

CHECKING IN ON INTERNATIONAL EQUITY MARKETS

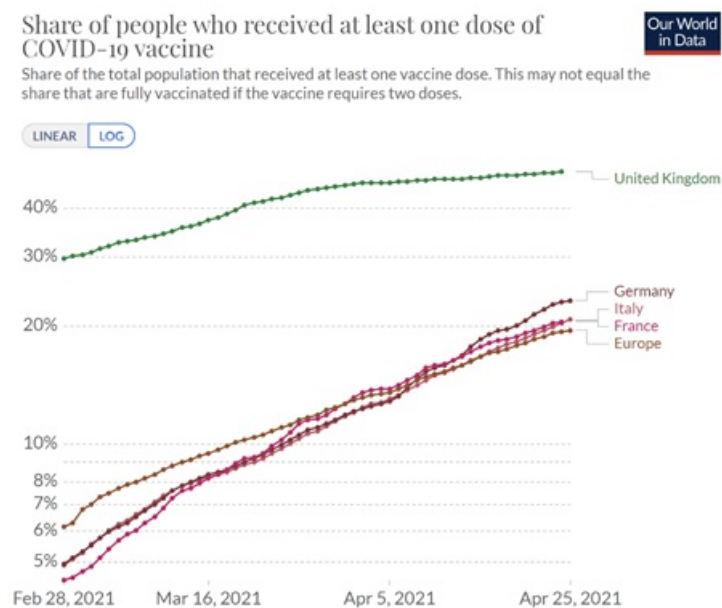
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We’ve written extensively about our growing optimism on international equities recently, and our enthusiasm hasn’t faded.

We’re encouraged by economic data that continues to rebound, while the approval, acquisition and distribution of vaccines seem to be improving at the same time. We think this creates a compelling opportunity to reinvest in the revival of developed market equities, all while the region takes encouraging, albeit cautious, steps to reopen its local economies.

Vaccinations Are Picking Up Steam

Since the beginning of March, COVID-19 vaccination rates have steadily improved throughout Europe, which is a major component of the international equity region. The trend is promising, with 20% of the four major European economies having received at least one dose. The United Kingdom has had the most success thus far, hovering at nearly 50%.



Source: Our World in Data, as of 4/25/21

Since the vaccination program gained momentum in March, a few countries (most notably the U.K.) have begun to revive their economies one step at a time. While the pace certainly remains cautious, we think the rest of the region may not be far behind.

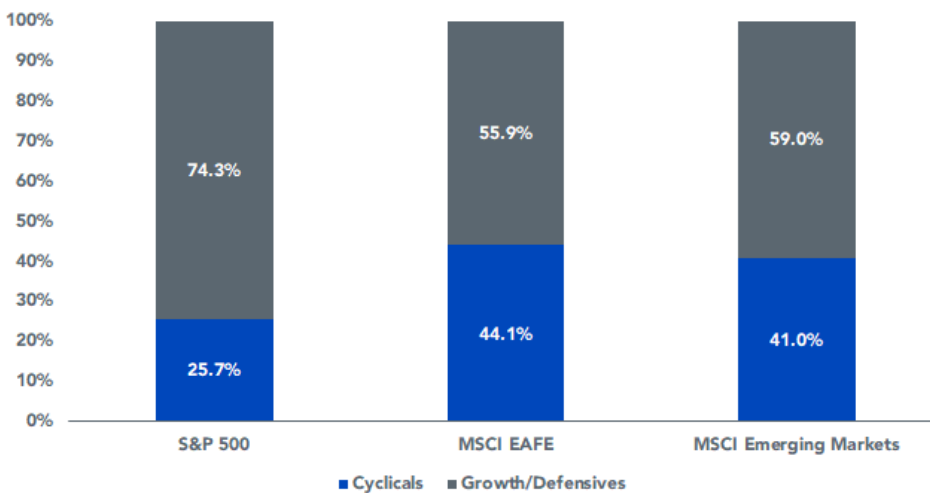
A Cyclical Revival

The vaccine momentum leads us to believe there’s potential for a strong revival in [cyclical](#) economic sectors, which are key pieces of developed markets relative to the rest of the world. In the chart below, we group the weights of the Financials, Industrials, Materials and Energy sectors—those most levered to overall levels of economic activity—together into our Cyclical category, while [Growth/Defensives](#) contains the remaining weight.

Developed equity markets, proxied by the [MSCI EAFE Index](#), are nearly 45% comprised of cyclical sectors, roughly a 20%

over-weight to the [S&P 500](#) in the U.S.

Sector Composition of Regional Equity Markets



Sources: WisdomTree, FactSet, as of 3/31/21. Subject to change. You cannot invest directly in an index.

How Quality Can Help Overseas

Sector composition is not the only potential catalyst we see in developed markets, however. Recent [factor](#) performance has looked promising as well.

Since the start of March, the quality factor has caught a tailwind. The [MSCI EAFE Quality](#) Index, a proxy for quality, has outperformed all other factors ([size](#), [growth](#), [value](#), [minimum volatility](#) and high [dividend yield](#)) in the region by at least 1.5% on a U.S. dollar basis (as of April 23).

This is no short-term anomaly in our opinion, however, as quality has an impressive track record over longer periods in international equity markets. Over the past two-, three- and five-year periods, the MSCI EAFE Quality Index outperformed all other factors in the region as well.

A Quality Solution for Developed Market Equities

In 2015, we launched the [WisdomTree International Hedged Quality Dividend Growth Fund \(IHDG\)](#), followed by its non-currency-hedged counterpart, [WisdomTree International Quality Dividend Growth Fund \(IQDG\)](#), a year later.

Both Funds track Indexes that employ the same strategy, resulting in exposure to companies with strong earnings, healthy balance sheets and low [leverage](#). They select the top 300 companies from the [dividend](#)-paying, international equity universe, ranked by a combination of dividend growth and quality factors. Likewise, the two Funds deliver attractive fundamentals.

Improved Fundamentals

There are two important points to consider.

Valuations. As markets recovered from the onset of the pandemic last March, the [price-to-earnings \(P/E\) ratio](#) of the MSCI EAFE Index surged to a 50% premium over its historical average (since IQDG inception in April 2016). Forward P/E ratios followed suit, climbing to a 30% premium over the same time frame. But IQDG remained modestly valued at a 7% premium to its historical average P/E and a 7% discount to its historical average forward P/E. This signals to us that the quality factor helped keep valuations in control without sacrificing upside performance potential.

Quality Where It Matters Most. The ethos of the quality factor is a focus on profitability, efficient operations and strong balance sheets in order to deliver healthy results. IQDG exemplifies this, having delivered more than 3x more [return on equity \(ROE\)](#), 2.75x more [return on sales \(ROS\)](#), and 9x more [return on assets \(ROA\)](#), all with about one-third the leverage of the MSCI EAFE.

Valuation Comparison as of 3/31/21		
	IQDG	MSCI EAFE
Price-to-Earnings (P/E)	19.5	26.6
Premium / Discount to Avg.	6.9%	51.6%
Forward Price-to-Earnings (P/E)	16.7	17.7
Premium / Discount to Avg.	-6.5%	15.9%

Fundamental Comparison as of 3/31/21				
Index	Return on Equity	Return on Assets	Return on Sales	Leverage
WisdomTree International Quality Dividend Growth Fund (IQDG)	22.44%	8.62%	23.31%	2.6x
MSCI EAFE Index	6.95%	0.94%	8.48%	7.4x
<i>Difference</i>	15.49%	7.69%	14.83%	-4.8x
<i>Multiple</i>	3.23x	9.21x	2.75x	0.35x

Sources: WisdomTree, FactSet, as of 3/31/21. Subject to change. You cannot invest directly in an index. The WisdomTree International Quality Dividend Growth Fund (IQDG) seeks to track the WisdomTree International Quality Dividend Growth Index before fees and expenses.

Performance is historical and does not guarantee future results. Current performance may be lower or higher than quoted. Investment returns and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Performance data for the most recent month-end is available at wisdomtree.com.

WisdomTree shares are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Total returns are calculated using the daily 4:00 p.m. EST net asset value (NAV). Market price returns reflect the midpoint of the bid/ask spread as of the close of trading on the exchange where Fund shares are listed. Market price returns do not represent the returns you would receive if you traded shares at other times.

For standardized performance of IQDG, please click [here](#).

No Better Time Than Now

We believe 2021 may mark a turning point for international equity markets, and the results of WisdomTree's quality dividend growth approach speak for themselves.

Whether you're interested in a [currency-hedged](#) or unhedged strategy when investing abroad, there's evidence that a focus on the quality factor can potentially create healthier fundamentals, control valuations and target sectors with attractive prospects for the future.

Unless otherwise stated, all performance and information sourced from WisdomTree, FactSet, Morningstar, and/or Zephyr StyleADVISOR, as of March 31, 2021.

Important Risks Related to this Article

There are risks associated with investing, including possible loss of principal. Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. To the extent the Fund invests a significant portion of its assets in the securities of companies of a single country or region, it is likely to be impacted by the events or conditions affecting that country or region.

Dividends are not guaranteed and a company currently paying dividends may cease paying dividends at any time. Investments in currency involve additional special risks, such as credit risk and interest rate fluctuations. Derivative investments can be volatile and these investments may be less liquid than other securities, and more sensitive to the effect of varied economic conditions. As this Fund can have a high concentration in some issuers, the Fund can be adversely impacted by changes affecting those issuers. The Fund invests in the securities included in, or representative of, its Index regardless of their investment merit and the Fund does not attempt to outperform its Index or take defensive positions in declining markets. Due to the investment strategy of this Fund it may make higher capital gain distributions than other ETFs. Please read each Fund's prospectus for specific details regarding the Fund's risk profile.

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- + [Value and Dividends: A Rising Tide](#)

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Related Funds

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+ [WisdomTree International Quality Dividend Growth Fund](#)

+ [WisdomTree U.S. Quality Dividend Growth Fund](#)

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

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You cannot invest directly in an index.

DEFINITIONS

Cyclical sectors : Consumer Discretionary, Energy, Industrials, Materials, Financials and Information Technology sectors.

Growth : Characterized by higher price levels relative to fundamentals, such as dividends or earnings. Price levels are higher because investors are willing to pay more due to their expectations of future improvements in these fundamentals.

Defensive sectors : Consumer Staples, Health Care, Telecommunication Services and Utilities.

MSCI EAFE Index : is a market cap-weighted index composed of companies representative of the developed market structure of developed countries in Europe, Australasia and Japan.

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.

Quality : Characterized by higher efficiency and profitability. Typical measures include earnings, return on equity, return on assets, operating profitability as well as others. This term is also related to the Quality Factor, which associates these stock characteristics with excess returns vs the market over time.

Factor : Attributes that based on its fundamentals or share price behavior, are associated with higher return.

MSCI EAFE Quality Index : The index captures large and Mid cap representation across 21 Developed Market countries around the world, aims to represent the performance of quality, value and low volatility factor strategies.

Size : Characterized by smaller companies rather than larger companies by market capitalization. This term is also related to the Size Factor, which associates smaller market-cap stocks with excess returns vs the market over time.

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.

Low Volatility : Characterized by lower standard deviation of price over time. This term is also associated with the Low Volatility Factor, which associates lower volatility stocks with better risk-adjusted returns vs the market over time.

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

Leverage : Total assets divided by equity. Higher numbers indicate greater borrowing to finance asset purchases; leverage can tend to make positive performance more positive and negative performance more negative.

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

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.

Price-to-earnings (P/E) ratio : Share price divided by earnings per share. Lower numbers indicate an ability to access greater amounts of earnings per dollar invested.

Return on Equity (ROE) : Measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.

Return on Sales (ROS) : A measurement of operational efficiency which relates how much profit is generated from one dollar of sales.

Return on assets (ROA) : Firm profits (after accounting for all expenses) divided by the firm's total assets. Higher numbers indicate greater profits relative to the level of assets utilized to generate them.

Currency hedging : Strategies designed to mitigate the impact of currency performance on investment returns.