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US stock & bond mutual funds receive $34bn in January

By Editor Test *Wed, Feb 16, 2011*

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US mutual fund investors added about $34 billion in net new cash to US stock and bond mutual funds in January 2011—an improvement over December's roughly $16 billion in net outflows from long-term funds, Strategic Insight reported. (The figures include flows into open- and closed-end mutual funds, but not ETFs or variable annuity subaccounts).

An estimated $21 billion in net new cash went into US equity funds in January 2011, making it the first month of net inflows to those funds since April, when investors put $11 billion into domestic stock funds, and the first time US equity funds topped $20 billion in net inflows since February 2004.

"The remarkable increase in stock prices in recent years, and consensus expectations for 2011 to be another year of gains, should continue to stimulate sales increases for equity funds. We project equity fund sales growth of 22% in 2011," said Avi Nachmany, SI's Director of Research said, citing the firm's recent report, *Forces Shaping the Mutual Fund Industry in 2011 and Beyond*.

International equity funds still drew $12.5 billion in January, their eighth straight month of positive flows.

Bond fund total returns turned positive in January, after two negative months. This helped spark net taxable bond inflows of nearly $13 billion demand–especially to floating rate, high yield and global bond portfolios. Near-zero yields on money fund and bank deposit accounts continue to stimulate bond fund inflows.

Net outflows of nearly $13 billion from muni bond funds were largely triggered by liquidity conditions, including an unusually large slate of muni new issues in recent months. Concerns about the troubled finances of many states and municipalities were also a factor. But that could change: fears over municipal defaults may be overblown, and new issues of muni bonds are starting to slow.

Flows into bond funds should stay strong in 2011, though about 10% less than 2009. "We expect new sales of bond funds in 2011 to exceed $750 billion," Nachmany said. After seeing net outflows of $509 billion in 2010, money-market funds saw net outflows of $77 billion in January.

Strategic Insight estimated that investors poured an additional $10.9 billion into US Exchange-Traded Funds (ETFs) in January 2011, the fifth straight month of positive flows to ETFs. Flows were driven mostly by demand for US equity ETFs (especially growth funds and sector funds). Bond ETFs, led by high yield and short-maturity products, saw net inflows for the first time since October. At the end of January, US ETF assets stood at a record $1.02 trillion.