

Focus on European Exporters

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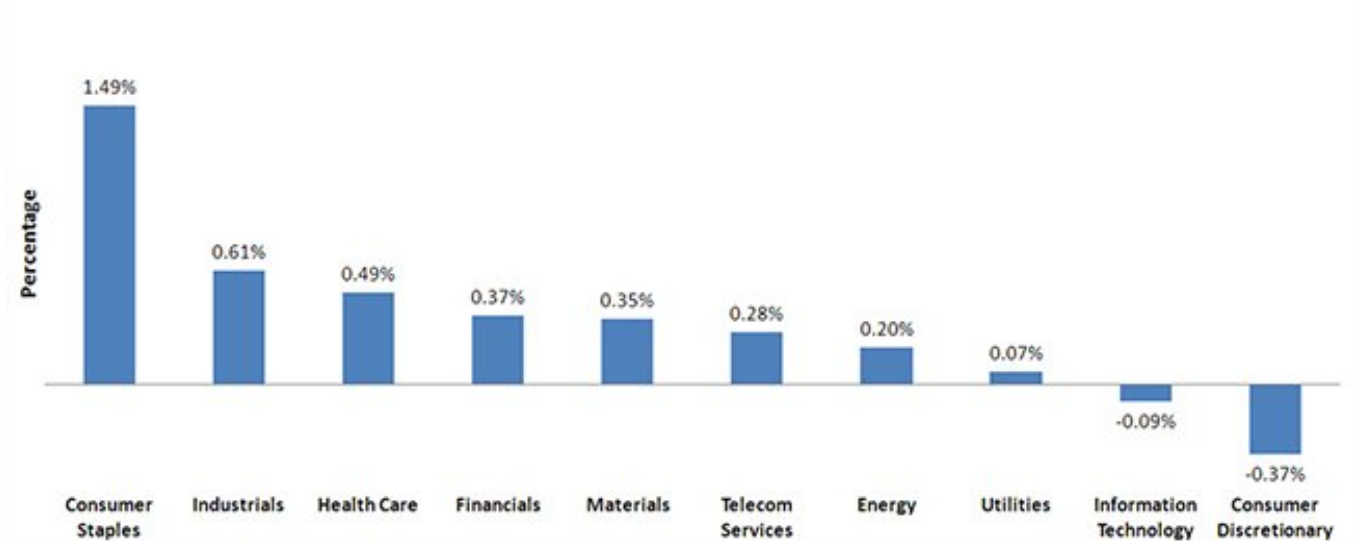
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In a [previous blog](#) on European equities, I discussed how the estimated earnings recovery in the European market could make the equities attractively priced compared to the [S&P 500 Index](#). Specifically, I recommended focusing on European exporters, which may be less reliant on sluggish growth in Europe due to their multinational and diversified global revenue base. Today I will take a closer look at the performance of these companies, as they are starting to separate themselves from the broader European market averages.

Why Exports Matter The global economy is improving, but many European economies are struggling. As a result, to avoid becoming overly dependent on a single economy, we believe it is important to invest in companies that have more diversified revenue streams. With the U.S. equity markets off to a great start year to date, we thought it would be interesting to look at how the European markets are performing.

Specifically, to see how European exporters have performed year to date, we compared the WisdomTree Europe Hedged Equity Index to the MSCI EMU Local Currency Index, its market capitalization-weighted benchmark. In its Europe Hedged Equity Index, WisdomTree focuses on European exporters. These companies are selected if they are domiciled in Europe and if more than 50% of their revenues come from outside Europe. Although there are differences in index methodologies, we chose the MSCI EMU Local Currency Index for comparison purposes because it represents a broad base of European companies, weighted by market capitalization. We looked at the total attribution between the two indexes year-to-date through 04/15/2013. **Total Performance Attribution:** WisdomTree Europe Hedged Equity vs MSCI EMU Local Currency



Sources: WisdomTree, Bloomberg. The performance attribution chart above is the difference in the total returns between the two indexes, broken down by sectors and priced in euros. Period is from 12/31/12 to 04/15/2013. Past performance is not indicative of future results.

- **Positive Outperformance** – The WisdomTree Europe Hedged Equity Index had positive performance attribution in 8 out of 10 sectors. The WisdomTree Europe Hedged Equity Index was up 5.46% through 04/15/2013, compared to the MSCI EMU Local Currency Index, which returned 2.07% for the same period.
- **Over-weight Consumer Staples** – The WisdomTree Europe Hedged Equity Index' largest over-weight was toward the consumer staples sector, which includes many multinational companies with large exports. At almost a 10% over-weight compared to the MSCI EMU Local Currency Index, it has contributed to 1.49% of total outperformance.
- **Under-weight Financials** – Noticeable under-weights of around 12.5% for the financial sector also contributed 0.37% to the total outperformance.

Hedge Your Currency Risk
 WisdomTree's focus on European exporters has started to provide important performance benefits, but we also believe there is a benefit to hedging your currency risks. As the euro weakens, European exporters benefit because their goods become more attractively priced for global consumers abroad; and when they bring the overseas sales profit back to Europe, they can convert the foreign currency at a higher exchange rate. On the other hand, a weakening euro is not good for U.S. investors in European equities—unless they hedge the currency. Currency-hedged strategies allow investors to focus on European exporters without the worry over currency declines.

Conclusion In my opinion, many investors dismiss Europe because of its uncertain economic situation. But Europe is a big region of the world—and investors may be missing strong exporting companies that have a strong global revenue base. Focusing on these European equities with a currency hedge may help to lower the volatility of the region with stocks that are performing better than other European equities.

	YTD	Since WT Inception 07/02/12
WisdomTree Europe Hedged Equity Index	6.60%	26.60%
MSCI EMU Local Currency Index	2.37%	18.98%

Past performance is not indicative of future results.

Take the euro out of Europe ([Video](#))

Important Risks Related to this Article

You cannot invest directly in an index. Diversification does not eliminate the risk of experiencing investment losses. The recent growth rate in the stock market has helped to produce short-term returns for some asset classes that are not typical and may not continue in the future.