

UK QE fails to spark rush to currency hedged funds

Tuesday, October 18th 2016

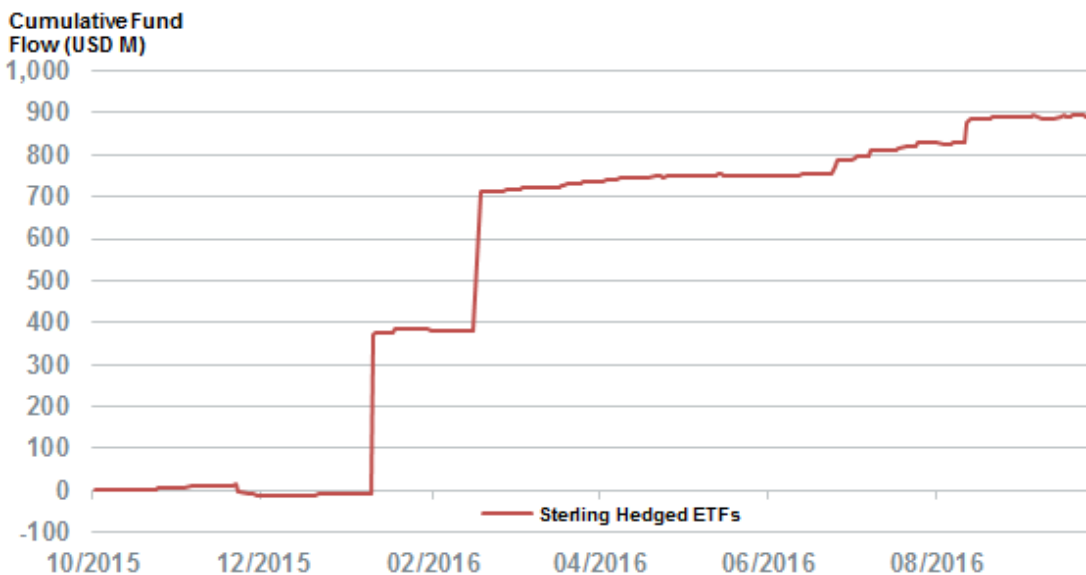
The pound's depreciation since the Brexit vote hasn't herded investors towards sterling-hedged UK exposed ETFs despite their large outperformance.

- Pound-hedged MSCI UK ETFs 20% ahead of their conventional peers ytd
- Post referendum inflows only represent 15% of the new assets gathered by sterling hedged ETFs in the last 12 months
- US investors stick to unhedged funds despite recent underperformance

Playing quantitative easing (QE) driven currency depreciations through currency hedged products have been some of the most popular ETF trades of the last few years. However the UK's revamped QE program, which was implemented in the wake of the EU referendum, has so far failed to ignite the frenzy to hedge sterling volatility through currency-hedged UK exposed ETFs seen at the onset of QE in Japan and the eurozone.

While aggregate post referendum inflows into the ten sterling-hedged UK exposed ETFs is still positive at \$144m, these inflows are less than a quarter of the record one day \$630m haul [gathered](#) by last year's most popular currency-hedged play, the WisdomTree Europe Hedged Equity Fund.

Sterling Hedged ETF Fund Flow

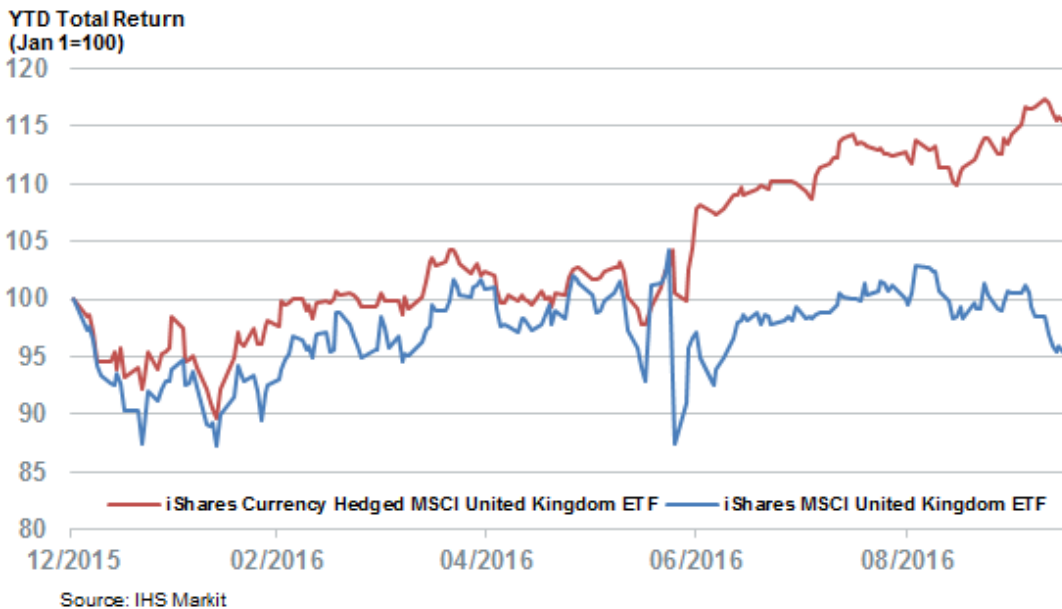


Source: IHS Markit

In fact the post referendum inflows into sterling-hedged ETFs have only been responsible for 16% of the \$900m gathered by sterling-hedged ETFs in the last 12 months. Even the pre referendum flows are hard to tie down to momentum in the leave campaign as two largest inflow days, \$381m on January 28th and a \$330m day on March 7th occurred over three months prior to the vote.

This tepid post referendum buying comes despite the fact that the sterling’s devaluation has driven the FTSE 100 index, whose constituents are somewhat insulated from sterling’s fall due to their overseas exposure, to within striking distance of the all-time highs set last year after a 12.4% post referendum surge.

Sterling Hedged VS Conventional UK ETF Return



Unhedged overseas investors have failed to see any of this post referendum rally as the pound’s slump has driven a 19% wedge between year to date returns delivered by the iShares MSCI United Kingdom ETF, the largest overseas listed UK fund and its sterling hedged peer, the iShares Currency Hedged MSCI United Kingdom ETF.

US investors stick to pound

US investors, which have bought the lion’s share of the post referendum sterling currency hedging through the iShares Currency Hedged MSCI United Kingdom ETF have yet to fully commit to the currency-hedged trade as the assets managed by this fund, \$113m still pales in comparison to the \$1.9bn managed by its unhedged peer, the iShares MSCI United Kingdom ETF.

Interestingly, the latter saw its largest inflow day in over two years earlier this month when investors bought \$96m of unhedged UK equity exposure. These inflows, which trimmed the fund’s post Brexit out flows by nearly two thirds, indicate that investor faith in the sterling still remains, even in light of the recent headwinds faced by the currency.

Contacts:

Simon Colvin

Analyst

+44 20 7260 7614

Simon.colvin@ihsmarkit.com

For further information, please visit www.ihsmarkit.com

Disclaimer

The intellectual property rights to this report provided herein is owned by Markit Group limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omission or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, consequential damages, arising out of the use of the data. Markit is a trademark owned by the Markit group.

This report does not constitute nor shall it be construed as an offer by Markit to buy or sell any particular security, financial instrument or financial service. The analysis provided in this report is of a general and impersonal nature. This report shall not be construed as providing investment advice that is adapted to or appropriate for any particular investment strategy or portfolio. This report does not and shall not be construed as providing any recommendations as to whether it is appropriate for any person or entity to "buy", "sell" or "hold" a particular investment.