

# 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 \$Millions**  
(12-month flows through 12/31/24)

Category	Active	Passive
U.S. Equity	(295,711)	462,284
Sector Equity	(26,125)	19,304
International Equity	(78,817)	96,043
Allocation	(87,944)	1,264
Taxable Bond	223,928	258,532
Municipal Bond	36,965	10,102
Alternative	7,104	39,175
Commodities	(345)	2,012
Nontraditional Equity	43,282	2,736
Miscellaneous	12,303	(5,513)
All Long Term	(165,360)	885,940

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 in 2024.**

Passive mutual funds and ETFs reported estimated net inflows totaling \$885.94 billion in 2024, while active funds reported estimated net outflows totaling \$165.36 billion during the year. The top three active categories with net inflows over the past 12 months were Taxable Bonds, Nontraditional Equity, and Municipal Bonds, with inflows of \$223.93 billion, \$43.28 billion, and \$36.97 billion, respectively (see table above). For comparison, the top three passive categories were U.S. Equity, Taxable Bond, and International Equity, with inflows of \$462.28 billion, \$258.53 billion, and \$96.04 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 \$136.32 billion for the in 2024 (not in table). For comparison, the Taxable and Municipal Bond categories reported net inflows totaling \$529.53 billion over the same time frame. The S&P 500, S&P MidCap 400, and S&P SmallCap 600 Indices posted total returns of 25.00%, 13.89%, and 8.64%, respectively, in 2024, 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 7.50% and 4.70%, respectively, over the same time frame. For comparison, the Bloomberg Municipal Long Bond, Bloomberg U.S. Aggregate, and Bloomberg Global-Aggregate Bond Indices saw total returns of just 1.40%, 1.25%, and -1.69%, respectively, during the year.

### Takeaway

Passive mutual funds and ETFs saw inflows of \$885.94 billion compared to outflows of \$165.36 billion for active funds over the trailing 12-month period ended 12/31/24. U.S. Equities experienced the largest disparity, with active shedding \$295.71 billion compared to inflows of \$462.28 billion for passive funds. Yet again, despite compelling total returns in the broader equity markets, equity funds saw smaller net inflows than their fixed income counterparts. Net inflows into active and passive equity ETFs totaled 136.32 billion during the year, whereas fixed income saw combined net inflows of \$529.53 billion over the same time frame. Overall, U.S. long term ETFs saw net inflows of \$720.58 billion in 2024, an increase of nearly 2.7% year-over-year. The figure represents the third-highest total over the past 10 years. Of the ten category groups in the table, only sector equity and allocation funds saw net outflows during the year.