April 9, 2004

Monthly Mutual Fund Report

Statistics for February-March 2004

Equity funds showed some weakness in March for the first time since last autumn, breaking a five-month streak of inflows and experiencing losses for the first time in more than a year, according to TrimTabs. The Investment Company Institute reports that inflows to stock funds remained strong in February, but are just over half of the record inflows in January. Taxable money market funds experienced an outflow in February, the fourteenth time in the last fifteen months.

Sales and Redemptions

Total assets for all funds increased in February by $97.0 billion, or 1.3 percent, to $7.63 trillion, a new record. Money market funds had a net cash outflow of $21.0 billion compared to an outflow in January of $19.8 billion. Other funds (equity, hybrid, and bond) had a net cash inflow of $32.7 billion, compared to an inflow of $48.2 billion in January. New sales of non-money market funds, the purchase of new shares excluding reinvested dividends, were $123.9 billion in February, down from $151.3 billion in January. The value of non-money market assets appreciated by $78.4 billion in February, following an appreciation of $89.4 billion in January.

Total assets of **equity funds** increased by $91.2 billion, or 2.4 percent, to $3.80 trillion. There was a $26.2 billion net cash inflow to equity funds in February, compared with an inflow of $43.0 billion in January. The market value of assets appreciated by $64.5 billion in February. The year-to-date inflow is $69.2 billion, compared to an outflow of $11.1 billion in the first two months of 2003.

Total assets for **hybrid funds**, which invest in a mix of stocks and bonds, increased 2.4 percent, or $10.8 billion, to $458.6 billion. In February, there was a $5.0 billion net cash inflow for these funds, compared to an inflow in January of $5.5 billion. Hybrid funds have experienced an inflow of $10.6 billion thus far in 2004, compared to an inflow of $1.2 billion to this point in 2003.

Bond funds experienced a cash inflow of $1.5 billion, while their total assets increased by $12.6 billion, to $1.26 trillion. The market value of bond funds assets increased by $8.5 billion, after adjusting for net sales and reinvested dividends. The assets of taxable bond funds increased by 0.8 percent, while the assets of tax-exempt bond funds increased by 1.7

percent. The inflow for 2004 is $1.1 billion, compared to $32.5 billion through February 2003.

Assets of taxable and tax-exempt **money market funds** decreased $17.8 billion, to $2.02 trillion, a decrease of 1.1 percent for taxable money market funds but an increase of 0.3 percent for tax-exempt funds. The year-to-date outflow of $40.7 billion almost exactly matches the outflow for the first two months of 2003.

Liquidity Ratio

The liquidity ratio for bond and hybrid funds increased from 6.05 to 6.21 percent, while the ratio for equity funds decreased from 4.45 to 4.37 percent (figure 4).

Weekly Flows

In March, there were outflows from equity funds of 0.08 percent of total assets, with losses of 3.3 percent (figure 6a). The last monthly outflow for equity funds was in September. March also marks the first month of losses in equity funds since February 2003.

Bond funds had inflows of 0.4 percent and returns of 1.4 percent for the month. Index funds had monthly outflows of 0.1 percent and losses of 3.7 percent. Aggressive growth funds had monthly outflows of 0.2 percent and losses of 3.5 percent. Small-cap funds had an outflow of 0.3 percent and returns of 0.8 percent.

There were inflows to international funds in March of 0.4 percent of assets and losses of 2.6 percent. Latin America funds had outflows of 0.8 percent and losses of 2.0 percent. Japan funds had inflows of 1.8 percent and returns of 7.6 percent of assets for the month of March. Pacific funds that do not invest in Japan had outflows of 1.3 percent and losses of 3.7 percent of assets.

Capital Market Returns and Volatility

The S&P 500 ended March at 1126.21, a decrease of 1.6 percent from the beginning of the month. The 12-month gain was 32.1 percent at month-end. The annualized volatility for the daily return on the S&P 500 was 13.7 percent.

The 12-month average return on the Citigroup Bond Index was 5.5 percent for March. Volatility decreased to 5.20 percent (figure 8).

Price-Earnings Ratio

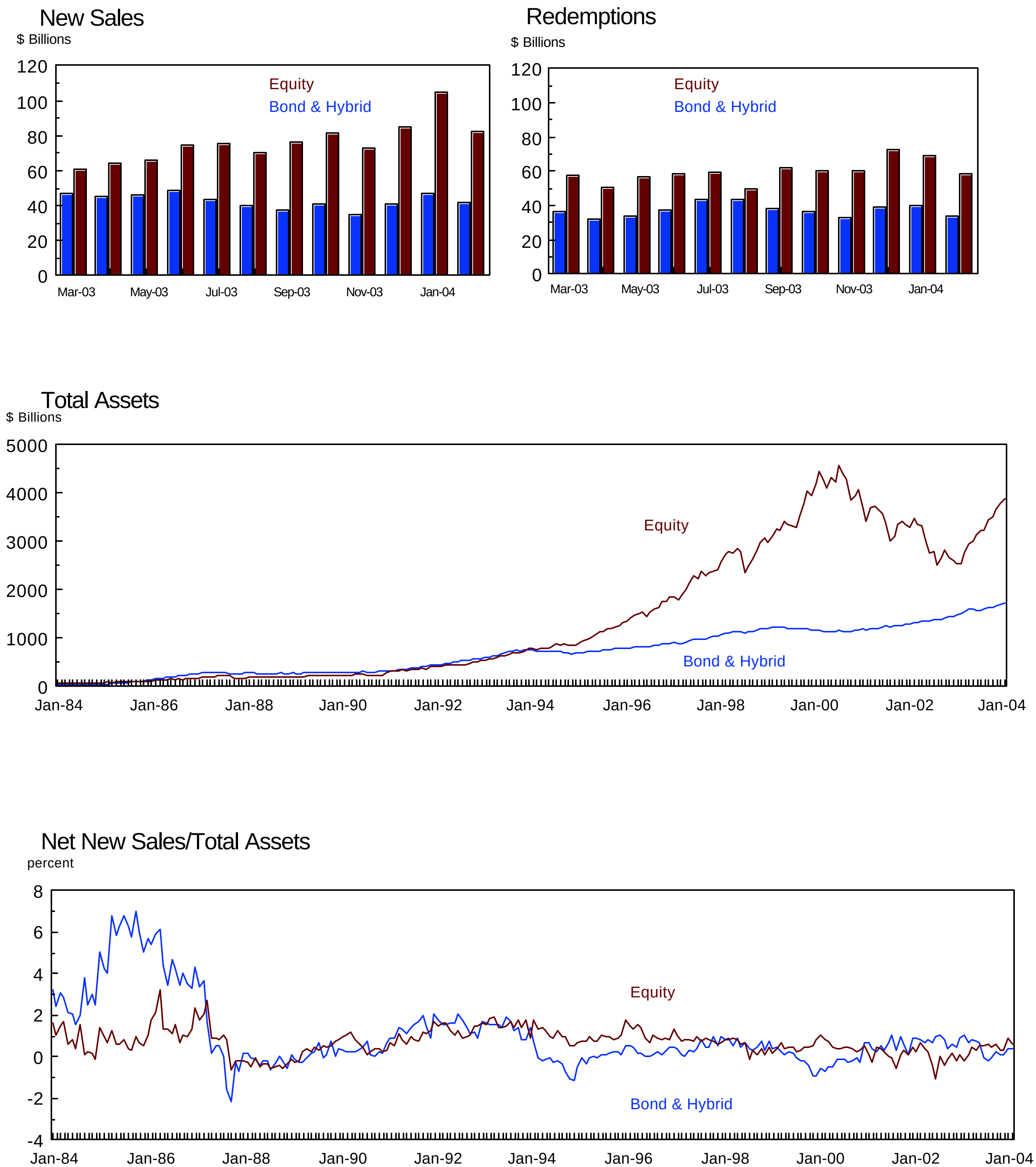
The macro projections for the growth of earnings of the Standard and Poor's 500 index over the next two years have decreased in the fourth quarter to a loss of 7.6 percent from current levels. The trailing price-earnings ratio decreased from 25.8 in the third quarter to 22.6 for the fourth quarter of 2003, while Thomson Financial/First Call's forward price-operating earnings was 18.4 in the first quarter of 2004, up from 18.3 in the fourth quarter of 2003 (figure 9). During the fourth 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

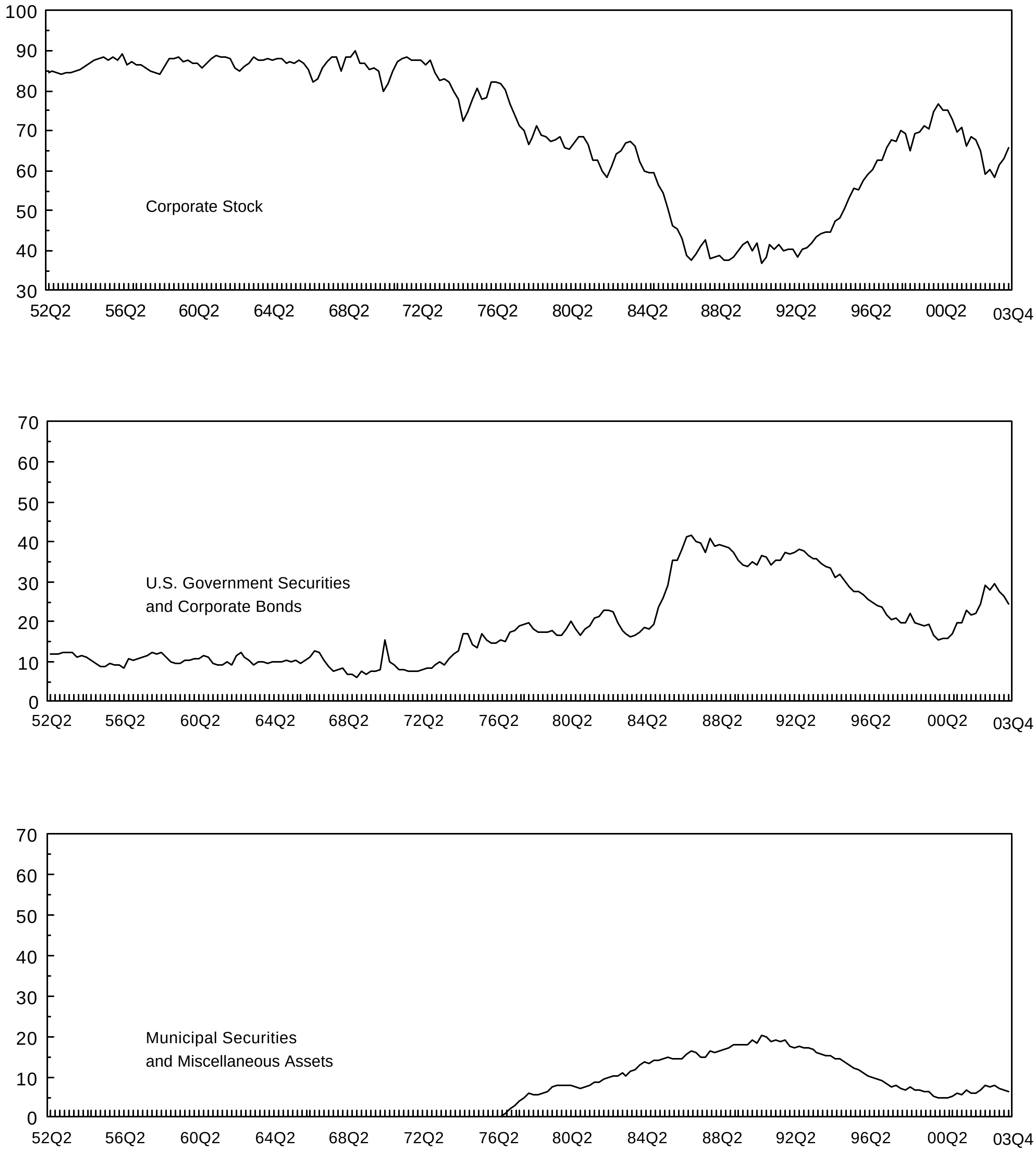


Source: Investment Company Institute

Figure 2

Composition of Mutual Funds' Financial Assets

(percent of Total Financial Assets)



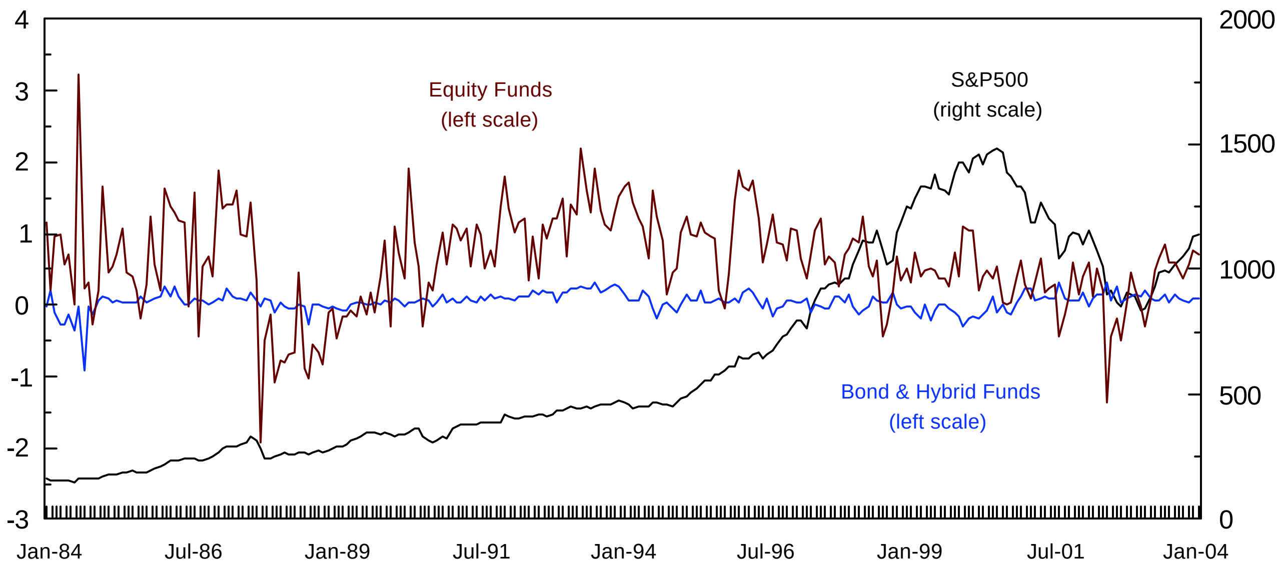
Source: Flow of Funds, Haver Analytics

Figure 3

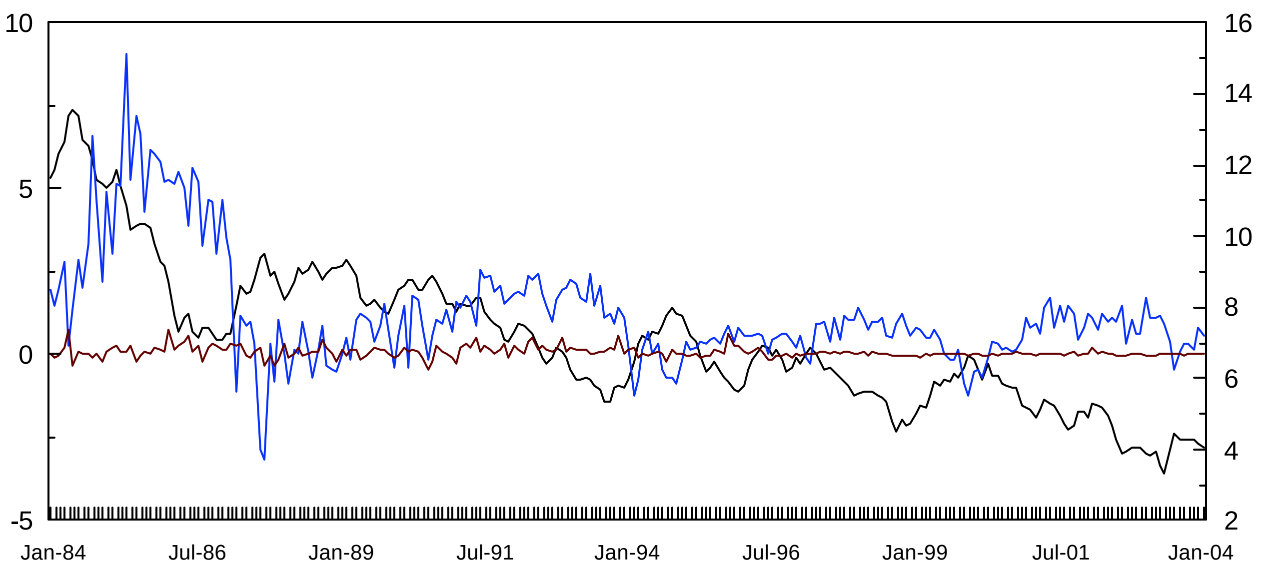
Net Portfolio Purchases

(percent of Total Assets)

Net Common Stock Purchases



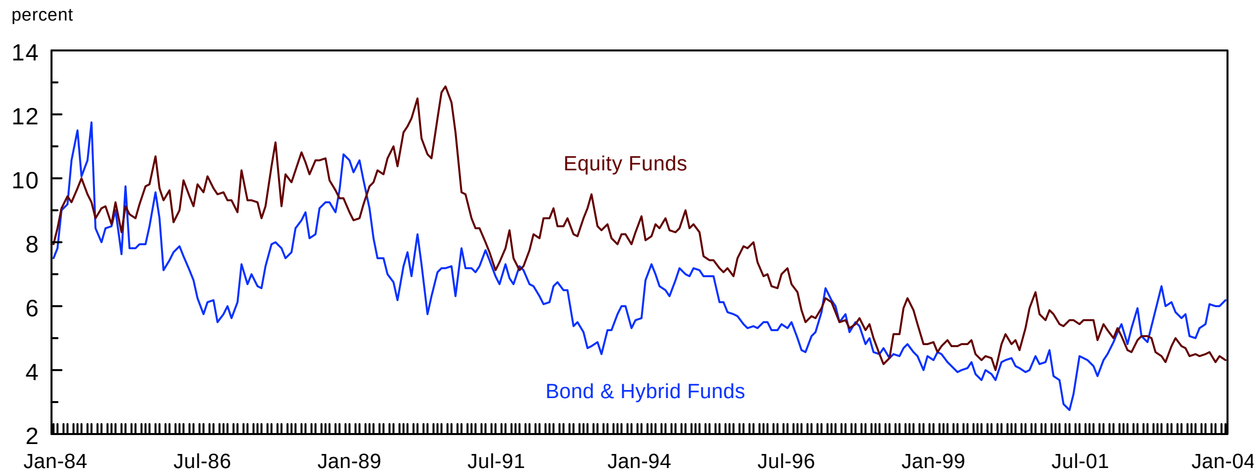
Net Purchases of Other Assets

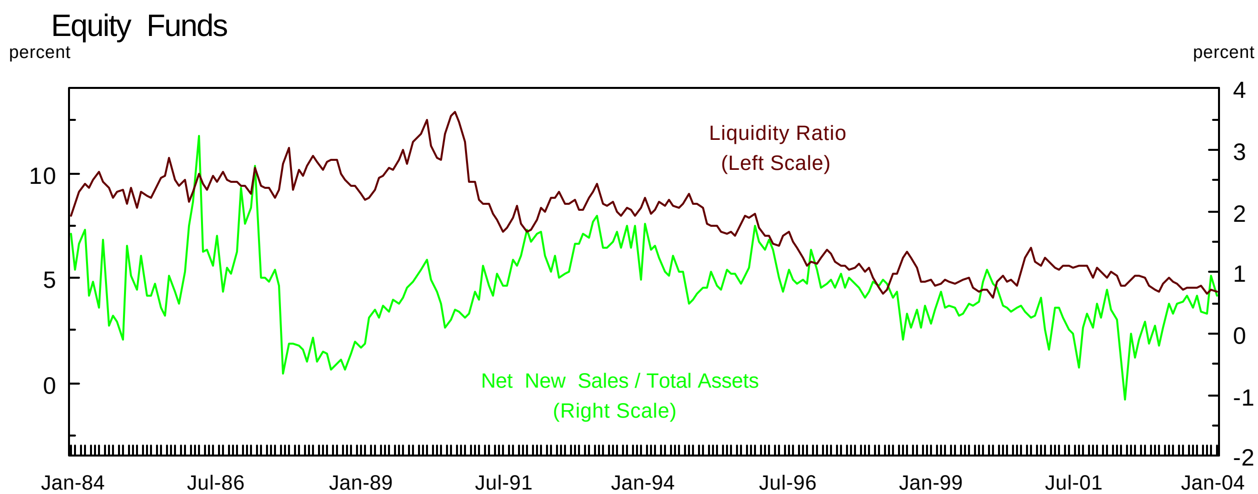


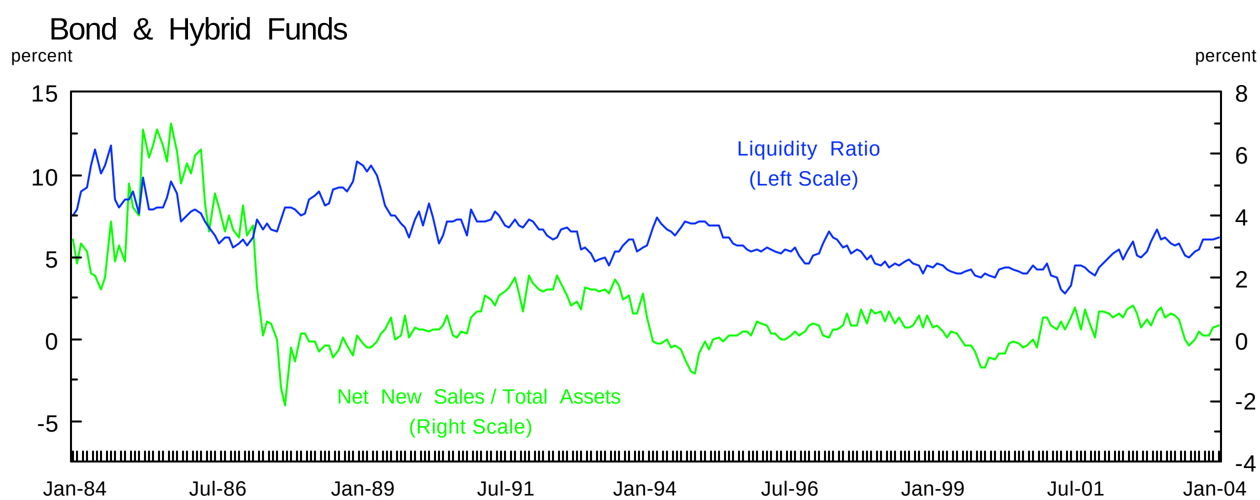
Source: Investment Company Institute

Figure 4

Liquidity Ratio*







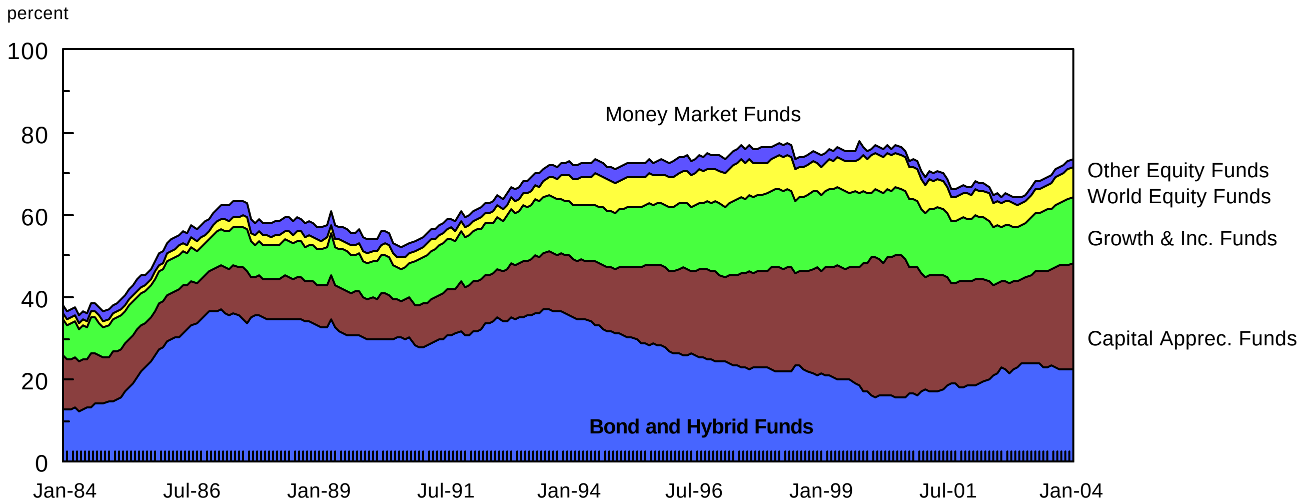
*The Liquidity Ratio is the Percent of Total Assets held in Cash and Short-Term Securities.

Source: Investment Company Institute

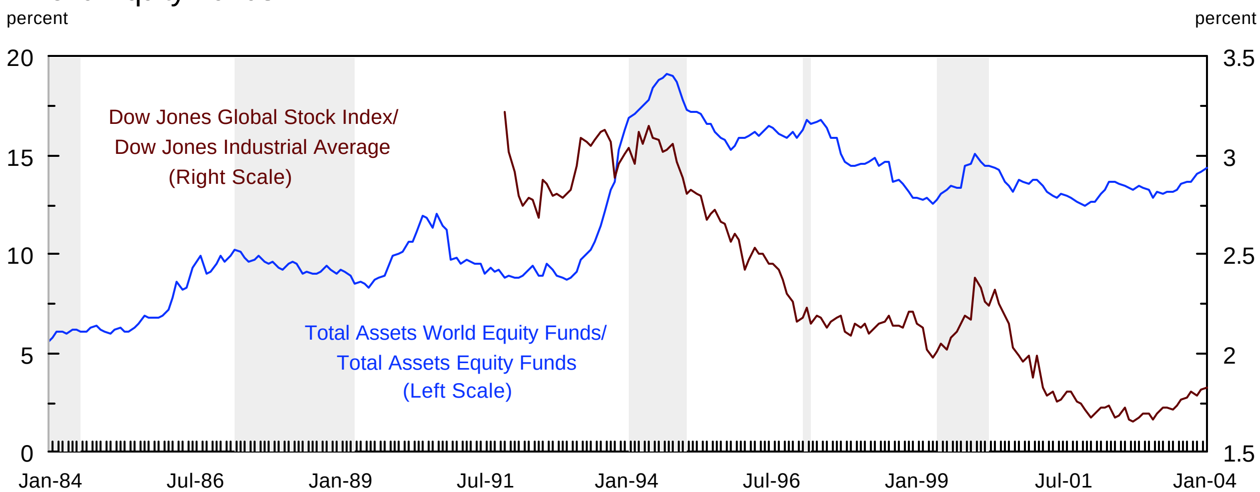
Figure 5

Industry Composition

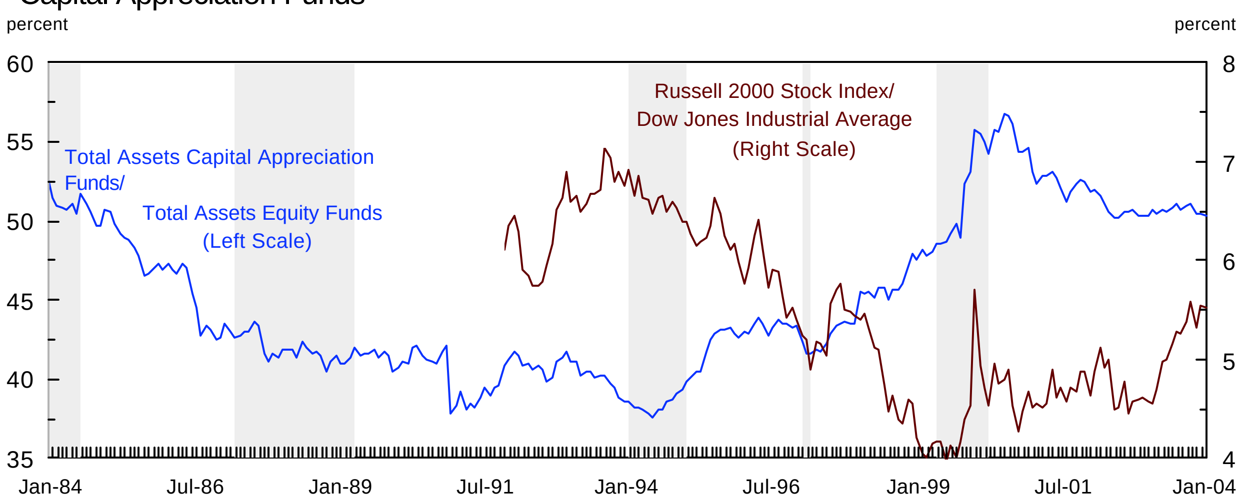
(Shaded Regions Indicate Periods of Rising Fed Funds Rate)



World Equity Funds



Capital Appreciation Funds

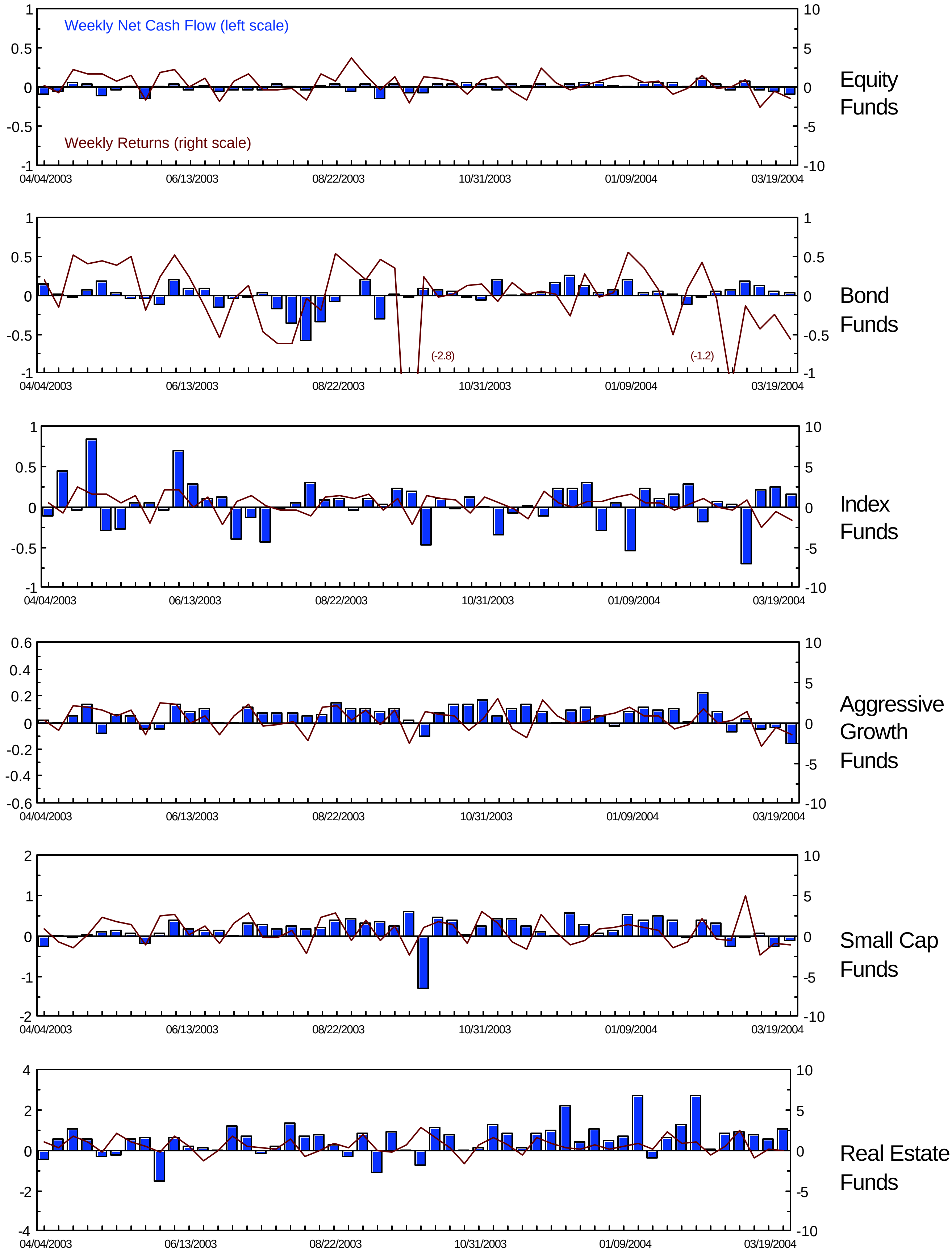


Source: Investment Company Institute

Figure 6a

Weekly Flows into Mutual Funds

(percent of Total Assets)

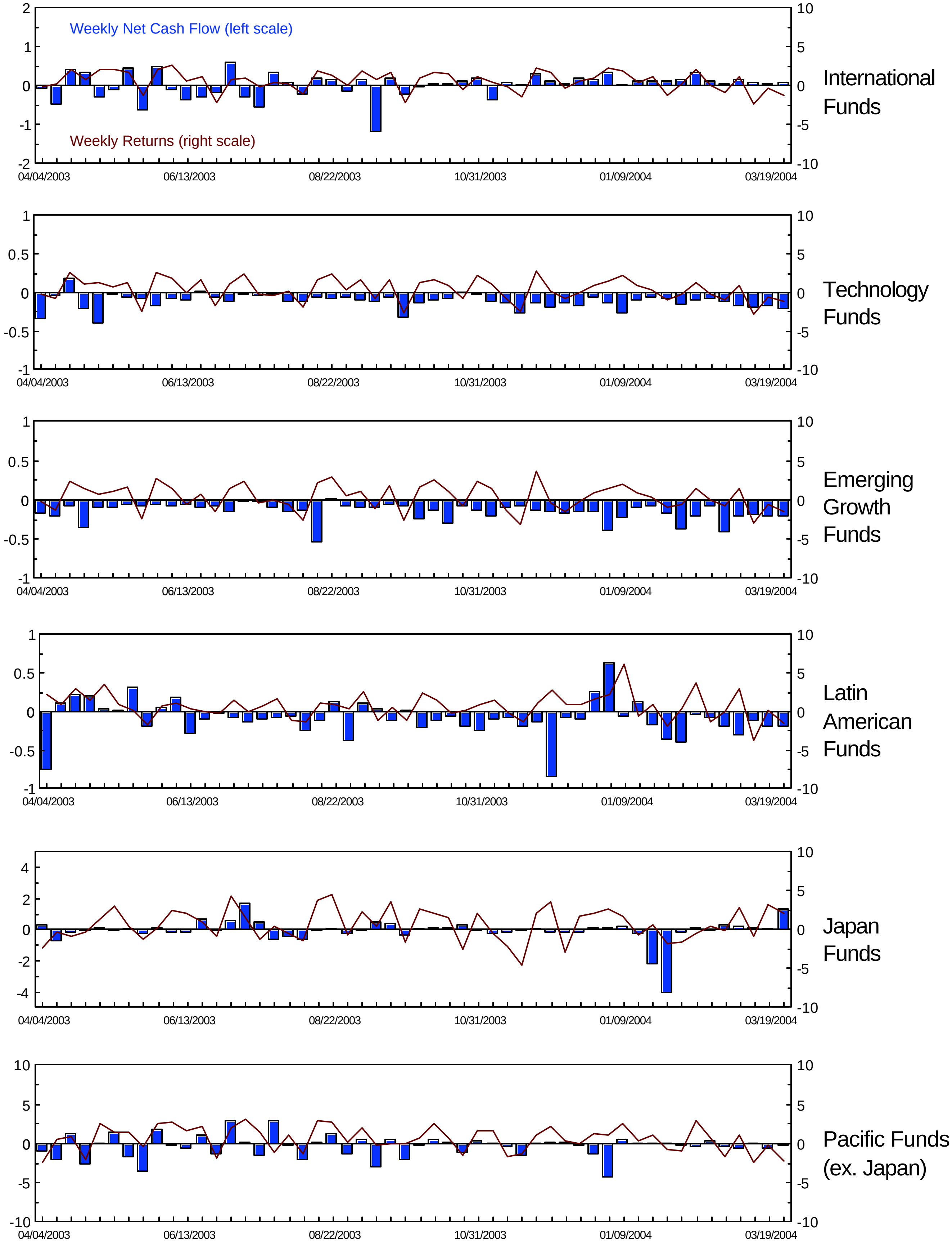


Source: Mutual Fund Trim Tabs

Figure 6b

Weekly Flows into Mutual Funds

(percent of Total Assets)

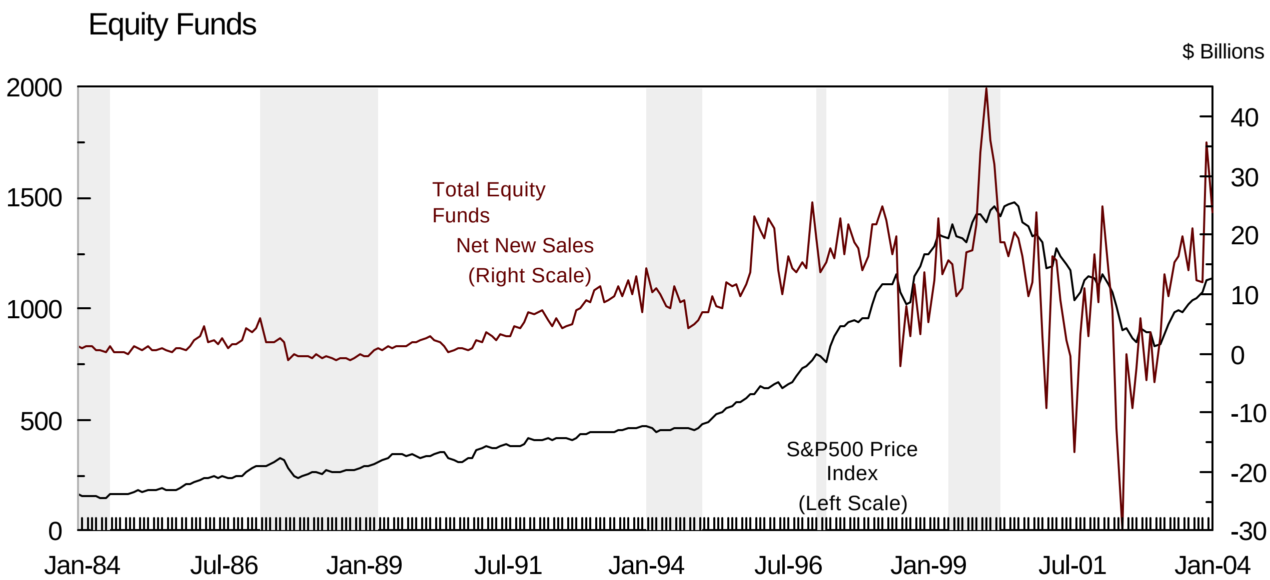


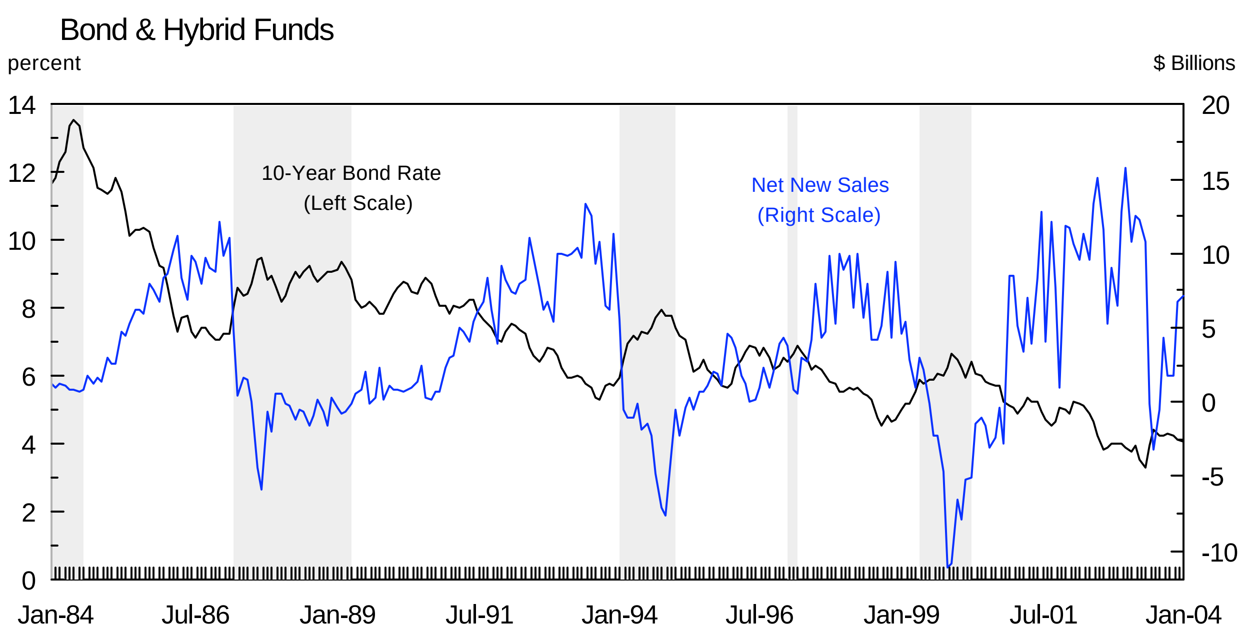
Source: Mutual Fund Trim Tabs

Figure 7

Net New Sales By Investment Objective

(Shaded Regions Indicate Periods of Rising Fed Funds Rate)

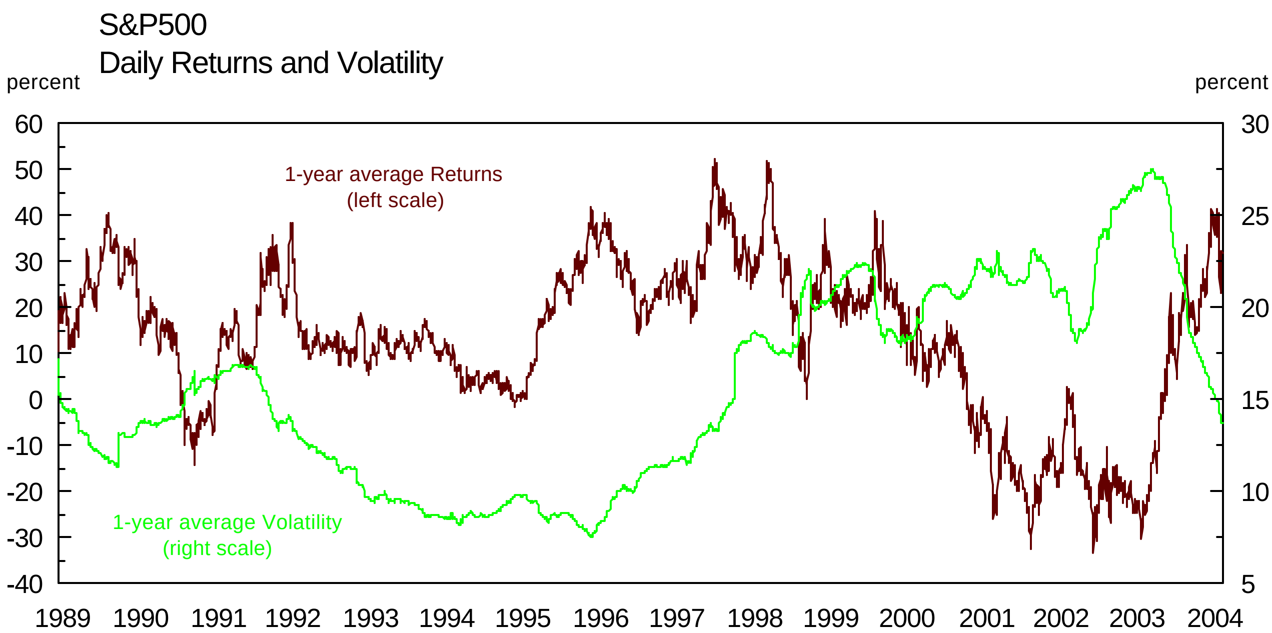


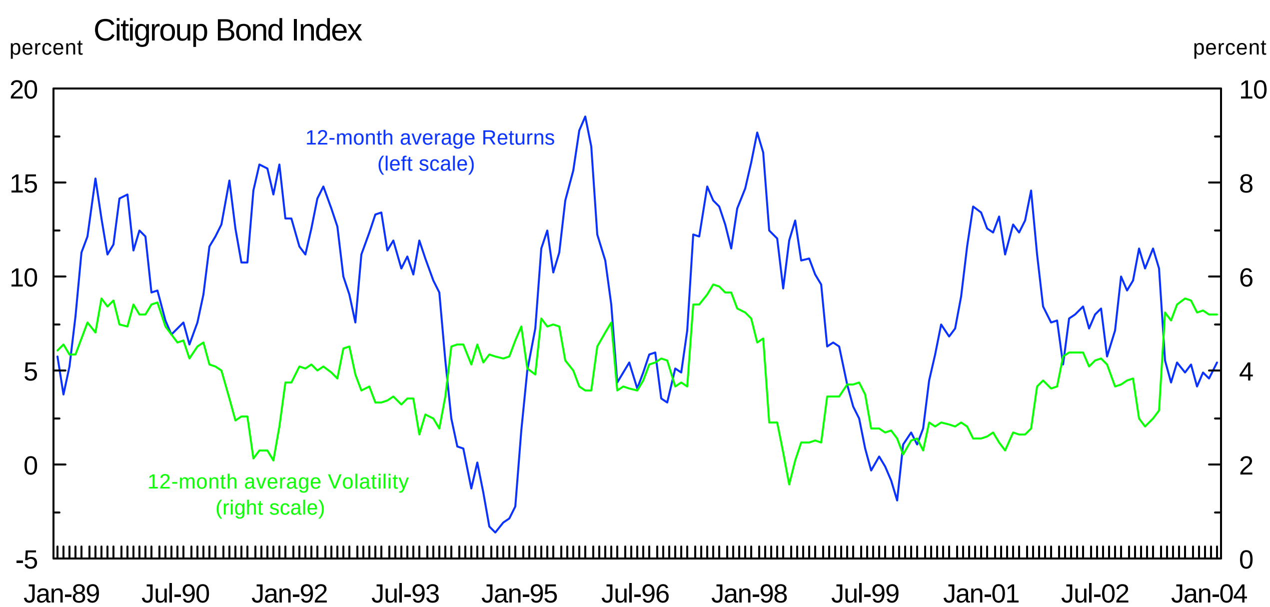


Source: Investment Company Institute

Figure 8

Capital Market Returns and Volatility

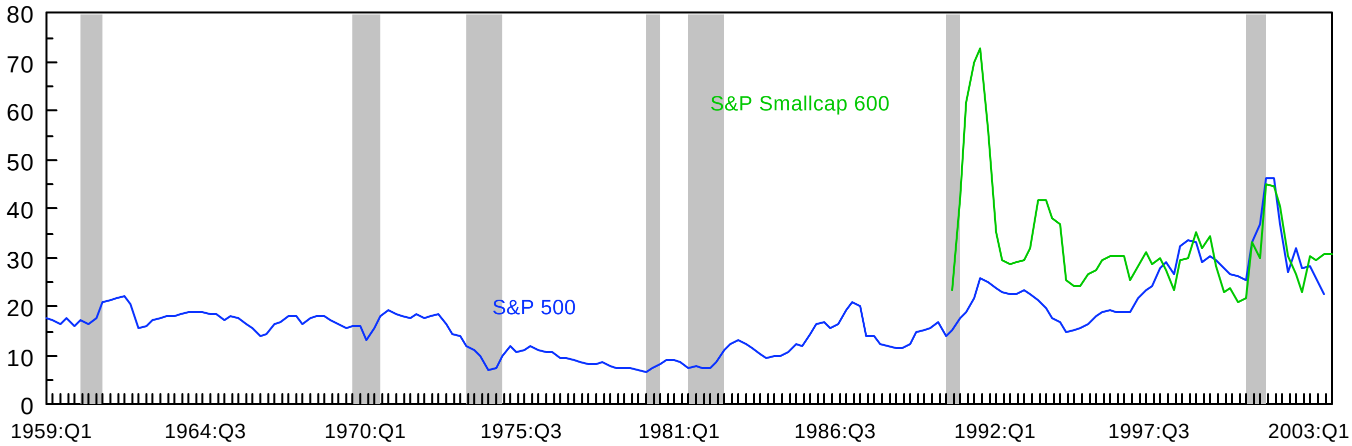




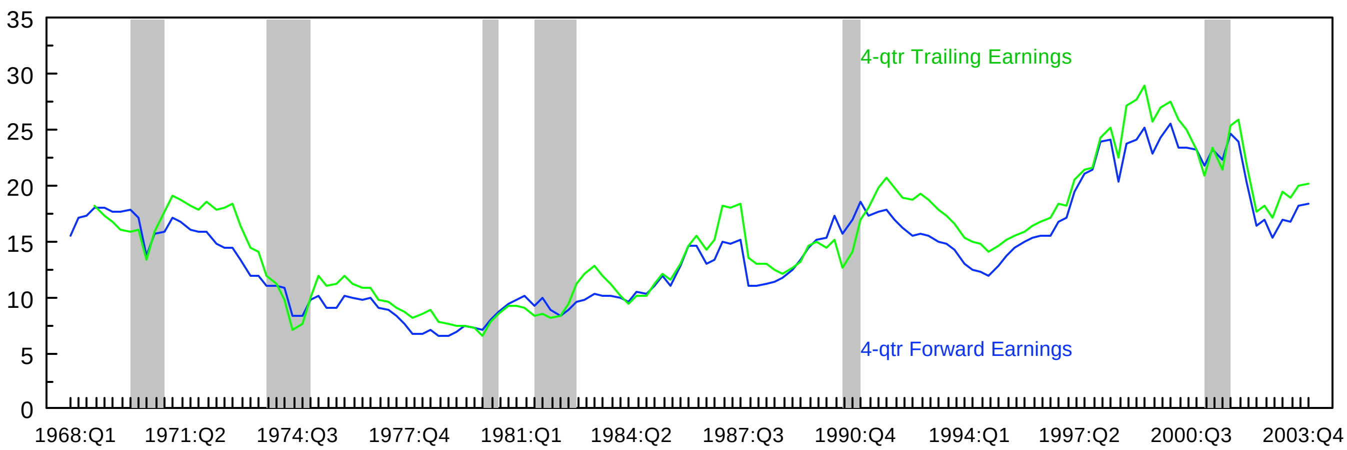
Source: FAME Database, Citigroup

Figure 9

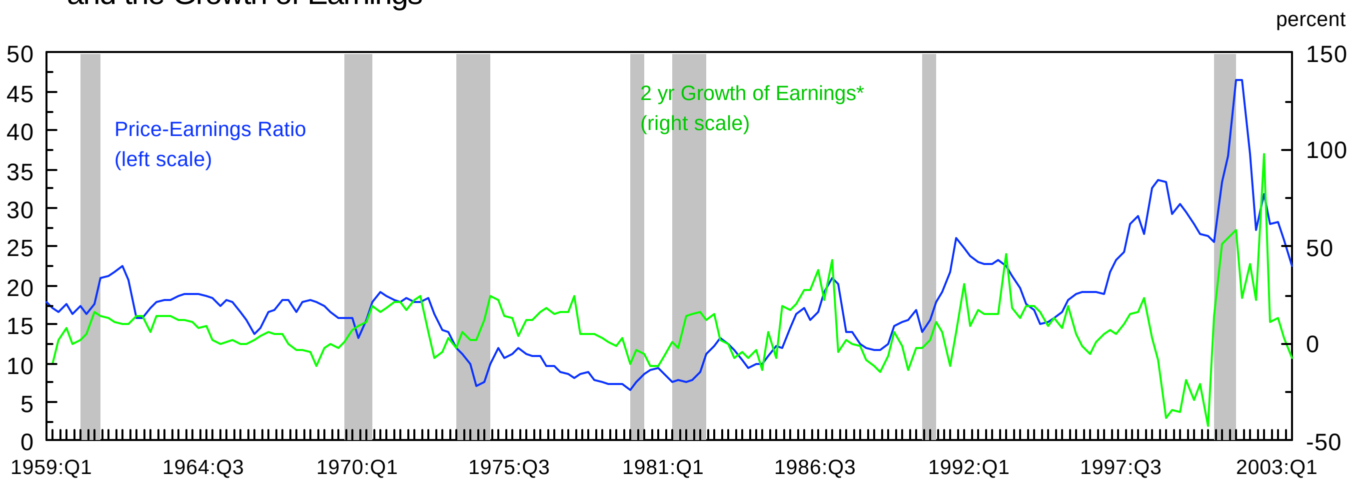
S&P Price-Earnings Ratios



S&P500 Price-Operating Earnings Ratio



S&P500 Price Earnings Ratio
and the Growth of Earnings

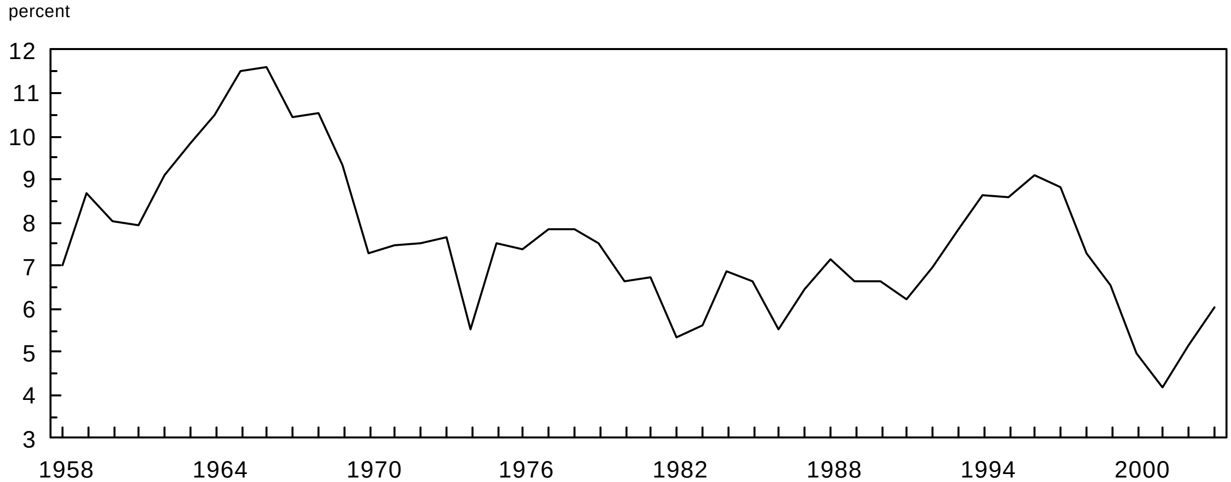


* Growth of earnings over subsequent 8 quarters. Current observations use forecast of earnings from macro projections.

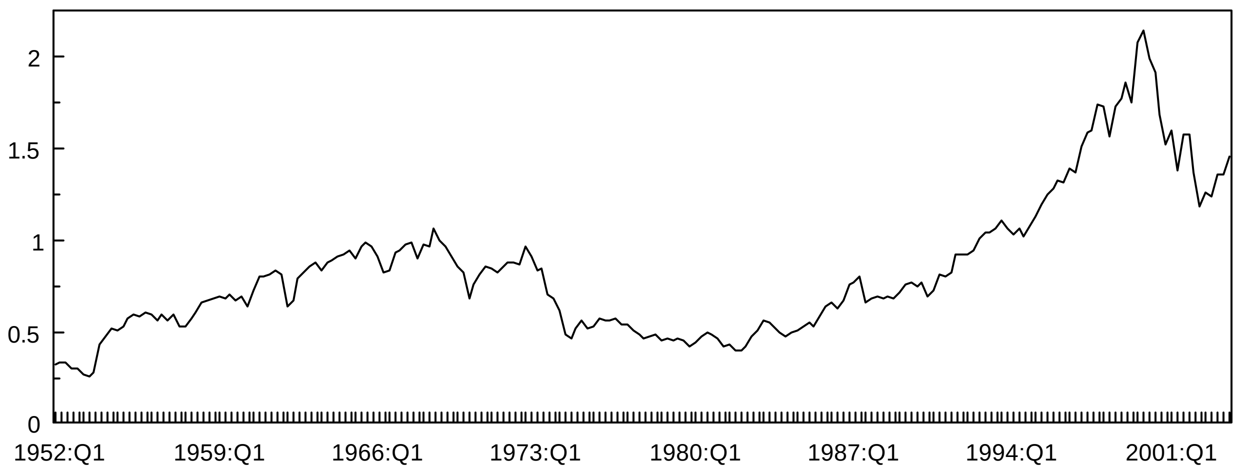
source: Thomson Financial/First Call, Global Exchange (formerly DRI), Bloomberg

Figure 10

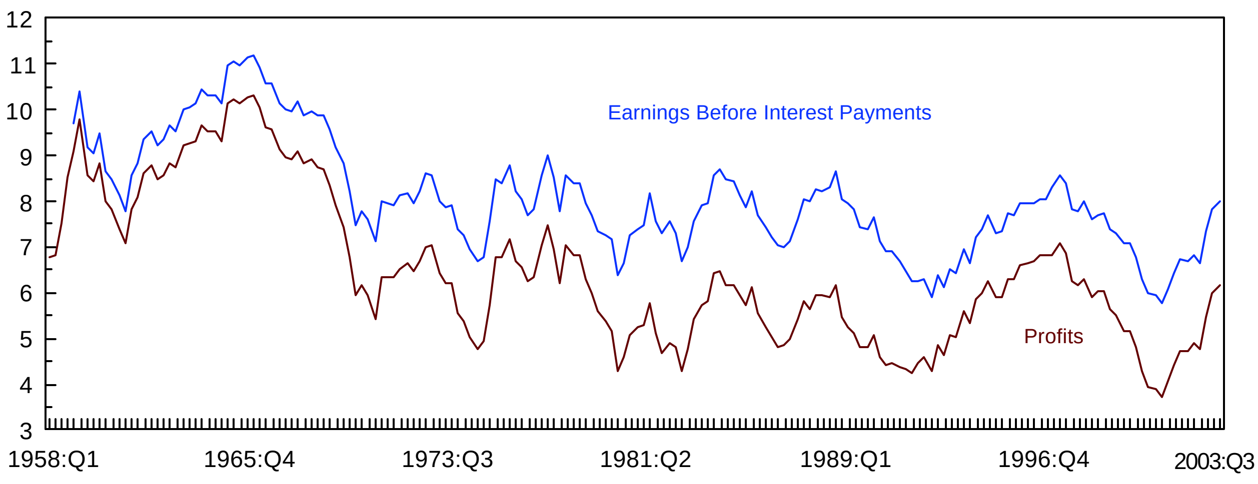
Real Rate of Return on Nonfinancial Corporate Equity
(from National Income and Flow of Funds Accounts)



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