WisdomTree's blueprint for thematic success in 2025: insights from WisdomTree's Megatrends ETF

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Key Takeaways

- WisdomTree's Megatrends Global Equity Strategy has consistently outperformed the market, leveraging tactical adjustments and expert stock selection.
- This quarter, the strategy is overweighting blockchain, AI, and cybersecurity, while underweighting semiconductors in light of geopolitical headwinds.
- A favourable environment for small caps and regulatory shifts could boost blockchain and cybersecurity themes in 2025, driven by technological innovation and heightened geopolitical focus.

With Donald Trump inaugurated for a second time as President of the United States, some of his proposed policies have the potential to introduce geopolitical and economic uncertainties. Tariffs on imports from Canada, Mexico, or China, alongside an assertive stance on international relations, could disrupt global trade dynamics and economies worldwide.

Since his election, thematic equities have already started to respond quite aggressively. Defence stocks have rallied, anticipating increased government spending on military capabilities. Blockchain and software companies have benefitted from expectations of relaxed regulations. Conversely, sectors with potential exposure to trade barriers and supply chain disruptions, like semiconductors, have suffered.

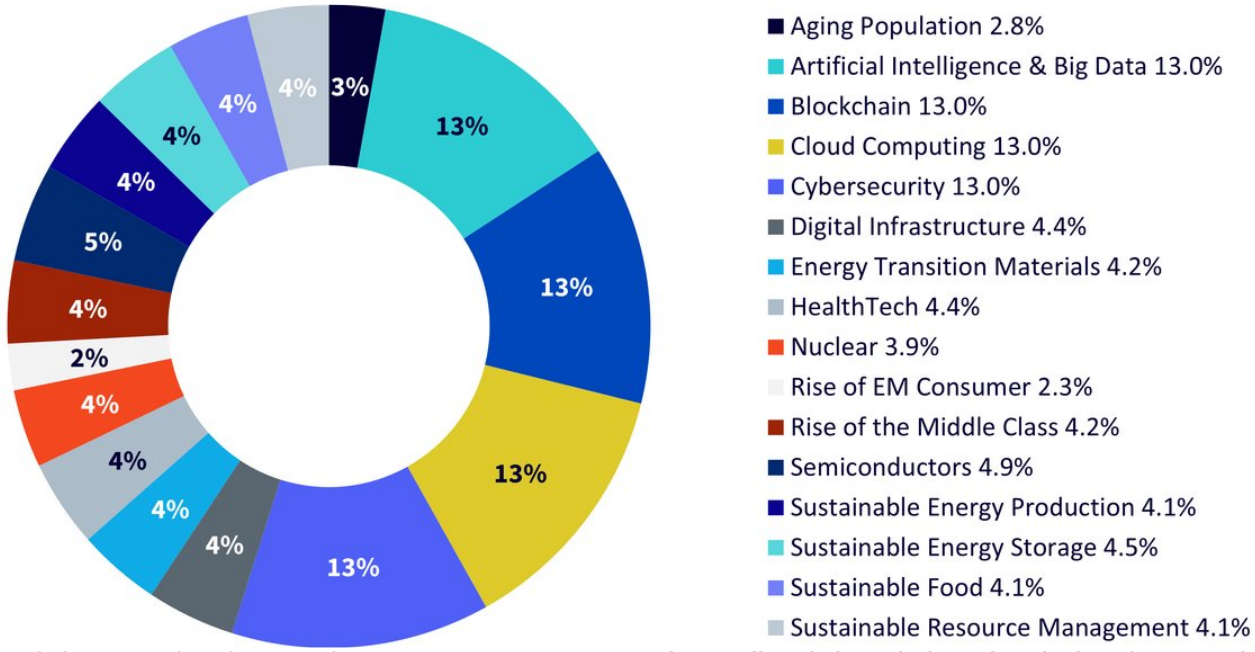
While the long-term potential of thematic equities remains high, thematic investors will need to navigate those uncertainties to unlock that potential. As the complexity of the thematic universe increases, with more themes and more strategies, an increasing number of investors are looking to delegate their thematic investment to an expert by investing in a multi-thematic strategy.

The WisdomTree Megatrends UCITS ETF uses three successive steps to deliver a portfolio designed to capitalise on shifts in the thematic space:

- **The Strategic Thematic Asset Allocation**: Conducted annually, this step identifies the most relevant themes for medium- to long-term investment. Currently, the portfolio encompasses 16 themes.

- **The Tactical Asset Allocation**: Conducted quarterly, this process adjusts theme weightings to align the portfolio with market conditions, taking advantage of both periods of optimism and caution within individual themes.
- **Stock Selection**: Within each theme, the stock selection process leverages the WisdomTree Thematic Investment Philosophy, emphasising:
- Expertise: collaborating with external experts on the theme to enhance portfolio construction.
- Purity: selecting stocks that are the most relevant for each theme.
- Differentiation: building thematic portfolios that are distinct from broader market indices. For instance, the overlap between the WisdomTree Megatrends UCITS ETF and the MSCI AC World or Nasdaq indices is less than 20%, and there is minimal overlap between themes themselves.

Figure 1: WisdomTree Global Megatrends Equity Index – allocation by theme



Source: WisdomTree, Bloomberg as of 18 January 2025. **You cannot invest directly in an index. Historical performance is not an indication of future performance and any investments may go down in value.**

WisdomTree thematic tactical overlay: how are we positioned?

On 18 January 2025, the WisdomTree Megatrends UCITS ETF adjusted its tactical positioning based on quantitative momentum and mean reversion signals. These tactical adjustments aim to position the portfolio advantageously, capitalising on themes exhibiting strong momentum while mitigating exposure to areas facing potential headwinds.

- **Artificial Intelligence & Big Data**: The artificial intelligence (AI) theme has been upgraded to an overweight position. Adoption of AI-driven solutions and AI-enabled things continues to accelerate, and with the Red Sweep in the US, expectations for small-cap software companies have been improving. In Q4, the theme returned 5.7% versus a loss of -1% for the market[1].
- **Cybersecurity**: The themes continue to benefit from heightened geopolitical tensions. With the change in sentiment for small caps, as well as expected increased defence spending around the world, the theme has returned 7% in Q4, an 8% outperformance to MSCI World[1]. This theme is also moving to overweight.
- **Cloud Computing**: The best-performing theme in a strong "Hyperconnectivity and Digitalisation" sub-cluster in Q4 with +13%[1]. With one of the highest proportions of smaller caps and growing unprofitable software stocks, this theme should be a primary beneficiary of a potential small-cap rally. This theme also moved to overweight.
- **Blockchain**: Maintaining its overweight status, the Blockchain theme continues to benefit from the institutionalisation of cryptocurrencies, the change in leadership in Washington toward a more accommodative administration, and the boon that the demand for AI-related computation power represents for miners. This was the best-performing theme for Q4 across all themes with +18.8%[1].
- **Semiconductors**: Upcoming tariffs could be particularly negative for semiconductors as technological protectionism is already taking form worldwide. With President Biden having extended the ban around the exportation of AI-optimised semiconductors to numerous countries, "Semiconductors" posted one of their worst quarters in recent years, underperforming the market by 1.6%. The theme is, therefore, moving to underweight for the next quarter[1].

Figure 2: WisdomTree Megatrends UCITS ETF – tactical signals

Theme	Positioning	Tactical signal
Ageing Population	Underweight	50%
Artificial Intelligence & Big Data	Overweight	150%
Blockchain	Overweight	150%
Cloud Computing	Overweight	150%
Cybersecurity	Overweight	150%
Digital Infrastructure	Underweight	50%
Energy Transition Materials	Underweight	50%
HealthTech	Underweight	50%

Nuclear	Underweight	50%
Rise of EM Consumer	Underweight	50%
Rise of the Middle Class	Underweight	85%
Semiconductors	Underweight	50%
Sustainable Energy Production	Underweight	50%
Sustainable Energy Storage	Underweight	50%
Sustainable Food	Underweight	50%
Sustainable Resource Management	Underweight	50%

Outperforming the market since inception thanks to its 3 layer approach

Since the last rebalancing on the 18 October 2024, the strategy has outperformed the MSCI All Country World net total return index by 1.84%, having returned 1.91% over the period[2].

The source of this outperformance is twofold:

- The **Tactical Overlay** paid off once again this quarter, creating 1.28% of outperformance. The overweight “Blockchain” was particularly impactful. The underweight “HealthTech” and “Nuclear” also created outperformance
- The **Stock Selection**, focused on expertise, pure play and differentiation, also created 1.61% of outperformance. Our stock selection in “Energy Transition Materials”, “Semiconductors”, “Sustainable Food” and “Sustainable Energy Storage” created strong positive differentiation for the strategy.

Figure 3: Performance attribution of the strategy since the last rebalancing on 18 October 2024 (by steps)

	Relative contribution of strategic allocation (vs MSCI ACWI)	Relative contribution of tactical allocation (vs MSCI ACWI)	Relative contribution of stock selection (vs MSCI ACWI)	Total relative contribution (vs MSCI ACWI)
Total	**-1.06%**	**1.28%**	**1.61%**	**1.84%**

Source: WisdomTree, Bloomberg. In USD. From 18 October 2024 to 18 January 2025. You cannot invest directly in an index. Historical performance is not an indication of future performance and any investments may go down in value.

Looking back further, the WisdomTree Megatrends Global Equity Index has returned 42.07% since launch on 27 October 2023[3]. This is an outperformance of 3.7% versus the MSCI All Country World[4].

Similarly to this quarter, the Tactical Overlay and the Stock Selection have been the main source of outperformance for the strategy. Despite headwinds in thematic equities, and 12 themes underperforming the market over the full period, the strategy managed to create outperformance thanks to the layers used in the portfolio construction.

Overall, the tactical overweight to “Blockchain” for most of 2024 created the most outperformance but the tactical positioning in “Artificial Intelligence”, in “Cybersecurity”, in “Nuclear” and in “Semiconductors” all contributed positively. Stock selection was very impactful in “Semiconductors” (with +4.4% relative contribution). Our unique approach to thematic equities, focusing on smaller more focused stocks, was also very successful in “Sustainable Energy Storage” and “Blockchain”.

Figure 4: Performance attribution since inception of the strategy (by layers)

	Relative contribution of strategic allocation (vs MSCI ACWI)	Relative contribution of tactical allocation (vs MSCI ACWI)	Relative contribution of stock selection (vs MSCI ACWI)	Total relative contribution (vs MSCI ACWI)
Total	**-8.35%**	**7.98%**	**4.08%**	**3.72%**

Source: WisdomTree, Bloomberg. In USD. From 27 October 2023 to 18 January 2025. You cannot invest directly in an index. Historical performance is not an indication of future performance and any investments may go down in value.

What is happening now?

15 months after launch, the WisdomTree Megatrends Global Equity Index continues to do well in a challenging thematic environment. Looking further into 2025, the red sweep in the US and inflation being under control could indicate a better environment for small caps after years of mega caps dominance. Such a rotation would be favourable for the overall thematic space and, in particular, the WisdomTree Megatrends UCITS ETF, given that “Software” is currently significantly overweighted in the portfolio.

Looking at specific themes, “Cybersecurity” and “Blockchain” are two of WisdomTree’s high-conviction ideas for the first half of 2025. Geopolitical risks and advances in cutting-edge technologies are driving the growing importance of cybersecurity, particularly as national security remains a key focus under Trump’s presidency. Recent attacks on US telecommunication companies and the US Treasury Department underscore the urgency of bolstering cyber defences. Deregulation under Trump’s administration is expected to foster greater technological innovation, benefiting both cybersecurity and blockchain development. On the crypto side, we observed a clear shift in the US’ stance toward the end of 2024, marked by the resignation

of the highly crypto-sceptic SEC chair. This regulatory pivot, combined with a more favourable environment for small-cap companies, could position these two themes to outperform the market in 2025.

[1] Source: WisdomTree, Bloomberg from 30 September 2024 to 31 December 2024. **You cannot invest directly in an index. Historical performance is not an indication of future performance and any investments may go down in value.**
[2] Source: WisdomTree, Bloomberg. In USD. From 18 October 2024 to 18 January 2025. **You cannot invest directly in an index. Historical performance is not an indication of future performance and any investments may go down in value.**
[3] Source: WisdomTree, Bloomberg. In USD. From 18 October 2024 to 18 January 2025. **You cannot invest directly in an index. Historical performance is not an indication of future performance and any investments may go down in value.**
[4] Source: WisdomTree, Bloomberg. In USD. From 27 October 2023 to 18 January 2025.

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