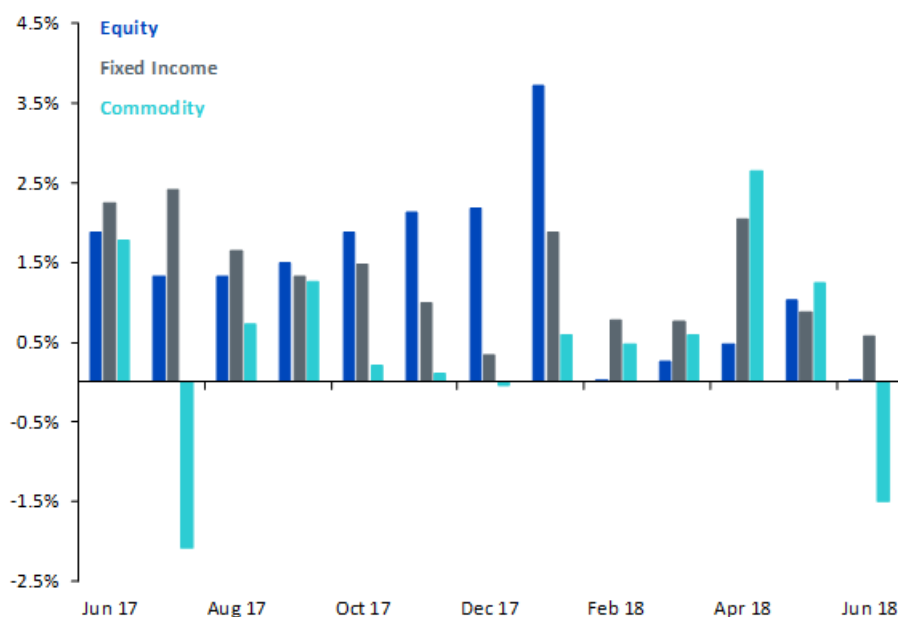


GLOBAL ETP FLOWS: FISHING FOR SIGNALS IN UNCHARTERED TERRITORY

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The slowdown of global Exchange traded products (ETPs) flows in June 2018 (50% behind last year's pace or US\$ 30.038Bn) resonated concerns over uncertainty tied to trade wars and ensuing protectionist policies. After posting a strong and consistent start to 2018, the pace of monthly commodity ETP flows declined the most followed by equity linked ETP flows while investors appeared to take shelter in fixed income ETPs that rose the most across all asset classes during the month of June. This is the fourth time in a row that monthly fixed income ETP flows have outpaced equity ETPs in 2018. We expect trade wars to remain a headwind for markets and highlight segments of the economy likely to benefit at the cost of others as we position for a bumpier ride for the rest of 2018.

Figure 1: Fixed income ETPs took the lions share in June 2018



Source: Bloomberg, WisdomTree, data available as of close 30 June 2018.

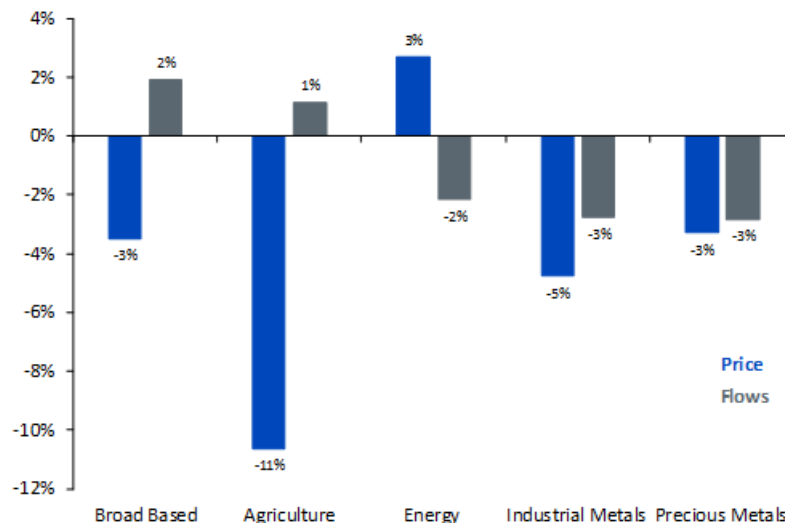
Historical performance is not an indication of future performance and any investments may go down in value

Industrial metals ETP flows face the brunt of the trade wars

Within commodities, broad diversified longer-dated commodity basket ETPs continued to garner interest among investors as commodity fundamentals remained intact while corresponding prices drifted lower in response to ongoing trade frictions. The industrial metal complex is closely tied to Chinese demand, being the world's largest

consumer of base metals. The recent trade frictions between the US and China has dented both its price and ETP flows. The growing concern amongst investors is that the uncertainty around trade wars could derail global economic growth thereby impacting demand for industrial metals. Until we get a resolution, we expect the ongoing trade spat to raise volatility among base metals but remain optimistic on the long-term fundamentals for most metals. Agricultural commodity prices posted the sharpest declines in June over fears of disruption of global supply chains and weather-related disruptions, nonetheless agricultural commodity ETPs continued to attract inflows. Gold failed to live up to its traditional safe-haven status amid the tariff storm. Last month, gold ETPs faced a slew of redemptions following weaker gold prices as tighter policy in the US continued to dominate sentiment. In sharp contrast to rest of the commodity complex, energy prices led by crude oil and natural gas rose higher in June. Energy basket ETPs also faced outflows, countercyclical to higher energy prices, as investors redeemed ahead of the highly anticipated Organisation of Petroleum Exporting Countries (OPEC) meeting. However, we expect the price appreciation to be short-lived as oil production from Libya resumes and OPEC members agree to raise production under a collective production ceiling. Added to that, rising US shale production is likely to keep the market in balance.

Figure 2: Monthly commodity ETP flows in June stymied by trade war storm



Source: Bloomberg, WisdomTree, data available as of close 30 June 2018.

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Equities – Small caps and defensive sectors dominate inflows

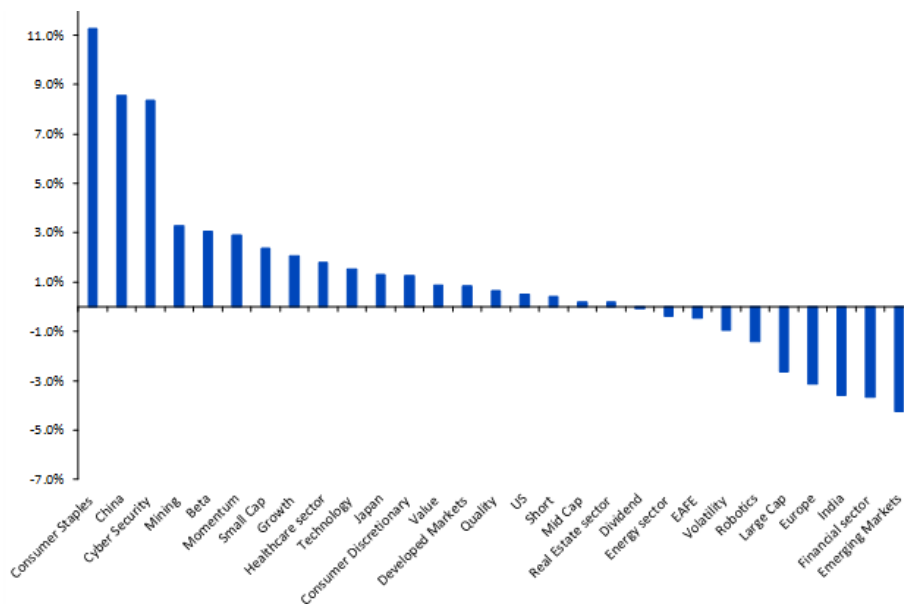
While equity linked ETP flows declined in June and posted 3 months of outflows in 2018, key themes stood out as protectionism was back in favour:

- Small caps dominated large caps
- Cyber security was more popular across the technology sector
- China favoured among Emerging Markets (EM)

Global small cap ETP inflows versus large cap equity ETP flows in Q2 2018 widened by the highest margin to US\$9.1Bn (as of 30 June 2018), attaining its highest level in more than four years. Investors appeared to shift gear to position for higher exposure from underlying domestic growth thereby shielding them from the protectionist drag on global growth. Despite trading at higher premium, historically small caps offer the added

benefit for higher investment return irrespective of the wider economic backdrop. Interestingly across the technology sector – cyber security linked ETPs garnered the highest inflows in June outpacing robotics linked ETPs underscoring the defensive nature of current investment appetite. Added to that consumer staples linked equity ETPs garnered the fastest pace of inflows in June, providing evidence of increasing investor caution. While EM equity linked ETPs faced the sharpest outflows in June. China has seen its share of individual country flows rise 9% in June. This increase in flows towards China is strongly tied to the opening of China’s A-shares market and the accompanying index inclusion in the MSCI Emerging Markets Index. As China’s concentration in broad Emerging Markets (EM) indexes grows, gradually, it enables investors to take a view on China and EM ex-China, and the current ETP flows are highlighting that investors are beginning to do just that.

Figure 3: Monthly equity ETF Flows in June across – sector, style and geography



Source: Bloomberg, WisdomTree, data available as of close 30 June 2018.

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Fixed Income – Short duration remains the most favoured segment of the curve

In an effort to lower duration risk in the current rate rising environment, investors sought refuge from the short end of the curve, as short duration ETP flows rose the most in June. Investors continued to shun high yield bond ETPs. High yield ETP bond flows have been negative for 5 out of the 6 months in 2018. Performance among corporate high yield bonds continues to outperform this year and the divergence between performance and flows for corporate high yield seems an anomaly that is likely to correct over the second half of the year. Like equities, EM bond ETPs suffered the sharpest outflows, down 8% in June, as currency volatility sparked a risk off sentiment within fixed income.

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