

# WISDOMTREE'S BEST AND WORST EQUITY INDEXES: THIRD QUARTER 2015

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The third quarter of 2015 was difficult for equities—we saw the [VIX](#) cross 40 toward the end of August, indicating significant uncertainty. What caused this? Put simply, China and the [Federal Reserve \(Fed\)](#). So how did the WisdomTree Indexes fare? Below we look at Q3's five best—and worst—performers. **Themes We're Seeing in the Top 5** In such a tough quarter, one of the key questions becomes, where were the signs of strength? While all the equity Indexes were negative, we did find a few things that were interesting:

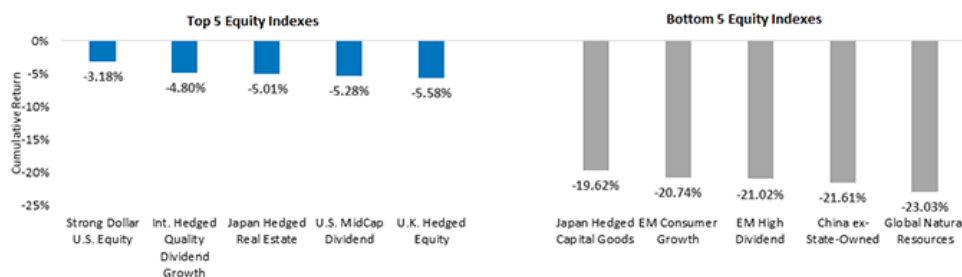
- **Domestically Focused U.S. Equities:** We believe one of the most important factors contributing to the performance of U.S. equities in the near- to mid-term future is currency sensitivity and U.S. versus foreign geographic revenue mix. The [WisdomTree Strong Dollar U.S. Equity Index](#) (Strong Dollar U.S. Equity) held up the best during this period, as it requires constituents to generate more than 80% of their revenues from within the United States. If the U.S. economy continues to show relative strength versus foreign economies and/or the dollar continues to strengthen, then the components of the Index are better positioned than globally focused multinational companies.
- **Broad-Based Hedged Equities:** The [WisdomTree International Hedged Quality Dividend Growth Index](#) (Int. Hedged Quality Dividend Growth) was the next best. It's notable that this Index had an exposure of fewer than 50 [basis points](#) to the Energy sector,<sup>1</sup> and it also mitigates exposure to movements of the U.S. dollar versus its underlying mix of 12 currencies.
- **Japan:** Then came the [WisdomTree Japan Hedged Real Estate Index](#) (Japan Hedged Real Estate). Higher real estate values are a key element of the Bank of Japan's (BOJ) strategy to promote a "[wealth effect](#)" where higher asset values feed into consumer confidence.
- **U.S. Mid-Caps:** The [WisdomTree MidCap Dividend Index](#) (U.S. MidCap Dividend) held up better than either our [WisdomTree LargeCap](#) or [SmallCap Dividend Indexes](#). What we found intriguing is that, for this period, U.S. MidCap Dividend outperformed the WisdomTree SmallCap Dividend Index in every one of the 10 sectors, telling us that these stocks just held up better in a very broad-based way.
- **United Kingdom:** The [WisdomTree United Kingdom Hedged Equity Index](#) (U.K. Hedged Equity) rounded out the top five. Over the period, the British pound depreciated by about 3.7% against the U.S. dollar,<sup>2</sup> and U.K. equities seen without the additional depreciation of the currency held up well compared to other markets.

**Themes We're Seeing in the Bottom 5** For the [contrarians](#) out there, we believe that ultimately these strategies could be interesting. The trickiest question is when the [fundamentals](#) of the underlying stocks—rather than the currency exposures—will become the primary drivers of performance again.

- **Emerging Market Currencies Have Been Weak:** Measured against the U.S. dollar, emerging market currencies—especially those of countries known for their commodity exports—have been weak. This impacted the [WisdomTree Emerging Markets High Dividend](#) (EM High Dividend) and [Emerging Markets Consumer Growth](#) (EM Consumer Growth) Indexes. Some of the more notable currency moves of the third quarter of 2015, measured against the U.S. dollar, were as follows: Brazilian real, down 21.4%; Russian ruble, down 15.3%; Malaysian ringgit, down 14.2%; South African rand, down 12.2%; and Indonesian rupiah, down 9.0%. Searching for positive currency performance among the major exposures of these Indexes was difficult—even the Chinese currency, known for a managed policy against the U.S. dollar, was down more than 2.4% over the quarter.<sup>3</sup>
- **China Has Been Tough:** While we believe that the [WisdomTree China ex-State-Owned Enterprises Index](#) (China ex-State-Owned) represents an innovative way to look at China's equities, this was not the quarter in which China's equities—state-owned or otherwise—did well. For those concerned about the reach of the Communist Party into public companies, however, this does represent an interesting Index to watch.
- **Commodity Weakness:** The [WisdomTree Global Natural Resources Index](#) (Global Natural Resources) is designed to focus on [dividend](#)-paying companies that could potentially benefit as commodity prices increase—in other words, the opposite of what we've been seeing in those markets. Should the tides begin to turn, it could represent an interesting area of focus.
- **Global Growth-Oriented Japanese Stocks:** With all the momentum enjoyed by Japanese equities earlier in 2015, it may be surprising to see the [WisdomTree Japan Hedged Capital Goods Index](#) (Japan Hedged Capital Goods). Capital goods companies are sensitive to global growth concerns,

particularly fears around China. If the Chinese put together any infrastructure spending plans, this strategy can come back in focus in the coming months.

### WisdomTree's Top & Bottom 5 Equity Indexes for 3Q15



Source: Bloomberg, with data for period from 6/30/15 to 9/30/15. Past performance is not indicative of future results. You cannot invest directly in an index. Index performance does not represent actual fund or portfolio performance. A fund or portfolio may differ significantly from the securities included in the index. Index performance assumes reinvestment of dividends but does not reflect any management fees, transaction costs or other expenses that would be incurred by a portfolio or fund, or brokerage commissions on transactions in fund shares. Such fees, expenses and commissions could reduce returns.

### Will Uncertainties Persist?

Looking out into the fourth quarter, one of the critical questions concerns whether uncertainty will continue. One key catalyst could be further stimulus from either governments or central banks, and we're certainly watching the BOJ and both the Chinese [monetary](#) and fiscal authorities with particular interest on these fronts. We believe it is possible we will see coordinated action from the BOJ and the fiscal side in November and therefore think that Japan exposures should remain in focus—whether from a sector or broader-based approach. We also believe it is possible the rout in emerging market currencies is overdone as investors have become too pessimistic on China's economy. We believe it is possible China is working on an infrastructure spending plan to boost its economy. In that vein, emerging markets, Japanese-oriented global stocks and currencies could be attractive for those [value](#)-seeking investors with longer horizons.

<sup>1</sup>Source for exposure to Energy sector: Bloomberg, with data as of 9/30/15. <sup>2</sup>Source for British pound performance vs. U.S. dollar: Bloomberg, for period 6/30/15–9/30/15. <sup>3</sup>Source for emerging market currency performance vs. U.S. dollar: Bloomberg, for period 6/30/15–9/30/15.

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## DEFINITIONS

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

**Basis point** : 1/100th of 1 percent.

**Wealth effect** : When individuals see their investment portfolio increasing in value; even if they don't sell and take profits, they tend to feel better about their potential consumption due to these gains.

**Fundamentals** : Attributes related to a company's actual operations and production as opposed to changes in share price.

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

**Monetary policy** : Actions of a central bank or other regulatory committee that determine the size and rate of growth of the money supply, which in turn affects interest rates.

**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.