

iSHARES INVESTIGATES: ETF MARKET MATTERS

Fast facts from the first quarter of 2021

Three things to know from 1Q2021

- ETF assets continue to grow, but ETFs are still just a fraction of the market**
- ETFs as a percentage of equity volumes have fallen as a result of higher single stock trading**
- Trading costs for investors have normalized from wider levels in 2020, driven by lower market volatility**

ETF market size

Globally, assets under management in ETFs are only a **fraction** of the total financial market.

Nearly 10% of assets invested in U.S. equities are in U.S.-listed equity ETFs, while approximately 6% of assets invested in European equities are invested in European-listed ETFs. The fixed income ETF market is even smaller, at approximately 2.2% and 1.4% of the total U.S. and European bond markets, respectively (**Figures 1 and 2**).

Figure 1: Size of the U.S. market

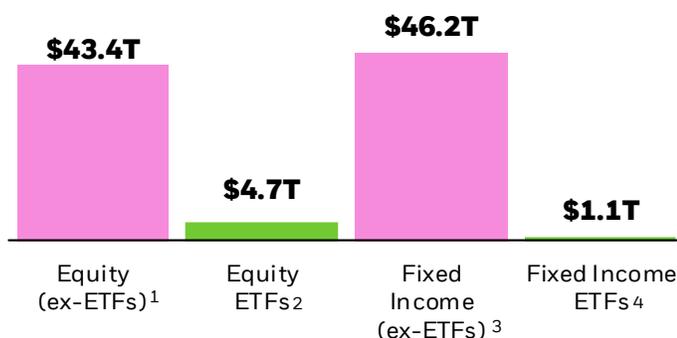
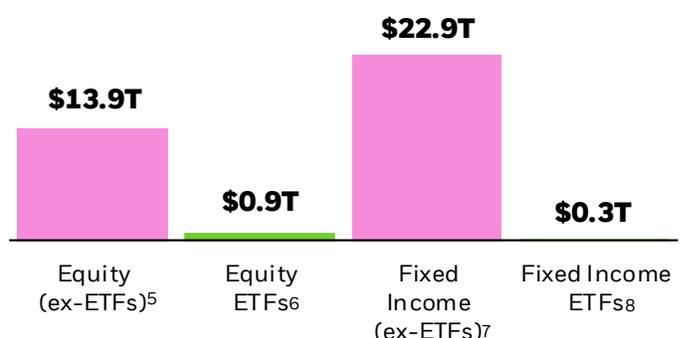


Figure 2: Size of the European market



All figures in USD unless noted otherwise.

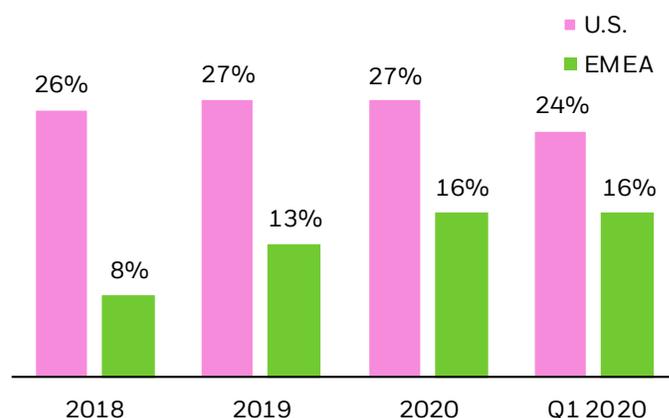
1 As of 31 March 2021. Equity (ex-ETFs) represented by the market capitalization of the Russell 3000 index. Source: Bloomberg **2** As of 31 March 2021. Source: Markit, BlackRock **3** As of 30 September 2020. Source: Bank for International Settlements (BIS) **4** As of 31 March 2021. Source: Markit, BlackRock **5** As of 31 March 2021. Equity (ex-ETFs) represented by the market capitalization of STOXX Europe 600 Index. Source: Bloomberg **6** As of 31 March 2021. Source: Markit, BlackRock **7** As of 31 January 2021. Outstanding debt issued by the residents of Euro area. Source: European Central Bank. **8** As of 31 March 2021. Source: Markit, BlackRock

ETF trading volumes

In the fourth quarter of 2020, the average daily trading volume in U.S. equities was \$626 billion. The average daily trading volume of U.S. ETFs was \$150 billion over the same period. This means that U.S. ETFs accounted for 24% of the total U.S. composite volume in the secondary market over the quarter.

Likewise, the average daily trading volume in European equities was \$89 billion, while the average daily trading volume of European ETFs was \$13.7 billion. This means that secondary market trading in European-domiciled ETFs accounted for 16% of total European cash equities over the quarter (**Figure 3**).

Figure 3: ETFs as % of equity trading volume (average)⁹



Most trading activity occurs in the secondary market

Most ETF trading activity occurs in the secondary market, where ETF shares change hands between buyers and sellers. When demand cannot be met through the secondary market, large institutions (authorized participants) can transact with ETF issuers to create or redeem ETF shares in a separate, “primary” market.

In the first quarter of 2021, the ratio of secondary market activity to primary market activity in the U.S. was 8:1. This means that for every \$8 of ETFs traded, only \$1 resulted in trading activity in the underlying securities. In Europe, this ratio was 3:1.

Figure 4: Primary and secondary market activity (U.S.)¹⁰

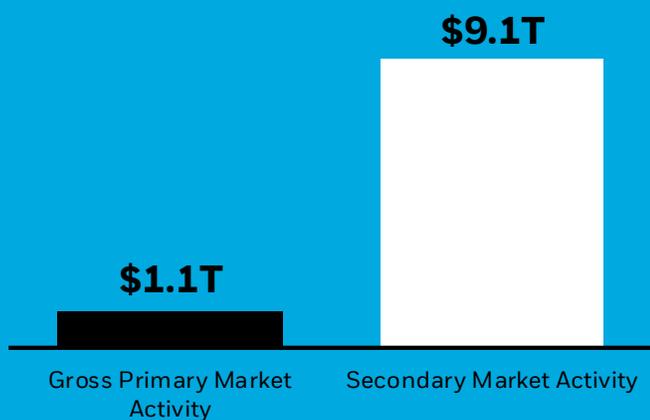
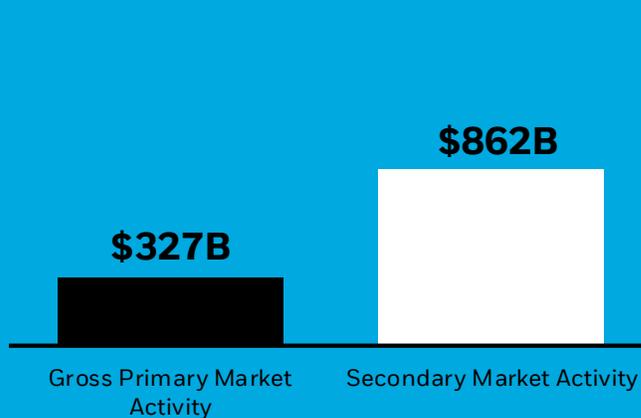


Figure 5: Primary and secondary market activity (Europe)¹¹



All figures in USD unless noted otherwise.

⁹ As of 31 March 2021. Source: Bloomberg, BlackRock ¹⁰ As of March 31 2021. Source: Bloomberg, BlackRock, Markit ¹¹ As of 31 March 2021. Source: Bloomberg, BlackRock, Markit

iShares secondary market trading stats

In the first quarter of 2021, the average daily trading volume in U.S. iShares ETFs was \$42.8 billion, above the 2020 average daily volume of \$35.5 billion. In Europe, the average daily trading volume in iShares ETFs rose to \$5.8 billion in the first quarter, compared to the 2020 average daily volume of \$4.7 billion.

Trading costs for investors, as represented by bid-ask spreads, are impacted by factors such as liquidity, volatility and improvements to the ETF ecosystem that can make trading more efficient. In the U.S., trading costs in iShares ETFs fell to 12.2 basis points (bps) in Q1, on average, in part due to lower market volatility.¹² Similarly, trading costs for investors in European-listed iShares ETFs fell to 15.8 bps on average (Figures 6 and 7).

Figure 6: Average daily volumes for iShares ETFs¹³

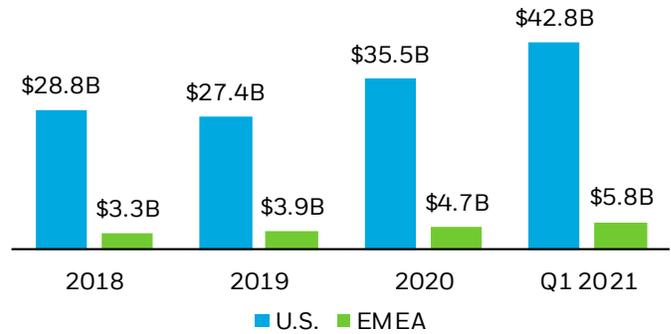
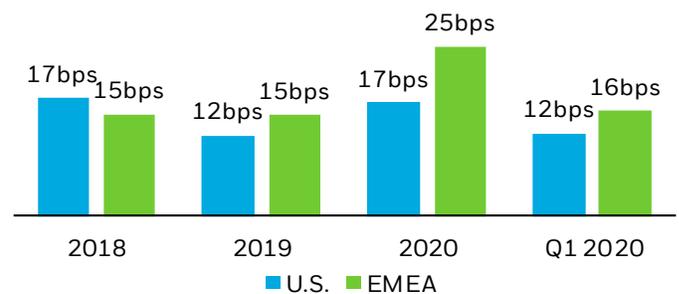


Figure 7: Average iShares ETF bid-ask spread¹⁴



ETF flows have minimal impact on stocks

Investors can assess the impact of primary market activity on the prices of underlying stocks through a metric called “imputed flow.” This metric estimates the proportion of all stock trading that results from ETF creations or redemptions; meaning, imputed flow is an approximation for how much stock trading is generated by ETF inflows and outflows.

The impact is typically modest. Approximately, 5% of trading volume in U.S. equities has been attributable to ETF activity, while in the Europe, just 2.6% of trading in individual European stocks has been attributable to ETF flows (Figures 8 and 9).

Figure 8: Percentage of stock trading as a result of ETP flows (US)¹⁵

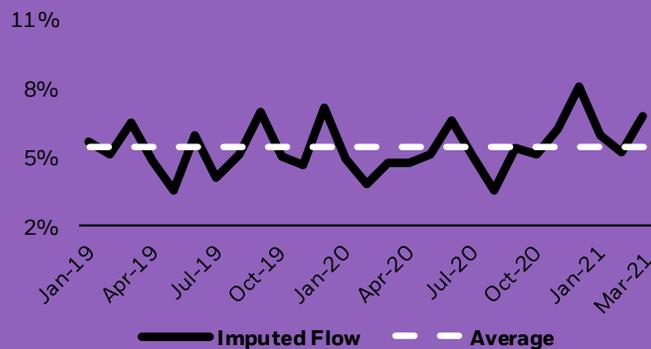
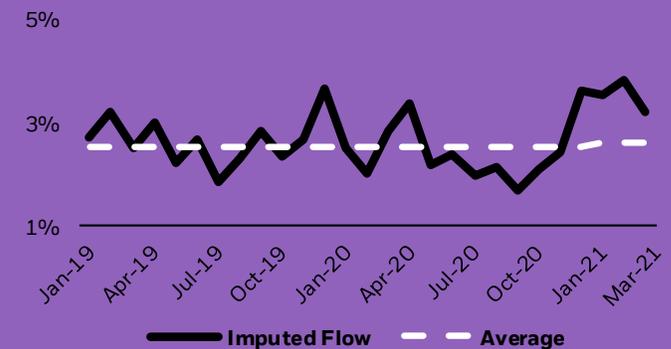


Figure 9: Percentage of stock trading as a result of ETP flows (Europe)¹⁶



All figures in USD unless noted otherwise.

¹² A basis point (bps) is one hundredth of one percent. ¹³ As of 31 March 2021. Source: Bloomberg, BlackRock ¹⁴ As of 31 March 2021. Source: TAQ Refinitiv ¹⁵ As of 31 March 2021. Source: Bloomberg, BlackRock ¹⁶ As of 31 March 2021. Source: Bloomberg, BlackRock

Risks

Capital at risk. The value of investments and the income from them can fall as well as rise and are not guaranteed. Investors may not get back the amount originally invested.

Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy.

Changes in the rates of exchange between currencies may cause the value of investments to diminish or increase. Fluctuation may be particularly marked in the case of a higher volatility fund and the value of an investment may fall suddenly and substantially. Levels and basis of taxation may change from time to time.

All figures are denominated in U.S. dollars, unless otherwise noted.

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For U.S. investors: Carefully consider the Funds' investment objectives, risk factors, and charges and expenses before investing. This and other information can be found in the Funds' prospectuses or, if available, the summary prospectuses which may be obtained by visiting www.iShares.com or www.blackrock.com. Read the prospectus carefully before investing.

Investing involves risk, including possible loss of principal.

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