Fund flows favor bonds again in October: Morningstar

By Editor Test *Mon, Nov 19, 2012*

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A net $27.7 billion flowed into long-term mutual funds in October, the 10th consecutive month of inflows, according to the November 2012 edition of the Morningstar Direct U.S. Open-end Asset Flows Update.

Bonds once again dominated the flows, though stocks retained their majority. Since October 2007, the percentage of invested assets in long-term stock mutual funds (open-ended and ETF) has dropped to 37% from 48%, and the share in taxable bond funds has doubled, to 26%.

Investors added $29.6 billion to taxable-bond funds ($33.9 billion including exchange-traded funds) and withdrew $8.3 billion from U.S.-stock funds (a $19.6 billion outflow including ETFs) in October. Intermediate-term bond, which is heavy in corporate bonds, brought in $11.4 billion, the most of any category.

Year to date, investors have added $224 billion to the taxable-bond asset class (up 10.8% from the end of 2011) and have withdrawn $85 billion from U.S.-stock funds (negative 2.7%). Since the beginning of the year, intermediate-term bond funds have gained almost $94 billion.

Large-cap stock funds remain the largest category of U.S. funds. Between them, large-blend, large growth and large value have lost a net $60 billion or so in 2012, but they are still the first ($1.14 trillion), third ($827 billion) and fourth ($604 billion) largest fund styles, respectively. Intermediate-term bond funds netted $94 billion in 2012 and ranked second.

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Other highlights from the Morningstar report included:

Higher-risk segments of the bond market. Multi-sector bond, bank loan, emerging- markets bond, nontraditional bond, world bond, and high-yield bond categories each saw inflows of greater than $1 billion in October. Year to date, these six categories have taken in more than $80 billion, or 13% of beginning-period assets.

Municipal bonds. Investors also found municipal bonds attractive as $917 million flowed into high-yield muni-bond funds in October, bringing the total for the category to nearly $11 billion for the year-to-date period, or 20% of beginning-period assets. National long, intermediate, and short municipals brought in a total of $3 billion for the month and about $28 billion year to date, or 10% of beginning-period assets.

Alternatives. This category of funds has had the greatest organic growth rate of any asset class in 2012, collecting $12.4 billion year-to-date inflows. Within alternatives, investors were looking to hedge their equity exposure. The bear-market category collected $628 million, or 11.6% of assets at the beginning of the month, while long-short funds saw inflows of $628 billion, or 2.6% of beginning-month assets.

U.S. stock funds. The large blend category took in $1.4 billion, but that inflow was offset by outflows in the asset class's other categories. Large growth, with redemptions of $4.3 billion, saw the largest outflow of any category, while large value funds had outflows of $2.0 billion.

International stock funds. While diversified emerging-markets funds saw inflows, most other international-stock categories experienced outflows. Diversified emerging-markets collected $925 million, while China region and Latin America stock funds both lost slightly more than $100 million. World stock lost $913 million.

PIMCO. Flagship PIMCO Total Return brought in $2.4 billion, more than any other fund for the month. The Gold-rated fund has returned 9.49% year to date, placing it among the top 13% of funds in its category. PIMCO Income and PIMCO Unconstrained Bond each brought in more than $1 billion.