MARKING TO MARKET: 2024 OUTLOOK

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THE RESILIENT ECONOMY

Much like the 2023 experience, the markets have been debating whether 2024 will finally be the year when a recession rears its ugly ahead. While we are only through Q1, investors are once again discovering a resilient U.S. economy.

With labor market activity still relatively solid, the economy is continuing to receive underlying support, helping U.S. households mitigate the restraining effects of higher rates and inflation. Weekly jobless claims remain at historically low levels, so it looks like not only could a recession be averted, but growth may also be able to evade a bumpy ride.

INFLATION: IS IT JUST SEASONAL?

Another surprising macroeconomic occurrence has been the somewhat hotter-than-anticipated reads on inflation to begin 2024. While some further improvement in overall price pressures was a reasonable case scenario, inflation measures such as the Consumer Price Index (CPI) and Producer Price Index (PPI) have revealed that the last mile toward the Federal Reserve's (Fed's) 2% inflation goal may be a bit more difficult.

Interestingly, Fed Chairman Powell has mentioned that "seasonal problems" may have been behind the unexpected inflation readings to begin the year. If that is the case, the markets should see some reversal in price trends in coming months. Or, perhaps service inflation excluding shelter may be stickier than previously thought. Either way, it appears as if 2% may come a bit more grudgingly than previously anticipated.

FED POLICY IMPACT

What a difference a couple of months makes for Fed policy expectations. Coming into the new year, the money and bond markets were pricing in six quarter-point rate cuts for 2024, with the first move expected to be implemented at the just-completed March meeting of the Federal Open Market Committee (FOMC). Following the somewhat 'hotter than expected March CPI report, the money and bond markets have now dialed their rate cut expectations down to two as compared to the Fed's dot plot which called for three moves. In addition, the first rate cut timing has now been pushed back to September from June. As we've seen so far in 2024, the situation surrounding the potential for rate cuts will remain a fluid one, but unless the data continue to surprise to the upside, the Fed does seem intent on reducing the fed funds rate at some point later this year.

In our opinion, the timing of the first cut will certainly be headline making, but for investors, the more important point will be what this easing cycle looks like. Also, let's not forget quantitative tightening (QT). An imminent end to QT does not appear to be on the table yet, but reducing the pace of the Fed's balance sheet run-off looks like it will also become part of the monetary policy landscape later in 2024.

TRENDS IN EQUITY MARKETS

Updated Equity Outlook: Navigating Potential Rate Cuts

As the 2024 investment landscape unfolds, the anticipation of Fed rate cuts casts a significant shadow over U.S. equity markets. Ideally, the rationale for policy makers to reduce the cost of overnight money will be an achievement of "immaculate disinflation." However, the compulsion to cut rates could instead be catalyzed by something else: some forthcoming systemic shock that arises from the lagged effect of the 2022–2023 rate hikes.

When monetary adjustments arrive, they herald a pivotal moment for investors. The environment suggests not merely a challenge but an array of opportunities, both within the U.S. and beyond.

U.S. Equity Market

The current scenario is confounding because high valuations and the aftermath of aggressive monetary tightening necessitate a nuanced approach in U.S. equities. We are gravitating to high-quality, dividend-yielding stocks that demonstrate robust fundamentals and economic resilience. This strategy not only aims at capitalizing on potential market rallies that could be triggered if monetary easing is greeted with ebullience, but also at safeguarding against volatility if instead we find ourselves battling through a 2024 economic shock.

As 2024's opening quarter concludes, the world's leading corporations are collectively allocating over $100 billion annually to advance computing infrastructure. We are observing the emergence of superior chatbots and "CoPilots" that optimize existing software. Artificial intelligence (AI) has the potential to augment productivity across a diverse array of industries. We predict the most noteworthy 2024 outcome could be the incorporation of AI on smartphones and laptops in the latter half of the year.

Nevertheless, upon examination of the phenomenon, we wonder whether it has been excessively sensationalized. Still, it is difficult to overlook the power of the Magnificent Seven stocks last year, owing to their oligopolistic market power. Because of the top-heavy nature of the U.S. market, we find appeal in small and mid-caps, which present a margin of safety argument from a valuation perspective.

Opportunities Beyond the U.S.

Internationally, the equity outlook shines for markets like Japan and India, which present contrasting but equally compelling narratives.

Japan: The concerted efforts by Japanese authorities to bolster corporate governance and rejuvenate the pension system signify deep-rooted reforms that are poised to stimulate equity investment. These initiatives look set to drive domestic and foreign inflows to Tokyo-listed equities. This unique blend of governance reform and potential pension asset reallocation toward domestic equities creates a fertile ground for investors seeking growth in a stable and reforming economy.

India: Standing as a beacon of growth, India's market is not just surviving but thriving; the Street anticipates 2024 gross domestic product (GDP) growth will exceed all major economies. We anticipate forthcoming springtime election success by Prime Minister Narendra Modi's Bharatiya Janata Party (BJP), which promises a stable environment for further economic expansion. The underexposure of many American portfolios to India's burgeoning economy suggests a missed opportunity for those allocators.

Adapting to Currency and Global Market Dynamics

The inverse correlation between the U.S. Dollar Index and global equities in recent years highlights the importance of currency considerations in international investments. Currency-hedged strategies, particularly in European equities, offer a prudent approach to mitigate currency risk and attendant volatility, especially should a sell-off surprise the consensus.

A Balanced Approach to 2024's Market Dynamics

The anticipation of rate cuts across many economies invites a balanced, strategic approach. We are heartened by the opportunities arising in markets such as Japan and India. As the global economic landscape evolves, the adept investor will seek quality, resilience and growth, steering through 2024 with a keen eye on both immediate opportunities and unfolding macro trends.

NEW RATE REGIME

While the money and bond markets wonder what higher for longer will actually mean, the more accurate way of looking at fixed income is that it has entered into a new rate regime, where interest rates are now at levels a generation of investors has not witnessed before. We continue to suggest investors utilize laddered and/or barbell strategies for their fixed income portfolios.

U.S. Treasuries

Within the U.S. Treasury (UST) market, investors have seen a rather sizeable turnaround in yield levels from the end of last year. The rally that followed the peak yield levels around mid-October was predicated on a weakening economy, cooling inflation and an aggressive rate-cutting response from the Fed. In order for UST yields to remain at or below the levels that were being registered, validation needed to occur, and as we have seen throughout Q1, the cornerstones of that rally were not validated.

As a result, UST yields have now retraced more than half of their Q4 decline and appear to be trying to establish fair value trading ranges. Unless there is a negative economic or inflation surprise on the immediate horizon, we believe upcoming data and Fed policy should keep the UST 10-Year yield roughly in the 4%–4.50% band in the coming months, but it could be skewed to the upside of this range.

Fixed Income Asset Allocation

The resilient economic landscape has provided a supportive setting for U.S. credit. In the high-yield (HY) space, investors may see an improved default cycle, with peak readings perhaps being witnessed sooner and at lower levels than previously expected. Valuations in both high-yield and investment-grade credit have adjusted to reflect this improved landscape and yield spreads over Treasuries have fallen to relatively tight levels by historical standards. This doesn't preclude spreads from either drifting lower or staying firm in what we expect to be a range bound for longer-term Treasury rates. Carry remains valuable in this type of environment, but a significant rally from here needs a catalyst and we remain focused on higher-quality issuers.

Thus, we think investors, in allocating to fixed income, should take small, calculated positions across investment-grade credit, U.S. high-yield credit and securitized assets (relative to Treasuries) while keeping some allocation to short-term fixed income to take advantage of opportunities as they evolve.

ASSET ALLOCATION SUMMARY

Equities

+ We remain neutral on stocks relative to bonds.
+ We are constructive on domestic equities given a positive outlook for corporate earnings, expectation for advances in technology to support productivity, and the view that the Fed has the flexibility to respond to any significant economic slowdown.
+ Within U.S. equities, we are tilted toward mid-caps and small caps, dividend payers and companies with lower valuation multiples.
+ While the S&P 500 Index trades at a steep premium to international equities, relative valuations outside of the top-heavy market gauges are near long-term averages.
+ Outside the U.S., we are under-weight in Europe and China but see more attractive prospects in Japan and India.

Equities	Negative	Neutral	Positive
Equities vs. Bonds		●	
U.S. Large Cap Growth	⊖		
U.S. Large Cap Value			⊕
U.S. Mid/Small Cap			⊕
Developed International	⊖		
Developed International Small Cap			⊕
Emerging Markets	⊖		
Emerging Markets Small Cap		●	

Source: WisdomTree, as of March 31, 2024. Evaluations are subject to change as market conditions change. This is for illustration purposes only and does not represent investment advice. All evaluations are on a relative and not absolute basis. Red = a negative relative evaluation; gray = a neutral relative evaluation; green = a positive relative evaluation. You cannot invest in an index, and past performance does not guarantee future results.

Fixed Income

+ We added duration in a deliberate manner last year and are now closer to a neutral stance relative to benchmarks.
+ However, given the inverted nature of the yield curve and our expectation for ongoing interest rate volatility, we remain allocated to short-duration bonds, including Treasury floating rate notes.
+ We remain constructive on quality-screened credit and are over-weight in mortgage-backed securities.

Fixed Income	Negative ⊖	Neutral ○	Positive ⊕
Duration		●	
U.S. Treasuries	⊖		
Investment Grade Credit		●	
High Yield Credit		●	
Securitized Credit			⊕
Non-U.S.	⊖		

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Alternatives

+ With the expectation that stock-bond correlations could remain in positive territory, we believe trend-following and other liquid alternative strategies can play an important role in multi-asset class portfolios.
+ We continue to favor strategies that seek to generate uncorrelated returns in periods of heightened volatility.
+ While rising correlations with equities have called into question the hedging capabilities of fixed income, the dollar has acted as a better portfolio diversifier.

Alternatives	Negative ⊖	Neutral ○	Positive ⊕
Real Assets		●	
Liquid Alternatives			⊕

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Glossary

Artificial intelligence (AI): A field that combines computer science and robust datasets to enable problem-solving. Barbell strategy: An investment strategy that aims to balance risk and reward by investing in high-risk and low-risk assets, while avoiding middle-risk options. Carry: The amount of return that accrues from investing in fixed income or currency forward contracts. Consumer Price Index (CPI): A measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. The CPI is calculated by taking price changes for each item in the predetermined basket of goods and averaging them; the goods are weighted according to their importance. Changes in CPI are used to assess price changes associated with the cost of living. Core CPI excludes food and energy costs. Currency hedging strategy: An investment strategy that is designed to mitigate the impact of currency performance on investment returns. Default cycle: A cycle of the default management process, represented by hedges or an auction. 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. Dividend yield: A financial ratio that measures the percentage of a company's stock price that is paid out in dividends each year. Dot Plot: A chart based on the economic projections of the Federal Reserve board members that illustrates their views on the appropriate pace of policy firming and provides a target range or target level for the federal funds rate. Duration: A measure of a bond's sensitivity to changes in interest rates. The weighted average accounts for the various durations of the bonds purchased as well as the proportion of the total government bond portfolio that they make up. Federal Open Market Committee (FOMC): The branch of the Federal Reserve Board that determines the direction of monetary policy. Federal Reserve (Fed): The Federal Reserve System is the central banking system of the United States. Federal Reserve balance sheet: Also known as the Fed's H.4.1 statement, is a financial statement that shows the U.S. central bank's assets, liabilities, and capital accounts. Fundamentals: Attributes related to a company's actual operations and production as opposed to changes in share price. Gross domestic product (GDP): The sum total of all goods and services produced across an economy. High yield (HY): Sometimes referred to as "junk bonds," these securities have a higher risk of default than investment-grade securities. Inflation: Characterized by rising price levels. Investment grade (IG): A rating that signifies a municipal or corporate bond presents a relatively low risk of default. Laddered strategy: A fixed income strategy that seeks equal allocations across the yield curve in order to limit reinvestment risk. Market capitalization: Market cap = share prices x number of shares outstanding. Firms with the highest values receive the highest weights in approaches designed to weight firms by market cap. Monetary easing: Actions undertaken by a central bank with the ultimate desired effect of lowering interest rates and stimulating the economy. Monetary policy: Actions of a central bank or other regulatory committee that determine the size and rate of growth of the money supply, which in turn affects interest rates.Producer Price Index (PPI): A weighted index of prices measured at the wholesale, or producer level. Quality: Characterized by higher efficiency and profitability. Typical measures include earnings, return on equity, return on assets and operating profitability. This term is also related to the quality factor, which associates these stock characteristics with excess returns versus the market over time. Quantitative Tightening (QT): The reverse process of quantitative easing whereby securities are either sold or the proceeds of maturing securities are not reinvested with the goal of tightening economic conditions to prevent the economy from overheating. Recession: Two consecutive quarters of negative GDP growth, generally characterized by a slowing economy and higher unemployment. Securitized: A debt security whose value is backed by an asset or pool of assets such as a mortgage. Size capitalization: A measure by which a company's size is classified. Large caps are usually classified as companies that have a market cap of more than $10 billion. Mid-caps range from $2 billion to $10 billion. Small caps are typically new or relatively young companies and have a market cap between $200 million and $2 billion. Spread: Typically refers to a difference between a measure of yield for one asset class and a measure of yield for either a different subset of that asset class or a different asset class entirely. 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. U.S. Dollar Index: A measure of the value of the U.S. dollar relative to the value of a basket of currencies of the majority of the U.S.'s most significant trading partners. This index is similar to other trade-weighted indexes, which also use the exchange rates from the same major currencies. 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. Volatility quotient: The risk measurement of a security. 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 Fund before investing. For a prospectus or, if available, the summary prospectus containing this and other important information about the Fund, call 866.909.9473 or visit WisdomTree.com/investments. Read the prospectus or, if available, the summary prospectus carefully before investing.

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Dividends are not guaranteed, and a company currently paying dividends may cease paying dividends at any time.

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.

Diversification does not guarantee a profit or eliminate the risk of a loss.

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