

Special Report: Astoria's 10 ETF Themes for 2022

- Investors' love affair with past winners is **insatiable**. The 'conventional wisdom' on Wall Street is that **US Large-Cap index stocks, Mega Cap Technology, and NFTs** will continue to be the '*big winners*' in the years to come. Unfortunately, yesterday's darlings seldom 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 2022 reports with forecasts and predictions, but **very few of them are actionable**. We wish the authors 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 are our 10 ETFs for 2021 (click [here](#)) so you can evaluate our calls.

Exhibit 1. Astoria's 10 ETF Themes for 2022

| Astoria's 10 ETF Themes for 2022 | | | |
|----------------------------------|--------|---|--------------------------|
| Theme | Ticker | Name | Segment |
| 1). Inflation | PPI | AXS Astoria Inflation Sensitive ETF* | Inflation |
| 1). Inflation | BCI | abrdrn Bloomberg All Commodity Strategy K-1 Free ETF | Global Broad Market |
| 1). Inflation | KBWB | Invesco KBW Bank ETF | U.S. Banks |
| 2). Dividend Income | SDY | SPDR S&P Dividend ETF | U.S. Large-Cap |
| 2). Dividend Income | SPYD | SPDR Portfolio S&P 500 High Dividend ETF | U.S. Large-Cap |
| 3). Real Estate | NETL | NETLease Corporate Real Estate ETF | U.S. Real Estate |
| 4). MLPs | MLPA | Global X MLP ETF | U.S. Energy |
| 5). Blockchain | BLOK | Amplify Transformational Data Sharing ETF | Global FinTech |
| 6). Homebuilders | ITB | iShares U.S. Home Construction ETF | U.S. Homebuilding |
| 7). Defensive Equity | USMV | iShares MSCI USA Min Vol Factor ETF | U.S. Broad Market |
| 7). Defensive Equity | XLU | Utilities Select Sector SPDR Fund | U.S. Utilities |
| 7). Defensive Equity | XLV | Health Care Select Sector SPDR Fund | U.S. Health Care |
| 8). Overwriting | QYLD | Global X NASDAQ 100 Covered Call ETF | U.S. Large-Cap |
| 9). Fixed Income Alternatives | SRLN | SPDR Blackstone Senior Loan ETF | Global Senior Loans |
| 9). Fixed Income Alternatives | HYD | VanEck High Yield Muni ETF | U.S. High Yield |
| 10). International Equities | IHDG | WisdomTree International Hedged Equity Wuality Dividend Growth Fund | Dev Ex-U.S. Broad Market |

Source of 10 ETF Themes for 2022: Astoria Portfolio Advisors. Segment data retrieved from ETF Action on December 22, 2022. Please refer to disclaimers at the back of this report for which ETFs Astoria holds on behalf of our clients. *Please see disclaimers at the back of this report for important information regarding PPI as it relates to Astoria Portfolio Advisors being a subadvisor for the ETF.

#1. Inflation: PPI (AXS Astoria Inflation Sensitive ETF*), BCI (Aberdeen Bloomberg All Commodity Strategy K-1 Free ETF), and KBWB (Invesco KBW Bank ETF)

PPI (AXS Astoria Inflation Sensitive ETF*)

- Historically, cyclically oriented sectors such as energy, materials, industrials, and financials have shown higher sensitivity to rising inflation. Hence, we believe this cohort of stocks can benefit from higher inflation. Additionally, commodities serve to provide additional protection as they tend to move at a different stage of the inflation cycle. Astoria has had an out-of-consensus view dating back to 2020 that inflation would be higher than most were expecting.
- It has been a perfect storm for higher inflation. **Supply chains broken + tons of liquidity being pumped into the system by governments and central banks = higher than expected inflation.** Remember, inflation was largely ignored over the past decade, and we think we are still in the early stages of the inflation cycle. Moreover, inflation-linked assets still offer an attractive margin of safety.
- PPI invests in securities across multiple asset classes with the potential to benefit, either directly or indirectly, from higher inflation. The ETF will generally hold 40-50 stocks in the energy, materials, industrial, and financial sectors. PPI may invest in other ETFs with exposure to physical commodities or commodity equities. At times, the ETF may also invest in sector ETFs that are expected to benefit from rising inflation. Astoria holds PPI on behalf of our client accounts.

KBWB (Invesco KBW Bank ETF) & BCI (Aberdeen Bloomberg All Commodity Strategy K-1 Free ETF)

- Astoria holds **KBWB** in our **Dynamic Aggressive, Growth, Growth & Income, and Conservative ETF Portfolios**. We hold both **KBWB** and **BCI** in our **Inflation Sensitive ETF Portfolio and Renaissance Risk Managed Rotation Portfolio**. **BCI** is also held in our **Multi-Asset Risk Strategy ETF Portfolio**. Both ETFs are additional ways that Astoria believes can be utilized to play higher inflation.

#2. Dividend Income: SDY (SPDR S&P Dividend ETF) and SPYD (SPDR Portfolio S&P 500 High Dividend ETF)

- We believe US large cap index returns will be relatively lower in the years to come. Hence, we think investors should focus more on total return of which dividends play a crucial role. Consistent high-yielding, low-cost dividend ETFs have a place in strategic portfolios.
- **SDY** and **SPYD** track the returns of the S&P High Yield Dividend Aristocrats Index and the S&P 500 High Dividend Index, respectively, while providing a healthy dividend in the meantime. **SDY** provides a 2.6% yield and was up 25% in 2021. **SPYD** yields 3.7% and was up 33% in 2021. Astoria holds **SPYD** in our **Enhanced Income Portfolio** and holds both **SPYD** and **SDY** in our **Renaissance Risk Managed Rotation Portfolio**. (Data Source: ETF Action. Data as of December 31, 2021)

#3. Real Estate: NETL (NETLease Corporate Real Estate ETF)

- Net Lease agreements are long-term agreements in which the lessee is responsible for most of or all the property expenses. As a result, Net Lease REITs have predictable sources of income, pay favorable dividends, as well as offer attractive after-tax returns. Additionally, owning a portfolio of Net Lease REITs in an ETF package is favorable amid unprecedented and rising inflation. Rent escalation provisions in many leases could allow for better inflation-adjusted returns. Astoria uses **NETL** in our **Enhanced Income ETF Portfolio**.

#4. MLPs: MLPA (Global X MLP ETF)

- **MLPA** is utilized in our **Enhanced Income ETF Portfolio**. Owning shares of an MLP or an MLP ETF is a unique income tool. MLPs are traded along with public companies but are taxed as a private partnership. They do not pay corporate income taxes and their investors receive tax-sheltered distributions. **MLPA** has a yield of 8.9% and a 2022E EPS of 37%. (Data Source: ETF Action. Data as of December 31, 2021)

#5. Blockchain: BLOK (Amplify Transformational Data Sharing ETF)

- The digital transaction recording and asset tracking technology that is blockchain has been permeating the market. Many companies are working to develop innovations for utilizing this new technology; **BLOK** invests in the securities of companies it believes will profit from the growth of blockchain. Astoria recognizes the growth and potential of blockchain and holds **BLOK** in our **Disruptive Growth ETF Portfolio**, as well as our **Cryptocurrency ETF Portfolio**.

#6. Homebuilders: ITB (iShares U.S. Home Construction ETF)

- Homebuilders have struggled for materials in their backed-up supply chains; supplies are low, but demand is high. As COVID-19 becomes less of a threat with vaccinations, treatments, and various other factors, supply chains should begin to ease up. We believe homebuilders are uniquely positioned to benefit from the COVID migration out of cities into rural parts of the US, as well as overall higher inflation rates.

#7. Defensive Equity: USMV (iShares MSCI USA Min Vol Factor ETF), XLU (Utilities Select Sector SPDR Fund), and XLV (Health Care Select Sector SPDR Fund)

- As markets begin to transition to the later stage of the economic cycle, we think balancing cyclically orientated sectors with low volatility and defensive cohorts is attractive from a risk/return standpoint. Dampening the volatility of your portfolio and exposure to stable, inelastic sectors like healthcare and utilities can help soften portfolio volatility. ETFs like **USMV**, **XLU**, and **XLV** are three instruments that investors can utilize for defensive posturing. All three have relatively attractive ROE, ROA, and yield attributes (see Exhibit 2).

#8. Overwriting: QYLD (Global X NASDAQ 100 Covered Call ETF)

- In a market with high stock prices, exuberant sentiment, and extreme volatility, covered call overwriting is attractive. In this unprecedented time, taking advantage of these overwriting opportunities in an ETF wrapper saves investors time and hassle. **QYLD** is providing a TTM yield of 12.8%. (Data Source: ETF Action. Data as of December 31, 2021)

#9. Fixed Income Alternatives: SRLN (SPDR Blackstone Senior Loan ETF) and HYD (VanEck High Yield Muni ETF)

- The future of fixed income is uncertain. As we remain unsure of how quickly the Fed will act, **SRLN** and **HYD** provide attractive opportunities as alternatives for fixed income. At yields of 4.5% and 3.5%, respectively, **SRLN** and **HYD** have tremendous income characteristics and are held in Astoria's **Enhanced Income ETF Portfolio**. (Data Source: ETF Action. Data as of December 31, 2021)

#10. International Equities: IHDG (WisdomTree International Hedged Quality Dividend Growth Fund)

- International equities are attractive for their competitive valuations and yield. **IHDG** provides investors with high quality dividend growth exposure for international stocks. Astoria holds the **IHDG** ETF in our **Dynamic Aggressive, Growth, Multi-Asset Risk Strategy, Growth & Income, Conservative, and Income ETF Portfolios**.

Exhibit 2. Valuation Data for Astoria's Equity ETFs for 2022

| Astoria's Equity ETFs for 2022 | | | | | |
|--------------------------------|-------|-----------|----------|-------|------|
| Ticker | Yield | 2022E EPS | PE Ratio | ROE | ROA |
| QYLD | 12.8% | 9.4% | 32.2 | 22.7% | 8.7% |
| IHDG | 2.8% | -5.8% | 16.3 | 21.2% | 8.8% |
| XLV | 1.3% | 6.8% | 24.0 | 20.2% | 7.1% |
| USMV | 1.3% | 7.4% | 26.1 | 19.3% | 6.2% |
| ITB | 0.4% | 15.5% | 12.9 | 17.0% | 8.1% |
| SDY | 2.6% | 5.1% | 17.8 | 13.3% | 3.8% |
| SPYD | 3.7% | 2.2% | 15.1 | 11.3% | 2.1% |
| MLPA | 8.9% | 37.4% | 8.6 | 10.5% | 3.2% |
| XLU | 2.8% | 5.4% | 22.9 | 10.2% | 2.7% |
| KBWB | 2.1% | -12.4% | 10.8 | 8.7% | 0.9% |
| BLOK | 14.2% | 34.9% | 34.2 | 5.9% | 1.0% |
| NETL | 4.0% | 7.8% | 18.8 | 5.4% | 2.7% |

Table Source: Astoria Portfolio Advisors. Data retrieved from ETF Action on December 31, 2021.

Exhibit 3. Characteristics for Astoria’s Fixed Income ETFs for 2022

| Astoria's Fixed Income ETFs for 2022 | | | | | | | | |
|--------------------------------------|--------------------|------------------|--------------------|-------------------------|---------------------------|---------------------------|--------------------|--------------------|
| Ticker | Number of Holdings | 30 Day SEC Yield | Standard Deviation | Weighted Average Coupon | Weighted Average Maturity | Average Yield to Maturity | 12m Trailing Yield | Effective Duration |
| HYD | 1,894 | 2.4% | 13.3% | 5.0% | 20.96 | 4.0% | 3.6% | 6.47 years |
| SRLN | 365 | 3.8% | 8.8% | 1.5% | 5.00 | – | 4.5% | 0.38 years |

Table Source: Astoria Portfolio Advisors. Data Source: Vanguard. Data as of November 30, 2021. 30 Day SEC Yield retrieved from SPDR SRLN Fact Sheet and VanEck HYD Fact Sheet.

Background information on Astoria’s 10 ETF Themes for 2022.

- Astoria’s Founder & 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 hats 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?
- 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.
- Any ETF holdings discussed are for illustrative purposes only and are subject to change at any time. Readers are welcome to follow Astoria's research, blogs, and social media updates to see how our portfolios may shift throughout the year. Refer to www.astoriaadvisors.com or @AstoriaAdvisors on Twitter.
- Past performance is not indicative of future results. Investors should understand that Astoria’s 10 ETF Themes for 2022 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 PPI, USMV, SDY, SRLN, SPYD, HYD, ITB, KBWB, BLOK, IHDF, MLPA, BCI, and NETL on behalf of its clients.

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