U.S. RESEARCH

2025

MarketSage

2025

STATE OF THE MARKET

The Road Ahead: 2026-2030

SLOWING GROWTH

ETFs DOMINATE

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MARKET INTELLIGENCE

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Key Takeaways

01 ISS MI forecasts long-term fund assets will climb to $48 trillion by 2030, but annual growth will slow to 6.7% from 8.5% over the next five years, reflecting weaker U.S. equity returns and muted organic growth.

02 With market appreciation fading, net inflows will account for a larger share of growth—$28 of every $100 in new assets—though organic sales will remain sluggish at just 1.6% annually.

03 Passive ETFs are expected to attract $3.4 trillion in flows, while active ETFs take in about $1.5 trillion, driven by conversions from mutual funds and a wave of new strategies. The advent of ETF share classes will accelerate an already brisk pace of launches.

04 Weaker U.S. stock returns will trim investors' domestic equity exposure as international allocations rise modestly. Aging demographics and elevated yields favor fixed income, while alternatives advance selectively, supported by regulation and demand for defined outcome strategies.

05 Active funds will remain the industry's revenue backbone, generating nearly 80% of revenues by 2030, but shrinking margins and tougher competition demand strategic clarity. Active managers must decide between scale, specialization, or capturing more of the value chain. This is a time for choosing.

EXHIBIT Links

THE ROAD AHEAD:
SLOWER GROWTH, EMERGING PATHS TO SUCCESS

APPENDIX

The Road Ahead: Slower Growth, Emerging Paths to Success

EVERYONE HAS A PLAN UNTIL THEY GET PUNCHED IN THE FACE

MIKE TYSON

Asset managers felt the punch in early 2025 as a new administration announced sweeping tariffs. Fears of a global trade war sent markets reeling—the S&P 500 dropped nearly 20% from its peak—but the downturn was short-lived. Redemptions were mild—just $39 billion in April—and sales rebounded as the year wore on. In fact, 2025 is on pace to be the strongest sales year since the bonanza of 2021 and a year of solid, if unspectacular, asset growth.

Of course, asset managers have absorbed far larger body shots—the 2008 financial crisis and the 2020 pandemic, for example—and the latest was a glancing blow by comparison. But the more punishing hits are the persistent one-two jabs that wear managers down over time. 2025 will mark the ninth year out of the past 10 in which active mutual funds have posted net redemptions, shedding more than $400 billion through September alone.

And now, new competitors are stepping into the ring. Private market players present a fresh challenge, while a wave of innovative products is redefining the boundaries of traditional investment solutions.

The steady migration from active mutual funds to index ETFs has been accelerated by seismic shifts in the investment product distribution landscape. The rise of fee-based advisory models has fundamentally reshaped how products are selected and sold, fueling demand for low-cost, transparent investment vehicles.

While a handful of large-scale players have successfully adapted, much of the industry is grappling with shrinking asset bases, slowing revenue growth, and margin compression. At the same time, new distribution realities have rewritten the rules of engagement: Advisors now demand greater product flexibility so they can deliver better client outcomes, such as improved tax efficiency, which pressures asset managers to rethink how they deliver value in a transformed marketplace. Separately managed accounts (SMAs) have emerged as a key tool in this effort—marketed less as bespoke portfolios and more as tax-alpha engines that help advisors generate measurable after-tax benefits for clients. To top it all off, consolidation, especially in the RIA space, leaves managers with fewer places to distribute their wares as the proliferation of new products intensifies competition for shelf space.

And now, new competitors are stepping into the ring. Private market players present a fresh challenge, while a wave of innovative products—leveraging ETF technology not only to deliver alpha or beta, but also to engineer income, downside protection, and leverage—is redefining the boundaries of traditional investment solutions.

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