2024 ECONOMIC & MARKET OUTLOOK

ACTIONABLE IDEAS

Q1/2024

WISDOMTREE®

Macro Insight: What Will ‘Higher for Longer’ Actually Mean?

Macro backdrop

+ The U.S. economy has remained surprisingly resilient, but a negative quarter for real GDP in 2024 cannot be ruled out
+ Inflation is expected to continue cooling but future progress may come more grudgingly
+ Labor market data will hold the key to Federal Reserve (Fed) actions; softening is anticipated
+ Broad stock market earnings growth should provide support for valuations in 2024
+ The decline in Treasury yields may have gotten ahead of itself, with a more sustainable decline likely later in 2024

Fed policy

+ With the Fed apparently at the end of this rate hike cycle, the timing and magnitude for potential rate cuts are now the focus
+ Powell & Co. appear to be more flexible with policymaking decisions
+ A notable deterioration in economic data and ongoing disinflation may be required to validate market expectations for significant policy easing
+ Equity and bond markets may need to get in better alignment with the Fed’s narrative

Taking Precaution in Quality: U.S. Equities

Outlook: One of the major risks last year was the “bank walk,” where regional bank depositors would incessantly withdraw money from regional banks in an attempt to capture 5% money market yields. This risk has faded. But what hasn’t faded is a new risk: that the manufacturing recession pulls services down with it. With manufacturing in contraction for 16 straight months, what has been so puzzling is the resilience of the services sector, which remains ever so slightly in expansion. With the long bond yield over a percentage point south of money market yields, we think the market is sending us a signal that services may soon feel some pain, bringing into question the resilience of sector groups such as Consumer Discretionary. Fortunately, we are bulled up on Consumer Staples, owing to our contention that the group needs only a gentle back-up in the labor situation to catch outperformance. That sector is decidedly overweighted in our U.S. quality dividend growth screens, on account of its robust profitability profile.

What We Like: We have been biasing toward our quality dividend growth mandates more than our traditional dividend screens, as even mild recessions are nothing to sneeze at. Many market observers are in a “2023” frame of mind, seemingly forgetting how ugly 2022 was for low-quality equity baskets. Firms with robust profit margins and strong balance sheets appear to be the proper course, because a key risk is the ticking clock on many companies’ debt refinancing.

What Could Go Wrong: For WisdomTree, continued market leadership by the so-called “Magnificent Seven” Silicon Valley giants is something that could go wrong, as most of our screening methodologies shun a handful of those companies, owing to our generally non-market cap-focused business model. Though we think any upset in the stock market could hinder the 2023 leaders, there is no ironclad law that says that must be the case. A set-up that would be disappointing would be one where the broad market decides to have a poor 2024, yet the tech giants are viewed as a haven, owing to the perception that they are the “safe place to be” in some forthcoming market scare.

Actionable Idea:

+ **DGRW: WisdomTree U.S. Quality Dividend Growth Fund**

Taking Precaution in Quality: International Developed Market (DM) Equities

Outlook: We remain decidedly bullish on Japan. We think the Street is wrong in anticipating tightening in that country this year. Even if we are proven incorrect on that contention, it is unlikely that the Bank of Japan would raise rates very much anyway, because there is a clear initiative in the country to encourage equity ownership, not cash and fixed income exposure. Encouragingly, Britain looks like it may be taking a cue from Japan. There are murmurs that the UK may want to expand its Individual Savings Accounts (ISAs) to encourage equity ownership. We think this chatter may be occurring because of Japan's 2024 NISA program expansion, wherein individuals will witness a tripling in their annual maximum contribution to their equivalent of a traditional IRA. Being as how those two countries are generally #1 and #2 weightings in most developed market funds, we are heartened by the reforms.

What We Like: Relative valuations, but then again, that did not help developed markets relative to the S&P 500 last year. Nevertheless, what the market needs is the disinflationary impulse to be stronger than many expect—and we think it is. Whereas a primary fear is that groups such as the European Central Bank may find it difficult to ease policy, we are in another camp. The reality is that some very large economies, namely Germany, the UK and Japan, are either in or very near recession. The fact that this is a known quantity is something that we "like." For example, in Germany, various subcomponents of its famed ZEW survey are at levels of pessimism last seen two decades ago. Tough economic times in the core of Europe are no secret.

What Could Go Wrong: Though it has gotten less attention amid the Israel-Hamas war, there remains a major war in Eastern Europe, and there is little reason to believe it is going to end anytime soon. Some miscalculation that escalates the Russia-Ukraine war would be problematic for European equities. This year is also a big election year for several major economies, including the US, Taiwan and India. Though U.S. election years often witness some fiscal goosing of the economy's levers, the bond market may not decide to play nicely on that score in 2024.

Actionable Ideas:

+ **IHDG: WisdomTree International Hedged Quality Dividend Growth Fund**
+ **DXJ: WisdomTree Japan Hedged Equity Fund**

Taking Precaution in Quality: Emerging Markets Equities

Outlook: We continue to believe China is investable, though the central government's further concentration of political power breeds risk in equities. However, there's significant inefficiency in the market's pricing of China risk; overreactions to both good and bad news are common. We continue to assess very low risk of U.S.-China conflict over Taiwan, though the constant cloud is problematic for investor sentiment in the region. India may be a beneficiary, as it appears to be leveraging its membership in the so-called BRICS while at the same time maintaining friendly relations with the likes of the U.S. and Japan.

What We Like: One of the more fascinating developments inside the markets is the dominance of Value over Growth in not only emerging markets but non-U.S. developed markets too. The fact that it is occurring during a period where the exact opposite has happened in the U.S. is stunning. We continue to see high single-digit dividend yields in many of our Emerging Markets Value strategies, while at the same time sub-10 P/Es are common. Pockets of the emerging world have become margin of safety plays, owing to the decimation of Chinese stocks over the last two years. We think that country remains investable—and that is now a contrarian view. We also think we have a trend in place, one that has a critical mass of investors realizing that the term "emerging markets" is splashed around on dozens of disparate countries, so perhaps it is time to think about investing on a country-by-country basis. Recent years' scrutiny of China and Russia has turned positive attention to Indian equities, which have been a market leader.

What Could Go Wrong: The Chinese Communist Party could continue to live up to its name. The country could also splash headlines by cozying up more with Russia, which would remind investors what happened to their Russian investments in 2022. Additionally, we are in the consensus that has Modi achieving victory in India's springtime elections. Should we be wrong on that score, and the Congress Party is successful, the Indian stock market would likely react to the downside.

Actionable Ideas:

+ **DEM: WisdomTree Emerging Markets High Dividend Fund**
+ **EPI: WisdomTree India Earnings Fund**

Fixed Income: A New Rate Regime

Outlook: Once again, the narrative for the U.S. fixed income arena has experienced a ‘sea-change’ in attitude, but this time around in the opposite direction. Since reaching their recent peaks in late October, U.S. Treasury (UST) yields have declined in a noteworthy fashion, as disinflation and a slowing economy has shifted Fed policy expectations from rate hikes to rate cuts. Interestingly, even with this drop in UST yields, rates still reside at levels not seen in close to fifteen years. Until the U.S. economy, specifically the labor market, begins to reveal signs of a significant slowing in activity, it would appear as if interest rates will remain at elevated levels, with volatility continuing to be a part of the broader bond market investment landscape.

This fixed income backdrop has created an interesting phenomenon where investors are presented with a new rate regime.

What We Like: Yields have risen to (normal) levels that a generation of advisors and investors have never seen before.

What Could Go Wrong: We could see no recession and/or labor market softening, with inflation remaining ‘sticky’. As a result, the Fed has to raise rates again, or at best, doesn’t cut them until late 2024, or early 2025.

Or we could see a deep recession where the U.S. economy (labor market) ‘falls of the cliff’ and the Fed cuts rates sooner and even more than expected. Other concerns include geopolitical developments (such as Ukraine, China/Taiwan and/or Middle East escalation).

Actionable Ideas:

+ **USFR: WisdomTree Floating Rate Treasury Fund**
+ **SHAG: WisdomTree Yield Enhanced U.S. Short-Term Aggregate Bond Fund**
+ **SFIG: WisdomTree U.S. Short-Term Corporate Bond Fund**

Glossary

Central bank: An institution that manages the currency and monetary policy of a state or formal monetary union and oversees their commercial banking system.

Bullish: A position that benefits when asset prices rise.

Disinflation: Term used to describe instances of slowing inflation, different from deflation in that price levels are still increasing overall, just at a slower rate.

Emerging market: Characterized by greater market access and less potential for operational risks when compared to frontier markets, which leads to a larger base of potentially eligible investors.

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

Gross Domestic Product (GDP): The sum total of all goods and services produced across an economy. Real GDP is a macroeconomic statistic that measures the value of the goods and services produced by an economy in a specific period, adjusted for price changes.

Growth stocks: Stocks whose share prices are higher relative to their earnings per share or dividends per share. Investors are willing to pay more because of their earnings or dividend growth expectations going forward.

NISA: A Nippon individual savings account (NISA) is an account that is meant to help residents in Japan save money with tax-exempt benefits.

Price-to-Earnings (P/E) ratio: Share price divided by earnings per share. Lower numbers indicate an ability to access greater amounts of earnings per dollar invested.

Recession: Two consecutive quarters of negative GDP growth, characterized generally by a slowing economy and higher unemployment.

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.

Treasury (UST): Debt obligation issued by the U.S. government with payments of principal and interest backed by the full faith and credit of the U.S. government.

Valuations: Refers to metrics that relate financial statistics for equities to their price levels to determine if certain attributes, such as earnings or dividends, are cheap or expensive.

Value stocks: Stocks whose share prices are lower relative to their earnings per share or dividends per share. Investors pay less for these stocks because their earnings or dividend growth expectations going forward are lower.

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.

ZEW Survey: A monthly survey that asks financial market experts about their expectations for the future of international financial markets and macroeconomic developments.

Important Information

Investors should carefully consider the investment objectives, risks, charges and expenses of the Funds before investing. To obtain a prospectus containing this and other important information, please call 866.909.9473, or visit WisdomTree.com/investments to view or download a prospectus. Investors should read the prospectus carefully before investing.

There are risks associated with investing, including the possible loss of principal.

DGRW: Funds focusing their investments on certain sectors increase their vulnerability to any single economic or regulatory development. This may result in greater share price volatility. Dividends are not guaranteed and a company's future abilities to pay dividends may be limited. A company currently paying dividends may cease paying dividends at any time.

IHDG: Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. To the extent the Fund invests a significant portion of its assets in the securities of companies of a single country or region, it is likely to be impacted by the events or conditions affecting that country or region. Dividends are not guaranteed and a company currently paying dividends may cease paying dividends at any time. Investments in currency involve additional special risks, such as credit risk and interest rate fluctuations. Derivative investments can be volatile and these investments may be less liquid than other securities, and more sensitive to the effect of varied economic conditions. As this Fund can have a high concentration in some issuers, the Fund can be adversely impacted by changes affecting those issuers. The Fund invests in the securities included in, or representative of, its Index regardless of their investment merit and the Fund does not attempt to outperform its Index or take defensive positions in declining markets. Due to the investment strategy of this Fund it may make higher capital gain distributions than other ETFs.

DXJ: Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. The Fund focuses its investments in Japan, thereby increasing the impact of events and developments in Japan that can adversely affect performance. Investments in currency involve additional special risks, such as credit risk, interest rate fluctuations, derivative investments which can be volatile and may be less liquid than other securities, and more sensitive to the effect of varied economic conditions. As this Fund can have a high concentration in some issuers, the Fund can be adversely impacted by changes affecting those issuers. Due to the investment strategy of this Fund it may make higher capital gain distributions than other ETFs. Dividends are not guaranteed, and a company currently paying dividends may cease paying dividends at any time.

Important Information

DEM: Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. Funds focusing on a single sector generally experience greater price volatility. Investments in emerging, offshore or frontier markets are generally less liquid and less efficient than investments in developed markets and are subject to additional risks, such as risks of adverse governmental regulation, intervention and political developments. Due to the investment strategy of this Fund it may make higher capital gain distributions than other ETFs.

EPI: Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. This Fund focuses its investments in India, thereby increasing the impact of events and developments associated with the region which can adversely affect performance. Investments in emerging, offshore or frontier markets such as India are generally less liquid and less efficient than investments in developed markets and are subject to additional risks, such as risks of adverse governmental regulation and intervention or political developments. As this Fund has a high concentration in some sectors, the Fund can be adversely affected by changes in those sectors. Due to the investment strategy of this Fund it may make higher capital gain distributions than other ETFs.

USFR: Securities with floating rates can be less sensitive to interest rate changes than securities with fixed interest rates, but may decline in value. Fixed income securities will normally decline in value as interest rates rise. The value of an investment in the Fund may change quickly and without warning in response to issuer or counterparty defaults and changes in the credit ratings of the Fund's portfolio investments. Due to the investment strategy of this Fund it may make higher capital gain distributions than other ETFs.

SHAG: Fixed income investments are subject to interest rate risk; their value will normally decline as interest rates rise. Fixed income investments are also subject to credit risk, the risk that the issuer of a bond will fail to pay interest and principal in a timely manner, or that negative perceptions of the issuer’s ability to make such payments will cause the price of that bond to decline. Investing in mortgage- and asset-backed securities involves interest rate, credit, valuation, extension and liquidity risks and the risk that payments on the underlying assets are delayed, prepaid, subordinated or defaulted on. Due to the investment strategy of the Fund, it may make higher capital gain distributions than other ETFs.

Important Information

SFIG: Fixed income investments are subject to interest rate risk; their value will normally decline as interest rates rise. Fixed income investments are also subject to credit risk, the risk that the issuer of a bond will fail to pay interest and principal in a timely manner or that negative perceptions of the issuer's ability to make such payments will cause the price of that bond to decline. While the Fund attempts to limit credit and counterparty exposure, the value of an investment in the Fund may change quickly and without warning in response to issuer or counterparty defaults and changes in the credit ratings of the Fund's portfolio investments.

Please read each Funds' prospectus for specific details regarding the Funds' risk profiles.

This material contains the opinions of the authors, which are subject to change. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results.

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