

## ETF currency hedges hit the sweet spot

ECB and FED policy divergence has seen investors increasingly employ currency hedged ETFs to mitigate the impact of currency swings on investment returns

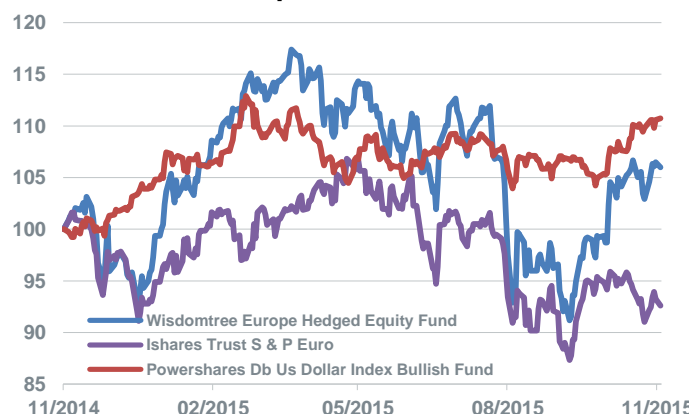
- **\$1.7bn** of inflows month to date into currency hedged products takes ytd flows to **\$58bn**
- Hedged euro ETFs return to form as dollar index surges back to life
- Inflows see US investors bullish on Japan and Europe but wary of further dollar strength

### Getting paid to hedge

Monetary easing in Europe and Japan has dampened cross border investment returns in local currency terms but hedged ETF's lure investors as they can still achieve exposure to regional economic recoveries without the associated expected currency risk. Low to negative interest rates in Europe and Japan and expectations that the US will soon raise rates may even see currency hedged strategies **outperform** their non-currency hedged peers in the near future..

The surge in the Powershares US Dollar Index ETF below (red), which tracks the US dollar versus six major currencies (including the euro and yen); indicates that ETF investors which have hedged exposure would have outperformed in the last month.

### Performance comparison of ETFs:SPY,ISF,PICK



Source: Markit ( 11 November 2014 = 100)

This is displayed in the relative 9.5%% outperformance of the Wisdom Tree Europe

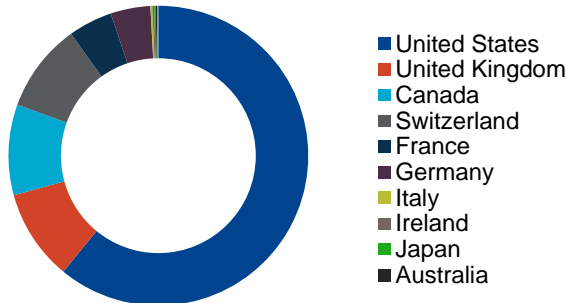
Hedged ETF versus the iShares Europe ETF since October.

### Hedging flows

The resurgent volatility of the Dollar index has seen investors continue to clamour to currency hedged funds with the asset class gathering over \$1.7bn so far in November. This tally adds to a bumper year for currency hedged ETFs as these funds have attracted \$58bn of inflows ytd. However, declines in NAV on a net basis have seen total AUM remain flat and the category continues to represent almost 4% of global ETF AUM totalling \$120bn.

The top regions where investors are taking advantage of hedged products based on AUM by listing countries are the US, UK, Canada and Switzerland. Canada is the relative exception to the rule, but investor demand for currency hedge looks to be driven by its relative closeness to the US given that the great majority of its currency hedged funds have US exposure.

### Currency hedged ETF AUM:listing region



Source: Markit

The trend of investors using hedged ETFs to gain exposure to foreign markets, while removing layers of **currency risk** looks set to continue. ETF issuers, hungry for AUM have consistently launched **new products**. As ever in the ETF world however three established products have been responsible for the bulk of inflows year to date.

Top ten currency hedged:inflows (\$mn)	month to date	year to date	AUM
WisdomTree Europe Hedged	580	15,644	21,363
Deutsche X-trackers MSCI EAFE Hedged	11	12,796	14,052
WisdomTree Japan Hedged	23	4,064	17,330
Deutsche X-trackers MSCI Europe Hedged	154	3,201	3,858
iShares Currency Hedged MSCI EAFE	140	3,166	3,170
iShares Currency Hedged MSCI EMU	56	1,937	1,957
iShares Currency Hedged MSCI Germany	(173)	1,405	1,407
Deutsche X-trackers MSCI Japan Hedged	94	1,196	1,914
Vanguard Total International Bond Index	26	1,155	3,992
UBS -MSCI EMU 100 hedged to USD UCIT?	-	1,098	1,718

### Half the year to date inflows have gone into the WisdomTree Europe Hedged Equity Fund

The intellectual property rights to this report provided herein is owned by Markit Group limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omission or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, consequential damages, arising out of the use of the data. Markit is a trademark owned by the Markit group.

This report does not constitute nor shall it be construed as an offer by Markit to buy or sell any particular security, financial instrument or financial service. The analysis provided in this report is of a general and impersonal nature. This report shall not be construed as providing investment advice that is adapted to or appropriate for any particular investment strategy or portfolio. This report does not and shall not be construed as providing any recommendations as to whether it is appropriate for any person or entity to "buy", "sell" or "hold" a particular investment.

and the Deutsche MSCI EAFE Hedged Equity ETFs. The former provides exposure to Europe but is hedged for any movements between the euro and the dollar while the latter provides exposure to developed markets securities globally with a hedge to currency movements relative to the US dollar (65% exposure to Europe & 34% exposure to Asia).

The continued divergent policies in Europe and the US have seen investors plough even more assets into the Wisdom Tree Europe Hedged fund with the fund seeing \$580m of inflows so far this month.

To read this article on our commentary website please click [here](#).

### Relte Stephen Schutte

Analyst

Markit

Tel: +44 207 064 6447

Email: [relte.schutte@markit.com](mailto:relte.schutte@markit.com)

For further information, please visit [www.markit.com](http://www.markit.com)