

Opportunities in Developed International Equities

Published July 30, 2014

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So far in 2014, much attention has been paid to the record highs seen periodically in U.S. markets¹, responses to central bank and fiscal policies in Japan and Europe and even the volatility and potential valuation case for emerging markets². One market not discussed as often is broad developed international equities. **Results Are In: 2014 Rebalance** Each year, WisdomTree screens the universe of dividend payers in developed international markets so that we can refocus the weights of constituents back to relative value and away from simply holding increasing amounts of stocks that have performed well. The rebalance was recently completed, suggesting that this is an opportune time to review the positioning of our broad developed international Indexes. **WisdomTree's Broad Developed International Indexes**

Characteristics of Indexes Post-Rebalance	WT DEFA	WT International LargeCap Dividend	WT International MidCap Dividend	WT International SmallCap Dividend	WT International Dividend ex-Financials	WT DEFA Equity Income	WT International Hedged Dividend Growth
Top 5 Currency Exposures³							
Euro	31.8%	34.4%	28.5%	15.1%	35.6%	33.5%	33.3%
Japanese yen	13.3%	10.0%	21.0%	25.9%	8.8%	5.4%	8.0%
British pound	20.8%	22.3%	17.5%	15.7%	25.0%	24.6%	19.9%
Australian dollar	11.5%	11.1%	9.5%	18.7%	9.5%	16.0%	8.4%
Swiss franc	7.5%	9.1%	2.9%	1.9%	7.3%	5.1%	12.4%
Regional Exposure Breakdown							
Europe	66.5%	71.4%	57.7%	40.7%	75.3%	69.4%	74.3%
Japan	13.3%	10.0%	21.0%	25.9%	8.8%	5.4%	8.0%
Pacific ex-Japan	20.2%	18.5%	21.3%	33.4%	15.9%	25.2%	17.7%
Cyclical vs. Defensive Sectors							
Cyclical Sectors ¹	65.6%	60.8%	75.8%	84.5%	50.3%	61.4%	59.8%
Defensive Sectors ²	34.4%	39.2%	24.2%	15.5%	49.7%	38.6%	40.2%

¹Cyclical sectors: Consumer Discretionary, Energy, Financials, Industrials, Materials & Technology.

²Defensive sectors: Consumer Staples, Health Care, Telecommunication Services & Utilities.

³Top five currency exposures: Refers to the top five currency exposures of the WT DEFA Index, the broadest Index shown, as of the annual Index screening on 5/31/14.

Sources: WisdomTree, Standard & Poor's, as of 5/31/14 Index screening; subject to change.

- **Currency Exposure:** As a baseline, we know that the MSCI EAFE Index has 30% to 33% exposure to the euro, and about 19% to 21% exposure to both the yen and the pound³. In terms of divergences of interest:
 - o **Japanese yen:** The WT International MidCap and WT International SmallCap Dividend Indexes have clear over-weights to the yen, compared to the MSCI EAFE Index, whereas the other Indexes represent significant under-weights.
 - o **Euro:** The WT International Dividend ex-Financials Index is interesting for its

nearly 36% exposure to Eurozone. This Index has performed strongly in 2014, helped by its significant weight in European Utilities. o **WT International Hedged Dividend Growth Index:** This is the only Index shown that is actually currency-hedged. Each of the other Indexes will be impacted by the movements of their underlying currency exposures versus the U.S. dollar, but this Index will not, making it very interesting for those thinking that the macroeconomic picture suggests the potential for a strengthening U.S. dollar relative to other developed-market currencies. • **Cyclicals vs. Defensives:** As one looks from the WT International LargeCap Dividend Index down the continuum of the size spectrum to the WT International SmallCap Dividend Index, there is a notable ramp up—almost 25% (from 60.8% in large caps to 84.5% in small caps)—in terms of exposure to cyclical sectors. This fits with an important theme: those bullish on the prospects for an economic recovery should consider small caps. o It's also worth noting that the most "defensively positioned" index is the WT International Dividend ex-Financials Index. We'll be examining this Index more closely in a future blog post, but suffice it to say that as defensive sectors, such as Utilities, have tended to outperform in 2014, this Index has definitely benefitted. **Shifting the Developed International Investment Paradigm** In U.S. markets, there is a lot of stratification—people will think in terms of large cap versus small cap or value versus growth. However, in developed international equities, the focus is primarily on the MSCI EAFE Index. Newer indexes, such as the MSCI EAFE IMI Index, look to be more representative of the total market opportunity—inclusive of mid-cap and small-cap stocks. But WisdomTree has been providing options inclusive of all developed international dividend payers since June 1, 2006. In two subsequent blog posts, we will examine our International SmallCap Dividend and International Dividend ex-Financials Indexes in greater detail. For the full research on the WisdomTree International Developed Indexes rebalance, [click here](#). 1Refers to the S&P 500 Index, which has periodically achieved record highs from 12/31/13 to 5/31/14. 2Refers to the MSCI Emerging Markets Index for the period from 12/31/13 to 5/31/14. 3Source: Bloomberg, as of 5/31/14.

Important Risks Related to this Article

Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. Investments focusing on certain sectors and/or smaller companies increase their vulnerability to any single economic or regulatory development. Investments focused in Europe are increasing the impact of events and developments associated with the region, which can adversely affect performance. Investments focused in Japan are increasing the impact of events and developments associated with the region, which can adversely affect performance.