# Headwinds and Tailwinds in Thematics: the WisdomTree Global Megatrends Equity quarterly rebalance

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Thematic investing is about getting exposure to structural, long-term trends that will change the world. However, no change is instantaneous, and disruptions are never linear. In other words, megatrends tend to go through phases of euphoria and exponential growth and phases of consolidation. From a portfolio perspective, this means that while thematics are a strategic investment, there is value in some tactical adjustments that would allow investors to benefit from changing market environments.

On 27 October 2023, WisdomTree launched an innovative multi-thematic strategy called the WisdomTree Megatrends UCITS index (and subsequently in December, launched an ETF tracking such index). This strategy is the result of six years of world-class research around the construction of single thematic strategies and thematic portfolios.

**The WisdomTree Global Megatrends Equity Index: A quick recap**

The WisdomTree Global Megatrends Equity Index relies on an expert-driven, top-down portfolio construction approach. This allows WisdomTree to control the balance between diversification and increased exposure to high-growth stocks. This strategy benefits from three layers of alpha generation:

**1. Strategic thematic asset allocation**
The first layer provides investors with a curated exposure to the most promising themes at a given point in time, whilst maximising diversification between themes. Every April around 15 themes are selected based on Conviction, Diversification Potential and Alignment with the UN Sustainable Development Goals (SDGs).

**2. Tactical thematic asset allocation**
The second layer allows the strategy to lean in and overweight themes when a combination of positive factors creates a virtuous cycle for a given theme. The tactical allocation is based, every quarter, on a proprietary momentum score.

**3. Thematic stock selection**
The third layer brings together different theme experts to pick the most relevant companies for each theme. The portfolio for each theme is built independently so that each theme basket is a diversified portfolio of expert-picked, pure-play, up-and-coming companies that are highly relevant to the theme. The stocks with

the lowest medium-term momentum in each theme are also screened out to increase the timeliness of the portfolio.

**The WisdomTree Global Megatrends Equity Index – how did we do?**

Since launch, the WisdomTree Global Megatrends Equity Index returned 26% (as of 10 January 2024), outperforming the Nasdaq 100 by 7.4% and the MSCI ACWI by 10.8% over the period. The strategy benefitted from the risk-on environment. The tactical thematic asset allocation was also key in the outperformance thanks to our overweight Tech and, in particular, Blockchain, Cybersecurity and Semiconductors.

**Figure 1: The WisdomTree Global Megatrends Equity Index outperformed since launch**

*Source: WisdomTree, Bloomberg. From 27 October 2023 to 10 January 2024. Performance calculated in USD. Historical performance is not an indication of future performance and any investments may go down in value. You can not invest in an Index.*

**The Tactical Thematic Allocation – what changed?**

In October, the strategy launched with a strong overweight in Tech. Artificial Intelligence, Blockchain, Cloud Computing, Cybersecurity and Semiconductors were overweighted compared to their strategic long-term weights. Every single other theme was underweighted.

By the end of 2023, we observed that Blockchain's weight increased very significantly (to 18.1%) because of the very strong relative performance of the theme over the period, due in part to the momentum created by expectations around the launch of the first Spot Bitcoin US ETFs. Climate change-related themes, on the contrary, continued to suffer and saw their weight decrease across the board due to negative relative performance.

For the next quarter, the overall direction remains the same. Technology remains strongly overweight, with Artificial Intelligence, Blockchain, Cloud Computing, Cybersecurity and Semiconductors still commandeering a large allocation. Having said that, their weight is slightly decreased compared to the previous rebalancing. This benefits mainly four themes: Sustainable Resource Management, Rise of the Middle Class, Health Tech and Digital Infrastructure. It is worth noting, though, that three out of those four remain underweighted to the strategic weights, except Rise of the Middle Class, which is 0.1% overweighted.

This quarterly rebalancing leads the portfolio to take profit from the very strong run in Blockchain and in Cybersecurity.

**Figure 2: Theme weights in the WisdomTree Global Megatrends Equity Index**

*Source: WisdomTree, Bloomberg. As of 19th January 2024. Performance calculated in USD. Historical performance is not an indication of future performance and any investments may go down in value. You can not invest in an Index.*

**The WisdomTree Global Megatrends Equity Index: The portfolio**

Diving deeper into the portfolio, we note that the number of stocks remains virtually unchanged, with 588 holdings in the index compared to 589 before the rebalancing on the 19 of January. This does not mean the index itself remains unchanged, as 74 stocks got added to the portfolio and 75 got dropped, leading to a two-way turnover of 47%.

Zooming in on the top 10, five stocks come out (of the top 10, not out of the portfolio itself): Cleanspark, Coinbase, Bitfarms, Bit Digital and Riot Platforms. Those five stocks are Blockchain-related and made it in the top 10 due to the incredible performance of this theme over the last two months. Five stocks, therefore, make their way in the top 10: SentinelOne, Block, CrowdStrike, Elastic and Zscaler. Four of those stocks are AI, Cloud or/and Cybersecurity related and Block is a new addition to the portfolio.

Sector-wise, the weight of Information Technology is reduced by almost 10% compared to the previous rebalancing, with Real Estate, Energy and Healthcare getting back the bulk of this reduction.

**Figure 3: Sector weights in the WisdomTree Global Megatrends Equity Index**

*Source: WisdomTree, Bloomberg. As of 19 January 2024. Performance calculated in USD. Historical performance is not an indication of future performance and any investments may go down in value. You can not invest in an Index.*

The country allocation remains virtually unchanged, with the US allocation losing 2.9%.

**Figure 4: Country weights in the WisdomTree Global Megatrends Equity Index**

*Source: WisdomTree, Bloomberg. As of 19 January 2024. Performance calculated in USD. Historical performance is not an indication of future performance and any investments may go down in value. You can not invest in an Index.*

**Key Takeaways**

The WisdomTree Global Megatrends Equity Index offers a unique approach that allows investors to get access to long-term growth through a curated portfolio of themes and expert-driven stock selection. Investors also get access to tactical allocation of the different themes over time to adapt to current market environments and to benefit from periodic profit taking (like Blockchain and Cybersecurity this quarter). For the next quarter, the portfolio continues to favour Tech themes.

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