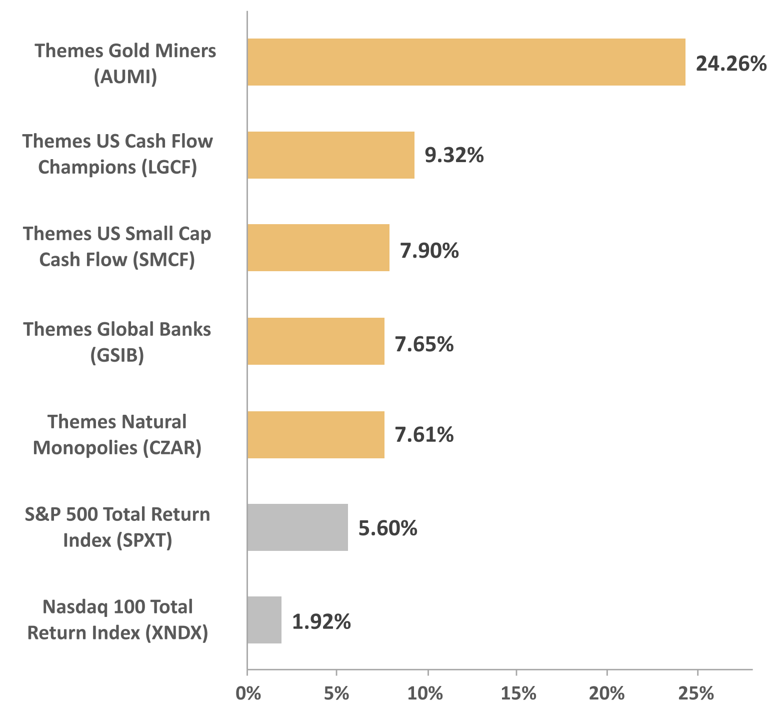
# Well-Fed: Markets March on Risk Appetite

THOUGHTS FROM THEMES | Date: September 20, 2024 Read Online

As an army marches on its stomach, so too does a market march on its risk appetite, which was fed by the Fed last week. After digesting the dovishly delicious and super-sized 0.50% rate cut, the S&P 500 marched to a new all-time high. Yet, some strategies are marching even higher.

As we highlighted in our most recent emailed research note "Ready for the Rebound?" on August 11th, Gold Miners (AUMI) (+24.26%), Big Banks (GSIB) (+7.65%), US Large Cap Cash Flow (LGCF) (+9.32%), US Small Cap Cash Flow (SMCF) (+7.90%), and Natural Monopolies (CZAR) (+7.61%) have all continued to outperform both the S&P 500 (+5.60%) and the Nasdaq 100 (+1.92%) since the Fed last released its summary of economic projections on June 12th:[1]

**ETF Strategies Outperforming Since Fed Pivot[1]**
*12 June - 20 September 2024*




Source: Bloomberg, as of September 20, 2024

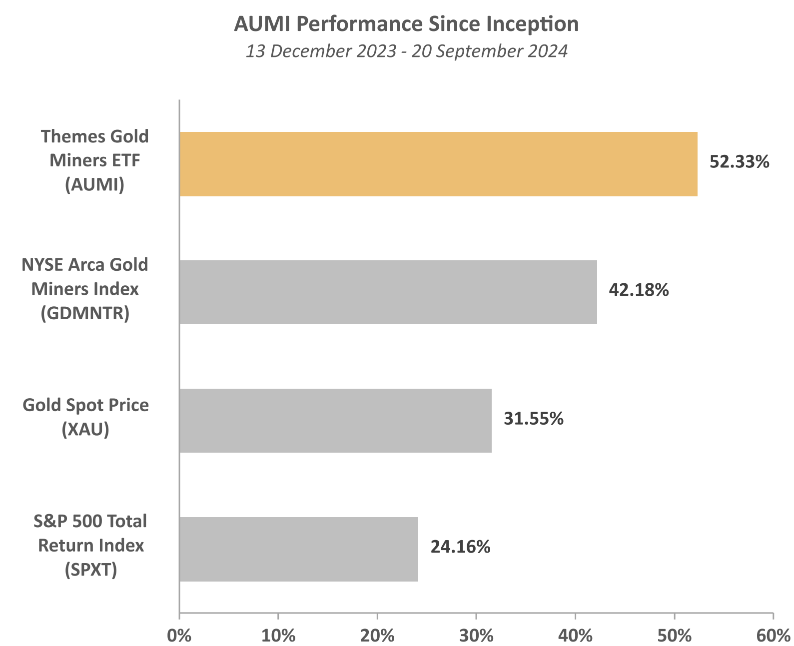
We continue to think each of these strategies have the potential to deliver ongoing outperformance as the Fed cuts rates. Why? Here are the key takeaways, supported by the charts and data below:

| The Strategies: | The Three Takeaways: |
|---|---|
| Gold Miners (AUMI) | 1. Gold prices are at all-time highs and will likely remain elevated due to the prospect of further rate cuts and election uncertainty.<br>2. Higher prices mean higher margins for gold miners, which are currently at an historic high of over +$1,200/ounce of gold mined.<br>3. Gold miners are significantly outperforming gold bullion, lifted by better margins and expanding valuations, which remain relatively attractive.[1] |
| Big Banks (GSIB) | 1. Faster cuts are dropping interest rates to their lowest levels since 2022, driving increased demand for loans/mortgages and boosting big banks' net interest income.<br>2. Driven by lower financing costs and greater geopolitical uncertainty, both investment banking and trading revenues at big banks are expected to strengthen significantly.<br>3. The Fed has signaled a reduction of proposed regulatory requirements, which would release $129 billion in excess capital to the 8 largest US banks for buybacks and/or additional lending. |
| Large Cap Cash Flow (LGCF)<br>Small Cap Cash Flow (SMCF)<br>Natural Monopolies (CZAR) | 1. A significant share of firms locked in longer duration debt when benchmark rates were near 0%; counterintuitively, they will likely face relatively higher financing costs even though rates are falling. Companies with higher free cash flow remain relatively insulated from this strain.<br>2. Given their greater rate sensitivity and historic performance during past cutting cycles, small caps as a whole are expected to receive a bigger boost from rate cuts.<br>3. Firms with pricing power and defensive economic moats are well-positioned to expand earnings as financing costs fall, as well as remain relatively resilient should economic weakness materialize. |

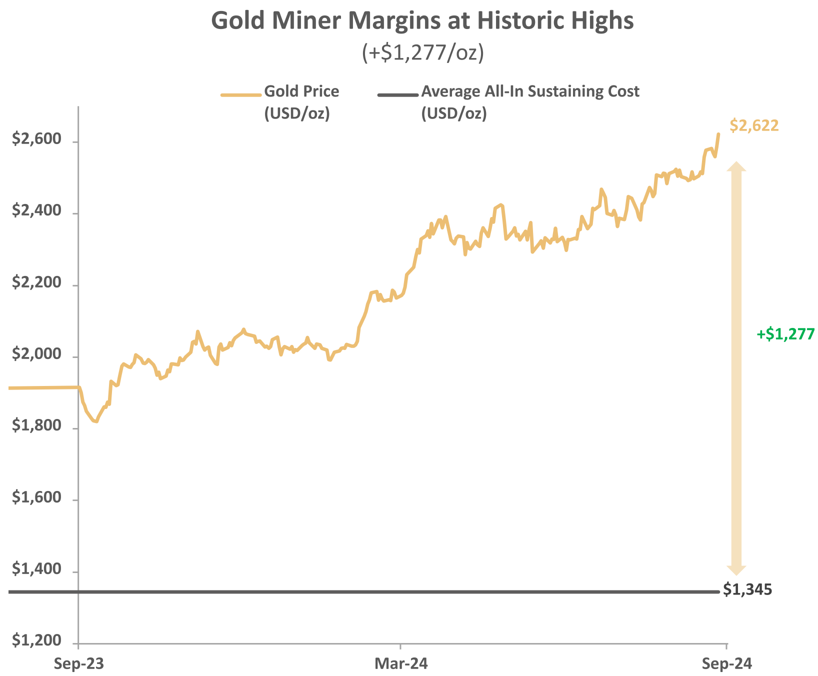
| | |
|---|---|
| US Infrastructure (HWAY) | 1. Insulated from an uncertain election and policy outlook, US infrastructure companies continue to benefit from the existing $1.2 trillion in federal spending allocated through 2026 under the 2021 Bipartisan Infrastructure Law.<br>2. Indices tracking US infrastructure companies remained relatively impervious to the recent summer selloff and have significantly outperformed major market benchmarks year-to-date.[1]<br>3. Given the consistency of federally-funded cash flow for long-term construction projects and their political popularity, US infrastructure companies remain well-positioned to deliver consistent performance amidst an uncertain economic environment. |

## Gold Linings: Gold Miners (AUMI)

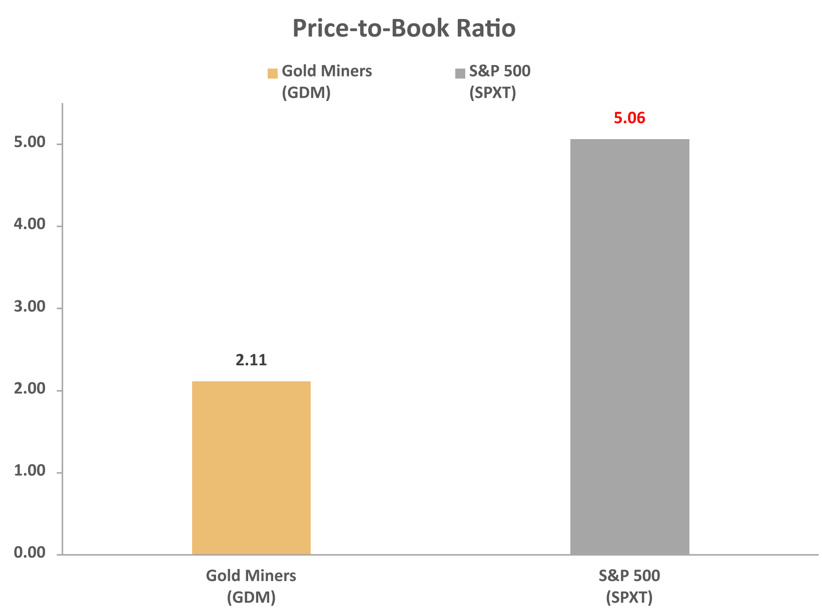
- At over $2,600/oz, gold is at an all-time high and is likely to remain elevated due to further rate cuts and election/economic uncertainty.
- With gold well above the average all-in sustaining cost of $1,345/ounce, gold miners are producing historically high margins of over +$1,200/ounce and their valuations remain significantly below the S&P 500 as measured by their price-to-book (P/B) ratios.
- The Themes Gold Miners ETF (AUMI) stands to benefit from the confluence of these circumstances. Since its inception, AUMI (+52.33%) has continued to outperform gold bullion (+31.55%), the S&P 500 (+24.16%), and the 3 underlying indices tracked by other gold miner ETFs.[1]




Source: Bloomberg, as of September 20, 2024




Source: S&P Global, Bloomberg, as of September 20, 2024

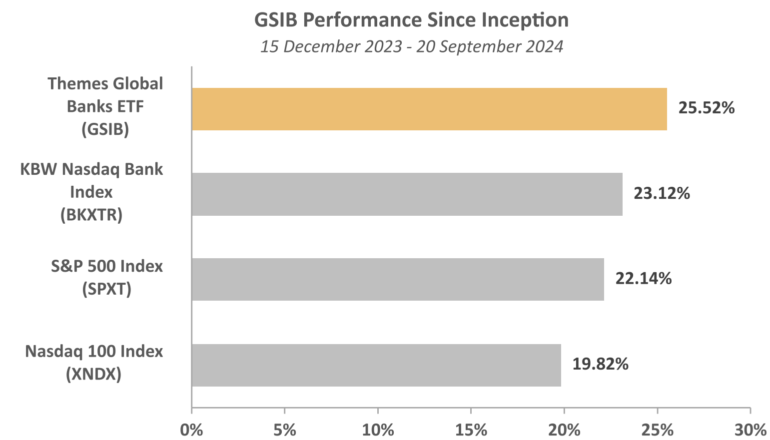



Source: Bloomberg, as of September 20, 2024

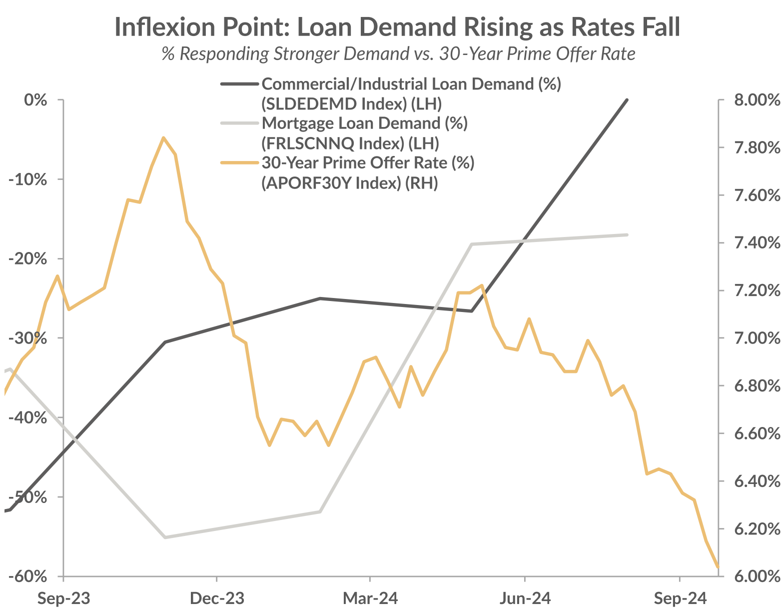
## Banking on Rate Cuts & Regulatory Relief: Global Systemically Important Banks (GSIB)

- Faster rate cuts are now expected from the Fed, which may prove to be a significant windfall to the biggest banks and their net interest income. Interest rates have dropped to their lowest levels since 2022, driving increased demand for commercial loans and mortgages, a trend widely expected to strengthen as rates fall further.

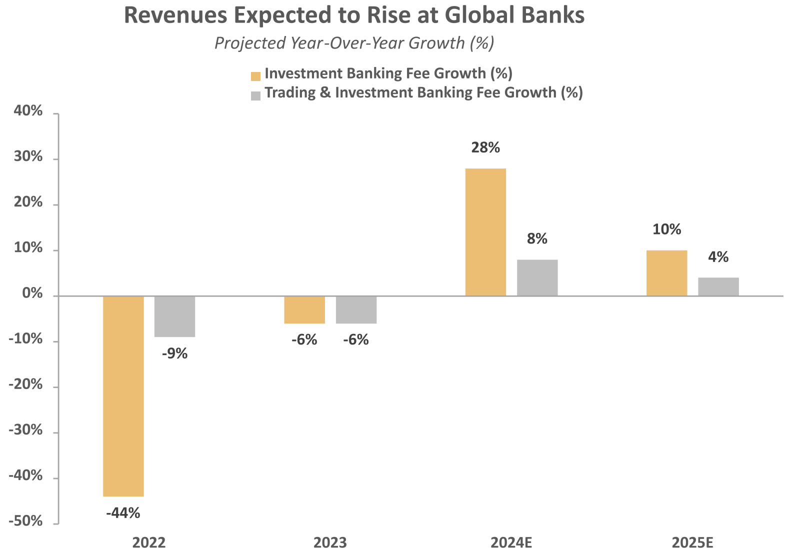
- After two consecutive years of contraction, investment banking and trading revenues at global banks are expected to strengthen significantly, fueled by lower financing costs and greater geopolitical uncertainty.
- Michael Barr, Vice Chair of Supervision for the Fed, recently signaled that global systemically important banks would only face a 9% increase in capital requirements rather than 19% as initially proposed, a significant reduction that would free up $129 billion in excess capital to the 8 largest US banks for buybacks and/or additional lending.
- The **Themes Global Systemically Important Banks ETF (GSIB)** stands to benefit from the confluence of these circumstances. Since its inception, **GSIB** (+25.52%) has continued to outperform the S&P 500 (+22.14%), the Nasdaq 100 (+19.82%), the KBW Nasdaq Bank Index (+23.12%), and the 7 underlying indices tracked by other bank ETFs.[1]




Source: Bloomberg, as of September 20, 2024




Source: Federal Reserve, Senior Loan Officer Survey, Bloomberg, as of September 20, 2024

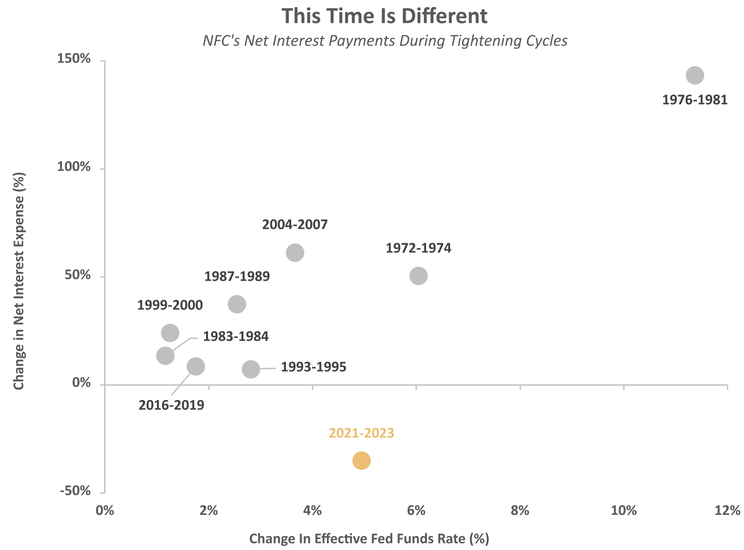



Source: Bloomberg, as of September 20, 2024

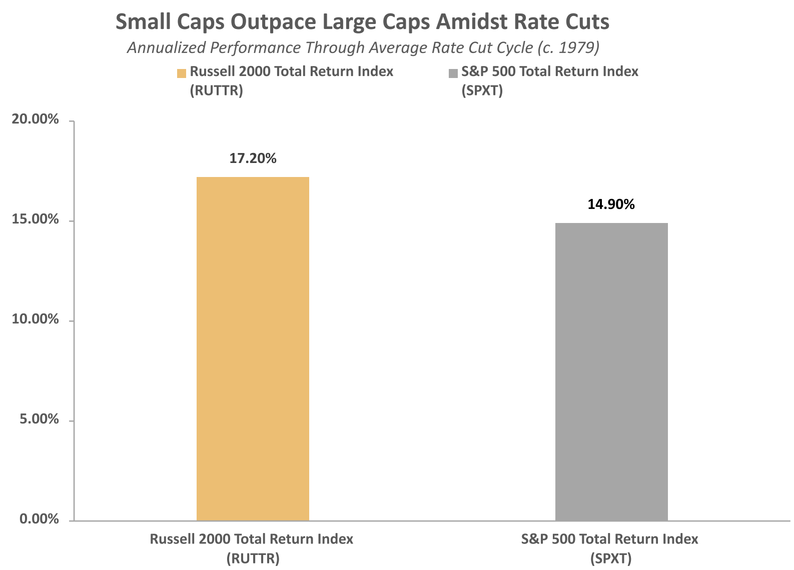
Peers included: JP Morgan, Citi, Bank of America, Goldman Sachs, Morgan Stanley, UBS, Deutsche Bank, Barclays, Societe Generale, BNP Paribas, HSBC

# Cash is Still King: US Large Cap Cash Flow (LGCF), US Small Cap Cash Flow (SMCF), Natural Monopolies (CZAR)

- Even though rates are now falling, the effects of monetary policy are infamously both “long and variable,” arguably much more so now relative to past cycles. Specifically, due to the fact that a significant share of US firms locked in longer duration debt financing at lower rates prior to the Federal Reserve’s first rate hike in 2022, net interest payments **fell** from 2021-2023 even while interest rates **rose**, as noted by the IMF’s recent US Country Report.
- Counterintuitively, this sets up a situation where a sizable share of US companies will likely face **higher** interest rates upon refinancing existing debts, even as the Federal Reserve is **lowering** rates.
- Companies with higher cash flows are generally less reliant on external financing, insulating them from the lagging effects of tighter monetary policy relative to their lower cash flow peers. Firms with pricing power and defensive economic moats are well-positioned to expand earnings as financing costs fall, and should remain relatively resilient if economic weakness materializes.
- Given their greater rate sensitivity, small caps have historically outperformed large caps on average through past rate cutting cycles as measured by annualized returns on the Russell 2000 and S&P 500 indices, and are thus widely expected to receive a bigger boost from current cuts.
- The Themes US Large Cap Cash Flow (LGCF), US Small Cap Cash Flow (SMCF), and Natural Monopoly (CZAR) funds stand to benefit from the confluence of these circumstances. Since their inception, LGCF and SMCF continue to outperform the 11 underlying indices tracked by other cash flow ETFs.[1]




Source: IMF US Country Report No. 2024/232, as of July 31, 2024

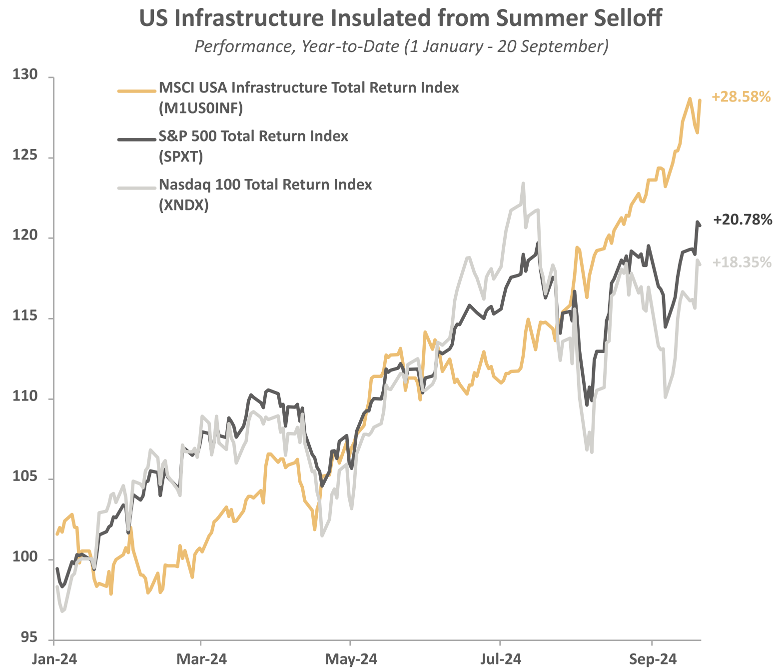



Source: Bloomberg, as of September 20, 2024

## Strategy for All Seasons: US Infrastructure (HWAY)

- Unburdened by much of the uncertainty facing other sectors, US infrastructure companies have continued to benefit from the influx of federal spending spurred by the 2021 Bipartisan Infrastructure Law. Of the $1.2 trillion allocated to infrastructure projects through 2026, $800 billion has yet to be disbursed, a future source of consistent cash flow for years to come.
- Indices tracking US infrastructure companies have continued to rise and remained relatively insulated from the recent market summer selloff. Year-to-date, the MSCI USA Infrastructure Index (+28.58%) has significantly outperformed tech-heavy benchmarks like the S&P 500 (+20.78%) and Nasdaq 100 (+18.35%).

- Given the consistency of federally funded cash flow for long-term construction projects and their political popularity, US infrastructure companies remain well-positioned to deliver comparably consistent performance amidst an uncertain economic and fiscal policy environment, regardless of the US election outcome in November. The Themes US Infrastructure ETF (HWAY) stands to benefit from the confluence of these circumstances.

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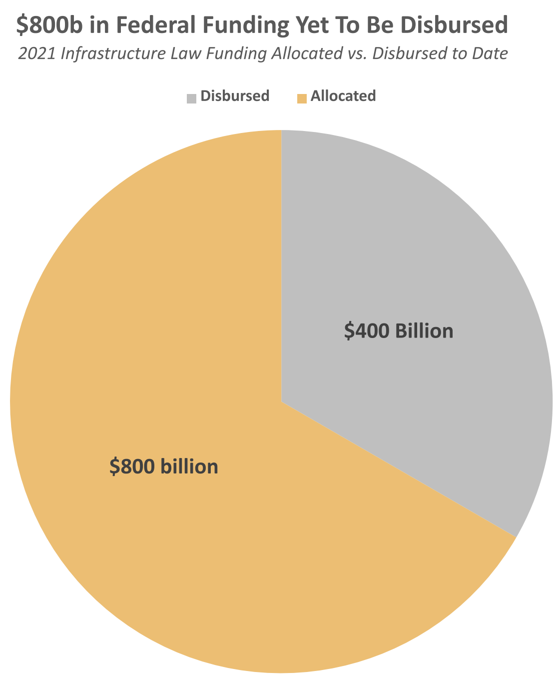


Source: United States Treasury, as of August 31, 2024

[1]All data sourced from Bloomberg unless otherwise specified as of 20 September 2024. GSIB, AUMI, LGCF, SMCF, CZAR performance is shown on an ETF price total return basis, net of all fees. The inception date of AUMI, LGCF, SMCF and CZAR is 13 December 2023. The inception date of GSIB is 15 December 2023. Index performance is shown on a total return basis (i.e., with gross income reinvested, where applicable). Cumulative return is the aggregate amount that an investment has gained or lost over time. Annualized return is the average return gained or lost by an investment each year over a given time period.

***The performance data quoted represents past performance. Past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when sold or redeemed, may be worth more or less than their original cost and current performance may be lower or higher than the performance quoted. High short- term performance, when observed, is unusual and investors should not expect such performance to be repeated. Investors cannot invest directly in an index. Indices may change over time. Indices are not an investment and, therefore, have no investment performance history. Index performance does not include risks, fees, or other costs. Past index performance is no indication of future results for the index or for any investment.***

The Themes Global Systemically Important Banks ETF (GSIB) actively invests in the 28 publicly-traded global banks that have been identified as "systemically important" by the Financial Stability Board (FSB) and the Basel Committee on Banking Supervision (BCBS).

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