BNY
iFlow
MACRO MORNING BRIEFING

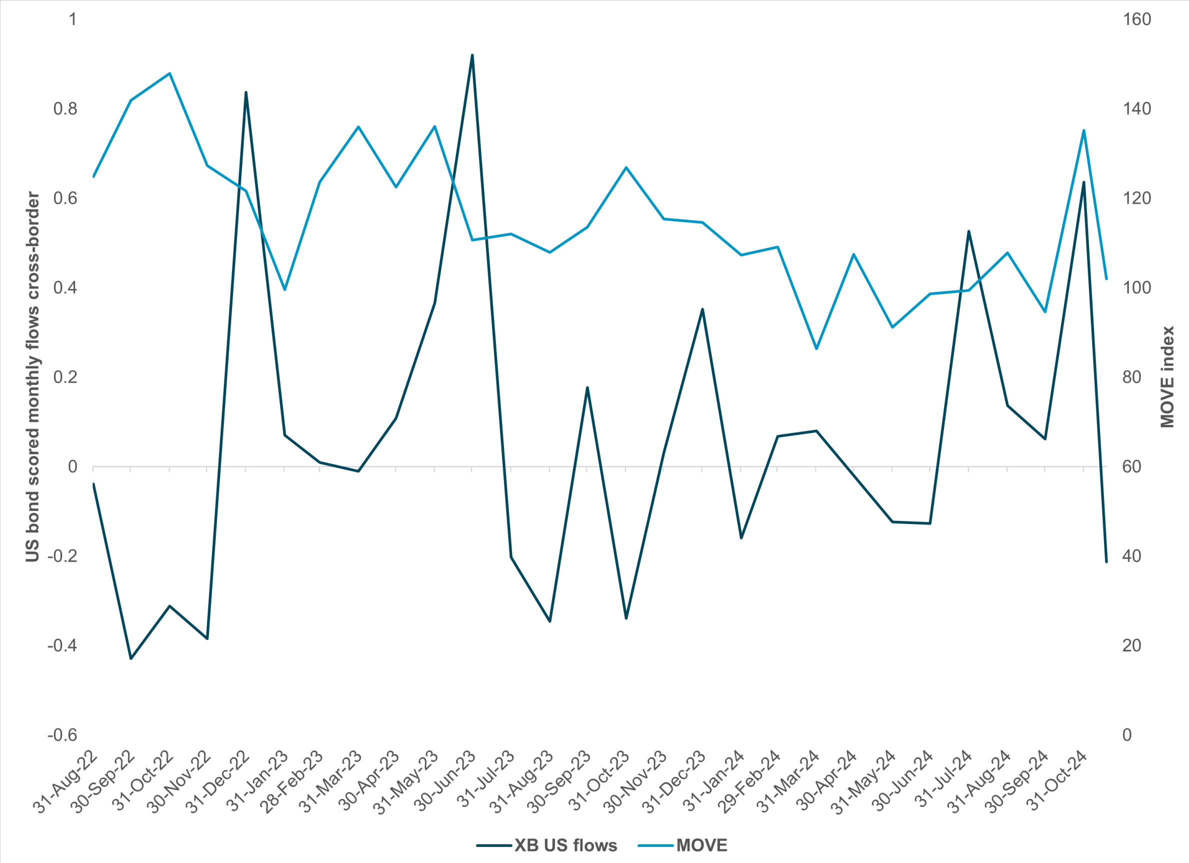
November 21, 2024

Asset Allocation into 2025

- **Seasonality factors for markets into year-end has bias to own equities over bonds**, with an average 3.1% return for S&P 500 from November 15 to year-end, while 10-year notes have a 0.3% return with gains in November and losses in December.
- **Our flows and holdings match the ETF flows in markets for asset allocation** – we started the year at 70%/30% equity to bonds and are closing at 72%/28%.
- **The flows from ETFs vs. our new iFlow Short are correlated**. The yield premium for US debt is not attractive enough for current investors and fast money suggests higher interest rates will follow.
- **Outside shocks from geopolitics and ongoing valuation concerns** will counter the trend rush to year-end and leave volatility intact into 2025.

Dissecting how much of the current market pressure on US bonds is linked to an FOMC pause or speculation around the new Trump administration fiscal and foreign trade policy misses the seasonality of year-end and the longer-term inflation fears inherent in a world concerned with too much debt chasing too few investors. Balancing out both leaves the market some room to recalibrate longer-term inflation and growth fears into 2025 – not just for the US but for the world. The uncertainty after the pandemic of both fiscal and monetary policy has left flows and volatility intertwined. The most notable point being that the rest of the world plays a significant role in providing liquidity to the US markets. The US appetite for US bonds matters.

Exhibit #1: US Bond Market Volatility vs. iFlow Cross-border Flows



Source: iFlow, Bloomberg, BNY

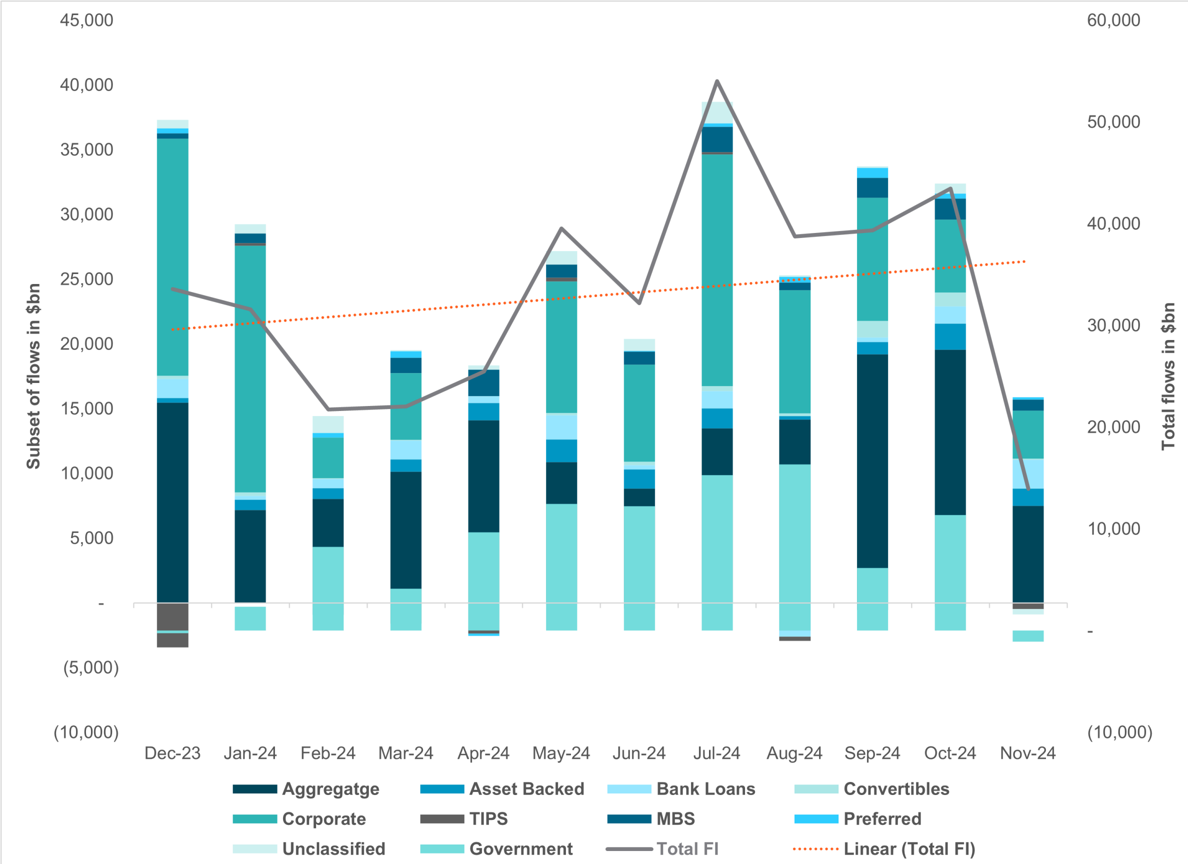
Beyond the US government, the bond market is the US corporates debt market. We started 2024 with fears of a corporate roll-over wall and fears around commercial real estate mortgages. We close with corporate issuance at $1.4trn in the year to date, up 33% y/y – the second largest since 2020 and the pandemic – fully funding 2024 and much of 2025 needs. Further, spreads in MBS and in IG are near historic lows suggesting none of the same fears that started the year. Supply has met demand. This makes clear the key question for investors is about how many bonds need to be in a portfolio for 2025 to balance out equity volatility ahead.

Exhibit #2: US IG Issuance vs. iFlow Corporate Flows

Source: iFlow, SIFMA, BNY

What stands out so far in the month of November is that fixed income flows are mixed but overall weaker. In that area, we have seen a moderation in US government bond buying, against ongoing corporate demand. Using the ETF markets in fixed income we can see that this has put the November run rate for fixed income flows at about half the October level and well below the yearly trend. This leaves open questions about why – is it about equities or the level of rates or cross-border pressures?

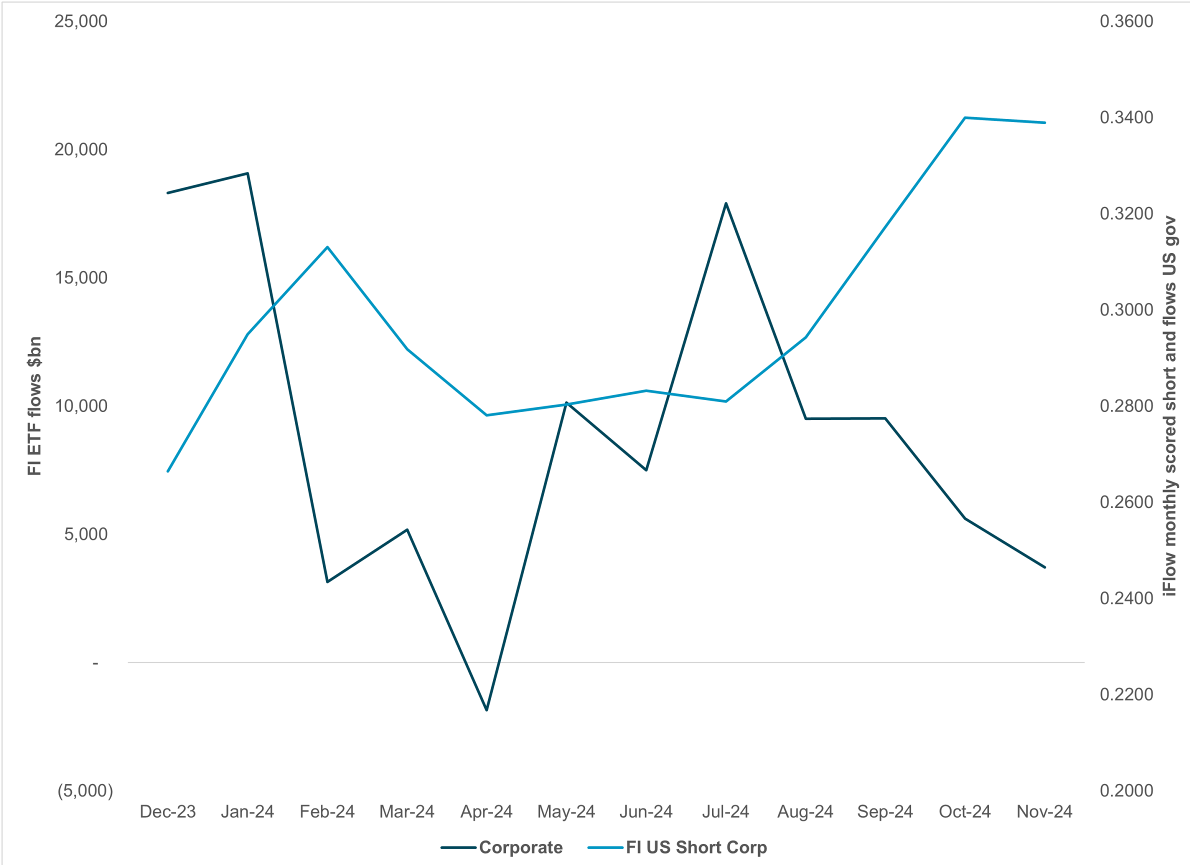
Exhibit #3: Fixed Income ETF Flows



Source Bloomberg, BNY

The balancing act of rates to equities shows up in ETF flows but behind that is a valuation equation – and using our new iFlow Short flows we can see the intersection of that in the corporate space and the clear drop in flows as shorting US corporates rises. This is about spreads and value. We can see the iFlow short rise matched by the drop in corporate ETF buying since July. There is a risk into year-end that pressures on rates continue to squeeze out flows for credit. There are implications here for asset allocation between stocks and bonds.

Exhibit #4: US Corporate ETF Flows vs. iFlow Shorts



Source: iFlow Shorts, Bloomberg, BNY

The seasonality of buying equites and selling bonds has a twist in 2024 wrapped around taxes. The harvesting of tax losses to cover winners and help set up rotational sector trades into 2025 drives. Investors are looking at ETFs as more tax efficient and they are also looking at fixed income being flat vs. equities being up over 25% as a logical place to rebalance. There is also the natural overweight from performance that requires constant harvesting to get back to balance. As we can see from looking at ETF flows and their implied allocation against our own portfolios – equities are going into year-end with a slightly higher holding than how they started the year. It is also clear that there is volatility around flows and allocations depending on investor style, but the larger forces in play for balance get to the same level. As we show, 70% is the new 60% for investors in iFlow and in ETFs.

Bottom Line: While the academic papers talk about the 60% equity, 40% bond portfolio, the level of inflation matters as much as the level of growth to such decisions. Tax policy, monetary policy and global alternatives are all key factors. As we look at 2025, we can see that there are clear risks that bonds will claw back some share from equities unless earnings continue to outperform. This gets to the heart of the new fiscal policy impulse from the Trump administration and whether the mix of taxes and tariffs works in the rotation from international to domestic focused equities. The 2025 inflation views will be critical to setting up for year-end rotations and reallocations.

Exhibit #5: Equity Allocations – ETF vs. iFlow

Source: iFlow, Bloomberg, BNY

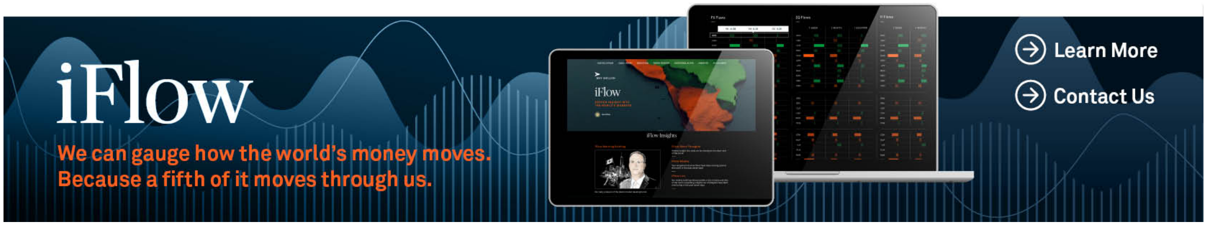
Disclaimer & Disclosures

Please direct questions or comments to: iFlow@bny.com

Bob Savage

HEAD OF MARKETS STRATEGY AND INSIGHTS

CONTACT BOB



This message was sent from an unmonitored email box. Please do not reply to this message.

.