

# 2022's Top 10 themes (part 2)



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## Key Takeaways

- The top five themes for 2022 deal in the physical rather than digital (i.e., are not technology related).
- Our top theme for 2022 is Infrastructure, the only theme to maintain an overweight rank all year by our Thematic Opps scorecard.
- We may downgrade Infrastructure in a deep-recession scenario; however, the group has remained semi-defensive with construction spending from the Build Back Better, IRA, and CHIPS bills serving as a catalyst.

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## The next five

2022's Top 5 Themes					
Rank	Theme	YTD %	Perf. Rank	Days at OW	OW Rank
5	Agriculture	-10.0	5	111	7
4	Environmental Services	-11.6	7	171	4
3	Solar	-1.5	3	118	5
2	Natural Resources	6.1	2	194	3
1	Infrastructure	-8.1	4	243	1

As of 12/19/2022

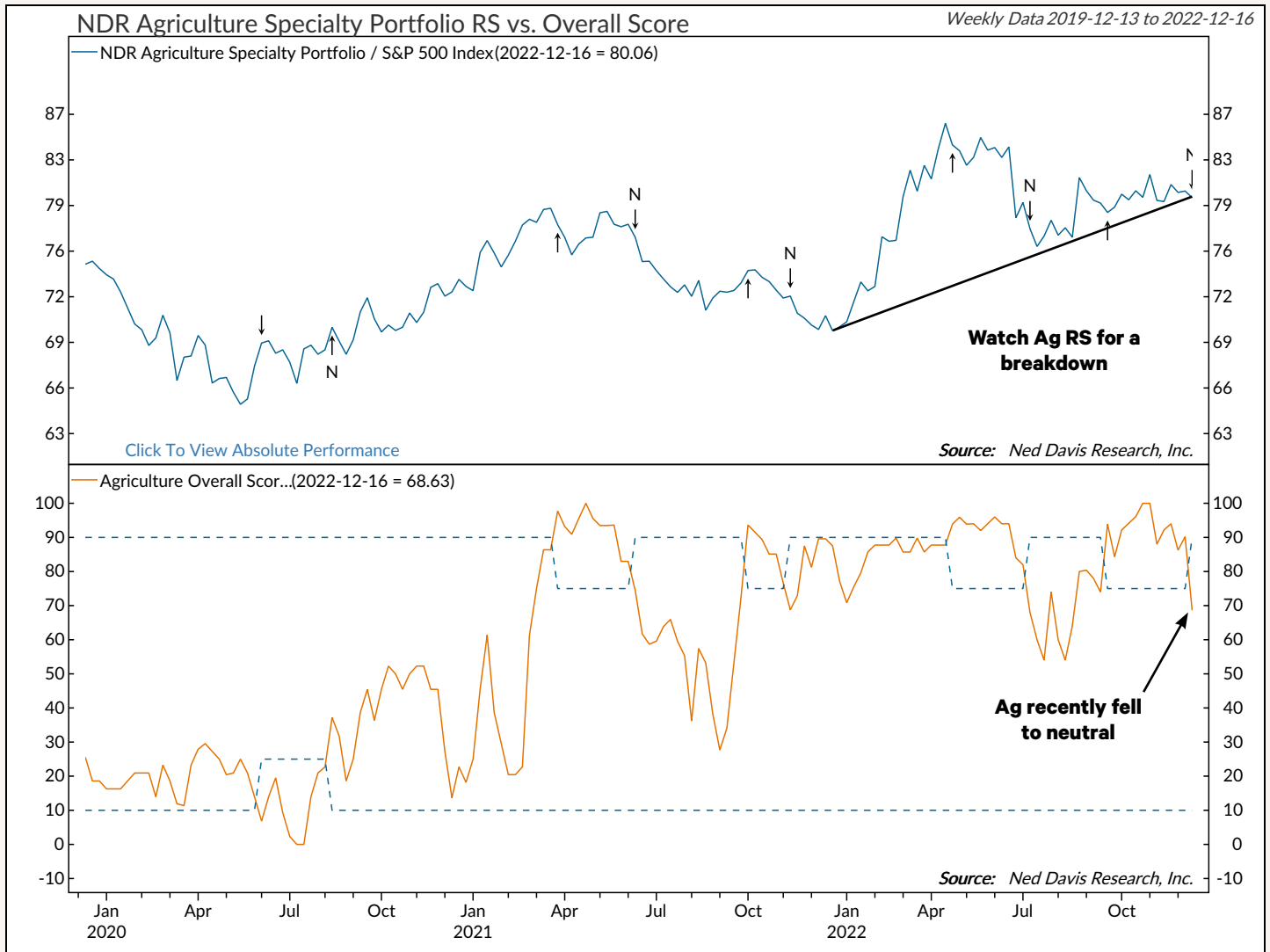
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### What matters:

- In [last week's publication](#), we highlighted the 6th to 10th-ranked themes. Today we continue with the top 5.
- All the top-ranked themes deal in the physical rather than digital realm (i.e., are not technology related).
- Infrastructure stands out as the only theme to remain overweight the entire year (data as of 12/19/2022).

## #5 Agriculture



Customized version of TO\_SCORECARD.RPT

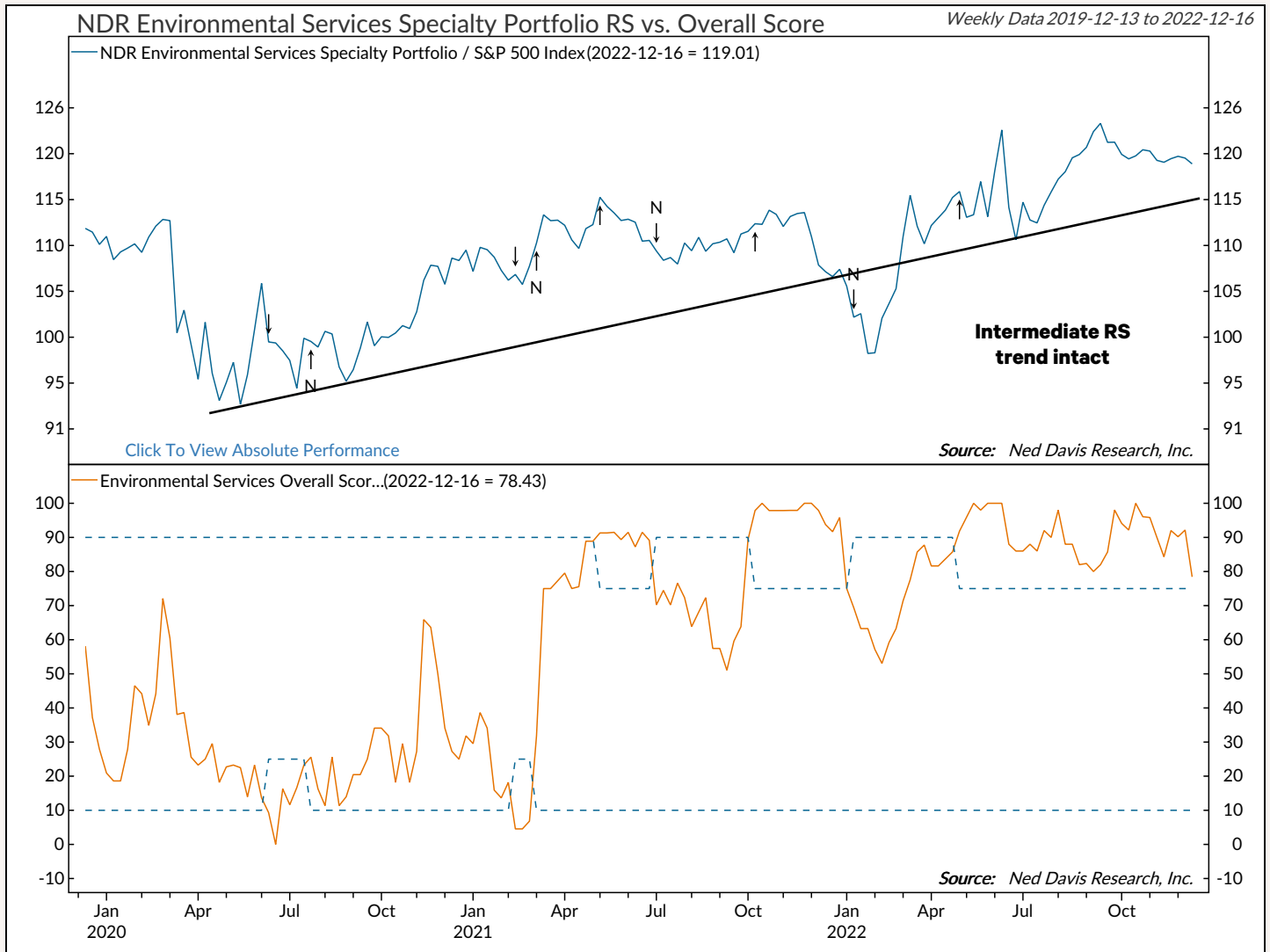


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**What matters:**

- The Agriculture thematic index peaked in May, but it has held on to much of its strong first-half performance. It is down about 10% in 2022 -- half the decline of the S&P 500.
- Performance of the Ag theme has been driven by the VanEck Ag ETF MOO where large contributions came from Deere & Co (DE) and Archer Daniels Midland (ADM), which are both up over 25% in 2022.
- The cap-weighted Agriculture thematic ETF index was recently lowered to marketweight by our scorecard, but it has been a very good defensive holding in a very rough year for the market.

## #4 Environmental Services



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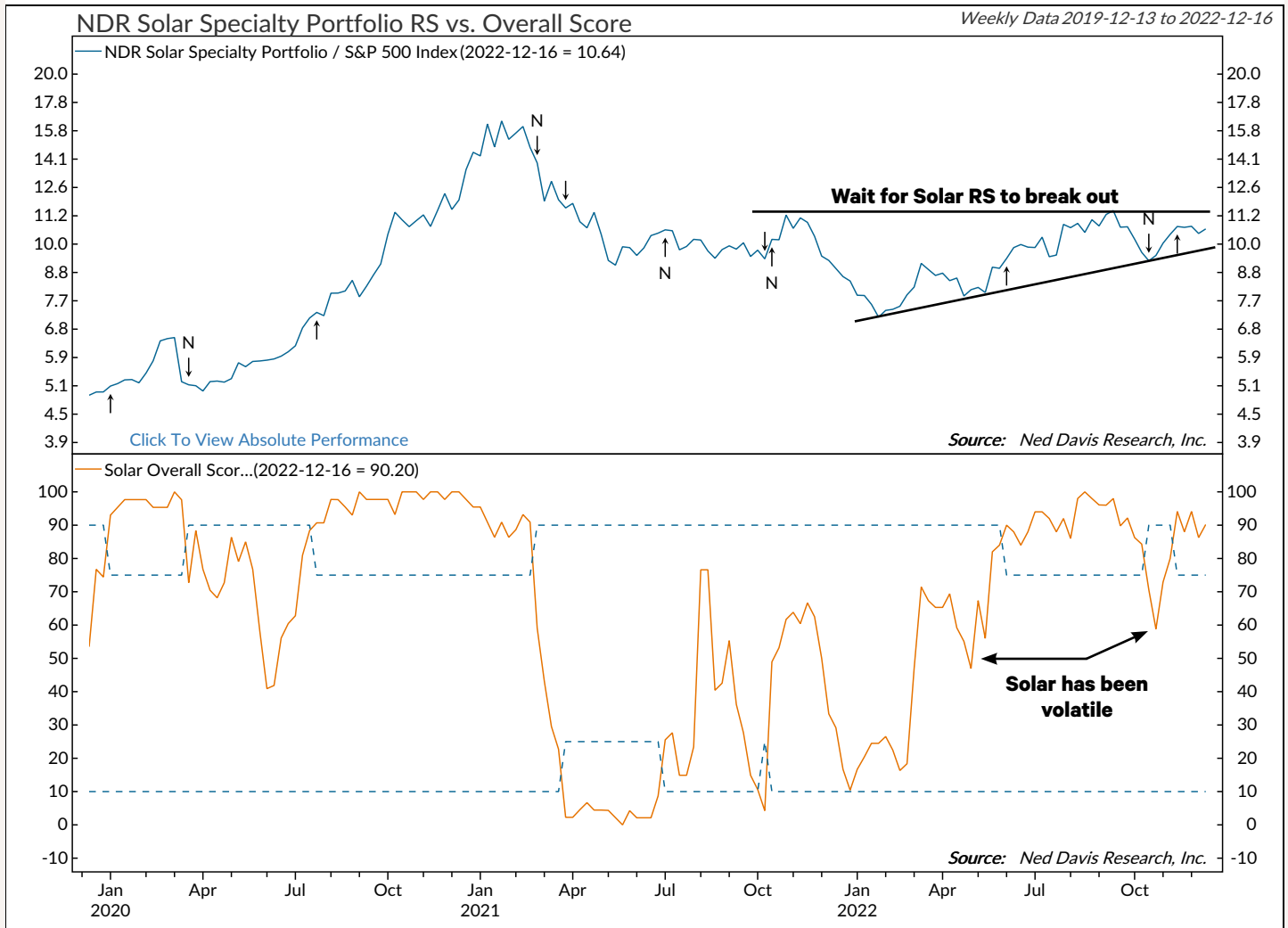


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### What matters:

- Environmental Services, often a fancy name for garbage collection, is rated overweight by our [Thematic Opps Scorecard](#), and has been overweight 70% of the time in 2022.
- Top holdings in the VanEck Environmental Services ETF (EVX), Waste Management (WM), Republic Services (RSG), and Waste Connections (WCN), are all down less than 7% in 2022.
- This theme's rank is getting close to 70, where it could be lowered to neutral, but we like this theme long-term as we see growth driven by Millennial and Gen-Z household formation.

## #3 Solar



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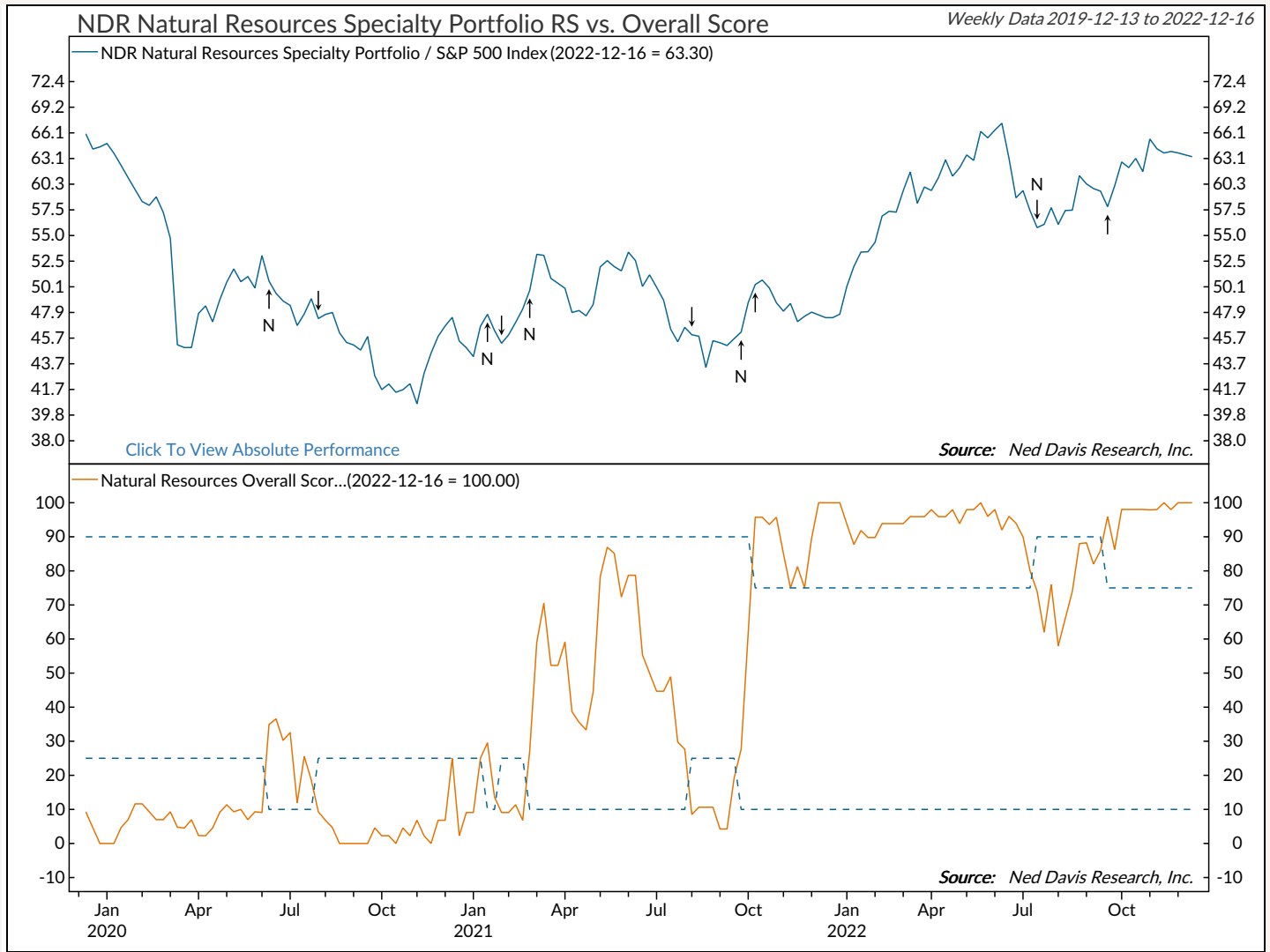


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**What matters:**

- Solar has seen volatility all year, but a relative strength uptrend has also been visible all year and the theme has been rated overweight 83% of the time since May.
- Solar hit a rough patch in Q4 when it was downgraded to neutral from mid-October to mid-November, but it is back to overweight and has been the bright spot (pun intended) for Clean Energy all year.
- Near-term, residential solar is acting defensive as a substitute product for high utility electricity prices. Long-term, we are bullish on the increase in solar farms worldwide. Solar is on watch for an upgrade.

## #2 Natural Resources



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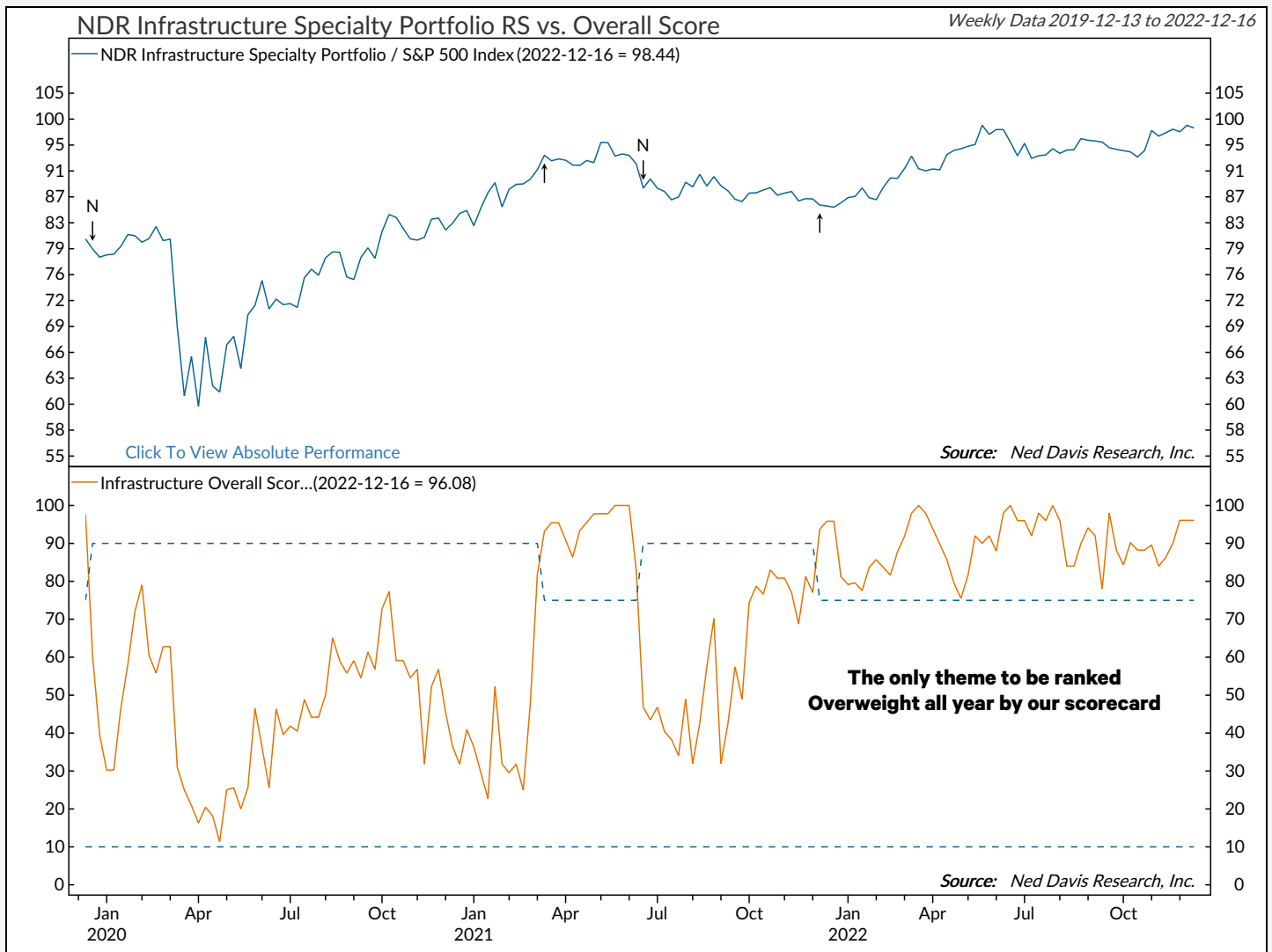


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### What matters:

- It was a good first half for commodities, especially Energy-related. Despite its recent pullback, the Continuous Commodity Index (CCI) is still running up 20% YTD versus the S&P 500 down about 20%.
- Traditional Energy which, on its own could be argued as the theme of the year, drove returns in Natural Resource (NR) ETFs. The 45% return for E&P stocks in the FlexShares NR ETF (GUNR) was key.
- While we remain long-term overweight Traditional Energy based on underinvestment, the near-term outlook for commodities is murky with a recession looming and the U.S. dollar weakening.

## #1 Infrastructure



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### What matters:

- Congratulations to our 2022 theme of the year, Infrastructure. It was the only theme to maintain an overweight status 100% of the time in 2022, aided by relatively low volatility.
- We have been pleased to be overweight the Global X US Infrastructure ETF (PAVE), which is down only about 6% this year. Steel and Ag Machinery industries, with returns over 20%, were key drivers.
- We may downgrade Infrastructure in a deep-recession scenario; however, the group should remain semi-defensive behind construction spending from Build Back Better, IRA, and CHIPS bills.



For global asset allocation, NDR recommends an overweight allocation to stocks, marketweight allocation to bonds, and an underweight allocation to cash. Our overweight equity allocation is in response to improving model readings and a shift in Fed rate hike expectations.

## Equity Allocation

**U.S. |** We are neutral on stocks on an absolute basis and relative to bonds and cash. Macro and earnings concerns are offset by extreme pessimism and technical improvements. We favor small-caps over large-caps and Value over Growth.

**INTERNATIONAL |** We are overweight Europe ex. U.K., Emerging Markets, and Pacific ex. Japan. We are underweight U.S. and Japan while neutral on U.K. and Canada.

## Macro

**ECONOMY |** The global economy is in a sustained slowdown due to waning monetary and fiscal support, stubbornly high inflation, and rising geopolitical risk. While the slowdown remains moderate, the risk of severe recession increases in 2023. Global inflation pressures are easing but will remain historically elevated in the foreseeable future.

**FIXED INCOME |** We raised our bond exposure to 100% of benchmark duration and are neutral on the yield curve. We are overweight Treasuries and MBS and underweight high yield, ABS and TIPS. We are marketweight everything else.

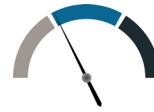
**GOLD |** We are currently bullish. The majority of our Gold Watch report indicators are now bullish and gold stands to benefit from seasonality and declining bond yields.

**DOLLAR |** We are bearish due to worsening momentum and model readings.

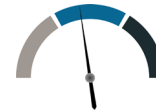
## Economic Summary

December 19, 2022

Near term activity: ● Accelerating ● Neutral ● Decelerating



Global Economy  
(2.9%)



U.S. Economy  
(1.5%-2.0%)



U.S. Inflation  
(4.0%-4.5%)

Economic gauges reflect changes in near-term economic activity. Numbers in parenthesis refer to NDR 2022 forecasts.

## Global Asset Allocation

● Overweight ● Marketweight ● Underweight

- Stocks (65%)
- Bonds (35%)
- Cash (0%)

Benchmark: Stocks (55%), Bonds (35%), Cash (10%)

### Equities — Regional Relative Allocation

- Europe ex. U.K. (14%) | Emerging Markets (14%) | Pacific ex. Japan (6%)
- U.K. (4%) | Canada (3%)
- U.S. (56%) | Japan (3%)

Benchmark – U.S. (61.5%), Europe ex. U.K. (12%), Emerging Markets (11.2%), Japan (5.4%), U.K. (3.8%), Pacific ex. Japan (3%), Canada (3.1%)

### Global Bond Allocation

- Europe (28%)
- U.S. (55%) | Japan (14%)
- U.K. (3%)

Benchmark: U.S. (55%), Europe (26%), Japan (14%), U.K. (5%)

## U.S. Allocation

- Small-Cap | Value
- Stocks (55%) | Bonds (35%) | Cash (10%) | Mid-Cap
- Large-Cap | Growth

Benchmark: Stocks (55%), Bonds (35%), Cash (10%)

### Sectors

- Health Care (17%) | Energy (5%) | Materials (4%)
- Consumer Discretionary (8%)

Benchmark: Technology (27.4%), Health Care (13.8%), Financials (10.7%), Communication Services (9.3%), Consumer Discretionary (12.1%), Consumer Staples (7.0%), Industrials (7.9%), Energy (4.0%), Utilities (2.7%), Real Estate (2.7%), Materials (2.5%)

### U.S. Bonds — 100% of Benchmark Duration



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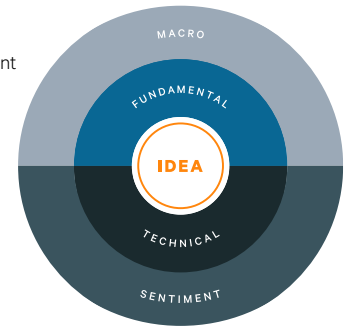
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