

STATE OF THE MARKET

Recalibrating for the Road Ahead

ASSET CLASS OUTLOOK

STRATEGY

2026 EDITION IS PUBLISHED BY ISS MARKET INTELLIGENCE

1177 Avenue of the Americas, 14th Floor
New York, New York 10036

P. +1 212 217 6884
E. sales@issmarketintelligence.com

For information on any Global Research
& Advisory Solutions product, please email:
research@issmarketintelligence.com

For sales inquiries, please contact:
sales@issmarketintelligence.com
+1 212 217 6884

KEY CONTACTS

Christopher Davis
Benjamin Reed-Hurwitz

THIRD-PARTY EDITING:

Annie Rosenberg

DESIGN AND PRODUCTION:

seven zero
Pam Byroe
Carol DeWolf

DISCLAIMER

This publication is intended only to convey information. The publisher and its data providers have taken all usual and reasonable precautions to determine that the information contained in this publication has been obtained from sources believed to be reliable, and that the procedures used to summarize and analyze such information are based on approved practices and principles in the investment funds industry. However, the market forces applicable to the subject matter of this report are subject to sudden and dramatic changes and data availability and reliability varies from one moment to the next. Consequently, neither the publisher nor its data providers makes any warranty as to the accuracy, completeness or timeliness of information, analysis or views contained in this publication or their usefulness or suitability in any particular circumstance. The publisher and its data providers disclaim all liability of whatsoever kind for any damages or losses incurred as a result of reliance upon or use of this publication. Past performance is no guarantee of future results.

COPYRIGHT

©Institutional Shareholder Services (ISS) 2026. Global Research & Advisory Solutions is an ISS Market Intelligence (ISS MI) brand. ISS MI is a division of ISS. All rights reserved. The publisher hereby asserts its moral rights to the integrity of the work and to be associated with the work as its author by name.

LICENSE

Subject to the licenses granted hereby, the publisher shall retain all right, title and interest in and to the information contained in this publication. The publisher hereby grants to the subscriber a non-exclusive, perpetual, worldwide, non-transferable, fully paid-up, irrevocable licence to use, copy, install, perform, display, modify and create derivative works of the publication and its contents, in whole or in part, solely in connection with the subscriber's own business enterprise. Subject to the rights herein, no part of the publication or its contents may be reproduced, stored in a retrieval system or transmitted in any material form whatever by whatever means, whether electronic, mechanical, photocopying, recording or otherwise, without the prior permission of the publisher. Any attempt to deliver such information outside of the subscriber's enterprise must have prior written consent of the publisher.

Key Takeaways

01 With market appreciation likely to slow over the next five years, managers will rely more on net flows to drive growth. Unfortunately, organic growth will be modest. Falling yields should spur demand by raising the opportunity cost of cash, and new product structures will broaden the addressable market. Yet demographic headwinds and competition from vehicles like SMAs will temper growth within 1940 Act funds.

02 Over the past five years, strong U.S. equity returns drove nearly 70% of asset growth. As returns moderate, that share is projected to fall to about 40%. Bond and international equities will take on a larger role, creating openings for managers with depth in these segments.

03 Flows tell a tougher story. Active U.S. equity organic growth is forecast to shrink nearly 4%, and international equity by 3%, underscoring persistent headwinds for traditional stock-picking. Active alternatives and taxable bonds fare better, with expected organic growth of 6% and 4.5%, respectively.

04 Active managers face a strategic dilemma: chase growth in lower-fee ETFs and sacrifice margin, or defend slow-growing but still-lucrative mutual funds. Different market dynamics demand different responses. U.S. equity is a zero-sum game where incumbents consolidate share and challengers win only through niches. International equity offers openings for differentiated expertise, but in a shrinking pie. Bonds provide a tailwind, especially in multisector and securitized strategies, though ETF adoption looms. Alternatives promise growth—but only for specialists willing to commit for the long haul.

EXHIBIT **Links**

RECALIBRATING FOR THE ROAD AHEAD

- 1 U.S. Equities Poised to Lag as Bond Returns Snap Back
- 2 Organic Growth Forecast: Key Drivers for Long-term Funds
- 3 U.S. Equities Weakening Driver of AUM Growth, International Equity, Taxable Bond Gain Share
- 4 Rising AUM Growth for Bonds, Alts Lead the Pack
- 5 International Equity Growth Accelerates, U.S. Equities Lag
- 6 Index Funds Lead Sales Race, Active Fund Sales Scarce Growth Outside Alts, Fixed Income
- 7 Active Mutual Fund Fees Bottom Out as Expense Ratios Fall Everywhere Else
- 8 Mutual Funds Remain Revenue Giants, ETFs Driving Growth
- 9 Four Different Games: Active Fund Competitive Dynamics Vary by Asset Class
- 10 Concentration, Sales Scarcity Varies by Asset Class

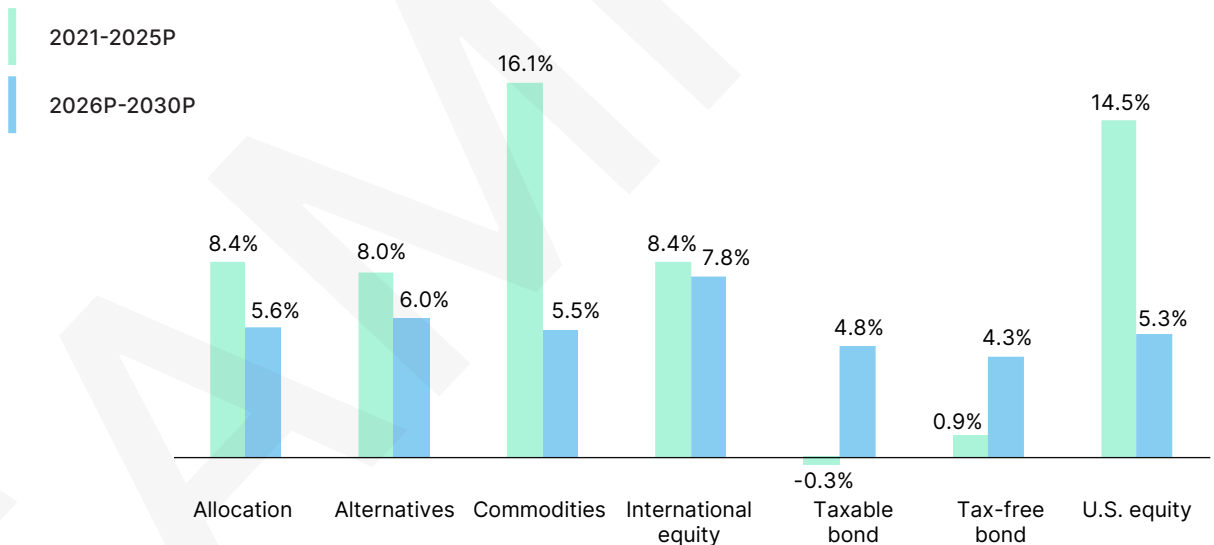
Recalibrating for the Road Ahead

For years, strong U.S. equity markets acted like a powerful painkiller. They dulled the industry’s structural aches—fee compression, passive migration, and rising cost pressures—by delivering eye-popping gains that masked deeper vulnerabilities. Combined with remedies like consolidation and cost-cutting, the medicine worked well enough to keep the asset-management industry broadly profitable.

Indeed, ISS MI’s annual **U.S. Asset Manager Profitability Report** shows the median public asset manager posting average operating margins of 29% over the past decade, even as the median S&P 500 firm hovered in the low double digits.¹ But the data also revealed weakness beneath the surface: Margins grew increasingly volatile over that period, and once-common 40%-plus profitability became far harder to achieve. Even so, fast-rising markets kept overall profitability looking relatively healthy.

That palliative power now appears set to fade. **Figure 1** tells the story: With valuations near historic highs, most forecasts call for sharply lower U.S. equity returns. To be sure, those same forecasts, from which our outlook is based, expect stronger results from bonds and international stocks, which may help dull the industry’s aches. But they will not be enough to hide managers’ underlying challenges. With U.S. equity funds averaging more than 50% of long-term assets under management (AUM), muted U.S. markets represent a drag managers will struggle to overcome. This section—the second in our three-part State of the Market 2026–2030 series—maps out how managers might navigate the challenges ahead

1 **U.S. Equities Poised to Lag as Bond Returns Snap Back**
Historical and forecasted asset class returns, 2021-2025P, 2026P-2030P



Source: ISS Market Intelligence.

The next half-decade will bring opportunities—the growing demand for income, the rise of active ETFs, the expansion of alternatives—but capitalizing on them will require managers to recalibrate with less help from markets. All told, our forecast, which we outlined in **Section 1** of the State of the Market series, calls for market appreciation to contribute a modest 5.4 percentage points annually to long-term AUM growth between 2026 and 2030—two percentage points less than in the prior period.

ABOUT ISS MARKET INTELLIGENCE

ISS Market Intelligence (MI) is a leading global provider of data, analytics, insights, media, and events solutions to the global financial services industry. ISS MI empowers global asset and wealth management firms, insurance companies, distributors, service providers, and technology firms by providing cutting-edge market-engagement platforms and the actionable intelligence necessary to fully assess their target markets, identify and analyze the best opportunities within those markets, and execute on comprehensive go-to-market initiatives to grow their business. ISS MI clients benefit from our increasingly connected global ecosystem that leverages a combination of proprietary data, powerful software and analytics, timely and relevant insights, in-depth research, as well as an extensive suite of industry leading media brands that deliver unmatched market connectivity through news and editorial content, events, training, ratings, and awards. ISS MI data and analytics solutions include intelligence from BrightScope, Discovery Data, Financial Clarity, Flowspring, FWW, Investor Economics, MISight, Mortgage Clarity, Plan for Life, RainmakerLive, and Simfund, and ISS MI media brands and market-engagement platforms include Chief Investment Officer, PlanAdvisor, PlanSponsor, Financial Standard, FS Sustainability, Money, and Industry Moves.