Press Release

For immediate release

This press release is for trade press only

Fixed income ETF flows rebound in December

14 January 2025

- Flows into fixed income ETFs rebounded in December with an additional $4.4Bn net new assets (NNA), bringing the total for the year to $62.0bn
- ‘Safe haven’ asset classes favoured; a trend set to continue due to concerns about Trump’s policy agenda
- Bond markets performed poorly in December, driven by a rise in government bond yields

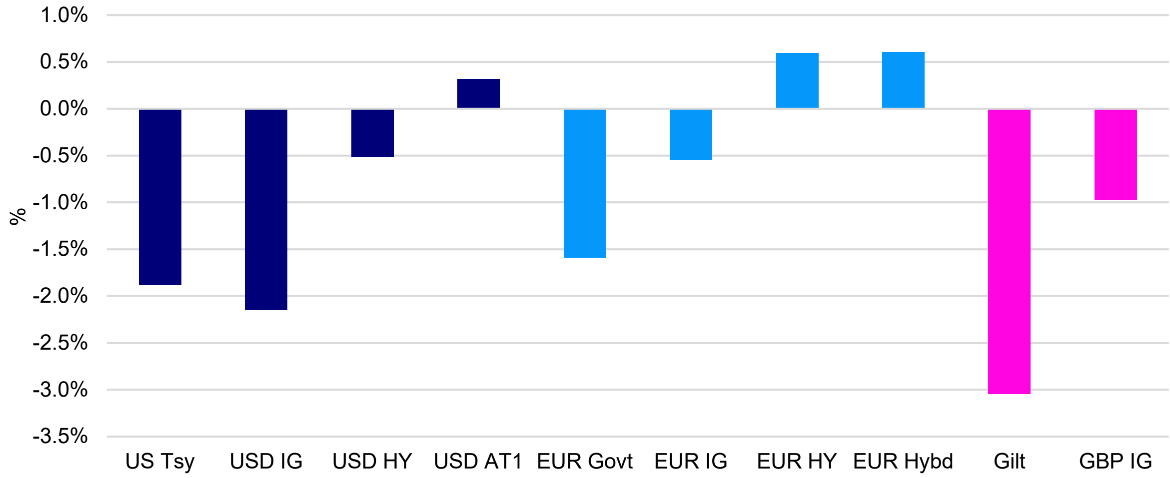
Paul Syms, Head of EMEA ETF Fixed Income and Commodity Product Management at Invesco, comments:

“Bond markets generally performed poorly in December, driven by a rise in government bond yields with curves bear steepening over the month. In the US, data released indicated that the US economy remains in good health. Early in the month, non-farm payrolls rebounded from the slump in November, while hourly earnings were slightly higher than the market had expected, although the unemployment rate did unexpectedly tick up to 4.2%.

“The Federal Reserve delivered a hawkish 25 basis point cut in mid-December, and the updated Summary of Economic Projections removed 50 basis point of rate cuts for 2025 relative to the September release, leaving just 50 basis points of cuts expected during the next 12 months. This put pressure on US Treasury yields with the curve steepening and the benchmark 10-year Treasury ending the month 46 basis points higher than at the end of November.

“Elsewhere, the ECB delivered a 25-basis point cut while the Bank of England held rates, both in line with market expectations. Although investment grade credit returns were negative due to rise in risk free rates, spreads continued to tighten with Sterling and euro markets being particularly strong and spreads ending the month 12 and 7 basis points tighter, respectively. Dollar high yield spreads ended the month wider but a strong rally in USD-denominated AT1s, and EUR-denominated high yield and corporate hybrid spreads, along with their low duration, meant these markets ended the month in positive territory.”

Asset class returns – December 2024



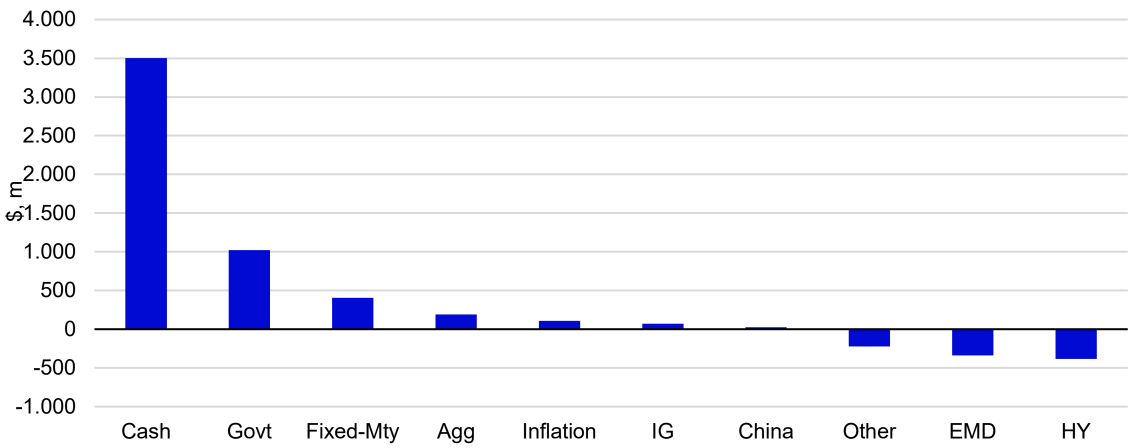
Source: Bloomberg, Invesco as at 31 Dec 2024

Fixed Income ETF Flows

"After a subdued November, flows into fixed income ETFs picked up in December with $4.4bn NNA. The broad theme seen throughout the year remained, with 'safe-haven' asset classes being favoured while riskier asset classes were shunned. Cash management ETFs ($3.5bn) led the way followed by Government Bonds ($1.0bn) which was primarily driven by inflows into Gilt ETFs. Fixed maturity ETFs ($0.4bn) also continued to participate with further net inflows. Outflows were led by High Yield (-$0.4bn) and Emerging Market Debt (-$0.3bn).

"For 2024, fixed income ETFs took in a net $62.0bn, the third highest annual total on record. Government bonds ($25.0bn) were the strongest category, followed by Cash Management ($18.0bn) while Emerging Market Debt was the laggard, suffering net outflows of $2.7bn."

Top Fixed Income ETF Categories in December 2024



Source: Bloomberg, Invesco, as at 31 Dec 2024

Outlook

“The low in the 10-year US Treasury yield in 2024 coincided with the first rate cut from the Federal Reserve in September. Since then, while the Fed Funds rate is now 100 basis points below the peak, 10-year Treasury yields have risen by more than 100 basis points, potentially signalling concerns that aggressive rates cuts could allow inflation to rise once more.

“Nevertheless, the outright level of yields, with only a couple of further rate cuts currently being priced in for the whole of 2025, does leave the US Treasury market at relatively attractive levels. Some headwinds, however, remain which could keep upward pressure on yields with uncertainties around Trump’s fiscal policies, potential tariffs, along with $2.5Tn US Treasuries maturing, and therefore needing to be refinanced, during 2025.

“Overall, the path of least resistance appears to be a steeper yield curve in the months ahead. Investors may decide to keep their powder dry in the near-term, continuing to focus on ‘safe-haven’ assets such as cash and short-dated government bonds, while they wait for better opportunities to increase duration risk within their bond portfolios during 2025.

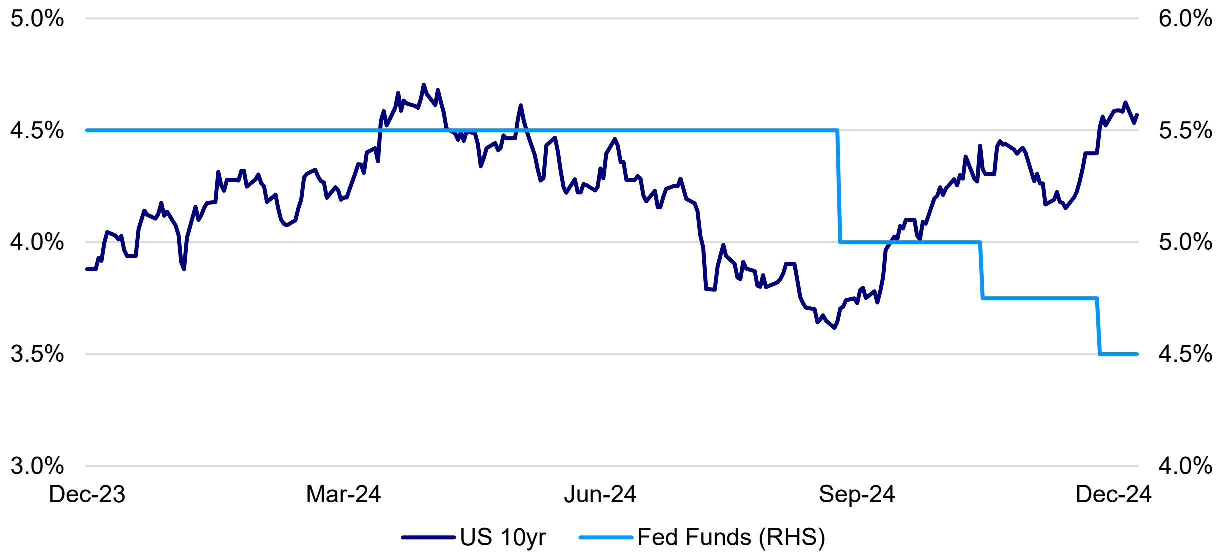
“Credit spreads are currently trading at historically tight levels across both investment grade and high yield markets. However, the probability of a recession remains relatively low, and corporate balance sheets appear to be relatively heathy. Combined with the attractive yield on offer, this means there appears to be little reason for spreads to widen materially in coming months. So, while spreads may struggle to tighten much further, taking the additional carry offered by credit markets is likely to remain appealing.”

Positioning

“2024 was a year of caution for fixed income ETF investors. The combined inflows into Cash Management and short-dated (<1yr) Government Bond ETFs totalled $25.5bn, representing over 40% of total fixed income NNA, with the $15.2bn of net inflows into other Government bond ETFs representing a further 25% on NNA.

“Inverted government yield curves and relatively flat credit curves for most of 2024 meant that there was little need for investors to increase interest rate risk given the attractive level of yields available on cash and short-dated bonds. In the short term, with heightened uncertainty, flows into ‘safe-haven’ asset classes appears likely to continue. However, central banks are likely to ease further in the months ahead and, as yields and therefore expected returns on cash decline and yield curves steepen, investors are likely to start locking in yields currently available in bond markets by rolling along the yield curve in coming months.”

10-year US Treasury yields have risen sharply since the first rate cut



Source: Bloomberg, as at 31 Dec 2024.

ENDS

For further information, please contact:

Invesco

Jane Drew

jane.drew@invesco.com

Telephone +44 20 3370 1104

Lansons

Anthony Cornwell / Tom Straker

anthonyc@lansons.com / toms@lansons.com

Telephone +44 207 294 3606 / +44 20 7566 9705

About Invesco Ltd.

About Invesco Ltd. Invesco is a global independent investment management firm dedicated to delivering an investment experience that helps people get more out of life. Our distinctive investment teams deliver a comprehensive range of active, passive and alternative investment capabilities. For more information, visit www.invesco.com.

Investment Risks

The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested.

Important information

This marketing communication is exclusively for use by trade press in the UK, Austria, Germany, Belgium, France, Finland, Luxembourg, Norway, Portugal, Italy, the Netherlands, Spain, Sweden, Denmark, Switzerland, Dubai, Czech Republic and Slovakia. It is not intended for and should not be distributed to the public.

By accepting this material, you consent to communicate with us in English, unless you inform us otherwise.

All data and charts sourced from Invesco, Bloomberg, as at 31 December 2024 unless otherwise stated. All figures in USD

This document is marketing material and not financial advice. It is not intended as a recommendation to buy or sell any particular asset class, security, or strategy. Regulatory requirements that require impartiality of investment/investment strategy recommendations are therefore not applicable nor are any prohibitions to trade before publication.

Views and opinions are based on current market conditions and are subject to change.

This document is issued in:

The UK by Invesco Asset Management Limited, Perpetual Park Drive, Henley-on-Thames, Oxfordshire, RG9 1HH. Authorised and regulated by the Financial Conduct Authority.

Austria, Germany, Czech Republic and Slovakia by Invesco Asset Management Deutschland GmbH, An der Welle 5, 60322 Frankfurt am Main, Germany.

Belgium, France, Finland, Luxembourg, Norway, Portugal, Italy, the Netherlands, Spain, Sweden and Denmark, by Invesco Management S.A., President Building, 37A Avenue JF Kennedy, L-1855 Luxembourg, regulated by the Commission de Surveillance du Secteur Financier, Luxembourg

Switzerland by Invesco Asset Management (Schweiz) AG, Talacker 34, 8001 Zurich, Switzerland.

Dubai by Invesco Asset Management Limited, Index Tower Level 6 - Unit 616, P.O. Box 506599, Al Mustaqbal Street, DIFC, Dubai, United Arab Emirates. Regulated by the Dubai Financial Services Authority.