

Strong U.S. Dollar & Rising Rates

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Christopher Gannatti, CFA

Global Head of Research

Two questions tend to dominate discussions of U.S. equities today: 1. Are we entering a period of rising interest rates, spurred by the U.S. Federal Reserve (Fed) raising short-term interest rates prior to the end of 2015? 2. How much stronger will the U.S. dollar get, measured against other currencies? Despite the Fed maintaining its' current interest rate policy, these questions are likely to be debated intensely for the foreseeable future. We turned instead to thinking about strategies that could be of particular relevance if interest rates rise and/or if the U.S. dollar continues to strengthen.

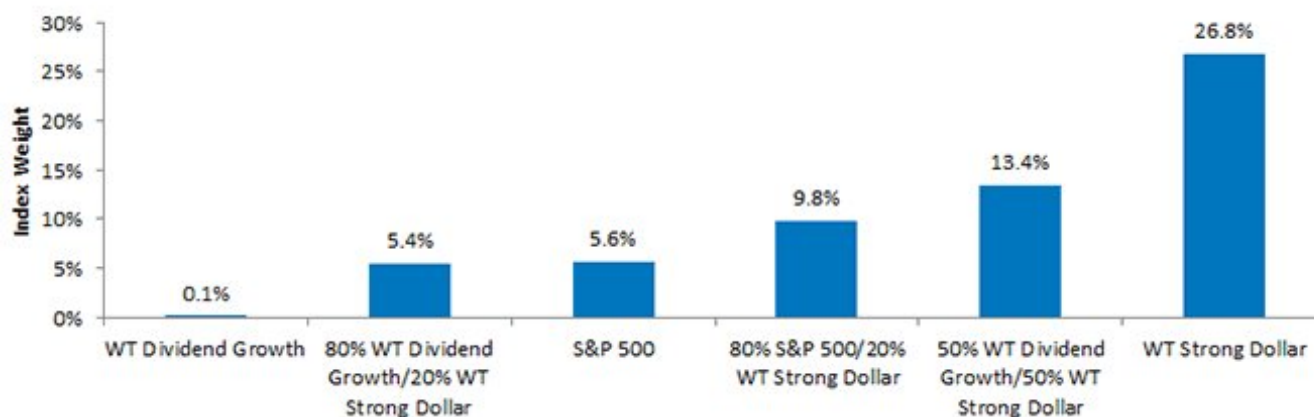
Innovative Indexes to Capture These Themes Given a scenario of rising interest rates in the U.S., WisdomTree's favored U.S. equity index would be the [WisdomTree U.S. Quality Dividend Growth Index](#) (WT Dividend Growth). This Index selects stocks with strong growth and quality characteristics, leading to a nearly 0% exposure to Utilities and real estate investment trusts (REITs). Because of its tilt away from these higher-yielding segments of U.S. equities—segments that have been bid up in price as U.S. interest rates have remained low—it also is able to achieve these strong growth and quality characteristics with a very similar [price-to earnings \(P/E\) ratio](#) as the [S&P 500 Index](#).¹ On the other hand, earlier in 2015 we designed an Index built to measure the performance of equities with at least 80% of their revenues from within the U.S.—our [Strong Dollar U.S. Equity Index](#) (WT Strong Dollar). We recognize that many large U.S. multinationals face a headwind trying to sell their products and services abroad as the U.S. dollar strengthens against foreign currencies, so we wanted to focus on more domestic revenue generators. These two Indexes can complement each other fairly well for this theme of a rising dollar and rising rates.²

- WT Dividend Growth had nearly 0% exposure to Utilities and REITs, which is great positioning should interest rates start to rise. However, only 58% of its weighted average revenue was from within the U.S., meaning that it was heavily exposed to multinational exporters.
- [WT Strong Dollar](#) had more than 95% of its weighted average revenue from within the U.S.—very strong domestic revenue generation. However, achieving this exposure includes exposure to Utilities and REITs (around 25% of the Index). Blending these strategies together could help improve the ultimate diversification from these two scenarios of rising interest rates and a strong U.S. dollar.

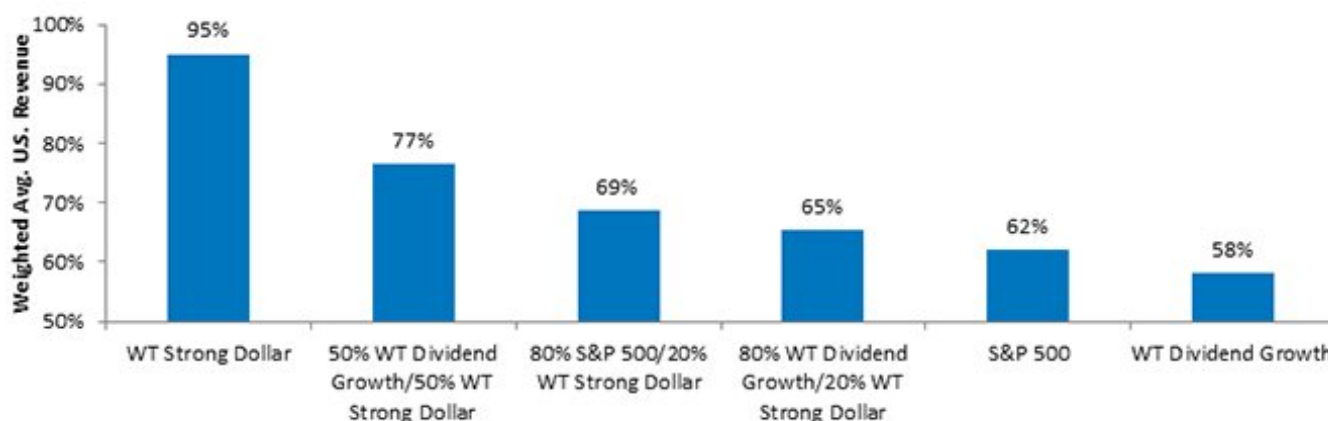
Blending WT Dividend Growth & WT Strong Dollar • The 80/20 Blend: What we find interesting about the 80% WT Dividend Growth/20% WT Strong Dollar blend is that it takes the same exposure to Utilities and REITs as seen within the S&P 500 Index. It does so while tilting a bit more of the weighted average domestic revenue exposure to the U.S.

- **The 50/50 Blend:** This blend of 50% WT Dividend Growth/50% WT Strong Dollar could be interesting for those who believe that continued dollar strength is a bit more likely than are rising U.S. interest rates. Almost 80% of the weighted average revenue comes from within the United States, and about 13% of the weight is within Utilities and REITs. This blend is also likely to have defensive characteristics and a lower beta than traditional S&P 500 exposure.
- **The S&P 500 Tactical Strong Dollar Blend:** Going 80% to the S&P 500 Index and 20% to the WT Strong dollar raises the weighted average

revenue from the U.S. to nearly 70%, and exposure to Utilities and REITs does not break 10%. We find this blend interesting because the S&P 500 Index is the most widely followed index in the world. **Exposure to Utilities & REITs as of August 14, 2015**



Weighted Average U.S. Domestic Revenue Exposure as of July 31, 2015



Sources: Bloomberg, Standard & Poor's for exposure to Utilities and REITs; FactSet for weighted average revenues. Subject to change. You cannot invest directly in an index.

Implementation Options The [WisdomTree U.S. Quality Dividend Growth Fund \(DGRW\)](#) is the exchange-traded fund (ETF) designed to track the WisdomTree U.S. Dividend Growth Index before fees and expenses. The [WisdomTree Strong Dollar U.S. Equity Fund \(USSD\)](#) is the ETF designed to track the WisdomTree Strong Dollar U.S. Equity Index before fees and expenses. 1Source: Bloomberg, as of 8/14/15. 1Sources for two bullet points: Bloomberg and Standard & Poor's, as of 8/14/15 for Utilities and REITs exposure; FactSet, with data as of 7/31/15, for revenue information.

Important Risks Related to this Article

There are risks associated with investing, including possible loss of principal. Funds focusing their investments on certain sectors increase their vulnerability to any single economic or regulatory development. This may result in greater share price volatility. Stocks that previously exhibited a positive correlation in equity performance to a strong U.S. dollar may not do so in the future, which could negatively impact Fund performance. A Fund that has exposure to one or more sectors may increase the Fund's vulnerability to any single economic or regulatory development. This may result in greater share price volatility. Please read each Fund's prospectus for specific details regarding each Fund's risk profile.