
THE WISDOMTREE Q2 2023 ASSET ALLOCATION AND PORTFOLIO POSITIONING SUMMARY

WisdomTrees Model Portfolio Investment Committee
04/24/2023

We recently published a blog post summarizing our [general economic and market outlook as we move through 2023](#). You can also find a more comprehensive review in our [Q2 2023 Economic & Markets Chart Deck](#).

In this post, we take those outlooks and translate them to our current Model Portfolio allocations and positions. Before we get to that, a quick reminder of our general framework with respect to our asset allocation and portfolio construction:

- We are a strategic allocator in most of our Models, with the ability to make dynamic changes as market conditions dictate, but we will generally remain within +/-5% of our target allocations
- Unless mandated otherwise, we build and manage global equity portfolios with regional allocations roughly in line with the global [MSCI ACWI index](#) (i.e., approximately 60% U.S. and 40% non-U.S.)
- We take a “core plus” approach to our [fixed income](#) allocations, guided by duration management and quality-screened credit
- We are “open architecture,” meaning our Models include both WisdomTree and third-party products
- We are ETF-centric in our Portfolio construction to optimize fees and tax efficiency
- We charge no strategist fee—our revenue is derived from the expense ratios of any WisdomTree products within a given Portfolio

Now let’s summarize our current economic and market outlook:

Economy	<ul style="list-style-type: none"> + U.S. economic picture continues to be mixed: a resilient labor market contrasted with increasing uncertainty in consumer and business confidence + The Fed will need to walk a fine line to ensure that the stability of the financial system is preserved as their fight against inflation is not finished
Equities	<ul style="list-style-type: none"> + While growth has had a revival so far in 2023, we believe a longer-term rotation into a value outperformance cycle is underway + Beyond value, we continue to lean towards companies with higher quality earnings and resilient profit margins + Developed international markets have outperformed the U.S. since Q4 '22 and we remain constructive on international and emerging markets + We continue to see a valuation opportunity in U.S. and international small caps
Fixed Income	<ul style="list-style-type: none"> + After enduring historically low rates for over a decade, fixed income is back + We are overweight high yield credit, favoring corporate issuers with strong fundamentals and positive free cash flow + Given elevated interest rate volatility, we remain cautiously underweight duration and see attractive opportunities in short-term and floating-rate Treasuries
Alternatives	<ul style="list-style-type: none"> + Favor strategies which seek to generate uncorrelated returns in periods of heightened volatility in traditional markets

Source: WisdomTree, March 2023. Actual results may vary.

Finally, let's summarize our general asset class outlook:

Equities	-	Neutral	+
Equities vs. Bonds			
U.S. Large Cap Growth			
U.S. Large Cap Value			
U.S. Mid/Small Cap Growth			
U.S. Mid/Small Cap Value			
Developed International			
Developed International Small Cap			
Emerging Markets			
Emerging Markets Small Cap			
Fixed Income	-	Neutral	+
Duration			
U.S. Treasuries			
Investment Grade Credit			
High Yield Credit			
Securitized Credit			
Non-U.S.			
Alternatives	-	Neutral	+
Commodities			
Managed Futures			
MLPs			

Source: WisdomTree, as of March 2023. Evaluations are subject to change as market conditions change. This is for illustration purposes and does not represent investment advice. All evaluations are on a relative and not absolute basis. Red = a negative relative evaluation; gray = a neutral relative evaluation; green = a positive relative evaluation. You cannot invest in an Index.

Equities

Many of WisdomTree's ETF strategies (and, therefore, our Model Portfolios) have explicit factor tilts toward [dividends](#), [value](#), [size](#) and [quality](#). These factors underperformed (except for quality) in Q1 as [large-cap](#), [growth](#) and "mega-tech" [stocks](#) rallied strongly on the back of a declining rate environment.

- S&P 500 Total Return (*SPXTR) Level % Change
- S&P 500 Growth Total Return (*SPXGTR) Level % Change
- S&P 500 Value Total Return (*SPXVTR) Level % Change
- S&P 500 Dividend Aristocrats Total Return (*SPXDATR) Level % Change
- S&P 500 Momentum Index Total Return (*SPXMTR) Level % Change
- S&P 500 Quality Total Return (*SPXQTR) Level % Change

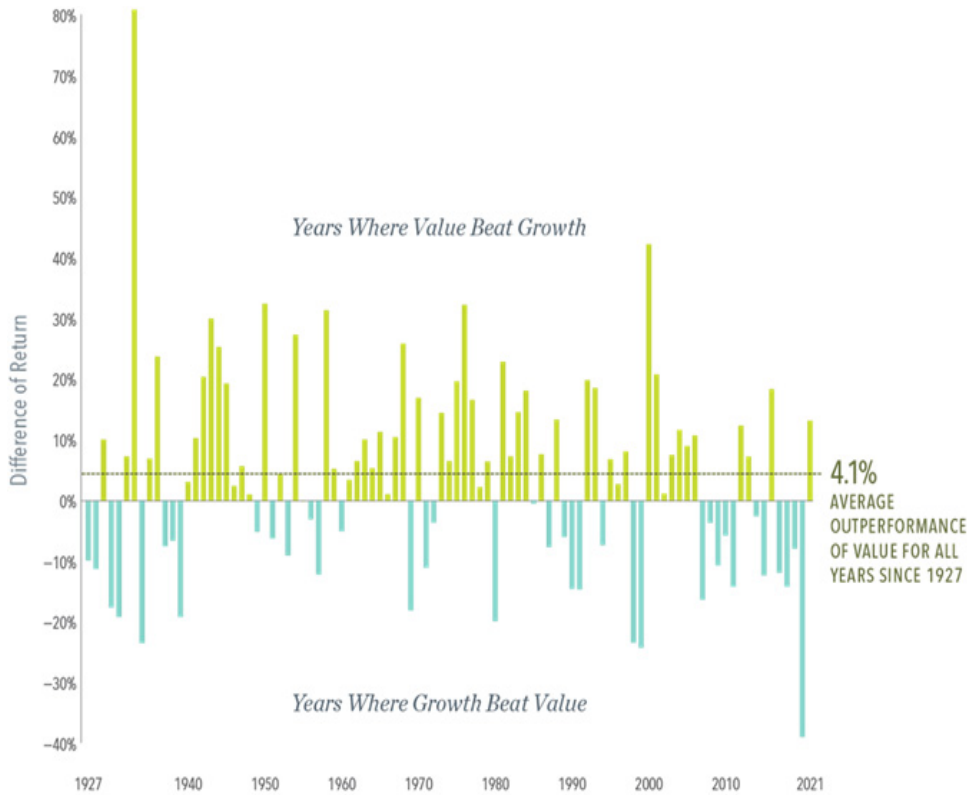


Apr 11 2023, 12:59PM EDT. Powered by YCHARTS

Source: Ycharts, YTD performance through 4/10/23. You cannot invest in an Index and past performance does not guarantee future results.

For definitions of terms/indices in the chart above please visit the [glossary](#).

Despite this setback for the factors in which we have over-weight allocations, when viewed historically, we see that a factor rotation from growth to value, such as we saw in 2022, is not a single-year phenomenon—it tends to be a multi-year cycle. So, we believe the Q1 outperformance by growth will not continue over the medium to longer term.



Source: Dimensional Fund Advisors, data from 1927–February 2022, for large-cap U.S. stocks. Past performance is no guarantee of future results. Investing risks include loss of principal and fluctuating value. There is no guarantee an investment strategy will be successful. The Fama/French indices represent academic concepts that may be used in portfolio construction and are not available for direct investment or for use as a benchmark. Index returns are not representative of actual portfolios and do not reflect costs and fees associated with an actual investment.

And, given the outperformance by growth stocks in Q1, value stocks are even more attractively valued than growth stocks.

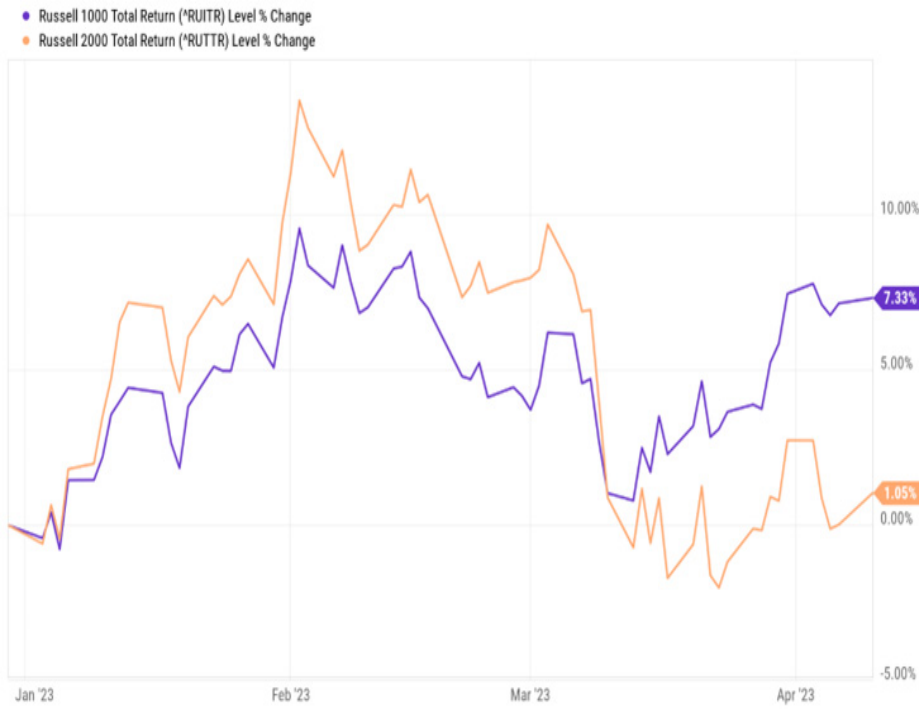
Value vs. Growth relative valuations

Rel. fwd. P/E ratio of Value vs. Growth, 1997 - present



Sources: FactSet, FTSE Russell, NBER, J.P. Morgan Asset Management. Growth is represented by the Russell 1000 Growth Index and value is represented by the Russell 1000 Value Index. *Long-term averages are calculated monthly since December 1997. **Dividend yield is calculated as the next 12-month consensus dividend divided by most recent price.

We see a similar YTD performance story in large caps compared to small caps...

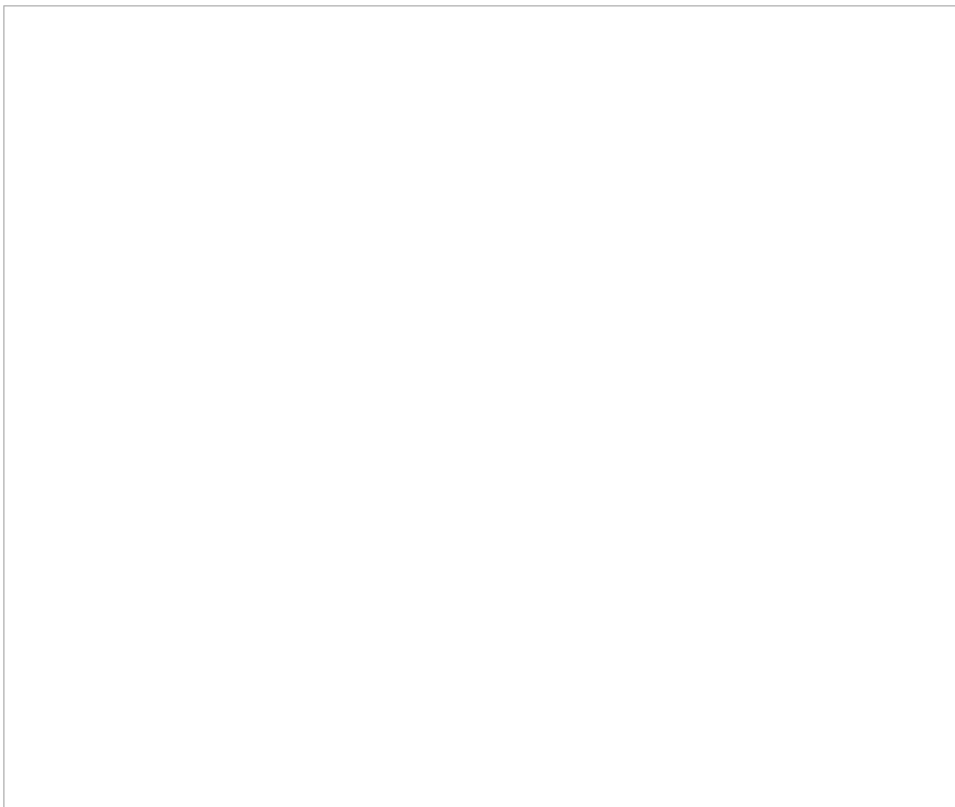


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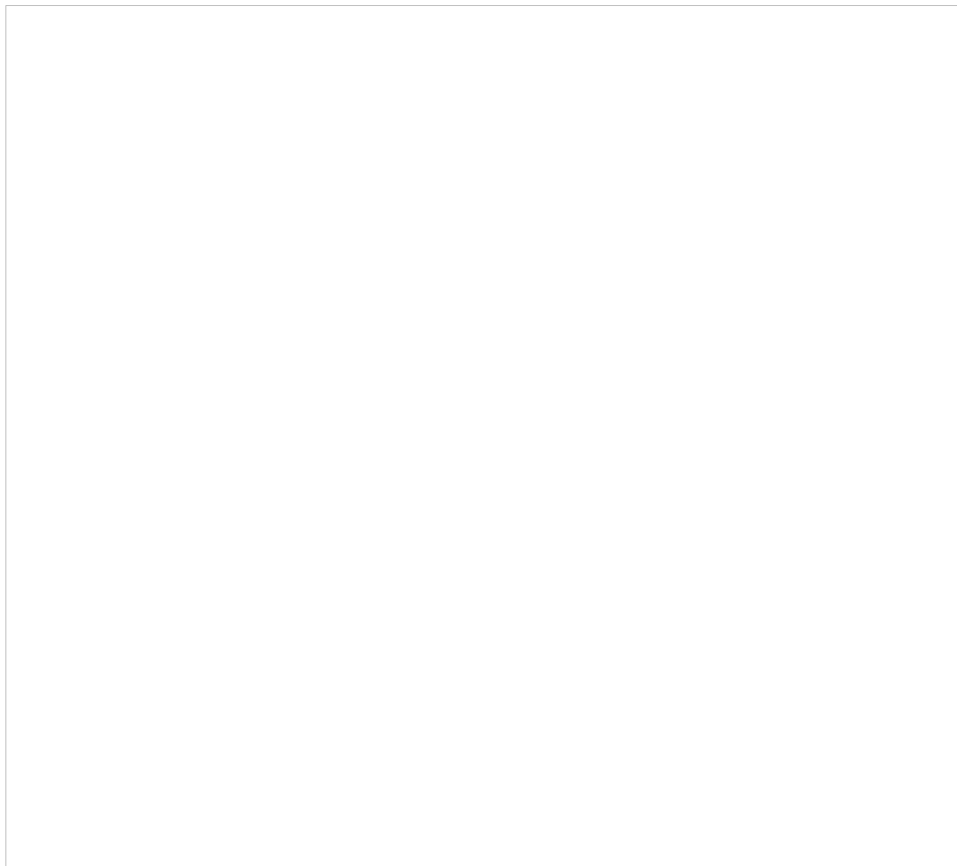
Source: Ycharts, YTD through 4/10/23. You cannot invest in an Index and past performance does not guarantee future results.

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...resulting in a similar current valuation attractiveness in [mid-](#) and [small-cap](#) stocks relative to large-cap stocks. The massive rally in mega-tech stocks resulted in skyrocketing [valuations](#).



Now let's look at how dividends and quality have performed so far this year. We see that quality is holding up, but dividends lagged badly as interest rates fell and investors turned more toward growth stocks—a trend we do not expect to be long-lasting.



Finally, let's examine current valuations between U.S. and non-U.S. stocks. Combined with the higher [dividend yield](#) typically available outside the U.S. and what we believe may be a downward trending [dollar](#), we believe it is time for U.S. investors to re-think their allocations to non-U.S. stocks.

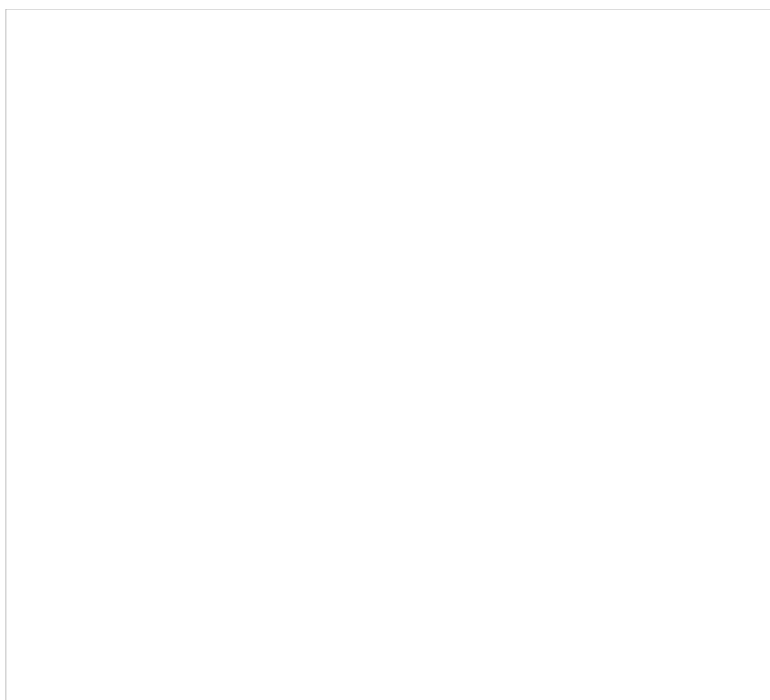


Bottom line: Our Model Portfolios have distinct factor tilts toward value, dividends, size and quality, and we maintain a roughly neutral allocation to non-U.S. relative to the MSCI ACWI index. Our Portfolios sailed into headwinds during the Q1 large-cap growth rally, but we continue to believe we are in the “early innings” of the rotational trades toward our tilts, and we remain comfortable with our current positioning.

Fixed Income

One of our narratives for 2023 is, “[There is income back in fixed income.](#)” We believe investors can now build fixed income portfolios that can deliver a reasonable level of real yield without taking on excessive duration or credit risk.

In addition to our continued conviction in [U.S. floating rate Treasuries](#), we also continue to see interesting relative value in high-yield and have an overweight allocation (with a quality tilt) in this sector within our Model Portfolios. Look at the “buffer” high yield is offering against a rise in either [interest rates](#) or [credit spreads](#) as we move through 2023.



Real Asset and Alternatives

Finally, for those advisors and investors for whom it made sense, we have advocated considering allocations to real assets and alternatives for most of the past two years.

Certainly, the inclusion of these types of strategies, depending on the strategies and exposures, benefited many investors as they provided lower correlation diversification to the abysmal stock and bond performances of 2022.

[Commodities](#) have suffered for the past six months (and we moved to a neutral stance in our asset allocation positioning), but we still maintain our conviction in the benefits of diversification within our Portfolios that have that investment objective.



Conclusion

Trying to predict future market performance is a fool's errand and a loser's game. But, given historical performances and trends, we like how our Portfolios are positioned. But it is also why we continue to recommend longer-term time horizons and appropriate diversification.

Advisors, wisdomTree can help you better communicate with your clients about your value, their investments and what's going on in the markets. Fill out the form below if interested in learning more.

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.

Related Blogs

+ [The Q2 2023 wisdomTree Economic Market outlook in 10 Charts or Less](#)

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DEFINITIONS

MSCI ACWI Index: A free-float adjusted market capitalization-weighted index that is designed to measure the equity market performance of developed and emerging markets.

Fixed income: An investment security that provides a return in the form of fixed periodic payments and the eventual return of principal at maturity.

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

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.

Size: Characterized by smaller companies rather than larger companies by market capitalization. This term is also related to the Size Factor, which associates smaller market-cap stocks with excess returns vs the market over time.

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.

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.

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.

Stock: A stock (also known as equity) is a security that represents the ownership of a fraction of a corporation. This entitles the owner of the stock to a proportion of the corporation's assets and profits equal to how much stock they own. Units of stock are called "shares."

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.

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

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.

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

USD (United States Dollar): The USD (United States dollar) is the official currency of the United States of America. The United States dollar, or U.S. dollar, is made up of 100 cents. It is represented by the symbol \$ or US\$ to differentiate it from other dollar-based currencies.

Floating Rate Treasury Note: a debt instrument issued by the U.S. government whose coupon payments are linked to the 13-week Treasury bill auction rate.

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

Credit spread: The portion of a bond's yield that compensates investors for taking credit risk.

Commodity: A raw material or primary agricultural product that can be bought and sold.