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ICI Bond Mutual Fund Survey Brings Facts to the Debate

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New ICI research provides a detailed picture of bond mutual funds' role in the fixed-income markets during March 2020. ICI urges regulators to use this information when considering policies to enhance the resilience of markets. Otherwise, policies based on inaccurate data or inapt narratives could harm bond mutual fund investors.

A Series on Bond Mutual Funds' Role in the Fixed-Income Markets During March 2020

Policymakers in the United States and globally continue to evaluate the pandemic-driven market turmoil of March 2020 with a view toward enhancing market resiliency. As they perform their analysis, we urge them to ensure that their conclusions are built upon solid evidence.

One area of intense focus is bond mutual funds. Policymakers have repeatedly claimed that bond mutual funds, faced with historically high outflows during March 2020, amplified or contributed significantly to stresses in the fixed-income markets, as these quotes illustrate:

- » [F]orced sales of [bond] fund assets contributed to a sharp deterioration in fixed-income market liquidity that necessitated additional emergency interventions by the Federal Reserve.¹
- » [T]he liquidity mismatch between [bond] funds' assets and liabilities contributed to shock amplification, with investor outflows and the associated asset fire-sales by fund managers combining to eventually threaten broader financial stability.² [Bond funds sought] initially [to] meet increased redemption demand using cash and cash equivalents but were unsuccessful, forcing them to ultimately fire-sell bonds into illiquid markets.³

Shining a Light on the Narratives: New Survey Evidence

We believe narratives such as these are largely supposition based on little data, or in other cases inaccurate or incomplete data, and risk imposing policies that could harm bond mutual fund investors. To obtain a clearer picture of the events of March 2020, ICI conducted a comprehensive survey of its member firms. The survey gathered detailed daily data on bond mutual funds from February 28, 2020, through March 31, 2020—collecting the dollar amount of gross purchases, gross sales, and end-of-day holdings

¹ Lael Brainard, "[Some Preliminary Financial Stability Lessons from the COVID-19 Shock](#)," transcript of speech delivered at the 2021 Annual Washington Conference, Institute of International Bankers (March 1, 2021).

² "[Investment Funds and Financial Stability: Policy Considerations](#)," International Monetary Fund, Monetary and Capital Markets Department (September 17, 2021), vi.

³ [International Monetary Fund](#), 27.

for a wide range of securities,⁴ as well as net new cash flow and total net assets. Respondents provided aggregated information for eight categories of bond mutual funds.⁵ By far, these results provide the most detailed information available of the activities of bond mutual funds in March 2020.

Thirty-eight fund complexes submitted data covering 77 percent of the \$4.9 trillion in bond mutual fund assets as of February 2020 and 78 percent of the \$255 billion outflow from bond mutual funds in March 2020. Using this large sample, we created daily industrywide estimates for gross purchases, gross sales, end-of-day holdings, net new cash flow, and total net assets of bond mutual funds.⁶

In this *ICI Viewpoints* series, we will use these industrywide estimates from the survey to assess policymakers' narratives about bond mutual funds' role in the fixed-income markets during March 2020. Our initial posts will address narratives contending that bond mutual funds significantly amplified stresses and dislocations in the US Treasury bond market in March 2020. For example, the Financial Stability Oversight Council recently asserted:

- » [D]uring the early stages of the COVID-19 pandemic, when large-scale investor redemptions prompted funds to liquidate assets[,] U.S. open-end funds were among the largest recorded sellers of U.S. Treasuries....[indicating] they were one of the significant contributors to this stress.⁷

Our next blog post in the series—which is [available here](#)—shows that policymakers' estimates of mutual funds' sales of Treasuries during March 2020 are far too high and explains why their estimates are inflated. Subsequent posts will provide additional details regarding the timing and scale of, and motivation for, bond mutual funds' sales of Treasury bonds in March 2020. Still later posts will examine bond mutual funds' activities in the corporate bond market in March 2020.

It is our hope that these posts—and the solid evidence on which they are based—will help policymakers seek effective solutions to bolster the resiliency of financial markets during times of stress.

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⁴ The survey asked respondents to provide gross purchases, gross sales, and end-of-day holdings separately for each of these categories: commercial paper, certificates of deposit, money market fund shares, Treasury bills, Treasury notes and bonds, US agency securities including government-related mortgage-backed securities, domestic investment grade and high yield corporate bonds, municipal bonds, foreign bonds, bank loans, other bonds, and ETF shares.

⁵ The eight bond mutual fund categories (which are based on ICI's classification) are government, investment grade, ultrashort investment grade, high yield, bank loan, multisector, municipal, and world. These categories comprise the entirety of bond mutual funds. ICI did not collect fund-level information. Respondents provided aggregated information by bond fund category. For example, if a fund complex had four government bond funds, it summed and reported gross purchases of Treasury notes and bonds across the four funds.

⁶ The sample's daily gross purchases, gross sales, and net new cash flow for each bond mutual fund category were multiplied by a constant blow-up factor. The blow-up factor was calculated as the inverse of the ratio of the sample's net new cash flow to the industry net new cash flow for each bond mutual fund category for the month of March 2020. For example, the sample's outflow for government bond funds in March 2020 was 65 percent of the industry outflow, resulting in a blow-up factor of 1.54 (1/0.65). If a category's sample outflow was 100 percent or more of the industry outflow, no blow-up factor was used. In other words, we only scaled the sample estimates up, not down. For end-of-day holdings and total net assets, the blow-up factor for each category was determined as the inverse of the ratio of the sample's total net assets to industry total net assets for February 28, 2020.

⁷ [Financial Stability Oversight Council Statement on Nonbank Financial Intermediation](#) (February 4, 2022).