

Actionable Ideas to Start the New Year

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WisdomTree's Model Portfolio Investment Committee

Contributor

This article is relevant to financial professionals who are considering offering Model Portfolios to their clients. If you are an individual investor interested in WisdomTree ETF Model Portfolios, please inquire with your financial professional. Not all financial professionals have direct access to these Model Portfolios.

WisdomTree's Model Portfolio Investment Committee produces quarterly commentary on their latest asset allocation views. These views impact the trade and rebalance decisions of the Model Portfolio strategies the team manages. These views are outlined below and followed up with specific investment strategies that express those views. Financial professionals can access the complete list of strategies and trades as it relates to our Model Portfolios [here](#).

U.S. Exposure

Relative to the All Country World Index (ACWI), we maintain our over-weight position in U.S. equities going into 2021. 2020 marked the eighth year of the past nine in which U.S. equities outperformed their international peers. The year was highlighted by the continued domination of big tech stocks; however, the final few months of the year saw a long-awaited catch-up rally by beaten-down cyclical assets and small caps. Market-friendly presidential election results, continued monetary support from the Federal Reserve (Fed) and another fiscal stimulus package are all positive drivers of risk assets, but we believe a successful global vaccine rollout should be the most impactful for economic growth and investors' risk appetites. Markets have been looking past the surge in COVID-19 cases with abundant optimism about reopening in 2021, and while we are optimistic for risk assets in 2021, we caution against getting too far ahead of ourselves in the near term. Quality remains undervalued and serves as an anchor for our equity models. We believe 2021 may finally be the year that value stocks outperform, given their historical tendency to do so in early-cycle periods combined with the increasing regulatory risk facing some big tech names. We continue to ensure our portfolios have lower valuations, as defined by price-to-earnings ratios, and are tilted toward value and size; however, we elected to add more explicit growth exposure in order to balance a portion of our value bias and to act as a hedge if the expected value rebound does not take hold.

Investment Ideas:

[WisdomTree U.S. Quality Dividend Growth Fund \(DGRW\)](#)

[WisdomTree U.S. LargeCap Dividend Fund \(DLN\)](#)

[WisdomTree U.S. SmallCap Fund \(EES\)](#)

Developed International Exposure

We remain under-weight in international developed equity markets relative to ACWI. The reopening trade, combined with a falling dollar, provided meaningful tailwinds for European and Japanese equities to close 2020. Europe saw another large wave of COVID-19 cases this fall that, hopefully, reached its apex in December. The European Central Bank's increase in the size and duration of its pandemic emergency purchase program should provide continued liquidity to the financial system, and 2021 may see the positive impact of the EU recovery fund. Perhaps even more than its European counterpart, the Japanese equity market is leveraged to the global manufacturing and export cycle and would benefit from a sustained pickup in growth. While we are more optimistic on the developed international region than we have been in the past few quarters, we stop short of increasing exposure there and elect to keep our current positioning. We believe the dollar may continue to slide, and so we lean toward unhedged positions in our EAFE exposure.

Investment Ideas:

[WisdomTree Global ex-U.S. Quality Dividend Growth Fund \(DNL\)](#)

[WisdomTree International Quality Dividend Growth Fund \(IQDG\)](#)

Emerging Markets Exposure

We maintain a modest over-weight position in the emerging markets (EM) region relative to ACWI. EM led all major global equity regions for most of the second half of the year, as the sinking dollar continued to act as a catalyst for the asset class. Earnings have risen sharply in recent months, and expectations for 2021 are soaring as well. The reflation trade could benefit the struggling commodity-exporting countries like Russia and Brazil. While valuations are no longer screamingly cheap, EM stocks still look inexpensive relative to the developed world. Despite a fresh start with the new U.S. administration, there may be no returning to the amicable ties between the U.S. and China, and a renewed focus by Chinese lawmakers to reduce the country's debt burden could interrupt the upward trajectory of EM equities. That said, we remain convinced that the risk/reward trade-off of the asset class is skewed to the upside. We continue to utilize ex-state-owned enterprises at the core, along with small-cap dividend payers as a satellite.

Investment Ideas:

[WisdomTree Emerging Markets ex-State-Owned Enterprises Fund \(XSOE\)](#)

[WisdomTree China ex-State-Owned Enterprises Fund \(CXSE\)](#)

[WisdomTree Emerging Markets SmallCap Dividend Fund \(DGS\)](#)

Fixed Income Exposure

We maintain our positioning of over-weight in credit and shorter duration relative to our benchmark, the Bloomberg Barclays Aggregate Bond Index. U.S. investment-grade and high-yield spreads have retraced nearly all of the peak widening experienced back in March. Nevertheless, credit valuations, specifically within the high-yield sector, remain attractive from a relative value perspective. A focus on screening for

quality will remain of paramount importance. The Fed's new monetary policy framework, which focuses on average inflation targeting, essentially removes any rate hikes for 2021 and potentially beyond. The focus now turns toward forward guidance regarding the Fed's quantitative easing purchases of Treasuries and mortgage-backed securities. Given this new approach, an increase in economic momentum and/or rising inflation expectations could pressure longer maturity rates, leading to further steepening in the Treasury yield curve¹. While lingering uncertainties mean that additional setbacks cannot be ruled out, ongoing support from the Fed, well-capitalized financial institutions, additional fiscal policy stimulus and the vaccine rollout have created the potential for economic and credit market improvements. Given the historically low rate environment, longer-dated Treasuries may not offer the same degree of hedge protection in the event of a risk-off trade and have a heightened sense of vulnerability to the risk-on trade. As a result, we refined our Treasury position, moving from longer-dated to the intermediate part of the curve, which will still provide protection in risk-off environments but is less vulnerable to continued curve steepening or a significant pickup in yields. Given our views on improving economic conditions in emerging markets and the dollar, we believe there may be opportunity in emerging markets local debt.

Investment Ideas:

[WisdomTree Yield Enhanced U.S. Aggregate Bond Fund \(AGGY\)](#)

[WisdomTree U.S. High Yield Corporate Bond Fund \(WFHY\)](#)

[WisdomTree Emerging Markets Local Debt Fund \(ELD\)](#)

Alternatives Exposure

We maintain our current positioning in our volatility management portfolio. Our options-writing strategy Fund delivered strong and stable returns as implied volatility remained elevated. Positions in merger arbitrage and black swan strategies consistently generated positive absolute returns since the first quarter. Our anti-beta holding continues to act as a true diversifier, performing exactly as expected in a global equity rally and helping to rein in the total portfolio risk level. We think this alternatives sleeve delivers a unique return stream of potential return drivers with the benefit of additional risk diversification.

Within our real asset allocation, we opted to allocate to a broad commodity basket exposure to capture our view on the dollar and what we believe may be strengthening demand as the global economy accelerates.

Investment Ideas:

[WisdomTree CBOE S&P 500 PutWrite Strategy Fund \(PUTW\)](#)

[WisdomTree Continuous Commodity Strategy Fund \(GCC\)](#)

¹Yields on long-term bonds are rising faster than yields on short-term bonds.

Important Risks Related to this Article

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The WisdomTree Model Portfolio Investment Committee is also sometimes referred to as the Asset Allocation Committee.