

## CHAPTER THREE

# US Mutual Funds

A mutual fund is an investment company that pools money from shareholders and invests in a portfolio of securities. In 2025, 72.7 million US households owned mutual funds, representing 123.2 million individual investors. Investors rely on mutual funds to meet long-term personal financial objectives, such as education, a home purchase, or preparing for retirement. US households and institutions also use money market funds as cash management tools. Mutual funds, including money market funds, had net outflows of \$552 billion in 2025, or 1.9% of year-end 2024 total net assets. Changing demographics, portfolio rebalancing, competition, and investors' reactions to US and worldwide economic and financial conditions play important roles in determining how demand for specific types of mutual funds—and for mutual funds in general—evolves.

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## Overview of Mutual Fund Trends

The US mutual fund industry remained the largest in the world, with \$31.4 trillion in total net assets at year-end 2025. The majority of US mutual fund net assets were in long-term mutual funds, with equity funds alone making up 52% of US mutual fund net assets. Money market funds were the second-largest category, with 25% of net assets. Bond funds (18%) and hybrid funds (6%) held the remainder.

### Investor Demand for US Mutual Funds

A variety of factors influence investor demand for mutual funds. For example, US households rely on equity, bond, and hybrid mutual funds to meet long-term personal financial objectives, such as preparing for retirement, saving for emergencies, or saving for education. US households, as well as businesses and other institutional investors, use money market funds as cash management tools because they provide a high degree of liquidity and access to short-term market yields.

Investor demand for mutual funds in 2025 showed notable differences across fund types. Money market funds experienced strong demand as investors were attracted to relatively high short-term yields when compared with those received in bank deposit accounts. Bond mutual funds saw modest demand, likely driven by bond market performance and portfolio rebalancing. By contrast, equity mutual funds experienced outflows in 2025 (despite strong stock market returns), primarily reflecting portfolio rebalancing and an ongoing shift to other products.

### Entry and Exit of US Mutual Funds

Mutual fund sponsors create new funds to meet investor demand, and they merge or liquidate those that do not attract sufficient investor interest. A total of 134 mutual funds opened in 2025, down from 156 in 2024 (Figure 3.1). This decline was mainly driven by a steep drop in the number of bond fund launches. During the same period, the number of mutual funds that were either merged or liquidated increased 13% to 461, as sponsors eliminated more equity mutual funds in 2025 from their lineups.

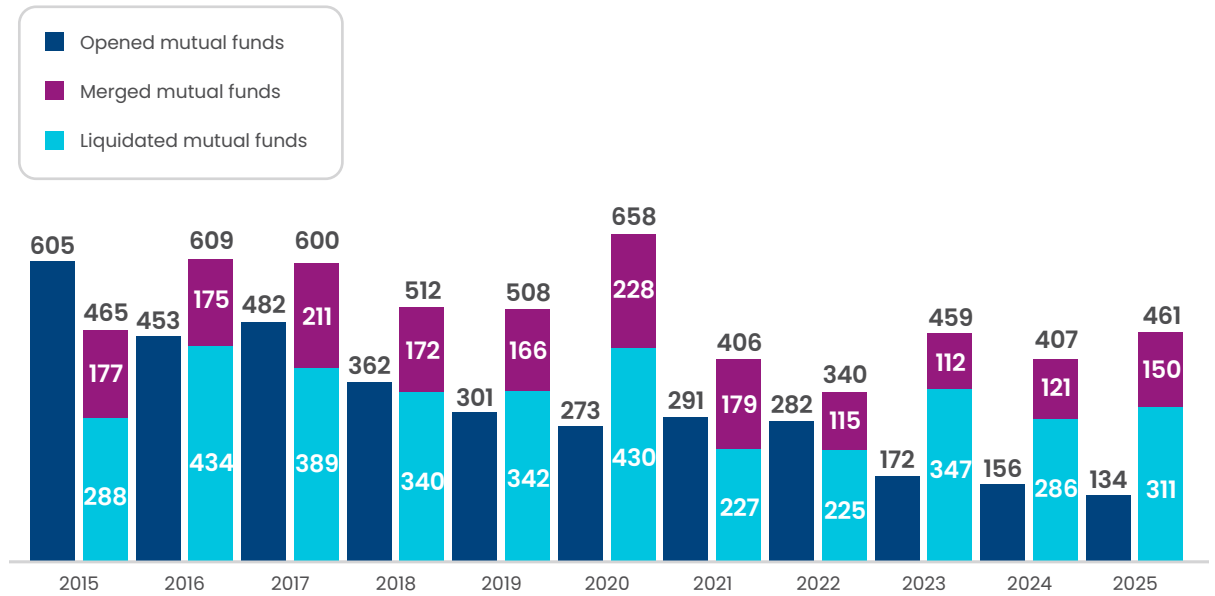
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**FIGURE 3.1**

**Mutual Funds Enter and Exit the Industry Because of Competition and Investor Demand**



Note: Data include mutual funds that do not report statistical information to the Investment Company Institute and mutual funds that invest primarily in other mutual funds.

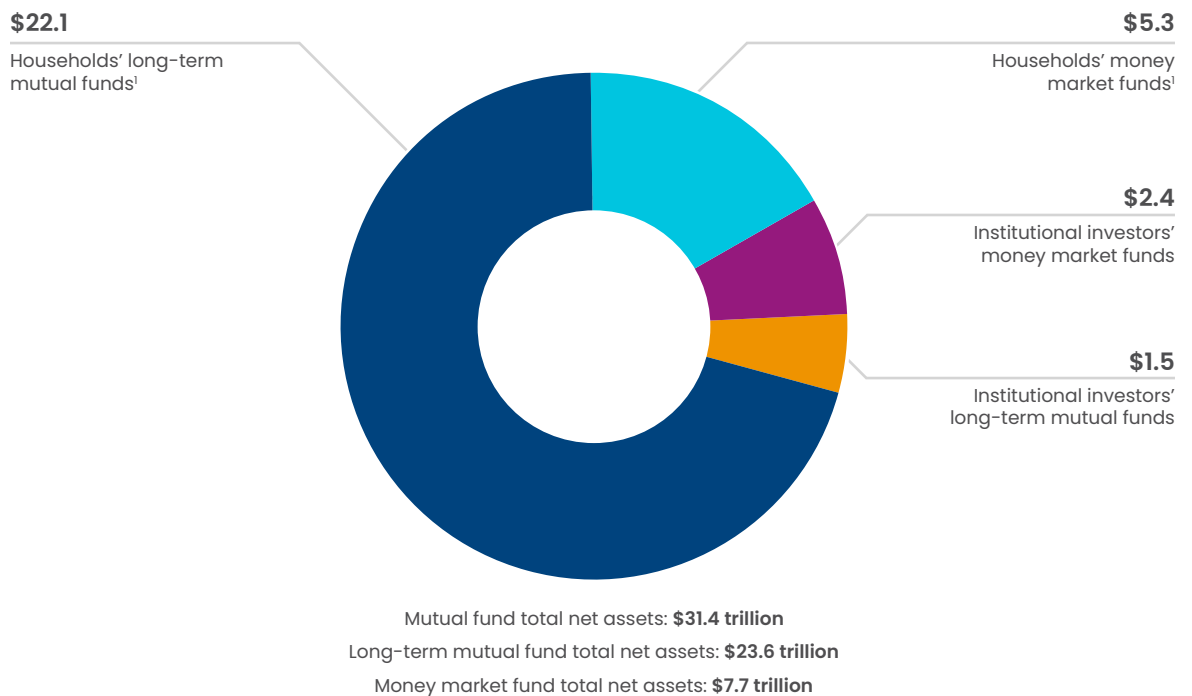
## Investors in US Mutual Funds

Demand for mutual funds is, in part, related to the types of investors who hold mutual fund shares. Retail investors (i.e., households) held the vast majority (87%) of the \$31.4 trillion in US mutual fund net assets at year-end 2025 (Figure 3.2). When looking at only long-term mutual funds, the share of net assets held by retail investors was even higher (94%). Retail investors also held substantial money market fund net assets (\$5.3 trillion), but this was a relatively small share (19%) of their total mutual fund net assets (\$27.4 trillion).

By contrast, institutional investors such as nonfinancial businesses, financial institutions, and nonprofit organizations held a relatively small portion of mutual fund net assets. At year-end 2025, institutions held \$3.9 trillion or 13% of mutual fund net assets (Figure 3.2), the majority (62%) of which was held in money market funds. One of the primary reasons institutions use money market funds is to help manage their cash balances.

**FIGURE 3.2**  
**Households Held 87% of Mutual Fund Total Net Assets**

Trillions of dollars, year-end 2025



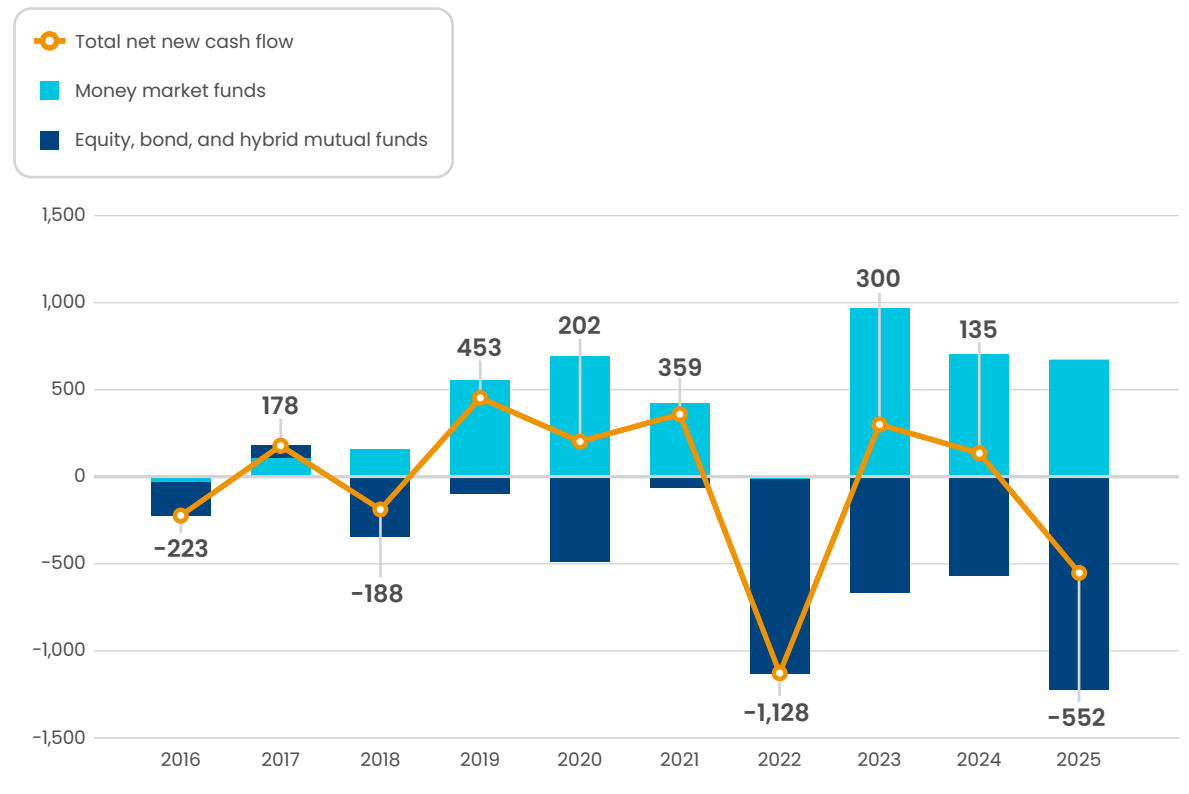
<sup>1</sup> Mutual funds held as investments in individual retirement accounts, defined contribution retirement plans, variable annuities, 529 plans, and Coverdell education savings accounts are counted as household holdings of mutual funds.

## Developments in Mutual Fund Flows

Overall demand for mutual funds as measured by net new cash flow—new fund sales less redemptions, plus net exchanges—declined in 2025 (Figure 3.3). In 2025, mutual funds had net outflows of \$552 billion (1.9% of year-end 2024 total net assets), following net inflows of \$135 billion in 2024. Long-term mutual funds experienced net outflows of \$1.2 trillion in 2025, while money market funds saw net inflows of \$672 billion. A number of factors—including interest rate risks, an evolving economic outlook, ongoing demographic trends, and demand for indexed products—appeared to influence US mutual fund flows in 2025.

**FIGURE 3.3**  
**Outflows From Long-Term Mutual Funds Were Partially Offset by Inflows to Money Market Funds in 2025**

Billions of dollars, annual



## US Economy and Financial Markets in 2025

The US economy and financial markets had a challenging year in 2025 but remained resilient amid trade policy uncertainties and geopolitical risks. US real gross domestic product (GDP) grew 2.1% in 2025, mainly driven by robust consumer spending and a surge in AI-related capital investments.

Inflation remained persistently above the Federal Reserve's 2% target in 2025. After gradually declining over the past two years, the 12-month growth in the Consumer Price Index (CPI) fluctuated between 2.3% and 3.0% in 2025 and ended the year at 2.7%. The labor market weakened gradually over the course of 2025. Hiring slowed meaningfully, wage growth moderated, and the unemployment rate drifted upward modestly to 4.4% by year-end. Despite cooling, labor market conditions remained relatively healthy compared with historical averages.

Concerned about the weakening labor market, the Federal Reserve delivered three quarter-point rate cuts in the latter half of 2025, lowering the federal funds rate target range to 3.50%–3.75% by year-end.

The US stock market experienced a volatile but ultimately strong year, with a total return of 17.1%, following a total return of 22.6% in 2024.\* Resilient corporate earnings and continued optimism on AI developments fueled this equity market growth. The US bond market also performed well. Supported by falling interest rates and tight credit spreads, the bond market had its strongest performance in five years with a total return of 7.1% in 2025.†

### Long-Term Mutual Fund Flows

Although net new cash flows into long-term mutual funds are typically correlated with market returns, they tend to be a relatively small percentage of total net assets even during episodes of market turmoil. Several factors may contribute to this phenomenon. For example, households (i.e., retail investors) own the vast majority of US long-term mutual fund net assets (Figure 3.2). Retail investors generally respond less strongly to market events than do institutional investors. Most notably, households often use mutual funds to save for the long term, such as for college or retirement. Many of these investors make stable contributions through periodic payroll deductions, even during periods of market stress. In addition, many mutual fund shareholders seek the advice of financial advisers, who may provide a steadying influence during market downturns. Furthermore, because net assets in mutual funds are spread across 123.2 million investors who have a wide variety of individual characteristics (such as age or appetite for risk) and goals (such as saving for retirement, emergencies, or education), investors are also bound to have a wide range of views on market conditions and how best to respond to those conditions to meet their individual goals. As a result, even during months when funds as a whole experience net outflows, some investors continue to purchase fund shares.

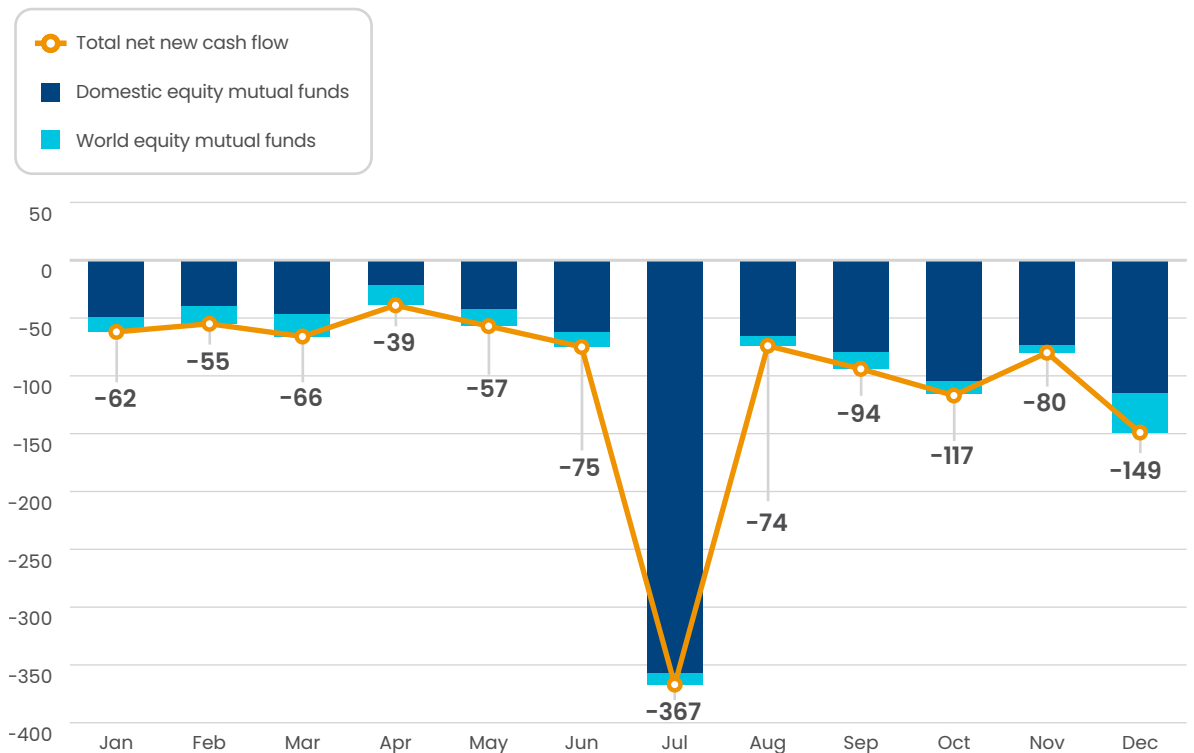
\* As measured by the FT Wilshire 5000 Total Return Index.

† As measured by the S&P US Aggregate Bond Index.

## Equity Mutual Funds

Equity mutual funds experienced net outflows every month in 2025, totaling \$1.2 trillion over the year, or 8.2% of their year-end 2024 total net assets (Figure 3.4). In the first three months of the year, investors had redeemed, on net, \$184 billion from equity mutual funds. Flows to mutual funds, in general, tend to be bolstered in the first quarter of a year because investors who receive year-end bonuses may invest that money relatively quickly in the new year. In addition, some investors wait to make contributions to their individual retirement accounts (IRAs) before filing their tax returns. As the year progressed, net outflows from equity mutual funds accelerated, with investors redeeming, on net, \$1.1 trillion from April through December.\*

**FIGURE 3.4**  
**Equity Mutual Funds Experienced Net Outflows Throughout 2025**  
 Billions of dollars; monthly, 2025



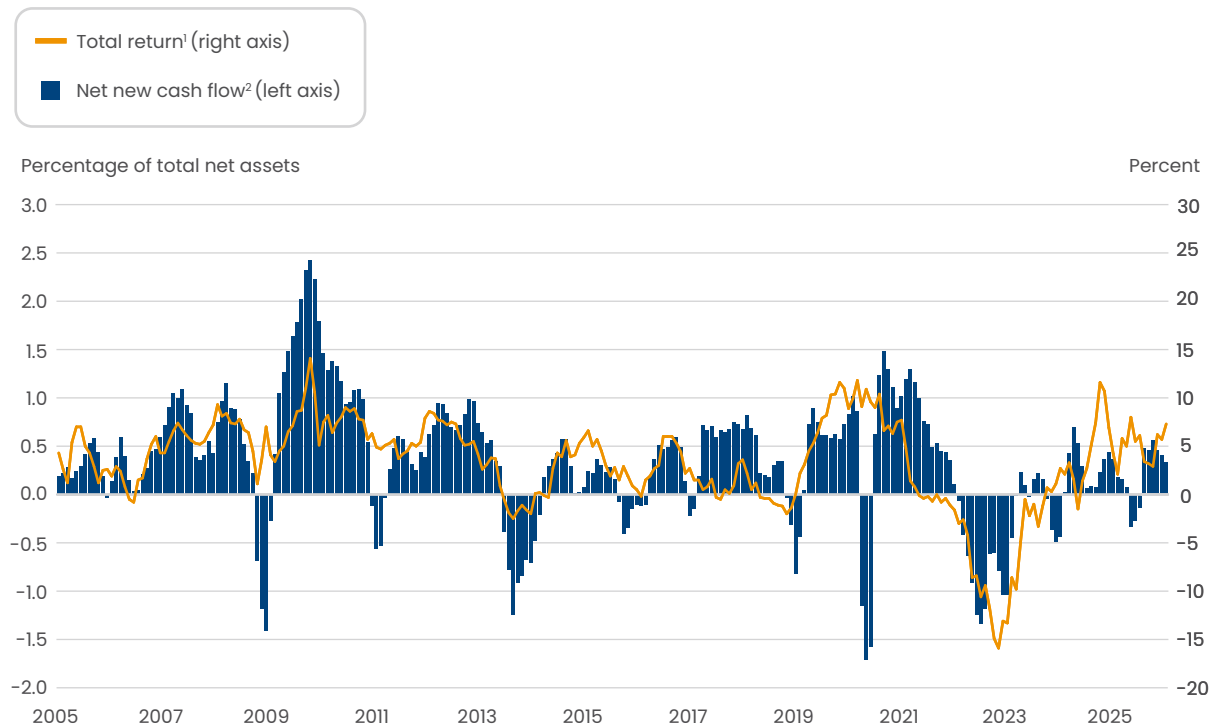
Net outflows from equity mutual funds in 2025 were likely driven by continued investor demand for equity exchange-traded funds (ETFs) and portfolio rebalancing. As discussed in Chapter 4, demand for ETFs has been very strong for the past decade. Equity ETFs had net creations in every month of 2025, which resulted in \$956 billion in net share issuance over the year (see Figure 4.4). By contrast, equity mutual funds had net outflows of \$1.2 trillion in 2025 (Figure 3.4). Additionally, portfolio rebalancing likely also played a role in outflows from equity mutual funds. As equity markets outperformed bond markets by a wide margin in 2025, investors and target date funds following asset allocation strategies would have needed to sell equity funds and buy bond funds to remain at their target allocations.

\* The outflows from equity mutual funds in July—exceeding \$360 billion—were primarily driven by activities in a few collective investment trusts (CITs), rather than by redemptions from individual investors.

## Bond Mutual Funds

Bond mutual fund net new cash flows typically are correlated with the performance of US bonds (Figure 3.5), which, in turn, is largely driven by the US interest rate environment. In 2025, the 10-year Treasury yield exhibited marked volatility with an overall downward trend, concluding the year at 4.2%. This movement was primarily influenced by the Federal Reserve’s interest rate cuts, as well as evolving expectations regarding inflation, the labor market, and economic growth.

**FIGURE 3.5**  
**Net New Cash Flow to Bond Mutual Funds Is Typically Related to Bond Returns**  
 Monthly



<sup>1</sup> The total return on bonds is measured as the year-over-year percent change in the FTSE US Broad Investment Grade Bond Index.

<sup>2</sup> Net new cash flow is reported as a percentage of previous month-end bond mutual fund total net assets, plotted as a three-month moving average. Data exclude high-yield bond mutual funds.

Sources: Investment Company Institute, FTSE Russell, and Refinitiv

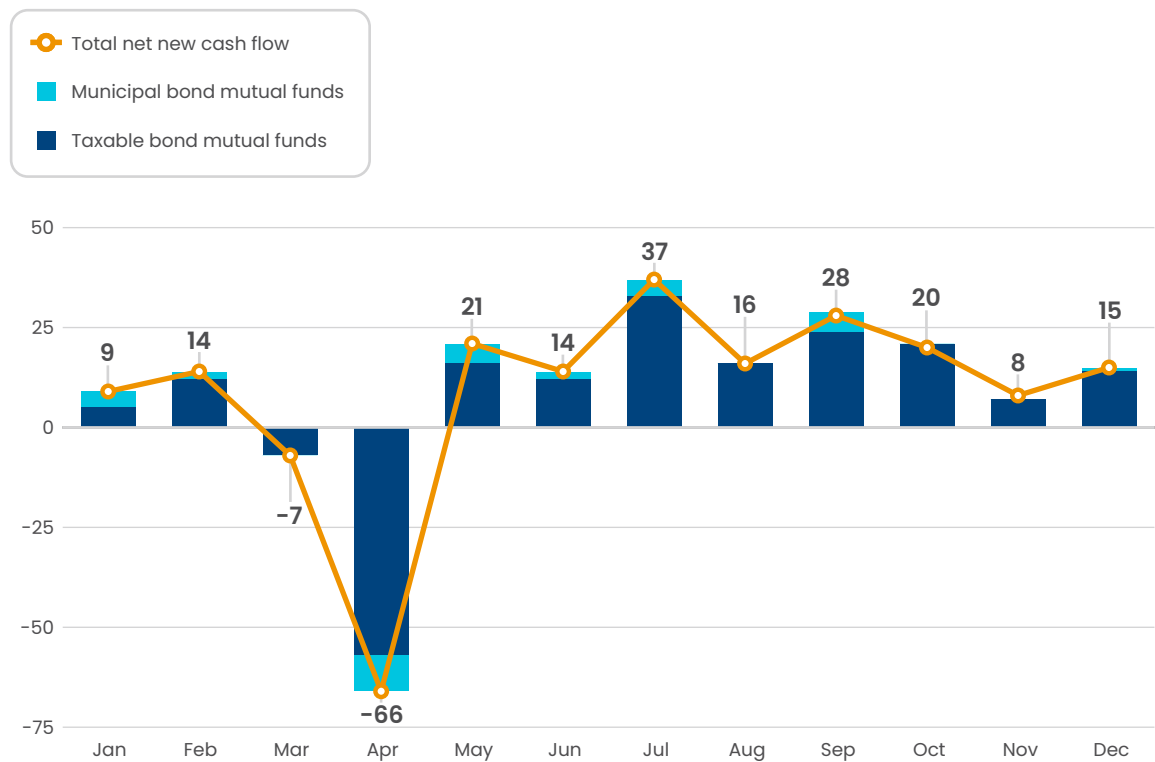
Taxable bond mutual funds experienced net inflows of \$95 billion in 2025, or 2.2% of their year-end 2024 total net assets (Figure 3.6). In addition to solid returns on US bonds in 2025, portfolio rebalancing may have contributed to taxable bond mutual fund inflows as stocks significantly outperformed bonds in 2025.

In 2025, net flows to taxable bond mutual funds varied considerably across different investment categories. Multisector bond mutual funds received the largest net inflows, \$64 billion, representing 9.9% of their total net assets at year-end 2024. World bond mutual funds, which typically hold a mix of bonds denominated in US dollars and foreign currencies, saw \$23 billion in net inflows (4.3%), while investment grade bond funds saw \$22 billion in net inflows (0.9%). On the other hand, high yield bond funds experienced net outflows of \$14 billion (3.9%), and government bond mutual funds had small net outflows of \$292 million (0.1%).

Municipal bond mutual funds also experienced inflows in 2025, with net inflows totaling \$15 billion for the year, or 1.8% of their year-end 2024 net assets.

**FIGURE 3.6**  
**Net New Cash Flow to Bond Mutual Funds Fluctuated Throughout 2025**

Billions of dollars; monthly, 2025



## How Bond Mutual Funds Manage Investor Flows

When meeting redemptions, fund managers' actions are guided by market conditions, expected investor flows, and other factors. A fund might decide to sell some of its holdings to raise the cash needed to fulfill redemptions. But its choice of which particular securities to sell may depend on market conditions. For example, during a market downturn, with liquidity at a premium, some fund managers might seek to add shareholder value by selling some of their funds' more liquid bonds (which, being in high demand, are trading at a premium to fundamental value). Other fund managers may conclude that it is necessary and appropriate to sell a representative "slice" of their funds' entire portfolios.

Bond mutual fund managers have other ways of meeting redemption requests. For example, a fund might already have cash on hand. Alternatively, the fund may use the cash that bond mutual funds receive each day in the form of interest income from bonds held in the portfolio, proceeds from matured bonds, or new sales of fund shares.

In addition, bond funds often use derivatives or hold liquid assets other than cash. For example, a high-yield bond fund might hold some portion of its assets in equities because equities are very liquid and the return profiles of high-yield bonds and equities can be similar. Derivatives can be more liquid than their physical counterparts, and funds are required to segregate liquid assets to support their derivatives positions. As these positions are closed, this cash collateral provides a ready source of liquidity to meet redemptions. This is especially true for many of the funds commonly called liquid alternative funds. These funds are explicitly designed to allow frequent investor trading and do so in large measure through the use of derivatives.

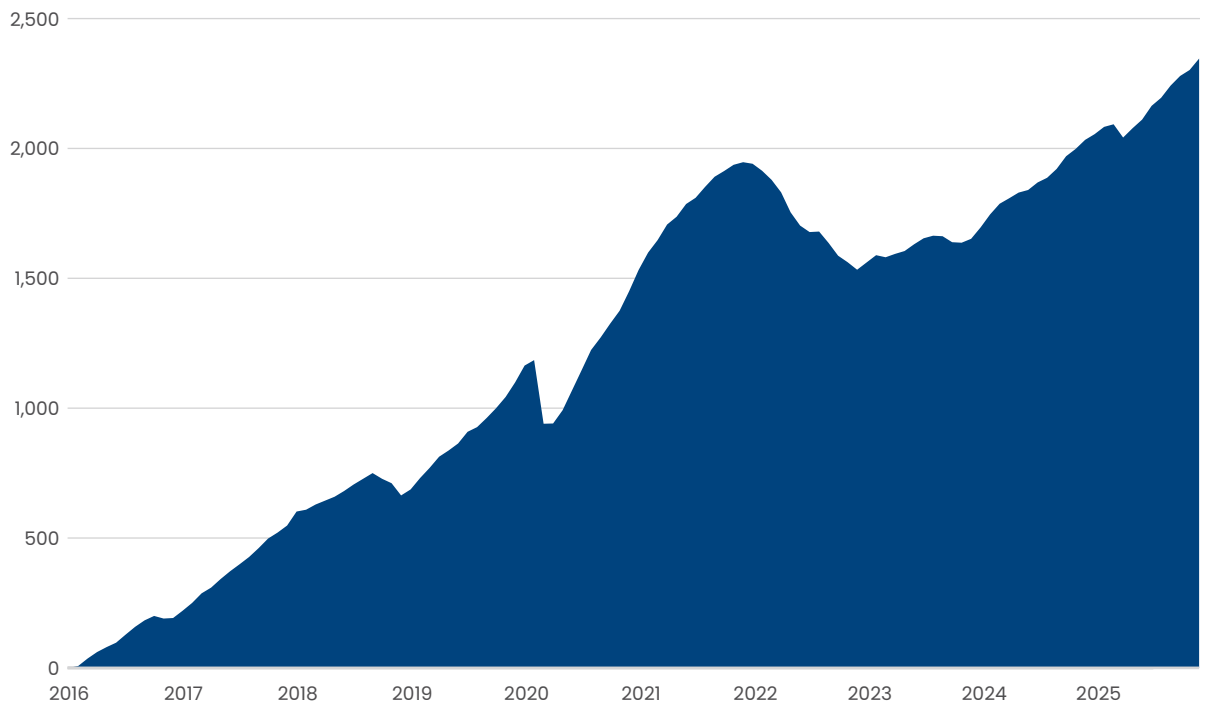
### Long-Term Demand for Bond Mutual Funds

Bond mutual funds have received \$2.3 trillion in net new cash flows and reinvested dividends in the past decade (Figure 3.7). A number of factors have contributed to this long-term demand for bond mutual funds, including demographics. Older investors tend to have larger account balances because they have had more time to accumulate savings and take advantage of compounding. At the same time, as investors age, they tend to shift toward fixed-income products. Over the past decade, the aging US population has boosted flows to bond funds.

**FIGURE 3.7**

**Bond Mutual Funds Have Experienced Net Inflows Through Most of the Past Decade**

Cumulative flows to bond mutual funds, billions of dollars, monthly



Note: Bond mutual fund data include net new cash flow and reinvested dividends.

The popularity of target date mutual funds has also contributed to strong demand for bond mutual funds during this period. Target date funds invest in a changing mix of equities and fixed-income investments. As the fund approaches and passes its target date (which is usually specified in the fund's name), the fund gradually reallocates assets from equities to fixed-income investments, including bonds. Over the past 10 years, target date mutual funds have received net inflows of \$189 billion. At year-end 2025, target date mutual funds had total net assets of \$2.3 trillion.\* Investor interest in these funds likely reflects their automatic rebalancing features as well as their inclusion as an investment option in many defined contribution (DC) plans (see Figure 8.10).

These long-term factors, combined with mostly positive annual returns on bonds and inflows from portfolio allocation strategies, have boosted bond mutual fund total net assets from \$3.4 trillion at year-end 2015 to \$5.5 trillion at year-end 2025. Even with this growth, long-term mutual funds' share of US bond markets—most of which is held by bond mutual funds—has stayed relatively stable in recent years (see Figure 2.4).

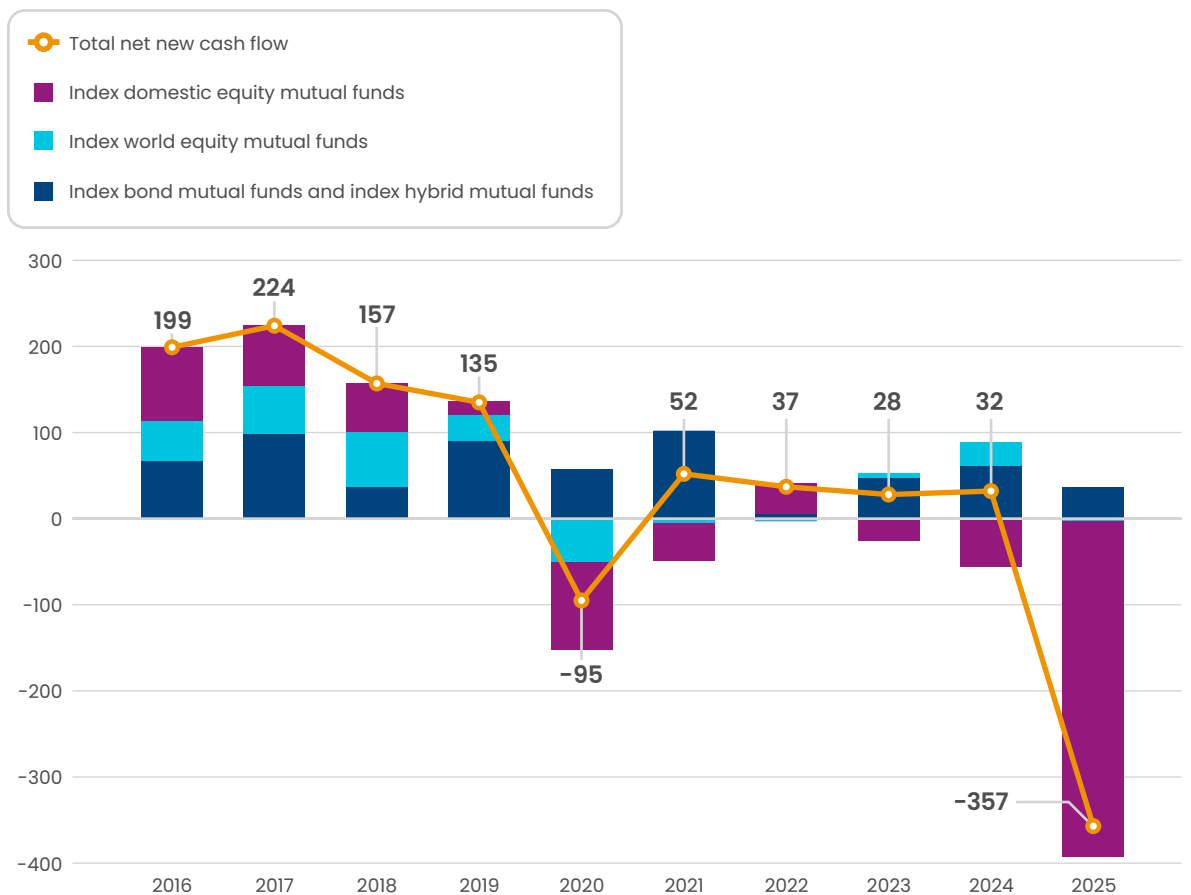
\* ICI generally excludes funds of funds from total net asset and net new cash flow calculations to avoid double counting. However, since funds of funds comprise the vast majority of target date funds, they are included in these calculations.

## Growth of Other Investment Products

Outflows from some long-term mutual funds over the past decade reflect a broader shift, driven by both investors and retirement plan sponsors, toward other pooled investment vehicles. This trend is reflected in the outflows from actively managed mutual funds and the growth of index mutual funds, ETFs, and collective investment trusts (CITs) since 2007.

Index mutual funds—which hold all (or a representative sample) of the securities in a specified index—are popular among investors. Of households that owned mutual funds, 51% owned at least one index equity mutual fund in 2025. As of year-end 2025, 523 index mutual funds managed total net assets of \$7.7 trillion. For 2025 as a whole, investors redeemed \$357 billion in net new cash flow from these funds (Figure 3.8). Outflows from index equity mutual funds (\$393 billion) were partially offset by inflows into index bond mutual funds and index hybrid mutual funds (\$36 billion).\*

**FIGURE 3.8**  
**Index Mutual Funds Saw Net Outflows in 2025**  
 Billions of dollars, annual



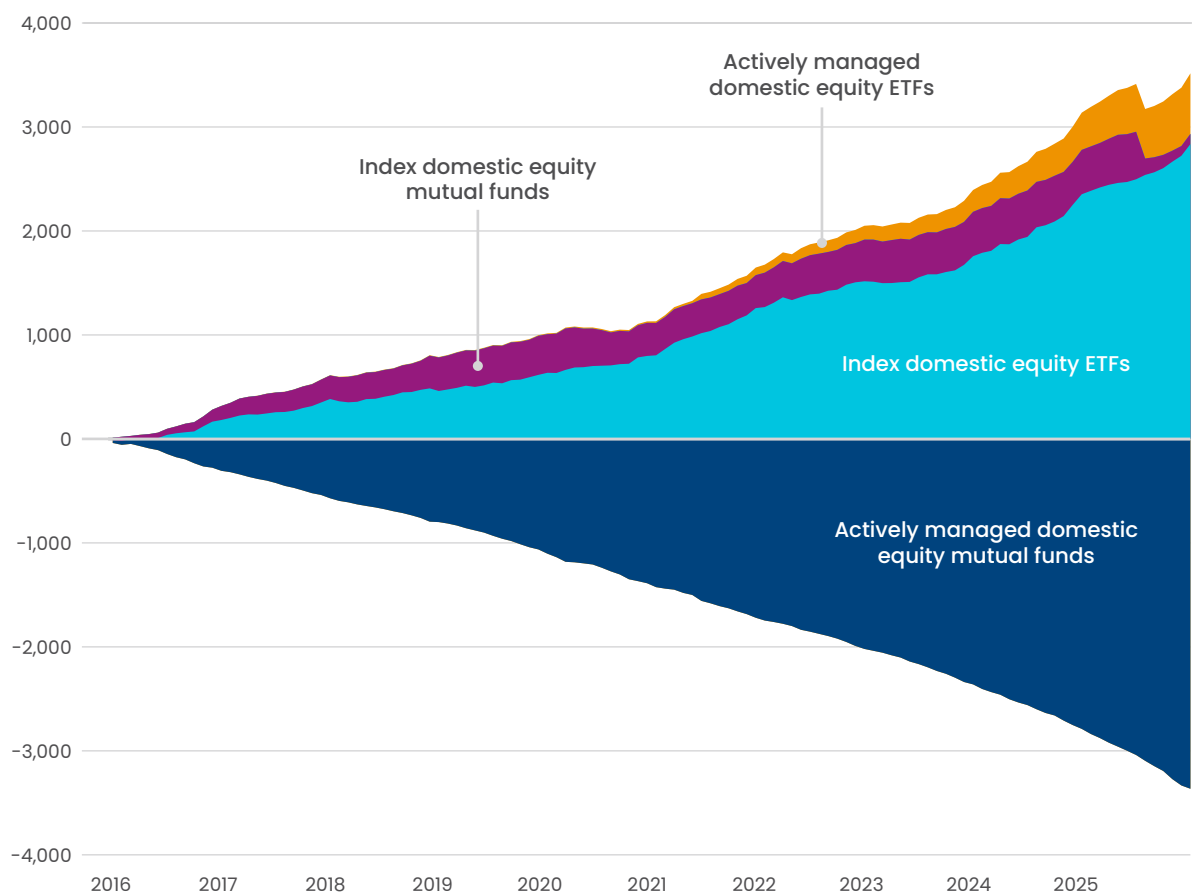
\* The vast majority of outflows from index equity mutual funds was driven by activities of a few large CITs, rather than from redemptions by individual investors.

From 2016 through 2025, index domestic equity mutual funds and ETFs received \$2.9 trillion in net new cash flows and reinvested dividends, while actively managed domestic equity mutual funds experienced net outflows of \$3.4 trillion (Figure 3.9). Index domestic equity ETFs have experienced significant growth over the past decade, with total net assets at year-end 2025 exceeding six times their level at year-end 2015. Part of the increasing popularity of ETFs in the past decade is attributable to more brokers and financial advisers using them in their clients' portfolios. In 2024, full-service brokers and fee-based advisers had 35% and 49%, respectively, of their clients' household assets invested in ETFs, up sharply from 10% and 17% in 2014 (Figure 3.10).

**FIGURE 3.9**

**Some of the Outflows From Domestic Equity Mutual Funds Have Gone to ETFs**

Cumulative flows to domestic equity mutual funds and net share issuance of domestic equity ETFs, billions of dollars, monthly

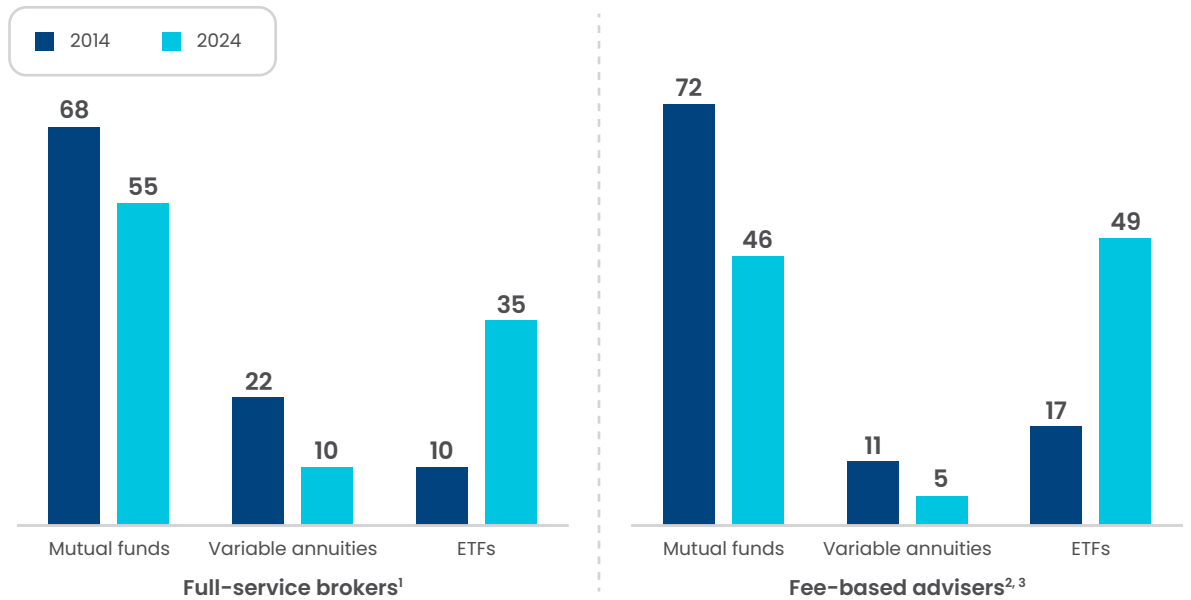


Note: Mutual fund data include net new cash flow and reinvested dividends; ETF data for net share issuance include reinvested dividends.

**FIGURE 3.10**

**Fee-Based Advisers Are Investing Larger Portions of Client Portfolios in ETFs**

Percentage of household assets invested in investment category by adviser type



<sup>1</sup> This category includes wirehouses as well as regional, independent, and bank broker-dealers.

<sup>2</sup> This category includes registered investment advisers and dually registered investment adviser broker-dealers.

<sup>3</sup> This category excludes an unknown portion of assets from investors who received fee-based advice but implemented trades themselves through discount brokers and fund supermarkets.

Note: In this figure, household assets include household holdings of mutual funds, variable annuities, and ETFs.

Source: Cerulli Associates, "The State of US Retail and Institutional Asset Management, 2025"

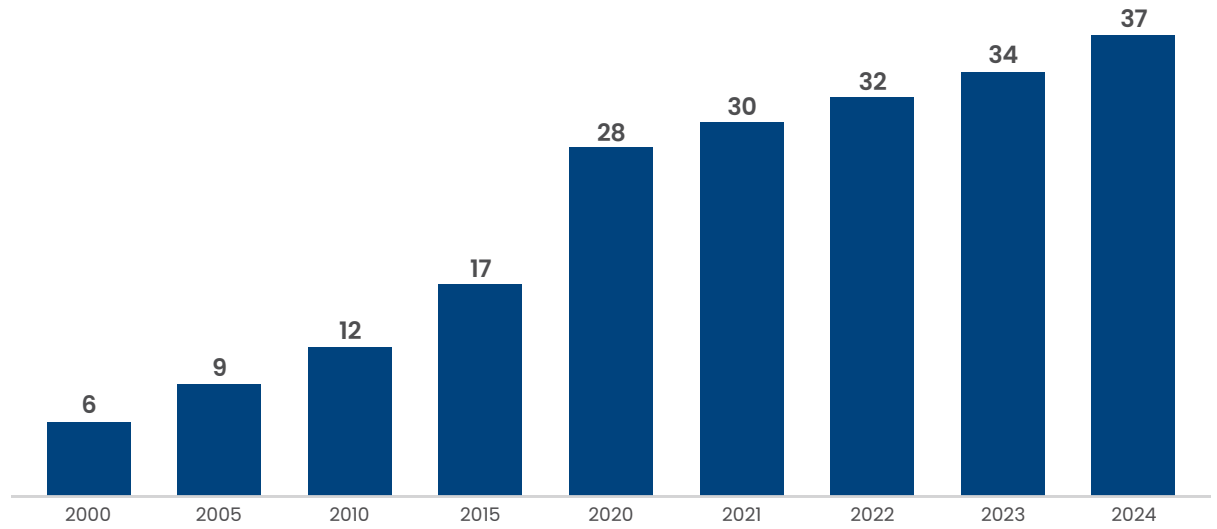
CITs are an alternative to mutual funds for DC plans. Like mutual funds, CITs pool the assets of investors and (either actively or passively) invest those assets according to a particular strategy. Much like institutional share classes of mutual funds, CITs generally require substantial minimum investment thresholds, which can limit the costs of managing pooled investment products. Unlike mutual funds, which are regulated under the Investment Company Act of 1940, CITs are regulated under banking laws and are not marketed as widely as mutual funds; this can also reduce their operational and compliance costs as compared with mutual funds.

More retirement plan sponsors have begun offering CITs as options in 401(k) plan lineups. Indeed, the share of assets held in CITs by large 401(k) plans increased from just 6% in 2000 to an estimated 37% in 2024 (Figure 3.11). This recent expansion is due, in part, to the growth in target date CITs.

**FIGURE 3.11**

**Assets of Large 401(k) Plans Are Increasingly Held in Collective Investment Trusts**

Percentage of assets in large 401(k) plans<sup>1</sup>



<sup>1</sup> Large 401(k) plans are those that filed Form 5500 Schedule H (typically plans with 100 participants or more).

Note: Assets exclude Direct Filing Entity assets that are reinvested in collective investment trusts. Data prior to 2024 come from the Form 5500 Research data sets released by the Department of Labor. Data for 2024 are preliminary, based on Department of Labor Form 5500 latest data sets.

Source: Investment Company Institute calculations of Department of Labor Form 5500 data

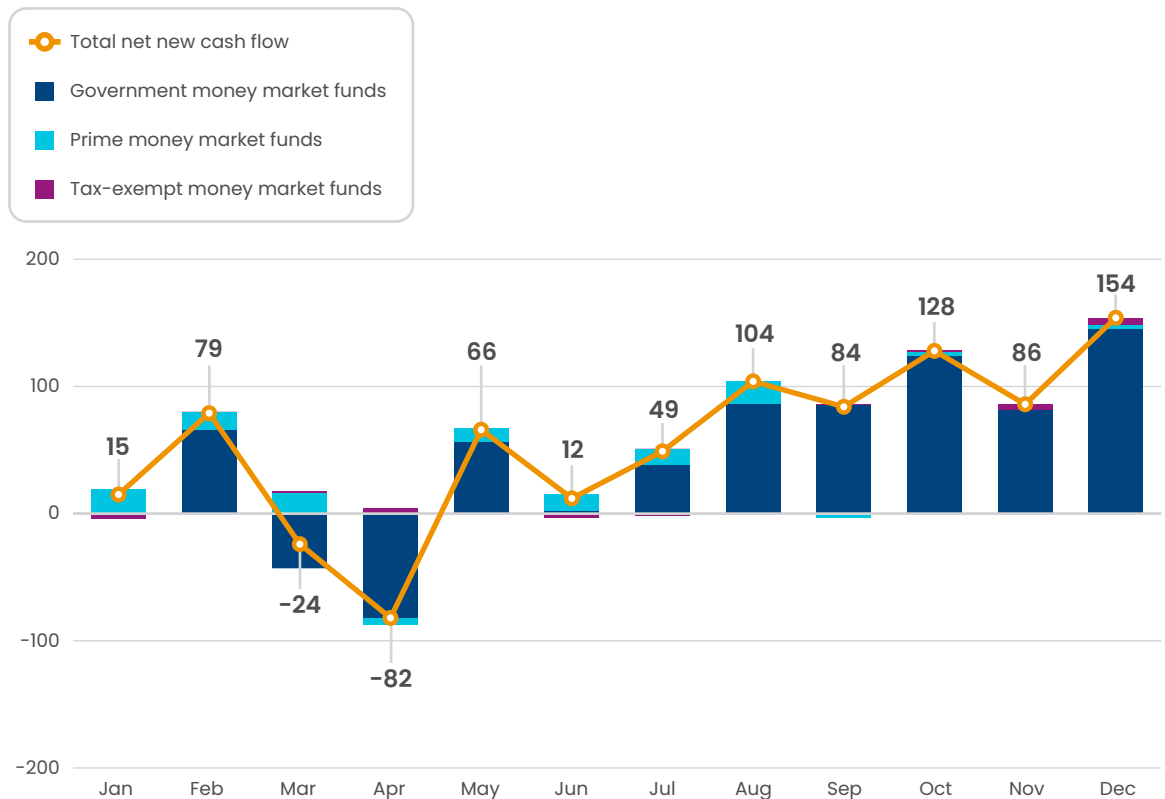
## Money Market Funds

In 2025, money market funds saw substantial inflows of \$672 billion (Figure 3.12) as short-term interest rates remained elevated. Demand was positive for all categories of money market funds in 2025, with government money market funds experiencing the bulk of inflows (\$558 billion). Prime money market funds and tax-exempt money market funds saw inflows of \$102 billion and \$12 billion, respectively.

**FIGURE 3.12**

### Money Market Funds Experienced Strong Demand in 2025

Billions of dollars; monthly, 2025



Despite the Federal Reserve's rate cuts in 2025, money market funds remained appealing to investors when compared to other short-term options like bank deposits. The yield on taxable money market funds averaged 3.9% at year-end 2025 compared with 0.6% for money market deposit accounts.\* Money market funds attract both institutional and retail investors due to their combination of high liquidity, minimal risk, and solid returns. In periods of market volatility, many investors often shift toward government money market funds in search of greater quality and stability.

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\* Data are from iMoneyNet and Federal Reserve Economic Data (FRED), respectively.