HIGH VELOCITY MARKETS

iShares by BlackRock

A case study on U.S. and EMEA exchange-traded product performance from January 12-26, 2022

The two week period of January 12-26, 2022 was one of the most turbulent times for global financial markets since COVID-induced market volatility began in February 2020. Increasingly elevated inflation levels, the Federal Reserve shifting towards tighter monetary policy with multiple planned rate hikes, and increased geopolitical uncertainty were all driving forces. The Cboe Volatility Index (VIX), often referred to as the market's "fear gauge," nearly reached 39 on January 24, 2022—higher than any point in 2021—while the S&P 500 had its worst-ever start to a year since 2009.[1] Despite this turbulence, trading in exchange-traded products (ETPs) remained orderly. In fact, data from this period suggest that, as in prior bouts of volatility, investors increasingly turned to ETPs to access markets.

ETPs facilitated risk transfer

Historically, we have observed that ETP volumes tend to rise in tandem with market stress as investors use ETPs to allocate capital and manage risk when volatility increases. We see this exhibited through the correlation between VIX Index levels and U.S. ETP trading volume as a percentage of U.S. total equity volume (**Figure 1**).

In 2021, ETPs accounted for an average of 25% and 14% of U.S. and EMEA daily equity market trading activity, respectively. During the period of January 12-26, the average spiked to 35% for the U.S. and 16% for EMEA (**Figure 2**). On January 24—the most volatile day of the period—ETPs accounted for 40% of equity volumes in the U.S.—in line with the previous record from February 28, 2020.[4]

U.S. and EMEA-listed ETPs traded $2.7 trillion and $163 billion, respectively, from January 12-26—an average of $275.7 billion and $14.9 billion per day. This is more than 90% higher than the 2021 average daily volume (ADV) of U.S.-listed ETPs and 32% higher than the 2021 ADV of EMEA-listed ETPs.[5] For comparison, single stock ADV in the U.S and EMEA increased 20% and 19%, respectively, from 2021 daily averages over the same period.[6]

On January 24, U.S.-listed ETPs traded $473 billion, almost 230% more than their 2021 ADV, eclipsing the previous single-day record from February 28, 2020. EMEA–listed ETPs traded $17 billion or almost 50% more than the 2021 ADV.[7] At the same time, single stock ADV in the U.S. and EMEA increased 65% and 44%, respectively, from their 2021 daily averages.[8]

Figure 1: VIX Index Correlation to U.S. ETP/Equity Ratio[2]

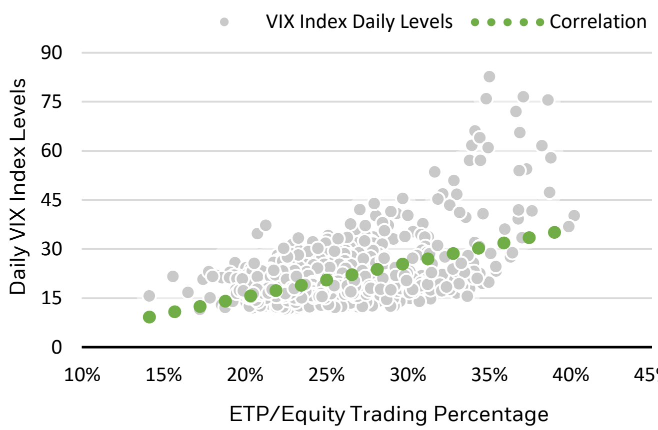
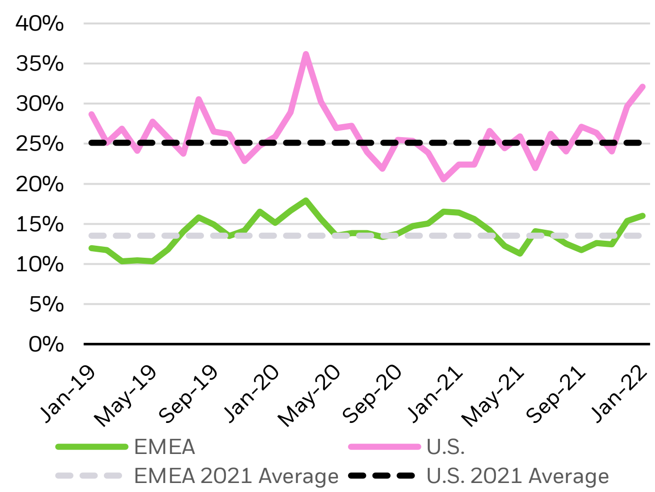


Figure 2: U.S. and EMEA ETPs as a % of equity volume[3]



1 Source: Financial Times as of 1/31/2022. **2** Source**:** Bloomberg as of 1/31/22 based on average U.S. data from 1/2/2019-1/26/2022**. 3** Source: Bloomberg, as of 1/26/2022. **4** Source: NYSE, BlackRock, as of 1/26/2022. **5** Source: Bloomberg as of 1/26/2022. **6** Source: Bloomberg as of 1/26/2022 **7** Source: Bloomberg as of 1/26/2022 **8** Source: Bloomberg as of 1/26/2022

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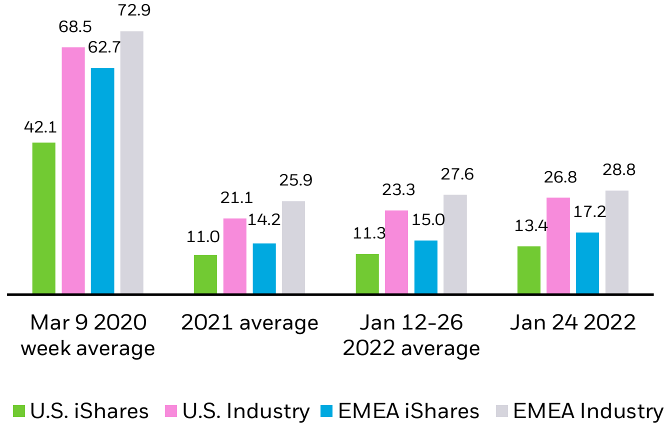
Liquidity remained strong

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

From January 12-26, U.S. and EMEA-listed ETPs maintained spreads that were slightly above historical averages—23.3 and 27.6 basis points (bps), respectively, compared to 21.1 and 25.9 bps in 2021—but below spreads in other volatile periods, such as the week of March 9, 2020.

Spreads in U.S. and EMEA-listed iShares ETPs were even tighter, averaging 11.3 and 15 bps over the same period, respectively. This is slightly higher than the average spread for U.S. and EMEA iShares ETPs in 2021 (11.0 and 14.2 bps) (**Figure 3**).

Figure 3: U.S. and EMEA ETP bid-ask spreads (bps)[9]



ETPs have been "shock absorbers"

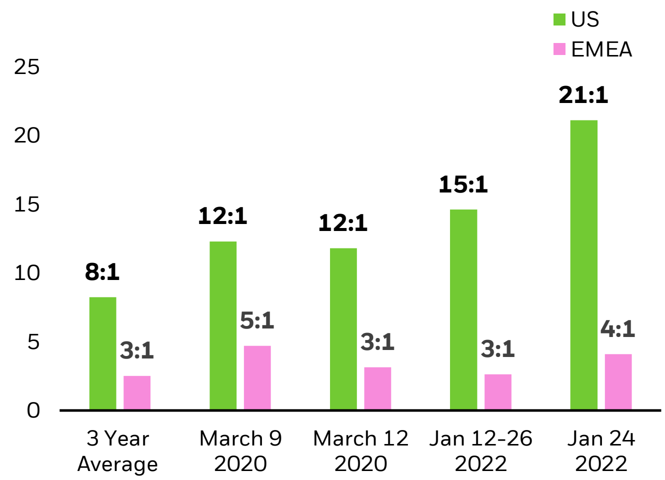
Secondary market trading of ETPs is typically a multiple of primary market, or creation and redemption, activity. For the three-year period ending December 31, 2021, the secondary-to-primary (STP) ratio for U.S.- and EMEA-listed ETPs was to 8:1 and 3:1, respectively.

Over the two week period of January 12-26, the STP ratio for U.S. and EMEA-listed ETPs was nearly 15:1 and 3:1, respectively. On January 24, it reached 21:1for U.S.-listed ETPs and 4:1 for EMEA-listed ETPs.

For comparison, the STP ratios on March 9, 2020—a notable period of increased market volatility—were 12:1 in the U.S. and 5:1 in EMEA (**Figure 4**).

This provides further evidence that even in times of stress, the majority of ETP trading doesn't result in the trading of underlying securities as buyers and sellers transact on exchange at real-time prices.

Figure 4: U.S. and EMEA ETP secondary to primary ratios[11]



The bottom line

January 12-26 was a period of milestone trading days, with U.S. and EMEA equities, U.S. and EMEA-listed ETPs and U.S. and EMEA iShares ETPs all experiencing elevated daily volumes. Even with heightened market volatility and increased trading activity, ETPs traded with generally tight bid-ask spreads and high liquidity.

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

9 A basis point is one one-hundredth of a percent. Source: NYSE, BlackRock, as of 1/26/2022. Average excludes outliers (spreads greater than 300 bps). **10** Source: NYSE, BlackRock, as of 1/26/2022. **11** Source: NYSE, BlackRock, as of 1/26/2022.

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