

Research @ Citi Markets Edition: Active ETFs Move to Center Stage

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Transcript:

Opening Teaser: (00:00)

Research @ Citi Markets Edition.

Scott Chronert (00:03)

Hi, I'm Scott Chronert, head of U.S. Equity Strategy at Citi Research, and I've also been leading our ETF research charge over the past 14 years now.

Welcome to Research @ Citi Markets Edition, covering various topics at work within the U.S. equity markets. With me today is Drew Pettit, my longtime colleague, who's been leading the charge on ETFs over the past couple of years. We've invited Drew to discuss [a recent note](#) that we've put out that has looked at the longer-term AUM opportunity for U.S.-listed ETFs, with a lot of the sidebar discussions as to what's happening under the surface here.

To start things off, as I mentioned, we've been covering ETFs for the better part of 14 years now, and we've gone from a circumstance where 10, 12 years ago, in many cases, ETFs were often viewed as the enemy to many different types of portfolio managers and portfolio construction.

My, how the world has changed! Over the past decade, and I think courtesy of the pandemic episode, we've seen the ETF ecosystem unfold in ways that we might not have imagined. And to that point, following Drew's good work on this topic, we've aggressively raised our targets for aggregate U.S.-listed ETF AUM. So let's kick things off here, Drew, with a quick description of what we're doing at a very high level.

Drew Pettit (01:22)

So we're taking the story that you were telling in that intro that ETFs aren't the enemy. A lot of asset managers, even the actively managed community, are looking at ETFs as a growth engine for their business. And really the growth just continues to accelerate and surprise us to the upside.

Look, in the last report, we put out new targets. We're thinking assets at the end of this decade, by 2030, to hit \$25 trillion. That's from about ... let's call it \$13 trillion at the end of last year. And then in the next 10 years, we might actually see AUM — so total assets of the U.S.ETF industry — reaching \$40 trillion.

That's really impressive growth, and the story under the surface is it's not just index and passive products. Active is moving to center stage.

Scott Chronert (02:11)

So this notion of active moving to center stage, we've been talking about this, it seems like for several years now. This is clearly, let's call it the next-gen wave of growth. I think in the note, we've talked about its market share within aggregate ETFs.

How are you seeing that play out now?

Drew Pettit (02:29)

So it's about 10% today, at least how we define it. And in the next 10 years, we think that can double. And when you break it down, you're going to get more organic growth. More people want these types of products. It's not really the market driving the asset growth for active.

So yeah, from a 10% kind of share of the industry today to over 20% in 10 years.

Scott Chronert (02:50)

So essentially what happens here is that the investors get a combination of looks into the investment-opportunity set. You can continue to use ETFs, low-cost passive index replication, as one approach, but now increasingly what we're seeing is the growth in the active component here perhaps begin to eat into some of the market share that mutual funds have had over time, which we've elaborated on over the past several years.

But more specifically to the point here: This notion of how to think about index or portfolio construction and the core component of this, vs. let's call it the more satellite component of this, essentially what you get now is an opportunity to look at this core vs. satellite component to index construction, via either a passive or active approach.

Drew, weigh in and give us a little bit more perspective on that, with a line of sight toward how you think about equities vs. fixed income in this.

Drew Pettit (03:51)

So I'm going to back up and define this. Whether you're an individual or a very complex institution, there's really two parts of your portfolio: the core, which is your base building blocks, really broad exposure to equities or fixed income; and then there's the satellite.

The satellites are the nuanced things that you add on the fringes to make that portfolio fit your circumstance. When we think about the core, that used to be all low-cost index product. Now we're starting to see more active product float in here.

And what's happening is indexes are changing over time. We talk about this in a lot of our work in equity strategy — and you've done it on previous podcasts — that the S&P has a lot more growth in it today, less cyclical, less defensiveness. So the indexes are drifting and we're seeing clients use more active products to get some risk that actually doesn't drift as much, that has a security-selection overlay that really generates what they want longer term.

In fixed income, that's also happened: As interest rates have come down, you get less yield off of traditional indexes. You get more interest-rate risk. People have been using active for a really long time, to get core exposure that actually fits what they need a little bit better. So they're being more opportunistic there.

Scott Chronert (05:08)

OK. So essentially what's happening here — and this is, again, a trend that we've been defining, it seems like for several years now — in this core + satellite approach as a means to getting an asset allocation solution, it's going to vary by type of investor, time horizons, and so forth.

I want to just hammer on a couple of underlying, let's call it definitional dynamics at work here. So we've argued for some time that you can actually get an actively managed portfolio solution by essentially utilizing passive ETF products. So it's this passive for active implementation that has been relevant, but increasingly, the composition of where active solutions are taking us can actually help get to a same place. But it kind of comes down to, again, core + satellite.

Drew, let's switch over and talk to some of the specifics around this notion of satellite, again through both an equity and a fixed-income lens.

Drew Pettit (06:06)

Yeah, I think your setup for this was great because back to passive or index doesn't necessarily mean it's just broad and buys everything.

So some of the satellite trends, there's really three big ones that investors as a whole like to add around the core.

Number one, they're looking for growth, really secular growth trends. You can go out and buy a tech index product, or you can buy an active thematic product for that. So we've actually seen a lot of encroaching of active strategies for people looking to add more growth to their portfolios.

The second really big trend is wanting to add a cyclical satellite. I want something that grows alongside the economy, for example. Look, this is something that's

not necessarily just an equity story. You can get that buying value stocks. You can get that buying high-yield bonds, for example. So within those areas, there's a lot of risk. So, we're seeing people move to active, to really manage some of that cyclical fluctuation within that satellite.

And the last one — and probably a huge one for a lot of our pension and insurance clients and a lot of aging individuals — is income. And the first thing that comes to mind when people think about income is fixed-income products, and active is able to go into corners of the fixed-income universe that passive actually hasn't indexed very well.

The other angle is there's other drivers, other ways to get yield in a portfolio. And we're seeing a lot with derivatives-based ETFs. And again, both of those — whether it's active in fixed income, looking for different areas to get yield, or active in equities using derivatives as a way to, I would say, pull forward some of that return — you're seeing that shift from just passive products to get these satellites to active ways of implementing.

Scott Chronert (07:56)

Gotcha. Very interesting.

So to wrap all of this up in our allotted time, big picture here, the ETF universe continues to expand in terms of nature and type of product. Increasingly we're seeing a shift over time away from the traditional passive to active. And this is not a new theme. It's been identified for quite some time.

But I think what we also are acknowledging here is that the nature of the markets change over time. And in the post, let's call a financial-crisis world, for example, in equities, it's just been “hold your core S&P 500” and you've done pretty well. In fixed income, it's been a little bit more nuanced.

But I think in this “world is changing and continues to evolve” narrative, the onslaught of active solutions and products within the ETF ecosystem just keeps giving the investor opportunity set more and more ways to accomplish portfolio purposes. And ultimately, I think from this point going forward, it sure looks and feels to us that — whether it's active, whether it's passive, whether it's equity, whether it's fixed income — the fact of the matter is that the normalization of ETFs into the traditional investment playbook continues to be a major story as we charge forward from here.

For further information [see this note](#), I think it's a really good write-up. Drew's put a ton of effort into the diligence around this, and we encourage all of you to reach out for further insight on this.

This podcast was recorded on April 13, 2026. Thanks for joining today and be sure to be on the lookout for our next Markets podcast featuring Dirk Willer, Citi's Global Head of Asset Allocation. And also be sure to watch for other Research @ Citi podcasts, which you can view on the same channel. Thanks, and have a great day.

Disclaimer (09:51)

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