

VIDEO

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Focus on Funds: 2018 Fund Investment Stays on a Positive Track

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Fund investors have continued to direct money into mutual funds and exchange-traded funds (ETFs), even during 2018's volatile markets. In the November 9, 2018, edition of *Focus on Funds*, ICI Economist Morris Mitler examines the trends.

Transcript

Stephanie Orbals-Tibbs, ICI director of media relations: As 2018 draws to a close, what are the major trend lines in equity, bond, and money market fund investment, and are there any surprises in the data? ICI Economist Morris Mitler offered some recent insight.

Morris Mitler, ICI economist: The big picture is that 2018 has been a good year for mutual funds, and [exchange-traded funds] ETFs and their investors. Investors have directed a combined \$150 billion in new cash to long-term mutual funds and ETFs. Equity markets around the world are up about 4 percent. That doesn't quite match last year's performance of 25 percent, but equity mutual funds and equity ETFs have taken in about \$5 billion so far. And bond funds, despite the fact that interest rates have been increasing, have received new cash flows.

We believe this is driven by demographic trends such as the Baby Boomers, as approaching retirement, they tilt their portfolios towards a greater percentage of fixed-income investments.

Orbals-Tibbs: The rising interest rate environment has also benefited money market funds.

Mitler: Absolutely. As the yields on money market assets, such as [certificates of deposit] CDs or commercial paper have become more attractive, money market funds have taken in about \$25 billion so far.

Orbals-Tibbs: Can we break down the equity markets? What do you see in terms of the fund flow trends there? Markets have seen highs and lows this year.

Mitler: It's true that there have been a couple of bouts of volatility in 2018, but it's

important to recognize that long-term investors frequently use the types of funds that we're talking about, and they may have an investment horizon that extends years, or even decades, into the future. Because of the strong influence of long-term investors, flows in and out of funds tend to be muted relative to the movements in asset prices.

Ortbals-Tibbs: Let's break down in the bond side of this equation. What do you see there?

Mitler: It could be challenging to invest in bond funds during a period of rising interest rates, but long-term investors always have the advantage of being able to ride out the cycle. While the value of their bond fund portfolios may decline temporarily, they still generate interest income. In addition, as bonds and the funds' portfolios mature, the proceeds are reinvested in the bonds that carry the higher prevailing interest rates.

Ortbals-Tibbs: So the long-term investor or the type of investor who uses our funds really is continuing to engage with both type of investment trends—equities and bonds—because they suit their needs.

Mitler: Absolutely. Mutual funds and exchange-traded funds tend to be used by investors who are trying to save for some major life event: perhaps retirement, perhaps the purchase of a home, or college education.

Ortbals-Tibbs: Last question for you: Any surprises in the data?

Mitler: One thing that's been particularly noteworthy has been the strength of the flows into international equity mutual funds and ETFs despite the fact that world equity indices have lagged their US counterparts. International funds have attracted about \$88 billion so far in new cash flows.

Additional Resources

- [Weekly Estimated Flow Report](#)
- [Monthly Exchange-Traded Fund Assets](#)
- [2018 Investment Company Fact Book](#)
- [ICI Viewpoints: Fund Investors Will "Run"? Sorry, Charlie Brown](#)