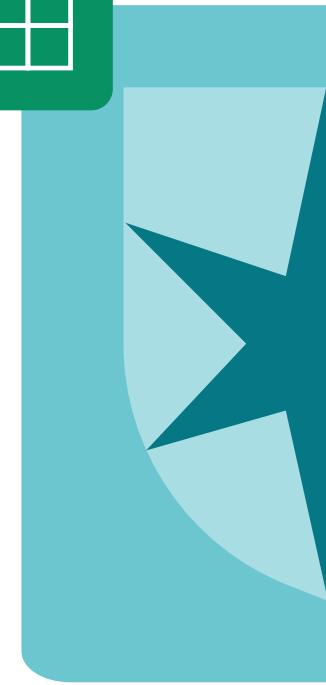




Morningstar's Guide to ETF Trends in 2025



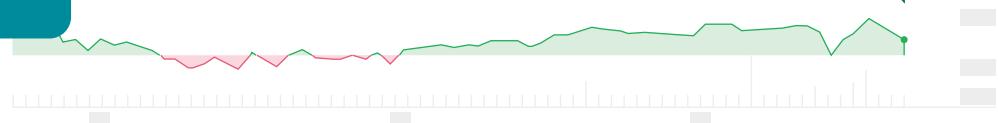
ABC Co Growth ETF ABGR ★★★★ Gold

Overview

| NAV | 1-Day Return | Total Assets | Adj. Expense Ratio | Prospectus Net Expense Ratio | Category |
|-------|--------------|--------------|--------------------|------------------------------|----------------------|
| 38.24 | 2.36% | 12.2 Bil | 0.390% | 0.390% | US Fund Large Growth |



\$ 38.28 \$ 0.04 | 0.10 %

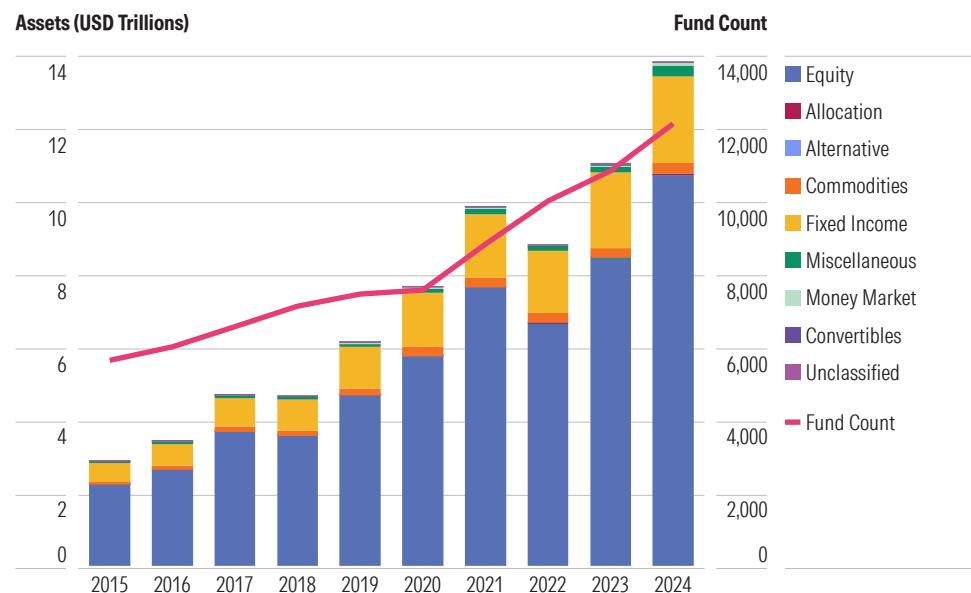


The 90s was an era dominated by iconic events. The Hubble Space Telescope was launched, Google was founded, and *Titanic* became the first film in history to gross over USD 1 billion.

But at the very beginning of the decade, in 1990, another significant event took place—the world's first exchange-traded fund, or ETF, launched on the Toronto Stock Exchange. Just three years later, the first American ETF made its debut—the SPDR® S&P 500® ETF Trust.

From humble beginnings, ETFs have come a long way since 1990. As of the first quarter of 2025, Morningstar's database covers over 29,000 cross-listed ETFs and 13,000 unique ETFs across the globe. Our data shows that equity and bond ETFs account for over 94% of the global ETF market, while commodity and alternative ETFs make up just over 3%.

Exhibit 1: Global ETF Growth, Assets and Fund Count, 2015-2024



Source: Morningstar Direct. Data as of December 31, 2024

But ETFs haven't just evolved in number—their nature has evolved dramatically. New and innovative ETFs have appeared to cater to the market's ever-growing appetite. But not all ETFs are created equally, and trendy shouldn't be mistaken for top-notch.

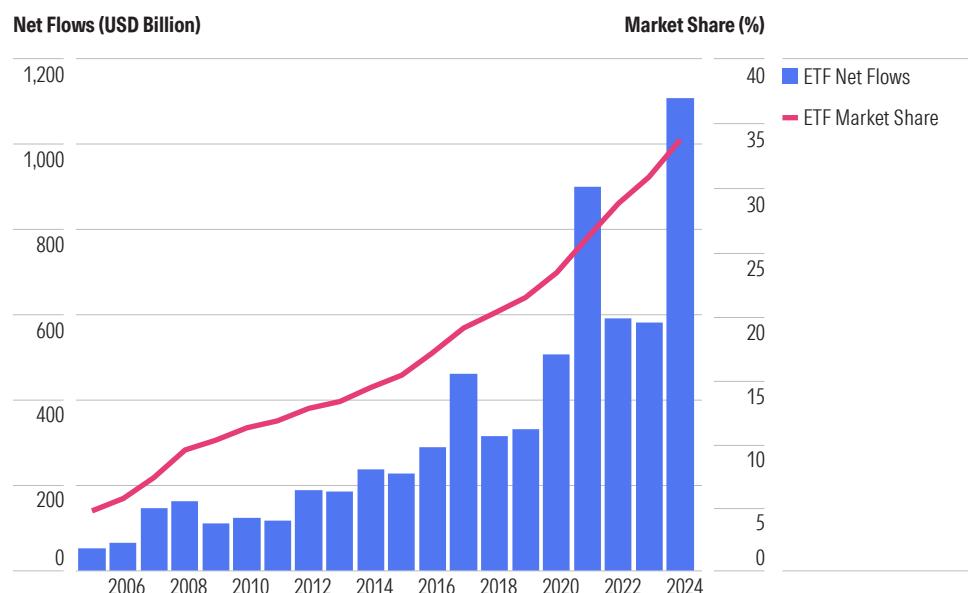
We'll explore some of the most interesting and innovative developments in the space, from the rise of active ETFs to private market, buffer, and derivative-income ETFs.

The ETF Landscape: A Snapshot

In the United States, 2024 was a record-breaking year for ETFs. [Morningstar research shows ETF inflows surpassed USD 1.1 trillion](#), bringing the total assets in ETFs to around USD 10 trillion, or about one-third of the US fund market. This marks a significant milestone for the US ETF landscape, considering that ETFs' market share of combined mutual fund and ETF assets was 14% at the end of 2014 and 5% in 2004.

2024 also proved to be a bumper year for the US ETF market thanks to another historic event—the Presidential Election. In the wake of a Trump victory in early November, ETF inflows spiked in November and December, attracting a combined USD 310 billion in inflows. However, this win was short-lived due to the impact of President Trump's tariffs, announced in April 2025. As a result, investors rushed to pull out billions from US ETFs as US equities plummeted in value.

Exhibit 2: ETF Flows and Market Share in the United States, 2005-2024



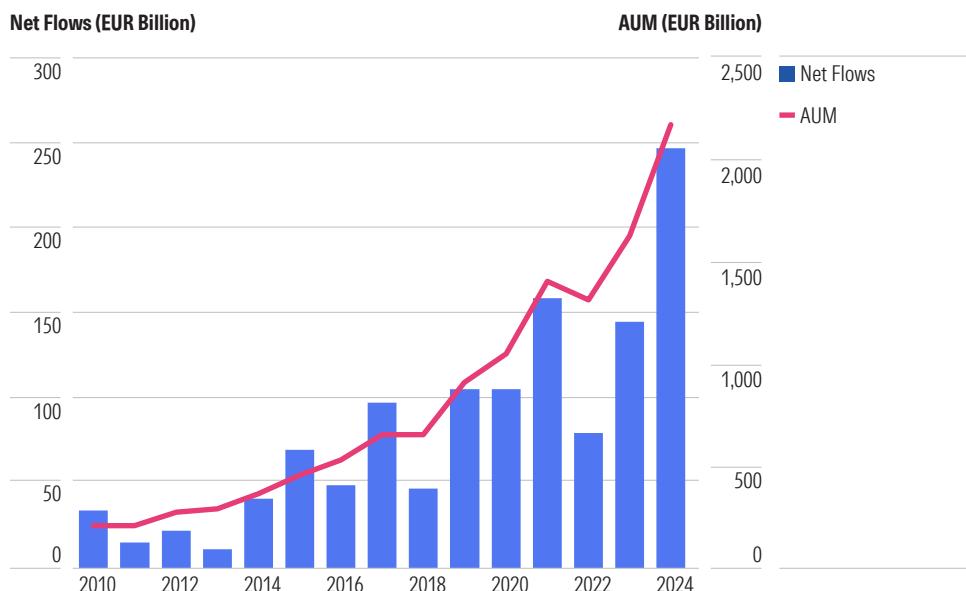
Source: Morningstar Direct. Data as of December 31, 2024

The ETF success story continues in Europe. According to Morningstar research, [total ETF flows in Europe amounted to EUR 246.8 billion in 2024](#), up from EUR 145.4 billion the previous year. That's a jaw-dropping increase of almost 70%.

Meanwhile, assets under management reached new heights, as ETFs and exchange-traded commodities, or ETCs, held EUR 2.18 trillion at the end of 2024, a 33% increase from EUR 1.64 trillion in 2023.

The aftermath of President Trump's election victory was also felt across Europe, as investors flocked to US equities in the fourth quarter of 2024. ETFs in the US large-cap blend category, which includes funds tracking popular benchmarks like the S&P 500, attracted flows of EUR 37.6 billion in this period. But again, a similar story unfolded in the wake of reciprocal tariffs, with European investors turning away from US ETFs, funneling roughly EUR 16.2 billion into Europe-domiciled ETFs in April.

Exhibit 3: Total Net Flows and Assets Under Management for the European ETF and ETC Market, 2010-2024



Source: Morningstar Direct. Data as of December 31, 2024

Morningstar's Verdict on ETF Trends: The Good, The Bad, and The Too-Soon-to-Tell

Active ETFs: A Growth Story Decades in the Making

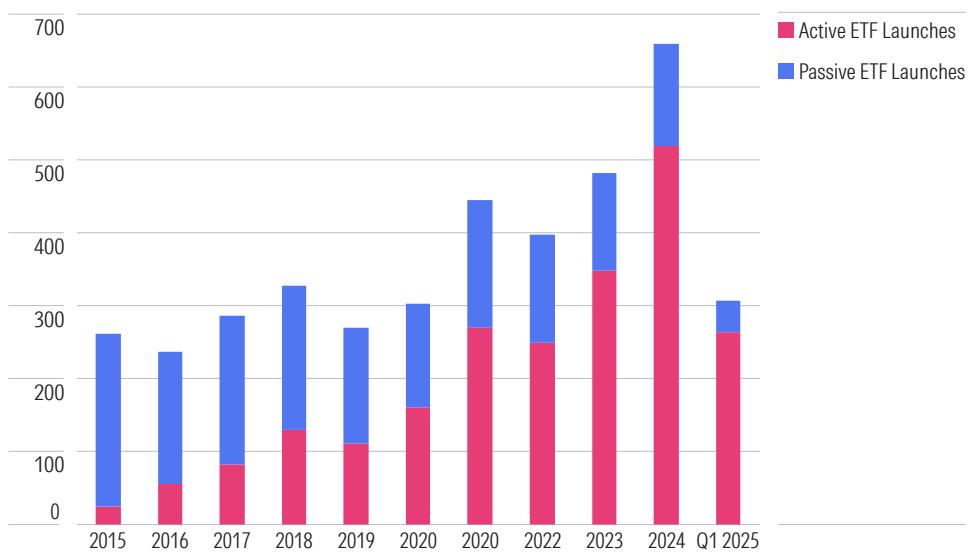
Active ETFs are currently in the spotlight. And for good reason: they've had a phenomenal rise in the last few years.

Morningstar research shows that active ETFs in the US had an [organic growth rate of 57% in 2024](#), more than doubling the annual inflows record they set in 2023. Active ETFs represented just 6% of overall ETF assets at the start of 2024, but they claimed 26% of all net flows into ETFs in 2024, which is no small feat.

While active ETFs have been around for almost two decades, they've had a recent boost thanks to regulation. In 2019, the SEC introduced [Rule 6c-11, also known as "The ETF Rule"](#). This regulatory change streamlined the approval process for ETFs and permitted all funds subject to the rule to take advantage of custom creation and redemption baskets to improve the prospective tax efficiency of their funds.

Since the rule took effect, the number of active ETFs has skyrocketed. In 2019, when the rule was introduced, the number of new active ETF launches clocked in at 92. In 2020, the number of active ETF launches almost doubled to 182. More recently, there were 578 new active ETF launches in 2024, up from 391 the prior year.

Exhibit 4: Number of Active ETF Launches in the United States, 2015-2025

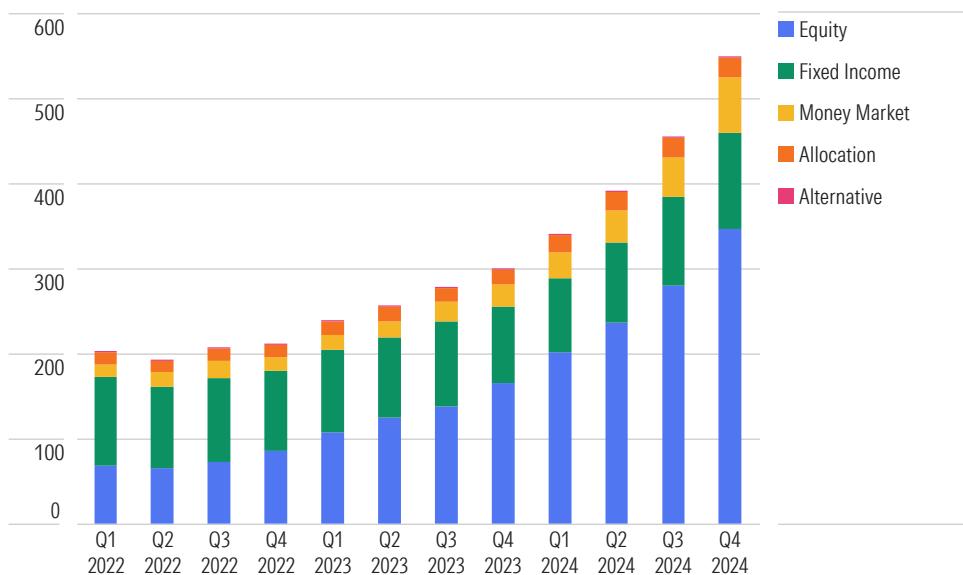


Source: Morningstar Direct. Data as of December 31, 2024

In Europe, [2024 was a record-breaking year for active ETFs](#). Inflows increased 185% from 2023, bringing in EUR 19.1 billion, up from EUR 6.7 billion the prior year. The biggest winners were equity and money market strategies. While overall flows into active ETFs represented a modest 7.7% of the total ETF flows in 2024, this was still a significant increase in market share, up from 4.6% in 2023.

But it wasn't just a big year for flows. Total assets in active ETFs also rose dramatically, reaching EUR 54.4 billion in 2024, up from EUR 29.6 billion in 2023. In terms of asset class, equity was the firm favorite among investors with EUR 34.4 billion, followed by fixed income with EUR 11 billion and money market with EUR 6.5 billion. By the end of 2024, assets in active ETFs accounted for 2.5% of total assets invested in ETFs in Europe, up from 1.8% in 2023.

Exhibit 5: European Active ETF Assets by Broad Asset Class (EUR, Billion), Q1 2022-Q4 2024



Source: Morningstar Direct. Data as of December 31, 2024

Morningstar Analysts' verdict:

Active ETFs are a potential lifeline for active managers, especially as active mutual fund assets contract. As a group, actively managed funds haven't done a very good job of beating their indexes, but some active managers have outperformed.

Active ETFs are more established in the US and growing in Europe. Overall, the market is still young, and many active ETFs have been born into a bull market, but [we do expect both the size and number of funds available to grow](#). More options can be beneficial for investors, but it will likely lead to a more complex and competitive landscape.

While the ETF wrapper can often bring transparency, lower costs, and in some countries, tax efficiency, there are no guarantees that active management in the ETF wrapper will outperform. It's essential that investors and advisors conduct robust due diligence to pick the right manager. That's where Morningstar's research and ratings come in. Our independent research and proprietary analytics offer valuable insights to support decision making.

Are Private Markets and ETFs a Match?

As public and private markets converge, new means of accessing private markets are emerging. In 2025, State Street and Apollo launched the world's first private-credit ETF, SPDR® SSGA IG Public & Private Credit ETF, or PRIV.

As Morningstar analysts have noted, the goal of this groundbreaking ETF is to [invest in public and private credit in one ETF](#). The public side includes fixed-income securities like corporate bonds and syndicated bank loans, nothing too out of the ordinary for ETFs.

But the private side is where it gets interesting. Private credit covers corporate direct lending (the most common) to music royalties and equipment financing. Traditionally, private credit has been out of reach for most investors, but this ETF hopes to change that. That's why savvy asset managers are paying attention, as they're looking to tap into investors' desire for exposure to a growing part of the credit markets.

While this unprecedented ETF could usher in a new era of private market investing, there are major concerns, predominantly around the issue of liquidity and redemptions, as private credit is difficult to trade.

Morningstar Analysts' verdict:

The convergence of public and private markets is underway, and this ETF has fired the starting gun in the race to develop private products within the ETF wrapper. BlackRock has already announced a private-investment model portfolio with private equity firm Partners Group, while Invesco and Goldman Sachs have shown interest in private investments in ETFs. Like the SEC, we have [concerns around the structure](#), but currently, it's too soon to tell whether this structure will be successful or just a flash in the pan. Whatever the outcome, our flagship investment application—Morningstar Direct—has the capabilities to support asset and wealth managers as they carry out their due diligence on these funds.

The Growing Buffet of Buffer ETFs

Buffer ETFs, also known as defined-outcome ETFs, use options to limit the losses on a portfolio over a set period in exchange for limiting gains, and fall under the actively managed umbrella.

They're designed to be bought and sold at the start and end of a certain period. Typically, this is a year, so firms often have 12 different funds for each buffer strategy, or one for each month. So far, they've proved popular with investors, especially those who are extremely risk-averse or have a shorter investment timeline.

According to Morningstar data, buffer ETFs have grown rapidly in a relatively short period. By the end of 2024, [they grew to almost USD 50 billion in assets](#), up from USD 5 billion at the end of 2020. Their quick rise can be attributed to two key events. The first was the SEC's ruling around active ETFs. The second was the down market of 2022, when stocks and bonds both dropped.

Morningstar Analysts' verdict:

[Buffer ETFs have worked...so far.](#) Our research shows that the average dollar invested in buffer ETFs earned around 10.7% per year, exceeding the ETFs' 9.4% annual aggregate total return—in short, a success. But caveat emptor applies, as buffer ETFs come with higher fees, a complex structure, partial exposure to stock market losses, and a lack of equity dividends.

Currently, there are 363 funds in Morningstar Direct's Defined Outcome ETF category, though there are considerably fewer unique strategies underlying that number.

Deriving More Income With Derivative-Income ETFs

Derivative-income ETFs generate income via derivative instruments and typically use strategies like writing or selling options, engaging in futures contracts, and other derivative transactions to enhance income. They've gained traction due to their potential for higher yields compared to traditional income-generating investments like bonds or dividend-paying stocks.

In 2024, Morningstar's derivative-income category held USD 145 billion in assets, with inflows that year totaling USD 29 billion, with the US driving the majority of flows.

As of the first quarter of 2025, the derivative-income ETF space is dominated by two funds offered by one provider—JPMorgan. The JPMorgan Equity Premium Income ETF, or JEPI, has over USD 37.6 billion in assets, while the JPMorgan Nasdaq Equity Premium Inc ETF, or JEPQ, has more than USD 22.8 billion in assets.

Morningstar Analysts' verdict:

In the long term, these ETFs are unlikely to outperform the market as a buy-and-hold strategy, but for investors with sizable short-term needs for cash, this strategy could extract cash flow from their portfolios. When it comes to derivative-income ETFs, [our analysts have a list of best practices](#), such as understanding the tax consequences, adjusting your expectations, not fixating on yields, diversifying your options, and using equity sleeves to enhance dividends and lower volatility.

Environmental, Social, and Governance ETFs & Thematic ETFs

While many of the ETF categories covered above are trending upwards, that's not the case for ESG or thematic funds.

In 2024, ESG ETFs in Europe garnered EUR 32.4 billion in flows, bolstered by stronger performance in the fourth quarter. Despite this last-minute boost, total inflows for the year finished down 24% from 2023, when ESG ETFs attracted EUR 42.8 billion in flows. Morningstar research shows the proportion of total flows into ESG strategies has declined abruptly since 2022. Key factors driving this decline include mainstream propositions and attitudes towards ESG and uncertainty around regulations.

But it's not just ESG ETFs that have struggled. 2024 was also a brutal year for thematic ETFs, which experienced disinvestment for the first time in the past decade to the tune of EUR 1.1 billion in outflows. ETFs tracking the energy transition theme suffered the biggest loss, but security, AI, and big data themes were in demand.

Morningstar Analysts' verdict:

Several interconnected factors can help [explain the decline of ESG funds](#). A complex geopolitical environment has led Europe to deprioritize sustainability goals and instead focus on economic growth, competitiveness, and defense. In the US, President Trump's anti-climate and anti-ESG policy measures have prompted US asset managers to be more cautious when promoting their ESG credentials. Additionally, uncertainty around regulation, specifically the European Union's Sustainable Finance Disclosure Regulation, or SFDR, means firms are hesitant to create new ESG products and strategies.

Strategic Beta Strategies: The Best of Both Worlds

While active ETFs are on the rise, historically, ETFs have been synonymous with passive investment strategies.

Morningstar data shows that in 2024, when US-domiciled ETFs experienced [inflows of USD 1.1 trillion](#), passive ETFs accounted for almost 75% of this record-breaking figure, bringing in USD 822.9 billion. By contrast, active ETFs brought in USD 285.9 billion.

The power and popularity of passive ETFs is most evident when looking at the total number of assets in ETFs. In 2024, this figure—an eye-watering USD 10.3 trillion—was dominated by passive ETFs, which made up almost 92%, or USD 9.443 trillion. In contrast, active ETFs accounted for 8% of assets, around USD 867 billion.

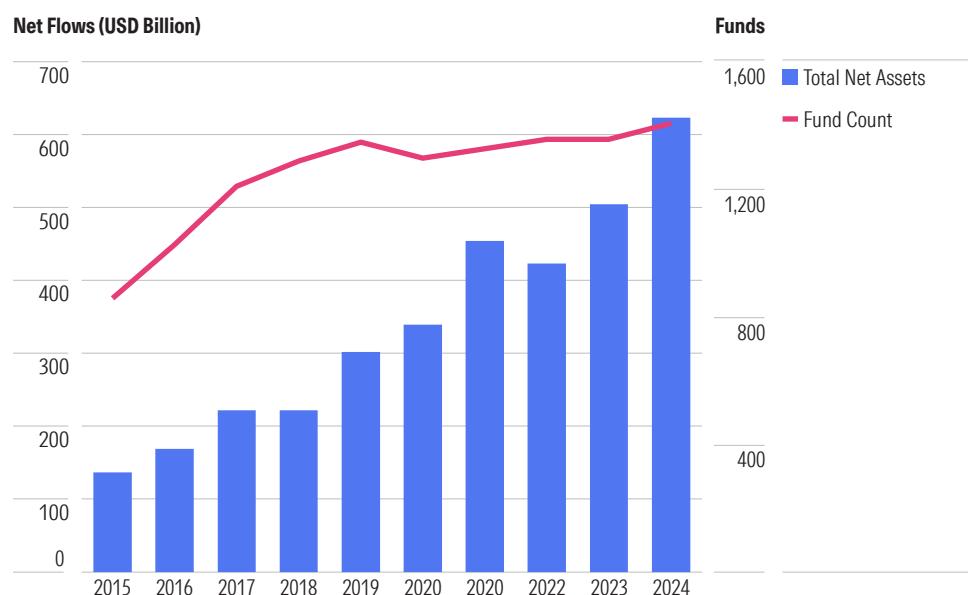
However, there is a third type of investment strategy to consider. Strategic beta, also known as smart beta, attempts to blend the benefits of passive and active investing strategies.

Although they've been around since the mid-2000s, they gained popularity in the years following the 2008 financial crisis and surged in the 2010s.

Strategic beta products are a sophisticated approach to achieving alpha as they choose and weight holdings based on factor-specific metrics. They track an index, like a passive index fund, but it's different in that it's a factor-based index as opposed to a market cap weighted index. These funds are designed to capture academically substantiated factors that contribute to success, like value, volatility, and quality, which have been favored by active managers and shown to provide above-average returns over longer periods.

As of Dec. 31, 2024, assets in strategic beta ETPs totaled over USD 2.2 trillion, up from USD 1.8 trillion the previous year.

Exhibit 6: Global Strategic Beta Funds: Net Assets and Fund Count, 2015-2024



Source: Morningstar Direct. Data as of May 7, 2025.

Morningstar Analysts' verdict:

While many new fund inventions fail, strategic beta funds have avoided this fate by being passive, cheap, and performing predictably. When compared to their actively managed rivals, strategic-beta funds do not “drift” from their investment approaches. According to Morningstar research, in 2024 [strategic beta ETPs controlled almost USD 2.3 trillion in assets](#), meaning they're very much here to stay.

How Morningstar Supports Wealth & Asset Managers

Morningstar's institutional investment research, proprietary ratings, and global data can all be accessed through our flagship investment application, Morningstar Direct. This all-in-one tool helps asset and wealth managers as they build and manage their investment products by supporting market research, product creation, positioning, marketing, and distribution strategies.

With Morningstar's ETF data, available in Direct, wealth and asset managers have the tools they need to succeed.

Wealth managers can use Direct to:



Monitor Markets

Use in-depth analysis and research to stay ahead of the market and identify emerging opportunities in the ETF space.

Access up-to-date ratings on fund performance to make informed decisions.



Construct Portfolios

Use cutting-edge tools to seamlessly construct diverse ETF portfolios that are customized and compliant.

Use our StrategyID data point to screen, filter, and analyze multiple strategies. See which funds employ the same strategy to streamline your research and due diligence processes.



Select Investments

Pinpoint investments that align with your client's risk and diversification objectives.

Create select lists that meet regulatory requirements.



Share Performance

Create clear reports that highlight performance, holdings, and allocation which can be shared with clients, stakeholders, and regulators.

Monitor which investments and reports are being used by advisors and client-facing teams for greater oversight.

Asset managers can use Direct to:



Perform Competitive Analysis

Access detailed peer performance metrics and investment data to maintain your competitive edge.

Use trusted ratings and in-depth evaluations to assess investment strategies and performance.

Use advanced analytical tools to uncover emerging market opportunities and develop products that meet evolving investor demands.



Develop Product Strategies

Simplify your workflows with a unified source of data for investment analysis and portfolio construction.

Explore the entire investment universe to pinpoint the most effective vehicles for implementing innovative strategies.



Launch Innovative Offerings

Back-test investment concepts and simulate risk scenarios to validate your strategy.

Monitor and adjust portfolios regularly to adapt to changing conditions and maintain optimal performance.



Manage Fund Performance

Share detailed reports on fund performance, holdings, and allocation with clients, stakeholders, and regulators to maintain transparency.

Use Morningstar's instantly recognizable ratings to showcase the credibility and strength of your funds, fostering trust among investors.

Morningstar's ETF Research and Ratings

Morningstar has been conducting independent investment research since 1984 to help investors cut through the noise.

Our research helps firms deliver better outcomes, reduce costs, comply with regulatory and governance pressures, and differentiate themselves from competitors. With our industry-leading proprietary ratings, we empower investors with the tools they need to rate and analyze a universe of funds.



The Morningstar Rating

The Morningstar Rating, also referred to as the star rating, is a purely quantitative, backward-looking measure of a fund's past performance that serves as a good starting point when it comes to narrowing down a sizable investment space.



The Morningstar Medalist Rating

While the Morningstar Rating helps investors identify funds that performed well on a risk-adjusted (ex-post) basis, arguably what matters most for investors is the fund's forward-looking prospect to outperform (ex-ante). Enter the Medalist Rating for funds, a forward-looking five-tier system used to assess a fund's ability to outperform its Morningstar Category index after fees. The tiers are Gold, Silver, Bronze, Neutral, and Negative. A fund is assessed through three pillars: people, parent, and process.



The Morningstar Sustainability Rating

The Morningstar Sustainability Rating measures how well an ETF's holdings manage environmental, social, and governance risks and opportunities using data from Sustainalytics. The rating uses globe icons to showcase the level of ESG risk on a scale of one to five. A rating of five globes indicates a fund is at the top end of its peer group when it comes to sustainability, while one globe means it's underperforming.

Ready to enhance your practice?

[Speak to a specialist](#) to find a solution that works for you.