

# Market Outlook: Our strongest investment ideas for the rest of 2024 and beyond

Published 18 September 2024

**Pierre Debru**

Head of Research, WisdomTree Europe.

## Key Takeaways

- The great equity rotation, led by small-cap and value stocks, is finally here. This is creating opportunities for investors to revamp their core and satellite positions around small cap, dividend and previously overlooked segments of the market.
- Japan continues to benefit from structural changes and a weak yen, which could lead to continued positive performance of Japanese equities.
- With the Federal Reserve cutting rates, emerging market equities could start benefitting from a weakening US dollar and other structural catalysts after years in the doghouse.
- In the commodity world, precious metals stand to benefit from the weakening of fiat currencies around the developed world.
- Digital assets are now available across most developed equity exchanges. Barriers are disappearing one by one, and investors are now firmly in a position to benefit from their exceptional growth potential and high diversification power.
- Related Products WisdomTree US Equity Income UCITS ETF, WisdomTree US Quality Dividend Growth UCITS ETF - USD Acc, WisdomTree Artificial Intelligence UCITS ETF – USD Acc, WisdomTree Cybersecurity UCITS ETF – USD Acc, WisdomTree Emerging Markets Equity Income UCITS ETF, WisdomTree Japan Equity UCITS ETF - USD Hedged, WisdomTree Physical Crypto Mega Cap Equal Weight, WisdomTree Energy Transition Metals, WisdomTree Core Physical Gold, WisdomTree Core Physical Silver Find out more

The resilience of global economic growth has taken many by surprise and most developed markets have lived through a period of extraordinary monetary policy tightening that has lasted longer than expected a year ago. However, with visible signs of inflationary pressures waning and economies decelerating, most developed market central banks are now embarking on a journey of policy easing. Many asset groups will cheer on this policy loosening.

2024 is set to be the busiest election year in modern history. Shock results in India and France have set the tone for geopolitical anxiety. The US Presidential election is one of the big events left in the calendar and it will likely captivate markets.

As we head into the final quarter of 2024, The semi-annual [WisdomTree Market Outlook](#) aims to help investors identify key trends across asset classes and adjust their portfolios to stay ahead in a changing market.

## 1. The ‘great equity rotation’ is here

Equity markets have continued to perform well since the start of the year despite bouts of downside volatility. As inflationary pressures wane and the rate environment pivots to be more dovish, we are observing, in real time, investors moving away from large cap mega stocks to other opportunities that have been neglected over the last 18 months. This pivot coincides with our thinking that the most attractive risk/reward prospects lie in overlooked areas of the market: small caps, dividend, and value stocks. Given their heightened sensitivity to tightening credit conditions, small caps stand to rally after the first rate cut, which could see them outpace larger and even mega cap stocks – a feat they’ve managed in 8 of the last 11 loosening cycles. This is already evident in earning growth expectations, with the S&P 493 now matching the Magnificent Seven after years of trailing.

This rotation started in early July this year, and its impact is evident on core or satellite solutions:

- The [WisdomTree US Quality Dividend Growth UCITS ETF](#) has outperformed the S&P 500 by 3.9% since June 2024<sup>1</sup>. This ETF focuses on high-quality, dividend-growing companies in US markets. This strategy delivers a core equity strategy that can deliver good upside capture as well as 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 Equity Income UCITS ETF](#) blends the high dividend factor alongside the value factor, helping it outperform the S&P 500 Index by 4.2%<sup>1</sup> since the end of June. The ETF focuses on companies with high dividend yields that pay large cash dividends. The strategy weights the constituents based on the cash dividend being paid over the prior year
- European small cap earnings have outperformed large caps since mid-2023. They are becoming more attractive in terms of valuation as the gap in price-to-earnings (P/E) ratio with large caps remains wide. This could help [WisdomTree Europe SmallCap Dividend UCITS ETF](#) outperform over the rate cut cycle

## 2. Japan is finally coming out of its 40-year funk

Japan continues to benefit from long overdue structural changes. The Nikkei 225 total return index is up 9.1% year-to-date<sup>2</sup>. Despite some weaknesses over the summer, Japan continues to benefit from multiple bullish catalysts:

- The weaker yen continues to provide a competitive advantage to Japanese exporters, evident from the resilient earnings growth
- Corporate governance reforms have also led to signs of improvement as measures are focusing on return on capital

- Japanese equities are trading at attractive valuations versus global equities

After a strong 2023, the [WisdomTree Japan Equity UCITS ETF](#) continues to outperform with a return of 11.8%2 year to date, 2.6%2 better than the market. The ETF is well-positioned and enables investors to gain broad-based exposure to dividend-paying, export-oriented companies that meet WisdomTree's environmental, social and governance (ESG) criteria. Export-oriented companies are defined as those companies that derive at least 80% of their revenue from countries outside Japan. By using one of the many currency-hedged share classes of the ETF, investors can reap the potential opportunities of a weaker Yen and corporate governance reforms.

### **3. A weakening US dollar could create momentum for emerging markets**

Emerging markets (EMs) have been on the back burner for most investors in the last few years. However, it may be time to revisit this stance. With the Federal Reserve about to embark on its next monetary easing cycle, EMs stand to benefit from a weaker dollar. They also benefit from higher growth projections than their developed counterparts. The increasing share of trade within EM instead of this developed economy will also act as a tailwind for those markets.

The [WisdomTree Emerging Markets Equity Income UCITS ETF](#) was launched in 2007 and provides exposure to the highest dividend-yielding companies in EMs. The strategy reconstitutes annually and holds the highest (top 30%) dividend-yielding companies in EMs, screening out those with the highest risk – according to our Composite Risk Screen measure. With value and dividend leading the way in EMs, this may be the right vehicle to re-enter those markets.

### **4. Artificial intelligence has entered the mainstream**

Artificial intelligence (AI) has been the talk of the world for almost two years now. But the world is just starting its AI revolution. The benefits of the AI revolution are expected to spread across companies and industries. The arms race around Data Centres and AI-enabled devices is only starting. It will benefit Enablers (companies that develop the building block components for AI, such as advanced machinery, autonomous systems, self-driving vehicles, semiconductors or databases used for machine learning) and Engagers (companies that design, create, integrate or deliver artificial intelligence in the form of products, software or systems). As the trend matures, it will also spread to adjacent themes, with Cybersecurity assuming a broader role in protecting AI systems.

Since 2018, WisdomTree has developed a unique approach to equity themes by partnering with experts to deliver thematic ETFs. Each ETF invests in a diversified, expert-driven portfolio of pure play companies with high relevance to the theme, minimising overlap with established tech mega caps. This healthy mix of smaller and larger cap companies is always well-positioned for the upcoming rate-cut cycle.

Two ETFs could be of particular interest:

- [WisdomTree Artificial Intelligence UCITS ETF](#): Created in partnership with the Consumer Technology Association, the trade association representing the \$505 billion US consumer technology industry and organiser of the CES in Las Vegas
- [WisdomTree Cybersecurity UCITS ETF](#): created in partnership with Team8, a venture group with solid expertise in the field of cybersecurity. Team8's leadership team includes unicorn founders, bank and fintech CEOs and former leaders of Unit 8200 – Israel's elite military technology and intelligence agency

## 5. Precious metals continue to lead commodities

One thing is certain: the upcoming rate-cut cycle across developed economies will lower the attractiveness of fiat currencies. While gold is already trading close to all-time highs, this could still be positive for precious metals. Furthermore, ongoing trade policy uncertainty, driven by the US election being on a knife edge (with mainly a negative global trade bias if we get a Trump Presidency), may be a headwind for commodities in general, but gold could be favoured as a geopolitical hedge.

WisdomTree is a leading provider of physically backed gold exchange-traded commodities (ETCs). Since creating Europe's first physical gold ETC almost two decades ago, we have continued to build our suite of gold products, offering clients best-in-class features and price-competitive solutions. [WisdomTree Core Physical Gold](#), for example, was launched in December 2020 with the highest responsible gold standards applied. Custodians were asked to act on a best-efforts basis to allocate only 2019 or later London Bullion Market Association (LBMA) gold bars. It also has a management fee of only 12 basis points. [WisdomTree Core Physical Silver](#) also provides investors with a simple, cost-efficient and secure way to access physical silver with a management fee of only 19 basis points.

## 6. China comes to the rescue of the energy transition

With China looking for new sources of economic growth, it will double down on its domestic and international energy transition. While there is the risk of trade retaliation from the US and Europe, implementation could take some time, leaving a window of opportunity to ramp up clean tech exports.

WisdomTree provides an innovative solution to consider in this theme via commodity basket ETCs focused on the metals that are key to the energy transition: [WisdomTree Energy Transition Metals](#). The ETCs possess two features unique to the European markets:

- The baskets invest in both Lithium and Cobalt future contracts, i.e. the metal itself and not miners
- The weight of the metals is reviewed by Wood Mackenzie, who is a global research house for renewables, energy transition and natural resources based on proprietary models tied to the evolution of the energy transition

## 7. The neutral allocation to crypto is 1.5% of all portfolios

In 2024, digital assets have become fully institutionalised. The regulatory environment has been firming up with physical bitcoin and physical ethereum ETPs, which are now available on most developed market

exchanges, including US and London stock exchanges. As barriers to entry disappear one by one, it is now time for investors to look at digital assets inclusion in their portfolio based only on their investment basis. Digital assets bring exceptional growth potential and unparalleled diversification to a multi-asset portfolio. At this point in their development, a neutral allocation to digital assets is around 1.5%. Anything below this active underweight requires a clear investment thesis that can cost investors quite dearly. Bitcoin is already up 32.8% year-to-date (after gaining more than 150% last year).

Our physically backed crypto ETPs stand as a testament to our reputation as an issuer, providing access to institutional-grade ETPs across diverse asset classes, including crypto. We apply our deep-rooted commodity expertise to craft institutional-grade crypto offerings that are physically backed and benefit from a multi-custodial framework, ensuring a secure and diversified custody solution. Our approach is characterised by prudent risk management and innovation, as we judiciously integrate new features, such as staking, while avoiding the risks of securities or coin lending.

1 Source: WisdomTree, Bloomberg. From 30 June 2024 to 10 September 2024. In USD. **Historical performance is not an indication of future performance, and any investments may go down in value.**

2 Source: WisdomTree, Bloomberg. From 31 Dec 2023 to 10 September 2024. In JPY. **Historical performance is not an indication of future performance, and any investments may go down in value.**

## 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 Factors¼ for further details of risks associated with an investment in the Shares.

### **WisdomTree Artificial Intelligence UCITS ETF**

Nasdaq® and the Nasdaq CTA Artificial intelligence Index are registered trademarks of Nasdaq, Inc. (which with its affiliates 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.

### **Jersey ETCs Issuers**

The products discussed in this document are issued by WisdomTree Metal Securities Limited (the "Issuer"). The Issuer is regulated by the Jersey Financial Services Commission. Investors should read the prospectus of the Issuer before investing and should refer to the section of the prospectus entitled »Risk Factors¼ for further details of risks associated with an investment in the securities offered by the Issuer.

### **WisdomTree Metal Securities Limited**

Securities issued by the Issuer are direct, limited recourse obligations of the Issuer alone and are not obligations of or guaranteed by any of HSBC Bank plc and JP Morgan Chase Bank, N.A. any of their aillates or anyone else or any of their aillates. Each of HSBC Bank plc and JP Morgan Chase Bank, N.A. disclaims all and any liability whether arising in tort, contract or otherwise which it might have in respect of this document or its contents otherwise arising in connection herewith.

### **WisdomTree Multi Asset Issuer PLC**

WisdomTree Multi Asset Issuer PLC (the “Issuer”) issues products under a Prospectus (“WTMA Prospectus”) approved by the Central Bank of Ireland, drawn up in accordance with the Directive 2003/71/EC. The WTMA Prospectus has been passported to various European jurisdictions including the UK, Italy and Germany and is available on this document.

### **WisdomTree Issuer X Limited**

The products discussed in this document are issued by WisdomTree Issuer X Limited (the “Issuer”). Investors should read the prospectus of the Issuer before investing and should refer to the section of the prospectus entitled “Risk Factors” for further details of risks associated with an investment in the securities oered by the Issuer.

Securities issued by the Issuer are direct, limited recourse obligations of the Issuer alone and are not obligations of or guaranteed by any of Swissquote Bank Ltd (“Swissquote”), Coinbase Custody Trust Company LLC (“Coinbase”), any of their aillates or anyone else or any of their aillates. Each of Swissquote and Coinbase disclaims all and any liability whether arising in tort, contract or otherwise which it might have in respect of this document or its contents otherwise arising in connection herewith.

The product discussed in this document is an unregulated ETP, approved to trade on the SIX Swiss Exchange in Switzerland, Euronext Paris, Euronext Amsterdam and the Deutsche Börse Xetra in Germany. Cryptocurrencies are a high-risk investment and may not be suitable for all types of investor. Prospective investors should be aware that the price of the underlying asset(s) by which the securities are secured can demonstrate higher volatility than other asset classes and consequently the value of the securities may be extremely volatile. You must ensure that the nature, complexity and risks associated with cryptocurrencies are suitable for your objectives in light of your circumstances and financial position.

### **Notice to Investors in Switzerland – Qualified Investors**

This document constitutes an advertisement of the financial product(s) mentioned herein.

The prospectus and the key investor information documents (KIID) are available from WisdomTree’s website: <https://www.wisdomtree.eu/en-ch/resource-library/prospectus-and-regulatory-reports>

Some of the sub-funds referred to in this document may not have not been registered with the Swiss Financial Market Supervisory Authority (“FINMA”). In Switzerland, such sub-funds that have not been registered with FINMA shall be distributed exclusively to qualified investors, as defined in the Swiss Federal Act on Collective Investment Schemes or its implementing ordinance (each, as amended from time to

time). The representative and paying agent of the sub-funds in Switzerland is Société Générale Paris, Zurich Branch, Talacker 50, PO Box 5070, 8021 Zurich, Switzerland. The prospectus, the key investor information documents (KIID), the articles of association and the annual and semi-annual reports of the sub-funds are available free of charge from the representative and paying agent. As regards distribution in Switzerland, the place of jurisdiction and performance is at the registered seat of the representative and paying agent.

**For Investors in France:**

The information in this document is intended exclusively for professional investors (as defined under the MiFID) investing for their own account and this material may not in any way be distributed to the public. The distribution of the Prospectus and the offering, sale and delivery of Shares in other jurisdictions may be restricted by law. WT Issuer is a UCITS governed by Irish legislation, and approved by the Financial Regulatory as UCITS compliant with European regulations although may not have to comply with the same rules as those applicable to a similar product approved in France. The Fund has been registered for marketing in France by the Financial Markets Authority (Autorité des Marchés Financiers) and may be distributed to investors in France. Copies of all documents (i.e. the Prospectus, the Key Investor Information Document, any supplements or addenda thereto, the latest annual reports and the memorandum of incorporation and articles of association) are available in France, free of charge at the French centralizing agent, Societe Generale at 29, Boulevard Haussmann, 75009, Paris, France. Any subscription for Shares of the Fund will be made on the basis of the terms of the prospectus and any supplements or addenda thereto.

**For Investors in Malta:** This document does not constitute or form part of any offer or invitation to the public to subscribe for or purchase shares in the Fund and shall not be construed as such and no person other than the person to whom this document has been addressed or delivered shall be eligible to subscribe for or purchase shares in the Fund. Shares in the Fund will not in any event be marketed to the public in Malta without the prior authorisation of the Maltese Financial Services Authority.

**For Investors in Monaco:** This communication is only intended for duly registered banks and/or licensed portfolio management companies in Monaco. This communication must not be sent to the public in Monaco.