

REPORT



Thematic Spotlight 2025 Q1

Dominant Themes in US
Equity Markets for various
Economic Sectors

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Dominant Themes in US Equity Markets for various Economic Sectors

In the context of investment management, there is a natural dichotomy to managing risk. On one hand, Portfolio Managers (PM) are required to manage exposures to long-term secular drivers of risk such as Value, Momentum, and Profitability. On the other hand, they also must contend with short-term risk factors which tend to be transient, ill-defined, and often camouflaged within a variety of macroeconomic and geopolitical narratives that run in parallel. This article focuses on articulating the latter using the vocabulary of “themes.”

Specifically, we identify salient themes for various sectors of the U.S economy based on their fundamental, economic, and statistical significance. We use Omega Point’s Thematic Strength Indicator (TSI) and thematic betas to assess the statistical and economic significance of themes, while the determination of fundamental significance is based on the author’s understanding of the U.S markets. Furthermore, we make these determinations after adjusting for the effect of commonly acknowledged risk factors such as market (Beta), style (Value, Momentum, Profitability, Size, etc) and industries (GICS Level 1). The intent of this exercise is to break through the mold of risk factors that are usually very well represented in the commercial risk models, and identify systematic undercurrents that might not be captured by these risk models but are important for portfolio management, nonetheless.

Table below shows the top three themes for eight sectors of the U.S economy. In addition to the sectors reported here, we also looked at the Consumer Staples, Energy and Material sectors but were unable to identify themes that clearly qualified our selection criteria.

Economic Sector	Theme 1	Theme 2	Theme 3
Consumer Discretionary	Home Builders	Disruptive Technologies	Self Driving EV
Health Care	Cancer	Genomics	Disruptive Technologies
Industrials	Clean Energy	Automation	Space Exploration
Financials	FinTech	Digital Transformation	Residential Mortgage
Information Technology	FinTech	Cloud Computing	Quantum Computing
Communication Services	Automation	Social Sentiment	Cloud Computing
Real Estate	Data & Infrastructure	Industrial Operation	Residential Housing
Utilities	Clean Energy	Renewables	Solar

Consumer Discretionary: Home Builders, Disruptive Technologies, & Self-Driving Electric Vehicles

We use Omega Point’s Thematic Strength Indicator (TSI) to quantify the systematic risk of themes, and identify those that have an outsized influence on a given cohort of stocks. In the following chart, we can see the distribution of TSI for various themes computed specifically for the Consumer Discretionary (CDI) sector. As the TSI values are Z-scored, we focus on themes on the right end of the distribution.

Figure 1: Distribution of TSI-Z score for the Consumer Discretionary Sector

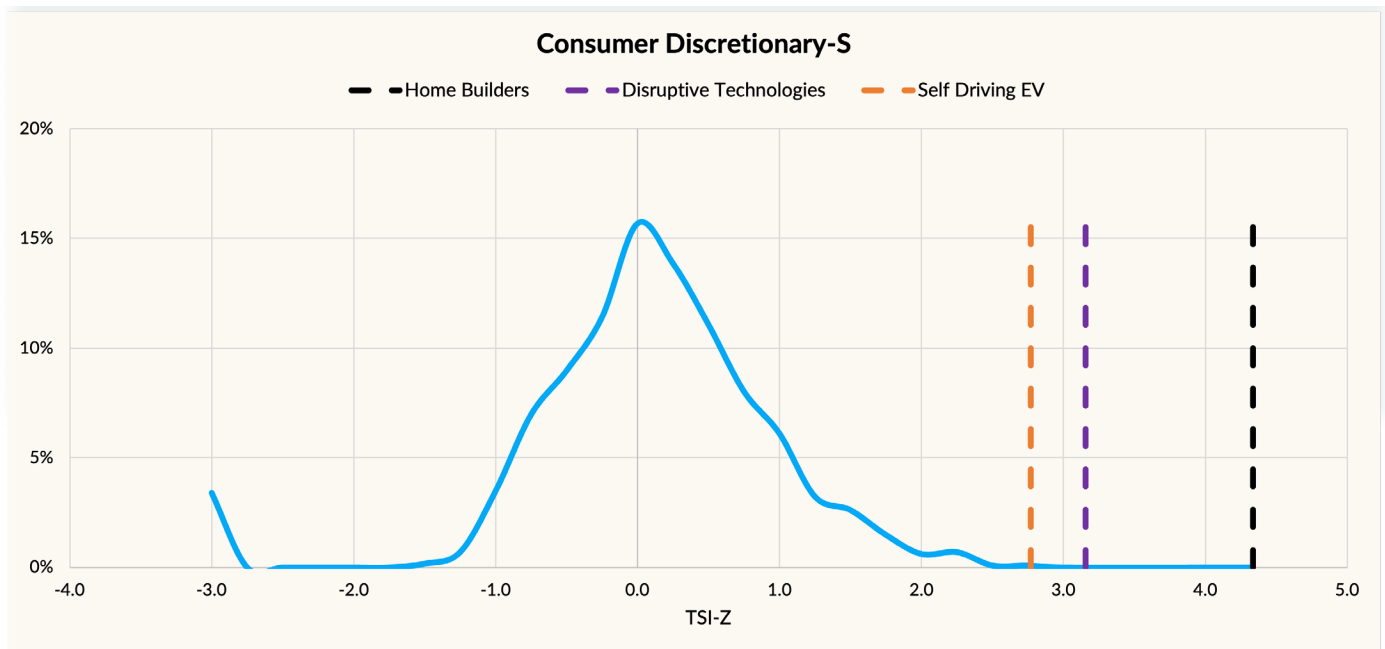


Figure 1 shows the distribution of TSI-Z score for the Consumer Discretionary Sector, and identifies the top three themes for this sector based on our selection criteria. Figures 2 - 7 show the fraction of stocks with economically significant exposure to the identified themes for various industry groups and industries of the Consumer Discretionary Sector. Three themes seem to stand out for the CDI sector: Home Builders, Disruptive Technologies and Self-Driving Electric Vehicles as represented by the SPDR S&P Homebuilders ETF (XHB), SPDR S&P Kensho New Economies Composite ETF (KOMP) and iShares Self-Driving EV and Tech ETF (IDRV), respectively.

Drilling down, we can see the industry groups with economically significant exposure to the Home Builders theme (Figure 2). For the purpose of this exercise, we argue that a stock has economically significant exposure if its beta to a theme exceeds 0.2 in absolute value. As expected, almost half of the stocks within the Consumer Durables industry group have positive exposure to the Home Builders theme. These include homebuilder stocks (PHM, LEN, NVR) as well as stocks in adjacent industries such as TOL, LZB, TPX. The impact of disruptive technologies is particularly prominent within the Automobile sector, where nearly 70% of the stocks have positive exposure to that theme (Figures 4 & 5). These include automakers such as RIVN as well as suppliers to the automobile sector such as LAZR, SLDP, and CPS.

Figure 2: Fraction of companies with economically significant exposure to Home Builders theme for various Industry Groups within the Consumer Discretionary Sector

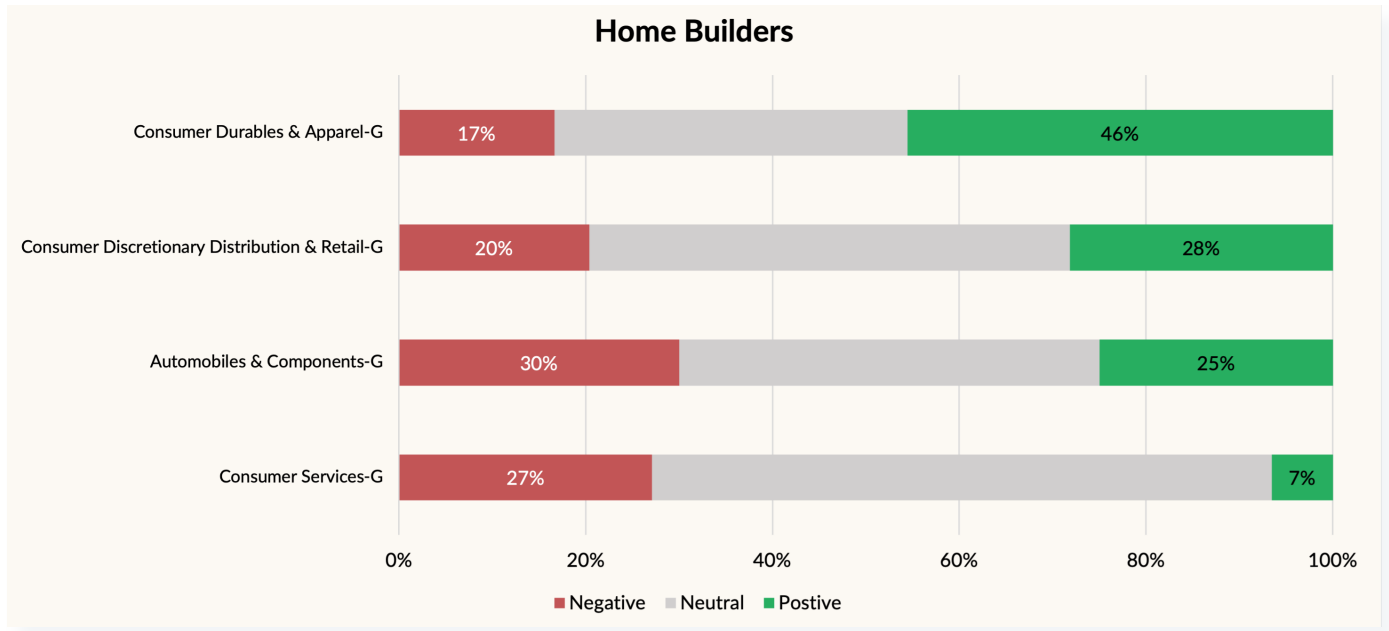


Figure 3: Fraction of companies with economically significant exposure to Home Builders theme for various Industries within the Consumer Discretionary Sector for various Industry Groups within the Consumer Discretionary Sector

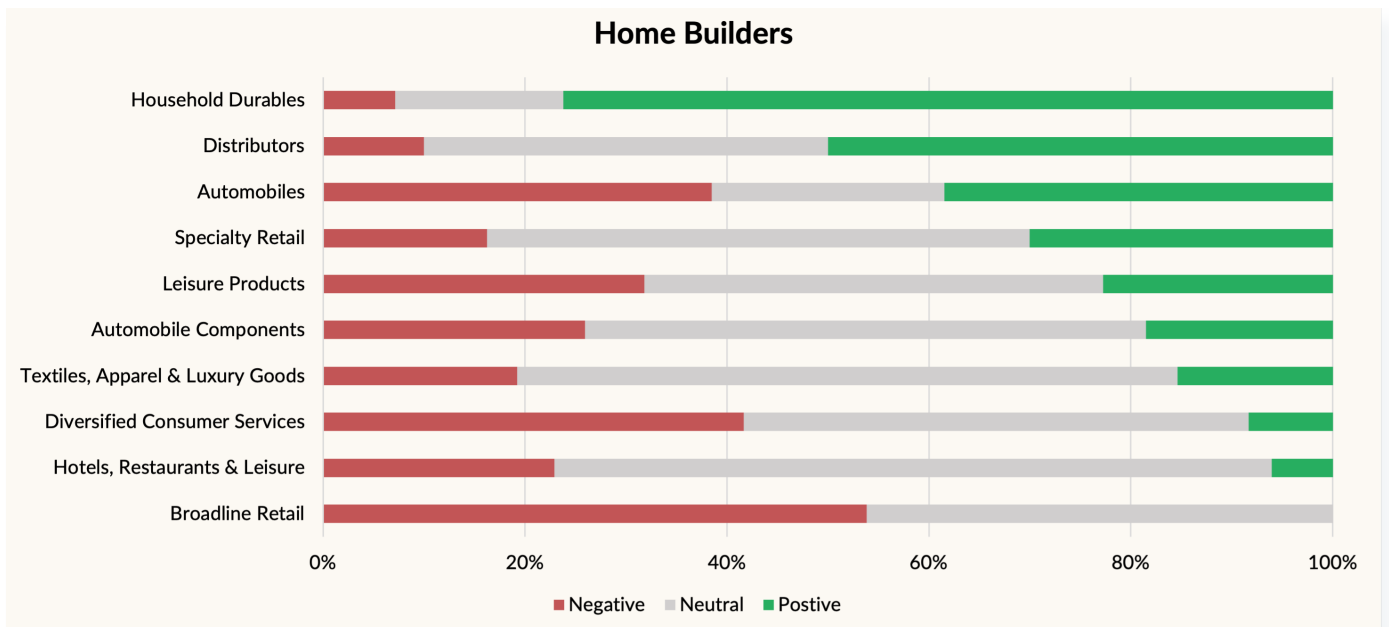


Figure 4: Fraction of companies with economically significant exposure to Disruptive Technologies theme for various Industry Groups within the Consumer Discretionary Sector for various Industry Groups within the Consumer Discretionary Sector

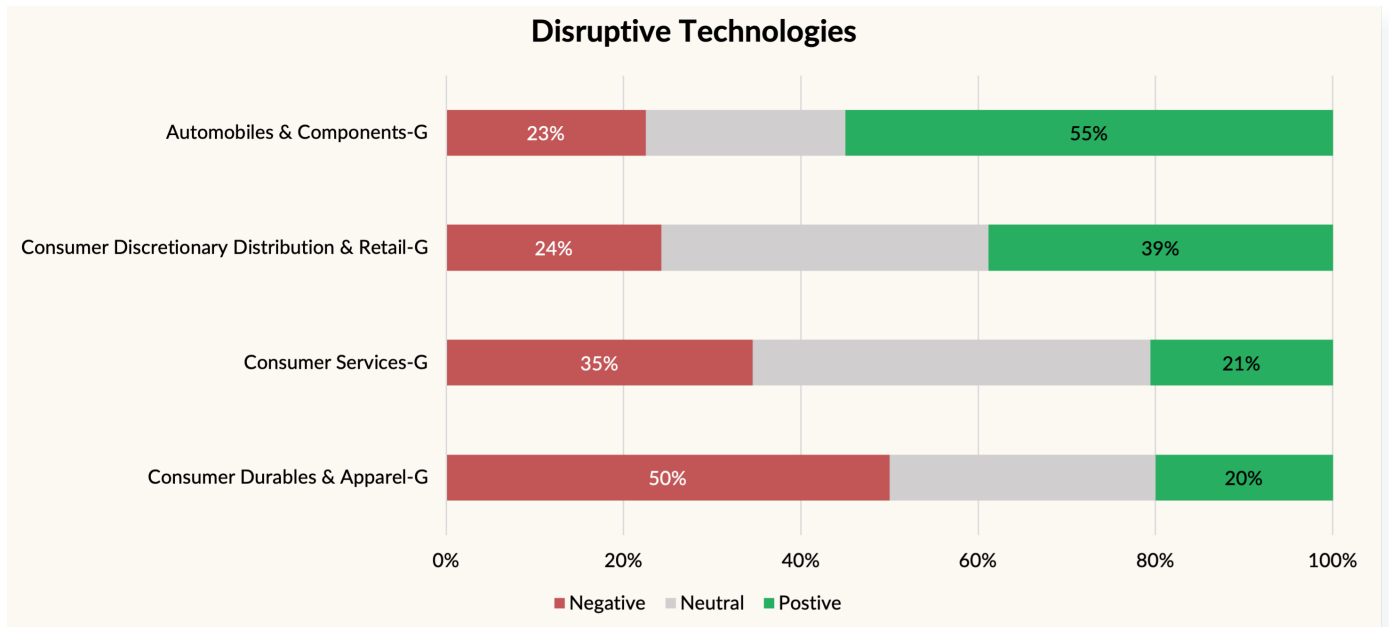


Figure 2: Fraction of companies with economically significant exposure to Home Builders theme for various Industry Groups within the Consumer Discretionary Sector

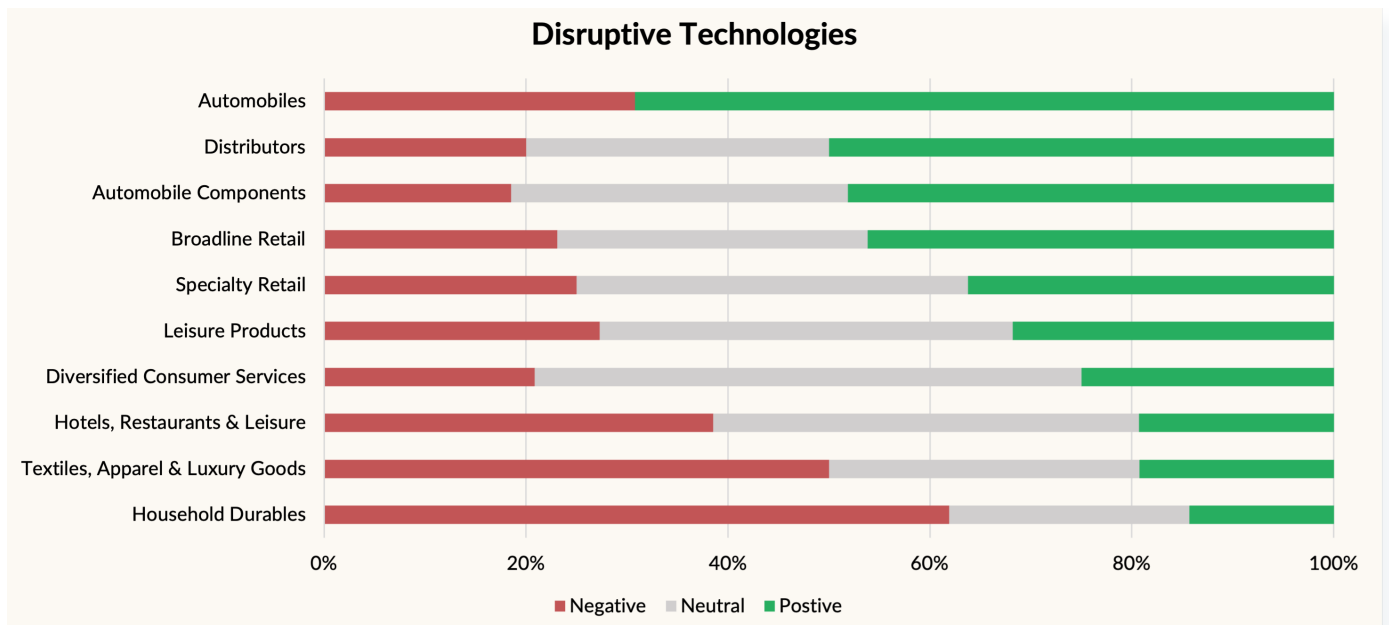


Figure 6: Fraction of companies with economically significant exposure to Self Driving EV theme for various Industry Groups within the Consumer Discretionary Sector

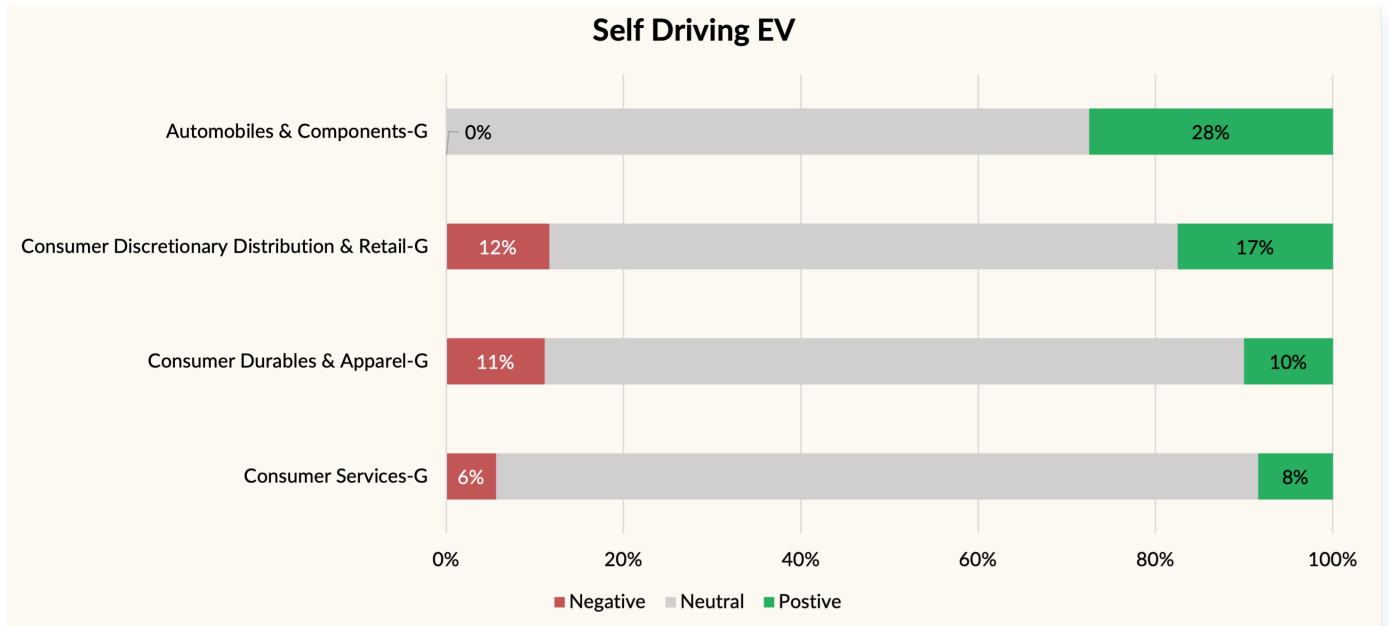
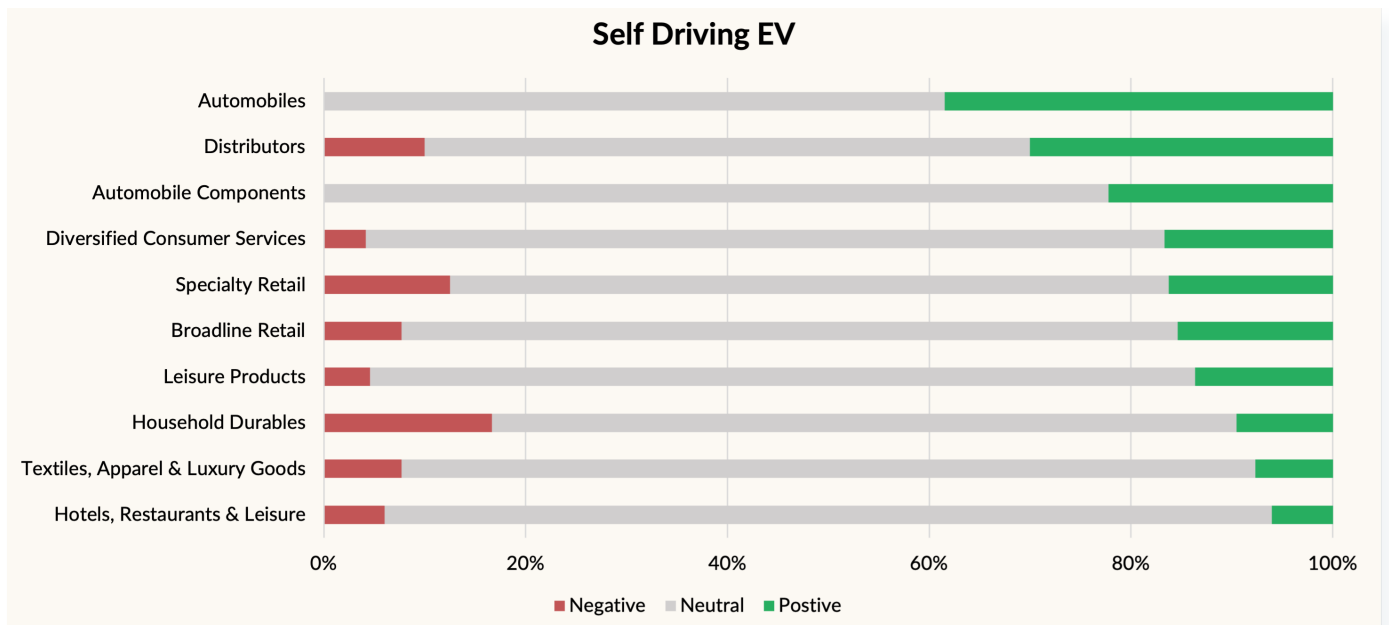


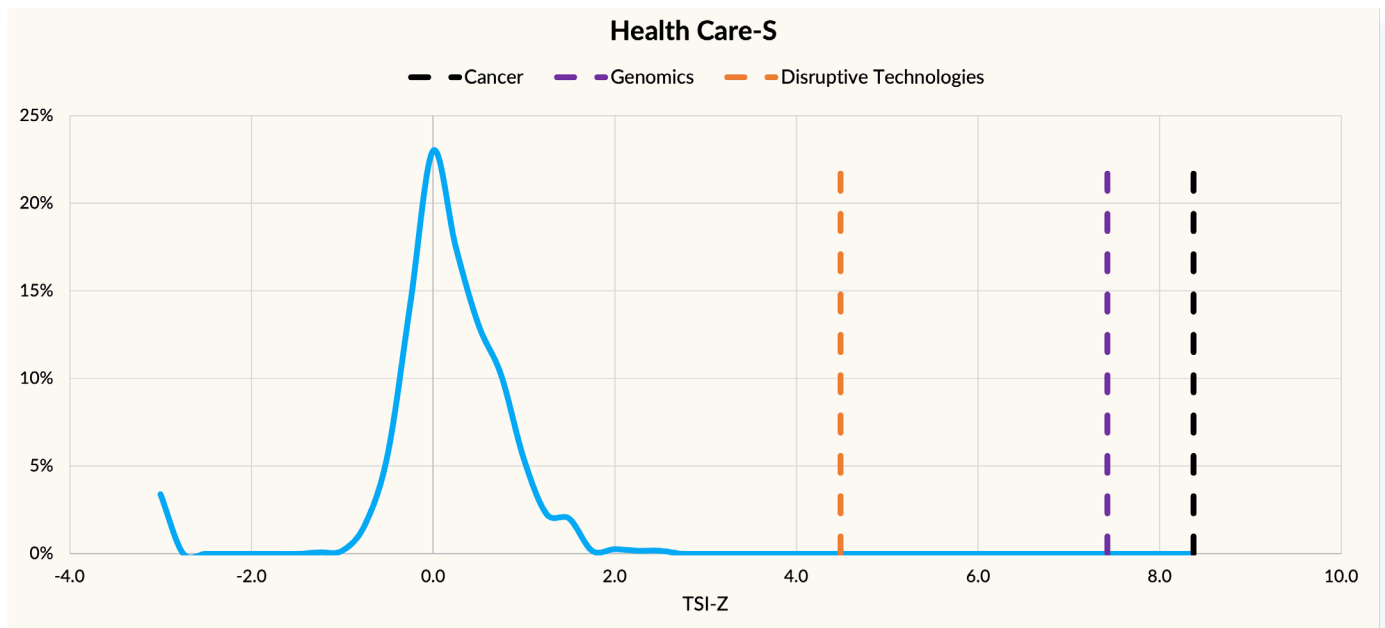
Figure 7: Fraction of companies with economically significant exposure to Self Driving EV theme for various Industries within the Consumer Discretionary Sector



Health Care: Cancer, Genomics, & Disruptive Technologies

Figure 8 shows the distribution of TSI-Z score for the Health Care Sector, and identifies the top three themes for this sector based on our selection criteria. Figures 9-14 show the fraction of stocks with economically significant exposure to the identified themes for various industry groups and industries of the Health Care Sector. Cancer, Genomics and Disruptive Technologies emerge as the most dominant themes for the Health Care (HLC) sector, with these themes represented by Range Cancer Therapeutics ETF (CNCR), ARK Genomic Revolution ETF, and Robo Global Healthcare Technology and Innovation ETF (HTEC), respectively (see Figure Figure HLC.TSI-Z)

Figure 8: Distribution of TSI-Z score for the Health Care Sector



As expected, the Cancer theme has the highest traction within the Biotechnology space, as more than 50% of the stocks have positive exposure to this theme (Figure 10). Roughly 30% of the stocks within Health Care Technology and Pharmaceutical industries also have positive exposure to this theme. The impact of Genomics is largely concentrated within the Health Care Technology and Life Sciences Tools & Services industries, where roughly one in two companies have positive exposure to the theme. Given the considerable emphasis on R&D in the Life Sciences Tools & Services industry and potential monetization opportunities, it is not surprising that almost 90% of the stocks within the Life Sciences Tools & Services have positive exposure to the Disruptive Technologies theme (Figure 14). Similarly, a large number of stocks within Health Care Technology and Biotechnology industries exhibit positive exposure to the Disruptive Technologies theme.

Figure 8: Distribution of TSI-Z score for the Health Care Sector

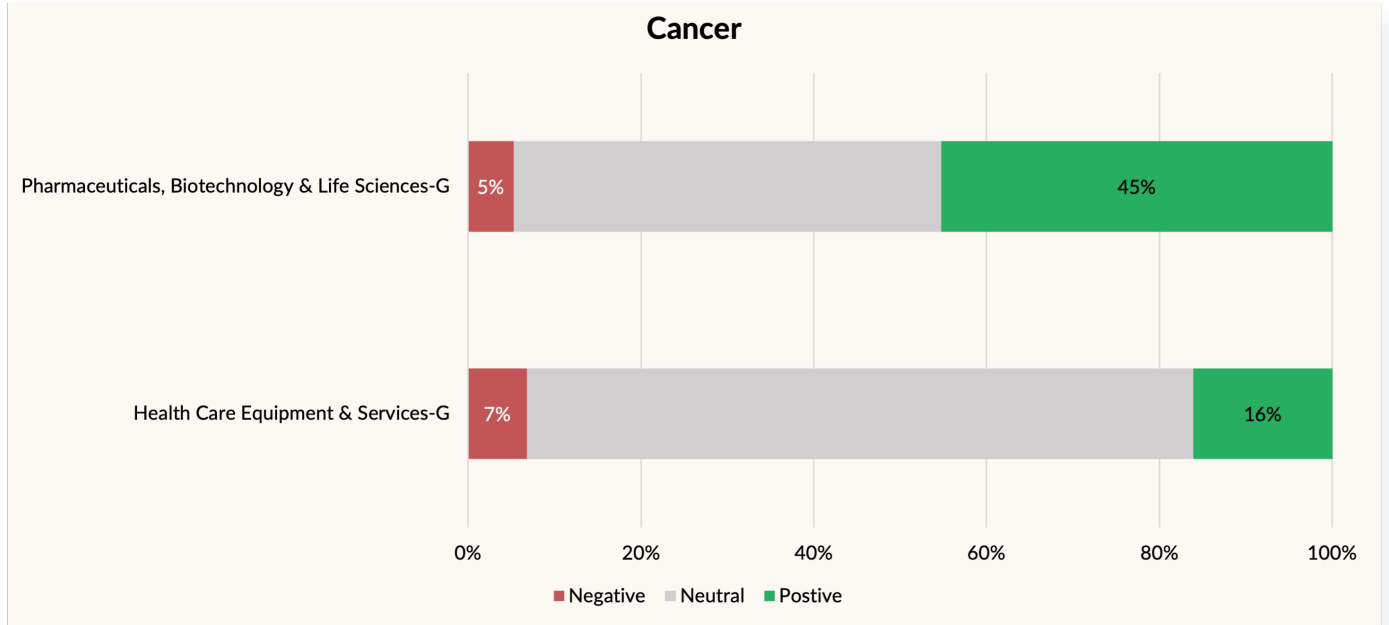


Figure 9: Fraction of companies with economically significant exposure to Cancer theme for various Industry Groups within the Health Care Sector

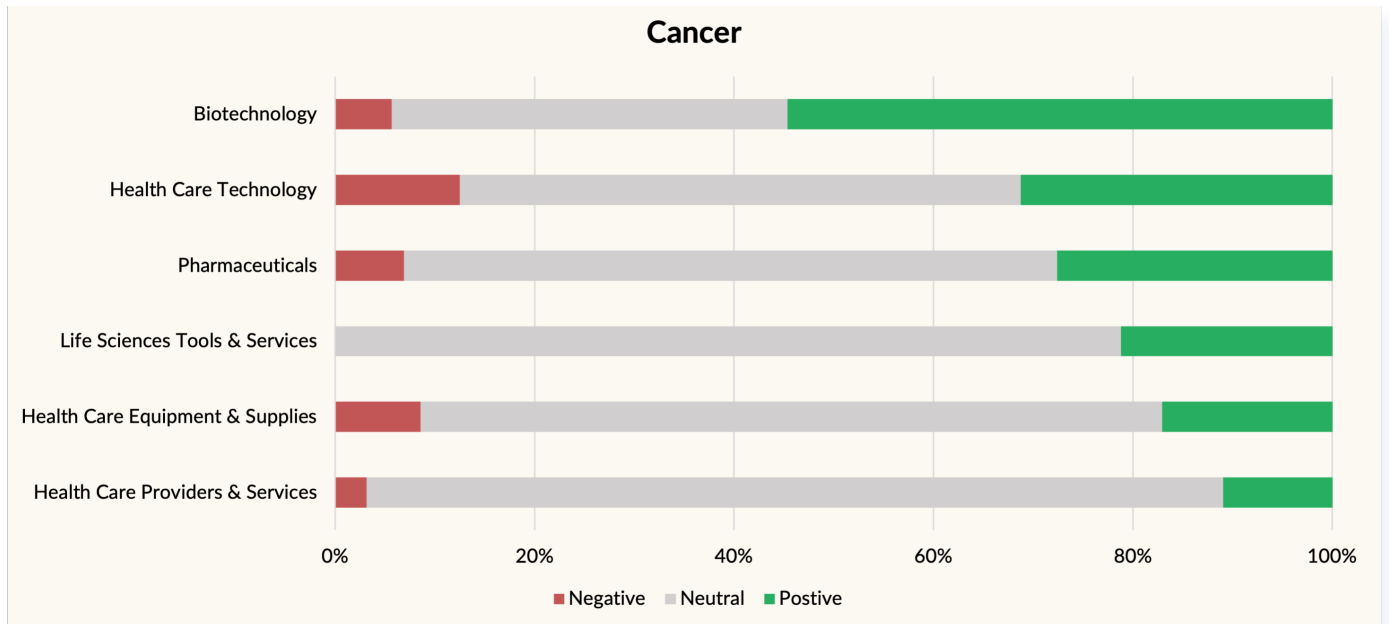


Figure 11: Fraction of companies with economically significant exposure to Genomics theme for various Industry Groups within the Health Care Sector

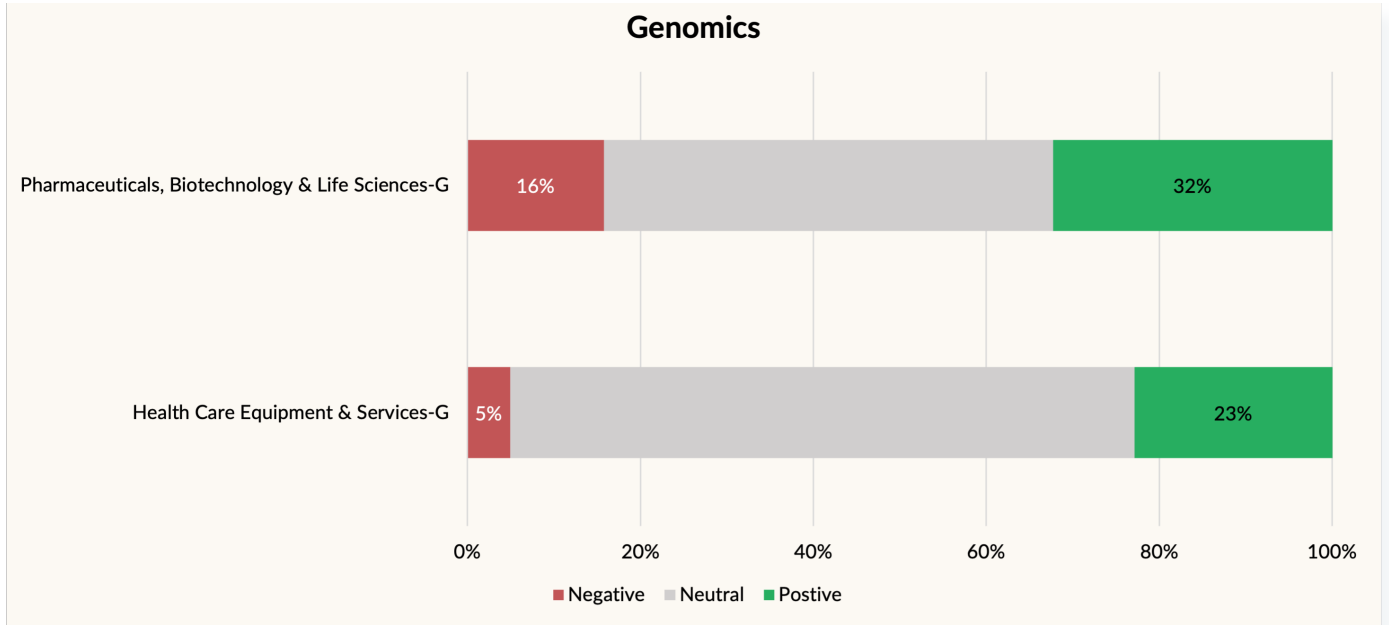


Figure 12: Fraction of companies with economically significant exposure to Genomics theme for various Industries within the Health Care Sector

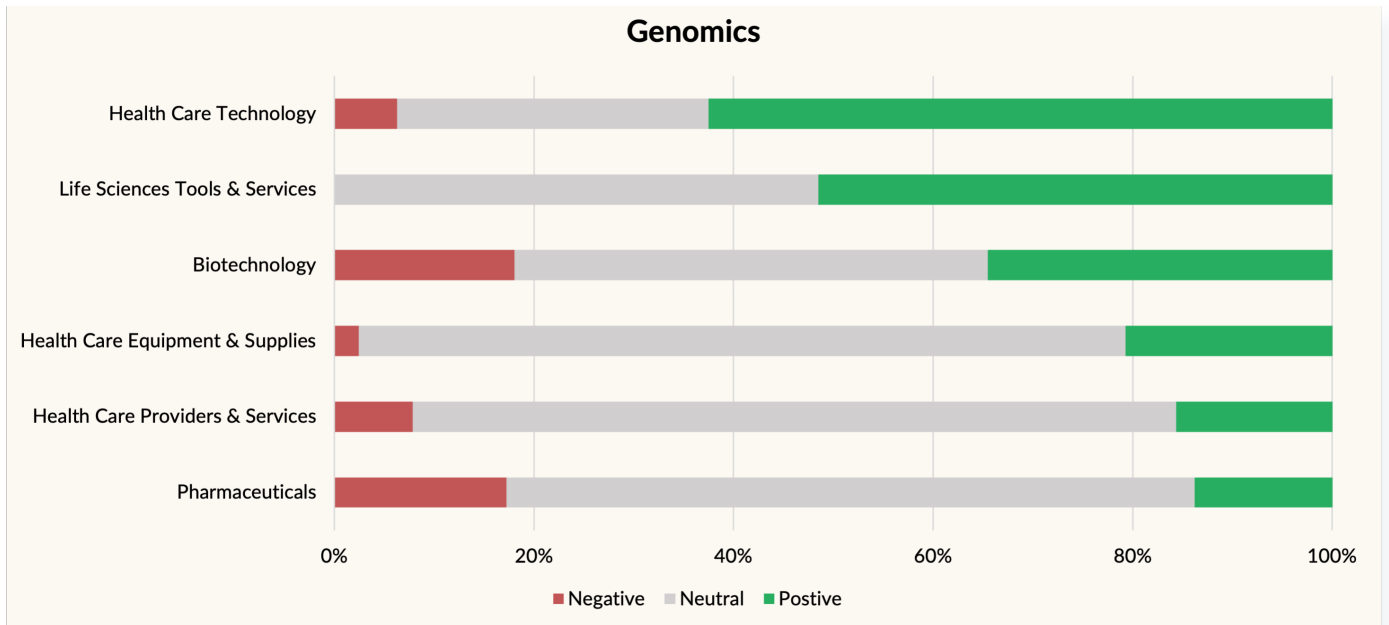


Figure 13: Fraction of companies with economically significant exposure to Disruptive Technologies theme for various Industry Groups within the Health Care Sector

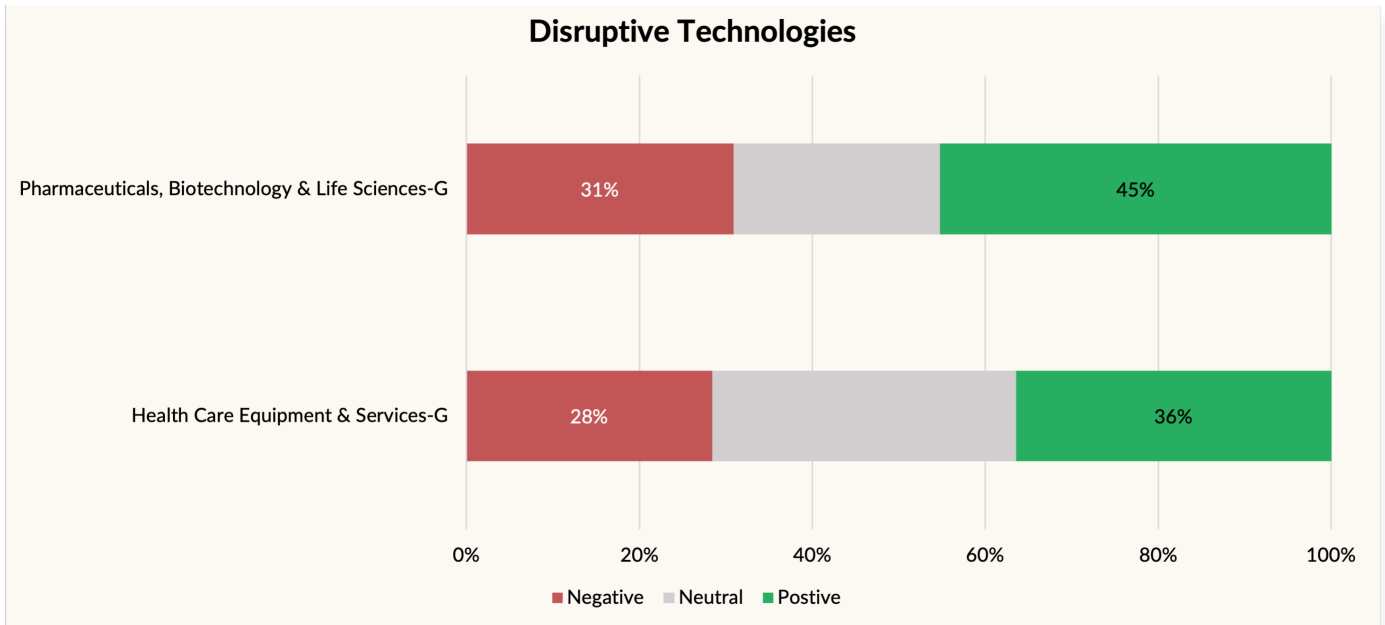
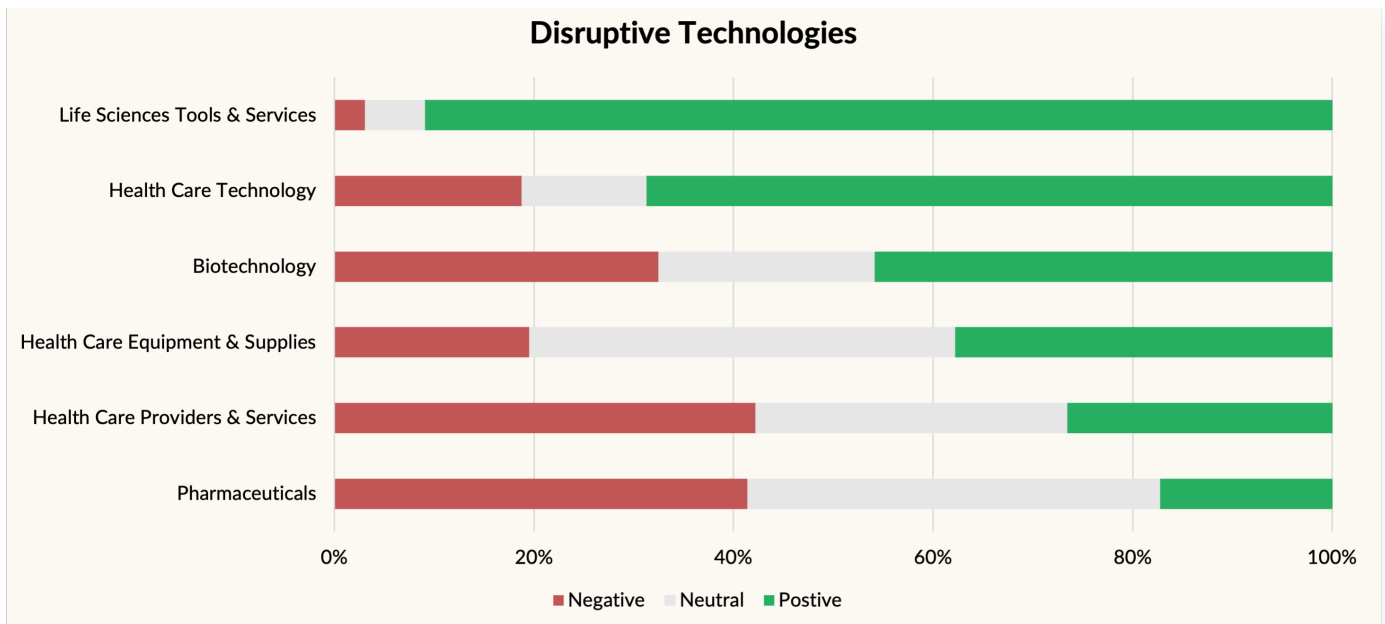


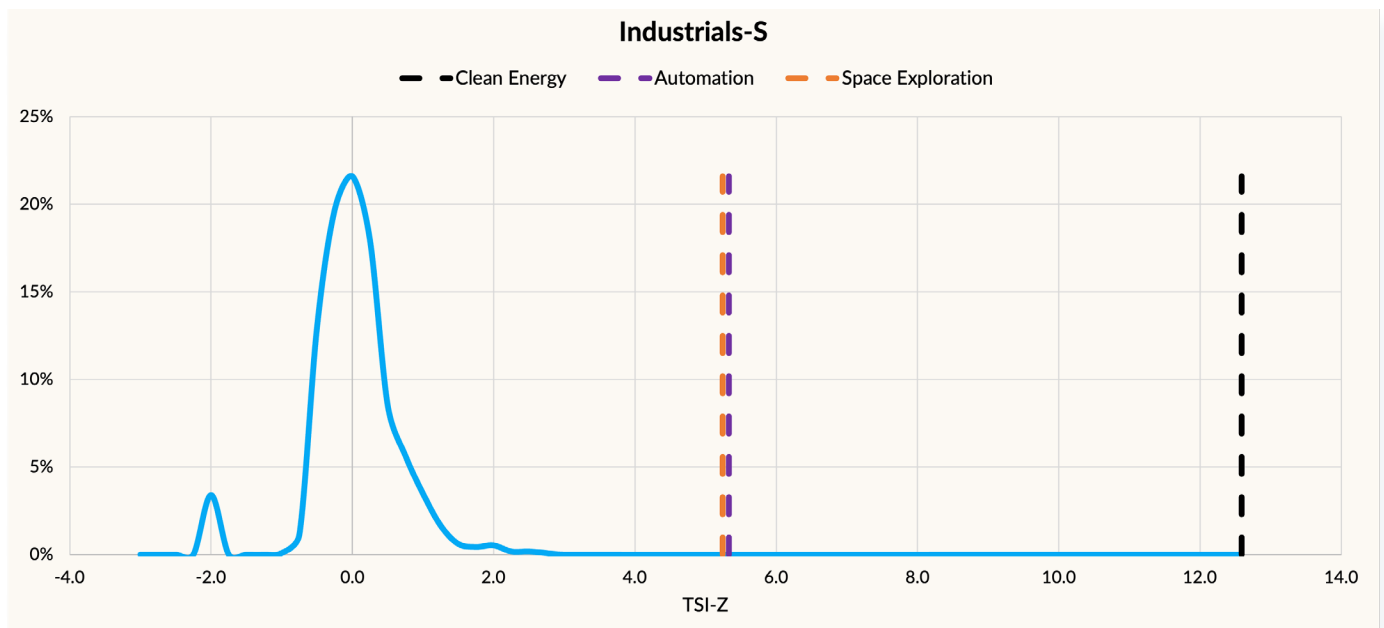
Figure 14: Fraction of companies with economically significant exposure to Disruptive Technologies theme for various Industries within the Health Care Sector



Industrials: Clean Energy, Automation & Space Exploration

Figure 15 shows the distribution of TSI-Z score for the Industrials Sector, and identifies the top three themes for this sector based on our selection criteria. Figures 16 - 21 show the fraction of stocks with economically significant exposure to the identified themes for various industry groups and industries of the Industrials Sector. Clean Energy, Automation, and Space Exploration emerge as dominant themes for the Industrials sector represented by Invesco WilderHill Clean Energy ETF (PBW), ARK Autonomous Technology & Robotics ETF (ARKQ) and ARK Space Exploration (ARKX) ETF, respectively.

Figure 15: Distribution of TSI-Z score for the Industrials Sector



Pursuit of clean energy requires considerable investment in energy infrastructure and machinery to support underlying operations. The economics of clean energy have evolved materially in the past fifteen years, and many of the technologies in this space have morphed from just being an academic pursuit to economically profitable business ventures that can compete head-to-head with the fossil fuel industry. As companies look to ramp up their investment in the clean energy space, so will their demand for industrial products to support their ambitions. It is, therefore, no surprise that 53% of the companies within the electrical equipment industry exhibit positive exposure to this theme (Figure 17).

Automation in industrial operations is also going through its own renaissance with developments in robotics and artificial intelligence. Unlike clean energy, firms in the Industrial sector are both a consumer as well as a supplier to the automation industry. In other words, while many of the firms are involved in supplying critical equipment for automating business operations (e.g. Electrical Equipment), other industries (e.g. Airlines) stand to benefit from the same trend as consumers of business process automation.

Figure 16: Fraction of companies with economically significant exposure to Clean Energy theme for various Industry Groups within the Industrials Sector

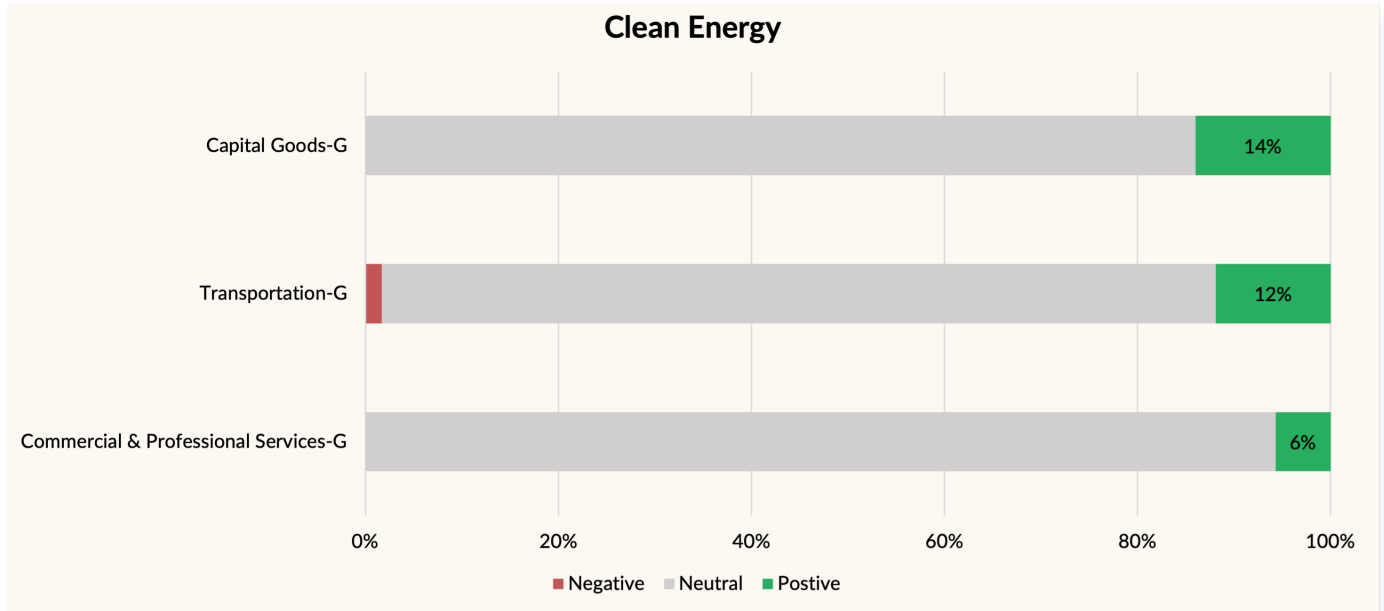


Figure 17: Fraction of companies with economically significant exposure to Clean Energy theme for various Industries within the Industrials Sector

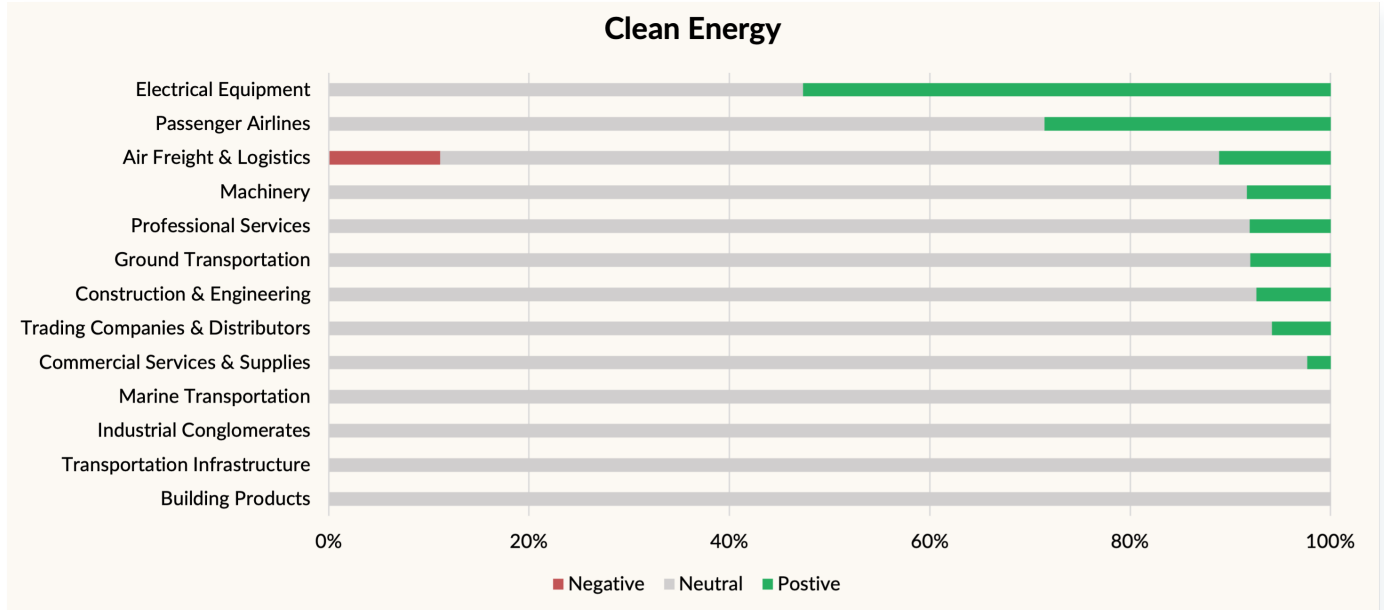


Figure 18: Fraction of companies with economically significant exposure to Automation theme for various Industry Groups within the Industrials Sector

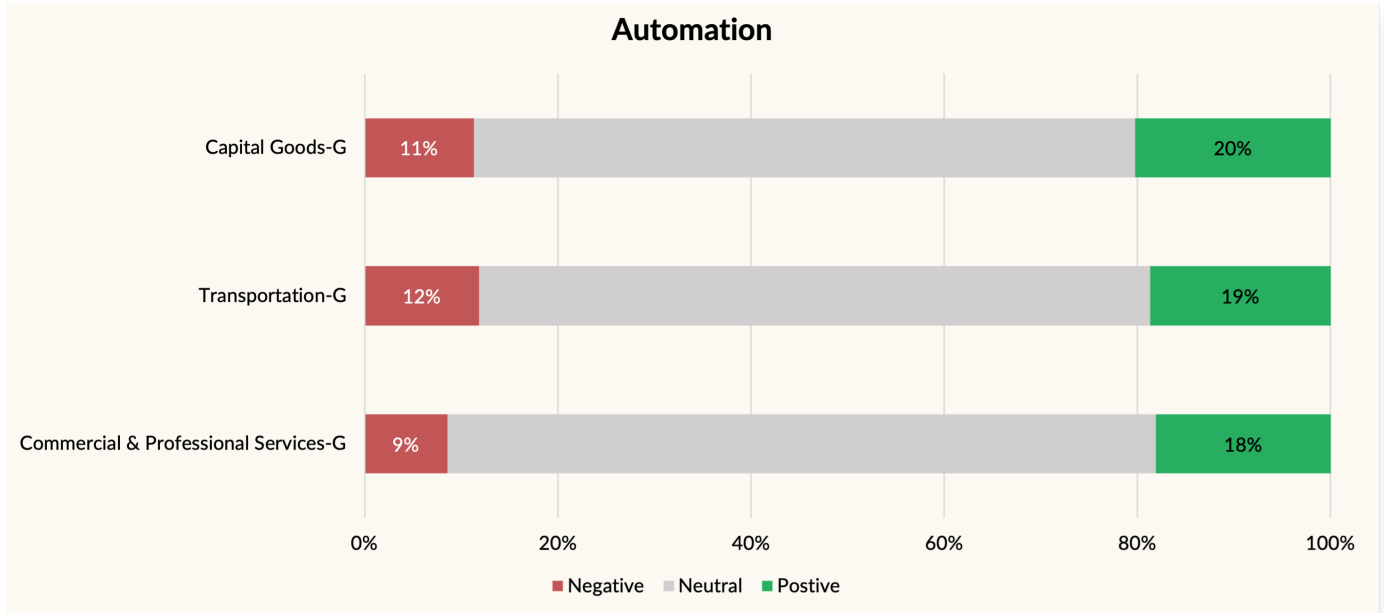


Figure 19: Fraction of companies with economically significant exposure to Automation theme for various Industries within the Industrials Sector

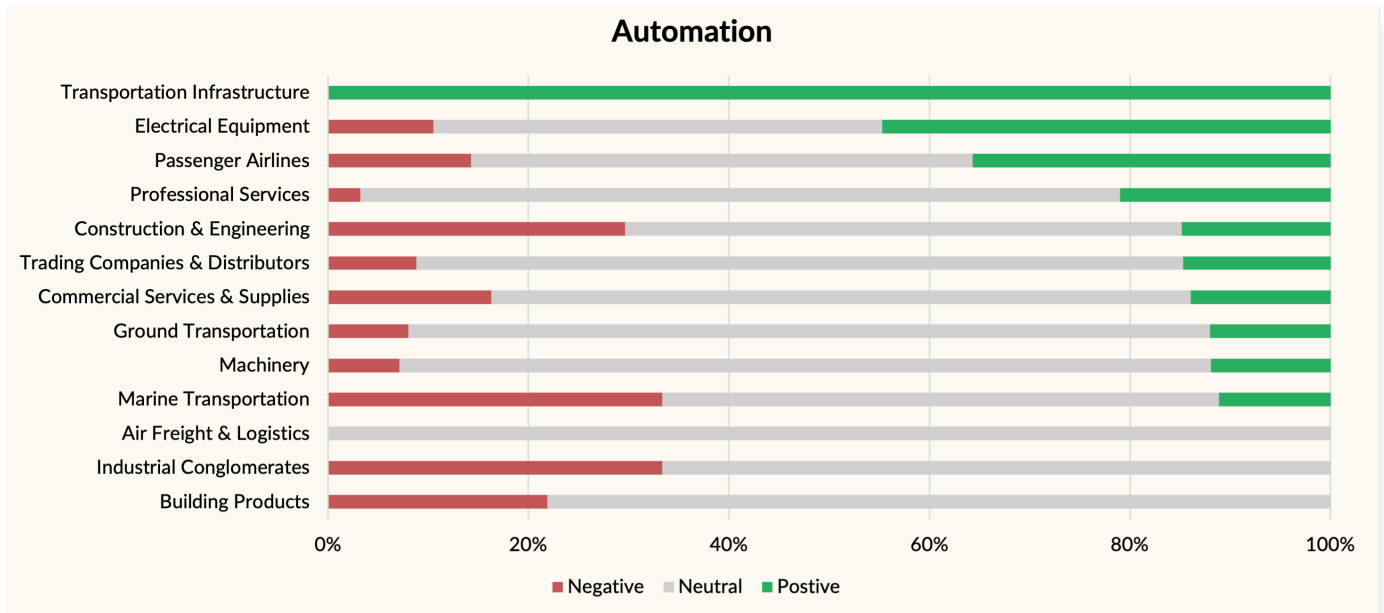


Figure 20: Fraction of companies with economically significant exposure to Space Exploration theme for various Industry Groups within the Industrials Sector

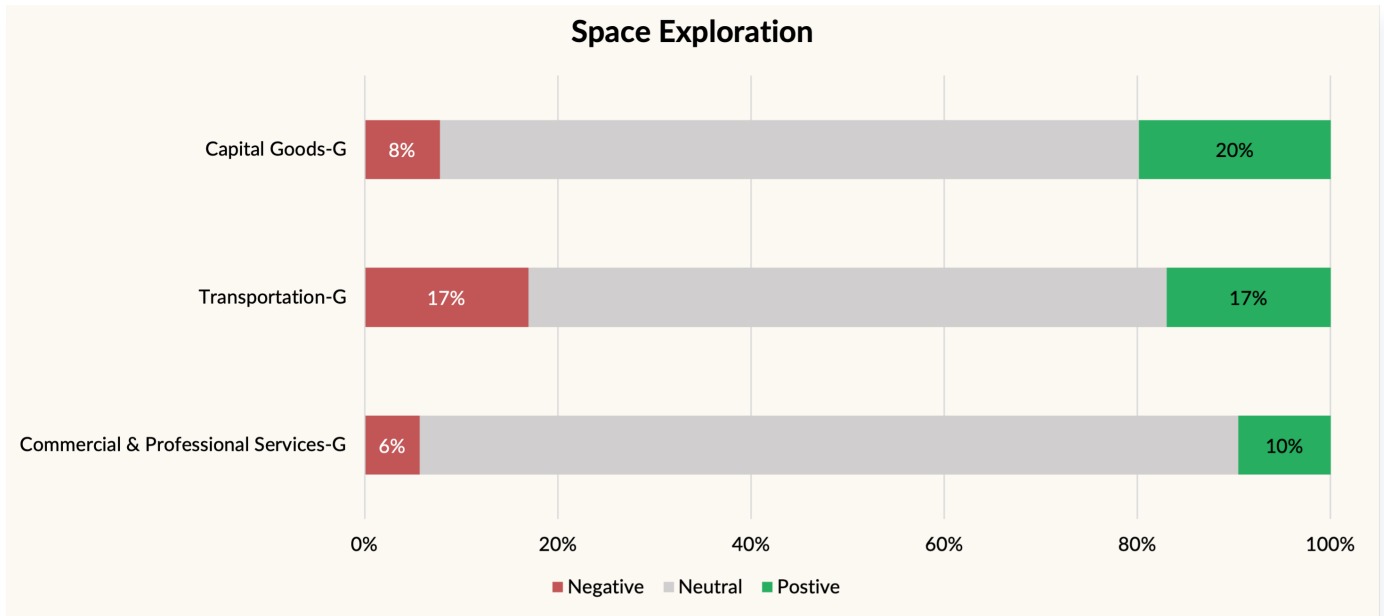
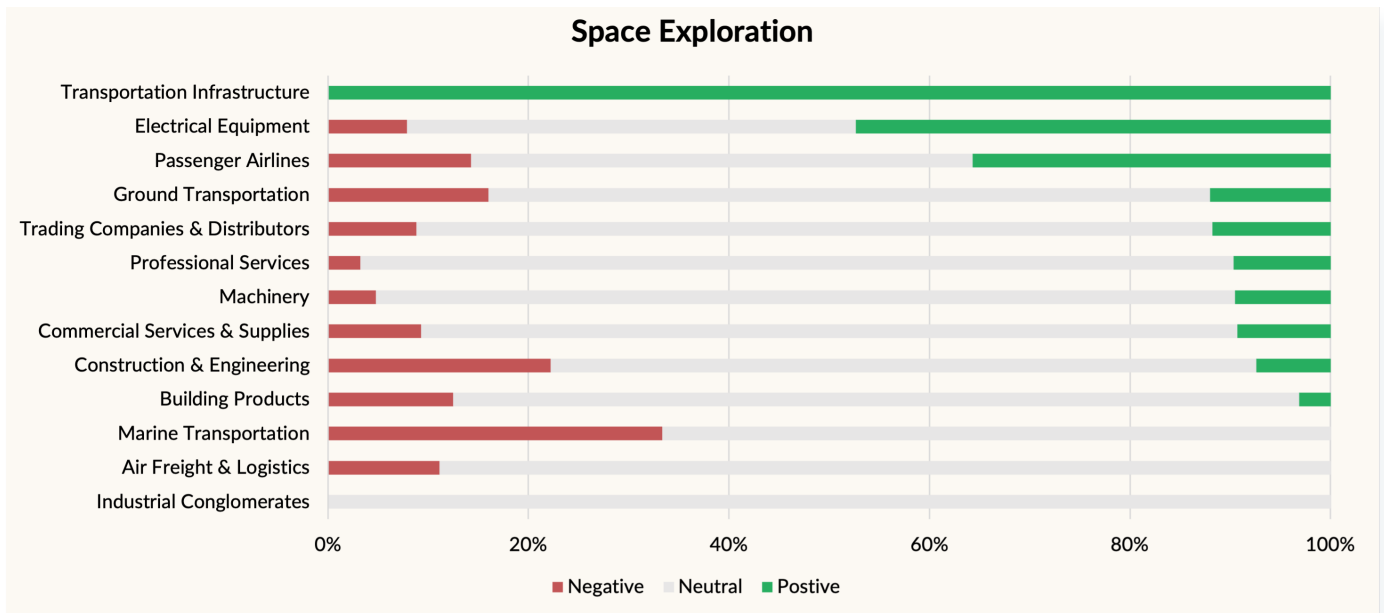


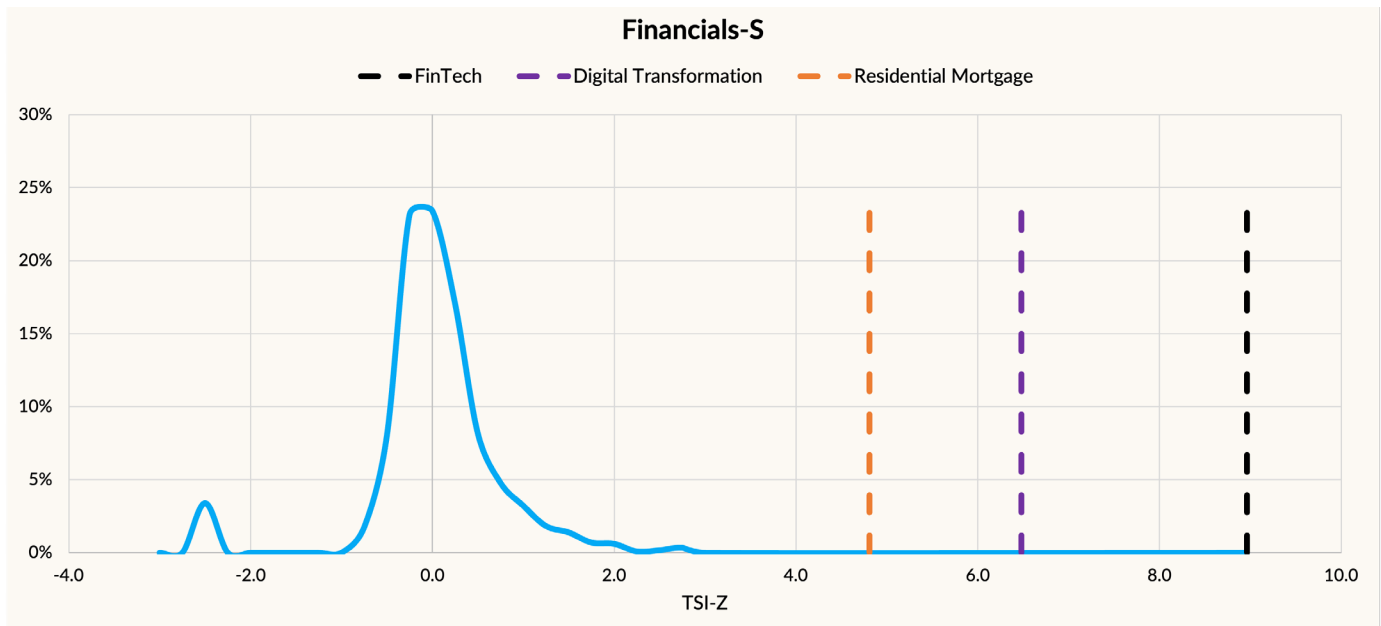
Figure 21: Fraction of companies with economically significant exposure to Space Exploration theme for various Industries within the Industrials Sector



Financials: FinTech, Digital Transformation & Residential Mortgage

Figure 22 shows the distribution of TSI-Z score for the Financials Sector, and identifies the top three themes for this sector based on our selection criteria. Figures 23 - 28 show the fraction of stocks with economically significant exposure to the identified themes for various industry groups and industries of the Financials Sector. For the Financials sector, FinTech, Digital Transformation and Residential Mortgage themes appear to be most relevant as represented by Global X FinTech ETF (FINX), Amplify Mobile Payments (IPAY) ETF and iShares Mortgage Real Estate ETF (REM), respectively.

Figure 22: Distribution of TSI-Z score for the Financials Sector



The FinTech theme is particularly dominant within the financial services sector, with roughly 40% of the firms having economically significant positive exposure to this theme including (AFRM, SQ, PYPL, GPN, FI); see Figures 23 & 24. Around 20% of the firms within Consumer Finance industry are also exposed to FinTech including prominent names such as (SOFI, LC, SYF). Similar to FinTech, the Digital Transformation theme also has considerable traction within Financial Services and Consumer Finance sectors.

Figure 23: Fraction of companies with economically significant exposure to FinTech theme for various Industry Groups within the Financials Sector

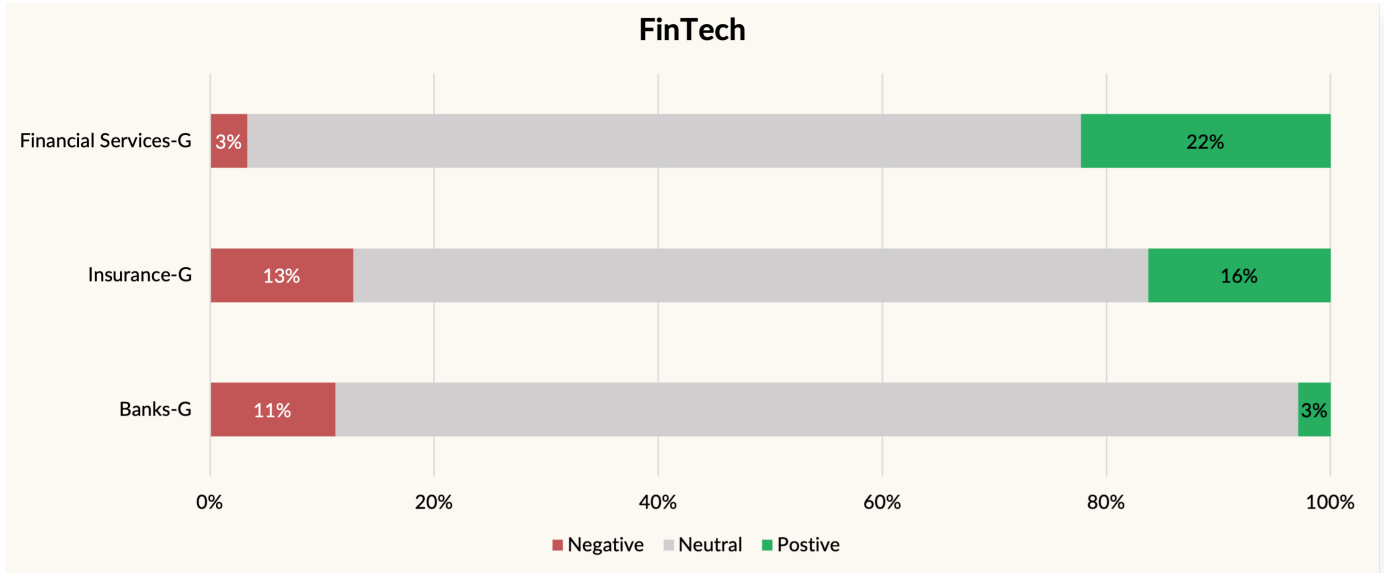


Figure 24: Fraction of companies with economically significant exposure to FinTech theme for various Industries within the Financials Sector

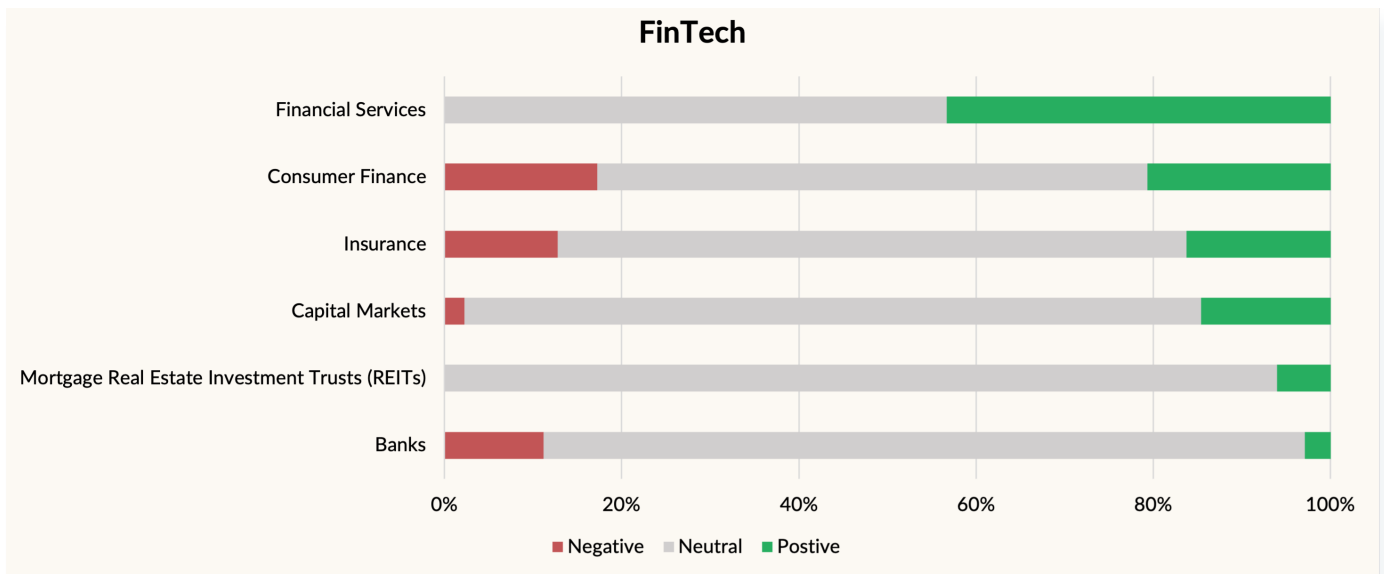


Figure 25: Fraction of companies with economically significant exposure to Digital Transformation theme for various Industry Groups within the Financials Sector

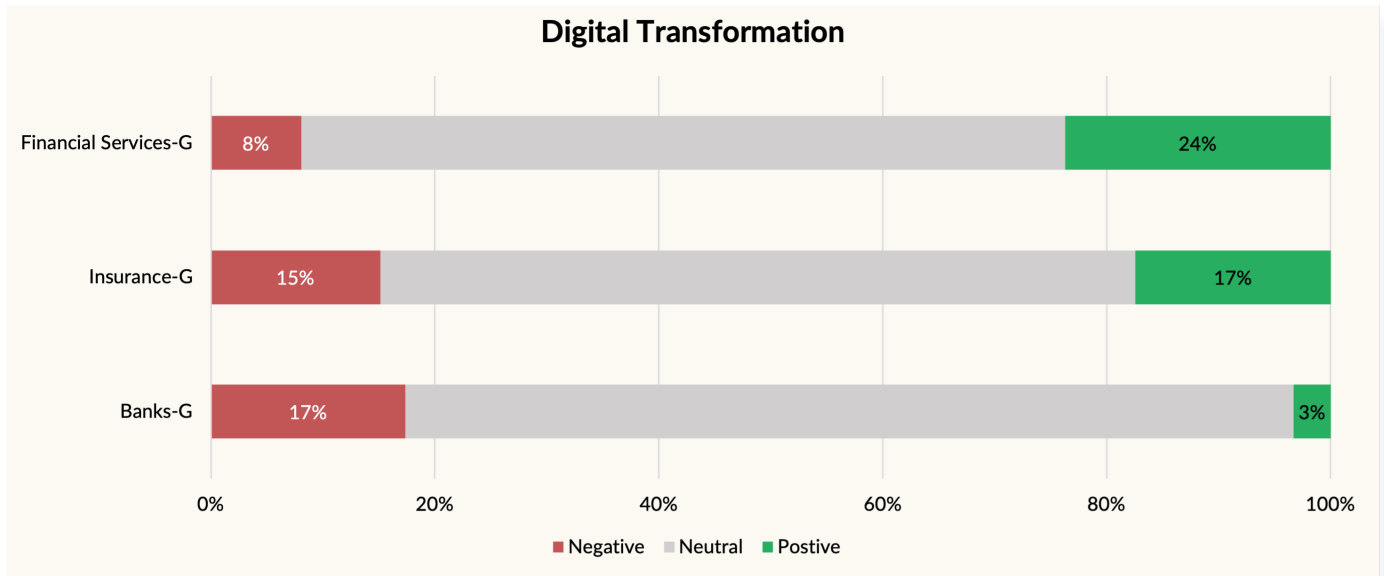


Figure 26: Fraction of companies with economically significant exposure to Digital Transformation theme for various Industries within the Financials Sector

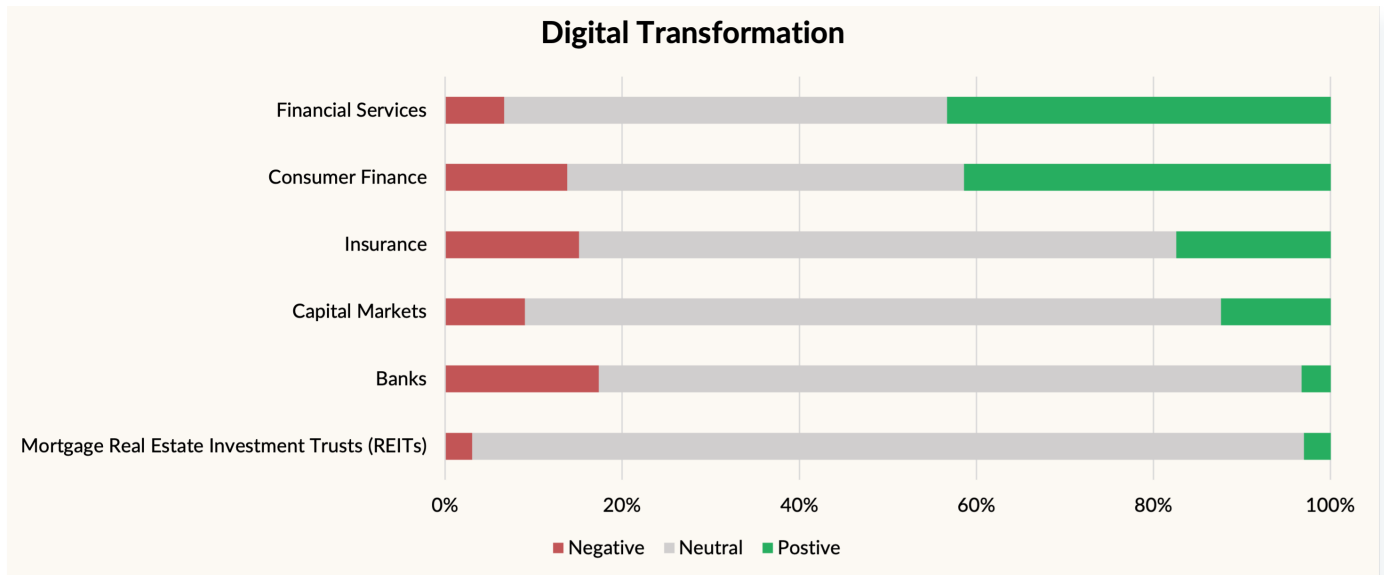


Figure 27: Fraction of companies with economically significant exposure to Residential Mortgage theme for various Industry Groups within the Financials Sector

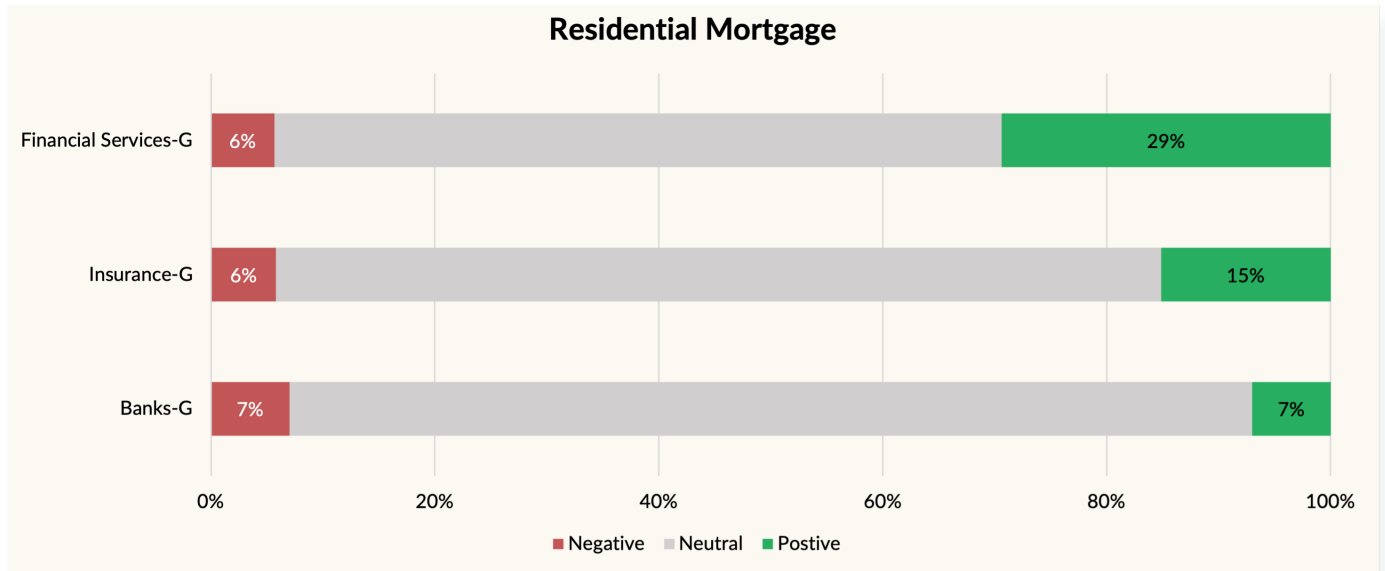
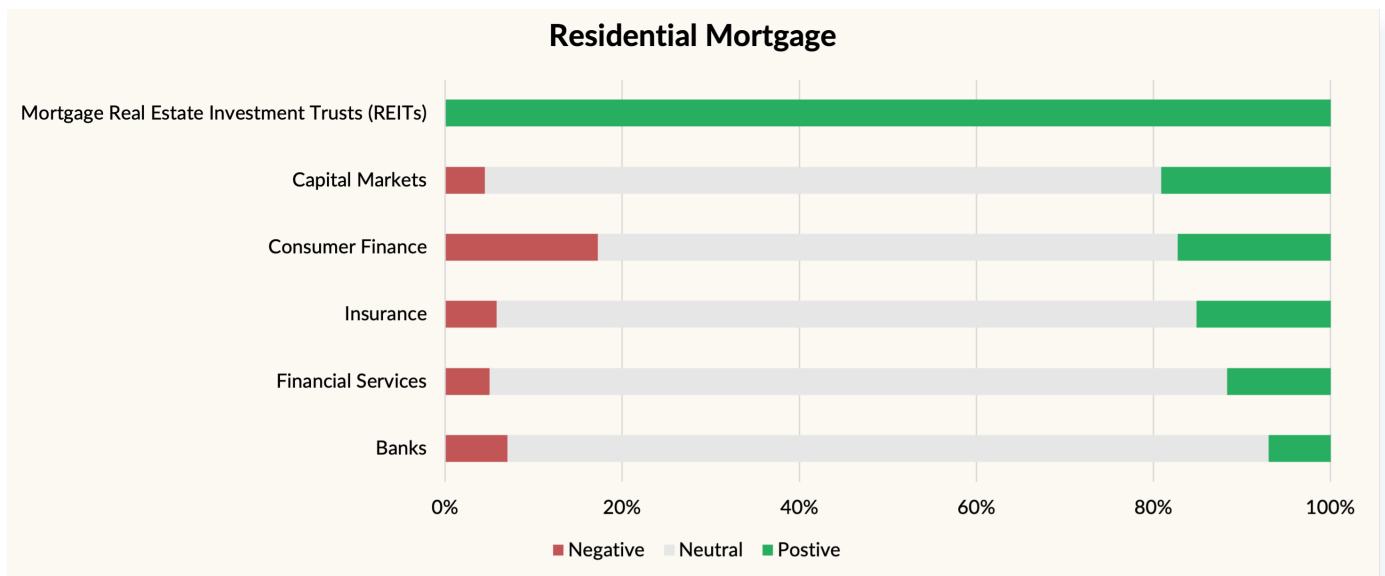


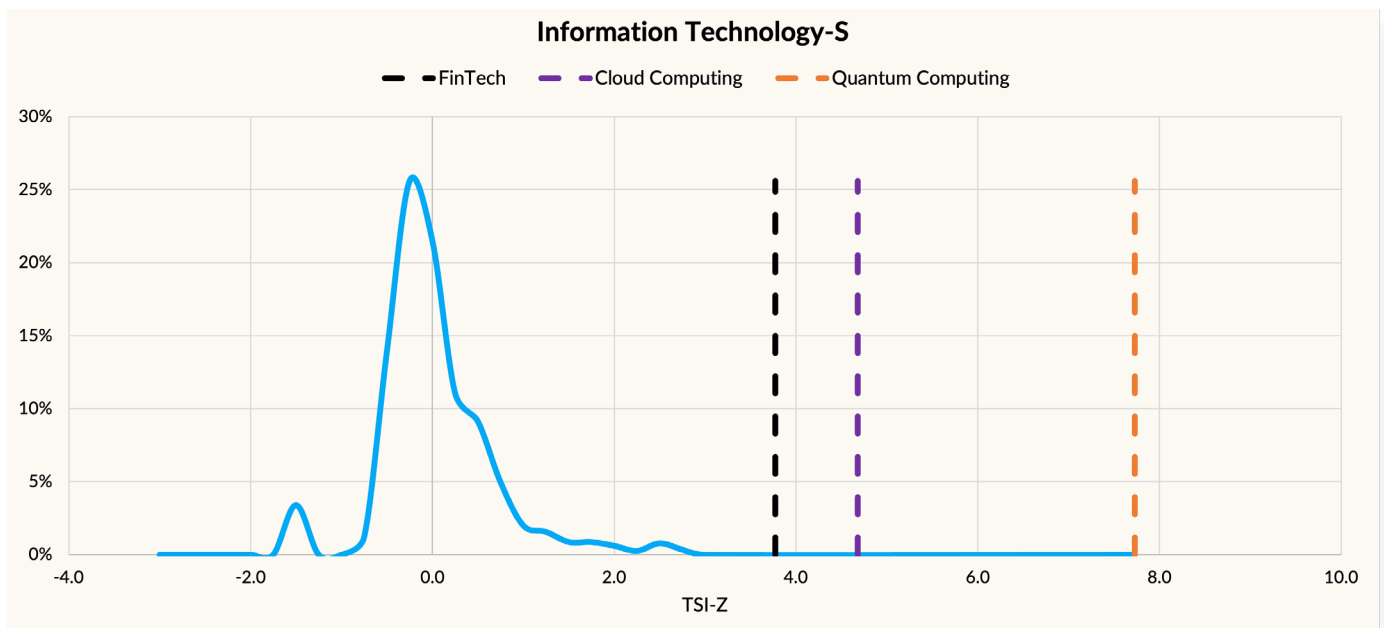
Figure 28: Fraction of companies with economically significant exposure to Residential Mortgage theme for various Industries within the Financials Sector



Information Technology: FinTech, Cloud Computing & Quantum Computing

Figure 29 shows the distribution of TSI-Z score for the Information Technology Sector, and identifies the top three themes for this sector based on our selection criteria. Figures 30 - 35 show the fraction of stocks with economically significant exposure to the identified themes for various industry groups and industries of the Information Technology Sector. Fintech, Cloud Computing and Quantum Computing as represented by Global X FinTech ETF (FINX), WisdomTree Cloud Computing ETF (WCLD) and Defiance Quantum ETF (QTUM) emerge as the dominant themes for the Information Technology (IT) sector.

Figure 29: Distribution of TSI-Z score for the Information Technology Sector



IT companies, in general, and software companies, in particular, play a very important role in pushing ahead with the FinTech revolution; consequently, it is not surprising that almost 50% of the firms within the software space are exposed to this theme. FinTech also has comparable traction within IT services industry which includes candidates such as (APLD, ACN, SNOW, CTSH).

Cloud Computing emerges as a strong theme for the software industry, with roughly 80% of the stocks having positive and economically significant exposure to the theme (Figures 30 & 31). In fact, of the 146 companies in this industry only five have a negative beta to the Cloud Computing theme. Additionally, cloud computing has strong traction within in the IT services industry along with a positive beta to a few prominent players in the semiconductor equipment space including (SKYT, LSCC, INTC, GFS).

Quantum computing is a relatively new entrant within the thematic ecosystem, partly due to Google’s surprise claim that it had solved extremely complex optimization problems using quantum computing techniques. While the number of companies with positive exposure to Quantum Computing is less than Cloud Computing, its influence

within the IT sector is unmistakable as witnessed by its high TSI-Z score (see Figure 29). Furthermore, companies with positive exposure to Quantum computing range from crypto related entities such as a (MSTR, WULF) to traditional software firms such as (ASAN, PRCH, AI).

Figure 30: Fraction of companies with economically significant exposure to FinTech theme for various Industry Groups within the Information Technology Sector

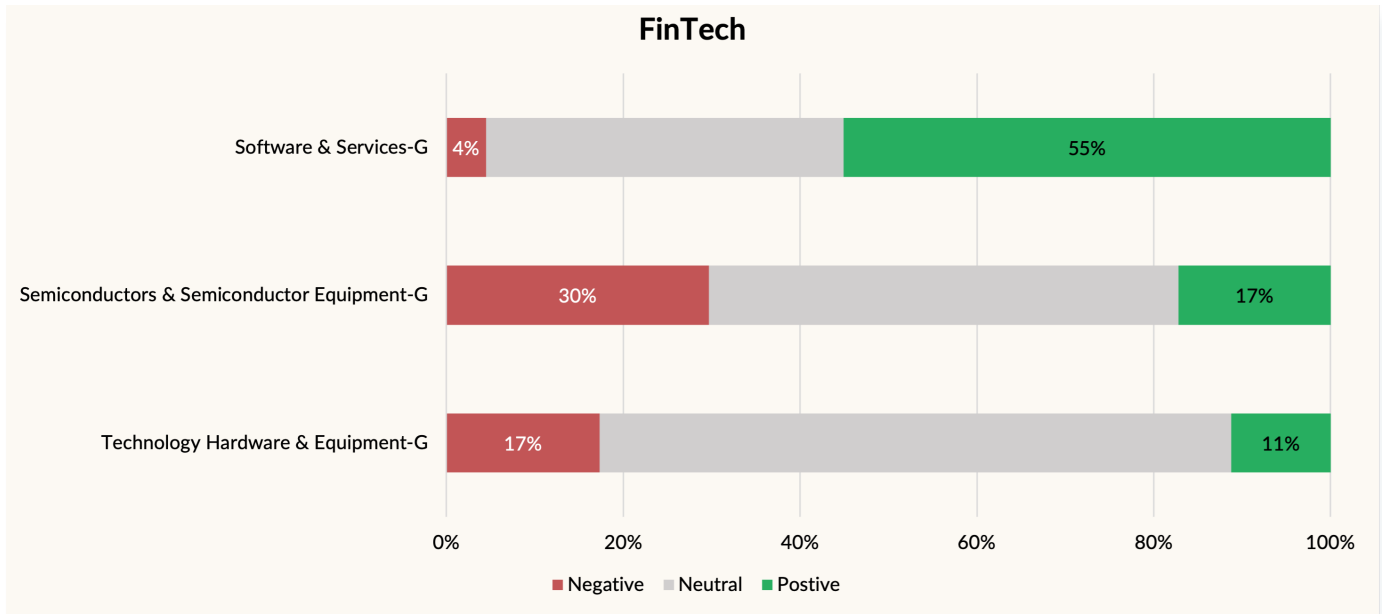


Figure 31: Fraction of companies with economically significant exposure to FinTech theme for various Industries within the Information Technology Sector

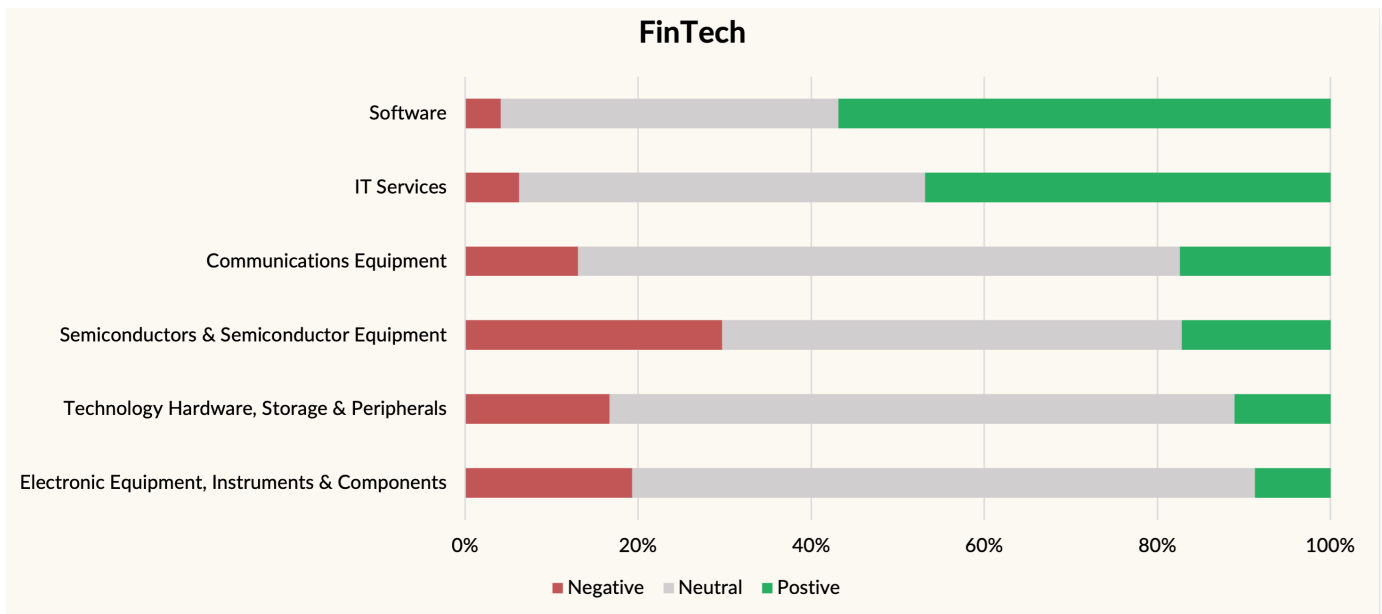


Figure 32: Fraction of companies with economically significant exposure to Cloud Computing theme for various Industry Groups within the Information Technology Sector

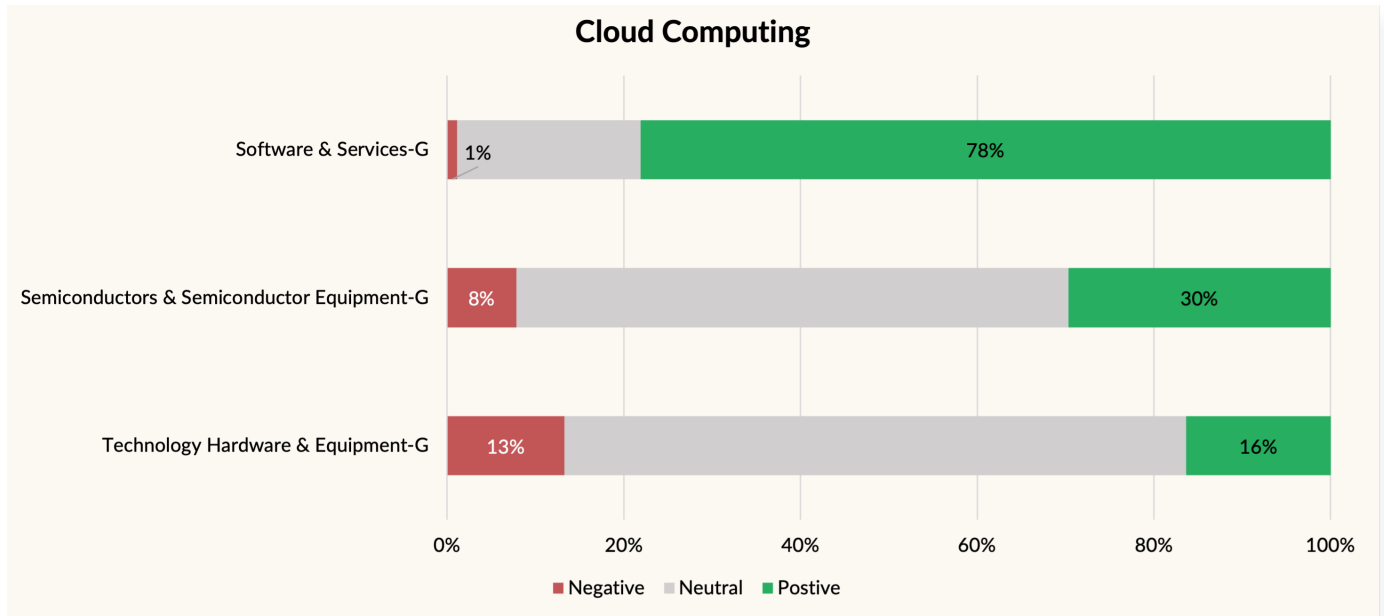


Figure 33: Fraction of companies with economically significant exposure to Cloud Computing theme for various Industries within the Information Technology Sector

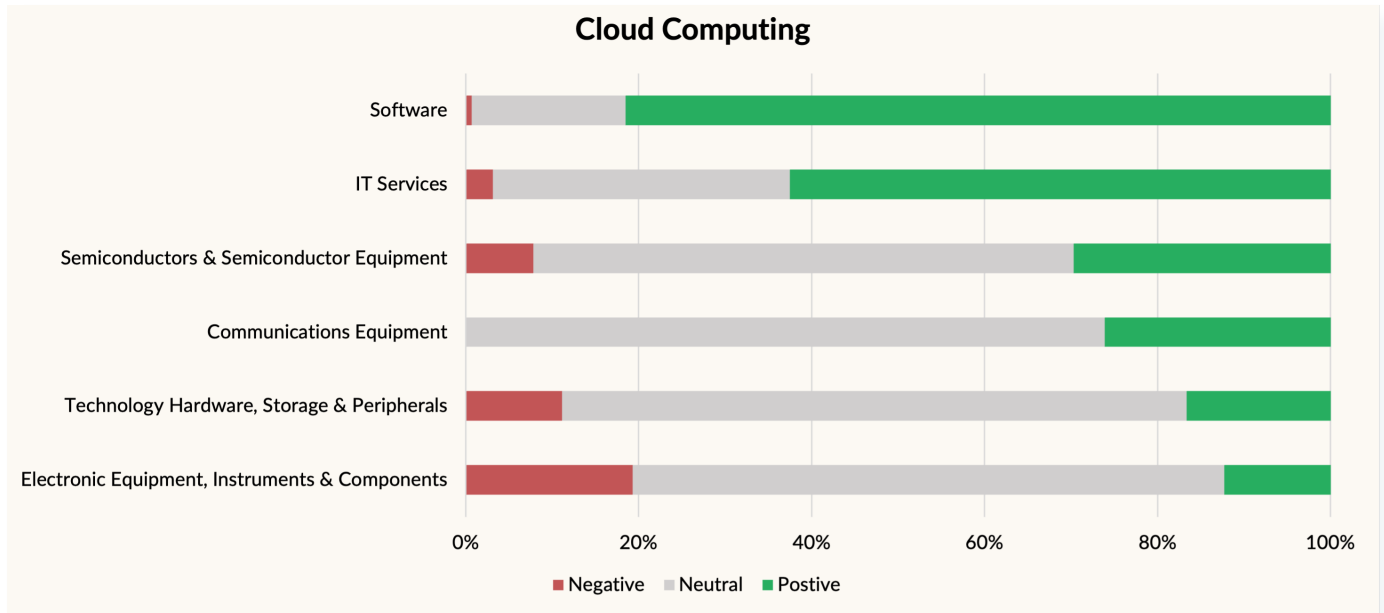


Figure 34: Fraction of companies with economically significant exposure to Quantum Computing theme for various Industry Groups within the Information Technology Sector

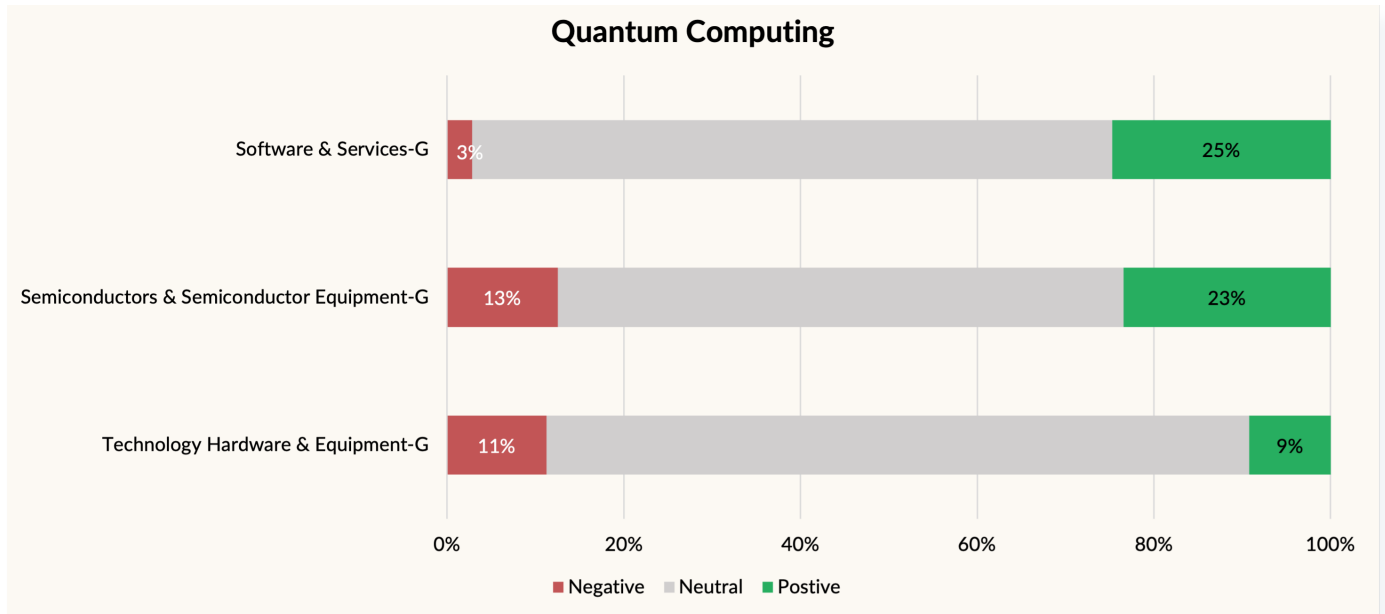
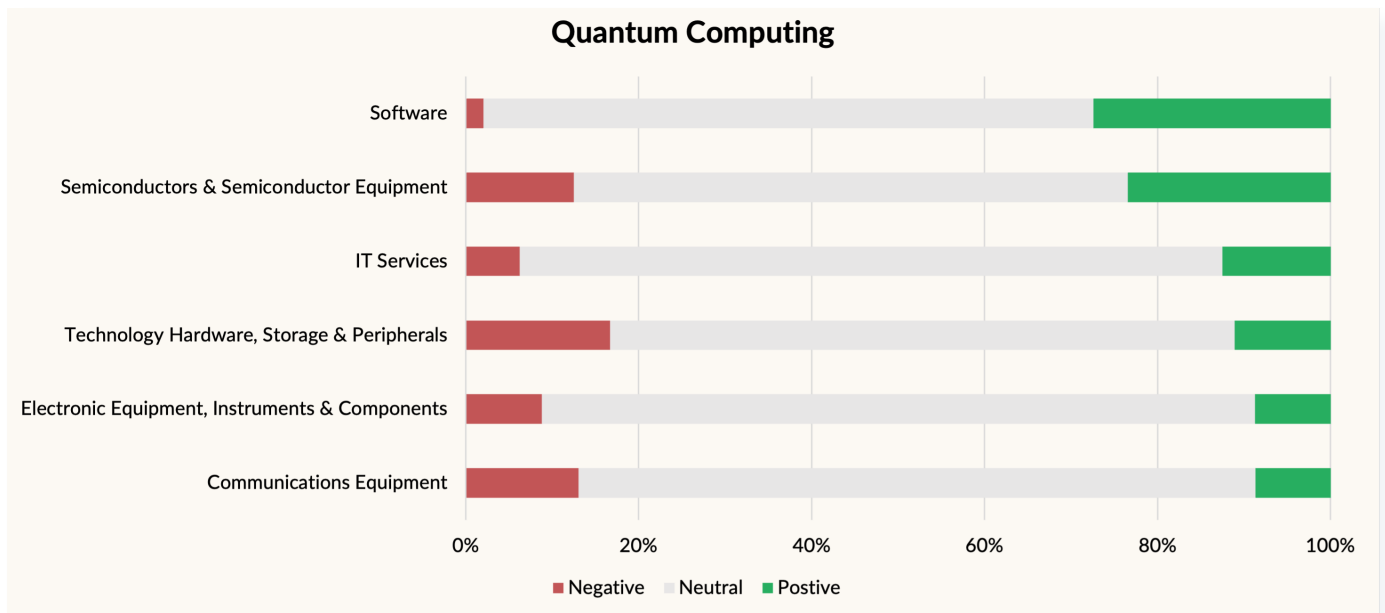


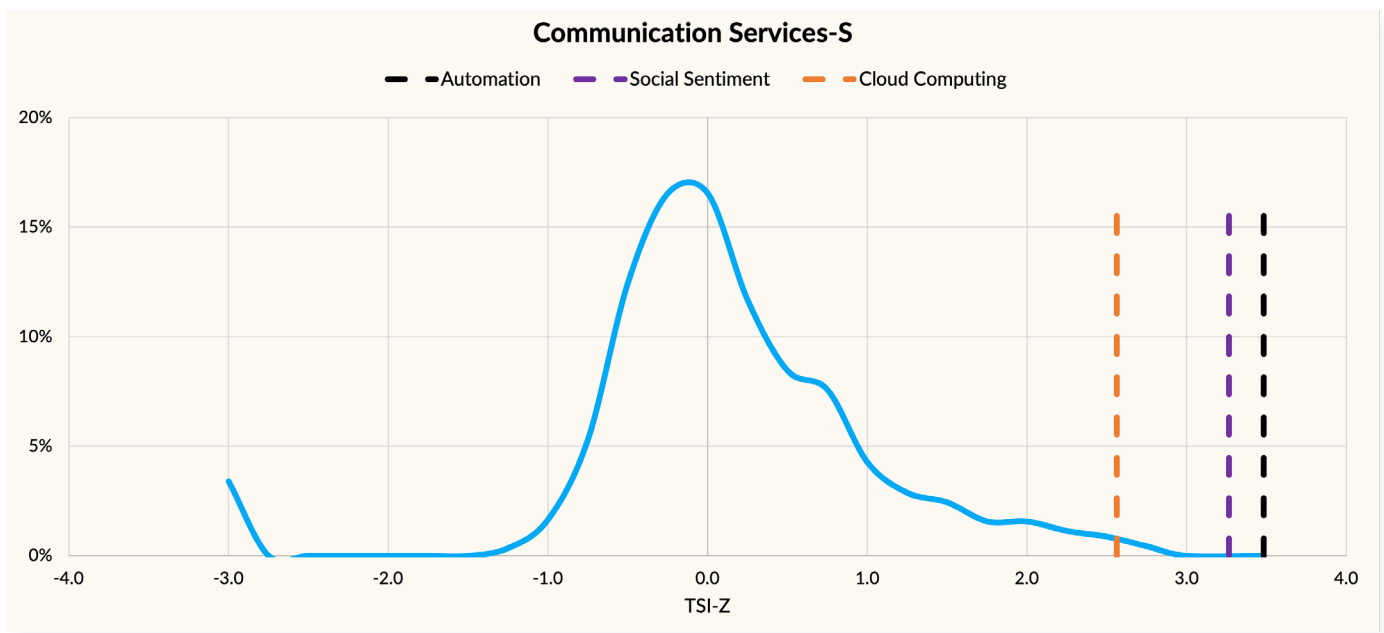
Figure 35: Fraction of companies with economically significant exposure to Quantum Computing theme for various Industries within the Information Technology Sector



Communication Services: Automation, Social Sentiment & Cloud Computing

Figure 36 shows the distribution of TSI-Z score for the Communication Services Sector, and identifies the top three themes for this sector based on our selection criteria. Figures 37 - 42 show the fraction of stocks with economically significant exposure to the identified themes for various industry groups and industries of the Communication Services Sector. Automation, Social Sentiment & Cloud Computing emerge as the dominant themes for the Communication Services sector as represented by ARK Autonomous Technology & Robotics ETF (ARKQ), VanEck Social Sentiment ETF (BUZZ) and Global X Cloud Computing ETF (CLOU), respectively.

Figure 36: Distribution of TSI-Z score for the Communication Services Sector



Automation has strong traction within the Wireless Telecommunications industry with six out nine stocks in this sector having a positive exposure to the theme (Figure 38). Additionally, Media & Entertainment companies that stand to benefit the most from automation and concomitant margin expansion opportunities, also exhibit economically significant positive exposure to this theme; prominent names with positive exposure include (AMC, PARA, SIRI, LGF, EB, SPOT).

Unlike all the themes discussed until now that have tried to capture an underlying fundamental phenomenon, Social Sentiment is based on a relatively more ephemeral concept, namely, investor sentiment tracked by monitoring millions of online interactions. It is interesting that Social Sentiment has a strong Z-score for the COMM sector, and has considerable traction within telecommunication services and media & entertainment industries (Figure 39).

Finally, stocks within the Interactive Media & Services industry such as (ZI, FUBO, ZIP, BMBL, VTEX) exhibit positive exposure to the cloud computing theme. Naturally, these companies stand to benefit the most from cloud computing through lower operating leverage and access to scalable & reliable computing infrastructure. Interestingly, around 40% of the companies within the entertainment industry are also positively exposed to the cloud computing theme including players in the streaming industry (ROKU), motion picture giant (LGF) and theatrical exhibition business (AMC); see Figures 41 & 42.

Quantum computing is a relatively new entrant within the thematic ecosystem, partly due to Google’s surprise claim that it had solved extremely complex optimization problems using quantum computing techniques. While the number of companies with positive exposure to Quantum Computing is less than Cloud Computing, its influence within the IT sector is unmistakable as witnessed by its high TSI-Z score (see Figure 29). Furthermore, companies with positive exposure to Quantum computing range from crypto related entities such as a (MSTR, WULF) to traditional software firms such as (ASAN, PRCH, AI).

Figure 37: Fraction of companies with economically significant exposure to Automation theme for various Industry Groups within the Communication Services Sector

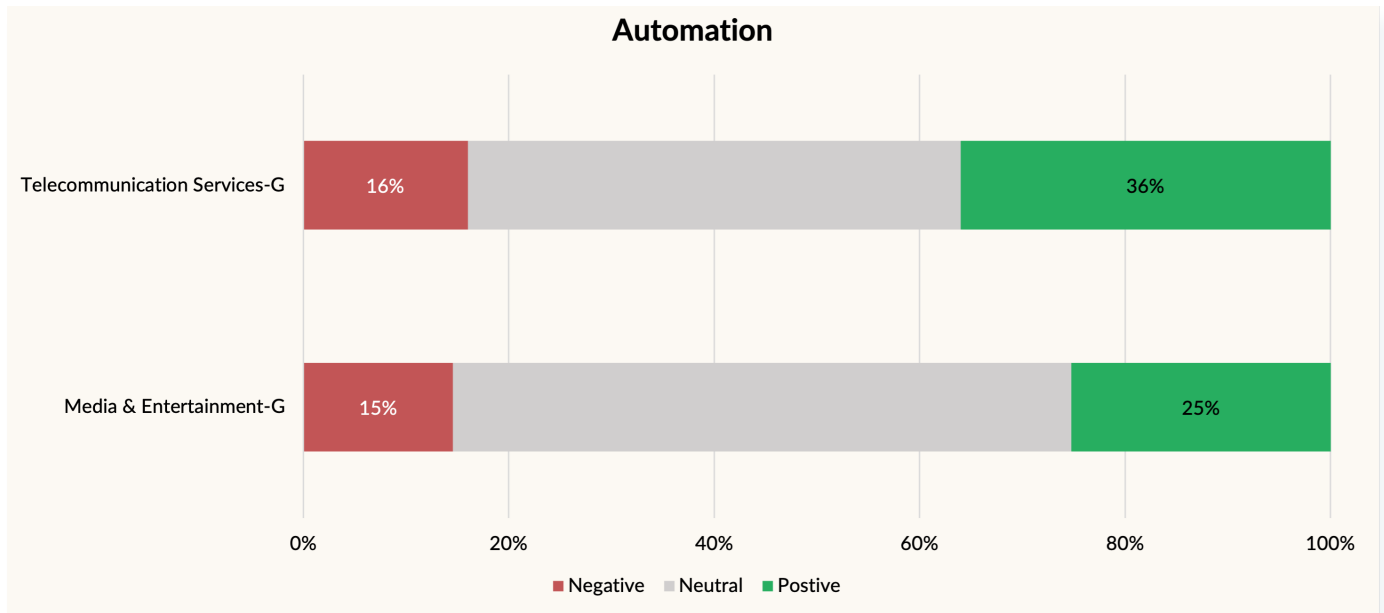


Figure 38: Fraction of companies with economically significant exposure to Automation theme for various Industries within the Communication Services Sector

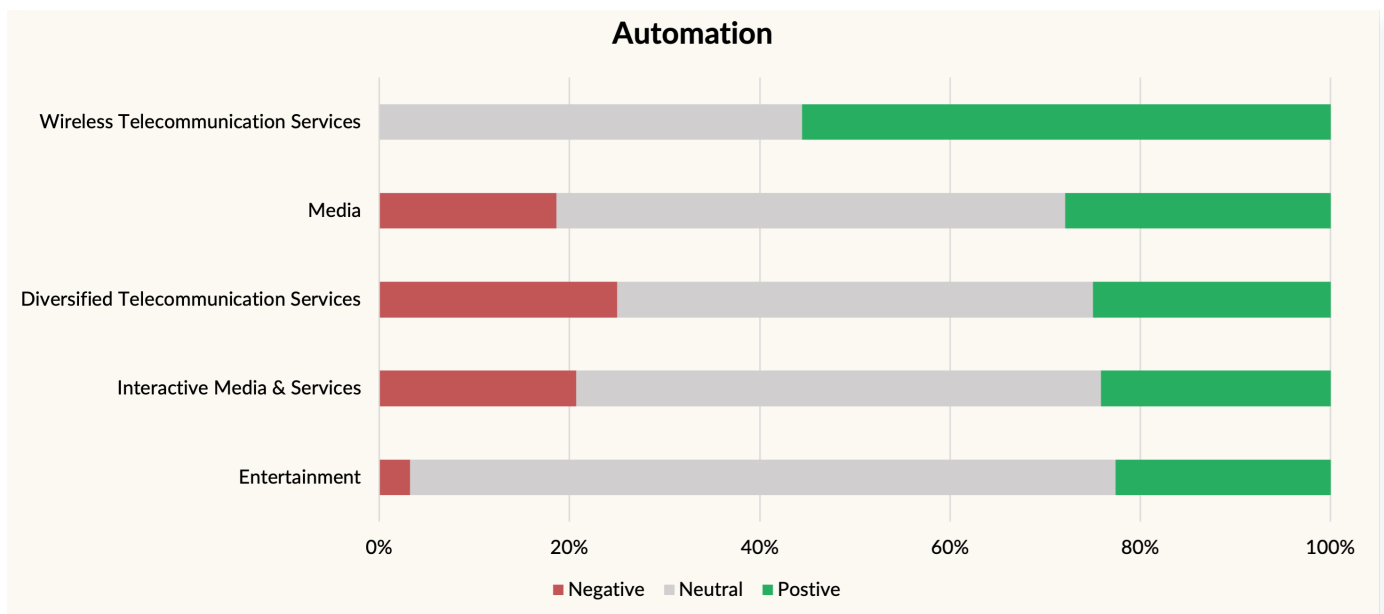


Figure 39: Fraction of companies with economically significant exposure to Social Sentiment theme for various Industry Groups within the Communication Services Sector

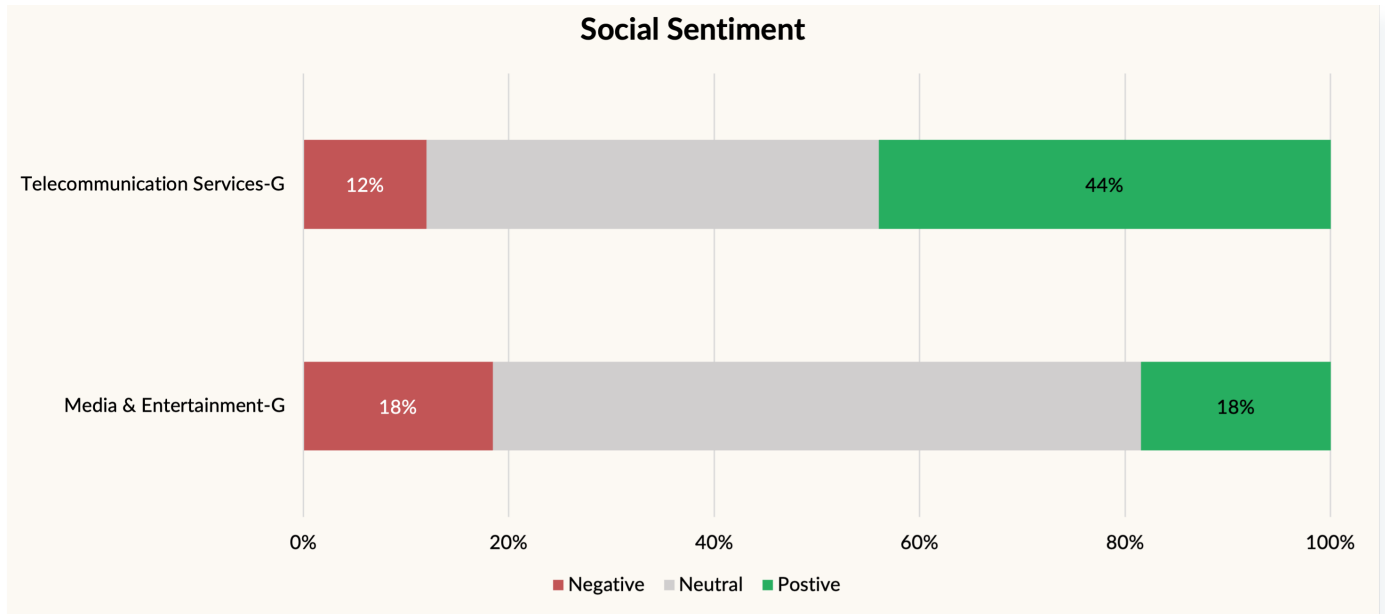


Figure 40: Fraction of companies with economically significant exposure to Social Sentiment theme for various Industries within the Communication Services Sector

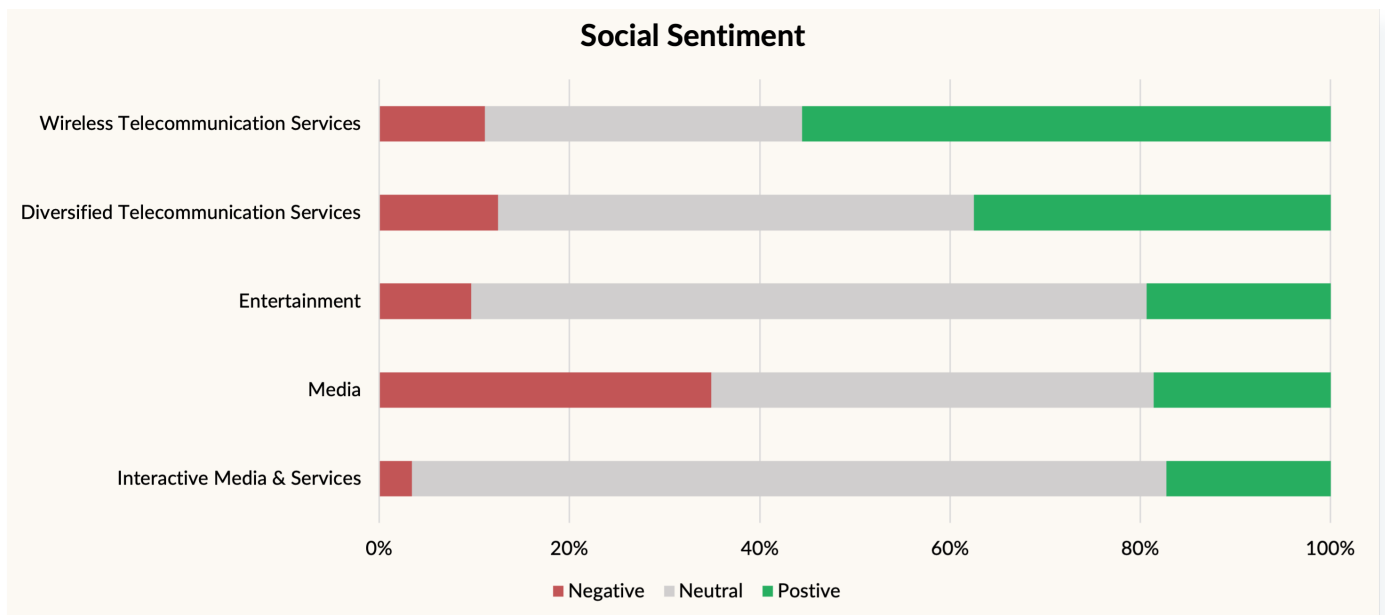


Figure 41: Fraction of companies with economically significant exposure to Cloud Computing theme for various Industry Groups within the Communication Services Sector

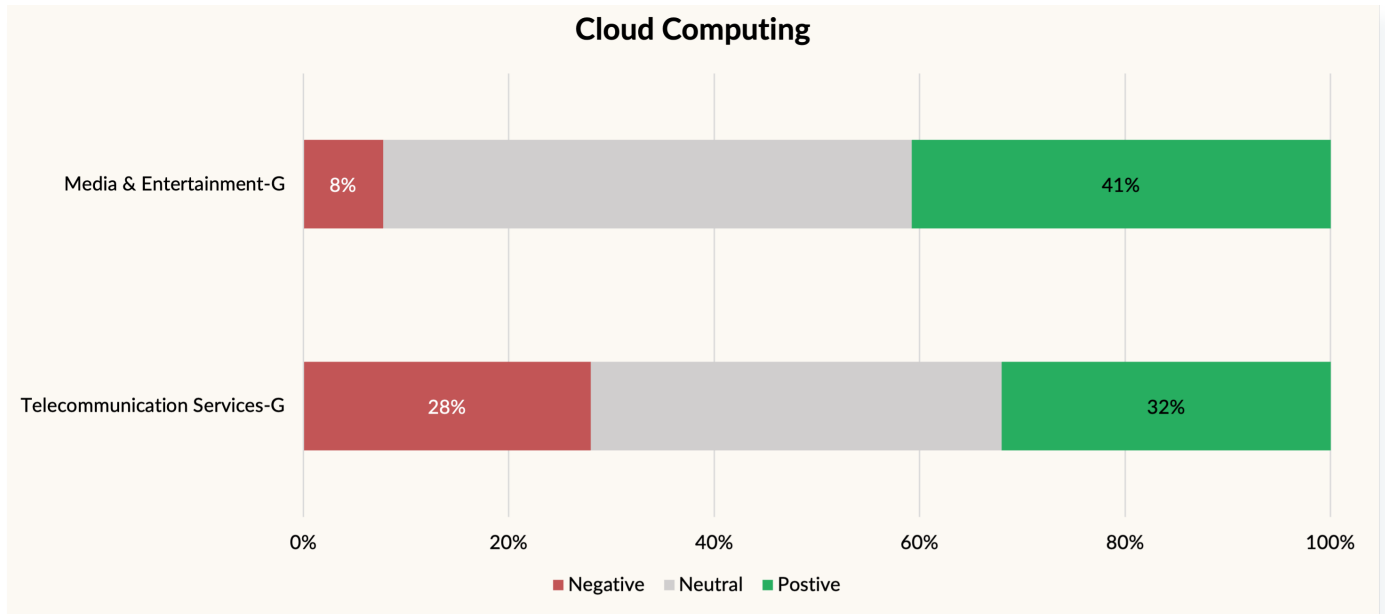
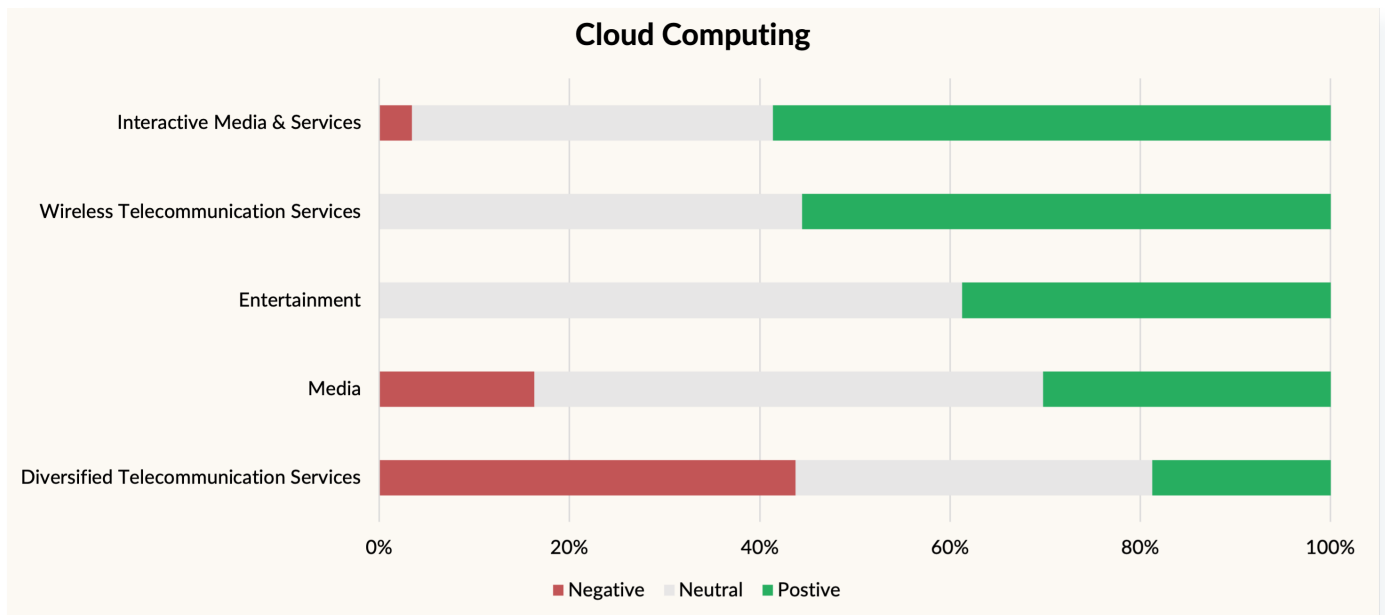


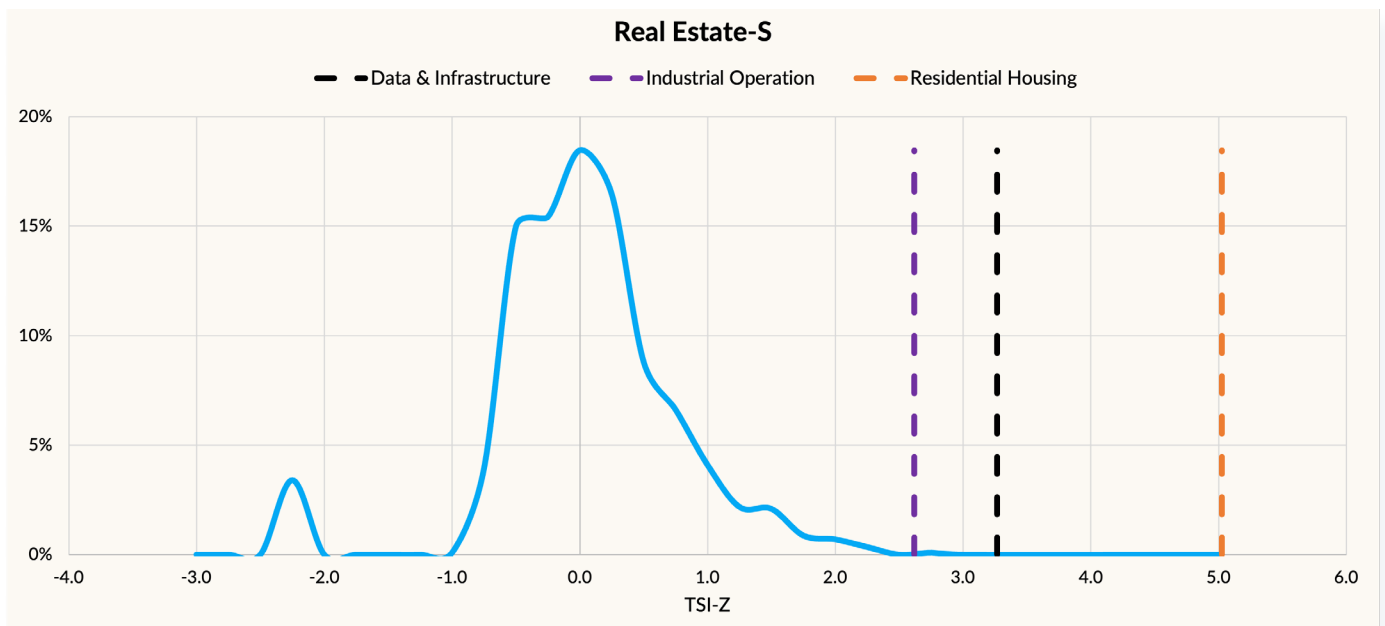
Figure 42: Fraction of companies with economically significant exposure to Cloud Computing theme for various Industries within the Communication Services Sector



Real Estate: Data & Infrastructure, Industrial Operations and Residential Housing

Figure 43 shows the distribution of TSI-Z score for the Real Estate Sector, and identifies the top three themes for this sector based on our selection criteria. Figures 44 - 49 show the fraction of stocks with economically significant exposure to the identified themes for various industry groups and industries of the Real Estate Sector. Dominant themes for the Real Estate sector include Data & Infrastructure, Industrial Operations and Residential Housing as represented by the Pacer Data & Infrastructure Real Estate ETF (SRVR), Pacer Benchmark Industrial Real Estate SCTR ETF (INDS) and Hoya Capital Housing ETF (HOMZ), respectively.

Figure 43: Distribution of TSI-Z score for the Real Estate Sector



One of the interesting offshoots of the AI theme has been the demand for specialized real estate that can not only host large computing machines but also provide for a safe and conducive operating environment with easy access to power and cooling facilities. This has initiated development of specialized real estate companies that have competitive edge in this space, and Data & Infrastructure theme captures this trend. Indeed 40% of the firms classified as “Specialized REITs” have positive exposure to this theme with prominent names including (EQIX, DLR, UNIT); see Figures 44 & 45.

Figure 44: Fraction of companies with economically significant exposure to Data & Infrastructure theme for various Industry Groups within the Real Estate Sector

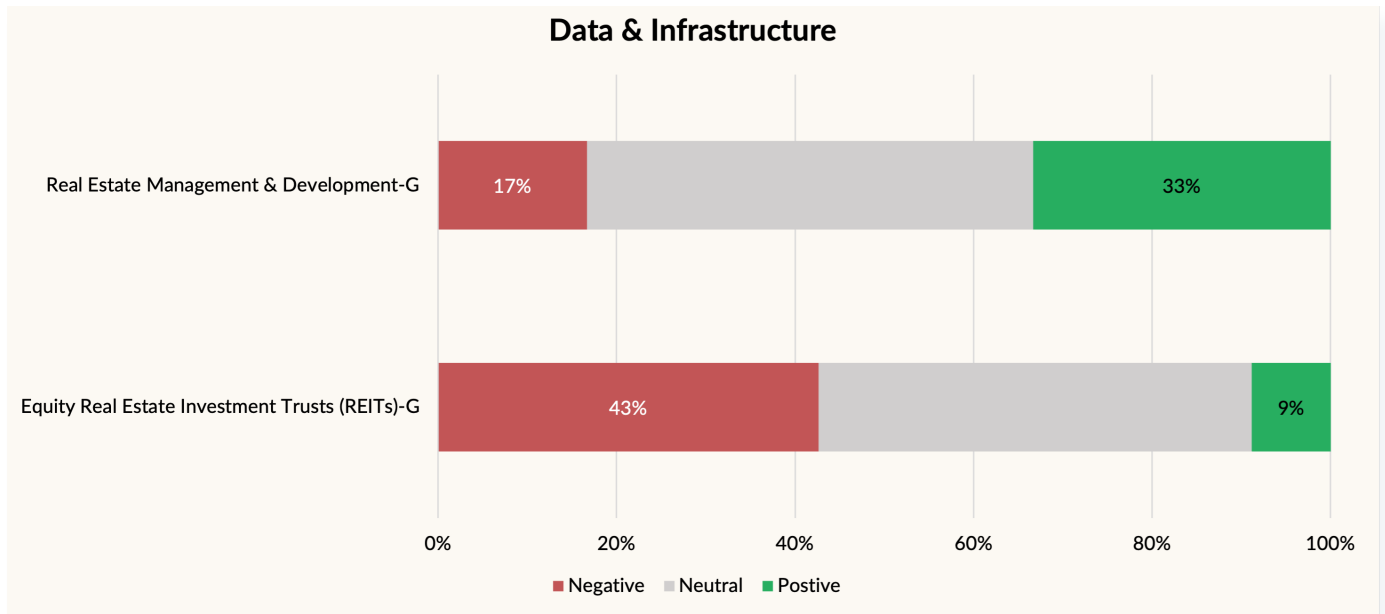


Figure 45: Fraction of companies with economically significant exposure to Data & Infrastructure theme for various Industries within the Real Estate Sector

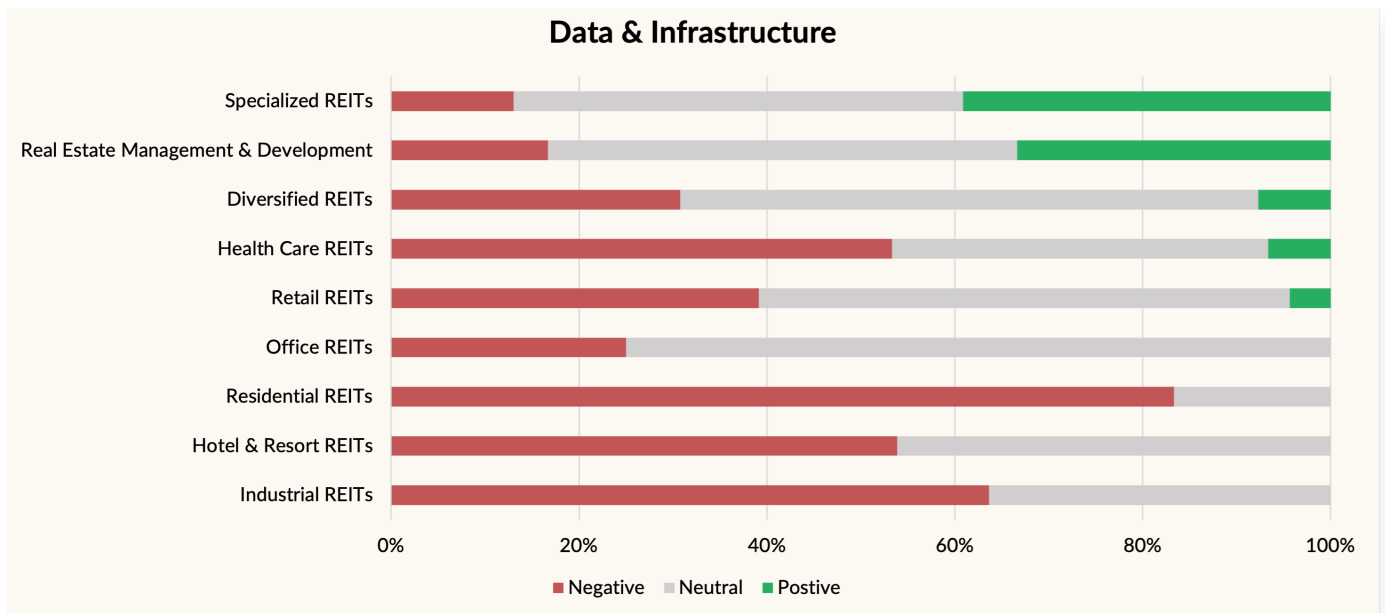


Figure 46: Fraction of companies with economically significant exposure to Industrial Operation theme for various Industry Groups within the Real Estate Sector

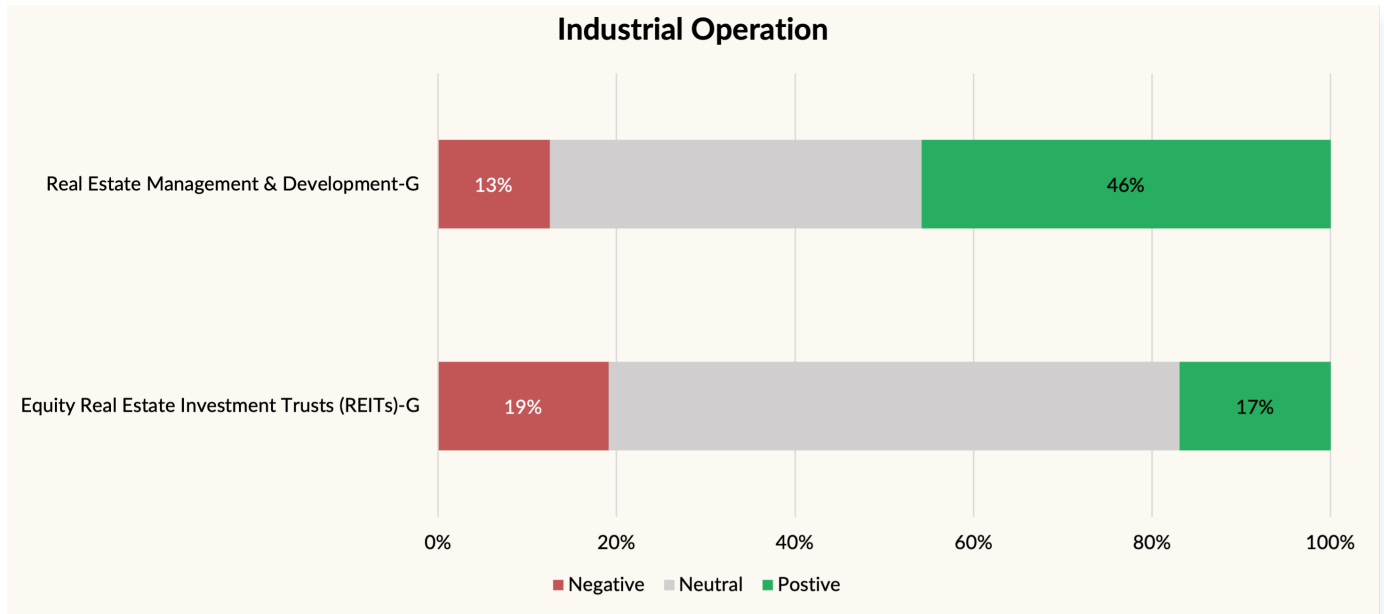


Figure 47: Fraction of companies with economically significant exposure to Industrial Operation theme for various Industries within the Real Estate Sector

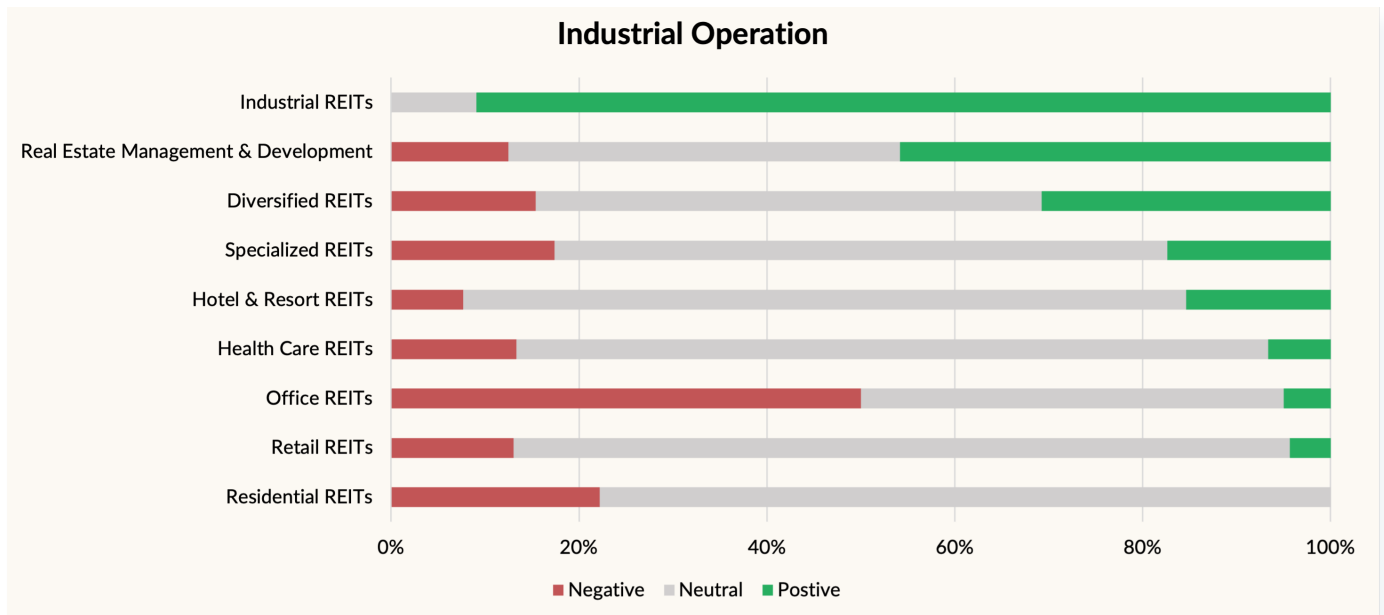


Figure 48: Fraction of companies with economically significant exposure to Residential Housing theme for various Industry Groups within the Real Estate Sector

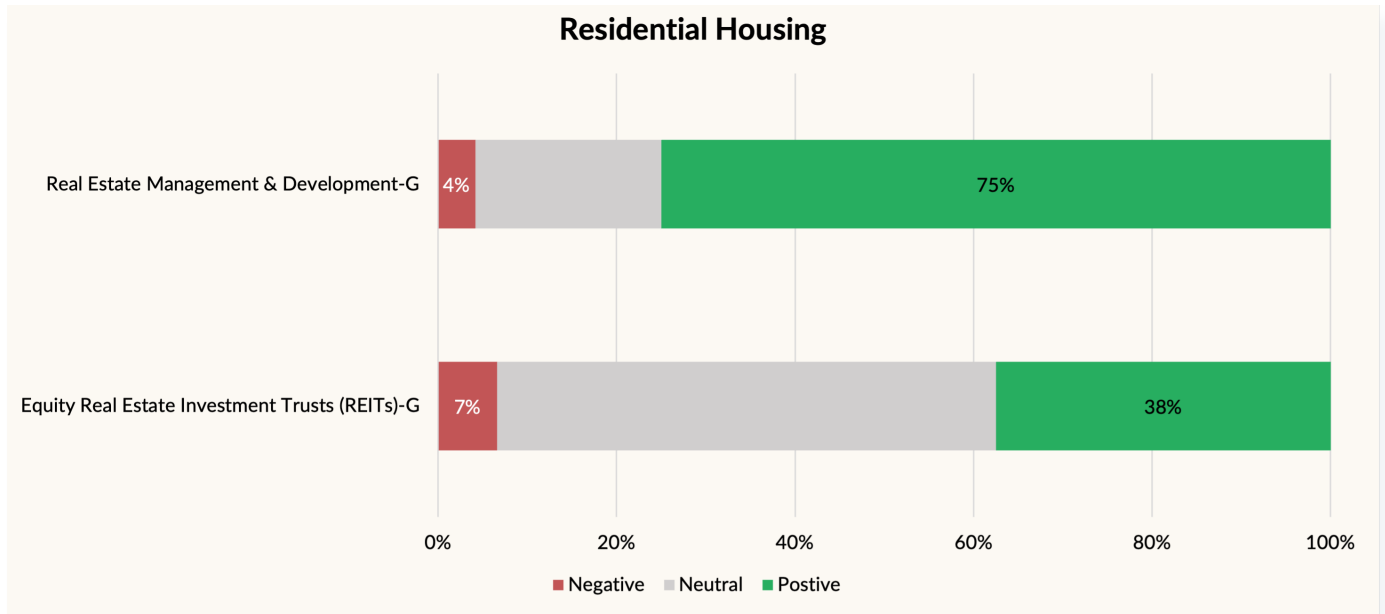
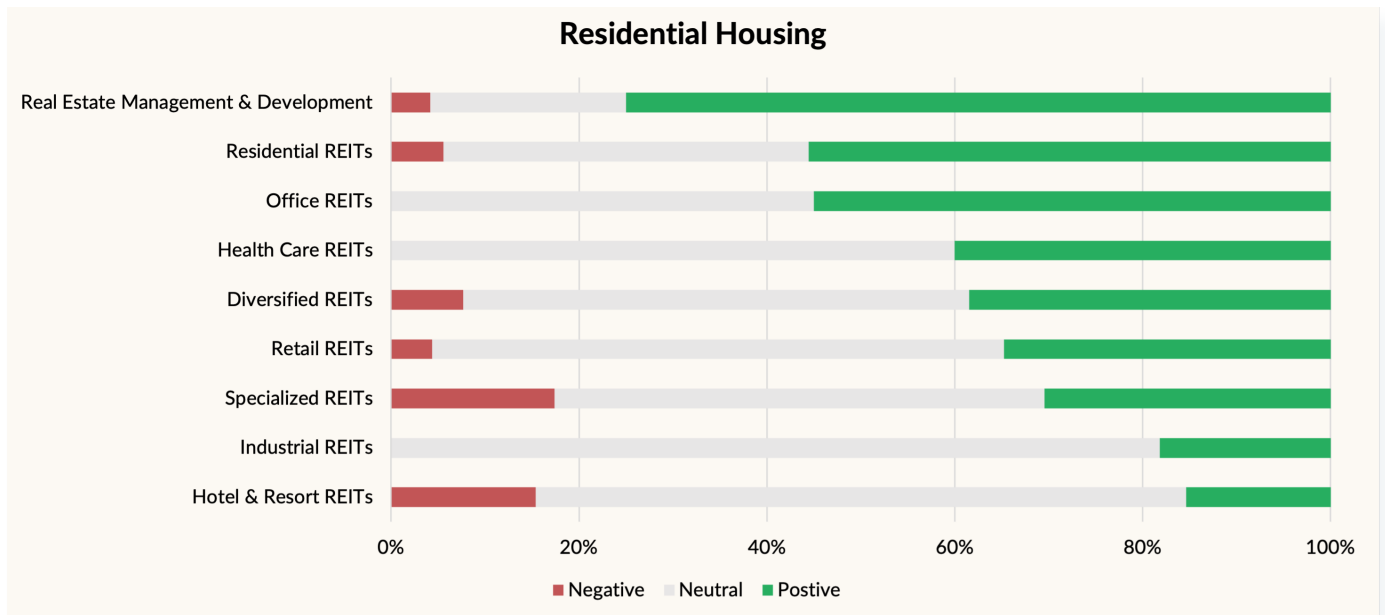


Figure 49: Fraction of companies with economically significant exposure to Residential Housing theme for various Industries within the Real Estate Sector



Utilities: Clean Energy, Renewables & SolarHousing

Figure 50 shows the distribution of TSI-Z score for the Utilities Sector, and identifies the top three themes for this sector based on our selection criteria. Figures 51 - 56 show the fraction of stocks with economically significant exposure to the identified themes for various industry groups and industries of the Utilities Sector. Clean Energy, Renewables & Solar theme dominate the Utilities sector and are represented by SPDR S&P Kensho Clean Power ETF (CNRG), Global X Renewable Energy Producers ETF (RNRG) and Invesco Solar ETF (TAN), respectively. Notably, the influence of all these themes within the Utility sector is derived from seven names in the Independent Power and Renewable Electricity Producers industry.

Figure 50: Distribution of TSI-Z score for the Utilities Sector

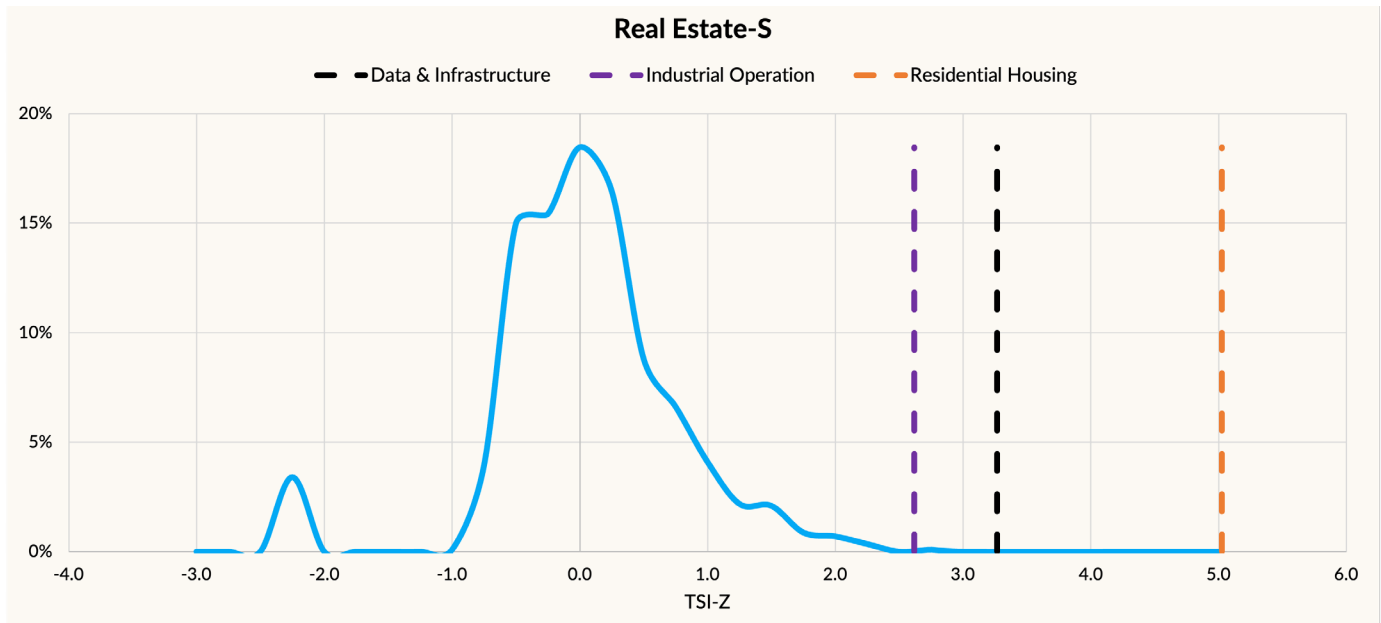


Figure 51: Fraction of companies with economically significant exposure to Clean Energy theme for various Industry Groups within the Utilities Sector

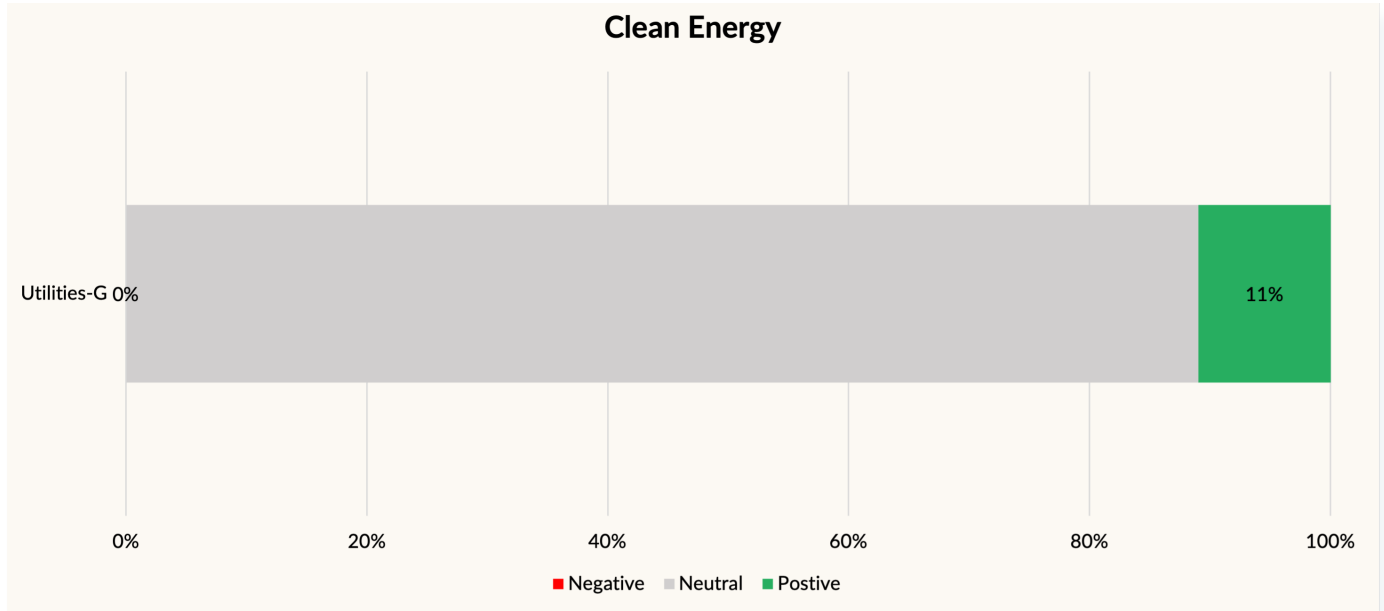


Figure 52: Fraction of companies with economically significant exposure to Clean Energy theme for various Industries within the Utilities Sector

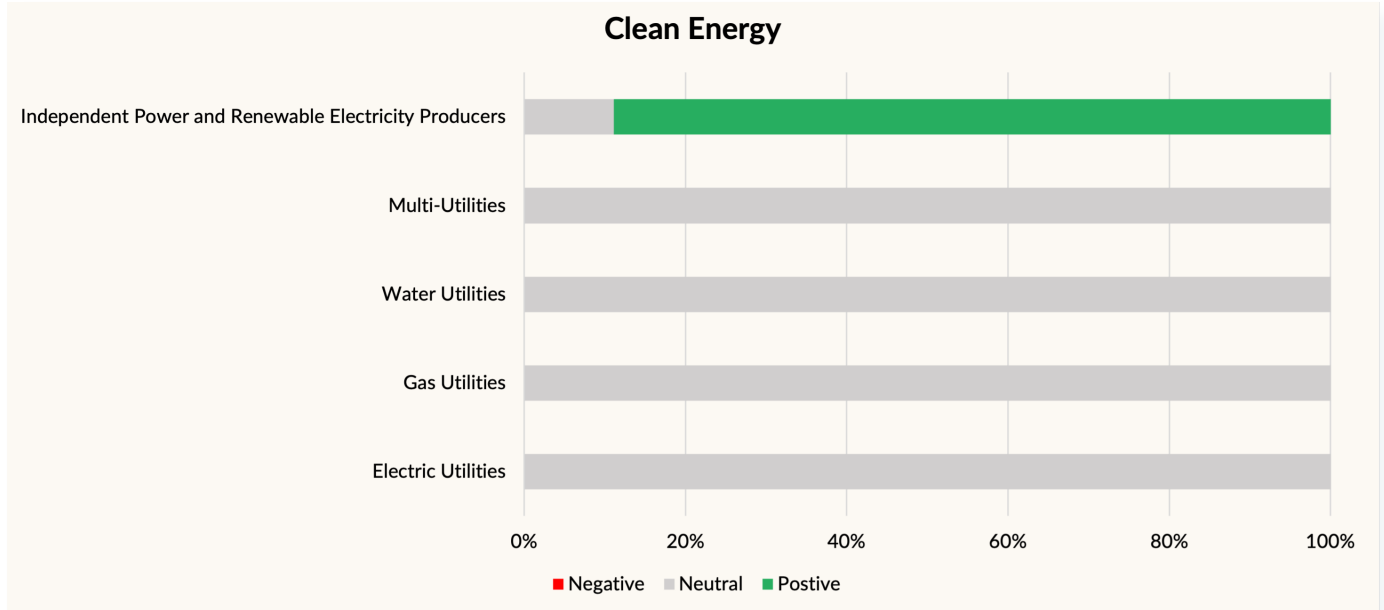


Figure 53: Fraction of companies with economically significant exposure to Renewables theme for various Industry Groups within the Utilities Sector

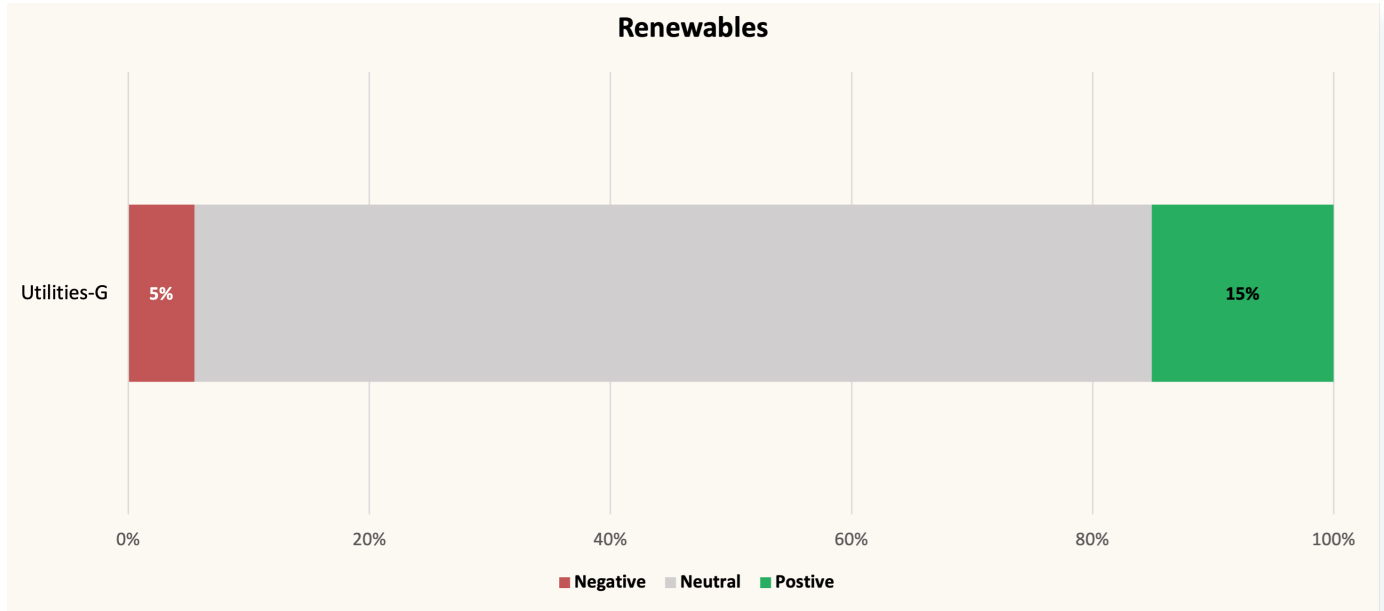


Figure 54: Fraction of companies with economically significant exposure to Renewables theme for various Industries within the Utilities Sector

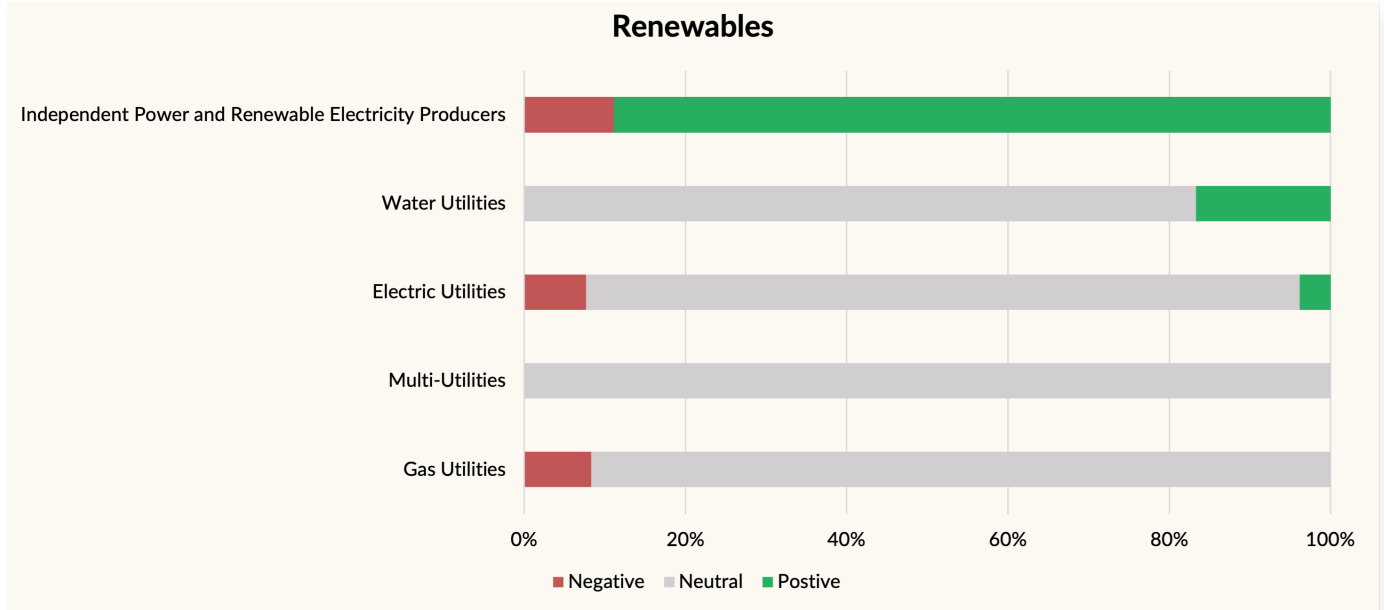


Figure 55: Fraction of companies with economically significant exposure to Solar theme for various Industry Groups within the Utilities Sector

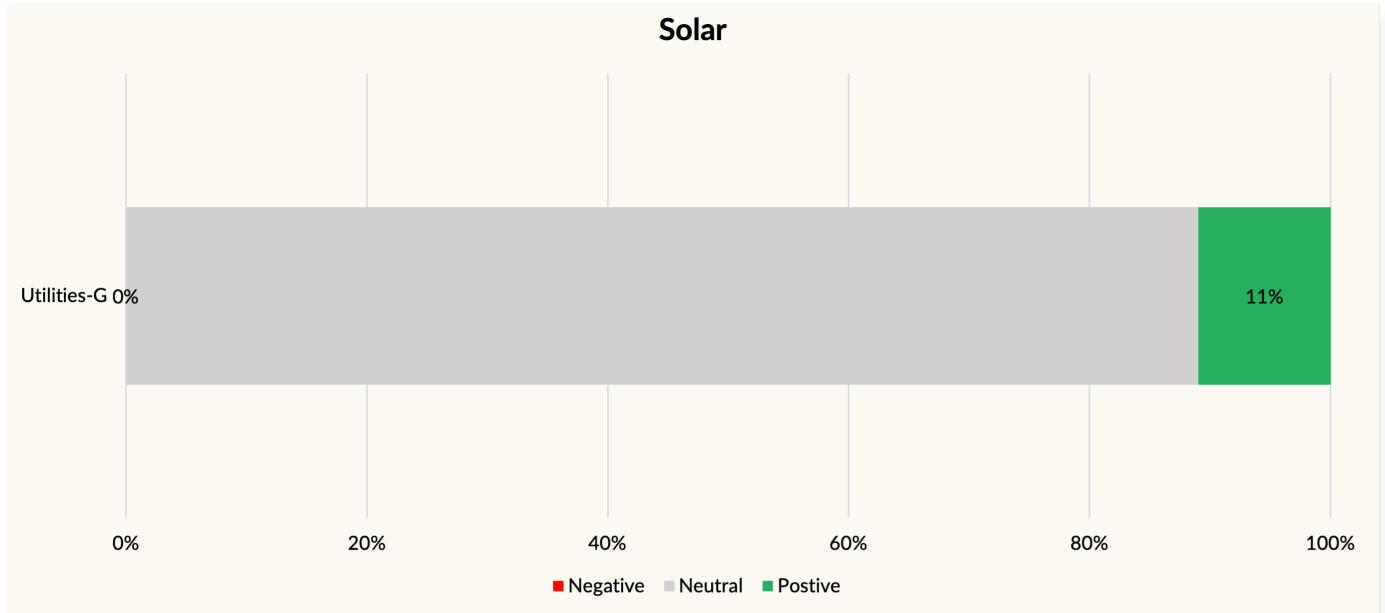
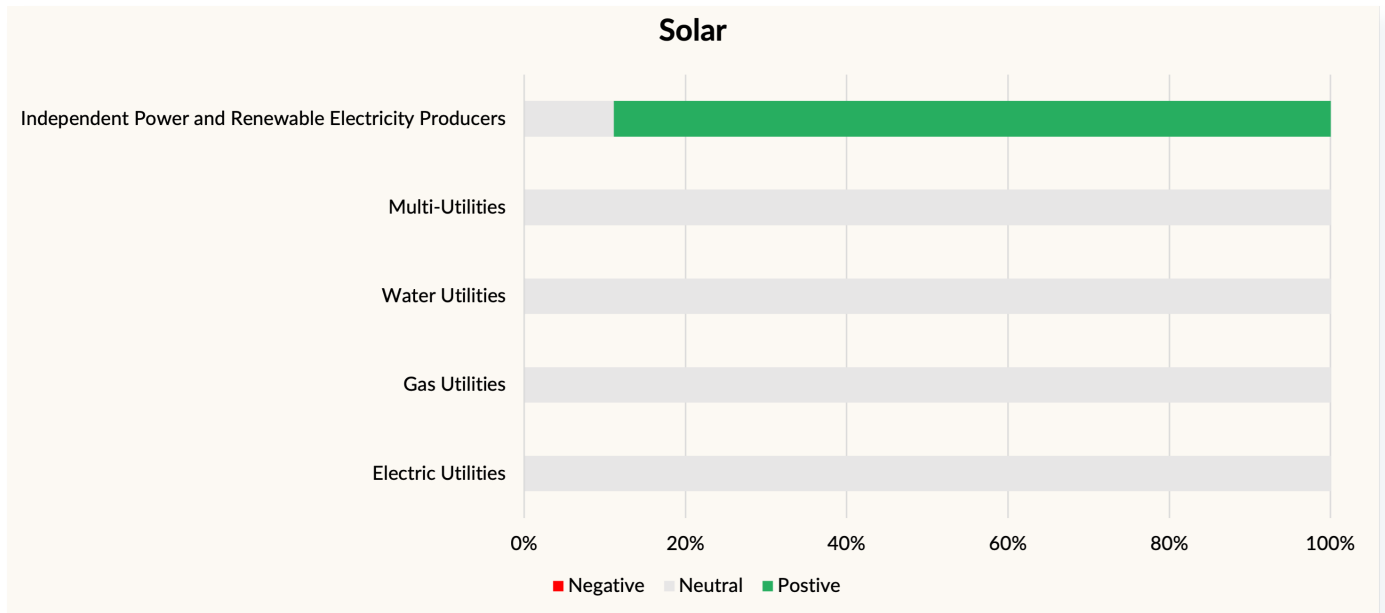


Figure 56: Fraction of companies with economically significant exposure to Solar theme for various Industries within the Utilities Sector



Conclusion

For a Portfolio Manager, the distinction between long-term and short-term risk factors is a distinction without a difference. A period of extended draw-down over several weeks or months is equally painful regardless of whether it was caused by a long-term or a short-term risk factor; conversely, a period of out-performance derived by carefully navigating the risk landscape is equally rewarding no matter whether the journey involved hedging secular risk factors or thematic exposures. The only distinction that matters for PM is the one between risk factors that they are willing and able to monetize versus others.

Omega Point's recently introduced Thematic Passage facilitates such a clinical decision making for investment professionals. It allows portfolio managers, risk managers and CIOs to examine thousands of themes simultaneously, organize their exposures, and create a risk-based thematic "sort." As a result, PM can identify relevant thematic exposures through the Thematic Strength Indicator (TSI), quantify their impact on the portfolio through thematic betas, and manage those exposures as per the mandates of their investment strategy using an integrated optimization framework.



Anureet Saxena, Ph.D, CFA

Omega Point, Strategic Advisor

Alignment Trio Management, CEO & Founder

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