

## ICI VIEWPOINTS

January 19, 2017

# Mutual Funds and ETFs' Share of the Corporate Bond Market: What's the Right Answer?

Participation by mutual funds and exchange-traded funds (ETFs) in US corporate bond markets was a topic of discussion during several sessions held at the American Economic Association Meetings in Chicago earlier this month. Panelists and presenters alike cited “statistics” on the share of corporate bonds held by funds. The funny thing was, they all cited different numbers, running the gamut from 18 to 35 percent.

That's quite a range and prompts the obvious question: “What's the right answer?”

The right answer, shown in the figure below, is 18 percent. This statistic—derived from the *Financial Accounts of the United States*, published by the Federal Reserve Board—represents the holdings by *all* types of mutual funds and ETFs of outstanding bonds issued by domestic corporations, as well as foreign bonds held by US residents, as of September 2016.

### **Mutual Funds and ETFs Hold 18 Percent of Outstanding Corporate Bonds<sup>1</sup> Percent; year-end, 2001-2016<sup>2</sup>**

1 Calculated from Table L.213 (sum of lines 34 and 36 divided by line 1, expressed as percent) in the Flow of Funds Accounts, *Financial Accounts of the United States* (Release Z.1), published by the Federal Reserve Board in March 2016; includes foreign bonds held by US residents.

2 As of September 2016

Sources: Investment Company Institute and Federal Reserve Board

Why are the other estimates too high?

It's because they assume that assets under management (AUM) of corporate bond funds are a reasonable proxy for the total amount of corporate bonds actually held by those funds. In other words, the use of AUM implicitly assumes that corporate bond funds invest *only* in corporate bonds. As the pie chart below shows, this assumption by no means accurately represents corporate bond fund portfolios. For example, as of September 2016, corporate bond mutual funds and ETFs held only 57 percent of their AUM in corporate

bonds, while the remainder was invested primarily in US government securities.

**Corporate Bond Mutual Funds and ETFs\* Hold a Variety of Assets**  
**Percentage of total net assets; September 2016**

\* Excludes mutual funds and ETFs that invest primarily in US government securities, mortgage-backed securities, municipal securities, or bank loans.

Sources: Investment Company Institute and ICI tabulations of Morningstar Direct data

These distinctions are important, especially in light of policy concerns regarding the potential for market liquidity to evaporate during times of financial market stress and possibly ignite fire sales in the corporate bond market. Policymakers, academics, and market participants should indeed consider these issues—but that consideration must be based on accurate data.

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