

WHY WE'RE BULLISH ON COMMODITIES IN 2021

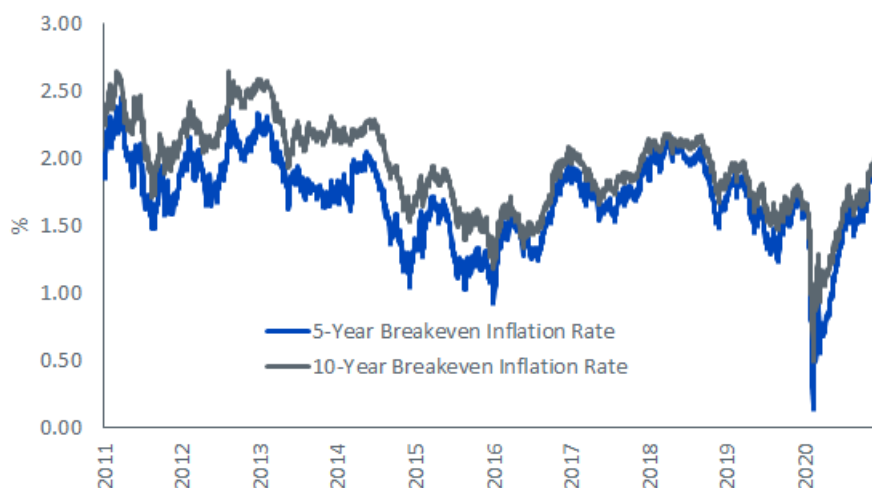
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This appears to be the year of [reflation](#).

Massive fiscal stimulus from the government combined with the [Federal Reserve's \(Fed\)](#) loose [monetary policies](#) have resulted in an ample, if not excessive, monetary supply. [Inflation](#) expectations, measured by 5- and 10-year [breakeven](#) rates, have risen to the highest level since 2014.

Against this backdrop, we believe broad-based commodity investing can play an important role in addressing potential risks in the years ahead.

Breakeven Inflation Rate



Sources: WisdomTree, Federal Reserve Bank of St. Louis, 2/7/11–2/5/21. Past performance is not indicative of future results.

Low Yields from Fixed Income

As short-term U.S. Treasury yields remain low, investors question whether bonds can be relied on to generate sufficient levels of income. Inflation-adjusted 10-Year bond yields are negative—indicating losses in real purchasing power over 10 years from investments in bonds that provide inflation protection.

A [dovish](#) Fed and Chair Powell's promise to let the economy run hot could imply [yields](#) being low for the foreseeable future. Aggressive fiscal stimulus is also expected in response to the global pandemic.

As bonds struggle to generate meaningful returns, we believe commodities may be one of the most straightforward ways to directly benefit from an increase in inflation. As we emerge from the COVID-19 pandemic, global manufacturing activities are recovering. Supply chains are improving and demand is picking up quickly. These developments could lead to a rally in commodities, which is what we've seen in the past month.

Asset Allocation

In December 2020, we replaced 3% of our core fixed income position with the [WisdomTree Enhanced Commodity Strategy Fund \(GCC\)](#) in the Siegel-WisdomTree Longevity Model Portfolio to help combat inflation. By reallocating to

commodities from bonds, we reduce the overall [duration](#) risk in our portfolio, while creating room for a potential return boost from commodities.

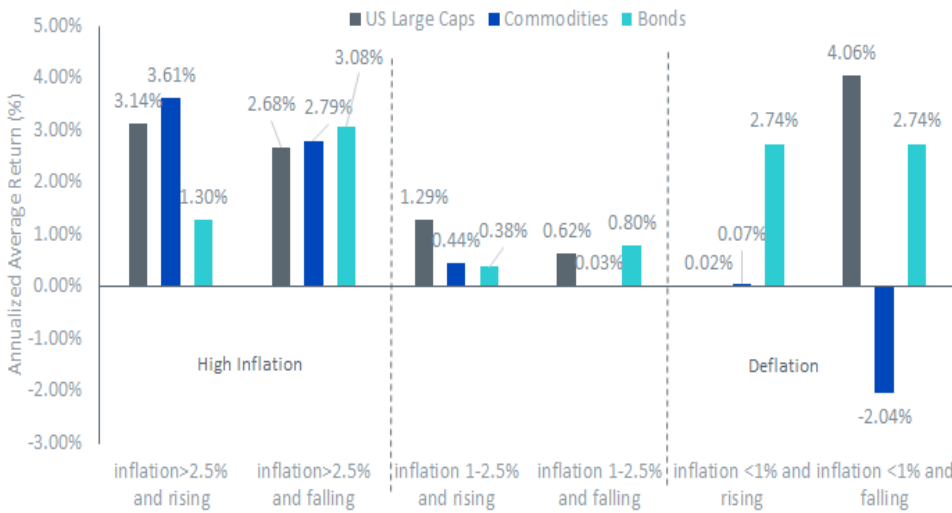
Commodities’ Performance during Inflation

What drove this allocation shift? Historically, commodities have offered a hedge against inflation because their prices are largely determined by supply and demand. When economic activities ramp up, production material utilization increases, which in turn causes an increase in demand for raw materials, leading to higher prices.

Compared to other major asset classes such as equities and bonds, commodities have historically been the strongest performing asset class during times of high inflation.

Below we show performances of equities, commodities and bonds during various inflation regimes. During periods when inflation exceeded 2.5% over the last five decades, commodities generated the highest returns, outperforming equities by approximately 30 [basis points \(bps\)](#) with lower volatility.

Asset Class Performance during Inflation Regimes



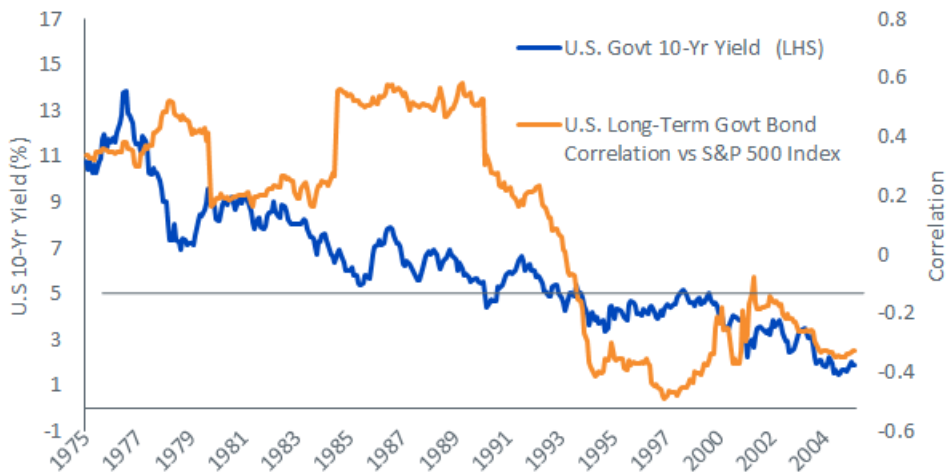
Sources: WisdomTree, Bloomberg, Morningstar, 1/30/1970–12/31/2020. Inflation proxied by IA SBBI U.S. Inflation Index, U.S. Large Caps proxied by IA SBBI U.S. Large Stock TR USD Index, Bonds proxied by IA SBBI U.S. LT Government TR USD Index, Commodities proxied by S&P GSCI Index (SPGSCI). Past performance is not indicative of future results. You cannot invest directly in an index.

For definitions of indexes and terms in the charts throughout this blog, please visit our [glossary](#)

Commodity as an Alternative for Diversification

Bonds have traditionally served as an important diversifier in portfolios. Their low volatility and negative [correlation](#) have helped dampen total portfolio risk. But in the current market environment of low yields, bonds’ [diversification](#) benefit comes with a cost of low returns.

Rolling 5-Yr Correlation of U.S. Long-Term Govt Bonds vs. S&P 500 Index



Sources: WisdomTree, Bloomberg, Morningstar, 1/30/1970–12/31/2020. U.S. Govt 10-Yr Yield proxied by USGG10YR Index, U.S. Long-Term Govt Bond proxied by IA SBBI U.S. LT Government TR USD Index. Past performance is not indicative of future results. You cannot invest directly in an index.

We believe commodities can serve as an alternative to achieve portfolio diversification while preserving returns. Below we show commodities’ and bonds’ correlations versus equities and their relative returns during different inflation regimes over the past five decades.

Historically, commodities and bonds have similar correlations versus the [S&P 500 Index](#)—both are near 0. But in a high and rising inflation environment, commodities outperformed bonds by 2%–3% annually while keeping a near-0 correlation.

Inflation > 2.5% and Rising		
	Correlation vs. S&P 500 Index	Average Annualized Return
U.S. Long-Term Govt Bonds	0.06	1.30%
SPGSCI Index	0.10	3.61%
BCOM Index	0.07	4.12%

Inflation <= 2.5%		
	Correlation vs. S&P 500 Index	Average Annualized Return
U.S. Long-Term Govt Bonds	0.09	4.27%
SPGSCI Index	0.15	-1.51%
BCOM Index	0.12	-1.79%

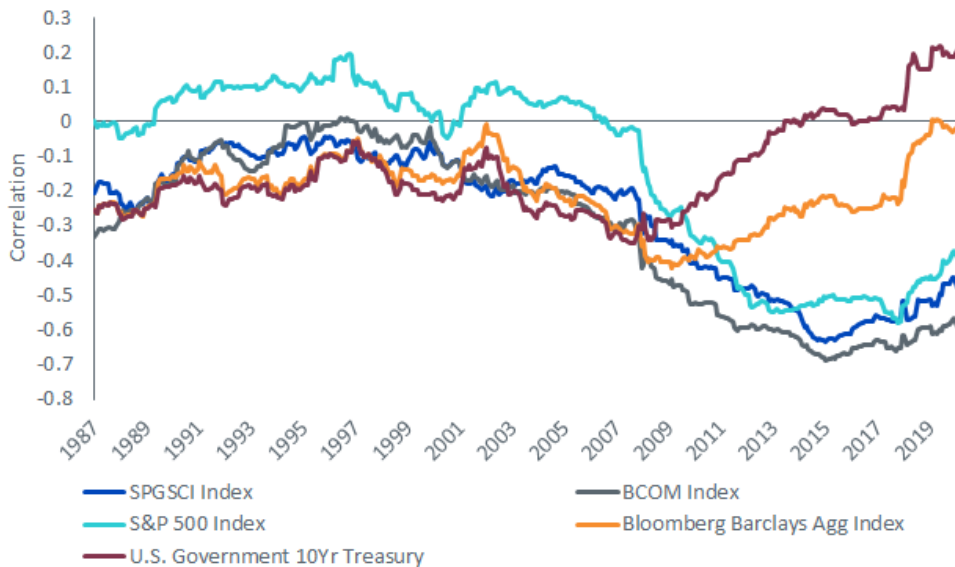
Sources: WisdomTree, Bloomberg, 1/30/1970–12/31/2020. U.S. Long-Term Govt Bond proxied by IA SBBI U.S. LT Government TR USD Index. Past performance is not indicative of future results. You cannot invest directly in an index.

Hedging Risks to the Dollar

With higher anticipated inflation and an expanded monetary base, the U.S. dollar (USD) may be on a weakening path. To hedge the USD’s [bearish](#) outlook, we believe investors should allocate part of their portfolios to commodities.

Commodities have historically tended to have a negative correlation against USD since they are priced in U.S. dollars—when the value of USD declines, global commodity prices become relatively less expensive for buyers in other currencies, and demand has tended to rise. A historical correlation chart shows that correlations between commodities and USD are in the negative territory, while the correlation with Treasuries rose above 0 in the recent years.

Rolling 10-Yr Correlation vs. USD



Sources: WisdomTree, Bloomberg, 1/30/1970–12/31/2020. U.S. Government 10-Yr Treasury proxied by RT 10 Index. Past performance is not indicative of future results. You cannot invest directly in an index.

This inverse relationship can also be shown through commodities’ performance during different USD regimes. Commodities performed well during weak dollar periods—they generated a 11.5% return with a hit rate of 76%, meaning that their returns are positive 76% of the time, when the USD dropped 5% or more.

Average Coincident Calendar Year Performance Under U.S. Dollar Index (DXY) Year End Scenarios	Gold	Inflation YoY*	Nom. GDP YoY*	10-Year Yield (BP)	S&P 500	Emerging Markets**	Int'l Developed Markets	BCOM Index
DXY Down 5% or More	19.1%	3.8%	6.6%	-9.3	6.3%	12.8%	16.9%	11.5%
DXY In Range of -5% to 5%	18.4%	3.9%	5.6%	-18.3	14.3%	20.9%	7.3%	9.8%
DXY Up 5% or More	-5.9%	3.8%	6.4%	-5.4	6.3%	1.2%	1.4%	-6.4%
Hit Rate DXY Down <-5%	82%	100%	94%	47%	71%	60%	82%	76%
Hit Rate DXY -5% to 5%	65%	100%	100%	47%	82%	69%	71%	65%
Hit Rate DXY Up >5%	31%	100%	94%	50%	69%	40%	50%	44%

Sources: Morgan Stanley, Bloomberg, MSWM Market Strategy, as of 12/31/19.

DXY refers to the U.S. Dollar Index, Gold is proxied by the gold spot price (London 4:00 p.m. close), Inflation is proxied by the U.S. Consumer Price Index (CPI), 10-Year Yield is proxied by the U.S. 10-Yr Treasury Yield, Int'l Developed Markets are proxied by the MSCI EAFE Index, Emerging Markets are proxied by the MSCI Emerging Market Index.

*Inflation and GDP taken averages based on end-of-year figures. YoY = year over year.

Conclusion

We expect 2021 to be a year of strong economic performance supported by large fiscal stimulus, loose monetary policy and the COVID-19 vaccine program. As investors balance between risk and return in this environment, we believe commodities should be considered as an essential allocation in portfolios to hedge inflation and to position for an economic rebound.

Important Risks Related to this Article

Prior to 12/21/20, the ticker symbol “GCC” was used for an exchange-traded commodity pool trading under a different name and strategy.

There are risks associated with investing including the possible loss of principal. An investment in this Fund is speculative, involves a substantial degree of risk, and should not constitute an investor’s entire portfolio. One of the risks associated with the Fund is the complexity of the different factors which contribute to the Fund’s performance. These factors include use of commodity futures contracts. Derivatives can be volatile and may be less liquid than other securities and more sensitive to the effects of varied economic conditions. The value of the shares of the Fund relate directly to the value of the futures contracts and other assets held by the Fund and any fluctuation in the value of these assets could adversely

affect an investment in the Fund's shares. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

GCC will not be invested in physical commodities. Futures may be affected by **Backwardation**: a market condition in which a futures price is lower in the distant delivery months than in the near delivery months. As a result, the fund may benefit because it would be selling more expensive contracts and buying less expensive ones on an ongoing basis; and **Contango**: A condition in which distant delivery prices for futures exceeds spot prices, often due to costs of storing and insuring the underlying commodity. Opposite of backwardation. As a result, the Fund's total return may be lower than might otherwise be the case because it would be selling less expensive contracts and buying more expensive one.

Commodities and futures are generally volatile and are not suitable for all investors. Investments in commodities may be affected by overall market movements, changes in interest rates and other factors such as weather, disease, embargoes and international economic and political developments.

Using an asset allocation strategy does not assure a profit or protect against loss. Investors should consider their investment time frame, risk tolerance level and investment goals.

Diversification does not eliminate the risk of experiencing investment losses.

Jeremy Siegel serves as Senior Investment Strategy Advisor to WisdomTree Investments, Inc., and its subsidiary, WisdomTree Asset Management, Inc. ("WTAM" or "WisdomTree"). He serves on the Model Portfolio Investment Committee for the Siegel-WisdomTree Model Portfolios of WisdomTree, which develops and rebalances WisdomTree's Model Portfolios. In serving as an advisor to WisdomTree in such roles, Mr. Siegel is not attempting to meet the objectives of any person, does not express opinions as to the investment merits of any particular securities and is not undertaking to provide and does not provide any individualized or personalized advice attuned or tailored to the concerns of any person.

The Siegel-WisdomTree Longevity Model Portfolio seeks to address increasing longevity by shifting the focus to potential long-term growth through a higher stock allocation versus more traditional "60/40" portfolios.

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.

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You cannot invest directly in an index.

DEFINITIONS

Reflation : The term is used to describe the first phase of economic recovery after a period of contraction. This period is typically characterized by the act of stimulating the economy through accommodative central bank policies and reducing taxes, to bring growth and inflation back up to the long-term trend.

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

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.

Inflation : Characterized by rising price levels.

Break-even inflation rate : For a given bond maturity, for example five years, the interest rate on the five-year nominal bond minus the interest rate on the five-year inflation adjusted bond; meant to approximate expected inflation over that time frame, in this case five years.

Dovish : Description used when stimulation of economic growth is the primary concern in setting monetary policy decisions.

Yield : The income return on an investment. Refers to the interest or dividends received from a security that is typically expressed annually as a percentage of the market or face value.

Duration : A measure of a bond's sensitivity to changes in interest rates. The weighted average accounts for the various durations of the bonds purchased as well as the proportion of the total government bond portfolio that they make up.

Basis point : 1/100th of 1 percent.

Correlation : Statistical measure of how two sets of returns move in relation to each other. Correlation coefficients range from -1 to 1. A correlation of 1 means the two subjects of analysis move in lockstep with each other. A correlation of -1 means the two subjects of analysis have moved in exactly the opposite direction.

Diversification : A risk management strategy that mixes a wide variety of investments within a portfolio.

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.

WisdomTree Dynamic Bearish U.S. Equity Index : A rules-based long/short index that includes long equity positions or long U.S. Treasury positions and short equity positions. The Long Equity Index consists of approximately 100 U.S. large- and mid-capitalization stocks that meet Index eligibility requirements and have the best combined score based on fundamental growth and value signals. Stocks are weighted in the Long Equity Index according to their volatility characteristics. The Short Equity Index consists of short positions in the largest 500 U.S. companies, weighted by market capitalization, designed to act as a market risk hedge. The Index provides a dynamic allocation of exposure to the Long Equity Index ranging from 100% to 0% while employing a variable monthly hedge ratio ranging from 75% to 100% exposure to the Short Equity Index based on a quantitative rules-based market indicator that scores growth and value market signals. During times when the market indicator shows unattractive readings on valuation and growth characteristics, the Index can move to 100% exposure to the Long Treasury Index (and accordingly no exposure to the Long Equity Index).