

# WisdomTree ECONOMIC & MARKET OUTLOOK

## Actionable Ideas

Q3/2022



### U.S. Exposure

---

- Rising rates pose risks to companies with negative earnings, leveraged balance sheets and/or distant cash flows.
- An environment of elevated volatility favors stocks with solid earnings and strong margins.
- Profitable small and mid caps are trading at the low end of their historic valuations and may be primed to stand strong in inflation.

#### Large Cap Investment Ideas:

- WisdomTree U.S. Quality Dividend Growth Fund (**DGRW**)
- WisdomTree U.S. LargeCap Dividend Fund (**DLN**)
- WisdomTree U.S. High Dividend Fund (**DHS**)

#### Mid & Small Cap Investment Ideas:

- WisdomTree U.S. MidCap Fund (**EZM**)
- WisdomTree U.S. SmallCap Fund (**EES**)

### Developed Markets Exposure

---

- The forces of inflation and rising interest rates support equity screens for Quality and Value.
- Stocks with strong profitability metrics are cheap relative to beta indexes. Though many major central banks may remain behind the curve relative to the Fed, we suspect a global rising rates regime will pose an obstacle to developed market stocks that have negative earnings or speculative characteristics.
- Strong balance sheets and a sober approach to leverage seems prudent. The global energy crisis is most acute in Europe, a region that is probably in recession right now.

#### Investment Ideas:

- WisdomTree Global ex-U.S. Quality Dividend Growth Fund (**DNL**)
- WisdomTree International Quality Dividend Growth Fund (**IQDG**)
- WisdomTree International Hedged Quality Dividend Growth Fund (**IHDG**)

## Emerging Markets Exposure

---

- The asset class offers cheap relative valuations, especially in the Value style box, which offers a built-in hedge to harrowing inflation via exposure to Energy and Basic Materials.
- At 10.8, the forward P/E multiple of the MSCI Emerging Markets Index is about 6 P/E points lower than the S&P 500, near the largest discount since before the Global Financial Crisis. Some of our Value-oriented indexes trade on forward multiples in the single digits, despite profitability metrics that exceed the asset class as a whole.

### Investment Idea:

- WisdomTree Emerging Markets High Dividend Fund (**DEM**)

## Fixed Income Exposure

---

- The outlook for interest rates remains skewed to the upside but fears of a slowing economy and potential recession have become more prevalent of late. Inflation remains at historically high levels and the Federal Reserve seems determined to bring down price pressures and “accept the higher recession risk” that comes with the territory. As a result, we would expect elevated volatility to remain a staple in the bond market in the months ahead.
- The Fed has now ‘front-loaded’ rate hikes, and unless economic data show signs of a collapse, the policymakers appear poised to move from a ‘neutral’ to ‘restrictive’ fed funds setting. Additional rate hikes should be forthcoming during the second half of this year, but fed funds futures have recently begun discounting the prospect for rate cuts in the second half of 2023.
- Balance sheet run-off, or quantitative tightening (QT), is also being utilized by the Fed to help in their fight against inflation, but the process is in its early stages and has remained largely in the background for now.
- Fixed coupon bonds, even in the short duration bucket, and inflation-linked bonds remain vulnerable.
- Treasury floating rate and zero duration strategies should be an active consideration.

### Investment Ideas:

- WisdomTree Floating Rate Treasury Fund (**USFR**)
- WisdomTree Interest Rate Hedged U.S. Aggregate Bond Fund (**AGZD**)
- WisdomTree Interest Rate Hedged High Yield Bond Fund (**HYZD**)

***Please reach out to your WisdomTree representative  
or visit [WisdomTree.com](https://www.wisdomtree.com) for more information.***

**Investors should carefully consider the investment objectives, risks, charges and expenses of the Funds before investing. To obtain a prospectus containing this and other important information, please call 866.909.9473, or visit [WisdomTree.com](http://WisdomTree.com) to view or download a prospectus. Investors should read the prospectus carefully before investing.**

**Important Risk Information**

There are risks associated with investing, including the possible loss of principal.

**DGRW, DLN, DHS:** Funds focusing their investments on certain sectors increase their vulnerability to any single economic or regulatory development. This may result in greater share price volatility. Dividends are not guaranteed and a company's future abilities to pay dividends may be limited. A company currently paying dividends may cease paying dividends at any time.

**EZM, EES:** Fund's focusing its investments on certain sectors and/or smaller companies increase their vulnerability to any single economic or regulatory development. This may result in greater share price volatility.

**DNL:** Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. Funds focusing their investments on certain sectors increase their vulnerability to any single economic or regulatory development. This may result in greater share price volatility.

**IQDG:** Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. Heightened sector exposure increases the Fund's vulnerability to any single economic, regulatory or other development impacting that sector. This may result in greater share price volatility. The Fund invests in the securities included in, or representative of, its Index regardless of their investment merit, and the Fund does not attempt to outperform its Index or take defensive positions in declining markets. Due to the investment strategy of this Fund, it may make higher capital gain distributions than other ETFs.

**IHDG:** Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. To the extent the Fund invests a significant portion of its assets in the securities of companies of a single country or region, it is likely to be impacted by the events or conditions affecting that country or region. Dividends are not guaranteed and a company currently paying dividends may cease paying dividends at any time. Investments in currency involve additional special risks, such as credit risk and interest rate fluctuations. Derivative investments can be volatile and these investments may be less liquid than other securities, and more sensitive to the effect of varied economic conditions. As this Fund can have a high concentration in some issuers, the Fund can be adversely impacted by changes affecting those issuers. The Fund invests in the securities included in, or representative of, its Index regardless of their investment merit and the Fund does not attempt to outperform its Index or take defensive positions in declining markets. Due to the investment strategy of this Fund it may make higher capital gain distributions than other ETFs.

**DEM:** There are risks associated with investing, including possible loss of principal. Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. Funds focusing on a single sector generally experience greater price volatility. Investments in emerging, offshore or frontier markets are generally less liquid and less efficient than investments in developed markets and are subject to additional risks, such as risks of adverse governmental regulation, intervention and political developments. Due to the investment strategy of this Fund it may make higher capital gain distributions than other ETFs.

**USFR:** Securities with floating rates can be less sensitive to interest rate changes than securities with fixed interest rates, but may decline in value. The issuance of floating rate notes by the U.S. Treasury is new and the amount of supply will be limited. Fixed income securities will normally decline in value as interest rates rise. The value of an investment in the Fund may change quickly and without warning in response to issuer or counterparty defaults and changes in the credit ratings of the Fund's portfolio investments. Due to the investment strategy of this Fund it may make higher capital gain distributions than other ETFs.

**AGZD:** Fixed income investments are subject to interest rate risk; their value will normally decline as interest rates rise. The Fund seeks to mitigate interest rate risk by taking short positions in U.S. Treasuries, but there is no guarantee this will be achieved. Derivative investments can be volatile and these investments may be less liquid than other securities, and more sensitive to the effects of varied economic conditions.

Fixed income investments are also subject to credit risk, the risk that the issuer of a bond will fail to pay interest and principal in a timely manner, or that negative perceptions of the issuer's ability to make such payments will cause the price of that bond to decline. The Fund may engage in "short sale" transactions of U.S. Treasuries where losses may be exaggerated, potentially losing more money than the actual cost of the investment and the third party to the short sale may fail to honor its contract terms, causing a loss to the Fund. While the Fund attempts to limit credit and counterparty exposure, the value of an investment in the Fund may change quickly and without warning in response to issuer or counterparty defaults and changes in the credit ratings of the Fund's portfolio investments. Investing in mortgage- and asset-backed securities involves interest rate, credit, valuation, extension and liquidity risks and the risk that payments on the underlying assets are delayed, prepaid, subordinated or defaulted on. Due to the investment strategy of certain Funds, they may make higher capital gain distributions than other ETFs.

**HYZD:** High-yield or "junk" bonds have lower credit ratings and involve a greater risk to principal. Fixed income investments are subject to interest rate risk; their value will normally decline as interest rates rise. The Fund seeks to mitigate interest rate risk by taking short positions in U.S. Treasuries (or futures providing exposure to U.S. Treasuries), but there is no guarantee this will be achieved. Derivative investments can be volatile and these investments may be less liquid than other securities, and more sensitive to the effects of varied economic conditions.

Fixed income investments are also subject to credit risk, the risk that the issuer of a bond will fail to pay interest and principal in a timely manner, or that negative perceptions of the issuer's ability to make such payments will cause the price of that bond to decline. The Fund may engage in "short sale" transactions where losses may be exaggerated, potentially losing more money than the actual cost of the investment and the third party to the short sale may fail to honor its contract terms, causing a loss to the Fund. While the Fund attempts to limit credit and counterparty exposure, the value of an investment in the Fund may change quickly and without warning in response to issuer or counterparty defaults and changes in the credit ratings of the Fund's portfolio investments. Due to the investment strategy of certain Funds, they may make higher capital gain distributions than other ETFs.

Please read each Fund's prospectus for specific details regarding the Funds' risk profiles.

This material contains the opinions of the authors, which are subject to change, and should not be considered or interpreted as a recommendation to participate in any particular trading strategy or deemed to be an offer or sale of any investment product, and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This document is distributed on behalf of WisdomTree Asset Management, is for information only, is not intended as an offer or solicitation with respect to the purchase or sale of any security and is not intended to provide, and should not be relied on for, tax, legal, accounting, investment or financial planning advice.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S.

© 2022 WisdomTree Investments, Inc. "WisdomTree" is a registered mark of WisdomTree Investments, Inc.