Q2 2022 Commentary

The Canadian ETF industry experienced one of the most underwhelming quarters in history, when market headwinds and lackluster sales together erased almost a year's worth of asset gains, with June 2022 capping at $313.1 billion, an 11.1% quarterly decline. Quarterly net creations tallied $3.0 billion, compared to the past year's quarterly average of $15.0 billion, dragged down by a slow spring and a dismal June, which saw monthly net redemptions of $1.7 billion—the first month to end in net redemptions since September 2017, also marking the highest monthly redemptions in Canadian ETF history.

Fixed income emerged as the best-selling asset class of Q2, tallying $2.0 billion, of which over two-thirds was garnered in the last month of the quarter. Investment grade bond funds were responsible for the lion's share of the asset class sales, as mix bond funds outsold the broader category with $2.2 billion in quarterly net creations. Corporate and government bond funds finished Q2 with a combined total of $246 million in net redemptions. Meanwhile, high-yield bond ETFs attracted an additional $75 million.

Money market funds found themselves as the second best-selling asset class, with $1.0 billion in quarterly net creations. Multi-asset class category accounted for a combined total of $448 million. Equities, the largest ETF category, totalled just $125 million in quarterly sales, as the asset class experienced the most devastating monthly net redemptions in history when $2.6 billion was redeemed throughout June. Canadian, emerging markets and U.S. equities all ended the quarter with negative sales. Sector equities carried the broader category, garnering $849 million during Q2, as technology and utilities and infrastructure mandates remained in high demand despite market turmoil. Cryptocurrency ETFs were at the bottom of the equity sales ranking, with $655 million redeemed over the quarter, with almost $1.2 billion redeemed throughout June alone.

Vanguard Canada was the best-selling ETF sponsor, accounting for $1.3 billion of product's quarterly net creations. National Bank followed with $904 million, and BMO Asset Management placed third with $887 million. Meanwhile, the period's best-selling mandate was Horizons ETFs' Horizons Canadian Select Universe Bond ETF, which attracted $843 million over the quarter.

Looking at product development, Q2 saw 19 ETFs added to the Canadian exchange: 11 actively managed mandates and eight passive ETFs. Concerning asset class composition, the quarter's launches favoured equities, as 14 funds of this category were rolled out during the three-month period. Two were fixed income mandates, while cryptocurrency and multi-asset class roster got one new ETF each: the CI Galaxy Blockchain ETF and the Picton Mahoney Fortified Alpha Alternative Fund ETF series.

Horizons ETFs was the most prolific sponsor of the period, rolling out seven mandates: the Horizons Copper Producers Index ETF, and a suite of six covered call ETFs, among them the first NASDAQ-100 Covered Call ETF listed in the Canadian market. BlackRock Canada and CI Investment each released four new ETFs during the second quarter. BlackRock focused on niche cybersecurity, exponential technologies and immunology themes, as well as another ESG fund, the iShares Clean Energy Index

ETF. Meanwhile, CI Investments released two high-yield funds, the ETF series of a Floating Rate Income Fund, and the Global High Yield Credit Private Pool, as well as two new additions to the Galaxy family of funds, including the CI Galaxy Metaverse ETF.

Canadian- and U.S.-listed ETF assets held by Canadian investors kicked off the year totalling $416.1 billion at the close of the first quarter, increasing at 0.9% and 8.3% trailing three- and six-month growth rates, respectively. Retail investors saw ETF asset growth of 1.7% throughout the same period and accounted for the majority $265.1 billion, or 63.7% of the total. Canadian-listed ETFs held by retail investors remained as the largest category, at $201.2 billion, and were solely responsible for the broader retail category's growth, posting at 2.3% quarterly increase, also increasing their share by 68 bps to 48.4% of the total.

The full-service brokerage (FSB) channel declined by 1.2% quarter over quarter to account for $129.2 billion in assets held at the end of Q1 2022, or 48.7% of all retail ETF assets, contracting its share of the total by a further 145 bps. The online/discount brokerage (ODB) channel remained on the growth track, increasing by 4.1% throughout the first three months of the year and further expanding its share of the total ETF ownership to 38.6% with $102.3 billion in assets at the end of Q1. Robo-advise channel took on another benchmark, surpassing $18.8 billion in ETF assets held at the end of the period and occupying 7.1% of the total. The financial advisor (FA) channel was one of the fastest growing this season, with 9.8% quarterly growth rate bringing the ETF assets total to $8.7 billion, or 3.3% of retail ETF ownership.