

iSHARES MARKET QUALITY UPDATE

iShares®
by BlackRock

Third Quarter 2020

Volume and trading costs

After a blistering first half of 2020, third quarter volume in US-listed iShares exchange-traded products (ETPs) was reflective of a typical summer slowdown, with investors trading \$1.9 trillion.¹ This pattern was evident industry-wide as ETPs as a percentage of all equity trading volume fell to 24% in Q3—underscoring this quarter's lower volatility.²

Despite the slowdown, investors traded \$6.6 trillion in US iShares ETPs year-to-date, just shy of the \$7 trillion traded in all of 2019. Investor adoption of fixed income ETPs continued, with trading in iShares fixed income ETPs surpassing \$2 trillion and breaking last year's record volume of \$1.8 trillion.³

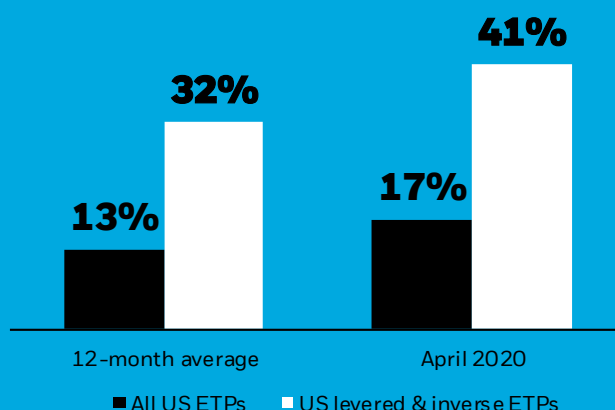
Investors saw a continued reduction in trading costs as bid-ask spreads in US-listed ETPs tightened in Q3. Spreads tend to be correlated with volatility and that trend has continued so far in 2020. The average bid-ask spread for US iShares ETPs fell to 13.9 basis points (bps) in Q3, three times lower than the average in March 2020.⁴

Know what you own

Retail investors increasingly turned to exchange-traded products (ETPs), particularly levered and inverse products. Over the past 12 months, retail investors' share of trading volume in levered and inverse ETPs rose from 22% to a peak of 41% in April 2020. For comparison, retail investors' share of trading volume in all US ETPs peaked at 17% over the same period (**Figure 1**).⁵

Growing retail investor adoption of these products, which may have more complex structures and features, highlights the need for more investor protections like ETP classifications.

Figure 1: Retail trading activity



New exchanges enter the market

Three new stock exchanges—the Members Exchange (MEMX), MIAX and the Long-Term Stock Exchange (LTSE)—launched in September 2020, bringing the number of US equity exchanges to 16.

Each of the new exchanges has a distinct competitive edge in their quest to compete with the larger, more established exchanges for market share. MEMX will focus on lower costs for data and connectivity, while MIAX is offering an equity rights program to incentivize liquidity providers. Finally, LTSE is focused on being a primary listing venue by creating standards that support long-term value for corporations and investors.

None of the new market entrants intend to have ETP listings, so while the distribution of trading volume may change, listings will not be impacted.

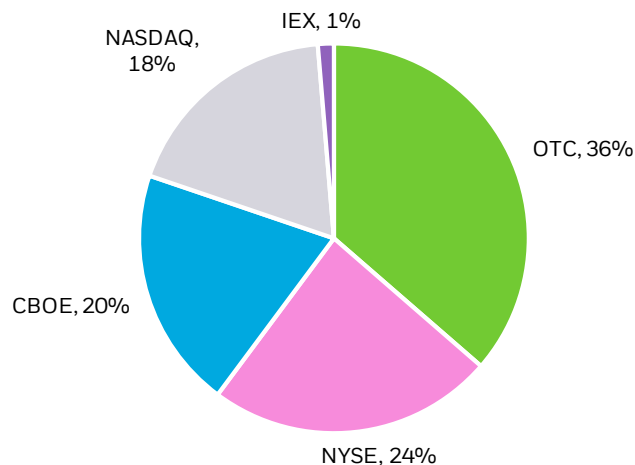
¹ Source: Bloomberg, as of 9/30/2020 ² Source: Bloomberg, as of 9/30/2020 ³ Source: Bloomberg, as of 9/30/2020 ⁴ Source: NYSE, BlackRock, as of 9/30/2020 ⁵ Source: Bloomberg, BlackRock, using publicly available 605 reports from Citadel, Virtu, G1X and National Financial Services as of 8/31/2020

New exchanges enter the market (continued)

The challenge for these new, independent exchanges is that the flow of trading volumes is notoriously difficult to disrupt; IEX launched in 2016 and now accounts for just 1% of ETP trading.⁶ In fact, 12 of the 16 US exchanges are owned by three organizations (NYSE, Cboe and Nasdaq) and collectively account for ~60% of all ETP trading volume (similar to the figure for single stock volume).⁷

Nonetheless, the new exchanges aim to bring more competition to a concentrated market, which could result in lower trading costs and a more innovative trading market for investors.

Figure 2: ETP trading venue market share⁸



Silver shines

The global benchmark for physical silver, the London Bullion Market Association (LBMA) Silver Price, is calculated daily through an electronic auction that begins at 12pm London time. Throughout the day, LBMA market makers provide on-demand pricing in physical silver, but all transactions are over-the-counter (OTC). This means that aside from the daily auction, there is no electronic marketplace to trade silver.⁹

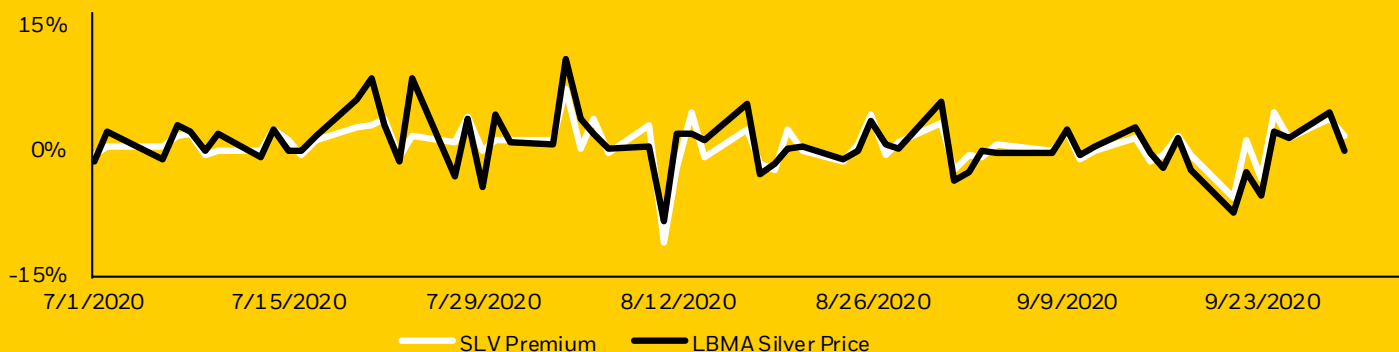
Meanwhile, the iShares Silver Trust (SLV), a US listed ETP that seeks to track the price of physical silver, trades continuously on exchange. These exchange-based transactions eliminate the credit risk inherent in OTC transactions and help SLV act as a continuous price discovery tool for physical silver.

In Q3, price volatility of silver increased, leading to daily price swings in excess of 10% on multiple trading days.¹⁰ As a result, SLV's market price diverged at times from its net asset value (NAV), which is calculated using the LBMA Silver Price.

In fact, SLV's closing price on-exchange was a leading indicator of the LBMA Silver Price during the third quarter, illustrating how SLV can act as a price discovery tool for the physical silver market. For example, on August 4, 2020, SLV closed at a 7% premium to its NAV; the following day the LBMA Silver price was 11% higher than it was the day before.¹¹ **Figure 3** shows how SLV's closing price premium (or discount) to NAV was a leading indicator of daily changes in the LBMA Silver Price throughout the quarter.

Price discovery is an important attribute of how ETPs can provide real-time information to markets when underlying securities trade infrequently or markets are closed. In the case of SLV, the continuous intraday price available on-exchange provides a real-time, actionable price to access the silver market.

Figure 3: SLV premium/discount versus LBMA Silver Price¹²



6 Source: Bloomberg, as of 9/30/2020 **7** Source: Bloomberg, as of 9/30/2020 **8** Source: Bloomberg, as of 9/30/2020 **9** Over-the-counter transactions take place off-exchange. Each party is subject to the other party's credit risk. In on-exchange transactions, the exchange faces each party and bears the credit risk of both parties. **10** 30-day volatility in the LBMA Silver Price increased from 23.25 on June 30, 2020, to 64.88 on August 28, 2020. Source: Bloomberg, as of 9/30/2020 **11** Overnight trading in Asian markets may explain the additional price movement in silver from 4pm New York time to the following day at 12pm London time. **12** Source: Bloomberg, as of 9/30/2020

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Market structure lessons from COVID-19

The Coronavirus-induced market shock in early 2020 provided a test for the Market-Wide Circuit Breaker (MWCB)¹³ mechanism, a series of volatility guardrails designed to prevent the market from going into freefall by slowing down trading for a few minutes. While MWCBs worked as expected, the industry identified opportunities for further improvements to the market reopening process.

The extreme overnight and intraday volatility in February and March highlighted challenges for market participants as markets opened and reopened following a MWCB halt: When initiating the reopening process, liquidity providers lacked an accurate reference price.

Two upcoming changes recently announced by the CME are designed to address these challenges and improve price discovery:

1. The price limit threshold for S&P futures overnight trading will move from 5% to 7% in order to align with the MWCB Level 1 threshold. This will enable the futures to act as a better pre-market indicator on whether a MWCB will be triggered.
2. To promote price discovery prior to the re-open after a MWCB event, futures will resume trading five minutes earlier than the equity and options markets. This will allow market participants to leverage the highly liquid futures contract as a reference instrument when determining how to price individual stocks.

These changes, implemented on October 12, 2020, should further enhance investors' trading experience, especially in times of market stress.

13 MWCBs are triggered when the S&P 500 index falls more than 7% from the prior day's close and results in a 15-minute halt for all securities, futures, and options trading. A second 15-minute halt is triggered if the market falls 13% and trading is halted for the day if the index trades down more than 20%

Important Information about iShares ETFs

This information must be preceded or accompanied by a current prospectus for the iShares Silver Trust (SLV). Investors should read and consider it carefully before investing.

The iShares Silver Trust is not a standard ETF. The Trust is not an investment company registered under the Investment Company Act of 1940 or a commodity pool for purposes of the Commodity Exchange Act. Shares of the Trust are not subject to the same regulatory requirements as mutual funds. **Before making an investment decision, you should carefully consider the risk factors and other information included in the prospectus.**

Following an investment in the Trust, several factors may have the effect of causing a decline in the prices of silver and a corresponding decline in the price of the shares. Among them: (i) A change in economic conditions, such as a recession, can adversely affect the price of silver. Silver is used in a wide range of industrial applications, and an economic downturn could have a negative impact on its demand and, consequently, its price and the price of the shares. (ii) A significant change in the attitude of speculators and investors towards silver. Should the speculative community take a negative view towards silver, a decline in world silver prices could occur, negatively impacting the price of the shares. (iii) A significant increase in silver price hedging activity by silver producers. Traditionally, silver producers have not hedged to the same extent as other producers of precious metals (gold, for example) do. Should there be an increase in the level of hedge activity of silver producing companies, it could cause a decline in world silver prices, adversely affecting the price of the shares.

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Carefully consider the Funds' investment objectives, risk factors, and charges and expenses before investing. This and other information can be found in the Funds' prospectuses or, if available, the summary prospectuses which may be obtained by visiting www.iShares.com or www.blackrock.com. Read the prospectus carefully before investing.

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Shares of iShares ETFs may be bought and sold throughout the day on the exchange through any brokerage account. Shares are not individually redeemable from the ETF, however, shares may be redeemed directly from an ETF by Authorized Participants, in very large creation/redemption units. There can be no assurance that an active trading market for shares of an ETF will develop or be maintained.

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