
THE WISDOMTREE Q2 MODEL PORTFOLIO POSITIONING

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04/27/2022

This article is relevant to financial professionals who are considering offering Model Portfolios to their clients. If you are an individual investor interested in WisdomTree ETF Model Portfolios, please inquire with your financial professional. Not all financial professionals have access to these Model Portfolios.

It is time for our quarterly update on the [positioning of WisdomTree Model Portfolios](#). While we tend to be strategic investors who build portfolios to perform as expected (based on their various mandates) over full market cycles, we do not ignore changing economic and market conditions, and we will reposition and reallocate our Model Portfolios from time to time to hopefully optimize performance under shifting market regimes. We think it is safe to say that Q1 2022 represented a “shifting market regime.”

In our March Model Portfolio Investment Committee (MPIC) meeting, we voted to implement a small handful of such changes as we head into the second quarter of 2022.

The WisdomTree Economic and Market Outlook for Q2 2022

We recently published our [Economic and Market Outlook for Q2 2022](#). Before diving into the reallocations approved by the MPIC, let’s summarize that outlook, to provide a frame of reference for the changes we opted for.

When focusing on what we believe are the primary market signals of economic growth, earnings, [interest rates](#), [inflation](#) and Central Bank policy, we view the current economic and market conditions as somewhat of a mixed bag, with some large outstanding uncertainties.

Economic growth and earnings are expected to be positive, and COVID-19 and its variants should move into the rearview mirror despite recent increases in new cases.

But inflation, rising interest rates and the Russia/Ukraine conflict are significant uncertainties that could dramatically affect global economic and market conditions.

We believe that “fundamentals” will matter again, and we may enjoy another “economic reopening” market regime sometime in 2022, which may favor [value](#), [small-cap](#) and [dividend](#)-focused stocks. We’ve already witnessed a significant “factor rotation” toward value and dividend stocks, both of which at least partially mitigated the broad market downturn in Q1. We think that trend will continue.

But inflation, interest rates, [Fed](#) behavior and the invasion of Ukraine all weigh on market sentiment. So, while we are modestly optimistic in our outlook for 2022, we believe we are in for increased [volatility](#). We continue to recommend focusing on a longer-term time horizon and the construction of “all-weather” portfolios, diversified at both the asset class and risk factor levels.

Equities	-	0	+	Rates & Credit	-	0	+	Real Assets & Alternatives	-	0	+
Equities w. Bonds			Green	Duration	Red			Commodities			Green
U.S. LargeCap Growth		Yellow		U.S. Treasuries	Red			Precious Metals		Yellow	
U.S. LargeCap Value			Green	Investment Grade		Yellow		Infrastructure			Green
U.S. Small / MidCap		Yellow		High Yield		Yellow		MLPs			Green
Europe, Australia, Far East				Securitized				Managed Futures			Green
Europe, Australia, Far East SmallCaps				Non-US				Volatility Management			Green
Emerging Markets		Yellow		Interest Rate-Hedged			Green	Options-Based Overlays			Green
Emerging Markets SmallCaps			Green	Alternative Credit				Target Range			Green

Outlooks are on a relative, not absolute, basis. Red = negative relative outlook, yellow = neutral relative outlook, green = positive relative outlook.

Our asset allocation guidelines remain as follows:

- We maintain a strong preference for [stocks](#) over [bonds](#).
- Inflation remains the story of the year, as the Fed belatedly acknowledges being “behind the curve.” The biggest risks to our cautiously optimistic outlook are (a) an increasingly aggressive Fed raising rates more than the market expects and (b) an escalation of the invasion of Ukraine.
- In equities, we remain in line with the [MSCI ACWI Index](#) in terms of our regional exposures to the U.S., [EAFE](#) and emerging markets (“EM”).
- Somewhat uniquely (we think), we have explicit over-weight allocations in small-cap stocks in the U.S., EAFE and EM.
- Acknowledging the uncertainties caused by the invasion of Ukraine and the corresponding [commodity](#) shortages and human suffering, we still think we may see another “economic reopening” cycle at some point in 2022, which should bode well for our allocations to value, dividend-focused and small-cap stocks.
- Rising rates may provide a headwind to [large-cap](#)/growthier sectors and stocks, which tend to be more interest-rate sensitive.
- Within fixed income, we moved further under-weight in [duration](#) relative to the [Bloomberg Aggregate Bond Index \(the “Agg”\)](#), as well as over-weight in quality credit. As interest rates rise, prepayments on mortgages decline, and the duration of mortgage-backed securities (MBS) extends accordingly. In response, we are also under-weight in MBS within our fixed income models and allocations.
- The dollar continues to rise, and Fed action plus “flight to quality” trades may push this trend forward.

Reallocations within the WisdomTree Model Portfolios

With this market outlook and these asset allocation guidelines providing an appropriate framework, here is a summary of the changes we made within some of our Model Portfolios.

Endowment Model Portfolios: These are strategic multi-asset Model Portfolios that allocate to stocks, bonds, real assets and “nontraditional” or [alternative assets](#) to deliver a diversified “endowment-like” investment experience. Within these Model Portfolios, we voted to remove a hybrid infrastructure/real estate position—which proved to be more interest-rate sensitive than we anticipated—with an actively managed inflation hedge strategy that allocates between inflation-sensitive stocks, commodities and [TIPS \(Treasury Inflation-Protected Securities\)](#).

Volatility Management: This “outcome-focused” Model Portfolio is designed to act as a complementary sleeve to an existing multi-asset portfolio to provide additional diversification and potential drivers of lower-correlated returns. Within this Model Portfolio, because of our view on rising interest rates, we removed our “Black Swan” strategy, which invests in Treasury securities and longer-dated equity options, and reallocated to a more traditional equity long/short strategy, which we expect to be more idiosyncratic and have fewer macro headwinds driving performance.

Strategic Fixed Income Model: This [“strategic building block” Model Portfolio serves as a foundation for many of our multi-asset Model Portfolios](#). Given our view on rates, we voted to further reduce the duration of this portfolio by reducing our exposure to our core bond and intermediate-maturity Treasuries strategies and reallocating to our own [USFR](#), a floating rate Treasury strategy that offers rates that reset weekly based upon the three-month [Treasury Bill](#) auction.

Conclusions

As a reminder, while each of our Model Portfolios has different investment mandates and objectives, they do share certain common characteristics:

- They are global in nature (with the exception of regional-specific Model Portfolios, such as the U.S. Multifactor Model Portfolio). We are a global asset management firm, and we believe in global diversification.
- They are ETF-centric, as we believe this helps to optimize both fees and taxes—the two things any advisor has the most control over with respect to their client portfolios.
- They are “open architecture” and include both WisdomTree and third-party strategies. This is the right thing to do for the end investor, and it helps to improve the asset class and risk factor diversification of the Model Portfolios.
- The factor tilts inherent in many WisdomTree ETFs allow us to build “core/satellite” Model Portfolios that may optimize fees and taxes and still provide the potential for alpha generation versus plain vanilla cap-weighted “beta” portfolios.
- We charge no strategist fee—all revenue generated from our Model Portfolios comes only from the expense ratios associated with the WisdomTree products we choose to include in any given Model Portfolio.

Our Model Portfolios are designed to be strategic in nature and diversified at both the asset class and risk factor levels to potentially optimize risk-adjusted performance through full market cycles regardless of economic and market regimes.

As such, we remain largely comfortable with our core allocations and strategies—they have delivered consistent performance in line with their objectives throughout the past somewhat tumultuous two-plus years.

Furthermore, the embedded value and dividend tilts of many of our Model Portfolios very much benefited us in Q1, as those two factors were better “hedges” to the broad market declines than our fixed income allocations.

We did, however, opt to make marginal changes as summarized above to position our Model Portfolios in accordance with our economic and market outlook as we entered the second quarter of 2022.

You can learn more about all our Model Portfolios, including full transparency into allocations, individual securities, fees, yield and performance, at our [Model Adoption Center](#).

Important Risks Related to this Article

For Retail Investors: WisdomTree’s Model Portfolios are not intended to constitute investment advice or investment recommendations from WisdomTree. Your investment advisor

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WisdomTree primarily uses WisdomTree Funds in the Model Portfolios unless there is no WisdomTree Fund that is consistent with the desired asset allocation or Model Portfolio strategy. As a result, WisdomTree Model Portfolios are expected to include a substantial portion of WisdomTree Funds notwithstanding that there may be a similar fund with a higher rating, lower fees and expenses or substantially better performance. Additionally, WisdomTree and its affiliates will indirectly benefit from investments made based on the Model Portfolios through fees paid by the WisdomTree Funds to

WisdomTree and its affiliates for advisory, administrative and other services.

USFR: There are risks associated with investing, including possible loss of principal. Securities with floating rates can be less sensitive to interest rate changes than securities with fixed interest rates but may decline in value. The issuance of floating rate notes by the U.S. Treasury is new, and the amount of supply will be limited. Fixed income securities will normally decline in value as interest rates rise. The value of an investment in the Fund may change quickly and without warning in response to issuer or counterparty defaults and changes in the credit ratings of the Fund's portfolio investments. Due to the investment strategy of this Fund, it may make higher capital gain distributions than other ETFs. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

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DEFINITIONS

Interest rates: The rate at which interest is paid by a borrower for the use of money.

Inflation: Characterized by rising price levels.

Value: Characterized by lower price levels relative to fundamentals, such as earnings or dividends. Prices are lower because investors are less certain of the performance of these fundamentals in the future. This term is also related to the Value Factor, which associates these stock characteristics with excess returns vs the market over time.

Small caps: new or relatively young companies that typically have a market capitalization between \$200 million to \$2 billion.

Dividend: A portion of corporate profits paid out to shareholders.

Federal Reserve: The Federal Reserve System is the central banking system of the United States.

Volatility: A measure of the dispersion of actual returns around a particular average level.

Stock: A stock (also known as equity) is a security that represents the ownership of a fraction of a corporation. This entitles the owner of the stock to a proportion of the corporation's assets and profits equal to how much stock they own. Units of stock are called "shares."

Bond: A fixed-income instrument that represents a loan made by an investor to a borrower (typically corporate or governmental).

MSCI ACWI Index: A free-float adjusted market capitalization-weighted index that is designed to measure the equity market performance of developed and emerging markets.

EAFE: Refers to the geographical area that is made up of Europe, Australasia and the Far East.

Commodity: A raw material or primary agricultural product that can be bought and sold.

Large-Capitalization (Large-Cap): A term used by the investment community to refer to companies with a market capitalization value of more than \$10 billion. Large cap is an abbreviation of the term "large market capitalization". Market capitalization is calculated by multiplying the number of a company's shares outstanding by its stock price per share.

Duration: A measure of a bond's sensitivity to changes in interest rates. The weighted average accounts for the various durations of the bonds purchased as well as the proportion of the total government bond portfolio that they make up.

Bloomberg Aggregate Bond Index: The Bloomberg Aggregate Bond Index or "the Agg" is a broad-based fixed-income index used by bond traders and the managers of mutual funds and exchange-traded funds (ETFs) as a benchmark to measure their relative performance.

Alternative Investment: An investment that is not one of the three traditional asset types (stocks, bonds and cash). Alternative investments typically include hedge funds, managed futures, real estate, commodities and derivatives contracts.

TIPS: Treasury Inflation Protected Securities.

Treasury Bill: A treasury bill (T-Bill) is a short-term debt obligation backed by the U.S. government with a maturity of one month (four weeks), three months (13 weeks) or six months (26 weeks).