

HIGH DIVIDENDS: SHORTENING EQUITY DURATION

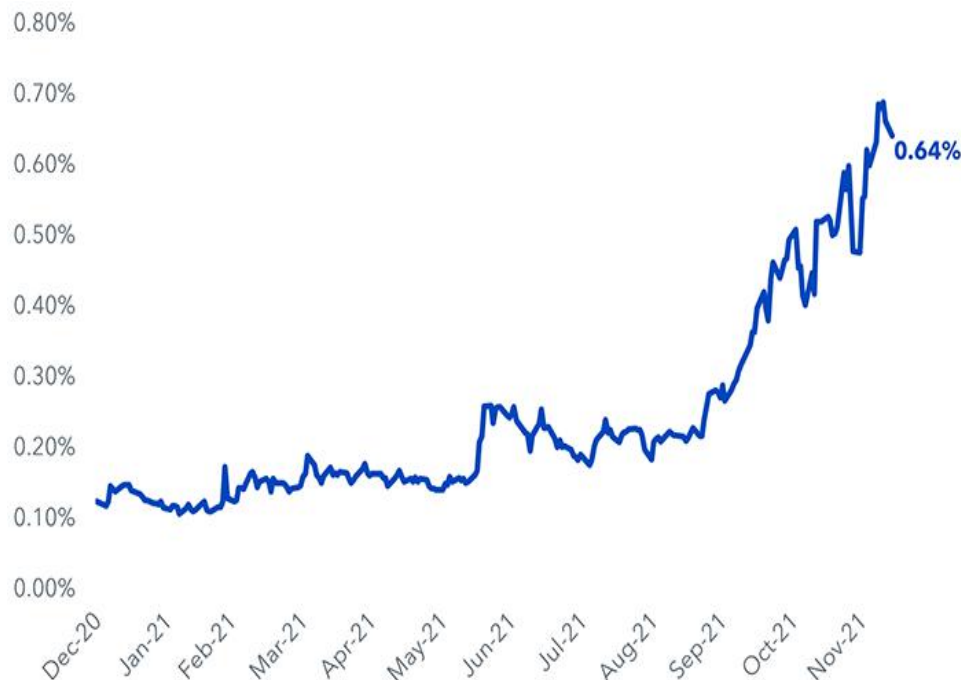
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The [Fed](#) may not be pulling away the punch bowl just yet, but it’s also not adding more juice to it.

At the conclusion of last week’s [FOMC](#) meeting, Fed Chair Powell announced that [the committee anticipates three rate hikes](#) in 2022.

Indications that the Fed will more seriously act to combat rampant [inflation](#) has led the policy-sensitive 2-Year yield to spike higher.

2-Year U.S. Treasury Yield

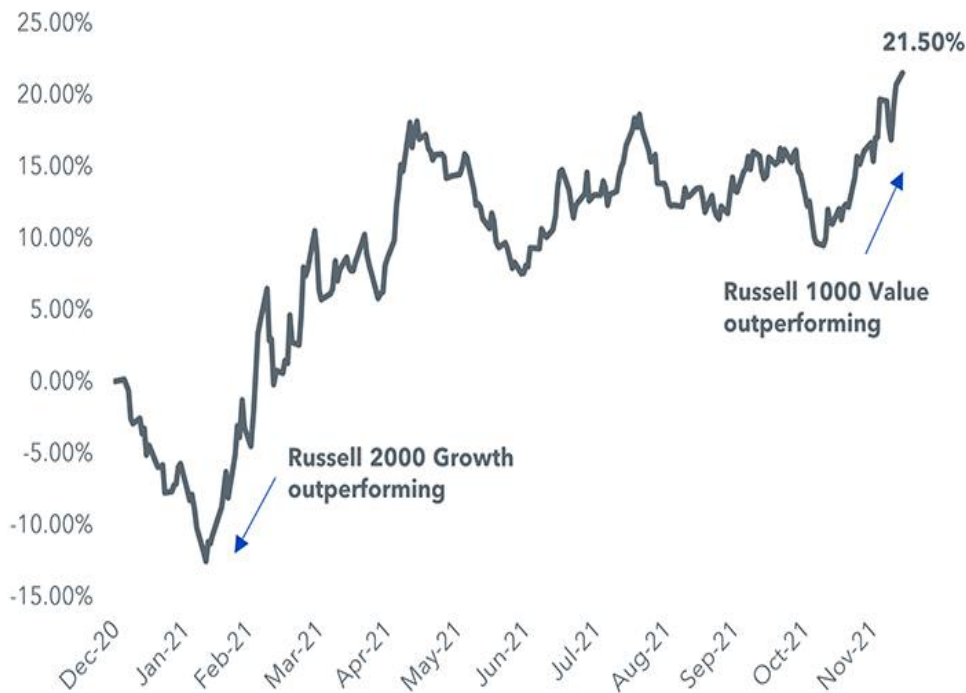


Sources: WisdomTree, Barclays, 12/31/20-12/10/21.

Higher rates have caused unprofitable, high-growth companies to fall into a tailspin as far-out cash flows get discounted at higher rates.

This trend can be seen in the significant outperformance of the [Russell 1000 Value Index](#) relative to the [Russell 2000 Growth Index](#) over the past several weeks.

Russell 1000 Value vs. Russell 2000 Growth



Sources: WisdomTree, Russell, 12/31/20-12/10/21. You cannot invest directly in an index. Past performance is not indicative of future returns.

The interest rate sensitivity, or [duration](#), of equities can be measured by the inverse of the [dividend yield](#) of an index (1/dividend yield), or the number of years of dividends it would take to recover the current price.

An index with a higher duration (low-dividend yield) may be more *negatively impacted* by a move higher in rates. Conversely, a company with a lower duration (high-dividend yield) may be more *positively impacted* by a move higher in rates.

Since March 2020, the rate sensitivity of high-growth stocks has substantially increased. The equity duration of the Russell 2000 Growth Index has skyrocketed from 107 years to more than 300.

The duration of value stocks has also increased but at a more subdued rate.

Equity Duration (Years)



Sources: WisdomTree, Russell, S&P, 4/30/02–11/30/21. Equity duration = 1/dividend yield. You cannot invest directly in an index. Past performance is not indicative of future returns.

High Dividends Can Lower Rate Risk

On December 14, the [WisdomTree U.S. High Dividend Index](#) executed its annual rebalance. It had a modest impact on the characteristics of the Index.

The Index has a dividend yield greater than 4%—well over twice that of the Russell 1000 Value Index. That equates to a duration of 25 versus the duration of 54 for the Russell 1000 value.

And the Index also has higher profitability metrics ([ROE/ROA](#)) than the Russell 1000 Value Index.

Fundamentals

| Characteristics | Pre-Rebalance | Post-Rebalance | Russell 1000 Value | S&P 500 |
|--|---------------|----------------|--------------------|--------------|
| Size | | | | |
| Weighted Average Market Cap (\$bn) | \$109.98 | \$117.26 | \$140.37 | \$617.52 |
| Median Market Cap (\$bn) | \$2.96 | \$4.09 | \$12.70 | \$31.98 |
| Over \$10 billion | 86.46% | 89.30% | 92.29% | 99.26% |
| \$2 billion - \$10 billion | 10.90% | 8.54% | 7.69% | 0.74% |
| Under \$2 billion | 2.64% | 2.16% | 0.02% | 0.00% |
| Valuation & Other Characteristics | | | | |
| Price/Earnings (Trailing) | 14.25 | 14.36 | 18.65 | 24.92 |
| Price/Earnings (Forward) | 12.11 | 12.17 | 15.83 | 21.23 |
| Price/Book | 2.62 | 2.51 | 2.64 | 4.87 |
| Price/Sales | 2.04 | 1.87 | 1.95 | 3.07 |
| Dividend Yield | 4.21% | 4.07% | 1.92% | 1.28% |
| Return on Equity | 15.87% | 15.21% | 13.37% | 18.16% |
| Return on Assets | 2.92% | 3.05% | 2.68% | 3.95% |
| Number of Holdings | 313 | 387 | 849 | 505 |

Sources: WisdomTree, Russell, FactSet, as of 11/30/21. The Index rebalance took place after the close on December 14, 2021. You cannot invest directly in an Index.

From a sector perspective, the Index added heavily to Energy (+14%) and Health Care (+4%) while trimming from Info Tech (-10%) and Comm Services (-4%).

Sector weights

| Sector | Pre-Rebalance | Post-Rebalance | Russell 1000 Value |
|------------------------|---------------|----------------|--------------------|
| Health Care | 14.21% | 18.49% | 17.52% |
| Consumer Staples | 18.90% | 17.51% | 7.10% |
| Financials | 17.67% | 16.60% | 21.46% |
| Energy | 1.00% | 15.03% | 5.23% |
| Utilities | 13.03% | 12.53% | 4.95% |
| Communication Services | 9.37% | 5.00% | 7.42% |
| Real Estate | 5.76% | 5.00% | 4.95% |
| Information Technology | 13.22% | 3.40% | 10.16% |
| Industrials | 3.52% | 3.01% | 11.66% |
| Materials | 2.23% | 2.34% | 3.79% |
| Consumer Discretionary | 1.08% | 1.09% | 5.76% |

Sources: WisdomTree, Russell, FactSet, as of 11/30/21. The Index rebalance took place after the close on December 14, 2021. You cannot invest directly in an Index.

The oil majors Exxon and Chevron were added back to the Index after being removed at last year’s rebalance based on a [proprietary screen of dividend riskiness](#). Combined, these two holdings make up nearly 10% of the 14% addition to the Energy sector.

Broadcom, a steady dividend payer/grower, was removed, as its more than 40% return since last year’s rebalance dropped its dividend yield from 3.24% to 2.55%, removing it from the high-dividend-yield universe.

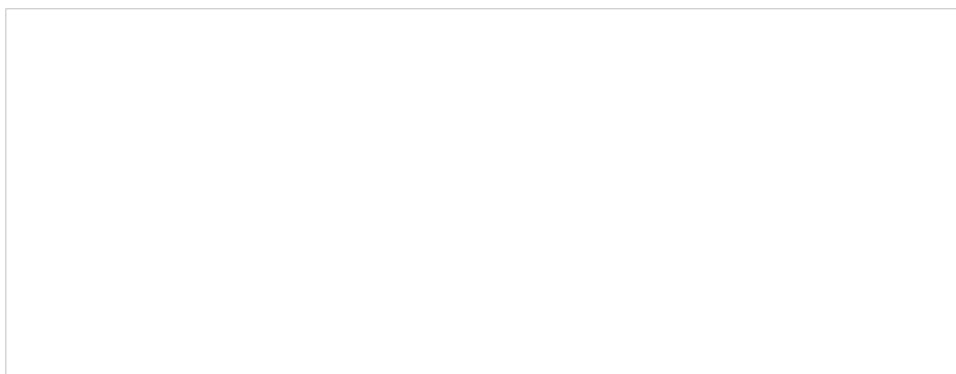
AT&T (8.71% yield), IBM (5.34% yield) and Lumen Technologies (7.72% yield) were all screened out of the Index based on the Index risk screen. Dropping these names contributed to modestly lowering the overall Index yield from 4.21% to 4.07%, as the Index aims to hold more sustainable dividend payers as opposed to merely the highest yielders.

Top Adds/Drops

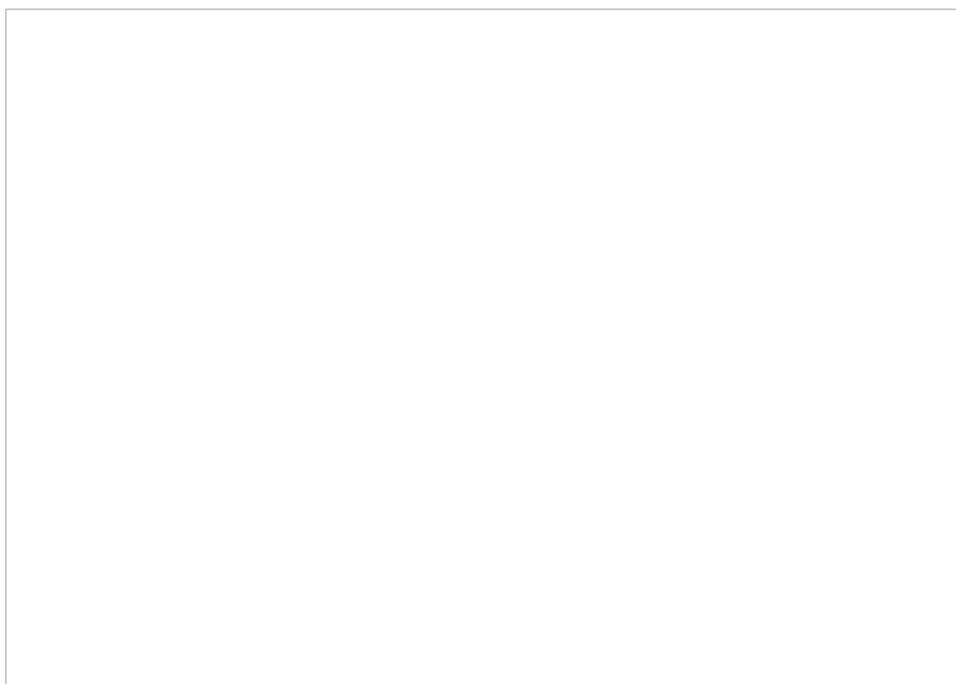
| Top 5 Additions | | | Top 5 Drops | | |
|----------------------|--------|-------------|--------------------|--------|------------------------|
| Name | Weight | Sector | Name | Weight | Sector |
| Exxon Mobil | 5.39% | Energy | Broadcom Inc. | 4.08% | Information Technology |
| Chevron | 4.26% | Energy | AT&T Inc. | 3.66% | Communication Services |
| Merck | 2.88% | Health Care | IBM | 3.11% | Information Technology |
| Morgan Stanley | 2.07% | Financials | Lumen Technologies | 0.76% | Communication Services |
| Bristol-Myers Squibb | 1.80% | Health Care | Public Storage | 0.65% | Real Estate |

Sources: WisdomTree, Russell, FactSet. The Index rebalance took place after the close on December 14, 2021. You cannot invest directly in an Index.

WisdomTree has a family of dividend-weighted Indexes, several of which have more than 15 years of live track record.



A Fed hiking cycle is likely to favor value as shorter-duration/high yielders become more attractive with increases in short-term rates. Among WisdomTree's family of domestic dividend Indexes, the WisdomTree U.S. High Dividend Index fits the bill as having the greatest value/income tilt with a yield advantage of nearly 280 [basis points \(bps\)](#) relative to the [S&P 500](#).



Important Risks Related to this Article

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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 Funds

+ [WisdomTree U.S. High Dividend Fund](#)

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

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DEFINITIONS

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

Federal Open Market Committee (FOMC): The branch of the Federal Reserve Board that determines the direction of monetary policy.

Rate Hike: refers to an increase in the policy rate set by a central bank. In the U.S., this generally refers to the Federal Funds Target Rate.

Inflation: Characterized by rising price levels.

Russell 1000 Value Index: A measure of the large-cap value segment of the U.S. equity universe, selecting from the Russell 1000 Index.

Russell 2000 Growth Index: Measures the performance of the small-cap growth segment of the U.S. equity universe. It includes those Russell 2000 Index companies with higher price-to-book ratios and higher forecasted growth values.

Duration: A measure of a bond's sensitivity to changes in interest rates. The weighted average accounts for the various durations of the bonds purchased as well as the proportion of the total government bond portfolio that they make up.

Dividend yields: Refers to the trailing 12-month dividend yield. Dividends over the prior 12 months are added together and divided by the current share price. Higher values indicate more dividends are being generated per unit of share price.

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

Return on assets (ROA): Firm profits (after accounting for all expenses) divided by the firm's total assets. Higher numbers indicate greater profits relative to the level of assets utilized to generate them.

Basis point: 1/100th of 1 percent.

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.