
I CAN SEE CLEARLY NOW

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03/23/2021

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.

*I can see clearly now the rain is gone
I can see all obstacles in my way
Gone are the dark clouds that had me blind
It's gonna be a bright (bright)
Bright (bright) sunny day
It's gonna be a bright (bright)
Bright (bright) sunny day...*
(From "I Can See Clearly Now" by Johnny Nash, 1972)

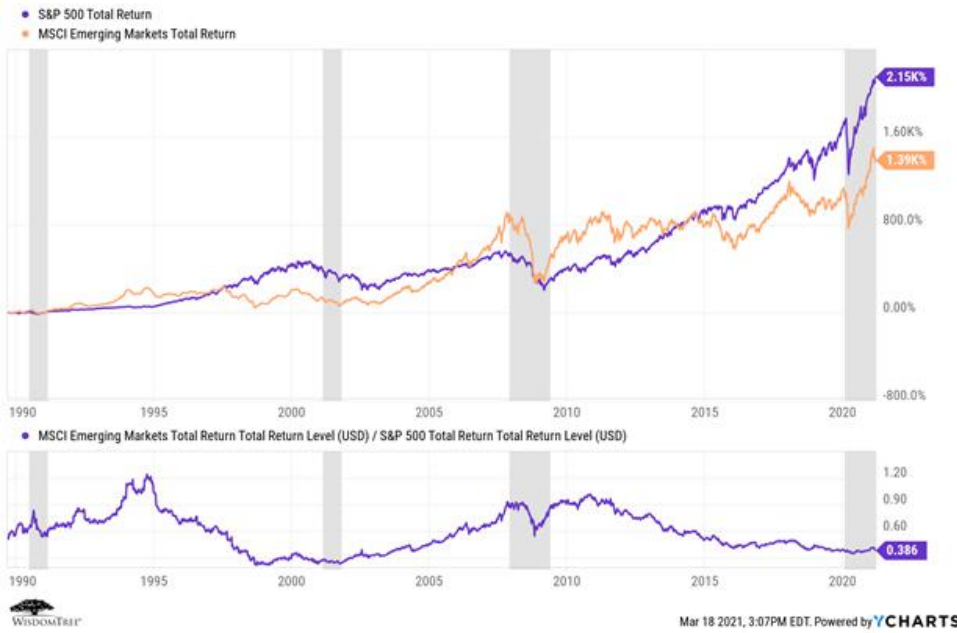
Investment Themes for 2021

This blog post represents the last in our series on the alignment between WisdomTree's Model Portfolios and our primary investment themes for 2021.

Previously, we've posted about [disruptive growth](#), [reflation](#), [cyclical rotation](#), and [quality and income](#). In this blog post we will tackle the last (but not least) of our themes—[emerging markets \(EM\)](#).

The Case for Emerging Markets

As we've argued previously, emerging markets historically tend to outperform as the U.S. comes out of recession (indicated by the gray bars), and that outperformance can last for an extended period:



Source: YCharts, as of 3/18/21. You cannot invest in an index, and past performance does not guarantee future results.

If we blow up recent performance, we see a nice run by EM since the beginning of Q3 2020 (though it has faded a bit in the past few weeks as U.S. interest rates have spiked).



Source: YCharts, 8/1/20–3/17/21. You cannot invest in an index, and past performance does not guarantee future results.

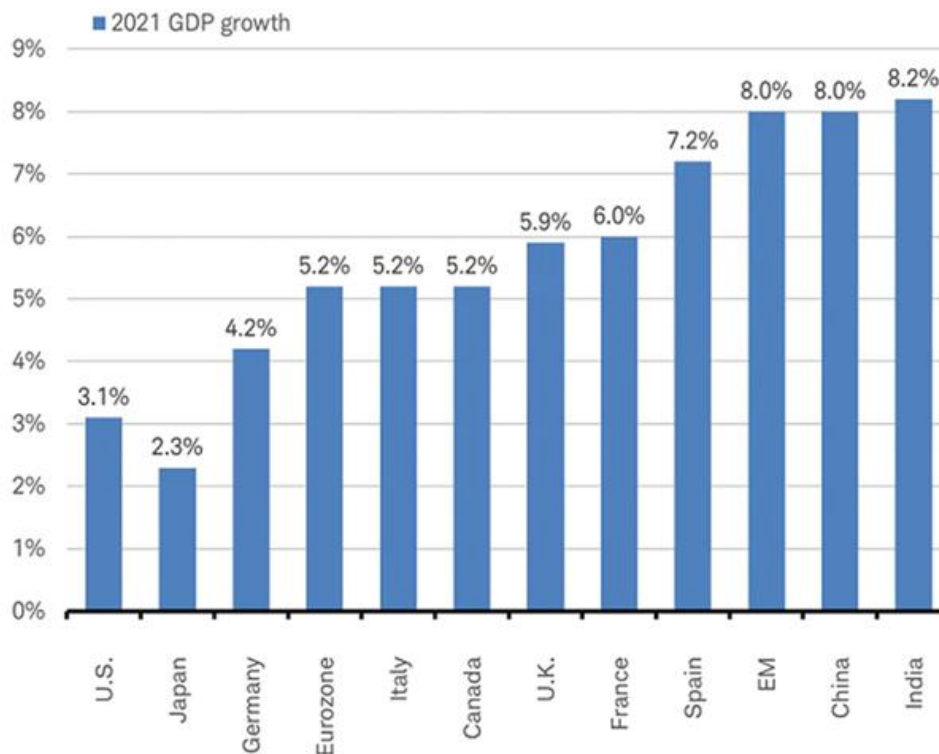
Another of the foundations for our positive EM outlook is that we believe there will be continued weakness in the U.S. dollar (which provides a tailwind to non-U.S. risk asset performance in U.S.-dollar terms)—a weakness that began roughly at the nadir of the Covid-19 pandemic last year.



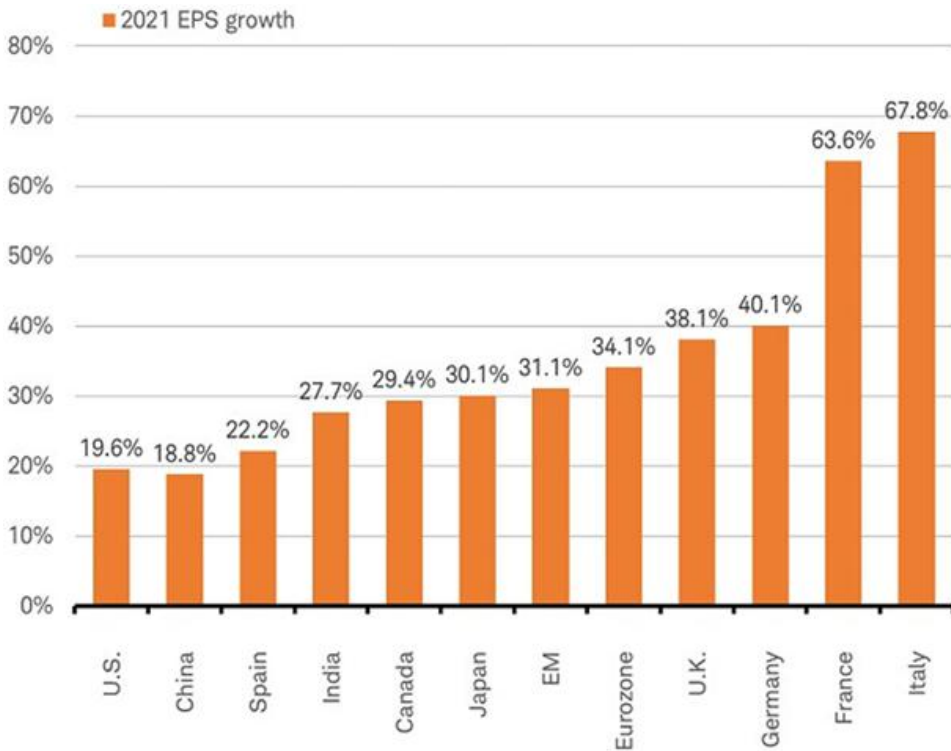
Source: YCharts, 12-month data through 3/17/21. The Dow Jones FXCM Dollar Index captures the value of the U.S. dollar versus an equal-weighted basket of 25% euro, 25% Japanese yen, 25% British pound and 25% Australian dollar. You cannot invest in an index, and past performance does not guarantee future results.

Note the recent bump up in the dollar over the past one to two months, a reflection of the increase in U.S. interest rates and a recovering U.S. economy. The “short dollar” trade (i.e., betting on a weakening dollar) was very crowded heading into 2021, so another possible explanation of the recent bump is simply profit-taking. Regardless, we view the longer-term path for the dollar as downward (weaker).

A final argument for our EM investment thesis is a recovering global economy, in which non-U.S. economies and earnings are expected to grow faster than the U.S.¹



Source: Charles Schwab & Co., November 2020. GDP is gross domestic product.



Source: Charles Schwab & Co., November 2020. EPS is earnings per share, the total earnings divided by the number of shares outstanding. Measured as a percentage change as of the annual index screening date compared to the prior 12 months. Higher values indicate greater growth orientation.

A corollary to this is that, if the economic forecasts are correct, it should lead to rising commodity prices as global demand picks up. We've already seen this trend taking place since the beginning of Q3 2020 (excluding precious metals), and if it continues it will benefit the many commodity-exporting EM countries:

- S&P GSCI Copper Total Return
- S&P GSCI Agriculture Total Return
- S&P GSCI Softs Total Return
- S&P GSCI Precious Metals Total Return
- S&P GSCI Non Precious Metals Total Return
- S&P GSCI Energy Total Return



Mar 18 2021, 3:22PM EDT. Powered by YCHARTS

Source: YCharts, 8/1/20–3/17/21. You cannot invest in an index, and past performance does not guarantee future results.

Model Portfolio Implications

At a strategic level, the [WisdomTree Core Equity Model Portfolio](#) (which is the building block to many of our multi-asset models) is overweight the U.S. and EM, and underweight developed international (EAFE) versus our [MSCI ACWI](#) benchmark. At the security level, our core EM position in the [WisdomTree Emerging Markets ex-State-Owned Enterprises Fund \(XSQE\)](#) has been particularly helpful:

Figure 7_XSQE Total Return

For standardized performance of XSQE, please click [here](#).

In addition, at our December Model Portfolio Investment Committee meeting, we agreed to make a small allocation to our [WisdomTree Emerging Markets Local Debt Fund \(ELD\)](#), in our Core Fixed Income Model Portfolio. We made this reallocation in an attempt to improve the overall diversification of our fixed income Model Portfolio and add in an additional potential return driver.

Finally, for those advisors seeking to access an explicit EM exposure while potentially improving the [factor diversification](#) of their clients' overall portfolios, we manage an **EM Multifactor Model Portfolio**, which can be used AS a stand-alone portfolio or, more frequently, as a complementary sleeve in a broader overall portfolio.

This EM Multifactor Model Portfolio builds from the core holding in XSQE, as does our Core Equity Model Portfolio, but it complements that core with diversifying strategies that take factor tilts toward small-cap dividend payers, quality growth, deeper value and diversified multifactors.

Conclusion

We believe the EM investment theme still has room to run, and our Model Portfolios are positioned accordingly. We believe "we can see clearly now" into an extended period of solid performance in our explicit EM Model Portfolio and in the EM allocations within our broader equity and fixed income Model Portfolios. We invite advisors who agree with our thesis to take a closer look as we attempt to help them deliver a differentiated end client investment experience.

For definitions of indexes in the blog, please visit our [glossary](#).

¹Note that this forecast was prepared prior to the recent passage in the U.S. of a \$1.9 trillion fiscal stimulus package, which may result in higher U.S. growth rates than projected here.

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For standardized performance and the most recent month-end performance click [here](#) NOTE,

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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.