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Bond Funds Had a Strong 2019. Next Year's Performance Depends on This One Factor.

Investors will likely keep sending cash into bond funds in 2020, according to Ned Davis Research—and that could help fuel future market gains.

Bond markets posted strong performance in 2019. Investment-grade corporate bonds brought in 14%, Treasuries returned 7.6%, and high-yield bonds gained 12%, according to ICE BofAML Indices. Tax-exempt municipal bonds returned 7.4%.

Investors sent a steady flood of cash into bond funds in 2019. While they were likely responding to strong fixed-income performance, the influx of cash started a virtuous cycle that drove further bond-market gains. Taxable-bond funds brought in a net $518 billion of investor cash for the year ended Dec. 25, according to Refinitiv Lipper data, while municipal-bond funds attracted $65 billion of net inflows.

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Barron's

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