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Financial Stability Board COVID-19 Trade Association Call

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As prepared for delivery.

Thank you for the opportunity to join you. The Investment Company Institute represents regulated funds globally. Our member funds have almost US$32 trillion in assets under management. These brief comments will address the recent experience of US mutual funds and exchange-traded funds, or ETFs.

The actions that the US and other governments around the world have taken to curb the spread of COVID-19 have had drastic consequences for global economic activity and thus for the financial markets in which our funds operate. At the onset of this pandemic, businesses and institutional investors of all kinds raced for liquidity and safe-haven assets, leading to extreme tightening of trading in certain markets. In response, extraordinary actions taken by the US Federal Reserve, Congress, Treasury, and SEC have helped relieve pressure and assure continued orderly functioning of financial markets.

How have regulated fund investors responded? Looking at data from the peak in the US stock market on February 12 through April 8—a period of eight weeks—we find that:

Redemptions from equity funds have been negligible—totaling only 0.3 percent of the assets those funds held at the end of January 2020.

Redemptions from bond funds were larger but not unprecedented in scale—totaling some 5.1 percent of those funds' January assets.

Looking at specific asset classes, taxable bond funds accounted for the largest portion of these redemptions, but in total the redemptions represented only a small fraction—about 0.7 percent—of this market and similarly less than 0.7 percent of the trading volume in taxable bonds.

There were also sizeable outflows from tax-exempt bond funds—those invested in municipal bonds—but again that represented only a small portion of this market, some 1.4 percent, and a small share of trading volume in municipal bonds—about 5.6 percent.

Assets in government money market funds jumped by nearly 1 trillion US dollars, reflecting the demands of all investors for the safety and liquidity available from short-term US government securities. Those inflows far exceeded the $145 billion outflow from money market funds that invest primarily in commercial paper and certificate of deposits.

Our members advise us that they have seen no sharp reaction to the market downturn from US retirement savers, who represent a significant portion of fund investors. This is consistent with the response of US retirement savers during the great financial crisis.

US ETFs experienced elevated levels of secondary-market trading as investors used these funds to adjust their exposures rapidly and efficiently. But redemptions from bond ETFs—which can lead to trading in ETFs' underlying securities—were modest, while equity ETFs saw net creations. Thus, ETF trading had the effect of relieving pressure on the underlying markets and promoted price discovery.

Recent data on flows for bank loan funds and emerging market funds also show moderate redemptions.

From March 2 to April 13, bank loan funds saw outflows of an estimated 9 percent of their February assets, about the same as they experienced during concerns about Fed tightening in December 2018. These most recent outflows were just 0.6 percent of outstanding leveraged loans as of February.

From March 2 to April 13, emerging markets equity and bond funds saw outflows of estimated 5 percent of their February assets.

On the whole, then, US regulated funds to date have sustained their role in financing the real economy through this crisis.

I will be happy to discuss these data in greater depth, or to talk about operational issues, at your pleasure. Thank you again for inviting me.
