Insights
ETFs

November 2021

European ETF Industry Evolution: 2 Crises Survived and 10 Years of Exponential Growth

Benjamin O'Dwyer
ETF Strategist

ETFs have seen strong growth and, in Europe, total assets now exceed $1.5 trillion. In this paper we look at the trends across asset classes from the past 10 years and what the industry could see going forward.

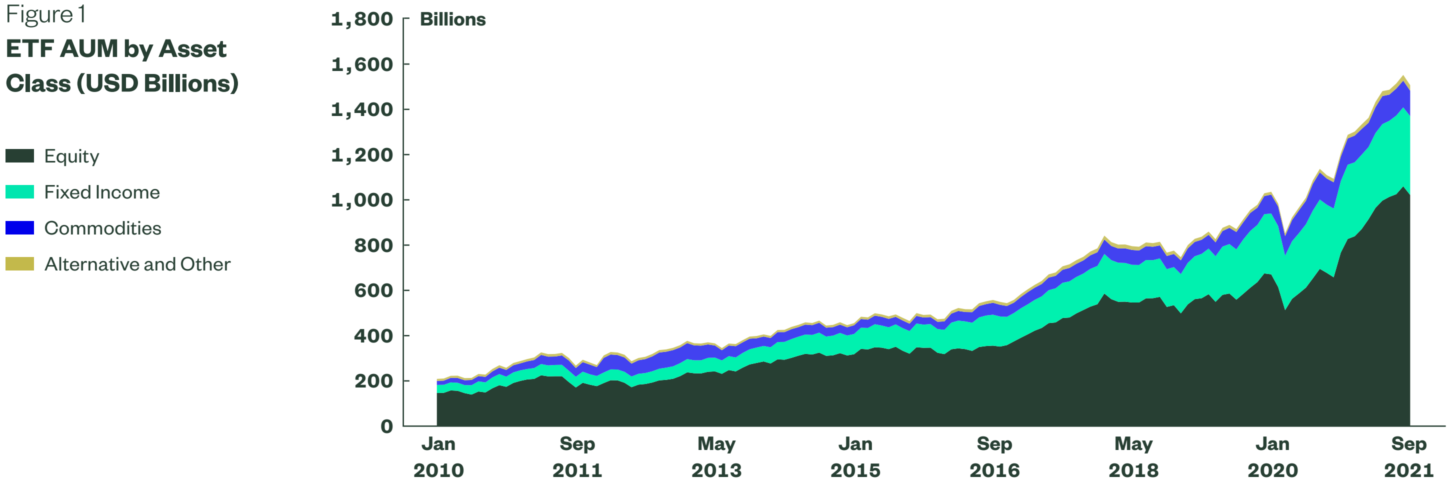
Introduction

While ETFs have been available in Europe since 2000, it is only in the 10 years following the Global Financial Crisis that we have seen a boom in ETF asset growth.

Over this period, ETFs in Europe have seen a compounded annual growth rate (CAGR) of more than 16%. Starting 2010 with just $228 billion of assets, ETFs entered the new decade with more than $1 trillion in total assets.

As of September 2021, ETFs have reached even loftier heights, buoyed by massive inflows and surging markets following the dip triggered by the COVID crisis. European ETF assets now stand at just over $1.5 trillion, adding half a trillion in the last year alone.

Figure 1
ETF AUM by Asset Class (USD Billions)



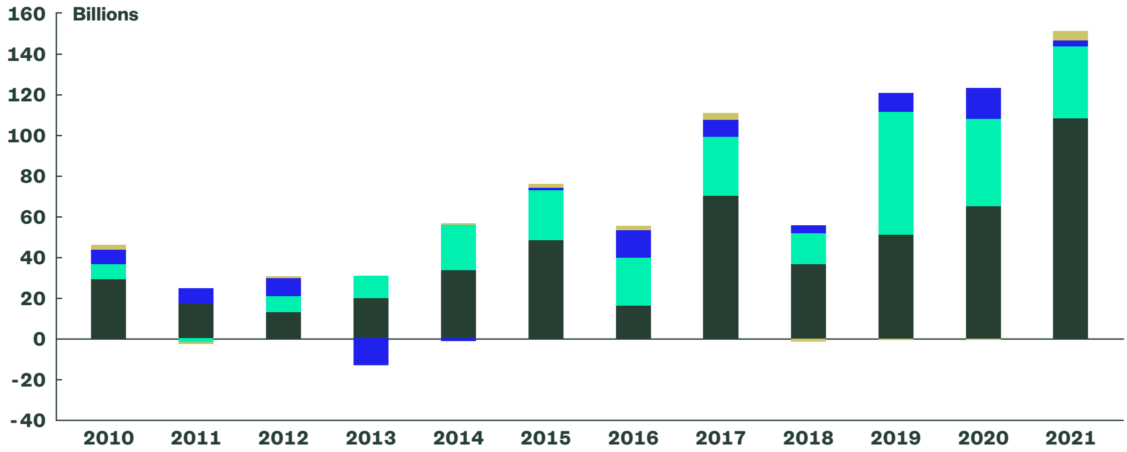
Source: Morningstar Direct, as of 30 September 2021. All figures expressed in USD billions.

So what have been the main products driving this phenomenal growth in the industry? For most of the decade, equity products drove the majority of flows, first through broad market beta products then later on also through smart beta and sector products. However, for the past few years, fixed income ETF asset growth has started to accelerate. In 2019, these products saw $60 billion of new assets — more than double the previous record set in 2017.

STATE STREET GLOBAL ADVISORS SPDR®

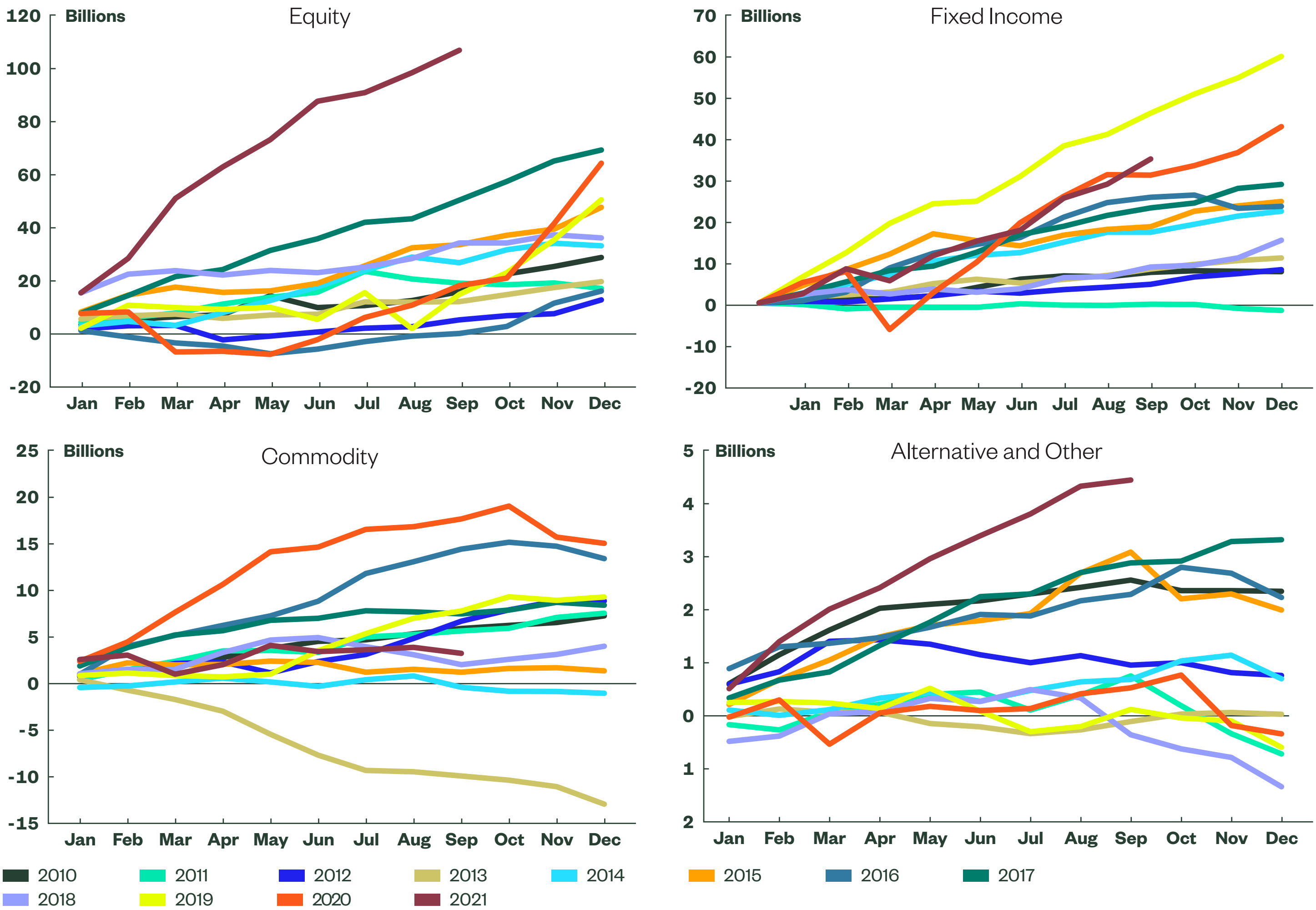
2021 has seen a return to equity products driving flows, as investors seek to capture the extraordinary economic growth spurred on by economic re-opening. While equity ETF flows have outpaced other asset classes in most years, it is worth noting that the intra-year volatility in equity flows is far higher. Equities have often seen very sudden shifts in flows month by month, whereas fixed income flows tend to be more stable. 2021 has also been a record year for alternative and other exposure flows, largely driven by the launches of cryptocurrency ETFs in Europe, which have gathered significant assets. Although, these flows are still dwarfed by other asset classes.

Figure 2
Yearly Asset Class Flows (USD Billions)



Source: Morningstar Direct, as of 30 September 2021. All figures expressed in USD billions.

Figure 3
Annual Cumulative Asset Class Flows (USD Billions)



Source: Morningstar Direct, as of 30 September 2021. All figures expressed in USD billions.

Equity

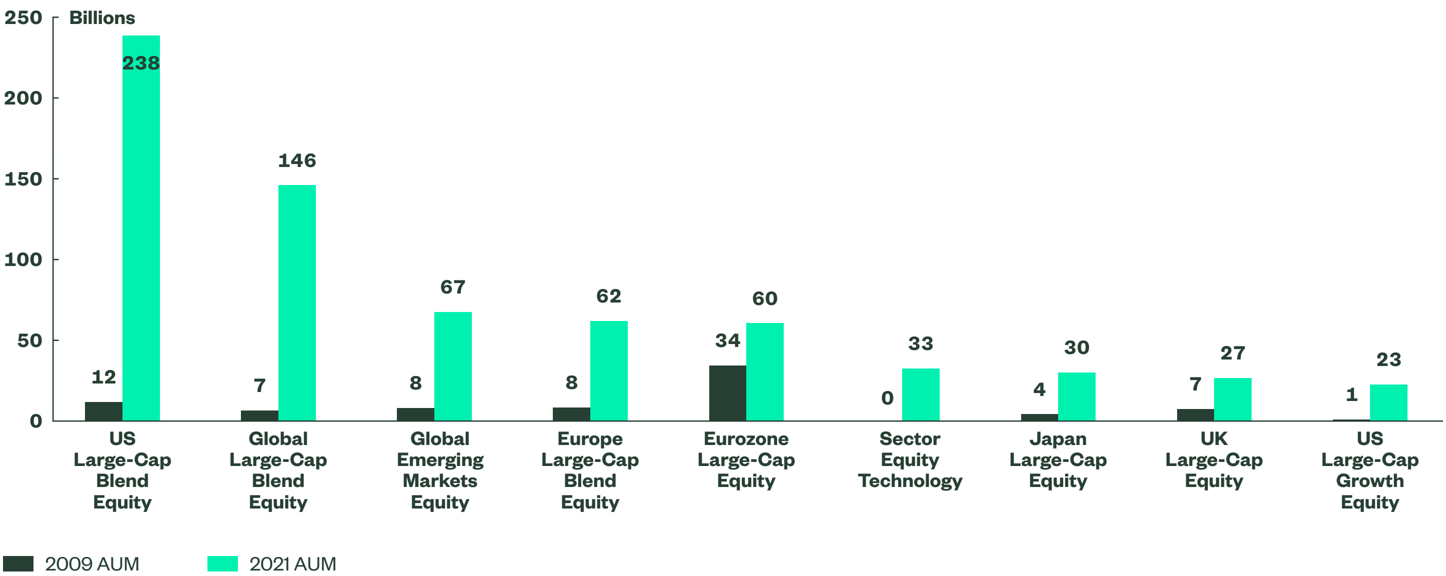
US large-cap products dominate the equity space, with many of the largest ETFs in Europe benchmarked to the S&P 500 index. In addition to attracting consistent and sizable inflows, these ETFs have also been helped by a roaring bull market, which has driven the AUM of these products up organically.

This trend was not always the case. In 2010, Europe and eurozone-focused equity products held a much greater proportion of total assets and were by far the most popular exposure. Even Europe single-country products, such as UK, German and Swiss equities, held relatively large proportions of assets compared to the rest of the market.

Although these products still account for a large percentage of total AUM, they have seen their market share eroded by growth in more diversified exposures, such as globally focused products, as well as emerging markets and Japanese equities.

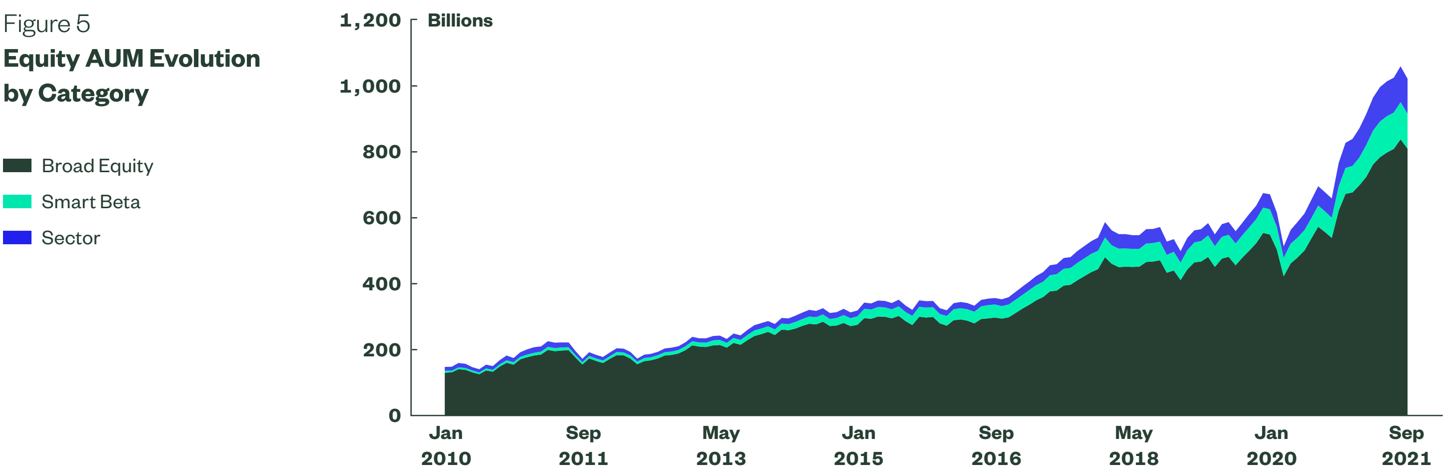
In more recent years, smart beta and sector ETFs have enjoyed significant expansion of assets, as investors have begun using ETFs as a way to implement investment strategies and gain exposure to individual sectors or factors through an ETF wrapper. Technology-focused ETFs in particular have become popular among investors, partly helped by surging market capitalisations of the underlying companies within the sector.

Figure 4
10 Largest Categories in Equity by AUM



Source: Morningstar Direct, as of 30 September 2021. All figures expressed in USD billions.

Figure 5
Equity AUM Evolution by Category



Source: Morningstar Direct, as of 30 September 2021. All figures expressed in USD billions.

Fixed Income

Fixed income started the last decade in a fairly similar position to equity, with European exposures being by far the most popular, both in the government and corporate space. However, as time has passed, European exposures have kept their dominant position, albeit in a much more diversified way, with no single exposure taking a particularly dominant position.

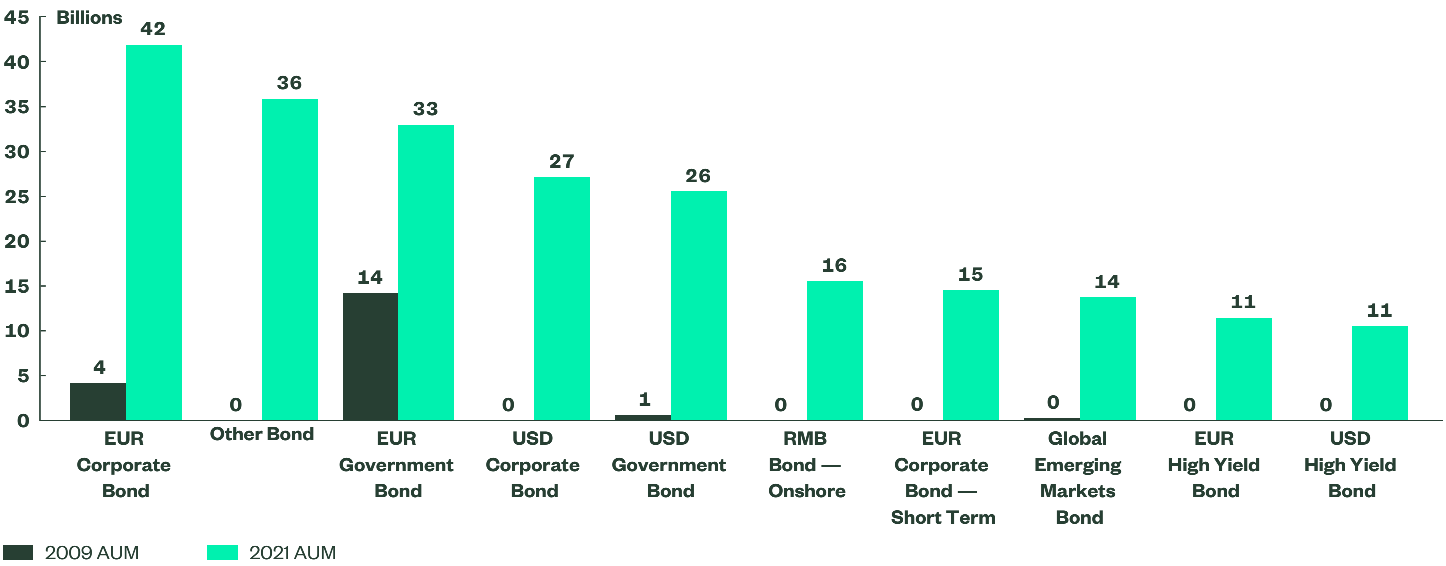
Unlike equity, many of the exposures that are now most popular were not being used by ETF investors 10 years ago. The largest beneficiaries of this shift have been USD-denominated exposures, as well as emerging market debt local currency, which has grown to more than $14 billion in assets from nothing a decade ago, as well as another $16 billion in China local currency debt alone.

Another great beneficiary of the expansion in fixed income ETF coverage is high yield, both in the EUR and USD space. These exposures were also unaccounted for in ETFs at the start of the period but have swelled to a combined $22 billion as investors have looked to take advantage of the added liquidity that ETFs can offer when accessing this notoriously difficult-to-access asset class.

Targeted maturity products have also seen significant growth. Fixed income investors can use these products to easily adjust the duration of their portfolios. This is demonstrated by the adoption and expansion of the short-duration products below, which have seen increased popularity more recently as investors look to shield their portfolios from bouts of volatility.

Figure 6

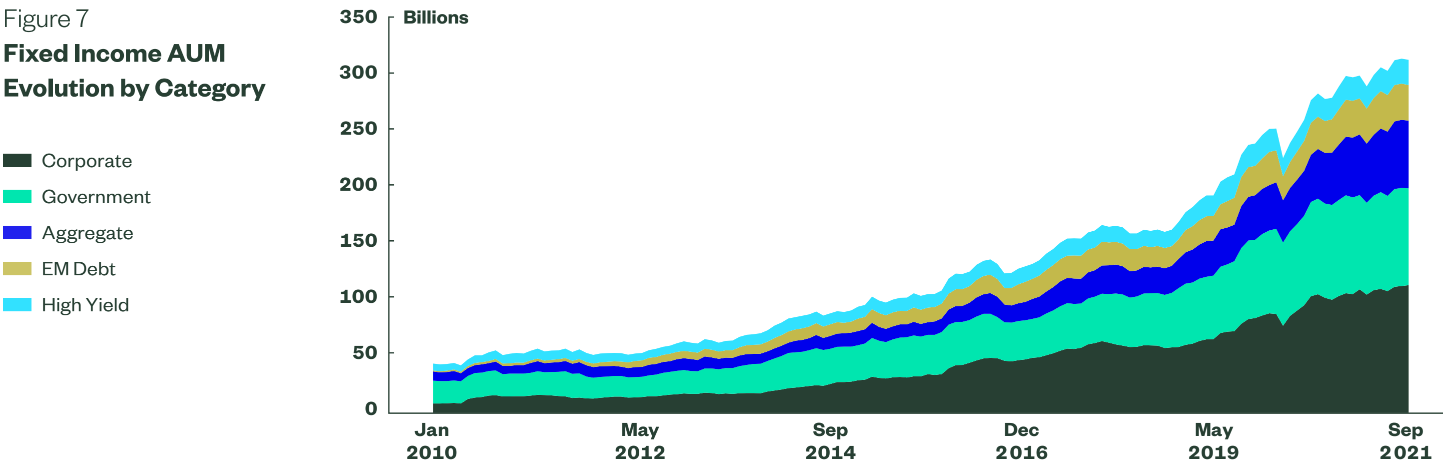
10 Largest Categories in Fixed Income by AUM



Source: Morningstar Direct, as of 30 September 2021. All figures expressed in USD billions.

Figure 7

Fixed Income AUM Evolution by Category



Source: Morningstar Direct, as of 30 September 2021. All figures expressed in USD billions.

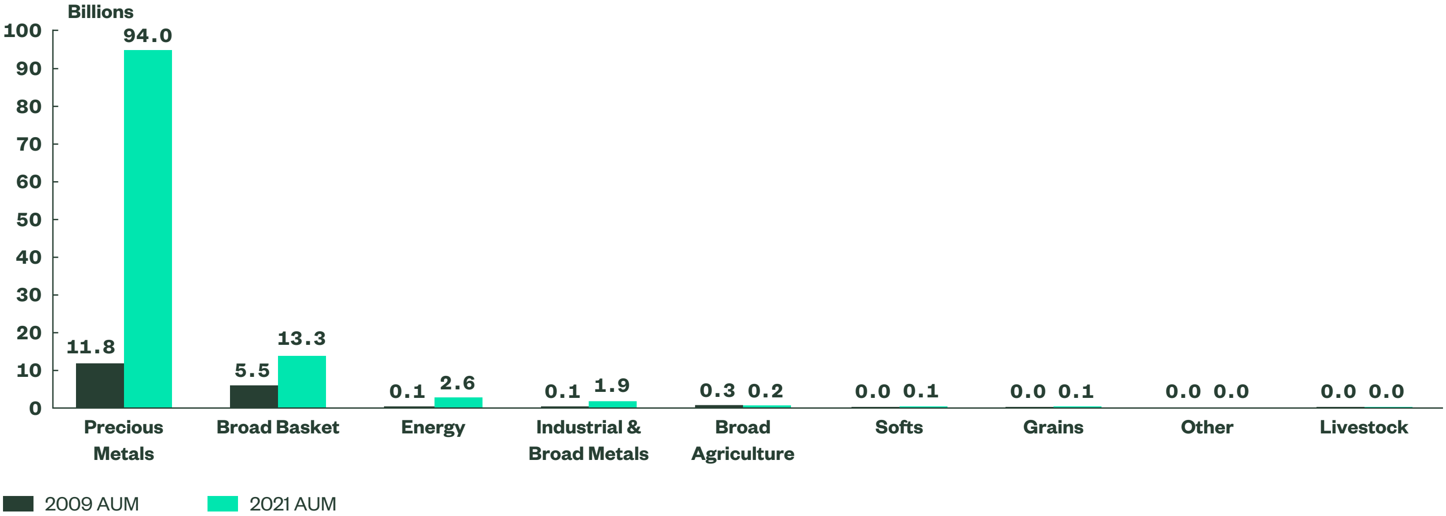
Commodities

In 2010, commodity ETFs were dwarfed by other asset classes, as investors mostly used ETFs for their equity and fixed income asset allocations. However, more recently, investors have begun to use commodity ETFs as a way of gaining exposure to the various segments of this asset class.

This is particularly the case for precious metals, which have ballooned to more than $94 billion of assets. Gold ETFs have been major contributors to this growth, as investors have sought exposure to the yellow metal as the price has surged, especially during the COVID-19 crisis and the subsequent global drop in bond yields.

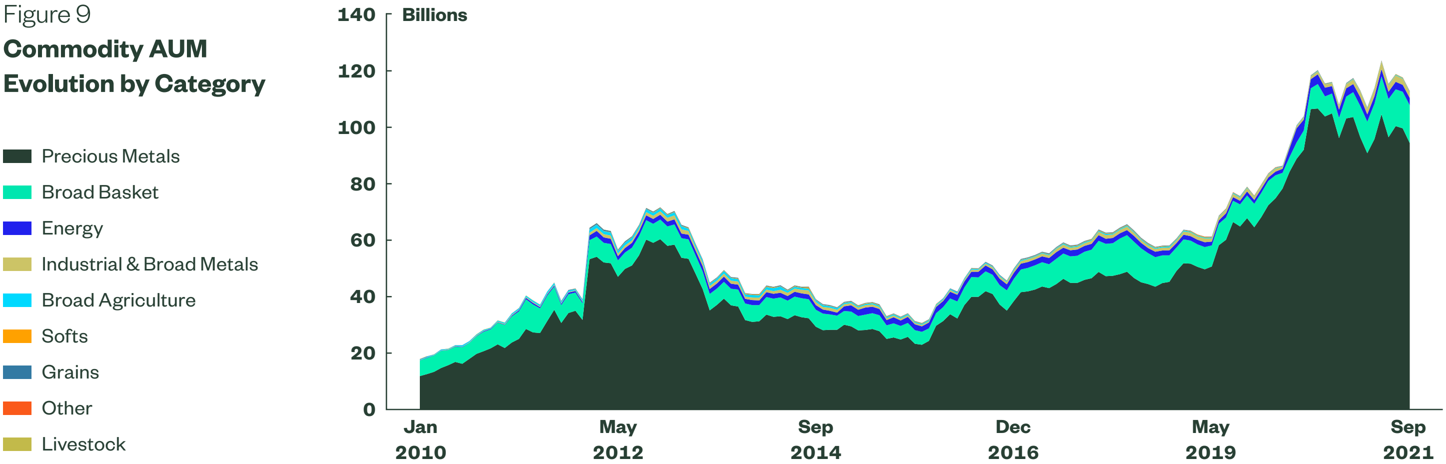
Energy has also seen significant expansion in assets, mainly from investors using oil ETFs as a way to express a view on oil prices.

Figure 8
Commodity AUM by Category



Source: Morningstar Direct, as of 30 September 2021. All figures expressed in USD billions.

Figure 9
Commodity AUM Evolution by Category



Source: Morningstar Direct, as of 30 September 2021. All figures expressed in USD billions.

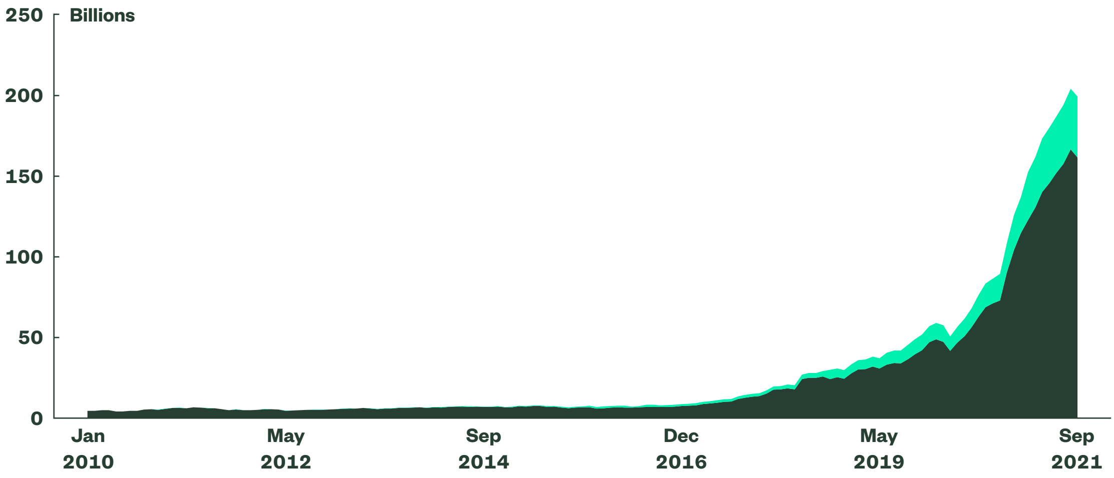
ESG ETFs

ESG ETFs were not initially popular with investors, with the AUM in these instruments remaining below $5 billion until the beginning of 2017. Since then, the popularity of these products has exploded, particularly in the past two years when the growth in assets has been exponential, with the total surging past $200 billion.

Initially, equity made up almost the entirety of the ESG ETF AUM. However, in the last few years fixed income has begun to grow in popularity as well, and assets in these products now stand at $38 billion. However, equity inflows have still far outpaced fixed income in 2021, with just $18 billion flowing into fixed income compared to $48 billion moving into equity.

Figure 10
ESG AUM Evolution by Asset Class

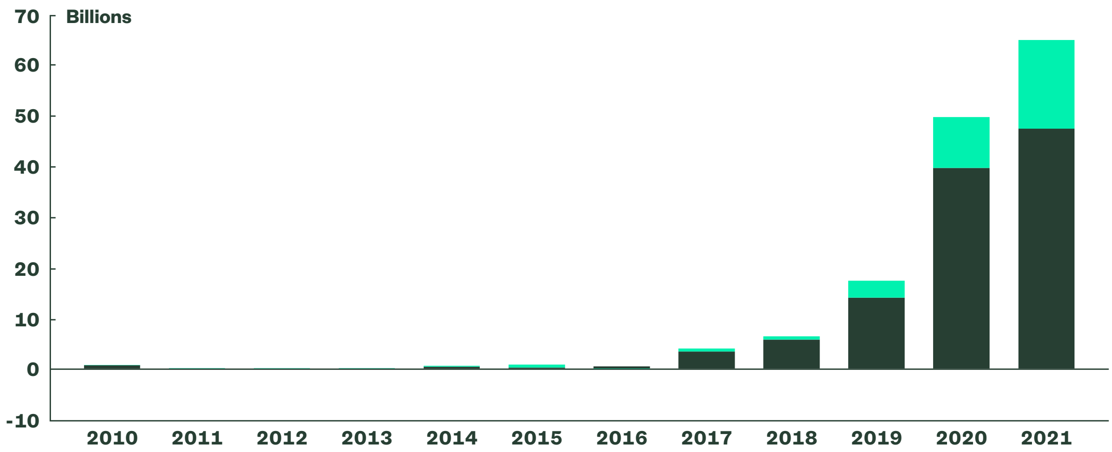
Equity
Fixed Income



Source: Morningstar Direct, as of 30 September 2021. All figures expressed in USD billions.

Figure 11
ESG Yearly Flows by Asset Class

Equity
Fixed Income



Source: Morningstar Direct, as of 30 September 2021. All figures expressed in USD billions.

Physical vs. Synthetic ETFs

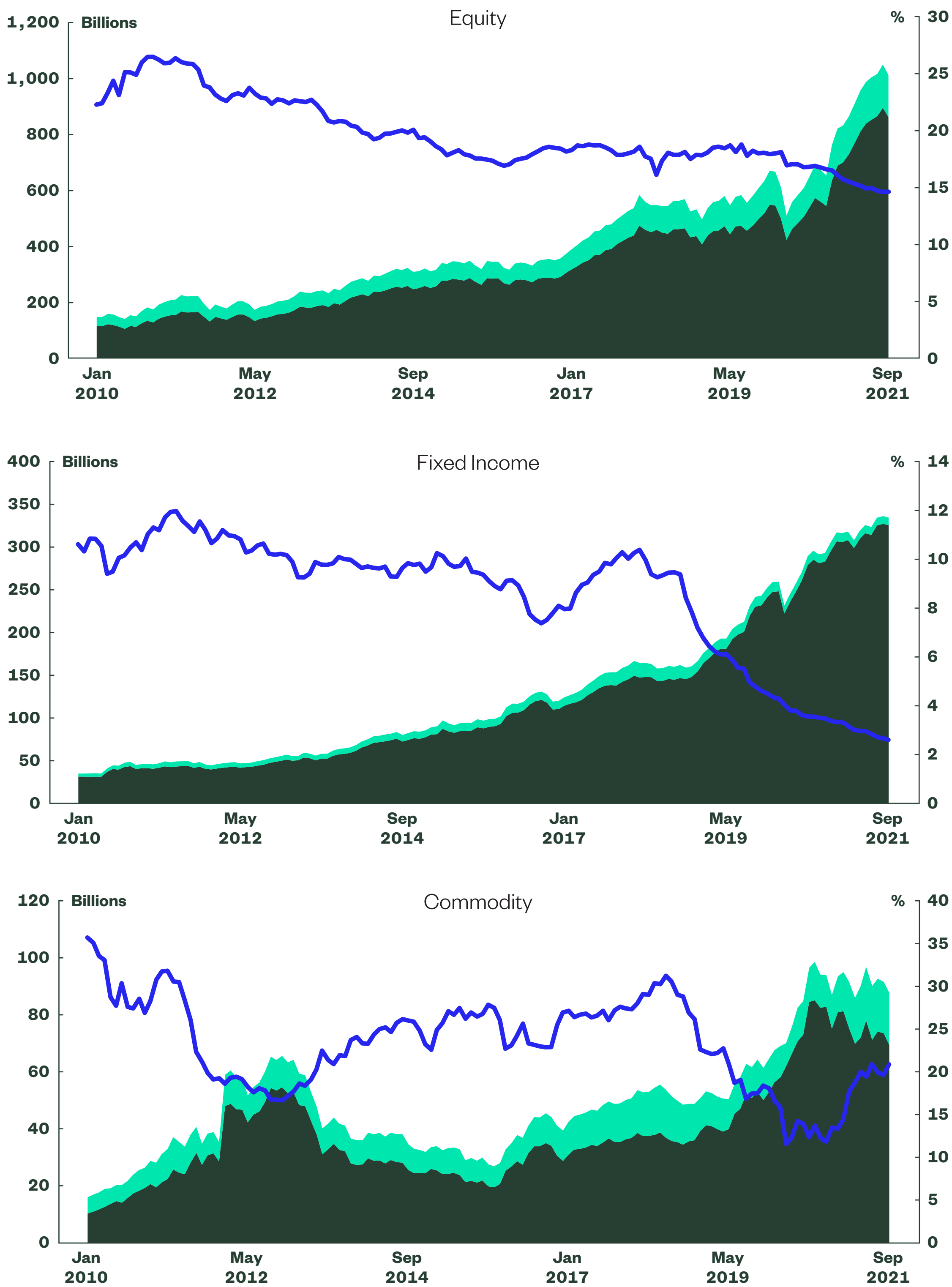
In Europe, investors can choose whether they want to invest in physically backed ETFs (which hold the underlying securities and either directly replicate the index or replicate it through a process of optimisation or sampling) or synthetic ETFs (which replicate the index through the use of a total return swap or other derivatives).

Across asset classes, investors have shown a strong preference for physical. Physically replicated ETFs have taken more of the share as time goes on, particularly in fixed income where synthetic ETFs now account for only 3% of the total market, with the share declining significantly during the past two years.

Commodity has also seen a dramatic fall in the proportion of synthetic assets, largely driven by the swell of inflows into precious metals ETFs in the last five years, where investors clearly favour physically backed products over synthetic. Although, we did see synthetic begin to take back some of this share in the last year when gold ETFs started to record outflows in the more risk-on environment.

Figure 12
Physical vs. Synthetic AUM

- Physical
- Synthetic
- Synthetic as a % of Total



Source: Morningstar Direct, as of 30 September 2021. All figures expressed in USD billions.

What Could the Future Hold for the European ETF Industry?

The growth in assets held by European ETFs has been widely reported, as has the potential for continued room to grow going forward. New industry players have entered the European ETF market regularly, hoping to capitalise on this growth.

But what can we expect from the European ETF market in the future? Figure 13 shows projected future AUM levels under three different scenarios.

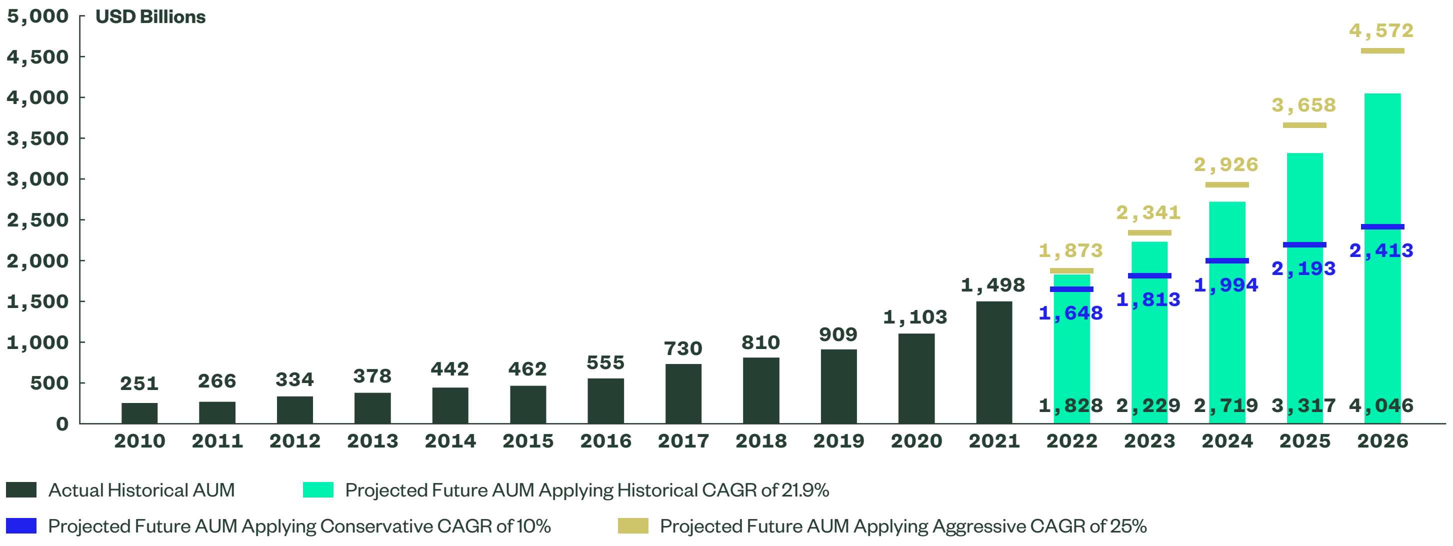
The first projection assumes the industry continues to grow at the same compounded annual growth rate (CAGR) that it has for the last five years (21.9%). Under this assumption, we can see that by 2026 ETFs in Europe could surpass the $4 trillion mark, more than doubling the current asset levels. Of course, this rate of growth has been spurred on by phenomenally strong markets, particularly following the COVID crisis. As such, it is unlikely that we could expect that same support to continue for the next five years.

We have therefore also taken two other projections: a more conservative assumption that growth will slow to just 10% annually (due to a slowdown in adoption as the industry matures) and a more aggressive annual growth rate of 25% (as investors get more comfortable with the vehicle and therefore invest in ETFs at an exponential rate, as we have seen in the past year).

Under the more cautious expected growth rate, the industry would still be predicted to reach $2.4 trillion by 2026, while under the more aggressive scenario, assets could swell to over $4.5 trillion.

While some may question whether the European ETF industry could more than double by 2026, it is worth noting that the US went through a similar rate of growth after breaking through $1.5 trillion in assets in July 2013. Within four years, the industry had managed to surpass the $3 trillion mark. European ETFs are in a similar position now. They still make up a much smaller proportion of the overall fund universe, and European investors are still in the midst of an adoption of index instruments, which lends itself to continued growth in the European ETF space.

Figure 13
Annual European ETF AUM and Projected Future AUM



Source: Morningstar Direct, as of 30 September 2021. All figures expressed in USD billions. The above estimates are based on certain assumptions and analysis. There is no guarantee that the estimates will be achieved.

ssga.com/etfs

Information Classification: General Access
Marketing communication.
For professional investor use only.

Australia: State Street Global Advisors, Australia, Limited (ABN 42 003 914 225) is the holder of an Australian Financial Services Licence (AFSL Number 238276). Registered office: Level 14, 420 George Street, Sydney, NSW 2000, Australia T: +612 9240-7600. F: +612 9240-7611.
Belgium: State Street Global Advisors Belgium, Chaussée de La Hulpe 185, 1170 Brussels, Belgium. T: +32 2 663 2036. State Street Global Advisors Belgium is a branch office of State Street Global Advisors Europe Limited, registered in Ireland with company number 49934, authorised and regulated by the Central Bank of Ireland, and whose registered office is at 78 Sir John Rogerson's Quay, Dublin 2.
France: State Street Global Advisors Europe Limited, France Branch ("State Street Global Advisors France") is a branch of State Street Global Advisors Europe Limited, registered in Ireland with company number 49934, authorised and regulated by the Central Bank of Ireland, and whose registered office is at 78 Sir John Rogerson's Quay, Dublin 2. State Street Global Advisors France is registered in France with company number RCS Nanterre 899 183 289, and its office is located at Coeur Défense — Tour A — La Défense 4, 33e étage, 100, Esplanade du Général de Gaulle, 92 931 Paris La Défense Cedex, France. T: +33 1 44 45 40 00. F: +33 1 44 45 41 92.
Germany: State Street Global Advisors Europe Limited, Branch in Germany, Brienner Strasse 59, D-80333 Munich, Germany ("State Street Global Advisors Germany"). T +49 (0)89 55878 400. State Street Global Advisors Germany is a branch of State Street Global Advisors Europe Limited, registered in Ireland with company number 49934, authorised and regulated by the Central Bank of Ireland, and whose registered office is at 78 Sir John Rogerson's Quay, Dublin 2.
Hong Kong: State Street Global Advisors Asia Limited, 68/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong. T: +852 2103-0288. F: +852 2103-0200.
Ireland: State Street Global Advisors Europe Limited is regulated by the Central Bank of Ireland. Registered office address 78 Sir John Rogerson's Quay, Dublin 2. Registered Number: 49934. T: +353 (0)1 776 3000. F: +353 (0)1 776 3300.
Israel: No action has been taken or will be taken in Israel that would permit a public offering of the Securities or distribution of this sales brochure to the public in Israel. This sales brochure has not been approved by the Israel Securities Authority (the 'ISA').
Accordingly, the Securities shall only be sold in Israel to an investor of the type listed in the First Schedule to the Israeli Securities Law, 1978, which has confirmed in writing that it falls within one of the categories listed therein (accompanied by external confirmation where this is required under ISA guidelines), that it is aware of the implications of being considered such an investor and consents thereto, and further that the Securities are being purchased for its own account and not for the purpose of re-sale or distribution.
This sales brochure may not be reproduced or used for any other purpose, nor be furnished to any other person other than those to whom copies have been sent.
Nothing in this sales brochure should be considered investment advice or investment marketing as defined in the Regulation of Investment Advice, Investment Marketing and Portfolio Management Law, 1995 ("the Investment Advice Law"). Investors are encouraged to seek competent investment advice from a locally licensed investment advisor prior to making any investment. State Street is not licensed under the Investment Advice Law, nor does it carry the insurance as required of a licensee thereunder.
This sales brochure does not constitute an offer to sell or solicitation of an offer to buy any securities other than the Securities offered hereby, nor does it constitute an offer to sell to or solicitation of an offer to buy from any person or persons in any state or other jurisdiction in which such offer or solicitation would be unlawful, or in which the person making such offer or solicitation is not qualified to do so, or to a person or persons to whom it is unlawful to make such offer or solicitation.
Italy: State Street Global Advisors Europe Limited, Italy Branch ("State Street Global Advisors Italy") is a branch of State Street Global Advisors Europe Limited, registered in Ireland with company number 49934, authorised and regulated by the Central Bank of Ireland, and whose registered office is at 78 Sir John Rogerson's Quay, Dublin 2. State Street Global Advisors Italy is registered in Italy with company number 11871450968 — REA: 2628603 and VAT number 11871450968, and its office is located at Via Ferrante Aporti, 10 - 20125 Milan, Italy. T: +39 02 32066 100. F: +39 02 32066 155.
Japan: State Street Global Advisors (Japan) Co., Ltd., Toranomon Hills Mori Tower 25F 1-23-1 Toranomon, Minato-ku, Tokyo 105-6325 Japan. T: +81-3-4530-7380. Financial Instruments Business Operator, Kanto Local Financial Bureau (Kinsho #345), Membership: Japan Investment Advisers Association, The Investment Trust Association, Japan, Japan Securities Dealers' Association.
Netherlands: State Street Global Advisors Netherlands, Apollo Building 7th floor, Herikerbergweg 29, 1101 CN Amsterdam, Netherlands. T: +31 20 7181 000. State Street Global Advisors Netherlands is a branch office of State Street Global Advisors Europe Limited, registered in Ireland with company number 49934, authorised and regulated by the Central Bank of Ireland, and whose registered office is at 78 Sir John Rogerson's Quay, Dublin 2.
Singapore: State Street Global Advisors Singapore Limited, 168, Robinson Road, #33-01 Capital Tower, Singapore 068912 (Company Reg. No: 200002719D, regulated by the Monetary Authority of Singapore). T: +65 6826-7555. F: +65 6826-7501.
Switzerland: State Street Global Advisors AG, Beethovenstr. 19, CH-8027 Zurich. Registered with the Register of Commerce Zurich CHE-105.078.458. T: +41 (0)44 245 70 00. F: +41 (0)44 245 70 16.
United Kingdom: State Street Global Advisors Limited. Authorised and regulated by the Financial Conduct Authority. Registered in England. Registered No. 2509928. VAT No. 5776591 81. Registered office: 20 Churchill Place, Canary Wharf, London, E14 5HJ. T: 020 3395 6000. F: 020 3395 6350.

Important Information

The information provided does not constitute investment advice and it should not be relied on as such. It should not be considered a solicitation to buy or an offer to sell a security. It does not take into account any investor's particular investment objectives, strategies, tax status or investment horizon. You should consult your tax and financial advisor.

The information contained in this communication is not a research recommendation or 'investment research' and is classified as a 'Marketing Communication' in accordance with the Markets in Financial Instruments Directive (2014/65/EU) or applicable Swiss regulation. This means that this marketing communication (a) has not been prepared in accordance with legal requirements designed to promote the independence of investment research (b) is not subject to any prohibition on dealing ahead of the dissemination of investment research.

The views expressed in this material are the views of SPDR EMEA Strategy & Research through the period ended 11 November 2021 and are subject to change based on market and other conditions. This document contains certain statements that may be deemed forward looking statements.

Please note that any such statements are not guarantees of any future performance and actual results or developments may differ materially from those projected.

Investing involves risk including the risk of loss of principal.

Past performance is no guarantee of future results.

All material has been obtained from sources believed to be reliable. There is no representation or warranty as to the accuracy of the information and State Street shall have no liability for decisions based on such information.

 Standard & Poor's®, S&P® and SPDR® are registered trademarks of Standard & Poor's Financial Services LLC (S&P); Dow Jones is a registered trademark of Dow Jones Trademark Holding LLC (Dow Jones); and these trademarks have been licensed for use by S&P Dow Jones Indices LLC (SPDJI) and sublicensed for certain purposes by State Street Corporation. State Street Corporation's financial products are not sponsored, endorsed, sold or promoted by SPDJI, Dow Jones, S&P, their respective affiliates and third party licensors and none of such parties make any representation regarding the advisability of investing in such product(s) nor do they have any liability in relation thereto, including for any errors, omissions, or interruptions of any index.

ID797064-3234245.2.1.GBL.INST 1121
Exp. Date: 30/11/2022