

A Financial Sector Relative Value Trade

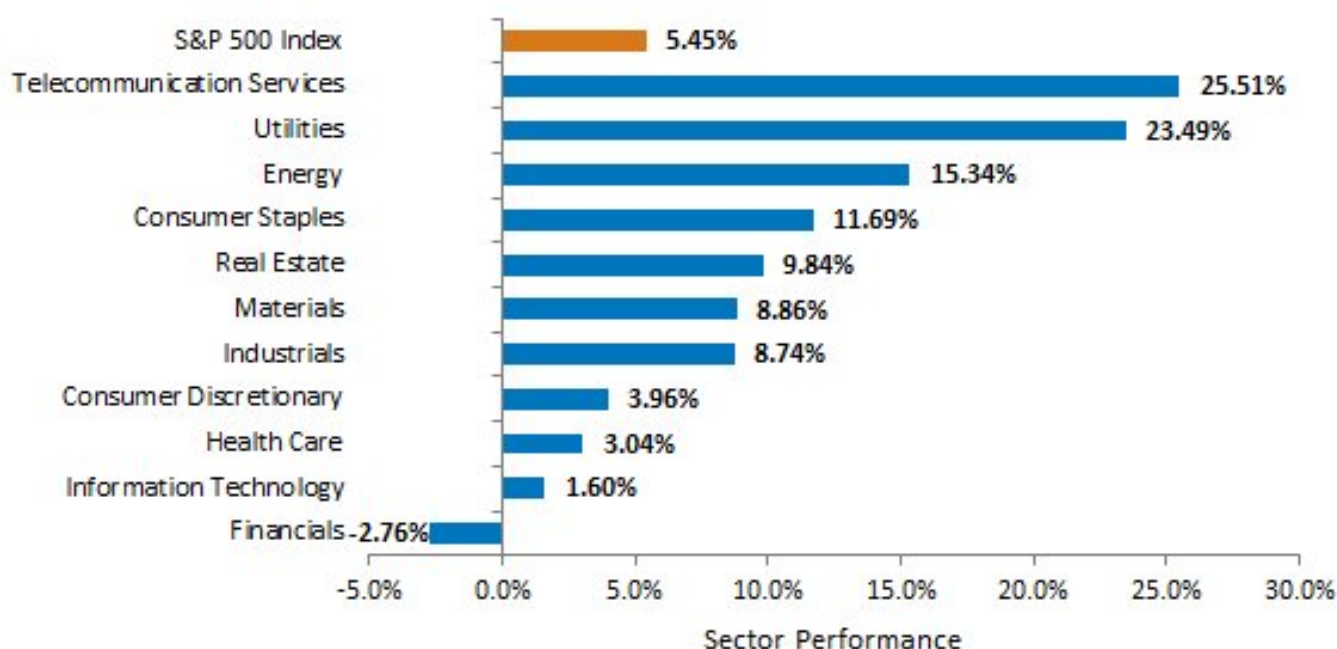
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No sector has seen its performance turn for the better more than Financials in the last five months. Financials started the year as the worst-performing sector, lagging the broader markets by over 8 percentage points through July 8, while the hunt for yield and falling interest rates pushed up Utilities and Telecom stocks to outperform the markets by almost 10 percentage points.

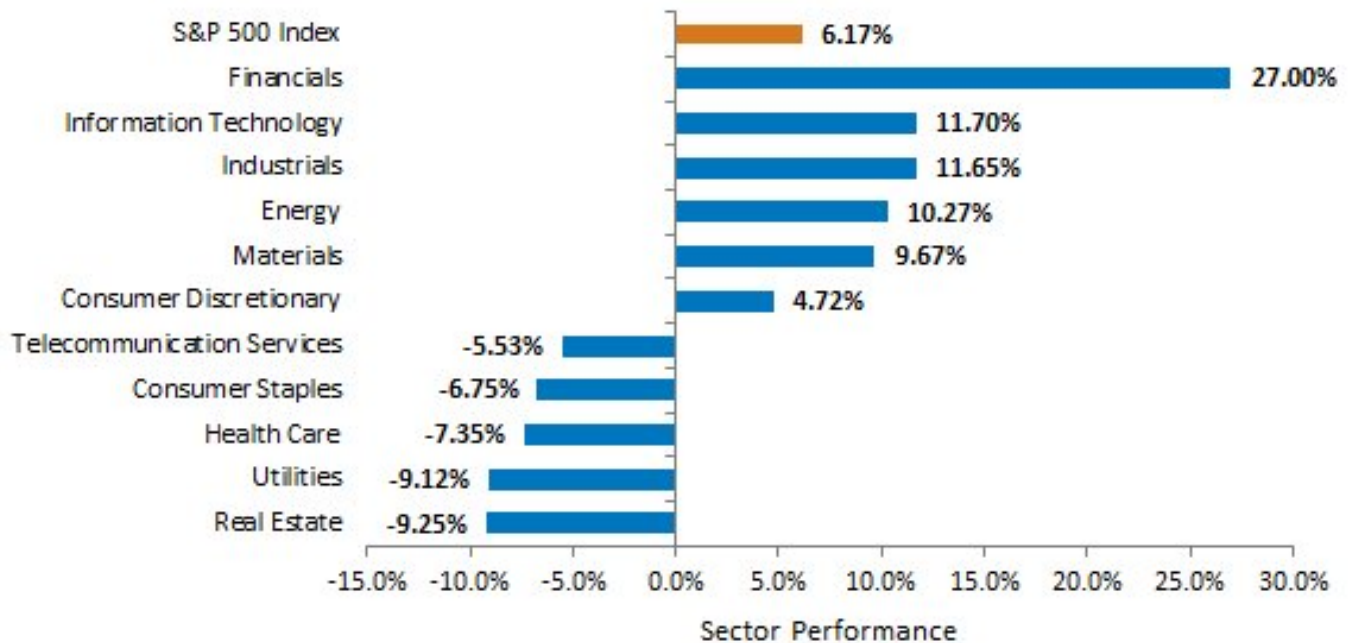
GICS Sector Performance of the S&P 500 Index (12/31/15 7/8/16)



Sources: WisdomTree, Bloomberg, 12/31/15–7/8/16. Shows total return on S&P sector indexes. Past performance is not indicative of future results. You cannot invest directly in an index.

But over the last five months, as the 10-Year yield rose from its lows on July 8, this relationship changed and the Utilities sector now has the worst performance over the last five months while Financials are leading the way with rising yields.

GICS Sector Performance of the S&P 500 Index (7/8/16 12/7/16)



Sources: WisdomTree, Bloomberg, 7/8/16–12/7/16.

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The move has been so swift over the last five months that U.S. Financials have changed from being the worst sector to one outperforming the broader gains in the markets by over 10 percentage points. Because the spike higher in interest rates manifested in strong performance, it may be time to re-evaluate sector rotation.

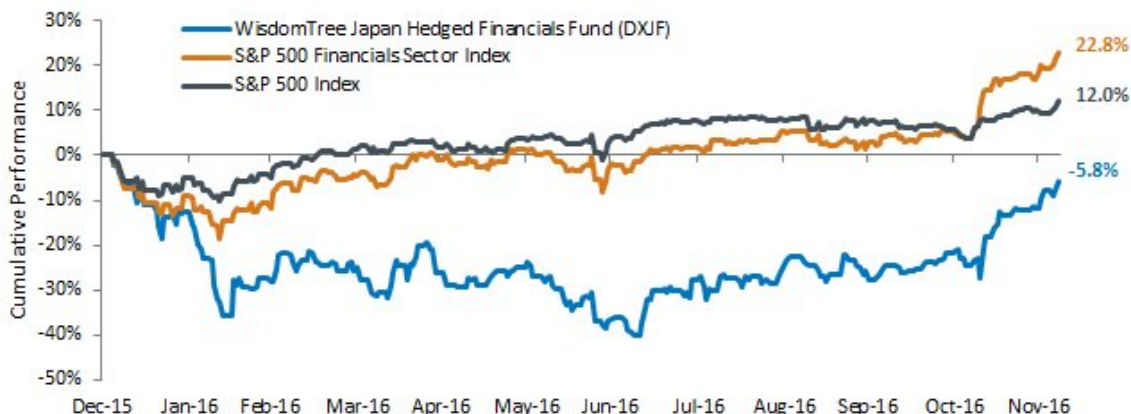
Where Is There Value in Financials?

There is one market where the Financials sector was down even more going into the bottom of rates and which has not made up all its losses, unlike in the U.S.: Japan.

Going into July, Japanese Financials lost cumulatively 40% from the start of the year.¹ There was a remarkable turn, as investors become less bearish on the negative interest rate policy the Bank of Japan instituted in January and a broader pickup in global yields that feeds through to Japanese Financials. Increasingly, Japanese banks have been looking outside of Japan for growth, so a pickup in global yields supports Japanese banks.

Yet the Japanese Financials sector still has not crossed back into positive territory on the year and is still lagging the broader Japanese markets, unlike in the U.S.

WisdomTree Japan Hedged Financials Fund (DXJF) Performance (12/31/15 12/7/16)



Sources: WisdomTree, Bloomberg, 12/31/15–12/7/16.

Performance is historical and does not guarantee future results. Current performance may be lower or higher than quoted. Investment returns and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Performance data for the most recent month-end is available at www.wisdomtree.com.

WisdomTree shares are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Total returns are calculated using the daily 4:00 p.m. EST net asset value (NAV). Market price returns reflect the midpoint of the bid/ask spread as of the close of trading on the exchange where Fund shares are listed. Market price returns do not represent the returns you would receive if you traded shares at other times.

[Click here for standardized performance of DXJF.](#)

For definitions of indexes in the chart, visit our [glossary](#).

Future Prospects for Japanese Financials

Japanese Financials, from a valuation perspective, appear reasonably priced in our view. On the earnings front, the negative side: there isn't likely to be any pickup in net interest margins. Unlike the U.S. Federal Reserve, which is hiking rates (albeit slowly), and the 10-Year U.S. rate, which has been rising, the Bank of Japan is very likely to keep a zero cap on its 10-year Japanese government bonds for the foreseeable future.

On the positive side for earnings, though, the contraction of net interest margins is likely over. Loan volumes have the potential to surprise to the upside, in our view, coming from an increase in mortgage lending and small/medium corporate borrowing.

More importantly, net interest margins from overseas lending should exceed expectations, in our view—with potentially a weaker yen and also higher global interest rates.

Finally, non-interest income is also now rising as consumer finance business.

For those investors who have been invested in U.S. Financials recently and have benefited, it may be time to consider rotating into Japanese Financials on a relative value opportunity. At the very least, the performance differentials indicate some interesting spreads to monitor over time.

DXJF Valuation Statistics vs. the MSCI USA Financials Sector Index as of 11/30/16

	WT Japan Financials	U.S. Financials
Price/Earnings	10.7x	15.1x
Estimated Price to Earnings	10.4x	13.7x
Price to Book	0.7x	1.3x
Price to Sales	1.0x	2.2x
Price to Cash flow	4.3x	9.8x
Dividend Yield	2.61%	1.81%
Net Buyback Yield	1.69%	2.81%
Total Dividend + Buyback Yield	4.30%	4.62%

Sources: WisdomTree, FactSet as of 11/30/16. WT Japan Financials refers to the WisdomTree Japan Hedged Financials Fund and U.S. Financials refers to the MSCI USA Financials Sector Index. Past performance is not indicative of future results. You cannot invest directly in an index.

For definitions of terms in the chart, visit our glossary.

¹Refers to the [WisdomTree Japan Hedged Financials Fund \(DXJF\)](#), 12/31/15–7/8/16.

Important Risks Related to this Article

There are risks associated with investing, including possible loss of principal. 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, regulatory or sector-specific development. This may result in greater share price volatility. The Fund focuses its investments in Japan, thereby increasing the impact of events and developments in Japan that can adversely affect performance. The Fund uses various strategies to attempt to minimize the impact of changes in the Japanese yen against the U.S. dollar, which may not be successful. Investments in derivative investments can be volatile, may be less liquid than securities and may be 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. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.