HOW A STRENGTHENING U.S. DOLLAR AFFECTS EQUITY RETURNS

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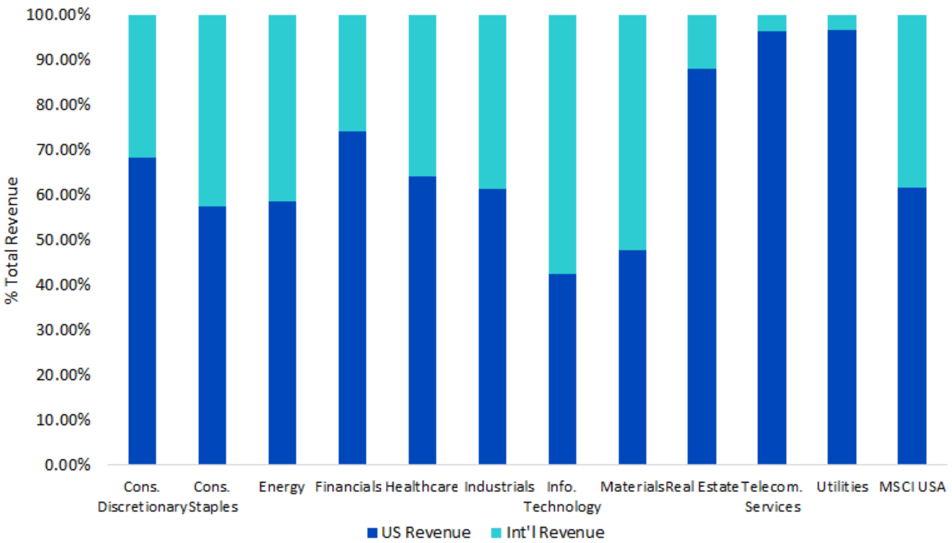
05/30/2018

Movement in the U.S. dollar can be a headwind or a tailwind for earnings of U.S.-based companies. A company's sensitivity depends proportionately on how much business it conducts internationally. In the chart below, we can see that, aggregately, firms in sectors such as Information Technology and Materials generate more than 50% of their revenue internationally and are therefore more sensitive to currency movements. On the other hand, companies in the Telecommunication Services and Utilities sectors, which are heavily exposed to the domestic market, tend to be relatively immune.

MSCI USA Sector Indexes: Current Geographic Revenue



Sources: WisdomTree, FactSet. Data as of 4/30/2018. Past performance is not indicative of future results. You cannot invest directly in an index.

Defining periods of U.S. dollar weakness and strength using trends in the moving averages for the ICE U.S. Dollar Index (DXY)[1] allows us to see how sectors have behaved during the different regimes. The table below shows how different sectors within the MSCI USA Index performed over the past 20 years. We can see how domestically focused sectors outperformed the broad MSCI USA Index during periods of U.S. dollar strength, while more exporting-focused sectors beat when the dollar weakened. We can also see how sectors with a domestic focus have been less sensitive to movement in the currency, and therefore their returns show a smaller dispersion from one regime to another (such is the case for Real Estate and Utilities). On the other side, returns of exporter-focused sectors such as Materials and Energy show a larger deviation when the dollar moves.

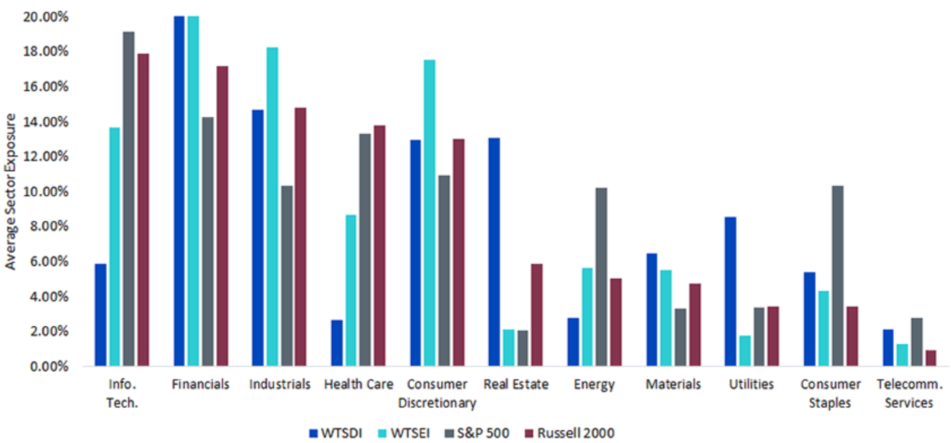
MSCI USA Sector Indexes in U.S. Dollar Regimes			
Sector	Strong USD	Weak USD	Full Period
Cons. Discretionary	9.42%	6.55%	7.58%
Cons. Staples	8.43%	4.39%	5.83%
Energy	-3.58%	13.37%	6.92%
Financials	8.66%	0.59%	3.43%
Health Care	9.85%	5.50%	7.05%
Industrials	8.40%	5.78%	6.72%
Info. Technology	4.17%	9.53%	7.56%
Materials	-4.58%	11.68%	5.51%
Real Estate	4.40%	6.86%	5.97%
Telecom. Services	1.39%	-0.29%	0.31%
Utilities	10.53%	2.50%	5.33%
MSCI USA	**5.09%**	**6.25%**	**5.83%**

Sources: WisdomTree, FactSet. For the period 4/30/1998–4/30/2018. Past performance is not indicative of future results. You cannot invest directly in an index.

In today's economy, large-cap companies tend to be among the most globalized, conducting business activities in almost every country in the world, while small-cap companies focus on their domestic market. Evidence of this is that, on average, the large-cap-focused S&P 500 Index gets 61% of its revenue from the U.S., while the small-cap-focused Russell 2000 Index derives 79% of its revenue from domestic business. This domestic focus is also reflected in the different sector composition small-cap indexes have compared with their large-cap counterparts because they tend be over-weight in the more domestic sectors.

The WisdomTree U.S. SmallCap Dividend Index (WTSDI), which weighs dividend-paying small-cap companies according to their aggregate share of indicated dividends to be paid, and the WisdomTree U.S. SmallCap Earnings Index (WTSEI), which weighs profitable small-cap firms by their proportionate share of total aggregate earnings, magnify these tilts deviating from traditional market-cap weighting. The table below shows the difference in average sector exposures over the past 11 years for WTSDI, WTSEI, S&P 500 and the Russell 2000.

Average Sector Exposure

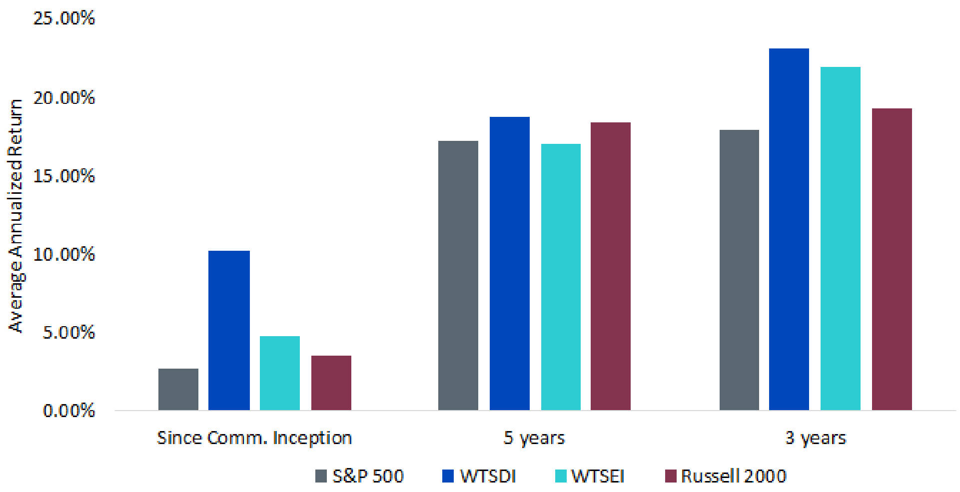


Sources: WisdomTree. For the period 1/31/07–4/30/18. You cannot invest directly in an index. Subject to change.

These sector tilts and domestic focus can help explain performance during different macroeconomic regimes. Below, we focus on how WisdomTree's U.S. small-cap strategies–

WTSDI and WTSEI —have performed when the U.S. dollar strengthens across different time periods.

WisdomTree's Small-Cap Strategies: Returns When U.S. Dollar Strengthens



Source: WisdomTree. Since common inception period:1/31/07–4/30/18; five-year period: 4/30/13–4/30/18; three-year period: 4/30/15–4/30/18. Past performance is not indicative of future results. You cannot invest directly in an index.

Looking at this chart, we can see that during periods of U.S. dollar strength, WTSDI and WTSEI have performed better than the S&P 500 Index and have also had an edge versus the broader small-cap benchmark, the Russell 2000 Index.

The last time the market experienced a strengthening U.S. dollar was from the middle of 2014 through the end of 2016, with DXY appreciating 10.12% annually. During this period, the WisdomTree SmallCap Dividend and Earnings Indexes outperformed the S&P 500 Index, which rose 7.70% on an annual basis, by 264 and 51 basis points (bps), respectively. WTSDI and WTSEI also outperformed the Russell 2000 Index by 356 and 143 bps annually, respectively.[2]

After depreciating in 2017, the dollar recently has reversed this trend and rallied more than 5%[3] since February. If the dollar is to continue strengthening, investors with an income objective may want to consider exposure to the WisdomTree U.S. SmallCap Dividend Fund (DES), which tracks our domestically focused and defensively positioned WTSDI. Investors who are looking for a larger exposure to cyclical sectors in a rising interest rate environment may want to consider adding the WisdomTree U.S. SmallCap Earnings Fund (EES), which tracks WTSEI, to the equity portion of their portfolio.

[1]Defining strengthening and weakening months for the dollar using trends in the 50-day simple moving average for DXY and confirming the classification by looking at trends in the 50-day and 100-day centered moving averages.

[2]Source: Bloomberg. Data as of 5/21/2018.

[3]Source: Bloomberg. Data as of 5/21/2018.

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You cannot invest directly in an index.

DEFINITIONS

ICE U.S. Dollar Index (DXY) : a geometrically- averaged calculation of six currencies weighted against the U.S. dollar. Current exposures include the euro, Japanese yen, British pound, Canadian dollar, Swedish krona and, & Swiss franc.

MSCI USA Index : is designed to measure the performance of large and mid cap segments of the US market.

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.

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

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.

Russell 2000 Index : Measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

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.

Basis point : 1/100th of 1 percent.