As risk premium shrinks, so does investors' risk appetite

By Editorial Staff *Thu, Sep 28, 2017*

Investors pulled $23.0 billion out of actively-managed U.S. equity funds, compared with $19.6 billion in July, according to Morningstar's latest monthly asset flow report.

Experienced investors understand that the risk premium isn't a constant, and that it gets smaller as price/earnings ratios rise. That may help explain recent investor behavior.

In August, investors put $8.5 billion into U.S. equity passive funds, down from $10.8 billion in July 2017. On the active front, investors pulled $23.0 billion out of U.S. equity funds, compared with $19.6 billion in July, according to Morningstar's latest monthly asset flow report.

(Morningstar estimates net mutual fund flow by the change in assets not explained by performance and net ETF flow by the change in shares outstanding.)

The report for August said:

- Taxable bond was the lead fund category, with $27.5 billion in net flows. For the first time since May, active taxable-bond flows surpassed passive, by $14.1 billion to $13.3 billion.
- The four Morningstar Categories with the highest inflows in August were: Intermediate-term bond, foreign large blend, multi-sector bond, and diversified emerging markets. Large blend did not make the top five categories, as interest in U.S. equities waned.
- PIMCO led in active flows with $4.1 billion, followed by Vanguard with $1.4 billion.
- The two active funds with the highest inflows were the same in August as they were in July: PIMCO Income, with flows of $3.1 billion, followed by Oakmark International with $911.0 million in flows.
- On the passive front, Vanguard was the top fund family, with inflows of $19.3 billion, followed by BlackRock/iShares, with inflows of $9.9 billion, and Fidelity, who is benefiting from multiple rounds of fee cuts.
- The passive funds with the highest inflows were Vanguard Total Stock Market Index Fund ($6.2 billion) and Vanguard Total International Stock Index Fund ($2.5 billion).
- BlackRock High Yield Bond had the highest outflows in August of $1.4 billion.
- Growth funds from Fidelity, T. Rowe Price, and American Funds also suffered large outflows as investors kept avoiding U.S. equity and growth stocks.

To view the complete report, please click **here**.