# From passengers to drivers: How retail investors are steering markets

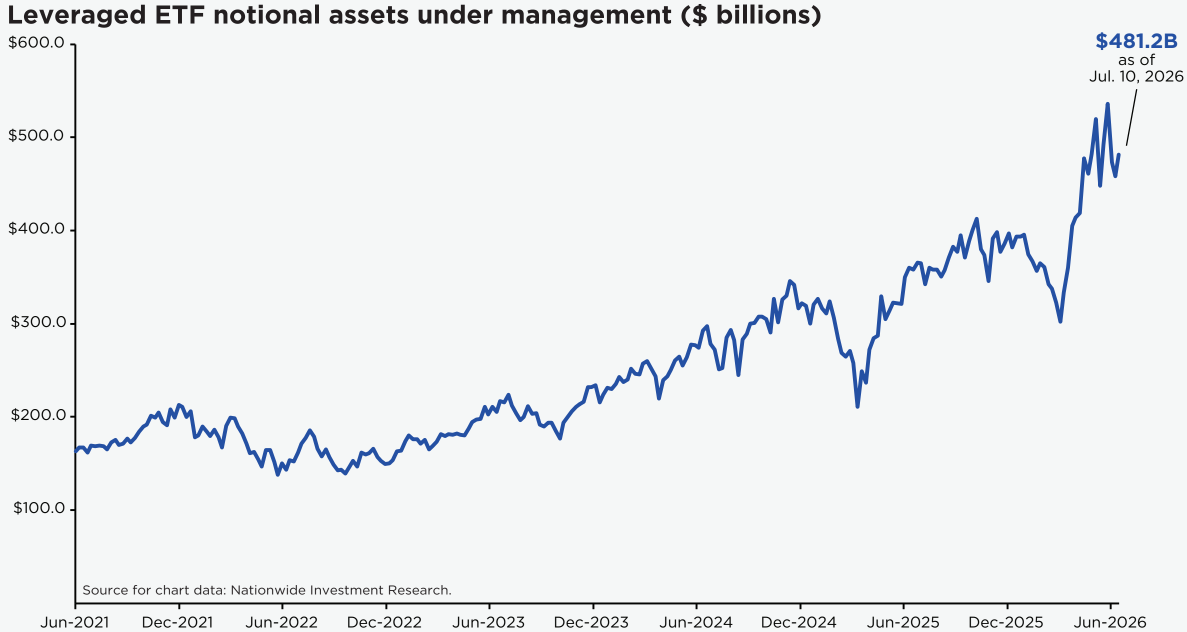
The recent correction in South Korea's KOSPI Index—heavily weighted toward semiconductor stocks—and the pullback in momentum shares might tempt investors to view the decline through a regional or factor-specific lens. But this wasn't simply a selloff in an AI-exposed market. Instead, it reflects a broader market dynamic: what can happen when a crowded investment theme encounters a setback. In the U.S., the rapid growth of the ETF ecosystem has coincided with a surge in thematic and leveraged investing.

Perhaps the most important lesson from Korea's recent market decline is that the investors once viewed as passengers are increasingly helping steer the market. Through ETFs, options and leveraged products, retail investors have gained unprecedented market influence. Increasingly, they are helping establish leadership, reinforce momentum and amplify prevailing narratives. Often dismissed as "dumb money," retail investors have become a formidable force—shaping not only where capital flows, but also how quickly market trends can accelerate and reverse.

## What does the evolution of ETFs tell us about today's market structure?

Goldman Sachs estimates that assets in U.S.-listed ETFs have surpassed $15.6 trillion, nearly doubling over the past two years, while investors have directed more than $1 trillion of new capital into ETFs this year alone. The bigger story, however, is how the ETF ecosystem has evolved into one of the primary vehicles through which investors—particularly retail investors—express views, concentrate positions and access leverage. According to Goldman Sachs, leveraged ETFs, while still representing a relatively small portion of industry assets, have become one of the market's fastest-growing segments.

**Leveraged ETF notional assets under management ($ billions)**




Source for chart data: Nationwide Investment Research.

As ETFs grow larger and more specialized, market movements can become increasingly driven by flows and positioning rather than changes in fundamentals. What was once primarily an asset-gathering story has evolved into a market-structure story, where concentrated capital flows can accelerate momentum on the way up and amplify volatility when positions begin to unwind. ETF flows also provide a useful window into investor sentiment. Since the March 30 low in the S&P 500® Index, technology and semiconductor ETFs have attracted nearly $49 billion in net inflows, while traditionally defensive sectors such as healthcare, consumer staples and utilities have experienced net outflows. Despite periodic bouts of volatility, capital continues to gravitate toward growth and momentum, reflecting a market that remains inclined to embrace risk rather than retreat from it.

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## Beyond leveraged ETFs, how else are investors using leverage to express conviction?

Leveraged ETFs are only one manifestation of a broader trend. What stands out today are the growing number of ways investors can express the same view with leverage, whether through leveraged ETFs, margin borrowing, call options or futures. Levered ETFs are increasingly being used to express highly concentrated positioning or thematic views. In the same vein, many of the levered ETFs in the system are tied to the same areas driving market leadership, including the Nasdaq-100® Index, semiconductors, memory stocks and other AI beneficiaries.

Leverage has become more than a source of amplification. It has become a defining feature of current market structure. Perhaps most revealing is the composition of new product issuance. Goldman reports that of the more than 770 ETFs launched this year, 54% employ derivatives and one-third are classified as leveraged or inverse, suggesting investors are increasingly seeking tools to express conviction rather than vehicles to simply gain market exposures. Citadel Securities recently noted that zero-days-to-expiration options now account for nearly half of all retail options volume, underscoring how investors are increasingly using short-dated instruments to express tactical views on an intraday basis.

## The development of levered financial products seems to have introduced a "lottery-ticket" mentality among investors. How accurate is that description?

Broad diversification has given way to a more concentrated pursuit of asymmetric outcomes for some investors. The emphasis is less on portfolio construction and more on maximizing upside capture over compressed timeframes. The AI trade has been particularly susceptible to this behavior because its winners have experienced parabolic price moves, and market leadership has largely been concentrated in technology. The innovation in financial products is a rational outcome of that broader innovation. The natural tendency is not simply to participate in market gains, but to increase leverage. The consequence is that markets can become increasingly driven by the pursuit of amplified outcomes.

It would be a mistake to reduce the retail investor story to one of leverage and speculation. Beneath the surface sits a much larger population of investors steadily deploying capital through brokerage accounts, retirement plans and recurring investment programs. The more consequential shift is that retail investors have become an increasingly important component of market structure itself, helping shape trends rather than simply reacting to them.

About the author

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Korea Composite Stock Price Index (KOSPI): An index of all common stocks traded on the Stock Market Division of the Korea Exchange.

Nasdaq-100® Index: A rules-based, market capitalization-weighted index of the 100 largest, most actively traded U.S. companies listed on the Nasdaq stock exchange. The Index includes companies from various industries except for the financial industry, such as commercial and investment banks. These nonfinancial sectors include retail, biotechnology, industrial, technology, health care and others.



S&P 500® Index: An unmanaged, market capitalization-weighted index of 500 stocks of leading large-cap US companies in leading industries; it gives a broad look at the US equities market and those companies' stock price performance.



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