

# Flow & Tell

## APAC Investment & Portfolio Solutions

September 2024

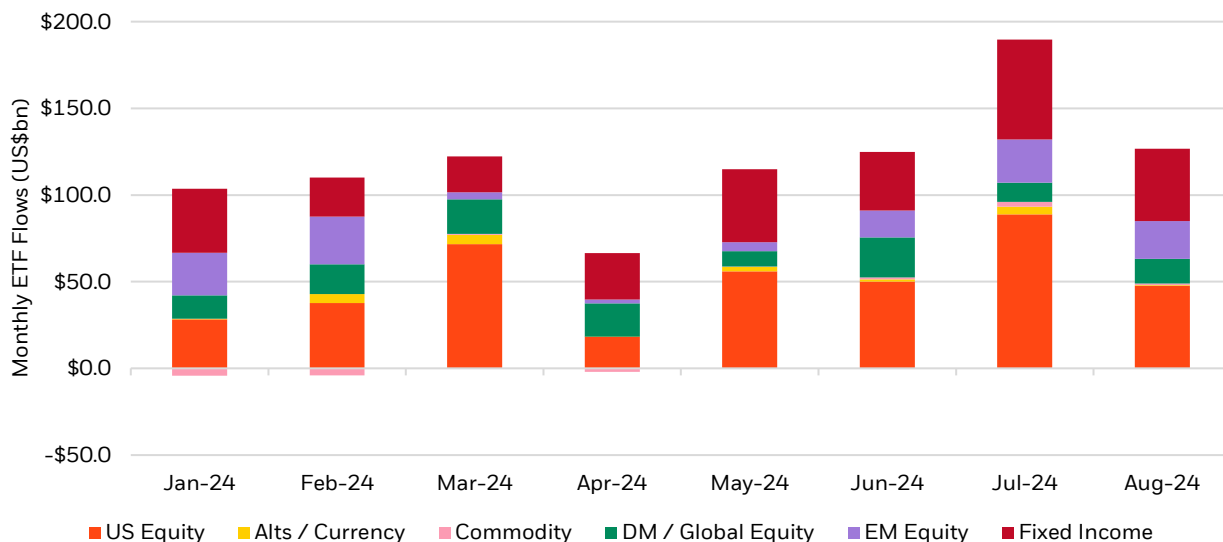
### Goodbye Summer, Hello Volatility

- 1. Active ETFs take in record inflows**, with investors showcasing preference for **value factor and fixed income allocations**.
- 2. Broad emerging market ETFs struggle** to hold onto assets, but **emerging markets ex-China funds see sizable inflows**.
- 3. The barbell is back** as investors allocate to both short and long duration U.S. Treasuries to **balance yield with portfolio ballast**.

### Market Snapshot

Despite the volatility to start the month of August, global equities ‘fully’ recovered from the technically-driven sell-off. The S&P 500 ended the month up 2.4% and ACWI ex-U.S. higher by 2.9%. Although we see the probability of a U.S. recession to be relatively low, the risk/reward of adding to equities doesn’t look particularly favorable. The softening macroeconomic backdrop may continue to stoke volatility, especially as we move towards the U.S. election in November. We advocate for taking down U.S. beta, look towards regional diversification, and focus on portfolio income.

Monthly Asset Class ETF Flows



Source: BlackRock, Bloomberg. As of Aug 31, 2024.

# 1. Time to get active

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## 2024 is proving to be a watershed year for active ETFs as investors look for ways to navigate both market volatility and dispersion.

Active ETFs have garnered over US\$200bn in net inflows year-to-date – more than double 2023's total figure. The flows come in tandem with new product launches, with over 200 active ETFs hitting the market this year alone. The pace of inflows has also been notable relative to index ETFs. Active ETFs saw ~27% growth in AUM this year, as opposed to just 7% for index ETFs.

We've seen clear preference from investors within the active equity ETF space. Large-cap growth ETF flows are predominantly concentrated in index funds (91% index, 9% active), while large-cap value ETF flows are significantly more active in nature (51% index, 49% active). This stems from a combination of product launches and investors looking for cheaper active within a trusted wrapper.

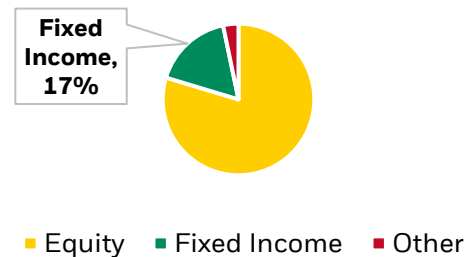
Another emerging trend is the usage of active fixed income ETFs. Investors look to be more inclined to using an active manager

in their fixed income allocations over their equity allocations. To read more about how BlackRock sees the future growth of the active ETP industry, read our whitepaper [Decoding Active ETFs](#).

### Active ETP AUM



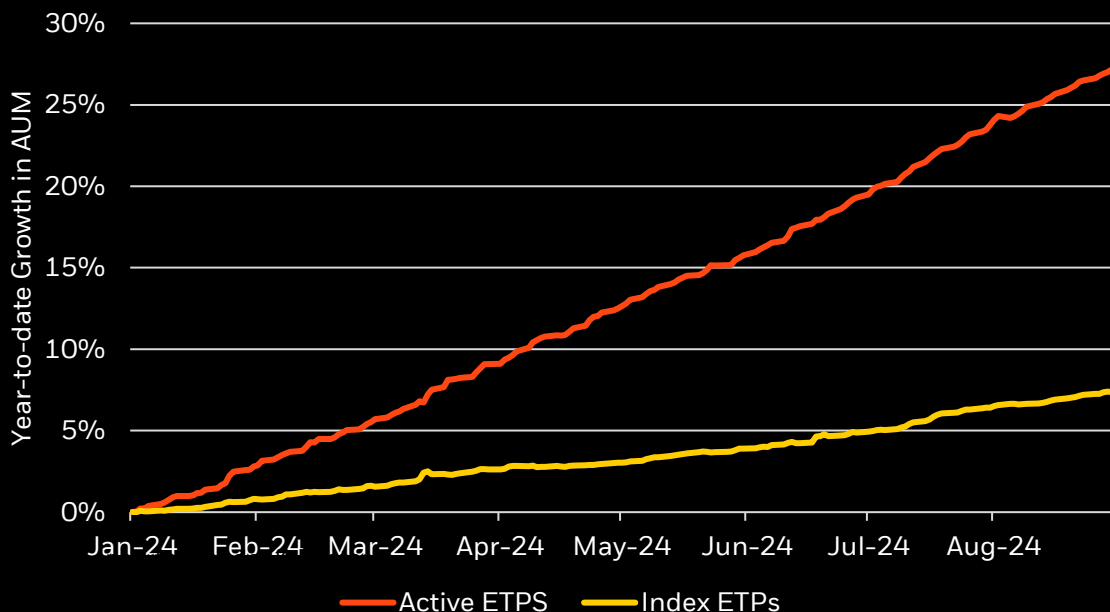
### Index ETP AUM



Source: BlackRock, Bloomberg. As of Aug 31, 2024. Charts are not drawn to scale; relative sizing is for illustrative purposes only.

## Active ETFs have seen significant growth, faster than the broader industry trend, despite only making up ~6% of the total ETF AUM.

### Active & Index ETF Asset Growth



Source: BlackRock, Bloomberg. As of Aug 31, 2024.

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# 2. Divvying up emerging markets

## A stark contract in August flows pit broad emerging markets against their emerging markets ex-China counterparts.

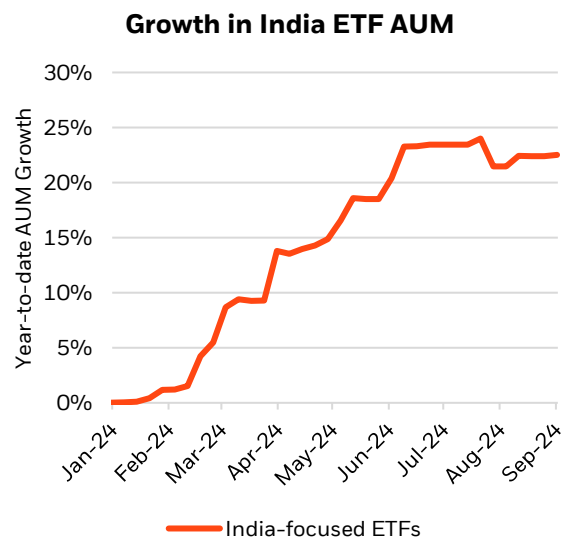
It's an asset allocation trend we've talked about before: separating out Chinese equity exposure from the broader emerging market complex as a way to manage risk. In August, we saw this trend reassert itself in a clear fashion: broad emerging market funds saw ~US\$1.4bn in net outflows, while emerging markets ex-China funds gathered ~US\$1.0bn in assets.

This coincides with the broader shift we've seen from asset allocators. Over the past three years, broad emerging market ETFs have shed US\$6.0bn in assets, while emerging markets ex-China have added US\$13.6bn. In other words, there is still appetite out there for emerging markets, but investors are shying away from China itself.

Much of this trend can be chalked up to two drivers: geopolitical tensions globally and Chinese economic weakness. The former – a key megatrend in the post-COVID world – will reshape supply chains, trade deals, and the flow of commerce globally. As a result, we've

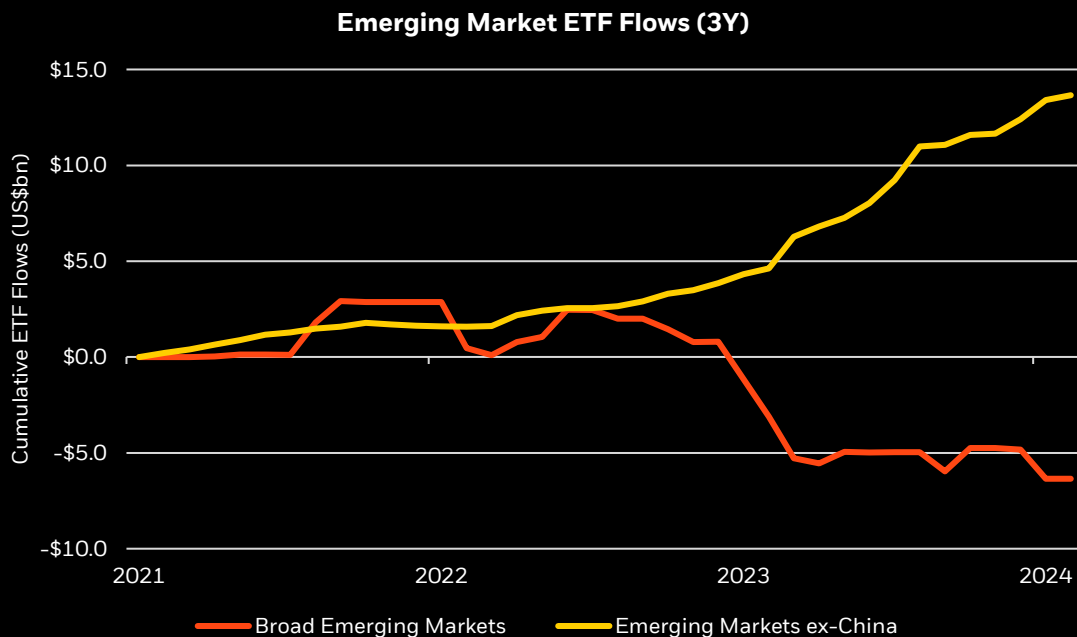
seen increased investor interest in other APAC emerging markets, such as India and Vietnam.

The latter – which has seen Chinese real estate, domestic consumption, and export-driven manufacturing suffer – is an economic reality policymakers will be forced to deal with, the ramifications of which will be felt globally.



Source: BlackRock, Bloomberg. As of Aug 31, 2024.

## August saw a continuation of a trend that has only accelerated over the past two years, where investors separate out China from broader emerging markets.



Source: BlackRock, Bloomberg. As of Aug 31, 2024.

# 3. The barbell is back

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## Investors continue to allocate heavily towards bonds, searching for yield and ballast.

Fixed income ETPs managed to earn a new accolade this summer: the global industry saw over US\$60bn in inflows in July alone, hitting a new monthly record for the ETP asset class. August saw the trend continue, marking the largest three-month stretch of fixed income ETP inflows ever.

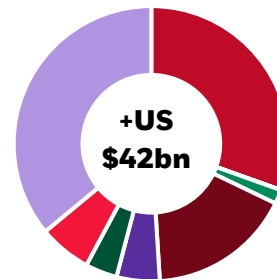
Broadly, fixed income demand stemmed from investors both seeking ballast amid the early month's volatility and then taking down equity risk once markets recovered from the technical drawdown. Interestingly, we did not see any drawdown in cash levels: total assets in money market funds climbed again to a new record of US\$6.3tr.

BlackRock investors have noted that they expect to see this rotation away from equities and into bonds as a natural move given the slowing global growth backdrop. As central banks start to move their focus away from inflation and towards economic growth, we've seen bonds reemerge as ballast within investor portfolios. This constitutes the shift

from 'bad data is good for stocks' (as it means inflation is slowing) to 'bad data is bad for stocks' (as a growth slowdown may overshoot).

Although we remain broadly constructive on global growth, we do see room for investors to look for portfolio hedges and focus on earnings income across asset classes.

August 2024

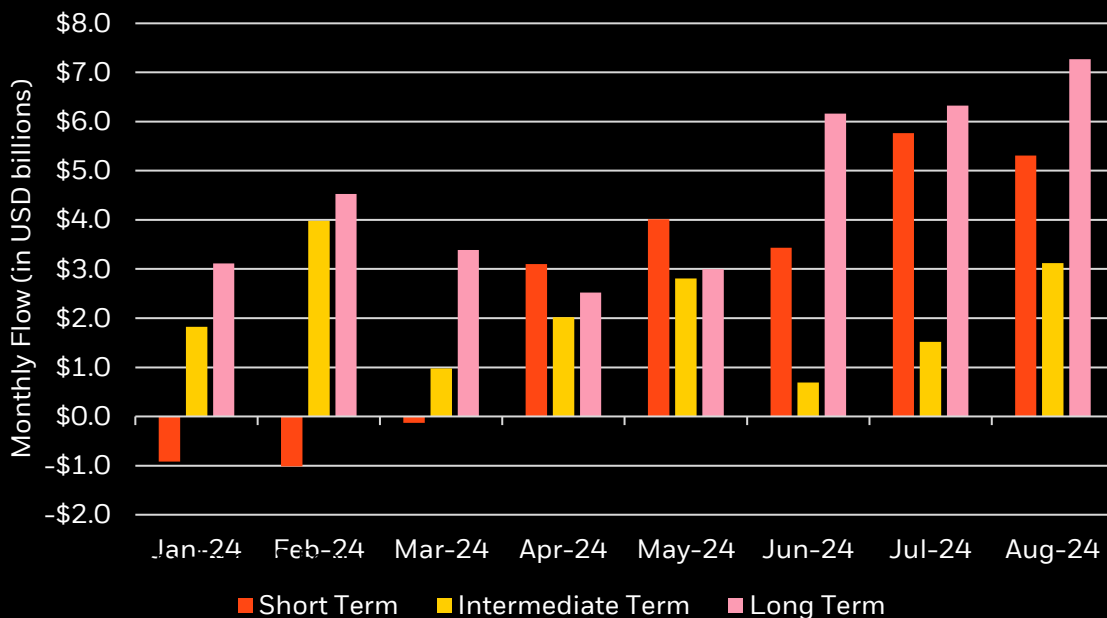


- Broad Market
- High Yield
- Loans
- Other
- Emerging Markets
- Investment Grade
- Munis
- U.S. Treasury

There is no guarantee that any expectations made will come to pass. Source: BlackRock, Bloomberg. As of Aug 31, 2024. Charts are not drawn to scale; relative sizing is for illustrative purposes only.

## Investors are adding to U.S. Treasuries across the curve, but the pick-up has been notable in the last three months to both short- and long-term UST ETPs.

Monthly U.S. Treasury ETP Flows by Duration



Source: BlackRock, Bloomberg. As of Aug 31, 2024.

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# Want to know more?

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