

Q1 2023: WHAT WERE THE BEST (AND WORST) WISDOMTREE STRATEGIES?

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With breathtaking speed, the first quarter of 2023 has passed, and we are left to consider the kinds of investment strategies that did (and did not) work well over the period. If we consider the path of our experience:

- 2022 was all about the tightening of [central bank](#) policy, which sought to combat [inflation](#) that was much higher than the stated goal of many central banks—something close to 2%. Therefore, we saw the transition from the at or near zero [interest rate](#) world to a world where the [cost of capital](#) was significantly higher.
- In equities, if the environment is characterized by a significantly higher cost of capital, that means that more [growth](#)-oriented companies with potential earnings pushed far into the future will have to see their [valuations](#) contract, and similarly, investors should favor companies that are distributing cash, usually [dividends](#), presently. Simply put, we'd expect "[value](#)" to outperform "growth."
- If the [U.S. Federal Reserve](#) is positioning itself more aggressively in its [tightening](#) policy, a consequence could be a stronger [U.S. dollar](#), which could make returns in [unhedged](#) international investments as well as [commodities](#) face a headwind.

So, as 2023 began, we knew all of that, and we likely would have been talking more about value- than growth-oriented equities and wondering how much more the U.S. dollar could run. In the back of our minds, we have also been thinking about China's emergence from COVID-19 lockdown conditions, seeing how that pent-up consumption would reverberate across the global economy.

Q1 2023: The Five BEST-Performing WisdomTree Strategies

The first quarter of 2023 was, in a word, surprising. While we recognize that, even if value is in the midst of a multi-year run of outperforming growth, it was remarkable to see WisdomTree's five top-performing strategies for the period dominated by growth. In fact, four out of the five were amongst WisdomTree's "[megatrend](#)" strategies.

- **WTAI:** During the first quarter of 2023, the [WisdomTree Artificial Intelligence and Innovation Fund](#) was WisdomTree's top performer. [AI](#) itself was particularly "hot" over this period, as this was the first full quarter after the launch of ChatGPT from [OpenAI](#), an application with a potent mix of both novelty and potential productivity that pushed itself into the mainstream and got people of all types talking more about the potential of AI. We agree that AI is an exciting topic, but we also note that generative AI—the broader concept underlying ChatGPT—is something that should play out over years. There is always a risk that markets get too excited about things like this over shorter-term horizons.
- **QGRW:** The recently launched [WisdomTree U.S. Quality Growth Fund](#) found itself in the second position for the first quarter of 2023. Even if a lot of the forces that were present in 2022 have not dissipated, the market has seen certain Financials under greater pressure, while the higher-[quality](#) technology companies have been seeking to better contain costs—in many cases with layoffs—and also have large cash hoards to help buffer uncertainties.

- **WCBR:** The [WisdomTree Cybersecurity Fund](#) was the third best-performing WisdomTree Fund during the first quarter of 2023. In 2022, the [cybersecurity](#) story was dominated by Russia's action against Ukraine, with the world knowing and watching out for Russia's offensive cyber capabilities. It was also recognized that, even if a [recession](#) were to be imminent, it would be tough to cut expenses on the cybersecurity side of a given business. Still, the performance of purely focused cybersecurity companies in 2022 was not great, so it's possible that part of the rally during the first quarter of 2023 was a recovery after particularly poor returns. Additionally, cybersecurity does touch artificial intelligence in that AI provides certain tools that could be particularly useful in the space. As we noted, AI-oriented companies performed well over this period.
- **WCLD:** The [WisdomTree Cloud Computing Fund](#) was the fourth-best performer during the first quarter of 2023. Cloud computing is a closely related topic to both AI and cybersecurity, as, in many cases, both AI and cybersecurity companies provide their [Software as a Service \(SaaS\)](#), which is a core business model in the cloud computing paradigm. If generative AI really takes off in the coming years, it is likely that many will access these technologies through the cloud. That's because these models can be very large and use massive amounts of data, and cloud computing is a clear way to make this much more efficient for a lot more varied users to take advantage of.
- **PLAT:** Rounding out the top five, we see the [WisdomTree Growth Leaders Fund](#). The typical company within this approach is defined as a "platform" business, meaning that customers can come to it—usually a website or application of some sort—and take advantage of economies of scale with many buyers and sellers of a given service right there, ready to extract value from that ecosystem. Frequently, we see people discussing generative AI in the context of different platform businesses, in that data tends to be the blood flowing through the veins, and a better understanding and predictive capability coming from that data allows for better servicing of clients and a reinforcing flywheel over time.

Figure 1: WisdomTree's Five Top-Performing Strategies (Performance Measured at NAV in Total Return Terms, from 12/31/22 to 3/31/23)

Q1 2023: The Five WORST-Performing WisdomTree Strategies

Over time, we have learned to never solely look at the best-performing strategies over a given period because, in many cases, it makes sense to be more interested in the underperformers, poised for a possible upswing if the environment changes. No strategy that we have seen outperforms forever. Amongst the worst-performing WisdomTree strategies to start 2023, we saw:

- **IXSE (and EPI):** Both the [WisdomTree India ex-State-Owned Enterprises Fund](#) and the [WisdomTree India Earnings Fund](#) have in common their geographic focus on India. When people consider what will drive global economic growth going forward, population growth and productivity tend to be at the core, and India has some of the best forward-looking demographics of any country today. That being said, it is still an emerging market, and it can be highly volatile. The news swirling around the Adani Group was just one recent example of how narratives can take hold and pressure this market even if the longer-term story, we believe, remains intact.
- **DHS:** The [WisdomTree U.S. High Dividend Fund](#) is the quintessential strategy that focuses on those companies that are paying dividends at present, but if the market is favoring technology-oriented companies, it does create a headwind here. Similarly, if Financials are under pressure, this can also create a headwind here, as many Financials tend to be higher-yielding. If people believe that value-oriented strategies are still in a run of longer-term outperformance, we believe that this strategy should capture predominantly [mid-cap](#) and [large-cap](#) value-oriented dividend payers in the United States.¹
- **GCC:** The [WisdomTree Enhanced Commodity Strategy Fund](#) is a broadly focused basket of different commodities. While we continue to believe in the potential for commodity exposures to hedge against rising inflation, there can be periods where commodity prices moderate, and what we see here is based only on three months.

- **WDNA:** The [WisdomTree BioRevolution Fund](#) rounds out the five bottom-performing Funds for the first quarter of 2023. We saw the top five dominated by the more “software-oriented” megatrend strategies, and we see this “biotech-oriented” strategy included amongst the worst performers. It is possible that the 2020s and 2030s will be defined by innovations within health care, agriculture and materials science brought on by a better understanding of biology and DNA. However, it’s true that certain [stocks](#) in this strategy are even pre-revenue, so in a higher interest rate environment, we may see valuations taking a hit.

Figure 2: WisdomTree’s Five Bottom-Performing Strategies (Performance Measured at NAV in Total Return Terms from 12/31/22 to 3/31/23)

Bottom Line: Top- and Bottom-Performing Strategies Give Us Useful Information

WisdomTree has a suite of [tools directly available on its website](#) that allow investors to monitor performance over different time frames. While we focus on Q1 2023 in this blog post, other investors, we recognize, may want to change the size of that window from three months to something longer (or sometimes shorter). To that end, investors can click [here](#) to see the performance-at-a-glance tool and test their theses on what might be performing the best or worst in WisdomTree’s range over different periods.

¹ Dividends are not guaranteed and can be lowered or eliminated by the issuing company.

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.

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DEFINITIONS

Central bank : Refers to the the monetary authority of any country.

Inflation : Characterized by rising price levels.

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

Weighted average cost of capital (WACC) : The average rate that a business pays to finance its assets. It is calculated by averaging the rate of all of the company's sources of capital (both debt and equity), weighted by the proportion of each component.

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.

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.

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

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 tim.

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

Fed tightening : Refers to the Federal Reserve enacting monetary policies that have the overall impact of reducing the availability of credit, which is widely thought to have the potential to slow economic growth.

USD (United States Dollar) : The USD (United States dollar) is the official currency of the United States of America. The United States dollar, or U.S. dollar, is made up of 100 cents. It is represented by the symbol \$ or US\$ to differentiate it from other dollar-based currencies.

Unhedged : Strategy that includes the performance of both the underlying asset as well as the currency in which it is denominated. The performance of the currency can either help or hurt the total return experienced.

Commodity : A raw material or primary agricultural product that can be bought and sold.

Megatrends : A major movement, pattern or trend emerging in the macroenvironment; an emerging force likely to have a significant impact on the kinds of products consumers will wish to buy in the foreseeable future.

Artificial intelligence : machine analysis and decision-making.

OpenAI : An artificial intelligence (AI) research laboratory consisting of the for-profit corporation OpenAI LP and its parent company, the non-profit OpenAI Inc.

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 tim.

cybersecurity : Refers to the measures taken to protect devices, networks, and data from unauthorized access and criminal use

Recession : two consecutive quarters of negative GDP growth, characterized generally by a slowing economy and higher unemployment.

Software-as-a-Service (SaaS) : Software applications provided over a network connectio.

Mid-Cap : Characterized by exposure to the next 20% of market capitalization (after the top 70% have been removed) within the Value, Blend or Growth style zones with the majority of the fund's weight.

Large-Capitalization (Large-Cap) : A term used by the investment community to refer to companies with a market capitalization value of more than \$10 billion. Large cap is an abbreviation of the term "large market capitalization". Market capitalization is calculated by multiplying the number of a company's shares outstanding by its stock price per share.

Stock : A stock (also known as equity) is a security that represents the ownership of a fraction of a corporation. This entitles the owner of the stock to a proportion of the corporation's assets and profits equal to how much stock they own. Units of stock are called "shares."