

Long-term funds receive \$400 billion in Q1 2021: Morningstar

By No Author Thu, Apr 22, 2021

US value equity funds saw record inflows in March 2021, according to Morningstar's monthly fund flows report. Vanguard and iShares notched significant inflows as passive funds continued to dominate active.

Surging equity markets attracted a wave of capital from an already bullish investor base in March. Long-term mutual funds and ETFs took in \$156 billion, surpassing the \$144 billion record established in February 2021. ETFs, most of them passive, raked in a record \$98 billion. Open-end mutual funds pulled in roughly \$59 billion.

For the quarter ended March 31, long-term flows totaled \$400 billion, far ahead of the next highest sum of \$243 billion in the first quarter of 2013. As a category group, US equity funds gathered the most assets in March. They took in \$54 billion, dwarfing the previous monthly record of \$38 billion set in February 2021. Their month-over-month organic growth rate of 0.49% was the highest since 0.53% in October 2013. Resurgence in investor appetite for cheap stocks drove the inflows.

Investors poured into value-oriented and cyclical funds at some of the sharpest rates in history. Large-value strategies collected a whopping \$20 billion, by far the largest sum ever. Their 1.47% organic growth rate in March was the highest since the 1.68% mark set in January 2004. Small-value strategies achieved a similar feat, picking up \$5.4 billion, more than double the January 2017 record of \$2.2 billion. The 2.77% organic growth rate was the highest since April 2002, a period when investors were reeling from the dot-com bubble crash.

Despite investors' push into value-equity strategies, the influx of cash hasn't exactly been a windfall for active managers. Actively managed large-value funds took in just \$2.2 billion of the category's \$20 billion in total inflows in March, breaking their streak of 78 consecutive months of outflows totaling \$318 billion.

Two passive funds, iShares Russell 1000 Value ETF IWD and Vanguard Value Index VVIAX, collected as much or more in March as all active managers combined, pulling in \$2.2 billion and \$2.8 billion, respectively. Investors favored active small-value managers over active large-value counterparts, handing them \$1.4 billion of the category's \$5.4 billion total inflows. American Century Small Cap Value ACSCX led active funds in the category, with \$673 million of inflows.

The market's preference for passive strategies was even more pronounced across other US equity categories. In total, active US equity funds managed to shed \$2.3 billion in March, while passive funds gathered nearly \$57 billion.

International equity funds took in \$31 billion in March, the most since January 2018. Emerging-markets funds collected their highest monthly total ever with over \$14 billion in inflows, bringing their trailing 12-month total to \$25 billion, easily the highest within the category group. While passive funds took home the lion's share with \$9 billion of inflows, active funds pulled in \$5.3 billion, the most since February 2013. Baron Emerging Markets BEXIX and American Funds New World NEWFX both took in about \$800 million, the most among actively managed peers.

Niche categories also benefited from the market's pivot to value-oriented equities. Sector equity funds gathered nearly \$13 billion in March, with much of that concentrated in pro-cyclical categories such as financials, energy, industrials, and natural resources. **Equity energy funds took in a record \$4.6 billion, good for a 10.2% organic growth rate, the second highest over the past decade.**

Technology funds, which lean toward growth equities, notably shed \$2.7 billion, just the second month of outflows over the past year. They have still gathered \$29 billion over the trailing 12 months, the highest total within the category group.

Taxable-bond funds gathered over \$48 billion in March and a whopping \$786 billion over the past 12 months, the most by far among US category groups.

Intermediate core bond funds once again led the group with roughly \$12 billion of inflows, followed by short-term bond funds with \$10 billion and intermediate core-plus bond funds with \$6 billion.

Big fiscal policy moves in March, including President Biden's \$2.3 trillion infrastructure plan announced at the end of the month, could be paving the way for a strong recovery. While the Federal Reserve's Federal Open Market Committee increased its inflationary expectations and gross domestic product projections at its mid-March meeting, it left the federal-funds rate unchanged, maintaining the stance that restrictive action isn't yet necessary to combat rising inflation.

Perhaps because of the Fed's inaction on inflation, investors continued to favor bond funds that offer protection against rising interest rates and elevated inflation.

Inflation-protected bond funds collected more than \$5 billion in March, while bank-loan

funds, which invest in securities with floating interest rates, extended their monthly inflows streak to four, gaining \$4.6 billion.

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