Thematics in motion: Quantum, China Tech and European Defence

Published 2 June 2025

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Key Takeaways

- At the latest rebalance, WisdomTree added 3 themes to its multi-thematic strategy: Quantum Computing, European Defence and China Tech.
- This quarter, the strategy remains overweight AI, Cloud, Blockchain and Cyber, but the new themes are also overweighted.
- The Tactical Asset Allocation and Stock Selection have added value since launch despite choppy thematic performance overall.

The first few months of 2025 have proven to be as uncertain and volatile as expected. Thematics strategies have experienced a wild rollercoaster shaped by changing Trump administration's policy decisions as well as a Chinese tech revival. After a strong run for Technological Shift themes in Q4 2024, most of them suffered in the market pullback in February and March. This led to the theme Rise of Tension, which hosts defence-related strategies, to lead for the first four months of the year, with a +25.1% average performance1. Over the same period, Semiconductors, Blockchain, and Artificial Intelligence & Big Data posted the worst performance with -12.3%, -12.1% and -8% respectively.

While thematic equities continue to offer high growth potential, investors need to navigate volatility and uncertainties to unlock that potential. As the complexity of the thematic universe increases with more themes and more strategies, investors are increasingly looking to delegate their thematic investment to an expert by investing in a multi-thematic strategy.

The WisdomTree Megatrends Global Equity strategy delivers a top-down allocation to a multi-thematic portfolio through three successive steps to capitalise on shifts in the thematic space:

- **The Strategic Thematic Asset Allocation**: annually, this step identifies the most relevant themes for medium- to long-term investment. Post April 2025 rebalancing, the portfolio encompasses 18 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 Multi-Thematic Strategy and the MSCI AC World or Nasdaq indices is less than 20%, and there is minimal overlap between themes themselves.

Quantum Computing, Rise of China Tech, and European Defence enter the portfolio

On 22 April 2025, the strategy underwent its quarterly rebalancing in which we reviewed:

- The selection of a theme (as we do every year in April)
- The tactical allocation to the selected themes (as we do every quarter)
- The stock selection (as we do every quarter)

The theme selection focuses every year on high-conviction themes with high diversification potential. Following this year's review, the portfolio benefits from the introduction of 3 new themes.

European Defence

In 2024, the European Union (EU) activated its €100bn European Defence Industrial Programme, signalling a long-term fiscal commitment to military readiness. By Q1 2025, most European countries had accelerated procurement of advanced systems, including drones or missile defence, through increased spending. From an investment point of view, Rise of Tensions led thematic flows in 2024 as well as for the first 4 months of 2025, beating every other theme. This investment aligns with a multi-decade investment shift driven by geopolitical realignment away from the US, a recommitment to NATO2 minimum spending, and the reshoring of defence supply chains. With defence budgets rising and strategic autonomy becoming a priority, European defence equities can offer asymmetric upside, supported by predictable state-backed demand and relatively low sensitivity to economic cycles.

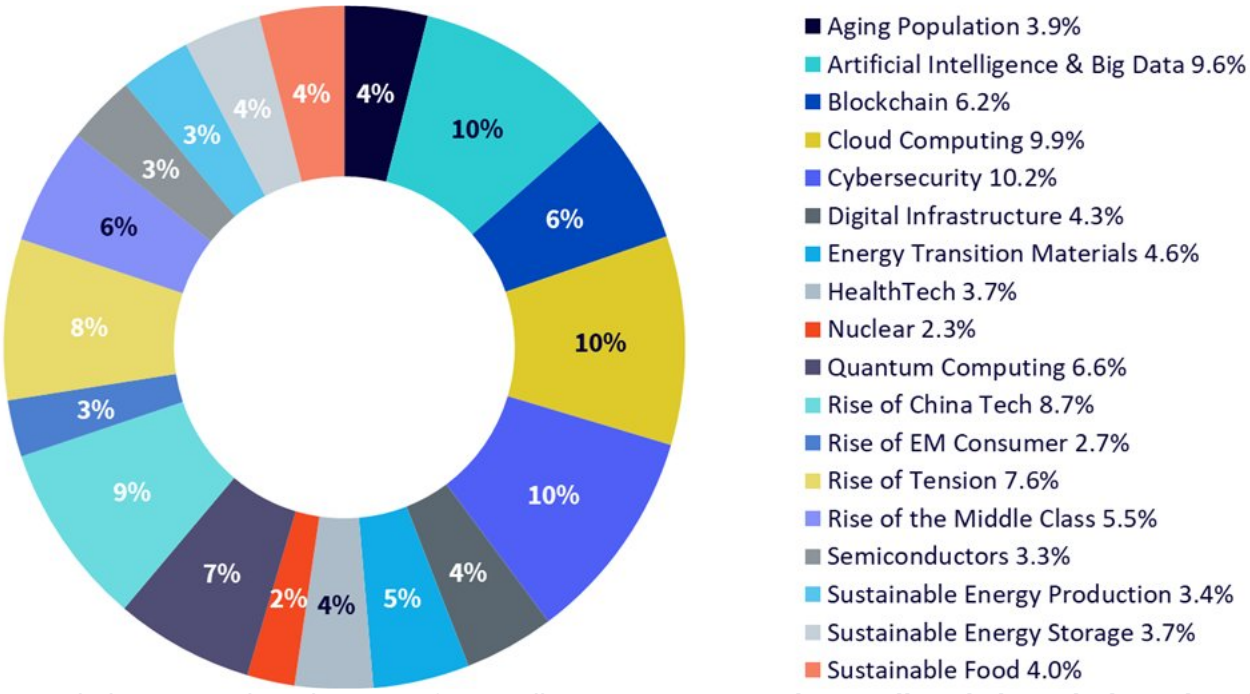
Quantum Computing

Quantum Computing represents a paradigm-shifting technology with high growth potential but, more importantly, recent developments are pointing to relatively near-term commercialisation potential. In Q4 2024, Google announced its new 105-qubit superconducting chip, code-named Willow and, in Q1 2025, Microsoft introduced Majorana, the world's first quantum chip powered by a new Topological Core architecture. Those breakthroughs, coupled with rising corporate research and development (R&D) spend and early use cases, suggest the theme is transitioning from speculative to investable.

Rise of China Tech

The last few months saw the resurgence of Chinese innovation. Q1 2025 saw a surge in artificial intelligence (AI) adoption across China's industrial and consumer sectors, supported by the reveal of DeepSeek that proved to be a serious and quite frugal competitor to US developed models. As regulatory pressures ease and national champions regain momentum, the theme offers access to a distinct innovation cycle, decoupled from US tech.

Figure 1: WisdomTree Global Megatrends Equity—allocation by themes



Source: WisdomTree, Bloomberg as of 22 April 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 22 April 2025, the WisdomTree Megatrends Global Equity Index also 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, Cloud Computing, and Cybersecurity remained strongly overweighted in line with the previous rebalancing.
- Blockchain, while remaining overweighted, was slightly downgraded, exhibiting a smaller overweight.
- Our 3 new entrants, Quantum Computing, Rise of Tensions, and Rise of China Tech all got assigned a strong overweight as well.
- Finally, Rise of the Middle Class got upgraded to overweight.

- The rest of the themes, including Semiconductors, remained underweight even if “Energy Transition Materials” and “Aging Population” are only slightly so.

Figure 2: WisdomTree Global Megatrends Equity—Tactical Signals

The Tactical Allocation and Stock Selection are adding value

Looking back since inception, the WisdomTree Megatrends Global Equity strategy has returned 21.56% since launch on 27 October 2023 and as of 22 April 20253. This is an underperformance of 7.82% versus the MSCI All Country World over the period. Most of that underperformance crystallised in the last 2 months before the April rebalancing. Since then, the strategy has benefited from a more positive climate and has clawed back some of this underperformance (4.85% outperformance from 22 April to 21 May 2025).

Having said that, digging into the performance of the 3 layers in the strategy, it is worth noting that both the Tactical Asset Allocation and the Stock Selection have delivered outperformance:

- The Tactical Allocation has created 4.09% of outperformance over the period, driven by good positioning in Blockchain, Semiconductors and Nuclear in particular.
- Stock Selection also created 3.06% with WisdomTree’s expert-driven selection creating performance across Blockchain, Semiconductors, Sustainable Energy Storage and Energy Transition Materials in particular.

Figure 3: Performance attribution since inception of the strategy (by layers)

Source: WisdomTree, Bloomberg. In USD. From 27 October 2023 to 22 April 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.

Conclusion

Thematic investing remains a powerful tool to access structural growth, but capturing its full potential requires dynamic navigation. The WisdomTree Megatrends Global Equity strategy offers a robust, research-driven framework to manage this complexity, combining strategic selection of themes, tactical flexibility, and targeted stock selection. With themes like Quantum Computing, European Defence, and China Tech entering the portfolio, the strategy is positioned to capture emerging trends, delivering diversified exposure to the future drivers of equity returns across sectors and regions.

1 Source: WisdomTree, Morningstar, Bloomberg. All data as of 30/04/2025 and based on WisdomTree's internal classification of thematic funds. Performance is based on monthly returns from Bloomberg and Morningstar. **Historical performance is not an indication of future performance, and any investments may go down in value.**
2 NATO = The North Atlantic Treaty Organization is an intergovernmental transnational military alliance of 32 member states.
3 Source: WisdomTree, Bloomberg. In USD. From 27 October 2023 to 22 April 2025. **You cannot invest**

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