

June 4, 2004

Monthly Mutual Fund Report

Statistics for April-May 2004

Sales and Redemptions

Total assets for all funds decreased in April by \$153.4 billion, or 2.0 percent, to \$7.48 trillion. Money market funds had a net cash outflow of \$46.2 billion compared to an outflow in March of \$10.3 billion. Other funds (equity, hybrid, and bond) had a net cash inflow of \$20.1 billion, compared to an inflow of \$28.6 billion in March. New sales of non-money market funds, the purchase of new shares excluding reinvested dividends, were \$128.5 billion in April, down from \$139.8 billion in March. The value of non-money market assets depreciated by \$132.5 billion in April, following a depreciation of \$31.0 billion in March.

Total assets of **equity funds** decreased by \$73.7 billion, or 1.9 percent, to \$3.81 trillion. There was a \$23.3 billion net cash inflow to equity funds in April, compared with an inflow of \$16.0 billion in March. The market value of assets depreciated by \$97.4 billion in April. The year-to-date inflow is \$108.5 billion, compared to an inflow of \$5.0 billion in the first third of 2003.

Total assets for **hybrid funds**, which invest in a mix of stocks and bonds, decreased 0.7 percent, or \$3.2 billion, to \$453.2 billion. In April, there was a \$4.6 billion net cash inflow for these funds, compared to an inflow in March of \$4.8 billion. Hybrid funds have experienced an inflow of \$20.0 billion thus far in 2004, compared to an inflow of \$4.7 billion to this point in 2003.

Bond funds experienced a cash outflow of \$7.8 billion, while their total assets decreased by \$32.0 billion, to \$1.25 trillion. The market value of bond funds assets decreased by \$27.1 billion, after adjusting for net sales and reinvested dividends. The assets of taxable bond funds decreased by 2.3 percent, while the assets of tax-exempt bond funds decreased by 3.0 percent. The inflow for 2004 is \$1.2 billion, compared to \$53.5 billion through April 2003.



Assets of taxable and tax-exempt **money market funds** decreased \$44.4 billion, to \$1.96 trillion, decreases of 2.1 percent for taxable money market funds and 3.0 percent for tax-exempt funds. The year-to-date outflow of \$97.5 billion is less than the outflow for the first four months of 2003, \$126.7 billion.

Liquidity Ratio

The liquidity ratio for bond and hybrid funds increased from 5.61 to 6.02 percent, while the ratio for equity funds increased from 4.19 to 4.35 percent (figure 4).

Weekly Flows

In May, there were outflows from equity funds of 0.4 percent of total assets, with returns of 3.2 percent (figure 6a). With March and April's smaller outflows, this marks the first time since January-March 2003 that equity funds experienced outflows in three consecutive months. Bond funds had outflows of 0.6 percent, its largest outflow since last August, and returns of 0.9 percent.*

Index funds had monthly outflows of 0.1 percent and returns of 2.1 percent. Aggressive growth funds had outflows of 0.6 percent and returns of 3.7 percent. Small-cap funds had an outflow of 0.8 percent and returns of 3.5 percent.

Technology funds had an outflow of 0.5 percent and returns of 3.6 percent (figure 6b). There was an inflow to real estate funds of 0.3 percent and returns of 6.9 percent, the largest return to these funds since June 2001.

There were inflows to international funds in May of 0.1 percent of assets and returns of 3.3 percent. Latin American funds had outflows of 0.8 percent and returns of 4.5 percent. Japan funds had inflows of 1.9 percent and returns of 3.0 percent of assets for the month of May. Pacific funds that do not invest in Japan had outflows of 1.1 percent and returns of 0.1 percent of assets. Emerging Markets funds had outflows of 1.7 percent, its 27th straight negative month, and returns of 2.9 percent.

Capital Market Returns and Volatility

The S&P 500 ended May at 1120.68, an increase of 1.2 percent from the beginning of the month. The 12-month gain was 21.7 percent at month-end. The annualized volatility for the daily return on the S&P 500 was 12.7 percent.

The 12-month average return on the Citigroup Bond Index was -0.4 percent for May. Volatility decreased to 5.73 percent (figure 8).

* Due to a small error, we have refined the formula used to calculate monthly flows and returns. For past results using the new formula, please contact the author.

Price-Earnings Ratio

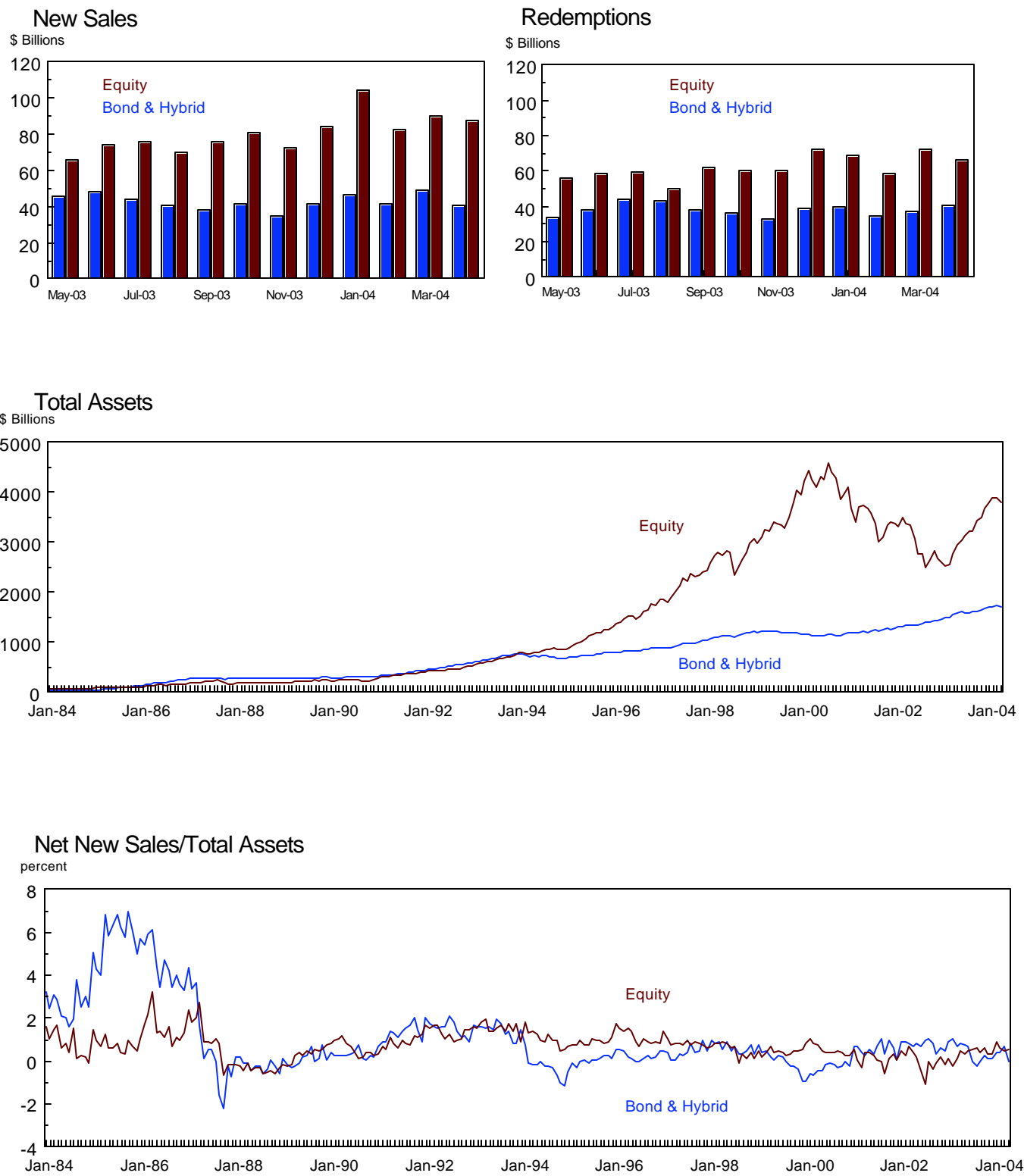
The macro projections for the growth of earnings of the Standard and Poor's 500 index over the next two years have increased in the first quarter to 6.9 percent from current levels. The trailing price-earnings ratio decreased from 22.6 in the fourth quarter of 2003 to 21.5 for the first quarter of 2004, while Thomson Financial/First Call's forward price-operating earnings was 16.8 in the second quarter of 2004, down from 17.2 in the first quarter. During the first quarter the price-earnings ratio for the Standard and Poor's Small-Cap 600 Index fell to 30.7 from 30.8 (figure 9).

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)

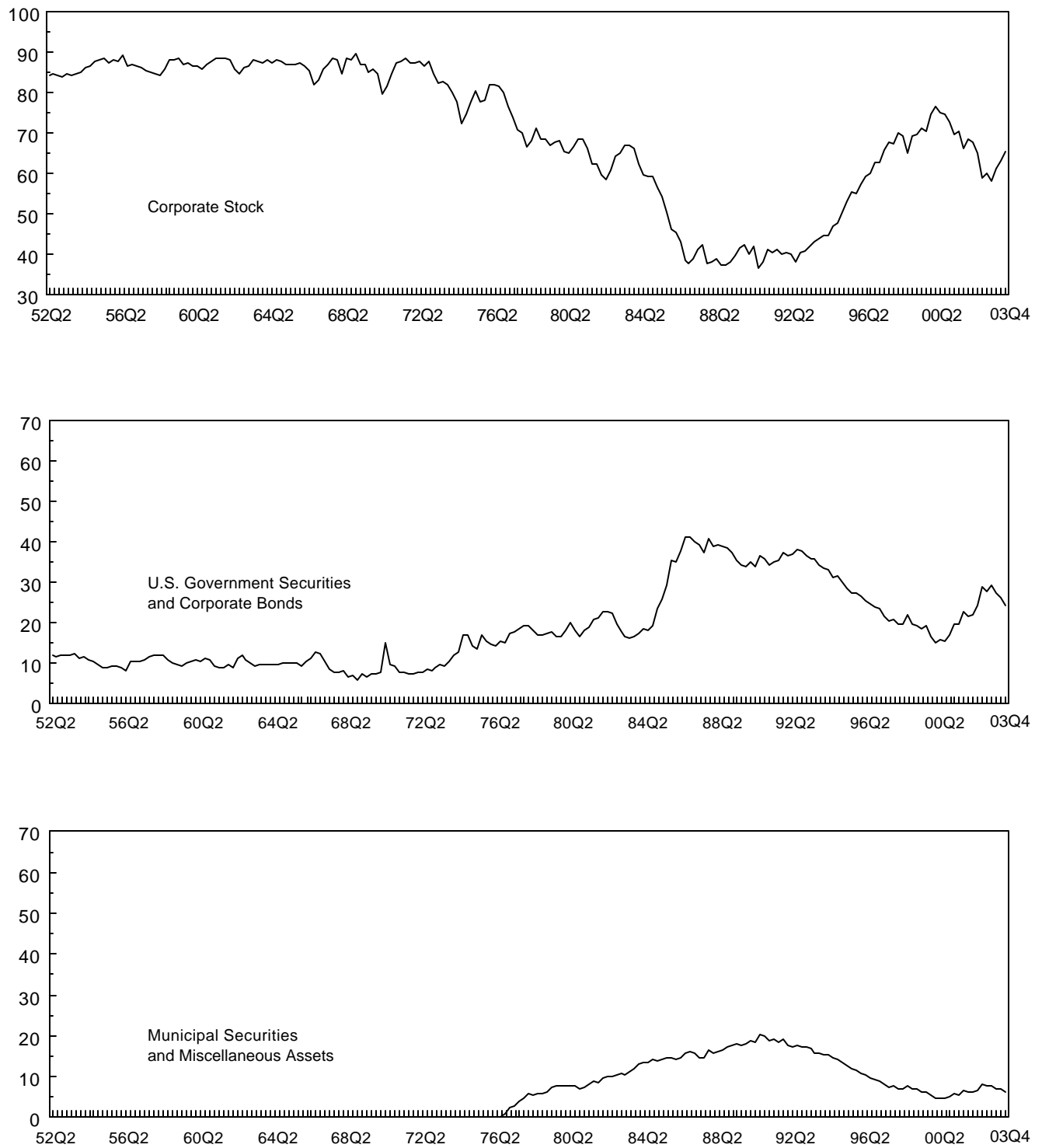


Figure 3
Net Portfolio Purchases
 (percent of Total Assets)

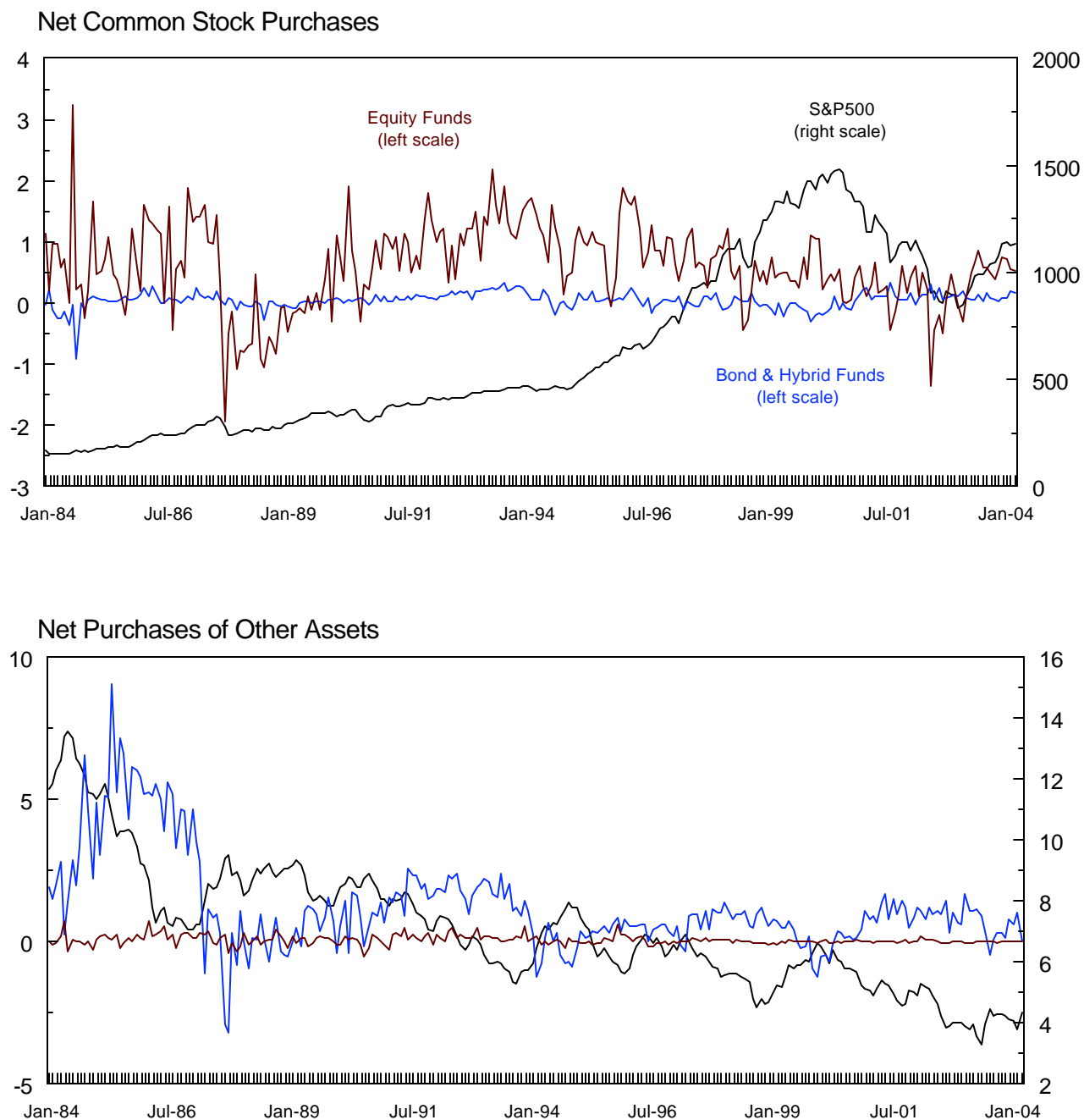
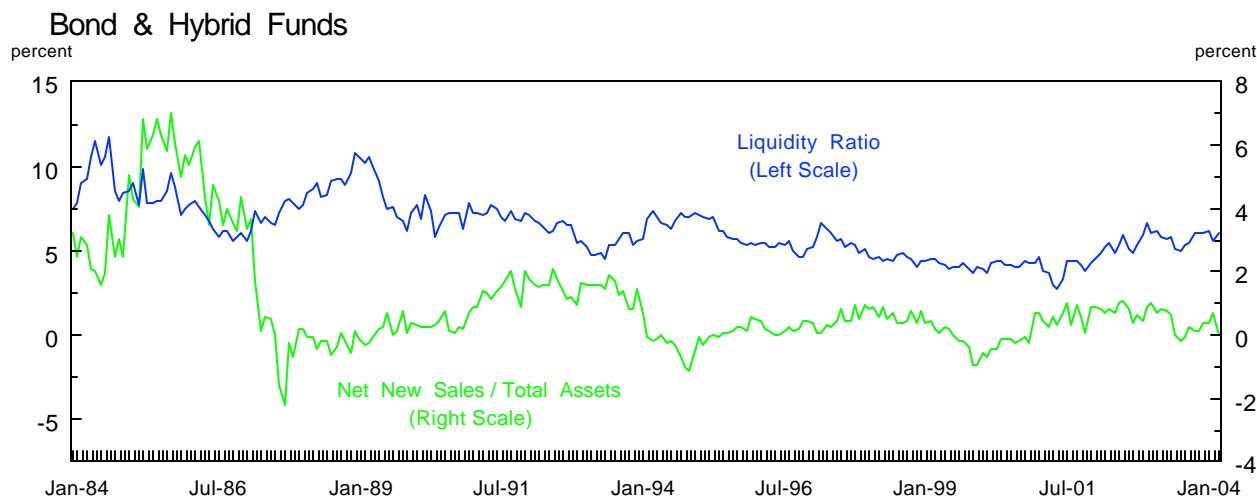
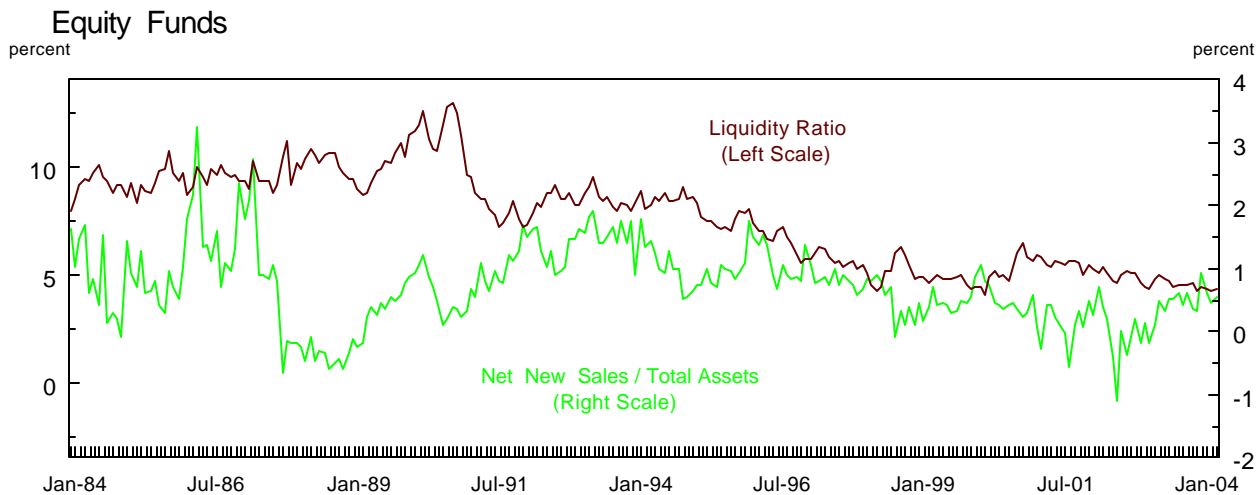
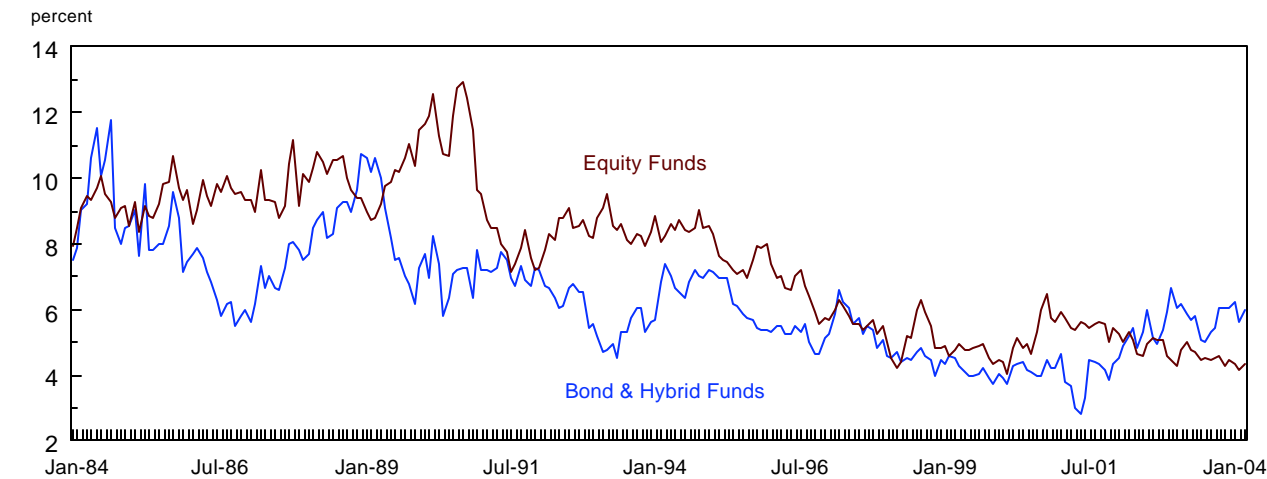


Figure 4
Liquidity Ratio*



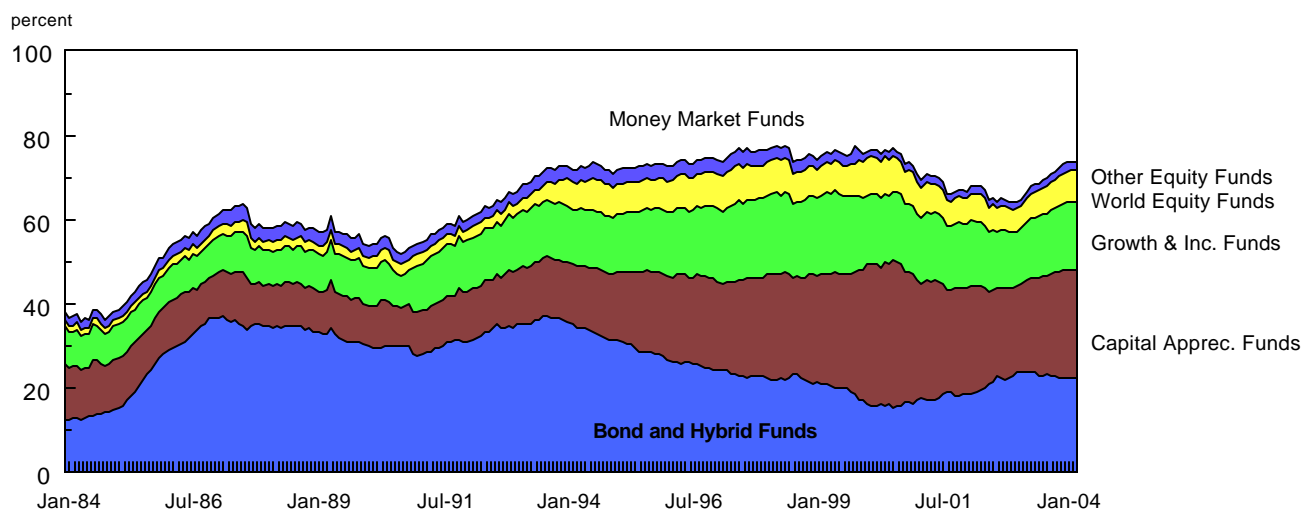
*The Liquidity Ratio is the Percent of Total Assets held in Cash and Short-Term Securities.

Source: Investment Company Institute

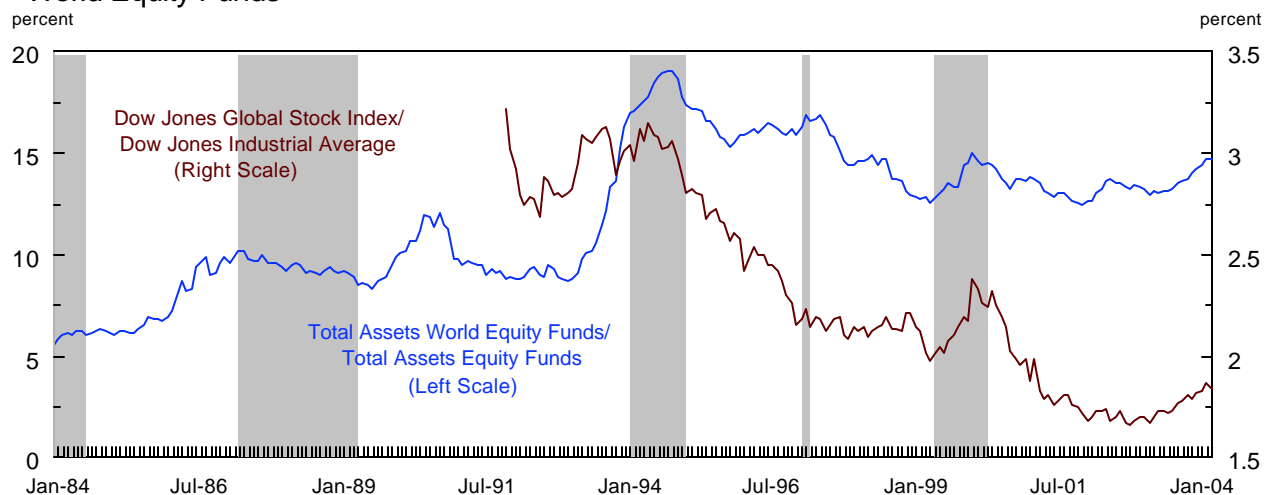
Figure 5

Industry Composition

(Shaded Regions Indicate Periods of Rising Fed Funds Rate)



World Equity Funds



Capital Appreciation Funds

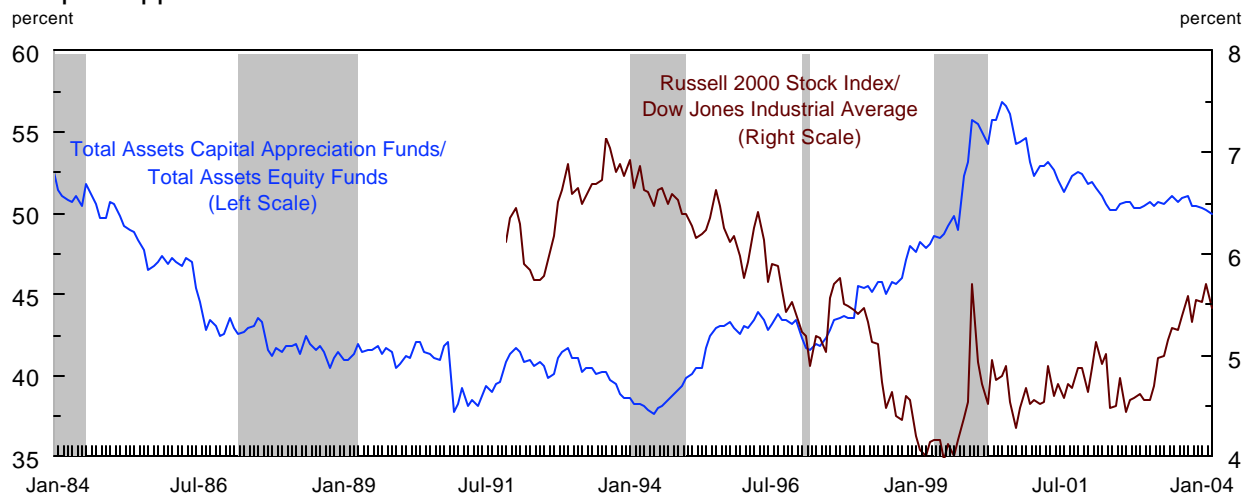


Figure 6a

Weekly Flows into Mutual Funds

(percent of Total Assets)

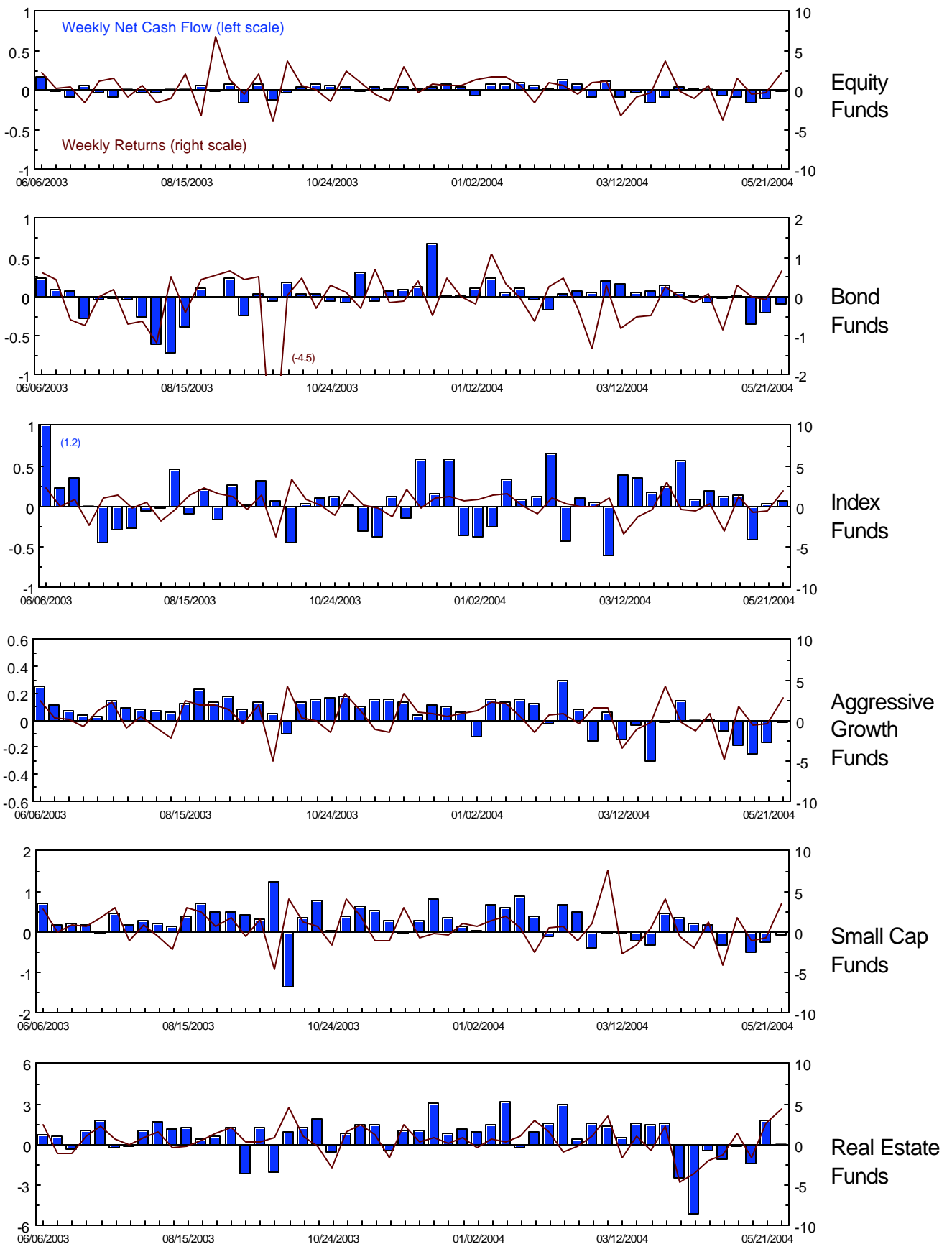


Figure 6b

Weekly Flows into Mutual Funds

(percent of Total Assets)

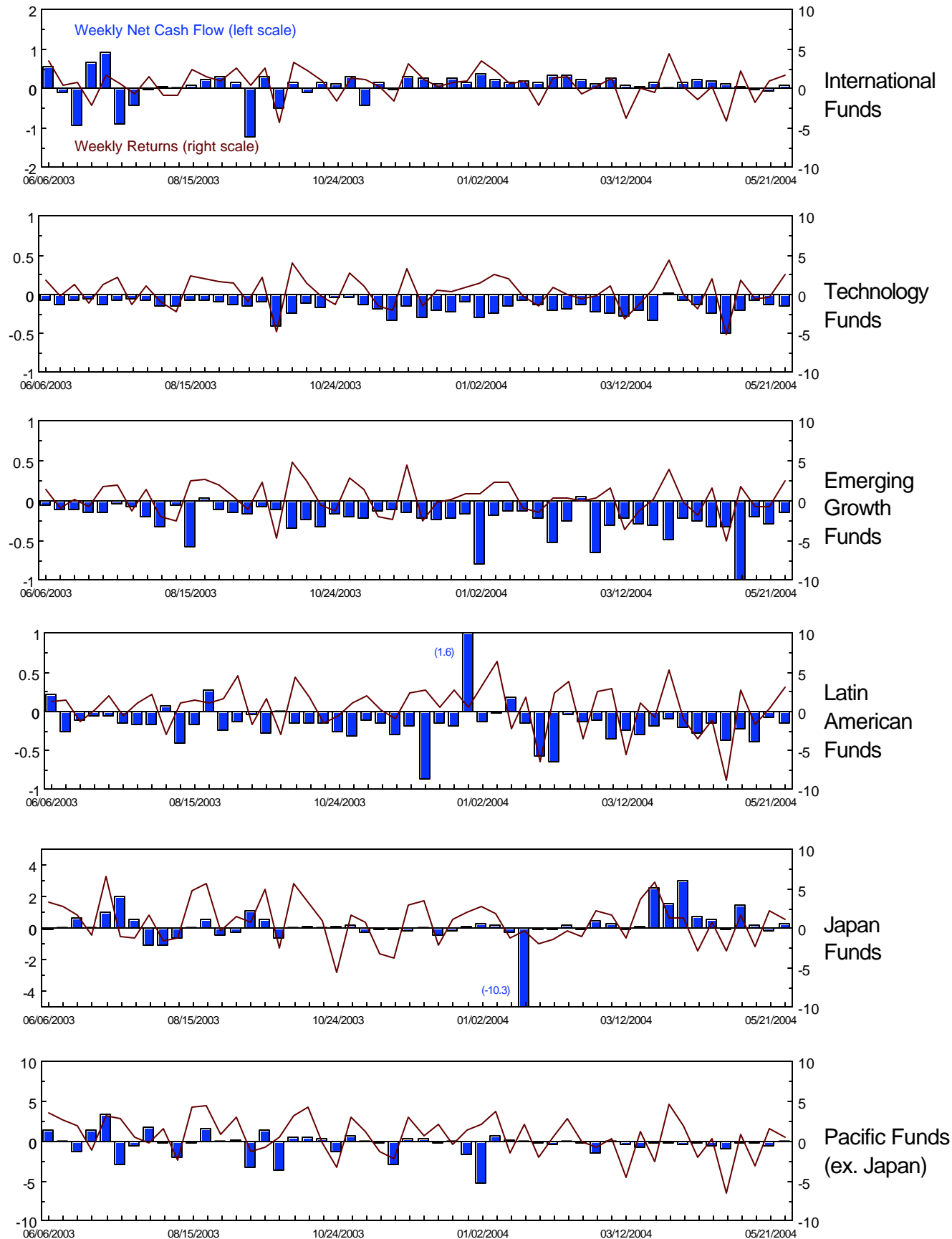


Figure 7

Net New Sales By Investment Objective

(Shaded Regions Indicate Periods of Rising Fed Funds Rate)

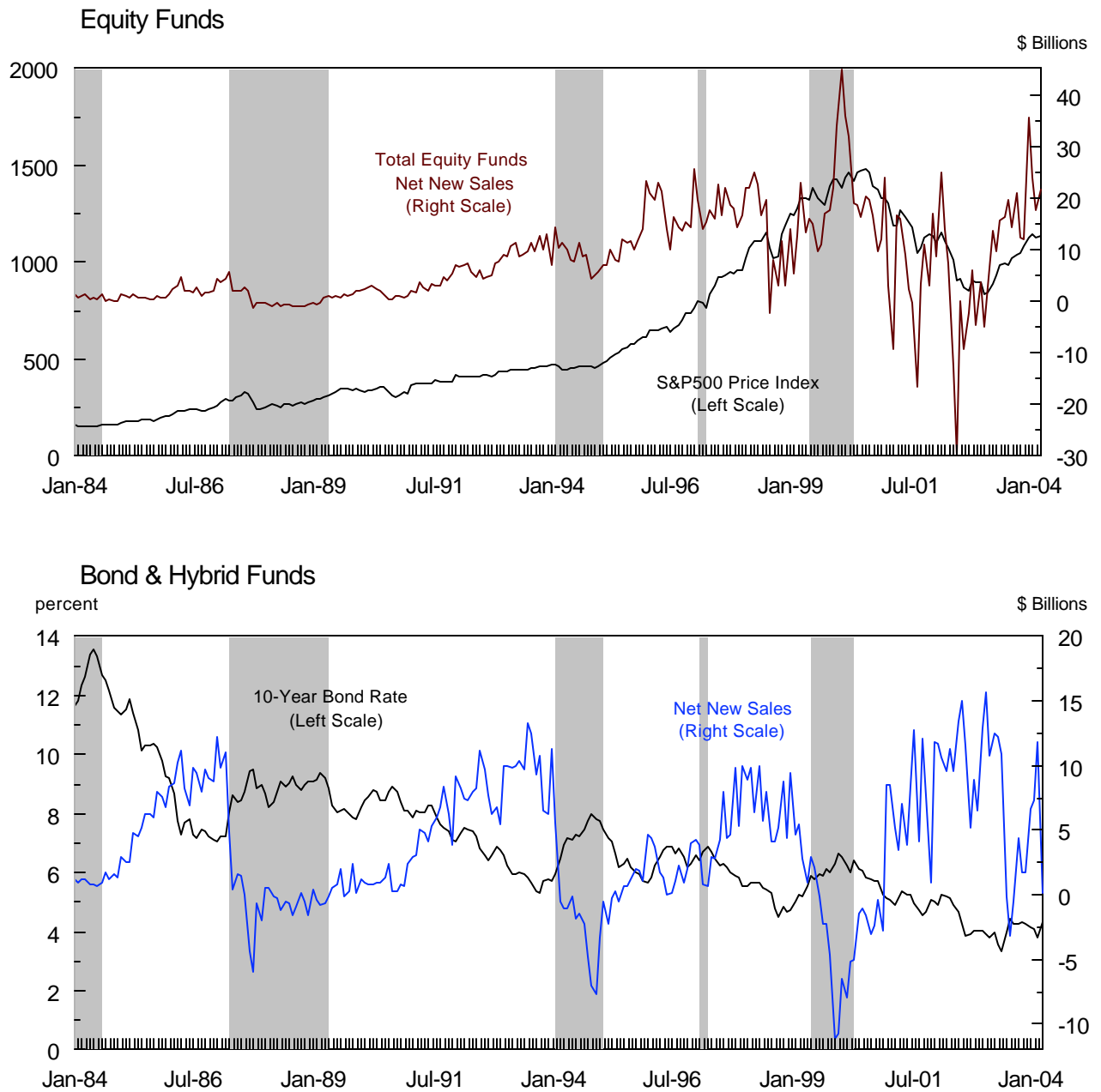


Figure 8
Capital Market Returns and Volatility

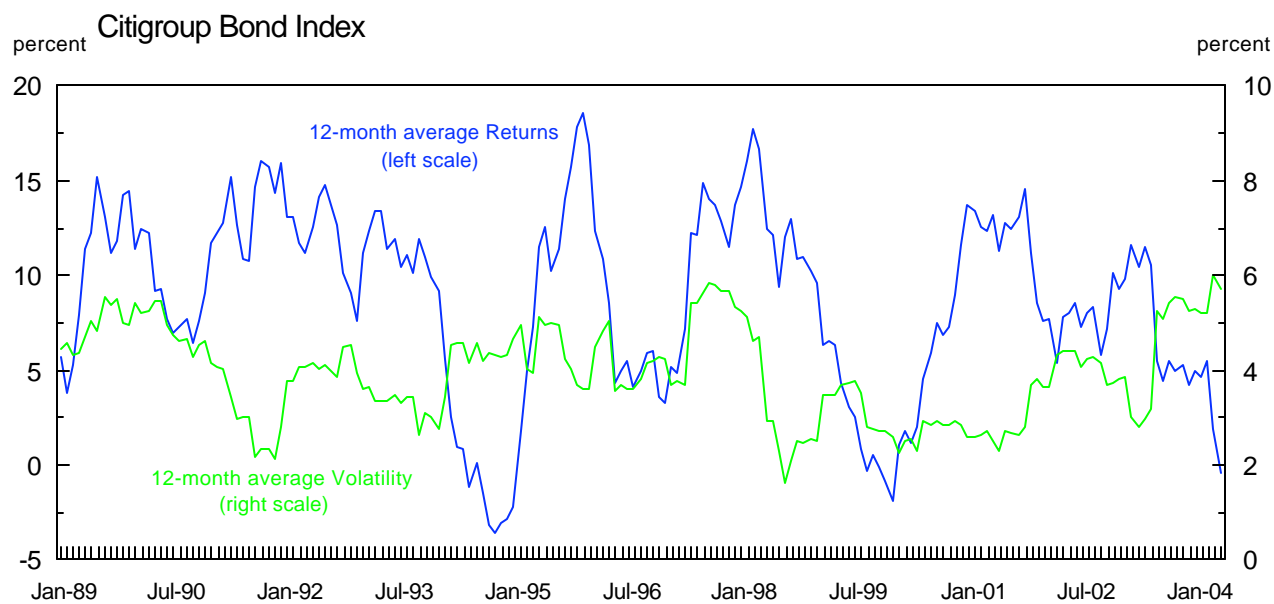
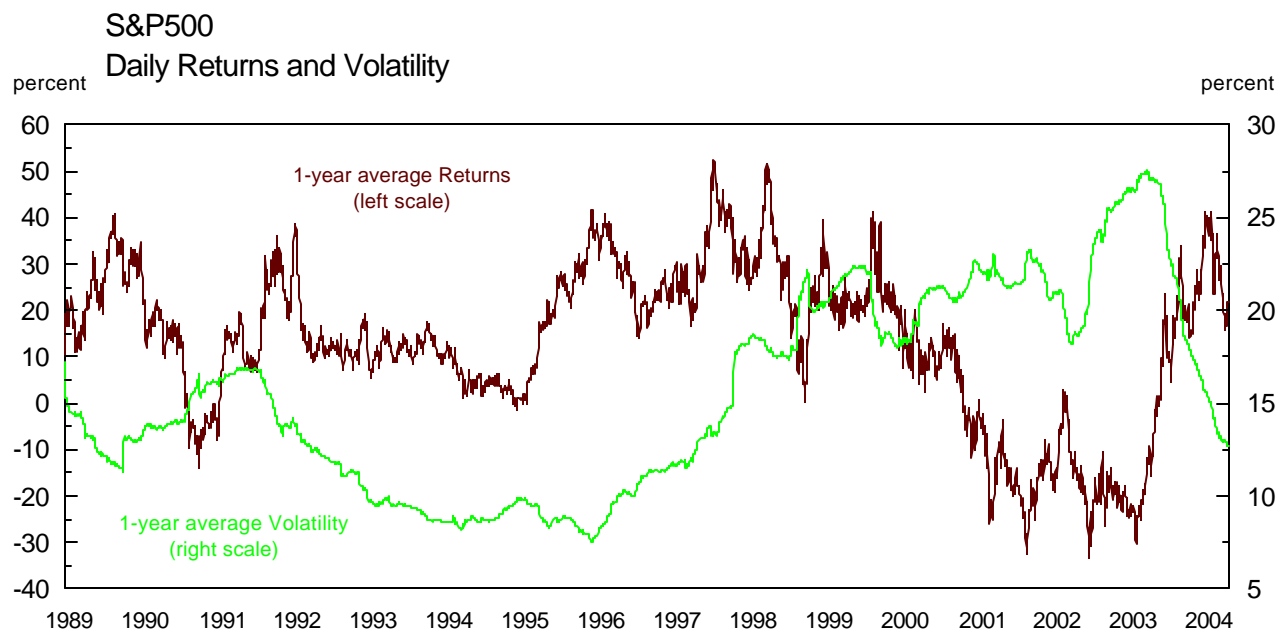
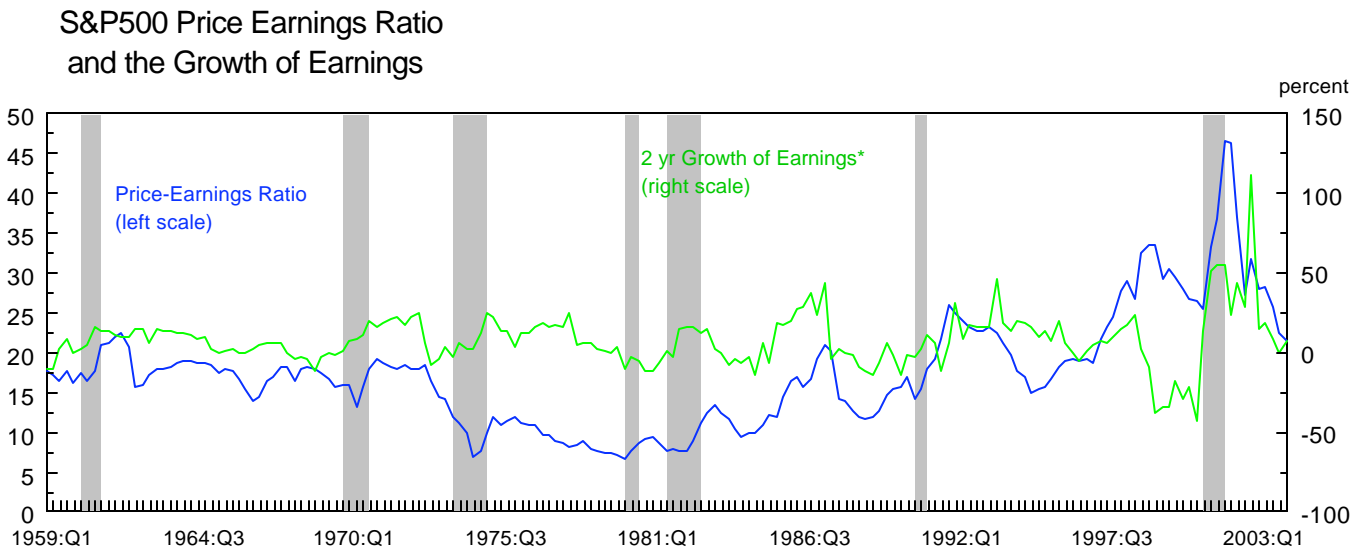
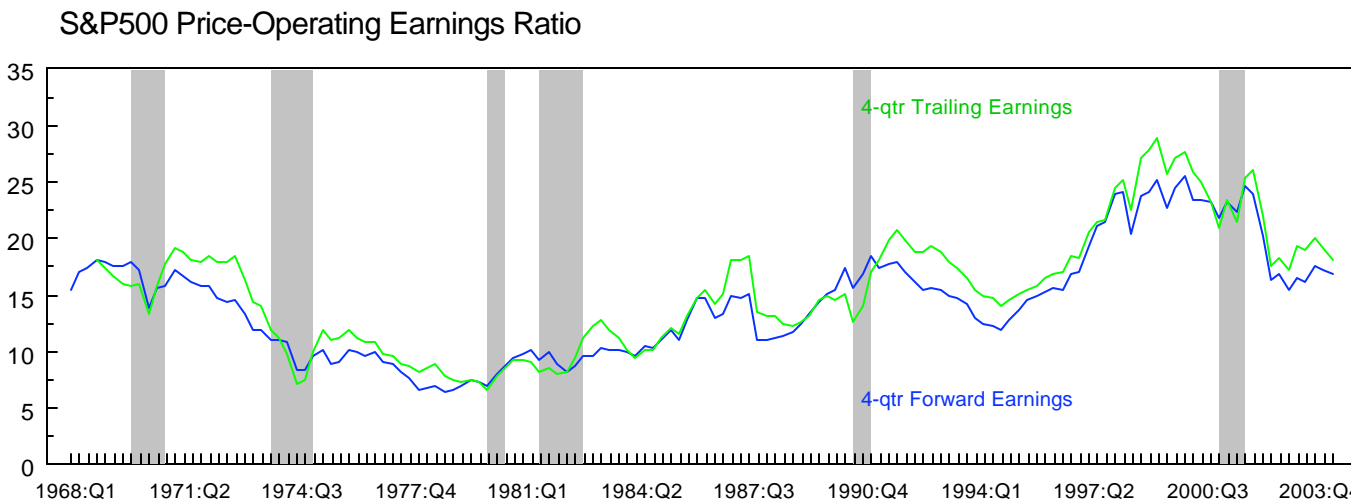
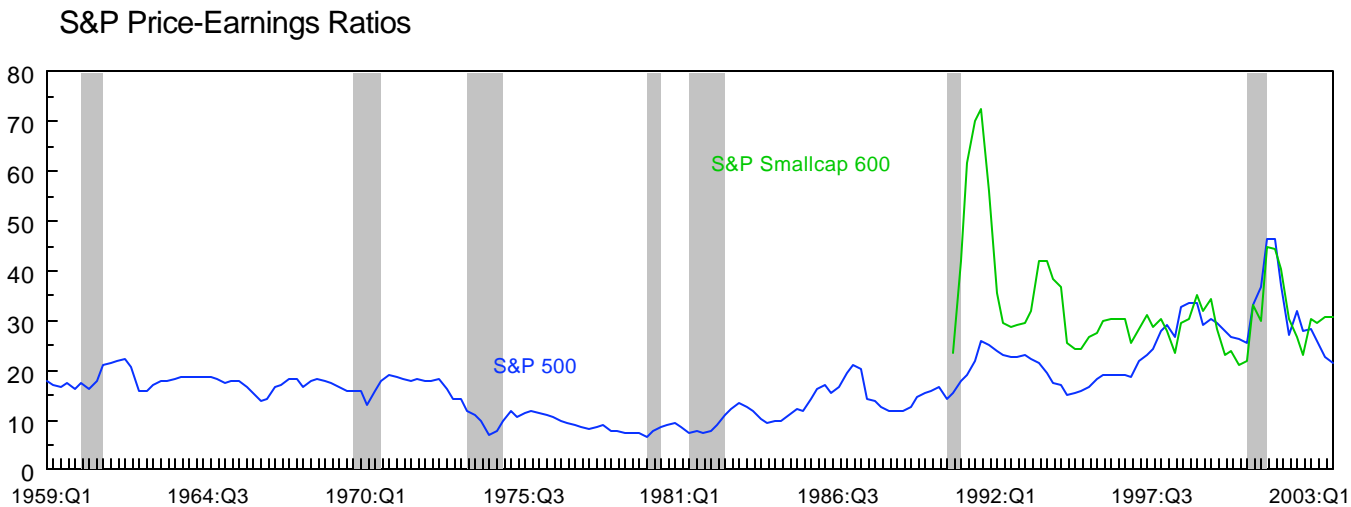


Figure 9

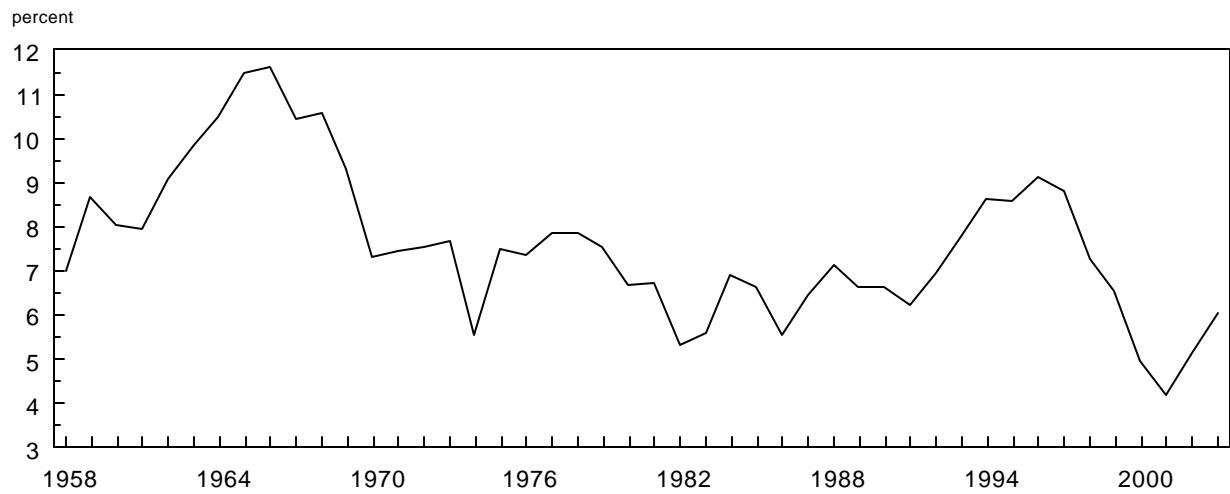


* Growth of earnings over subsequent 8 quarters. Current observations use forecast of earnings from macro projections.

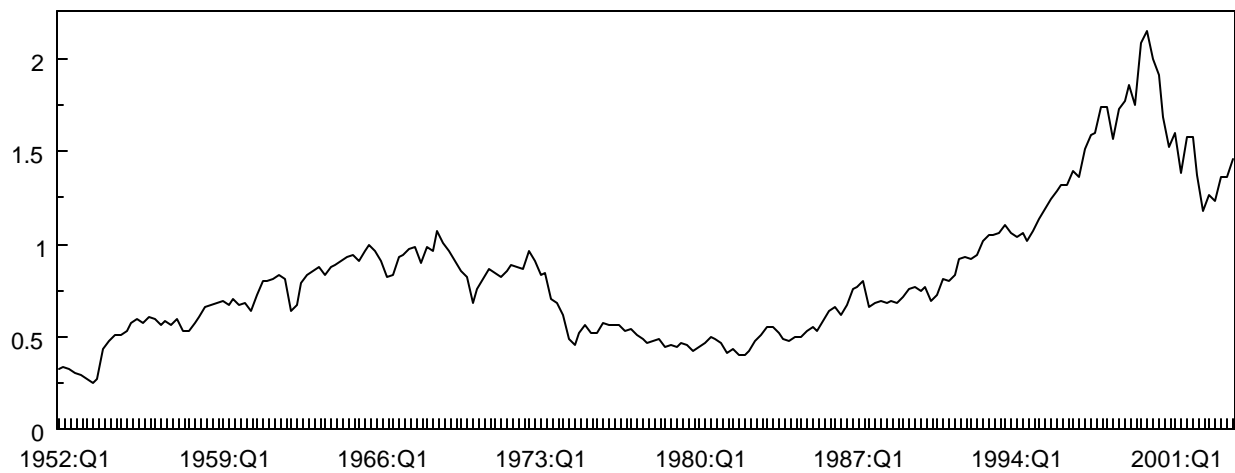
source: Thomson Financial/First Call, Global Exchange (formerly DRI), Bloomberg

Figure 10

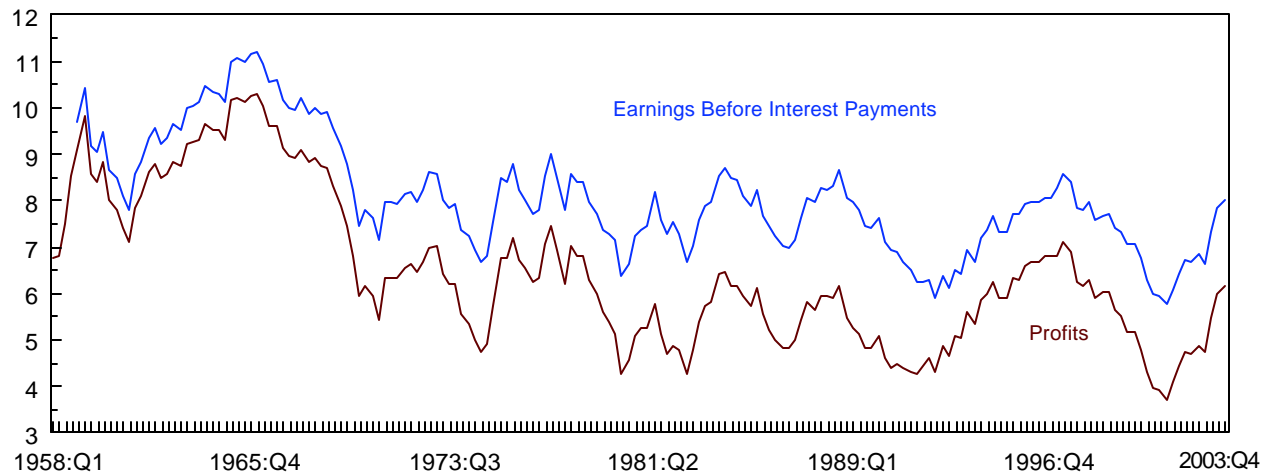
Real Rate of Return on Nonfinancial Corporate Equity (from National Income and Flow of Funds Accounts)



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