LOOKING BACK AT EQUITY FACTORS IN Q1 2024 WITH WISDOMTREE

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This year started on a strong note, with global equity markets gaining 8.9%.[1] The initial focus was on artificial intelligence, its growth potential and its impact on corporate profitability. However, with better-than-expected economic data being published in the U.S., but also in Europe and China, market confidence grew, leading to a regional broadening of the bull market. Europe closed 7.6%[1] up, quite close to the 10.3%[1] of the U.S. The only weakness remains in Asia, leading to emerging markets returning only 2.4%.[1]

This instalment of the WisdomTree Quarterly Equity Factor Review aims to shed some light on how equity factors behaved during this first quarter and how this may have impacted investors' portfolios.

- Overall, quality and growth continued to do well in developed markets. However, momentum took the lead, returning double-digit outperformance in the U.S. and globally.
- Small-cap equities suffered from the postponement of rate cuts. After a strong Q4, they posted the deepest underperformance in Q1.
- High dividend, value and min volatility continued to suffer.
- I n emerging markets, momentum was also strong, but growth led the way, with Information Technology stocks and new economy companies benefiting the most from the better-than-expected economic news.

Performance in Focus: Continued Bull Run for Q1

In Q1, the MSCI World (+8.9%) and the MSCI USA (+10.3%) indexes continued to perform very strongly. The impact of the AI megatrend continued to be felt, with Nvidia gaining 82.5% during the quarter, for example. But the main news was on the economic front. The U.S. economy remained robust, leading to the postponement of rate cuts to later in the year. Economic data from Europe and China, while not amazing, was better than expected, leading to good performance in those markets as well.

Overall, this led to some broadening in terms of the source of market performance. Only four out of the Magnificent 7 beat the S&P 500 this quarter, for example. Only Nvidia and Meta posted significant outperformance. The impact on factors was also clear as it was a difficult quarter in which many factors underperformed, as well as some rotation.

- In global developed markets, growth and quality continued to outperform, with the exception of Europe, where quality did not do as well.
- Momentum was the strongest factor this quarter. It outperformed in all regions, posting double-digit outperformance in the U.S. and globally.
- The fortune of small-cap equities changed radically from being the best factor in Q4 to being the worst one in Q1.

- In developed markets overall, high dividend, min volatility and value suffered the bulk of the underperformance.
- In emerging markets, momentum was also strong, but growth led the way, with Tech stocks and new economy companies benefiting the most from the better-than-expected economic news.

Figure 1: Equity Factor Outperformance in Q1 2024 across Regions

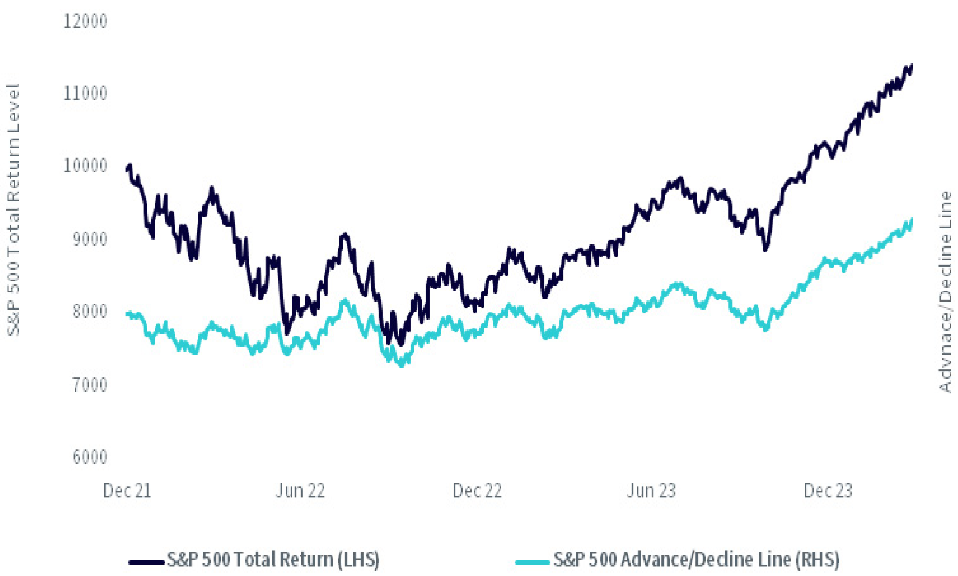
	World Q4 2023: 8.9%	USA Q4 2023: 10.3%	Europe Q4 2023: 7.6%	Emerging Markets Q4 2023: 2.4%
High Dividend	-3.4%	-2.4%	-3.7%	-0.2%
Minimum Volatility	-3.2%	-2.8%	-2.5%	-0.6%
Momentum	11.2%	10.0%	6.6%	4.8%
Quality	2.7%	2.5%	-1.5%	-3.0%
WisdomTree Quality	-3.0%	-1.2%	-2.6%	2.6%
Size	-4.5%	-4.7%	-4.1%	-1.3%
Value	-2.0%	-2.7%	-1.9%	-0.8%
Growth	1.4%	1.4%	2.6%	11.1%

Sources: WisdomTree, Bloomberg, 12/31/23–3/31/24. Calculated in U.S. dollars for all regions except Europe, where calculations are in euros. **Past performance is not indicative of future results.**

Market Breadth Is Improving: A Positive Sign for the Current Bull Market

In Q1, U.S. equities returned their second consecutive double-digit returns. While this may seem like nothing in the context of the last 18-month rally, it is, in fact, quite rare. This is only the nineteenth time since 1927 that this happened (i.e., 5% of the time). Interestingly enough, the performance in the following six months has been positive 16 times out of 18, and the performance in the following 12 months has been positive 15 times out of 18.

Figure 2: S&P 500 Performance Following Two Consecutive Quarters of Double-Digit Returns

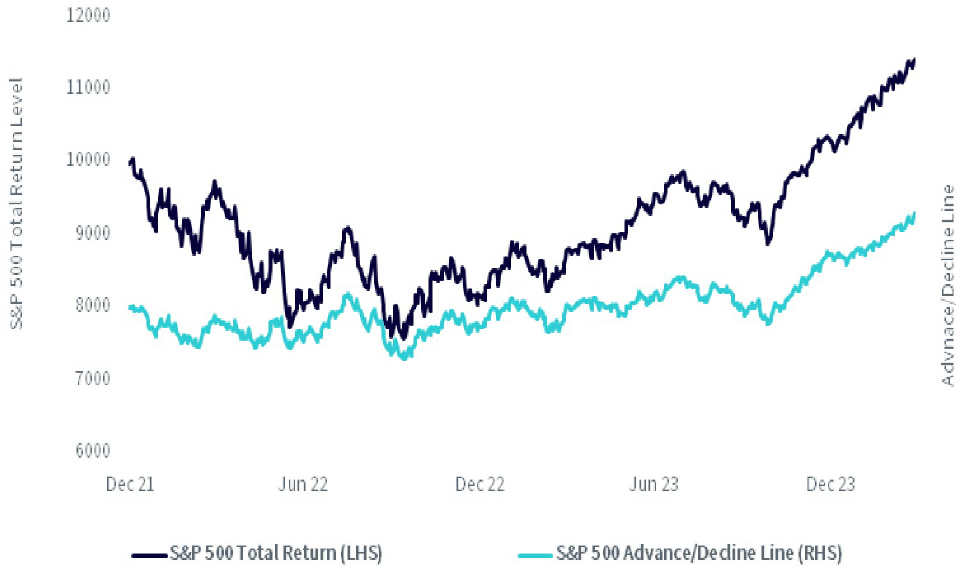


Source: WisdomTree, Bloomberg. 31st December 2021 to 31st March 2024. Calculated in US Dollars. Past performance is not indicative of future results.

Investors have focused on the market’s narrowness since early 2023 and the emergence of the Magnificent 7 narrative. As discussed earlier, Q1 showed a divergence in the performance of those seven mega caps, with Tesla and Apple showing some weakness. To assess the evolution of the market’s breadth this quarter, in figure 3, we look at the advance/decline line for the S&P 500.

The advance/decline line is a cumulative indicator, calculated by adding the difference between the number of advancing and declining stocks on a daily basis. The indicator goes up if more stocks advance rather than decline. It helps investors assess how wide the market is. In a rising market, if the indicator is going up, it means that the market is wide and that a majority of stocks are going up with the market. If the indicator is down, though, it shows that only a minority of stocks are driving the market up, indicating narrowness and a potential weakness of the rally.

Figure 3: S&P 500 Advance/Decline Line



Source: WisdomTree, Bloomberg. 31st December 2021 to 31st March 2024. Calculated in US Dollars. Past performance is not indicative of future results.

It is clear from figure 3 that the market breadth has been improving since late 2023 and that the current bull market is now quite well supported.

Valuations Decreased in the U.S. in Q1

In Q1 2024, developed markets became mostly more expensive. However, small caps and growth stocks became cheaper. The drivers for those moves varied, though. The valuations of small caps declined due to negative performance, while growth stocks’ valuations declined due to increasing earnings.

Valuations in the U.S. mostly declined except in value and high dividend. On the contrary, in Europe, valuations increased almost across the board.

Figure 4: Historical Evolution of Price-to-Earnings Ratios of Equity Factors

	World		USA		Europe		Emerging Markets	
	P/E Ratio	Δ3Months	P/E Ratio	Δ3Months	P/E Ratio	Δ3Months	P/E Ratio	Δ3Months
Market	19.4	0.1	21.7	-0.4	14.5	0.8	12.5	-1.5
High Dividend	14.2	0.4	16.4	0.5	11.3	0.4	8.4	0.0
Minimum Volatility	17.7	0.2	18.8	-0.1	16.3	0.5	13.4	-1.6
Momentum	22.5	1.2	28.3	-1.5	14.1	1.5	13.8	-1.7
Quality	24.3	0.2	25.2	-0.6	20.2	0.7	17.2	-1.6
Size	17.7	-1.8	21.2	-2.0	13.3	-1.1	13.4	-3.0
Value	10.5	0.7	7.4	0.2	8.8	0.6	6.4	-0.2
Growth	27.9	-1.5	30.8	-3.1	23.8	0.9	25.9	0.4

Source: WisdomTree, Bloomberg. As of 31st March 2024. **Past performance is not indicative of future results.** "World" is proxied by the MSCI World net TR Index. "USA" is proxied by the MSCI USA net TR Index. "Europe" is proxied by the MSCI Europe net TR Index. "Emerging Markets" is proxied by the MSCI Emerging Markets net TR Index. "Minimum Volatility" is proxied by the relevant MSCI Min Volatility net total return index. "Quality" is proxied by the relevant MSCI Quality net total return index. "Momentum" is proxied by the relevant MSCI Momentum net total return index. "High Dividend" is proxied by the relevant MSCI High Dividend net total return index. "Size" is proxied by the relevant MSCI Small Cap net total return index. "Value" is proxied by the relevant MSCI Enhanced Value net total return index. "WisdomTree Quality" is proxied by the relevant WisdomTree Quality Dividend Growth Index.

Looking Forward to Q2 2024

Economies have been showing a lot of robustness, and while "higher for longer" will continue a bit longer than expected, rate cuts are coming. These easier monetary conditions, combined with improving economies and the broadening markets, should continue to provide a tailwind to equity markets. However, with valuations at relatively high levels and the upcoming U.S. presidential election, risks remain ever so present. A balanced approach to equity investment that combines upside participation and downside protection could remain a safe choice for investors.

Pierre Debru is an employee of WisdomTree UK Limited, a European subsidiary of WisdomTree Asset Management Inc.'s parent company, WisdomTree, Inc.

[1] Sources: WisdomTree, Bloomberg, 12/31/23–3/31/24. **Historical performance is not an indication of future performance and any investments may go down in value.**

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DEFINITIONS

Quality : Characterized by higher efficiency and profitability. Typical measures include earnings, return on equity, return on assets, operating profitability as well as others. This term is also related to the Quality Factor, which associates these stock characteristics with excess returns vs the market over tim.

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.

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.

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

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 tim.

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

Emerging market : Characterized by greater market access and less potential for operational risks when compared to frontier markets, which leads to a larger base of potentially eligible investors.

MSCI World Index : Captures large and mid-cap representation across 23 Developed Markets (DM) countries.

MSCI USA Index : is designed to measure the performance of large and mid cap segments of the US market.

Artificial intelligence : machine analysis and decision-making.

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.