Top five ETF trends in 2020

The ETF landscape has expanded rapidly from the straight index replication of the past to more tailored offers covering themes, specific industries or sectors and even using alternative weighting. Advances in technology has allowed ETFs to become more sophisticated to meet with investor needs and demands. The value of the Australian ETF market is currently $A60.24bn[1] and is anticipated to continue to grow both in size and available options.

Here are five trends likely to continue in 2020.

1. The search for yield

   Continued globally low interest rates means investors are seeking alternative sources of yield. Some are still looking at fixed income, but focusing on international options like the US, which has higher interest rate compared to its counterparts. Others are considering using equity dividend streams to help provide an income. Investors concerned about volatility risks for an equity approach might look towards infrastructure ETFs. The infrastructure sector includes many essential services areas like utilities, telecoms, industrials and transport which tend to be less vulnerable to market cycles and movements. Investments in gold tend to be popular with investors in times of low yield and market volatility. Holding appeal for both consumption purposes and investment, the performance of gold tends to have low correlation with other asset classes and tends to offer stability in times of market volatility.

2. Investing to offset Australian exposures

   Australian investments have been influenced over several years now by factors like slowdown in resources and residential property, along with a weaker Australian dollar. This has meant investors have needed to focus more on investing internationally to diversify the local risks and access growth and income opportunities. For example, investors are looking at particular growth themes like the middle class in Asia or at sectors not widely available in the Australian market, like technology. Currency ETFs are also becoming more popular, particularly those exposed to the US dollar which continues to be stronger than many developed nation currencies.

3. Thematic investing

   ETFs are becoming a cost-efficient and transparent way for investors to express their specific market opinions, growth themes, moral and ethical views or to target niche areas of growth. Concerned about UK post-Brexit? You might choose a European ETF which excludes UK companies. Passionate about new technology? A robotics or tech focused ETF might be for you. There is a movement towards ethical investing, with environmental investing a particular focus at the moment. As a quickly developing

[1] https://www.asx.com.au/documents/products/ASX_Investment_Products_November_2019.pdf

space with investor demand, there is likely to be continued growth in ETFs supporting this space, such as in alternative energy like battery technology.

4. Bespoke and smart beta strategies

   There has been a rise in ETFs using sophisticated rules or algorithms (smart beta) to 'beat' the market while still remaining passive. This might mean the exclusion of certain factors or using a different way of weighting investments compared to the index. For example, excluding companies in a particular industry. Or rather than weighting the investment based on company size, it might be weighted based on how volatile the companies are to market movements. Some ETFs like this are designed bespoke to large-scale institutions looking for both cost-efficiencies as well as the ability to match strategic or philosophical needs but still available to retail investors on the stock exchange.

5. Active ETF investing

   Active ETFs are an emerging area and typically track the strategies of active investment managers. ASIC lifted its suspension of new active ETFs in December 2019 and released new admission guidelines. Given international activity in this space as well, there is likely to be further growth in the available active ETFs in the Australian market. These may appeal to self-directed investors looking for active and liquid solutions with greater ease of use compared to many other active managed funds.

For more information on the solutions ETF Securities offers, please speak to your financial adviser or contact us on:

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