Figure 1.23. Liquidity Risk Amplifiers

The benchmark-centric nature of mutual funds and ETFs fuels high correlations...

1. Correlation of Returns: Top 10 Global High-Yield Mutual Funds and ETFs versus the Global High-Yield Index

Liquidity mismatches are rising, as redemption-prone vehicles invest in less liquid assets...

2. Assets under Management to Large Crossover Fixed-Income Funds

...which are amplified by the reported rise in synthetic leverage by large crossover mutual funds.

3. Number of Days for the Full Liquidation of U.S. Credit Mutual Funds and ETFs

...with hedge funds less likely to take short positions and provide liquidity during stressed markets.

4. Correlation and Alpha of Hedge Fund Returns

...and with the insurance sector.

5. Contribution to Vulnerability of Distress in the Banking Sector

Bond mutual funds are now more highly interconnected with the banking system...

6. Contribution to Vulnerability of Distress in the Insurance Sector

Sources: Bank of America Merrill Lynch; Bloomberg L.P.; EPFR Global; and IMF staff calculations.

Note: Twelve-month rolling correlation of the returns of the top 10 global high-yield mutual funds as measured by assets under management. ETF = exchange-traded fund. Dashed line shows a correlation of 0.9.

Sources: Sources: EPFR Global; Federal Reserve; and IMF staff calculations.

Note: The number of days to liquidate is the ratio of assets of mutual funds and ETFs (exchange-traded funds) per daily dealer inventories. Under the Investment Company Act of 1940, Section 22(e), U.S. open-end mutual funds may not postpone the payment of redemption proceeds for more than seven days following receipt of a redemption request. Because there are no data for U.S. high-yield bond dealer inventories before April 2013, the dashed red line assumes a constant ratio of this amount to total corporate bonds before this date.

Sources: EPFR Global; Federal Reserve; and IMF staff calculations.

Note: Monthly returns measured over a rolling five-year observation window. Hedge fund returns are based on the Hedge Fund Research Fund-Weighted Composite Index.

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Source: Segoviano and others (forthcoming).