

# OUR 10 TOP PERFORMING ETFS—FIRST HALF OF 2016

Christopher Gannatti – Global Head of Research  
07/19/2016

Having 99 distinct exchange-traded funds (ETFs) spanning many global markets and asset classes allows us to examine the top 10 performers in a particular period to determine what stories worked best. We believe the most important catalyst for what transpired over the course of the first half of 2016 was this: *The market transitioned from expectations of four incremental increases in the [Fed Funds target interest rate](#)<sup>1</sup> to expectations of potentially zero increases for the whole of 2016.*<sup>2</sup>

- **Emerging Market Currencies Appreciated against the U.S. dollar:** The trend of dollar strength, especially against emerging market currencies over the past few years, dominated the unhedged emerging market investment experience. In the first half of 2016, this trend reversed. The [WisdomTree Brazilian Real Strategy Fund \(BZF\)](#) was the most extreme individual expression, providing a return commensurate with the [spot currency](#) return of the Brazilian real against the U.S. dollar, along with the incremental difference in [money market](#) returns in Brazil versus the U.S. dollar. After depreciating by nearly one-third in 2015, the real came back as people thought Brazil's political situation might be poised for change, along with the Federal Reserve's slower-than-expected hiking of the Federal Funds Rate, which helped stave off the drops in commodity prices that we saw during 2015.

- o The [WisdomTree Emerging Markets Local Debt Fund \(ELD\)](#) and the [WisdomTree Emerging Markets High Dividend Fund \(DEM\)](#) were also helped, as both were running into the wind over the past few years due to emerging market currencies depreciating significantly. Now both of these Funds have benefited from emerging market currencies appreciating against the U.S. dollar and have significant upside potential on [valuation](#), given that they've been among WisdomTree's worst performing ETFs over the past few years.

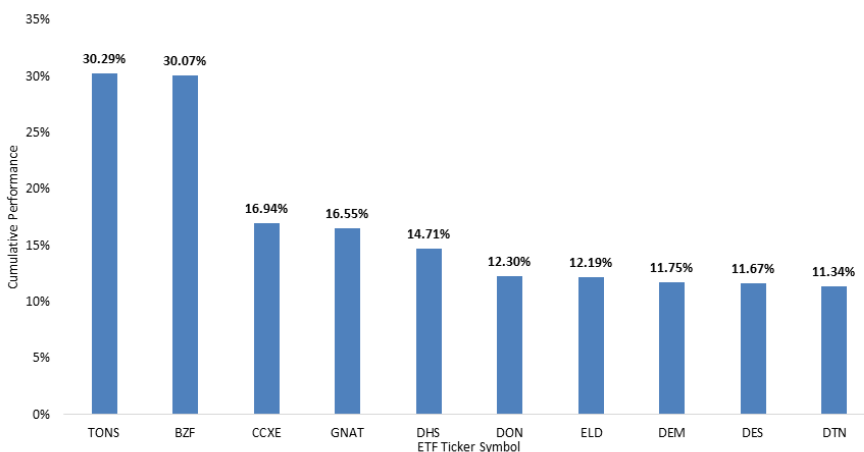
- **Commodities Generally Rose in Price:** Both the [WisdomTree Global Natural Resources Fund \(GNAT\)](#) and the [WisdomTree Commodity Country Equity Fund \(CCXE\)](#) track Indexes that are designed to appreciate from positive trends or sentiment within commodities markets. As the price of oil and other commodities plummeted on the dollar strength, these strategies did not perform well. However, now that the price of a barrel of oil moved from below \$30 in February of 2016 to around \$50 in June, the picture has changed.<sup>3</sup> CCXE in particular is designed to respond both to currency appreciation (including the Brazilian real, Chilean peso, Russian ruble, South African rand, Norwegian krone, New Zealand dollar, Canadian dollar and Australian dollar) against the U.S. dollar and to any positive sentiment that helps equity performance in these markets.

- o [WisdomTree Coal Fund \(TONS\)](#) Up More than 30%: The single best-performing ETF for 1H2016 was TONS, which is designed to track the daily price movements of Rotterdam coal futures traded on the CME Group, Inc., exchanges. This was surprising, to say the least, and we believe that the primary factor in play for this period was that coal—like many other commodities—was participating in the energy rally we have seen.

- **Higher-Yielding [Dividend](#) Payers Outperformed as [Interest Rates](#) Plummeted:** 2016 began with a U.S. 10-Year [Treasury note](#) at close to 2.3%. As of June 30, 2016, this figure was closer to 1.4%—a major decline.<sup>4</sup> These lower rates, in our view,

represent a general risk aversion—spurred most recently by the [Brexit](#) market surprise—but they also represent market expectations of slower economic growth looking forward. If fixed income rates are trending toward significant decreases such as this, it makes dividend-paying equities more attractive, as people’s income goals typically do not change with movements in interest rates. The [WisdomTree High Dividend Fund \(DHS\)](#) has been the strongest solution for this need, but the [WisdomTree MidCap Dividend Fund \(DON\)](#) and the [WisdomTree SmallCap Dividend Fund \(DES\)](#) also fit the bill. These strategies include exposure to [real estate investment trusts \(REITs\)](#)—another example of an asset class that has tended to have strong potential in a falling or low-interest rate environment. The [WisdomTree Dividend ex-Financials Fund \(DTN\)](#) is interesting for its avoidance of Financials—the trickiest global sector in the first half of 2016—and defensive positioning, which can help, given all the uncertainties investors are preparing for in 2016. [View the standardized performance of WisdomTree ETFs here.](#)

WisdomTree’s 10 Best-Performing ETFs for 1H2016



Source: WisdomTree, with 1H2016 referring to 12/31/2015 to 6/30/2016. Returns are measured in NAV, total return terms.

Performance is historical and does not guarantee future results. Current performance may be lower or higher than quoted. Investment returns and principal value of an investment will fluctuate so that an investor’s shares, when redeemed, may be worth more or less than their original cost. Performance data for the most recent month-end is available at [www.wisdomtree.com](http://www.wisdomtree.com).

WisdomTree shares are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Total returns are calculated using the daily 4:00 p.m. EST net asset value (NAV). Market price returns reflect the midpoint of the bid/ask spread as of the close of trading on the exchange where Fund shares are listed. Market price returns do not represent the returns you would receive if you traded shares at other times.

**Important Risks Related to this Article**

There are risks associated with investing, including possible loss of principal. Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. These risks may be greater in emerging or offshore markets.

Funds focusing their investments on a single country, sector and/or smaller companies may be vulnerable to any single economic or regulatory development. This may result in greater share price volatility.

Fixed income investments are subject to interest rate risk; their value will normally decline as interest rates rise. In addition, when interest rates fall, income may decline. Fixed income investments are also subject to credit risk, the risk that the issuer of a bond will fail to pay interest and principal in a timely manner or that negative perceptions of the issuer’s ability to make such payments will cause the price of that bond to decline.

An investment in TONS is speculative, involves a substantial degree of risk and should not constitute an investor’s entire portfolio. One of the risks associated with the Fund is the complexity of the different factors that contribute to the Fund’s performance. These factors include use of commodity futures contracts. Derivative investments can be volatile, and these investments may be less liquid than other securities, and more

sensitive to the effects of varied economic conditions. The value of the shares of the Fund relates directly to the value of the futures contracts and other assets held by the Fund, and any fluctuation in the value of these assets could adversely affect an investment in the Fund's shares. Investments in commodities may be affected by overall market movements, changes in interest rates and other factors, such as weather, disease, embargoes and international economic and political developments. **Commodities and futures are generally volatile and are not suitable for all investors.** The Fund is not an Investment Company within the meaning of the Investment Company Act of 1940, as amended, and is not subject to the regulations thereunder.

Investments in currency involve additional special risks, such as credit risk and interest rate fluctuations. Derivative investments can be volatile, and these investments may be less liquid than other securities, and more sensitive to the effects of varied economic conditions. As some Fund can have a high concentration in some issuers, the Funds can be adversely impacted by changes affecting those issuers. Unlike typical exchange-traded Funds, there are no indexes that BZF attempts to track or replicate. Thus, the ability of the Fund to achieve its objectives will depend on the effectiveness of the portfolio manager. Due to the investment strategy of certain Funds, they may make higher capital gain distributions than other ETFs.

Please read each Fund's prospectus for specific details regarding each 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.

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](http://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

**Fed Interest Rates**: Refers to the Federal Funds Rate, which is the rate that banks that are members of the Federal Reserve system charge on overnight loans to one another. The Federal Open Market Committee sets this rate. Also referred to as the “policy rate” of the U.S. Federal Reserve.

**Spot currency**: The foreign exchange rate of a currency available for immediate delivery.

**Money Market**: a market for highly-liquid assets generally maturing in one year or less.

**Valuation**: Refers to metrics that relate financial statistics for equities to their price levels to determine if certain attributes, such as earnings or dividends, are cheap or expensive.

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

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

**Treasury notes**: A debt obligation issued by the United States government that matures in less than 30 year.

**Brexit**: an abbreviation of “British exit” that mirrors the term Grexit. It refers to the possibility that Britain will withdraw from the European Union.

**Real estate investment trust (REIT)**: Investment structure containing a basket of different exposures to real estate, be it directly in properties or in mortgages. Returns predominantly relate to changes in property values and income from rental payments.