



RRIEGER **B**REPORT[®]

Dystopia: Bond ETF Share Prices Dislocate from NAVs

March 19th, 2020

JR Rieger

JR@RiegerReport.com | (516) 524-1110 | straighttalkaboutbonds.com



Dystopia: Bond ETF Share Prices Dislocate from their NAVs

There is a significant and troubling after effect of the disorderly Coronavirus driven markets: several bond ETFs share prices have dislocated significantly from their Net Asset Values (NAV).

Some examples of some ETFs where share prices are significantly lower than their NAV: (Approximate and stated as a % difference)¹

- PIMCO Active Bond (BOND): 2.5% lower
- iShares National Muni Bond (MUB): 7% lower
- iShares iBoxx \$ Investment Grade Corporate Bond (LQD): 4.4% lower
- Invesco Senior Loan (BKLN): 14% lower
- VanEck Vector's High-Yield Municipal (HYD): 23% lower
- SPDR Nuveen Bloomberg Barclays High Yield Municipal (HYMB): 18% lower

Sources: [Yahoo Finance](#). Past performance is not a guarantee of future results. Data as 3/18/2019. Use of the term "Bond" in this report represents bonds, securities and instruments traded in the credit markets. ¹Snapshot in time, fast moving markets can dramatically change these results.

March 19, 2020



Bond ETF Share Prices Dislocate from their NAVs But why?

There is an exasperated and varying degree of secondary market liquidity for individual bonds. The current fast & furious bond markets have changed how investors, dealers and ETF market makers behave in regard to risk taking.

Price discovery is impacted:

- These bonds are not traded on a single exchange instead they trade over-the-counter (OTC).
- Not every bond trades every day, nor does every bond trade near the close of business each day when NAV's are calculated.
- Transaction size can also impact the trade price used in a transaction. In general, smaller blocks of bonds trade at different prices than larger blocks of bonds.
- The sheer number of individual bonds, varying terms and conditions, term structure, quality, sector of issuance all contribute to the pricing challenges.

March 19, 2020

Dystopia: Bond ETF Share Prices Dislocate from their NAVs

Liquidity in orderly markets: (in general)

- USD corporate bonds have deeper secondary market liquidity than other credit markets segments such as municipal bonds and senior loans.
- Junk corporate bonds have deeper secondary market liquidity than senior loans and high yield municipal bonds.
- Of these examples, high yield municipal bonds have the least depth in secondary market liquidity.

In *disorderly* markets, liquidity can dry up in a heartbeat.

Conclusion: *In my view, the more accurate reflection of market conditions is reflected by the ETF share price and not the NAV of the ETF.* As always, do your homework, understand what the ETF is holding and if the risk of the ETF is offset by its apparent depressed price.

March 19, 2020



Analyst Disclosure

- At the time of this writing, JR Rieger owns individual municipal bonds and a bond fund.

March 19, 2020



Copyright © 2020 Rieger Report® LLC. All rights reserved. Redistribution in whole or in part is prohibited without written permission of the Rieger Report® LLC. All information provided by the Rieger Report® LLC is for informational purposes only, impersonal, and not tailored to the needs of any person, entity or group of persons. It should not be considered financial advice. The Rieger Report® LLC receives compensation in connection with licensing its research, advertising on its website, speaking and consulting services.

Past performance of any investment product or index referenced in the Rieger Report® is not an indication of or guarantee of future results.

The Rieger Report® LLC is not an investment advisor, and the Rieger Report® LLC makes no representation regarding the advisability of investing in any such investment fund or other investment vehicle. A decision to invest in any such investment fund or other investment vehicle should not be made in reliance on any statements set forth in this document. Prospective investors are advised to make an investment in any such fund or other vehicle only after carefully considering the risks associated with investing in such funds, as detailed in an offering memorandum or similar document that is prepared by or on behalf of the issuer of the investment fund or other investment product or vehicle. A financial advisor should be contacted to determine what may be best for your individual needs. The Rieger Report® LLC is not a financial or tax advisor. A tax advisor should be consulted to evaluate the impact of any tax-exempt securities on portfolios and the tax consequences of making any particular investment decision. No legal relationship is created between you and Rieger Report® LLC.

The Rieger Report® LLC does not act as a fiduciary or investment advisor. While the Rieger Report® LLC has obtained information from sources it believes to be reliable, the Rieger Report® LLC does not perform any audit or undertake verification of any information it receives.

The Rieger Report® Rankings are opinions of relative ranking among the peer group analyzed as of the date expressed and not statements of facts. Rieger Report® model portfolios are intended for illustration only. Any opinion or analysis decisions are not to be construed as recommendations to purchase, hold or sell any securities or to make any investment decisions, and do not address the suitability of any security. The Rieger Report® LLC does not assume any obligation to update the content in this publication in any form or format.

Your use of any information from this document or presentation is at your own risk and without recourse against Rieger Report® LLC, its members, managers, or employees. To the maximum extent permitted by law, Rieger Report® LLC disclaims any and all liability in the event any information, commentary, analysis, and/or opinions prove to be inaccurate, incomplete or unreliable, or result in any investment or other losses.

March 19, 2020