

WHAT YOU NEED TO KNOW

# The Real Measure of ETF Liquidity



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**An ETF's implied liquidity can serve as a benchmark for the trade size an investor reasonably can execute without causing price impact to the underlying securities — and, by extension, the ETF itself.**

Exchange-traded funds have been around for decades and are a popular vehicle choice. However, a common misconception about ETFs is that those with lower average daily trading volumes (ADV) are less liquid compared to those with higher volumes. ETF liquidity refers to how easily an ETF can be bought or sold in the market without significantly affecting its price. While this concept seems straightforward, how ETFs behave when traded is far more complex.

## Looking Beyond Trading Volume

Unlike a common stock with a fixed amount of available shares, an ETF's shares can be created in unlimited quantities. This flexibility is why an ETF's liquidity is not as closely linked to its ADV as a stock's would be. Instead, an ETF's liquidity is determined primarily by the tradability of its underlying basket of securities. In many cases, this structure allows an ETF to trade in amounts exponential to its ADV.

ETF liquidity providers, commonly called "market makers", can create and redeem shares directly with an ETF issuer — by interacting with the ETF's underlying basket of securities — to meet demand from investors. As a result, ETF price changes are based generally on the price and availability of the underlying portfolio rather than the ADV of the ETF itself.

Implied liquidity shows how much of an ETF can trade without causing liquidity issues in the ETF or its underlying holdings. Going beyond the ETF's ADV, implied liquidity can serve as a benchmark for the trade size an investor reasonably can execute without causing price impact to the underlying securities — and, by extension, the ETF itself.

## How Does Implied Liquidity Apply When Evaluating ETFs?

### Tradability

For both passive and active ETFs, implied liquidity can offer investors a more comprehensive evaluation of accessibility, surpassing the insights provided by relying solely on ADV.

### Newly Issued ETFs

Implied liquidity can help provide a more accurate assessment of the liquidity of an ETF with a short trading history compared to considering only ADV, which can sometimes give a false impression of low liquidity.

### Trade Size

A higher implied liquidity suggests that an ETF can be traded in larger quantities without substantially affecting the market price, making it a more liquid investment vehicle.

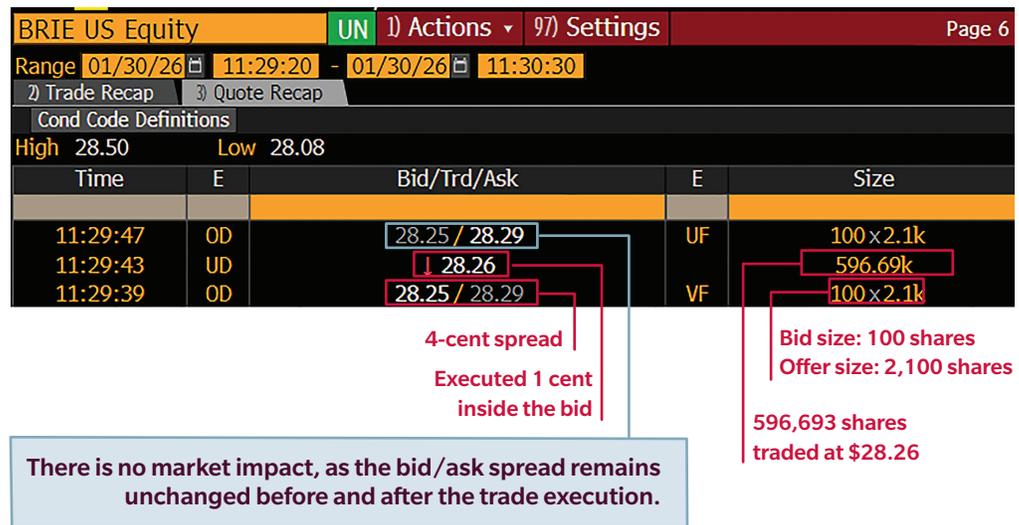
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## ETF Liquidity in Practice

### MFS Blended Research® International Equity ETF (BRIE) Trade

Here is a real-world, block trade example demonstrating that trade size, even when it is over 10x the 30-day ADV, does not impact the bid/ask spread.

- **30-day average daily trading volume:** 27,058
- **Spread:** 4 cents (\$28.25/\$28.29)
- **Trade:** ~\$17M
- **Execution:** 596,693 shares traded at \$28.26, executed 1 cent inside the bid.



Source: Bloomberg. As of 1/30/26.

For illustrative, and educational, purposes only. This example is used as a visual aid to help further explain an ETF's implied liquidity and is not to be relied upon as investment advice or as a recommendation.

## Instilling Client Confidence

ETF liquidity is a key consideration that can impact both performance and investor confidence. That's why, at MFS, we take a proactive approach to bringing liquid solutions to our clients. By partnering with industry-leading market makers and institutional liquidity providers, we seek to deliver products that actively support and reinforce both displayed liquidity and implied liquidity, with the goal of helping investors execute trades efficiently and with confidence, even in varying market conditions.

Check out more MFS insights on ETFs at [mfs.com/ActiveETFs](https://mfs.com/ActiveETFs)

**Exchange-Traded Funds (ETFs)** trade like stocks, are subject to investment risk, and will fluctuate in market value. Shares of ETFs are bought and sold at market price, not NAV, and are not individually redeemed from the fund. The market price at the time of sale may be higher or lower than the fund's NAV, and any applicable brokerage commissions will reduce returns. There can be no guarantee that an active market for the funds will develop or be maintained. **Actively managed ETFs** differ from traditional ETFs in that they do not seek to replicate or to track a specific index. As such, the ability of an actively managed ETF to achieve its objective will depend on the effectiveness of the fund's portfolio manager.

**Before investing, consider the fund's investment objectives, risks, charges and expenses. For a prospectus or summary prospectus containing this and other information, contact MFS or view online at [mfs.com](https://mfs.com). Please read it carefully.**

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