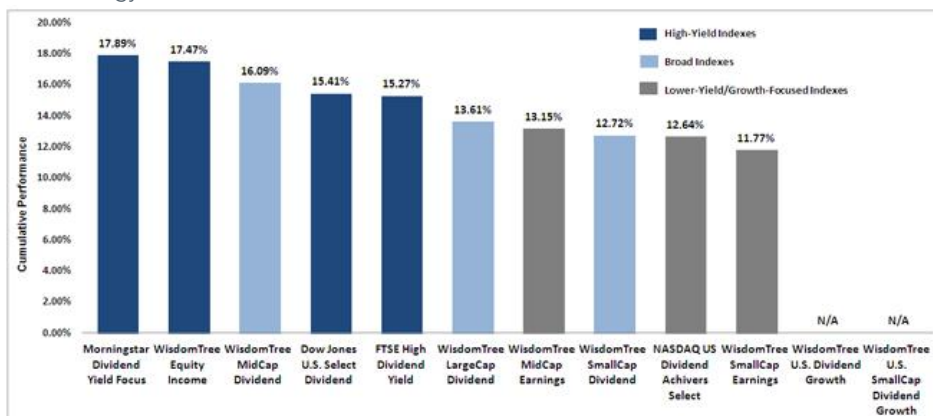


RISING INTEREST RATES AND PERFORMANCE DIVERGENCES

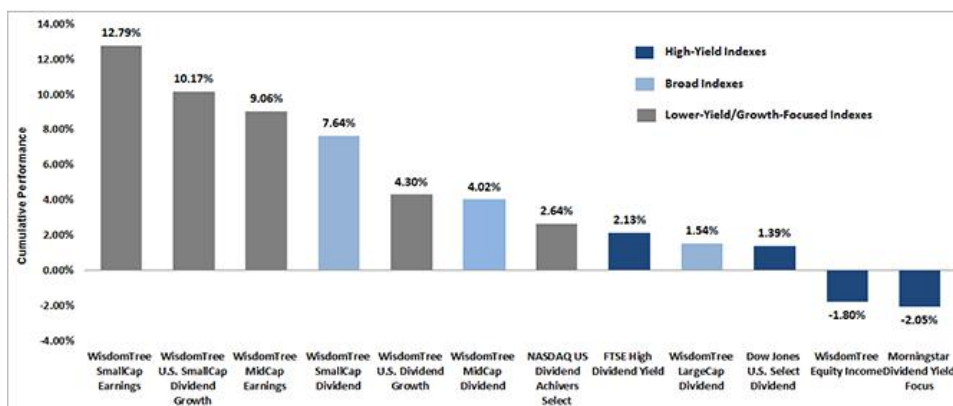
Jeremy Schwartz — Global Chief Investment Officer
09/12/2013

Starting in May this year, on just a hint of the Federal Reserve possibly scaling back its bonds purchases, longer-term interest rates in the U.S. rose considerably. If the recent interest rate trends continue, lessons from early 2013 performance divergences can be important for shaping equity allocations. Below, I will evaluate how the recent rise in [Treasury yields](#) has impacted various income-oriented investment strategies. The charts below show the performance of various equity indexes over two periods of 2013: during the declining interest rates experienced through April 30 and then the rising yield period following April 30. This divide was chosen as the 10-year bond interest rate generally fell in yield up to that point and then began a steady rise that saw the 10-year bond increase from 1.63% to 2.81%.¹ We show three categories of indexes throughout this piece: • **High-Yield Indexes:** These indexes have a specific methodology focused on selecting high-[dividend-yielding](#) securities. • **Broad Indexes:** These indexes focus on just providing general exposure to dividend-paying stocks in their respective size segments. • **Lower-Yield/Growth-Focused Indexes:** These indexes typically display a lower yield and either select based on growth characteristics or have a weighting methodology that does not focus on dividends. **Index Performance: 12/31/12–04/30/13**



Source: Bloomberg. Past performance is not indicative of future results. You cannot invest directly in an index. There is no performance information for the WisdomTree U.S. Dividend Growth and WisdomTree U.S. SmallCap Dividend Growth Indexes because the inception date for both indexes was 04/12/2013.

For definitions of indexes in the chart, please visit our [Glossary](#). • **High-Yield-Focused Indexes Outperformed through April** – Over the first four months of 2013, as interest rates generally declined, the high-yield-focused indexes outperformed other broad and growth indexes shown above. The broad equity market, measured by the [S&P 500 Index](#), was up 12.74%, which means that the yield-focused indexes also outperformed the broad market. Lower-yielding, growth-sensitive indexes lagged in the first four months of the year. **Index Performance: 04/30/13–08/20/13**



Sources: Bloomberg, WisdomTree. Past performance is not indicative of future results. You cannot invest directly in an index.

For definitions of indexes in

the chart, please visit our [Glossary](#).

• **Since May 1, the performance situation reversed from the first four months of the year.** • **High-Yield-Focused Indexes Have Underperformed since May 1** – Since interest rates began their climb, over the period displayed above, high-yield-focused indexes have underperformed other broad and growth indexes shown above. The broad equity market, measured by the S&P 500 Index, was up 4.19%, which means that the yield-focused indexes also underperformed the broad equity market. During this period, the 10-Year Treasury trended significantly higher. • **Morningstar Dividend Yield Focus Index** – This index was the worst-performing of all indexes shown above, with a return of -2.05%, underperforming the S&P 500 by 6.23%, after being the best-performing index through April, a period during which it outperformed the S&P 500 by 5.15%. • **A Look to Growth-Focused Indexes** The spike in interest rates in 2013 has caused a reevaluation of dividend-yield-focused indexes and the stocks with highest yields, but not all dividend-paying equities underperformed. Smaller-capitalization and dividend-growth indexes outperformed during the period associated with rising rates. Their outperformance might be a result of their higher growth expectations, which become more desirable with improving economic activity. The smaller-capitalization dividend stocks also have less exposure to some sectors of the market that many felt were becoming expensive. It is important to look to these diversified baskets of dividend-paying stocks for diversification and potential growth. [In our market insight on this topic](#), we evaluate in more detail the underlying exposures that led to this performance divergence across the various equity indexes. ¹Source: Bloomberg (05/01/13–08/20/13).

Important Risks Related to this Article

Diversification does not eliminate the risk of experiencing investment loss. Dividends are not guaranteed, and a company's future ability to pay dividends may be limited. A company currently paying dividends may cease paying dividends at any time.

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

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, 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

Treasury yield : The return on investment, expressed as a percentage, on the debt obligations of the U.S. government.

Dividend yield : A financial ratio that shows how much a company pays out in dividends each year relative to its share price.

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.