Morningstar U.S. Fund Flows: A Record First Half of the Year

Interest in taxable bond and value-equity funds continues in June.

Morningstar Research
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Data through June 30, 2021
U.S. Mutual Funds and Exchange-Traded Products

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Key Takeaways

- Long-term mutual funds and exchange-traded funds collected $106 billion in June 2021, bringing their six-month total to $722 billion, the largest semiannual total in data going back to 1993.
- Taxable-bond funds gathered $48 billion in June, the highest total among category groups.
- U.S. equity funds brought in $18 billion after two consecutive months of near-flat net flows.
- International-equity funds gathered $20 billion in June and have collected $125 billion over the trailing 12 months, the most of any equity category group.
- Alternative and nontraditional equity funds took in modest amounts relative to larger category groups, but compared with their asset bases, they have posted the highest organic growth rates so far in 2021.

Strong Flows Across Most Category Groups Lead to a Record First Half

Long-term mutual funds and ETFs gathered $106 billion in June, up from May's $83 billion. Through the first six months of the year, investors plowed $722 billion into those funds, the largest semiannual total in Morningstar data going back to 1993 and far ahead of the next highest mark of $394 billion from the first half of 2017. Passively managed strategies pulled in $81 billion, mostly due to ETFs' $78 billion haul. Actively managed funds, by contrast, gathered only $25 billion.

Exhibit 1 U.S. Category Flows

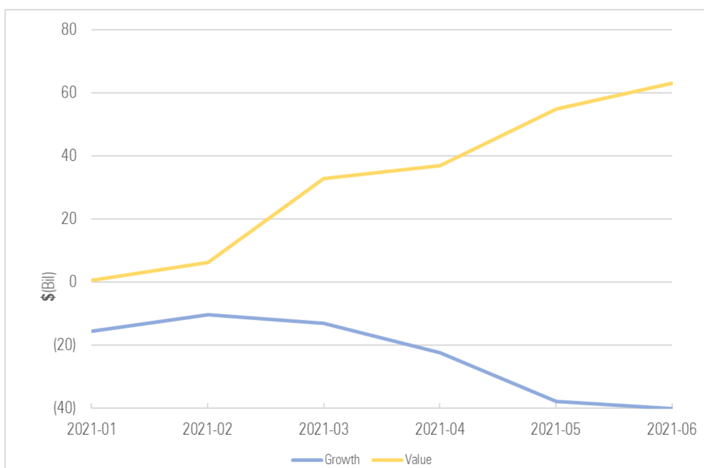
U.S. Category Group	Estimated Net Flows June 2021 ($Mil)	Estimated Net Flows TTM ($Mil)	Assets ($Bil)
U.S. Equity	17,532	(66,969)	12,542
Sector Equity	5,190	120,388	1,374
International Equity	20,383	124,704	4,196
Allocation	(230)	(35,608)	1,528
Taxable Bond	47,644	740,622	5,430
Municipal Bond	11,965	120,094	1,019
Alternative	2,657	19,092	126
Commodities	(97)	11,764	175
Nontraditional Equity	1,195	5,981	32
Miscellaneous	(735)	6,084	112
All Long Term	105,503	1,046,152	26,534
Money Market	(78,477)	(108,385)	4,512

Source: Morningstar Direct Asset Flows. Data as of June 30, 2021. TTM is trailing 12 months.

U.S. equity funds collected nearly $18 billion in June after two straight months of muted flows. Large-blend funds pulled in $10 billion, the most of any Morningstar Category in the group. Large-value funds remained in favor, pulling in $6.8 billion. They've posted positive net flows in all six months of the year, including a record $20 billion in March. Their year-to-date intake of $50 billion led all U.S. equity categories. Small-value funds have enjoyed even greater success in 2021 in terms of organic growth. Their 7.1% tally for the first six months was easily the highest among the nine U.S. equity categories, with large-value's 3.8% coming in second place.

While large-growth equity funds posted positive flows for just the eighth month over the past 36, small- and mid-growth funds saw outflows of $1.4 billion and $1.8 billion, respectively. Through the first six months of the year, large-growth funds are the only U.S. equity category with negative flows and have the steepest outflows over the trailing 12 months. Small- and mid-growth funds have managed to stay just above water over those same periods but have generally experienced outflows over the past three years as well. While equity investors may have been rebalancing away from growth stocks because of their strong performance in recent years, they haven't changed their tune in 2021 despite value-oriented stocks posting stronger results. The Morningstar US Market Broad Value Index's 16.9% return during 2021's first half beat the Morningstar US Market Broad Growth's 13.4%.

Exhibit 2 Cumulative Flows of the Value and Growth U.S. Equity Categories in 2021



Source: Morningstar Direct Asset Flows. Data as of June 30, 2021.

Regardless of style or size, investors continue to make it clear that they prefer passively managed U.S. equity funds. Through the first half of 2021, actively managed U.S. equity funds shed more than $88 billion while passive funds raked in $161 billion. The largest beneficiaries included passive giants Vanguard and iShares. **Vanguard 500 Index** VFINX led the way during the period with over $15.0 billion of inflows, followed by **Vanguard Total Stock Market Index** VTSMX with $14.0 billion and **iShares Core S&P 500 ETF**'s IVV $12.6 billion. Aside from **ARK Innovation ETF** ARKK, which pulled in $7.4 billion over the first six months, the next highest total for an actively managed fund was **JPMorgan Equity Income**'s HLIEX $3.8 billion, which ranked 16th of all U.S. equity funds.

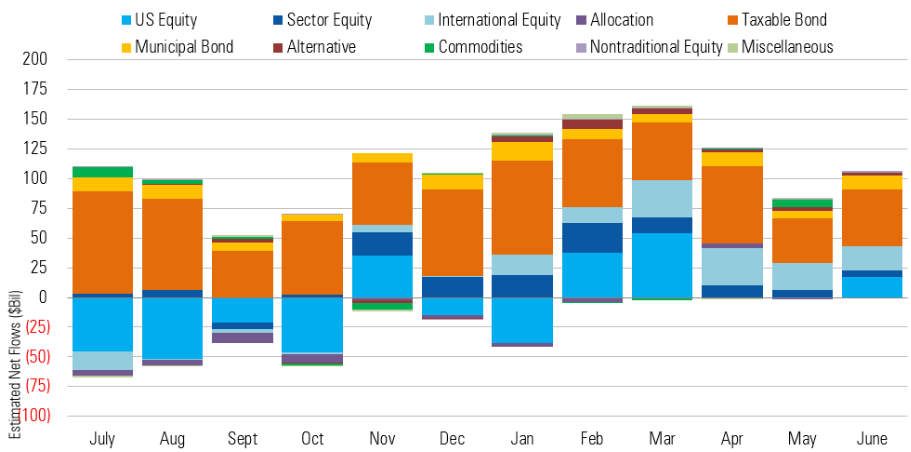
Exhibit 3 Estimated Net Flows by Active/Passive: U.S. Category Groups

U.S. Category Group	Active June 2021 ($Mil)	Active TTM ($Mil)	Active Assets ($Bil)	Passive June 2021 ($Mil)	Passive TTM ($Mil)	Passive Assets ($Bil)
U.S. Equity	(13,182)	(229,855)	5,856	30,714	162,886	6,686
Sector Equity	443	12,333	538	4,746	108,055	837
International Equity	138	(17,472)	2,460	20,245	142,176	1,736
Allocation	(400)	(36,734)	1,516	170	1,126	12
Taxable Bond	24,639	416,785	3,495	23,005	323,836	1,935
Municipal Bond	9,563	103,558	952	2,403	16,537	67
Alternative	2,640	18,733	124	17	359	2
Commodities	(25)	10,034	43	(72)	1,730	132
Nontraditional Equity	741	3,688	27	454	2,293	5
Miscellaneous	31	(402)	1	(766)	6,486	111
All Long Term	24,587	280,668	15,012	80,917	765,484	11,522

Source: Morningstar Direct Asset Flows. Data as of June 30, 2021. TTM is trailing 12 months.

International-equity funds took in about $20 billion in June, the most of any equity category group for the third consecutive month. Foreign large-blend funds took in $10.1 billion, followed by Europe-stock funds with $4.4 billion. Notably, foreign large-value funds gathered the third-most assets in the group with $3.1 billion of inflows, their largest monthly total since June 2014. Like their U.S. value counterparts, interest in foreign large value funds has surged in 2021 relative to the recent past. Prior to January's $1.8 billion inflow, foreign large value funds suffered outflows in 23 consecutive months dating to February 2019. They've gone on to collect about $7.5 billion over the first half of the year. Passive foreign large-value funds, such as **iShares MSCI EAFE Value ETF** EFV, collected $1.9 billion in June, though active funds' $1.2 billion intake still represented a meaningful share of the category's inflows. However, over the trailing 12 months, those active funds had a negative 9.3% organic growth rate versus passive funds' 48%, evidence that the broader trend still favors index funds.

Exhibit 4 U.S. Category Groups' 12-Month Asset Flows



Source: Morningstar Direct Asset Flows. Data as of June 30, 2021.

Despite news of regulatory concerns around some of China's largest companies, China-region funds posted the second-highest organic growth rate within the international-equity category for the first half of 2021 at 18.2%. The most popular fund was **KraneShares CSI China Internet ETF** KWEB, which pulled in $487 million in June and $1.7 billion so far in 2021, both tops in the category. Diversified emerging-markets funds, which often have large allocations to Chinese equities, have also attracted significant capital this year, although they gathered just $1.3 billion in June, much less than May's $5.8 billion intake.

Taxable-bond funds once again gathered the most assets among all category groups, with a $48 billion intake in June, bringing the year-to-date collection to almost $344 billion. Unlike equity funds, investor interest in actively managed bond strategies tends to be much stronger. Active taxable-bond offerings picked up $25 billion in June versus passive funds' $23 billion. For the year to date through June, active funds picked up $186 billion, while passive funds collected $159 billion. Among categories within the group, short-term bond funds led the way, collecting $11.7 billion in June, a near-record for the category. Those funds are typically less sensitive to movements in interest rates than longer-duration offerings, but they also provide investors with conservative credit exposure, primarily through corporate credit and investment-grade issues. Corporate and high-yield bond funds continued to be the exception to an otherwise strong stretch of inflows for taxable-bond funds. Investors pulled close to $1 billion out of corporate-bond funds and $611 million from high-yield bond funds in June. They are the only categories with meaningful outflows so far in 2021.

Exhibit 5 Morningstar Categories With the Greatest Estimated Net Monthly Inflows/Outflows

Morningstar Category	June 2021 Active ($Mil)	June 2021 Passive ($Mil)	June 2021 Total ($Mil)	TTM ($Mil)	Assets ($Bil)
Leaders					
Short-Term Bond	8,329	3,340	11,669	121,632	581
Intermediate Core Bond	2,219	8,687	10,906	213,890	1,272
Large Blend	(2,963)	12,998	10,036	(35,343)	5,724
Foreign Large Blend	550	9,145	9,695	25,287	1,377
Large Value	1,551	5,201	6,752	34,597	1,600
Laggards					
Trading--Leveraged Equity		(1,992)	(1,992)	(8,259)	62
Ultrashort Bond	(1,626)	(70)	(1,696)	36,176	347
Mid-Cap Growth	(2,469)	803	(1,665)	589	696
Allocation--50% to 70% Equity	(1,604)	(7)	(1,611)	(2,086)	736
Small Growth	(1,381)	(38)	(1,418)	1,435	339

Source: Morningstar Direct Asset Flows. Data as of June 30, 2021. TTM is trailing 12 months.

Inflation-protected bond funds saw their 14th consecutive month of inflows in June with a $5.7 billion intake, while bank-loan funds gathered $4.2 billion, marking their seventh consecutive month of inflows. Indeed, these categories have been two of the fastest growing among taxable-bond categories in 2021: bank-loan funds' 39% year-to-date organic growth rate topped the category group, with inflation-protected bonds posting the next highest rate at 17%. Bank-loan funds offer investors credit exposure similar to that of their high-yield bond counterparts but also provide a degree of interest-rate protection: The coupons paid on the underlying loans float along with interest rates. Steady flows into bank-loan funds may suggest investors are hedging against rising interest rates even though long-term Treasury yields have been receding since late March.

Sector equity funds gathered $5.2 billion in June, their ninth consecutive month of inflows. While technology funds dominated in the early months of the year, funds targeting more-cyclical equities such as energy, natural resources, and real estate have since taken the lead. Real estate funds pulled in $4.5 billion in June, their largest total since September 2017, followed by energy funds' $1.4 billion. Technology funds took in a meager $136 million, a far cry from their near-record $7.8 billion inflow in February.

Though they are smaller than most other category groups, alternative and nontraditional equity funds have posted the highest organic growth rates through the first half of the year as well as the trailing 12 months. A decline in bond yields may explain some of the trend as investors could be seeking alternatives to bonds without taking on full equity market risk. Alternative funds took in $2.7 billion in June, driven by flows into the options-trading category, which collected $1.0 billion. A series of J.P. Morgan hedged-equity funds took home the most by far within the segment for the year to date: They gathered $4.4 billion of the category's $5.8 billion of inflows.

The nontraditional equity category group—which was launched in April—is dominated by long-short equity funds in terms of total assets, but derivative-income funds have taken in much greater inflows on both a relative and absolute basis. Derivative-income funds' 172% organic growth rate over the prior 12 months dwarfs long-short equity funds' 3%. Many offerings within the derivative-income category are covered-call-writing strategies designed to offer equity-market exposure with a capped upside in exchange for greater current income. **Global X Nasdaq 100 Covered Call ETF** QYLD and **JPMorgan Equity Premium Income ETF** JEPI brought in the top totals within the category in June with inflows of $403 million and $332 million, respectively. They've also gathered the most over the prior 12 months. JEPI saw its asset base skyrocket from just $68 million in July 2020 to $1.9 billion as of June.

Some bellwethers highlight the list of funds with the greatest inflows in June, but a few outliers also stand out. Prominent passive equity funds such as **SPDR S&P 500 ETF** SPY, **Invesco QQQ** QQQ, and **Fidelity 500 Index** FXAIX pulled in strong inflows, as did a pair of Vanguard U.S.-focused bond index funds. **Vanguard Total International Bond II Index** VTILX showed a $23 billion inflow, though much of that was the result of a fund-to-fund transfer from **Vanguard Total International Bond Index** VTIFX. Newly launched **Fidelity SAI High Income** FSHGX had a $4 billion inflow, though that too was a product of a transfer, in this case out of **Fidelity Advisor High Income** FGTMX. **IShares 20+ Year Treasury Bond ETF** TLT attracted $2.2 billion in June, while **iShares U.S. Real Estate ETF** IYR pulled in $2.6 billion despite just a $7 billion asset base.

Exhibit 6 Funds With the Greatest Estimated Monthly Net Inflows and Outflows

Fund Name	June 2021 ($Mil)	TTM ($Mil)	Assets ($Bil)
Leaders			
Vanguard Total International Bond II Index	23,091	64,418	65
SPDR® S&P 500 ETF	10,617	(1,689)	374
Invesco QQQ	5,836	11,611	175
Fidelity® SAI High Income	4,012	4,017	4
Vanguard Total Bond Market Index	3,458	38,641	312
Vanguard Total Stock Market Index	3,384	5,361	1,258
Vanguard Total Bond Market II Index	2,970	60,164	252
iShares US Real Estate ETF	2,588	3,012	7
Fidelity® 500 Index	2,275	19,109	343
iShares 20+ Year Treasury Bond ETF	2,158	(1,685)	15
Laggards			
Vanguard Total International Bond Index	(20,171)	(28,691)	116
Vanguard 500 Index	(6,486)	3,234	753
Fidelity Advisor® High Income	(4,006)	(1,689)	5
Financial Select Sector SPDR®	(2,500)	12,452	41
Fidelity® Series Emerging Mkts Opps	(1,923)	(4,131)	31
iShares iBoxx $ High Yield Corp Bd ETF	(1,886)	(8,400)	20
ProShares UltraPro QQQ	(1,801)	(3,228)	12
Vanguard GNMA	(1,648)	(1,474)	25
iShares iBoxx $ Invmt Grade Corp Bd ETF	(1,563)	(13,929)	40
Vanguard Institutional Index	(1,531)	(24,377)	288

Source: Morningstar Direct Asset Flows. Data as of June 30, 2021. TTM is trailing 12 months.

The list of June's laggards included a few funds with midsize asset bases. **Financial Select Sector SPDR** XLF had been on a hot streak entering June with eight consecutive months of inflows totaling over $15 billion, but it shed $2.5 billion during the month. The fund picked up assets as long-term interest rates increased into 2021 but may be reversing course as rates have backed down from their highs established in late March. A pair of passive corporate-bond funds made the list as **iShares iBoxx $ High Yield Corporate Bond ETF** HYG and **iShares iBoxx $ Investment Grade Corporate Bond ETF** LQD bled $1.9 billion and $1.6 billion, respectively.

While Vanguard 500 Index shed $6.5 billion during the month, such an outflow isn't uncommon for the massive fund: It shed $6.1 billion in December 2020 and $3.5 billion in August 2020.

Fund Families

Flows into passive strategies once again eclipsed assets gathered by active strategies among the largest asset managers in June. Industry behemoth Vanguard led the way, collecting $25 billion for the month, most of which was in the firm's passive taxable-bond offerings. IShares saw the next-largest inflow; the passives-focused fund family gathered close to $18 billion in June as its international-equity offerings garnered attention. Fidelity saw the third-largest intake for the month, and most of its nearly $16 billion of inflows entered the firm's passively managed U.S. equity and international-equity strategies. American Funds, the only exclusively active firm among the top 10 asset managers by total net assets, collected a modest $411 million in June, as flows into the firm's fixed-income offerings exceeded the roughly $1.4 billion shed from its allocation strategies.

Exhibit 7 Estimated Net Flows for the Top 10 U.S. Fund Families (by Total Assets)

	Active ($Mil)	Passive ($Mil)	June 2021 Total ($Mil)	TTM ($Mil)	Assets ($Bil)
Vanguard	3,609	21,562	25,171	310,570	6,941
Fidelity Investments	1,043	14,920	15,963	103,541	2,489
iShares	294	17,345	17,640	171,675	2,283
American Funds	411		411	4,502	2,243
SPDR State Street Global Advisors	1,012	10,492	11,504	52,687	981
T. Rowe Price	(3,639)	(697)	(4,336)	(26,087)	846
Invesco	(1,437)	6,029	4,592	31,268	707
Franklin Templeton Investments	695	(184)	512	(13,442)	533
J.P. Morgan	3,221	203	3,424	59,904	504
Dimensional Fund Advisors	(1,872)	(62)	(1,934)	(30,279)	481

Source: Morningstar Direct Asset Flows. Data as of June 30, 2021. Excludes money market flows. TTM is trailing 12 months.

Franklin Templeton collected a modest $512 million in June, as flows into its active offerings offset assets shed from its passive lineup. The opposite was true for Invesco, which saw a $4.6 billion intake for the month as its passive funds gathered more than $6.0 billion, while its active lineup shed $1.4 billion. T. Rowe Price gave back more than $4 billion in June, as investors pulled roughly $3.6 billion and $700 million out of the firm's active and passive offerings, respectively. However, T. Rowe Price's figures do not reflect the roughly $2.8 billion of assets that moved from mutual funds to other portfolios (such as trusts, separate accounts, and collective investment trusts) in June, as these were not reported to Morningstar on a per-fund basis and thus appear as outflows in our data.

Note: The figures in this report were compiled on July 12, 2021, and reflect only the funds that had reported net assets by that date. Artisan had not reported. 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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