

VALUE AND DIVIDENDS: A RISING TIDE

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A rising tide of improving economic growth expectations has lifted all sectors this year.

The companies getting the greatest boost in recent months were some of the most unloved and distressed in the first half of 2020.

After this sharp reversal, waters may get choppy ahead. The lower-quality, more-distressed value companies may have a tougher road ahead as investors get more discriminating about which value names have solid long-term prospects and which are just beneficiaries of a short-term relief rally.

Reopening the Economy = Historic Value Outperformance

All 11 S&P 500 sectors were up in Q1 2021. The best performers were the traditional cyclical sectors—Energy, Financials, Industrials and Materials.

The outperformance of cyclicals has been underway since early September—one of the longest stretches of such outperformance in a decade.

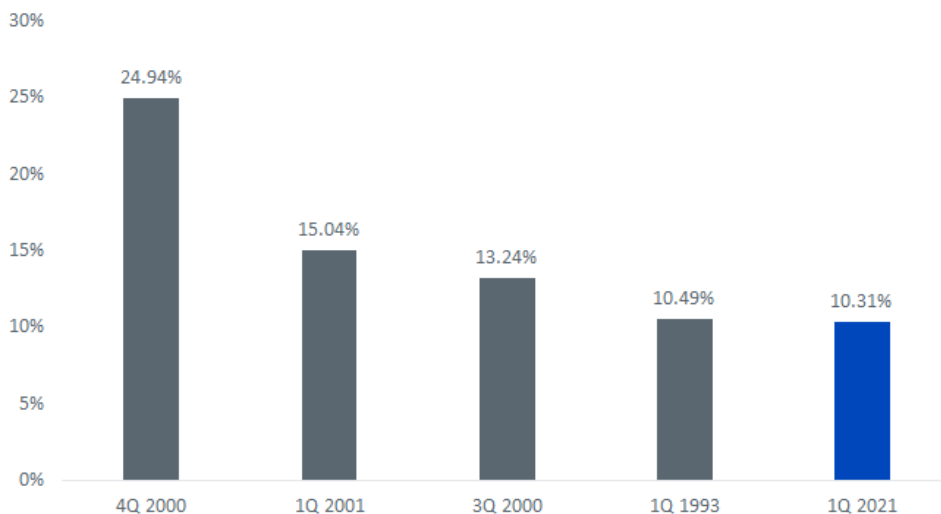
Sector Returns

S&P 500 Index		
Year-to-date (12/31/20–3/31/21)	March 2021	Cyclical Rotation Trade (9/2/20–3/31/21)
30.85% - Energy	10.51% - Utilities	44.81% - Energy
15.99% - Financials	8.91% - Industrials	35.61% - Financials
11.41% - Industrials	8.19% - Cons. Staples	24.65% - Industrials
9.08% - Materials	7.58% - Materials	20.29% - Materials
9.02% - Real Estate	6.81% - Real Estate	11.96% - S&P 500
8.08% - Comm. Svc.	5.80% - Financials	11.44% - Comm. Svc.
6.17% - S&P 500	4.38% - S&P 500	9.79% - Real Estate
3.18% - Health Care	3.92% - Health Care	8.63% - Utilities
3.11% - Cons. Disc	3.65% - Cons. Disc	7.89% - Health Care
2.80% - Utilities	3.13% - Comm. Svc.	4.95% - Info. Tech
1.97% - Info. Tech	2.79% - Energy	4.86% - Cons. Disc
1.15% - Cons. Staples	1.69% - Info. Tech	3.90% - Cons. Staples

Sources: WisdomTree, S&P. You cannot invest directly in an index. Past performance is not indicative of future returns.

The first quarter's outperformance of value relative to growth was historic. The Russell 1000 value Index bested the Russell 1000 Growth Index by 10.31%—the fifth-best quarterly relative performance in history.

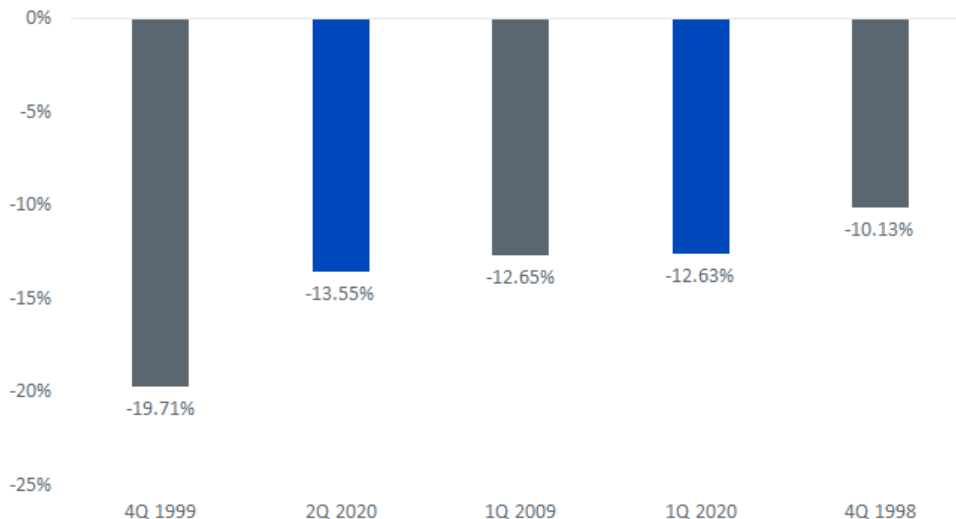
Top Five Value Outperformance



Sources: WisdomTree, Russell, 12/31/1979–3/31/2021. Bars show performance of Russell 1000 Value relative to Russell 1000 Growth. You cannot invest directly in an index. Past performance is not indicative of future returns.

However, this outperformance comes on the heels of a decade of value underperformance and two historic quarters of growth outperformance in the first half of 2020.

Top Five Value Underperformance



Sources: WisdomTree, Russell, 12/31/1979–3/31/2021. Bars show performance of Russell 1000 Value relative to Russell 1000 Growth. You cannot invest directly in an index. Past performance is not indicative of future returns.

Interestingly, one of the highest [beta](#) sectors to value generally and the re-opening of the economy specifically—Energy—was the second-worst performing sector for the month of March.

After a year of punishingly low oil prices, Energy is one of the least-profitable and lowest-quality sectors in the S&P 500. For the month of March, investors started to refocus on higher-quality and lower-[volatility](#) companies, potentially signaling a shift from the acute rebound of distressed value to more quality value names.

For the first two months of the year, the least-volatile stocks in the S&P 500 significantly lagged the most volatile. In March, that trend reversed, with the highest-volatile stocks becoming the laggards.

Volatility Quintiles – S&P 500 Index

	Jan - Feb	March
Category	Benchmark Return	Benchmark Return
1st Quintile (Lowest Volatility)	-0.34%	5.35%
2nd Quintile	0.95%	5.14%
3rd Quintile	0.43%	3.92%
4th Quintile	9.76%	3.51%
5th Quintile (Highest Volatility)	10.71%	2.99%
Total	1.72%	4.38%

Sources: WisdomTree, FactSet, S&P, 12/31/20–3/31/21. You cannot invest directly in an index. Past performance is not indicative of future returns.

From a [return-on-equity \(ROE\)](#) perspective, companies with negative earnings were by far the best performers to start the year. In March, this trend too was reversed, with the negative-return companies lagging.

Return-on-Equity Quintiles – S&P 500 Index

	Jan - Feb	March
Category	Benchmark Return	Benchmark Return
1st Quintile (Highest ROE)	-1.66%	4.25%
2nd Quintile	-1.51%	4.29%
3rd Quintile	6.48%	4.80%
4th Quintile	4.69%	3.94%
5th Quintile (Lowest ROE)	4.58%	5.17%
Negative Return	19.67%	1.24%
Total	1.72%	4.38%

Sources: WisdomTree, FactSet, S&P, 12/31/20–3/31/21. You cannot invest directly in an index. Past performance is not indicative of future returns.

March Factor Reversal

In a far cry from 12 months ago when the highest-[dividend](#) payers were slashing dividend payments and severely lagging, high-dividend yielders had a remarkable first quarter. Quality dividend growers—those companies that don’t sport the highest yields but have more sustainable payouts—had much more modest outperformance. The [WisdomTree U.S. Quality Dividend Growth Index](#) outperformed the S&P 500 by just 30 basis points.

Index Total Returns – 1Q 2021

Figure 6_Index Total Returns 1Q 2021

But as we saw with quintile performance, there was a dramatic reversal in factor performance in the month of March. While value and high dividend still outperformed, [low vol](#) and quality dividend growth were the two best-performing factors.

Index Total Returns – March 2021

Figure 7_Index Total Returns March 2021

For investors who think value and dividend payers still have room to run—which seems reasonable after about a decade of underperformance—but that some of the easier gains have been made from distressed value companies, now may be a time to consider an allocation to higher-quality dividend payers.

Index Fundamentals

Characteristic	Quality Dividend Growth	S&P 500 Growth	S&P 500 Value	S&P 500
Price-to-Earnings	22.79	37.25	31.44	34.18
Est. Price-to-Earnings	17.94	27.85	18.51	22.35
Price-to-Book	5.88	10.72	2.77	4.47
Price-to-Sales	2.99	5.49	2.01	2.98
Dividend Yield	2.17%	0.75%	2.14%	1.43%
Return-on-Equity	25.36%	25.35%	8.64%	12.63%
Return-on-Assets	7.05%	9.11%	1.61%	2.67%

Sources: WisdomTree, S&P, FactSet, 3/31/21. **Quality Dividend Growth** = WisdomTree U.S. Quality Dividend Growth Index. You cannot invest directly in an index.

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

For more investing insights, check out our [Economic & Market Outlook](#)

View the online version of this article [here](#).

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DEFINITIONS

Quality: Characterized by higher efficiency and profitability. Typical measures include earnings, return on equity, return on assets, operating profitability as well as others. This term is also related to the Quality Factor, which associates these stock characteristics with excess returns vs the market over time.

Value: Characterized by lower price levels relative to fundamentals, such as earnings or dividends. Prices are lower because investors are less certain of the performance of these fundamentals in the future. This term is also related to the Value Factor, which associates these stock characteristics with excess returns vs the market over time.

S&P 500 Index: Market capitalization-weighted benchmark of 500 stocks selected by the Standard and Poor's Index Committee designed to represent the performance of the leading industries in the United States economy.

Beta: A measure of the volatility of a security or a portfolio in comparison to a benchmark. In general, a beta less than 1 indicates that the investment is less volatile than the benchmark, while a beta more than 1 indicates that the investment is more volatile than the benchmark.

Volatility: A measure of the dispersion of actual returns around a particular average level.

Return on Equity (ROE): Measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.

Dividend: A portion of corporate profits paid out to shareholders.

Low Volatility: Characterized by lower standard deviation of price over time. This term is also associated with the Low Volatility Factor, which associates lower volatility stocks with better risk-adjusted returns vs the market over time.