

Thematic Tactical Rotation: how are we doing so far?

Published 20 March 2024

Pierre Debru

Head of Research, WisdomTree Europe.

Key Takeaways

- Multi-thematic strategies offer a better way to invest in growth than traditional growth funds, but it takes a lot of expertise to successfully construct those strategies
- Multi-thematic strategies should offer three clear value-add propositions: theme selection, capital allocation between themes and expert-driven stock selection for each theme
- The tactical overlay in the WisdomTree Global Megatrends Equity Index correctly overweighted or underweighted 11 themes in its first rebalancing period and 10 in its second.
- The tactical overlay in the WisdomTree Global Megatrends Equity Index created 8.1% outperformance in its first four months of live performance
- Related Products WisdomTree Megatrends UCITS ETF - USD Acc Find out more

Thematic investing offers investors a new way to gain exposure to growth. Thematics provide a forward-looking grid that allows investors to select growth stocks not based on backwards-looking growth fundamentals but based on companies' forward-looking use cases and how this aligns with long-term structural shifts in our society and our world. In many ways, thematic strategies have become growth strategies 2.0.

When investing in thematics, investors have two main choices: single-theme strategies if they want to keep control of this part of their portfolio or multi-thematic strategies. Multi-thematic strategies offer investors a one-stop solution to participate in long-term equity growth across different megatrends as they develop, while delegating the decisions around the selection of the most relevant themes, the capital allocation between themes and the stock selection. Throughout 2023, in Europe, we have seen many investors make that second choice. Despite outflows in the thematic space, multi-thematic strategies gathered over \$4 billion¹.

After six years of thematic research, two whitepapers, and ten single-theme ETFs, WisdomTree launched a new multi-thematic strategy, the WisdomTree Global Megatrends Equity index, on 27 October 2023, followed in December by the launch of an ETF, the [WisdomTree Megatrends UCITS ETF](#).

The WisdomTree megatrends strategy

Our strategy 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 benefit from tactical allocation to the different themes over time to adapt to current market environments. Investors benefit from three layers of value creation:

1. Strategic thematic asset allocation

First, WisdomTree delivers a curated selection of promising themes (around 15) out of all the available themes in the investment space. Each year, the selection focuses on high-conviction themes with a high diversification potential and alignment with the UN Sustainable Development Goals (SDGs).

2. Tactical thematic asset allocation

WisdomTree also applied a proprietary, momentum-based, tactical overlay to overweight and underweight themes every quarter. The objective is to benefit from virtuous cycles in themes, like Cloud in 2020 around the remote working craze or AI and Semiconductors in 2023, following the launch of ChatGPT.

3. Thematic stock selection

Finally, regarding the stock selection in each theme, WisdomTree focuses on pure-play companies, meaning those with more direct exposure to the theme rather than tangential exposure. To do so, the portfolio for each theme is built independently in partnership with a theme-specific expert.

A closer look at the tactical overlay

More than four months after the strategy's launch, it is time to take stock of the performance of the tactical overlay in the WisdomTree Global Megatrends Equity Index. Since we rebalanced the portfolio on 19 January 2024, we can look at two distinct periods with their specific overweights and underweights:

- Figure 1 – 25 October 2023 to 19 January 2024
- Figure 2 – 19 January 2024 to 29 February 2024

In the first rebalancing periods, the portfolio was overweighting five themes: AI, Blockchain, Cloud Computing, Cybersecurity and Semiconductors. Over the period considered, all five of those themes outperformed the MSCI ACWI. Four of them outperformed by double-digit numbers and AI outperformed by only 9.6%, so the overweighting worked well.

Of the nine themes we underweighted, six underperformed MSCI ACWI. The Rise of EM Consumer underperformed by 23.2%, and Sustainable Resource Management by 14.5%, for example. Only three themes that we underweighted outperformed the market: Rise of the Middle Class, HealthTech, and Digital Infrastructure but they did so narrowly with +4.2%, +1.7% and +6.1% (respectively).

Overall, the tactical overlay got 11 out of 14 themes right in that first period – so the tactical overlay added 5.77% to the performance.

Figure 1: WisdomTree thematic tactical overlay's performance up to 19 January 2024

Source: WisdomTree, Morningstar, Bloomberg. From 23 October 2023 to 19 January 2024. Historical performance is not an indication of future performance and any investments may go down in value. You can not invest in an index.

On 19 January, the strategy was rebalanced. While the same five themes remained overweighted, the overweights were slightly smaller. As a result, the underweight in Digital Infrastructure, HealthTech, and Sustainable Resource Management was reduced.

Only three of our five overweights have worked as of the end of February. Cloud Computing and Cybersecurity have been underperforming the market slightly over the period. However, Blockchain is up 30.2%, and Semiconductors are up 6.9% on a relative basis, which more than compensates for the small underperformance of the other two themes.

Out of the nine underweight, seven themes did underperform. So-called "green themes" continue to suffer, leading to much of that underperformance. This means that the tactical overlay only got HealthTech and Rise of the EM Consumer wrong this time.

Overall, the tactical overlay got 11 out of 14 themes right in that second period so far, adding 2.35% to the performance.

Figure 2: WisdomTree thematic tactical overlay's performance from 19 January 2024

Source: WisdomTree, Morningstar, Bloomberg. From 19 January 2024 to 29 February 2024. Historical performance is not an indication of future performance and any investments may go down in value. You can not invest in an index.

Conclusion

Creating a multi-thematic strategy is a difficult endeavour that requires lots of research and experience in the thematic space. Investors expect to receive the benefit of intelligent theme selection, theme weighting, stock selection and to see a portfolio that offers a lot of differentiation to tech indices or the Nasdaq 100. After six years of research, WisdomTree launched its own multi-thematic strategy that offers innovative solutions to these challenges. In the first four months of the live track record, the theme selection (i.e., the strategic allocation) delivered 1.6% of outperformance versus the MSCI ACWI, with the tactical overlay adding 8.1% of outperformance.

Sources

1 Source: WisdomTree, Morningstar, Bloomberg. From 30 December 2022 to 31 December 2023. The list of Europe-Domiciled ETFs and Open-ended mutual funds has been compiled by WisdomTree as part

of the WisdomTree's own thematic classification. Historical performance is not an indication of future performance and any investments may go down in value.

Important Risks Related to this Article

IMPORTANT INFORMATION

Marketing communications issued in the European Economic Area (“EEA”): This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

Marketing communications issued in jurisdictions outside of the EEA: This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as “WisdomTree” (as applicable). Our Conflicts of Interest Policy and Inventory are available on request.

For professional clients only. Past performance is not a reliable indicator of future performance. Any historical performance included in this document may be based on back testing. Back testing is the process of evaluating an investment strategy by applying it to historical data to simulate what the performance of such strategy would have been. Back tested performance is purely hypothetical and is provided in this document solely for informational purposes. Back tested data does not represent actual performance and should not be interpreted as an indication of actual or future performance. The value of any investment may be affected by exchange rate movements. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice. These products may not be available in your market or suitable for you. The content of this document does not constitute investment advice nor an offer for sale nor a solicitation of an offer to buy any product or make any investment.

An investment in exchange-traded products (“ETPs”) is dependent on the performance of the underlying index, less costs, but it is not expected to match that performance precisely. ETPs involve numerous risks including among others, general market risks relating to the relevant underlying index, credit risks on the provider of index swaps utilised in the ETP, exchange rate risks, interest rate risks, inflationary risks, liquidity risks and legal and regulatory risks.

The information contained in this document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares in the United States or any province or territory thereof, where none of the issuers or their products are authorised or registered for distribution and where no prospectus of any of the issuers has been filed with any securities commission or regulatory authority. No document or information in this document should be taken, transmitted or distributed (directly or indirectly) into the United States. None of the issuers, nor any securities issued by them, have been or will be registered under the United States Securities Act of 1933 or the Investment Company Act of 1940 or qualified under any applicable state securities statutes.

This document may contain independent market commentary prepared by WisdomTree based on publicly available information. Although WisdomTree endeavours to ensure the accuracy of the content in this

document, WisdomTree does not warrant or guarantee its accuracy or correctness. Any third party data providers used to source the information in this document make no warranties or representation of any kind relating to such data. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.

This document may contain forward looking statements including statements regarding our belief or current expectations with regards to the performance of certain assets classes and/or sectors. Forward looking statements are subject to certain risks, uncertainties and assumptions. There can be no assurance that such statements will be accurate and actual results could differ materially from those anticipated in such statements. WisdomTree strongly recommends that you do not place undue reliance on these forward-looking statements.

WisdomTree Issuer ICAV

The products discussed in this document are issued by WisdomTree Issuer ICAV ("WT Issuer"). WT Issuer is an umbrella investment company with variable capital having segregated liability between its funds organised under the laws of Ireland as an Irish Collective Asset-management Vehicle and authorised by the Central Bank of Ireland ("CBI"). WT Issuer is organised as

an Undertaking for Collective Investment in Transferable Securities ("UCITS") under the laws of Ireland and shall issue a separate class of shares ("Shares") representing each fund. Investors should read the prospectus of WT Issuer ("WT Prospectus") before investing and should refer to the section of the WT Prospectus entitled »Risk Factors¼ for further details of risks associated with an investment in the Shares.

Notice to Investors in Switzerland – Qualified Investors

This document constitutes an advertisement of the financial product(s) mentioned herein.

The prospectus and the key investor information documents (KIID) are available from WisdomTree's website: <https://www.wisdomtree.eu/en-ch/resource-library/prospectus-and-regulatory-reports>

Some of the sub-funds referred to in this document may not have been registered with the Swiss Financial Market Supervisory Authority ("FINMA"). In Switzerland, such sub-funds that have not been registered with FINMA shall be distributed exclusively to qualified investors, as defined in the Swiss Federal Act on Collective Investment Schemes or its implementing ordinance (each, as amended from time to time). The representative and paying agent of the sub-funds in Switzerland is Société Générale Paris, Zurich Branch, Talacker 50, PO Box 5070, 8021 Zurich, Switzerland. The prospectus, the key investor information documents (KIID), the articles of association and the annual and semi-annual reports of the sub-funds are available free of charge from the representative and paying agent. As regards distribution in Switzerland, the place of jurisdiction and performance is at the registered seat of the representative and paying agent.

For Investors in France

The information in this document is intended exclusively for professional investors (as defined under the MiFID) investing for their own account and this material may not in any way be distributed to the public. The distribution of the Prospectus and the offering, sale and delivery of Shares in other jurisdictions may be restricted by law. WT Issuer is a UCITS governed by Irish legislation, and approved by the Financial Regulatory as UCITS compliant with European regulations although may not have to comply with the same rules as those applicable to a similar product approved in France. The Fund has been registered for marketing in France by the Financial Markets Authority (Autorité des Marchés Financiers) and may be distributed to investors in France. Copies of all documents (i.e. the Prospectus, the Key Investor Information Document,

any supplements or addenda thereto, the latest annual reports and the memorandum of incorporation and articles of association) are available in France, free of charge at the French centralizing agent, Societe Generale at 29, Boulevard Haussmann, 75009, Paris, France. Any subscription for Shares of the Fund will be made on the basis of the terms of the prospectus and any supplements or addenda thereto.

For Investors in Malta

This document does not constitute or form part of any offer or invitation to the public to subscribe for or purchase shares in the Fund and shall not be construed as such and no person other than the person to whom this document has been addressed or delivered shall be eligible to subscribe for or purchase shares in the Fund. Shares in the Fund will not in any event be marketed to the public in Malta without the prior authorisation of the Maltese Financial Services Authority.

For Investors in Monaco

This communication is only intended for duly registered banks and/or licensed portfolio management companies in Monaco. This communication must not be sent to the public in Monaco.