

WHY INTERNATIONAL INVESTMENTS STILL MATTER

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One question we are often asked is, “why bother with international investments?” U.S. multinational companies have revenue generated all over the world, so what if [diversification](#) is just a matter of “de-worseifying” and bringing suboptimal outcomes?

I understand this concern, considering that for a long stretch of time, the U.S. has outperformed the rest of the world. Over the past 10 years ending April 30, the [MSCI USA Index](#) has outperformed the [MSCI EAFE Index](#) by more than 140%.¹

However, we believe there are long-run benefits of investing globally.

There are strong parallels to “[growth](#)” dominating “[value](#)” within the U.S. markets when looking at foreign markets versus the U.S.

Standard [market cap-weighted](#) international indexes have sector exposures akin to U.S. value benchmarks, particularly the lack of technology sector exposure and over-weight position to financials and commodity-dependent sectors.

SECTOR EXPOSURE			
Sector	MSCI EAFE	Russell 1000 Value	S&P 500
Information Technology	7.61%	6.83%	25.48%
Health Care	14.33%	15.53%	15.38%
Financials	16.45%	21.34%	10.93%
Communication Services	5.52%	8.63%	10.74%
Consumer Discretionary	11.08%	5.17%	9.80%
Industrials	14.23%	9.44%	8.22%
Consumer Staples	12.64%	10.59%	7.79%
Utilities	4.20%	7.78%	3.57%
Real Estate	3.30%	5.08%	3.01%
Energy	3.96%	5.44%	2.65%
Materials	6.69%	4.18%	2.43%

Source: WisdomTree, as of 3/31/20. Subject to change.

For definitions of terms in the chart, please visit our [glossary](#).

But not all international strategies have these sector tilts.

The WisdomTree international quality dividend growth strategy has a sector balance closer to the [S&P 500](#), particularly being over-weight in technology versus the MSCI EAFE Index and providing meaningful weights to the health care and consumer sectors. In shifting the weight away from traditional value benchmarks, it also has little exposure to sectors that are typically value heavyweights, such as energy and financials.

SECTOR EXPOSURE		
Sector	IHDG	MSCI EAFE
Health Care	17.59%	14.33%
Consumer Discretionary	15.76%	11.08%
Consumer Staples	15.09%	12.64%
Industrials	14.82%	14.23%
Information Technology	14.29%	7.61%
Materials	9.38%	6.69%
Communication Services	4.30%	5.52%
Real Estate	3.09%	3.30%
Financials	2.07%	16.45%
Utilities	1.99%	4.20%
Energy	1.28%	3.96%

Source: WisdomTree, as of 3/31/20. Subject to change. Fund: WisdomTree International Hedged Quality Dividend Growth Fund (IHDG)

We believe screening for profitability, low [leverage](#) and earnings growth creates a [valuation](#) profile that is more attractive than broader international benchmarks.

Yes, the MSCI EAFE Index is less expensive than the S&P 500 on a [price-to-earnings \(P/E\) ratio](#) basis (by about four points), but the S&P 500 has a [return on equity \(ROE\)](#) that is 50% greater, profit margins that are 40% higher and less leverage. These higher margins and profitability ratios warrant the premium multiple of the S&P 500.

By contrast, when one focuses on these profitability and growth metrics in selecting higher [quality](#) companies, the situation is completely reversed.

The [WisdomTree International Hedged Quality Dividend Growth Fund \(IHDG\)](#), which seeks to track, before fees and expenses, the price and yield performance of the [WisdomTree International Hedged Quality Dividend Growth Index](#), currently has a ROE that is 40% greater than the S&P 500, profit margins 3.5% higher than the S&P 500 and a leverage ratio that is one-third that of the MSCI EAFE Index and almost half that of the S&P 500. For these better profitability and growth metrics, you are also not paying a premium multiple to the S&P 500 but getting the market at around a one-point discount instead.

CHARACTERISTICS				
Characteristic	IHDG	MSCI EAFE	Russell 1000 Value	S&P 500
Dividend Yield	3.15%	4.05%	3.37%	2.26%
Price/Earnings (P/E)	16.86	13.25	13.55	17.44
Price/Book (P/B)	3.3	1.3	1.58	2.91
# of Stocks	240	918	765	505
Return on Assets (ROA%)	8.80%	1.44%	2.32%	3.58%
Return on Equity (ROE%)	21.22%	9.93%	10.94%	15.39%
Return on Sales %	17.47%	10.04%	12.09%	14.04%
Leverage	2.41	6.9	4.72	4.3

Source: WisdomTree, as of 3/31/20. Subject to change. Performance is historical and does not guarantee future results. Current performance may be lower or higher than quoted. Investment returns and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Performance data for the most recent month-end is available at [wisdomtree.com](#).

For definitions of terms in the chart, please visit our [glossary](#).

While the characteristics of broad international benchmarks are understandably “less expensive for good reasons,” we believe this basket of international quality stocks looks attractively priced versus the S&P 500 for its improvement in quality and growth characteristics.

¹Source is Bloomberg as of 4/30/2020.

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DEFINITIONS

Diversification: A risk management strategy that mixes a wide variety of investments within a portfolio.

MSCI USA Index: is designed to measure the performance of large and mid cap segments of the US market.

MSCI EAFE Index: is a market cap-weighted index composed of companies representative of the developed market structure of developed countries in Europe, Australasia and Japan.

Growth: Characterized by higher price levels relative to fundamentals, such as dividends or earnings. Price levels are higher because investors are willing to pay more due to their expectations of future improvements in these fundamentals.

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.

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.

S&P 500 Index: Market capitalization-weighted benchmark of 500 stocks selected by the Standard and Poor's Index Committee designed to represent the performance of the leading industries in the United States economy.

Leverage: Total assets divided by equity. Higher numbers indicate greater borrowing to finance asset purchases; leverage can tend to make positive performance more positive and negative performance more negative.

Valuation: Refers to metrics that relate financial statistics for equities to their price levels to determine if certain attributes, such as earnings or dividends, are cheap or expensive.

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.

Return on Equity (ROE): Measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.

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.