

# Thematic Focus



**NDR**  
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## Thematic update December 2022

**A Thematic Opportunity Report  
by Ned Davis Research**

**PAT TSCHOSIK, CFA, CMT,**  
SENIOR PORTFOLIO STRATEGIST  
**MATT BAUER, CFA,**  
ETF STRATEGIST



DECEMBER 8, 2022

[email us](#)

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## To our thematic investing clients,

Volatility is my word of the month...really for the entire year. The S&P 500's 5.4% November return marked the seventh month this year the S&P 500 has swung 5% or more. You must go back to 2009, the year we came out of the great recession, to find as many big swings. If we get a 5% move in December, it will be the first time since 1937 with eight monthly returns of +/- 5% or more.

The upswings are much more fun than the downswings. And the Dow Jones Industrial Average's 20.4% gain the last two months makes its year-to-date November return of -4.8% seem like a not-so-bad year. But being close to Technology and Growth, we know the truth of this brutal bear market. We counted 23 S&P 500 members, including META, NFLX, ETSY, and PYPL, that corrected 70% or more from their 2021 peak.

We blame the Fed, who in turn would blame inflation, for being a large source of volatility. Their move to tighten aggressively came after months of denial that inflation was not transitory. Now they are left with no choice but to destroy demand to tame inflation. Adding fuel to the volatility fire, their outlook is "data dependent", and the inflation data has been very volatile.

We know we need to be able to look through the volatility to spot trends, but the swings have been abnormally large. Consider the 2022 price swings of the Clean Energy ETF ICLN: Jan (-11.4%), Feb-Mar (+14.8%), Apr (-12.5%), May-Aug (+17.7%), Sep-Oct (-14.8%), and Nov (+12.0%). Stop the roller coaster, I'm getting nauseas!

We believe we have a solution, or at least a helpful tool, in looking through volatility to identify positive trends: our newly launched [Thematic Opportunities Scorecard](#). This scorecard uses four price-based indicators to come up with a relative rank for our cap-weighted thematic ETF portfolios. While any trend-following systems can have trouble at market turning points, we believe the scorecard will help us better identify themes with intermediate-term momentum and ride out some volatility. We are excited to have this tool now live and expect us to rely on it more in our recommendations going forward.

- Pat Tschosik, Thematic Opportunities Product Lead, Senior Portfolio Strategist

**"Outperforming the market with low volatility on a consistent basis is an impossibility. I outperformed the market for 30-odd years, but not with low volatility."**

- George Soros

**"The true investor welcomes volatility ... a wildly fluctuating market means that irrationally low prices will periodically be attached to solid businesses."**

- Warren Buffet

## Strategists

**Pat Tschosik, CFA, CMT,**  
Senior Portfolio Strategist

**Matt Bauer, CFA,**  
ETF Strategist

# Thematic update December 2022

## Key Takeaways

- November was another risk-on month and 30 of 51 themes outperformed SPY, led by green themes.
- While the positive returns are welcomed, extreme volatility is making it hard to not get stopped out on trades.
- We believe our new Thematic Opportunities Scorecard will help us navigate the difficult environment.

## THEMATIC LANDSCAPE

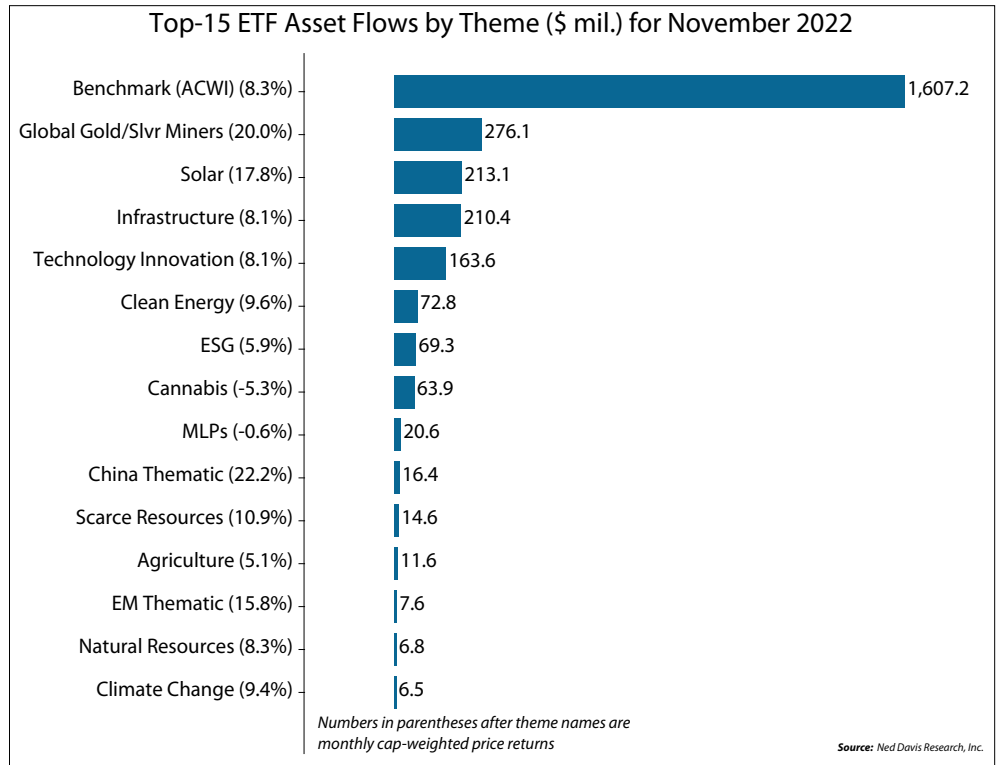
October's risk-on momentum continued into November. The S&P 500's 13.8% October-November return is its best two-month return since November-December 2020's 14.9% return. It was an even better risk-on month for thematic investing in that 30 of 51 cap-weighted themes outperformed the S&P 500 in November versus only 13 in October.

Clients may recall our thematic landscape breaks themes into three major categories: Technology, Demographics, and Global Shock (climate change, natural disasters, pandemics, etc.). We discuss performance of each in the following.

### Global Shock

The average November return for Global Shock themes was 9.0%, best of all three major categories. Top themes after Gold/Silver Miners (+20.0%) were green themes. Solar (+17.8%), Wind (11.5%), and Hydrogen (+11.0%) all posted double-digit returns, however the

## Green themes led strong November returns



TO\_FLOWS\_MTH



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Battery/Lithium (+3.9%) was a clear laggard. We remain positive on green themes heading into 2023.

### Demographics

We put country or region-specific category themes within the demographics category because those countries are often driven by a favorable demographic. Demographic themes in November were driven by China Thematic (+22.2%), EM Thematic (+15.8%), and Education (+11.9%) themes. Note the key Global-X Education thematic ETF (EDUT) contains several Chinese companies, and optimism remains high for a post-COVID China reopening trade.

Demographics laggards, Cannabis (-5.3%) and Bitcoin futures (-14.8%), were two of the nine

themes with negative returns. Most of the themes with negative returns came from the Technology Category.

### Technology

The Technology category was the laggard of the three major categories. Cloud (-2.3%), Big Data (-2.4%), FinTech (-4.7%), Blockchain (-7.8%), and Cybersecurity (-9.1%) were weak. While Cybersecurity weakness was driven by disappointing earnings results, FinTech and Blockchain were hammered by the FTX collapse and Cloud was hurt by weakness in Tech Titans, there is a bigger problem here.

While we are not yet ready to call a [peak in the current secular bull](#) market for IT spending, we expect a slow-down to continue as the pandemic pulled forward IT spending.

## COVERAGE UPDATE

November's 5.4% return for the S&P 500 was its third-best monthly return this year and, coupled with October's 8% return, the first back-to-back months of positive returns since July and August of 2021. Last month's leaders, Energy Breakout and Defense Specialty, both lagged the index this month as leadership shifted to semiconductors. Three of the top five stock portfolios consisted of semiconductor stocks (table, right).

Despite a 14.4% plunge for Tesla in November, the EV Group was the second-best performing group and still managed to outperform the benchmark index by 13% and their OEM counterpart group by 10.7%. In the U.S., growing inventories are colliding with declining affordability. However, demand for Chinese and Korean EVs remains robust and supply limited.

## Semiconductors led the November rally

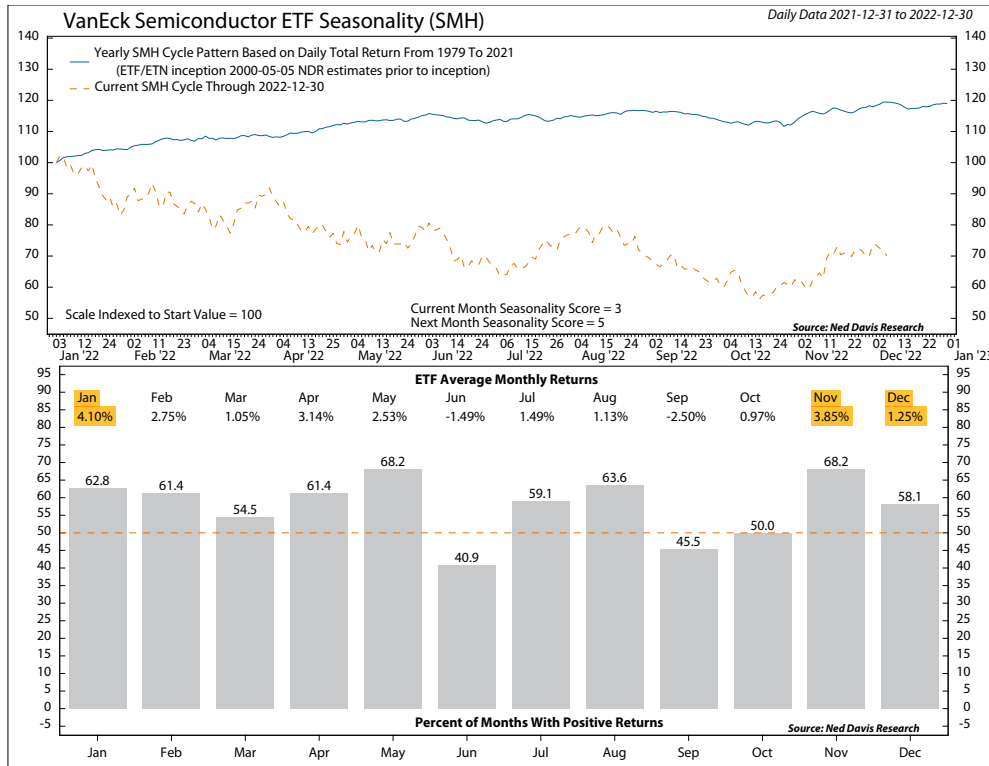
Thematic Stock Portfolio	Nov'22	YTD'22
<b>NDR EV Semiconductor Group</b>	<b>21.4</b>	<b>-19.7</b>
<b>NDR EV Group</b>	<b>18.2</b>	<b>-46.0</b>
<b>NDR 5G Semiconductor Infrastructure</b>	<b>16.7</b>	<b>-16.9</b>
NDR COVID-impacted Discretionary Group	11.9	-15.1
<b>NDR 5G Semiconductor IOT</b>	<b>11.4</b>	<b>-32.7</b>
NDR Cloud Infrastructure Group	10.4	-21.5
NDR First Time Homebuyer	10.2	-23.5
NDR 5G Network Infrastructure	9.8	-19.9
NDR Hurricane Rebuild Group	8.6	-6.2
NDR Early Cycle Consumer Group	8.0	-24.9
NDR Employment Solutions Group	4.1	-21.4
NDR COVID Vaccine Group	3.8	-38.4
NDR Global Energy Titans	3.7	44.0
NDR Gene Therapy Group	3.3	-34.3
NDR COVID Travel Related	3.3	-17.2
NDR Energy Breakout Group	0.1	73.2
NDR Select Managed Care Group	-1.9	10.7
NDR Cyber Security Software Group	-8.0	-25.2
NDR Developmental EV Group	-15.3	-70.9
NDR EV Charging Group	-21.5	-54.5

As of 11/30/2022. Returns are hypothetical equal-weighted stock portfolio returns excluding transaction fees and not associated with any recommendations. Only top and bottom 10 portfolios by monthly return are shown due to space limitations. All portfolio returns are available to subscribers on [www.ndr.com](http://www.ndr.com) (TO\_RECS.RPT) or available by request

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## December through February has been strong historically



## Chip party time

Using the VanEck Semiconductor ETF (SMH) to visualize semiconductor seasonality, it comes as no surprise semis performed so well last month. November is the second-best month by average return and tied with May for best month by percent of months with positive returns (chart, left).

November kicks off a seasonally strong period for semiconductors and December through February has historically been SMH's strongest three-month period by median return (8.4%). The fund's median constituent year-to-date return is -28% and only one company, ON Semiconductor (ON), is up for the year. Oversold shares and strong seasonality paired with a good first half for the market, suggested by the [S&P 500 2023 cycle composite](#), could support a semiconductor rebound rally.

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## PERFORMANCE UPDATE

In November, we closed our overweight Millennial Spending trade, leaving us with two open recommendations: overweight Infrastructure (PAVE) and overweight Traditional Energy (XLE). The hypothetical performance of each of our trades using recommended ETFs or stock indexes is shown below and can also be viewed on the 'Open Positions' tab within our Thematic Opportunities Recommendation Tracker.

### Spending but spent

When we recommended the Global X Millennials Thematic ETF (MILN) in August, we bet on the resiliency of the U.S. consumer and believed investors had become overly pessimistic towards Consumer Discretionary stocks. While the consumer continued to spend (PCE increased 0.8% last month, the

most since June), stumbling Tech Titans (AMZN, META, and GOOGL) weighed heavily on performance. We closed the position on November 16 with a -3.08% relative return.

### Building

Overweight U.S. infrastructure via the Global X U.S. Infrastructure ETF (PAVE) is our most enduring recommendation, up 13.6% vs. the S&P 500 since August 2021 and by 788 basis points in November. In October, we were watching PAVE for a relative-strength breakout.

We were rewarded and momentum continued into last month as PAVE closed the month within spitting distance of its all-time relative high. For additional confirmation, we're watching for a relative golden cross (50-day SMA crosses above the 200-day SMA) and a

breakout above long-term resistance at \$29.

### Pumping but not spending

On November 9, we recommended overweighting Traditional Energy (XLE) relative to SPY, as a longer-term trade within the broader Energy Transition theme. We expect limited production from OPEC+ coupled with constrained capex by energy companies to support oil prices in the near-term while capital discipline should maintain elevated cash flows.

Though XLE has lagged SPY by 5.5% since our recommendation, we believe investors will continue to reward companies with high cash flow yields and see plenty of upside as the S&P 500 Energy Sector's [earnings weight still exceeds its market-cap weight](#) by more than 6%, the highest level in more than a decade.

## Infrastructure outperformed in a strong market

Theme Name	Investment Vehicle	Benchmark	Initiation Date	Target Date	Target Return (%)	Conviction Level	Publication	Trade Return (%)
Overweight U.S. Infrastructure	PAVE	SPY	8/19/21	12/31/22	15	3	<a href="#">TO_I1202108181.PDF</a>	13.6
Overweight Traditional Energy	XLE	SPY	11/9/22	12/31/28	100	4	<a href="#">TO_I1202211091.PDF</a>	-5.5

As of 11/30/2022. Hypothetical performance excludes transaction costs and is excerpted from TO\_RECS.RPT. Closed positions are not shown and are available to subscribers on [www.ndr.com \(TO\\_RECS.RPT\)](#) or available by request.

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## THEMATIC ETF PORTFOLIO RANKINGS, RETURNS AND FLOWS - NOVEMBER 2022

Theme	Score-card Rank	Rank Monthly Change	Monthly Return (%)	Monthly Flows (\$ mil.)	Theme	Score-card Rank	Rank Monthly Change	Monthly Return (%)	Monthly Flows (\$ mil.)
Natural Resources	100.0	2.0	8.3	6.8	Autonomous & EV	471	-2.0	8.4	-12.0
MLPs	98.0	3.9	-0.6	20.6	Space	451	-23.5	-0.7	-6.7
Infrastructure	96.1	9.8	8.1	210.4	EM Thematic	431	25.5	15.8	7.6
Global Gold/Slvr Miners	94.1	19.6	20.0	276.1	Cybersecurity	41.2	-47.1	-9.1	-108.9
Environmental Services	92.2	-3.9	3.9	-1.4	Mobile Payments	39.2	-7.8	0.6	-16.1
Agriculture	90.2	-9.8	5.1	11.6	Hydrogen	37.3	23.5	11.0	5.8
Solar	88.2	25.5	17.8	213.1	3D Printing	35.3	-5.9	2.3	0.0
Longevity	86.3	2.0	6.6	-15.4	Millennials	33.3	5.9	8.5	-1.1
Clean Water	84.3	2.0	5.9	-29.6	Pet Care	31.4	15.7	6.1	-7.2
5G & Internet of Things	82.4	39.2	12.1	-43.5	Bitcoin (futures)	29.4	-15.7	-14.8	-2.1
Travel	80.4	21.6	7.1	-20.8	Work from Home	27.5	-7.8	3.6	-9.2
Clean Energy	78.4	11.8	9.6	72.8	Big Data	25.5	-5.9	-2.4	-0.8
Wind	76.5	43.1	11.5	1.7	Battery Technology	23.5	-49.0	3.9	-55.7
Uranium/Nuclear	74.5	-17.6	6.4	-6.7	Cloud	21.6	-29.4	-2.3	-70.7
India Thematic	72.5	2.0	2.8	0.0	AI & Automation	19.6	-9.8	3.5	-91.5
Education	70.6	17.6	11.9	0.0	Internet	17.6	-21.6	3.1	-172.7
Data Centers	66.7	41.2	9.1	-27.1	China Thematic	15.7	9.8	22.2	16.4
ESG	64.7	-11.8	5.9	69.3	Video Games	13.7	5.9	11.7	-30.4
Genomics	62.7	-17.6	4.0	-19.4	Social Media	11.8	7.8	22.7	-1.1
Leisure & Entertainment	60.8	-17.6	2.7	-23.2	E-Commerce	9.8	-13.7	12.2	-4.3
Sports Betting	58.8	21.6	8.3	-1.5	Broad FinTech	7.8	-11.8	-4.7	-55.5
Wellness	56.9	56.9	15.8	0.0	Gig Economy	5.9	3.9	3.4	0.0
Scarce Resources	54.9	-35.3	10.9	14.6	Blockchain	3.9	-17.6	-7.8	-20.1
Technology Innovation	52.9	-3.9	8.1	152.6	Cannabis	2.0	-9.8	-5.3	63.9
Climate Change	51.0	-3.9	9.4	6.5	Metaverse	0.0	-9.8	7.2	-10.1
Healthcare Innovation	49.0	-15.7	4.9	5.9	Benchmark (ACWI)	68.6	7.8	8.3	1607.2

As of 11/30/2022. Monthly return is the hypothetical performance of cap-weighted thematic ETF portfolios excluding transaction costs. Scorecard Rank is a relative rank based on four price-based measures, excerpted from TO\_SCORECARD.RPT. Thematic portfolios performance is available to subscribers on [www.ndr.com](http://www.ndr.com) ([TO\\_RECS.RPT](#)) or available by request.



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## NDR HOUSE VIEWS (Updated December 8, 2022)

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. and marketweight on all other regions.

### 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 Treasurys and MBS and underweight high yield, ABS and TIPS. We are marketweight everything else.

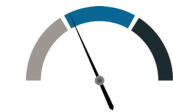
**GOLD |** We are currently neutral but will be watching our Gold Watch Report for a bullish signal for a potential upgrade.

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

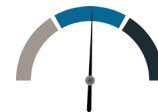
### Economic Summary

December 5, 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%)
- U.S. (61%) | Emerging Markets (11%) | Japan (5%) | U.K. (4%) | Pacific ex. Japan (2%) | Canada (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

## NED DAVIS RESEARCH

NDRsales@ndr.com  
www.ndr.com  
(800) 241-0621

### NOKOMIS

2520 North Tamiami Trail  
Nokomis, FL 34275  
(941) 412-2300

### NEW YORK

1120 Avenue of the Americas  
6<sup>th</sup> Floor  
New York, NY 10036  
(646) 810-7270

### MONTREAL

1001 de Maisonneuve West  
Suite 1510  
Montreal, QC, Canada H3A 1X8  
+1 800 724 2942, +1 514 499 9550

### LONDON

8 Bouverie Street  
Temple, London  
EC4Y 8AX  
+44 (0) 20 7779-8682

### HONG KONG

12/F, V-Point, 18 Tang Lung Street,  
Causeway Bay  
Hong Kong  
+852 3416 6676

### AUSTRALIA

Suite 305, 3 Spring St  
Sydney, Australia  
+61282491867

### SINGAPORE

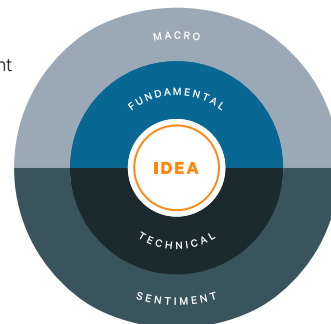
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Level 20 Suite #2020,  
Singapore 018989



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