

# OPPORTUNITIES IN DEVELOPED INTERNATIONAL EQUITIES

Christopher Gannatti — Global Head of Research  
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So far in 2014, much attention has been paid to the record highs seen periodically in U.S. markets<sup>1</sup>, responses to central bank and fiscal policies in Japan and Europe and even the [volatility](#) and potential [valuation](#) case for emerging markets<sup>2</sup>. One market not discussed as often is broad developed international equities. **Results Are In: 2014 Rebalance** Each year, WisdomTree screens the universe of dividend payers in developed international markets so that we can refocus the weights of constituents back to relative value and away from simply holding increasing amounts of stocks that have performed well. The rebalance was recently completed, suggesting that this is an opportune time to review the positioning of our broad developed international Indexes. **WisdomTree's Broad Developed International Indexes**

Characteristics of Indexes Post-Rebalance	WT DEFA	WT International LargeCap Dividend	WT International MidCap Dividend	WT International SmallCap Dividend	WT International Dividend ex-Financials	WT DEFA Equity Income	WT International Hedged Dividend Growth
<b>Top 5 Currency Exposures<sup>3</sup></b>							
Euro	31.8%	34.4%	28.5%	15.1%	35.6%	33.5%	33.3%
Japanese yen	13.3%	10.0%	21.0%	25.9%	8.8%	5.4%	8.0%
British pound	20.8%	22.3%	17.5%	15.7%	25.0%	24.6%	19.9%
Australian dollar	11.5%	11.1%	9.5%	18.7%	9.5%	16.0%	8.4%
Swiss franc	7.5%	9.1%	2.9%	1.9%	7.3%	5.1%	12.4%
<b>Regional Exposure Breakdown</b>							
Europe	66.5%	71.4%	57.7%	40.7%	75.3%	69.4%	74.3%
Japan	13.3%	10.0%	21.0%	25.9%	8.8%	5.4%	8.0%
Pacific ex-Japan	20.2%	18.5%	21.3%	33.4%	15.9%	25.2%	17.7%
<b>Cyclical vs. Defensive Sectors</b>							
Cyclical Sectors <sup>1</sup>	65.6%	60.8%	75.8%	84.5%	50.3%	61.4%	59.8%
Defensive Sectors <sup>2</sup>	34.4%	39.2%	24.2%	15.5%	49.7%	38.6%	40.2%

<sup>1</sup>Cyclical sectors: Consumer Discretionary, Energy, Financials, Industrials, Materials & Technology.

<sup>2</sup>Defensive sectors: Consumer Staples, Health Care, Telecommunication Services & Utilities.

<sup>3</sup>Top five currency exposures: Refers to the top five currency exposures of the WT DEFA Index, the broadest Index shown, as of the annual Index screening on 5/31/14.

Sources: WisdomTree, Standard & Poor's, as of 5/31/14 Index screening; subject to change.

• **Currency Exposure:** As a baseline, we know that the [MSCI EAFE Index](#) has 30% to 33% exposure to the euro, and about 19% to 21% exposure to both the yen and the pound<sup>3</sup>. In terms of divergences of interest: o **Japanese yen:** The [WT International MidCap](#) and [WT International SmallCap Dividend Indexes](#) have clear over-weights to the yen, compared to the MSCI EAFE Index, whereas the other Indexes represent significant under-weights. o **Euro:** The [WT International Dividend ex-Financials Index](#) is interesting for its nearly 36% exposure to Eurozone. This Index has performed strongly in 2014, helped by its significant weight in European Utilities. o **WT International Hedged Dividend Growth Index:** This is the only Index shown that is actually currency-[hedged](#). Each of the other Indexes will be impacted by the movements of their underlying currency exposures versus the U.S. dollar, but this Index will not, making it very interesting for those thinking that the macroeconomic picture suggests the potential for a strengthening U.S. dollar relative to other developed-market currencies. • **Cyclicals vs. Defensives:** As one looks from the WT International LargeCap Dividend Index down the continuum of the size spectrum to the WT International SmallCap Dividend Index, there is a notable ramp up—almost 25% (from 60.8% in large caps to 84.5% in small caps)—in terms of exposure to cyclical sectors. This fits with an important theme: those bullish on the prospects for an economic recovery should consider small caps. o It's also worth noting that the most "defensively positioned" index is the WT International Dividend ex-Financials Index. We'll be examining this Index more closely in a future blog post, but suffice it to say that as defensive sectors, such as Utilities, have tended to outperform in 2014, this Index has definitely benefitted. **Shifting the Developed International Investment Paradigm** In U.S. markets, there is a lot of stratification—people will think in terms of large cap versus small

cap or [value](#) versus [growth](#). However, in developed international equities, the focus is primarily on the MSCI EAFE Index. Newer indexes, such as the [MSCI EAFE IMI Index](#), look to be more representative of the total market opportunity— inclusive of mid-cap and small-cap stocks. But WisdomTree has been providing options inclusive of all developed international dividend payers since June 1, 2006. In two subsequent blog posts, we will examine our International SmallCap Dividend and International Dividend ex-Financials Indexes in greater detail. For the full research on the WisdomTree International Developed Indexes rebalance, [click here](#).<sup>1</sup>Refers to the S&P 500 Index, which has periodically achieved record highs from 12/31/13 to 5/31/14.<sup>2</sup>Refers to the MSCI Emerging Markets Index for the period from 12/31/13 to 5/31/14.<sup>3</sup>Source: Bloomberg, as of 5/31/14.

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## **DEFINITIONS**

**Volatility** : A measure of the dispersion of actual returns around a particular average level.&nbsp;.

**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.

**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.

**WisdomTree International MidCap Dividend Index** : A fundamentally weighted index that measures the performance of the mid-capitalization segment of the US dividend-paying market. The Index is comprised of the companies that compose the top 75% of the market capitalization of the WisdomTree Dividend Index after the 300 largest companies have been removed. The index is dividend weighted annually to reflect the proportionate share of the aggregate cash dividends each component company is projected to pay in the coming year, based on the most recently declared dividend per share.

**WisdomTree International Dividend ex-Financials Index** : Measures the performance of high dividend-yielding stocks outside the financial sector. Selects the 10 largest dividend-paying stocks within each sector outside of financials, then the resulting list is weighted by dividend yield.

**WisdomTree International Hedged Dividend Growth Index** : Designed to provide exposure to the developed market companies while neutralizing exposure to fluctuations between the value of foreign currencies and the U.S. dollar. Comprises companies from the WisdomTree DEFA Index with the best combined rank of growth and quality factors.

**Rate-Hedged** : A bond portfolio that has offsetting positions in Treasury securities to reduce interest rate risk.

**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.

**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.