

# The Modernisation of the European Bond Market

**Capital at risk.** The value of investments and the income from them can fall as well as rise and are not guaranteed. Investors may not get back the amount originally invested.

**The European bond market is evolving and modernising at a rapid pace, with fixed income Exchange Traded Funds (ETFs) working as an enabling technology and becoming the tool of choice for fixed income investors**



## The European bond market is evolving at a rapid pace:

The growth and transformation of the European corporate bond market in recent years has occurred alongside a rise in electronic trading, algorithmic bond pricing and an evolving trading architecture. While this has led to improvements in liquidity, the March 2020 Covid-19 selloff highlighted continued challenges opaque bond markets present to investors. We believe learnings from this selloff may spur further advancements the bond market eco-system.

## Fixed income ETFs as an enabling technology in modernising European bond markets:

The growing adoption of fixed income ETFs over the past 10 years has driven significant global investment in portfolio-based trading infrastructure, accelerating electronification and broader modernisation of the bond market. As the European bond market structure continues to evolve in response to changes in regulation, technological advances and shifting investor behaviour, the influence of UCITS fixed income ETFs within the bond market ecosystem is growing. The evolving regulatory landscape post MiFID II<sup>1</sup> has led to a push for transparency and cost efficiency.



## We believe ETFs are becoming the tool of choice for fixed income investors:

Investors are increasingly taking a portfolio approach to investing and risk management, drawing upon a broader 'toolkit', which may include individual bonds, fixed income ETFs and index-based derivatives. This toolkit can be used as a means of accessing liquidity and transferring risk, as well as making strategic asset allocation decisions. The growing need for Environmental, Social and Governance (ESG) integration into portfolios presents the next frontier for fixed income ETFs.



Fixed income ETFs have offered certainty of execution, immediacy and price discovery even in fast moving markets as seen in the March 2020 volatility. The Covid-19 selloff further accelerated global institutional adoption of fixed income ETFs, as they offered real-time price discovery and cost-efficient execution, when transparency and liquidity had sharply deteriorated in individual bonds.

The transparency offered by fixed income ETFs has made them central to valuation, portfolio construction and risk management for institutional investors. Fixed income ETFs have emerged as benchmark references for returns, volatility and market sentiment. Developments such as larger lending pools and options on UCITS fixed income ETFs, as well as further development of share classes, will further enhance the liquidity in European domiciled ETFs.

**Risk:** There can be no guarantee that the investment strategy can be successful and the value of investments may go down as well as up.

**Looking ahead, we expect ongoing changes in bond trading protocols and technology to continue to have profound implications for bond markets, investors and portfolio construction.**

## Risk Warnings

**Capital at risk.** The value of investments and the income from them can fall as well as rise and are not guaranteed. Investors may not get back the amount originally invested.

Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy.

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