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US Stock & Bond Mutual Funds See Net Inflows of \$25 Billion in July 2010

NEW YORK, NY – August 12, 2010 – Driven by ongoing demand for bond funds, US mutual fund investors added about \$25 billion in net new cash to US stock and bond mutual funds in July 2010 (in open-end mutual funds, excluding ETFs and funds underlying variable annuities). July’s net inflows were an improvement over the roughly \$14 billion of net new flows seen in June and the net redemptions of \$8 billion in May, according to Strategic Insight, a business intelligence provider to the worldwide fund industry.

Despite positive returns in equity markets through the first seven months of 2010, investors have still been put off by the market volatility that propelled the S&P 500 to a 6.9% rise in July after a 5.4% drop in June. Fund shareholders remain worried about the uncertain state of the economy and the pace of employment growth. As a result, equity funds saw modest net redemptions of \$5 billion in July, according to Strategic Insight’s Simfund database. These outflows represented just 0.1% of equity fund assets. US domestic equity funds saw net outflows of just over \$7 billion. Meanwhile, US-based international/global equity funds enjoyed net inflows of nearly \$2 billion, attracting a portion of some investors’ growth-oriented capital.

Bond funds experienced net inflows of \$30 billion in July, as inflows persisted among many lower-volatility bond funds used for cash management. In general, taxable bond funds drew \$25 billion in net investments and muni bond funds attracted \$5 billion – in both cases drawn in part by the search for income amid near-zero yields on cash and money-market vehicles.

“Even in the face of financial-market unpredictability, risk-averse investors are using mutual funds – especially bond funds – for long-term investing,” commented Avi Nachmany, SI’s Director of Research. “Early August has been marked by further doubts about the economic environment, which suggests that strong bond-fund demand will continue.”

Separately, Strategic Insight estimated that investors put net \$7.5 billion into US Exchange-Traded Funds (ETFs) in July. US ETF assets ended July at \$831 billion (just off the April peak of \$834 billion). International equity and taxable bond ETFs accounted for the bulk of July’s net inflows. “The diversity and resiliency of the ETF marketplace supports continued growth of these flexible instruments,” said Loren Fox, a senior research analyst at Strategic Insight.

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