Exchange-traded funds: 30 years in the Canadian market

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2020 marked the 30th year since the first exchange-traded fund (ETF) launched on the Toronto Stock Exchange (TSX). Since entering the Canadian market in March 1990, ETFs have grown into a significant sector of the asset management industry and an important component of the holdings of Canadian investors, institutional and retail alike.

While markets experienced significant turbulence in the spring of 2020, the orderly, high volume trading of ETFs provided transparency, price discovery and much needed liquidity to Canadian markets. The ecosystem of dealers that act as market makers for ETFs functioned well. In general, dealers did not back away from their essential role in ETF markets, even through the extreme market stress of March 2020. Though there were short periods in which the prices of ETFs diverged from net asset value, this divergence was caused by the underlying market for constituent securities, and not dysfunction in the market for ETFs themselves. The resilience of ETFs during 2020 will likely contribute to increased investor confidence in ETFs and continued growth going forward.

This article explores current trends in the ETF industry, including the emergence of ETF series offerings and ESG ETFs, and whether lower-cost alternatives present a viable option to address the rising costs of index licensing. Along the way, we highlight key considerations for investment managers.

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