



More timing than trend? Thematic ETFs yet to prove critics wrong

Thematic ETFs in Europe have €49.7bn AUM

By [Tom Eckett](#)
29 March 2022



There is a long way to go before thematic ETFs gain widespread acceptance from the investment community amid concerns of liquidity risks, high exposure to expensive growth stocks and long-term underperformance.

While the idea in principle is simple – offering exposure to powerful long-term structural trends that are set to disrupt the way society behaves – [thematic ETFs](#) that are created do not always perfectly align with the theme they are trying to capture.

As well as purity of theme, ETF issuers must also consider diversification and [liquidity risks](#) which can lead to stocks being included in the indices that do not fully represent the megatrend.

[Big Call: Thematic ETFs 2022](#)

Furthermore, popular themes such as robotics, cybersecurity and clean energy tend to incorporate more growth-orientated stocks which have – until recently – been trading at frothy valuations.

Highlighting this, research conducted by David Blitz, head of quantitative research at [Robeco](#), found 36 thematic indices from [MSCI](#) had a negative value exposure of -0.41 and a profitability exposure of -0.57 over the past three years, as at the end of April 2021.

“From an asset-pricing perspective, this implies that investors in passive thematic indices could potentially face lower long-term expected returns,” Blitz added.

As a result, timing is everything. However, this has not been ETF issuers’ strong suit with many launches occurring at the

peak of a megatrend's excitement in order to capture maximum attention.

Q

This is also when the underlying holdings are at their most overvalued and can lead to significant underperformance after a theme has launched, as academics Itzhak Ben-David and Francesco Franzoni found in their study [Competition for attention in the ETF space](#).

According to the study of 526 specialised – thematic and sector – ETFs, they delivered an averaged risk-adjusted underperformance of -3.1% a year post fees in the five years after they came to market.

“This analysis suggests specialised ETFs do not create value for their investors by providing outperforming investment strategies,” the academics said. “Consequently, the high fees and lack of diversification of these products remain a puzzle.”

Despite this, however, investors have been lured in by the promise of high returns and a compelling narrative to tell clients.

According to data from Bloomberg Intelligence, [thematic ETFs in Europe](#) currently total €49.7bn assets under management (AUM) across 120 strategies, up from €2.4bn at the end of 2016, highlighting just how significant the demand has been over the past two years, in particular.

Time will tell whether thematic ETFs will deliver on their promise of strong returns over the long term, otherwise the segment risks being [pushed to the sidelines](#), rather like the fate of smart beta ETFs.

Related articles

- [Is value the next frontier for thematic ETFs?](#)
- [Thematic ETFs to be biggest growth area in Europe over next three years, PwC survey finds](#)
- [Thematic ETFs to outperform in 2022](#)

Topics

[thematic ETFs](#) [megatrends](#) [performance](#)

Sign up to email alerts

First Name *

Last Name *

Work Email *

Company *

Job Title *

Company Type *

Country *

Role Type

Please select Q ▼

Newsletter Type *

- Weekly Newsletter
- ETF Bulletin
- Events Newsletter
- ETF Insider (ETF Stream's monthly magazine)

Confirm you're a human

Submit

FEATURE

Featured in this article



ROBE CO

The Investment Engineers

Popular Features

1

Russia stock market collapse leaves ETFs in 'unprecedented' position

2

Solactive's CEO Scheuble bemoans BMR rules around third-country index providers



3

What next as Russia ETFs remain in uncharted territory?

4

Younger investors allocate more to ETFs than older counterparts



5

Do index providers need to be regulated?



6

Soaring ESG demand disrupting 'Big Four' index providers, report finds

7

To delay or not to delay index rebalances?

8

Is FAANGs as good as what it used to be?

9

ETF Insight: Do Millennials invest?

10

BlackRock's decision to merge mutual fund and ETF sales teams shows direction of travel for industry



Never miss an update again

First Name *

Last Name *

Work Email *

Company

Job Title

Company Type

Country *

Role Type

Newsletter Type *

Weekly Newsletter

ETF Bulletin

Events Newsletter

ETF Insider (ETF Stream's monthly magazine)

Confirm you're a human.

By submitting your email address, you agree to receive email updates from ETF Stream in accordance with our Privacy Policy. Unsubscribe at any time.

[Privacy Policy](#)

[Cookie Policy](#)

[Terms of Service](#)

[Terms and Conditions](#)



[News](#)

[Features](#)

[Events](#)

[Media](#)

[Industry Corner](#)

[Publications](#)

[About Us](#)

[ETF Screener](#)

[Our Partners](#)

[ETF Stream Industry 30](#)

[Roundtables](#)

[The Ultimate ETF Guidebook](#)

Follow us



© 2022 All Rights Reserved.