THE WISDOMTREE Q1 2023 ASSET ALLOCATION AND PORTFOLIO POSITIONING SUMMARY

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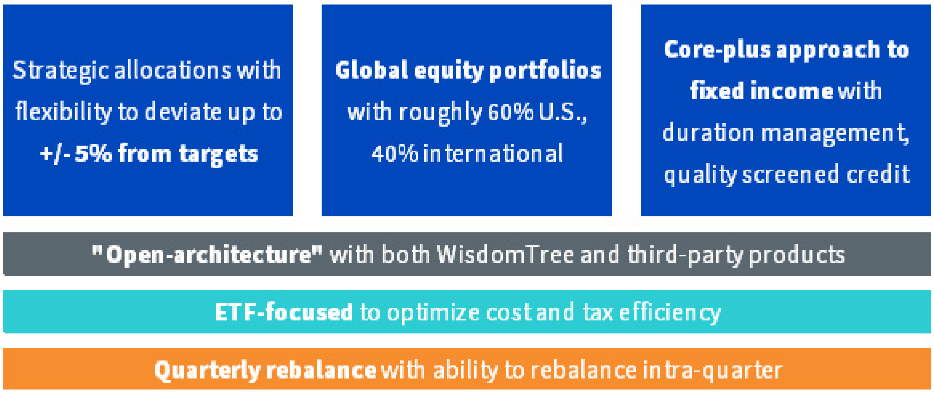
In the recent past, we've produced blog posts as well as more comprehensive content summarizing our general Economic and Market Outlook for 2023.

In this blog post, we take those outlooks and translate them to our current Model Portfolio allocations and positions. Before we get to that, a quick reminder of our general framework with respect to asset allocation and portfolio construction.



Source: WisdomTree, as of December 2022. For illustration purposes only.

Now let's summarize our current Economic and Market Outlook:

Economy

- There is a rising consensus view that the U.S. will enter a recession in the next 12 months
- While getting inflation down toward the Fed's 2% target remains elusive, we believe inflation in the U.S. has peaked and should continue to decelerate in 2023

Equities

- If S&P 500 earnings disappoint in 2023, as we anticipate, we are hard-pressed to see expensive stocks and those with negative earnings present themselves as a haven
- In this choppier market environment, we favor value over growth and quality companies with stronger earnings, cash flows and balance sheets
- Attractive valuations and dividends outside the U.S. support our conviction in global equity allocations

Fixed Income

- As the era of negative rates comes to an end, there's "income back in fixed income"
- We expect the Fed to proceed with rising rates in the first half of this year before pausing around the end of the second quarter, which could lead to a modest rally in rates and a steeper yield curve
- We favor corporate issuers with strong fundamentals and resilient balance sheets

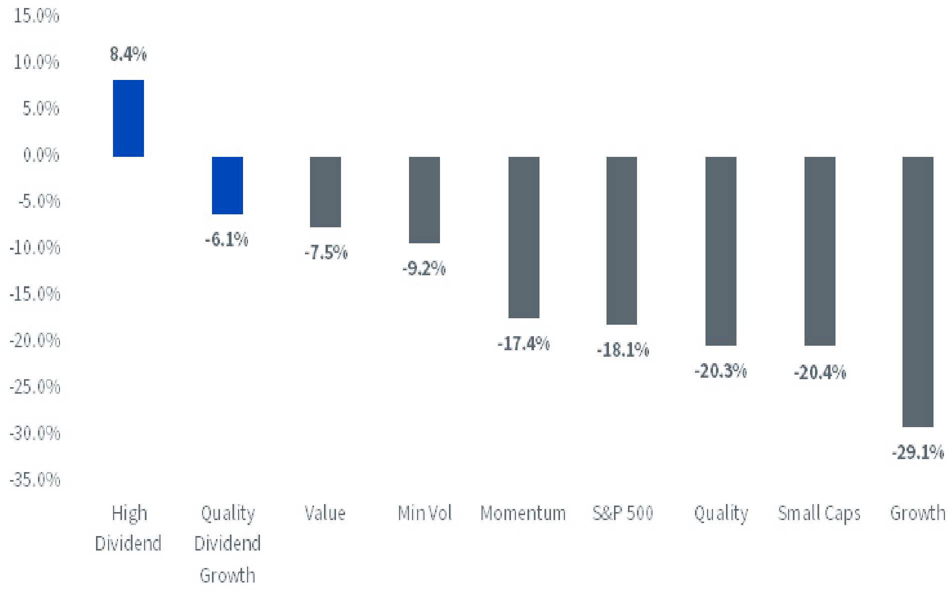
Real Assets and Alternatives

- We maintain our conviction in the role of real assets, commodities and alternative strategies as risk diversifiers

For a summary of the general asset class outlook click here.

Equities

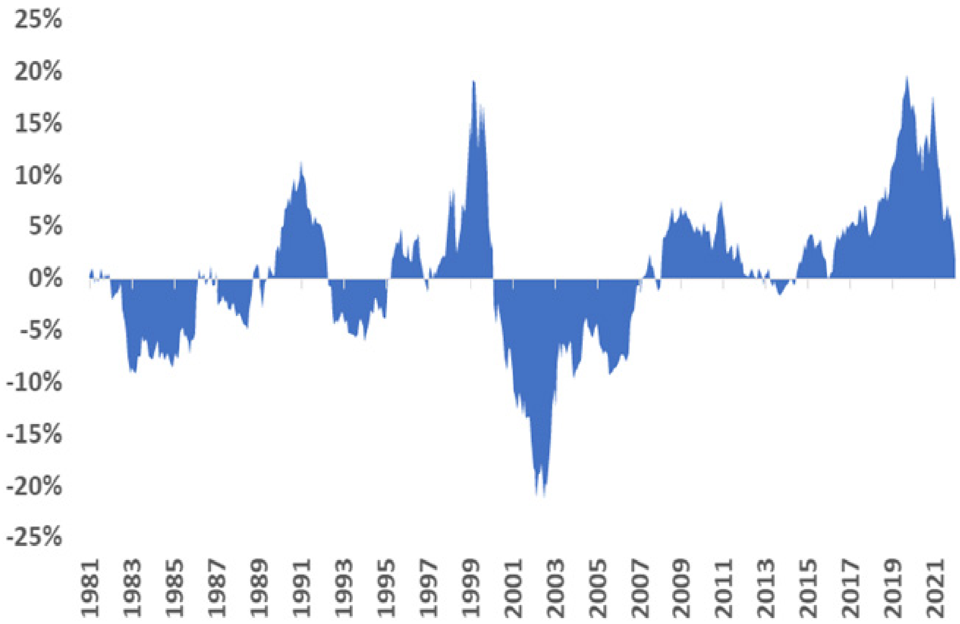
Many of WisdomTree's ETF strategies (and, therefore, our Model Portfolios) have explicit factor tilts toward dividends, value, size and quality. While we did not avoid the "tsunami" market conditions of 2022, these tilts in two of our Indexes helped us to deliver positive relative value performance versus cap-weight-focused models.



Sources: WisdomTree, FactSet, Russell, MSCI, S&P, through December 30, 2022. You cannot invest directly in an index. Past performance is not indicative of future returns. High Dividend: WisdomTree U.S. High Dividend Index. Quality Dividend Growth: WisdomTree U.S. Quality Dividend Growth Index. Value: Russell 1000 Value Index. Small Caps: Russell 2000 Index. Min Vol: MSCI USA Minimum Volatility Index. Quality: MSCI USA Sector-Neutral Quality Index.

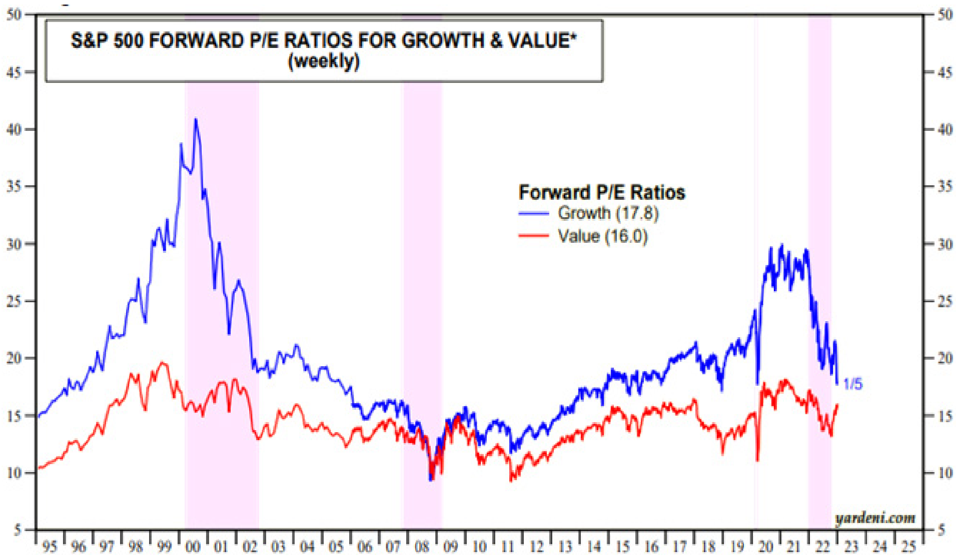
Historically, when we have seen a factor rotation from growth to value, such as we saw in 2022, it has not been a single-year phenomenon—it has tended to be a multi-year cycle.

Rolling 3-Year Annual Return Difference of Growth vs. Value: 1979–2022



Sources: WisdomTree, FactSet, through December 2022, using Russell 1000 Growth versus Russell 1000 Value Indexes. You cannot invest in an index, and past performance does not guarantee future results.

And despite the outperformance of value stocks in 2022, they remain attractively valued versus growth stocks.

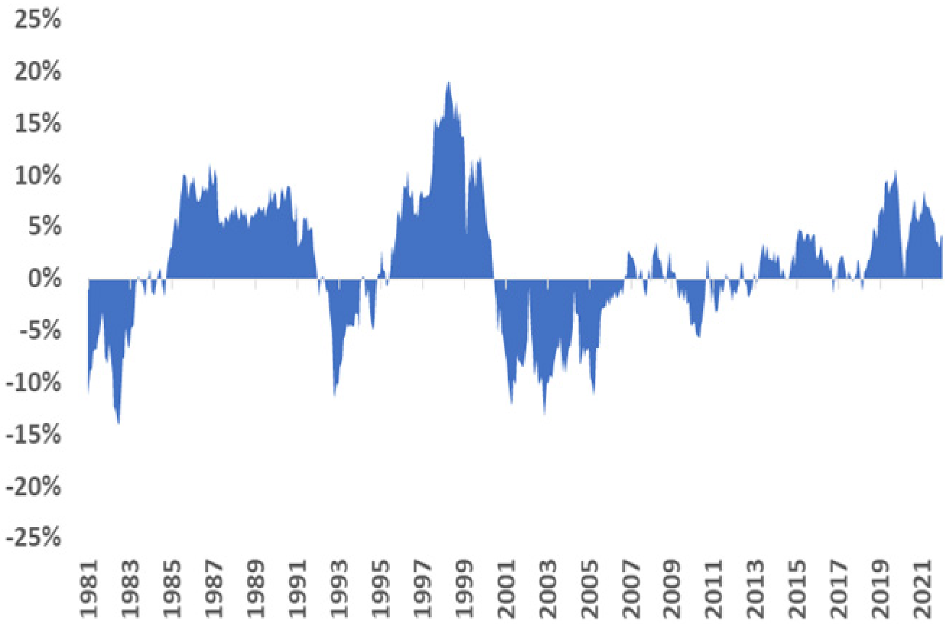


* Price divided by 12-month (52-week) forward consensus expected operating earnings per share. Monthly data through December 2005, weekly thereafter.
Note: Shaded red areas are S&P 500 bear market declines of 20% or more.
Source: I/B/E/S data by Refinitiv .

Source: Yardeni Research, through 1/5/23. You cannot invest directly in an index.

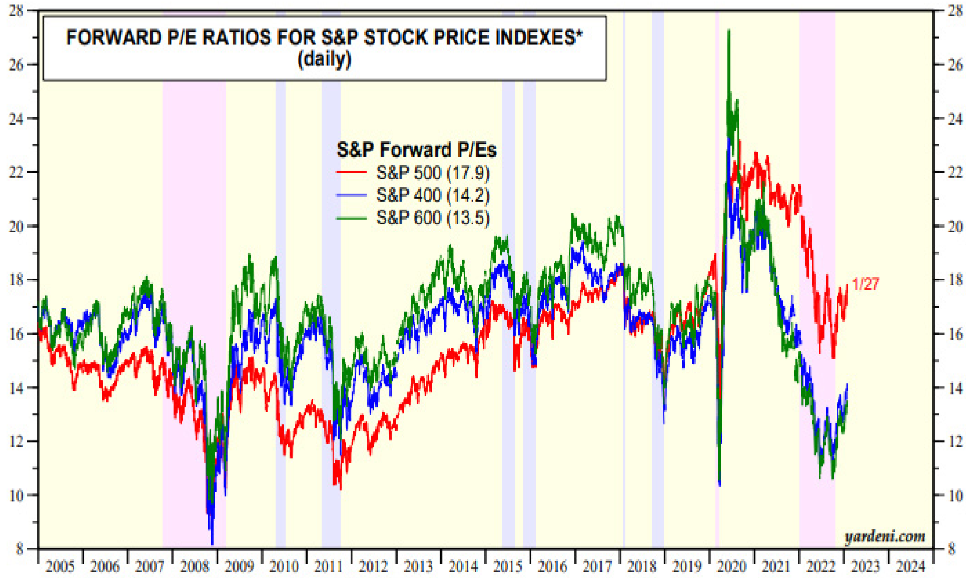
We see a similar performance story in historical large-cap/small-cap rotations…

Rolling 3-Year Annual Return Difference of Large vs. Small: 1979–2022



Sources: WisdomTree, FactSet, through December 2022, using Russell 1000 versus Russell 2000 Indexes. You cannot invest in an index, and past performance does not guarantee future results.

…and a similar current valuation attractiveness in mid- and small-cap stocks versus large-cap stocks.



* Daily stock price index divided by 52-week forward consensus expected operating earnings per share.
Note: Shaded red areas are S&P 500 bear market declines of 20% or more. Blue shaded areas are correction declines of 10% to less than 20%. Yellow areas are bull markets.
Source: Standard & Poor's and I/B/E/S data by Refinitiv.

Source: Yardeni Research, as of 1/13/23. You cannot invest directly in an index.

Now let's look at how dividends and quality performed over the past 12 months.

Finally, let’s examine current valuations between U.S. and non-U.S. stocks. Combined with the higher dividend yield typically available outside the U.S. and what we believe may be a downward-trending dollar, perhaps it is time for U.S. investors to rethink their allocations to non-U.S. stocks.

Estimated Price-to-Earnings (P/E) Ratios and S&P 500 Valuation Premium

Bottom Line: Our Model Portfolios have distinct factor tilts toward value, dividends, size and quality, and we maintain a roughly neutral allocation to non-U.S. versus the MSCI ACWI Index. We think we are in the “early innings” of these rotational trades, and we remain comfortable with our current positioning.

Fixed Income

One of our narratives for 2023 is, “There is income back in fixed income.”

Perhaps current market conditions are best illustrated in the following table, which compares, across various fixed income sectors, the current (December 2022) and one year prior (December 2021) yields, durations and projected total returns, assuming a 1% rise in interest rates.

The higher total returns in the far right (December 2022) column demonstrate how current yield levels may provide fixed income investors with a greater buffer against interest rates increasing faster or to a greater extent than current market expectations.

Projected Total Return from a 1% Rise in Interest Rates: December 2021 vs. December 2022

Finally, for those advisors and investors for whom it made sense, we have advocated considering allocations to real assets and alternatives for most of the past two years.

Certainly, the inclusion of these types of strategies, depending on the strategies and exposures, benefited many investors as they provided lower-correlation diversification to the abysmal stock and bond performances of the past year.

While we are neutral on the outlook for these allocations going forward, we still believe they can play an important role in constructing diversified portfolios.

Conclusion

Trying to predict future market performance is a fool's errand and a loser's game. Given historical performances and trends, we like how our portfolios are positioned. But it is also why we continue to recommend longer-term time horizons and appropriate diversification.

Financial advisors can learn more about our Model Portfolios, allocations and exposures at the WisdomTree Model Adoption Center (MAC).

Important Risks and Disclosure Related to this Article

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Neither diversification nor asset allocation strategies assure a profit or protect against loss. Investors should consider their investment time frame, risk tolerance level and investment goals.

For definitions of terms/indexes in the charts above, please visit the glossary.

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.

Related Blogs

+ The WisdomTree Q1 2023 Economic and Market Outlook in 10 Charts or Less

For more investing insights, check out our Economic & Market Outlook

View the online version of this article here.

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You cannot invest directly in an index.

DEFINITIONS

Model portfolio : A collection of assets owned by the underlying investor and continually managed by professional investment managers.

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

Fixed income : An investment security that provides a return in the form of fixed periodic payments and the eventual return of principal at maturity.

Balance sheet : refers to the cash and cash equivalents part of the Current Assets on a firms balance sheet and cash available for purchasing new position.

Value : Characterized by lower price levels relative to fundamentals, such as earnings or dividends. Prices are lower because investors are less certain of the performance of these fundamentals in the future. This term is also related to the Value Factor, which associates these stock characteristics with excess returns vs the market over tim.

Size : Characterized by smaller companies rather than larger companies by market capitalization. This term is also related to the Size Factor, which associates smaller market-cap stocks with excess returns vs the market over time.

Quality : Characterized by higher efficiency and profitability. Typical measures include earnings, return on equity, return on assets, operating profitability as well as others. This term is also related to the Quality Factor, which associates these stock characteristics with excess returns vs the market over tim.

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.

Growth : Characterized by higher price levels relative to fundamentals, such as dividends or earnings. Price levels are higher because investors are willing to pay more due to their expectations of future improvements in these fundamentals.

Mid-Cap : Characterized by exposure to the next 20% of market capitalization (after the top 70% have been removed) within the Value, Blend or Growth style zones with the majority of the fund’s weight.

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.