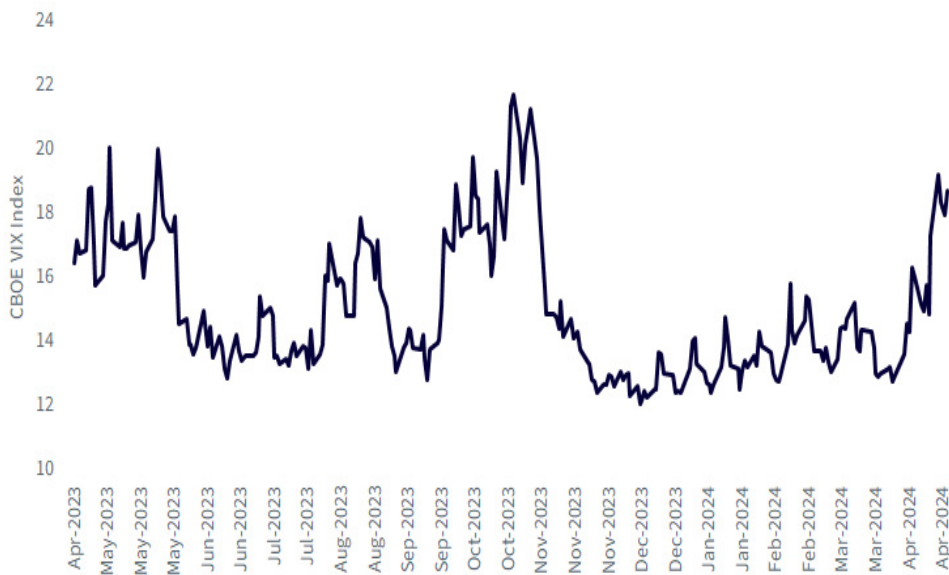


D IS FOR DEFENSE (AND DIVIDENDS)

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Equity market corrections always feel unexpected. As we sit here in April 2024, we have seen the [CBOE Volatility Index \(VIX\)](#) increase from a level of about 12 to about 19 (Figure 1).

Figure 1: CBOE Volatility Index (VIX) over the Past Year



Source: Chicago Board Options Exchange, CBOE Volatility Index: VIX [VIXCLS], retrieved from FRED, Federal Reserve Bank of St. Louis, for the period 4/19/23 to 4/19/24. You cannot invest directly in an index. **Past performance is not indicative of future results.**

WisdomTree has been managing dividend-focused equity strategies since June 2006, nearly 20 years. Here are some notable observations:

- Equity investors from the global financial crisis of 2008–09 have been treated to—for the most part—historically low interest rates and incredible performance of growth stocks. If you want to understand why we talk about the stocks of the [Magnificent 7](#)¹ comprising something like 30% of the [S&P 500 Index](#)², you have to understand this period. Growth stocks saw a lot of multiple expansion in a lower-interest-rate environment, and the general investor was more excited about the possibilities for appreciation than for regular dividend payments.
- Dividend equities have historically earned their stripes not when times are good and the VIX is low; they earn their stripes when times are bad and they go down less, giving themselves a chance to recover more quickly than standard benchmarks.

April 2024 is giving us at least initial indications that a market correction could be in store. Since the Magnificent 7 and the growth style have received so much attention in the past 18 months, we wanted to remind investors where to look for more defensive equity orientations.

The Dividend Continuum

All dividend-paying firms are not equal. On one end of the spectrum, think about a firm in the utilities sector. Utilities are a regulated industry, and these companies can operate only in a highly specified and expected manner. With this low expected growth of fundamentals such as sales, cash flows and earnings, there is a lower current valuation. Another way to think about this is a higher dividend yield. On the other end of the spectrum, think about a Communication Services or Information Technology company. Meta Platforms declared a dividend in 2024,³ and it is a good, concrete example to have in mind. This firm may deliver strong growth in sales, cash flows and earnings, and this potential for strong growth leads to a higher valuation—and a lower dividend yield.

These differences become important when there is a shift from a bull market to a correction and then to a bear market.

At WisdomTree, the dividend continuum is apparent in U.S. equities across three strategies:

- The [WisdomTree U.S. Quality Dividend Growth Fund \(DGRW\)](#): [DGRW](#) is designed to track, before fees, the total returns of the [WisdomTree U.S. Quality Dividend Growth Index](#). This Index includes dividend-paying firms with strong earnings growth expectations and high [return-on-equity](#) and [return-on-assets](#) metrics. These types of firms look more like Apple, Microsoft and Meta Platforms—not necessarily the highest dividend yields but much better forward-looking growth prospects.
- The [WisdomTree U.S. LargeCap Dividend Fund \(DLN\)](#): [DLN](#) is designed to track, before fees, the total returns of the [WisdomTree U.S. LargeCap Dividend Index](#). This Index includes the 300 largest dividend-paying companies in the U.S. equity market, with largest ranked on the basis of [market capitalization](#). This approach is agnostic about forward-looking growth expectations or dividend yield. There would be some higher dividend yielders and some companies with faster growth expectations.
- The [WisdomTree U.S. High Dividend Fund \(DHS\)](#): [DHS](#) is designed to track, before fees, the total returns of the [WisdomTree U.S. High Dividend Index](#). This Index includes the U.S. dividend payers that rank themselves among the highest 30% on a dividend-yield basis, clearly leading to a focus on dividend yield. This should be a more defensive grouping.

Now, we know the dividend continuum, and we know that April 2024 has been a tougher month for performance of equities. Is the actual performance playing out the way we might predict in this paradigm?

April 2024 Performance

- [DHS](#) was the best performer, down the least, followed by [DLN](#) and then [DGRW](#)—but the grouping was fairly close together. A truer test could be a more protracted period of equity volatility.
- [DHS](#), [DLN](#) and [DGRW](#) outperformed the two broader measures of U.S. value equities, the [Russell 1000 Value](#) and [S&P 500 Value Indexes](#).

Figure 2a: Standardized Performance as of March 31, 2024

Fund or Index Name	Fund Ticker Symbol	Fund Inception Date	Fund Expense Ratio	Fund 30-Day SEC Yield	Year-to-Date	1-Year	3-Year	5-Year	10-Year
WisdomTree U.S. Quality Dividend Growth Fund (NAV)	DGRW	5/22/13	0.28%	1.55%	8.87%	24.48%	12.27%	14.48%	12.91%
WisdomTree U.S. Quality Dividend Growth Fund (MP)	DGRW	5/22/13	0.28%	1.55%	8.79%	24.46%	12.17%	14.45%	12.89%
WisdomTree U.S. LargeCap Dividend Fund (NAV)	DLN	6/16/06	0.28%	2.11%	9.23%	19.57%	10.68%	11.74%	10.74%
WisdomTree U.S. LargeCap Dividend Fund (MP)	DLN	6/16/06	0.28%	2.11%	9.15%	19.59%	10.59%	11.73%	10.72%
WisdomTree U.S. High Dividend Fund (NAV)	DHS	6/16/06	0.38%	3.96%	6.19%	9.68%	8.36%	7.76%	8.19%
WisdomTree U.S. High Dividend Fund (NAV)	DHS	6/16/06	0.38%	3.96%	6.12%	9.66%	8.27%	7.74%	8.17%
Russell 1000 Value Index					8.99%	24.02%	8.11%	10.42%	9.10%
S&P 500 Value Index					8.05%	30.03%	12.17%	13.41%	10.70%

Source: WisdomTree, specifically data from the Fund Comparison Tool in the PATH suite of tools, accessed as of 4/22/24. NAV denotes total return performance at net asset value. MP denotes market price performance. **Past performance is not indicative of future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted.**

For the most recent month-end and standardized performance and to download the respective Fund prospectuses, click the relevant ticker: [DGRW](#), [DLN](#) and [DHS](#).

Figure 2b: April 2024



Source: WisdomTree, specifically data from the Fund Comparison Tool in the PATH suite of tools, for the period 4/1/24 to 4/19/24. NAV denotes total return performance at net asset value. MP denotes market price performance. **Past performance is not indicative of future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted.**

For the most recent month-end and standardized performance and to download the respective Fund prospectuses, click the relevant ticker: [DGRW](#), [DLN](#) and [DHS](#).

If we instead look year-to-date, we can recognize that, yes, April has been a tougher month, but most of 2024 leading up to April was pretty good.

- [DGRW](#) largely led the way in the upward-trending market for the first quarter of 2024. [DLN](#) kept pace fairly well. [DHS](#) lagged significantly.
- [DHS](#) even lagged the Russell 1000 Value and S&P 500 Value Indexes during the up-market period.

Figure 3: Year-to-Date 2024



Source: WisdomTree, specifically data from the Fund Comparison Tool in the PATH suite of tools, for the period 1/1/24 to 4/19/24. NAV denotes total return performance at net asset value. MP denotes market price performance. **Past performance is not indicative of future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted.**

For the most recent month-end and standardized performance and to download the respective Fund prospectuses, click the relevant ticker: [DGRW](#), [DLN](#) and [DHS](#).

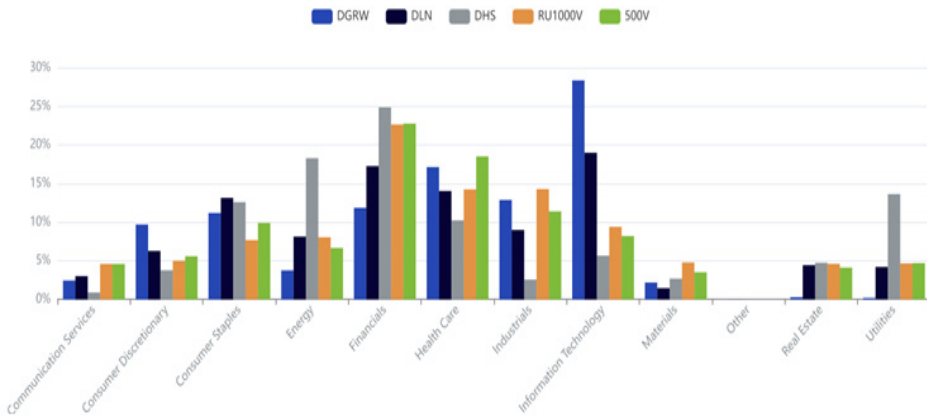
Sector Rotation Coming?

If there is a longer-lasting sector rotation, the following compares the sector composition of various dividend strategies that could help implement a more defensive posture:

- [DHS](#): Utilities are nearly 15%, Consumer Staples approaches 15% and Energy stands out at nearly 20%. This Energy sector tilt could help hedge some of the inflationary risk of higher energy prices.
- [DGRW](#): It has barely any exposure to Utilities and almost 30% exposure to Information Technology.
- [DLN](#): It has less concentration in any sector and more moderate sector tilts for a value strategy.

Figure 4: Sector Exposure

SECTOR EXPOSURE (% WEIGHT) as of 3/31/2024



Source: WisdomTree Fund Comparison Tool in the PATH suite of tools, as of 3/31/24. Holdings are subject to change.

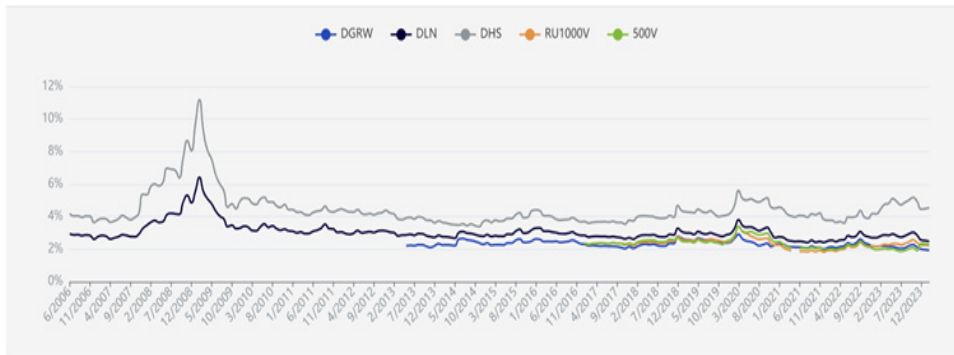
Consistently Higher Dividend Yield

With indexes, you can get a sense of consistent attributes of a given strategy and methodology.

DHS is tracking an Index that annually resets to the 30% of highest-yielding dividend payers. It will be difficult for any strategy without such a focus to deliver a higher dividend yield.

In Figure 5, we see the significant dividend-yield advantage measured across time—a significant period.

Figure 5: Dividend Yield Over Time



Source: WisdomTree Fund Compare Tool in the PATH suite of tools, for the period June 2006 to March 2024. The 30-Day SEC yield for the relevant Funds is shown in Figure 2a in this piece. Past performance is not indicative of future results.

Conclusion: Bringing the Recent Past Forward to Help Understand what Could Come Next

2022 was a year when the technology sector hit a downturn and dividend and value strategies stood out. 2023 brought AI and tech leadership back in force once again, and much of the start of 2024 continued that movement. April serves as a reminder that defensive strategies often focus on dividends, and there are a number of good implementation ideas depending on your conviction of the rotation.

¹ The term Magnificent 7 gained prominence in 2023 and refers to Microsoft, Apple, Amazon.com, Alphabet, Meta Platforms, Nvidia and Tesla.

² Sources: WisdomTree, FactSet, with data as of 4/19/24.

³ “Meta Reports Fourth Quarter and Full Year 2023 Results; Initiates Quarterly Dividend,” press release, 2/1/24.

Important Risks Related to this Article

There are risks associated with investing, including possible loss of principal. Funds focusing their investments on certain sectors may be more vulnerable 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 DGRW please visit the Fund's fund detail page at <https://www.wisdomtree.com/investments/etfs/equity/dgrw>

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.

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You cannot invest directly in an index.

DEFINITIONS

CBOE Volatility Index® (VIX®): a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices. It is the premier benchmark for U.S. stock market volatility.

Magnificent 7: Refers to a group of high-performing U.S. stocks including Microsoft (MSFT), Amazon (AMZN), Meta (META), Apple (AAPL), Google parent Alphabet (GOOGL), Nvidia (NVDA), and Tesla (TSLA)

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.

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.

Market Capitalization: Market cap = share prices x number of shares outstanding. Firms with the highest values receive the highest weights in approaches designed to weight firms by market cap.

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

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