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# Morningstar Direct<sup>SM</sup> Fund Flows Commentary

## United States

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### Morningstar Research

January 2019

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Data through Jan. 31, 2019  
U.S. Mutual Funds and Exchange-  
Traded Products

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### Key Takeaways

- ▶ Long-term flows bounced back with \$39 billion in inflows after \$83 billion of outflows in December, yet they trailed by wide margins the previous two January hauls, which were \$132 billion in 2018 and \$63 billion in 2017.
- ▶ For the first time in five years, active U.S. equity fund flows beat their passive counterparts, although not by much. Active U.S. equity flows were flat in January while passive funds endured about \$3.8 billion in outflows. Overall, active funds had their best month overall since January 2018 with about \$11.7 billion in inflows.
- ▶ Taxable-bond funds stormed back with \$31.5 billion in inflows, the group's best month since January 2018. In contrast to passive equity, passive taxable-bond funds thrived with a record \$27.6 billion.
- ▶ International-equity funds also bounced back with \$14.2 billion after roughly equal outflows in December, likely owing in part to tax-loss selling. Diversified emerging-markets funds were the big winners with \$10.8 billion in inflows, the Morningstar Category's best month since January 2018.
- ▶ Vanguard dominated with about \$19.7 billion in inflows. The mild surprise was the weak performance of iShares, which collected just \$400 million, the firm's worst showing since June 2018. Its U.S. equity funds suffered a firm-record \$13 billion in outflows.

### Tepid January Rebound in Long-Term Fund Flows

Long-term flows bounced back with \$39 billion in January inflows after \$83 billion of outflows in December, yet they trailed by wide margins the previous two January hauls, which were \$132 billion in 2018 and \$63 billion in 2017. The 12-month trend in long-term flows remained weak with only about \$56 billion in inflows during that stretch.

**Exhibit 1: U.S. Category Flows**

<b>US Category Group</b>	<b>Total Estimated Net Flows \$Mil</b>		
	<b>Jan 2018</b>	<b>1 Year</b>	<b>Assets (\$Bil)</b>
US Equity	-3,830	8,466	7,998
Sector Equity	-8,293	-41,834	870
International Equity	14,181	59,239	3,030
Allocation	-3,366	-67,491	1,288
Taxable Bond	31,504	104,824	3,863
Municipal Bond	7,553	8,566	722
Alternative	228	-16,619	195
Commodities	1,085	638	96
<b>All Long Term</b>	<b>39,062</b>	<b>55,789</b>	<b>18,062</b>
Money Market	3,837	211,957	3,010

Source: Morningstar Direct Asset Flows. Data as of Jan. 31, 2019.

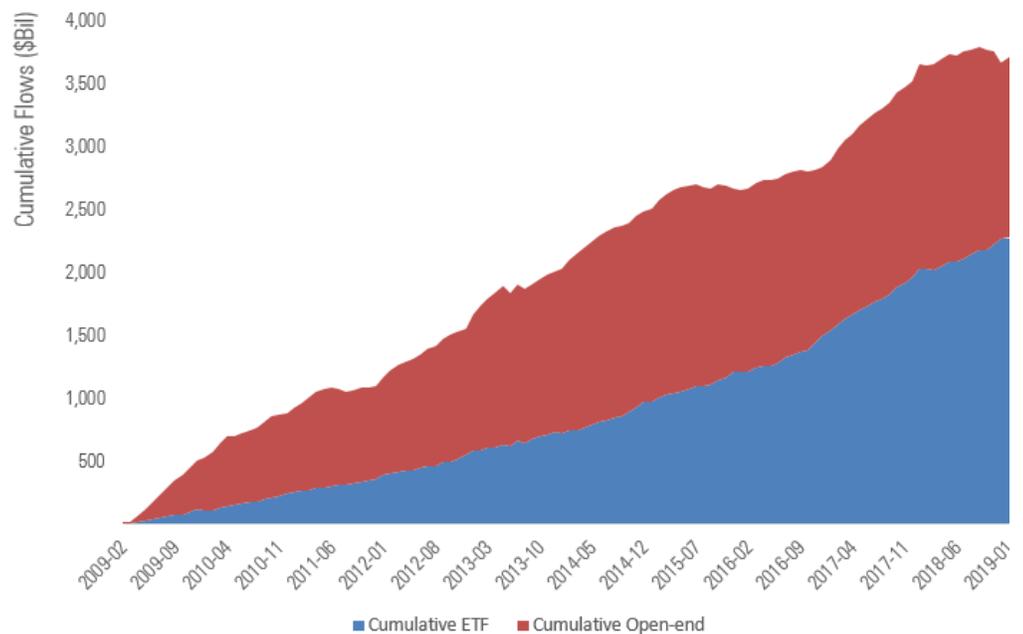
January's biggest surprise may have been the relative flows for active and passive U.S. equity funds. Passive funds fared worse than their active counterparts for the first time since January 2014. U.S. equity funds had modest outflows of \$3.8 billion overall, despite the S&P 500 gaining 8% (the index's best January since 1987). On balance, these outflows came from passive U.S. equity funds, while active flows were flat.

It's possible that rebalancing by target-date funds and managed portfolios once again drove these passive U.S. equity flows. Because of January's strong equity returns, managed portfolios, such as target-date funds, with fixed allocations to individual funds may have been forced to trim their U.S. equity funds because of January's strong returns. Consider that iShares' passive U.S. equity funds had \$13 billion in outflows, a firm record. Vanguard fared better, but **Vanguard Total Stock Market Index** VTSMX collected just \$1.1 billion in January after taking in \$14.1 billion in December, a month in which the S&P 500 fell more than 9%.

Sector equity funds fared even worse in January, losing \$8.3 billion to outflows. This follows \$17.9 billion in December outflows and \$43.3 billion over the past four months (including January), easily the worst four-month stretch in the past 10 years. As with U.S. equity funds, passive vehicles fared far worse than actively managed offerings. Passive sector equity funds had \$7.6 billion in outflows, while active funds shed just \$700 million. This is a break from the 12-month trend, as active funds lost nearly \$28.9 billion to outflows while passive funds shed about \$13.0 billion. Overall, this is the first major category group where passive funds have overtaken their active counterparts in total assets. Passive sector equity funds have 54% market share versus 46% for active funds.

Weak passive flows were also reflected in exchange-traded funds, which are mostly passive and took in just \$2.5 billion overall versus \$36.6 billion for their open-end counterparts. Such a big edge for open-end funds (including both active and passive funds) is rare these days as ETFs have come to dominate inflows. January was the first time since March 2018 that open-end funds enjoyed stronger inflows, and the \$34.1 billion advantage in flows was the greatest since March 2014. Over the past 12 months, open-end funds had \$184 billion in outflows versus ETFs' \$240 billion in inflows.

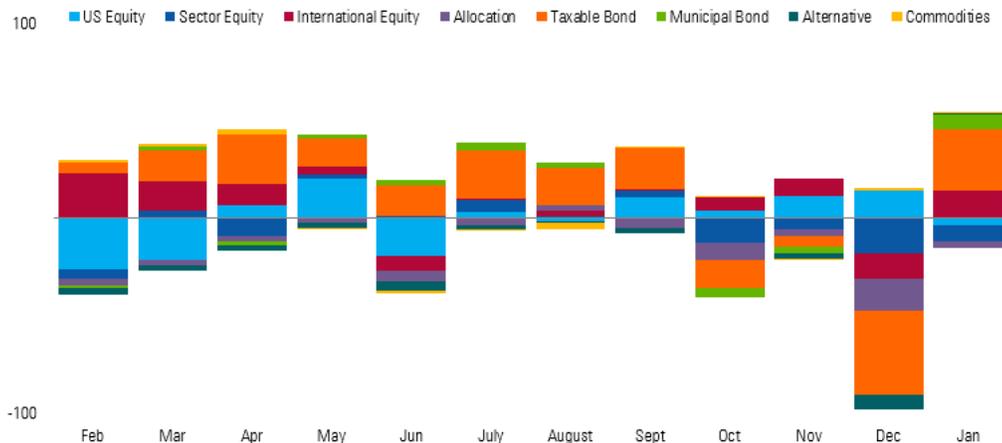
**Exhibit 2** 10-Year Cumulative Open-End and ETF Flows



Source: Morningstar Direct Asset Flows. Data as of Jan. 31, 2019.

International-equity funds bounced back with \$14.2 billion after roughly equal outflows in December, most likely owing to tax-loss selling. Diversified emerging-markets funds were the big winners with \$10.8 billion in inflows, the category's best month since January 2018. Passive equity flows were stronger within international equity with \$9.2 billion, although active funds held their own with \$4.9 billion in inflows.

**Exhibit 3** Morningstar Category Groups' 12-Month Asset Flows

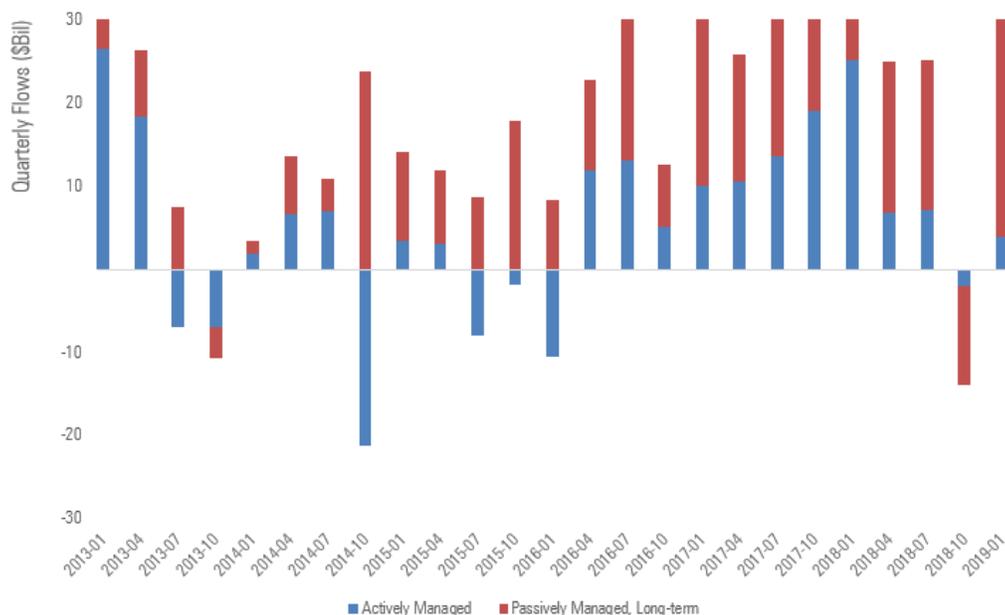


Source: Morningstar Direct Asset Flows. Data as of Jan. 31, 2019.

**Bond Investors Leave Some of Their Fears Behind**

Taxable-bond funds stormed back with \$31.5 billion in inflows, the group's best month since January 2018. Bond investors regained their risk appetite to a degree, with high-yield bond funds collecting \$6.1 billion, the category's best month since December 2016, although this was offset to a degree by \$4.6 billion in outflows from credit-heavy bank-loan funds. (Corporate-bond funds took in \$4 billion — that category's best month since June 2017.) Meanwhile, investor enthusiasm for ultrashort bond funds waned significantly, with that group collecting just \$2.3 billion, the smallest total since September 2017. This may have owed to the Fed's announcement that further rate increases are on hold.

Overall, core-oriented taxable-bond strategies resumed their leadership. Intermediate-term bond funds led with \$7.5 billion in inflows, followed by \$4.6 billion in inflows for intermediate-government funds. These same trends extended to municipal-bond funds, which took in nearly \$7.6 billion, the group's best month since January 2018. National-intermediate funds collected \$3.1 billion, followed by \$1.8 billion from high-yield muni funds.

**Exhibit 4** Active and Passive Taxable-Bond Flows

Source: Morningstar Direct Asset Flows. Data as of Jan. 31, 2019.

Passive strategies tend to dominate taxable core categories, and that was certainly the case in January. Passive taxable-bond funds collected a record \$27.6 billion, led by **Vanguard Total Bond Market II Index** VTBIX. Active taxable-bond funds took in a modest \$3.9 billion, but this was much better than the \$67.1 billion that was lost to outflows during 2018's fourth quarter. Recall that active taxable-bond funds tend to be more credit-oriented than their passive counterparts because of liquidity issues, and active high-yield bond funds alone collected \$3.2 billion in January as that sector rallied.

**Exhibit 5** Active/Passive U.S. Category Groups' Estimated Net Flows (\$Mil)

US Category Group	Active			Passive		
	Jan 2018	1 Year	Assets \$Bil	Jan 2018	1 Year	Assets \$Bil
US Equity	5	-152,159	4,109	-3,835	160,632	3,889
Sector Equity	-675	-28,872	398	-7,618	-12,962	472
International Equity	4,932	-49,908	1,770	9,249	109,147	1,261
Allocation	-3,601	-70,022	1,216	235	2,531	72
Taxable Bond	3,924	-10,480	2,633	27,580	115,304	1,229
Municipal Bond	7,960	3,143	687	-407	5,423	35
Alternative	-683	-18,152	146	911	1,533	49
Commodities	-166	1,347	29	1,251	-695	67
<b>All Long Term</b>	<b>11,696</b>	<b>-325,103</b>	<b>10,988</b>	<b>27,366</b>	<b>380,913</b>	<b>7,074</b>

Source: Morningstar Direct Asset Flows. Data as of Jan. 31, 2019.

**Exhibit 6** Morningstar Categories with the Greatest Estimated Net Inflows and Outflows in January (\$Mil)

	Active	Passive	Total	1 Year Total	Assets \$Bil
<b>Top</b>					
Diversified Emerging Mkts	2,631	8,160	10,791	20,789	549
Intermediate-Term Bond	-913	8,391	7,478	7,967	1,455
High Yield Bond	3,197	2,906	6,103	-31,053	275
Intermediate Government	24	4,548	4,572	9,236	141
Corporate Bond	-517	4,523	4,005	-2,835	169
<b>Bottom</b>					
Bank Loan	-4,130	-454	-4,583	-7,556	125
Large Value	-317	-3,796	-4,113	-19,226	1,129
Equity Energy	-611	-2,763	-3,374	-6,840	38
Technology	-99	-1,856	-1,956	-4,829	139
Financial	-126	-1,693	-1,819	-13,336	58

Source: Morningstar Direct Asset Flows. Data as of Jan. 31, 2019.

**Fund Families**

Vanguard dominated with about \$19.7 billion in inflows, more than double the next highest firm. The firm benefited from January's shift toward passive bond funds, with \$7.1 billion inflows directed to its passive vehicles in the intermediate-term bond category. Specifically, Vanguard Total Bond Market II Index saw \$6.9 billion in inflows, January's greatest inflows. Some of these flows may have come at the expense of a sibling, however, as **Vanguard Short-Term Bond Index's** VBIRX \$4.1 billion in outflows were the third-highest in the fund universe.

**Exhibit 7** Estimated Net Flows (\$Mil) for the Top 10 U.S. Fund Families (by Assets)

	Active	Passive	Jan Total	1 Year Total	Assets \$Bil
Vanguard	2,044	17,645	19,688	147,564	4,500
American Funds	4,605		4,605	9,395	1,535
Fidelity Investments	-2,225	9,792	7,567	41,438	1,520
iShares	-122	500	379	117,471	1,425
SPDR State Street Global Advisors	84	-8,673	-8,590	-35,582	601
T. Rowe Price	-1,573	696	-877	-16,481	593
Dimensional Fund Advisors	4,258	70	4,329	17,283	404
PIMCO	998	216	1,214	-1,083	355
Franklin Templeton Investments	-1,861	30	-1,831	-32,593	344
Invesco	-1,009	92	-918	-15,529	327

Source: Morningstar Direct Asset Flows. Data as of Jan. 31, 2019. Excludes money market.

Fidelity saw the second-highest inflows at \$7.6 billion in January, as the firm's \$9.8 billion in passive inflows overcame its \$2.2 billion of active outflows. **Fidelity 500 Index** FXAIX had its highest ever monthly inflows at \$5.2 billion, the second most of all vehicles this month. The firm also mildly benefited from tailwinds to passive bond funds, with its intermediate-term bond funds seeing \$1.3 billion of inflows.

SPDR State Street Global Advisors saw the highest monthly outflows at \$8.6 billion, which was more than 4 times greater than runner-up Franklin Templeton. State Street saw just over \$8 billion of outflows from its large-blend offerings, nearly all from **SPDR S&P 500 ETF SPY**, which saw \$8.3 billion outflows, the most since March 2018.

iShares also saw outflows from its large-blend funds, \$4.1 billion. These came largely from **iShares Core S&P 500 ETF IVV**, which saw about \$7 billion of outflows. The firm collected just \$400 million overall, its worst showing since June 2018. On the other hand, it was helped by the third-highest flows for **iShares Core MSCI Emerging Markets ETF IEMG**, which rode emerging-markets tailwinds to \$4.3 billion of inflows.

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**Exhibit 8** Funds with the Greatest Estimated Net Inflows and Outflows (\$Mil)

	Jan 2018	1 Year	Assets (\$Mil)
<b>Top</b>			
Vanguard Total Bond Market II Index	6,904	4,555	162,434
Fidelity® 500 Index	5,170	24,526	170,822
iShares Core MSCI Emerging Markets	4,256	16,752	57,727
Vanguard Short-Term Corp Bd	3,093	1,969	28,677
Vanguard Interm-Tm Corp Bd Idx	2,639	2,086	22,778
Vanguard Total International Bd Idx	2,451	7,936	114,101
Vanguard Total Intl Stock Idx	2,450	50,787	354,431
Vanguard 500 Index	2,047	26,492	434,468
PIMCO Income	1,964	-212	111,676
iShares 20+ Year Treasury Bond	1,788	3,365	10,288
<b>Bottom</b>			
SPDR® S&P 500	-8,280	-42,147	250,220
iShares Core S&P 500	-6,959	5,344	154,243
Vanguard Short-Term Bond Index	-4,058	-2,206	49,593
iShares Russell 1000 Value	-2,620	719	37,842
iShares Russell 2000	-2,444	2,753	42,835
Energy Select Sector SPDR®	-1,779	-3,748	13,279
PIMCO Total Return	-1,444	-9,042	64,946
T. Rowe Price New Income	-1,266	-7,600	25,039
iShares Russell 1000 Growth	-1,237	-653	40,771
iShares MSCI ACWI ex US	-1,236	856	3,882

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Source: Morningstar Direct Asset Flows. Data as of Jan. 31, 2019.



**Note:** The figures in this report were compiled on Feb. 12, 2019, and reflect only the funds that had reported net assets by that date. 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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