

MEDIA RELEASE

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HOW ETFs WEATHERED THE COVID-19 FINANCIAL CRISIS

The Financial Services Council (FSC) today released analysis undertaken by Milliman - *Exchange Traded Funds during COVID-19 – A Case Study* - which provides important insights into the performance of Exchange Traded Funds (ETFs) during one of the largest and most extreme crises experienced by global markets.

Despite the extreme market volatility, Milliman analysis found that ETFs performed a crucial and important role within markets during the COVID-19 financial crises providing a level of stability, price discovery and liquidity that effectively allowed them to be a pressure valve in this period.

FSC CEO Sally Loane said: “The report counteracts concerns from parts of the market regarding the role of ETFs and how they would perform in a crisis. Critics of ETFs have cited their potential to exacerbate market movements caused by the systematic rebalancing of the underlying assets from geared ETFs, particularly as their popularity and dominance has grown in recent years. Questions have been asked as to whether this dominance has the potential to hinder overall market activity.

“However this criticism is unfounded. Milliman analysis found that ETFs do not exacerbate crises, rather they perform the role that they were designed for, which is a vehicle for transparency and market efficiency,” Ms Loane said.

“The report shows as at November 2020, ETFs are growing rapidly with over \$92bn invested in ETFs, which has more than doubled since 2018. This cements ETFs as an important and valued investment for investors.

“In assessing ETF market behaviour during the COVID-19 market stress period, the Milliman analysis found that whilst trading costs increased this was to be expected due to increased costs of creations and redemptions and the increased pricing/hedging risk.

“Importantly however, ETFs provided price discovery, rather than further adding to volatility and there was liquidity for investors who were able to continue buying and selling ETFs on the exchange during the COVID-19 financial crisis.

“It is clear from the Milliman analysis that ETFs are an overwhelmingly positive market instrument and played a vital role providing price discovery rather than adding further volatility during the significant market stress in 2020,” Ms Loane added.

A full copy of the *Exchange Traded Funds during COVID-19 – A Case Study* report can be found here: <https://fsc.org.au/resources/2178-milliman-etf-covid19-research-final-report/file>.

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About the Financial Services Council

The Financial Services Council (FSC) has over 100 members representing Australia's retail and wholesale funds management businesses, superannuation funds, life insurers, financial advisory networks and licensed trustee companies. The industry is responsible for investing almost \$3 trillion on behalf of more than 15.6 million Australians. The pool of funds under management is larger than Australia's GDP and the capitalisation of the Australian Securities Exchange and is the fourth largest pool of managed funds in the world.