

Determinants of mutual fund flows to Hong Kong equities

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Summary

This paper identifies major determinants of mutual fund flows to Hong Kong equities, which is essential for financial regulators and investors to understand potential sources of instability in domestic financial markets. We find that fund flows to global equities outweigh other fund-specific factors, suggesting that, other things being equal, mutual funds' portfolio rebalancing could strongly determine the direction and magnitude of mutual fund flows in Hong Kong. Moreover, there are signs that the return-chasing behaviours of fund managers and investors amplify fund flows' volatility in times of financial turbulence, resulting in a much stronger redemption of Hong Kong-invested funds during market downturns. We also find that fund outflows require more than eight quarters in extreme cases to be fully replenished. These findings underscore the importance of portfolio diversification and hedging strategies for fund managers and investors of mutual funds to avoid international financial contagion. They also draw an implication for introducing necessary macro-prudential tools to the asset management sector in Hong Kong to maintain financial stability.