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Perspective from
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The shift to outcome-driven ETFs

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The start of a new year often sharpens investor priorities. Now after several years of uneven growth, shifting rate expectations and wide dispersion across markets, 2026 has begun with renewed urgency around a familiar question: What do we want our portfolios to do for us now?

It's a question being asked at scale. In 2025 alone, global exchange-traded funds (ETFs) attracted roughly US$2.24 trillion in net inflows, setting records not just for flows, but also trading volumes and new launches.[1] This growth highlights how firmly ETFs have established themselves as a primary vehicle for portfolio change—driven by evolving market conditions and a growing demand for clearer investment outcomes. As assets continue to concentrate in the ETF wrapper, the more revealing story is no longer *whether* investors are using ETFs, but *how* they are using them.

Long valued for liquidity, transparency and ease of implementation, ETFs are increasingly being deployed with greater precision as portfolio construction shifts from access to intention. Alongside continued interest in actively managed ETFs, thematic investing has also gained traction. With this, we also see renewed appreciation for systematic, rules-based equity strategies—often designed not simply to track markets, but to shape the outcome experience.

In our view, aligning thematic exposure with specific goals or factors can help mitigate any over-correlation and better express investor objectives with greater clarity and discipline.

Innovation in index design has meaningfully expanded what rules-based strategies can deliver, enabling investors to move beyond simple market exposure toward more intentional, outcome-aware portfolio construction. Whether the objective is smoother volatility, stronger risk-adjusted returns, enhanced income, or targeted factor and sector exposure, multifactor ETFs can be well-suited as deliberate portfolio tools for core asset allocation. Importantly, these approaches offer a level of discipline and transparency that can be difficult to maintain through discretionary decision-making, particularly during periods of heightened market dispersion.

This shift is especially evident in equity smart beta ETFs. In the fourth quarter of 2025, global net inflows for such US-listed funds reached just over US$69 billion, up about 41% from the prior quarter.[2] This was the largest quarter-over-quarter increase recorded during the year and the culmination of progressively stronger gains earlier in 2025.

Notably, investors showed strong demand for international dividend ETFs, led by foreign large-cap value strategies, and reflecting a preference for income, valuation support and diversification outside the United States.3 We believe this underscores the growing investor appetite for rules-based equity strategies that tilt portfolios toward specific factors rather than broad market exposure.

We are also seeing broader investor focus on addressing enduring portfolio challenges—such as concentration risk and drawdown sensitivity—through systematic design rather than reactive positioning.

Rules-based thematic ETFs offer a practical way to express this perspective. Take sustainability-oriented strategies, for example. Early generations of low-carbon investing often focused narrowly on exclusions, reducing exposure to the highest emitters based on historical data. Today's approaches are more nuanced. Increasingly, investors are gravitating toward systematic frameworks that assess not only a company's current carbon footprint, but also its preparedness for transition, exposure to physical climate risks and capacity to adapt.

A similar logic underpins the appeal of income-oriented equity strategies. In an environment marked by volatility and uncertain growth, resilience has become an explicit portfolio objective rather than an assumed outcome. Dividend-focused ETFs are increasingly being used not simply for yield, but as a way to shape the return-and-risk profile. They historically have emphasized cash-flow durability, balance-sheet strength and downside resilience.

In 2025, overall factor leadership in mid caps was narrowly driven by momentum, creating headwinds for diversified multifactor strategies as quality and low volatility lagged. Market breadth improved late in 2025 and into early 2026, with participation broadening beyond mega-cap growth. Such an environment has historically been more supportive of mid-cap fundamentals and diversified factor exposure.

We believe concentration risk remains elevated across many equity portfolios, and in our view, this reinforces the role of mid-cap multifactor strategies as a way to diversify equity exposure. Multifactor approaches remain designed for consistency across cycles, balancing momentum with quality, valuation and risk-aware characteristics rather than relying on any single factor to lead in every market environment.

As the ETF universe continues to expand—now numbering more than 4,000 US-listed products—the challenge is less about access and more about alignment. The difference often lies not in finding a novel product, but in assembling a portfolio with clear intent and the discipline to stay the course. In our view, index-based strategies often prove to be excellent solutions that exemplify transparency with clearly defined rules to achieve intended objectives.

Endnotes

1. Source: Bloomberg. As of January 26, 2026.
2. Ibid.
3. Source: Morningstar.

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Equity securities are subject to price fluctuation and possible loss of principal. Large-capitalization companies may fall out of favor with investors based on market and economic conditions. **Small- and mid-cap stocks** involve greater risks and volatility than large-cap stocks.

Dividends may fluctuate and are not guaranteed, and a company may reduce or eliminate its dividend at any time.

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