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US Equity Funds See Sharp Outflows Amid Tariff Concerns

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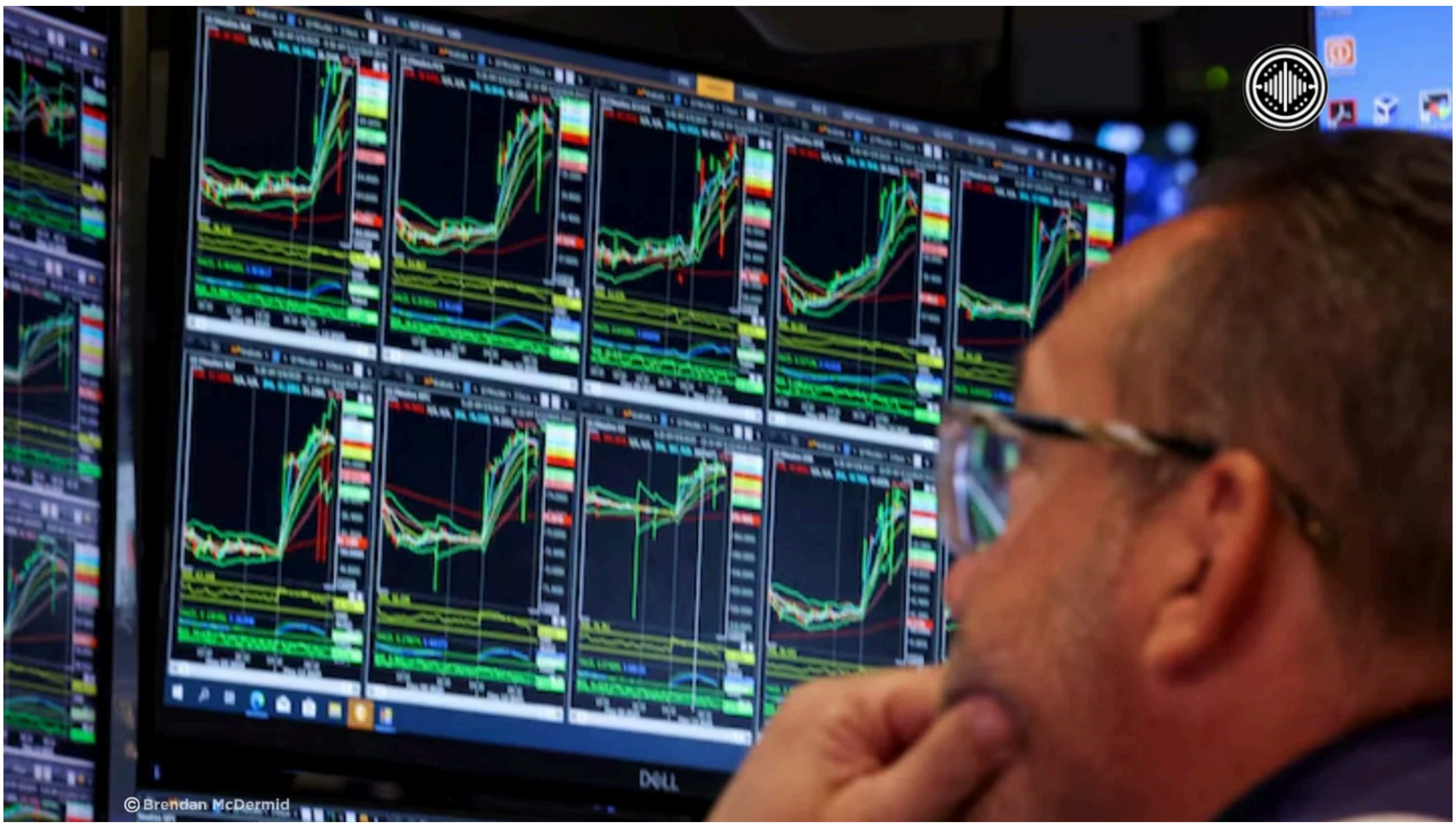

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US investors significantly reduced holdings in riskier equity funds while increasing investments in safer money market funds during the week ending 6 August. This shift was driven by worries over new trade tariffs introduced by President Donald Trump and disappointing economic data.

Data from LSEG Lipper showed that investors withdrew a net $13.7 billion from US equity funds, marking the largest weekly outflow since 25 June. In contrast, money market funds attracted a record net inflow of $78.85 billion, the highest since early December 2023.

Mark Haefele, Chief Investment Officer at UBS Global Wealth Management, commented: "Our base case remains that the US effective tariff rate will settle at around 15% enough to weigh on growth and lift inflation, but not enough to derail the US economy or the equity rally. We expect near-term volatility to continue, but think investors should stick to their longer-term financial plan."

The pullback was most pronounced among small-cap equity funds, which experienced their largest weekly net sales since December 18, with outflows totalling approximately $5.2 billion. Meanwhile, large-cap and mid-cap funds saw net disposals of $7 billion and $1.71 billion, respectively.

Sectoral funds bucked the trend somewhat, receiving a net $806 million in weekly inflows. The communication services and industrials sectors led gains with net inflows of $1.17 billion and $586 million, respectively.

Bond funds also saw renewed investor interest, with weekly net investments rising to an 11-week high of $7.39 billion. Short-to-intermediate investment-grade funds attracted $3.22 billion, while short-to-intermediate government and treasury funds drew $2.43 billion. Municipal debt funds followed closely with net investments of $1.66 billion.

These trends highlight growing caution among investors amid uncertainty over the impact of ongoing trade disputes and economic challenges. The introduction of tariffs has raised concerns about potential slowdowns in growth and increased inflationary pressures.

Despite this, UBS experts maintain a cautiously optimistic outlook. Haefele noted that while volatility may persist in the near term, fundamentals supporting the US economy and equity markets remain intact, suggesting that investors should maintain a long-term perspective.

The movements in fund flows also underscore a preference for safety as investors seek to reduce exposure to riskier assets and bolster liquidity amid uncertain conditions. This is evident in the substantial inflows to money market and bond funds, which are traditionally viewed as safer investment options.

As the trade situation evolves, market participants will likely continue adjusting portfolios to navigate the risks and opportunities presented. Analysts recommend close monitoring of economic indicators and policy developments to inform investment decisions going forward.

In summary, the week ending 6 August saw notable shifts in US investment patterns, with risk-averse behaviour dominating amid tariff fears and economic concerns. While the market faces challenges, the longer-term outlook remains cautiously positive according to leading financial experts.