April 7, 2006

Monthly Mutual Fund Report

Statistics for February 2006 - March 2006

Sales and Redemptions

Total assets for all funds increased in February by $25.9 billion, or 0.3 percent, to $9.2 trillion. Money market funds had a net cash inflow of $5.4 billion compared to an outflow in January of $4.4 billion. Other funds (equity, hybrid, and bond) had a net cash inflow of $36.8 billion, compared to an inflow of $39.7 billion in January. New sales of non-money market funds, the purchase of new shares excluding reinvested dividends, were $143.1 billion in February, down from $169.5 billion in January. The value of non-money market assets depreciated by $25.5 billion in February, following an appreciation of $245.2 billion in January.

Total assets of **equity funds** increased by $0.7 billion, or 0.01 percent, to $5.2 trillion. There was a $27.3 billion net cash inflow to equity funds in February, compared with an inflow of $31.6 billion in January. The market value of assets depreciated by $27.1 billion in February. Equity funds had an inflow of $58.9 billion year-to-date, compared to an inflow of $32.2 billion during the first two months of 2005.

Total assets for **hybrid funds**, which invest in a mix of stocks and bonds, increased 0.25 percent, or $1.4 billion, to $582.5 billion. In February, there was a $0.8 billion net cash inflow into these funds, compared to an outflow in January of $0.1 billion. Hybrid funds have experienced an inflow of $0.7 billion year-to-date, compared to an outflow of $9.3 billion during the first two months of 2005.

Bond funds experienced a cash inflow of $8.7 billion, while their total assets increased by $13.2 billion, to $1.5 trillion. The market value of bond funds assets increased by $1.5 billion, after adjusting for net sales and reinvested dividends. The assets of taxable bond funds increased by 0.8 percent, while the assets of tax-exempt bond funds increased by 1.4 percent. The 2006 inflow is $17.0 billion, compared to an inflow of $7.3 billion through February of 2005.

Assets of taxable and tax-exempt **money market funds** increased $10.5 billion, to $2.1 trillion, an increase of 0.3 percent for taxable money market funds and an increase of 1.4 percent for tax-exempt funds. The 2006 inflow is $1.0 billion, compared to an outflow of $46.8 billion through February of 2005.

Liquidity Ratio

The liquidity ratio for bond and hybrid funds increased to 5.8 percent in February from 5.5 percent in January, while the ratio for equity funds increased from 4.0 to 4.2 percent (figure 4).

Weekly Flows

In March, outflows from equity funds were 0.5 percent of total assets, with return of 1.4 percent (figure 6a). Bond funds had outflows of 0.1 percent and losses of 0.4 percent.

Index funds had monthly outflows of 0.1 percent and gains of 0.7 percent. Aggressive growth funds had outflows of 0.2 percent and gains of 1.0 percent. Small-cap funds had inflows of 0.3 percent and gains of 3.0 percent.

Technology funds had outflows of 1.8 percent and losses of 1.0 percent (figure 6b). There were inflows to real estate funds of 7.4 percent and gains of 11.7 percent.

International funds in March had outflows of 0.3 percent of assets and gains of 3.0 percent. Latin American funds had outflows of 0.9 percent and losses of 4.0 percent. Japan funds had outflows of 1.6 percent and losses of 1.1 percent. Pacific funds that do not invest in Japan had inflows of 1.9 percent and losses of 4.0 percent of assets. Emerging Markets funds had outflows of 1.8 percent and losses of 1.1 percent.

Capital Market Returns and Volatility

The S&P 500 ended March at 1294.8, an increase of 1.1 percent from the previous month. The 12-month gain was 11.6 percent at month-end. The annualized volatility for the daily return on the S&P 500 was 10.3 percent.

The 12-month average return on the Citigroup Bond Index was 2.4 percent in March. Volatility remained at 3.2 in March (figure 8).

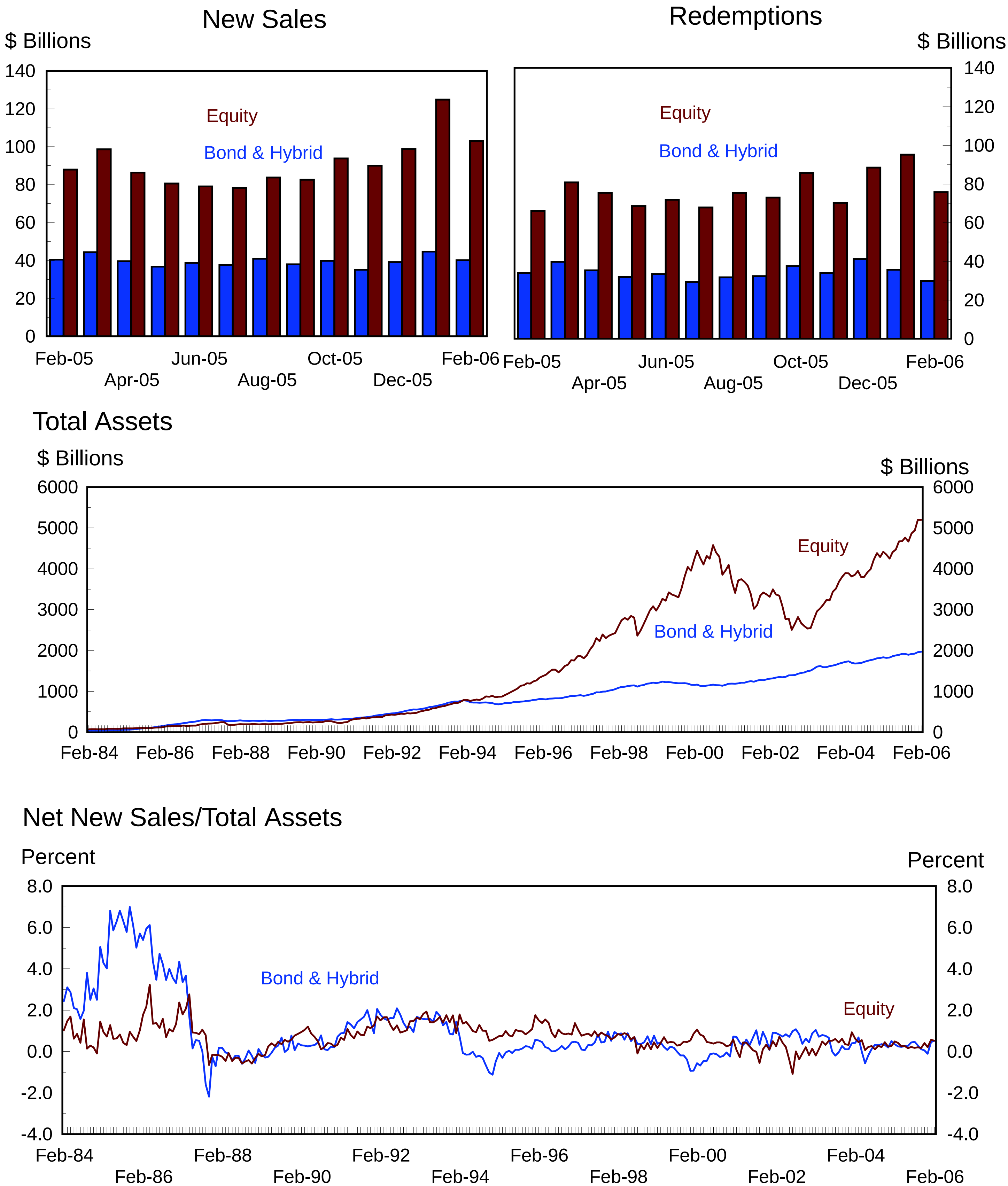
Price-Earnings Ratio

During the first quarter of 2006, macro projections show growth of earnings for the Standard and Poor's 500 index at 4.0 percent over the next two-years. During the fourth quarter of 2005, the price-earnings ratio for the Standard and Poor's 500 Index was 17.5, down from 18.5 in the third quarter. The price-earnings ratio for the Small-Cap 600 Index increased to 23.7 in the first quarter of 2006, from 20.7 in the fourth quarter of 2005 (figure 9).

Please contact Afreen Ali for questions and comments at Afreen.Ali@bos.frb.org, or by phone at (617) 973-3239.

Figure 1

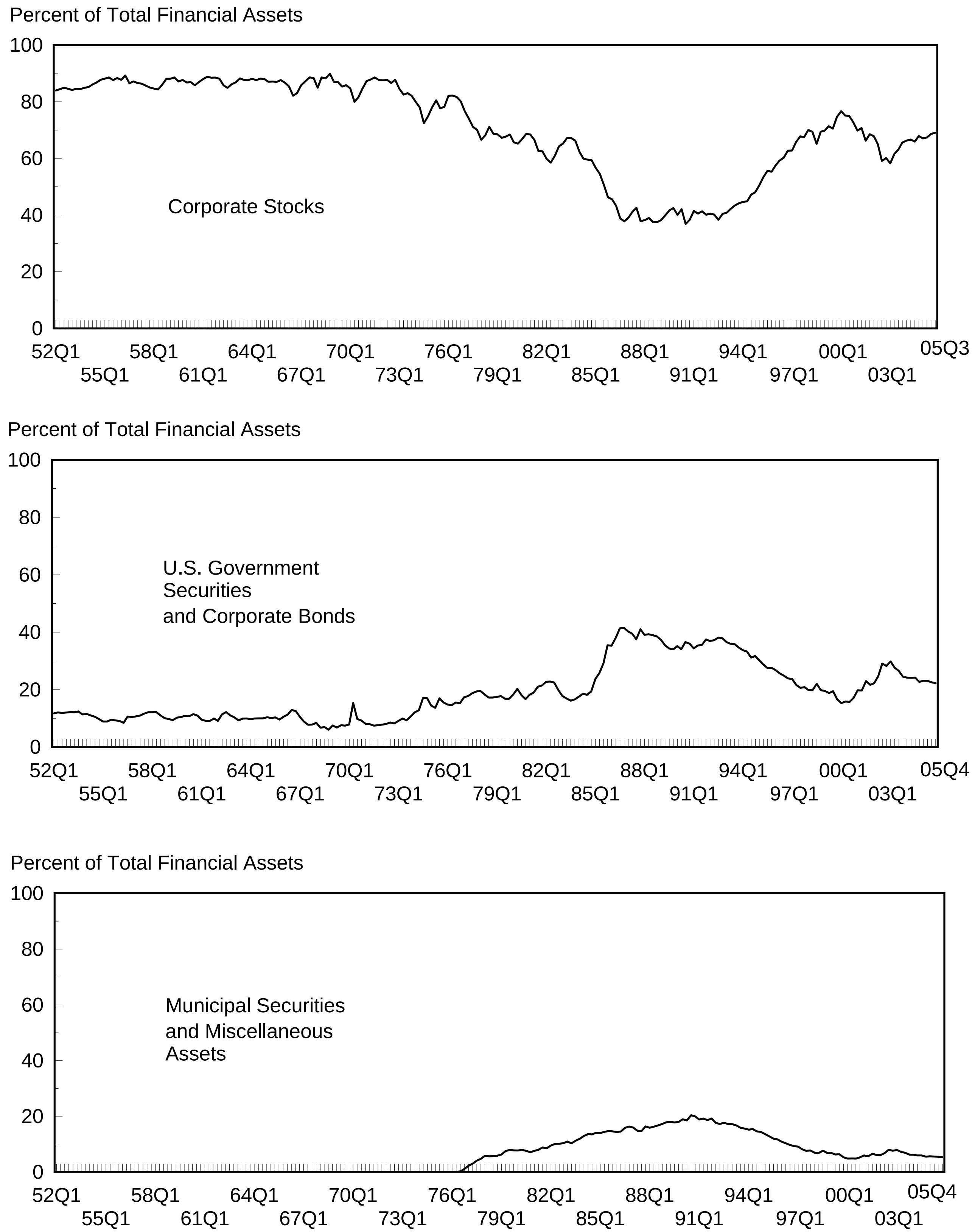
Sales of Mutual Funds



Source: Investment Company Institute

Figure 2

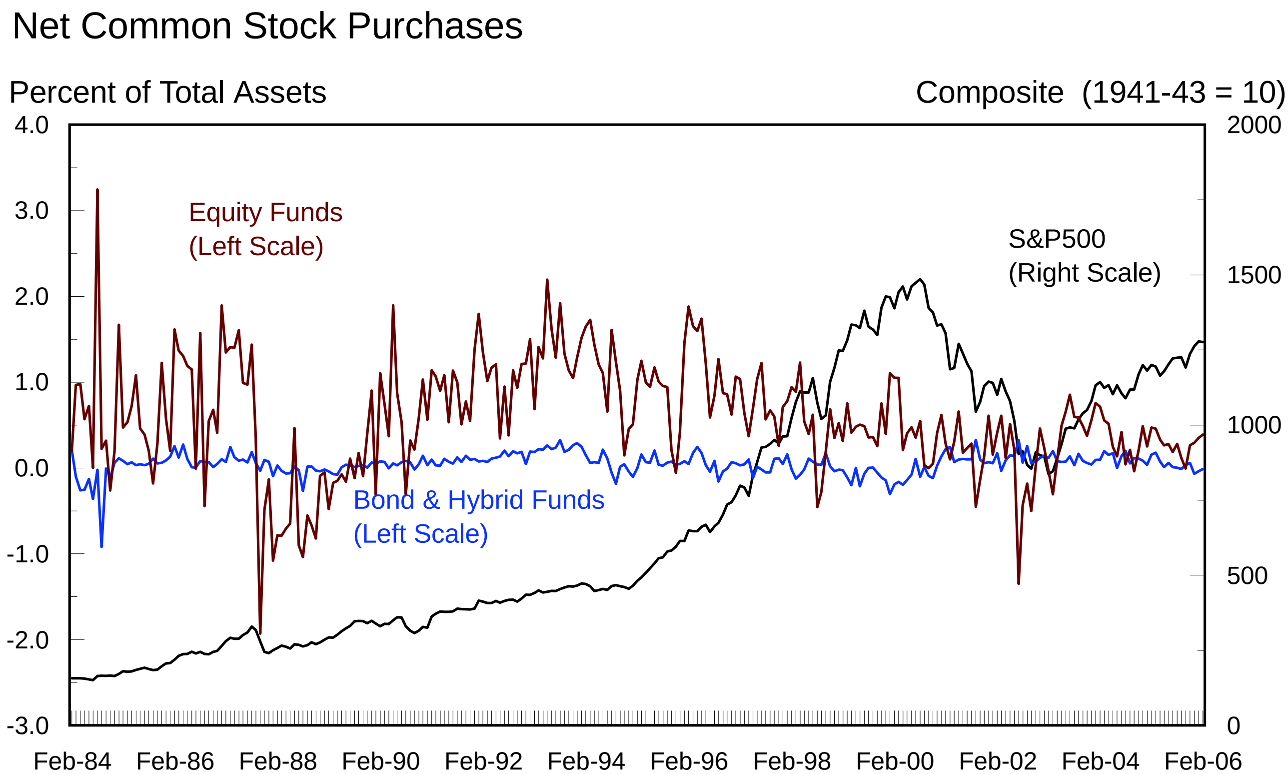
Composition of Mutual Funds' Financial Assets

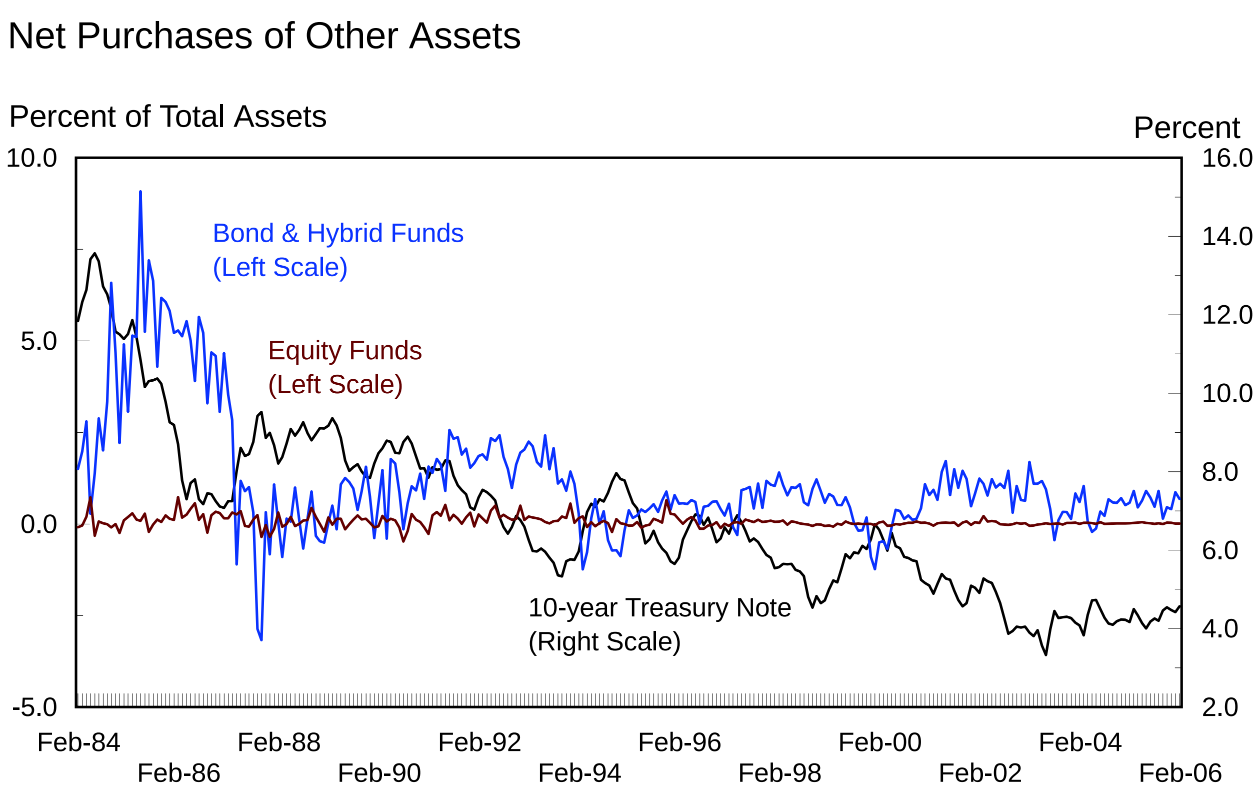


Source: Flow of Funds/Haver Analytics.

Figure 3

Net Portfolio Purchases

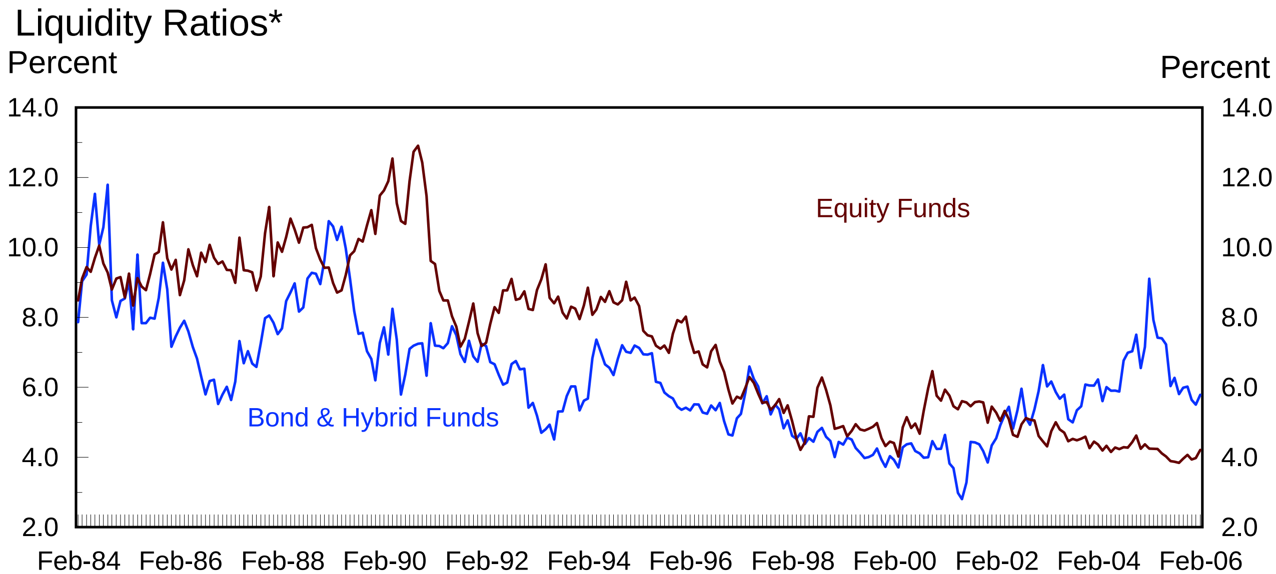


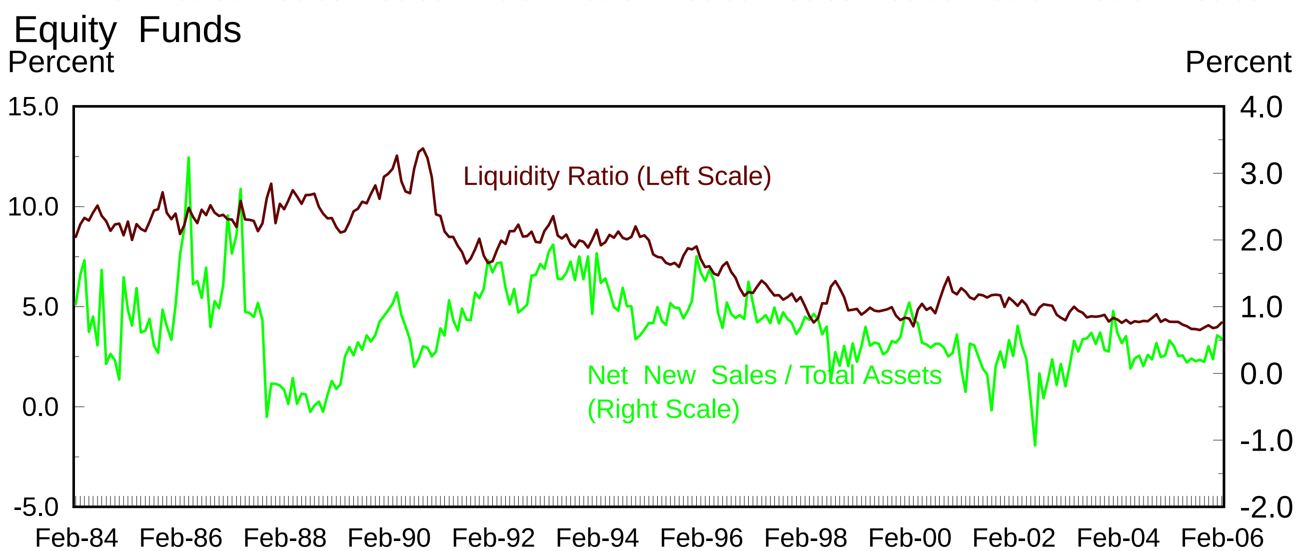


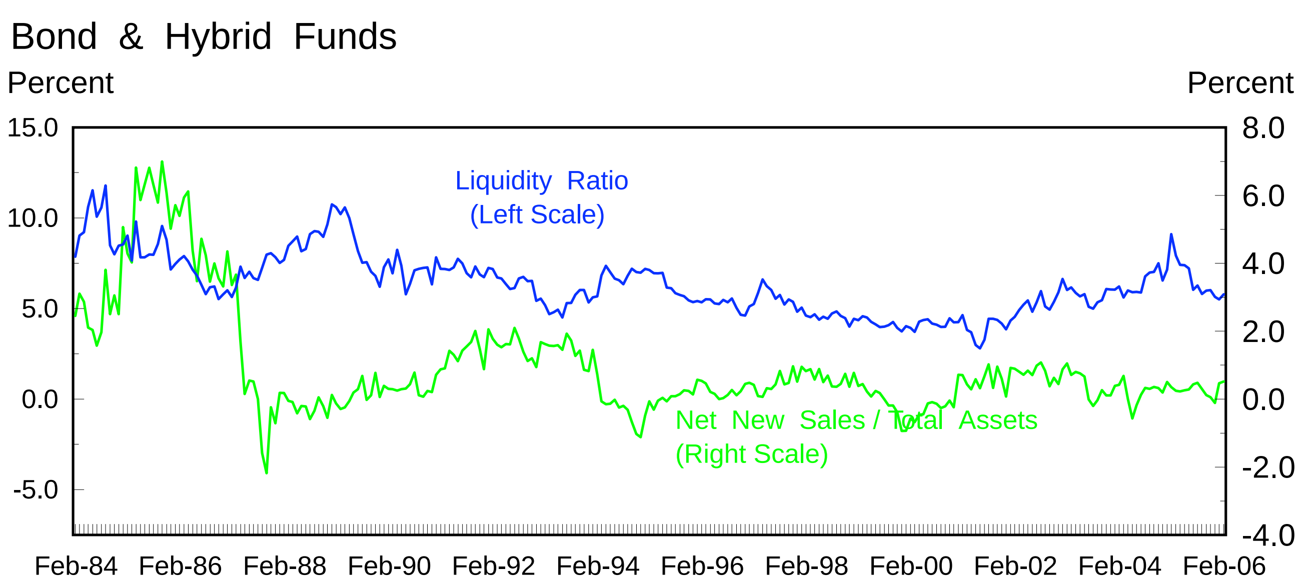
Source: Investment Company Institute

Figure 4

Liquidity Ratios



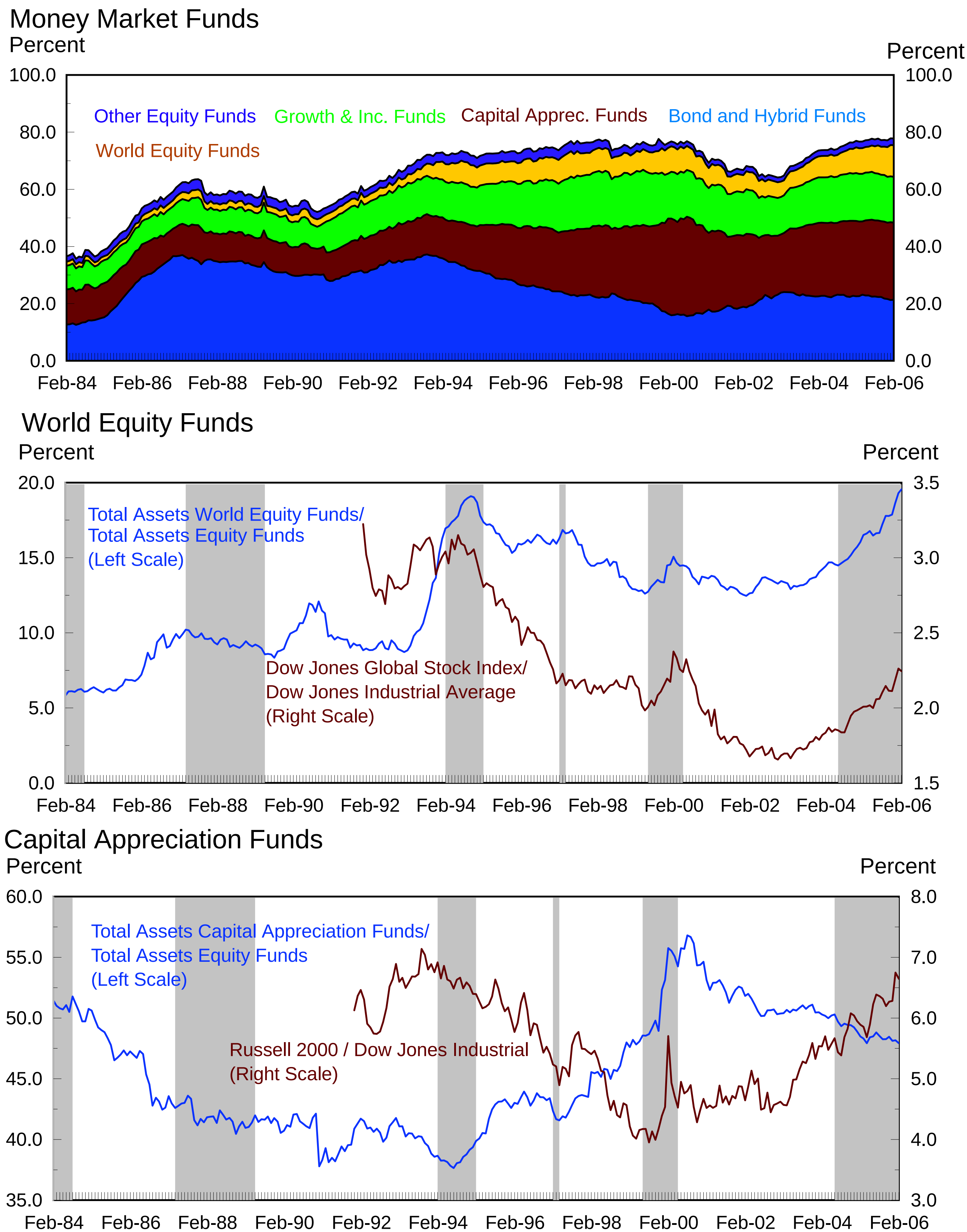




*Liquidity Ratios are the Percent of Total Assets held in Cash and Short-Term Securities.

Source: Investment Company Institute

Figure 5
Industry Composition
(Shaded Regions Indicate Periods of Rising Fed Funds Rate)

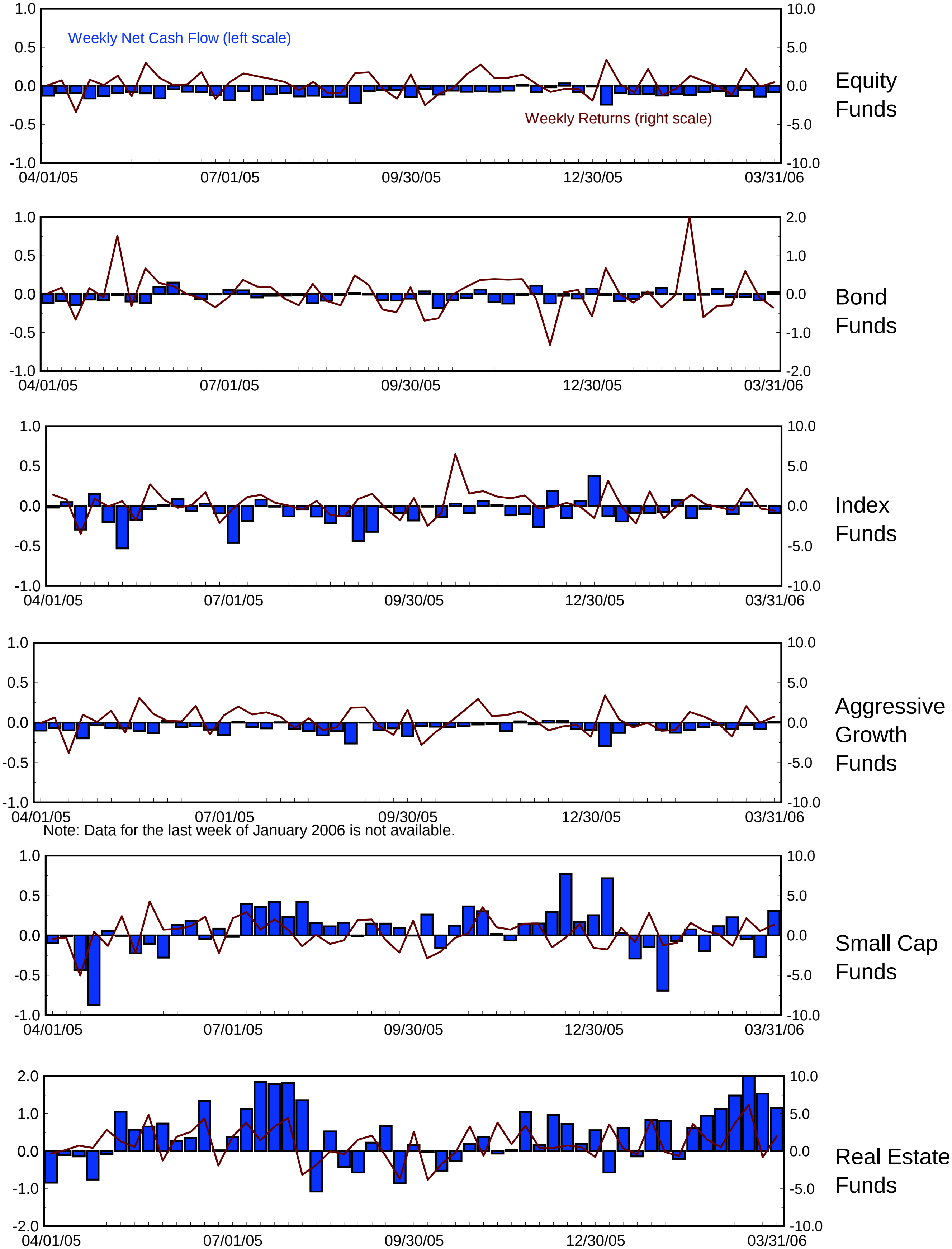


Source: Investment Company Institute

Figure 6a

Weekly Flows into Mutual Funds

(Percent of Total Assets)

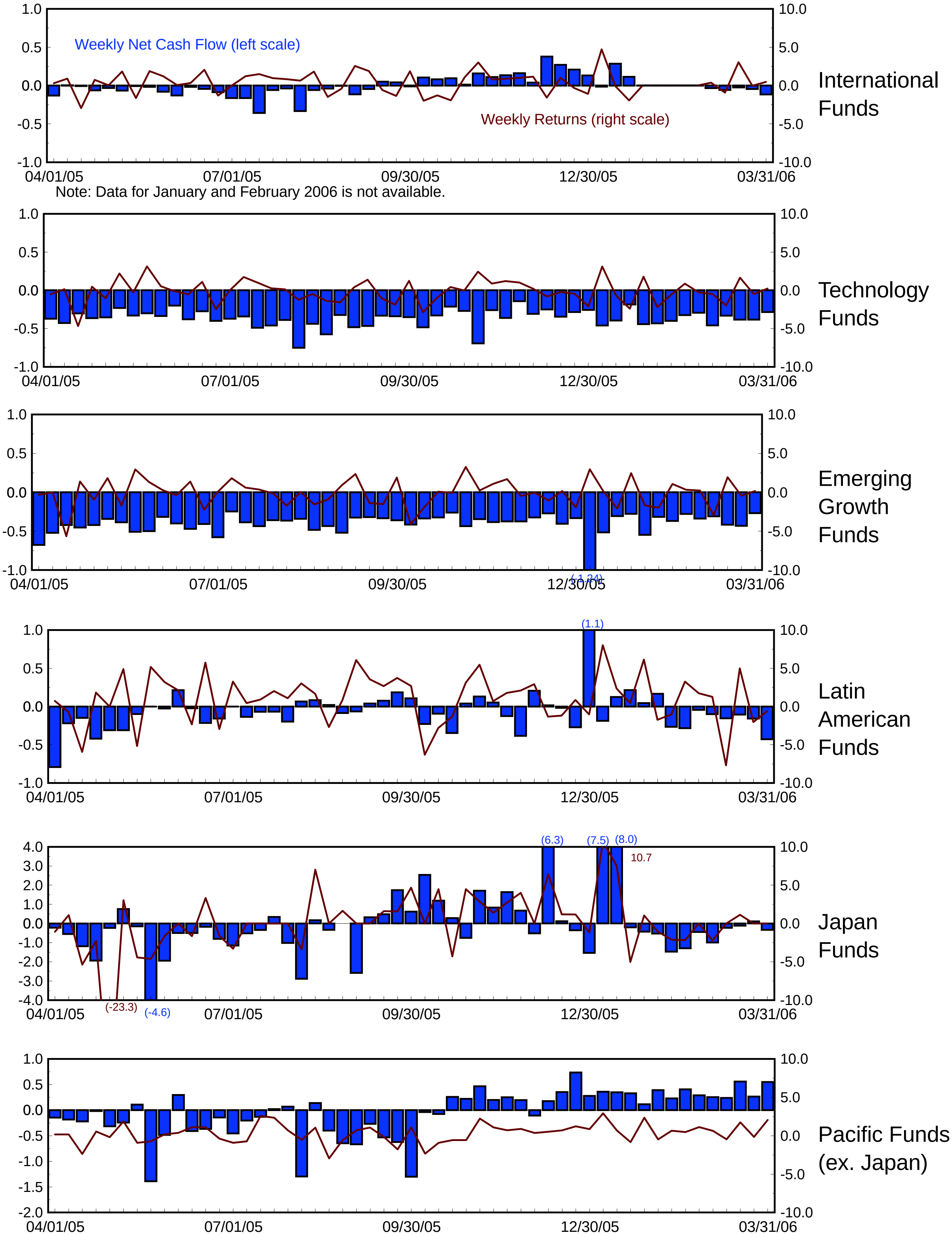


Source: Mutual Fund Trim Tabs

Figure 6b

Weekly Flows into Mutual Funds

(Percent of Total Assets)

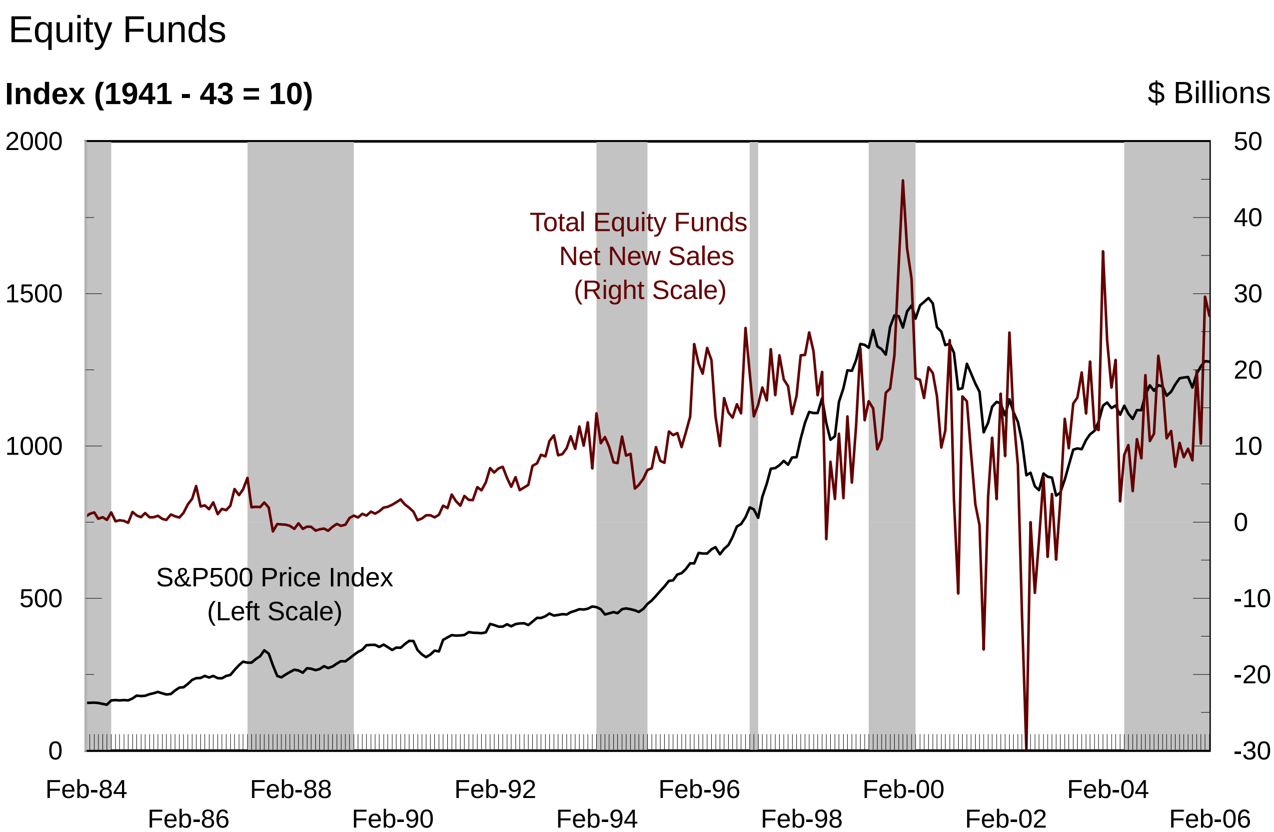


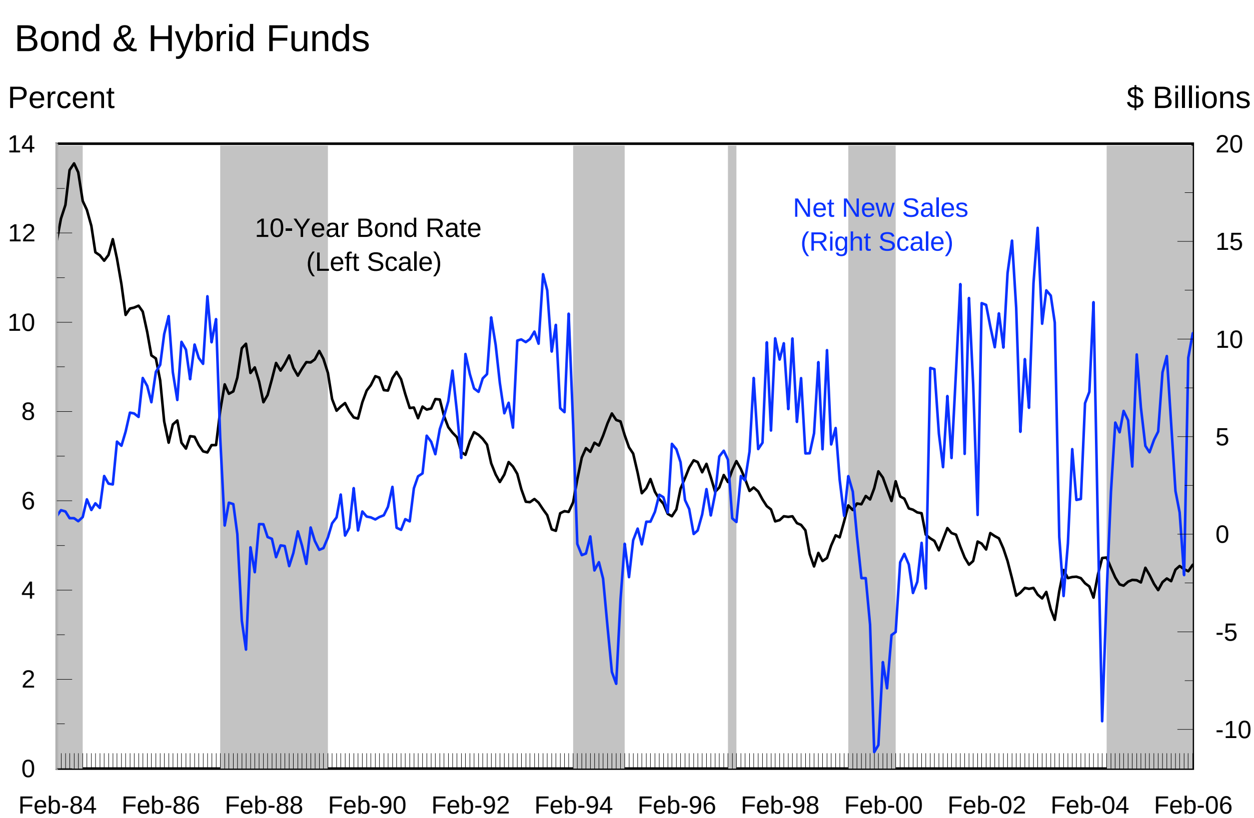
Source: Mutual Fund Trim Tabs

Figure 7

Net New Sales By Investment Objective

(Shaded Regions Indicate Periods of Rising Fed Funds Rate)



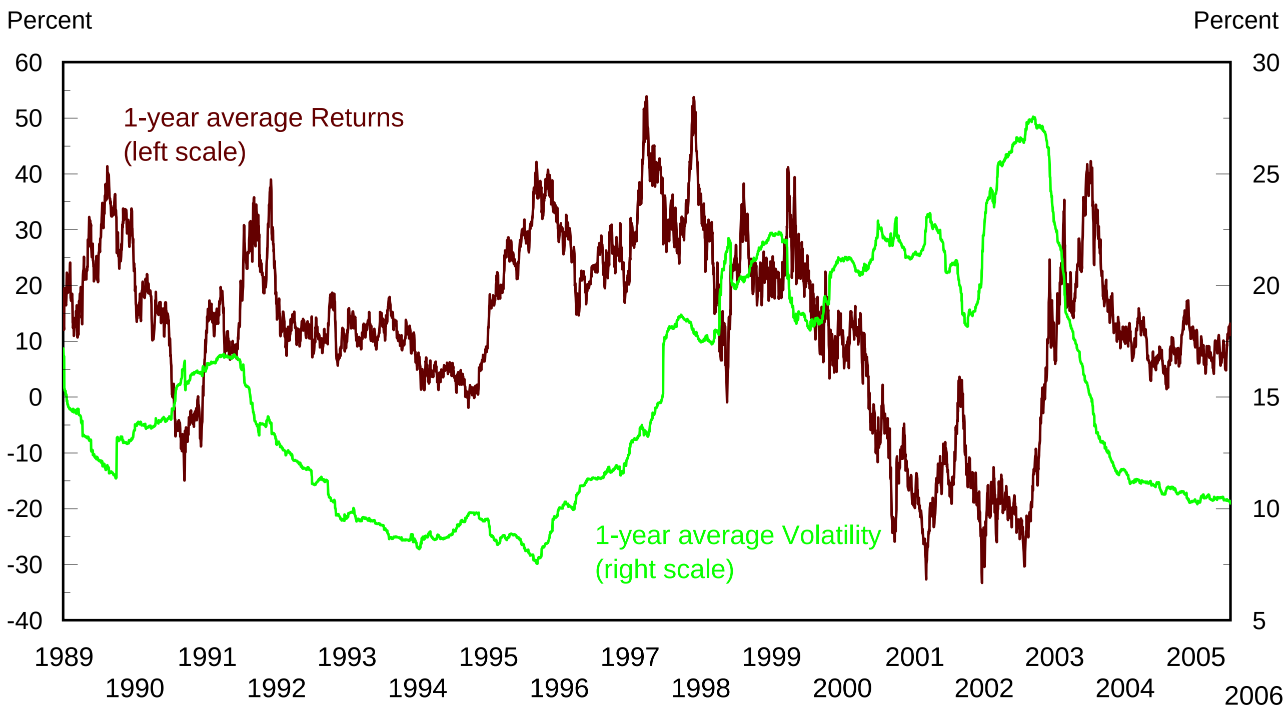


Source: Investment Company Institute

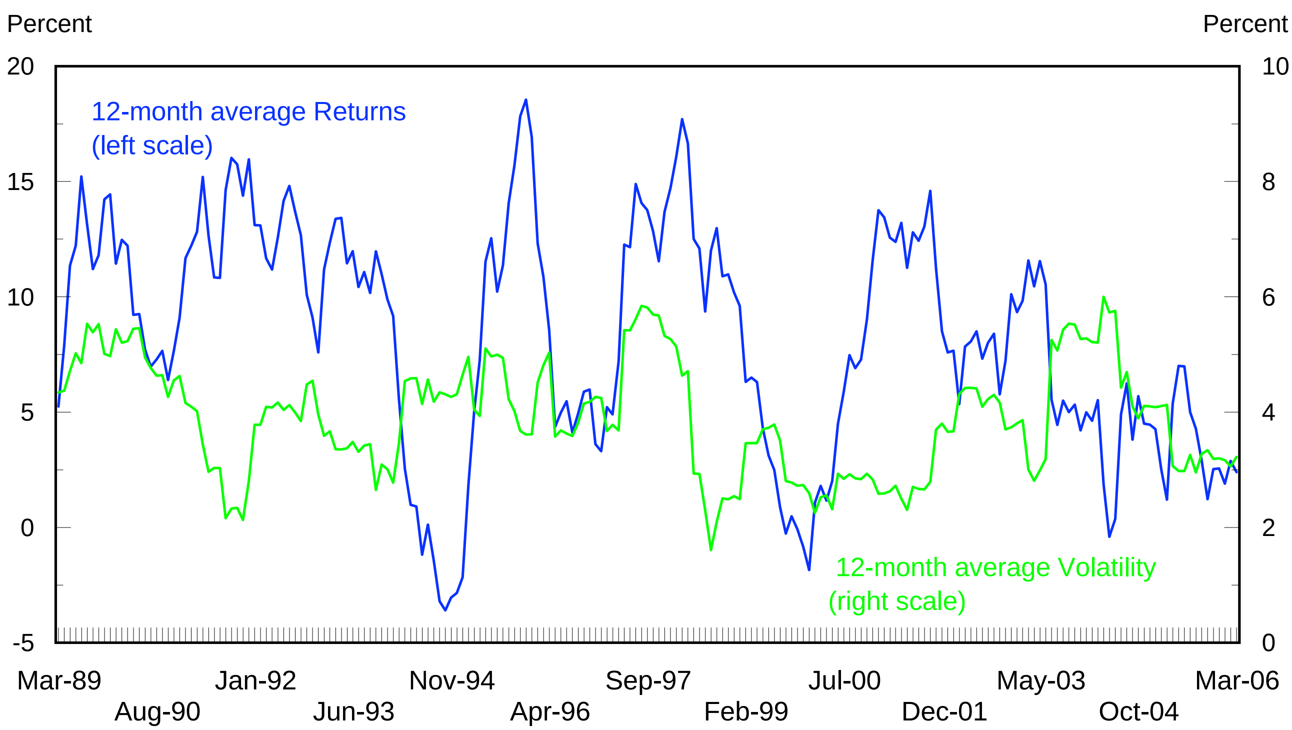
Figure 8

Capital Market Returns and Volatility

S&P500, Daily Returns and Volatility



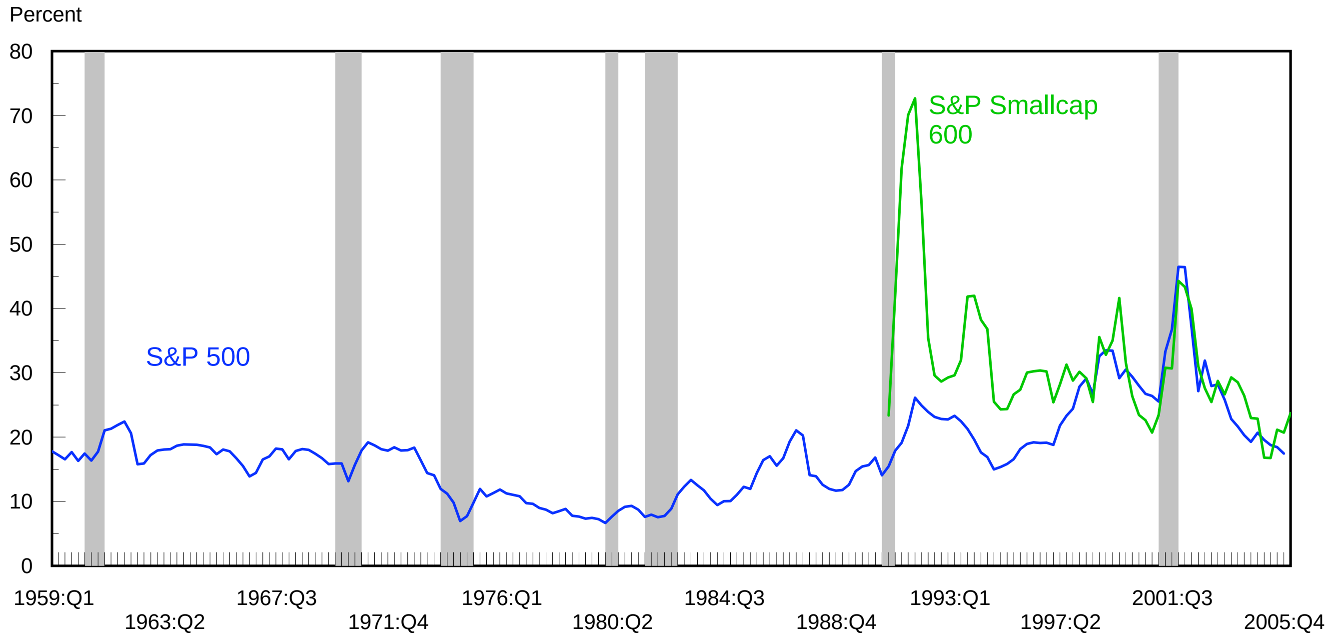
Citigroup Bond Index



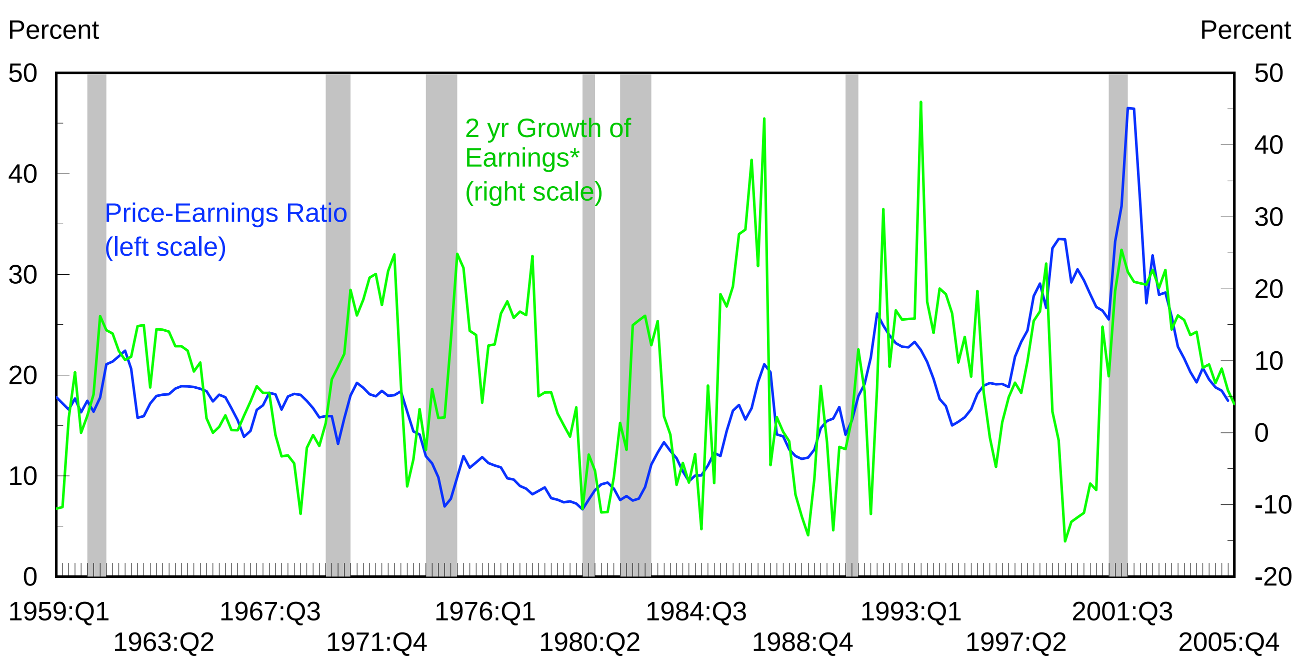
Source: FAME Database, Citigroup.

Figure 9

S&P Price-Earnings Ratios



S&P500 Price Earnings Ratio and the Growth of Earnings

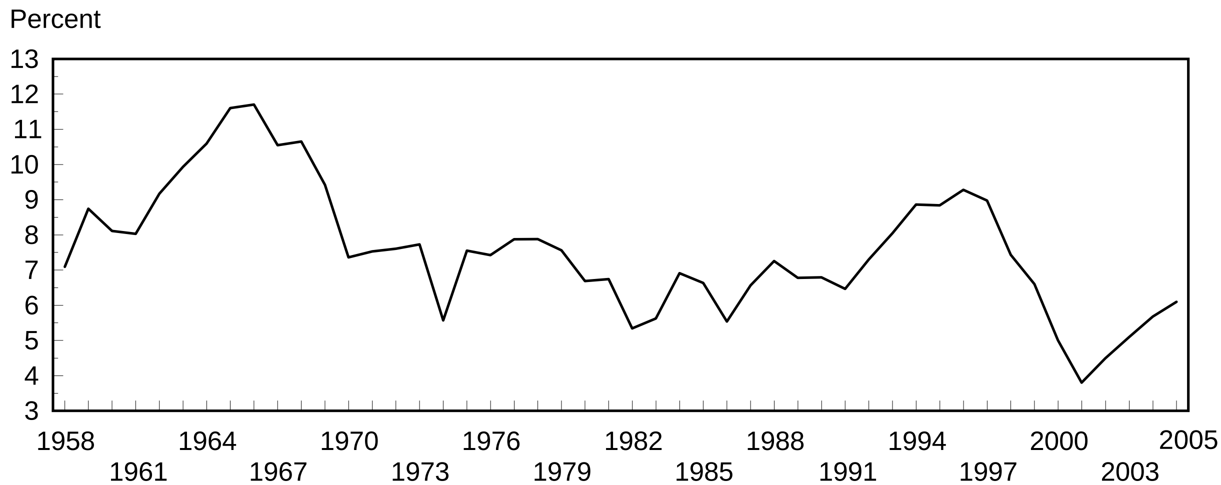


* Growth of earnings over subsequent 8 quarters. Current observations use forecast of earnings from macro projections.

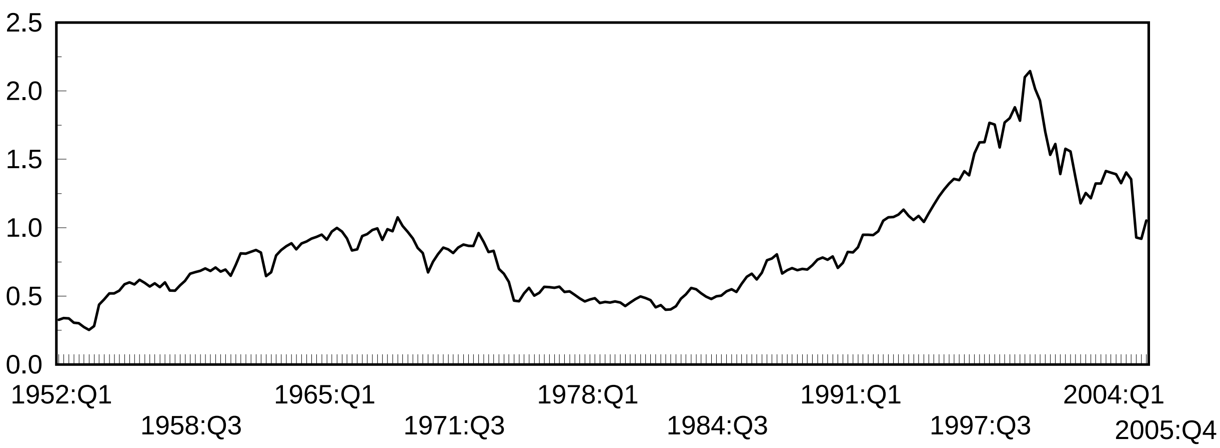
source: Thomson Financial/First Call, Global Exchange (formerly DRI), Bloomberg

Figure 10

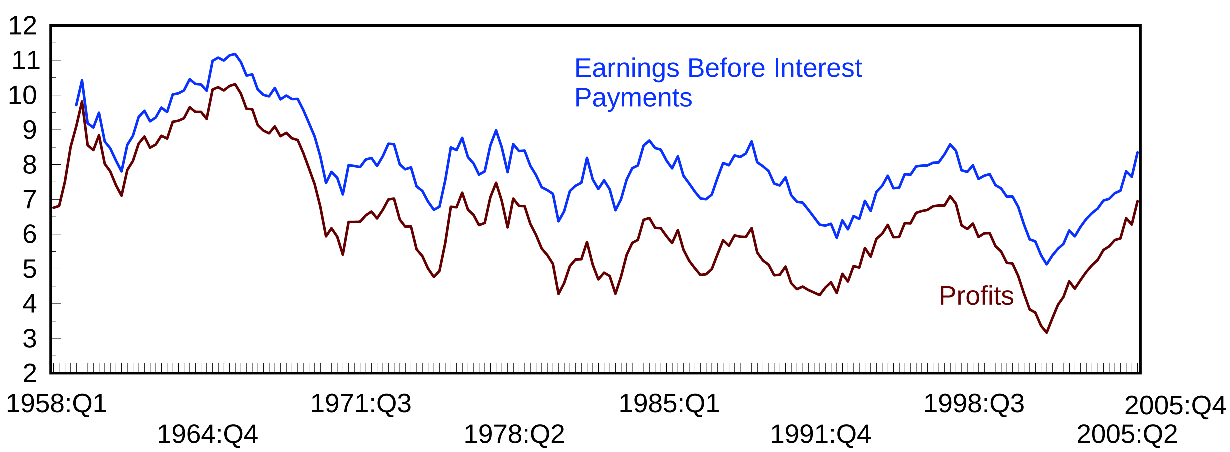
Real Rate of Return on Nonfinancial Corporate Equity
(from National Income and Flow of Funds Accounts)



Tobin's Q*



Profits of Nonfinancial Corporations as a percent of GDP



* Market Value of Equity plus Net Interest Bearing Debt / Current value of Land, Inventories, Equipment, and Structures

Source: Flow of Funds/Haver Analytics.