Investors pump money into bonds: Morningstar

By No Author *Thu, Feb 27, 2020*

Vanguard holds more than a fourth of all long-term assets, up from 10% in 2000, according to Morningstar's fund flows report for January, written by senior analyst Tony Thomas, Ph.D. and associate analyst Nick Watson.

Long-term mutual funds and exchange-traded funds gathered $82.8 billion in January—their best month since January 2018. But the mix of recipients has shifted in two years. In January 2018, 46% of inflows went to U.S. and international equity funds; in January 2020, however, those two categories combined suffered net outflows, according to the monthly fund flow **report** from Morningstar Research.

Instead, investors pumped money into fixed-income funds last month. The taxable-bond group took in a record $63.6 billion, topping the previous record of $50.5 billion set only one month prior. Those flows accounted for almost 77% of all long-term fund inflows in January.

The strong January marked 13 straight months of inflows into taxable-bond funds. Both actively and passively managed funds in the category benefited. Actively managed taxable-bond funds raked in $36.9 billion in January, their best showing since September 2009. Their passively managed counterparts added $26.7 billion.

Within the taxable-bond space, investors took interest in core strategies focused mostly on investment-grade securities. Intermediate core-bond funds gathered $17.3 billion for the month, just shy of the $17.4 billion record reached in January 2018. The intermediate core-plus category's $12.7 billion of inflows was a record, beating the old mark of $10.9 billion set in December 2019.

Records fell for municipal-bond funds, too, as investors continued to hunt for sources of tax-free income. With $14.1 billion in January inflows, they blew past the previous mark of $11.2 billion set in February 2019. Prior to that, the last time muni flows hit $11 billion in a month was in September 2009 as the U.S. began to recover from the global financial crisis. Funds in the muni national intermediate category fared the best, pulling in $5.2 billion in January. That built upon a solid 2019, when the category led all muni cohorts in total flows.

Meanwhile, U.S. equity funds had their worst month since February 2018, suffering $22.5 billion of outflows. Some of this is likely due to portfolio rebalancing after a strong 2019 for U.S. equities overall. Actively managed funds felt the most pain. More than $30 billion flowed out of those products; conversely, passive options netted $7.9 billion.

International equity funds were a bright spot, taking in $18.7 billion—their best month of inflows since February 2018. On a net basis, all the money went to passively managed funds. They garnered $20 billion in January while their active colleagues saw $1.2 billion in net redemptions. Investors generally sought broad exposure to international equities. Vanguard Total International Stock Index was a top recipient of passive-product inflows, amassing $4.8 billion during the month.

Among equity categories, U.S. large-growth funds had their third-worst outflows—$9 billion—since the start of 2017. Investors' money has been exiting that style-box segment for a while now. The category has had net redemptions every calendar year since 2004. Though its total net assets grew by nearly 137% to $1.9 trillion over that 16-year period, the outflows whittled large-growth funds' share of the open-end/ETF universe from 16% in early 2004 to only 9% in January 2020.