

# MID-CAP AND SMALL-CAP DIVIDENDS SHINE AMID VOLATILITY

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In our third of three posts on [small-cap valuations](#), let’s examine how focusing on [dividend](#) payers amid a [volatile](#) market backdrop has provided [excess returns](#), with even lower valuations.

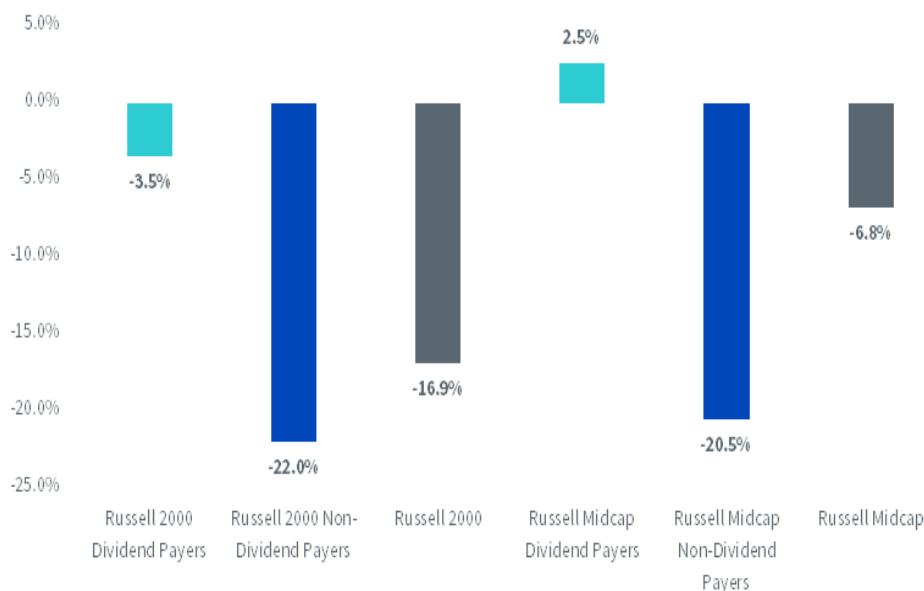
While this blog series has focused our attention on the valuations and the earnings trends of small caps, a similar picture can be extended to [mid-caps](#).

Many investors rarely think of dividends when it comes to mid- and small caps. This can be a costly oversight.

Consider this:

- A simple [market cap-weighted](#) strategy that bought all [Russell 2000 Index](#) dividend payers would have outperformed the Russell 2000 by 13.5% over the 12 months ended in May
- A simple market cap-weighted strategy that bought all [Russell Midcap Index](#) dividend payers would have outperformed the Russell Midcap by 9.3% over the 12 months ended in May

Trailing 12-Month Returns, as of 5/31/22



Sources: WisdomTree, FactSet, Russell, 5/31/21–5/31/22. You cannot invest directly in an index. Past performance is not indicative of future returns.

The [WisdomTree U.S. MidCap Dividend Index](#) and the [WisdomTree U.S. SmallCap Dividend Index](#) have each benefited from investors’ return to focusing on dividend cash flows over the last 12 months.

Relative to the Russell Midcap Index and the Russell 2000 Index, each WisdomTree

Dividend Index has significant under-weight allocations to Information Technology and Health Care—two growth-heavy sectors with very little in terms of dividend payments aside from the [large caps](#).

The WisdomTree Indexes had over-weight allocations to the higher-dividend-paying sectors like Financials, Real Estate, Materials and Utilities.

Over the 12 months ended in May 2022:

- The WisdomTree U.S. MidCap Dividend Index outperformed the Russell Midcap Index by 10.55%
- The WisdomTree U.S. SmallCap Dividend Index outperformed the Russell 2000 Index by 13.28%

### Mid-Cap Index One-Year Sector Attribution

WTMDI - WisdomTree U.S. MidCap Dividend Index VS. RUMIDCAP - Russell Midcap® Index

Sector Attribution As of: 5/31/2022

MTD QTD YTD **1Y** 3Y 5Y 10Y Since Inception\*

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Category	Attribution Component				Average Category Weight			Category Performance	
	Allocation	Stock Selection	Interaction	Total Attribution	Index Weight	Benchmark Weight	+/- Wgt	WT Index Return	Benchmark Return
Communication Services	0.36%	1.66%	-0.39%	1.63%	2.95%	3.91%	-0.96%	-0.56%	-34.96%
Health Care	0.62%	2.70%	-1.86%	1.46%	2.05%	11.44%	-9.39%	10.01%	-14.65%
Energy	1.68%	-0.09%	-0.20%	1.39%	5.63%	4.21%	1.42%	82.65%	81.17%
Utilities	1.21%	0.03%	-0.01%	1.23%	10.14%	4.66%	5.48%	16.27%	16.21%
Consumer Discretionary	0.08%	0.90%	0.06%	1.04%	11.19%	12.28%	-1.08%	-15.97%	-22.47%
Materials	0.51%	0.26%	0.15%	0.92%	9.77%	5.64%	4.13%	10.29%	5.40%
Real Estate	0.22%	0.45%	0.07%	0.73%	9.91%	8.09%	1.82%	6.71%	1.23%
Industrials	0.15%	0.80%	-0.27%	0.67%	14.05%	15.18%	-1.13%	-8.35%	-13.24%
Information Technology	0.98%	0.44%	-0.83%	0.59%	4.68%	18.58%	-13.90%	-9.75%	-13.12%
Financials	0.36%	0.13%	0.04%	0.54%	25.36%	12.45%	12.91%	-2.48%	-3.57%
Consumer Staples	0.22%	0.17%	-0.05%	0.34%	4.26%	3.52%	0.74%	9.03%	3.13%
Other	0.00%	0.00%	0.00%	0.00%	0.00%	0.04%	-0.04%	0.00%	-10.57%
<b>Total</b>	<b>6.39%</b>	<b>7.46%</b>	<b>-3.29%</b>	<b>10.55%</b>	-	-	-	<b>3.78%</b>	<b>-6.77%</b>

### Small-Cap Index One-Year Sector Attribution

VS.

As of:

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Category	Attribution Component				Average Category Weight			Category Performance	
	Allocation	Stock Selection	Interaction	Total Attribution	Index Weight	Benchmark Weight	+/- Wgt	WT Index Return	Benchmark Return
Health Care	4.99%	6.86%	-5.87%	5.99%	1.72%	18.48%	-16.76%	-8.93%	-41.75%
Financials	0.95%	0.70%	0.40%	2.05%	25.91%	15.82%	10.09%	-3.23%	-7.81%
Utilities	1.66%	0.13%	0.22%	2.01%	7.67%	2.65%	5.02%	17.71%	11.37%
Real Estate	0.37%	0.77%	0.27%	1.41%	9.96%	7.18%	2.78%	5.96%	-5.40%
Information Technology	0.08%	2.60%	-1.62%	1.06%	4.80%	13.72%	-8.92%	0.44%	-18.77%
Communication Services	0.12%	0.78%	-0.08%	0.81%	3.40%	3.33%	0.07%	-13.84%	-33.49%
Industrials	0.27%	0.48%	-0.06%	0.69%	17.40%	15.08%	2.33%	-5.76%	-9.16%
Materials	0.07%	0.36%	0.24%	0.66%	7.74%	4.00%	3.74%	-0.72%	-10.54%
Consumer Discretionary	0.02%	0.46%	0.03%	0.51%	11.65%	11.56%	0.09%	-25.88%	-30.06%
Consumer Staples	0.27%	0.04%	-0.13%	0.18%	7.47%	3.37%	4.09%	-8.30%	-9.24%
Other	0.03%	0.00%	0.00%	0.03%	0.00%	0.04%	-0.04%	0.00%	-77.63%
Energy	-1.53%	-1.14%	0.54%	-2.14%	2.28%	4.78%	-2.51%	33.38%	68.78%
<b>Total</b>	<b>7.30%</b>	<b>12.04%</b>	<b>-6.06%</b>	<b>13.28%</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-3.64%</b>	<b>-16.92%</b>

Sources: WisdomTree, FactSet, Russell, 5/31/21-5/31/22. You cannot invest directly in an index. Past performance is not indicative of future returns.

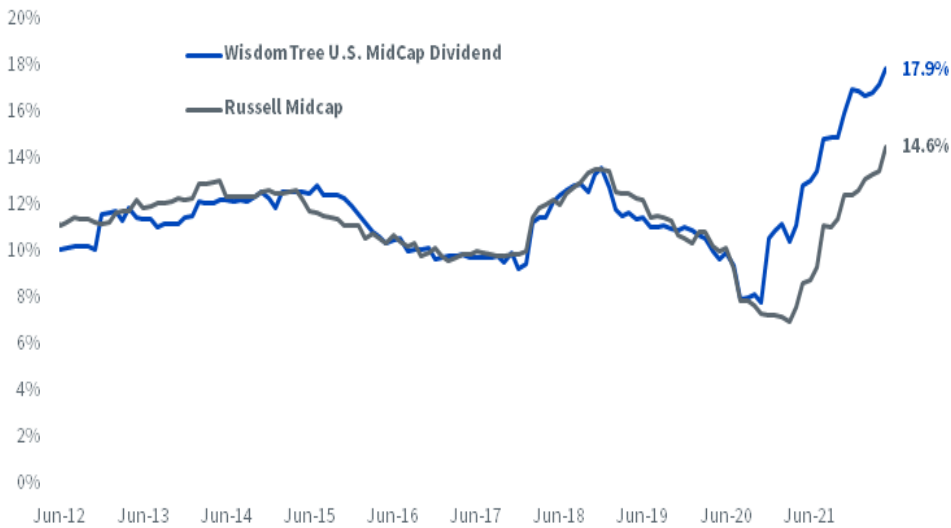
Like the strong growth in [earnings we saw from the S&P 600](#), we also see robust earnings growth trends—and premium earnings ratios—from the WisdomTree U.S. MidCap and SmallCap Dividend Indexes.

A widening profitability gap has developed between WisdomTree’s Dividend Indexes and the market cap-weighted Russell Indexes.

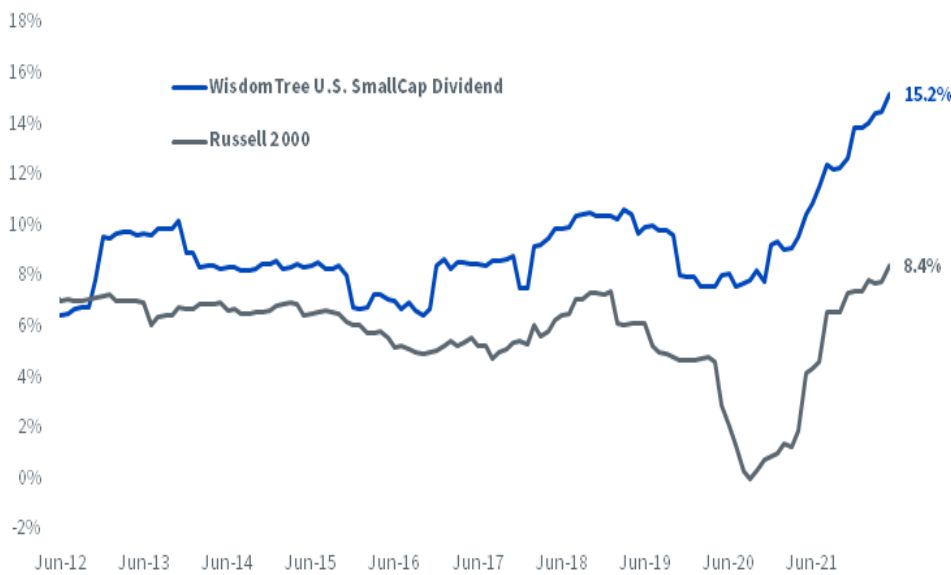
As of May 31, 2022, 9.4% of the weight of the Russell Midcap Index was in companies with negative earnings, as was 22.9% of the Russell 2000 Index. This compares to a less-than-3.5% weight in negative earnings for the WisdomTree Dividend Indexes.

**Mid-Caps Return on Equity**





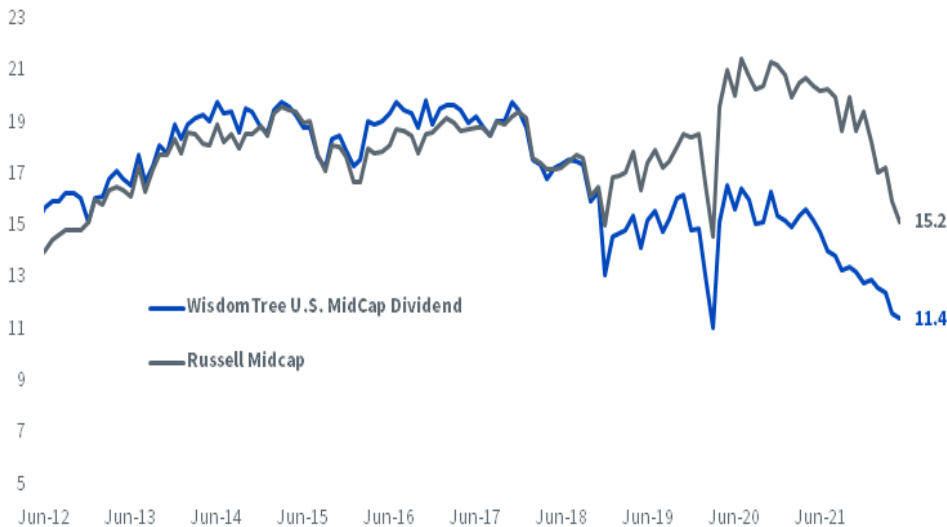
**Small Caps Return on Equity**



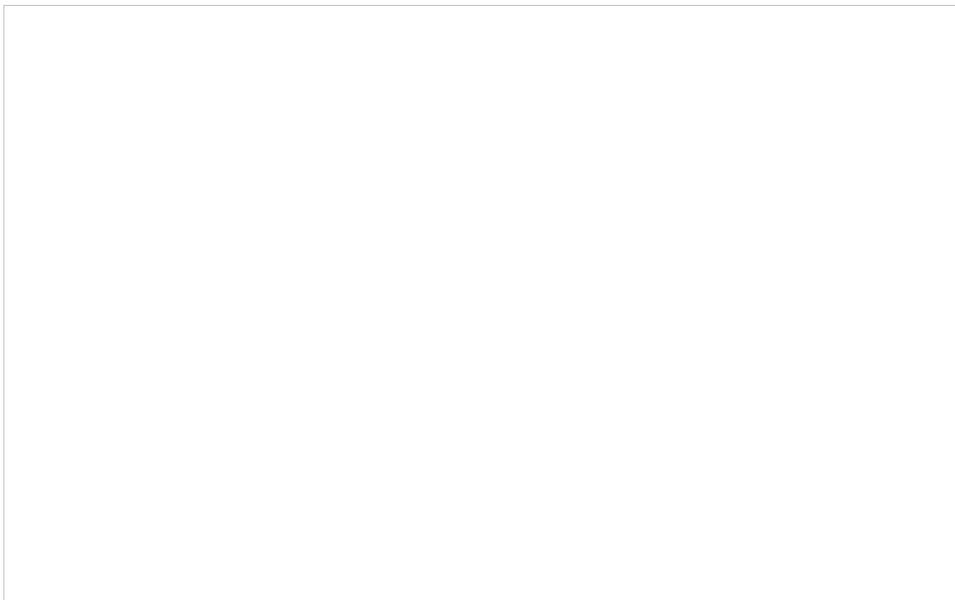
Sources: WisdomTree, Russell, FactSet, 6/30/12-5/31/22. You cannot invest directly in an index.

As we’ve mentioned, market prices suggest the pace of earnings growth will slow (or turn negative). WisdomTree’s Dividend Indexes—despite their recent outperformance—have even greater discounts in their price-to-earnings ratios than the market cap-weighted Russell indexes.

**Mid-Cap Estimated Price-to-Earnings Ratios**



**Small-Cap Estimated Price-to-Earnings Ratios**



**Conclusion**

Dividends have provided safety amid the volatility in U.S. equities this year. While many investors may ignore dividends outside of large caps, the relative performance of mid- and small-cap dividend payers and non-payers over the past 12 months suggests this can be a mistake.

We anticipate the leadership of companies with strong [cash flows](#) and dividend payouts will be sustained during a rising interest rate environment that punishes non-dividend-paying story stocks. The opportunity cost of not having current cash flows is a headwind to non-payers.

For investors interested in allocating to a diversified basket of dividend-paying mid- and small-caps, consider the [WisdomTree U.S. MidCap Dividend Fund \(DON\)](#) and the [WisdomTree U.S. SmallCap Dividend Fund \(DES\)](#).

Please read our latest Market Insight, [“Where Is a Recession Being Priced In? U.S. Small Caps”](#) for more on the small- and mid-cap dividend story.

**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 and/or smaller companies 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 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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+ [Is a Recession Being Priced In for U.S. Small Caps?](#)

+ [Too Much of a Good Thing](#)

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You cannot invest directly in an index.

## DEFINITIONS

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

**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.

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

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

**Excess Returns**: refers to investment returns on a securities above that of a benchmark or index exhibiting similar risk characteristics.

**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.

**Market capitalization-weighting**: 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 2000 Index**: Measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

**Russell Midcap Index**: The Russell Midcap Index measures the performance of the mid-cap value segment of the U.S. equity universe. It includes those Russell Midcap Index companies with lower price-to-book ratios and lower forecasted growth values.

**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.

**S&P 600 Index**: The S&P 600 is an index of small-cap stocks managed by Standard and Poor's. It tracks a broad range of small-sized companies that meet specific liquidity and stability requirements.

**Operating cash flow**: Measure of the amount of cash generated by a company's normal business operations, calculated by adjusting net income for items like depreciation and changes in inventory and receivables.