

Positioning across equities amidst the sell-off

Published 7 August 2024

Aneeka Gupta

Director, Macroeconomic Research, WisdomTree Europe

Baoqi Zhu

Associate Director, Quantitative Research & Multi Asset Solutions

Key Takeaways

- High-quality, dividend-growing companies historically tend to deliver good upside capture and defensiveness in uncertain periods.
- Value stocks drove strong returns across emerging markets (EM) and have continued to outperform growth since 1990.
- The semiconductor slump drags tech themes down more than the broad market.
- Related Products WisdomTree Global Quality Dividend Growth UCITS ETF - USD Acc, WisdomTree US Quality Dividend Growth UCITS ETF - USD Acc, WisdomTree Japan Equity UCITS ETF - USD Hedged, WisdomTree Japan Equity UCITS ETF - EUR Hedged Acc, WisdomTree Artificial Intelligence UCITS ETF – USD Acc, WisdomTree Cybersecurity UCITS ETF – USD Acc, WisdomTree Cloud Computing UCITS ETF - USD Acc, WisdomTree Renewable Energy UCITS ETF - USD Acc, WisdomTree Battery Solutions UCITS ETF - USD Acc Find out more

It's risk off with equities, bond yields, commodities and crypto down. A correction is underway. Bond yields have plunged on expectations of lower interest rates and safe-haven demand. H1 2024 saw risk assets perform well following better news on inflation than expected, increasing optimism about lower interest rates ahead and improving technology and artificial intelligence (AI) earnings. As we are now in the seasonally weak period of August and September a further correction in risk assets looks likely. A confluence of factors is behind the sell-off:

1. Concerns about weaker economic growth after weak US jobs data
2. Consumer weakness is starting to bite, evident from the Q2 earnings season
3. Concerns that we have seen the best for technology stocks amidst mixed technology earnings results in Q2 2024
4. China's fading effervescence is evident from the slowdown in quarterly growth

Our view remains that lower interest rates will boost equities over a 6-12 month time frame, assuming a recession is avoided. However, in the next few months, risk assets look vulnerable to further falls, suggesting that it may be too early to consider these as valuations are stretched, investment sentiment looks too optimistic, and recession risk appears high in the US. That being said, investors could position themselves to more opportunistic parts of the market within Equities.

Focusing on high-quality, dividend-growing equities

Concerns around the breadth and sustainability of the mega cap narrative have been a critical factor supporting improving the performance of the equal-weighted version of the S&P 500 Index versus the market cap S&P 500 Index. Secondly, the gap in earnings growth expectations between the 'Magnificent Seven¹' and the rest of the market is closing significantly towards the end of the year. While the Magnificent Seven exhibited considerably higher earnings growth in 2023 and the first half of 2024, the rest of the market is catching up. This should create opportunities for stocks outside those seven mega caps to capture investors' attention and catch up. High-quality, dividend-growing companies historically tend to deliver good upside capture and defensiveness in uncertain periods, which could help investors weather the uncertainty of the next few months while benefitting from the equity rotation. The [WisdomTree US Quality Dividend Growth UCITS ETF](#) and [WisdomTree Global Quality Dividend Growth UCITS ETF](#) have both outperformed their market-cap-weighted benchmarks by 2.6% and 1.92%, respectively, as of 4 August 2024.

The Bank of Japan opens the door for a double hawkish surprise

The Bank of Japan (BOJ) not only presented a plan to reduce its bond purchases, as expected, but also somewhat surprisingly raised the key interest rate to 0.25% . On the same day, the US Federal Reserve (Fed) also prepared the path for the turnaround in interest rates. The narrowing of interest rate differentials between the US and Japan has been supported by the recent rally of the yen to the detriment of Japanese export-based equities. USD/JPY has corrected 10.8% off its highs⁴.

The BOJ has made a political decision to support the yen. This is evident as the Japanese economy's growth in Q1 was weak and inflation has been falling. In such a scenario we would expect the BOJ to support the economy. By raising interest rates, the BOJ expects the economy to remain robust and inflation to remain high. However, if these expectations fail to materialise, the yen could reverse its recent appreciation compared to the US dollar.

Dividend-paying Japanese exporters offer a buffer

The [WisdomTree Japan Equity UCITS ETF](#) has posted a strong start to the year on the back of strong earnings, corporate governance reforms, and its tilt toward dividend-paying export-oriented Japanese stocks. Though domestic fundamentals haven't changed much since a few weeks ago, Japan's equity market is unlikely to meaningfully reverse until the US market calms. Global investors see the Japanese market as a warrant on global trade. So, as markets are in de-risking mode over US recession fears and geopolitics, investors are taking profits from a market that has done well this year.

Fundamentally, large cap Japanese export stocks remain in pole position. The current company forex assumption is a conservative ¥144 per dollar, expecting a stronger yen. The yen's fall from April to June 2024 (average of ¥156 per dollar) served as a reserve. The yen would need to average ¥140 per dollar over the last three quarters of the fiscal year to align with the corporate assumption for FY24. Given the current pace of appreciation of the yen, we don't expect companies to have to lower their guidance.

Maintain a constructive outlook on emerging markets

Value stocks drove strong returns across emerging markets (EM) and have continued to outperform growth since 1990. The Fed's sharp re-pricing of monetary easing, alongside resilient economic growth in EM and supply chain rebalancing, is expected to support EM equities. The [WisdomTree Emerging Markets Equity Income UCITS ETF](#) is positioned towards dividend-paying EM equities poised to benefit from growth outside China with an overweight in Taiwan, Brazil and South Africa and an underweight in China5.

Semiconductors played a pivotal role in the tech sector correction. Despite many semiconductor companies, including AMD, Qualcomm, and TSMC, exceeding guidance and estimates in their recent earnings season, the market expressed concerns about the sustainability of their growth and US export restrictions on chips to China. Intel's sales missed guidance, erasing around one-third of its market cap within two days from 31 July to 2 August. Mid and small cap tech sectors, which initially benefited from the anticipation of rate cuts in early July, were also pulled down by the general trend of the tech sectors. This pessimism across the tech sectors led to a downturn in tech-focused ETFs like [WisdomTree Artificial Intelligence UCITS ETF](#), [WisdomTree Cybersecurity UCITS ETF](#), and [WisdomTree Cloud Computing UCITS ETF](#).

Figure 1: Tech themes' returns vs benchmarks in the recent periods

	From 28 June to 02 August	From 31 July to 02 August
WisdomTree Artificial Intelligence UCITS ETF (WTAI)	-11.2%	-8.1%
WisdomTree Cybersecurity UCITS ETF (WCBR)	-5.2%	-5.4%
WisdomTree Cloud Computing UCITS ETF (WCLD)	-6.0%	-5.9%
S&P 500	-2.1%	-3.2%
MSCI IT	-7.6%	-5.6%

Emerging market exposure mitigates the decline of energy transition theme

EM equities also declined during the recent correction from 31 July to 2 August, however they fell less compared to the developed markets. The MSCI ACWI declined by 3.31%, while the MSCI Emerging Market index declined by 2.17%. This generally helped themes with relatively higher exposure to emerging markets, such as [WisdomTree Recycling Decarbonisation UCITS ETF](#), [WisdomTree Energy Transition Metals and Rare Earths Miners UCITS ETF](#), [WisdomTree Battery Solutions UCITS ETF](#) and [WisdomTree Renewable Energy UCITS ETF](#), to lose less than those tech themes. For instance, the China exposure of [WisdomTree Battery Solutions UCITS ETF](#), representing around 22% of its weight, posted a -2.15% return from 31 July to 2 August, while US and Western Europe holdings posted returns of -10.0% and -5.0%, respectively, during the same period.

Figure 2: Energy transition and green themes' returns vs benchmarks in the recent periods

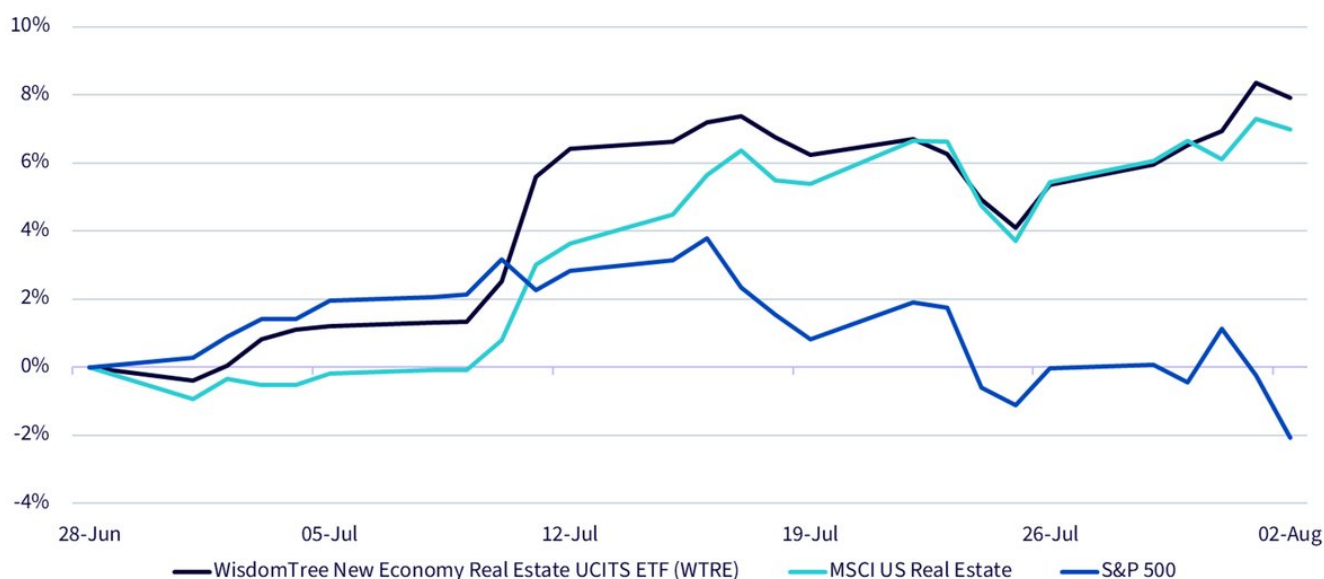
	From 28 June to 02 August	From 31 July to 02 August
WisdomTree Battery Solutions UCITS ETF (VOLT)	-3.9%	-5.9%
WisdomTree Recycling Decarbonisation UCITS ETF (WRCY)	2.8%	-1.9%
WisdomTree Renewable Energy UCITS (WRNW)	-0.8%	-3.6%
S&P 500	-2.1%	-3.2%
MSCI Emerging Markets Index	-2.3%	-2.2%

Source: Bloomberg. As of 2 August 2024. You cannot invest directly in an index. **Historical performance is not an indication of future performance, and any investments may go down in value.**

Real estate themes exhibit resilience amid market decline

There was also a segment that was exempt from the declining market. The real estate sectors performed well from 31 July to 2 August, with the MSCI US real estate index rising 0.84% and a 6.99% return from 28 June to 2 August. [WisdomTree New Economy Real Estate UCITS ETF](#), which focuses on real estate companies with exposure to technology, science, and/or e-commerce-related business activities, returned 0.91% against the general correction from 31 July to 2 August and posted a 7.91% return since 28 June. Specialised real estate investment trust (REIT) holdings, accounting for around 25% of weight, posted a 3.9% return. With the anticipation of rate cuts and high market volatility (the VIX index reached 48.1 on 5 August, the highest level since early 2020), real estate could become increasingly attractive for investors seeking more stable investments.

Figure 3: Cumulative returns of WisdomTree New Economy Real Estate UCITS ETF (WTRE) and real estate benchmark vs stock benchmark from 28 June 2024 to 2 August 2024



Source: Bloomberg. As of 2 August 2024. WTRE's performance is based on the fund's NAV in USD. You cannot invest directly in an index. **Historical performance is not an indication of future performance and any investments may go down in value.**

Source

1 Magnificent Seven is a group of mega cap stocks, including Apple, Alphabet, Microsoft, Amazon.com, Meta Platforms, Tesla, and Nvidia.

2 Bloomberg from 10 July to 4 August 2024. In USD. All indices are net TR.

3 Bank of Japan as of 31 July 2024

4 Bloomberg from 10 July to 5 August 2024

5 WisdomTree, Factset weighting versus MSCI Emerging Markets Index

Important Risks Related to this Article

IMPORTANT INFORMATION

Marketing communications issued in the European Economic Area (“EEA”): This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland. **Marketing communications issued in jurisdictions outside of the EEA:** This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority. WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as “WisdomTree” (as applicable). Our Conflicts of Interest Policy and Inventory are available on request. For professional clients only. Past performance is not a reliable indicator of future performance. Any historical performance included in this document may be based on back testing. Back testing is the process of evaluating an investment strategy by applying it to historical data to simulate what the performance of such strategy would have been. Back tested performance is purely hypothetical and is provided in this document solely for informational purposes. Back tested data does not represent actual performance and should not be interpreted as an indication of actual or future performance. The value of any investment may be affected by exchange rate movements. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice. These products may not be available in your market or suitable for you. The content of this document does not constitute investment advice nor an offer for sale nor a solicitation of an offer to buy any product or make any investment. An investment in exchange-traded products (“ETPs”) is dependent on the performance of the underlying index, less costs, but it is not expected to match that performance precisely. ETPs involve numerous risks including among others, general market risks relating to the relevant underlying index, credit risks on the provider of index swaps utilised in the ETP, exchange rate risks, interest rate risks, inflationary risks, liquidity risks and legal and regulatory risks. The information contained in this document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares in the United States or any province or territory thereof, where none of the issuers or their products are authorised or registered for distribution and where no prospectus of any of the issuers has been filed with any securities commission or regulatory authority. No document or information in this document should be taken, transmitted or distributed (directly or indirectly) into the United States. None of the issuers, nor any securities issued by them, have been or will be registered under the United States Securities Act of 1933 or the Investment Company Act of 1940 or qualified under any applicable state securities statutes. This document may contain independent market commentary prepared by WisdomTree based on publicly available information. Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Any third party data providers used to source the information in this document make no warranties or representation of any kind relating to such data. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents. This document may contain forward looking statements including statements regarding our

belief or current expectations with regards to the performance of certain assets classes and/or sectors. Forward looking statements are subject to certain risks, uncertainties and assumptions. There can be no assurance that such statements will be accurate and actual results could differ materially from those anticipated in such statements. WisdomTree strongly recommends that you do not place undue reliance on these forward-looking statements. WisdomTree Issuer ICAV The products discussed in this document are issued by WisdomTree Issuer ICAV ("WT Issuer"). WT Issuer is an umbrella investment company with variable capital having segregated liability between its funds organised under the laws of Ireland as an Irish Collective Asset-management Vehicle and authorised by the Central Bank of Ireland ("CBI"). WT Issuer is organised as an Undertaking for Collective Investment in Transferable Securities ("UCITS") under the laws of Ireland and shall issue a separate class of shares ("Shares") representing each fund. Investors should read the prospectus of WT Issuer ("WT Prospectus") before investing and should refer to the section of the WT Prospectus entitled »Risk Factors¹⁴ for further details of risks associated with an investment in the Shares. WisdomTree New Economy Real Estate UCITS ETF The Fund is not sponsored, endorsed, sold or promoted by CenterSquare Investment Management LLC ("CenterSquare"), any of its affiliates or any other third party involved in, or related to, calculating, compiling or creating the Index (collectively, the "CenterSquare Parties"). The Index is the exclusive property of CenterSquare and has been licensed for use for certain

purposes by WisdomTree. CenterSquare and the Index¹⁴s name are trademarks of CenterSquare. None of the CenterSquare Parties makes any representation or warranty, express or implied, to the issuer or owners of shares of the Fund, or any other person or entity, regarding the advisability of investing in funds generally, or in the Fund particularly, or the ability of the Index to track its corresponding market performance. None of the CenterSquare Parties has any obligation to take the needs of the issuer or owners of shares of the Fund, or any other person or entity, into consideration in determining, composing or calculating the Index. None of the CenterSquare Parties is responsible for, or has participated in, the determination of the timing of, prices at, or quantities of the Fund to be issued or in the determination or calculation of the equation by, or the consideration into which, the Fund is redeemable. Further, none of the CenterSquare Parties has any obligation or liability to the issuer or owners of shares of the Fund, or any other person or entity, in connection with the administration, marketing or offering of the Fund, whether as a result of statements included in the Fund¹⁴s public offering documents or otherwise. None of the CenterSquare Parties guarantees the accuracy and/or the completeness of the Index or any data included therein, and none of the CenterSquare Parties shall have any liability for any errors, omissions or interruptions therein. None of the CenterSquare Parties makes any warranty, express or implied, as to results to be obtained by the Fund, owners of the shares of the Fund or any other person or entity from the use of the Index, trading based on the Index, or any data included therein, either in connection with the Fund or for any other use. None of the CenterSquare Parties makes any express or implied warranties, and each expressly disclaims all warranties of merchantability or fitness for a particular purpose or use, with respect to the Index or any data included therein. Without limiting any of the foregoing, in no event shall any of the CenterSquare Parties have any liability for any special, punitive, direct, indirect or consequential damages (including lost profits) arising out of matters relating to the use of the Index, even if notified of the possibility of such damages. WisdomTree Artificial Intelligence UCITS ETF Nasdaq® and the Nasdaq CTA

Artificial intelligence Index are registered trademarks of Nasdaq, Inc. (which with its ailiates is referred to as the “Corporations”) and are licensed for use by WisdomTree Management Limited. The WisdomTree Artificial Intelligence UCITS ETF (the “Fund”) has not been passed on by the Corporations as to its legality or suitability. Shares in the Fund are not issued, endorsed, sold, or promoted by the Corporations. THE CORPORATIONS MAKE NO WARRANTIES AND BEAR NO LIABILITY WITH RESPECT TO THE FUND. WisdomTree Cloud Computing UCITS ETF Nasdaq® is a registered trademark of Nasdaq, Inc. (which with its ailiates is referred to as the “Corporations”) and is licensed for use by WisdomTree Management Limited. The WisdomTree Cloud Computing UCITS ETF (the “Fund”) has not been passed on by the Corporations as to its legality or suitability. Shares in the Fund are not issued, endorsed, sold, or promoted by the Corporations. THE CORPORATIONS MAKE NO WARRANTIES AND BEAR NO LIABILITY WITH RESPECT TO THE FUND. The information set forth in the BVP Nasdaq Emerging Cloud Index is provided for informational and discussion purposes only and is not intended to be, and shall not be regarded or construed as, a recommendation for a transaction or investment or financial, tax, investment or other advice of any kind by Bessemer Venture Partners (“BVP”). BVP makes no warranty or representation regarding any such information or the data presented in such materials. BVP and/or pooled investment vehicles which it manages, and individuals and entities ailiated with such vehicles, may purchase, sell or hold securities of (a) issuers that are constituents of the BVP Nasdaq Emerging Cloud Index or (b) the Fund itself from time to time and at any time, including in advance of or following an issuer being added to or removed from the BVP Nasdaq Emerging Cloud Index. WisdomTree Recycling Decarbonisation UCITS ETF The Tortoise Recycling Decarbonization UCITS IndexSM (the “Index”) is the exclusive property of TIS Advisors, LLC. TIS Advisors, LLC makes no express or implied representation, guarantee or assurance with regard to (a) the advisability in investing in the Fund; and/or (b) the results obtained or to be obtained by any person or entity from the use of the Fund. The Index is calculated by Solactive AG (“Solactive”). The financial instruments that are based on the Index are not sponsored, endorsed, promoted or sold by Solactive in any way, and Solactive makes no express or implied representation, guarantee or **assurance with regard to:** (a) the advisability in investing in the financial instruments; (b) the quality, accuracy and/or completeness of the Index or the calculations thereof; and/or (c) the results obtained or to be obtained by any person or entity from the use of the Index. It is not possible to invest directly in an index.