Retirement Income
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Vanguard captures 82.5% of 2015 fund flows through October

By Editorial Staff *Mon, Nov 30, 2015*

Investors returned to high-yield bonds in November after preferring government bonds for several months. "Investors might be trying to anticipate the potential December interest-rate raise," wrote Morningstar analyst Alina Lamy.

Vanguard has continued to gather up the lion's share of net fund flows in the first ten months of 2015, with net flows of $191 billion, according to the most recent monthly Morningstar Direct Asset Flows Report, published Nov. 12.

As of the end of October, shares in Vanguard funds were worth about $2.9 trillion, or just over 20% of the market value of open-end mutual funds and ETFs, excluding money market funds and funds-of-funds. The numbers also do not include assets in retirement plans.

Of the $231.5 billion in net flows to such funds in the first 10 months of 2015, Vanguard accounted for 82.5%. The lopsided gain in assets was offset by significant outflows, especially from PIMCO, SPDR State Street Global Advisors, Franklin Templeton, Columbia and Oppenheimer Funds.

The ten largest fund families, out of hundreds of fund families, accounted for 57% or about $8 billion of the $14 trillion in assets held in these types of funds. The 50 largest fund families accounted for about 85% of the assets, or about $11.8 billion.

In October, BlackRock iShares had net flows of $14.96 billion while Vanguard's passive funds had net flows of $14.74 billion. It was the second consecutive month in which flows to BlackRock iShares were slightly greater than flows to Vanguard passive funds.

In the year ending on October 31, 2015, PIMCO registered net outflows of about $114 billion, with about $79 billion of that coming out of the Newport Beach, CA-based firm's big actively managed bond fund, PIMCO Total Return Fund.

Over that time period, Vanguard Total International Bond Index Fund, a passively managed fund, experienced net flows of $20.9 billion, while actively managed Metropolitan West Total Return Bond Fund collected a net $27.7 billion, for a remarkable one-year growth rate of 68%.

Morningstar analyst Alina Lamy noted in the report that investors returned to high-yield bonds in November after preferring government bonds for several months. "In a complete reversal from last month, high-yield and intermediate-term bond moved from the bottom to the top five categories—a drastic change in investors' appetite for risk in the fixed-income space," she wrote. "Investors might be trying to anticipate the potential December interest-rate raise."

"High-yield bonds are less sensitive to interest-rate changes and therefore tend to perform better in a rising-interest-rate environment," Lamy explained in an email to *RIJ*. "[Their prices] tend to be more sensitive to factors such as the financial health of the issuer, the general economic outlook, and corporate earnings, than to fluctuations in interest rates.

"However, high-yield bonds also carry more credit risk than investment-grade bonds. So, in essence, investors are swapping interest-rate risk for credit risk. The fact they are doing that appears to indicate that investors are now willing to take on more credit risk in order to protect from interest-rate risk, which seems to me a move to position portfolios in anticipation of a potential rate increase (likely to happen in December)."