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High Yield Bond ETFs Find Favor Once More.

To celebrate the 20th anniversary of the first bond ETFs, investors flocked to the asset class, pouring in $28 billion in July, double the amount that flowed into equity ETFs during a strong month for the U.S. stock market. Demand was widespread, with 46 products gathering at least $100 million last month. While two credit-risk-averse bond ETFs, the iShares U.S. Treasury ETF (GOVT A) and the iShares 20+ Year Treasury Bond ETF (TLT B+), led the charge with a combined $8.5 billion of net inflows, we are particularly pleased to see many high yield ETFs also gain traction.

In mid-July, we highlighted a survey that VettaFi conducted with advisors during a webcast with State Street Global Advisors where high yield credit/senior loans were the bond investment style most appealing to add to client portfolios, ahead of ultra-short bonds, investment-grade credit, long-term Treasuries, and municipal bonds. Both the poll and the article occurred before the Federal Reserve hiked interest rates by 75 basis points in late July and Chair Powell said the U.S. was not in a recession. During July, the yield on the 10-year Treasury note narrowed by 33 basis points to 2.64%, and investors were willing to take on credit risk to receive higher yields. Indeed, six large high yield corporate bond ETFs managing $44 billion pulled in $5.2 billion in July alone.

The iShares iBoxx $ High Yield Corporate Bond ETF (HYG B+) received $1.9 billion of new money in July, shrinking its year-to-date net outflows to $4.6 billion and pushing its asset base back to $15 billion. Demand was also strong for the SPDR Bloomberg High Yield Bond ETF (JNK A-) and the iShares Broad USD High Yield Corporate Bond ETF (USHY A), which gathered $1.7 billion and $1.1 billion, respectively. USHY remained modestly larger than JNK with $8.1 billion in assets ($8.0 billion for JNK). Among the three largest high yield ETFs, USHY has the lowest expense ratio at 0.15%.

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