**Q1 2023 Commentary**

The Canadian ETF industry ended Q1 2023 reaching a peak of C$365 billion in assets, a 7.5% quarterly rise. First quarter net creations totalled $12.3 billion, compared to $15.3 billion recorded in the last quarter of 2022. March 2023 was the best-selling month of the quarter, which saw monthly net creations of $7.5 billion-marking the highest monthly net creations until date for Canadian ETFs.

Equities, the largest ETF category emerged as the best- selling asset class of Q1 2023, bringing in $4.9 billion in net creations, of which over 85% of net creations were garnered in the final month of the quarter, attracting $5.4 billion in March 2023. Looking at sub-asset class composition, sector equity mandates led the way, tallying $1.9 billion over the quarter as financials and healthcare remained in high demand, while international equities followed with $1.8 billion. Canadian equity ETFs rounded out the top three with $1.0 billion.

Money market funds placed second with $3.6 billion generated throughout the three-month period. Since interest rates started to increase nearly one year ago, the money market category returned to positive inflows after exhibiting little sales traction in more than a decade. This is true for ETFs but also for mutual fund money market funds.

While fixed income closed the quarter with $3.5 billion in net creations. Investment grade bond ETFs were responsible for the lion’s share to the category’s total, at $3.4 billion in net creations, while high-yield bond funds accounted for another $197 million. Multi-asset class ETFs capped Q1 with $480 million in net creations. Cryptocurrency ETFs were at the bottom of the ranking, with $513 million redeemed over the quarter, as January saw the product category ascend into net creations of $152 million but followed by significant net redemptions of $665 million in the following months.

Concerning ETF sponsors, a major shift on the leaderboard as National Bank ascended as the quarter’s best-selling firm with $2.3 billion in net creations, sponsoring the season’s best-selling ETF, NBI Global Real Assets Income ETF accounting for $1.0 billion in quarterly net flows. Horizon ETFs placed second, with $2.1 billion in sales, sponsoring second best selling ETF, Horizons High Interest Savings ETF accounting for $807 million while BMO Asset Management rounded out the top three with $2.0 billion. The company sponsored 3 of the top 10 best-selling ETFs of Q1 2022.

Looking at product development, Q1 saw 25 new ETFs launched throughout the three months, with most of the launches happening during the month of March. 10 out of 25 products were actively managed funds, while the other 15 were passive ETFs. Asset class preference gravitated heavily toward the equity mandates, as 16 funds were launched during the season, while the rest were nine fixed-income oriented ETFs.

A large number of the funds launched in the last year target various income opportunities across equity and fixed income markets. Strategies generating additional income by writing covered calls in part of the underlying portfolio of securities have been the focus of much product development in recent months.