Investors flock to low-yield money funds

By Editorial Staff *Thu, Dec 5, 2019*

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The Federal Reserve cut rates at the end of October for the third time in 2019. Historically, rate cuts have pushed investors out of money market funds and into riskier assets, often in search of yield given how low rates are. On Oct. 31, the 10-year Treasury bond had a yield of just 1.74%, according to the Morningstar U.S. Fund Flows Report for October 2019.

But mutual fund and ETF investors continued cutting risk rather than adding it. They contributed $75.3 billion to money market funds in October while investing far less, $29.0 billion, in long-term funds. And even though the Fed's target rate has now dropped 75 basis points since the end of July, money market funds collected $220.9 billion during the subsequent three months. Meanwhile, long-term funds collected just $57.2 billion.

Highlights from the Fund Flows Report include:

- The Federal Reserve cut rates at the end of October for the third time in 2019, but despite lower yields, money market inflows still overwhelmed long-term inflows, $75.3 billion versus $29.0 billion.
- Investors continue to cut risk, with taxable-bond and municipal bond funds the only long-term groups receiving significant inflows: $41.5 billion and $8.4 billion, respectively.
- In another indication of risk-aversion, investors contributed $40.4 billion to the least-volatile quartile of long-term funds while pulling $14.3 billion from the most-volatile quartile.
- S. equity funds had outflows of $14.8 billion, taking year-to-date outflows to $36.4 billion. Despite one of the longest bull markets in history, investors have contributed just $59.8 billion to U.S. equity funds over the past 10 years.
- Vanguard had modest inflows of $9.9 billion, but its total open-end and exchange-traded fund assets passed $5 trillion. Vanguard's 25.6% market share is greater than that of its next three biggest competitors combined.