ABOUT THE INVESTMENT ASSOCIATION (IA):

The IA champions UK investment management, supporting British savers, investors and businesses. Our 250 members manage £10.0 trillion of assets and the investment management industry supports 122,000 jobs across the UK.

Our mission is to make investment better. Better for clients, so they achieve their financial goals. Better for companies, so they get the capital they need to grow. And better for the economy, so everyone prospers.

Our purpose is to ensure investment managers are in the best possible position to:

- Build people’s resilience to financial adversity
- Help people achieve their financial aspirations
- Enable people to maintain a decent standard of living as they grow older
- Contribute to economic growth through the efficient allocation of capital

The money our members manage is in a wide variety of investment vehicles including authorised investment funds, pension funds and stocks and shares ISAs. The UK is the second largest investment management centre in the world, after the US and manages over a third (37%) of all assets managed in Europe.
CONTENTS

ABOUT THE REPORT 4
EXECUTIVE SUMMARY 5
OVERVIEW 6
FUNDS UNDER MANAGEMENT 8
NET RETAIL SALES 9
UK FUNDS IN A GLOBAL CONTEXT 10
UK INVESTOR SALES BY FUND DOMICILE 11
ACTIVELY MANAGED AND INDEX TRACKING FUNDS 12
RESPONSIBLE INVESTMENTS 14
EQUITY NET RETAIL SALES 16
FIXED INCOME NET RETAIL SALES 20
MIXED ASSET NET RETAIL SALES 22
ALTERNATIVES NET RETAIL SALES 23
FUND OF FUNDS 25
NET RETAIL SALES BY DISTRIBUTION CHANNEL 26
LOOK AHEAD TO 2023 28
ABOUT THE REPORT

This report covers the UK funds market in 2022 and in the context of recent years, analysing trends in funds under management and fund sales. It has a particular focus on UK retail investors and their response to the changing investment environment.

We have previously published this analysis in the UK retail market chapter of the Investment Management Survey, our flagship industry report which is published annually in September. This year, we aim to provide more timely analysis of the near-term trends in the UK funds market through this new report, which we will publish each year in April. We will continue to look at the long-term trends in the UK retail market in the Investment Management Survey.

ABOUT THE IA’S DATA

Except where otherwise noted, data on funds is taken from the Investment Association’s funds database which covers over 3,100 UK domiciled funds and 2,200 overseas UCITS managed by Investment Association member firms.

Products covered include unit trusts, open-ended investment companies and authorised contractual schemes.

Data on closed-ended investment companies or investment trusts is not included.

Exchange Traded Funds (ETFs) are not included within Investment Association data. The report does include a brief section on ETF trends at a European level using external data. This can be found under the actively managed and index tracking funds section of the report.

Data for overseas investors is not included, for either UK domiciled or overseas domiciled funds.

The IA’s data on retail fund sales includes sales through the following channels:

- UK Fund Platforms
- Other UK Intermediaries including IFAs
- Non-UK Intermediaries
- Discretionary Managers
- Direct Sales
- Execution only Intermediaries
EXECUTIVE SUMMARY

UK investor funds under management ended 2022 at £1.37 trillion. Year on year, funds under management declined by 14% from the £1.59 trillion peak at the end of 2021.

Net retail sales in 2022 were -£25.7 billion as bond and equity valuations fell in tandem in H1 and markets grappled with rising inflation and the end of the low interest rate era. 2022 is the first annual outflow recorded in IA data. The previous lowest annual sales total was £4.2 billion in 2008, at the height of the Global Financial Crisis.

Actively managed funds saw outflows of £36.7 billion through 2022, more than reversing 2021’s £25.3 billion inflow. Index tracking funds remained in inflow, though net retail sales of £11 billion in 2022 were down on the consistent inflows of circa £18 billion of the three previous years.

Responsible investment funds gathered net sales of £5.4 billion. While positive, inflows were only a third of the £15.9 billion total sales in 2021.

Equity outflows were the highest over 2022 as investors withdrew £18.2 billion, a record outflow from the asset class. UK equity funds saw net sales of -£12.0 billion, 67% of the total equity outflow. Fixed income funds recorded -£4.8 billion despite sales rebounding in the final quarter of the year as the environment for bonds improved.

Mixed asset funds saw an annual inflow of £52 million, which was the lowest ever recorded following consistent monthly outflows from the Mixed Investment 20-60% shares sector and the Mixed Investment 0-35% shares sector.

In Alternatives, Commodities and Natural Resources and Infrastructure sector funds enjoyed popularity with investors, recording net retail sales equivalent to 22% and 13% of funds under management. Targeted Absolute Return funds, however, saw outflows climb to £3.6 billion.

All retail distribution channels saw net sales decline year on year, with only UK Fund Platforms and Execution only Intermediaries recording positive fund flows. Both adviser platforms and direct platforms saw continued net inflows, with £1.5 billion and £29 million respectively.
2022 was a challenging year for the funds industry, characterised by significant changes in both the investment environment and investor behaviour. A combination of asset depreciation and outflows resulted in a £219 billion (14%) annual fall in funds under management to £1.37 trillion by the end of 2022. Asset depreciation hit both equities and bonds, following a period of strong growth during the Covid pandemic when funds under management had grown a combined 21% over the two years to the end of 2021.

The change in the investment environment through 2022 was primarily driven by the shift in monetary policy to combat rising inflation. In the UK, the Consumer Price Index (CPI) inflation measure doubled over the year rising from 5.4% at the end of 2021 to 10.5% by the end of 2022. In the USA, whilst inflation rose through the first half starting at 7.0% at the end of 2021 before peaking at 9.1% in June, it had fallen back to 6.5% by the end of 2022. Despite the fall, inflation remains well above the Federal Reserve’s 2% inflation target.

The Russian invasion of Ukraine in February 2022 further added to existing inflationary pressures as the spot price of natural gas soared to a high of £3.56 per therm in August 2022, and although prices declined to £1.38 by the end of the year, they remained significantly above the pre-pandemic level of roughly £0.25 per therm.

To combat rising inflation, central banks globally began raising rates through the year following over a decade of near zero interest rates. The Bank of England was among the first central banks of the major economies to do so at the end of 2021, albeit more incrementally than the Federal Reserve, and subsequently raised interest rates 8 times in 2022 with rates rising from 0.25% to 3.5% at the end of the year. High inflation is traditionally a by-product of an overheating economy and raising interest rates acts to cool the economy down but the factors behind rising inflation in 2022 are complex and the health of post-pandemic economies fragile. While central bank rate rises are a necessary tool to combat rising inflation, from the perspective of investors in both equity and fixed income markets, each rate rise stoked fears of further hikes and with it concerns about recession risk.

Investors have been navigating a series of challenging and interlinked forces: recession fears, political instability nationally and overseas and market volatility, in addition to grappling with rising food, energy and mortgage repayments. Retail investors withdrew capital from funds over the year totalling £25.7 billion. This is in stark contrast to the previous two years, which saw close to record inflows of £30.8 billion and £43.6 billion in 2020 and 2021 respectively. For the first time, the IA has recorded an annual outflow from funds – the previous lowest annual sales total was £4.2 billion in 2008, at the height of the Global Financial Crisis. In 2022, both major asset classes – equity and fixed income funds – suffered performance related losses.
Bond funds were the hardest hit by changing economic conditions at the beginning of the year, with first quarter outflows of £6.0 billion the highest on record, beating the £4.8 bn withdrawn in Q1 2020. The rapid increase in interest rates caused yields to rise sharply and bond prices to fall, which hit bond fund performance. As interest rates rose and the markets continued to expect further interest rate rises, this meant that the existing fixed interest rate paid by bonds became less attractive to investors. By November, better than expected inflation data emerged in some countries, including the US, with the Fed signalling a slowdown in the pace of rate hikes. While inflation remained elevated in the UK, and the Bank of England opened November with the highest interest rate hike in over three decades, a more dovish statement about the speed and expected peak of hikes resulted in a market rally in both bond and equity markets. IA data show that investors returned to fixed income funds towards the end of the year. The £2.6 billion inflow into bond funds in the second half of the year indicates renewed appetite for bonds, particularly as higher fixed interest rates on bonds became available.

UK retail investors withdrew £18.2 billion from equity funds as growth prospects for the global economy faded. At the beginning of the year, global growth was projected by the IMF to be 4.4% for 2022 before slowing to 3.8% in 2023. However, as of January 2023 growth in 2022 was estimated by the IMF at only 3.4% with the 2023 projection down to 2.9%.

While investors withdrew from the major asset classes in the face of the challenges of 2022, alternative assets did see strong investor interest. Funds in the Commodities and Natural Resources sector and the Infrastructure sector saw retail inflows amounting to 22.4% and 13.2% of sector funds under management as investors sought both alternative sources of returns and to hedge against inflation.

CHART 1: UK ANNUAL CONSUMER PRICE INDEX CHANGE (2020 –2022)

Source: Office for National Statistics
UK investor funds under management (FUM) saw a drop of 14% over 2022, falling from a record high of £1.59 trillion at the close of 2021 to £1.37 trillion by the end of 2022. The primary driver of falling FUM over the year was the fall in asset valuations. If we combine retail and institutional net sales, outflows were £50.1 billion. The remaining £168 billion fall in assets was due to a drop in asset prices and for sterling and sterling-hedged shareclasses, the weakness of the pound was also a factor. Both equities and fixed income saw hits to price returns, posing challenges to investors as returns in the two major asset classes fell in tandem in the first half of 2022.

Chart 2 shows the monthly evolution of funds under management over a three-year period. We make a number of observations:

- The 2022 decline in FUM of 14% follows two years of strong growth which saw FUM increase 21%.

- In 2022, we saw FUM decline almost consistently until September when FUM reached £1.33 trillion the lowest level since £1.30 trillion in October 2020. The 6% contraction in funds under management in September 2022 was driven by a combination of turmoil in UK markets following the mini-budget announcement and further interest rate hikes by the Federal Reserve and European Central Bank (ECB). While severe, the September 2022 fall in FUM was not as severe as the 10% monthly fall in FUM recorded in March 2020 when Covid-19 was declared a global pandemic and global lockdowns were enforced.

- The final quarter of 2022 showed signs of recovery as FUM increased 3% over the quarter. Markets rallied following better than expected CPI inflation data in the US and news of China lifting its Zero Covid policy.
The UK funds industry saw withdrawals of £25.7 billion from retail investors in 2022, the first ever annual outflow recorded in IA data, which dates back to 2002. This follows the highest two year net retail sales period on record with total sales of £74.4 billion over 2020 and 2021. The 2022 outflow is equivalent to 1.6% of FUM.

Chart 3 shows outflows through 10 months of 2022. There were only two months over the year where we observe a small net inflow, April – coinciding with the end of ISA season - and November. Both were driven by a return to fixed income inflows. However, we did not see a single monthly outflow reach the record outflow of £9.7 billion seen in March 2020. The highest monthly outflow in 2022 was recorded in September, when investors pulled £7.5 billion out of funds. The difference between the pattern of flows in 2022 and the years of the pandemic and Global Financial Crisis (GFC) is that outflows were sustained month on month and did not repeat previous patterns of outflow followed by a strong rebound in sales. In both the pandemic and the GFC, central banks were able to cut interest rates to stimulate economies and this helped to stabilise markets. In 2022, central banks were forced to enact a series of rate rises through the year. At the end of the year there were tentative signs that interest rate rises were having some impact on curbing soaring inflation. Outflows tapered off in the last two months of the year and we have seen inflows in the first two months of 2023.

Chart 4 examines the data split out by asset class. Equity funds were the hardest hit in 2022 with net retail outflows of £18.2 billion, after having been the best selling asset class over 2020 and 2021. Combined sales to fixed income funds and mixed asset funds were almost the same over 2020 and 2021 at £19.5 billion and £19.4 billion, however the pattern of sales to these asset classes in 2022 was quite different. Fixed income funds recorded an annual outflow of £4.8 billion while inflows to mixed asset funds were minimal for the year at £52 million.

The year begins with heavy outflows from fixed income as investors react to the shifting outlook for interest rates, withdrawing £6 billion from bond funds over the first quarter. However, fixed income funds returned to inflows of £2.6 billion in the second half of the year as the pace of interest rate rises looked to be slowing and bond prices stabilised.

Equities remained consistently in outflow throughout 2022. Funds investing in growth focused stocks were particularly hard hit over the year. Outflows accelerated in the third quarter as withdrawals reached £9.4 billion, over half the annual total outflow from equity funds, amidst mounting concerns that the increase in interest rates would slow economic activity to such an extent that it would trigger a recession.

Mixed asset funds inflows were maintained through the first half of the year, although inflows of £1.5 billion in the first half compared with £7.1 billion in the first half of 2021. However, investors withdrew £1.5 billion in the second half. Outflows were highest from the Mixed Investment 20-60% Shares sector, funds with a balanced mix of equity and bonds struggled as both asset classes lost value over 2022.
2022’s fund outflow was the highest on record as a result of challenging global macro-economic trends and the domestic market shock resulting from September’s mini-budget. We have looked at how the sales of UK domiciled funds in Chart 5 compare with fund flows by domicile in the major markets of the US, Asia Pacific and Europe. The data include flows to Exchange Traded Funds (ETFs) and Money Market Funds (MMFs). Given the difference in the scale of assets domiciled in funds across different jurisdictions, we have looked at flows as a proportion of funds under management to provide more comparable data.

2022 was a difficult year for sales to funds across domiciles, not just in the UK. Funds domiciled in the US and across Europe saw far more challenging conditions than were seen throughout 2020 and 2021.

Looking at total outflows for 2022 as a percentage of FUM: across domiciles:

- Outflows as a percentage of FUM were 2.1% for the UK in 2022 – the second highest outflows as a percentage of assets of the markets examined.
- This compares with €168 trillion or 2.9% of FUM for Luxembourg, the market with the highest percentage outflows for the year.
- The US saw outflows of 0.5%.
- Irish domiciled funds saw inflows equivalent to 2.0% of FUM in 2022, while the remainder of Europe saw outflows of 0.9% of FUM.
- Sales to funds domiciled in Asia Pacific, in contrast, showed an inflow of 4.0%.

Outflows from funds domiciled in Luxembourg averaged 1% of FUM over each of the first three quarters. UK domiciled funds saw heavy outflows in the third quarter, at 1.5% of FUM, amidst the disturbance of the September ‘mini-budget’. Funds in Asia Pacific bucked the trend to annual outflows, driven by strong flows to China domiciled funds.

All markets saw an improvement in the final quarter of the year, with inflows to Irish domiciled funds representing 2.4% of FUM, while USA domiciled funds saw inflows equivalent to 0.4% of funds under management. UK domiciled funds saw a marked improvement in Q4 but did remain in outflow, equivalent to 0.3% of FUM.

Source: European Fund and Asset Management Association
Note: Excludes funds of funds
Overall, UK investors withdrew £14.1 billion from Ireland or Luxembourg domiciled funds in 2022, compared with £11.6 billion withdrawn from UK domiciled funds. While overseas domiciled funds accounted for 55% of outflow in 2022, they made up only 4% of the total inflow in 2021, when investors placed £1.9 billion into Ireland or Luxembourg domiciled funds, against £41.7 billion into UK domiciled funds.

**Chart 6: UK Investor Net Retail Sales by Domicile (2020 - 2022)**

Source: Investment Association
Index tracking funds represented 20.7% of industry funds under management at the end of 2022, up 2% from the beginning of the year. Overall, index tracking funds remained in inflow through 2022 with net retail sales of £11.0 billion. Sales were down, however, from the circa £18 billion inflows in 2020 and 2021. Chart 7 shows two monthly outflows from index tracking funds in June and September, the first monthly outflows recorded since 2016. Flows to Exchange Traded Funds (ETFs), which largely track indices, are not included within current IA data. We provide an analysis of ETF sales on a European domicile basis at the end of this section.

Sales to actively managed funds saw a resurgence through 2020 and 2021 with inflows of £12.4 billion and £25.3 billion. In 2022, retail sales returned to outflow when investors withdrew a net £36.7 billion. While the more volatile market conditions through 2022 should offer greater opportunities for active managers to outperform, this has not translated into sales to actively managed funds. It may be that in a more uncertain performance environment, investors are focussing on factors that are more fixed such as the cost of funds.

Index tracking funds received positive flows across all the major asset classes in 2022. Fixed income funds account for 24% of index tracking FUM and Chart 8 shows that fixed income trackers took 32% of tracker inflows. Equity tracker fund sales were 45% of total 2022 tracker inflows despite being 62% of index tracking FUM.

**CHART 7: NET RETAIL SALES TO ACTIVELY MANAGED AND INDEX TRACKING FUNDS (2020 – 2022)**

<table>
<thead>
<tr>
<th>£bn</th>
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<tr>
<td>8</td>
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<tr>
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</tr>
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<td>4</td>
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<td>-10</td>
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<td>-12</td>
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Source: Investment Association

**CHART 8: INDEX TRACKER INFLOWS AND ASSET ALLOCATION THROUGH 2022**
Chart 9, shows the asset class distribution of outflows from actively managed funds through 2022. Equity funds accounted for 62% of the outflow, despite being 51% of actively managed FUM. Fixed income funds were also prominent in outflows, accounting for 23% of outflows despite being 17% of active FUM.

**CHART 9: ACTIVELY MANAGED FUND OUTFLOWS AND ASSET ALLOCATION THROUGH 2022**

<table>
<thead>
<tr>
<th>Active net retail sales</th>
<th>Active FUM</th>
</tr>
</thead>
<tbody>
<tr>
<td>0%</td>
<td>10%</td>
</tr>
<tr>
<td>Equity</td>
<td>Fixed Income</td>
</tr>
</tbody>
</table>

Source: Investment Association

**ETF SALES**

IA data does not include flows to ETF funds. It is not possible to isolate net retail sales to ETFs from UK investors and there are no UK domiciled ETFs, which means that ETF data cannot be collected on a like-for-like basis. Our analysis is based on EFAMA net sales data on ETFs domiciled in Europe, covering both retail and institutional clients. ETFs saw inflows of €85 billion through 2022 with only one quarter of mild outflow. The year’s inflow was the equivalent of a 6.3% increase of ETF FUM, while overall funds saw outflows of €284 billion (1.3% of FUM) across Europe. ETFs have shown a similar resilience in flows as seen in the IA’s UK investor index tracker data - whilst there are actively managed ETFs, the vast majority are index trackers.

**CHART 10: OVERALL NET FUND SALES AND ETF NET SALES ACROSS EUROPE (2022)**

Source: European Fund and Asset Management Association

**INDEX TRACKING FUNDS REMAINED IN INFLOW THROUGH 2022, WITH NET RETAIL SALES OF £11.0 BN**

Source: Investment Association
Investor appetite for responsible investment funds has been a standout trend in the industry over the last few years showing very strong sales and rapid increases in FUM as a result of new fund launches, high sales and healthy performance through the pandemic. In 2022, FUM in responsible investment funds saw a small increase of 1.0% from £90.5 billion at the start of the year to £91.4 billion by the close of the year (Chart 11). This modest growth contrasts with the £34.4 billion or 61.3% increase in responsible investment FUM recorded in 2021. Although the increase was small, in a year in which industry FUM fell significantly, the share of industry assets in responsible investment funds rose from 5.7% to 6.7% of total FUM.

Responsible investments remain a key area of activity for new fund launches, which goes some way to explaining the growth in the responsible investment share of the funds market. The number of funds within IA responsible investment data increased by 31% over 2022, to reach 402 by the end of the year. 56% of new responsible investment funds in IA data in 2022 were domiciled overseas. Whilst in 2022, there was a fairly even split between funds domiciled in the UK and overseas coming into the IA’s data, we are monitoring how this progresses in 2023 as managers launching UK domiciled funds wait for clarity from the FCA’s policy statement on Sustainable Disclosure Requirements (SDR).

**BOX 1: WHAT IS INCLUDED IN IA RESPONSIBLE INVESTMENT DATA?**

The Responsible Investment data presented here is defined according to the IA Responsible Investment Framework as funds that have an investment policy/objective with one or more of the following components:

- **Fund specific exclusions** – prohibition of certain investments beyond any firm level policy and beyond a prohibition on controversial weapons
- **Sustainability Focus** – An investment policy with sustainability criteria as a core part of the investment approach
- **Impact Investing** – Investment made with the intention of generating a measurable positive social and/or environmental impact

Funds employing ESG integration and/or stewardship alone without one of the components listed above are not included in IA responsible investment data. Funds included within this data are those identified by managers as meeting the above criteria, with verification conducted by the IA.

Chart 12 illustrates the asset allocation across the different categories of responsible investment fund according to the IA’s Responsible Investment Framework:

- Across all components in aggregate, responsible investment funds show a higher weighting towards equities, at 63%, than the 53% of assets in equity funds across the wider industry.

- Equity funds have a higher weighting in each of the fund categories, most notably among impact funds where 79% of assets are in equity funds.

- Within Sustainability Focused funds, mixed asset funds have a marginally higher weighting with 20%, against 17% in the wider industry.

- Funds with fund specific exclusions see a slightly heavier weighting to fixed income with 20% of assets, against 17% in the wider industry.

**NET RETAIL SALES TO RESPONSIBLE INVESTMENT FUNDS**

After extremely strong sales throughout the Covid pandemic, sales to responsible investment funds dropped in 2022. Following net retail inflows of £11.7 billion in 2020, and £15.9 billion in 2021, inflows fell to £5.4 billion in 2022. Chart 13 shows that inflows to responsible investment funds were more persistent through the first half of the year and continued beyond the shift to outflow in the wider industry. This is despite strong performance headwinds for responsible investment funds as the energy sector, which many responsible funds exclude, saw profits soar as a result of rising energy prices. The data suggest that the investor response to performance challenges was more gradual than in the broader equity sectors. There was a change in pattern towards the end of 2022 as responsible investment funds investing in equities and mixed asset started to move into outflows of £759 million and £477 million for the second half of the year.
Flows to equity funds turned negative in 2022, with retail investors withdrawing a net £18.2 billion. This follows two years of equities being the best-selling asset class. Outflows were driven by an acceleration in outflows from UK equities. Outflows from European equities were persistent through the year as the UK and Europe were hit by rising energy prices and inflation exacerbated by the Russia/Ukraine war. In a marked shift in trend from the previous 10 years, global equity fund flows were -£3.4 billion – the first year of net outflows from global equities in IA data. The shifting patterns in equity fund flows can be seen in Chart 14. Global equity funds were the primary driver of equity inflows from late 2020 and through 2021 before moving to outflow in 2022.

Concerns about these issues have ramped up and down at various point in the year:

• Globally, the wider macroeconomic environment has particularly affected growth stocks, which are more sensitive to interest rate movements. The UK stock market has a higher weighting of defensive and value stocks, which have performed considerably better in the current environment of rising interest rates. The challenges for growth stocks were a key driver of weak equity performance for North American equities, which have a relatively high weighting to technology companies compared with other major markets.

• Chart 15 additionally illustrates the performance challenges faced by Asian equities, which had the worst performance of the major markets. This was in large part driven by the performance of Chinese equities, affected by an ongoing regulatory crackdown on large tech companies dating back to 2021 as well as the Zero Covid policy which saw enforced lockdowns impact national output.

• We observe two notable downturns in all major equity markets in June and September 2022. The downturn in June was a reaction to worse than expected inflation data in the US (which reported CPI of 9.1%) and the Eurozone (which reported inflation of 8.6%), undermining hopes that inflation had peaked. The higher than expected inflation combined with more aggressive rate hikes stoked further fears of recession triggering a selloff in major markets.

Chart 15 illustrates the cumulative performance of the major equity markets in 2022 on a total return basis - including dividend payments. We make a few observations on market performance in 2022:

• With the exception of the UK equity index, which accumulated a small positive return of 0.3% over the year, all other major equity markets experienced losses in 2022 ranging from -7% to -9%.

• Market reactions throughout 2022, either positive or negative, have been driven by news of rising inflation and consequent interest rate rises heralding less accommodative monetary policies, the ongoing war in Ukraine and the implications for food and energy prices as well as China’s strict Zero Covid policy.
Outflows from UK equity funds accelerated to their highest recorded level with net withdrawals of £12.0 billion, more than double the previous highest outflow of £5.3 billion in 2021. Investor sentiment towards UK equities has been negative for a number of years with 2022 marking a seventh consecutive year of outflows. A combined £33.6 billion has been withdrawn by retail investors since the beginning of 2016. UK equities account for just 4% of the MSCI World Index of developed economies, but UK focused sectors still make up 24% of UK investor equity FUM.

Despite the outperformance of UK equities relative to other markets in 2022, UK equity outflows over the year were dominated by outflows from funds in the UK All Companies sector with net retail sales of -£8.9 billion. This was by far the worst selling sector in nominal terms in 2022. Outflows were equivalent to 5% of sector FUM, which makes it the 17th worst selling sector when considering the outflow relative to the size of the sector. In a year in which the UK has seen three prime ministers, it is likely that political uncertainty and negative news cycles around the domestic economy have been drivers of the acceleration of fund outflows in 2022. However, with over 80% of FTSE 100 earnings derived overseas, domestic issues are only part of the picture. A preference for greater global diversification is a longstanding trend among investors and is a factor in allocating away from UK equities. The types of companies listed on the FTSE tend to come from defensive or value industry sectors, which are better cushioned against interest rate rises with stable demand and steady cash flows. Short-term this has benefited the performance of the FTSE but longer term, the UK is less well positioned than other markets for investors looking to invest in higher growth sectors such as technology and innovative industries including biotech.

UK equity income funds saw outflows slow in 2022 to £1.6 billion, half the level seen in 2021. Chart 16 shows that in the second half of 2020 and first half of 2021, Covid-19 related dividend suspensions saw funds within the UK Equity Income sector experience substantial outflows as they struggled to provide investors with income. However, as growth prospects faded across the wider economy and as fixed income fell out of favour among investors, there was a rotation towards equity income in 2022 as dividends were restored with UK dividends rising 8% in 2022 according to Link’s Dividend Monitor. This caused outflows from UK equity income funds to slow compared with 2021.

In 2022, there was a significant increase in sales to global equity income funds reaching £2.8 billion, the second highest sales by sector in absolute terms. Weak price valuations for equities meant that dividends and share buybacks were an important contributor to total return for investors. This was not enough to bring about a return to inflow for the UK Equity Income sector which recorded only a single monthly inflow through the year.

The UK Smaller Companies sector, where funds invest in firms in the bottom 10% of the UK market by market capitalisation, tends to derive more of its revenues from the domestic market and is therefore more sensitive to the prospects for the UK economy. The UK Smaller Companies sector saw flows turn negative in 2022, with an outflow of £1.6 billion following an inflow of £621 million in 2021. Our data show that the smaller companies sectors across the UK, Europe, North America and Japan suffered among the heaviest outflows relative to the size of the sectors by FUM. Smaller companies equities tend to be growth focused and performance is likely to be more volatile in bear markets and more sensitive to changing macroeconomic conditions. In addition to the outflow, which was equivalent to 8% of FUM, valuations of UK small cap companies were hit severely. Total funds under management for the sector saw a huge fall of 39% over 2022.
Globally diversified equities saw outflows of £3.4 billion in 2022, a marked shift from the £13.4 billion inflow in 2021, and the first annual outflow from the globally diversified sectors recorded in IA data. The Global sector dominated outflows with investors withdrawing £2.9 billion over the year with consistent monthly outflows from March until November. Outflows from the sector are a notable contrast to the pattern of recent years. The Global sector was the top-selling sector each year from 2018 to 2021.

The Global Equity Income sector stands out as a bright spot for net retail sales with inflows of £2.8 billion, following a minimal £18 million outflow in 2021. Positive net retail sales to the sector represent the first annual inflow since 2014, marking a shift in investor sentiment towards equity income funds. According to the Janus Henderson Global Dividend Index, dividends rose by 8.4% in 2022 to a record $1.56 trillion. The inflow is also the second highest of the year across all sectors in nominal and relative terms and is equivalent to 16% of sector FUM. The shift towards sales to equity income funds followed turbulence in the bond markets as central banks began to tighten monetary policy and raise interest rates. Hawkish central bank interventions globally have weakened the outlook for future growth in many industry sectors. Equity income funds also offer investors access to dividend distributions and share buybacks - topping up total returns.

European equity funds recorded their worst year for sales in IA data with outflows of £5.5 billion, a substantial increase on the £305 million outflow in 2021. The previous highest outflow from European equities was £3.8 billion in 2019. The Russian invasion of Ukraine, launched in February, placed significant inflationary pressures on European economies, especially those with a high level of dependency on Russian natural gas including Germany. However, outflows from European equities do show signs of easing towards the very end of 2022 and into early 2023, as economies adapted and wholesale energy prices stabilised.

The North America equity region was the only one to see net retail inflows through 2022, with sales of £681 million following a net retail outflow of £863 million in 2021. North American economies benefited from relative energy independence in 2022 compared with the UK and Europe, although energy prices were still a factor in rising US inflation. The US has seen challenges from a tight labour market, the cost of labour being a significant contributor to rising inflation.

The inflows to North American equities came despite the fact that in 2022 the performance of US equities was worse than most of the other major equity markets returning -9.0% over the year. This was only marginally better than the -9.2% return of the Asia Pacific ex Japan index. The third quarter of the year was the most challenging as investors withdrew £1.1 billion from the North America sector. Although headline inflation numbers fell over the quarter from the 9.1% peak in June 2022 to 8.2% by September, much of the fall was a result of falling energy prices. Having declined in the second quarter, US inflation data for all items excluding food and energy rose from 5.9% to 6.6% over the third quarter, indicating that broader price pressures were worsening. The emerging inflation data and the subsequent aggressive rate hikes of 75 basis points are likely to have weighed on investors minds as they withdrew capital from North American funds.

The final quarter saw a return to inflows of £1.6 billion, following economic data supporting the idea that inflation had peaked in the USA and that the Federal Reserve would ease the rate of interest rate rises, reducing pressure on equity valuations.
ASIA

Asian equity funds saw outflows of £1.2 billion through 2022, marking the first annual outflow from the region since 2017 and exceeding the previous highest outflow from Asian equity funds of £1.0 billion in 2015.

The performance of the MSCI Asia ex Japan index through 2022 was the worst of the developed market indices analysed in Chart 15 at -9.2%. Asian equities were affected by the challenges arising from China’s Zero Covid policy, which affected the regions’ supply chains. Strict lockdowns imposed across the country in an effort to prevent any transmission of Covid-19 led to an extensive disruption of economic activity, damaging the region’s economic output. The loosening and then lifting of the Zero Covid policy towards the end of 2022 did help to restore investor confidence in the prospects for Asian equities, with inflows in the last three months of the year and a total net retail inflow of £90 million in the final quarter.

JAPAN

Japanese equity funds saw record outflows in 2022, with investors withdrawing a net £1.2 billion. 2022’s outflow follows an inflow of £445 million in 2021 and exceeds the previous record outflow in 2016 by £249 million. The Japanese economy has performed differently from the other major developed economies over the last decade as Japan has struggled with a long period of deflation. In common with China, the Japanese have taken a very risk averse stance on Covid lockdowns, which has meant that the economy has taken longer to open up following the pandemic and this has weighed on economic output. These near and long-term factors may have affected investor sentiment, as well as a preference for more globally diversified rather than single market funds. Inflation is now rising in Japan and this is not necessarily a bad development as some positive inflation should help to boost the economy – for this reason the Bank of Japan has not implemented interest rate rises.
Bond fund flows moved into outflow in 2022 as retail investors withdrew £4.8 billion through the year. 2022’s outflow follows a strong inflow of £11.5 billion in 2021 and marks the first annual outflow from bond funds since £2.0 billion in 2018.

The highest outflows were concentrated towards the beginning of the year, with £6.0 billion withdrawn in Q1. In the first quarter of 2022 rising inflation proved to be more than transitory but interest rates were still relatively low in the historic context, which eroded the value of the fixed interest that investors could expect to get back from bonds. In order to combat rampant inflation, the Bank of England and the Federal Reserve began to raise the base rate. The Federal Reserve’s rate rises were more aggressive and whilst this pushed up bond yields, bond prices move inversely to yields so the sharp increases in yield sent the prices of bonds tumbling. This meant that many bond funds saw a sharp fall in performance in the first half of 2022, meaning that bond funds were far from a stable source of moderate returns in 2022, which is the driver for many investors to hold them. In the second half of the year, however, even though high inflation has remained persistent, markets and investors have adjusted to higher interest rates and a more stable outlook, which helped to ensure that inflows returned to bond funds with net retail sales of £2.6 billion across the last two quarters.

Chart 18 shows 2022’s increase in central bank interest rates in the context of the level of rates over the past two decades. It illustrates the low interest rate environment following the Global Financial Crisis in 2008, with rates dropping to near zero and remaining low for over a decade, aside from an attempt in the US to normalise interest rates in 2018. This attempt at normalisation was somewhat reversed following adverse market reactions and then abandoned at the outbreak of the pandemic.

Alongside the magnitude of changing interest rates as a challenge for investors is the speed at which the monetary environment changed. The sharp climb in bond yields caused a fall in bond valuations (the value of bonds moving inversely to yield) causing loss of capital. For investors in government or investment grade corporate debt a significant fall in the value of bonds will have come as an unwelcome development.
Chart 19 illustrates that investor behaviour did shift in response to the changing interest rate environment. The chart shows net retail sales to the different IA bond sectors grouped by investment rating and type: government, corporate and high yield and emerging market.

Government debt, covering the Global, EUR, and USD Government Debt sectors, as well as the UK Gilts and UK Index Linked Gilts sectors, saw 2022 inflows that were broadly consistent with 2021. Net retail sales of £1.2 billion were down only slightly on the £1.8 billion inflow through 2021. Government Bond funds saw only two months of outflow in 2022 despite the challenges facing fixed income in early 2022. Investors preferred bond funds investing in the lowest risk category of government debt.

Fund flows to sectors investing in corporate debt (Sterling, Euro, USD, and Global Corporate Bond) have been more varied through 2022 – sales ended the year on £934 million for funds in the category. The first half of the year saw continuous outflows as rising yields hit performance and retail investors withdrew £3.5 billion. However, towards the end of the year investors returned to corporate debt with £2.0 billion in inflows in the final quarter. Yields on corporate debt are higher than they have been for a long time – for example the S&P U.K. Investment Grade Corporate Bond Index yield exceeded 5% in September for the first time in a decade. Yields are less likely to move substantially higher given that interest rate rises are slowing down. This makes highly rated or debt rated BBB- and above debt a comparatively attractive prospect. It is less risky than high yield debt and offers relatively attractive yields.

High yield debt was out of favour with investors in 2022 with £1.3 billion withdrawn. Only two months saw inflows to funds investing in high yield debt. Outflows from high yield bond funds were similar in 2021 at £1.2 billion, though as can be seen in Chart 19, this was heavily concentrated in February 2021. The shift to consistent outflows in 2022 likely represents increased risk aversion by investors in a more challenging economic environment. The potential risks rise for high yield bonds in a recession as their values are likely to take a harder hit than investment grade debt. There is also a greater risk of defaults.

Emerging market debt funds saw outflows decline year-on-year, with net retail sales of –£102 million in 2022, following –£328 million in 2021.

Source: Investment Association
Mixed asset funds saw inflows across the asset class drop to £52 million in 2022, down from £10.4 billion in 2021. Chart 20, showing net retail sales to the mixed asset sectors alongside the Volatility Managed sector, illustrates how funds in the more fixed income heavy Mixed Investment 0-35% Shares and Mixed Investment 20-60% Shares sectors have seen outflows throughout 2022 with net retail sales of -£1.2 billion and -£1.5 billion respectively. Outflows from the more fixed income heavy sectors, especially in the second half of the year, run counter to the trend seen in the wider industry, where investors broadly favoured fixed income funds over equities in H2. Funds in these sectors are traditionally seen as more defensive, offering lower risk with a mix of equities and fixed income intended to smooth the volatility of returns in either asset class. The falls in both equity and bond valuations through 2022 have meant funds in the 0-35% Shares and 20-60% Shares sectors have struggled to meet investor expectations.

The Mixed Investment 40-85% Shares sector remained in inflow through the year with net retail sales of £2.6 billion, though this was significantly down on the £7.1 billion in 2021. Net retail sales to the Volatility Managed sector, which offers investors a target volatility typically through a mix of equities and fixed income assets, were £2.9 billion in 2022. This was considerably lower than the £4.8 billion recorded in 2021. Even though flows nearly halved in 2022, Volatility Managed was the best-selling sector of the year for any asset class. For Mixed Investment 40-85% Shares sector funds, the second half of the year accounted for just a fifth of annual inflows, while for Volatility Managed the second half accounted for a third of the annual inflow. This is in line with a weak pattern of sales across all asset classes in the second half of 2022 barring fixed income.
TARGETED ABSOLUTE RETURN

Targeted Absolute Return (TAR) funds saw rising outflows of £3.6 billion in 2022 following a comparatively mild outflow of £217 million in 2021. The sector has seen persistent annual net outflows since 2018. As illustrated in Chart 21, outflows have not been uniform across asset class:

- Targeted Absolute Return bond funds saw outflows of £1.5 billion in 2022, reversing a £705 million inflow through 2021. Flows were hard hit through September and October 2022 in the aftermath of the mini-budget.
- While funds using a mix of assets saw higher outflows of £2.4 billion, these funds represent 69% of funds under management in the sector against just 20% in bond TAR funds.
- Equity TAR funds, representing 11% of sector funds under management, saw inflows of £236 million running counter to the outflows seen from equity funds overall. This may indicate that investors saw an opportunity for equity TAR funds in an environment of heightened market volatility.

COMMODITIES AND NATURAL RESOURCES AND INFRASTRUCTURE

The Commodities and Natural Resources sector and the Infrastructure sector both saw strong sales activity through 2022, with net retail sales of £489 million and £845 million respectively. As comparatively small sectors, these inflows represent a significant increase in funds under management. For Commodities and Natural Resources, retail inflows for 2022 were equivalent to 22% of funds under management, the highest sales as a proportion of FUM for any sector in 2022. The Infrastructure sector inflows were equivalent to 13% of funds under management, the third highest proportion just below the Global Equity Income sector (see Table 1).

TABLE 1: TOP SELLING IA SECTORS AS A PERCENTAGE OF FUM

<table>
<thead>
<tr>
<th>Sector</th>
<th>2022 net retail sales as % of FUM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commodities and Natural Resources</td>
<td>22.4%</td>
</tr>
<tr>
<td>Global Equity Income</td>
<td>16.0%</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>13.2%</td>
</tr>
<tr>
<td>Corporate Bond</td>
<td>7.4%</td>
</tr>
<tr>
<td>Volatility Managed</td>
<td>5.3%</td>
</tr>
</tbody>
</table>

Source: Investment Association
Chart 22 illustrates the increase in flows to each sector in 2022. Net sales to commodity funds rose 39% from 2021, while net sales to infrastructure funds increased by 84%. Both commodities and infrastructure offer investors a hedge against inflation and this proved attractive to UK retail investors in 2022. Commodities are an effective hedge against inflation because their prices rise as inflation increases and the income streams provided by investing in infrastructure are often inflation linked.

**CHART 22: NET RETAIL SALES TO FUNDS IN THE COMMODITIES AND NATURAL RESOURCES AND INFRASTRUCTURE SECTORS (2020 – 2022)**

![Chart 22](chart22.png)

Commodities and Natural Resources                  Infrastructure

£m


Source: Investment Association

**PROPERTY**

Property funds saw net retail outflows climb to £633 million in 2022 up from £189 million in 2021. Chart 23 shows the monthly net retail sales to the IA property sectors. The UK Direct Property sector, whose funds invest directly into physical UK commercial property, saw outflows continue through 2022 with investors withdrawing £495 million. Funds in the sector had seen high levels of redemption in late 2020 and early 2021 as funds lifted the suspensions that had been triggered valuation uncertainty. Valuation uncertainty was caused by Covid lockdowns when offices and commercial properties in shopping centres saw footfall plummet. However, redemption requests declined towards the end of 2021 as the spikes in redemption requests caused by the lifting of fund suspensions were met. 2022 has seen outflows from UK Direct Property funds climb once again. UK property funds, particularly with higher weightings to retail and office commercial real estate, are adversely affected by the sluggish outlook for UK economic growth which will affect consumer demand and constrain company growth. However, there are long-term trends that are also affecting investor sentiment towards UK property. The UK high street is in decline and the trend to remote working is causing businesses to re-evaluate their office needs as firms such as HSBC re-assess whether they need large amounts of office space in locations such as Canary Wharf. These factors have contributed to persistent outflows and will continue to weight on investor sentiment.

Fund in the Property Other sector typically invest through listed property securities or take a hybrid approach mixing direct and listed property and are therefore seen as having more liquid underlying assets. Additionally, they often have a global investment universe and with greater diversification across geographies they are helping to mitigate concentration as well as liquidity risk. These factors helped to keep flows positive through 2021 with net retail sales of £510 million. In spite of the challenging environment of 2022, the Property Other sector recorded an inflow of £144 million in a year when many sectors were in outflow.

**CHART 23: NET RETAIL SALES TO PROPERTY FUNDS (2020 – 2022)**

![Chart 23](chart23.png)

Property Other                     UK Direct Property

£m


Source: Investment Association
FUND OF FUNDS

In considering funds of funds, we have divided funds into those that are investing internally, which means that they are investing in other funds run by the same group, and those that are investing externally into funds run by a range of third-party managers. Internally invested fund of funds are often able to offer lower fees as a result of using in-house managers and especially when investing into index tracking funds.

Investors have demonstrated a preference for internally invested fund of funds over recent years with a combined £17.4 billion invested between the start of 2020 and the end of 2022. This compares with a net withdrawal of £298 million from externally invested funds of funds since the start of 2020. Over this period, the share of fund of fund assets within internally invested funds of funds has risen from 50.7% to 54.2%.

As illustrated by Chart 25, net retail sales to internally invested funds of funds fell in 2022, to £3.4 billion, almost half the £7.5 billion in 2021. Sales were particularly weak in the second half of 2022, with inflows of just £507 million, as investors grappled with a shifting investment environment and rising costs of living.

Retail investors withdrew a net £781 million from externally invested funds of funds in 2022 with the majority (£661 million) withdrawn in the first half of the year.
Chart 26 breaks down the changing pattern of retail flows from 2020 to 2022 by distribution channel. All channels saw a decrease in net flows from 2021 to 2022 and only Execution only Intermediaries and UK Fund Platforms remained in positive sales territory. In this year’s analysis we have also split out the UK Fund Platform Channel in Chart 26 into adviser platforms and direct platforms to more accurately assess the sales trends.

- **Execution only Intermediaries** (dealing services other than platforms that do not offer advice) saw inflows decline year-on-year from £606 million to £277 million in 2022.

- **UK Fund Platforms** saw inflows drop substantially from £27.7 billion in 2021 to £5.7 billion in 2022.

- Flows via the **Other UK Intermediaries Including IFAs** channel turned negative in 2022 with investors withdrawing £11.7 billion in 2022, following a £16.6 billion inflow in 2021. The channel, which largely represents off platform or captive platform advised assets, has gone from being the second largest source of inflow to the greatest source of outflow. Outflows from the channel were continuous through the year and climbed steadily, reaching £4.7 billion by the final quarter.

- The **Non-UK Intermediaries** channel saw flows turn negative in 2022 with net retail sales of -£8.2 billion, after a £6.5 billion inflow in 2021. Outflows from the channel were most severe in the first quarter, when investors withdrew £5.5 billion, £4.2 billion of which came from fixed income funds. A total of £6 billion was taken out of fixed income funds by retail investors during the first quarter across all channels.

- Outflows from the **Direct** channel accelerated in 2022 to £7.8 billion from £4.9 billion in 2021. A tendency towards outflow via the Direct channel is a longstanding trend as the industry moves away from a model of direct distribution by firms towards distribution via fund platforms.

- **Discretionary Managers** as a channel for fund sales saw outflows increase year-on-year from £2.8 billion in 2021 to £4.0 billion in 2022. Over recent years, outflows from the Discretionary Managers channel have included the transfer of assets from funds to mandates – these outflows therefore potentially include an element of changing investment vehicle rather than being a reflection of investor sentiment.

### Chart 26: Net Retail Sales by Distribution Channel (2020 – 2022)

Source: Investment Association
Looking at net retail sales through UK fund platforms in greater detail, Chart 27 splits out platforms into direct platforms (also known as D2C or DIY platforms) where investors purchase investments themselves, and adviser platforms (also known as B2B platforms) where investment is intermediated through a financial adviser. For the purposes of Chart 27 some platforms whose business covers a mix of both adviser and direct platforms are not covered. Advisers can have an important steadying influence on investors in times of market volatility, encouraging investors to remain invested and to follow their long term financial plans. In theory, direct investor behaviour could be more swayed by market movements. For example in March 2020, data from direct platforms such as Interactive Investor suggested that some investors were putting money into UK equities following plummeting valuations and some were pulling money out due to the sharp fall in markets.

Both adviser and direct platforms remained in inflow through 2022 as a whole, though with much reduced net sales and intermittent monthly outflows. Fund sales through adviser platforms declined to £1.5 billion in 2022 after a strong 2021 with sales of £12.8 billion. Sales via direct platforms dropped to a minimal £29 million after a strong 2021 with £3.2 billion in net sales.

2022 data suggest that up until June 2022, adviser platforms remained in inflow amidst the shock of the Russia/Ukraine war to markets and rapidly rising inflation whilst direct platforms saw money trickling out. In the two of toughest months of the year for market performance we do see outflows from both adviser and direct platforms. In June when markets fell sharply following news of rising and persistent inflation in the US and with it the prospect of more aggressive central bank rate rises and in September following the mini-budget and short-term turmoil in UK gilts.

Direct investors appear to have responded to better inflation data through November 2022, placing £881 million into funds as markets rallied in the anticipation that inflation had peaked.

Source: Investment Association
Looking ahead to 2023 and in the first two months of the year, UK investor fund sales are in inflow but remain weak in the historic context and far below the monthly sales achieved in 2021. The state of the economy in the UK and globally also remains fragile. Many commentators were hoping for a period of tentative recovery and repair through 2023, with less market volatility. More stability would encourage investors to save more money into funds, whereas uncertainty, as we saw through 2022, can have a negative impact on fund sales. We expect investors to remain cautious through 2023 but the beginning of the year did offer some positives for investors. The UK economy has continued to narrowly stave off recession and many economists were predicting that UK inflation had peaked in October 2022, at 11.1%. Greater political stability is also in prospect following three different prime ministers in 2022, although the 2024 general election looms large next year. Our investor research suggests that in the minds of investors, politics and the economic outlook are entwined and do have an impact on investor sentiment.

We see six interlinked themes as having the most significant impact on fund sales through 2023.

1. The outlook for energy and food prices – and the impact on investor sentiment
2. The trajectory of inflation and the central bank response
3. China re-opening
4. The resurgence of bonds
5. GDP growth in the UK and globally
6. Ongoing uncertainty over inflows to UK equities

INFLATION, THE CENTRAL BANK RESPONSE AND THE IMPACT ON INVESTOR SENTIMENT

While much of the focus of policy makers and central banks is on core inflation, especially fears over wage growth as an embedded driver of inflation, for many people, inflation has been most keenly felt in higher energy and now food prices. As the Government’s energy subsidies come to an end in 2023, investors must still grapple with higher bills even as wholesale energy prices have fallen. Rising mortgage re-payments are also a factor. According to ONS data, 1.4 million UK households are faced with the prospect of interest rate rises when they renew their fixed rate mortgages in 2023, placing further pressure on the cost of living for many.

Whilst the economic outlook in 2023 was never likely to be buoyant, there was optimism that inflation was falling and that following the volatility of 2022, markets were clear sighted on the likely pace and scale of interest rate rises in 2023. However, recent events have suggested a less linear path to lower inflation. February saw an uptick in the annual inflation rate in the UK to 10.4%, from 10.1% the previous month, with food price inflation spiking to 18.2% and shortages reported in fresh vegetables. More recently, the decision by the OPEC plus group of oil producing countries to cut output in an effort to increase prices looks likely to filter through to increased energy and fuel prices in the coming months. Pressure on household finances through food and fuel inflation, which are both currently running above headline inflation, could have an impact on investor sentiment.

The improved fund flows in the final quarter of 2022 occurred as inflation appeared to have peaked and it remains to be seen whether flows might weaken on fears that the path to lower inflation is likely to be more protracted and to feature higher interest rates. IA survey data\(^2\) suggest that many investors remain resilient and committed to long-term investing. Despite the rising cost-of-living, the majority (81%) of investors that were surveyed in a recent IA and Opinium survey ended the 2022/23 tax year having invested more or the same amount into their ISA than in the previous tax year. However, 15% have cut back on saving into their stocks and shares ISA. The most significant reason that these investors cited for doing so was rising energy, food, and transport costs (43%), while a third (34%) of investors highlighted the turbulence in markets.

\(^2\) The IA and Opinium surveyed 1000 investors in stocks and shares ISAs via online survey between 30/03/2023 and 04/04/2023.
THE IMPACT OF CHINA RE-OPENING

Up until December 2022, the Chinese government pursued a Zero Covid policy, including strict regional lockdowns, with the aim of preventing Covid-19 transmission. The end to the Zero Covid policy announced at the end of 2022 and the re-opening of China provides additional possibilities for both asset managers and investors to consider. China has acted as an engine of growth over the past decade and the reopening of China offers the possibility of a rebound in activity in a year that otherwise offers weak growth prospects. Increasing Sino-US tensions may give investors cause for concern however, while an increasing tendency towards deglobalisation may limit the potential boost to growth from China’s re-opening. China’s demand for energy will also increase as the economy opens up, which could increase competition in global markets and cause energy prices to rise further.

THE RESURGENCE OF BONDS

While bond funds suffered from significant falls in value and net outflows in early 2022 as interest rate expectations rose rapidly, towards the end of the year they enjoyed greater popularity with investors. A more stable but higher interest rate environment offered yields near decade highs enabling a stable source of low risk income for investors holding bonds to their maturity. A slowing pace of interest rate rises also offers more stability in bond valuations. 2023 so far has seen a continuation of the trend of investor preference for bond funds.

ONGOING UNCERTAINTY OVER INFLOWS TO UK EQUITIES

Global growth forecasts have recently been downgraded as the International Monetary Fund forecast that GDP growth will fall to 2.9% in 2023, and the IMF forecast for the UK GDP growth is weaker still as the fund predicted a 0.3% contraction for 2023. However, UK GDP data continues to show growth rather than contraction as the UK staves off recession. The latest Office for Budget Responsibility forecast published in March 2023 upgraded the projected GDP change for 2023 to -0.2%, from the -1.4% projection in November 2022. Following the turbulence of the September 2022 mini Budget and the short lived Truss government, a more stable Conservative leadership and better than expected GDP data indicate that the UK economic outlook, whilst weak, is certainly more positive than it appeared in Q3 2022. This is combined with better market performance from the FTSE compared with the other major markets. The FTSE All-share returned 0.3% over 2022 compared with the Russell 3000, its US equivalent, which lost circa 9%. The FTSE saw a strong start to 2023, returning 3.1% over the first quarter. So far, better data has not had any impact on reversing the outflows from UK equity funds and in fact retail outflows from UK equities accelerated in January (£1.5 billion) and February (£1.6 billion) 2023 from the average £1.0 billion outflow in the final quarter of 2022. It remains to be seen if the upgraded outlook for the UK economy, alongside the prospect of more cordial relations with the EU following the signing of the Windsor Framework, will improve investor sentiment towards UK equity funds. The long-term pattern of outflows from investors suggests that this may be a structural rather than cyclical shift away from the UK.