

# iSHARES INVESTIGATES: ETF MARKET MATTERS

Fast facts from the third quarter of 2020

## ETF Market Size

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

Just 9% of assets invested in U.S. equities are in U.S.-listed equity ETFs, while 6% of assets invested in European equities are invested in European-listed ETFs. The fixed income ETF market is even smaller, at approximately 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**

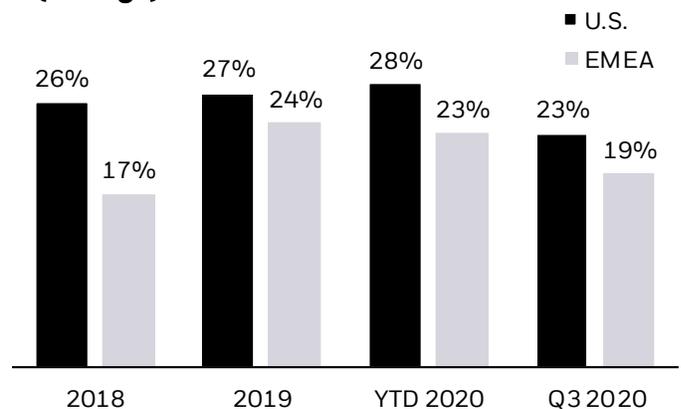


## ETF Trading Volumes

In the third quarter of 2020, the average daily trading volume in U.S. equities was \$459 billion. The average daily trading volume of U.S. ETFs was \$107 billion over the same period. This means that U.S. ETFs accounted for 23% of the total U.S. composite volume in the secondary market over the quarter.

Likewise, the average daily trading volume in European equities was \$40 billion, while the average daily trading volume of European ETFs was \$7.6 billion. This means that secondary market trading in European-domiciled ETFs accounted for 19% of total European cash equities over the quarter (**Figure 3**).

**Figure 3: ETFs as % of Equity Trading Volume (average)<sup>9</sup>**



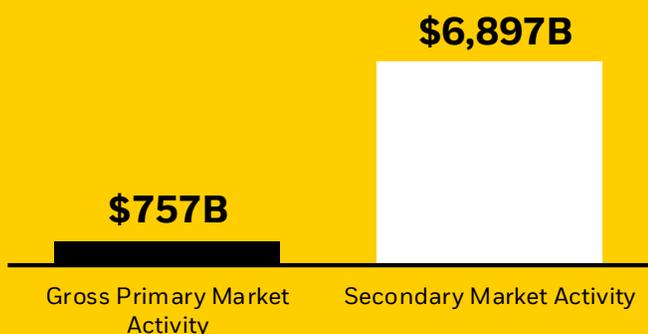
**1** All figures in USD unless noted otherwise. As of September 30, 2020. Equity (ex-ETFs) represented by the market capitalization of the Russell 3000 index. Source: Bloomberg **2** As of September 30, 2020. Source: Markit, BlackRock **3** As of March 31, 2020. Source: Bank for International Settlements (BIS) **4** As of September 30, 2020. Source: Markit, BlackRock **5** As of September 30, 2020. Equity (ex-ETFs) represented by the market capitalization of STOXX Europe 600 Index. Source: Bloomberg **6** As of September 30, 2020. Source: Markit, BlackRock **7** As of June 30, 2020. Outstanding debt issued by the residents of Euro area. Source: European Central Bank. **9** As of September 30, 2020. Source: Markit, BlackRock

# Most trading activity occurs in the secondary market

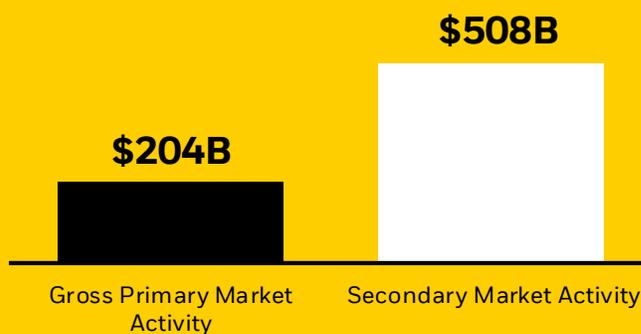
Most ETF trading activity occurs in the secondary market, where ETF shares change hands between buyers and sellers. When demand cannot be met through the secondary market, large institutions (authorised participants) can transact with ETF issuers to create or redeem ETF shares in a separate, “primary”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

In the third quarter of 2020, the ratio of secondary market activity to primary market activity in the U.S. was 9:1. This means that for every \$9 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 (US)** <sup>10</sup>



**Figure 5: Primary and secondary market activity (Europe)** <sup>11</sup>

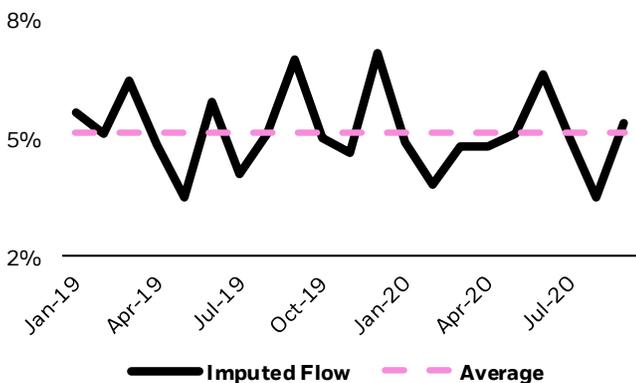


## ETF flows have minimal impact on stocks

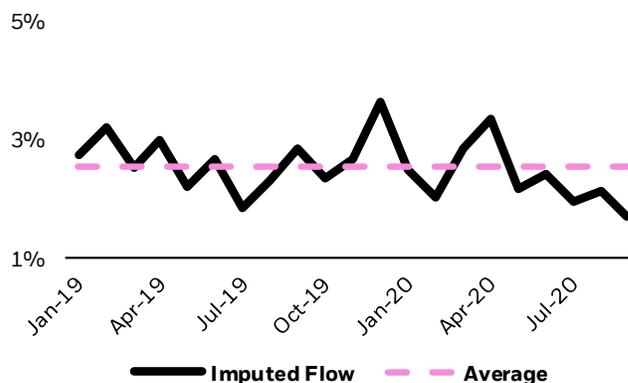
Investors can assess the impact of primary market activity on the prices of underlying stocks through a metric called “imputed flow.” This metric estimates the proportion of all stock trading that results from ETF creations or redemptions; meaning, imputed flow is an approximation for how much stock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

The impact is modest. Approximately, 5% of trading volume in U.S. equities has been attributable to ETF activity, while in the Europe, just 2.5% of trading in individual European stocks has been attributable to ETF flows (**Figures 6 and 7**).

**Figure 6: Percentage of stock trading as a result of ETP flows (US)** <sup>12</sup>



**Figure 7: Percentage of stock trading as a result of ETP flows (Europe)** <sup>13</sup>



**10** All figures in USD unless noted otherwise. As of September 30, 2020. Source: Bloomberg, BlackRock **11** As of September 30, 2020. Source: Bloomberg, BlackRock **12** As of September 30, 2020. Source: Bloomberg, BlackRock **13** As of September 30, 2020. 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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