RISING INTEREST RATES AND PERFORMANCE DIVERGENCES

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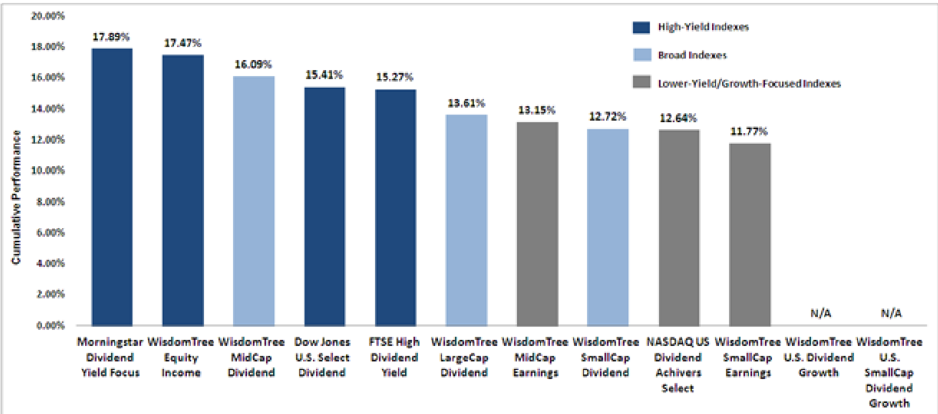
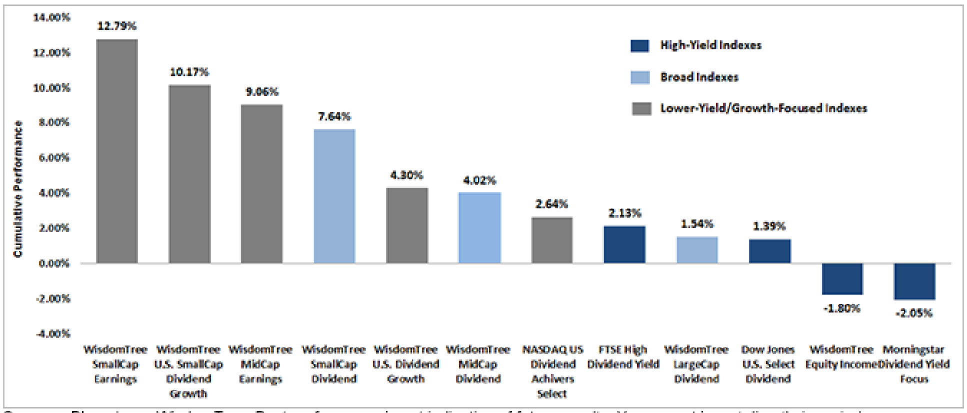
Starting in May this year, on just a hint of the Federal Reserve possibly scaling back its bonds purchases, longer-term interest rates in the U.S. rose considerably. If the recent interest rate trends continue, lessons from early 2013 performance divergences can be important for shaping equity allocations. Below, I will evaluate how the recent rise in Treasury yields has impacted various income-oriented investment strategies. The charts below show the performance of various equity indexes over two periods of 2013: during the declining interest rates experienced through April 30 and then the rising yield period following April 30. This divide was chosen as the 10-year bond interest rate generally fell in yield up to that point and then began a steady rise that saw the 10-year bond increase from 1.63% to 2.81%.[1] We show three categories of indexes throughout this piece: • **High-Yield Indexes:** These indexes have a specific methodology focused on selecting high-dividend-yielding securities. • **Broad Indexes:** These indexes focus on just providing general exposure to dividend-paying stocks in their respective size segments. • **Lower-Yield/Growth-Focused Indexes:** These indexes typically display a lower yield and either select based on growth characteristics or have a weighting methodology that does not focus on dividends. **Index Performance: 12/31/12–04/30/13**



Source: Bloomberg. Past performance is not indicative of future results. You cannot invest directly in an index. There is no performance information for the WisdomTree U.S. Dividend Growth and WisdomTree U.S. SmallCap Dividend Growth Indexes because the inception date for both indexes was 04/12/2013.

For definitions of indexes in the chart, please visit our Glossary. • **High-Yield-Focused Indexes Outperformed through April** – Over the first four months of 2013, as interest rates generally declined, the high-yield-focused indexes outperformed other broad and growth indexes shown above. The broad equity market, measured by the S&P 500 Index, was up 12.74%, which means that the yield-focused indexes also outperformed the broad market. Lower-yielding, growth-sensitive indexes lagged in the first four months of the year. **Index Performance: 04/30/13–08/20/13**



Sources: Bloomberg, WisdomTree. Past performance is not indicative of future results. You cannot invest directly in an index. *For definitions of indexes in the chart, please visit our Glossary.* • **Since May 1, the performance situation reversed from the first four months of the year.** • **High-Yield-Focused Indexes Have Underperformed since May 1** – Since interest rates began their climb, over the period displayed above, high-yield-focused indexes have underperformed other broad and growth indexes shown above. The broad equity market, measured by the S&P 500 Index, was up 4.19%, which means that the yield-focused indexes also underperformed the broad equity market. During this period, the 10-Year Treasury trended significantly higher. • **Morningstar Dividend Yield Focus Index** – This index was the worst-performing of all indexes shown above, with a return of -2.05%, underperforming the S&P 500 by 6.23%, after being the best-performing index through April, a period during which it outperformed the S&P 500 by 5.15%. **A Look to Growth-Focused Indexes** The spike in interest rates in 2013 has caused a reevaluation of dividend-yield-focused indexes and the stocks with highest yields, but not all dividend-paying equities underperformed. Smaller-capitalization and dividend-growth indexes outperformed during the period associated with rising rates. Their outperformance might be a result of their higher growth expectations, which become more desirable with improving economic activity. The smaller-capitalization dividend stocks also have less exposure to some sectors of the market that many felt were becoming expensive. It is important to look to these diversified baskets of dividend-paying stocks for diversification and potential growth. In our market insight on this topic, we evaluate in more detail the underlying exposures that led to this performance divergence across the various equity indexes. [1]Source: Bloomberg (05/01/13–08/20/13).

Important Risks Related to this Article

Diversification does not eliminate the risk of experiencing investment loss. Dividends are not guaranteed, and a company's future ability to pay dividends may be limited. A company currently paying dividends may cease paying dividends at any time.

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Treasury yield : The return on investment, expressed as a percentage, on the debt obligations of the U.S. government.

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

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.