THINKING INTERNATIONAL: RETURN RELATIONSHIPS THAT BOLSTER LONG-TERM PERFORMANCE

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This blog post is the second installment of a four-part series that examines the tactical and strategic case for investing internationally despite a multi-year period of U.S. equity outperformance.

In addition to the dangers of performance-chasing we referenced in part one, another key reason why investors should consider increasing exposure to developed international equities has to do with managing risk. Concentrated portfolios look great during bull markets, but can quickly devolve into over concentrated bets that look more like speculation than prudent asset allocation. When new dollars are put to work, we believe they should do more for a portfolio than double down on the S&P 500 Index moving higher. Enter developed international.

Across market cycles, international equities have shown slightly reduced sensitivity to U.S. market performance. Between Europe, Japan and the broader EAFE (Europe, Australasia and the Far East) region, betas to U.S. equities have remained steadily below 1, implying that domestic returns are less influential for those overseas.

Over recent periods, however, correlations remain highly positive to U.S. markets. This is a byproduct of the increasingly globalized and interconnected world we now live in.

Beta to MSCI USA Index

Index	1-Year	3-Year	5-Year	10-Year	Common Period
MSCI EAFE	0.82	0.85	0.83	0.86	0.89
MSCI Europe	0.85	0.93	0.89	0.91	0.95
MSCI Japan	0.76	0.67	0.67	0.69	0.65

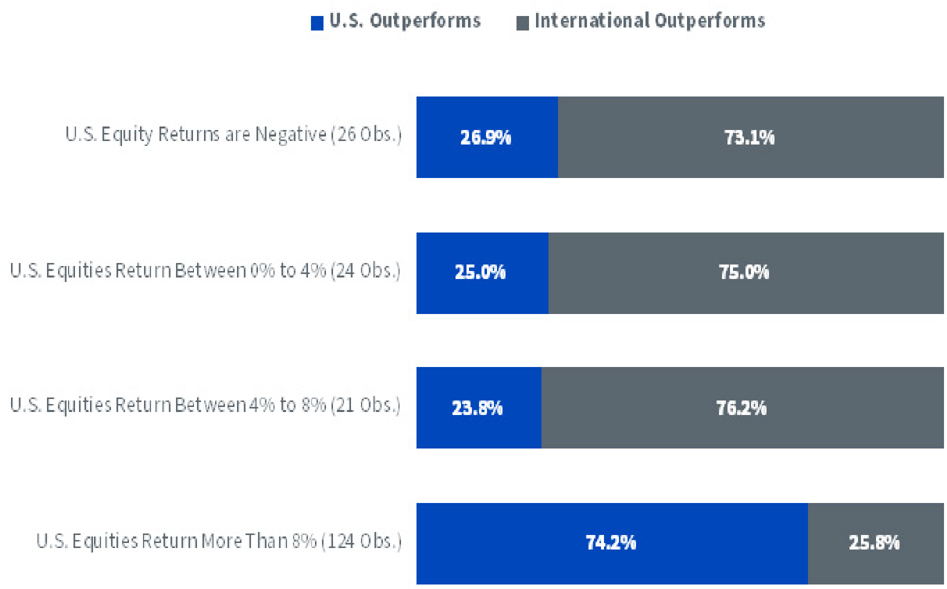
Correlations vs. MSCI USA Index

Index	1-Year	3-Year	5-Year	10-Year	Common Period
MSCI EAFE	0.83	0.87	0.89	0.87	0.84
MSCI Europe	0.81	0.86	0.88	0.85	0.83
MSCI Japan	0.85	0.75	0.80	0.75	0.59

Sources: WisdomTree, MSCI, as of 6/30/23. Common period represents performance history beginning May 1995, the beginning of our data availability. You cannot invest directly in an index.

However, diversification benefits are more evident over the longer term, especially during periods of modest U.S. equity returns and outright declines. On a rolling five-year basis, developed markets have outperformed the U.S. about three-quarters of the time in low-to-moderate return environments (including market declines).

Rolling 5-Year Returns, MSCI USA vs. MSCI EAFE, 1970–Present



Sources: WisdomTree, Bloomberg, as of 6/30/23, using quarterly observations. Return thresholds are based on annualized total returns. Past performance is not indicative of future results. You cannot invest directly in an index.

U.S. equities have had more success in high return environments of 8% or greater, beating EAFE stocks roughly 75% of the time. But this trend is skewed by the recent bull market after the global financial crisis (GFC).

Of the 124 quarterly observations, 38 of them occurred in the last 10 years, and the U.S. outperformed EAFE every single time. Seventy-seven observations occurred over the past 30 years, with the U.S. outperforming EAFE during 73 of them, or 95% of the time.

Performance records like this are compelling and did little to discourage over-weight allocations in U.S. equities over the past several years. But they are also unsustainable over the long term, which is why we believe the future for international equities may not look like the past. We believe the WisdomTree International Quality Dividend Growth Fund (IQDG) may be poised to benefit as a result, and so may be of interest to investors looking to increase allocations to developed international.

For access to the complete developed international market insight, click here.

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For the top 10 holdings of IQDG please visit the Fund's fund detail page at https://www.wisdomtree.com/investments/etfs/equity/iqdg

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You cannot invest directly in an index.

DEFINITIONS

Risk : Also standard deviation, which measures the spread of actual returns around an average return during a specific period. Higher risk indicates greater potential for returns to be farther away from this average.

Bullish : a position that benefits when asset prices rise.

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.

EAFE : Refers to the geographical area that is made up of Europe, Australasia and the Far East.

The Global Financial Crisis : Refers to the period of extreme stress in global financial markets and banking systems between mid 2007 and early 2009.