July 7, 2006

Monthly Mutual Fund Report

Statistics for May 2006 - June 2006

Sales and Redemptions

Total assets for all funds decreased in May by $170.8 billion, or 1.8 percent, to $9.3 trillion. Money market funds had a net cash inflow of $50.8 billion compared to an outflow in April of $27.1 billion. Other funds (equity, hybrid, and bond) had a net cash outflow of $0.8 billion, compared to an inflow of $27.6 billion in April. New sales of non-money market funds, the purchase of new shares excluding reinvested dividends, were $160.9 billion in May, up from $146.7 billion in April. The value of non-money market assets depreciated by $229.2 billion in May, following an appreciation of $113.1 billion in April.

Total assets of **equity funds** decreased by $211.6 billion, or 3.9 percent, to $5.3 trillion. There was a $1.9 billion net cash inflow to equity funds in May, compared with an inflow of $26.3 billion in April. The market value of assets depreciated by $214.1 billion in May. Equity funds had an inflow of $120.8 billion year-to-date, compared to an inflow of $67.8 billion during the first five months of 2005.

Total assets for **hybrid funds**, which invest in a mix of stocks and bonds, decreased 1.8 percent, or $10.5 billion, to $586.1 billion. In May, there was a $0.17 billion net cash outflow from these funds, compared to an inflow in April of $0.3 billion. Hybrid funds have experienced an inflow of $1.4 billion year-to-date, compared to an inflow of $18.0 billion during the first five months of 2005.

Bond funds experienced a cash outflow of $2.5 billion, while their total assets decreased by $3.3 billion, to $1.4 trillion. The market value of bond funds assets decreased by $4.3 billion, after adjusting for net sales and reinvested dividends. The assets of taxable bond funds decreased by 0.5 percent, while the assets of tax-exempt bond funds increased by 0.4 percent. The 2006 inflow is $20.7 billion, compared to an inflow of $11.2 billion through May of 2005.

Assets of taxable and tax-exempt **money market funds** increased $54.6 billion, to $2.1 trillion, an increase of 2.9 percent for taxable money market funds and an increase of 1.7 percent for tax-exempt funds. The 2006 inflow is $16.2 billion, compared to an outflow of $71.3 billion through May of 2005.

Liquidity Ratio

The liquidity ratio for bond and hybrid funds increased to 6.8 percent in May from 6.6 percent in April, while the ratio for equity funds increased from 4.1 to 4.2 percent (figure 4).

Weekly Flows

This issue of the Monthly Mutual Fund Report does not include weekly flows into mutual funds. The data source we use for weekly flows has a break in the series. Data after June 15, 2006 are not comparable to prior data. Therefore, we do not have sufficient history to display. We will report weekly flows for July next month.

Capital Market Returns and Volatility

The S&P 500 ended on June 30 at 1270.2, close to the May 31 level. The 12-month gain was 5.4 percent at month-end. The annualized volatility for the daily return on the S&P 500 was 10.9 percent.

The 12-month average return on the Citigroup Bond Index was -0.8 percent in June. Volatility remained at 2.7 percent in June (figure 7).

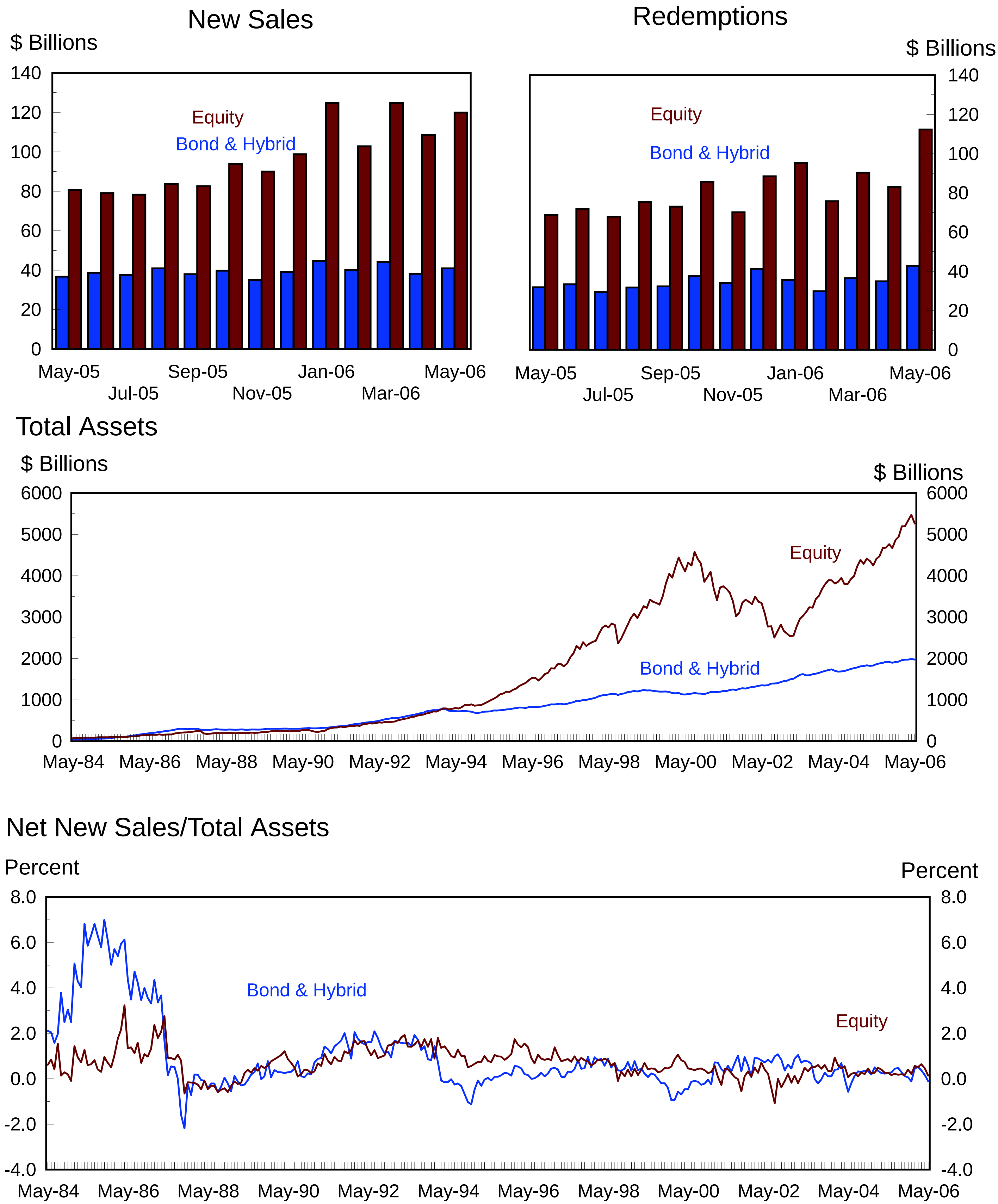
Price-Earnings Ratio

The macro projections for the growth of earnings for the Standard and Poor's 500 index over the next two years have been revised in the first quarter of 2006 to 6.7 from current levels. During the first quarter of 2006, the price-earnings ratio for the Standard and Poor's 500 Index was 17.9, up from 17.8 in the fourth quarter of 2005. The price-earnings ratio for the Small-Cap 600 Index decreased to 22.4 in the second quarter of 2006, from 23.7 in the first 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.

Figure 1

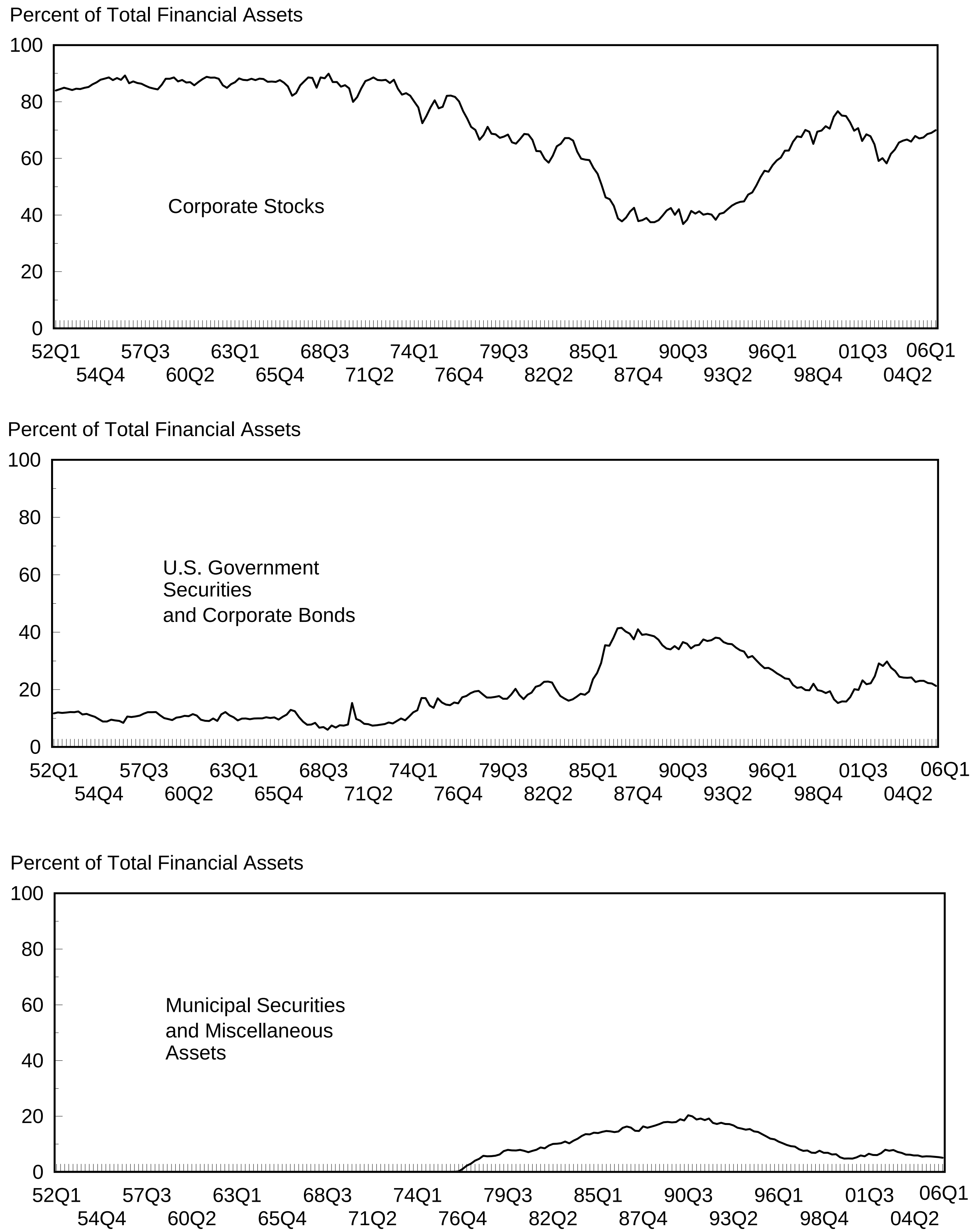
Sales of Mutual Funds



Source: Investment Company Institute

Figure 2

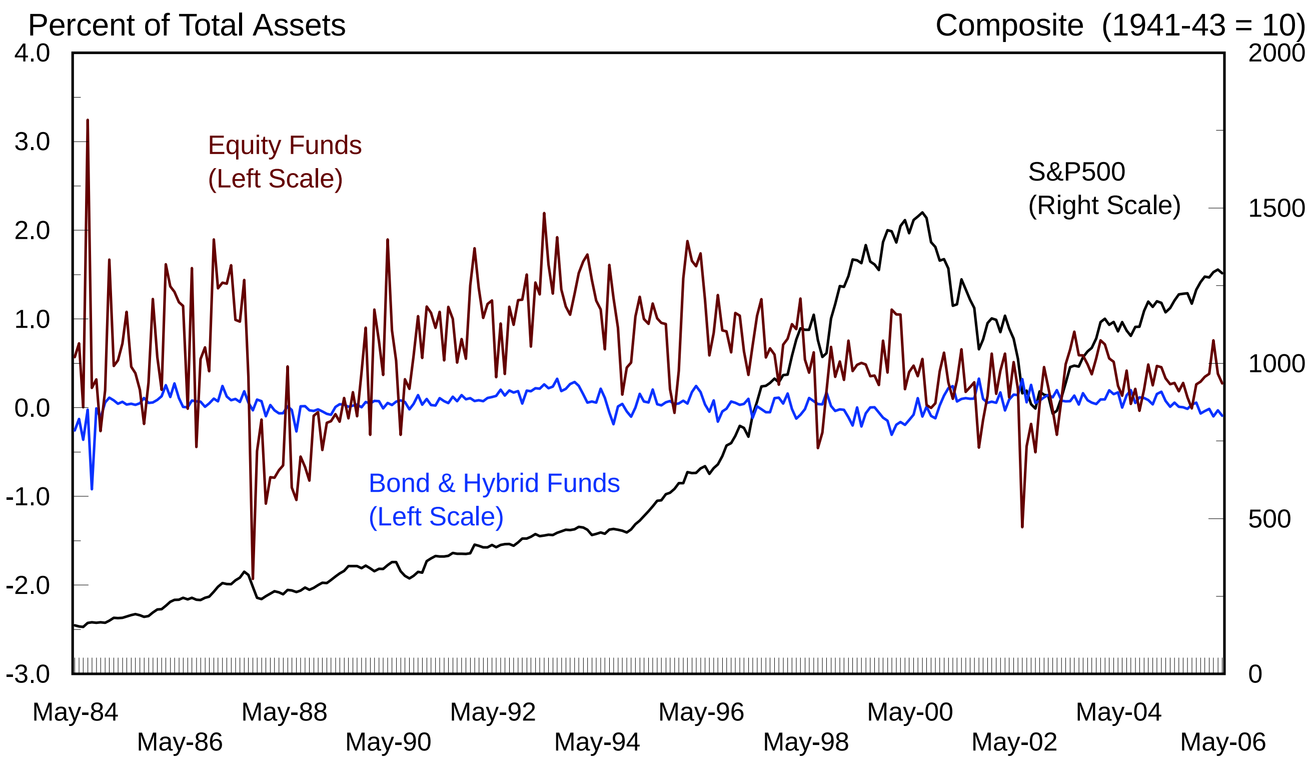
Composition of Mutual Funds' Financial Assets



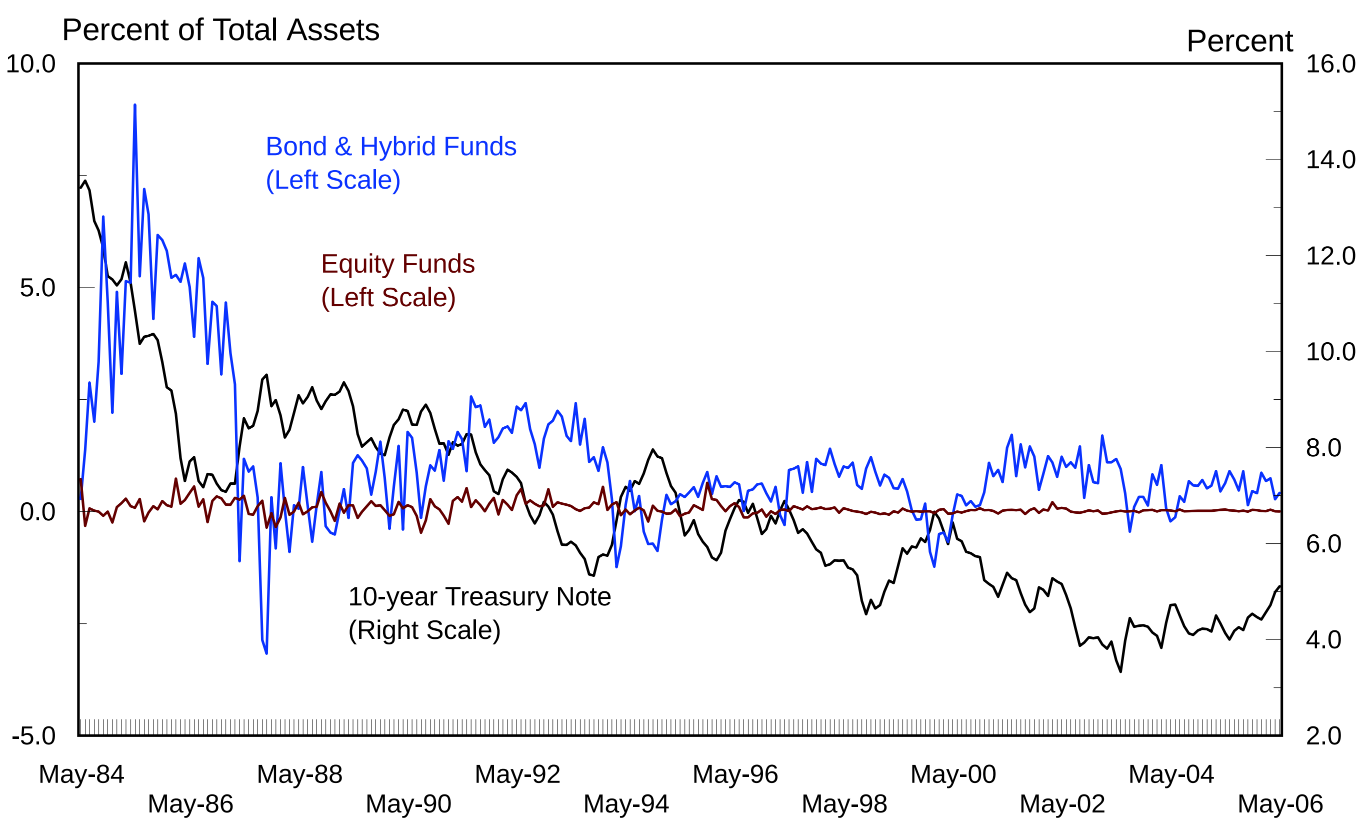
Source: Flow of Funds/Haver Analytics.

Figure 3
Net Portfolio Purchases

Net Common Stock Purchases



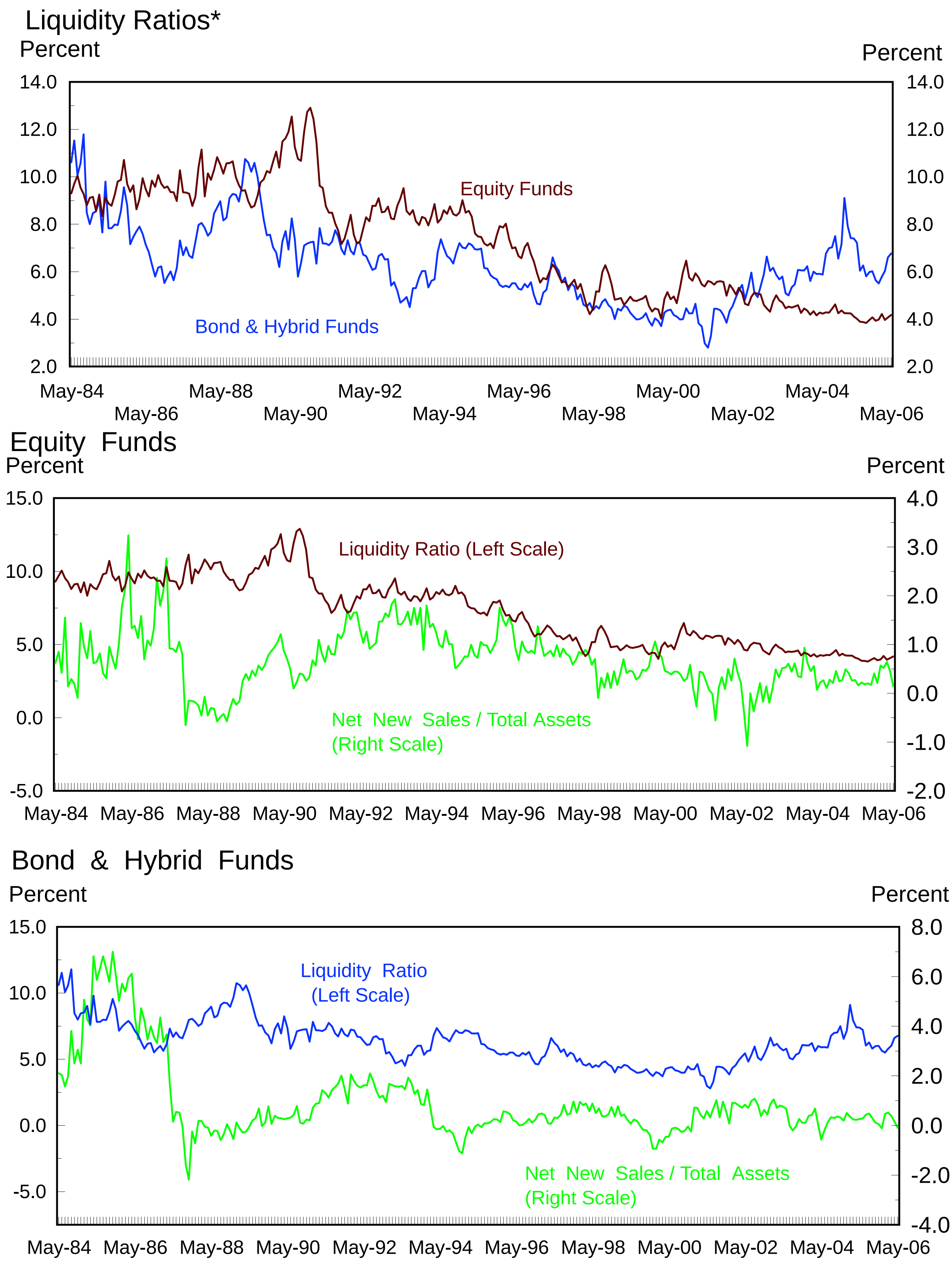
Net Purchases of Other Assets



Source: Investment Company Institute

Figure 4

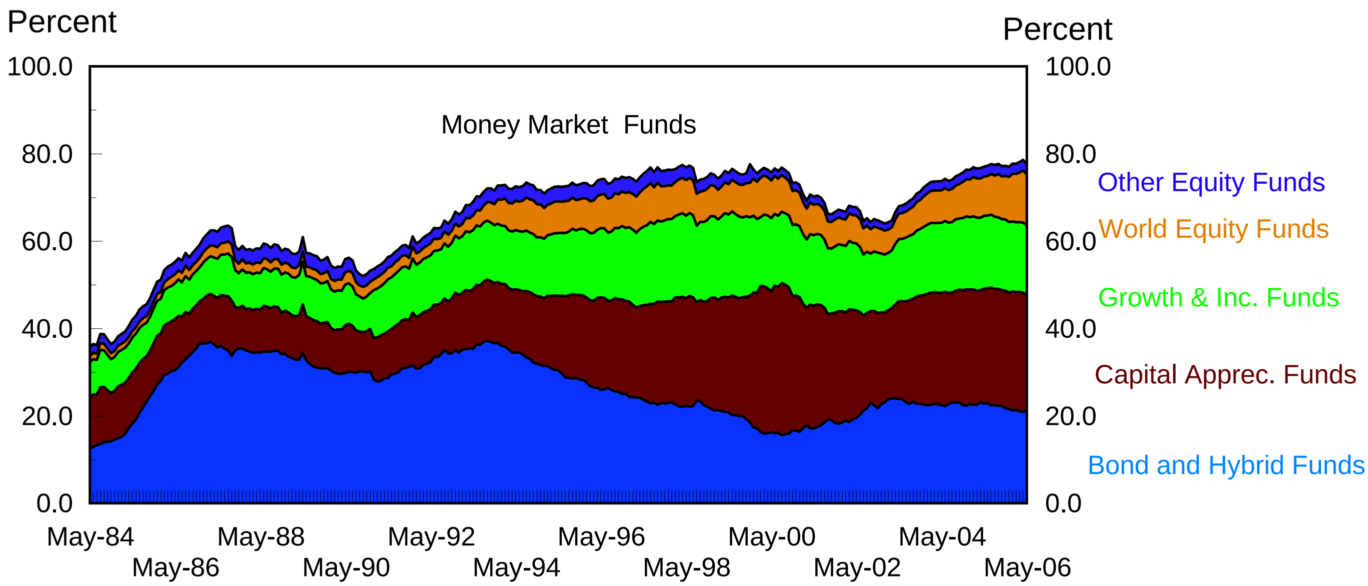
Liquidity Ratios



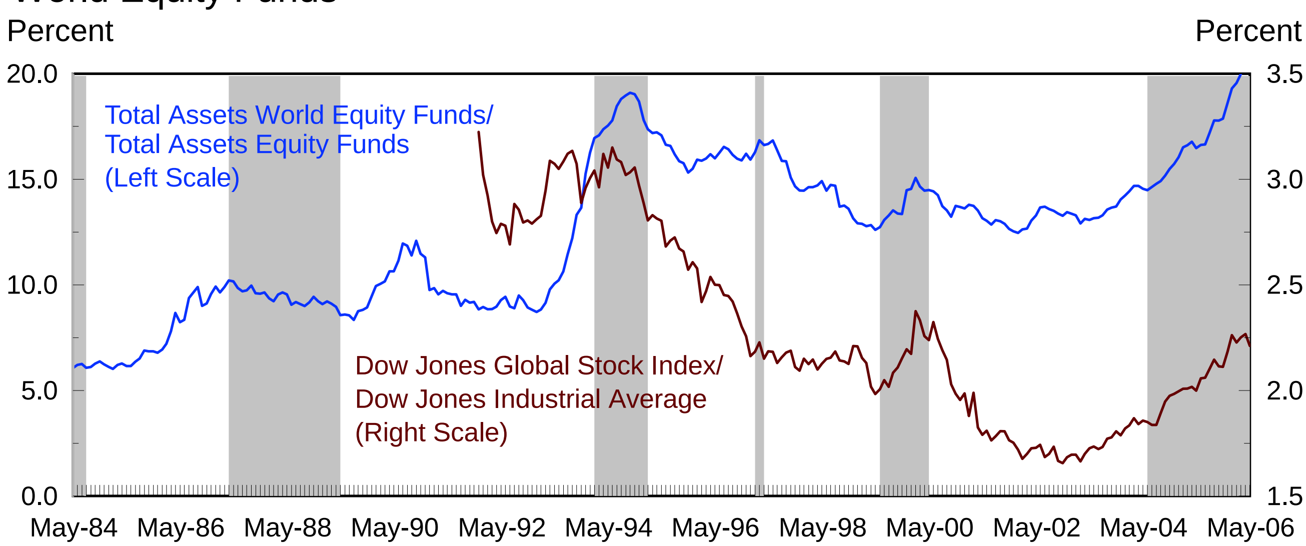
*Liquidity Ratios are the Percent of Total Assets held in Cash and Short-Term Securities.

Source: Investment Company Institute

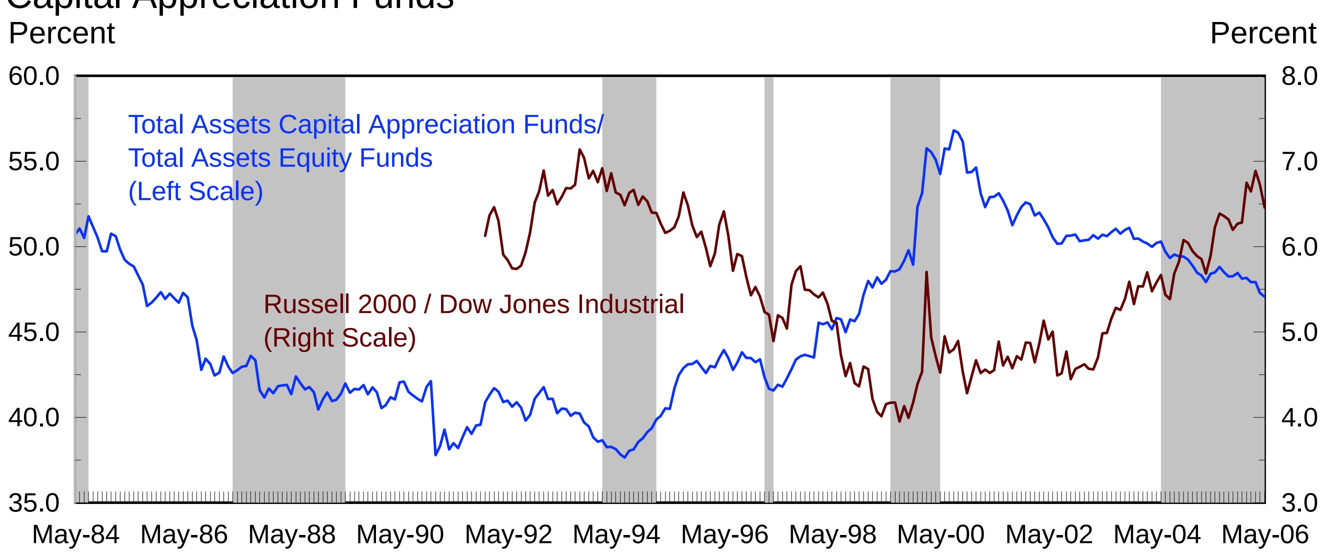
Figure 5
Industry Composition
(Shaded Regions Indicate Periods of Rising Fed Funds Rate)



World Equity Funds



Capital Appreciation Funds

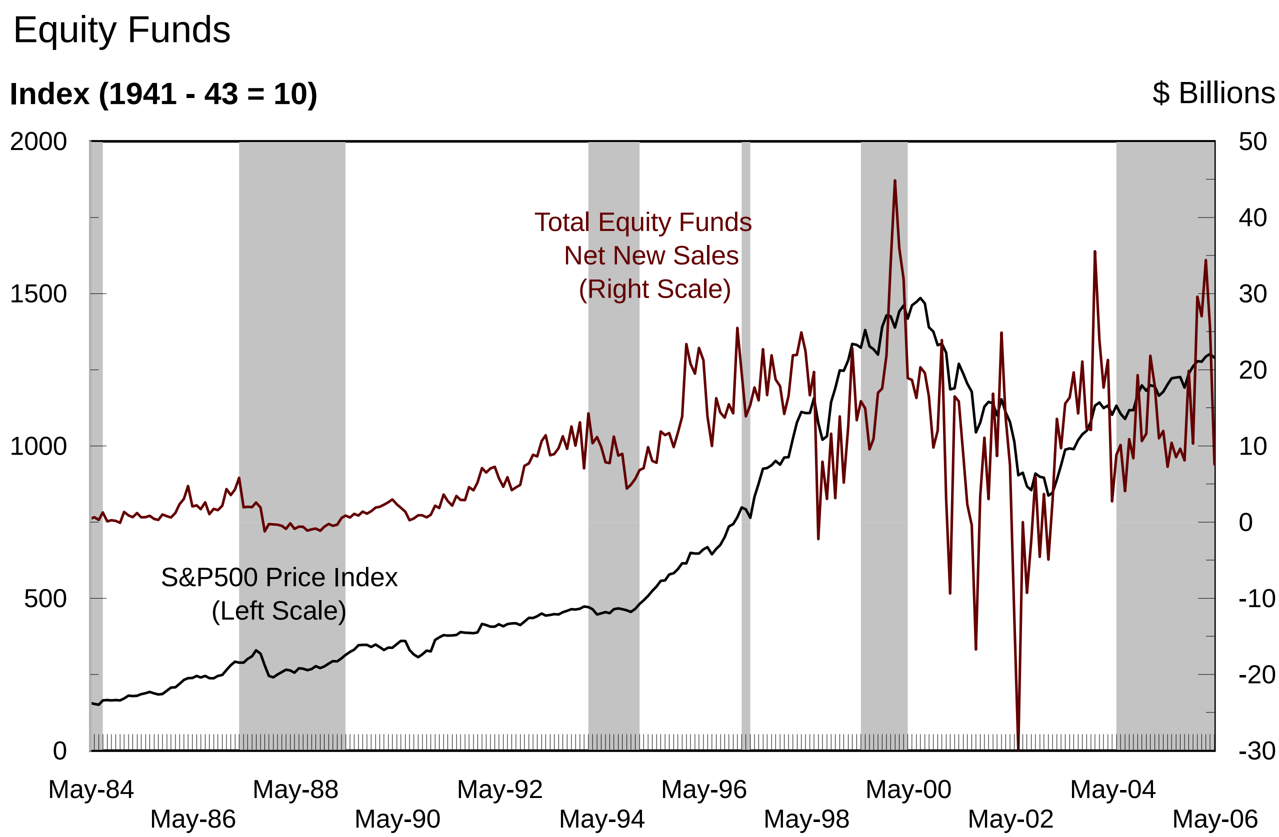


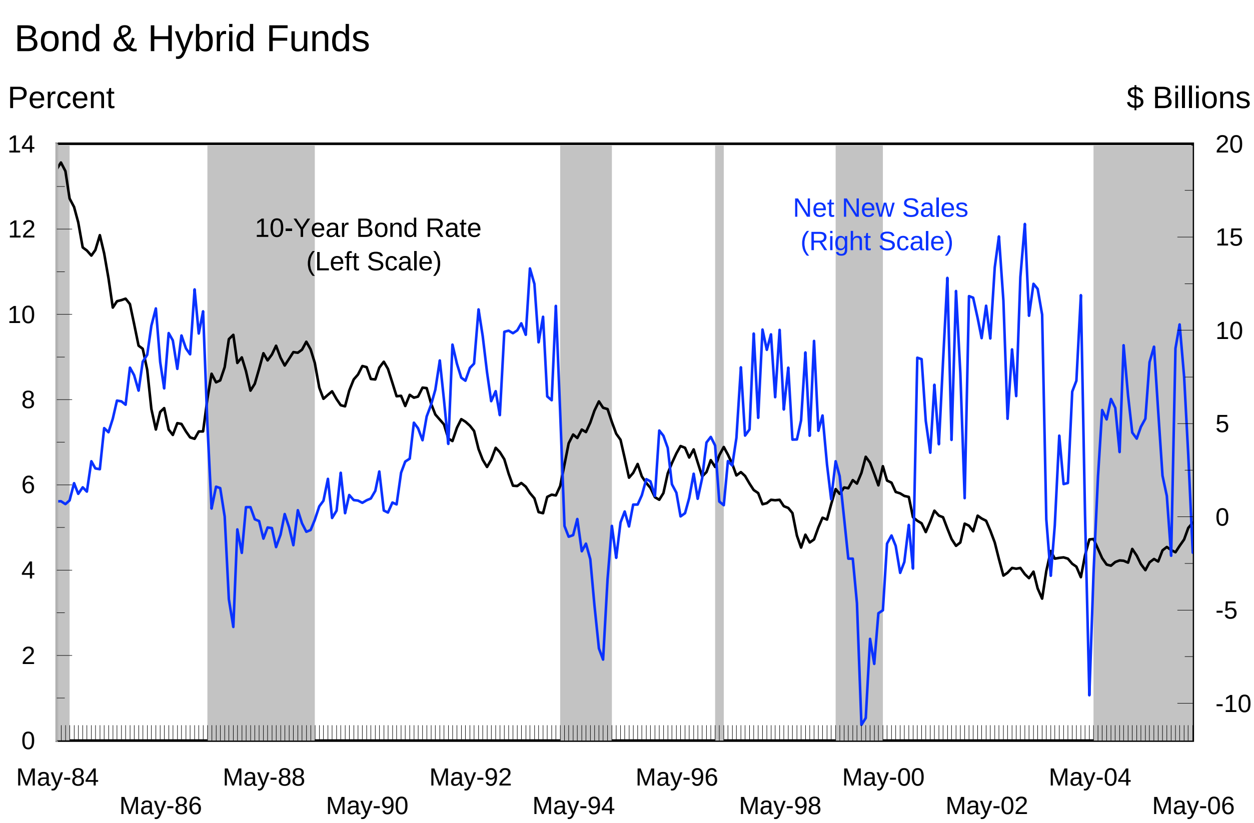
Source: Investment Company Institute

Figure 6

Net New Sales By Investment Objective

(Shaded Regions Indicate Periods of Rising Fed Funds Rate)

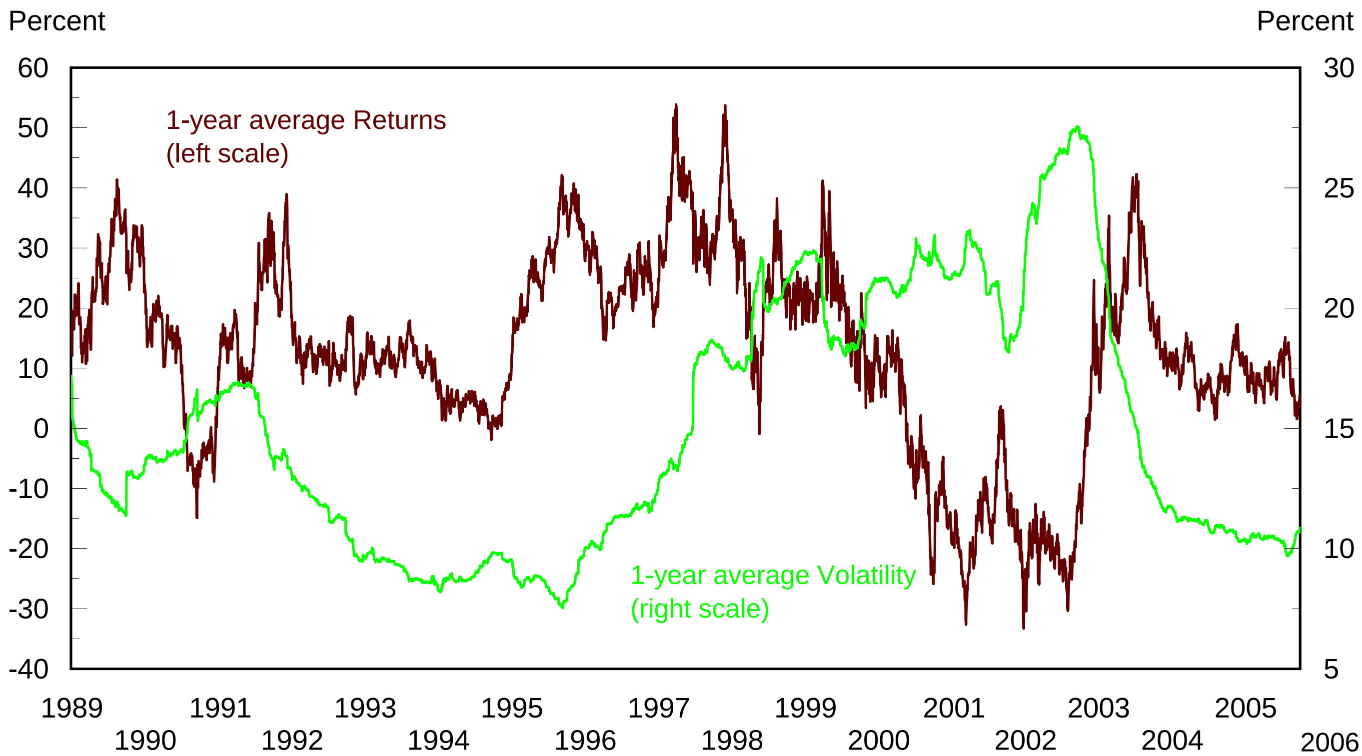




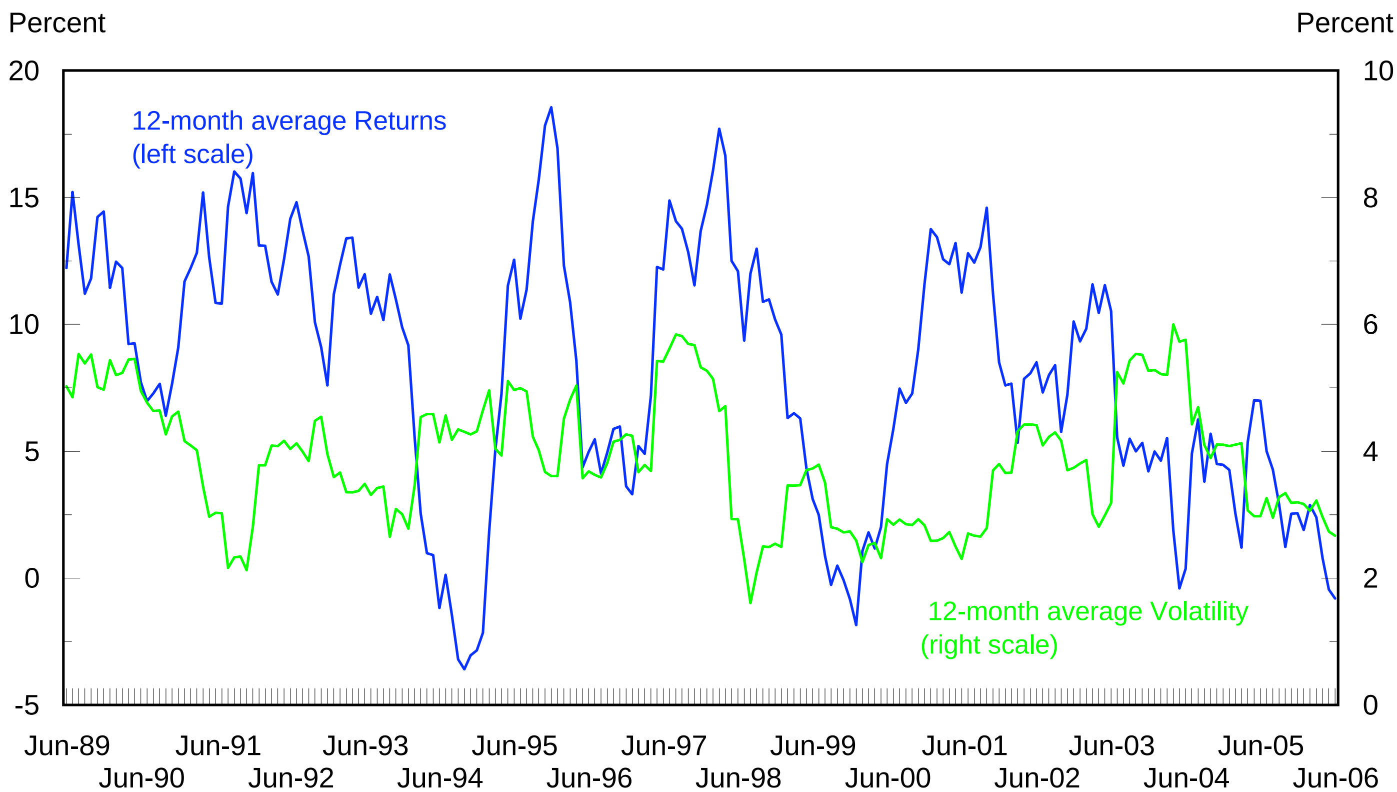
Source: Investment Company Institute

Figure 7
Capital Market Returns and Volatility

S&P500, Daily Returns and Volatility



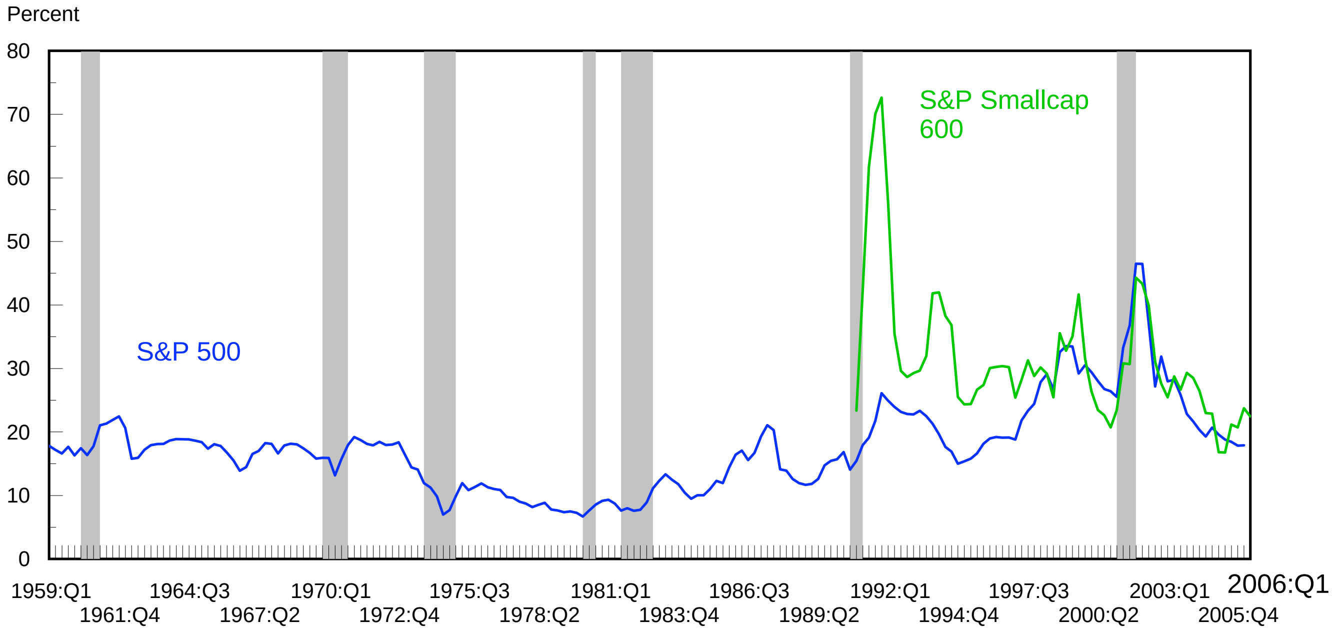
Citigroup Bond Index



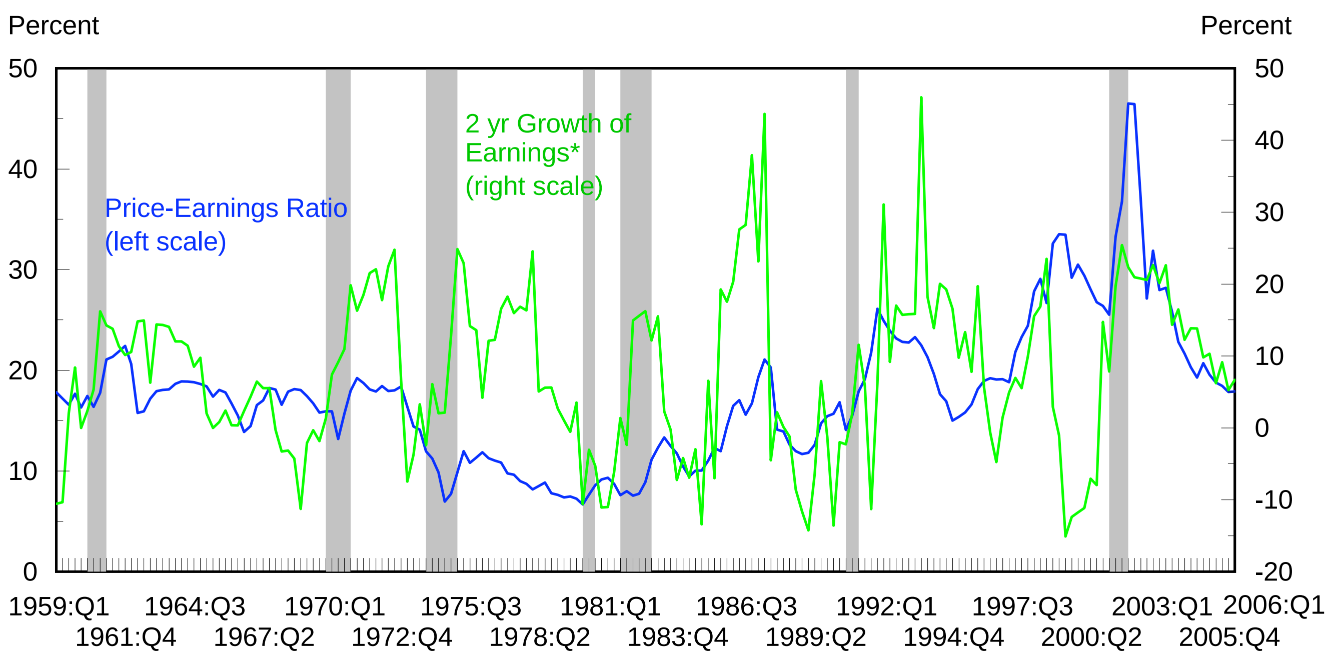
Source: FAME Database, Citigroup.

Figure 8

S&P Price-Earnings Ratios



S&P500 Price Earnings Ratio and the Growth of Earnings

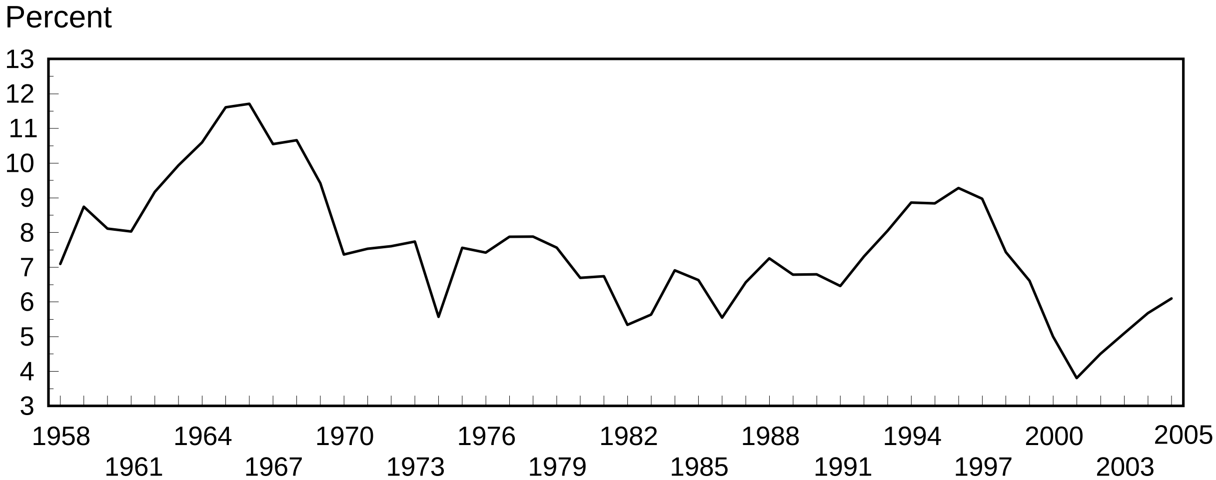


* Growth of earnings over subsequent 8 quarters. Current observations use forecast of earnings from macro projections.

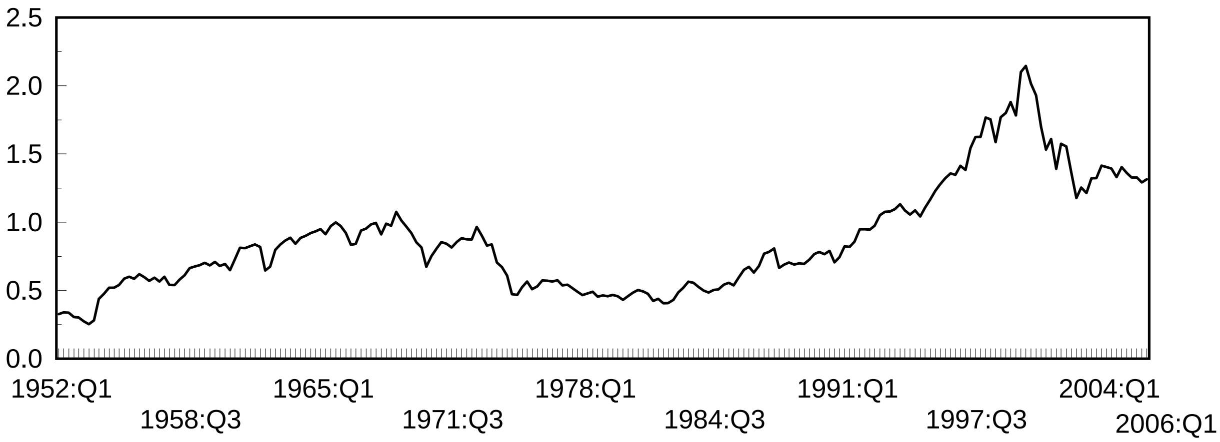
source: Thomson Financial/First Call, Global Exchange (formerly DRI), Bloomberg

Figure 9

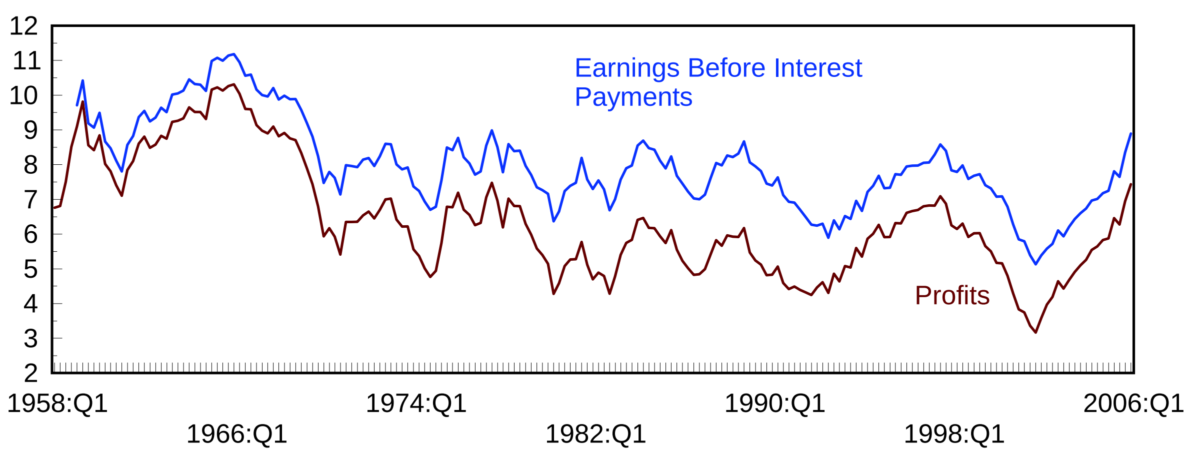
Real Rate of Return on Nonfinancial Corporate Equity
(from National Income and Flow of Funds Accounts)



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.