

VIDEO

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Focus on Funds: ICI's Chief Economist on the Outlook for the Bond Fund Market

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ICI's Chief Economist on the Outlook for the Bond Fund Market

In the July 11, 2014, edition of *Focus on Funds*, ICI Chief Economist Brian Reid provides insight about the bond fund market, and tells us what to expect if interest rates rise.

Transcript

Stephanie Ortvals-Tibbs, ICI Director, Media Relations: Welcome to *Focus on Funds*, the Investment Company Institute's weekly roundup of industry news, ICI activities, and research findings.

The large size of today's bond fund market is generating some questions around what investors might do if interest rates rise and their fund returns dip. ICI Chief Economist Brian Reid offers some insights.

Brian Reid, ICI Chief Economist: Bonds and bond mutual funds are an important part of any investor's portfolio. They help provide stability and income, and help to balance out the stocks and stock mutual funds that are in a portfolio. So what we've seen as investors put more and more money into retirement accounts is that the demand for bond funds has been rising.

U.S. households own about \$5.0 trillion of directly held bonds and about another \$3.5 trillion of bond mutual funds. But bond mutual fund investing is not a new phenomenon. Investors have been putting money into bond mutual funds really since the 1940s and we saw a growth in demand in the last decade or so as investors have begun to age and as they've wanted to reduce slightly their allocations to stocks. This has created an underlying demand for bonds and bond funds, and this is not going to go away as interest rates begin to rise. This is going to create a core demand and leave investors in place to ride the interest rates higher.

**Bond Fund Assets Have Risen Steadily
Trillions of dollars, year-end 2003-2014***

*Data are through May

Source: Investment Company Institute

Now, it won't be surprising if we do see some modest outflows from bond funds as interest rates rise. This is normal. But, what will happen is, as interest rates begin to rise, that will attract new investors, wanting to get the higher yields, and bring in more demand for those investors who are willing and wanting to back away a little bit from their bond fund exposure.

Stephanie Ortals-Tibbs: A host of resources on questions related to asset management and financial stability are available on the ICI website.

That's this week in funds. See you next week.

Additional Resources

- [Financial Stability Resource Center](#)
- [Understanding the Risks of Bond Mutual Funds: Are They Right for Me?](#)
- [Graphic: Bond Fund Assets Have Risen Steadily \(pdf\)](#)

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