

Our Investing Toolkit for Q2 2021

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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

We maintain our overweight position in U.S. equities going into the second quarter. Following the Georgia Senate runoff in early January, risk assets surged higher on expectations of a massive stimulus bill that was eventually passed in March. Vaccination efforts have accelerated in recent months, boosting market sentiment. Surging growth expectations have helped propel the long-awaited rotation from large-capitalization growth stocks into cyclical, value and small-cap stocks. In the meantime, sharply higher interest rates have weighed on the high-flying growth names that dominated cap-weighted equity indexes for the last several years. Quality tends to lag when value outperforms, and we continue to blend the two factors as anchors of our large-cap positioning. The move higher in small and mid-caps has been rapid—as has the subsequent move downward in late March—but following years of underperformance, we believe the run still has legs.

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 underweight in international developed equity markets. The vaccination rollout has met with numerous issues in the EU, and the region now faces rising cases and renewed lockdowns as a result. The ECB continues to boost the liquidity it provides to the financial system, and the impact of the EU Recovery Fund may be felt later this year. In Japan, the vaccination effort has been slow to start but should not be plagued by the logistical issues observed in Europe. Earnings have surprised to the upside and look to be

trending higher in 2021 as well. The global rotation from growth to value stocks stands to aid the developed world given the cyclical composition of its equity markets and reliance on global growth.

Investment Ideas:

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

Emerging Markets Exposure

We maintain an overweight position in the emerging markets (EM) region. After a blistering pace at the start of the year, EM has cooled off thanks to a combination of an unexpectedly strong dollar and increased scrutiny on China's tech titans. China's regulatory push targeting antitrust activities and debt reduction bears close monitoring over the coming months. Despite this, earnings continue to trend sharply higher and we think the asset class offers compelling long-term value, particularly when compared to developed market equities. Several commodity-linked countries and sectors have benefited in the global reflationary environment and small caps are seeing strong outperformance as well. The current environment gives us conviction in our positioning of barbellng non-state-owned enterprises with small-cap dividend payers.

Investment Ideas:

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

Fixed Income Exposure

We maintain our positioning of overweight credit and shorter duration relative to the benchmark. The biggest story in fixed income and arguably all capital markets has been the spike in the U.S. Treasury (UST) 10-Year yield. While the 10-Year yield has risen by 120 basis points (bps) from its August low, roughly 80 bps of this increase occurred in just the first quarter of 2021 alone. The 2s/10s yield curve has visibly steepened to its widest level since mid-2015. The March FOMC meeting underscored the Fed's intention to continue providing an extremely accommodative monetary policy approach over the next two years. Despite raising their median inflation forecast to at least their 2% threshold through 2023, the policy makers' consensus view was for no rate hikes during this period, underscoring their intention to let the economy run. Inflation expectations have moved to the widest readings in a decade. We continue to see the potential for further upside in the UST 10-Year yield in the months ahead, leading to some additional steepening of the yield curve. U.S. investment-grade and high-yield spreads have retraced all of the peak widening from 2020 and are now back to pre-pandemic levels. We foresee both investment-grade and high-yield spreads settling into a trading range, with credit valuations, specifically within the high-yield sector, remaining reasonably attractive from a relative value perspective. A focus on screening for quality will remain of paramount importance. As we have seen over the last year, additional setbacks cannot be ruled out entirely, but unprecedented amounts of fiscal stimulus, ongoing support from the Fed, well-capitalized financial institutions and the ongoing vaccine rollout have created the potential for a robust economic setting in 2021.

Investment Ideas:

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

Alternatives Exposure

For portfolios that include an allocation to alternatives, we swapped out our merger arbitrage strategy for a more diversified arbitrage fund that includes both event-driven and convertible arb, and should be able to take advantage of opportunities offered in the flood of recent SPAC launches. We also added an interest rate volatility strategy that should benefit from continued choppiness in bond markets and a further steepening in the curve. Put writing has been profitable as implied volatility remains elevated, and our anti-beta holding has performed as expected in a low-quality global equity rally. We think this alternatives sleeve delivers a unique stream of potential return drivers with the benefit of additional risk diversification.

Investment Ideas:

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

Disruptive Growth Strategy

While we keep our conviction in the select themes underlying our disruptive growth strategy, we elected to swap our genomics exposure for a similarly focused but smaller strategy. We are taking profits following a remarkable run by our previous holding, but the strategy now operates at a scale that we think is too

large to effectively and nimbly managed like it had done previously. Genomics remains a top theme in the Model, along with cloud computing, given the growth rates of its constituents and the future potential we see in the category.

Investment Ideas:

- [WisdomTree Cloud Computing Fund \(WCLD\)](#)

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