

LIBERTYSHARES

Fixed Income ETFs: Democratising Price Discovery for Investors

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Opportunities to invest nimbly in fixed income securities have traditionally been limited for all but large, sophisticated investors. The emergence of fixed income exchange-traded funds (ETFs) has changed that and brought some much-longed-for democracy to the fixed income arena, explains Jason Xavier, head of EMEA ETF Capital Markets at Franklin Templeton Investments.

Democratisation of financial markets is one of the characteristics with which exchange-traded funds (ETFs) are often credited.

ETFs offer, to a wider range of investors, opportunities to trade in ways that were previously the preserve of professionals or institutions. The latest arena in which that democratisation has come to the fore is fixed income.

Bond Markets Have Been Traditionally Opaque

Bond markets have historically been relatively opaque for some investors. Fixed income has tended to be bought and sold over the counter (OTC). In other words, buyer and seller agree on a price bi-laterally.

Less than half of the sovereign and corporate bonds outstanding in the eurozone trade on the region's exchanges. The balance trade in the OTC markets.

An ETF wrapper not only opens up access to the asset class, but also democratises its price discovery.

Limited Access to Bond Wholesalers

Generally, only larger or institutional investors have had access to bond wholesalers. And unlike their larger or institutional counterparts, some investors may have less expertise in the basics of bond trading. They may also lack access to large dealer networks for quotes, in order to shop around for the best prices available.

Mutual funds have been a popular choice for many wealth managers, independent financial advisors or retail investors looking for exposure to fixed income assets.

A fixed income mutual fund, with daily net asset value (NAV) trading and valuation, will typically offer clients their desired exposure.

Opening Up Intra-Day Trading

While a mutual fund may be sufficient for many investors, others might be looking for alternatives offering access to intra-day pricing, trading and downstream monitoring, for example.

The evolution of ETFs, particularly in the fixed income arena, can deliver on some of those needs, offering even retail investors access to a market with the same price discovery/transparency as their institutional counterparts.

The Importance of Price Transparency

The fact that the ETF wrapper has taken a largely off-exchange, OTC-driven asset class and democratized its price discovery is important to point out. Price transparency underpins the efficiency and fairness of all financial markets.

Transparent markets promote more efficient and cost-effective trading and, in turn, higher levels of investor confidence and participation.

Read Jason Xavier's previous ETF capital markets articles [here](#).

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