February 5, 1999

Monthly Mutual Fund Report

Statistics for December 1998
Year – End Report

Sales and Redemptions

Total assets for all funds increased 3.2 percent, or $172.5 billion to $5.5 trillion in December. Total sales, the purchase of new shares including reinvested dividends, surpassed $109.8 billion in December, from $78.6 billion in November. Appreciation accounted for $165.3 billion of the increase in the value of assets in December, compared with $223.3 billion in November.

Total assets of **equity funds** increased by $164.9 billion, or 5.9 percent, to $3.0 trillion. Net cash inflows into equity funds were $3.4 billion in December, compared with $12.8 billion in November. The market value of equity funds' assets increased by $161.5 billion. During 1998, assets of stock funds increased 25.9 percent, or $613.3 billion.

Total assets for **hybrid funds**, which invest in a mix of stocks and bonds, increased 2.1 percent, or $7.6 billion, to $365.1 billion. Net cash inflow to these funds was $225.2 million. For the entire year, the assets of hybrid funds increased by $48.0 billion, or 15.1 percent.

Bond funds experienced a cash inflow of $3.6 billion in December and a total increase in assets of $2.4 billion, or 0.6 percent, to $830.6 billion. The market value of bond funds' assets decreased by $1.2 billion. In calendar 1998 assets of these funds increased by $106.3 billion, or 14.7 percent.

Taxable and tax-exempt **money market funds** experienced cash outflows of $8.7 billion, compared with inflows of $34.1 billion in November.

In 1998, assets of funds including money market funds increased by 23.8 percent, or $1.06 trillion. Strong first-half cash inflows to general equity funds eased following the late summer stock market downturn, resulting in a 1998 flow of $158.8 billion, 30.1 percent less than 1997's inflow. The cash outflow in August among equity funds was the first since 1990, and despite significant appreciation in market value of equities since that time, inflows to these funds remain depressed. While flows to bond funds have increased since 1996, they nearly tripled in 1998 over 1997 levels, as the falling interest rates increased total returns on bonds. Flows to money market funds reached a record of $235 billion in 1998, a 130.0 percent increase from $102.1 billion the previous year. This event is attributable to generally higher yields throughout the year and a bias shift towards safety during most of the fall months.

Liquidity Ratio

The liquidity ratio, a measure of cash and short term security holdings relative to total assets, was 4.8 percent for equity, and 4.1 percent for bond and hybrid funds during December. These liquidity levels are the lowest since July, continuing the decline from the September peak of 6.3 percent for equity and 4.8 percent for bond funds (figure 4).

Weekly Flows

Among equity funds, the largely positive flows and returns in late December continued into January, abating in the third week, and again increasing to end the month. While returns among bond funds were mixed in January, there were consistent inflows over the six weeks ending January 29th.

The flows in most sectors reflected that of the equity funds, though some like the small-cap and technology funds had outflows despite positive returns.

Flows among international funds as a whole moved commensurately with returns. Latin American funds had a net outflow of 7.4 percent of total assets for the month of January and net negative returns of 12.2 percent, despite a 7.0 percent recovery the final week.

Capital Market Returns and Volatility

The S&P 500 ended January at 1279.6, an increase of 4.1 percent from the beginning of the month. The annualized return for January 29th was 32.4 percent. The annualized volatility for the daily return on the S&P 500 was 20.5 percent.

The 12-month average return on the Salomon Brothers Bond Index fell to 9.6 percent for December, down from 13 percent in September. Volatility remained around 2.4 percent (figure 8).

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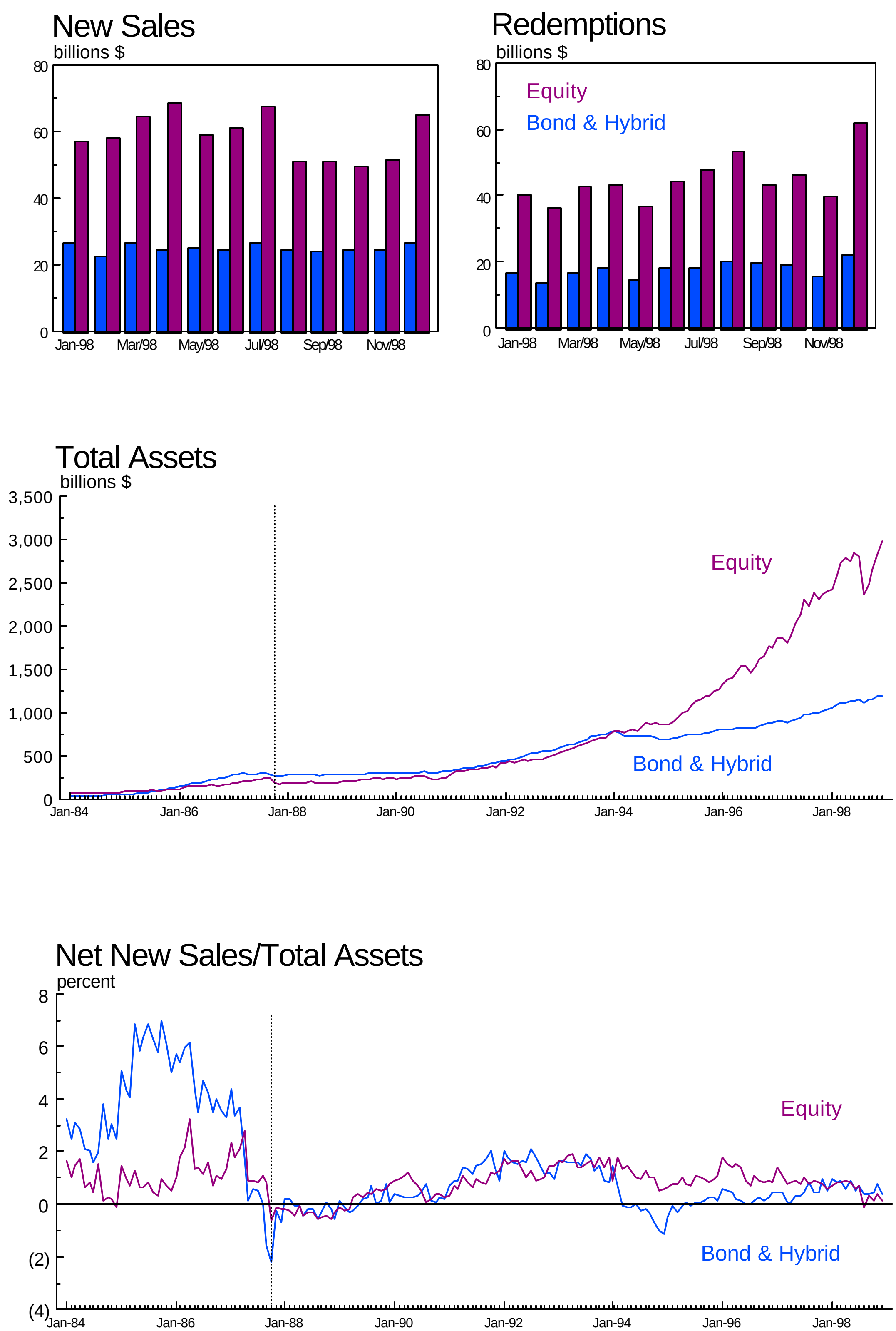
Figure 1

Sales of Mutual Funds



Source: Investment Company Institute

Figure 2
Composition of Mutual Funds' Financial Assets
(percent of Total Financial Assets)

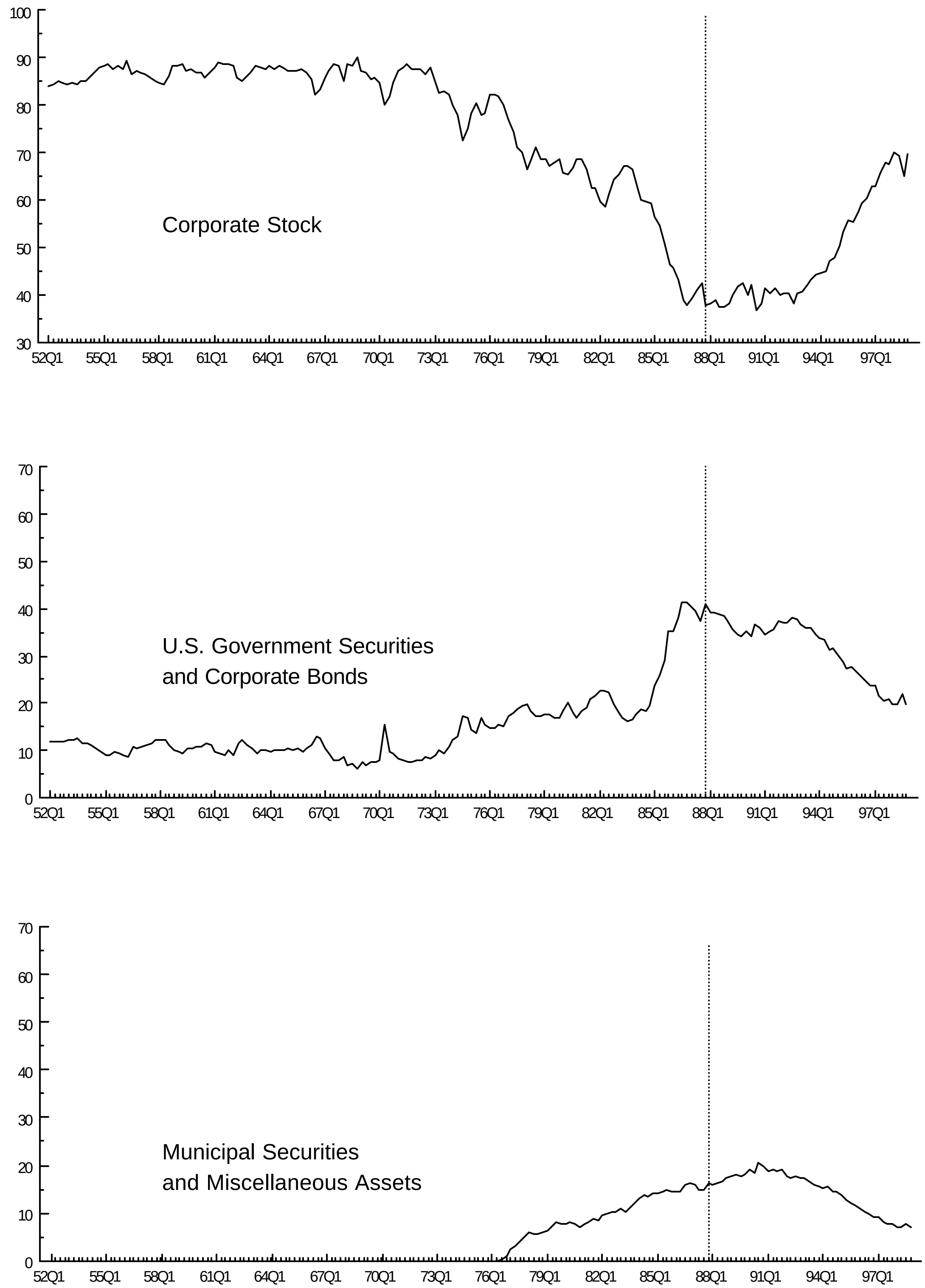
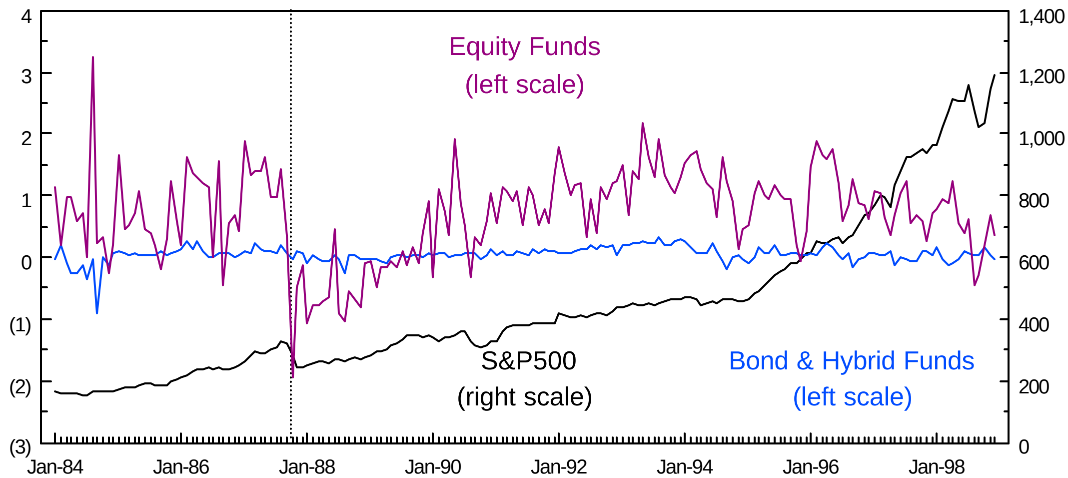


Figure 3

Net Portfolio Purchases

(percent of Total Assets)

Net Common Stock Purchases



Net Purchases of Other Assets

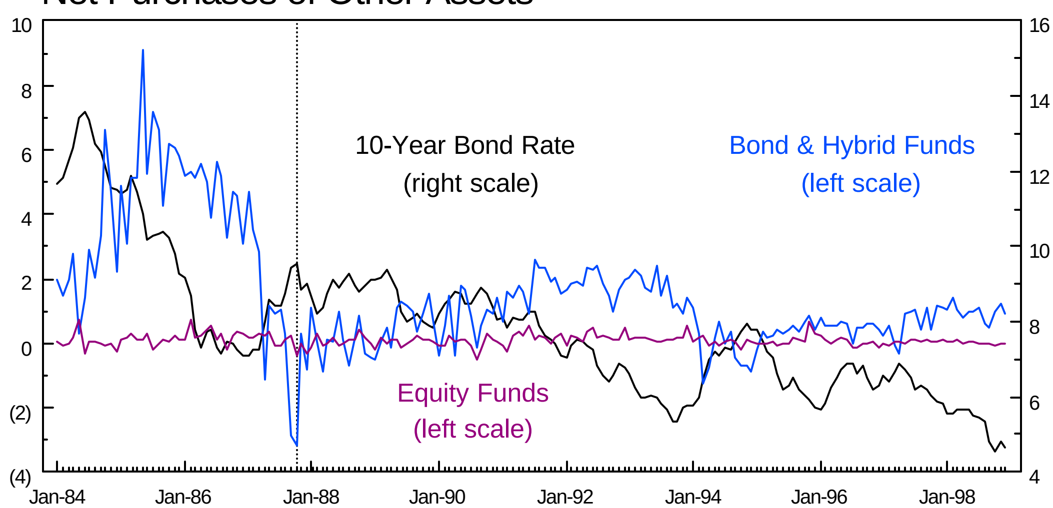
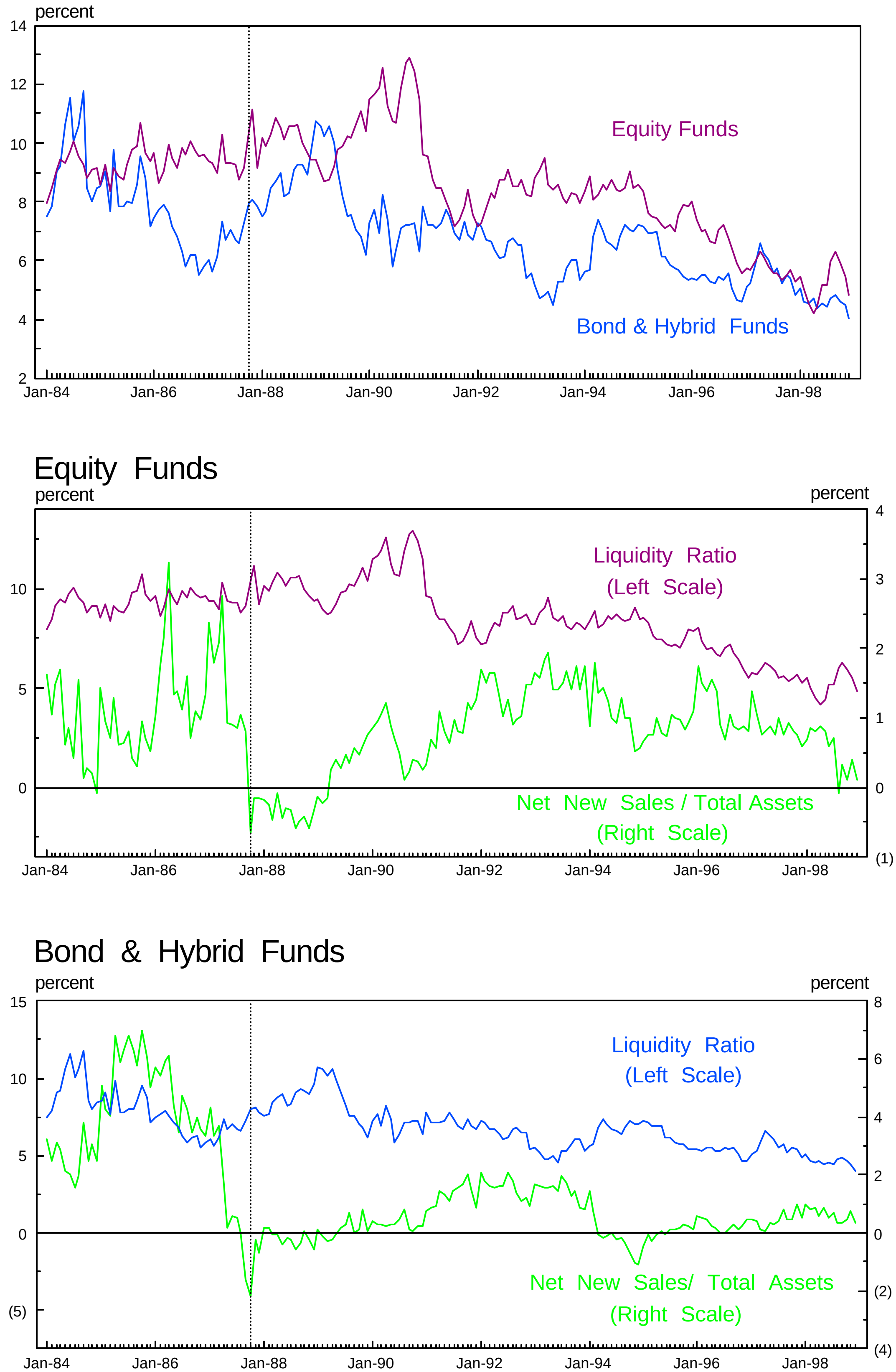


Figure 4

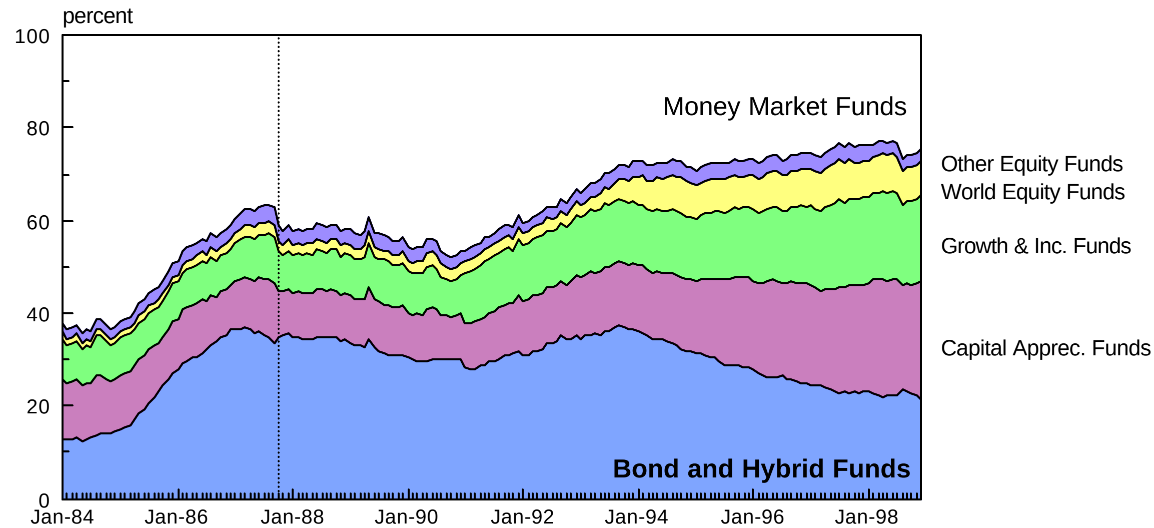
Liquidity Ratio*



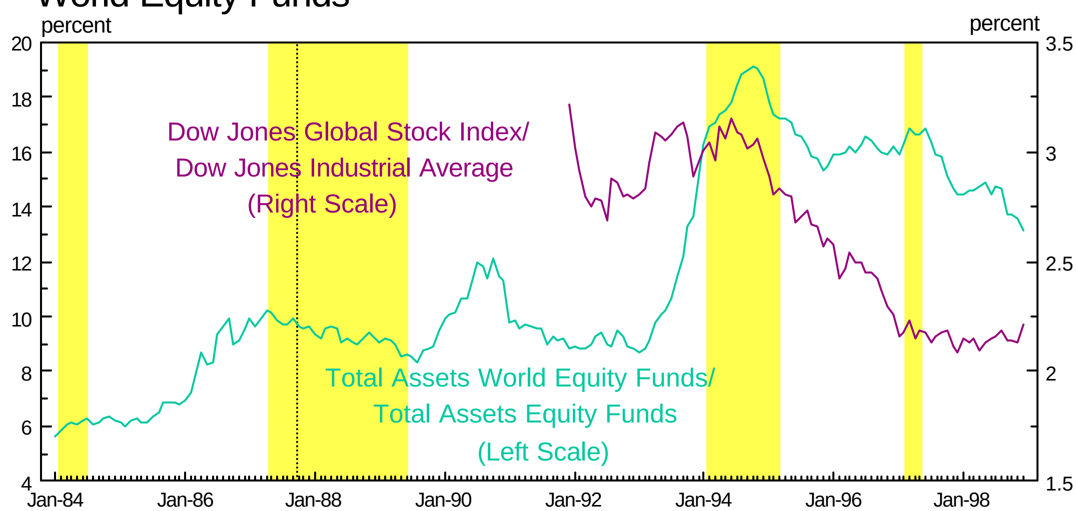
Source: Investment Company Institute

*The Liquidity Ratio is the Percent of Total Assets held in Cash and Short-Term Securities.

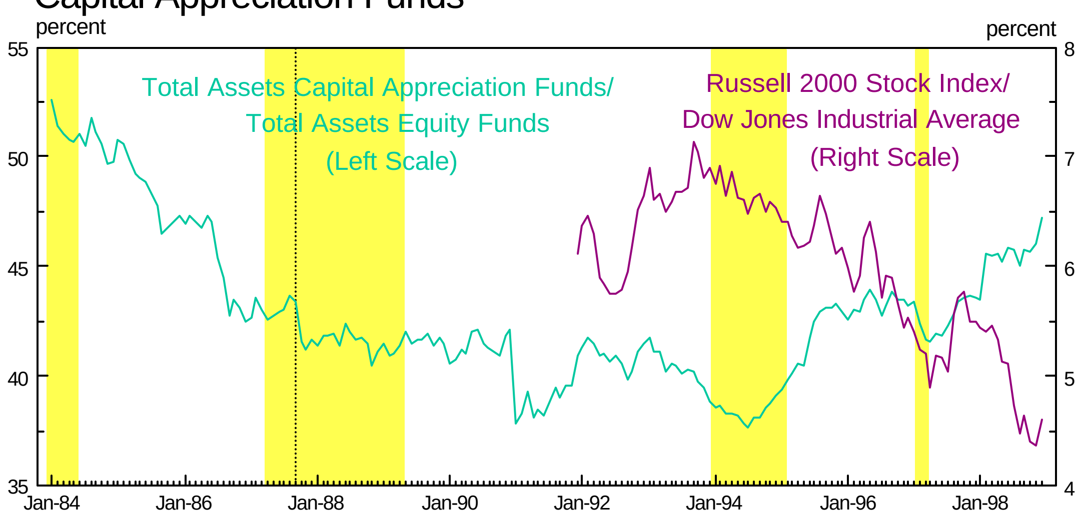
Figure 5
Industry Composition
(Shaded Regions Indicate Periods of Rising Fed Funds Rate)



World Equity Funds



Capital Appreciation Funds

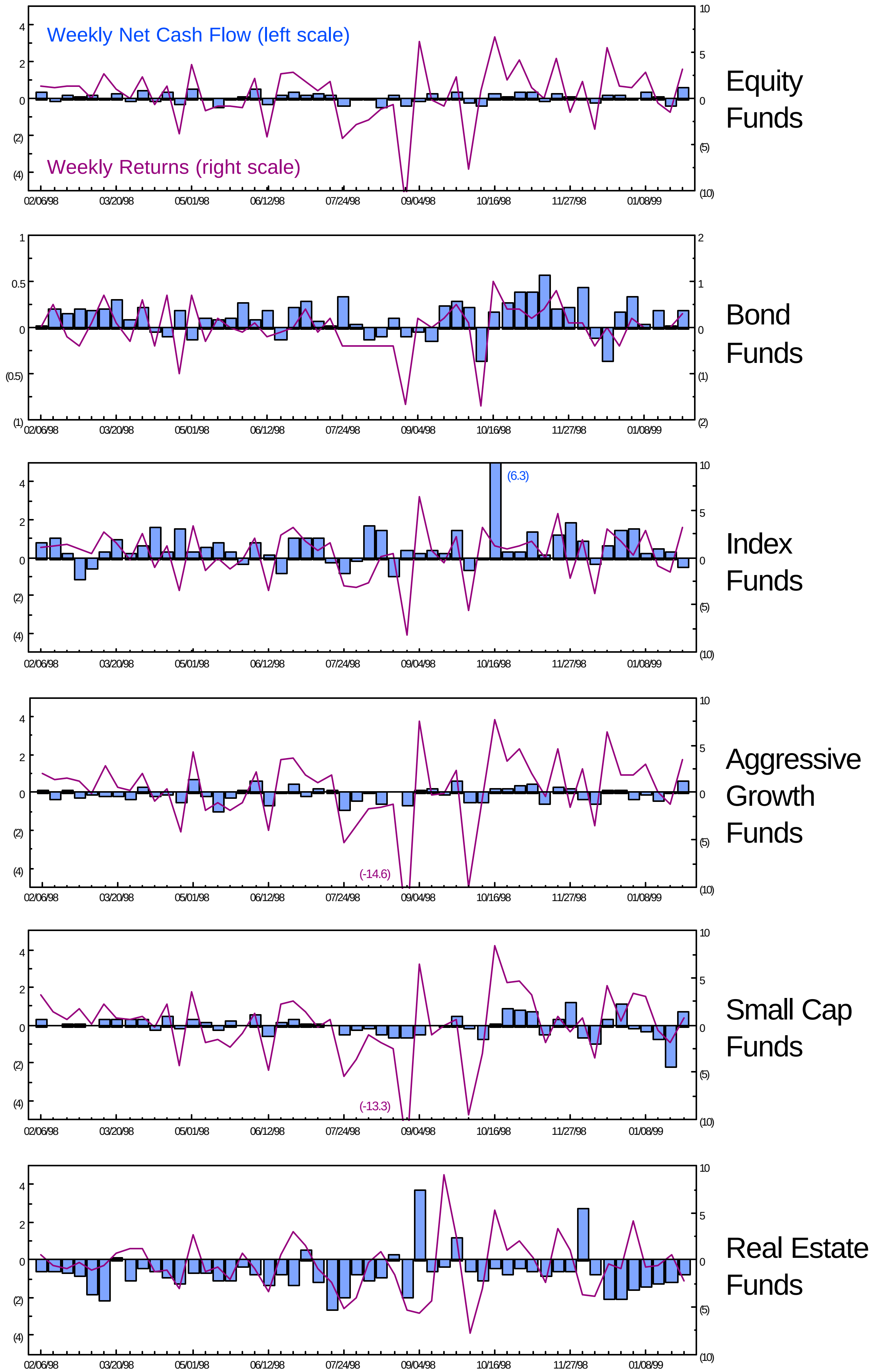


Source: Investment Company Institute

Figure 6a

Weekly Flows into Mutual Funds

(percent of Total Assets)

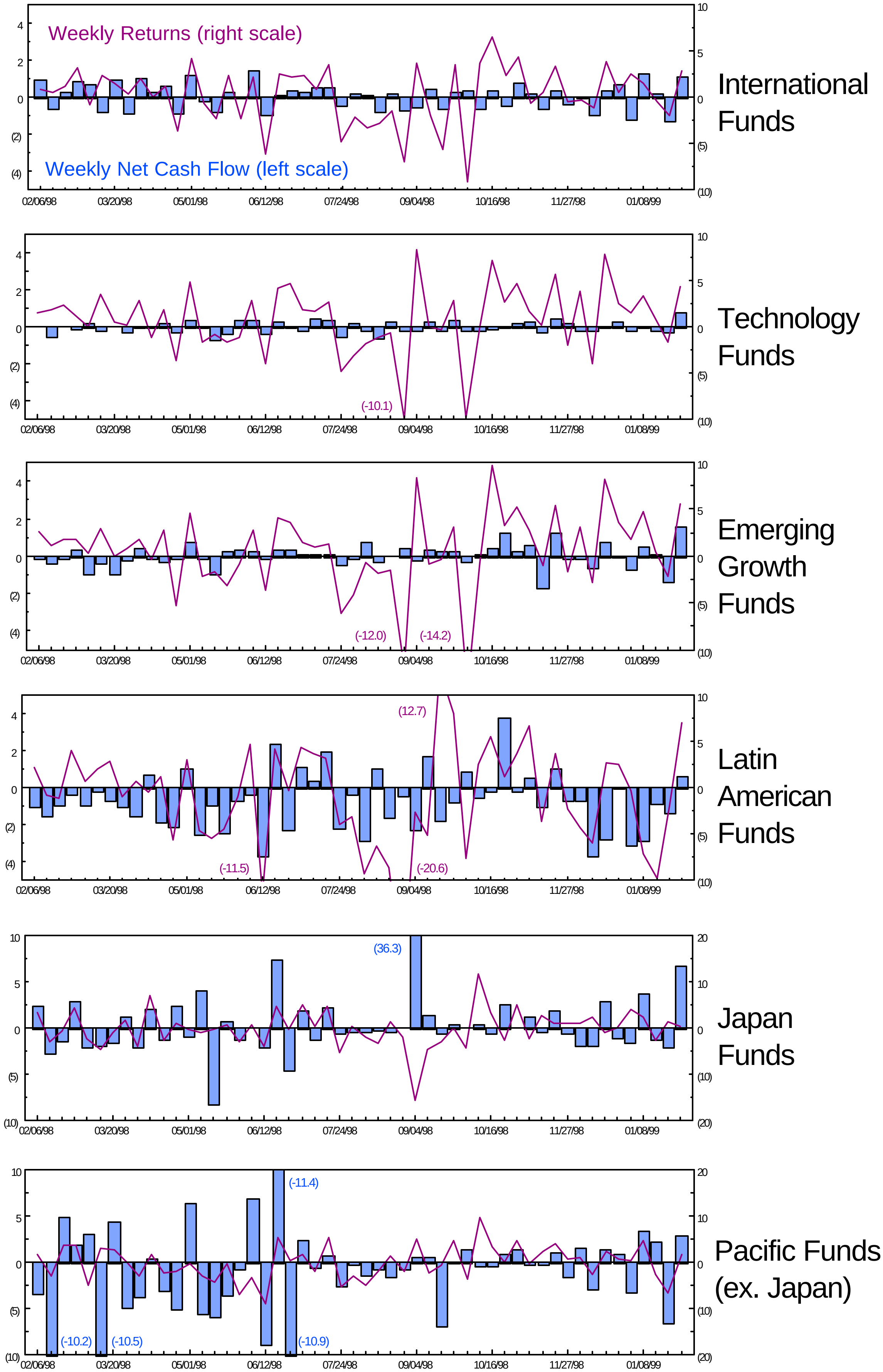


Source: Mutual Fund Trim Tabs

Figure 6b

Weekly Flows into Mutual Funds

(percent of Total Assets)

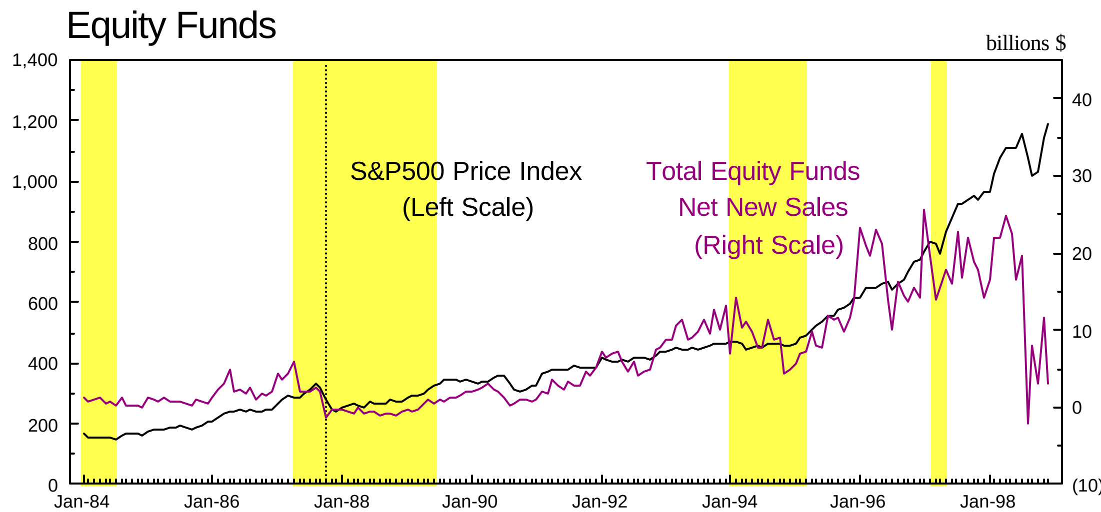


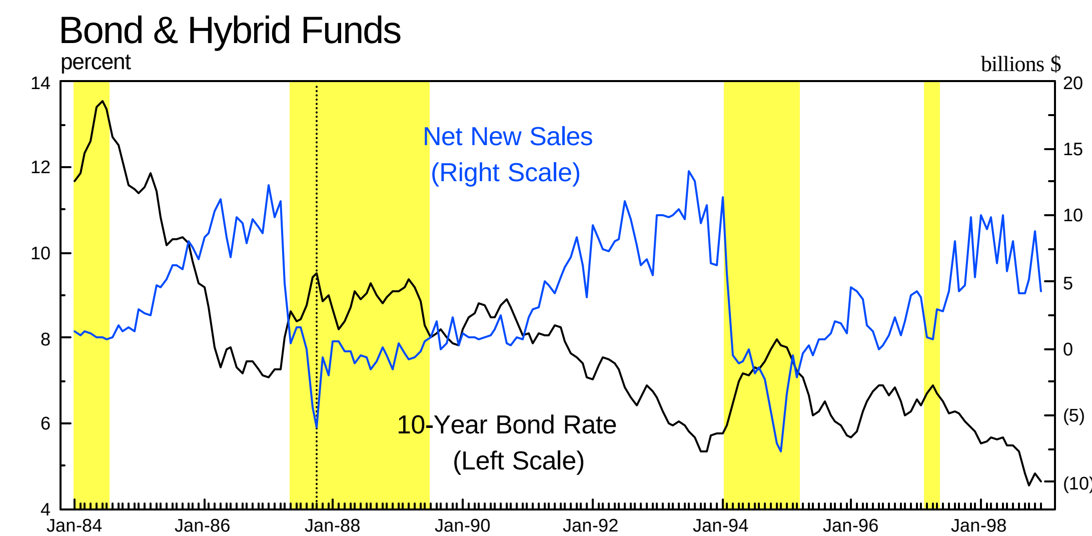
Source: Mutual Fund Trim Tabs

Figure 7

Net New Sales By Investment Objective

(Shaded Regions Indicate Periods of Rising Fed Funds Rate)

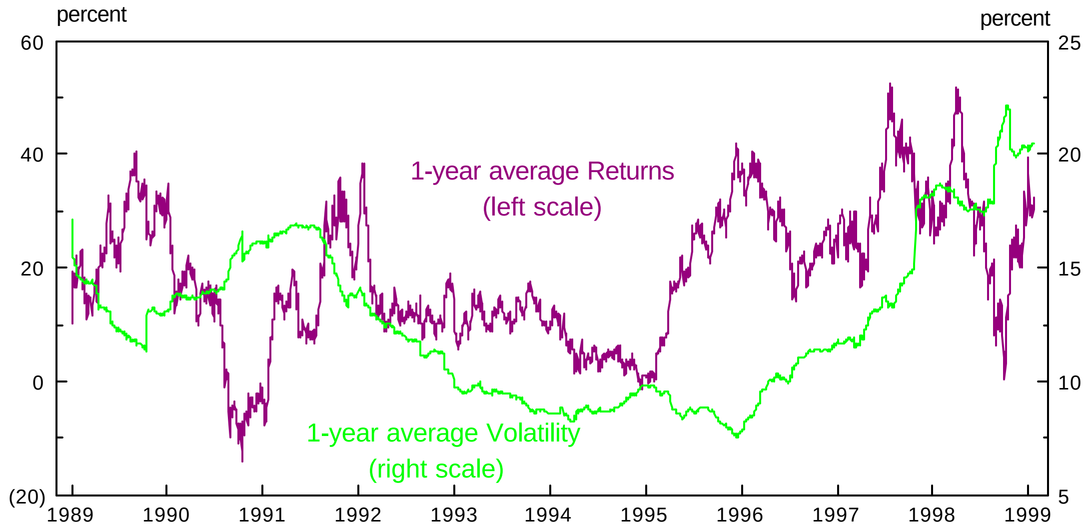




Source: Investment Company Institute

Figure 8
Capital Market Returns and Volatility

S&P500
Daily Returns and Volatility



Salomon Brothers Bond Index

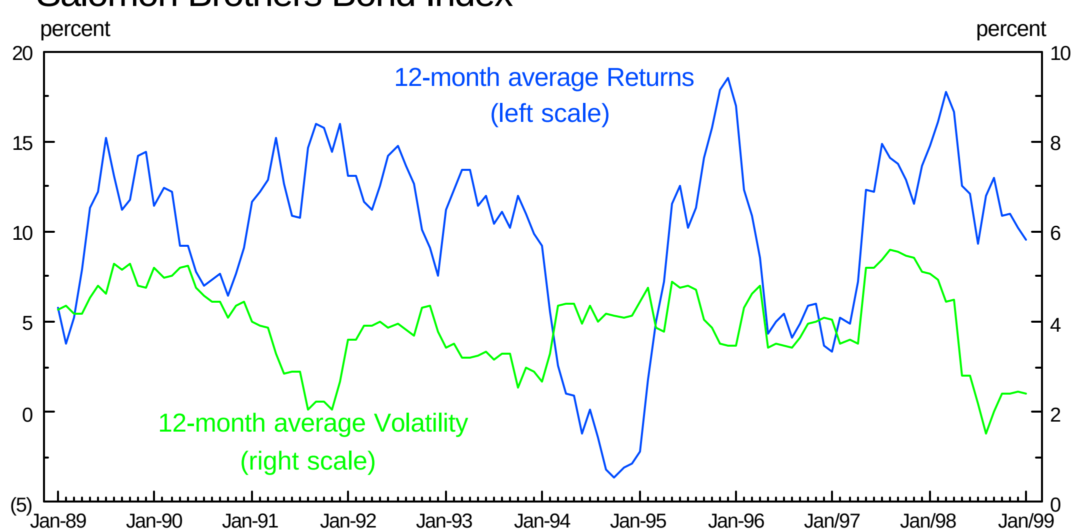
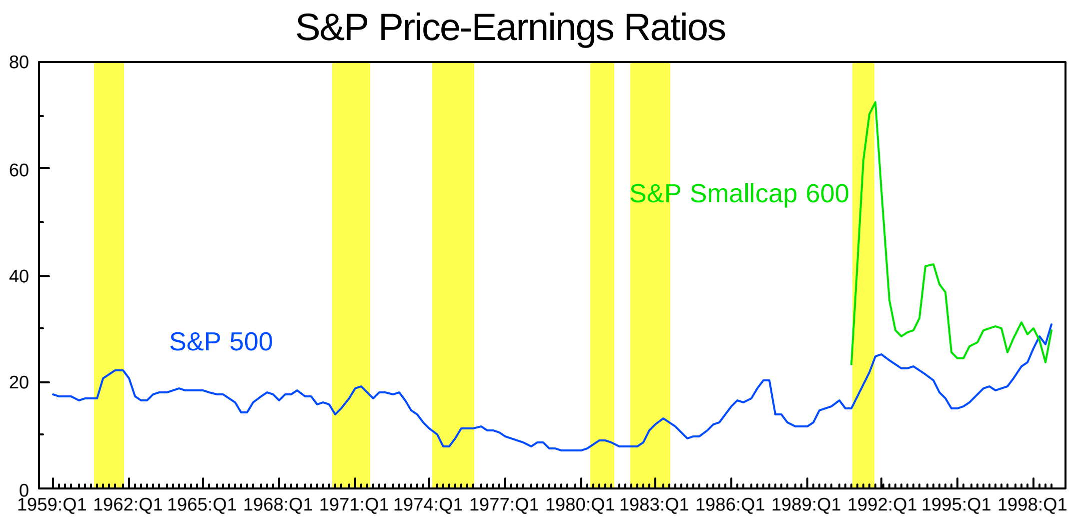
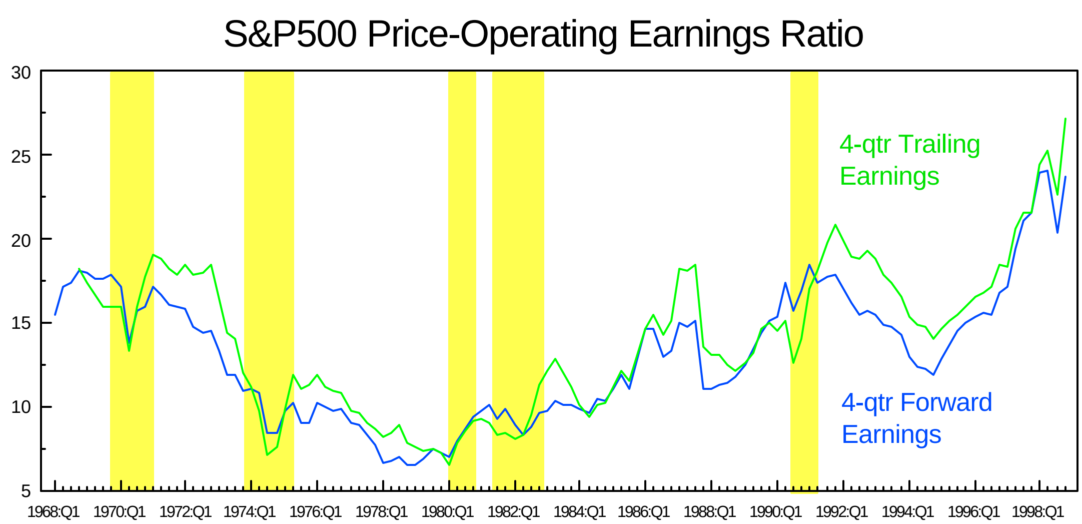
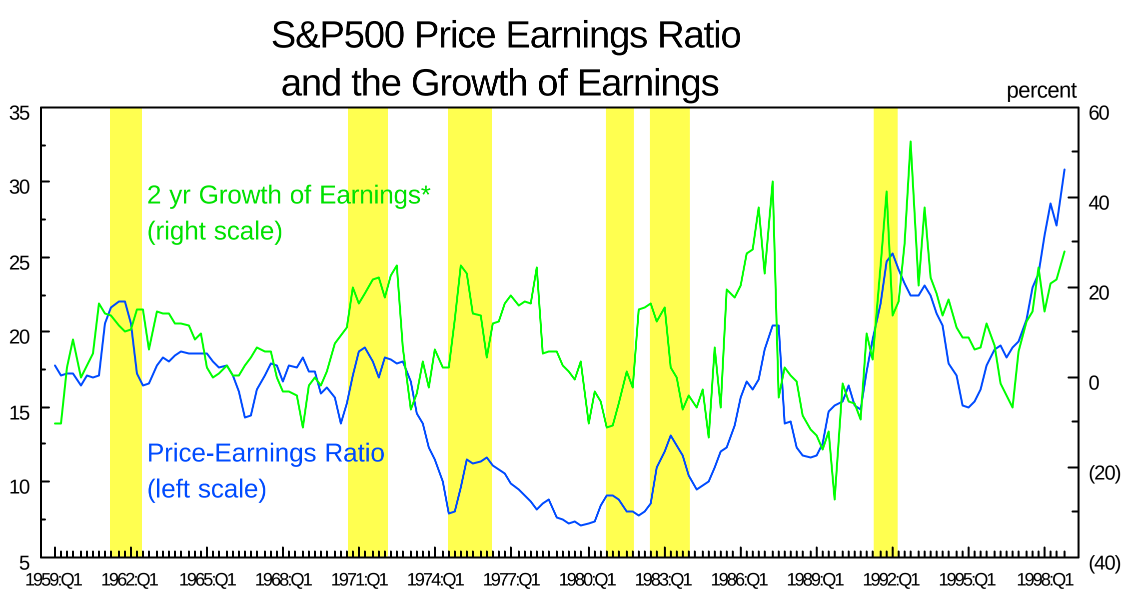


Figure 9







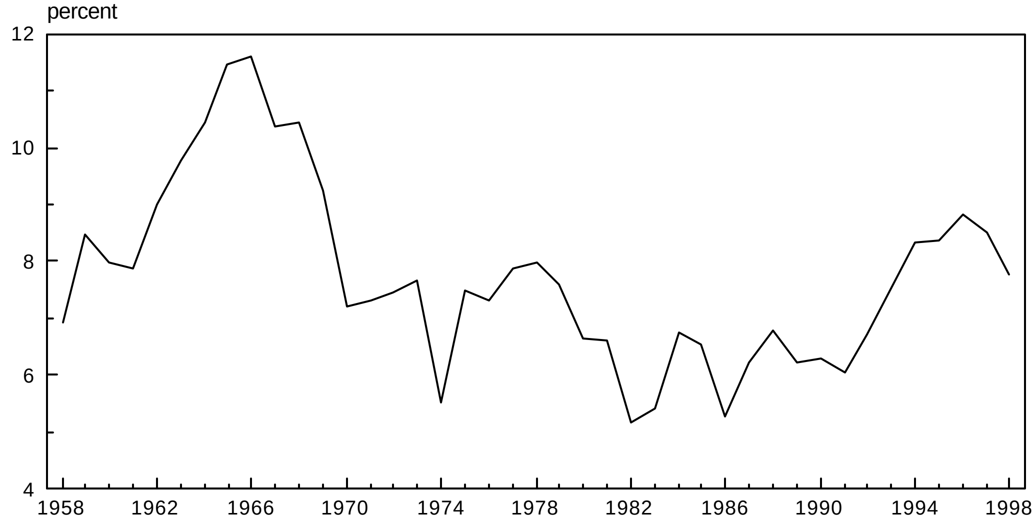
* Growth of earnings over subsequent 8 quarters. Current observations use forecast of earnings from macro projections.

source: First Call, DRI, Bloomberg

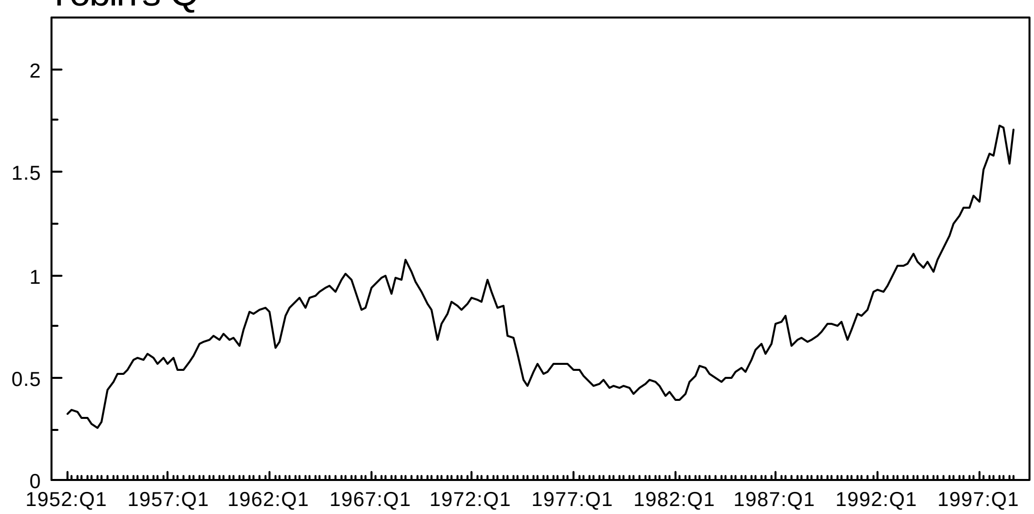
Figure 10

Real Rate of Return on Nonfinancial Corporate Equity

(from National Income and Flow of Funds Accounts)

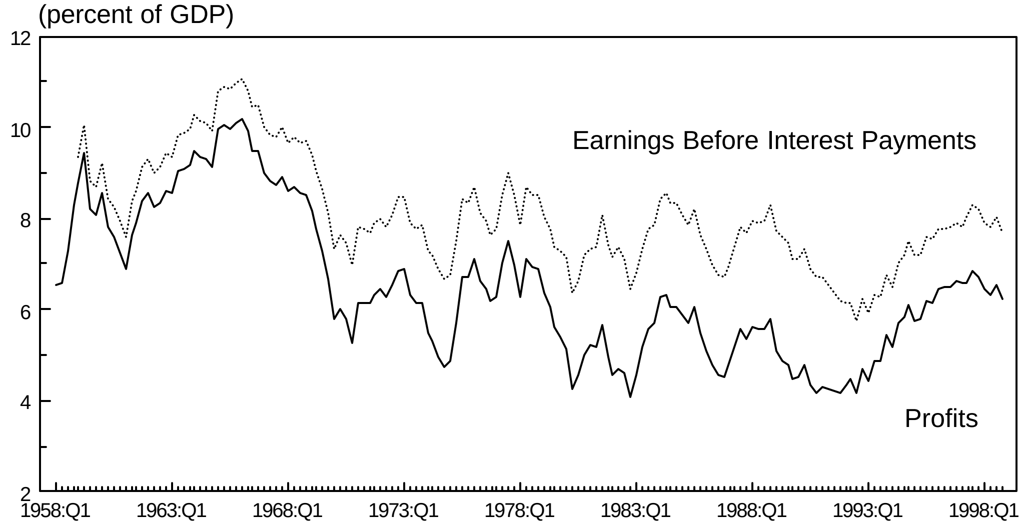


Tobin's Q*



Profits of Nonfinancial Corporations

(percent of GDP)



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