May 7, 2004

Monthly Mutual Fund Report

Statistics for March-April 2004

Sales and Redemptions

Total assets for all funds decreased in March by $6.3 billion, or 0.1 percent, to $7.63 trillion, just short of the new record level set in February. Money market funds had a net cash outflow of $10.9 billion compared to an outflow in February of $21.0 billion. Other funds (equity, hybrid, and bond) had a net cash inflow of $28.3 billion, compared to an inflow of $32.8 billion in February. New sales of non-money market funds, the purchase of new shares excluding reinvested dividends, were $140.7 billion in March, up from $124.0 billion in February. The value of non-money market assets depreciated by $32.2 billion in March, following an appreciation of $78.2 billion in February.

Total assets of **equity funds** decreased by $9.5 billion, or 0.2 percent, to $3.89 trillion. There was a $15.8 billion net cash inflow to equity funds in March, compared with an inflow of $26.2 billion in February. The market value of assets depreciated by $28.5 billion in March. The year-to-date inflow is $85.0 billion, compared to an outflow of $11.1 billion in the first quarter of 2003.

Total assets for **hybrid funds**, which invest in a mix of stocks and bonds, decreased 0.6 percent, or $2.8 billion, to $455.8 billion. In March, there was a $4.8 billion net cash inflow for these funds, compared to an inflow in February of $5.0 billion. Hybrid funds have experienced an inflow of $15.3 billion thus far in 2004, compared to an inflow of $2.1 billion to this point in 2003.

Bond funds experienced a cash inflow of $7.7 billion, while their total assets increased by $16.2 billion, to $1.28 trillion. The market value of bond funds assets increased by $5.4 billion, after adjusting for net sales and reinvested dividends. The assets of taxable bond funds increased by 1.9 percent, while the assets of tax-exempt bond funds decreased by 0.5 percent. The inflow for 2004 is $8.9 billion, compared to $43.0 billion through March 2003.

Assets of taxable and tax-exempt **money market funds** decreased $10.2 billion, to $2.0 trillion, decreases of 0.4 percent for taxable money market funds and 1.0 percent for tax-exempt funds. The year-to-date outflow of $51.6 billion is less than the outflow for the first three months of 2003, $72.9 billion.

Liquidity Ratio

The liquidity ratio for bond and hybrid funds dcreased from 6.23 to 5.68 percent, while the ratio for equity funds decreased from 4.37 to 4.23 percent (figure 4).

Weekly Flows

In April, there were outflows from equity funds of 0.07 percent of total assets, with returns of 1.1 percent (figure 6a). Coupled with March's outflows of 0.08 percent, this marks the first time since last June-July that equity funds experienced outflows in consecutive months. However, equity funds had a positive return for the thirteenth time in the last fourteen months.

Bond funds had inflows of 1.1 percent and losses of 0.6 percent for the month. Index funds had monthly inflows of 0.8 percent and returns of 0.6 percent. Aggressive growth funds had returns of 0.5 percent and flat monthly flows. Small-cap funds had an inflow of 0.6 percent and returns of 0.6 percent.

There were inflows to international funds in April of 0.6 percent of assets and returns of 0.5 percent. Latin America funds had outflows of 0.7 percent and losses of 4.4 percent. Japan funds had inflows of 5.0 percent and returns of 0.5 percent of assets for the month of April. Pacific funds that do not invest in Japan had outflows of 1.2 percent and returns of 0.4 percent of assets.

Capital Market Returns and Volatility

The S&P 500 ended April at 1107.30, a decrease of 1.7 percent from the beginning of the month. The 12-month gain was 22.6 percent at month-end. The annualized volatility for the daily return on the S&P 500 was 13.0 percent.

The 12-month average return on the Citigroup Bond Index was 1.9 percent for March. Volatility increased to 6.0 percent (figure 8).

Price-Earnings Ratio

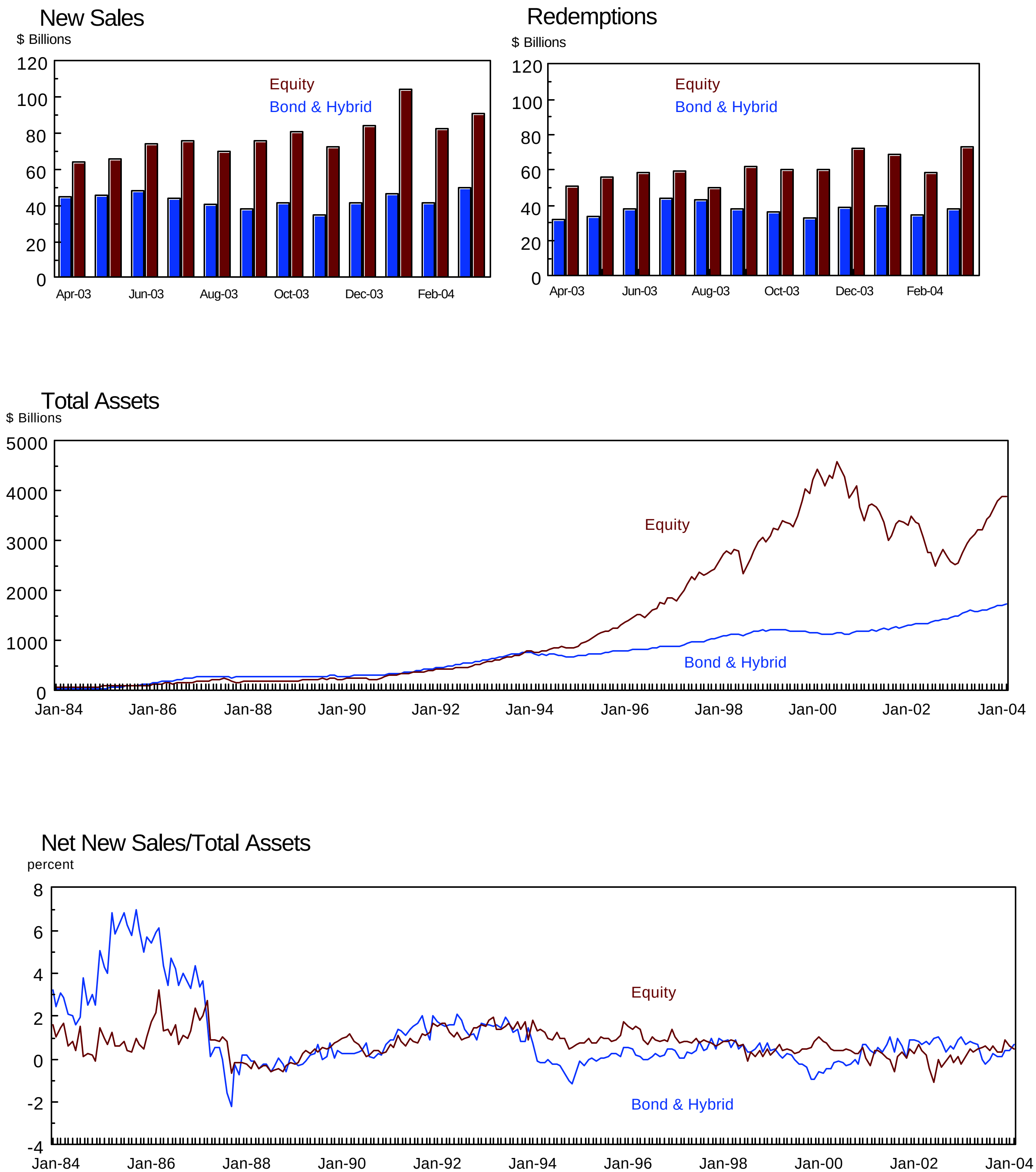
The macro projections for the growth of earnings of the Standard and Poor's 500 index over the next two years have increased in the first quarter to 2.9 percent from current levels. The trailing price-earnings ratio decreased from 22.5 in the fourth quarter of 2003 to 22.0 for the first quarter of 2004, while Thomson Financial/First Call's forward price-operating earnings was 17.4 in the second quarter of 2004, unchanged from the first quarter (figure 9). During the first quarter the price-earnings ratio for the Standard and Poor's Small-Cap 600 Index fell to 30.7 from 30.8.

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.

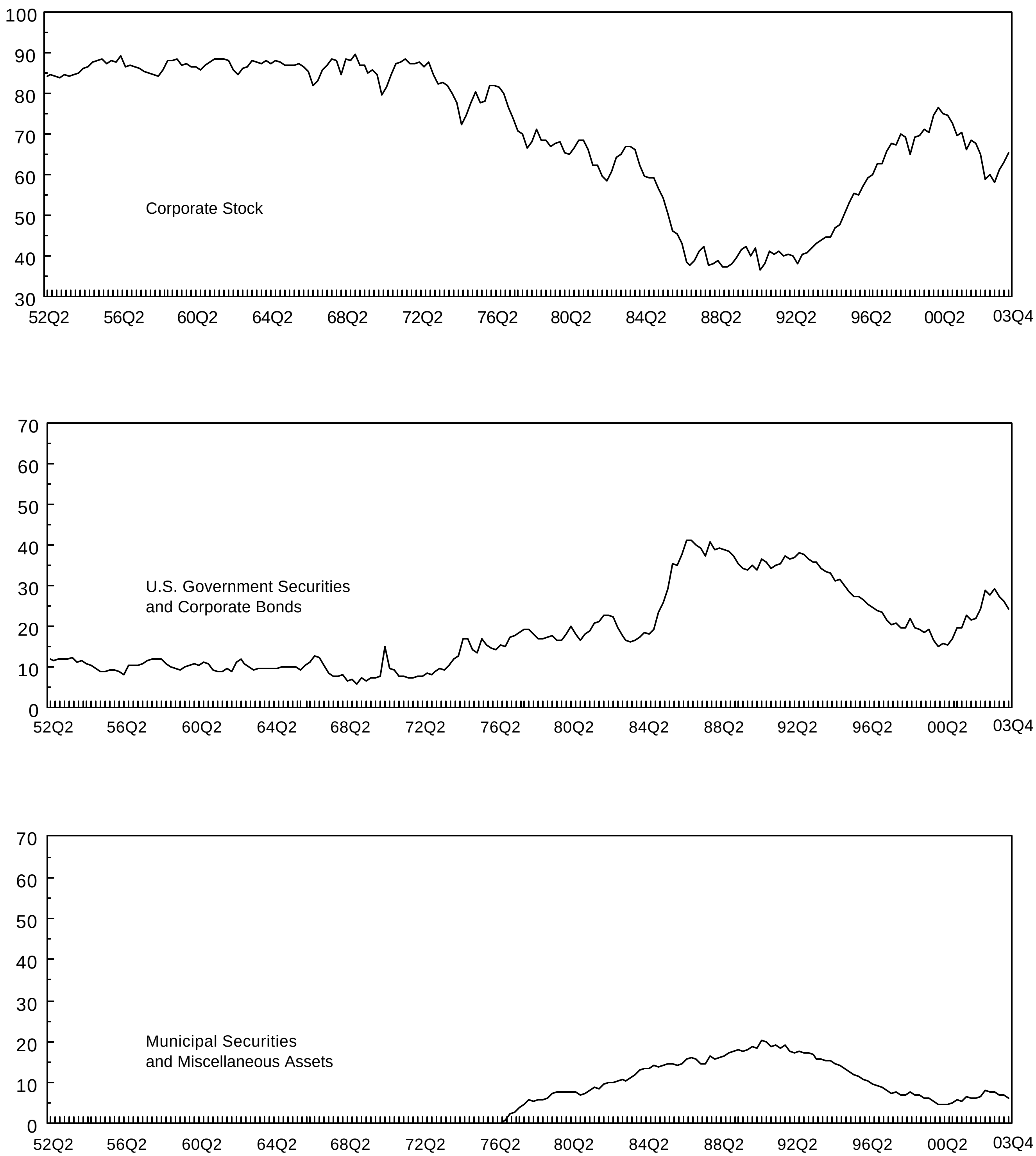
Please contact Matthew S. Rutledge for questions and comments at Matthew.S.Rutledge@bos.frb.org, or by phone at (617) 973-3198.

Figure 1
Sales of Mutual Funds



Source: Investment Company Institute

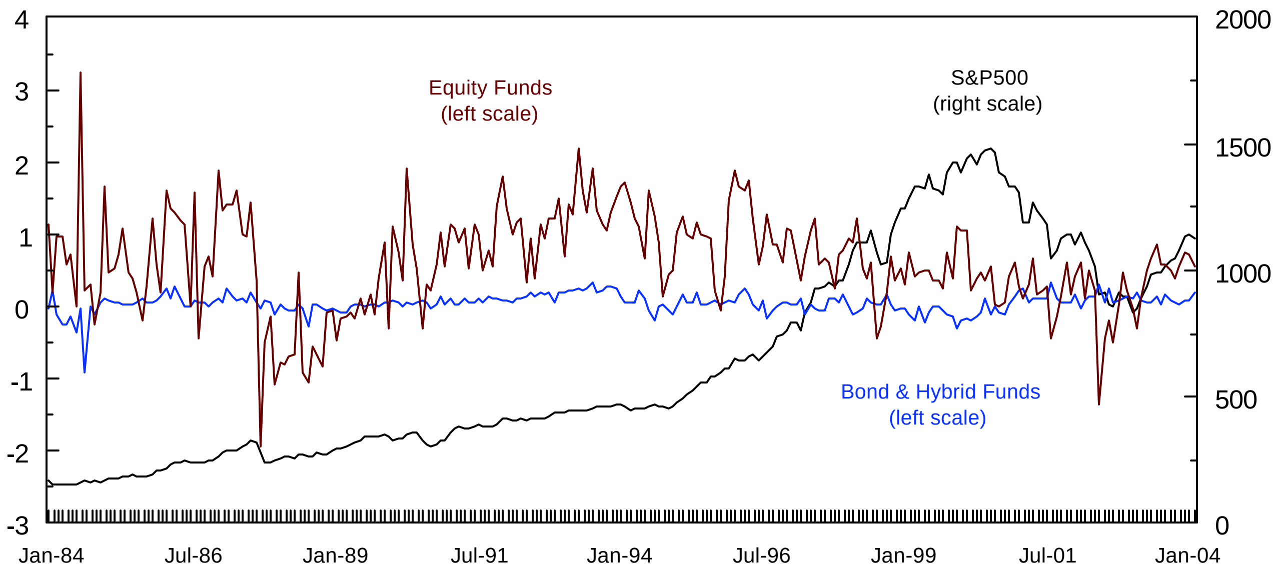
Figure 2
Composition of Mutual Funds' Financial Assets
(percent of Total Financial Assets)



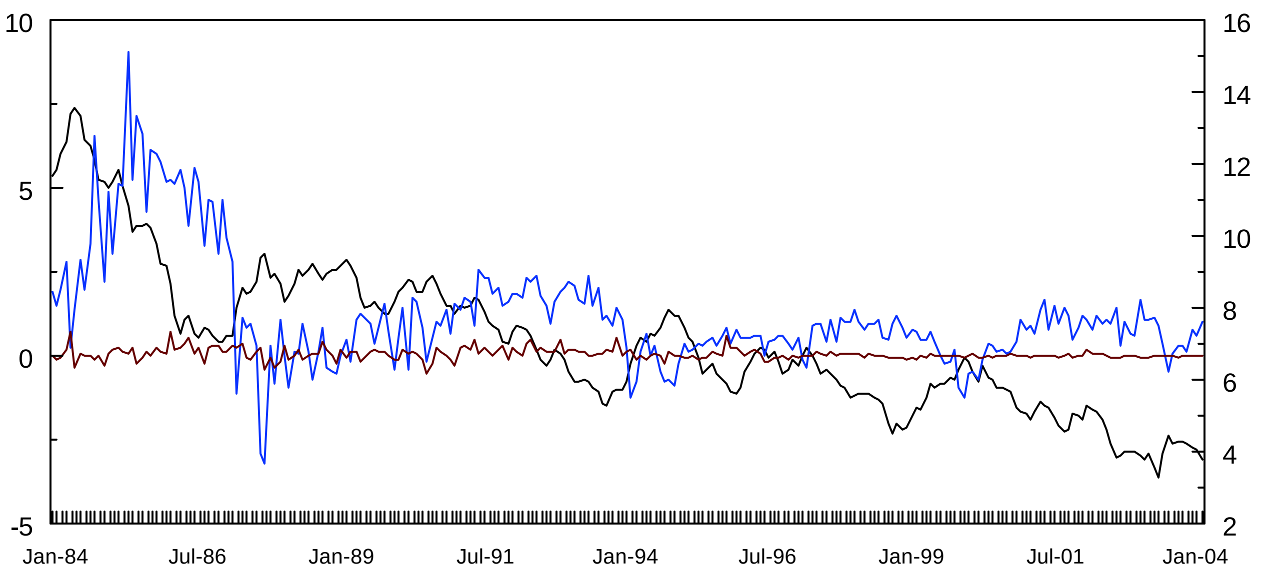
Source: Flow of Funds, Haver Analytics

Figure 3
Net Portfolio Purchases
(percent of Total Assets)

Net Common Stock Purchases

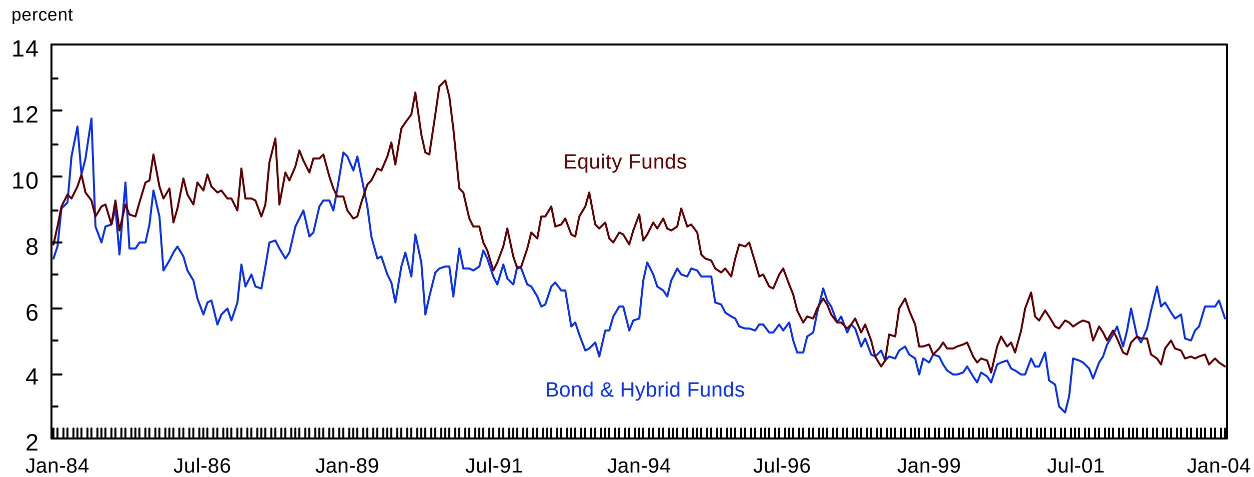


Net Purchases of Other Assets

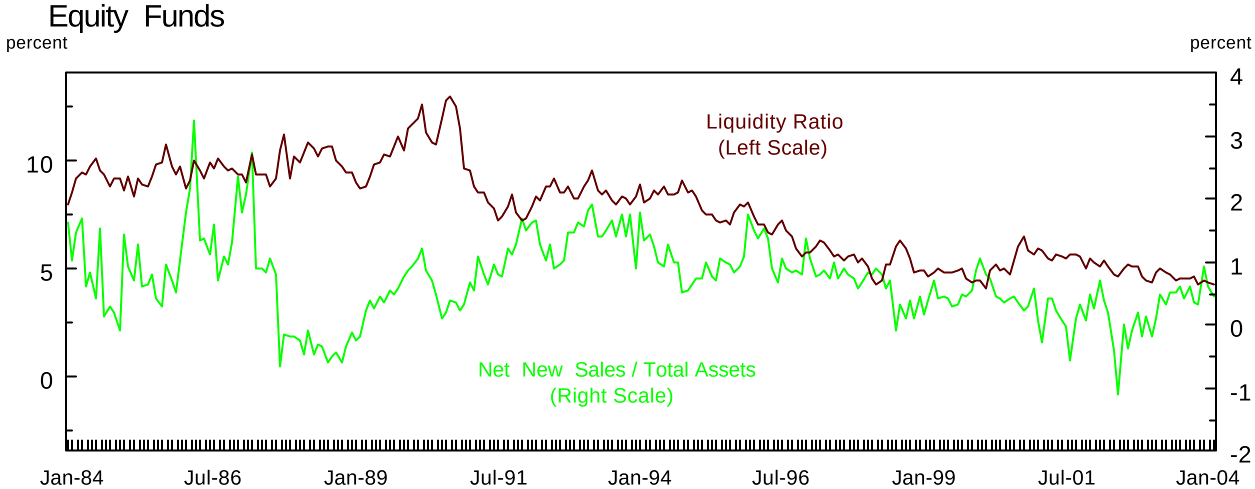


Source: Investment Company Institute

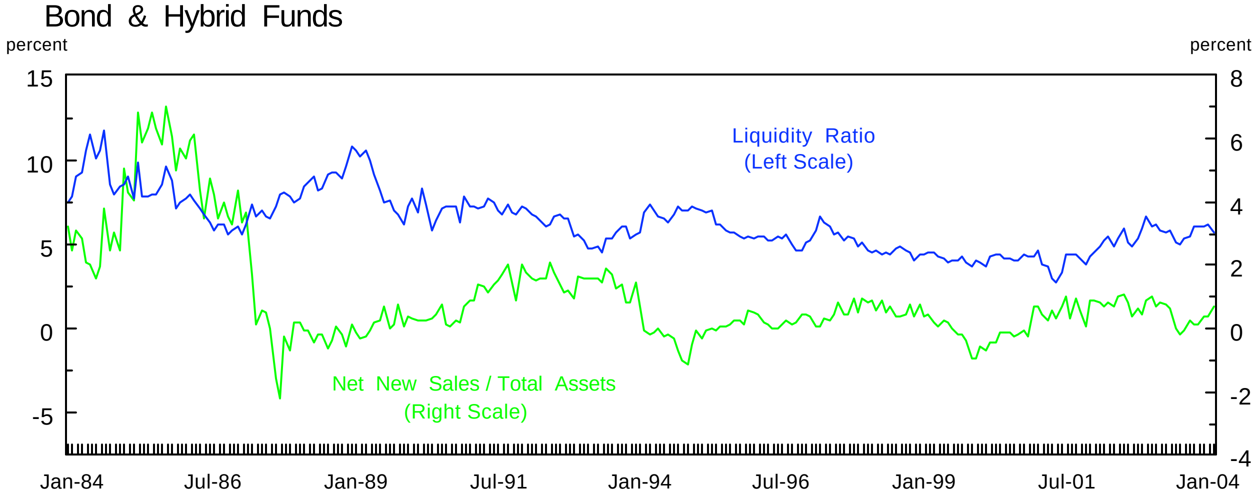
Figure 4
Liquidity Ratio*



Equity Funds



Bond & Hybrid Funds



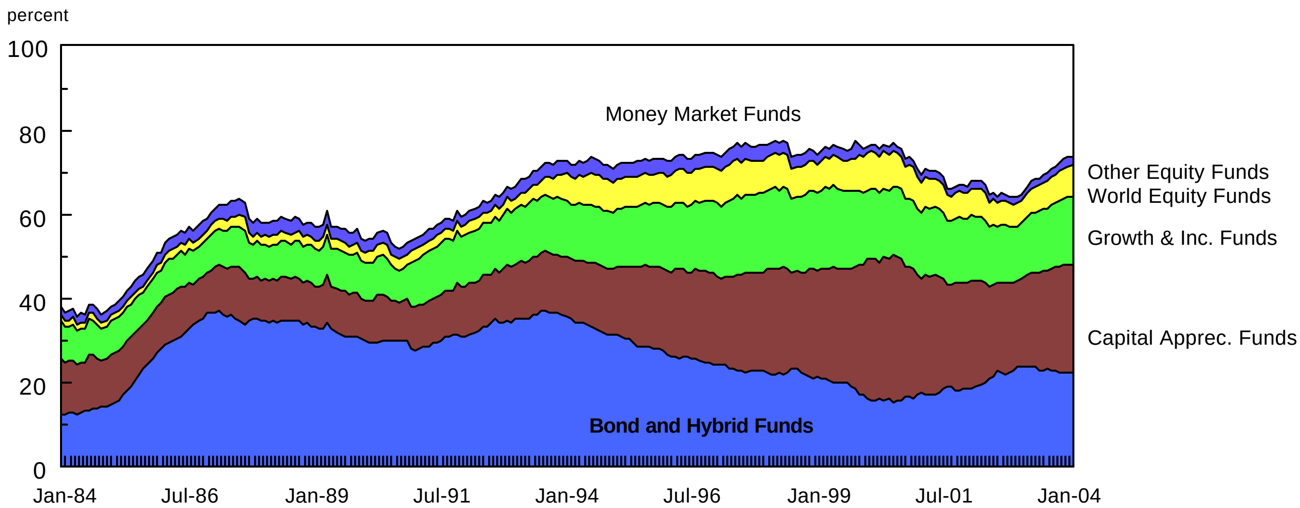
*The Liquidity Ratio is the Percent of Total Assets held in Cash and Short-Term Securities.

Source: Investment Company Institute

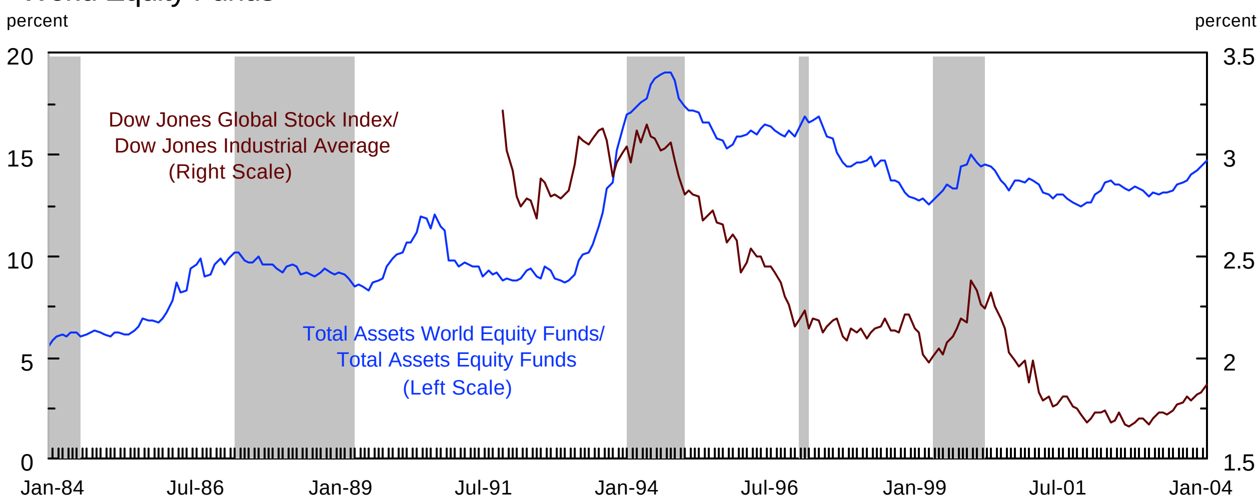
Figure 5

Industry Composition

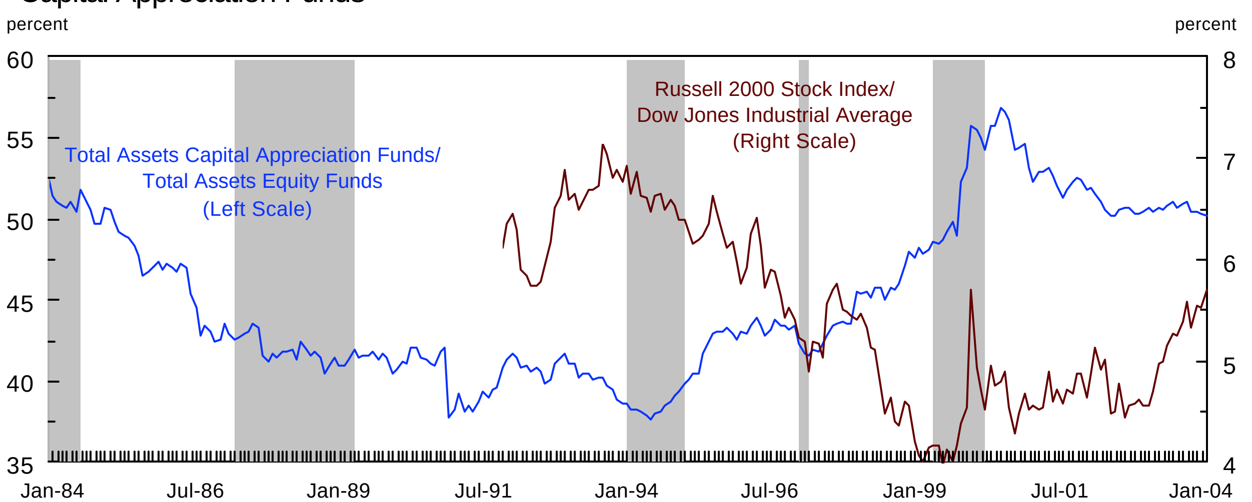
(Shaded Regions Indicate Periods of Rising Fed Funds Rate)



World Equity Funds



Capital Appreciation Funds

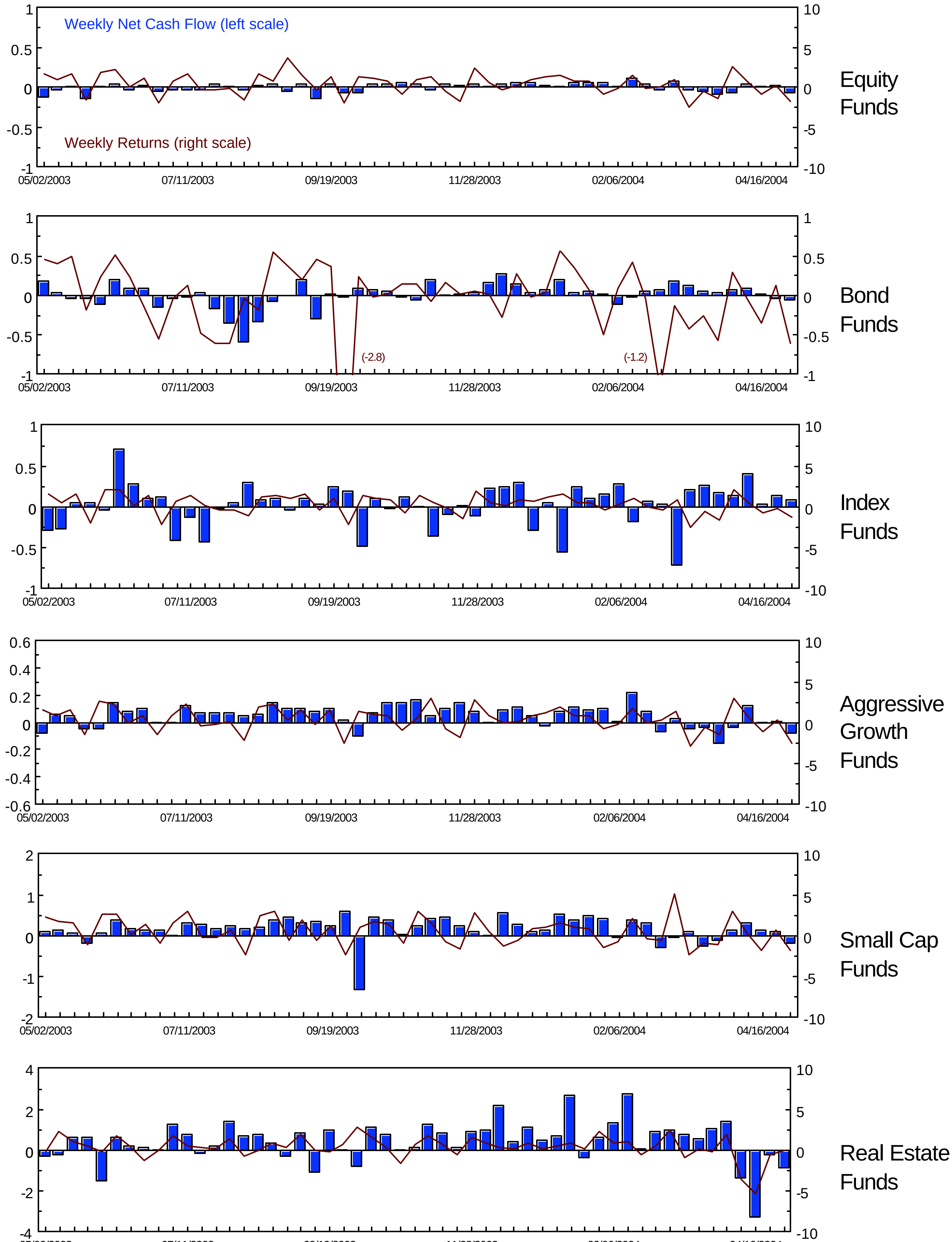


Source: Investment Company Institute

Figure 6a

Weekly Flows into Mutual Funds

(percent of Total Assets)

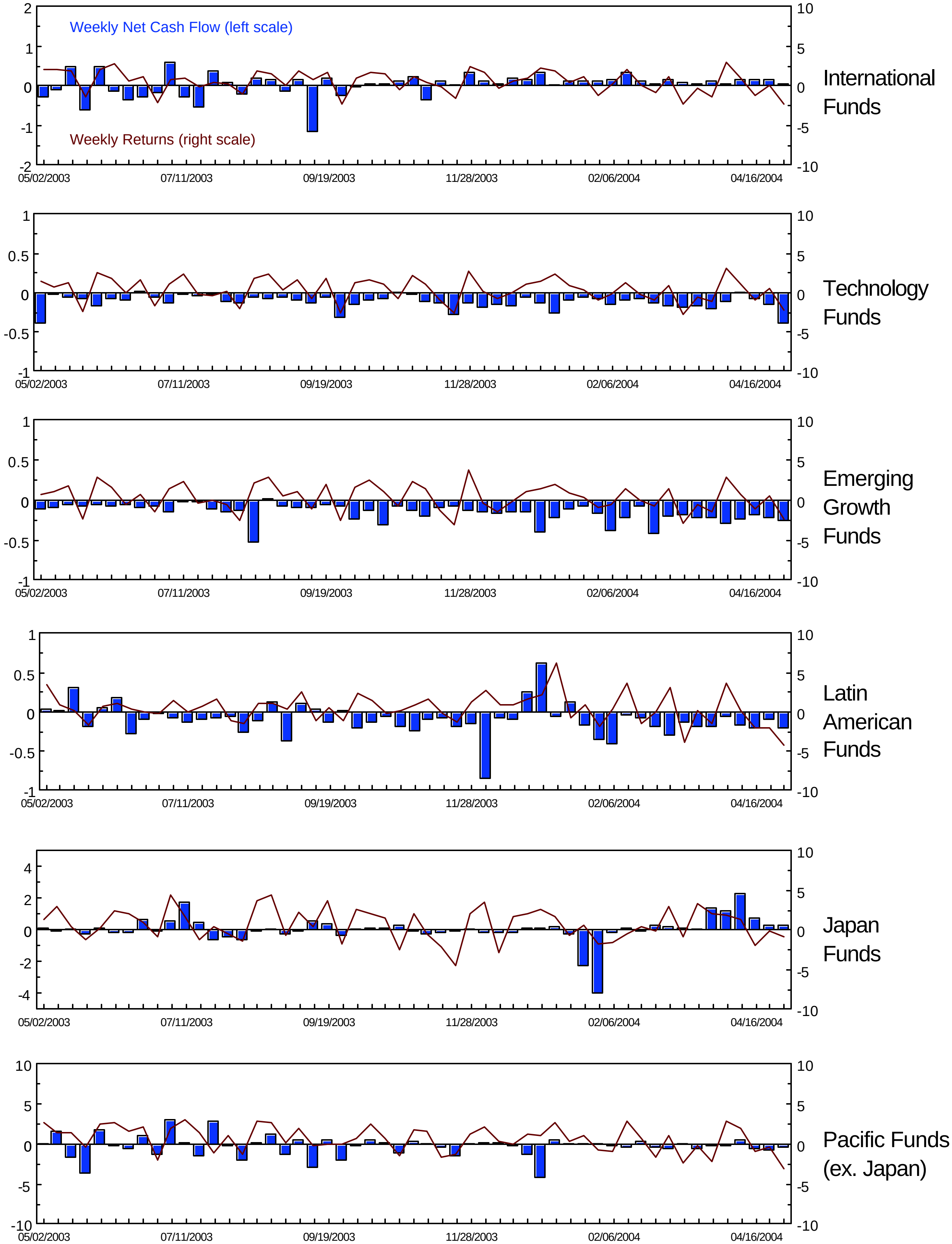


Source: Mutual Fund Trim Tabs

Figure 6b

Weekly Flows into Mutual Funds

(percent of Total Assets)

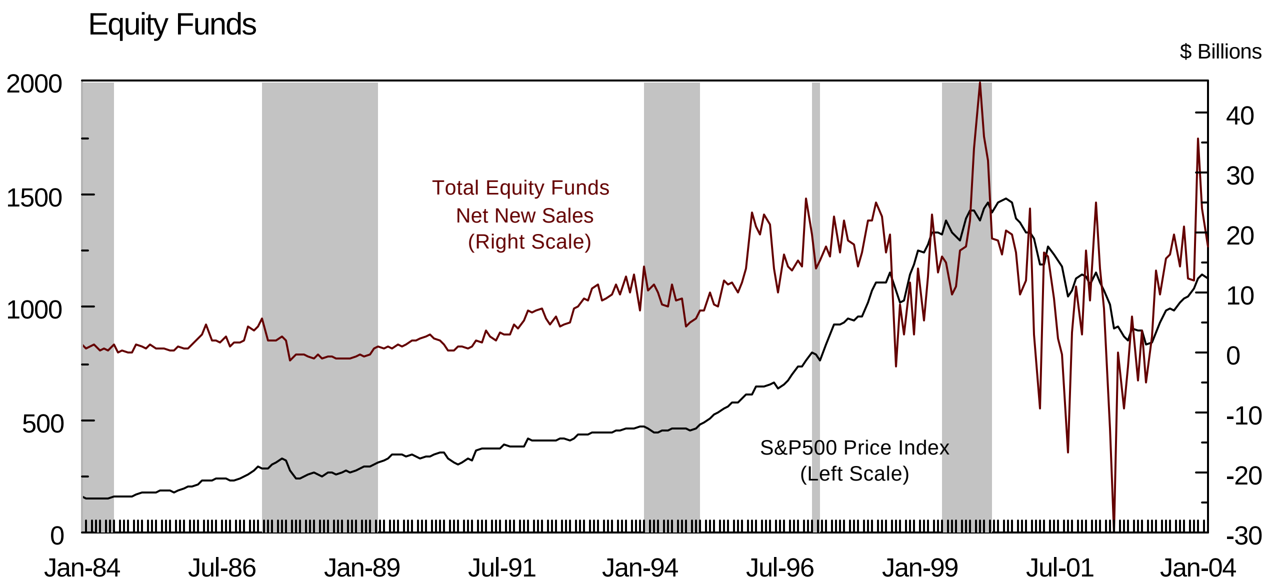


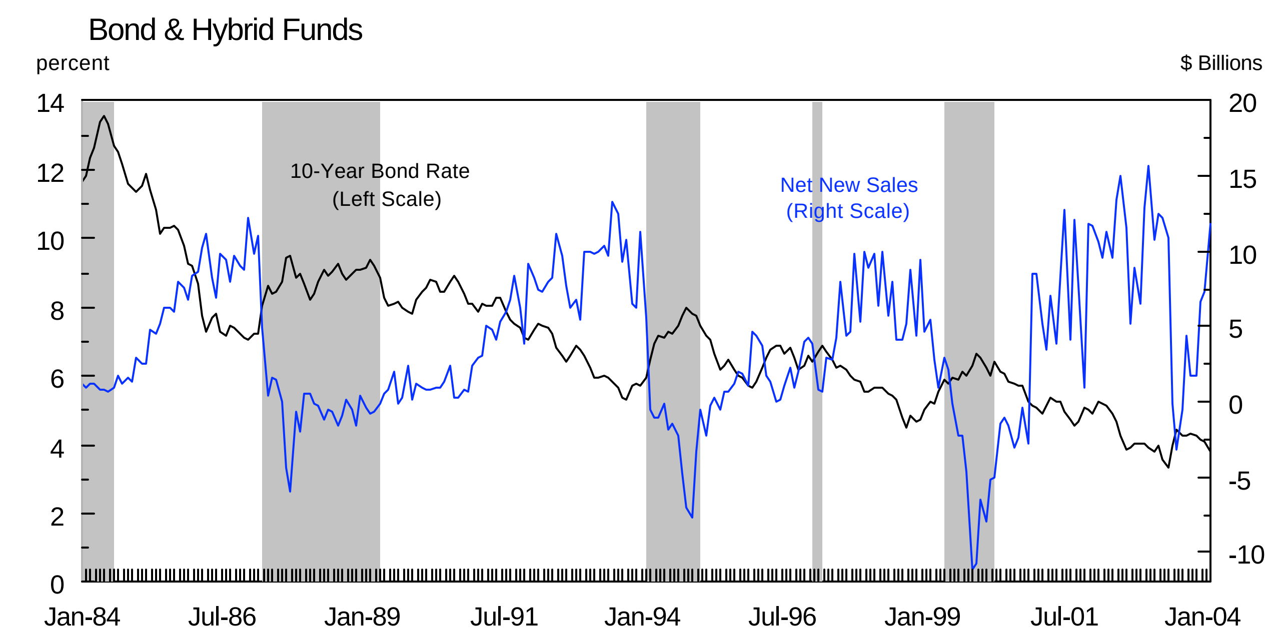
Source: Mutual Fund Trim Tabs

Figure 7

Net New Sales By Investment Objective

(Shaded Regions Indicate Periods of Rising Fed Funds Rate)

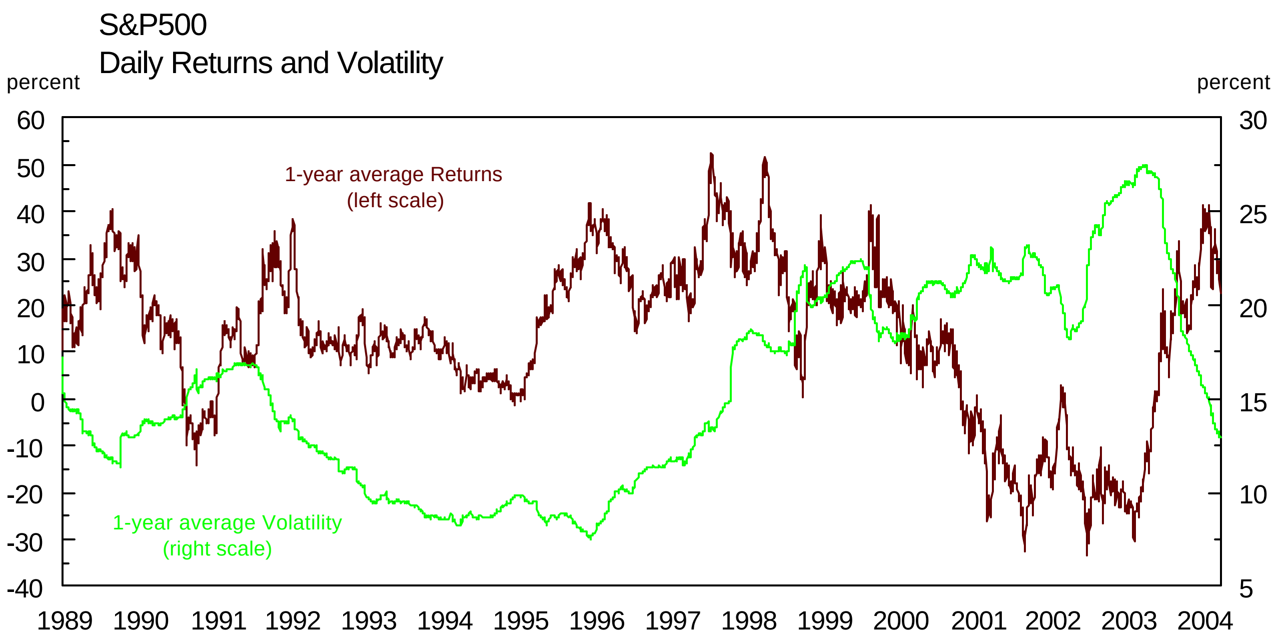


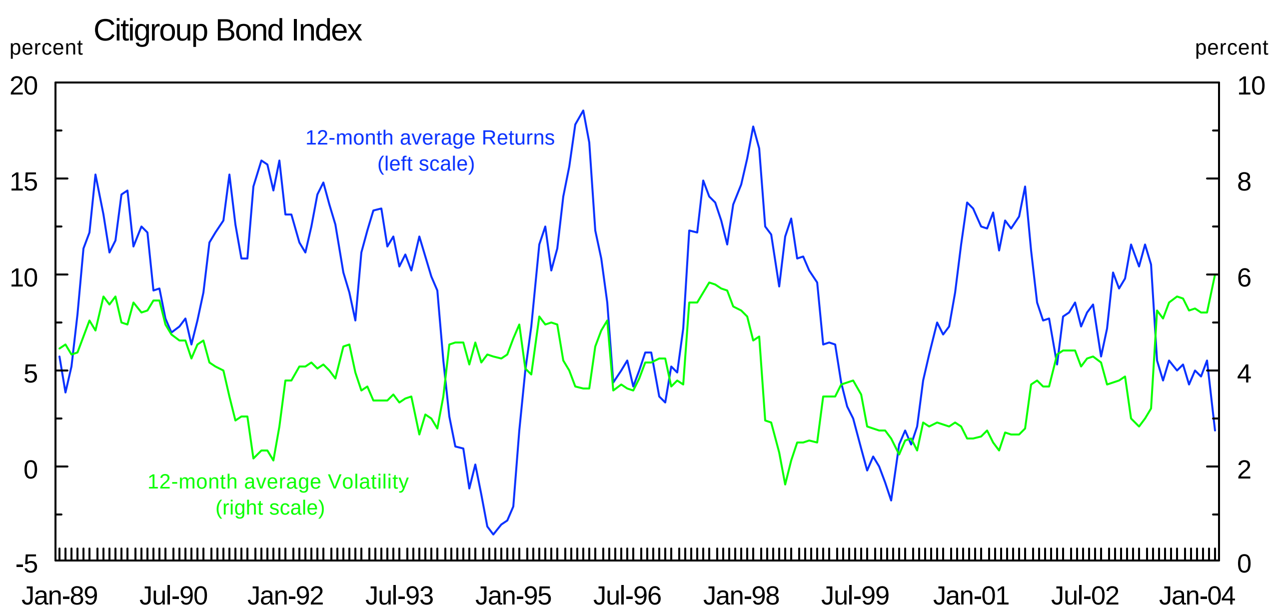


Source: Investment Company Institute

Figure 8

Capital Market Returns and Volatility

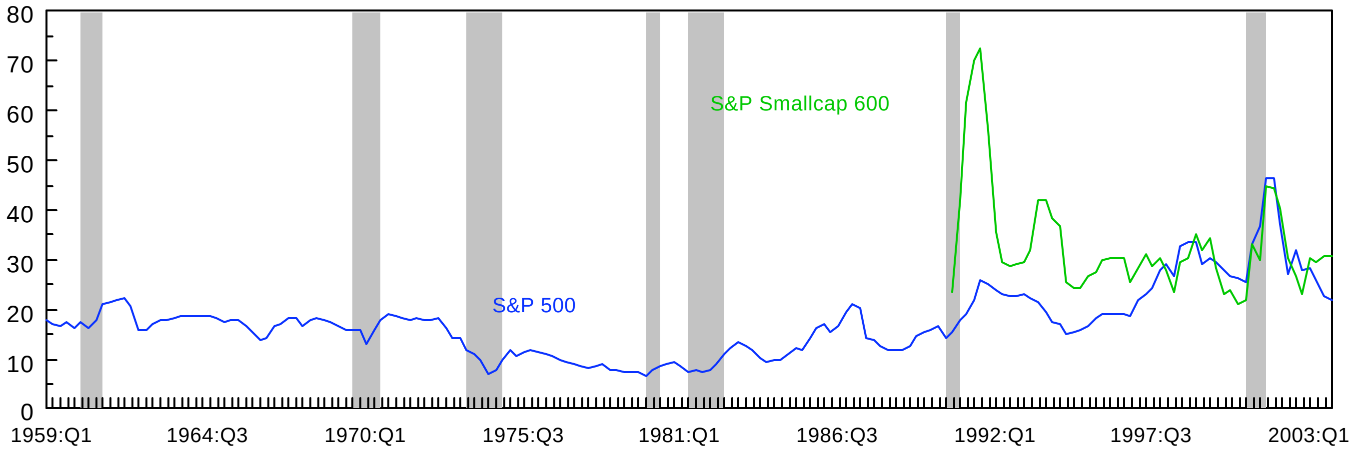




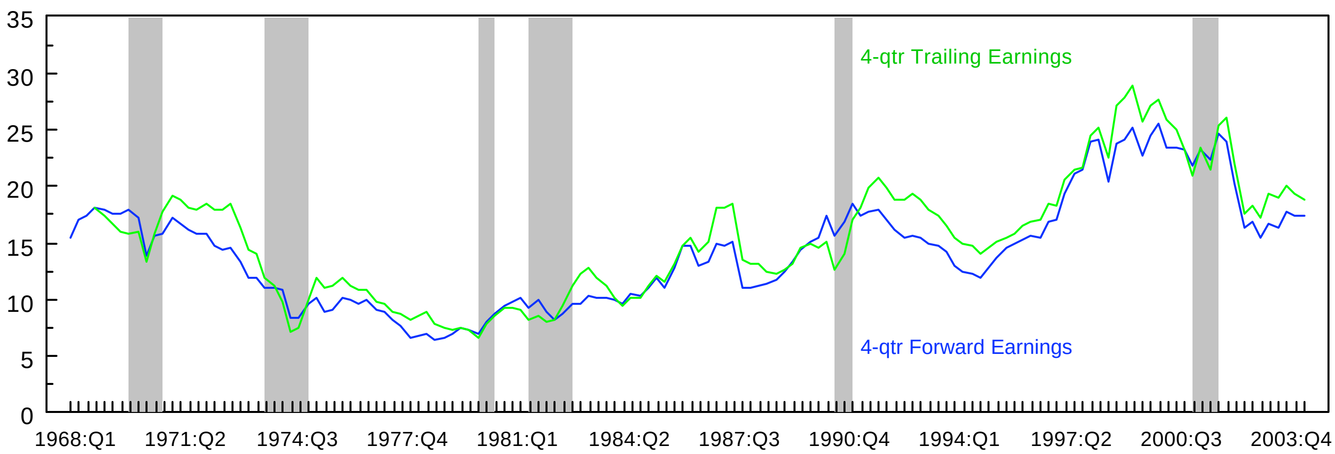
Source: FAME Database, Citigroup

Figure 9

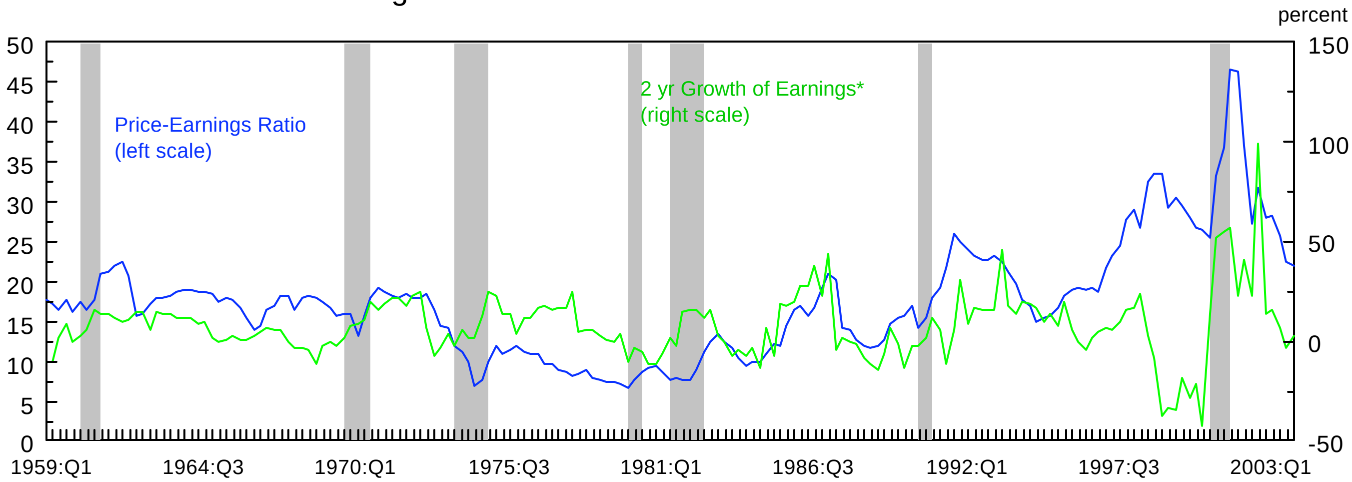
S&P Price-Earnings Ratios



S&P500 Price-Operating Earnings Ratio



S&P500 Price Earnings Ratio
and the Growth of Earnings



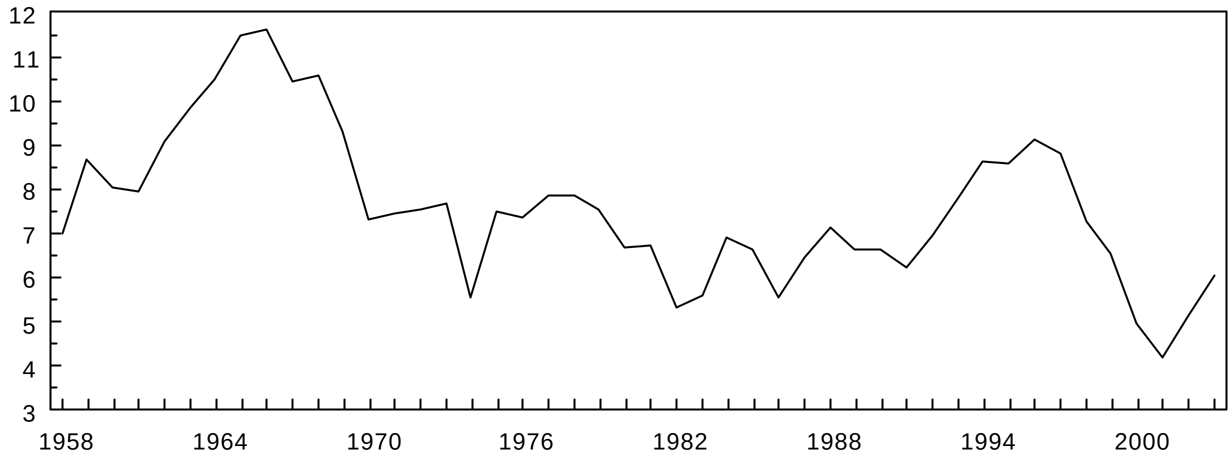
* Growth of earnings over subsequent 8 quarters. Current observations use forecast of earnings from macro projections.

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

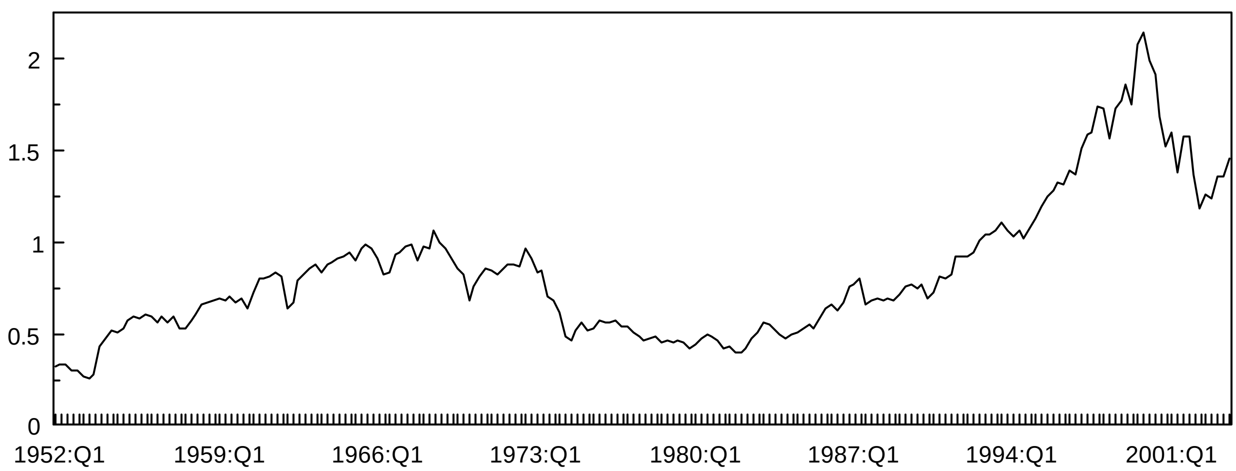
Figure 10

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

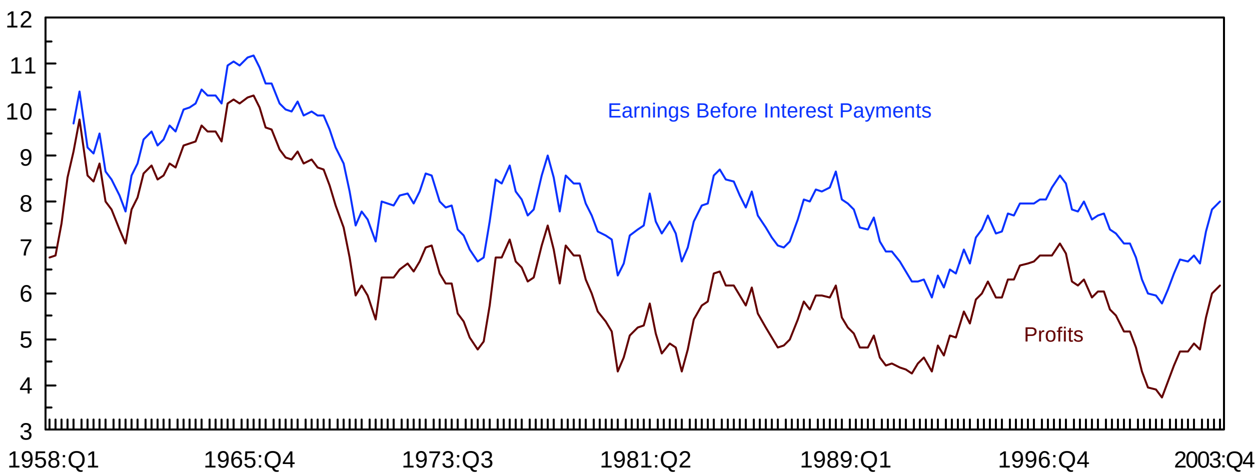
percent



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