DWS Reviews the Dynamic Global ETF Market and Analyses Recent Trends

Ogar Renaldi Widjaja, responsible for the distribution of Passive products in South East Asia for DWS, told the audience at the Hubbis Indonesia Wealth Management Forum why the more than USD5 trillion ETF market continues to expand and why passive strategies have been growing rapidly, despite a globally challenging market environment and a more volatile 2019. A wider than ever range of investors (including sovereign wealth funds, insurance companies, private banks, family offices) continues to adopt passive strategies and use ETFs in their portfolios. And thematic investing such as ESG and Artificial Intelligence are also gaining traction.

THE GOOD NEWS, WIDJAJA TOLD DELEGATES, is that in the year since he last presented at the Hubbis Indonesia event, the ETF industry has continued growing apace.

DWS went IPO in March 2018 and is now a listed asset manager on the Frankfurt Stock Exchange in Germany. "We have over 3000 employees in 22 different countries, including here in Asia," he reported. "We run active, passive and alternatives, with EUR752 billion of assets under management globally (as of Sept 2019). Myself, I am part of the passive business of DWS, here to share some key updates and trends that we are seeing in the ETF market globally."

He reported that the global ETF industry is now worth some USD5.5 trillion. And there are more than 6000 ETFs in the market, the majority of which are equities ETFs, with fixed income ETFs roughly 20% of the market, but also growing well.

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The flows picture of global ETF market

"Given there are ETFs investing in different asset classes, let's take a look at where we had the strongest inflows and outflows this year," he noted, "Despite the volatility we have seen in 2019 so far, the US-China trade war and other factors, we saw good inflows into ETFs this year, particularly fixed income ETFs with roughly USD140 billion flowing in.

"Given the size of the fixed income ETF market is much smaller than equities," he remarked, "that is a huge number. And within fixed income, most inflows are into mainly USD fixed income assets across US treasuries, US corporates, high yield as well as emerging market bond ETFs"

Equities have also registered roughly USD65 billion of inflows, of which USD38 billion went into US equity ETFs, and the remainder into broadly exposures such as Developed Markets, Japan and Asia, while Europe has seen outflows. "And gold has done well too, as it's often seen a safe haven asset and investors use it for portfolio diversification," he reported.

Access and flexibility

Widjaja then explained some of the reasons why more investors are using ETFs. He explained that by buying just one ETF, investors can get exposures to numerous stocks or bonds in just one trade, and they do not even need much capital to invest. "With so many ETFs in the market, you can get various exposures: regional, single country, individual sectors, fixed income, commodities, and so forth," he reported. "You can obtain broad exposures or very niche or granular exposures."

Widjaja explained "ETFs may give you access to markets which are very difficult to access directly, so for example if you think of markets like Vietnam or India, for investors to buy stocks in those markets directly, is not easy. In some of these markets, you have currency controls, licenses and quotas required for foreign investors, or repatriation limits, which can add complexity."

Despite the rapid growth, ETFs are still a small proportion of the entire fund industry at the moment. "Both ETFs and mutual funds have been growing in fact," he reported, "but ETFs have been growing faster, and passive strategies which also include index mutual funds, have grown faster than active strategies."

Fees and transparency draw buyers in

Transparency is also one benefit of ETFs, as ETFs disclose full holdings daily while active funds generally only disclose the top 10 holdings on a lagging basis.

"Fees have also been a key driver of ETF market growth, as ETF fees are relatively low and have been coming down even further," he added. He also mentioned that both active and passive strategies are growing, although passive has been growing faster. "I do not think that is because investors do not like active. Perhaps it's a shift from high fees to low fees, rather than from active to passive.

Institutional demand

Turning his attention to how investors use ETFs he highlighted a survey done by Greenwich Associates asking the large 40 institutional investors in Asia on how

they use ETFs. He noted there are three main strategies - core holding (buy and hold, strategic asset allocation), or tactical, and also transition/liquidity management.

"Remember that it is not just individuals who are using ETFs," he remarked. "There are many types of users, including active fund managers and discretionary portfolio managers who use ETFs in their portfolios."

He moved on to review the role of robo-advisors. "This is quite a recent development," he explained. "Robo-advisors can now be found everywhere, and their proposition is to build a diversified low-cost portfolio for the mass retail customers via digital, often using ETFs to do that. They build global multi-asset portfolios based on your risk profile after you answer a number of questions and then you get a portfolio of ETFs which are diversified and low cost."

A good story continues

He then highlighted the performance of major asset classes. "Year to date developed market equities is up 18%," he reported. "That is mostly coming from US equity which is up 21% year to date. When you look at EM, the rise is only 6% this year, which is still not too bad but when you look at China especially China A-shares have done really well this year."

As to fixed income as an asset class, US investment-grade corporate is up 16% year to date, whereas US high yield, EM bonds, Asian bonds are up about 11-12% year to date in US dollar terms. And gold has risen some 16%.

He also focused on the rise of thematic investing, noting that investors are also adopting ESG and sustainable investment themes. "Aside from ESG," he added, "investors are looking at thematic investing such as artificial intelligence, cloud computing, chatbots and speech recognition, image recognition, cybersecurity, self-driving technologies for cars, and so forth. These are affecting our daily lives, and investors want to play a part in that."

He concluded by reminding the audience how valuable ETFs can be to build diversified and low cost, transparent portfolios. ■