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AUGUST 24, 2015

New York Times Paints False Picture of Funds' Emerging Market Investments

By Mike McNamee

With the global market turmoil over the past week, it's no surprise that journalists are looking for hot stories of panic, investor flight, and impending crisis. Either they believe that investors are inherently flighty and panic-prone, or they believe that "this time is different" and investors who have not panicked before *will* panic now.

(And if a reporter can't come up with stories of heedless flight, rest assured that her editor will keep sending her back until she does.)

The search for panic was on full display on the front page of the Sunday *New York Times*. "Investors Race to Escape Risk in Global Bonds" blindly repeats myths and falsehoods about mutual funds, the behavior of their investors, and investment in emerging markets. It paints a false picture of the role of mutual funds in market turmoil—and it does so without offering a single corrective voice from the fund industry.

In an email exchange, reporter Landon M. Thomas Jr. said his story is "giving voice to this debate" on "whether the large positions taken by fixed-income managers in illiquid bonds poses a serious risk to the market." If only it did.

Instead, the *Times* piece gives voice to *one side* of that debate—the side promoted by banking regulators. The side that trades in conjecture and speculation rather than facts. The side that has consistently failed to deliver sound data or historical experience to back up its claims.

The *Times* article repeats many of the errors we've seen so often:

- Did U.S. mutual funds "fuel rapid growth in developing countries"? It's hard to see that. In June, U.S. and European regulated funds combined held $441 billion, or 3.9 percent, of $11.2 trillion in outstanding emerging market bonds. That's weak fuel. Even measured against the "free float" of debt available to trade, funds' holdings amount to 14.7 percent—significant but not controlling.
- Did investors "ask to be repaid all at once" in 2008? No. Outflows from U.S. bond mutual funds in the last four months of 2008 totaled only 3.7 percent of those funds' assets.
- Are fund investors "fickle"? No. Research shows that U.S. and European funds are among the most stable foreign investors in emerging markets. In fact, the International Monetary Fund reports that banks' flows in and out of emerging markets are much more volatile than those from portfolio (stock and bond) investors—contradicting the *Times'* statement that banks "were less likely to cut and run." (See Figure 4.9 in this report.)
- Will redemptions from mutual funds immediately force the funds to sell assets? No. Regulated funds don't have to resort to asset sales to manage redemption requests. They have a wide range of tools at their disposal.

One-sided reporting does not advance the debate over financial stability or serve the interests of the 90 million Americans using mutual funds to help meet their financial goals. When the *Times* returns to this debate, let's hope it listens to both sides.

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