
THE SWEET SPOT IN HIGH QUALITY, HIGH CAPITAL RETURN STOCKS

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S&P Dow Jones Indices (S&P) recently [released data about buybacks](#) in the [S&P 500 Index](#). The headline reads: “Q1 2021 S&P 500 Buybacks Double Their Post-Covid Low; Companies repurchased 36.5% more shares than in Q4 2020.”

The [WisdomTree U.S. Quality Shareholder Yield Fund \(QSY\)](#), which targets high-quality companies with high levels of capital return, has experienced an even greater [buyback](#) rebound than the S&P 500.

- In the first quarter of 2021, QSY’s buybacks increased 161% from the second quarter of 2020 vs. 101% reported by S&P. Quarter-over-quarter buybacks increased 41% for QSY vs. 37% for the S&P 500.
- According to S&P, roughly two-thirds (335 companies) of S&P 500 companies bought back at least \$5 million in shares in the first quarter. Meanwhile, 94 of the 125 companies in QSY, or three-fourths of the Fund, executed buybacks of at least \$5 million during the same period. Additionally, 27, or 22% of the companies held in QSY, reduced share count by more than 4% year over year, which compares to 6% for the S&P 500.
- Buybacks are top-heavy in the S&P 500. Per S&P, the top 20 stock repurchasers account for 53.3% of all buybacks. Twelve of those names are currently held in QSY and they were 10% of the Fund’s weight as of the end of the first quarter.

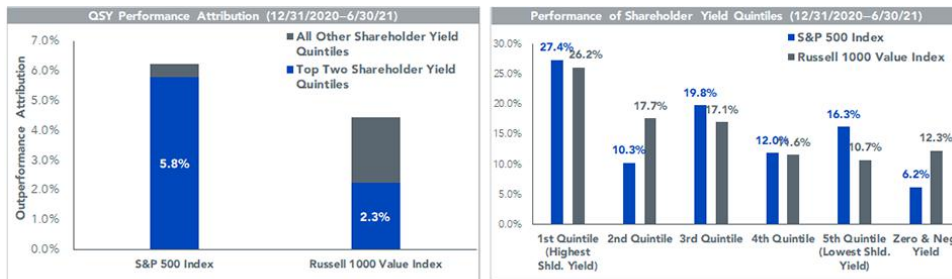
QSY – A Leading [Value](#) Fund

QSY’s 1-YR performance ranks in the top decile of funds within Morningstar’s Large Value category – it ranks in the 10th percentile of the 1214 funds included in the category, based on total returns.¹

Over the trailing one-year period, QSY has returned 48.9%, outperforming the S&P 500 (35.9%) and Russell 1000 Value (37.3%) Indices by at least 1,150 [basis points \(bps\)](#). Year-to-date, QSY has returned 22%, outperforming the S&P 500 and the [Russell 1000 Value Index](#), which have both returned 17%, by 500bps².

Companies in the top quintile of the S&P 500 and Russell 1000 Value index have been the top-performing subgroup year-to-date. QSY’s over-weight exposure to the high shareholder yield subgroups has driven the majority of its outperformance versus the benchmarks in the first half of 2021.

Performance data quoted represents past performance and is no guarantee of future results. Current performance may be lower or higher than the performance data quoted. Investment return and principal value will fluctuate so that an investor’s shares, when redeemed, may be worth more or less than original cost. Returns less than one year are not annualized. For current standard performance and expenses, visit www.wisdomtree.com



Sources: WisdomTree, FactSet, as of 6/30/21. Past performance is not indicative of future results. You cannot invest directly in an Index.

Lean into Quality and Shareholder Yield in the Back Half of 2021

My colleague recently wrote a great piece dissecting the quality factor and he makes a strong case, in my view, for long-term exposure to quality at the core of your portfolio. To paraphrase from Matt Wagner’s blog post, [Quality 101: What it Is and Why it Works](#)—high-quality companies have outperformed low quality stocks by 400 bps annualized, with lower [down capture](#) and downside deviation than the market³.

In theory, there should be a relatively high overlap between companies bucketed as high-quality and high capital return. Companies that are most operationally efficient (high quality) should be generating the most excess capital and therefore returning the most capital to shareholders through dividends and buybacks.

We know this does not necessarily hold true, but it is worth investigating how different reality is from theory in a follow up piece.

Part of the reason high quality is not a precondition to high capital return is because most industries do not have rules requiring that be the case, but some highly regulated industries do. U.S. banks are a good example of an industry where annual stress tests precede capital returns.

The [Federal Reserve](#) recently removed restrictions on bank [dividends](#) and buybacks, which were put in place in the wake of the COVID-19 pandemic. This development was not only a vote of confidence in the U.S. economic recovery but also a positive catalyst toward a return to pre-COVID levels of capital return across sectors.

As the U.S. economy recovers, we view QSY as well positioned in a high quality, high capital return sweet spot. Today’s case for QSY three-pronged and compelling—QSY offers investors 1) higher quality and 2) higher capital return, at a 3) discounted valuation relative to benchmark indexes.

	Forward P/E	Dividend Yield	Buyback Yield	Shareholder Yield	Return on Equity
QSY	14.2x	1.9%	2.8%	4.7%	17.3%
S&P 500 Index	22.7x	1.3%	0.8%	2.1%	15.0%
Russell 1000 Value Index	17.6x	1.9%	0.3%	2.2%	10.6%

Sources: WisdomTree, FactSet, as of 7/23/21.

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WisdomTree shares are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Total returns are calculated using the daily 4:00 p.m. EST net asset value (NAV). Market price returns reflect the midpoint of the bid/ask spread as of the close of trading on the exchange where Fund shares are listed. Market price returns do not represent the returns you would receive if you traded shares at other times.

This information must be preceded or accompanied by a prospectus. Please go to [www.wisdomtree.com](#) to view or download a prospectus. We advise you to consider the Fund’s objectives, risks, charges and expenses carefully before investing. The prospectus contains this and other important information about the Fund. Please read the prospectus carefully before you invest.

For standardized performance and 30-day SEC yield please click [here](#).

¹ Source: Morningstar. Past performance is not indicative of future results. QSY's 5-Yr

performance ranks in the 6th percentile out of 1016 Large Value funds based on total returns as of 6/30/2021.

² Performance for the period 12/31/20–7/21/21. QSY performance at NAV. Past performance is not indicative of future results.

³ Source: WisdomTree, Kenneth French Data Library, 6/30/1963–5/31/2021.

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DEFINITIONS

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.

Buyback: When a company uses its own cash to purchase its own outstanding shares; may positively impact the share price.

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.

Russell 1000 Index: A measure of the performance of the 1,000 largest companies by market capitalization in the Russell 3000 Index.

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.

Down Capture: Measure of the performance of an investment relative to a benchmark index during a down market.

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

Qualified dividends: Dividend paid by corporations meeting certain criteria defined by the Internal Revenue Service and therefore eligible in certain instances to be taxed at rates below a tax filer's tax bracket on ordinary income.