ECB – FIXED INCOME ETFs
SEPTEMBER 2021

Produced by Tradeweb for the BMCG
**Observations**

- **ETF Evolution / Volumes on TW**
  - Secondary market volume trends are consistent with overall ETF AuM growth
  - ETF platform volumes have grown since the ETF market developed an OTC offering, TW volumes have a 6yr CAGR of 44% since 2014
  - Significant MiFID II impact to the electronification of ETF flow
    - All European ETF trades (as quasi-equity) subject to post-trade reporting
    - Estimate 90% D2C market electronic (~60% on MTF/40% on Exchange)

- **ETF market structure / dynamics during Covid Crisis**
  - Relative roles of Market-Makers vs Banks
  - Spike in volumes during fast markets (FI ETFs > equity ETFs during Mar/Apr 2020)
  - NAV stresses reflect the challenging dynamics between ETFs and their underlying instruments (TW observations)
  - 22 different authorised participants remained active across ETF European range in March, compared with 24 during 2019 (data from iShares and Tradeweb)

- **Average transaction size in FI-ETFs vs Corporate Bonds**
  - FI-ETFs trade in average sizes twice as large as Corp bonds (Tradeweb data)
  - Profile of FI-ETFs shifted during 2020 as demand for Corporate Bond linked ETFs picked up (versus 2019)

- **Execution efficiencies via Portfolio Trading (PT)**
  - PTs support a shift in trading behavior and evolution of basket trading in Fixed Income
  - Risk transfer via PTs demonstrates improved pricing versus traditional list trading
EU ETF: Evolution on TW

FI ETF: ADTV on TW (€mm)

EU Corporate Bonds: Avg. Trade Size (€k) (excl. AiEX + non-comp)

2015: TW ETF Dealer Profile

Note: All YTD / Q3’21 reported data up to 31st August 2021
Covid Impact to FI: ETFs & Bonds

Observations:

- During the Covid crisis in March 2020, FI-ETF NAVs became stressed as underlying liquidity became hard to source
  - On days of heaviest selling in March, trading spreads on the 5 largest €IG ETFs avg 25 basis points, while underlying bonds were trading as wide as 55 basis points (data from Tradeweb & iShares)
  - FI-ETFs traded at significant discounts to NAV pricing during the crisis window, followed by premiums during the recovery period immediately after Central bank interventions (per LQDE pricing data below from Tradeweb)
- Execution in Corporate Bonds became challenging with Hit-Rates dropping significantly during the Covid stress window whilst ETFs performed better as Hit-Rates held as Avg trade sizes adjusted (Tradeweb data)

**FI-ETF: Peak Covid Crisis NAV Performance (LQDE)**

Average Executed LQDE price (in bps) as spread to Trading NAV

**Covid Impact on FI-ETF Trade Sizes**

**March 2020**

- 30.00%
- 25.00%
- 20.00%
- 15.00%
- 10.00%
- 5.00%
- 0.00%

**April 2020**

- 25.00%
- 20.00%
- 15.00%
- 10.00%
- 5.00%
- 0.00%

**2020 Volume Hit-Rates (FI-ETF vs Corp Bonds)**

**2020 FI-ETF Pricing Performance: OTC vs Exchange Touch**

Median Bps improvement OTC
Portfolio Trading currently yields better TCA results, particularly for packages of 50+ line items, with the added benefit of greater certainty of execution (Hit Rates typically 80%+ across IG, HY and EM**)

1 Portfolio Trading on Tradeweb, the sector group of a portfolio is determined by the majority sector group (60%+ by volume). If no sector group reaches 60%, we classify it as a mixed portfolio.

2 Excluding re-submits.
Questions…

- What is the participants experience with Tradeweb’s analysis of the Covid crisis in regards to the market dislocations between Fixed Income ETFs and their underlying assets?
  - To what extent was the reliance on Off-Exchange trading of FI-ETFs during that period?

- What is the participants experience with the emergence of Market-Makers becoming a significant contributor of liquidity in the FI-ETF market?

- Does the increasing use of ETFs for Active fund management create further opportunities for market dislocation events like that seen in March-April 2020?

- What is the participants view that Basket Trading is now more prevalent in Fixed Income?