

# iSHARES MARKET QUALITY UPDATE

iShares<sup>®</sup>  
by BlackRock

Second Quarter 2020

## A record start to the year

iShares exchange-traded funds (ETFs) traded \$5.1 trillion in the first half of 2020—the highest trading volume of any first half of the year on record.<sup>1</sup> In the first quarter, ETFs as a percentage of all equity trading volumes reached as high as 41% (36% on average for the period) as a result of investors increasingly turning to ETFs to allocate capital and manage risk in a time of heightened volatility. ETF volumes normalized in the second quarter, returning to levels in line with 2019 averages (27% of all equity trading).<sup>2</sup>

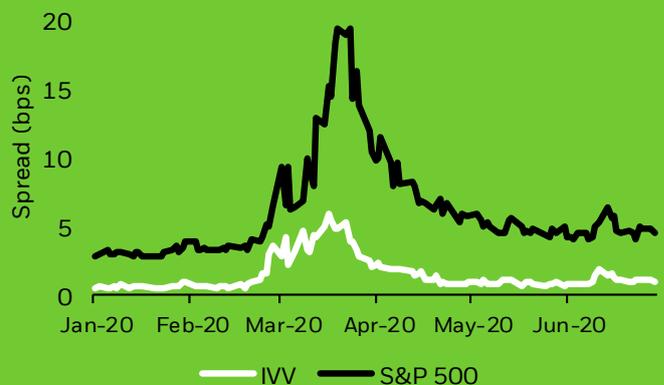
Particularly noteworthy was investor adoption of iShares fixed income ETFs in the first half of 2020. The trading volume in iShares fixed income ETFs through June (\$1.5 trillion) was just shy of full-year 2019 volumes (\$1.8 trillion). iShares fixed income ETFs accounted for 65% of all US fixed income ETF volume from January through June.<sup>3</sup>

## Normalizing trading costs

Amidst record volatility, bid-ask spreads in US-listed ETFs increased in line with the market in the first quarter of 2020. Spreads declined in the second quarter, reverting back towards 2019 averages. iShares bid-ask spreads fell to an average of 16 basis points (bps) in June – a significant improvement from the height of volatility in March, but still wider than the 2019 average of 12bps.<sup>4</sup>

Despite wider bid-ask spreads, it was often cheaper to trade the ETF than the underlying securities. For example, spreads in the iShares Core S&P 500 ETF (IVV) remained tighter than the market-cap weighted average spread for the S&P 500 basket throughout the first half of the year (Figure 1).

Figure 1: IVV Spread vs S&P 500 spread<sup>5</sup>



## The rise of retail

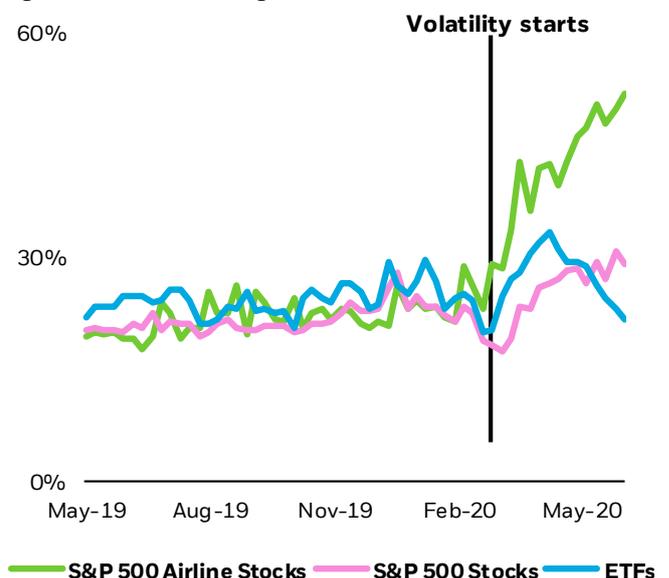
Retail platforms reported record new users this year, and while the extra trading activity contributed to ETF volumes, it also showed how retail investors used ETFs to navigate volatility.

In March, ETF retail flow surged to an average of \$54 billion/day, doubling the prior month's average (\$27 billion). The percentage of ETF trading attributable to retail investors reached 33% in April, an increase of 9% relative to 2019's average.<sup>5</sup> This figure normalized in June.

Retail's footprint in S&P 500 stocks lagged that of ETFs, however, retail market share grew in stocks that were acutely impacted by COVID-19 like airlines (Figure 2).

While volumes grew across all securities in the first half of 2020, the data highlights that retail investors increasingly turned to ETFs to navigate the unprecedented market conditions seen during the first half of the year.

Figure 2: Retail trading's market share<sup>6</sup>



<sup>1</sup> As of June 30, 2020. Source: Bloomberg, BlackRock. <sup>2</sup> As of June 30, 2020. Source: NYSE, BlackRock. <sup>3</sup> As of June 30, 2020. Source: Bloomberg, BlackRock. <sup>4</sup> A basis point is equivalent to one one-hundredth of a percent (0.01%). <sup>5</sup> As of June 30, 2020. Source: FINRA Non-ATS Data, Bloomberg, BlackRock. <sup>6</sup> As of June 30, 2020. Source: FINRA Non-ATS Data, Bloomberg, BlackRock. retail flow can be tracked by wholesalers' reported internalized volumes and their share of overall activity. ETF Retail data measured using USDomiciled ETFs that trade > \$100m/day

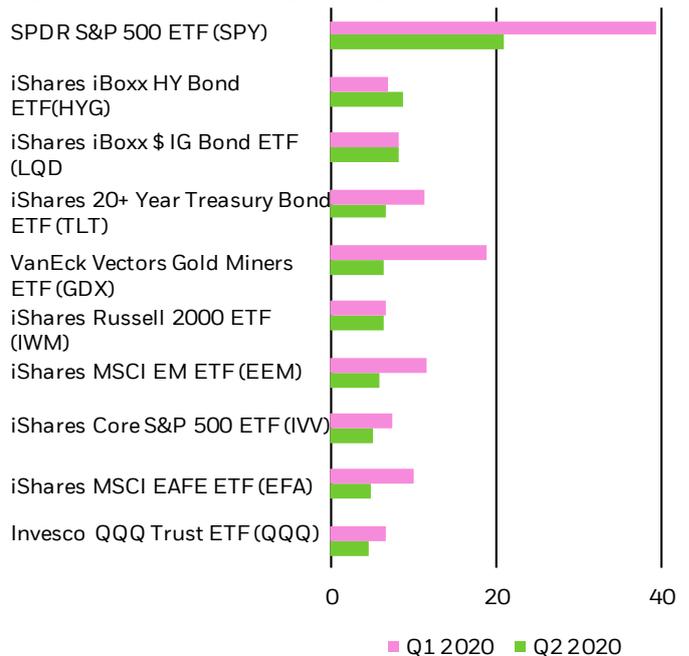
# Investors are trading at the close

Closing auctions, which take place at the end of each trading day and establish the official closing price for equities, saw \$1.9 trillion in volume in the second quarter of 2020 (6.4% of daily trading volume, on average). While this was 5% lower than the previous quarter's volume, it was still higher than 2019's quarterly average (\$1.5 trillion).<sup>7</sup>

ETF closing auction volume (\$160 billion) had a more pronounced drop in Q2, declining 37% from the previous quarter. The main drivers of the decrease were lower closing auction volume in the SPDR S&P 500 ETF Trust (SPY) (down \$17 billion) and VanEck Vectors Gold Miners ETF (GDX) (down \$12 billion).<sup>8</sup> Seven of the 10 most actively traded ETFs in closing auctions were iShares ETFs, which in aggregate accounted for 30% of all ETF closing auction volume (Figure 3).

The growth of closing auctions brings significant benefits to the markets, including playing a crucial role in liquidity and price discovery. For more information on closing auctions, see our 2020 ViewPoint: [“A Global Perspective on Market-on-Close Activity.”](#)

Figure 3: Top 10 ETFs by closing auction volume (\$bn)<sup>9</sup>

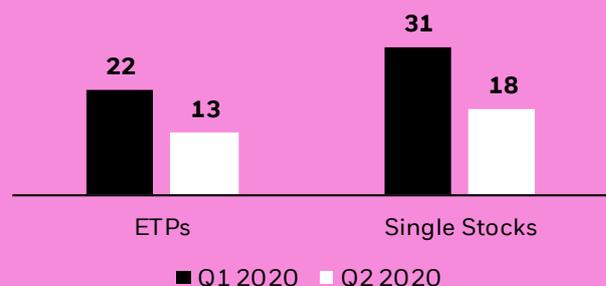


## ETF volatility leading into the close is falling.

The process of matching buy and sell orders to determine a single closing price can lead to closing price volatility (CPV<sup>10</sup>). In line with declining market volatility, the average CPV for the 10 most actively traded ETFs in Q2 fell to 13bps, from 22bps the previous quarter.<sup>11</sup>

The 10 most active single stocks exhibited similar behavior over the period, as CPV fell from 31bps to 18bps. However, this was still higher than the CPV of the 10 most heavily traded ETFs (Figure 4).

Figure 4: Closing price volatility in the 10 most traded ETFs and single stocks<sup>12</sup>



The decline in CPV means that investors who traded in the closing auction during Q2 had a higher probability of executing trades near the prevailing market price within the last 5 minutes of the trading day. However, given the higher volatility during the close in general, clients may want to consider using limit orders or seek the expertise of a financial professional to ensure quality of trading execution.

## The bottom line

While the first half of 2020 was anything but predictable, ETFs performed as-designed. Investors increasingly relied on ETFs to access the market, especially in asset classes where underlying markets were challenged. ETFs handled this increased usage well, demonstrating strength across a variety of market quality metrics including liquidity and cost. Overall, ETFs were a source of stability for markets and investors at a time when they needed it most.

Information on non-iShares Fund securities is provided strictly for illustrative purposes and should not be deemed an offer to sell or a solicitation of an offer to buy shares of any security other than the iShares Funds, that are described in this material.

<sup>7</sup> As of June 30, 2020. Source NYSE, BlackRock. <sup>8</sup> As of June 30, 2020. Source NYSE, BlackRock. <sup>9</sup> As of June 30, 2020. Source NYSE, BlackRock. <sup>10</sup> Closing Price Volatility (CPV) is calculated as the absolute value of price return during the last 5 minutes of trading. <sup>11</sup> As of June 30, 2020. Source NYSE, BlackRock. <sup>12</sup> As of June 30, 2020. Source NYSE, BlackRock.

**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](http://www.iShares.com) or [www.blackrock.com](http://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.

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