Money market funds grow as bond appetite slows

By Editor Test *Wed, Dec 15, 2010*

After 22 consecutive months of net inflows, municipal-bond funds saw net outflows of $7.6 billion in November.

After contributing $26.8 billion to long-term mutual funds in October, investors added just $2.7 billion in November, according to Morningstar, Inc. The decline reflected a loss of enthusiasm for fixed-income funds and the continued outflow from U.S. stock funds.

Money market funds were the direct beneficiaries of these trends, with inflows of $24.7 billion, their best month since January 2009. U.S. exchange-traded funds (ETFs) saw inflows of $10.3 billion in November, pushing year-to-date inflows to $95.6 billion and total industry assets to $951.5 billion.

Additional highlights from Morningstar's report on mutual fund flows:

- Inflows for taxable-bond funds reached just $6.1 billion in November versus $21.0 billion in October, the smallest monthly inflow for the asset class since May. After 22 consecutive months of net inflows, municipal-bond funds saw net outflows of $7.6 billion in November. This reversal comes after investors added nearly $105.6 billion to the asset class from January 2009 through October 2010 and marks the worst month for municipal-bond funds in terms of net outflows except for the $8.0 billion redeemed in October 2008 during the credit crisis.
- Rising rates and currency swings contributed to a tough month for emerging-markets bond and world-bond funds, some of the more aggressive areas of the bond market. Nevertheless, money continued to flow to emerging-markets bond funds. These offerings have collected more than $13.7 billion in 2010, and total assets have nearly doubled over the last 12 months to $36.8 billion.
- Large-growth funds had the biggest outflows of any Morningstar category this year, losing $43.5 billion.
- Investors pulled $1.0 billion from Vanguard funds in November, the firm's first month of long-term fund outflows since October 2008. Equity-oriented families including American, Fidelity, and Columbia also continued to suffer outflows. Despite redemptions of $1.9 billion from PIMCO Total Return, the fund's first month of net outflows in two years, PIMCO still took in $1.1 billion during November.

Additional highlights from Morningstar's report on ETF flows:

- U.S. stock ETFs, with inflows of $7.9 billion, topped all ETF asset classes in November, followed by international-stock ETFs with weaker, yet positive flows of $2.3 billion as a result of renewed sovereign credit fears in Europe and a stronger U.S. dollar.
- Vanguard collected $6.3 billion of the $10.3 billion assets added industry-wide in November. The firm's ETF assets rose more than 62% over the last 12 months, allowing it to capture nearly 15% of the market share.
- After recording inflows during every month this year, taxable-bond ETFs saw outflows of $660 million in November.
- Silver ETFs continued to see healthy inflows. Investors looking to increase their commodities

allocations may see silver, which has seen price appreciation of 65% year to date, as a good alternative to gold, which has gained 26% over the same period.

The complete flow report is available from Morningstar.