

HOW IMPORTANT IS EUROPE TO U.S. COMPANIES?

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As investors weigh the implications of [Brexit](#) for their portfolios, I thought it would be useful to evaluate how exposed U.S. companies are to the United Kingdom and the European economy. The answer: Across a vast majority of WisdomTree’s U.S. exposures and indexes covering the U.S. markets, there is surprisingly little direct revenue that comes from the United Kingdom, and modest amounts that come from Europe more broadly. At the low end of exposure to Europe, the [WisdomTree Strong Dollar U.S. Equity Index](#) was designed to identify companies that are focused on the U.S. domestic markets from a revenue-generation perspective. It should not be a surprise, therefore, that the United States makes up 95% of the revenue for this Index and Europe generally only represents 1% of revenue. If investors believe the U.S. economy is the strongest of a global group, this is one Index designed with a U.S. local revenue base in mind. But mid- and [small-cap](#) companies are also known for their more domestic-facing businesses. Three of our U.S. small-cap Indexes have a domestic revenue profile that ranges from 76.5% at the low end (for the [WisdomTree U.S. SmallCap Quality Dividend Growth Index](#)) to 82.4% at the high end (for the [WisdomTree SmallCap Dividend Index](#)). The UK revenue exposure in all these Indexes is less than 2%, while [eurozone](#) revenue exposure is less than 5%. Going up the size spectrum to mid-caps, we see modest increases in European exposure, but the U.S. revenue exposure in both WisdomTree mid-cap Indexes is greater than three-quarters of their revenue, and eurozone exposure is also less than 5%. At the high end, one of the more global U.S. Indexes is the [WisdomTree U.S. Quality Dividend Growth Index](#) which had 60% of its revenue from the U.S., 7.5% from the eurozone and 2.4% from the United Kingdom. An interesting attribute of this index, though, is that emerging markets, at approximately 14% of the revenue, represent greater exposure than all of Europe, which is at just 11%. What happens in China is likely going to have more of an impact than what happens in Europe. **WisdomTree Indexes Regional**

Index Name	United States	Europe	Eurozone	Emerging Markets	United Kingdom
WisdomTree Strong Dollar U.S. Equity Index	95.37%	1.17%	0.61%	1.18%	0.45%
WisdomTree SmallCap Earnings Index	81.83%	5.20%	3.27%	6.22%	1.46%
WisdomTree SmallCap Dividend Index	82.40%	5.53%	3.57%	6.69%	1.42%
WisdomTree MidCap Dividend Index	79.13%	6.57%	4.14%	7.36%	1.87%
WisdomTree U.S. SmallCap Quality Dividend Growth Index	76.53%	7.12%	4.78%	8.97%	1.60%
WisdomTree MidCap Earnings Index	77.65%	7.46%	4.56%	7.50%	2.23%
WisdomTree Dividend ex-Financials Index	66.55%	8.88%	5.41%	11.76%	2.36%
WisdomTree High Dividend Index	67.71%	9.62%	6.22%	11.16%	2.47%
WisdomTree Dividend Index	66.66%	9.90%	6.42%	12.30%	2.49%
WisdomTree Earnings Index	65.98%	10.53%	6.87%	12.82%	2.63%
WisdomTree LargeCap Dividend Index	63.42%	10.78%	7.02%	13.57%	2.65%
WisdomTree Earnings 500 Index	64.00%	11.11%	7.28%	13.70%	2.73%
WisdomTree U.S. Quality Dividend Growth Index	60.52%	11.12%	7.56%	15.36%	2.42%

Revenue Exposure

Source: WisdomTree, FactSet, as of 5/31/2016.

For

definitions of Indexes in the chart, visit our [glossary](#). The market sell-off immediately following Brexit had less to do with a direct impact on slower economic growth or lower revenue/earnings from the United Kingdom or Europe, and more with spikes in risk aversion and negative sentiment surrounding what the Brexit means for the future of the eurozone, particularly many of the European banks. Will there be other European countries leaving EU in the UK’s footsteps? This will remain an open question for some time. Investors focused on the [fundamentals](#)—and WisdomTree’s equity Indexes typically focus on the [dividends](#) companies pay or the earnings they generate—provide an income-oriented approach to the markets. Any market sell-offs for U.S. companies likely should be viewed as market noise, given what little direct revenue from the eurozone or the UK is generated across most of corporate America.

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DEFINITIONS

Brexit : an abbreviation of “British exit” that mirrors the term Grexit. It refers to the possibility that Britain will withdraw from the European Union.

Small caps : new or relatively young companies that typically have a market capitalization between \$200 million to \$2 billion.

Eurozone (EZ) : Consists of the following 18 countries that have adopted the euro as their currency: Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain (source: European Central Bank, 2014).

Fundamentals : Attributes related to a company’s actual operations and production as opposed to changes in share price.

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