Aging boomers drive flows into fixed income

By Editorial Staff *Thu, Jan 31, 2019*

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The January 2019 issue of The Cerulli Edge–U.S. Monthly Product Trends Edition analyzes mutual fund and exchange-traded fund (ETF) product trends as of December 2018. It also includes special coverage on the historical trends of institutional asset management strategies, and those trends that look to continue in 2019.

Highlights from this research:

More than half of the top-10 Morningstar categories by mutual fund and ETF net flows are fixed-income categories, including ultra-short bond ($87.4 billion), intermediate-term bond ($23.6 billion), and muni national intermediate ($16.6 billion).

Particularly in retail client channels, equity market conditions and client demographics can help explain the strong net flows into fixed-income products. Advisors are focused on downside risk protection and they commonly use taxable fixed income (83%) and municipal fixed income (74%) to achieve the objective for clients.

Mutual fund assets dipped 7.1% in December, with total assets closing 2018 at $13.6 trillion, just a few months removed from an August 2018 all-time high of $15.4 trillion. Mutual funds suffered staggering net negative flows of $131.0 billion in December and $156.8 billion during 2018. ETF assets closed 2018 at nearly $3.4 trillion, down roughly 1% from year-end 2017. This marks the first annual decline since 2008. Poor global equity market performance is the main culprit, as investors poured nearly $320 billion in net new flows into ETFs during the year.

Higher long-term rates helped institutions with long-term liabilities, including derisking corporate defined benefit (DB) plans and insurance general accounts. Coincident with higher long rates, U.S. long-duration strategies experienced tens of billions in net inflows (despite negative investment returns in most taxable fixed income during the year). Assuming long-term rates move higher, Cerulli expects continued corporate DB de-risking activity, including more assets devoted to liability-driven investing and equity risk mitigation strategies.