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Financial Services Practice

The European asset management industry: Navigating volatile times

Macroeconomic uncertainty and weaker profits are forcing the industry to rethink its business and operating models.

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The European asset management industry is facing rocky times. Although assets under management (AUM) are at record levels, structural trends are putting pressure on long-term viability. At the same time, the industry is facing an uncertain macroeconomic environment and geopolitical tensions, leading to lower levels of net flows and higher market volatility. European asset managers have also lost ground to US players.

In light of these developments, European asset managers should consider accelerating the pace of their strategies and business models. Typical priorities include sharpening the value proposition to both captive and third-party clients; taking stock of distribution footprint, product range, and growth initiatives; finding the right approach to participate in alternative investments; and using technology to improve efficiency, resilience, and scalability.

In this article, we discuss the state of the industry, its outlook, and strategic imperatives to thrive in this new and challenging era.

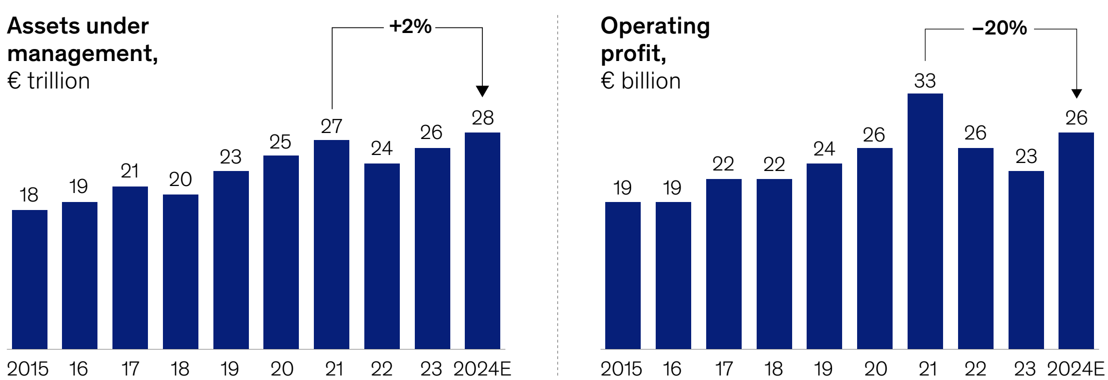
Lower profitability and increased volatility in asset management

The European asset management industry began to recover in 2023 following a severe decline in 2022, according to McKinsey research.[1] In 2024, AUM reached a record high of €28 trillion, 2 percent above the previous peak in 2021. The comeback continued in the first quarter of 2025, with a net flow effect of 1.5 percent in open-ended funds and ETFs, according to Morningstar data.[2] But European profit pools haven't recovered from the challenging years of 2022 and 2023. Profits in 2024 were 20 percent below the record results of 2021 (Exhibit 1), and the average operating profit margin in 2024 was three basis points below 2021 levels.

A decline in revenue margin (28 basis points in 2021 versus 26 basis points in 2024) and an increase in cost margin (one basis point higher in 2024 compared with 2021) accounts for the declining profitability. The rising cost margin resulted from a 10 percent increase in absolute operating costs from 2021 to 2024. We attribute the higher costs to rising inflation that

Exhibit 1

While assets under management reached a record high, profits were still down 20 percent as of 2024.



Source: McKinsey Performance Lens Global Growth Cube; McKinsey Performance Lens Global Asset Management Survey

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[1] Unless otherwise noted, all data and findings cited in this article are derived from the McKinsey Performance Lens Global Growth Cube, the McKinsey Performance Lens Global Asset Management Survey, and McKinsey Value Intelligence.

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increased direct and wage-related expenses along with increases in technology expenses—particularly for data infrastructure and market data—as well as strategic spending on M&A and talent. This absolute cost increase was only partially offset by a growing AUM base, improved scalability of fixed costs, and disciplined headcount management.

Slowly recovering flows but at a much lower fee level

Net flows in European asset management increased in 2024 (2.3 percent flow effect, compared with 0.9 percent in 2023 and negative 0.3 percent in 2022), reaching the highest level since 2021. Absolute net flows hit €593 billion in 2024, still below the record €1 trillion in 2021.

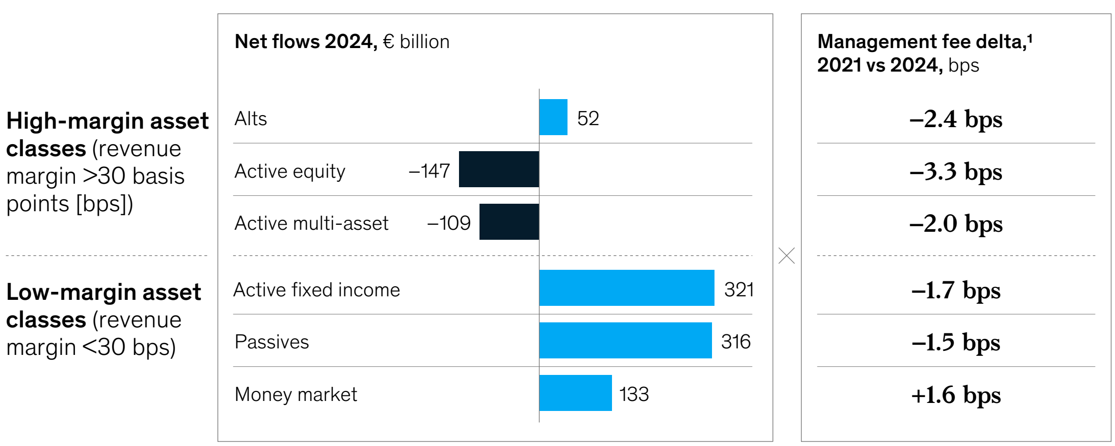
Additionally, net flows differed considerably across asset classes in 2024. A large share of net flows was directed toward low-margin products such as passives (€316 billion), money market funds (€133 billion), and active fixed income (€321 billion). Meanwhile, many high-margin products had net outflows in 2024, such as active equity investing (with negative €147 billion) and active multi-asset investing (negative €109 billion). Among high-margin products, only alternative investments had a moderate net inflow, with €52 billion (Exhibit 2).

There is evidence that this trend in flows continued in the first quarter of 2025, based on McKinsey analysis of Morningstar data on open-ended funds and ETFs.[3] Some 41 percent of total net flows were channeled into passives (both equities and fixed income), 34 percent into active fixed income, and 27 percent into money market funds, while active equity had slight net outflows. With a lower level of flows overall and with flows into high-margin asset classes drying up, competition over the remaining net flows is increasing.

Furthermore, fees are under pressure across all asset classes. Net management fees (excluding performance fees) for the following classes all declined between 2021 and 2024: active equity investing (negative 3.3 basis points, from 45.2 to 41.9 basis points), active multi-asset (negative 2.0 basis points, from 32.4 to 30.4 basis points), and alternative investing (negative 2.2 basis points, from 105.9 to 103.5 basis points). Management fees in low-margin

Exhibit 2

Net flows in European asset management increased in 2024, reaching the highest level since 2021.



[1]Excluding performance fees.
Source: McKinsey Performance Lens Global Growth Cube

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With a lower level of flows overall and with flows into high-margin asset classes drying up, competition over the remaining net flows is increasing.

asset classes also fell but to a lesser degree, from 19.3 to 17.6 basis points in active fixed income and from 14.6 to 13.1 basis points in passives. Only money market products increased their management fee level, from 6.4 basis points in 2021 to 8.0 basis points in 2024.

How macroeconomic uncertainty and volatility affect industry economics

The world has entered a period of heightened geopolitical uncertainty. The industry recently experienced a spike in market volatility (to 19.5 percent, based on 260-day volatility of the S&P 500) and major losses in global equity markets, led by the United States: The S&P 500 and NASDAQ 100 dropped 9 percent and 10 percent, respectively, in the first week of April. The effect was compounded by broad sell-offs of US Treasury securities, usually viewed as a market safe haven. US Treasury securities increased by 47 basis points between April 4 and April 11 in the US Treasury benchmark ten-year yield. While equity markets have broadly recouped their losses, bond market yields remain higher. At the same time, sentiment toward the global asset management industry has reached a 30-year low as of April 2025, according to a Bank of America Global Fund Manager Survey.[4]

The industry responded quickly to the turmoil. The Bank of America survey found that allocation to US equities has dropped by about 50 percent since February 2025, moving from relatively overweight to relatively underweight.[5] Recent market volatility has had less effect domestically on European asset managers, but they have faced challenges from their US exposure, not only from market returns and outflows but also from declines in the dollar against the euro and the Swiss franc.

To look ahead, we developed three market and flow scenarios[6]: a 0 percent market return with 1 percent net flow effect in 2025, a negative 7.5 percent market return with negative 1 percent net flow effect, and a negative 15 percent market return with negative 3 percent net flow effect. We see revenue pools in 2025 increasing by 1 percent in the most favorable scenario and falling by 16 percent in the worst-case scenario (Exhibit 3).

In terms of industry profitability, the average industry cost–income ratio (CIR) at the end of 2025 would rise by five percentage points (from 64 percent at the end of 2024) in the middle scenario and by nine percentage points in the worst-case scenario. In the middle scenario, the share of players with a CIR above 70 percent would jump from the current 37 percent to 45 percent. The number of asset managers that could become unprofitable (that is, with a CIR greater than 100 percent) would rise to 4 percent from 1 percent currently.

The trends that will shape the industry

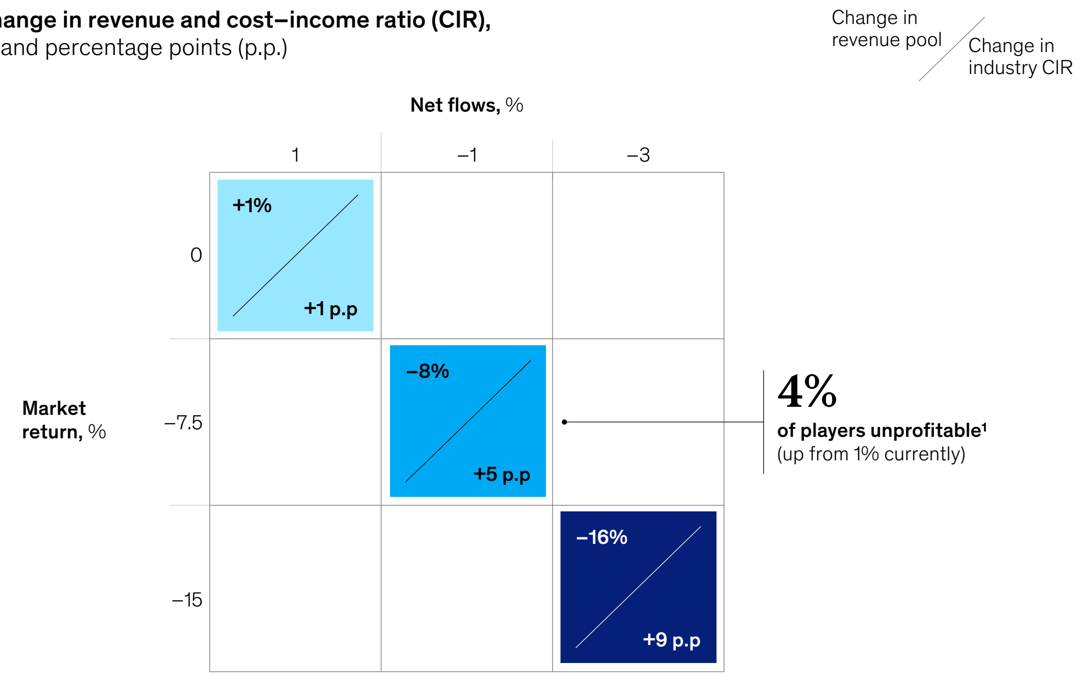
Several structural trends are shaping the European asset management industry. All have resulted

[4] Bank of America Global Fund Manager Survey, April 2025.
[5] Bank of America Global Fund Manager Survey, April 2025.
[6] Scenarios based on the McKinsey Performance Lens database.

Exhibit 3

In three modeled scenarios, revenue pools increase by 1 percent in the most favorable scenario and fall by 16 percent in the worst-case scenario.

Change in revenue and cost–income ratio (CIR),
% and percentage points (p.p.)



[1]CIR >100%.

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in European players losing market share to their US peers over the past few years. Current macroeconomic and geopolitical developments are also likely to shape the industry in the long term (see sidebar, "How current market turmoil could shape European asset management"). Meanwhile, asset managers find themselves in an era of lower profitability and increased volatility.

Alternative investments are becoming more competitive

Alternative investments such as private equity in Europe show significant net inflows, though net new money and fundraising have slowed. Total alternatives in Europe saw net flows of €52 billion in 2024, compared with almost €200 billion in the record year of 2021. The net new flow effect decreased from 7 percent in 2021 to 1.6 percent in 2024, continuing the downward trend of the previous two years.

Meanwhile, the alternatives space is getting more crowded. More than 700 participants with their primary focus on European alternative assets each raised more than $250 million in the past five years.[7] Traditional asset managers moving into alternatives are struggling to gain a sizable foothold versus specialized alternatives managers. Only 13 of the top 100 alternatives managers in Europe by 2020–25 total fundraising are traditional asset managers (Exhibit 4).

Specialist boutiques are the leaders in alternative investments in Europe. But traditional European asset managers can still grow in this market by employing existing retail distribution networks and focusing on manager selection and packaging. Also, the democratization of alternatives for the retail segment could generate growth opportunities. For example, European Long-Term Investment Funds (ELTIFs 2.0, after regulatory changes) are

[7] Based on Prequin data.

How current market turmoil could shape European asset management

We anticipate the current macroeconomic and geopolitical uncertainty to weigh on industry economics through heightened volatility and depressed valuations across both public and private markets. The McKinsey Global Institute has developed various scenarios for the global economy: In the scenario with no real disruption, growth in the eurozone would slow to 1.4 percent a year from 2025 to 2028, lower than the 2021–24 rate of 1.6 percent a year.

In the past, global GDP growth translated into stronger financial market returns, which drove increases in AUM and thus industry performance. Today, globalization may be at a turning point, with deglobalization tendencies increasing.

Structural challenges for the dollar and political risk factors in the United States might increase investment flows to Europe and elsewhere. The relative allocation to US equities has dropped by 53 percentage points, according to a Bank of America Global Fund Manager Survey. A Morningstar analysis found that open-ended funds and ETFs focused on US equities saw only a small flow effect of 0.1 percent in April 2025, compared with stronger net-flow effect of 1.0 percent for funds focused on European equities.[1]

Novel investment themes may arise in the wake of the uncertainty. Following current macroeconomic and geopolitical developments, an emergence of new trade corridors could require significant investment in new industry and infrastructure, necessitating substantial capital to develop necessary logistics and facilities.

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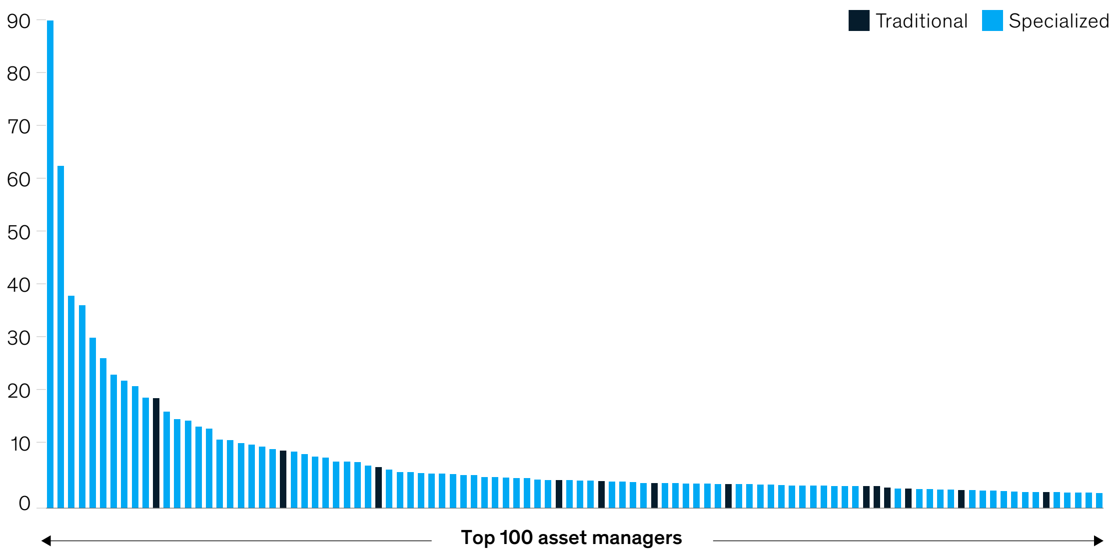
Exhibit 4

Of the top 100 alternatives managers in Europe by total fundraising between 2020 and 2025, only 13 are traditional asset managers.

Top 100 asset managers in alternatives by fundraising, 2020–25, € billion



Source: Preqin

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a potential growth engine, with AUM of €21 billion by the end of 2024 and average annual growth of roughly 40 percent between 2021 and 2024. ELTIFs are expected to reach estimated AUM of €65 billion to €70 billion by 2027.[8]

Growth of passives will likely continue, even in volatile times

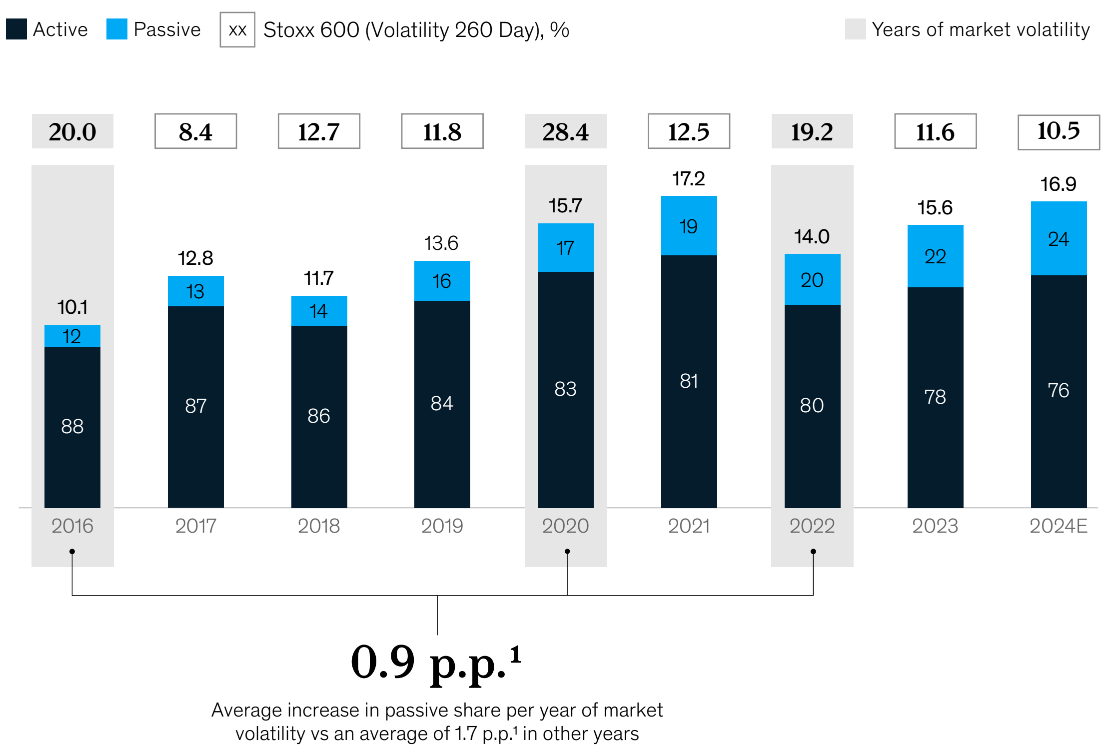
In Europe, the share of passively managed AUM has consistently increased over the past ten years, from 11 percent in 2015 to 24 percent in 2024 across open-ended funds and ETFs. Passives in Europe reached €4.9 trillion by the end of 2024 and are expected to grow to more than €7 trillion by 2028, according to Morningstar and McKinsey analysis.[9]

This impressive growth has held even in times of high market volatility, albeit at a slightly lower level. In 2016, 2020, and 2022—years with increased volatility—the share of passive AUM in open-ended funds and ETFs increased by 0.9 percentage points per year on average, compared with 1.7 percentage points in years with no significant volatility (Exhibit 5). We expect the long-term trend of flows into passives and the steep growth of the asset class to continue despite current macroeconomic uncertainty.

Exhibit 5

Even in years with increased volatility, the share of passive assets under management increased, albeit at a slower level.

Assets under management (AUM) by investment approach for open-ended funds and exchange-traded funds domiciled in Europe, year-end AUM, € trillion



[1]Percentage points.
Source: Bloomberg; Morningstar Direct; McKinsey analysis

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[8] ELTIFs are regulated investment funds aimed at facilitating growth in the European economy. At least 55 percent of total funds must be invested in certain types of eligible assets and a lock-up period for investors applies; Sandra Heistruvers, "At least 80 Eltifs to launch in next 12 months: Scope," Ignites Europe, March 28, 2025.

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Furthermore, the growth of passives in the retail investing segment is spread across distribution channels. This growth was initially spurred by financially savvy early adopters and digital natives that invested with neobanks and robo-advisers (especially because ETFs are usually a core component of savings plans). But the majority of net new flows in passives now come through traditional channels, including banks, advisers, and insurance agents.

However, the typically low margins of passives imply that the revenue contribution of the asset class is limited. While passive AUM made up 18 percent of total AUM in Europe in 2024, its share of the total revenue pool was only 7 percent, with an average management fee of 13 basis points (compared with 42 basis points of active equity investing products).

Is crypto an opportunity for European asset management?

The global market for digital assets (including crypto) is growing quickly. Crypto grew 75 percent a year from 2019 to 2024. With a total market capitalization of more than €3 trillion at the end of 2024, crypto is becoming an increasingly relevant asset class.[10] By the end of 2024, its market capitalization was equivalent to roughly 2.5 percent of total global-equity market capitalization, not factoring in other digital assets.

Currently, the digital asset market is underpenetrated by European asset managers. For investors, products include spot crypto, derivatives, and ETFs as well as other tokenized financial assets such as money market funds. To be sure, penetration has steadily risen over the past years; crypto funds in Europe have grown more than 100 percent a year from 2019 to 2024, to more than €20 billion in 2024.[11] But current penetration—measured as a share of global crypto market capitalization—is 0.7 percent, well below that of other asset classes. There are several reasons for the underpenetration, including skepticism of the market and a lack of expertise among European investors and advisors, regulatory constraints, the propensity of early adopters to manage their own investments, and a lack of enthusiasm for holding crypto currencies through funds or mandates.

A big question is how crypto will evolve and whether these obstacles inhibiting wider penetration of the asset class by professional asset managers will be overcome. Regulations such as the EU Markets in Crypto-Assets Regulation are clearing the way for investors. If the North American and Southeast Asian markets are a guide, then investment in digital assets in Europe could become more mainstream in the next 12 months.

New vehicles grow, partially at the cost of mutual funds

Are active ETFs a holy grail to generate additional revenue, or do they cannibalize higher-margin active mutual funds? Active ETFs have gained traction over the past years, growing to €58 billion AUM in Europe by the end of the first quarter of 2025, with a 37 percent CAGR from 2019 to 2024, according to Morningstar (Exhibit 6).[12] In Europe, active ETF AUM is expected to continue to grow at about 25 percent CAGR, reaching €165 billion by 2029.

There is at least partial cannibalization of mutual funds flows as a greater number of active ETFs enter the market.[13] In 2024, 13 percent of total flows into active ETFs in the United States were invested into vehicles that have a duplicate mutual fund (that is, a mutual fund with the same or similar name and strategy by the same asset manager), almost double the share in 2021. Conversions into active ETFs remain relatively stable at 6 to 9 percent in 2022—24. However, the majority of active ETF flows are driven by greenfield launches, including niche players who rely primarily on active ETFs and thematic funds (82 percent of flows in 2024), according to Morningstar.[14]

For asset managers, this raises the question of whether to hold on to the existing asset base for

[10] “Crypto market overview,” CoinMarketCap, accessed April 25, 2025.
[11] Includes open-ended funds as well as exchange-traded notes, commodities, and funds but does not include mandates; © 2025 Morningstar. All Rights Reserved. The information contained herein: (1) may not be copied or distributed; and (2) is not warranted to be accurate, complete or timely.
[12] Includes exchange-traded notes, commodities, and funds. McKinsey analysis based on Morningstar: © 2025 Morningstar. All Rights Reserved. The information contained herein: (1) may not be copied or distributed; and (2) is not warranted to be accurate, complete or timely.
[13] In Europe, there are no data sources available to analyze sources of inflow into active ETFs.
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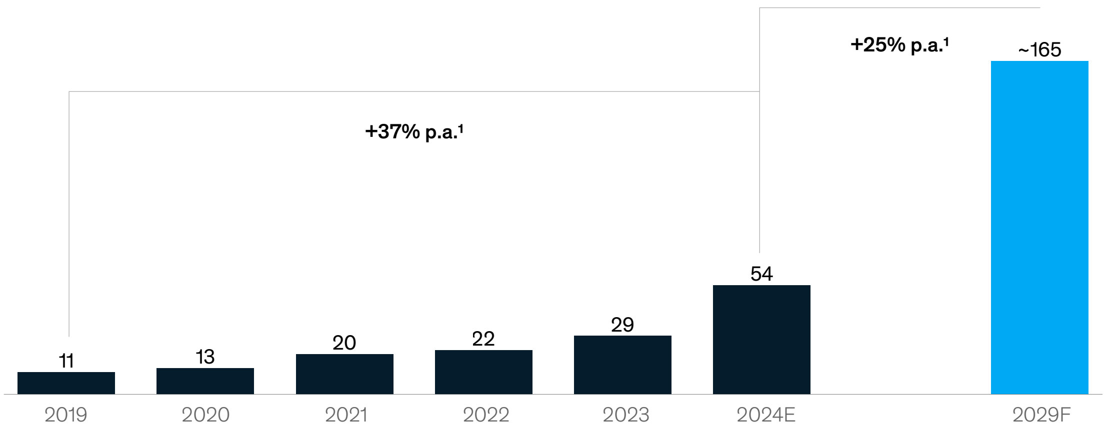
Exhibit 6

Active exchange-traded funds grew to €54 billion in assets under management in Europe by the end of 2024.

Active ETF assets under management (AUM) in open-ended funds and ETFs domiciled in Europe, year-end AUM, € billion



[1]Per annum.
Source: Morningstar Direct; McKinsey analysis

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as long as possible or buy into future flows at lower short-term revenue margins.

Gen AI will transform European and global asset management

Gen AI is expanding from productivity and efficiency-driven applications to investment management, according to a McKinsey asset management survey.[15] While the relatively high cost of talent compared with other industries provided the majority of use cases until now, players are increasingly focusing on alpha generation, and the quest for efficiency and improved performance are considered equally important by survey participants (68 percent). Forty-two percent of European players observe gen AI use cases as having a positive effect on investment performance. More than two-thirds of players plan to deploy gen AI to help manage existing funds, and 21 percent plan to develop dedicated AI products.

Along the investment management value chain, the majority of European asset managers use gen AI for portfolio construction or rebalancing (58 percent of respondents) as well as various investment research processes. While many European asset managers deploy gen AI to enhance investment operations of existing funds (37 percent), more than 20 percent of respondents have funds with investment management processes covered end to end by AI and gen AI.

European asset managers are losing market share globally

European asset managers are losing market share globally, particularly to US-based players. Only four European asset managers were in the global top 20 in 2024, compared with seven in 2007, and Europeans' share of the assets held by the top 20 global asset managers dropped from 31 percent in 2007 to 11 percent in 2024, according to McKinsey research.

There are several factors that have contributed to the steady decline in relative importance of the European asset management industry. Between 2019 and 2023, European players captured only

[15] McKinsey Performance Lens Global (Gen) AI in Investment Management Survey.

44 percent of net inflows domestically while their US counterparts captured 99 percent of flows in the United States.[16] Also, the European market is characterized by a high share of captive players: 16 of the top 20 asset managers in Europe are captive players, compared with nine of the top 20 in the United States. These captive players often aspire to provide a comprehensive product selection to serve the group channel while also protecting margins by focusing on active management. Doing so can lead to limited scale in individual products or asset classes—captives managed 40 percent more funds on average with a median fund size that was 21 percent smaller—that can make it more difficult to attract substantial third-party flows.[17] Finally, many major innovations in the industry were developed and scaled in the United States, including thematic approaches, quantitative investing, direct indexing, and alternatives such as hedge funds, private equity, and private debt.

How to build resilience in European asset management

Lower profitability and increased volatility herald a new normal for the European asset management industry. In response, European asset managers should consider fundamentally rethinking their business and operating models. We identified five strategic imperatives for this new era.

Define and relentlessly pursue a North Star

Companies that adhere to and align their strategy with a well-defined North Star achieve better financial performance and higher growth than those lacking strategic clarity, according to McKinsey research. Asset managers with a clear focus (about one-third of European players) have lower CIRs, higher annual revenue growth, and higher net flows compared with their peers that lack a differentiated strategic direction. Without a clear strategic positioning, asset managers risk being “squeezed in the middle.” These asset managers will face challenges in capturing flows, growing revenue, and achieving a competitive cost base.

We identified three strategic archetypes that successfully coexist in the industry, each emphasizing specific key capabilities. Asset managers can follow one of these archetypes or combine several of them; different winning models exist within each archetype (Exhibit 7):

— *At-scale players* have industry-leading scale, a global scope, a comprehensive investment proposition, and typically lower operating costs.

— *Alpha seekers* specialize in higher-alpha asset classes, building industry-leading investment excellence and thereby enabling them to outperform nonspecialized players.

— *(Captive) client-centric players* offer holistic, client-oriented, and bespoke investment solutions, focusing on client access and services such as portfolio construction.

Rethink distribution footprint and growth opportunities

It is increasingly important for asset managers to reach sufficient scale and a meaningful geographical footprint for several reasons, including cost efficiency, the ability to generate sufficient profits to reinvest into growth, and access to top talent. To that end, more European asset managers should consider becoming truly pan-European players. Altogether, the top ten European asset managers capture 22 percent of total open-ended funds and ETF AUM in Europe, compared with 74 percent for the top ten US peers.[18] Companies seeking to increase their European footprint can pursue this either through organic growth or M&A and consolidation across markets.

Additionally, European asset managers should reflect on how to access flows outside Europe to achieve a diversified global footprint. Increasingly, the answer might not be the United States, where the vast majority of flows is captured by domestic players.[19] Consequently, European asset managers

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[17] Compared with noncaptive peers; based on analysis by McKinsey of the top 20 European asset managers in open-ended funds and ETFs; © 2025 Morningstar. All Rights Reserved. The information contained herein: (1) may not be copied or distributed; and (2) is not warranted to be accurate, complete or timely.
[18] McKinsey analysis based on Morningstar: © 2025 Morningstar. All Rights Reserved. The information contained herein: (1) may not be copied or distributed; and (2) is not warranted to be accurate, complete or timely.
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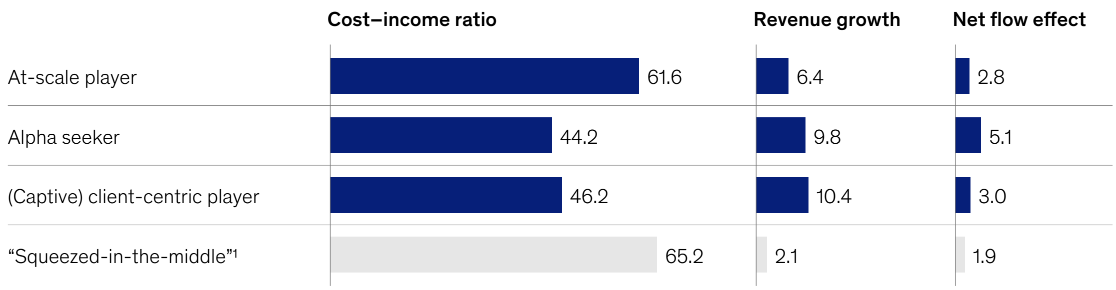
Exhibit 7

Asset managers can follow one of three strategic archetypes, with each emphasizing specific key capabilities.

Cost–income ratio, 5-year average revenue growth, and net flow effect for Western European–based asset managers, %



[1]An asset manager without clear strategic positioning.
Source: McKinsey Performance Lens Global Asset Management Survey

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could consider broadening their focus to growth markets such as Southeast Asia, the Middle East, or South America.

Find the right approach to participate in alternative investments

In 2024, alternative investments contributed 40 percent of total asset management revenue in Europe. Asset managers have a big incentive to pursue this asset class, given its continuing growth. How can they achieve a meaningful franchise in terms of value proposition, scale, and product range?

One option for traditional asset managers is to create an alternative investment product line or expand a smaller existing unit by leveraging their value propositions, customer access, and distribution networks. In addition, captives can take advantage of their shareholders’ origination capabilities (for example, bank captives can tap proprietary deal flow) or gain access to permanent capital (for example, insurance captives could leverage the general account for seed funding and separate investment vehicles such as sidecars). Alternatively—or in addition to their organic activities—traditional asset managers can also enter into partnerships with specialized-alternatives players to decrease time to market, scale, and enhance the quality of their alternative-investment product offering.

Reset the operating model for efficiency and resilience

Adjusting to the new normal means resetting the operating model for efficiency and resilience. A strong focus on cost containment will be required to protect profit margins and secure sufficient capital for reinvestment. Asset managers with a higher share of variable cost (for example, those that outsource certain functional work) will be better able to absorb higher volatility and negative market returns. Those with a higher proportion of variable cost (above-average variable compensation and outsourcing share) demonstrate greater resilience to cost growth and profitability fluctuation. They see a five-year average cost growth of 2.7 percent, compared with 5.1 percent for peers with below-average variable cost share, with a slightly lower standard deviation of CIR over the past five years.

A flexible operating model could enable asset managers to adjust quickly and efficiently to different scenarios. Critical focus areas include adjusting the geographical footprint through carefully balancing operational risk, cost efficiency, and business model (products and client segments), strategically managing outsourcing and procurement to provide flexibility in the cost base, and building organizational resilience by fostering the right culture and providing effective leadership.

Pursue innovation in technology

Technology accounted for 18 percent of total spending among European asset managers. On average, only 22 percent of technology spending flows into application development or change. Underspending on change limits the potential to innovate and can lead to operational challenges such as tech debt accumulation.

To address this imbalance, asset managers should consider reviewing their current spending and freeing up capital for IT transformation budgets. To do so, they could automate processes, move computing to the cloud, and renegotiate contracts with vendors. To reduce long-term maintenance cost, asset managers could modernize legacy systems by investing in scalable, cloud-based, and modular systems.

European asset managers are increasingly moving toward gen AI use cases in investment management. Next to generating investment research through data mining, asset managers could employ gen AI in implementing virtual portfolio assistants, constructing and automatically optimizing portfolios based on investor guidelines and personal preferences, and highlighting risks based on market developments.

The European asset management industry stands at a turning point. It faces a host of challenges, as described above, but has demonstrated resilience in the past. European asset managers could navigate these changes by refining their value propositions, optimizing their distribution strategies, and embracing operational and technological advances. By doing so, they could not only weather the current uncertainties but also position themselves for sustainable growth.

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