ACTIONABLE IDEAS TO START THE NEW YEAR

WisdomTrees Model Portfolio Investment Committee
01/14/2021

This article is relevant to financial professionals who are considering offering Model Portfolios to their clients. If you are an individual investor interested in WisdomTree ETF Model Portfolios, please inquire with your financial professional. Not all financial professionals have direct access to these Model Portfolios.

WisdomTree’s Model Portfolio Investment Committee produces quarterly commentary on their latest asset allocation views. These views impact the trade and rebalance decisions of the Model Portfolio strategies the team manages. These views are outlined below and followed up with specific investment strategies that express those views. Financial professionals can access the complete list of strategies and trades as it relates to our Model Portfolios here.

U.S. Exposure

Relative to the All Country World Index (ACWI), we maintain our over-weight position in U.S. equities going into 2021. 2020 marked the eighth year of the past nine in which U.S. equities outperformed their international peers. The year was highlighted by the continued domination of big tech stocks; however, the final few months of the year saw a long-awaited catch-up rally by beaten-down cyclical assets and small caps. Market-friendly presidential election results, continued monetary support from the Federal Reserve (Fed) and another fiscal stimulus package are all positive drivers of risk assets, but we believe a successful global vaccine rollout should be the most impactful for economic growth and investors’ risk appetites. Markets have been looking past the surge in COVID-19 cases with abundant optimism about reopening in 2021, and while we are optimistic for risk assets in 2021, we caution against getting too far ahead of ourselves in the near term. Quality remains undervalued and serves as an anchor for our equity models. We believe 2021 may finally be the year that value stocks outperform, given their historical tendency to do so in early-cycle periods combined with the increasing regulatory risk facing some big tech names. We continue to ensure our portfolios have lower valuations, as defined by price-to-earnings ratios, and are tilted toward value and size; however, we elected to add more explicit growth exposure in order to balance a portion of our value bias and to act as a hedge if the expected value rebound does not take hold.

Investment Ideas:

WisdomTree U.S. Quality Dividend Growth Fund (DGRW)

WisdomTree U.S. LargeCap Dividend Fund (DLN)

WisdomTree U.S. SmallCap Fund (EES)

Developed International Exposure

We remain under-weight in international developed equity markets relative to ACWI. The reopening trade, combined with a falling dollar, provided meaningful tailwinds for European and Japanese equities to close 2020. Europe saw another large wave of COVID-19 cases this fall that, hopefully, reached its apex in December. The European Central Bank’s increase in the size and duration of its pandemic emergency purchase program should provide continued liquidity to the financial system, and 2021 may see the positive impact of the EU recovery fund. Perhaps even more than its European counterpart, the Japanese equity market is leveraged to the global manufacturing and export cycle and would benefit from a sustained pickup in growth. While we are more optimistic on the developed international region than we have been in the past few quarters, we stop short of increasing exposure there and elect to keep our current positioning. We believe the dollar may continue to slide, and so we lean toward unhedged positions in our EAFE exposure.

Investment Ideas:

WisdomTree Global ex-U.S. Quality Dividend Growth Fund (DNL)

WisdomTree International Quality Dividend Growth Fund (IQDG)

Emerging Markets Exposure

We maintain a modest over-weight position in the emerging markets (EM) region relative to ACWI. EM led all major global equity regions for most of the second half of the year, as the sinking dollar continued to act as a catalyst for the asset class. Earnings have risen sharply in recent months, and expectations for 2021 are soaring as well. The reflation trade could benefit the struggling commodity-exporting countries like Russia and Brazil. While valuations are no longer screamingly cheap, EM stocks still look inexpensive relative to the developed world. Despite a fresh start with the new U.S. administration, there may be no returning to the amicable ties between the U.S. and China, and a renewed focus by Chinese lawmakers to reduce the country’s debt burden could interrupt the upward trajectory of EM equities. That said, we remain convinced that the risk/reward trade-off of the asset class is skewed to the upside. We continue to utilize ex-state-owned enterprises at the core, along with small-cap dividend payers as a satellite.

Investment Ideas:

WisdomTree Emerging Markets ex-State-Owned Enterprises Fund (XSOE)

WisdomTree China ex-State-Owned Enterprises Fund (CXSE)

WisdomTree Emerging Markets SmallCap Dividend Fund (DGS)

Fixed Income Exposure

We maintain our positioning of over-weight in credit and shorter duration relative to our benchmark, the Bloomberg Barclays Aggregate Bond Index. U.S. investment-grade and high-yield spreads have retraced nearly all of the peak widening experienced back in March. Nevertheless, credit valuations, specifically within the high-yield sector, remain attractive from a relative value perspective. A focus on screening for quality will remain of paramount importance. The Fed’s new monetary policy framework, which focuses on average inflation targeting, essentially removes any rate hikes for 2021 and potentially beyond. The focus now turns toward forward guidance regarding the Fed’s quantitative easing purchases of Treasuries and mortgage-backed securities. Given this new approach, an increase in economic momentum and/or rising inflation expectations could pressure longer maturity rates, leading to further steepening in the Treasury yield curve[1]. While lingering uncertainties mean that additional setbacks cannot be ruled out, ongoing support from the Fed, well-capitalized financial institutions, additional fiscal policy stimulus and the vaccine rollout have created the potential for economic and credit market improvements. Given the historically low rate environment, longer-dated Treasuries may not offer the same degree of hedge protection in the event of a risk-off trade and have a heightened sense of vulnerability to the risk-on trade. As a result, we refined our Treasury position, moving from longer-dated to the intermediate part of the curve, which will still provide protection in risk-off environments but is less vulnerable to continued curve steepening or a significant pickup in yields. Given our views on improving economic conditions in emerging markets and the dollar, we believe there may be opportunity in emerging markets local debt.

Investment Ideas:

WisdomTree Yield Enhanced U.S. Aggregate Bond Fund (AGGY)

[WisdomTree U.S. High Yield Corporate Bond Fund (WFHY)]

[WisdomTree Emerging Markets Local Debt Fund (ELD)]

Alternatives Exposure

We maintain our current positioning in our volatility management portfolio. Our options-writing strategy Fund delivered strong and stable returns as implied volatility remained elevated. Positions in merger arbitrage and black swan strategies consistently generated positive absolute returns since the first quarter. Our anti-beta holding continues to act as a true diversifier, performing exactly as expected in a global equity rally and helping to rein in the total portfolio risk level. We think this alternatives sleeve delivers a unique return stream of potential return drivers with the benefit of additional risk diversification.

Within our real asset allocation, we opted to allocate to a broad commodity basket exposure to capture our view on the dollar and what we believe may be strengthening demand as the global economy accelerates.

Investment Ideas:

WisdomTree CBOE S&P 500 PutWrite Strategy Fund (PUTW)

WisdomTree Continuous Commodity Strategy Fund (GCC)

[1] Yields on long-term bonds are rising faster than yields on short-term bonds.

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)

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

MSCI All Country World Index : a broad global equity benchmark that represents large and mid-cap equity performance across 23 developed and emerging market countries.

Federal Reserve : The Federal Reserve System is the central banking system of the United States.

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.

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.

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.

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.

Hedge : Making an investment to reduce the risk of adverse price movements in an asset. Normally, a hedge consists of taking an offsetting position in a related security, such as a futures contract.

Unhedged : Strategy that includes the performance of both the underlying asset as well as the currency in which it is denominated. The performance of the currency can either help or hurt the total return experienced.

EAFE : Refers to the geographical area that is made up of Europe, Australasia and the Far East.

Duration : A measure of a bond’s sensitivity to changes in interest rates. The weighted average accounts for the various durations of the bonds purchased as well as the proportion of the total government bond portfolio that they make up.

Bloomberg U.S. Aggregate Bond Index : Represents the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, as well as mortgage and asset backed securities.

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

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

Spread : Typically refers to a difference between a measure of yield for one asset class and a measure of yield for either a different subset of that asset class or a different asset class entirely.

Inflation : Characterized by rising price levels.

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.

Quantitative Easing (QE) : A government monetary policy occasionally used to increase the money supply by buying government securities or other securities from the market. Quantitative easing increases the money supply by flooding financial institutions with capital, in an effort to promote increased lending and liquidity.

Mortgage-backed securities : Fixed income securities that are composed of multiple underlying mortgages.

Risk-on/risk-off : refers to changes in investment activity in response to perceived risk. During periods when risk is perceived as low, investors tend to engage in higher-risk investments. When risk is perceived as high, investors tend to gravitate toward lower-risk investments.

Volatility : A measure of the dispersion of actual returns around a particular average level. .

Put options : an option to sell assets at an agreed price on or before a particular date.

Black swan : an unpredictable event that is beyond what is normally expected of a situation and has potentially severe consequences

Beta : A measure of the volatility of a security or a portfolio in comparison to a benchmark. In general, a beta less than 1 indicates that the investment is less volatile than the benchmark, while a beta more than 1 indicates that the investment is more volatile than the benchmark.