

A SURPRISING REBALANCE SEASON FOR S&P STYLE INDEXES

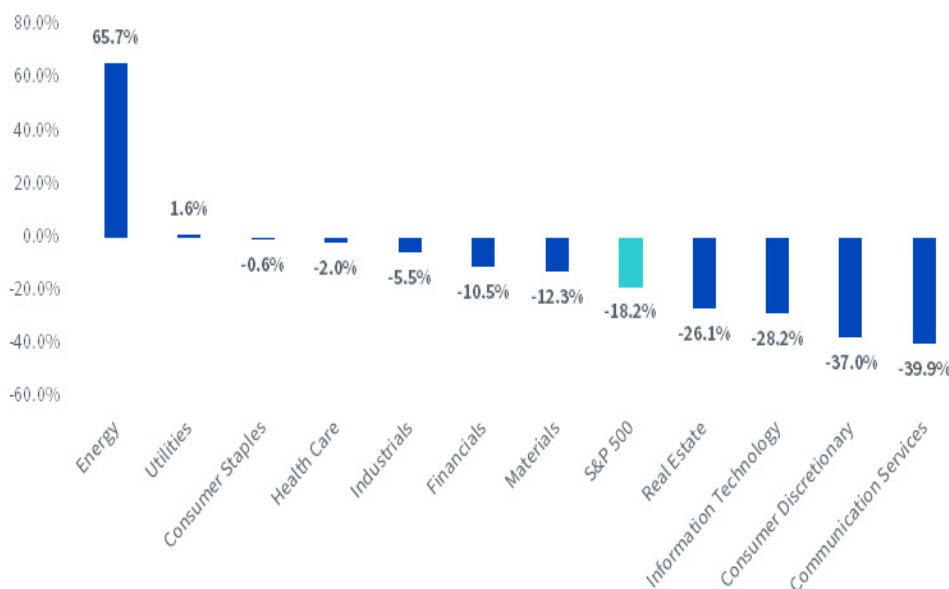
Jeremy Schwartz – Global Chief Investment Officer
01/05/2023

The S&P family of [growth](#) and [value](#) style indexes conducted its annual rebalance in December, and there were some surprising twists and perhaps unexpected turnover this cycle.

Notably, value indexes outperformed growth indexes across the board in 2022, as fears about elevated [valuations](#) in technology stocks dominated markets.

Energy stocks were the lone, large, bright spot, but defensive sectors like utilities, Consumer Staples and Health Care also outperformed the broader [S&P 500](#).

2022 S&P 500 Sector Total Returns



Sources: WisdomTree, Bloomberg, as of 12/31/22. Past performance is not indicative of future results. You cannot invest directly in an index.

Despite Energy stocks remaining among the lowest sector valuations, the S&P value indexes dramatically reduced their weight while the growth indexes added *more* Energy exposure.

Below we will review Index composition changes across the [large-cap](#) (S&P 500), [mid-cap](#) (S&P MidCap 400) and small-cap (S&P SmallCap 600) benchmarks in the S&P family and explain what aspects of their style methodology caused these surprising shifts.

Within large-cap and the S&P 500 style benchmarks:

- In the [S&P 500 Value Index](#), the greatest reductions in weight occurred in Health Care (-8.3%), Energy (-6.5%) and Consumer Staples (-4.4%). Those were three of the top four performing sectors in 2022.

- Meanwhile, three of the four sectors with the worst performance in 2022 (Information, Technology, Communication Services and Consumer Discretionary) received the largest increases in exposure.
- These same shifts were mirrored in the [S&P 500 Growth Index](#), as the biggest increases in exposure included Health Care, Energy and Consumer Staples, while Technology sectors saw the greatest reduction in weight.

S&P 500 Value Index Sector Exposure	Pre Rebalance (12/16)	Post Rebalance (12/19)	Change (%)
Health Care	17.7%	9.4%	-8.3%
Energy	8.2%	1.6%	-6.5%
Consumer Staples	11.7%	7.2%	-4.4%
Materials	3.7%	3.2%	-0.5%
Industrials	12.7%	12.4%	-0.3%
Utilities	5.8%	6.0%	0.2%
Real Estate	3.1%	4.8%	1.6%
Communication Services	5.3%	8.0%	2.7%
Consumer Discretionary	6.6%	10.5%	3.9%
Financials	14.7%	20.1%	5.4%
Information Technology	10.6%	16.8%	6.2%

S&P 500 Growth Index Sector Exposure	Pre Rebalance (12/16)	Post Rebalance (12/19)	Change (%)
Information Technology	44.3%	34.7%	-9.5%
Consumer Discretionary	14.3%	9.7%	-4.6%
Financials	7.5%	3.5%	-3.9%
Communication Services	9.5%	6.7%	-2.8%
Real Estate	2.3%	0.9%	-1.5%
Utilities	0.0%	0.6%	0.5%
Materials	1.5%	2.2%	0.7%
Industrials	3.8%	5.1%	1.4%
Consumer Staples	1.9%	7.1%	5.2%
Energy	1.4%	8.0%	6.6%
Health Care	13.5%	21.4%	7.9%

Source: WisdomTree, as of 12/31/22. You cannot invest directly in an index.

Notably, these shifts in Technology becoming more heavily weighted in value benchmarks, and Energy becoming more dominant in growth was not based on actual valuations.

Energy, despite being the cheapest sector in the market by [price-to-earnings \(P/E\)](#) multiple, became the lowest-weighted sector in the S&P 500 Value Index.

The Technology, Consumer Discretionary and Communications Services sectors had the highest P/E ratios despite receiving the largest increase in weight in the value benchmark.

Fundamentals - as of 12/31/22

Index/S&P Sectors	Price-to-Earnings	Est. Price-to-Earnings
Comm. Svcs.	14.91	14.78
Cons. Disc.	22.08	25.91
Cons. Staples	21.35	23.61
Energy	9.57	8.49
Financials	12.46	13.55
Health Care	17.65	21.04
Industrials	18.33	23.13
Info. Tech.	21.13	23.81
Materials	16.04	14.23
Real Estate	35.55	25.10
Utilities	19.56	21.06
Russell 1000 Growth	22.23	25.95
Russell 1000 Value	14.64	15.62
S&P 500	17.40	18.83

Source: WisdomTree, FactSet, S&P, Russell. You cannot invest directly in an index.

What explains the shifting sector weights, then? The below grid lists the [factors](#) in the S&P style family. Price [momentum](#) is one of the key growth factors utilized; clearly, that factor was an outlier in driving turnover.

The intersection of the S&P growth and value factor scores caused the Energy stocks to become weighted more heavily in growth, overcoming their low valuations.

Index Construction

Evaluating Growth and Value at the Company Level

Style Factors. The Style indices measure growth and value along two separate dimensions, with three factors each used to measure growth and value. The list of factors used is outlined in the table below.

Growth Factors	Value Factors
Three-Year Net Change in Earnings per Share (Excluding Extra Items) over Current Price	Book Value to Price Ratio
Three-Year Sales per Share Growth Rate	Earnings to Price Ratio
Momentum (12-Month % Price Change)	Sales to Price Ratio

Source: S&P style benchmark methodology guide. You cannot invest directly in an index.

Technology, although priced at high multiples, had such negative momentum that its growth scores plummeted enough to become more value-heavy in S&P's scoring system.

These changes were not limited to large caps. The tables below show similar shifts occurring in the mid- and small caps.

We see surprising shifts, like Utilities becoming more heavily weighted in the growth benchmarks. Energy and Consumer Staples moving from value to growth also occurred here in mid- and small caps.

S&P 400 Value Index Sector Exposure	Pre Rebalance (12/16)	Post Rebalance (12/19)	Change (%)
Energy	3.6%	0.5%	-3.1%
Utilities	6.3%	4.0%	-2.3%
Consumer Staples	5.9%	3.8%	-2.0%
Materials	6.8%	4.8%	-2.0%

Industrials	19.9%	18.0%	-1.9%
Health Care	7.0%	7.2%	0.2%
Communication Services	1.7%	2.3%	0.6%
Financials	17.6%	19.0%	1.5%
Information Technology	9.4%	11.7%	2.3%
Real Estate	8.9%	11.9%	3.0%
Consumer Discretionary	13.0%	16.7%	3.7%

S&P 400 Growth Index Sector Exposure	Pre Rebalance (12/16)	Post Rebalance (12/19)	Change (%)
Consumer Discretionary	15.8%	11.6%	-4.1%
Information Technology	16.1%	12.1%	-4.0%
Real Estate	6.6%	4.7%	-1.8%
Financials	11.4%	10.7%	-0.7%
Communication Services	2.4%	1.8%	-0.6%
Health Care	13.2%	12.6%	-0.5%
Materials	7.8%	9.6%	1.8%
Consumer Staples	2.0%	4.3%	2.3%
Industrials	19.0%	21.4%	2.5%
Utilities	1.5%	4.0%	2.5%
Energy	4.3%	7.1%	2.7%

S&P 600 Value Index Sector Exposure	Pre Rebalance (12/16)	Post Rebalance (12/19)	Change (%)
Industrials	18.1%	15.7%	-2.3%
Energy	5.8%	3.7%	-2.1%
Materials	7.2%	5.3%	-1.9%
Financials	20.9%	19.6%	-1.3%
Consumer Staples	5.9%	4.6%	-1.3%
Utilities	2.9%	1.7%	-1.2%
Communication Services	1.9%	2.4%	0.5%
Health Care	7.7%	8.3%	0.6%
Information Technology	8.0%	8.7%	0.7%
Real Estate	8.6%	11.9%	3.3%
Consumer Discretionary	12.9%	18.0%	5.1%

S&P 600 Growth Index Sector Exposure	Pre Rebalance (12/16)	Post Rebalance (12/19)	Change (%)
Consumer Discretionary	13.4%	8.0%	-5.4%
Real Estate	7.1%	4.4%	-2.7%
Information Technology	19.1%	17.2%	-1.9%

Health Care	14.9%	14.0%	-0.8%
Communication Services	1.9%	1.4%	-0.4%
Consumer Staples	4.5%	5.8%	1.3%
Utilities	1.6%	3.3%	1.7%
Financials	14.5%	16.3%	1.8%
Materials	3.9%	6.1%	2.1%
Energy	2.9%	5.0%	2.1%
Industrials	16.2%	18.5%	2.3%

Source: WisdomTree, as of 12/31/22. You cannot invest directly in an index.

WisdomTree also rebalanced its equity Index family in December, and we can share more specifics on each rebalance.

If you would like an updated look at valuations, we have a daily market dashboard that shows the P/E ratios of our ETFs against major benchmarks [here](#).

Because of the turnover discussed above, the S&P 500 Value Index only has a single P/E point lower valuation than the S&P 500 (16.4x vs. 17.4x).

The [WisdomTree U.S. High Dividend Fund \(DHS\)](#) has a P/E ratio of 10.8x, more than six points lower than the S&P 500.

The [WisdomTree U.S. LargeCap Dividend Fund \(DLN\)](#) has a P/E ratio about two points lower than the S&P 500 Value Index (14.5 vs. 16.4) and three points lower than the S&P 500.

Again, these same features are mirrored in mid- and small caps, which we believe have attractive valuations overall.

This was quite the interesting rebalance season. It serves as a useful reminder that methodologies matter, and looking under the hood to understand [portfolio composition is important since portfolios are not stagnant](#).

Important Risks Related to this Article

There are risks associated with investing, including the possible loss of principal. Funds focusing their investments on certain sectors increase their vulnerability to any single economic or regulatory development. This may result in greater share price volatility. Dividends are not guaranteed, and a company currently paying dividends may cease paying dividends at any time. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

For the top 10 holdings of DLN please visit the Fund's fund detail page at <https://www.wisdomtree.com/investments/etfs/equity/dln>

For the top 10 holdings of DHS please visit the Fund's fund detail page at <https://www.wisdomtree.com/investments/etfs/equity/dhs>

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. LargeCap Dividend Fund](#)

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

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

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.

Valuation: Refers to metrics that relate financial statistics for equities to their price levels to determine if certain attributes, such as earnings or dividends, are cheap or expensive.

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.

Large-Capitalization (Large-Cap): A term used by the investment community to refer to companies with a market capitalization value of more than \$10 billion. Large cap is an abbreviation of the term "large market capitalization". Market capitalization is calculated by multiplying the number of a company's shares outstanding by its stock price per share.

Mid-Cap: Characterized by exposure to the next 20% of market capitalization (after the top 70% have been removed) within the Value, Blend or Growth style zones with the majority of the fund's weight.

S&P MidCap 400 Index: provides investors with a benchmark for mid-sized companies. The index covers over 7% of the U.S. equity market, and seeks to remain an accurate measure of mid-sized companies, reflecting the risk and return characteristics of the broader mid-cap universe on an on-going basis.

S&P SmallCap 600 Index: Market capitalization-weighted measure of the performance of small cap equities within the United States, with constituents required to demonstrate profitability prior to gaining initial inclusion.

S&P 500 Value Index: A market capitalization-weighted benchmark designed to measure the value segment of the S&P 500 Index.

S&P 500 Growth Index: A market capitalization-weighted benchmark designed to measure the growth segment of the S&P 500 Index.

Price-to-earnings (P/E) ratio: Share price divided by earnings per share. Lower numbers indicate an ability to access greater amounts of earnings per dollar invested.

Momentum: Characterized by assets with recent price increase trends over time. This term is also associated with the Momentum Factor which associates these stock characteristics with excess return vs the market over time.