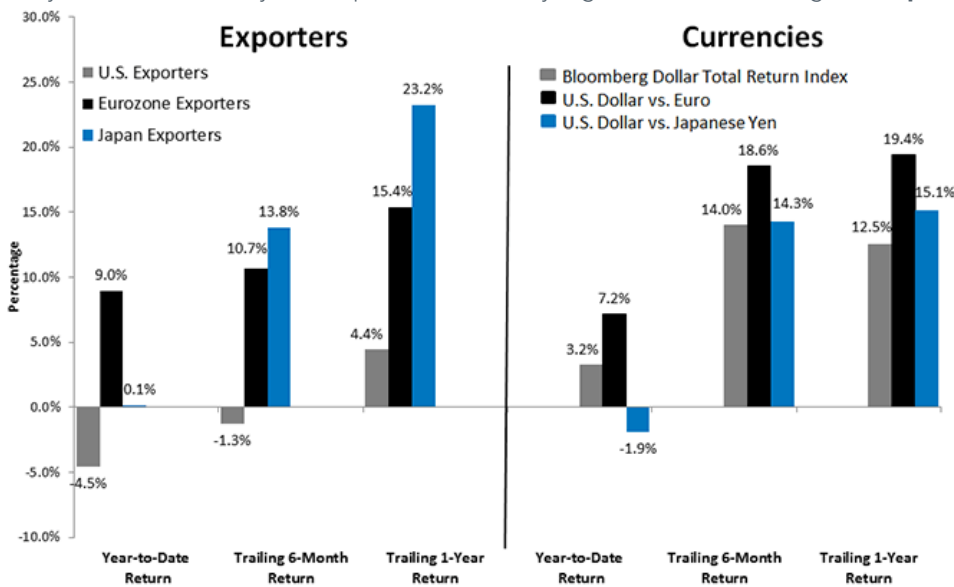


HOW DOES THE STRONG DOLLAR AFFECT EXPORTERS?

Tripp Zimmerman — Director, Research
02/19/2015

Recently, Nicholas C. Fanandakis, CFO of E.I. du Pont de Nemours¹ made a comment on the operating environment his company faces—which we think reflects what many CFOs across America are feeling: “The global currency markets have recently experienced significant volatility and a meaningful strengthening of the dollar against a broad basket of currencies that we operate in. This has created a significant headwind for DuPont’s expected outlook for 2015.”² While U.S. exporters are taking a hit from the strong dollar, international exporters (in the eurozone and Japan in particular) are on the other side of this trade—and benefiting. **The Impact of Currency on Exporters—U.S., Europe, Japan** The analysis below shows how the performance of U.S. exporters³ compares to exporters from Japan and Europe. The analysis is clear: U.S. exporters are significantly lagging Japanese and eurozone exporters over each of the periods analyzed over the last year—a period marked by significant dollar strength. **Exporter Performance Comparison**



Sources: WisdomTree, FactSet, as of 1/31/15. The median returns for each region are measured in the country's or region's local currency. Past performance is not indicative of future results. You cannot invest directly in an index.

• Japan Benefited the Most over the Full Year – Since the start of “[Abenomics](#),” the yen has weakened more than 29% against the U.S. dollar, which has helped drive profits for many Japanese exporters.⁴ Toyota Motors⁵, Japan’s largest exporter, recently announced a continuation of this trend by reporting, “Operating income increased by 258.8 billion yen. Major factors contributing to the increase included currency fluctuations of 215.0 billion yen and cost reduction efforts of 200.0 billion yen.”⁶ • **Europe in Focus Recently** – The European Central Bank (ECB) recently announced plans to expand its balance sheet by €60 billion a month, beginning in March and lasting until at least 2016.⁷ The anticipation and ultimate follow-through of this action has weakened the euro against the dollar and driven the equity market up. We believe this expansionary policy by the ECB will continue to be supportive for the local equity markets, and the euro will continue to weaken against the dollar. As shown with the Japan example, currency weakness can be very positive for export companies. •

U.S. Exporters Lagged over All Periods – Over each of the periods above, U.S. exporters lagged their eurozone and Japanese competitors. When you consider the warnings many companies have issued regarding currency headwinds and that the dollar strengthened by more than 19% against the euro and 15% against the yen over the past year, this performance differential seems logical. We believe the U.S. dollar will continue to strengthen against the euro and the yen, making international exporters an attractive investment allocation. But it's important to remember that this is true only if the equity return potential of these international companies is not eroded by currency depreciation. We see this environment as an ideal scenario for a currency-hedged approach—equity upside potential with no built-in currency bet. Read about the strengthening U.S. dollar's negative impact on the performance of U.S. exporters [here](#).¹E.I. du Pont de Nemours had a .43% weight in the WisdomTree Dividend Index, a .51% weight in the WisdomTree LargeCap Dividend Index and a .85% weight in the WisdomTree Equity Income Index as of 1/31/15.²DuPont, FQ4 2014 Earnings Call Transcripts, 1/27/15.³For this analysis, "exporters" refers to dividend-paying companies incorporated in each region or country with a market cap greater than \$1 billion and revenue of 40% or more coming from outside their respective region or country of incorporation.⁴Sources: WisdomTree, Bloomberg, 11/30/12–1/31/15.⁵Toyota Motors had a 1.23% weight in the WisdomTree DEFA Index and a 5.82% weight in the WisdomTree Japan Dividend Index, as of 1/31/15.⁶Source: Toyota, FY2015 3Q Financial Results, as of 2/4/15.⁷Source: European Central Bank, "ECB announces expanded asset purchase program," 1/22/15.

Important Risks Related to this Article

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. Diversification does not eliminate the risk of experiencing investment losses.

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](#)

View the online version of this article [here](#).

IMPORTANT INFORMATION

U.S. investors only: Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages (www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Kara Marciscano, Jianing Wu and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only.

You cannot invest directly in an index.

DEFINITIONS

Abenomics : Series of policies enacted after the election of Japanese Prime Minister Shinzo Abe on December 16, 2012 aimed at stimulating Japan's economic growth.