ETF Market Flows Analysis

data as of end March 2024

Global exchange-traded funds (ETFs) flows were €117.4bn in March with investors continuing to prefer equities, adding €89.5bn to this asset class compared with €18.3bn in fixed income. Total European UCITS ETF assets under management is now €1.7trn.

US equity indices gained €30bn last month while US growth stocks added €9.7bn. Indices excluding US were also popular with inflows of €8.0bn. Technology strategies gained €4.3bn in March, reflecting the long-run popularity of this sector.

Investors withdrew €0.7bn from healthcare and €1.1bn from short-dated government bonds.

Equities were likely favoured over fixed income because of the change in the outlook for the cost of borrowing. Investors may be delaying their investment in fixed income as they wait for the interest rate cuts to happen. Last year the market anticipated six to seven interest rate cuts in 2024 but that has shifted with two to four now expected.

European Flows – Monthly Overview

Equities

Equity trends in Europe mirrored global flows. European UCITS equity ETFs collected €9.4bn, rapidly outpacing fixed income inflows. Developed market world indices were the most popular gaining €2.9bn.

Over the course of the month, investors added €2.3bn to European equities, €1.7bn to US equities and €1.2bn to emerging market (EM) equities.

Underscoring the continued popularity of technology, IT strategies gained €0.9bn while investors withdrew €0.4bn from healthcare, a reflection of diminishing appetite for defensive stocks.

With stretched valuations and mega-cap stocks driving equity performance, investors took steps to balance that concentration risk by adding €0.4bn to equal weight strategies. Momentum stocks gathered €0.3bn as some investors bet on markets continuing to rise.

Investors added €0.2bn to quality strategies while withdrawing €0.3bn from minimum volatility strategies and €0.5bn from value.

In March, there was a net outflow from ESG equity strategies of €0.3bn. Investors added €0.7bn to ESG world strategies and €0.3bn to EM ESG strategies while withdrawing funds from Europe, all country, Asia and US strategies.

This could be indicative of a maturing of the ESG equity market with most investors having completed the rotation out of more traditional indices and into sustainable strategies.

Fixed Income

European UCITS fixed income ETFs gained €0.9bn with investors adding €0.7bn to high yield strategies and €0.6bn to money market strategies. Investors withdrew €0.9bn from investment grade corporate debt.

Money market products give investors a short duration on their investment, which may be attractive to investors amid concerns about the outlook for rate cuts.

The lack of clarity about when rates cuts will happen has made investors more concerned about government bond duration – the sensitivity of this type of debt to interest rates.

The flows into high yield bonds and out of investment grade bonds highlights an increased appetite for credit risk combined with a reduced appetite for interest rate risk.

Euro-denominated government debt inflows were €0.9bn. Investors added €0.7bn to long-dated euro-denominated government bonds and withdrew €0.8bn from euro short-dated bonds. In contrast, investors withdrew €0.5bn from long-dated US-denominated bonds and added €0.2bn to short-dated bonds in this region.

Fixed income ESG strategies gained €1.2bn, with flows of €0.5bn to government ESG strategies, underlining the popularity of new strategies that mix green bonds with traditional government debt. ESG investment grade corporate debt gathered inflows of €0.3bn.

Fixed income ESG likely outperformed equity ESG strategies because this market is less mature.