

HOW IMPORTANT IS EUROPE TO U.S. COMPANIES?

Jeremy Schwartz — Global Chief Investment Officer
06/30/2016

As investors weigh the implications of [Brexit](#) for their portfolios, I thought it would be useful to evaluate how exposed U.S. companies are to the United Kingdom and the European economy. The answer: Across a vast majority of WisdomTree’s U.S. exposures and indexes covering the U.S. markets, there is surprisingly little direct revenue that comes from the United Kingdom, and modest amounts that come from Europe more broadly. At the low end of exposure to Europe, the [WisdomTree Strong Dollar U.S. Equity Index](#) was designed to identify companies that are focused on the U.S. domestic markets from a revenue-generation perspective. It should not be a surprise, therefore, that the United States makes up 95% of the revenue for this Index and Europe generally only represents 1% of revenue. If investors believe the U.S. economy is the strongest of a global group, this is one Index designed with a U.S. local revenue base in mind. But mid- and [small-cap](#) companies are also known for their more domestic-facing businesses. Three of our U.S. small-cap Indexes have a domestic revenue profile that ranges from 76.5% at the low end (for the [WisdomTree U.S. SmallCap Quality Dividend Growth Index](#)) to 82.4% at the high end (for the [WisdomTree SmallCap Dividend Index](#)). The UK revenue exposure in all these Indexes is less than 2%, while [eurozone](#) revenue exposure is less than 5%. Going up the size spectrum to mid-caps, we see modest increases in European exposure, but the U.S. revenue exposure in both WisdomTree mid-cap Indexes is greater than three-quarters of their revenue, and eurozone exposure is also less than 5%. At the high end, one of the more global U.S. Indexes is the [WisdomTree U.S. Quality Dividend Growth Index](#), which had 60% of its revenue from the U.S., 7.5% from the eurozone and 2.4% from the United Kingdom. An interesting attribute of this index, though, is that emerging markets, at approximately 14% of the revenue, represent greater exposure than all of Europe, which is at just 11%. What happens in China is likely going to have more of an impact than what happens in Europe.

Index Name	WisdomTree Indexes Regional Revenue Exposure				
	United States	Europe	Eurozone	Emerging Markets	United Kingdom
WisdomTree Strong Dollar U.S. Equity Index	95.37%	1.17%	0.61%	1.18%	0.45%
WisdomTree SmallCap Earnings Index	81.83%	5.20%	3.27%	6.22%	1.46%
WisdomTree SmallCap Dividend Index	82.40%	5.53%	3.57%	6.69%	1.42%
WisdomTree MidCap Dividend Index	79.13%	6.57%	4.14%	7.36%	1.87%
WisdomTree U.S. SmallCap Quality Dividend Growth Index	76.53%	7.12%	4.78%	8.97%	1.60%
WisdomTree MidCap Earnings Index	77.65%	7.46%	4.56%	7.50%	2.23%
WisdomTree Dividend ex-Financials Index	66.55%	8.88%	5.41%	11.76%	2.36%
WisdomTree High Dividend Index	67.71%	9.62%	6.22%	11.16%	2.47%
WisdomTree Dividend Index	66.66%	9.90%	6.42%	12.30%	2.49%
WisdomTree Earnings Index	65.98%	10.53%	6.87%	12.82%	2.63%
WisdomTree LargeCap Dividend Index	63.42%	10.78%	7.02%	13.57%	2.65%
WisdomTree Earnings 500 Index	64.00%	11.11%	7.28%	13.70%	2.73%
WisdomTree U.S. Quality Dividend Growth Index	60.52%	11.12%	7.56%	15.36%	2.42%

Source: WisdomTree, FactSet, as of 5/31/2016.

For definitions of Indexes in the chart, visit our [glossary](#). The market sell-off immediately following Brexit had less to do with a direct impact on slower economic growth or lower revenue/earnings from the United Kingdom or Europe, and more with spikes in risk aversion and negative sentiment surrounding what the Brexit means for the future of the eurozone, particularly many of the European banks. Will there be other European countries leaving EU in the UK’s footsteps? This will remain an open question for some time. Investors focused on the [fundamentals](#)—and WisdomTree’s equity Indexes typically focus on the [dividends](#) companies pay or the earnings they generate—provide an income-oriented approach to the markets. Any market sell-offs for U.S. companies likely should be viewed as market noise, given what little direct revenue from the

eurozone or the UK is generated across most of corporate America.

Important Risks Related to this Article

Dividends are not guaranteed, and a company currently paying dividends may cease paying dividends at any time.

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

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

View the online version of this article [here](#).

IMPORTANT INFORMATION

U.S. investors only: Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages (www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only.

You cannot invest directly in an index.

DEFINITIONS

Brexit : an abbreviation of “British exit” that mirrors the term Grexit. It refers to the possibility that Britain will withdraw from the European Union.

Small caps : new or relatively young companies that typically have a market capitalization between \$200 million to \$2 billion.

Eurozone (EZ) : Consists of the following 18 countries that have adopted the euro as their currency: Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain (source: European Central Bank, 2014).

Fundamentals : Attributes related to a company’s actual operations and production as opposed to changes in share price.

Dividend : A portion of corporate profits paid out to shareholders.