MORNINGSTAR

The State of US ETFs 2026

A look at a market that keeps reinventing itself.

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EXECUTIVE SUMMARY

Where ETFs Stand in 2026

The first exchange-traded fund made its debut in 1993. Known by its ticker SPY, State Street SPDR S&P 500 ETF Trust offered investors something tried-and-true in an attractive new package. It is an S&P 500 index fund that can be traded on the stock exchange throughout the day, with low costs and better tax efficiency than a traditional mutual fund.

More than 30 years later, the ETF market is quickly stealing share from the mutual fund market—largely a reflection of investor preferences for low-cost index funds, which are tough to beat. And the industry is continuing to churn out new ETFs: More than 1,000 were launched in 2025 alone, with even more coming in 2026.

The good news is that investors now have a wide range of low-cost, tax-efficient ways to gain exposure to all corners of the global market. The bad news is that an increasing number of newer ETFs are taking on considerable risks to carve out a niche and compete. While State Street SPDR S&P 500 ETF provides sensible, broad exposure to the US market, newer ETFs crank up risk in various ways. The latest ETFs offer leveraged exposure to just one stock, promise unrealistically high income, and provide exposure to all sorts of cryptocurrencies, among others.

The strategies, assets, and risk exposures packaged in ETFs today have come a long way from their simple beginning in the early 1990s.

Key Takeaways

- ETFs have grown from a niche investment vehicle into a USD 16 trillion market in 33 years.
- State Street SPDR S&P 500 ETF Trust SPY was one of 5,401 ETFs available for sale in the United States at the end of June 2026.
- ETFs have quickly gained ground on mutual funds as the latter have sustained outflows and the former have had accelerating inflows. Investors prefer ETFs for their tax efficiency, low cost, transparency, and liquidity.
- Passively managed, or index-based, ETFs remain by far the largest segment of the market, collecting 87.5% of total ETF assets.
- Active ETFs broadly represent the second generation of exchange-traded funds. Dubbed "ETF 2.0," these strategies went past traditional indexing to bring discretionary active management to the ETF wrapper.
- Rule 6c-11 of the Investment Company Act, adopted in 2019, made it far easier for asset managers to manage active strategies as an ETF. Active ETF launches surged after the rule change.
- Despite active ETFs outnumbering passive ETFs, the largest 20 in the US are all index-based. ETFs that track the S&P 500 are the top three.
- Asset managers can also enter the ETF market by converting their mutual funds into an ETF or tacking an ETF share class onto existing mutual funds. Neither offers asset managers a sure-fire path to ETF success, though.
- Most recently, ETF launches in once-niche categories like defined outcome and derivative income have surged. These derivative-based ETFs repackage risk and headline the third generation of ETFs, dubbed here as "ETF 3.0."
- White space in traditional passive or active ETF strategies is virtually nonexistent. As a result, asset managers have begun offering ETFs that fill niche needs not previously served in an ETF wrapper.
- Increasingly, recent launches resemble gambling more than investing. Filings for soon-to-be-launched ETFs suggest that more are on the way.
- Some of the more promising recent launches include ETF strategies designed to manage investors' tax liability in some way.
- The slew of recent launches ensures that due diligence is more important than ever. For most investors, sticking with proven strategies is just fine.

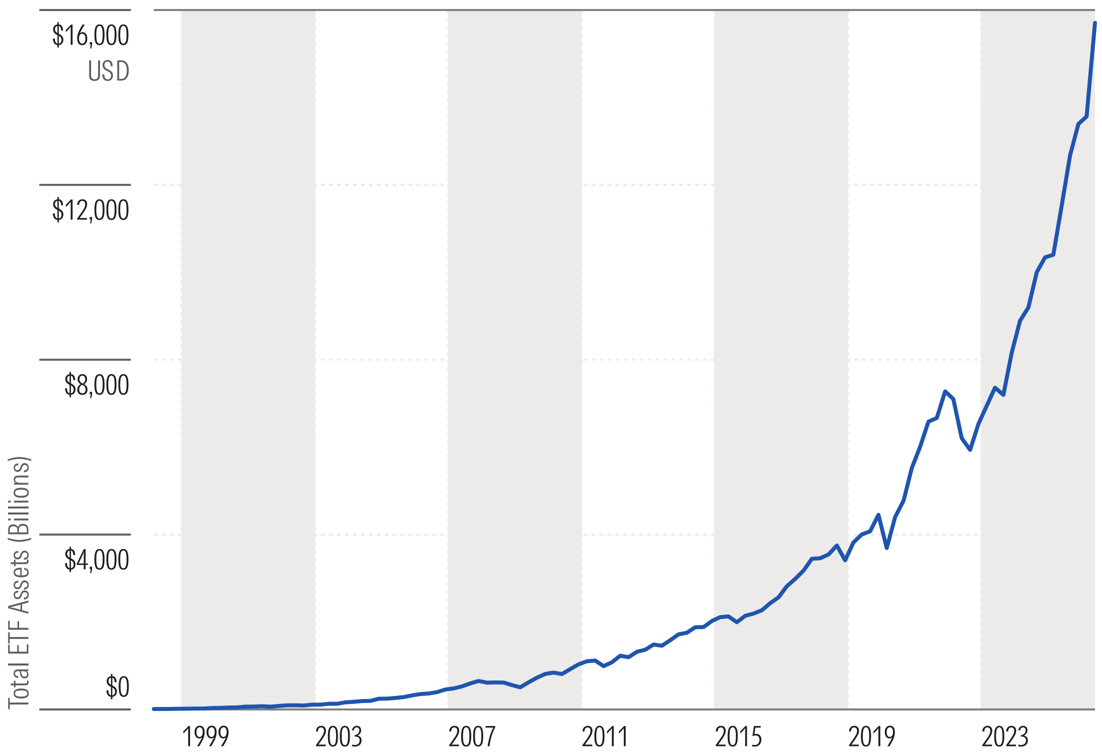
Big Trends

After more than three decades, modern ETFs look a lot different from their original siblings.

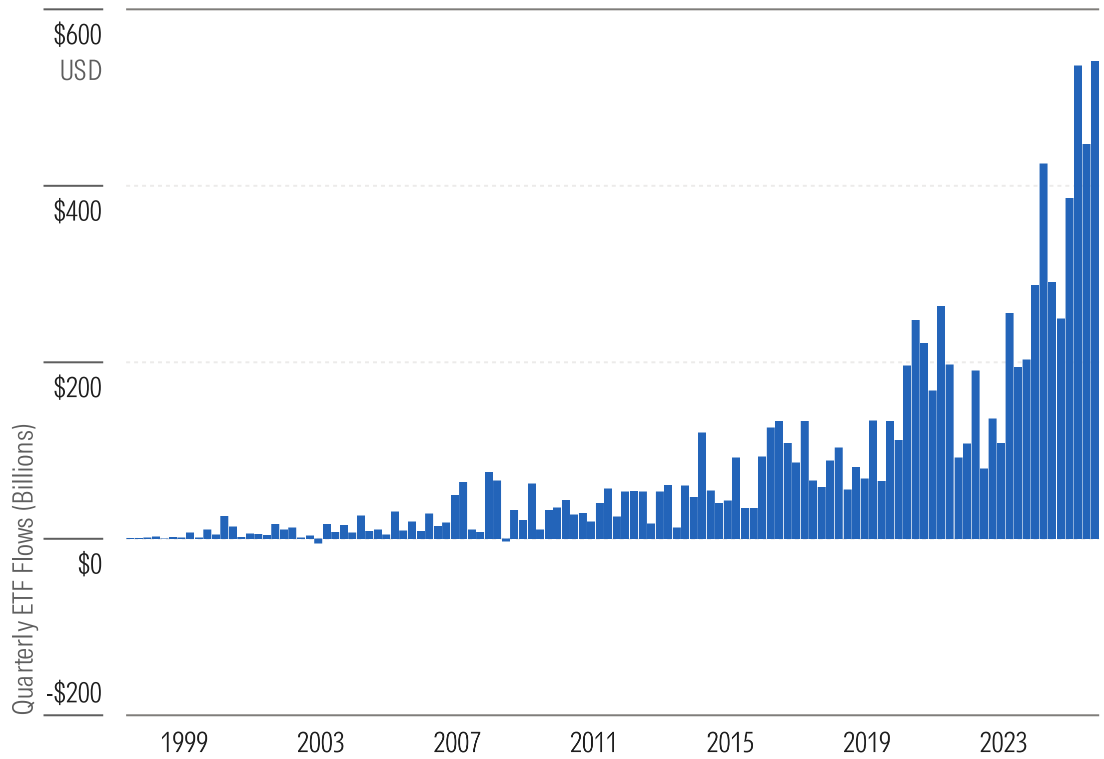
From a Niche Wrapper to a USD 16 Trillion Market

Exchange-traded funds have grown from obscurity into ubiquity in 33 short years. Most of that growth has come in the past several years, though, with the number of ETFs, inflows, and assets ballooning to new heights, with occasional bear markets only pausing the group's trajectory. There was USD 15.8 trillion parked in 5,401 US-domiciled ETFs at the end of June 2026. Side-stepping realized capital gains is a key advantage that helped the wrapper gain prominence. This, coupled with generally low fees and a key 2019 rule change, only supercharged ETFs' growth.

ETF Asset Growth



Quarterly ETF flows

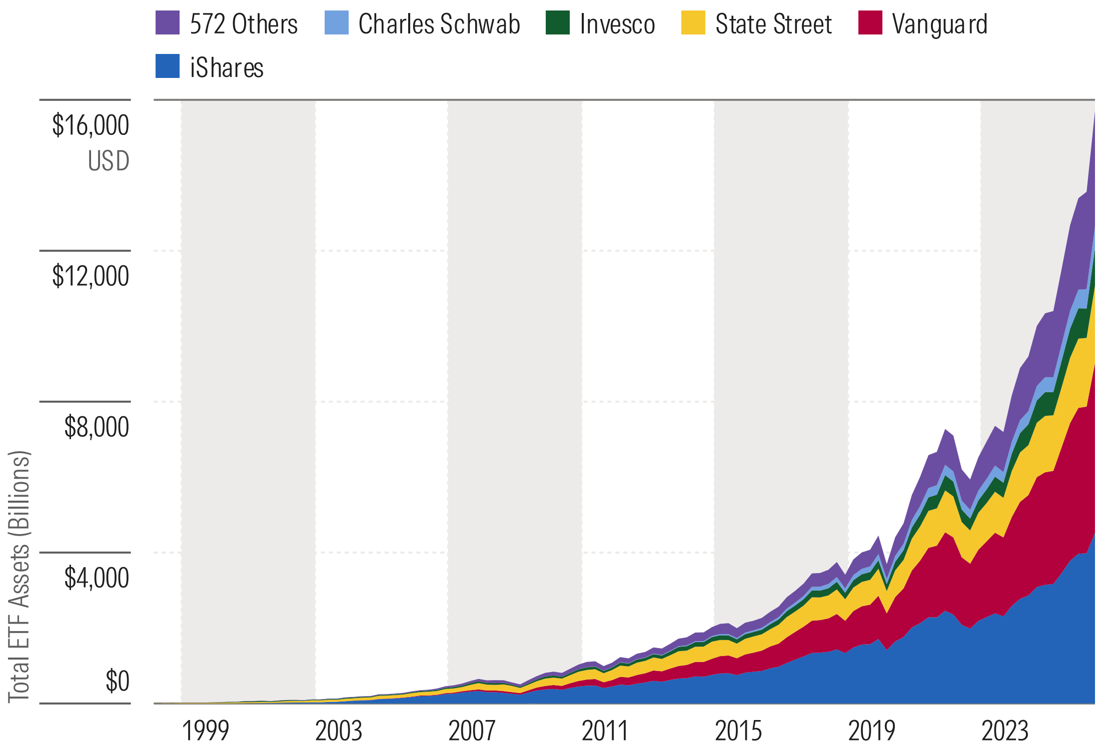


Source: Morningstar Direct. Data as of June 30, 2026.

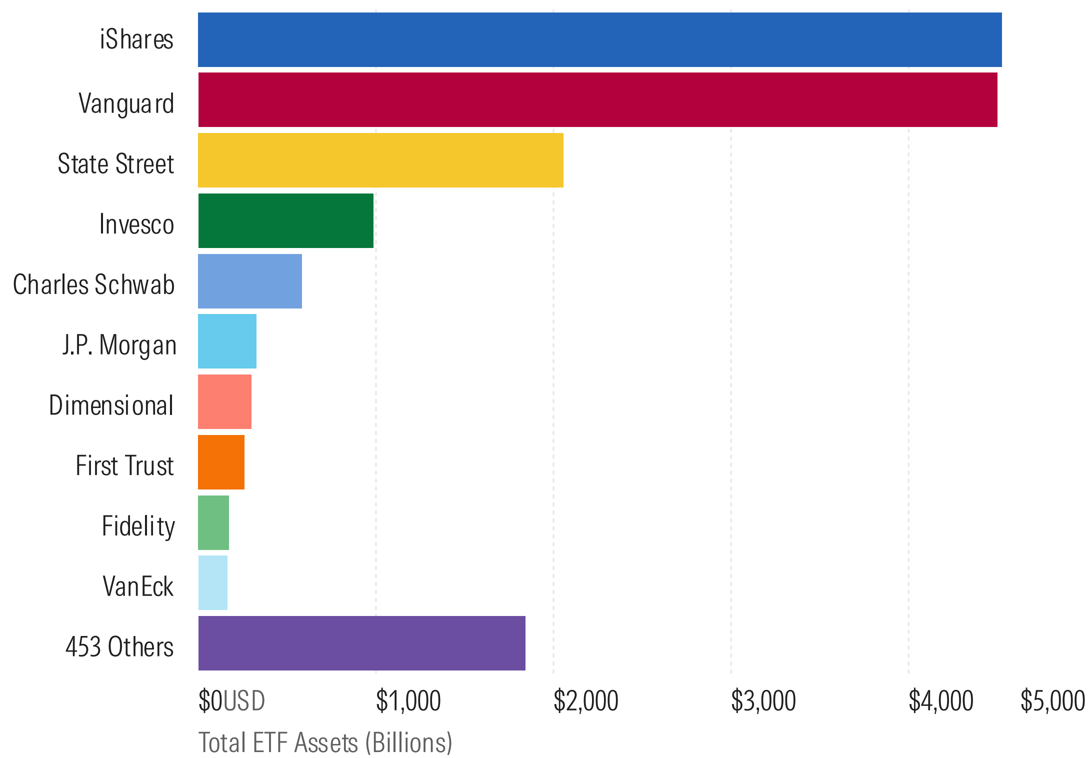
The Big One Turned Into the Big Three Turned Into the Big Two

State Street launched the first US ETF, State Street SPDR S&P 500 ETF Trust, in 1993. It slowly gained traction and helped State Street establish itself as a leading ETF provider for years to come. Vanguard entered the market in 2001, and BlackRock entered when it acquired iShares in 2009. Both would eventually overtake State Street in a two-firm race to top the asset leaderboard, though State Street remains a big player in the market.

Total ETF Assets by Provider



Provider Assets Under Management

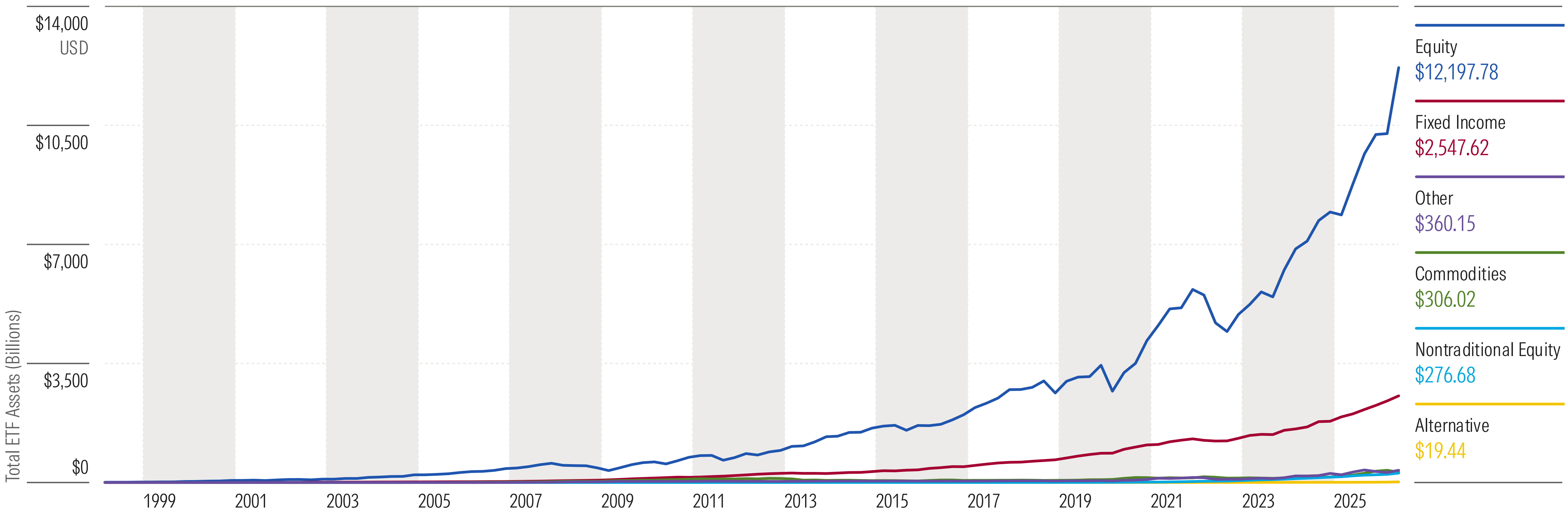


Source: Morningstar Direct. Data as of June 30, 2026.

Equity ETFs Started It All, but Other Asset Classes Claim Meaningful Share

State Street SPDR S&P 500 ETF Trust showed investors they could easily access the performance of the US stock market, and it showed asset managers the benefits and opportunities of the new wrapper. Stocks suit the ETF wrapper well because they're easy to trade and ubiquitous—a company may have hundreds of bonds but just one stock. The earliest ETFs only invested in stocks, and the first bond ETF didn't come along until 2002. Today, investors can choose from ETFs covering stocks, bonds, commodities, options, futures, or any combination of these. But stock ETFs remain firmly on top in terms of popularity.

Total ETF Assets by Category Group

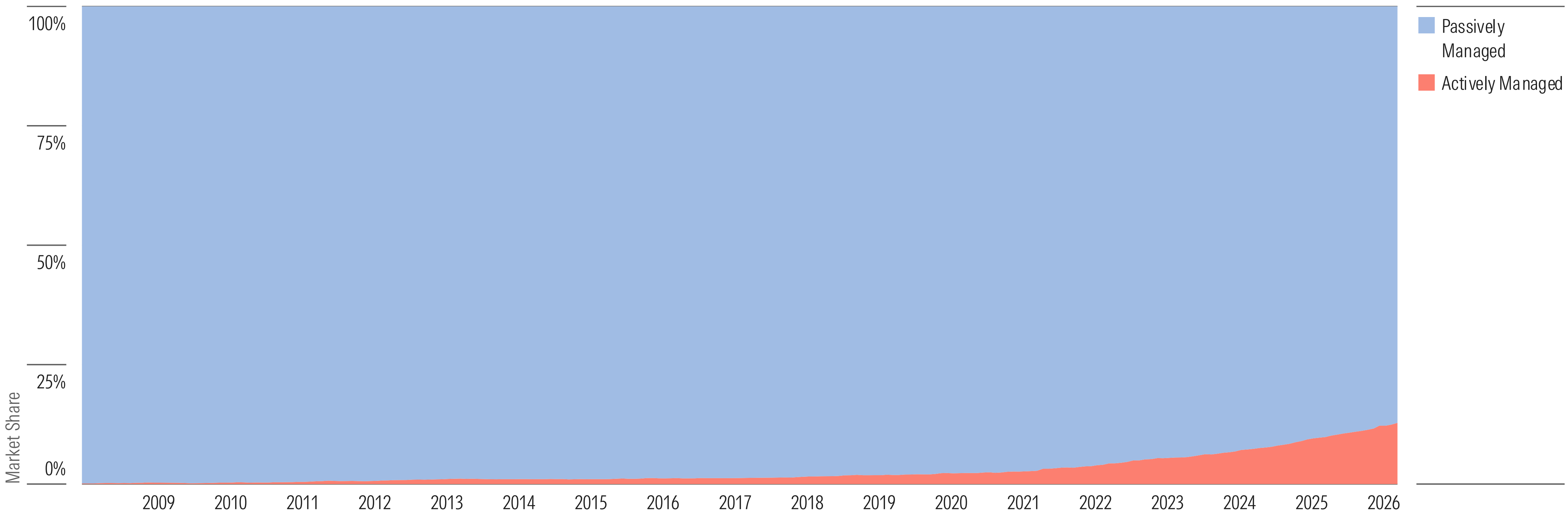


Source: Morningstar Direct. Data as of June 30, 2026.

Index ETFs Still Dominate, but Active ETFs Are Gaining

ETFs started as passive investments and successfully gained market share from entrenched active mutual funds because of strong performance by stock indexes, low fees, and the ETF's tax advantage. Index ETFs have become a large part of many investors' portfolios, and that is not changing. However, the development of new ETFs has changed. Active managers have entered the market, and investors are beginning to meaningfully allocate to these ETFs despite their relatively higher fees. Actively managed ETFs accounted for 12.5% of all ETF assets at the end of June 2026.

Asset Share of Active and Passive ETFs

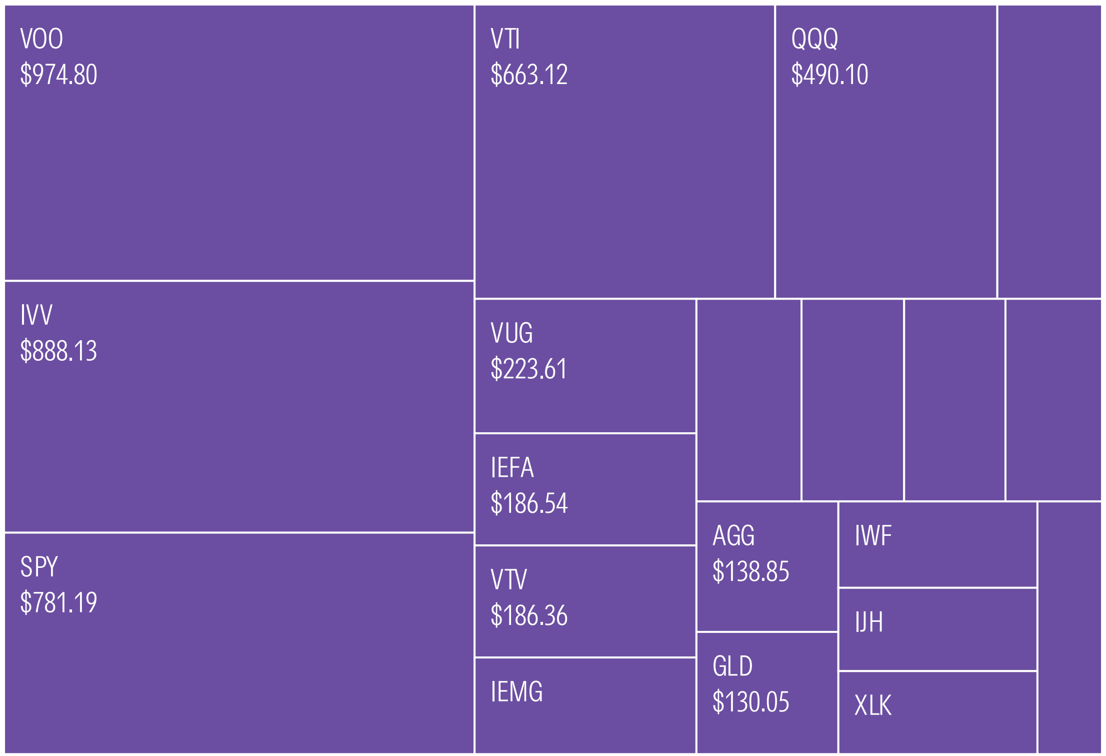


Source: Morningstar Direct. Data as of June 30, 2026.

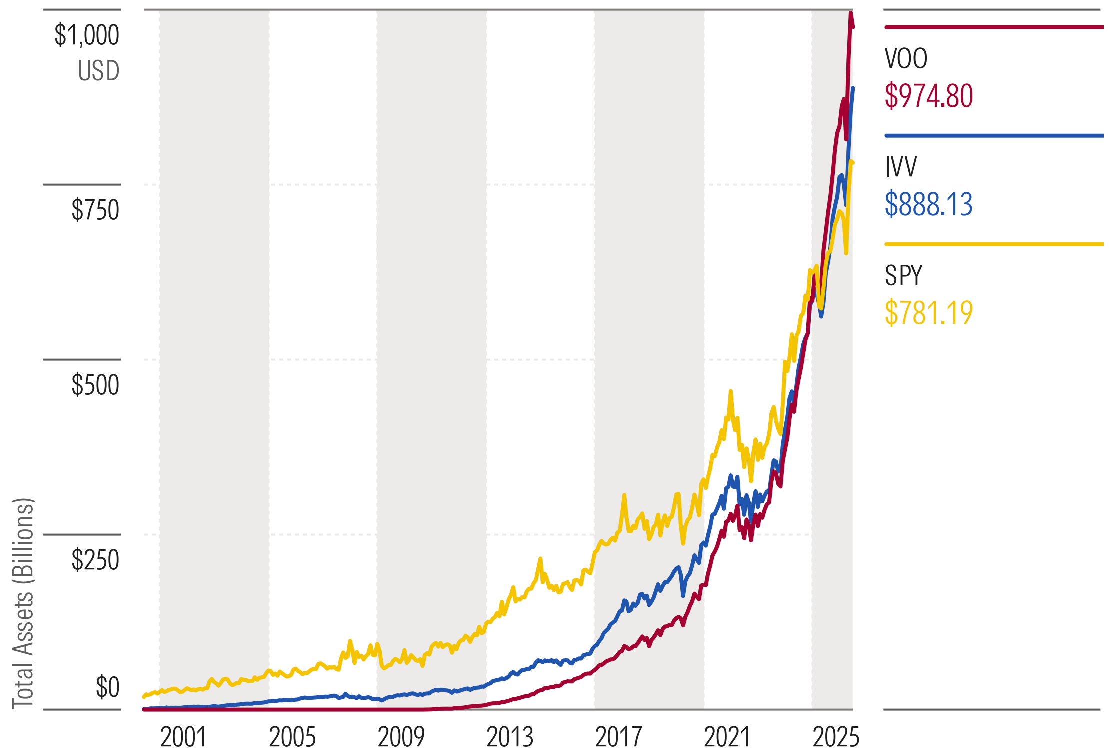
Scale Still Concentrates in Very Few ETFs

None of the 20 largest ETFs in the US are actively managed, while passively managed ETFs tracking the S&P 500 remain the largest by far, with two quickly approaching USD 1 trillion in assets under management. These three ETFs from iShares (IVV), State Street (SPY), and Vanguard (VOO) account for 17% of all money invested in US ETFs, with the 20 largest ETFs making up 39%. The remaining 5,381 ETFs had USD 9.61 trillion spread across them, or 61% of the total ETF market. This is substantial, but it's clear the ETF market is extremely top-heavy and skews toward those that are passively managed.

Largest 20 ETFs (USD Billions)



Race to USD 1 Trillion



Source: Morningstar Direct. Data as of June 30, 2026.

Moving On From Mutual Funds

Tax efficiency, low cost, and transparency brought mutual fund investors over to ETFs in droves. Fund providers have raced to meet this demand.

Investors Demand ETFs, Firms Are Supplying

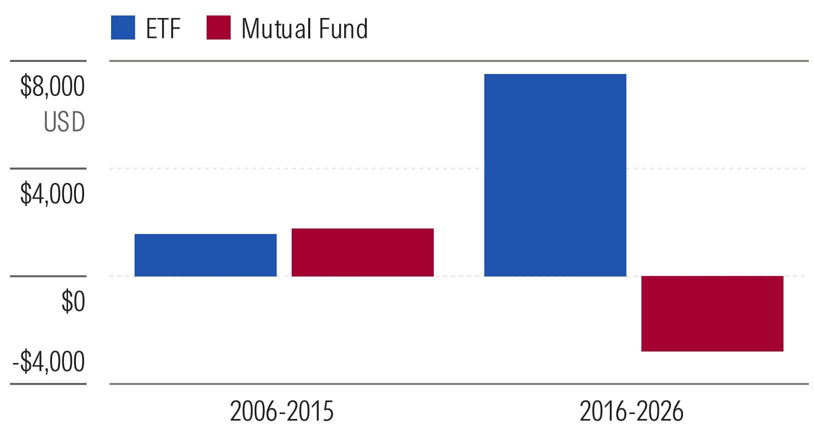
The ETF story cannot be written without discussing mutual funds. Mutual funds have been around since 1924 and are a perfectly fine investment in many cases. When they debuted, the concept of pooling your money with others for it to collectively increase in the market was novel. But several aspects of mutual funds have become outdated as time has passed. One is capital gains management. When one investor sells mutual fund shares, other investors in the fund may get hit with a capital gains distribution, even if all other investors stay put. A redemption may cause a mutual fund manager to sell shares to pay the investor who's cashing out. That can trigger a capital gain for the remaining investors if the sold shares have appreciated, and that capital gain is subject to capital gains taxes. Mutual funds don't bear the tax burden; the gains are passed along to the remaining investors who must pay the taxes themselves. There are ways to proactively mitigate realizing capital gains from redemptions. But overall, capital gains distributions are relatively common across mutual funds.

ETFs have a key advantage in this respect. They can more easily take advantage of tax-free in-kind transactions than mutual funds, which allows them to defer most, if not all, capital gains distributions.

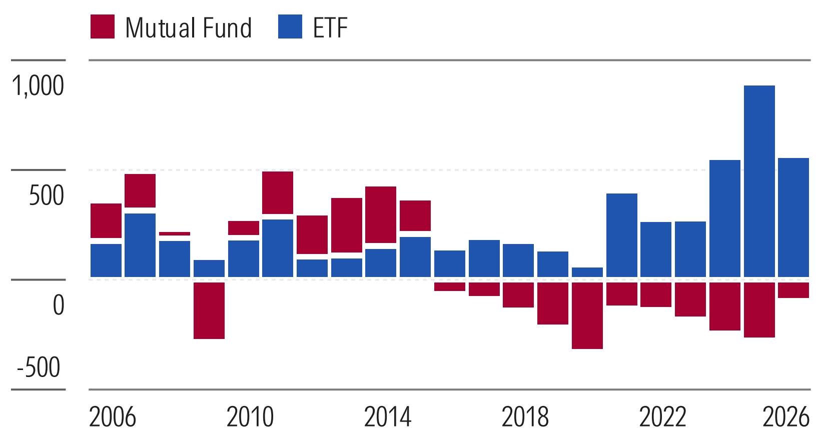
Low cost was another big contributor to the success of ETFs. On average, they are 45 basis points cheaper than mutual funds. Not only is the annual expense ratio—the fee investors pay to own a fund—cheaper for ETFs, but ETFs have rarely levied 12b-1 fees, which are the fees that pay for sales and distribution costs.

These factors, among others, shifted the balance of power firmly in favor of ETFs, and the trends in net flows have followed. ETFs continue to take in more and more money while investors leave mutual funds, which has caused more mutual funds to close than open for 11 straight years.

Cumulative Net Flow (Billions)



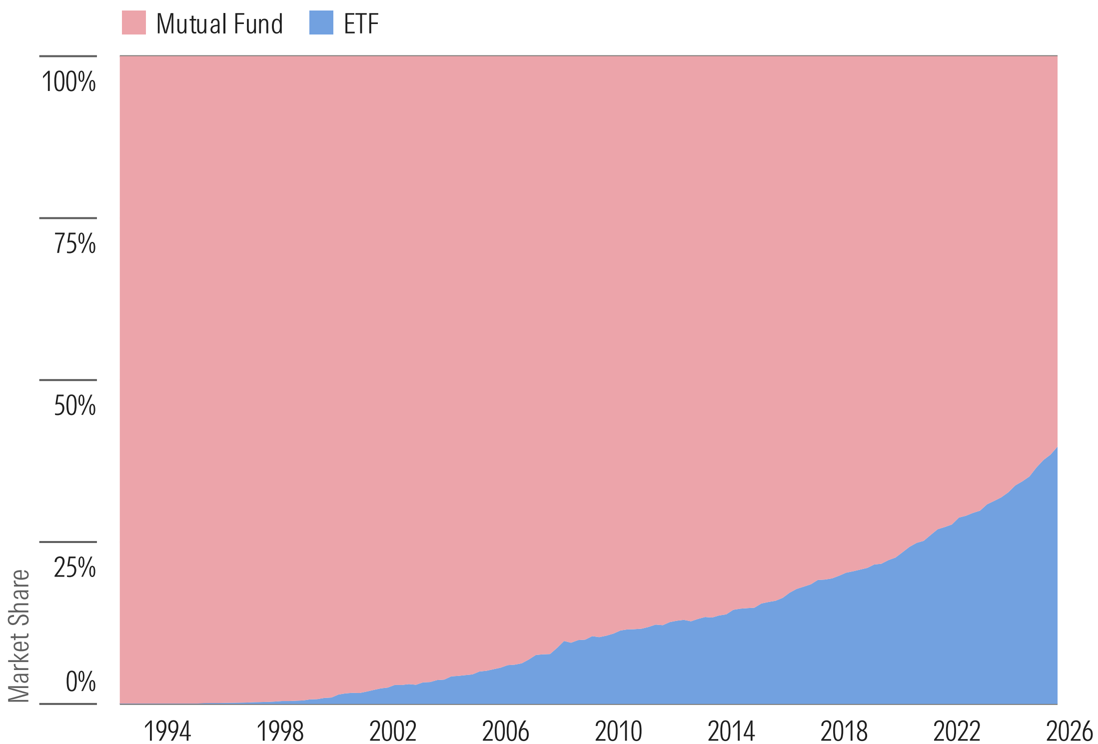
Net Launches and Closures



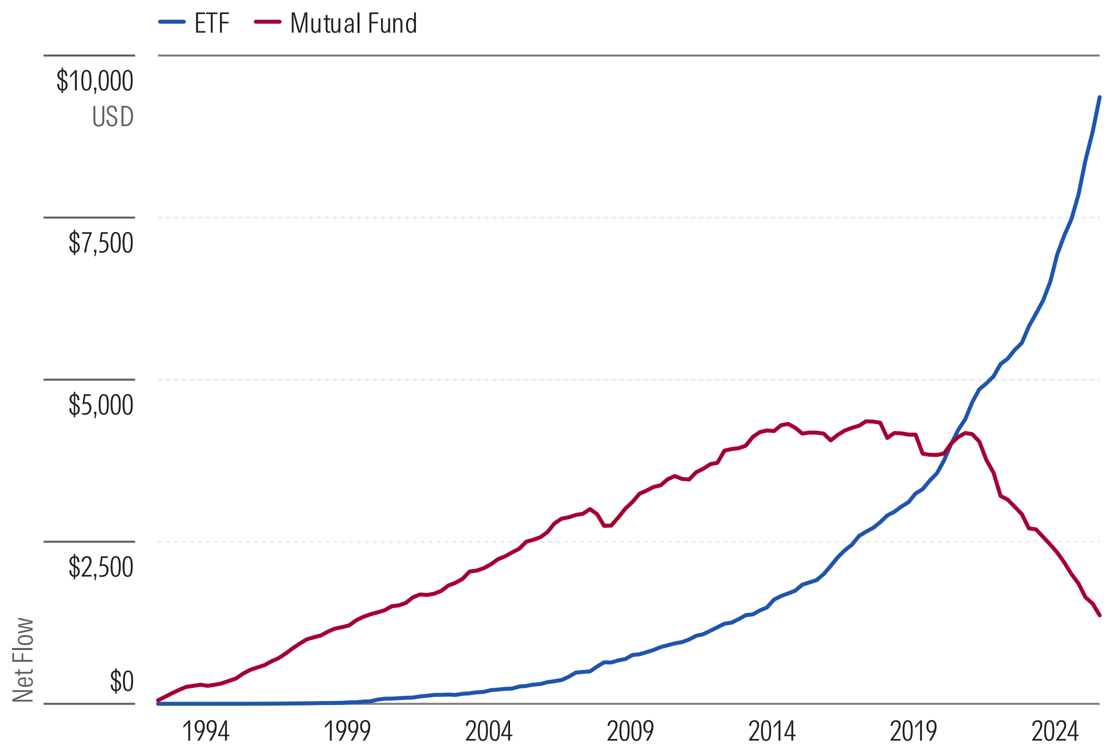
Mutual Funds Claim More Assets Than ETFs, for Now

Despite these trends, ETFs are still relatively young and cede ground to mutual funds when looking at total market share. That may be changing soon, though. Since State Street SPDR S&P 500 ETF Trust's birth, both mutual funds and ETFs have seen net inflows, but mutual funds have been hemorrhaging money since 2019, while ETF inflows have gone stratospheric. However, the ETF tax advantage is nullified in tax-deferred accounts like 401(k)s and other retirement accounts, which could keep trillions parked in mutual funds for decades to come.

Market Share of ETFs and Mutual Funds



Cumulative Net Flow (USD Billions)



Source: Morningstar Direct. Data as of June 30, 2026.

Clones, Conversions, and Share Classes

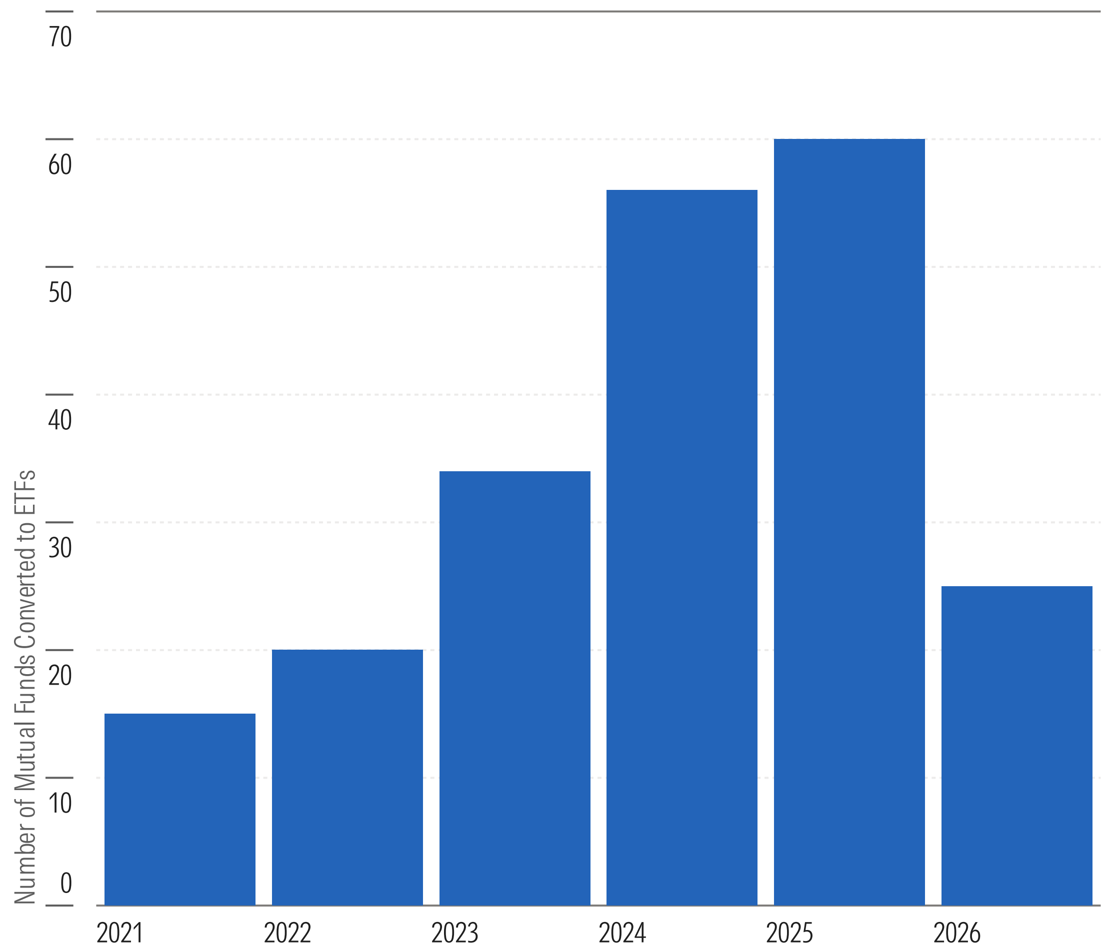
Three distinct paths have emerged over the past several years for mutual funds to enter the ETF market. Investment managers can create a stand-alone "ETF clone," convert a mutual fund to an ETF, or bolt on an ETF share class. Each route comes with trade-offs depending on the underlying investment process and the distribution channels that can access its existing share classes.

Creating a stand-alone ETF that's identical or nearly identical to an existing mutual fund makes sense when the mutual fund is largely used by investors through a defined-contribution retirement plan like a 401(k). Converting a mutual fund to an ETF isn't feasible in these situations because retirement accounts often aren't set up to handle the intraday trading of an ETF. Adding an ETF share class may be an option in some cases. In others, it may conflict with preexisting distribution arrangements.

Converting a mutual fund to an ETF makes sense when the mutual fund isn't used by investors in 401(k) accounts, or when a fund's investment process is aimed at tax-sensitive investors and intentionally tries to mitigate taxable capital gains distributions.

Conversions started to take off in March 2021 when Guinness Atkinson converted its Dividend Builder and Asia Pacific Dividend Builder funds into ETFs. Since then, another 208 mutual funds opted to convert to an ETF through June 30, 2026.

Conversions Persist



Source: Morningstar Direct. Data as of Aug. 31, 2026.

Clones, Conversions, and Share Classes

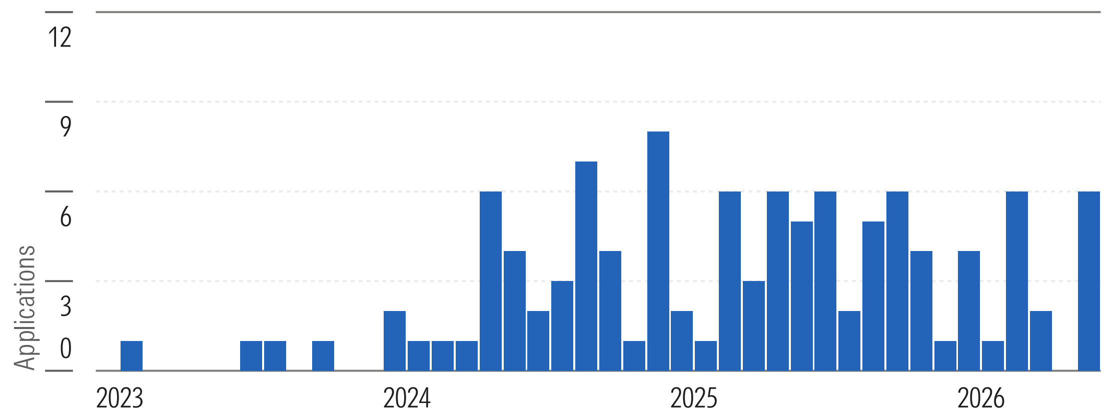
The third path adds an ETF share class to an existing mutual fund. These make the most sense for mutual funds that aren't locked up in pre-existing distribution arrangements and there's reason to keep the mutual fund shares around.

The concept isn't new. Vanguard pioneered the idea when it added an ETF share class to Vanguard Total Stock Market Index Fund in May 2001. It patented the novel structure but was only allowed to use it on index-tracking funds. The patent expired in 2023, which led to a couple years of discussions between the SEC and dozens of other asset managers interested in the hybrid structure, though more specifically for active ETFs. As of June 30, 2026, 106 investment managers had requested permission to use the novel fund structure, while 95 had received approval.

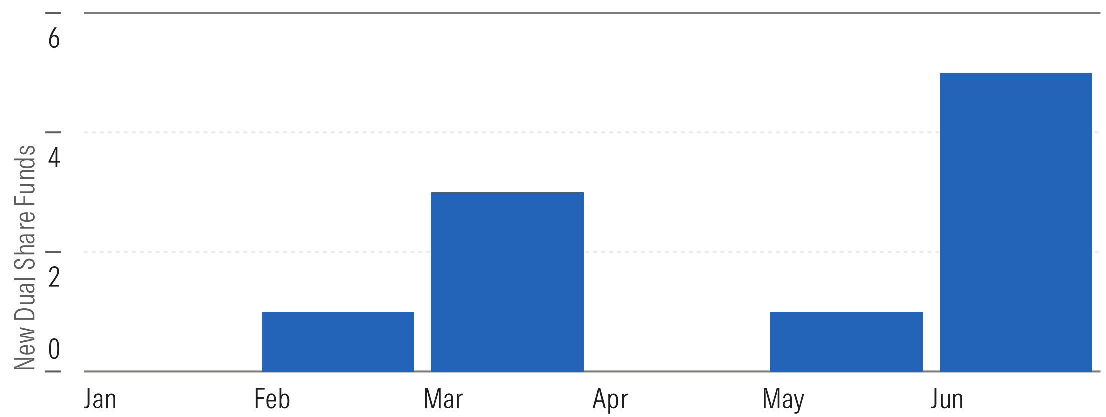
Many investment managers can add an ETF share class to their mutual funds, but only five had gone through with creating them as of the end of June. Creating and managing them remains complicated and difficult.

Vanguard's index-tracking funds aside, F/m Investments became the first to create a dual share class fund when it added mutual fund shares to its existing F/m US Treasury 3 Month Bill ETF in February. Dimensional subsequently became the first to append an ETF share class to an existing mutual fund in March. Thornburg, Nuveen, and Fidelity followed shortly after by adding ETF share classes to a few of their mutual funds. All told, 10 dual-share class ETFs started trading in the first six months of 2026 with more planned for later in the year.

Initial Applications For ETF Share Classes



ETF Share Classes Come Online



Source: Morningstar and Morningstar Direct. Data as of August 31, 2026.

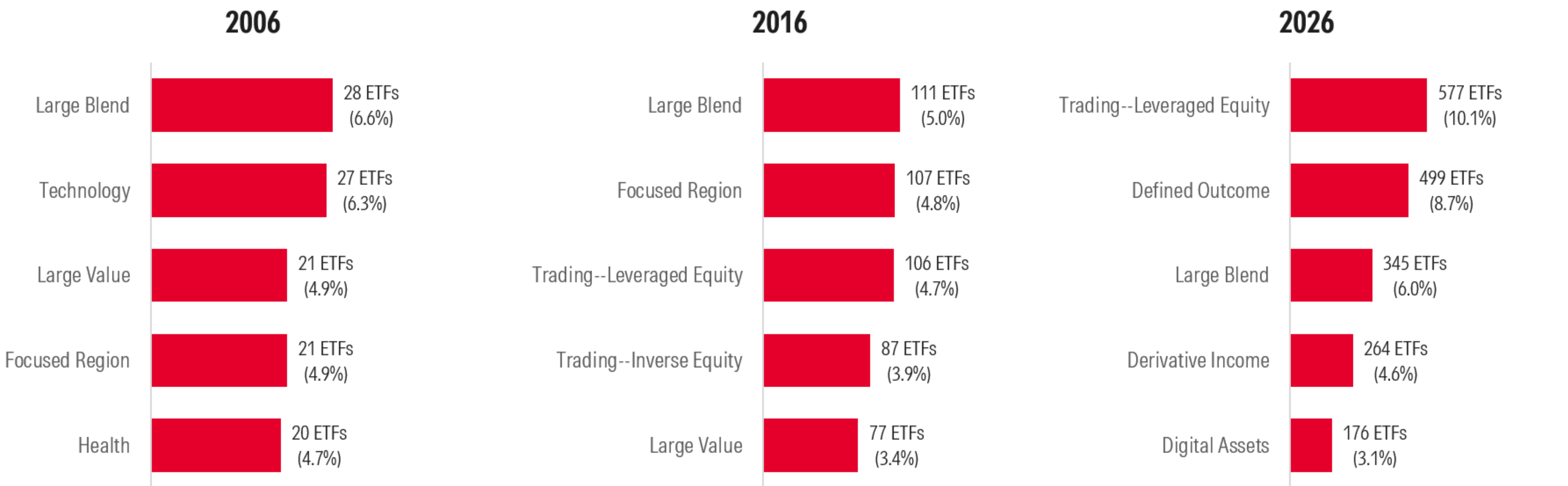
ETF 2.0: Branching Out From Passive

Active ETFs now outnumber passive ETFs. One important rule change triggered their rapid ascent.

New ETFs Look Nothing Like the Originals

The moniker "ETF 2.0" denotes ETFs that stray from the wrapper's roots as broad index-trackers. Such ETFs include those that still track indexes but target narrow segments of the market or forgo market-cap weighting in favor of alternative means to beat the market rather than represent it. Other second-generation ETFs may be actively managed or invest in securities other than stocks.

Most Populous US ETF Categories



Source: Morningstar Direct. Data as of June 30, 2026.

Assets Still Concentrate in Established Categories

“ETF 1.0” is where ETFs started and encompasses most of the largest ETFs previously noted, but “ETF 2.0” helped the industry gain business footing thanks to higher profit margins and growth potential. The core of investors’ portfolios has not significantly changed in years, with broad-based index funds in established categories continuing to claim the greatest share of ETF assets. Within these categories, though, asset managers and investors are increasingly looking toward actively managed strategies.

Asset Mix Across US Categories

2016

	ETF Net Assets (USD Billions)
Large Blend	473
Foreign Large Blend	155
Large Value	135
Large Growth	117
Diversified EM	88
Intermediate Core Bond	87
Mid-Cap Blend	84
Commodities Focused	66
Small Blend	66
Mid-Cap Value	59
Outside Top 10	957

2026

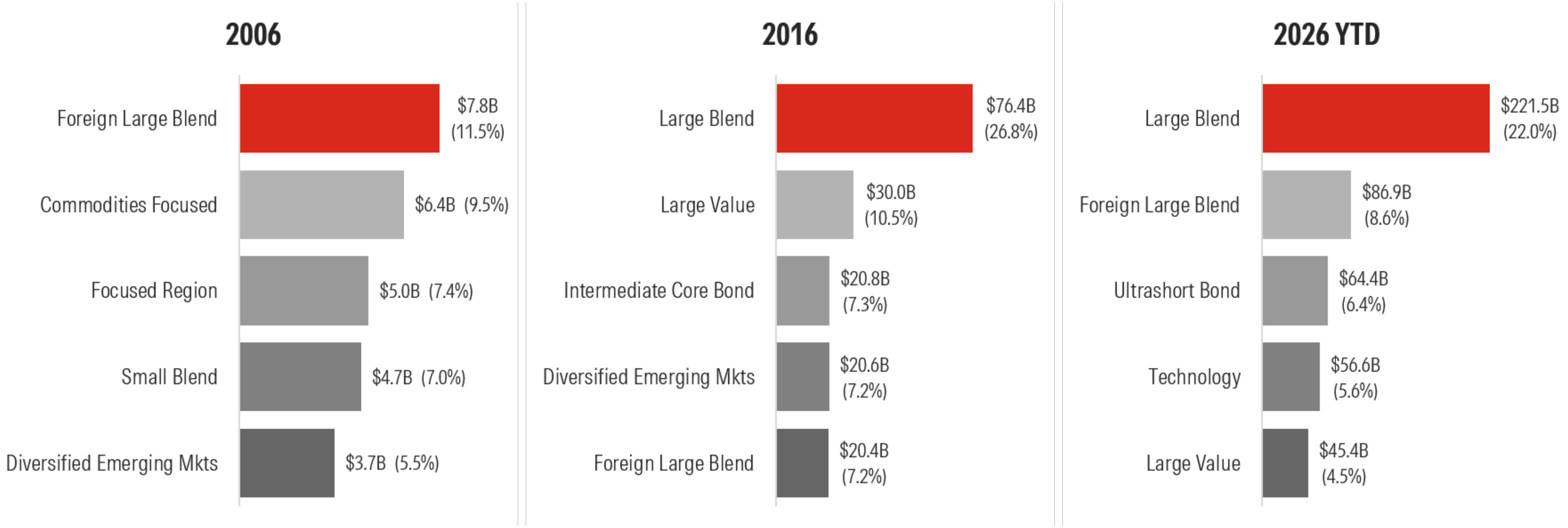
	ETF Net Assets (USD Billions)
Large Blend	4,686
Large Growth	1,420
Foreign Large Blend	1,138
Large Value	989
Technology	649
Diversified EM	483
Mid-Cap Blend	449
Intermediate Core Bond	418
Small Blend	413
Ultrashort Bond	380
Outside Top 10	4,783

Source: Morningstar Direct. Data as of June 30, 2026.

Established Categories Also Claim Majority of Flows

While the second generation of ETFs was a departure from prior norms, many of these funds still hold investment promise and serve a clear purpose. It took nearly 10 years for bonds to enter ETF portfolios, but by 2016 the largest bond category collected the third-most inflows of any category. These and other ETFs play a role in portfolios, but the bulk of many investors' allocation is still in the simple passive ETFs that started it all. The third generation of ETFs, to be discussed later, will test whether investors have an appetite for much else.

Categories With Most ETF Flows

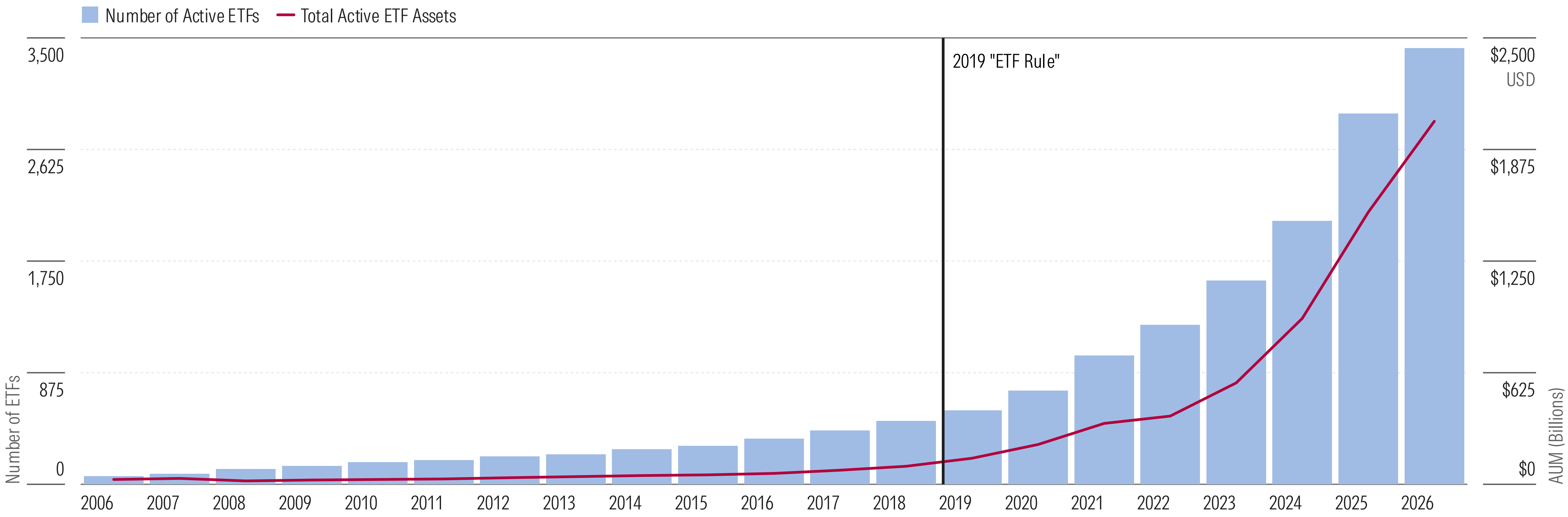


Source: Morningstar Direct. Data as of June 30, 2026.

Active ETFs Have Taken Off

Headline category inflows don't fully articulate the story of active ETFs. It took 15 years for Bear Stearns to unveil the first actively managed ETF in 2008. It was another 11 years before the SEC issued Rule 6c-11, which made it far easier for active fund managers to enjoy the ETF wrapper's tax benefits without compromising their investment approach. The growth that ensued was no surprise.

Growth of Active ETFs Catalyzed by the 2019 'ETF Rule'

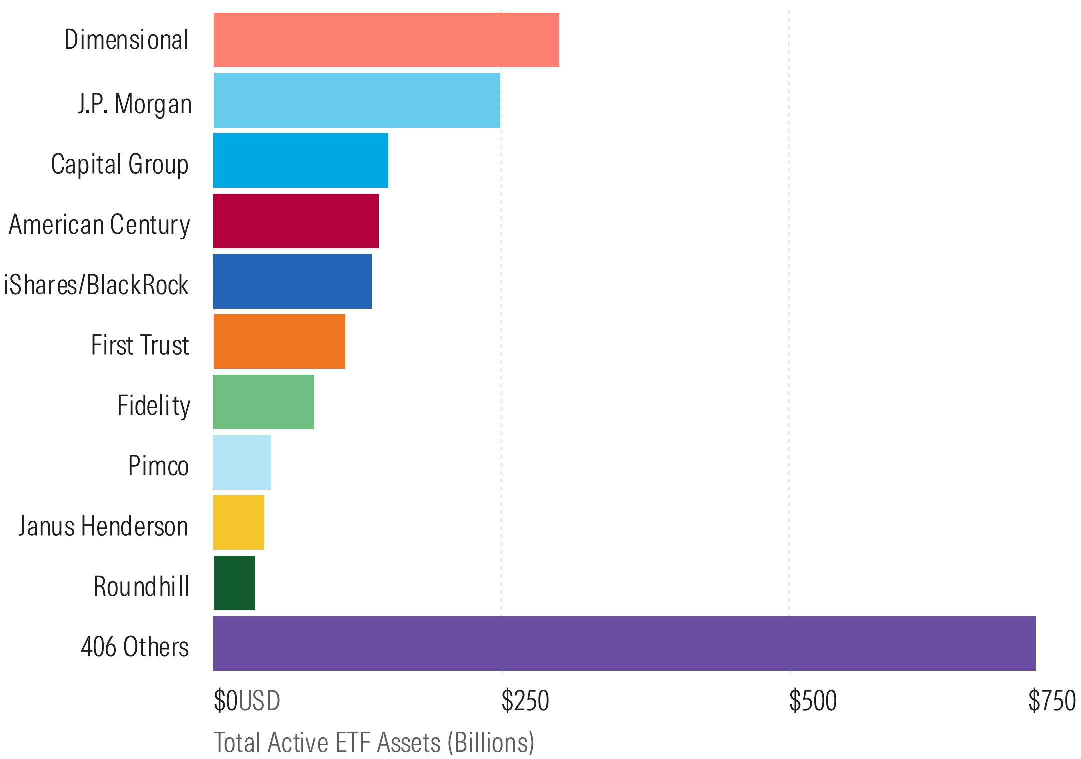


Source: Morningstar Direct. Data as of June 30, 2026.

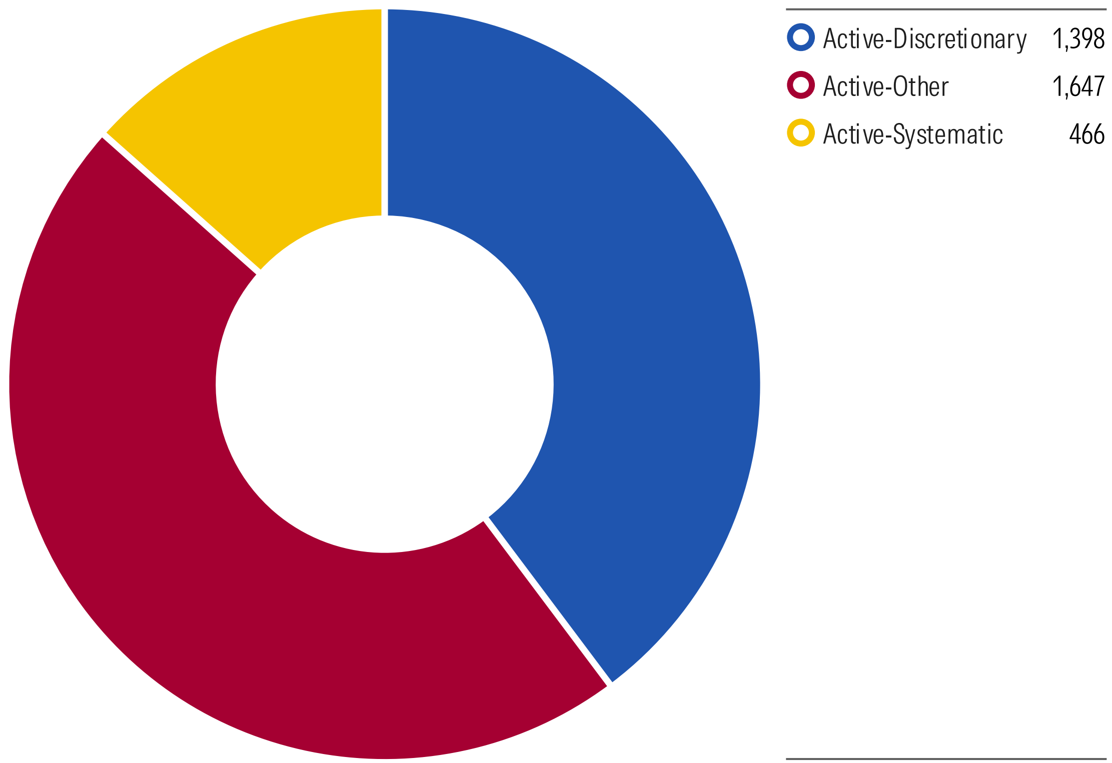
Active ETFs Are Not Very Active

There's a spectrum of approaches underneath the active ETF label. Pimco was an early leader in the space with active discretionary bond ETFs, but the firm has been leapfrogged by generally cheaper competitors offering rules-based, or systematic, active ETFs. Dimensional and American Century (Avantis) rose in the ranks because of their success in systematic active ETFs. In the next section, we'll discuss other types of active ETFs and see if these niche strategies have much to offer.

Provider Active ETF Assets Under Management



Active ETFs by Management Type



ETF 3.0: The Next Generation

Differentiation is almost impossible across a landscape of more than 5,000 competing ETFs. Providers are increasingly looking to niche markets—and derivatives—to stand out from the crowd.

The Next Generation of ETFs

The mostly sensible second generation of ETFs gave way to a third generation of less sensible ETFs. These ETFs feature more complex investment processes, and many dial up risk in a variety of ways. Leveraged and inverse single-stock ETFs are the poster child for “ETF 3.0” as their risky short-term bets can win big, or, more often, lose big. Defined-outcome ETFs also land in this emerging cohort but aim to cushion stock market losses. Common across this disparate group, though, are generally high fees and the use of derivatives.

Top 10 Categories by ETF Launches

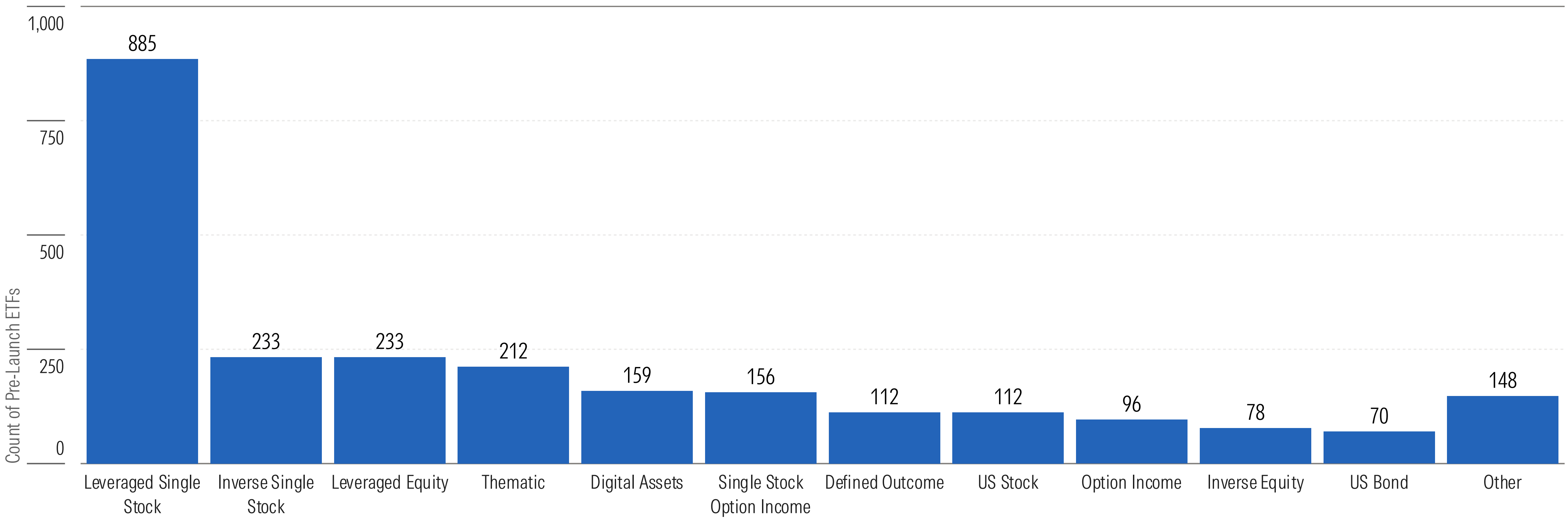
2016		2021		2026	
Category	**Launches**	**Category**	**Launches**	**Category**	**Launches**
Large Blend	20	Defined Outcome	57	Trading--Leveraged Equity	218
Technology	13	Large Blend	37	Defined Outcome	65
Diversified Emerging Mkts	11	Large Growth	27	Derivative Income	46
Large Value	11	Technology	23	Large Blend	41
Foreign Large Value	9	Digital Assets	18	Digital Assets	37
High Yield Bond	9	Miscellaneous Sector	16	Target Maturity	32
Foreign Large Blend	8	Large Value	13	Technology	25
Health	8	Trading--Leveraged Equity	12	Trading--Inverse Equity	17
Large Growth	8	Mid-Cap Blend	10	Industrials	15
Trading--Inverse Equity	8	Equity Hedged	9	Large Growth	15

Source: Morningstar Direct. Data as of June 30, 2026. Includes full-year launch counts for 2016 and 2021, and half-year counts for 2026.

The Future of ETFs Is Already Here

Most soon-to-be-launched ETFs look more like gambling than investing. More than 50% aim to manipulate the returns of a single stock using derivatives. They present a bleak future for long-term investors. Most investors don't need these shiny objects, however, and can stick to proven approaches. A few firms have found lightning in a bottle with these risky bets and show the business opportunity in offering them. The success of a few can pay for many, which is why so many niche ETFs are in the launch queue. They don't help long-term investors but do bolster fee revenue for the ETF provider.

Few Traditional ETFs Are Set to Launch Soon



Source: Morningstar Direct. Data as of June 30, 2026. Shows ETFs with initial prospectuses filed on or before June 30, 2026, that have not yet launched as of that date. Strategy descriptions are based on the author's interpretation of each strategy as prelaunch ETFs do not have a category designation.

It's Never Been Easier to Launch an ETF

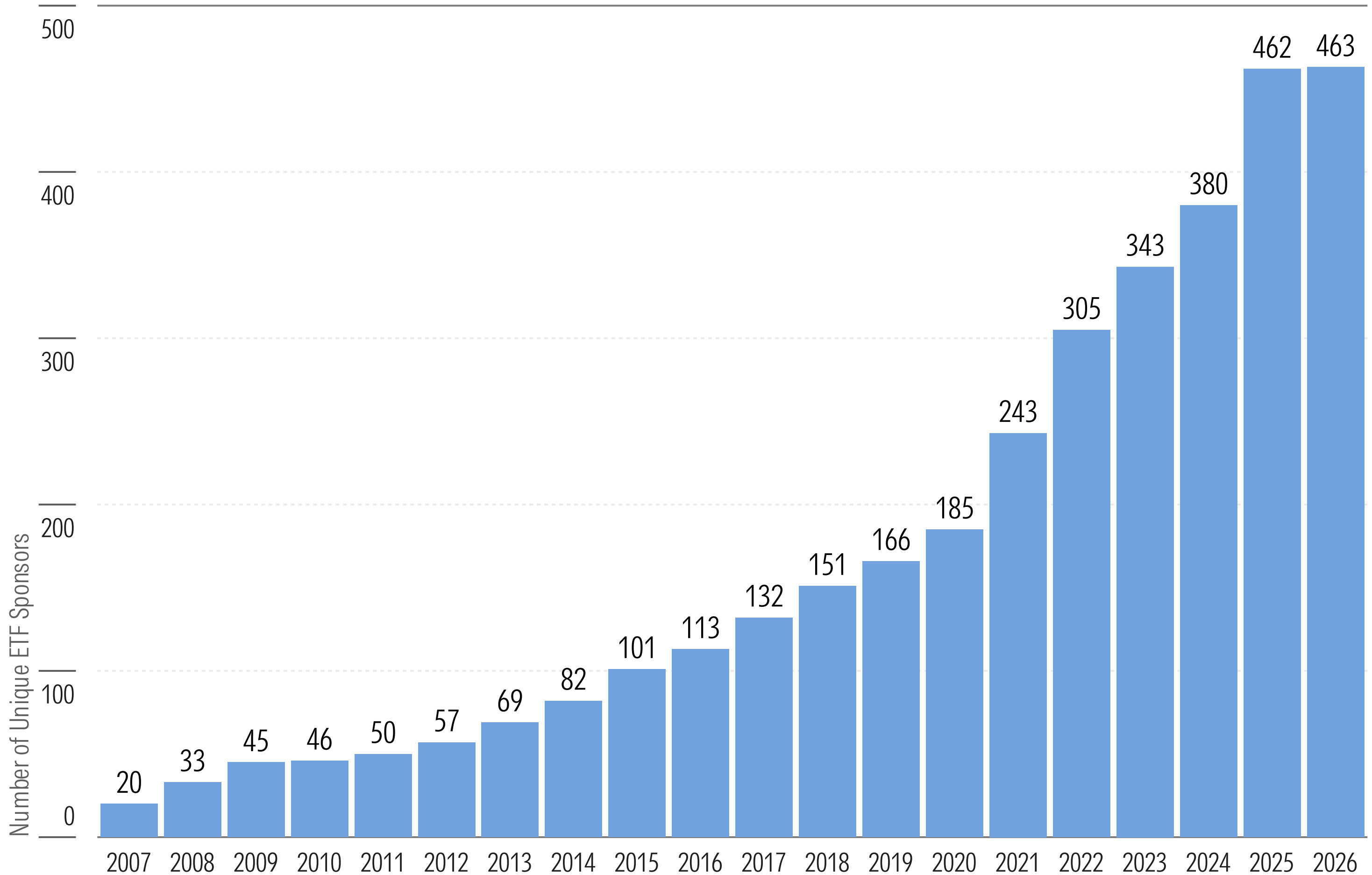
The relative ease of launching ETFs today contributes to the wave of niche filings. Not only has the growth of ETFs attracted new issuers, but the barrier to entry has only receded. It's joked that anyone with a good idea can launch an ETF. That's mostly true, and the idea doesn't even have to be good if you have the funds to pay service providers tasked with turning an idea into a reality.

"White label" ETF firms play a key role in many recent launches by handling anything from trading, operations, compliance, capital markets, and more for a new sponsor.

So, while the number of unique ETF sponsors has ballooned, many go the white-label route to streamline the go-to-market process. Tidal was the largest white-label ETF provider and the listed advisor or subadvisor on 410 ETFs with USD 60.4 billion total at the end of June 2026.

It's never been easier to launch an ETF, but it's never been harder to stand out. With over 5,000 ETFs in the US spanning almost any strategy imaginable, truly new ideas are rare. That's why there are so many iterations of the same idea, like single-stock ETFs, clogging the queue.

Number of Unique ETF Sponsors Per Year

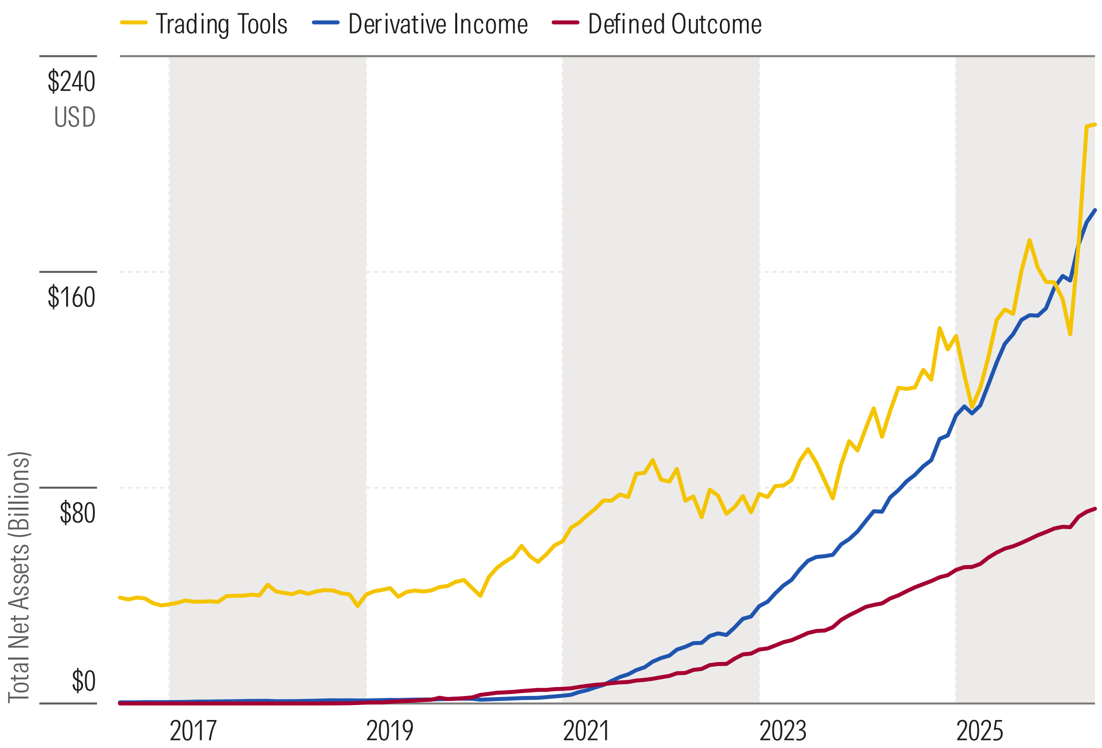


Source: Morningstar Direct. Data as of June 30, 2026.

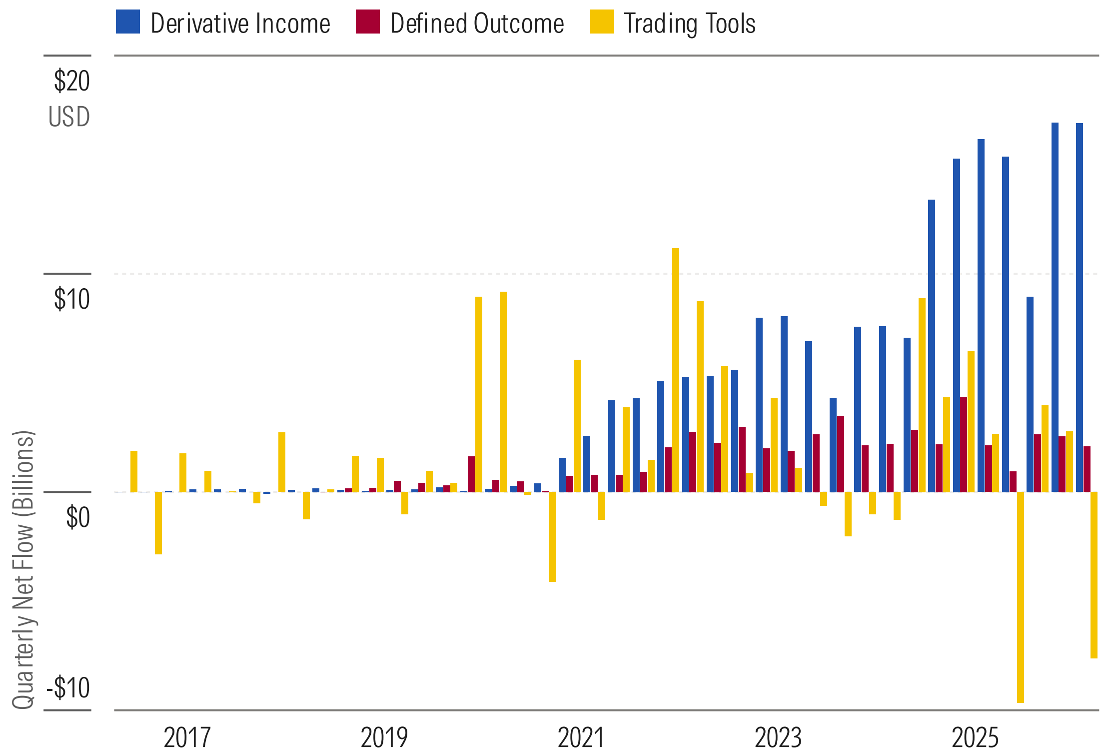
Why the Latest ETFs Show Business Promise

Most new ETFs show little to no long-term investment merit, or they appeal only to a niche set of investors. Yet, they continue to increase in number and assets. Trading-tools ETFs are largely short-term speculation instruments and not long-term investments. Derivative-income and defined-outcome ETFs can usually be held for longer, but few qualify as bona fide core holdings. For issuers, these ETFs are appealing because they can charge high fees and are relatively straightforward to operate, ensuring steady profits once they reach scale.

Asset Growth of 3 Emerging Categories



Quarterly Net Flow of 3 Emerging Categories



Source: Morningstar Direct. Data as of June 30, 2026. Trading Tools includes ETFs in the Trading—Inverse Commodities, Trading—Inverse Debt, Trading—Inverse Equity, Trading—Leveraged Commodities, Trading—Leveraged Debt, Trading—Leveraged Equity, Trading—Miscellaneous Morningstar categories.

Two 3.0 Trends That Show Investment Promise

While many recent ETF innovations prey on some of humans' worst instincts, a few in this cohort show promise. New options are designed to defer or reduce investors' tax bills. That is if they remain legal.

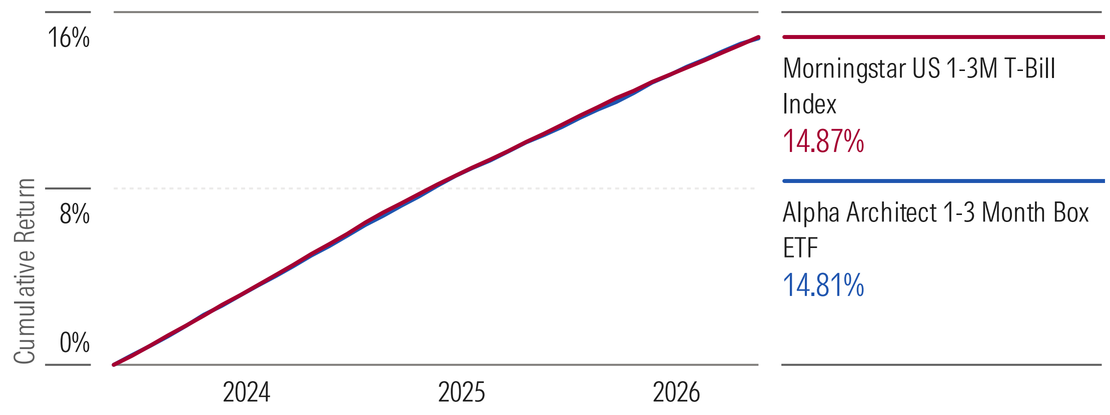
The IRS is testing the legality of some of these structures, but for now, and for the right client, a few offer compelling ways to improve aftertax outcomes. Box-spread ETFs and ETFs seeded with Section 351 conversions are two examples.

Box-spread ETFs package a specific options strategy into an ETF that gives investors short-term bond returns but with no distributions. This means investors realize taxable capital gains only when they sell the ETF. Currently, there are six such ETFs available.

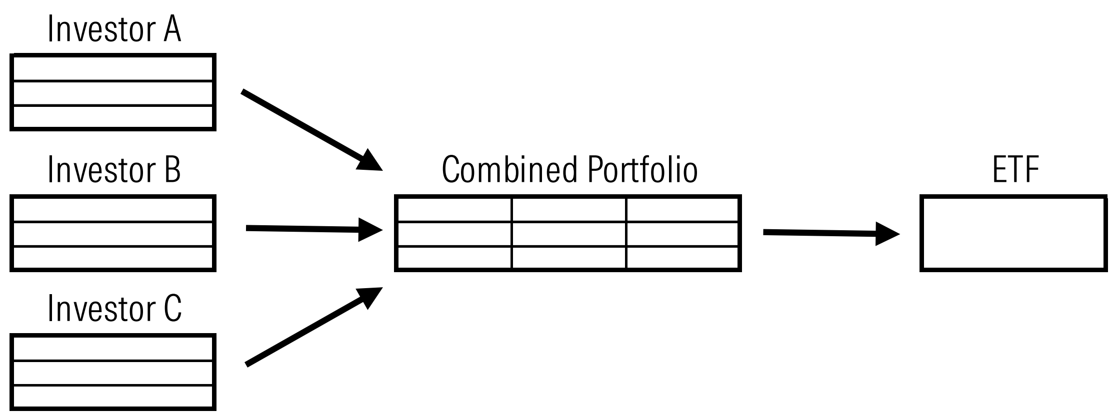
Advisors and wealthy investors can use Section 351 of the tax code to package individual holdings into a new ETF, deferring a taxable sale and allowing future rebalances to occur tax-free. Several conditions must be met, and it applies to a small subset of investors, but it can be a valuable tool in the rapidly expanding ETF tool chest.

That brings us to the fork in the road. Are recent innovations flashes in the pan or durable trends? It's never been more important for investors and advisors to be picky. ETFs are only getting more complex, so allocating to the wrong third-generation ETF could carry consequences. For most investors, sticking with the strategies that built the ETF market makes the most sense.

3-Year Cumulative Returns



Wealthy Investors Pool Money to Form a Section 351 Conversion ETF



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