
LOOKING BACK AT EQUITY FACTORS IN Q2 2024 WITH WISDOMTREE

Pierre Debru – Head of Quantitative Research and Multi Asset Solutions at WisdomTree in Europe
07/24/2024

After a strong start to the year, markets entered the second quarter weighted by increasing inflation worries. With expectations of the number of Federal Reserve cuts melting in the sun, [MSCI World](#) posted a negative 3.7% return in April. However, inflation print improved over the rest of the quarter, leading to a more hopeful tone in May and June. While cuts remain elusive, the new expected date is now September; markets have restarted their march upward. Artificial intelligence and semiconductor-related stocks continued to lead, though, and a broadening of the market remains elusive.

This installment of the WisdomTree Quarterly Equity Factor Review aims to shed some light on how equity factors behaved during this second quarter and how this may have impacted investors' portfolios.

Performance in Focus: More of the Same in May and June

In Q2, MSCI World (+2.6%) and [MSCI USA](#) (+3.9%) continued to perform quite well. After a slight inflation scare at the end of Q1 and the start of Q2, markets veered back to known territory, with large tech mega caps and semiconductors leading the way. The U.S. continues to lead despite the continuous postponement of rate cuts, thanks to a robust economy and inflation firmly on a downward path. Emerging markets ended up performing the strongest during the quarter, with [MSCI EM](#) gaining 5%.

Factor performance also highlights this form of consistency from the markets:

- Overall growth, momentum and quality continued to do well in developed markets, with growth taking the lead.
- In the U.S., small-cap and value suffered from the continuing postponement of rate cuts. They posted the deepest underperformance in Q2.
- In Europe, growth stocks did not lead the way. Momentum and quality posted the strongest returns, followed by minimum volatility.
- In emerging markets, momentum was the strongest, while growth faded away after a strong Q1. Value, however, rebounded strongly, followed by high-dividend stocks.

Figure 1: Equity Factor Outperformance in Q2 2024 across Regions

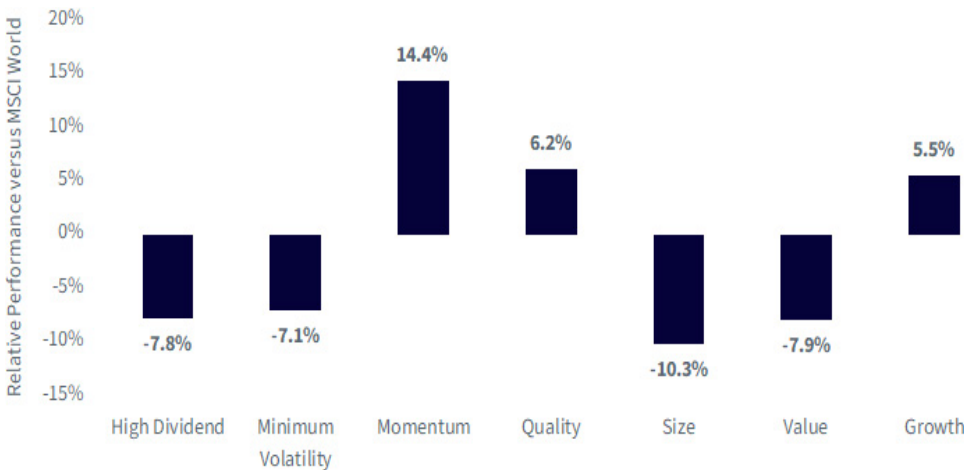
	World Q2 2024: 2.6%	U.S. Q2 2024: 3.9%	Europe Q2 2024: 1.3%	Emerging Markets Q2 2024: 5.0%
High Dividend	-4.1%	-5.9%	0.7%	1.1%
Minimum Volatility	-3.5%	-3.3%	0.8%	-2.4%
Momentum	2.4%	0.5%	1.1%	5.5%
Quality	3.0%	1.4%	1.3%	-1.5%
WisdomTree Quality	-1.0%	-1.2%	-0.7%	-0.7%
Size	-5.4%	-7.5%	0.1%	0.9%
Value	-5.5%	-8.1%	-0.6%	2.2%
Growth	3.7%	5.4%	-0.6%	-6.9%

Sources: WisdomTree, Bloomberg, 3/31/24-6/30/24. Calculated in U.S. dollars for all regions except Europe, where calculations are in EUR. Past performance is not indicative of future results.

YTD Factor Performance: More of the Same in May and June

Year to date, MSCI world is up 11.7%, and the leading factors are momentum, quality and growth. All other factors are underperforming. In the first six months of the year, it is clear that the success of a given factor is intimately linked to its investment in the Magnificent 7. All three factors that have outperformed are over-weighted in the Magnificent 7. Growth is the most over-weighted, but momentum also exhibited 5.7% more of the Mag 7 than the benchmark, and quality was over-weighted by 2.4%. The remaining factors that underperformed were all under-weighted, from high-dividend with an underweight of -13% to value and small-cap, which do not invest at all in the Magnificent 7.

Figure 2: Equity Factor Outperformance in 2024



Sources: WisdomTree, Bloomberg, 12/31/23-6/30/24. Calculated in U.S. dollars for all regions except Europe, where calculations are in EUR. Past performance is not indicative of future results.

This dominance of large caps and large-cap tech is particularly evident when comparing the relative performance of the S&P 500 and the S&P 500 Equal weight Indexes. After a short period of dominance in 2022, the S&P 500 Equal weight has been crushed by its market cap equivalent. In 2024, we observed a slight pause at the beginning of Q2, but in May and June, the S&P 500 accelerated even further, outperforming the S&P 500 Equal Weight by 2.1% over the two-month period.

Figure 3: Relative Performance of the S&P 500 Equal Weight vs. the S&P 500



Sources: WisdomTree, Bloomberg, 12/31/21-6/30/24. Calculated in U.S. dollars for all regions except Europe, where calculations are in

EUR. Past performance is not indicative of future results.

Valuations Decreased in the U.S. in Q2

In Q2 2024, developed markets became slightly more expensive. But again, the impact of large-cap tech was overwhelming. Those stocks became more expensive, leading factors like growth and quality to also become more expensive. On the contrary, the valuation of the rest of the market declined, leading to very attractive levels for a large portion of U.S. equities. Europe’s valuations moved down, on average.

Emerging markets, however, became more expensive across the board, with small caps and quality stocks leading the way.

Figure 4: Historical Evolution of Price-to-Earnings Ratios of Equity Factors

	World		U.S.		Europe		Emerging Markets	
	P/E Ratio	Δ3Months	P/E Ratio	Δ3Months	P/E Ratio	Δ3Months	P/E Ratio	Δ3Months
Market	19.8	📈 0.4	22.6	📈 0.9	14.2	📉 -0.2	13.2	📈 0.6
High Dividend	13.7	📉 -0.5	16.1	📉 -0.4	10.6	📉 -0.7	9.0	📈 0.5
Minimum Volatility	17.2	📉 -0.5	19.4	📈 0.6	15.4	📉 -0.9	14.5	📈 1.0
Momentum	22.0	📉 -0.4	24.6	📉 -3.6	15.3	📈 1.1	15.0	📈 1.1
Quality	25.5	📈 1.2	26.1	📈 1.0	20.6	📈 0.5	18.6	📈 1.5
Size	17.6	📉 -0.1	20.8	📉 -0.3	13.4	📈 0.1	15.4	📈 1.5
Value	10.2	📉 -0.4	7.3	📉 -0.2	8.5	📉 -0.3	7.0	📈 0.6
Growth	30.0	📈 2.2	33.6	📈 3.0	25.1	📈 1.2	26.9	📈 1.0

Sources: WisdomTree, Bloomberg, as of 6/30/24. Past performance is not indicative of future results. World is proxied by MSCI World net TR Index. US is proxied by MSCI USA net TR Index. Europe is proxied by MSCI Europe net TR Index. Emerging Markets is proxied by MSCI Emerging Markets net TR Index. Minimum Volatility is proxied by the relevant MSCI Min Volatility net total return index. Quality is proxied by the relevant MSCI Quality net total return index. Momentum is proxied by the relevant MSCI Momentum net total return index. High Dividend is proxied by the relevant MSCI High Dividend net

total return index. Size is proxied by the relevant MSCI Small Cap net total return index. Value is proxied by the relevant MSCI Enhanced Value net total return index.

WisdomTree Quality is proxied by the relevant WisdomTree Quality Dividend Growth Index.

Looking forward to Q3 2024

As we look forward to the second half of the year, we note three potential catalysts for the long-awaited broadening of the market and, with it, some form of small-cap and value revival. First, the Federal Reserve is finally moving toward its first cut, which is widely anticipated to happen in September. Such a cut would benefit less-profitable companies that form a large part of the small-cap universe and further boost this market segment. Second, the gap in earnings growth expectations between the Magnificent 7 and the rest of the market is closing toward the end of the year. This should create opportunities for stocks outside those seven mega caps to captivate investors' attention. Finally, the U.S. presidential election creates significant uncertainty that weighs on the market. Historically, it shows that once the election's results are known, whatever the results, uncertainty lifts, and this very often creates a late-year rally as well as a small-cap rally. A balanced approach allowing for investment outside of large-cap mega caps could allow investors to benefit from such a broadening.

Pierre Debru is an employee of WisdomTree UK Limited, a European subsidiary of WisdomTree Asset Management Inc.'s parent company, WisdomTree, Inc.

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.

Related Blogs

- + [Looking Back at Equity Factors in Q1 2024 with WisdomTree](#)
- + [Looking Back at Equity Factors in Q4 2023 with WisdomTree](#)
- + [Looking Back at Equity Factors in Q3 2023 with WisdomTree](#)

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

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

IMPORTANT INFORMATION

U.S. investors only: Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages (www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only. You cannot invest directly in an index.

DEFINITIONS

MSCI World Index: Captures large and mid-cap representation across 23 Developed Markets (DM) countries.

MSCI USA Index: is designed to measure the performance of large and mid cap segments of the US market.

MSCI Emerging Markets Index: a broad market cap-weighted Index showing performance of equities across 23 emerging market countries defined as “emerging markets” by MSCI.