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WisdomTree Europe

Navigating the Odds of a Recession

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Navigating the odds of a recession

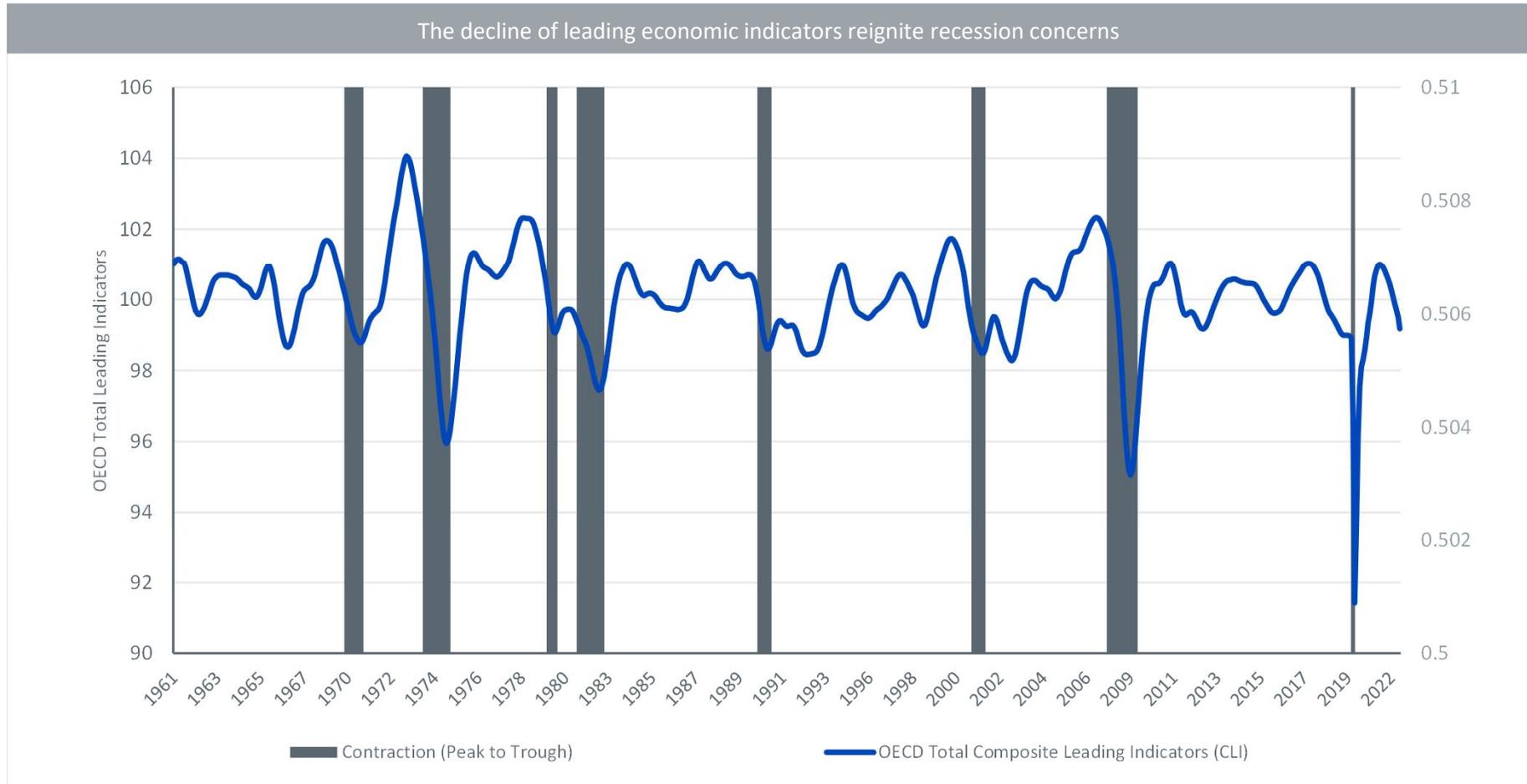
October 2022



Macro Outlook

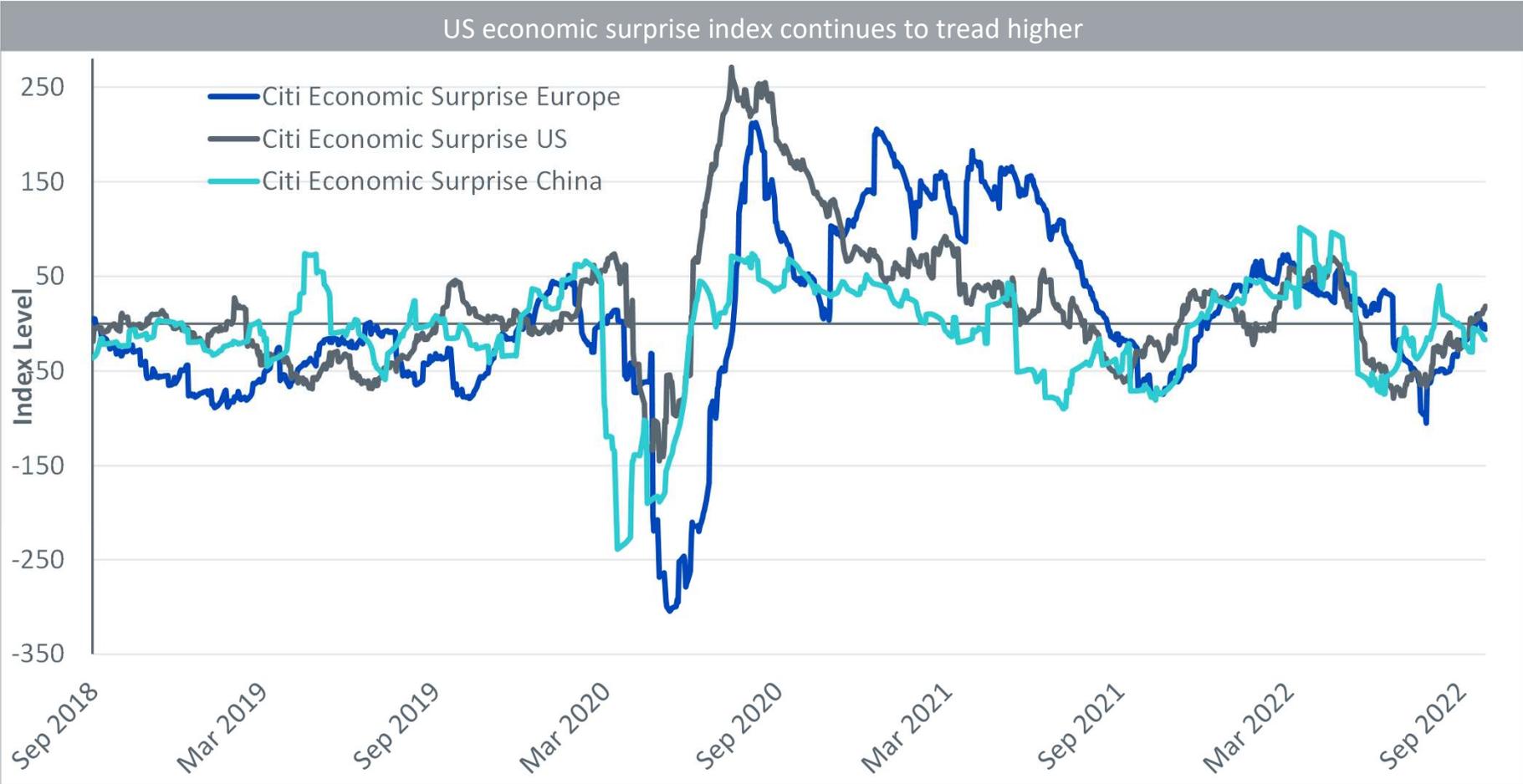
Recessions, another thing to keep an eye on

The risk of a global recession



Source: Bloomberg, National Bureau of Economic Research, WisdomTree as of 31 July 2022. OECD stands for Organisation for Economic Co-operation and Development
Historical performance is not an indication of future performance and any investments may go down in value

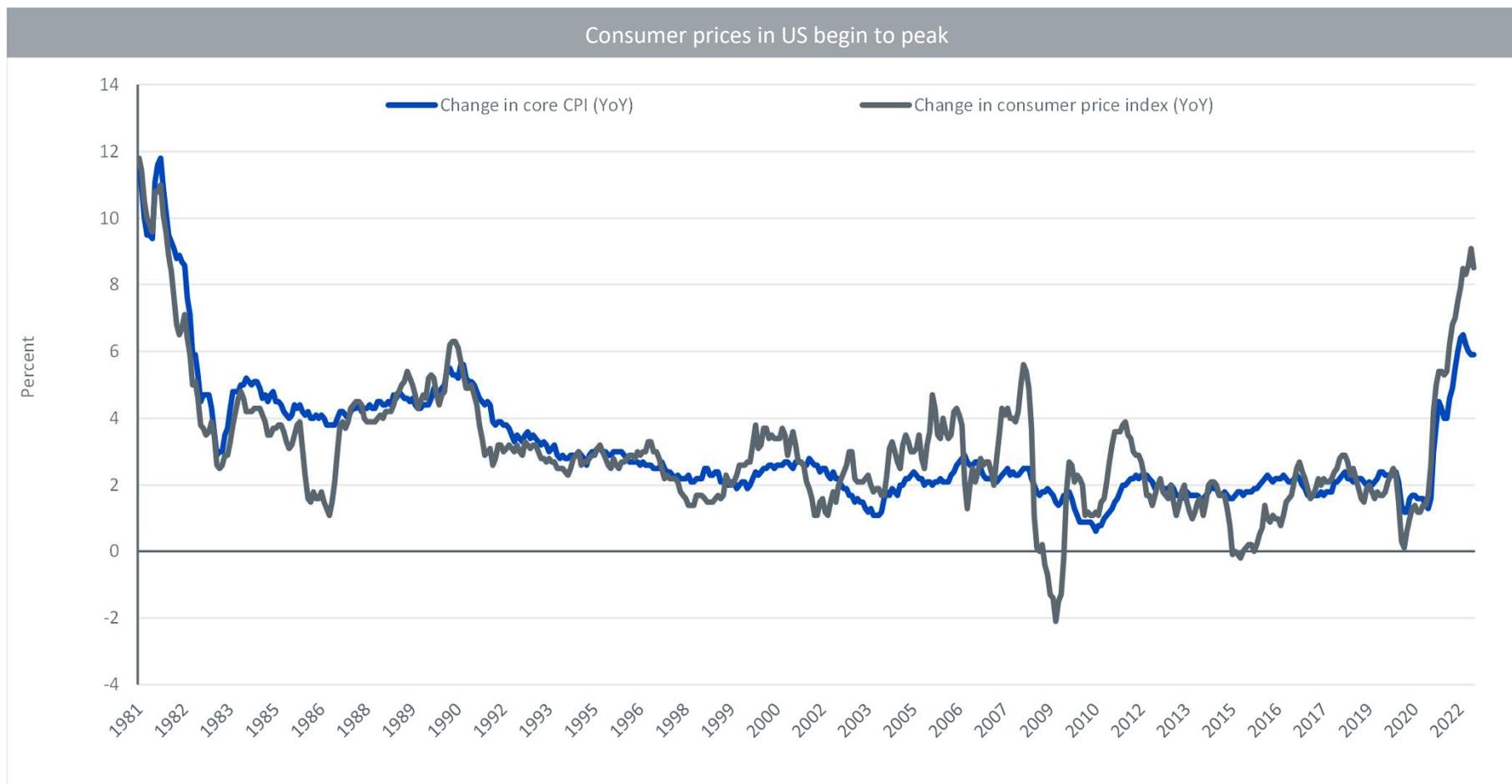
Economic surprise indices continue to weaken



Source: Bloomberg, WisdomTree as of 29 September 2022

Historical performance is not an indication of future performance and any investments may go down in value

While inflation is beginning to peak, the strong labour markets raises the probability of further monetary tightening by the Federal Reserve



Source: Bloomberg, National Bureau of Economic Research, WisdomTree as of 31 July 2022. CPI stands for Consumer Price Index.

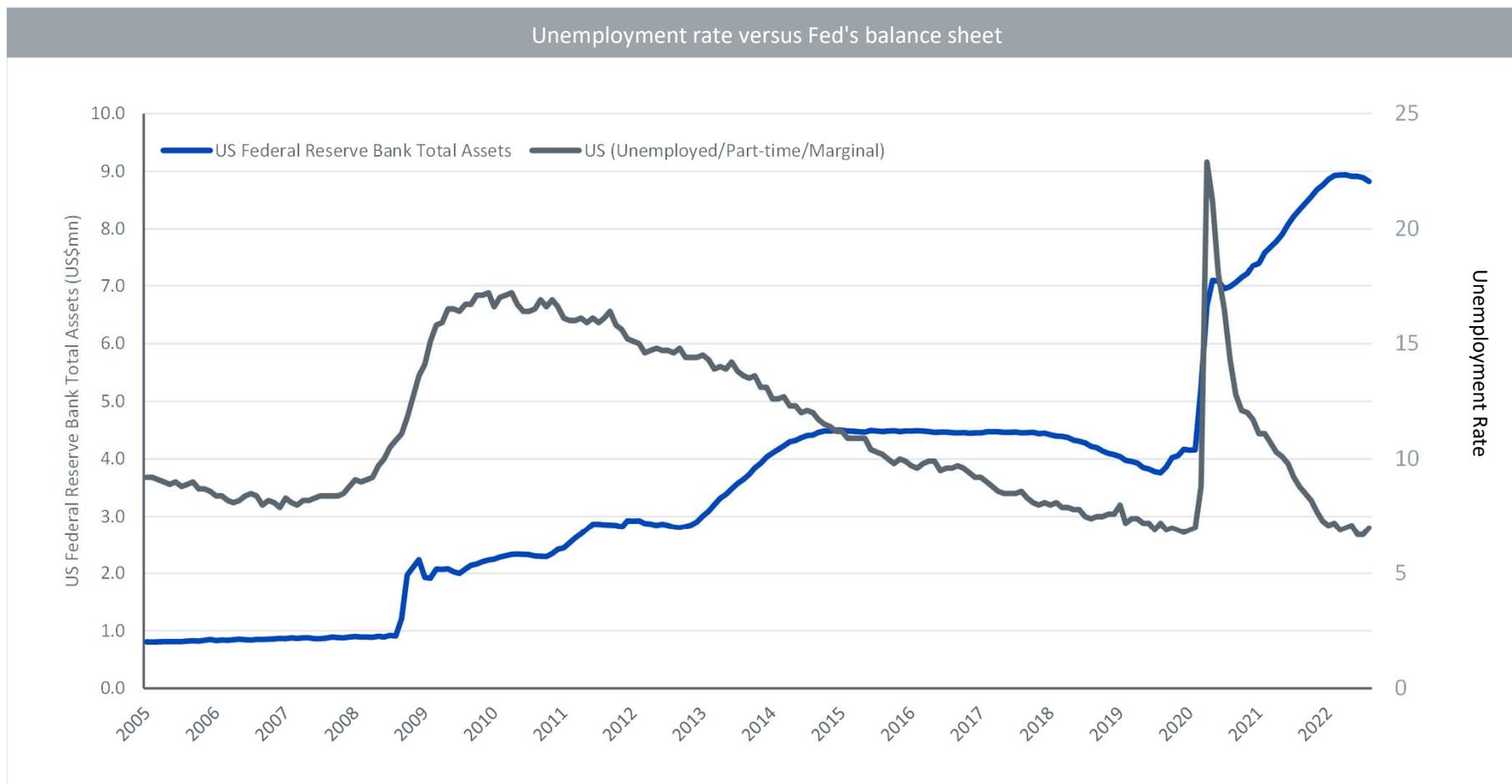
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US jobs market continues to remain resilient as Fed continues to tighten monetary policy



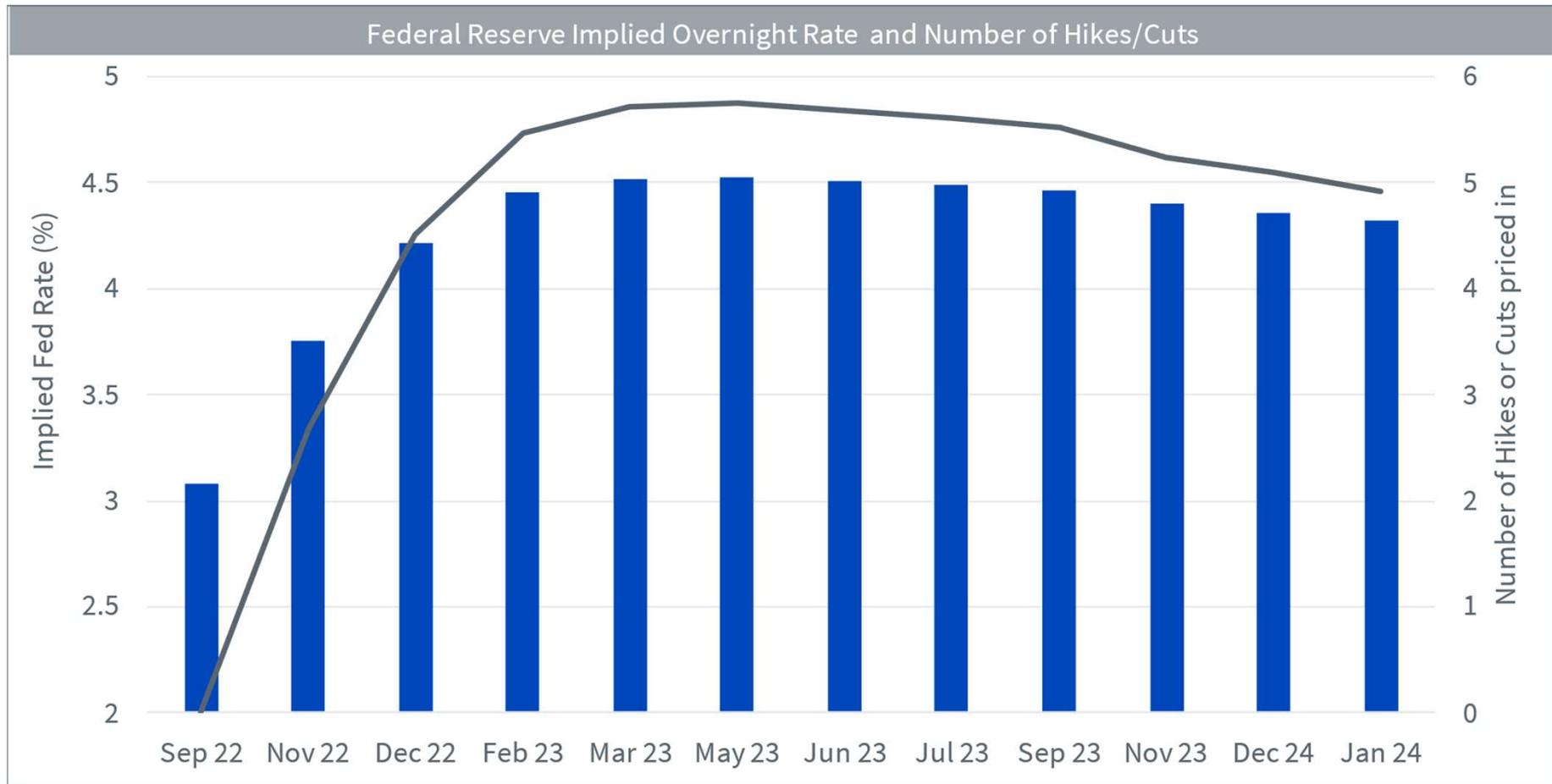
Source: Bloomberg, WisdomTree as of 31 August 2022

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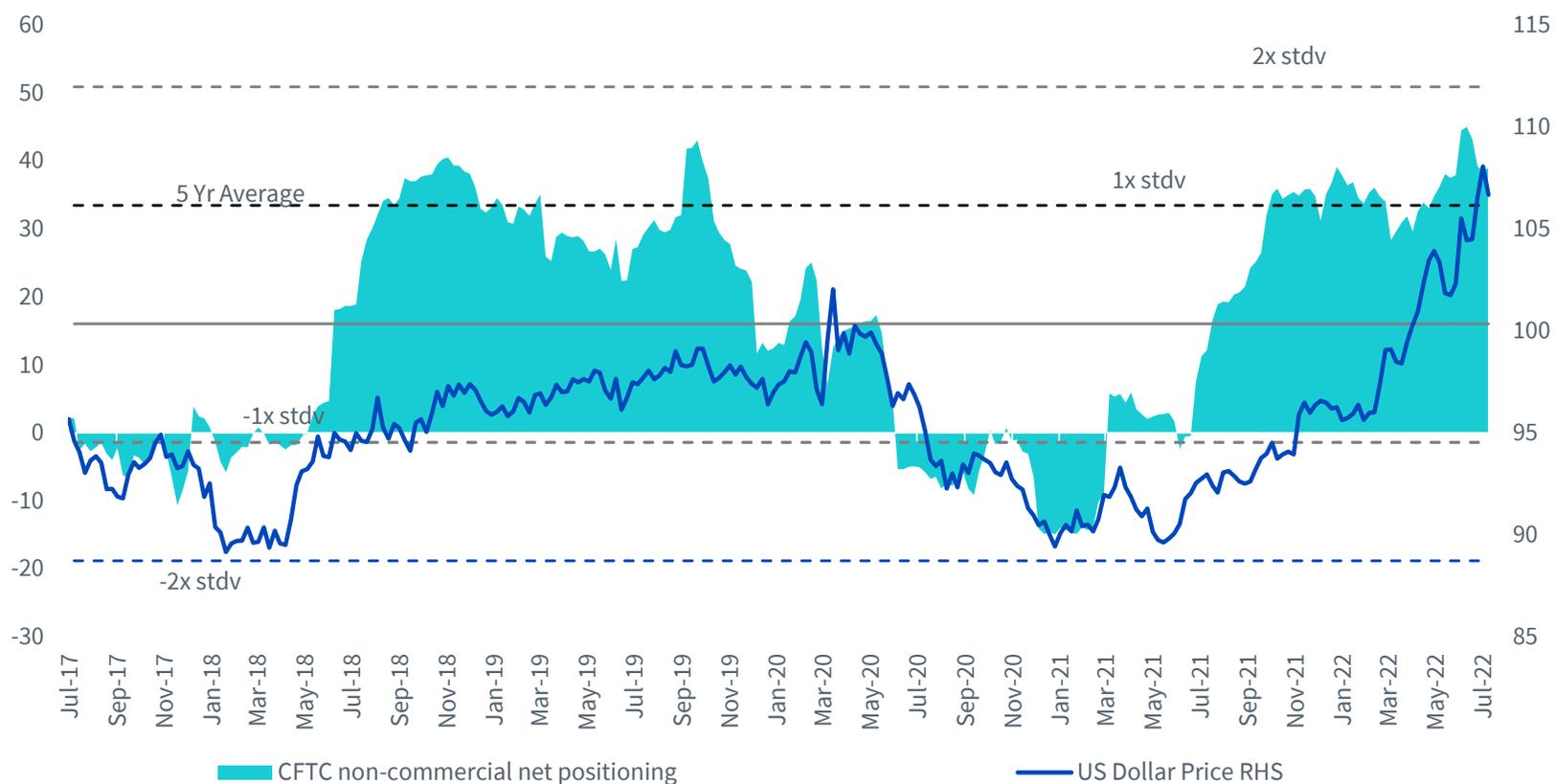
The Federal Reserve is expected to continue to hike aggressively



Source: WisdomTree. As of 28th September 2022. **Forecasts are not an indicator of future performance and any investments are subject to risks and uncertainties. Historical performance is not an indication of future performance and any investments may go down in value**

The strength of the US dollar is consistent with the underlying fundamentals of the US economy

Net speculative positioning is long the US Dollar underscoring the bullish outlook towards the currency



Source: Bloomberg, Commodity Futures Trading Commission from 16 July 2017 to 16 August 2022. Please note: Stdv – Standard deviation is a measure of the amount of variation or dispersion of a set of values.

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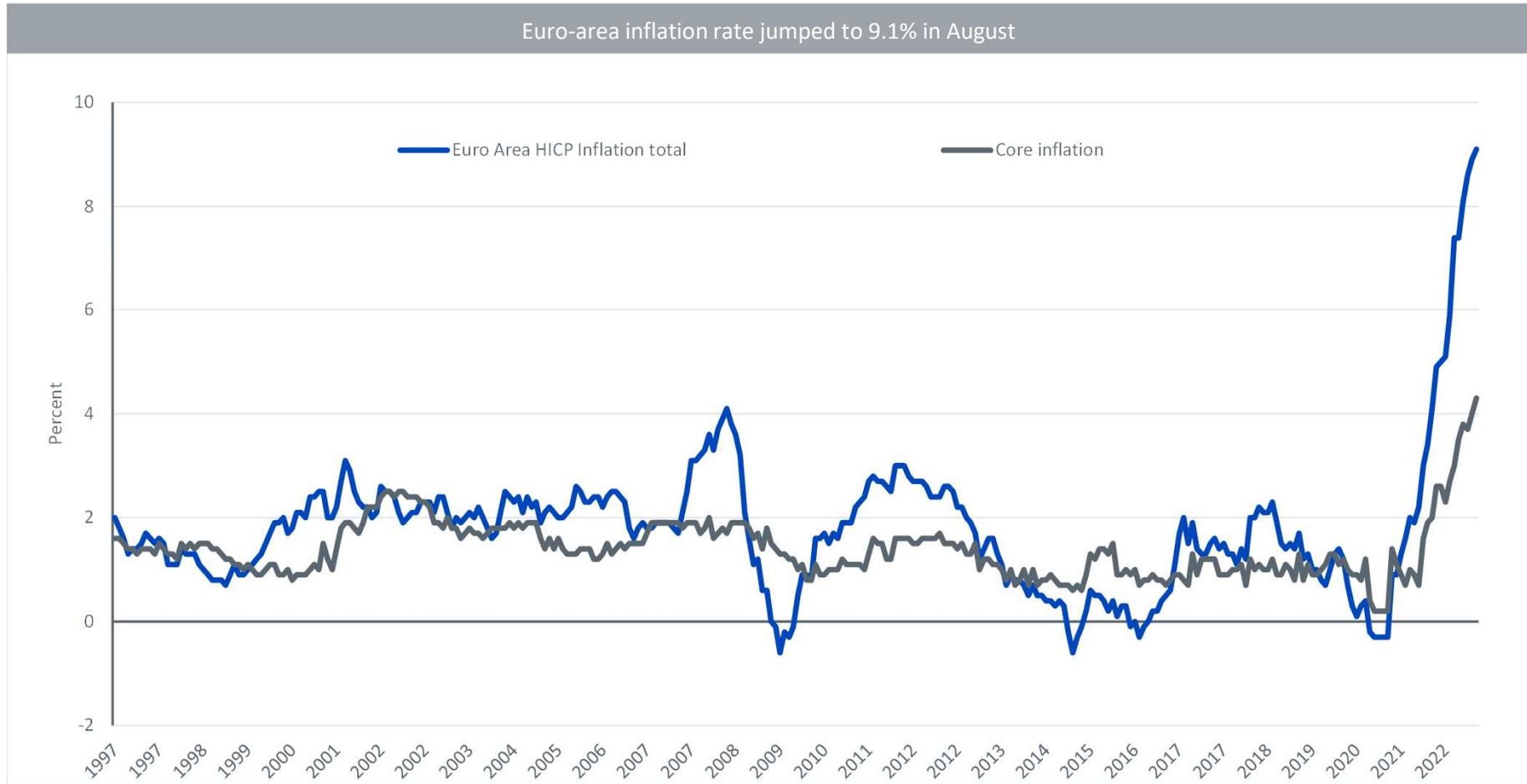
Stockpile of negative yielding debt continues to decline



Source: Bloomberg, National Bureau of Economic Research, WisdomTree as of 8 September 2022.

Historical performance is not an indication of future performance and any investments may go down in value

Inflation in Eurozone is far from peaking, owing to soaring energy costs



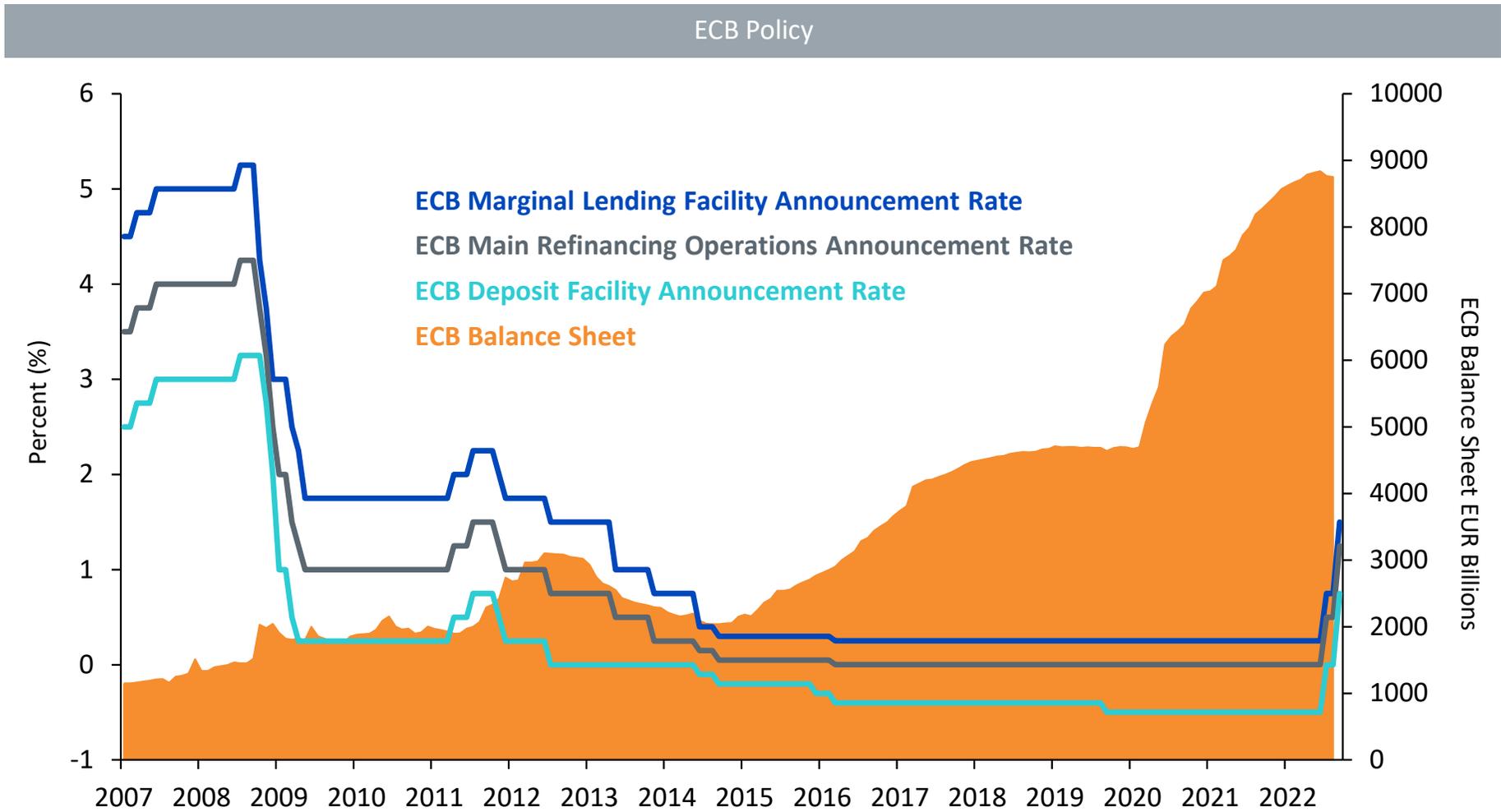
Source: Bloomberg, WisdomTree as of 31 August 2022

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ECB begins to respond to rising inflation, more rate hikes to follow

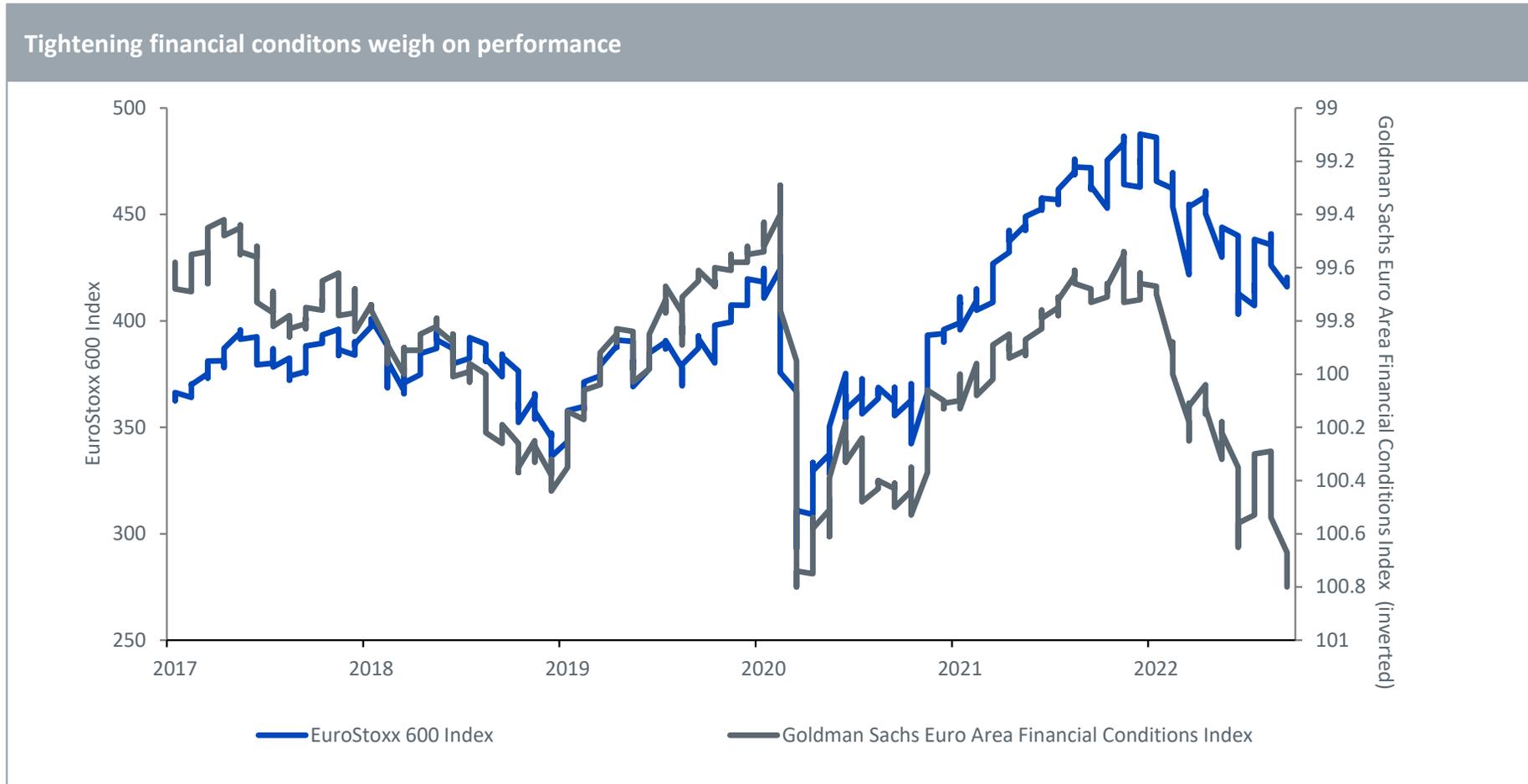


Source: Bloomberg, WisdomTree as of 8 September 2022

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Tightening Financial conditions impact performance of European stocks



Source: Bloomberg, WisdomTree as of 8 September 2022

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European consumer confidence in freefall owing to rising uncertainty over the energy crisis



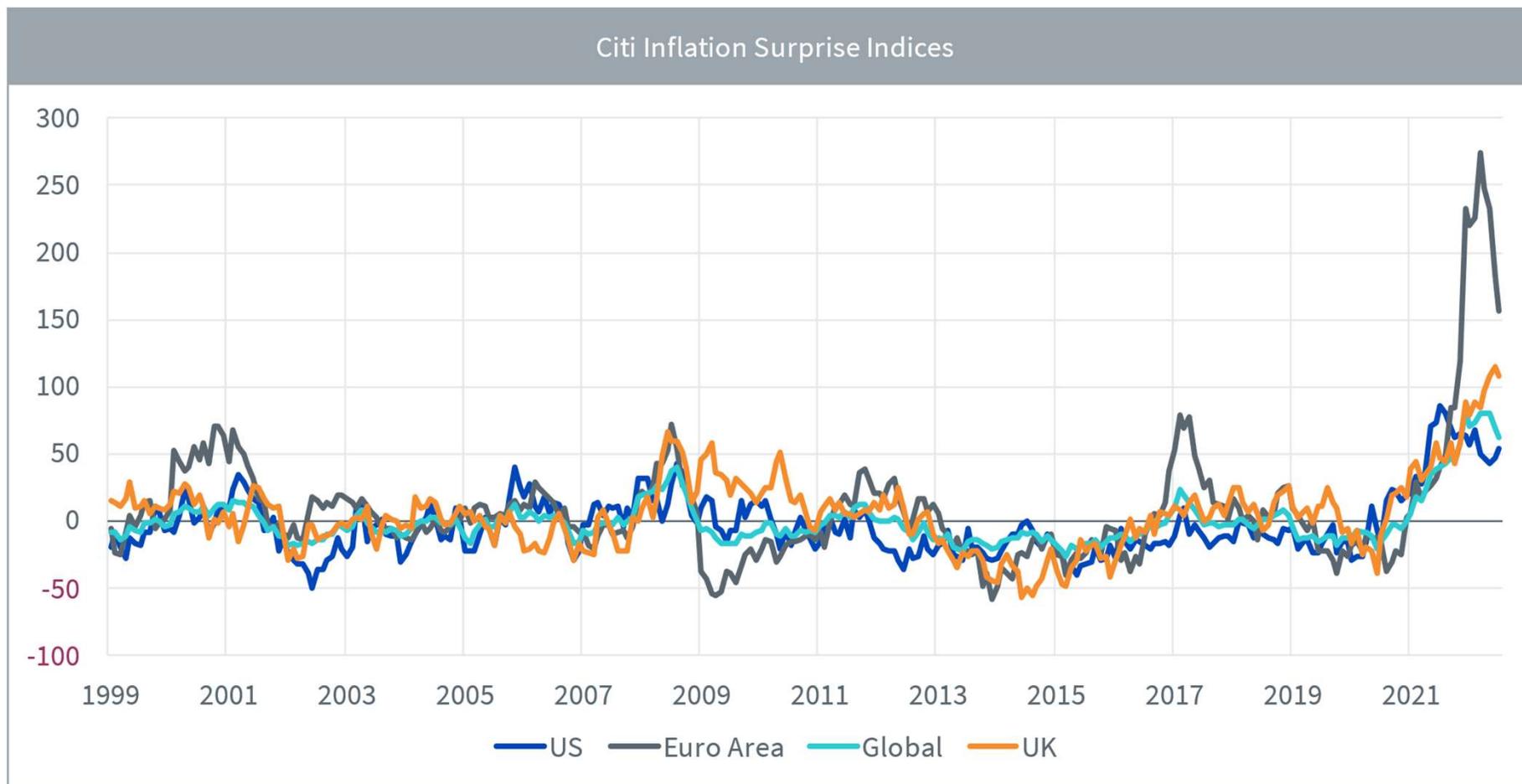
Source: Bloomberg, National Bureau of Economic Research, WisdomTree as of 31 August 2022.

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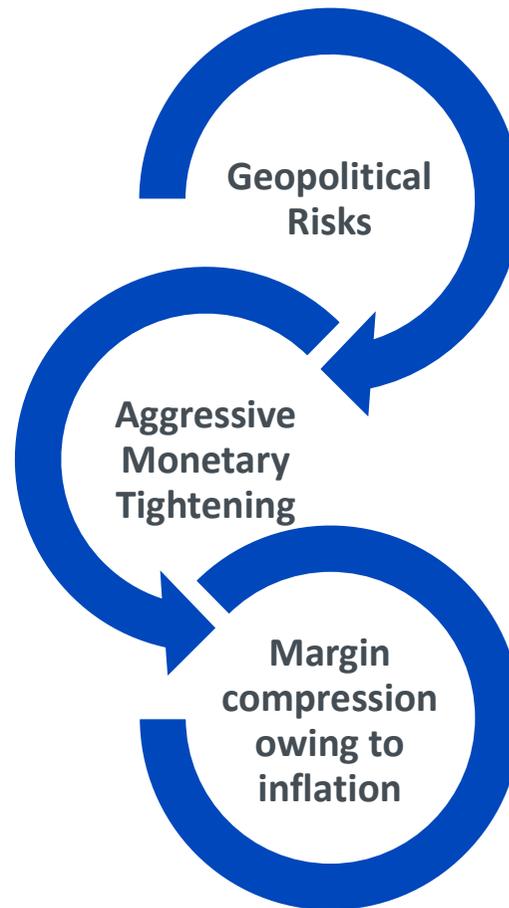
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The risk of secular inflation



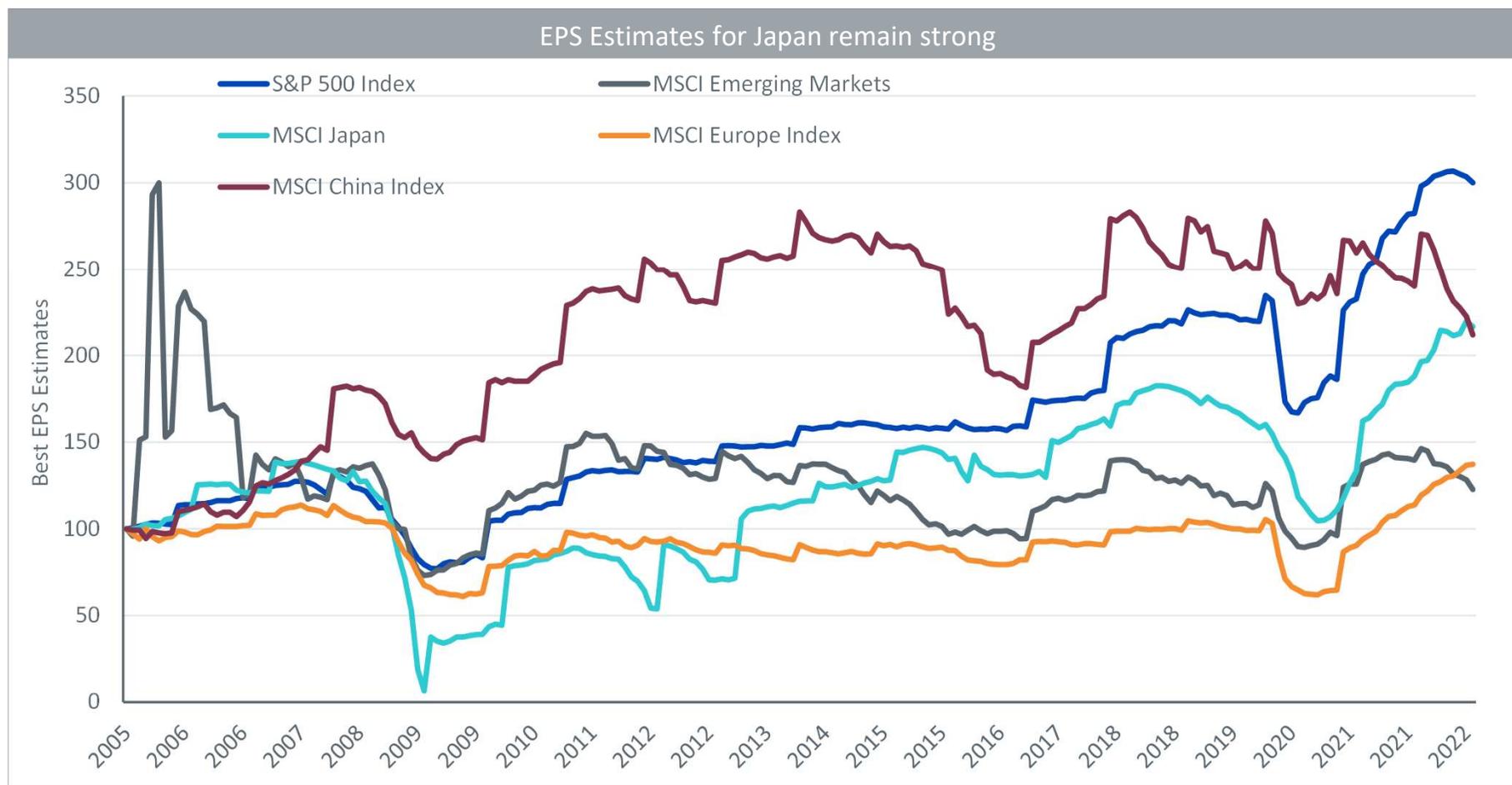
Source: WisdomTree, Citi Group, Bloomberg, data from January 1999 to July 2022. They are defined as weighted historical standard deviations of inflation data surprises (actual releases vs Bloomberg survey median). A positive reading of the Inflation Surprise Index suggests that inflation releases have on balance been beating consensus. **Historical performance is not an indication of future performance and any investments may go down in value**

Equity performance is being dictated by



Source: WisdomTree as of October 2022

US continues to dominate EPS Estimates while Emerging Markets and China face downgrades



Source: Bloomberg, WisdomTree as of 30 September 2022. EPS stands for Earnings per share.

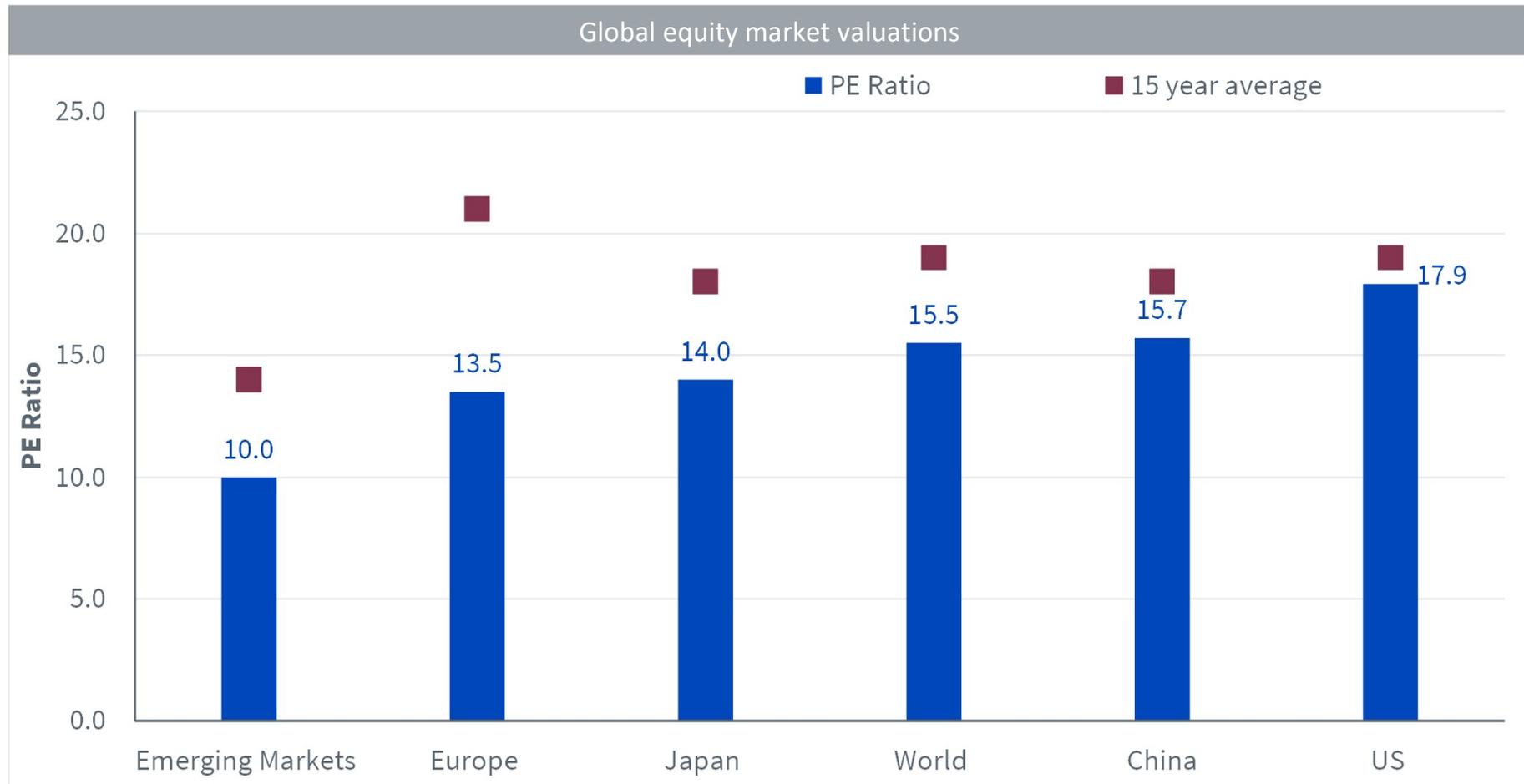
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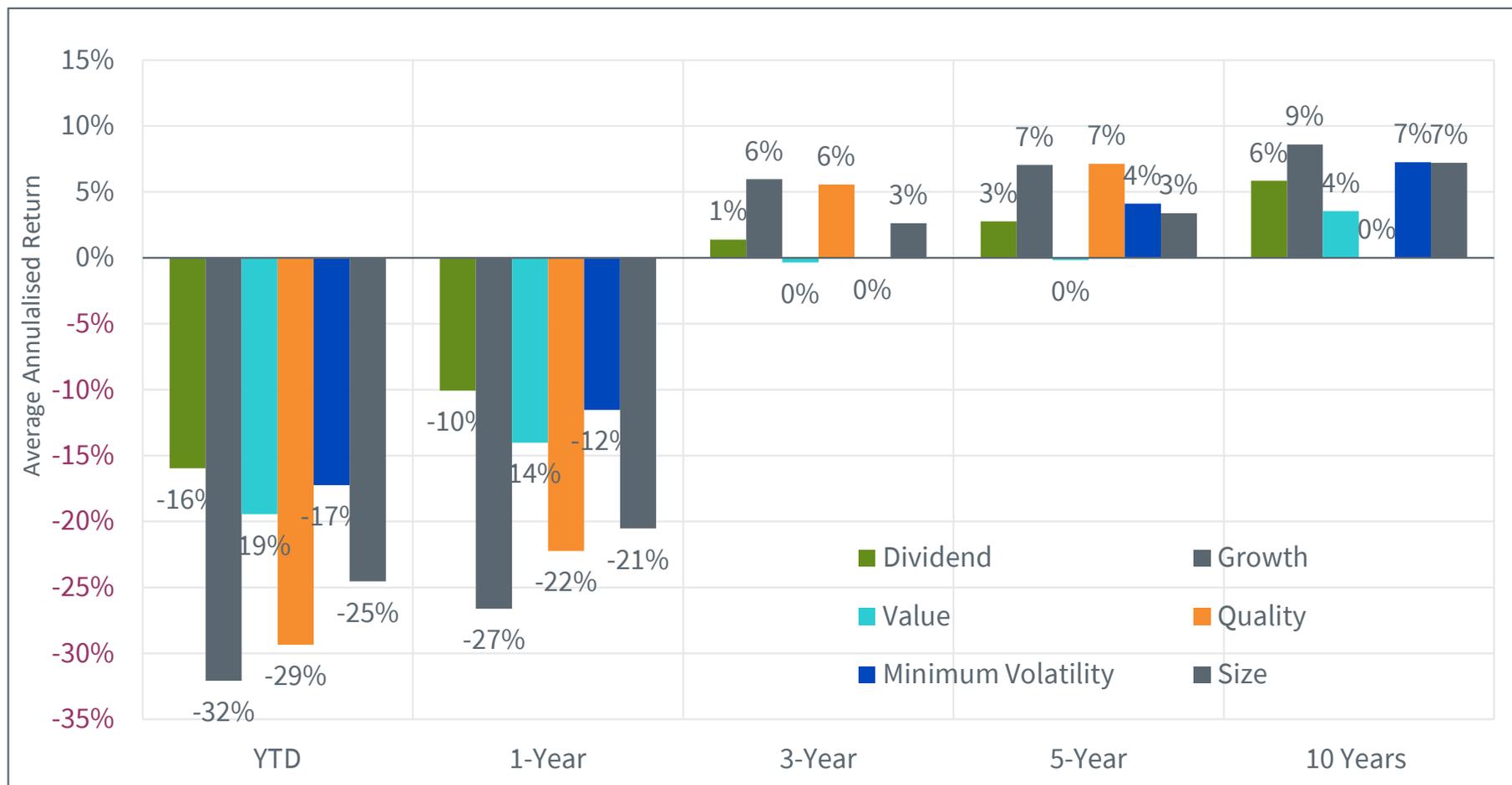
Europe trading at the widest discount to its long term average



Source: Bloomberg, WisdomTree of 26 September 2022

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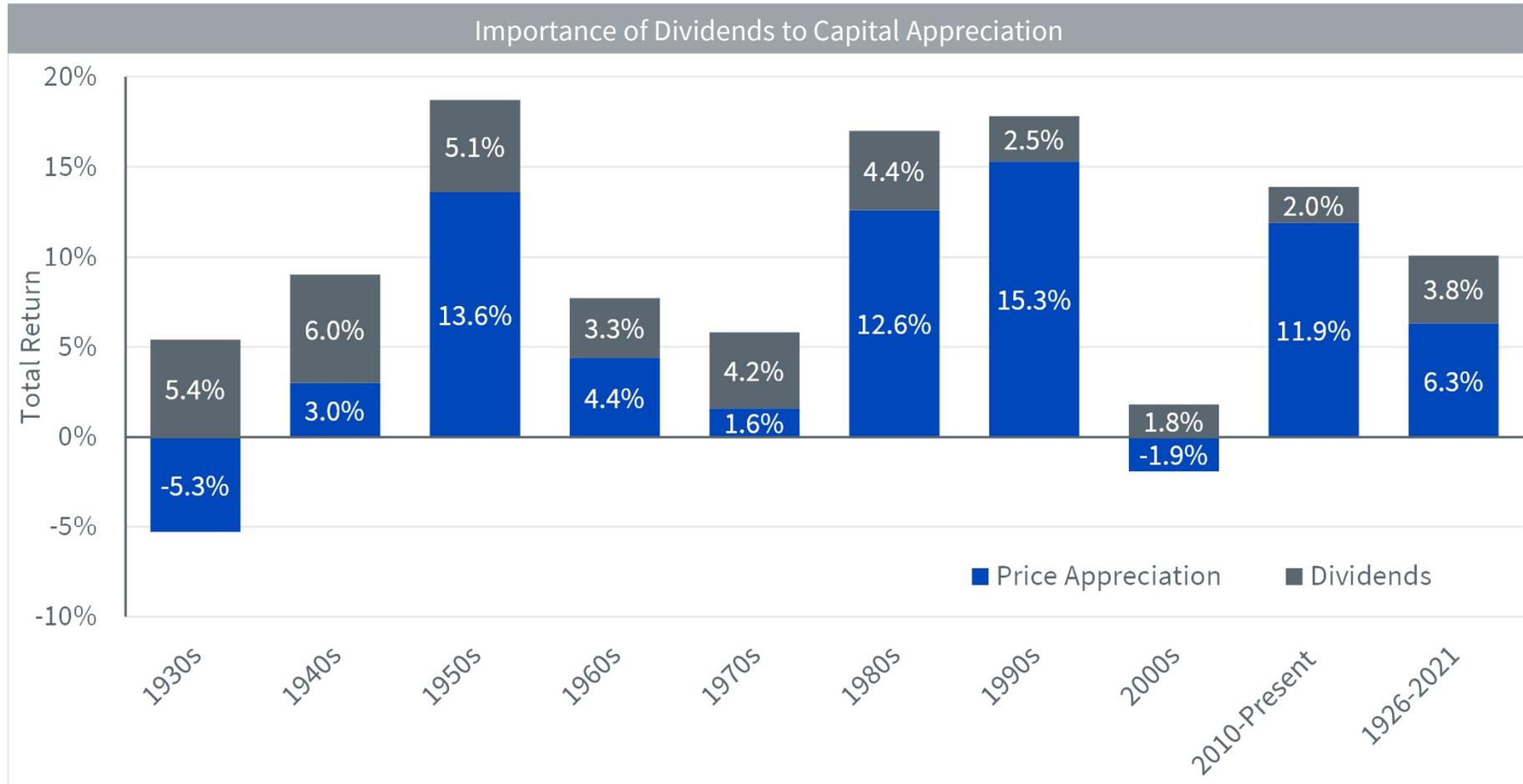
3 factors continue to remain in style amidst the global equity sell-off



Source: Bloomberg, WisdomTree as of 30 September 2022. Please note: Dividend - MSCI World High Dividend Yield Net Return Index; Value – MSCI World Value Index; Growth – MSCI World Growth Index; Quality – MSCI World Quality Price Index; Minimum Volatility – MSCI World Minimum Volatility Net Return Index; Size – MSCI World Size Tilt Net Return Index

Historical performance is not an indication of future performance and any investments may go down in value

The importance of dividends to Capital Appreciation



Source: Bloomberg, Morgan Stanley Research, WisdomTree as of 15 September 2022

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Key Takeaways



Inflation remains elevated in most part of the globe
Pressure on margins remains high



Recession risk is increasing every week. The Federal Reserve has clearly indicated it wont come to the market rescue this time around.
UK has already entered recession¹.

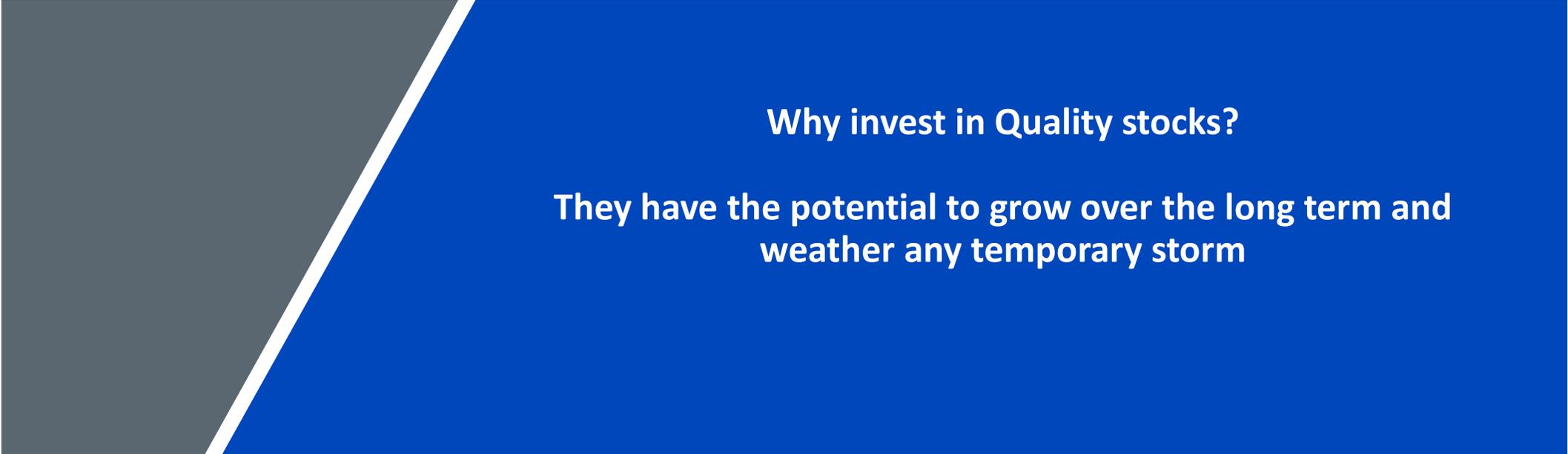


Central banks continue to front-load policy tightening in the hope of quelling demand-driven price pressures
Interest Rate are expected to continue to risk



Uncertainty is high and rising in equity market.
All-weather equity strategies can be used to stay invested while protecting the downside

Source: WisdomTree. 2022. 1. Bank of England officially announced that the UK would officially enter into recession at the end of September on 22nd September 2022.



Why invest in Quality stocks?

They have the potential to grow over the long term and weather any temporary storm

The right balance between downside protection and upside potential



Investment philosophy recognized by managers and academics



Strong historical outperformance



All-weather behaviour across business cycles

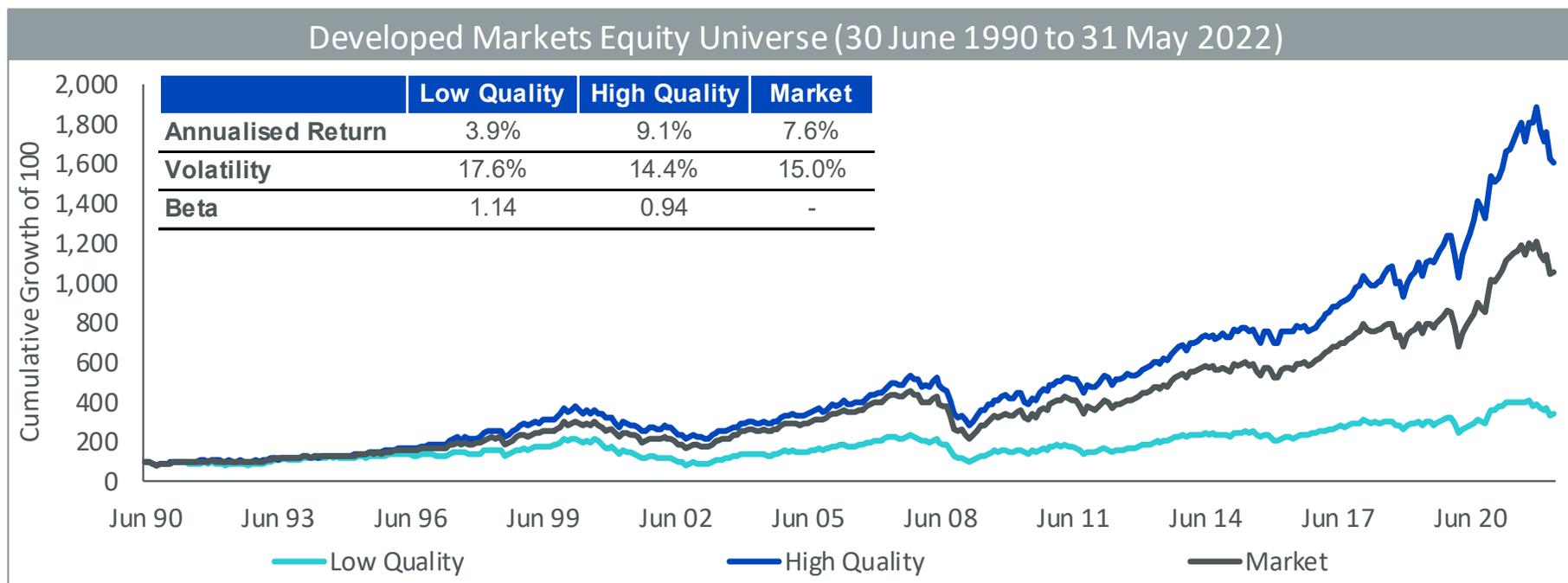


Protect in equity drawdowns



Source: WisdomTree.

Quality Stocks outperformed the market over the long term



+ High quality stocks have historically outperformed both the market and low quality stocks, while exhibiting lower volatility

Source: Kenneth French data library. Data is calculated at a monthly frequency and as of May 2022. Stocks are selected to be above the median market cap, with 'High Quality' representing the top 30% by operating profitability and 'Low Quality' representing the bottom 30% by operating profitability. The portfolios are rebalanced yearly at the end of June. The market represents the portfolio of all available publicly listed stocks in the developed world. All returns are in USD. Operating profitability for year t is annual revenues minus cost of goods sold, interest expense, and selling, general, and administrative expenses divided by book equity for the last fiscal year end in $t-1$.

You cannot invest in an index. Historical performance is not an indication of future performance and any investments may go down in value.

Predicting the best or worst factor yearly is very difficult

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	YTD
1st	Value 13%	Mom 18%	Value 10%	Mom 10%	MinVol 11%	Size 14%	Size 14%	MinVol 13%	Size 2%	Size 6%	MinVol 6%	MinVol 6%	Size 5%	Mom 10%	MinVol 7%	Qual 8%	Growth 18%	Qual 4%	HighDiv 9%
2nd	Size 10%	Value 7%	HighDiv 8%	Qual 7%	Qual 7%	Value 11%	Mom 4%	Mom 10%	Growth 0%	Value 5%	Qual 4%	Mom 5%	HighDiv 2%	Growth 6%	Mom 6%	Growth 6%	Mom 12%	Market 0%	MinVol 7%
3rd	Mom 6%	Size 6%	MinVol 0%	Growth 6%	Mom 1%	Growth 3%	Growth 3%	HighDiv 9%	Market 0%	Mom 3%	Mom 2%	Qual 5%	Value 1%	Qual 4%	Qual 3%	Mom 0%	Qual 6%	Growth -1%	Value 3%
4th	MinVol 5%	Market 0%	Market 0%	Value 1%	Market 0%	Qual 3%	MinVol 0%	Qual 9%	Value -2%	Qual 0%	Growth 1%	Growth 4%	Market 0%	Size 0%	Growth 2%	Market 0%	Size 0%	Value -2%	Market 0%
5th	HighDiv 4%	Growth 0%	Mom -1%	Market 0%	Growth 0%	HighDiv 2%	Market 0%	Growth 0%	Mom -2%	Growth 0%	Market 0%	Size 1%	MinVol 0%	Market 0%	HighDiv 1%	Size -1%	Market 0%	HighDiv -6%	Size -1%
6th	Market 0%	MinVol -2%	Size -3%	HighDiv -3%	Size -1%	Market 0%	Qual -1%	Market 0%	Qual -3%	Market 0%	Value -1%	Market 0%	Qual -3%	Value 0%	Market 0%	MinVol -5%	MinVol -13%	Size -6%	Mom -2%
7th	Qual -3%	HighDiv -2%	Qual -4%	MinVol -4%	HighDiv -2%	MinVol -14%	Value -3%	Size -4%	HighDiv -4%	HighDiv -5%	HighDiv -2%	HighDiv -2%	Mom -3%	HighDiv -4%	Size -5%	HighDiv -5%	HighDiv -16%	Mom -7%	Qual -4%
8th	Growth -4%	Qual -4%	Growth -5%	Size -8%	Value -2%	Mom -16%	HighDiv -5%	Value -6%	MinVol -8%	MinVol -8%	Size -3%	Value -2%	Growth -5%	MinVol -5%	Value -5%	Value -9%	Value -20%	MinVol -8%	Growth -7%

Quality

Value

Momentum

Growth

Minimum Volatility

Size

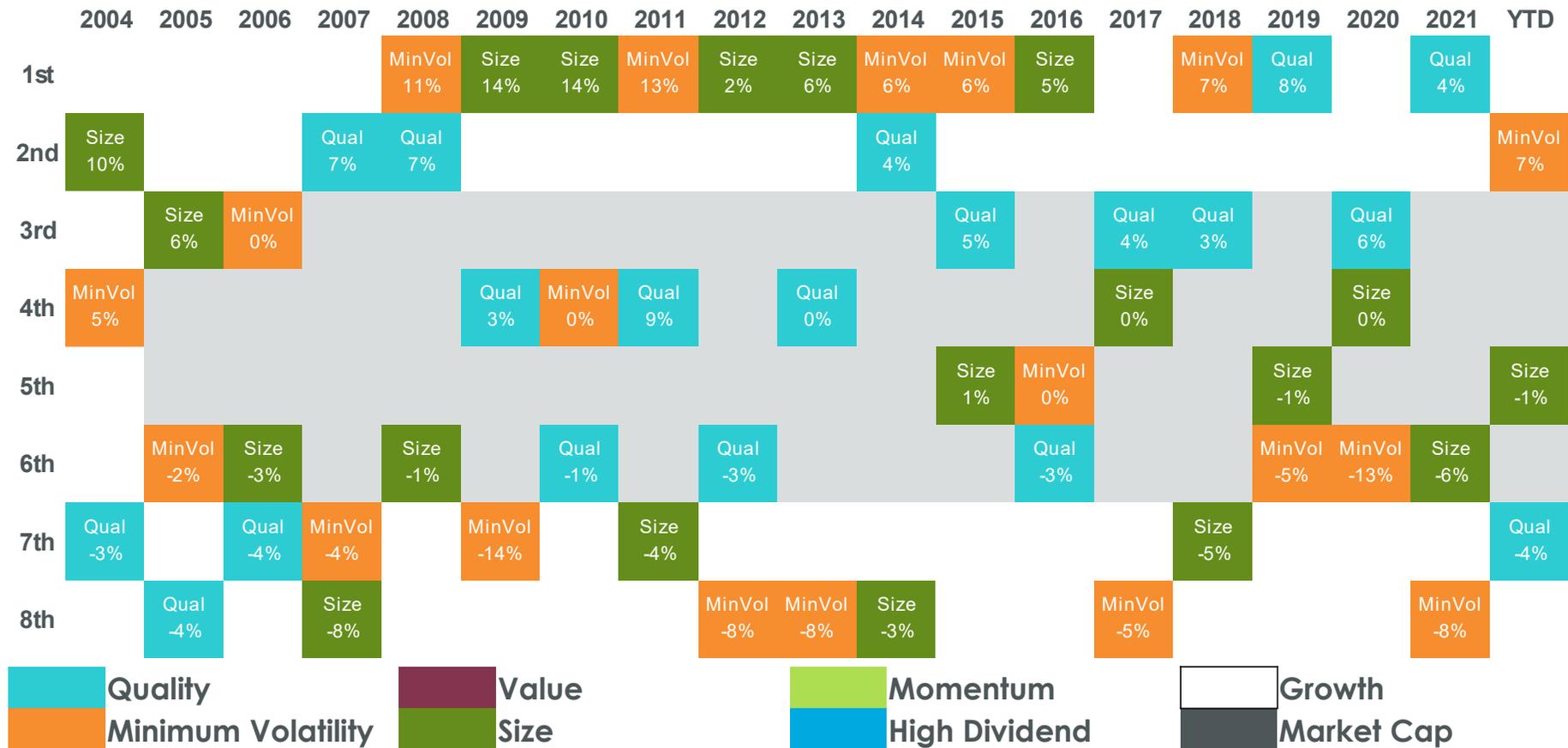
High Dividend

Market Cap

Source: WisdomTree, Bloomberg. Period 31 December 2002 to 30 September 2022. Calculations are based on monthly returns in USD.

You can not invest in an index. Above numbers include backtested data. Historical performance is not an indication of future performance and any investments may go down in value. For more details on equity factors' definitions, see Appendix.

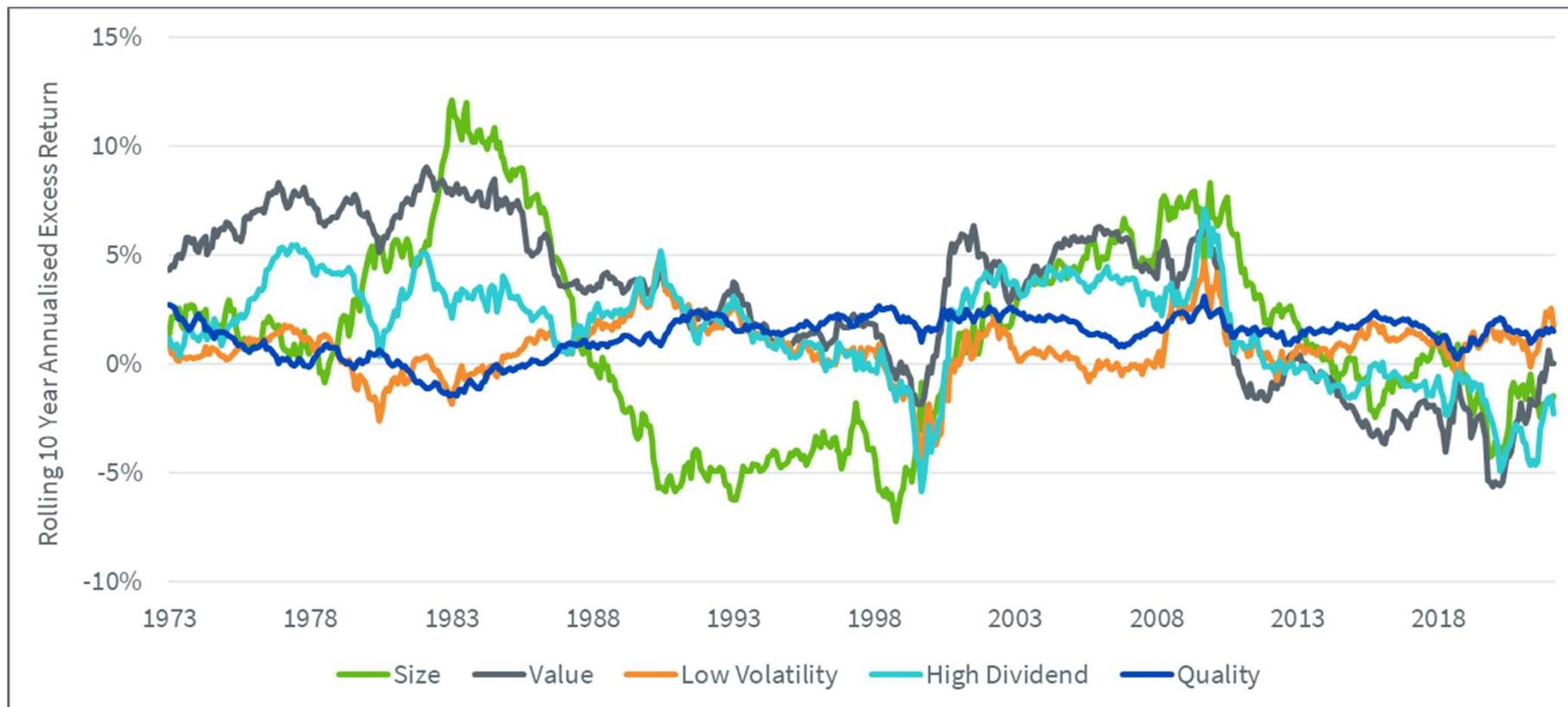
But Quality appears to avoid excesses and behaves steadily over time



Source: WisdomTree, Bloomberg. Period 31 December 2002 to 30 September 2022. Calculations are based on monthly returns in USD.

You can not invest in an index. Above numbers include backtested data. Historical performance is not an indication of future performance and any investments may go down in value. For more details on equity factors' definitions, see Appendix.

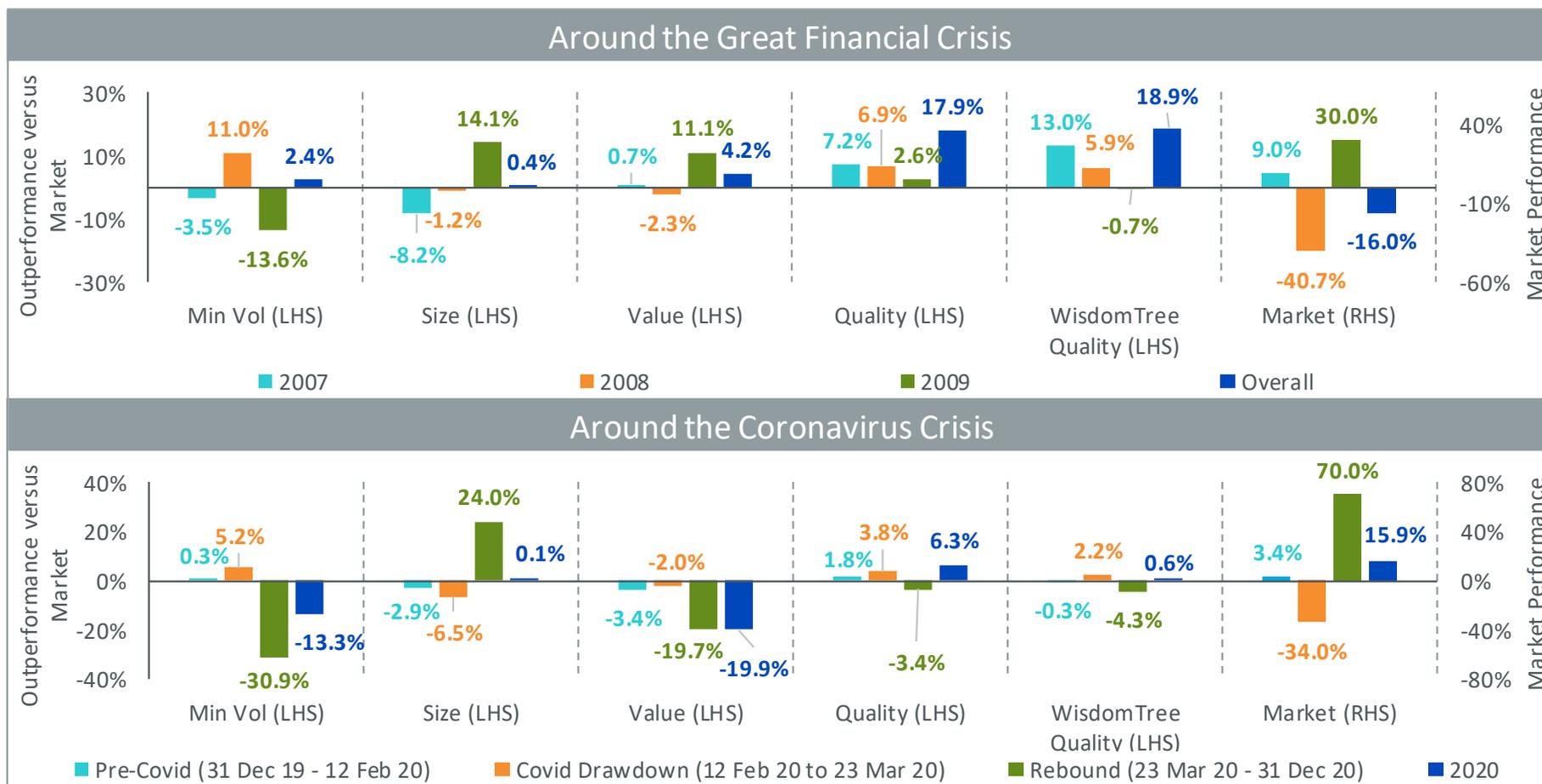
Historically, Quality has delivered the most steady outperformance over 10Y periods



	Size	Value	Quality	Low Volatility	High Dividend
Percentage of Outperforming periods	61%	75%	88%	77%	73%
Best Outperformance	12.1%	9.0%	3.1%	5.0%	7.1%
Worst Underperformance	-7.2%	-5.7%	-1.5%	-4.4%	-5.9%

Sources: WisdomTree, Ken French, data as of 31st July 2022 and represents the latest date of available data. Value: High 30% Book to Price portfolio. Size: Low 30% portfolio. Quality: High 30% portfolio. Low Vol: Low 20% portfolio. High Div: High 30 portfolio. Market: all CRSP firms incorporated in the U.S. and listed on the NYSE, AMEX or NASDAQ. **Historical performance is not an indication of future performance, and any investments may go down in value.**

Quality delivers the best performance thanks to its defensiveness in drawdowns and its ability to capture rebounds



Source: WisdomTree, Bloomberg. Periods of 31st December 2006 to 31st December 2009 and 31st December 2019 to 31st December 2020.

Calculations are in USD. The inception date for the WisdomTree Global Quality Dividend Growth Index (WisdomTree Quality) is 16 Oct 2015.

You can not invest in an index. Above numbers include backtested data. Historical performance is not an indication of future performance and any investments may go down in value. For more details on equity factors' definitions, see Appendix.



Why invest in Quality stocks, now?

Tactical stars could be aligning for Quality

Why invest in High Quality stocks now ?



Tend to perform strongly in the second half of the cycle



Good risk return balance when markets are volatile



High pricing power help defend margins against inflation



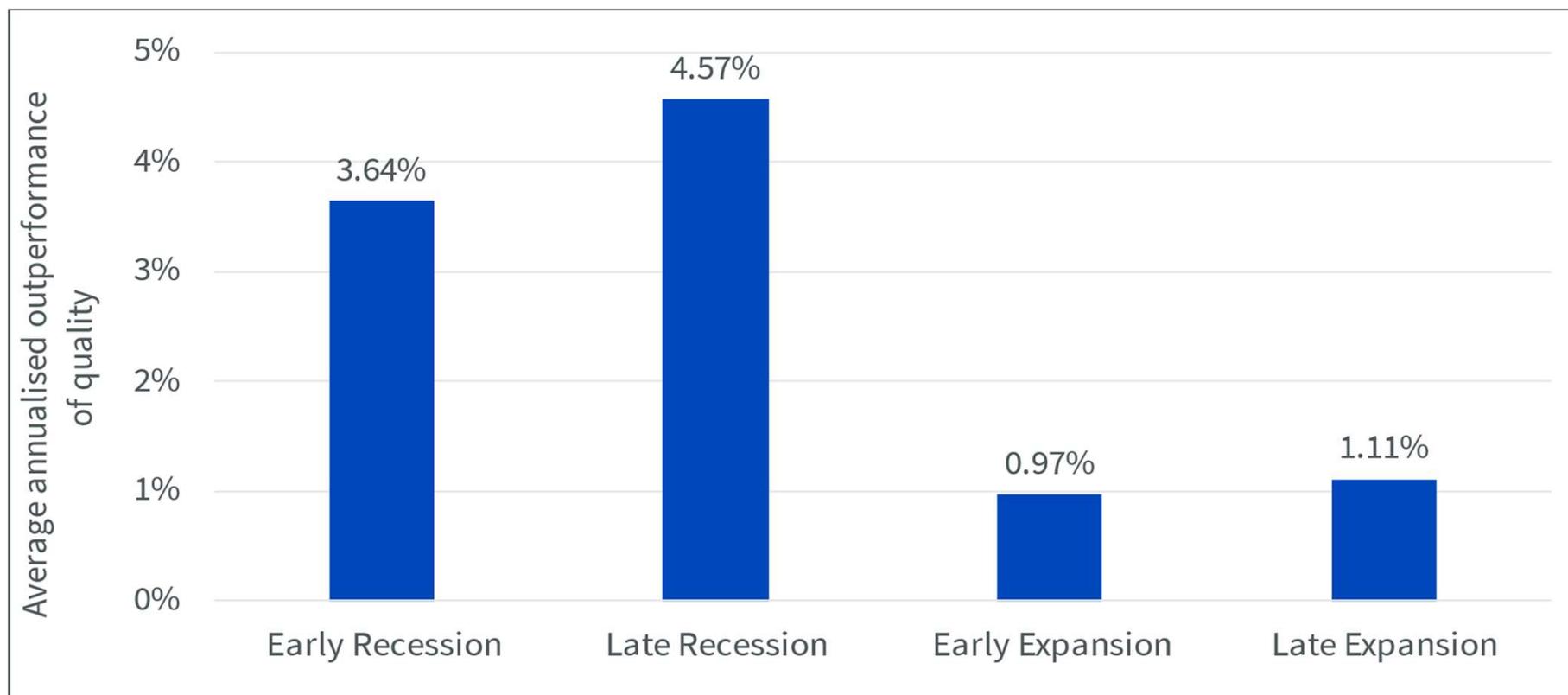
Strong resilience in periods of short term rate increase

Source: WisdomTree.



Tend to perform strongly just before or during recessions

Quality tends to outperform across the business cycle and does well early in the recession



Source: Kenneth French data library. July 1963 to August 2022. Data is calculated at a monthly frequency. Stocks are selected to be above the median market cap, with 'Quality' representing the top 30% by operating profitability. The portfolios are rebalanced yearly at the end of June. The market represents the portfolio of all available publicly listed stocks in the United States. All returns are in USD. Operating profitability for year t is annual revenues minus cost of goods sold, interest expense, and selling, general, and administrative expenses divided by book equity for the last fiscal year-end in t-1. You cannot invest in an index. **Historical performance is not an indication of future performance and any investments may go down in value.**

Questions

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in all types of weather**

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