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Investments

2025 ETF Outlook.

Growth, trends and key
themes for advisors.



The ETF industry is set to continue its robust growth this year.

As we look ahead to 2025, the ETF industry in Canada is poised for substantial growth, driven by evolving investor preferences and emerging macroeconomic conditions. The past year has set the stage for a more dynamic investment landscape, offering both challenges and opportunities for advisors and investors alike.

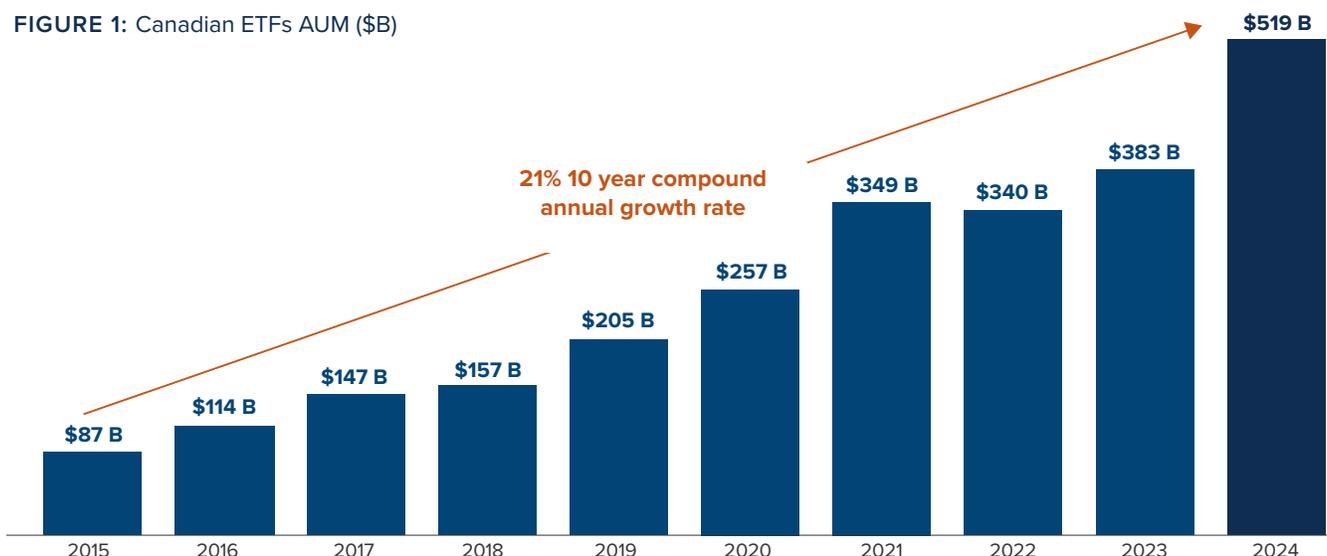
This outlook explores expected industry growth, shifting trends in investor behaviour and key themes that advisors can leverage using ETFs to navigate the year ahead.

After crossing the \$400 billion milestone earlier this year, the total AUM in ETFs reached \$519 billion by year-end, driven by record inflows of ~\$76 billion that surpassed the

previous annual inflow record set in 2021 of \$52.5 billion. By year end, the total number of ETFs available to Canadian investors exceeded 1,500.

As illustrated in **Figure 1**, the Canadian ETF industry enjoyed strong growth over the past 10 years (compound annual growth rate ~21%).

FIGURE 1: Canadian ETFs AUM (\$B)

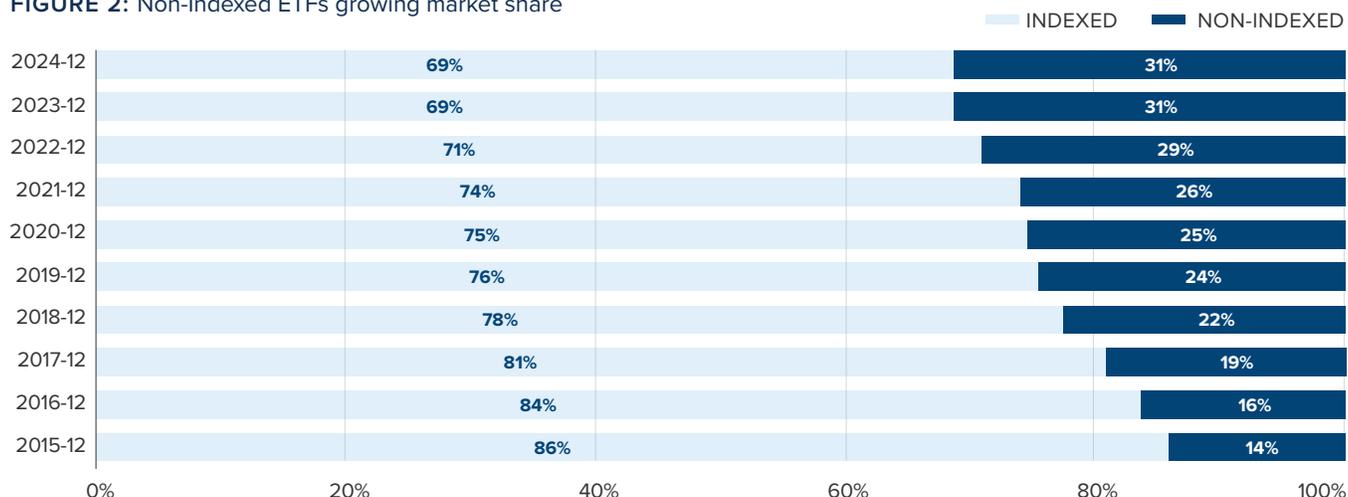


Source: Morningstar. As at December 31, 2024. Canadian-listed ETF assets include holdings by retail investors as well as institutions and holdings by other investment funds.



As seen in **Figure 2**, Canadian ETFs are breaking away from the traditional image of ETFs as passive investment vehicles, with non-indexed ETFs gaining market share to offer investors opportunities across the entire investment spectrum.

FIGURE 2: Non-Indexed ETFs growing market share



Source: Morningstar. As at December 31, 2024.

As illustrated in **Figure 3**, during 2024, equity ETFs had \$43.1 billion inflows, fixed income ETFs had \$24.0 billion inflows and multi-asset ETFs gathered \$9.0 billion inflows.

FIGURE 3: 2024 Canadian ETF flows

EQUITY		FIXED INCOME		ASSET ALLOCATION	
	FLows (\$M)		FLows (\$M)		FLows (\$M)
Cap-weighted	29,494	Canada aggregate	7,908	All-equity	4,921
Income	3,743	Canada corporate	7,472	Growth	2,168
Factor	1,884	Foreign	3,496	Balanced	1,741
Sector	3,182	Money market	2,811	Conservative	203
Thematic	-240	US / North America	1,939	Income	48
Other	5,047	Sub-investment grade	418	Total	9,081
Total	43,110	Canada government	411		
		Pref/convertible	-375		
		Total	24,080		

Source: Bloomberg. As at December 31, 2024.



Expected growth in the ETF industry.

The Canadian ETF industry has seen significant expansion over the past decade, and 2025 is set to continue this trajectory.

Market projections indicate that assets under management (AUM) in ETFs could conservatively grow by 15-20% as investors seek flexible, cost-effective solutions in response to fluctuating economic conditions. This momentum is supported by the increasing adoption of ETFs as a primary investment tool among institutional investors, as well as the growing interest from retail investors seeking diversified and transparent portfolio options.

Advisors play a critical role in guiding clients toward ETF strategies that align with their financial objectives, particularly in an environment where market conditions can shift rapidly. Understanding the growth trajectory of ETFs and their capacity to adapt to changing economic factors allows advisors to better position their clients' portfolios for success.





Investor preferences and shifting trends.

Investor behaviour in 2025 is likely to be shaped by macroeconomic factors such as interest rate policies, inflation trends and geopolitical risks. Investors are expected to lean toward ETF products that offer:



Inflation resilience

With central banks maintaining a cautious approach to rate adjustments, products that hedge against inflation will be highly sought after.



Income generation

As real yields continue to adjust, there will be a strong preference for ETFs that provide sustainable income. This includes dividend-focused equity ETFs and fixed-income ETFs. Advisors can use these products to create steady income streams for clients, which is particularly valuable for those in or nearing retirement.



Thematic and sector rotation

Following the economic recovery from the disruptions of 2023 and 2024, sector-specific ETFs focusing on technology, energy and industrials may see increased demand as investors rotate toward growth opportunities. Advisors should consider how sector ETFs can be used to capitalize on cyclical trends and support clients' tactical allocations.



Key themes for 2025

Advisors can utilize ETFs to express a variety of investment themes that align with broader macroeconomic narratives:

1 Navigating economic uncertainty

With the US election and potential policy shifts influencing global markets, ETFs that provide exposure to defensive sectors or low-volatility strategies could play a crucial role in mitigating risks. Advisors can use these ETFs to create a buffer in portfolios, helping clients manage volatility and maintain confidence during periods of uncertainty.

2 Global diversification

Geopolitical developments and regional economic disparities will reinforce the importance of diversification. Emerging market ETFs and global fixed-income ETFs can provide exposure to growth regions while managing concentration risks. For advisors, incorporating these ETFs allows clients to access potential opportunities beyond domestic markets and spread risk more effectively.

3 Option-based ETFs to meet the strong demand for income

Investor adoption of option-based ETFs is broadening to cover sector, thematic, equity broad market and fixed income. The popularity of covered-call strategies stems from investors' income needs, tax efficiency and lower drawdowns during volatile markets.

4 Active management

Active ETFs are increasingly important for investors looking to outsource to portfolio managers the allocation in areas where they do not have the knowledge or expertise, such as fixed income and emerging markets, or they are simply seeking alpha.

5 Quality and valuation

With market valuations reaching mixed levels across sectors, ETFs that emphasize quality companies with strong balance sheets and consistent earnings growth will be attractive to investors seeking stability amid potential volatility. Advisors can turn to these ETFs to build a foundation of reliable, high-quality investments that support long-term wealth preservation.



Why ETFs matter to advisors

The rapid growth and adaptation of the ETF industry has provided advisors with an ever-expanding toolkit to meet the diverse needs of their clients. By understanding which ETF products align with current economic conditions, advisors can make informed decisions that enhance portfolio resilience and growth potential. ETFs offer versatility, liquidity and cost efficiency, which are essential for constructing tailored investment strategies.

Advisors should consider

- 1. Integrating ETFs into core and satellite portfolio strategies:** Core allocations can be built with broad-market ETFs, while satellite positions can utilize sector/thematic ETFs to add targeted exposure.
- 2. Staying agile with economic shifts:** As market conditions evolve, being prepared to adjust exposure quickly is crucial. Advisors can leverage ETFs for timely shifts between defensive and growth-focused assets.
- 3. Communicating the value of ETFs to clients:** Education around the benefits of ETFs, including their transparency, diversification and operational efficiency, helps advisors demonstrate how these products fit within a client's overall financial plan.

The ETF industry in Canada is set to continue its robust growth in 2025, driven by both macroeconomic tailwinds and evolving investor preferences. Advisors will find opportunities to leverage ETFs as tools for strategic allocation, income generation and thematic expression.

By aligning with key themes such as **economic uncertainty**, **ESG integration** and **global diversification**, advisors can better support their clients in achieving their long-term investment goals. A balanced approach across asset classes and geographies will be essential for navigating the complexities of the upcoming year.



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