
WHY CAN'T YOU JUST GET IT THROUGH YOUR HEAD, IT'S OVER, IT'S OVER NOW

Scott Welch – Chief Investment Officer, Model Portfolios
03/10/2023

This article is relevant to financial professionals who are considering offering model portfolios to their clients. If you are an individual investor interested in WisdomTree ETF Model Portfolios, please inquire with your financial professional. Not all financial professionals have access to these Model Portfolios.

Why can't you just get it through your head?

It's over, it's over now

Yes, you heard me clearly now I said

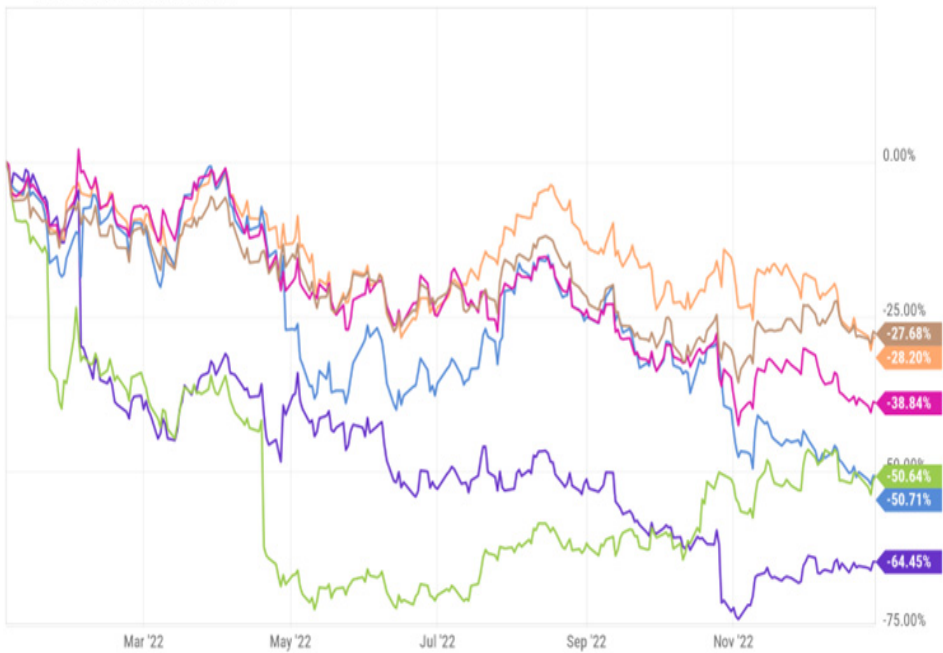
It's over, it's over now

(Boz Scaggs, from the Silk Degrees album, 1976)

Over the past few months, we've received many inbound calls from advisors asking us when the current rotation out of [growth](#) and into [value](#) will be “over”—as if it is a one-year phenomenon. Let's examine that.

First, 2022, without a doubt, witnessed a massive rotation out of the growth stocks that led the market for most of the previous 10 years and into value stocks. The so-called “[FAANGM](#)” [stocks](#) (Facebook [Meta], Apple, Amazon, Netflix, Google [Alphabet], and Microsoft) were decimated over the course of the year.

- Meta Platforms Inc (META) Total Return
- Apple Inc (AAPL) Total Return
- Amazon.com Inc (AMZN) Total Return
- Netflix Inc (NFLX) Total Return
- Alphabet Inc (GOOG) Total Return
- Microsoft Corp (MSFT) Total Return

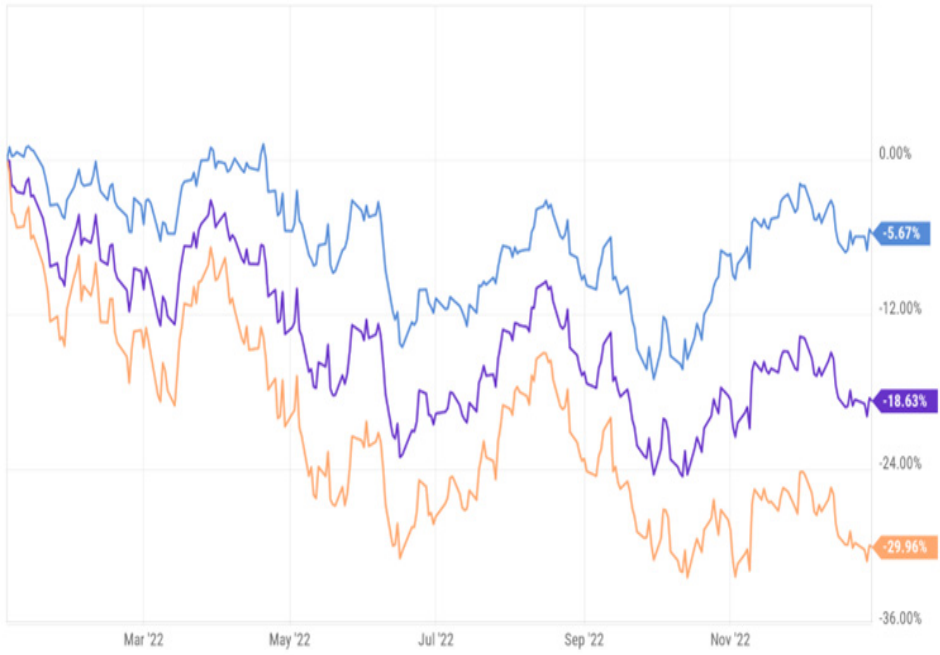


Mar 04 2023, 1:06PM EST. Powered by YCHARTS

Source: YCharts, data for calendar year 2022. Past performance is no guarantee of future results.

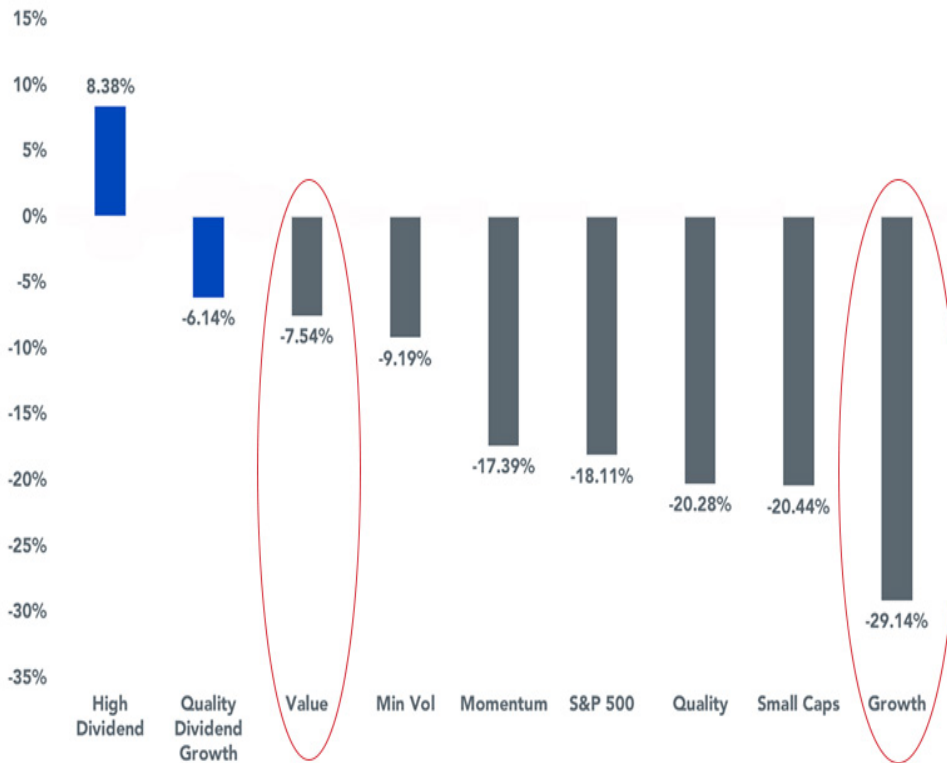
Meanwhile, value stocks dramatically outperformed growth stocks—to the tune of one of the widest performance dispersions in history (two charts).

- S&P 500 Total Return (*SPXTR) Level % Change
- S&P 500 Growth Total Return (*SPXGTR) Level % Change
- S&P 500 Value Total Return (*SPXVTR) Level % Change



Mar 04 2023, 1:13PM EST. Powered by YCHARTS

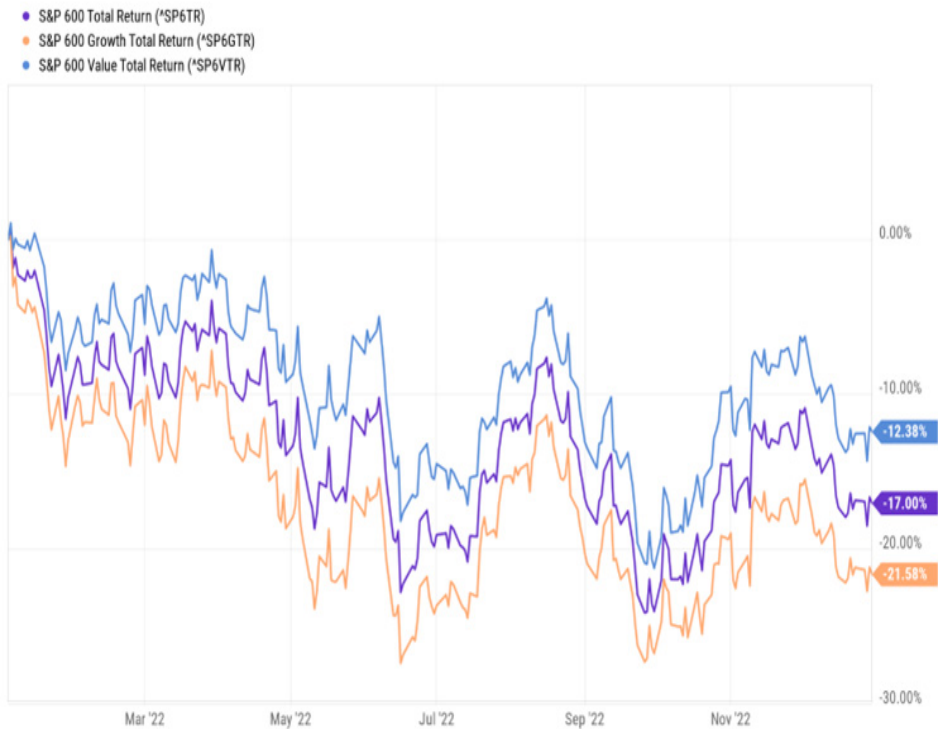
Source: YCharts, data for calendar year 2022. You cannot invest in an index, and past performance is no guarantee of future results.



Sources: WisdomTree, FactSet, Russell, MSCI, S&P, data as of 12/31/22. You cannot invest directly in an index. Past performance is not indicative of future returns. High Dividend: WisdomTree U.S. High Dividend Index. Quality Dividend Growth: WisdomTree U.S. Quality Dividend Growth Index. Value: Russell 1000 Value Index. Small Caps: Russell 2000 Index. Min Vol: MSCI USA Minimum Volatility Index. Quality: MSCI USA Sector-Neutral Quality Index. Momentum: MSCI USA Momentum Index. Growth: Russell 1000 Growth Index.

For definitions of indexes in the chart above, please visit the [glossary](#).

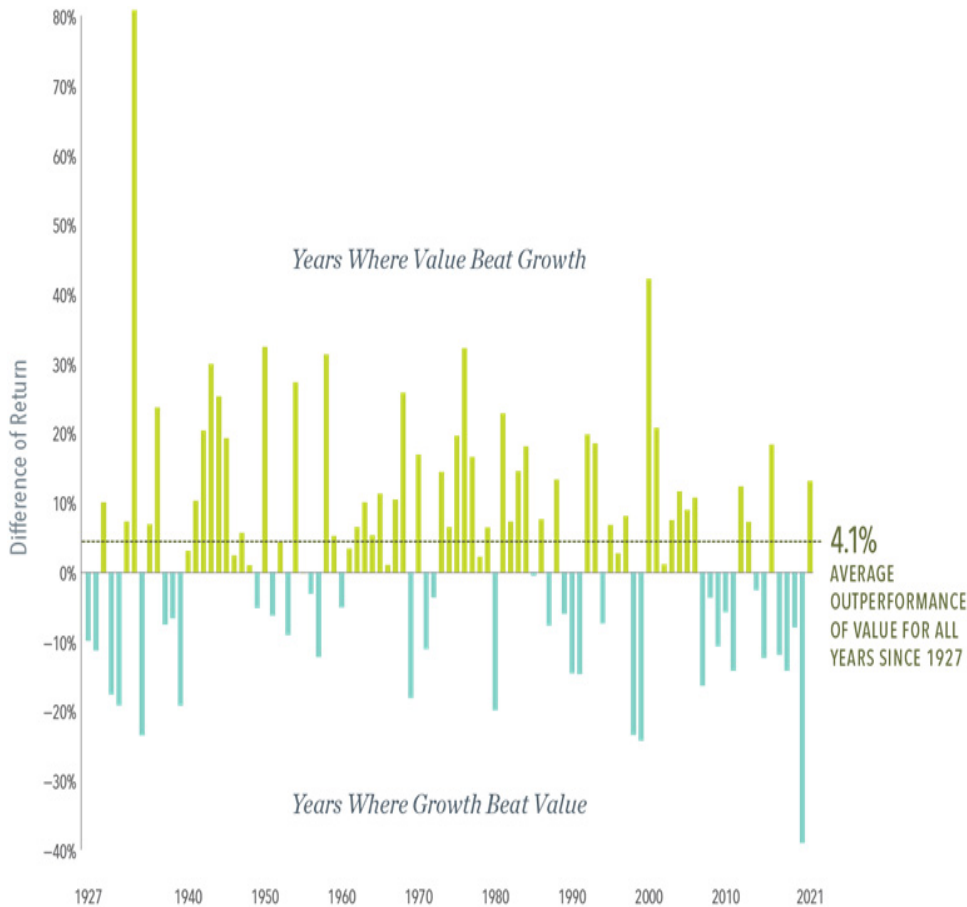
This performance gap was also remarkable in [small-](#) and [mid-cap](#) stocks.



Mar 04 2023, 1:15PM EST. Powered by YCHARTS

Source: YCharts, data for calendar year 2022. You cannot invest in an index, and past performance is no guarantee of future results.

History suggests this outperformance tends to be a multi-year cycle, not a one-time phenomenon, and, in fact, the “value outperforms” regimes have tended to last longer than the “growth outperforms” regimes.

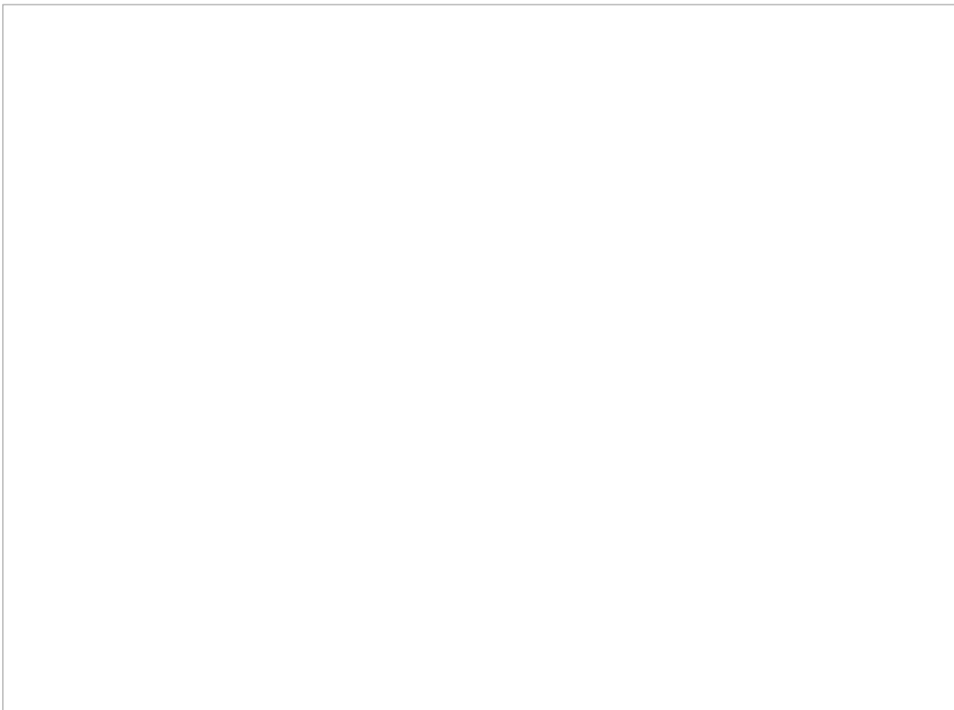


Source: Dimensional Fund Advisors, data from 1927–February 2022, for large-cap U.S. stocks. Past performance is no guarantee of future results. Investing risks include loss of principal and fluctuating value. There is no guarantee that an investment strategy will be successful. The Fama/French Indexes represent academic concepts that may be used in portfolio construction and are not available for direct investment or for use as a benchmark. Index returns are not representative of actual portfolios and do not reflect costs and fees associated with an actual investment.

Given [Fed](#) policy and the current trend in interest rates, we see no reason to expect growth stocks to “recover” anytime soon, due to the historical inverse relationship between the two.



Finally, despite the performance gap of 2022, valuation metrics still favor value stocks for fundamentally minded investors. Here we use two large iShares ETFs, IVE and IVW, as proxies for the [S&P 500 Value](#) and [Growth](#) Indexes, respectively.





Conclusions

Many WisdomTree products and most of our Model Portfolios have a distinct value tilt embedded into them—value is one of our fundamental “DNA” characteristics.

This stood us well in 2022, as value strongly rotated back into the “market lead” throughout the year.

Given the historical multi-year cycles in the value/growth rotation, we believe we are still in the “early innings” for value. 2023 year-to-date has been more volatile, with investors and the growth factor reacting strongly to real and perceived Fed interest rate decisions, but we believe this is a volatile short-term trend and not a “re-rotation” back into growth over any extended period of time.

In other words, we think the long reign of growth stocks over value stocks *“is over, it’s over now.”*

Our product suite is positioned well for this value market cycle, and we remain very comfortable with our Model Portfolio positioning as well, with its tilts toward value, [dividends](#), [size](#) and [quality](#).

You can learn more about our Model Portfolio allocations on the WisdomTree [Model Adoption Center](#).

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DEFINITIONS

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.

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.

FAANG: An acronym referring to the stocks of the five most popular and best-performing American technology companies: Facebook, Amazon, Apple, Netflix and Alphabet (formerly known as Google).

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

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.

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

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.

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

Size: Characterized by smaller companies rather than larger companies by market capitalization. This term is also related to the Size Factor, which associates smaller market-cap stocks with excess returns vs the market over time.

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 time.