

# THE MOST IMPORTANT CHARTS FOR 2022

Jeremy Schwartz – Global Chief Investment Officer, Matt Wagner – Associate Director, Research  
01/13/2022

In our view the most important market issue this year, aside from the coronavirus, is [inflation](#).

The market has started pricing in three [hikes](#) from the [Federal Reserve](#) to combat inflation. We think there is upside risk to these rate hike forecasts.

Our Senior Investment Strategy Advisor, Jeremy Siegel, is the most aggressive with his calls that the Fed needs to get to over 2% for the [Fed Funds Rate](#) by year-end. That is nowhere near consensus and could create [volatility](#) in the markets if this forecast materializes.

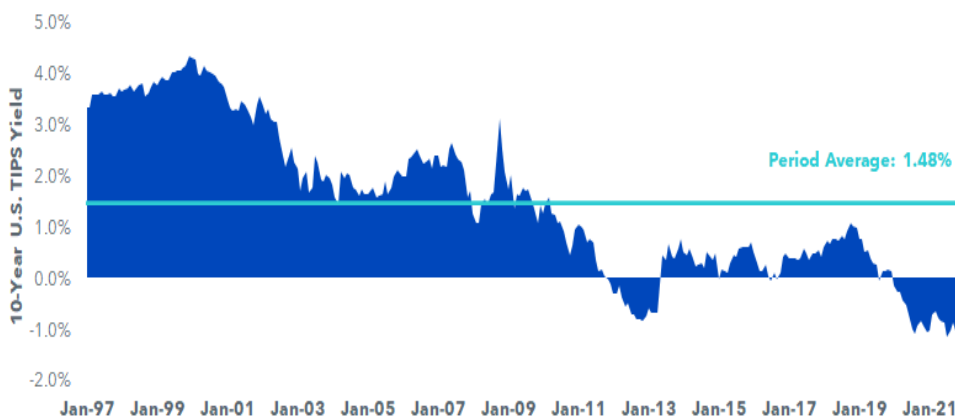
Where should investors focus to protect purchasing power from the high inflation we see? Bonds and cash are offering disappointing options.

The yield on the Treasury Inflation Adjusted 10-Year Bonds—a very common choice for those who want inflation protection—have negative yields. Going back to its inception in 1997, when the Treasury first issued these securities, the average yield has been 1.5%—we are currently 2.5% below the long-term average TIPS yield.

A -1% [TIPS](#) yield implies you are handing the government \$100 today and accepting \$90 after inflation purchasing power 10 years later.

That seems wild and crazy in our view—but it is the current market dynamic.

## 10-Year U.S. TIPS Yields (1/31/1997–12/31/2021)



Sources: Bloomberg, FRED. Past performance is not indicative of future results. Treasury inflation-protected securities (TIPS), issued by the U.S. government, are Treasury securities indexed to inflation whose principal value is periodically adjusted according to the rate of inflation. Repayment upon maturity of the adjusted principal value of TIPS is guaranteed by the

In our view, what you need are real assets that seek to provide positive returns but also hedge inflation. Stocks are such as an asset.

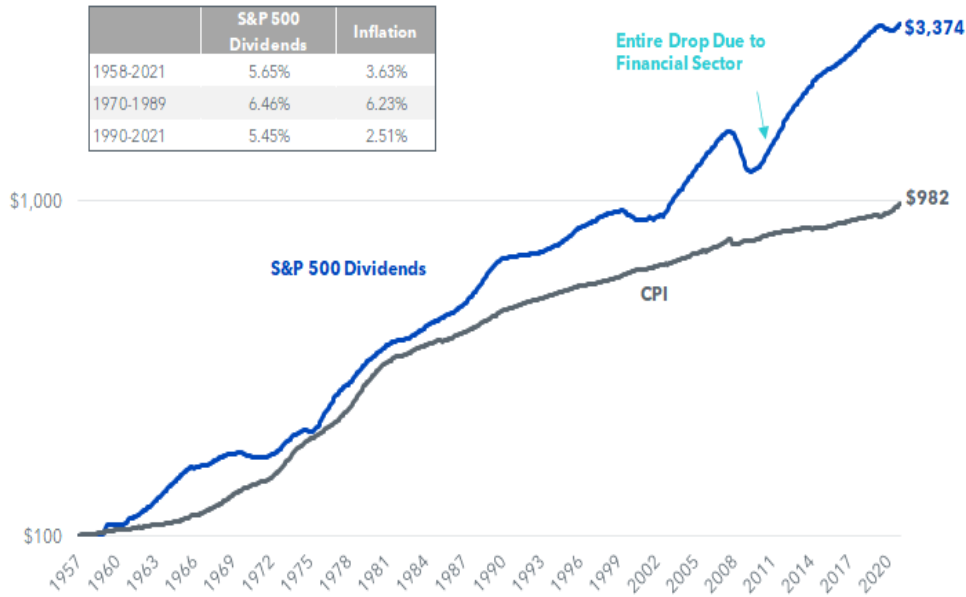
When you look at the long-term cash [dividends](#) on the [S&P 500](#) going back to the inception of the index in 1957, inflation has averaged 3.6% but cash dividends have provided real

growth on top of inflation.

This 2% real growth is one reason why we call stocks ‘Super TIPS,’ where stocks have provided purchasing power above the rate of inflation over the long term.

Even in high inflation decades of the 1970s and 1980s, dividend growth kept up with over 6% inflation for 20-years—beating inflation over that period.

	S&P 500 Dividends	Inflation
1958-2021	5.65%	3.63%
1970-1989	6.46%	6.23%
1990-2021	5.45%	2.51%



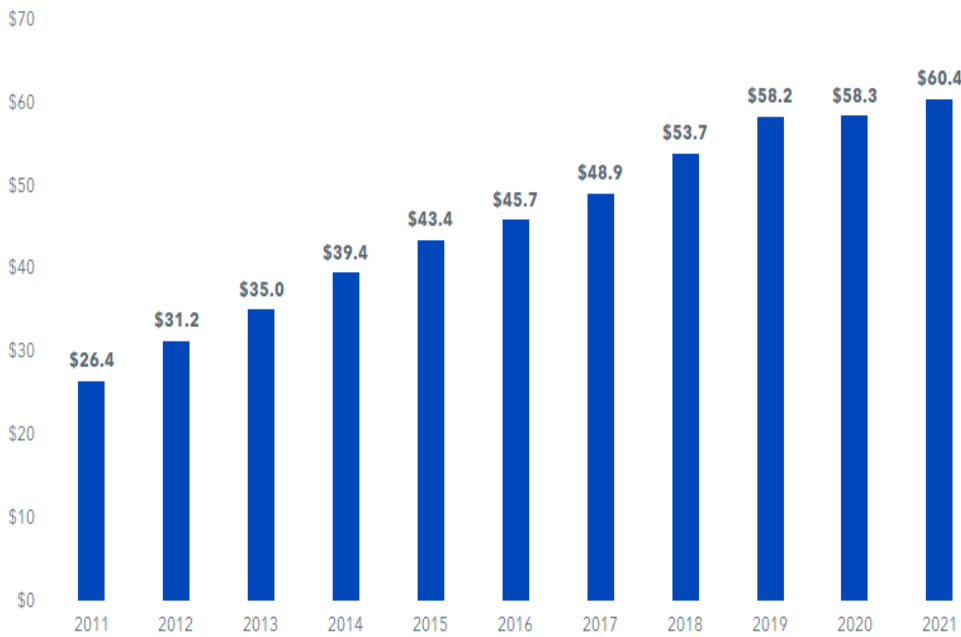
Source: Bob Shiller, <http://www.econ.yale.edu/~shiller/data.htm>. Data from 12/31/1957 to 12/31/2021. CPI: Consumer Price Index. Past performance is not indicative of futures results. You cannot invest directly in an index.

Some of the early behavioral finance work from Bob Shiller looks at the changes in the income stream of stocks—the underlying cash flows to investors—and stock prices and questioned why stock prices moved so much in excess of those fundamentals. That steady march higher in cash flows can be seen with the annual dividends per share on the S&P 500 over the last 11 years.

In 2020, during the pandemic, there were 42 companies in the S&P 500 that suspended dividends, but overall regular cash dividends per share were virtually unchanged.

In 2021, only one company suspended dividends and dividends per share grew 3.5%.

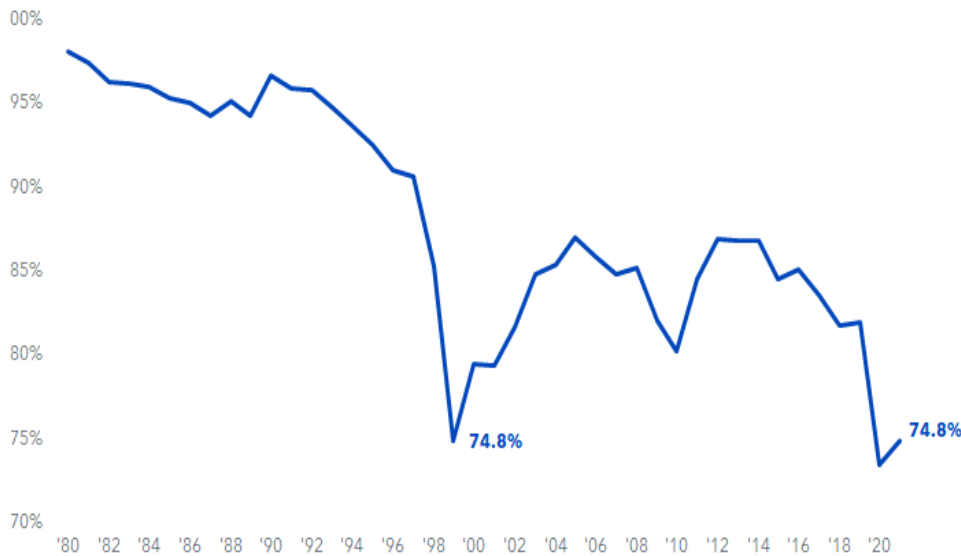
**S&P 500 Index Dividends per Share**



Source: S&P, as of 12/31/21. You cannot invest directly in an index.

The strong performance in the technology sector has caused the weight on non-dividend paying stocks to rise such that dividend payers have fallen to 75% of the S&P 500 (after approaching 90% in 2013). This is one reason that yields have dropped—in addition to strong price performance ahead of dividend growth.

**Weight of Dividend Paying S&P 500 Companies**



Source: S&P, as of 12/31/21. You cannot invest directly in an index.

But when you remove non-dividend paying stocks from the universe, you can see index yields move higher.

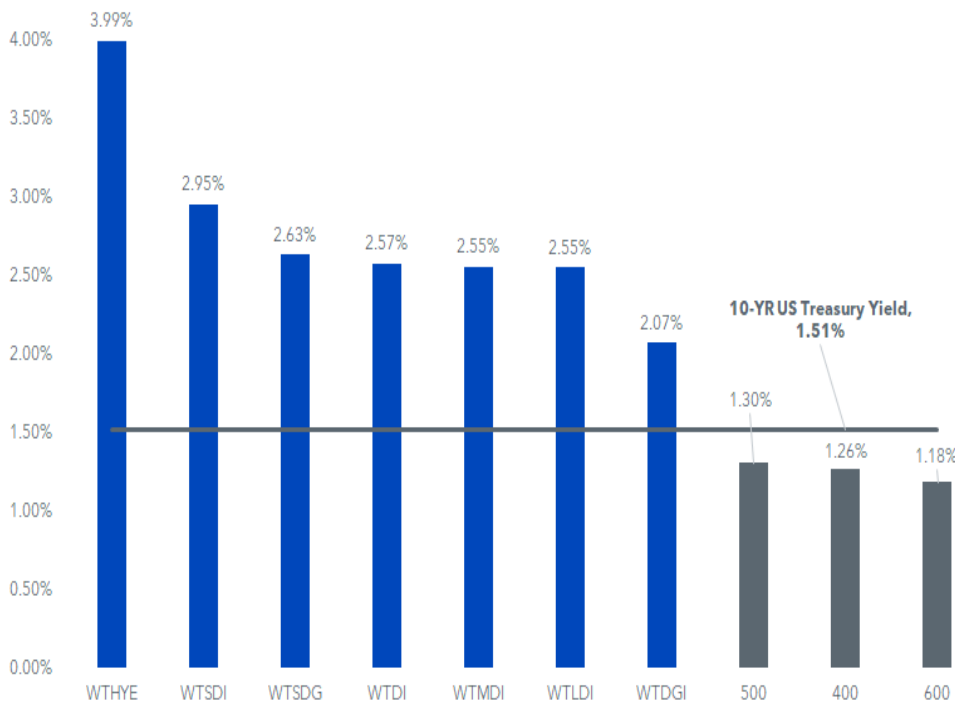
- An index of 300 large cap dividend paying stocks ([WTLDI](#)) has an index yield approximately double that of the S&P 500.
- The [mid-cap](#) index and [small-cap](#) indexes have more than double the dividend yields of the comparable cap-weighted counterparts and that is because those indexes have even less of their weight in dividend paying stocks.

- Yields can be increased even further if you select based on high dividends.

We have talked about how in today’s macro environment, a stock’s [duration](#) (or sensitivity to interest rates) is going to be a prime factor. Stocks with current cash flows are trading as lower duration assets—while the mega-growth stocks have been getting repriced aggressively to start 2022.

Given the historical long-term nature of tech out-performance and the large adjustment we still see in the Fed cycle, this will be a theme we come back to again and again in 2022.

**Indicated Dividend Yield**



Sources: WisdomTree, FactSet. Data as of 12/31/21. You cannot invest directly in an index. WTDI = WisdomTree U.S. Dividend Index; WTLDI = WisdomTree U.S. LargeCap Dividend Index; WTMDI = WisdomTree U.S. MidCap Dividend Index; WTSDI = WisdomTree U.S. SmallCap Dividend Index; WTDGI = WisdomTree U.S. Dividend Growth Index; WTSDG = WisdomTree U.S. SmallCap Dividend Growth Index; WTHYE = WisdomTree U.S. High Dividend Index.

**Important Risks Related to this Article**

*Past performance is not indicative of future results. You cannot invest directly in an index. Index performance does not represent actual fund or portfolio performance. A fund or portfolio may differ significantly from the securities included in the index. Index performance assumes reinvestment of dividends but does not reflect any management fees, transaction costs, brokerage commissions on transactions. Such fees, expense and commissions would reduce returns.*

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. MidCap Dividend Fund](#)
- + [WisdomTree U.S. SmallCap 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](http://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

**Inflation**: Characterized by rising price levels.

**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.

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

**Federal Funds Rate**: The rate that banks that are members of the Federal Reserve system charge on overnight loans to one another. The Federal Open Market Committee sets this rate. Also referred to as the “policy rate” of the U.S. Federal Reserve.

**Volatility**: A measure of the dispersion of actual returns around a particular average level.

**TIPS**: Treasury Inflation Protected Securities.

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

**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.

**Growth**: Characterized by higher price levels relative to fundamentals, such as dividends or earnings. Price levels are higher because investors are willing to pay more due to their expectations of future improvements in these fundamentals.

**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.

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

**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.