

## Special Report: Astoria's 10 ETFs for 2021

- Investors' love affair with past winners is **insatiable**. The 'conventional wisdom' on Wall Street is that **IPOs, Private Equity, SPACs, and Large-Cap Growth stocks** will continue to be the '*big winners*' in the post pandemic environment. Unfortunately, yesterday's darlings almost never outperform in the future with the **same risk-adjusted returns per unit of liquidity risk** (this is important) as they did in the past. Paradigm shifts typically happen *slowly* and *quietly* with most investors realizing **after the fact**.
- Many firms put out their 2021 outlook reports but **very few of them are actionable**. We wish they would attach a link to their prior year forecasts so we can judge how well they did. The goal of this piece is to not only provide **unique thought leadership**, but to provide investors with **actionable investment ideas**. Here is our 10 ETFs for 2020 (click [here](#)) so you can evaluate our calls.

### Exhibit 1. Astoria's 10 ETF Themes for 2021

Astoria's 10 ETF Themes for 2021			
Theme	Ticker	Name	Segment
1). Commodity Equities	COPX	Global X Copper Miners ETF	Global Metals & Mining
1). Commodity Equities	PICK	iShares MSCI Global Metals & Mining Producers ETF	Global Metals & Mining
1). Commodity Equities	XME	SPDR S&P Metals & Mining ETF	U.S. Metals & Mining
2). HealthCare	FBT	First Trust NYSE Arca Biotechnology Index Fund	U.S. Biotech
2). HealthCare	ARKG	ARK Genomic Revolution ETF	Global HealthCare Pharma & Med Equi
3). Cyclical Growth	XLE	Energy Select Sector SPDR Fund	U.S. Energy
3). Cyclical Growth	KBWB	Invesco KBW Bank ETF	U.S. Banks
3). Cyclical Growth	XLB	Materials Select Sector SPDR Fund	U.S. Basic Materials
3). Cyclical Growth	XLI	Industrial Select Sector SPDR Fund	U.S. Industrials
4). Clean Energy	ICLN	iShares Global Clean Energy ETF	Global Renewable Energy
5). Higher Quality US Small-Caps	EES	WisdomTree U.S. Small-Cap Fund	U.S. - Small-Cap
6). Higher Quality EM Equities	DGRE	WisdomTree Emerging Markets Quality Dividend Growth Fund	Emerging Markets - Total Market
7). Treasury Inflation Protected Securiti	VTIP	Vanguard Short-Term Inflation-Protected Securities ETF	U.S. - Gov; Infl-linked Inv Grade ST
8). Mid-Cap Growth	VOT	Vanguard Mid-Cap Growth ETF	U.S. - Mid-Cap Growth
9). China	MCHI	iShares MSCI China ETF	China - Total Market
10). Emerging Market Debt	EMB	iShares JP Morgan USD Emerging Markets Bond ETF	EM - Gov; Non-Native Currency

Source for 10 ETF Themes for 2021 is Astoria Portfolio Advisors. Segment data retrieved from [ETFAction.com](https://www.etf.com) on December 14, 2020.

### #1. Commodity Equities: COPX (Global X Copper Miners ETF), PICK (iShares MSCI Global Metals & Mining Producers ETF), and XME (SPDR S&P Metals & Mining ETF)

- We have had gold and gold miners in our **Core ETF Portfolios** in the prior 2 years which worked well. We still hold both forms of gold but acknowledge that on a return per unit of risk basis, they are not as attractive as commodity equities. In the early 2000's, commodities were all the rage. At one point, Petrobras and Exxon Mobil were amongst the top stocks in the MSCI indices. Nowadays, it feels like nobody wants to hold commodity equities within reach of a 10-foot pole. Based on our experience, that is usually when you want to buy an asset. We are using commodity equities in our newly developed **Inflation Sensitive Thematic Portfolio**.

### #2. HealthCare: FBT (First Trust NYSE Arca Biotechnology Index Fund) and ARKG (ARK Genomic Revolution ETF)

- We are in the middle of the worst healthcare crisis in the past 100 years. There is a huge bull market in the healthcare industry which is hard to ignore. A successful vaccine is likely the only way that life normalizes. Per ETFAction.com, **FBT** trades with a 19 PE ratio and its 2021 earnings growth estimate is 337%. 36% of the ETF is geared towards Mid-Cap stocks which fits our preference to move down the market cap range in 2021. **ARKG** is focused on genomic sequencing, stem cell research, agricultural biology, and molecular diagnostics. We view ARKG as a complete lotto ticket with very idiosyncratic risks. Hence, we have sized it accordingly in our **Disruptive Growth Thematic Portfolio**.

### #3. Cyclical Growth: XLE (Energy Select Sector SPDR Fund), KBWB (Invesco KBW Bank ETF), XLB (Materials Select Sector SPDR Fund), and XLI (Industrial Select Sector SPDR Fund)

- Right now, the retail traders are out with vengeance cobbling up disruptive growth ETFs. We own some of those ETFs in our **Disruptive Growth Thematic Portfolio** in which we are mandated to have these exposures. However, in the portfolios where we have flexibility, we believe **Cyclical Growth is the sweet spot**. If you think that the entire global economy is going to suddenly drive electric cars, use PayPal and Venmo, think again. The energy and banking system represent too much of the global economy. Be careful what you wish for. Meanwhile, there is a lot of historical data showing that Cyclicals have done relatively well coming out of a recession when the economy hits full stride. This is not necessarily a long-term trade, but an attractive tactical opportunity over the next 12-18 months. We like **XLE, KBWB, XLB, and XLI** to play a cyclical upswing in the US economy.

### #4. Clean Energy: ICLN (iShares Global Clean Energy ETF)

- Every new US President has a few of their 'wish list' policies implemented. Is a divided Congress going to block a Clean Energy deal? Who knows, but we do think there is enough of a margin of safety in this area? **ICLN** trades with a 23 PE ratio versus 26 for SPY. The 2021 earnings growth estimate for **ICLN** is 31% versus 22% for **SPY**.

#### #5. Higher Quality US Small-Caps: EES (WisdomTree U.S. Small-Cap Fund)

- We added **EES** to our **Core ETF Portfolios** in July. We went on **CNBC** in June and argued there was a cyclical upswing to the US economy and investors should rotate into Value, Cyclical, and US Small-Caps (click [here](#)). At first, we wanted to dip our toes into **EES** which has a quality filter and then weights the companies in the index by their earnings. Perhaps we need to be more aggressive with our Small-Cap position.

#### #6. Higher Quality EM Equities: DGRE (WisdomTree Emerging Markets Quality Dividend Growth Fund)

- A weaker dollar + a Fed that is on hold + investors starving for yield + a valuation that provides a margin of safety = a nice backdrop for Emerging Markets stocks. We remain **overweight** Emerging Market equities via **DGRE** in our **Core ETF Portfolios** and are using **MCHI** as a satellite **overweight**. **DGRE** trades 3 valuation turns cheaper than **EEM**. Moreover, it has 200bps more exposure to Technology and 500bps less exposure to Financials compared to **EEM** (both of which fit our preference). Lastly, **DGRE** has a higher ROE and ROA (by design) than **EEM**. We do **love quality** at Astoria Portfolio Advisors.

#### #7. Treasury Inflation Protected Securities: VTIP (Vanguard Short-Term Inflation-Protected Securities ETF)

- The amount of **M1 money is skyrocketing** and we believe there could be a **moderate surge in inflation** (3% to 3.5%) in 2021. We added **VTIP** to hedge potential inflation risks back in April. We remain **underweight** Fixed Income across our **Core ETF Portfolios**.

#### #8. Mid-Cap Growth: VOT (Vanguard Mid-Cap Growth ETF)

- We added **VOT** to our **Core ETF Portfolios** earlier this year as we were **underweight** Growth but did not want to pay up for Large-Cap Growth stocks. The largest stock weights in **VOT** are approximately 1.5%, so we felt that the risks were balanced relative to their current multiples. Eventually many of these Mid-Cap Growth stocks become Large-Cap Growth stocks.

#### #9. China: MCHI (iShares MSCI China ETF)

- **China** remains one of our strategic **overweights** in our **Core ETF Portfolios**. This year was a perfect example of the **value of having China in a portfolio**. We are in the middle of one of the worst recessions in history and **China operated as though it had not missed a beat**. As of Friday, Dec 11<sup>th</sup>, **MCHI outperformed SPY by nearly 10%**. China can stimulate their economy like no other country in the world. They have their own monetary and fiscal systems and are not as reliant on the Western economy as they used to be.

## #10. Emerging Market Debt: EMB (iShares JP Morgan USD Emerging Markets Bond ETF)

- The world's demand for yield is not going to go away anytime soon. While we only own **EMB** in our **Enhanced Income Portfolio** where we are mandated to go out the duration curve and take more credit risk, we still think **EMB** is worthy to be on our list. **EMB** tracks an index of US-dollar-denominated sovereign debt issued by Emerging Market countries with more than \$1B outstanding and at least two years remaining in maturity. **EMB yields 4%** has a **correlation of 0.41** to the **AGG** ETF. If our view that Emerging Markets will benefit from an attractive macro backdrop, **EMB** should benefit.

### Exhibit 2. Valuation Data for Astoria's Equity ETFs for 2021

Astoria's Equity ETFs for 2021					
Ticker	Yield	2021E EPS	PE Ratio	ROE	ROA
COPX	2.1%	73.6%	19.4	5.0%	2.3%
PICK	3.8%	40.9%	16.5	9.6%	4.0%
XME	1.7%	307.9%	17.1	-1.8%	-0.6%
ARKG	0.1%	11.8%	–	-21.9%	-12.4%
FBT	0.4%	337.1%	19.6	0.2%	0.1%
XLE	5.4%	739.8%	–	5.1%	2.4%
KBWB	3.3%	27.3%	15.4	8.6%	1.0%
XLB	1.9%	27.7%	33.1	11.3%	4.4%
XLI	2.0%	78.6%	26.1	22.4%	5.6%
ICLN	0.9%	30.8%	23.0	7.0%	2.4%
EES	2.1%	136.7%	13.7	8.9%	1.9%
DGRE	2.8%	35.7%	15.9	13.7%	2.8%
VOT	0.7%	32.7%	35.1	10.6%	3.4%
MCHI	1.7%	24.6%	17.4	11.2%	1.7%

Table Source: Astoria Portfolio Advisors. Data retrieved from [ETFAction.com](http://ETFAction.com) on December 14, 2020.

### Exhibit 3. Characteristics for Astoria's Fixed Income ETFs for 2021

Astoria's Fixed Income ETFs for 2021										
Ticker	Number of Holdings	30 Day SEC Yield	Standard Deviation	Weighted Average Coupon	Weighted Average Maturity	Option Adjusted Spread	Average Yield to Maturity	12m Trailing Yield	Effective Duration	Convexity
VTIP	21	-1.1%	1.7%	0.4%	2.7 years	–	0.3%	1.2%	2.7 years	–
EMB	547	3.6%	11.3%	4.9%	13.8 years	304	3.9%	4.0%	8.7 years	0.9

Table Source: Astoria Portfolio Advisors. Data for VTIP retrieved from [Vanguard.com](http://Vanguard.com) on December 14, 2020. Data for EMB retrieved from [iShares.com](http://iShares.com) on December 14, 2020.

Below is a list of the **ETF and Thematic Stock Portfolios** that Astoria offers.

Model	
<u>ETF Strategies</u>	
<b>Aggressive ETF Portfolio</b> 75% / 25% Risk Profile	A cross-asset ETF portfolio: 75% equities, 25% fixed income/other.
<b>Growth ETF Portfolio</b> 65% / 35% Risk Profile	A cross-asset ETF portfolio: 65% equities, 35% fixed income/other.
<b>Growth &amp; Income ETF Portfolio</b> 55% / 45% Risk Profile	A cross-asset ETF portfolio: 55% equities, 45% fixed income/other.
<b>Conservative ETF Portfolio</b> 35% / 65% Risk Profile	A cross-asset ETF portfolio: 35% equities, 65% fixed income/other.
<b>Risk Managed Dynamic Income (RMDI) ETF Portfolio</b> 20% / 80% Risk Profile	A cross-asset ETF portfolio: 20% equities, 80% fixed income/other.
<b>Enhanced Income ETF Portfolio</b> 20% / 80% Risk Profile	A cross-asset ETF portfolio with a 4% dividend yield target.
<b>Ultra Conservative ETF Portfolio</b> 0% / 100% Risk Profile	100% low duration bonds with low risk attributes.
<b>US Thematic Equity ETF Portfolio</b> 80% / 20% Risk Profile	A cross-asset ETF portfolio: 80% US equities, 20% other.
<b>Inflation Sensitive ETF Portfolio</b>	A cross-asset ETF portfolio: 60% equities, 40% fixed income/other. 10 ETFs that are sensitive to rising inflation.
<b>Disruptive Growth ETF Portfolio</b>	13 ETFs focused on disruptive industries such as Genomics, Self-Driving Cars, Robots, A.I., & Machine Learning.

Table Source: Astoria Portfolio Advisors. Note that Astoria offers ESG equivalents of our Core ETF Portfolios.

Model	
<u>Equity Strategies</u>	
<b>High Quality US Stock Portfolio</b> Equities	30 stocks with dividend-paying and high quality characteristics.
<b>High Dividend Yield US Stock Portfolio</b> Equities	30 high quality stocks with above average dividend-paying potential.
<b>High Growth US Stock Portfolio</b> Equities	40 stocks that are projected to have relatively higher earnings, sales, & net margins.
<b>Cyclicals US Stock Portfolio</b> Equities	30 stocks sensitive to an acceleration of the global economy.

Table Source: Astoria Portfolio Advisors.

- Background information: Astoria's CIO has been producing a **dedicated Year Ahead ETF outlook for close to a decade**. We like that our peers are starting to throw their hat into the ring. We try not to repeat our ETFs from one year to the next as our goal is to communicate unique *and* actionable thematic ideas for the investment community. If VTI, IEFA, and SPAB were on our top 10 list every year, then it wouldn't be an interesting report to read, right? Also, we own each of these ETFs in this report in one shape or form. Why would we highlight an ETF in our report that we thought offered value and did not own for our investors?
- Disclaimer: Astoria runs various ETF managed portfolios with different risk tolerance bands and with different holdings. The commentary in this report is generally centered around our Dynamic ETF Portfolios. Our Strategic ETF Portfolios will vary from the holdings noted in this report.
- The ETFs highlighted in this report are solutions that Astoria finds attractive on a per unit of risk basis. However, this list is not meant to be an asset allocation strategy, a trading idea, or an ETF managed portfolio. As such, this list does not constitute a recommendation of any ETF. There are other ETFs that Astoria currently owns which are not highlighted in this report. Contact us for a list of all of Astoria's ETF holdings.
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- Past performance is not indicative of future results. Investors should understand that Astoria's 10 ETF Themes for 2021 is not indicative of how Astoria manages money or risk for its investors. Note that Astoria shifts portfolios depending on market conditions, risk tolerance bands, and risk budgeting. As of the time this article was written, Astoria held positions in each of the ETFs in our 2021 outlook report.

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