ESG Fixed Income Space Evolving, Maturing.

It's been a rough year for fixed income investors, but there are some bright spots in the world of exchange traded funds, including ongoing adoption and maturation of bond ETFs.

That includes bond ETFs focusing on environmental, social, and governance (ESG) investing — a space long viewed as fertile growth territory for fund issuers. Broadly speaking, inflows to ESG ETFs are decent this year, though well off their prior highs, and that's impressive when considering that these funds are usually heavy on growth stocks, which struggled in the first half of the year.

Regarding ESG bond ETFs, there's still plenty of room for growth, but these products come with some advantages relative to actively managed rivals that could propel long-term adoption.

"US-listed fixed income ETFs have a median expense ratio of 0.29%, versus mutual funds' 0.61%. While many ETFs are index based, this lower-cost profile carries over to actively managed ETFs that have a median expense ratio of 0.40%, versus 0.63% for actively managed bond mutual fund strategies," noted State Street Global Advisors (SSGA).

There are other benefits associated with fixed income ETFs, ESG and otherwise.

"ETFs offer structural advantages, compared to a single security or individual bond exposure. With individual bonds, broker-dealers collect commissions on bonds they sell or buy through markups and markdowns, which are bundled into the quoted price to investors on both sides of the transaction," added SSGA.

Those benefits are particularly meaningful for investors looking for the combination of ESG and fixed income exposure because owing to the still-nascent status of this asset class, looking for individual bonds with adequate ESG standing can be a taxing endeavor for many advisors and investors. Fixed income ETFs ease that burden and can provide much needed liquidity, too.

"ETFs' robust secondary market allows investors to tap into market liquidity more easily than they can with single-CUSIP bond holdings," concluded SSGA. "This enables them to reallocate portfolios quickly across asset classes or meet investor redemptions by selling an ETF position into the market without having to sell single-CUSIP bonds. Fixed income ETFs are also more liquid than mutual funds, as ETFs trade intraday and mutual funds are typically transacted end of day."

For investors seeking the marriage of ESG and municipal bonds with the ETF wrapper, the SPDR Nuveen Municipal Bond ESG ETF (MBNE) is an idea to consider. Those desiring a bit more income by way of corporate bond exposure can evaluate the SPDR Bloomberg SASB Corporate Bond ESG Select ETF (RBND).

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editor@etftrends.com

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