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Focus on Funds: ICI Issues New Analysis of Bond Fund Flows

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In the September 26, 2014, edition of Focus on Funds, Sean Collins, ICI's senior director of industry and financial analysis, outlines new research on the impact of interest rises or other market turbulence on bond fund investment flows. Collins traveled to London to share the data with global regulators.

Transcript

Stephanie Ortbals-Tibbs, Director, ICI Media Relations: Welcome to Focus on Funds, the Investment Company Institute's weekly roundup of industry news, ICI activities, and research findings.

A key question regulators worldwide have been asking is, "do the large investment flows into bond funds carry any consequences for financial stability, or systemic risk?"

ICI's top researchers have been addressing this question with new research, and in London I spoke with ICI economist Sean Collins about their findings and how they are sharing them with European regulators.

Sean Collins, ICI Senior Director, Industry and Financial Analysis: Well, we've looked at bond fund flows for a long period, and one thing we see is that through crises and through market cycles up and down, you really don't see much in the way of outflows during even the most severe of bond fund cycles.

Stephanie Ortbals-Tibbs: And that's true as well in the midst of an interest rate rise, that's something you looked at quite specifically.

Sean Collins: Correct. We looked at the events of 2013, which some people call the "taper tantrum," the summer of 2013, when interest rates rose really sharply in part because of anticipation about of change in monetary policy and there, also, you see that the size of the outflows from bond funds were moderate, given the size of the rise in interest rates.

Stephanie Ortbals-Tibbs: So what do you hope the data will tell regulators?

Sean Collins: Well, for one thing, there is a lot of evidence through many cycles that outflows from bond funds do not occur precipitously or even more than modestly during severe market downturns or strong interest rate cycles, and that should be of interest to regulators.

Stephanie Ortbals-Tibbs: That’s this week in funds. See you next week.

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