Drivers of aggregate US equity and bond ETF flows

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WORK IN PROGRESS

Abstract

This paper investigates the drivers of aggregate daily flows into and from US equity and bond exchange-traded funds (ETFs) from 2003 till 2019. We start by documenting strong calendar patterns in equity flows, that we argue are induced by the use of ETFs in tactical asset allocation strategies such as cash equitization or tax-loss harvesting. Such calendar patterns cannot be depicted in bond ETFs. Further we explore the relation between flows, underlying returns and financial predictive variables in a Markov regime-switching framework. The empirical model results reveal that equity ETF flows are primarily driven by their past returns - supporting the feedback-trader hypothesis - while bond ETF flows react to both their past returns and financial predictive variables - supporting the information response hypothesis. Moreover, the co-moving behavior of both bond and equity ETF markets are examined revealing coherence especially in the more recent time period.

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