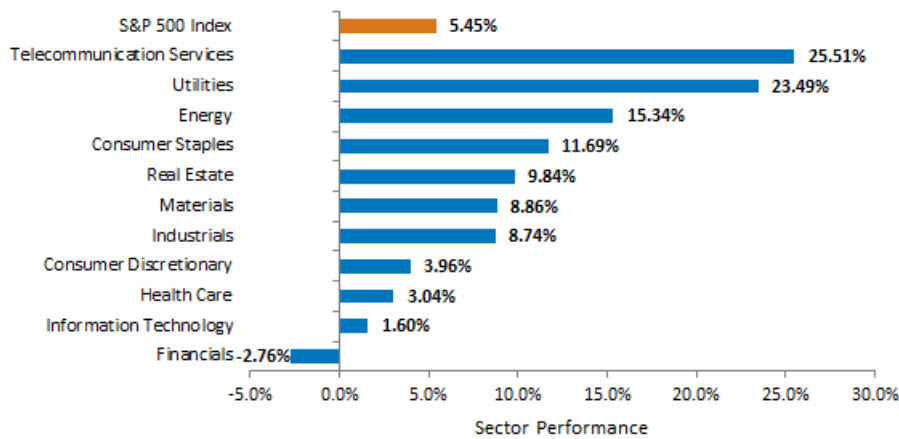


A FINANCIAL SECTOR RELATIVE VALUE TRADE

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No sector has seen its performance turn for the better more than Financials in the last five months. Financials started the year as the worst-performing sector, lagging the broader markets by over 8 percentage points through July 8, while the hunt for yield and falling [interest rates pushed up Utilities and Telecom stocks to outperform the markets by almost 10 percentage points.](#)

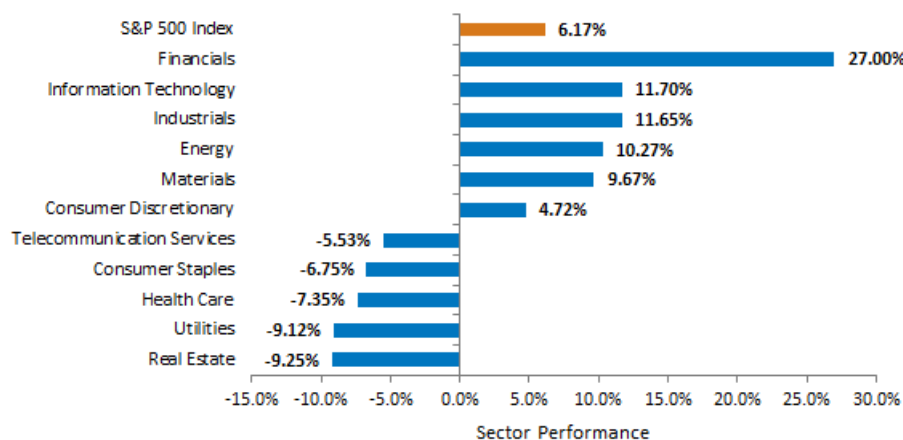
GICS Sector Performance of the S&P 500 Index (12/31/15–7/8/16)



Sources: WisdomTree, Bloomberg, 12/31/15–7/8/16. Shows total return on S&P sector indexes. Past performance is not indicative of future results. You cannot invest directly in an index.

But over the last five months, as the [10-Year yield](#) rose from its lows on July 8, this relationship changed and the Utilities sector now has the worst performance over the last five months while Financials are leading the way with rising yields.

GICS Sector Performance of the S&P 500 Index (7/8/16–12/7/16)



Sources: WisdomTree, Bloomberg, 7/8/16–12/7/16. Past performance is not indicative of future results. You cannot invest directly in an index.

The move has been so swift over the last five months that U.S. Financials have changed from being the worst sector to one outperforming the broader gains in the markets by over 10 percentage points.

Because the spike higher in interest rates manifested in strong performance, it may be time to re-evaluate sector rotation.

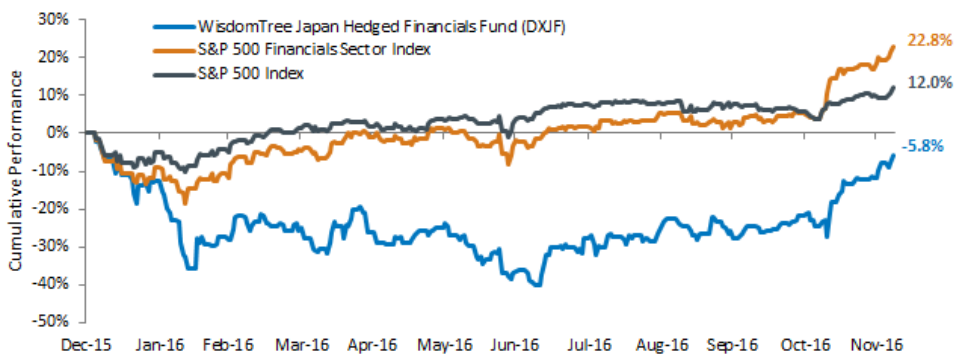
Where Is There Value in Financials?

There is one market where the Financials sector was down even more going into the bottom of rates and which has not made up all its losses, unlike in the U.S.: Japan.

Going into July, Japanese Financials lost cumulatively 40% from the start of the year.¹ There was a remarkable turn, as investors become less [bearish](#) on the negative interest rate policy the Bank of Japan instituted in January and a broader pickup in global yields that feeds through to Japanese Financials. Increasingly, Japanese banks have been looking outside of Japan for growth, so a pickup in global yields supports Japanese banks.

Yet the Japanese Financials sector still has not crossed back into positive territory on the year and is still lagging the broader Japanese markets, unlike in the U.S.

WisdomTree Japan Hedged Financials Fund (DXJF) Performance (12/31/15–12/7/16)



Sources: WisdomTree, Bloomberg, 12/31/15–12/7/16.

Performance is historical and does not guarantee future results. Current performance may be lower or higher than quoted. Investment returns and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Performance data for the most recent month-end is available at www.wisdomtree.com.

WisdomTree shares are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Total returns are calculated using the daily 4:00 p.m. EST net asset value (NAV). Market price returns reflect the midpoint of the bid/ask spread as of the close of trading on the exchange where Fund shares are listed. Market price returns do not represent the returns you would receive if you traded shares at other times.

[Click here for standardized performance of DXJF.](#)

For definitions of indexes in the chart, visit our [glossary](#).

Future Prospects for Japanese Financials

Japanese Financials, from a valuation perspective, appear reasonably priced in our view. On the earnings front, the negative side: there isn't likely to be any pickup in [net interest margins](#). Unlike the [U.S. Federal Reserve](#), which is [hiking rates](#) (albeit slowly), and the [10-Year U.S. rate](#), which has been rising, the Bank of Japan is very likely to keep a zero cap on its 10-year [Japanese government bonds](#) for the foreseeable future.

On the positive side for earnings, though, the contraction of net interest margins is likely over. Loan volumes have the potential to surprise to the upside, in our view, coming from an increase in mortgage lending and small/medium corporate borrowing.

More importantly, net interest margins from overseas lending should exceed expectations, in our view—with potentially a weaker yen and also higher global interest rates.

Finally, non-interest income is also now rising as consumer finance business.

For those investors who have been invested in U.S. Financials recently and have benefited, it may be time to consider rotating into Japanese Financials on a relative value opportunity. At the very least, the performance differentials indicate some interesting [spreads](#) to monitor over time.

DXJF Valuation Statistics vs. the [MSCI USA Financials Sector Index](#) as of 11/30/16

	WT Japan Financials	U.S. Financials
Price/Earnings	10.7x	15.1x
Estimated Price to Earnings	10.4x	13.7x
Price to Book	0.7x	1.3x
Price to Sales	1.0x	2.2x
Price to Cash flow	4.3x	9.8x
Dividend Yield	2.61%	1.81%
Net Buyback Yield	1.69%	2.81%
Total Dividend + Buyback Yield	4.30%	4.62%

Sources: WisdomTree, FactSet as of 11/30/16. WT Japan Financials refers to the WisdomTree Japan Hedged Financials Fund and U.S. Financials refers to the MSCI USA Financials Sector Index. Past performance is not indicative of future results. You cannot invest directly in an index.

For definitions of terms in the chart, visit our [glossary](#).

¹Refers to the [WisdomTree Japan Hedged Financials Fund \(DXJF\)](#), 12/31/15–7/8/16.

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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.

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.

10-year government bond yield : Yields on the 10 year government debt security.

Bear market : A sustained downturn in market prices, increasing the chances of negative portfolio returns.

Net interest margin : A measure of the difference between the interest income generated by banks or other financial institutions and the amount of interest paid out to their lenders (for example, deposits), relative to the amount of their (interest-earning) assets.

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

Rate Hike : refers to an increase in the policy rate set by a central bank. In the U.S., this generally refers to the Federal Funds Target Rate.

10-Year Treasury : a debt obligation of the U.S. government with an original maturity of ten years.

Japanese Government Bond (JGB) : A bond issued by the government of Japan. The government pays interest on the bond until the maturity date. At the maturity date, the full price of the bond is returned to the bondholder. Japanese government bonds play a key role in the financial securities market in Japan.

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.

MSCI USA Financials Index : Designed to measure the performance of US large and mid cap companies that are classified in the Financials sector according to GICS.