
OUR INVESTING TOOLKIT FOR Q2 2021

WisdomTree's Model Portfolio Investment Committee
04/16/2021

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

We maintain our overweight position in U.S. equities going into the second quarter. Following the Georgia Senate runoff in early January, risk assets surged higher on expectations of a massive stimulus bill that was eventually passed in March. Vaccination efforts have accelerated in recent months, boosting market sentiment. Surging growth expectations have helped propel the long-awaited rotation from [large-capitalization](#) growth stocks into [cyclical](#), [value](#) and [small-cap](#) stocks. In the meantime, sharply higher [interest rates](#) have weighed on the high-flying growth names that dominated [cap-weighted](#) equity indexes for the last several years. [Quality](#) tends to lag when value outperforms, and we continue to blend the two factors as anchors of our large-cap positioning. The move higher in small and [mid-caps](#) has been rapid—as has the subsequent move downward in late March—but following years of underperformance, we believe the run still has legs.

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 underweight in international developed equity markets. The vaccination rollout has met with numerous issues in the EU, and the region now faces rising cases and renewed lockdowns as a result. The ECB continues to boost the liquidity it provides to the financial system, and the impact of the EU Recovery Fund may be felt later this year. In Japan, the vaccination effort has been slow to start but should not be plagued by the logistical issues observed in Europe. Earnings have surprised to the upside and look to be trending higher in 2021 as well. The global rotation from growth to value stocks stands to aid the developed world given the cyclical composition of its equity markets and reliance on global growth.

Investment Ideas:

- [WisdomTree Global ex-U.S. Quality Dividend Growth Fund \(DNL\)](#)
- [WisdomTree International Quality Dividend Growth Fund \(IQDG\)](#)

Emerging Markets Exposure

We maintain an overweight position in the emerging markets (EM) region. After a blistering pace at the start of the year, EM has cooled off thanks to a combination of an unexpectedly strong dollar and increased scrutiny on China's tech titans. China's regulatory push targeting antitrust activities and debt reduction bears close monitoring over the coming months. Despite this, earnings continue to trend sharply higher and we think the asset class offers compelling long-term value, particularly when compared to developed market equities. Several commodity-linked countries and sectors have benefited in the global reflationary environment and small caps are seeing strong outperformance as well. The current environment gives us conviction in our positioning of barbell [no n-state-owned enterprises](#) with small-cap dividend payers.

Investment Ideas:

- [WisdomTree Emerging Markets ex-State-Owned Enterprises Fund \(XSOE\)](#)
- [WisdomTree Emerging Markets SmallCap Dividend Fund \(DGS\)](#)

Fixed Income Exposure

We maintain our positioning of overweight credit and shorter duration relative to the benchmark. The biggest story in fixed income and arguably all capital markets has been the spike in the [U.S. Treasury \(UST\) 10-Year yield](#). While the 10-year yield has risen by 120 [basis points \(bps\)](#) from its August low, roughly 80 bps of this increase occurred in just the first quarter of 2021 alone. The 2s/10s [yield curve](#) has visibly steepened to its widest level since mid-2015. The March [FOMC](#) meeting underscored the Fed's intention to continue providing an extremely accommodative monetary policy approach over the next two years. Despite raising their median [inflation](#) forecast to at least their 2% threshold through 2023, the policy makers' consensus view was for no [rate hikes](#) during this period, underscoring their intention to let the economy run. Inflation expectations have moved to the widest readings in a decade. We continue to see the potential for further upside in the UST 10-year yield in the months ahead, leading to some additional steepening of the yield curve. U.S. investment-grade and high-yield spreads have retraced all of the peak widening from 2020 and are now back to pre-pandemic levels. We foresee both [investment-grade](#) and [high-yield](#) spreads settling into a trading range, with credit valuations, specifically within the high-yield sector, remaining reasonably attractive from a relative value perspective. A focus on screening for quality will remain of paramount importance. As we have seen over the last year, additional setbacks cannot be ruled out entirely, but unprecedented amounts of fiscal stimulus, ongoing support from the Fed, well-capitalized financial institutions and the ongoing vaccine rollout have created the potential for a robust economic setting in 2021.

Investment Ideas:

- [WisdomTree Yield Enhanced U.S. Aggregate Bond Fund \(AGGY\)](#)
- [WisdomTree U.S. High Yield Corporate Bond Fund \(WFHY\)](#)

Alternatives Exposure

For portfolios that include an allocation to alternatives, we swapped out our [merger arbitrage](#) strategy for a more diversified arbitrage fund that includes both event-driven and convertible arb, and should be able to take advantage of opportunities offered in the flood of recent SPAC launches. We also added an interest rate [volatility](#) strategy that should benefit from continued choppiness in bond markets and a further steepening in the curve. [Put writing](#) has been profitable as implied volatility remains elevated, and our anti-[beta](#) holding has performed as expected in a low-quality global equity

rally. We think this alternatives sleeve delivers a unique stream of potential return drivers with the benefit of additional risk diversification.

Investment Ideas:

- [WisdomTree CBOE S&P 500 PutWrite Strategy Fund \(PUTW\)](#)
- [WisdomTree Continuous Commodity Strategy Fund \(GCC\)](#)

Disruptive Growth Strategy

While we keep our conviction in the select themes underlying our disruptive growth strategy, we elected to swap our genomics exposure for a similarly focused but smaller strategy. We are taking profits following a remarkable run by our previous holding, but the strategy now operates at a scale that we think is too large to effectively and nimbly managed like it had done previously. Genomics remains a top theme in the Model, along with cloud computing, given the growth rates of its constituents and the future potential we see in the category.

Investment Ideas:

- [WisdomTree Cloud Computing Fund \(WCLD\)](#)

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DEFINITIONS

Large-Capitalization (Large-Cap): A term used by the investment community to refer to companies with a market capitalization value of more than \$10 billion. Large cap is an abbreviation of the term “large market capitalization”. Market capitalization is calculated by multiplying the number of a company’s shares outstanding by its stock price per share.

Cyclical sectors: Consumer Discretionary, Energy, Industrials, Materials, Financials and Information Technology sectors.

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 time.

Small caps: new or relatively young companies that typically have a market capitalization between \$200 million to \$2 billion.

Real interest rate: Interest rate accounting for the impact of inflation. From the nominal interest rate, which does not account for the impact of inflation, the rate of inflation is subtracted to get to the real interest rate.

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.

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 time.

Mid-Cap: Characterized by exposure to the next 20% of market capitalization (after the top 70% have been removed) within the Value, Blend or Growth style zones with the majority of the fund’s weight.

Ex-SOEs: ex-state owned enterprises or companies that are neither wholly or partially owned and operated by a government.

10- Year Treasury: a debt obligation of the U.S. government with an original maturity of ten years.

Basis point: 1/100th of 1 percent.

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.

Federal Open Market Committee (FOMC): The branch of the Federal Reserve Board that determines the direction of monetary policy.

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.

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 securities.

Merger Arbitrage: An event-driven investment strategy that involves exploiting pricing inefficiencies that exist between markets for the same security after a company merger or acquisition, in order to generate a profit.

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

PUT Writing: Put writing is an essential part of options strategies. Selling a put is a strategy where an investor writes a put contract, and by selling the contract to the put buyer, the investor has sold the right to sell shares at a specific price. Thus, the put buyer now has the right to sell shares to the put seller.

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.