

# EUROPEAN EQUITIES ON DISCOUNT: HOW TO ALLOCATE

Matt Wagner – Associate Director, Research  
11/16/2023

The European economy is not in free fall, but it is stumbling.

Surprisingly resilient growth in 2022 in the face of the Russian invasion of Ukraine has given way to an economy that is starting to feel the impact of the European Central Bank’s 10 consecutive [rate hikes](#).

On October 26, the ECB announced a pause on its rate-hiking campaign to assess the effect of its monetary tightening.

Meanwhile, U.S. economic growth continues to surprise to the upside.

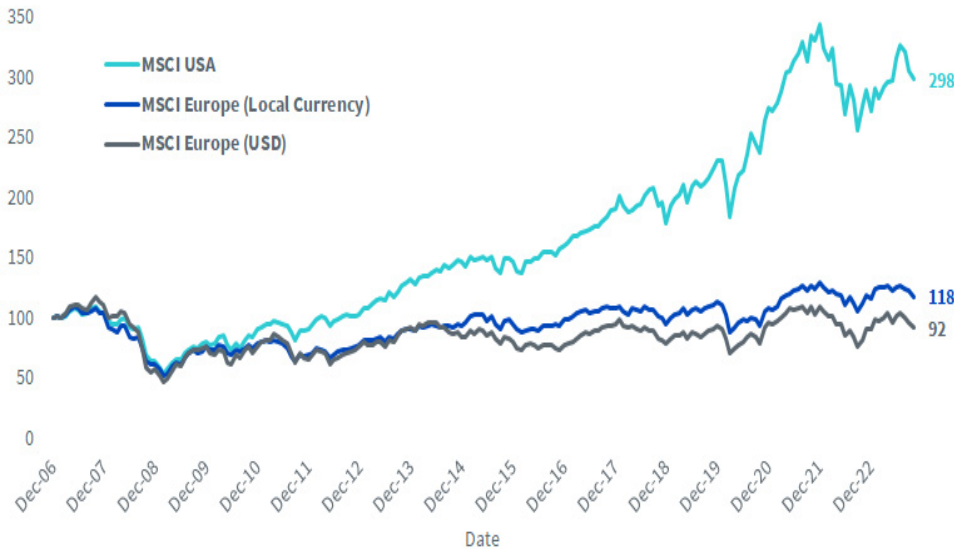
## Quarter-over-Quarter GDP Growth



Sources: U.S. Commerce Department, Eurostat. Seasonally and Inflation-adjusted at annualized rates.

Looking back to just before the [global financial crisis](#), the price returns of European equities measured in local currency (excluding currency fluctuations) have lagged the U.S. by 180% (or 5.7% annualized). Measured in dollars, European equities have lost value in the last 16+ years.

## Index Growth of 100 since 2006



Sources: WisdomTree, MSCI, 12/31/06–10/31/23. Index returns measured as price returns. You cannot invest directly in an Index. Past performance is not indicative of future returns.

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

For bargain hunters, the cloudy European economic picture and lagging returns could spell opportunity.

Many investors in U.S. equities are concerned [valuations](#) are too stretched, constraining future return expectations.

No such concern exists for European equities.

The [MSCI Europe Index's](#) forward [P/E ratio](#) of 12.6x is more than two turns below its historical median of 14.8x.

**MSCI Europe Index Forward P/E Ratio**



Sources: WisdomTree, FactSet, S&P, 4/28/1995–10/31/2023. You cannot invest directly in an Index.

**Allocating to European Dividend Payers**

WisdomTree has four Europe-dedicated equity Indexes. These Indexes rebalance exposures once per year as of an end-of-September screening date. Each Index is composed exclusively of dividend-paying companies and is fundamentally weighted based on the [Dividend Stream®](#).

These Indexes were designed with a focus on being broadly diversified, highly correlated

to the representative [market cap-weighted](#) indexes and investable. Each Index is tracked by a related WisdomTree ETF.

WisdomTree Index	Index Ticker	Index Inception Date	Related WisdomTree ETF
Europe Hedged Equity	WTEHIP	7/2/2012	Europe Hedged Equity (HEDJ)
Europe Quality Dividend Growth	WTEDG	3/3/2014	Europe Quality Dividend Growth (EUDG)
Europe SmallCap Dividend	WTESC	6/1/2006	Europe SmallCap Dividend (DFE)
Europe SmallCap Equity	WTESEH	2/9/2015	Europe Hedged SmallCap Equity (EUSC)

- [WisdomTree Europe Hedged Equity](#) – Exposure to European equities while neutralizing (hedging) exposure to fluctuations between the euro and the U.S. dollar. Companies must be domiciled in Europe, trade in euros, have at least \$1 billion market capitalization and derive at least 50% of their revenue in the latest fiscal year from countries outside of Europe.
- [WisdomTree Europe Quality Dividend Growth](#) – Selects 300 companies from the eligible universe based on their combined ranking of growth and quality factors. The growth factor ranking is based on earnings growth expectations, while the quality factor ranking is based on three-year historical averages for return on equity and return on assets.
- [WisdomTree Europe SmallCap Dividend](#) – Comprises the bottom 25% of the market capitalization of the European companies from the WisdomTree International Equity Index after the 300 largest companies have been removed.
- [WisdomTree Europe Hedged SmallCap Equity](#) – Exposure to European equities while neutralizing (hedging) exposure to fluctuations between the euro and the U.S. dollar. The Index comprises the bottom 10% of the market capitalization of the European companies traded in euros from the WisdomTree International Equity Index.

The rebalance of these European Indexes took place at the market close of November 8. Below is a summary of the post-rebalance exposures of the Indexes.

#### Country Exposures

- Both the **Europe Hedged Equity Index** and the **Europe Hedged SmallCap Equity Index** only include countries in the European Monetary Union (EMU), thus excluding countries like the United Kingdom, Switzerland, Sweden and Denmark. Country weights are capped at 25%, which is why we see 25% weights each for Germany and France in the **Europe Hedged Equity Index**.
- The **Europe Quality Dividend Growth Index** has a broad-based universe of European equities, including non-EMU countries. Countries are capped at 20% at rebalance, with some deviation due to a 20% sector cap, 5% holding cap and volume adjustments to enhance the liquidity of the Index.
- The **Europe SmallCap Dividend Index** also has a broad-based universe of European equities. The Index caps countries at 25%, but due to volume adjustments, United Kingdom equities were boosted to a 39% weight at the rebalance.

#### Index Country Exposures

Country	WisdomTree Europe Hedged Equity	WisdomTree Europe Quality Dividend Growth	WisdomTree Europe SmallCap Dividend	WisdomTree Europe SmallCap Equity	MSCI Europe
Germany	25%	10%	6%	13%	13%
France	25%	20%	4%	20%	18%
Netherlands	16%	7%	2%	6%	8%
Spain	14%	5%	2%	14%	4%
Italy	11%	2%	10%	23%	3%
Belgium	4%	2%	2%	6%	1%
United Kingdom	-	22%	39%	-	22%
Switzerland	-	22%	4%	-	15%
Sweden	-	4%	12%	-	5%
Denmark	-	3%	4%	-	5%

Sources: WisdomTree, MSCI, FactSet. Index weights based on 9/29/23 screening date. Rebalance effective at the close of 11/8/23. You cannot invest directly in an Index.

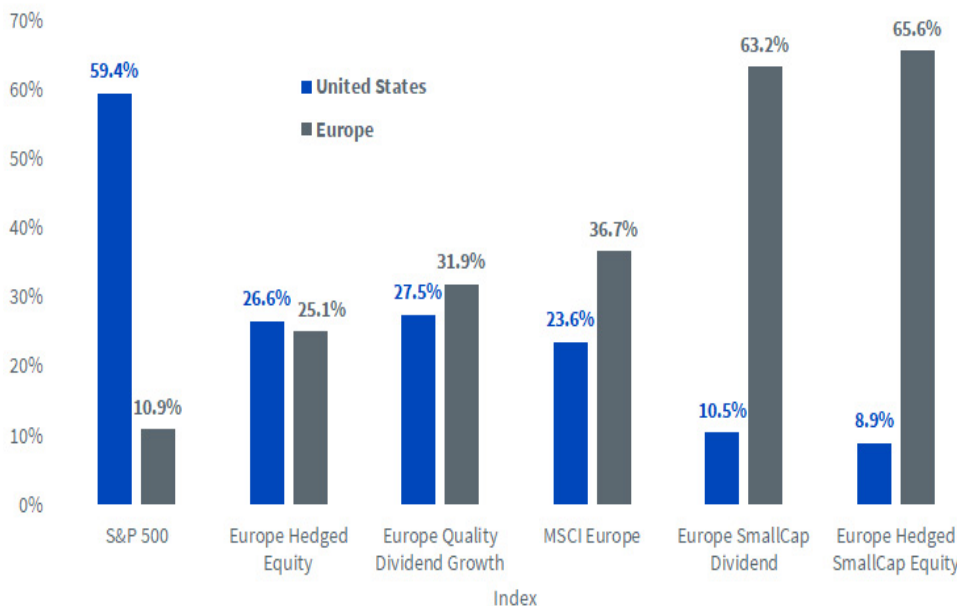
### Geographic Revenue

The European economy is much more export-reliant than the U.S.

S&P 500 constituents earn nearly 60% of revenue from the domestic U.S. market. The WisdomTree Europe Hedged Equity Index—populated by large multinational European companies—earns less than half that amount from Europe (25.1%). In fact, that Index earns slightly more revenue (26.6%) from the U.S.

The Europe SmallCap Dividend Index and the Europe Hedged SmallCap Equity Index each earn more than 60% of revenues from the domestic European market, representing exposures more closely tied to European economic conditions.

### Index Geographic Revenue

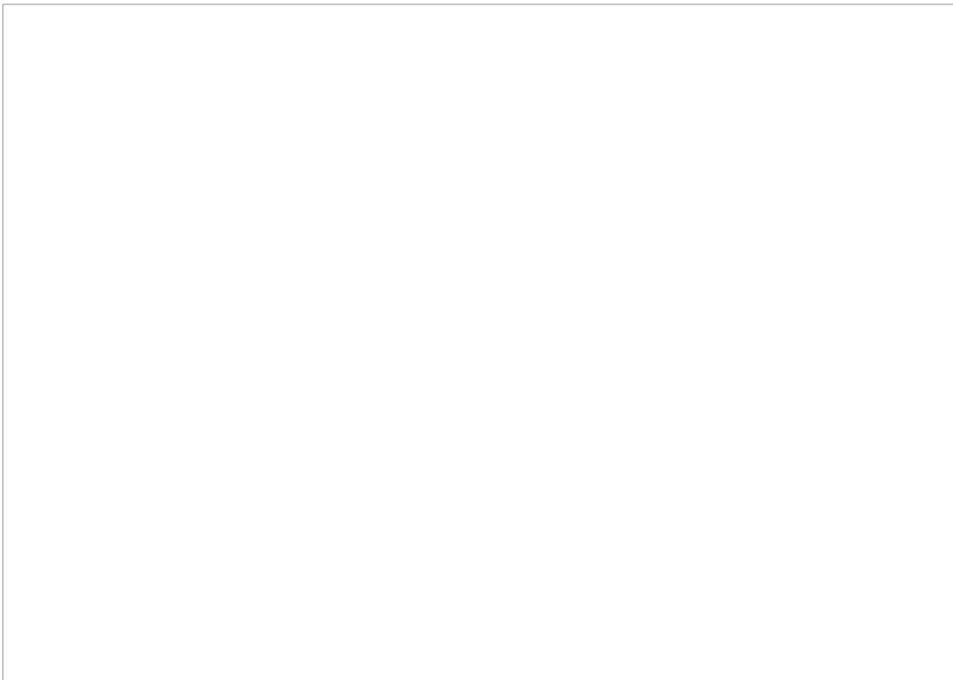


Sources: WisdomTree, S&P, MSCI, FactSet. Index weights based on 9/29/23 screening date. Rebalance effective at the close of 11/8/23. You cannot invest directly in an Index.

### Sector Exposures

- The **Europe Hedged Equity Index** tilts to exporters, reducing exposure to sectors like Utilities, Real Estate and Energy that earn a great share of their revenue from within Europe. As seen with the top allocation to Consumer Discretionary, sectors are capped at 25%.
- The **Europe Quality Dividend Growth Index** has historically been under-weight in Financials (5%) relative to market cap-weighted indexes due to the Index's profitability screens (return-on-equity and return-on-assets). Sectors are capped at 20%, as can be seen with Consumer Staples, Health Care and Industrials.
- The **Europe SmallCap Dividend Index** and **Europe Hedged SmallCap Equity Index** each have their largest exposures to Industrials, at 29% and 22%, respectively. Each Index caps sector exposures at 25%, with deviation due to volume adjustments.

### Index Sector Exposures



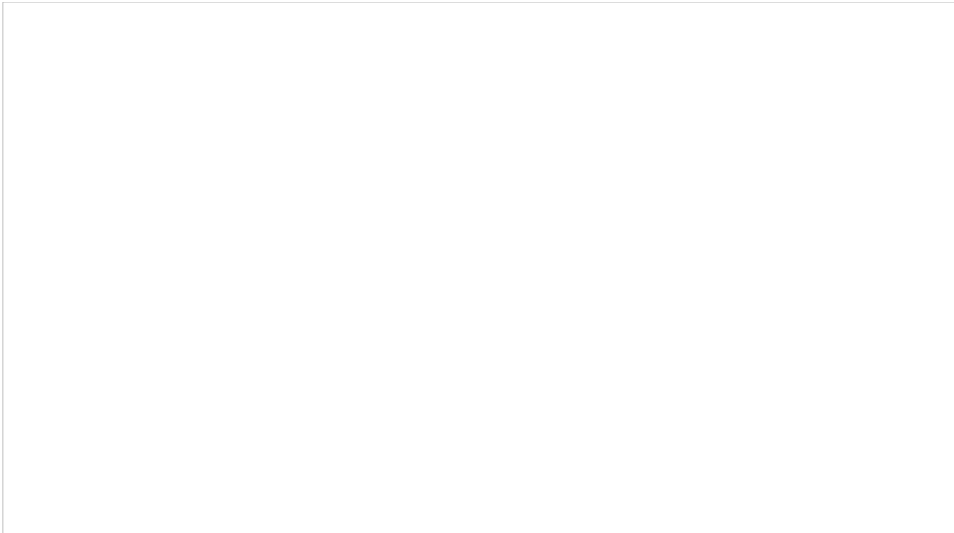
### Characteristics

To the earlier point on attractive valuations for European equities, three of the four Indexes have trailing price-to-earnings ratios of 10x or less. These are some of the lowest valuations that can be found in the developed markets.

The Europe Quality Dividend Growth Index, with a P/E ratio of 13.4x, can be explained by the higher quality characteristics (premium [ROE](#) and [ROA](#)). This Index is over-weight in high-quality sectors like Health Care, Industrials, Consumer Staples and Consumer Discretionary and under-weight in lower-quality sectors like Financials and Energy.

For a basket of high-quality multinational businesses, the Europe Quality Dividend Growth Index is trading at a reasonable multiple when compared to the 22.6x P/E ratio of the [S&P 500 Index](#).

### Index Characteristics



For additional details on the rebalance of each of the Indexes, please go to their respective Index pages on the wisdomTree website:

- [WisdomTree Europe Equity Index](#) (the [WisdomTree Europe Hedged Equity Fund \(HEDJ\)](#) seeks to track the price and yield performance, before fees and expenses, of this Index)
- [WisdomTree Europe Quality Dividend Growth Index](#) (the [wisdomTree Europe Quality Dividend Growth Fund \(EUDG\)](#) seeks to track the price and yield performance, before fees and expenses, of this Index)
- [WisdomTree Europe SmallCap Dividend Index](#) (the [WisdomTree Europe SmallCap Dividend Fund \(DFE\)](#) seeks to track the price and yield performance, before fees and expenses, of this Index)
- [WisdomTree Europe Hedged SmallCap Equity Index](#) (the [WisdomTree Europe Hedged SmallCap Equity Fund \(EUSC\)](#) seeks to track the price and yield performance, before fees and expenses, of this Index)

#### Important Risks Related to this Article

There are risks associated with investing, including the possible loss of principal. 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. Derivative investments can be volatile, and these investments may be less liquid than other securities, and more sensitive to the effect of varied economic conditions. As this Fund can have a high concentration in some issuers, the Fund can be adversely impacted by changes affecting those issuers. Due to the investment strategy of this Fund, it may make higher capital gain distributions than other ETFs. Dividends are not guaranteed, and a company currently paying dividends may cease paying dividends at any time. Please read the Fund's prospectus for specific details regarding the 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.

#### Related Funds

- + [WisdomTree Europe Hedged Equity Fund](#)
- + [WisdomTree Europe Quality Dividend Growth Fund](#)

+ [WisdomTree Europe SmallCap Dividend Fund](#)

+ [WisdomTree Europe Hedged SmallCap Equity Fund](#)

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

**Rate Hike**: refers to an increase in the policy rate set by a central bank. In the U.S., this generally refers to the Federal Funds Target Rate.

**The Global Financial Crisis**: Refers to the period of extreme stress in global financial markets and banking systems between mid 2007 and early 2009.

**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.

**MSCI Europe Index**: A free float-adjusted market capitalization-weighted index designed to measure the performance of developed equity markets in Europe.

**Price-to-earnings (P/E) ratio**: Share price divided by earnings per share. Lower numbers indicate an ability to access greater amounts of earnings per dollar invested.

**Dividend Stream**: Refers to the regular dividends per share multiplied by the number of shares outstanding.

**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.

**Return on Equity (ROE)**: Measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.

**Return on assets (ROA)**: Firm profits (after accounting for all expenses) divided by the firm's total assets. Higher numbers indicate greater profits relative to the level of assets utilized to generate them.

**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.