Singapore Fund Flow Report
Q2 2023

Morningstar
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Contents

1. Fund Flows Overview for Q2 2023
3. Equity Fund Flows Analysis
5. Bond & Money Market Fund Flow Analysis
6. US Government-Bond Market Movements
7. Allocation and 'Other' Fund Flow Analysis
8. Outlook
10. Appendix A—Data Sources

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Fund Flows Overview

Based on the data submitted by the participating members of the Investment Management Association of Singapore, or IMAS (see Appendix), the various authorized and recognized unit trusts registered for sale in Singapore posted net inflows of SGD 686.31 million for the second quarter of 2023.
Breaking down the data by asset type, investors have been favoring fixed income investments over equity and allocation funds in recent months. The inflows for the quarter were primarily driven by fixed income investments. The fixed income category collected new assets totaling SGD 888.25 million, while equity and allocation funds experienced net redemptions of SGD 211.38 million and SGD 39.65 million, respectively.

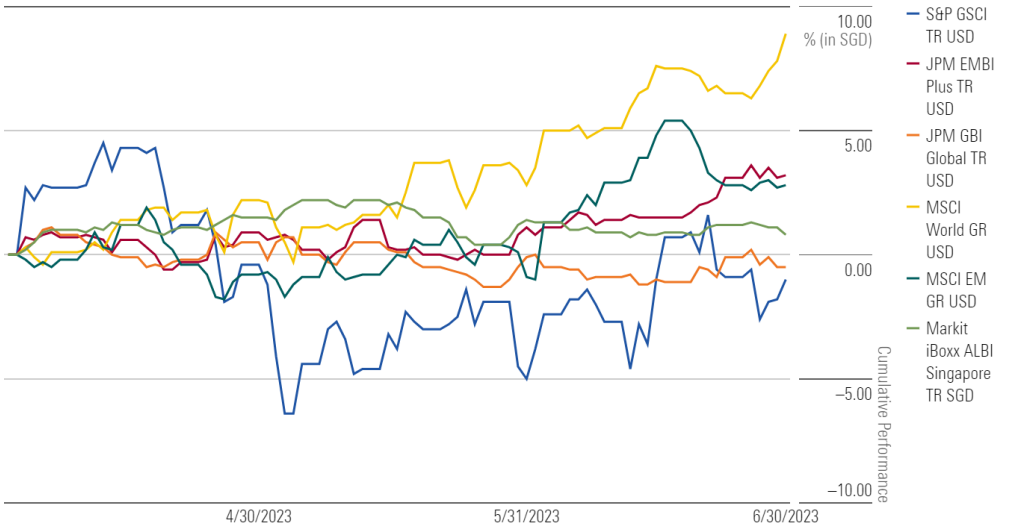
The positive performance of money market funds may indicate a growing interest in cash management products. Money market funds post small net inflows of SGD 28.89 million during the second quarter.

Exhibit 1 Fund Flows by Major Asset Class for Q2 2023 (in SGD millions)

Asset Class	Inflow	Outflow	Net Flow
Allocation	714.75	754.40	-39.65
Alternative	38.99	17.08	21.91
Commodities	0.98	2.49	-1.50
Convertibles	0.01	0.21	-0.20
Equity	1,533.84	1,745.22	-211.38
Fixed Income	1,866.48	978.24	888.25
Money Market	727.65	698.76	28.89

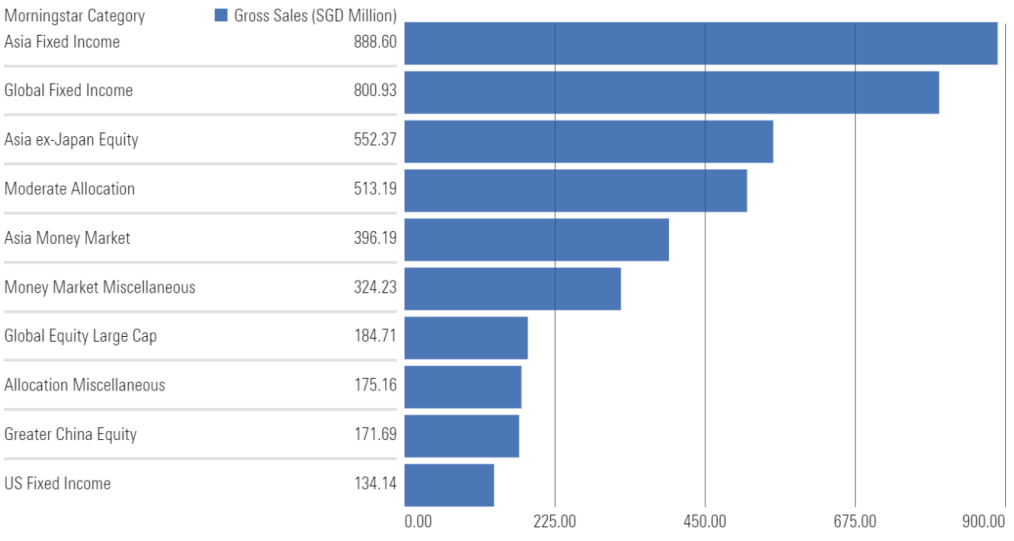
Source: Morningstar. Data as of 30/06/2023.

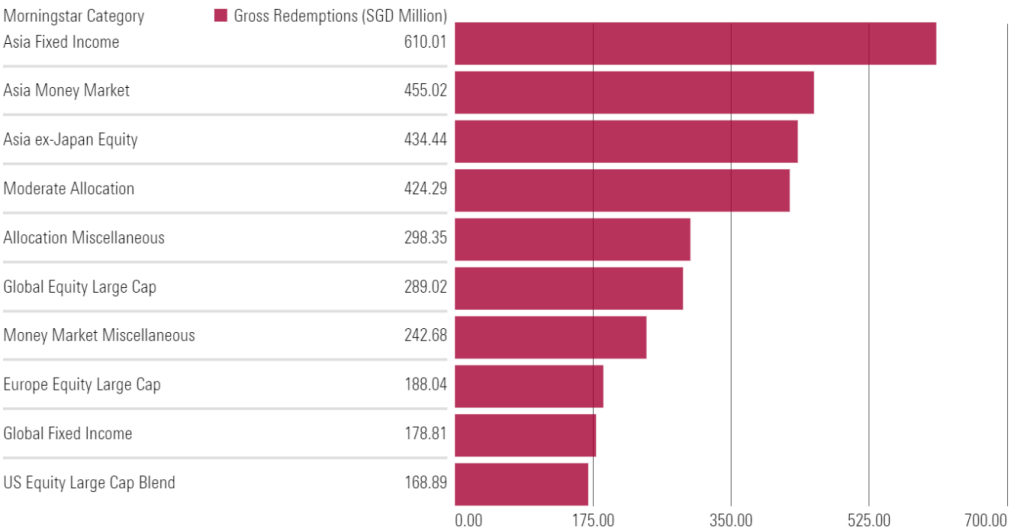
Exhibit 2 Performance of Key Technical Indicators During Q2 2023



Source: Morningstar. Data as of 30/06/2023.

Exhibit 3 Top 10 Inflows and Outflows by Morningstar Category for Q2 2023 (in SGD millions)





Source: Morningstar. Data as of 30/06/2023.

Equity Fund Flows Analysis

In June, the U.S. Federal Reserve paused on its interest-rate hikes, while signaling that it may continue to raise rates again as long as inflation remains elevated. Meanwhile, on the back of positive economic data, investors have become confident that any recession is still far off. These factors soothed the volatility in the stock market and kicked off a stock rally in the United States in the second quarter. However, a smaller number of mega-scale growth stocks contributed to that rally through May. Nasdaq Composite staged a strong run in the second quarter, posting a positive return of 12.81%. Toward the end of the second quarter, the rally broadened out slightly because of gains from the large-cap healthcare and bank stocks. The DJ Industrial Average ended the quarter with a small gain of 3.41%. The S&P 500 index was up 8.30% for the quarter.

The European Central Bank (ECB) raised interest rates twice in the quarter, taking the main refinancing rate to 4.0%. Headline inflation declined during the period, with annual inflation estimated at 5.5% in June, down from 6.1% in May. However, the core inflation rate (which excludes energy, food, alcohol and tobacco prices) crept up to 5.4% in June from 5.3% in May. In Europe, France's Euronext Paris CAC 40 was up 1.06% and Germany's FSE DAX rose 3.32%.

Despite the positive index performances, developed markets equity funds experienced outflows, with Europe equity large-cap, U.S. equity large-cap blend, and global equity large-cap all recording outflows of SGD 151.61 million, SGD 125.07 million, and SGD 104.32 million, respectively.

Outperforming the Nasdaq index in the quarter, Nikkei 225 Average PR, denominated in Japanese yen, surged 18.36% for the quarter, benefiting from a weak Japanese yen that supports exports and a buoyant domestic economy. Japan equity funds received net subscriptions of SGD 65.16 million for the quarter.

Brazil and India were two other spotlights of the quarter. The Bovespa Index for Brazil gained 15.91%. Meanwhile, S&P BSE SENSEX India rose 9.71%. Global emerging markets equity ranked seventh by net flows, drawing in a total of SGD 4.55 million. However, India equity funds faced outflows, with net redemptions totaling SGD 9.14 million.

The disappointing reopening pulse continued to plague Hong Kong and China equities. At the beginning of the quarter, the International Monetary Fund warned that U.S.-China tensions could dampen global growth. Companies operating on the mainland remain conservative, focusing on cost controls while being reluctant to expand their businesses and hire aggressively. China's onshore stock benchmark, SSE Composite, fell a manageable 2.16%. Hong Kong's Hang Seng Index, posting a 7.27% loss, was the quarter's underperformer. The poor quarterly performance was followed by Thailand's SET Index, which fell 6.51%. Singapore's SGX Straits Times dropped 1.63%. In this quarter, the largest inflows came from Asia ex-Japan equity coming in at SGD 117.94 million. Greater China equity funds ranked third with a net subscriptions of SGD 55.08 million.

Certain thematic equity strategies saw outflows, taking five spots in the bottom 10 equity categories by net flows. Equity funds investing in healthcare, energy, precious metals, financials, and natural resources all experienced negative flows this quarter. There were two sector equity categories that recorded net inflows for the quarter. Net sales of real estate sector equity funds were SGD 36.5 million while technology funds received SGD 7.48 million as the group.

Exhibit 4 Top and Bottom Equity Morningstar Categories by Net Flows for Q2 2023 (in SGD millions)

Top Equity Morningstar Category	Net Flow (SGD Million)
Asia ex-Japan Equity	117.94
Japan Equity	65.16
Greater China Equity	55.08
Real Estate Sector Equity	36.50
US Equity Large Cap Growth	11.23
Technology Sector Equity	7.48
Global Emerging Markets Equity	4.55
Global Equity Mid/Small Cap	1.87
Korea Equity	0.05
Consumer Goods & Services Sector Equity	0.00
Bottom Equity Morningstar Category	**Net Flow (SGD Million)**
Europe Equity Large Cap	-151.61
US Equity Large Cap Blend	-125.07
Global Equity Large Cap	-104.32
Healthcare Sector Equity	-45.68
Energy Sector Equity	-29.18
Asia Equity	-9.78
India Equity	-9.14
Precious Metals Sector Equity	-8.76
Financials Sector Equity	-8.33
Natural Resources Sector Equity	-7.88

Source: Morningstar. Data as of 30/06/2023.

Exhibit 5 Estimated Equity Fund Flows by Investment Area for Q2 2023 (in SGD millions)

Investment Area	Net Flow (SGD Million)
Asia Pacific	287.14
Europe	-151.58
Global	265.94
Latin America	-1.38
Middle East	-0.29
North America	53.57

Source: Morningstar. Data as of 30/06/2023.

Bond and Money Market Fund Flow Analysis

In June's policy meeting, the U.S. Federal Reserve decided to keep the federal-funds rate unchanged. According to its official statement, this will provide the Fed with time to "assess additional information" and determine whether current rates are high enough to bring inflation to normal or if further increases will be needed.

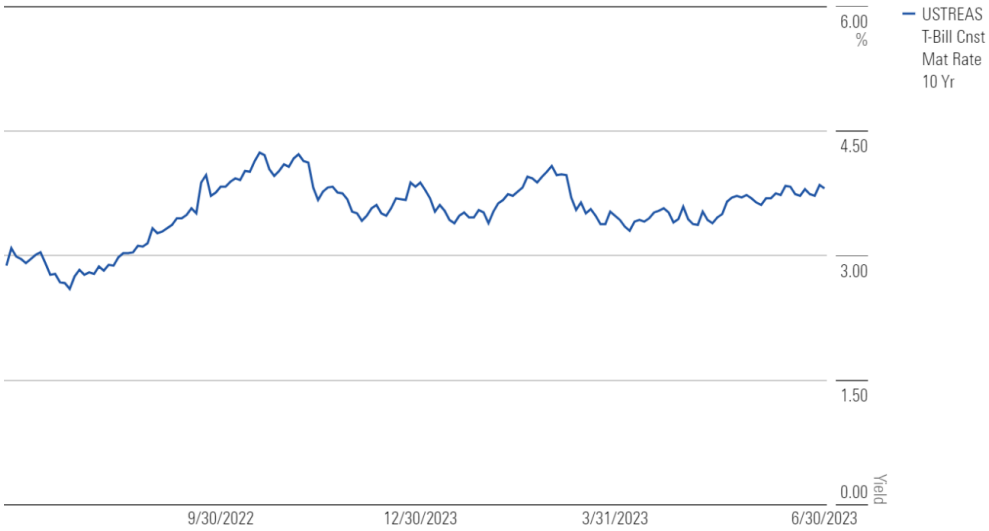
This is the first meeting at which the Fed hasn't hiked interest rates since January 2022, and the pause was taken after 10 consecutive hikes of interest rates. Over the course of its meetings from March 2022 through May 2023, the Fed brought the federal-funds rate up 5 percentage points to its current target of 5%-5.25%. This marks the fastest rate of increase since the early 1980s.

At the beginning of the second quarter, rates on 10-year Treasuries dipped slightly from 3.48% to 3.30%, the lowest point between April and June. The rates then quickly picked up again to peak at 3.85% one day before the quarter-end. On June 30, 10-year Treasuries yielded 3.81%. Short-term yields rose to 4.87% from 4.06% during the second quarter. While the curve—the difference between shorter- and longer-term yields—has been inverted for months, the inversion continued to widen. By the end of the quarter, the difference between shorter- and longer-term yields was negative 106 basis points. This is the widest since March 8, 2023, when the spread was at negative 107 basis points, which at the time reset the record of the steepest inversion since September 1981.

The FTSE WGBI dropped 0.03% for the quarter (in U.S. dollars), versus a 2.6% gain from the first quarter.

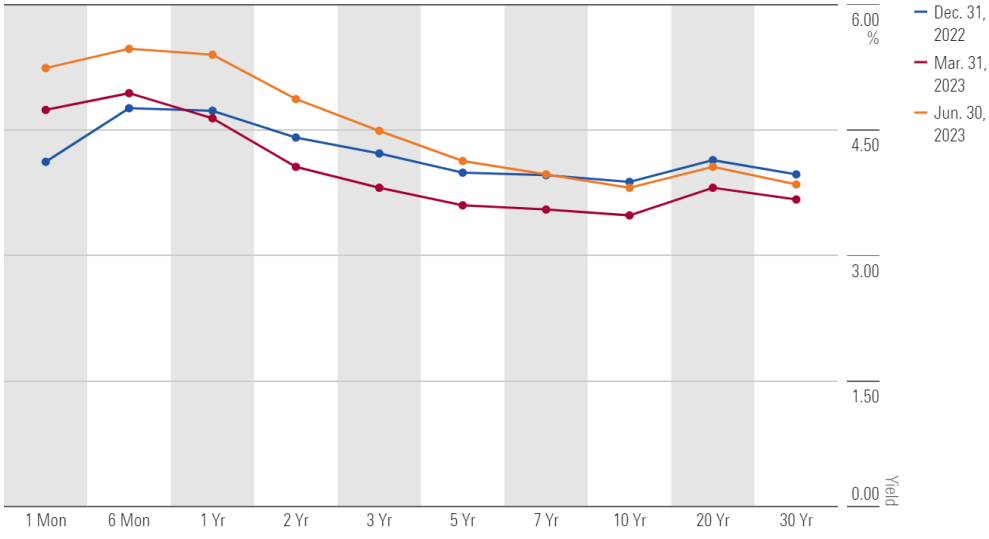
US Government-Bond Market Movements

Exhibit 6 10-Year US Treasury Constant Maturity Rate



Source: Morningstar. Data as of 30/06/2023.

Exhibit 7 Shifts in US Benchmark Yields During Q2 2023



Source: Morningstar. Data as of 30/06/2023.

Exhibit 8 Net Flows Into Bond and Money Market Funds for Q2 2023 (in SGD millions)

Fixed Income Category	Net Flow (SGD Million)
Global Fixed Income	622.12
Asia Fixed Income	278.59
US Fixed Income	24.21
Emerging Markets Fixed Income	0.97
Europe Fixed Income	-4.98
Fixed Income Miscellaneous	-32.66
Money Market Category	**Net Flow (SGD Million)**
Money Market Miscellaneous	81.55
US Money Market	6.17
Asia Money Market	-58.83

Source: Morningstar. Data as of 30/06/2023.

Against the backdrop, global and U.S. fixed-income funds continued to record inflows this quarter. Global fixed income recorded a SGD 622.12 million inflows while inflows into U.S. fixed-income funds were relatively smaller. Asia fixed-income funds reversed the redemption streak to record the strong net subscriptions in the quarter. The category group ended the period with positive net flows of SGD 278.59 million. Europe fixed-income funds posted small negative flows of around SGD 5 million.

Moreover, investors have shown increasing interest in money market funds, with SGD 28.89 million being poured into these funds. This trend can be attributed to inflows from money-market miscellaneous and U.S. money-market, amounting to SGD 81.55 million and SGD 6.17 million, respectively. These inflows more than offset the net outflows of SGD 58.83 million from Asia money-market.

Allocation and 'Other' Fund Flow Analysis

Allocation funds collectively posted net outflows of SGD 39.65 million for the second quarter. All, except moderate-allocation funds, recorded net redemptions for the quarter. Moreover, the majority of the net outflows came from the allocation miscellaneous category, as investors withdrew SGD 123.19 million during the quarter. Meanwhile, inflows into moderate-allocation totaled SGD 88.9 million.

In "Other" fund groups, the most outflows came from multi-alternative, as investors pulled SGD 3.10 million out of funds in that category. Global macro funds were the leaders, seeing subscriptions of SGD 25.10 million.

Exhibit 9 Net Flows Into Allocation and "Other" Funds for Q2 2023 (in SGD millions)

Allocation and "Other" Category	Net Flow (SGD Million)
Moderate Allocation	88.90
Global Macro	25.10
Market Neutral	-0.04
Alternative Miscellaneous	-0.05
Convertibles	-0.20
Target Date	-0.36
Cautious Allocation	-0.72
Commodities Broad Basket	-1.50
Aggressive Allocation	-1.87
Flexible Allocation	-2.42
Multialternative	-3.10
Allocation Miscellaneous	-123.19

Source: Morningstar. Data as of 30/06/2023.

Outlook

During the second quarter of 2023, the U.S. stock market gained momentum, driven by stronger-than-expected economic growth and optimism regarding the potential of artificial intelligence to boost earnings. To maintain this rally in the second half of the year, the market will need to expand into the value sectors, as well as mid-cap and small-cap stocks.

Although the U.S. stock market is currently trading at a discount compared with fair valuations, the margin of safety has decreased.

In the economy, while some indicators have suggested a deterioration in the market, an equal number have suggested the opposite, leading to confusion. Wage growth has been gradually moderating, indicating a softening from the elevated levels seen in 2022.

Looking ahead, it is predicted that economic growth will slow down sequentially in the third and fourth quarters of 2023, bottoming out in the first quarter of 2024. Despite the broad market being considered undervalued, the rate of market gains may be limited because of slowing economic growth, tight monetary policy, and reduced credit availability over the next few quarters.

Appendix—Data Sources

Data and analyses are based on information provided by the following IMAS Members:

1. abrdn Asia
2. AllianceBernstein (Singapore)
3. Allianz Global Investors Singapore
4. Amundi Singapore
5. BlackRock (Singapore)
6. Eastspring Investments
7. FIL Investment Management (Singapore)
8. First Sentier Investors (Singapore)
9. iFAST Financial
10. Janus Henderson Investors (Singapore)
11. JPMorgan Asset Management (Singapore)
12. Lion Global Investors
13. Manulife Investment Management (Singapore)
14. Nikko Asset Management Asia
15. Phillip Capital Management (S)
16. PIMCO Asia
17. Pinebridge Investments Singapore
18. Schroder Investment Management (Singapore)
19. Singapore Consortium Investment Management
20. Templeton Asset Management
21. UBS Asset Management (Singapore)
22. UOB Asset Management
23. Western Asset Management



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