

# HIGH DIVIDENDS FOR STAGFLATION

Matt Wagner — Associate Director, Research

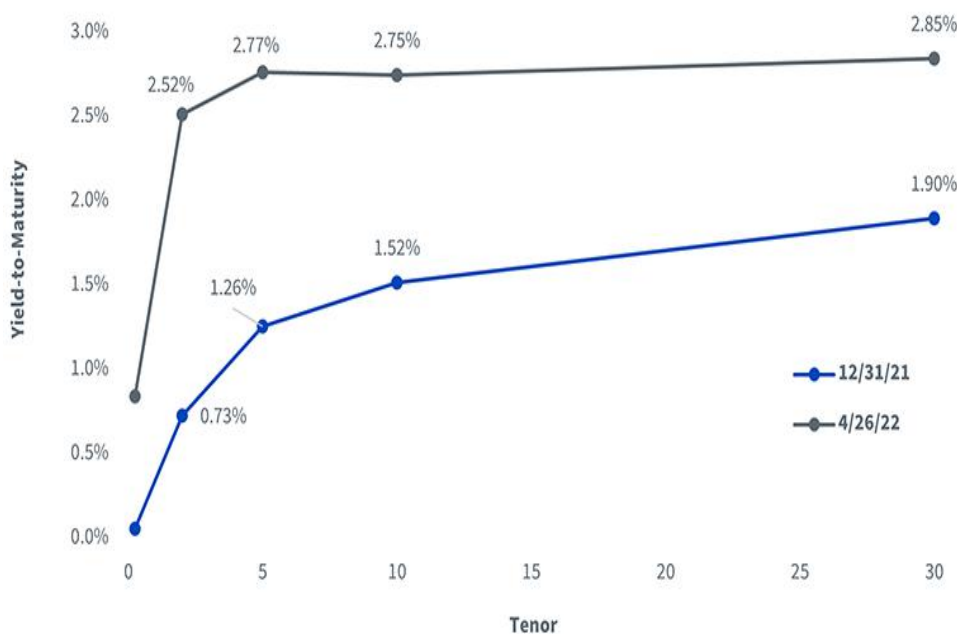
04/28/2022

The topic of [stagflation](#) and comparisons to the 1970s has reached a fever pitch recently.

For the first time in decades, concerns over out-of-control [inflation](#), a behind-the-curve [Federal Reserve](#) and a slowing economy are sending both equities and bonds tumbling.

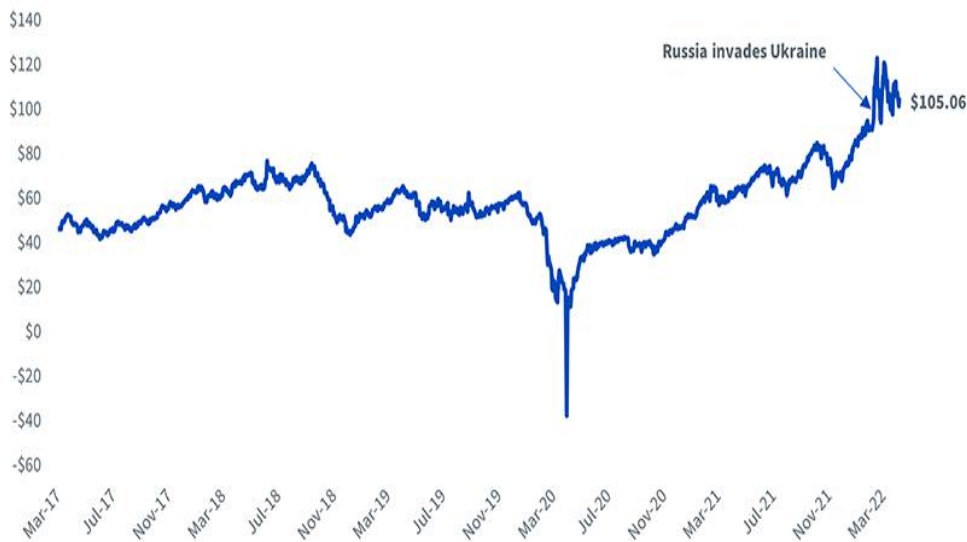
The main arguments underpinning the case for stagflation are a flat—and briefly inverted—[yield curve](#) that indicates expectations for an impending economic slowdown coupled with surging energy prices.

## Treasury Yield Curve



Sources: WisdomTree, FRED.

## WTI Spot Oil Prices per Barrel



Sources: WisdomTree, FRED, 3/21/17-4/26/22.

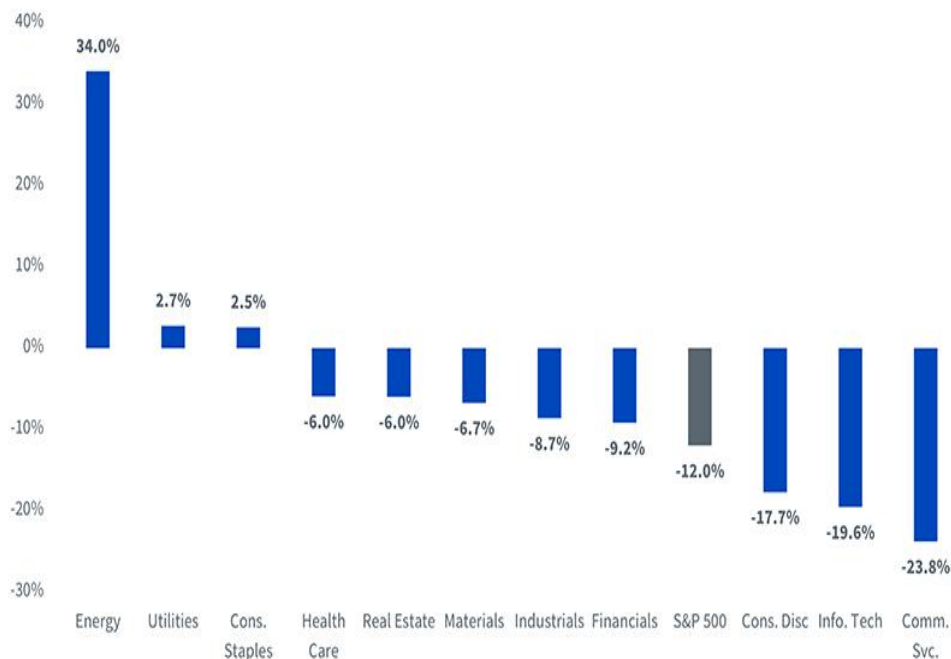
While stagflation may not be the base-case scenario for many investors, how to allocate in this scenario now requires at least some consideration.

### Sector Allocations

According to Bank of America research, the best-performing sectors during stagflation have historically been Utilities, Energy and Staples. The worst have been Consumer Discretionary, Information Technology and Communication Services.

Year-to-date performance has thus far favored the stagflation havens. Energy (+34%), Utilities (+3%) and Staples (+3%) have been the best performing sectors, while Consumer Discretionary (-18%), Information Technology (-20%) and Communication Services (-24%) have been the worst.

### Year-to-Date Sector Returns



Sources: WisdomTree, S&P, 4/26/22. You cannot invest directly in an index. Past performance is not indicative of future returns.

Sector performance can arguably be explained as much by stagflation concerns as by a rotation from [growth](#) to [value](#) after growth index multiples became wildly stretched and the forward [price-to-earnings ratio](#) of the [Russell 1000 Growth](#)

[Index](#) (32.0x) peaked at over two times the multiple on the [Russell 1000 Value Index](#) (15.8x) last November.

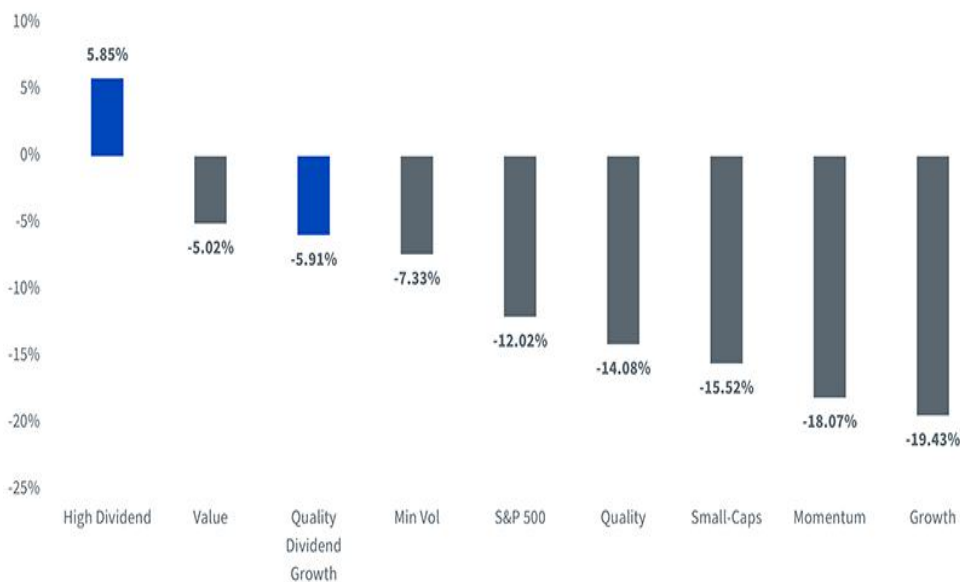
#### Relative P/E Ratios: Russell 1000 Growth/Russell 1000 Value



Sources: WisdomTree, FactSet, Russell, 4/30/02–3/31/22. You cannot invest directly in an index.

Amid this rotation, high dividends—which tend to skew toward value—have been one of the best-performing pockets of global equity markets.

#### YTD Factor Index Performance

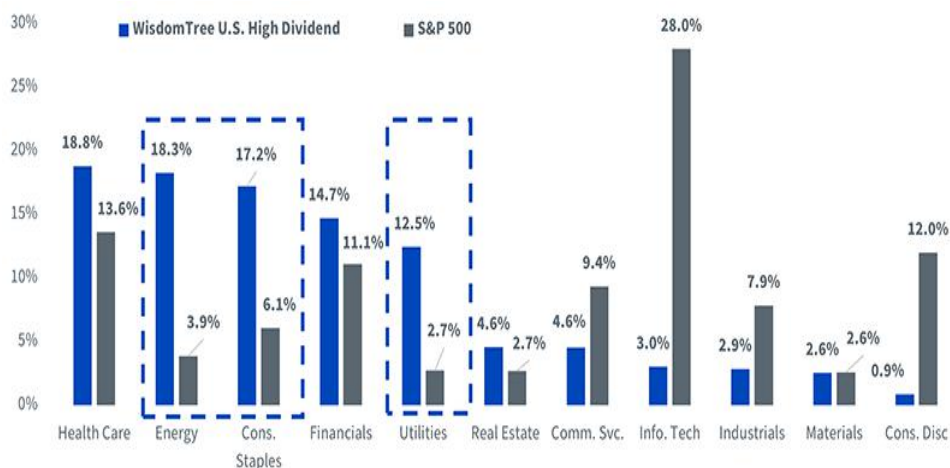


Sources: WisdomTree, FactSet, Russell, MSCI, S&P, 4/26/22. You cannot invest directly in an index. Past performance is not indicative of future returns. **High Dividend:** WisdomTree U.S. High Dividend Index. **Quality Dividend Growth:** WisdomTree U.S. Quality Dividend Growth Index. **Value:** Russell 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.

Sector allocations of the [WisdomTree U.S. High Dividend Index](#) are well aligned with the sectors that, according to BofA's research, tend to benefit the most from a stagflation environment. The Index has a combined over-weight of 35%

in Energy (+14%), Staples (+11%) and Utilities (+10%).

### Index Sector Weights

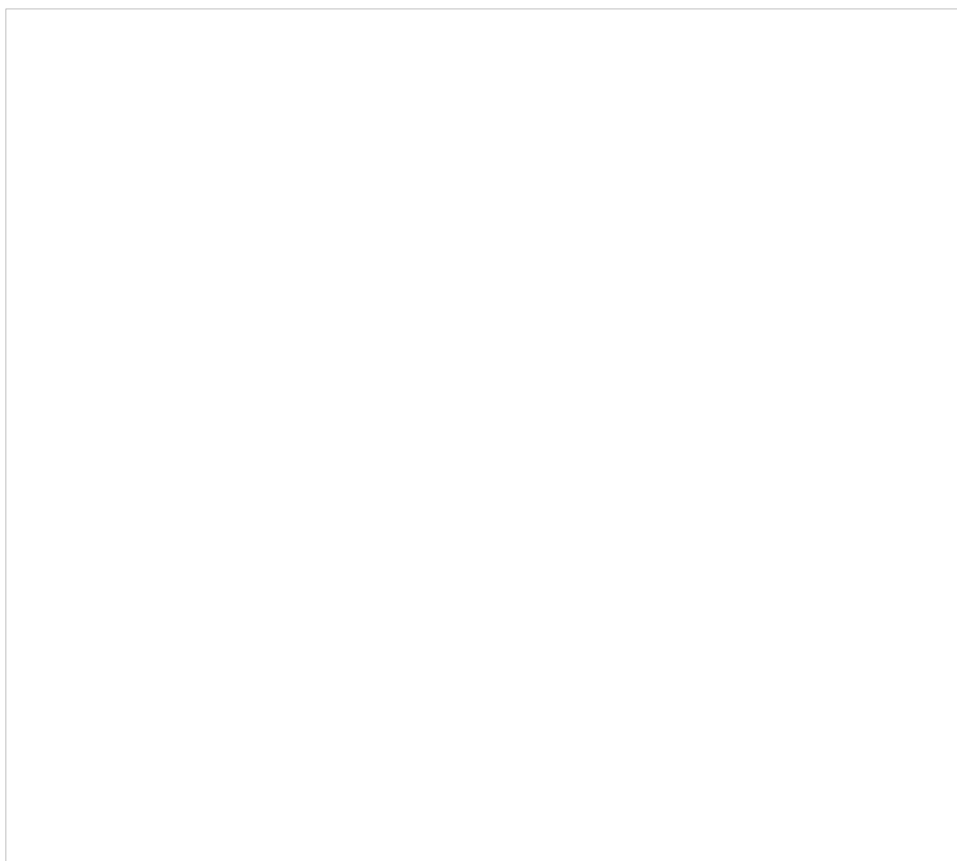


Sources: WisdomTree, FactSet, 3/31/22. You cannot invest directly in an index.

For clients considering how to allocate in a world of slow economic growth and persistently high inflation, an allocation to high-dividend payers may be just the solution.

To compare to the 1970s experience, the two highest-dividend-yield quintiles handily outperformed the market, and the lowest-dividend-yield companies were laggards.

### Cumulative Total Returns



### Important Risks Related to this Article

There are risks associated with investing, including possible loss of principal. Funds focusing their investments on certain sectors 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.

**Related Blogs**

+ [WisdomTree U.S. High 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

**Stagflation** : a situation in which the inflation rate is high, the economic growth rate slows.

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

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

**Curve** : Refers to the yield curve. Positioning on the yield curve is important to investors, especially during non-parallel shifts.

**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.

**Price-to-earnings (P/E) ratio** : Share price divided by earnings per share. Lower numbers indicate an ability to access greater amounts of earnings per dollar invested.

**Russell 1000 Growth Index** : A measure of the large-cap growth segment of the U.S. equity universe, selecting from the Russell 1000 Index.

**Russell 1000 Value Index** : A measure of the large-cap value segment of the U.S. equity universe, selecting from the Russell 1000 Index.