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US Equity Flows Cool Down in April: Morningstar

By Editorial Staff *Thu, May 20, 2021*

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Following a record $156 billion intake in March, inflows of long-term mutual funds and ETFs totaled a more moderate $124 billion during April, according to Morningstar Direct's monthly fund flow report.

"Investors continued to favor passively managed strategies, pouring in $94 billion. About $30 billion went to actively managed funds. ETFs—most of which are passively managed—gathered $75 billion, while open-end mutual funds pulled in about $49 billion," wrote Morningstar analysts Adam Sabban and Supreet Grewal.

After taking in a record $54 billion in March, US equity funds shed over $500 million in April. Large-blend funds saw the biggest month-over-month change, with roughly flat net flows in April after collecting $25 billion in March. Large-growth funds bled $7 billion, though they've regularly experienced outflows in recent years as investors appeared to rebalance away from one of the market's best-performing equity categories.

Value funds, by contrast, have seen a resurgence in investor interest in 2021. Following a month of record inflows in March, value funds collected smaller but still significant totals in April. Large-value funds raked in about $4 billion, down from $20 billion in March but still enough for their fourth consecutive month of inflows. Small value funds took in about $900 million, well short of March's record $5.4 billion. Most inflows in these two Morningstar Categories again found their way to passively managed funds, such as Vanguard Value Index VIVAX.

The market's pivot to value-oriented niche categories continued in April. Equity categories (such as financials, natural resources, real estate, and energy) collected some of the highest totals within the sector-equity category group, which brought in $10.6 billion during the month. Natural resources funds gathered a record $2.7 billion in April, resulting in a month-over-month organic growth rate of 6.0%, the third-highest in the past decade. Passive funds that track the materials sector grabbed the greatest amount of assets in the category. Materials Select Sector SPDR ETF XLB, which tracks materials companies in the S&P 500, brought in the most with $761 million of inflows.

International-equity funds took in $31 billion in April, matching their total from March. Funds in the newly established world large-stock blend category took in more than $11 billion, a record in Morningstar data going back to 1993. Much of that total, however, went to two American Funds vehicles, American Funds Global Insight AGVDX and American Funds Capital World Growth and Income CWGIX, which together received more than $10 billion in new assets as a result of changes to American Funds' target-date fund allocations. Diversified emerging-markets funds took in $7 billion in April, but that was about half of their record $14 billion inflow in March.

Taxable-bond funds picked up $65 billion in April, bringing their trailing-12-month total to $816 billion. Actively managed taxable-bond funds took in $30 billion, nearly half of the category group's inflows for the month.

Contrary to their equity counterparts, actively managed taxable-bond funds have attracted a much greater share of investor interest. Over the trailing 12 months, they gathered $466 billion versus passive funds' $350 billion. Bank-loan and inflation-protected bond funds added to their torrid first quarter, picking up $5.8 billion and $5.5 billion in April, respectively. The two categories experienced the highest organic growth rates within the category group for the year to date as investors sought fixed income funds that can better handle rising interest rates.

Morningstar debuted two new US category groups in April: Nontraditional equity and miscellaneous. These are spin-offs from the alternative category group, and they are intended to segregate more specific portions of the expansive alternative investments universe. Nontraditional equity contains long-short equity and derivative-income funds, strategies that go beyond traditional long-only investing but tend to maintain exposure to traditional market risks. The miscellaneous category group contains niche trading strategies, including leveraged and inverse (short) funds.

The alternative category group retains funds intended to serve as diversifiers with low correlations to broader markets, such as equity market- neutral and relative value arbitrage funds. Given their smaller sizes, absolute flows into these new category groups were modest relative to the others, but they posted some of the highest organic growth rates through the first four months of 2021. Investors may be seeking hedged or indirect exposure to markets given that equity indexes, such as the Morningstar US Large Cap Index, are at or near all-time highs and bond yields remain relatively low.

April's list of funds with the most inflows includes a few oddities. Four American Funds offerings landed in the top 10, including American Funds Global Insight AGVDX, which gathered the second-most assets of all funds with $6.6 billion in inflows despite just an $8.0 billion asset base. Changes to American Funds' target-date and model-portfolio allocations drove these changes. A pair of Jackson National funds used in variable annuity platforms also cracked the top 10, but these flows are likely due to fund restructurings rather than new investor dollars.