
Morningstar U.S. Fund Flows: Records Smashed in 2021

Investors embraced passive funds and tried to counter inflation.

Morningstar Research

December 2021

Published Jan. 14, 2022

Data through Dec. 31, 2021

U.S. Mutual Funds and Exchange-Traded Products

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Key Takeaways

- ▶ Long-term mutual funds and exchange-traded funds collected \$88 billion in December 2021, bringing their annual total to \$1.2 trillion, the most on record in data going back to 1993.
- ▶ Taxable-bond funds' \$16 billion December inflow was their worst showing of the year, but they still notched an annual record in 2021 with a \$531 billion haul, the most of any U.S. category group.
- ▶ After a dismal 2020, U.S. equity funds rebounded with \$151 billion of inflows, aided by December's \$30 billion intake.
- ▶ International-equity funds brought in \$29 billion in December, cementing their place at the top of all equity U.S. category groups for 2021 with \$262 billion of inflows.
- ▶ Sector-equity funds ended 2021 quietly with just a \$4.8 billion inflow in December, but their strength earlier in the year earned a record annual inflow of \$98 billion.
- ▶ Alternative funds posted the second-strongest organic growth rate of any U.S. category group in 2021, on their way to a record \$33 billion calendar-year intake.
- ▶ Funds focused on sustainability gathered \$71 billion in 2021, \$20 billion more than in 2020.
- ▶ Fund families with prominent passive fund lineups raked in the most assets in 2021, particularly Vanguard, which pulled in the most at \$362 billion.

Investors Ride Hot Equity Markets but Rebalance Toward Fixed Income

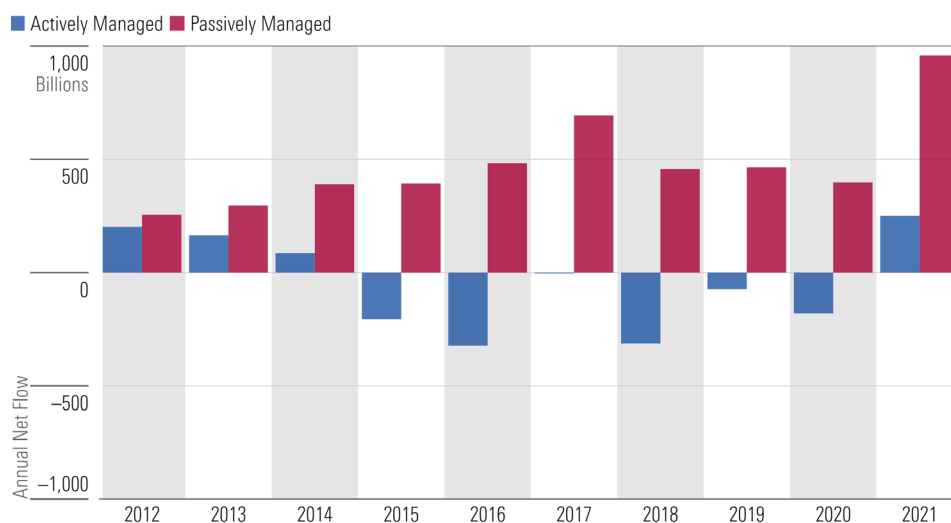
Long-term mutual funds and ETFs gathered \$88 billion in December, capping off a record year. Investors poured \$1.2 trillion into these vehicles in 2021, nearly double the previous annual record of \$689 billion set in 2017. About \$730 billion of the \$1.2 trillion entered markets during the first six months of the year, peaking at nearly \$160 billion in March. While momentum tapered off in the final quarters, investors still added an average of \$80 billion per month, well above the pace set in other years, including 2017.

Exhibit 1 U.S. Category Flows

| U.S. Category Group | Estimated Net Flows | | | Assets (\$Bil) |
|-----------------------|---------------------|------------------|-------------|----------------|
| | Dec 2021 (\$Mil) | TTM (\$Mil) | TTM OGR | |
| US Equity | 30,333 | 150,878 | 1.4% | 13,532 |
| Sector Equity | 4,772 | 97,602 | 8.5% | 1,472 |
| International Equity | 29,037 | 262,148 | 6.8% | 4,280 |
| Allocation | (1,410) | (1,562) | -0.1% | 1,595 |
| Taxable Bond | 16,253 | 531,518 | 10.4% | 5,607 |
| Municipal Bond | 4,869 | 106,280 | 11.3% | 1,062 |
| Alternative | 3,546 | 33,411 | 30.9% | 146 |
| Commodities | (3,375) | (1,643) | -1.0% | 169 |
| Nontraditional Equity | 1,928 | 15,561 | 63.0% | 43 |
| Miscellaneous | 1,679 | 14,153 | 16.8% | 141 |
| All Long Term | 87,633 | 1,208,346 | 5.1% | 28,047 |
| Money Market | 129,859 | 411,419 | 9.5% | 4,734 |

Source: Morningstar Direct Asset Flows. Data as of Dec. 31, 2021. TTM is trailing 12 months. OGR is organic growth rate.

Passively managed funds collected roughly \$96 billion in December while active funds shed more than \$8 billion, making the month a microcosm of the year. Passive funds raked in \$958 billion in 2021, over \$700 billion more than their active counterparts. The mere fact that active funds took in new money is an accomplishment as they had suffered outflows in every year from 2015 to 2020.

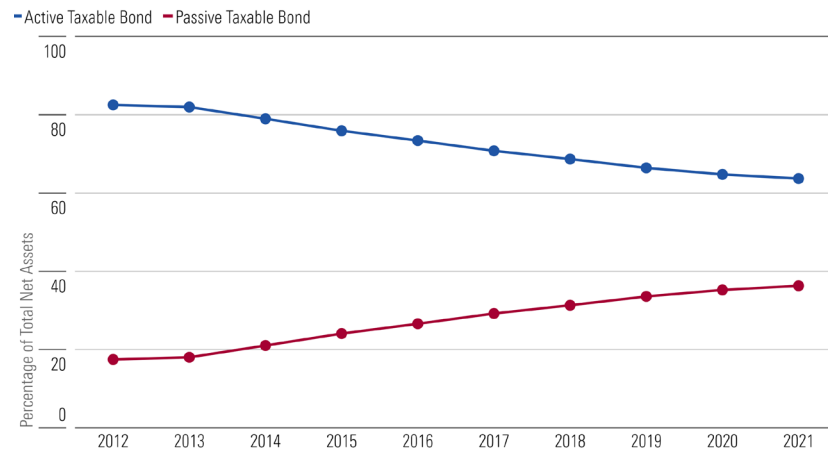
Exhibit 2 Active and Passive Fund Estimated Net Flows

Source: Morningstar Direct Asset Flows. Data as of Dec. 31, 2021.

The minor comeback for active funds was mainly due to strong flows into actively managed taxable-bond funds. Active shops in this segment have been putting up a fight against passive alternatives. They

gathered \$257 billion in 2021, just a bit below passive taxable-bond funds' \$275 billion intake. However, the long-term trend suggests they may still be losing the war.

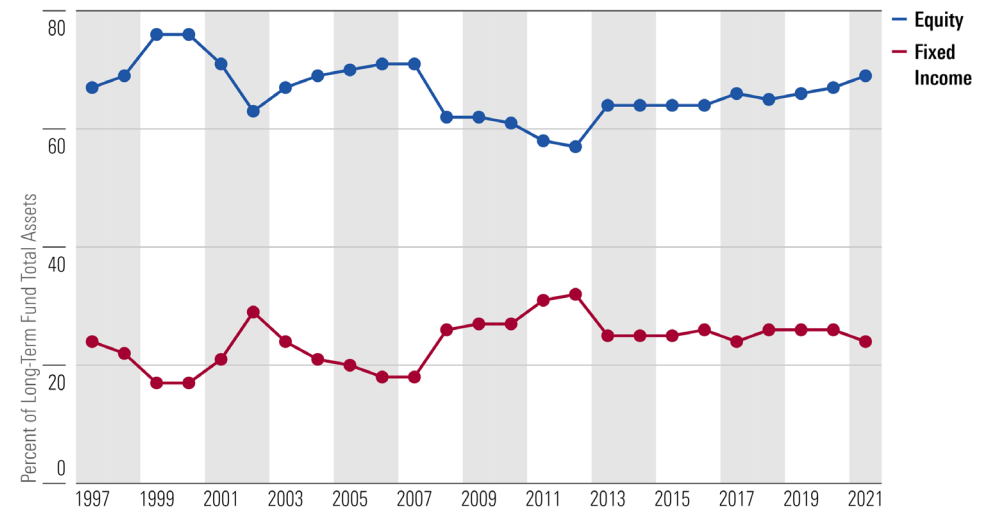
Exhibit 3 Active and Passive Share of Taxable-Bond Fund Total Net Assets



Source: Morningstar Direct Asset Flows. Data as of Dec. 31, 2021.

Despite taxable-bond funds' dominance in recent years, their share of the overall pie of investor assets has remained roughly the same. This is because equity markets have appreciated significantly, such that their piece has held steady or increased slightly despite substantially weaker flows. Strong taxable-bond flows may be partly reflective of rebalancing activity.

Exhibit 4 Share of Total Net Assets for Equity and Fixed Income Asset Classes



Source: Morningstar Direct Asset Flows. Data as of Dec. 31, 2021.

ETFs brought in \$106 billion in December relative to an \$18 billion outflow from open-end funds. The vast majority of ETFs are passive strategies, so they've enjoyed similar success. They collected nearly \$900 billion in 2021, easily their highest total ever and 78% more than their \$505 billion haul in 2020. They continue to take share from open-end funds, though they still have a ways to go before overtaking them: ETFs held \$7.2 trillion in assets as of December, while open-end funds held \$20.8 trillion.

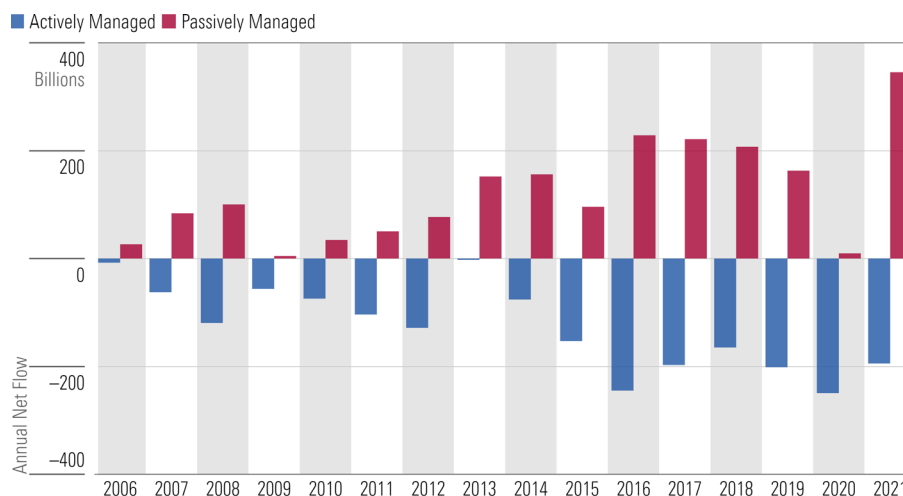
Yet ETFs also expanded their footprint in active offerings in 2021. The \$86.7 billion they captured was 38% greater than 2020's total and more than triple 2019's intake. Active ETFs' 2021 net inflow represented about 10% of all flows into ETFs. That may sound modest, but these funds only represent about 4% of the total ETF market. Their market share stands to increase, however, as 2021 saw a flurry of active ETF launches; 295 of these funds hit the market last year, a new record that accounted for about 62% of all ETF debuts.

U.S. equity funds gathered \$30 billion December, bringing their 2021 total intake to \$151 billion. After shedding \$240 billion in 2020 (their worst year ever on an absolute basis), investors reembraced U.S. equity funds as markets soared and interest rates remained low. Large-blend funds took home \$24 billion in December and \$127 billion in 2021, the most of any Morningstar Category. Passive funds represented virtually all U.S. equity inflows during the year. They collected \$346 billion, while active funds shed \$195 billion. Of the nine categories within the U.S. equity category group, only mid-cap blend funds saw active managers take in new money. The shift away from actively managed U.S. equity funds is hardly news: They've suffered outflows every year since 2006, totaling roughly \$2 trillion.

Exhibit 5 Estimated Net Flows by Active/Passive: U.S. Category Groups

| U.S. Category Group | Active | | | Passive | | |
|-----------------------|---------------------|----------------|-------------------|---------------------|----------------|-------------------|
| | Dec 2021 (\$Mil) | TTM (\$Mil) | Assets (\$Bil) | Dec 2021 (\$Mil) | TTM (\$Mil) | Assets (\$Bil) |
| U.S. Equity | (11,900) | (194,851) | 6,078 | 42,233 | 345,730 | 7,454 |
| Sector Equity | (3,039) | (152) | 549 | 7,811 | 97,753 | 922 |
| International Equity | 5,203 | 46,821 | 2,490 | 23,834 | 215,327 | 1,790 |
| Allocation | (1,058) | (2,921) | 1,582 | (352) | 1,360 | 13 |
| Taxable Bond | (3,353) | 256,690 | 3,571 | 19,606 | 274,828 | 2,035 |
| Municipal Bond | 2,611 | 88,706 | 987 | 2,258 | 17,574 | 74 |
| Alternative | 3,569 | 33,197 | 144 | (22) | 213 | 2 |
| Commodities | (1,473) | 8,502 | 40 | (1,902) | (10,145) | 130 |
| Nontraditional Equity | 1,069 | 9,778 | 35 | 859 | 5,783 | 8 |
| Miscellaneous | 71 | 4,143 | 45 | 1,608 | 10,010 | 96 |
| All Long Term | (8,299) | 249,913 | 15,522 | 95,932 | 958,433 | 12,526 |

Source: Morningstar Direct Asset Flows. Data as of Dec. 31, 2021. TTM is trailing 12 months.

Exhibit 6 Annual Net Flows for Active and Passive U.S. Equity Funds

Source: Morningstar Direct Asset Flows. Data as of Dec. 31, 2021.

This year was clearly one for value funds. Large-value funds took in just \$1.8 billion in December but collected a record \$60 billion in 2021. Small-value funds also had a resurgence, collecting \$7.5 billion in 2021, their most since 2004. Growth funds, by contrast, struggled mightily. Despite a rare inflow of \$8 billion in December, large-growth funds bled \$50 billion in 2021, the largest absolute outflow of any category. They've remarkably shed assets in 14 consecutive calendar years, though rebalancing activity may have played a role here as well given that market segment's stellar performance. Mid-growth funds suffered a \$5.3 billion outflow in December, the most on record on an absolute basis. While their negative 0.76% monthly organic growth rate isn't as much of an outlier, it is the lowest tally since March 2020's negative 0.89% amid the sharp coronavirus-related sell-off. Mid-growth funds' \$17 billion outflow in 2021 was second only to that of large-growth funds among all Morningstar Categories.

Exhibit 7 Morningstar Categories With the Greatest Estimated Net Monthly Inflows/Outflows

| Morningstar Category | Dec 2021 | | | TTM (\$Mil) | Assets (\$Bil) |
|-----------------------------|-------------------|--------------------|------------------|----------------|-------------------|
| | Active (\$Mil) | Passive (\$Mil) | Total (\$Mil) | | |
| Leaders | | | | | |
| Large Blend | (48) | 24,335 | 24,287 | 127,328 | 6,375 |
| Foreign Large Blend | 3,451 | 15,527 | 18,978 | 119,530 | 1,478 |
| Large Growth | 436 | 7,556 | 7,992 | (50,205) | 2,809 |
| Long Government | (83) | 6,028 | 5,945 | 23,258 | 90 |
| High Yield Bond | 1,713 | 3,964 | 5,678 | (2,603) | 395 |
| Laggards | | | | | |
| Mid-Cap Growth | (4,437) | (790) | (5,227) | (17,175) | 684 |
| Short-Term Bond | (2,464) | (1,449) | (3,913) | 83,610 | 638 |
| Intermediate Core-Plus Bond | (3,823) | 626 | (3,197) | 47,253 | 879 |
| Ultrashort Bond | (3,409) | 630 | (2,779) | 5,721 | 348 |
| Small Growth | (2,751) | 300 | (2,450) | (9,383) | 328 |

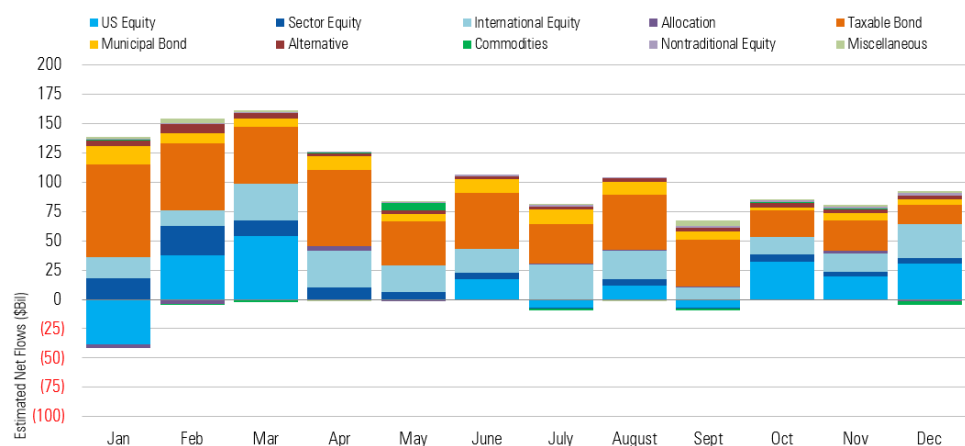
Source: Morningstar Direct Asset Flows. Data as of Dec. 31, 2021. TTM is trailing 12 months.

Sector-equity funds took in \$4.8 billion in December, well under their totals ranging from \$10 billion to \$25 billion in the first half of 2021. The year has been a tale of shifting narratives for sector-equity funds. Technology funds stole the show early on, posting a near-record \$7.8 billion inflow in February. However, the tide turned in favor of value-oriented categories afterward. Cyclical funds tied to commodities or interest rates pulled in healthy totals through June. Even though the value theme faded in the second half of the year, cyclical categories still took home some of the top spots in 2021. Financial funds led the way with a \$24 billion inflow for the year, followed by real estate funds' \$18 billion, natural-resources funds' \$15 billion, and equity energy funds' \$11.5 billion.

International-equity funds collected \$29 billion in December, cementing a stellar year that saw \$262 billion of inflows, the most of any equity U.S. category group. International-equity funds enjoyed inflows in every month in 2021 after just four such months in 2020. Foreign-large blend funds carried the category group in December and in 2021, taking in \$19 billion and nearly \$120 billion, respectively. Passive funds feature prominently in this category and dominated their active counterparts, collecting \$110 billion of the \$120 billion total. More broadly, active international-equity funds have essentially been treading water: Over the past 10 years, they gathered a paltry \$8.5 billion; but that's a positive total that many active U.S. equity funds could only dream of having.

For the sixth consecutive year, taxable-bond funds led all U.S. category groups in annual inflows. They had collected over \$531 billion when the book closed on 2021, more than double international equities' second-place sum.

Exhibit 8 U.S. Category Groups' 12-Month Asset Flows



Source: Morningstar Direct Asset Flows. Data as of Dec. 31, 2021.

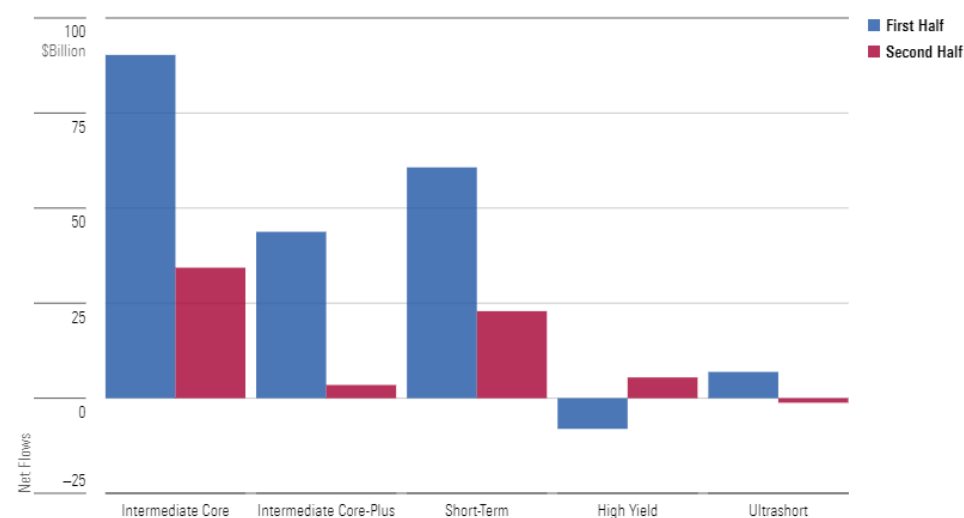
Inflation-protected bond funds were the belle of the fixed-income ball in 2021. The \$75.1 billion they absorbed shattered their previous annual record of \$29.2 billion, set in 2009. These funds' year was both lucrative and consistent; investors poured between \$5 billion and \$10 billion into these funds in each month of 2021. While **Vanguard Short-Term Inflation-Protected Securities Index** VTAPX led the way

with an \$18.1 billion haul, **Fidelity Series 5+ Year Inflation-Protected Bond Index** FSTDY had perhaps the most remarkable run. It hit the market in August and was added to Fidelity's target-date series shortly thereafter. That spot proved to be lucrative, as the fund had accumulated \$6.9 billion by year's end—fourth-most of all inflation-protected bond funds.

Bank-loan funds, which offer ballast during rising interest-rate environments, rode widespread inflation worries to a stellar year as well. After adding \$3.1 billion of new money in December, these funds closed the year with \$45.7 billion in net flows, their healthiest haul since 2013. That translated into an organic growth rate of nearly 67%—most among all taxable-bond categories by a wide margin. It was a welcome turnaround for the category, which had suffered annual outflows for three consecutive years prior to 2021.

High-yield bond funds finished second among all taxable-bond categories in December with a \$5.7 billion intake. While these funds saw net outflows in 2021, they finished strong after a rocky start. That sequence made them a bit of an outlier. Investors' desire for taxable-bond funds seemed to wane as the year progressed. Taxable-bond funds raked in \$343.7 billion over the first six months of the year, compared with \$187.8 billion in the second half.

Exhibit 9 Flows Into Taxable-Bond Funds Fell Off as 2022 Progressed



Source: Morningstar Direct Asset Flows. Data as of Dec. 31, 2021.

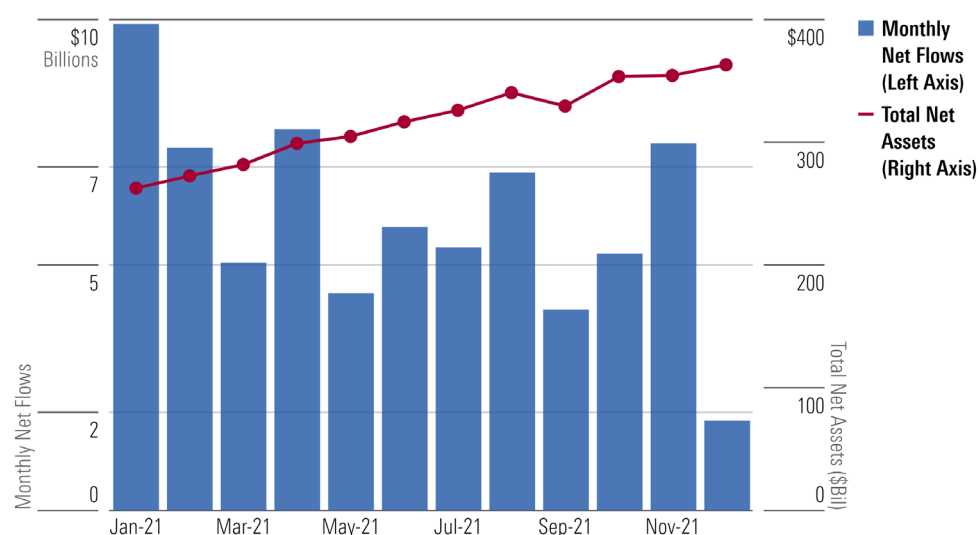
The difference between first- and second-half flows was not as acute for longer-term fixed-income offerings. Long government-bond funds thrived toward the end of the year. Of the \$23.3 billion they absorbed in 2021, more than \$19 billion came in the second half. This turnaround did not necessarily mean that investors were comfortable courting more interest-rate risk, however, as flows into inflation-protected portfolios held steady through December.

Municipal-bond funds had a solid year as well. After pulling in \$4.9 billion of new money in December, they tallied over \$106 billion in net flows on the year, narrowly eclipsing the previous record set in 2019. While that's a more modest haul than their taxable peers', it translates into an 11.3% organic growth rate that exceeds taxable-bond funds' 10.4%. Municipal-bond funds closed 2021 on a relatively soft note. They added \$13.8 billion in the year's final quarter after investors plowed between \$29 billion and \$32 billion into these funds in each of the prior three. The municipal-national intermediate category, the largest of the bunch, paced its muni peers with a \$40.4 billion intake in 2021. It was a steady effort. These funds collected between \$2 billion and \$5 billion of fresh money each month.

High-yield municipal-bond funds hauled in \$26.1 billion in 2021 to clock in at second place among municipal-bond categories. These funds jockeyed with short-term municipal-bond funds for that position over most of the year, but the latter stumbled down the stretch. Flows into short-term municipal bond funds shrunk in each of the final six months of 2021, as investors' reduced desire for short-term bond funds seemed to apply to the municipal and taxable spaces alike.

Funds focused on environmental, social, and governance objectives had a strong year in 2021. While they collected their lowest monthly total in December, their \$71 billion intake for the year easily eclipsed 2020's \$51 billion total. Sustainable funds enjoyed widespread success across equity, fixed-income, and alternative asset classes, though sustainable U.S. equity funds took home the most with \$34 billion of inflows. iShares had the three top-grossing sustainable funds in 2021, led by **iShares ESG Aware MSCI USA ETF ESGU**. While the firm has enjoyed great success in the sustainable arena, some of that may be of its own doing, as flows from its proprietary model portfolios padded those flow totals.

Exhibit 10 Trailing 12-Month Sustainable Fund Flows and Total Net Assets



Source: Morningstar Direct Asset Flows. Data as of Dec. 31, 2021. Includes funds deemed to have sustainable mandates by Morningstar.

Passive offerings dominated the month of December just as they did for the rest of 2021. Passive funds captured the top 17 spots on the list of flow leaders in 2021, with a particularly notable showing from funds that track the S&P 500. Four of the top 10 flow leaders replicate the bellwether U.S. equity benchmark. **SPDR S&P 500 ETF**'s SPY incredible \$25.7 billion haul in December propelled it to the number-two spot in 2021. While that was its largest inflow ever, it wasn't as much of an outlier on an organic-growth basis given the fund's massive \$445 billion asset base.

Exhibit 11 Funds With the Greatest Estimated Monthly Net Inflows and Outflows

| Fund Name | Dec 2021 (\$Mil) | TTM (\$Mil) | Assets (\$Bil) |
|-----------------------------------------|---------------------|----------------|-------------------|
| Leaders | | | |
| SPDR® S&P 500 ETF | 25,698 | 39,888 | 455 |
| Vanguard US Growth Portfolio | 5,353 | 7,304 | 53 |
| Invesco QQQ | 4,964 | 22,433 | 215 |
| JPMorgan Large Cap Growth | 4,656 | 7,342 | 41 |
| iShares 20+ Year Treasury Bond ETF | 3,294 | 2,098 | 20 |
| iShares Core S&P 500 ETF | 3,173 | 28,570 | 335 |
| Northern Ultra-Short Fixed Income | 2,939 | 2,818 | 7 |
| iShares iBoxx \$ High Yield Corp Bd ETF | 2,734 | (4,339) | 21 |
| Fidelity® Srs 5+ Yr Inf-Ptctd Bd Idx | 2,649 | 6,928 | 7 |
| Fidelity® Series Global ex US Index | 2,614 | 9,392 | 33 |
| Laggards | | | |
| Vanguard 500 Index | (7,056) | 34,778 | 856 |
| Fidelity® Series Infl-Ptctd Bd Idx | (4,676) | (9,534) | 6 |
| iShares MSCI USA Quality Factor ETF | (2,992) | (950) | 25 |
| Vanguard Institutional Index | (2,787) | (27,139) | 305 |
| Fidelity® Contrafund® | (2,155) | (17,716) | 145 |
| American Funds Growth Fund of Amer | (2,103) | (11,860) | 291 |
| iShares MSCI USA Momentum Factor ETF | (1,916) | (24) | 15 |
| Vanguard Total Bond Market II Index | (1,528) | 39,224 | 257 |
| Vanguard Extended Market Index | (1,413) | 1,067 | 109 |
| iShares MSCI USA Min Vol Factor ETF | (1,373) | (7,869) | 30 |

Source: Morningstar Direct Asset Flows. Data as of Dec. 31, 2021. TTM is trailing 12 months.

Funds that shed the most assets in 2021 were more likely to be actively managed. **Fidelity Contrafund** FCNTX bled \$2.2 billion of its huge \$145 billion asset base in December, bringing its year-to-date outflow to \$17 billion, third most of any fund. **American Funds Growth Fund of America** AGTHX also made the list of laggards in December with a \$2.1 billion outflow. This even bigger active fund had \$291 billion in assets as of year's end and saw a total of \$11.9 billion leave in 2021, fifth most of any fund.

Fund Families

The list of the 10 largest U.S. fund families featured the same constituents at the end of 2021 as at the start. iShares' leap into third place over American Funds represents the only difference. The widespread shift from active to passive funds likely helped power iShares' ascension into the third-place seat.

Another major beneficiary of the shift into index funds was Vanguard, the 2021 flows leader. The behemoth raked in \$361.9 billion last year—over \$150 billion more than iShares, its next-closest competitor (\$204.6 billion). Over 93% of the new money that Vanguard collected last year streamed into its roster of index products. Stock funds constitute about two thirds of Vanguard's U.S. assets under management, but certain fixed-income funds had strong showings. **Vanguard Total Bond Market II Index** VTBIX gathered \$39.2 billion, more than any of the firm's equity offerings.

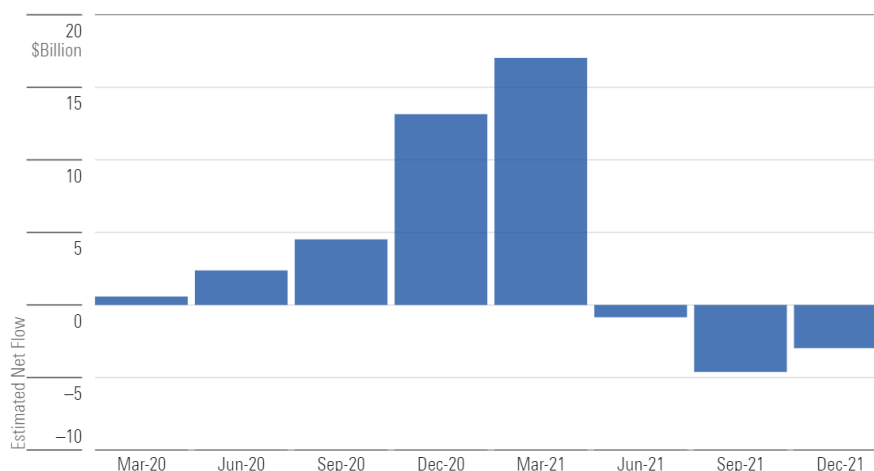
Exhibit 12 Estimated Net Flows for the Top 10 U.S. Fund Families (by Total Assets)

| | Active (\$Mil) | Passive (\$Mil) | Dec 2021 Total (\$Mil) | TTM (\$Mil) | Assets (\$Bil) |
|-----------------------------------|-------------------|--------------------|---------------------------|----------------|-------------------|
| Vanguard | (2,429) | 6,948 | 4,518 | 361,882 | 7,408 |
| Fidelity Investments | 2,373 | 13,790 | 16,163 | 130,889 | 2,674 |
| iShares | 265 | 29,500 | 29,765 | 204,627 | 2,456 |
| American Funds | (3,106) | | (3,106) | 17,282 | 2,343 |
| SPDR State Street Global Advisors | 368 | 31,334 | 31,702 | 95,283 | 1,108 |
| T. Rowe Price | (2,663) | (783) | (3,446) | (31,083) | 852 |
| Invesco | (2,513) | 5,688 | 3,175 | 41,267 | 746 |
| Franklin Templeton Investments | (2,781) | 59 | (2,722) | (15,881) | 535 |
| J.P. Morgan | 8,615 | 807 | 9,422 | 52,212 | 531 |
| Dimensional Fund Advisors | (947) | (260) | (1,206) | (11,217) | 496 |

Source: Morningstar Direct Asset Flows. Data as of Dec. 31, 2021. Excludes money market flows. TTM is trailing 12 months.

Of the 10 largest fund families, J.P. Morgan posted the strongest organic growth in 2021. It raked in \$52.2 billion. Its U.S. equity and taxable-bond lineups garnered healthy investment, pulling in about \$13.5 billion each. Actively managed ETFs offered a nice boost, too. The firm's suite of such funds collected more than \$11 billion last year, led by **JPMorgan Equity Premium Income ETF** JEPI.

ARK Invest, perhaps the best-known active ETF merchant, endured a turbulent year of flows. Investors were keen to pile into the firm's offerings after their sensational run of performance in 2020. ARK's lineup, only seven deep to start 2021, absorbed more than \$17 billion in the first quarter. However, investors seemed to sour on the firm after **ARK Innovation ETF** ARKK, the firm's marquee fund, wobbled to start the year. ARK proceeded to bleed \$8.5 billion over the last nine months of the year, suffering outflows in each of the final six.

Exhibit 13 ARK Invest Quarterly Net Flows

Source: Morningstar Direct Asset Flows. Data as of Dec. 31, 2021. Excludes money market flows. TTM is trailing 12 months.

A focus on active equity funds unites many of the firms that suffered steep outflows in 2021. About three fourths of T. Rowe Price's open-end and ETF assets reside in active equity offerings, for example. Its \$31.1 billion of outflows was the most of all fund families by a comfortable margin, though client transfers to other investment vehicles explain roughly \$24 billion of that total. Franklin Templeton, which has a smaller yet still meaningful portion of its business in equity funds, ranked second from last with \$15.9 billion in outflows in 2021. Should the trend toward lower-cost, index stock funds continue, these firms may continue to feel pressure. ■■

Note: The figures in this report were compiled on Jan. 12, 2022, and reflect only the funds that had reported net assets by that date. The figures in both the commentary and the extended tables are survivorship-bias-free. This report includes both mutual funds and exchange-traded funds, but not funds of funds unless specifically stated. It does not include collective investment trusts or separate accounts.

Important methodology note: Morningstar computes flows using the approach that is standard in the industry: Estimated net flow is the change in assets not explained by the performance of the fund. Our method assumes that flows occur uniformly over the course of the month. Adjustments for mergers are performed automatically. When liquidated funds are included, the final assets of the fund are counted as outflows. Reinvested dividends are not counted as inflows. We use fund-level reinvestment rates to improve accuracy in this respect. We make ad hoc adjustments for unusual corporate actions such as reverse share splits, and we overwrite our estimates with actual flows if managers are willing to provide the data to us.

Please click [here](#) for a full explanation of our methodology. ■■



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