PAIN IS BEING METED OUT IN THIS "ICEBERG MARKET"

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The S&P 500 is near all-time highs, Tesla is off to the races and Apple's market cap just popped above $3 trillion.

Things are good.

What's with the talk of icebergs? Things may look okay above the surface, but below it, there's trouble.

While the S&P 500 is just off its highs, the small-cap Russell 2000 Index has no shortage of stocks that are tumbling. Since that index's high on November 8, 2021, nearly half of its members (922 to be exact) have declined 10% or more, with 571 of them down more than 20%. About 9% of all the stocks in that index have fallen by more than 40%—in about two months.

One of the "pain" stocks is Peloton, purveyor of stay-at-home exercise bikes. It has cratered to around $31 in a total nightmare of a ride from last winter's highs in the $160s.

Another lockdown play, Zoom, has tumbled to $160 from as high as $559 a little more than a year ago.

If lockdown stocks like Peloton and Zoom are cratering, you'd think maybe it's because "reopening stocks" are catching a bid. Not exactly. Among the S&P 500's worst performers in the last three months are Penn National and Caesars, both in the casino business. You can fly to their facilities on Southwest, whose stock is down to $46 from $64 last spring. Two cruise lines, Norwegian and Carnival, are also notable for having recently fallen out of bed.

This is happening inside a market that is up, and up good. The fourth quarter was a wonderful one: the Russell 1000 returned about 10%.

Funny then that a market that witnessed that index rocketing saw the higher-quality S&P 500 rally more, by 11.5%. It shouldn't happen that way. Most people anticipate that quality stocks are supposed to earn their stripes when the market is tumbling, not when it witnesses sharp advances.

But that's the thing—when stocks like Tesla, NVIDIA, Advanced Micro Devices and Apple are all in huge bull trends, gathering the headlines because of their sheer size, investors are not apprised of the fact that the under-the-surface part of the iceberg is wreaking havoc.

You can see the deterioration in lower-quality, speculative stocks by making a comparison between the Russell and S&P families in recent months.

In figure 1, eight of nine style boxes have witnessed the higher quality S&P indexes post a higher return than their Russell counterparts.

Figure 1: U.S. Stock Market Total Return, 9/30/2021 – 12/28/2021

Russell Family	Value	Core	Growth
Large	7.6%	10.2%	12.6%
Mid	8.2%	6.3%	2.9%
Small	4.2%	2.1%	0.1%

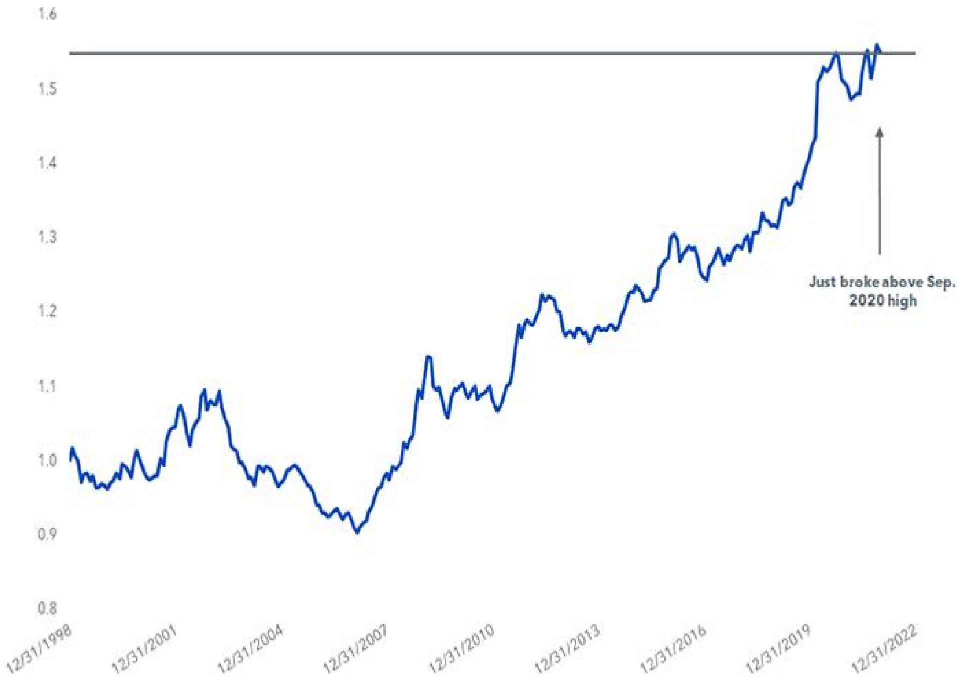
S&P Family	Value	Core	Growth
Large	8.2%	11.5%	14.5%
Mid	7.7%	7.6%	7.3%
Small	4.5%	5.7%	6.7%

Color-Coding: Head-to-Head vs. Same Style Box in Other Family

Source: Refinitiv, as of 12/28/21. Past performance does not guarantee future results. The referenced indices are shown for informational purposes only and are not meant to represent the Fund. Investors cannot directly invest in an index.

In global baskets, the relative performance of the quality sub-basket of the MSCI All Country World Index (ACWI) just broke out to new highs, courtesy of the iceberg's subterranean strugglers holding back the beta indexes.

Figure 2: MSCI ACWI Quality Relative to MSCI ACWI (Total Return)



Source: Refinitiv, as of 1/6/22. Indexes are net total return.

In 2021, stocks that ranked highly on the sum of their dividend yield plus buyback yield—their shareholder yield—took leadership in 2021. These stocks—the 20% of companies with the highest shareholder yield, returned 28.7% last year, or about 550 basis points more than the broad market. Companies that pay zero dividends and/or dilute their stockholders had the worst run of 2021.

In these early sessions of 2022, they continue to be a headache for the market.

Figure 3: S&P 500 Returns by Shareholder Yield (Sum of Dividend & Buyback Yields)

Grouping	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021*	Total Period
Highest Shareholder Yield	-37.7%	37.0%	10.1%	9.3%	22.2%	33.0%	13.6%	-0.1%	21.0%	21.6%	-9.3%	40.9%	-2.8%	28.7%	11.3%
2nd Quintile	-27.7%	15.0%	13.8%	5.1%	14.9%	34.4%	10.6%	-0.4%	17.1%	21.0%	-5.2%	26.3%	28.0%	20.4%	11.3%
3rd Quintile	-31.7%	20.5%	9.8%	3.1%	12.5%	28.8%	15.6%	-2.3%	9.8%	17.9%	-2.5%	27.3%	1.5%	27.2%	8.6%
4th Quintile	-38.7%	20.1%	18.5%	5.5%	13.1%	34.5%	14.8%	-4.1%	9.5%	17.8%	0.0%	35.7%	21.4%	18.9%	10.2%
Lowest Shareholder Yield	-38.0%	36.8%	17.2%	-14.0%	12.9%	21.8%	17.0%	-4.2%	8.2%	28.9%	-10.0%	29.0%	29.5%	26.6%	9.4%
Zero & Neg. Yield	-57.7%	45.3%	27.6%	-4.9%	29.8%	39.5%	11.6%	16.9%	6.3%	31.5%	7.6%	24.8%	48.8%	16.4%	13.4%
S&P 500	-37.0%	26.5%	15.1%	1.1%	16.0%	32.4%	13.7%	1.4%	12.0%	21.8%	-4.4%	31.5%	18.4%	23.2%	10.7%

Source: WisdomTree, with 2021 data through November.

We have noticed a downside/upside capture phenomenon in the WisdomTree U.S. Value Fund (WTV), which screens for shareholder yield and the WisdomTree U.S. Quality Dividend Growth Fund (DGRW). In recent months, the market's down days often saw WTV and DGRW hold up better than the S&P. Then they would lag on a chunk of the up days (figure 4).

Figure 4: WTV & DGRW Performance since September 2

	Market Down Days	Market Up Days
WTV Outperform #	28	16
S&P 500 Outperform #	17	35
	Market Down Days	**Market Up Days**
DGRW Outperform #	28	14
S&P 500 Outperform #	17	37

Source: Refinitiv, 9/2/21– 1/11/22.

Performance data quoted represents past performance and is no guarantee of future results. Current performance may be lower or higher than the performance data quoted. Investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than original cost. Returns less than one year are not annualized. For current standard performance, holdings and expenses, visit the fund page: WTV, DGRW.

Summary

If 2022 looks anything like the final few months of 2021 and the first couple weeks of 2022, be careful with companies that check the boxes for speculation: zero earnings, super-sensitivity to interest rates, shareholder dilution. Such stocks have been severely punished in recent months.

Take a look at the methodology for WTV; its components are buying back about 5% of their stock, which amounts to a large bidder in a market that has become unsettled. For comparison, the S&P's buyback yield is 1.4%.

WTV's 15th birthday is in February, so you'll have a pre-Lehman collapse inception date to work with.

Unless otherwise stated, all data as of 1/6/22.

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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.

Small caps : new or relatively young companies that typically have a market capitalization between $200 million to $2 billion.

Russell 2000 Index : Measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

Russell 1000 Index : A measure of the performance of the 1,000 largest companies by market capitalization in the Russell 3000 Index.

Baskets : The composition of an ETF in terms one creation/redemption unit.

MSCI All Country World Index : a broad global equity benchmark that represents large and mid-cap equity performance across 23 developed and emerging market countries.