Bond funds grow, stock funds shrink in 2011

By Editor Test *Wed, Jan 18, 2012*

Bond funds saw net inflows of $116 billion during 2011, while equity funds saw net outflows of $51 billion for the year, according to Strategic Insight.

Fund investors withdrew an estimated net $22 billion from stock and bond mutual funds in the US in December. Net outflows from long-term mutual funds were $3 billion in November. The numbers, provided by Strategic Insight, included open-end and closed-end mutual funds, excluding ETFs and funds underlying variable annuities.

"Investor sentiment remains cautious," said Avi Nachmany, SI's director of research. "Although the S&P 500 rose 1% in December, fund shareholders are still suffering from volatility fatigue following the ups and downs of the second half of 2011. Portfolio rebalancing may result in reduced outflows from US equity funds in January, especially if the US stock market continues its 2012 rise."

For the full-year 2011, long-term mutual funds saw net inflows of just $65 billion (excluding ETFs and VA funds), a dramatic drop from the net inflow of $247 billion in 2010.

Equity funds

Looking solely at equity funds, net outflows from U.S. funds increased to $24 billion in December from $11 billion in November, while net outflows from international and global equity funds rose to $11 billion in December from $3 billion in November.

For all of 2011, domestic equity funds saw net outflows of $85 billion and international equity funds saw net inflows of $34 billion, for a net outflow of $51 billion from all long-term equity funds.

International equity funds were hurt by the Eurozone debt crisis and by U.S. dollar appreciation. The average international stock fund lost 12% last year, while the average US equity fund was about flat.

Utility funds, long/short funds and multi-alternative funds posted positive flows in December. "While there is a lack of enthusiasm for US equity funds, investors continue to seek out solutions aimed at lessening portfolio volatility and reducing correlation," Nachmany said.

Bond funds

Bond funds saw net inflows of $13 billion in December, including $8 billion to taxable bond funds and $5 billion to municipal bond funds. Investors continued to see bond funds as a refuge as well as an income source.

Intermediate-term, high-yield and short-term municipal funds led the December bond fund flows. Muni bond funds have been enjoying a revival of demand as fears of widespread defaults have faded.

For the full year 2011, bond funds saw $116 billion in net inflows, where strong net inflows of $129 billion to taxable bond funds were slightly offset by net outflows of $13 billion from municipal bond funds.

Money market funds

December was the second consecutive month of positive net flows to money funds, with $39 billion in net inflows following November's net inflows of $42 billion. For the full year 2011, money market funds saw aggregate net outflows of $135 billion due to near-zero yields.

ETFs

In December, U.S. Exchange-Traded Funds (ETFs) experienced $16 billion in net inflows. Large-cap blend, large-cap growth and large-cap value ETFs led the way with combined net flows of $10.5 billion for the month. The biggest ETF, the SPDR S&P 500 ETF, saw $4.9 billion in net inflows in December. Precious metals ETFs saw net outflows in December.

For full-year 2011, ETFs (including ETNs) saw net inflows of $115 billion. That followed net inflows of $111 billion in 2010. It also marked the fifth consecutive year that US ETFs saw $100 billion or more in net inflows. At the end of 2011, US ETF assets stood at $1.06 trillion.