ALL EYES ON ENERGY

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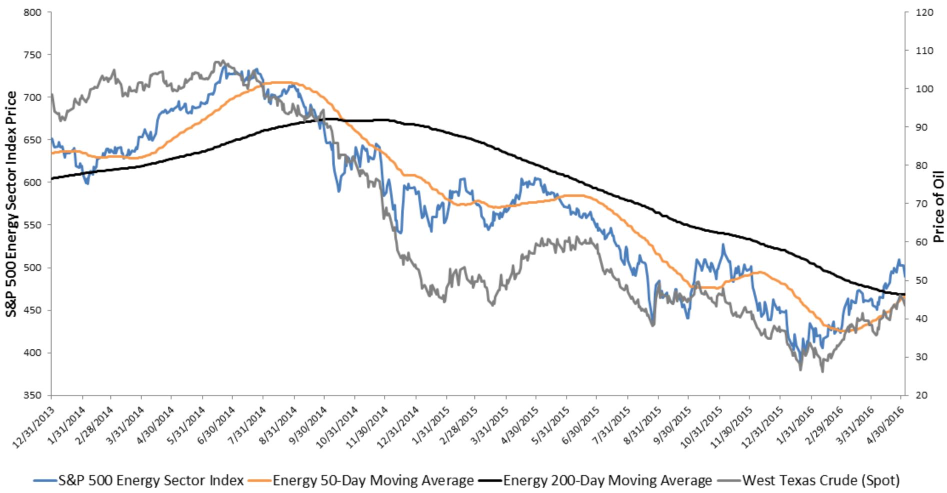
In early April, I noted that the S&P 500 Index had been trading in a range-bound pattern, with resistance on the upper end marked by 2,100 and roughly 19 times trailing earnings on the trailing price-to-earnings (P/E) multiple. There is, perhaps, a third range-bound number worth keeping an eye on: $50 per barrel of oil. As recently as late April, Brent crude contracts touched $48 a barrel, and West Texas crude traded as high as $46. Notably, after a multi-week rally in 2016, both failed to break $50 a barrel, a price point not seen since July 2015 in the case of West Texas crude. In fact, indexes measuring the movement of both oil and energy stocks recently saw their 50-day moving averages approach their respective 200-day moving averages. However, both failed to cross over, and not surprisingly the broader stock market sold off in concert with this failure. As the chart below shows, the 50-day moving average on the Energy sector of the S&P 500 (in orange) approached Energy's 200-day moving average (in black) through the end of April 2016.



Source: Bloomberg, as of 5/3/16. Time frame shown is from 12/31/13 to 5/3/16. Past performance is not indicative of future results. You cannot invest directly in an index.

If oil prices can break through $50 a barrel, oil markets may establish a new trading range. The $50 level is psychologically important, as it is a level where U.S. shale oil producers are expected to once again pick up production. However, economic growth and global demand would also need to pick up to offset that new supply hitting the market. Current U.S. crude oil inventory levels remain at record highs. In April, the Organization of the Petroleum Exporting Countries (OPEC) saw its crude production rise to 32.64 million barrels per day, close to the highest in recent history, according to a recent Reuter's survey. Given current production and the potential for new sellers to emerge, it's entirely possible that $50 holds as a lid on oil prices for the rest of the spring and summer. This in turn may limit the near-term upside potential of U.S. and emerging market stocks, which have rallied in concert with the run-up in oil prices since mid-February. Since the February 11 lows, U.S. stocks have rallied 14%, and Energy stocks, measured by the S&P 500 Energy Sector Index , have soared 24%. Outside the U.S., the biggest beneficiaries have been emerging market equities (up 18%) and the stock markets of some of the major commodity-producing countries, which rallied 29% in just 12 weeks.[1] If the rally in Energy and Materials stocks is indeed ending, it raises the question of which sectors lead the S&P 500 from here. Given that valuations in some of the other sectors of the S&P 500 remain stretched, it's not an easy question to answer. Consumer Staples was recently trading at a P/E multiple of nearly 22, close to its 12-year high, according to Bloomberg. Utilities, another defensive sector, was trading in aggregate at 18x its trailing earnings, roughly 3 percentage points—or 20%—higher than its 10-year average. Should oil prices and commodity prices cool off, so may some of the inflation expectations—which could mean lower bond yields, which impacts the profitability of the Financials. And with Apple reporting a Q1 decline in year-over-year sales and earnings, even the technology sector is not immune from the slowdown in earnings growth that continues to ripple through corporate America. **Conclusion** The direction of oil prices is not just important for Energy stocks. It is impacting sentiment toward commodity-exporting countries and emerging market stocks, and it may even have implications for the Financial sector in the U.S. Yet, with oil changing hands at $45 a barrel, $50 a barrel may represent the ceiling for the present trading range. If it does, that means equity markets fueled by the rise in oil prices may need a new source of rocket fuel to take them higher. In the absence of global gross domestic product (GDP) growth or acceleration in corporate earnings, that may not occur in the next quarter or two. That may give many investors another reason to remain cautious and cause some to wonder if the U.S. stock market has already posted its highs for the year. If you believe, as I do, that the market is more likely to be flat to down over the next few months and through the presidential election in November, then there are two tools I believe investors may wish to use to navigate a sideways market. One is collecting option premiums, through strategies such as the WisdomTree CBOE S&P 500 PutWrite Strategy Fund (PUTW). The other is tilting toward WisdomTree's broad dividend-weighted ETFs, which squeeze additional dividend income from the U.S. equity market. [1]Return numbers in this paragraph are from 2/11/16 to 5/2/16. Returns of U.S. stocks are representative of the S&P 500 Index. Returns for emerging markets are representative of the MSCI Emerging Markets Index. Returns for the equity markets of commodity-exporting countries are approximated by the WisdomTree Commodity Country Equity Index.

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DEFINITIONS

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.

Trailing Earnings : The amount of profit that a company produces during prior fiscal year.

Moving Average : is a calculation to analyze data points by creating a series of averages of different subsets of the full data set.

Organization of the Petroleum Exporting Countries (OPEC) : whose mandate is to coordinate and unify the petroleum policies of its members and to ensure the stabilization of oil markets in order to secure an efficient, economic and regular supply of petroleum to consumers, a steady income to producers, and a fair return on capital for those investing in the petroleum industry.

S&P 500 Energy Index : Market capitalization-weighted measure of the performance of companies in the S&P 500 Index that are in the energy sector.

Inflation : Characterized by rising price levels.

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.

Gross domestic product (GDP) : The sum total of all goods and services produced across an economy.

Option premium : The current price of any specific option contract that has yet to expire.

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

MSCI Emerging Markets Index : a broad market cap-weighted Index showing performance of equities across 23 emerging market countries defined as "emerging markets" by MSCI.