Market Commentary Blog

Cash Flow *and Carey*

Robert Carey, CFA
Chief Market Strategist

6/29/23

Passive vs. Active Fund Flows

Estimated Net Flows to Mutual Funds and ETFs in $Millions

(12-month flows through 5/31/23)

Category	Active	Passive
U.S. Equity	(244,186)	162,250
Sector Equity	(36,684)	(32,037)
International Equity	(112,307)	62,245
Allocation	(87,395)	(1,344)
Taxable Bond	(216,100)	227,161
Municipal Bond	(71,255)	17,519
Alternative	2,289	118
Commodities	(10,442)	(18,440)
Nontraditional Equity	24,835	2,386
Miscellaneous	1,174	13,834
All Long Term	(750,071)	433,692

Source: Morningstar Direct Asset Flows. Includes liquidated and merged funds.

View from the Observation Deck

Investors directing capital into mutual funds and exchange traded funds (ETFs) continued to favor passive investing over active management for the 12-month period ended 5/31/23.

Passive mutual funds and ETFs reported estimated net inflows totaling $433.69 billion for the 12-month period ended 5/31/23 while active funds reported estimated net outflows totaling $750.07 billion over the same period. The only active categories over the past 12 months with net inflows were Nontraditional Equity, Alternative, and Miscellaneous with inflows of $24.84 billion, $2.29 billion, and $1.17 billion, respectively (see table above). For comparison, the top three passive categories were Taxable Bond, U.S. Equity, and International Equity with inflows of $227.16 billion, $162.25 billion, and $62.25 billion, respectively.

Despite improving total returns throughout 2023, equity funds have seen significantly higher outflows than their fixed income counterparts.

Combined, the Taxable and Municipal Bond categories reported net outflows totaling $42.68 billion for the 12-month period ended 5/31/23. For comparison, equities experienced outflows of $262.24 billion over the same time frame. In May alone, U.S. equity funds saw outflows of nearly $27 billion, marking their seventh consecutive month of negative flows (not in table). The S&P 500, S&P MidCap 400, and S&P SmallCap 600 Indices posted total returns of 2.89%, -2.69% and -7.33% respectively, for the 12-month period ended 5/31/23, according to Bloomberg. With respect to foreign equities, the MSCI Daily TR Net World (ex U.S.) and MSCI Emerging Net TR Indices posted total returns of 1.54% and -8.49%, respectively. The U.S. Dollar Index (DXY) rose by 2.53% for the same time frame. The index reflects the general international value of the dollar relative to a basket of major world currencies. The stronger dollar created a drag on the performance of unhedged foreign securities held by U.S. investors, in our opinion.

Takeaway

Passive mutual funds and ETFs saw inflows of $433.69 billion compared to outflows of $750.07 billion for active funds over the trailing 12-month period ended 5/31/23. In the table above, we observe the largest disparity occurred in the Taxable Bond category, with active shedding $216.10 billion compared to inflows of $227.16 billion for passive funds. Notably, net outflows from equity funds stood at $262.24 billion over the trailing 12-months, significantly higher than fixed income outflows, which came in at $42.68 billion. Nontraditional Equity, Alternative, and Miscellaneous were the only three categories to see inflows among both the active management style. To view the last time we updated this post, please click here.