How to stay current with your investments

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Key Takeaways

- The WisdomTree multi-thematic strategy provides a one-stop solution for investing in thematic equities, including a theme-based tactical overlay to benefit from short-term moves.
- At the latest rebalance, Semiconductor, Blockchain and Nuclear remained overweight while AI moved to neutral.
- WisdomTree's multi-thematic strategy has outperformed the MSCI AC World since launch and since the last rebalance thanks to the tactical overlay and the stock selection.

Megatrends evolve in waves, and investors can potentially benefit from using those waves in their portfolios. However, when it comes to timing thematic investment, success hinges on understanding the theme and its drivers more than valuations and fundamentals. Themes are driven by various factors, from regulatory changes to technological advances. Those factors have a significantly higher impact on performance than the fundamentals of companies relevant to that theme. For example, the catalyst for Cloud performance in 2020 was the COVID-19 pandemic, not the fundamentals of Zoom. The catalyst for the Artificial Intelligence (AI) wave in 2023 was the launch of ChatGPT.

This is why, when constructing the WisdomTree Global Megatrends Equity Index, we decided to focus on three areas to add value:

- The selection of the most relevant themes, which is run yearly. Currently, the ETF invests in 16 themes (see figure 1)
- The tactical overlay that overweight and underweight themes every quarter to position the portfolio to best benefit from the waves
- The stock selection in each theme, which leverages WisdomTree Thematic Investment Philosophy, focuses on:
  oExpertise: WisdomTree partners with external theme experts when constructing their thematic portfolios
  oPurity: Stocks in our thematic portfolios have a business that is focused principally on one theme
  oDifferentiation: Our thematic portfolios are very different from market indices (the overlap between the WisdomTree multi-thematic strategy and the MSCI AC World or the Nasdaq is less than 20%) and are also very different between themes

Figure 1: WisdomTree Global Megatrends Equity Index theme selection

Source: WisdomTree. July 2024

WisdomTree thematic tactical overlay: Semiconductors, Nuclear and Blockchain in focus

Our unique tactical overlay, recalculated every quarter, is based on proprietary momentum scores independently calculated for each theme. These momentum scores determine the weighting of each theme, which is then adjusted by a multiplier ranging from 0.5 to 1.5. The final weight of each theme at the quarterly rebalancing is its strategic weight multiplied by the theme's tactical multiplier.

As of the latest rebalancing on 19July, those quantitative signals led to the following positioning:

- Semiconductors capitalised on Nvidia's strong earnings, which reported a year-on-year sales growth exceeding 200% in May. This led to a sustained strong performance in the theme, culminating in a 12.5%[1] return in Q2. It is the best-performing theme over the first six months of the year (+39.7%). Its momentum remains strong, so momentum signals continue to point to overweight.
- Blockchain and Nuclear also remain overweighted to 150% of their strategic weight. Momentum in Blockchain remains strong (+11.7%[1]). Nuclear suffered a bit of a setback in June (-10.4%, but still up 6.9% YTD1), but the overall momentum is also positive.
- AI moved from overweight to neutral. Software companies in the AI space have been suffering, which has led to the weakening momentum of the theme.
- Cloud computing companies faced concerns due to their slower growth rates, especially when compared to the zero-interest rate period. Additionally, concerns about the potential of their cloud services being replaced by generative AI technologies contributed to it being the second-worst performing theme, with a Q2 loss of 5.4%. This led to Cloud moving to underweight. Similarly, Cybersecurity also moved to underweight.
- All remaining themes, and particularly all the climate change-related themes, continue to suffer from headwinds and, therefore, remain underweight.
  oThe fluctuating price of copper primarily dictated the performance of Energy Transition Materials. Despite experiencing an 8.9% decline in June, mirroring the drop in copper prices, the theme managed to maintain a positive return of 0.5% in Q2, thanks to its strong performance in April.
  oSustainable Energy Storage was the worst-performing theme in Q2, mainly due to the strain on Chinese battery manufacturers from the EU's plans to impose new tariffs on EVs manufactured in China. This led to a 6.8% drop in June, bringing its Q2 performance down to -7.8% and its year-to-date performance to -15.2%.
  oThe Rise of the Middle-Class theme was adversely affected by weak luxury sales. Luxury goods companies, such as LVMH and Tapestry, reported negative sales growth, which resulted in a 4.5% decline in the theme's performance. As a result, it was the third-worst-performing theme in Q2.

Figure 2: WisdomTree Global Megatrends Equity Index: Tactical overlay

Theme	Positioning	Tactical Signal	Weight
Aging Population	Underweight	50%	3%
Artificial Intelligence & Big Data	Neutral	100%	9%
Blockchain	Overweight	150%	14%
Cloud Computing	Underweight	50%	5%
Cybersecurity	Underweight	50%	5%
Digital Infrastructure	Underweight	50%	5%
Energy Transition Materials	Underweight	50%	5%
HealthTech	Underweight	50%	5%
Nuclear	Overweight	150%	12%
Rise of EM Consumer	Underweight	50%	3%
Rise of the Middle Class	Underweight	50%	3%
Semiconductors	Overweight	150%	14%
Sustainable Energy Production	Underweight	50%	4%
Sustainable Energy Storage	Underweight	50%	5%
Sustainable Food	Underweight	50%	4%
Sustainable Resource Management	Underweight	50%	4%

Source: WisdomTree, Bloomberg as of 19 July 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.

Outperforming the market since inception and in all rebalancing periods

Looking back, the strategy continues to deliver above-market performance. Since its last rebalancing on 19 April 2024, the Index gained 10.5%, beating the MSCI World All Country World by 0.9%. Since inception (27 October 2023), the results are also positive, with a gain of 33.5%, 3.1% better than the market[2].

Over the last three months, this 0.9%2 of outperformance can be mainly attributed to the tactical overlay (with a contribution of 1.7%)[2] and the stock selection (contribution of 1.7%)[2]. The strategic asset allocation created a drag of -2.6%2 as many themes are currently suffering. However, we think that diversification is the key to the basket's long-term performance.

These results are not unique to the last few months. Since inception, the tactical overlay (+6.99%2) and the stock selection (+1.37%2) have created most of the outperformance, and the strategic allocation created a drag (-5.3%2), leading to the 3.1% of outperformance. Theme-wise, AI, Blockchain, Cybersecurity, and Semiconductors have created the bulk of the outperformance.

Figure 3: 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	-12.62%	6.27%	0.92%	-5.44%

Source: WisdomTree, Bloomberg. In USD. From 27 October 2023 to 19 July 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.

What is happening now?

After 18 months of domination by the “Magnificent Seven”, a good Consumer Price Index (CPI) print on 10 July may have started a rotation toward smaller caps. Since that date, the S&P 500 Equal Weight has outperformed the S&P 500 by 4%[3]. With the Federal Reserve about to cut rates, the US presidential election in November (which historically tends to create an end of year small cap rally) and the narrowing of earnings growth estimates between mega caps and the rest of the market, this could be the start of a longer trend. This trend would benefit thematic equities as those strategies, when built with pure play in mind, tend to lean toward small and mid caps. In fact, over the last 12 days, the WisdomTree Global Megatrends Equity Index gained 4.5% more than the Nasdaq 100[3].

Source

[1] WisdomTree, Morningstar, Bloomberg. In USD. 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.

[2] WisdomTree, Bloomberg. In USD. From 27 October 2023 to 19 July 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.

[3] WisdomTree, Bloomberg. In USD. From 10 July 2024 to 22 July 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.

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