March 3, 2006

Monthly Mutual Fund Report

Statistics for January 2006 - February 2006

Sales and Redemptions

Total assets for all funds increased in January by $287.5 billion, or 3.2 percent, to $9.2 trillion. Money market funds had a net cash outflow of $3.9 billion compared to an inflow in December of $47.0 billion. Other funds (equity, hybrid, and bond) had a net cash inflow of $39.8 billion, compared to an inflow of $6.2 billion in December. New sales of non-money market funds, the purchase of new shares excluding reinvested dividends, were $170.0 billion in January, up from $137.9 billion in December. The value of non-money market assets appreciated by $243.4 billion in January, following an appreciation of $46.7 billion in December.

Total assets of **equity funds** increased by $255.9 billion, or 5.2 percent, to $5.2 trillion. There was a $31.8 billion net cash inflow to equity funds in January, compared with an inflow of $9.8 billion in December. The market value of assets appreciated by $223.7 billion in January. Equity funds had an inflow of $31.8 billion year-to-date, compared to an inflow of $10.1 billion during the first month of 2005.

Total assets for **hybrid funds**, which invest in a mix of stocks and bonds, increased 2.4 percent, or $13.9 billion, to $581.2 billion. In January, there was a $0.1 billion net cash outflow for these funds, compared to an outflow in December of $0.8 billion. Hybrid funds have experienced an outflow of $0.1 billion year-to-date, compared to an inflow of $5.0 billion during the first month of 2005.

Bond funds experienced a cash inflow of $8.1 billion, while their total assets increased by $17.4 billion, to $1.4 trillion. The market value of bond funds assets increased by $6.3 billion, after adjusting for net sales and reinvested dividends. The assets of taxable bond funds increased by 1.5 percent, while the assets of tax-exempt bond funds increased by 0.7 percent. The 2006 inflow is $8.1 billion, compared to an inflow of $4.7 billion through January of 2005.

Assets of taxable and tax-exempt **money market funds** increased $0.3 billion, to $2.0 trillion, a decrease of 0.6 percent for taxable money market funds and an increase of 3.1 percent for tax-exempt funds. The 2006 outflow is $3.9 billion, compared to an outflow of $27.5 billion through January of 2005.

Liquidity Ratio

The liquidity ratio for bond and hybrid funds decreased to 5.5 percent in January from 5.7 percent in December, while the ratio for equity funds increased from 3.9 to 4.0 percent (figure 4).

Weekly Flows

In February, outflows from equity funds were 0.4 percent of total assets, with return of 0.3 percent (figure 6a). Bond funds had outflows of 0.01 percent and return of 1.1 percent.

Index funds had monthly outflows of 0.2 percent and gains of 0.2 percent. Aggressive growth funds had outflows of 0.4 percent and losses of 0.2 percent. Small-cap funds had outflows of 0.9 percent and losses of 0.01 percent.

Technology funds had outflows of 1.4 percent and losses of 2.2 percent (figure 6b). There were inflows to real estate funds of 2.2 percent and gains of 4.5 percent.

Latin American funds had outflows of 0.4 percent and gains of 2.2 percent. Japan funds had outflows of 3.7 percent and losses of 5.3 percent. Pacific funds that do not invest in Japan had inflows of 1.3 percent and returns of 1.8 percent of assets. Emerging Markets funds had outflows of 1.5 percent and losses of 2.3 percent.

Capital Market Returns and Volatility

The S&P 500 ended February at 1280.7, an increase of 0.5 percent from the previous month. The 12-month gain was 7.1 percent at month-end. The annualized volatility for the daily return on the S&P 500 was 10.4 percent.

The 12-month average return on the Citigroup Bond Index was 1.9 percent in January. Volatility remained at 3.2 in January (figure 8).

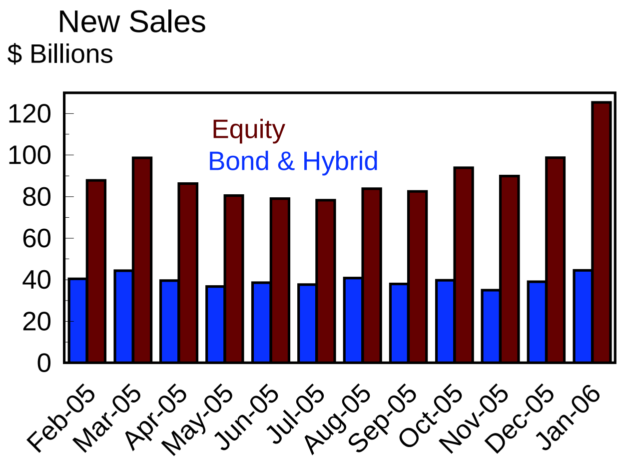
Price-Earnings Ratio

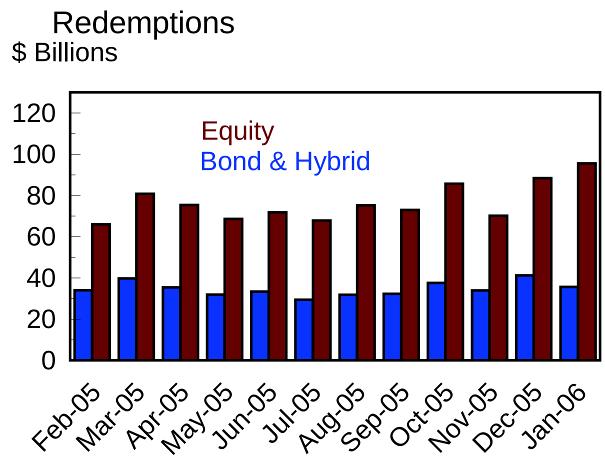
Macro projections show growth of earnings for the Standard and Poor's 500 index at 3.3 percent over the next two-years. During the fourth quarter of 2005, the price-earnings ratio for the Standard and Poor's 500 Index was 17.8, down from 18.5 in the third quarter. The price-earnings ratio for the Small-Cap 600 Index decreased to 20.7 in the fourth quarter, from 21.2 in the third quarter (figure 9).

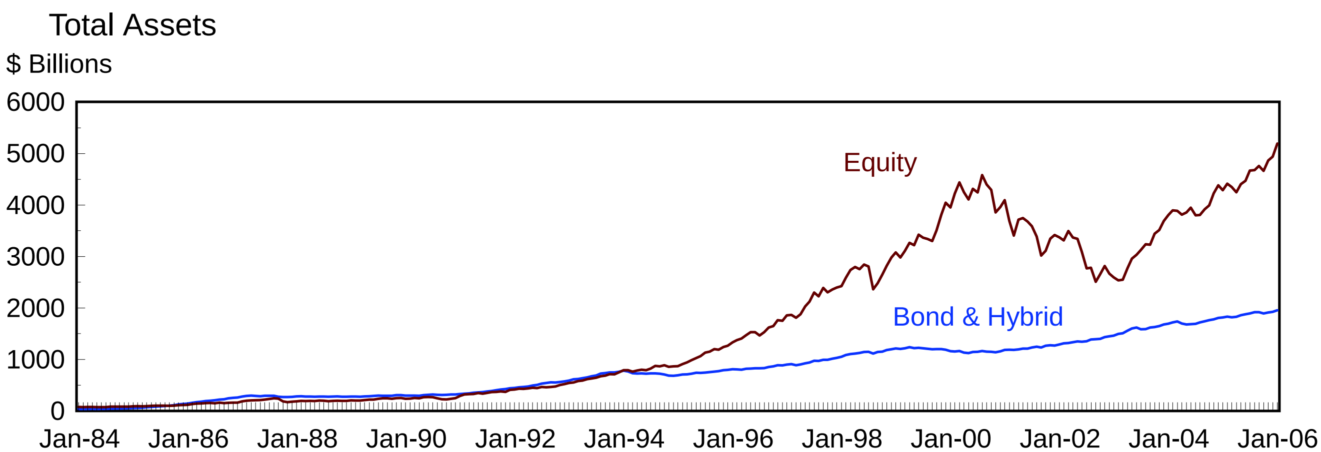
Please contact Afreen Ali for questions and comments at Afreen.Ali@bos.frb.org, or by phone at (617) 973-3239.

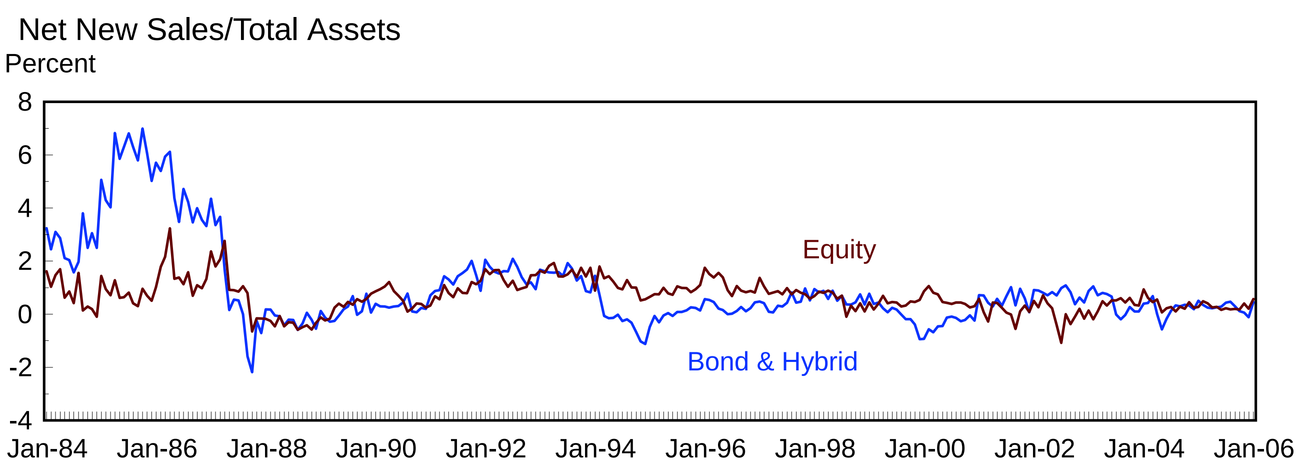
Figure 1

Sales of Mutual Funds



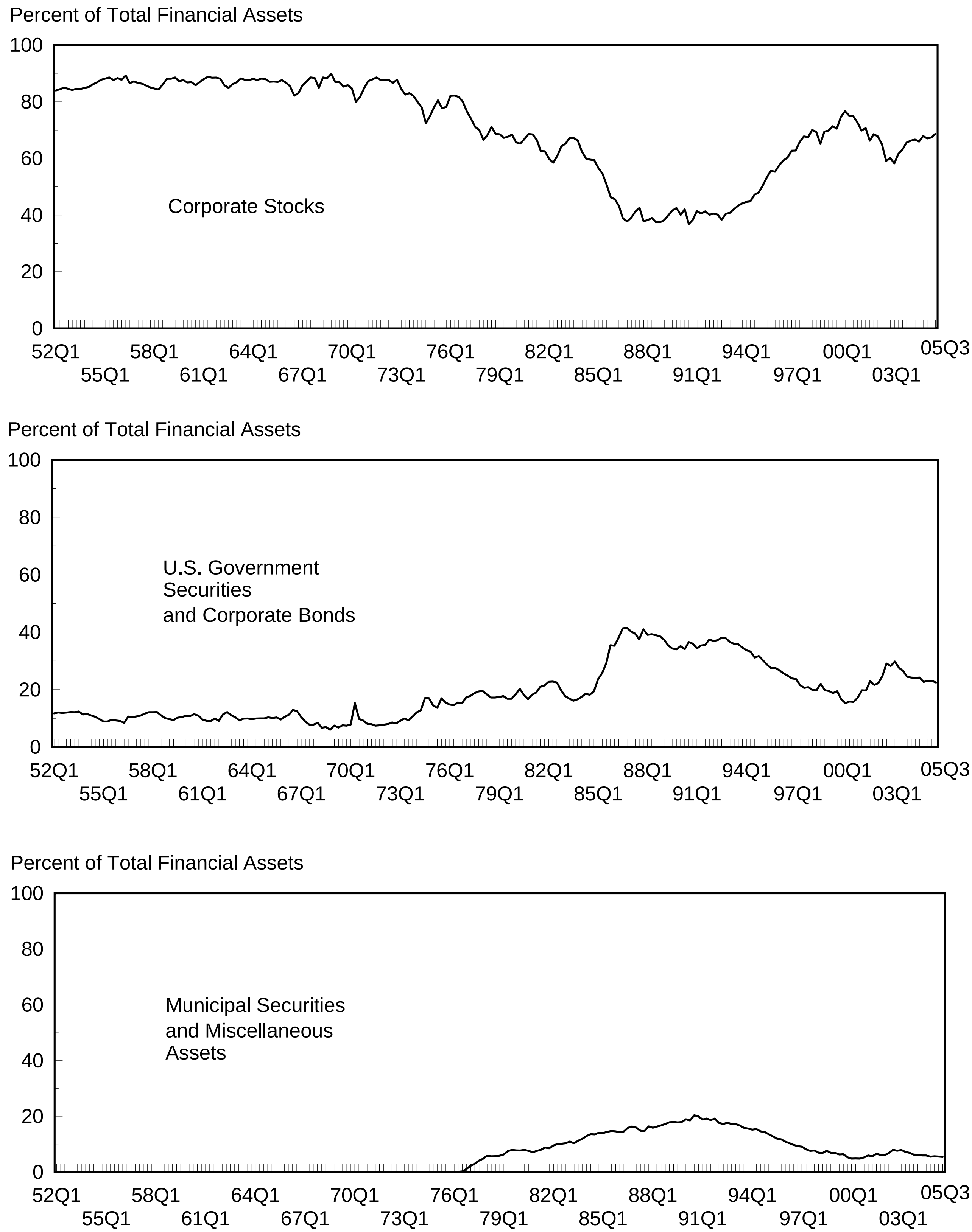






Source: Investment Company Institute

Figure 2
Composition of Mutual Funds' Financial Assets

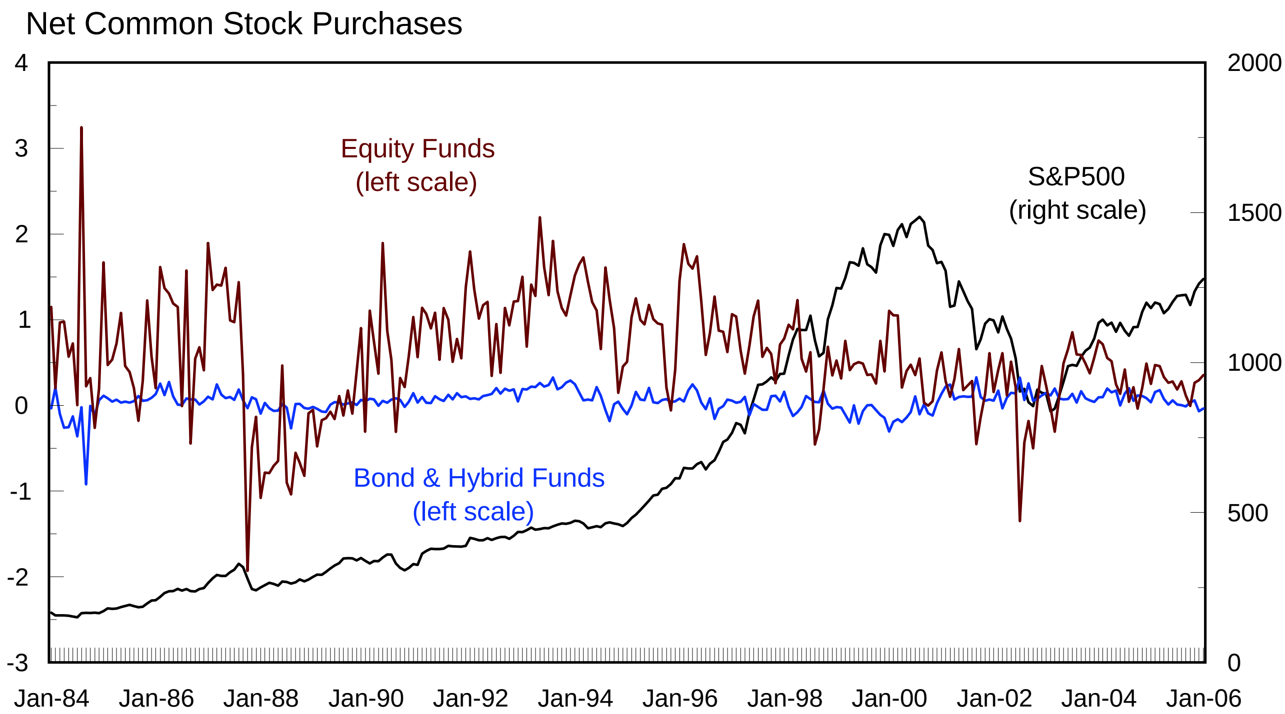


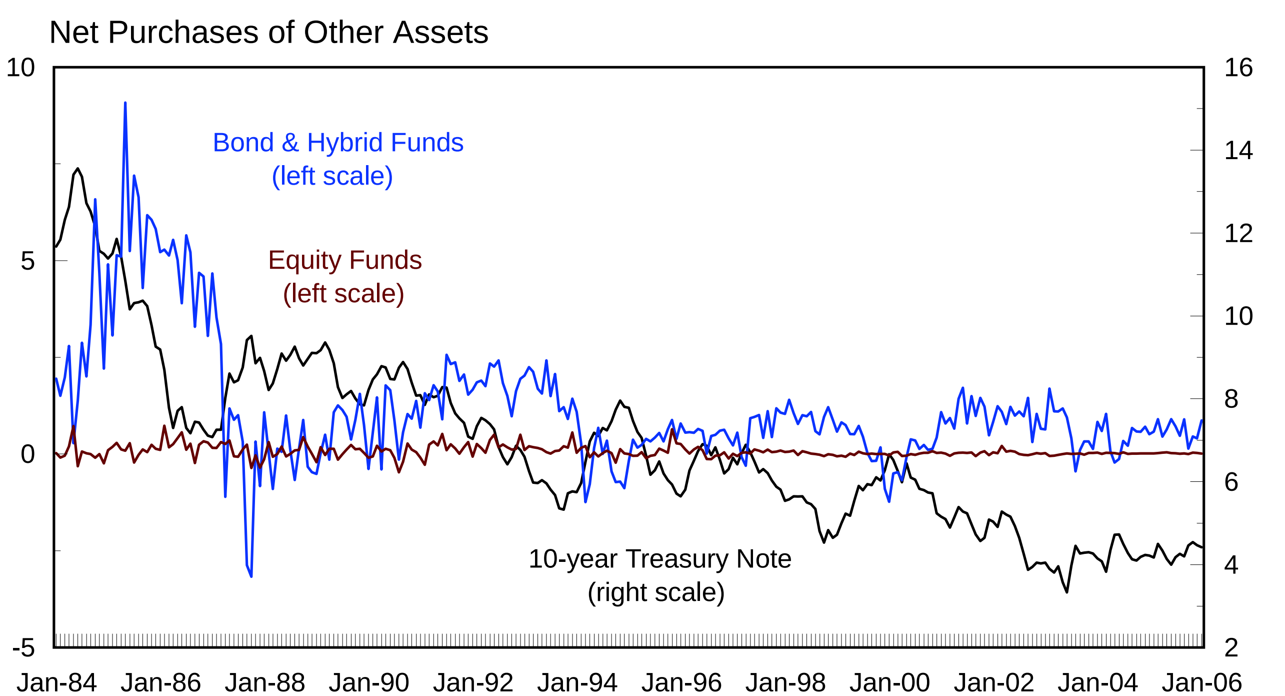
Source: Flow of Funds/Haver Analytics.

Figure 3

Net Portfolio Purchases

(Percent of Total Assets)

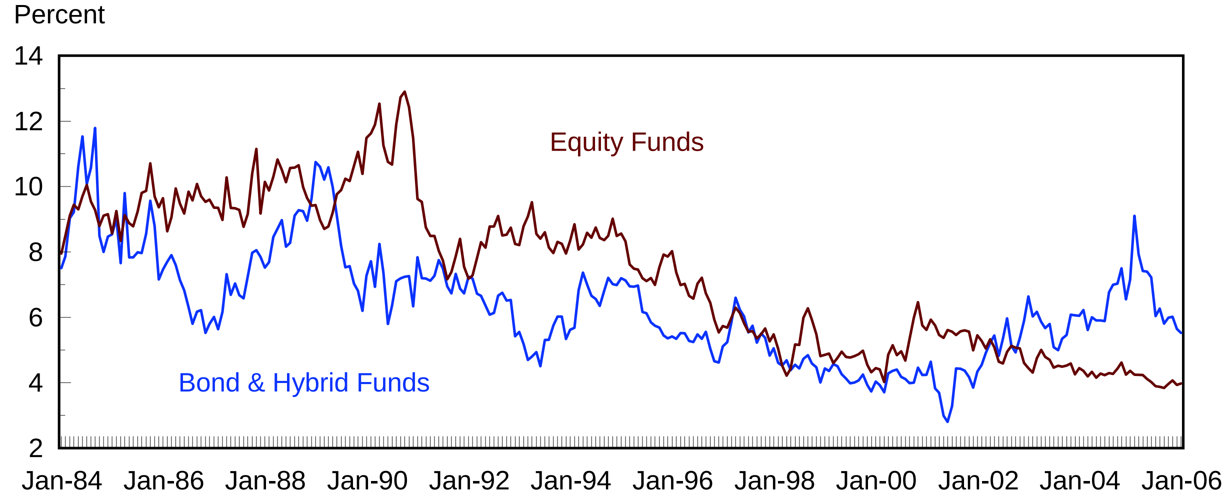




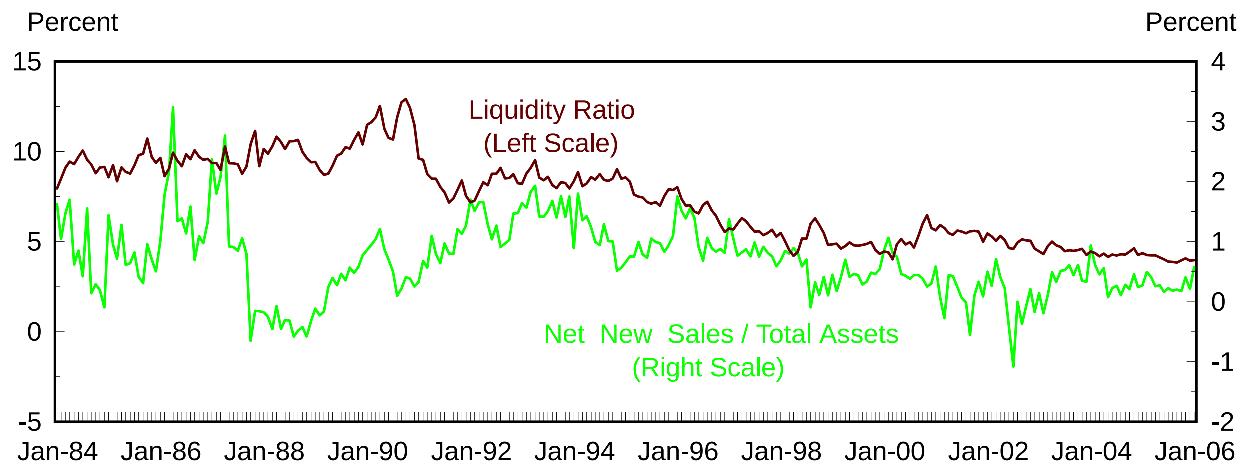
Source: Investment Company Institute

Figure 4

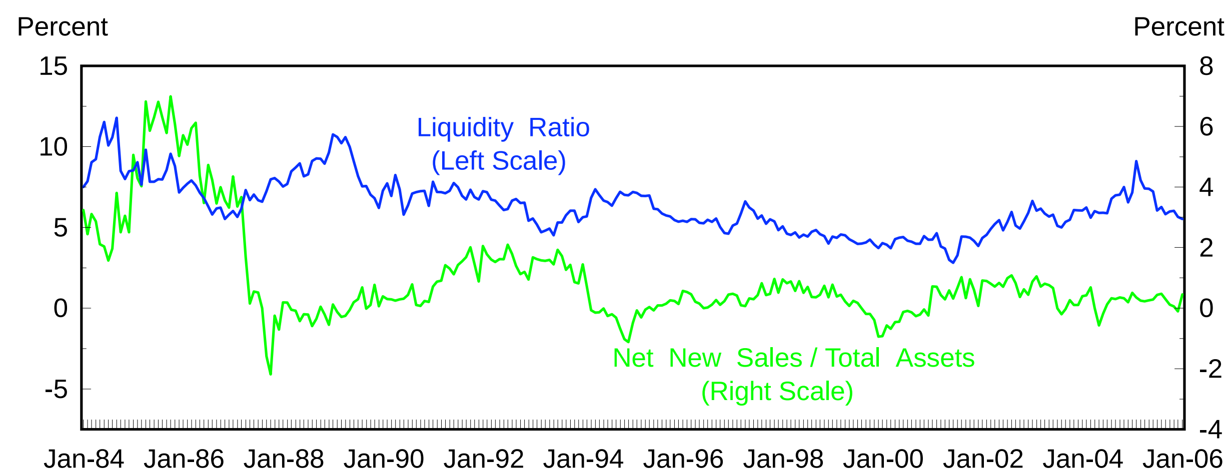
Liquidity Ratio*



Equity Funds



Bond & Hybrid Funds



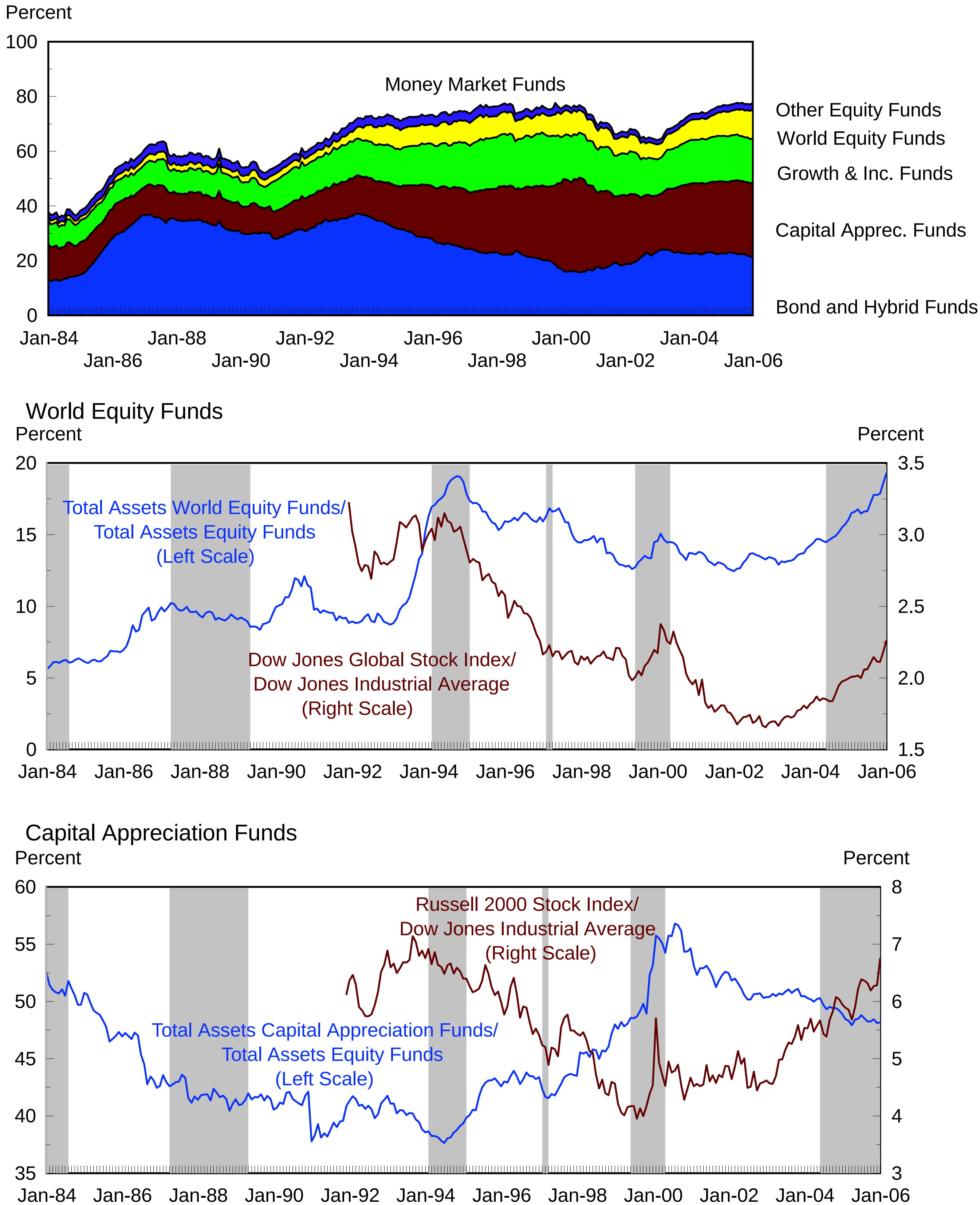
*The Liquidity Ratio is the Percent of Total Assets held in Cash and Short-Term Securities.

Source: Investment Company Institute

Figure 5

Industry Composition

(Shaded Regions Indicate Periods of Rising Fed Funds Rate)

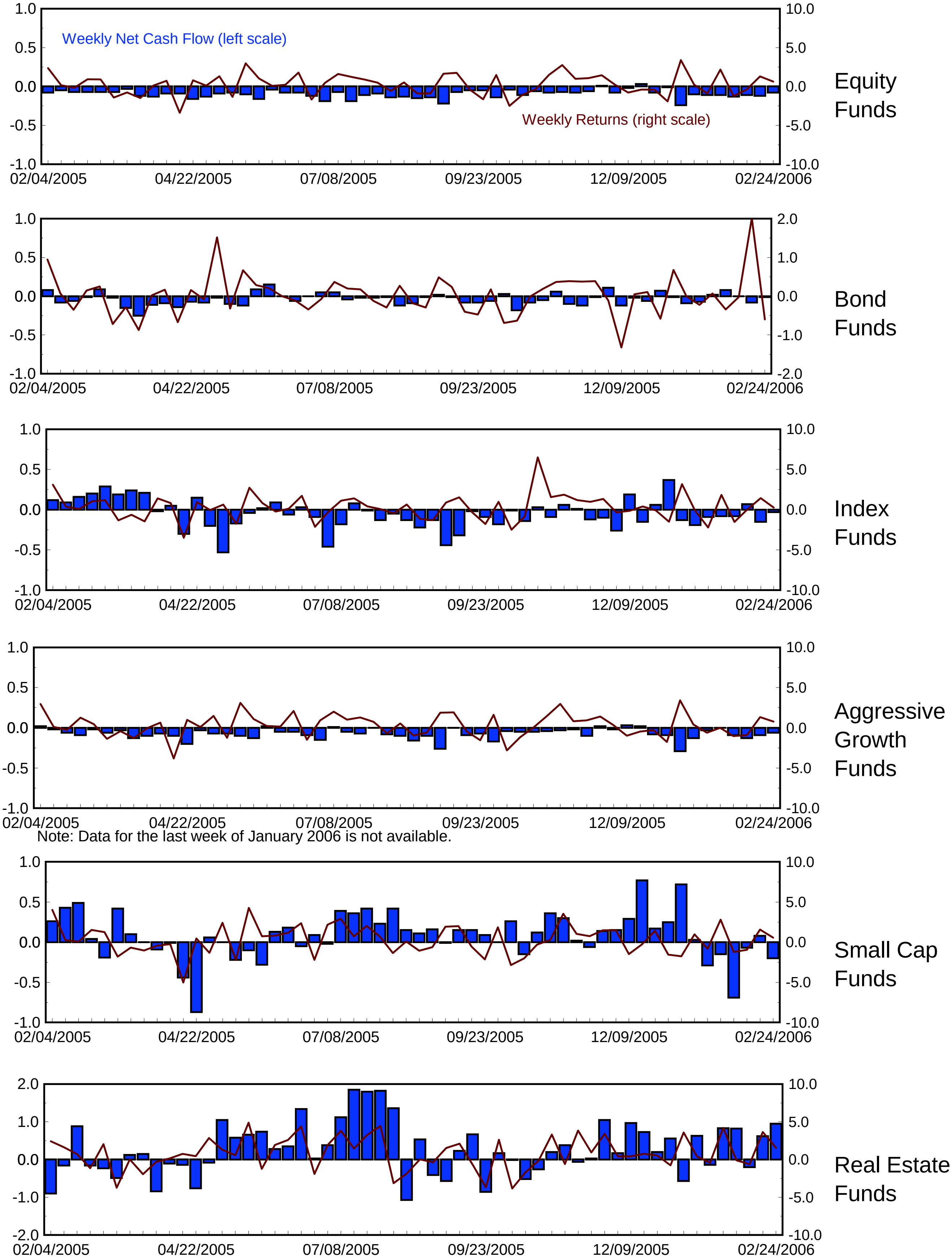


Source: Investment Company Institute

Figure 6a

Weekly Flows into Mutual Funds

(Percent of Total Assets)

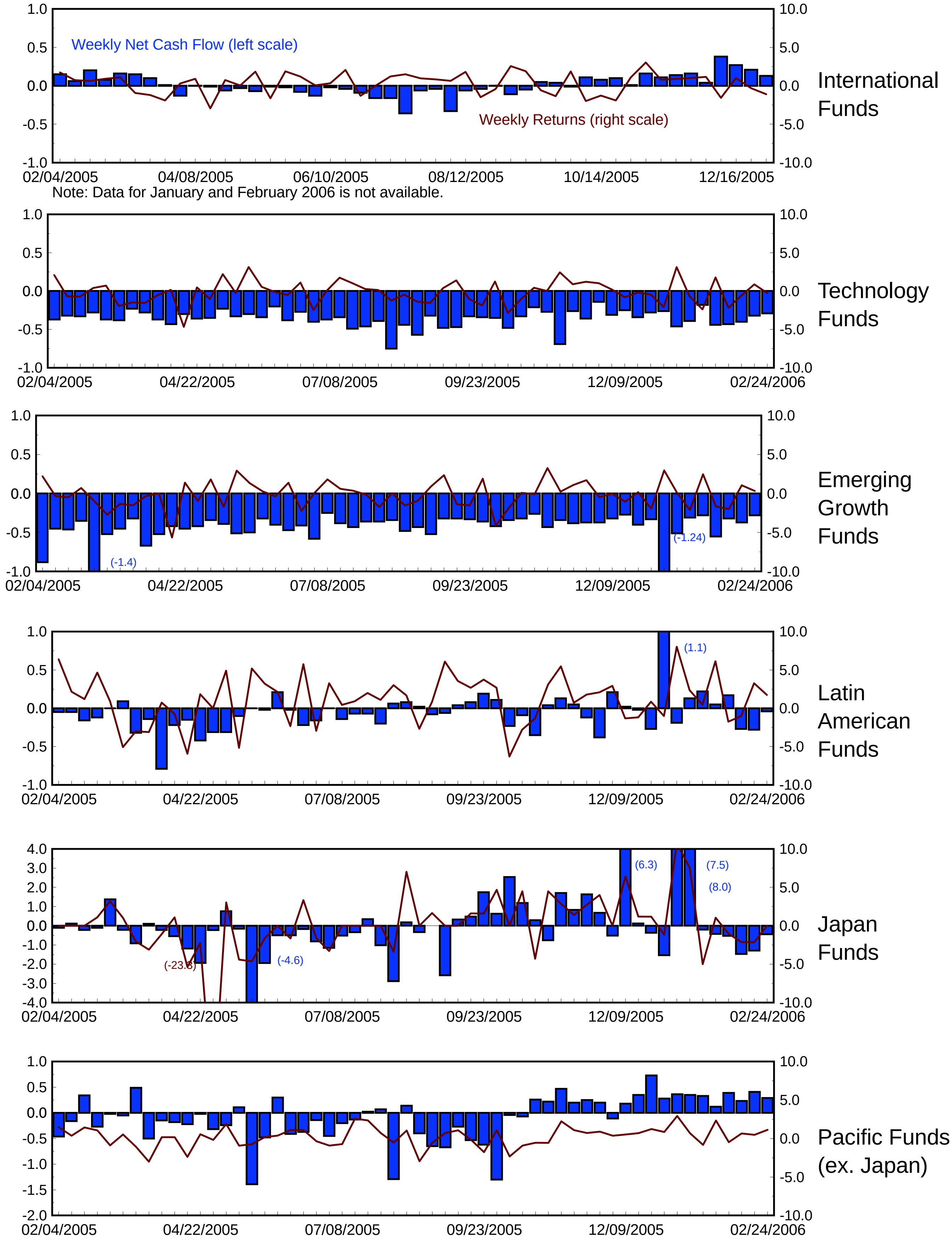


Source: Mutual Fund Trim Tabs

Figure 6b

Weekly Flows into Mutual Funds

(Percent of Total Assets)



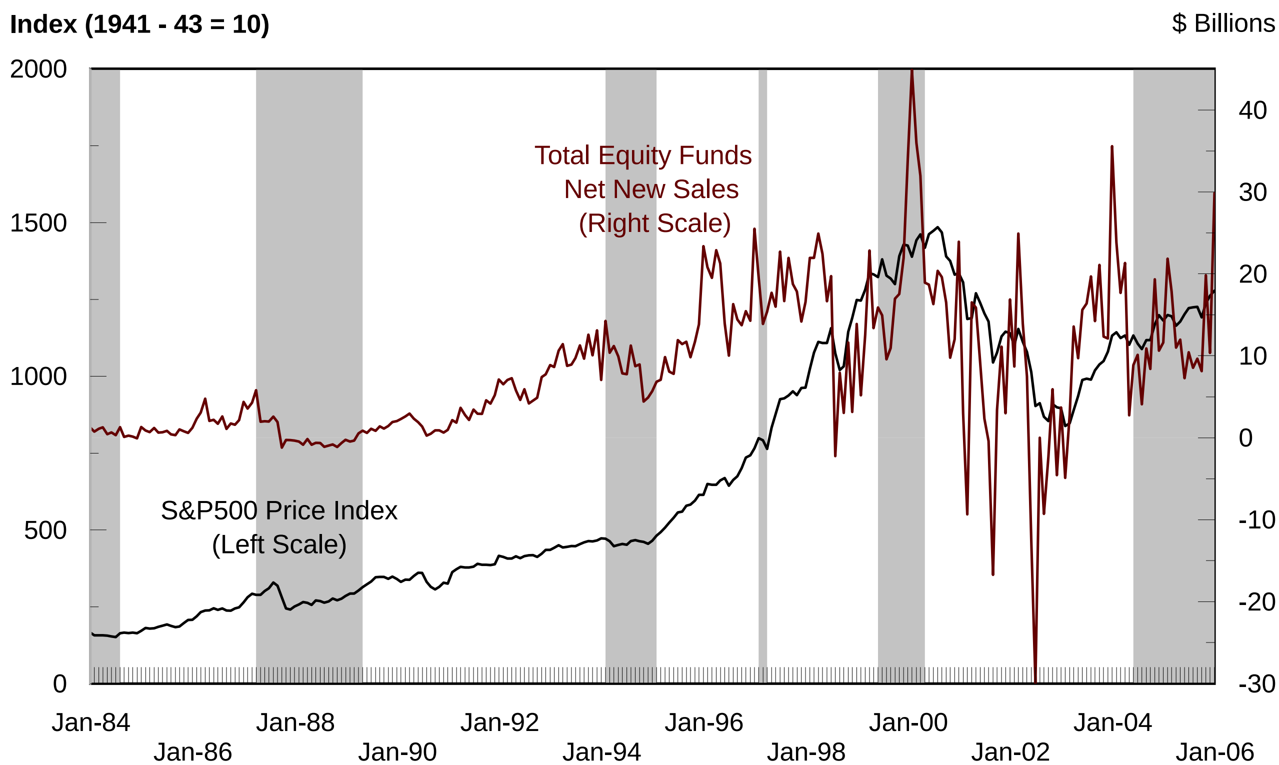
Source: Mutual Fund Trim Tabs

Figure 7

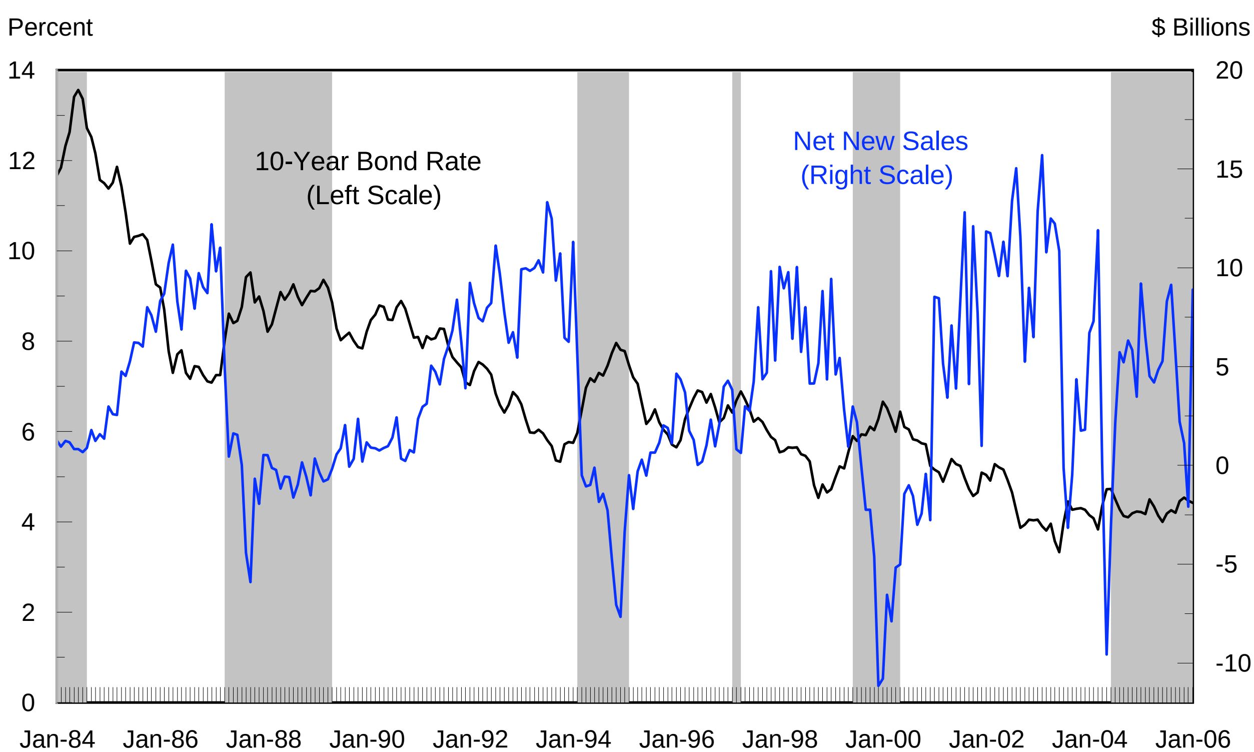
Net New Sales By Investment Objective

(Shaded Regions Indicate Periods of Rising Fed Funds Rate)

Equity Funds



Bond & Hybrid Funds

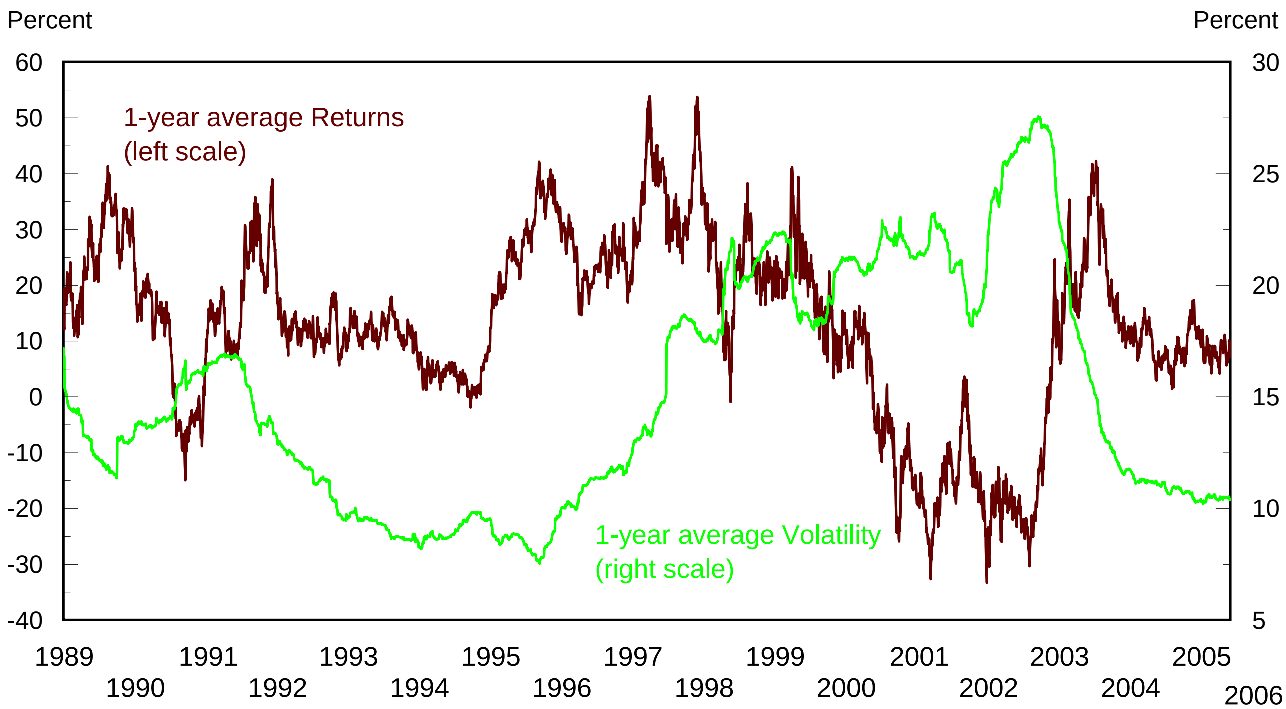


Source: Investment Company Institute

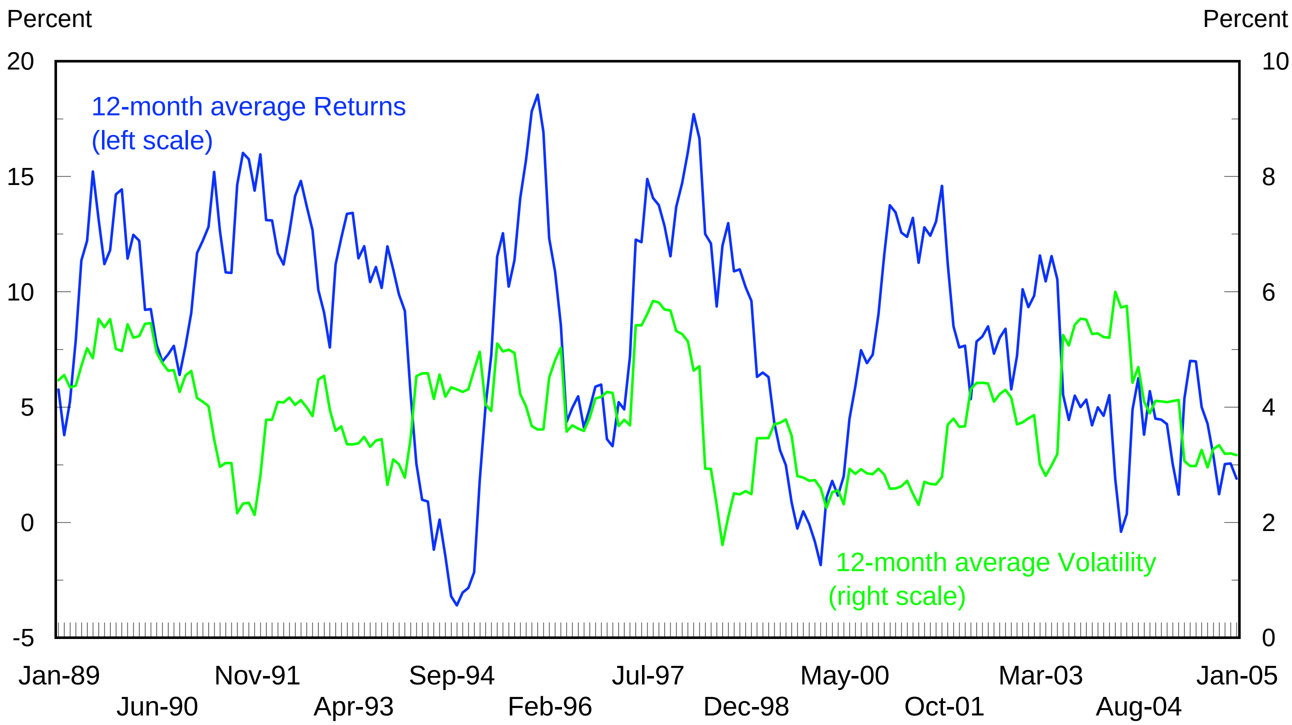
Figure 8

Capital Market Returns and Volatility

S&P500, Daily Returns and Volatility



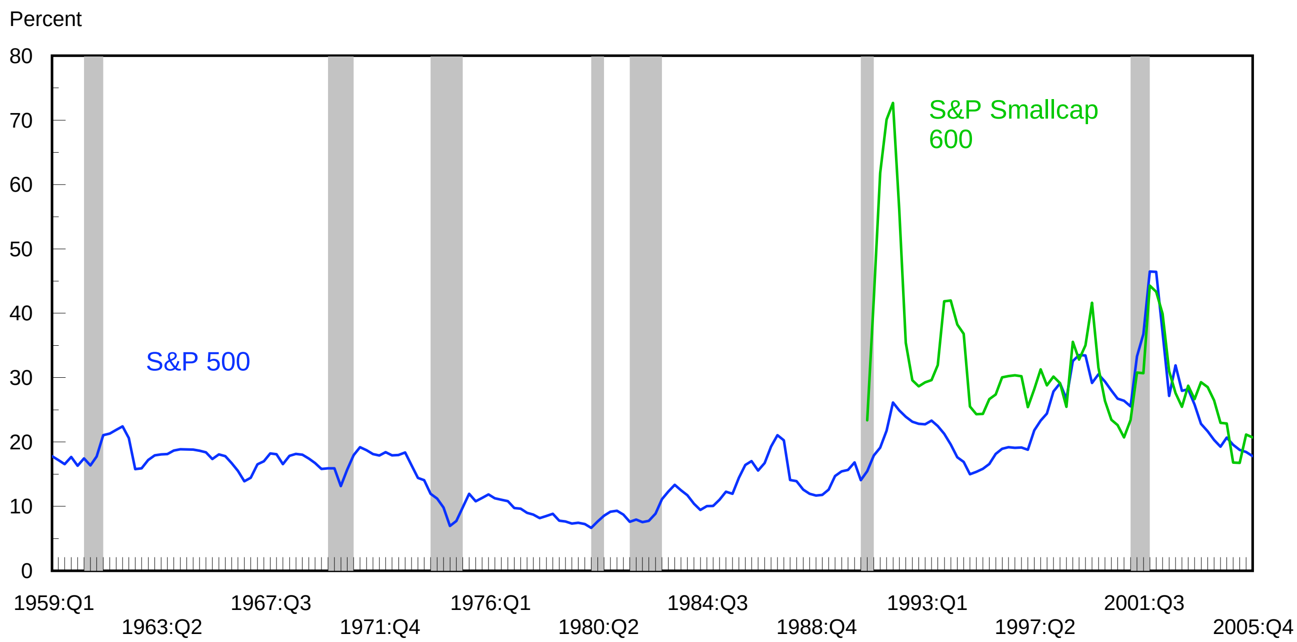
Citigroup Bond Index



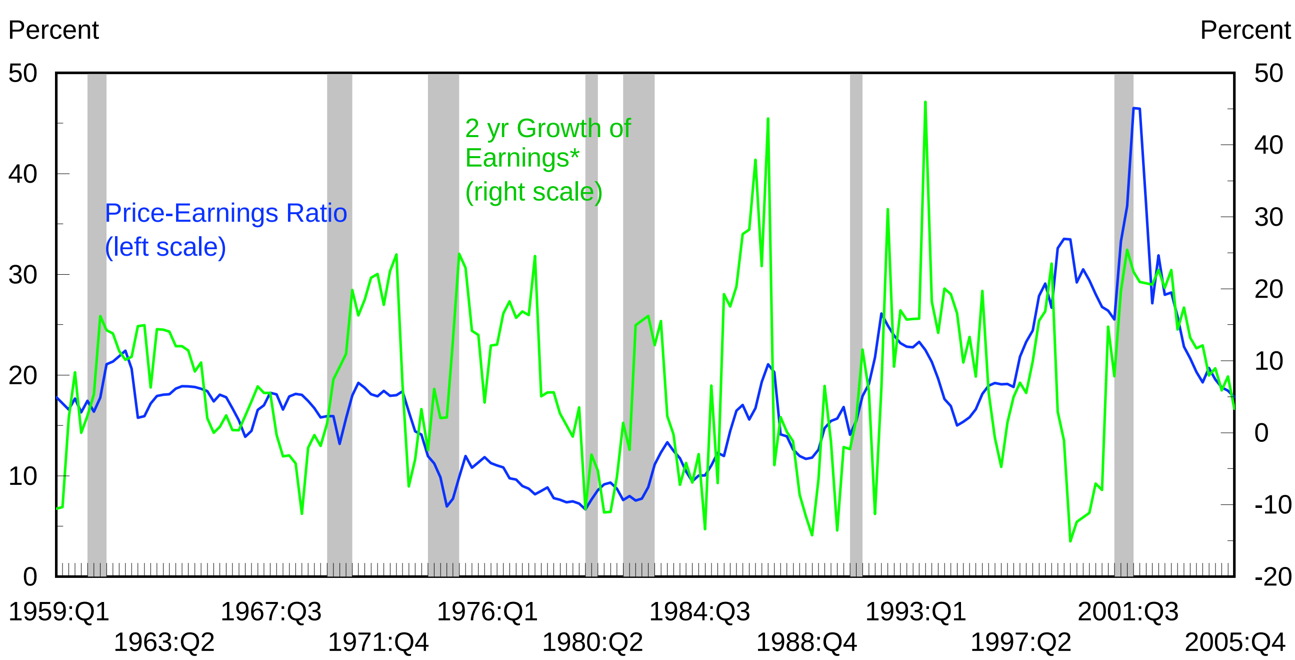
Source: FAME Database, Citigroup.

Figure 9

S&P Price-Earnings Ratios



S&P500 Price Earnings Ratio and the Growth of Earnings

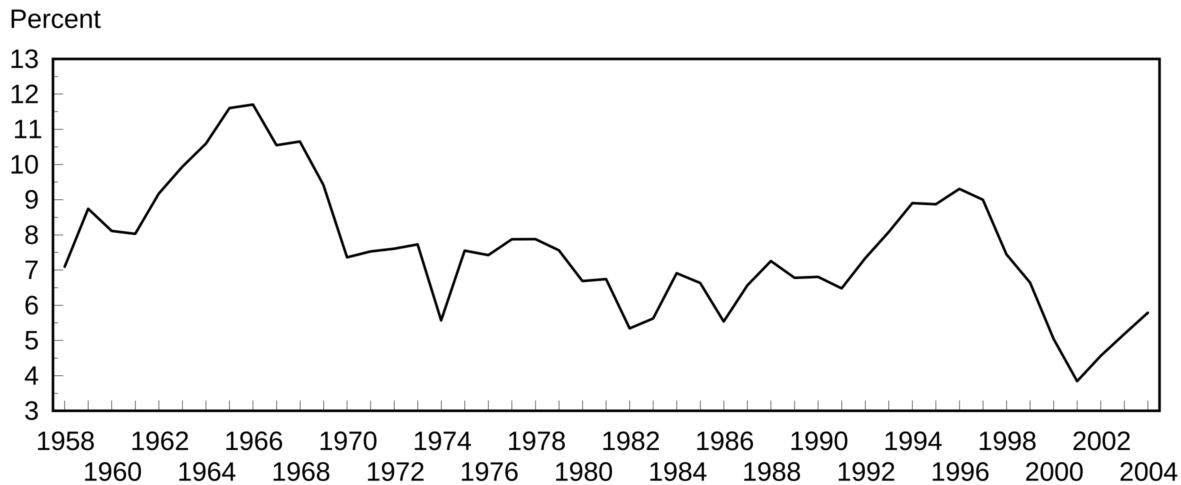


* Growth of earnings over subsequent 8 quarters. Current observations use forecast of earnings from macro projections.

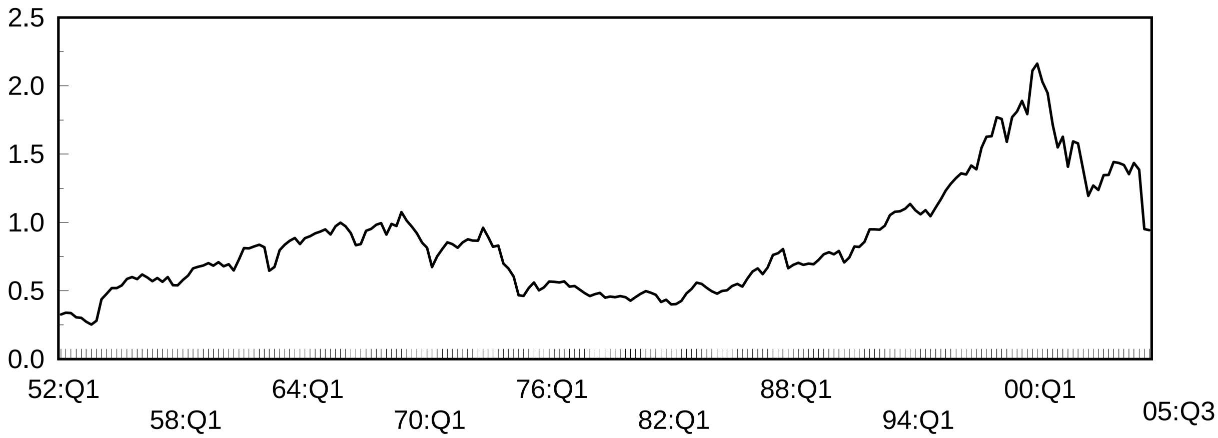
source: Thomson Financial/First Call, Global Exchange (formerly DRI), Bloomberg

Figure 10

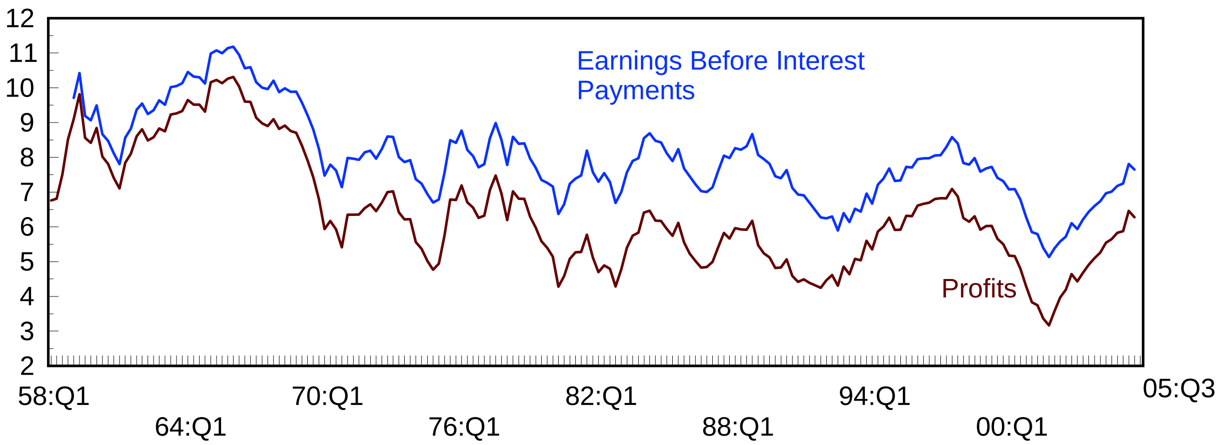
Real Rate of Return on Nonfinancial Corporate Equity
(from National Income and Flow of Funds Accounts)



Tobin's Q*



Profits of Nonfinancial Corporations 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.