Federal Reserve Bank of Boston

Monthly Mutual Fund Report

January 5, 2007

FEDERAL RESERVE BANK OF BOSTON™

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Statistics for November 2006 – December 2006

Sales and Redemptions

Total assets for all funds increased in November by $265.3 billion, or 2.7 percent, to $10.3 trillion. Money market funds had a net cash inflow of $55.0 billion compared to an inflow in October of $30.8 billion. Other funds (equity, hybrid, and bond) had a net cash inflow of $20.8 billion, compared to an inflow of $24.7 billion in October. New sales of non-money market funds, the purchase of new shares excluding reinvested dividends, were $142.1 billion in November, down from $151.4 billion in October. The value of non-money market assets appreciated by $177.5 billion in November, following an appreciation of $220.7 billion in October.

Total assets of **equity funds** increased by $165.7 billion, or 2.9 percent, to $5.8 trillion. There was $11.3 billion net cash inflow into equity funds in November, compared with an inflow of $12.7 billion in October. The market value of assets appreciated by $154.1 billion in November. Equity funds had an inflow of $148.5 billion year-to-date, compared to an inflow of $125.7 billion during the first eleven months of 2005.

Total assets for **hybrid funds**, which invest in a mix of stocks and bonds, increased by 2.2 percent, or $14.0 billion, to $647.2 billion. In November, there was $2.2 billion net cash inflow into these funds, compared to an inflow in October of $1.6 billion. Hybrid funds have experienced an inflow of $5.5 billion year-to-date, compared to an inflow of $26.0 billion during the first eleven months of 2005.

Bond funds experienced a cash inflow of $7.3 billion, while their total assets increased by $22.6 billion, to $1.5 trillion. The market value of bond funds assets increased by $11.9 billion, after adjusting for net sales and reinvested dividends. The assets of taxable bond funds increased by 1.6 percent and the assets of tax-exempt bond funds increased by 1.2 percent. The 2006 inflow was $52.5 billion, compared to an inflow of $34.1 billion through November of 2005.

Assets of taxable and tax-exempt **money market funds** increased $63.1 billion, to $2.3 trillion, an increase of 2.9 percent for taxable money market funds and an increase of 2.1 percent for tax-exempt funds. The 2006 inflow was $206.0 billion, compared to an inflow of $16.2 billion through November of 2005.

Liquidity Ratio

The liquidity ratio for bond and hybrid funds decreased to 5.7 percent in November from 5.8 percent in October, while the ratio for equity funds decreased to 4.0 percent in November from 4.1 percent in October (figure 4).

Capital Market Returns and Volatility

The S&P 500 ended December 29 at 1418.3, an increase of 1.3 percent from the previous month. The 12-month gain was 13.5 percent at month-end. The annualized volatility for the daily return on the S&P 500 was 10.4 percent.

The 12-month average return on the Citigroup Bond Index was 6.0 percent in November. Volatility increased to 2.6 percent in November from 2.5 percent in October (figure 7).

Price-Earnings Ratio

The macro projections for the growth of earnings for the Standard and Poor's 500 index over the next two years have been revised to 6.6. During the third quarter of 2006, the price-earnings ratio for the Standard and Poor's 500 Index was at 17.3, down from 17.6 in the second quarter of 2006. The price-earnings ratio for the Small-Cap 600 Index increased to 21.9 in the fourth quarter of 2006, from 20.6 in the third quarter of 2006 (figure 8).

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

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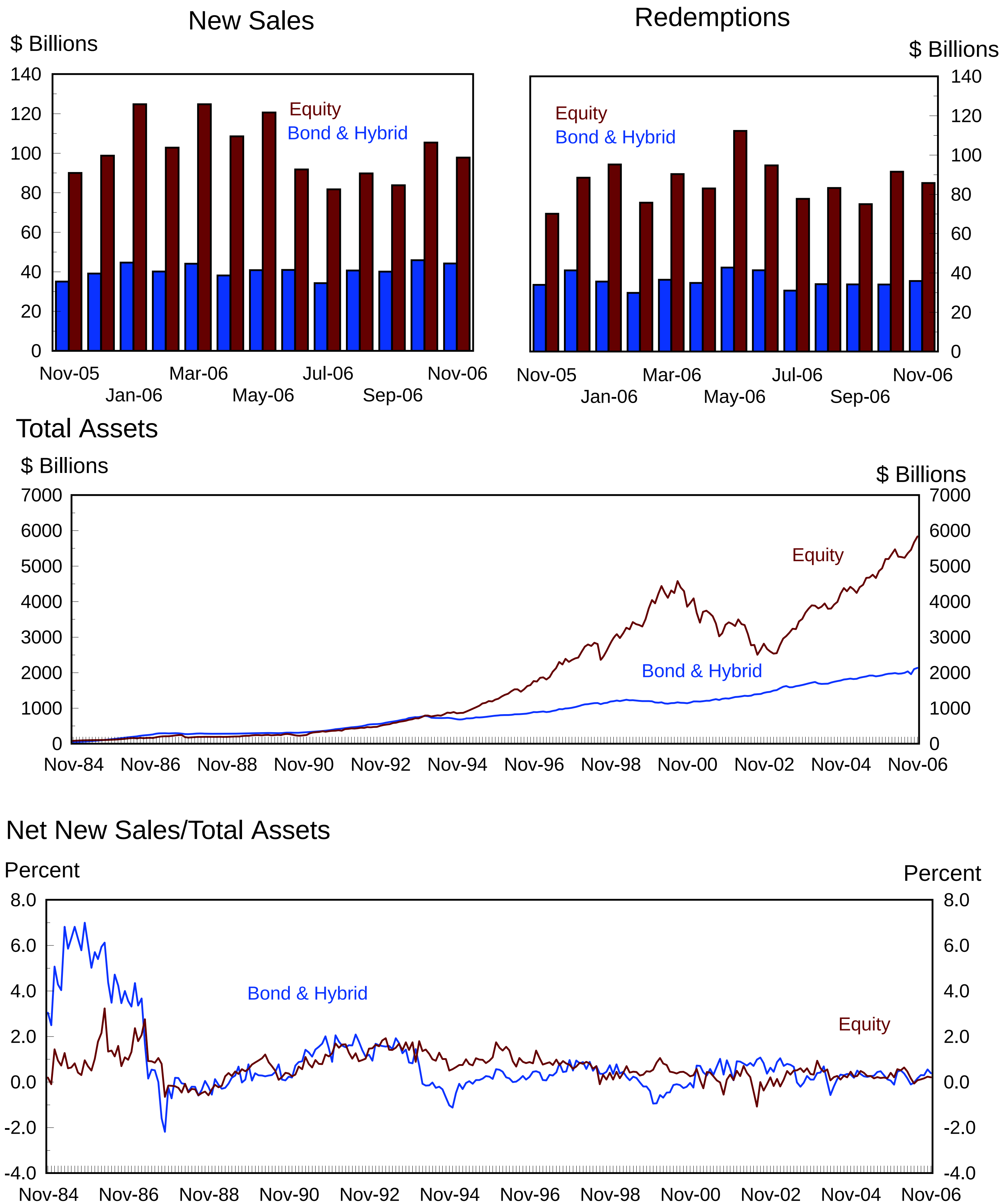
Figure 1

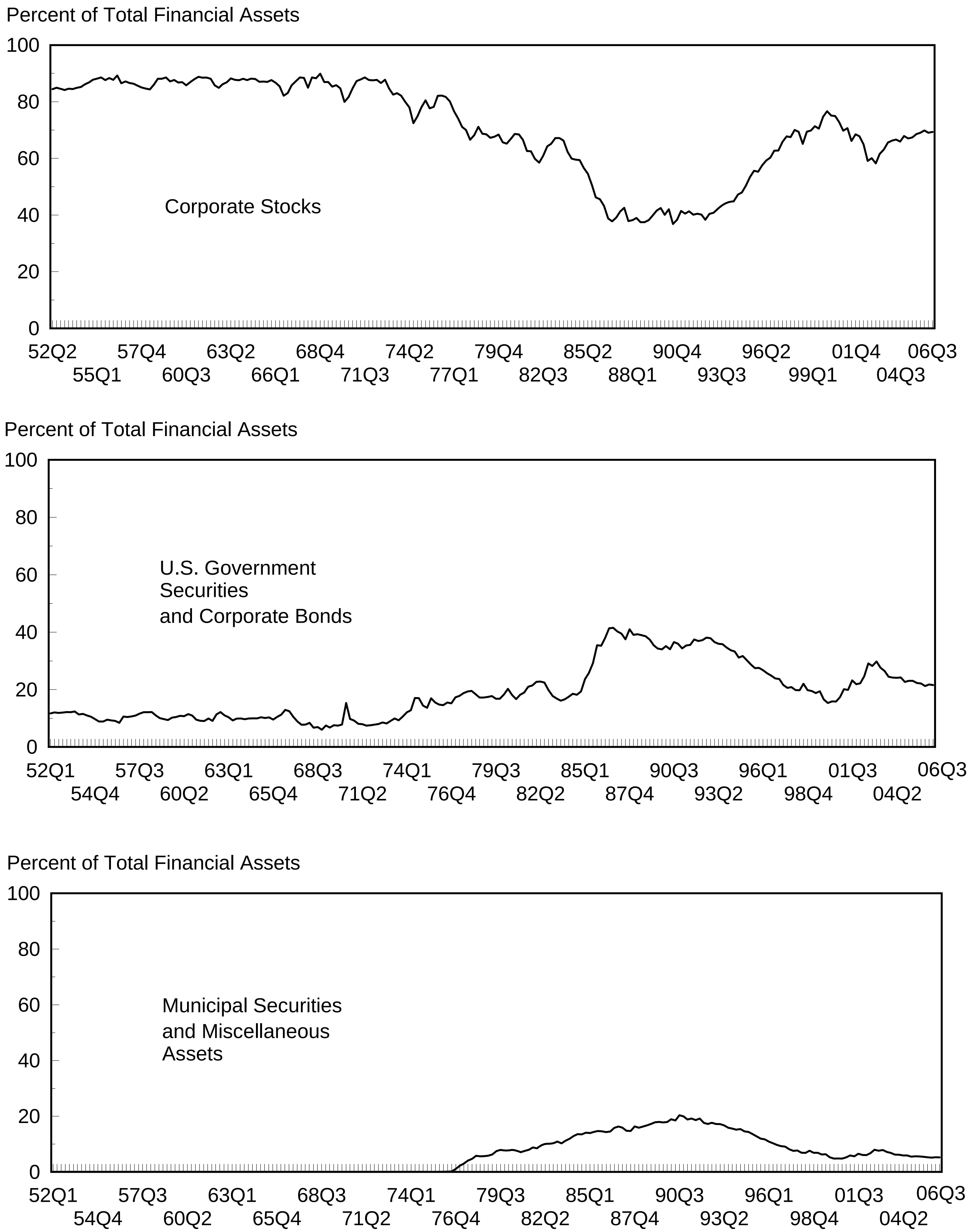
Sales of Mutual Funds



Source: Investment Company Institute

Figure 2

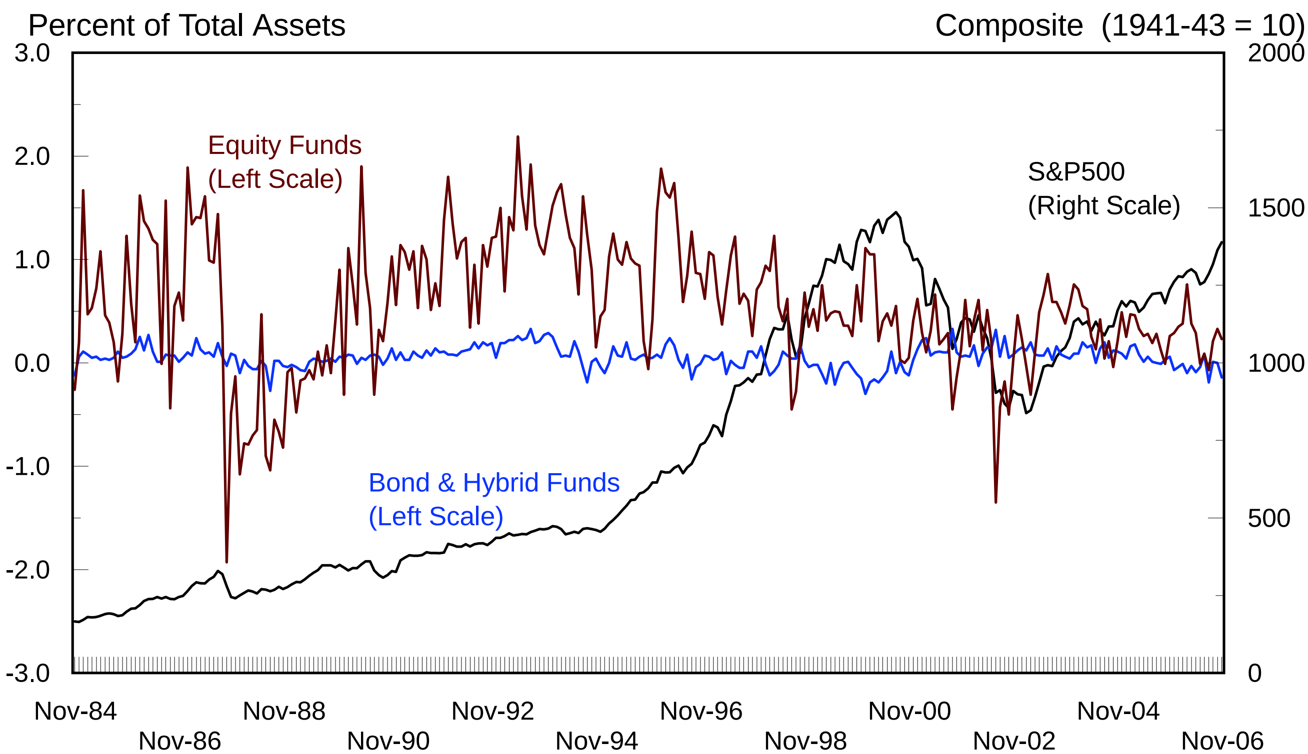
Composition of Mutual Funds' Financial Assets



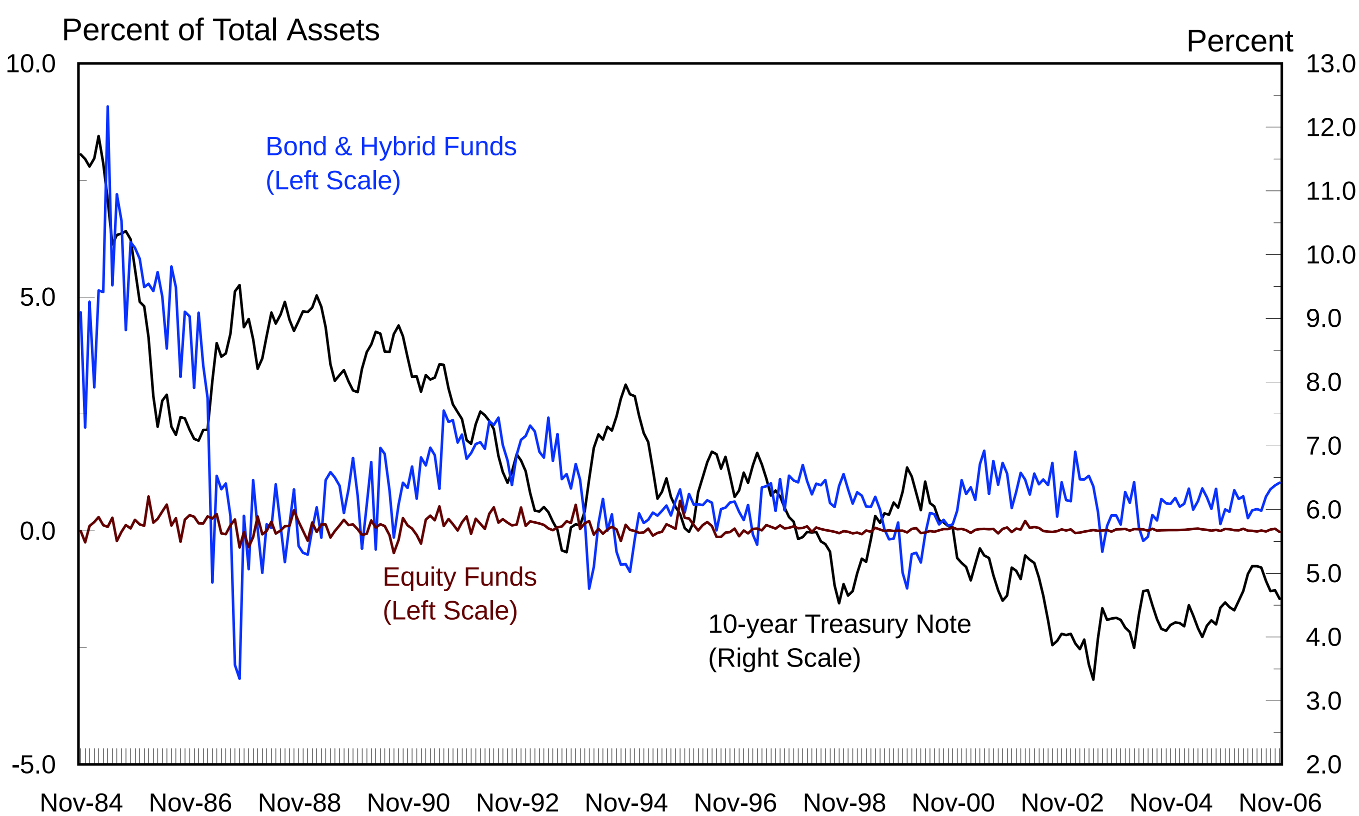
Source: Flow of Funds/Haver Analytics.

Figure 3
Net Portfolio Purchases

Net Common Stock Purchases



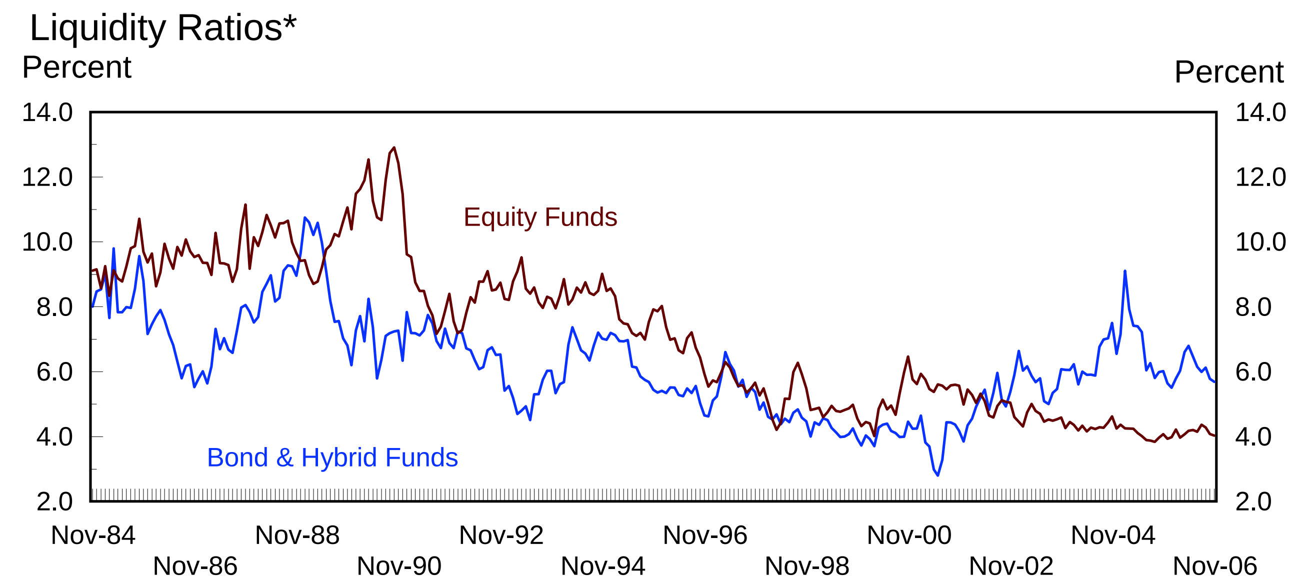
Net Purchases of Other Assets

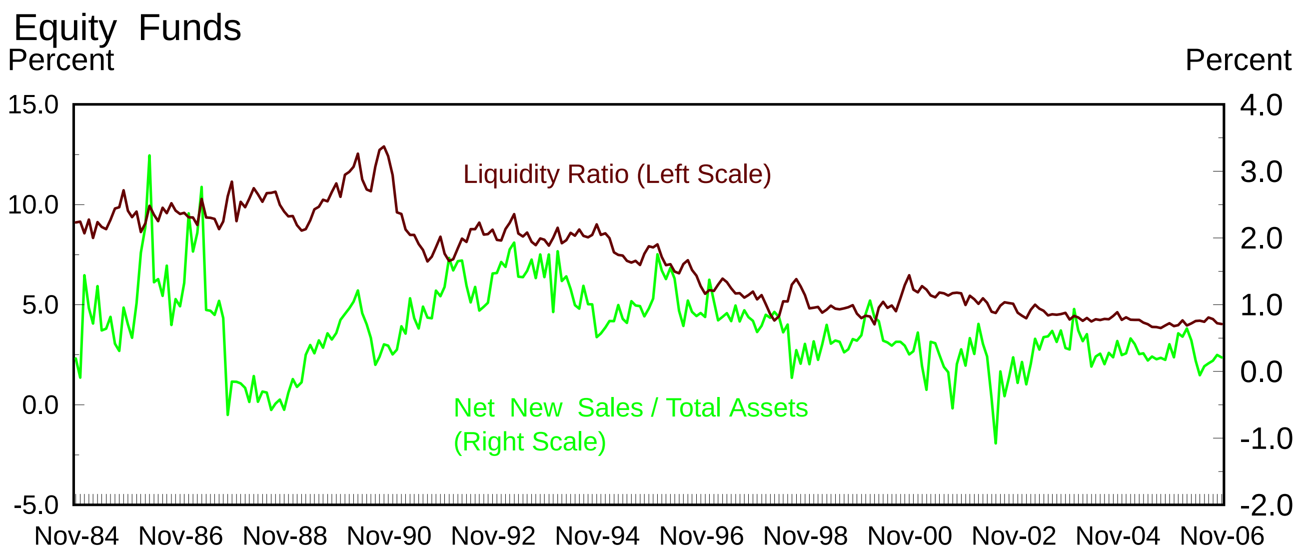


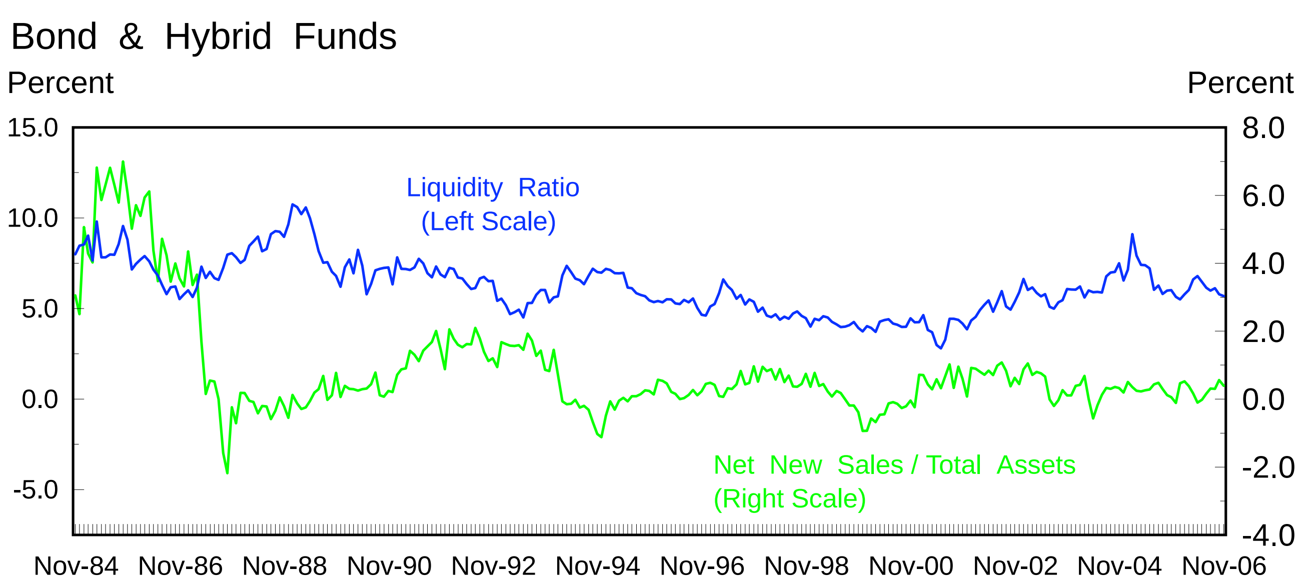
Source: Investment Company Institute

Figure 4

Liquidity Ratios



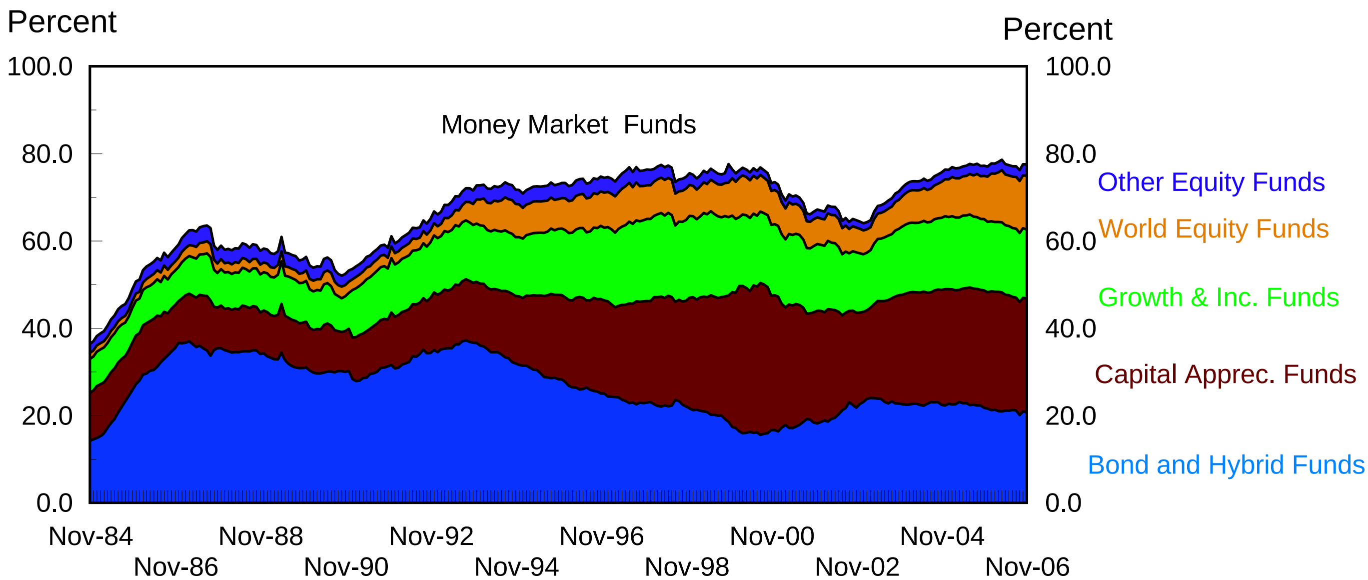




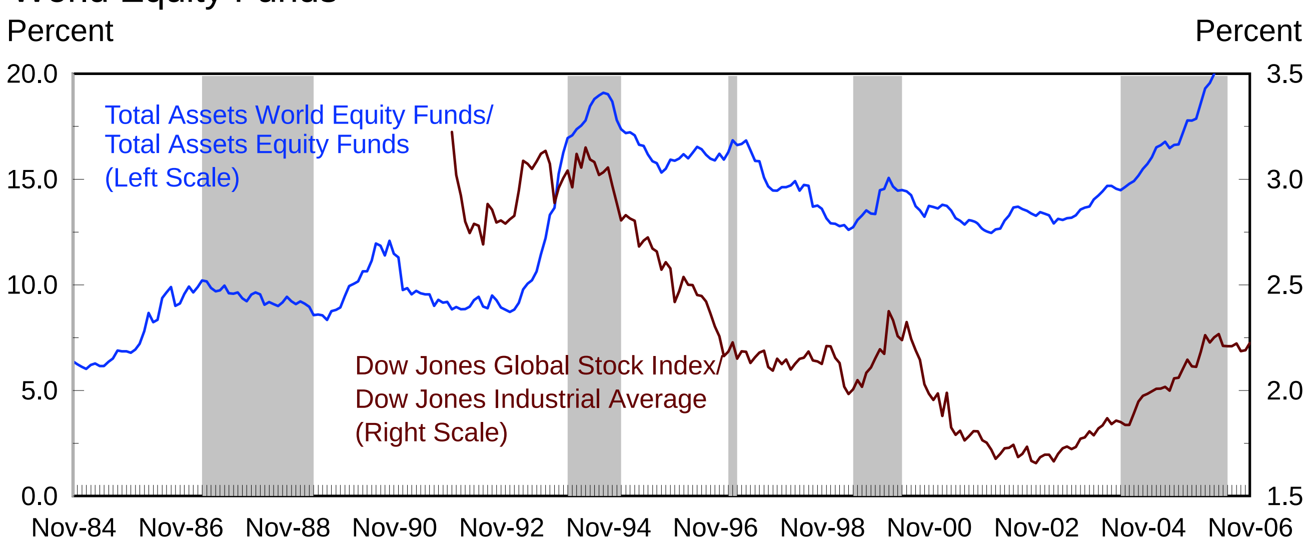
*Liquidity Ratios are the Percent of Total Assets held in Cash and Short-Term Securities.

Source: Investment Company Institute

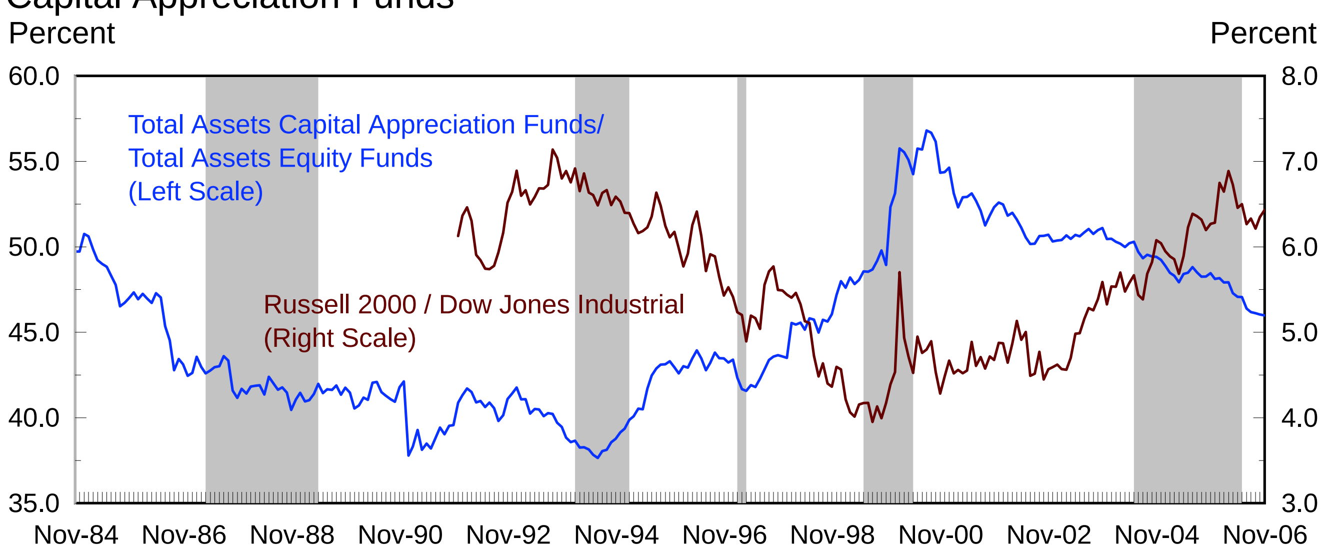
Figure 5
Industry Composition
(Shaded Regions Indicate Periods of Rising Fed Funds Rate)



World Equity Funds



Capital Appreciation Funds

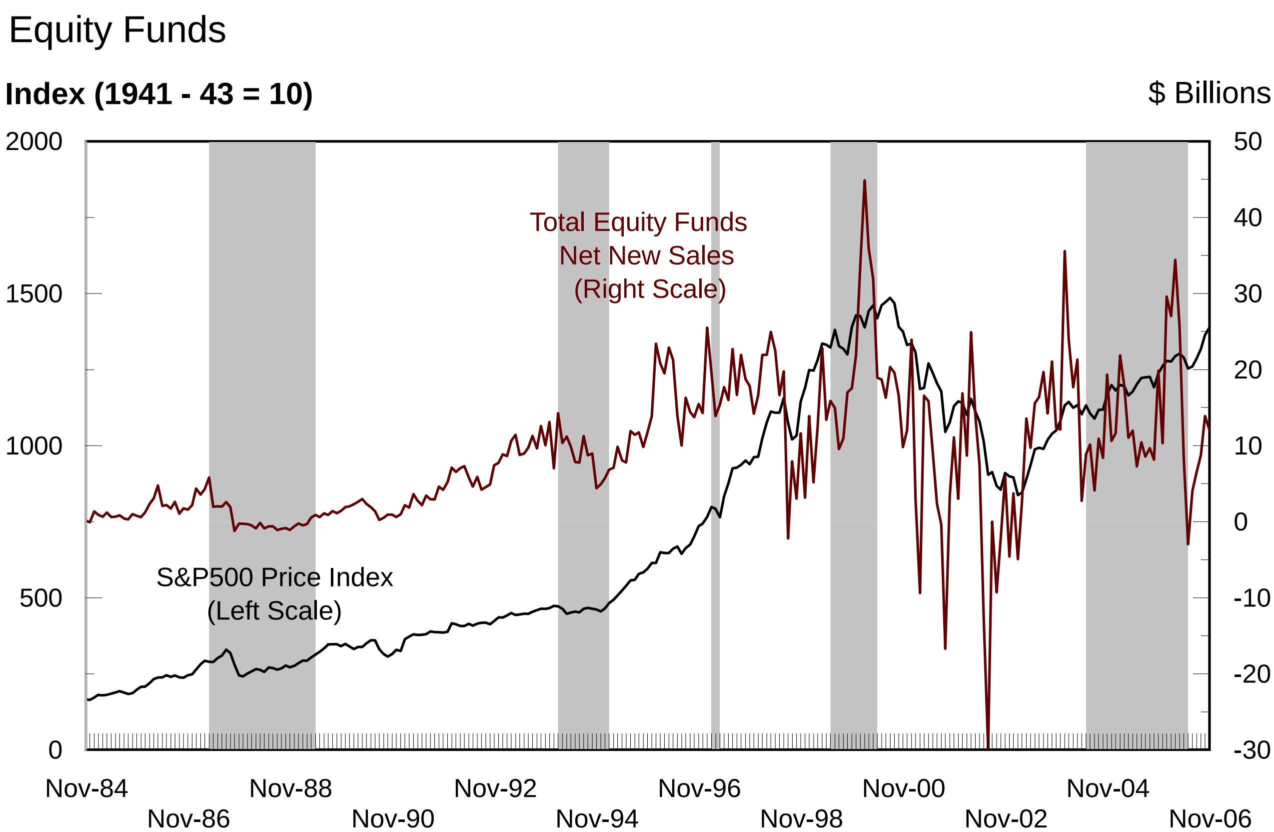


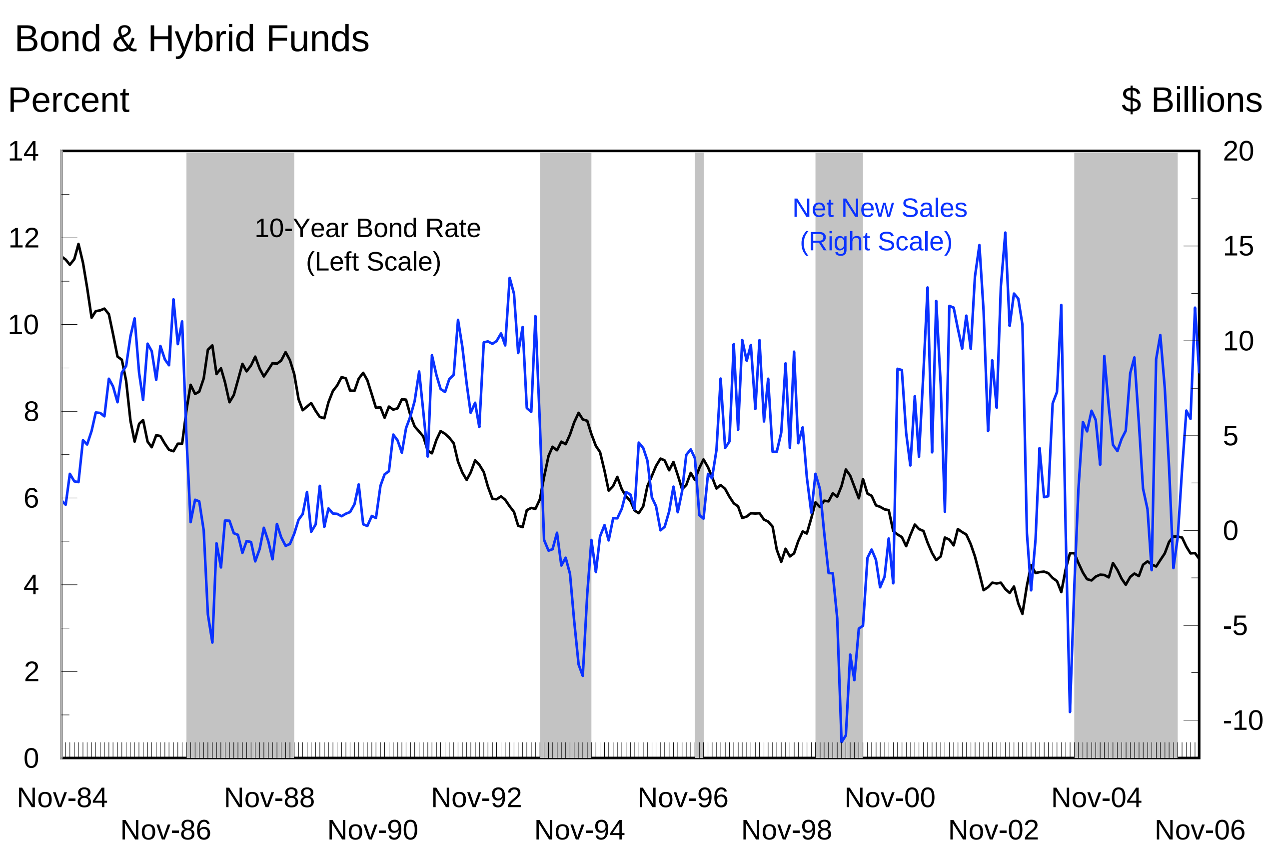
Source: Investment Company Institute

Figure 6

Net New Sales By Investment Objective

(Shaded Regions Indicate Periods of Rising Fed Funds Rate)

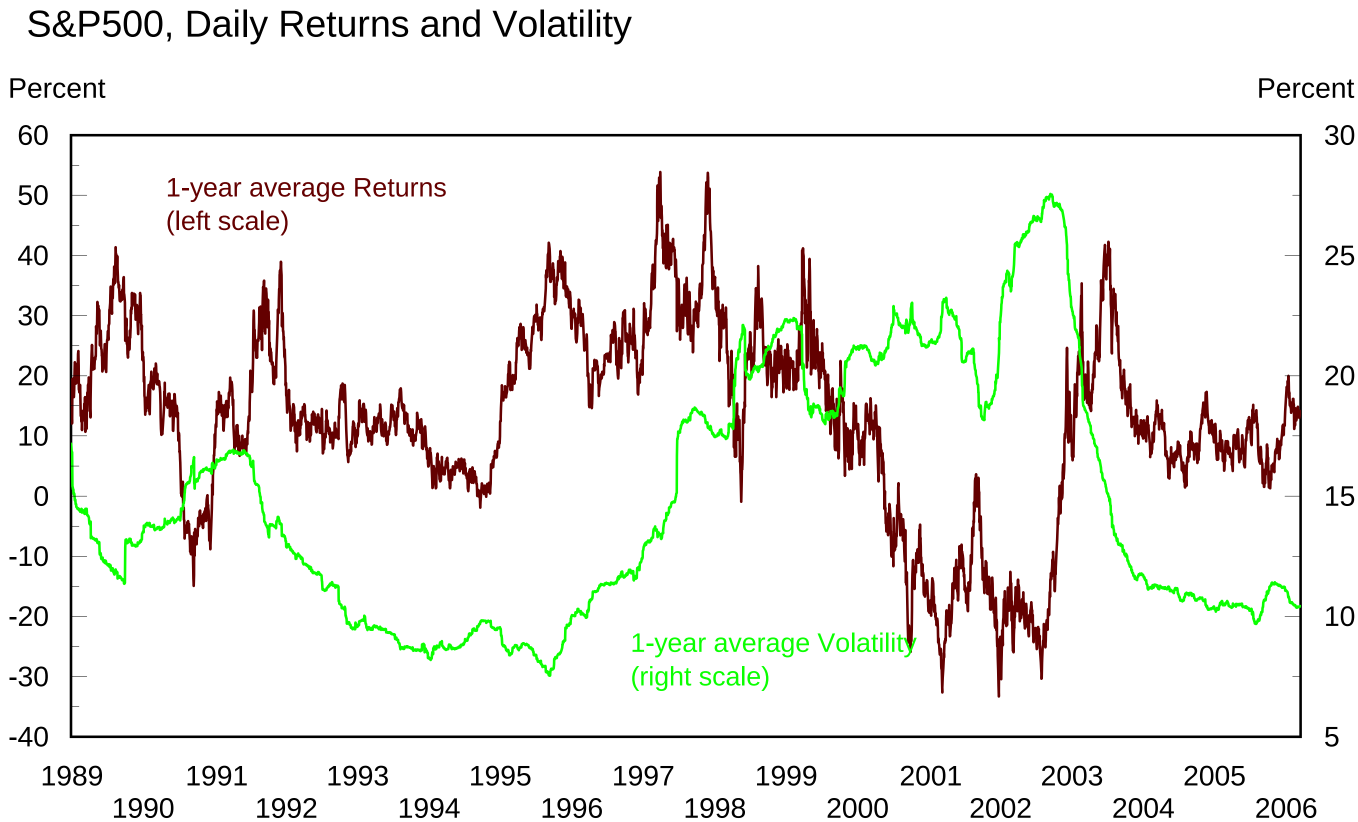


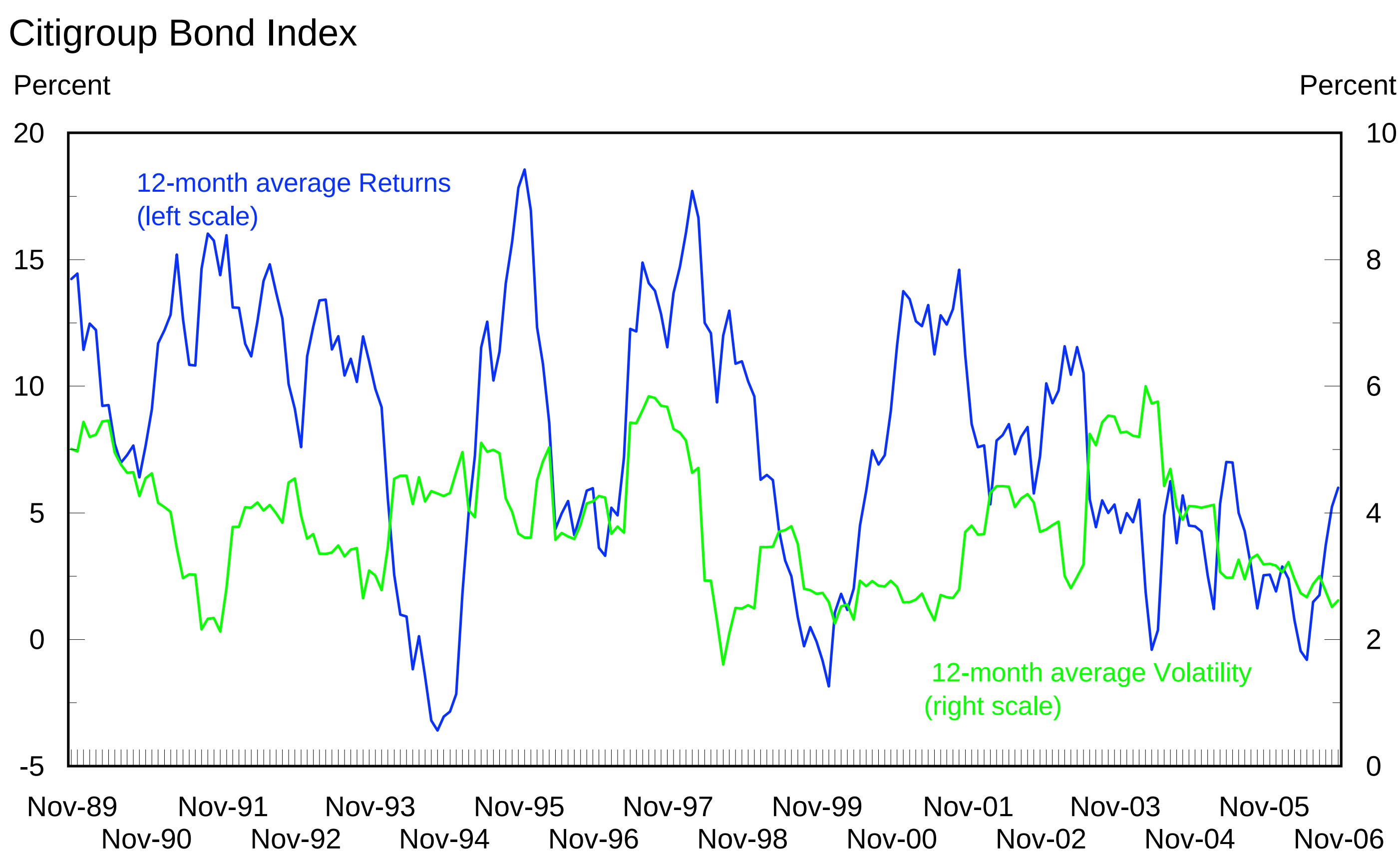


Source: Investment Company Institute

Figure 7

Capital Market Returns and Volatility

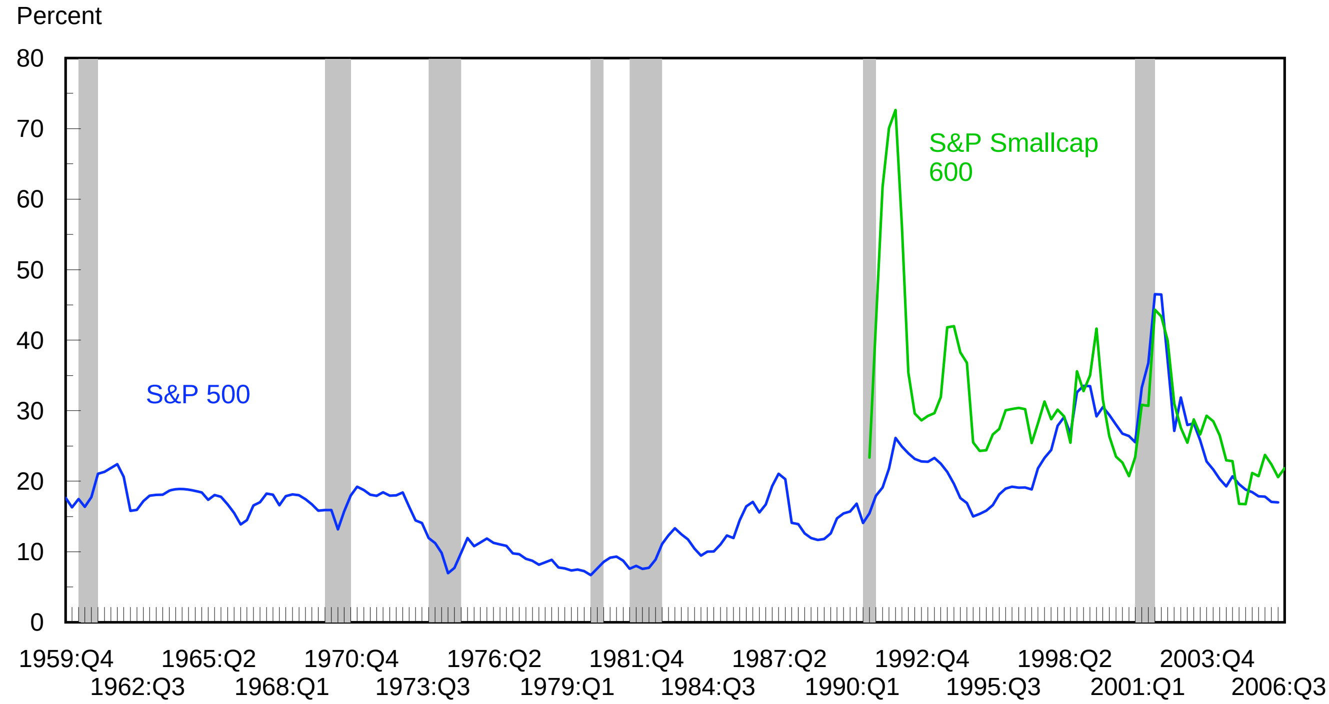




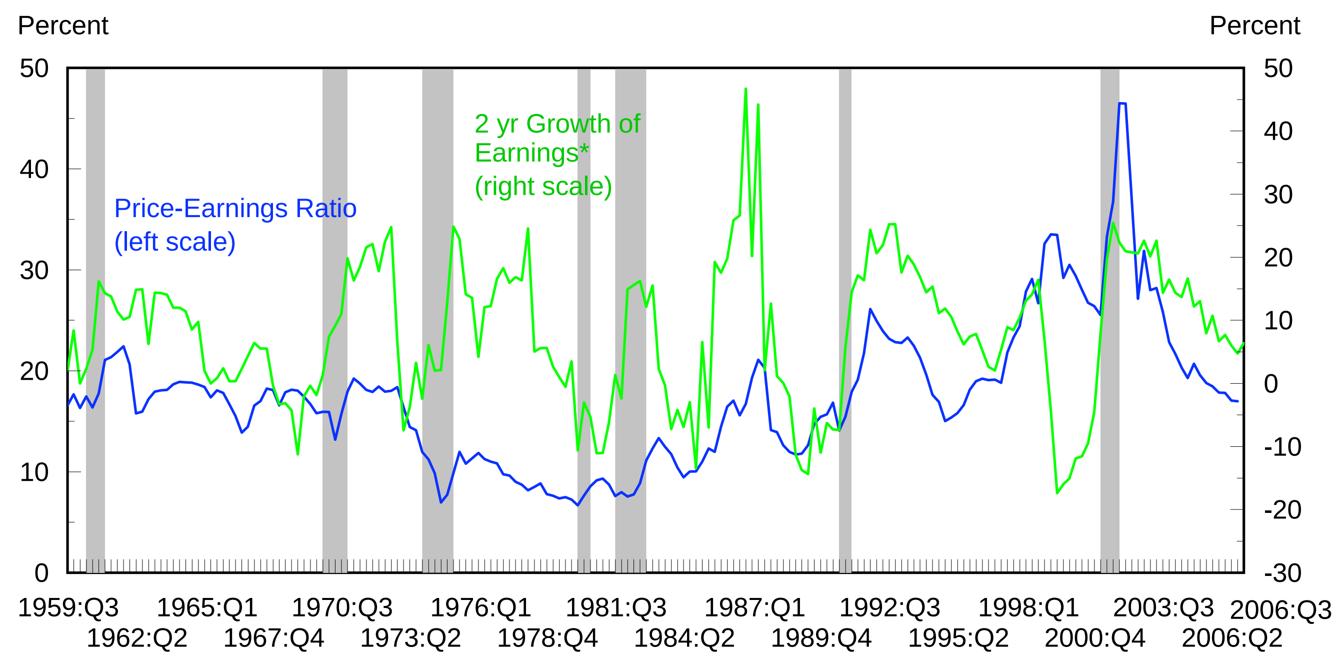
Source: FAME Database, Citigroup.

Figure 8

S&P Price-Earnings Ratios



S&P500 Price Earnings Ratio and the Growth of Earnings

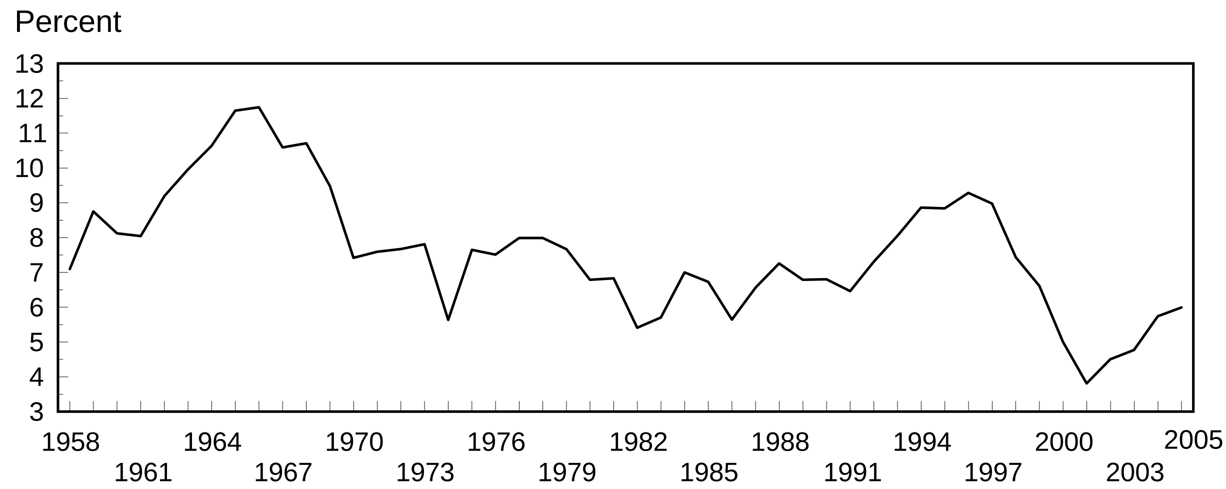


* Growth of earnings over subsequent 8 quarters. Current observations use forecast of earnings from macro projections.

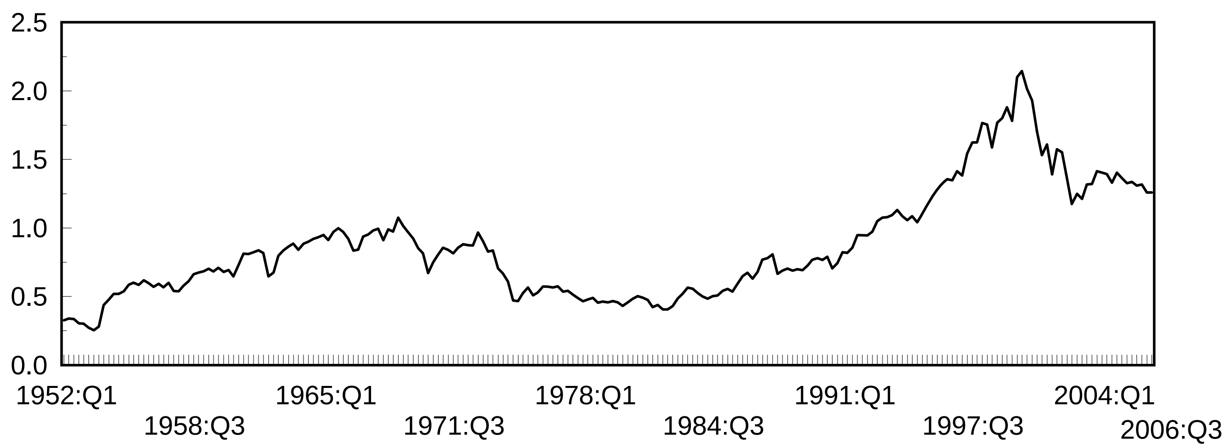
source: Thomson Financial/First Call, Global Insight and Bloomberg.

Figure 9

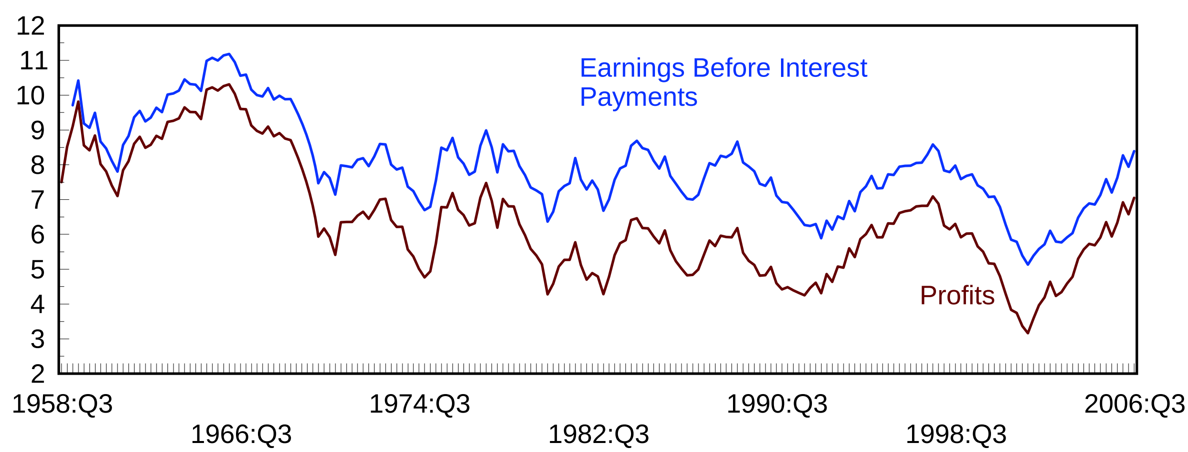
Real Rate of Return on Nonfinancial Corporate Equity
(from National Income and Flow of Funds Accounts)



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.