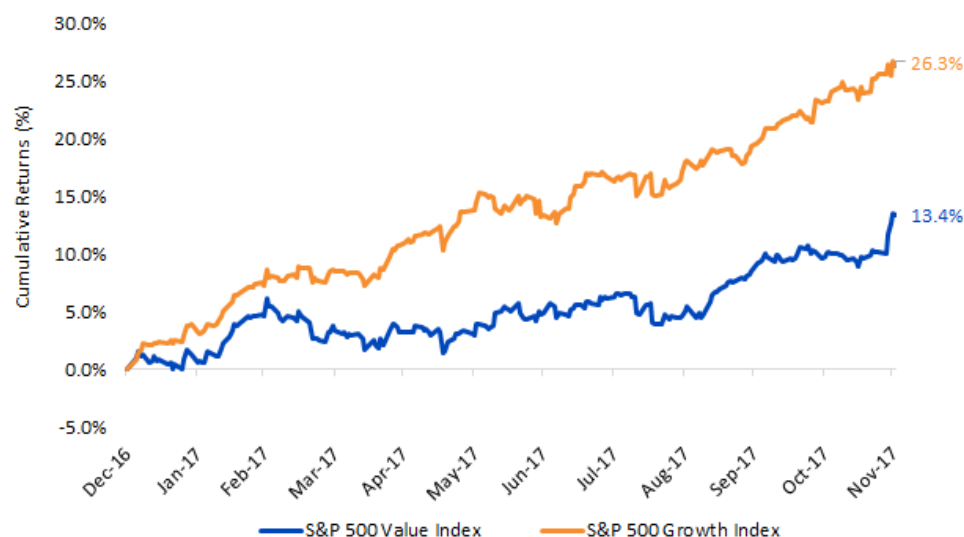


THE SURPRISING OUTPERFORMANCE OF A VALUE-TILTED STRATEGY IN 2017

Jeremy Schwartz — Global Chief Investment Officer
01/02/2018

2017 was the year of [growth](#) over [value](#)—year-to-date through December 1st, the [S&P 500 Growth Index](#) outperformed the [S&P 500 Value Index](#) by essentially double the return, or a 1,300 [basis point \(bps\)](#) spread.

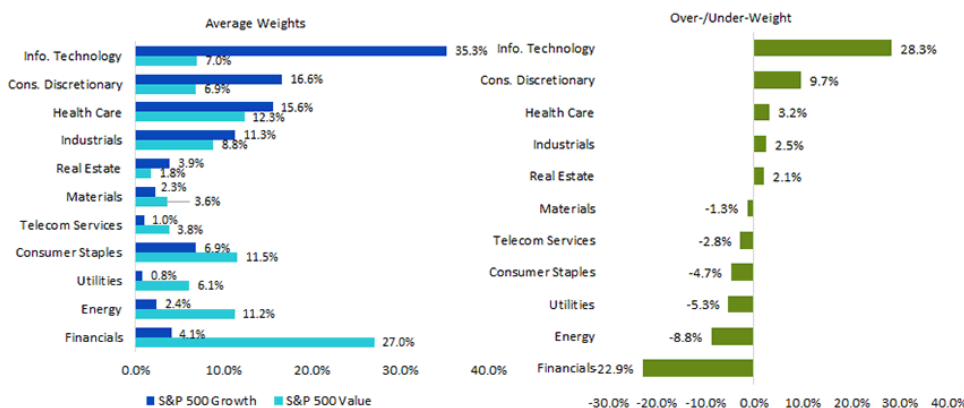
Year-to-Date Total Returns of Value vs. Growth



Sources: WisdomTree, Bloomberg, for the period 12/30/16–12/1/17. Past performance is not indicative of future results. You cannot invest directly in an index.

This performance advantage for growth investing largely stemmed from an over-weight in the Information Technology sector—approximately 800 bps of the differential was driven by Information Technology, with the other 500 bps or so coming from a combination of over-weights in Consumer Discretionary, under-weights in Energy and better Health Care stock returns.

Sector	Attribution Components				Average Sector Weights			Sector Performance	
	Allocation	Stock Selection	Interaction	Total Attribution	Index Weight	Benchmark Weight	+/- Wgt	Index Return	Benchmark Return
Information Technology	3.93%	0.86%	3.35%	8.14%	35.29%	6.97%	28.32%	40.76%	27.45%
Consumer Discretionary	0.12%	0.52%	0.76%	1.40%	16.59%	6.86%	9.74%	22.14%	14.76%
Energy	1.65%	-1.56%	1.25%	1.34%	2.37%	11.21%	-8.84%	-14.94%	-3.15%
Health Care	0.17%	0.82%	0.16%	1.15%	15.58%	12.34%	3.24%	25.36%	18.93%
Industrials	0.01%	0.81%	0.22%	1.04%	11.30%	8.81%	2.49%	22.36%	13.37%
Telecommunication Services	0.72%	0.36%	-0.27%	0.81%	1.00%	3.82%	-2.82%	-0.10%	-8.61%
Consumer Staples	0.22%	0.41%	-0.15%	0.48%	6.85%	11.52%	-4.67%	12.75%	9.76%
Real Estate	-0.14%	0.12%	0.14%	0.11%	3.86%	1.78%	2.08%	13.34%	7.07%
Materials	-0.09%	-0.05%	0.02%	-0.12%	2.27%	3.57%	-1.30%	20.61%	21.96%
Utilities	-0.24%	0.46%	-0.40%	-0.18%	0.80%	6.10%	-5.30%	26.00%	18.47%
Financials	-1.28%	2.31%	-1.96%	-0.93%	4.09%	27.04%	-22.95%	27.35%	18.51%
Total	5.06%	5.06%	3.12%	13.24%				26.70%	13.46%



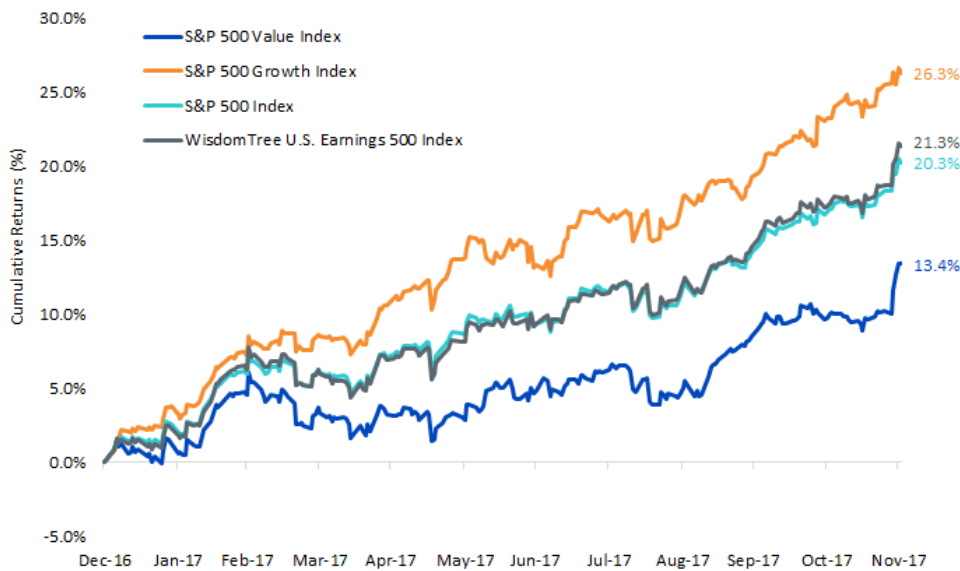
Sources: WisdomTree, FactSet. Average weights refer to the average weight over the analysis period. Allocation refers to the portion of return that is attributable to an over-weight in a particular sector or country vs. the benchmark. Stock selection refers to the portion of return that is attributable to the equities held vs. the benchmark. Interaction refers to the portion of the return attributable to the effects of how the selection and allocation effects interact with each other within the portfolio vs. the same effects in the benchmark. Past performance is not indicative of future results. You cannot invest directly in an index. Weights subject to change.

WisdomTree conducts an annual rebalance of its earnings-weighted family every December. This once-a-year process incorporates a rules-based discipline to sell what is becoming more expensive on a [price-to-earnings \(P/E\)](#) basis and buy what is becoming cheaper on that basis. This, by definition, incorporates an element of anti-[momentum](#) trading and [valuation](#) tilting to lower-priced segments of the market. With this headwind of value lagging growth considerably, you would think this was a difficult performance environment for the [WisdomTree U.S. Earnings 500 Index](#).

Returns-based style analysis shows a best-fit [regression](#) model for the WisdomTree U.S. Earnings 500 Index would be allocated 61% to the S&P 500 Value Index and 36% to the S&P 500 Growth Index, showing a clear value tilt.

But reviewing year-to-date returns through December 1st, the WisdomTree Earnings 500 Index outperformed the market. What is going on here?

Year-to-Date Total Return Comparison

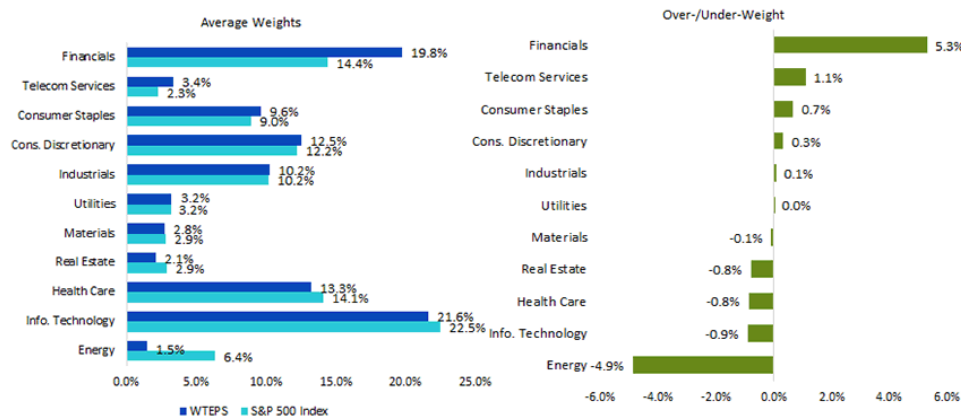


Sources: WisdomTree, Bloomberg, for the period 12/30/16–12/1/17. Past performance is not indicative of future results. You cannot invest directly in an index.

One key differential in the traditional value index and the WisdomTree U.S. Earnings 500 Index: the Information Technology sector was a drag on this index, as more expensive Information Technology stocks led the way higher. But unlike the S&P 500 Value Index, which only had 7% Information Technology, the WisdomTree U.S. Earnings 500 Index had its biggest sector exposure in Information Technology and only a modest 90 bps under-weight in the S&P 500.

The biggest addition to value add came from under-weights in the Energy sector.

WT U.S. Earnings 500 Index (WTEPS) vs. S&P 500 Index (12/30/16–11/30/2017)									
Sector	Attribution Components				Average Sector Weights			Sector Performance	
	Allocation	Stock Selection	Interaction	Total Attribution	WT Index Weight	Benchmark Weight	+/- Wgt	WT Index Return	Benchmark Return
Energy	1.49%	0.86%	-0.66%	1.69%	1.49%	6.37%	-4.87%	6.62%	-5.74%
Consumer Staples	-0.05%	0.33%	0.02%	0.30%	9.62%	8.96%	0.67%	14.92%	11.10%
Health Care	-0.02%	0.26%	-0.01%	0.23%	13.27%	14.12%	-0.85%	24.43%	22.57%
Industrials	0.00%	0.22%	0.00%	0.22%	10.25%	10.17%	0.08%	20.80%	18.69%
Financials	-0.06%	0.13%	0.05%	0.11%	19.75%	14.45%	5.31%	20.04%	19.18%
Materials	0.00%	0.11%	0.00%	0.11%	2.77%	2.85%	-0.08%	25.56%	21.47%
Utilities	0.00%	-0.03%	0.00%	-0.03%	3.19%	3.19%	0.01%	18.57%	19.48%
Real Estate	0.08%	-0.14%	0.03%	-0.03%	2.12%	2.92%	-0.80%	6.59%	11.30%
Telecommunication Services	-0.34%	0.02%	0.01%	-0.31%	3.38%	2.28%	1.10%	-6.25%	-6.73%
Consumer Discretionary	0.02%	-0.49%	-0.03%	-0.50%	12.53%	12.19%	0.33%	16.55%	20.63%
Information Technology	-0.14%	-0.59%	0.02%	-0.72%	21.62%	22.51%	-0.89%	36.19%	39.38%
Total	0.97%	0.67%	-0.57%	1.07%				21.56%	20.49%



Sources: WisdomTree, FactSet. Index inception date: 5/31/06. Average weights refer to the average weight over the analysis period. Allocation refers to the portion of return that is attributable to being over-weight in a particular sector or country vs. the benchmark. Stock selection refers to the portion of return that is attributable to the equities held vs. the benchmark. Interaction refers to the portion of return attributable to the effects of how the selection and allocation effects interact with each other within the portfolio versus the same effects in the benchmark. Past performance is not indicative of future results. You cannot invest directly in an index. Weights subject to change.

Rebalancing Sector Exposures

This Index rebalanced in the middle of December, and Energy stocks both had the worst returns but also growth in earnings this year off a low base, so Energy was the sector whose weight was primed to increase the most in the Index.

Information Technology stocks, which actually had the strongest performance, also saw really strong growth in earnings, so the weight of Information Technology was flat in this Index. This is some validation to its very strong gains in market prices that, as a group, weight was sustained in this high-performing sector.

Otherwise, changes to the Index at the rebalance were relatively modest.

WisdomTree believes valuation-oriented rebalancing becomes increasingly important as market multiples rise. This defines the market environment we've had over the last seven or eight years. If you are concerned with the S&P 500 P/E ratio approaching 23x,¹ a post-rebalance P/E ratio of the WisdomTree U.S. Earnings 500 Index has a price-to-earnings ratio of 18x to 19x earnings before any tax-related impacts. This is a reasonable price for a broad-based strategy of U.S. large caps, in our view.

¹Sources: WisdomTree, FactSet, as of 11/30/17.

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.

For more investing insights, check out our [Economic & Market Outlook](#)

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)

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

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.

S&P 500 Growth Index : A market capitalization-weighted benchmark designed to measure the growth segment of the S&P 500 Index.

S&P 500 Value Index : A market capitalization-weighted benchmark designed to measure the value segment of the S&P 500 Index.

Basis point : 1/100th of 1 percent.

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.

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.

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.

Regression analysis : statistical process for estimating the relationships among variables. It helps one understand how the typical value of the dependent variable (Y- variable) changes when any one of the independent variables is varied, while the other independent variables are held fixed.

Rebalance : An index is created by applying a certain set of selection and weighting rules at a certain frequency. WisdomTree rebalances, or re-applies its rules based selection and weighting process on an annual basis.