SOLVING FOR INCOME AS RATES RISE

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Given the ongoing uncertainties and continued concerns surrounding economic growth, both here and abroad, investors will likely position portfolios after the November election based on where they believe interest rates will be headed in the months to come.
Two key factors in that calculation will be 1) whether the Federal Reserve Bank (Fed) decides to raise interest rates at its December meeting, and 2) whether a new administration in Washington can pass a fiscal stimulus package next year.
What are two of WisdomTree's top ideas going into the end of the year?

Fixed Income

We believe income-based solutions should continue to be a highlighted goal for bond investors. However, it is important to consider how yield enhancement may be achieved and the potential risks that could be involved. Oftentimes, the pursuit of additional income involves placing bets too far out in duration (interest rate risk) and/or going too far down the credit ratings curve (credit risk). Given an investor's parameters, high-yield corporates and emerging market debt could be viewed as solutions for income, but for core fixed income portfolios, these types of investments may be viewed as adding too much incremental risk.

In our opinion, a more disciplined approach that does not involve reaching for yield would be to focus on the relative value differentials that exist in the investment-grade universe—in other words, reallocating positions among the interest- and credit-sensitive arenas. In our interest rate scenarios, we believe an over-weight to Treasuries is not only suboptimal but also susceptible to any potential unexpected rise in rates. The sector of fixed income that we believe offers the best relative value is investment-grade corporates. Not only does this sector provide a visible yield advantage to Treasuries, it can also offer some risk mitigation from rising rates if the economy improves.

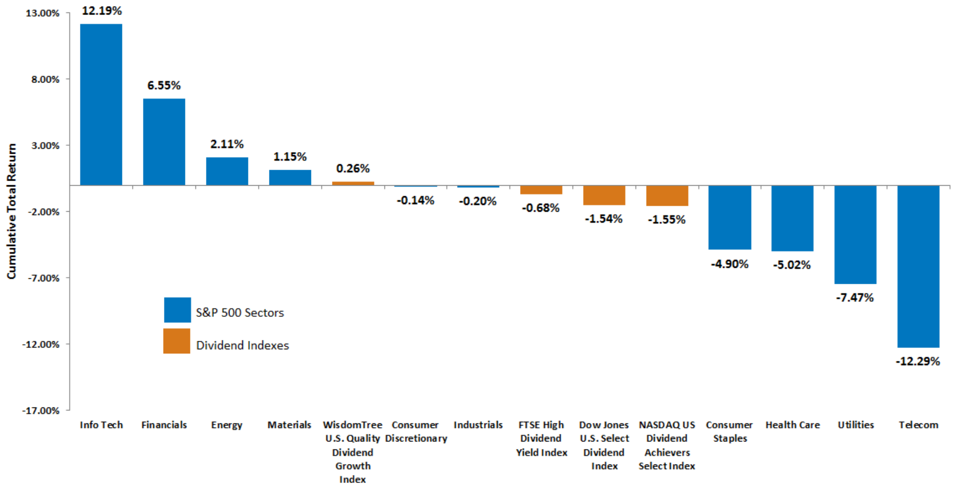
The WisdomTree Barclays U.S. Aggregate Bond Enhanced Yield Fund (AGGY) follows this disciplined approach and is suited to serve as an income solution, representing the core fixed income aspect of an investor's portfolio. Its risk characteristics are well placed for a variety of interest rate landscapes and/or event risks that can come about.

Equities

On the equity front, we have seen a shift in sector leadership in the S&P 500 Index since the yield on the 10-Year Treasury bottomed at 1.36% on July 8. As interest rates have climbed back toward the 1.8% range, tech and financial stocks have rallied, while the telecom, utilities and consumer staples sectors of the S&P 500 fell behind. The negative returns in those sectors over the past few months have impacted the performance of dividend indexes, particularly those that tilt toward the higher-yielding sectors.

As we show below, the three underlying dividend indexes tracked by the three largest dividend ETFs have declined between 0.68% and 1.55% since rates have backed up. By contrast, the WisdomTree U.S. Quality Dividend Growth Index, after returning 5.2% in the first half of the year, has actually remained positive over that period, as more of its weight is tilted toward the technology sector.

July 8 to Oct 24: S&P 500 Sectors and Dividend Indexes



Sources: WisdomTree, Bloomberg, as of 10/24/16. 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. The Dow Jones U.S. Select Dividend Index is calculated, distributed and marketed by Dow Jones Indexes, a licensed trademark of CME Group Index Services LLC, and has been licensed for use.

Going forward, we believe the dividend growers in the U.S. continue to be more attractively valued than their higher-dividend-yielding brethren. For example, as of September 30, the forward price-to-earnings (P/E) ratio on the WisdomTree U.S. Quality Dividend Growth Index was 16.9x; that is lower than the 19.2x forward P/E ratio on the Dow Jones U.S. Select Dividend Index. The ETF that tracks the WisdomTree Index, the WisdomTree U.S. Quality Dividend Growth Fund (DGRW), now has a three-year track record. Over the last year and the last three years, it has generated double-digit total returns and double-digit dividend growth.[1] (For standardized performance of DGRW, click here.) Moreover, of all of WisdomTree's U.S. Indexes, the WisdomTree U.S. Quality Dividend Growth Index has a total shareholder yield (dividend yield plus net share buyback yield) close to 6%.

Conclusion

For those looking to generate income in a rising interest rate environment, we believe investors should consider **AGGY** in the core of their U.S. fixed income allocations and **DGRW** in the large-cap or equity income portions of their portfolios.

Unless otherwise noted, data source is Bloomberg, as of September 30, 2016.

[1]Double-digit returns were achieved primarily during favorable market conditions. Investors should not expect that such favorable returns can be consistently achieved. A fund's performance, especially for very short time periods, should not be the sole factor in making your investment decision.

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You cannot invest directly in an index.

DEFINITIONS

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

Fiscal Stimulus : Using fiscal policy as a tool to provide economic growth.

Yield : The income return on an investment. Refers to the interest or dividends received from a security that is typically expressed annually as a percentage of the market or face value.

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.

Interest rate risk : The risk that an investment's value will decline due to an increase in interest rates.

Credit ratings : An assessment of the creditworthiness of a borrower in general terms or with respect to a particular debt or financial obligation. Credit assessment and evaluation for companies and governments is generally done by a credit rating agency such as Standard & Poor's, Moody's or Fitch.

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

Treasury : Debt obligation issued by the U.S. government with payments of principal and interest backed by the full faith and credit of the U.S. government.

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

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

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.

Dow Jones U.S. Select Dividend Index : The index is a modified market capitalization approach and weights by dividend yield. Stocks are selected for fundamental strength relative to their peers, subject to various screens such as dividend quality and liquidity.

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

Buyback yield : amount of a company's buybacks divided by its market capitalizatio.