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

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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.

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[1]. 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%1 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[2]. 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.

ETP name	New MER	ISIN
WisdomTree Physical Bitcoin (BTCW)	0.35%	GB00BJYDH287
WisdomTree Physical Ethereum (ETHW)	0.35%	GB00BJYDH394
WisdomTree Physical Crypto Mega Cap Equal Weight (MEGA)	0.40%	GB00BMTP1733

[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.**

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WisdomTree Metal Securities Limited

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