Trump rally takes unexpected direction: Morningstar

By Editorial Staff *Thu, Feb 23, 2017*

In January, investors put $30.6 billion into U.S. equity passive funds, down from $50.8 billion in December 2016, the report showed. On the active side, investors pulled $20.8 billion out of U.S. equity funds during the month.

Although the Trump administration's promises of tax cuts and infrastructure spending spurred confidence in U.S. equities in late 2016, investors directed most of their money to fixed-income and international equity funds in early 2017, according to Morningstar's mutual fund and exchange-traded fund (ETF) asset flow **report** for January.

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Morningstar estimates net flow for mutual funds by computing the change in assets not explained by the performance of the fund and net flow for ETFs by computing the change in shares outstanding.

Highlights from Morningstar's report about U.S. asset flows in January:

Following investors' preferences for equities after the U.S. presidential election in November, investors are back to fixed income at the start of 2017, contributing $36.5 billion to taxable-bond and municipal-bond funds. January flows into U.S. equity were diminished, but remained positive with total flows of $9.9 billion. International-equity flows increased to $16.5 billion on the heels of encouraging economic data from Europe.

Typically, traditional bonds do not perform well in an environment of rising interest rates, yet investors still chose taxable-bond funds in the month following the federal interest rate increase in December with total inflows of $32.2 billion.

Morningstar Category trends for January show both large-blend and mid-cap blend in the top five, although their inflows all came on the passive side, mitigated by outflows on the active side. Among fixed-income categories, bank loans joined intermediate-term bond in the top five, with inflows of $4.1 billion on the active side.

Vanguard has dominated the asset management industry in terms of inflows for the past two years, as it attracted positive and increasing flows while the rest of the industry sank into outflow territory. In 2016, Vanguard alone attracted $1.1 billion of investor money daily.

Among active funds, PIMCO Income, which has a Morningstar Analyst Rating of Silver, attracted the largest inflows, $1.6 million. Bronze-rated PIMCO Total Return suffered the largest outflows, $1.6 million in January.

Despite sizable outflows from the allocation category group, Silver-rated American Funds American Balanced is second in the top-flowing five funds in January because of its consistent performance, garnering $915 million in the month. This fund was on the top-flowing list consistently in 2016.

Among passive funds, SPDR S&P 500 ETF was the fund with the largest outflows in January of $3.3 billion, which is typical of the fund's flows pattern each year.

For more information about Morningstar Asset Flows, visit.