



NEW PATHS TO GROWTH

2024 Global ETF Outlook

February 2024

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Introduction

At the start of every year, we anticipate what the most important trends shaping the future of the ETF industry might be. We then put pen to paper to record our predictions. This record is an important tool that helps us and our clients understand what we got right during the past year, where we might have missed the mark, and where, if necessary, we might look to recalibrate.

While there is no such thing as a crystal ball in our industry, the team has been taking this approach for years, and their prognostications have a generally strong track record. Indeed, much of what we expected in 2023 came to pass. Strong growth in ETFs continued with a focus on active ETFs. Interest in that space proved so strong, in fact, that active ETFs saw record flows in multiple jurisdictions (more on that later). But there were also surprises: For instance, the speed and volume of bitcoin ETF approvals after the Washington, DC Court of Appeals ruled the Securities and Exchange Commission had erred in denying Grayscale's proposed bitcoin ETF.

In these pages, we highlight key developments from 2023 and revisit our predictions from last year's report, [ETFs outlook for 2023: Continued innovation and growth](#). We then look ahead to the trends we expect will shape the market in 2024. Among other things, our analysis is informed by the annual Trackinsight Global ETF survey of more than 500 professional investors which State Street co-sponsors. The survey is designed to provide an understanding of how professional investors and fund selectors are leveraging ETFs and the results for 2024 are available in [a new report](#).

Three decades of innovation

Last year was an important year for ETFs as it marked the 30th anniversary of the first ever US-listed ETF, SPY, which State Street launched in 1993. As a leading manager of ETFs worldwide, and the largest ETF custodian servicing nearly half of ETF assets globally, State Street has been at the forefront of ETF innovation for the past 30 years.

To commemorate this anniversary, we produced a [video series entitled, ETFs at 30](#), that captured reflections from industry leaders about the past, present and future of ETFs. In conjunction with the series, we asked these luminaries, “what’s the next big thing in ETFs?” We showcase their responses at the end of this report, and we trust you will find their insights both interesting and informative.



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2023 in review

ETFs had a banner year in 2023, ending the year with US\$11.6 trillion in assets and recording the second largest flows on record, exceeding 2022 by close to 15 percent.¹ As was the key theme in 2022, active ETFs continued to punch above their weight, setting a new record with US\$183 billion in flows.

This exceeded the previous record by nearly 50 percent and made up 19 percent of all flows. In fact, 2023 active ETF flows set new records in Canada, Chile, Europe, South Korea and the US, while Japan and Singapore welcomed the first active ETFs to their markets.

Interestingly, much of the new flows to active ETFs are not coming solely at the expense of active mutual funds, but also from smart beta ETFs, which made up only 6 percent of 2023 flows. This makes sense considering many active managers launched their first ETF using a rule-based approach in leveraging investment factors (value, quality, momentum, size, low volatility, etc.). Many of these active managers have now launched “full active” as the regulatory environment improved and managers have grown more comfortable with the daily transparency requirement for certain strategies.

Regionally, Asia Pacific (excluding Japan) was the big winner in 2023, with record-setting total ETF flows of US\$169 billion, exceeding the 2022 record by over 35 percent. New highs for net inflows occurred in Australia, China, South Korea and Taiwan. Europe had its second largest inflows on record, while Canada and the US each had their third largest inflows in 2023.

So what did we get right in 2023? In our previous paper, we outlined a number of key predictions and today, with the benefit of hindsight, we find we were close to the mark.

¹ Please note that the industry statistics quoted here are from ETFGI Global ETF and ETP Insights as-of December, 2023:

Prediction 1: Active will see outsized growth



In the US, we will not see the launch of the first active ETF as a share class of a mutual fund – **We were right.** There have been four filings, but no approvals to date.



We expect that the active ETF market in Australia will recover from a slowdown – **We were right.** 2023 active flows were US\$6.3 billion, four times higher than 2022's total of US\$1.4 billion.



We anticipate the first active ETF to launch in Japan – **We were right.** There were eight active ETFs launched in 2023.



In Europe, we expect large players to enter the active ETF market – **We were right.** Abdn entered the European active ETF market in 2023.



Active ETFs will emerge with a growing percentage of flows in Europe – **We were right.** In 2022, active ETFs in Europe made up 3 percent of flows versus 1.5 percent of AUM. In 2023, active ETFs in Europe made up 5 percent of flows versus 1.8 percent of AUM.



We anticipate the continued expansion of active ETFs in South Korea – **We were right.** In 2022, there were 105 active ETFs with US\$10 billion in assets under management (AUM) and US\$6.1 billion in net flows. In 2023, the number increased significantly to 179 active ETFs with US\$30 billion in AUM and US\$19.7 billion in net flows.



The US will see the first collective investment trust (CIT) to ETF conversion – **We were wrong.** Although we've seen interest from clients, to date none have taken action.



We expect that the active ETF market in China will recover from a slowdown – **We were wrong.** In 2022, active flows were -US\$2.9 billion and were worse in 2023 at -US\$5.6 billion.



In the US, we predict around 50 mutual funds will convert to ETFs – **We were close.** There were 39 conversions in 2023, exceeding the amount from 2021 and 2022 combined.

Prediction 2: Fixed income will shine

✓ We expect allocations to fixed income ETFs to exceed 33 percent this year – **We were right.** In 2023, fixed income ETFs made up 34 percent of flows.

✓ Active fixed income ETFs should see outsized flows – **We were right.** Active ETF flows were up 125 percent from 2022 (US\$26 billion) to 2023 (US\$58 billion).

Prediction 3: Growth of ETFs in Europe will accelerate

✓ Substantial tailwinds will fuel growth in the European ETF market – **We were right.** European ETF flows were up 75 percent from US\$89 billion in 2022 to US\$156 billion in 2023.

✓ Europe will see a significant push for the consolidated tape (CT), however the regulatory review and approval will delay it getting over the line in 2023 – **We were right.** The European Parliament approved the Markets in Financial Instrument Regulation (MiFIR), leaving the European Securities and Markets Authority (ESMA) to define technical standards. The bond CT is slated for mid-2025, the equity CT for early 2026 and the derivative CT for late 2026.

Prediction 4: ESG will have pockets of growth

✓ In the US, ESG will struggle to regain its emerging foothold with investors – **We were right.** In the US, ESG ETF flows were -US\$4.9B in 2023.

✓ In the US, ESG launches will continue apace – **We were right.** There were 27 new US ESG ETF launches in 2023.

✓ In APAC, ESG launches will continue to expand – **We were right.** There were 39 new APAC ESG ETF launches in 2023.

✓ In APAC, ESG growth is expected to come from Australia, China and Taiwan – **We were right.** Of the 39 new APAC ESG ETF launches in 2023, 31 came from Australia, China and Taiwan. These regions also accounted for 90 percent of flows.

✗ In Europe, ESG ETFs will account for 60 percent of the flows – **We were wrong.** European ESG ETFs underperformed in 2022 accounting for only 32 percent of 2023 flows.



2024 global ETF forecast

We expect the global ETF market will continue to see significant growth (between 20-25 percent compound annual growth rate [CAGR]) this year and in the future.

We hold this view based on:

1

Continued innovation by manufacturers and investors

2

Younger investors' preference for ETFs versus mutual funds

3

Expanded availability of active ETFs across markets and issuers

4

A solid majority of investors indicating they will be increasing their portfolio allocation to ETFs during the next two-to-three years

In this section, we lay out our expectations for each major regional market.

We expect the US market to continue leading growth and innovation globally with:

- North America will see 15 ETF Sponsors eclipse US\$10 billion net inflows in 2024. An increase of 25 percent over 2023.
- The first spot bitcoin ETF launching in the US. However, we also see the first spot bitcoin ETF closure in the US.
- In North America, we expect to see four major global managers join the ETF marketplace.
- Active ETFs will continue to grow with help from active fixed income. We expect more than 30 percent of actively managed flows in the US will be fixed income.
- Active launches/conversions will have another record year with 70 percent of launches/conversions being actively managed. However, we still don't expect an active ETF share class in the US.
- Fund closures will remain consistent (225-275) due to rationalization of products and an increase in rolling defined outcome products.

We expect the APAC market will continue to be an emerging leader in expanded ETF use including:

- Further growth of the active ETF market in Australia, with the entry of 10 new issuers leveraging the dual registry/share class model.
- The China ETF market will close in on CNY2.9 trillion (US\$400 billion) AUM as policymakers from the central government and state investment fund use ETFs as a tool to stabilize equity markets.
- The South Korea active ETF market surpassing KRW65 trillion (US\$50 billion) as more issuers and products are introduced to the market.
- The Taiwan ETF market will continue to expand and account for 60 percent of its onshore mutual fund market share.
- The first spot cryptocurrency available for both institutional and retail investors will be launched in Australia and Hong Kong.

US\$10_B

**15 ETF sponsors to eclipse
\$10B in net inflows in 2024**

We expect the European market to pass an important milestone with:

- A minimum of four new entrants and existing global passive managers launching active ETF strategies, helping the European market grow over US\$2 trillion in assets in 2024.
- At least two new launches of digital asset exchange traded products (ETPs) in Europe. The approval of a Bitcoin ETF structure in the US by the SEC and positive performance in the value of Bitcoin will trigger existing ETF asset managers to enter the digital asset market in Europe. Changes will be required to UCITS regulations to allow for a UCITS ETF to hold digital assets which we don't see occurring in the near future. Therefore the growth in digital assets will remain in the special purpose vehicle (SPV) structure as opposed to in a UCITS fund structure.
- Potential further consolidation in Europe with traditional managers and existing ETF issuers looking to acquire existing independent ETF issuers.
- Growth of white label/centralized platforms to facilitate new issuers to enter into the market (GS Accelerator, Waystone, HAN, etc.).
- Further development in the retail market triggering the next growth area in Europe (every issuer partnering with platforms or utilizing their own platform to offer ETF savings plans and model portfolios).
- Utilization of the listed and unlisted share class model by more active managers.
- Transparency requirements for ETFs will remain, despite demand for reduced transparency from issuers.
- However, we expect a slowdown in ESG flows due to a deterioration in performance.

Over

US\$2_T

A minimum of four new entrants and existing global passive managers launching active ETF strategies will help the European market grow in assets in 2024.



BEYOND 2024

What's the next big thing in ETFs?

To mark the 30th anniversary of the ETF, members of our executive team spoke with industry pioneers and leaders. One question posed to everyone was, “Whats the next big thing in ETFs?” Here’s how they responded:

Active ETFs will proliferate

“I do think, again, the systematic active ETF is the next big lever up from where we are here. I think it’s an important story, and it’s a differentiated story that people are just starting to recognize that you can access that excess return. You can implement, in a way, a daily implementation that’s going to add value to your portfolio over time in this ETF wrapper. So, I think that’s the big one, and I think that’s one we’re hyper-focused on as we talk to advisers, particularly in institutions, as well. We’re hearing and seeing more of those types of engagements and conversations around that topic, and the differentiation there from a trading perspective, a daily implementation perspective, is really shown to have added value on the mutual fund side. It’s starting to show it in the ETF side, and I think that’ll be a big wave, going forward.”



Dave Butler



Co-CEO of Dimensional Fund Advisors

Fixed income will close the gap with equities

“Well, old is new, if you will. Fixed income, one of the oldest asset classes out there, it will drive the growth of ETFs in the next decade. And we know that fixed income belongs in most long-term portfolios. We already talked about how the ETF is a good building block for portfolios, but yet the penetration of fixed income into the ETF structure has lagged way behind equities. It’s probably a decade behind. In fact, equity penetration to ETFs is 50 percent more than that of fixed income. So we expect in the next decade for fixed income to start to close that gap and make it into ETF form and make it into client portfolios.”



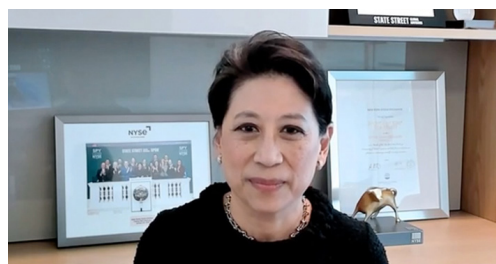
Tim Buckley

Chairman and CEO of Vanguard



Alternatives become more mainstream

“In the beginning, ETFs provided democratized access to a diversified pool of large-cap equities, and then the structure began to broaden out to different investment focuses and asset classes. Gold and parts of the bond market, like high yield and emerging market debt, all of a sudden were more easily accessible to a broad array of retail, wealth, and institutional investors. And, accessible with transparency, liquidity, improved tax efficiency, and all for a sensible cost. This trend of democratization will continue, and alternative investments are the next likely segment to join the fray. ETF regulations on derivative usage and exemptive relief procedures have been updated, while at the same time investor comfort in using active ETFs has increased over the last few years which makes alternative ETF product development and adoption more likely.”



Yie-Hsin Hung

President and CEO of
State Street Global Advisors

Education will increase

“I think the next big thing is just making sure more people know how to use ETFs, that they understand the different ways they can be used and that people are really doing that education. There’s clearly product opportunity, there’s opportunity in new markets. There’s also opportunities in how ETFs are being used as building blocks. I think retail is a huge opportunity around the world. We’re just seeing that really scratch the surface in many markets like Europe, Latin America and Asia. I think model portfolios and helping people how to invest is really important when firms like yours and others that have real expertise can help people think about whether they want to be low risk, moderate, dynamic, or whether they want target date strategies. So I think it’s just providing more advice and services to go along with the growth in the products to allow people to do what they want to do when they want to do it.”



Deborah Fuhr



Managing Partner and Founder of ETFGI,
and Founder and Board Member of
Women in ETFs

Emerging tech will drive innovation

“The functionality that drove ETF success – liquidity, transparency, tax efficiency – it overwhelmed the other structures. If you are going to expect something to maybe one day dethrone ETFs, it would take that enhanced functionality. So, right now, ETFs are the best wrapper in the world. We have the least friction in the world. So you have to be able to see something that could, potentially, be better.

We think there is a chance, through tokenization and blockchain-enabled finance, to make the experience even greater. So as an example, GLD, your big gold fund, is a US product. I have gold in Europe, but European investors can’t really buy – if they trade on the US they can – but really they’re regional products. Tokenized, physically backed gold can travel globally, can travel like bitcoin around the world in a wallet, can offer peer-to-peer exchange, tied to payment rails. So gold could evolve from the structure, ETPs, where it’s by far the best way to hold gold today, as an investment, but gold could be currency. Gold could be: save in gold, pay in gold. So that kind of additional functionality we see in treasuries, equities, what have you, we see that potential. I saw a way – wrapping transparent exposures in these compliance-aware tokens – that you could get the kind of functionality to take it beyond where ETFs are today so that savings, investing in payments, could be a much more seamless experience. And so that’s a direction that WisdomTree has invested heavily in.”



Jonathan (Jono) Steinberg

Founder and CEO of WisdomTree



ETFs will grow in all directions...

“If you look at the history of the mutual fund, which is roughly 100 years old, it has taken decades for mutual funds to get to maximum size. So I think that the dominant story for the next 30 years is going to be the progressive adoption of ETFs in more asset classes, more vehicles, more portfolios, more scale. The biggest ETFs today are in the two, three, US\$400 billion range. There’s probably going to be a trillion-dollar ETF within our professional careers. We’re going to see ETFs today that are at the US\$10 billion level get to US\$50 billion or US\$100 billion because what’s happening – and this is part of the magic of the ETF – is that as the ETF gets larger and larger, as its operating costs drop, as its liquidity, its secondary liquidity rises, clients benefit directly. There are direct network effects as ETFs grow. The individual ETF gets more and more efficient to use, ETFs as a category get more and more efficient to use, and so I think that, while ETFs are a huge success story, years ago we thought US\$10 trillion in ETFs would eventually happen... we’re there: US\$20 trillion, US\$30 trillion, I think are very much in sight over the long horizon as we can progressively grow.”



Mark Wiedman

Head of Global Client Business
at BlackRock



“I keep watching the developments across a variety of asset classes. I keep watching with interest, the money that comes into the more opaque asset classes, such as fixed income. 2020 was super instructive from my personal seat as to how an ETF can really be a great form of price discovery. And more recently you’re starting to see that with crypto as well and people are saying, well, maybe ETFs can be a good form of price discovery for the crypto market. We were the exchange that launched the first cash settled crypto ETF, but I know a variety of folks are looking to see, well, is that a way to add some transparency to a really illiquid, non-transparent, still to be defined regulatory framework for that asset class? So, I think you are just going to continue to see new and interesting asset classes leverage the innovation that State Street Global Advisors brought to market 30 years ago that has time and time again proved itself through incredibly volatile circumstances as a tremendous form of price discovery and transparency.”



Lynn Martin

President of NYSE Group



“I think if I were to give you some things that might change, I think, or what might be on the horizon. I think about the number of providers for ETFs. I think it’s gone just at a rapid clip. I don’t have all the stats in front of me, but it was around 11 at some point, and now we’re over 200. So you’ve got more and more new entrants entering the marketplace. And as I think you’ve got the more entrants, you’ve got a diversified slate of solutions available. You have rising popularity. I think, all of those are going to correlate to even some home office research organizations leaning in more into the implementation of some of the models that they run within their own sort of essentially managed portfolios. It might be influencing the recommended lists that they share with financial advisors on guidance of some particular sectors or strategies or product solutions that they like. So I think overall the support structure for the product category is going to certainly increase with the rising popularity and there’s still a lot of opportunity there. I think connected to that is that product development component. We’ve got the rise of active ETFs. There’s certainly a number of different solutions again packaging complex things like options inside of these products to help advisors execute more effectively. That’s another trend that will probably continue along in the future and then probably a little bit related to that. I think you’re going to see some increased adoption on the SMA side as well as they might seek some more cost-effective solutions to help them in the ongoing management of their portfolios.”



Robert Pettman



Executive Vice President of Wealth
Management Solutions at LPL Financial

“One, I believe that as active managers launch ETFs or move into ETF structure, I think the growth of the number of listings is unlimited. Two, with the wealth transfer of one generation to another, the transparency and the tax efficiencies that you mentioned earlier, it’s pretty important for the emerging investor class. And then there’s also a lot of opportunity around structures, around derivatives like options where it will increase the returns by having a long index, and selling calls on top of that where there’s some sort of protection on the upside or protection on the downside but it gives an extra layer of income. Those ideas are complex and I think that there’s a lot of opportunity for innovation around there.”

...But with industry consolidation on the horizon

“I think the next big thing in ETFs is we’re going to eventually see a contraction in the space. So I think that we’ve started to see more and more ETFs come out. There are thousands of them. We’re seeing actively managed ones. We’re seeing mutual funds see releases of ETF versions. But I think what we’re going to find is that people value the liquidity. So bigger firms like Creative Planning, we need to be able to buy and sell a lot of these at a time. You’re going to see a lot of the smaller players I think get squeezed out of the space because of that. A lot of the niche products are going to get squeezed out of the space because of that. And we’re going to wind up with a healthy selection of ETFs controlled by a few big players that allow for a competitive environment to keep fees low. So I think we’ve kind of swung too far, and I think we’re going to see it contract a little bit.”



Reggie Browne

Principal at Global Trading Systems



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