August 4, 2006

Monthly Mutual Fund Report

Statistics for June 2006 - July 2006

Sales and Redemptions

Total assets for all funds increased in June by $10.3 billion, or 0.1 percent, to $9.3 trillion. Money market funds had a net cash inflow of $20.1 billion compared to an inflow in May of $50.8 billion. Other funds (equity, hybrid, and bond) had a net cash outflow of $9.2 billion, compared to an inflow of $0.5 billion in May. New sales of non-money market funds, the purchase of new shares excluding reinvested dividends, were $133.8 billion in June, up from $161.4 billion in May. The value of non-money market assets depreciated by $19.7 billion in June, following a depreciation of $228.9 billion in April.

Total assets of **equity funds** decreased by $15.0 billion, or 0.3 percent, to $5.2 trillion. There was $8.4 billion net cash outflow from equity funds in June, compared with an inflow of $3.2 billion in May. The market value of assets depreciated by $13.1 billion in June. Equity funds had an inflow of $113.8 billion year-to-date, compared to an inflow of $74.1 billion during the first six months of 2005.

Total assets for **hybrid funds**, which invest in a mix of stocks and bonds, decreased by 0.1 percent, or $0.62 billion, to $585.5 billion. In June, there was a $0.44 billion net cash outflow from these funds, compared to an outflow in May of $0.16 billion. Hybrid funds have experienced an inflow of $1.0 billion year-to-date, compared to an inflow of $20.0 billion during the first six months of 2005.

Bond funds experienced a cash outflow of $0.3 billion, while their total assets decreased by $0.4 billion, to $1.4 trillion. The market value of bond funds assets decreased by $4.4 billion, after adjusting for net sales and reinvested dividends. The assets of taxable bond funds increased by 0.1 percent, while the assets of tax-exempt bond funds decreased by 0.4 percent. The 2006 inflow is $20.2 billion, compared to an inflow of $15.3 billion through June of 2005.

Assets of taxable and tax-exempt **money market funds** increased $26.3 billion, to $2.1 trillion, an increase of 1.6 percent for taxable money market funds and a decrease of 0.2 percent for tax-exempt funds. The 2006 inflow is $36.3 billion, compared to an outflow of $68.3 billion through June of 2005.

Liquidity Ratio

The liquidity ratio for bond and hybrid funds decreased to 6.5 percent in June from 6.8 percent in May, while the ratio for equity funds remained at 4.2 percent (figure 4).

Weekly Flows

In July, outflows from equity funds were 0.7 percent of total assets, with losses of 0.8 percent (figure 6a). Bond funds had outflows of 0.2 percent and gains of 0.9 percent.

Index funds had monthly outflows of 0.2 percent and gains of 0.6 percent. Aggressive growth funds had outflows of 1.0 percent and losses of 1.4 percent. Small-cap funds had outflows of 0.7 percent and losses of 3.8 percent.

Technology funds had outflows of 1.6 percent and losses of 5.5 percent (figure 6b). There were inflows to real estate funds of 5.6 percent and gains of 8.9 percent.

International funds in July had inflows of 0.03 percent of assets and gains of 0.3 percent. Latin American funds had inflows of 2.0 percent and gains of 5.9 percent. Japan funds had outflows of 2.9 percent and losses of 4.4 percent. Pacific funds that do not invest in Japan had inflows of 2.2 percent and gains of 3.0 percent of assets. Emerging Markets funds had outflows of 1.9 percent and losses of 6.6 percent.

Capital Market Returns and Volatility

The S&P 500 ended in July at 1276.7, an increase of 0.5 percent from the previous month. The 12-month gain was 5.1 percent at month-end. The annualized volatility for the daily return on the S&P 500 was 11.4 percent.

The 12-month average return on the Citigroup Bond Index was 1.5 percent in July. Volatility increased to 2.9 percent in July (figure 8).

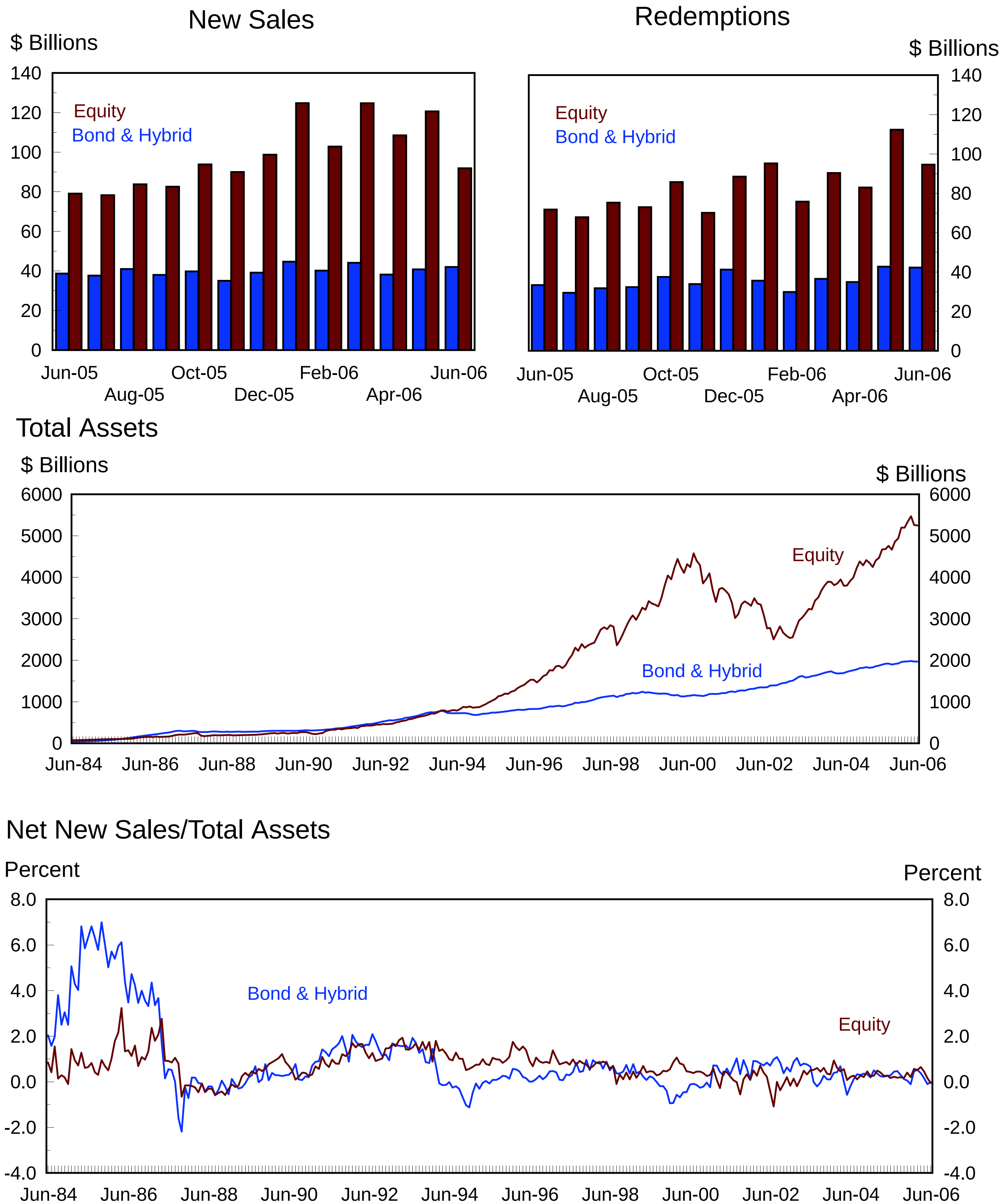
Price-Earnings Ratio

The macro projections for the growth of earnings for the Standard and Poor's 500 index over the next two years (2006:Q2-2008:Q2) have been revised to 5.0. During the second quarter of 2006, the price-earnings ratio for the Standard and Poor's 500 Index was at 16.5, down from 17.9 in the first quarter of 2006. The price-earnings ratio for the Small-Cap 600 Index decreased to 22.4 in the second quarter of 2006, from 23.7 in the first quarter of 2006 (figure 9).

Please contact Afreen Ali for questions and comments at Afreen.Ali@bos.frb.org, or by phone at (617) 973-3239.

Figure 1

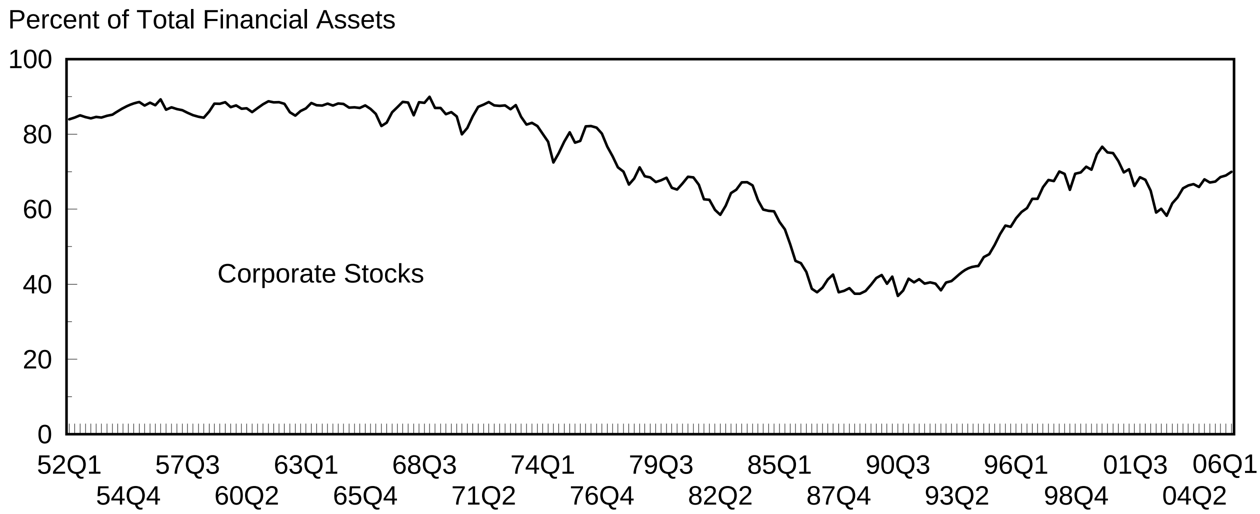
Sales of Mutual Funds

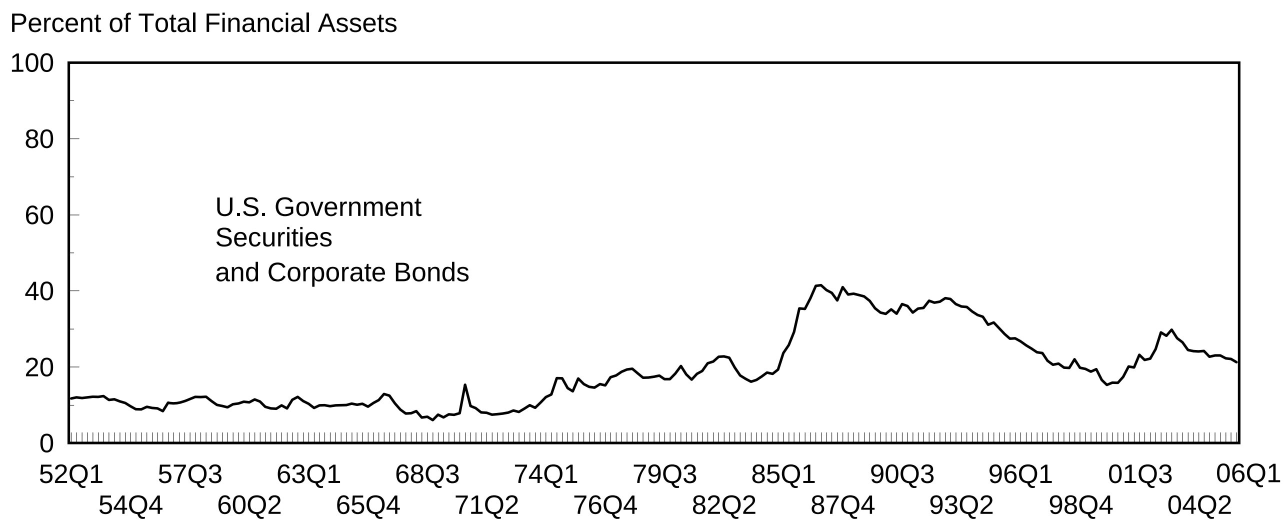


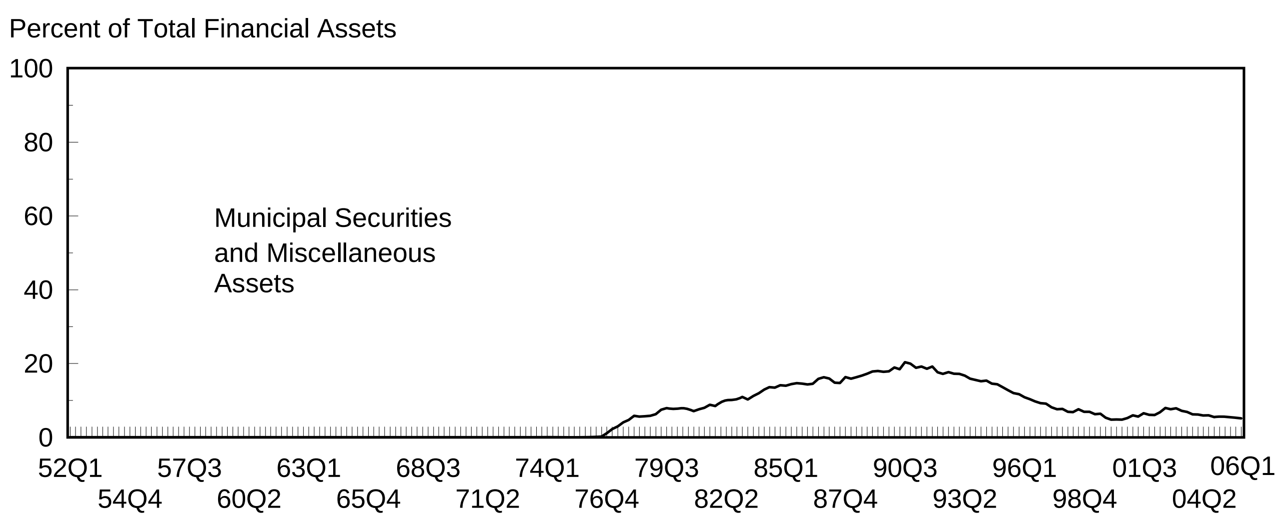
Source: Investment Company Institute

Figure 2

Composition of Mutual Funds' Financial Assets



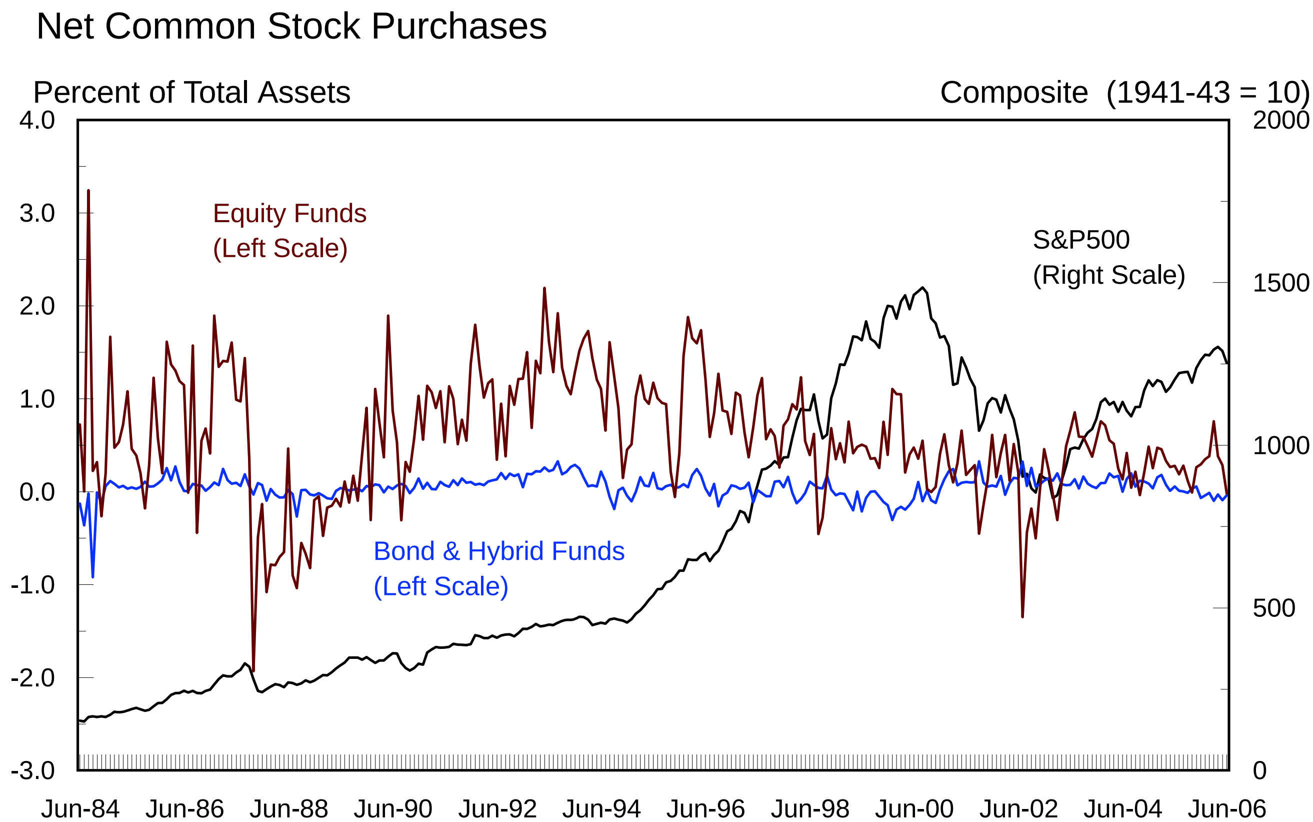


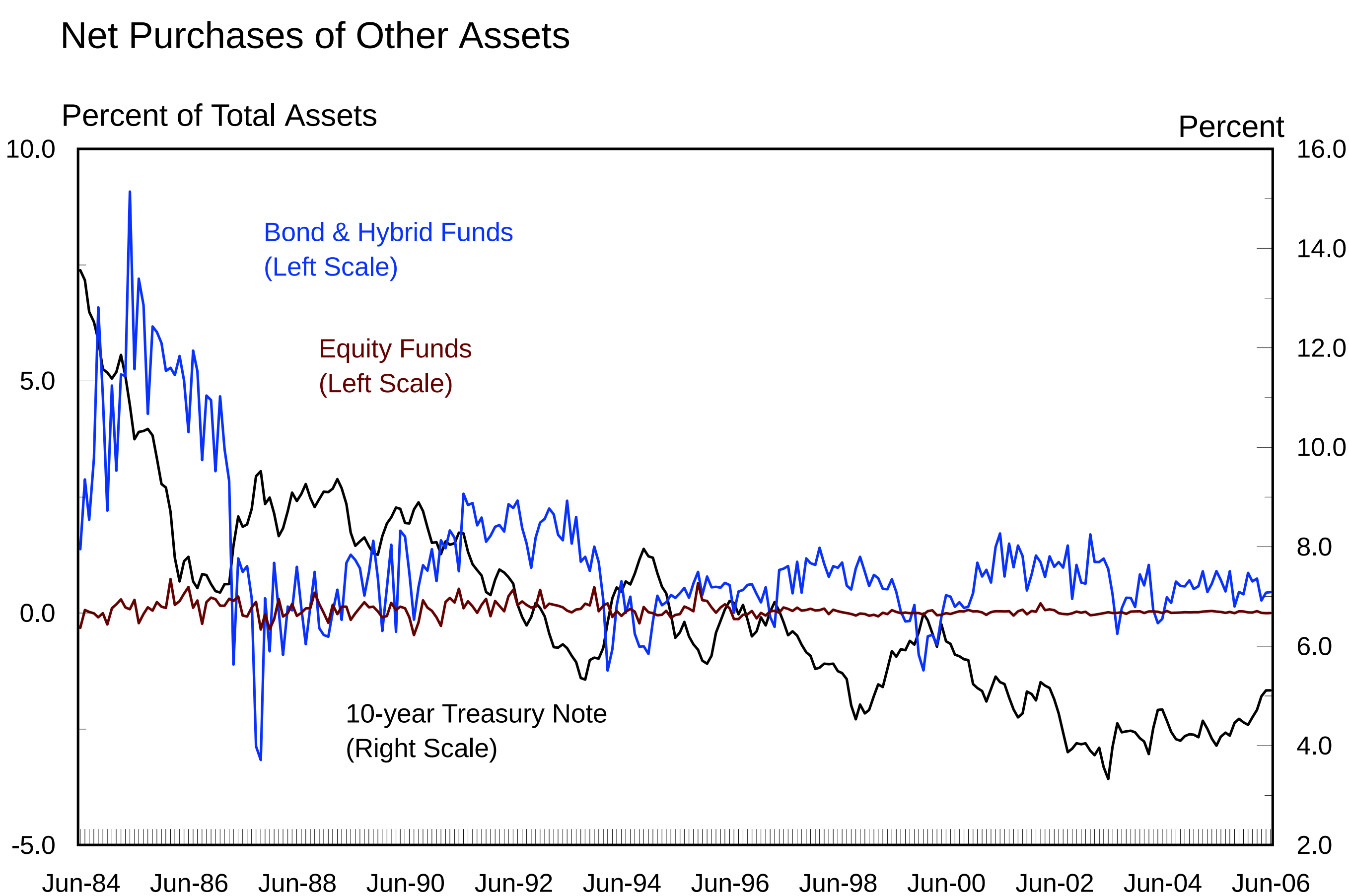


Source: Flow of Funds/Haver Analytics.

Figure 3

Net Portfolio Purchases

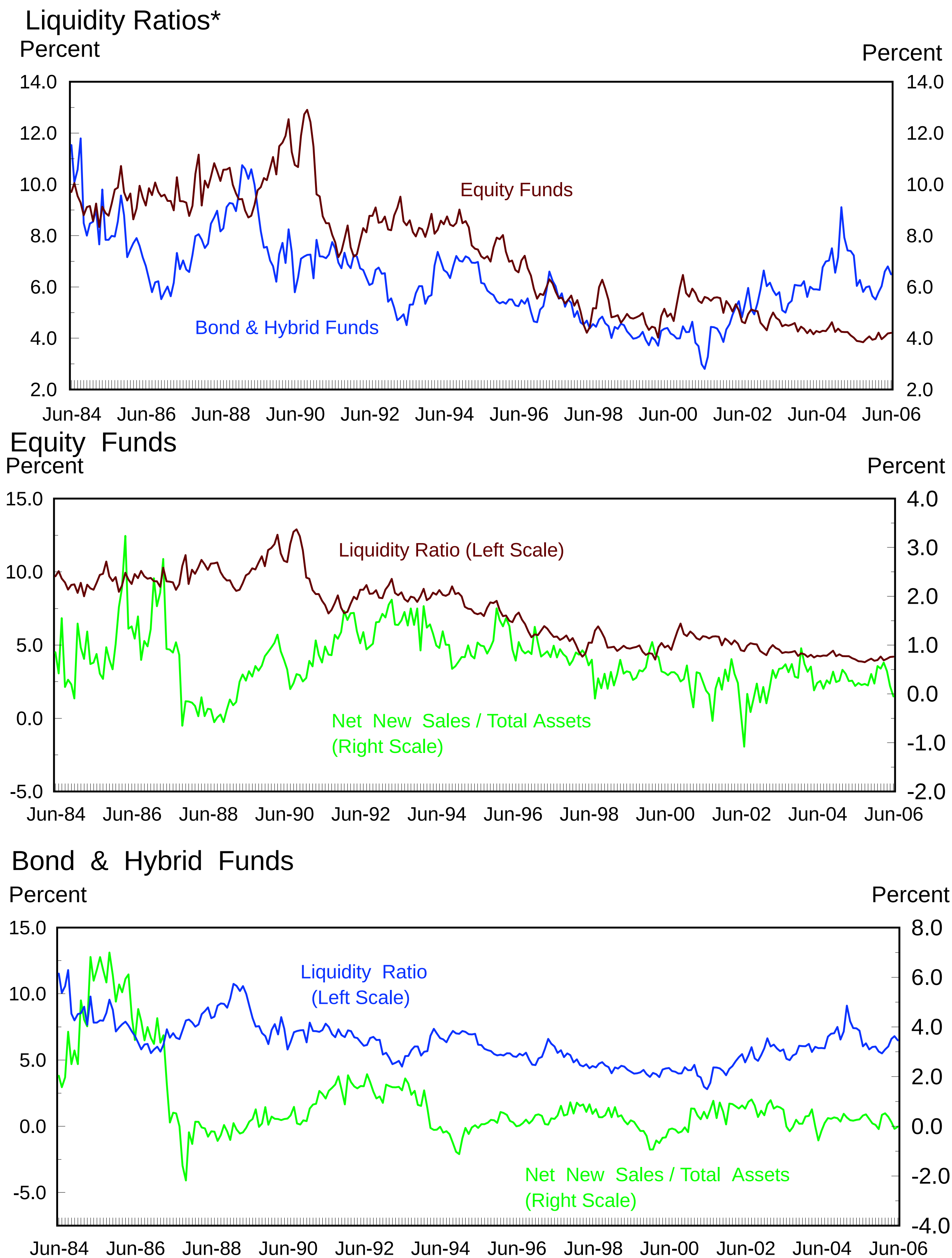




Source: Investment Company Institute

Figure 4

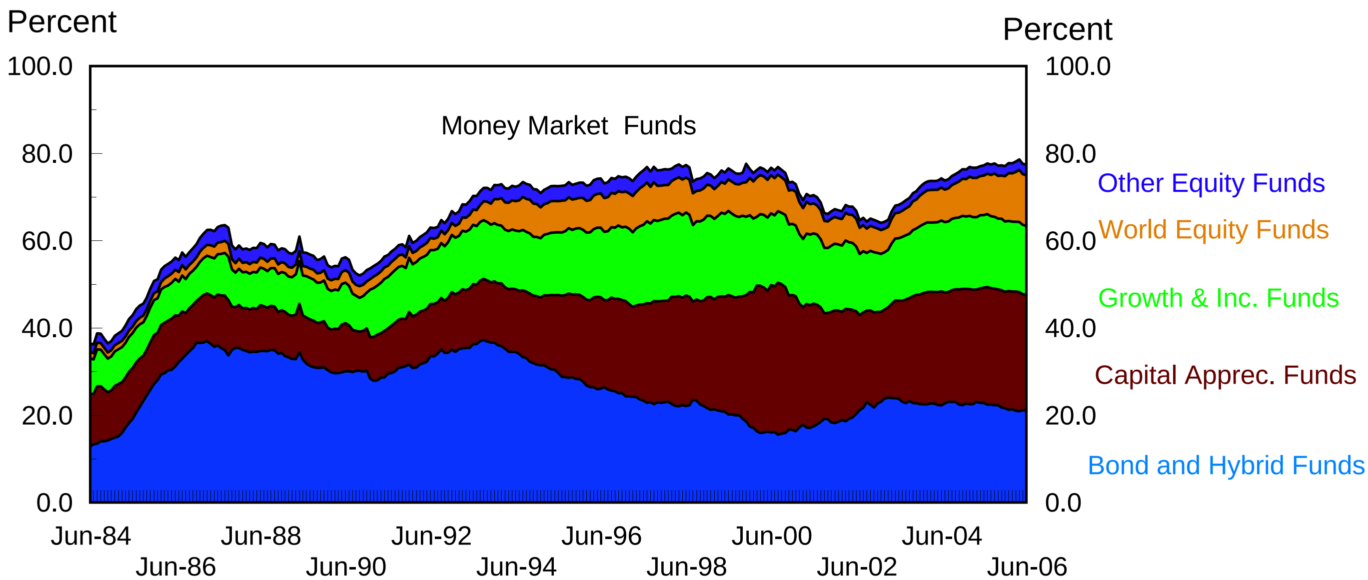
Liquidity Ratios



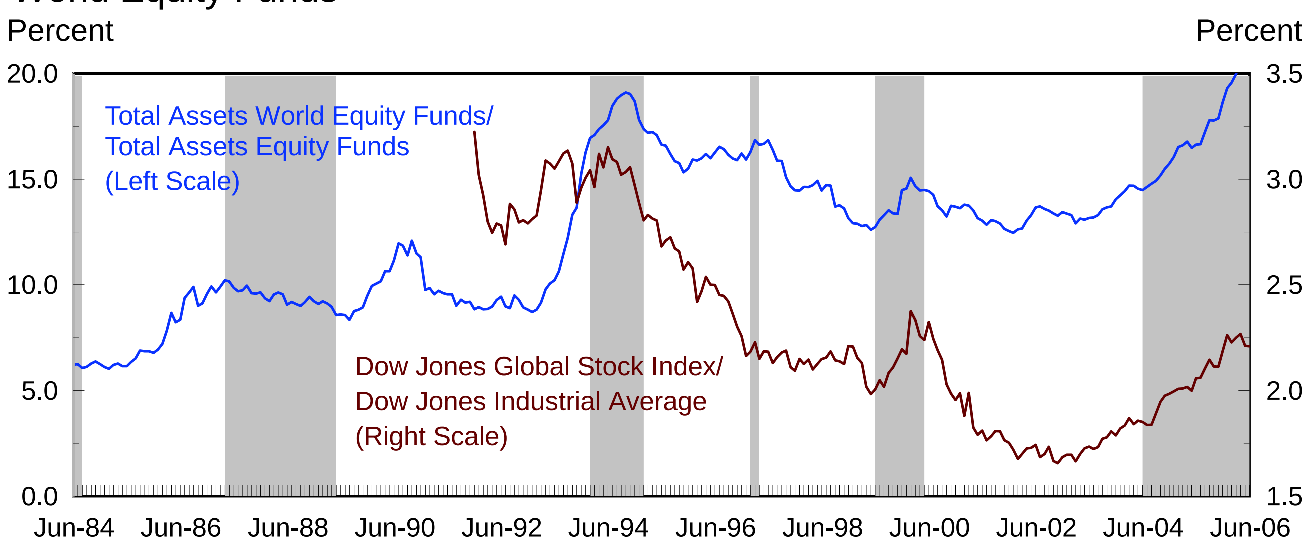
*Liquidity Ratios are the Percent of Total Assets held in Cash and Short-Term Securities.

Source: Investment Company Institute

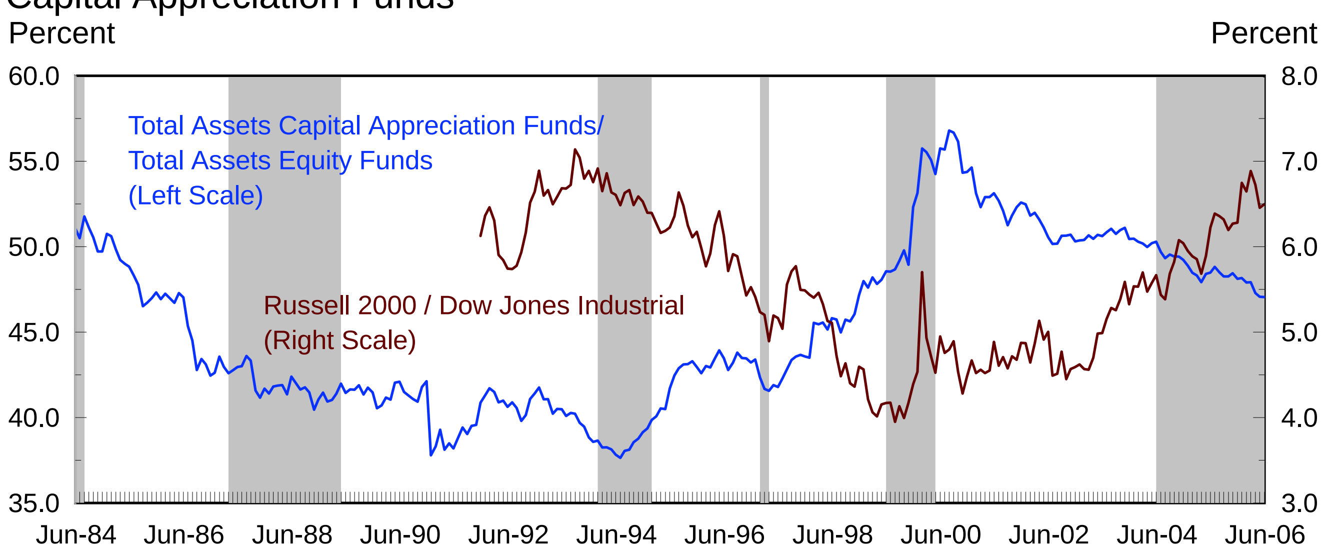
Figure 5
Industry Composition
(Shaded Regions Indicate Periods of Rising Fed Funds Rate)



World Equity Funds



Capital Appreciation Funds

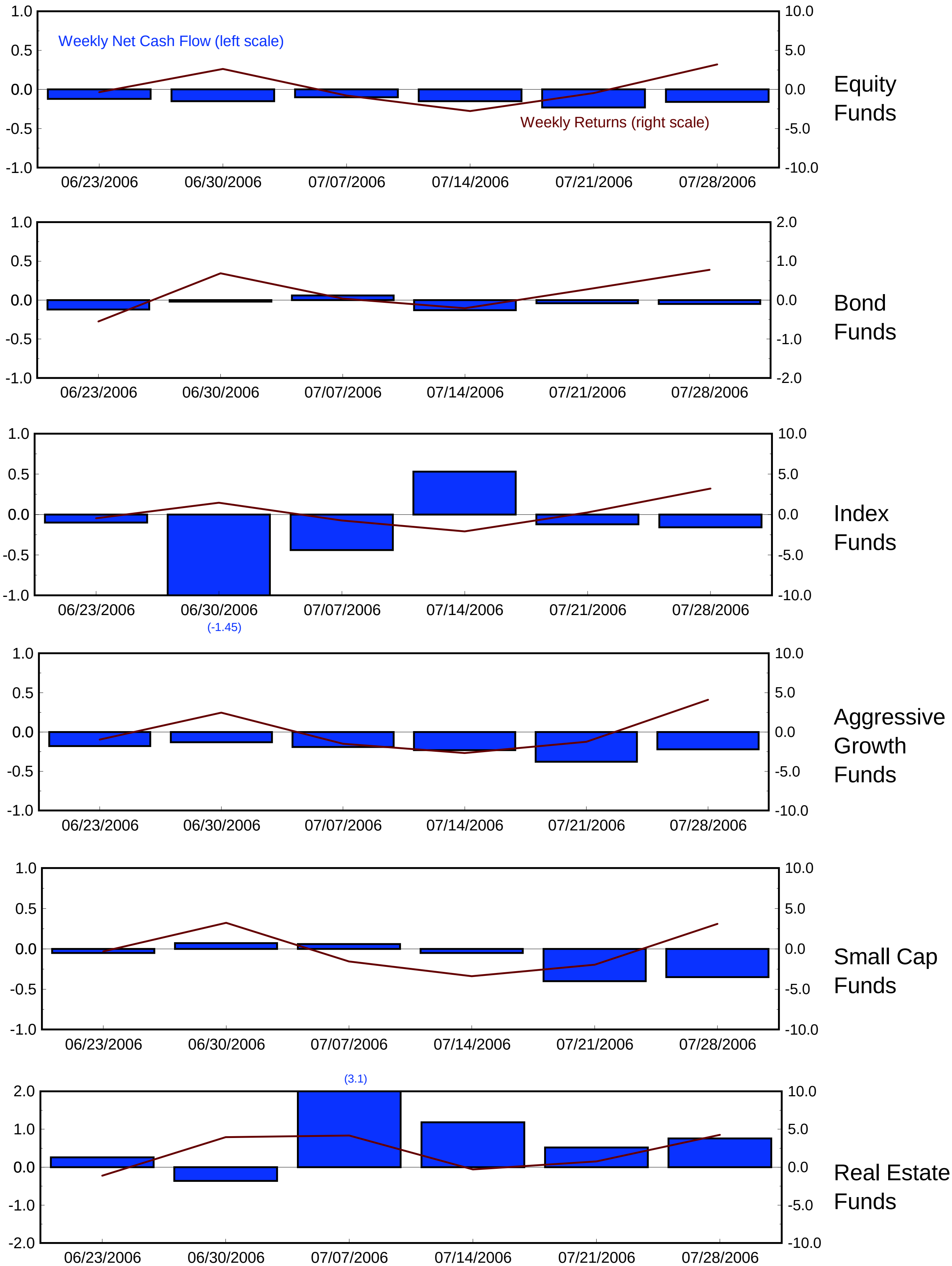


Source: Investment Company Institute

Figure 6a

Weekly Flows into Mutual Funds

(Percent of Total Assets)

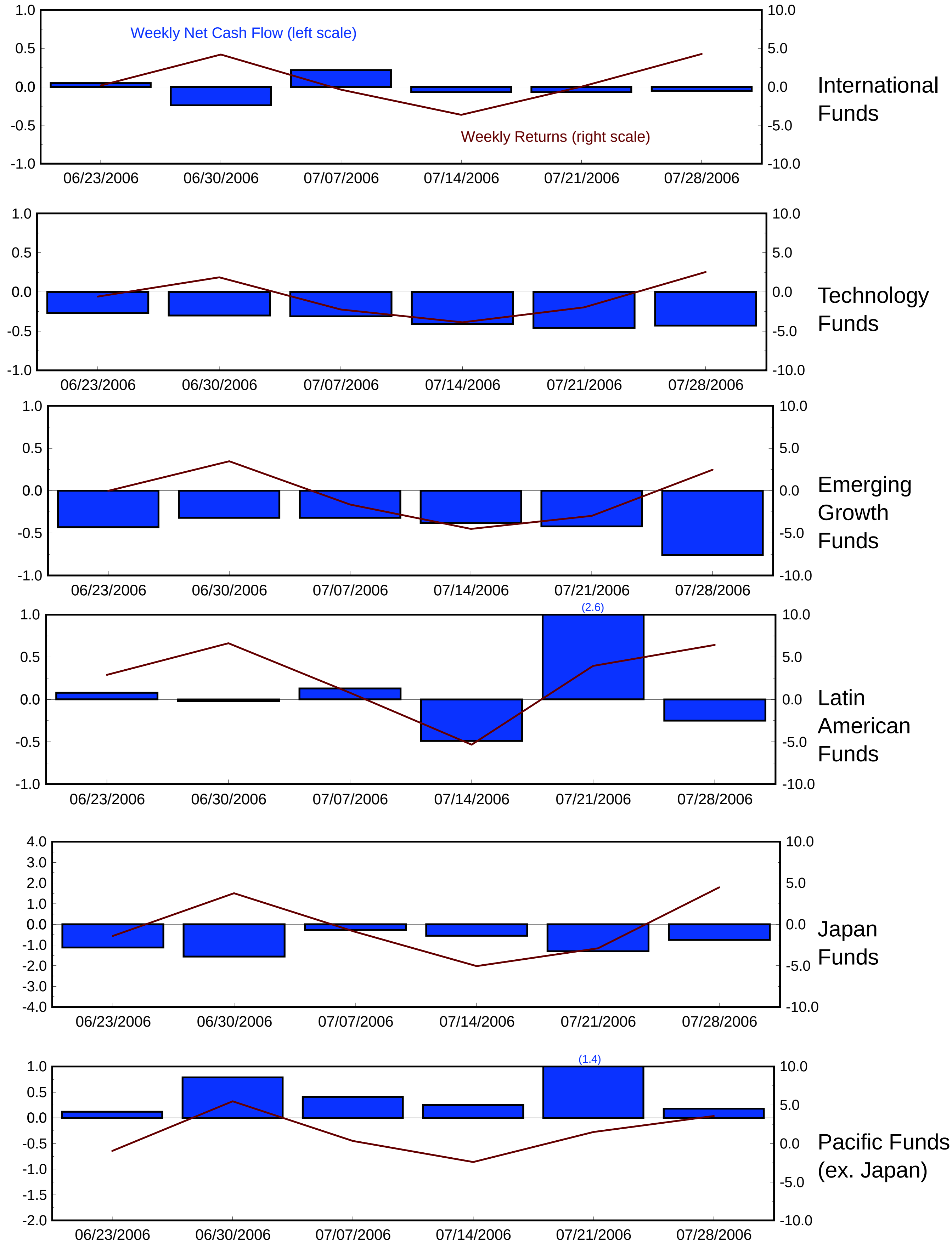


Source: Mutual Fund TrimTabs

Figure 6b

Weekly Flows into Mutual Funds

(Percent of Total Assets)



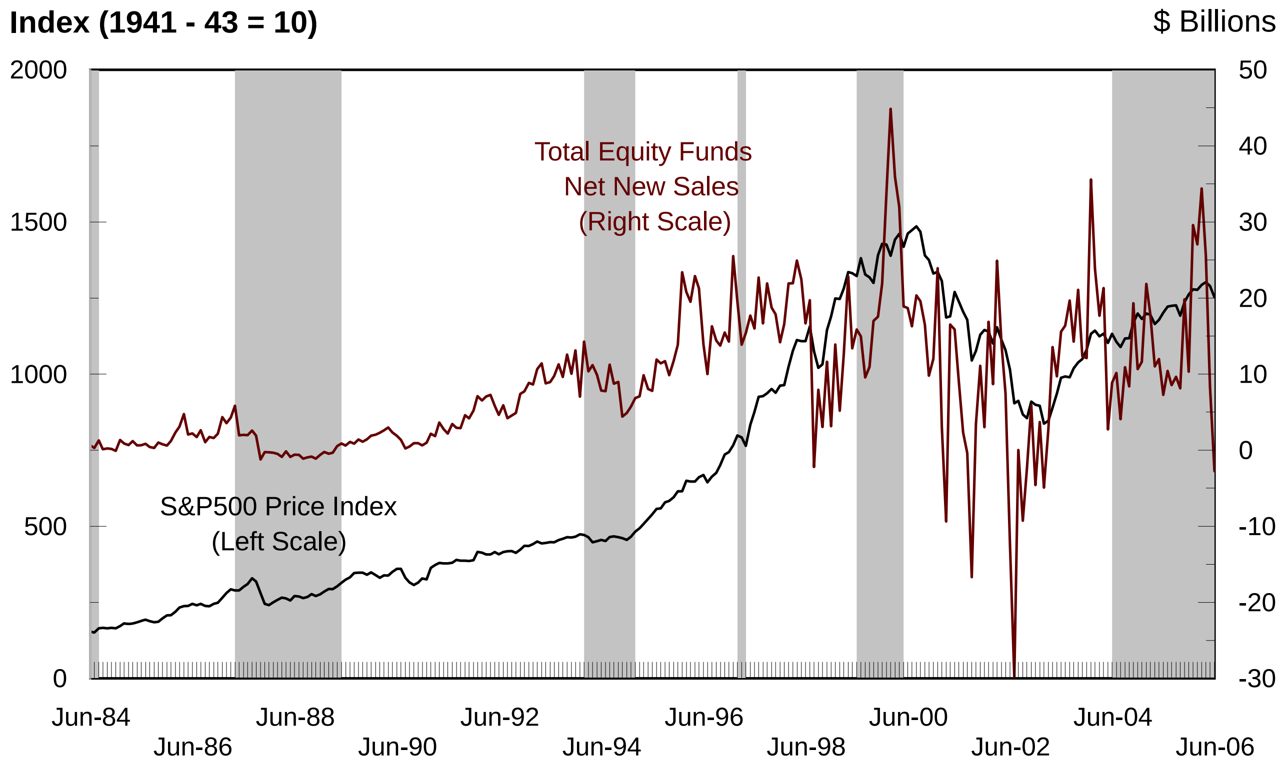
Source: Mutual Fund TrimTabs

Figure 7

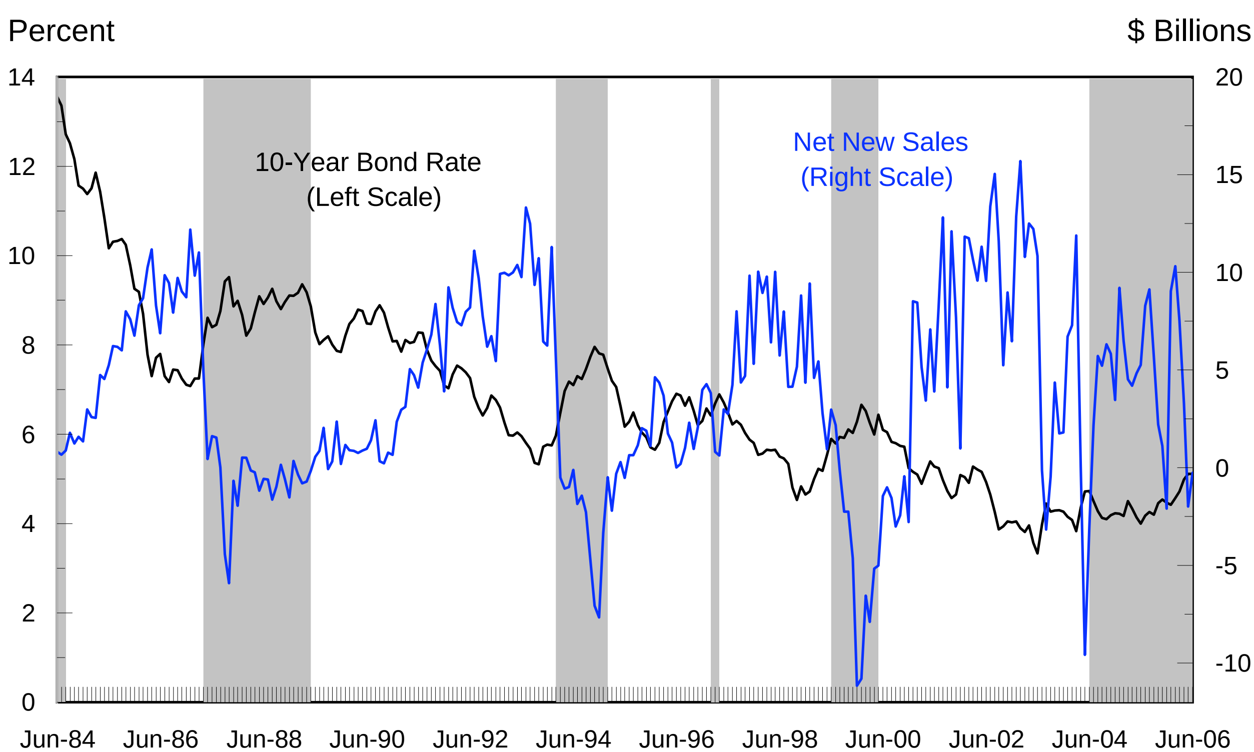
Net New Sales By Investment Objective

(Shaded Regions Indicate Periods of Rising Fed Funds Rate)

Equity Funds



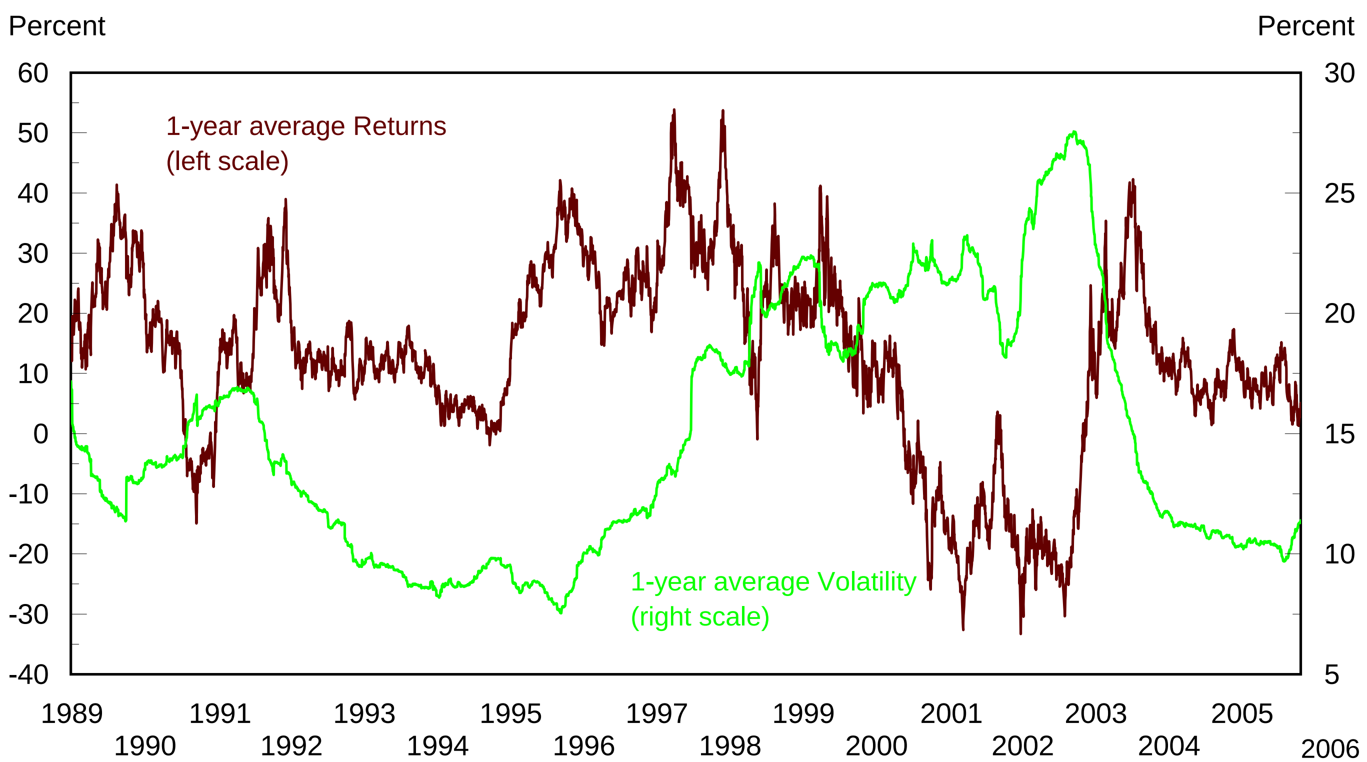
Bond & Hybrid Funds



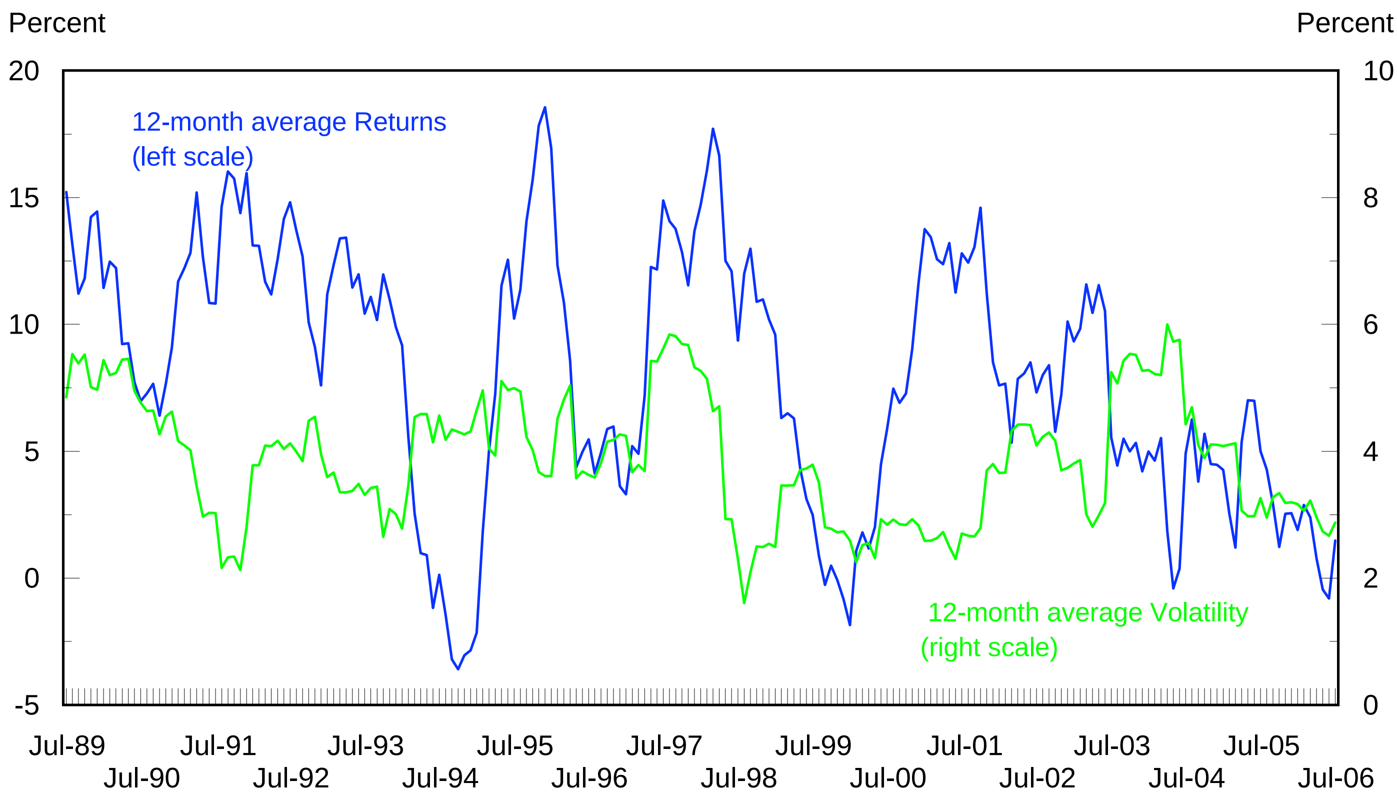
Source: Investment Company Institute

Figure 8
Capital Market Returns and Volatility

S&P500, Daily Returns and Volatility



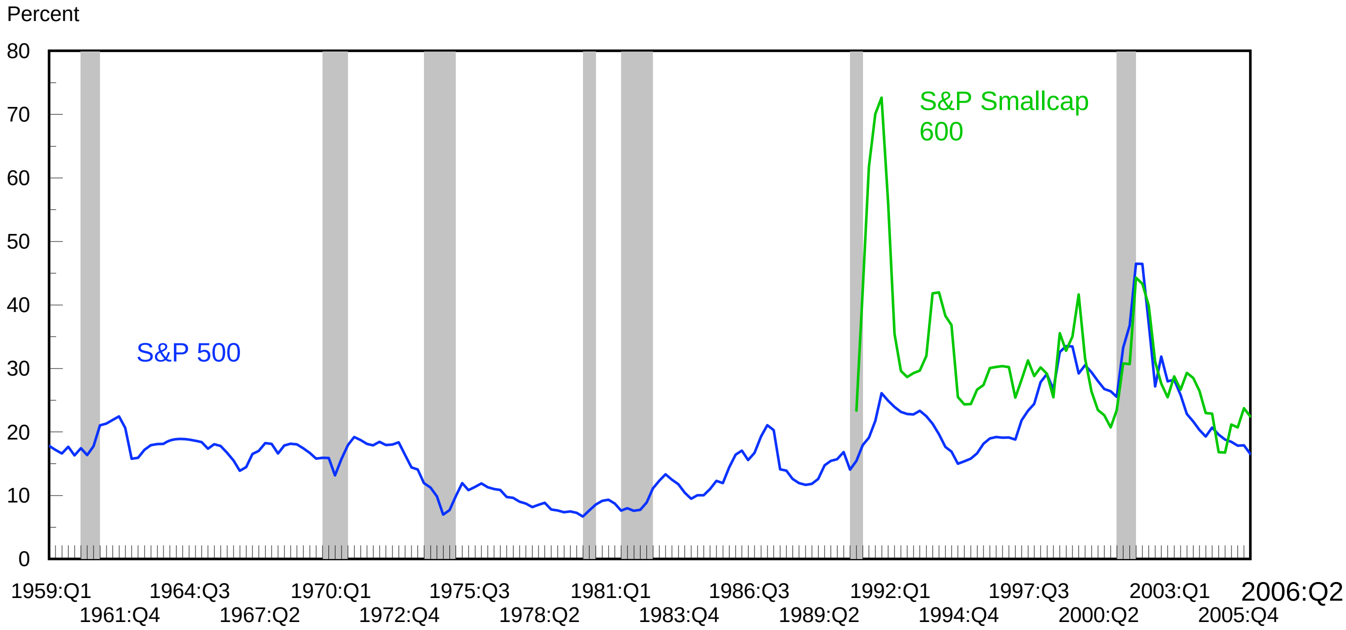
Citigroup Bond Index



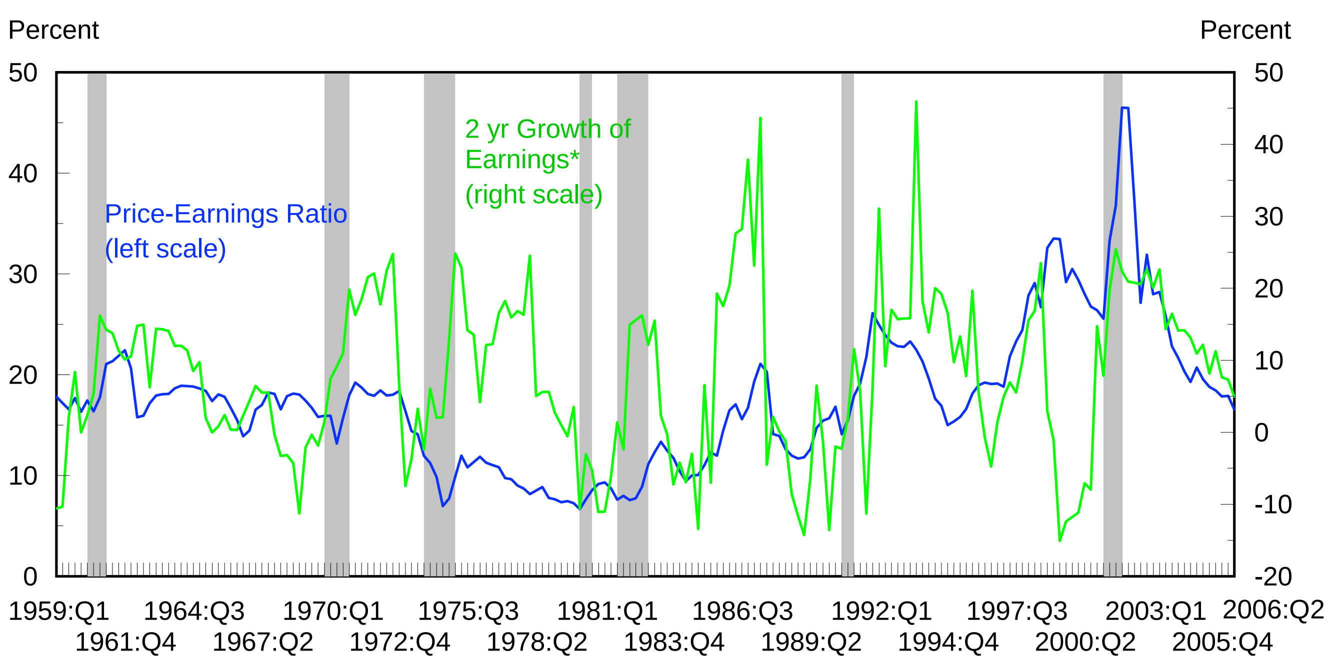
Source: FAME Database, Citigroup.

Figure 9

S&P Price-Earnings Ratios



S&P500 Price Earnings Ratio and the Growth of Earnings

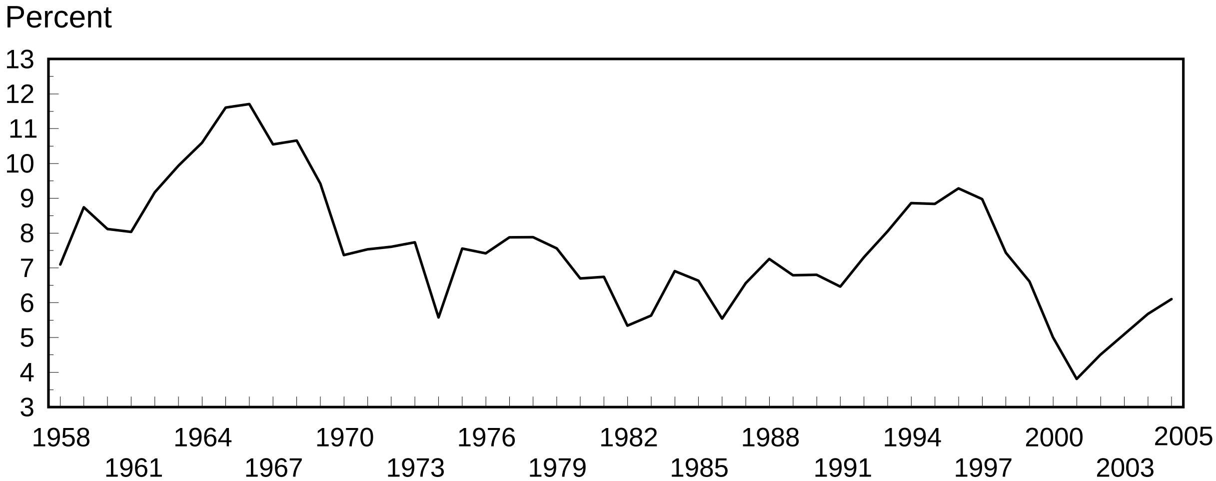


* Growth of earnings over subsequent 8 quarters. Current observations use forecast of earnings from macro projections.

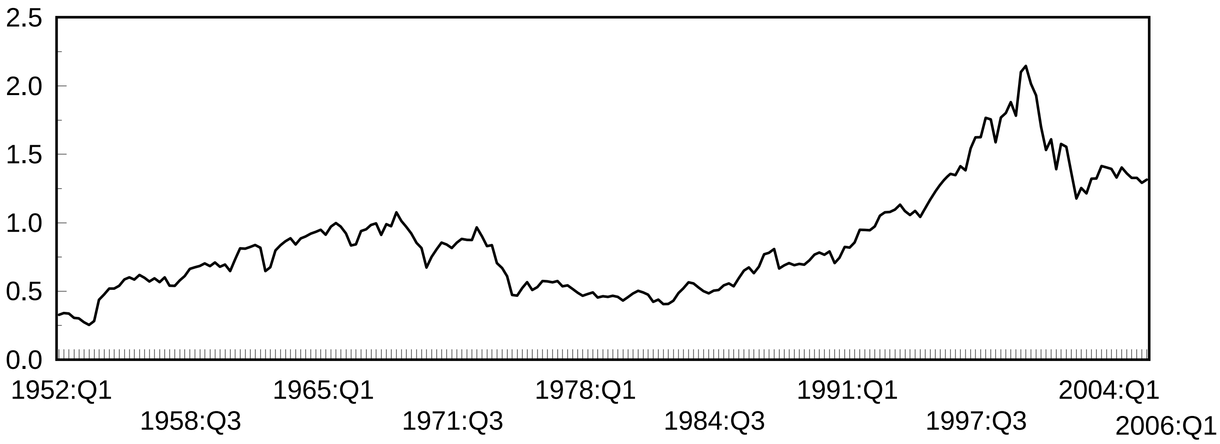
source: Thomson Financial/First Call, Global Insight and Bloomberg.

Figure 10

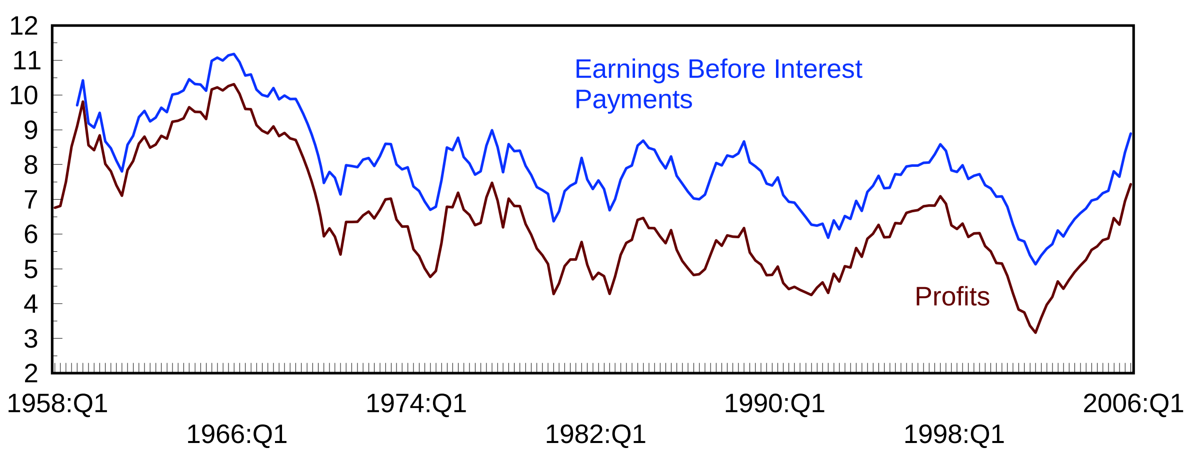
Real Rate of Return on Nonfinancial Corporate Equity
(from National Income and Flow of Funds Accounts)



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: Flow of Funds/Haver Analytics.