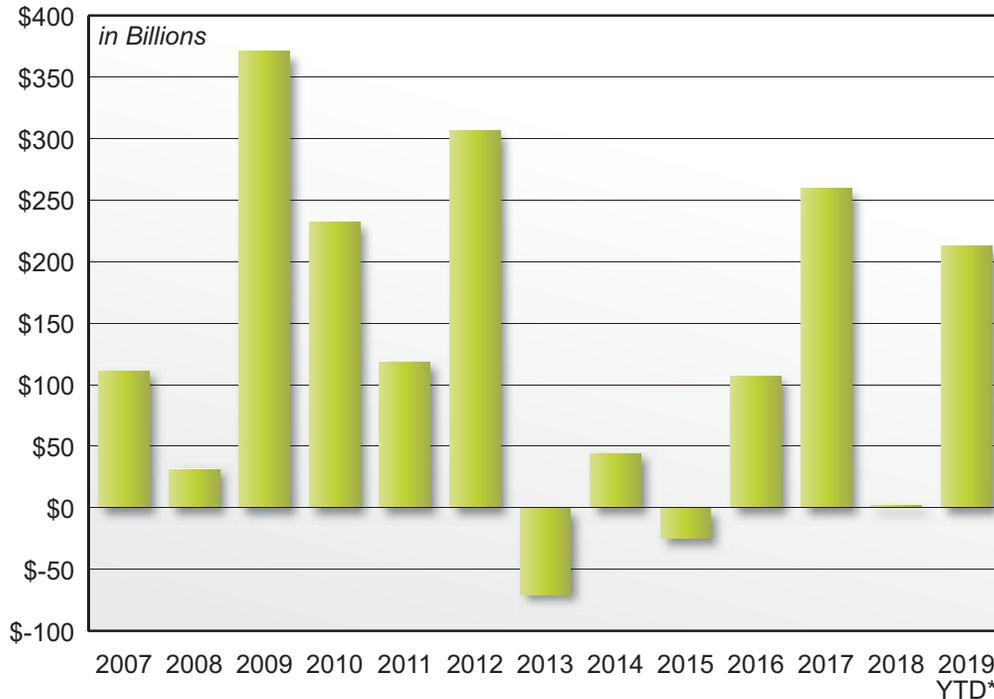


Still Waiting For The Great Rotation Out Of Bond Mutual Funds

Annual Net New Cash Flow To Bond Mutual Funds



Source: Investment Company Institute (ICI). *YTD thru September 2019.

View from the Observation Deck

1. As indicated in the chart, with the exception of 2013 and 2015, investors appear to have had a big appetite for bond mutual funds since 2007, which was just one-year prior to the punishing 2008-2009 financial crisis.
2. From 2007 through September 2019, investors poured a net \$1.7 trillion into bond funds, according to the ICI. Year-to-date through September 2019, net inflows totaled a whopping \$212 billion, up from \$125 billion over the same period in 2018.
3. The ICI reported that total net assets in bond funds (not shown in chart) rose from \$1.7 trillion in 2007 to \$4.6 trillion in September 2019, or an increase of 170%.
4. From 2007-2018, investment-grade corporate bond funds accounted for \$700 billion of the roughly \$1.5 trillion, or 47%, of net inflows to bond mutual funds, according to the ICI.
5. While some investors may have been looking to take advantage of falling interest rates, others were seeking a safe haven from stocks, in our opinion.
6. Bonds tend to perform well when interest rates decline. From 12/29/06 through 9/30/19, the yield on the benchmark 10-year Treasury note (T-Note) declined by 303 basis points, from 4.70% to 1.67%, according to Bloomberg.
7. We nearly experienced the start of the great rotation in 2013, when the yield on the 10-year T-Note spiked 127 basis points from 1.76% (12/31/12) to 3.03% (12/31/13). Interest rates, however, reversed course early in 2014 and trended lower following the poor GDP showing in Q1'14. The initial report was -2.1% annualized, but it was later revised to -1.1%, according to the Bureau of Economic Analysis.
8. In 2013, bond funds reported net outflows totaling \$71.2 billion, the highest amount of net outflows from this group in 35 years (not shown in chart), according to data from the ICI.
9. Looks like the great rotation out of bond funds could be on hold until interest rates trend higher, in our opinion.

This chart is for illustrative purposes only and not indicative of any actual investment.

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