
HAS THE MARKET GOTTEN AHEAD OF ITS FUNDAMENTALS?

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At this time each year, while the market confounds investors and scales new heights, I like to reflect on the constant talk that market prices look expensive. One narrative has been that the market was driven by global [liquidity](#), [monetary policy](#) and the [U.S. Federal Reserve \(Fed\)](#)—and as the Fed continues along its path to hike [interest rates](#), we'd see less support for market prices.

The chart below shows that these last seven to eight years have NOT been just a Fed-driven market, but rather that there have been solid [fundamental](#) signs underpinning the market rally. The chart tracks the growth of the Indicated [Dividend Stream](#)[®] for the U.S. markets (measured by the indicated [dividends](#) of the [WisdomTree Dividend Index](#)) and compares it to general trends in market prices.¹

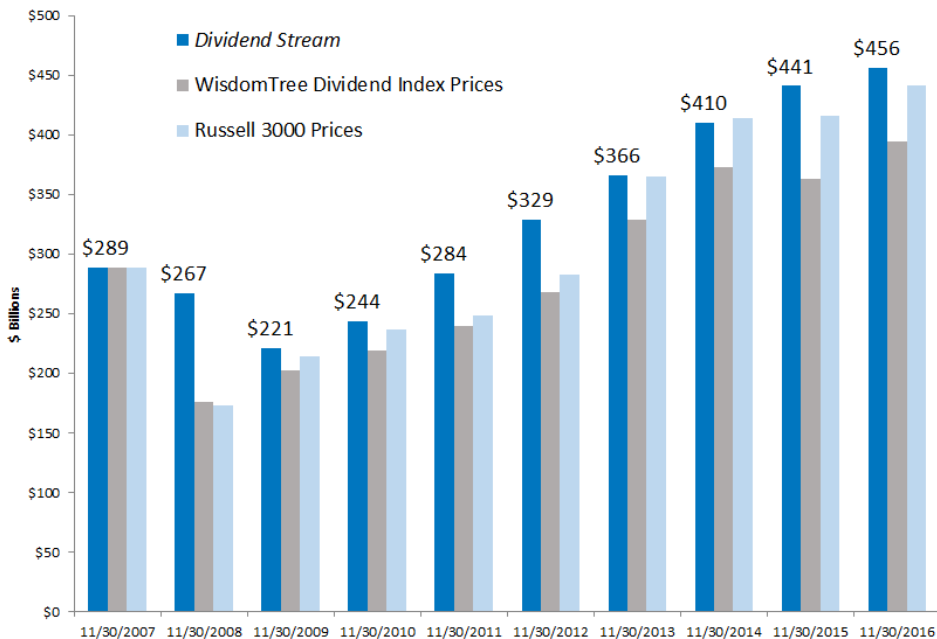
Dividend Growth Outpacing Price Growth

Dividend Growth: In the last nine years, the indicated *Dividend Stream* has grown 58%, from \$289 billion to \$456 billion. This was higher than price growth over the same period.

Price Growth: Tracking the market price change—measured by price changes on the [Russell 3000 Index](#)—market prices did not keep pace, only growing at a clip of around 53%.

Using a dividend change versus price change model, one could say the market has gotten less expensive on a price-to-dividend basis, as dividends grew faster than market prices. This is the underlying fundamental support I refer to in saying this was not just a Fed-driven market.

Dividend vs. Price Trends

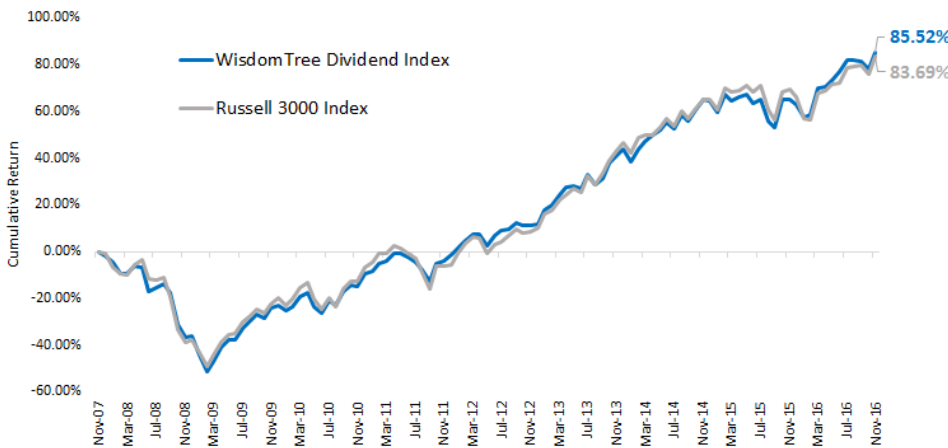


Sources: WisdomTree, Bloomberg, 11/30/07–11/30/16. Past performance is not indicative of future results. You cannot invest directly in an index.

Dividend Stream: refers to the regular dividends per share multiplied by the number of shares outstanding for the WisdomTree Dividend Index. WisdomTree and Russell Price Index values are rebased or "reset" to match starting dividend stream value for growth comparison purposes. Instead of starting at a common value like 0 or 100 for all, we have chosen to start the growth chart at \$289, which was the dividend stream level as of 11/30/07. WT Dividend Index Prices refers to the price level of the WisdomTree Dividend Index. Russell 3000 Prices refers to the price level of the Russell 3000 Index.

Note: Price levels of dividend payers (the WisdomTree Dividend Index) were up 36.6%, which is less than those of a broad market such as the Russell 3000. But the higher average dividend yields over this nine-year period more than made up for the slower price growth on a total return basis, and total returns for the WisdomTree Dividend Index over these last nine years were slightly ahead of the Russell 3000.

Index Performance



Sources: WisdomTree, Bloomberg, 11/30/07–11/30/16. Past performance is not indicative of future results. You cannot invest directly in an index.

For standardized performance of the [WisdomTree Dividend Index](#), click here.

Future Trends for Dividends

We recently highlighted that [this year's growth in the total indicated Dividend Stream was the slowest growth since 2010](#), perhaps leading to some concern that the fundamentals underpinning this market higher are turning into a market headwind.

But WisdomTree believes dividends are likely to stay in focus over the coming years, as new corporate tax policy takes center stage. Both the reduction in the effective tax

rate that President-elect Trump says he will focus on as well as plans to encourage U.S. firms to repatriate some of their foreign cash that has yet to be taxed in the U.S. should continue to bolster U.S. dividend growth prospects. While dividend growth was averaging double digits for a number of years, it is unlikely to be able to sustain those levels for more than short periods, and we believe we could see dividend growth at above-average rates over the coming four to five years. This would continue to be supportive for the markets.

¹The WisdomTree Dividend Index approximates the dividends paid from the U.S. markets, and thus, tracking price trends of a broad index of the U.S. markets (the [Russell 3000 Index](#)) is an apt way to compare price trends and dividend trends.

Important Risks Related to this Article

Dividends are not guaranteed, and a company currently paying dividends may cease paying dividends at any time.

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.

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DEFINITIONS

Liquidity: The degree to which an asset or security can be bought or sold in the market without affecting the asset's price. Liquidity is characterized by a high level of trading activity. Assets that can be easily bought or sold are known as liquid asset.

Monetary policy: Actions of a central bank or other regulatory committee that determine the size and rate of growth of the money supply, which in turn affects interest rates.

Federal Reserve: The Federal Reserve System is the central banking system of the United States.

Interest rates: The rate at which interest is paid by a borrower for the use of money.

Fundamentals: Attributes related to a company's actual operations and production as opposed to changes in share price.

Dividend Stream: Refers to the regular dividends per share multiplied by the number of shares outstanding.

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

Russell 3000 Index: Measures the performance of the 3,000 largest U.S. companies based on total market capitalization.