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The Pros Fail to Meet the Moment With Bond ETFs.

Actively managed fixed-income ETFs stumbled last year and only 40% are beating their benchmarks in 2023.

The pitch for an actively managed bond exchange-traded fund can be compelling, especially when there's market turmoil and uncertainty: Let a pro handpick bonds that can outperform benchmarks instead of investing in an index-tracking fund on autopilot, but pay less than you would for a mutual fund. Oh, and you can save on taxes, too.

More investors are taking the bait. Last year, active ETFs accounted for 14% of overall ETF flows even though they made up just 4% of assets, according to a report from Bloomberg Intelligence analyst Eric Balchunas, who tracks the data. So far this year, more than 30% of incoming flows are to active ETFs. In addition, since 2021, dozens of such funds have been unveiled, including versions from big names like Vanguard Group and JPMorgan Chase & Co.

But a look at performance — when it mattered most — should stop investors in their tracks. Active fixed-income ETFs were a total flop as bonds were hammered by the Federal Reserve's actions last year and suffered their worst performance on record. Just half of 182 actively managed bond ETFs outperformed their respective indexes, data from Morningstar Inc. shows.

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Bloomberg Opinion

by Alexis Leondis

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