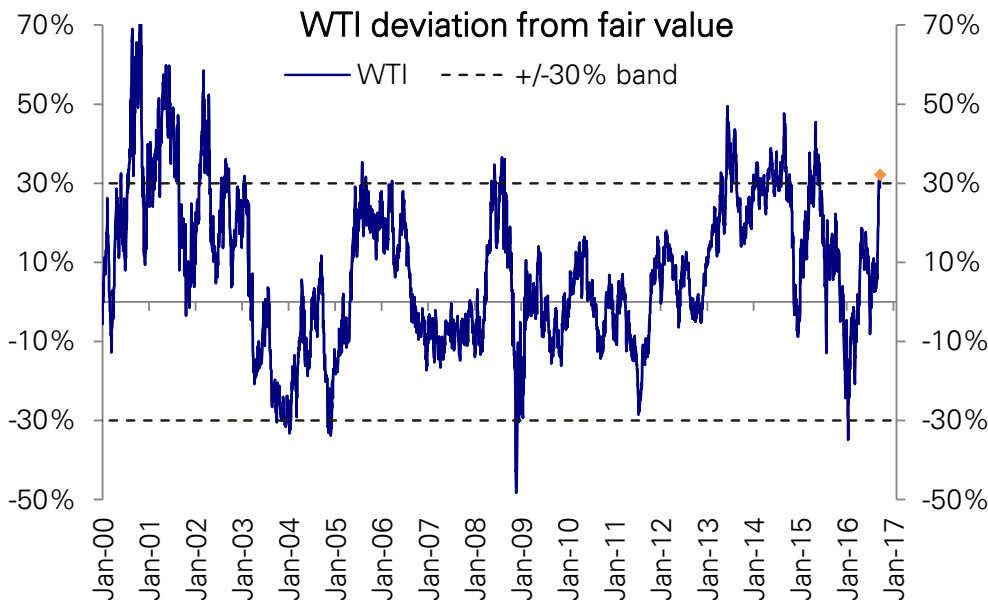




# Equity Funds Raise Exposure As Election Polls Shift

Oil prices now more than 30% overvalued, at extreme of historical valuation band, as long positioning jumps to record highs

- Oil prices are now more than 30% above our estimate of fair value (\$38) based on the dollar and global growth, a level of overvaluation that has marked historical extremes. The strong rally has been accompanied by net speculative long positions rising to new record highs as gross longs rose to extremes while gross shorts fell sharply. Oil long positions are worth over 7 days of global oil production, a record high, and have also disconnected from their earlier tight relationship with dollar longs. History suggests that the multiple channels of linkage between the dollar and oil will re-assert themselves and see prices converge (Oil and The Dollar, Nov 2004)



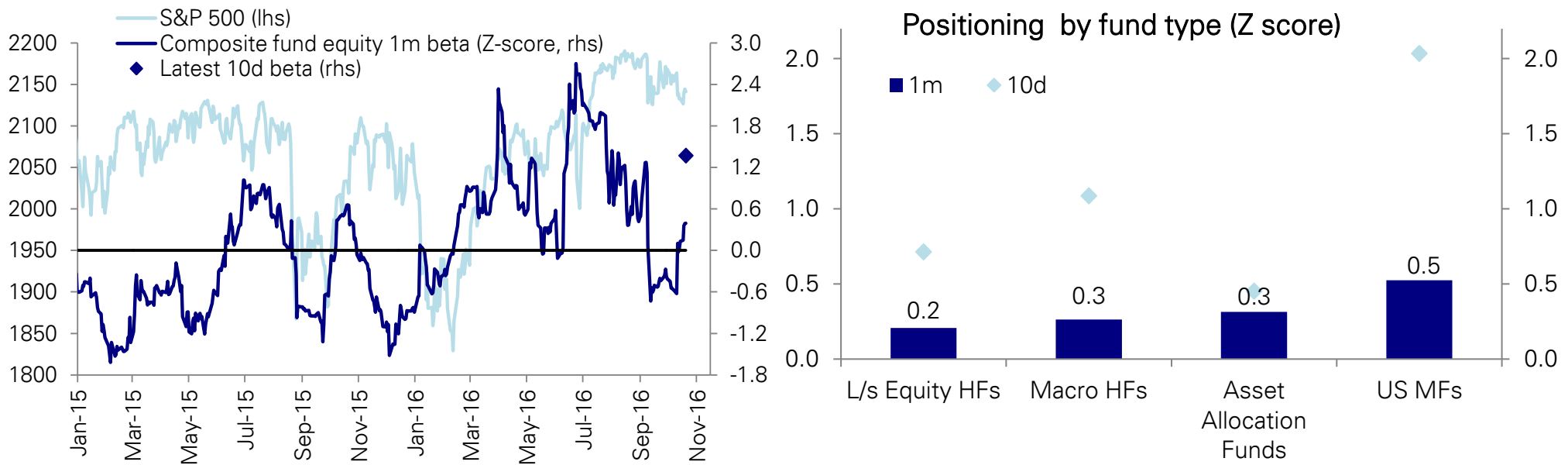
Note: Net positions of combined WTI and Brent crude oil positions



# Equity positioning

## US equity fund positioning

- Aggregate equity fund positioning has turned up sharply, turning overweight

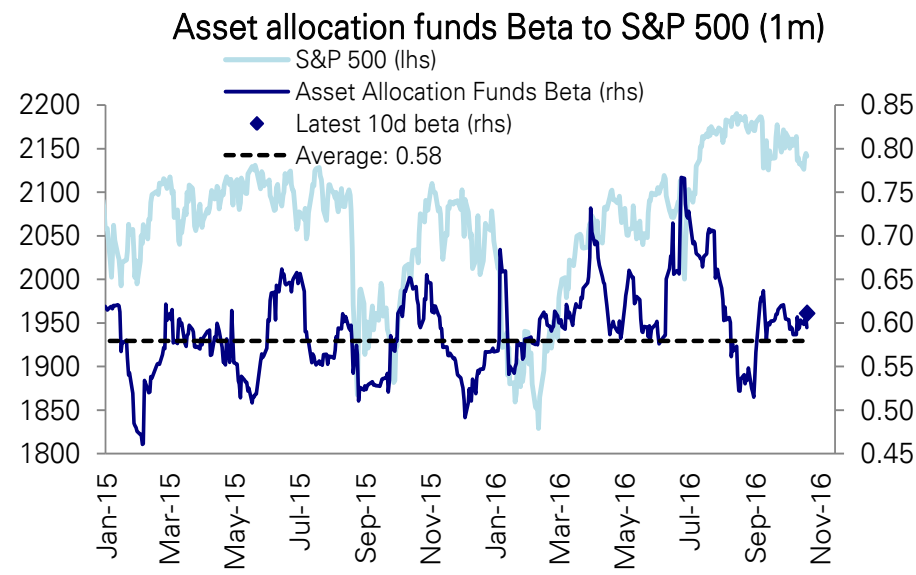
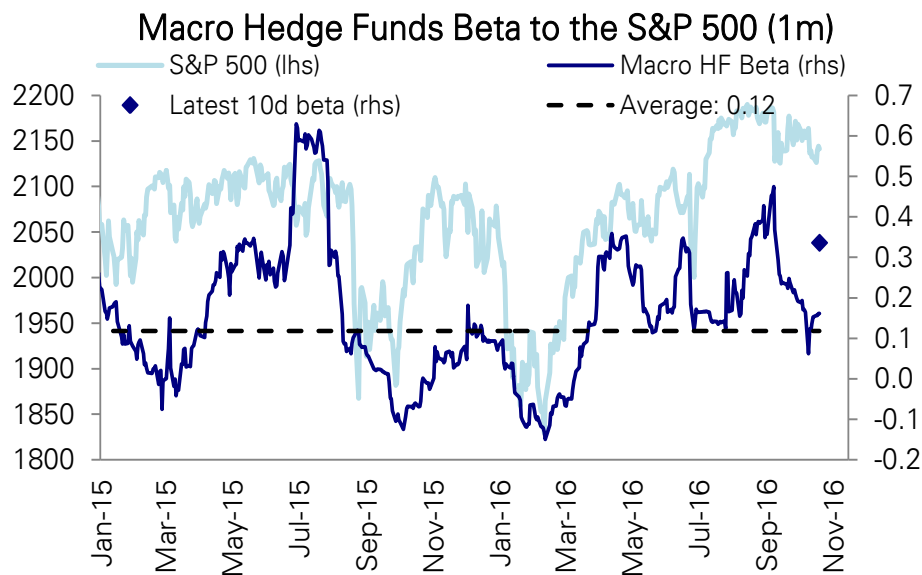
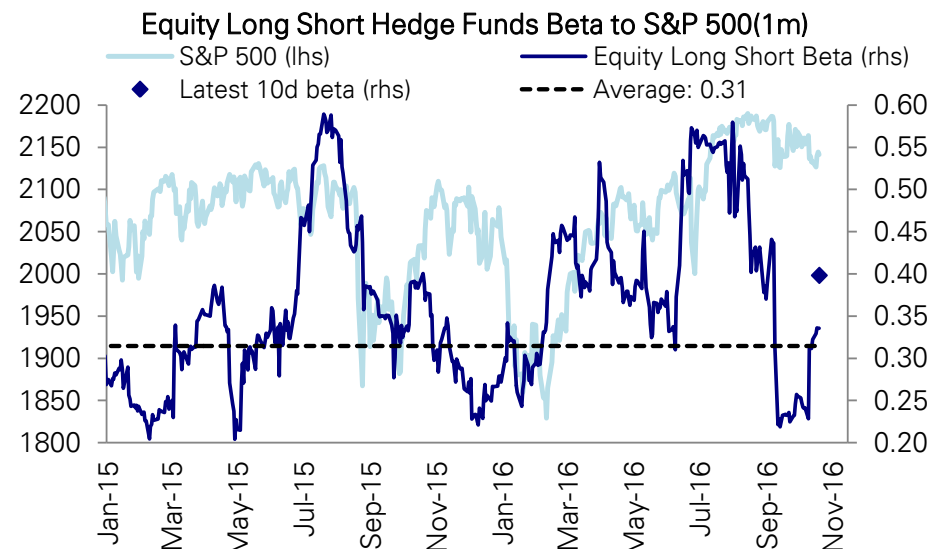
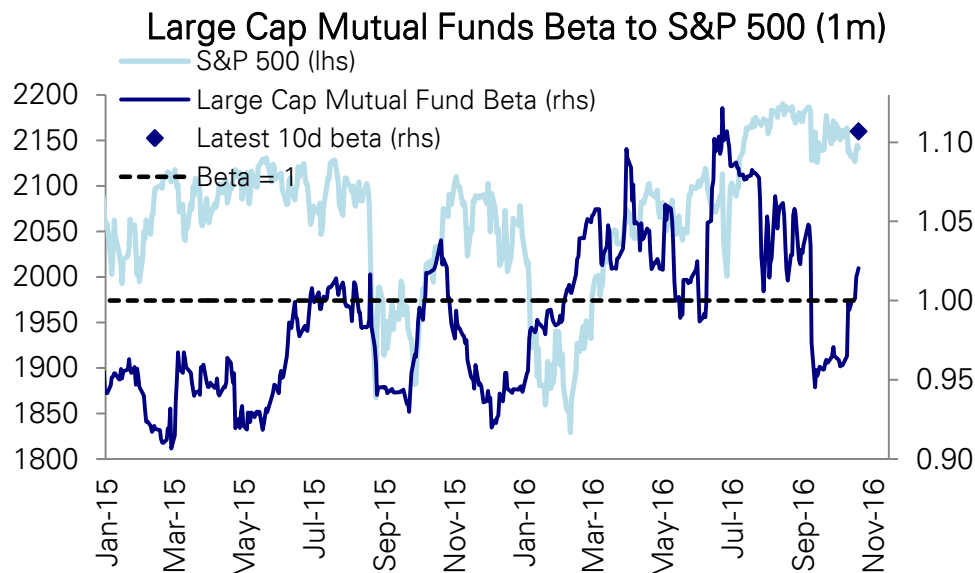


Source: Factset, Deutsche Bank

# Equity positioning



## Equity beta across major fund groups



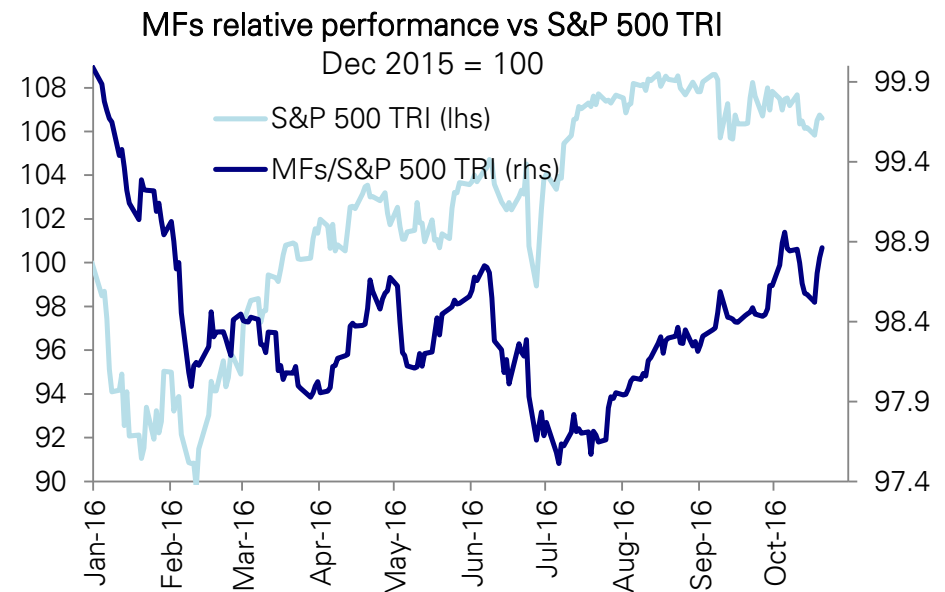
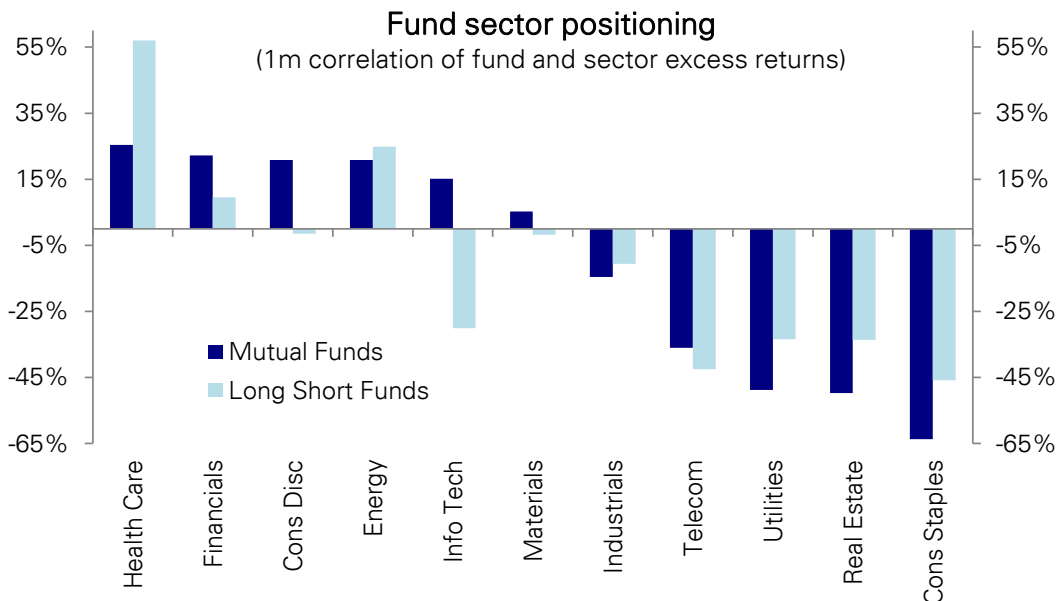
Source: Factset, Deutsche Bank



# Equity positioning

## Sector positioning and mutual fund performance

- Mutual funds are somewhat overweight Healthcare, Financials, Consumer Discretionary and Energy, underweight Consumer Staples, Real Estate, Utilities and Telecom; long-short equity HFs are overweight Healthcare, Energy and underweight Cons Staples, Telecom, Technology, Utilities and Real estate
- Mutual funds performance rebounded swiftly after underperforming last week



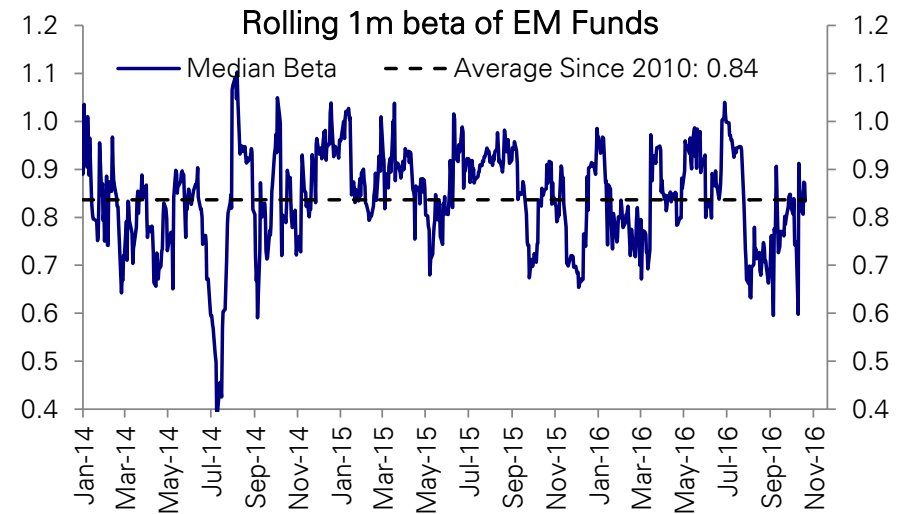
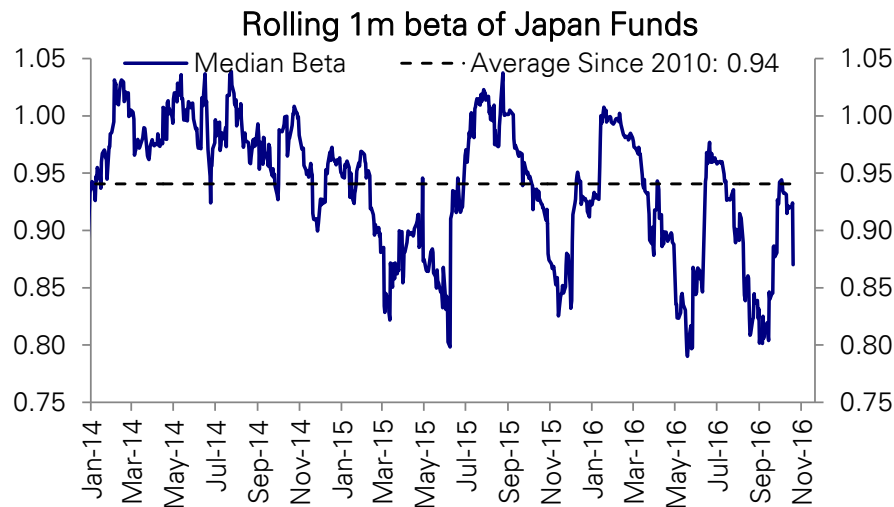
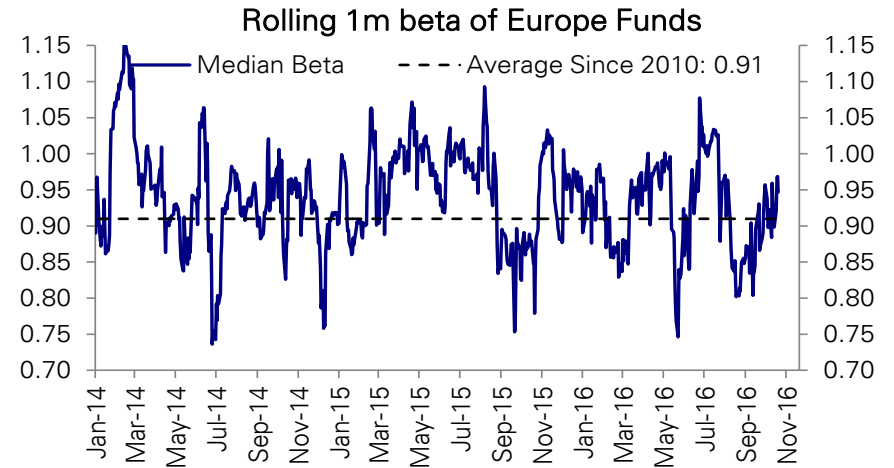
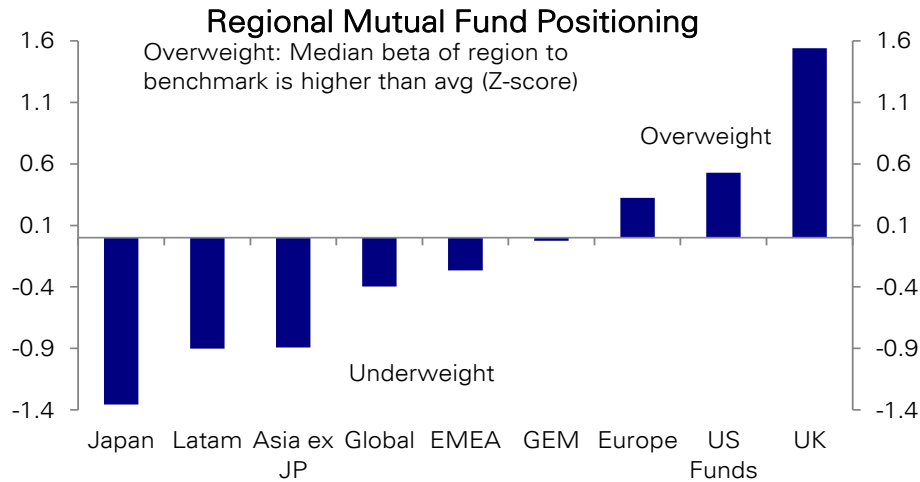
Source: Bloomberg Finance LP, Factset, Deutsche Bank

# Equity positioning



## Regional equity mutual fund positioning

- UK, US and Europe funds are overweight; broad EM funds are at neutral and rest of the regional funds are underweight



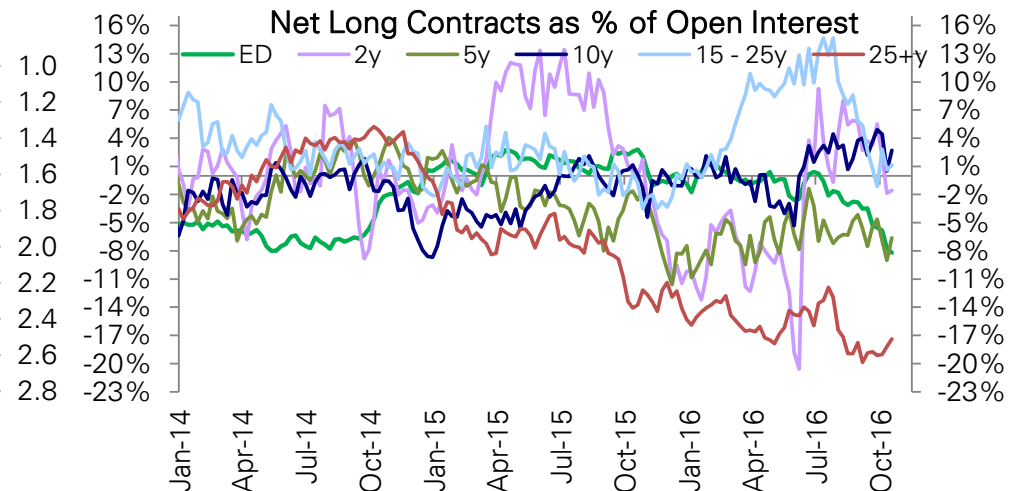
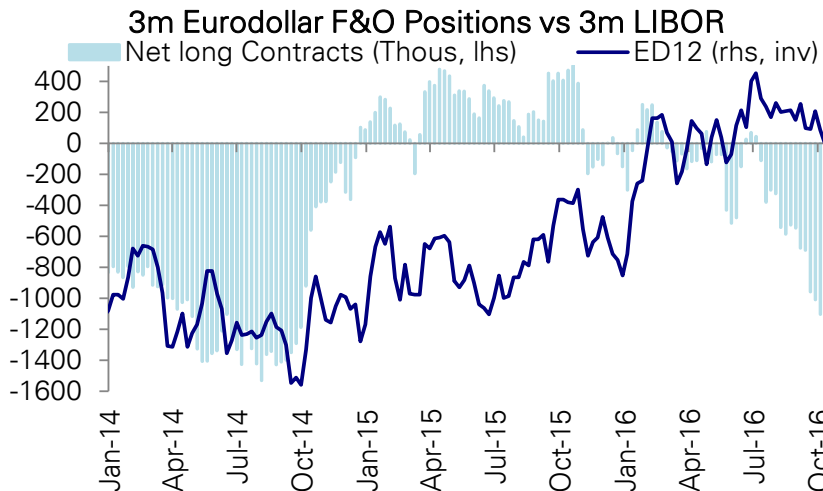
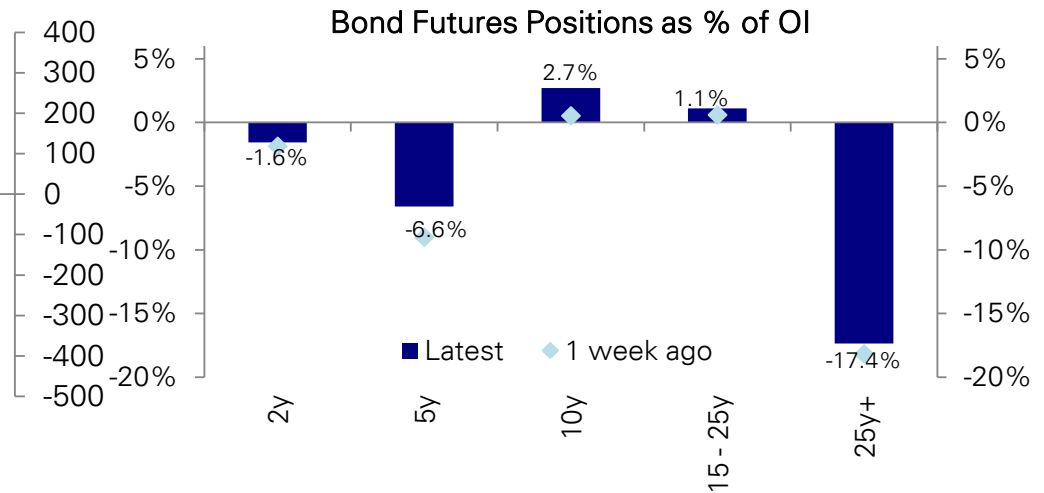
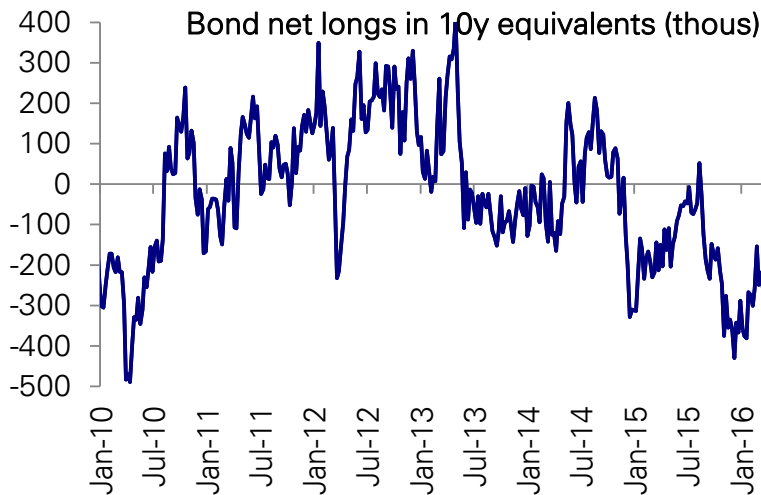
Source: Bloomberg Finance LP, Factset, Deutsche Bank

# Bond positioning



## Libor futures shorts near extreme

- Bond futures aggregate short positions fell last week; 2y positions remained short while 10y and 15-25y longs edged up from neutral; 5y shorts fell slightly; shorts in Libor futures continued to rise

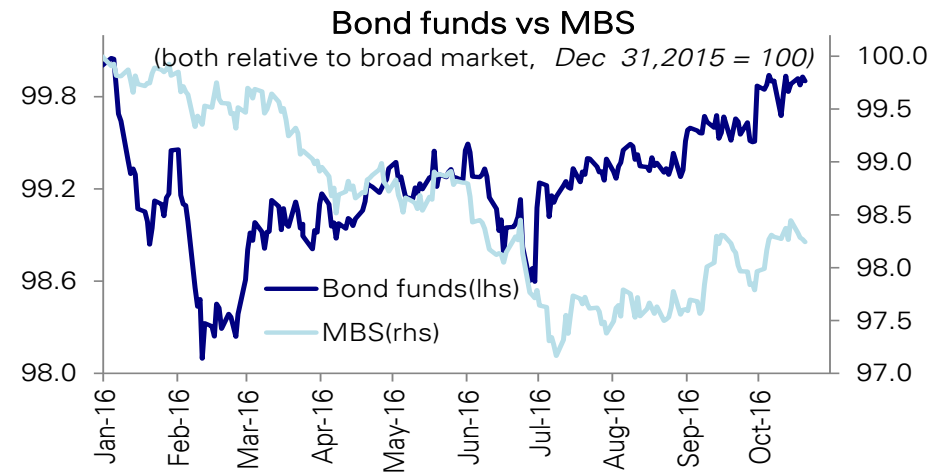
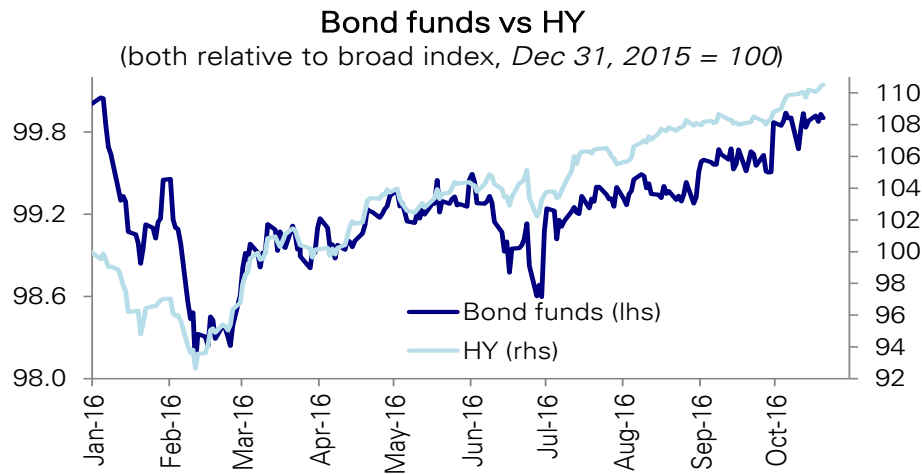
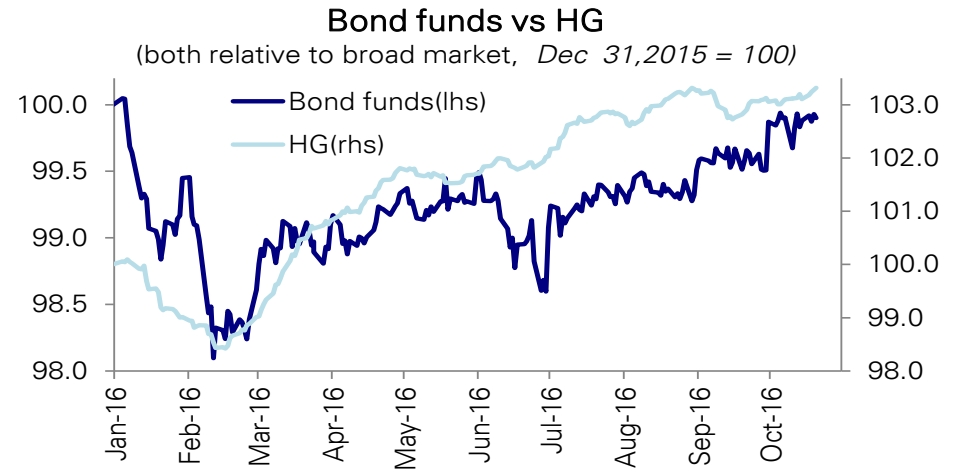
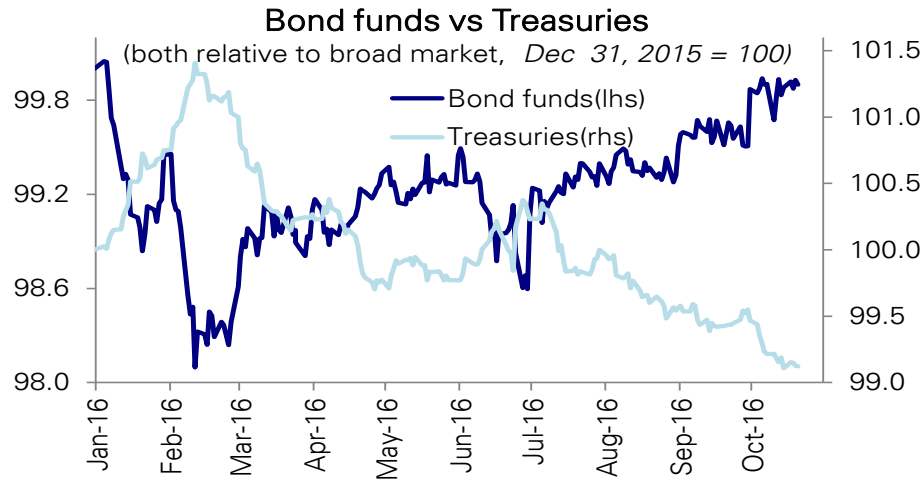




# Bond positioning

## Bond fund performance

- Bond funds performance has been largely flat last week

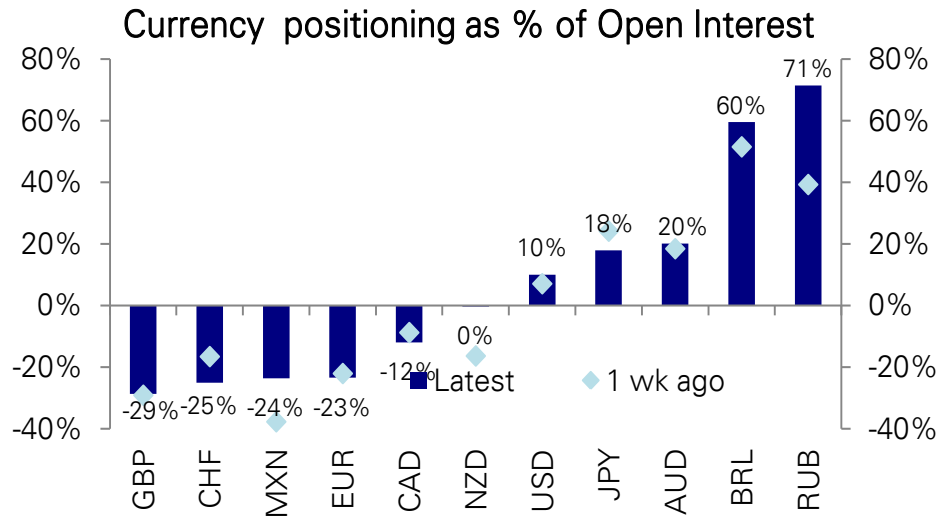
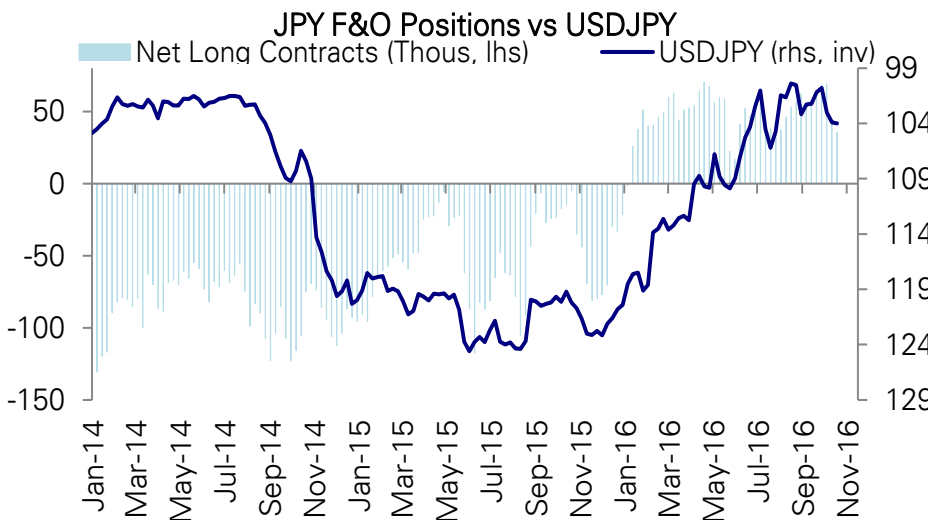
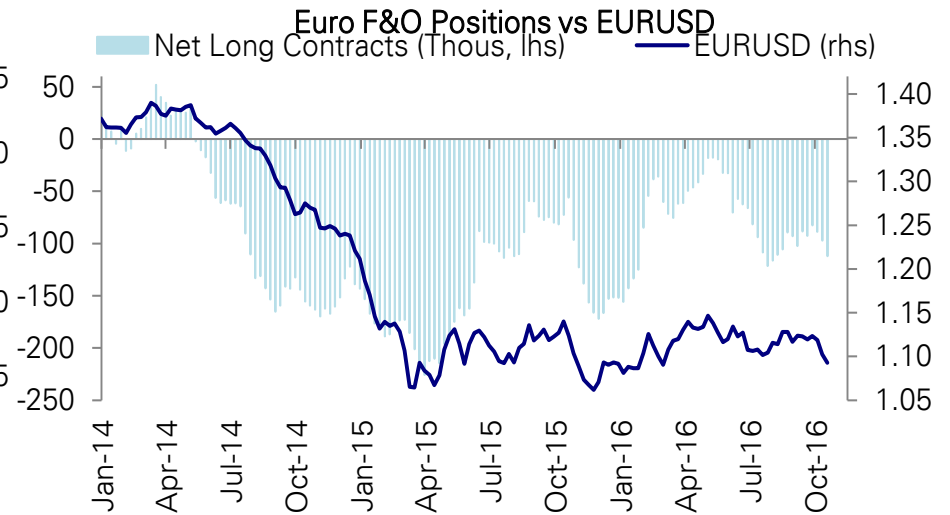
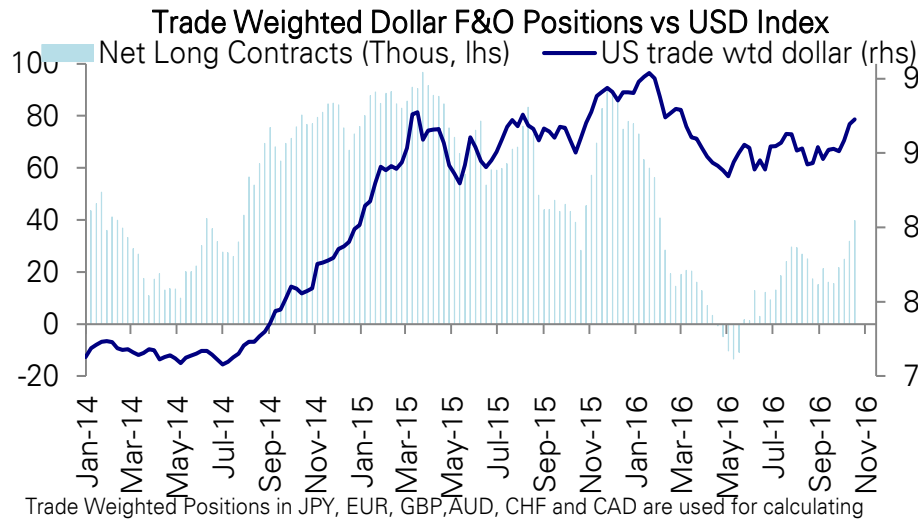


Source: Bloomberg Finance LP, Factset, Haver, Deutsche Bank

# FX positioning



- Overall dollar long positions continued to rise; Euro shorts rose while yen longs fell; GBP shorts fell slightly; MXN shorts have fallen sharply in the last 2 weeks

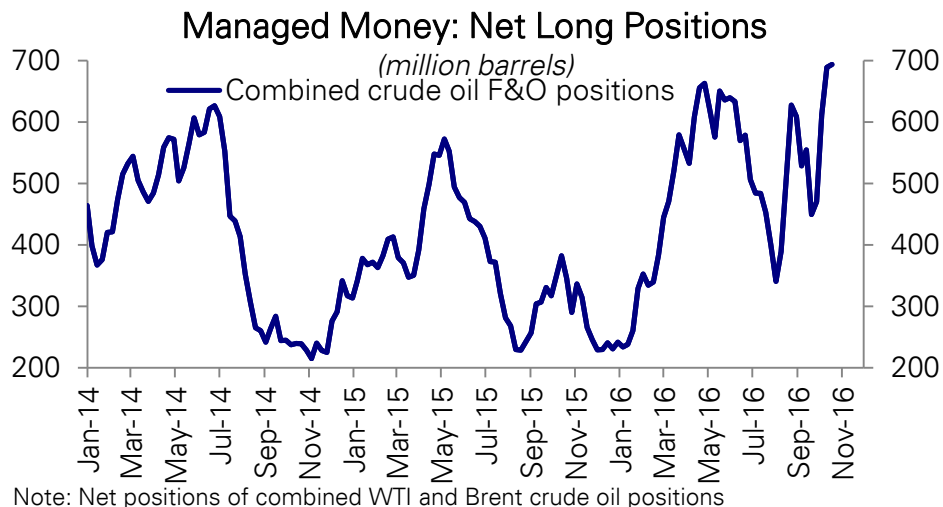




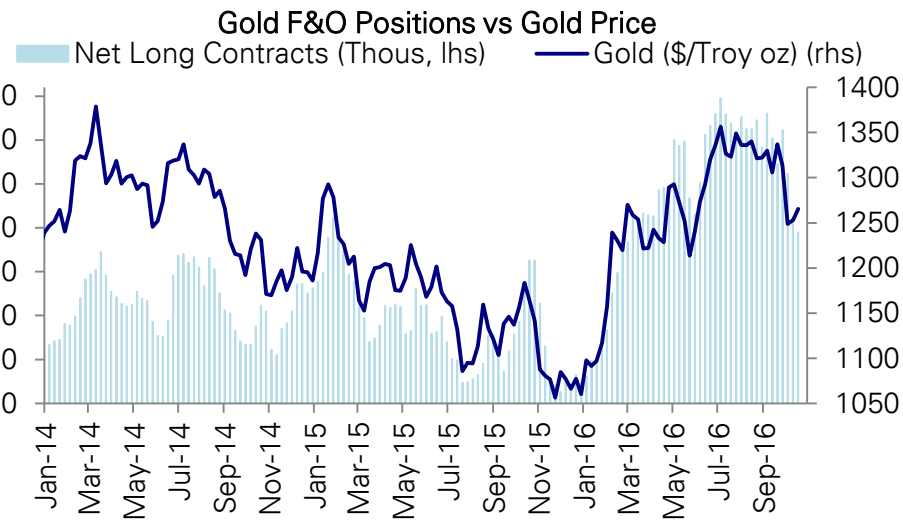
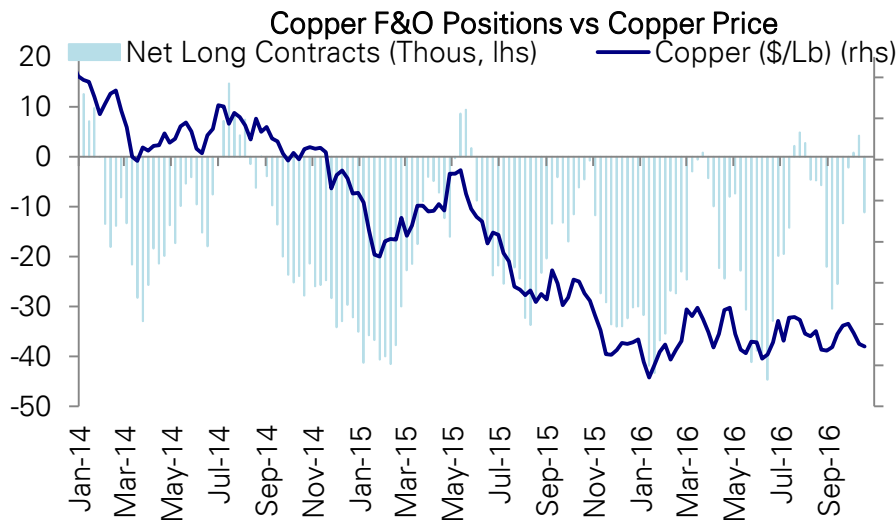
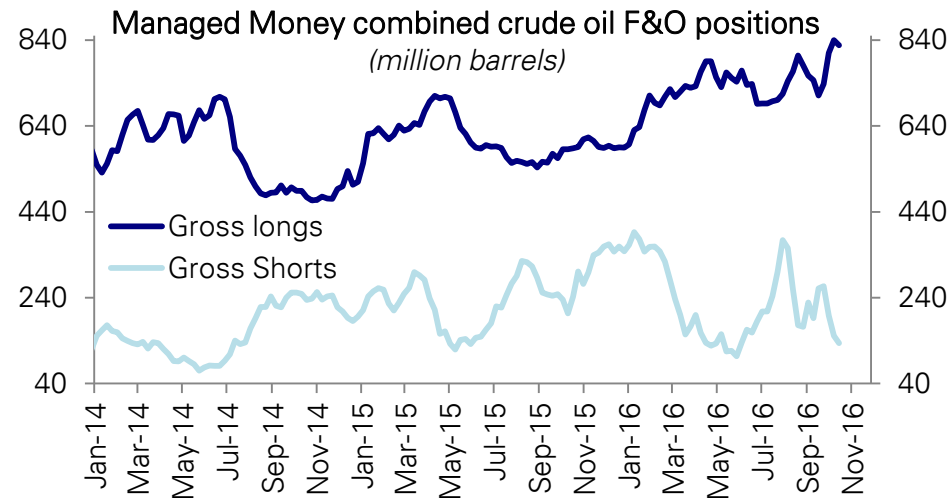
# Commodity positioning



- Oil speculative net longs continued to rise to new all time highs; gold longs continued to slide; copper positions have turned short again



Note: Net positions of combined WTI and Brent crude oil positions

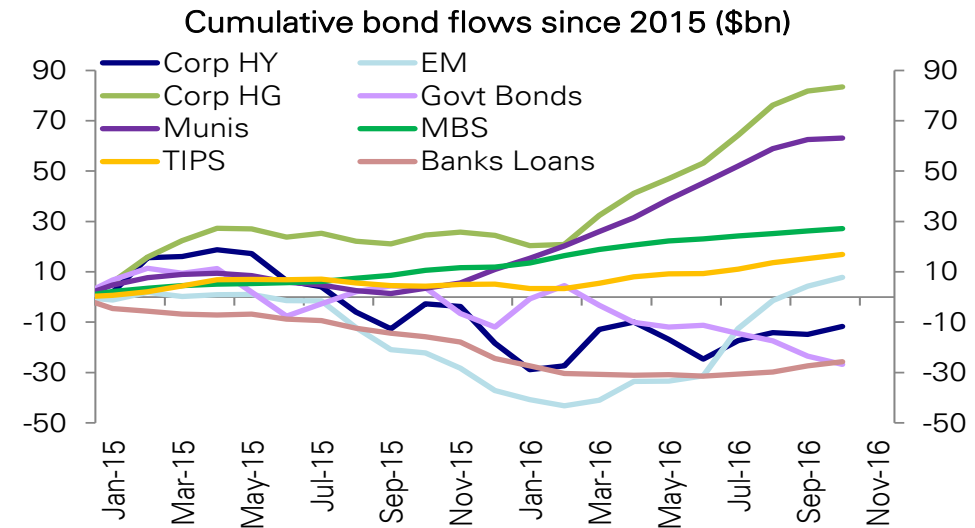
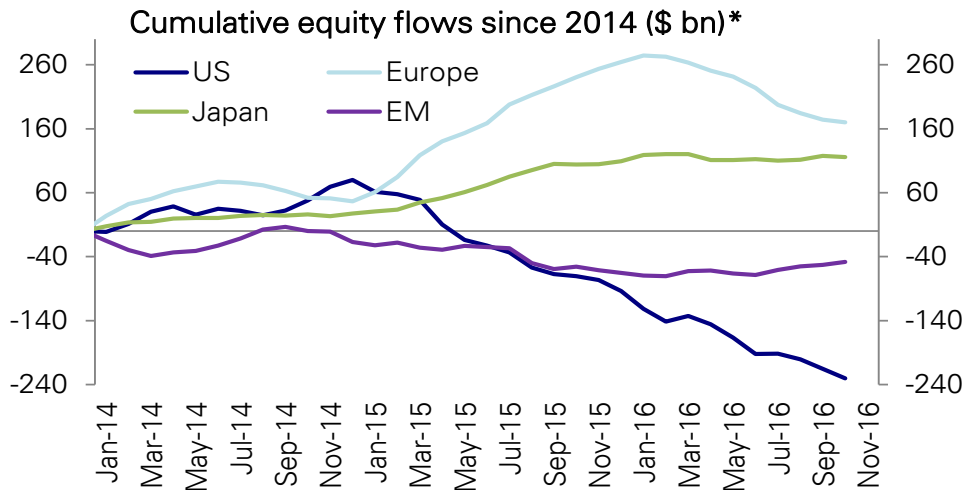
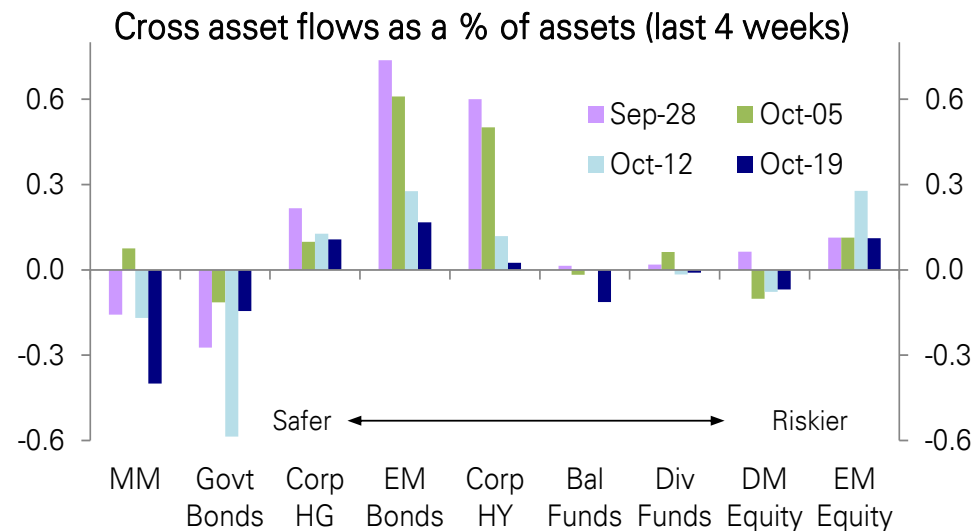
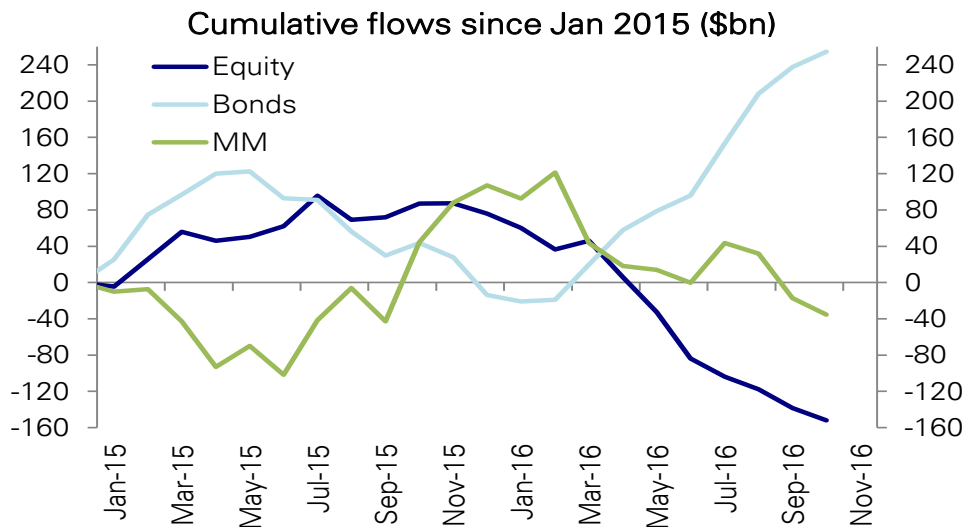


Source: CFTC, Haver, Bloomberg Finance LP, Deutsche Bank

# Cross-asset flows



Outflows from equities and money market funds continued while bond funds continued to see inflows



\* Adjusted for share of flows into global ex-US funds

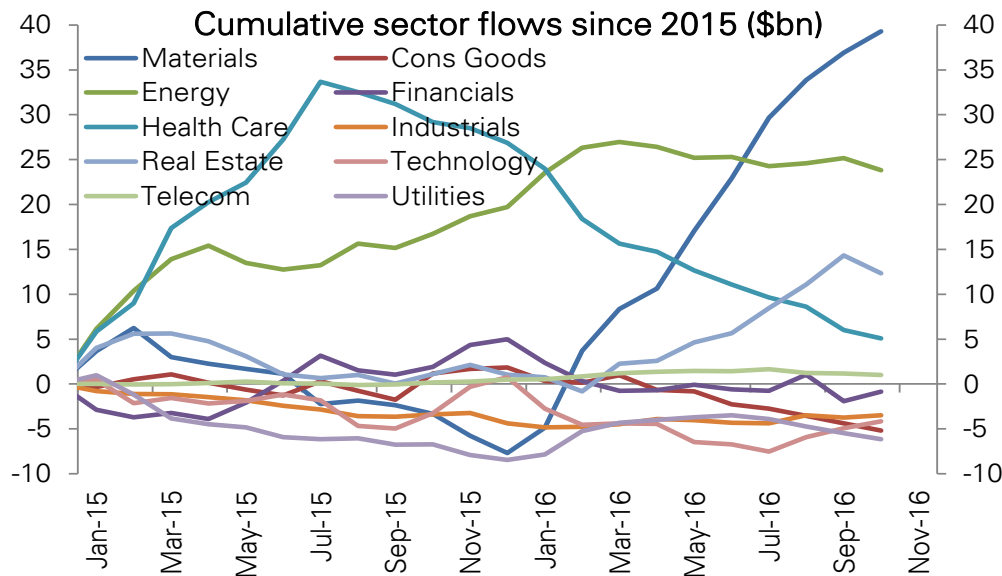
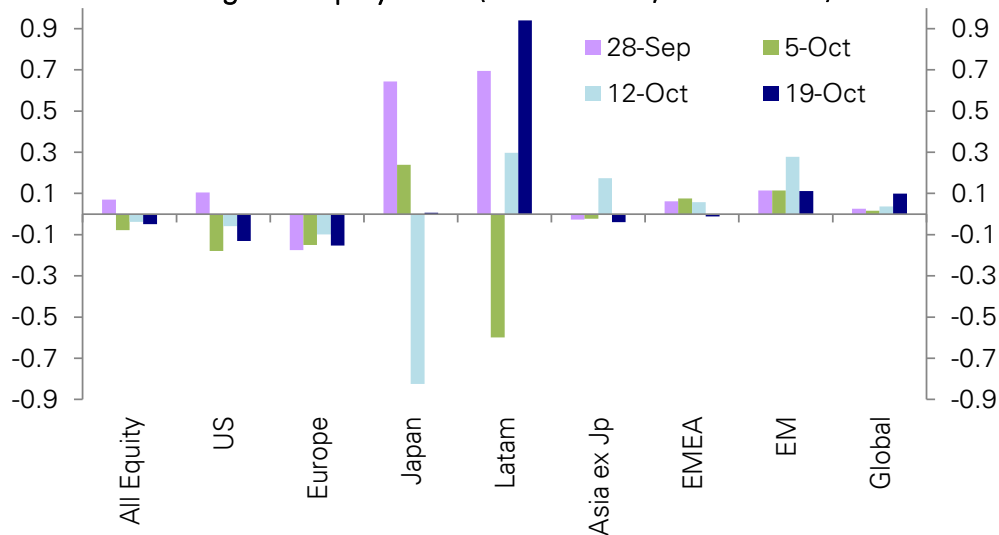
Source: EPFR global, Haver, Deutsche Bank

# Equity flows

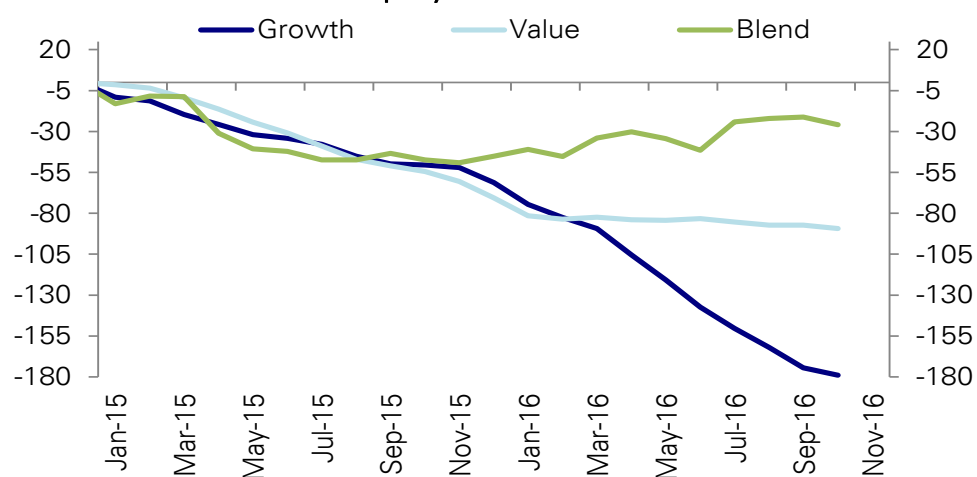


- Equities witnessed outflows this week driven by US and Europe; steady inflows to EM and global equity funds; Japan funds saw no flows

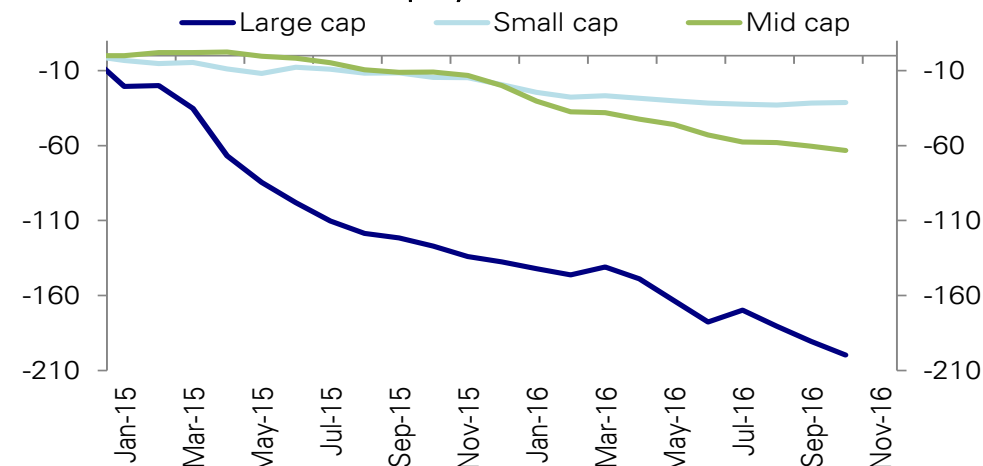
Regional equity flows (last 4 weeks, % of assets)



Cumulative equity flows since 2015 (\$bn)



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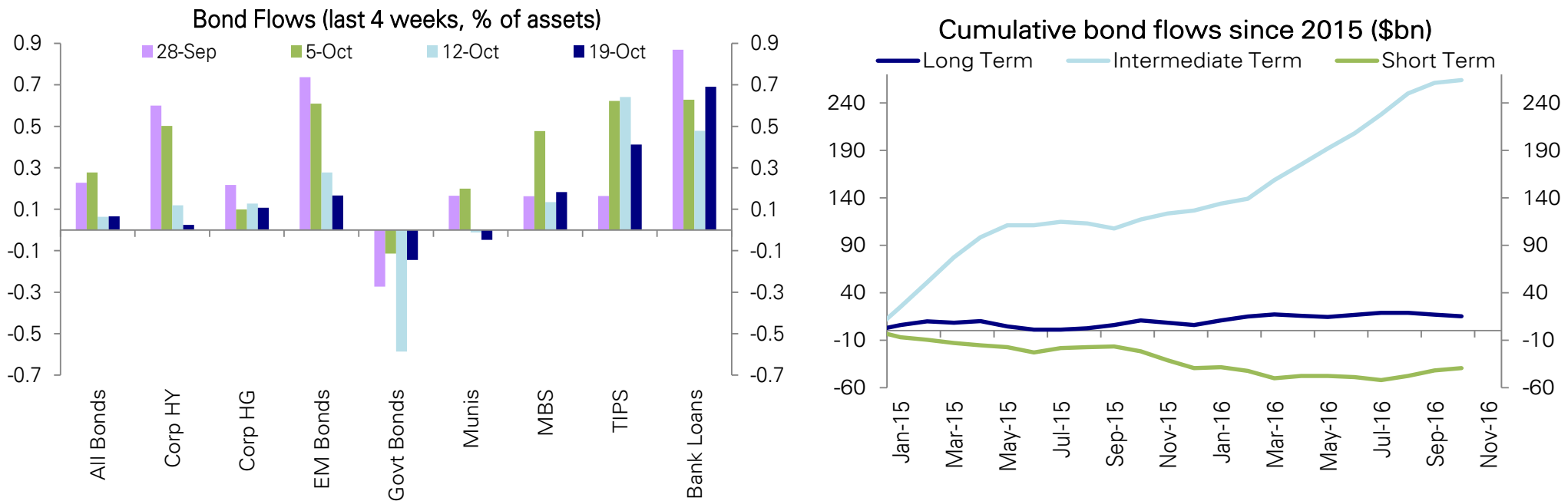


Source: EPFR global, Haver, Deutsche Bank



# Bond flows

- Fixed income funds inflows have continued in the last two weeks but at a slower pace; inflows to HY and EM bonds lost steam while HG inflows were steady; muni funds saw the first outflow in 13 months; inflows to MBS, TIPS and bank loan funds continued; government bonds continued to see outflows



Source: EPFR global, Haver, Deutsche Bank



# Appendix 1

## Important Disclosures

### \*Other Information Available upon Request

**\*Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors . Other information is sourced from Deutsche Bank, subject companies, and other sources. For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at <http://gm.db.com/ger/disclosure/DisclosureDirectory.eqsr>.**

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Parag Thatte/ Binky Chadha/ Rajat Dua.



## Equity Rating Key

**Buy:** Based on a current 12-month view of total shareholder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield), we recommend that investors buy the stock.

**Sell:** Based on a current 12-month view of total shareholder return, we recommend that investors sell the stock.

**Hold:** We take a neutral view on the stock 12 months out and, based on this time horizon, do not recommend either a Buy or Sell.

Notes:

1. Newly issued research recommendations and target prices always supersede previously published research.

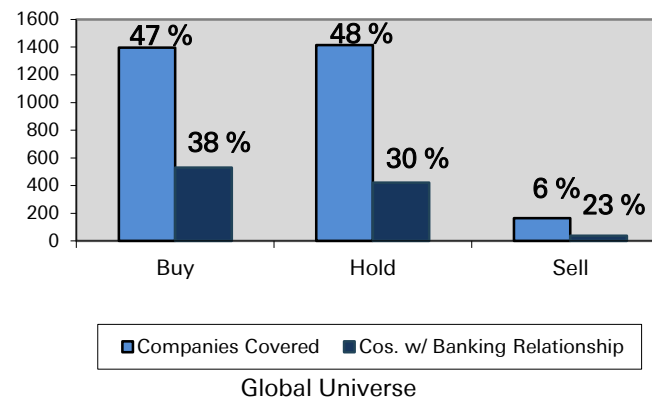
2. Ratings definitions prior to 27 January, 2007 were:

Buy: Expected total return (including dividends) of 10% or more over a 12-month period

Hold: Expected total return (including dividends) between -10% and 10% over a 12-month period

Sell: Expected total return (including dividends) of -10% or worse over a 12-month period

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