

DOES LIQUIDITY MANAGEMENT INDUCE FRAGILITY IN TREASURY PRICES?

Evidence from Bond Mutual Funds (coauthored with Shiyang Huang, Wenxi Jiang, and Xiaoxi Liu)

Mutual funds investing in illiquid corporate bonds actively manage Treasury positions to buffer redemption shocks. This liquidity management practice can transmit non-fundamental fund flow shocks onto Treasuries, generating excess return volatility. Consistent with this hypothesis, we find that Treasury excess return volatility is positively associated with bond fund ownership, and this pattern is more pronounced among funds conducting intensive liquidity management. Causal evidence is provided by exploiting the SEC's 2017 Liquidity Risk Management Rule. Evidence also suggests that the COVID-19 Treasury market turmoil was attributed to intensified liquidity management, an unintended consequence of the 2017 Liquidity Risk Management Rule.

 **5 April 2024 (Friday)**

 **10:00am – 11:30am**

 **SEK206, 2/F, Simon & Eleanor Kwok Building**

 **English**

SPEAKER

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Xin Liu is an Associate Professor from School of Finance, Renmin University of China. His main research interests are empirical asset pricing, behavioral finance, and institutional investors. Xin obtained his Ph.D. from The University of Hong Kong in 2018 and worked at University of Bath as a Lecturer in Finance (equivalent to Assistant Professor) from 2018 to 2020. His works have been published on *Management Science*, *Review of Finance*, *Journal of Corporate Finance*, *Journal of Financial Markets*, *Journal of Empirical Finance*, etc.

