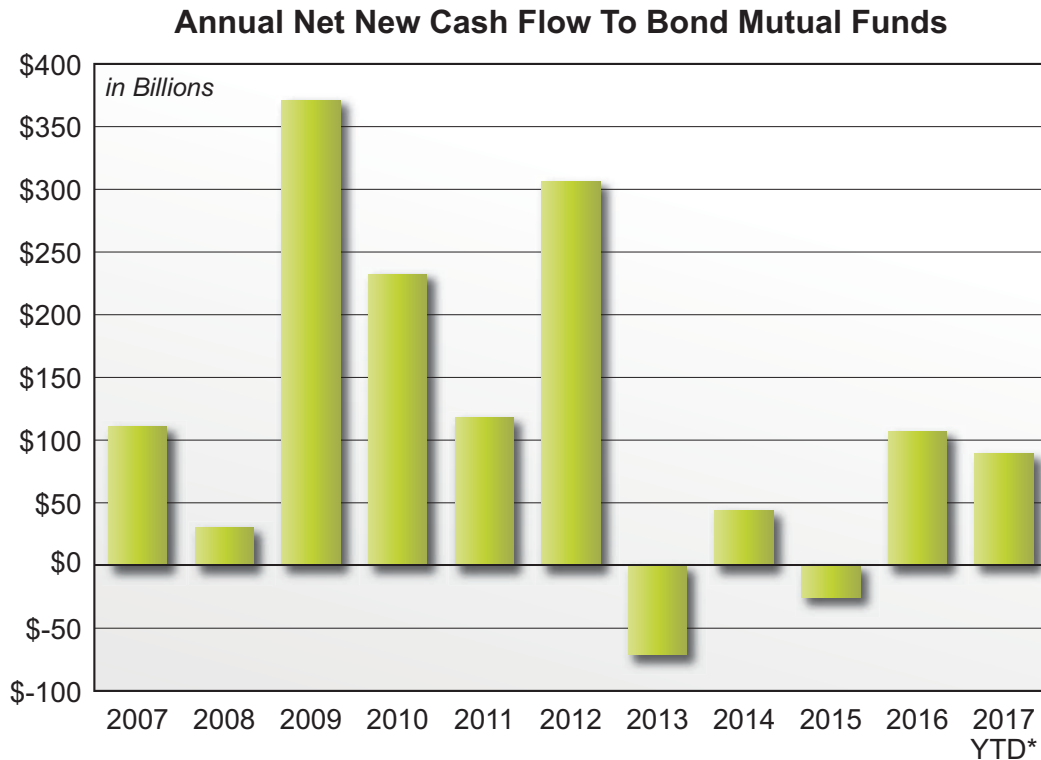


# Still Waiting For The Great Rotation Out Of Bond Mutual Funds



Source: Investment Company Institute (ICI). \*YTD thru April 2017.

## 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 April 2017, investors poured a net \$1.31 trillion into bond funds, according to the ICI. Year-to-date through April 2017, net inflows totaled a whopping \$89.33 billion, up from \$36.35 billion over the same period in 2016.
3. The ICI reported that total net assets in bond funds (not shown in chart) rose from \$1.68 trillion in 2007 to \$3.82 trillion in April 2017.
4. 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.
5. Bonds tend to perform well when interest rates decline. From 12/29/06 through 4/30/17, the yield on the benchmark 10-year Treasury note (T-Note) declined by 242 basis points, from 4.70% to 2.28%, according to Bloomberg.
6. 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 -0.9%, according to the Bureau of Economic Analysis.
7. In 2013, bond funds reported net outflows totaling \$70.77 billion, the highest amount of net outflows from this group in the last 30 years (not shown in chart), according to data from the ICI.
8. 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.*

*The information presented is not intended to constitute an investment recommendation for, or advice to, any specific person. By providing this information, First Trust is not undertaking to give advice in any fiduciary capacity within the meaning of ERISA and the Internal Revenue Code. First Trust has no knowledge of and has not been provided any information regarding any investor. Financial advisors must determine whether particular investments are appropriate for their clients. First Trust believes the financial advisor is a fiduciary, is capable of evaluating investment risks independently and is responsible for exercising independent judgment with respect to its retirement plan clients.*

