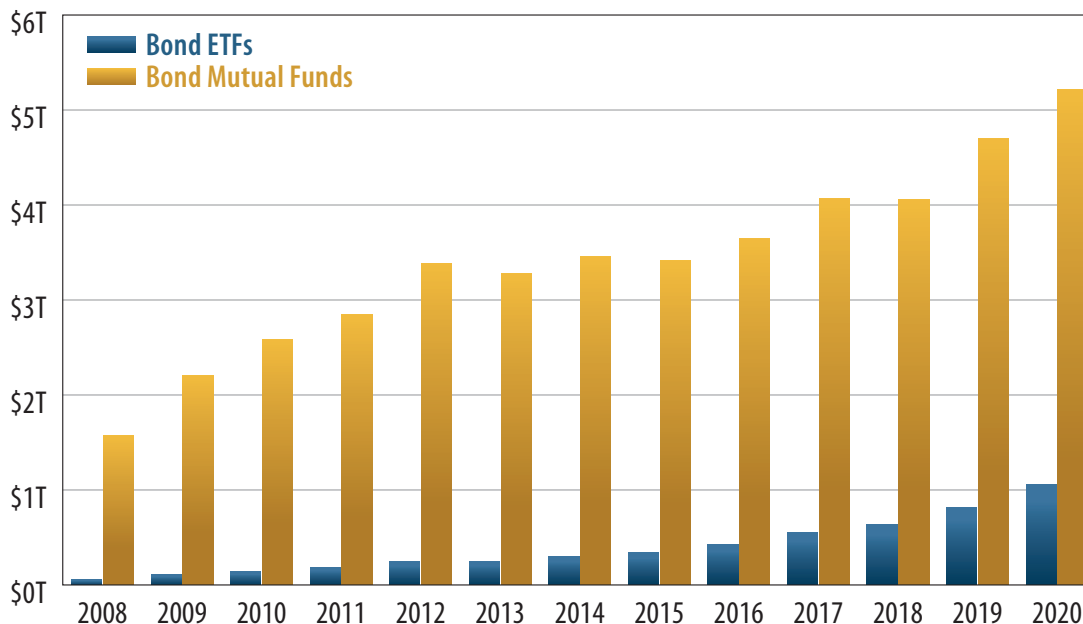


The Great Rotation Out Of Bond Mutual Funds Never Happened

Total Net Assets: Bond ETFs vs. Bond Mutual Funds (In Trillions)



Source: Investment Company Institute (ICI). ETFs = Exchange-Traded Funds.

View from the Observation Deck

1. Despite extended periods of artificially low interest rates, investors have remained committed to their bond funds through the years, in our opinion.
2. The chart above reflects the asset growth in both U.S. bond ETFs and U.S. bond mutual funds from 2008 through 2020 (13 years).
3. Total assets invested in bond ETFs rose from \$57.2 billion at the end of 2008 to \$1.053.3 trillion at the close of 2020.
4. Total assets held by bond mutual funds rose from \$1.569.7 trillion to \$5.214.1 trillion over that same period.
5. The federal funds target rate (upper bound), which is set by the Federal Reserve, stood at just 0.25% for roughly 94 of the 156 months of the 13-year span, or approximately 60% of the time, according to Bloomberg.
6. After setting a 2008-closing high of 4.27% on 6/16/08, the yield on the benchmark 10-year Treasury note (T-note) has failed to eclipse the 4.00% mark since October 2008, according to Bloomberg. Its average yield for the entire period was 2.43%.
7. The trailing 12-month Consumer Price Index, a key barometer of inflation, averaged 1.7% from the start of 2008 through the end of 2020, according to data from the Bureau of Labor Statistics.
8. That suggests that the average real rate of return (coupon minus inflation) on the 10-year T-note over the 13 years was a modest 0.73%. For comparative purposes, from 1991-2020 (30 years), its average real rate of return was 1.94%, much closer to its historical norm.
9. Conventional thought in the financial media assumed that bond investors would shift at least some of their capital out of bonds and into equities in search of higher returns. It never happened.

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

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