

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

Published 30 January 2024

Pierre Debru

Head of Research, WisdomTree Europe.

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 commanding 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.

Related blogs

- + [Overwhelmed by choice? Opt for a multi-thematic approach](#)
- + [WisdomTree Megatrends UCITS ETF: A one-stop solution to capture the world's future growth potential](#)
- + [How to use thematic investments in a portfolio](#)

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 not 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.