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Fund Flows During COVID-19

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Overview

- » Importance of funds to households and financial markets
- » COVID-19: Massive real shock that impaired financial markets
- » Government acted to restore flow of credit
- » Fund flows reflected market conditions
- » Conclusions

Importance of Funds to Households and Financial Markets

Funds Are a Key Savings Vehicle for Households

Assets in registered
investment companies

\$23 trillion

Share of household financial
assets held in funds

23%

Number of Americans
owning mutual funds

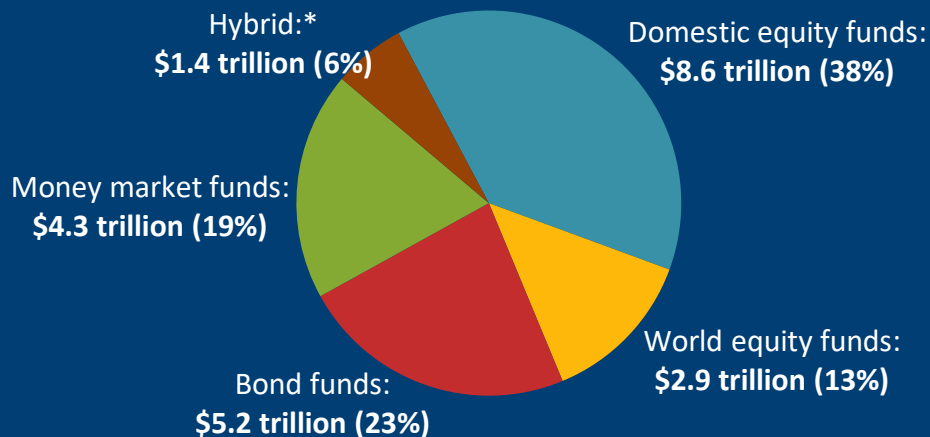
102 million

Proportion citing retirement saving
as primary financial goal

73%

Fund Assets Are Spread Across Markets

Percentage of assets, March 2020



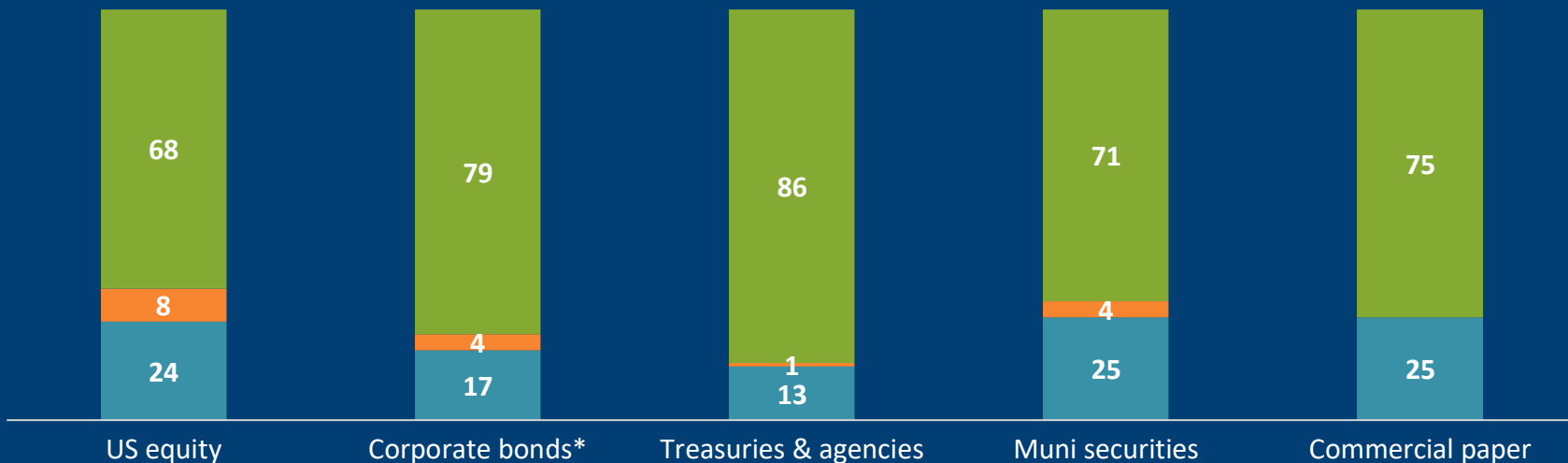
US mutual fund and ETF total net assets: \$22.5 trillion

*This category includes ETFs—both registered and not registered under the Investment Company Act of 1940—that invest primarily in commodities, currencies, and futures.
Source: Investment Company Institute

Funds Channel Households' Savings to Companies, Federal Government, and Municipalities

Percentage of total market securities held by registered investment companies, 2019

Mutual funds Other RICs Other investors



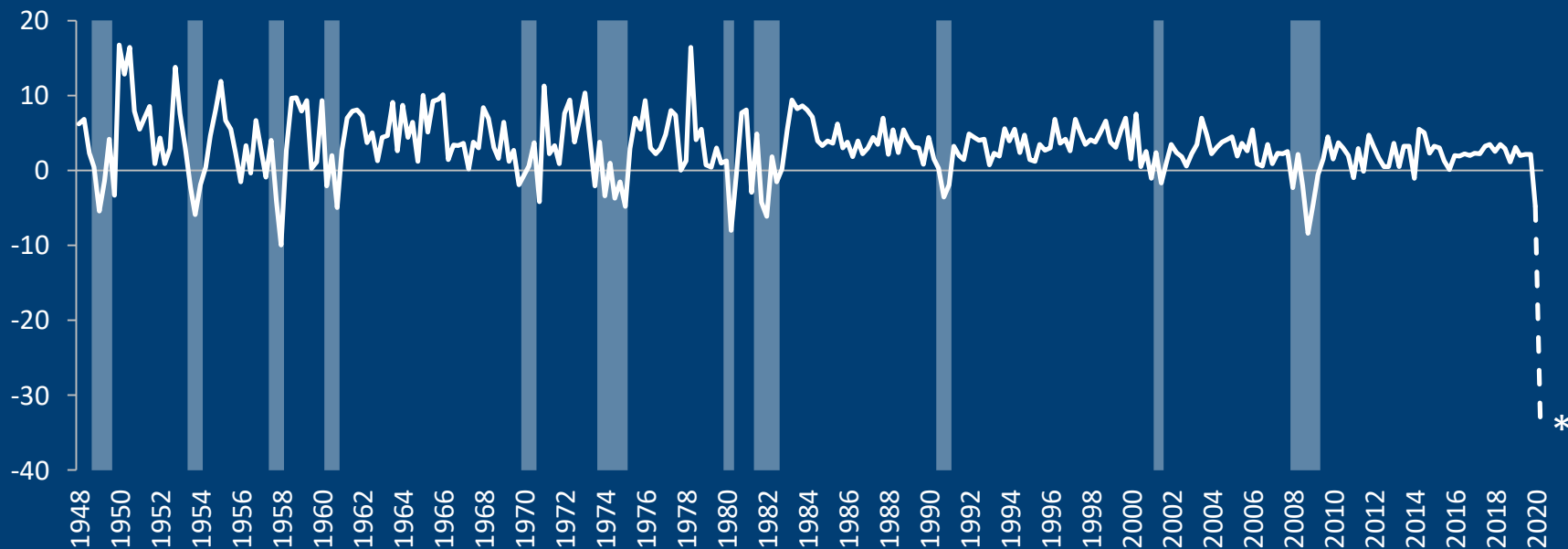
* Includes US and foreign corporate bonds, as reported by Federal Reserve Board

Sources: Investment Company Institute, Federal Reserve Board, and World Federation of Exchanges

COVID-19: Massive Real Shock that Impaired Financial Markets

COVID-19: A Massive Shock to Real Economy

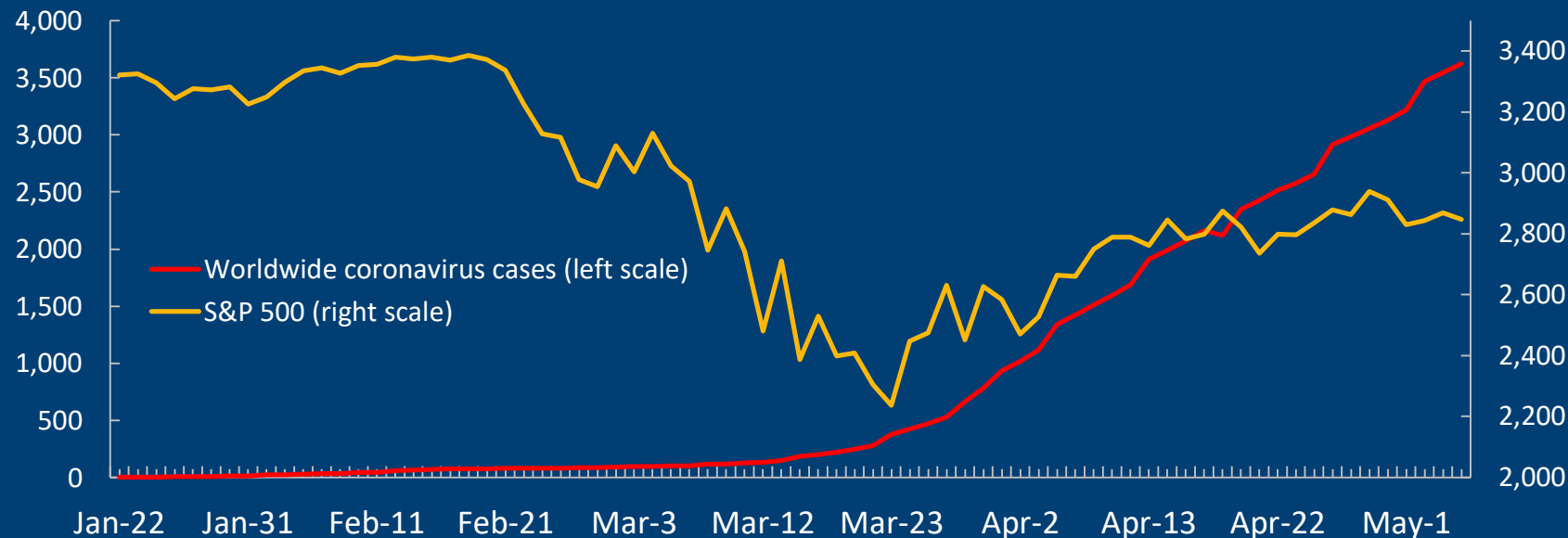
Percentage change in real US GDP, quarterly, seasonally adjusted annual rate



* Note: 2020:Q2 is a Bloomberg forecast as of May 19, 2020.

Spread of Coronavirus and Effect on Markets

Thousands of coronavirus cases (left axis); level of S&P 500 (right axis)



Volatility Surpassed Levels Seen in 2008

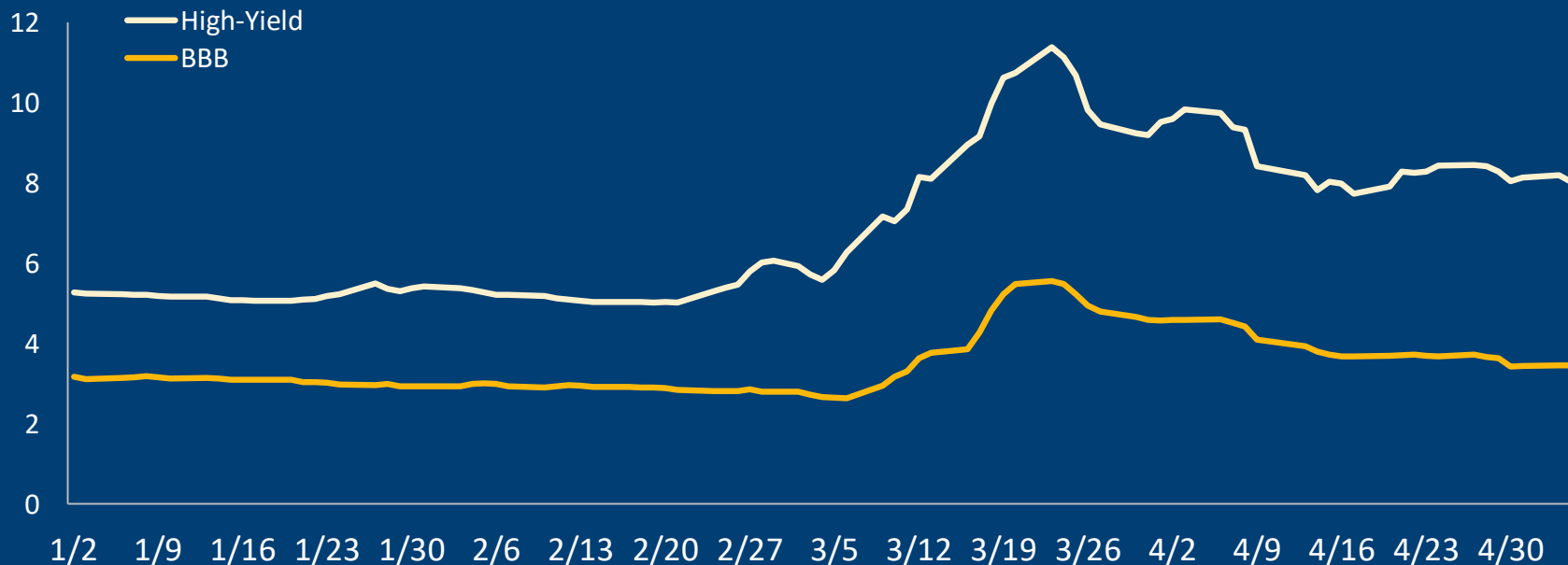
Level of VIX, daily



Source: Cboe Exchange, Inc.

Yields on Long-Term Corporate Debt Jumped

Yields on high-yield and BBB-rated bonds, percentage, daily

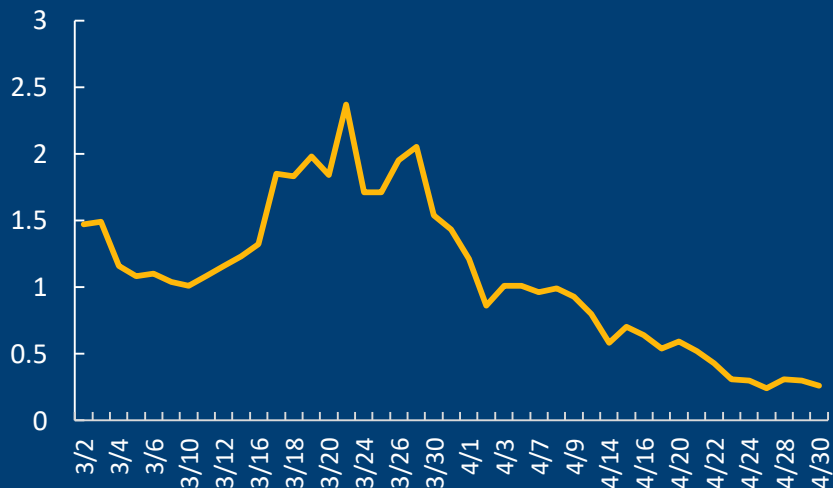


Source: Federal Reserve FRED

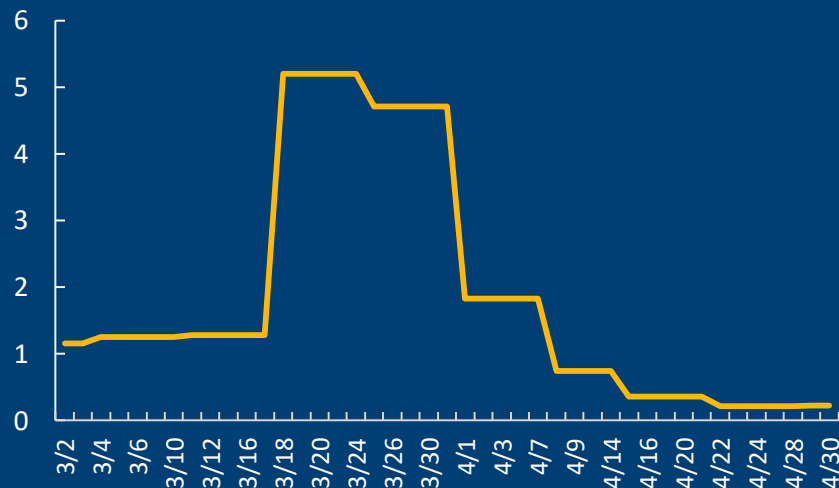
And Short-Term Credit Markets Were Stressed

Yields on 3-month commercial paper and SIFMA municipal swap index, percentage, daily

Yield on 30-day AA ABCP



SIFMA 7-day Muni Yield Index



Source: Federal Reserve Board; SIFMA

Federal Government Acted to Protect Economy

» Federal Reserve

- » Cut rates, purchased gov't securities, boosted swap lines
- » Lending facilities: MMLF, CPFF, PDCF, PMCCF, SMCCF, TALF, PPPLF, MLF, Main Street Lending

» Congress

- » CARES Act – provided capital for Treasury to backstop Fed facilities

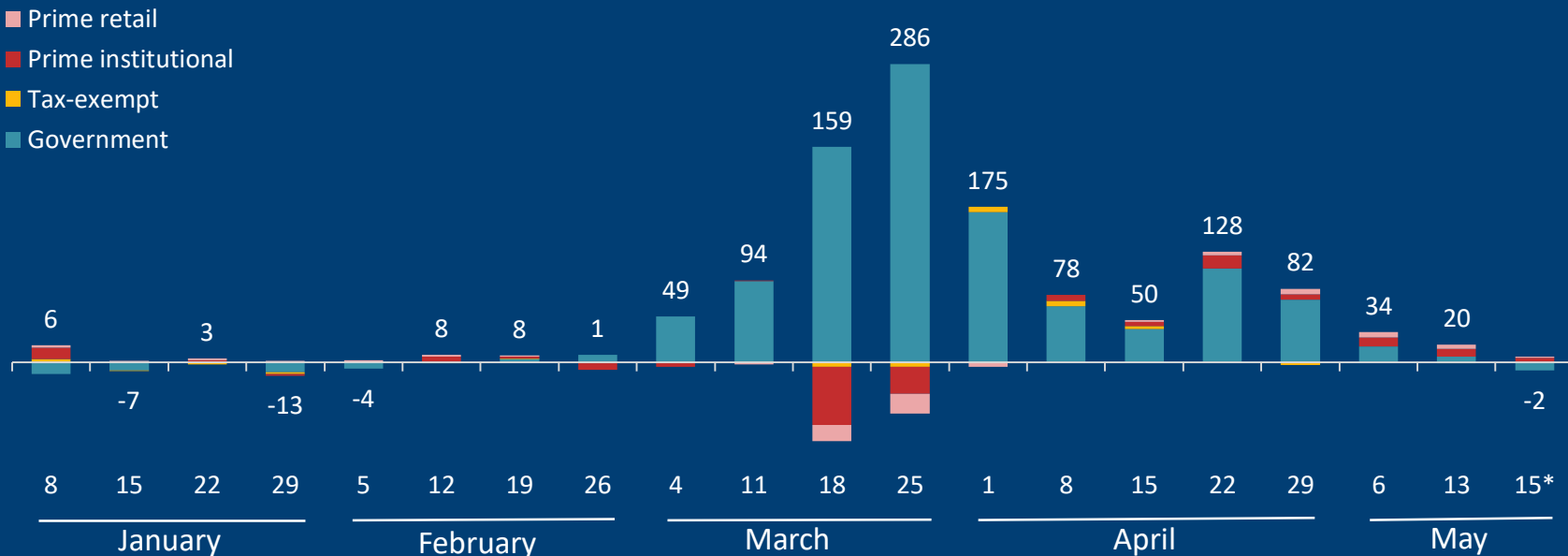
» SEC

- » Supported open and orderly equity markets
- » Provided exemptive relief for funds

Fund Flows Reflected Market Conditions

Investors Sought Liquidity in Government MMFs

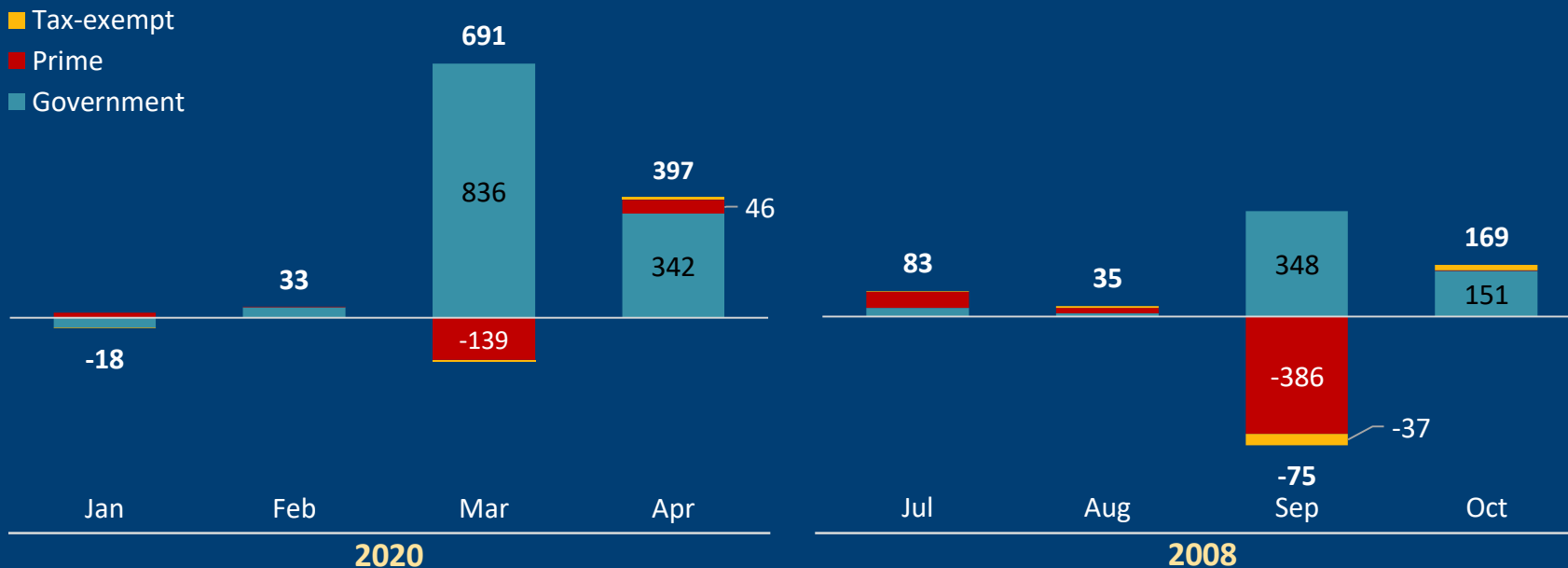
Change in money market fund assets, billions of dollars, weekly



*Government includes "Treasury" and "Government" funds from Crane Data.
Sources: Investment Company Institute and Crane Data

Money Market Funds: 2020 vs 2008

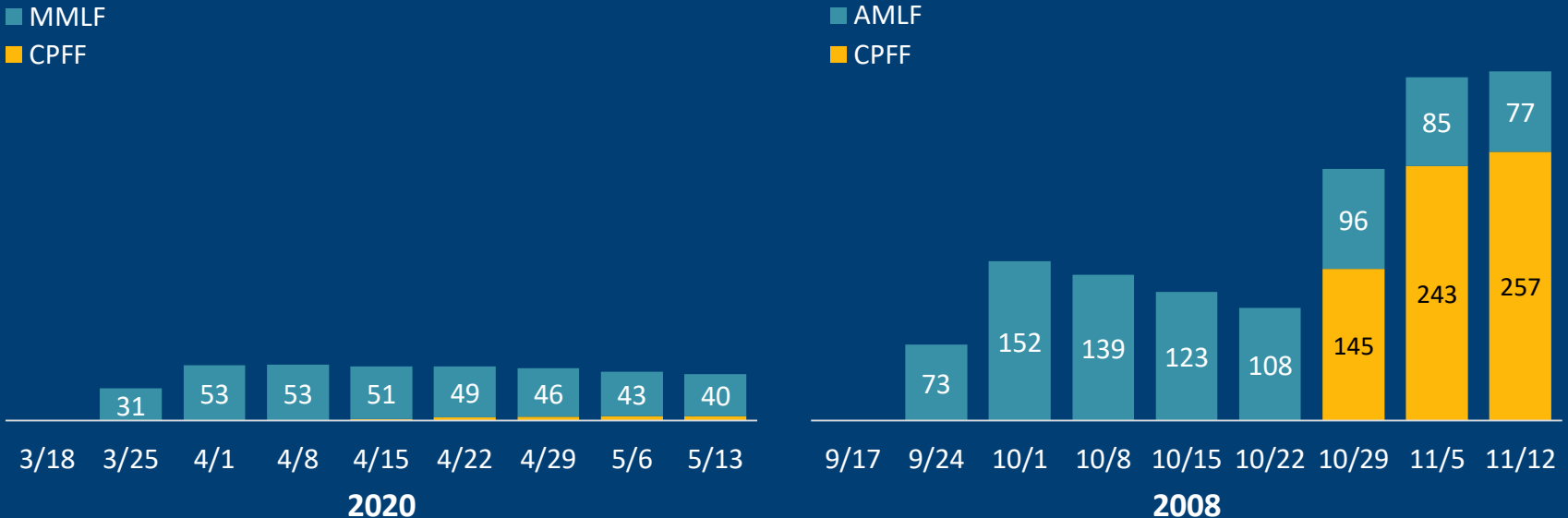
Changes in assets, billions of dollars



Source: Investment Company Institute

Use of Federal Reserve Liquidity Facilities: 2020 vs 2008

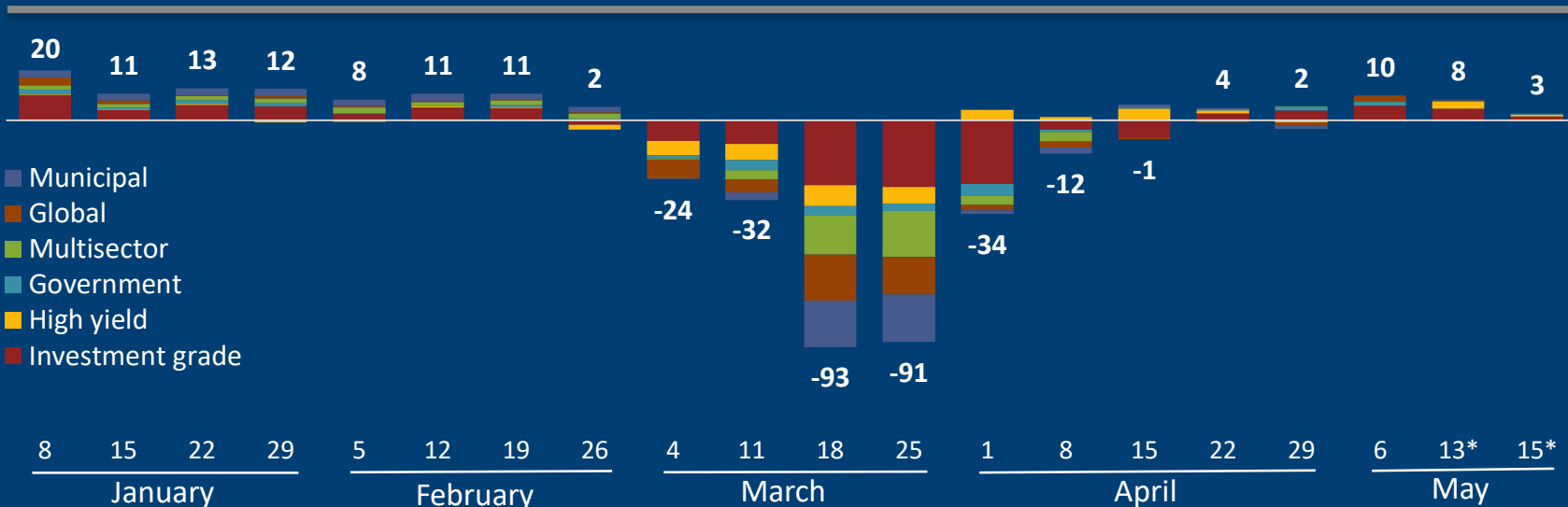
Asset levels reported on Fed's balance sheet; billions of dollars, weekly Wednesday



Source: Federal Reserve Board

Flows to Bond Mutual Funds

Billions of dollars, weekly



Memo: percent of previous month assets

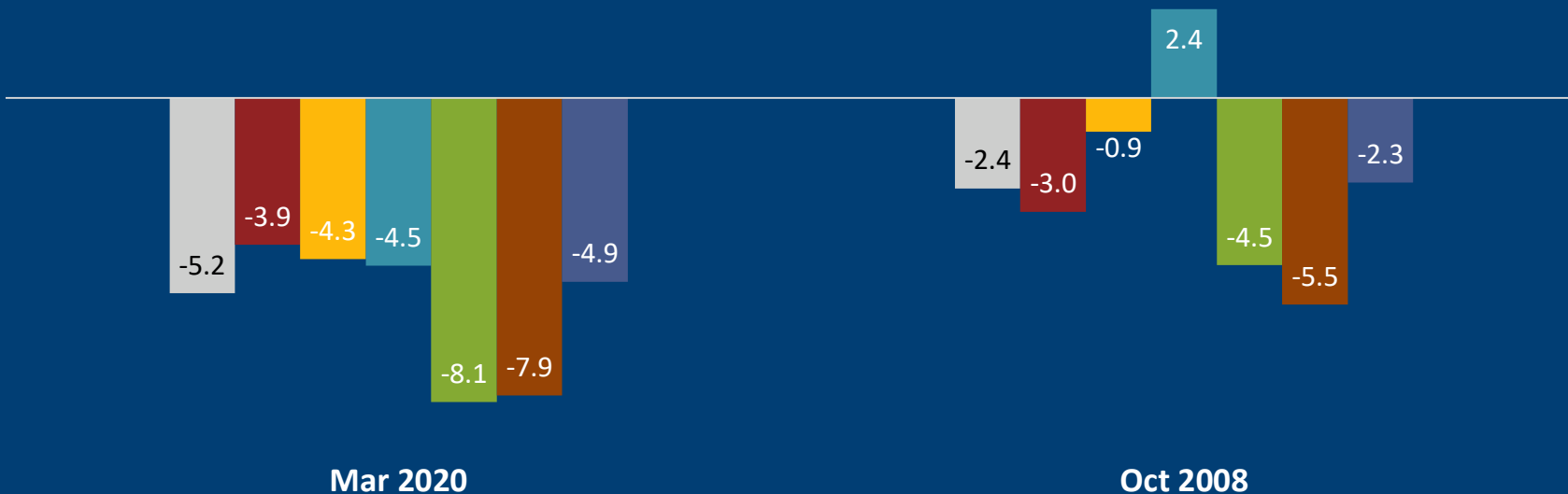
0.43% 0.23% 0.28% 0.26% 0.17% 0.22% 0.23% 0.04% -0.49% -0.66% -1.90% -1.85% -0.77% -0.27% -0.03% 0.10% 0.05% 0.23% 0.19% 0.06%

*Data for May 13 and 15 are estimated from Morningstar daily data.
Sources: Investment Company Institute and Morningstar

Flows to Bond Mutual Funds: 2020 vs 2008

Percent of assets

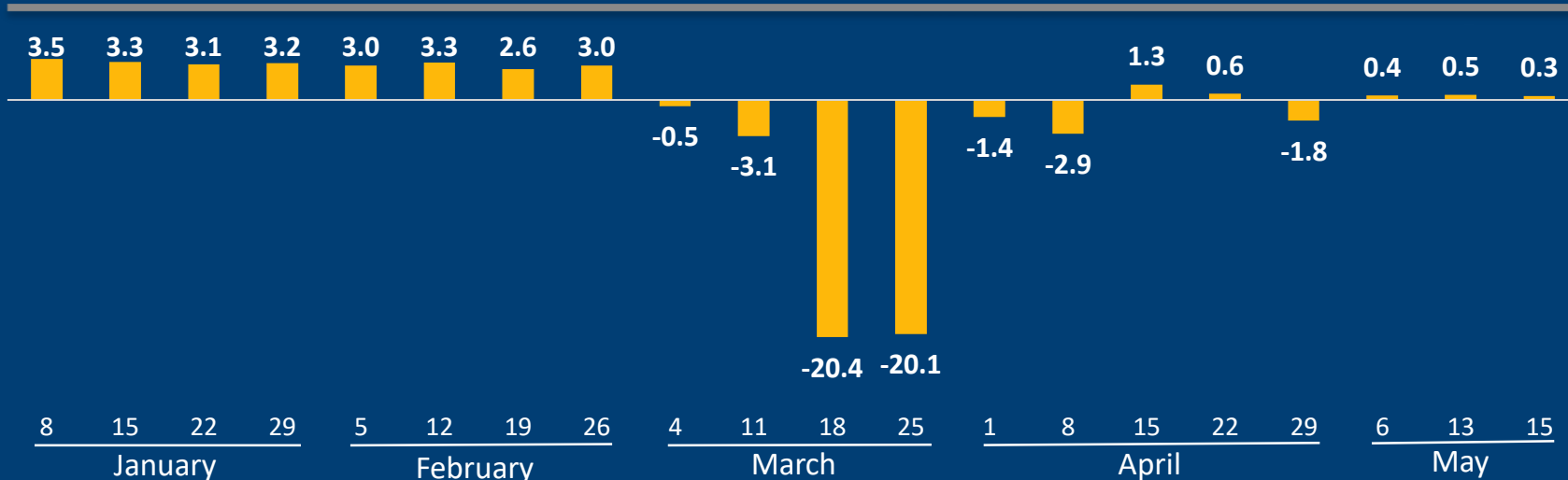
■ Total ■ Invest. grade ■ High yield* ■ Govt ■ Multisector ■ Global ■ Municipal



*Data exclude high-yield funds designated as floating rate funds.
Source: Investment Company Institute

Coronavirus and Municipal Sector

Net flows to municipal bond funds, billions of dollars, weekly, Jan 8, 2020–Apr 27, 2020



Memo: percent of previous month assets

0.41% 0.38% 0.36% 0.37% 0.34% 0.37% 0.30% 0.34% -0.06% -0.34% -2.23% -2.20% -0.18% -0.35% 0.16% 0.07% -0.21% 0.05% 0.06% 0.04%

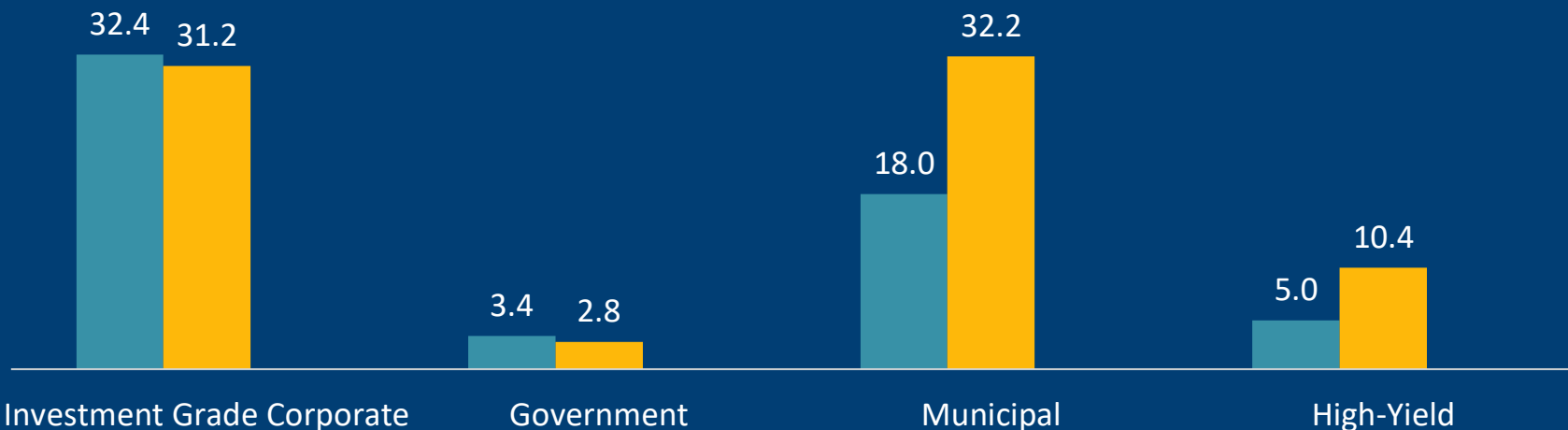
Note: Includes mutual funds and ETFs; municipal bond mutual fund data from May 13 and 15 are estimated from Morningstar daily data, and municipal bond ETF data from May 13 and 15 are estimated from Bloomberg daily data.

Sources: Investment Company Institute, Morningstar Direct, and Bloomberg

'Dark Matter': Funds Aren't the Only Investors in the Universe

Funds' share of trading volumes in selected types of fixed income securities, March 2020

■ Purchases* ■ Sales†



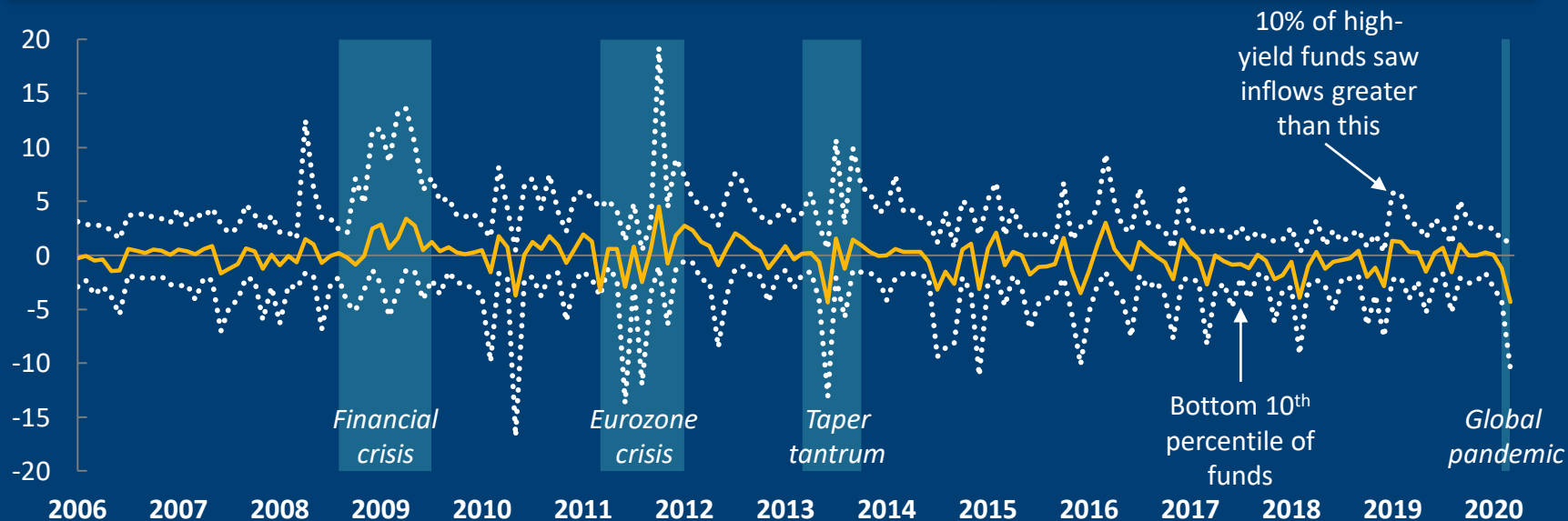
* Calculated as (gross fund purchases / (1/2 trading volume on relevant market))

† Calculated as (gross fund sales / (1/2 trading volume on relevant market))

Sources: Investment Company Institute, FINRA TRACE

High Yield Bond Mutual Funds

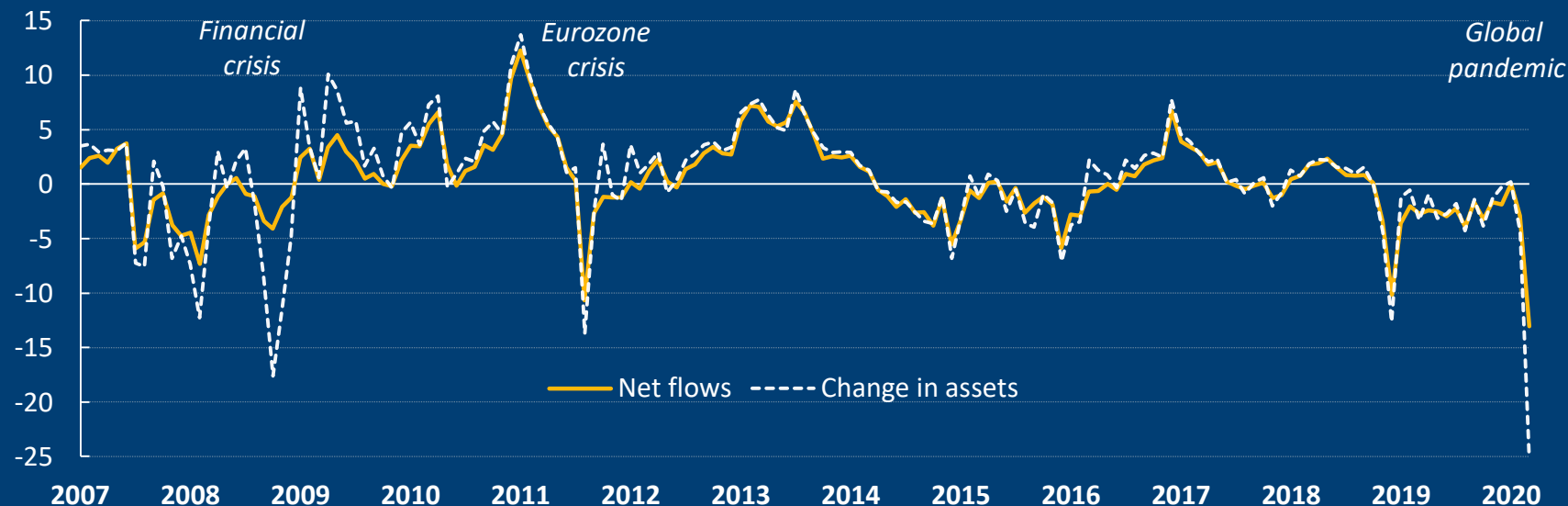
Net flows as a percentage of assets; monthly, January 2006–March 2020



Note: Data exclude high-yield funds designated as floating rate funds.
Source: Investment Company Institute

Fund Flows and Changes in Assets: Not the Same

Net flows and changes in assets of bank loan funds (percent of previous month's assets)



Note: Includes assets in mutual funds and ETFs.
Source: Investment Company Institute

Target Date Funds Can Provide Some Counterbalance to Financial Markets

Hypothetical example for March 19, 2020

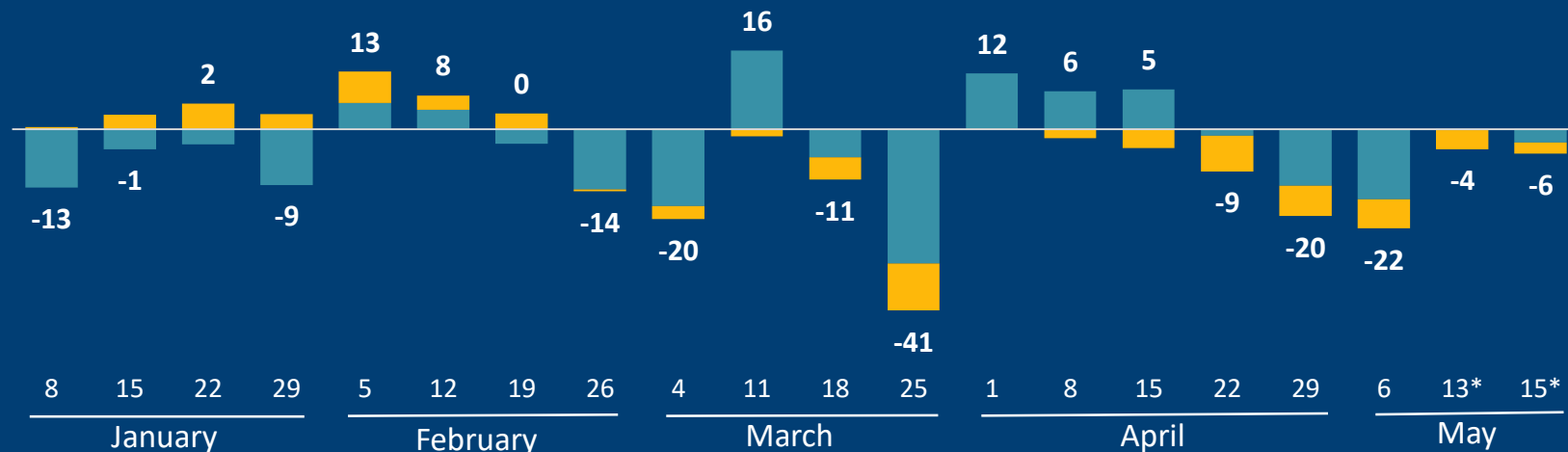
	Target allocation	Total return	Allocation outcome	Likely action
Domestic equity ¹	50.0%	+1.1%	50.3%	Sell
International equity ²	20.0%	-0.2%	19.9%	Buy
Government bond ³	15.0%	+1.2%	15.1%	Sell
Corporate bond ⁴	15.0%	-1.7%	14.7%	Buy



1. Total return on the Wilshire 5000 Index for March 19, 2020.
 2. Total return on the MSCI All Country World ex US Index for March 19, 2020.
 3. Total return on the ICE BofA US Treasury & Agency Index for March 19, 2020
 4. Total return on the ICE BofA US Corporate Index for March 19, 2020
- Source: Investment Company Institute and Bloomberg

Flows to Equity Mutual Funds and ETFs

Billions of dollars, weekly



Memo: percent of previous month assets

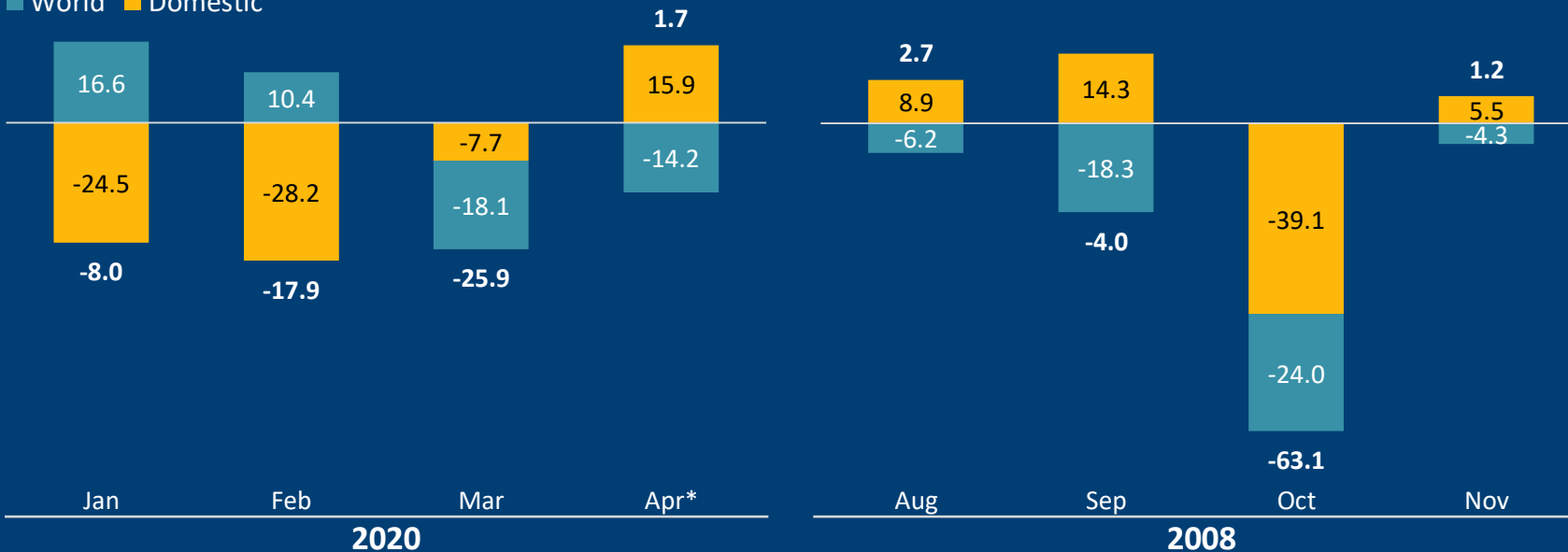
-0.09% -0.01% 0.02% -0.06% 0.09% 0.05% 0.00% -0.09% -0.15% 0.12% -0.08% -0.30% 0.11% 0.06% 0.04% -0.08% -0.17% -0.19% -0.04% -0.05%

*Equity mutual fund data for May 13 and 15 are estimated from Morningstar daily data, and equity ETF data from May 13 and 15 are estimated from Bloomberg daily data.
Sources: Investment Company Institute, Morningstar, and Bloomberg

Flows to Equity Funds: 2020 vs 2008

Equity mutual funds and equity ETFs, net cash flow, billions of dollars

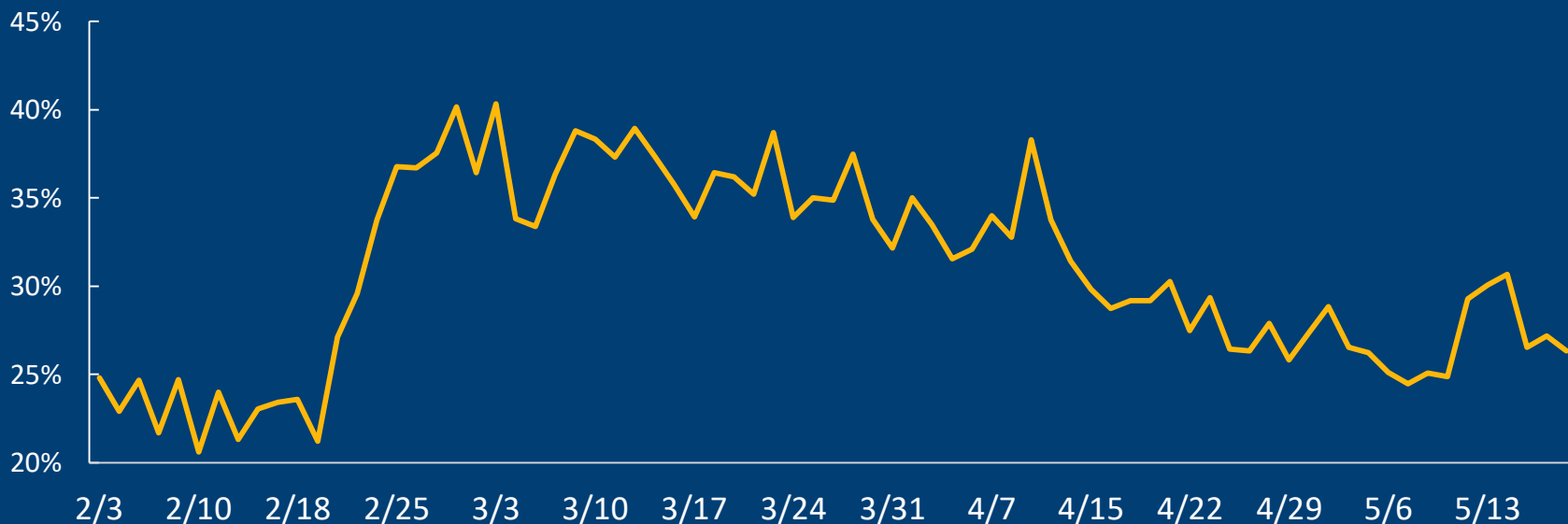
■ World ■ Domestic



*Estimated from weekly data through April 22.
Source: Investment Company Institute.

ETF Trading Volumes Rose

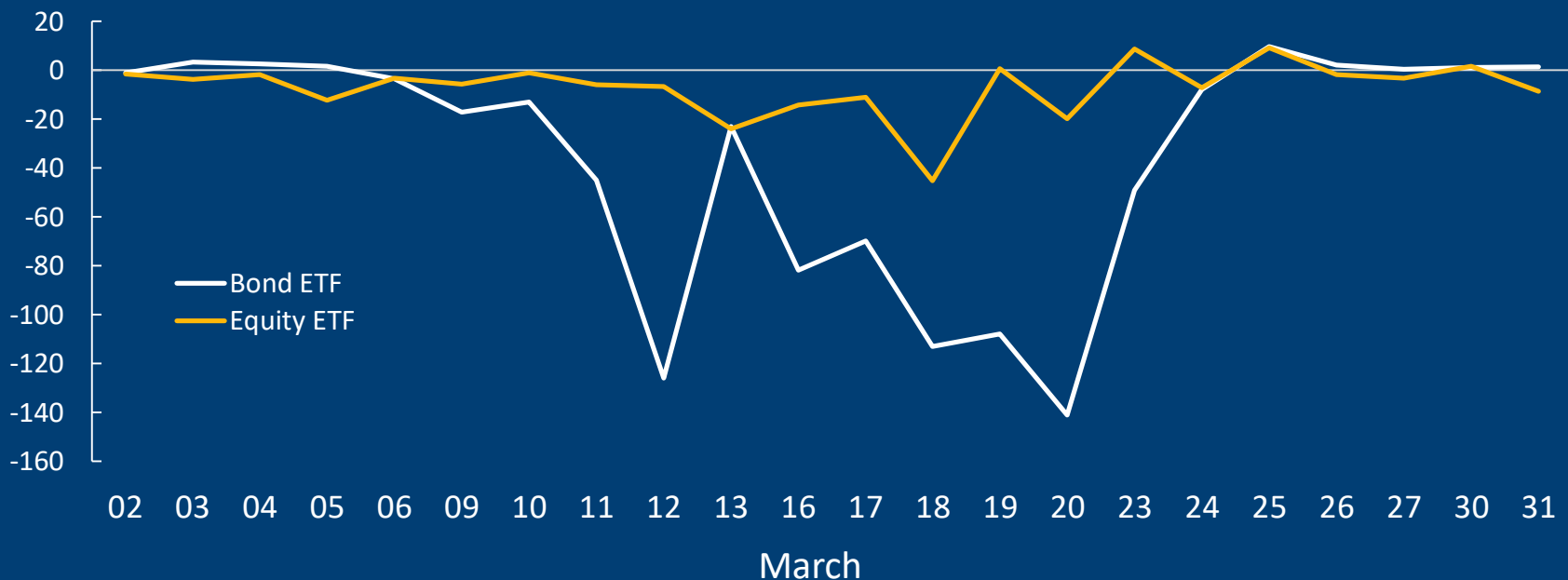
ETF trading volume as percent of stock market trading volume; daily



Sources: Investment Company Institute tabulations of Bloomberg and Cboe Exchange, Inc. data

ETFs Provided Price Discovery

Median premium (+)/discount (-), basis points



Source: Bloomberg

Conclusions

» What worked well:

- » Equity markets (including equity mutual funds and ETFs) traded freely
- » Funds' BCP worked, supported investors despite remote work
- » Government's response to financial markets was strong, effective

» Areas for fact-gathering:

- » Functioning of money and bond markets
- » Size and role of all participants in fixed income markets
- » Interaction among all market participants and its impact on markets
 - » Broker/dealer balance sheet capacity

Thank you
