AN UPDATE ON DGRW, DLN, IHDG AND XSOE

Jeff Weniger — Head of Equity Strategy
11/19/2020

As 2020 comes to a close, we thought it would be helpful to provide investors with a quick update on some of our major strategies.

DGRW – WisdomTree U.S. Quality Dividend Growth Fund – U.S. Large Blend

Performance: Roughly in line with the S&P 500 since 2013 inception, despite zero exposure to FB, AMZN, NFLX or GOOG[1] the whole time.

Notable positives: DGRW is a major Fund in Large Cap Core, with AUM of $4.5 billion. Particularly high exposure to quality stocks, the result of a return on equity (ROE) of 20%, about double the S&P 500's ROE (11%).

Valuation: Forward price-to-earnings (P/E) = 19.5; Dividend yield = 2.3%. S&P 500 = 24.9; Dividend yield = 1.7%. Focus = quality + value.

Why long term: The original WisdomTree dividend concepts + quality safeguards. Academic research indicates the quality factor can generate both outperformance and risk mitigation relative to the broad market.

Why now: Quality can protect help mitigate losses in down markets. Example: Its NAV outperformed the S&P 500 by 217 basis points (bps) in the COVID-19 crash.

DLN – WisdomTree U.S. LargeCap Dividend Fund – U.S. Large Value

Performance: Outperforming value peers and the S&P 500 Value Index in 2020, consistent with prior years. The concept has benefited from the low-rate environment.

Notable positives: A history of buffering downside, beating the S&P 500 five of the last six times the market went down 6% or more. It also beat the S&P 500 Value in 16 of the last 17 such drawdowns since its inception in 2006.

Valuation: P/E (fwd) = 18.8, Dividend yield = 3.2%. S&P 500 Value (P/E)= 19.6, Dividend = 2.9% (vs. 1.7% for S&P 500).

Why long term: Stocks with zero dividend yield beat the market by more than 6% a year in the 10 years to October 2020. Is that sustainable? Professor Jeremy Siegel's research finds dividend payers beat non-payers by 2% per year from 1957 to 2019.

Why now: DLN could stand to benefit if the economy recovers. If not, it has historically had better experiences in bear markets than the S&P 500 Value Index. In the COVID-19 crash, its NAV outperformed that Index by 142 bps.

IHDG – WisdomTree International Hedged Quality Dividend Growth Fund – Developed Mkt Growth

Performance: Nearly flat this year in a sea of red ink (-1.9% vs. -10.3% for MSCI EAFE).

Notable positives: Light exposure to banks and energy has helped in a shaky economic environment. Risk is cut by hedging foreign currency exposure.

Valuation: P/E (fwd) = 22.7; Dividend yield = 2.5%. MSCI EAFE = 20.7; Dividend = 2.7%. IHDG is particularly high quality (ROE = 16% vs. 5% for MSCI EAFE). This helps temper concerns that overseas equities are inherently risky.

Why long term: The asset class is depressed. Example: MSCI EAFE touched 1999 levels this year.

Why now: Many overseas companies cut dividends heavier than U.S. firms; reinstatement may be a positive catalyst.

XSOE – WisdomTree Emerging Markets ex-State-Owned Enterprises Fund – Diversified EM –

Performance: Handily outpacing MSCI Emerging Markets (+12.6% vs. +2.5%) in 2020.

Notable positives: Political push to divest from state-owned enterprises (SOEs) may be of aid relative to other emerging markets mandates. Naturally embraces "future of emerging markets" companies like Alibaba and Tencent, which are 9.0% and 7.0% of the Fund, respectively, as of 11/6/2020.

Valuation: P/E (fwd) = 22.4; Dividend yield = 1.6%. MSCI EM P/E = 17.8; Dividend yield = 2.2%. Focus: advantageous growth prospects.

Why long term: P/E spread appears wide, but we cut out low P/E Chinese banks and Russian oil. Non-SOEs = younger firms, not stodgier legacy companies.

Why now: XSOE could defend portfolios from Western political pressure on companies with close government ties.

To see the Morningstar ratings of each of the Funds mentioned in this piece, please go here.

Standardized performance is found here: DGRW, DLN, IHDG, XSOE.

Unless otherwise stated, all data as of 11/6/20, from WisdomTree Digital Portfolio Developer.

[1] As of November 11, 2020, none of the Funds mentioned in this blog post hold FB, AMZN, NFLX or GOOG.

Important Risks Related to this Article

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.

There are risks associated with investing, including the 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 or offshore markets are generally less liquid and less efficient than investments in developed markets and are subject to additional risks, such as risks of adverse governmental regulation and intervention or political developments. Investments in currency involve additional special risks, such as credit risk and interest rate fluctuations. Derivative investments can be volatile, and these investments may be less liquid than other securities, and more sensitive to the effect of varied economic conditions. As IHDG can have a high concentration in some issuers, the Fund can be adversely impacted by changes affecting those issuers. IHDG and XSOE invest in the securities included in, or representative of, their Indexes regardless of their investment merit and the Funds do not attempt to outperform their Indexes or take defensive positions in declining markets. Dividends are not guaranteed, and a company currently paying dividends may cease paying dividends at any time. Diversification does not eliminate the risk of experiencing investment losses. Due to the investment strategy of certain Funds, they may make higher capital gain distributions than other ETFs. Please see each Fund's prospectus for a discussion of risks.

References to specific securities and their issuers are for illustrative purposes only and are not intended to be, and should not be interpreted as, recommendations to purchase or sell such securities.

Professor Jeremy Siegel is a Professor of Finance at The Wharton School and WisdomTree's Senior Investment Strategy Advisor.

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, 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

Large-Capitalization (Large-Cap) : A term used by the investment community to refer to companies with a market capitalization value of more than $10 billion. Large cap is an abbreviation of the term "large market capitalization". Market capitalization is calculated by multiplying the number of a company's shares outstanding by its stock price per share.

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

Dividend yield : A financial ratio that shows how much a company pays out in dividends each year relative to its share price.

Risk : Also standard deviation, which measures the spread of actual returns around an average return during a specific period. Higher risk indicates greater potential for returns to be farther away from this average.

Basis point : 1/100th of 1 percent.

S&P 500 Value Index : A market capitalization-weighted benchmark designed to measure the value segment of the S&P 500 Index.

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.