Press Release

For immediate release

Fixed income ETFs see strong February inflows amid rising uncertainty

London, 11 March 2025

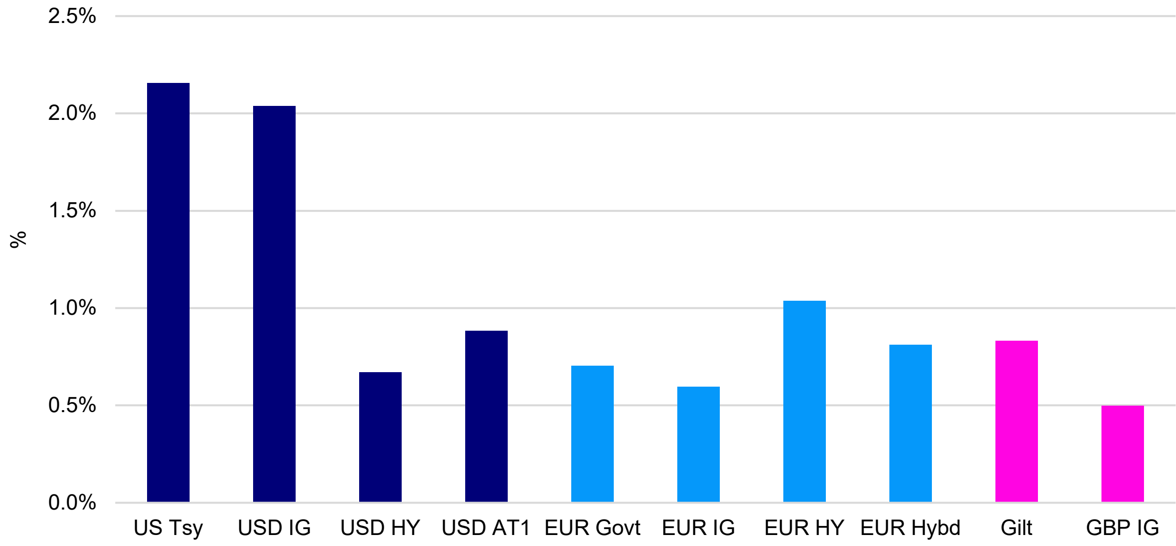
- February saw an increase in both macroeconomic and geopolitical uncertainty, and a divergence in the outlook in different regions
- At $8.5bn, February was the strongest month for net flows into fixed income ETFs since July's record $10.7bn.
- Given the rapidly changing environment, investors are likely to keep their powder dry by continuing to favour 'safe-haven' asset classes

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

"Bond markets generally performed well in February, although there were varying outcomes across different regions. Having initially rallied following softer data, US Treasury yields reversed direction after both wage growth and inflation outpaced market expectations.

"However, Treasuries rallied strongly into month end, helped by a general risk-off tone. This caused equity markets to fall, following broadly weaker economic data, increasing uncertainty about Trump's economic policies, and heightened geopolitical risks related to the Russia-Ukraine conflict. Returns for European bond markets were positive, but with the exception of high yield, they lagged those in the US. There were also growing indications that the US might reduce support for Ukraine, with the implication being that Europe would have to increase defence spending to compensate, potentially driving-up budget deficits and inflations. This was, however, also more supportive for European equities relative to those in the US. Credit markets responded in a similar manner with the risk-off tone causing spreads to widen on USD-denominated bonds, while the more positive tone towards risk for European markets supported spreads on EUR-denominated credit."

Asset class returns – February 2025

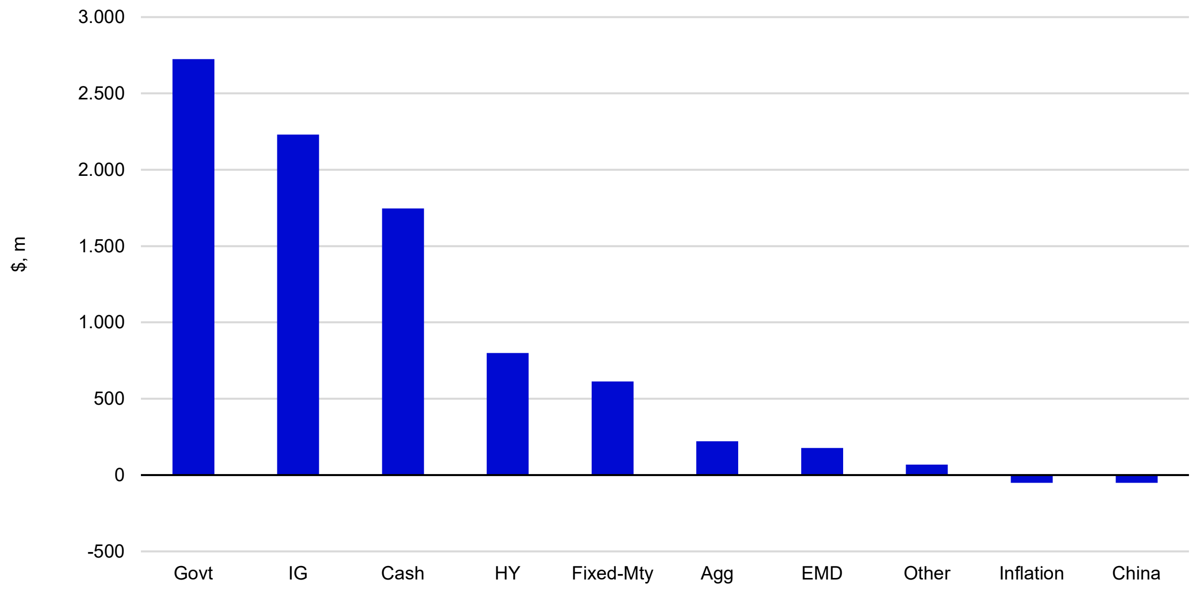


Source: Bloomberg, Invesco as at 28 Feb 2025

Fixed Income ETF Flows

“February saw strong net inflows into fixed income ETFs, totalling $8.5bn. Government bond ETFs (+$2.7bn) were once again the strongest category for inflows, of which more than a fifth went into sub-1-year US Treasuries. Meanwhile, Cash Management ETFs slipped to third place, with $1.7bn of net inflows. Following four months of negative sentiment, investment grade credit saw a resurgence in interest, making it the second strongest category of the month with NNA of $2.2bn. High Yield also saw solid demand (+$0.8bn). Fixed Maturity ETFs (+$0.6bn) completed the top five categories for the month. Given the strength of inflows, there were no categories that experienced material outflows in February.”

Top Fixed Income ETF Categories in February 2025



Source: Bloomberg, Invesco, as at 28 Feb 2025

Outlook

“February felt like an incredibly fast month for news, with economic and geopolitical uncertainty increasing, and potential policy implications having different impacts in different regions. Regarding the economy, the US efficiency drive could potentially reduce government spending, while tariffs might help reduce the budget deficit. However, they could cause inflation to rise in the US and be detrimental to trade and reduce global growth.

“Meanwhile, US policies aimed at resolving the Russia-Ukraine conflict have highlighted the need for Europe to increase its defence spending, as America reduces its commitment to defending the continent. This has led to a divergence in the outlook for each region. In the US, the combined impact of economic and political uncertainty caused equity markets to fall and for US Treasuries to rally, with the benchmark 10-year Treasury ending the month at 4.2%, 60 basis point below the high seen in the middle of January.

“In Europe, the need to increase defence spending, primarily funded through government debt issuance, has limited the extent of the rally in European government bonds. However, it has proved more supportive for European equity markets. Given the increased uncertainty, it appears likely that investors will continue to focus on ‘safer-haven’ asset classes such as government bonds and cash, while waiting for pull backs to increase risk within their portfolios. With the rapid pace of news hitting the tapes, remaining nimble will continue to be key in the months ahead.”

Positioning

"February largely continued last year's trend, with fixed income investors remaining cautious and favouring allocations to either government bonds or cash management products, although demand for credit did increase. In the short term, with heightened uncertainty, flows into 'safe-haven' asset classes appears likely to continue. However, adding duration currently appears less appealing, with 10-year Treasury yields at their lowest of the year following a strong rally. Additionally, the anticipated increase in government defence spending in Europe has the potential to drive yields higher. But, as policy announcements drive changes in valuations and the outlook across fixed income and other asset classes, it is likely there'll be opportunities to add risk in the months ahead."

10-year US Treasury Yield

Source: Bloomberg, as at 28 Feb 2025.

ENDS

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Important Information

All data and charts sourced from Invesco, Bloomberg, as at 28 February 2025, unless otherwise stated. All figures in USD

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