Investors Sought 'Cheaper, More Cyclical' Stocks in May: Morningstar

By Editorial Staff *Thu, Jun 17, 2021*

US equity fund flows were quiet for the second consecutive month. After taking in a record $54 billion in March, inflows were just $211 million in May, according to Morningstar' monthly Fund Flows report.

Long-term mutual funds and ETFs collected $83 billion during May, materially less than their $156 billion haul in March and $124 billion intake in April, according to Morningstar's US Fund Flows **report** for May, released this week.

Investors poured $71 billion into passively managed, index-tracking funds. ETFs—most of which are passively managed—gathered $64 billion, while open-end mutual funds pulled in about $19 billion, the report said.

US equity fund flows were quiet for the second consecutive month. After taking in a record $54 billion in March, inflows were just $211 million in May. Large-value funds picked up about $13 billion, their second-highest monthly intake in Morningstar's database, which dates to 1993. Their top monthly inflow of $20 billion occurred just two months prior in March.

That indicates a sudden demand for cheaper, more cyclical stocks. About 97% of large-value inflows accrued to passive strategies. Vanguard Value Index VIVAX, which brought in $2.3 billion, and Vanguard Russell 1000 Value Index VRVIX, which gathered $1.0 billion.

Mid-cap value funds picked up $2.7 billion in May—their highest total since January 2004. Their 0.88% monthly organic growth rate was the highest since November 2013's 0.91%. Actively managed mid-value funds fared better than their large-value counterparts, picking up about $950 million of the $2.7 billion total.

Fidelity and John Hancock captured the greatest shares of inflows into actively managed mid-value strategies. Small-value funds collected $2.0 billion in May, a far cry from their record $5.4 billion in March 2021 but still good for their third-largest haul over the past decade.

US equity blend and growth categories didn't fare as well. Large-blend funds shed about $2.7 billion in May and have now bled $53 billion over the prior 12 months, after strong inflows in February and March. Large-growth funds shed $10.2 billion, the steepest outflow within the category group.

Large-growth’s outflows of $88 billion over the prior one-year period is also the most within the group. Investors have been exiting this category consistently over the past decade, potentially rebalancing to asset classes that haven’t performed as well. Small- and mid-growth funds bled about $1.5 billion and $4.0 billion, respectively, though both posted positive net flows for the year to date.

Taxable-bond funds once again saw the greatest intake among US category groups, gathering nearly $38 billion in May. Investors favored categories offering shelter from rising inflation and interest rates. Intermediate-core bond and inflation-protected bond funds collected $7.6 billion and $6.9 billion, respectively.

Short-term bond funds, which are typically less sensitive to rising interest rates than long-term bond funds, followed closely with a $6.8 billion intake for the month. Bank-loan funds pulled in $3.7 billion, their sixth consecutive month of inflows after a long streak of outflows dating back to November 2018. Their year-to-date organic growth rate of 33% was easily the highest within the taxable-bond category group.

Bank-loan funds also provide investors protection in rising rate environments: The underlying loans in the portfolio pay floating coupons, and as rates rise, so do the coupons on the loans. While the Federal Reserve has maintained the stance that recent inflation is transitory, fund flows may suggest that investors expect inflation to remain elevated and rates to rise.