

# Positioning WisdomTree Model Portfolios for 2025

Published January 10, 2025

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## Key Takeaways

- **Leaning into U.S. equities:** We remain bullish on U.S. stocks and are focused on capturing diversification and upside through value strategies that emphasize shareholder yield and profitability metrics.
- **Targeted exposures in international equities:** Outside the U.S., we are over-weight in Japan and India but under-weight in broader developed and emerging markets.
- **Fixed income refinements:** We maintain a neutral duration stance with over-weight exposure in quality-screened corporate credit and agency mortgage-backed securities.

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### Positioning Portfolios for Q1 2025

As we begin 2025, [WisdomTree's ETF Model Portfolios](#) are positioned to address macroeconomic challenges while also capitalizing on global market opportunities. Here's a detailed breakdown of our strategic views across asset classes:

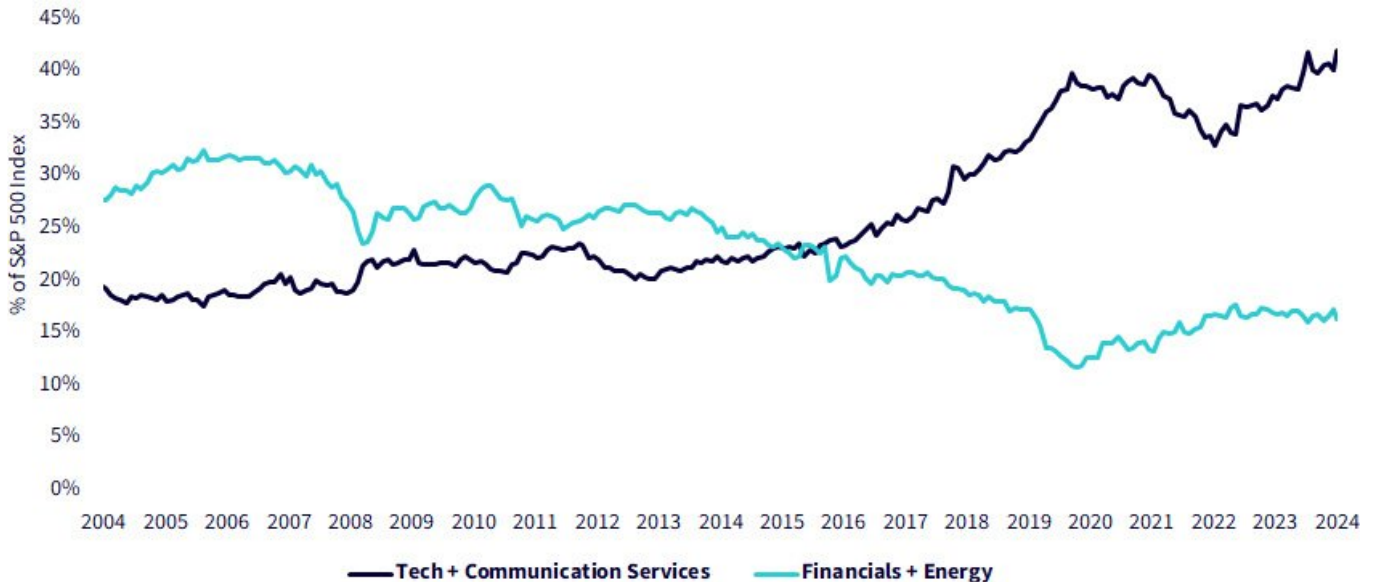
## Equity Allocations

We have over-weight allocations to equities relative to bonds and see several reasons to remain bullish on large-cap U.S. stocks: a resilient labor market, a continued disinflationary trend, AI optimism and strong corporate earnings driven by a favorable economic outlook, deregulation and tax cuts. We are prioritizing companies with strong profitability, high return on equity and robust total shareholder yield.

Many have pointed to earnings multiples, which are elevated relative to longer-term historical levels. While we agree this creates higher downside risks, the current growth sector and high-quality makeup of the U.S. market may justify a higher multiple. As seen in figure 1 below, the sector profile of the S&P 500 Index

has seen a significant shift from value-oriented sectors (financials and energy) to technology companies. In our view, this context is necessary as historical comparisons may be overstating today's valuations.

## Figure 1: Sector Weights of S&P 500 Index

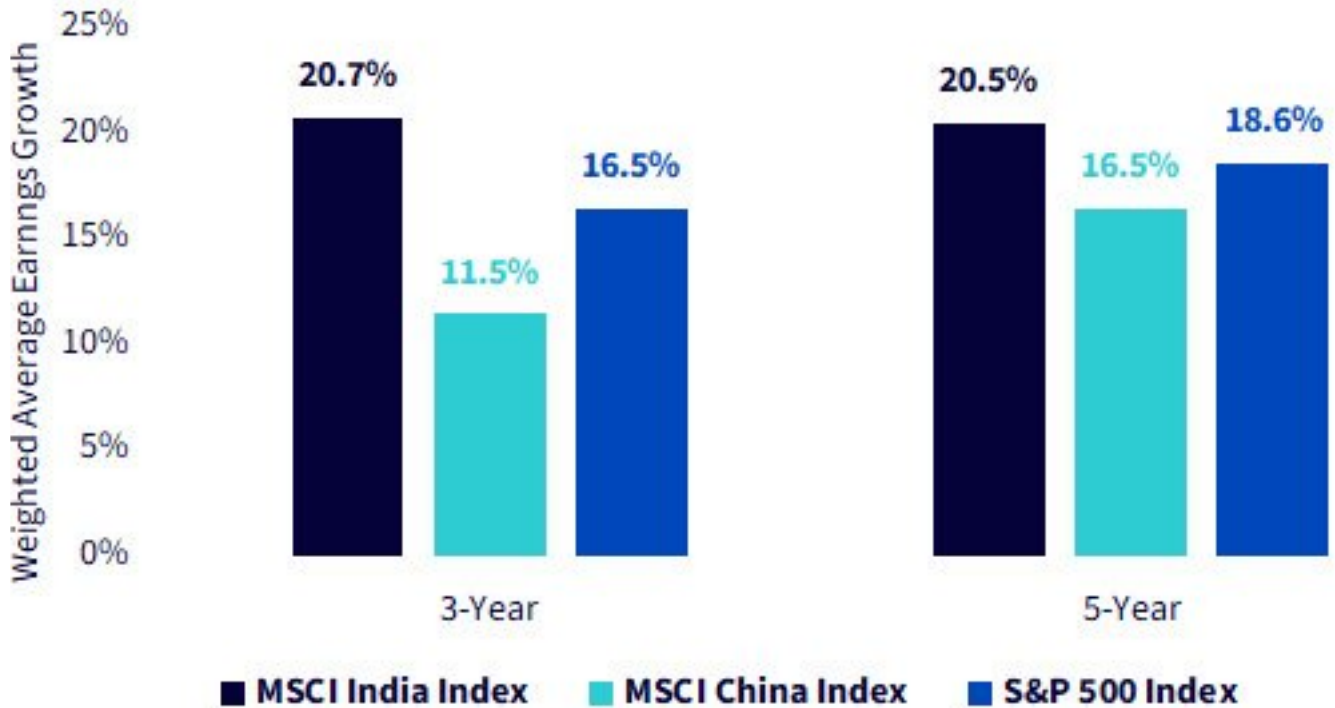


Source: WisdomTree, FactSet; as of 12/18/24. You cannot invest directly in an index.

Furthermore, while we do not see a bubble in mega-cap tech, we believe there are ample opportunities to diversify from highly concentrated market cap-weighted indexes. For example, value stocks are priced at a significant discount to growth stocks and may benefit from potential shifts in both fiscal and monetary policy.

Outside the U.S., Japan remains a focal point within developed markets. Its accommodative monetary policies, coupled with corporate reforms emphasizing shareholder returns, bolster its appeal. Meanwhile, as seen in figure 2, India stands out in emerging markets with its world-leading earnings growth and demographic tailwinds that should support income and consumption going forward.

## Figure 2: Weighted Average Earnings Growth in India, China, U.S.



Sources: WisdomTree, MSCI, as of 12/18/24. You cannot invest directly in an index.

## Fixed Income Allocations

Expecting a highly data dependent Fed, we have a neutral duration stance relative to benchmarks. Figure 3 below demonstrates corporate credit spreads have tightened significantly in recent quarters, with investment-grade spreads at levels last seen in the 1990s and high-yield spreads reaching 2007 levels.

### Figure 3: Spreads (Basis Points) on IG (LHS) and HY (RHS) Corporate Bonds



Source: Bloomberg, WisdomTree, as of 12/18/24. Spreads are option adjusted spread (OAS). Investment-grade corporate represented by the [Bloomberg US Corporate Index](#). High-yield corporate represented by the [Bloomberg US Corporate High Yield Bond Index](#). You cannot invest directly in an index.

While these credit spreads levels are hardly anything to get excited about, all-in yields remain attractive and issuer fundamentals have recently stabilized at still healthy levels. Therefore, we are maintaining our neutral exposure to quality-screened credit while being over-weight in agency mortgage-backed securities. This large, liquid, high-quality asset class stands to benefit from declining rate volatility, historically attractive spreads relative to investment-grade corporates and an improving supply/demand environment.

## Efficient Core and Alternatives

To enhance portfolio diversification, we recommend efficient core strategies that combine equity and bond exposures, freeing up capital for alternative investments. Liquid alternative strategies, such as trend-following and managed futures, offer uncorrelated returns and can mitigate risk in periods of heightened volatility. These strategies are particularly valuable if stock-bond correlations remain in positive territory.

## Final Thoughts

We believe 2025 will present a unique mix of challenges and opportunities for long-term investors. Elevated valuations and geopolitical complexities demand a disciplined investment approach. By emphasizing exposures that we feel offer compelling risk/reward trade-offs across asset classes, [WisdomTree's strategic ETF Model Portfolios](#) are built to navigate uncertainty while capitalizing on global trends. Our balanced and forward-looking strategies help equip advisors to achieve long-term success for their clients in an evolving market landscape.

For more 2025 investing insights, check out our [2025 Economic & Market Outlook](#).

## Important Risks Related to this Article

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