May 5, 2006

Monthly Mutual Fund Report

Statistics for March 2006 - April 2006

Sales and Redemptions

Total assets for all funds increased in March by $138.4 billion, or 1.5 percent, to $9.4 trillion. Money market funds had a net cash outflow of $9.4 billion compared to an inflow in February of $5.5 billion. Other funds (equity, hybrid, and bond) had a net cash inflow of $39.9 billion, compared to an inflow of $36.8 billion in February. New sales of non-money market funds, the purchase of new shares excluding reinvested dividends, were $168.3 billion in March, up from $143.0 billion in February. The value of non-money market assets appreciated by $92.8 billion in March, following a depreciation of $24.0 billion in February.

Total assets of **equity funds** increased by $141.9 billion, or 2.7 percent, to $5.3 trillion. There was a $34.0 billion net cash inflow to equity funds in March, compared with an inflow of $27.3 billion in February. The market value of assets appreciated by $103.4 billion in March. Equity funds had an inflow of $93.0 billion year-to-date, compared to an inflow of $47.6 billion during the first three months of 2005.

Total assets for **hybrid funds**, which invest in a mix of stocks and bonds, increased 0.96 percent, or $5.6 billion, to $588.1 billion. In March, there was a $0.6 billion net cash inflow into these funds, compared to an inflow in February of $0.8 billion. Hybrid funds have experienced an inflow of $1.3 billion year-to-date, compared to an inflow of $13.2 billion during the first three months of 2005.

Bond funds experienced a cash inflow of $5.2 billion, while their total assets decreased by $4.7 billion, to $1.4 trillion. The market value of bond funds assets decreased by $13.7 billion, after adjusting for net sales and reinvested dividends. The assets of taxable bond funds decreased by 0.4 percent, while the assets of tax-exempt bond funds decreased by 0.3 percent. The 2006 inflow is $22.2 billion, compared to an inflow of $6.0 billion through March of 2005.

Assets of taxable and tax-exempt **money market funds** decreased $4.3 billion, to $2.0 trillion, a decrease of 0.1 percent for taxable money market funds and a decrease of 1.5 percent for tax-exempt funds. The 2006 outflow is $8.4 billion, compared to an outflow of $49.1 billion through March of 2005.

Liquidity Ratio

The liquidity ratio for bond and hybrid funds increased to 6.0 percent in March from 5.8 percent in February, while the ratio for equity funds decreased from 4.2 to 4.0 percent (figure 4).

Weekly Flows

In April, outflows from equity funds were 0.3 percent of total assets, with losses of 1.1 percent (figure 6a). Bond funds had outflows of 0.1 percent and losses of 0.7 percent.

Index funds had monthly outflows of 0.1 percent and gains of 0.9 percent. Aggressive growth funds had outflows of 0.3 percent and gains of 0.5 percent. Small-cap funds had inflows of 1.0 percent and gains of 1.7 percent.

Technology funds had outflows of 1.4 percent and gains of 7.0 percent (figure 6b). There were inflows to real estate funds of 0.5 percent and losses of 2.4 percent.

International funds in April had inflows of 0.6 percent of assets and gains of 3.7 percent. Latin American funds had outflows of 0.9 percent and gains of 7.6 percent. Japan funds had inflows of 0.9 percent and gains of 2.2 percent. Pacific funds that do not invest in Japan had inflows of 2.2 percent and gains of 5.3 percent of assets. Emerging Markets funds had outflows of 1.8 percent and losses of 0.7 percent.

Capital Market Returns and Volatility

The S&P 500 ended in April at 1310.6, an increase of 1.2 percent from the previous month. The 12-month gain was 13.3 percent at month-end. The annualized volatility for the daily return on the S&P 500 was 9.8 percent.

The 12-month average return on the Citigroup Bond Index was 0.8 percent in April. Volatility decreased to 3.0 percent in April from 3.2 percent in March (figure 8).

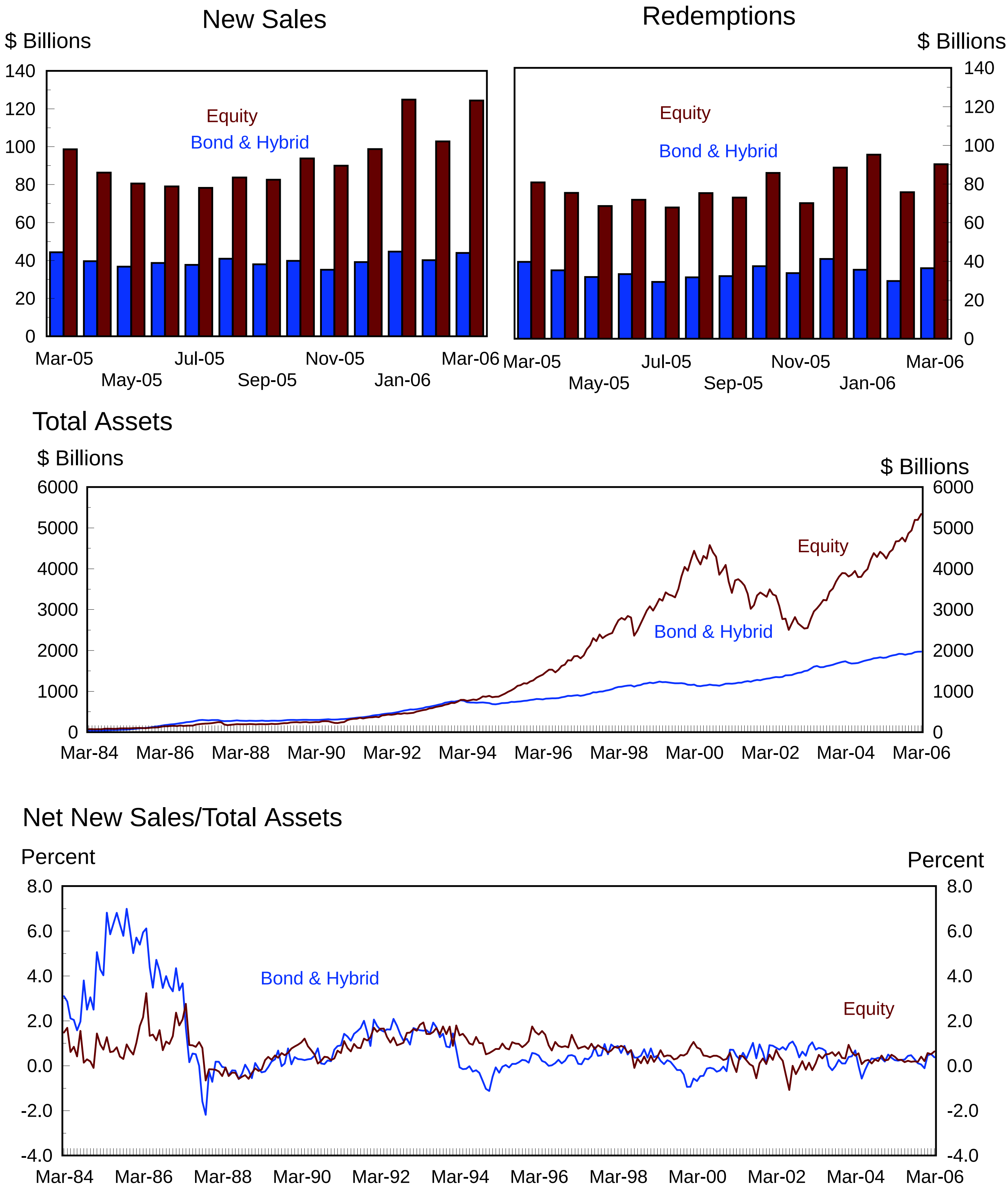
Price-Earnings Ratio

The macro projections for the growth of earnings for the Standard and Poor's 500 index over the next two years have been revised in the first quarter of 2006 to 6.6 from current levels. During the first quarter of 2006, the price-earnings ratio for the Standard and Poor's 500 Index was 17.5, down from 17.8 in the fourth quarter of 2005. The price-earnings ratio for the Small-Cap 600 Index increased to 23.7 in the first quarter of 2006, from 20.7 in the fourth quarter of 2005 (figure 9).

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

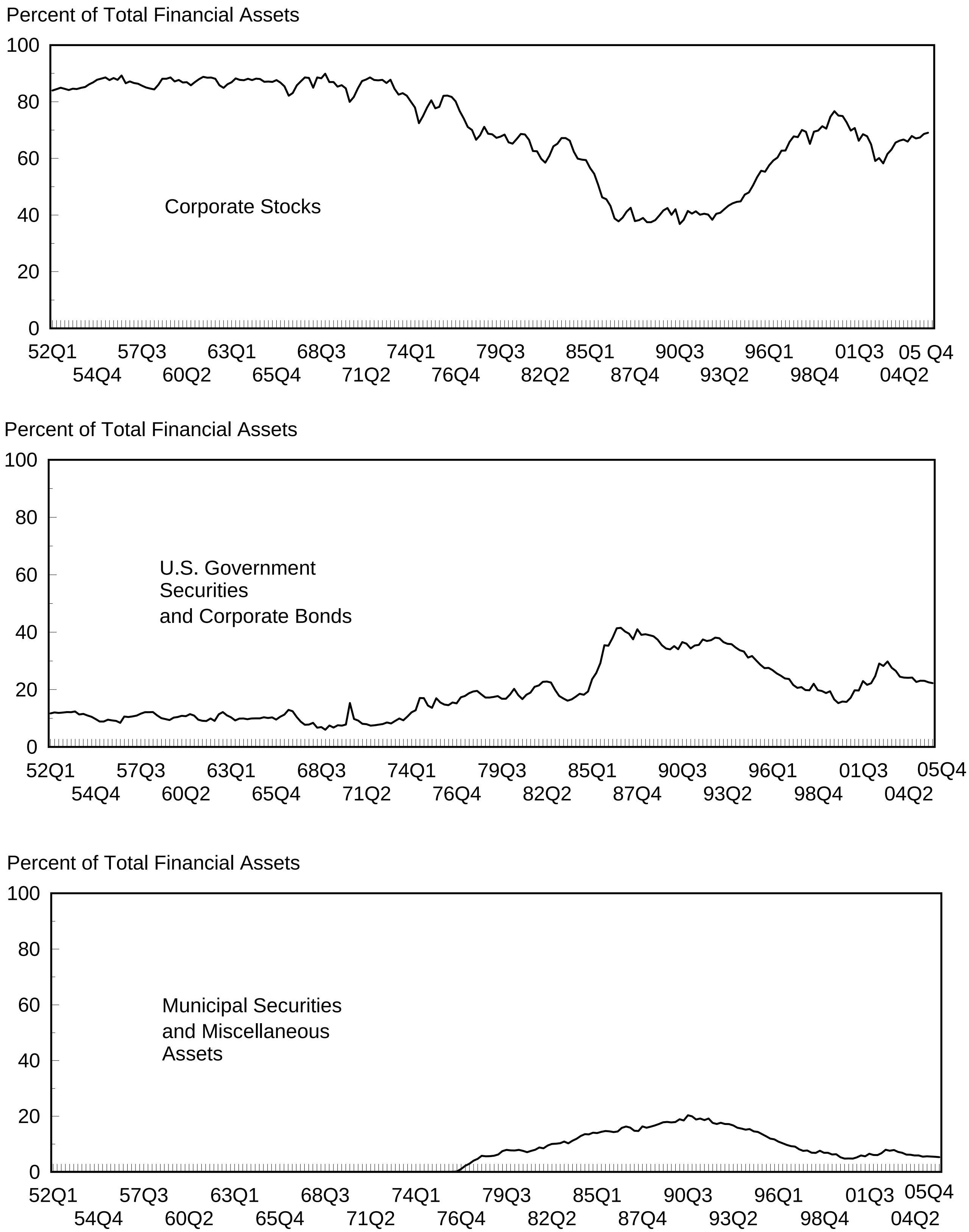
Figure 1

Sales of Mutual Funds



Source: Investment Company Institute

Figure 2
Composition of Mutual Funds' Financial Assets

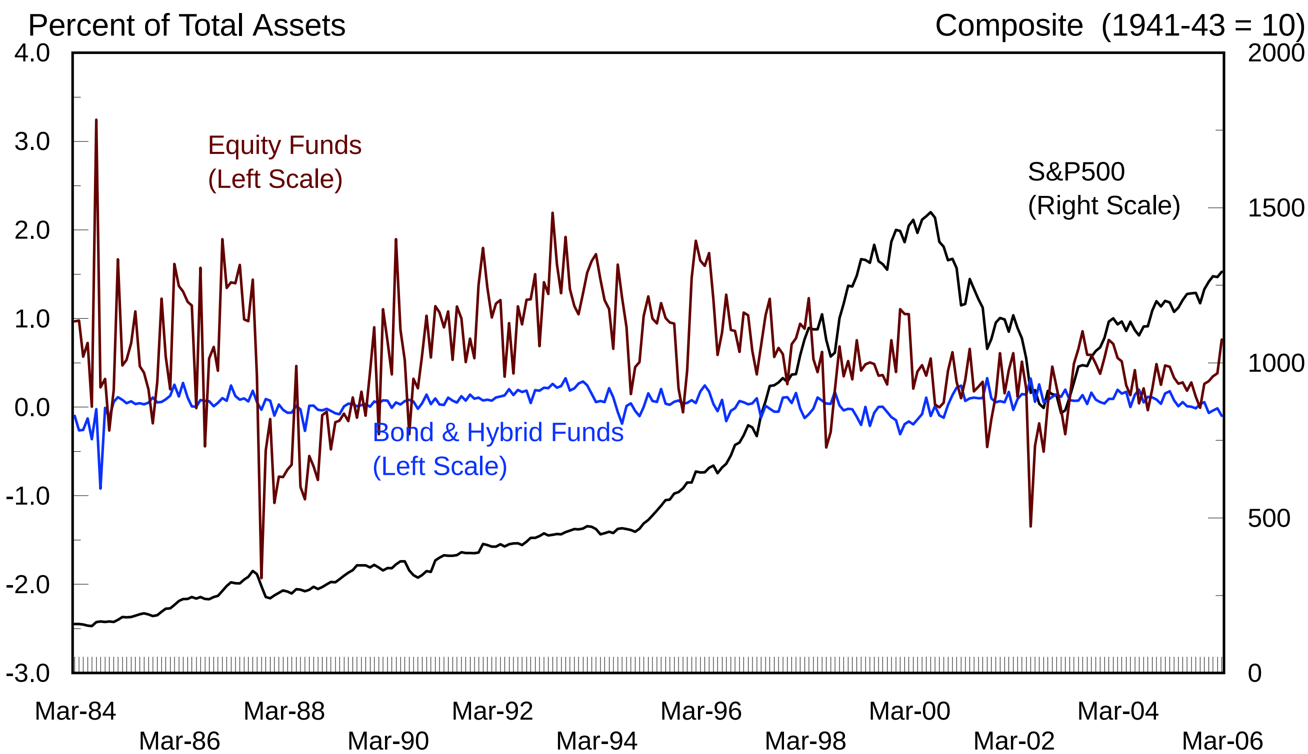


Source: Flow of Funds/Haver Analytics.

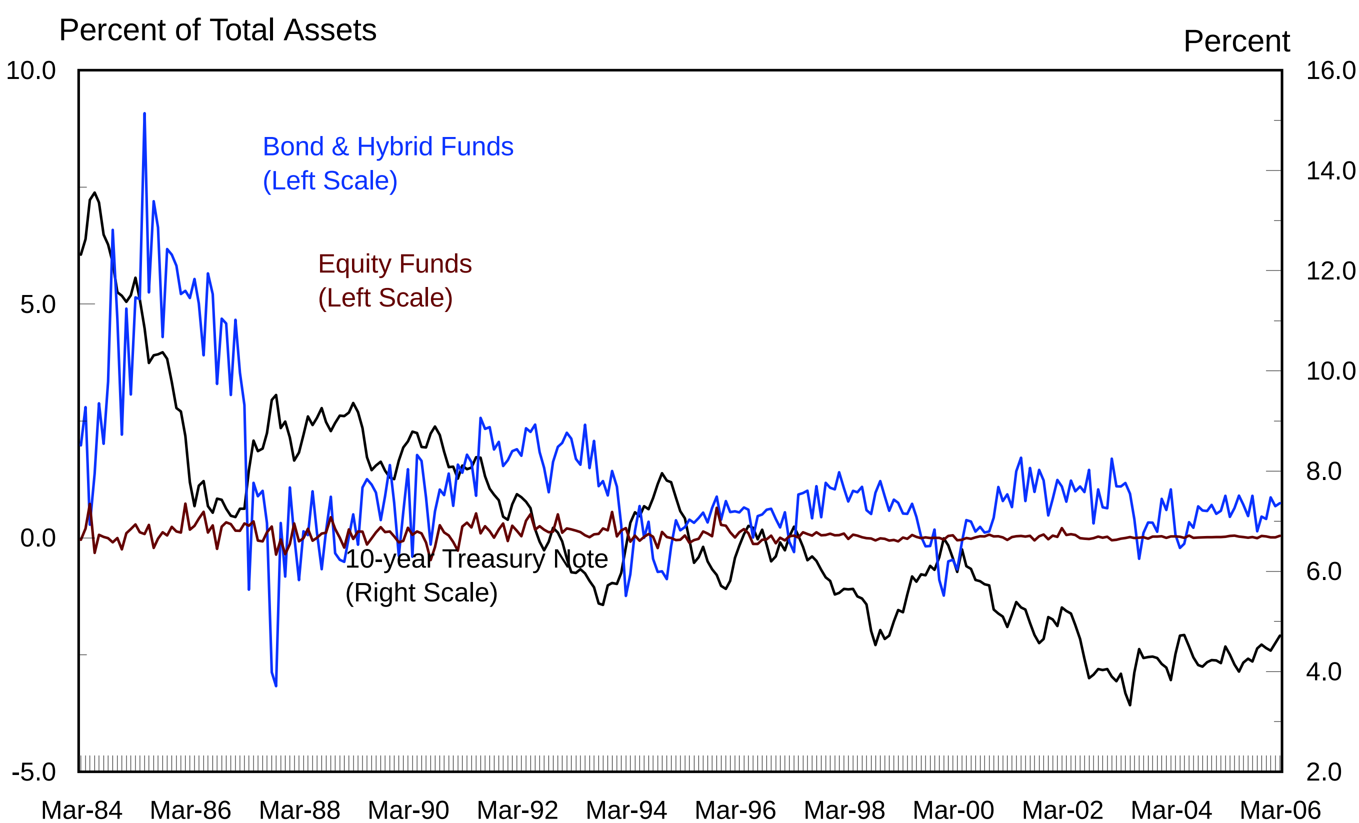
Figure 3

Net Portfolio Purchases

Net Common Stock Purchases



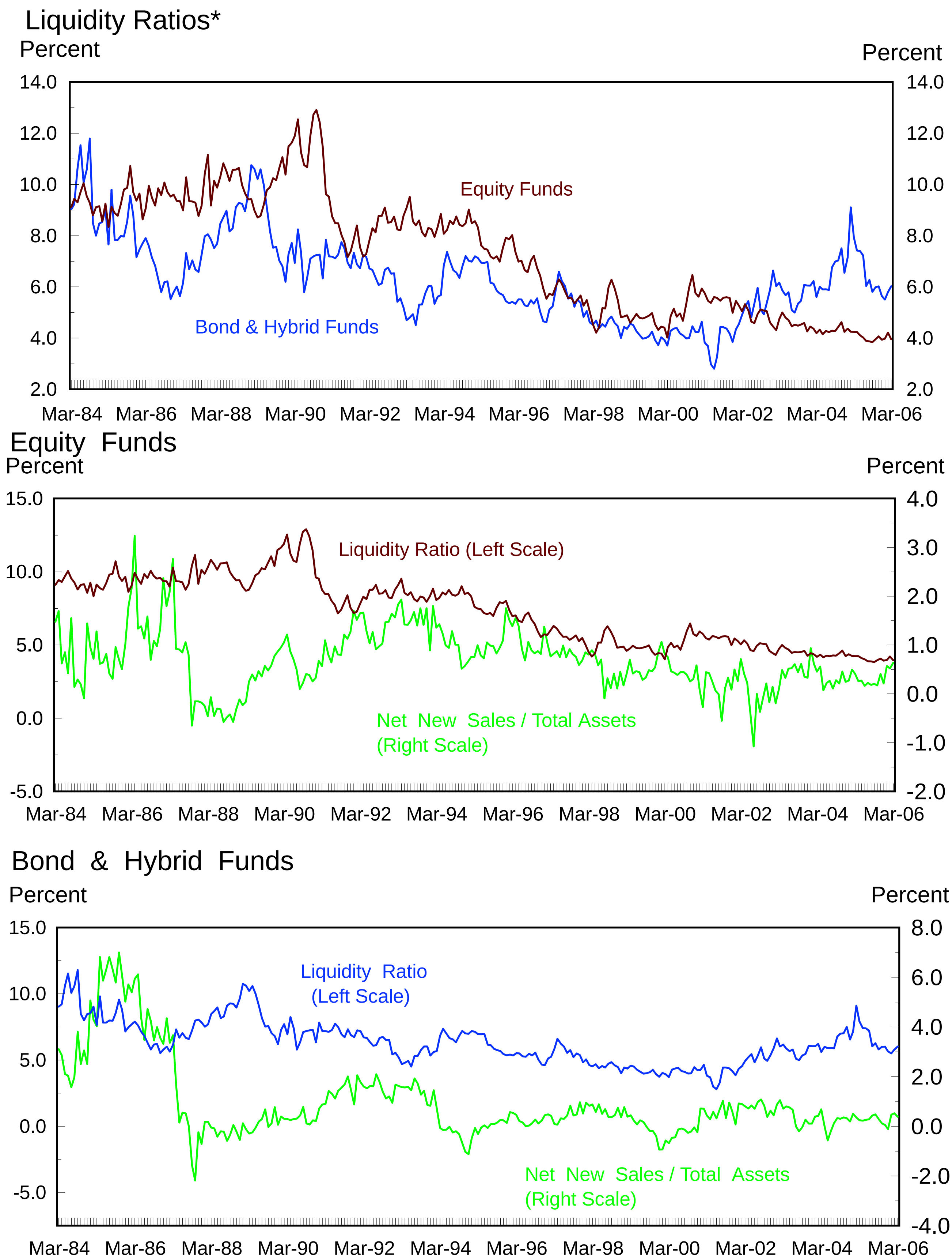
Net Purchases of Other Assets



Source: Investment Company Institute

Figure 4

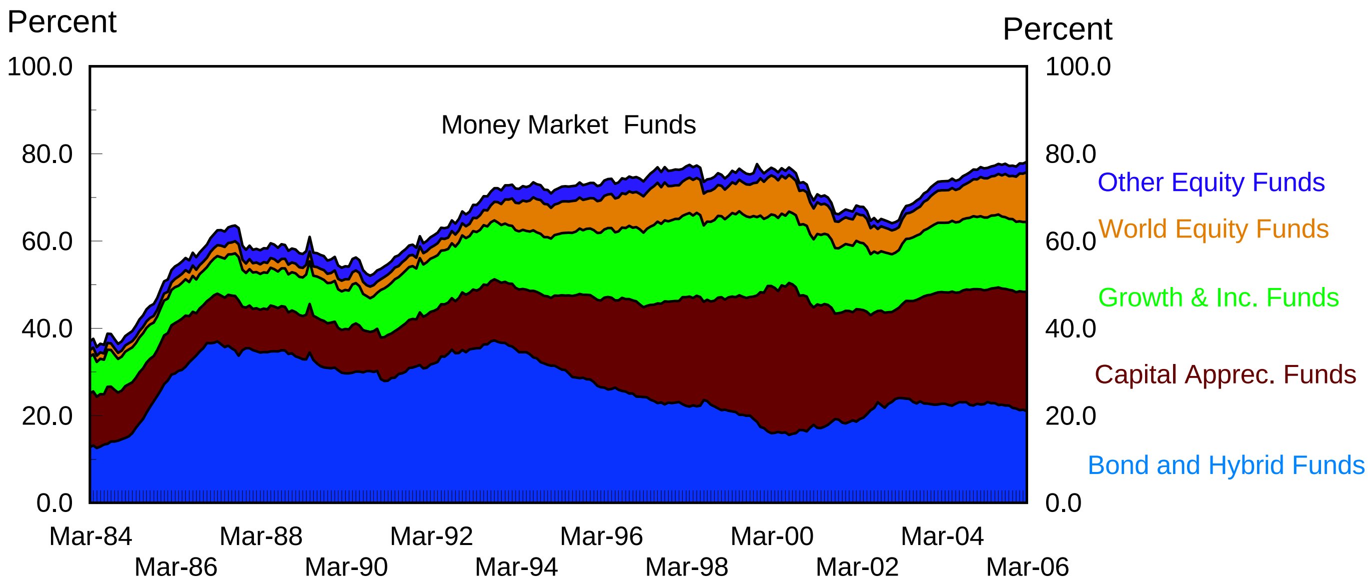
Liquidity Ratios



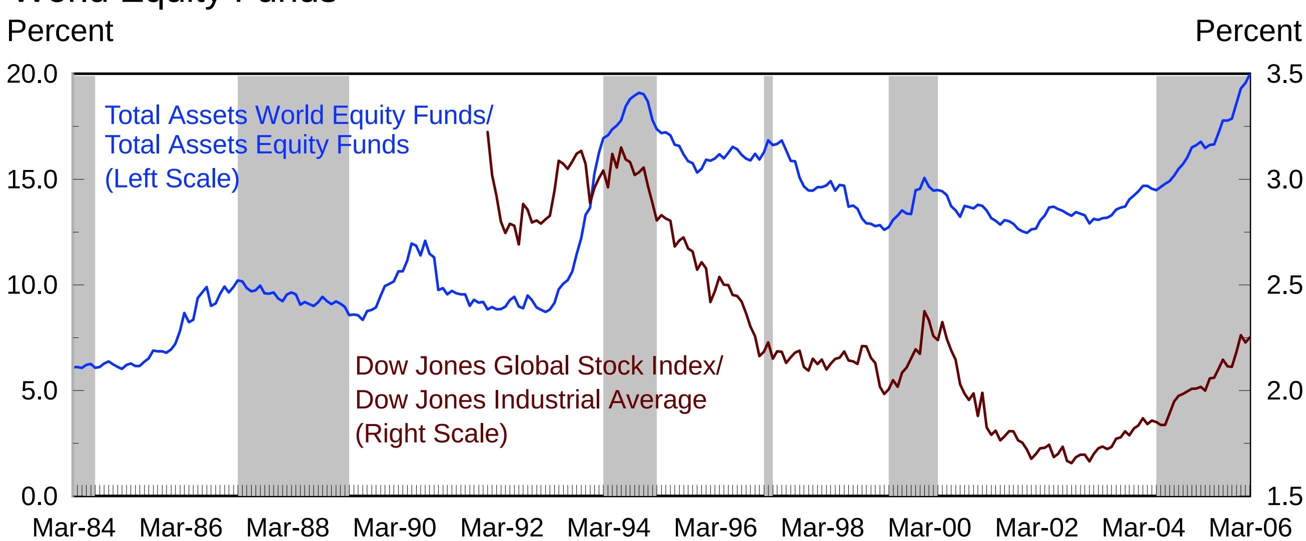
*Liquidity Ratios are the Percent of Total Assets held in Cash and Short-Term Securities.

Source: Investment Company Institute

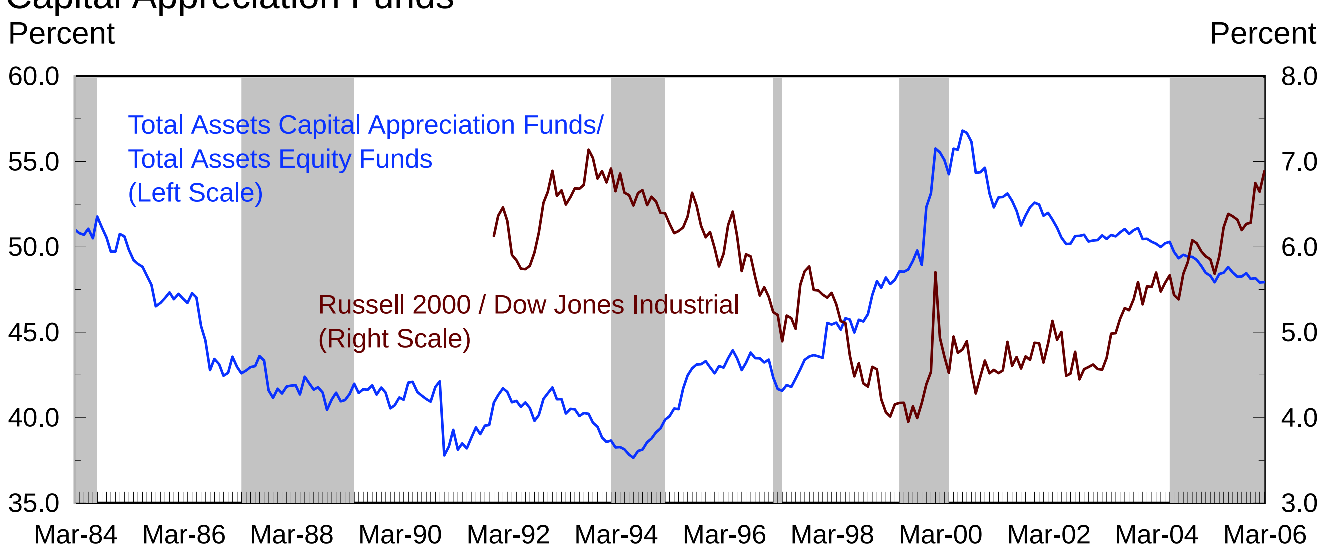
Figure 5
Industry Composition
(Shaded Regions Indicate Periods of Rising Fed Funds Rate)



World Equity Funds



Capital Appreciation Funds

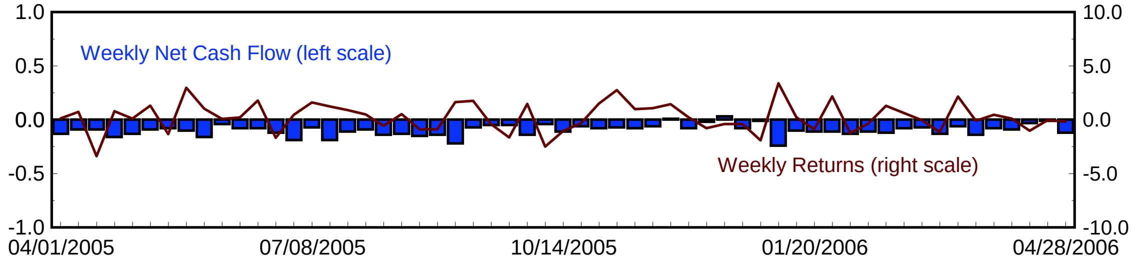


Source: Investment Company Institute

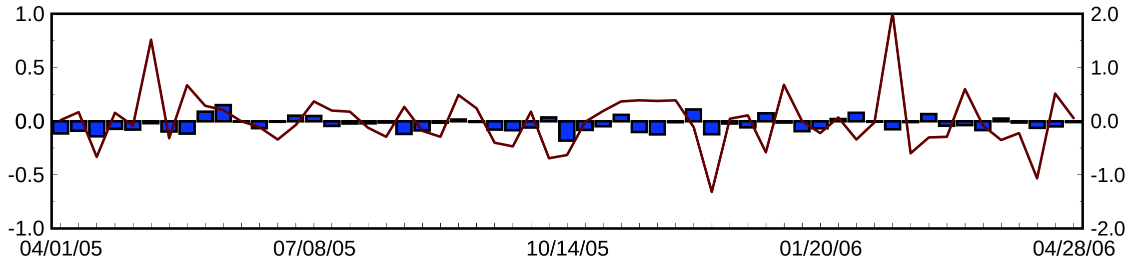
Figure 6a

Weekly Flows into Mutual Funds

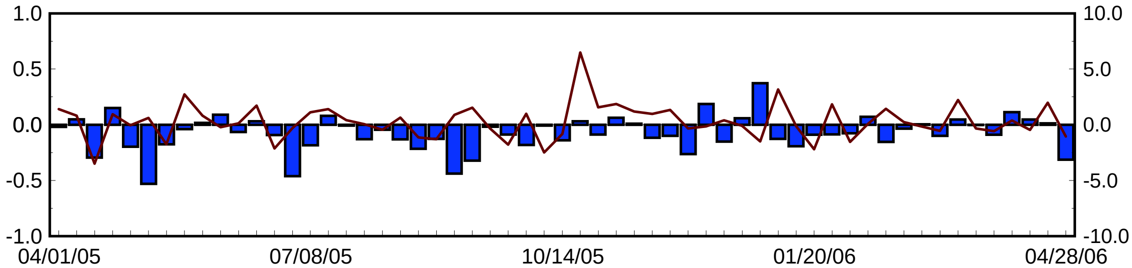
(Percent of Total Assets)



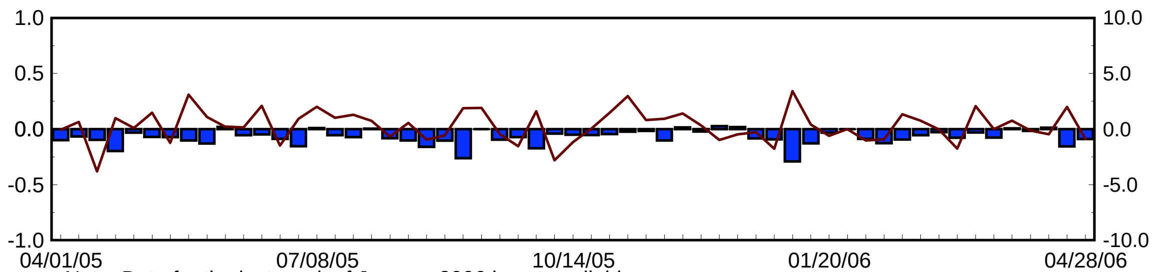
Equity Funds



Bond Funds

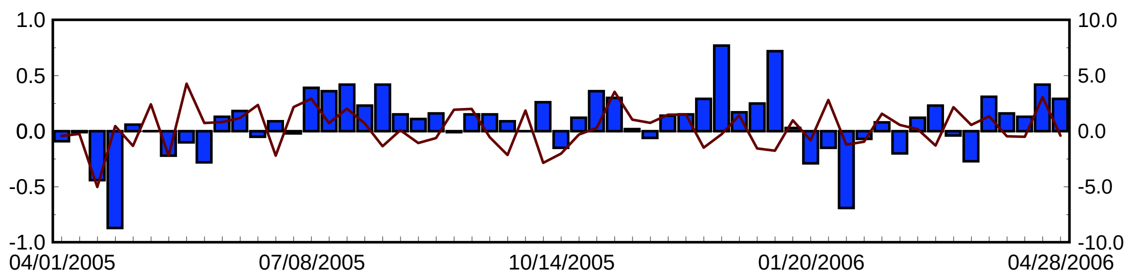


Index Funds

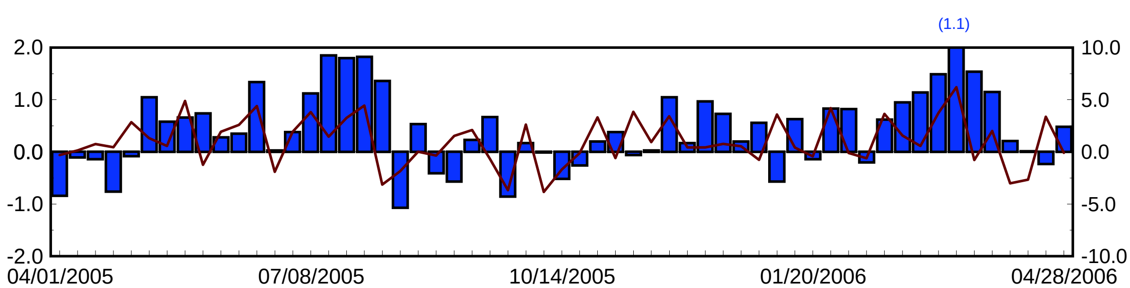


Aggressive Growth Funds

Note: Data for the last week of January 2006 is not available.



Small Cap Funds



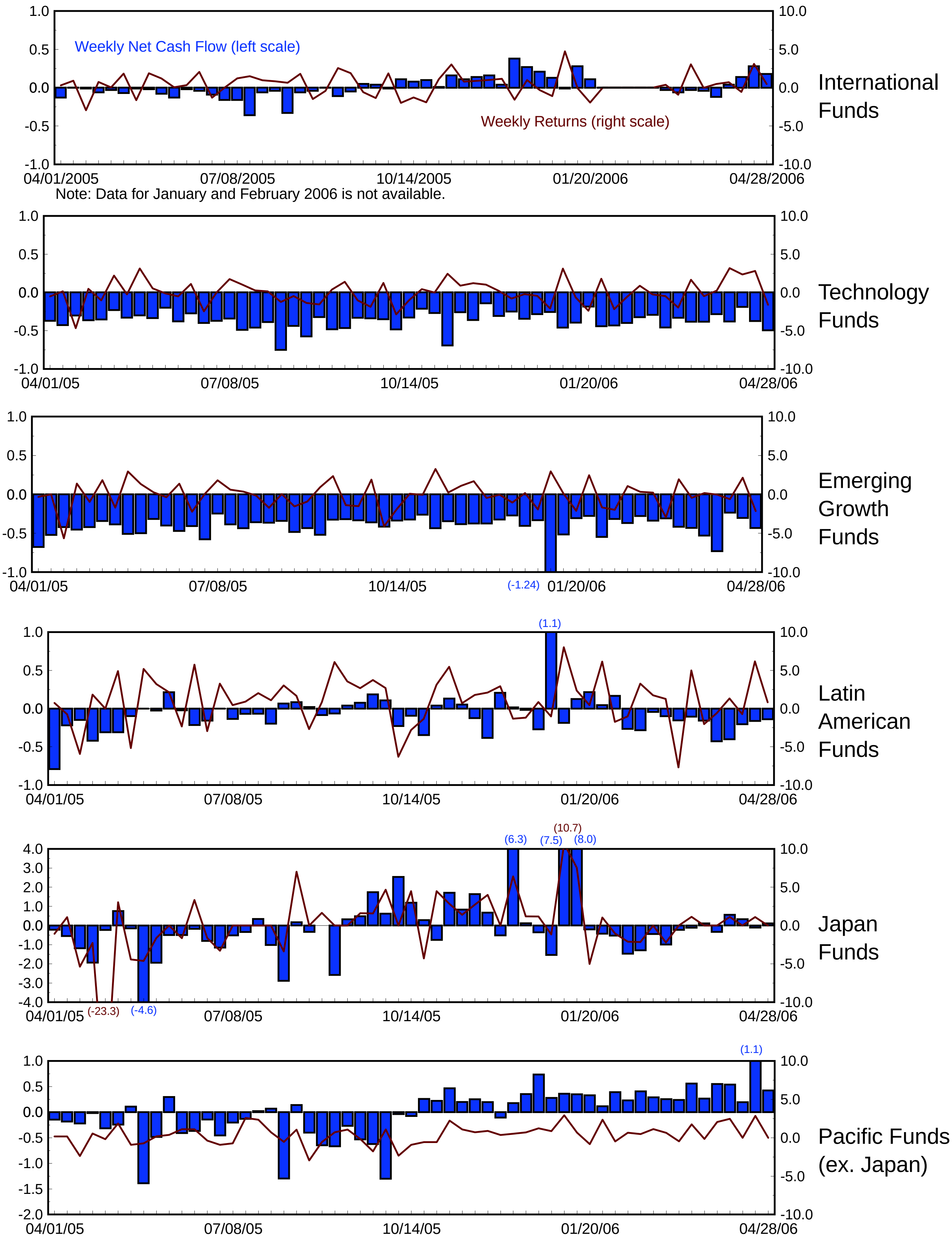
Real Estate Funds

Source: Mutual Fund Trim Tabs

Figure 6b

Weekly Flows into Mutual Funds

(Percent of Total Assets)

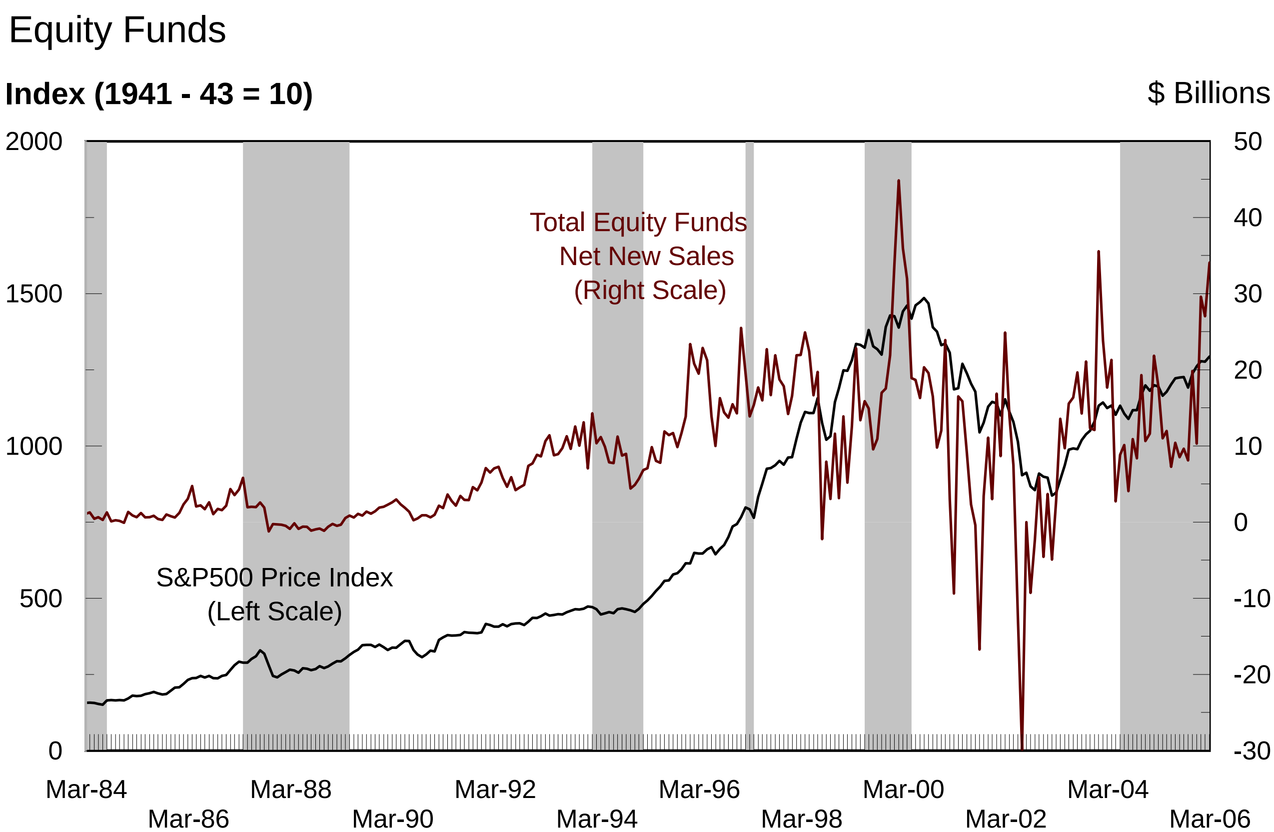


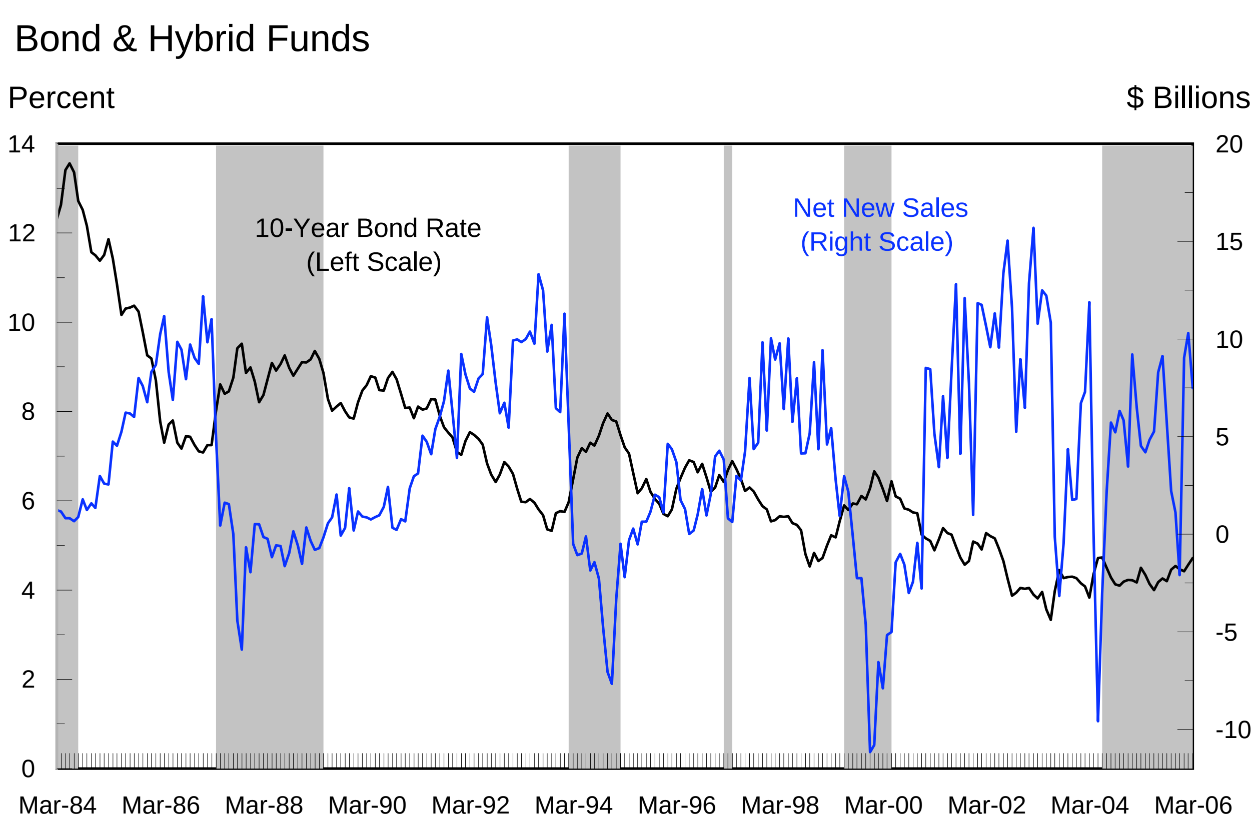
Source: Mutual Fund Trim Tabs

Figure 7

Net New Sales By Investment Objective

(Shaded Regions Indicate Periods of Rising Fed Funds Rate)



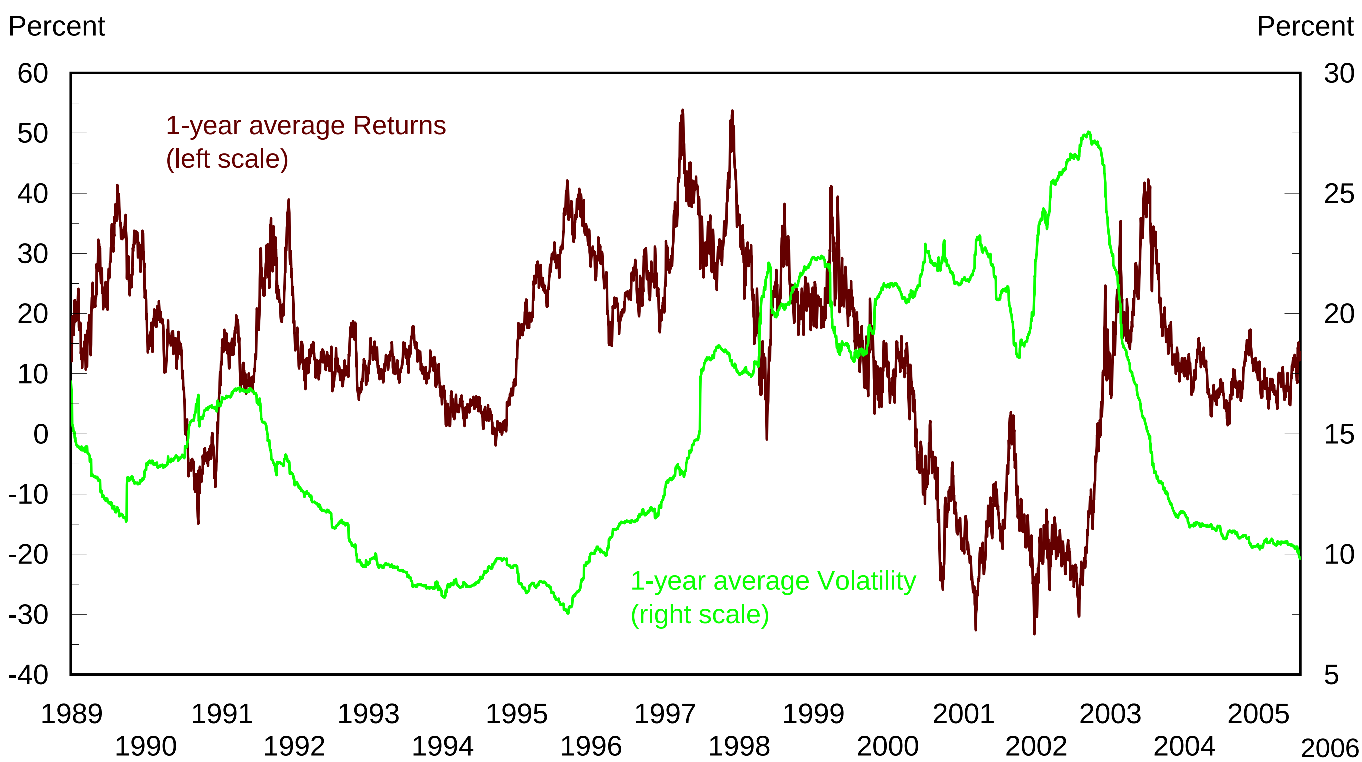


Source: Investment Company Institute

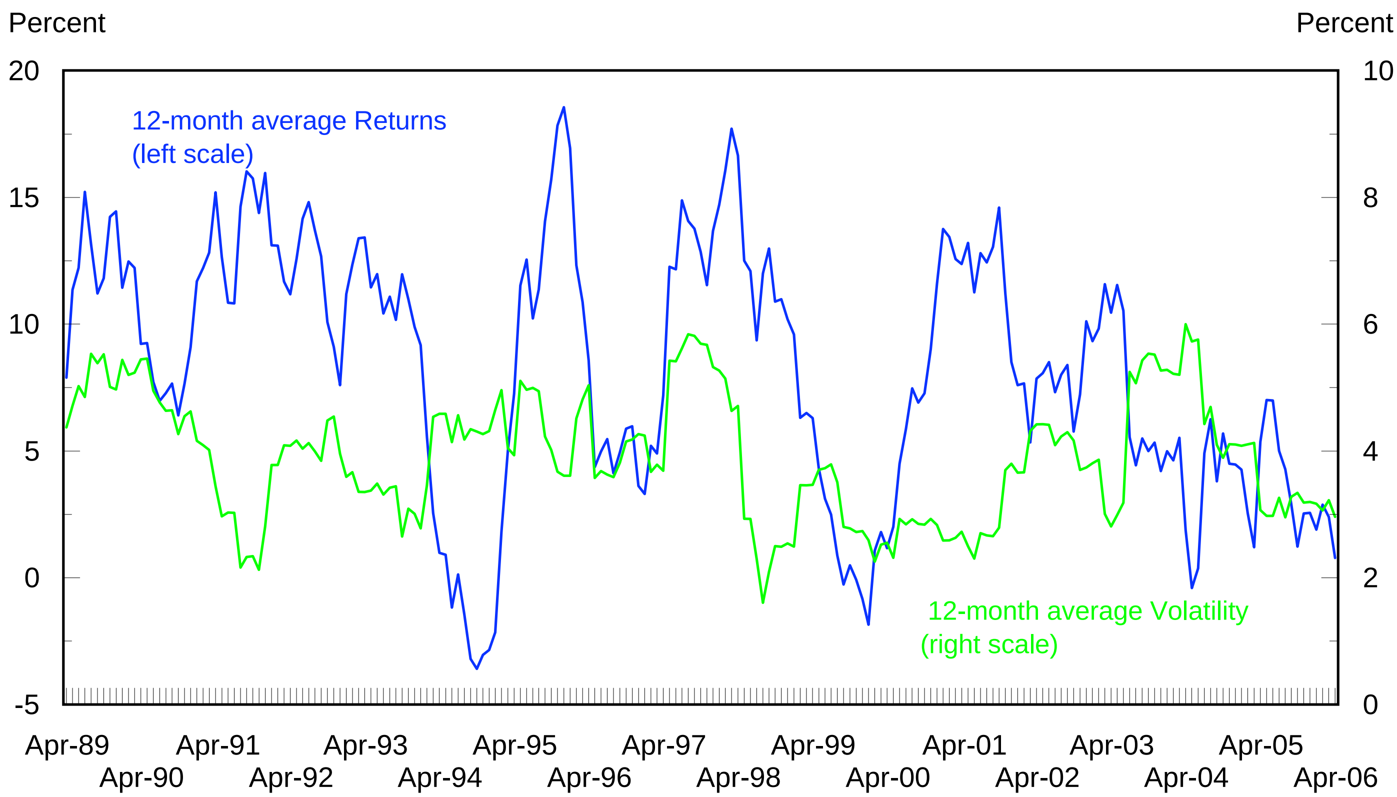
Figure 8

Capital Market Returns and Volatility

S&P500, Daily Returns and Volatility



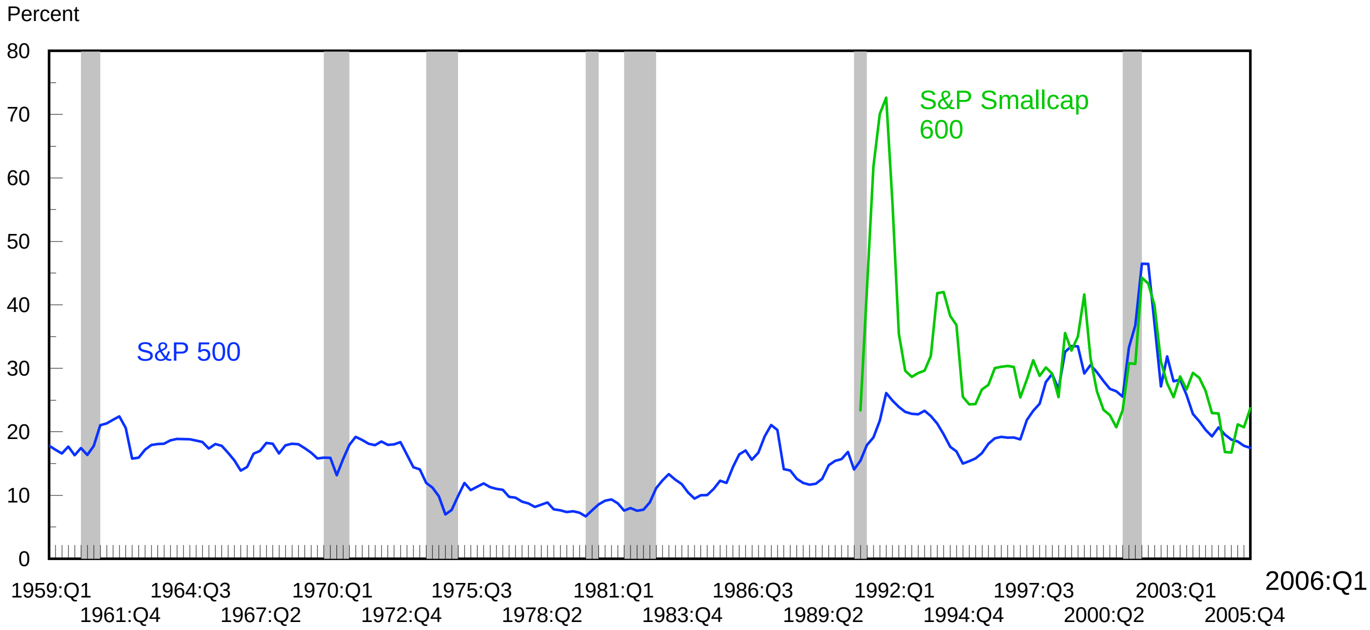
Citigroup Bond Index



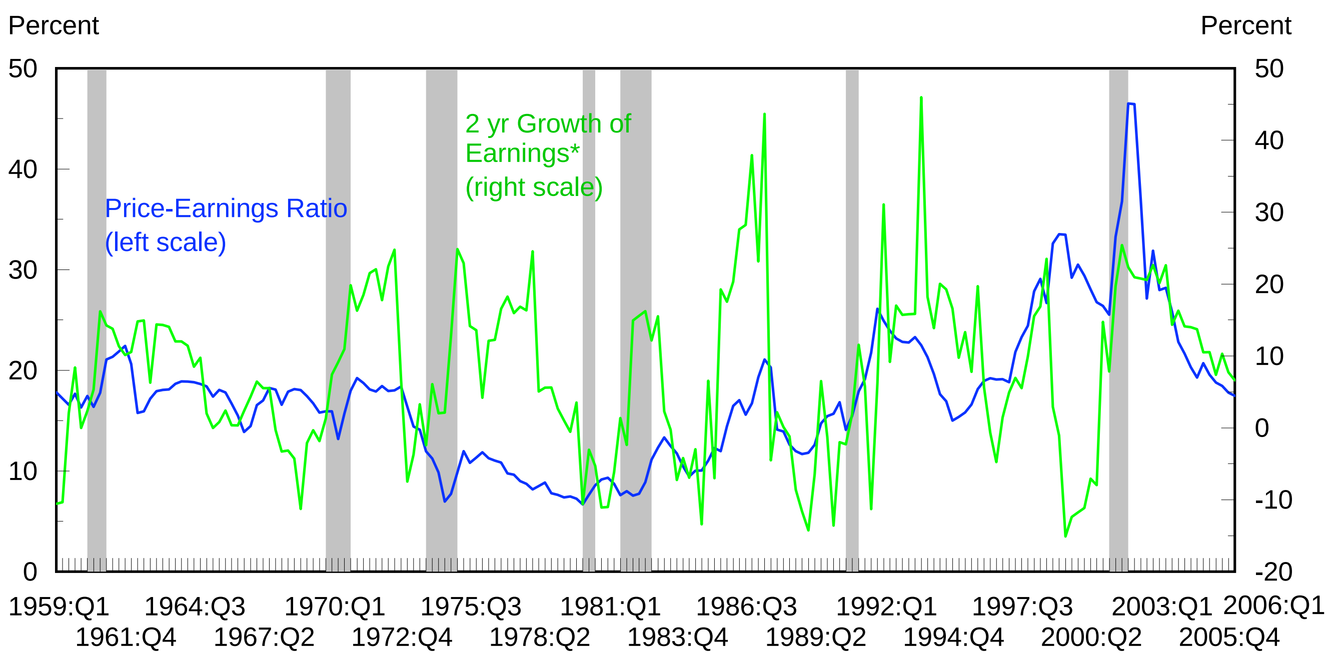
Source: FAME Database, Citigroup.

Figure 9

S&P Price-Earnings Ratios



S&P500 Price Earnings Ratio and the Growth of Earnings

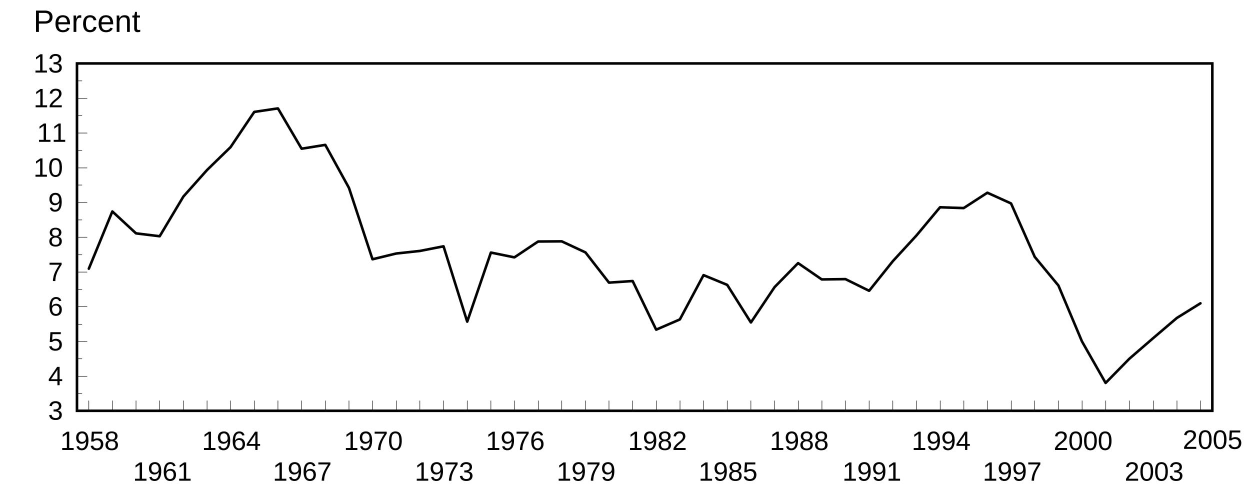


* Growth of earnings over subsequent 8 quarters. Current observations use forecast of earnings from macro projections.

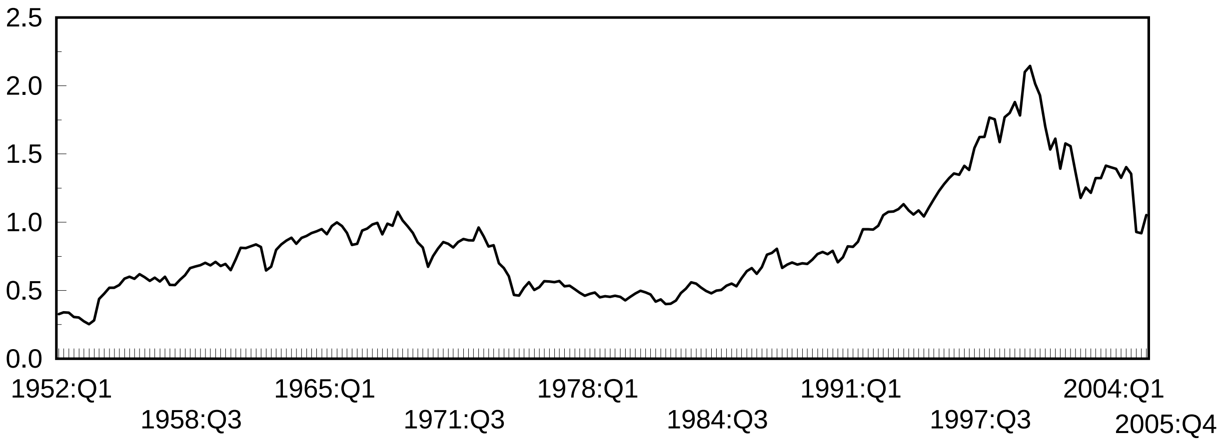
source: Thomson Financial/First Call, Global Exchange (formerly DRI), Bloomberg

Figure 10

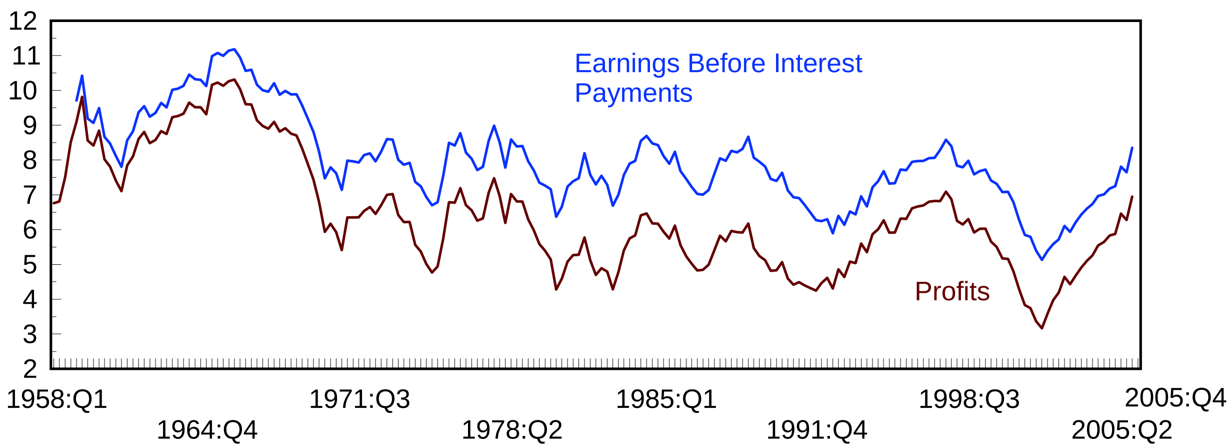
Real Rate of Return on Nonfinancial Corporate Equity
(from National Income and Flow of Funds Accounts)



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.