

# ECB QE FAVORS EUROPEAN EXPORTERS

Christopher Gannatti – Global Head of Research  
03/17/2016

Central bank activity has become one of the most important and influential factors driving markets today. As the U.S. Federal Reserve (Fed) moves toward a [policy rate normalization](#), both the Bank of Japan (BOJ) and the European Central Bank (ECB) are pushing the boundaries with policies that many wouldn't have considered merely a few years ago. [Quantitative Easing \(QE\)](#) Will Have Important Impacts while it is clear to us that one desired impact of quantitative easing (QE) is rising equity markets, the impact across the different sectors will not be equal.

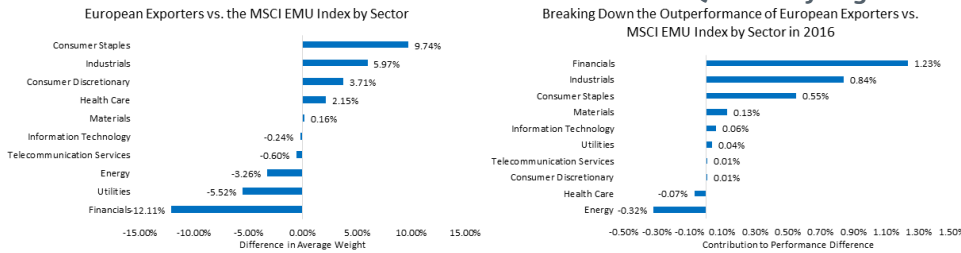
- **QE may make it tough for financials:** Besides acting as a stimulus to equity markets, other goals of quantitative easing could include an overall lowering of [interest rates](#)—on both the long and the short ends of the [yield curve](#). This may not be ideal for the profitability of banks—unless the volume of loans made is enough to counteract the potentially lower profitability per loan. Only time will tell if the [velocity of money](#) and aggregate growth in loans will accelerate substantially, whereas we do know that the ECB will be actively exercising its influence to keep interest rates low.
- **QE may encourage a weaker euro:** Let's face it—currency market behavior does not always cleanly line up with economic rationale. In terms of the exchange rate of the euro measured against the U.S. dollar, it is clear that the monetary policies of the United States and the ECB are moving in different directions. Over the medium to long term, this could serve to encourage a weaker euro compared to the U.S. dollar—making the products and services of European exporters less expensive for U.S. consumers. Over the short term, we have to recognize that currencies can and do exhibit [volatility](#), and they may move in accordance with factors not necessarily related to economic rationale.

**Bottom Line:** The market should not let short-term market volatility—be it in the euro or otherwise—distract it from the unprecedented and extremely aggressive policy prescription that European Central Bank President Mario Draghi announced on March 10, 2016. We are ultimately encouraged by the “whatever it takes” implication and believe that it could ultimately lead to a more positive environment for European equities, even if the road may navigate us through some nearer-term volatility.

**The Advantage of the Exporter Tilt** The [WisdomTree Europe Hedged Equity Index](#) (European Exporters) requires eligible constituents to derive at least 50% of their revenues from outside Europe at its [annual Index screening](#). This leads to:

- **Significant differences in sector exposure compared to the [MSCI EMU Index](#):** Most notable is the greater than 12% under-weight to Financials that we have seen thus far in 2016. The large over-weights happen to be in Consumer Staples, Industrials and Consumer Discretionary. Critically, this affords European Exporters the opportunity to outperform if 1) the Financials sector within the eurozone is challenged by the implementation of QE, and 2) Consumer Staples, Industrials and Consumer Discretionary stocks are buoyed by better global growth prospects, a weaker euro exchange rate or some combination. 3) A distinct over-weight to Consumer Staples, a more defensively oriented sector, proves helpful in a volatile market environment.
- **Outperformance thus far in 2016:** As shown in the chart below, even before the March 10 announcement, European Exporters had outperformed the MSCI EMU Index by approximately 2.5% in 2016. The three sectors most responsible for driving this result were 1) Financials, by far the lion's share, a distinct under-weight to a very challenged sector; 2) Industrials, which were challenged in 2015 but have been performing much better on a relative basis in 2016; and 3) Consumer Staples, a large overweight for

European Exporters and an overall defensively oriented sector that may tend to hold up better in volatile market environments. **Quantifying the Exporter Advantage**



Source: Bloomberg, subject to change. Period is from 12/31/15 to 3/9/16. The left chart refers to the difference in average weights by sector between European Exporters and the MSCI EMU Index over this period. The right chart refers to the total sector attribution between those universes over the same period.

**Central Bank**

**Actions Are Here to Stay** what we saw on March 10 from the ECB and from the BOJ earlier this year is that global central banks are doing whatever they can to influence markets. It is truly amazing to note that both are employing [negative deposit rates](#). Over time, we will have to see how market dynamics are influenced, and we hope that the fiscal side of the equation can ultimately make its appropriate contribution, taking some of the pressure off monetary policies to carry the full load.

**Important Risks Related to this Article**

Investments focused in Europe increase the impact of events and developments associated with the region, which can adversely affect performance.

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.

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](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

**Policy Rate Normalization**: steps to raise/lower the federal funds rate and other short-term interest rates to more normal level.

**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.

**Interest rates**: The rate at which interest is paid by a borrower for the use of money.

**Yield curve**: Graphical Depiction of interest rates on government bonds, with the current yield on the vertical axis and the years to maturity on the horizontal axis.

**Velocity of money**: Measure of the frequency that money changes hands within a broader economy. Higher levels indicate the potential for greater levels of economic activity.

**Volatility**: A measure of the dispersion of actual returns around a particular average level.&nbsp;

**Annual screening date**: The screening date refers to the date upon which characteristics of eligible constituent firms are measured, whereas the rebalance refers to when the results from the screening date are implemented by way of Index weights and constituents.

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

**Negative deposit rates**: A new European Central Bank policy measure aimed at charging banks for parking their excess cash with the central banks.