
Morningstar U.S. Fund Flows: Bond Funds Keep Taking in Cash

Taxable-bond funds add a record \$63.6 billion in January.

Morningstar Research

January 2020

Data through Jan. 31, 2020
U.S. Mutual Funds and Exchange-
Traded Products

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Key Takeaways

- ▶ Fixed-income funds continued to take in assets in January, building upon a record 2019. Taxable-bond funds collected a record \$63.6 billion for the month, surpassing the old record of \$59.5 billion set the month before. Taxable-bond flows accounted for nearly 77% of the \$82.8 billion that entered long-term funds in the period.
- ▶ Municipal-bond funds also posted record monthly inflows of \$14.1 billion in January. The category continues to benefit from investors seeking tax-free income.
- ▶ The windfall for taxable- and muni-bond funds helped actively managed funds to their best month since January 2018.
- ▶ Investors continued to abandon actively managed U.S. equity funds, however, to the tune of \$30.6 billion for the month. Large-growth funds shed \$9 billion. That category has had net redemptions every calendar year since 2004.
- ▶ Vanguard's \$42.8 billion haul was its second-highest monthly tally ever. Vanguard holds more than a fourth of all long-term assets, up from 10% in 2000.

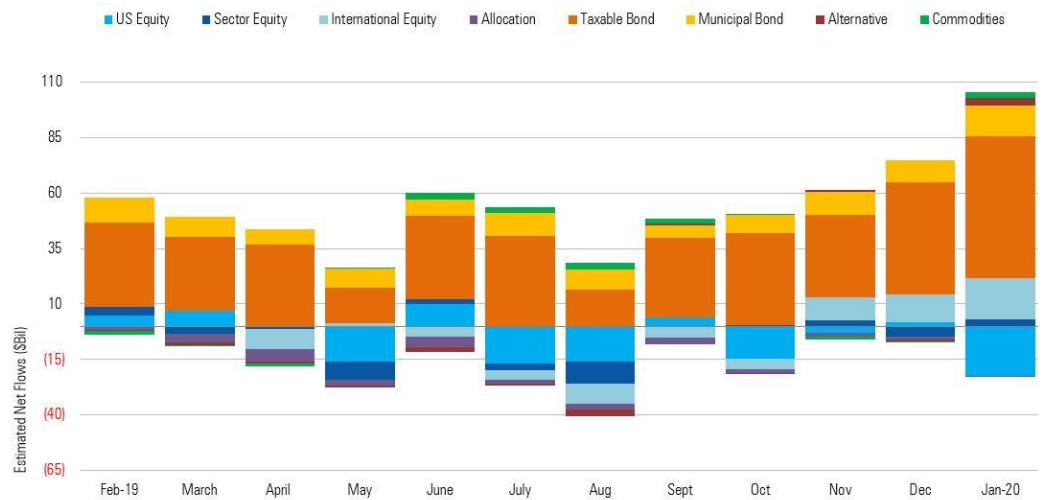
Investors Still Flocking to Bond Funds

Long-term mutual funds and exchange-traded funds gathered \$82.8 billion in January--their best month since January 2018. But the mix of recipients has shifted in two years. In January 2018, 46% of inflows went to U.S. and international equity funds; in January 2020, however, those two categories combined suffered net outflows. Instead, investors pumped money into fixed-income funds last month. The taxable-bond group took in a record \$63.6 billion, topping the previous record of \$50.5 billion set only one month prior. Those flows accounted for almost 77% of all long-term fund inflows in January.

Exhibit 1 U.S. Category Flows

US Category Group	Estimated Net Flows (\$Mil)		Assets (\$Bil)
	Jan 2020	TTM	
US Equity	(22,452)	(58,713)	9,284
Sector Equity	3,084	(19,853)	969
International Equity	18,749	8,484	3,328
Allocation	(412)	(31,915)	1,406
Taxable Bond	63,620	446,679	4,568
Municipal Bond	14,104	112,020	888
Alternative	3,407	(5,396)	201
Commodities	2,682	7,946	112
All Long Term	82,782	459,251	20,756
Money Market	(22,196)	520,281	3,595

Source: Morningstar Direct Asset Flows. Data as of Jan. 31, 2020. Excludes money-market flows.

Exhibit 2 U.S. Category Groups' 12-Month Asset Flows

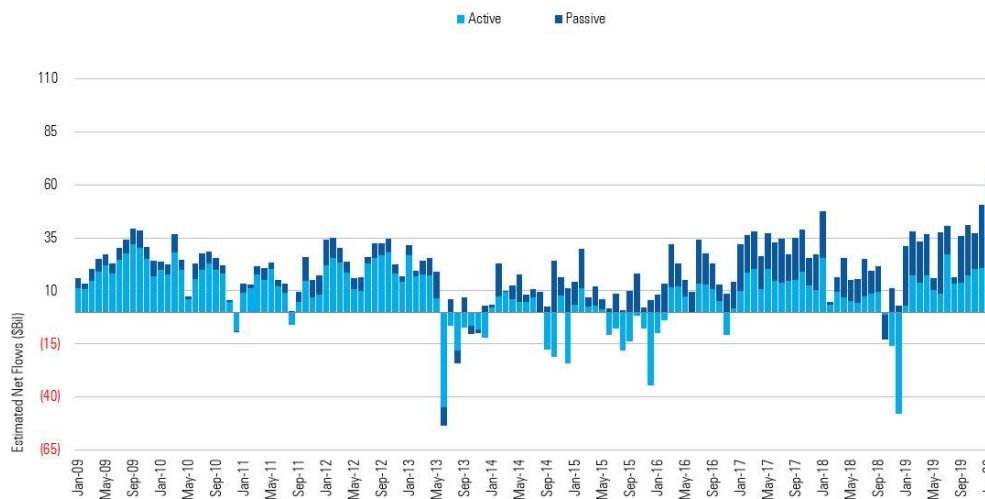
Source: Morningstar Direct Asset Flows. Data as of Jan. 31, 2020. Excludes money-market flows.

Exhibit 3 Estimated Net Flows by Active/Passive U.S. Category Groups

US Category Group	Active			Passive		
	Jan 2020 (\$Mil)	TTM (\$Mil)	Assets (\$Bil)	Jan 2020 (\$Mil)	TTM (\$Mil)	Assets (\$Bil)
US Equity	(30,327)	(233,898)	4,514	7,875	175,185	4,771
Sector Equity	(622)	(28,914)	420	3,707	9,061	549
International Equity	(1,230)	(62,868)	1,910	19,980	71,351	1,418
Allocation	(2,073)	(39,015)	1,366	1,661	7,099	41
Taxable Bond	36,912	218,113	3,029	26,707	228,567	1,539
Municipal Bond	12,385	101,138	840	1,718	10,881	48
Alternative	1,474	(8,661)	143	1,934	3,264	57
Commodities	304	(1,007)	27	2,379	8,954	85
All Long Term	16,823	(55,112)	12,250	65,959	514,363	8,506

Source: Morningstar Direct Asset Flows. Data as of Jan. 31, 2020. Excludes money-market funds.

The strong January marked 13 straight months of inflows into taxable-bond funds. Both actively and passively managed funds in the category benefited. Actively managed taxable-bond funds raked in \$36.9 billion in January, their best showing since September 2009. Their passively managed counterparts added \$26.7 billion.

Exhibit 4 Monthly Flows for Taxable-Bond Funds (Active or Passive) since January 2009

Source: Morningstar Direct Asset Flows. Data as of Jan. 31, 2020.

Within the taxable-bond space, investors took interest in core strategies focused mostly on investment-grade securities. Intermediate core-bond funds gathered \$17.3 billion for the month, just shy of the \$17.4 billion record reached in January 2018. The intermediate core-plus category's \$12.7 billion of inflows was a record, beating the old mark of \$10.9 billion set in December 2019.

Records fell for municipal-bond funds, too, as investors continued to hunt for sources of tax-free income. Their \$14.1 billion in January inflows blew past the previous mark of \$11.2 billion set in February 2019. Prior to that, the last time muni flows hit \$11 billion in a month was in September 2009 as the U.S. began to recover from the global financial crisis. Funds in the muni national intermediate category fared the best, pulling in \$5.2 billion in January. That built upon a solid 2019, when the category led all muni cohorts in total flows.

Meanwhile, U.S. equity funds had their worst month since February 2018, suffering \$22.5 billion of outflows. Some of this is likely due to portfolio rebalancing after a strong 2019 for U.S. equities overall. Actively managed funds felt the most pain. More than \$30 billion flowed out of those products; conversely, passive options netted \$7.9 billion.

International equity funds were a bright spot, taking in \$18.7 billion--their best month of inflows since February 2018. On a net basis, all the money went to passively managed funds. They garnered \$20 billion in January while their active colleagues saw \$1.2 billion in net redemptions. Investors generally sought broad exposure to international equities. Vanguard Total International Stock Index was a top recipient of passive-product inflows, amassing \$4.8 billion during the month.

Among equity categories, U.S. large-growth funds had their third-worst outflows--\$9 billion--since the start of 2017. Investors' money has been exiting that style-box segment for a while now. The category has had net redemptions every calendar year since 2004. Though its total net assets grew by nearly 137% to \$1.9 trillion over that 16-year period, the outflows whittled large-growth funds' share of the open-end/ETF universe from 16% in early 2004 to only 9% in January 2020.

Exhibit 5 Morningstar Categories with the Greatest Estimated Net Inflows and Outflows in January 2020

Morningstar Category	Jan 2020			TTM	Assets (\$Bil)
	Active	Passive	Total		
Leaders					
Intermediate Core Bond	3,827	13,454	17,282	135,104	1,030
Intermediate Core-Plus Bond	12,579	99	12,678	88,481	776
Foreign Large Blend	(1,560)	13,360	11,800	49,560	1,223
Ultrashort Bond	6,561	366	6,926	42,788	290
Diversified Emerging Markets	1,588	4,469	6,057	13,757	586
Laggards					
Large Growth	(10,120)	1,168	(8,952)	(72,979)	1,935
Large Value	(5,439)	(2,249)	(7,687)	(24,475)	1,252
Small Blend	(2,182)	(192)	(2,374)	(9,527)	403
Mid-Cap Value	(2,068)	(105)	(2,172)	(16,450)	259
Mid-Cap Growth	(2,015)	(25)	(2,040)	(10,637)	387

Source: Morningstar Direct Asset Flows. Data as of Jan. 31, 2020.

Fund Families

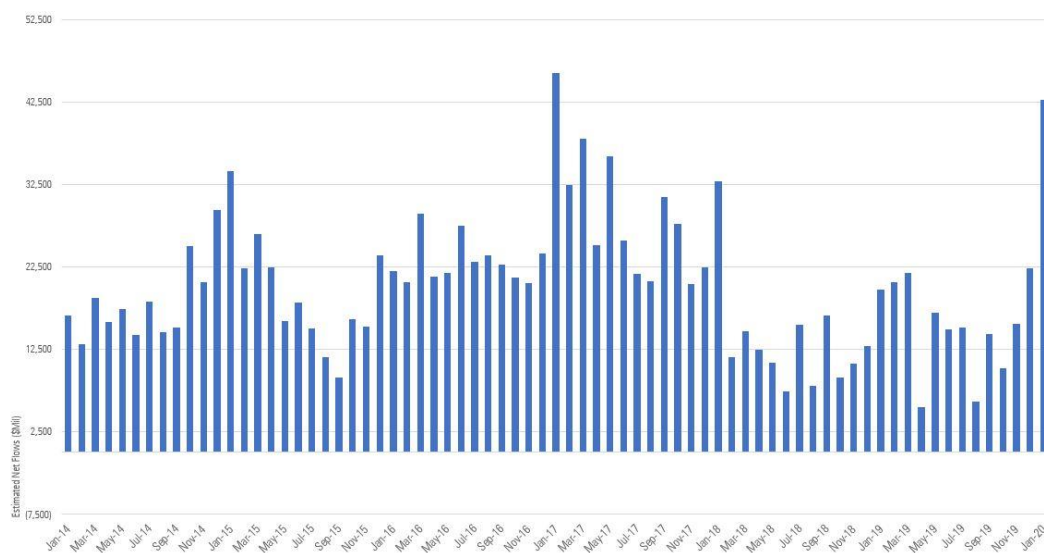
Vanguard's \$42.8 billion haul in January was its second-highest tally of long-term assets ever; in January 2017, it took in \$46 billion. With nearly \$5.4 trillion of long-term assets in its open-end funds and ETFs, Vanguard is the largest fund family, capturing more than a fourth of market share (compared with just 10% in 2000). A couple of its broad index funds powered the firm's impressive flows in January. Vanguard 500 Index had \$7.1 billion of inflows--the most for any single fund for which Morningstar collected data in January--followed by Vanguard Total Bond Market Index's \$5.4 billion.

Exhibit 6 Estimated Net Flows for the Top 10 U.S. Fund Families (by Assets)

Top 10 U.S. Fund Families (by Assets)	Active	Passive	Jan Total	TTM Total	Assets (\$Bil)
Vanguard	4,103	38,698	42,801	206,380	5,354
Fidelity Investments	(1,656)	7,687	6,031	68,687	1,836
American Funds	(8)		(8)	2,680	1,759
iShares	430	12,506	12,936	131,824	1,709
SPDR State Street Global Advisors	11	(131)	(120)	32,852	722
T. Rowe Price	(1,560)	(803)	(2,363)	(17,551)	667
Invesco	(2,234)	(524)	(2,758)	(25,108)	552
Dimensional Fund Advisors	1,039	(336)	702	1,034	434
Pimco	2,426	(11)	2,416	15,925	397
J.P. Morgan	3,358	46	3,405	18,698	362

Source: Morningstar Direct Asset Flows. Data as of Jan. 31, 2020. Excludes money market funds.

Exhibit 7 Vanguard's Monthly Long-term Flows since January 2014



Source: Morningstar Direct Asset Flows. Data as of Jan. 31, 2020.

The iShares family took in the second-highest amount behind Vanguard. The predominantly passive shop gathered \$12.9 billion of long-term assets in January. Coupled with the \$4.5 billion of flows into

BlackRock funds during the month, the combined \$17.4 billion of inflows for BlackRock/iShares was less than half Vanguard's net inflows.

Fidelity's run of healthy inflows continued in the wake of introducing some zero-fee funds in summer 2019. The firm added \$6 billion in long-term assets in January--its 13th-straight month of inflows.

Invesco topped the list of firms with the heaviest outflows as it struggled to digest its acquisition of Oppenheimer. Invesco's funds saw an estimated \$2.8 billion in net redemptions in January. The firm has had net outflows in 14 of 16 months since it announced its merger with Oppenheimer in October 2018.

Exhibit 8 Funds with the Greatest Estimated Monthly Net Inflows and Outflows

Fund Name	Jan 2020	TTM	Assets (\$Bil)
Leaders			
Vanguard 500 Index Fund	7,085	16,292	538
Vanguard Total Bond Market Index Fund	5,406	31,740	259
Vanguard Total Intl Stock Index Fund	4,830	24,557	411
Vanguard Total Stock Market Index Fund	4,733	22,333	902
Vanguard Total Intl Bond Index Fund	4,041	30,534	151
Vanguard Total Bond Market II Index Fund	3,711	26,463	206
Fidelity 500 Index Fund	2,885	26,162	236
iShares Core MSCI EAFE ETF	2,554	14,527	75
iShares Core US Aggregate BondETF	2,130	11,134	73
Vanguard Small Cap Index Fund	2,095	336	97
Laggards			
SPDR S&P 500 ETF Trust	(3,068)	11,250	308
Fidelity SAI US Large Cap Index Fund	(2,907)	(2,549)	13
iShares Russell 2000 ETF	(2,673)	(1,924)	44
SPDR Blmberg Barclays High Yield Bond ETF	(2,011)	572	10
Vanguard Institutional Index Fund	(1,975)	(21,146)	240
Fidelity Contrafund	(1,719)	(16,215)	121
American Funds Growth Fund of America	(1,651)	(11,332)	201
Vanguard Instl Total Stock Market Index Fund	(1,435)	(3,815)	40
iShares iBoxx High Yield Corporate Bond ETF	(1,384)	3,014	18
Invesco QQQ Trust	(1,235)	2,816	89

Source: Morningstar Direct Asset Flows. Data as of Jan. 31, 2020.

Note: The figures in this report were compiled on Feb. 12, 2020 and reflect only the funds that had reported net assets by that date. As of this date, Artisan had not yet reported net assets for its funds. The figures in both the commentary and the extended tables are survivorship-bias-free. This report

includes both mutual funds and exchange-traded funds, but not funds of funds unless specifically stated. It does not include collective investment trusts or separate accounts.

Important methodology note: Morningstar computes flows using the approach that is standard in the industry: Estimated net flow is the change in assets not explained by the performance of the fund. Our method assumes that flows occur uniformly over the course of the month. Adjustments for mergers are performed automatically. When liquidated funds are included, the final assets of the fund are counted as outflows. Reinvested dividends are not counted as inflows. We use fund-level reinvestment rates to improve accuracy in this respect. We make ad hoc adjustments for unusual corporate actions such as reverse share splits, and we overwrite our estimates with actual flows if managers are willing to provide the data to us.

Please click [here](#) for a full explanation of our methodology. ■■



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