FIXED INCOME ETFS: THEIR TIME HAS COME

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Being an "old bond guy," I've seen a tremendous transformation in how investors go about filling their fixed income portfolios. Certainly, early in my career the vehicle of choice was individual bonds, but that approach gave way to the bond fund manager. Indeed, the premise was that a professional bond manager would be able to navigate the fixed investment landscape better than the investor could by themselves. The transformation process didn't stop there, though. Now, bond buyers are embracing a new vehicle: fixed income ETFs, where investors are witnessing firsthand how this approach can meet their investment needs and bring much-needed diversification without a hefty price tag.

I'll be the first to admit, I love to read a good investment story. However, decades of experience have taught me to look at the underlying numbers. Sure, everyone seems to be well informed on equity-related ETFs, but there has been a bit more of an education process from the bond side of the equation.

Well, that education process appears to have accelerated in 2020. According to the latest flow data, of all the ETF categories, fixed income has seen the largest influx thus far through the first week or so of May. That means fixed income ETF inflows have been greater than they've been for U.S. equities, commodities or currency.

Why is this noteworthy? Well, the obvious reason is that up to now the lion's share of conversations have usually revolved around equity ETFs. But more importantly, the COVID-19 pandemic and attendant money and bond market reaction have created an almost unprecedented landscape, perhaps only eclipsed by the financial crisis and Great Recession. Back then, fixed income ETFs were not widespread by any means, but now that they are, investors are apparently starting to feel that this vehicle is the most suitable choice for such a challenging environment.

By the way, bond investors in general are not the only market participants to see the value of fixed income ETFs…the Federal Reserve (Fed) has seemingly jumped on board as well. As part of the Fed's Secondary Market Corporate Credit Facility (SMCCF), the policy makers announced their intention to purchase individual corporate bonds as well as U.S.-listed corporate bond ETFs. According to the New York Fed's announcement, these purchases were to begin May 12. Do you know what vehicle the Fed chose to begin these purchases? ETFs, not individual bonds.

Bottom line: The next time you're looking to review your asset allocation profile, when it comes to the fixed income portion, ask yourself: Should I follow the Fed's lead and utilize ETFs? Makes sense to me…

Unless otherwise stated, data source is Bloomberg, as of May 11, 2020.

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