

GEMs FI Strategy Watch

Actives do better than passives YTD. Been waiting a long time for this.

Good news for active managers?

EXD rotation from active to passive may have run out of steam. We are now seeing 2 months of better flows for active managers than passive (smaller percent outflows).

The passive vs active challenge

Active managers in many global asset classes have been faced with the migration of investors to index funds/ETFs. This is mostly an equity investor phenomenon; fixed income investors have been slower to rotate. There are only about \$50bn EM EXD ETFs and \$17bn LDM ETFs in the US and Europe, of which \$3bn are China focused ETFs.

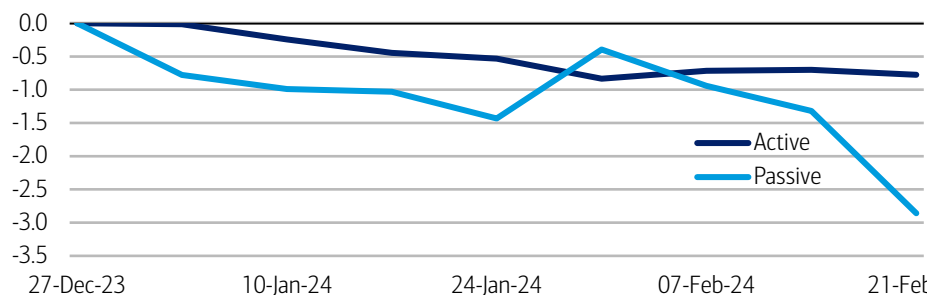
The global ETF market has been growing at an annual rate of 15% over the past five years. The argument for ETFs include easy access, lower fees, tax-optimized structure, greater liquidity, more transparency, and access to more markets. See our Oct 2023 BofA ETF Primer and our 2020 BofA EM ETF Primer.

But for EM dedicated investors, with limited EM ETF options vs a \$2.5tn EXD cash market, varied investment goals and tailored criteria, one wonders are passive funds really "better"? A few concerns are that managers have little discretion on choosing credits, asset inclusion, fair pricing decisions, and timing of purchases. ETFs have execution costs, as market values do not match the underlying NAV, especially in distressed markets.

YTD we have seen EM EXD active managers outperforming in terms of returns and flows on a percentage basis (see returns on page 2). While we do not know if this will continue, it is a refreshing sign. We base this on 62 Global EM EXD funds that we track, managed by the world's largest EM fund managers, with fund criteria that the currency is USD and that daily returns are reported in Bloomberg.

Exhibit 1: Passive funds have been suffering greater outflows than active funds YTD

Active vs passive cumulative funds flows YTD in %



Source: BofA Global Research, EPFR Global.

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07 March 2024

GEM Fixed Income Strategy
Global

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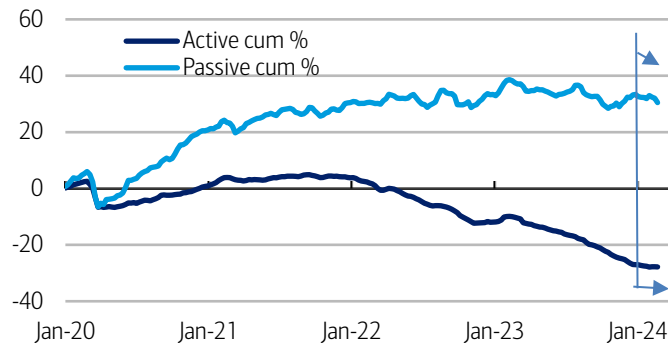
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Active manager outflows close to zero?

Exhibit 2: Since 2020, passives received 30% inflows, actives lost 28%

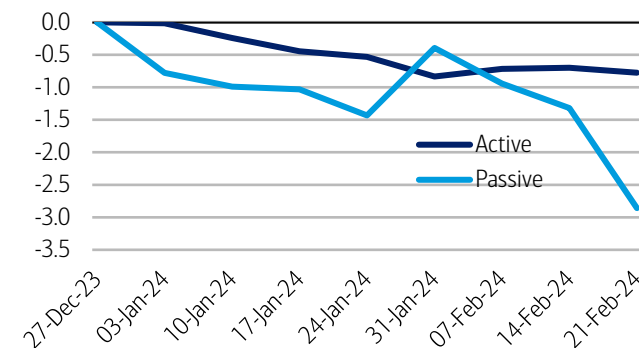
Active vs passive cumulative funds flows since 2020 in %



Source: BofA Global Research, EPFR Global; Note: Active and passive and
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Exhibit 3: 2024 YTD shows a reversal - passive outflow % is larger than active.

Active vs passive cumulative funds flows YTD in %



Source: BofA Global Research, EPFR Global

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Exhibit 4: TRR: Active funds have better TRR YTD and no worse TRR in the past 5y; over half of them outperformed the average ETF

Active and ETF funds TRR YTD vs last 5 years annualized vs Benchmark

Period	Active	EXD USD ETFs	Benchmark avg
5y TRR annualized	0.8	0.8	0.7
2024 YTD	0.6	0.4	0.1

Source: BofA Global Research, Bloomberg. Note: EXD USD ETFs TRR are calculated as the average of all EM EXD USD ETFs that have been in existence for at least 5 years. Benchmark TRR are calculated as the average of the main benchmarks in Exhibit 8.

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Exhibit 5: Flows: passive funds are suffering worse outflows than active funds YTD, bucking the trend of the last few years

Funds flows into Active and Passive funds YTD vs last 4 years average

Period	Active	Passive	Passive – active diff
2020-24 average	-6.8	8.3	15.1
2024 YTD	-0.6	-3.9	-3.3

Source: BofA Global Research, EPFR Global. Note: Passive funds include ETFs and pure indexed mutual funds.

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Exhibit 6: YTD Passive funds are suffering almost 3x more outflows than Active funds

Flows into Active and Passive funds per year in %

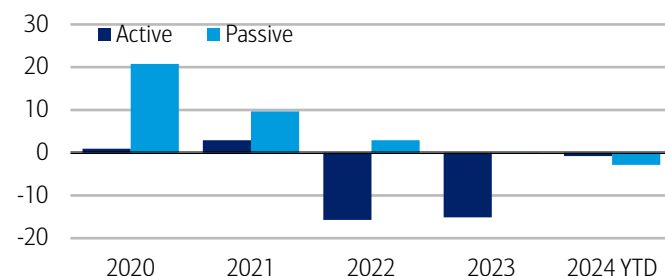
Year	Active	Passive
2019	15.6	16.6
2020	0.9	20.8
2021	2.9	9.7
2022	-15.7	2.9
2023	-15.1	0.0
2024 YTD	-0.8	-2.9

Source: BofA Global Research, EPFR Global.

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Exhibit 7: Passive funds flows turning negative in 2024 YTD

Flows into Active and Passive funds per year in %



Source: BofA Global Research, EPFR Global.

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Exhibit 8: Active managers of EM external debt outperform benchmarks YTD

EM external debt YTD total returns and Sharpe ratios

Funds & main benchmarks	Ticker	YTD TRR	60d vol	TRR / Vol	5y TRR
62 Active Funds Average		0.6	6.6	0.1	0.8
Benchmark Average		0.1	6.3	0.0	0.7
JPM EMBI Div	JPEICORE	0.4	6.7	0.1	0.8
JPM EMBI Global	JPEIGLBL	0.1	6.2	0.0	1.1
JPM EMBI Div	JPEIDIVR	0.6	6.3	0.1	0.8
ICE US sovereign	DGOV	-0.3	6.2	0.0	0.6
Bloomberg EM USD Aggregate Sov - 10% capped	I30429US	0.1	6.2	0.0	0.5
Bloomberg EM International Sovereign	LEMITRUU	-0.2	6.1	0.0	0.6

Source: BofA Global Research, Bloomberg

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