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Press Release
For immediate release

Fixed income ETFs attract more than $10bn net inflows in 2024

- Fixed income
  ETFs attracted $2.8bn net new assets (NNA) in February, taking the year-to-date total to $10.8bn.
- A risk-on tone and strong returns from equities meant that fixed income ETFs flows were relatively subdued over the month. Nevertheless, the backdrop for fixed income remains broadly supportive with interest rates likely to start coming down in the middle of the year.
- Investors are set to take advantage of opportunities to increase duration to lock in yields before central banks start easing policy.

London, 11 March 2024 - ***Paul Syms, Head of EMEA ETF Fixed Income and Commodity Product Management at Invesco, comments:***

“While returns across fixed income were muted in February, there was a divergence in fortunes between higher and lower quality bond markets. Higher quality asset classes such as government bonds and investment grade credit suffered slightly negative returns as yields rose, while lower rated credit markets performed better, supported by lower durations and higher yields, while also benefiting from spread tightening during the month.

“In addition to monitoring central bank commentary, markets are increasingly focusing on two key data points each month to determine the timing of the first rate cut from the US Federal Reserve. Both of these were stronger than had been expected in February.

“Early in the month, the US employment report showed strong gains in payrolls and strong earnings data, which pushed back expectations for rate cuts and drove government bond yields higher. This was followed mid-month by stronger than expected US inflation data which had a similar effect. However, while risk free rates rose over the month there was a general risk-on tone to markets, with the S&P 500 index hitting a new all-time high, which supported credit spreads over the month.

“Nevertheless, spread tightening in investment grade space was insufficient to offset the rise in risk free rates and the impact of interest rate risk on total returns.”

Despite a slow month, the backdrop for fixed income remains supportive

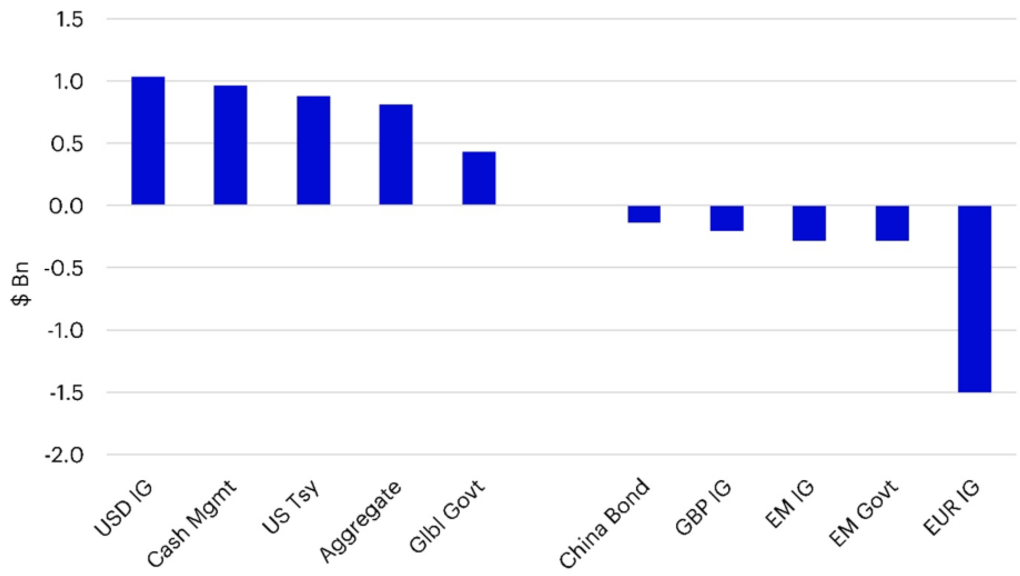
“Inflows into fixed income ETFs slowed in February with $2.8bn NNA taking the year-to-date total to $10.8bn. USD investment grade credit ($1.0bn) was the strongest category for net inflows over the month. Cash management ($1.0bn), US Treasuries ($0.9bn) and Aggregate ($0.8bn) also experienced high demand.

“EUR investment grade credit (-$1.5bn) led the outflows in a reversal of fortunes having been the strongest category for inflows in January. Emerging market debt was out of favour with combined outflows of $0.7bn across EM governments (-$0.3bn), EM IG (-$0.3bn) and China Bond (-$0.1bn).

"Fixed income experienced challenges in February due to stronger economic data pushing back rate cut expectations and putting upward pressure on bond yields. Additionally, the risk-on tone and strong returns from equities meant that fixed income ETFs flows were relatively subdued over the month.

"Nevertheless, the backdrop for fixed income remains broadly supportive with interest rates likely to start coming down in the middle of the year. It therefore seems likely that investors will take advantage of opportunities to put cash to work in bond markets, increasing duration to lock in yields before central banks start easing policy."

Top and Bottom Fixed Income ETF Categories in February 2024



Source: Bloomberg, Invesco, as at 29 Feb 2024

Fixed Income outlook – things to keep an eye on:

- **Inflation data –** this will be key to the timing and extent of rate cuts
- **Economic data** – spreads could be vulnerable to a hard landing
- **Interest rates outlook** – spreads have rallied on expectations of rate cuts

If you would like more information on fixed income ETF flows or to speak to Paul, please email InvescoETF@lansons.com.

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Data source Invesco/Bloomberg as at 29 February 2024 unless otherwise stated.

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