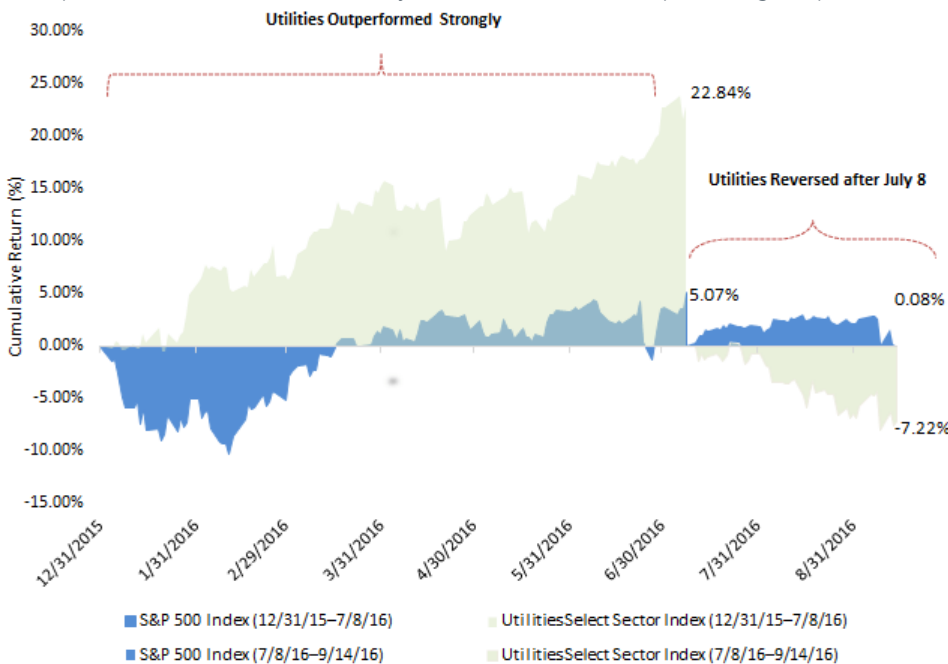


UTILITIES VS. FINANCIALS: A RISING RATES STORY

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One of the biggest drivers of performance in 2016 has been declining [interest rates](#) and all the ramifications across markets and sectors geared both positively and negatively to falling interest rates. Sectors that typically benefit from falling rates tend to be more defensive, higher-[dividend-yield](#) sectors often referred to as “bond-like” sectors because of their sensitivity to interest rates. Utilities fit this bill well and have been one of the strongest performers in early 2016. That is, until July 8. The 10-year U.S. interest rate started the year at 2.27% and declined to bottom on July 8 at 1.36%¹. Over that period, Utilities outperformed the [S&P 500](#) significantly. But since July 8, Utilities have been declining and underperformed the market by more than 7 percentage points.²

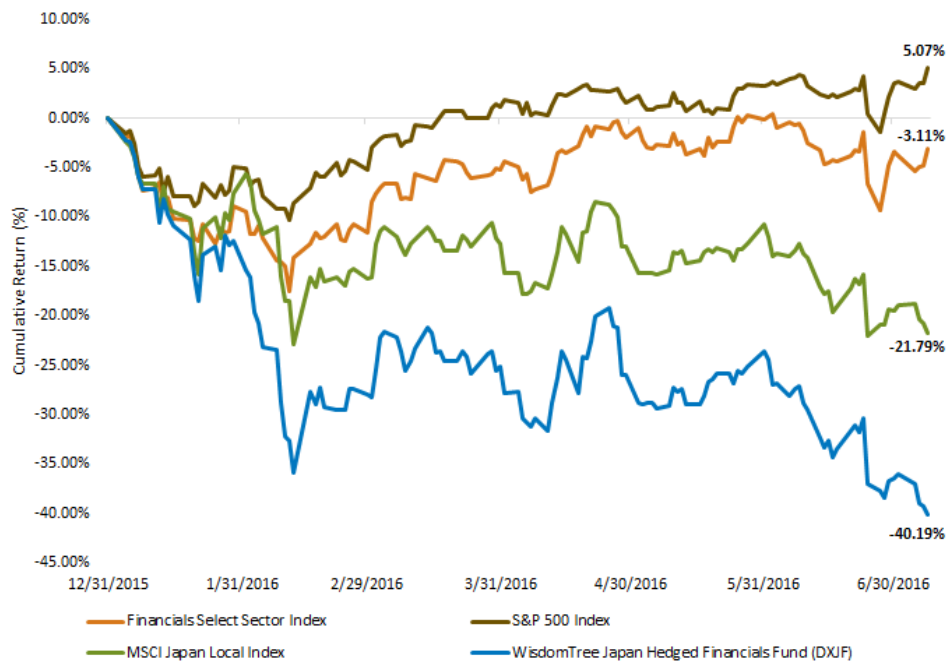
Reversal of Utilities



Sources: WisdomTree, FactSet, Bloomberg, 12/31/2015–9/14/2016. Past performance is not indicative of future results. You cannot invest directly in an index.

For definitions of indexes in the chart, visit our [glossary](#). On the opposite side, stocks that tend to get hurt by declining interest rates are often Financials, and this year that ultimately manifested in U.S. Financials but also Japanese Financials in particular. Year-to-date through July 8, U.S. Financials stocks had a slight negative return that was underperforming the S&P 500, but Japanese Financials had a return of -40%, almost twice the loss in the broader Japanese market averages.³

Japanese

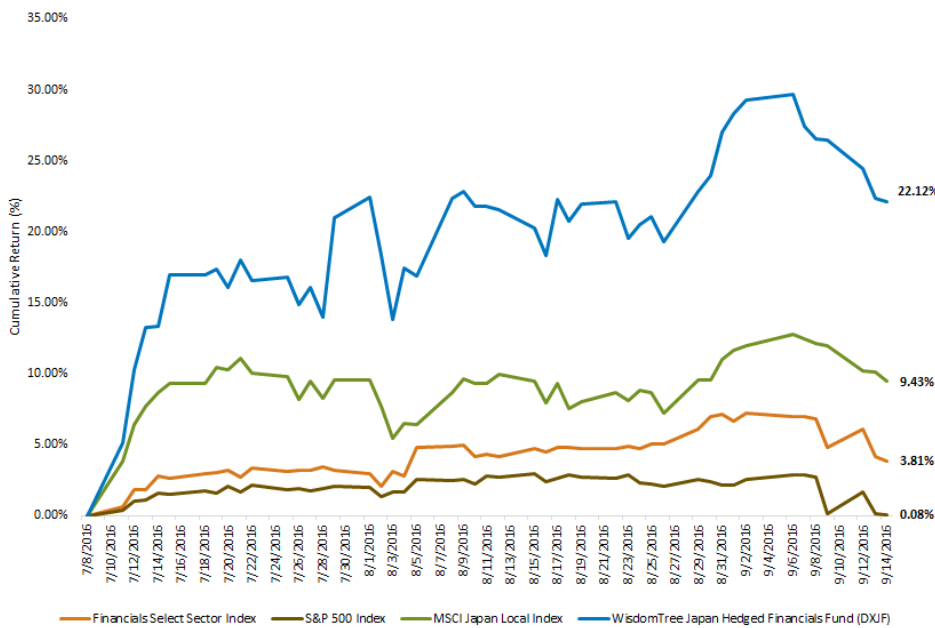


Sources: WisdomTree, FactSet, Bloomberg, as of 12/31/2015–7/8/2016. Past performance is not indicative of future results. You cannot invest directly in an index. Index performance does not represent actual fund or portfolio performance. A fund or portfolio may differ significantly from the securities 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.

Financials Taking a Hit

Click

*here for standardized performance of the [WisdomTree Japan Hedged Financials Fund \(DXJF\)](#). Japanese Financials have been hit by a double whammy of a rising yen, which has weakened sentiment to Japan, and declining interest rates. Financials have been a center point for [volatility](#). Since July 8, however, as interest rates increased from their lows, there was a complete reversal of sector performance, with U.S. Financials rising, Japan’s broader markets outperforming the U.S. and Japanese Financials rising even more. The Japanese Financials have pulled back off a surge in August but remain robustly above lows from July 8. **Japan’s Financials and Broader Markets Outperforming U.S.***



Sources: WisdomTree, FactSet, Bloomberg, as of 7/8/2016–9/14/2016. 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.

Is This All One Global Rate

Trade? The markets have become increasingly [correlated](#) to moves in global interest rates. U.S. interest rates move not just with the U.S. economy but by demand for [safe-haven](#) assets and low rates globally, as institutions look to escape the low and negative [yields](#) in both Europe and Japan. Japanese Financials took a big hit after the Bank of Japan (BOJ) [dropped rates into negative territory \(NIRP\)](#) earlier in 2016. We think the BOJ has shown flexibility in its implementations of NIRP and has attempted to offset the profit hit to banks by trying to steepen the yield curve and providing lower-cost funding to Japanese banks. Further, anticipation of the latest BOJ policy moves steepened the Japanese [yield curve](#) and should provide better profits from lending activities. We believe the interest rate environment—particularly the bottoming of rates in July—is supportive for further catch-up of Japanese banks after their dismal start to 2016. If the Utilities sector peaked and faces further downside as a result of a trend toward rising interest rates, we’d encourage investors to rotate into the other side of the low-rate trade and the sector most hit from the falling rates—Japanese Financials, which are among lowest-priced Financials globally. Learn more about the [WisdomTree Japan Hedged Financials Fund \(DXJF\)](#). ¹Source: Bloomberg, for each period as of 12/31/2015–7/8/2016. ²Source: Bloomberg, as of 7/8/2016–9/14/2016. ³As measured by the [MSCI Japan Index](#) or [TOPIX Index](#).

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You cannot invest directly in an index.

DEFINITIONS

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

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.

Volatility : A measure of the dispersion of actual returns around a particular average level. .

Correlation : Statistical measure of how two sets of returns move in relation to each other. Correlation coefficients range from -1 to 1. A correlation of 1 means the two subjects of analysis move in lockstep with each other. A correlation of -1 means the two subjects of analysis have moved in exactly the opposite direction.

Safe-haven : Characterized by being a potentially desirable focal point of investment flows during periods of increased volatility and market risk. Safe-haven is not synonymous with risk-free.

Yield : The income return on an investment. Refers to the interest or dividends received from a security that is typically expressed annually as a percentage of the market or face value.

Negative Interest Rate Policy (NIRP) : A monetary policy where by interest rates.

Yield curve : Graphical Depiction of interest rates on government bonds, with the current yield on the vertical axis and the years to maturity on the horizontal axis.

MSCI Japan Index : A market cap-weighted subset of the MSCI EAFE Index that measures the performance of the Japanese equity market.

Tokyo Stock Price Index (TOPIX) : A free float-adjusted market capitalization-weighted index that is calculated based on all the domestic common stocks listed on the Tokyo Stock Exchange First Section.