

Is the ETF bubble finally going to burst?

- The ETF industry has yet to undergo its first major test in a bear market. What happens when everyone exits through the same door at the same time?

- Michael Burry of the “The Big Short” says index funds are a massive bubble, likening them to the collateralised debt obligations (CDO) that he shorted before the global financial crisis in 2008.

- If massive capital inflows into index funds were the key driver of stock and bond performance over the past decade, the reverse will exacerbate the current sell-off. Bloomberg data which tracks ETF flows show that there is still significant room for more ETF outflows from equities.

US-focused equities ETF outflow still minimal. According to Bloomberg data tracking ETF fund flows, there has only been US\$2.5bn net outflow from US-focused equity ETFs over the past month. This only represents less than 5% of the total net inflows over the last three months.

Still more room for downside when fund redemption accelerates. With the ongoing COVID-19 and renewed oil price war, fund outflows could exacerbate and trigger further selling pressure, which would lead to indiscriminate selling of index stocks.

Figure 1: Fund inflows into US ETFs are still positive year-to-date, which means more room for stocks to fall when fund redemption increases.

Asset Class	1D	1W	1M	3M	YTD	1Y	3Y
1) Equity	-9,712	-6,383	-13,200	+128,237	+53,520	+330,569	+1,254,348
10) United States	-394	+5,414	-2,487	+52,197	+24,130	+184,927	+476,816
11) International*	-245	-1,193	+469	+27,912	+13,869	+49,839	+242,255
12) Developed Markets*	-4,102	-4,666	-67	+13,263	+7,654	+29,473	+139,538
13) Japan	-113	+659	-1,398	+4,905	+4,836	+26,972	+121,088
2) Fixed Income	+1,234	+7,662	+23,495	+77,036	+55,147	+282,626	+617,810
20) United States	-356	+7,908	+15,882	+51,896	+36,688	+178,904	+383,810
21) Global*	+274	+426	+3,621	+10,473	+8,869	+41,512	+84,559
22) International*	+116	+139	+1,456	+5,173	+3,108	+12,083	+40,632
23) Emerging Markets*	+18	-396	+1,050	+4,353	+2,803	+7,938	+24,790

Source: Bloomberg, KGI Research

KGI's Ratings

Rating	Definition
Outperform (OP)	We take a positive view on the stock. The stock is expected to outperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
Neutral (N)	We take a neutral view on the stock. The stock is expected to perform in line with the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
Underperform (U)	We take a negative view on the stock. The stock is expected to underperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
Not Rated (NR)	The stock is not rated by KGI Securities.
Restricted (R)	KGI policy and/or applicable law regulations preclude certain types of communications, including an investment recommendation, during the course of KGI's engagement in an investment banking transaction and in certain other circumstances.

Disclaimer

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities. This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. You should independently evaluate particular investments and consult an independent financial adviser before dealing in any securities mentioned in this report.

This report is confidential. This report may not be published, circulated, reproduced or distributed and/or redistributed in whole or in part by any recipient of this report to any other person without the prior written consent of KGI Securities. This report is not intended for distribution and/or redistribution, publication to or use by any person in any jurisdiction outside Singapore or any other jurisdiction as KGI Securities may determine in its absolute discretion, where the distribution, publication or use of this report would be contrary to applicable law or would subject KGI Securities and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by KGI Securities to be reliable. However, KGI Securities makes no representation as to the accuracy or completeness of such sources or the Information and KGI Securities accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. KGI Securities and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of KGI Securities and its connected persons are subject to change without notice. KGI Securities reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) KGI Securities, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) KGI Securities, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; and (3) the officers, employees and representatives of KGI Securities may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business".)

However, as of the date of this report, neither KGI Securities nor its representative(s) who produced this report (each a "research analyst"), has any proprietary position or material interest in, and KGI Securities does not make any market in, the securities which are recommended in this report.

Each research analyst of KGI Securities who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of KGI Securities or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including KGI Securities' total revenues, a portion of which are generated from KGI Securities' business of dealing in securities.

Copyright 2020. KGI Securities (Singapore) Pte. Ltd. All rights reserved.