



ECB – FIXED INCOME ETFs

SEPTEMBER 2021

Produced by Tradeweb for the BMCG

❑ 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

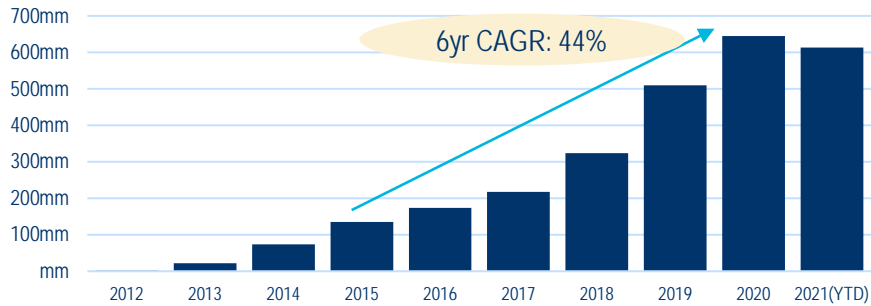
- ❖ FI-ETFs trade in average sizes twice as large as Corp bonds (*Tradeweb data*)
- ❖ Profile of FI-ETFs shifted during 2020 as demand for Corporate Bond linked ETFs picked up (versus 2019)

❑ Execution efficiencies via Portfolio Trading (PT)

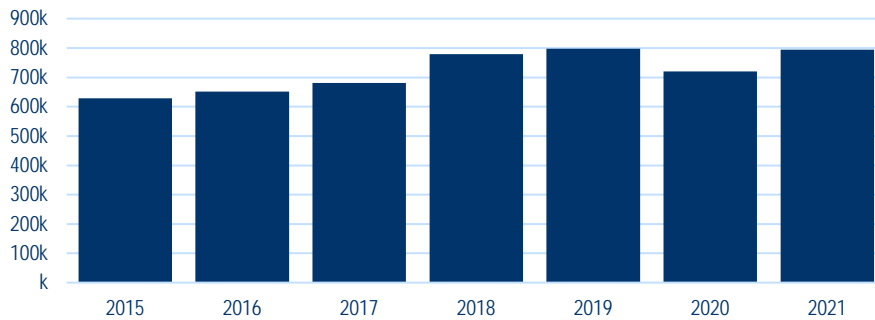
- ❖ PTs support a shift in trading behavior and evolution of basket trading in Fixed Income
- ❖ Risk transfer via PTs demonstrates improved pricing versus traditional list trading

EU ETF: Evolution on TW

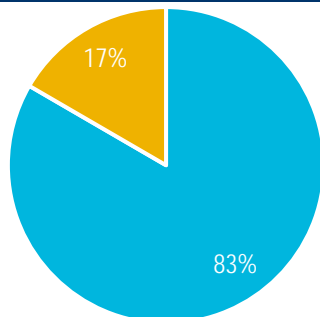
FI ETF: ADTV on TW (€mm)



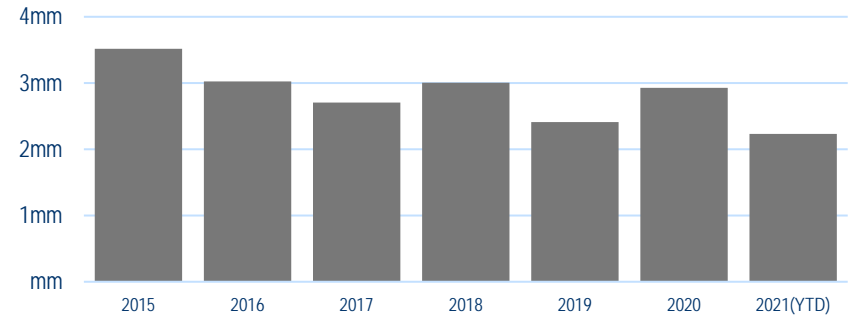
EU Corporate Bonds: Avg. Trade Size (€k) (excl AiEX + non-comp)



2015: TW ETF Dealer Profile

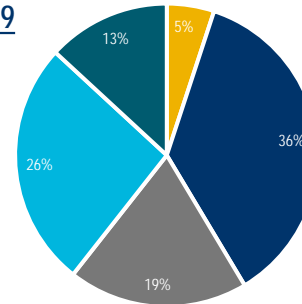


FI ETF: Avg Trade Size (€mm) (excl. AiEX)

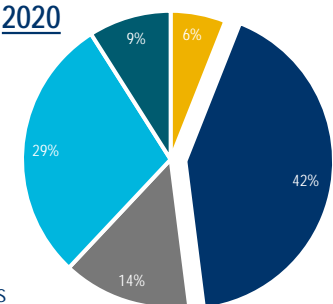


Most Active FI-ETFs

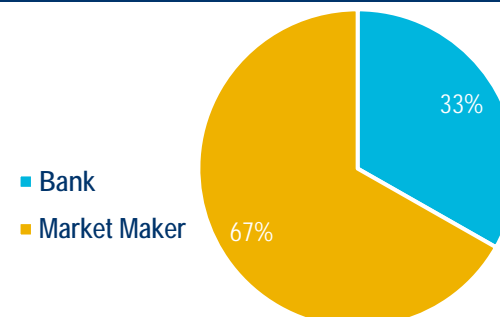
2019



2020



2021: ETF Dealer Profile



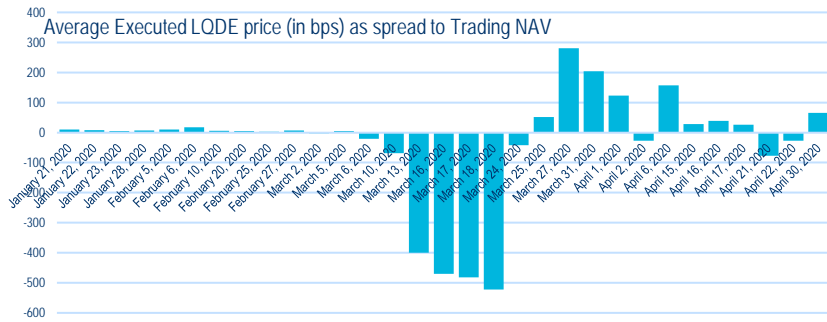
Note: All YTD / Q3'21 reported data upto 31st August 2021

Covid Impact to FI: ETFs & Bonds

Observations:

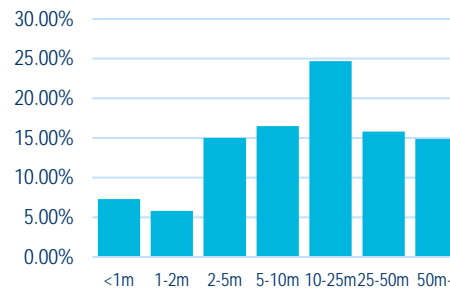
- ❑ During the Covid crisis in March 2020, FI-ETF NAVs became stressed as underlying liquidity became hard to source
 - On days of heaviest selling in March, trading spreads on the 5 largest €IG ETFs avg 25 basis points, while underlying bonds were trading as wide as 55 basis points (*data from Tradeweb & 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 LOQE 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 (LOQE)

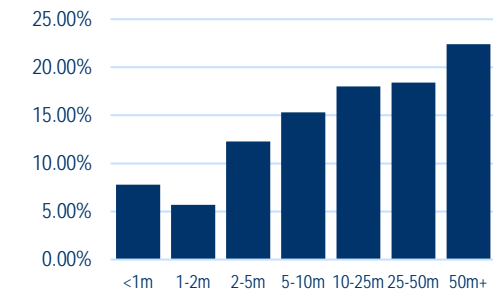


Covid Impact on FI-ETF Trade Sizes

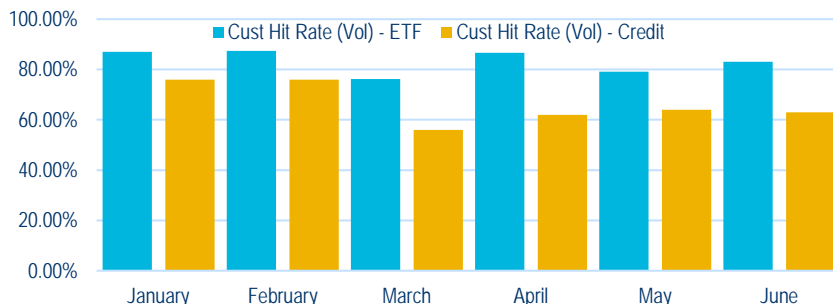
March 2020



April 2020

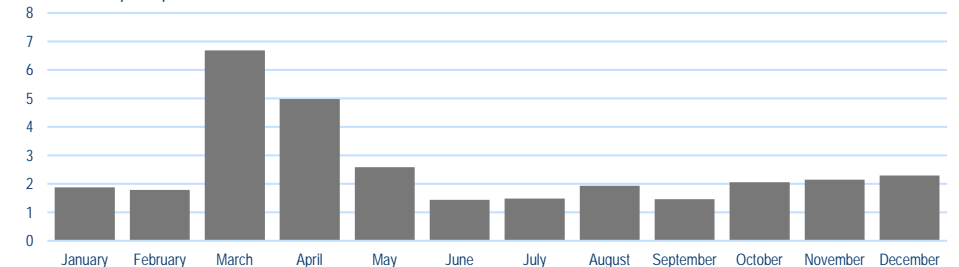


2020 Volume Hit-Rates (FI-ETF vs Corp Bonds)



2020 FI-ETF Pricing Performance: OTC vs Exchange Touch

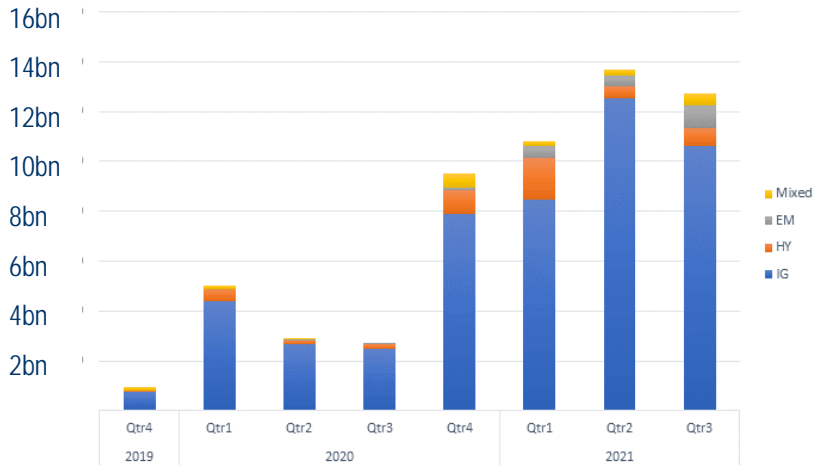
Median Bps improvement OTC



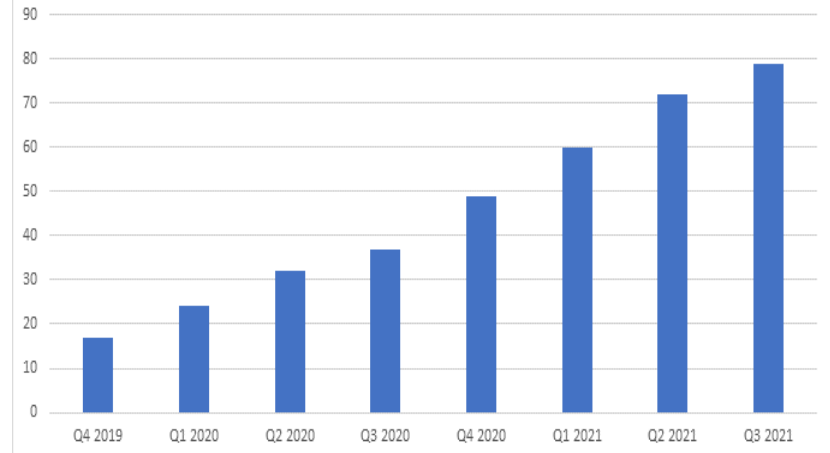
Linking Markets: Changing Behaviour in Fixed Income



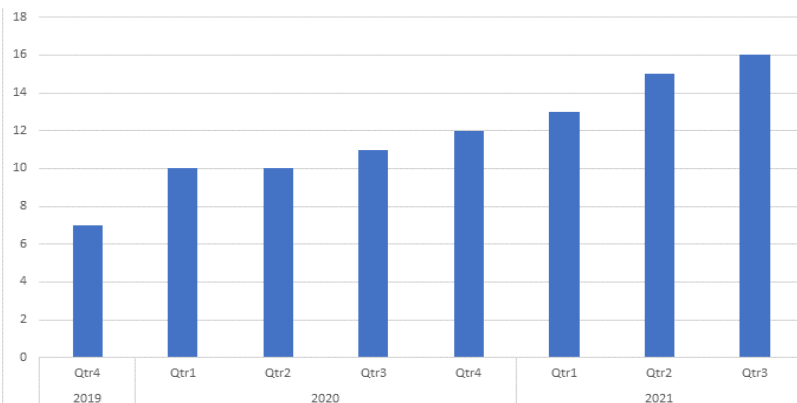
Growth of EU PT volumes on TW



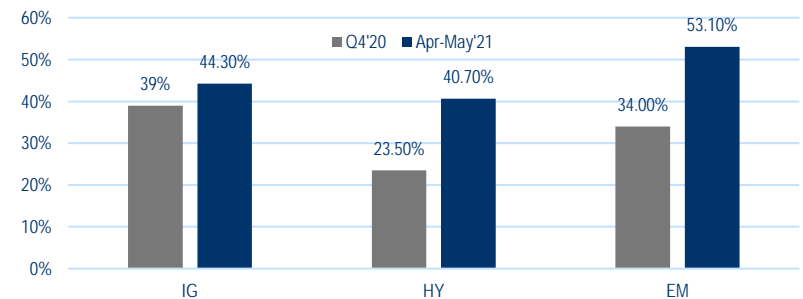
Cumulative Clients using PTs



Number of PT Dealers on TW



PT Execution Performance



- 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**)
- TW Comp BOS Vol = Tradeweb Composite Volume-weighted Bid-Offer Spread

*In European Credit 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
 **Excluding re-submits1

Note: All YTD / Q3'21 reported data upto 31st August 2021

- ❑ 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?