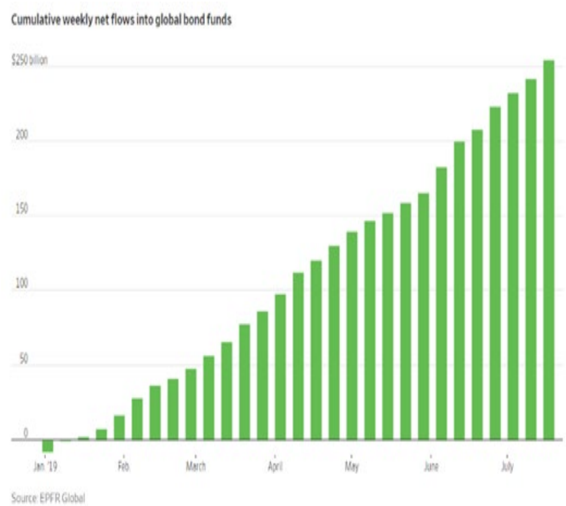
BLOG POST
ETF Fund Flows
August 16, 2019

Evaluating ETF fund flows can provide a snapshot of investor sentiment. In particular, net flows (i.e., the total amount invested in or sold out of exchange-traded-funds over a specific time horizon) gauges investor demand for various asset classes, such as stocks or bonds. According to Morningstar data, investors (typically retail clients) have invested roughly $69 billion net in passive exchange-traded-funds so far this year (as of June). One asset class of particular interest is bonds. The demand for fixed coupon investments is surging, which in turn sends yields lower. The chart to the left illustrates the monthly growth (cumulative) in bond ETF flows so far this year.



- The demand for bond funds is noteworthy. Investors aren't likely making an investment in bonds just for the income they generate, given current yields. The increase in aggregate demand is driven by an underlying notion that the equity market is somehow overvalued and due for a correction.
- Yet another scenario that might be driving demand for bonds is the notion that yields will fall even further. For example, if the 10-year Treasury falls to 1.5%, there is substantial upside return potential. That is, the combined income and capital appreciation (total return) on bonds could feasibly outpace the performance for equities.