Investors Flocked to Money Funds in August

By Kerry Pechter *Thu, Sep 19, 2019*

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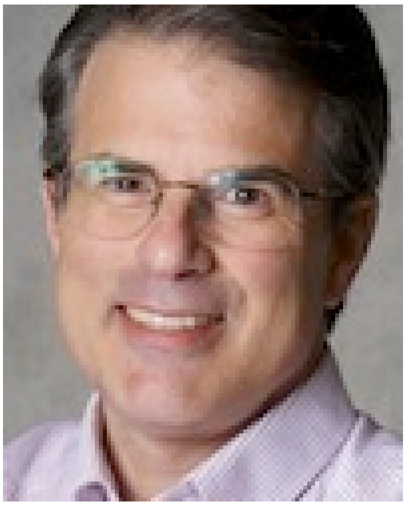

The Federal Reserve's quarter-point rate cut this week was meant to gladden Wall Street, boost the economy, and perhaps appease Donald Trump's appetite for ideal economic numbers in advance of the gathering presidential race.

Citing uncertainties in the global economy and weakening fixed business investment and exports—factors heightened by the president's shifting policies and provocative tweets—the Fed's Board of Governors **voted** to reduce the fed funds rate to a range of 1.75% to 2%.

But, judging by investors' sober reaction to the Fed's last rate cut, on July 31, the latest monetary stimulus might only remind investors that the global and U.S. economies are slowing down.

According to the August Fund Flows **report** from Morningstar Research, investors reacted to the July 31 move by pulling a net $15.9 billion out of long-term open-end and exchange-traded funds in August.

It was the biggest outflow since the panicky stock sell-off in December 2018.

"Every major U.S. category group—except commodities—saw a decline in inflows or an increase in outflows compared with July," Morningstar analysts wrote. "August's long-term outflows were the greatest since December 2018, when capital markets were enduring a nasty correction."

Instead of buying mutual funds, investors moved a net $80 billion into money market funds—even though the yields on those funds naturally went down after the Fed lowered its benchmark rate. "Money market funds have collected nearly $300 billion" for the first eight months of this year, "the greatest sum since 2009 when investors were just beginning to recover from the credit crisis," the report said.

August also saw the value of passive U.S. equity funds surpass the value of U.S. actively managed equity funds by about $25 billion ($4.271 trillion vs. $4.246 trillion).

"This is a milestone that has been a long time coming as the trend toward low-cost fund investing has gained momentum. Active U.S. equity funds have had outflows every year since 2006, with roughly equivalent inflows into passive funds during that time," Morningstar said.

"Over the past 10 years, active U.S. equity funds have had $1.3 trillion in outflows and their passive counterparts nearly $1.4 trillion in inflows," the analysts wrote. "Still, 10 years ago, active U.S. equity funds had about 75% market share. And at that point we had recently entered one of the longest equity bull markets in U.S. history. If you had known this, would you have guessed that active U.S. equity funds were on track to lose $1.3 trillion to outflows?"

Despite the July 31 rate cut, taxable-bond funds had the highest inflows in August, with $16.3 billion in inflows. "This was the group's second-lowest total of the year. Credit-oriented high-yield and bank-loan funds had about $8.9 billion in combined outflows. Municipal-bond funds' inflows remained strong with $9.1 billion," Morningstar said.