Press Release
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Fixed Income ETF flows surpass $50bn YTD

London, 8 October 2024 -

- Flows into fixed income ETFs continue at a robust pace, with net new assets of $6.8bn in September
- Fed rate cut prompts flight from US Treasuries, while emerging market government bonds return to favour
- EUR-denominated investment grade credit by far the strongest category for inflows in September

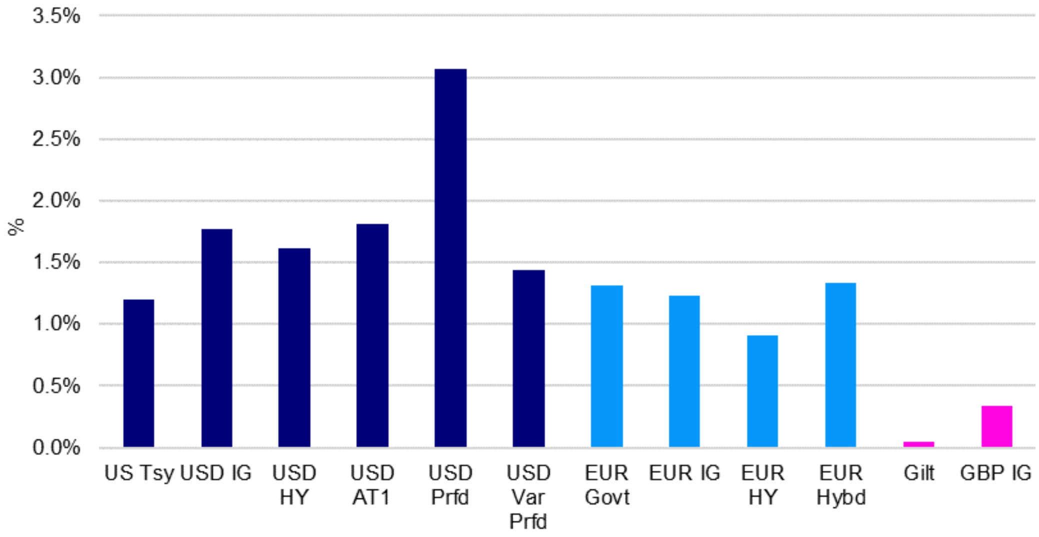
Paul Syms, Head of EMEA ETF Fixed Income and Commodity Product Management at Invesco, comments:

"September saw a further rally in bond markets, supported by the Federal Reserve cutting rates for the first time this cycle. Earlier in the month, US economic data was mixed, although the employment report showed further softening in the labour market, it played second fiddle to the debate on whether the Federal Reserve would cut rates by 25 or 50 basis points.

"The decision announced in the middle of the month was for a 50-basis point rate cut, accompanied by a relatively dovish outlook. The Fed anticipates that quicker and deeper cuts will be needed over the next couple of years to support the economy, more so than previously expected.

"The benchmark 10-year US Treasury yield briefly rallied below 3.60%, the lowest level for 15 months before giving back some gains into month end."

Asset class returns – September 2024



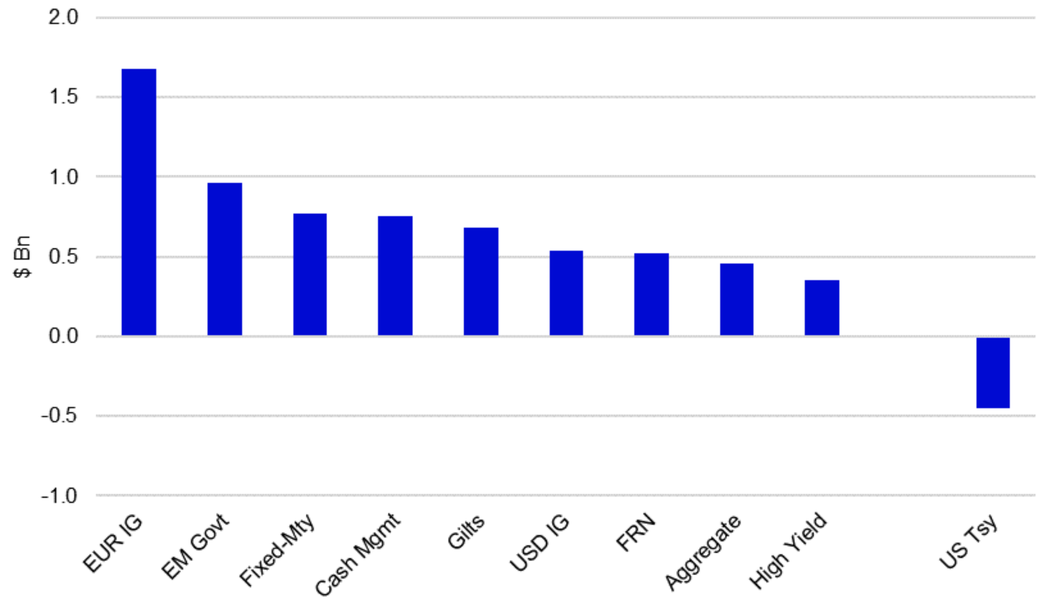
Source: Bloomberg, Invesco as at 30 Sep 2024

Fixed Income ETF Flows

“Flows into fixed income ETFs continued at a robust pace with NNA of $6.8bn taking the year-to-date total to $51.3bn, and potentially on course to beat last year’s record $68bn NNA. Interestingly, with the Fed cutting rates and yields rallying, there were some changes with regards to which asset classes were favoured over the month. For example, US Treasuries, which are the second strongest category for inflows so far this year, experienced net selling during September, while emerging market governments saw strong inflows having previously been out of favour. Nevertheless, a broad range of fixed income asset classes saw material inflows over the month.

“EUR-denominated investment grade credit was by far the strongest category for inflows during September, taking in $1.7bn, followed by EM government bonds with $1.0bn, mostly favouring hard currency exposures. Fixed maturity ($0.8bn), Cash management ($0.8bn), Gilts ($0.7bn), USD investment grade ($0.5bn), Floating rate ($0.5bn), Aggregate ($0.5bn) and High Yield ($0.3bn) all saw strong inflows. US Treasuries saw the strongest net outflows (-$0.5bn), although it’s worth noting that it was longer duration products that saw net selling, while shorter duration products experienced net inflows.”

Top Fixed Income ETF Categories in September 2024



Source: Bloomberg, Invesco, as of 30 Sep 2024

Outlook

"The benchmark 10-year US Treasury yield briefly dropped below 3.60% following the 50bp rate cut from the Fed, accompanied by a more dovish rate outlook that had been anticipated, before yields drifted higher in the second half of the month. However, with the Fed joining the ECB and Bank of England in starting to ease monetary policy - as the major central banks turn their focus to supporting economic growth rather than bringing down inflation - it is likely to be a generally positive environment for bond markets in coming months."

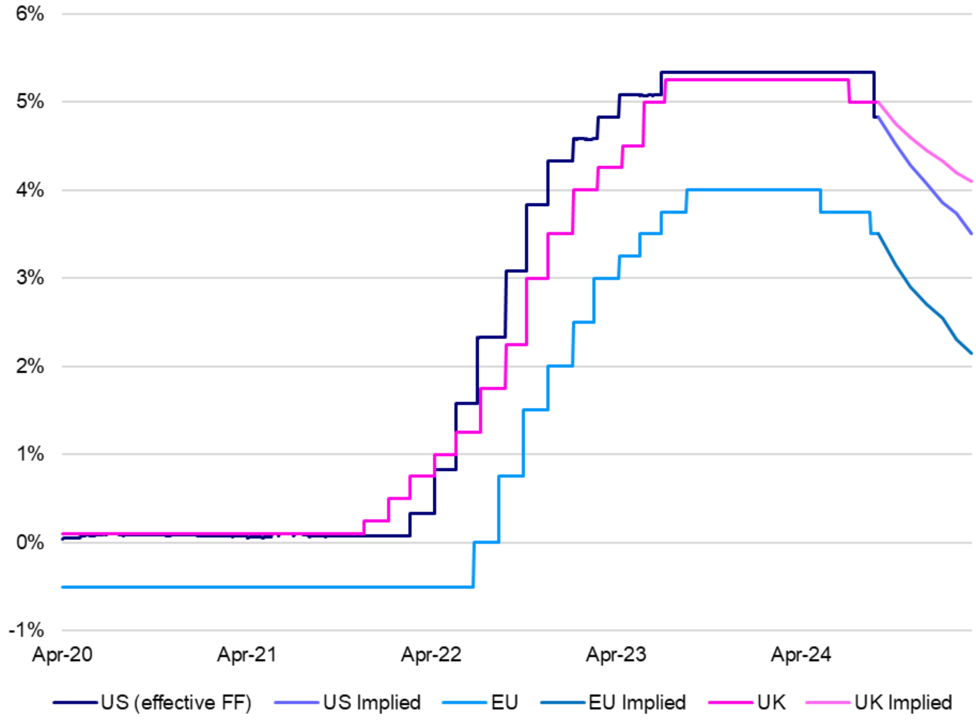
Positioning

"Cash management ETFs have been the strongest fixed income category for inflows so far this year, while US money market fund assets are sitting at record levels ($6.4Tn according to ICI Money Market Fund Assets as at 30 Sep 2024).

"With inverted government yield curves and relatively flat credit curves, the attractive level of yields available on cash and short-dated bonds has meant that, until now, there has been no need for investors to increase interest rate risk.

"However, as yields and therefore expected returns on cash decline now that central banks are cutting rates, investors are likely to start to increase duration by extending along the curve to lock in yields currently available in bond markets. In early August, USD investment grade credit ETFs experienced material inflows as spreads widened from relatively tight levels as Yen carry trades were unwound. Similarly, it is likely that the wall of cash will be put to work on any spikes in yield, now that the easing cycle has started."

Interest rates and rate expectations



Source: Bloomberg, as at 30 Sep 2024

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Important information