



International Forum of Sovereign Wealth Funds

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Report from State Street and the International Forum of Sovereign Wealth Funds Reveals Significant Asset Allocation Shift by Large Institutional Investors

New Focus on Assets and Markets Considered to be Less Risky

LONDON, 25 April 2022 — [State Street Corporation](#) (NYSE: STT) and the International Forum of Sovereign Wealth Funds (IFSWF), a global network of sovereign wealth funds from 40 countries, today released [a new report](#)^[1] revealing a major shift by large institutional investors towards assets and markets considered to be less risky.

The report, entitled ***Post-pandemic shift: Evidence from institutional-investor and sovereign wealth fund activity***, looks at the aggregated activities of long-term institutional investors representing more than \$43 trillion in assets under custody and administration at State Street. It also includes insights from interviews with a selection of the world's largest sovereign wealth funds across Central Asia, East Asia, West Asia, Australasia, and North America.

The report reveals institutional investors' risk aversion in 2021, evidenced by the fact State Street's Behavioural Risk Scorecard – an aggregate measure of risk appetite derived from the capital flows and holdings by institutional investors across multiple asset classes and factors – turned negative in early February 2022 and reached its lowest point in two years. Institutional investors' capital flow decisions became more broad-based, with evidence of risk-off behaviour manifesting across investors' equity, fixed income, foreign exchange and asset allocation decisions over recent months.

Neill Clark, head of State Street Associates, Europe, Middle East and Africa (EMEA) said: "As economies around the world emerged from the long shadow cast by the COVID-19 pandemic, investors are faced with new risks. Today, risk assets are re-pricing due to international conflict, inflation, and central bank policy responses."

"Following a period of opportunistic rebalancing and selective risk-taking during 2020, the past year has seen institutional investors moving towards safer assets and markets. Their asset allocation decisions suggest they are no longer adding to their equity exposure – which they had been doing since Q1 2020 – and instead, are adding to their fixed-income and cash balances."

The new report reveals strong capital outflows from emerging markets – the largest level of selling observed over the previous five years – have been matched by robust demand for stocks in developed markets.

“When it comes to the investment strategies of sovereign wealth funds, most are taking the long view, which can sometimes mean a contrarian stance, said **Duncan Bonfield, Chief Executive**, ISFWF. “For example, one of our members has increased its emerging-market equity positions as the value/price gap widened, as emerging-market equity was cheaper than it was six months ago relative to its fair value estimates.”

In fixed income, the report reveals heightened geopolitical risk has seen capital outflows from emerging-market sovereign debt, while high-quality, developed-market sovereign bonds are maintaining stable capital inflows despite rising domestic inflationary pressures. Euro and US dollar-denominated corporate credit has also seen outflows, driven by a challenging combination of rising rates, high inflation and slower growth, tapering of quantitative easing from global central banks, and potential ripples from Russian sanctions as well. One beneficiary of the credit uncertainty and rising inflation pressures is the US Treasury Inflation-Protected Security (TIPS) market, where there has been renewed appetite from institutional investors, who also favoured currencies that displayed less negative exposure to the developing international conflicts

Clark added: “A broader set of factors are now driving financial markets, which present institutional investors with new challenges and risks on the horizon. International conflict and rising inflationary pressures now dominate the key market narratives against a backdrop of high global equity market turbulence but low systemic risk, with global equity market returns becoming driven by a wider set of factors.”

The full research report, *post-pandemic shift: Evidence from institutional investor and sovereign wealth fund activity*, is available [here](#).

Research methodology

For the report *post-pandemic shift: Evidence from institutional- investor and sovereign wealth fund- activity*, State Street analysed its dataset of unique indicators that capture aggregated and anonymised capital flows, portfolio positions and the behaviour of long-term institutional investors across multiple asset classes, sectors and countries. The indicators capture a diverse group of large global institutional investors, including sovereign wealth funds, collective funds, mutual funds, pension products, insurance products and others. These indicators are derived from security-level transactions, holdings, and borrowings, and are aggregated and anonymised through a robust process to help ensure the preservation of underlying client confidentiality. The indicators provide objective insights into demand and risk sentiment derived from the aggregated activities of long-term institutional investors representing more than \$43 trillion in assets under custody and administration at State Street.

To complement this data and provide more colour and context for the quantitative analysis, the IFSWF asked some of its largest members that deploy capital in global markets for some insights into their asset allocation strategies over the last year. These responses were provided with the promise of anonymity. These institutions came from Central Asia, East Asia, West Asia, Australasia, and North

About State Street

State Street Corporation (NYSE: STT) is one of the world's leading providers of financial services to institutional investors including investment servicing, investment management and investment research and trading. With \$43.7 trillion in assets under custody and/or administration and \$4.1 trillion* in assets under management as of December 31, 2021, State Street operates globally in more than 100 geographic markets and employs approximately 39,000 worldwide. For more information, visit State Street's website at www.statestreet.com.

*Assets under management as of December 31, 2021, include approximately \$61 billion of assets with respect to SPDR® products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated.

About the International Forum of Sovereign Wealth Funds

The International Forum of Sovereign Wealth Funds (IFSFWF) is a voluntary organisation of global sovereign wealth funds committed to promoting good governance and investment management practices through dialogue, research and self-assessment. The IFSWF also seeks to promote a deeper understanding of sovereign wealth fund activity amongst government and financial services institutions.

Find out more at www.ifswf.org

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[1] | “Post-pandemic shift: Evidence from institutional- investor and sovereign wealth fund-activity,” published 25 April 2022

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