ETF SPECIAL

Thematic and sector ETFs:
Precision tools with distinct roles

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Introduction

Ebru Sofuoglu
Head of Content
ETF Stream

Welcome to this ETF Stream special report examining the shifting dynamics between thematic and sector investment strategies as both expand – and increasingly coexist – within portfolios.

Thematic ETFs offer high-conviction, forward-looking exposures aligned with long-term structural shifts. Paired with sector allocations that provide diversified core exposure, they can help portfolios navigate economic cycles and shifting market regimes.

In 2025, global thematic ETFs - led by interest in defence spending - staged a dramatic comeback with €62bn net new assets, while sector ETFs booked €54.4bn net flows. Thematic ETF AUM reached €430.3bn, up 41% year-on-year increase, compared to sector ETF AUM of €1.0trn, up 13% from the prior year.

As allocations grow, so does the risk of unintended overlap. Investors are increasingly seeking granularity, analysing underlying holdings to avoid concentration while targeting clearly defined growth opportunities grounded in macroeconomic trends.

In this report, we explore the evolution of these investment approaches. Taken together, they expand the investor toolkit, enabling more precise portfolio construction and diversified expression of investment views. For fund allocators, they increasingly offer a blended approach within a single wrapper.

Dual momentum: How themes and sectors are growing side by side

Thematic investing has featured strongly in industry conversations in recent years, capturing robust inflows and investor attention. Yet the data show that this surge has not come at the expense of traditional sector funds. Instead, both categories are expanding — serving different investment objectives and increasingly coexisting within investor portfolios.

Strong growth for both themes and sectors

Global ETFs tracking thematic indices attracted €62bn in 2025 — more than ten times the amount recorded the year before. During the same period, 51 new thematic ETFs launched worldwide, and assets under management (AUM) in this category rose 41% to €430.3bn.

Sector ETFs have also exhibited durable demand. They collected €54.4 bn in net inflows in 2025 and €51.4 bn in 2024, according to Morningstar Direct. Combined with market appreciation, sector ETF AUM reached €1.07trn at year end 2025, up 13% from the prior year, or 28% when measured in US dollars.

Derivatives activity is reinforcing the trend: the open interest in futures and options on EURO STOXX and STOXX Europe 600 sector indices on Eurex rose 43% in 2025 to €84.4bn.

Taken together, these developments indicate limited cannibalisation between thematic and sector strategies. Rather, each addresses distinct objectives, risk profiles, and liquidity requirements.

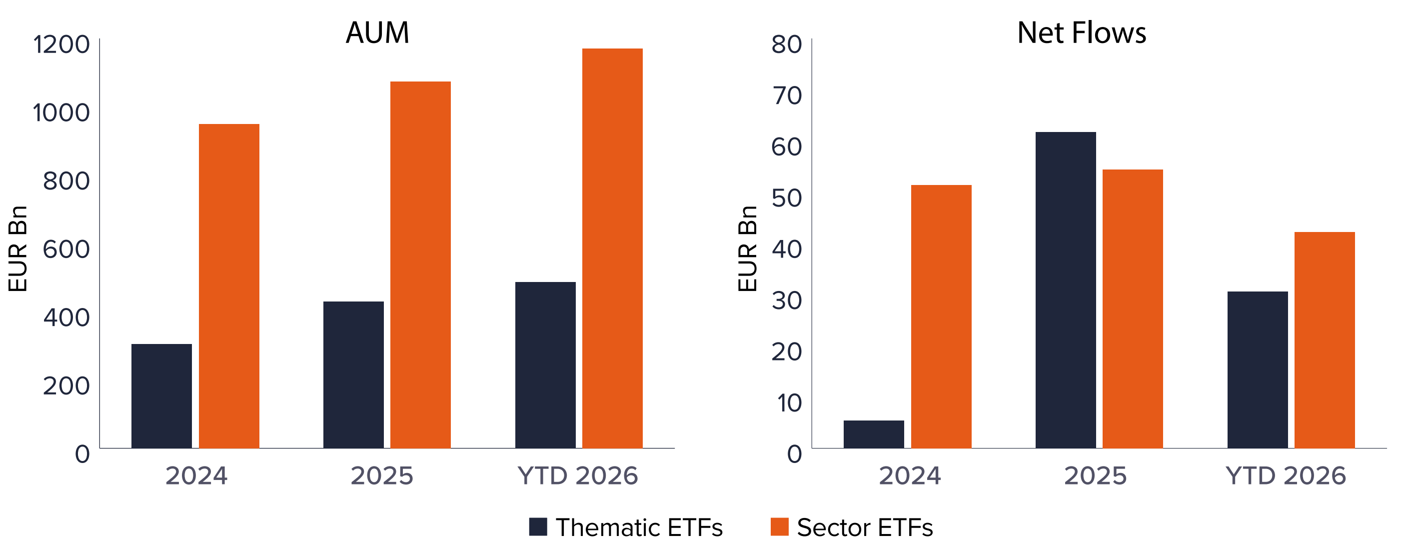
Themes vs. sectors: What sets them apart?

Sector investing has a long history: some of the earliest sector mutual funds – such as technology-focused vehicles from Fidelity – date back to the early 1980s. Thematic products, in contrast, only gained prominence in the early 2000s.
At a conceptual level, the two strategies differ significantly:

• **Sector investing** groups companies based on primary business activity, according to established taxonomies like ICB or GICS. Exposures often reflect cyclical dynamics and industry-specific fundamentals.

• **Thematic investing** targets companies aligned with structural megatrends – such as digital transformation or demographic shifts — that span multiple sectors.

Figure 1: Thematic and sector ETFs asset values and net flows



Data through February 2026. Data covers all ETFs worldwide. Source: STOXX, Morningstar Direct. AUM = assets under management. NNA = net new assets.

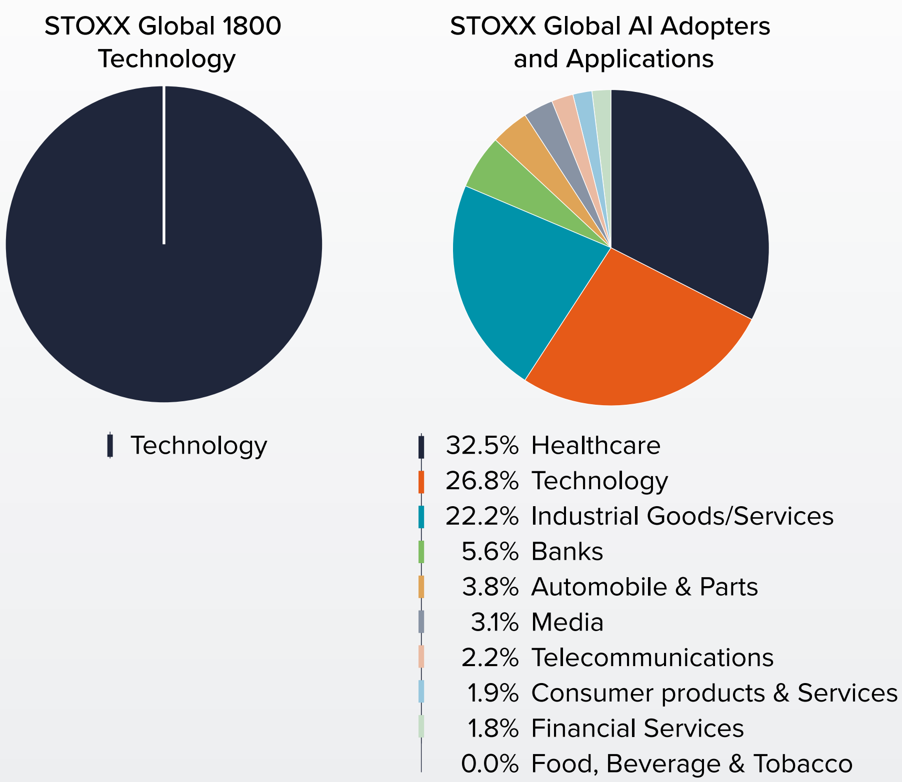
Figure 2: Top five thematic and sector STOXX-linked ETFs by AUM

Top 5 Thematic ETFs	AUM (Bn EUR)
iShares Automation & Robotics	3.5
FlexShares STOXX Global Broad Infrastructure	2.7
iShares Digital Security	1.4
L&G Gold Mining	1.0
iShares Healthcare Innovation	0.9

Top 5 Sector ETFs	AUM (Bn EUR)
Amundi EURO STOXX Banks	5.2
iShares STOXX Europe 600 Banks	3.9
iShares EURO STOXX Banks 30-15 (DE)	2.9
Amundi STOXX Europe 600 Banks	2.8
Select STOXX Europe Aerospace & Defense	1.2

Data through February 2026. ETFs sorted by assets under management. Source: STOXX.

Figure 3: Supersector weightings



Data as at 30 January 2026. Source: STOXX.

Because themes cut across industries, thematic portfolios tend to be more diversified and forward-looking, driven by multi-year structural narratives rather than economic cycles.

Examples:

- **Sectors:** banks, utilities, broad technology

- **Themes:** artificial intelligence, energy storage, ageing population

Figure 3 illustrates the contrasting ICB Supersector compositions of the STOXX Global 1800 Technology sector index and the STOXX Global AI Adopters and Applications thematic index.

A different approach to stock selection

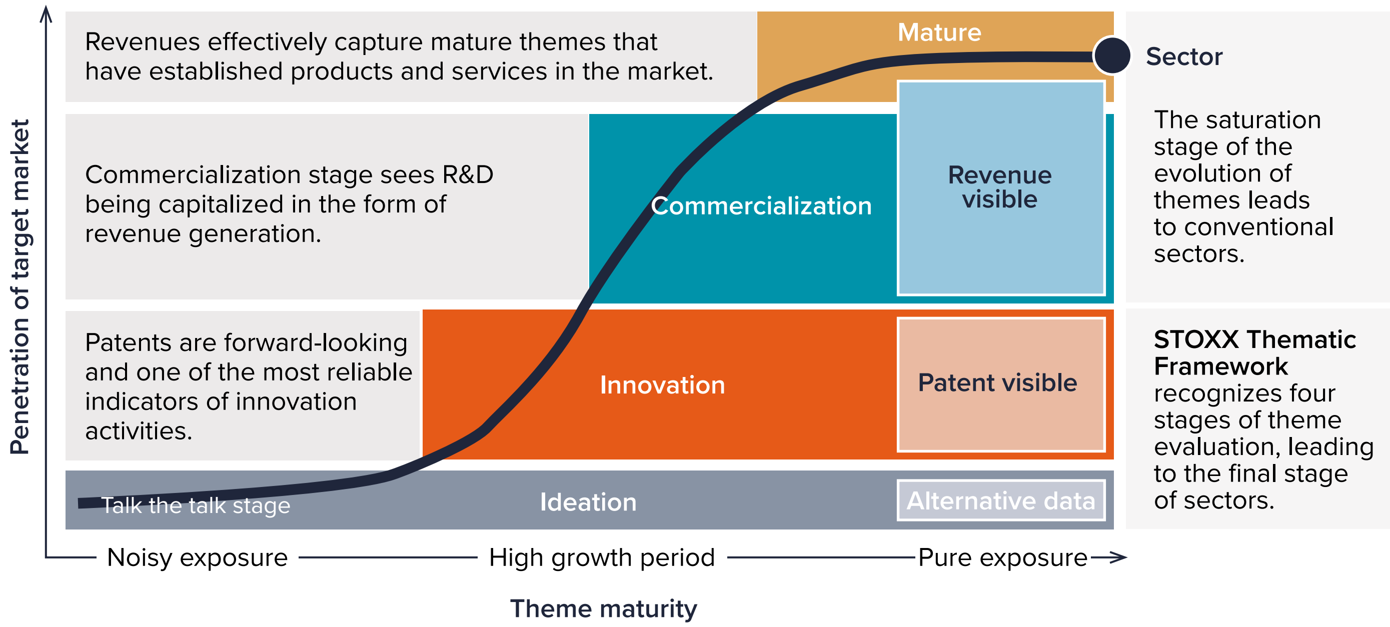
The selection methodologies reinforce the conceptual distinction between sectors and themes:

- **Sector indices** typically rely on revenue classification, reflecting established and clearly defined lines of business.

- **Thematic indices** often cover activities where revenues may not yet fully capture a company's thematic relevance. As a result, index construction can incorporate revenues as well as alternative datasets such as patent activity, R&D intensity or AI-driven text analysis.

Some themes eventually mature into sectors. Examples include Transaction & Payment Processing Services, and Internet Services & Infrastructure, which began as niche themes before becoming formally classified industries.

Figure 4: STOXX Thematic Framework — Mapping a theme's evolution



Source: STOXX.

Figure 5: Comparative analysis of thematic and sector indices

Average	3Y annualised return	3Y annualised volatility	3Y correlation
STOXX Global 1800 Sector indices (EUR)	11.8%	15.6%	0.64
STOXX Europe 600 Sector indices (EUR)	11.6%	17.1%	0.66
STOXX Thematics (EUR)	20.0%	19.6%	0.72
STOXX Thematics – Future Technology	22.9%	19.8%	0.85
STOXX Thematics – Socio-demographics	25.2%	18.3%	0.71
STOXX Thematics – Environmental	10.4%	21.6%	0.57

Data through January 2026. All gross returns in EUR. Correlation for the Global sector indices is to the STOXX Global 1800. Correlation for the Europe sector indices is to the STOXX Europe 600. Correlation for Thematics is to each index's respective benchmark – including the STOXX World AC Universal All Cap, STOXX Global Total Market and STOXX Developed and Emerging Markets Total Market. For index fundamental and correlation data, visit the STOXX Monthly Reports. Source: STOXX.

Mapping a theme's evolution

The STOXX Thematic Framework (Figure 4) underlies the construction of STOXX thematic indices by aligning each theme to an 'innovation adoption curve,' spanning ideation, R&D, commercialisation and mass adoption.

Early-stage themes rely more heavily on qualitative signals, while revenue-based metrics become more robust as commercialisation accelerates.

Performance insights

Figures 5 and 6 compare fundamental characteristics across sector and thematic indices. The STOXX Global 1800 Sector and STOXX Europe 600 Sector indices show the average values for 20 sector indices derived respectively from the global and pan-European benchmarks. The thematics rows show the average of over 40 selected STOXX indices grouped by the three thematic categories of Future Technology (themes such as AI infrastructure, automation & robotics and quantum computing), Socio-demographics (ageing population and defence), and Environmental (lithium & battery producers, copper miners and electric vehicles & driving technology).

On average over the past three years, STOXX thematic indices outperformed sector indices amid a risk-on environment, with only marginally higher volatility.

Within thematic categories, Future Technology and Socio-demographics themes were the primary performance drivers. Environmental themes, by contrast, lagged and exhibited higher volatility.

Themes vs. sectors: How investors are using them

Thematic strategies initially served as 'satellite' holdings given their shorter track record and higher risk/return dispersion. However, as many themes have matured and assets have grown, investors are increasingly considering them for different types of allocations.

Speaking at the Eurex Derivatives Forum in Frankfurt in February, Frederike Bauer, Product Specialist at DWS, noted a shift in investor behaviour. "Thematic ETFs, traditionally used for long-term megatrend exposure, are now deployed more tactically to capture geopolitical, technological or policy-driven shifts in real time," she said.

A growing toolkit for portfolio construction

Sector and thematic strategies ultimately serve complementary purposes. Sector indices offer clear, economically-grounded exposures aligned with business cycles. Thematic indices provide access to structural trends that cut across industries. Neither appears to replace the other; instead, both expand the toolkit for targeted and diversified portfolio construction.

Recent flow patterns confirm this. Thematic growth is not eroding sector allocations — rather, it is adding more granular ways for investors to express conviction. As thematic investing becomes more popular and established, more themes will evolve into sectors. With this evolution and new products covering both themes and sectors coming to market, investors benefit from a broader and more versatile set of building blocks.

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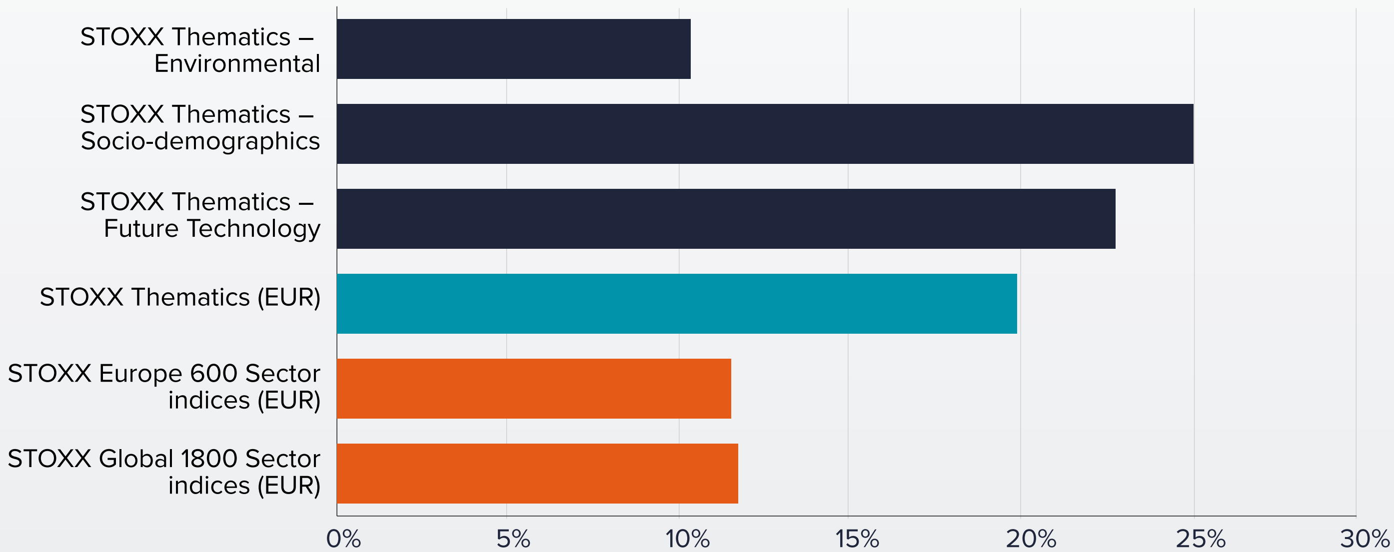
Figure 6: Three-year annualised returns of thematic and sector indices



Data through January 2026. All gross returns in EUR. Source: STOXX.

How a sharper focus sets thematic ETFs apart from sector funds

Fund selectors examine overlaps, concentration and risk at a broader portfolio level

Ebru Sofuoglu
Head of Content,
ETF Stream

> The way we think about thematic allocations today is that they can be useful, but they should earn their place in a portfolio rather than be treated as a shortcut to growth. In most cases, themes work best as a satellite exposure around a well-diversified core, because the core already does most of the heavy lifting.
>
> Nathan Sweeney, CIO multi-asset, Marlborough

Thematic ETFs have burst into the mainstream in the post-COVID-19 era as investors in Europe seek diversified exposure to disruptive megatrends, from alternative energy to artificial intelligence and defence. Yet, as the market deepens, so too does investor scrutiny and calls for future themes to provide meaningful differentiation within their portfolio construction.

Rather than replacing sector allocations, thematic ETFs are increasingly being used in conjunction, with a sharpened focus on their use case, position size and interaction with existing exposures.

That starting point is consistent across allocators. Nathan Sweeney, CIO multi-asset at Marlborough, said: "The way we think about thematic allocations today is that they can be useful, but they should earn their place in a portfolio rather than be treated as a shortcut to growth." He added: "In most cases, themes work best as a satellite exposure around a well-diversified core, because the core already does most of the heavy lifting."

This reflects how thematic strategies are competing for space and risk budget against conventional equity market allocations which are established within portfolios. With market cap-weighted broad equity ETFs already providing significant exposure to large-cap growth, additional allocations need to be assessed carefully. Sweeney said: "The risk with thematic investing is that a compelling story can tempt investors to pay twice for the same idea, often later in the cycle and at a higher valuation."

Duplication considerations also surface when assessing how themes interplay with traditional sector exposures. "The overlap with sector exposures is often greater than it first appears," Sweeney said.

He added: "A theme may sound differentiated, but in practice, it can simply repackage exposures that investors already own in technology, industrials, or healthcare. That is why we look through the label and into the underlying holdings, factor tilts and concentration risk."

David Kerr, investment director at Callanish Capital, takes a similar view. "We do not treat themes as a separate allocation. They are a way of expressing long-term economic and market trends," he said.

He added: "There is often significant overlap between thematic and sector exposures, with many themes effectively constituting concentrated sector positions", noting this is managed "through detailed look-through analysis and deliberate sizing, with the focus on portfolio-level risk rather than thematic labels."

This overlap is not always obvious at the surface level, which is why investors are increasingly focused on the underlying construction of thematic products. Stephan Kemper, chief investment strategist at BNP Paribas, said: "We constantly have to ask ourselves: 'Do we already hold these exact same stocks through a core index investment (e.g. S&P 500) or another standard fund such as a broader tech fund?"

That level of scrutiny is shaping how thematic allocations are implemented. Sweeney said, "If a thematic ETF is largely giving you mega-cap tech, semiconductors or expensive growth stocks you already hold elsewhere, then it is not adding diversification; it is magnifying a position."

While overlap is a central concern, investors also see a clear role for thematics when used correctly. Kemper said: "We view thematic allocations as an interesting way to increase targeted exposure within a portfolio."

"A thematic investment needs to be sharply defined to offer a genuine chance for outperformance against broader indices," he added.

This focus on definition reflects a broader point about how themes are constructed. Ladi Williams, head of thematics and strategy index product management at STOXX, said: "When designing a thematic index, the process begins with macroeconomic research to define the investment thesis. This helps identify the key drivers of expected growth and uncover relevant sub-themes, each with unique characteristics."

The idea of sub-themes is important in understanding why thematic exposures can behave differently from traditional sector allocations. Williams also said: "Different evolution stages call for a tailored approach to identifying companies." He added: "For the early stages of evolution, for example, a forward-looking indicator such as patent activity is more effective in spotting the likely leaders in the field in coming years. Once the commercialisation stage is well established, a more traditional metric like revenue gains relevance."

This introduces a structural difference between thematic and sector investing. Sector indices are typically based on current revenue classification, while thematic indices may incorporate forward-looking indicators, particularly in earlier-stage trends. This can allow investors to access emerging opportunities earlier but also makes exposures more dependent on methodology.

The way these allocations are used also varies depending on investment approach. Dan Caps, portfolio manager at Evelyn Partners, said: "There are a number of ways thematics can be used in client portfolios, but the most common that we see is a high conviction allocation designed to capture trends which focus on how the world may change in the coming months, years or decades."

He added: "Within the mega-trends and the thematic allocations which we use to capture them, we are focusing on long-term structural shifts."

That long-term framing makes the question of implementation more important, particularly in assessing whether a thematic allocation is delivering genuinely differentiated exposure within a portfolio.

Sweeney said: "The real test is whether the theme gives access to a structural trend that cuts across sectors and genuinely broadens the opportunity set, rather than just dressing up a sector allocation in more fashionable language."

As thematic and sector ETFs continue to grow in parallel, the distinction between them is becoming less about competition and more about how they can differ to complement one-another within portfolios. Investors are using both approaches to express different convictions over different time frames.

Thematic strategies can offer additional granularity alongside established sector exposures. The challenge is ensuring that this added precision translates into genuinely differentiated outcomes.

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