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## Summary

The Swedish fund market, measured in total managed assets, has grown steadily since the financial crisis in 2008. Today, many funds with different investment profiles are available to investors. After the outbreak of the coronavirus pandemic during the spring of 2020, net outflows increased, especially from corporate bond funds, while the liquidity on the corporate bond market deteriorated dramatically. Several fund managers then chose to suspend redemptions and purchases of fund shares of corporate bond funds since it was not possible to obtain a reliable price for the underlying assets. This decision reduced the risk of a self-reinforcing downward price spiral for corporate bonds, but at the same time prevented some shareholders from getting immediate access to their money. To reduce the risk that a similar situation will occur again, fund managers need to limit the possibilities for withdrawals, use different liquidity tools, or have sufficient liquidity buffers in the form of securities with high liquidity.

FI has developed a stress test framework to identify vulnerabilities linked to large outflows in the Swedish fund sector. To measure funds' resilience to large outflows, we use two indicators: redemption coverage ratio (RCR) and liquidity shortfall (LS).

We find that funds that have assets that can be easily sold are able to withstand large redemption shocks. Most Swedish funds seem to be able to handle relatively large outflows in a good way. However, corporate bond funds, especially high-yield bond funds, can experience liquidity problems in stressed market conditions. Among the high-yield bond fund category, there are funds that might experience liquidity problems even when facing less severe shocks. Despite the problems that arose during the pandemic, we find that high-yield bond funds are to some extent more vulnerable today than before the outbreak in March 2020.

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