

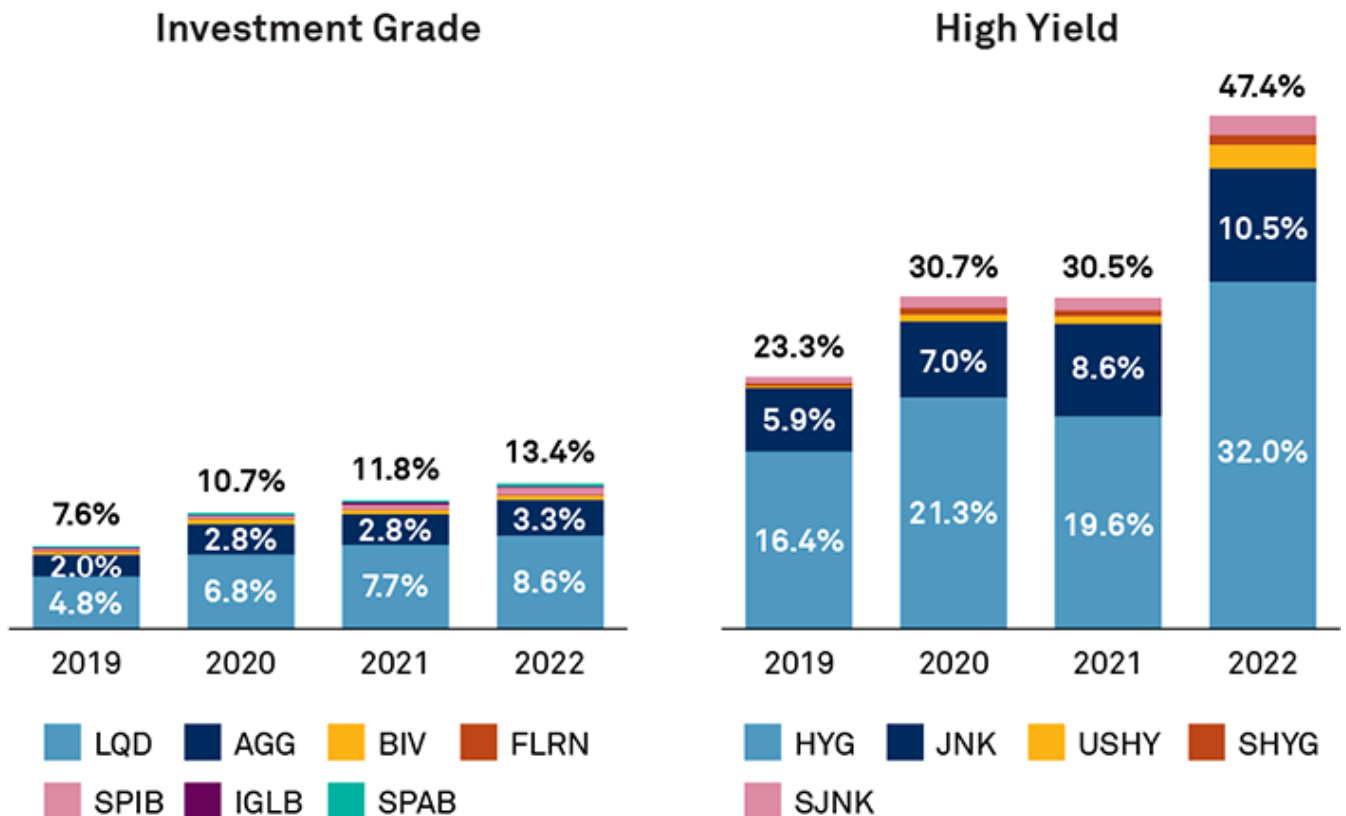
# High-Yield ETFs Increase Their Role in Bond Markets

February 8, 2023

A recently published Coalition Greenwich research study found that trading in credit-focused ETFs has grown notably relative to the underlying corporate bond market (what we’re calling the ETF-to-cash ratio). In notional terms, the volume traded in credit ETFs in 2021 equated to 18% of corporate bond market volume—investment grade and high yield combined. In 2022, that percentage jumped to 23%.

With this research in hand, we dug a little deeper to understand the differences between investment-grade and high-yield ETF market dynamics:

## Bond ETF-to-Cash Ratio



Note: ETF-to-Cash ratio is calculated by dividing the average daily notional volume traded in the listed ETFs by the average daily notional volume traded in the corporate bond market.  
Source: Coalition Greenwich, FINRA, Activ Financial

## High-Yield Interest Leads the Way

The ETF-to-cash ratio for high-yield bonds averaged nearly 50% in 2022, up from 30% the year before. HYG and JNK were the most heavily traded ETFs by a wide margin. Trading activity in those two alone made up

42% of notional volume transacted in the underlying high-yield bond market.

## Investment-Grade Trading is Smaller, but Growing

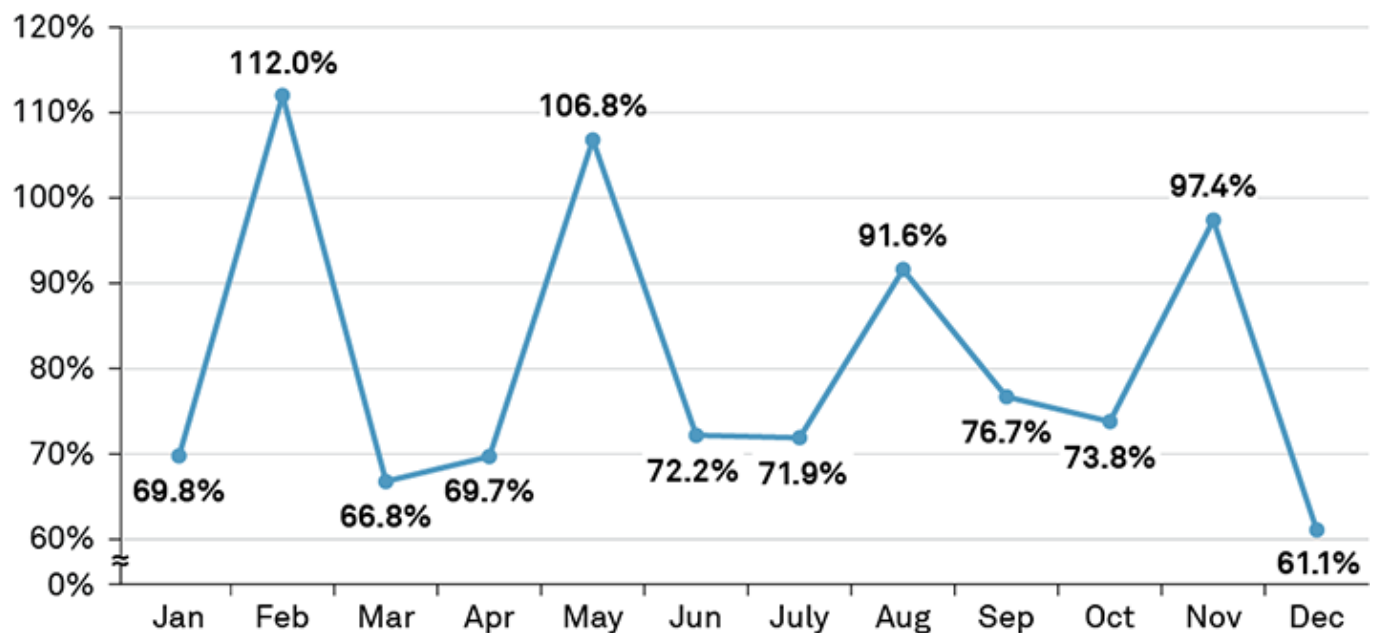
Trading in investment-grade ETFs, primarily LQD and AGG, rose from 7.6% in 2019 to 13.4% in 2022. This is considerably less than the high-yield ratio but still represents solid growth—especially considering average notional volume of investment-grade bond markets is roughly three times larger than high yield.

Our research also revealed that the LQD-to-cash ratio (comparing volume in only LQD to the underlying investment-grade bond market) in 2022 (8.6%) was higher than the overall investment-grade ETF-to-cash ratio (including all investment-grade ETFs) in 2019 (7.6%). The outsized role this single ETF plays is another sign of how dominant the largest credit ETFs have become.

## Why Should You Care?

Corporate bond market participants struggled for years after the financial crisis to find reliable methods of hedging credit risk and discovering more liquid entry points for taking directional bets. Single-name credit-default swaps (CDS) used to play that role before Dodd-Frank restrictions dried up the market. Credit futures have also been introduced but have not yet succeeded in gaining much traction.

## U.S. Treasury Cash-to-Futures Ratio—2022



Note: Futures volume includes 2, 5, 10-year notes; 30-year bond, Ultra T-Bond.  
Source: Greenwich MarketView, CME DataMine, New York Federal Reserve

Rates trading, by comparison, has been comparatively easier. Trading volume in the U.S. Treasury futures markets averages 70% of volume in the underlying bond market (spiking near or over 100% on futures roll months), providing an easy source of hedging or exposure. Post-Dodd-Frank, the cleared interest-rate swaps market is also highly liquid and electronic. Side note: While Treasury-focused ETFs have grown in popularity in

the past year, they only equate to 1% of cash market volumes.

## Fixed-Income ETFs are Versatile and Easy to Use

Credit ETFs allow money managers to put cash to work while seeking out the underlying bonds they intend to hold for the long term. Market makers use ETFs to manage risk and liquidity in the secondary market or through the create-redeem process. Meanwhile, retail investors rely on ETFs to gain quick bond market exposure in a world where the technology to trade stocks and ETFs is readily available and easy to use, and cash retail bond market trading technology is neither of those things.

Overall, the uptick in fixed-income ETF adoption has been a good thing for the market. Better market access leads to more people in the market, which is ultimately good for both primary and secondary liquidity. We believe the pandemic market crisis of 2020 proved that credit ETFs are reliable and work under pressure.

While many benefits are apparent, there is still some risk (albeit small). For instance, trading in ETFs may actually remove liquidity from the cash bond market. This raises the question of whether ETF volume would be bond market volume if ETFs didn't exist. We think it probably wouldn't. But one can understand why some bond traders might feel threatened.

Exactly how these interactions will evolve and which funds will grow (or not) is hard to predict. However, one thing is certain—the codependence between bonds and ETFs is here to stay.

*Kevin McPartland advises on market structure and technology globally. Neha Jain provides market-structure-related data analysis.*

---

[www.greenwich.com](http://www.greenwich.com) | [ContactUs@greenwich.com](mailto:ContactUs@greenwich.com)

Coalition Greenwich, a division of CRISIL, an S&P Global Company, is a leading global provider of strategic benchmarking, analytics and insights to the financial services industry.

We specialize in providing unique, high-value and actionable information to help our clients improve their business performance.

Our suite of analytics and insights encompass all key performance metrics and drivers: market share, revenue performance, client relationship share and quality, operational excellence, return on equity, behavioral drivers, and industry evolution.

### About CRISIL

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better. It is majority owned by S&P Global Inc., a leading provider of transparent and independent ratings, benchmarks, analytics, and data to the capital and commodity markets worldwide.

CRISIL is India's foremost provider of ratings, data, research, analytics, and solutions with a strong record of

growth, culture of innovation, and global footprint.

It has delivered independent opinions, actionable insights and efficient solutions to over 100,000 customers through businesses that operate from India, the U.S., the U.K., Argentina, Poland, China, Hong Kong, and Singapore.

For more information, visit [www.crisil.com](http://www.crisil.com)

## Disclaimer and Copyright

This Document is prepared by Crisil Coalition Greenwich, which is a part of Crisil Ltd, a company of S&P Global. All rights reserved. This Document may contain analysis of commercial data relating to revenues, productivity and headcount of financial services organisations (together with any other commercial information set out in the Document). The Document may also include statements, estimates and projections with respect to the anticipated future performance of certain companies and as to the market for those companies' products and services.

The Document does not constitute (or purport to constitute) an accurate or complete representation of past or future activities of the businesses or companies considered in it but rather is designed to only highlight the trends. This Document is not (and does not purport to be) a comprehensive Document on the financial state of any business or company. The Document represents the views of Crisil Coalition Greenwich as on the date of the Document and Crisil Coalition Greenwich has no obligation to update or change it in the light of new or additional information or changed circumstances after submission of the Document.

This Document is not (and does not purport to be) a credit assessment or investment advice and should not form basis of any lending, investment or credit decision. This Document does not constitute nor form part of an offer or invitation to subscribe for, underwrite or purchase securities in any company. Nor should this Document, or any part of it, form the basis to be relied upon in any way in connection with any contract relating to any securities. The Document is not an investment analysis or research and is not subject to regulatory or legal obligations on the production of, or content of, investment analysis or research.

The data contained in the Document is based upon a particular bank's scope, which reflects a bank's data submission, business structure, and sales revenue Reporting methodology. As a result, any data contained in the Document may not be directly comparable to data presented to another bank. For franchise benchmarking, Crisil Coalition Greenwich has implemented equal ranking logic on aggregate results i.e., when sales revenues are within 5% of at least one competitor ahead, a tie is shown and designated by = (where actual ranks are shown). Entity level data has no equal ranking logic implemented and therefore, on occasion, the differences between rank bands can be very close mathematically.

The data in this Document may reflect the views reported to Crisil Coalition Greenwich by the research participants. Interviewees may be asked about their use of and demand for financial products and services and about investment practices in relevant financial markets. Crisil Coalition Greenwich compiles the data received, conducts statistical analysis and reviews for presentation purposes to produce the final results.

THE DOCUMENT IS COMPILED FROM SOURCES CRISIL COALITION GREENWICH BELIEVES TO BE RELIABLE. CRISIL COALITION GREENWICH DISCLAIMS ALL REPRESENTATIONS OR WARRANTIES, EXPRESSED OR IMPLIED, WITH RESPECT TO THIS DOCUMENT, INCLUDING AS TO THE VALIDITY, ACCURACY, REASONABLENESS OR

COMPLETENESS OF THE INFORMATION, STATEMENTS, ASSESSMENTS, ESTIMATES AND PROJECTIONS, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE ARISING OUT OF THE USE OF ALL OR ANY OF THIS DOCUMENT. CRISIL COALITION GREENWICH ACCEPTS NO LIABILITY WHATSOEVER FOR ANY DIRECT, INDIRECT OR CONSEQUENTIAL LOSS OR DAMAGE OF ANY KIND ARISING OUT OF THE USE OF ALL OR ANY OF THIS DOCUMENT.

Crisil Coalition Greenwich is a part of Crisil Ltd., an S&P Global company. ©2025 Crisil Ltd. All rights reserved.