

ECB Bond Market Contact Group

# Developments in the ETF market

Frankfurt, 19 September 2024

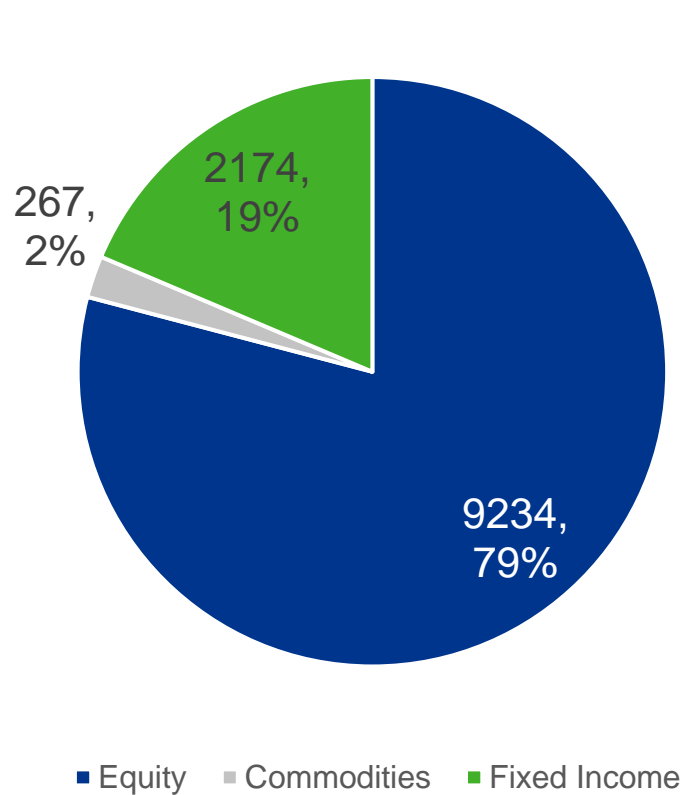
Christian Kopf, Head of Fixed Income, Union Investment Group



# The ETF market is dominated by the United States

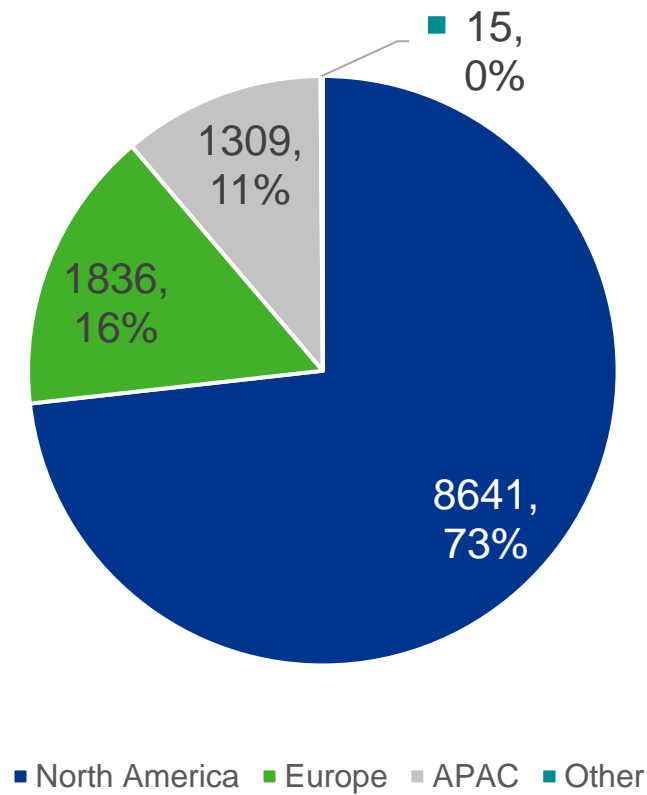
## ETF AuM by asset class

In billion euros



## ETF AuM by region

In billion euros



## ETF index providers

Provider	Market share
S&P	17.0%
MSCI	16.0%
Bloomberg	11.9%
CSIC	7.7%
Solactive	7.1%
FTSE	6.7%
Dt. Börse	4.0%
ICE	3.8%
JP Morgan	1.3%
Others	24.5%

Source: Solactive, Union Investment. Data as at 30 June 2024

# The market for European fixed income ETFs is becoming more active

## Recent developments

The trading volume of Fixed Income ETFs has reached around € 117 bn year-to-date, which accounted for 30% of volume traded on Tradeweb

Fixed Income ETFs are traded by 86% of Tradeweb's client base

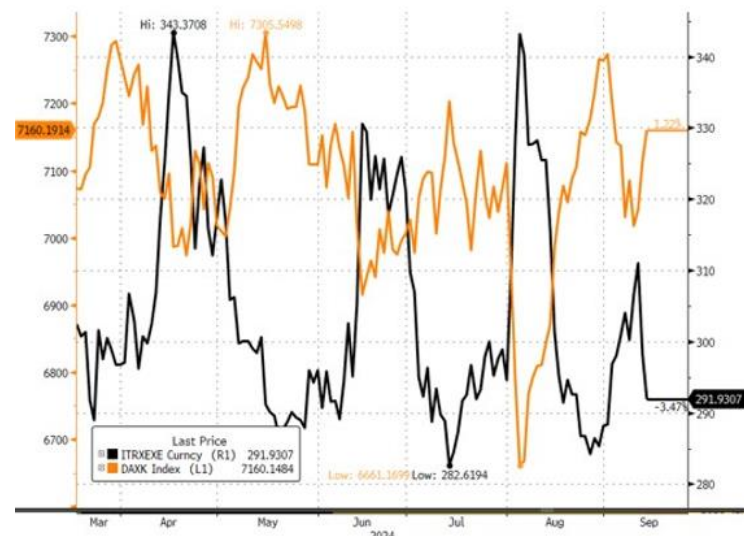
The Fixed Income ETF market is currently dominated by investment grade corporate and high yield bond ETFs.

The pricing of Fixed Income ETFs is currently migrating from equity desks to fixed income trading desks, both on the sell side and on the buy side.

Source: Tradeweb, Bloomberg, Union Investment. Data as at 30 August 2024

## Correlation between euro area high yield market and equities

We observe an excessively high correlation between the euro area high yield market and equity markets, which may be related to ETF pricing patterns.



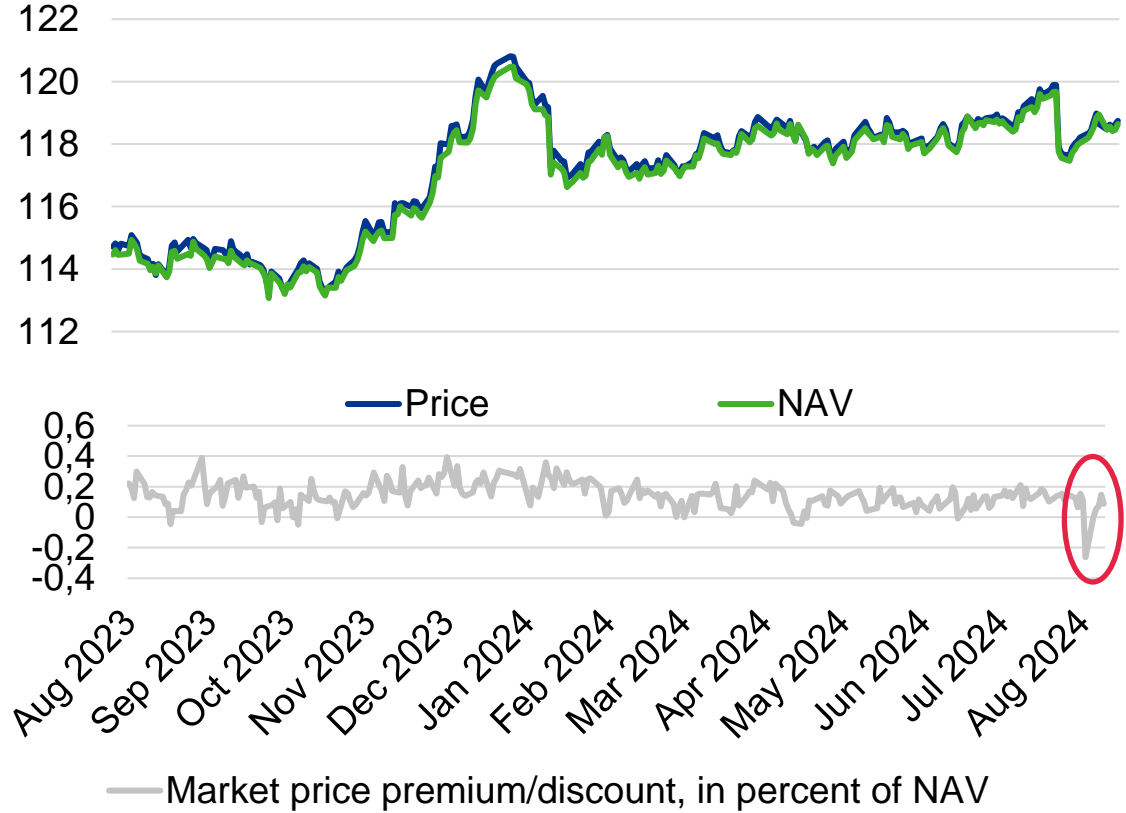
## Fixed Income ETF trading volume

Sector	% share
Credit	42%
Rates	36%
Aggregates	9%
Emerging Markets	8%
Money Markets	5%

# Market prices on fixed income ETFs fell sharply below NAV during the August 2024 turmoil, but assets under management remained stable

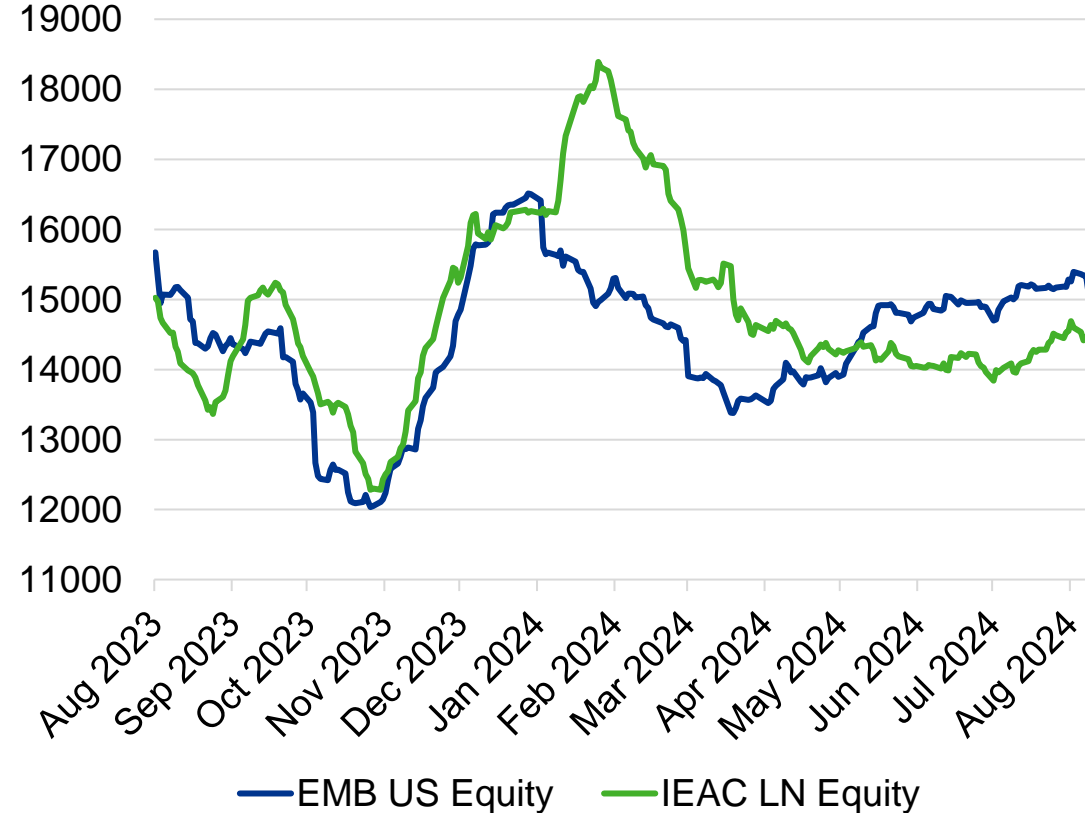
## ETF on European corporate bonds

Deviation of the unit price from the net asset value



## ETFs on corporate bonds and EM sovereign bonds

Fund volume, in million US dollars



Data on iShares Core EUR Corp Bond UCITS ETF (IEAC) and iShares J.P. Morgan USD Emerging Markets Bond ETF (EMB). Source: Bloomberg, Union Investment



## For many real money asset managers, credit index futures are better suited than ETFs to manage market beta

Instrument	Credit ETF	CDS Index	Credit Index Future
Representative contract	IEAC	iTraxx Main	LXY
Available market directions for real money asset managers	Long only	Long / short	Long / short
Funding	Funded	Unfunded	Unfunded
Benchmark replication	Very low tracking error	High tracking error from bond CDS basis and duration gap	Very low tracking error
Market liquidity	Very high	Extremely high	High
Allocation limit	10% limit for most open-ended funds to avoid cascading	No limit	No limit

Source: Union Investment

# Topics for discussion

1. Is the deviation of fixed income ETFs' market prices from NAV during periods of market turmoil a cause of concern to you?
2. Are fixed income ETFs traded from the equity desk or from the fixed income desk at your firm?
3. How have liquidity conditions in the fixed income ETF market evolved?
4. Do you prefer to manage market beta with ETFs or with credit futures?

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