Canadian ETF Association

Q3 2022 Commentary

Completed by Investor Economics

The Canadian ETF industry saw yet another underwhelming quarter and closed out Q3 with C$312.2 billion in assets, a decline of 0.2% and 2.3% on a quarterly and annual bases, respectively. Unfavourable market effect shaved off a year's worth of gains, but the product type remained in positive net inflow territory throughout the turbulent 2022 to date, only once descending into net redemptions during the month of June, when $1.7 billion was recorded in net outflows. Third quarter net creations totalled $4.7 billion, compared to $10.7 billion over Q3 2021; while the September 2022 year-to-date sales added up to just $23.1 billion—$20.2 billion below the nine-month tally of the same period last year.

Due to market conditions, money market ETFs (largely ETFs of savings deposits) reigned over other asset classes in terms of quarterly sales, garnering $3.1 billion throughout the three-month period, marking the best-selling quarter for the category on record, behind only the Q4 2019, which saw $1.4 billion in net inflows.

Fixed income ETFs came second, with $942 million – the worst-selling quarter for the asset class since Q2 2020, when quarterly net inflows peaked at just $466 million, and the worst-selling Q3 overall since 2014. Investment grade bonds carried the broader category with $1.9 billion in net inflows, while high-yield bond funds recorded over $1.0 billion in quarterly net redemptions. Meanwhile, equities attracted $423 million in net inflows in the third quarter, picking up pace from the weak $74 million recorded over the Q2, but far below the average $7.5 billion of quarterly sales recorded throughout the previous two years. Concerning equity ETF sub-categories, U.S. mandates led the broader asset class with $627 million in net flows, while sector equities ranked second in terms of sales with $309 million, as utilities and infrastructure mandates brought in $216 million of the sub-category's total. Canadian and European equities, on the other hand, recorded quarterly net redemptions of $962 million and $13 million, respectively. Multi-asset class ETFs attracted $372 million in net inflows, with ETFs of ETFs products responsible for $323 million of the category's total. Cryptocurrency ETFs remained in net outflows, posting $216 million in net redemptions, slightly better than the abysmal result of the previous quarter, when the product category recorded $655 million in net redemptions.

Concerning ETF sponsors, Vanguard Canada maintained the leadership position as the quarter's best-selling firm with $1.4 billion in net inflows. CI Investments followed with $677 million, sponsoring the season's best-selling mandate, the CI High Interest Savings ETF, which tallied $1.0 billion in net flows. Evolve Funds ranked third, with $650 million in positive sales, and produced the third best-selling fund of the quarter, the Evolve High Interest Savings Account ETF, which brought in $651 million.

Looking at product development, Q3 saw 25 new ETFs launched throughout the three months, with the majority of launches happening during the month of September. 18 out of 25 products were actively managed funds, while the other seven were passive ETFs. Asset class preferences gravitated heavily toward equity mandates, as 14 such products were launched during the period. Five fixed income ETFs, two money market and two commodities ETFs, and one of each: the cryptocurrency and the multi-asset class ETFs constituted the rest of the release line. ESG was a prominent theme of the period, with nine funds centering their investment strategies and objectives around environmental, social and governance considerations, including the notable launch of the Emerge EMPWR program, that consist of five sustainability-focused ETFs, each under women-led investment management teams.

ETF assets held by Canadian investors were not immune to the investment industry's slump of Q2 2022, diving to $368.2 billion in net assets by the end of June, representing a decline of 11.5% and 10.8% over the trailing three- and six months, respectively, and erasing a year's worth of gains. Canadian-listed ETF assets capped at $313.1 billion, an 11.5% quarterly decline and the lowest point since June 2021, when the assets equalled $307.8 billion. The share of retail ETF ownership expanded to 64.6%, or $238.0 billion, and Canadian-listed retail ETFs occupied a 35.4% share of that market, amounting to $182.9 billion.

Retail ETF assets in the full-service brokerage (FSB) channel shrunk by 35 bps but continued to account for the majority of assets, with a 48.5% share, or $115.3 billion in assets. ETF assets held in commission-based accounts tumbled 27.6% over the three-month period for a total of $41.5 billion, shaving off their share of the holdings from 21.7% in March 2022 to 17.4% in June 2022. Meanwhile, fee-based accounts capped the period at $73.8 billion, growing 2.7% in terms of assets over the second quarter of the year, reinstating their share of over 31.0% of retail ETF ownership. The online/discount brokerage (ODB) channel remained the second-largest channel of Q2, declining in assets by 11.2% over the course of the period to account for 38.2% of the market at $90.9 billion.