

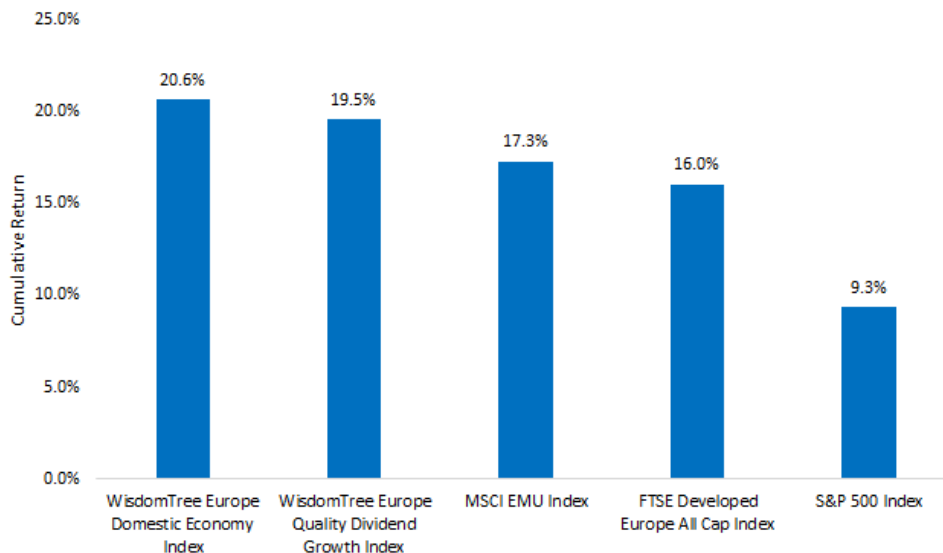
WHICH EUROPEAN STRATEGIES WORK NOW?

Christopher Gannatti – Global Head of Research
07/21/2017

With the news flow we’ve seen thus far in 2017, it would have been difficult to predict any broad-based strategies focused on European equities being up 20% or more around the half-year point. Yet:¹

- European equity indexes have significantly outperformed U.S. equities, giving credence to the belief that after elections ended up outside of the “disaster” scenarios, broad-based equity recovery has occurred.
- With the euro up 8.62% year-to-date, many investors have been looking for unhedged exposures.
- WisdomTree has two strategies, the [WisdomTree Europe Domestic Economy Index](#) and the [WisdomTree Europe Quality Dividend Growth Index](#), that delivered close to 20% returns in the first half of 2017, beating the established [market capitalization-weighted](#) benchmarks.

Two Ways to Win in First Half 2017: Domestic Economy & Quality Dividend Growth

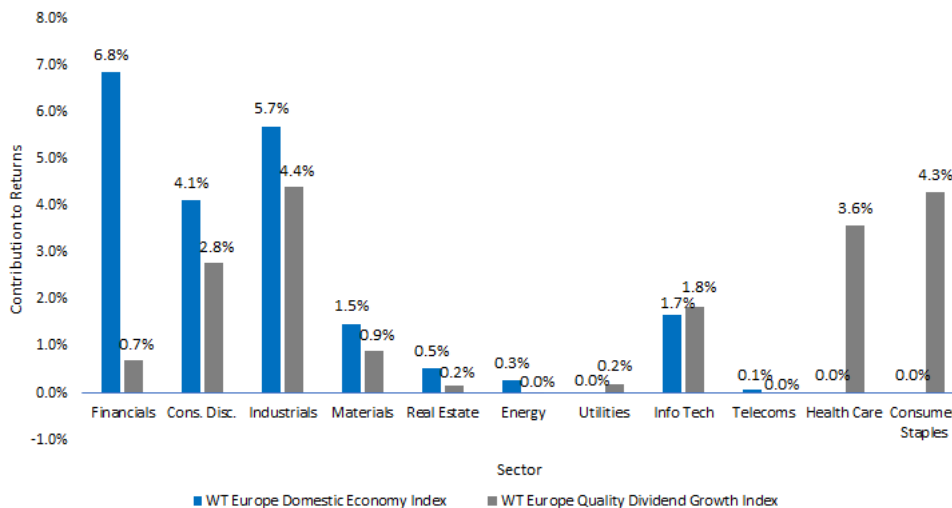


Sources: WisdomTree, Bloomberg, with data from 12/31/16 to 6/30/17. Past performance is not indicative of future results. You cannot invest directly in an index.

For definitions of terms in the chart, visit our [glossary](#).

- The [MSCI EMU Index](#) and the [FTSE Developed Europe All Cap Index](#) are two of the most widely followed benchmarks of European equity performance for U.S. investors utilizing exchange-traded funds (ETFs). Both have handily outperformed the [S&P 500 Index](#) during the first half of 2017, something not many were predicting in the face of all the elections at the beginning of the year.
- The WisdomTree Europe Domestic Economy Index, notable for its focus on companies that derive more than 50% of their revenues from INSIDE Europe, delivered a 20.6% return over this period. We've generally heard that the European thesis in 2017 is dependent upon activity in Europe turning up and looking stronger. This Index is designed to tap into that type of exposure, whereas both the MSCI EMU and FTSE Developed Europe All Cap Indexes focus predominantly on large caps, many of which are multinationals.
- The WisdomTree Europe Quality Dividend Growth Index delivered a 19.5% return over this period. Instead of having a focus on where revenues are generated, this Index focuses on quality that leads to, most notably, a large under-weight to Financials. It's intriguing how this compares to a large over-weight in Financials for the WisdomTree Europe Domestic Economy Index and that both Indexes have delivered strongly in 2017.

WisdomTree's Indexes Generated Their Returns Quite Differently during 1H17



Sources: WisdomTree, Bloomberg, with data from 12/31/16 to 6/30/17. Past performance is not indicative of future results. You cannot invest directly in an index.

Usually, a wide dispersion in sector exposure comes with a wide dispersion in performance, but we saw clearly that 1) both of the wisdomTree strategies mentioned earlier outperformed their market capitalization-weighted competition in 2017 and 2) they each generated fairly similar returns around that 20% level.

- The WisdomTree Europe Domestic Economy Index delivered its 20% return through its exposures in Financials, Consumer Discretionary and Industrials, at least for the most part. If investors are looking at Financials as an opportunity, this Index has definitely tapped into that sector, and it has benefited recently from the equity reaction that occurred as a result of the recent announcements out of Italy. Notably, this Index is designed not to have exposure to Utilities, Telecommunication Services, Health Care or Consumer Staples due to its positioning as a European cyclical growth-oriented index.
- The WisdomTree Europe Quality Dividend Growth Index has a focus on quality, which tends to manifest itself through tilting away from firms with higher [leverage](#). My colleague's recent blog post focused on [the long-term benefits to a quality approach](#). Since European Financials remain one of the most highly levered exposures in global equity markets—not to mention European equity markets—this tends to be a very pronounced under-weight. Two of the top three contributors to the 1H17 return for this strategy, Health Care and Consumer Staples, aren't even eligible for inclusion in the WisdomTree Europe Domestic Economy Index.

We think that the fact that two strategies so widely differentiated in their focus on European equities are both doing well points to something that no one was predicting six months ago: Europe's equity market has been one of the strongest globally in 2017.

Two [Unhedged](#) Approaches to Europe at WisdomTree

What's also notable about both the WisdomTree Europe Domestic Economy Index and the WisdomTree Europe Quality Dividend Growth Index is that they represent unhedged exposures to European equities. That means if European currencies are strengthening against the U.S. dollar, they benefit. In 1H17, that was largely the trend, and for those who desire this exposure, these two strategies represent unique tilts on broader market capitalization-weighted indexes.

¹Sources for all bullets: WisdomTree, Bloomberg, with data from 12/31/16 to 6/30/17.

Important Risks Related to this Article

Investments focused in Europe increase the impact of events and developments associated with the region, which can adversely affect performance.

Investments focusing on certain sectors and/or smaller companies increase their vulnerability to any single economic or regulatory development. This may result in greater share price volatility.

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.

For more investing insights, check out our [Economic & Market Outlook](#)

view the online version of this article [here](#).

IMPORTANT INFORMATION

U.S. investors only: Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an “as is” basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the “MSCI Parties”) expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages (www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only. You cannot invest directly in an index.

DEFINITIONS

Market capitalization-weighting: Market cap = share prices x number of shares outstanding. Firms with the highest values receive the highest weights in approaches designed to weight firms by market cap.

MSCI EMU Index: A free float-adjusted market capitalization-weighted index designed to measure the performance of the markets in the European Monetary Union.

FTSE Developed Europe All Cap Index: a market- capitalization index representing the performance of companies in developed European markets, including UK.

S&P 500 Index: Market capitalization-weighted benchmark of 500 stocks selected by the Standard and Poor's Index Committee designed to represent the performance of the leading industries in the United States economy.

Leverage: Total assets divided by equity. Higher numbers indicate greater borrowing to finance asset purchases; leverage can tend to make positive performance more positive and negative performance more negative.

Unhedged: Strategy that includes the performance of both the underlying asset as well as the currency in which it is denominated. The performance of the currency can either help or hurt the total return experienced.