

Morningstar Direct™ Asset Flows Commentary: Europe

Money Market, Bonds, and Passive Strategies Real Winners of European Fund Industry in 2023

Valerio Baselli and Antje Schiffler, EMEA Editorial Research Team

Key Takeaways

- ▶ Europe-domiciled long-term funds experienced net inflows of EUR 49 billion in 2023, dragged down by a subdued second half of the year.
- ▶ Money market funds attracted EUR 196 billion in 2023, about 80% more than in 2022, marking their second-best year ever in terms of flows.
- ▶ Equity funds attracted EUR 17.5 billion of net inflows in 2023. However, the overall result is only attributable to the exploit in the first quarter.
- ▶ Fixed-income funds had a very positive year, with EUR 163 billion in net inflows in 2023. Last year, bond funds had only one negative month in terms of flows.
- ▶ Long-term passive funds classified as SFDR Article 8 shed EUR 23.6 last year, while Article 9 strategies were able to attract EUR 4.4 billion.
- ▶ Overall, passive management showed a positive organic growth rate at 8.6% in 2023, while active products had a negative 2.1% OGR in the same period (money market funds excluded).
- ▶ With EUR 7.1 billion and EUR 6.3 billion of net inflows, respectively, global and U.S. large-cap blend equity funds were the most sought-after products in December for the second month in a row. The two equity categories also ranked first and third, respectively, on the annual flows' scoreboard.
- ▶ Among fund houses, BlackRock ranks top in the annual flow chart, with EUR 68.4 billion net inflows, followed by Vanguard and Xtrackers.
- ▶ Eurizon was the asset manager with the largest outflows in 2023 (EUR 17 billion), followed by Credit Suisse (EUR 14 billion).
- ▶ Pimco GIS Income Fund was the top seller of 2023, followed by iShares Core MSCI World ETF. Royal London US Equity Tilt topped the list of outflows in 2023.
- ▶ Assets in long-term funds domiciled in Europe rose to EUR 11.036 trillion at the end of December 2023, up from EUR 10.637 trillion as of Nov. 30.

Flows by Global Broad Category Group (ETFs and Open-End Funds)

Name	Net Assets	Market Share	Estimated Net Flow (EUR Mil)			Org Growth
	(EUR Bil)	(%)	1 Mo	Q4	2023	Rate (%)
	Dec 2023	Dec 2023				2023
Allocation	1,533	12.02	(7,987)	(31,127)	(72,959)	(4.63)
Alternative	149	1.17	(1,882)	(8,667)	(27,219)	(13.12)
Commodities	121	0.95	(2,453)	(5,181)	(12,534)	(9.63)
Convertibles	39	0.30	(879)	(2,600)	(8,222)	(18.11)
Equity	5,619	44.05	(893)	(5,151)	17,460	0.34
Fixed Income	3,287	25.77	15,190	34,912	163,456	5.39
Property	180	1.41	(1,119)	(3,466)	(7,890)	(3.87)
Miscellaneous	93	0.73	431	(119)	(583)	(0.65)
Unclassified	16	0.13	(2,332)	(2,573)	(2,510)	(278.46)
All Long-Term	11,036	86.52	(1,924)	(23,972)	49,000	0.48
Money Market	1,720	13.48	34,616	121,507	196,327	12.67
Total	12,756	100	32,693	97,535	245,327	

Source: Morningstar Direct.

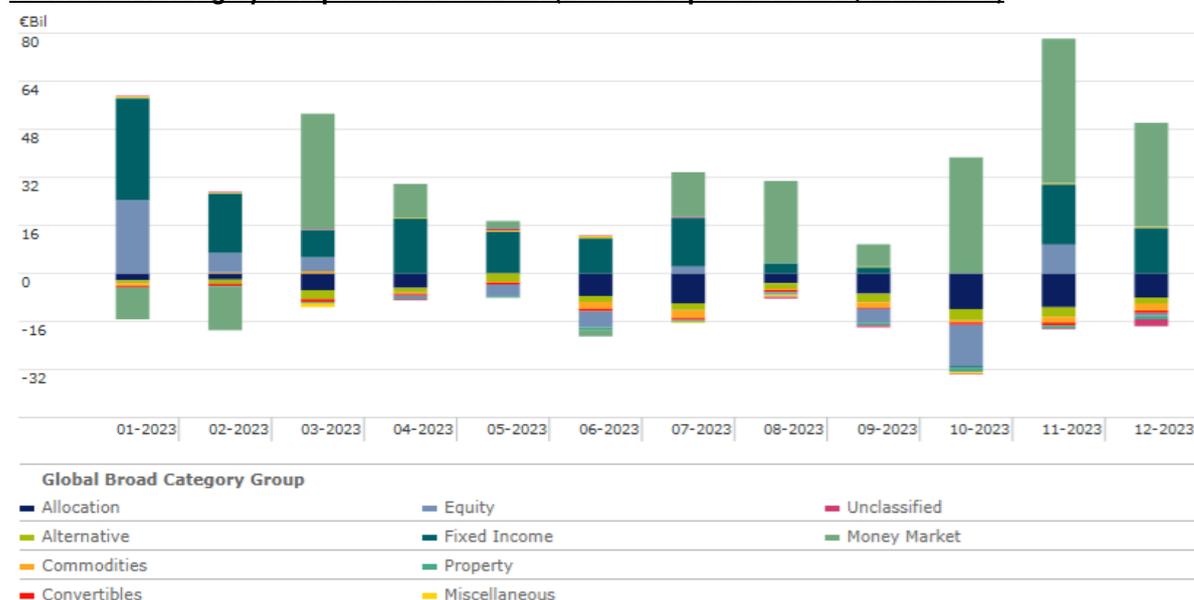
Inflation, rate hikes, economic slowdown, geopolitical tensions, a lot of turbulence and many predictions turning out to be wrong, all led to 2023 not being a quiet year for investors. However, despite the net outflows recorded in December (EUR 1.9 billion), Europe-domiciled long-term funds had a positive year overall, with inflows of EUR 49 billion. A result that hides a year split in two: EUR 90.9 billion of net inflows in the first half of the year, and EUR 42 billion of net outflows in the second half. December's environment was very different from the one we started the year in: Inflation across the developed world has since more than halved, and the recession many of us fretted over never happened. Both stock and bond markets rose in December, with investors' sentiment turning positive in the expectation of interest-rate cuts in 2024.

Equity funds shed EUR 893 million in December and EUR 5.2 billion in the fourth quarter, but overall, they had a positive 2023, with EUR 17,4 billion of net inflows last year. Global and U.S. large-cap blend equity funds were the most sought-after by investors in 2023, followed by global emerging-markets equity funds. Through the year, however, it was exclusively the first quarter that pushed up the overall result, with EUR 35.4 billion of net inflows, while the other quarters all had negative flows, with EUR 18 billion of net outflows combined.

On the other hand, showered with EUR 163.5 billion last year, fixed-income funds had four positive quarters in 2023 in terms of flows, and there were modest monthly net outflows recorded only in October (EUR 517 million). Fixed-term bond funds were the top seller within the bond space in 2023 (the portfolio of these strategies carry bonds whose expiry date is aligned with the fund's target maturity date, and all the bonds are held to maturity), followed by EUR government and corporate bond products.

Allocation and alternative strategies continued to bleed assets with EUR 73 billion and EUR 27.2 billion that walked out of the door in 2023, respectively. Allocation strategies had only three positive months in terms of flows since May 2022, while alternative funds had their last positive month in April 2022. Commodities funds, for their part, had their worst yearly result ever recorded (Morningstar has collected flow data in Europe since 2007), which was mainly because of the EUR 12 billion withdrawn from precious-metals products. Finally, money market funds cashed in EUR 196 billion in 2023, about 80% more than in 2022. They were showered with EUR 121 billion in the fourth quarter.

Global Broad Category Group Net Flows in 2023 (ETFs and Open-End Funds, EUR Billion)



Source: Morningstar Direct.

Active Versus Passive

Long-term index funds posted inflows of EUR 213.5 billion in 2023 versus EUR 165 billion of net outflows for actively managed funds. (The table below only includes the main broad category groups.) Alternative funds suffered redemptions from both sides; at the same time, bond funds were able to attract inflows to both active and passive products. Last year, long-term passive funds showed a positive organic growth rate, or OGR, at 8.6%, while long-term active products had a negative 2.1% OGR in the same period.

The market share of long-term index funds rose to 26.73% as of December 2023 from 23.77% in December 2022. When including money market funds, which are the domain of active managers, the market share of index funds stood at 23.16%, up from 20.70% 12 months earlier.

Flows by the Main Global Broad Category Groups: Active Versus Passive

Estimated Net Flows (EUR Mil)	Active			Passive		
	1 Mo	2023	Assets EUR (Bil)	1 Mo	2023	Assets EUR (Bil)
Allocation	(8,012)	(73,334)	1,528	25	376	5
Alternative	(1,711)	(27,632)	147	(170)	413	3
Commodities	384	(1,922)	21	(2,837)	(10,612)	100
Equity	(20,534)	(118,734)	3,511	19,641	136,194	2,109
Fixed Income	10,950	75,738	2,572	4,240	87,718	715

Source: Morningstar Direct. Data in euros as of Dec 31, 2023.

The Sustainable-Investing Wave

Overall, sustainable investing struggled in 2023. Funds falling within the scope of Article 8 of the Sustainable Finance Disclosure Regulation had net outflows of EUR 3.7 billion in December, which marks the seventh-consecutive negative month of flows for this group and brings the yearly result to EUR 23.7 billion of net redemptions. Equity and allocation products were the biggest detractors. On the other hand, funds falling within the scope of Article 9 (also known as dark green funds) were able to cash in EUR 4.4 billion in 2023, even though they experienced EUR 4.6 billion of net outflows in the fourth quarter.

From an organic growth perspective, Article 9 funds showed a 1.52% OGR in 2023 (passive Article 9 funds, in particular, showed a 9.45% OGR). Meanwhile, products falling into the Article 8 group had a negative 0.50% OGR last year; however, passive Article 8 funds showed an OGR of 11.08% in 2023.

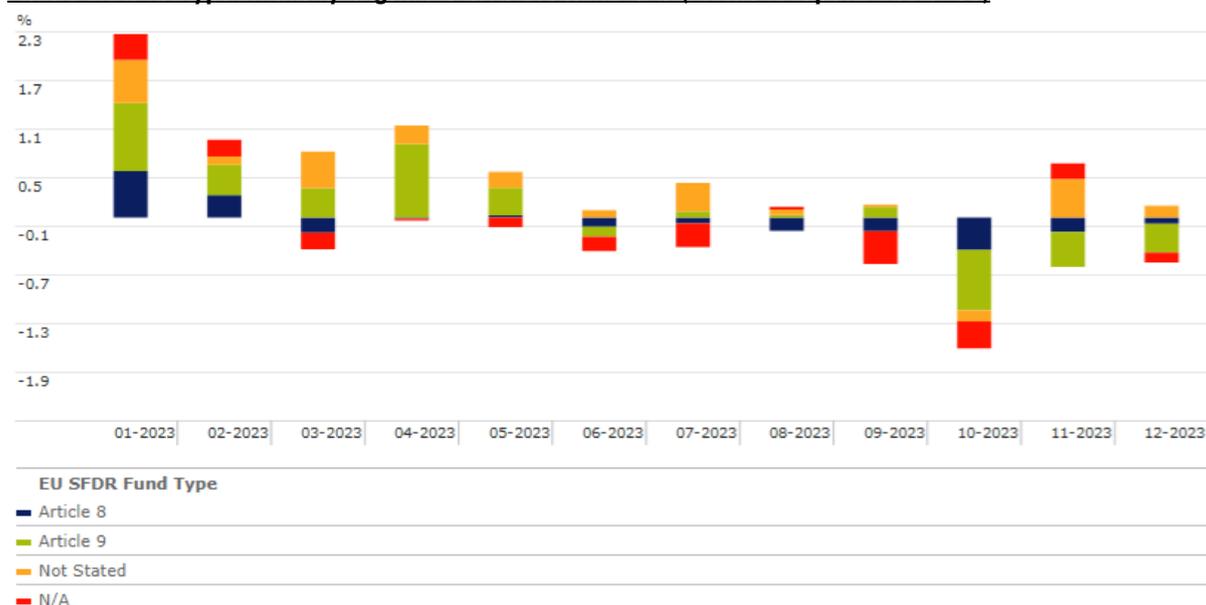
Flows by EU SFDR Fund Type: Active Versus Passive

Estimated Net Flows (EUR Mil)	Active				Passive			
	1 Mo	Q4	Assets EUR (Bil)	No of Funds	1 Mo	Q4	Assets EUR (Bil)	No of Funds
Article 8	(10,813)	(47,092)	4,347	9,426	7,093	15,624	585	898
Article 9	(925)	(5,553)	273	866	(142)	953	41	85
Not Stated	(5,125)	(20,330)	2,103	10,334	10,418	37,635	1,485	1,547
N/A	(6,043)	(15,576)	1,351	4,195	3,416	9,744	834	849

Source: Morningstar Direct. Data in euros, as of Dec 31, 2023. Money market funds excluded.

Note: Based on SFDR data collected from prospectuses on around 98% of open-end funds and exchange-traded funds available for sale in the European Union. Historical flows and assets indicated in asset flows are based on EU SFDR fund types at the time of writing this report, even though the information didn't exist or apply to the funds prior to this time.

EU SFDR Fund Type: Monthly Organic Growth Rate in 2023 (ETFs and Open-End Funds)



Morningstar Categories: The Leaders

With EUR 7.1 billion and EUR 6.3 billion of net inflows, respectively, global and U.S. large-cap blend equity funds were the most sought-after products in December for the second month in a row. The rebound in equity markets supported flows into equity products, particularly into the U.S. market. The two equity categories also ranked first and third on the annual flows' scoreboard, with inflows totaling EUR 89.8 billion and EUR 42.2 billion, respectively.

Fixed-term bonds took the number-three spot in December (nearly EUR 5 billion of inflows) and the number-two spot for the entire year (EUR 58.3 billion in 2023). The category boasted an organic growth rate (flows as a percentage of overall assets) of 68.6% in 2023, the largest rate among the top five. The fast increase in interest rates pushed bond yields up, paving the way for investors to reduce risk while benefiting from yield potential. EUR government bonds and EUR corporate bonds also benefited from the return of positive interest rates. The former ranked fourth in the annual flows league with more than EUR 25 billion in net inflows; the latter took the number-five spot and gathered EUR 24.8 billion.

Flows by Morningstar Category: The Leaders (Long-Term Funds, Active and Passive)

Name	Net Assets (EUR Bil)	Estimated Net Flow (EUR Mil)			Org Growth Rate (%)
		December 2023	1 Mo	Q4	
Global Large-Cap Blend Equity	1,128	7,098	23,806	87,121	8.86
US Large-Cap Blend Equity	696	6,329	19,594	42,159	7.63
Fixed-Term Bond	150	4,968	16,163	58,352	68.62
EUR Corporate Bond	229	3,647	7,794	24,806	13.02
Global High-Yield Bond	88	1,939	1,325	506	0.58

Source: Morningstar Direct.

Morningstar Categories: The Laggards

USD government bonds were at the bottom of investors' preferences in the last month of the year, which marks a stark reversal of the positive trend on the annual flow chart. September was the only other month in 2023 with net outflows from this category, though at a much more moderate pace compared with December (EUR 75 million compared with EUR 2.4 billion).

Precious metals had net outflows of EUR 1.9 billion in December, which marks the seventh-consecutive negative month of flows for this group. Precious metals, especially gold, have been hit hard as investors anticipated a turn in monetary policy. Higher interest rates make gold investments less attractive, and demand among Chinese and Indian consumers slowed. Xetra Gold ETC alone lost EUR 849 million in December and EUR 1.9 billion in 2023. The category posted a negative 12.29% OGR.

On an annual basis, outflows hit U.K. large-cap equity the hardest, which were affected by lame export growth. Funds in this category saw EUR 16.2 billion walk out the door. Several global allocation categories also ranked among the top-five categories with outflows in 2023. Multi-asset funds have recently underperformed their benchmarks, Morningstar analyst Matias Möttölä noted in a recent Morningstar report. On average, such funds underperformed their benchmarks over the last 10 years, which was mainly due to high cost.

Flows by Morningstar Category: The Laggards (Long-Term Funds, Active and Passive)

Name	Net Assets (EUR Bil)		Estimated Net Flow (EUR Mil)		Org Growth Rate (%)
	December 2023	1 Mo	Q4	2023	2023
USD Government Bond	63	(2,354)	2,110	9,382	17.98
Commodities - Precious Metals	93	(1,864)	(4,474)	(11,916)	(12.29)
EUR Moderate Allocation - Global	216	(1,713)	(5,595)	(9,652)	13.02
Asia ex-Japan Equity	63	(1,490)	(3,821)	(5,002)	(6.99)
US Large-Cap Value Equity	37	(1,470)	(3,419)	(9,917)	7.63

Source: Morningstar Direct.

Fund Providers: The Leaders

The top ranks of asset-gathers were taken by providers with a strong focus on passive strategies. BlackRock gathered nearly EUR 4 billion last month. The American asset manager also ranks top in the annual flow chart, with EUR 68.4 billion in net inflows. Amundi gathered EUR 400 million in December, followed by Xtrackers with EUR 164 million. UBS ranked fifth in December, reversing an overall negative 2023 amid woes surrounding the Credit Suisse takeover. In December, four funds from the Swiss provider ranked among the top 10.

On an annual basis, Vanguard ranks second after BlackRock. The asset manager benefited from the hunger for passive strategies on the European market and consolidated its status as the fourth-largest ETF provider in Europe, according to Jose Garcia-Zarate, associate director of passive strategies at Morningstar. After a few not-so-good years, Xtrackers (DWS) took spot three on the annual flow chart, with EUR 17.1 billion of net inflows in 2023. The asset manager remains the third-largest provider of ETFs on the European market.

Fund Providers: Largest Inflows, Active and Passive (Excluding Money Market Funds)

Name	Net Assets	Estimated Net Flow (EUR Mil)			Org Growth
	(EUR Bil)				Rate (%)
	December 2023	1 Mo	Q4	2023	2023
BlackRock	1,172	3,963	16,981	68,371	6.90
Amundi	440	3,571	3,355	3,182	0.78
Xtrackers	164	3,397	4,453	17,135	13.24
Vanguard	300	2,620	5,470	27,489	11.48
UBS	330	2,416	(1,778)	(5,295)	(1.73)
PIMCO	159	1,933	(221)	5,510	3.56
HSBC	120	1,598	4,881	10,665	10.63
UBP	17	1,241	1,633	1,551	9.90
DNB	42	837	318	(550)	(1.41)
State Street	105	816	5,786	13,439	14.31

Source: Morningstar Direct.

2023 Net Flows by Fund Providers: The Leaders

EUR Bil.

Active Passive

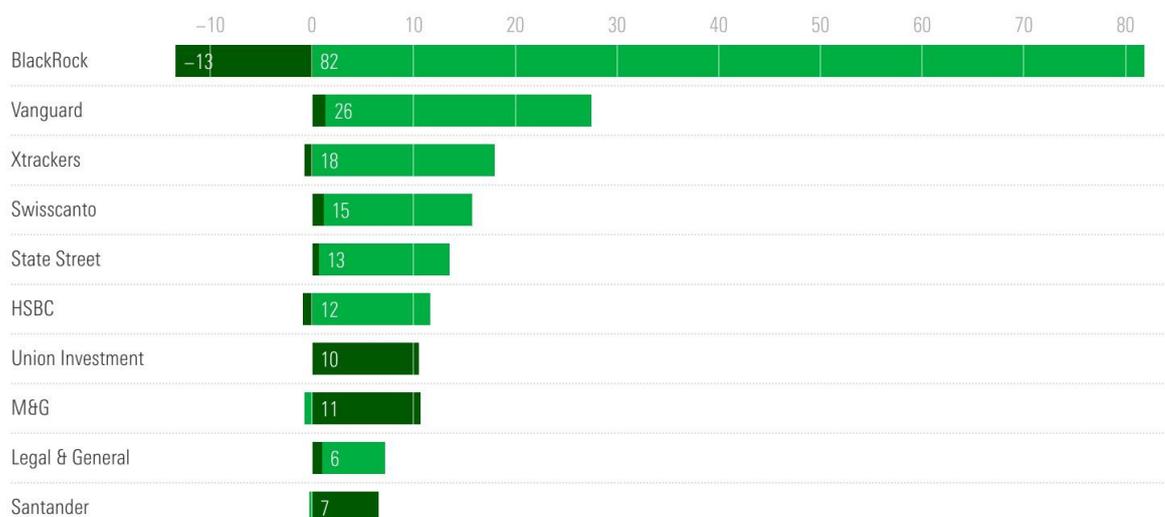


Chart: Valerio Baselli • Source: Morningstar Direct. Data as of Dec. 31, 2023. ETFs Included. Money Market Funds Excluded.

MORNINGSTAR®

Fund Providers: The Laggards

BNP Paribas, AEGON, and Italy's Eurizon were the fund houses with the largest outflows in December, and all also finished the year with net outflows. Deka is the only asset manager on the list that ended the year with positive inflows and a positive OGR.

Eurizon was the asset manager with the largest outflows in 2023 (EUR 17 billion), followed by Credit Suisse (EUR 14 billion of outflows).

Fund Providers: Largest Outflows, Active and Passive (Excluding Money Market Funds)

Name	Net Assets	Estimated Net Flow (EUR Mil)			Org Growth
	(EUR Bil)	1 Mo	Q4	2023	Rate (%)
	December 2023				2023
BNP Paribas	149	(2,676)	(4,391)	(6,341)	(4.40)
AEGON	59	(2,527)	(3,015)	(2,696)	(6.15)
Eurizon	149	(2,311)	(7,773)	(17,297)	(11.03)
Fidelity International	195	(1,582)	(4,192)	(11,592)	(6.05)
AXA	76	(1,218)	(3,086)	(7,384)	(9.13)
abrtn	82	(1,115)	(3,989)	(10,481)	(11.74)
iShares	71	(1,072)	(617)	(26)	(0.04)
Credit Suisse	170	(1,059)	(1,757)	(14,022)	(8.29)
Fortuna	6	(891)	(1,879)	(2,299)	(29.53)
Deka	131	(860)	(206)	2,651	2.21

Source: Morningstar Direct.

2023 Net Flows by Fund Providers: The Laggards

EUR Bil.

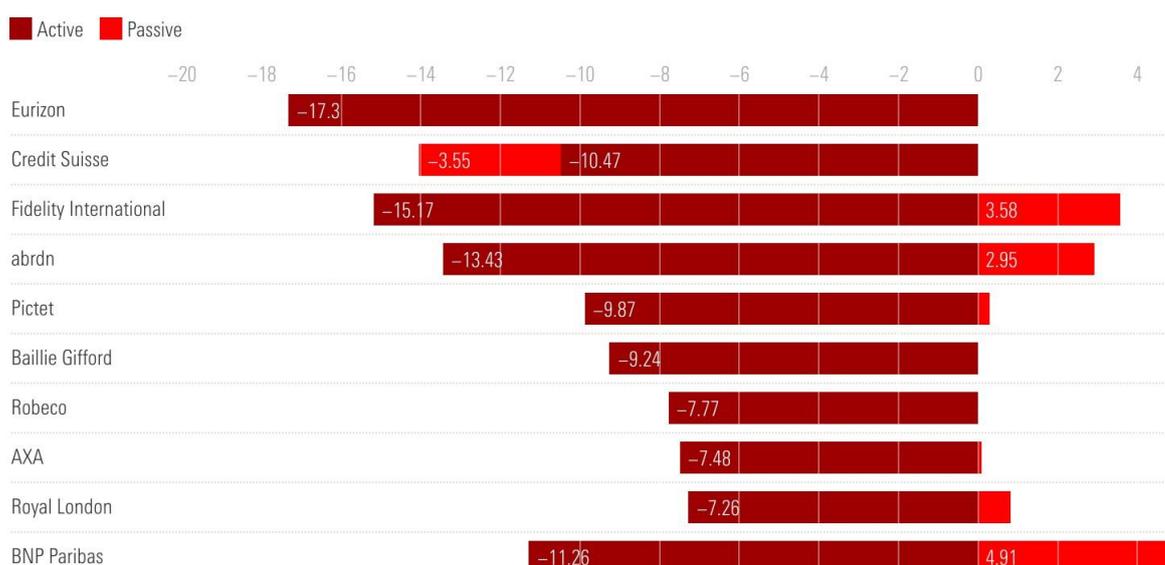


Chart: Valerio Baselli • Source: Morningstar Direct. Data as of Dec. 31, 2023. ETFs Included. Money Market Funds Excluded.



Largest Inflows and Outflows by Fund

Four funds of Swiss UBS ranked in the top 10 of asset gatherers. UBS Fund Solutions MSCI USA, a passive strategy for U.S. large-cap blend equity, gathered EUR 1.85 billion last month. The two biggest funds in the European market by net assets, iShares Core S&P 500 ETF and Pimco's GIS Income Fund, grew bigger still in December and attracted EUR 1.1 and EUR 1.3 billion, respectively. Pimco's flagship strategy was also the top seller of 2023 with net inflows of EUR 9,96 billion, followed by iShares Core MSCI World ETF, which collected EUR 8.6 billion in the course of the last year.

UBS Multi Manager Access US Equities saw the largest amount walk out the door in December 2023, with the withdrawal of nearly EUR 1.6 billion. Xetra-Gold had a fourth negative month in a row, bringing net redemption in 2023 to nearly EUR 2 billion. Royal London US Equity Tilt topped the list off in 2023, with EUR 7.5 billion of net redemptions. Eastspring Investments Asian Local Bond is number two, with net outflows of nearly EUR 4.7 billion in 2023.

Funds With the Largest Net Inflows

Name	Estimated Net Flow (EUR Mil)			Org Growth	Net Assets
	1 Mo	Q4	2023	Rate (%)	(EUR Mil)
UBS (CH) Fd Solutions MSCI USA SF Idx Fd	1,851	1,692	1,735	182.75	2,884
UBAM Global High Yield Solution	1,354	1,281	1,588	45.50	5,108
PIMCO GIS Income Fund	1,342	2,475	9,955	18.30	63,843
ASI Obbligazionario Euro 11/2028	1,135	1,135	1,135		1,135
iShares Core S&P 500 ETF	1,086	2,403	4,295	8.62	65,170
UBS (Lux) FS Bloombg US LiqCrp1-5Yr	1,060	946	929	93.43	1,946
UBS FS MSCI ACWI SF ETF	1,059	1,014	913	17.98	5,605
HSBC Global Government Bond UCITS ETF	974	1,579	1,470	44.63	4,682
Investi Garantito (II)	966	966	966		966
UBS (Lux) FS MSCI Canada	825	886	190	9.95	2,232

Source: Morningstar Direct.

Funds With the Largest Net Outflows

Name	Estimated Net Flow (EUR Mil)			Org Growth	Net Assets
	1 Mo	Q4	2023	Rate (%)	(EUR Mil)
Multi Manager Access US Equities	(1,595)	(1,617)	(1,694)	(94.00)	451
Invesco US Treasury Bond 7-10 Year ETF	(1,419)	(1,335)	(1,214)	(38.41)	1,864
Xetra-Gold	(849)	(1,477)	(1,923)	(15.19)	11,904
MM Emerging Market Debt Fund - USD	(807)	(824)	(827)		
MM Credit Fund	(806)	(818)	(1,331)		
MM Emerging Markets Fund	(753)	(826)	(967)	(87.52)	227
Danske Invest Sel Tact As Alloc DNK Akk	(700)	(696)	(718)	(78.25)	258
iShares Physical Gold ETC	(696)	(1,052)	(1,500)	11.78	12,414
iShares Corporate Bond Index Fund (UK)	(618)	(740)	388	8.46	5,556
BlackRock Japan Equity 1 Fund	(613)	467	450	3.06	19,616

Source: Morningstar Direct.

Data Notes

The figures in this report were compiled on 18 January 2024 and reflect only the funds that had reported net assets by that date. Approximately 31,300 Europe-domiciled open-end funds and exchange-traded funds that Morningstar tracks from more than 2,900 fund companies across 36 domiciles were included. Organic growth rate is flows as a percentage of beginning assets.

Methodology

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.

Morningstar's current asset-flows methodology might not include pre-inception subscription-period inflows of so-called target-date funds in net asset-flows estimations.

To learn more about Morningstar Direct, [visit us at this link](#).