Federal Reserve Bank of Boston

Monthly Mutual Fund Report

May 3, 2007

FEDERAL RESERVE
BANK OF BOSTON™

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Statistics for March and April 2007

Sales and Redemptions

Total assets for all funds increased in March by $155.2 billion, or 1.5 percent, to $10.8 trillion. Money market funds had a net cash inflow of $25.9 billion in March, compared to an inflow of $34.4 in February. Other funds (equity, hybrid, and bond) had a net cash inflow of $25.4 billion, compared to an inflow of $44.9 billion in the previous month. New sales of non-money market funds, the purchase of new shares excluding reinvested dividends, were $179.7 billion in March, down from $174.0 billion in February. The value of non-money market assets appreciated by $119.9 billion in February, following a depreciation of $4.3 billion in February.

Total assets of **equity funds** increased by $95.9 billion, or 1.6 percent, to $6.1 trillion. Equity funds experienced a net cash inflow in March, year-to-date, of $63.7, compared with an inflow of $92.7 for the same period in 2006. The market value of assets appreciated by $95.9 billion in March.

In March, total assets for **hybrid funds**, which invest in a mix of stocks and bonds, increased by 1.4 percent, or $9.0 billion, to $665.6 billion. There was $9.8 billion net cash inflow into these funds year-to-date, compared to an inflow of $1.3 billion during the first three months of 2006.

Bond funds experienced a cash inflow of $14.6 billion in March, while their total assets increased by $14.9 billion, to $1.6 trillion. The market value of bond funds assets decreased by $4.2 billion, after adjusting for net sales and reinvested dividends. The assets of taxable bond funds increased by 1.1 percent and the assets of tax-exempt bond funds increased by 0.4 percent. March's year-to-date cash inflow was $44.7 billion, up from the inflow of $22.2 billion seen during the same period in 2006.

Assets of taxable and tax-exempt **money market funds** increased $35.3 billion, to $2.4 trillion, reflecting an increase of 1.6 percent for taxable money market funds and an increase of 1.0 percent for tax-exempt funds. Money market funds experienced an inflow of $49.5 billion during the first three months of 2007, compared to an outflow of $7.5 billion during the same period last year.

Liquidity Ratio

The liquidity ratio for bond and hybrid funds decreased to 5.0 percent in March, from 5.7 percent in February, and the ratio for equity funds decreased to 3.7 percent in March from 3.9 percent in the previous month (figure 4).

Capital Market Returns and Volatility

The S&P 500 ended April 27 at 1495.25, up 5.2 percent from the end of March, and up 14.2 percent over the previous year. The annualized volatility for the daily return on the S&P 500 was 11.1 percent at the end of April.

The 12-month average return on the Citigroup Bond Index was 7.4 percent in April, up from March's average return of 6.6 percent. Volatility declined to 2.5 percent in April from 2.6 percent in the previous month (figure 7).

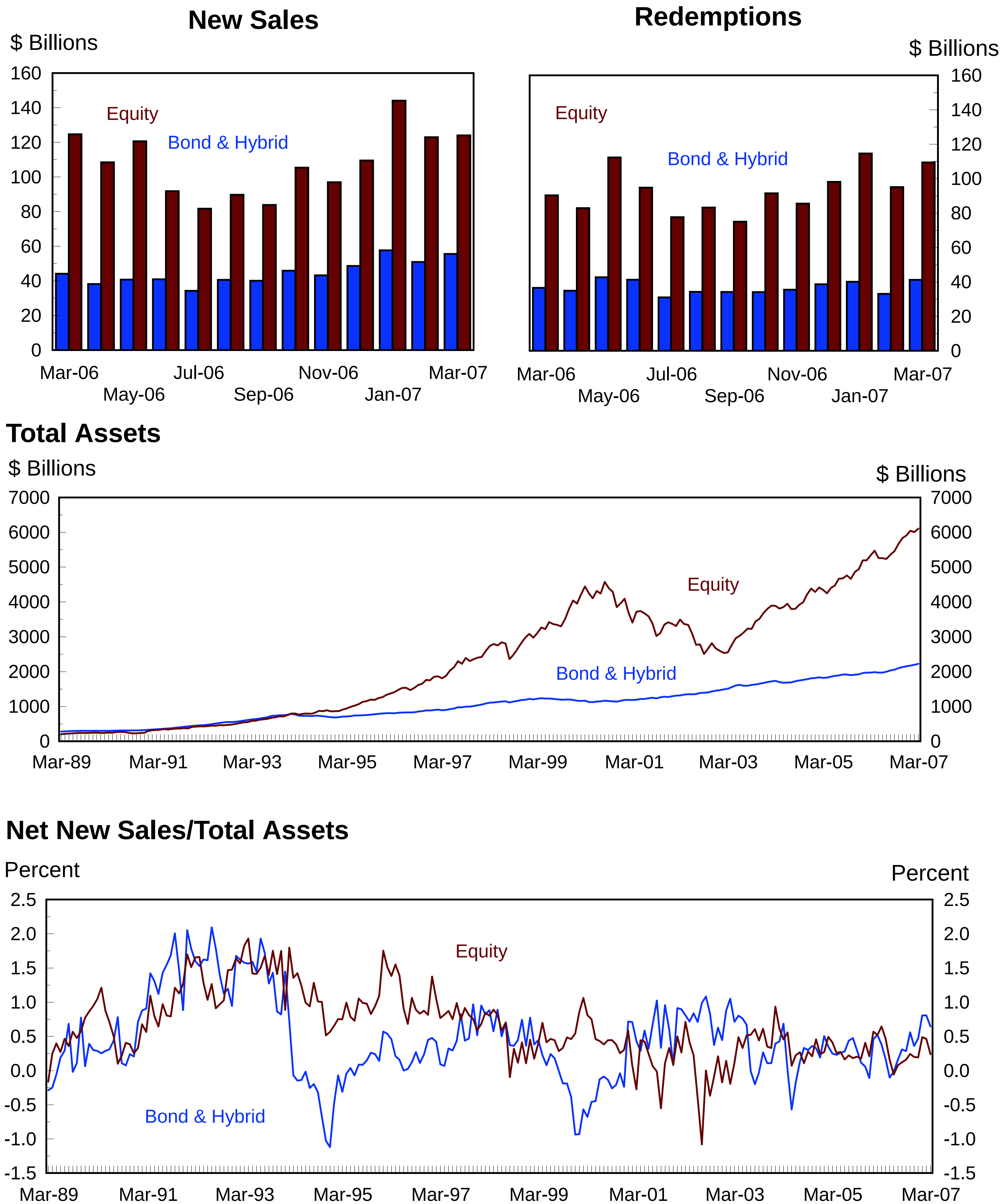
Price-Earnings Ratio

Macro projections for earnings growth for the Standard and Poor's 500 Index over the next two years were 5.2 percent in the first quarter of 2007. The price-earnings ratio for the Standard and Poor's 500 Index was at 16.7 in the first quarter, down from 17.4 in the fourth quarter of 2006. The price-earnings ratio for the Small-Cap 600 Index increased to 22.2 in the first quarter of 2007, from 21.9 in the fourth quarter of 2006 (figure 8).

Please contact Delia Sawhney for questions and comments at Delia.R.Sawhney@bos.frb.org, or by phone at (617) 973-3542.

Figure 1

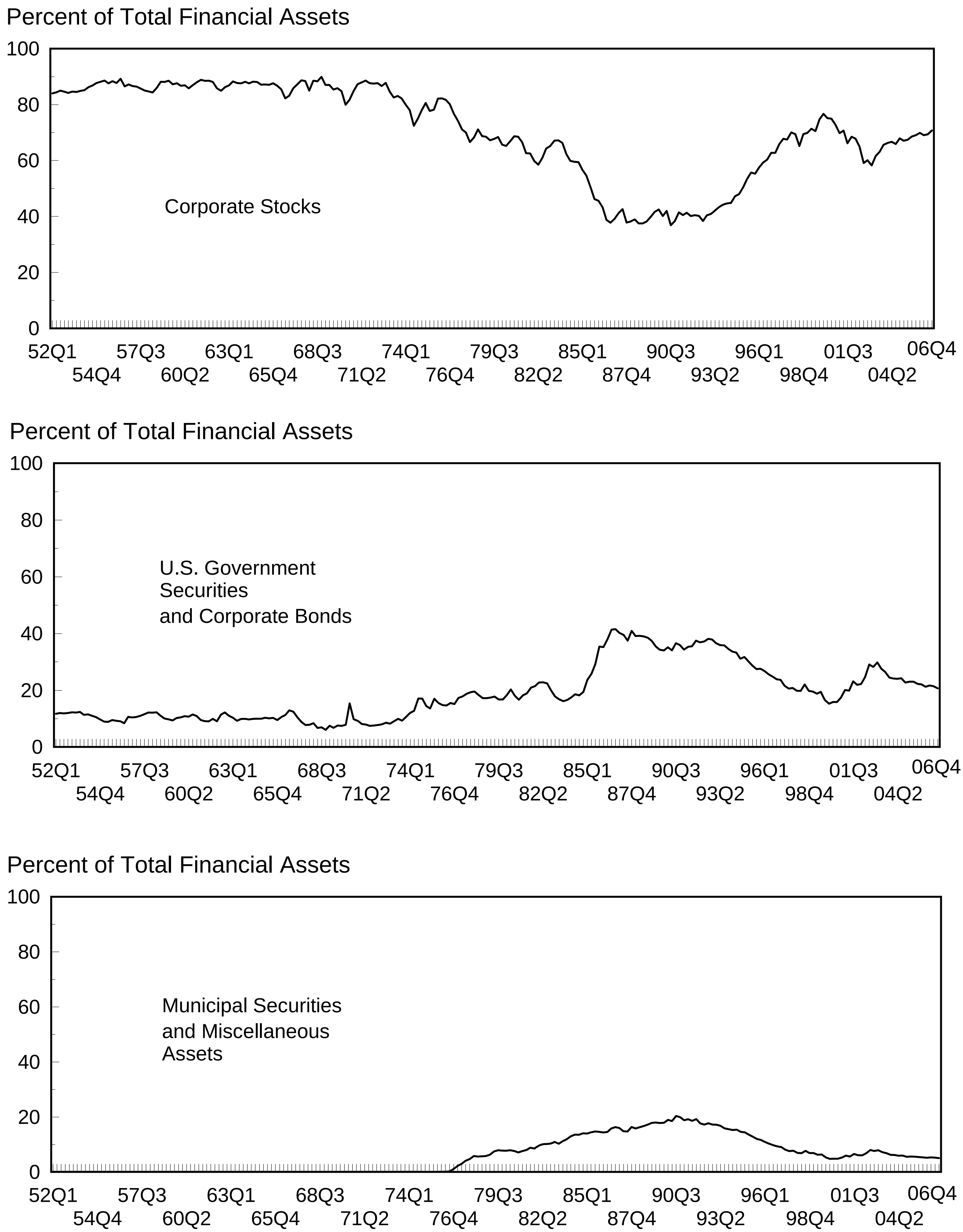
Sales of Mutual Funds



Source: Investment Company Institute.

Figure 2

Composition of Mutual Funds' Financial Assets

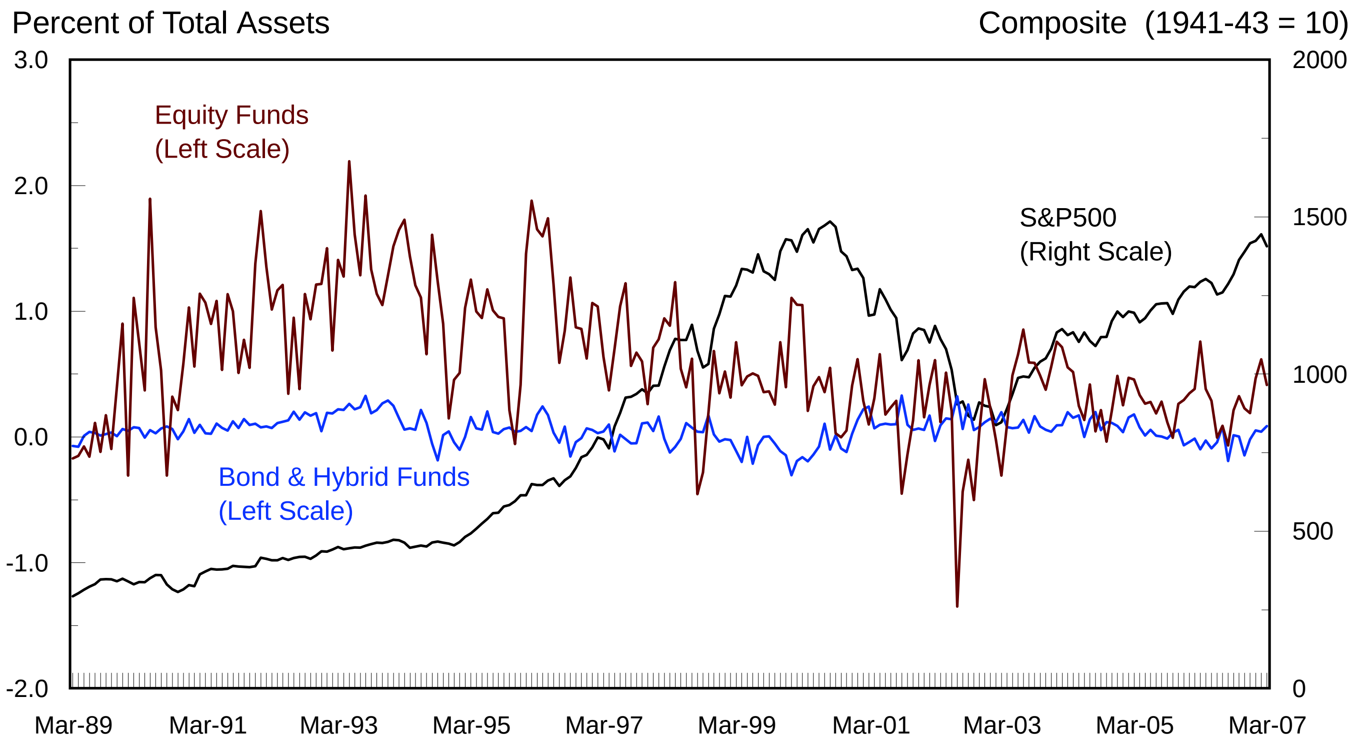


Source: Flow of Funds/Haver Analytics.

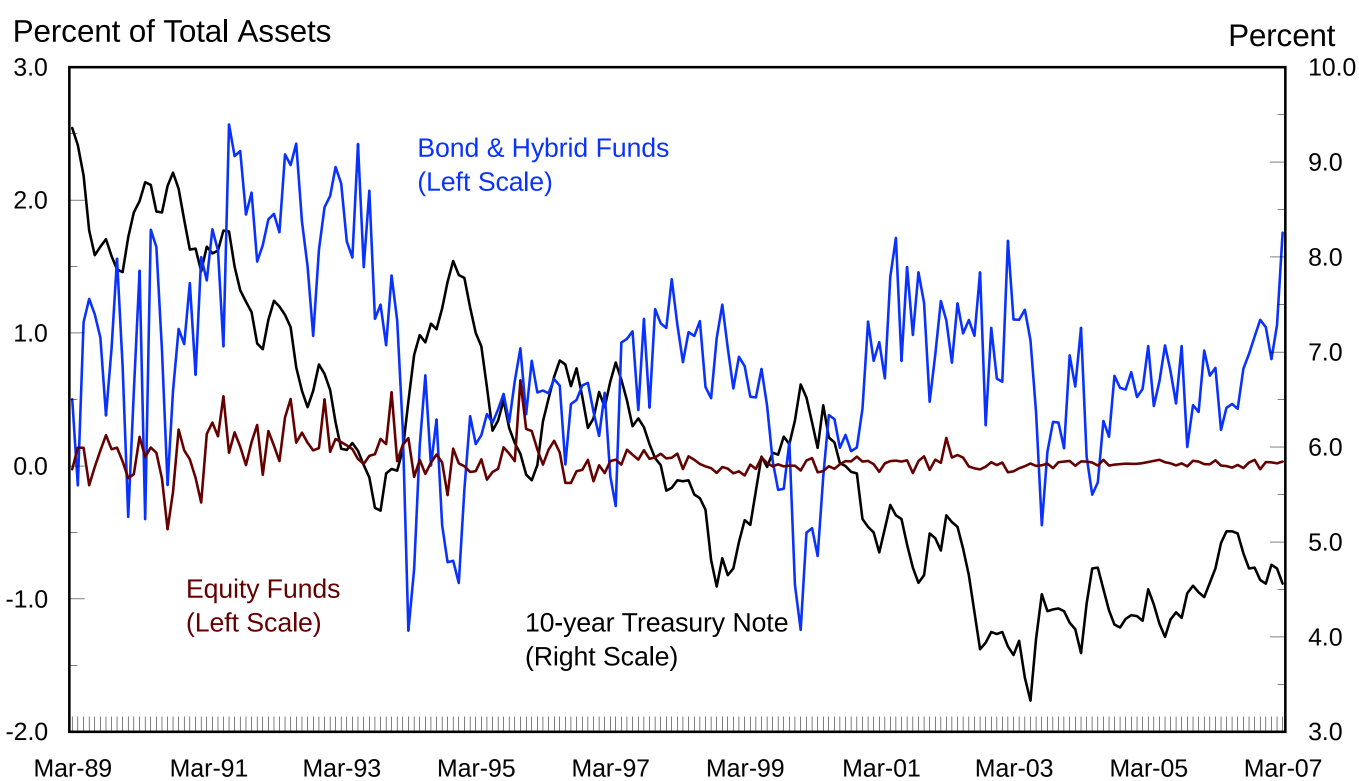
Figure 3

Net Portfolio Purchases

Net Common Stock Purchases



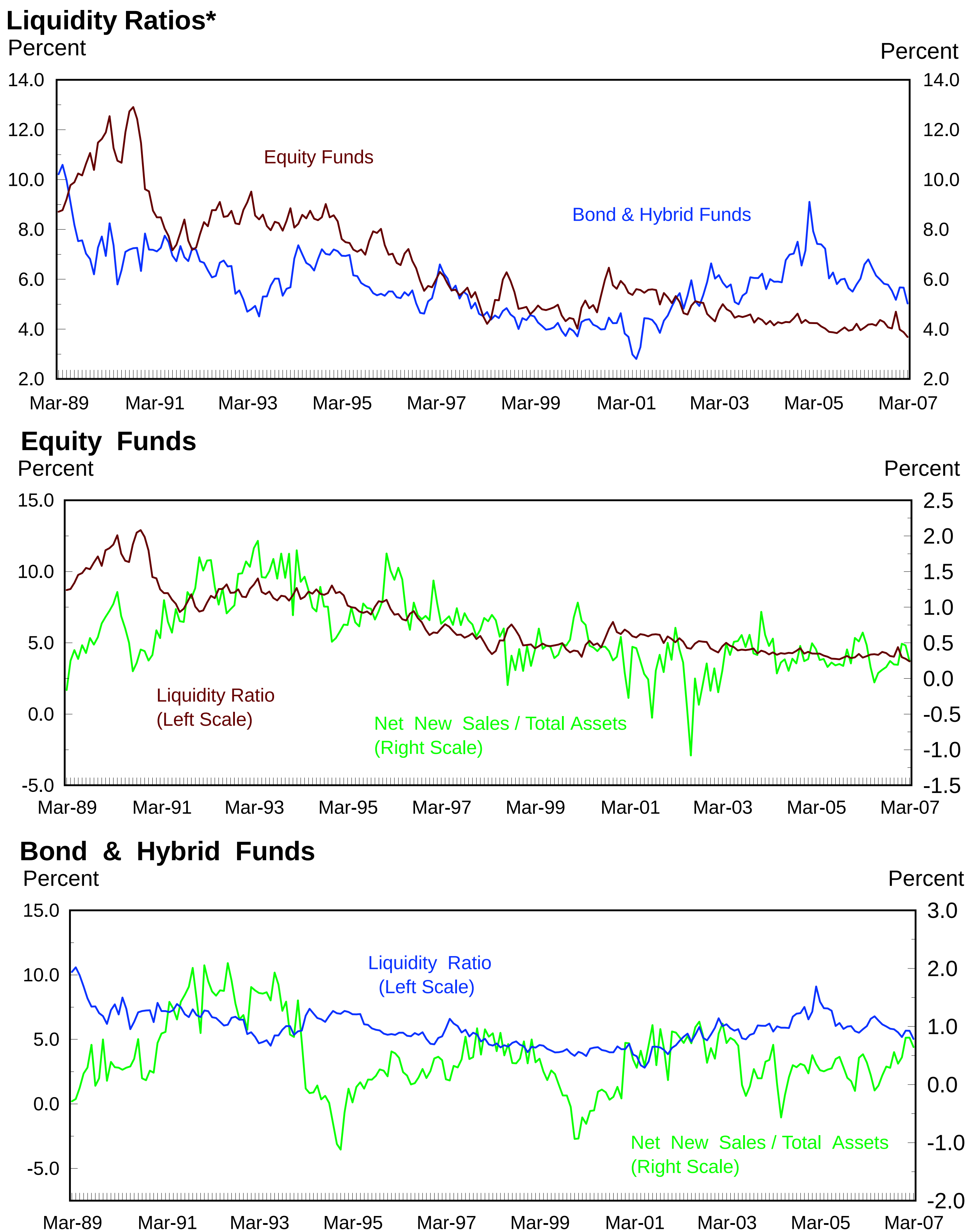
Net Purchases of Other Assets



Source: Investment Company Institute.

Figure 4

Liquidity Ratios

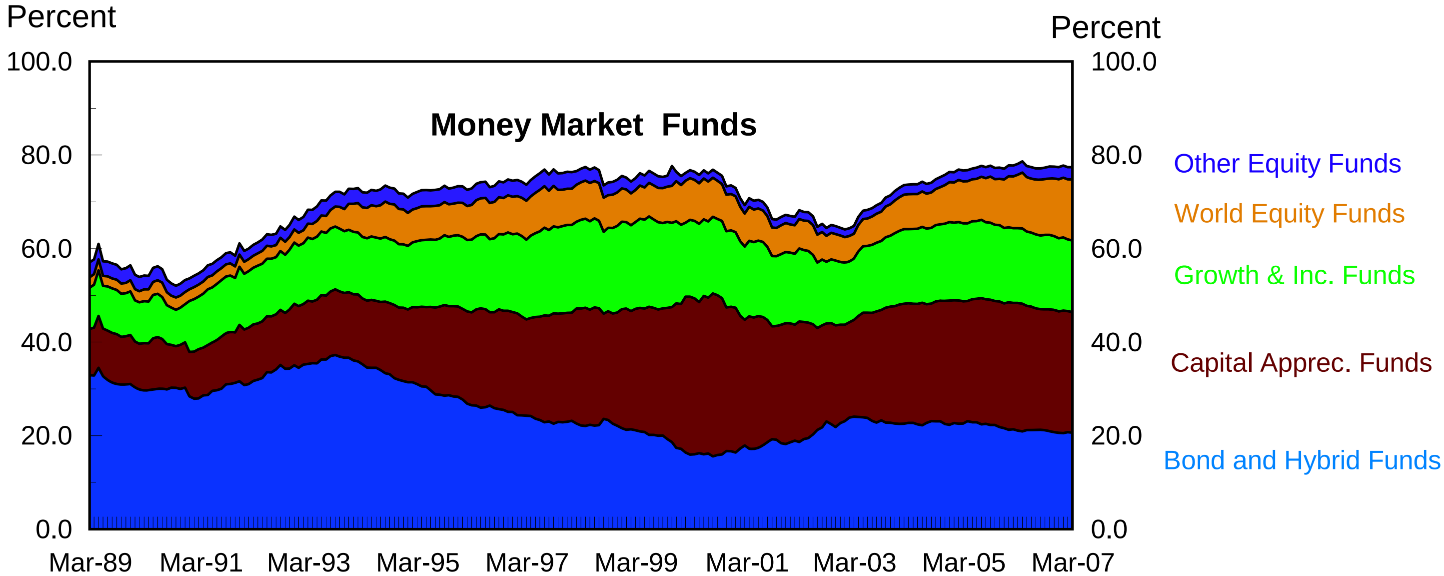


*Liquidity ratios are the percent of total assets held in cash and short-term securities.

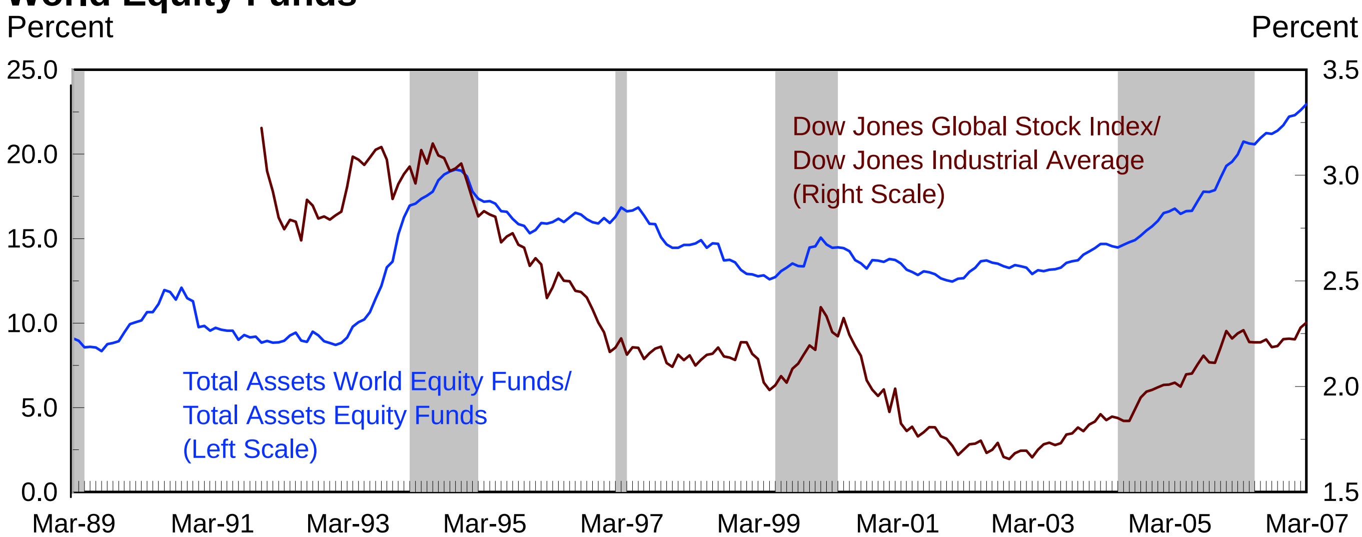
Source: Investment Company Institute.

Figure 5

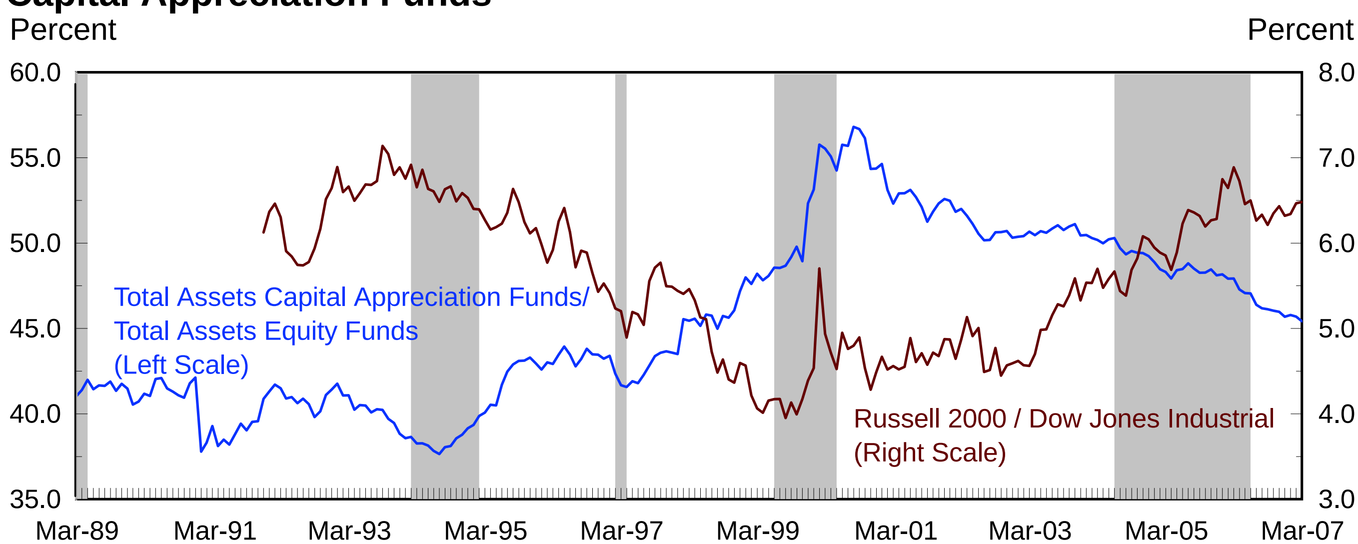
Industry Composition



World Equity Funds



Capital Appreciation Funds



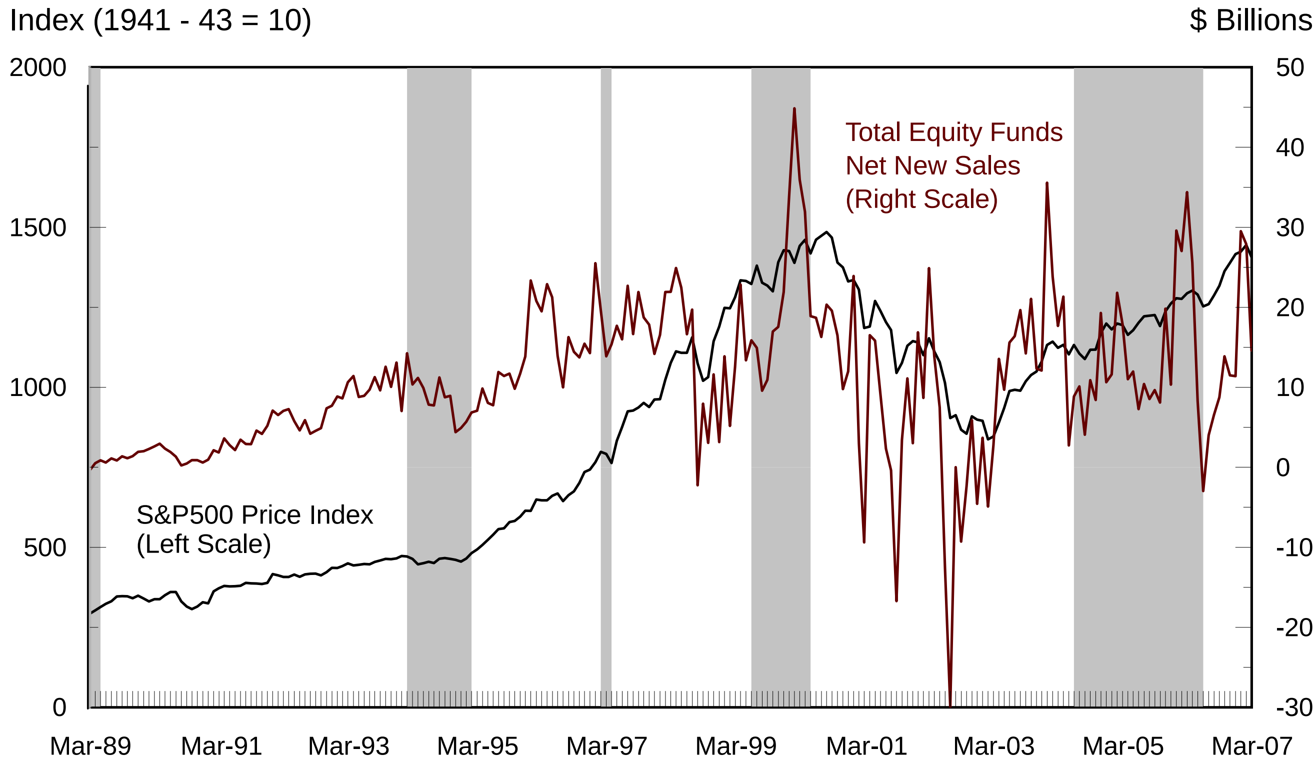
Note: Shaded regions indicate periods of rising fed funds rate.

Source: Investment Company Institute.

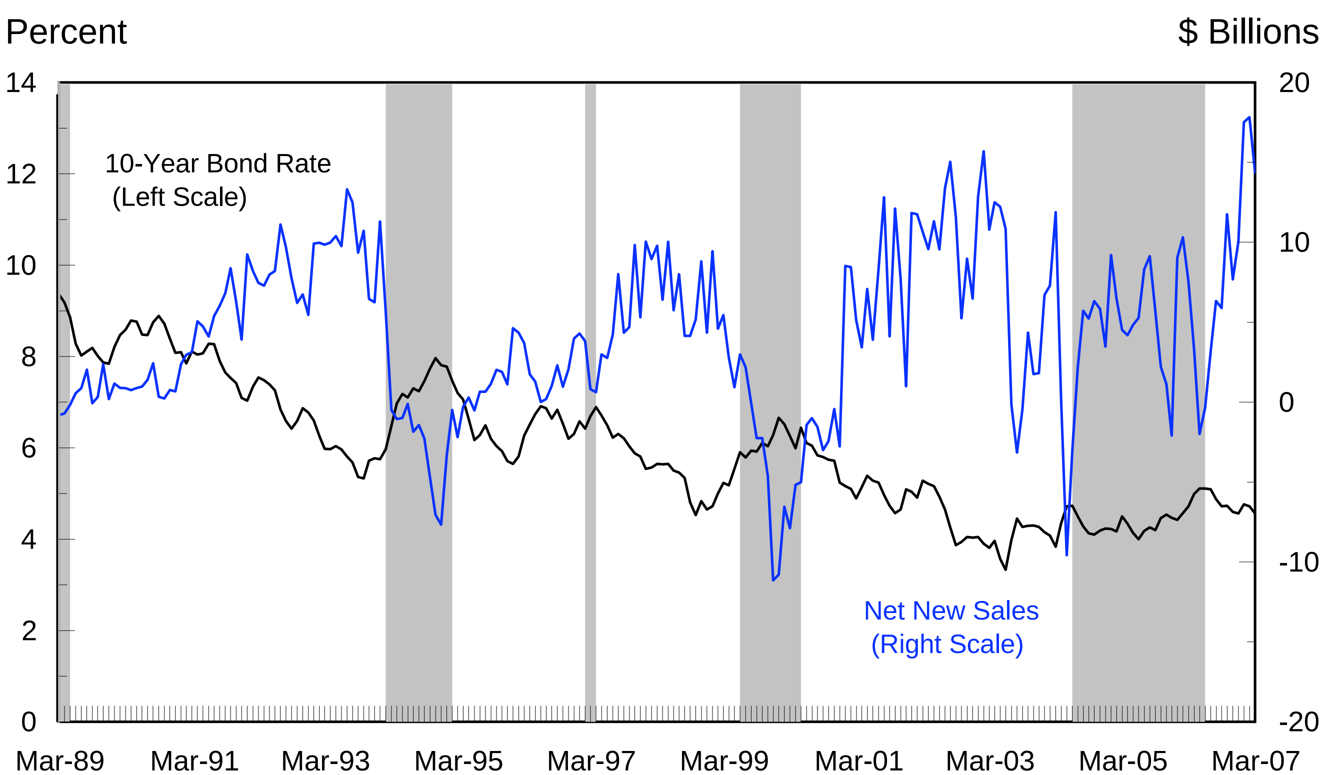
Figure 6

Net New Sales By Investment Objective

Equity Funds



Bond & Hybrid Funds



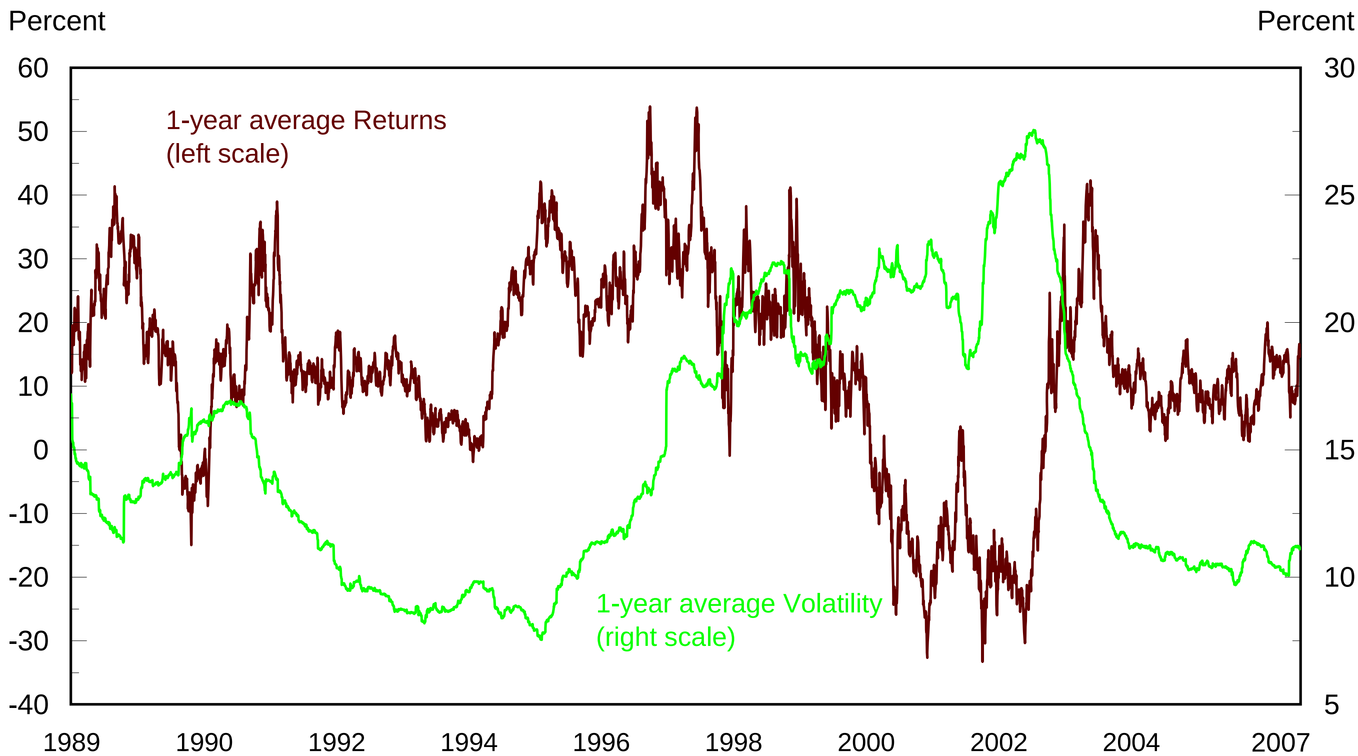
Note: Shaded regions indicate periods of rising fed funds rate.

Source: Investment Company Institute.

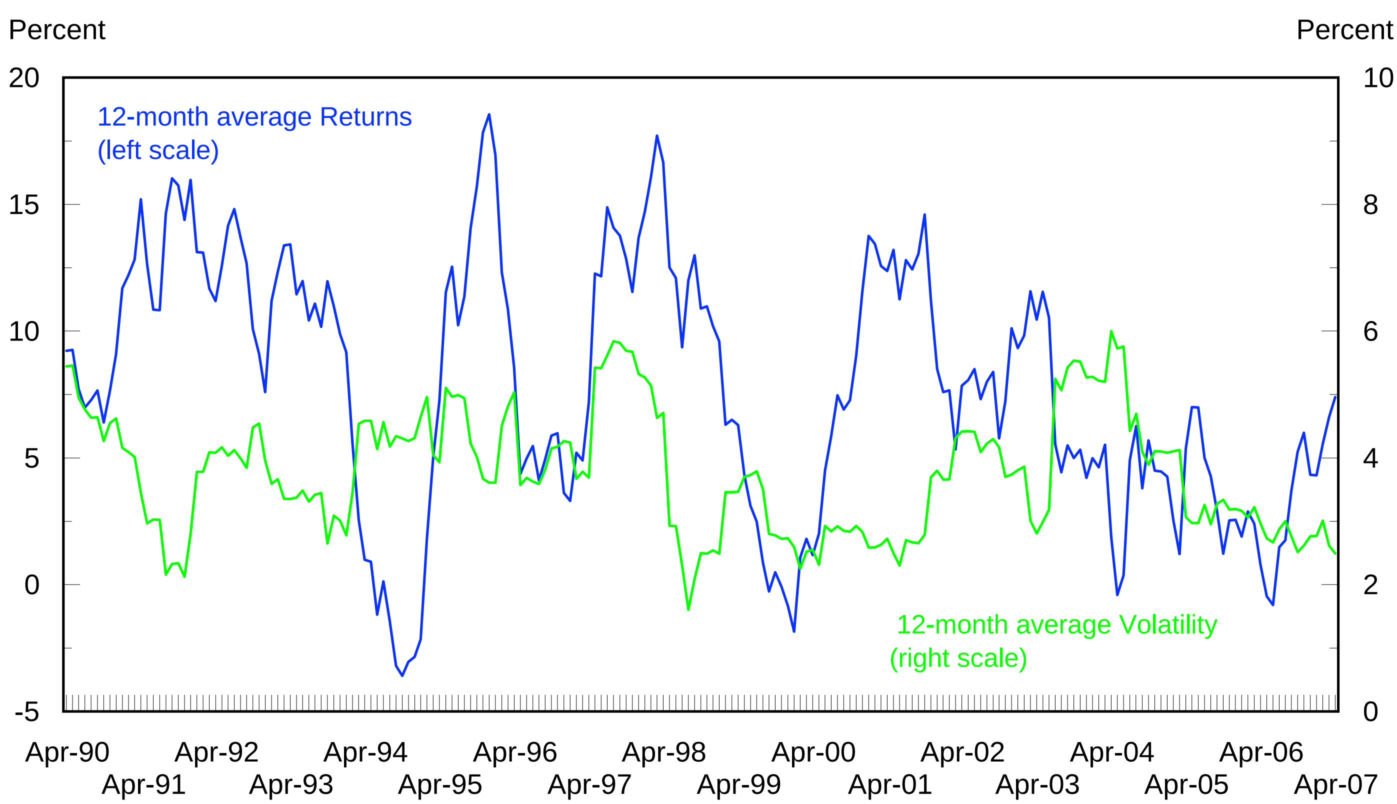
Figure 7

Capital Market Returns and Volatility

S&P500, Daily Returns and Volatility



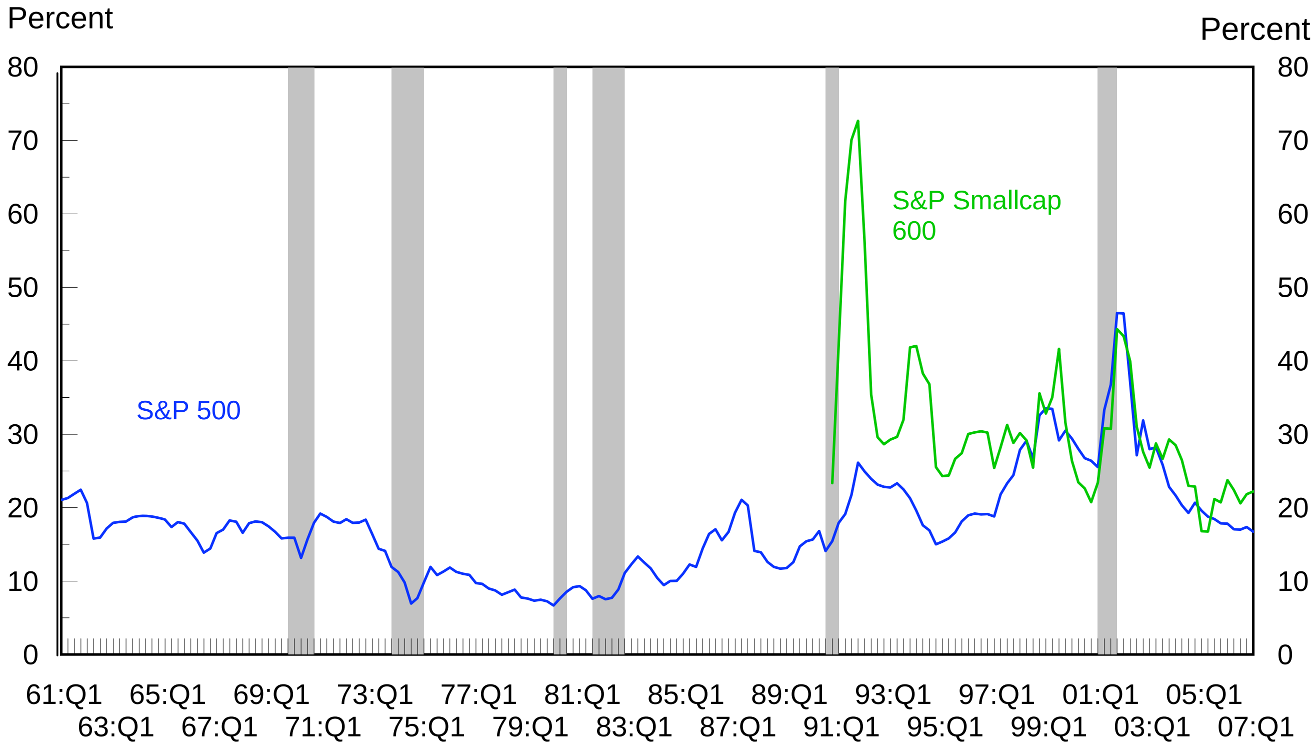
Citigroup Bond Index



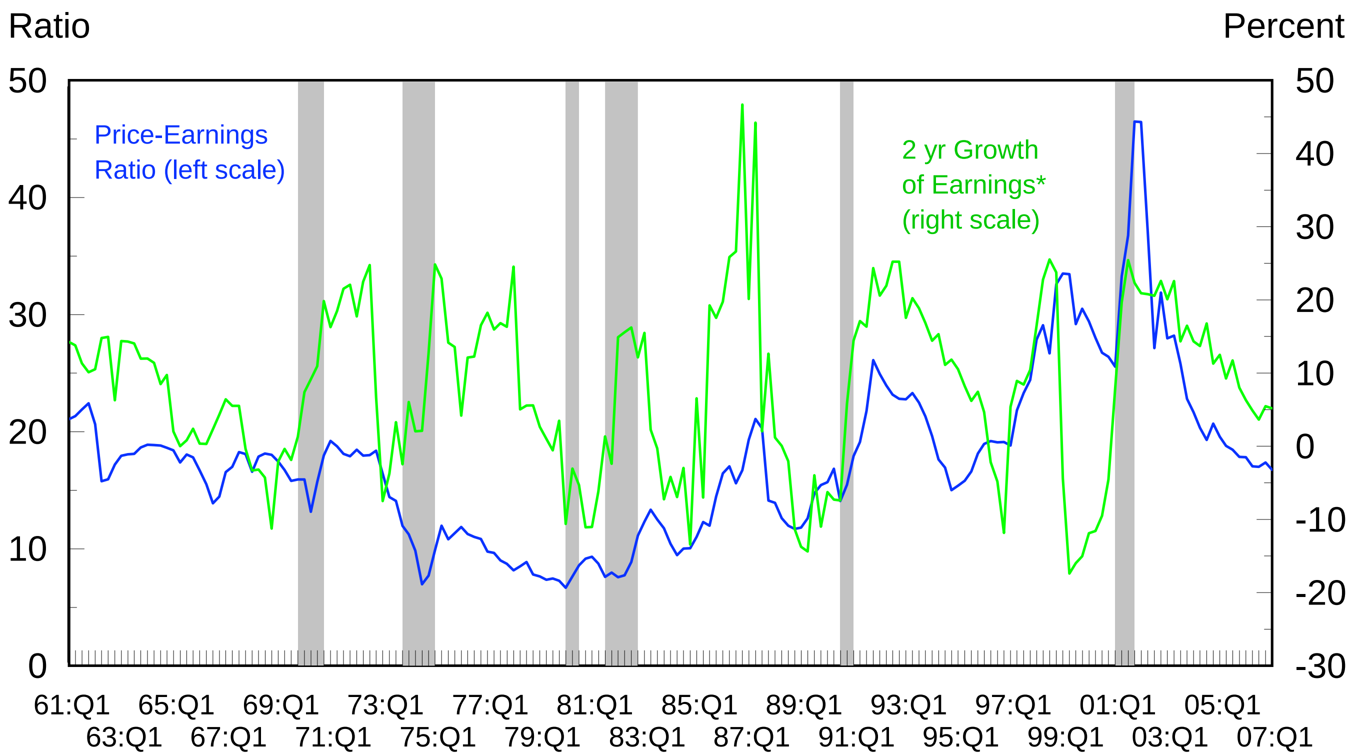
Source: FAME Database, Citigroup.

Figure 8

S&P Price-Earnings Ratios



S&P500 Price Earnings Ratio and the Growth of Earnings

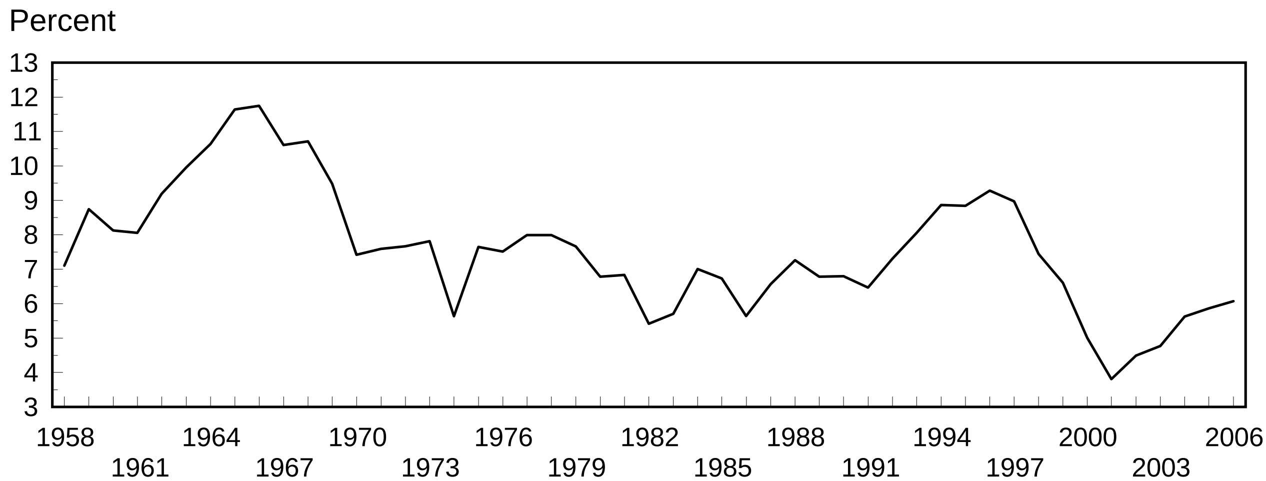


* Growth of earnings over subsequent 8 quarters. Current observations use forecast of earnings from macro projections.

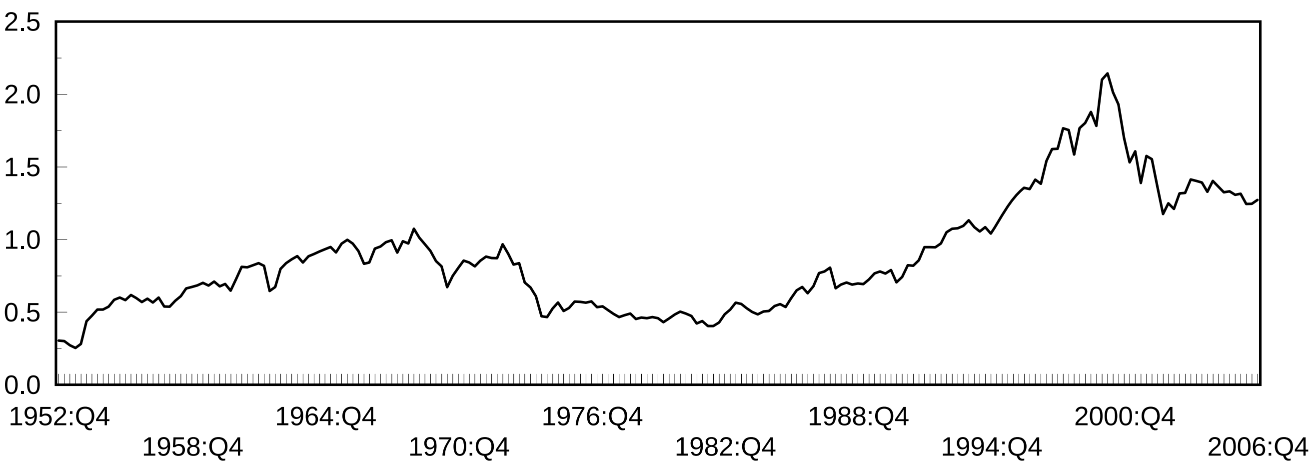
source: Thomson Financial/First Call, Global Insight and Bloomberg.

Figure 9

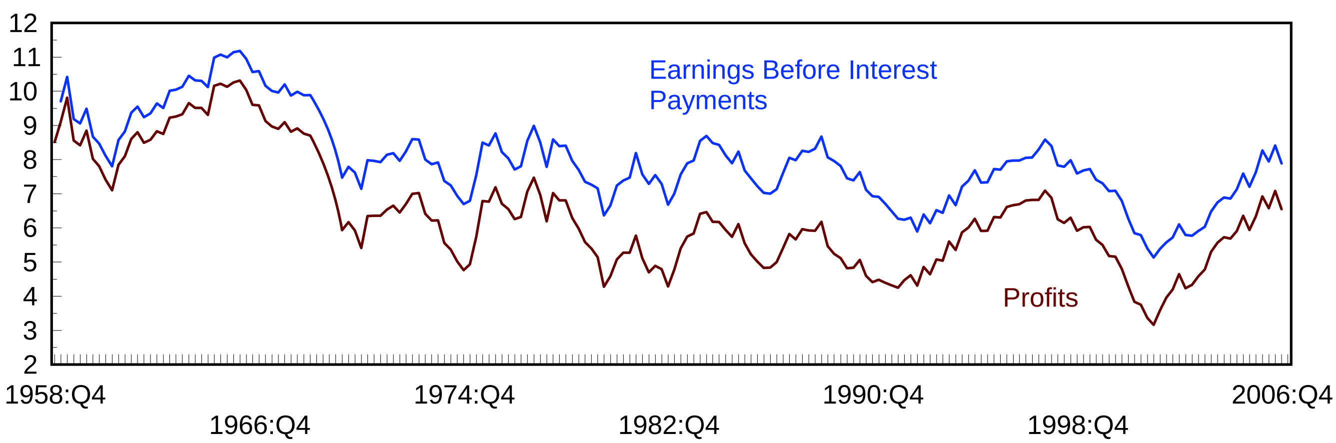
Real Rate of Return on Nonfinancial Corporate Equity



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: National Income and Flow of Funds/Haver Analytics.