March 5, 2004

Monthly Mutual Fund Report

Statistics for January-February 2004

Despite months of disturbing news about fund management, total industry assets set a new record in January, eclipsing the previous high of $7.47 trillion in August 2000. Equity funds experienced their third-largest cash flow (in total dollars) on record in January; the largest flows occurred in the first two months of 2000.

Sales and Redemptions

Total assets for all funds increased in January by $122.3 billion, or 1.6 percent, to $7.54 trillion, a new record. Money market funds had a net cash outflow of $19.8 billion compared to an outflow in December of $22.6 billion. Other funds (equity, hybrid, and bond) had a net cash inflow of $49.8 billion, compared to an inflow of $14.6 billion in December. New sales of non-money market funds, the purchase of new shares excluding reinvested dividends, were $151.1 billion in January, up from $125.8 billion in December. The value of non-money market assets appreciated by $88.1 billion in January, following an appreciation of $167.0 billion in December.

Total assets of **equity funds** increased by $119.9 billion, or 3.3 percent, to $3.80 trillion. There was a $43.8 billion net cash inflow to equity funds in January, the largest inflow since February 2000, compared with an inflow of $14.2 billion in December. The market value of assets appreciated by $76.0 billion in January. The inflow for this January was much higher than the first month of 2003, when equity funds had a $0.26 billion outflow.

Total assets for **hybrid funds**, which invest in a mix of stocks and bonds, increased 2.5 percent, or $11.0 billion, to $447.7 billion. In January, there was a $5.5 billion net cash inflow for these funds, compared to an inflow in December of $3.6 billion and an inflow in January 2003 of $1.1 billion.

Bond funds experienced a cash inflow of $0.5 billion, while their total assets increased by $9.7 billion, to $1.25 trillion. The market value of bond funds assets increased by $6.7 billion, after adjusting for net sales and reinvested dividends. The assets of taxable bond funds increased by 1.0 percent, while the assets of tax-exempt bond funds increased by 0.3 percent. By comparison, the January 2003 inflow to bonds was $12.9 billion.

Assets of taxable and tax-exempt **money market funds** decreased $18.3 billion, to $2.03 trillion, a decrease of 1.7 percent for taxable money market funds but an increase of 3.9 percent for tax-exempt funds. Compared to a net cash outflow of $1.1 billion in January 2003, money market funds had an outflow of $19.8 billion in the first month of 2004.

Liquidity Ratio

The liquidity ratio for bond and hybrid funds decreased from 6.06 to 5.99 percent, while the ratio for equity funds increased from 4.26 to 4.42 percent (figure 4).

Weekly Flows

In January, there were inflows to equity funds of 0.2 percent of total assets, with returns of 1.6 percent (figure 6a). February marked the fifth straight month with a positive inflow. The last five month stretch of inflows was July-November 2000. Equity funds have also experience positive returns for twelve straight months, the longest stretch since we began tracking fund flows in 1997.

Bond funds had inflows of 0.01 percent and losses of 0.7 percent for the month. Index funds had monthly inflows of 0.2 percent and returns of 1.1 percent. Aggressive growth funds had monthly inflows of 0.2 percent and returns of 2.1 percent. Small-cap funds had an inflow of 0.4 percent and returns of 0.5 percent.

There were inflows to international funds in January of 0.7 percent of assets and returns of 1.7 percent. Latin America funds had outflows of 0.7 percent and returns of 2.7 percent. Japan funds had inflows of 0.4 percent and losses of 1.4 percent of assets for the month of January. Pacific funds that do not invest in Japan had outflows of 0.8 percent and returns of 0.9 percent of assets.

Capital Market Returns and Volatility

The S&P 500 ended February at 1144.94, an increase of 1.2 percent from the beginning of the month. The 12-month gain was 39.3 percent at month-end. The annualized volatility for the daily return on the S&P 500 was 15.1 percent.

The 12-month average return on the Citigroup Bond Index was 4.6 percent for January. Volatility increased to 5.22 percent (figure 8).

Price-Earnings Ratio

The macro projections for the growth of earnings of the Standard and Poor’s 500 index over the next two years have increased in the fourth quarter to 4.2 percent, below the 6.6 percent historical average annual growth rate. The trailing price-earnings ratio decreased from 25.8 in the third quarter to 22.6 for the fourth quarter of 2003, while Thomson Financial/First Call's forward price-operating earnings was 18.4 in the first quarter of 2004, unchanged from the fourth quarter of 2003 (figure 9). During the fourth quarter the price-earnings ratio for the Standard and Poor's Small-Cap 600 Index rose to 30.8 from 29.6.

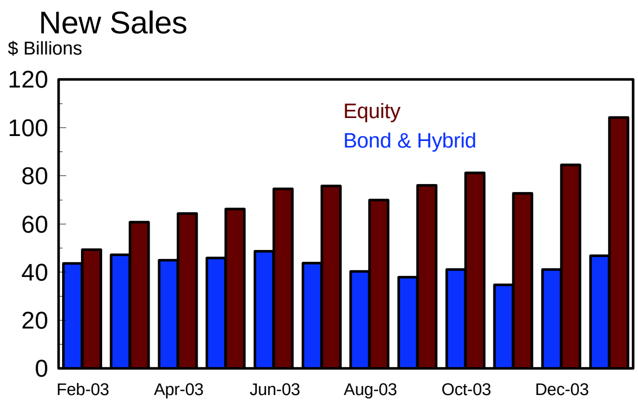
The Monthly Mutual Fund Report is available online at http://www.bos.frb.org/economic/mmfr/mmfr.htm.

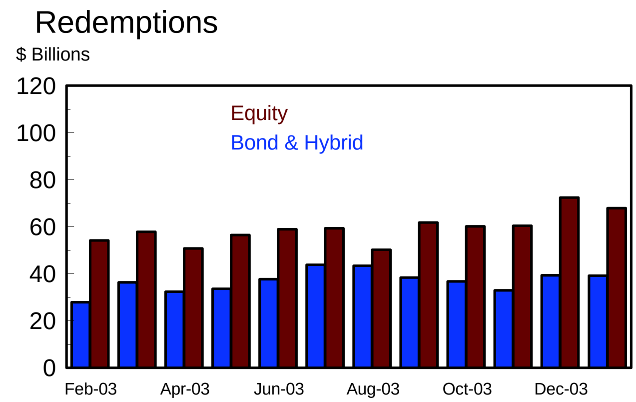
Also, the Stock Market Report is now available to the general public. The current issue, as well as previous editions, can be found at our public website, http://www.bos.frb.org/economic/smr/smr.htm.

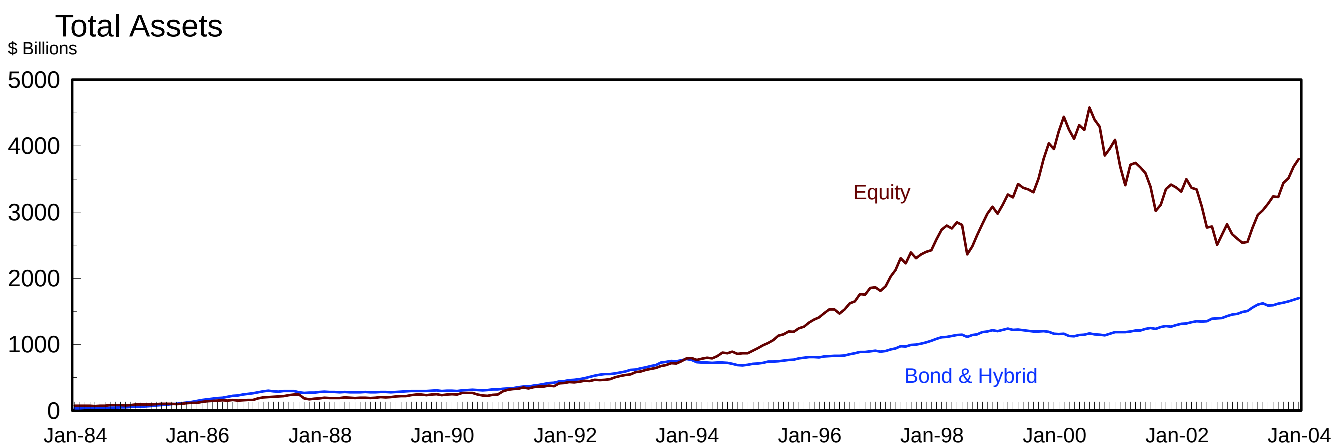
Please contact Matthew S. Rutledge for questions and comments at Matthew.S.Rutledge@bos.frb.org, or by phone at (617) 973-3198.

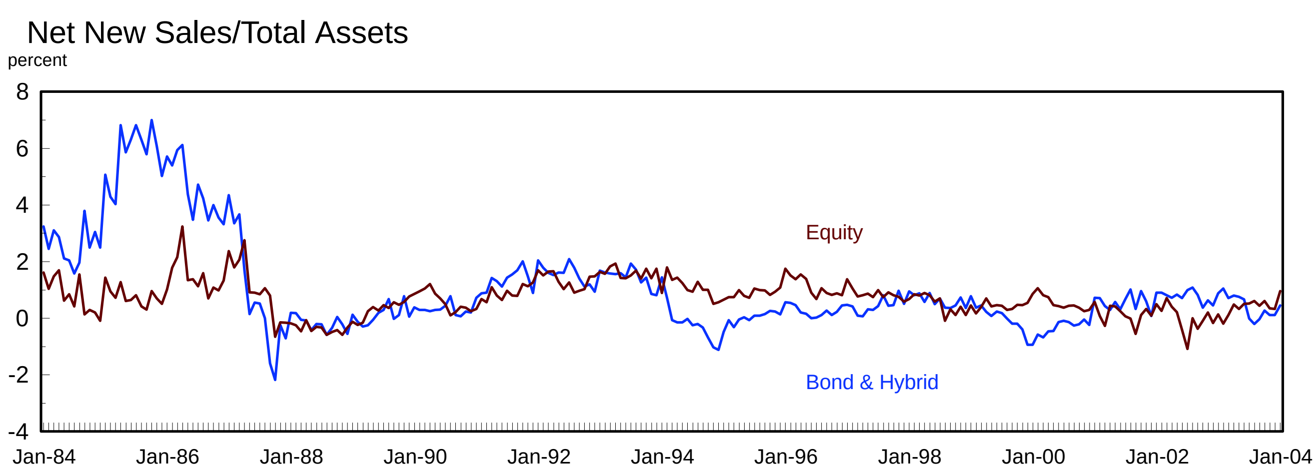
Figure 1

Sales of Mutual Funds







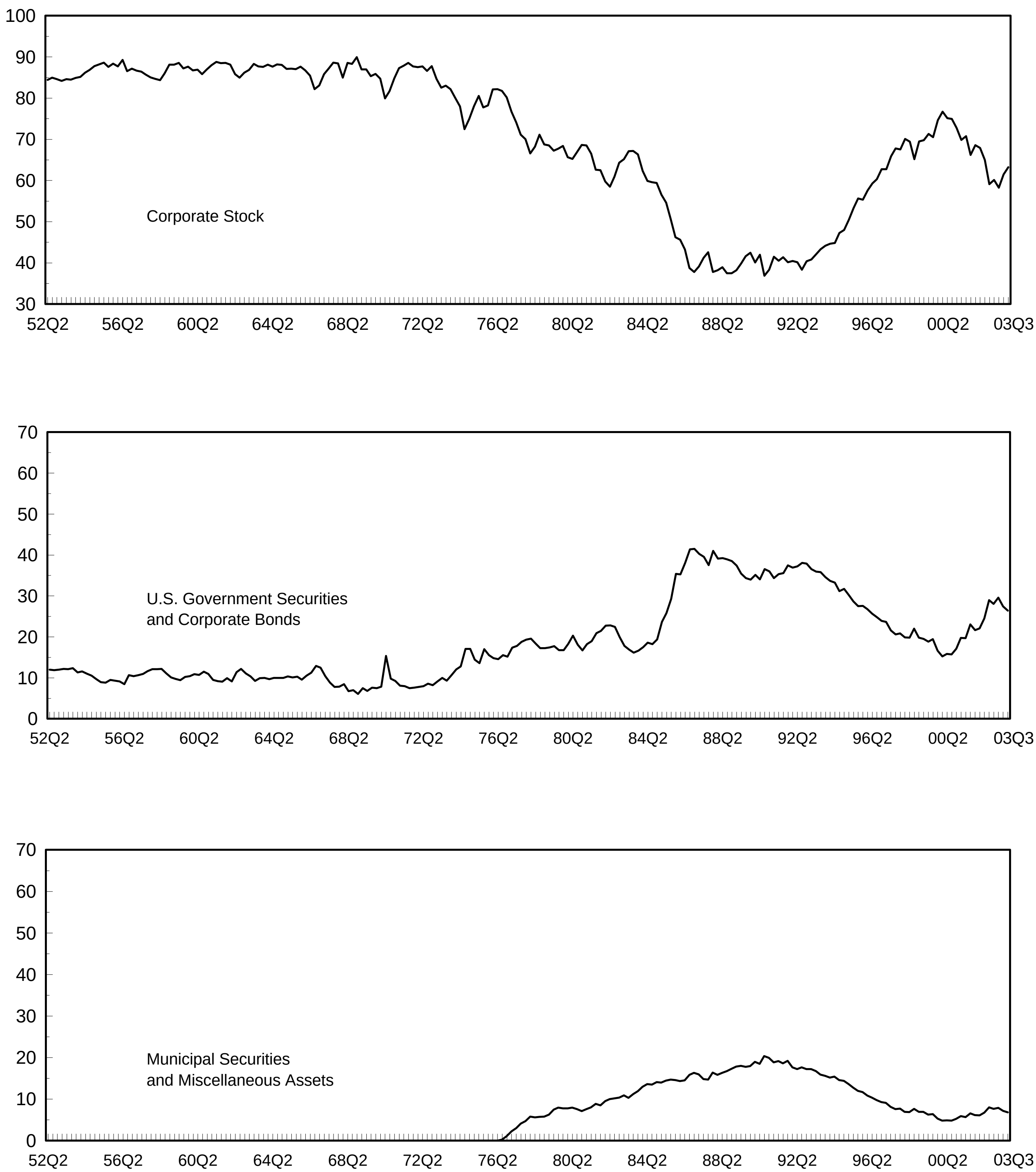


Source: Investment Company Institute

Figure 2

Composition of Mutual Funds' Financial Assets

(percent of Total Financial Assets)



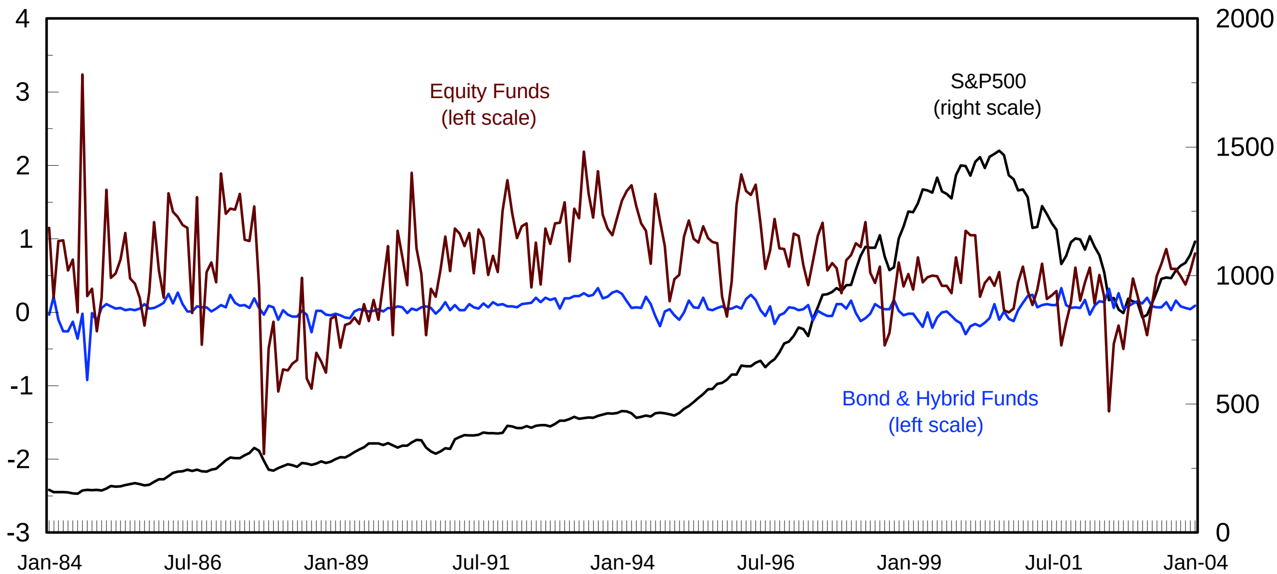
Source: Flow of Funds, Haver Analytics

Figure 3

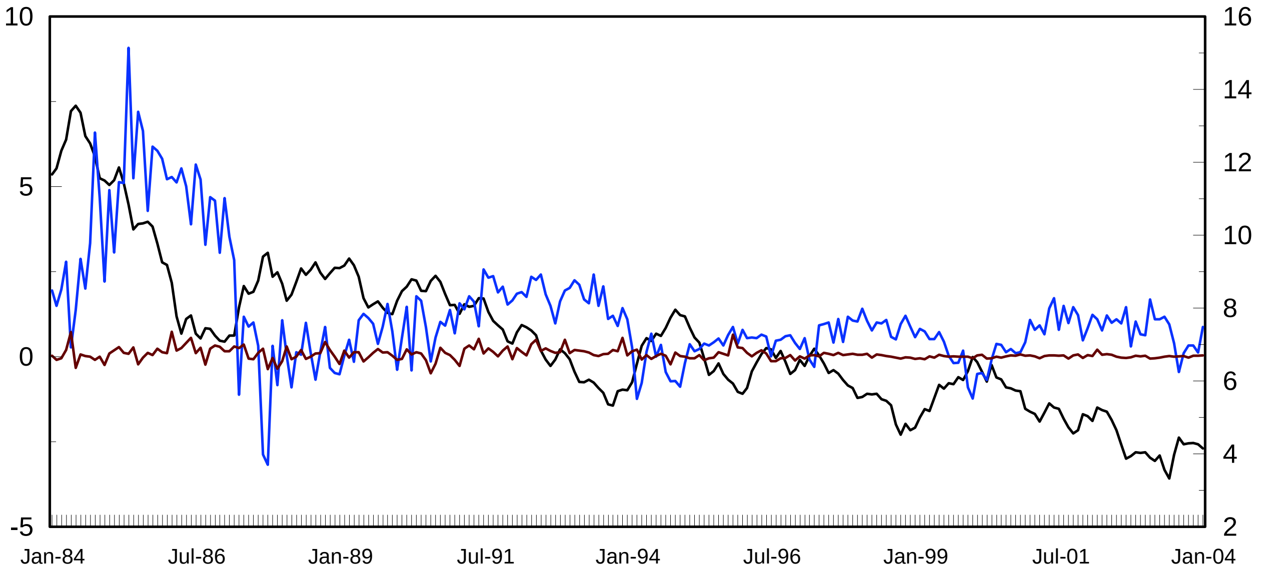
Net Portfolio Purchases

(percent of Total Assets)

Net Common Stock Purchases

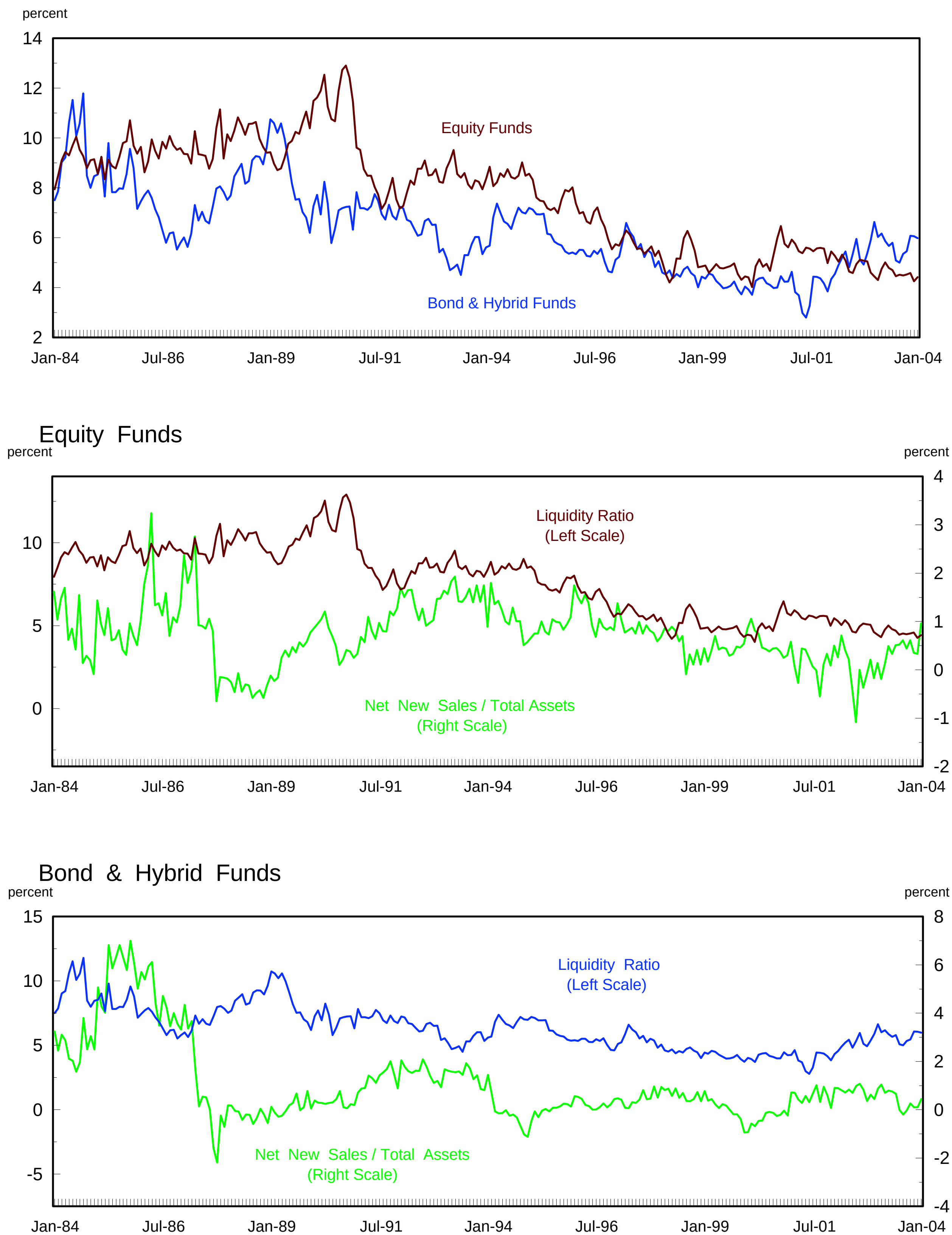


Net Purchases of Other Assets



Source: Investment Company Institute

Figure 4
Liquidity Ratio*



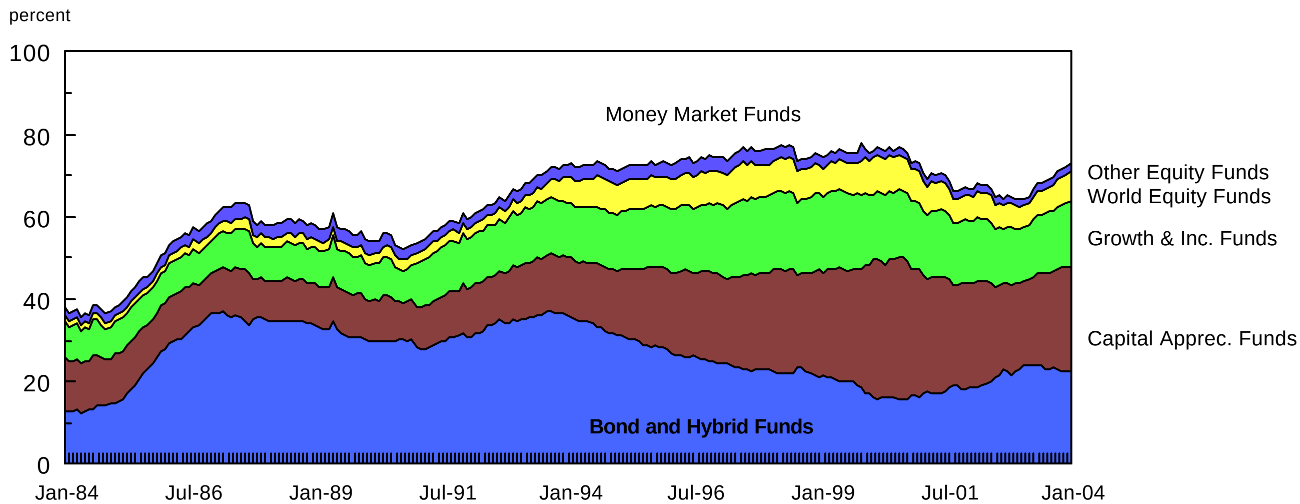
*The Liquidity Ratio is the Percent of Total Assets held in Cash and Short-Term Securities.

Source: Investment Company Institute

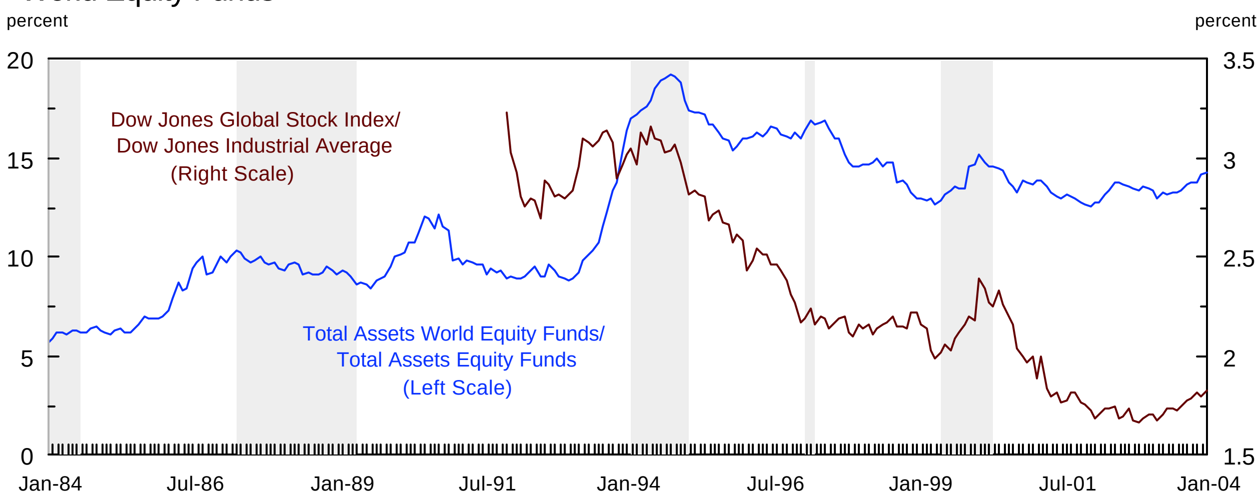
Figure 5

Industry Composition

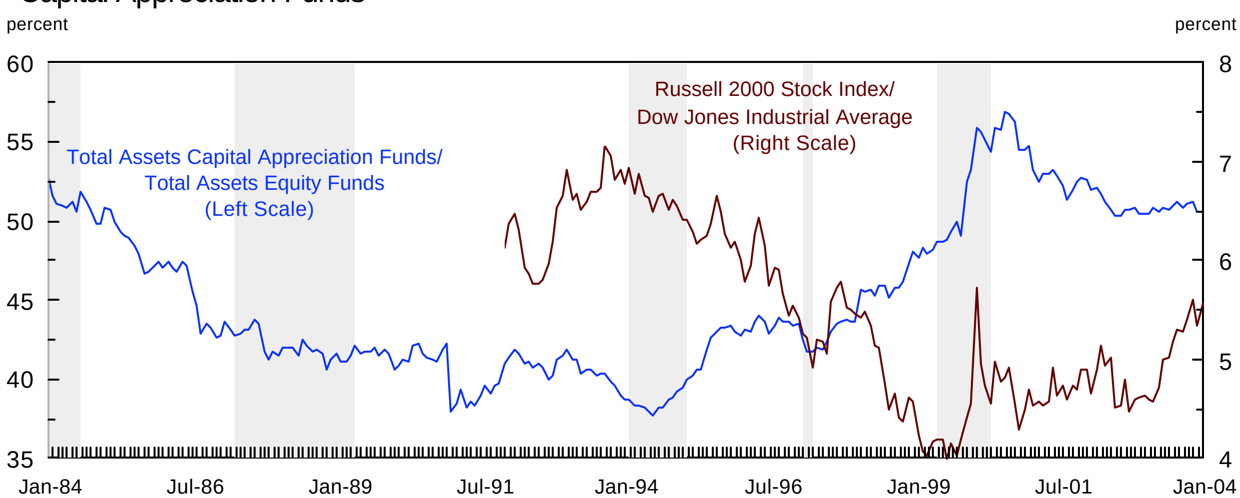
(Shaded Regions Indicate Periods of Rising Fed Funds Rate)



World Equity Funds



Capital Appreciation Funds

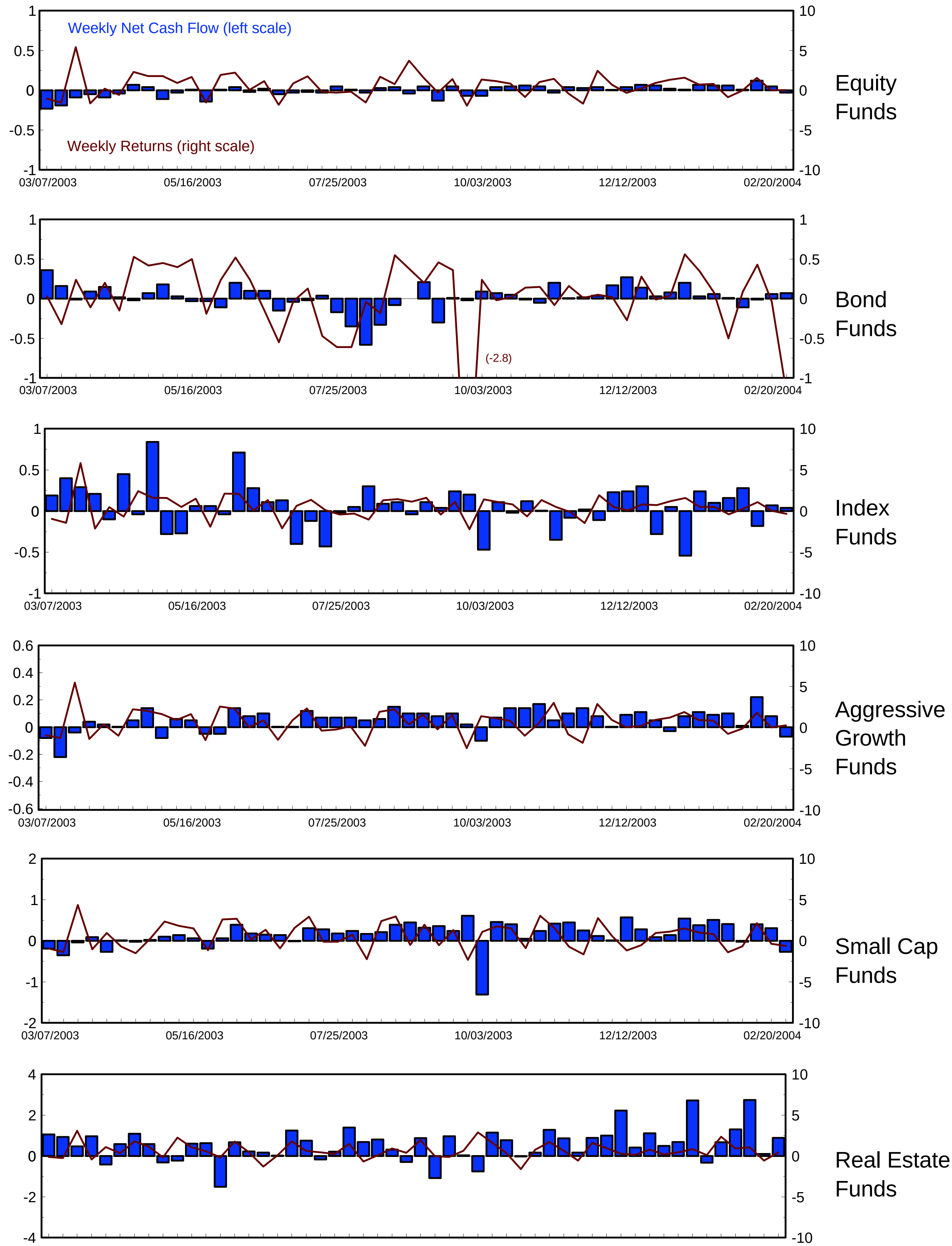


Source: Investment Company Institute

Figure 6a

Weekly Flows into Mutual Funds

(percent of Total Assets)

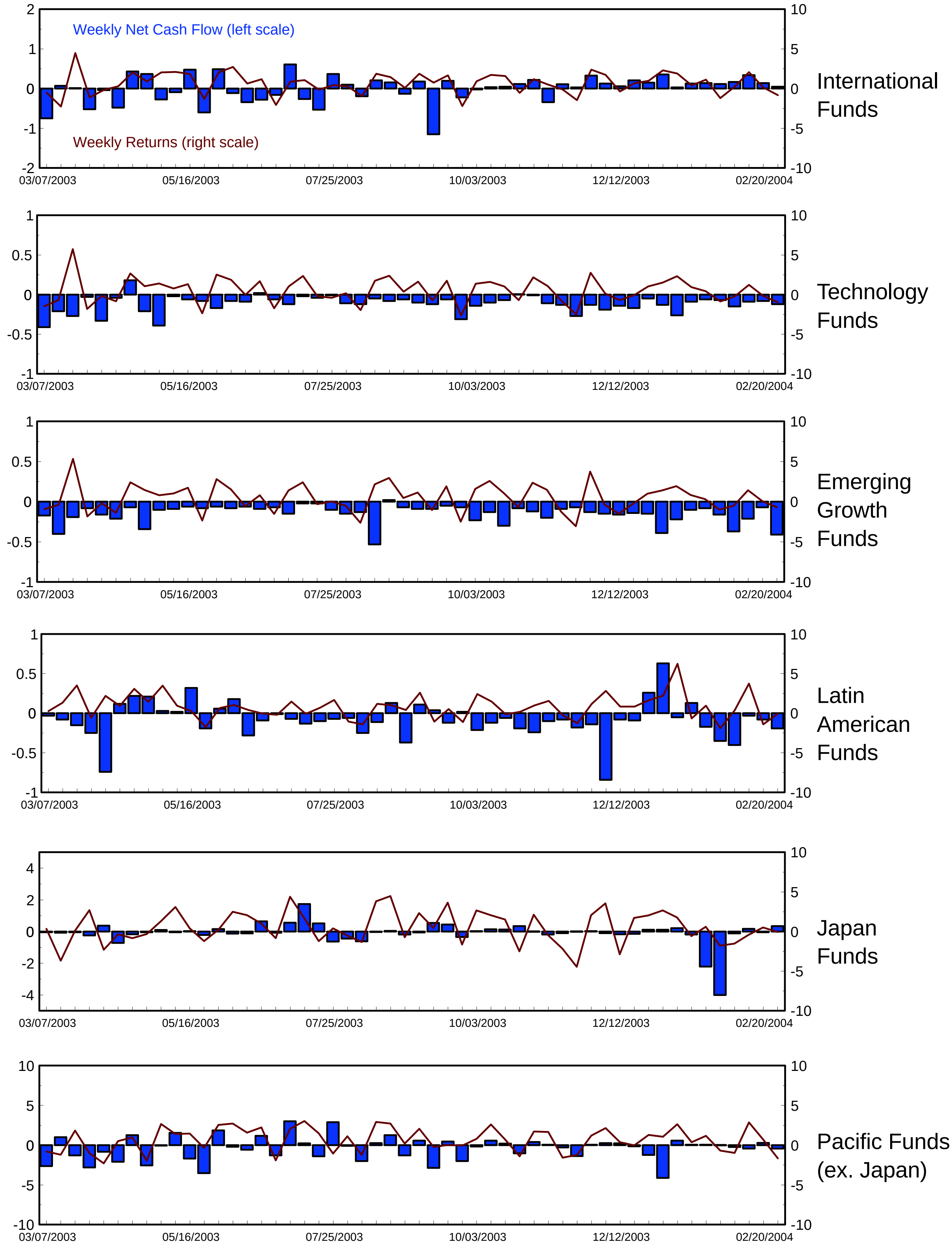


Source: Mutual Fund Trim Tabs

Figure 6b

Weekly Flows into Mutual Funds

(percent of Total Assets)

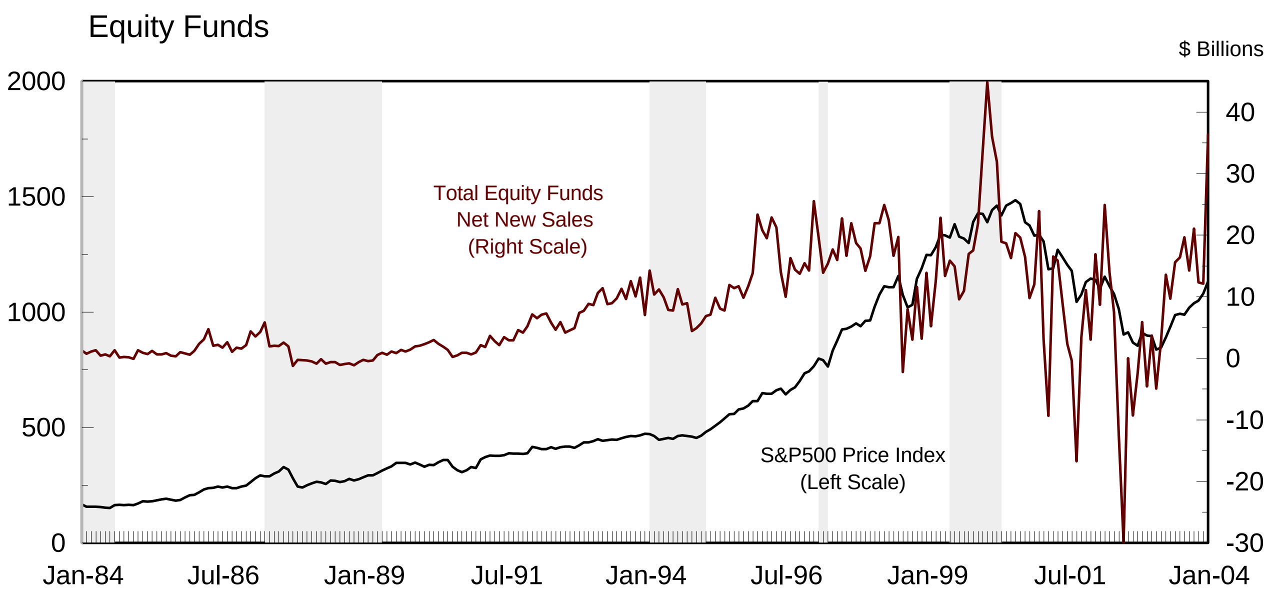


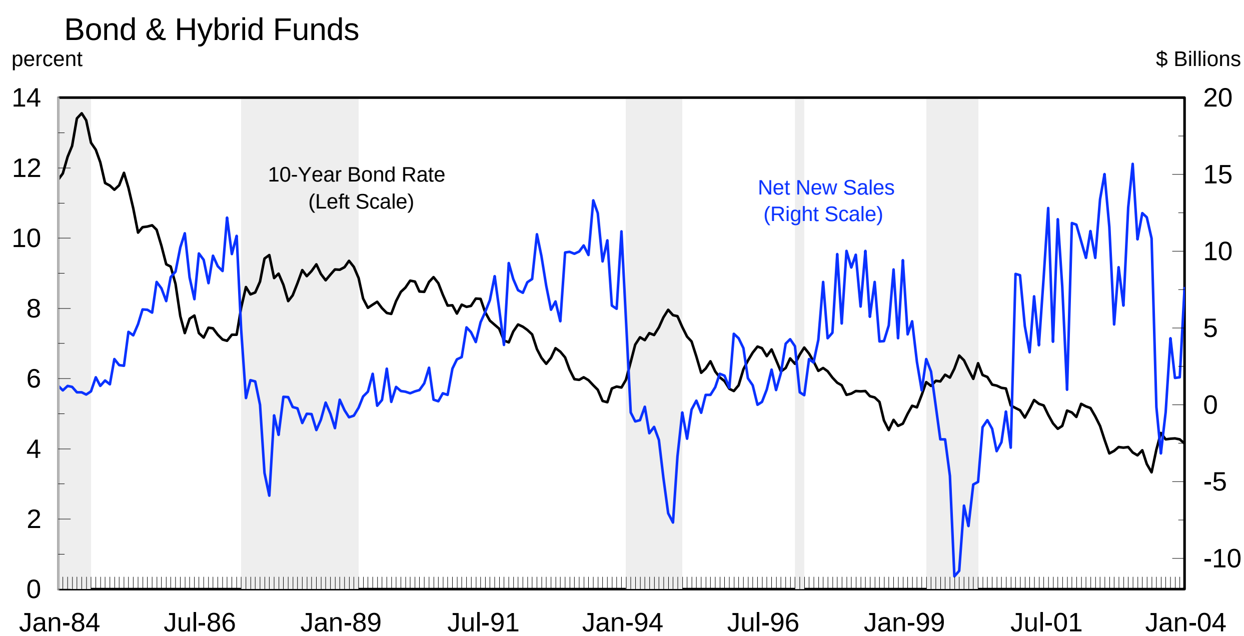
Source: Mutual Fund Trim Tabs

Figure 7

Net New Sales By Investment Objective

(Shaded Regions Indicate Periods of Rising Fed Funds Rate)

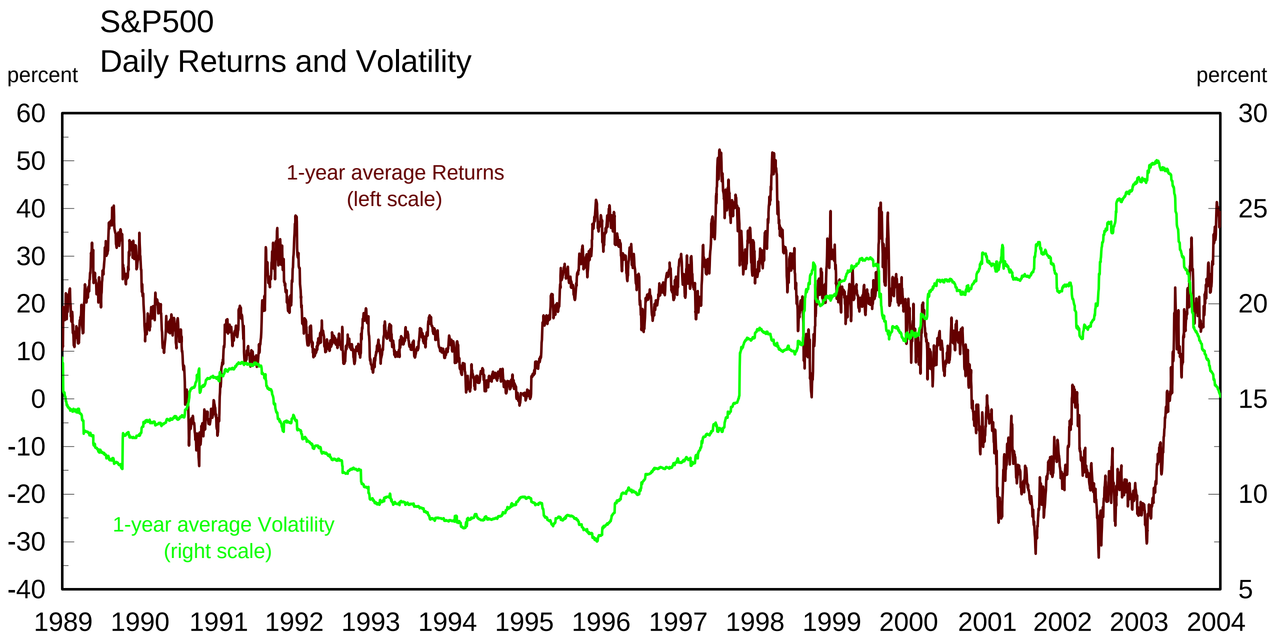


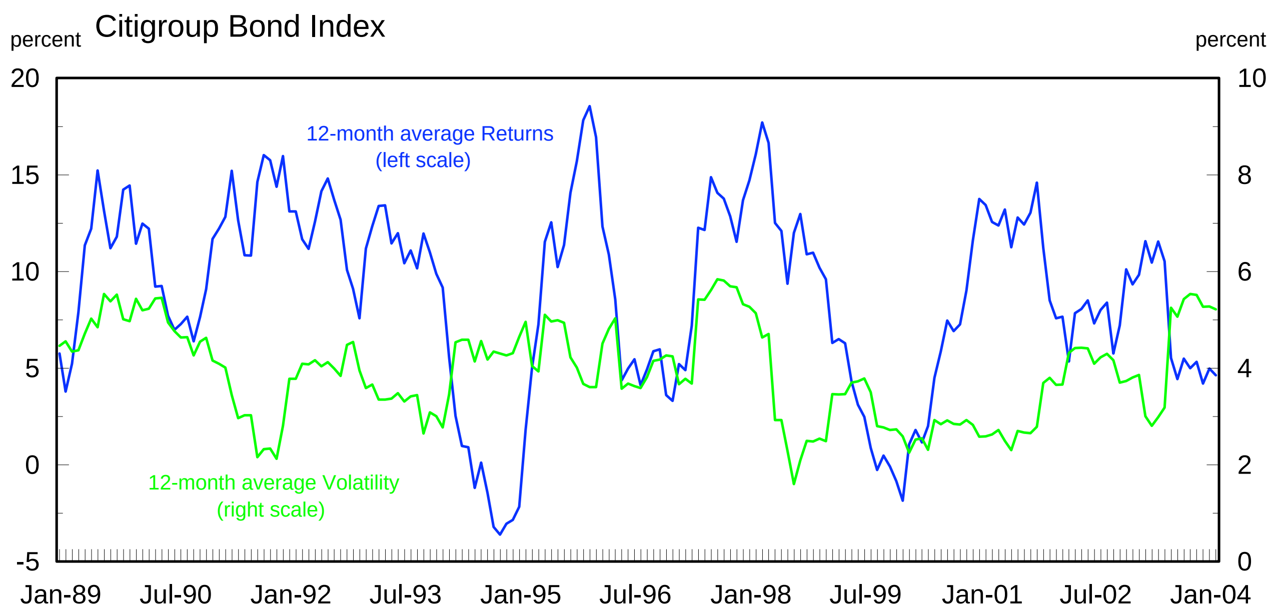


Source: Investment Company Institute

Figure 8

Capital Market Returns and Volatility

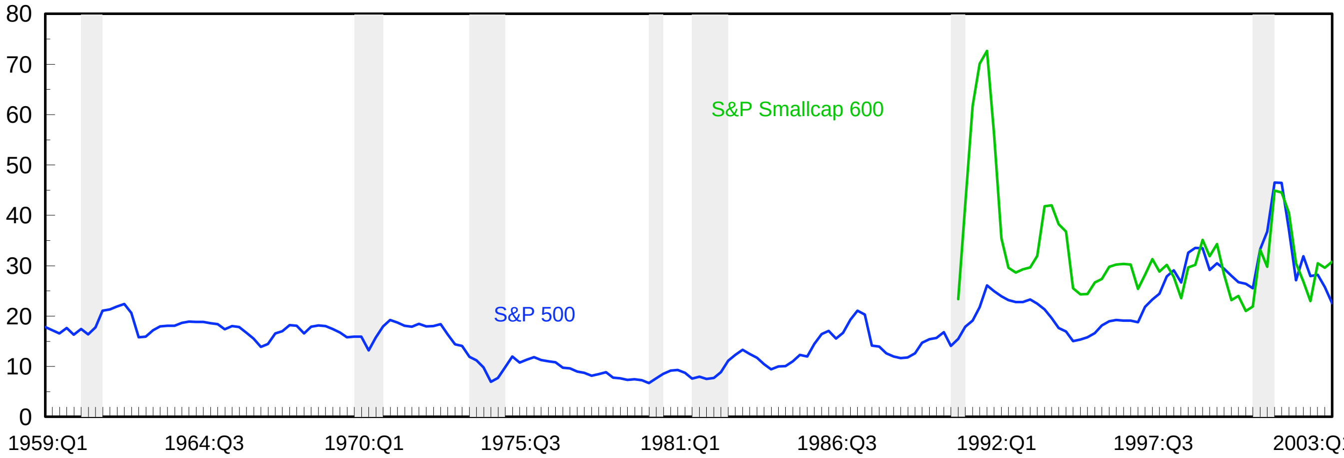




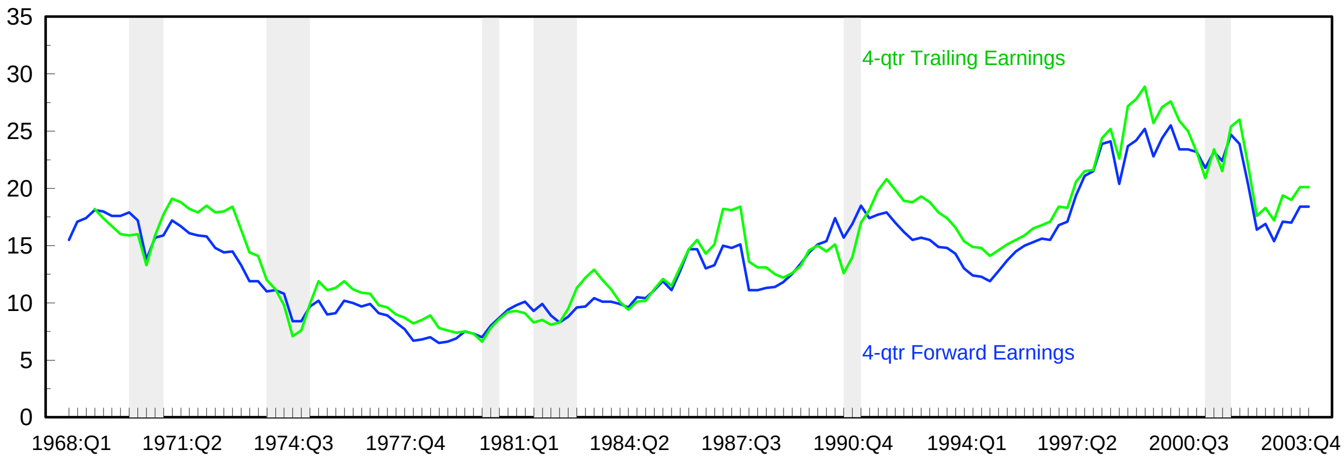
Source: FAME Database, Citigroup

Figure 9

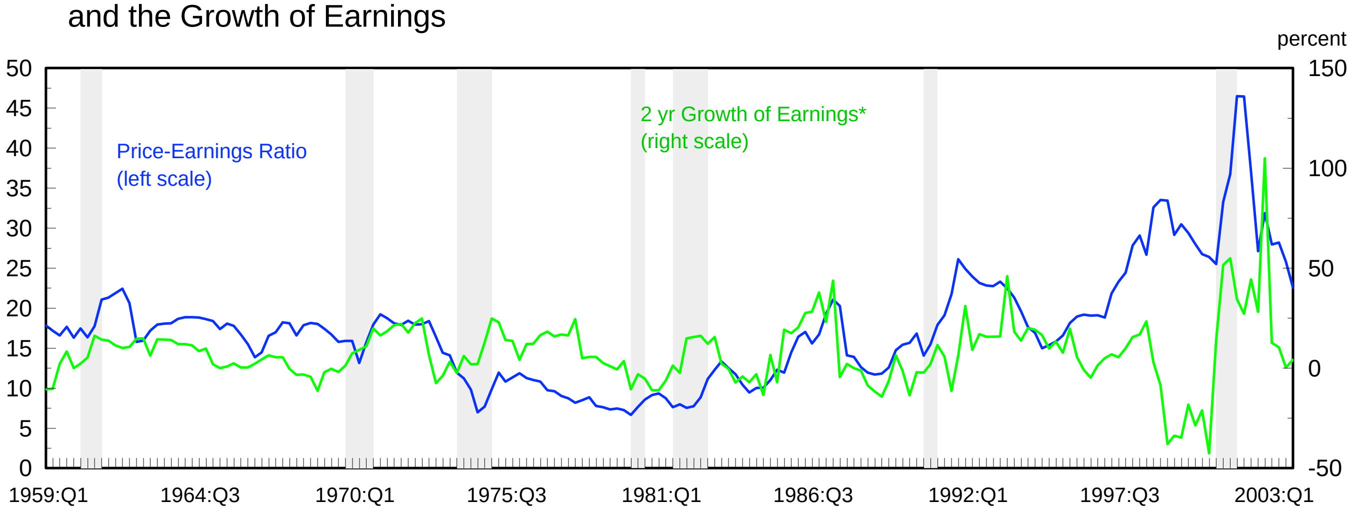
S&P Price-Earnings Ratios



S&P500 Price-Operating Earnings Ratio



S&P500 Price Earnings Ratio
and the Growth of Earnings

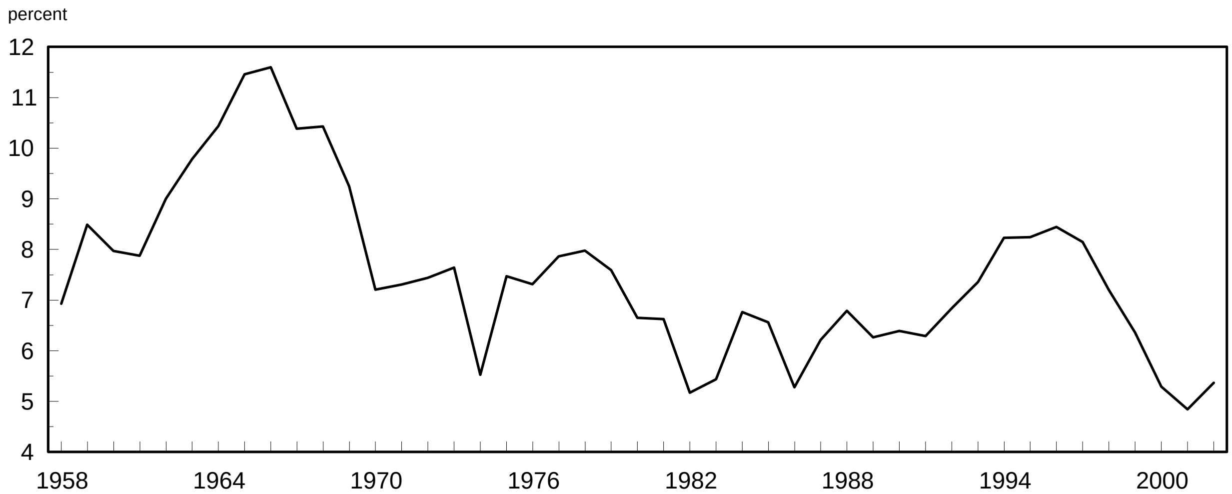


* Growth of earnings over subsequent 8 quarters. Current observations use forecast of earnings from macro projections.

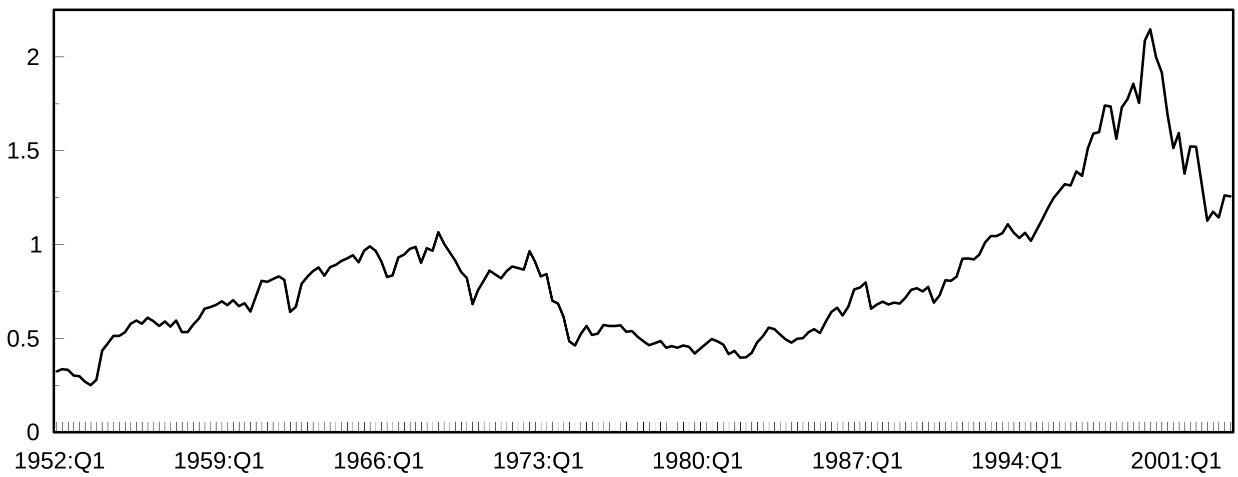
source: Thomson Financial/First Call, Global Exchange (formerly DRI), Bloomberg

Figure 10

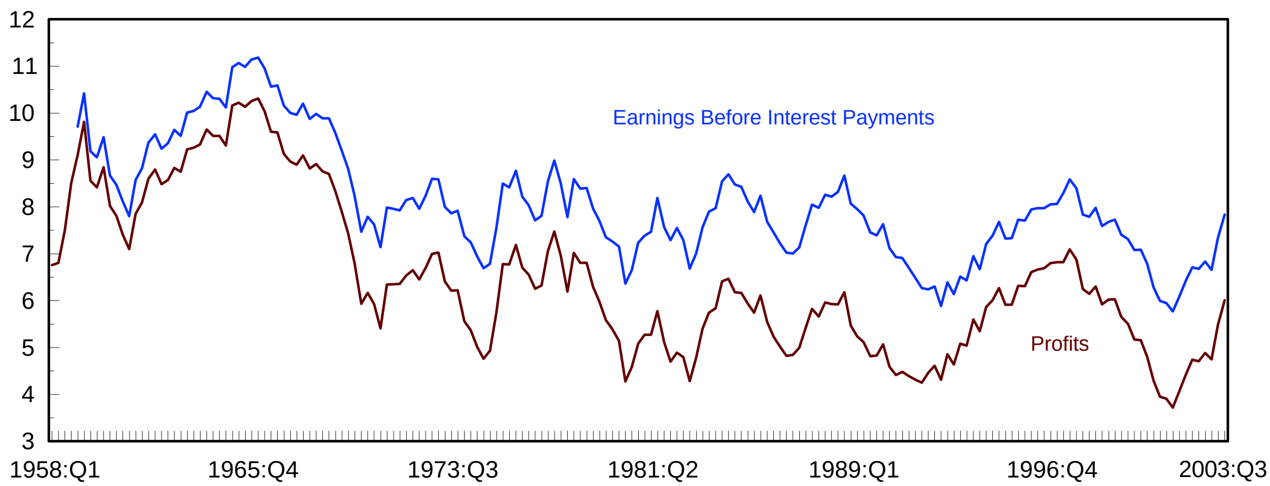
Real Rate of Return on Nonfinancial Corporate Equity
(from National Income and Flow of Funds Accounts)



Tobin's Q*



Profits of Nonfinancial Corporations
(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