

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.

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Passive vs. Active Fund Flows

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

(12-month flows through 9/30/24)

Category	Active	Passive
U.S. Equity	(296,950)	407,106
Sector Equity	(33,899)	5,998
International Equity	(78,887)	77,206
Allocation	(95,831)	(648)
Taxable Bond	150,451	238,259
Municipal Bond	14,997	12,487
Alternative	15,363	19,124
Commodities	(2,216)	(128)
Nontraditional Equity	20,943	1,827
Miscellaneous	7,977	(7,049)
All Long Term	(298,051)	754,182

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 for the 12-month period ended 9/30/24.

Passive mutual funds and ETFs reported estimated net inflows totaling \$754.18 billion for the 12-month period ended 9/30/24, while active funds reported estimated net outflows totaling \$298.05 billion over the same period. The top three active categories with net inflows over the past 12 months were Taxable Bonds, Nontraditional Equity, and Alternatives, with inflows of \$150.45 billion, \$20.94 billion, and \$15.36 billion, respectively (see table above). For comparison, the top three passive categories were U.S. Equity, Taxable Bond, and International Equity, with inflows of \$407.11 billion, \$238.26 billion, and \$77.21 billion, respectively.

Despite compelling total returns in the broader equity markets, equity mutual funds and ETFs saw much lower inflows than their fixed income counterparts over the trailing 12-month period.

Combined, the active and passive equity categories experienced inflows of \$6.87 billion for the 12-month period ended 9/30/24. For comparison, the Taxable and Municipal Bond categories reported net inflows totaling \$416.19 billion over the same time frame. The S&P 500, S&P MidCap 400, and S&P SmallCap 600 Indices posted total returns of 36.33%, 26.76%, and 25.76%, respectively, for the 12-month period ended 9/30/24, according to data from Bloomberg. 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 26.05% and 24.98%, respectively, over the same time frame.

Takeaway

Passive mutual funds and ETFs saw inflows of \$754.18 billion compared to outflows of \$298.05 billion for active funds over the trailing 12-month period ended 9/30/24. In the table above, we observe that the U.S. Equity category experienced the largest disparity, with active shedding \$296.95 billion compared to inflows of \$407.11 billion for passive funds. Notably, despite compelling total returns in the broader equity markets, equity funds saw net inflows of just \$6.87 billion over the trailing 12-month period. For comparison, fixed income saw combined net inflows of \$416.19 billion over the same time frame. We think that continued inflows into fixed income investments are reflective of investor's expectations regarding interest rate policy. Morningstar noted that flows into taxable-bond ETFs totaled a record \$93 billion during the third quarter and short-term bond funds saw quarterly inflows for the first time since Q3'21.