

# June ETP Flows: Buy the rumour, sell the fact

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Equity linked Exchange Traded Product (ETP) flows snapped back from their losing streak in June underscoring the resumption of a risk-on sentiment. ETP flows in June resonated the famous market adage – “Buy the rumour, sell the fact” in anticipation of a positive outcome at the G-20 summit which took place at the end of June. In sharp contrast to May, equity ETP flows outpaced fixed income ETP flows helped by the global equity market rally. This was largely fuelled by hopes of potential progress in the US-China trade talks at the G-20 summit coupled with global monetary policy easing. Global interest rates continued to fall with the 10-year US Treasury yields reaching 2.0% (Source: Bloomberg as on 25 June 2019) while Japan and European 10-year yields fell deeper into negative territory.

### Figure 1 – Global equity ETP flows outpace fixed income ETP Flows in June

*Source: Morningstar, WisdomTree as of 30 June 2019. Please note: money market represents ETPs invested in very liquid instruments such as cash, cash equivalent securities and high credit rating debt-based securities with a sort term maturity of less than 13 months.*

**Historical performance is not an indication of future performance and any investments may go down in value.**

### Precious metals drive commodity ETP flows

Commodity ETPs attracted strong inflows worth US\$4.9bn led by precious metals. The ratcheting up of geopolitical risks between US and Iran took centre stage in June supporting the case for haven assets such as gold. In addition, the dovish bias of the US Federal Reserve (Fed) coupled with the weaker US dollar (down -1.66%) helped gold prices climb to a six-year high in June. Industrial metal linked ETP flows appeared to move in line with weaker industrial metal prices. Most commodity ETP flows historically move in tandem with the underlying commodity prices. However, energy linked ETPs are unique, as energy linked ETP flows trade inversely to energy prices. Last month's strong gains for energy prices were unable to stem the outflows from energy linked ETPs and we saw a continuation of its historical trend. Organisation of Petroleum Exporting Countries' (OPEC's) decision to maintain the production cuts until Q1 2020 helped drive energy prices higher last month.

### Figure 2 –Precious metals dominate commodity ETP Flows in June

*Source: Morningstar, WisdomTree as of 30 June 2019.*

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### **Defensive sectors power equity ETP flows**

Equity ETPs powered ahead in June bolstered by higher inflows into US equity markets. Within the US linked equity ETP flows, large cap ETP flows outpaced the small caps by a wide margin. Investors appeared more convinced of US large cap equities benefiting from the Fed's easing cycle in comparison to the small caps. Emerging market (EM) equity ETPs continued to face outflows amid ongoing concerns of the trade war. Interestingly within EM, China garnered the second highest regional inflow within equity markets. The recent deterioration of Chinese macro-economic data has raised investors' hopes on further monetary & fiscal stimulus by the Chinese government. Unfortunately, European domiciled equity ETPs witnessed the sharpest outflows in June as Europe's macro outlook continued to deteriorate amidst ongoing trade tensions. While the European consumer remains resilient, manufacturing data continues to weaken denting hopes of further recovery for Europe.

### **Figure 3 – US equity markets receive the lion's share of regional equity ETP flows**

*Source: Morningstar, WisdomTree as of 30 June 2019.*

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Equity ETP flows across various sectors added more colour to investor positioning within equity markets. The highest inflows were driven by real estate, energy and consumer services sectors underpinning a defensive tilt within the equities. Amidst the current low yielding environment, demand for higher yields from real estate linked ETPs appeared attractive to investors. In addition, the real estate sector could benefit from the low interest rate outlook in the US. Energy linked equity ETP flows moved in tandem with higher oil prices ushering in the second highest inflow across sectors. The communication sector continued to attract inflows while the technology sector suffered the sharpest outflows within equity sector driven ETP flows.

### **Figure 4 – Real Estate remains the preferred sector within equity ETP flows**

*Source: Morningstar, WisdomTree as of 30 June 2019.*

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When looking at the global equity ETP flows from a style viewpoint, risk-oriented aka risk mitigating strategies continued to drive inflows amidst the ongoing volatile backdrop. Investors appeared to allocate within equities with a fine-tooth comb apparent from the higher inflows into dividend and quality linked equity ETPs. Growth continued to outpace value led equity ETP flows but the gap between them got narrower.

## Figure 5 – Momentum linked equity ETPs went on the backburner in June

Source: Morningstar, WisdomTree as of 30 June 2019.

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### Fixed income ETP flows get aggressive

Fixed income ETP flows in the first half of 2019 have now outpaced total fixed income flows received last year. This reveals a broad trend of investors taking shelter from defensive assets amidst slowing growth dynamics. Interestingly, within fixed income, more aggressive bond exposures such as high yield and Emerging Market debt appeared to garner strong inflows. Meanwhile, more interest rate sensitive sectors of the bond market such as investment grade corporate bonds, mortgage-backed and government bonds have been popular globally.

We believe fixed income ETP flows could regain its pole position ahead of Equity ETPs. Within commodities, precious metal linked ETP flows are also likely to gain precedence as investors seek haven assets. Rate cut driven equity market rallies historically have been short-lived. As we embark on the Q2 earnings season, expectation for a slowdown in US earnings owing to the roll-off of 2018's tax cuts coupled with trade uncertainty is likely to cap further upside across equity markets. While US domiciled equity ETPs have led inflows into equity ETPs across regions, we believe weaker US forward earnings per share guidance in Q2 could derail the impetus of inflows into US equity linked ETPs. In comparison, European domiciled equity ETPs appear poised to reverse its losing streak of outflows aided by comparatively higher earnings guidance for Q2, dovish monetary policy and higher dividend yields. Within equity ETPs we expect quality and high dividend yielding stocks to continue to drive inflows as investors navigate a volatile 2019.

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