

Cash Flow and Carey



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1/20/26

This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions and other expenses incurred when investing. Investors cannot invest directly in an index. The S&P 500 Index is an unmanaged index of 500 companies used to measure large-cap U.S. stock market performance. The S&P MidCap 400 Index is a capitalization-weighted index that tracks the mid-range sector of the U.S. stock market. The S&P SmallCap 600 Index is a capitalization-weighted index that tracks U.S. companies with a small market capitalization. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. The MSCI World (ex U.S.) Index is a free-float weighted index designed to measure the equity market performance of developed markets. The Bloomberg Municipal Long Bond Index cover the USD-denominated long-term tax exempt bond market, including local general obligation, revenue, insured, and prefunded bonds. The Bloomberg U.S. Aggregate Bond Index measures the investment grade, U.S. dollar-denominated, fixed rate taxable bond market. The Bloomberg Global Aggregate Bond Index measures global investment grade debt in local currency markets.

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Passive vs. Active Fund Flows

Estimated Net Flows to Mutual Funds and ETFs in \$Billions

(12-month flows through 12/31/25)

Category	Active	Passive
U.S. Equity	(378)	358
Sector Equity	(19)	23
International Equity	(98)	140
Allocation	(67)	1
Taxable Bond	227	287
Municipal Bond	39	15
Alternative	23	41
Commodities	1	47
Nontraditional Equity	69	3
Miscellaneous	13	(12)
All Long Term	(189)	903

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

View from the Observation Deck

Investors directing capital into U.S. mutual funds and exchange traded funds (ETFs) continued to favor passive investing over active management during the 12-month period ended 12/31/25.

Passive mutual funds and ETFs reported estimated net inflows totaling \$903 billion, while active funds reported estimated net outflows of \$189 billion over the trailing 12-months ended 12/31/25. The top three active categories by trailing 12-month net inflows were: Taxable Bonds (+\$227 billion), Nontraditional Equity (+\$69 billion), and Municipal Bonds (+\$39 billion). For comparison, the top three passive categories were U.S. Equity (+\$358 billion), Taxable Bond (+\$287 billion), and International Equity (+\$140 billion).

Equity mutual funds and ETFs saw much lower inflows than their fixed income counterparts over the trailing 12-month period ended 12/31/25.

Combined, active and passive equities experienced inflows of \$32 billion over the trailing 12-months (not in table). For comparison, the active and passive Taxable and Municipal Bond categories reported net inflows totaling \$568 billion over the same time frame. The S&P 500, S&P MidCap 400, and S&P SmallCap 600 Indices posted total returns of 17.86%, 7.48%, and 5.99%, respectively, over the 12-months ended 12/31/25, according to data from Bloomberg.

Foreign and emerging market equities had a banner year in 2025.

With respect to foreign equities, the MSCI Emerging Net Total Return and MSCI Daily Total Return Net World (ex U.S.) Indices posted total returns of 33.57% and 31.85%, respectively, in 2025.

For comparison, the Bloomberg Global-Aggregate Bond, Bloomberg U.S. Aggregate, and Bloomberg Municipal Long Bond Indices saw total returns of 8.17%, 7.30%, and 1.95% respectively, over the period.

Takeaway

Passive mutual funds and ETFs saw combined inflows of \$903 billion compared to outflows of \$189 billion for active funds in 2025. U.S. Equities produced the largest disparity between active and passive flows, with active shedding \$378 billion compared to inflows of \$358 billion for passive funds. Combined net inflows among active and passive equity ETFs totaled just \$32 billion during the year, compared to combined net inflows of \$568 billion for active and passive fixed income ETFs over the same time frame. International equities had a phenomenal year in 2025, with the MSCI Net World (ex U.S.) increasing by a stunning 31.85% during the year. Investors took notice with inflows in the category increasing to their highest level since 2021.