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ETF Industry Perspectives Q4 2025

Tax-loss harvesting in fixed income and the accelerating rise of active equity ETFs

Vanguard ETF Industry Perspectives is our quarterly in-depth commentary, with analysis of key trends and how they're affecting ETF investors.

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Key highlights

- **Fixed income spotlight:** With the fourth quarter underway, year-end tax planning has begun, and with it, the possibility of identifying potential tax-loss harvesting (TLH) opportunities. Such opportunities are almost exclusively in bond ETFs, as the soaring stock market throughout the summer precluded nearly any TLH opportunities in equities. While advisors should consult tax professionals before implementing any TLH plan, we can point you in potential directions that could be worth exploring, all of them involving ETFs and ways to be mindful of the wash sale rule.

- **Equity spotlight:** Active equity ETFs are rapidly gaining a prominent place in the ETF world, as advisors increasingly explore the prospect of delivering outperformance to clients with a vehicle that's typically cheaper, more tax-efficient, and more transparent than the typical mutual fund. This year, inflows into all active ETFs—both equity and fixed income—made up more than a quarter of all ETF cash flows, with active equity ETFs amounting to almost 60% of all active ETF inflows. The overall trend of advisors embracing active equity ETFs looks more and more like it may become a mainstay of the already dynamic world of ETFs.

Finding tax-loss harvesting opportunities in fixed income

With end-of-year tax planning nearly here, advisors tend to start looking for potential tax-loss harvesting possibilities in ETFs.

With equities reaching record highs, any TLH in equities is just about impossible to find. Where you may find harvestable losses, however, is in fixed income—notably in long-term municipal bond and Treasury categories.

While broad TLH opportunities existed after the Federal Reserve sharply raised short-term interest rates in 2022, fresh opportunities emerged earlier in 2025, when long-term yields spiked on both the municipal bond and U.S. Treasury yield curves.

However, the Fed's September rate cut and the rally in yields associated with now-declining rates have started to wipe away some losses, showing why it's important to act quickly on the right losses to harness tax benefits for clients.

Approaching TLH opportunistically—and at key moments

It's sensible to do tax-loss harvesting in client portfolios on a regular basis when opportunities arise.

But it can also be a good idea to harvest losses at other important or recurring times, such as when rebalancing a portfolio or when a client's needs warrant a change in strategy.

Regardless of how you approach TLH, one need that all advisors have in common is to avoid wash sales.

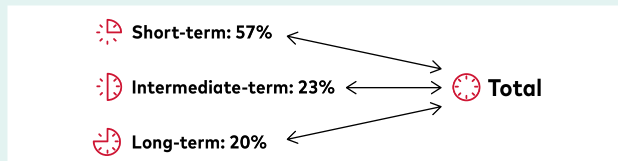
Navigating wash sales safely

Avoiding the wash-sale rule—which governs the sale of one ETF and the purchase of another that negates a realized loss—is consistently the hurdle that advisors consider at this stage. As always, consult with a tax professional about your personal situation.

When evaluating your ETFs against the wash-sale rule, compare the issuer, index, and underlying holdings between the two ETFs being swapped. The more dissimilar these are, the more likely it is that you won't trigger a wash sale.

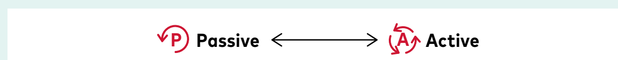
Three scenarios where TLH harvesting may be a viable option

Combine or disaggregate exposure



ETFs have aggregated and dissected the bond universe in numerous ways, and advisors can use this to their advantage. For example, you could sell maturity-banded Treasury ETFs and instead buy a "total Treasury" product, or vice versa.

Switch management style



Switching between a passive ETF and an active ETF—even one with similar exposure—could help maintain broad exposure to a desired market.

Change issuer or index

Source: Vanguard.

Finally, simply changing between similar ETFs from one issuer to another could also be acceptable under wash-sale rule requirements. Switching between similar funds with different index providers can also make a difference, and that's also acceptable under wash-sale rules.

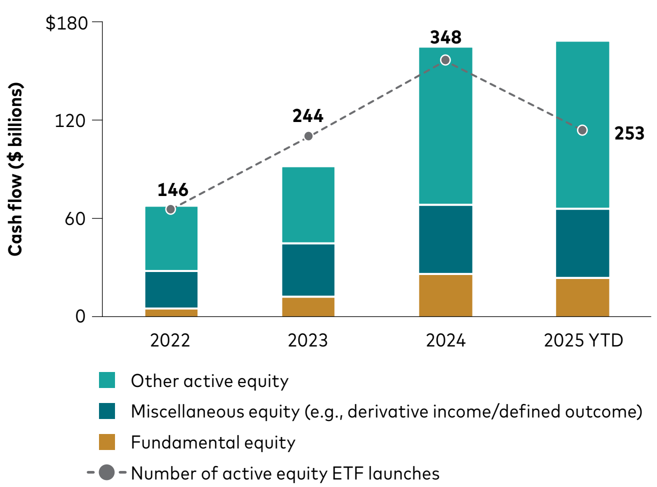
Again, consult a tax professional on the circumstances that will work for you, but make sure to revisit these opportunities while they still exist.

The rise of active equity ETFs

Active equity ETFs are rapidly gaining prominence across the investment landscape, as advisors and investors explore the prospect of outperforming by using a vehicle that's typically cheaper, more tax-efficient, and more transparent than a mutual fund.

Since the start of 2022, net flows into active ETFs at large made up more than a quarter of total ETF flows. Drilling down, active equity ETFs constituted almost 60% of those flows, with traditional fundamental active equity ETFs growing steadily and attracting almost $68 billion—including $24 billion in the first eight months of 2025 alone.[1] Active equity ETF launches, meanwhile, surged from 146 in 2022 to 348 in 2024, with 253 so far this year.[2]

Active equity ETF launches and inflows (2022–2025)



Source: Morningstar, Inc., from January 1, 2022, through August 31, 2025.

What's driving growth?

On the demand side, it's clear that investors increasingly favor lower-cost options when seeking outperformance. Not surprisingly, the lowest-cost quartile of active equity ETFs attracted about 60% of flows—echoing the cost-driven dynamic that dominates passive ETF flows.[3]

On the supply side, the SEC's 2019 "ETF Rule" (Rule 6c-11) opened the door for faster, simpler ETF launches by streamlining the listing process. At the same time, with thoughtful product design, more managers have grown comfortable with the ETF Rule regarding holdings-transparency requirements.

Many traditional active managers have responded by launching exchange-traded versions of their flagship mutual funds, giving investors access to familiar fundamental active strategies within the more efficient ETF structure, while conforming to one of ETFs' best features: low costs.[4]

A second act for active equity?

All of this suggests that investor interest in traditional active equity strategies never truly disappeared. Instead, it may have simply been waiting for active management to evolve.

As preferences shifted toward lower costs, greater tax efficiency, and increased transparency, ETFs have emerged as a catalyst for an evolution in active management.

1 Source: Morningstar, Inc., from January 1, 2025, through August 31, 2025.

2 Source: Morningstar, Inc., from January 1, 2022, through August 31, 2025.

3 Morningstar, Inc., from January 1, 2025, through August 31, 2025.

4 Investment Company Institute, as of December 31, 2024. The average expense ratio for active equity mutual funds was 0.66%, compared with 0.48% for active equity ETFs.

Important information

For more information about Vanguard funds or Vanguard ETFs, contact your financial advisor to obtain a prospectus or, if available, a summary prospectus. Investment objectives, risks, charges, expenses, and other important information are contained in the prospectus; read and consider it carefully before investing.

Vanguard ETF Shares are not redeemable with the issuing Fund other than in very large aggregations worth millions of dollars. Instead, investors must buy and sell Vanguard ETF Shares in the secondary market and hold those shares in a brokerage account. In doing so, the investor may incur brokerage commissions and may pay more than net asset value when buying and receive less than net asset value when selling.

All investing is subject to risk, including the possible loss of the money you invest.

Past performance is no guarantee of future results.

Investments in bonds are subject to interest rate, credit, and inflation risk.

Bond funds are subject to the risk that an issuer will fail to make payments on time, and that bond prices will decline because of rising interest rates or negative perceptions of an issuer's ability to make payments.

Although the income from a municipal bond fund is exempt from federal tax, you may owe taxes on any capital gains realized through the fund's trading or through your own redemption of shares. For some investors, a portion of the fund's income may be subject to state and local taxes, as well as to the federal Alternative Minimum Tax.

Tax-loss harvesting involves certain risks, including, among others, the risk that the new investment could have higher costs than the original investment and could introduce portfolio tracking error into your accounts. There may also be unintended tax implications. We recommend that you carefully review the terms of the consent and consult a tax advisor before taking action.

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