ETF sales hit by return of global market volatility

Tension between the US and China over a possible trade war and growing fear that war in Syria may develop into a broader regional conflict have contributed to more volatile conditions across stock markets in the early months of 2018.

The increase in volatility has been reflected in exchange traded fund flows, too.

These are closely watched by many market participants as a barometer of investor sentiment. After a record-breaking year for new business growth in 2017, US-listed ETFs attracted net inflows of $77.8bn in January.

This strong start coincided with the US stock market hitting an all-time high in late January.

Since then, the S&P 500 has fallen 5.2 per cent, a relatively modest decline.

Investors pulled $13.5bn from US-listed exchange traded funds in February and March combined, but growth resumed last month with new business inflows of $28bn, according to ETFGI, a London consultancy.

Encouraging company earnings reports and rising oil prices provided support for sentiment but other ETF flows suggest that a sense of caution is gaining ground.

US Treasury ETFs secured inflows of about $6.6bn in April even as the benchmark 10-year government bond yield rose above 3 per cent, a key psychological level that has prompted questions over whether the multi-decade long bull market for bonds has finally ended. About $2.9bn in new money flowed into gold ETFs globally, the strongest monthly inflows since July 2016, pointing to demand for a haven from the more volatile conditions affecting equities and bonds.

Overall growth has slowed for most of the top ETF managers so far this year. Global inflows for BlackRock's iShares ETF arm have fallen 43 per cent while new business for Vanguard's ETFs have declined 46 per cent. Investors have also pulled $1.3bn from State Street's ETF arm so far in 2018.