

# OCTOBER PERFORMANCE REBOUND: WISDOMTREE'S BEST & WORST PERFORMING EQUITY INDEXES

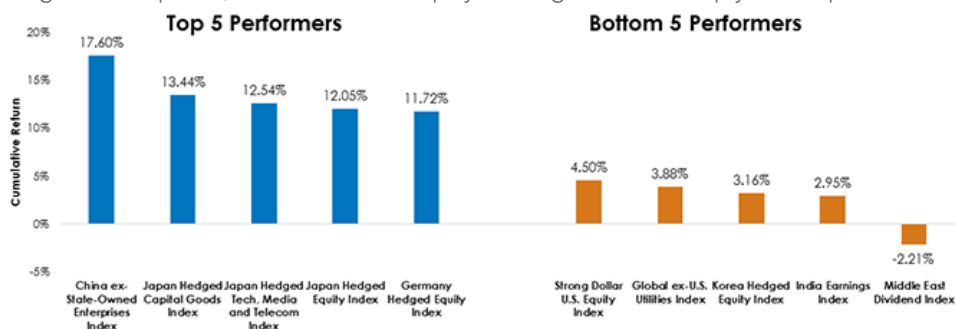
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11/13/2015

After a [difficult third quarter](#) for global markets and many of WisdomTree's strategies, October performance in most markets rebounded strongly. Below, we outline the key themes of the rebound and some important data points investors should focus on in the coming weeks.

**Catalyst 1: Chinese Easing** In the third quarter, the spark that seemed to set global markets on edge was [China's unexpected devaluation](#) of the Chinese yuan. Investors reasoned that if China was willing to break from its historical policy of yuan stability, then the situation on the ground must be much worse than economists had feared. However, once the situation was fully digested, markets seemed to respond favorably to China's rate cut and lowering of [bank reserve requirements](#) announced on October 23.<sup>1</sup> Indeed, our long-held view has been that Chinese policy makers continue to possess a wide variety of options to help stimulate the economy. While Chinese growth may continue to moderate over time, we generally view the situation in China as more of an opportunity than a risk.

**Catalyst 2: Anticipated Action from Developed Market Central Banks** In addition to looser [monetary policy](#) in China, European Central Bank (ECB) president Mario Draghi all but guaranteed at the October 22 ECB meeting that he would look to increase the pace of Europe's [quantitative easing \(QE\)](#) plan in December.<sup>2</sup> In response, markets generally rallied in anticipation. Additionally, although the Bank of Japan (BOJ) maintained the pace of its [asset purchase plan](#) at ¥80 trillion per year, the downgrade in the official BOJ outlook for growth and [inflation](#) has economists convinced that [more stimulus for Japan](#) may be just around the corner.

**October Impact on WisdomTree Equity Strategies** After a tough third quarter, WisdomTree's equity strategies rose sharply in response to shifts in central bank policy.



Sources: Bloomberg, WisdomTree, as of 10/30/15. Past performance is not indicative of future results. You cannot invest directly in an index. Index performance does not represent actual fund or portfolio performance. A fund or portfolio may differ significantly from the securities included in the index. Index performance assumes reinvestment of dividends but does not reflect any management fees, transaction costs or other expenses that would be incurred by a portfolio or fund, or brokerage commissions on transactions in fund shares. Such fees, expenses and commissions could reduce returns.

For definitions of Indexes in the chart, visit our [glossary](#). **Chinese Equities & Exporters** Not surprisingly, Chinese equities rallied strongly for the month after underperforming for the previous five months. Leading WisdomTree strategies with a rally of nearly 18%, the [WisdomTree China ex-State-Owned Enterprises Index](#) rebounded sharply. Other strategies focused primarily on export-sensitive industries in Japan and Germany also performed well. Recall that during the previous quarter, concerns about a Chinese-led global slowdown hurt U.S., European and Japanese multinationals that derive a significant portion of their revenue by exporting goods and services. In our view, with global central banks showing an increased willingness to

support the global economy, Japanese and European markets could continue to rally through year-end. **Gulf States & the Dollar** Shifting our focus to the laggards of October, it's notable that the [WisdomTree Middle East Dividend Index](#) was the only equity strategy that experienced negative performance for the month, falling by just over 2%. Energy prices remained volatile, causing investment flows to Gulf Cooperation Council (GCC) countries to remain constrained. Additionally, [interest rate](#)-sensitive sectors such as Financials and Telecommunications came under pressure. This theme was also evident in the [WisdomTree Global ex-U.S. Utilities Index](#), which still managed to rally by nearly 4%. After bottoming in mid-October, the dollar rose in the second half of the month on the central bank divergence theme. While not performing as well as other strategies, the [WisdomTree Strong Dollar U.S. Equity Index](#) recouped nearly all of its losses since mid-July by rising 4.50%. **Important Dates to Watch** While a month of strong performance is encouraging, global markets will continue to focus on central bank policy and U.S. economic data. Below, we highlight several key dates to watch over the next six weeks: **November 13: Euro-Area [Gross Domestic Product \(GDP\)](#)** The pace of European economic growth will provide valuable insight into the magnitude of ECB easing. **November 15: Japan GDP** This data point will also give investors and the BOJ a look into how the current pace of QE is impacting the economy. **November 16: Euro-Area Consumer Prices** Similar to GDP, this will provide a meaningful view as to what may be required from the ECB. **November 19: Japan Policy Board Meeting** In our view, the BOJ is likely to modify its QE program at this meeting. Combined with a supplementary budget from the government providing fiscal easing, Team Abe will seek to refocus efforts on reviving growth, we believe. **December 3: ECB Monetary Policy Meeting** We also believe that the ECB will look to expand the scope of its QE program at this meeting. With a litany of economic numbers being released in the run-up to this meeting, we believe Draghi will ultimately deliver on his pledge. **December 4: U.S. Nonfarm Payroll Report** The final monthly labor report before the final [Federal Open Market Committee \(FOMC\)](#) meeting of 2015 will likely be a deciding factor for the Fed on whether to hike rates this year or wait until 2016. While attempting to draw conclusions from one month of performance can be risky, we believe that the drivers of this shift in sentiment are noteworthy. Ultimately, major central banks' key data releases and shifts in policy will have a significant impact on asset-class performance through year-end. <sup>1</sup>Source: Bloomberg, as of 10/30/15. <sup>2</sup>Source: Bloomberg, as of 10/22/15.

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Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty.

Investments in currency involve additional special risks, such as credit risk and interest rate fluctuations.

Hedging can help returns when a foreign currency depreciates against the U.S. dollar, but can hurt when the foreign currency appreciates against the U.S. dollar.

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## DEFINITIONS

**Reserve requirements** : Mandated amounts of cash that banks must hold on hand to cover their liabilities.

**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.

**Quantitative Easing (QE)** : A government monetary policy occasionally used to increase the money supply by buying government securities or other securities from the market. Quantitative easing increases the money supply by flooding financial institutions with capital, in an effort to promote increased lending and liquidity.

**Asset purchases** : The Fed purchases longer-term securities issued by the U.S. government and longer-term securities issued or guaranteed by government-sponsored agencies such as Fannie Mae or Freddie Mac.

**Inflation** : Characterized by rising price levels.

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

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

**Federal Open Market Committee (FOMC)** : The branch of the Federal Reserve Board that determines the direction of monetary policy.