IS GERMANY PULLING AWAY FROM EUROPE?

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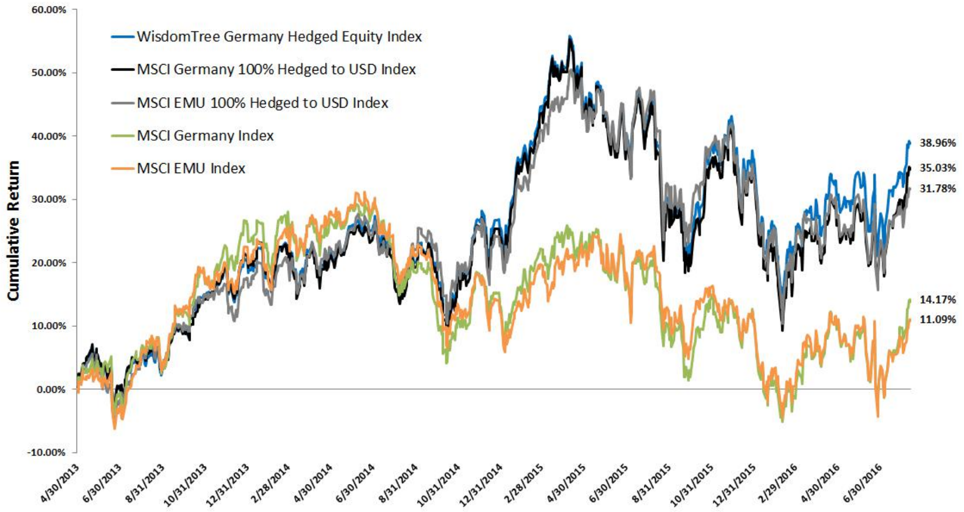
In a year of so many negative headlines emanating from Europe, it may come as a surprise to some that eurozone stocks, denominated in euros, are virtually unchanged for the year. With investors bracing for a potential recession in France and Italy, equity markets of individual European countries are starting to see some meaningful differentiation. Although Germany continues to work politically to keep Europe unified, its equity market is starting to separate from many other stock markets across the continent. As we can see in the chart below, both the hedged eurozone and Germany indexes separated from their unhedged counterparts toward the end of 2014. This coincided with what was a significant depreciation of the euro beginning in May of that



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Index	WT Index Inception	YTD as of 8/15/2016	Average Annual Total Returns as of 7/31/2016		
			1-Year	3-Year	Since WT Inception
WisdomTree Germany Hedged Equity	5/1/2013	1.91%	-5.52%	8.84%	9.48%
MSCI Germany 100% Hedged to USD		0.88%	-7.98%	7.51%	8.38%
MSCI EMU 100% Hedged to USD		-1.55%	-10.70%	7.43%	8.09%
MSCI Germany		2.85%	-7.57%	1.41%	2.91%
MSCI EMU		0.45%	-10.31%	1.25%	2.54%

Sources: WisdomTree, Bloomberg as of 8/15/16. Past performance is not indicative of future results. You cannot invest directly in an index.

That differential has narrowed in 2016, as the euro has rallied against the dollar. Nevertheless, German stocks continue to outperform the broader European equity market, both on a currency-hedged and unhedged basis over the past year. Over the last decade, the German equity market outperformed Europe as a whole by more than 300 basis points (bps) per year. On a currency-hedged basis, the MSCI Germany 100% Hedged to USD Index outperformed the MSCI EMU Index by 547 bps over that period. As the locomotive of Europe, Germany and its exporters continue to benefit from relatively strong consumer spending in the U.S. and from global gross domestic product (GDP) growth that continues to outpace GDP growth in Europe. To give investors an easy way to track the German equity market in a currency-hedged format, three years ago we launched the WisdomTree Germany Hedged Equity Index. This WisdomTree Index focuses on dividend-paying companies that derive more than 20% of their revenue outside of Germany. Rather than weighting components by market value, WisdomTree rebalances annually, setting company weights based on the dollar value of dividends paid in the prior year. On a currency-hedged basis, the WisdomTree Germany Hedged Equity Index outperformed the broader MSCI EMU 100% Hedged to USD Index by approximately 3.5 percentage points year-to-date through August 15. Over this period, the WisdomTree Germany Hedged Equity Index has also outperformed its comparable cap-weighted index in the category—the MSCI Germany 100% Hedged to USD Index. Much of that excess return has been concentrated in the Financials, Health Care and Industrials sectors. And over the last three years, WisdomTree’s Index has beaten both the hedged and the unhedged versions of the MSCI Germany Index. One might think that such outperformance would now cause the WisdomTree Index to trade at a premium to MSCI Germany or Europe as a whole. However, the WisdomTree Germany Hedged Equity Index currently trades at a discount: 18 times earnings versus 24 times earnings for the MSCI Germany Index and 23 times earnings for the MSCI EMU Index. **Conclusion** Germany has certainly been a bright spot in the eurozone over the last decade, especially if one hedged the currency. Hedging the euro allows WisdomTree’s Index to mitigate currency risk, while titling toward exporters gives WisdomTree the potential to capitalize on a depreciating euro. Should upcoming elections in Europe cause the euro to weaken, such a hedge could once again represent a source of return for the strategy. For those looking to tilt their Europe exposure toward Germany, the WisdomTree Germany Hedged Equity Fund (DXGE) provides an easy way to implement such a view.

Important Risks Related to this Article

Investments in currency involve additional special risks, such as credit risk and interest rate fluctuations.

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You cannot invest directly in an index.

DEFINITIONS

Eurozone (EZ) : Consists of the following 18 countries that have adopted the euro as their currency: Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain (source: European Central Bank, 2014).

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.

Currency hedging : Strategies designed to mitigate the impact of currency performance on investment returns.

Basis point : 1/100th of 1 percent.

MSCI EMU Index : A free float-adjusted market capitalization-weighted index designed to measure the performance of the markets in the European Monetary Union.

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

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

Rebalance : An index is created by applying a certain set of selection and weighting rules at a certain frequency. WisdomTree rebalances, or re-applies its rules based selection and weighting process on an annual basis.

MSCI Germany 100% Hedged to USD Index : Achieves an index return very similar to the MSCI Germany Index but with the addition of hedging its currency exposures.

MSCI Germany Index : Index weighted by float-adjusted market capitalization designed to measure the performance of the German equity market.

Discount : When the price of an ETF is lower than its NAV.