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## Sales of Bonds and Fixed Annuities Soar

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By Editorial Staff      Thu, May 23, 2019

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Despite the eternal sunshine of the U.S. economy, American investors are buying financial umbrellas and rain coats in record quantities.

The S&P500 Index posted an all-time high of 2,945.83 on April 30, bond yields are still suppressed, and public companies continue to buy back their own shares. But fixed annuity sales are up sharply, and either bond funds or money market funds are receiving most of the net flows into mutual funds.

Taxable bond funds absorbed positive net flows of about \$42.5 billion in April, the second-best month in the past three years and the best since January 2018, according to Morningstar's [Direct Fund Flows Commentary](#) for April 2019. For the year ending on April 30, taxable bond funds gained \$177.7 billion, or almost double the net flows into U.S. equity funds.

"Many attribute these flow trends to demographics as aging baby boomers cut their equity holdings in favor of more-conservative bond funds," wrote Morningstar senior analyst Kevin McDevitt and associate analyst Michael Schramm in their monthly fund flows report. Municipal bond funds received net flows of \$7.1 billion in April and \$37.1 billion in the past year.

On the insurance products side of the street, fixed and fixed index annuity sales were a combined \$38 billion for the first quarter, up almost 40% from the year-ago quarter, according to LIMRA Secure Retirement Institute's latest [U.S. Retail Annuity Sales Survey](#).

"This is the strongest start for fixed annuities ever," said Todd Giesing, annuity research director, LIMRA SRI. "The uptick in fixed annuity sales continued the momentum fixed annuities experienced in 2018, and was bolstered by recent volatile equity markets, which had investors seeking solutions with guarantees."

### **Annuity sales trends**

Fixed annuity sales (including FIAs) have outperformed variable annuity (VA) sales in 11 of the last 13 quarters, representing 63% of total annuity sales. Overall, U.S. annuity sales were \$60.8 billion, up 17% from first-quarter 2018 results. It was the highest first quarter for total fixed annuity sales since 2009, according to LIMRA SRI press release.

Indexed annuity sales increased 24% in the first quarter, totaling \$18 billion. This is the third consecutive first quarter growth for indexed sales. Sales of fixed-rate deferred annuities, (book value and market value-adjusted) were \$15.1 billion in the first quarter, up from \$8.7 billion in the first quarter of 2018. After multiple quarters of declining with the 10-year Treasury rate, fixed-rate deferred sales rose 68% this quarter.

Single premium immediate annuity sales had a record first quarter up 33% to \$2.8 billion, compared with prior year results. Deferred income annuity (DIA) sales increased 23% in the first quarter 2019 to \$633 million. DIA sales have remained in the \$520-\$660 million range for the past 10 quarters.

In the first quarter, variable annuity (VA) sales totaled \$22.8 billion, down 7% from the prior year. Despite a slight uptick for overall yearly VA sales at the end of 2018, VA sales can't seem to gain traction.

"The steep [stock] market declines from fourth quarter last year have impacted VA sales this quarter," noted Giesing. "While we did see low sales in January and February, March sales were a bit stronger, indicating we will likely see better results in the second quarter. Despite the expectations of improvement, VAs have an uphill climb," continued Giesing. "Beyond economic factors, competitive fixed annuity products have made the landscape even more difficult for the VA market. SRI forecasts VA sales in 2019 to decline slightly."

Registered indexed-linked annuity sales (RILAs) were \$3.5 billion this quarter, an increase of 60% compared with first quarter 2018 results. These products represent 15% of total VA sales. Excluding RILA products, variable annuity sales declined 14%.

<b>Annuity Industry Estimates</b> (Dollars in billions)			
<b>Variable</b>	<b>1Q 2018</b>	<b>1Q 2019</b>	<b>Pct Chg 1Q19 / 1Q18</b>
Variable Deferred (excluding RILA)	22.4	19.3	-14%
Registered Indexed Linked (RILA)	2.21	3.52	59%
<b>Total Variable</b>	<b>24.6</b>	<b>22.8</b>	<b>-7%</b>
<b>Fixed</b>			
Fixed-rate deferred	9.0	15.1	68%
Book value	5.7	10.1	77%
MVA	3.3	5.0	52%
Indexed	14.5	18.0	24%
Deferred income	0.52	0.64	23%
Fixed immediate	2.1	2.8	33%
Structured settlements	1.4	1.5	7%
<b>Total Fixed</b>	<b>27.5</b>	<b>38.0</b>	<b>38%</b>
<b>Total U.S. Annuities</b>	<b>52.1</b>	<b>60.8</b>	<b>17%</b>
Industry estimates reported for the first quarter 2019 based upon data from 63 companies, representing 94 percent of total sales.			

Source: LIMRA Secure Retirement Institute, U.S. Individual Annuity Sales Survey (2019, 1st quarter)

## Bond sales trends

Bonds dominated mutual fund flows in April and in the year ending April 30, according to Morningstar. Total estimated net flows into all bond funds were \$49.6 billion and \$214.8 billion, respectively. For the year ending in April, bond funds had more positive flows than all long-term funds combined (\$214.8 billion vs. \$184.8 billion).

By comparison, net flows into U.S. equity funds (excluding sector funds, which were down) were \$17.1 billion and \$90.2 billion for the two periods, respectively. Money market funds, another refuge from volatility, received net flows of almost \$247 billion for the year ending April 30, but lost a net \$16 billion in April.

Overall, stock fund assets still outweigh bond fund assets by almost 3:1. Stock funds (U.S., sector, international and allocation funds) represent about \$14 trillion of long-term mutual fund assets, according to Morningstar. Bonds represent about \$4.8 trillion; other assets include money market funds (\$3.1 trillion), commodity funds, and alternative funds.

Behind the tepid \$90.2 billion of net inflows to stock funds over the year ending April 30, there's been a continuation of a 10-year trend toward passive to active funds. "Passive U.S. equity inflows largely matched active outflows over the past 10 years, taking in about \$1.35

trillion,” the Morningstar report said.

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