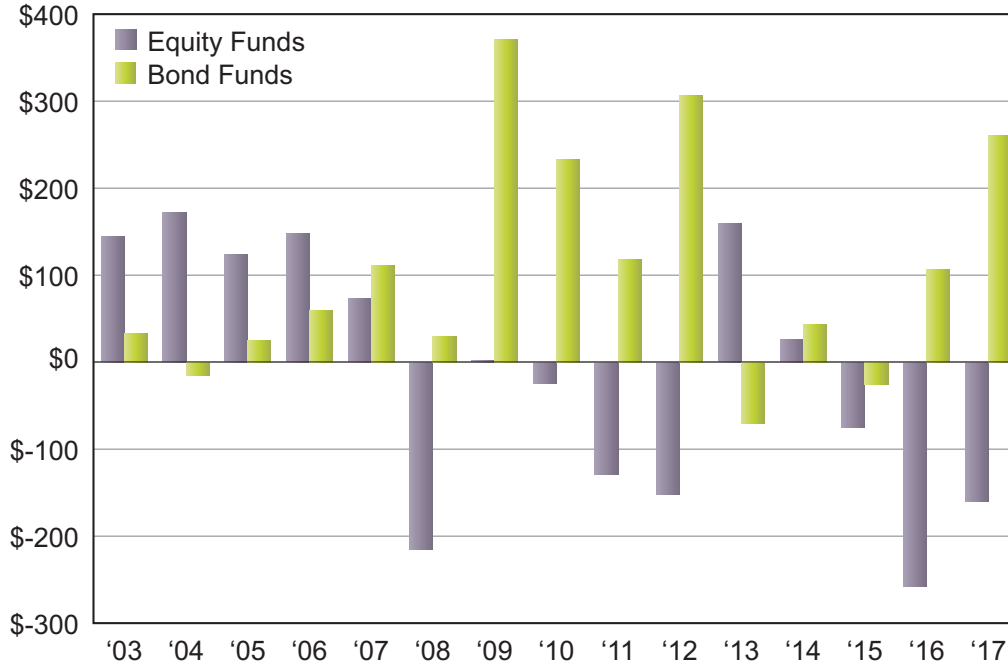


So Much For The Great Rotation Out Of Bond Mutual Funds

**Annual Net New Cash Flows
To Equity & Bond Mutual Funds (In Billions)**



Source: Investment Company Institute (ICI).

View from the Observation Deck

1. Today's blog chart features a 15-year look at net new cash flow activity for equity and bond mutual funds. These flows provide valuable insight as to where retail investors are allocating their capital, in our opinion.
2. We chose 2003 as the starting point because it followed the end of a bear market in stocks (October 2002). From 2003 through 2017, net new cash flows to equity funds totaled -\$167.5 billion, compared to \$1.6 trillion for bond funds.
3. As indicated in the chart, net new cash flows to equity funds were strong from 2003 through 2007, totaling \$661.1 billion. That period represented a bull market in stocks. Net new cash flows to bond funds totaled \$213.0 billion during that period.
4. As most investors are well aware, the 2008-2009 financial crisis was accompanied by another significant bear market in stocks. That bear market ran from October 2007 to March 2009. This time around, however, with the exception of 2013 and 2014, investors have shunned equity funds despite the fact that the current bull market in stocks is the second-longest in history.
5. Net new cash flow figures in Q1'18 (not shown in chart) were just more of the same. Equity funds reported net outflows totaling \$15.4 billion, while bond funds took in a net \$58.8 billion, according to the ICI.
6. The anticipated rotation of billions of dollars of capital from bond funds to equity funds has yet to materialize. The theory was that investors would shift a considerable chunk of their capital from low-yielding bonds to stocks in search of higher returns as the economy rebounded. Perhaps having to endure two bear markets in the span of a decade was one too many for retail investors.

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

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