

Flow & Tell

APAC Investment & Portfolio Solutions

October 2024

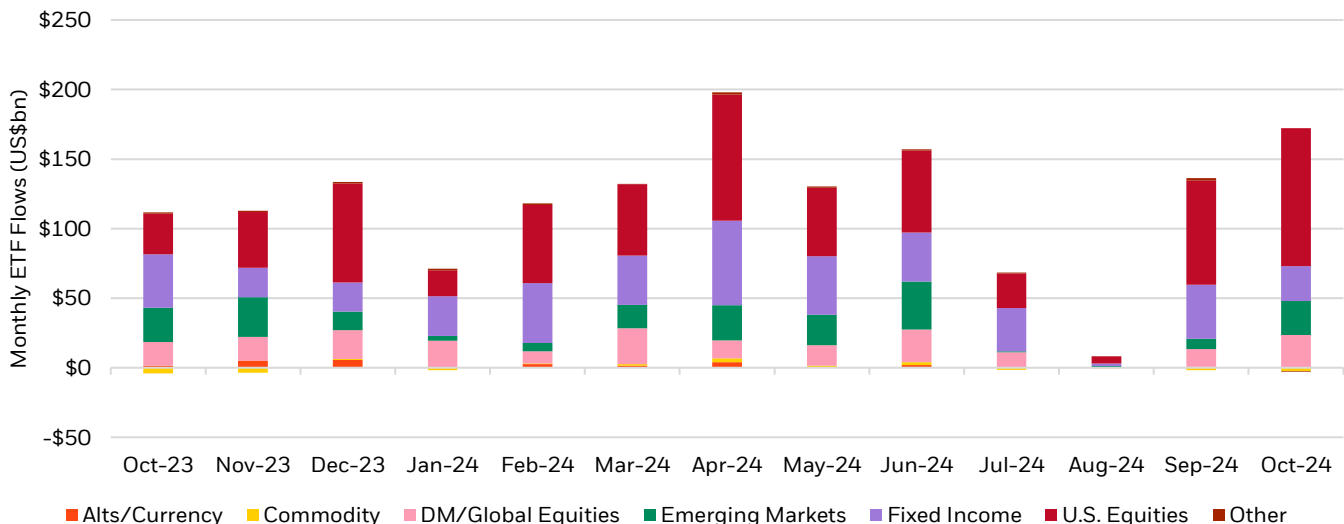
Autumn Rallies and Falls

- 1. Chinese equities rallied** significantly on policy stimulus optimism, but **understanding the flow dynamics** is key going forward.
- 2. ETF growth in APAC** is increasingly driven by **local and emerging market ETFs** gathering assets, pointing to **wider ETF adoption**.
- 3. U.S. Treasury ETFs** saw a **slowdown in flows** as the Federal Reserve entered its **rate cutting cycle**.

Market Snapshot

September saw the end of the quarter, a surprise 50bps rate cut by the U.S. Federal Reserve, and some volatile price action in China to keep investors and markets busy. The S&P ended the month up 2.1%, the ACWI ex-U.S. higher by 2.7%, and the CSI 300 index by 21%. We see two major themes continuing to play out in global equities in Q4: navigating volatility in U.S. equities (especially ahead of the U.S. election), and the search for income/growth in single country and regional exposures. As we head into the final quarter of the year, managing near-term volatility will be key for many investors.

Monthly Asset Class ETF Flows



Source: BlackRock, Bloomberg. As of Oct 15, 2024.

All flow amounts are denominated in USD, unless otherwise stated. All data sources are from BlackRock, Bloomberg, as of August 31, 2024, unless otherwise specified. The opinions expressed are as of date and are subject to change at any time due to changes in market or economic conditions.

1. The path to China

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Support might be on the horizon for the Chinese equities, but understanding the flow dynamics is key for the path forward.

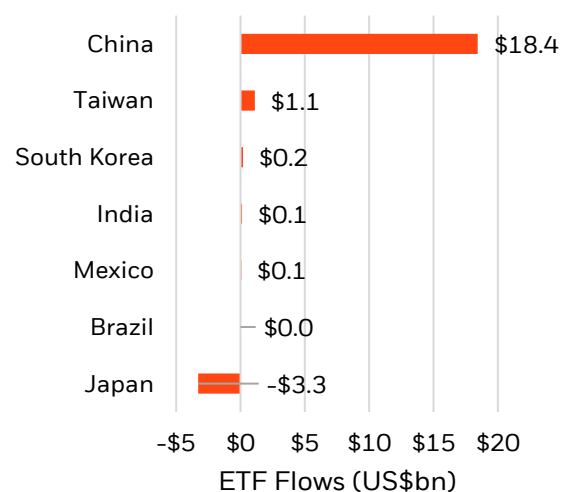
Chinese equities rallied significantly after an announcement on policy stimulus from the central bank and market regulators. Importantly, the policy signal from the September politburo meeting suggests major fiscal stimulus may be on the way. However, a lack of coordination could potentially hinder effective implementation.

The flow story has been as stark as the price action: since September 24th China ETFs domiciled outside of the mainland gathered \$18.4bn in net inflows in under three weeks. We see an initial phase of flow in which investors may look to increase back to benchmark after years of persistent underweights, with less discernment on stock or sector dispersion.

Going forward, there remain two sources of investment flows: domestic and foreign. A proposed package of policy stimulus could entice some domestic investors to reallocate to Chinese equities.

Foreign investors may be harder to come by. Foreign direct investment to China has been negative for much of the year and ETF flows were starkly negative. However, as volatility begins to settle and policy comes into clearer focus, a different flow story may start to play out: allocations to active investments by investors confident in the change of trajectory.

ETF Flows (9.23-10.15)



Source: BlackRock, Bloomberg. As of Oct 15, 2024.

Investors quickly turned to ETFs to gain beta exposure to the move in Chinese equities. Policy follow-thru will be a key area of focus going forward.

Cumulative Flows to China ETFs



Source: BlackRock, Bloomberg. As of Oct 15, 2024. ETFs domiciled outside of China only.

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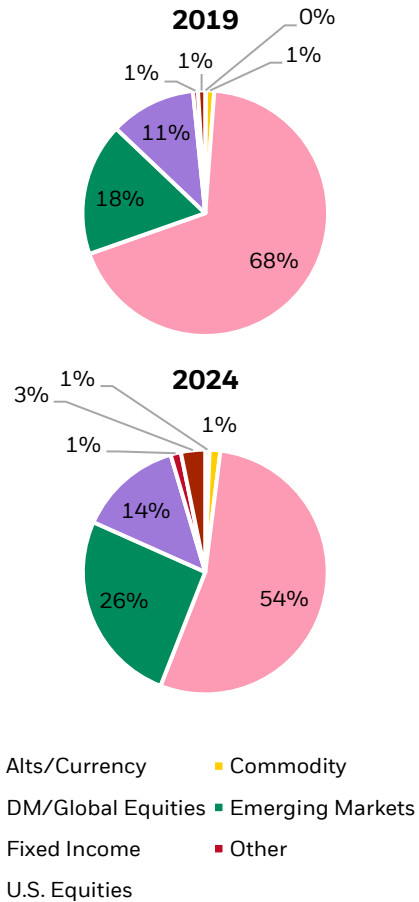
2. Close to home

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The changing makeup of APAC-domiciled flows highlights the growing use case of ETFs to access local, emerging markets.

For much of the 2016 through 2021 period, APAC-domiciled ETFs were primarily made up of assets looking for exposure to developed market and global equities. Since 2022 we've seen that makeup start to shift. Investors in APAC-domiciled ETFs are increasingly looking to access local and emerging markets via the ETF wrapper.

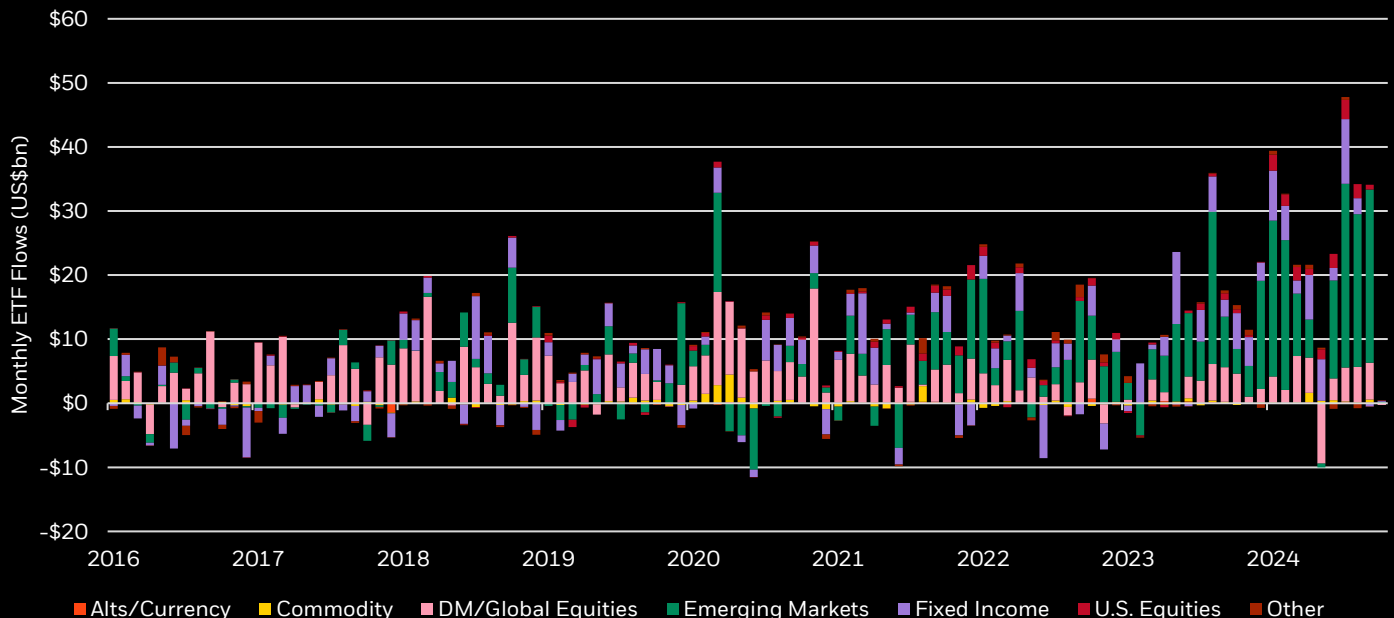
The APAC ETF industry itself has grown from a \$500bn market back in 2019, to over \$1.2tr in assets under management at the start of 2024. Although the bulk of assets remain focused on developed market and global equities – constituting ~\$674bn in AUM – emerging market and fixed income ETFs are an increasing share of total assets and driving growth. Fixed income ETF AUM in the region has nearly tripled since 2019, while emerging market ETF AUM has grown from \$90bn in assets to over \$321bn today. This all points to the continued general adoption of ETFs within the region for investors looking to access both domestic and international markets.



Source: BlackRock, Bloomberg. As of Oct 15, 2024. APAC-domiciled ETFs.

August saw a continuation of a trend that has only accelerated over the past two years, where investors separate out China from broader emerging markets.

Shifting Makeup of APAC ETF Flows



Source: BlackRock, Bloomberg. As of Oct 15, 2024. APAC-domiciled ETFs.

3. Start of the cycle

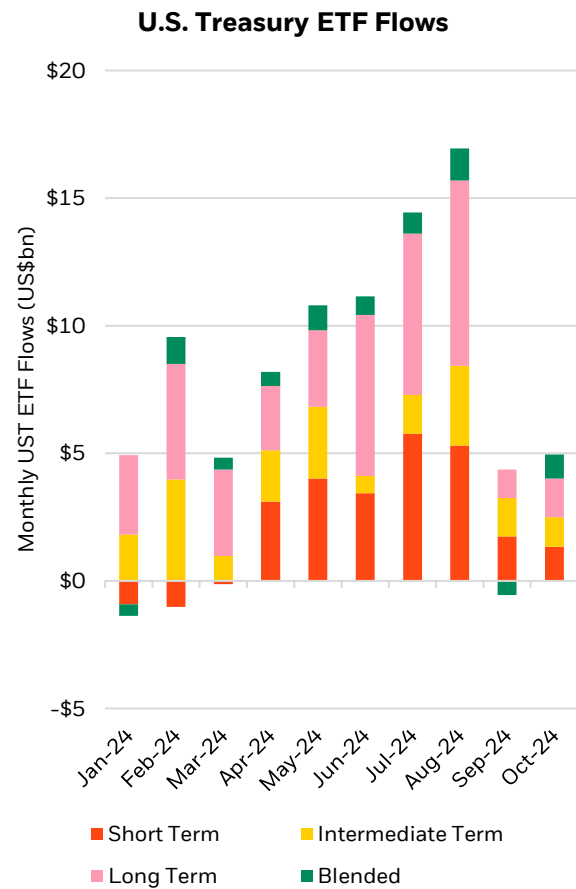
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U.S. Treasury ETF flows are slowing down as the Federal Reserve cuts rates and enters its policy easing cycle.

As global growth cools and central banks in several economies shift into a rate cutting cycle, investors are looking to lock in yields and shift away from money market funds.

Year-to-date, U.S. Treasury ETFs globally gathered over \$87bn in assets as investors looked to take advantage of attractive yields. That era may be coming to an end. Although we believe this remains a favorable backdrop for fixed income investments – benign inflation and moderating but strong growth setup – investors may have to look outside of the safest of investments for the yields they’ve grown used to.

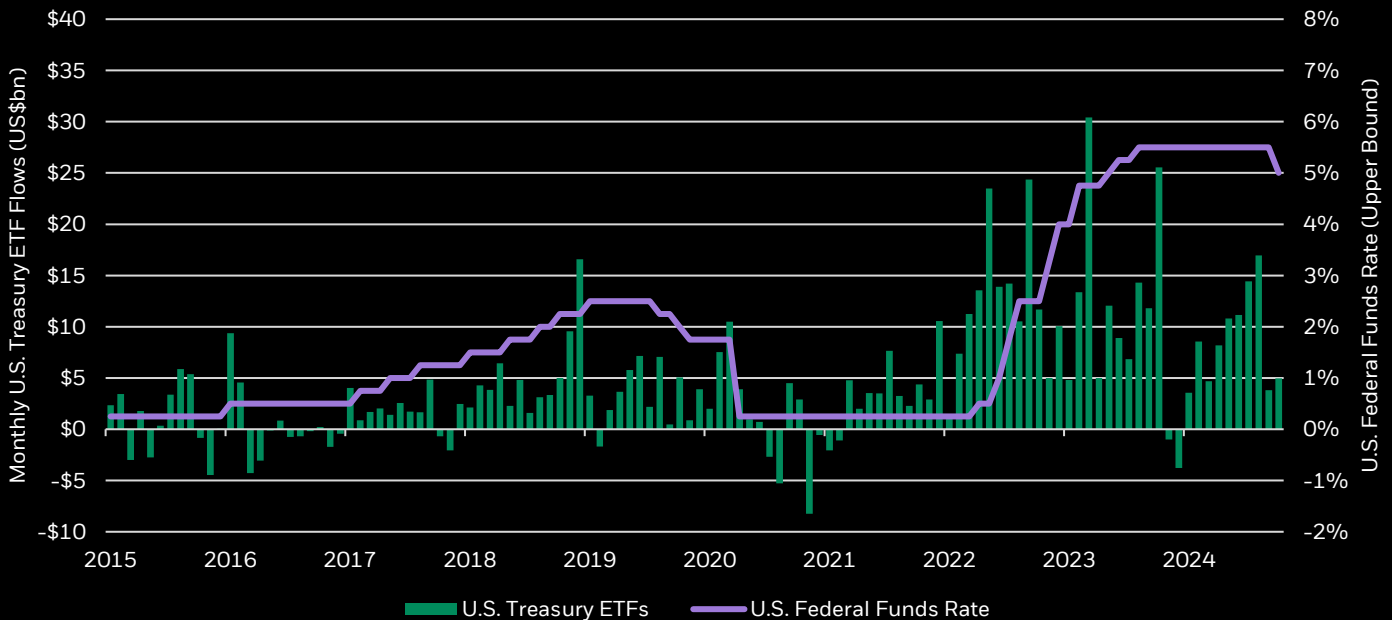
Investors should look towards quality within global allocations and think about active management in corporate bonds to mitigate interim rate volatility. Also, attractive yield in the APAC region more broadly is boosted by supportive growth and inflation dynamics within the region. As local central banks look to follow the U.S. Federal Reserve’s path, the relative value proposition of Asian credit comes into focus.



Source: BlackRock, Bloomberg. As of Oct 15, 2024.

The slow down in U.S. Treasury ETF flows coincides with the Federal Reserve cutting rates, but there is still plenty of yield to be had.

U.S. Treasury ETF Flows and the Rate Cycle



Source: BlackRock, Bloomberg. As of Aug 31, 2024.

Want to know more?

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