

# The Alternate Opinion

Quantitative & Alternates

Global Liquidity Tracker: Euphoria building-up in Global flows. US inflow @18-month high led by strong recovery in Mid/Smallcap flows.

**Euphoria building-up in Global flows. US inflow @18-month high led by strong recovery in Mid/Smallcap flows.**

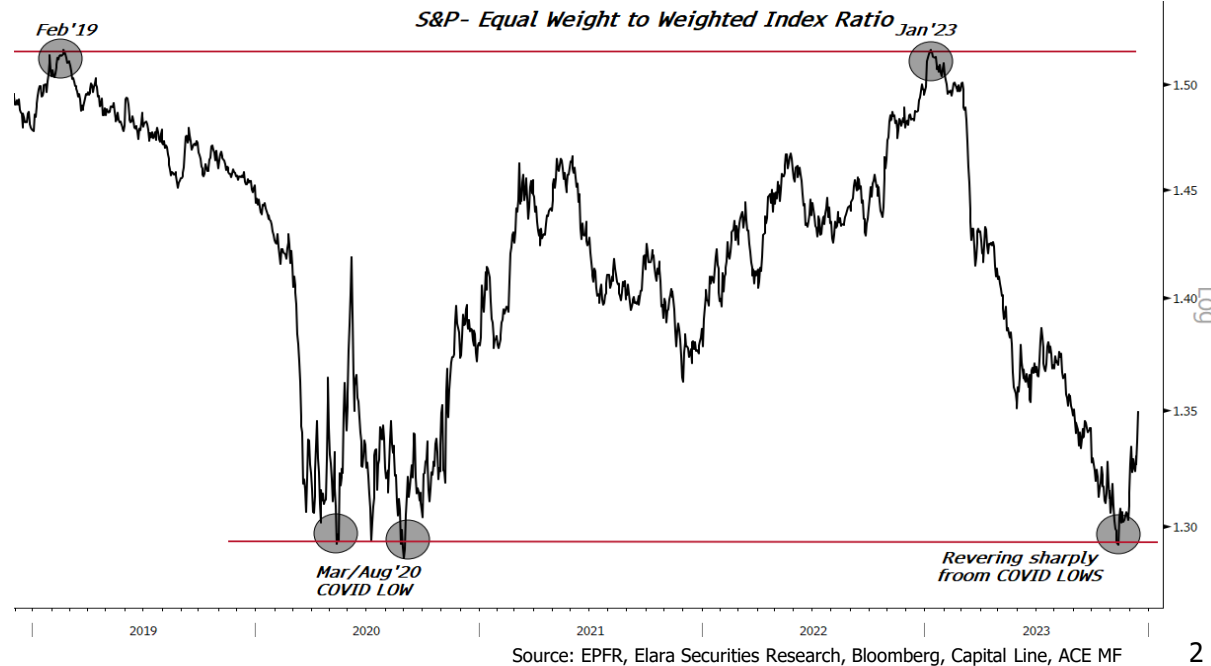
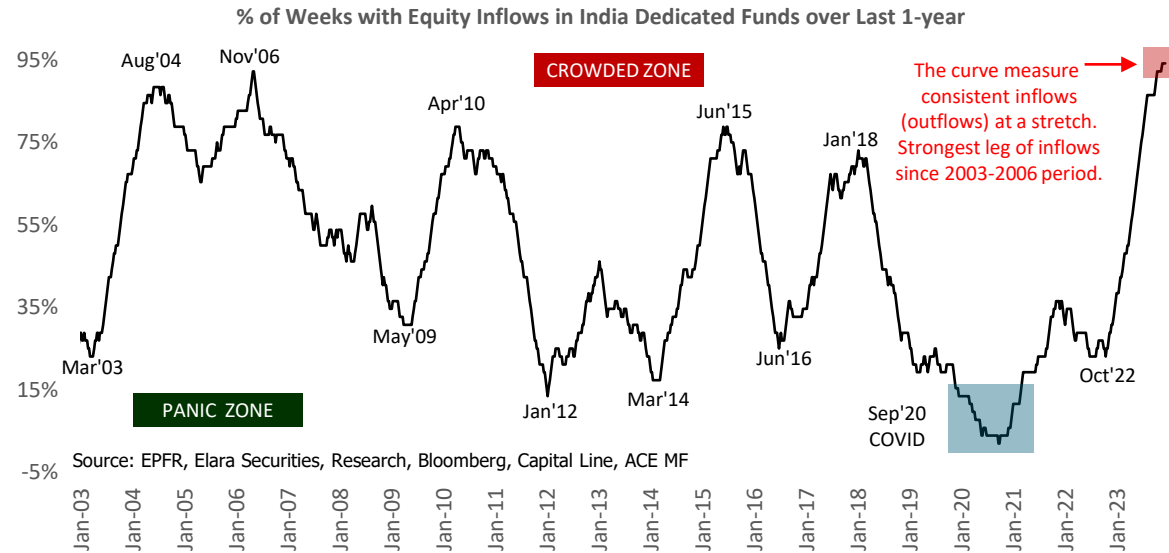
Post the FED comments on reversing rate hikes, euphoria is building up in Global flows. US flows expanded to 18-month high of \$26.3bn. There was a strong rush of flows into US Mid and Smallcap funds, which have barely participated in the recovery from Oct'22 lows. S&P 500 is 2% away from its all-time highs but Russell 2000 index is still 20% lower. S&P Equal weight index has started outperforming the weighted index for 1<sup>st</sup> time since Jan'23. All these indicate a broadening in breadth in the US after almost 15-18 months. Flows into US Midcap fund expand to \$4.7bn, largest since Dec'21. Smallcap flows of \$4.5bn are 2<sup>nd</sup> largest since Jun'22.

Besides the FED's dovish comments, China's central bank also stepped-up support for the economy by adding \$112 bn cash into the financial system. This resulted in some revival of foreign flows into China. Inflows of \$711mn into China from FIIs is 2<sup>nd</sup> largest since Apr'23. Foreigners had stopped putting incremental money into China since Aug'22. We would want to see if this trend reverses after the recent action by China's central bank.

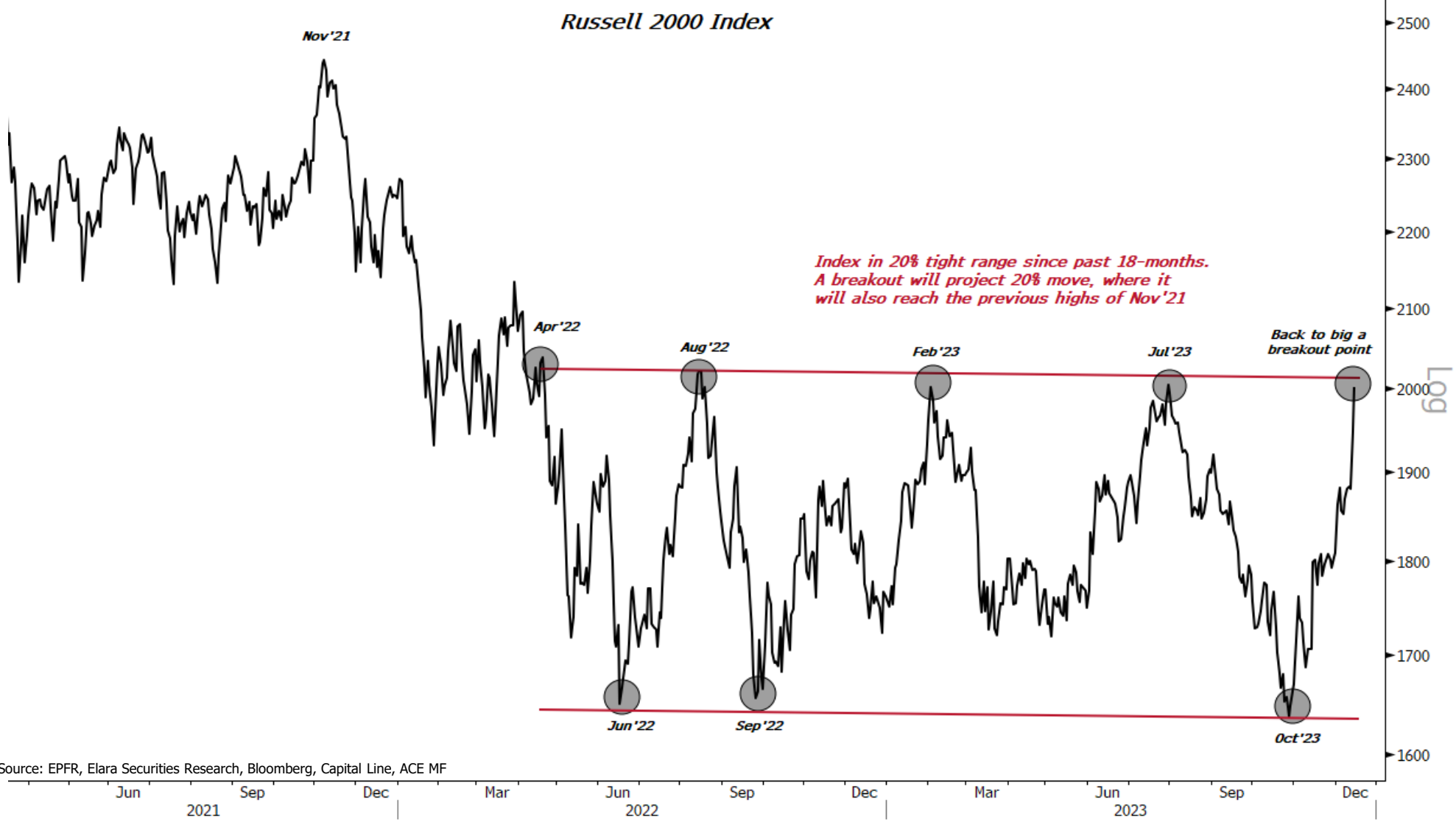
EM flows expand to 4-month high of \$4bn led by sharp recovery in China and continuous flows into India. However, EM flows remain concentrated in Large cap funds only. India dedicated flows expand to 3-month high of \$713mn, again all led by Large cap flows. This is the sharpest & most consistent leg of India dedicated inflows since 2003-2006 period. It started since Oct'22 and pace is consistently expanding.

Among Global sectors, Tech flows sharply expand to \$9.5bn led by US Tech stocks. Global Financial inflows expand to 6-month high of \$3.8bn. Despite the latest rally in US Tech stocks, Financials are outperforming in this move. Energy and Material flows are marginally negative since the past 3-weeks. Most Global flow action is focused on IT and Financial sector.

Strong recovery continues in High yield & Corporate bond flows for 6<sup>th</sup> week in row. NAVs of these funds have also started breaking out to 15-month highs.



# US Mid/Smallcap Stock's Index (Russell 2000 Index)- At a big breakout point. Will be crucial to watch

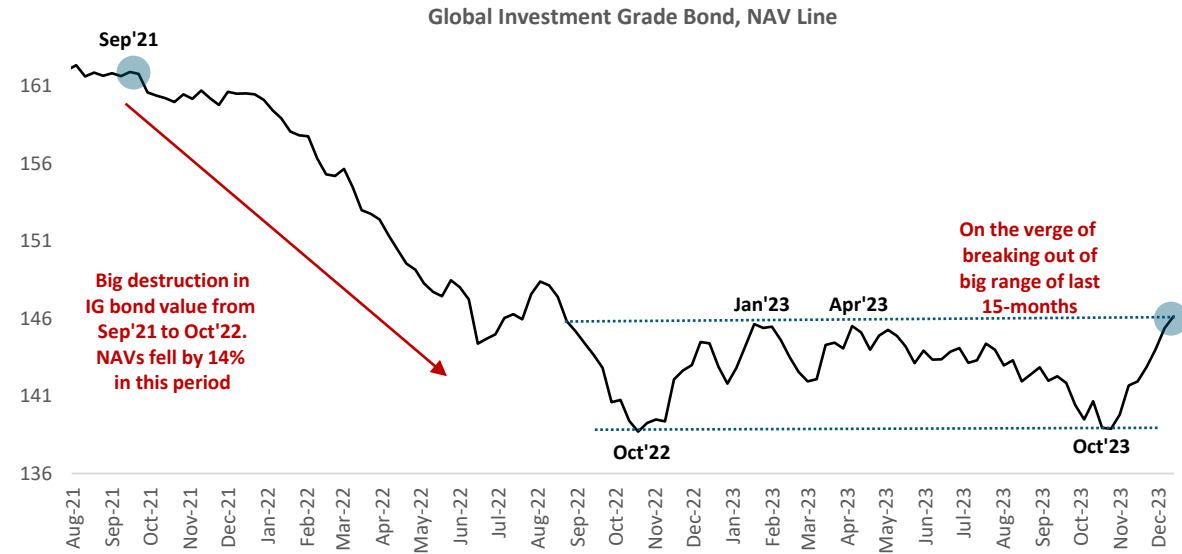


Source: EPFR, Elara Securities Research, Bloomberg, Capital Line, ACE MF

Mid/Smallcap stocks in US have been trading in a tight range since April 2022. With the recent revival in US Mid/Smallcap flows, we could see this index breaking out. **If the index breaks out, we could see a 20% rally in this index, pulling it back to previous highs of Nov'21.**

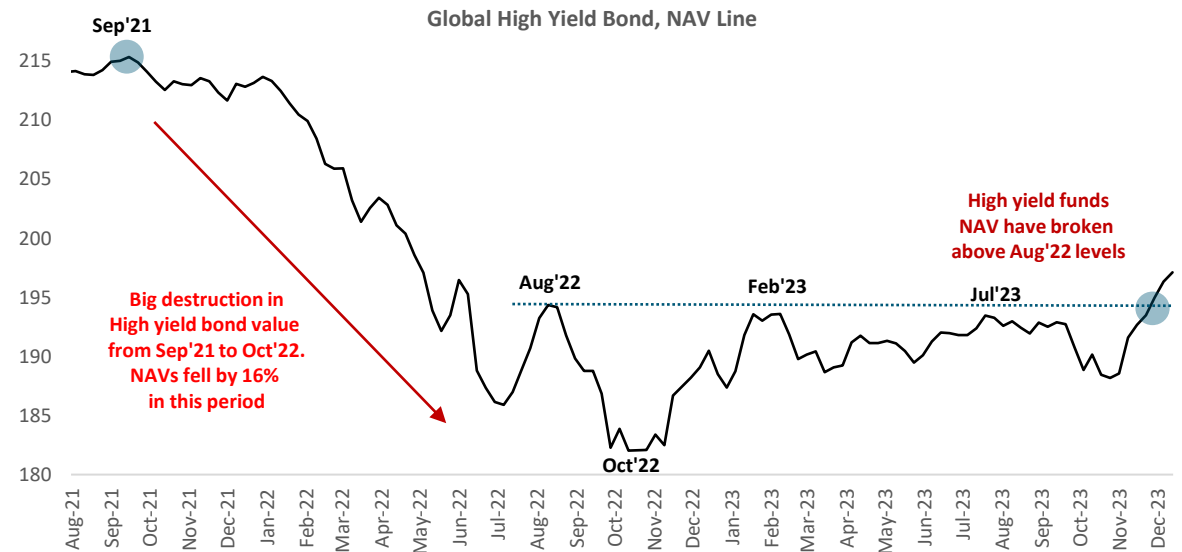
## Strong recovery in Bond NAVs after prolonged weakness. High yield NAV line expand to 15-month high

Post the Fed's change in stance, recovery in the Global bond markets has finally begun. Investment Grade bond NAV had bottomed in Oct'22 from where it traded in a range for more than a year. **Finally, the trends are showing initial signs of breaking out indicating recovery in Bond markets after more than 2-years.**



Source: EPFR, Elara Securities Research, Bloomberg, Capital Line, ACE MF

Likewise, recovery is stronger in High yield and Corporate bond funds where NAV lines have already broken to 15-month highs. **Bond markets are gradually beginning to heal after a prolonged period of pain.**



Source: EPFR, Elara Securities Research, Bloomberg, Capital Line, ACE MF

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