Intelligence Quarterly

VanEck Australia

ETF & Market Update

Q1 | 2021

HIGHLIGHTS

— The popularity of ETFs continued unabated in Q1 with investments now exceeding $100 billion in Australia, with international equities capturing 53% of flows.

— Markets appear to have priced in a return to ‘normal’. With an unwavering commitment by central banks to not fight inflation. The environment is being called reflationary.

— Recently President Biden unveiled his US$2.3 trillion infrastructure plan. But a significant funding gap remains for infrastructure and we are positive on the long term case for infrastructure assets in a portfolio.

— Carbon neutral focus is paving the way for ESG to be mainstream and a focus on renewable energy by governments.

— Acceptance of Bitcoin no longer in question, but it won’t steal investors from solid gold.

AUSTRALIAN ETF INDUSTRY UPDATE

Growth unabated

ETFs' impressive growth trajectory has continued to go from strength to strength, on track to become Australia's most popular investment product. Total funds under management (FUM) in Australia exceeded $100 billion this quarter. In the 12 months to the end of March, the value of Australia's ETF sector grew by more than $46 billion – a colossal 80 per cent increase.

Australians are increasingly looking overseas to diversify their portfolio, with international equities taking more than half of total flows into exchange traded products (ETPs) in Q1. This is being driven by both the increased access and availability of ETFs offering an international exposure, and a maturing of the market with an increasing number of investors no longer wishing to limit their portfolios to the local market.

A near record number of new ETPs hit the market this quarter. This included four actively managed funds and five ETFs. VanEck had the highest number of new ETFs, launching a Global Clean Energy ETF (CLNE), an International Quality Small Companies ETF (QSML), and an International Value ETF (VLUE). The number of thematics on ASX is increasing. Thematics made up a third of new ETFs launched in the 12 months to March 2021 . With $4 billion already invested in thematics and these pulling in many first-time ETF investors, we expect the prevalence of thematics to continue.

Table 1: Industry net flows by asset class

Asset Class	Q1 2021 Net Flow ($m)	%	YTD Net Flow ($m)	%	FUM ($m)	%
International Equity	2,379	53%	2,379	53%	52,266	51%
Australian Equity	1,250	28%	1,250	28%	30,536	30%
Australian Fixed Income	299	7%	299	7%	8,294	8%
Commodity	-1	0%	-1	0%	3,180	3%
Cash	-101	-2%	-101	-2%	2,848	3%
International Fixed Income	312	7%	312	7%	2,399	2%
Asset Allocation	342	8%	342	8%	2,049	2%
Leveraged & Inverse	8	0%	8	0%	922	1%
Currency	-5	0%	-5	0%	182	0%
Grand Total	4,482	100%	4,482	100%	102,677	100%

Source: VanEck, Bloomberg.

Table 2: Industry net flows by issuer

Comapny	Q1 2021 Net Flow ($m)	%	YTD Net Flow ($m)	%	FUM ($m)	%
Vanguard	1,556	35%	1,556	35%	28,094	27%
iShares	795	18%	795	18%	20,702	20%
BetaShares	1,037	23%	1,037	23%	15,806	15%
Magellan	-137	-3%	-137	-3%	14,711	14%
SPDR	101	2%	101	2%	7,443	7%
VanEck	472	11%	472	11%	6,904	7%
Other	327	7%		7%	3,702	4%
ETF Securities	217	5%	217	5%	3,280	3%
Russell	-3	0%	-3	0%	947	1%
Fidante	128	3%	128	3%	550	1%
Platinum	-11	0%	-11	0%	539	1%
Total	4,482	100%	4,482	100%	102,677	100%

Source: VanEck, Bloomberg.

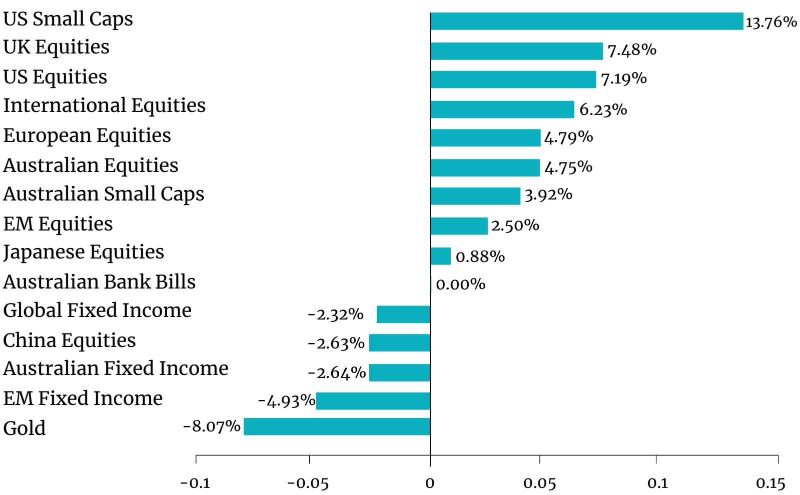
MARKET UPDATE

A glass half full

While COVID's tentacles remain wrapped around some of the world's most populous countries and the stagnation of the vaccine rollout in Australia has dashed the hopes of borders being reopened this year, markets appear to have already priced in a return to 'normal'. International equities, as determined by the MSCI World ex Australia Index, saw growth of 6.23% this quarter while US small caps, as determined by the Russell 2000 Index, had the strongest rally at 13.76%.

Central banks have shown their commitment to not fight inflation and the current environment is being called reflationary. Reflation being fiscal or monetary policy designed to expand economic output, stimulate spending, and curb the effects of deflation and it usually occurs after a period of economic uncertainty or a recession. Reflation has happened before and during these periods smaller companies tend to outperform larger companies, as we've seen this quarter with US small caps, value tends to outperform growth and long-term bond yields increase.

Chart 1: Index returns in the March 2021 quarter



Source: Bloomberg, 1 January 2021 to 26 March 2021, returns in Australian dollars. US Small Caps is Russell 2000 Index, UK Equities is FTSE 100 Index, International Equities is MSCI World ex Australia Index, US Equities is S&P 500 Index, European Equities is MSCI Europe Index, Australian Equities is S&P/ASX 200 Accumulation Index, Australian Small Caps is S&P/ASX Small Ordinaries Index, EM Equities is MSCI Emerging Markets Index, Japanese Equities is Nikkei 225 Index, Australian Bank Bills is Bloomberg AusBond Bank Bill Index, Global Fixed Income is Bloomberg Global Aggregate Bond Hedged AUD Index, China equities is CSI 300 Index, Australian Fixed Income is Bloomberg AusBond Composite 0+ yrs Index, EM Fixed Income is 50% J.P. Morgan Emerging Market Bond Index Global Diversified Hedged AUD and 50% J.P. Morgan Government Bond-Emerging Market Index Global Diversified, Gold is Gold Spot US$/oz.

INVESTMENT OUTLOOK

Global Infrastructure spend to heal the world economy

President Biden's US$2.3 trillion infrastructure plan aims to revitalise US transportation infrastructure, water systems, broadband and electricity grids among other goals. But a significant funding gap remains for infrastructure and we are positive on the long term case for infrastructure assets in a portfolio. Valuations have not recovered from pre-COVID highs. The interest rate environment is beneficial to listed infrastructure companies because they commonly employ larger amounts of debt in their capital structures to fund the projects of the scale, size and long-life they are involved. In the current low interest rate environment, we expect infrastructure companies to continue to take advantage of this historic scenario.

ESG is instrumental. Renewable energy is the new black

The pandemic has added fuel to pre-existing structural trends such as an increased focus on sustainability and climate change. The world is moving towards net zero carbon emissions, with economic superpowers China and the US pushing the accelerator on clean energy and a structural change in energy production. Similarly, increased scrutiny of companies with poor ESG records and practices will continue.

Bitcoin and gold can be friends

Bitcoin can no longer be dismissed as a fad or tech curiosity. While bitcoin is more volatile than gold or gold stocks, the volatility profile is stabilising, indicative of a maturing speculative asset class. While there are many characteristics which gold and bitcoin have in common, there are stark differences. Bitcoin is not a tangible asset. Like paper currency, it only has value so long as the public believes it has value. Gold, on the other hand, is real and used in electronics, jewellery, medicine and aerospace. It has utility beyond its use as a store of value. While bitcoin may steal some gold investors at the margin, it is also likely to attract new investors to the safe-haven realm where gold and silver are established. Perhaps gold will find new use as a stabiliser in volatile crypto funds.

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