NATIONAL BANK INVESTMENTS

Fall 2026 ETF Guide

The evolution of ETFs in Canada

Introduction

→ The Canadian ETF landscape is evolving rapidly, driven by changing investor needs, innovation and new approaches to portfolio construction. What began as a simple way to track market indexes has expanded into a diverse universe of solutions designed to help investors pursue growth, generate income, manage risk and build more resilient portfolios. This guide explores some of the key trends and developments shaping the ETF industry in Canada today, ultimately influencing investment decisions for investors and product innovation for institutions.

Several structural trends are helping shape the next phase of ETF adoption in Canada. Investors are increasingly looking beyond traditional broad-market exposures and exploring solutions that can address specific portfolio needs, whether that is generating income, managing volatility, accessing thematic growth opportunities or improving diversification. At the same time, the line between active and passive investing continues to blur, giving investors access to a broader range of strategies within the ETF structure. Understanding these trends can help investors make more informed decisions and better position their portfolios for an evolving market environment.

At the same level, wealth managers are increasingly embracing ETFs as strategic portfolio-building tools rather than simply as vehicles for passive market exposure. Many are using ETFs to manage liquidity, adjust asset allocation efficiently, gain rapid exposure to specific markets and implement both active and passive strategies. Their transparency, flexibility and intraday tradability also make ETFs valuable for managing cash flows and responding to changing market conditions. As the range of available strategies continues to expand, this adoption is helping reinforce ETFs' role as essential building blocks in modern portfolios.

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The Canadian ETF landscape and market impact

Record inflows, assets and product launches point to an ever-growing ETF landscape

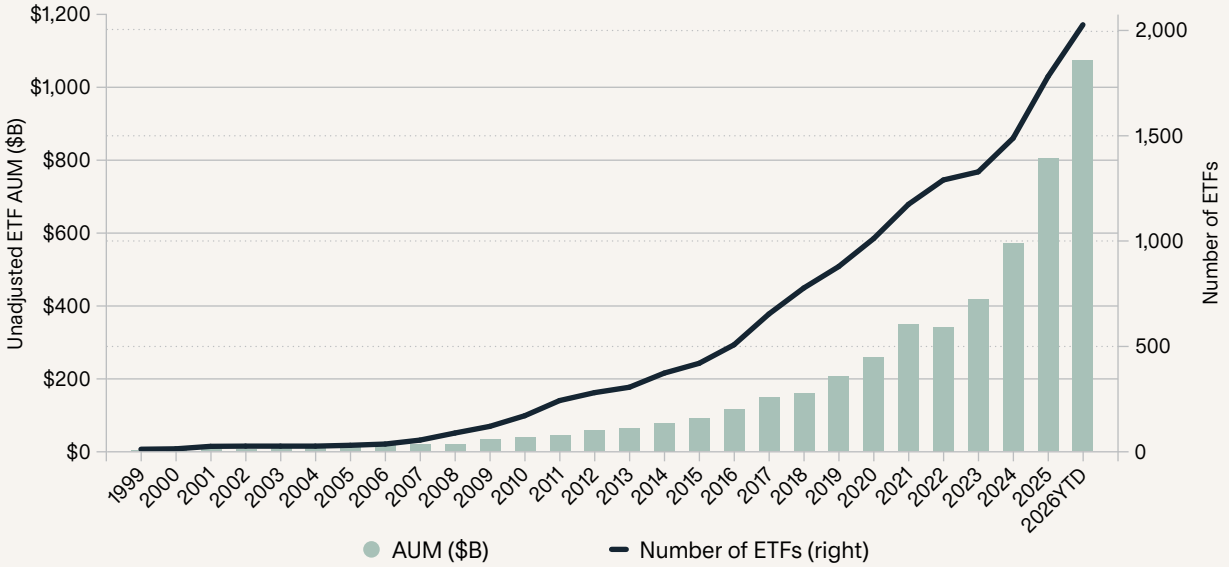
What has changed?

- → ETFs have evolved beyond simple tools for passive index exposure and are now widely used as comprehensive portfolio construction solutions.
- → Investor demand now extends well beyond traditional equity and fixed-income solutions. Canada remains at the forefront of ETF innovation, driving growth across actively managed strategies, asset allocation solutions, income-focused products and alternative investments.

Money flows into ETFs and year-over-year growth

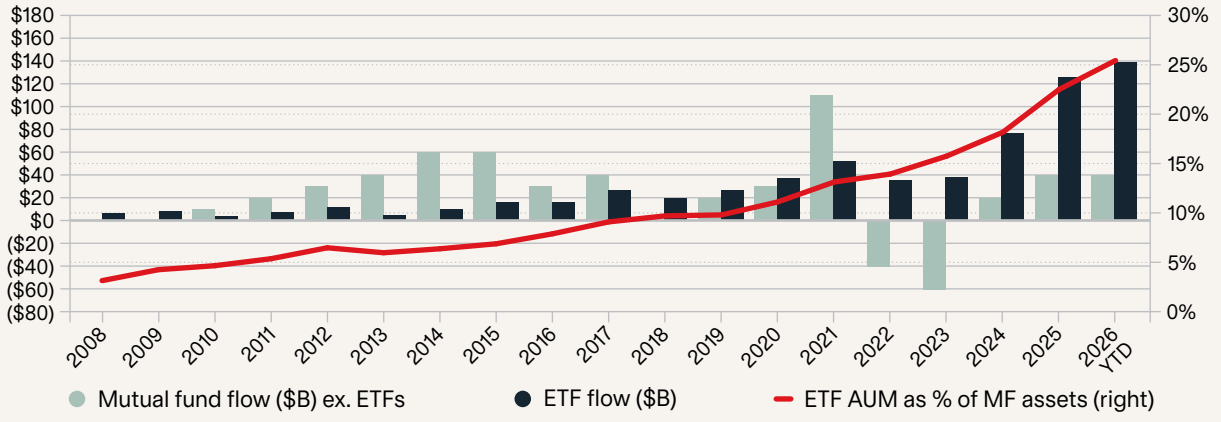
A huge milestone occurred within the ETF industry in Canada as assets under management hit the $1 trillion mark in June 2026. In addition, ETF inflows surpassed $100 billion in the first half of 2026, setting a new record. This acceleration was mainly driven by equity ETFs, which accounted for 66% of total year-to-date inflows and remained the largest driver of growth in the Canadian ETF market.

Figure 1: Canadian ETF assets (AUM) surpass the $1 trillion mark



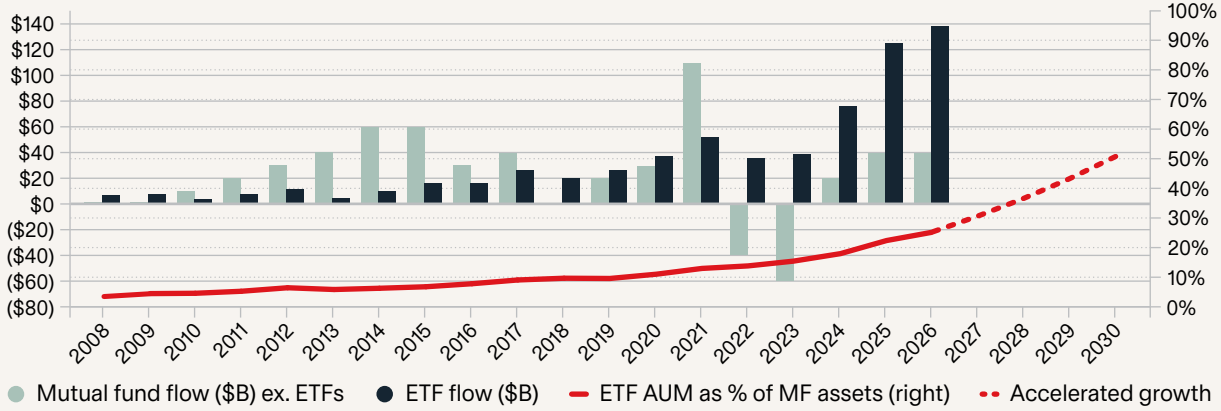
Source: NBCCM ETF Research. Bloomberg. Data as of September 30, 2026.

Figure 2: Estimated Canadian mutual fund and ETF flows



Source: NBCCM ETF Research. Bloomberg. Data as of August 31, 2026. Mutual fund data is estimated.

Figure 3: Estimated Canadian mutual fund and ETF flows – accelerated growth



Source: NBCCM ETF Research, Bloomberg. Data is as of August 2026. Mutual fund data is estimated.

The shift toward ETFs continues to accelerate at a fast pace. 2025 was a milestone year as ETFs outsold mutual funds for the fourth consecutive time. Year to date ETF assets under management have risen to 25% of mutual fund assets, highlighting their growing role in investor portfolios. (Figure 2)

Many key drivers of this shift are factors supporting lower costs, transparency, intraday liquidity and evolving advisor practices. Since 2016, ETF net AUM has grown at a 24% compounded annual growth rate (CAGR) versus 8% for mutual funds. Based on the average acceleration rate over the past three years, we project that ETFs will represent 30% of total fund assets by 2027, and overtake mutual funds in AUM by 2030.[1] (Figure 3)

1 Source: NBCCM ETF Research, Bloomberg. Data is as of August 2026. Mutual fund data is estimated.

Demystifying two important components of ETFs: Price and liquidity

Understanding the role ETFs can play in a portfolio also requires a basic understanding of how ETF pricing and liquidity work. A broad-market equity ETF may serve as a core long-term holding, a bond ETF may provide income and help manage portfolio volatility, and a sector or thematic ETF may offer targeted exposure to a particular investment opportunity; however, investors should also understand where ETF liquidity comes from, how market prices are established and the role market makers play in supporting efficient trading.

Key takeaways

- → The liquidity of any ETF comes from its underlying basket. During different market scenarios, ETF prices reflect the cost of liquidity in transacting in their markets.
- → Premiums and discounts are part of the design of the ETF structure; they are often transitory and do not affect long-term buy-and-hold ETF investors.
- → Any closing price discount does not represent the true "experience" of investors transacting intraday, because so many ETF trades occur at different prices.
- → For best practices, ETF investors can improve their outcomes by always using limit orders (not market orders), and by avoiding trading near the open and close of markets.

ETF liquidity

Liquidity is one of the most distinguishing features of ETFs compared to many other investment vehicles such as mutual funds. ETFs trade continuously on exchanges, even when:

1. The underlying assets are not trading (e.g., market closures from holidays, different trading hours, sanctions or other events).
2. The underlying assets are illiquid (e.g., municipal bonds, senior loans, private assets).

ETF trading reflects investors' real-time consensus on what the basket of securities should be worth and thus provides price discovery for the underlying markets. This is a valuable feature of ETFs; they can serve as benchmarks during normal markets, and they can act as liquidity "release valves" during crisis times. Time and time again, when the underlying markets were halted or closed, or experienced catastrophic liquidity crunches, ETF investors kept on transacting, and market makers (a term referring to anyone who provides liquidity for an ETF and that create or redeem with the ETF issuer) still provided ETF quotes based on proxy securities to reflect the actionable and discoverable real-time prices of the assets in the baskets.

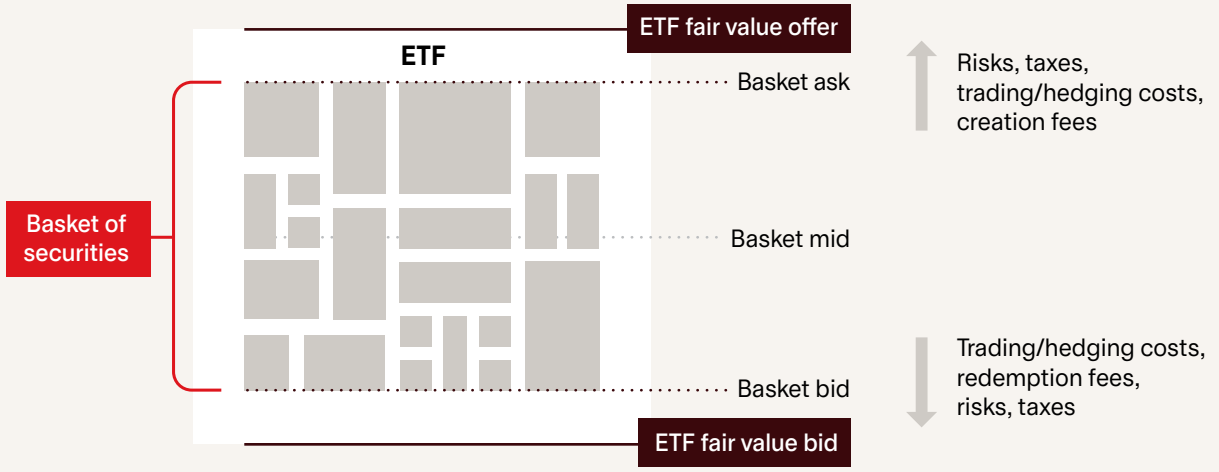
A common misconception about ETF liquidity arises from the assumption that since ETFs trade like stocks, their liquidity is determined primarily by on-screen trading volume. In reality, ETF liquidity reflects not only ETF shares changing hands on exchanges, often measured by average daily volume, but also the liquidity of the underlying securities and the efficiency of the creation and redemption process. In general, broader exposures tend to support better liquidity because market makers can draw from a deeper pool of underlying securities and more flexibly distribute hedging activity across a deeper, more diversified basket.

How are ETF prices determined?

Market makers calculate fair-value bid and offer prices for an ETF by considering the value and liquidity of the underlying basket, hedging and currency costs, applicable taxes and fees, and the spread required to facilitate the transaction. Figure 4 provides a comprehensive summary of the components of ETF pricing.

ETFs also have a net asset value (NAV). The NAV represents the per-unit value of its underlying investments, while its market price is the price at which it trades on an exchange. When the market price is higher than the NAV, the ETF trades at a premium; when it is lower, the ETF trades at a discount. These differences are usually small and temporary, but they can widen during volatile markets or when the underlying securities are less liquid or not actively trading as previously mentioned.

Figure 4: Breakdown of ETF pricing and how market makers determine ETF fair value



Source: NBCCM ETF Research. Not to scale. Risks could include market risk, foreign exchange risk, liquidity risk, etc.

For individual investors and wealth managers looking at ETF bid and ask prices, a few best practices always come to mind:

1. Always use limit orders rather than market orders.
2. Avoid trading near the opening and closing of the market.
3. For larger trades, consult an ETF trading desk for execution support.

ETF growth does not necessarily mean a larger market impact

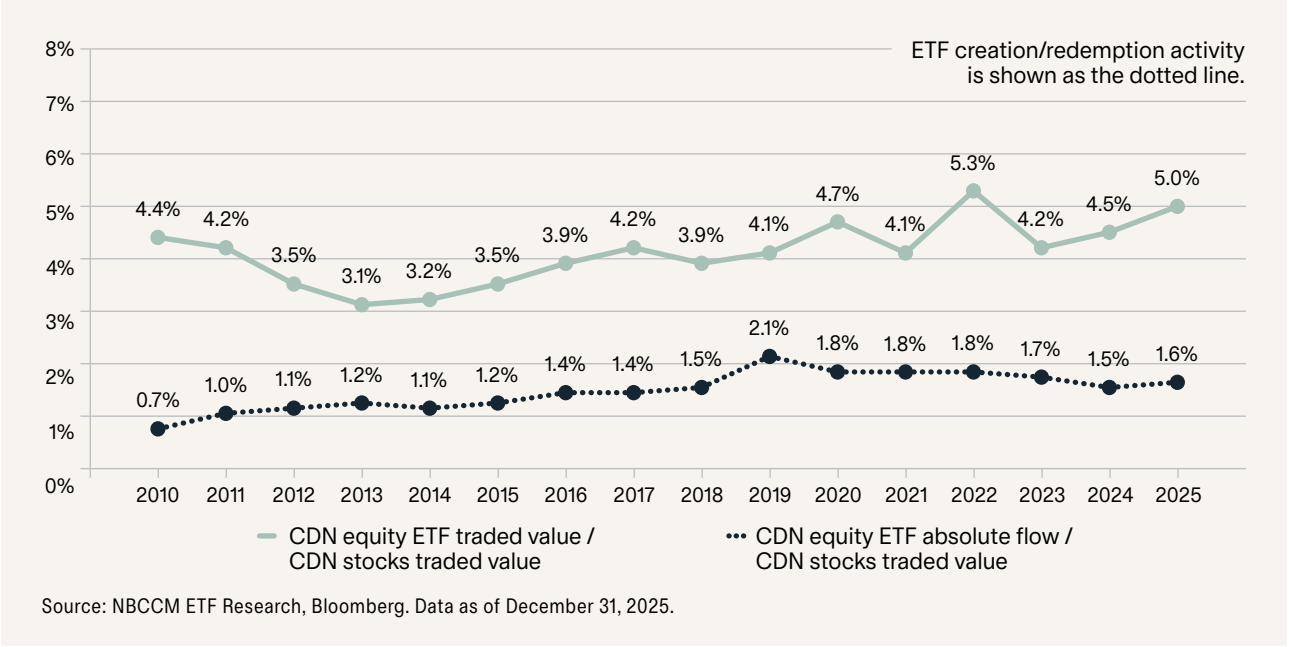
→ As ETFs become larger and more widely traded, how much influence do they have on the markets they invest in?

As ETF adoption grows, investors may wonder whether increased ETF trading has a significant effect on the stocks and bonds held within these funds. In practice, most ETF transactions take place between buyers and sellers on an exchange, without requiring the ETF to purchase or sell the underlying investments.

Only when new ETF units are created or existing units are redeemed may trading in the underlying securities be required. Research shows that this creation and redemption activity generally represents only a low single-digit percentage of underlying stock trading volume in Canada.

Across broad equity markets, ETF creation and redemption activity remains relatively modest compared with the overall amount of trading in the underlying securities. (Figure 5)

Figure 5: Canada equity ETFs primary and secondary market footprint

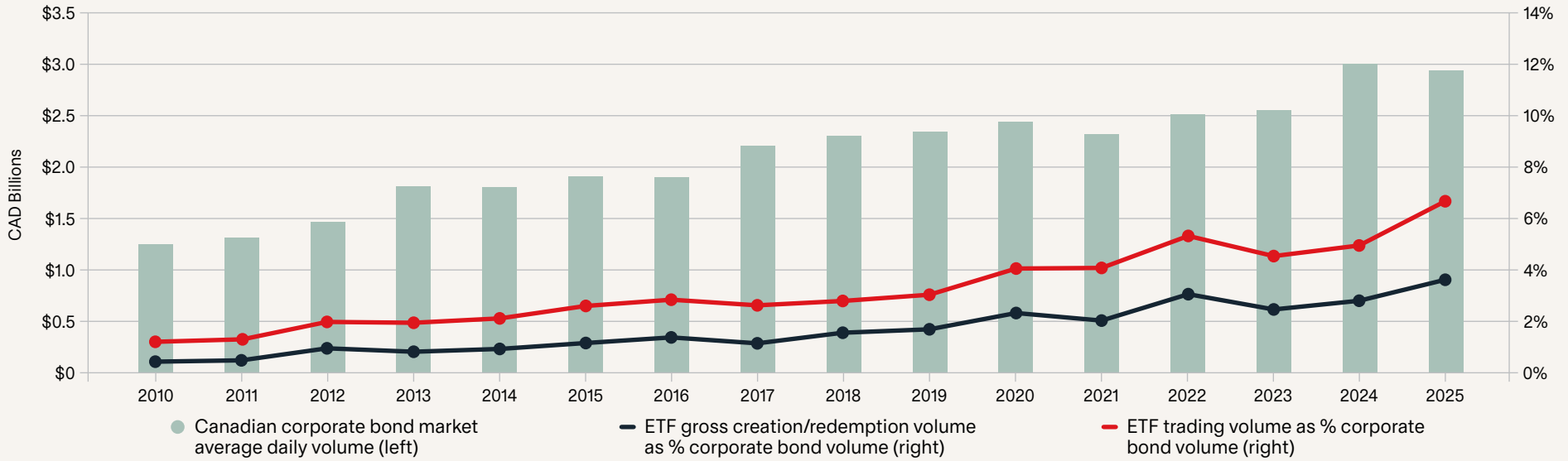


Source: NBCCM ETF Research, Bloomberg. Data as of December 31, 2025.

For fixed-income trading, ETFs' footprint also remains relatively marginal. Bond ETF creation and redemption do not always require every bond in the ETF to be bought or sold. Transactions can sometimes be completed using a selected basket of bonds or cash. Therefore, even the primary-market percentage does not necessarily translate dollar for dollar into trades across every bond held by the ETF. (Figure 6)

ETFs generally have a limited impact on broad equity and fixed-income markets because their underlying securities typically trade in large volumes and can absorb ETF-related transactions efficiently. One area where there could be meaningful significance is when assets flow into or out of a sector ETF, the creation and redemption process may require its underlying holdings to be bought or sold. If those securities normally trade in lower volumes, ETF-related transactions can represent a meaningful share of daily activity and create short-term price pressure. This does not necessarily mean that ETFs are mispricing the securities. Rather, ETF flows become one of several market forces contributing to price discovery by adding an important source of demand when money enters the ETF and supply when money leaves.

Figure 6: Canadian corporate bond primary and secondary market footprint



Source: NBCCM ETF Research, Bloomberg, CIRO. Data as of December 31, 2025.

The changing demographic of ETF investors

A major driver of ETF growth has been the rise of self-directed investors and younger generations, who are increasingly seeking investment solutions that are low-cost, transparent and easy to access. As digital investing platforms continue to expand and advisory models evolve, ETFs have become a preferred vehicle for building portfolios. Investors are moving beyond traditional index exposure and are embracing actively managed ETFs, income-generating strategies, thematic opportunities such as artificial intelligence, and all-in-one portfolio solutions that offer diversified exposure in a single investment.

At the same time, demographic trends such as an aging population and increasing life expectancy are creating new portfolio challenges. Investors must balance the need for long-term growth with the need for reliable income in retirement, while also managing risks such as market volatility and sequence-of-returns risk. As a result, there is growing demand for flexible investment solutions and dynamic asset allocation approaches that can adapt to changing financial needs throughout the different stages of retirement.

→ 22%
of all Canadians now own an ETF.[1]

→ Canadian ETF adoption is highest among those aged:[1]

18–34 years old → 24%
35–54 years old → 25%

→ Digital investing is fuelling ETF growth.[1]

— 48% of ETF investors aged 18–34 purchase ETFs through self-directed brokerage platforms.

— Only 27% of Canadians aged 18–34 primarily rely on an advisor, compared with 51% of ETF investors aged 55+.

→ More than 60% of Canadians are concerned about outliving their retirement savings, fuelling the ongoing demand for income-oriented ETFs.

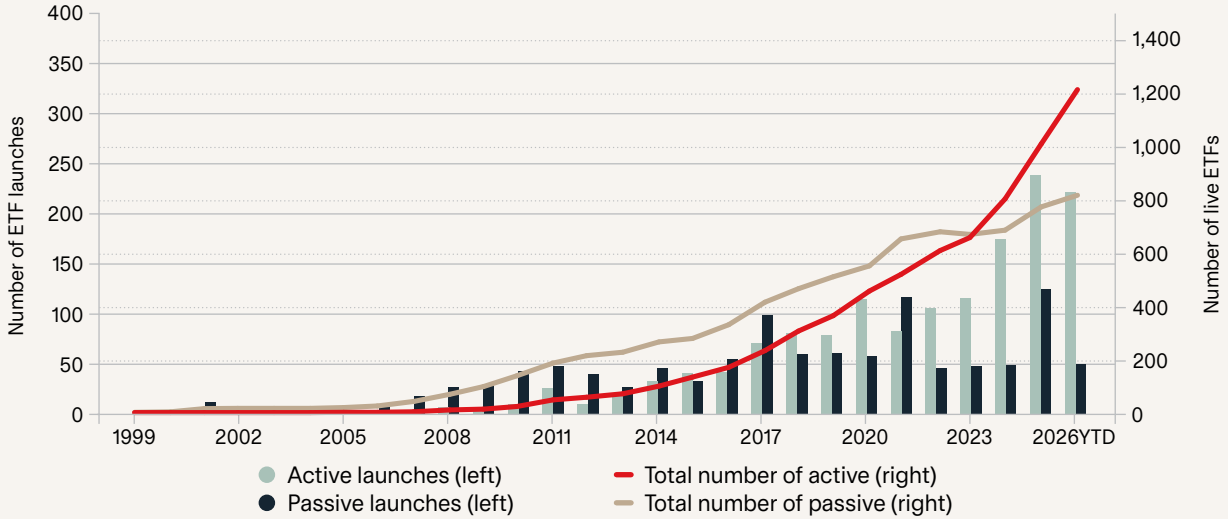
— National Bank Capital Markets identified dividend and income equity ETFs as one of the most popular equity ETF categories in 2025.[2,3]

— Furthermore, data comparing mutual fund and ETF flows showed that Canadian dividend income equity ETFs gathered approximately $3.24 billion, while comparable mutual funds experienced net redemptions, demonstrating a clear investor preference for income-oriented ETF solutions.[2]

1 Source: CETFA-ETF-Insights-Press-Release_February-6-2026.pdf
2 Source: Canadian ETF Flows report NBC Capital Markets (Jan 2026), Advisor.ca
3 Source: Canada's ETF industry set new records for inflows, fund launches in 2025, Advisor.ca

Active ETFs have moved mainstream

Figure 7: Total number of active ETFs has outpaced passive



Source: NBCCM ETF Research. Bloomberg. Data as of September 30, 2026.

Once viewed primarily as a vehicle for passive index investing, ETFs have evolved into a preferred structure for delivering both passive and active investment strategies. In Canada, active ETFs now represent more than half of all ETFs listed, offering investors access to professional portfolio management, tactical asset allocation, risk management and specialized investment expertise within the efficiency and transparency of the ETF structure. As a result, actively managed ETFs have moved firmly into the mainstream, becoming an increasingly important tool for advisors and investors seeking more than traditional index exposure.

→ Active ETFs have firmly cemented their stay within the Canadian ETF space. After accounting for over 65% of all ETF launches in 2025, actively managed strategies represented nearly 80% of new launches through the first half of 2026, underscoring the industry's rapid evolution beyond traditional index investing.[1]

1 Source: NBCCM ETF Research, Bloomberg. Data as of September 30, 2026.

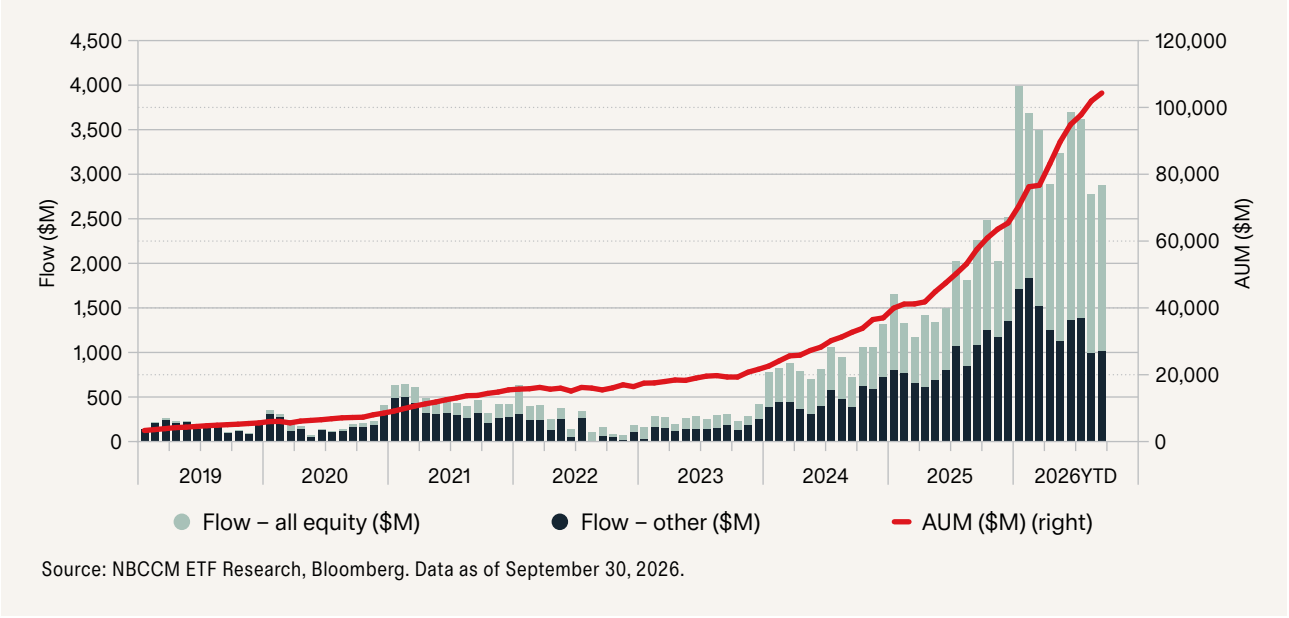
The growth of the all-in-one ETF portfolio

Simplifying portfolio construction for all investors

As investors seek simpler ways to build diversified portfolios, all-in-one ETFs have emerged as a popular solution. By combining multiple asset classes into a single professionally managed fund, these ETFs provide broad diversification, ongoing rebalancing and ease of implementation. Their growing adoption reflects a shift toward streamlined portfolio construction, making asset-allocation ETFs a foundational investment choice for many Canadian investors.

→ In 2025, asset-allocation ETF inflows reached a record of approximately $22 billion, nearly double their 2024 total. Collectively, these ETFs attracted more than $1 billion per month during 2025.

Figure 8: Asset allocation ETF growth in Canada



Source: NBCCM ETF Research, Bloomberg. Data as of September 30, 2026.

Looking ahead, this trend is likely to continue as investors increasingly seek convenience, low-cost diversification, and professionally managed portfolio solutions. Growing adoption among self-directed investors, the continued shift from mutual funds to ETFs, and rising demand for “one-ticket” investment solutions position asset-allocation ETFs to remain a key driver of ETF industry growth in the years ahead.

Product innovation and the evolution of portfolio construction

Canadian ETF innovation continues to fuel industry growth

Product innovation has been a defining characteristic of Canada's ETF industry. With more than 2,000 ETFs listed across a broad range of investment mandates, investors now have access to solutions spanning active management, asset allocation, covered calls, alternatives, thematic investing and digital assets. As the birthplace of both the world's first ETF and the first spot Bitcoin and Ether ETFs, Canada has consistently remained at the forefront of ETF innovation, providing investors with increasingly sophisticated and targeted investment solutions.

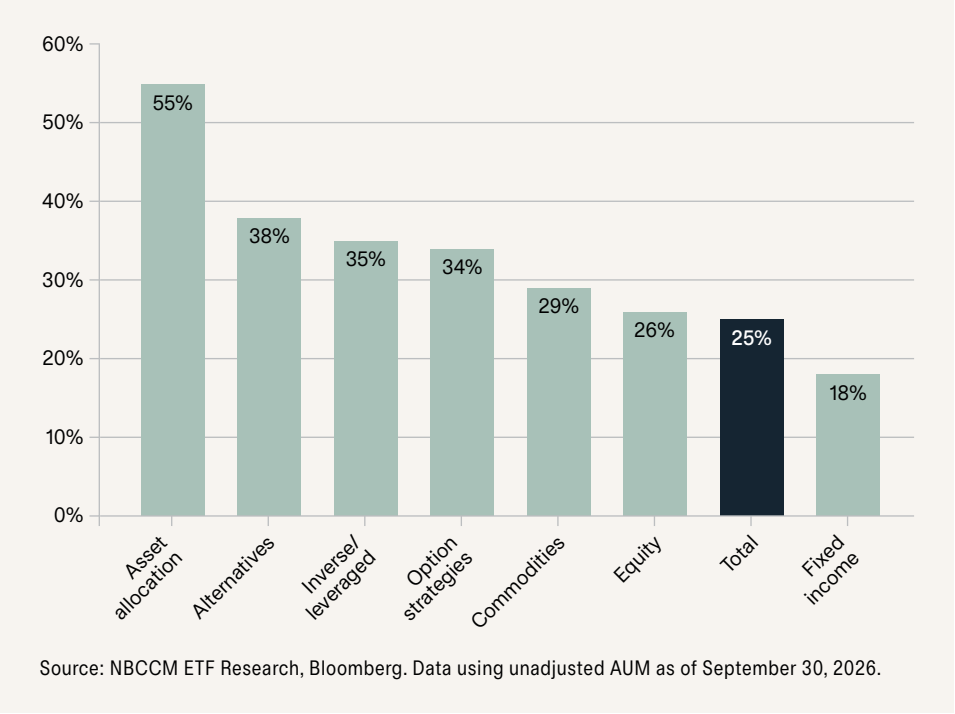
Although equity ETFs remain the cornerstone of the Canadian ETF market, growth has increasingly been driven by alternatives, money market ETFs and asset allocation solutions, as mentioned earlier.

Among the fastest-growing segments of the Canadian ETF market are asset allocation strategies, alternatives and option-based strategies. For the most part, this has been driven by investor demand for diversification beyond traditional equity and fixed-income exposures. Accessible, liquid and transparent, these strategies can help manage risk, generate income and enhance portfolio outcomes through differentiated sources of return.

Within option-based strategies, a fast-growing segment has been covered call ETFs. As investors continue to search for income, these strategies seek to generate additional cash flow by selling call options on some or all of their underlying holdings. The premiums received from selling these options can then be distributed to investors as gains. In exchange, the strategy may limit some of the portfolio's upside potential during strongly rising markets.

Covered call ETFs within the Canadian ETF market have gained assets, increasing from $3.7 billion in 2016 to approximately $57 billion today. Equity-based strategies continue to dominate the category, accounting for more than 95% of assets, while covered call fixed-income ETFs, introduced in 2023, have already attracted more than $1.7 billion in assets.

Figure 9: AUM growth by asset class



Source: NBCCM ETF Research, Bloomberg. Data using unadjusted AUM as of September 30, 2026.

From product selectors to portfolio architects

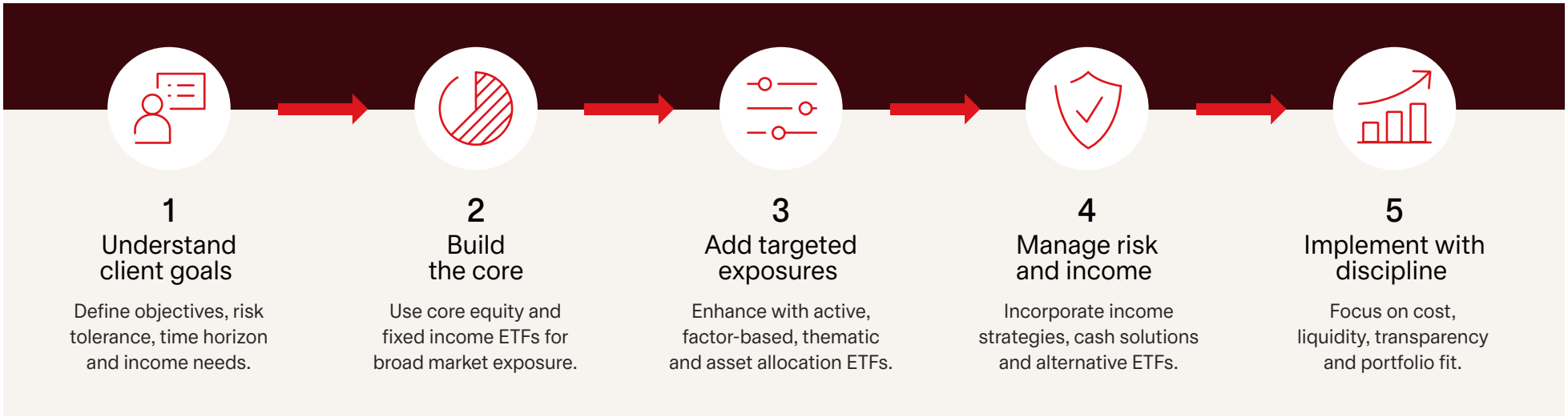
For wealth managers building portfolios, the opportunity is no longer just about finding the right products; it is about building portfolios with purpose. ETFs can help balance cost efficiency, diversification, risk management, income needs and targeted market exposures, all while aligning portfolios with each client's objectives, time horizon and risk tolerance.

This evolution is also changing the nature of advice. As regulatory initiatives, such as Total Cost Reporting, increases expectations for transparency around fees, advisors will need to communicate more clearly how investment solutions align with client needs. The transparency of ETFs can support more informed portfolio conversations by helping advisors explain what clients own, why they own it and how each exposure contributes to the overall portfolio.

ETFs are becoming essential building blocks in modern portfolio construction. Their flexibility allows advisors to serve a wide range of client needs, from younger investors focused on long-term growth to retirees seeking income, stability and capital preservation. Used thoughtfully, ETFs can help advisors connect investment strategy to client outcomes in a more transparent, scalable and personalized way.

The next phase of ETF growth will not be defined by product choice alone; it will be defined by how effectively advisors use ETFs to construct resilient, outcome-oriented portfolios. In this new landscape, advisors are not simply product selectors; they are portfolio architects.

Figure 10: From ETF selection to portfolio strategy



Conclusion

The Canadian ETF landscape has evolved well beyond traditional index investing. Today, ETFs offer investors access to a broad range of solutions designed to support different portfolio objectives. Their continued adoption reflects a shift in how investors and wealth managers are building portfolios: with a greater focus on simplicity, transparency, flexibility and cost efficiency.

As the industry continues to expand, the real opportunity lies not only in the growth of ETFs themselves, but in how they are used. From actively managed strategies and income-oriented solutions to all-in-one portfolios, thematic exposure and liquid alternatives, ETFs are becoming essential building blocks for navigating an increasingly complex market environment. For investors, understanding these trends can help support more informed decisions and stronger portfolio outcomes over the long term.

→ Explore NBI Exchange-Traded Funds and NBI ETF Portfolios.

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