



**BetaShares**  
Exchange Traded Funds

# **BETASHARES GLOBAL ETF REVIEW**

**QUARTER 1 - 2019**

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# BETASHARES GLOBAL ETF REVIEW Q1 2019: FIXATED ON FIXED INCOME

## SUMMARY

The first quarter of 2019 saw investors continue to preference investing via the ETF structure compared to traditional mutual funds, which continued to sustain net outflows. Fixed income was most definitely the flavour of the quarter, as investors moved to a decidedly risk-off position in their portfolios.

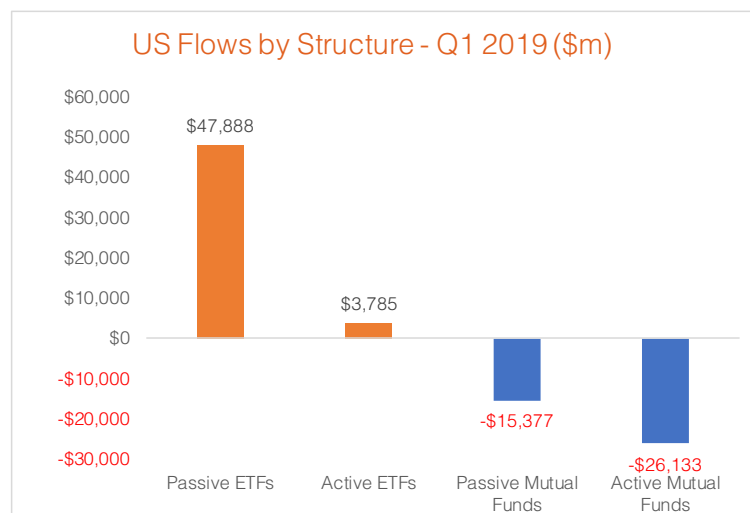
Within equities, North American exposures topped the charts, while, at a sector level, it was real estate that grew strongly as investors sought out high yield sectors to combat the lack of rate increases by the Fed. Financials and Technology ETFs were sold off, the first due to increased earnings pressure in the Banking industry and the latter due to profit taking as technology markets continued to rally

In this edition of the BetaShares Global ETF Review, along with our usual quarterly review of the global ETF industry, our Spotlight is the fast-growing Cannabis ETF sector, whose flows go from strength to strength, as it transforms into an increasingly legitimate industry.

*The BetaShares Global ETF Review is a quarterly publication which examines the key trends and developments in the global ETF industry. The Global ETF Review has been designed as an accompaniment to our monthly [Australian ETF Review](#) which focuses on our local ETF market. Given its maturity and scale, our focus in this report is primarily the U.S. ETF industry – which, being by far the largest ETF industry globally, provides interesting insight into trends in markets and investor behaviour. All figures in the report are in U.S. dollars, unless otherwise noted.*

## SECTION ONE: ACTIVE VS PASSIVE

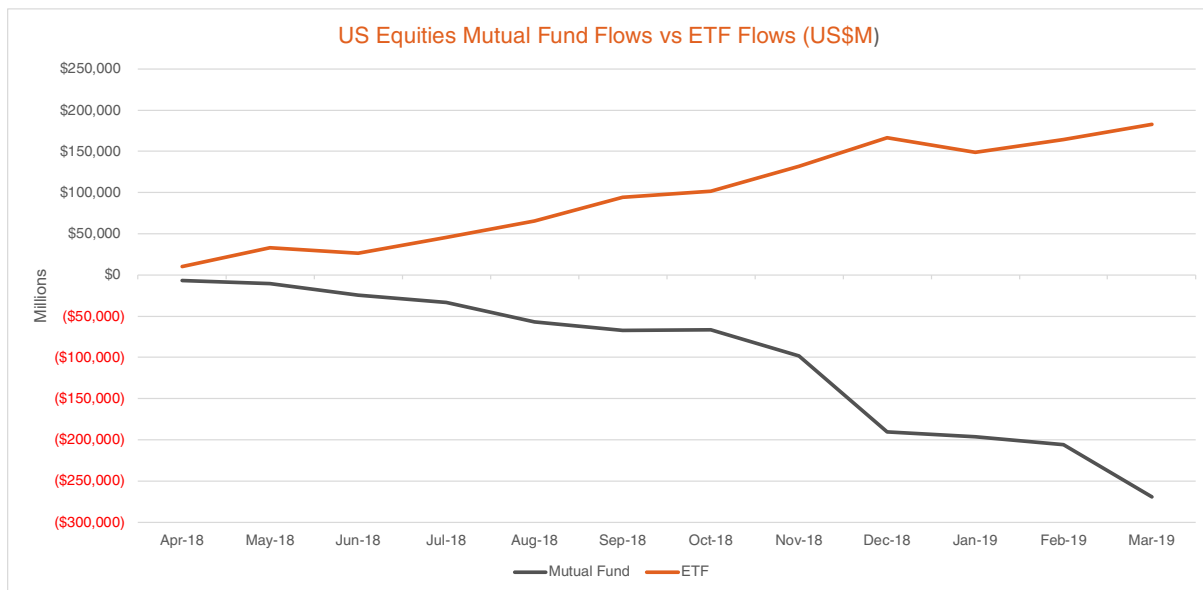
### 1. Flows into Active vs Passive Funds: Q1 2019



Source: Bloomberg

- In a departure from previous periods, this quarter did not as strikingly show a preference by investors in passive investments v. active investments but rather illustrated clearly the preference of **ETFs as the investment structure of choice** vs. traditional mutual funds
- Indeed, U.S. passive mutual funds received net **outflows** of some \$15B to take total equity mutual fund outflows in Q1 to \$41B
- In contrast, ETF flows (both active and passive) were positive at ~\$52B

## 2. Equity Mutual Fund flows vs ETF flows: 12 months to Q1 2019

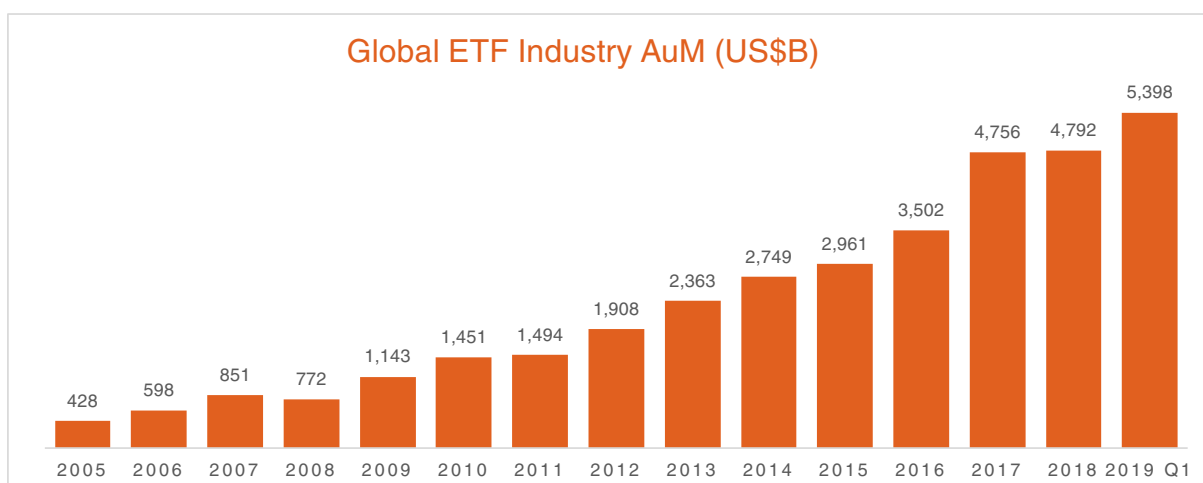


Source: Bloomberg

- Over the last 12 months, the relatively small outflows out of the ETF structure in December 2018 did little to change the picture as relates cumulative fund flows of mutual funds v. ETFs
- Over the last 12 months, **equity mutual fund outflows in the U.S. were \$269B**, which compared to positive **inflows of \$182B into equity ETFs**.
- As we discussed last quarter, our Australian industry is still far away from such a striking level of inflows v outflows but we feel it's only a matter of time before such a picture emerges in our local market.

## SECTION TWO: GLOBAL ETF INDUSTRY

### 3. Global ETF industry market size: 2005 – Q1 2019



Source: ETFGI. Includes all exchange traded products.

- The global ETF industry ended the first quarter of 2019 at a record high of \$5.4T, with growth for the quarter a very robust 12%.
- If such rapid growth rates continue, we would expect the global ETF industry to grow significantly faster than the ~20% average growth it has experienced in the last decade or so, leading to what could well be a bumper year for the industry.

### SECTION THREE: U.S. ETF FLOWS – WHAT’S TRENDING, WHAT’S FADING?

In this section of the Review we look at the flows in the U.S. ETF industry by category. Given the sheer size of the U.S. ETF market, analysis of these flows is useful to generate insight into investor sentiment and behaviours.

#### U.S. ETF flows by asset class: Q1 2019

Equity Fund Flows by Asset Class (\$USm)	2019-Q1	%	2018-Q4	%
Fixed Income	\$34,340	68.2%	\$27,342	26.8%
Equity	\$15,273	30.3%	\$72,364	70.8%
Other	\$748	1.5%	\$2,458	2.4%

Source: Bloomberg

- The first quarter of 2019 saw investors move heavily into fixed income at the expense of equities, reflecting significant risk off sentiment, notwithstanding strong equity market performance in many global sharemarkets
- The magnitude of flows into fixed income products was not just confirmed to the U.S., with the graph below showing that the European ETF market saw **all-time record flows into Fixed Income ETPs** last quarter (some €14B of net flows)

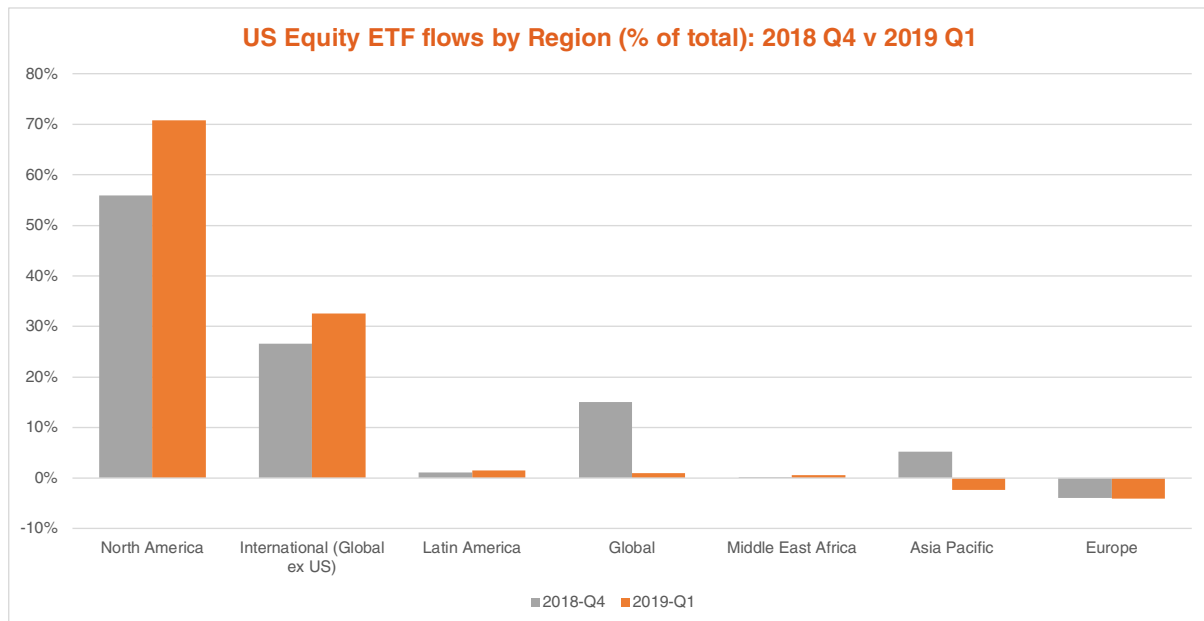


Source: Bloomberg

- In Australia, we have similarly seen strong flows into fixed income ETFs, with Australian Bond products being the individual product category with the highest flows in Q12019 in the Australian ETF industry.

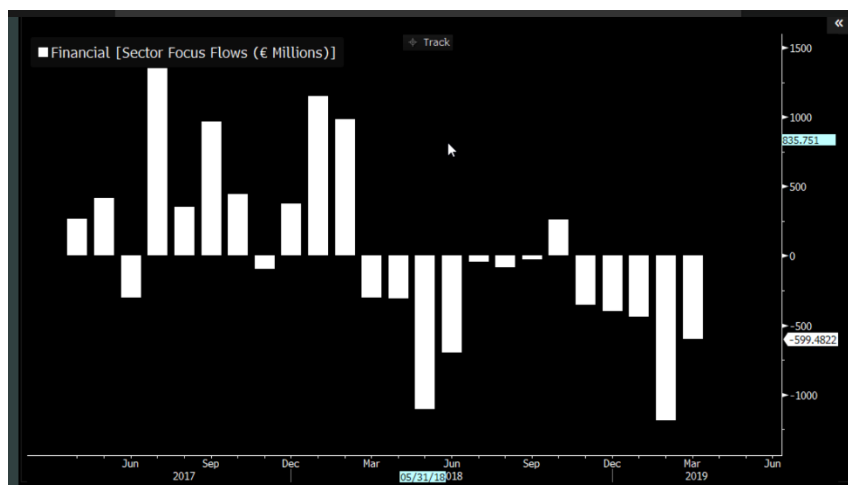
#### 4. Share of U.S. Equity ETF fund flows by:

##### a. Region – Quarterly



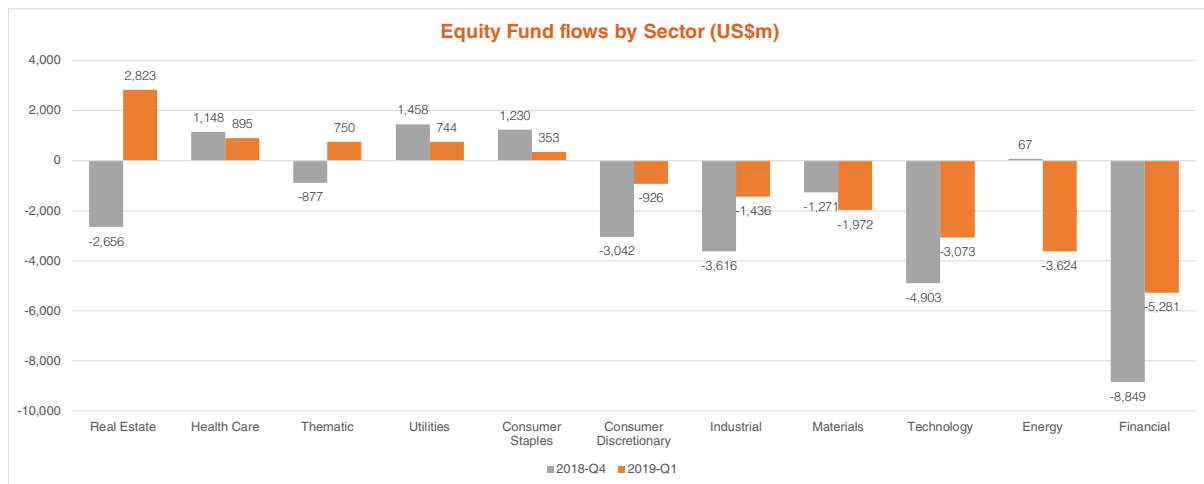
Source: Bloomberg

- While the last quarter of 2018 saw U.S. investors rather significantly reduce investment into their domestic market, the first quarter of 2019 saw this trend reverse with investors **increasing flows into North American exposures**.
- That said the appetite for ex-U.S. global exposure was also strong, while **Europe and Asia** were the two regions which had net outflows
- Europe in particular has been sold off heavily in the last 6 months reflecting continued concern in this region by investors.
- Drilling down a little further into European exposures, global investors have in particular been concerned about European financials. The below chart for example shows dramatic outflows from European Financials ETFs (listed in Europe) which had a particularly bad quarter, but has generally been sold-off over the last 12 months.



Source: Bloomberg

## b. Sector - Quarterly



Source: Bloomberg

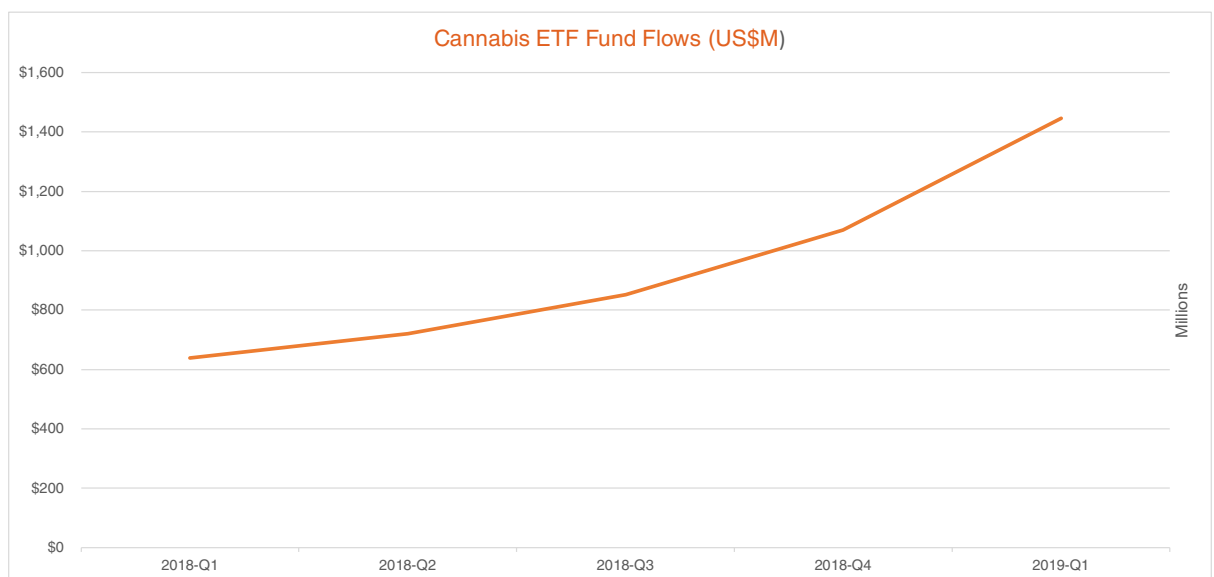
- As per the last quarter of 2018, the first quarter of 2019 showed cumulative sector ETF flows as negative, with investors allocating instead to fixed income ETFs in the main.
- That said, we saw a reversal of fortunes for the real estate sector, which had strong positive flows compared to net outflows the quarter before – this reflects a general increase in investor interest in **high yielding sectors** under the expectation that the Fed will hold off raising interest rates this year.
- By contrast, **U.S. financials sector ETFs** were once again **sold off**, and have now **recorded net outflows of ~\$14B in the last 6 months**. This has occurred alongside the Fed's tightening policy, which has caused the yield curve to flatten, pressuring bank's earnings.
- **Technology sector** products also continued to be sold off, even though the performance of these products have generally been very strong – with investors presumably taking profits under expectations that such strong performance cannot continue indefinitely.

## SECTION FOUR: SPOTLIGHT

In this quarter's spotlight, we focus on the remarkable growth in the rather small number of **Cannabis ETFs**, which have quite literally exploded in size since their relatively recent introduction.

### 5. Spotlight: Cannabis ETFs

- The first Cannabis ETF was introduced in Canada in the middle of 2017, with the first U.S. listed product commencing trading in February 2018.
- There are still relatively few products available in North America, with 3 products currently in the U.S. and 2 available in Canada as at March 2019, with several more expected to be launched shortly and a number having already filed prospectuses.
- Since the beginning of 2018, the cumulative flows into the handful of these Cannabis products has reached **>U.S.\$1.5B** and the interest from investors shows no sign of slowing as the industry becomes increasingly legitimised by regulatory approvals around the world – definitely one to watch!



Source: Bloomberg



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