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Bond ETFs Will Never Be the Same After Coronavirus.

Instant price discovery and liquidity have come at the expense of unprecedented losses.

Fixed-income exchange-traded funds have always been, and will continue to be, a contentious subject. Just the idea of a liquidity mismatch between the products and the underlying securities raises tough questions. Which is the more accurate reflection of a market: the benchmark index full of bonds that don't trade or the ETF that does?

As with most things, the truth probably lies somewhere in the middle. But for now, bond ETFs across the world are trading at staggering discounts to their net asset values in what some have dubbed an "illiquidity doom loop." More recently, that spiral has ensnared even funds that invest in some of the most stable fixed-income securities in the world. It's one thing if the largest high-yield municipal-bond fund is going berserk — as I wrote last week, that could be chalked up in part to steeply repricing a few securities tied to senior-living facilities. It's quite another for supposedly safe assets to get hammered. For better or worse, fixed-income ETFs can never be looked at quite the same way going forward.

A Bloomberg News article on Friday spotlighted the $6.2 billion iShares Short Maturity Bond ETF (ticker: NEAR). As the name suggests, it holds very short-term corporate debt, with an average duration of less than a year. Some of its biggest holdings include debt from Charter Communications Inc., Ford Motor Co., General Electric Co. and CVS Health Corp., all of which matures within the next eight months. Some of these businesses have had their struggles, yes, but they're not going belly-up imminently, even with the coronavirus outbreak.

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