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Bloomberg Ignores the Evidence on Bond ETFs

By Mike McNamee

In response to "Pimco ETF Probe Spotlighting $270 Billion Market Vexing FSB," we posted the following comment on Bloomberg News' website:

As this story notes, ICI's empirical research shows that the vast majority of ETF market activity does not trigger activity in the underlying markets. It is not correct to assert that every bond ETF trade requires someone to buy or sell bonds. That should help allay concerns about any systemic effects of ETF trading.

More generally, however, the sweeping assertion that "trading in ETFs is fueling price swings that may become more severe in a downturn" is not substantiated in the story. There is no data—not even an anecdote—in the story demonstrating that ETF trading has driven prices in underlying bond markets. In fact, the vast majority of research on collective investments like ETFs shows just the opposite—fund investors tend to respond *after* prices have moved in the underlying markets, as we point out here and here.

We also have prepared a careful study demonstrating the statistical and analytic errors in the "taper tantrum" paper that this article cites at length.

Debates over financial stability need to be informed by data and research. At ICI, we're doing our part: check out www.ici.org/financialstability.

Mike McNamee is ICI's chief public communications officer.