

WHAT SURPRISED US IN 2014 AND POTENTIAL RISKS FOR 2015

Luciano Siracusano — Chief Investment Strategist

01/26/2015

WisdomTree's Chief Investment Strategist, Luciano Siracusano (L.S.), its Director of Research, Jeremy Schwartz (J.S.), and its Head of Fixed Income and Currency, Rick Harper (R.H.), sat down in mid-December to reflect on 2014 and discuss the forces that could impact global financial markets in 2015. Below, we highlight the biggest surprises of 2014 and potential risks to look out for in 2015. To read the full roundtable discussion, please [click here](#). **Q: What surprised you about 2014?**

J.S.: The biggest surprise of 2014 was how quickly oil prices collapsed—and the winners and losers this created across the various equity markets. Russia, being a major oil exporter, had the biggest negative performance, largely exacerbated by its currency sell-off; importers of oil like India, Japan, even the United States benefited. **L.S.:** I agree with Jeremy on oil. The other thing that surprised me was that we did not get what so many were expecting at the beginning of the year—a correction of 10% or more in the U.S. stock market. We saw the sixth consecutive year of positive equity returns in the U.S., and we've seen stocks compound at 16% per year for six years in the U.S. I think the power and longevity of this [bull market](#) in stocks has surprised many investors. **R.H.:** The sharp drop in oil prices and the slide in global [interest rates](#) stand out as the largest surprises over this past year. Both emerged as economic growth momentum faltered and [disinflationary](#) forces intensified outside the U.S. **Q: What are some of the big risks that could impact markets in 2015?** **L.S.:** There is always the risk that an exogenous event from overseas affects the sentiments of U.S. consumers, and all of a sudden psychology changes in the U.S.: People stop shopping at the malls, stop going out to dinner or to see a movie because of a foreign threat. I think we got some good news here in December with the passage of this \$1.1 trillion spending bill during the lame-duck session, which removes the risk of a government shutdown for about 10 months. It basically keeps the government running through September 30 of 2015—and delays any real debate about how much of the Obama agenda the new Republican Congress chooses to actually fund. That debate likely won't begin in earnest until the fourth quarter of next year. If the parties come together and get some type of agreement on corporate tax reform, including repatriation of overseas profits at a lower tax rate, that could actually be an unexpected policy catalyst for further upside to the market. **R.H.:** As with any year, the list is potentially long. A return of the polar vortex, an escalation of geopolitical risk or a central bank policy mistake are obvious risks that could infuse [volatility](#) into the markets. Another important consideration for investors is that extraordinary central bank stimulus and regulatory changes post-financial crisis have altered the dynamics of many markets. With volatility remaining very low and [valuations](#) in many markets relatively full, these new dynamics are largely untested. Spikes in volatility could trigger knock-on effects currently not anticipated by the market, such as those seen by the decline in energy prices. We think this reinforces the need to know what you hold, enhance risk oversight and increase threshold targets for assuming new risk positions. The outlier risk is that an intensification of global disinflationary forces incites deeper concerns of the sustainability of U.S. growth. The [Federal Reserve](#) delays its exit from zero-interest-rate policy, and investors push expectations for [inflation](#) even lower. In this environment, investors would want to opportunistically add [interest rate risk](#) in long-term [Treasuries](#) to their core credit positions. Additionally, as we have seen in recent weeks, the impact of lower global energy prices can potentially impact markets in unforeseen ways.

Important Risks Related to this Article

Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty.

For more investing insights, check out our [Economic & Market Outlook](#)

View the online version of this article [here](#).

IMPORTANT INFORMATION

U.S. investors only: Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages (www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Kara Marciscano, Jianing Wu and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only.

You cannot invest directly in an index.

DEFINITIONS

Bullish : a position that benefits when asset prices rise.

Interest rates : The rate at which interest is paid by a borrower for the use of money.

Disinflation : Term used to describe instances of slowing inflation, different from deflation in that price levels are still increasing overall, just at a slower rate.

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.

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

Inflation : Characterized by rising price levels.

Interest rate risk : The risk that an investment's value will decline due to an increase in interest rates.

Treasury : Debt obligation issued by the U.S. government with payments of principal and interest backed by the full faith and credit of the U.S. government.