

# WHAT ASSETS ARE GAINING MOST WITH THE BOUNCE IN COMMODITIES?

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In 2015, all commodity-sensitive assets were in steep decline. Inextricably tied to the strength in the U.S. dollar, commodity-producing countries and currencies were under pressure, for example, the Russian ruble, Australian dollar, South African rand, Chilean peso, Canadian dollar, New Zealand dollar, Norwegian krone and Brazilian real.<sup>1</sup> But things have really been turning around so far in 2016. The **Fed Changed Everything** After the December 2015 meeting of the **Federal Open Market Committee (FOMC)**, where the target band for the **Federal Funds Rate** was moved from 0.0%–0.25% to 0.25%–0.50%, the consensus was clear: expect four **hikes** in 2016 and get to a potential 1.50% at the upper end of the range.<sup>2</sup> After the **volatility** seen in January and February of 2016, that consensus was adjusted significantly, slowing the pace of expected rate hikes. One result: Anyone who allocated to strategies that couldn't have been more contrarian in 2015 has been rewarded thus far in 2016. As consensus has adjusted, we've seen a distinct change in trend for both commodities and for the U.S. dollar from 2015 into the first part of 2016.

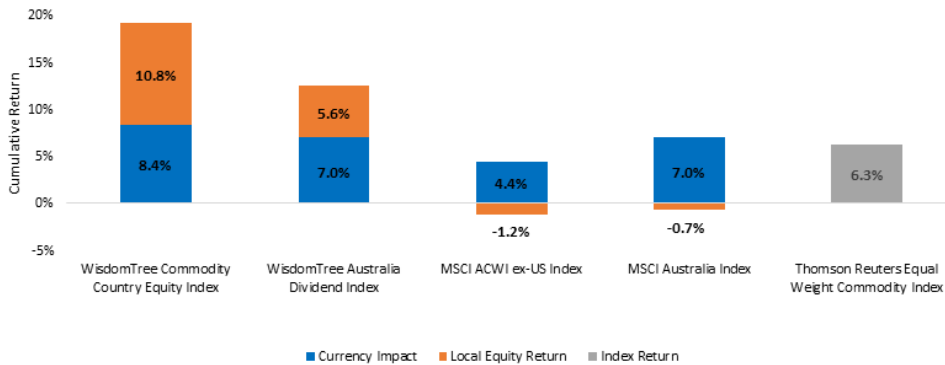
**Exposures Benefiting from the Change in Trend • WisdomTree Commodity Country Equity Index:** The aim of this strategy is broad-based exposure, concentrating on markets where commodities have a great deal of importance. Eight countries—Brazil, Russia, Chile, South Africa, Australia, New Zealand, Norway and Canada—are equally weighted in their exposures, which are **rebalanced** annually. There are two real levers for performance: 1) the currencies of these markets tend to exhibit high sensitivity to commodity price moves, and 2) the equity markets in these markets tend to be very sensitive to the prevailing sentiment surrounding commodities.

**• WisdomTree Australia Dividend Index:** Australia's currency largely trades off sentiment surrounding China and commodities. As commodity currencies were weak over recent years, so was the Australian dollar. But during the rebound in 2016, Australia has been one of the leading developed world countries. WisdomTree created a **dividend yield**-weighted Index with a goal of providing more balanced Australian exposure than the traditional **market capitalization-weighted** indexes that can allocate up to 70% to the Financials and Materials sectors.

**Currencies Can Pull Returns Up Significantly (12/31/2015-**

4/20/2016)

Total Return (Currency & Equity)				
WT Commodity Country Equity	WT Australia Dividend	ACWI ex-US	MSCI Australia	Thomson Reuters Equal Weight Commodity Index
19.2%	12.6%	3.2%	6.3%	6.3%



Source: Bloomberg. Data for 2016 refers to 12/31/2015–4/20/2016. Past performance is not indicative of future results. You cannot invest directly in an index.

Index performance does not represent actual fund or portfolio performance. A fund or portfolio may differ significantly from the securities included in the index. Index performance assumes reinvestment of dividends but does not reflect any management fees, transaction costs or other expenses that would be incurred by a portfolio or fund, or brokerage commissions on transactions in fund shares. Such fees, expenses and commissions could reduce returns.

*For definitions of*

*indexes in the chart, visit our [glossary](#).* • **Currencies Make a Complete About-Face:** In the WisdomTree Commodity Country Equity Index thus far this year, the Russian ruble is up nearly 13% and the Brazilian real is up 12.3%, while the currency return of the Index has been a positive 8.4%. The high beta of this approach has come largely from a currency impact that has been approximately twice as strong as that of the [MSCI AC World ex-US Index](#). It is interesting that with the 6% gain in commodities, the Index is up nearly three times as much off this initial rebound.<sup>3</sup>

• **WisdomTree Australia Dividend Index Crushes MSCI Australia Index:** The MSCI Australia Index had more than 50% of its weight in Financials, which was more than twice the exposure of the WisdomTree approach. This means that the WisdomTree strategy is over-weight in most of the other sectors—and since they are nearly all doing better than Australia’s Financials sector, this has helped. Additionally, mid- and small caps in Australia have done well, and the WisdomTree Australia Dividend Index had greater exposures here due to its approach weighted by dividend yield.

<sup>1</sup>Source: Bloomberg, for period from 12/31/2014 to 12/31/2015. <sup>2</sup>Source: “Economic Projections of Federal Reserve Board Members and Federal Reserve Bank Presidents under Their Individual Assessments of Projected Appropriate Monetary Policy, December 2015” Federal Reserve. <sup>3</sup>Source: Bloomberg, for period from 12/31/2015 to 4/20/2016.

**Important Risks Related to this Article**

Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty.

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

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

Dividends are not guaranteed, and a company currently paying dividends may cease paying dividends at any time.

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.

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## DEFINITIONS

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

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

**Federal Funds Rate**: The rate that banks that are members of the Federal Reserve system charge on overnight loans to one another. The Federal Open Market Committee sets this rate. Also referred to as the “policy rate” of the U.S. Federal Reserve.

**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.

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

**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.

**Dividend yield**: A financial ratio that shows how much a company pays out in dividends each year relative to its share price.

**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.

**MSCI AC world ex-US Index**: Measures the performance of companies incorporated in both emerging markets and developed markets, excluding the United States. Index weighting is by market cap.

**MSCI Australia Index**: Market capitalization-weighted index designed to measure the performance of Australian equities.