VALUATION OPPORTUNITIES IN 2015

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WisdomTree's Chief Investment Strategist, Luciano Siracusano (L.S.), its Director of Research, Jeremy Schwartz (J.S.), and its Head of Fixed Income and Currency, Rick Harper (R.H.), sat down in mid-December to reflect on 2014 and discuss the forces that could impact global financial markets in 2015. Below, we highlight the areas that look attractive based on valuations. To read the full report, please click here. **Q: When you look across asset classes, where are you attracted based on valuations?**

L.S.: After the 25% sell-off in large-cap U.S. energy stocks, Exxon[1] trades at 11 times trailing earnings and now sports a dividend yield north of 3%. As we speak now in mid-December, Chevron[2] and ConocoPhillips[3] exhibit dividend yields north of 4%. 2015 earnings estimates have come down, and in Exxon's case, they now stand about 20% below what the energy producer is projected to earn in 2014. But even that 2015 estimate, about $6.00 per share, is more than twice Exxon's projected dividend payment for 2015, $2.76. So I think the dividends being paid by these larger U.S.-based companies are sustainable, and I think they will help compensate investors until oil prices stabilize and start rising again. There are substantive reasons why oil and gasoline prices have come down. The U.S. used less oil as a percentage of its gross domestic product (GDP) than it used to. With greater concentrations of younger Americans living in urban areas, and with one in five millennials living in poverty, we are likely seeing fewer younger people logging the driving miles that previous generations did. The U.S. did become a net exporter of oil in 2014, exporting several hundred thousand barrels a day, as a result of the shale oil revolution in the States. So I think lower oil prices will continue to be a boost in 2015, but I think the odds of oil trading in the mid-$60s to low $70s a year from now are greater than oil changing hands at $40 a barrel. **J.S.:** In the United States, I believe the most attractive segment of the market from a pure valuation standpoint remains large-cap U.S. dividend growth stocks. These stocks (represented by the WisdomTree U.S. Dividend Growth Index) grew aggregate dividends more than 4 percentage points faster than did the typical high-dividend-yield stock (represented by the WisdomTree Equity Income Index) even though their dividend yields are just 1.5 percentage points lower than the high-yield stocks. On a price-to-earnings (P/E) ratio basis, these growth stocks sell at similar multiples to the high-yield stocks and make them attractive candidates given their higher growth characteristics. In the developed world, Japan remains a surprisingly cheap market on a P/E ratio basis despite its strong gains over the last two years. This is because Japan's earnings in aggregate have been increasing more than its aggregate stock prices. This remains one of the most attractive regions in global markets from a valuation standpoint—as earnings momentum looks stronger than other regions, and it has relatively low prices to its own history and to other markets. Europe is selling at approximately a 10% to 15% discount to the U.S. markets. This discount may be warranted for parts of Europe that are experiencing more sluggish growth than the United States, but if the weak euro boosts exports relative to the exporters of the United States, there could be some positive momentum out of European exporters. EM high-dividend stocks are currently the cheapest part of global equity markets on a dividend yield and P/E ratio basis. But these stocks have high sensitivity to China's growth rates and oil prices—two unknowns entering 2015. If oil prices rebound, I believe the EM high-dividend payers will be the biggest beneficiaries. **R.H.:** While I would tend to agree with Luciano and Jeremy that valuations across most equity markets are largely more attractive than many fixed income markets, the need for portfolio balance remains. Given our expectation about the strengthening domestic economy, the recent backup in credit spreads creates selective opportunities in the corporate bond markets. The underperformance of high-yield relative to investment-grade corporates and Treasuries has been particularly pronounced this year. Energy-related credits have been distinctly punished. Greater stability in energy prices would create tactical opportunities, particularly in energy issuers that are traditionally cash rich. EM corporate debt is another long-term opportunity, although it too is experiencing near-term headwinds. In Q1 2015, ongoing concerns about the path of the Federal Reserve's transition and perennial concerns about a Chinese hard landing are likely to be debated. Still, with spreads at their widest levels in the last two years and all in yields in the mid-5%, the largely investment-grade sector provides attractive potential going forward. [1]Exxon Mobil had 2.93% weight in WT Dividend Index, 5.52% weight in WT Dividend Growth Index, 5.13% weight in WT Equity Income Index and 3.25% weight in WT Earnings Index as of 12/26/14. [2]Chevron Corp. had 2.08% weight in WT Dividend Index, 4.18% weight in WT Equity Income Index and 1.91% weight in WT Earnings Index as of 12/26/14. [3]ConocoPhillips Co. had 0.93% weight in WT Dividend Index, 1.87% weight in WT Equity Income Index and 0.67% weight in WT Earnings Index as of 12/26/14.

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DEFINITIONS

Dividend yield : A financial ratio that shows how much a company pays out in dividends each year relative to its share price.

Earnings per share : 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.

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

Gross domestic product (GDP) : The sum total of all goods and services produced across an economy.

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.

WisdomTree U.S. Dividend Growth Index : A fundamentally weighted index designed to track the performance of dividend-paying companies in the U.S. that WisdomTree believes have the potential to increase their dividends due to certain factors, which include estimated earnings growth, return on equity and return on assets. Weighting is by indicated cash dividends.

WisdomTree Equity Income Index : Measures the performance of the 30% highest-yielding dividend-paying equities within the WisdomTree Dividend Index, weighted by indicated cash dividends.

Credit spread : The portion of a bond’s yield that compensates investors for taking credit risk.

Corporate bond buying : the act of purchasing corporate bonds.

High Yield : Sometimes referred to as “junk bonds,” these securities have a higher risk of default than investment-grade securitie.

Investment grade : An investment grade is a rating that signifies a municipal or corporate bond presents a relatively low risk of default.

Treasury : Debt obligation issued by the U.S. government with payments of principal and interest backed by the full faith and credit of the U.S. government.