



TRENDS DATABASE

# **State of the ETF Business (and more!)**

**March 2022**

**Dave Nadig (@DaveNadig)**



# **State of the ETF Business (and more) 2022**

# Feb Flows Signal

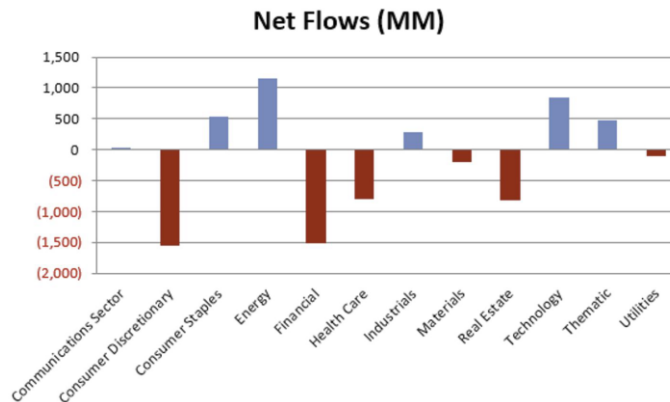
Despite the shorter month, **U.S.-listed ETFs took in nearly 2x January's inflows**, ending February with \$70B of new cash.

Overwhelmingly, **flows went to U.S. equities ETFs**, which added \$41B despite inflation, rate uncertainty, and geopolitical upheaval — the last of which will likely show up more in March's flows. Vanguard, which dominated 2021 inflows, continues its reign. **One out of every four dollars entering an ETF went toward VOO**, which alone took in \$16.3B — nearly twice the flows of rival IVV.

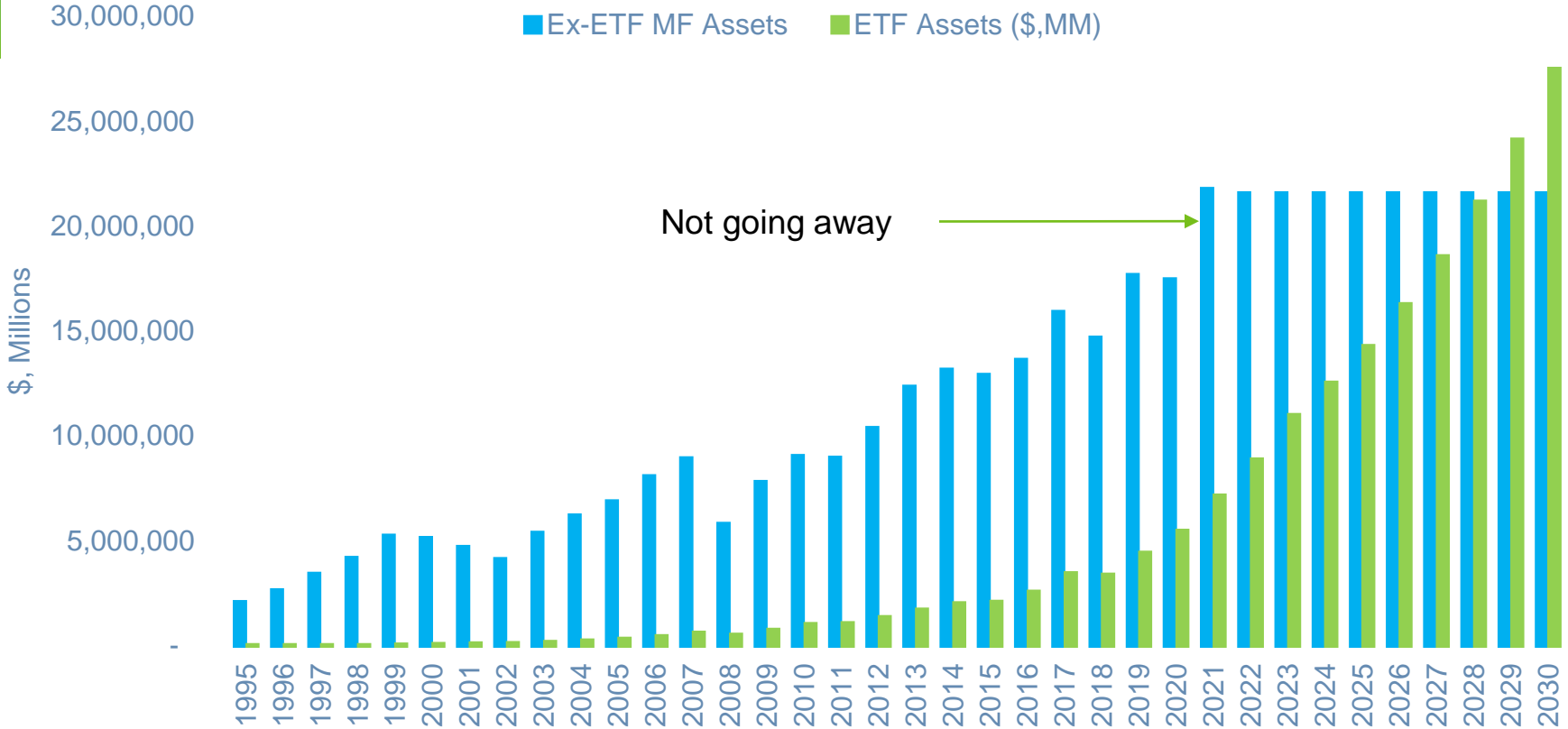
Meanwhile, SPY saw the month's biggest outflows, at \$2.2B.

Ascendant sectors included energy, tech, and consumer staples.

Asset Class	February 2022 Net Flows (\$,M)	YTD 2022 Net Flows (\$,M)	AUM (\$,M)
<b>Equity</b>	51,735.88	84,607.45	5,368,217.93
U.S. Equity	40,918.25	49,452.55	4,098,388.98
International Equity	10,817.63	35,154.90	1,269,828.95
<b>Fixed Income</b>	9,250.04	2,529.98	1,229,360.75
U.S. Fixed Income	5,871.43	-2,764.87	1,070,168.86
International Fixed Income	3,378.61	5,294.86	159,191.89
Commodities	2,037.18	6,546.78	152,973.34
Currency	231.70	156.76	3,144.40
Leveraged	2,368.60	6,957.97	64,230.24
Inverse	1,259.40	2,709.57	14,724.87
Alternatives	83.47	191.86	7,208.03
Asset Allocation	17.15	266.15	19,633.66
<b>Total:</b>	<b>66,983.42</b>	<b>103,966.51</b>	<b>6,859,493.24</b>



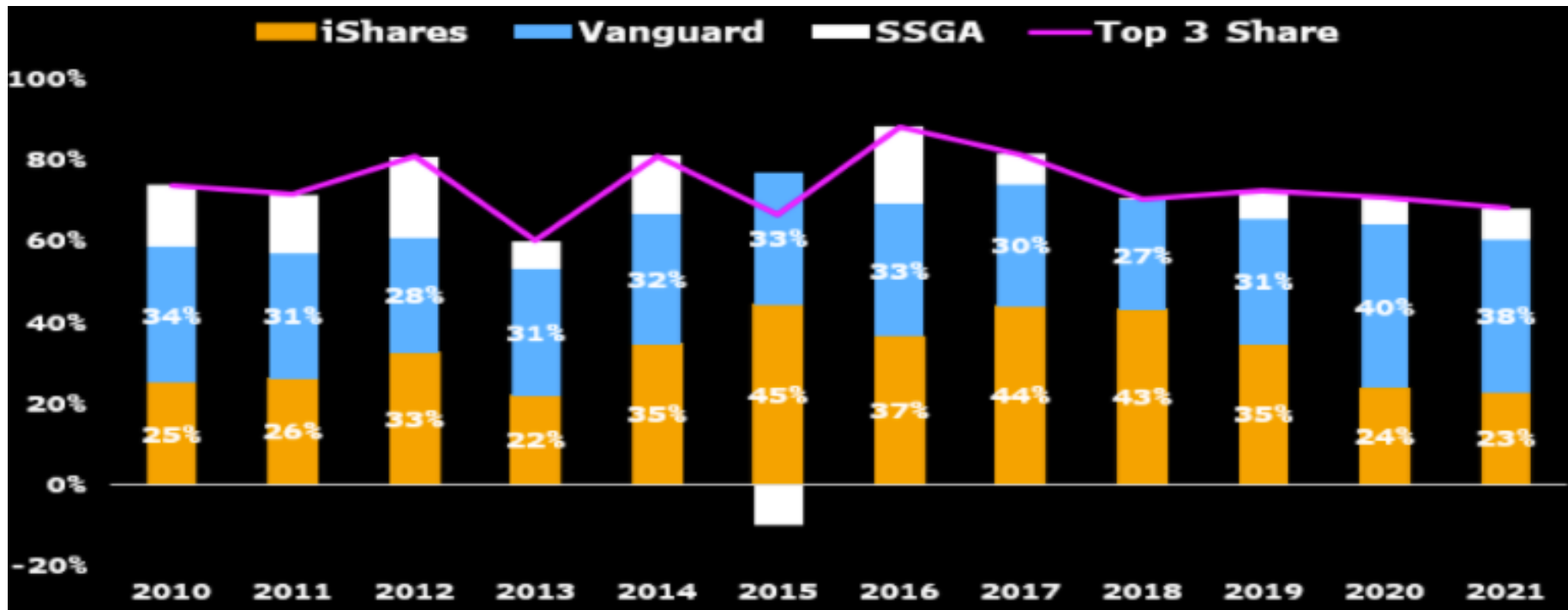
# ETFs Set to Pass Mutual Funds ~ 2028



Source: ETF Trends, Bloomberg, ICI, Factset. 2022 and further are estimates

# Vanguard Dominant

Issuer % Flows



# The ETF Landscape

2,888 Funds

482 Launches (4.57 Open/Close Ratio)

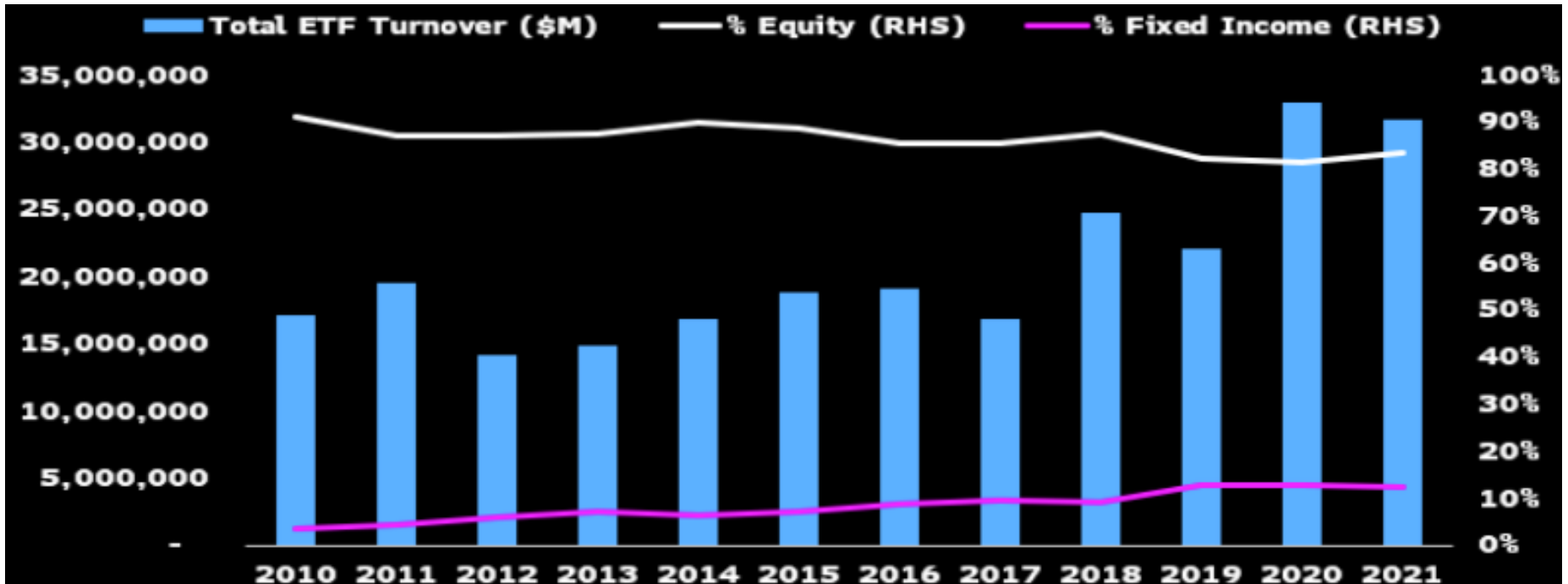
>\$7 Trillion in Assets

44% Revenue from “Smart”

11% Revenue from “Active”



# Money in motion



# The 2 Big Reg Issues of the Now



**Consider the Children!**

Regulatory Notice 22-08

FINRA Reminds Members of Their Sales Practice Obligations for Complex Products and Options and Solicits Comment on Effective Practices and Rule Enhancements

Comment Period: May 9, 2022



**Who's paying  
who what now?**

**Pensions&Investments**

**Revenue sharing declines among DC plan sponsors**

By ROBERT STEYER ✉



# The Bad One

Regulatory Notice 22-08

FINRA Reminds Members of Their Sales Practice Obligations for Complex Products and Options and Solicits Comment on Effective Practices and Rule Enhancements

Comment Period: May 9, 2022

## “Ah, the ol’ ‘rulemaking in comment-clothing’ ruse!”

### “Classification”

“a product with features that may make it difficult for a retail investor to understand the essential characteristics of the product and its risks (including the payout structure and how the product may perform in different market and economic conditions).”

Examples:

- All geared funds
- All funds using options
- All funds mixing asset classes
- All funds with timing characteristics

### “Gating”

Proposed ideas include:

- Account level approval (ala Options)
- Periodic or per-trade attestations
- Knowledge testing with remedial education





# What Advisors Are Thinking

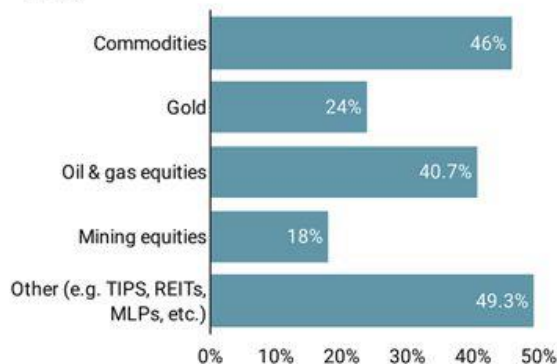
# Key Advisor Themes for 2022

- Inflation & Labor
- Income & Risk Management
- ESG
- Active & Smart Beta
- International and Global Macro

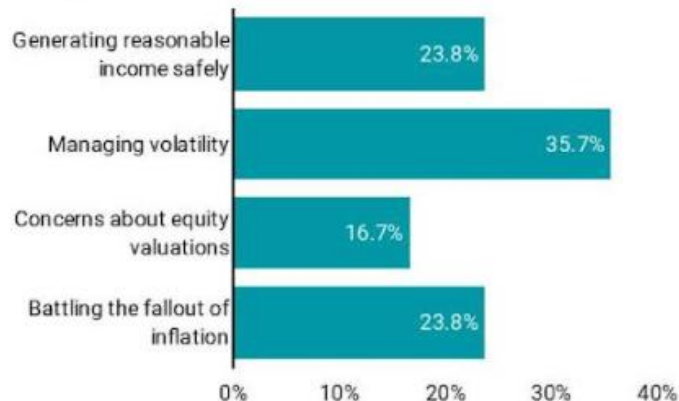
# Advisor Data Insights: Q122

Although the balance has undoubtedly shifted of late due to current events, **for most of Q1, advisors' chief concern was inflation.** (Unsurprisingly, in March volatility has become top of mind.

**What, if anything, have you added to your clients' portfolios to help combat inflation? (Select all that apply.)**



**My biggest challenge in managing client portfolios today is...**

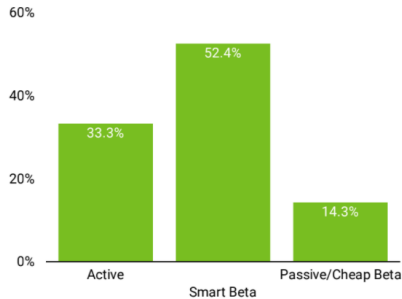


Commodities-related topics dominated traffic, while **advisors reported making a variety of new commodities allocations**, including broad commodities funds, oil & gas equities, gold, mining equities, and MLPs.

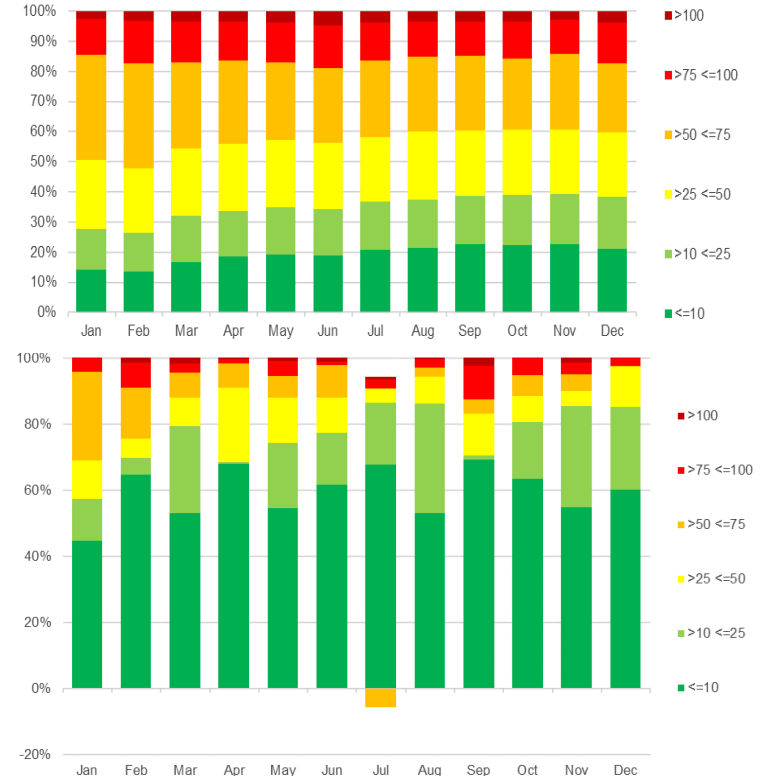
# Advisor Insights: Cost & Strategy

- The “Anything But Beta” trend peaked in early 2021. Throughout the rest of the year, both research and flows migrated back towards sub-25bps products, with flows collapsing for more expensive products by mid-summer.
- Despite this, advisors expressed a desire to allocate into smart beta and active strategies in the future.

What type of products are you looking to add to?



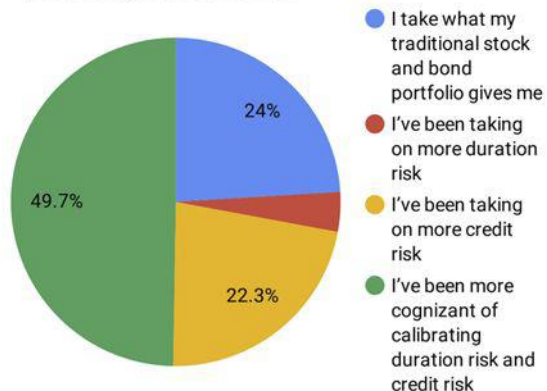
Research by Expense Ratio 2021



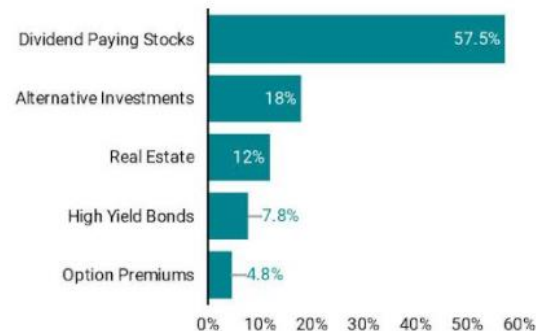
# Advisor Data Insights: Income & Rates

**Sourcing income for clients remains a challenge.** In order to find it, advisors consistently report needing to take on more portfolio risk (credit, duration, or some balance of the two). Approaches differ from advisor to advisor, but most advisors aren't just taking what a traditional stock/bond portfolio hands them and calling it a day.

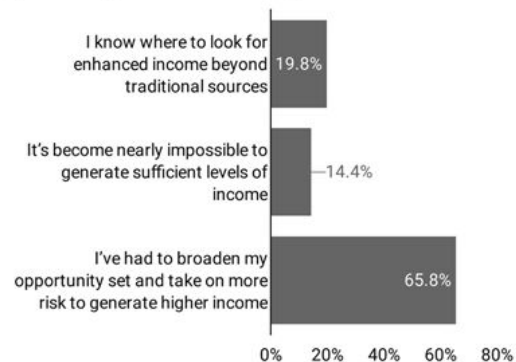
**How have you been getting exposure to income producing asset classes?**



**Amid mounting concerns around rising rates, where are you seeking income for your client's portfolios?**



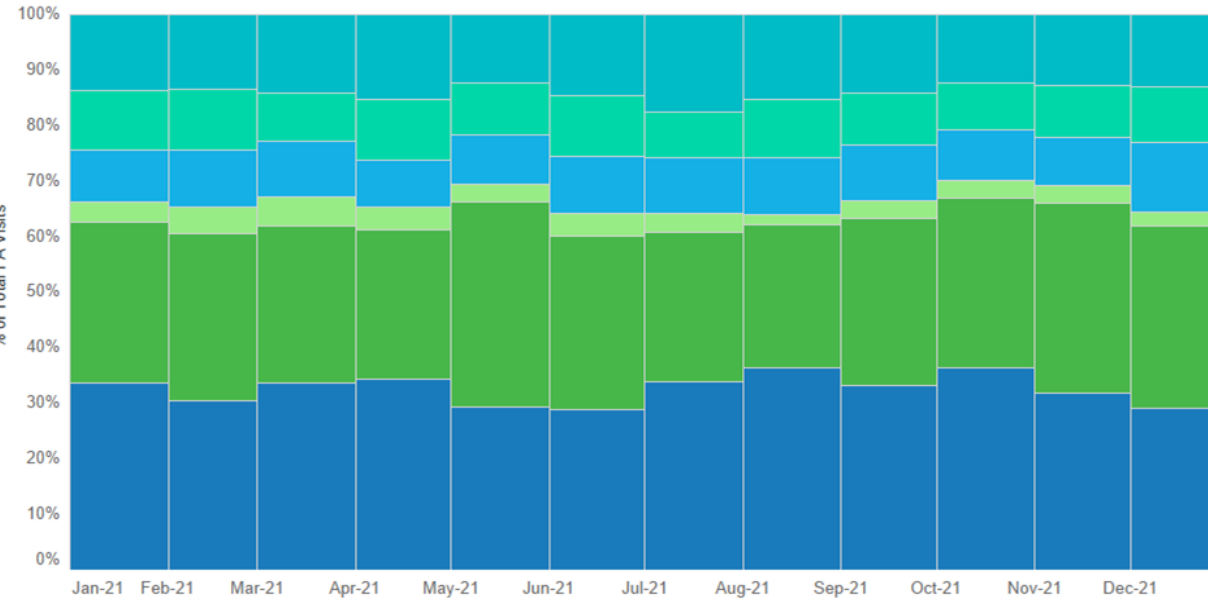
**How would you describe your search for generating income in a rising rate environment?**



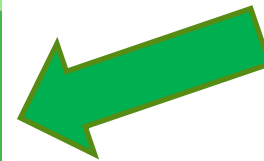
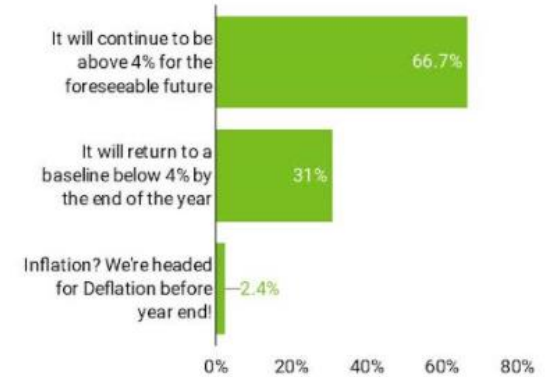
*Polling conducted Feb 22*

# Inflation!

■ Investment Grade Corporate Bond    ■ Treasuries  
■ Municipal Bonds    ■ Floating Rate Bonds    ■ High Yield Bonds



## My current view on inflation is...

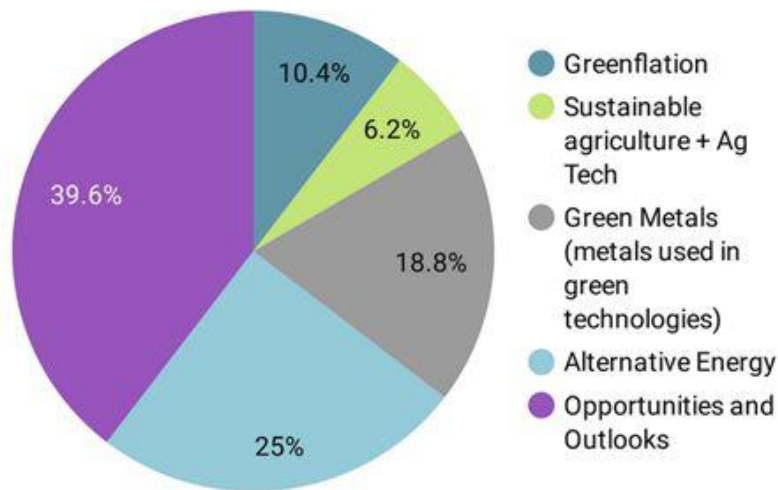


**\$40B into TIPS!**

# Advisor Data Insights: ESG

“ESG” as a buzzword is slowly fading in favor of “energy transition,” “net zero economy,” “carbon readiness,” and other environmental-specific keywords. Recent polling suggests that advisors’ understanding of the energy transition isn’t yet sophisticated enough to appreciate a theme-by-theme breakdown, however. Right now, they want more of a high-level overview and outlook.

**What area of the Energy Transition are you most interested in learning more about:**





# ESG: Struggling with Classifications

**ESG**  
(Environmental,  
Social, Governance)

**Portfolio Rubric**

Data Driven

**Example**

ESG

**SRI**  
(Socially Responsible  
Investing)

Values Overlay

LGBT

**Impact**

Future Action

EQUL

# So What Are You Futuring, Futurist?

## Big Topics:

Fixed Income

ESG

Portfolio Construction, Automation and Models

DeFI & Tokenization

The Ethics & Impact of Passive

## Key Influences:

TDFs, QDIA and the Relentless Bid

Corporate Statehood

Externalized social structures & Regulatory capture

QE, MMT and Global Liquidity

The Ethics & Impact of Passive

The Ergodicity Assumption

Citizens United

Technological Tribalism and Theory of Mind

Flow Driven Markets, Derivatives and Convexity

“Nanny State” Investor Regulation

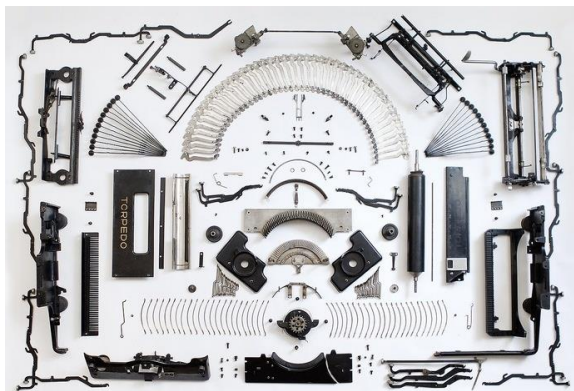
Right-braining of Finance

Financial Literacy

# Building a Crystal Ball

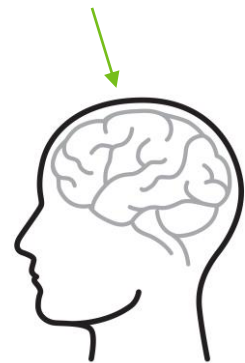


Understand The **Past**  
(This is a Buttonwood tree)



Take Apart the **Present**  
(This is a Knoll typewriter)

Grok the Zeitgeist  
(**People** Confound Everything)



# Building a Crystal Ball



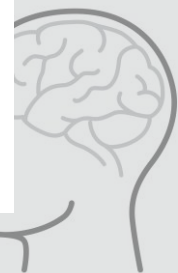
what are other  
words for  
maybe?



perchance, perhaps, mayhap,  
possibly, conceivably,  
peradventure, it could be,  
probably, feasible



geist  
(and Everything)



Take Apart  
(This is a K

 Thesaurus.plus

# TDFs and Market Structure

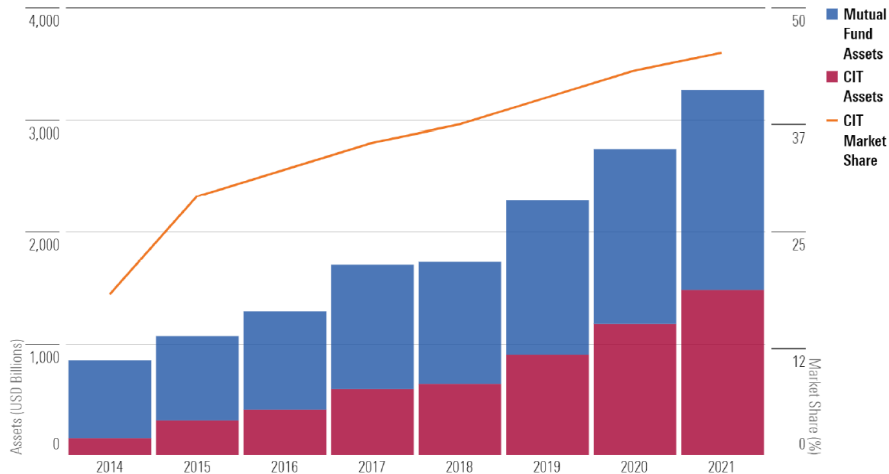
Problem	Solution
Baby Boomers can't retire. Social Security won't help without unacceptable politics!	Outsource retirement to corporations!
Pension liabilities can destroy balance sheets!	No more defined benefits for you! Here's your 401k!
We can't convince employees to participate, and those that do barbell!	Target Date Funds!

# TDFs and Market Structure



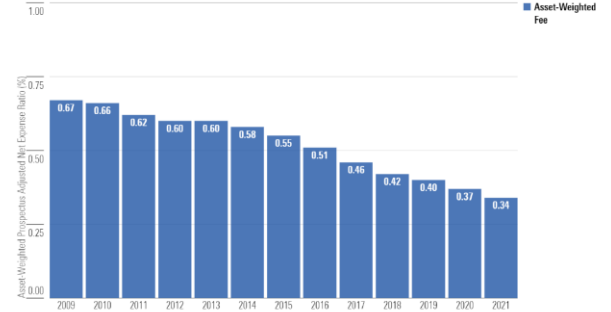
## 2022 Target-Date Strategy Landscape

Exhibit 1 Total Target-Date Assets



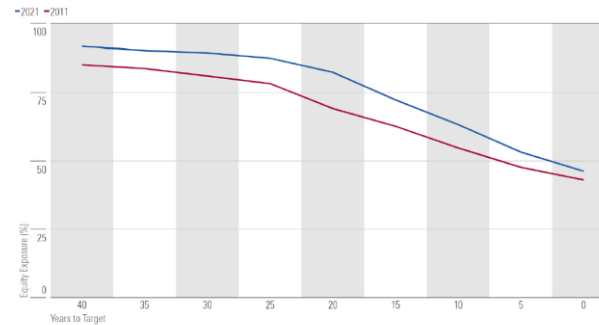
Source: Morningstar Direct, author's calculations, and surveyed data. Data as of Dec. 31, 2021.

Exhibit 16 Target-Date Funds' Year-End Asset-Weighted Expense Ratio, 2009-21



Source: Morningstar and author's calculations. Data as of Dec. 31, 2021.

Exhibit 25 Median Equity Glide Path



Source: Morningstar Direct and author's calculations. Data as of Dec. 31, 2021.

# TDFs and Market Structure

Jonathan A. Parker  
Antoinette Schoar  
Yang Sun

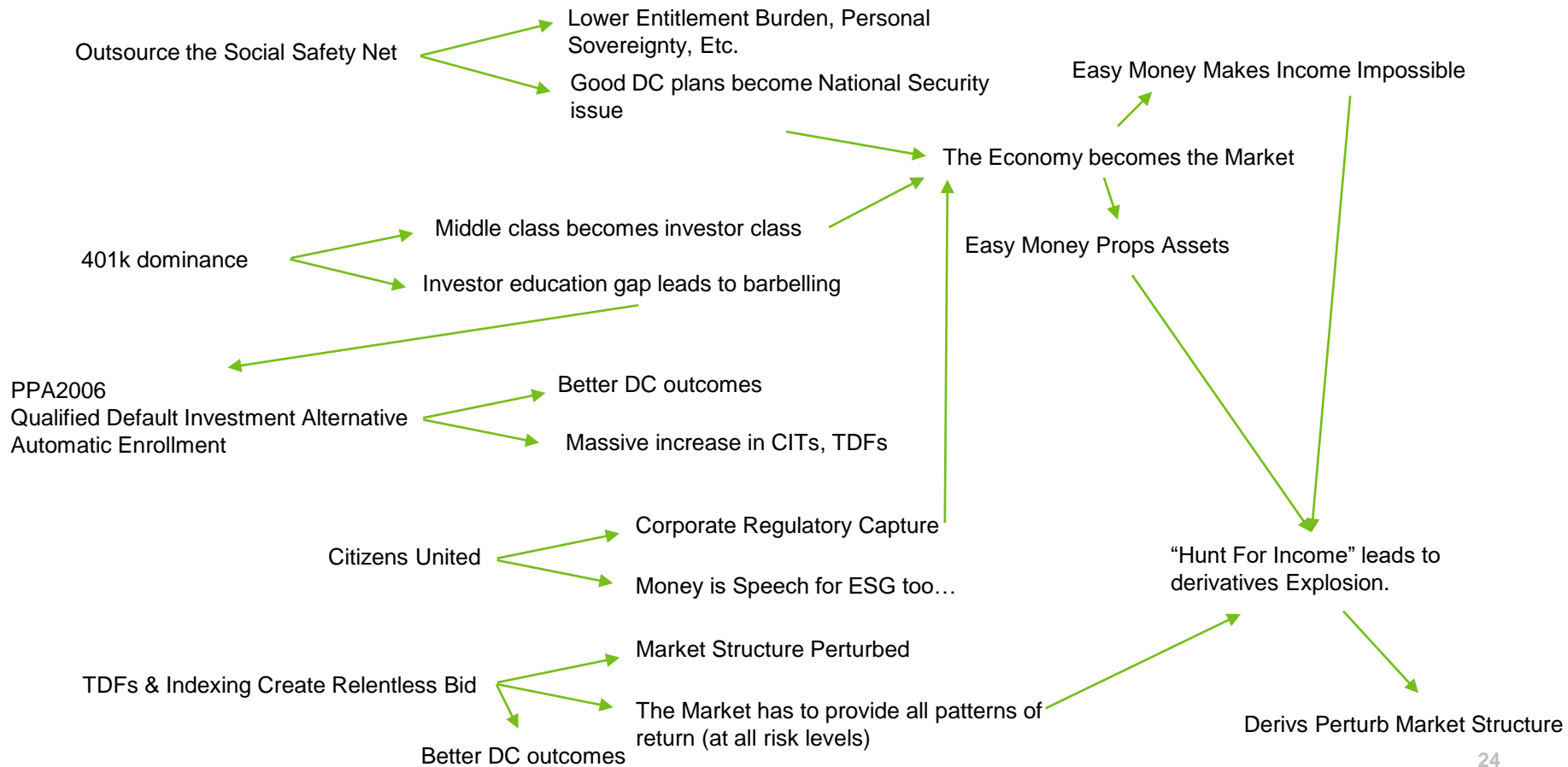
Working Paper 28028  
<http://www.nber.org/papers/w28028>

NATIONAL BUREAU OF ECONOMIC RESEARCH  
1050 Massachusetts Avenue  
Cambridge, MA 02138  
October 2020, Revised August 2021

**Market stability** By putting downward pressure on prices after market increases and upward pressure after market drops, TDBFs can dampen market fluctuations. However, any impact on volatility would require a substantial dollar amount of rebalancing trades in order to be statistically detectable. Suppose  $R_E - R_B = 10\%$  in a period, at the current holdings of 4% of the U.S. equity market, TDBFs trade -0.12% of the market ( $= -.7 * .3 * 10\% * 4\% / .7$ ), assuming the equity share of the aggregate TDBF is 70%. Even if we aggressively assume that all rebalancing is implemented within the same period and the aggregate “price multiplier” is 5 (Gabaix and Koijen (2020)),

TDBFs can reduce the excess equity return by 0.6%, or from 10% to 9.4%, which is statistically undetectable (given the sample size to date). However, if stocks held by rebalancing investors were to grow to 20% of the market, the return would be reduced by 30% (from 10% to 7%).

# Cause and Effect?





# The People Side

Moubison on Ant Trails: as perception of environment becomes less certain, exploration increases.

Ergodicity Economics: Starting conditions matter. An individual's path cannot be predicted meaningfully by averaging the cohort.

Anil Seth: We hallucinate reality. We process a tiny amount of incoming information. We process all information as a change in our prediction model, not our reality.

Iain McGilchrist: Wholes vs Parts (the left/right brain issues)

**Inside Silicon Valley's new non-religion: consciousness hacking**