

ACTIONABLE INVESTING IDEAS FOR THE FINAL STRETCH OF 2020

WisdomTree's Model Portfolio Investment Committee

10/08/2020

WisdomTree's Model Portfolio Investment Committee produces quarterly commentary on its latest asset allocation views. These views are as of September 30, 2020, and impact trade and rebalance decisions for the Model Portfolio strategies that the team manages. These views, outlined below, are followed up with specific investment strategies that help express them. Financial professionals can access the complete list of strategies and trades as they relate to our Model Portfolios [here](#).

U.S. Exposure

Relative to the [MSCI All Country World Index \(ACWI\)](#), we maintain our overweight position in U.S. equities going into the fourth quarter. The economic recovery has leveled off following a strong initial rebound. For the past several months, equities have traded in tandem with the likelihood for further [fiscal stimulus](#) and have stagnated as the outlook for such stimulus has dimmed. High-flying growth names have seen some of the wind come out of their sails in September but still remain well in the black for the year. The election remains the great wild card, with the Senate nearly as large a factor as the White House. Between the two sides there are stark differences in tax policies, growth initiatives and regulatory regimes that will have far-reaching ramifications for all corners of the equity markets. [Quality](#) still remains undervalued and serves as the anchor of our equity models, and we look to the election results to once again potentially be a catalyst for [value](#) outperformance.

Investment Ideas:

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

[WisdomTree U.S. LargeCap Dividend Fund \(DLN\)](#)

Developed International Exposure

We remain underweight in international developed equity markets relative to ACWI. Europe had done an admirable job of containing the coronavirus in the summer months, but the recent rise in new cases and the impact on economic activity gives us cause for concern. That said, we are encouraged by the historic EU Recovery Fund agreement, which should provide a boost to economic growth over the next several years. In Japan, newly elected Prime Minister Suga should keep the stimulative policies of Abe's regime intact, headlined by no increases to the consumption tax for the next decade. However, we would want to see a more significant pickup in global economic growth before increasing exposure there, due to the multinational and cyclical nature of Japan's equity market.

Investment Ideas:

[WisdomTree Global ex-U.S. Quality Dividend Growth Fund \(DNL\)](#)

[WisdomTree International Hedged Quality Dividend Growth Fund \(IHDG\)](#)

Emerging Markets Exposure

We maintain a modest overweight position in the emerging markets (EM) region relative to ACWI. EM equities have led all major global equity regions for most of the third quarter. The continued downward trend in the U.S. dollar since March has provided a tailwind, but the global risk-off sentiment in September has blunted the rally. Nonetheless, China has managed to put the pandemic and global recession behind it and will, remarkably, show economic growth in 2020. Coronavirus cases have remained stubbornly high in India, Brazil and Russia. These commodity-exporting countries have struggled with sustained low energy prices but could benefit from a possible global reflationary environment in 2021. Tensions between the U.S. and China have never been worse, but we remain convinced that growth opportunities in the private sector will be sufficiently shielded from a political dispute. We continue to lean into these companies with a core allocation that avoids [state-owned enterprises](#).

Investment Ideas:

[WisdomTree Emerging Markets ex-State-Owned Enterprises Fund \(XSOE\)](#)

[WisdomTree China ex-State-Owned Enterprises Fund \(CXSE\)](#)

Fixed Income Exposure

We are retaining our exposure across sectors in the fixed income allocation and recommend a defensive duration position. The money and bond markets have noticeably improved from the dislocations seen back in March, with funding market gauges back to pre-pandemic readings. The record-breaking losses in [corporate bonds](#)—both [investment-grade](#) and [high-yield](#)—of mid-March continue to reverse, with [spread](#) levels retracing close to 80% to 90% of the peak widening. Nevertheless, credit [valuations](#) remain attractive. A focus on screening for quality, however, will remain paramount. Based on the [Federal Reserve's \(Fed\)](#) modest purchases of corporates on its [balance sheet](#), our credit view is that market participants continue to perceive the Fed programs as a signal of support rather than a needed lifeline for corporate issuers. The Fed's new [monetary policy](#) framework, which focuses on average inflation targeting, represents a new way going forward for the policy makers. The Fed will no longer be raising rates in a preemptive fashion to ward off potential inflation pressures, but rather will let inflation exceed its targeted 2% goal for "some time." With this new Fed approach, a pickup in economic momentum could pressure longer maturity rates, leading to further steepening in the [Treasury yield curve](#). While lingering uncertainties mean that additional setbacks cannot be ruled out, ongoing support from the Fed, well capitalized financial institutions and the prospect for further fiscal policy stimulus have created the potential for economic and credit market improvement. Against this backdrop, we made no further adjustments to our allocations, and maintain our overarching themes of reducing duration relative to the benchmark and a tilt toward credit versus rates.

Investment Ideas:

[WisdomTree Yield Enhanced U.S. Aggregate Bond Fund \(AGGY\)](#)

[WisdomTree U.S. High Yield Corporate Bond Fund \(WHFY\)](#)

Alternatives Exposure

WisdomTree manages a [Volatility](#) Management portfolio that thoughtfully combines different alternative strategies to form a single portfolio. Our [options](#)-writing strategy has delivered strong and stable returns as implied volatility remains elevated. Positions in merger arbitrage and Black Swan strategies have continued to consistently generate positive absolute returns since the first quarter. Our anti-beta holding continues to act as a true diversifier, performing exactly as expected in a global equity rally and helping rein in the total portfolio risk level. We think that this alternatives sleeve can deliver a unique return stream with diversified risk drivers for investor portfolios.

Investment Ideas:

[The WisdomTree CBOE S&P 500 PutWrite Strategy Fund \(PUTW\)](#)

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The WisdomTree Model Portfolio Investment Committee is also sometimes referred to as the Asset Allocation Committee.

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.

For more investing insights, check out our [Economic & Market Outlook](#)

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You cannot invest directly in an index.

DEFINITIONS

MSCI All Country World Index : a broad global equity benchmark that represents large and mid-cap equity performance across 23 developed and emerging market countries.

Fiscal Stimulus : Using fiscal policy as a tool to provide economic growth.

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.

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.

State-owned enterprise : Companies in which governments have a significant ownership stake and the potential to influence the firms' actions over time.

Corporate Bonds : a debt security issued by a corporation.

Investment grade : An investment grade is a rating that signifies a municipal or corporate bond presents a relatively low risk of default.

High Yield : Sometimes referred to as "junk bonds," these securities have a higher risk of default than investment-grade securities.

Spread : Typically refers to a difference between a measure of yield for one asset class and a measure of yield for either a different subset of that asset class or a different asset class entirely.

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.

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

Balance sheet : refers to the cash and cash equivalents part of the Current Assets on a firm's balance sheet and cash available for purchasing new positions.

Monetary policy : Actions of a central bank or other regulatory committee that determine the size and rate of growth of the money supply, which in turn affects 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.

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

Put options : an option to sell assets at an agreed price on or before a particular date.