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U.S.-Based Bond Funds Score 1st Net Inflow Week Since Election.

NEW YORK, Jan 4 U.S.-based bond funds netted cash for the first time since the U.S. election shook the fixed-income market, Investment Company Institute data released on Wednesday showed.

Bond mutual funds and exchange-traded funds gathered \$1.9 billion in the seven days through Dec. 28 as strong demand for taxable bonds offset a two-month municipal debt fund sell-off, ICI said.

It was the first week of net inflows for the funds since the week through Nov. 9, according to the trade group.

Stocks have rallied on the potential for lower U.S. corporate taxes and fewer regulations, after the Nov. 8 election gave Republicans who support such policies control of the presidency and the U.S. Congress.

But many bond prices have sunk as investors fear those policies could spark inflation, the bane of the fixed income market.

That sell-off reignited long-running predictions of what is known in financial markets as a “great rotation” from bonds to stocks.

While some money has moved out of bonds, funds have also rotated from munis and Treasuries, which lose value when rates rise, to other fixed-income products.

These include floating-rate corporate debt funds, which pay more interest as rates rise, and “hedged” and “low duration” products also designed to do better in that environment.

“There was a little bit of a rally going into year-end, and that helped fixed-income flows,” said Sebastian Mercado, ETF strategist at Deutsche Bank. “And we’re seeing a steady rotation from rates into floating-rate products.”

Taxable bonds took in \$4.7 billion during the latest week, while municipal bonds reported \$2.7 billion in outflows, ICI said.

Stock funds attracted \$1.4 billion, with that about evenly split between domestic and international equity funds.

Commodity funds, hurt by a gold sell-off since the election, saw outflows slow to just \$240 million in withdrawals from an average of \$1.3 billion over the six prior weeks.

Gold is highly sensitive to higher rates, which diminish the appeal of holding an asset that pays no interest. Higher rates also boost the dollar, in which the metal is priced.

The following table shows estimated ICI flows, including ETFs (all figures in millions of dollars):

	12/28	12/21	12/14	12/7	11/30/2016
Equity	1,376	1,435	19,924	5,372	2,716
-Domestic	687	190	18,636	2,959	2,779
-World	689	1,244	1,288	2,413	-63
Hybrid	-1,087	-2,032	-6,657	-1,423	-984
Bond	1,912	-2,191	-951	-173	-4,088
-Taxable	4,652	1,723	2,564	4,208	-624
-Municipal	-2,740	-3,914	-3,515	-4,381	-3,463
Commodity	-240	-936	-576	-1,724	-854
Total	1,961	-3,724	11,740	2,052	-3,210

(Reporting by Trevor Hunnicutt; Editing by Richard Chang)

Reuters

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