Outflows from bond funds accelerate

By Editor Test *Thu, Aug 22, 2013*

"The exodus from bonds suggests that if the Fed actually starts tapering—as opposed to just talking about doing something in the future—it might be more disruptive than Wall Street thinks," said David Santschi, CEO of TrimTabs.

Bond mutual funds and exchange-traded funds have already redeemed $30.3 billion in August through Monday, August 19, according to TrimTabs Investment Research. This month's outflow is already the third-highest on record.

"The $114.1 billion in redemptions since the start of June marks an enormous shift for the bond world," said David Santschi, CEO of TrimTabs. "Before June, bond funds posted inflows for 21 consecutive months." TrimTabs reported that the heavy selling in August follows a record outflow of $69.1 billion in June and an additional outflow of $14.8 billion in July.

"The record inflows into bond funds in the previous four years likely account for the intensity of the recent redemptions," said Santschi. "A staggering $1.2 trillion poured into bond mutual funds and exchange-traded funds from 2009 through 2012. Many investors probably didn't grasp the interest rate risk they were taking. Now that they're suffering losses in funds they regarded as 'safe,' they want out fast."

In a research note, TrimTabs explained that outflows have been heaviest in funds investing in municipal bonds and Treasury bonds.

The municipal bond mutual funds TrimTabs tracks daily posted an outflow of $2.1 billion (2.3% of assets) in the past month, while municipal bond exchange-traded funds redeemed $199 million (1.7% of assets). Similarly, the Treasury bond mutual funds TrimTabs tracks daily posted an outflow of $3.4 billion (1.8% of assets) in the past month, while Treasury bond exchange-traded funds redeemed $1.9 billion (0.5% of assets).

"The exodus from bonds suggests that if the Fed actually starts tapering—as opposed to just talking about doing something in the future—it might be more disruptive than Wall Street thinks," added Santschi.