

► BNY

iFlow

MACRO REVIEW

November 2024

Key Themes

Rebalancing: EUR and GBP to benefit from necessary USD correction

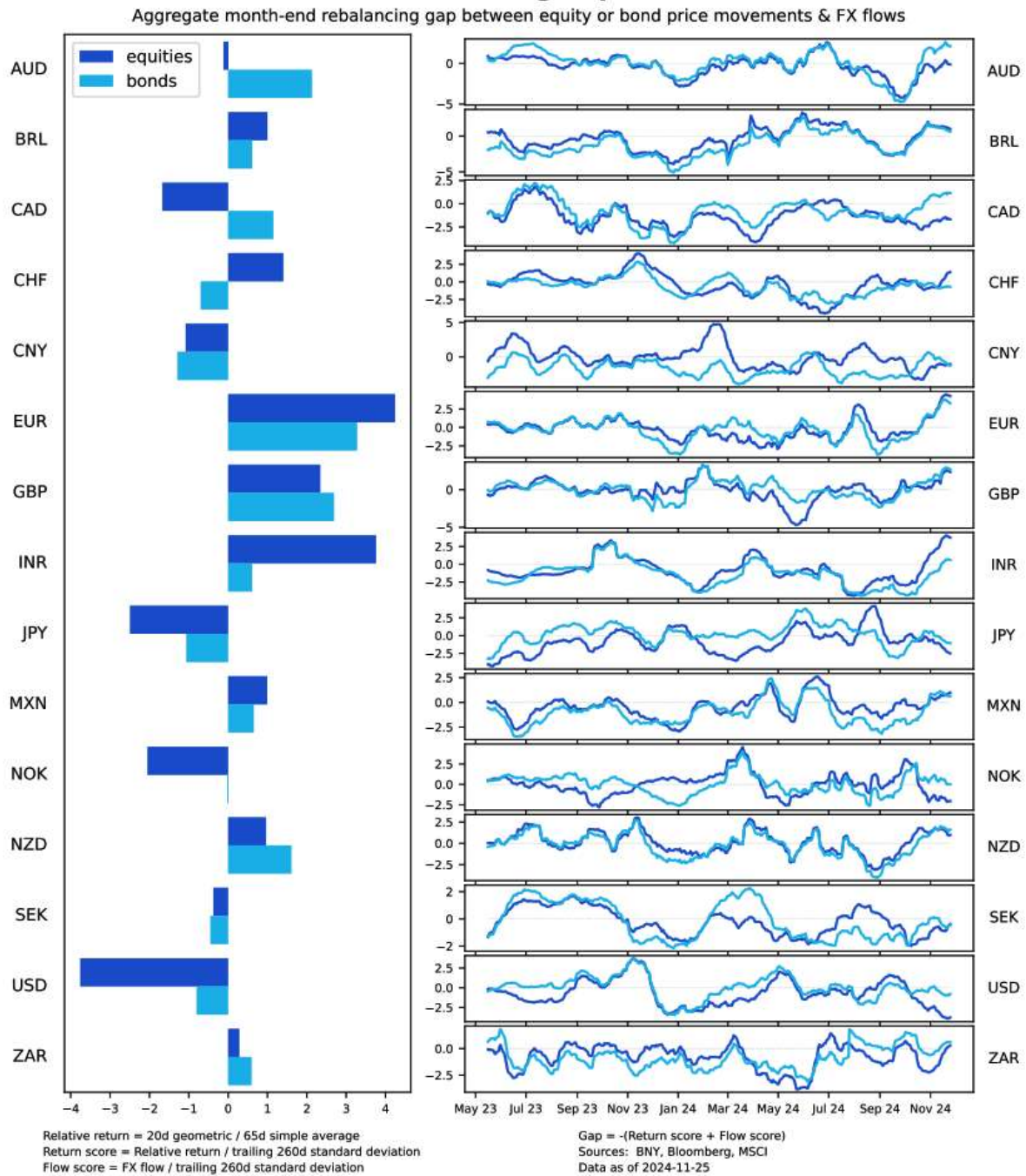
US Equity Styles: Cyclical flows pick up as market reprices future growth

International Equity Styles: Global reflation hope leads to cyclical surge

iFlow Green: Flow alignment broadly positive globally, led by DM Americas and EMEA

To enlarge the charts, please click the image below.

Rebalancing Report



Rebalancing Update

The entire rebalancing theme for November is abundantly clear. The dollar was very aggressively bought in the wake of the US presidential election result as the market generally doubled down on US exceptionalism. The dollar independently required additional allocations as the prospect of tariffs was expected to generate a corresponding result among US trade partners. In addition, the prospect of pro-growth and reflationary policies from the new administration also generated significant asset allocation flows into US equities, though the outlook at present for US fixed income is mixed as the market is still digesting the impact on various parts of the curve from policies and appointments. It should then come as no surprise that any currency on the receiving end of such flows would face heavy rebalancing risk, and it was already quite apparent well before month-end that the dollar would be facing significant selling pressure due to the heavy marginal changes in exposures through the month.

The EUR and GBP would be bearing the brunt of such flows, which in the context of global liquidity pools is also to be expected as these are the markets where large amounts of asset rotation into the US would likely take place. However, we did not see this in the JPY despite the initial strength in USDJPY and the fact that almost every other EM APAC currency was also net sold through the month. This indicates a valuations barrier was in place for the JPY. USDJPY itself was net sold on the month in iFlow but the flow strength was materially lower compared to the JPY, indicating additional risk-off related to unwinding (or part of the rotation

process) on JPY crosses had a bigger impact.

On a marginal basis the USD performed slightly better than the JPY. This is no surprise given the dollar struggled in September and on a one-month vs. three-month basis the strong flows starting in October which extended into November were amplified. The JPY had a strong month as well. In contrast, EUR was by far the worst performer and given EURUSD drove much of the flow in the two currencies, the amplification also worked for the EUR in the opposite direction. INR and GBP outflows were also notable and matched the absolute flow rankings.

Equity returns through November were skewed toward positive performers on a marginal basis with Canada and China the major outliers in performers. This goes somewhat against the conventional wisdom of US tariff targets, and this week's latest warning from President-elect Trump that the US' main trading partners would face immediate tariffs has had limited bearing on performance, and even Mexico's stock market was not strongly affected. Canada's market, by contrast, could yet benefit from energy liberalization, and the focus in China is far more on domestic stimulus to offset any impact from the US, and also out of domestic necessity. Meanwhile, India's underperformance is mostly likely an idiosyncratic issue and attributable to heavy positioning in the first place, while European markets also struggled. Switzerland could potentially face strong headwinds from any changes in US healthcare policies as the country's equity index and even balance of payments is uniquely exposed to sales to the US. Based on equity returns and marginal FX flows, the strongest rebalancing signals are purchases of EUR, INR and GBP, whereas USD, CNY and JPY all have strong signals in favor of net selling. The bulk of the rebalancing pressure on these six currencies is from FX flows, especially the top three, which were the worst performers measured by realized currency flow. CNY is the only outlier here as the currency flow score is largely flat but positive, while the equity returns were amplified, which resulted in clients facing excessive exposures. Given the risk of tariffs continues to rise for China, adding to more defensive positions in CNY is in line with the market's fundamental outlook.

Fixed income was mixed as there is ongoing divergence in global growth and inflation expectations. The outcome of the US election was unequivocally seen in steepening context for the US, but similar trends were already underway in October due to the strength of the US economy which called into question the Fed's outlook. As such, on a marginal basis the US fixed income market was an underperformer, but the UK and Norway saw similar struggles due to difficulties with their inflation outlook. The UK is also attracting a sustained fiscal premia in the wake of the budget, while Norway is more of a general inflation story as Norges Bank is now undeniably the most hawkish central bank in G10. China and India saw good performance in fixed income markets as softer growth outlooks continues to support bonds, and Switzerland's ongoing lurch toward strong disinflation is prompting talk of negative rates again, which would strongly anchor the country's bond market. Due to the differences in return profiles, offsetting returns exerted a bigger impact on FX rebalancing needs. For example, there are no currencies facing net selling pressure – even the dollar found strong offsetting flows from declines in Treasury securities prices, though we suspect that given the outlook for the US economy, there might be some renewed purchases in the wings after month-end flows settle. Similarly, weak performance in Japanese bonds also offset some of the necessary rebalancing needed in the JPY. On the net purchase side, the strong performance of Indian bonds almost fully offset the marginal FX outflows, which pushed

rebalancing into neutral territory for the INR in a fixed income context. EUR and GBP are the only currencies with potential inflows as the combination of dollar strength and weak fundamentals across Europe warrants recovery flows.

iFlow Equities 2.0 Style Indices – flows of significance:

1. US Equity Styles

- Cyclical equities are outperforming defensive flows yet again and we believe this will only be the start of the process as the market starts to revisit growth prospects driven by material policy changes from the incoming administration. Growth remains at the forefront of equity styles as well but as such segments have been outperforming value for some time, there is limited scope for a marginal uplift.
- Leverage flows are also picking up moderately, which is a surprise given expectations for further Fed easing have been unwinding since September, and the behavior in the curve may also make it challenging to add to leverage. However, if the cycle truly turns there is some prospect for leverage to recovery, especially if reflation erodes real rates.
- Inflation-related flows are positive again after spending much of Q3 in negative territory. The pick-up clearly matches the change in breakevens and the market is also looking at the prospect of strong reflation, though tariff risk would induce additional volatility in this segment.

2. International Equity Styles

- In both DM EMEA and DM APAC, there has been a surge in cyclical outperformance relative to defensives. The strength of the flow has even surpassed that of the US, even though a shift in the US' prospects is likely one of the core catalysts behind the change in view. APAC cyclical flows are now at the strongest levels since the initial post-pandemic reopening, and the prospect of reflation from the US and China – for different reasons – is playing role in flow strength.
- In contrast to the strong performance in cyclicals in developed international markets there is a lack of interest in equity themes elsewhere. There is limited change in EM EMEA cyclical flows, while in APAC cyclical flows are barely outperforming. Growth is also struggling relative to value globally.

3. iFlow Green

- Compared to the previous quarters, there has been marked improvement in ESG flow alignment globally. Only DM APAC and EM Americas continue to show negative alignment, and in the latter the weakness in ESG-Environment and ESG-Government factors is particularly worrying. DM APAC's weakness in flow alignment with ESG factors is weak in general but there are no standout flows.
- DM Americas and EM APAC are the best-performing regions in ESG flow alignment. The strength of the former is interesting given that markets believe that factor alignment will drop up ahead, but for now there doesn't seem to be any pressing need for a structural adjustment in flows, irrespective of upcoming regulatory or legislative changes.

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

Disclaimer & Disclosures



Geoff Yu

EMEA MACRO STRATEGIST

CONTACT GEOFF



Can't see the email? [View online](#)



This email was sent to james.cohen@bnymellon.com, and was sent by The Bank of New York Mellon 240 Greenwich Street, New York NY 10286.

We take our data protection and privacy responsibilities seriously and our privacy notice explains how we collect, use, and share personal information in the course of our business activities. It can be accessed [here](#).

Your privacy is important to us. You can opt out from receiving future Newsletters by unsubscribing via [this link](#) at any time. You can also select the topics that you want to receive by [managing your preferences](#).

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

[Contact Us](#) | iflow@bny.com

© 2024 The Bank of New York Mellon Corporation. All rights reserved.

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