A Deep Dive into 2024's Fund Flow Activity

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Last Updated: July 23, 2024

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With June, the second quarter (Q2), and the first half of the year behind us, we conducted a deeper dive into fund flows over these periods. Flows measure the net movement of cash into and out of investment vehicles, such as mutual funds and exchange-traded funds (ETF). We analyzed flows to gain insight on investor demand and sentiment surrounding asset classes, sectors, and other classifications of markets.

Morningstar Category Flows

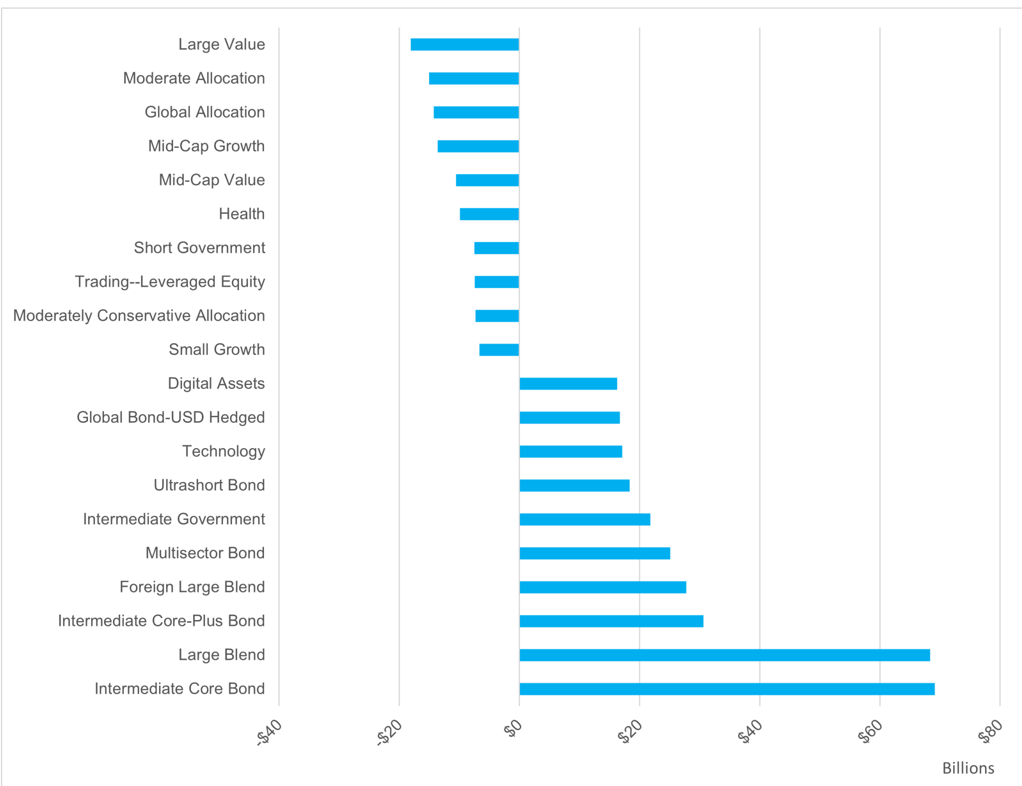
When looking at Morningstar category data in June, foreign large-blend equities experienced the largest inflow at $8 billion. This continues a trend we've seen this year, as the foreign large-blend category captured the fourth most flows in both Q2 ($11.8 billion) and year-to-date (YTD) ($27.8 billion) periods. Making up three of the next four highest categories by inflows were bonds, with long government, corporate, and ultrashort bonds gaining $5.5 billion, $4.6 billion, and $4.5 billion, respectively. Of these three bond categories, ultrashort has been in the top 10 in terms of inflows over the Q2 (third) and YTD (seventh) periods. While corporate and long government bonds have also experienced positive inflows over these periods, core fixed income categories — represented by intermediate core and intermediate core-plus bonds —

have experienced some of the largest inflows this year. The combined $69.1 billion (intermediate core) and $30.1 billion (intermediate core-plus) of both categories bring in roughly $100 billion of inflows YTD. The $100 billion in inflows outpaces the next largest YTD category, large blend, by over $30 billion.

Looking at the other end of the spectrum, moderate allocation and global allocation funds experienced the largest net outflows of $3 billion and $2.3 billion, respectively, in June. This also continues a trend seen in Q2 and YTD, as moderate allocation and global allocation funds have been two of the top three largest categories by outflows. The other category within the top three is large value, which is the second largest category by outflows in Q2 ($7.8 billion) and the largest category by outflows YTD ($18.1 billion). It's no surprise that large value has experienced meaningful outflows over these periods considering the relative outperformance of large blend and growth stocks YTD.

Core Bonds and Large Blend Equities Continue to Dominate Flows YTD

Trailing YTD Net Asset Flows Top Ten and Bottom Ten Across Morningstar Categories (AUM, Billions $)



Source: LPL Research, Morningstar Direct, 7/22/24
Disclosures: Indexes are unmanaged and cannot be invested in directly. Past performance is no guarantee of future results.

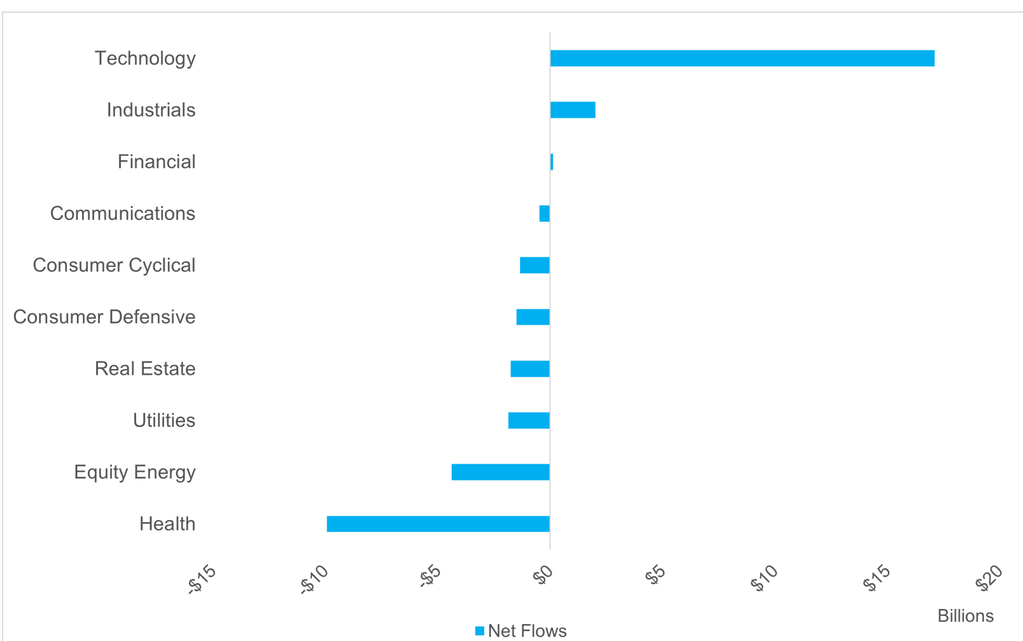
Sector Flows

When looking at individual equity sector data in June, the technology sector saw the largest inflow by a wide margin, gaining $4.3 billion, more than $3 billion ahead of the next closest sector. This continues a trend seen in Q2 and YTD, as technology has been the top sector by inflows, capturing $4.2 billion and $17.1 billion, respectively, over those periods. It's no surprise investors are pouring into technology, as it has been one of the top-performing sectors over all periods analyzed, outperforming all sectors in June and Q2, and trailing only the communication services sector YTD. Following technology were the financials ($1.1 billion), utilities ($890 million), and consumer defensive ($353 million) sectors. Outside of technology, the financials sector was one of the few sectors to have positive flows in Q2 and YTD ($2.4 billion and $137 million, respectively).

Conversely, energy experienced the largest outflow in June at $1.7 billion. Outflows in energy continued a trend seen in Q2 and YTD, with energy being the third and second largest sector by outflows, respectively, in both periods. Following energy, was the healthcare sector, which has lost significantly more assets than any other sector over the Q2 and YTD periods ($6.8 billion and $9.9 billion, respectively). Investors continue to rotate out of healthcare, as slowing COVID-19-related sales, patent expirations, and U.S. election uncertainty weigh on the sector.

Technology Outpaces Sector Peers by Wide Margin

Trailing YTD Net Asset Flows across Morningstar Sectors (AUM, $ Billions)



Source: LPL Research, Morningstar Direct, 7/22/24
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When comparing the latest LPL Research Strategic and Tactical Asset Allocation Committee (STAAC) views with the June, Q2, and YTD flows data, there are a number of similarities. The top asset classes by inflows YTD are large-blend equities, intermediate core, and intermediate core-plus bonds. The STAAC has a slight overweight to large cap equities over small, with the tilt coming more from large growth equities than large value. While large caps are more expensive than small caps from a valuation perspective, earnings power and quality, coupled with impressive technicals, outweigh their relative steep valuations.

In fixed income, the STAAC maintains a neutral duration standpoint, favoring fixed income broadly over cash, as the risk-return trade-off is attractive relative to history.

From a sector perspective, the STAAC is neutral, the top sector by inflows, technology, as earnings strength and artificial intelligence (AI) tailwinds continue to drive this sector higher, although valuations appear stretched. Health care, the largest sector by outflows, was recently downgraded to underweight reflecting the slowdown in COVID-19 related sales, weak technicals, and potential presidential election risk.

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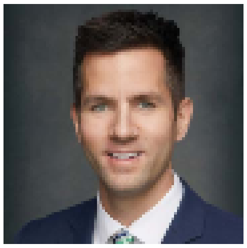

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