Vanguard®

Vanguard ETF quarterly report

December quarter 2020

In this edition:

- The Australian ETF market saw record inflows in Q4 2020, attracting $7.1 billion, pushing the total ETF market cash flow in 2020 to $20.2 billion.
- Vanguard attracted 30% of the total ETF cash flows in Q4 2020.
- Vanguard received $5.7 billion of inflows into its ETFs in 2020, which was a record for the organisation and the Australian ETF industry.
- The Vanguard Australian Shares ETF (VAS) received the most trading cash flow of any product listed on the market in 2020, with $2.3 billion.

Quarter in review

Market volatility was ever present during 2020, and the final quarter of the year was no exception. Conditions were driven by the controversial U.S. election in November, the looming Brexit deal deadline in December, escalating China trade tensions and the ongoing global spread of COVID-19.

Yet, despite these and other unsettling factors, investment returns over the December quarter as a whole were relatively strong. At the final 2020 trading bell, the U.S. share market closed at a record high, spurred by positive sentiment around economic stimulus measures and the impending rollout of COVID-19 vaccines.

The Australian share market, although still well off the record high it reached in February, closed off the final quarter more than 10% above where it started on 1 October. The bulk of that gain occurred during November, when the S&P/ASX 200 Index notched up its best monthly return since 1988.

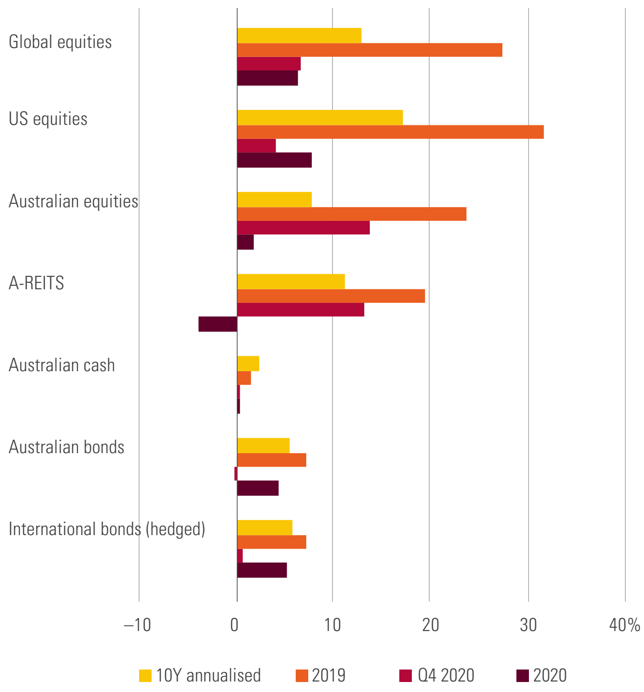
Disciplined investors were rewarded in 2020 by remaining invested in the stock market despite troubling headlines. The dramatic repricing of global equity risk during the initial shock of the pandemic was fairly uniform across global markets, with the steep drop in discount rates explaining some (but not all) of the year's rebound in equity prices.

At the year's close, U.S. equities delivered a return of 7.9% over the course of 2020, global equities 6.4%, and Australian equities 1.7%.

Meanwhile, interest rates and government bond yields that were low before the pandemic finished 2020 even lower.

In 2021, the global economic outlook and the likely behaviour of financial markets remain hinged to COVID-19, and more specifically to health outcomes and responses.

Figure 1. Global investment performance



Notes: All returns except Q4 2020 are annualised. Global equity represented by MSCI AC World in AUD, US equity represented by S&P 500 in AUD, Australian equity represented by S&P/ASX 300 Index, Australian property represented by S&P/ASX 300 A-REIT Index, Australian bonds by the Bloomberg Ausbond composite 0+ Yr Index, International bonds by Bloomberg Barclays GLobal Aggregate Index Hedged in AUD, and AUstralian cash by the Bloomberg Ausbond Bank Bill Index. Data through December 2020.

Source: Thomson Reuters Datastream and Bloomberg.

Australian ETF Update

Cash flow

The Australian ETF market recorded its strongest quarterly flows on record in Q4 2020 attracting $7.1 billion. The Q4 flows followed on record flows in Q3 ($4.9 billion) and pushed the total ETF market cash flows in 2020 to $20.2 billion.

$7.1B

Total ETF cash flows for Q4 2020

In Q4, investors favoured international equities (46 percent of total flows) over Australian equities (28 percent of total flows). Fixed income ETF flows picked up in Q4 following on from strong growth in Q3.

Vanguard attracted 30% of the total ETF cash flows in Q4 and finished 1st for cash flows in 2020 with $5.7 billion. The Vanguard Australian Shares ETF (VAS) attracted the most on-market cash flows of any product listed on the market in 2020 with $2.3 billion.

Assets under management (AUM)

The Australian ETF market AUM grew to $94.4 billion as at 31 December. Inflows of $2.1 billion in Q4 helped Vanguard's ETF AUM grow to $25.8 billion from $19.5 billion over the 12 months to 31 December 2020. Eight Vanguard ETFs have achieved an AUM of greater than a billion dollars and the Vanguard Australian Shares ETF (VAS) is the largest Australian listed index ETF in the market with $7.2 billion in AUM.

Performance

A total of 27 of 30 Vanguard ETFs delivered positive returns over the quarter. The best performing ETF of Q4 was the Vanguard's Australian Shares High Yield ETF (VHY) returning +18.11%, followed closely by Vanguard Global Value Active Equity ETF (VVLU) returning +17.01%.

Vanguard's best performing ETFs over the past 12 months were the Vanguard MSCI Australian Small Companies ETF (VSO +14.66%), Vanguard Asia ex Japan Equity ETF (VAE +13.55%), followed by Vanguard MSCI International Shares Hedged (VGAD +10.18%).

Vanguard's best performing fixed income ETF for Q4 and the year was the Vanguard International Credit Securities (AU Hedged) ETF returning +1.91% and +5.86% respectively. This was closely followed by the Vanguard Global Aggregate Bond Index ETF (AUD hedged) (VBND, +5.31%) and the Vanguard Ethically Conscious Global Aggregate Bond Index Fund (VEFI, +5.42%).

Industry cash flow by asset class

	Quarter		YTD	
Asset class	%m	%	$m	%
Australian Equity	2,001	28.3%	7,078	35.0%
Global Equity	3,264	46.1%	7,316	36.2%
Infrastructure	123	1.7%	423	2.1%
Australian Fixed Income	772	10.9%	1,657	8.2%
Global Fixed Income	391	5.5%	745	3.7%
Cash	76	1.1%	401	2.0%
Australian Property	146	2.1%	440	2.2%
Global Property	40	0.6%	121	0.6%
Commodity	84	1.2%	1,488	7.4%
Currency	–59	–0.8%	–80	–0.4%
Multi Asset	242	3.4%	627	3.1%
Total	7,081		20,216	

Source: ASX monthly report and Vanguard.

Industry cash flow by issuer

	Cash flow		AUM
Issuer	$m	%	$m
AMP/BetaShares	–14.1	–0.2%	0.0
Beta Shares	1,494.8	21.1%	14,367.3
ETFS	189.6	2.7%	3,390.6
Fidante	144.3	2.0%	424.2
Fidelity	47.6	0.7%	166.4
InvestSMART	54.4	0.8%	125.0
iShares	1,279.8	18.1%	19,147.5
K2	0.3	0.0%	10.5
Legg Mason/BetaShares	20.1	0.3%	254.9
Loftus Peak/EQT	143.3	2.0%	146.3
Magellan	364.4	5.1%	14,444.4
Montgomery	1.9	0.0%	122.6
Morningstar	7.6	0.1%	108.4
Perennial	3.8	0.1%	29.7
Antipodes/Pinnacle	0.8	0.0%	27.6
Munro / GSFM	18.5	0.3%	18.8
Russell	4.5	0.1%	935.9
Schroders	0.0	0.0%	40.9
State Street	384.0	5.4%	7,100.4
Switzer	39.0	0.6%	299.7
The Perth Mint	12.0	0.2%	579.6
Platinum	–3.8	–0.1%	512.1
VanEck	753.1	10.6%	6,359.7
Vanguard	2,134.6	30.1%	25,827.7
Total	7,081		94,440

Source: ASX monthly report and Vanguard.

Vanguard product summary

Asset Class	ASX Ticker	Last Price# $	MER %	Quarter Return %	1 Year Return %	3 Year Return % p.a.	Quarterly Cash Flow $m	FUM $
Australian Equity ETFs								
Broad Market	VAS	$84.56	0.10	13.79%	1.87%	6.83%	$648.6	$7,170.0
Property	VAP	$83.70	0.23	13.19%	–3.94%	5.72%	$51.7	$1,843.5
High Yield	VHY	$59.00	0.25	18.11%	1.34%	4.14%	$32.4	$1,582.5
Large Companies	VLC	$67.91	0.20	15.28%	1.31%	6.83%	$0.7	$119.7
Small Companies	VSO	$64.15	0.30	13.64%	14.66%	8.86%	$37.1	$464.5
Ethical Australian Equities	VETH	$53.61	0.16	n/a	n/a	n/a	$22.3	$23.6
International Equity ETFs								
Developed Markets	VGS	$84.12	0.18	5.71%	5.80%	11.26%	$215.3	$2,624.2
Developed (AUD hedged)	VGAD	$83.13	0.21	11.72%	10.60%	9.11%	$97.7	$1,374.2
All world Ex US	VEU	$76.35	0.08	8.54%	1.47%	5.72%	$74.4	$1,817.6
Total US Market	VTS	$252.07	0.03	6.52%	10.18%	15.01%	$57.3	$2,084.4
Developed Europe	VEQ	$56.81	0.35	7.22%	–4.56%	3.55%	$38.9	$233.7
Asia ex Japan	VAE	$77.14	0.40	10.32%	13.55%	8.09%	$46.2	$280.3
Emerging Markets	VGE	$73.09	0.48	8.10%	4.21%	5.50%	$42.2	$452.0
Global Infrastructure	VBLD	$52.56	0.47	–1.34%	–9.56%	n/a	$13.5	$108.0
International Small Companies	VISM	$56.49	0.32	15.02%	5.10%	n/a	$25.0	$73.9
Ethical International Equities	VESG	$61.34	0.18	5.26%	9.90%	n/a	$46.5	$200.1
Minimum Volatility - Active	VMIN	$55.88	0.28	5.13%	–2.91%	n/a	–$0.2	$12.6
Global Value - Active	VVLU	$44.72	0.28	17.01%	–11.37%	n/a	$17.9	$53.5
Multi Factor - Active	VGMF	$54.33	0.33	8.32%	–5.76%	n/a	$0.8	$19.5
Fixed Interest ETFs								
Australian Composite	VAF	$52.29	0.20	–0.13%	4.32%	5.24%	$116.8	$1,552.5
Australian Government	VGB	$53.44	0.20	–0.34%	4.39%	5.45%	$9.7	$581.3
Australian Corporate	VACF	$54.02	0.26	1.31%	4.85%	5.11%	$81.0	$471.8
International Treasury (AUD hedged)	VIF	$49.50	0.20	0.18%	4.82%	4.47%	$61.3	$609.1
International Credit (AUD hedged)	VCF	$49.99	0.30	1.91%	5.86%	4.99%	$14.4	$197.7
Global Aggregate (AUD hedged)	VBND	$53.51	0.20	0.85%	5.31%	4.67%	$130.0	$323.6
Ethical International Bonds (AUD hedged)	VEFI	$53.85	0.26	0.68%	5.42%	n/a	$17.3	$37.0
Diversified ETFs								
Conservative	VDCO	$56.09	0.27	3.55%	5.04%	5.83%	$23.1	$149.3
Balanced	VDBA	$56.79	0.27	5.67%	5.56%	6.96%	$46.8	$342.9
Growth	VDGR	$57.60	0.27	7.75%	5.60%	7.73%	$44.8	$349.7
High Growth	VDHG	$58.48	0.27	9.86%	5.50%	8.42%	$121.1	$675.1
Total							**$2,134.6**	**$25,828**

Returns assume that an investor purchased shares at Net Asset Value and does not reflect transaction costs imposed on the creation and redemption of ETF units, the brokerage or the bid ask spread that investors pay to buy and sell ETF securities on the Australian Securities Exchange. Total returns are after management costs.
Source: Bloomberg and Vanguard.

Vanguard's 2021 economic and investment outlook

It should come as no great surprise that the global economic outlook and the likely behaviour of financial markets remain hinged to COVID-19, and more specifically to health outcomes and responses.

Our base case is that major economies will achieve infection immunity (when the person-to-person spread of COVID-19 becomes unlikely) by the end of 2021. This would result in economic activity normalising by the second-half and output reaching pre-pandemic levels by the end of 2021. If infection immunity does not occur, economies may only see marginal progress from current levels.

Country-specific economic growth rates will be varied, with our base case forecast for Australia at 4.3%. This will trail the United States and the euro area, which are both forecasted to grow at 5.4% and 4.5% respectively in 2021. Their stronger growth rebound comes off the back of a weaker base in 2020 and the stronger impetus that a vaccine arrival might have on their recovery. In emerging markets, we expect a more uneven recovery, with China outperforming its peer group at a growth rate of 9%.

Over the next decade, Vanguard predicts the Australian market should slightly outperform globally given the more reasonable valuations in the local market. Specifically, equity valuations in Australia are considered to be in the middle of their fair value band while U.S. and China valuations are not overly stretched but at the higher end of their value bands given the recent stronger rebounds in those markets. As a result of the differences in valuations, Vanguard's Capital Markets Model projections for global equity returns are in the 5% to 7% over the next decade, a little lower than the 5.5% to 7.5% ranges for Australia over same period. Despite the marginally higher expectation for local equity, we caution against excessive concentration risk and home bias, and underscore the benefits of a globally diversified exposure in managing risk, particularly given our expectation for elevated risks in 2021 and beyond.

On the fixed income front, lower interest rates are expected to weigh on returns for the foreseeable future. While yield curves may steepen, short-term rates are unlikely to rise in any major developed market as monetary policy remains highly accommodative. Nonetheless, we continue to believe in the diversification properties of bonds, particularly high-quality bonds, even in a low or negative interest rate environment.

While the expected range of returns across asset classes is below returns seen over the last few decades, a modest steepening in the efficient frontier suggests an improvement in the equity risk premium or an increase in expected return for taking on marginal equity risk, with equity returns forecasted to be 3 to 5 percentage points higher than bond returns over the next decade. That said, we would still encourage investors to maintain a broadly diversified portfolio that is appropriately aligned to their goals and risk-tolerance, and to avoid over-reaching for yield or return at the cost of unintended risk exposure.

For more information

Personal investors can transact in Vanguard ETFs through their financial adviser or stockbroker.
Our telephone service is available from 8am to 5pm, Monday-Friday AET.

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