THE LAST GOOD DEAL IN TOWN

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This article is relevant to financial professionals who are considering offering Model Portfolios to their clients. If you are an individual investor interested in WisdomTree ETF Model Portfolios, please inquire with your financial professional. Not all financial professionals have access to these Model Portfolios.

Not that you need to be reminded, but 2022 has been one heck of a difficult market to navigate.

Stock markets are off to their worst start in decades. Bonds have failed as diversifiers. Inflation is at a 40-year high. Mortgage rates are skyrocketing. The Fed has been forced to slam on the brakes. Economic growth is diving. Confidence is cratering.

Other than that, Mrs. Lincoln, how was the play?

Unfortunately, we believe two of 2022's unwelcomed guests may be here for a while: inflation and volatility.

Inflation is no longer limited to just a narrow subset of consumer goods that have been impacted by supply chain disruptions—although some of these persist. Used car prices once represented nearly a third of the increase in annual inflation, but that has broadened out. Today, dozens of subcomponents are seeing rapid price growth (consider that the median component annual CPI now sits just under 6%). Even if inflation prints come down from their current nosebleed levels, the future floor has been lifted.

It looks like volatility is here to stay as well. Markets were complacent in 2021, and for good reason: stocks just kept rising without much disruption. Loose financial conditions and solid earnings helped drive animal spirits, and the VIX averaged just 19 for the year.

Fast-forward to today: policy is sharply tighter, sentiment is poor and the VIX has spent more than twice as much time above 30 as it has below 20 . Unless we can already see the light at the end of the recessionary tunnel, it's likely that both implied and realized volatility will stay elevated from here.

The Portfolio Playbook for Inflation and Volatility

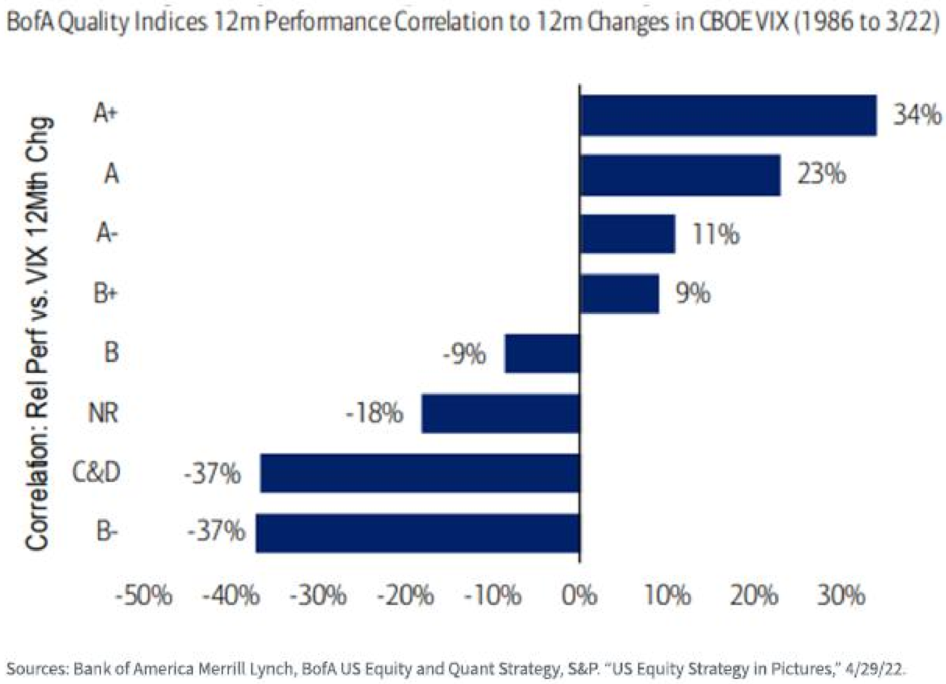
How should investors position their portfolios in this environment?

Over decades of research, Professor Jeremy Siegel has shown that stocks have historically been the ultimate inflation hedge—especially those that paid dividends, as dividend growth consistently outpaced annual inflation.

Within equities, we think it is best to anchor portfolios around the quality factor.

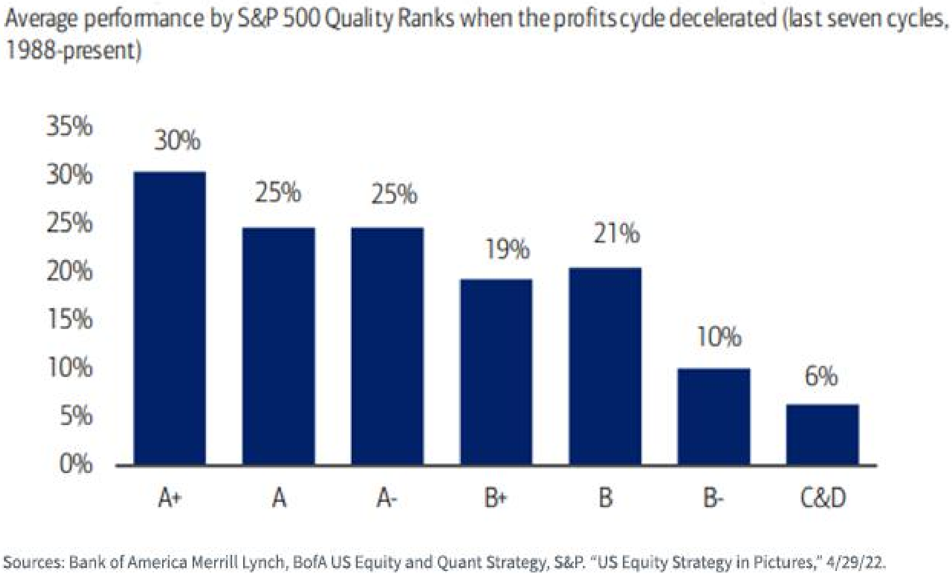
According to Bank of America Merrill Lynch, the highest-quality stocks have historically outperformed when volatility rises. Additionally, these companies have also done the best when profit cycles were decelerating—arguably the same part of the market cycle we find ourselves in today.

High-Quality Stocks Have Tended to Outperform When Volatility Has Risen



For definitions of the terms above, please visit the glossary.

High-Quality Stocks (A+) Have Outperformed When the Profits Cycle Has Decelerated



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The Style That Doesn't Go Out of Style

It should not come as a shock that when times get tough, companies with strong free cash flows and pricing power are best positioned.

But taking a step back from today's choppiness, ask yourself: why wouldn't investors always want to over-weight quality?

Several investment factors ebb and flow between periods of relative under- and outperformance, depending on where we are in the cycle. Value and size have historically tended to fare best in early cycle periods; momentum has tended to work best in trending mid-cycle markets.

One big exception to this is quality—in our view, the most consistent of all factors.

Sure, quality will likely lag in the sharp risk-on rallies that typically mark the start of an early cycle snapback. But those types of environments don't tend to last, and neither does quality underperformance.

In fact, there hasn't been a rolling 10-year period when quality underperformed since the late 1980s.

Investors would be wise to consider quality as their portfolio anchors—not just today, but always.

Rolling 10-Year Excess Return vs. Market

Sources: WisdomTree, Ken French, data as of 5/31/22 and represents the latest date of available data. Value: Hi 30 portfolio. Size: Lo 30 portfolio. Quality: Hi 30 portfolio. Low Vol: Big lo-var portfolio. High Div: Hi 30 portfolio. Market: all CRSP firms incorporated in the U.S. and listed on the NYSE, AMEX or NASDAQ. Past performance is not indicative of future results.

For definitions of the terms above, please visit the glossary.

WisdomTree's Approach to Quality

Within the WisdomTree ETF product lineup, most equity ETFs track an index that implements a composite risk score, which helps boost the overall quality profile of each Fund.

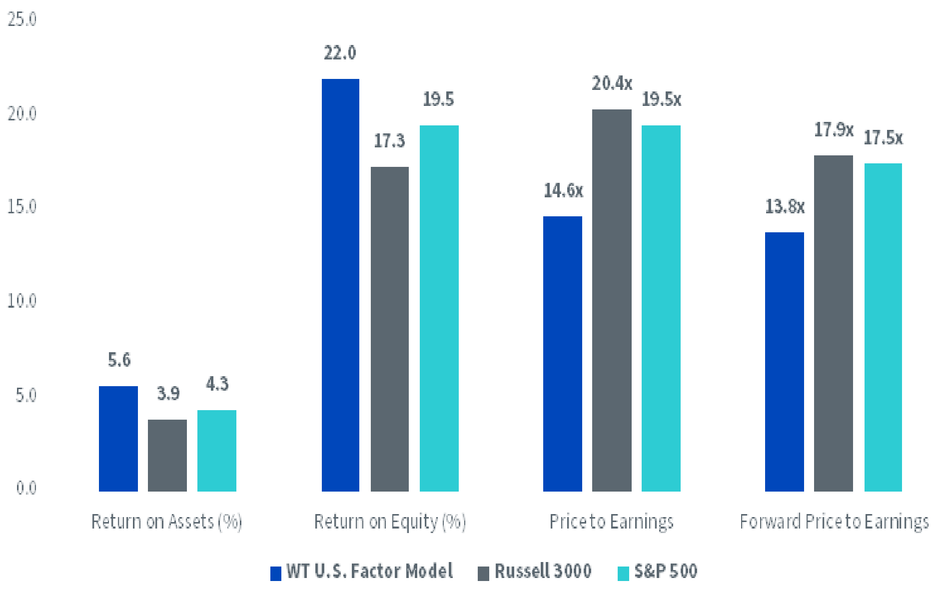
One flagship product that we believe epitomizes this is the WisdomTree U.S. Quality Dividend Growth Fund (DGRW), which has premium quality metrics, such as ROE and ROA, when compared to the S&P 500. The impact of this quality tilt has never been more evident than in 2022, when the Fund has outperformed the S&P 500 by 7.8% through June .

Similar to our ETFs, the WisdomTree Model Portfolios also have an emphasis on quality. In our opinion, perhaps no model better embodies the high-quality ethos than the WisdomTree U.S. Factor Model.

It should come as no surprise that DGRW is an anchor position in the model.

Not only does the model have sharply higher quality metrics than the overall market, but it also currently trades at a significant discount from a valuation standpoint.

In these days of high inflation, it's hard to find many things that offer a good bang for your buck. We believe that right now, the U.S. Factor Model may be one of the last good deals in town.



Sources: WisdomTree, FactSet, as of 6/30/22.

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You cannot invest directly in an index.

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+ WisdomTree U.S. Quality Dividend Growth Fund

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You cannot invest directly in an index.

DEFINITIONS

Bond : A fixed-income instrument that represents a loan made by an investor to a borrower (typically corporate or governmental).

Inflation : Characterized by rising price levels.

Mortgage Rates : the interest rate charged for a mortgage.

Federal Reserve : The Federal Reserve System is the central banking system of the United States.

Volatility : A measure of the dispersion of actual returns around a particular average level. .

Consumer Price Index (CPI) : A measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. The CPI is calculated by taking price changes for each item in the predetermined basket of goods and averaging them; the goods are weighted according to their importance. Changes in CPI are used to assess price changes associated with the cost of living.

CBOE Volatility Index® (VIX®) : a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices. It is the premier benchmark for U.S. stock market volatility.

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 tim.

Cash flows : a measure of how much cash a business generates after taking into account all the necessary expenses, including net capital expenditures.

Pricing power : Describes the effect of a change in a firm's product price on the quantity demanded of that product. Pricing power is linked to the price elasticity of demand. Price elasticity is a measure of the degree to which individuals, consumers, or producers change their demand or the amount supplied in response to price changes.

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 tim.

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.

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

Return on assets (ROA) : Firm profits (after accounting for all expenses) divided by the firm’s total assets. Higher numbers indicate greater profits relative to the level of assets utilized to generate them.

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.