

The Value of Dynamic Currency Hedging

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Key Takeaways

- Dynamic currency hedging strategies have proven effective in mitigating the heightened volatility of major currencies like the yen, euro and rupee, offering investors greater flexibility compared to fully hedged or unhedged approaches.
- Recent performance data highlights that our dynamic hedged Funds, such as [DDWM](#) and [DDL](#), reduce portfolio risk to dollar movements through refined factor-based models emphasizing momentum.
- As geopolitical and macroeconomic uncertainties persist, dynamic hedging strategies provide a crucial tool for investors to manage international currency risks without sacrificing adaptability in changing market conditions.

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Currency movement is notoriously unpredictable, with inherent risks for investors to navigate. Any currency, whether it's the yen, euro or rupee, now shares a susceptibility to volatility akin to that of traditional emerging markets currencies. Market sentiment surrounding the U.S. dollar can shift dramatically, influenced by factors ranging from doubts about its role as a reserve currency to sudden surges in confidence during geopolitical standoffs and changing interest rate policies.

For those unsure about adopting a fully hedged approach for their international portfolios, model-driven dynamic currency hedging offers a compelling middle ground. At WisdomTree, we provide this option through the [WisdomTree Dynamic Currency Hedged International Equity Fund \(DDWM\)](#) and the [WisdomTree Dynamic Currency Hedged International SmallCap Equity Fund \(DDL\)](#). These Funds complement their unhedged counterparts, allowing investors to clearly evaluate the added value of our dynamic currency models.

Measuring the Impact of Dynamic Hedging

As evidenced by recent performance data, dynamic currency hedging has delivered substantial benefits, offering a viable alternative to a fully hedged approach. For investors reluctant to commit to 100% hedging, dynamic strategies can help mitigate currency risks while preserving flexibility. As shown in figures 1 and 2, dynamic currency hedging and a 100% currency hedge have both added significant value to international equity portfolios while effectively reducing portfolio risk.

Figure 1: Dynamic and 100% Currency Hedge Both Added Significant Value

Performance							
Ticker	Name	Cumulative	Average Annual Total Returns				
		YTD	1-Year	3-Year	5-Year	10-Year	Common Period 4/7/16–12/6/24
DDWM	WisdomTree Dynamic Currency Hedged International Equity Fund (NAV)	11.6%	15.5%	9.9%	7.5%		8.6%
DWM	WisdomTree International Equity Fund (NAV)	8.1%	13.3%	6.3%	5.2%	4.4%	6.3%
	Dynamic Hedge Currency Value Add	3.6%	2.2%	3.6%	2.4%		2.3%
IHDG	WisdomTree International Hedged Quality Dividend Growth Fund (NAV)	9.5%	13.8%	6.9%	9.7%	9.4%	10.2%
IQDG	WisdomTree International Quality Dividend Growth Fund (NAV)	2.8%	9.6%	1.8%	6.3%		7.0%
	100% Hedge Currency Value Add	6.7%	4.2%	5.1%	3.4%		3.2%
MXEA	MSCI EAFE Index	8.1%	13.9%	4.5%	6.3%	5.3%	7.3%

Sources: WisdomTree, FactSet, as of 12/6/24. You cannot directly invest in an index. Currency Value Add is difference of fund performances. **Past performance is not indicative of future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. For the most recent month-end and standardized performance, click the respective ticker: [DDWM](#), [DWM](#), [IHDG](#), [IQDG](#).**

Figure 2: Dynamic and 100% Currency Hedge Both Reduced Significant Portfolio Risk

Volatility (Standard Deviation)								
Ticker	Name	Average Annual Total Returns						
		1-Year	3-Year	5-Year	10-Year	Since Inception	Inception Date	Common Period 4/30/16–10/31/24
DDWM	WisdomTree Dynamic Currency Hedged International Equity Fund (NAV)	8.8%	12.2%	14.4%		12.6%	1/7/16	12.6%
DWM	WisdomTree International Equity Fund (NAV)	11.8%	15.8%	16.9%		14.7%	6/16/06	14.7%
	Volatility Reduction with Dynamic Currency Hedge	3.0%	3.6%	2.5%		2.1%		2.1%
IHDG	WisdomTree International Hedged Quality Dividend Growth Fund (NAV)	9.7%	13.7%	13.8%		12.4%	5/7/14	12.4%
IQDG	WisdomTree International Quality Dividend Growth Fund (NAV)	15.2%	19.5%	18.5%		16.1%	4/7/16	16.1%
	Volatility Reduction with 100% Currency Hedge	5.5%	5.8%	4.7%		3.8%		3.8%
MXEA	MSCI EAFE Index	12.8%	17.0%	17.7%		15.2%	3/31/86	15.2%

Sources: WisdomTree, FactSet, as of 10/31/24. Volatility reduction = the difference of volatility between two funds. You cannot directly invest in an index.

Since 2023, we've refined our factor-based currency model, placing greater emphasis on momentum. This adjustment has made our dynamic hedging approach more responsive to shifts in the dollar's movement. For instance, our hedge ratio for December 2024 is expected to approach 90%, reflecting this enhanced sensitivity. Figure 3 highlights the responsiveness of our hedge ratio over time.

Figure 3: Monthly Hedge Ratio over Time



Sources: WisdomTree, Bloomberg, as of November 2024.

Almost daily, geopolitical developments—whether related to tariffs, regional conflicts or macroeconomic shifts—underscore the significant role currency risk plays in international investing. By incorporating dynamic and fully hedged strategies into their portfolios, investors can benefit from reduced volatility and enhanced risk management.

Important Risks Related to this Article

There are risks associated with investing, including the possible loss of principal. Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. The Fund invests in derivatives in seeking to obtain a dynamic currency hedge exposure. Derivative investments can be volatile, and these investments may be less liquid than other securities, and more sensitive to the effects of varied economic conditions. Derivatives used by the Fund may not perform as intended. A Fund that has exposure to one or more sectors may be more vulnerable to any single economic or regulatory development. This may result in greater share price volatility. The composition of the Index underlying the Fund is heavily dependent on quantitative models and data from one or more third parties, and the Index may not perform as intended. The Fund invests in the securities included in, or representative of, its Index regardless of their investment merit, and the Fund does not attempt to outperform its Index or take defensive positions in declining markets. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.