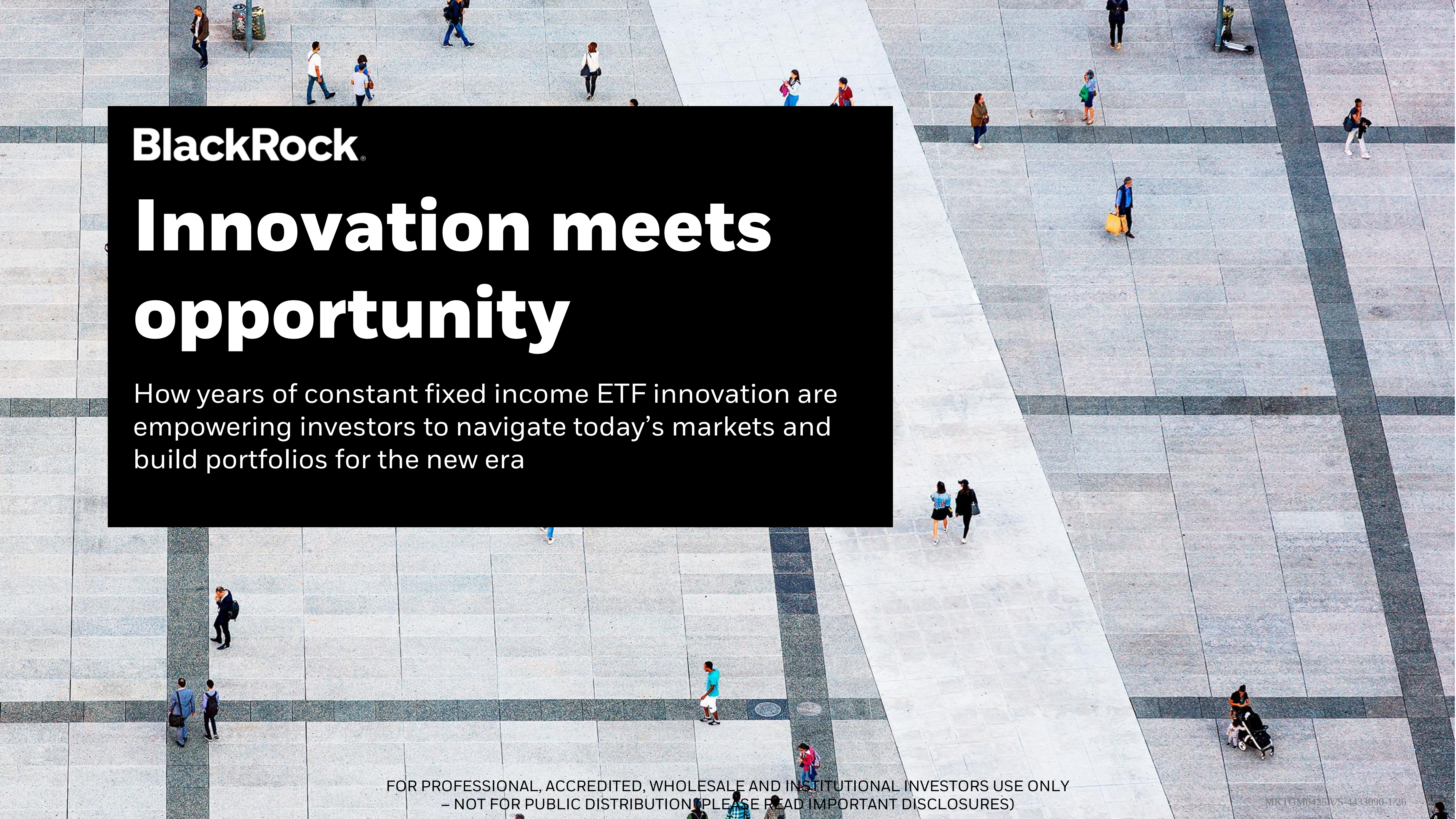

BlackRock

Innovation meets opportunity

How years of constant fixed income ETF innovation are empowering investors to navigate today's markets and build portfolios for the new era

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Key takeaways

- **Client demand for fixed income ETFs is driving significant asset growth with record flows in 2024 and on track to reach $6 trillion in assets under management (AUM) by 2030, if not sooner.** Globally, bond ETFs experienced the highest organic asset growth (20%) of any other asset class or investment vehicle last year. And so far in 2025, client adoption continues to accelerate, with assets up 22% on an annualized basis.

- **The flywheel of bond ETF innovation is powering this growth, helping more investors to access exposures and outcomes that were previously difficult to access.** Last year a record 420 bond ETFs were launched, enabling investors to tailor their fixed income investments in ways previously unthinkable.

- **The ever-increasing toolkit allows investors to take advantage of a generational opportunity in fixed income.** Yields are higher than they have been in 20 years. Globally, some 80% of fixed income assets now yield over 4% and we believe they'll remain elevated for the foreseeable future.

- **iShares has been spearheading innovation in bond ETFs for over two decades.** Our diverse and evolving product set supports clients globally to navigate across market environments, with more modern, precise ways to reach nearly every part of the fixed income market. As the experts in portfolio construction with a strong heritage in risk management, we understand the tools and exposures that investors require to thrive in a changing world.

Source: BlackRock, March 31, 2025. All '$' signs refer to USD unless otherwise stated.
There is no guarantee that any forecasts made will come to pass.

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Foreword

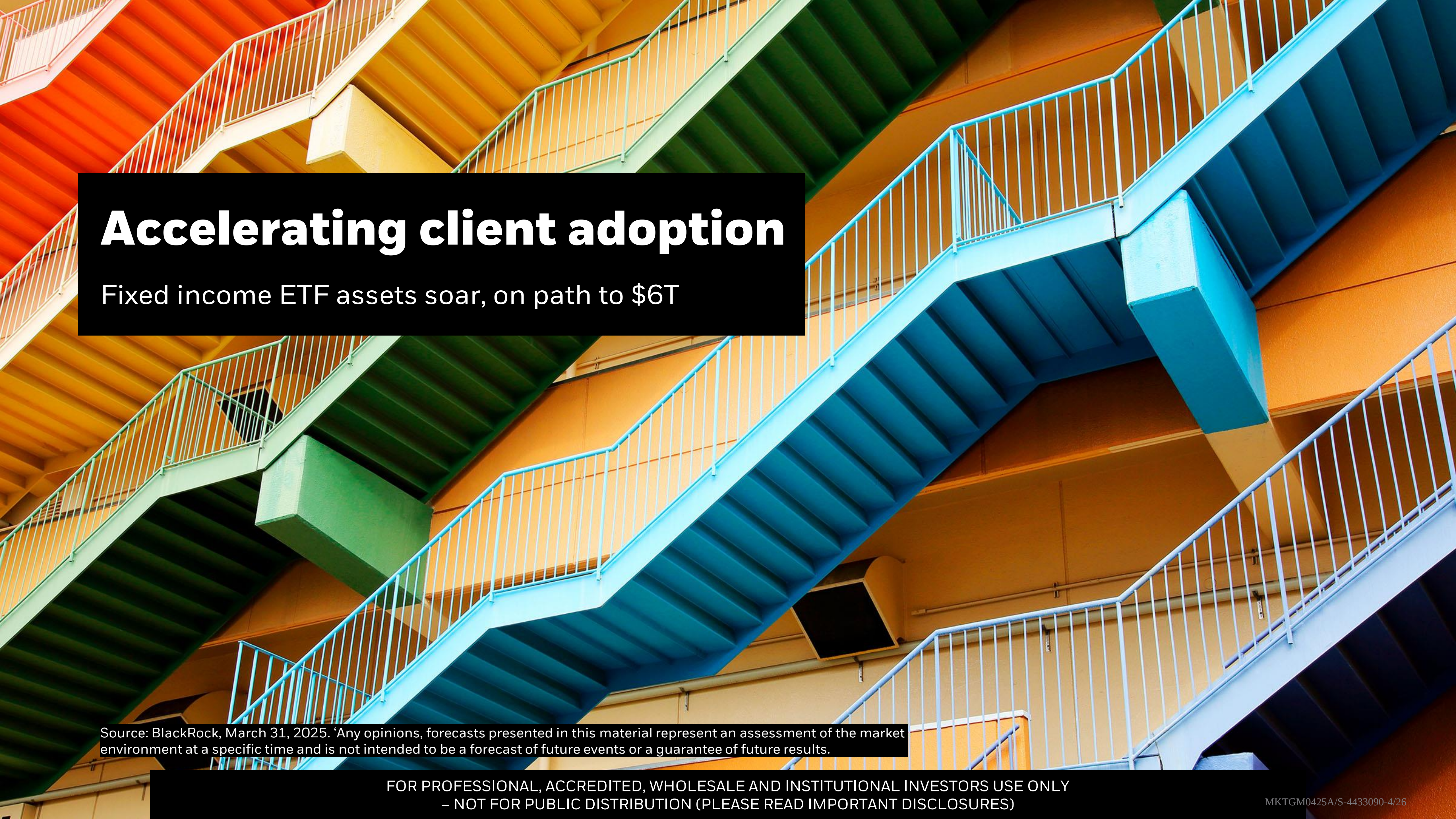
Stephen Cohen
BlackRock's Chief Product Officer

Bond investing has long been a cornerstone of portfolios for its ability to preserve capital, diversify equities, and generate income. However, the methods by which investors access fixed income and integrate this asset class into their portfolios are evolving rapidly. Increasingly, investors of all types are turning to bond ETFs, attracted by the innovation within the wrapper and its benefits of transparency, enhanced liquidity, and efficiency. Today's investor can effortlessly access nearly every corner of the bond market with a click, gaining exposure to thousands of bonds through just one or a handful of ETFs. The extensive range of bond ETFs available today, coupled with their continued historical durability and resilience during periods of market volatility, are empowering investors to easily and efficiently navigate markets and pursue their investment goals.

The acceleration in bond ETF innovation and adoption has occurred at the same time as a generational opportunity presents itself in the fixed income markets with yields worldwide at levels not seen since the mid-2000s.[1] Two decades of continued innovation is meeting this market moment, equipping investors with a powerful toolkit to maximize today's fixed income opportunities in ways that were previously unimaginable.

Despite the remarkable surge in innovation and adoption, bond ETFs are still in the early stages of growth, representing just 2% of the global bond market. We believe that bond ETFs will continue to expand the investable universe across index, active, public, and private markets, with adoption accelerating even further. We hope this paper will educate and empower investors on how to best utilize these powerful tools and build portfolios for a new economic world.

Source: BlackRock, March 31, 2025.
There is no guarantee that any expectations made will come to pass.



Accelerating client adoption

Fixed income ETF assets soar, on path to $6T

Source: BlackRock, March 31, 2025. 'Any opinions, forecasts presented in this material represent an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results.

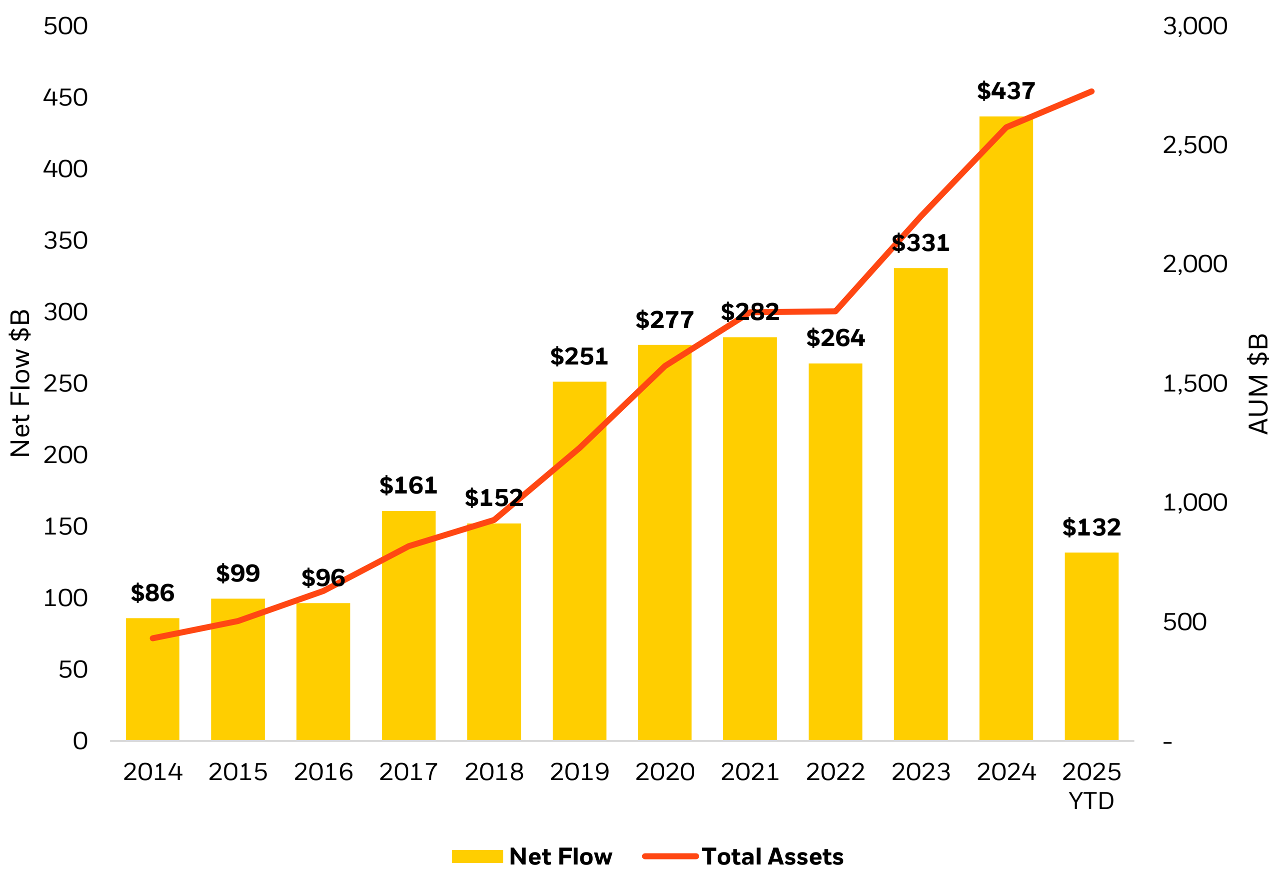
Global bond ETF assets rose 20% organically in 2024 – the highest organic asset growth of any other asset class or investment vehicle.[2] The segment reached $2.6 trillion in assets through 2024 as investors increasingly chose the wrapper likely given its benefits, including transparency and efficiency.[3] We believe the fixed income ETF market will surge to $6 trillion by 2030 as more investors may view ETFs as a powerful way to access fixed income.[4]

Relative to equities, fixed income ETFs are in the early stages, presenting a significant opportunity for growth. Fixed income ETFs represent just 2% of the underlying bond market, while equity ETFs represent 10% of the underlying market.[5]

Bond investing itself is resonating with investors as they seek income, stability and diversification amid volatile markets. Last year, investors allocated more to bonds than they did to any other asset class, adding $1 trillion into bonds globally across mutual funds and ETFs — marking the strongest year of inflows in the past decade.[6] ETFs captured about 40% of this record fixed income flow, more than double the allocation that they represent on an asset basis.[7]

So far in 2025, inflows continue to break records. Through March, global bond ETF flows reached $131.6 billion, which is 2.5x larger than the average first quarter inflows over the last decade.[8]

Figure 1: Bond ETF flows surge to record levels



Source: BlackRock Global Business Intelligence, March 31, 2025. Net new business (NNB), or flow, refers to new assets under management (AUM) in a given year. Any opinions, forecasts presented in this material represent an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results.

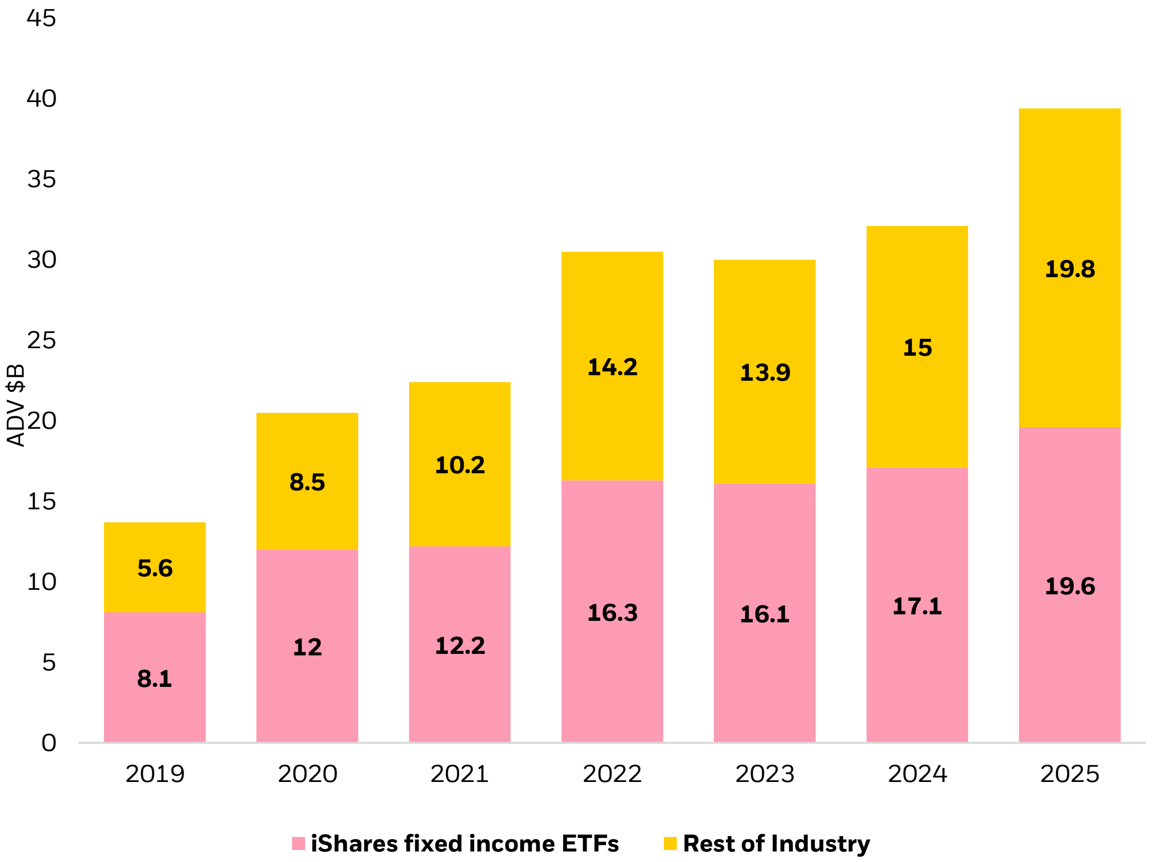
Navigating the Storm: Clients benefitting from secondary market liquidity of ETFs

Beyond the growth in new products and asset flows, it is also important to consider the significant increase in liquidity and trading volumes in bond ETFs. Many investors have been able to execute their trade sizes efficiently on the secondary market.

Over the past five years, the average daily volumes of Fixed Income ETFs have more than doubled, with continued investment in ETF infrastructure to support liquidity, continuous price transparency and lower transaction costs to investors. Bond ETFs have proven particularly powerful during periods of market stress and volatility, such as what was experienced in early April at the onset of tariff announcements. During these periods, bond ETFs have experienced record volumes while maintaining market quality, enabling investors to navigate risk quickly and efficiently.[9]

> "During recent market volatility, bond ETFs played a crucial role in maintaining the functionality of fixed income markets, as evidenced by record trading volumes. Portfolio managers, bond traders and risk managers can no longer ignore bond ETFs – they are a critical part of the fixed income ecosystem."
>
> - Daniel Veiner, Co-Head of Global Trading, BlackRock

Figure 2: Global fixed income ETFs' average daily volume (ADV) since 2019



Source: BlackRock, Bloomberg, April 7, 2025. Based on average daily secondary markets trading volumes of iShares Global Fixed Income ETFs relative to the rest of the fixed income industry.

Case study: Tariff volatility

How iShares Bond ETFs provided resilience to investors during the early April 2025 market upheaval

In early April 2025, the U.S. Government announced reciprocal tariffs on imports on most of its trading partners, triggering heightened market volatility and a broad market sell-off across assets.

In the U.S., the market experienced one of the most active trading sessions of all time, with all ETFs representing nearly 40% of trades in the U.S., higher than the 28% year-to-date average.[10] On April 4, 2025, high yield ETF exchange volume was greater than total over the counter (OTC) high yield cash bond volumes, seeing over $23 billion traded versus high yield cash bond trades of $21 billion.[11] Across the iShares fixed income ETF platform, volumes were elevated and secondary trading in high yield and CLO ETFs, as an example, saw 5-10x their average daily volume.[12]

Similarly in Europe, iShares fixed income ETF trading volumes were notably higher compared to the industry, reflecting our liquidity depth and reliability in stressed markets. At the peak of early-April market volatility, iShares UCITS fixed income ETFs comprised 9 of the 10-most traded ETFs, providing investors with liquidity and price discovery, while still delivering investment performance and high quality of index tracking.

iShares ETFs have proven to be the industry's most actively traded – especially in stressed markets when they are needed most.[13]

Unleashing investors' potential

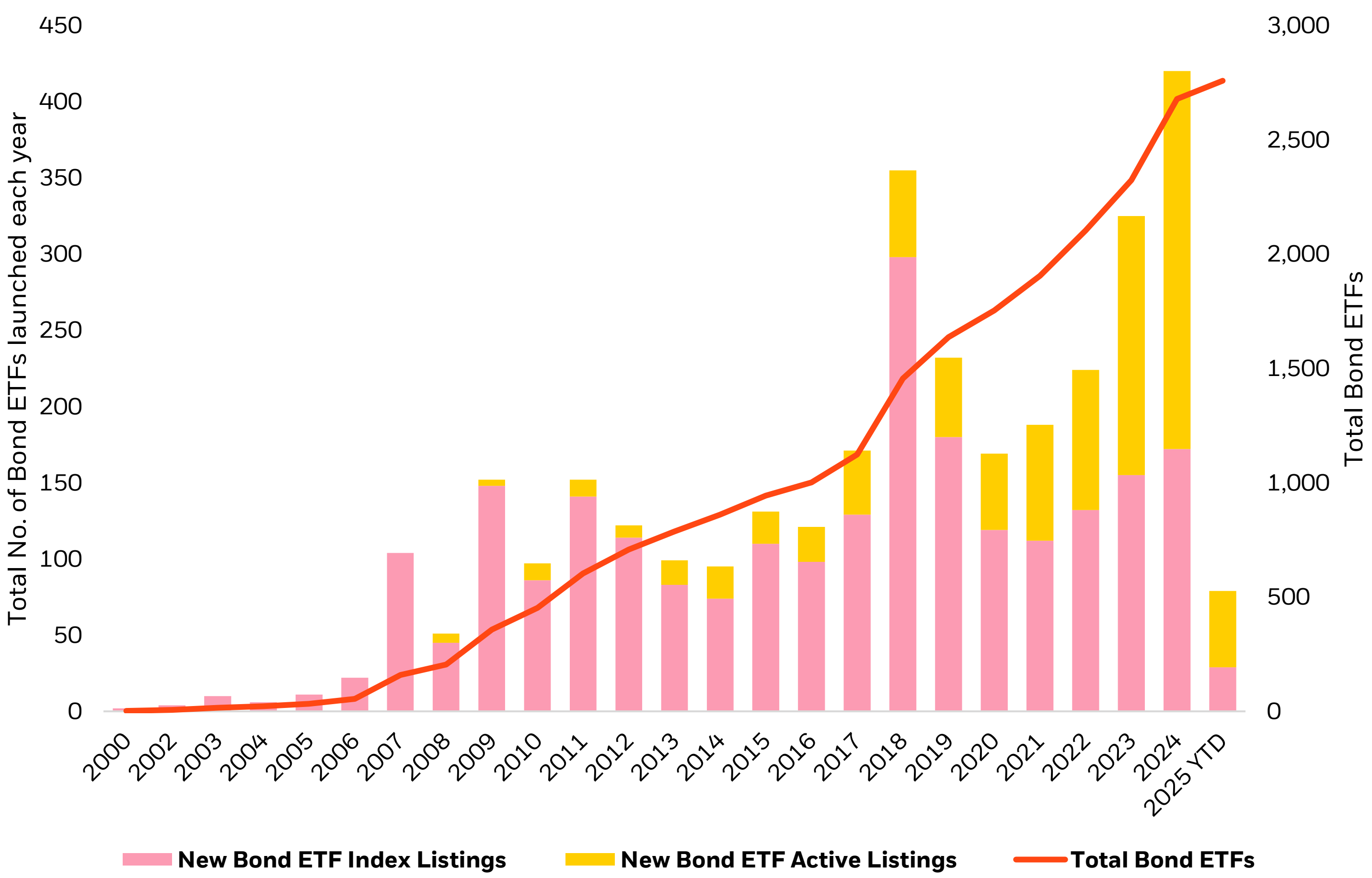
Bond ETF innovation gains speed and empowers investors

Today, fixed income investors can simply assemble positions with exposure to thousands of bonds using bond ETFs, allowing them to tailor their investment preferences across different durations, credit qualities, sector allocations, and portfolio outcomes. This is due, in part, to the continuous and accelerating innovation within fixed income ETFs. Last year, the industry launched 420 bond ETFs, marking a one-third increase from 2023 (Figure 3). In the first quarter of this year, more than 75 bond ETFs were introduced – setting the pace for another record year of new ETF issuance.[14]

The innovation within bond ETFs has enabled investors to access more parts of the market and enhance their portfolios in various ways. This includes reaching difficult-to-access but attractive markets like AAA-rated CLOs, constructing a bond ladder, or generating excess income through options. We are witnessing remarkable advancements in both index and active strategies, with several recent innovations particularly remarkable for what they allow investors to do.

Looking ahead, we anticipate continued innovation in public markets with more granular index products, outcome-oriented products and actively managed products. Additionally, new frontiers are emerging, such as ETF access or replication strategies for private markets.

Figure 3: Global bond ETF growth by listings and investment style



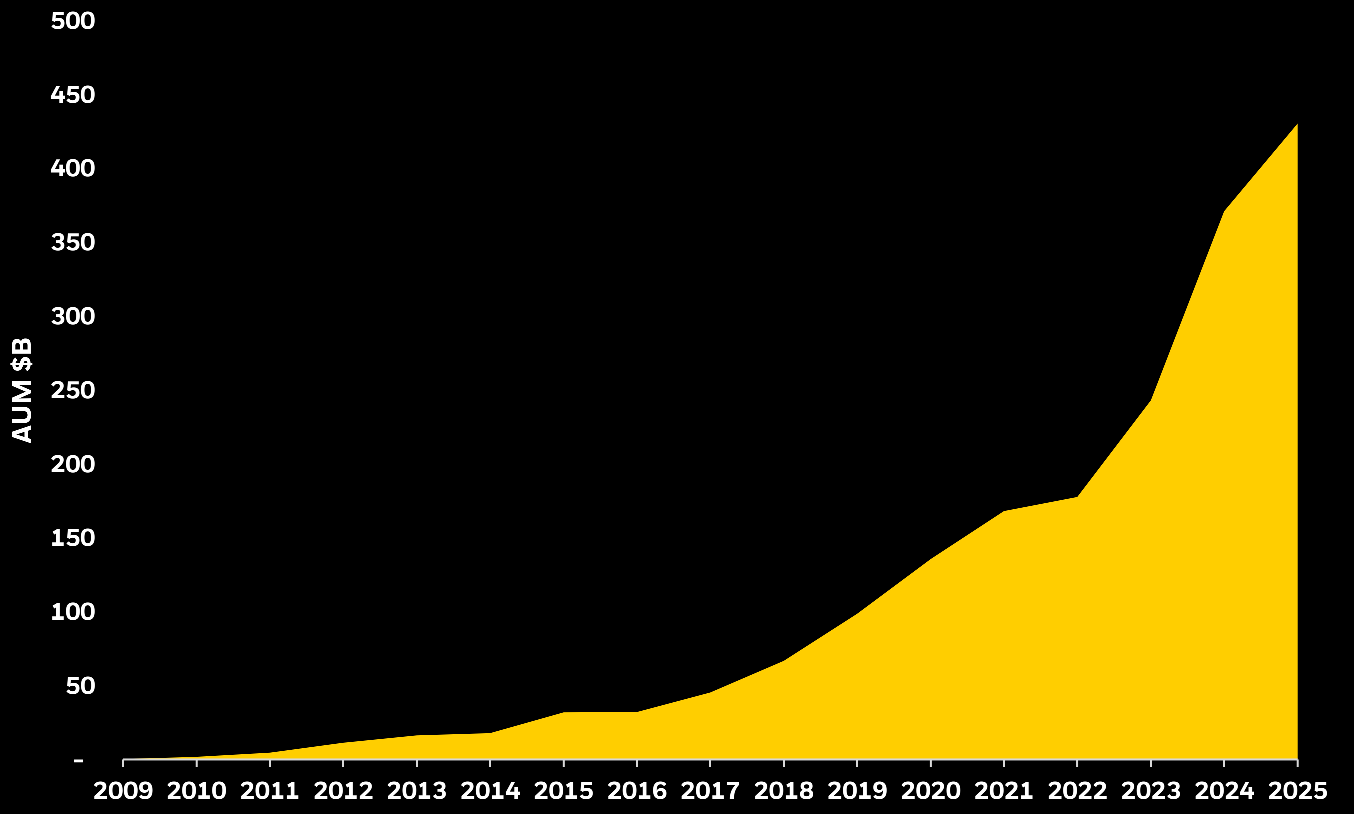
Source: BlackRock Global Business Intelligence, March 31, 2025. Active funds are subject to management risk, which means the fund manager's techniques may not produce desired results, and the selected securities may not align with the fund's investment objective. Legislative, regulatory, or tax developments may also affect the fund manager's ability to achieve the investment objective. Index funds are not actively managed and will not attempt to take defensive positions under any market conditions, including declining markets.

1. Actively managed fixed income ETFs

Active ETFs are investment funds managed by professional portfolio managers who actively select and adjust the fund's holdings in an effort to outperform the market, deliver a specific outcome or gain exposure to hard-to-index markets. In contrast, index ETFs seek to replicate the performance of a specific index. Last year, six in 10 global bond ETF product launches were active.

iShares launched its first active bond ETF in 2013, but in the past few years, segment growth has surged, in part due to market volatility.[15] In this environment, actively managed bond ETFs can be an attractive complement to index ETFs in helping investors seek out the best risk-adjusted return opportunities and capitalize on diverse exposures that cut across sectors and geographies. In just two years, active bond ETF assets have more than doubled to over $420 billion globally (Figure 4). Active bond mutual fund assets continue to increase as well.[16] This underscores the importance of fixed income to investors and that they are continuing to adopt ETFs in their portfolios – not simply shifting out of mutual funds into the same strategy in an ETF.

Figure 4: Global active bond ETF assets double in two years to over $420 billion

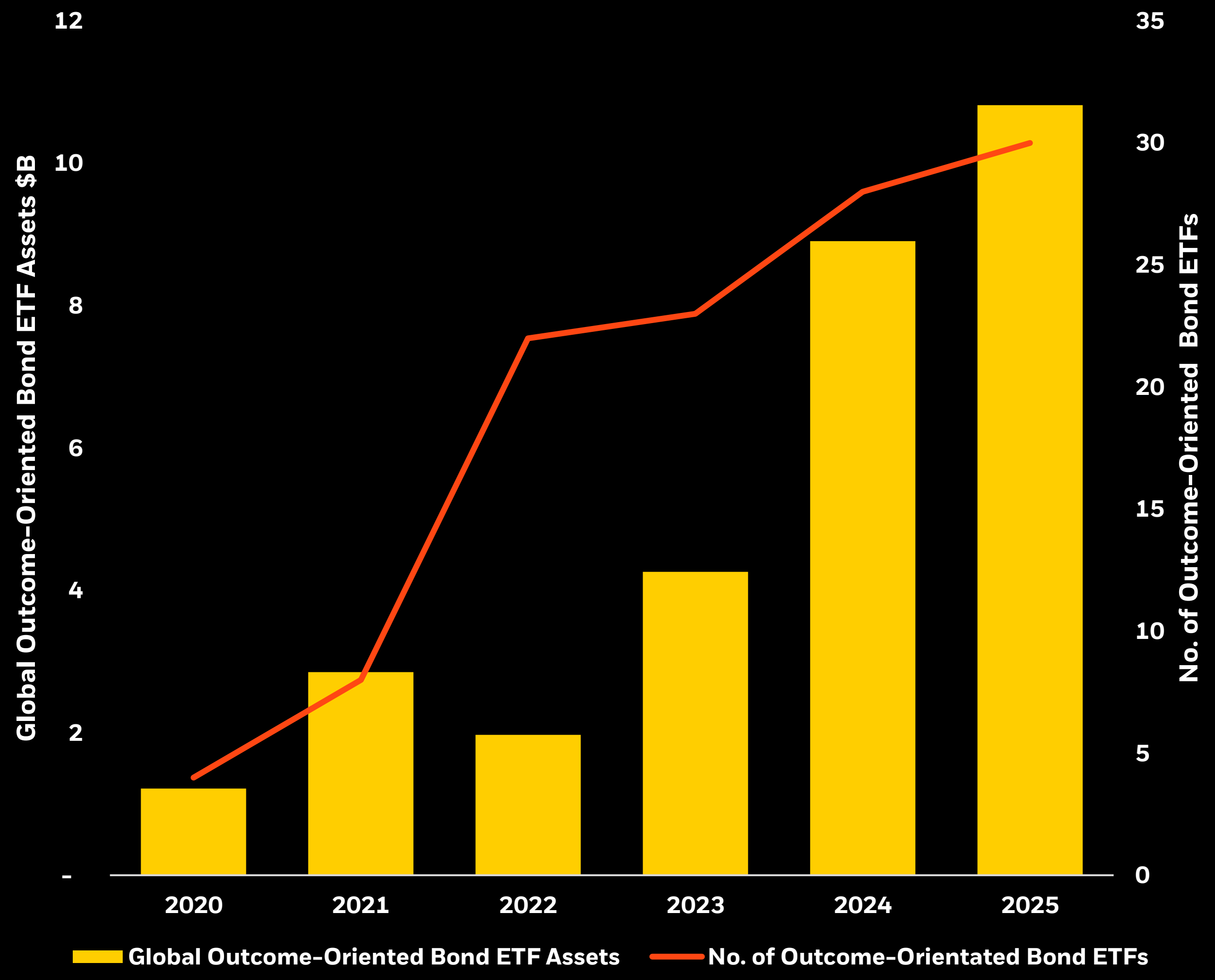


Source: BlackRock Global Business Intelligence, March 31, 2025. Global active bond ETF assets under management (AUM) were $192 billion at the end of March 2023, and rose to $423 billion through March. 2025

2. Outcome-oriented fixed income ETFs

We are seeing more outcome ETFs in fixed income as investors increasingly demand more precise payoff profiles. For example, “buywrite” strategies involve holding an underlying bond ETF and selling a call option against it to seek enhanced income over time. Launched in 2022 in the U.S., our “buywrite” suite represented the industry’s first such fixed income ETFs; our suite now has over $1.5 billion AUM across three products.[17] The outcome-oriented bond ETF category dates to just 2020 and has already reached $10 billion in AUM.[18] Although these ETFs are still nascent, with only 30 products available in the U.S., we expect the category to gain traction with investors globally over the coming years.[19]

Figure 5: Outcome-oriented fixed income ETFs pass $10 billion in AUM



Source: BlackRock Global Business Intelligence, March 31, 2025

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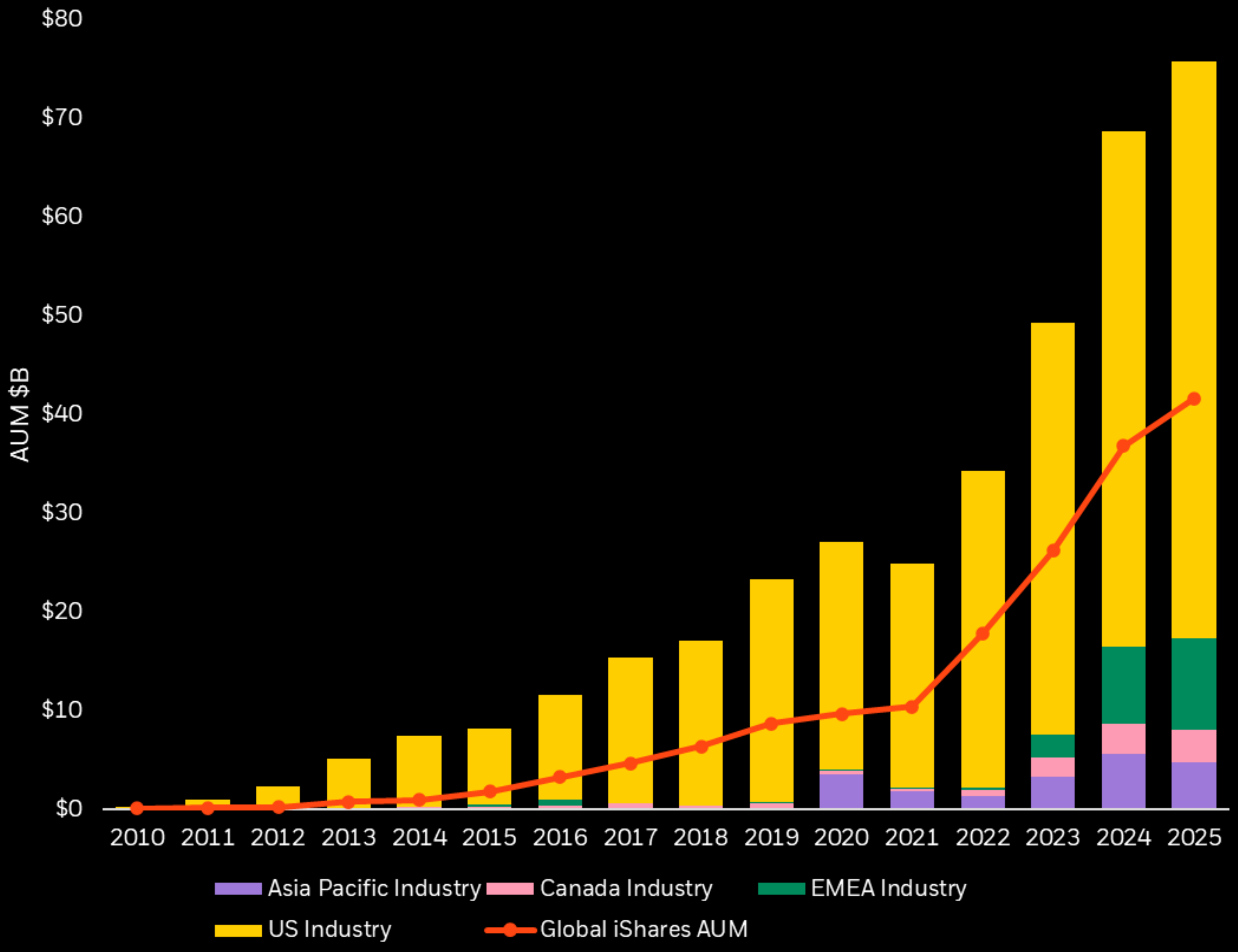
3. Term maturity ETFs

These diversified portfolios, each containing bonds with a defined maturity date, are designed to mature like a bond, trade like a stock and offer the diversification of a fund. iShares pioneered the first term maturity ETFs in the U.S. in 2010 with iBonds®. It wasn't until the Federal Reserve began raising rates in 2022 that investors truly took notice, propelling the category to over $75 billion in assets globally today, with 47% organic asset growth over the last three years.[20]

Term maturity ETFs are being rapidly adopted by investors seeking to capture yields. Bond ladders composed of these products are also being utilized to manage reinvestment risk. Retail investors have embraced these ETFs for their attractive returns relative to cash deposit rates, using them to set money aside to pursue long-term goals like saving for retirement. Additionally, institutional investors are leveraging term maturity ETFs to support asset-liability matching use cases or to gain targeted exposure to a defined point of the yield curve.

Figure 6: Global term maturity ETF assets jump as investors turn to strategy



Source: BlackRock Global Business Intelligence, March 31, 2025

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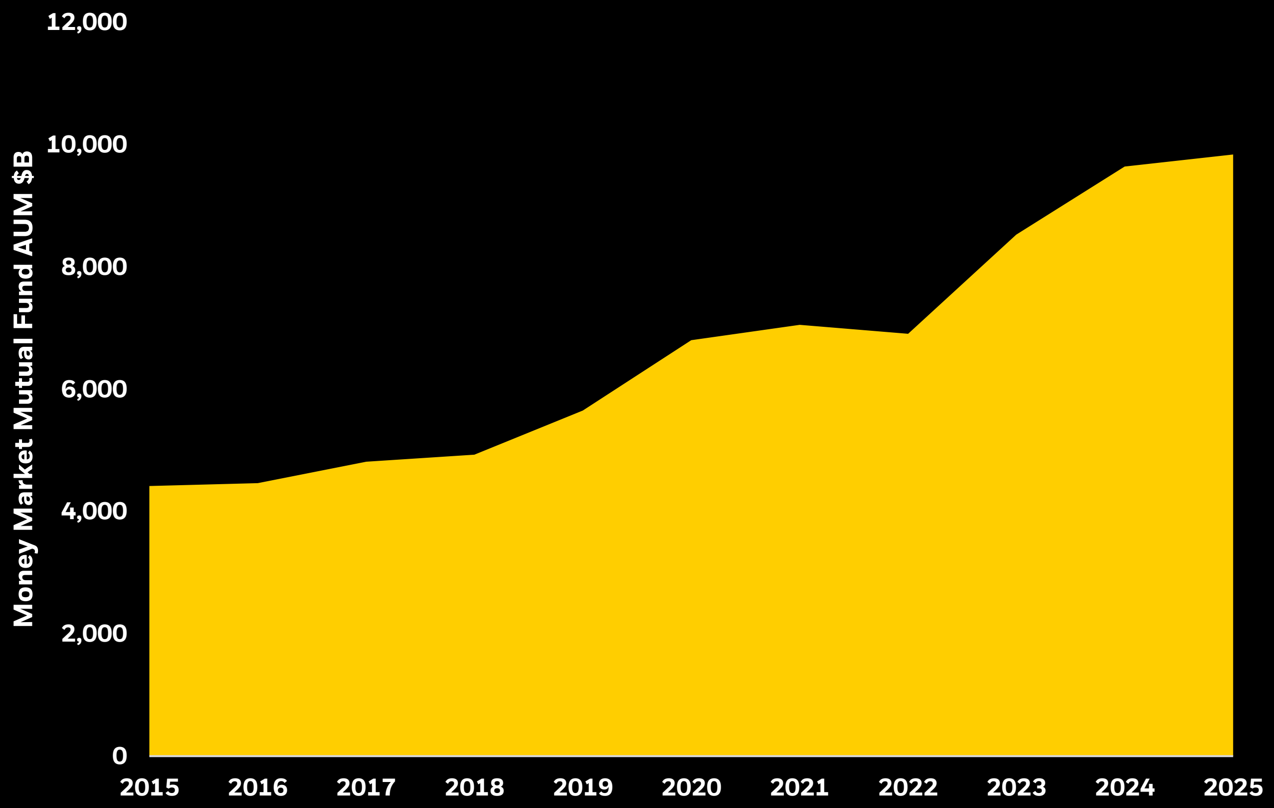
4. Money market ETFs

Money market ETFs can provide investors greater choice and flexibility in how they manage cash. Globally, traditional money market mutual funds have seen record inflows over the last few years (Figure 7). Until this past year, the strategy had previously been broadly inaccessible in an ETF wrapper.[21] This latest innovation enables investors to access the additional liquidity and transparent pricing available in the secondary markets, as well as ease of trading via intraday trading on exchange.

Figure 7: Traditional money market mutual fund assets rise



Source: BlackRock Global Market Intelligence, Feb. 28, 2025

How investors are using fixed income ETFs

Discover how and why investors globally are adopting bond ETFs in their portfolio construction practices

Asset managers, pension funds and sovereign wealth funds	Bond ETFs are used as an alternative to single bonds for enhanced liquidity management and efficient access, while helping with liquid portfolio replication and liability management. The breadth of ETFs now provides portfolio managers with the precision and flexibility to express their market views.
Insurance companies	Bond ETFs are being adopted as liquidity sleeves and interim beta in general accounts, but also for broad beta exposure and for supporting with portfolio risk transfer.
Family offices, private banks and advisors	Given their cost-efficiency and transparency, bond ETFs have become a favored vehicle used as portfolio building blocks for implementing both strategic and tactical investment views.
Retail and end investors	Bond ETFs provide a scalable solution to help investors add diversification to their portfolio, offering the advantage of on-exchange trading that the underlying bond market does not provide.

Pioneering more client use cases

How investors are increasingly relying upon iShares' fixed income ETFs in their portfolios

A. Blend index and active bond ETFs to build a diversified, income-focused portfolio

Using index ETFs as foundational portfolio building blocks, investors can complement traditional corporate and sovereign allocations, with inflation-linkers, and plus sectors such as bank loans, CLOs, high yield and EM debt to emphasize income. Alternatively, investors can utilize multi-sector active ETFs with specific income focused objectives, such as a flexible income active ETF, which aims to help investors take advantage of attractive opportunities across a broad range of sectors and dynamically shifts allocations in accordance with the market environment. By investing in just two ETFs, as illustrated in the chart to the right, investors can gain access to a diverse array of sectors. This can be a scalable solution for an investor of any size seeking to build a diversified portfolio while managing risk and return.

Figure 8: Example barbell approach to blending index and active

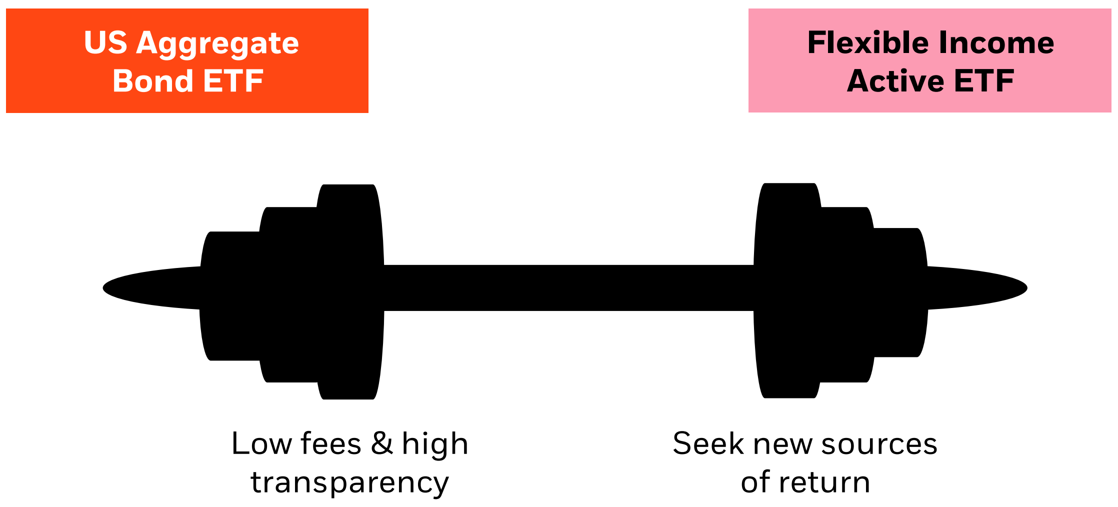
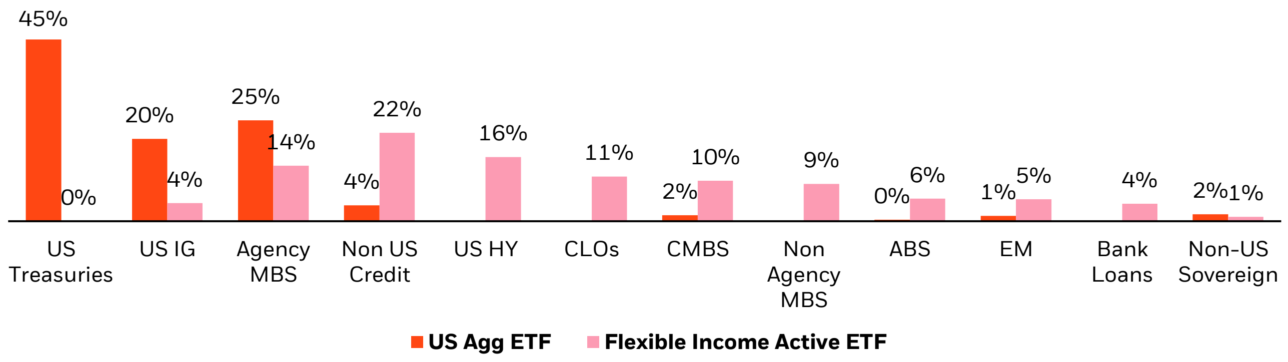


Figure 9: Enabling investor access to a more diverse sector allocation



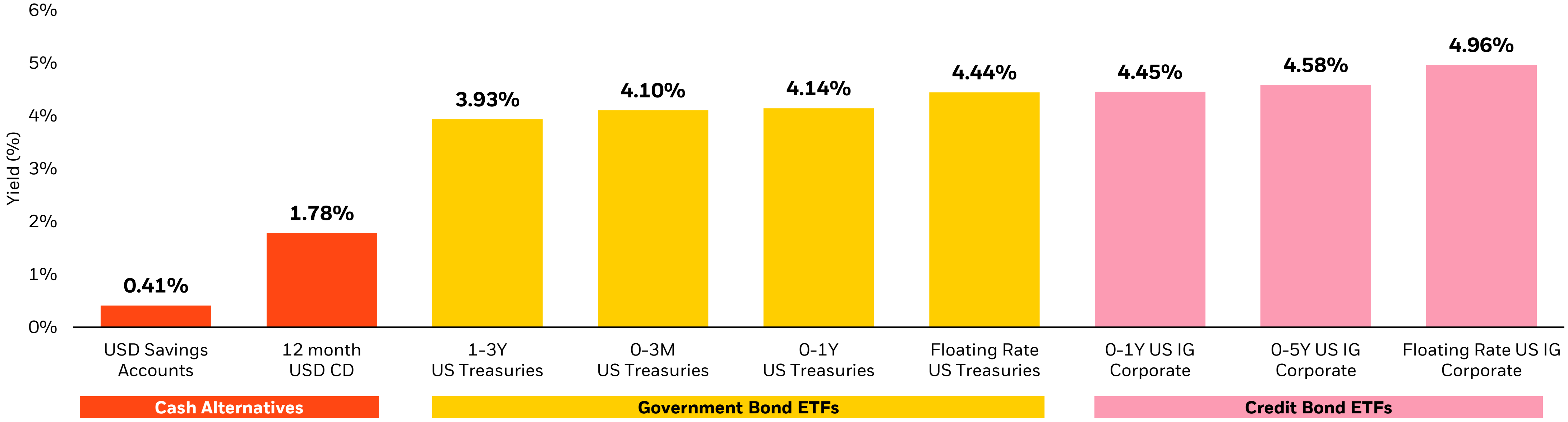
Source: BlackRock, March 31, 2025. Allocations subject to change.

The strategies discussed are strictly for illustrative and educational purposes and are not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy. There is no guarantee that any strategies discussed will be effective.

B. Seek to manage cash more efficiently

Short maturity and floating rate bond ETFs can help deliver income beyond typical cash investments like savings accounts and money market funds. iShares manages a variety of short maturity ETFs across both index and active strategies. Money market fund ETFs also can provide similar exposure to traditional money market mutual funds with the added benefit of daily transparency and exchange tradability.

Figure 10: Short-term bond ETFs may deliver higher yields than conventional savings accounts



Source: BlackRock and FDIC, March 31, 2025. Reference to IDCOT1, GATX, GATS, BTFLTRUU, IBXXUSU1, IBXXSIG1, BFU5TRUU Index. Bond ETF yields are average yield to maturity. It's important to note that there are material differences between Savings accounts, CDs, and ETFs, including investment objectives, risks, fees, and expenses. CDs are fixed income investments that generally pay a set rate of interest over a fixed time period until maturity, whereupon the original principal is typically returned plus any interest earned. Early withdrawal from CDs may result in early withdrawal fees. Most savings accounts pay compound interest, meaning earnings are added to the balance to create a larger base on which future interest is paid. Most savings accounts allow you to add or withdraw money at any time without incurring a fee. Both Savings accounts and CDs principal investments are insured by the FDIC up to applicable FDIC limits, while ETFs are not FDIC insured and may lose value. Most ETFs seek to track an index, before fees and expenses. ETFs trade on exchanges intraday at market price, which may be greater or less than net asset value. Transactions in shares of ETFs may result in brokerage commissions and may generate tax consequences. There can be no assurance that an active trading market for shares of an ETF will develop or be maintained. Short duration bond ETFs typically carry a higher degree of risk than the other cash alternatives and should not always be used as a substitute.

Performance data represents past performance and does not guarantee future results. Investment return and principal value will fluctuate with market conditions and may be lower or higher when you sell your shares. Current performance may differ from the performance shown.

C. Combine public and private credit

Most private credit vehicles require investors to commit to invest capital to the strategy that is later called to be deployed (when investors make an actual investment) as investment opportunities arise over a period of 1 to 5 years. For investors looking to manage the capital call process, private credit markets can be proxied by public credit markets that offer similar economic exposures, but with the necessary liquidity. These exposures include bank loans, CLOs, high yield credit and investment grade floating rate notes, which are all accessible via ETFs. For example, direct lending yields are generally comprised of floating rate plus a credit spread, which can be similar to bank loans. By proxying private credit risk with public market ETFs, an investor can maintain alignment with their anticipated strategic asset allocation, and reduce cash drag of any committed capital.

Sector	Economic Risks	Similar economic exposure examples
Corporate Private Placements	Long duration, fixed-rate, investment grade corporate lending	10+ Year US IG Corporate Bond ETF
Direct Lending	Floating rate, lower quality, higher income corporate lending	Floating Rate Loan ETF AAA CLO ETF 0-5 Year US High Yield Corporate Bond ETF US High Yield Corporate Bond ETF US Floating Rate Bond ETF
Mortgages and Asset-Backed Finance	Securitized credit risk, includes prepayment and default	US MBS ETF US CMBS ETF AAA CLO ETF
Infrastructure Debt	Typically longer duration, investment grade, occasionally inflation protected	10+ Year US IG Corporate Bond ETF Inflation Hedged US IG Corporate Bond ETF

Source: BlackRock, March 31, 2025.

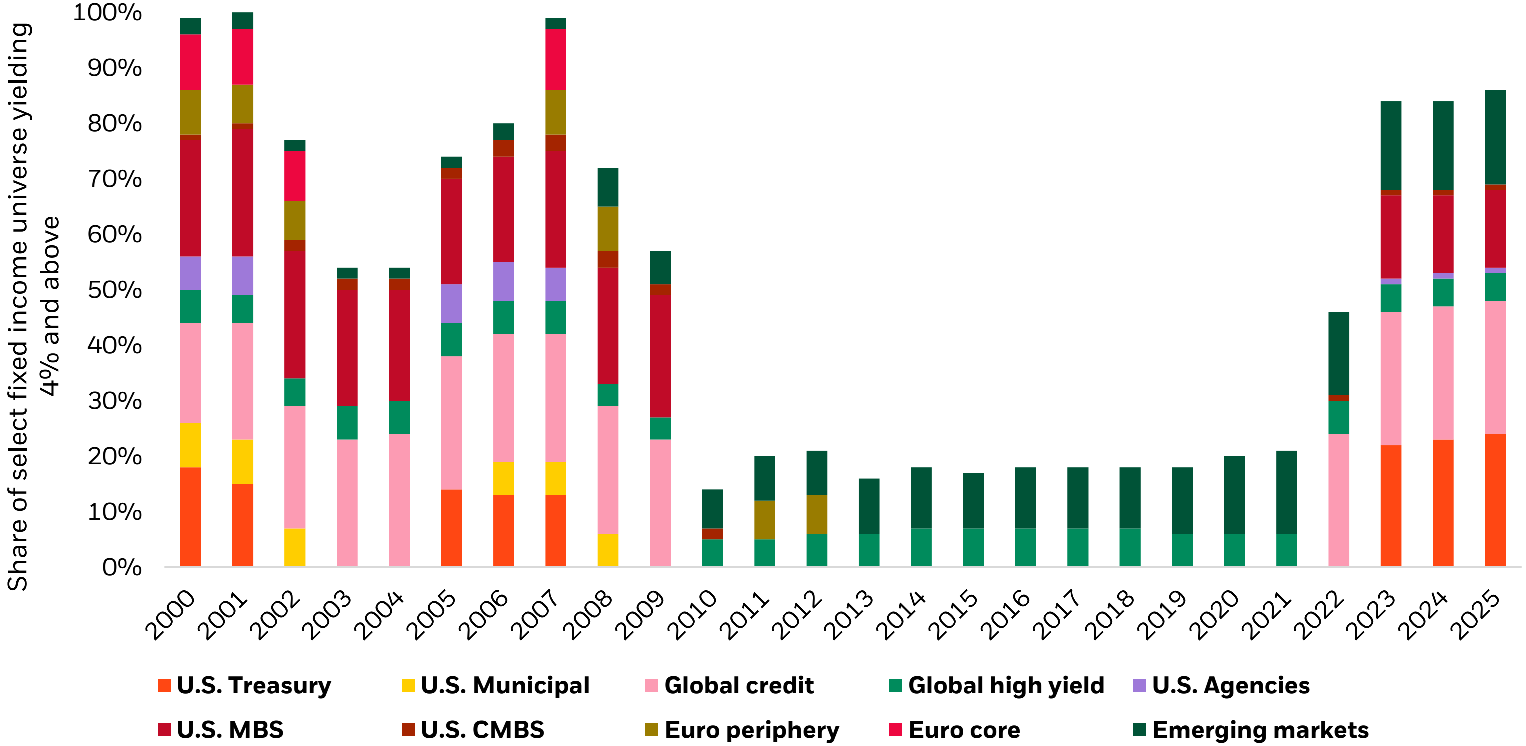
Seize the moment

Harnessing the power of bond ETFs for today’s market

Years of continued innovation comes at an opportune time for investors. Yields are higher now than they have been in years and the “income” in fixed income is clearly back (Figure 11). The ride has been bumpy, with US 10-yr Treasury yields trading in a volatile range of 3.3% to 5% over the past two years.[22] But we believe yields are likely to remain elevated for the foreseeable future due to persistent deficits, stubborn inflation and ever-increasing government debt supply.

In the decade before the Fed started hiking rates in 2022, investors had to move down the risk spectrum into high yield bonds to earn yields above 4%. Today, just with short-duration US treasuries, investors can access similar yields for minimal interest rate and no credit risk.

Figure 11: Globally, some 80% of fixed income assets now yield over 4%



Source: BlackRock, Bloomberg, Feb. 28 2025. Note: The bars show market capitalization weights of assets with an average annual yield over 4% in a select universe that represents about 70% of the Bloomberg Mulitiverse Bond Index. Euro Core is based on French and German government bonds indexes. Euro periphery is based on an average of government debt indexes for Italy, Spain and Ireland. Emerging markets combine external and local currency debt. Indices used: Bloomberg U.S. Treasury, Bloomberg Municipal Bond, Bloomberg Global Aggregate Corporate, Bloomberg Global High Yield, Bloomberg Global Aggregate Agencies, Bloomberg EM USD Aggregate, Bloomberg EM Local Currency Government, Bloomberg U.S. Mortgage Backed Securities, Bloomberg Investment Grade CMBS, Bloomberg Global Treasury Bond Indexes (Italy, Spain, Ireland, France, Germany)

It’s now easier than ever for investors to access even more parts of the fixed income market and seek to capitalize on the attractive yield opportunities. Enhanced granularity in indexed bond building blocks coupled with innovation within active ETFs has unlocked new investment opportunities that reach more deeply into the bond universe.

This chart highlights some attractive risk-adjusted return opportunities available in today’s market, compared to that of the global aggregate bond index, which serves as a typical bellwether reference point for the bond market. These exposures, previously difficult for many investors to access, are now are available via ETFs.

Figure 12: ETF innovation provides investors access to attractive, high-quality yield opportunities

Source: BlackRock, March 31. 2025. Yield based on yield to maturity as of March, 31 2025. Reference to LEGATRUU, JCLOAAAT, SPBDAL, IBXXSHC1, BAHDTRUU Index. Global Agg figures are based on the USD unhedged index. Risk based on ex-ante risk analysis, based on 72 monthly data points with 36 month half life.

Conclusion

Bond ETF innovation is helping more and more investors experience the benefits of bonds with ease. iShares fixed income ETFs are at the forefront of this innovation, offering the most granular set of building blocks and more modern, precise ways for investors to reach nearly every part of the fixed income market and drive portfolio outcomes. iShares bond ETFs also continue to prove their durability and resilience, setting record volumes during the recent tariff-induced volatility through early April 2025, and helping investors navigate stressed markets.

The convergence of an evolved, robust fixed income ETF toolkit with the most attractive yield environment in years presents a generational opportunity in fixed income, allowing investors to tailor their portfolios in ways that were previously unthinkable.

We hope that this paper will empower investors to revisit their portfolio construction approaches and assess how new innovations in bond ETFs across exposures and investment styles can help them to navigate the market environments of today and tomorrow and achieve their investment goals.

Contributors

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Ben Wallach

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2. BlackRock Global Market Intelligence, March 31, 2025. Organic asset growth for 2024 compared with equity MF (-3%), equity ETFs (13%), fixed income MFs (7%), fixed income ETFs (20%), other MFs (6%), other ETFs (16%).

3. BlackRock Global Business Intelligence, March 31, 2025.

4. BlackRock proprietary research. BlackRock projections as of March 31, 2025. Subject to change. The figures are for illustrative purposes only and there is no guarantee the projections will come to pass.

5. SIFMA 2024 Capital Markets Outlook issued July 2024, BlackRock Global Business Intelligence, March 31, 2025. Global bond industry stands at $140 trillion (as of Dec. 31 2023), vs $2.6 trillion in bond ETFs (as of December 2024). Global equity industry stands at $115 trillion (as of Dec. 31 2023), vs $11.5 trillion in equity ETFs (as of December 2024).

6. BlackRock Global Market Intelligence, Dec. 31, 2024. Based on data from Simfund for US MFs, Broadridge for Non-US MFs and GBI iShares for Global ETFs. Numbers exclude institutional mandates / investment vehicles, and closed ended funds.

7. BlackRock Global Market Intelligence, Dec. 31, 2024. Based on data from Simfund for US MFs, Broadridge for Non-US MFs and GBI iShares for Global ETFs. Numbers exclude institutional mandates / investment vehicles, and closed ended funds. Fixed Income Mutual Funds make up $12.1 trillion in assets, versus ETFs making up $2.6 trillion.

8. BlackRock Global Business Intelligence, March 31, 2025. First quarter global fixed income inflows were $131.6 billion, compared to an average of $50 billion for first quarters from 2015 to 2024.

9. BlackRock, Bloomberg, April 8, 2025.

10. BlackRock, Bloomberg, April 8, 2025. U.S. ETF trading as a % of all U.S. equity trading was 42% on April 7, 2025.

11. BlackRock, Bloomberg, April 8, 2025.

12. BlackRock, Bloomberg, April 8, 2025.

13. BlackRock, Bloomberg, April 8, 2025.

14. BlackRock Global Business Intelligence, March 31, 2025. In 2024, out of 420 new bond ETFs listed, 248 (or 59%) were actively managed.

15. BlackRock Global Business Intelligence, March 31, 2025. The first iShares active bond ETF was launched in September 2013.

16. BlackRock Global Market Intelligence, Feb 28, 2025. Global active bond mutual fund flows were $608 billion in 2024 and have added an additional $116 billion through February.

17. BlackRock Global Business Intelligence, March 31, 2025. Total assets under management for the iShares “buywrite” suite was $1.61 billion as of March 31, 2025.

18. BlackRock Global Business Intelligence, March 31, 2025.

19. BlackRock Global Business Intelligence, March 31, 2025.

20. Bankrate.com: “Fed’s Interest Rate History,” March 2025.The Federal Reserve raised interest rates in March 2022 for the first time since 2018. BlackRock Global Business Intelligence, March 31, 2025. Asset growth measured from March 31, 2022 to March 31, 2025.

21. Bloomberg News, Sept. 25, 2024, article "The $6.3 trillion money-market industry just got its first ETF.“

22. Bloomberg, March 31, 2025, measured high and low point of US 10-yr Treasury yield between Mar 31, 2023 and March 31, 2025. The low of 3.3% occurred on April 6, 2023 and high of 5% on Oct. 19, 2023.

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