

INTERNATIONAL EQUITIES: QUALITY AND GROWTH FACTOR WORKING IN 2015

Christopher Gannatti – Global Head of Research
02/18/2015

We're more than a month into 2015, and there already have been some sharp moves in equity and currency markets. In particular, European Central Bank president Mario Draghi unleashed a widely expected form of [monetary easing](#), which has sent the euro down by almost 7% versus the U.S. dollar, but European stocks are flying higher ¹. Meanwhile, U.S. stocks have been more volatile and have shown small declines to start the year.² The change in monetary stimulus around the world is causing rapid adoption of [currency hedged](#) strategies. And [WisdomTree's broad-based International Hedged Dividend Growth Index \(WTIDGH\)](#) is building positive momentum. Here, we examine the top five currency exposures in the hedged WTIDGH to see where this positive performance has been coming from. **Top 5 Currency Exposures Shed Light on WTIDGH's Performance**



Source: Bloomberg, with data for period 12/31/14 to 1/31/15. MSCI EMU, MSCI United Kingdom, MSCI Switzerland and MSCI Australia Indexes are measured in local currency terms. The MSCI EAFE Local Currency Index is measured in local currency terms, whereas MSCI EAFE U.S. Dollars represents performance measured in U.S. dollars.

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

- **U.S. Dollar Headwind:** Illustrating the importance of currency impact on returns, we note the difference between the [MSCI EAFE Index](#) in local currency and that in U.S. dollars was 2.5%, showing how much of a drag on performance currency has been to U.S. investors in EAFE thus far in 2015.
- **Euro Area (33.5% Average Weight)*:** The dominant theme within the euro area has been Draghi's blockbuster open-ended [quantitative easing](#) program, which has contributed to driving the euro down almost 7% compared to the U.S. dollar. Local equity markets have responded very strongly, but WTIDGH's exposure to the euro area outperformed the [MSCI EMU Index](#) by more than 3%. It's worth noting that WTIDGH's focus on [dividend](#) growers avoids euro-area Financials and Utilities firms.
- **British Pound (19.4% Average Weight)*:** The pound has depreciated 3.3% against the U.S. dollar thus far in 2015. WTIDGH's exposure to United Kingdom equities has outperformed the [MSCI United Kingdom Index](#) by 2.5%.
- **Swiss Franc (12.99% Average Weight)*:** One of the biggest surprises of 2015 has been the action taken by the Swiss National Bank, depegging the Swiss franc from the euro and allowing significant appreciation. Swiss equities have therefore faced significant headwinds, especially the exporters in the Health Care and Industrials sectors where WTIDGH has the bulk of its Swiss equity exposure.
- **Japanese Yen (8.85% Average Weight)*:** With the yen appreciating nearly 2% versus the U.S.

dollar, Japanese equities have not had an easy start to the year. However, WTIDGH's focus on potential dividend growers has steered around the Financials sector, which has had some of the worst performance within Japanese equities.

- **Australian Dollar (7.20% Average Weight)*:** The Australian dollar has depreciated more than 5% versus the U.S. dollar during the first month of 2015. WTIDGH's dominant exposure here is to BHP Billiton (3.88% average weight), which was down about 1.2% over the month, but other Australian exposures were able to buoy WTIDGH's overall Australia performance to about 50 basis points. **Average weight refers to the average weight within WTIDGH from 12/31/14 to 1/31/15. Source for all bullet points is Bloomberg, with data measured from 12/31/14 to 1/31/15.*

One-Third Exposure to the Euro Area The greater than 33% average exposure to the euro area has made the WisdomTree International Hedged Dividend Growth Index an interesting broad-based international strategy to gain significant exposure to positive equity performance catalyzed by the policies of the European Central Bank. We continue to believe the adoption of currency-hedged strategies are in early days—currency hedging started in Japan in 2013 and continued in the eurozone in late 2014 and early 2015. Broad international regional allocations are a natural frontier for people to expand this approach, and WisdomTree's dividend-focused approach—with screens for quality and growth that the WTIDGH employs for stock selection—makes it an attractive option for developed world exposures. ¹Source: Bloomberg. European stocks represented by the MSCI EMU Index are up more than 7% from 12/31/14 to 1/31/15. ²Source: Bloomberg. U.S. stocks represented by the S&P 500 Index from 12/31/14 to 1/31/15.

Important Risks Related to this Article

Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. Investments in currency involve additional special risks, such as credit risk and interest rate fluctuations. Dividends are not guaranteed, and a company's future ability to pay dividends may be limited. A company currently paying dividends may cease paying dividends at any time.

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

Monetary easing policies: Actions undertaken by a central bank with the ultimate desired effect of lowering interest rates and stimulating the economy.

Currency hedging: Strategies designed to mitigate the impact of currency performance on investment returns.

MSCI EAFE Index: is a market cap-weighted index composed of companies representative of the developed market structure of developed countries in Europe, Australasia and Japan.

Quantitative Easing (QE): A government monetary policy occasionally used to increase the money supply by buying government securities or other securities from the market. Quantitative easing increases the money supply by flooding financial institutions with capital, in an effort to promote increased lending and liquidity.

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

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

MSCI United Kingdom Index: A market capitalization-weighted index designed to measure the performance of the United Kingdom equity market.