WisdomTree Market Outlook

Plus Model Portfolios

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Commodity Outlook

The commodity renaissance

Our commodity outlook for the coming year will be shaped by three major drivers:

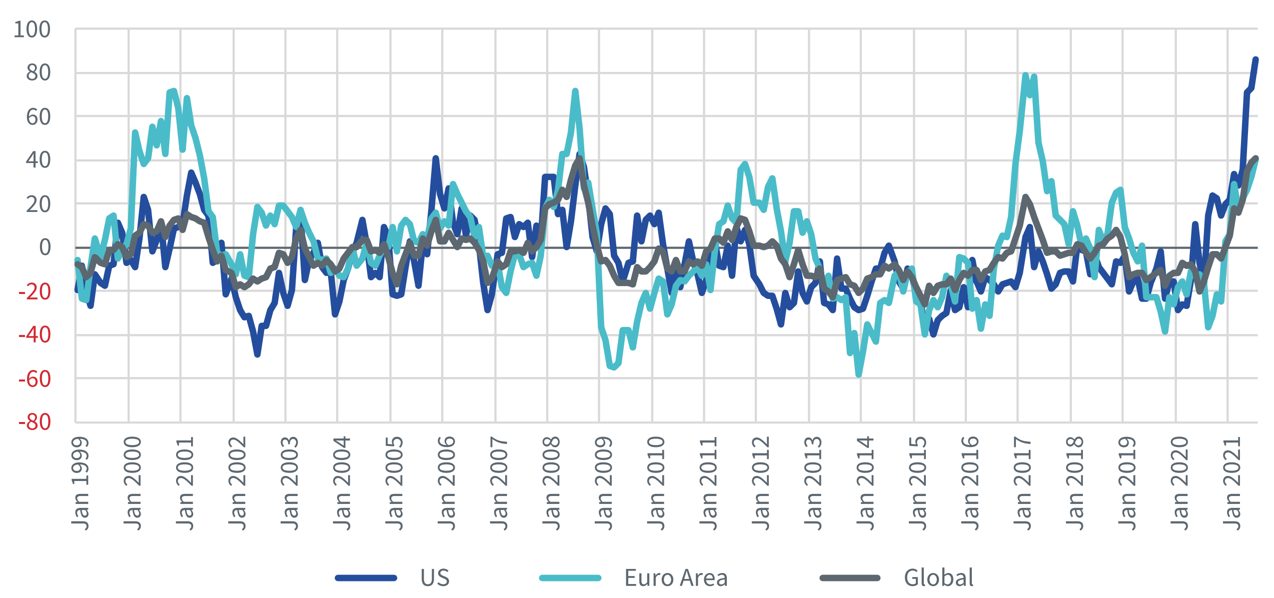
1. A higher inflationary environment than we have seen in recent decades
2. A structural increase in demand for commodities driven by an infrastructure boom
3. A renewed focus on the environment which will increase the demand for certain commodities and at the same time present challenges for supply growth

While none of these drivers is new, and we have been talking about them for the past nine months, in this outlook, we will provide an update on how each of these drivers is progressing.

Reflation

Although we have been talking about inflation rising for some time, the market seems to have been caught by surprise. Figure 1 shows an Inflation Surprise Index, i.e. the extent to which actual inflation has come in higher than expected by the market. For the US, the latest reading is at a series high. While the Euro area may have seen bigger surprises in the past, the index is trending higher. At a global level, the index is just shy of its all-time high in 2008 and could reach a fresh high in the coming months.

Figure 1: Citi Inflation Surprise Indices



Source: WisdomTree, Citi Group, Bloomberg, data from January 1999 to September 2021. 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.**

Inflation higher for longer

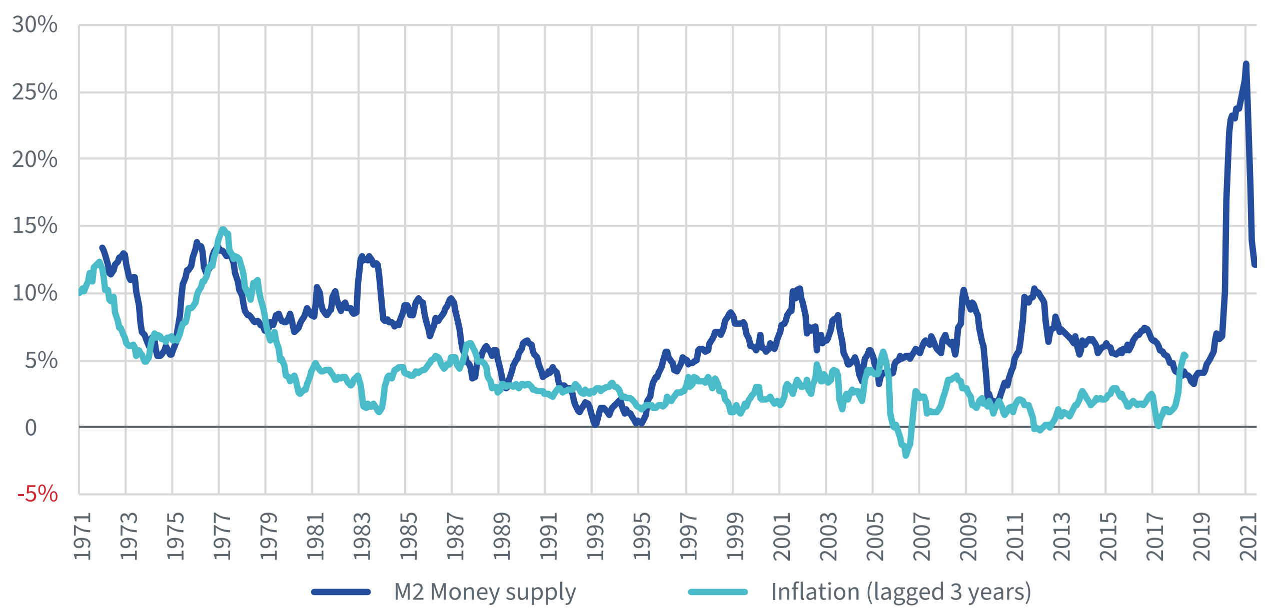
We believe that the mantra of “elevated inflationary pressures are transitory” that central banks have been chanting for some time is getting harder to believe. However, at the same time, we don’t think that most central banks will be able to address the root causes of inflation through monetary policy alone. Supply-side shocks are responsible for a lot of the inflation pressure today, and tightening monetary policy either by tapering bond buying programmes or raising interest rates will do little to address the supply bottlenecks that are driving prices higher. Tightening monetary policy may dampen demand to a degree that matches the constrained supply, but we believe that engineering a recession simply to meet the letter of an inflation mandate will be difficult to justify. In short, investment markets, firms, consumers may have to get used to higher levels of inflation until supply-side constraints are under control. With many of the supply issues being intertwined with Covid related disruptions, we may not clear that path until the Covid related issues are resolved on a global scale. That could take some time.

Investors looking to hedge against elevated inflation, especially unexpected inflation, would be wise to look at the commodity complex. Whether we talk about gasoline pipeline disruptions driving up the price of gasoline or drought conditions pushing up the price of food, there are many commodities whose prices will react, providing a natural hedge to the increasing price pressures felt in a consumption basket.

Has the inflationary dye been cast?

Even beyond the supply-shock induced inflation, we believe other inflationary pressures exist. For anyone sympathetic to Milton Friedman's view that "inflation is always and everywhere a monetary phenomenon"[1], figure 2 below should give a reason to pause and think. Inflation has often followed the growth of monetary aggregates with some lag. The growth in the M2 money supply in 2020 and 2021 has been eye-watering. It is hard to imagine a world where this will not be providing some sort of inflationary pressure. Critics often cite the 2009 to 2012 period, where we saw a couple of spikes in monetary growth without associated gains in inflation. However, this was a period during the Global Financial Crisis and European sovereign crisis, when the banking system was broken, and despite central banks issuing lots of money, commercial banks were parking it in reserves at the central bank. Today, that phenomenon is not in play. With commercial banks passing their stress tests with flying colours, we don't expect the same disruption to credit dissemination as we observed in 2009-2012. Even if central banks tighten monetary policy in the near future, inflation could still remain elevated as it reacts to monetary growth that has already taken place.

Figure 2: US M2 money supply and inflation



Source: WisdomTree, Bloomberg. Commodity price based Bloomberg Commodity Total Return (BCOMTR Index), US CPI inflation, March 1972 to July 2021. **Historical performance is not an indication of future performance and any investments may go down in value.**

[1] Milton Friedman, Inflation Causes and Consequences, Asian Publishing House, 1963.

Infrastructure boom

Following the Covid pandemic, the political will to support infrastructure projects has strengthened. In Europe, a budget of close to €2.018 trillion[2] in current prices has been devoted to the recovery. More than 50% of the budget will support modernisation through research and innovation, fair climate and digital transitions, and health preparedness development. All these initiatives will require some form of infrastructure improvements.

In the US, the Senate has just approved a US$1 trillion infrastructure bill[3]. While watered-down from the original US$2 trillion design from the White House, the approval was unusually bipartisan. Figure 3 highlights some of the infrastructure initiatives the bill contains. We believe that this will act as a strong catalyst for commodity demand in the US.

In China, although the Federal Government is trying to slow stimulus down and actively calm commodity prices, local governments raised more than RMB4.5 trillion of debt in 2020, mainly in Special Purpose Bonds (SPBs). Historically more than 80% of SPB funding is allocated to infrastructure projects[4].

Infrastructure projects are commodity-intensive. And they tend to last a long time. Therefore, the impact on commodity markets may transcend more than a typical business cycle.

Figure 3: US Infrastructure Bill spending plans

$109bn Roads, bridges, major projects	**$11bn** Transport safety	**$49bn** Public transit	**$66bn** Passenger and Freight Rail
$7.5bn EV infrastructure incl. 500,000 EV chargers	**$7.5bn** Electric buses / transit	**$1bn** Reconnecting communities	**$25bn** Airports
$16bn Ports & Waterways	**$20bn** Infrastructure Financing	**$55bn** Water infrastructure	**$65bn** Broadband infrastructure
$21bn Environmental remediation	**$73bn** Power infrastructure incl. grid authority	**$5bn** Western Water Storage	**$47bn** Resilience

Source: https://www.whitehouse.gov/briefing-room/statements-releases/2021/06/24/fact-sheet-president-biden-announces-support-for-the-bipartisan-infrastructure-framework/

[2] https://ec.europa.eu/info/strategy/recovery-plan-europe_en#main-elements-of-the-agreement

[3] https://www.reuters.com/world/us/us-senate-poised-pass-1-trillion-infrastructure-bill-debate-35-trillion-budget-2021-08-10/

[4] Source: Moody's Investors Service China Sub-Sovereign Monitor, February 2021.

A focus on the environment

Most countries around the world have signed up to the Paris Agreement to limit temperature increases to just 2°C above pre-industrialised levels. Over the coming decades, we think governments will more aggressively match their words with action. After all, they have signed up to a legally binding international treaty. The progress observed to date since the treaty was signed in 2015 appears insufficient to reach the goal. The Intergovernmental Panel on Climate Change (IPCC)'s recent assessment paints a dire picture of the consequences of missing the target[5]. There is little in their report to suggest we are on target. In other words, governments are going to have to double down on their efforts.

Energy transition

We believe an energy transition will take place, where we will move rapidly away from the consumption of hydrocarbons, which produce lots of greenhouse gas emissions, to renewable energy sources. All the materials that support renewable energy and technologies that enable the practical use of renewable energy, such as batteries, will be in greater demand. The electrification of road transportation will augment this trend. In the commodity markets, this will be broadly favourable for base metals, including copper, nickel, aluminium, and tin. An electrification of our energy systems is also likely to be supportive for silver given its use in solar panels and platinum, given its role in the hydrogen economy.

Figure 4: Commodity's role in the energy transition

Commodity	Energy transition driver
Nickel	Use in cathode active material in lithium-ion batteries
Copper	Wiring in electric vehicles Charging infrastructure Grid infrastructure improvements
Aluminium	Use in cathode active material in lithium-ion batteries Light-weighting applications so that less energy is needed to power them
Tin	As demand for electric applications rises, so will demand for soldering material
Silver	Used in photovoltaics (solar panels) As demand for electric applications rises, so will demand for conductive material
Platinum	Use in hydrogen electrolysers Use in fuel-cell vehicles Ramp up in use in traditional internal combustion engine automobile catalysts to meet more stringent carbon targets while other technologies are being explored

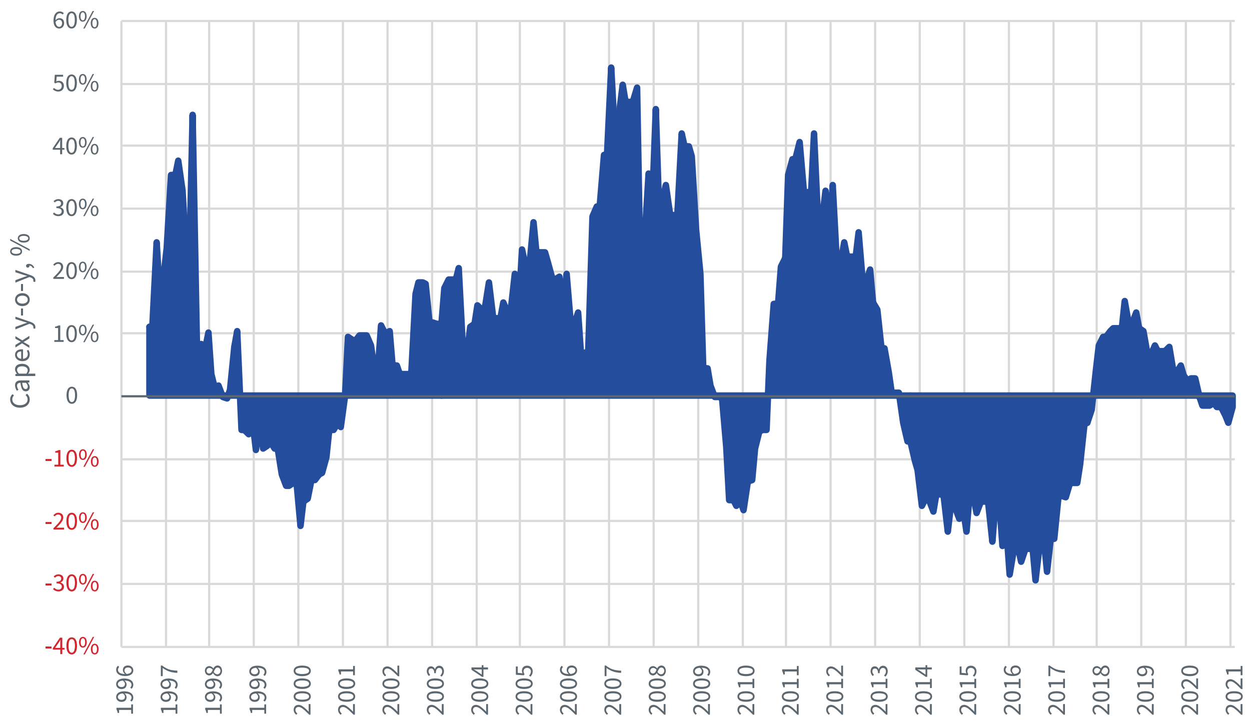
Source: WisdomTree.

The supply challenge

While it is clear that certain commodities are needed to progress the energy transition, it is less clear whether sufficient production of those commodities will take place. Investment in mining capital has been slow in recent years. Bearing in mind the long lead times between initiating investment and increased output from a mine, we could be building supply hurdles in the medium term.

[5] See IPCC's Sixth Assessment Report, July 2021: https://www.ipcc.ch/report/ar6/wg1/#TS

Figure 5: Mining capital expenditure



Source: WisdomTree, Bloomberg. Q1 1996 – Q2 2021. **Historical performance is not an indication of future performance and any investments may go down in value.**

In addition, a renewed focus on environmental outcomes will push miners into better environmental practices. More careful dealing of tailings; avoiding mining in ecologically sensitive areas; reducing greenhouse gas emissions in the mining process. All of these will be welcome developments to make the industry more sustainable. However, we may find that mining activity slows while the industry makes this adjustment.

Since the start of this year, China's crackdown on its aluminium industry, which relies heavily on coal for its power needs, is an example of supply pressures arising from tighter environmental policies. With China being the world's largest aluminium producer, the metal could remain undersupplied for years as the industry transitions to cleaner alternatives for its energy needs.

Conclusions

Commodities entered a bull cycle in 2020 after the market started a recovery following the sharp drawdown in the initial phase of the pandemic. However, lingering Covid effects are hampering supply chains and driving inflation higher in addition to the traditional excess demand drivers of inflation. Commodities are a hedge for inflation and generally are likely to prosper, especially in the shadow of monetary largesses that are already in the system. Even if the inflation catalyst wanes as we move to the next business cycle, the boom in infrastructure and the energy transition will likely propel many commodities for years to come.

Equity Outlook

The three dimensions of portfolio resilience

In 2020, there was an unprecedented use of the word ‘unprecedented’. Investors grappled with the human, economic, and financial costs of the pandemic. Various letters of the English alphabet were suggested to predict the shape of the recovery. Regardless of what letter ultimately described it best, for equity investors who were able to stay invested through the volatility in March, the subsequent recovery did indeed pay dividends.

The broad rally in equity markets, which has reached new heights in 2021, has been fuelled by three key forces. First, extraordinary (to avoid using the word ‘unprecedented’ again) levels of monetary accommodation have continued. Second, vaccine optimism, since November last year, has passed the baton to pent-up demand which is helping deliver strong corporate earnings this year. And finally, governments, introducing fiscal stimuli, have lent additional buoyancy to risk assets.

With many developed equity markets persistently reaching for new highs, what big picture themes might investors want to consider for adding resilience to their equity portfolios in the coming months?

Tantrums on the horizon?

We have heard of the boiling frog syndrome – the legend describing a frog being slowly boiled alive. The idea is that if the frog is suddenly put into boiling water, it will immediately jump out and save itself. If instead, it is put into lukewarm water, which boils gradually, it may not perceive the impending danger and end up being cooked to death.

How does the analogy apply here? Had monetary accommodation been introduced suddenly in response to the pandemic, the US Federal Reserve (Fed) may have been more eager to ‘normalise’ policy than it currently appears to be. Given that monetary accommodation has largely been the norm since the global financial crisis, the central bank appears less perturbed in an unsustainable situation.

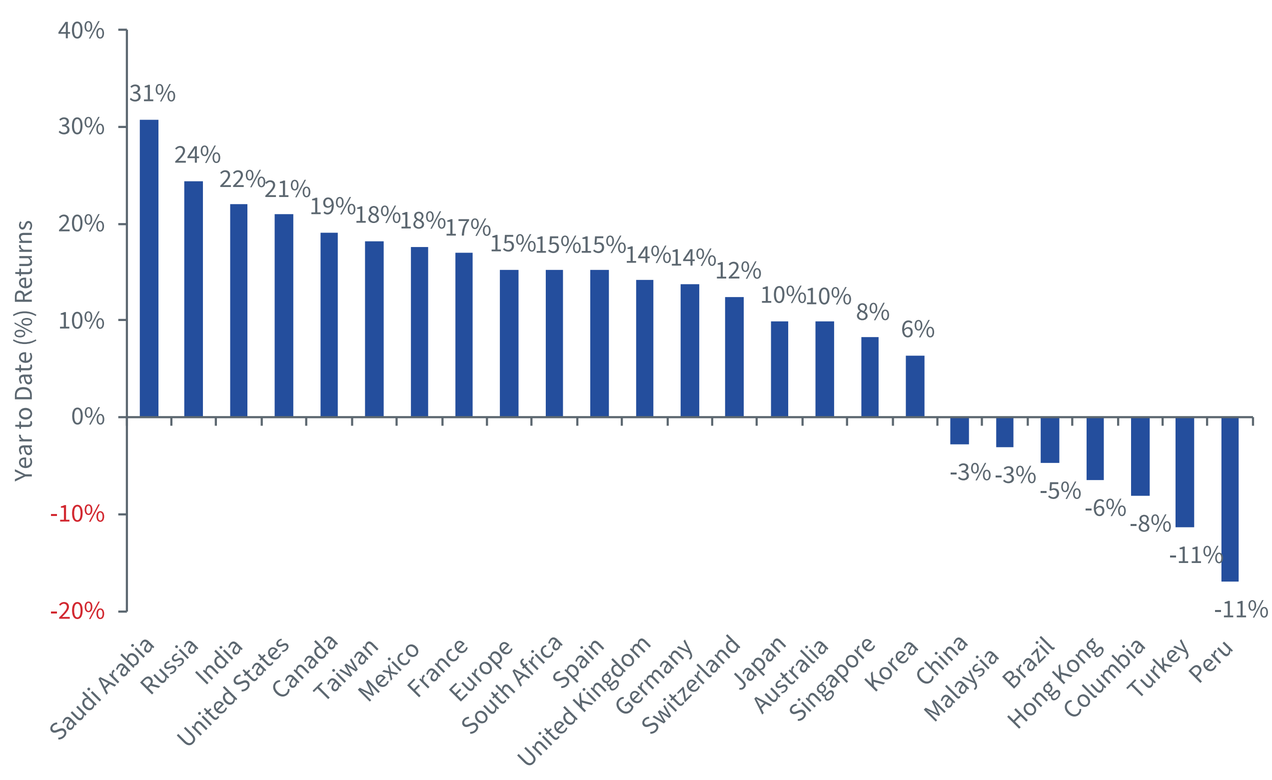
We currently have negative long term real yields in the US – an economy that is back up on its feet. Eventually, crisis levels of policy accommodation will need to be withdrawn. But the further the Fed kicks the can down the road, the higher the risk of a taper tantrum. We form this view based on the aftershocks of March 2020 market volatility, especially when markets anticipate a hawkish pivot from the Fed.

Equity investors can position themselves to better withstand such volatility with quality as a core portfolio exposure. Quality’s balance between downside protection and upside participation makes it a favourable all-weather factor that can complement or replace a market cap exposure in the portfolio’s core.

Regional snapshots – Winner takes it all

Global equity markets have posted strong gains in 2021, powered ahead by the US and Europe, leaving behind China and the Asia-Pacific region. India and Japan have demonstrated a strong turnaround towards the middle of the year as their economies re-emerged from the recent peak of the Delta variant. We continue to remain optimistic on Europe, Japan, and Emerging Markets.

Figure 1: Year to Date performance returns amongst primary global indices



Source: Bloomberg, WisdomTree. Please note the Year-to-Date percentage returns are from 30 December 2020 to 9 September 2021. **Historical performance is not an indication of future performance and any investments may go down in value.**

The Eurozone economy appears to be firing on all cylinders. In the second quarter, the Eurozone's growth measured by gross domestic product (GDP) expanded by 2% quarter-on-quarter, outpacing the US and China. While growth amongst global markets is on course to slow next year, the pace of the slowdown is much lower for Europe compared to the rest of the world since Europe was at a very nascent stage of its recovery prior to the pandemic. Eurozone GDP is still 3% lower than its pre-pandemic high, while US second quarter GDP was 0.8% higher.

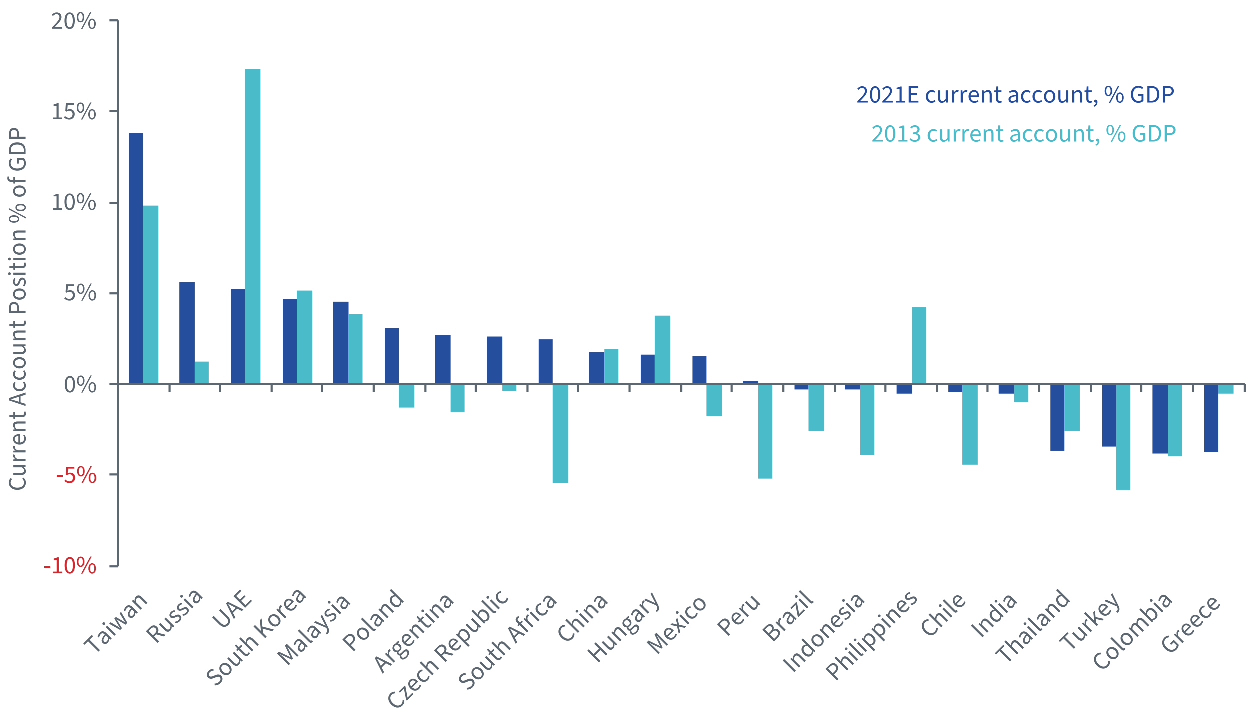
Consumption demand, aided by the economic reopening, helped unleash excess savings that had been accumulated during the pandemic. Increases on the production side have been led by the services sector as the manufacturing sector still faces supply shortages on numerous production inputs. Delivery delays are driving manufacturers' input costs higher, leading to a record increase in the average selling price for goods and services. We expect this to translate into higher inflation over the second half of this year before easing into 2022. Monetary policy is likely to remain accommodative and we expect the pace of net purchases under the Pandemic Emergency Purchase Programme (PEPP) to slow down and eventually terminate by March 2022, contingent on the coronavirus crisis being contained.

The EU's Recovery and Resilience Facility (RRF) should also enable the implementation of economic reforms by member states. Looking at the grants alone, the RRF will cover nearly 20% of Germany's recovery plan and 30% of Italy's, 39% for France and 50% for Spain. In Germany, the left-leaning Greens are polling strongly in advance of the federal elections in September. The most likely outcome looks to be a coalition between the Greens and the Social Democratic Party of Germany (SPD), in which the Greens are likely to push for more expansionary fiscal policy. On the earnings front, European equity markets are benefitting from one of the strongest earnings revision upgrades. Amidst Europe's record-breaking second quarter earnings season, buyback announcements now stand at a four-year high and could provide a further tailwind for European equities.

Japanese equities are poised to benefit from the recovery in developed markets, as the large cap segment derives nearly 56%[1] of its revenues abroad, of which the largest regions are the US and Europe. Covid-19 dynamics have been a key factor in the underperformance of Japanese equity markets versus global markets. Another source of uncertainty that is unique to Japan stems from its political landscape. Prime Minister Yoshihide Suga's waning popularity in tandem with his inability to control the Covid outbreak led to his resignation in September. The schedule for the Liberal Democratic Party's (LDP) presidential election is expected to remain the same. Regardless of the LDP election outcome, we expect the current accommodative macro policy framework to be maintained in the near term. There is potential for further fiscal stimulus in the lead-up to the lower house of parliament elections, which could lend an additional tailwind for Japan's equity markets. Japan reported the fifth straight beat of quarterly earnings, with aggregate net income beating consensus expectations by 30.6%[2] over the prior quarter. Japan's earnings revisions trend remains the third-best of the major regions. We believe the long-term prospects for Japan's equity market remain favourable given its attractive valuations amidst a continued structural improvement in corporate governance and return on capital.

The Covid-19 pandemic has led to a bifurcation in performance between Emerging Markets (EM) and Developed Markets (DM) primarily due to the slower rollout of vaccinations in EMs. But run rates are improving and, by year-end, the median EM is on track to see the share of fully vaccinated individuals rise from 29.8% to 71%[3]. If this manifests, it would take EMs close to herd immunity. The strong US dollar coupled with concerns of Fed tapering of asset purchases is weighing on sentiment. While we expect the tapering of asset purchases to commence in December 2021, it is unlikely to lead to a repeat of the taper tantrum of 2013 as EM economies are broadly in better shape, evident from their current account positions.

Figure 2: EM taper tantrum risks are low



Source: Haver, CEIC, National Statistics Offices, WisdomTree as of 31 August 2021. GDP is gross domestic product. 2021E stands for 2021 estimates.

[1] Factset, WisdomTree as of 4 September 2021.

[2] Bloomberg, WisdomTree as of 4 September 2021.

[3] Pharmaceutical Technology.

The rise in capital investment in developed markets through large scale traditional and green energy infrastructure projects should raise demand for raw materials, which, in turn, should benefit EM companies given the position they hold in global supply chains. EM equity valuations have become more supportive with MSCI's 12-month forward price to earnings (P/E) ratio at 12.9x[4]. EM trades at a meaningful discount to DM in terms of both forward P/E and trailing price to book (P/B) ratios. Relative to MSCI EM, the valuation of real estate, energy and financial sectors looks attractive compared to their long-term historical valuation distribution, while healthcare, consumer discretionary and communication services look stretched.

Growth is back and here to stay

'Sector rotation' was among the buzz terms at the start of this year. And rightly so, given how value was outpacing growth. Energy stocks made gains from rising oil prices while rising yields boosted financials. In Navigating the twists and turns in equities, we posited that it is better to classify this as an oscillation rather than a one-off rotation. We further suggested that this might be a year when growth and value would not only co-exist but complement each other.

Figure 3: Growth caught up with value by the end of August

Source: WisdomTree, Bloomberg. Data as of 09 September 2021. Value and Growth are illustrated using MSCI World Net Total Return Indices in USD. **Historical performance is not an indication of future performance and any investments may go down in value.**

We remain subscribed to that assertion, and growth's recent recovery has reinforced our conviction in the view (see figure 3 above). At WisdomTree, we do, however, make a distinction. We prefer the connotation of growth that aligns more closely with long-term themes, i.e., investment opportunities linked to megatrends.

For example, suppose annual passenger electric vehicle sales go from 3 million in 2020 to 66 million by 2040. In that case, a significant amount of investment will be required in the battery solutions value chain as well as the entire ecosystem surrounding the technology in things like charging infrastructure and recycling. This theme is aligned with the energy transition, a megatrend expected to unfold over the coming decades but likely to keep accelerating in the coming months.

[4] Bloomberg, WisdomTree as of 31 August 2021.

Another trend catalysed by the pandemic is that of the digital transition. One key theme that links to this megatrend is that of cloud computing. Cloud technology is not only a necessity for businesses to survive and compete in today's economy but also a meaningful contributor to global economic and employment growth. Over the last 18 months, the total market cap of public cloud companies has increased by $1.3 trillion to a total of $2.3 trillion[5], highlighting the significant growth in this space.

Another theme that goes hand in hand with the digital transition is that of cybersecurity. Mandiant, a cybersecurity firm, reports that one in ten businesses is forced to close once they are victims of a ransomware attack[6]. With engagement with customers happening increasingly online, risking a cyberattack is something all businesses will seek to rule out completely.

The list doesn't end there. The above examples merely illustrate that we expect investors to become increasingly discerning in identifying how to access long term growth. Themes with long shelf lives are likely to remain topical in the coming months (and years).

The key takeaway

The themes discussed allow investors to recognise three distinct dimensions of equity investing. An all-weather core to mitigate the impact of any impending volatility, geographical diversification to benefit from the global cyclical growth opportunities, and thematic investing for long term growth. Diversification also helps guard against complacency, something that can easily creep in given the strong rally in equities since the second quarter of 2020.

[5] Bessemer Venture Partners August 2021.

[6] FireEye 2021 Corporate Presentation.

Fixed Income Outlook

Managing the bond wave amid heightened uncertainty

Cyclical economic recovery to continue but expect regional differences

Economic growth currently exhibits characteristics of an early to mid-cycle business phase with the US cycle ahead of the other regions. Exceptionally loose monetary and fiscal policy has done what it was intended to do and helped boost economic activity outside of government lockdowns. We expect supportive fiscal and monetary policy to continue to drive growth with markets increasingly focused on when asset purchase programmes will be pulled back, generating some repricing in bond markets.

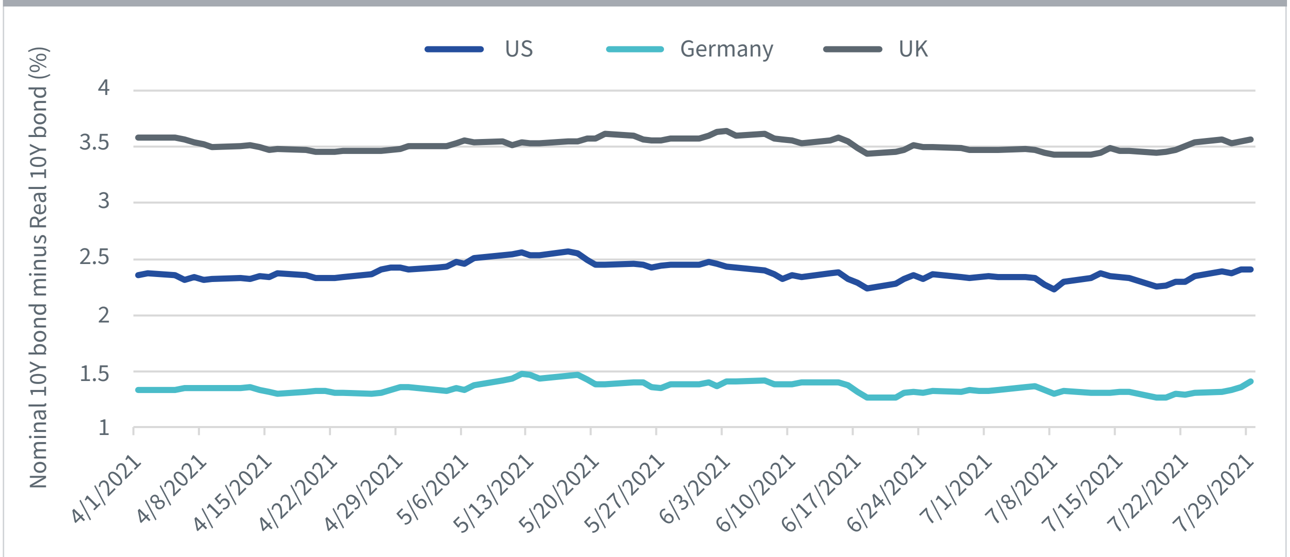
We forecast US economic growth to continue approaching pre-pandemic levels while the resurgence in Covid cases across the US and elsewhere will create some headwinds in the months ahead. There is no homogenous process that governments are following to manage the rising pressure on the healthcare system. Some governments are likely to remain more flexible in their approach by implementing fewer economic restrictions; meanwhile, others could reinstate many restrictions in the months leading into winter.

In Europe, we will continue to see a divergence between EU member states, with countries more dependent on the hospitality and travel sector lagging other regions unless there is a clear path away from economic lockdowns. A notable difference in the path to recovery from past crises will be the expansionary impact of the NextGenerationEU programme and the 2021-2027 long term budget, one of the largest packages ever financed through the EU budget. The combined resources can produce a positive effect on the immediate and longer-term growth prospects for the Euro-area. With growth in Europe at an earlier stage in the recovery cycle, we expect growth to pick up momentum in the second half of 2022.

In the UK, we expect a rebound in growth with the backlog in supply chains facing additional pressure in the region stemming from near-term complexities to business activity due to new cross-border rules post-Brexit. These supply shortages will put greater pressure on sectors already faced with pandemic induced global supply chain shortages. Companies with weaker fundamentals can see pronounced pressure going into year-end.

More generally, the growth outlook across these three regions over the next year will be navigated by the success of global vaccination programmes and their ability to ease capacity pressures faced within the health care system. Bond markets can shed light on investors' expectations for growth and inflation over the long term and serve as a barometer for economic recovery. If we focus on inflation expectations embedded in breakeven inflation rates for three key bond markets, inflation expectations have not changed materially during the second quarter of 2021; meanwhile, the respective government bond yield curves flattened during the period (figure 1). There appears to be a disconnect between economic data and bond yield levels. The focus then remains around when the US will begin tapering, which will have an upward pressure on bond yields.

Figure 1: Breakeven Inflation Rates



Source: Bloomberg, WisdomTree as of 2 September 2021. Breakeven infla tion showed the embedded average inflation expectation over the course of the next ten years. Nominal 10-year bond yields minus real 10-year bond yields. **Historical performance is not an indication of future performance and any investments may go down in value.**

The recovery will be choppy. Risk-on attitude could dissipate with heightened market uncertainty driven by a resurgence in covid cases that impacts the functioning of healthcare systems going into the flu season. Investors could consider portfolio segmentation by looking at short duration in rate-sensitive assets and high-quality long-duration bond exposures for potential volatility mitigation. Navigating complex bond markets with a tactical barbell approach can help balance the risk profiles of portfolios. Consider credit and duration barbell strategies.

Bond markets remain swayed by the inflation fear tantrum, with some regions facing heightened pressure

The high correlation between the shifts noted across government bond yield curves will continue to ensue into the second half of 2021 but will unravel with the policy stance in the US becoming less accommodative in the year ahead. Globally, fears of persistent inflation have troubled bonds markets since the start of 2021, but the underlying premise for higher inflation remains mostly regionalised as core US inflation data prints continue to display a more persistent picture. Bond market investors will remain fixated on inflation prints, and we could expect more signals from US policymakers around the timeline for the tapering of asset purchases.

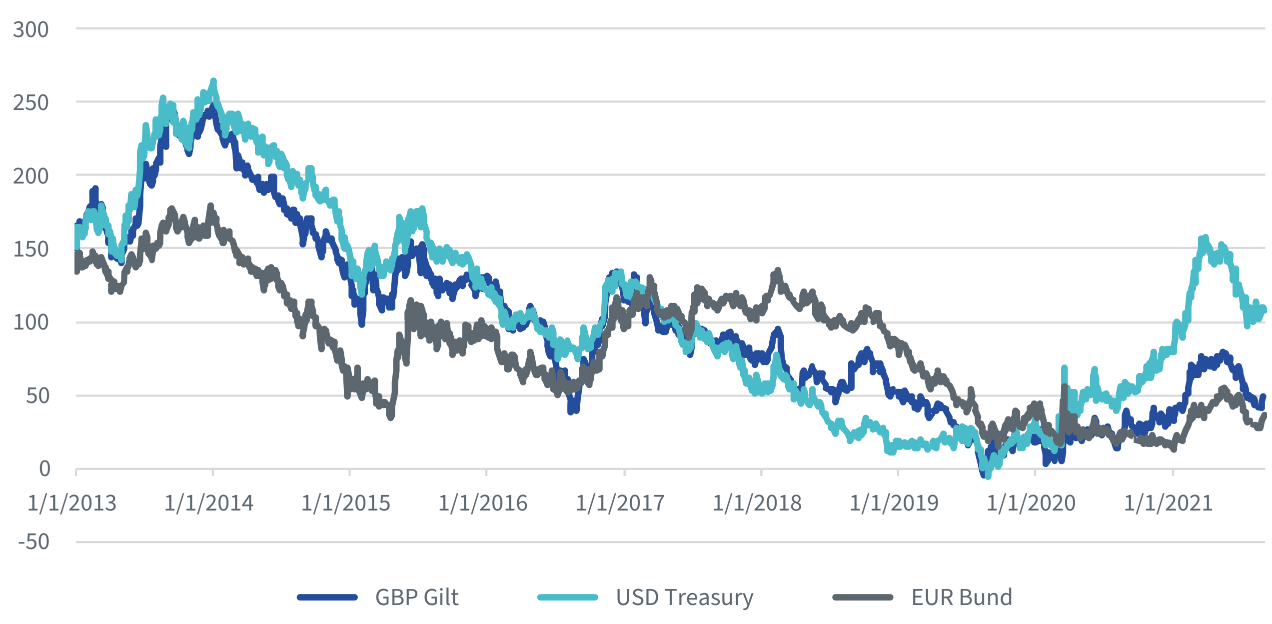
Historically, the market pricing of risk between the 2-years to 10-year part of the yield curve in periods of persistent inflation would reflect a steepening of the yield curve. We expect the recent flattening of the US yield curve to reverse in the months ahead. Recent moves lower in long term bond yields appear unwarranted given persistent inflationary pressures in the US tied to a policy stance that is likely to become less expansionary in the year ahead. We could expect more pronounced moves in US yields than in other markets where core inflation is persistently lagging that of the US, particularly as the market jitters around excessive inflation subsides elsewhere.

Markets should focus on energy prices and supply chain disruptions that could cause persistent upward inflationary pressures. Over the longer term, structural differences between the US, Europe and the UK will lead to inflation further diverging with Europe likely to lag. European inflation will be less of a threat than in the US and UK due to structural differences impacting EU member countries. With the European recovery at an early stage in the economic cycle, we expect the European Central Bank to be more conservative around tapering asset purchases in the year ahead.

For European bond markets, the long end of the German yield curve will reflect the more conservative stance of the European Central Bank led by fundamental differences between the pace of US and European recovery.

Looking historically at the term spread between 2-year to 10-year bonds (figure 2), the US yield curve has exhibited the greatest repricing in the first half of 2021, with the most evident retracement in July 2021. The moves in bond markets remain at a disconnect to the rebound observed in the US economy. Similarly, the UK gilt curve steepness surpassed pre-pandemic levels in the first half of 2021, with some retracement around the same period. Continued robustness in US economic data could result in term spread widening once again. In Europe, considering the term spread premium noted in the German government bond yield curve, a notably muted yield curve steepening occurred when compared to the US and the UK supported by the expectation of a slower pace of stimulus withdrawal.

Figure 2: Spread between 2-year and 10-year Government bond yield levels (US, UK and Germany)



Source: Bloomberg, WisdomTree as of 2 September 2021. Term Spreads is defined as the difference in yield between 10-year bonds and 2-year bonds for a given yield curve. EUR Bund refers to German government bonds, GBP Gilt refers to UK government bonds and USD Treasury refers to US government bonds. **Historical performance is not an indication of future performance and any investments may go down in value.**

Bond markets are likely to remain laser-focused on upward inflationary pressures in the near term. Over the longer term, structural differences between the US, Europe and UK will lead to inflation further diverging with Europe likely to lag. Consider more defensive duration exposure in US and UK assets, which face higher inflationary forces. In Europe, allocations to bond asset classes that have historically shown to provide downside protection in periods of equity market correction can help investors navigate European bond markets where yields are lower. Exposure to high-quality bonds with longer duration characteristics has historically provided risk mitigation and an uplift in periods of severe equity market corrections.

Relative value opportunities between bond asset classes will become increasingly important as the path to recovery remains bumpy

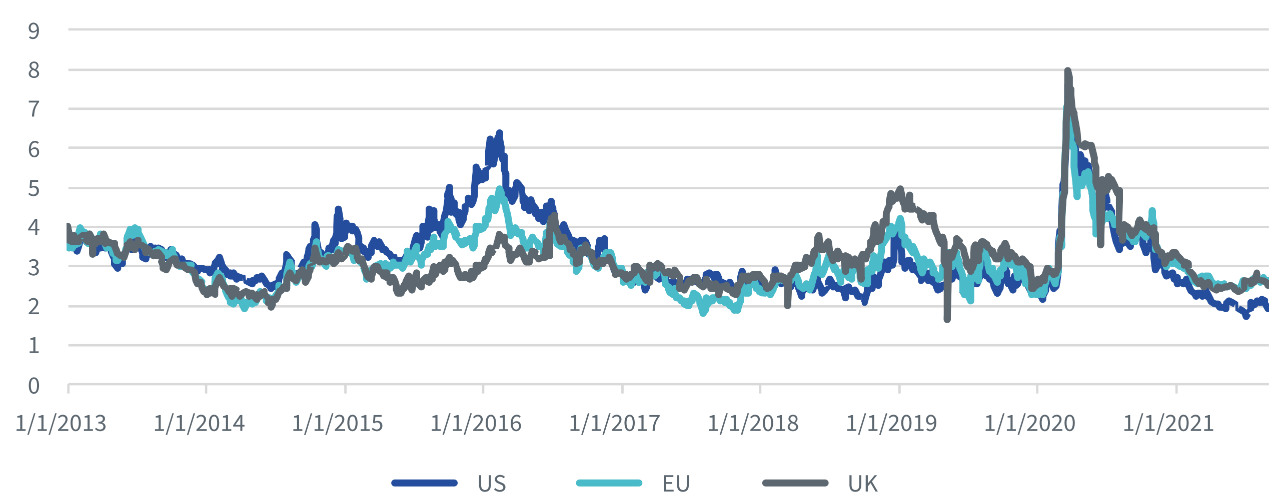
Bond investors will need to find a balance between the fundamental strength and yield potential of different bond asset classes when making asset allocation decisions in the year ahead as the path to recovery remains choppy. Significant portions of the global economy, such as emerging markets, continue to lag developed markets in their respective mass vaccination programmes, and new variants could pose renewed threats to the path of economic recovery.

While credit spreads in most major bond markets remain tight relative to historical levels (figure 3), we believe fundamental strength will play a role in which bond asset classes will outperform as investors increasingly seek exposure to pockets of the bond market that are more resilient to rising bond yields and economic uncertainty.

Banks remain a centrepiece of the economic recovery as central banks and governments continue to rely on the banking system to maintain loose fiscal conditions and support households and businesses amid the ongoing pandemic. A steeper yield curve environment is also supportive of bank profitability. Asset class diversification will be key in portfolios as investors become increasingly exposed to equity markets which could face a bumpy road over the next twelve months.

The banking system has exhibited resilience amid the health crisis; meanwhile, the yield enhancement available by investing in the subordinated instruments of banks' such as AT1 CoCos, is an example of a pocket of the market that has shown resilience to rising bond yields and economic uncertainty. This can be evidenced by an absolute performance of 11.81% in AT1 CoCos[1] over the last 12 months[2]. Thanks to the comparatively short duration of those instruments and the yield enhancement relative to other parts of the bond market, we expect continued demand for these types of exposures in the months ahead. The search for yield in bond markets will continue and underpin the spread between investment grade and high yield bonds which are now at the tightest level in the last ten years. Elsewhere in the portfolio, high-quality bond exposures can help balance equity risk exposure and will continue to find a place in diversified portfolios.

Figure 3: Credit spreads between high yield and investment-grade bonds



Source: Bloomberg, WisdomTree as of 2 September 2021. **Historical performance is not an indication of future performance and any investments may go down in value.**

Relative value positioning to gain yield enhancement in pockets of the markets where there is fundamental strength could be a consideration. We could continue to see a rotation into risk assets that have historically benefited from a steepening yield curve. Barbell strategies to balance the risk profile of portfolios allocating to risk assets in the short end and high-quality exposures in the long end of the yield curve are also something investors could consider going forwards.

[1] AT1 CoCos universe represented by the iBoxx Contingent Convertible Liquid Developed Europe AT1 Index (USD) ticker IBXXCCL1.

[2] Performance period 27 August 2020 to 31 August 2021.

Crypto Outlook

A key year for the crypto ecosystem?

Retrospective

The past year has been particularly eventful in the crypto market, even by crypto standards. Price action has been spectacular in the aftermath of the Covid-19 crash. Bitcoin recovered quickly and then took flight in Q4 2020 and Q1 2021.

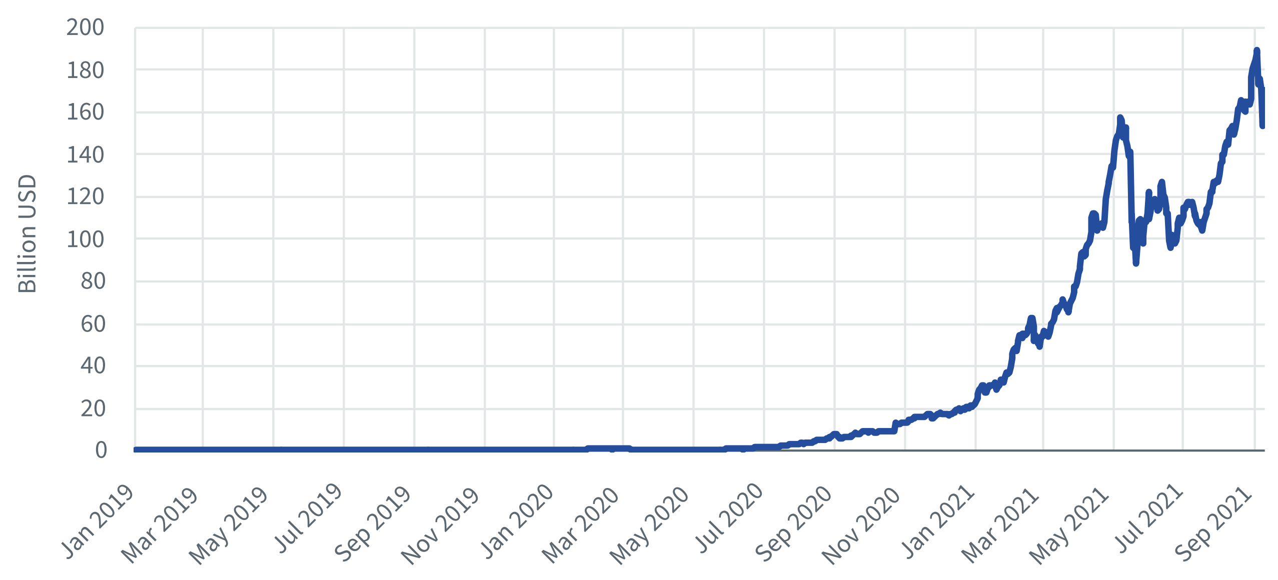
Long-awaited institutional adoption became more tangible. The "balance sheet trade" became a new and unexpected theme. Finally, Coinbase's resounding listing back in April 2021 was widely regarded as a deciding event in establishing the legitimacy of the space.

However, the rally marked a pause from May 2021, as Elon Musk reversed his decision to allow customers to pay for Tesla's cars in bitcoin on the back of environmental concerns. This gave rise to an intense debate on Bitcoin's energy consumption. Furthermore, China cracked down on the mining industry, prompting the "Great Mining Migration". After a pause of nearly three months, bitcoin has resumed its upside trend ahead of the adoption of the crypto asset as legal tender by El Salvador.

But bitcoin wasn't the only part of the space to show important developments over the past year. Ethereum and its ecosystem have also significantly evolved. Decentralised Finance (DeFi) has gained in popularity, opening a whole new universe of opportunities for traders. As the growth of this ecosystem unveiled some of blockchains' potential, it also shed some light on the limitations and scaling issues of Ethereum, on which the vast majority of DeFi applications are built, and prompted the Ethereum community to implement EIP 1559 in early August 2021.

As the growth of DeFi started to slow down, it was promptly followed by another new high growth phenomenon: Non-Fungible Tokens. Digital artwork and collectables are being exchanged in increasing volumes, sometimes for extravagant sums of money. Ethereum has also become the place of choice for the development of this ecosystem.

Figure 1: Total Value Locked in DeFi



Source: Glassnode. As of September 12th 2021. **Historical performance is not an indication of future performance and any investments may go down in value.**

Quite a year! However, we believe the year ahead will also bring many exciting new developments around ecosystem development, industry and investors adoption, and regulation.

Outlook: Evolve or die: How crypto assets can overcome their limitations?

Bitcoin and the environment

The environmental impact of Bitcoin has been on everyone's lips in 2021. If Elon Musk's about-turn on Bitcoin has had at least one positive consequence, it is the creation of the Bitcoin Mining Council (BMC). It is bringing North America's miners together to discuss the sustainability and energy mix of the mining industry, as well as "promote transparency, share best practices, and educate the public on the benefits of Bitcoin and Bitcoin mining"[1]. Although the BMC does not aim to impose practices on its members, it is a step in the right direction.

We expect the mining industry in North America and Europe to further progress towards a more renewable energy mix. This will take time and effort, but it seems that the industry realises it is in its best interest to go in a more sustainable direction. Furthermore, the mining industry is the part of the cryptosphere that hosts the most listed companies. We would expect shareholders to push for the integration of sustainability considerations into business decisions.

Ethereum 2.0: A long-awaited update

The Ethereum community has been working on the future version of the protocol, dubbed Ethereum 2.0, for a few years now to improve the network and make it more scalable, more sustainable, and more secure. The update mostly relies on two major changes: the migration to a Proof-of-Stake consensus mechanism and the implementation of shard chains. These should be implemented in 2022 if everything goes according to schedule.

Ethereum currently relies on a Proof-of-Work (PoW) mechanism for its consensus protocol and faces similar concerns as bitcoin with its energy consumption. But 2022 should see a significant change in the Ethereum protocol with the transition from PoW to a Proof-of-Stake (PoS) mechanism. Instead of requiring miners to commit computing power to the network to secure it, PoS requires nodes willing to participate in the validation process to put value at stake in the form of ethers. Should the validators act maliciously, ethers will be taken from them, and thus they lose value. As they do not need to mine anymore, they consume much less energy, and therefore PoS is considered more sustainable. Furthermore, it means that the cost for validators is greatly diminished, and they thus need fewer ethers to be incentivised to participate. PoS is expected to reduce fees and be accompanied by a modification of the issuance mechanism, including a reduction in the issuance of new ethers.

The transition to PoS should allow for sharding, the second major implementation. Shard chains are side-chains dedicated to a particular type of application. They can process and record transactions in parallel and thus greatly scale up the capacity of the network. This could potentially allow Ethereum to scale up to 100,000 transactions per second from 30 today.

Those are exciting changes that promise a bright future for Ethereum. But such changes can also have unexpected consequences and come with some risks. It will be important for investors to monitor this closely.

Alternative layer-1 solutions: A promising future

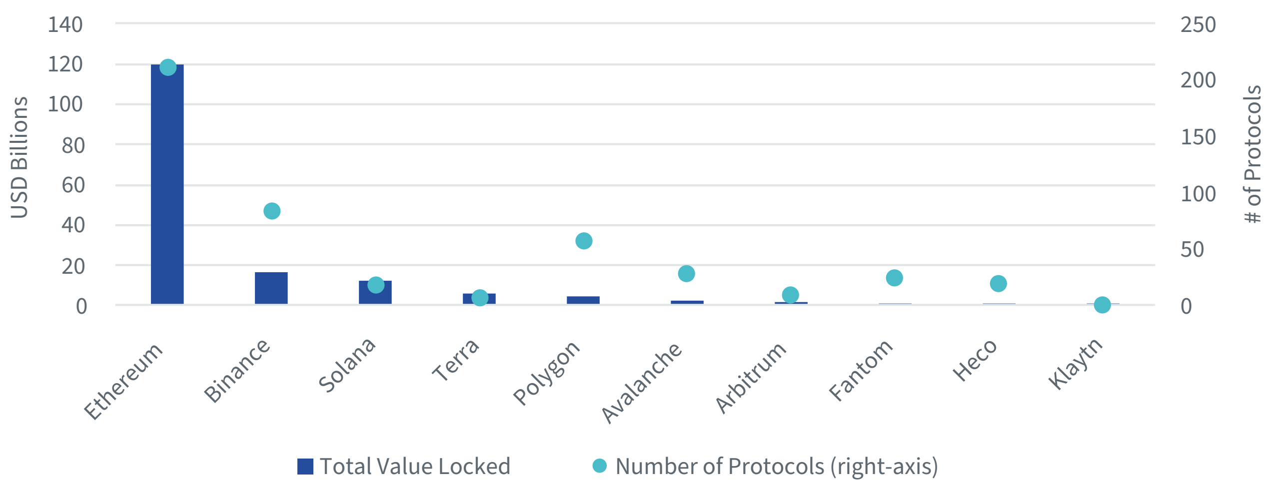
Ethereum is willing to implement important changes, and rightly so. Younger layer-1 alternatives exist, with specific features and improvements on older protocols, aiming for their share of the pie. Those include Cardano, Binance Smart Chain, Polkadot or Solana, among others. Cardano, for example, is already using PoS, while Solana can accommodate over 50,000 transactions per second (vs around 30 for Ethereum).

We do not see these replacing Ethereum in the foreseeable future, though, since the Ethereum ecosystem is strong, diverse, and expanding. The platform benefits from the associated network effects and the space's largest developing community, making it difficult to be displaced. However, we would expect other blockchains to grow and see their ecosystem develop.

Some very promising projects are being built on top of alternative blockchains, and we will closely monitor how they unfold. One example of such a high-profile project is the Pyth Network, which aims to deliver real-time on-chain market data. The project is based on Solana and backed by some of the largest players in the systematic trading space, including Jane Street, Jump Trading, Virtu and DRW. The potential of such a project is far-reaching, as it would bring "real-world" financial data on blockchain, available for use in DeFi, opening the path to a whole new universe of trading and investment services.

[1] bitcoinminingcouncil.com

Figure 2: Ethereum Largely Dominates DeFi, Contenders To Emerge



Source: DeFi Lama. As of September 23rd 2021.

Adoption: What to expect for the coming year?

Industry integration

Companies such as PayPal, Twitter, Robinhood, Maersk and many others in many industries have started testing use cases for blockchain technology and crypto-assets. For example, in April 2021, PayPal began to allow US users to spend cryptocurrencies at millions of online merchants. It has since gradually announced additional support for crypto, including the possibility to convert cash back from Venmo credit cards into crypto automatically. More recently, in August, PayPal announced it will expand the crypto trading function to the UK market.

Through such examples of these real-life applications, one can start testing the potential for the mainstream adoption of bitcoin and crypto technology. It helps push the industry forward and test crypto's potential in the real economy. Looking ahead, this trend will likely stay as more companies explore the use cases, and regardless of the outcome, this trend will work as a catalyst in the short term to drive the interest in crypto as an asset class.

The balance sheet trade: more to come?

One of the interesting themes of the past year was the "balance sheet trade". Several listed companies, including MicroStrategy, Tesla, Square or PayPal, announced they bought bitcoin onto their balance sheet. This came as a surprise to many and largely fuelled optimism in the cryptosphere.

There are several good reasons for companies to do so, which makes us believe we will see more of this over the coming year. First, this may help companies develop internal expertise and processes around crypto. For others like MicroStrategy's Michael Saylor, bitcoin is an investment and a bet on the future growth of the crypto ecosystem. It also helps with PR, each of MicroStrategy addition onto its now $5bln+ bitcoin pile systematically makes it into the news.

Coinbase already announced in August that it would invest north of $500mln into crypto and will continue to invest 10% of its profits. Although we do not expect this to become a widespread trend that would have a game-changing effect on demand for crypto in the short run, such news and announcement are beneficial in that they help positive sentiment and bring legitimacy to the asset class.

Investor adoption: hurdles remains, but are falling

We believe that in the past institutional adoptions has been hindered by several factors, including the lack of market infrastructure and regulation, market volatility, and the need for investor education to help gain a deeper understanding of the space. We have seen many developments in those areas over the past few years and expect a continuation and acceleration of this trend.

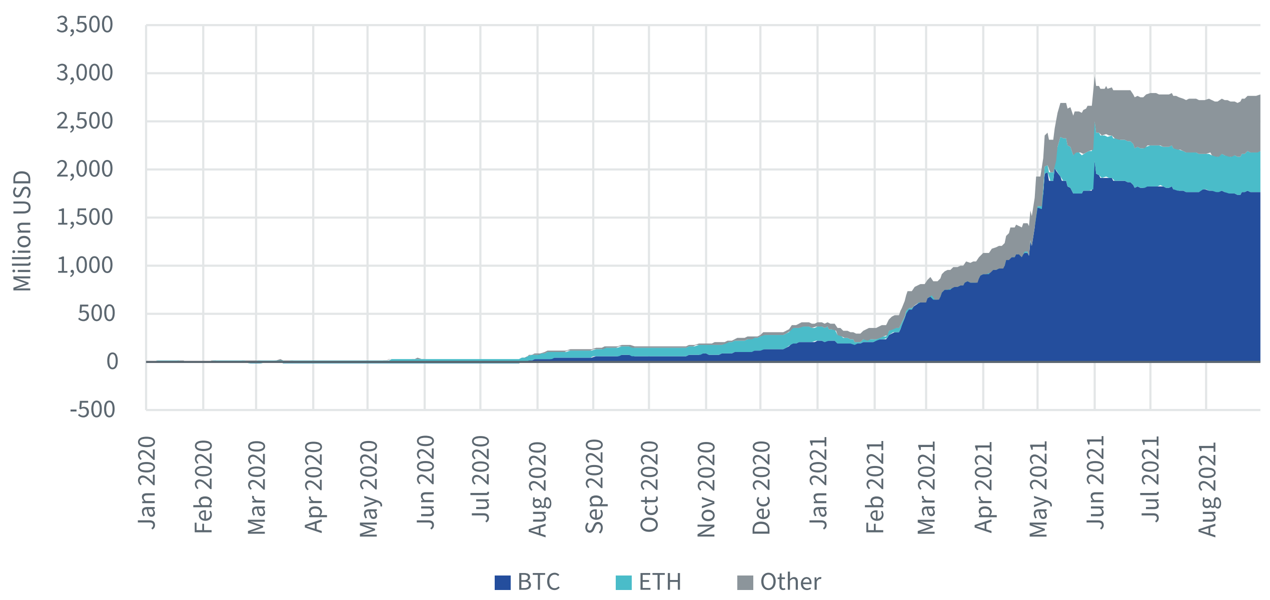
Market infrastructure has greatly improved with the development of institutional-grade trading and custody services. In turn, this has enabled the creation of many new access vehicles, such as regulated futures or exchange-traded products (ETPs), making it easier for investors to get crypto exposure than direct holdings. All heads are now turned to the US to see when the US Securities and Exchange Commision (SEC) will allow bitcoin exposure in an exchange-traded fund (ETF).

The general level of education in the space is also improving, as most firms now have at least some form of crypto working group. We have witnessed this trend across all institution types, including multi-asset managers, investment banks and pension funds.

Regulation probably remains the main hurdle, as many actors indicate they need more clarity from regulators. In Europe, this can be particularly challenging, as countries can take different stances on crypto, and their regulators tend to focus on different sub-areas of the crypto space, be it custody and trading or retail protection and product. Multinational investors have to navigate this fragmented landscape, which can be very challenging.

Bringing the crypto space under the regulatory umbrella seems to become a major priority. Most countries in Europe and North American do not call for an outright ban on crypto-assets and related services. But building a framework around such a young and innovative asset class is a process that takes time and needs to be done right.

Figure 3: Cumulative ETP Flows Per Asset



Source: WisdomTree, Bloomberg. As of September 12th 2021. **Historical performance is not an indication of future performance and any investments may go down in value.**

The El Salvador experiment: Will bitcoin be a successful legal tender?

On September 7th 2021, El Salvador became the first country to adopt bitcoin as legal tender for daily transactions alongside the US dollar. The initial roll-out of the wallet experienced some technical issues on the day. The move also sparked concerns amongst investors as this could bring volatility to the country's reserves, while its liabilities are mostly denominated in dollars.

This event marks the first significant bitcoin adoption by a country. Should this develop in the right direction, it could set the example for other countries to "bitcoinise" part of their economy. This remains a very long shot, and the coming year might be key for the potential long-term adoption of non-CBDC[2] crypto assets.

Conclusion

The crypto ecosystem is fast-paced, and we expect it to continue moving fast next year. We believe regulatory developments will be key to lifting the remaining hurdles barring institutional investors from entering the space. It will also help the ecosystem better manage its product offering. The transition to Ethereum 2.0 will be on everyone's radar and will be transformative for the platform. Finally, we believe important growth areas such as NFTs and DeFi will continue to thrive and could potentially reshuffle part of the ecosystem as several promising software platforms compete for a share.

[2] Central Bank Digital Currency.

Model Portfolio

A diversified approach to long-term investment

Looking at WisdomTree's outlook for the different asset classes, three main themes are really bleeding through: the economic recovery, inflation fears and the return of growth. When building example multi-asset portfolios for the medium to long term, those themes are our signposts. Our objective is to demonstrate example model portfolios that can:

+ Attempt to benefit from the cyclical economic recovery while remaining wary of the volatility along the way
+ Look to protect against unexpected inflation
+ Try to invest in and for the future

In this section, we propose 3 example model portfolios with three increasing levels of risk:

+ The Illustrative Conservative Portfolio invests most of its assets in low volatility assets and aims to deliver some growth with controlled risks to investors.
+ The Illustrative Balanced Portfolio invests half of its assets in fixed income assets and half in riskier assets. It aims to deliver a balanced risk-return profile to investors.
+ The Illustrative Aggressive Portfolio invests most of its assets into higher-growth/higher-risk assets. However, the portfolio aims to improve diversification to limit those risks.

Figure 1: Three WisdomTree Illustrative Model Portfolios

ETF Name	ISIN	TER	Illustrative Conservative Portfolio	Illustrative Balanced Portfolio	Illustrative Aggressive Portfolio
WisdomTree Global Quality Dividend Growth UCITS ETF	IE00BZ56SW52	38	16.5%	21.0%	30.0%
WisdomTree Eurozone Quality Dividend Growth UCITS ETF	IE00BZ56TQ67	29	2.0%	3.0%	4.0%
WisdomTree Japan Equity UCITS ETF	IE00BYQCZN58	48	1.5%	3.0%	4.0%
WisdomTree EM ex-State-Owned Enterprises ESG Screened UCITS ETF	IE00BM9TSP27	32		5.0%	5.0%
WisdomTree EM Small Cap Dividend UCITS ETF	IE00BQZJBM26	54			2.0%
WisdomTree Battery Solutions UCITS ETF	IE00BKLF1R75	40		2.0%	3.5%
WisdomTree Artificial Intelligence UCITS ETF	IE00BDVPNG13	40		2.0%	3.5%
WisdomTree Cybersecurity UCITS ETF	IE00BLPK3577	45		2.0%	3.5%
WisdomTree Cloud Computing UCITS ETF	IE00BJGWQN72	40		2.0%	3.5%
WisdomTree European Union Bond UCITS ETF	IE00BMXWRM76	16	20.5%	11.5%	4.0%
WisdomTree EUR Aggregate Bond Enhanced Yield UCITS ETF	IE00BD49R912	18	20.5%	11.5%	7.0%
iShares EUR Corp Bond 0-3yr ESG UCITS ETF	IE00BYZTVV78	15	15.0%	7.0%	
iShares US Aggregate Bond UCITS ETF	IE00B44CGS96	25	10.0%	6.0%	
Vanguard USD Corporate 1-3 Year bond UCITS ETF	IE00BGYWSV06	9	10.0%	5.0%	
WisdomTree AT1 CoCo Bonds UCITS ETF	IE00BZ0XVF52	39		5.0%	9.0%
WisdomTree Core Physical Gold	JE00BN2CJ301	12	4.0%	4.0%	4.0%

Figure 1: Three WisdomTree Illustrative Model Portfolios					
ETF Name	ISIN	TER	Illustrative Conservative Portfolio	Illustrative Balanced Portfolio	Illustrative Aggressive Portfolio
WisdomTree Enhanced Commodity UCITS ETF	IE00BYMLZY74	35		5.0%	8.0%
WisdomTree Industrial Metals Enhanced	IE00BF4TWC33	40		2.0%	4.0%
WisdomTree Carbon	JE00BP2PWW32	35		1.0%	1.0%
WisdomTree Bitcoin	GB00BJYDH287	95		1.0%	2.0%
WisdomTree Ethereum	GB00BJYDH394	95		1.0%	2.0%
Aggregated TER			20.79	30.00	38.49

Source: WisdomTree.

ETF: Exchange-traded fund

TER: Total expense ratio

A three-pronged approach to equities

As discussed in our Equity outlook, the illustrative equity sub-portfolio is built around three main approaches.

First, a large proportion of the assets are invested into a core, strategic equity exposure, the WisdomTree Global Quality Dividend Growth UCITS ETF. This strategy leverages the all-weather behaviour of highly profitable companies. The objective is to offer a geographically diversified core exposure that can grow over the long term but also withstand the inevitable market volatility along the way. In particular, high-quality stocks have performed quite well in periods of tapering.

Second, the objective is to build slightly more tactical, geographical exposures to benefit from the varying speed of the recovery in different parts of the world. We aim to reduce exposure to regions where the recovery is already well on its way in favour of regions where the bulk of the recovery is still upcoming. Also, the portfolios aim to allocate more to regions with higher exposure to cyclical sectors. Overall, we focus on four specific exposures:

+ Eurozone equities with an all-weather, high-quality tilt using the WisdomTree Eurozone Quality Dividend Growth UCITS ETF.

+ Japanese equities with a tilt towards exporters as those companies will benefit from local growth and from the growth of the US and Europe through their exports.

+ Emerging markets equities, focusing on private companies as those companies could benefit more from the recovery.

+ Emerging markets small caps, as these companies derive most of their revenue from local sources and could benefit the most from the vaccine rollout and the recovery in a region which is still lagging.

Finally, the illustrative portfolios are exposed to long term structural growth through a diversified basket of thematic exchange traded funds (ETFs). The objective is to tap into long term investment opportunities arising from structural changes in societies and our way of life, using concentrated, expert-driven strategies. Each thematic ETF in the portfolio is backed by an expert in the field who can select the companies with the most to gain from the theme's wider adoption. In line with our recent research on thematic investments[1], we aim to invest 15% to 20% strategically in long term growth opportunities.

[1] Debru P. and Kuramshina E. "Thematic Universe: How to harness the power of megatrends in your portfolio?" 2021.

Overall, our equity sub-portfolio is underweight US and overweight Europe, Japan and Emerging markets when compared to a benchmark like the MSCI AC World. The portfolio's fundamentals are also very strong, with significantly increased return on equity and return on assets. Thanks to the recent rally in cyclical, low-quality companies, high-quality stocks are at historically cheap levels. This translates into very competitive price to earnings ratios and dividend yields for our equity sleeve.

Figure 2: Fundamental characteristics of the equity sub-portfolio

	Illustrative Conservative Portfolio	Illustrative Balanced Portfolio	Illustrative Aggressive Portfolio	MSCI AC World
Weight	20.0%	40.0%	59.0%	
Return on Equity	22.5	16.2	15.5	12.9
Return on Asset	6.8	4.7	4.5	2.0
Price to Earnings	19.4	23.0	23.1	22.4
Price to Book	3.9	4.7	4.5	3.1
Forward Dividend Yield	2.5%	2.1%	2.1%	1.9%
Country Allocation				
Developed Markets	100%	85%	85%	88%
Emerging Markets	0%	15%	15%	12%
US	41%	39%	41%	59%
Europe	35%	26%	25%	17%
Japan	17%	15%	14%	6%

Source: WisdomTree, Factset, Bloomberg. As of 31st August 2021. You cannot invest directly in an index. **Historical performance is not an indication of future performance and any investments may go down in value.**

It is worth noting that in the equity sleeve, every ETF is ESG-screened. Every ETF follows the WisdomTree principle-based and activity-based exclusions screens, which exclude:

+ companies found to be non-compliant with the United Nations Global Compact (UNGC) Principles. These include human rights, labour, environmental and corruption considerations.
+ companies involved in activities with strong negative externalities: controversial weapons, tobacco products, and thermal coal.

Finding some yields in Fixed Income

The long-term story of fixed income continues to be the lack of yields, pushing investors away from the most traditional safe havens like sovereign bonds towards higher-risk assets. Looking at our illustrative model portfolios, we address these issues using multiple techniques:

+ Duration barbell, i.e. mixing low and high duration exposures, to improve risk-return profiles and tactically manage fixed income allocations.
+ Credit barbell, i.e. mixing extremes within the credit spectrum such as sovereign bonds and highly diversifying, higher yielding assets like AT1 contingent convertible bonds.
+ Enhanced yield strategies, i.e. sophisticated, smart-beta type strategies that aim to improve the yield of the benchmark while controlling for other variables such as duration or country/sector weights.

The fixed income bucket is structured differently in the higher risk portfolios than in the two others. The Illustrative Aggressive Portfolio, owing to its low allocation to fixed income assets, really lean into the credit barbell approach. It invests into highly rated supranational bonds with the WisdomTree European Union Bond UCITS ETF, which exhibit dual advantages:

+ To offer slightly better yields than similarly rated sovereign bonds in Europe.
+ To propose some risk mitigation, thanks to medium to high duration AAA bonds which tends to offer the most negative correlation to equities.

The other side of the barbell is in low duration, very high yielding exposure to the AT1 CoCo asset class using the WisdomTree AT1 CoCo Bonds UCITS ETF. Combined with an allocation to the WisdomTree EUR Aggregate Bond Enhanced Yield UCITS ETF, these two assets deliver a portfolio with a yield to worst of 1.34% and a duration of 7.5. This compares quite favourably to the Bloomberg EUR Aggregate index that yields -0.03% with a duration of 7.7.

The two lower-risk portfolios combine these three fixed income exposures with low duration EUR corporate Bonds and US Fixed income exposure. The iShares EUR Corp Bond 0-3yr ESG UCITS ETF is combined with an enhanced EUR aggregate exposure to create a duration barbell strategy. In US dollars, we also combine a US Aggregate ETF (iShares US Aggregate Bond UCITS ETF) with a low duration corporate bond exposure (Vanguard USD Corporate 1-3 Year bond UCITS ETF) to improve yields and lower duration in light of potential tapering by the Federal Reserve in the near future. Overall, both fixed income sub-portfolios deliver improved yields with a slightly reduced duration.

Figure 3: Fundamental characteristics of the Fixed Income sub-portfolio

	Illustrative Conservative Portfolio	Illustrative Balanced Portfolio	Illustrative Aggressive Portfolio	MSCI AC World
Weight	76.0%	46.0%	20.0%	
Yield to Worst	0.31%	0.63%	1.47%	-0.03%
Duration	7.4	7.2	7.3	7.7

Source: WisdomTree, Factset, Bloomberg. As of 31st August 2021.

When considering increasing exposure to green or social bonds, the WisdomTree European Union Bond UCITS ETF has been added to our illustrative model as its designed to offer exposure to new issuance of European Union (EU) bonds under SURE and NextGenerationEU and gains high exposure to social-linked bonds with green bond issuance expected to rise under the NextGenerationEU programme.

Focusing on the commodity renaissance

When it comes to cyclical recovery and inflation hedging, broad commodities are at the top of the list of assets to be considered. Broad Commodities are a cyclical asset that benefits from the increase in demand brought about by an economic expansion, but they are also highly diversified relative to equities. They bring low correlation and business cycle diversification thanks to their tendency to do better in early recession than equities.

In our conservative and aggressive portfolios, the WisdomTree Enhanced Commodity UCITS ETF is used to tap into all of those characteristics and increase the diversification in the portfolio. Instead of using a commodity benchmark like the Bloomberg commodity index, we use a second-generation index that uses a systematic strategy to reduce the roll drag in the strategy and improve the performance. Historically, the index tracked by the ETF would have outperformed the benchmark by 5.4% per year since May 2001[2]. For some investors, an investment into broad commodity ex-Agriculture can be preferable. For those, this ETF can be replaced by the WisdomTree Enhanced Commodity ex-Agriculture UCITS ETF. It is also tracking a second-generation commodity index with roll yield optimisation.

[2] Source: WisdomTree, Bloomberg. May 2001 to August 2021. in USD.

The Illustrative portfolios also aim to benefit from the infrastructure demand boom and the green energy transition. In Europe and the US, political supports infrastructure projects to the tune of trillions of dollars, supporting the demand for commodities like industrial metals. The green transition is also going to require large quantities of materials, many of them industrial metals. To tap into both those themes, we add WisdomTree Industrial Metals Enhanced an (exchange-traded product) ETP that tracks a second-generation commodity index (i.e. with roll yield optimisation) investing in Copper, Nickel, Zinc and Aluminium.

One last addition to the commodity sleeve is WisdomTree Carbon. The ETP allows investors to gain exposure to the performance of carbon emission allowances through a fully collateralised exchange-traded commodity. Overall, greater environmental ambitions in Europe are likely to drive the price of Carbon. The European Union's “Fit for 55” legislative package announced in July 2021 articulates a series of interconnected legislative proposals to align climate, energy and transport policies and positions the EU emissions trading system at the centre of the strategy. The emissions trading system will be expanded to more sectors, and allowances will be tightened. As the European economy continues to grow, demand for allowances is expected to rise.

The first step in a fast-paced environment

Digital assets have started to make their way in institutional portfolios thanks, in part, to institutional-grade investment vehicles hitting the market in the last 18 months or so. While they are still subject to high volatility and violent moves, cryptocurrencies can be a new and powerful diversifier and high growth engine. Also, with the long-awaited update to Ethereum to a Proof-of-Stake consensus, it is worth looking further than Bitcoin. This is why we have decided to pick an equal-weighted basket of 2 physically backed exchange traded products (ETPs): WisdomTree Bitcoin and WisdomTree Ethereum. Of course, the allocation in the portfolio remains low and restricted to the balanced and aggressive allocation. This is the smallest of the four asset classes. It is worth noting that, due to the high volatility of the asset class, frequent rebalancing of these two products back to their target weight can be beneficial to the performance. It allows to take profit on the upside and benefit from interesting entry points on the downside. Also, it will stop cryptocurrencies from taking too large a space in the portfolios in case of a rapid rally.

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