

Balancing global opportunities against regional risks: Why you might consider global quality equity

Published 18 May 2017

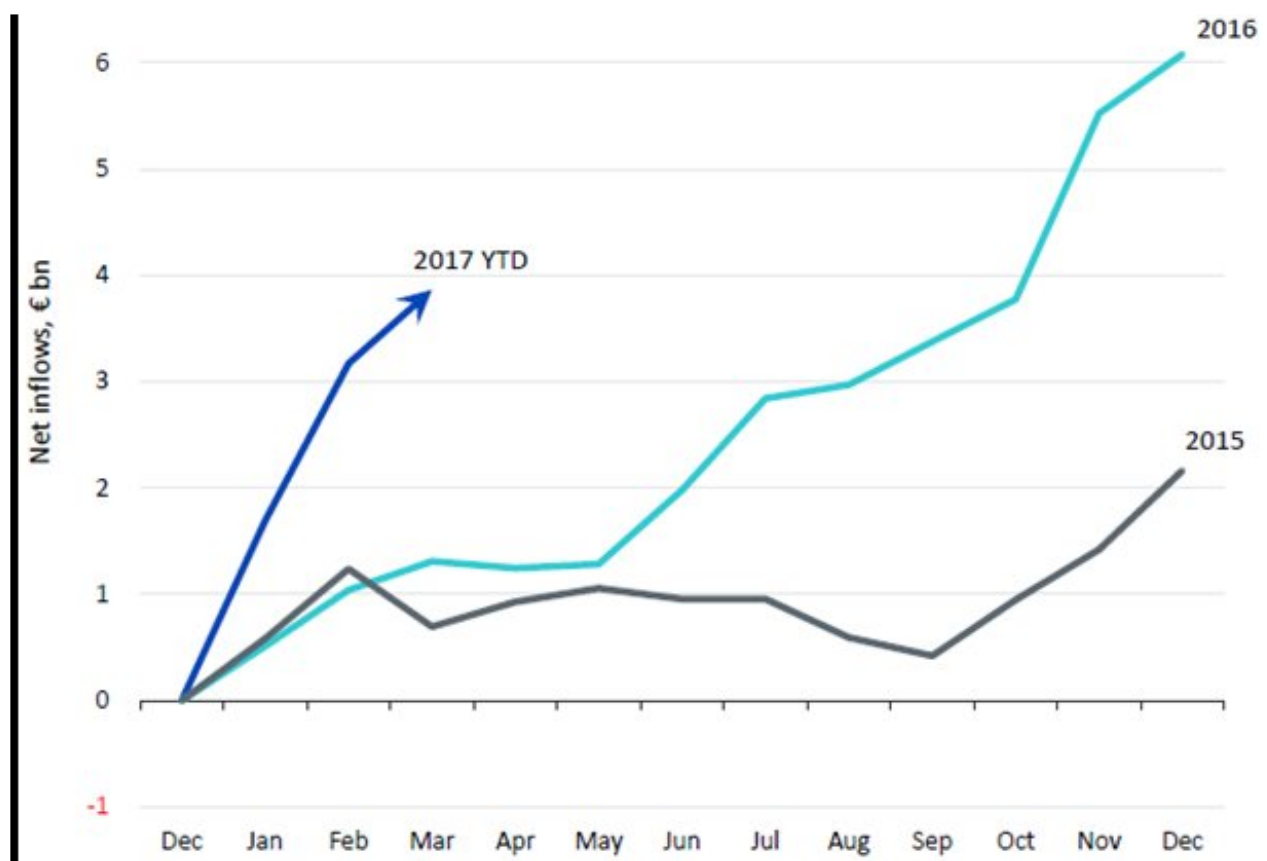
Momentum in global equity ETFs as selective bets and regional conviction wanes

Upbeat global growth has reawakened investor appetite for equities. Investors looking to increase equity exposure may consider broad global equity ETFs as a means to focus on boosting asset class exposure without directional bets on regions. As a style, quality, dividend-paying stocks may offer an additional layer of stability to investors who like equities as an income growth generator when bond yields and interest rates remain unusually subdued.

Q1 2017 inflows into equity ETFs (European-domiciled) have surged to €19 billion recently, smashing 2016 inflows and paving the way for another record year of flows. Driving this are inflows into global developed equity ETFs, which have already reached €3.8 billion, and are on course to exceed last year's inflows of €6.1 billion.

Figure 1: Surging appetite for global equity ETFs

Cumulative net inflows into global large-cap equity ETFs



European investors favour global and US large-cap exposures

We expect over the coming months to see investor demand intensifying for broad global equity exposures. For example, while Trump's pro-growth agenda is yet to be unveiled, [US corporate tax cuts](#) are not likely to be implemented until 2018 and [political uncertainty in Europe](#) is set to persist through the year, broad global ETFs may remain the most efficient means to balance the global opportunities on offer against regional macro and political risks.

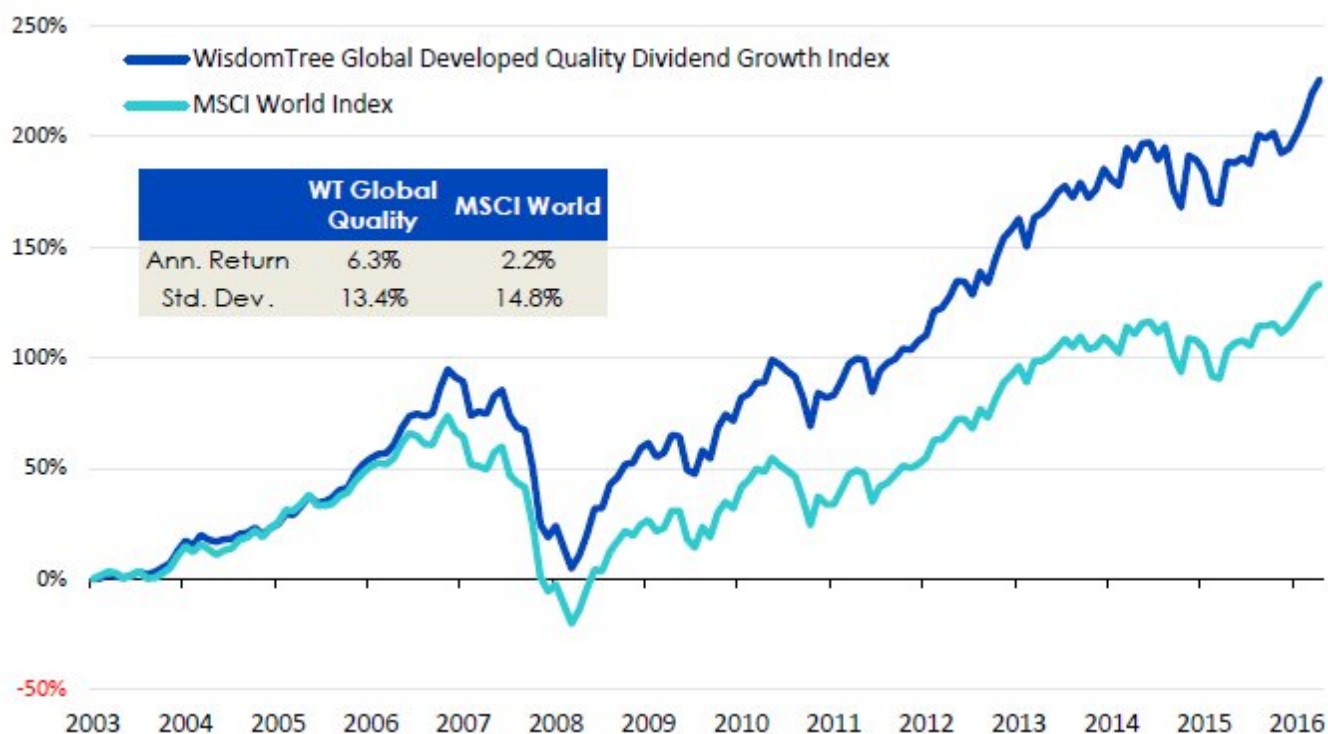
Complement your equity exposures with global strategies

But whilst all global broad ETFs offer access to a diversified basket of equities, the underlying opportunities are not the same. Investors discriminating between different strategies on offer may be able to tap into distinct styles, such as quality, or targeted sector tilts that could enhance the risk-return profiles of existing equity allocations.

Take WisdomTree's Global Quality Dividend Growth Index for example. It has outperformed the market-cap equivalent benchmark, MSCI World Index, by over four per cent per year since 2003, as shown in Figure 2, and has done so with lower volatility.

Figure 2: Global quality's 4% annual outperformance vs MSCI World

Cumulative returns since common inception



Source: WisdomTree, Morningstar. Data from 31/12/2003 to 31/03/2017.

Performance calculated at the net return level in USD. Past and backtested performance is not indicative of future results.

This performance can be attributed to the underlying index methodology. The methodology screens for dividend-paying stocks and ranks them based on a combination of the highest return-on-equity, return-on-assets and long-term earnings estimates. By selecting stocks that display higher profitability and growth prospects, the resulting basket of high quality dividend payers will typically offer stronger fundamentals relative to the market-cap peers and other equity styles such as value. The slight valuation premium commanded by the distinct quality tilt is justified given the potential comfort it offers investors who lack a strong conviction equities.

Conclusion

The lack of conviction in equity markets may present an opportunity to adopt global equity ETFs as part of a core or satellite approach that may enable investors to quickly and efficiently fine-tune broad equity mandates without significantly having to alter existing allocations.

All data is sourced from WisdomTree and Bloomberg, unless otherwise stated.

Investors sharing our sentiment may consider the following UCITS ETFs:

+ WisdomTree Global Quality Dividend Growth UCITS ETF – USD Acc (GGRA)

+ WisdomTree Global Quality Dividend Growth UCITS ETF – USD (GGRW)

You may also be interested in reading...

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