

WisdomTree

**SHORT & LEVERAGED ETPs**  
**Global Flows**  
**December 2018**



Short and leveraged exchange-traded products are only intended for investors who understand the risks involved in investing in a product with short and/or leveraged exposure and who intend to invest on a short term basis. Any investment in short and/or leveraged products should be monitored on a daily basis to ensure consistency with your investment strategy. You should understand that investments in short and/or leveraged exchange-traded products held for a period of longer than one day may not provide returns equivalent to the return from the relevant unleveraged investment multiplied by the relevant leverage factor. Potential losses in short and/or leveraged exchange-traded products may be magnified in comparison to investments that do not incorporate these strategies. Please refer to the section entitled "Risk Factors" in the relevant prospectus for further details of these and other risks associated with an investment in short and/or leveraged exchange-traded products. You should consult an independent investment adviser prior to making an investment in short and/or leveraged exchange-traded products in order to determine its suitability to your circumstances.

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## Data, Methodology and Terms Used

This report provides statistics of AUM, flows and related measures for short & leveraged Exchange Traded Products (ETPs). Short & leveraged ETPs are ETPs whose leverage factor which respect to the underlying asset class is currently -1x or lower and +1.5x or higher. ETPs which offer a non-leveraged exposure are not included in the analysis.

Following are some definitions for the terms used in the analyses:

**ETP (Exchange Trade Product)** is used as a generic, interchangeable term to refer to Exchange Traded Funds (ETFs), Exchange Traded Products (ETPs), Exchange Traded Notes (ETNs) and Exchange Traded Commodities (ETCs).

**AUM or Assets** represents the assets under management in an ETP. For some ETPs for which the AUM is not available, their market capitalisations have been used where possible.

**Asset Flow or Net Subscriptions** is a measure representing the value of net subscriptions over the period, thus removing the effect of changes due to price.

**Notional AUM** is the sum of the AUM in each ETP multiplied by the absolute value of its leverage factor, e.g. \$1 in a 3x long ETP or \$1 in a -3x short ETP is \$3 of Notional AUM in both cases.

**Notional Flow** is the net subscriptions for each ETP multiplied by the absolute value of the leverage factor. Alternatively, it is the change in the Notional AUM that is not due to price changes.

**Net Position** is the sum of the AUM in each ETP multiplied by its leverage factor (which may be either negative or positive). A negative figure indicates investors are net short.

**Net Position Flow or Repositioning** is Notional Flow in long ETPs minus the Notional Flow in short ETPs. Alternatively, it is the change in the Net Position that is not due to price changes and indicates whether investors are bullish (net long) or bearish (net short) after taking leverage factor into account.

**Average Investor Leverage** is calculated as the average leverage factor across all ETPs of a certain index / exposure and is weighted by the total AUM and leverage factor for each ETP. Average Investor Leverage is used as a proxy for overall investor sentiment with regard to an asset. It may be biased due to leverage factors on offer for each index / exposure, and thus the change in Average Investor Leverage is the most relevant observation rather than the actual number.

**All data provided in this report is sourced from calculations by WisdomTree, which are performed on underlying price, return, AUM, currency and market capitalisation data from Bloomberg®. Any fund description data is also obtained from Bloomberg. All data is as of 28<sup>th</sup> December 2018.** All figures are denominated in USD.

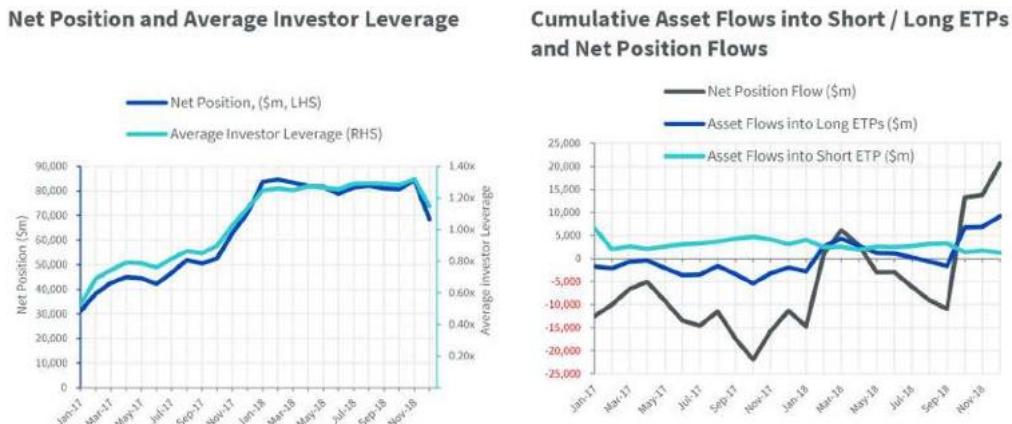
# Executive Summary

## Big sell-off in global equity markets didn't stop S&L investors from adding their long positions

### Record equity bullishness punished in December, but leveraged ETP investors double down as short ETP investors take profits

Short & Leverage (S&L) investors started December with record levels of bullishness on equities, which left them highly exposed to the worst December equity market since 1931. Despite the hit globally, leveraged ETP investors doubled down and bought the dip, funneling \$2.3 billion into leveraged ETPs, while short ETP investors took profits, taking nearly \$0.5 billion out of short equity ETPs. Accounting for leverage factors, this amounts to \$5 billion worth of flows into equities, or roughly 7% of investors' overall net position in equities (see Figure 1).

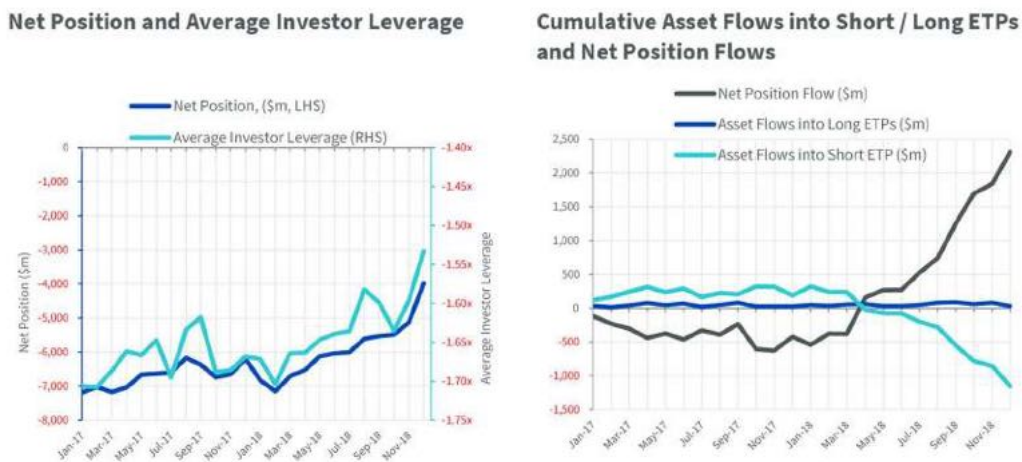
Figure 1: Global Asset Allocation- All Equities



### Investors in S&L ETPs continue to unwind short US fixed income positions, reaching a record low in fixed income shorts since January 2009

The US 10-year government bonds yield decreased by around 0.30% in December. S&L ETP investors continued to reduce their positions in short US fixed income. \$300mn were redeemed from short US government debt ETPs in December, representing 12% of overall AUM in S&L US government debt ETPs. We believe this reflects investors' increasingly bearish views on the inflation rate and the FED's pace of interest rate rises going forward (see Figure 2)

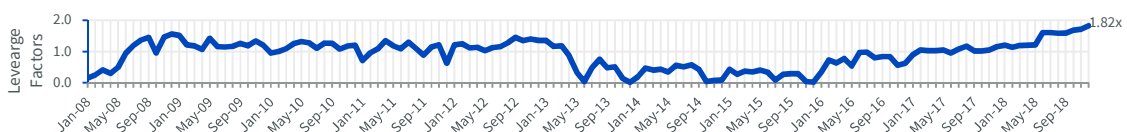
Figure 2: Global Debt – USA Government Bonds



### S&L investors start 2019 with highest ever levels of bullishness on gold

Investors in S&L gold ETPs have been gradually increasing their bullishness since mid-2016, with 2018 providing a bump into record levels of bullishness on gold, potentially reflecting the possibility of a market downturn. The average investor leverage on gold ETPs went from 1.20x in January 2018, to the all-time-high level of 1.82x in December 2018 (see Figure 3).

Figure 3: Gold - Average Investor Leverage



## Market Review

### Global Asset Allocation

- The total global AUM of Short & Leveraged (S&L) ETPs at the end of December 2018 was \$74.2 billion, down -13% YTD.
- 36% of AUM is held in short products with leverage factors ranging between -1x to -3x. 64% of AUM is held in long products with leverage factors ranging from +2 and above. The leverage factor with the most assets is +2x, with 41% of AUM.
- In terms of S&L asset allocation, equity ETPs are the most popular with 81% of AUM, followed by debts with 9% and commodities with 7%. The remainder is allocated between currency and alternative ETPs.
- The largest individual S&L ETPs are leveraged long Japan equities: \$5.4 billion for Next Funds Nikkei 225 Leveraged Index ETF.

### Short & Leveraged Equities

- Currently there is \$59.7 billion of AUM held in S&L equity ETPs, a decrease of -4.6% YTD. 69% of equity ETPs globally are held in leveraged (long) ETPs, 31% in short ETPs.
- AUM in S&L US equity ETPs (including Size and Style but excluding Sectors as objective<sup>\*</sup>) was \$21.9 billion whilst US sector focused equity ETPs had \$6.5 billion in AUM.
- Investors in S&L ETPs globally (“S&L investors”) maintained their bullishness on equities. Investors put \$2.2 billion into leveraged equity ETPs in December and redeemed \$460m of short equity ETPs.
- Current AUM of S&L equity ETPs tracking Europe (including Size and Style but excluding Sectors as objective<sup>\*</sup>) stands at \$4.1 billion with \$1.3 billion tracking the European region and \$2.8 billion tracking individual European countries. The AUM of ETPs tracking European sectors (region and country specific) remains small.

### Short & Leveraged Debt: Global

- The AUM of S&L debt ETPs globally is currently \$6.6 billion. With 96% of AUM held in short ETPs, S&L investors remain overwhelmingly bearishly positioned in debt.
- Breaking down the AUM of S&L debt ETPs, \$5.6 billion is in government debt ETPs and \$1.0 billion in corporate debt and preferred stock ETPs.
- 46% of the AUM of S&L government debt ETPs is in S&L ETPs tracking US government debt. S&L ETPs tracking European government debt account for \$2.6 billion in AUM, or 47% of S&L government debt ETPs, most of which is German government bonds. The remaining 7% of AUM in S&L ETPs track Asian debt (predominantly South Korea government bonds) and the Middle Eastern debt. (Israel).

### Short & Leveraged Commodities: Global

- S&L commodity ETPs are dominated by oil, natural gas, gold and silver representing 96% of total AUM. Oil is currently the largest commodity ETP with \$2.2 billion in AUM, followed by Natural gas with \$1.1 billion in AUM. Gold and Silver are the 3<sup>rd</sup> and 4<sup>th</sup> largest commodity ETPs, with \$1 billion and \$721 million in AUM, respectively.
- AUM of S&L commodity ETPs reached \$5.5 billion in December 2018, a 23% decrease YTD.

### Short & Leveraged Currencies: Global

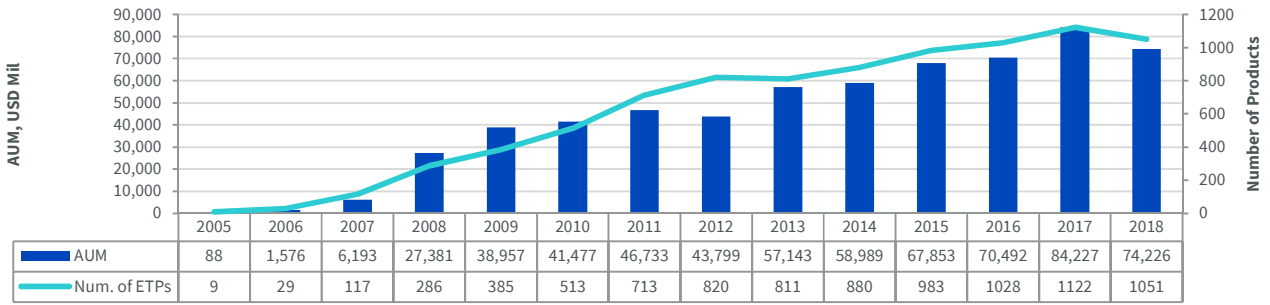
- AUM of S&L currency ETPs reached \$712 million in December 2018, a 34% decrease YTD.
- Most of currency inflow in December went to AUS-USD pair (\$3 million)

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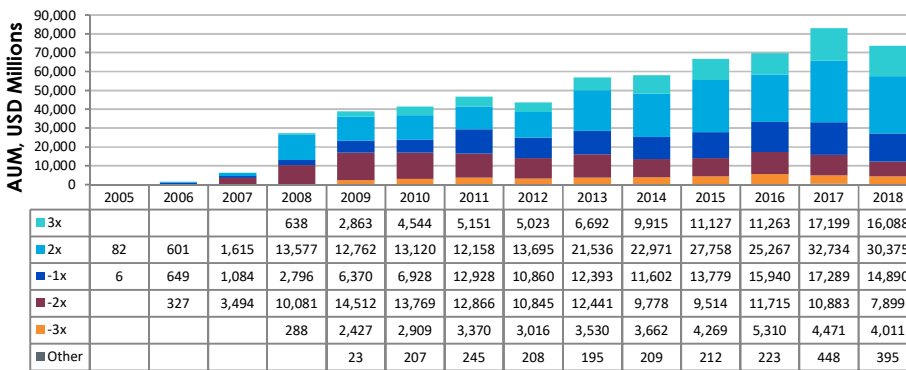
<sup>\*</sup> Size, Style and Sector are investment objective categories. Size is referred to as the categorization of securities by market capitalisation (large, mid and small-cap). Style is referred to as securities that are classified as capturing a value or growth proposition, or a blend of the two. Sectors are investment objectives focused on securities specific to one sector and which per asset class may have different sector classifications. For instance, equities capture sectors such as technology and energy, while fixed income sectors may include government and corporate.

# Global Growth of S&L ETFs/ETPs

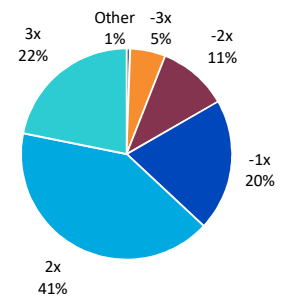
## AUM and Number of Products



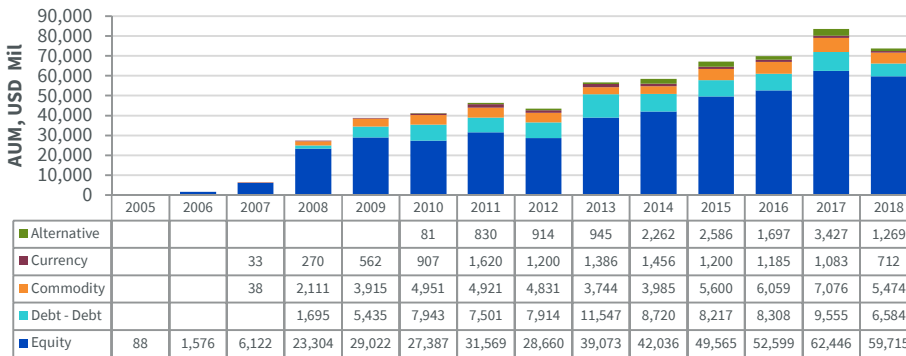
## AUM by Leverage Factor



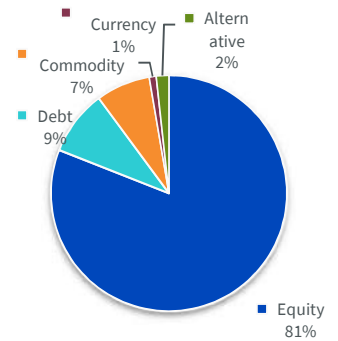
As of 28<sup>th</sup> December 2018



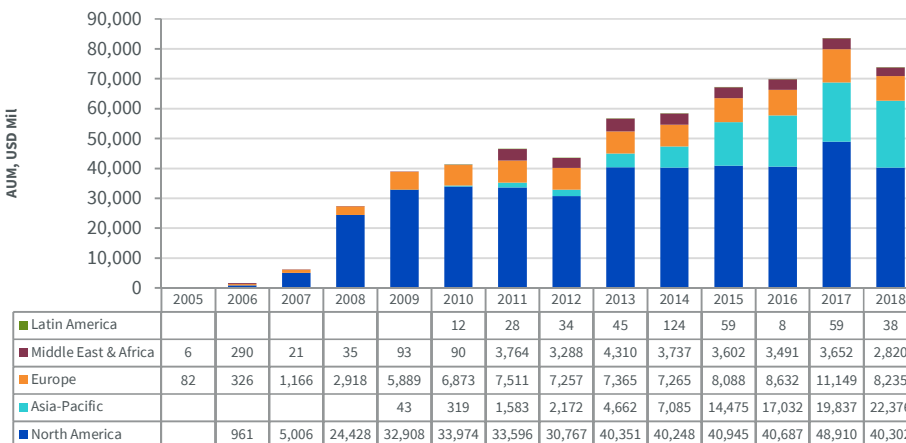
## AUM by Asset Class



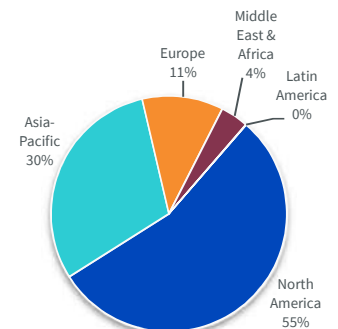
As of 28<sup>th</sup> December 2018



## AUM by Domicile Region



As of 28<sup>th</sup> December 2018

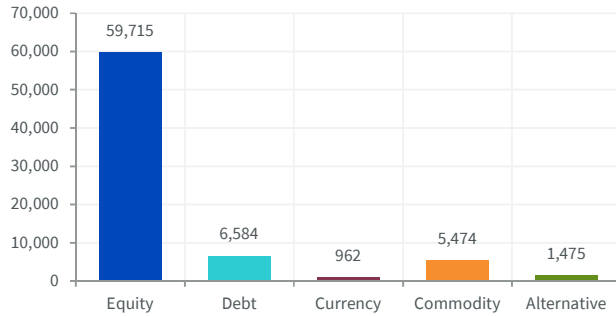


# Global Asset Allocation

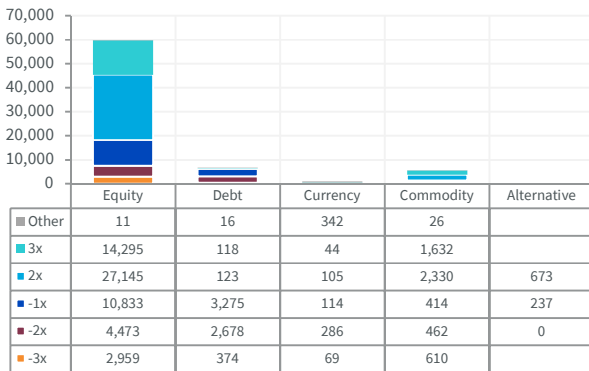
## Current Allocations

As of 28<sup>th</sup> December 2018; Figures in USD Mil.

### AUM

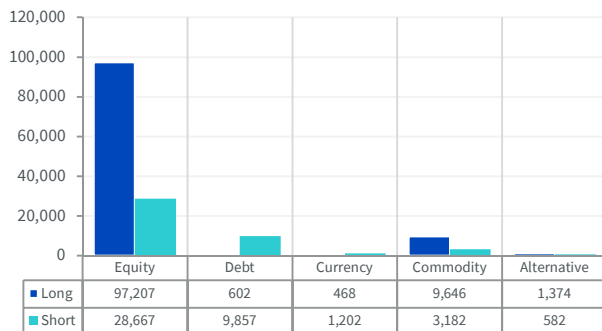


### AUM by Leverage Factor



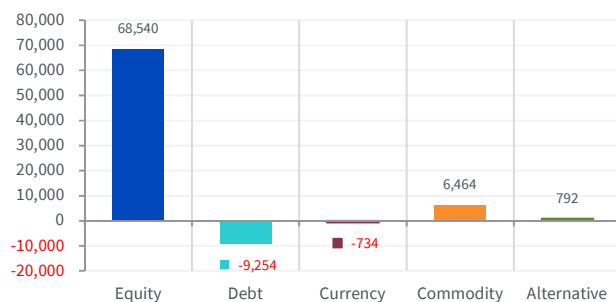
### Notional AUM by Long / Short ETPs

The sum of the AUM in each ETP multiplied by the absolute value of its leverage factor. E.g., \$1 of assets in a 3x leverage or a 3x short ETP equals \$3 of notional AUM



### Net Position

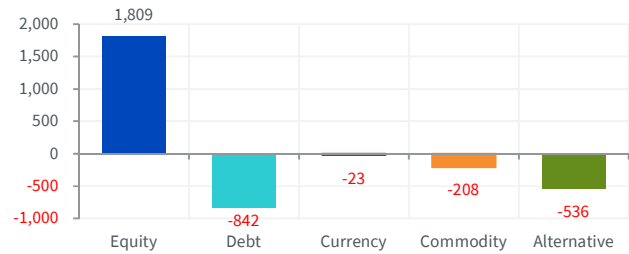
The notional AUM in long ETPs minus the notional AUM in short ETPs. A negative figure indicates investors have a net short, or net bearish position; a positive figure indicates a net long or net bullish position



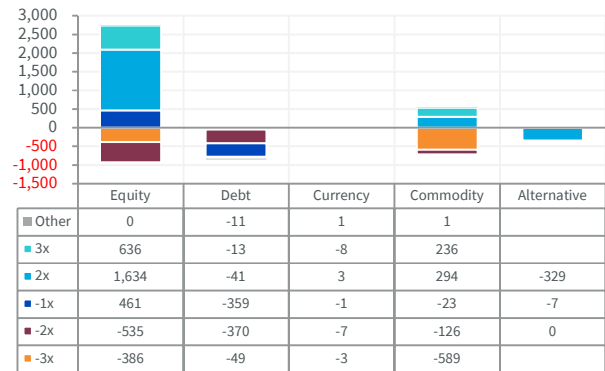
## December 2018 Flows

Over December 2018; Figures in USD Mil.

### Asset Flows

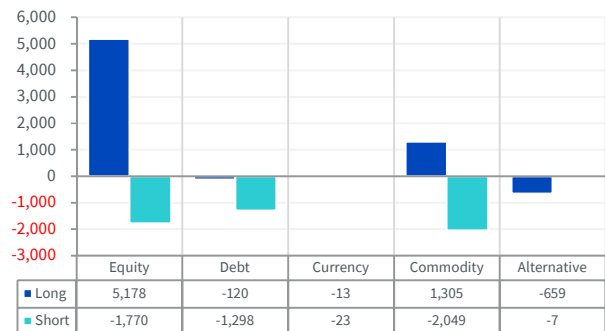


### Asset Flows by Leverage Factor



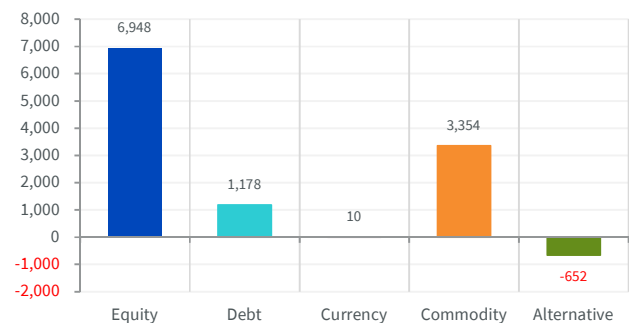
### Notional Flows by Long / Short ETPs

The net subscriptions for each ETP multiplied by the absolute value of its leverage factor. E.g., \$1 of outflows from a 3x leverage ETP equals -\$3 of notional flow



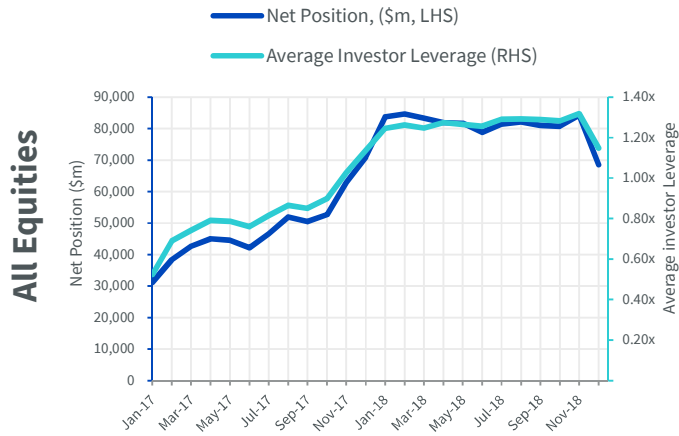
### Net Position Flows

The notional flow in long ETPs minus the notional flow in short ETPs. A negative figure indicates net bearish flows, while a positive figure indicates net bullish flows

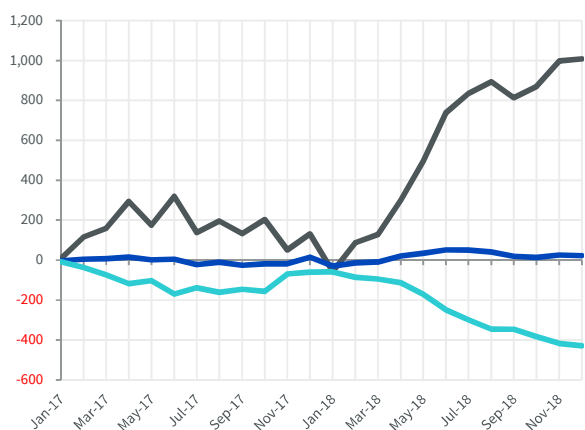
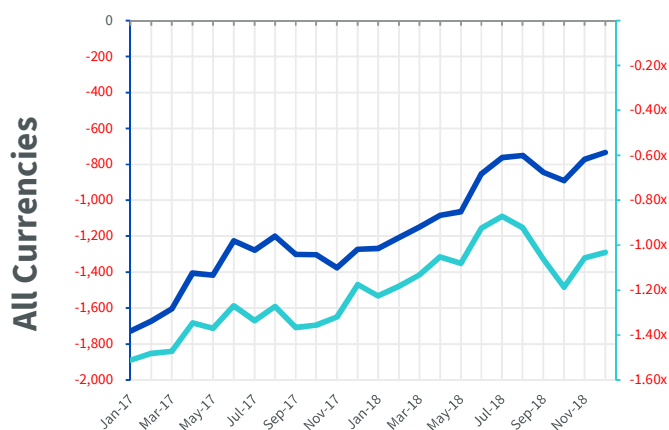
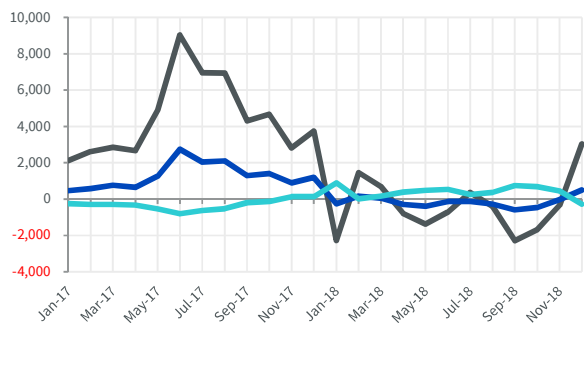
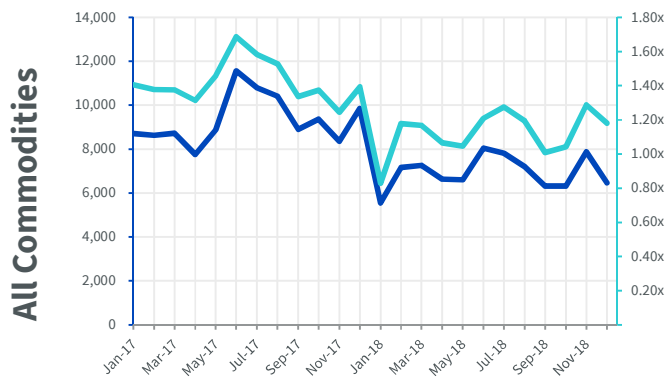
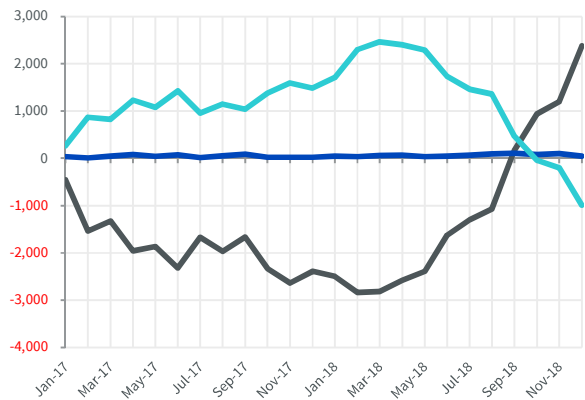
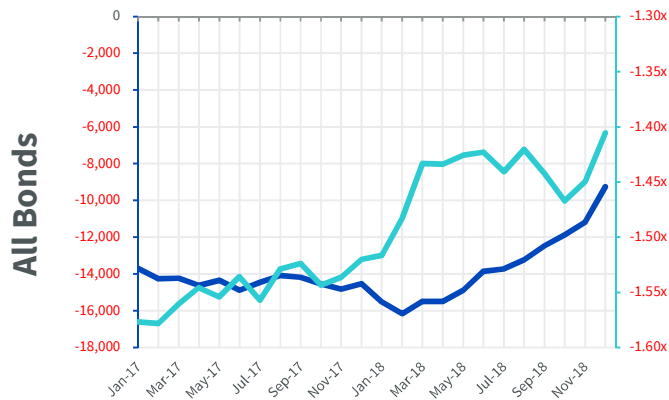
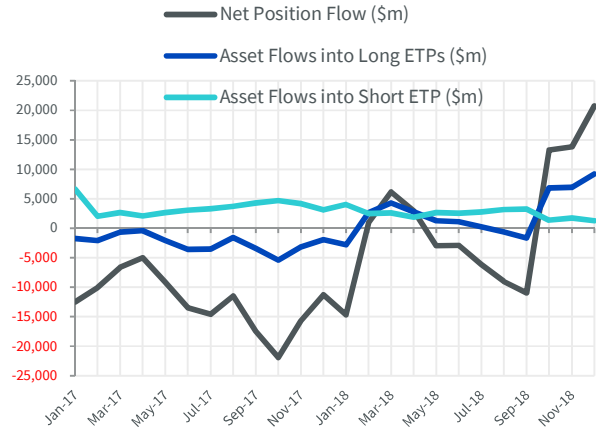


# Global Asset Allocation - Historical View

## Net Position and Average Investor Leverage



## Cumulative Asset Flows into Short / Long ETPs and Net Position Flows





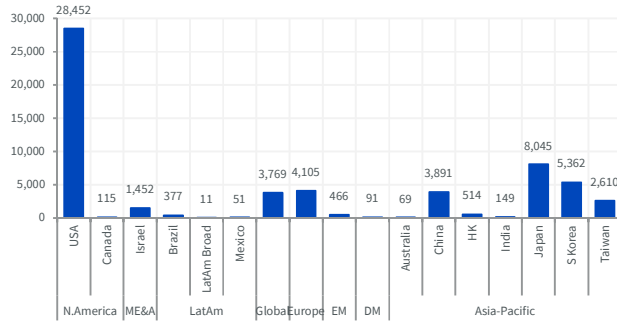
# Short & Leveraged Equities

## Global Equities

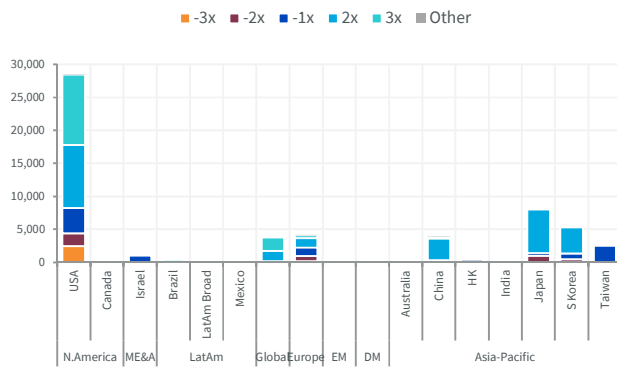
### Current Allocations

By Geographic Exposure; As of 28<sup>th</sup> December 2018; Figures in USD Mil.  
 "Europe" represents the sum total of ETPs exposed to Europe or European countries.

#### AUM

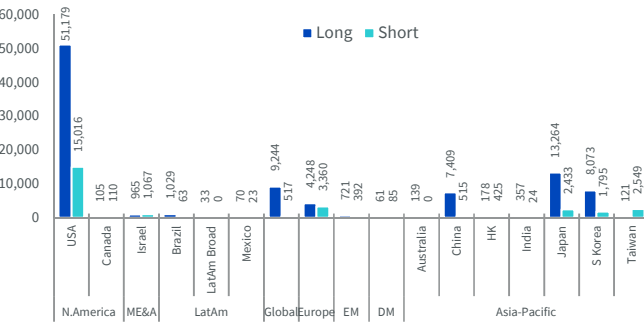


#### AUM by Leverage Factor



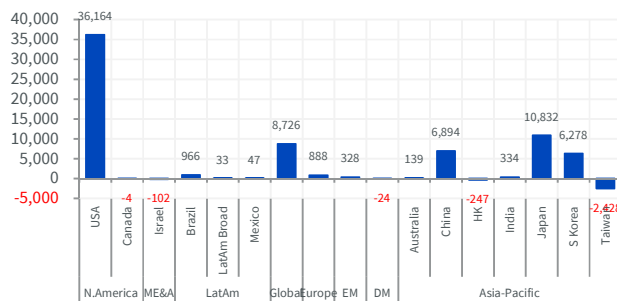
#### Notional AUM by Long / Short ETPs

The sum of the AUM in each ETP multiplied by the absolute value of its leverage factor. E.g., \$1 of assets in a 3x leverage or a 3x short ETP equals \$3 of notional AUM



#### Net Position

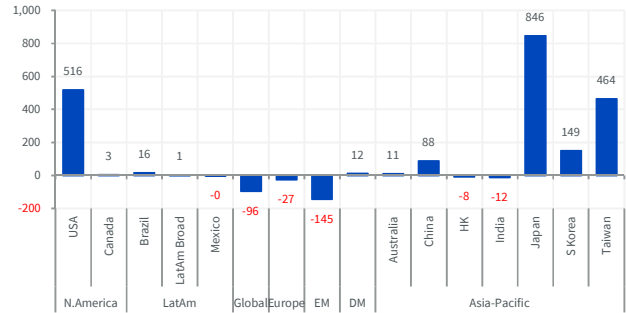
The notional AUM in long ETPs minus the notional AUM in short ETPs. A negative figure indicates investors have a net short, or net bearish position; a positive figure indicates net long or net bullish position



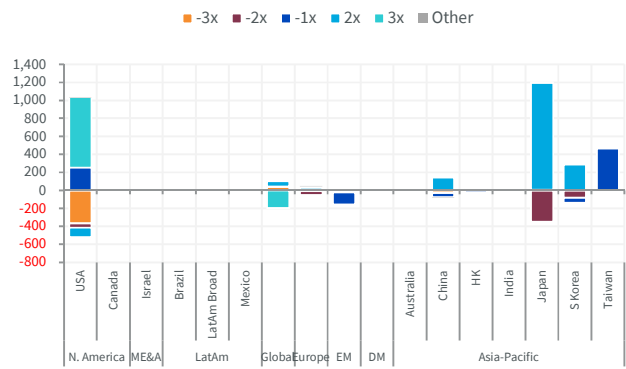
### December 2018 Flows

By Geographic Exposure; During December 2018; Figures in USD Mil.

#### Asset Flows

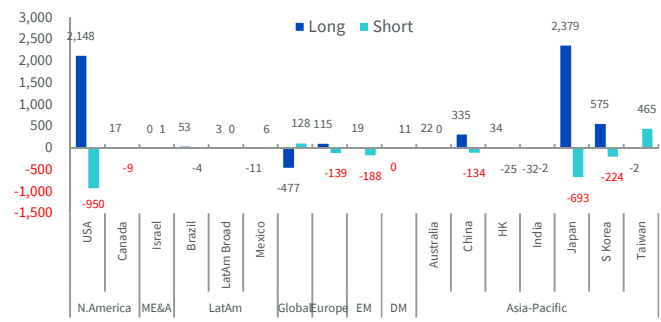


#### Asset Flows by Leverage Factor



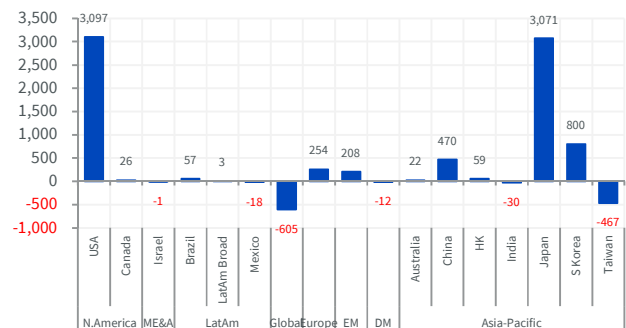
#### Notional Flows by Long / Short ETPs

The net subscriptions for each ETP multiplied by the absolute value of its leverage factor. E.g., \$1 of outflows from a 3x leverage ETP equals -\$3 of notional flow



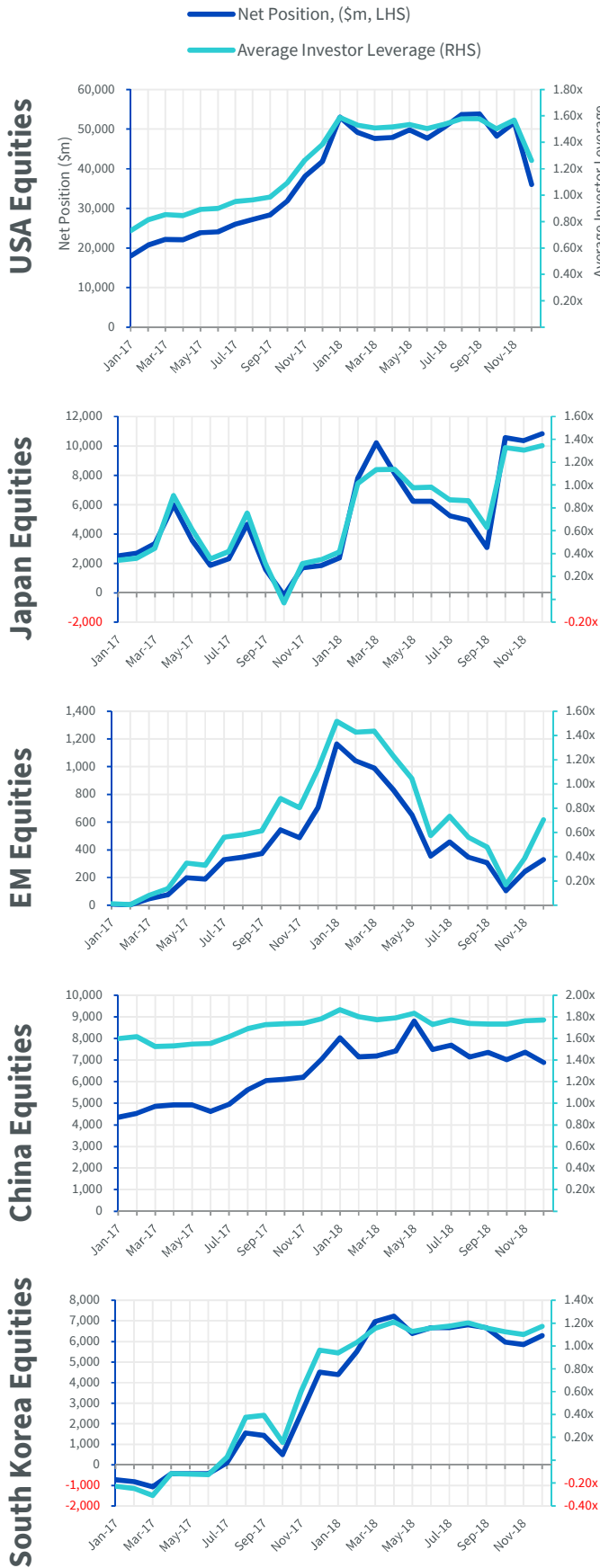
#### Net Position Flows

The notional flow in long ETPs minus the notional flow in short ETPs. A negative figure indicates net bearish flows, while a positive figure indicates net bullish flows

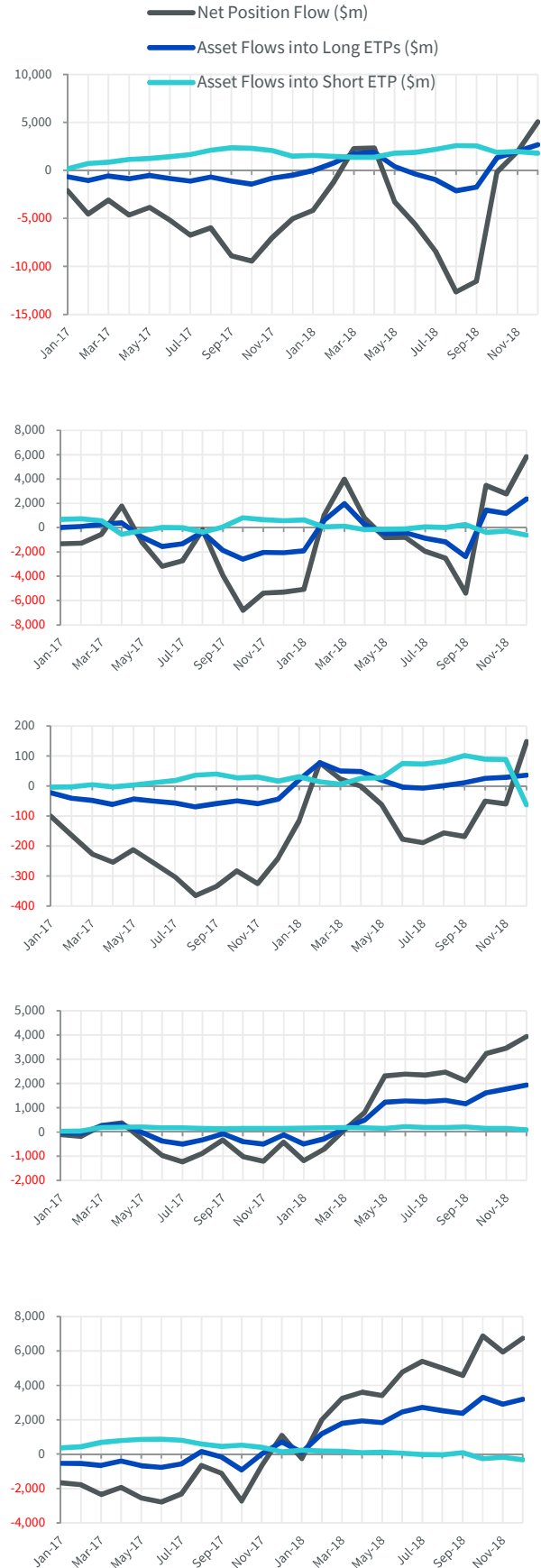


# Global Equities - Historical View

## Net Position and Average Investor Leverage



## Cumulative Asset Flows into Short / Long ETPs and Net Position Flows

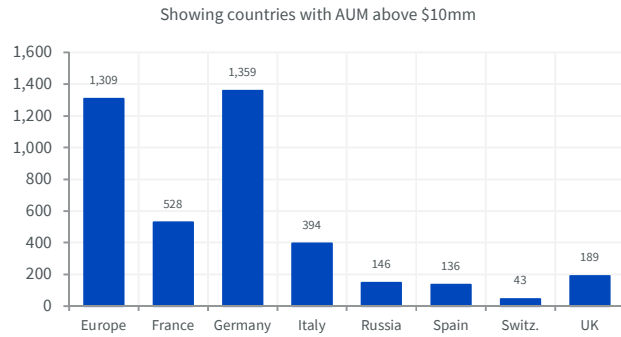


# Europe Equities

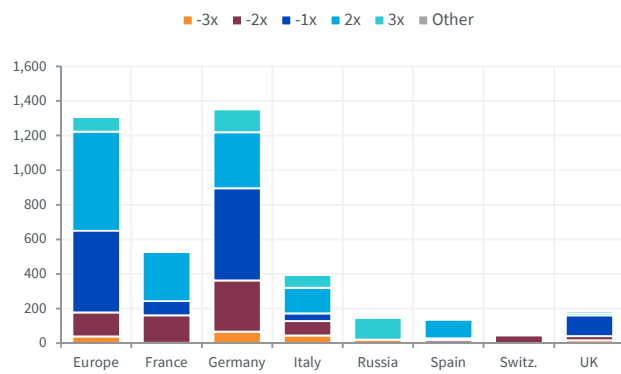
## Current Allocations

By Geographic Exposure; As of 28<sup>th</sup> December 2018; Figures in USD Mil.  
 "Europe" represents ETPs exposed to Europe as a region.

### AUM

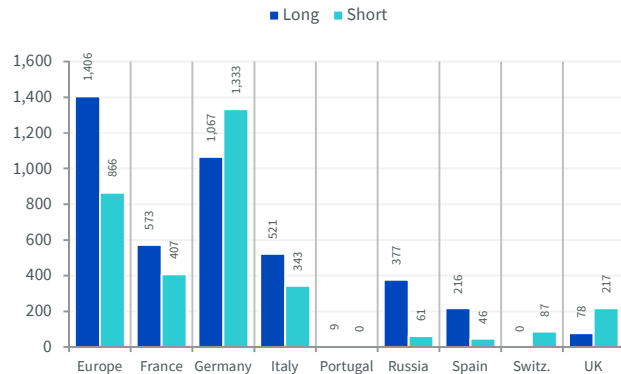


### AUM by Leverage Factor



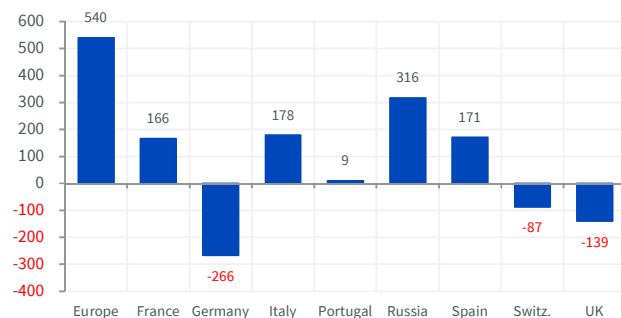
### Notional AUM by Long / Short ETPs

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### Net Position

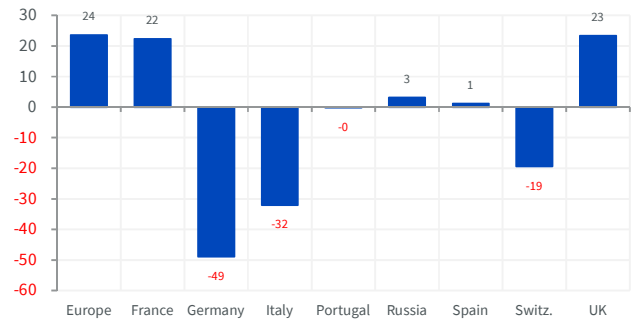
The notional AUM in long ETPs minus the notional AUM in short ETPs. A negative figure indicates investors have a net short, or net bearish position; a positive figure indicates a net long or net bullish position



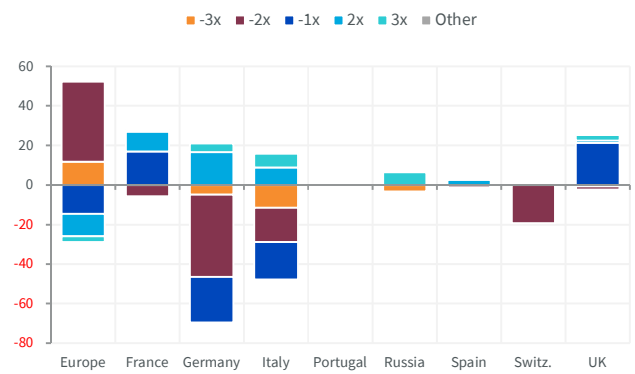
## December 2018 Flows

By Geographic Exposure; Over December 2018; Figures in USD Mil.

### Asset Flows

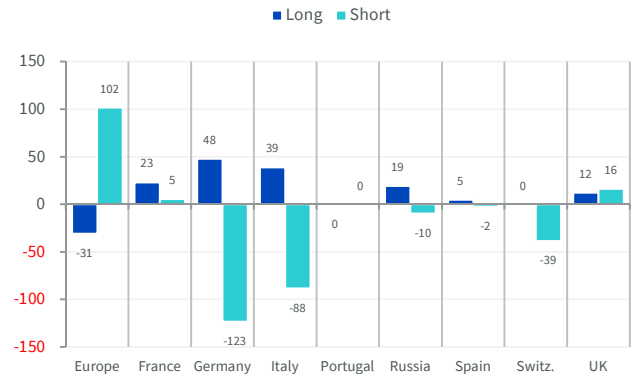


### Asset Flows by Leverage Factor



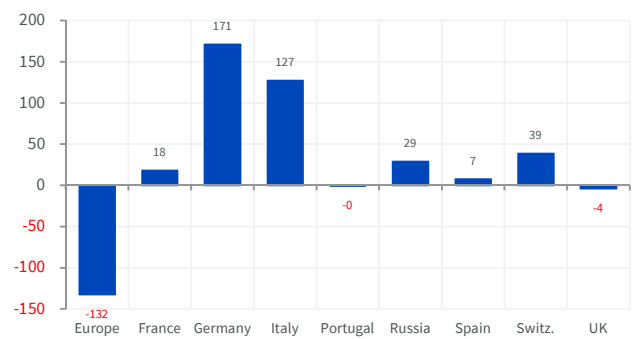
### Notional Flows by Long / Short ETPs

The net subscriptions for each ETP multiplied by the absolute value of its leverage factor. E.g., \$1 of outflows from a 3x leverage ETP equals -\$3 of notional flow



### Net Position Flows

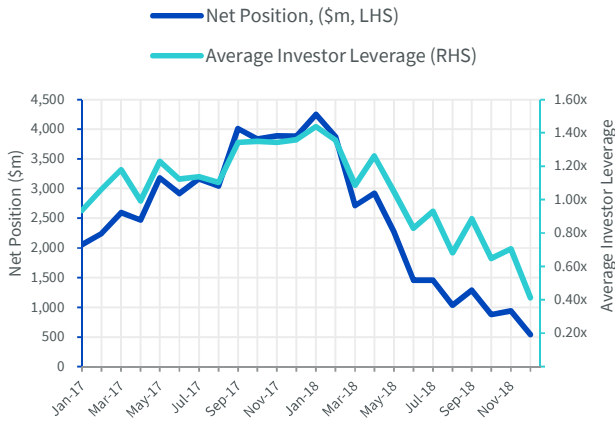
The notional flow in long ETPs minus the notional flow in short ETPs. A negative figure indicates net bearish flows, while a positive figure indicates net bullish flows



# Europe Equities - Historical View

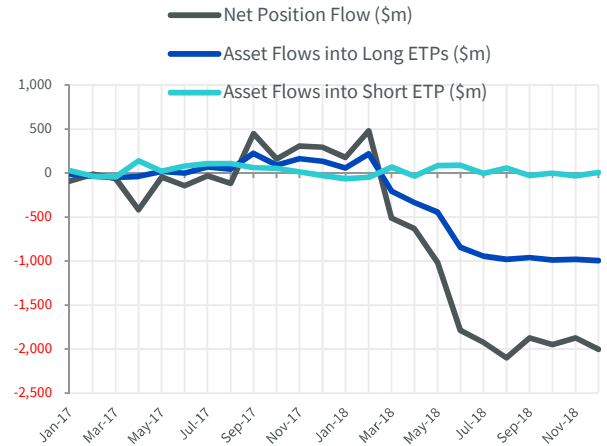
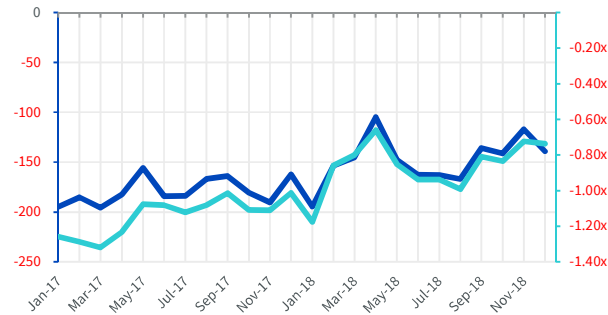
## Net Position and Average Investor Leverage

Europe (Broad Exposure) Equities

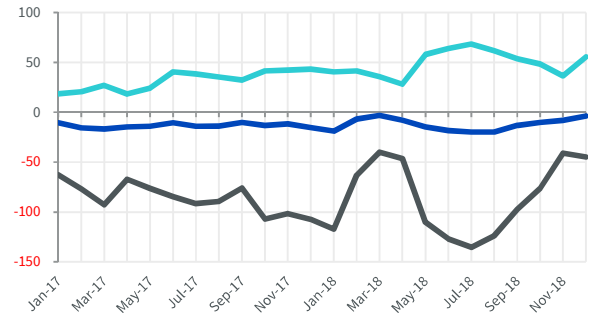
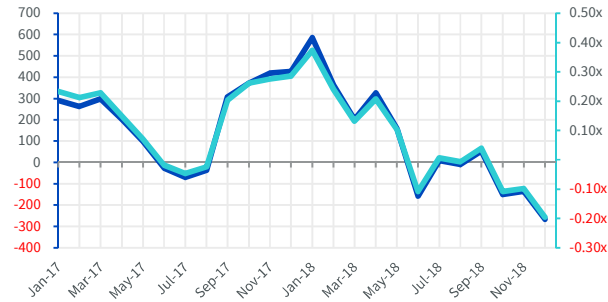


## Cumulative Asset Flows into Short / Long ETPs and Net Position Flows

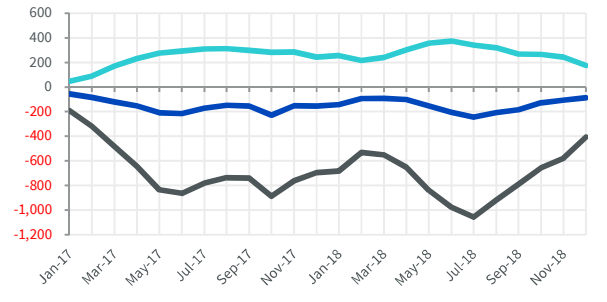
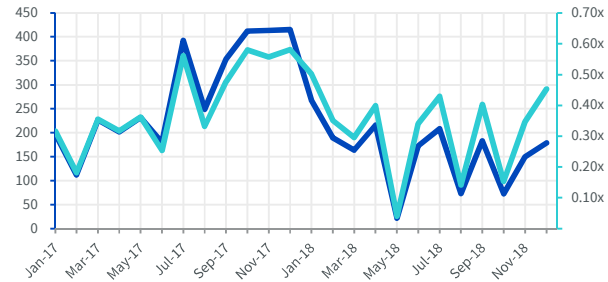
UK Equities



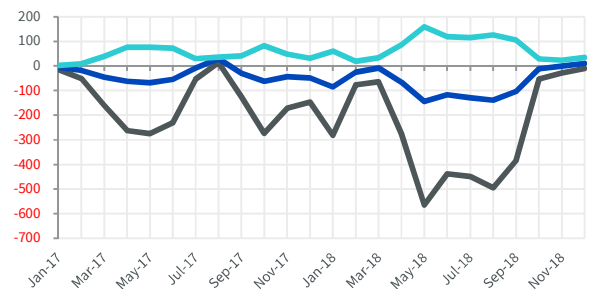
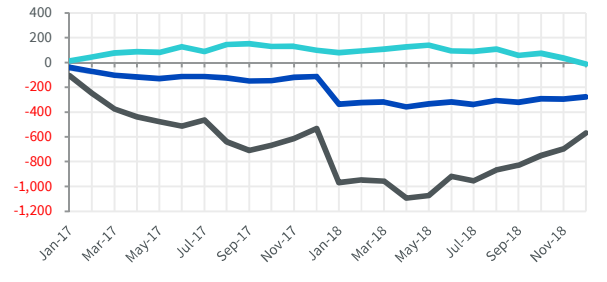
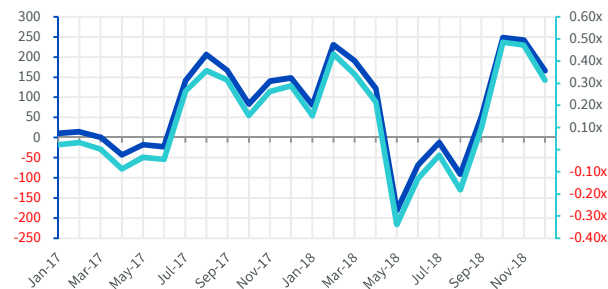
Germany Equities



Italy Equities



France Equities



# Short & Leveraged Government Debt

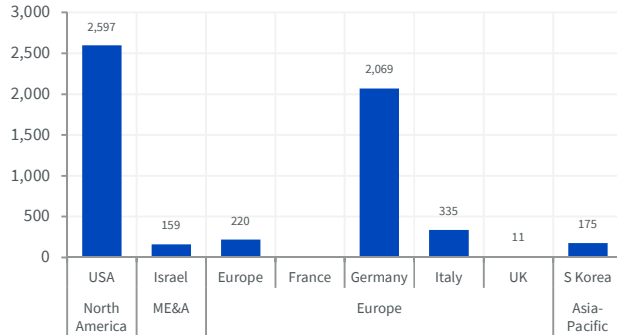
## Global Debt

### Current Allocations

By Geographic Exposure; As of 28<sup>th</sup> December 2018; Figures in USD Mil.

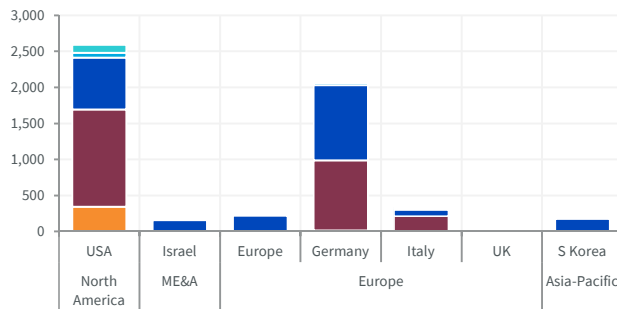
#### AUM

Showing countries with AUM above \$10mm



#### AUM by Leverage Factor

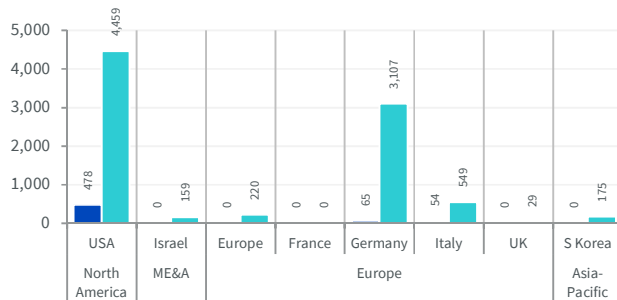
Legend: -3x, -2x, -1x, 2x, 3x, Other



#### Notional AUM by Long / Short ETPs

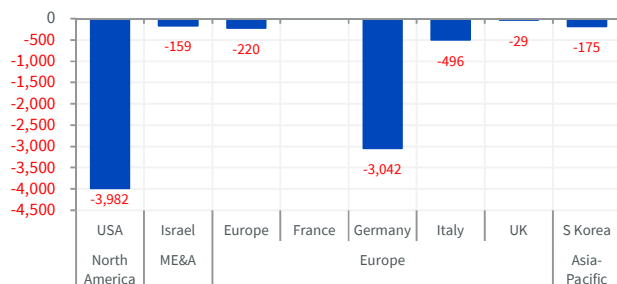
The sum of the AUM in each ETP multiplied by the absolute value of its leverage factor. E.g., \$1 of assets in a 3x leverage or a 3x short ETP equals \$3 of notional AUM

Legend: Long, Short



#### Net Position

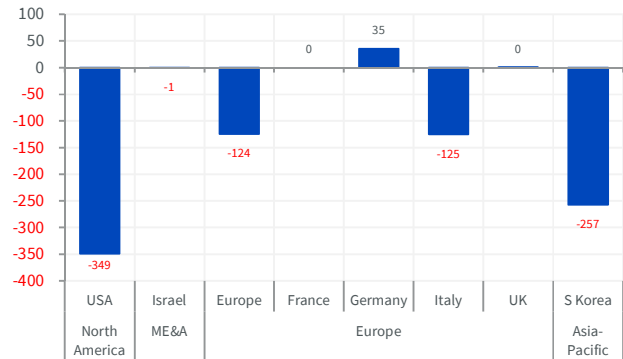
The notional AUM in long ETPs minus the notional AUM in short ETPs. A negative figure indicates investors have a net short, or net bearish position; a positive figure indicates net long or net bullish position



### December 2018 Flows

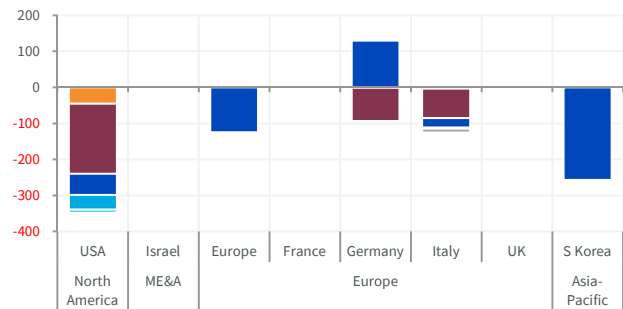
By Geographic Exposure; Over December 2018; Figures in USD Mil.

#### Asset Flows



#### Asset Flows by Leverage Factor

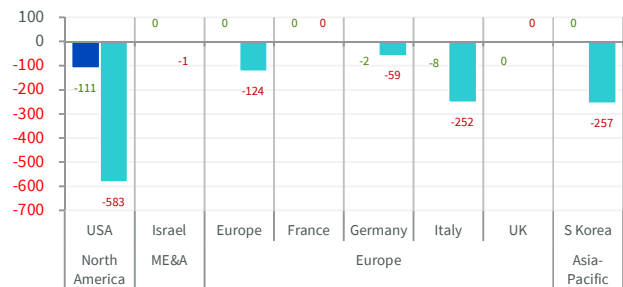
Legend: -3x, -2x, -1x, 2x, 3x, Other



#### Notional Flows by Long / Short ETPs

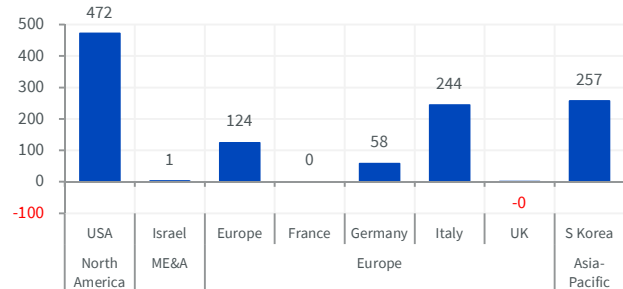
The net subscriptions for each ETP multiplied by the absolute value of its leverage factor. E.g., \$1 of outflows from a 3x leverage ETP equals -\$3 of notional flow

Legend: Long, Short



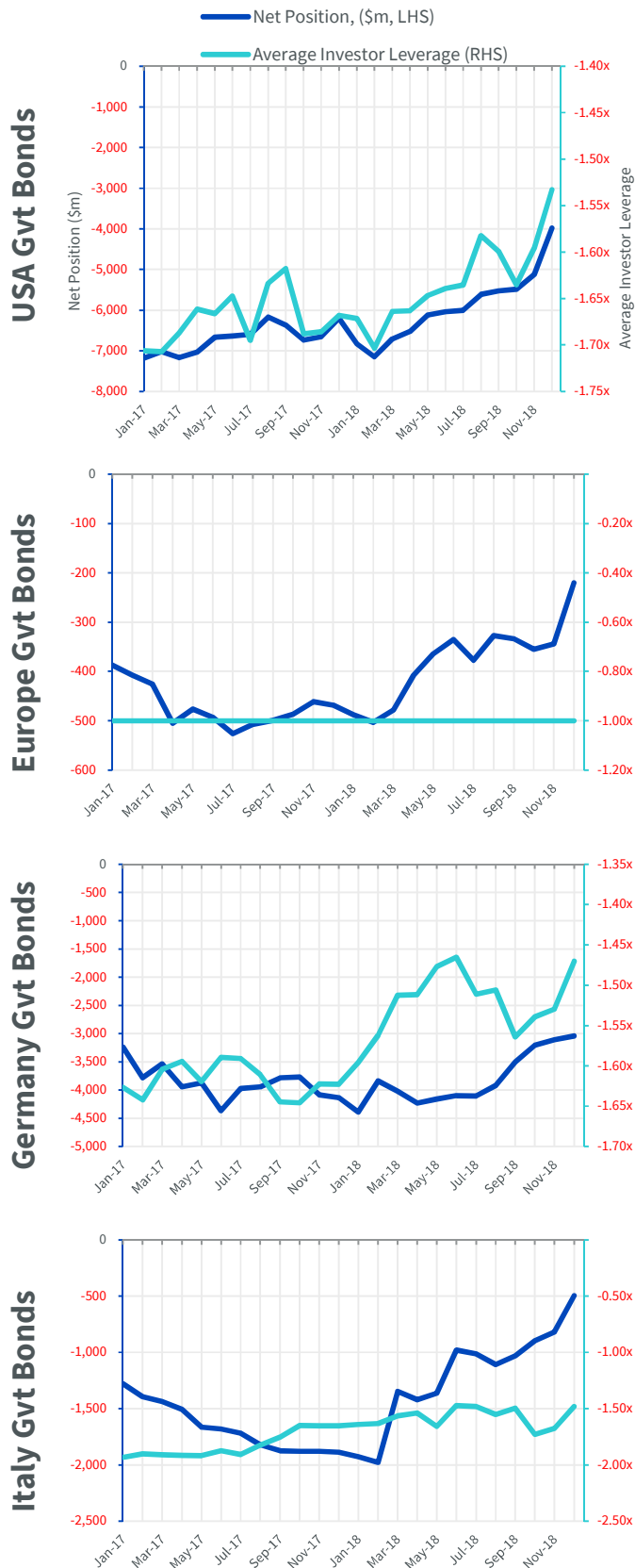
#### Net Position Flows

The notional flow in long ETPs minus the notional flow in short ETPs. A negative figure indicates net bearish flows, while a positive figure indicates net bullish flows

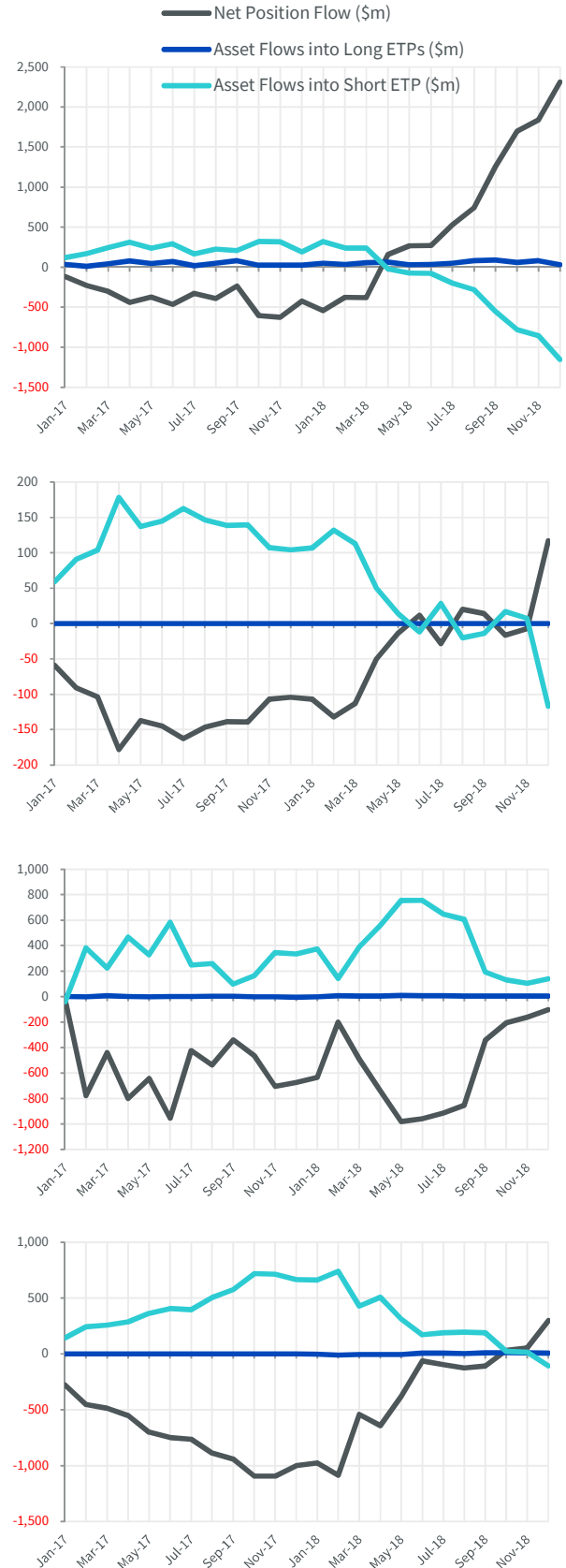


# Global Debt - Historical View

## Net Position and Average Investor Leverage



## Cumulative Asset Flows into Short / Long ETPs and Net Position Flows



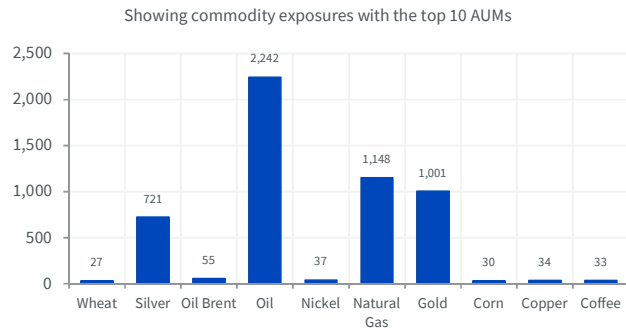
# Short & Leveraged Commodities

## Global Commodities

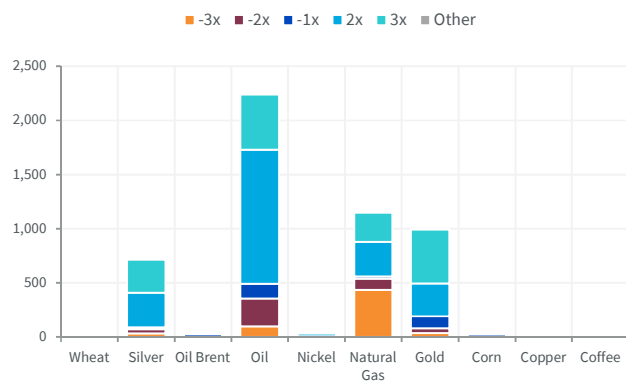
### Current Allocations

By commodity exposure; As of 28<sup>th</sup> December 2018; Figures in USD Mil; Showing the top 10 AUM commodity exposures

#### AUM

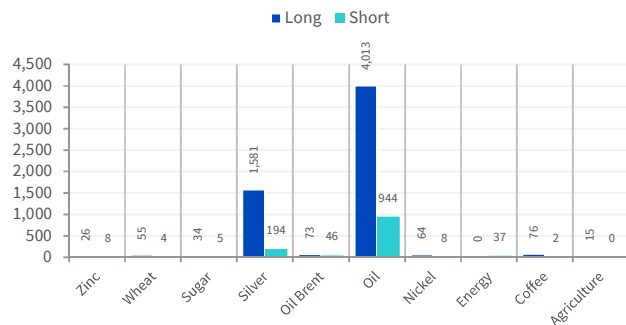


#### AUM by Leverage Factor



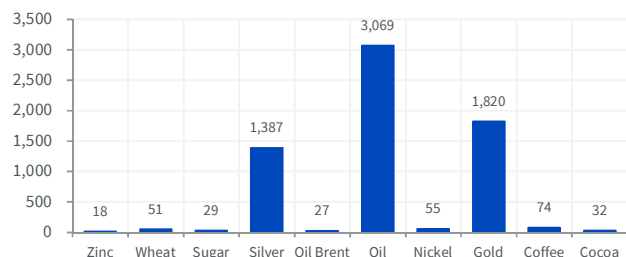
#### Notional AUM by Long / Short ETPs

The sum of the AUM in each ETP multiplied by the absolute value of its leverage factor. E.g., \$1 of assets in a 3x leverage or a 3x short ETP equals \$3 of notional AUM



#### Net Position

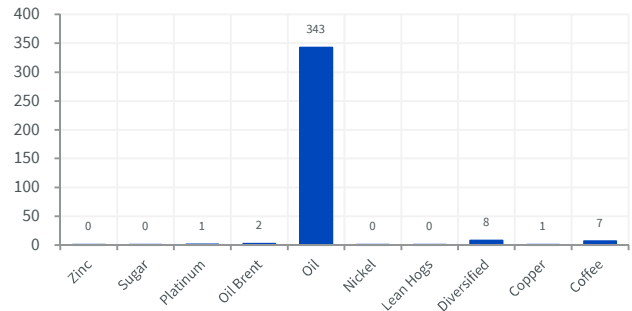
The notional AUM in long ETPs minus the notional AUM in short ETPs. A negative figure indicates investors have a net short, or net bearish position; a positive figure indicates a net long or net bullish position



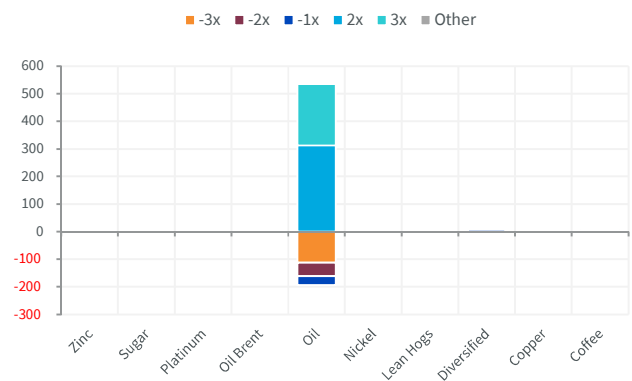
### December 2018 Flows

By commodity exposure; Over December 2018; Figures in USD Mil; Showing the top 10 Flows commodity exposures

#### Asset Flows

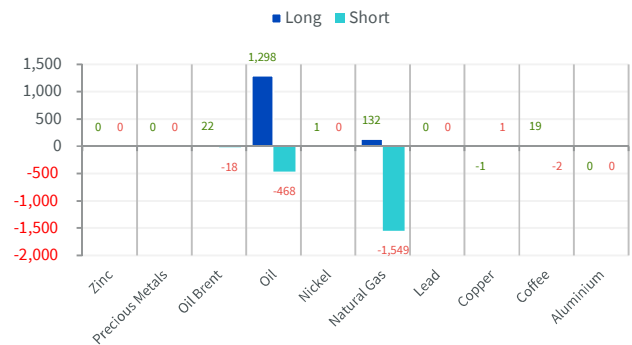


#### Asset Flows by Leverage Factor



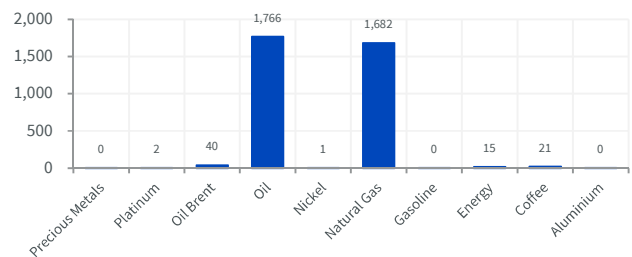
#### Notional Flows by Long / Short ETPs

The net subscriptions for each ETP multiplied by the absolute value of its leverage factor. E.g., \$1 of outflows from a 3x leverage ETP equals -\$3 of notional flow



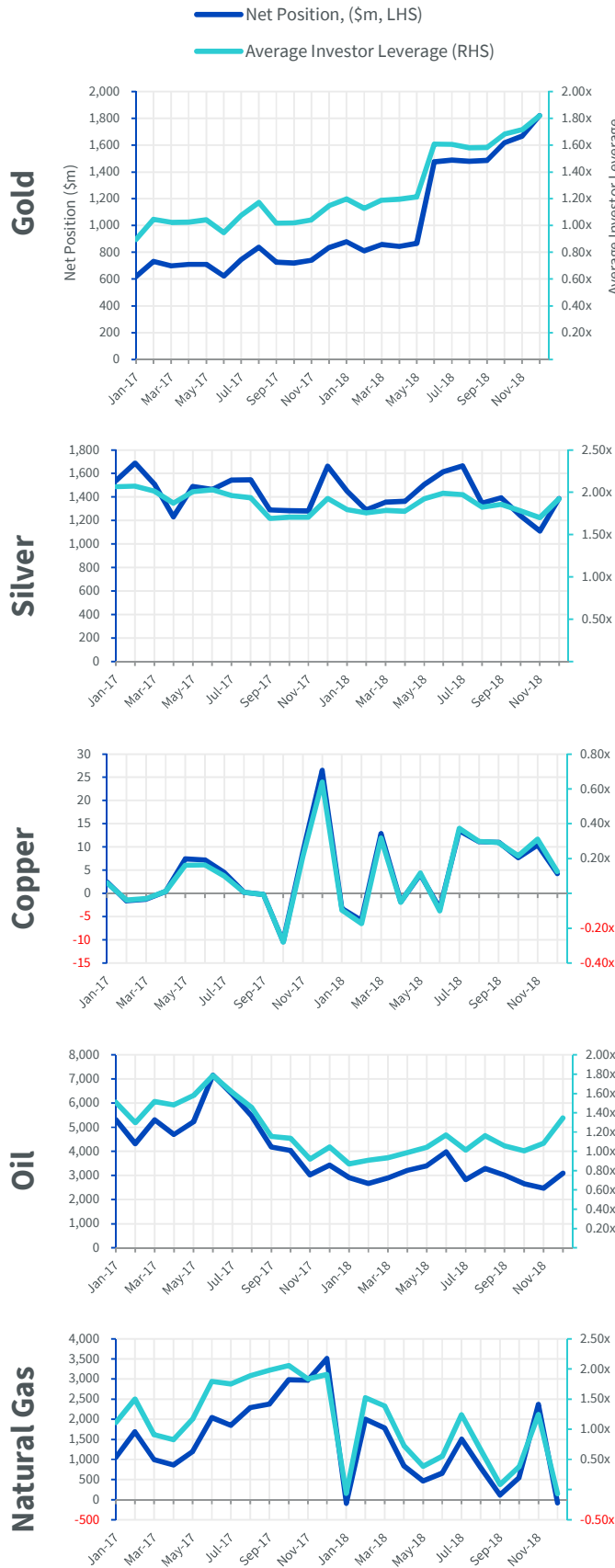
#### Net Position Flows

The notional flow in long ETPs minus the notional flow in short ETPs. A negative figure indicates net bearish flows, while a positive figure indicates net bullish flows

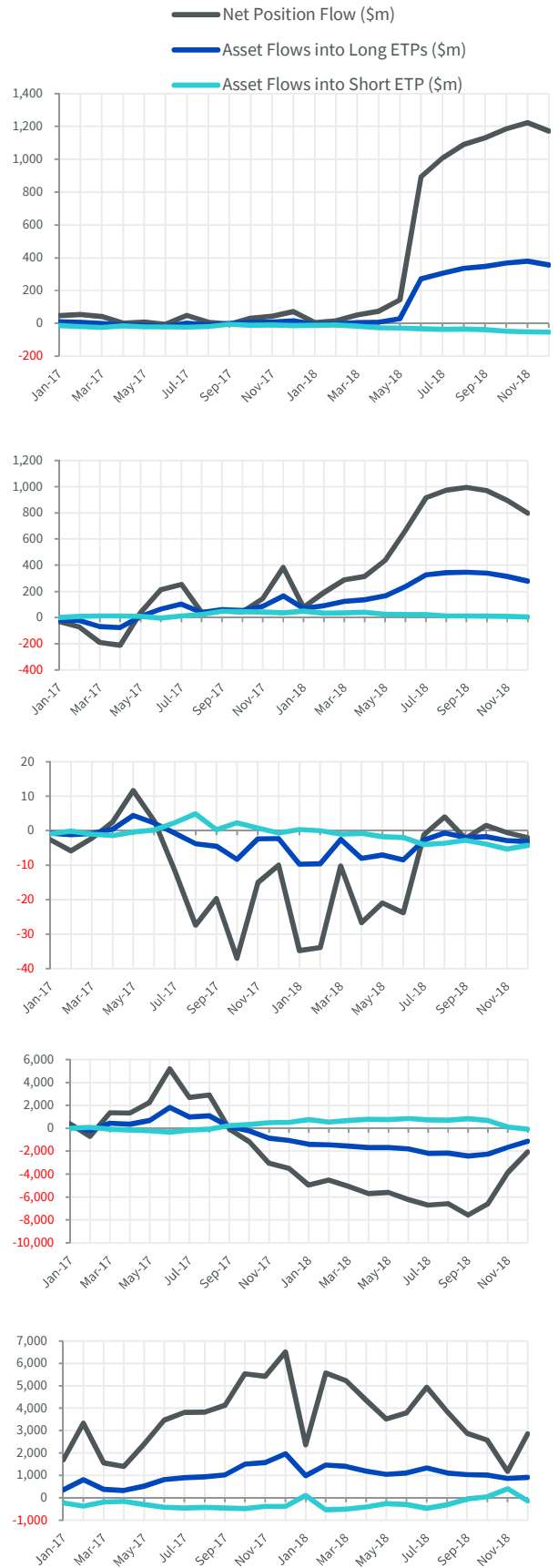


# Global Commodities - Historical View

## Net Position and Average Investor Leverage



## Cumulative Asset Flows into Short / Long ETPs and Net Position Flows





# Short & Leveraged Currencies

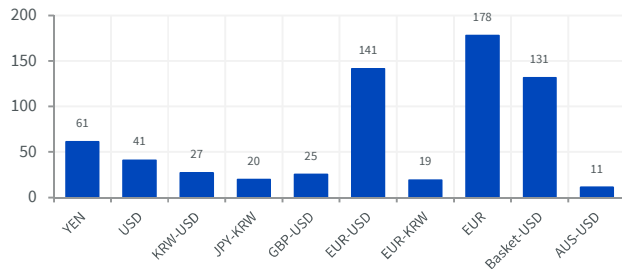
## Global Currencies

### Current Allocations

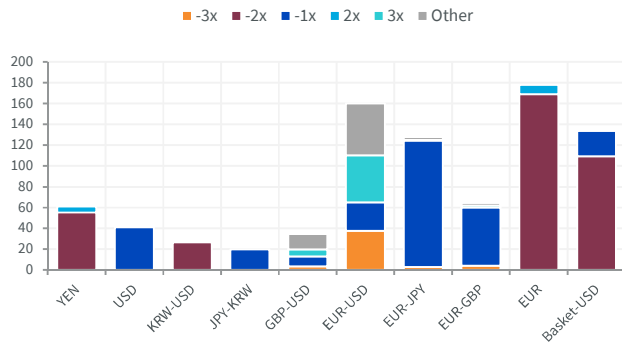
By currency exposure; As of 28<sup>th</sup> December 2018; Figures in USD Mil; Showing the top 10 AUM currency exposures

#### AUM

Showing currency exposures with the top 10 AUMs

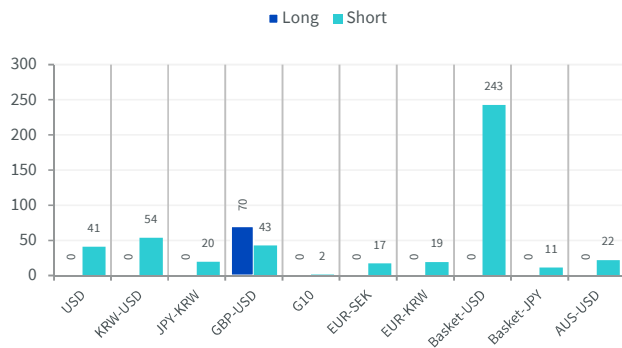


#### AUM by Leverage Factor



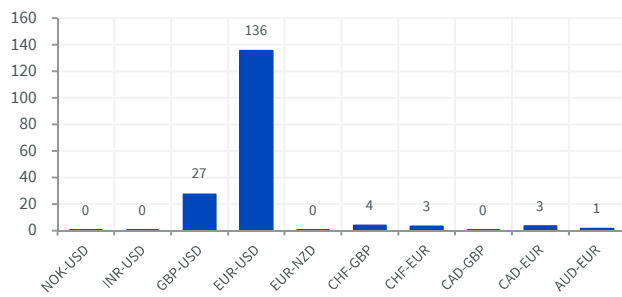
#### Notional AUM by Long / Short ETPs

The sum of the AUM in each ETP multiplied by the absolute value of its leverage factor. E.g., \$1 of assets in a 3x leverage or a 3x short ETP equals \$3 of notional AUM



#### Net Position

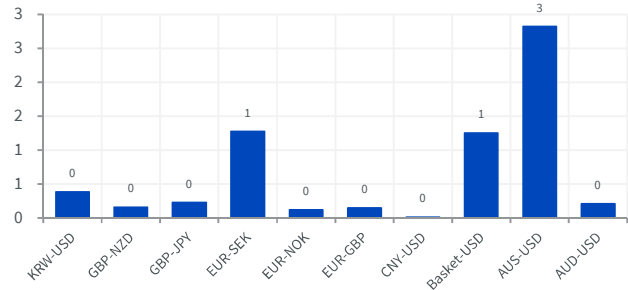
The notional AUM in long ETPs minus the notional AUM in short ETPs. A negative figure indicates investors have a net short, or net bearish position; a positive figure indicates net long or net bullish position



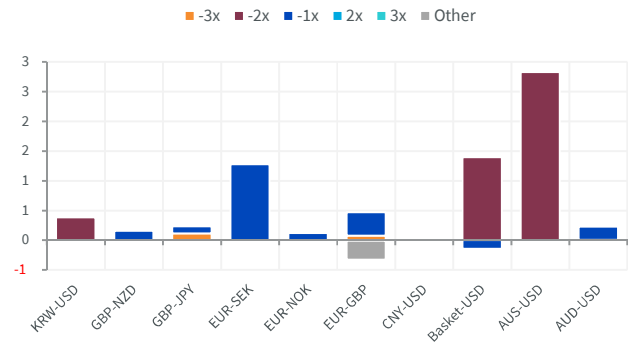
### December 2018 Flows

By currency exposure; Over December 2018; Figures in USD Mil; Showing the top 10 Flows currency exposures

#### Asset Flows

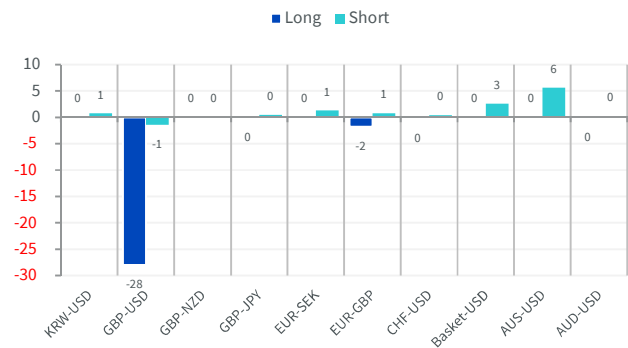


#### Asset Flows by Leverage Factor



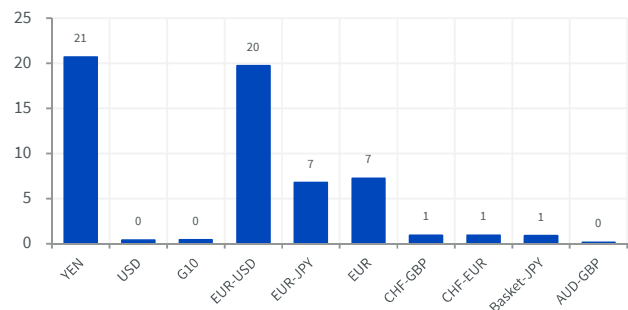
#### Notional Flows by Long / Short ETPs

The net subscriptions for each ETP multiplied by the absolute value of its leverage factor. E.g., \$1 of outflows from a 3x leverage ETP equals -\$3 of notional flow



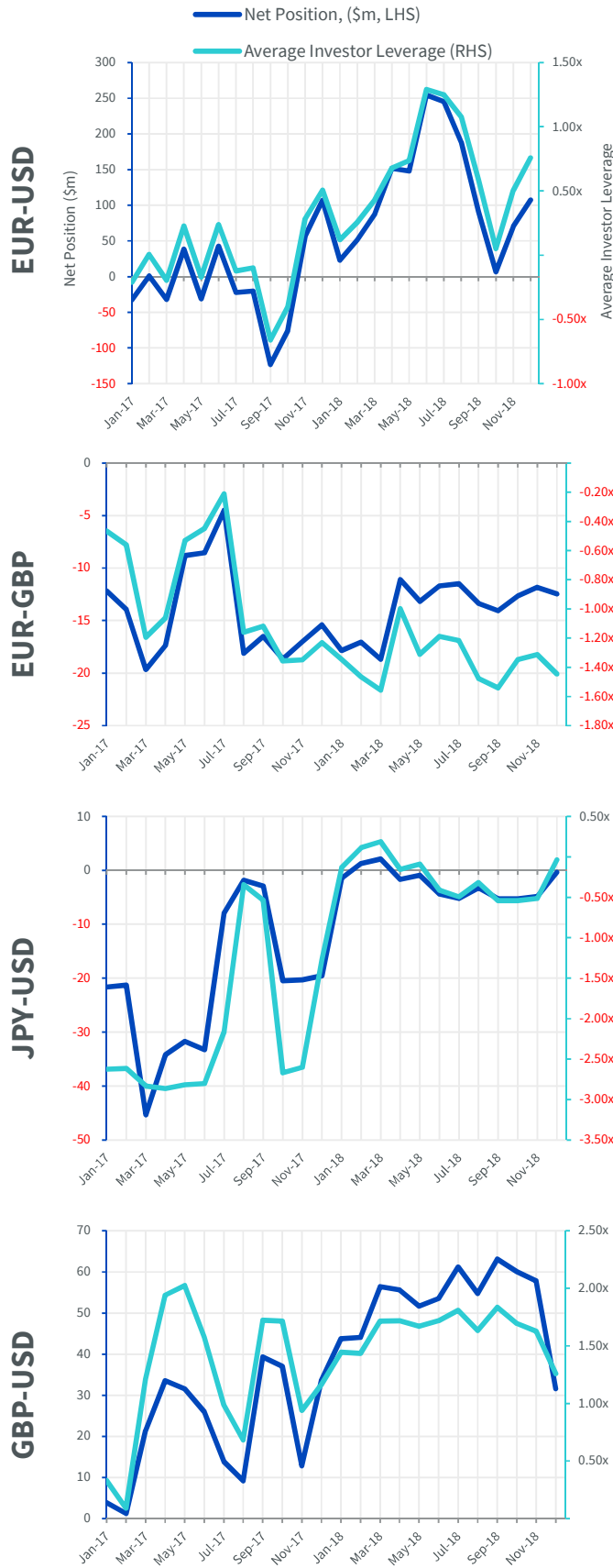
#### Net Position Flows

The notional flow in long ETPs minus the notional flow in short ETPs. A negative figure indicates net bearish flows, while a positive figure indicates net bullish flows

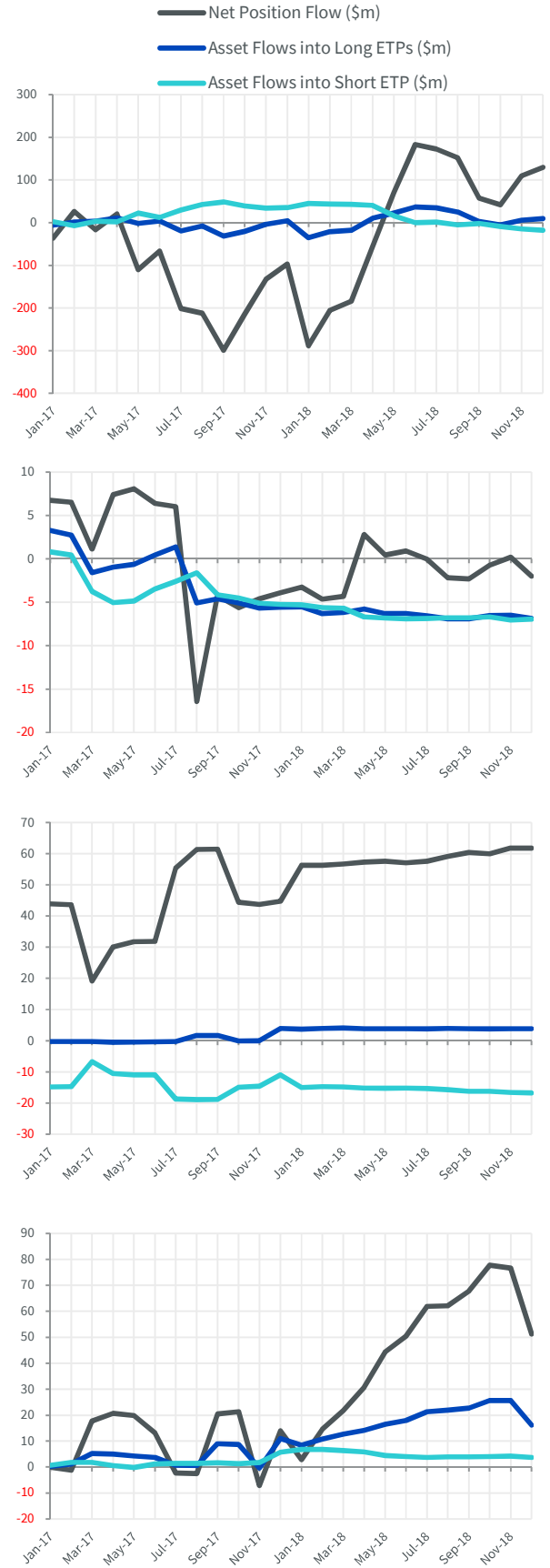


# Global Currencies - Historical View

## Net Position and Average Investor Leverage



## Cumulative Asset Flows into Short / Long ETPs and Net Position Flows



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