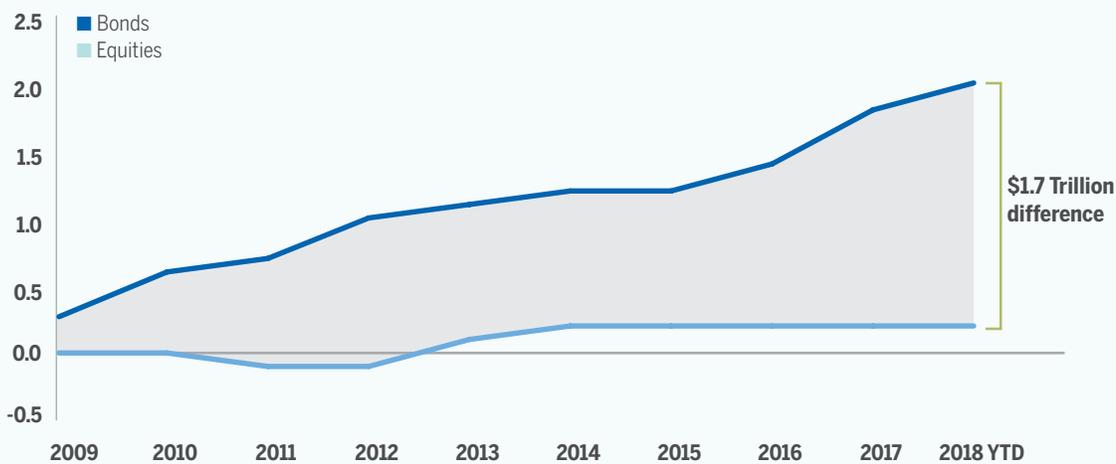


## The Great Fund Flow Rotation?

A powerful wave of bond flows has been crashing over equities for years now, but what would happen if the tide changes? If interest rates have already bottomed and bond fund returns remain low, equities could benefit from an ensuing great fund flow rotation.

### Bond Flows Have Dramatically Outpaced Equity Flows

Cumulative Fund Flows (\$T)



Source: Morningstar as 8/31/18. Equity fund flows represent the Morningstar category of U.S. Equity mutual funds and ETFs and Bond flows represent the Morningstar category of Taxable Bonds mutual funds and ETFs.

- Fund flows into bonds have dramatically outpaced those into equities over the past decade; they have reached nearly \$2 trillion compared to less than a quarter trillion dollars for equities.
- Two primary factors have driven this reality: investors allocated more of their portfolios to generate yield and also there was risk aversion in the aftermath of the Global Financial Crisis.
- Negative returns in U.S. bonds during the 12 months ended August 2018 were dwarfed by the double-digit gains in U.S. equities and given the prospect of higher interest rates, the great fund flow rotation could be on our doorstep.
- The exuberance that typically accompanies the final days of equity market expansions isn't apparent in the current fund flow data, and if the prevalence of significant positive equity fund flows preceding stock market peaks continues its historical pattern, it would imply the current bull market has room to run.

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This material must be accompanied by the most recent fund fact sheet(s) if used in connection with the sale of mutual fund shares.