

ETF.com Expert Webinar Series Europe:

How To Benefit From Central Bank Policy Actions
– Including Hedging Against Rate Rises



Panellists:



VIKTOR NOSSEK

Director of Research
WisdomTree Europe



JIM WIANDT

Founder and President
ETF.com



- Europe's rebalancing act: *the case for domestic demand-led growth*
- Monetary policy divergence: *the case for currency hedging*
- Equity yield/risk premium: *the case for equity income*
- Summary

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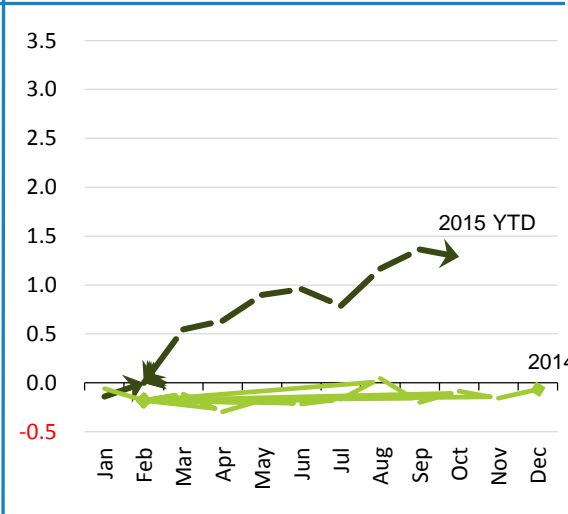
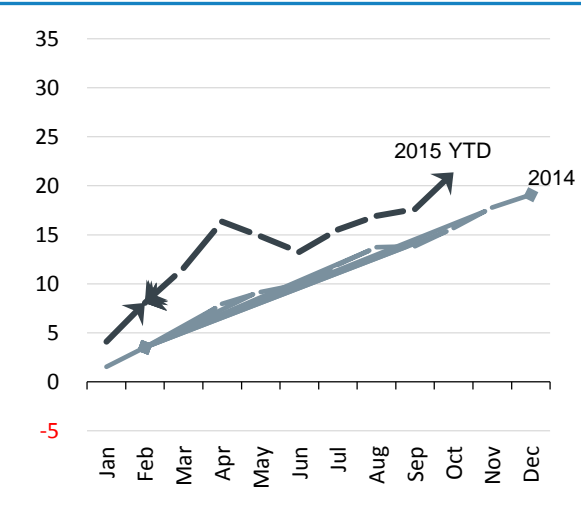
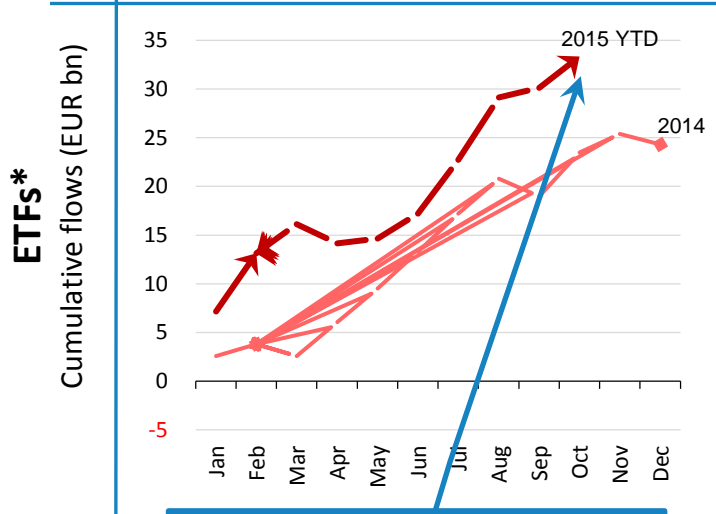
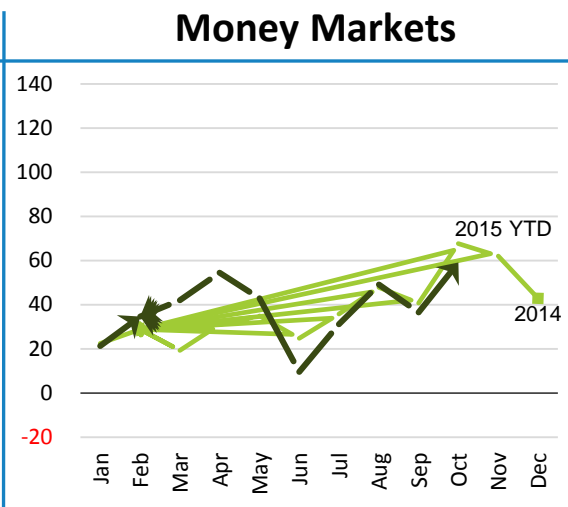
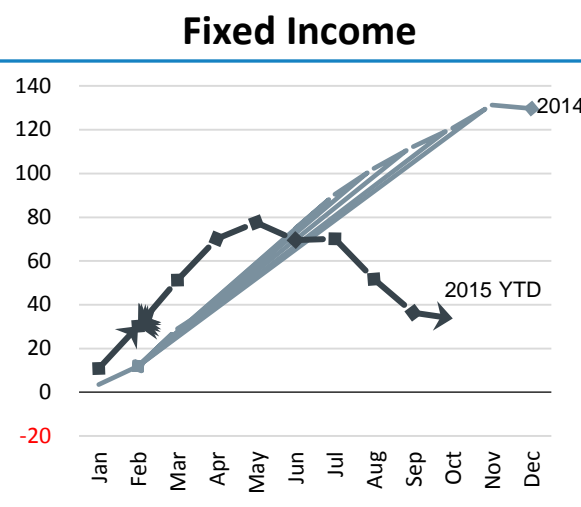
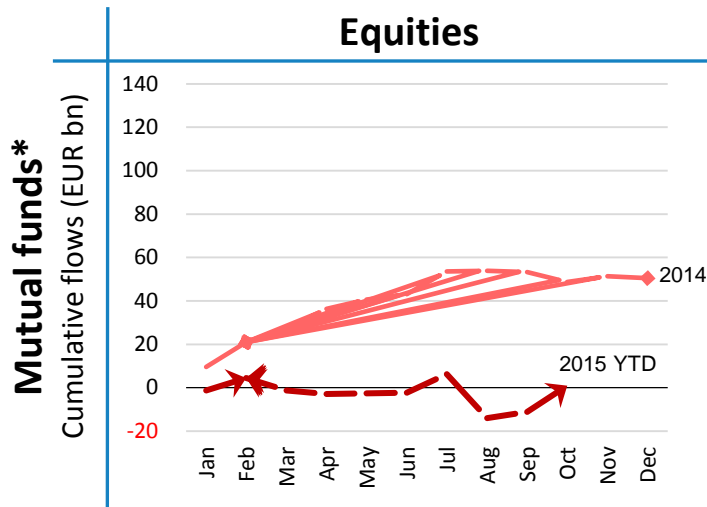
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Europe's rebalancing act: *the case for domestic demand-led growth*

Flows of European-domiciled Funds: in equities a strong home bias, else largely risk-off

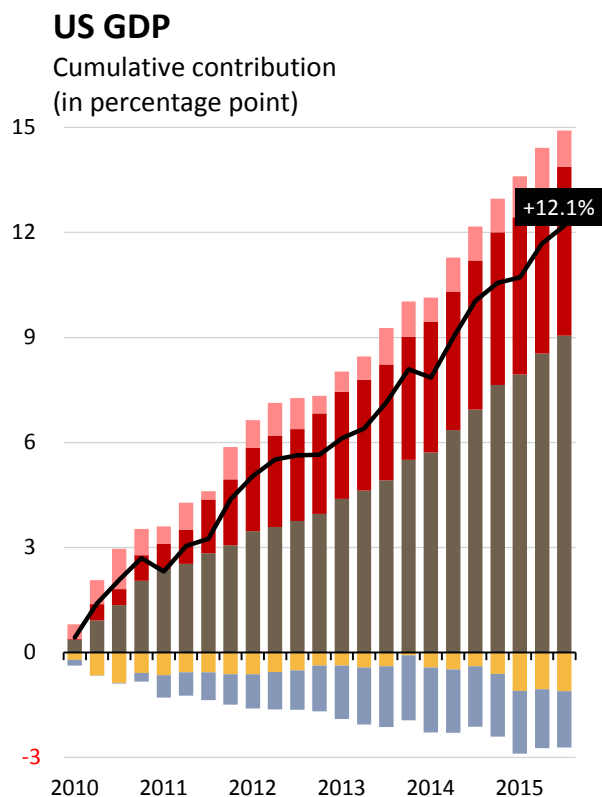


86% of flows into European (country and regional focused) strategies

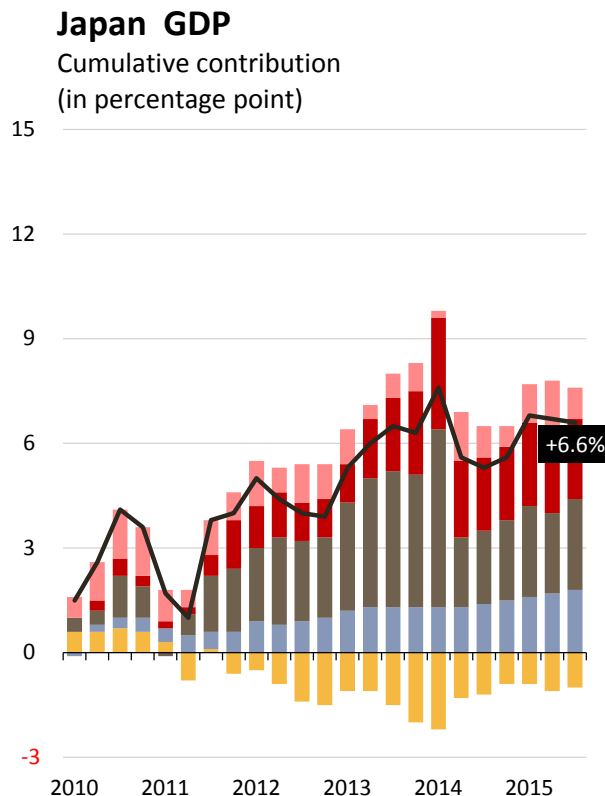
Sources of all charts: WisdomTree Europe, Morningstar. Data as at 28 November 2015
*Excluding funds of funds and feeder funds



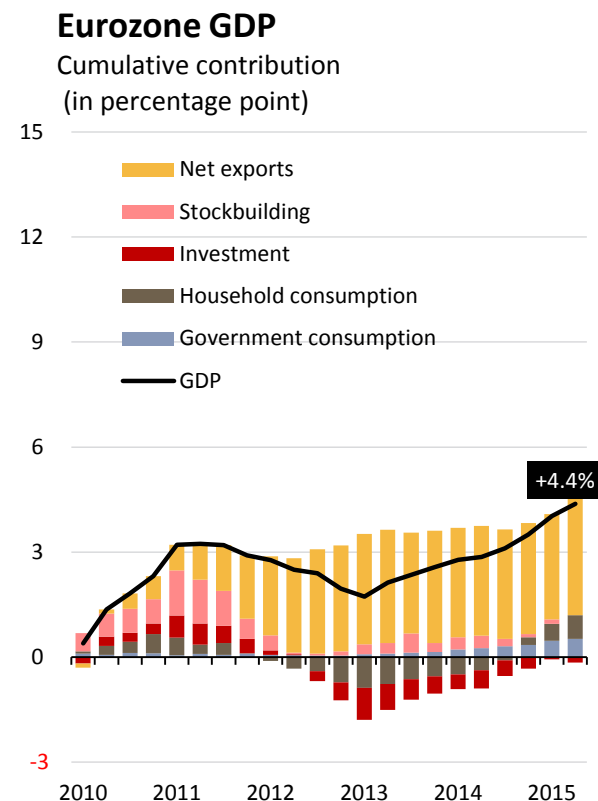
Eurozone's rebalancing act: structural shift finally contributing to cyclical-led growth



Source: WisdomTree Europe, Bloomberg.
Data as at 31 October 2015



Source: WisdomTree Europe, Bloomberg.
Data as at 31 October 2015



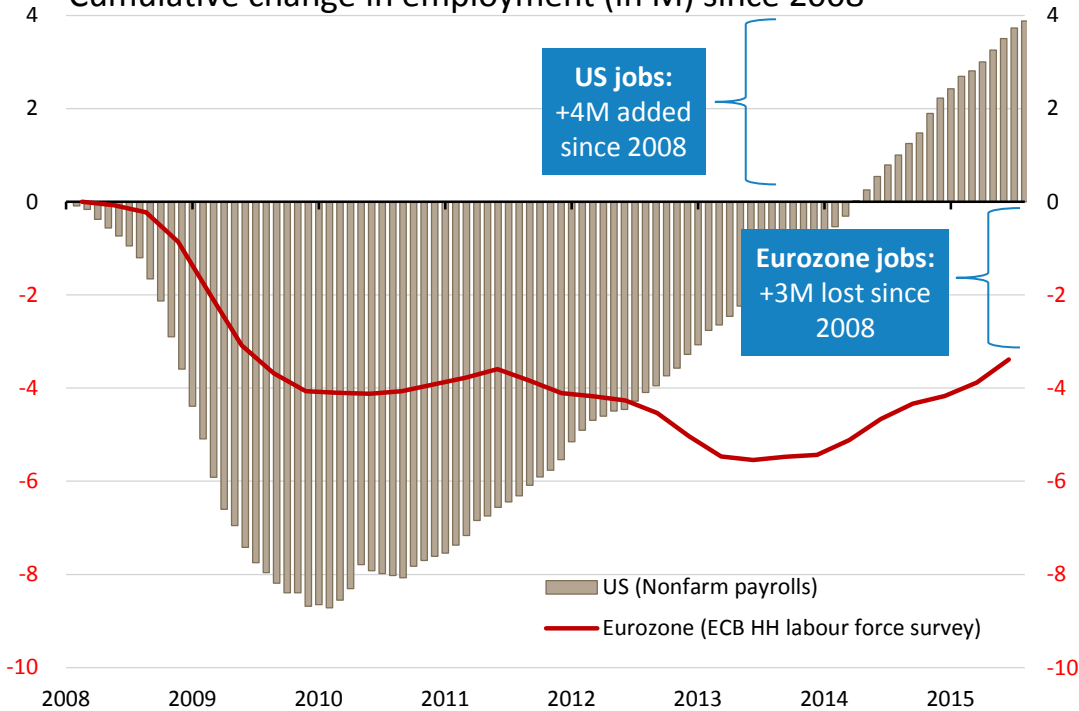
Source: WisdomTree Europe, Bloomberg.
Data as at 31 October 2015

- Eurozone's growth: early signs of domestic-demand led growth suggests structural change is will strengthen the recovery and mitigate the cyclical risks of global slowdown in trade and swings in commodity and FX markets

Eurozone's structural recovery: productivity gains is starting to turn jobs market around

Eurozone jobs market recovery is 3 years behind the US...

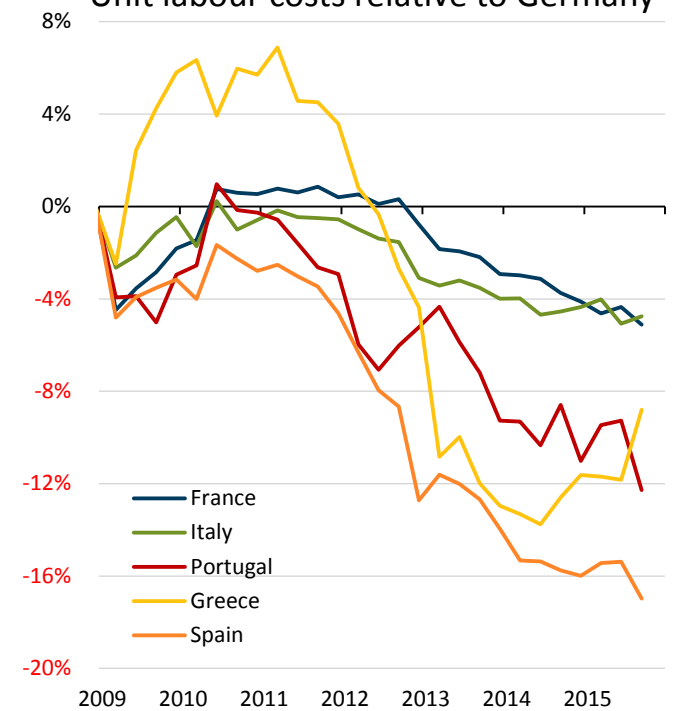
Cumulative change in employment (in M) since 2008



Source: WisdomTree Europe, Bloomberg.
Data as at 31 October 2015

...but broadening out into FR & IT

Unit labour costs relative to Germany



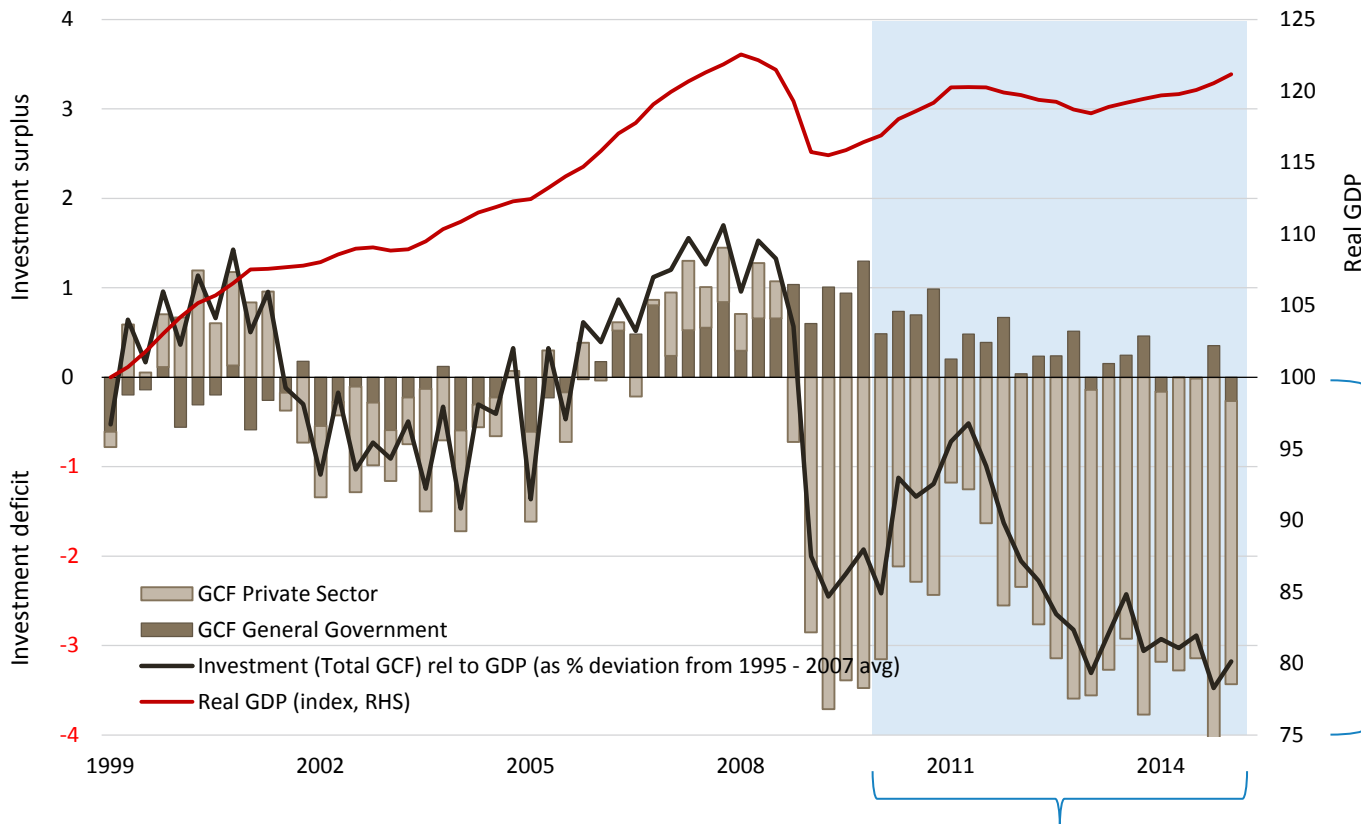
Source: WisdomTree Europe, Bloomberg.
Data as at 31 October 2015

- Eurozone is approximately 4 years behind the US structural recovery, but rising productivity amidst stagnant wages outside Germany is helping the US region regain competitiveness

Eurozone's investment deficit is topic no1 in 2016: EU CAPEX plan to crowd-in 15x private capital falls short

Investment cutbacks amplified by austerity widens the output gap

Eurozone Gross Capital Formation (GCF) and GDP



Source: WisdomTree Europe, Bloomberg.
Data as at 31 October 2015

“Investment Plan for Europe”:

- EUR 21bn of strategic investments funded by guarantees from EFSI and capital from EIBI to multiply into EUR 315bn is not enough to close the shortfall
- SMEs require affordable access to bank loans to make up the shortfall

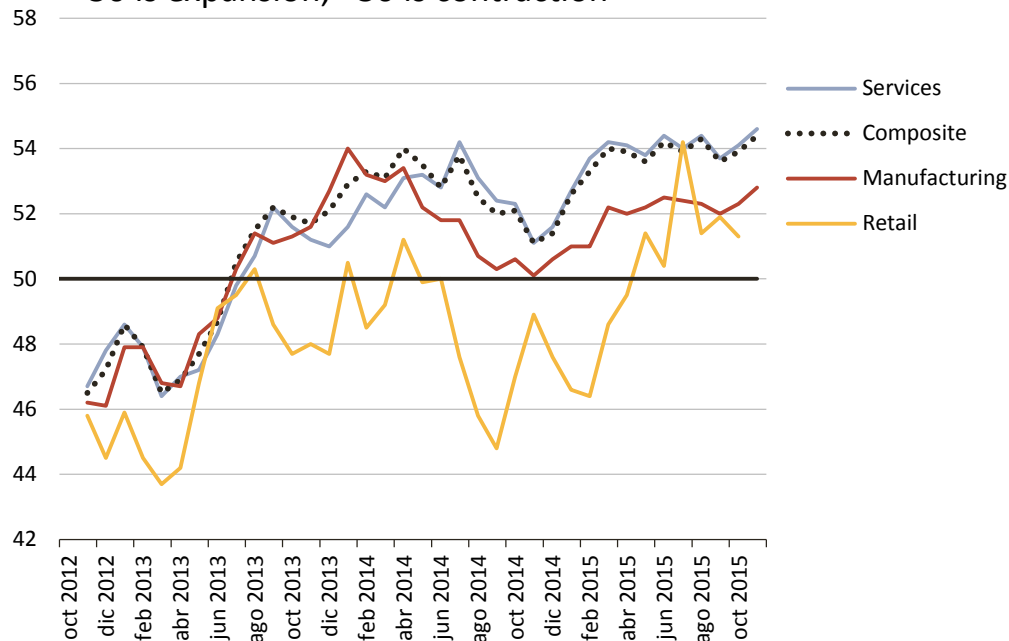
**Investment spending shortfall since 2010:
EUR 1.1 trillion,
averaging 2.5% of annual GDP**

Eurozone retail and SME sentiment: upbeat periphery broadens consumer recovery

Retailers' recovery points to upbeat consumers

Eurozone Markit/PMI by sector:

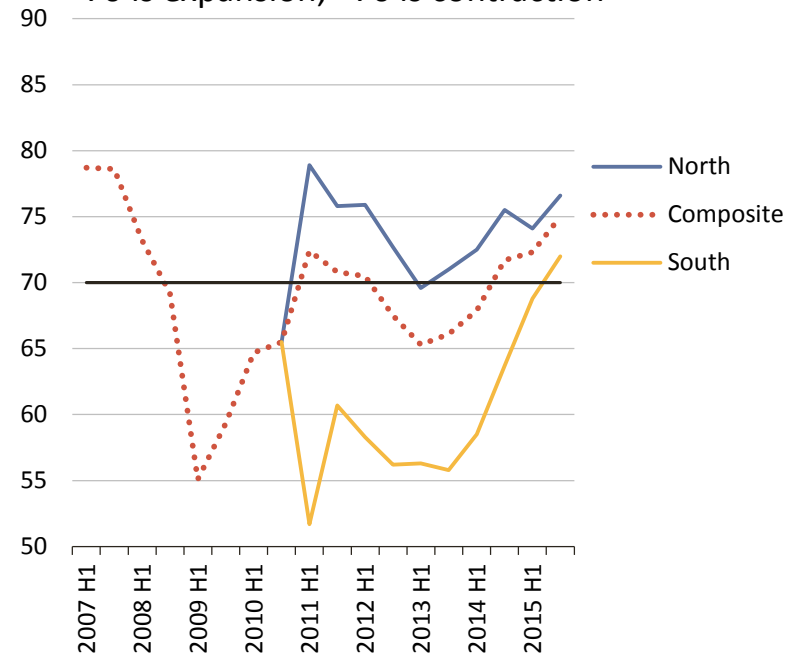
>50 is expansion; <50 is contraction



..small business recovery broadening out

EU Craft and SME Barometer

>70 is expansion; <70 is contraction



- PMI Retail: the better gauge for domestic outlook, unlike Manufacturing which is export-led
- SMEs: peripheral South of Europe sharply reversed downbeat outlook signals recovery in jobs market only just emerging

SMEs: credit easing coming very late for small businesses

Cheaper bank credit for SME only since H2 2014

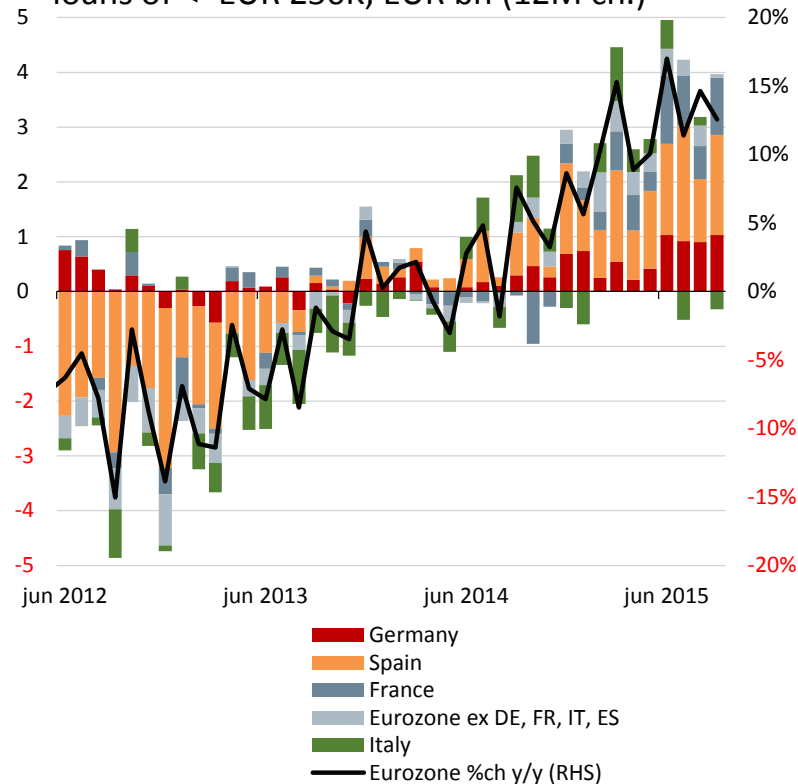
Yields and interest rates (%)



Source: WisdomTree Europe, Bloomberg.
Data as at 11 November 2015

Bank loans to small business

loans of <=EUR 250K, EUR bn (12M ch.)



Source: WisdomTree Europe, Bloomberg.
Data as at 31 October 2015

- Europe small businesses (SMEs) which provide the lion's share of jobs have not seen easing credit conditions until H2 2014, almost 2 years after Draghi's "whatever it takes to save the euro" speech restored confidence in Europe's financial markets



Equity yield/risk premium: *the case for equity income*

European credit risk: no evidence of systemic risk or mispricing

Credit default risk in Spain

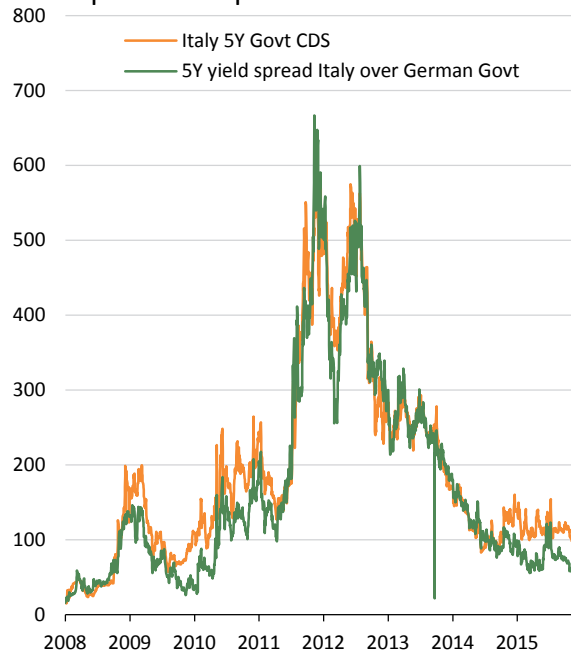
Spreads in bps



Source: WisdomTree Europe, Bloomberg.
Data as at 27 November 2015

Credit default risk in Italy

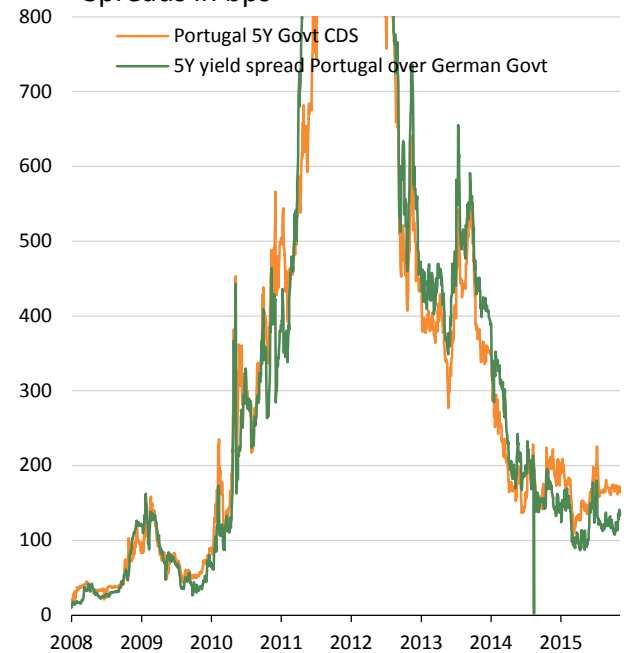
Spreads in bps



Source: WisdomTree Europe, Bloomberg.
Data as at 27 November 2015

Credit default risk in Portugal

Spreads in bps



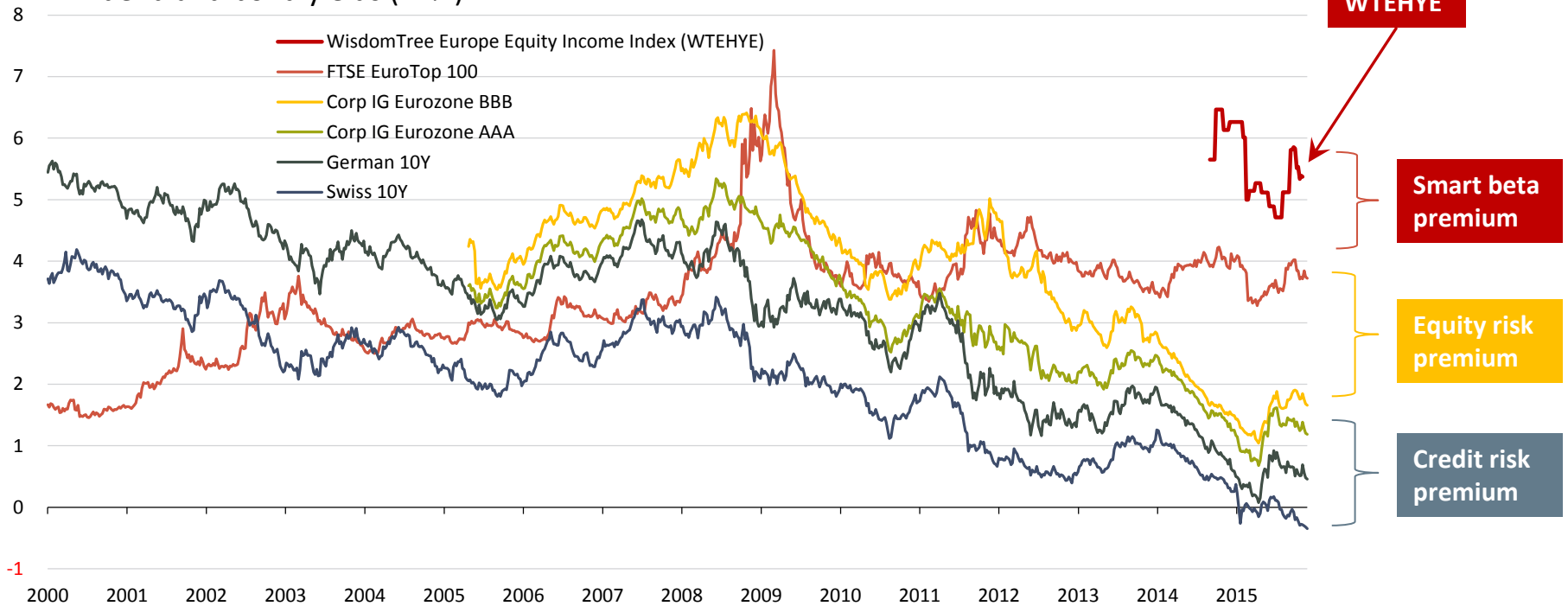
Source: WisdomTree Europe, Bloomberg.
Data as at 27 November 2015

- Credit spreads on cash markets: institutional investors are pricing indebted sovereigns at ~100bps over German Bunds
- Credit spreads on derivative markets: slightly higher premia on default insurance suggest bond markets in Europe are not mispriced or prone to be overwhelmed by speculative bets from hedge funds / prop desks

European corporates decouple from sovereigns: Fed policy expectation overpower ECB action

Chart 1: Equities' dividends are the new fixed income in Europe

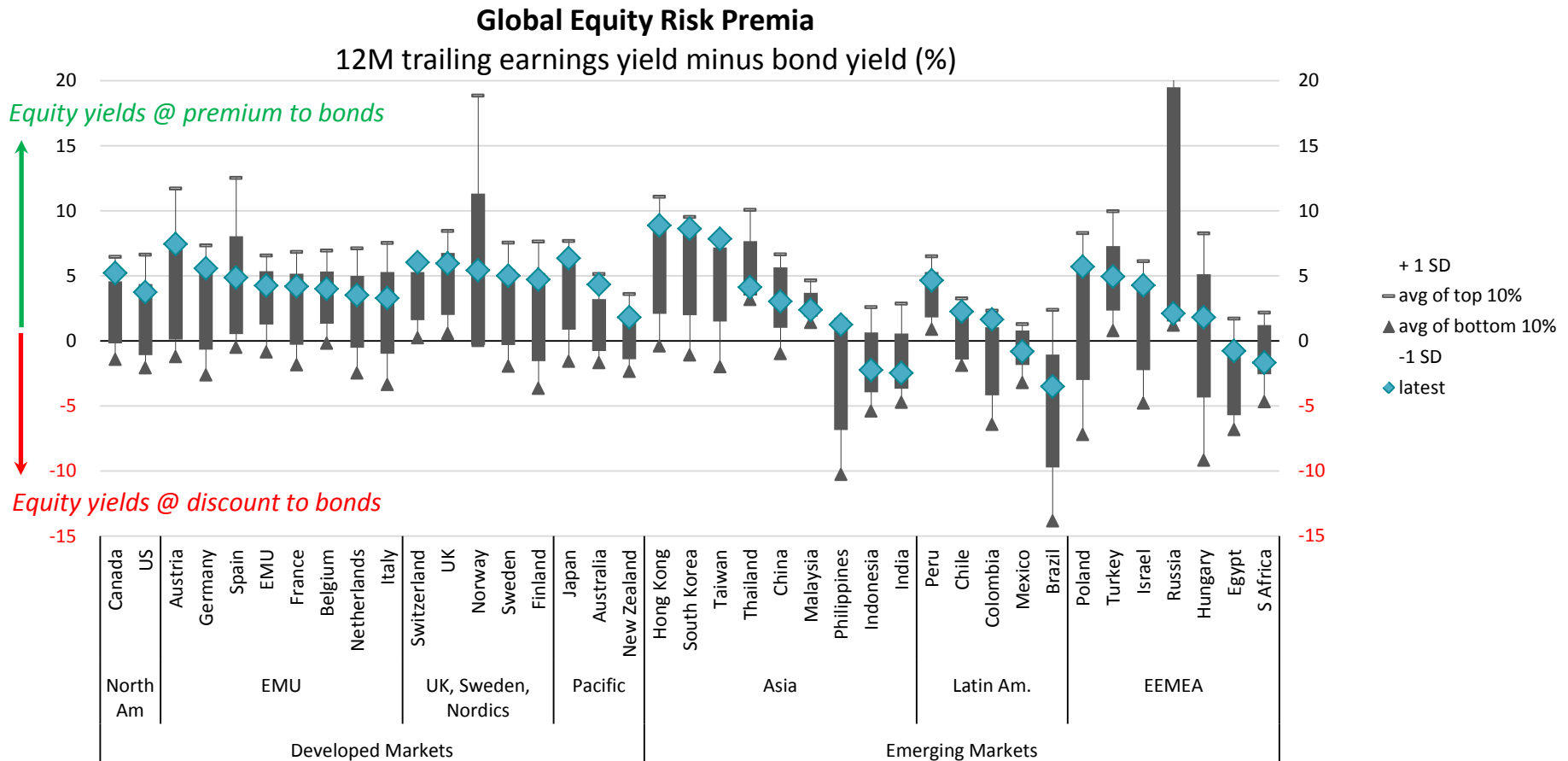
Dividend and bond yields (in %)



Source: WisdomTree Europe, Bloomberg. Data to 27 November 2015
WisdomTree Europe Equity Income Index (WTEHYE) has an inception date of 9 August 2014

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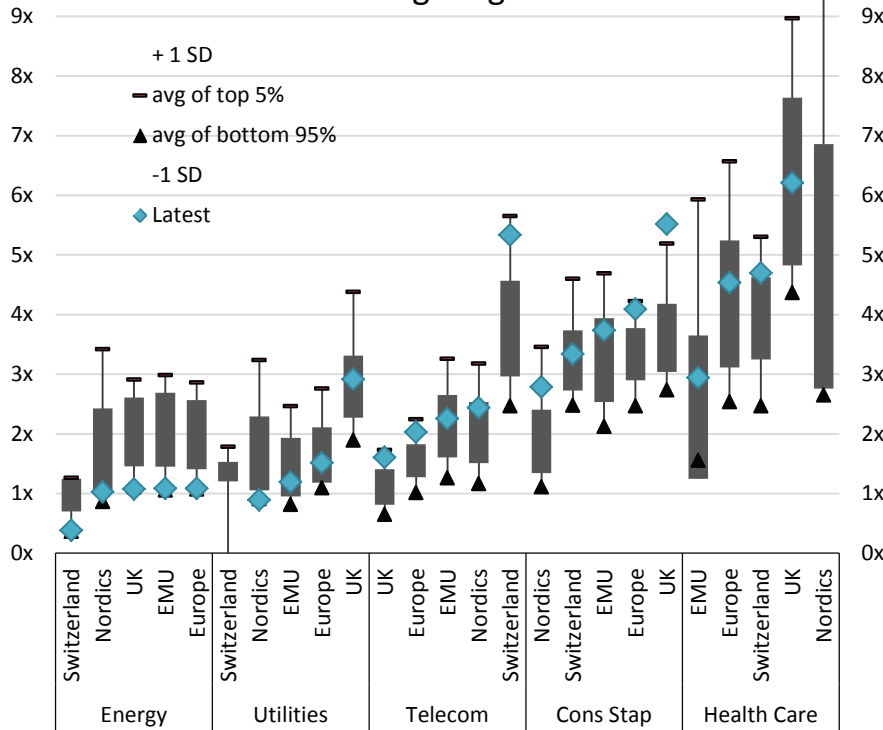
Global equity market valuations: low inflation, loose policies sustain equities' yield premium



- Equity risk premia: well above historic trading range for most equity markets, globally
- Value opportunities throughout Europe, US, Japan and parts of EM Asia

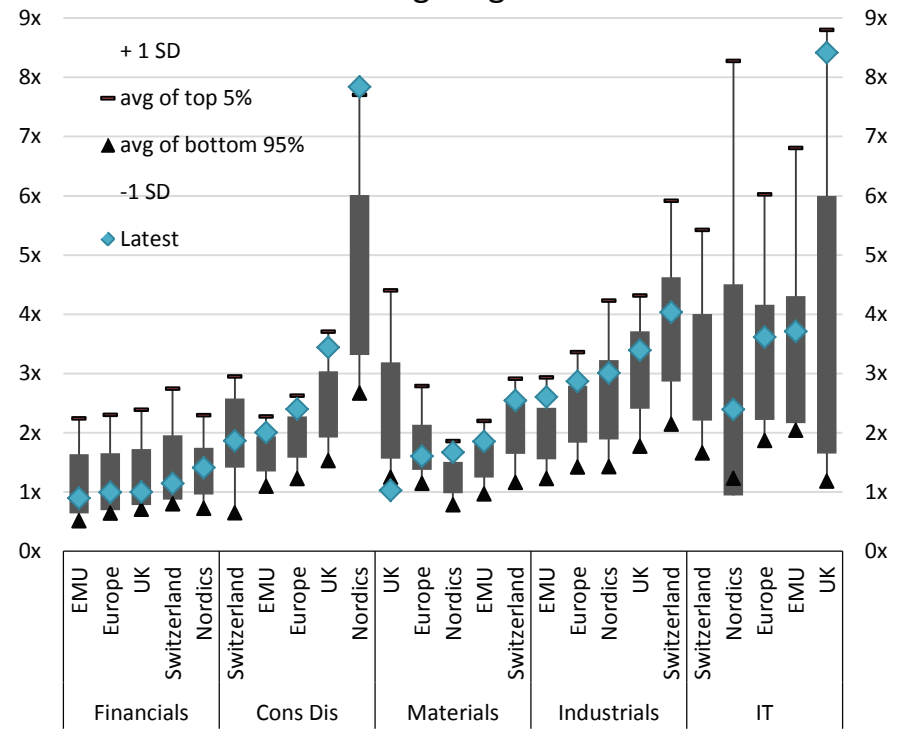
European equity market valuations: low inflation, loose policies sustain equities' yield premium

Price to Book Valuations – ‘Defensives’
latest vs historic trading range



Source: WisdomTree Europe, Bloomberg. Data to 27 November 2015

Price to Book Valuations – ‘Cyclicals’
latest vs historic trading range



Source: WisdomTree Europe, Bloomberg. Data to 27 November 2015

- ‘Deep Value’ : Energy and Financials, especially in EMU and Nordics
- ‘Expensive Growth’: Consumer Discretionary and industrials in large-caps have the European recovery priced-in

Summary

- Europe's recovery is at an early inflection point, with structural, domestic demand-led recovery taking hold to complementing the cyclical, export-fuelled growth
- The euro is expected to remain fundamentally weak, nevertheless: the Fed rate hike expectations remain firmly embedded in shorter-dated bond yields and suppress the euro well ahead of any Fed policy action
- Rising US bond yields force investors to reassess Europe's corporate bond markets as the yields decouple from sovereign bonds. Chasing yield via corporates or termcomes with increasing downside risks
- EM corporates vulnerability to rising US rates is amplified by devalued EM currencies and high bond yields. Threatening producers' ability to refinance now expensive foreign credit is the commodity slump
- European investment opportunities remain broad, with three style strategies positioning ETF investors to play the macro themes:
 - Yield: Large-cap equity income
 - Quality Growth: 'established' Small-cap
 - Currency-hedged: export-tilted broad equities with euro exposure hedged

WisdomTree's Equity Income and Small-Cap Dividend ETFs

	Fund name	LSE Code	ISIN	Listing Currency	Fund Base Currency	TER	Index Name	Dividend Yield (%)	Number of Constituents
Europe	WisdomTree Europe Equity Income UCITS ETF**	EEI	IE00BQZJXB31	GBx, EUR	EUR	0.29%	WisdomTree Europe Equity Income Index	5.5%	314
	WisdomTree Europe SmallCap Dividend UCITS ETF	DFE	IE00BQZJJC527	GBx, EUR	EUR	0.38%	WisdomTree Europe SmallCap Dividend Index	3.9%	412
United Kingdom	WisdomTree UK Equity Income UCITS ETF	WUKD	IE00BYPGTJ26	GBx	GBx	0.29%	WisdomTree UK Equity Income Index	5.9%	103
United States	WisdomTree US Equity Income UCITS ETF**	DHS	IE00BQZJBO63	GBx, USD	USD	0.29%	WisdomTree U.S. Equity Income Index	4.3%	427
	WisdomTree US SmallCap Dividend UCITS ETF	DESE	IE00BQZJBT94	GBx, USD	USD	0.38%	WisdomTree U.S. SmallCap Dividend Index	3.7%	705
Emerging Markets	WisdomTree EM Equity Income UCITS ETF**	DEM	IE00BQQ3Q067	GBx, USD	USD	0.46%	WisdomTree Emerging Markets Equity Income Index	6.9%	412
	WisdomTree EM SmallCap Dividend UCITS ETF**	DGSE	IE00BQZJBM26	GBx, USD	USD	0.54%	WisdomTree Emerging Markets SmallCap Dividend Index	5.0%	762
	WisdomTree Emerging Asia Equity Income UCITS ETF**	DEMA	IE00BYPGT035	GBx, USD	USD	0.54%	WisdomTree Emerging Markets Asia Equity Income Index	6.1%	316
Ireland	WisdomTree ISEQ® 20 UCITS ETF (Ireland)	ISEQ	IE00BVF1H83	GBx/EUR	EUR	0.49%	ISEQ 20® Index	2.6%	20

■ DFE, DHS, DESE, DEM and DGSE have corresponding ETFs in the US which were listed 2006/2007

*Exposures within WisdomTree's Equity Income Indices, regardless of region, tend to be predominantly large cap. Both the WT Europe Equity Income and WT U.S. Equity Income Indices had approximately 83% exposure to companies larger than \$10 billion in market capitalization as of 30/09/2015. WisdomTree EM Equity Income Index has 56% in companies larger than \$10 billion in market cap. However, the stock selection methodology can select large, mid and small cap stocks.

** All dividend yields quoted are the trailing 12m measure of dividend yields using the index level at 30/09/2015.



WisdomTree Europe's Additional Currency-Hedged Share classes

- WisdomTree has expanded its currency-hedged range by introducing a number of new hedged and unhedged share classes as shown in the table below.
- The addition of these new share classes means that a wider variety of investors can now gain overseas exposure without worrying about currency fluctuations.
- These hedged share classes help protect investors from unexpected currency fluctuations. For example, investors in WisdomTree Japan Equity UCITS ETF EUR hedged share class will be protected if the JPY depreciates against the EUR.

Fund Name	Unhedged	GBP Hedged	CHF Hedged	USD Hedged	EUR Hedged
WisdomTree Europe Equity UCITS ETF	✓	✓	✓	✓	
WisdomTree Japan Equity UCITS ETF	✓	✓	✓	✓	✓
WisdomTree Germany Equity UCITS ETF	✓	✓	✓	✓	