HIGH VELOCITY MARKETS

A case study on U.S. exchange-traded product performance during the week of February 24, 2020

The week of February 24, 2020 was a tumultuous week for global financial markets. The Cboe Volatility Index (VIX), often referred to as the market's "fear gauge", reached 49—the highest since February 2018—while the S&P 500 had its largest weekly decline since the 2008 global financial crisis.[1] Despite this turbulence, trading in exchange-traded products (ETPs) remained orderly.

In fact, data from this week suggest that investors increasingly turn to ETPs as access vehicles in periods of market stress.

ETPs facilitated risk transfer

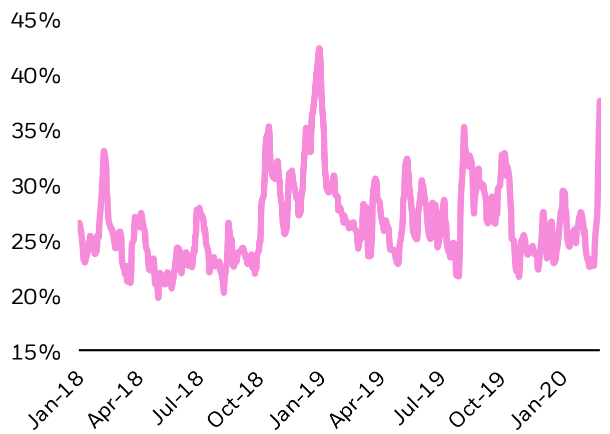
In periods of market stress, ETP trading volumes as a percentage of equity volumes have tended to rise, as more investors have utilized ETPs to express their views.

In 2019, ETPs accounted for an average of 27% of U.S. equity market trading activity. The week of February 24: 38%.[1]

U.S.-listed ETPs traded a record $1.4T from February 24 through February 28—an average of $271.1B per day. This is 170% greater than the average daily trading volume (ADV) of the prior month and 330% higher than the weekly average from 2019.[1]

For comparison, single stock volumes for the same week increased 57% from the month before.[1]

US ETPs as a % of US equity volume[1]

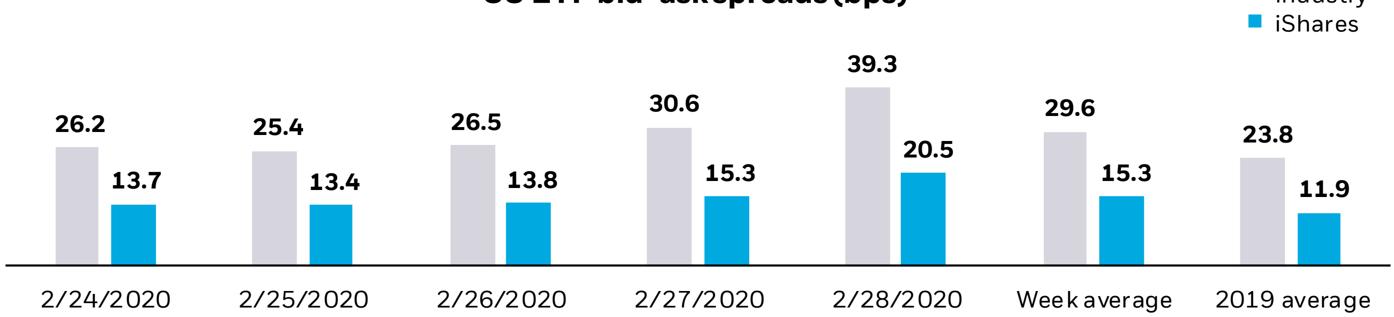


Liquidity remained strong

Increased market volatility creates pricing uncertainty, which can result in bid-ask spreads (the cost of trading stocks and ETPs) that are wider than average.

During the week of February 24, U.S.-listed ETPs maintained spreads that were largely in line with historical averages—29.6 basis points compared to 23.8 basis points in 2019. Spreads in U.S.-listed iShares ETPs were even tighter, averaging 15.3 basis points for the week, slightly higher than the average spread for U.S. iShares ETPs in 2019 (11.9 basis points).[2]

US ETP bid-ask spreads (bps)[2]



1 Source: Bloomberg, as of 2/28/2020 **2** A basis point is one hundredth of a percent. Source: NYSE, BlackRock, as of 2/28/20

iShares.com/us/education/etf-ecosystem

ETPs have been "shock absorbers"

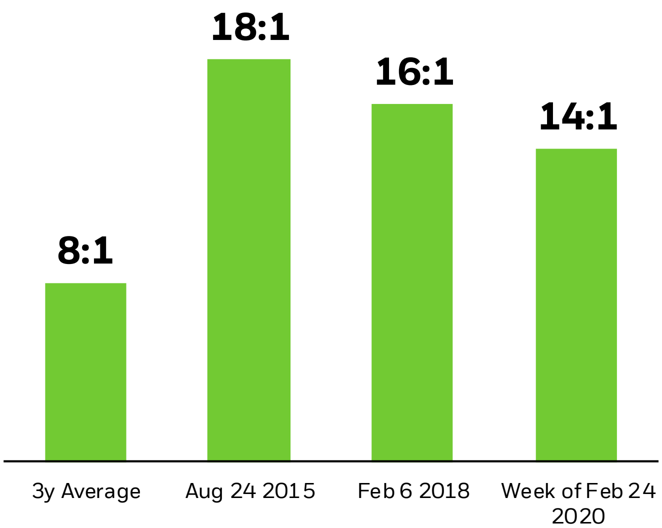
Secondary market trading of ETPs is typically a multiple of primary market, or creation and redemption, activity. For the three-year period ending December 31, 2019, the secondary-to-primary (STP) ratio for U.S.-listed ETPs was 8:1.[3]

During the week of February 24, the STP ratio for U.S.-listed ETPs was almost 14:1. Excluding the SPDR S&P 500 ETF (SPY), which accounts for 24% of US ETP trading volumes, the STP ratio for the week was still higher than average at 12:1.[3]

For comparison, the STP ratios on August 24, 2015 and February 6, 2018—two notable periods of increased market volatility—were 18:1 and 16:1, respectively.[3]

This provides further evidence that even in times of stress, ETPs have limited impact on the trading of underlying securities as buyers and sellers transact on exchange at real-time prices.

US ETP secondary to primary ratio[3]



The bottom line

The week of February 24 was a milestone week, with US equities, US-listed ETPs and US iShares ETPs experiencing record daily volumes ($978B, $400B and $103B, respectively). Even with heightened market volatility and increased trading activity, ETPs traded with generally tight bid-ask spreads, heavy volumes, high liquidity and no forced selling.

In short, the ETP ecosystem performed as expected, adding stability to a volatile market.

3 Source: Markit, BlackRock as of 2/28/2020

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