

INTERNATIONAL EQUITIES ENTER 2021 WITH MOMENTUM

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02/04/2021

This year may be a turning point for international equities.

For the first time in recent memory, investors are turning their attention abroad in pursuit of returns, discouraged by overextended [valuations](#) back home after last year's surprisingly quick economic recovery.

Suddenly, international equities are regaining steam.

Over the past three years, the U.S. fund international equity category, classified by Morningstar, collected \$24 billion in fund flows, while U.S. equity funds bled \$238 billion in outflows.

The momentum is a fresh start after a dismal decade of international equity performance versus U.S. markets. Only twice over the past 10 calendar years has the [MSCI EAFE Index](#) outperformed the [S&P 500](#) (2012 and 2017), and both times were by slim margins.

At WisdomTree, we think there is a unique opportunity presented in developed markets—one best accessed through a [quality](#)- and dividend growth-focused framework.

High-Quality Strategies Make High-Quality Portfolios

In 2015, we launched the [WisdomTree International Hedged Quality Dividend Growth Fund \(IHDG\)](#), which seeks to track the [WisdomTree International Hedged Quality Dividend Growth Index \(WTIDGH\)](#) before fees and expenses.

Less than a year later, we also introduced a non-[currency-hedged](#) version, the [WisdomTree International Quality Dividend Growth Fund \(IQDG\)](#), which seeks to track the price and yield performance, before fees and expenses, of the [WisdomTree International Quality Dividend Growth Index \(WTIDG\)](#).

Both Indexes employ the same strategy, which results in exposure to companies with strong earnings, healthy balance sheets and low [leverage](#). They select the top 300 companies from the [dividend](#)-paying, international equity universe, ranked by a combination of dividend growth and quality factors. The only difference is that the former Index employs a currency-hedged strategy to mitigate fluctuations in foreign exchange, while the latter does not.

After seven years, these strategies have much to be proud of and even more opportunity going forward.

1. Impeccable Performance. The two Indexes, inception in late 2013, have a compelling performance track record. Both the [hedged](#) and [unhedged](#) versions have delivered strong outperformance against the [MSCI EAFE Index](#) (on a local currency basis and in USD, respectively) over the long term. The consistency is reinforced by reduced [volatility](#) in both strategies, resulting in improved risk-adjusted returns and essentially free [alpha](#), since return improved while risk was reduced.

Index	Average Annual Returns as of 12/31/20			
	1-Year	3-Year	5-Year	Since Inception
WisdomTree International Quality Dividend Growth Index	16.97%	8.31%	10.05%	7.04%
MSCI EAFE	7.82%	4.28%	7.45%	4.56%
<i>Relative Performance</i>	9.15%	4.02%	2.60%	2.48%
WisdomTree International Hedged Quality Dividend Growth Index	11.28%	9.74%	10.59%	9.82%
MSCI EAFE Local Currency	0.84%	2.98%	5.80%	5.89%
<i>Relative Performance</i>	10.44%	6.76%	4.78%	3.93%

Index	Standard Deviation of Returns as of 12/31/20			
	1-Year	3-Year	5-Year	Since (12/31/13)
WisdomTree International Quality Dividend Growth Index	22.37%	17.04%	14.69%	14.14%
MSCI EAFE	26.49%	18.14%	15.38%	14.53%
WisdomTree International Hedged Quality Dividend Growth Index	18.82%	14.40%	12.16%	11.88%
MSCI EAFE Local Currency Index	23.09%	15.87%	13.37%	12.87%

Sources: WisdomTree, Zephyr StyleADVISOR, as of 12/31/20. Past performance is not indicative of future results. You cannot invest directly in an index. Subject to change. Standard Deviation of Returns uses monthly returns dating back to the first month-end since Index inception on 12/2/13.

2. Improved Fundamentals. There are two important points to consider:

a. Valuations. As markets recovered from the onset of the pandemic last March, the [P/E ratio](#) of the MSCI EAFE Index surged from a -20% discount to its historical average (since WisdomTree Index inception in December 2013) to nearly a 50% premium. [Forward P/E ratios](#) followed suit, climbing to a 30% premium over the same time frame. But the WTIDG Index remains modestly valued at a 12% and 5% premium to its historical average on a P/E and forward P/E basis, respectively. This signals to us that there may be room for further appreciation and potential safety from a sharp retreat in valuations if markets begin to temper their exuberance.

b. Quality Where It Matters Most. The ethos of the quality factor is a focus on profitability, efficient operations and strong balance sheets in order to deliver healthy results. WisdomTree's Index exemplifies this, delivering more than 3x more [return on equity \(ROE\)](#), 2.5x more [return on sales \(ROS\)](#), and 9x more [return on assets \(ROA\)](#), all with about one-third the leverage of the MSCI EAFE. The quality pickup is also strong relative to U.S. markets. WTIDG delivers almost twice the ROE and ROS as the S&P 500, to go along with 3x the ROA and half as much leverage.

Valuation Comparison as of 12/31/20		
	WTIDG	MSCI EAFE
Price-to-Earnings (P/E)	20.1	25.0
Premium / Discount to Avg.	11.9%	47.8%
Forward Price-to-Earnings (P/E)	18.5	19.4
Premium / Discount to Avg.	4.8%	28.0%

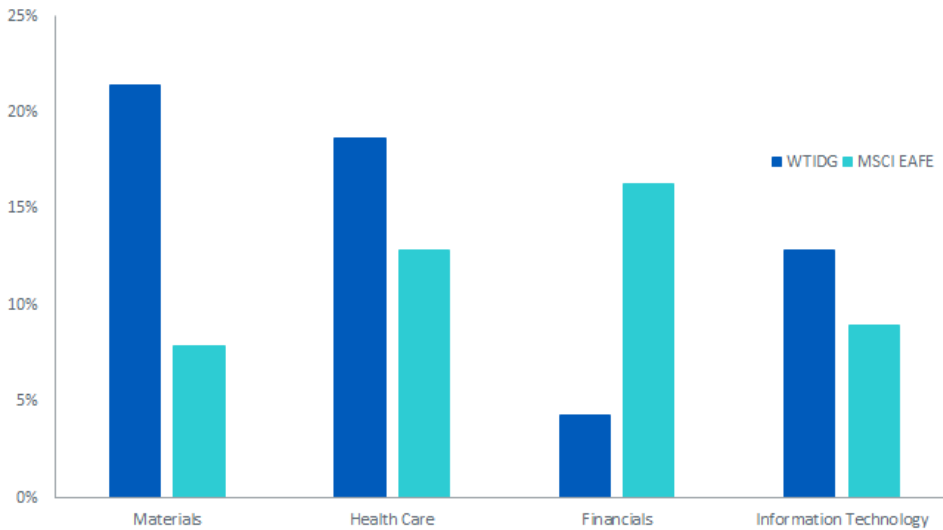
Sources: WisdomTree, FactSet, as of 12/31/20. You cannot invest directly in an index.

Index	Fundamental Comparison as of 12/31/20			
	Return on Equity	Return on Assets	Return on Sales	Leverage
WisdomTree International Quality Dividend Growth Index	22.32%	8.47%	21.67%	2.6x
MSCI EAFE Index	6.82%	0.90%	8.35%	7.5x
<i>Difference</i>	15.50%	7.56%	13.32%	-4.9x
<i>Multiple</i>	3.27x	9.37x	2.60x	0.35x
S&P 500	12.84%	2.74%	12.47%	4.7x
<i>Difference</i>	9.49%	5.73%	9.21%	-2.1x
<i>Multiple</i>	1.74x	3.09x	1.74x	0.56x

Sources: WisdomTree, FactSet, as of 12/31/20. You cannot invest directly in an index.

3. Sector Exposures with More to Offer. The nature of WisdomTree's quality- and dividend growth-focused strategy

results in unique sector exposures that contrast with the conventional, [market capitalization-weighted](#) MSCI EAFE. While Financials have been a longtime sector stalwart in international markets, WTIDG maintains a sizable under-weight to Financials of 12%. The strategy's over-weights are to sectors in greater scarcity in international markets, such as Information Technology, Materials and Health Care. The resulting sector composition targets nimble companies with healthy fundamentals, rather than the traditional, stodgy heavyweights (i.e., banks) of international equity markets.



Sources: WisdomTree, FactSet, as of 12/31/20. Subject to change.

No Better Time Than Now

When it comes to investing in international equity markets, now may be as good a time as ever.

The results of WisdomTree's unique approach speak for themselves. Whether you're interested in a currency-hedged or unhedged strategy when investing abroad, there's evidence that a quality dividend-growth approach can potentially improve risk-adjusted returns, create healthier fundamentals, reduce valuations and target sectors with attractive prospects for the future.

Unless otherwise stated, sources for all performance and information data are WisdomTree, FactSet, Morningstar, and/or Zephyr StyleADVISOR, as of December 31, 2020.

For standardized fund performance please visit the clicks on the respective ticker to visit the fund detail page: [IHDG](#), [IQD](#) [G](#).

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There are risks associated with investing, including possible loss of principal. Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. To the extent the Fund invests a significant portion of its assets in the securities of companies of a single country or region, it is likely to be impacted by the events or conditions affecting that country or region.

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

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You cannot invest directly in an index.

DEFINITIONS

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.

MSCI EAFE Index : is a market cap-weighted index composed of companies representative of the developed market structure of developed countries in Europe, Australasia and Japan.

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.

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.

Currency hedging : Strategies designed to mitigate the impact of currency performance on investment returns.

Leverage : Total assets divided by equity. Higher numbers indicate greater borrowing to finance asset purchases; leverage can tend to make positive performance more positive and negative performance more negative.

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

Hedge : Making an investment to reduce the risk of adverse price movements in an asset. Normally, a hedge consists of taking an offsetting position in a related security, such as a futures contract.

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.

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

Alpha : Can be discussed as both risk-adjusted excess return relative to a specific benchmark, or absolute excess return relative to a benchmark. It is sometimes more generally referred to as excess returns in general.

Price-to-earnings (P/E) ratio : Share price divided by earnings per share. Lower numbers indicate an ability to access greater amounts of earnings per dollar invested.

Forward P/E ratio : Share price divided by compilation of analyst estimates for earnings-per-share over the coming 12-month period. These are estimates that may be subject to revision or prove to be incorrect over time.

Return on Equity (ROE) : Measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.

Return on Sales (ROS) : A measurement of operational efficiency which relates how much profit is generated from one dollar of sales.

Return on assets (ROA) : Firm profits (after accounting for all expenses) divided by the firm's total assets. Higher numbers indicate greater profits relative to the level of assets utilized to generate them.

Market capitalization-weighting : Market cap = share prices x number of shares outstanding. Firms with the highest values receive the highest weights in approaches designed to weight firms by market cap.