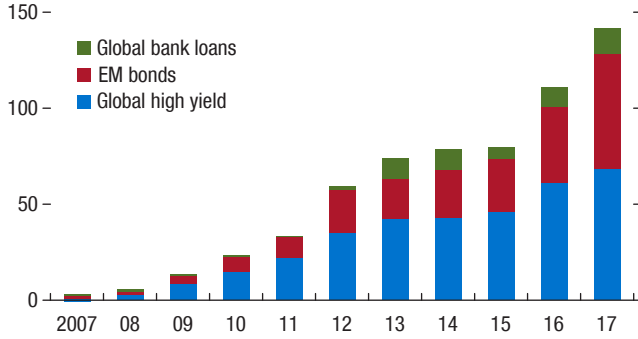


Figure 1.12. Strong Inflows into Exchange-Traded Funds Pose Challenges for the Less Liquid Fixed-Income Markets

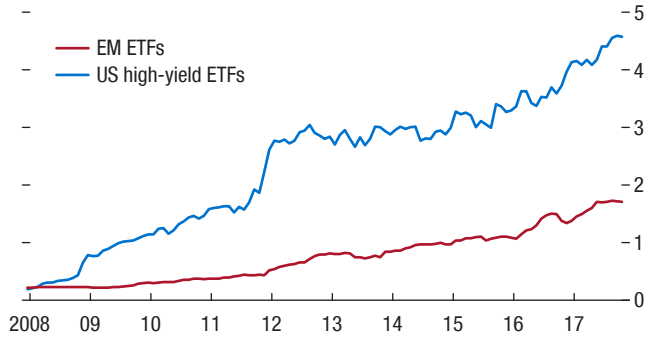
ETFs invested in less liquid bond markets are receiving strong inflows ...

1. Assets under Management of ETFs Invested in Global High-Yield, Bank Loan, and Emerging Market Bonds (Billions of US dollars)



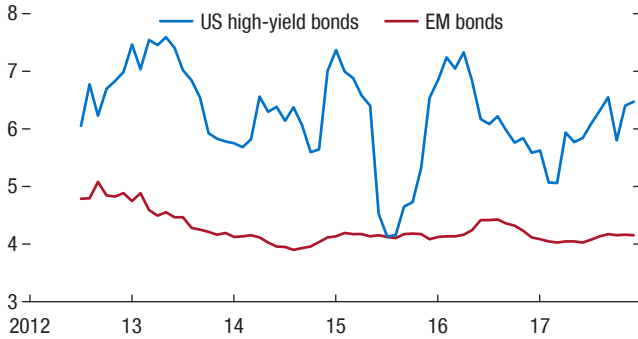
... and ETFs are owning a growing share of the underlying markets.

2. Bond ETF Holdings as a Share of Total Market Value (Percent)



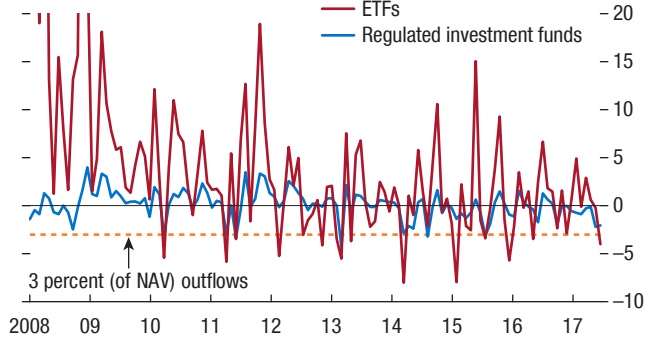
Although ETFs can provide additional liquidity to the less liquid bond markets ...

3. Ratio of Average Trading Volume to Shares Destroyed or Created for US High-Yield and EM Bond ETFs (Six-month moving average)



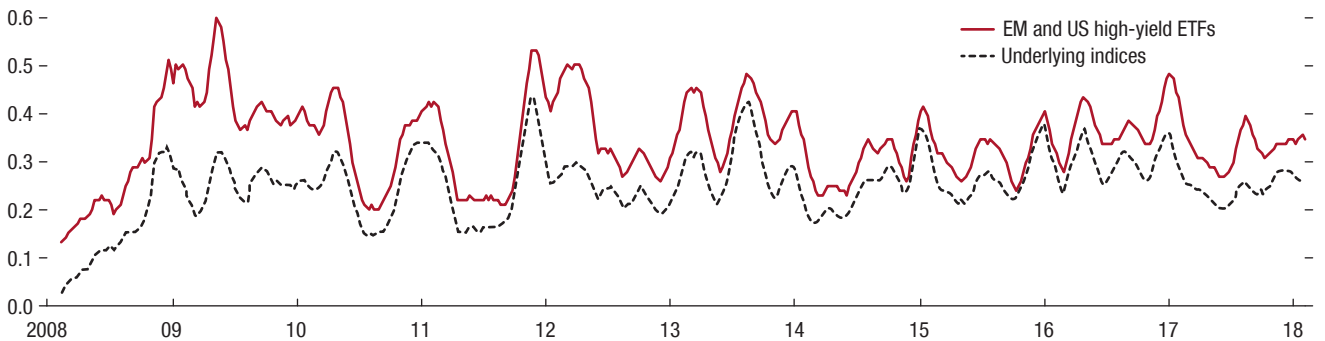
... their investor base is significantly more flight prone ...

4. Flows as a Percentage of Net Asset Values for High-Yield Bond ETFs and Regulated Investment Funds (Percent)



... and their greater sensitivity to major liquid markets increases contagion risks.

5. Average Dynamic Conditional Betas with S&P 500



Sources: Bloomberg Finance L.P.; EPFR Global; Haver Analytics; ICE Bank of America Merrill Lynch; and IMF staff estimates.
 Note: The market value of underlying bonds in panel 2 is calculated using ICE Bank of America Merrill Lynch indices. EM = emerging market; ETF = exchange-traded fund; NAV = net asset value. S&P = Standard & Poor's.