

Cash Flow and Carey



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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 9/30/26)

Category	Active	Passive
U.S. Equity	(443)	474
Sector Equity	21	111
International Equity	(109)	248
Allocation	(66)	5
Taxable Bond	326	449
Municipal Bond	63	41
Alternative	37	0
Commodities	3	23
Nontraditional Equity	75	0
Miscellaneous	23	(13)
All Long Term	(70)	1,340

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) favored passive investing over active management during the 12-month period ended September 30, 2026.

Active mutual funds and ETFs reported estimated net outflows of \$70 billion compared to net inflows of \$1,340 billion for passive funds over the trailing 12 months (TTM) ended September 30, 2026.

Net inflows across all categories of passively managed equities (including Allocation and Nontraditional Equity) totaled \$838 billion over the period, compared to inflows of \$490 billion into passive fixed-income funds. On the actively managed side, equity funds saw combined net outflows of \$522 billion while fixed income garnered inflows of \$389 billion.

Equity mutual funds and ETFs saw significantly lower inflows than their fixed-income counterparts over the TTM period.

Combined, active and passive equities experienced inflows of \$316 billion over the TTM, based on Morningstar data. For comparison, the active and passive Taxable and Municipal Bond categories reported net inflows of \$879 billion over the same time frame. The difference in flows between these categories is notable, especially given the outsized returns offered by equities over the period. The S&P 500, S&P MidCap 400, and S&P SmallCap 600 Indices produced total returns of 15.7%, 11.7%, and 16.1%, respectively, over the TTM ended September 2026. For comparison, the Bloomberg Global Aggregate Bond, Bloomberg U.S. Aggregate, and Bloomberg Municipal Long Bond Indices saw total returns of -2.4%, -1.8%, and -3.5%, respectively, over the period.

Fixed-income returns have rebounded sharply so far in October.

Yields surged in the third quarter with the market discounting persistent inflation, a rising federal funds target rate, and increasing global requirements for private and public capital. Tellingly, the yield on the 10-year Treasury note increased from 4.47% on June 30, 2026, to 5.31% (its highest level since April 2, 2002) on October 5, 2026. Investors appear to have taken notice, sending the 10-year Treasury note's yield plummeting 31 basis points between October 5 and October 27 (fixed-income yields and prices typically move in opposite directions). The Bloomberg Global Aggregate Bond, Bloomberg U.S. Aggregate, and Bloomberg Municipal Long Bond Indices generated total returns of 1.1%, 2.0%, and 3.5%, respectively, month-to-date through October 27, 2026.

Takeaway

Passive mutual funds and ETFs saw combined inflows of \$1,340 billion compared to net outflows of \$70 billion for active funds over the TTM ended September 2026. Net inflows into fixed-income investments totaled \$879 billion compared to net inflows of \$316 billion into equity funds over the period. Morningstar notes that inflows to ultrashort bond funds totaled \$21 billion in September 2026 alone, marking the second-largest figure in history. Investors added \$2 billion to international-equity funds in September, bringing quarterly inflows to \$9 billion in Q3'26 and representing the category's sixth straight positive quarter. U.S. equity funds shed \$32 billion in September amid rising interest rates and surging capital costs. The outflow was the category's first since May 2026 and represented the largest decline since January 2026.