2023 ECONOMIC & MARKET OUTLOOK

ACTIONABLE IDEAS

1Q23

WisdomTree®

Macro Insight: Volatility Remains a Market Constant

+ Economic backdrop: Volatility quotient remains elevated
  - Inflation is expected to continue cooling in 2023; headline readings could surprise to the downside
  - Recession is widely expected and is a base case scenario, though arguably already factored in
  - Labor market data will hold the key to Fed actions; softening is anticipated
  - Broad stock market earnings could be vulnerable
  - Treasury yields could have one more move to the upside before falling later in 2023
+ Fed policy and global central banks will continue to take center stage
  - We anticipate continued rate hike(s) for early 2023
  - Policy then goes on extended pause by Q2
  - Rate cuts may come into focus by year-end (Q4)
  - Equity and bond markets are challenging the Fed narrative

The Decade of Dividends: U.S. Equities

Outlook: Our primary concern with regard to the S&P 500's earnings outlook for 2023 is that banks are indicating a buttoning up of their lending standards, an occurrence that sometimes indicates corporate profit trouble.

Growth oriented stocks led for some time, largely since the Global Financial Crisis, but was 2022 a turning point to kick off a value cycle? Historically, the value/growth cycle has been a pendulum with periods lasting roughly seven years.

+ **What We Like:** The bear market has already aged, indicating a chunk of the pain may be behind us. Additionally, valuations are more reasonable than they were before the market peaked a year ago, while the market is heartened by the ever-nearer prospect of a Fed pivot to lower rates. Further, unlike conditions at the peak of the mania, sentiment is sober. Equity longs are certainly not engaging a market that is populated by giddy, unrealistic expectations.
+ **What Could Go Wrong:** The value cycle turns out to be just a value trade—a shorter term run for value.

Actionable Ideas:

- DGRW – WisdomTree U.S. Quality Dividend Growth Fund
- DHS – WisdomTree U.S. High Dividend Fund

The Decade of Dividends: International Developed Equities

Outlook: We keep coming back to the dollar's bull market, which got itself to the point where its real effective exchange rate (REER) reached highs last seen at the turn of the century. Should the dollar come off the boil, it may be the setup needed non-U.S. developed market stocks. Though we are still cautious on the group, owing to our trepidation with regard to the duration and severity of the Russian invasion of Ukraine. Nevertheless, we have eyes on two major components—Britain and Japan—both of which are showing valuation appeal and potentially some newfound competitiveness owing to the collapse in the British Pound Sterling (GBP) and Japanese Yen (JPY).

+ **What We Like:** Many single-digit price-to-earnings multiples pervade across numerous developed nations. In terms of diversification, developed markets' lighter exposure to Tech may round out a more even keel approach than allocations that are U.S.-heavy. Not yet appreciated by the market is the opening up of a large wage arbitrage between developed markets and the U.S., as Americans find themselves with notably higher wages than peers in places such as Europe and developed Asia. Finally, the EU's natural gas crisis has been less severe than expected.
+ **What Could Go Wrong:** Ongoing turmoil or worsening outcomes in Ukraine, a reincarnation of "Grexit" fears whereby the Greek bond market threatens talk of Greece exiting the euro, Japanese bond market risk, and stickier inflation causing the European Central Bank (ECB) and Bank of Japan (BoJ) to keep raising rates.

Actionable Ideas:

- DTH – WisdomTree International High Dividend Fund

The Decade of Dividends: Emerging Markets Equities

Outlook: Especially in light of China's COVID-19 reopening, we continue to believe China is investable. Though the 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. At this juncture, due to the unknown path of the reopening process and the fact that China's political calendar starts around March, it is premature to put too much conviction behind the Street's tepid economic forecasts.

+ **What We Like:** Many deep value and even quality-oriented value mandates have dividend yields that are either in or near double digits. Emerging markets value is also contrarian play, owing to years of historical underperformance. The emerging world could also benefit from a U.S. dollar that has become "too" strong, portending weakness that alleviates dollar-based debt burdens.
+ **What Could Go Wrong:** Ongoing turmoil or worsening outcomes in Ukraine, uncertainty with Taiwan, firm-specific risk in companies that have close ties to the Chinese Communist Party and a possible continuing of tightening credit conditions in 2023.

Actionable Ideas:

- DEM – WisdomTree Emerging Markets High Dividend Fund

Fixed Income: A Return to Normalcy

Outlook: The global sovereign debt markets arguably experienced their worst year on record in 2022. However, an interesting development has occurred in the process; the era of negative rates has seemingly drawn to a close. Government bond markets in the developed world have now seen yield levels move into positive territory for the key 2-, 5- and 10-year maturity sectors.

This development has created an interesting phenomenon: there's "income back in fixed income."

+ **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 the Fed (global central banks) either raise rates more than expected, or don't cut them until 2024. While China's 'COVID re-opening' leads to better global growth outlook and keeps inflation 'sticky'.

  Or we could see a deep recession where the U.S. economy (labor market) rolls over and the Fed cuts rates sooner than expected. Other concerns include geopolitical developments (such as Ukraine or a China/Taiwan escalation).

Actionable Ideas:
- WFHY – WisdomTree U.S. High Yield Corporate Bond Fund
- USFR – WisdomTree Floating Rate Treasury Fund
- AGGY – WisdomTree Yield Enhanced U.S. Corporate Bond Fund

Glossary

Bear market: A sustained downturn in market prices, increasing the chances of negative portfolio returns.

Bull market: A market in which share prices are rising, encouraging buying.

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

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

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

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: 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.

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.

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 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, **DHS**: 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.

DTH: Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. 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.

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.

Important Information

USFR: Securities with floating rates can be less sensitive to interest rate changes than securities with fixed interest rates, but may decline in value. The issuance of floating rate notes by the U.S. Treasury is new and the amount of supply will be limited. 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.

WFHY: Fixed income investments are subject to interest rate risk; their value will normally decline as interest rates rise. High-yield or “junk” bonds have lower credit ratings and involve a greater risk to principal. 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.

AGGY: 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.

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

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