

# STRONG U.S. DOLLAR & RISING RATES

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09/18/2015

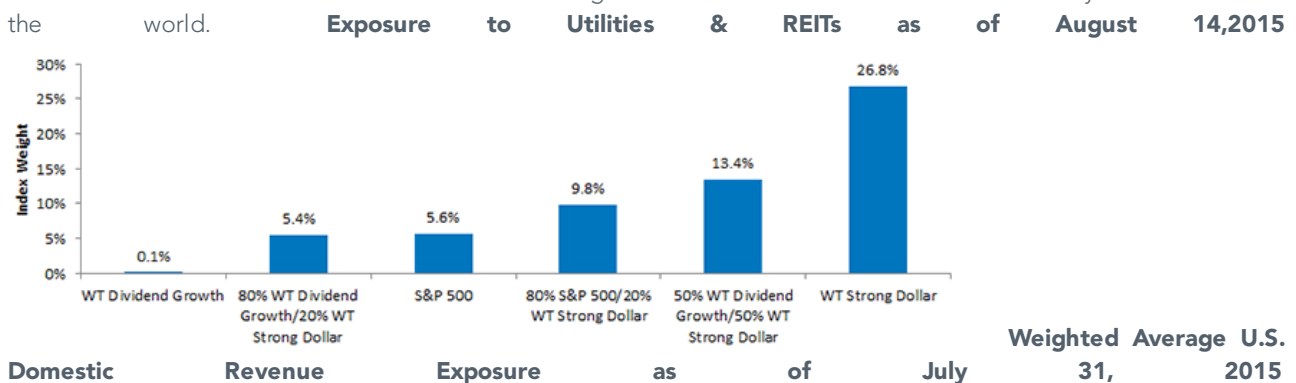
**Two questions tend to dominate discussions of U.S. equities today:** 1. Are we entering a period of rising [interest rates](#), spurred by the [U.S. Federal Reserve \(Fed\)](#) raising short-term interest rates prior to the end of 2015? 2. How much stronger will the U.S. dollar get, measured against other currencies? Despite the Fed maintaining its' current interest rate policy, these questions are likely to be debated intensely for the foreseeable future. We turned instead to thinking about strategies that could be of particular relevance if interest rates rise and/or if the U.S. dollar continues to strengthen.

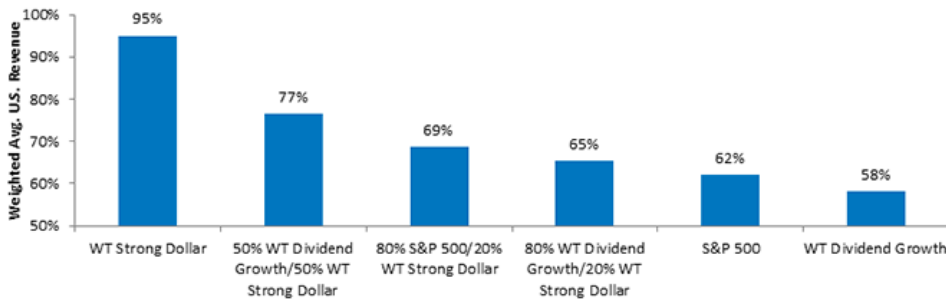
**Innovative Indexes to Capture These Themes** Given a scenario of rising interest rates in the U.S., WisdomTree's favored U.S. equity index would be the [WisdomTree U.S. Quality Dividend Growth Index](#) (WT Dividend Growth). This Index selects stocks with strong [growth](#) and [quality](#) characteristics, leading to a nearly 0% exposure to Utilities and [real estate investment trusts \(REITs\)](#). Because of its tilt away from these higher-yielding segments of U.S. equities—segments that have been bid up in price as U.S. interest rates have remained low—it also is able to achieve these strong growth and quality characteristics with a very similar [price-to earnings \(P/E\) ratio](#) as the [S&P 500 Index](#).<sup>1</sup> On the other hand, earlier in 2015 we designed an Index built to measure the performance of equities with at least 80% of their revenues from within the U.S.—our [Strong Dollar U.S. Equity Index](#) (WT Strong Dollar). We recognize that many large U.S. multinationals face a headwind trying to sell their products and services abroad as the U.S. dollar strengthens against foreign currencies, so we wanted to focus on more domestic revenue generators. These two Indexes can complement each other fairly well for this theme of a rising dollar and rising rates.<sup>2</sup>

- [WT Dividend Growth](#) had nearly 0% exposure to Utilities and REITs, which is great positioning should interest rates start to rise. However, only 58% of its weighted average revenue was from within the U.S., meaning that it was heavily exposed to multinational exporters.
- [WT Strong Dollar](#) had more than 95% of its weighted average revenue from within the U.S.—very strong domestic revenue generation. However, achieving this exposure includes exposure to Utilities and REITs (around 25% of the Index). Blending these strategies together could help improve the ultimate diversification from these two scenarios of rising interest rates and a strong U.S. dollar.

**Blending WT Dividend Growth & WT Strong Dollar • The 80/20 Blend:** What we find interesting about the 80% WT Dividend Growth/20% WT Strong Dollar blend is that it takes the same exposure to Utilities and REITs as seen within the S&P 500 Index. It does so while tilting a bit more of the weighted average domestic revenue exposure to the U.S.

- **The 50/50 Blend:** This blend of 50% WT Dividend Growth/50% WT Strong Dollar could be interesting for those who believe that continued dollar strength is a bit more likely than are rising U.S. interest rates. Almost 80% of the weighted average revenue comes from within the United States, and about 13% of the weight is within Utilities and REITs. This blend is also likely to have [defensive characteristics](#) and a lower [beta](#) than traditional S&P 500 exposure.
- **The S&P 500 Tactical Strong Dollar Blend:** Going 80% to the S&P 500 Index and 20% to the WT Strong dollar raises the weighted average revenue from the U.S. to nearly 70%, and exposure to Utilities and REITs does not break 10%. We find this blend interesting because the S&P 500 Index is the most widely followed index in the world.





Sources: Bloomberg, Standard & Poor's for exposure to Utilities and REITs; FactSet for weighted average revenues. Subject to change. You cannot invest directly in an index.

### Implementation Options

The [WisdomTree U.S. Quality Dividend Growth Fund \(DGRW\)](#) is the exchange-traded fund (ETF) designed to track the WisdomTree U.S. Dividend Growth Index before fees and expenses. The [WisdomTree Strong Dollar U.S. Equity Fund \(USSD\)](#) is the ETF designed to track the WisdomTree Strong Dollar U.S. Equity Index before fees and expenses.

<sup>1</sup>Source: Bloomberg, as of 8/14/15. <sup>1</sup>Sources for two bullet points: Bloomberg and Standard & Poor's, as of 8/14/15 for Utilities and REITs exposure; FactSet, with data as of 7/31/15, for revenue information.

### Important Risks Related to this Article

There are risks associated with investing, including possible loss of principal. Funds focusing their investments on certain sectors increase their vulnerability to any single economic or regulatory development. This may result in greater share price volatility. Stocks that previously exhibited a positive correlation in equity performance to a strong U.S. dollar may not do so in the future, which could negatively impact Fund performance. A Fund that has exposure to one or more sectors may increase the Fund's vulnerability to any single economic or regulatory development. This may result in greater share price volatility. Please read each Fund's prospectus for specific details regarding each Fund's risk profile.

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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You cannot invest directly in an index.

## DEFINITIONS

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

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

**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.

**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.

**Real estate investment trust (REIT)** : Investment structure containing a basket of different exposures to real estate, be it directly in properties or in mortgages. Returns predominantly relate to changes in property values and income from rental payments.

**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.

**Dividend growth** : The growth in trailing 12-month dividends for the specified universe.

**Beta** : A measure of the volatility of a security or a portfolio in comparison to a benchmark. In general, a beta less than 1 indicates that the investment is less volatile than the benchmark, while a beta more than 1 indicates that the investment is more volatile than the benchmark.