4th floor
Ropemaker Place
25 Ropemaker Street
London
EC2Y 9LY
United Kingdom

tel +44 20 7260 2000
fax +44 20 7260 2001
www.markit.com

Markit Commentary

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ECB fails to spark appetite for Eurozone equities

The ECB continues to pump billions into the European financial system, but investors in European equity ETFs have been withdrawing billions as the impact of monetary stimulus fails to have the desired impact on inflation and growth.

- Five consecutive months of outflows seen from European ETFs totalling €15.3bn
- European funds see a sharp reversal in ETF flows after markets bottomed in February
- US investors lead net withdrawals by almost double, taking out €1.5bn per month

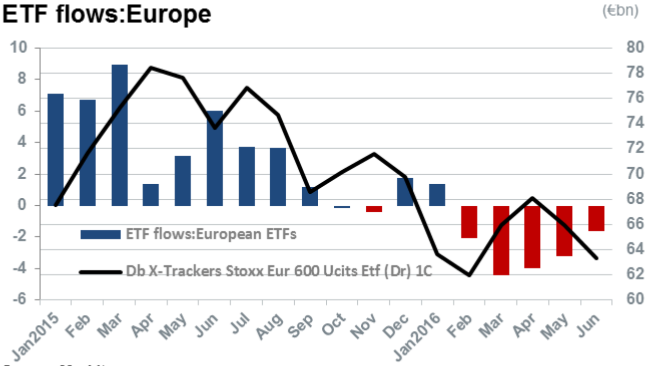
Draghi losing his mojo

Despite the ECB's QE programme **expansion** into the corporate bond market this year, billions of euros in stimulus have yet been able to materially fight deflation and investors in European equity ETFs seem to be losing faith.

May 2016 **eurostat data** showed negative annual inflation rates in 16 member euro states, with overall Euro area inflation 'rising' to -0.1% from -0.2%. This is well short of the close to 2% inflation target envisioned some **18 months ago**.

Expectations of the ECB stimulus had propelled equities higher at the beginning of 2015 on hopes of higher growth in the region. However, prices and equities have since fallen, along with expectations.

ETF flows:Europe

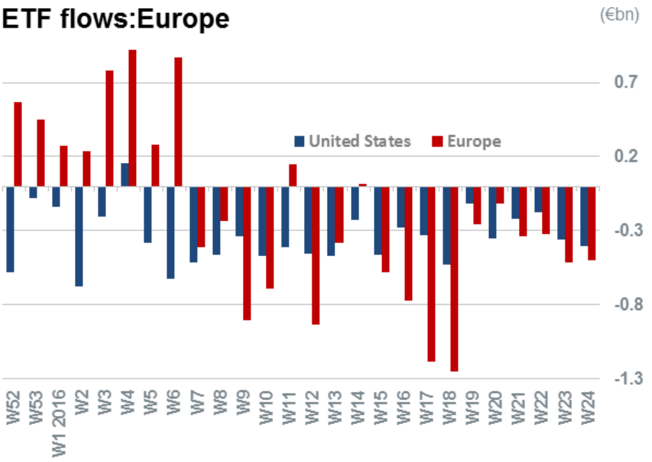


Source: **Markit**

For five consecutive months since the beginning of February 2016, investors in European equity ETFs have continued to withdraw funds. Withdrawals currently total €15.3bn as European equities continue to fall, with the Stoxx 600 essentially now flat over two years after erasing all gains from 2015 highs.

This has resulted in the AUM of Eurozone equity ETF AUM declining by a fifth from the all-time high seen in the fourth quarter of 2015.

ETF flows:Europe



Source: **Markit**

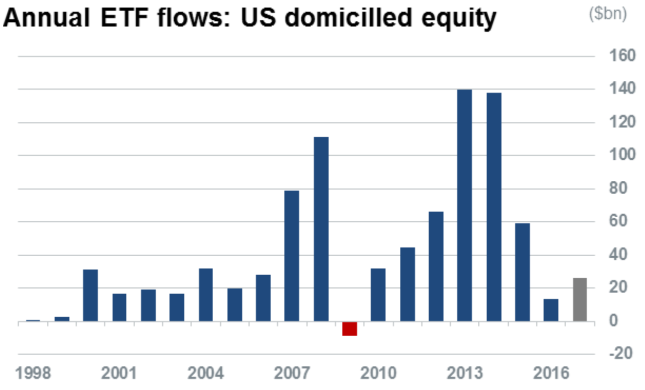
US investors have been most eager to sell out of Eurozone exposed ETFs as outflows out of US domiciled funds have started much earlier and have been more consistent than their European listed peers. The last six months have seen US withdrawals sell off an average of €1.5bn of Eurozone equity exposure per month, twice the pace of European listed funds.

European outflows only turned sharply negative in mid-February 2016 and subsequently outstripped US outflows for two thirds of subsequent weeks in 2016.

While outflows of the past five months are substantial and had moderated, in the weeks prior to UK's referendum, the pace of weekly outflows has accelerated with both US and euro domiciled funds recording increases in weekly outflows.

Meanwhile year to date, US domiciled equity ETF funds have not fared to well either compared to historical inflow data. Having recorded just $13.2bn (or €11.8bn) of net flows thus far this year, at the current 'flow rate', 2016 is on track to record the lowest annual ETF inflow seen into equites since 2010.

Annual ETF flows: US domicilled equity



Source: **Markit**

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Relte Stephen Schutte

Analyst
Markit
Tel: +44 207 064 6447
Email: **relte.schutte@markit.com**

For further information, please visit **www.markit.com**

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