

Fixed Income ETFs remained Liquid, Even as Bond Liquidity Dried Up

On 3/12, Investment Grade ETF volumes spiked to 127M shares (\$9.5B) and 153M shares (\$9.3B) for High Yield ETFs. On a share basis, this set a new record for single day IG ETF volume.

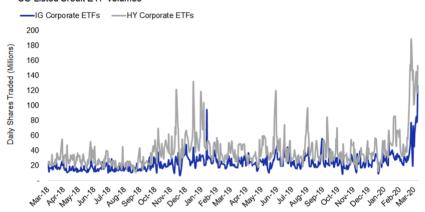
• IG and HY ETFs continued to actively trade Shares of both IG and HY ETFs continued to change hands: these elevated volumes indicate that investors are looking to ETFs to shift their credit risk as the cash bond market faced liquidity

challenges over the last few days.

Price discovery and risk transfer stayed intact

Because ETFs continue to trade at high volumes in stressed markets, they continue to function and support the benefits that are often touted by these vehicles--price discovery and risk transfer--even if it may not be at a price investors are seeking.

US-Listed Credit ETF Volumes

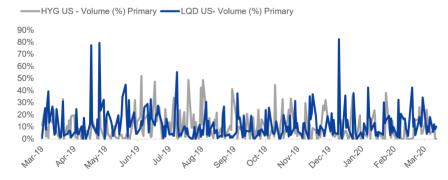


Many FI ETFs Saw Reduced Primary Market Activity

HYG primary market activity approached 0% of its daily volume, its lowest in the last few weeks

Primary market activity has been muted in spite of the discount to NAV
 In normal conditions a discount to NAV signals an arbitrage opportunity. Therefore, the lack of redemption activity suggests that the underlying markets are not actionable enough, or that the ETF price is not as far out of line with the underlying value.

Select Credit ETFs - Daily Volume Traded in Primary Markets



Many FI ETFs are Trading at Discounts to NAV

During a period of outsized volatility it is not unusual to see junk bonds trading at a discount from their NAVS, but the sizable discounts seen across higher quality strategies including IG and Treasuries surprised traders. The TLT discount to NAV was partially just due to timing issues but was also driven by a very large increase in the spread of on-the-run vs of-the-run treasuries. Investors seem to face selling pressures and a rush to cash which added another layer of constraint to the bond markets. These ETFs traded at a significant discount LQD (3.92%), and TLT (4.98%), which made the discount of JNK (1.31) appear modest in comparison.

As of this week, there are few safe havens from NAV discounts
 After trading inline with NAV during last week's volatility, Treasuries and IG Credit are seeing larger deviations between price and NAV. These effects are not isolated to the US credit ETF market, either: there were similarly-steep discounts in IHYU LN, IEAC LN, and XBLC GR.

- When bond market liquidity is constrained, NAV can be difficult to pin down
 It's very difficult for pricing services to capture real-time trading dynamics and information in the way that market makers can, and this is particularly true in a fast-changing market. So, in market conditions marked by high volatility and low bond liquidity, NAV is a less reliable benchmark.
- Discounts don't necessarily mean mispriced ETFs
 It's easy to assume that ETF traders are overshooting their mark and selling ETFs for less than they're worth. However, actively-traded ETFs are often more reactive to changing market dynamics than their bond underlyings.

TLT US Prem-Disc (%) 2.00 1.00 0.00 -1.00 -2.00 -3.00 -4.00 -5.00 -6.00 LQD US Prem-Disc (%) 2.00 1.00 0.00 -1.00 -2.00 -3.00 -4.00 -5.00 -6.00 Select HY ETF Prem-Disc. (%) 2.50 2.00 1.50 1.00 0.00 -0.50 -1.00 -1.50 -2.00

Source: Bloomberg

-2.50

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