

Cash Flow and Carey



Robert Carey, CFA
Chief Market Strategist

10/24/23

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 U.S. Dollar Index (DXY) indicates the general international value of the dollar relative to a basket of major world currencies.

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, the Internal Revenue Code or any other regulatory framework. Financial professionals are responsible for evaluating investment risks independently and for exercising independent judgment in determining whether investments are appropriate for their clients.

Passive vs. Active Fund Flows

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

(12-month flows through 9/30/23)

Category	Active	Passive
U.S. Equity	(262,818)	162,736
Sector Equity	(34,381)	(11,975)
International Equity	(90,976)	72,283
Allocation	(87,762)	(541)
Taxable Bond	(85,672)	232,063
Municipal Bond	(46,472)	19,673
Alternative	(12,025)	(159)
Commodities	(10,525)	(12,290)
Nontraditional Equity	22,866	2,444
Miscellaneous	1,100	4,260
All Long Term	(606,664)	468,493

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 9/30/23.

Passive mutual funds and ETFs reported estimated net inflows totaling \$468.49 billion for the 12-month period ended 9/30/23 while active funds reported estimated net outflows totaling \$606.66 billion over the same period. The only active categories over the past 12 months with net inflows were Nontraditional Equity and Miscellaneous with inflows of \$22.87 billion and \$1.10 billion, respectively (see table above). For comparison, the top three passive categories were Taxable Bond, U.S. Equity, and International Equity with inflows of \$232.06 billion, \$162.74 billion, and \$72.28 billion, respectively.

Despite improving total returns throughout much of 2023, equity funds have seen significant outflows over the trailing 12-month period.

Combined, the active and passive equity categories experienced outflows of \$228.12 billion for the 12-month period ended 9/30/23. For comparison, the Taxable and Municipal Bond categories reported net inflows totaling \$119.59 billion over the same time frame. The S&P 500, S&P MidCap 400, and S&P SmallCap 600 Indices posted total returns of 21.59%, 15.46% and 9.98% respectively, for the 12-month period ended 9/29/23, 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 24.00% and 11.70%, respectively. The U.S. Dollar Index (DXY) fell by 5.30% for the same time frame. The index reflects the general international value of the dollar relative to a basket of major world currencies. The weaker dollar accelerated the performance of unhedged foreign securities held by U.S. investors, in our opinion.

Takeaway

Passive mutual funds and ETFs saw inflows of \$468.49 billion compared to outflows of \$606.66 billion for active funds over the trailing 12-month period ended 9/30/23. In the table above, we observe the largest disparity occurred in the U.S. Equity category, with active shedding \$262.82 billion compared to inflows of \$162.74 billion for passive funds. Notably, net outflows from equity funds stood at \$228.12 billion over the trailing 12-months, while combined fixed income saw inflows of \$119.59 billion. Nontraditional Equity and Miscellaneous were the only two categories to see inflows among the active management styles. To view the last time we updated this post, please [click here](#).