

---

# U.S. MID-CAPS REMAIN ATTRACTIVE AFTER JULY'S RALLY

Brian Manby – Associate, Investment Strategy  
08/19/2022

July offered investors a slight reprieve from the market [volatility](#) that has characterized the first half of 2022. Although most major equity indexes remain down more than 10% since January, investors got a brief taste of a midsummer “buy the dip” rally to kick off the third quarter. U.S. economic data remains surprisingly robust, encouraging investors that a soft landing from late-cycle recession fears may be possible. However, the highest inflation rates in decades remain an albatross for the [Federal Reserve](#).

Though the [risk-on](#) rally did little to quell losses from earlier this year, if July's [bull market](#) is any indication of forthcoming tranquility, it will be important to analyze potential opportunities before they may disappear.

U.S. [mid-cap](#) and mid-cap [value](#) are two areas that should not be overlooked.

## Valuations May Regain Upside

This year's volatility has compressed the peak [valuations](#) from late 2021, making most asset classes relatively more affordable across various metrics. Mid-caps are no exception.

The [Russell Midcap](#) and [Russell Midcap Value indexes](#) have seen their [price-to-earnings \(P/E\)](#) and forward P/E values (both excluding negative earners) retrace substantially by mid-summertime, both recently hovering around a 10% to 12% discount to their long-term averages. Despite July's rally, these are still among the steepest discounts observed for these asset classes dating back to 2002.

Even the [Russell Midcap Growth Index](#) has returned to more modest valuations, trading right around its long-term average for both measures.

Russell Midcap				
Metric	7/31/22 Value	Long-Term Avg.	Current Discount	Premium/Discount Percentile Rank (Higher = Better)
P/E	16.2x	18.2x	-11.0%	81.5%
Fwd. P/E	15.4x	17.1x	-9.6%	78.7%
P/B	2.8x	2.5x	12.8%	17.3%
P/S	1.7x	1.3x	31.2%	9.9%
PEG	1.1x	1.5x	-24.6%	93.5%

Russell Midcap Value				
Metric	7/31/22 Value	Long-Term Avg.	Current Discount	Premium/Discount Percentile Rank (Higher = Better)
P/E	13.8x	15.7x	-12.3%	82.8%
Fwd. P/E	13.6x	15.3x	-10.7%	81.9%
P/B	2.1x	1.8x	18.0%	16.5%
P/S	1.5x	1.1x	35.8%	11.6%
PEG	1.2x	1.7x	-29.3%	93.9%

Russell Midcap Growth				
Metric	7/31/22 Value	Long-Term Avg.	Current Discount	Premium/Discount Percentile Rank (Higher = Better)
P/E	24.8x	23.2x	6.9%	29.7%
Fwd. P/E	20.4x	20.5x	-0.1%	40.4%
P/B	6.7x	5.0x	35.0%	10.3%
P/S	2.6x	1.9x	36.4%	11.6%
PEG	1.2x	1.4x	-14.4%	86.9%

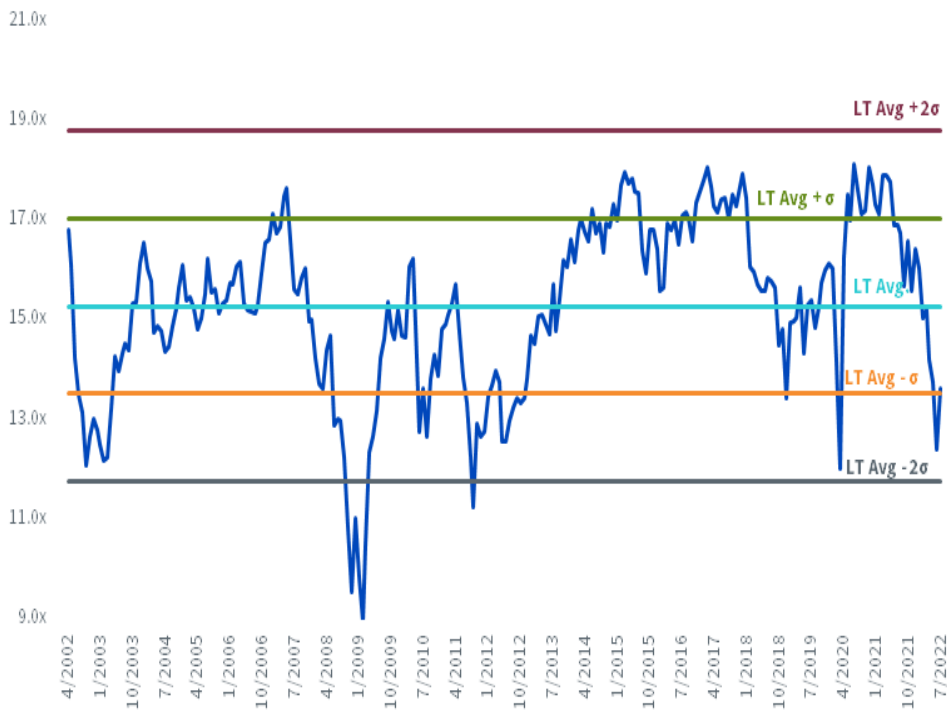
Source: WisdomTree, FactSet as of 7/31/2022. You cannot invest directly in an index. The measures above refer to the underlying securities of the holdings in the index portfolios and should not be considered reflective of future index performance.

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

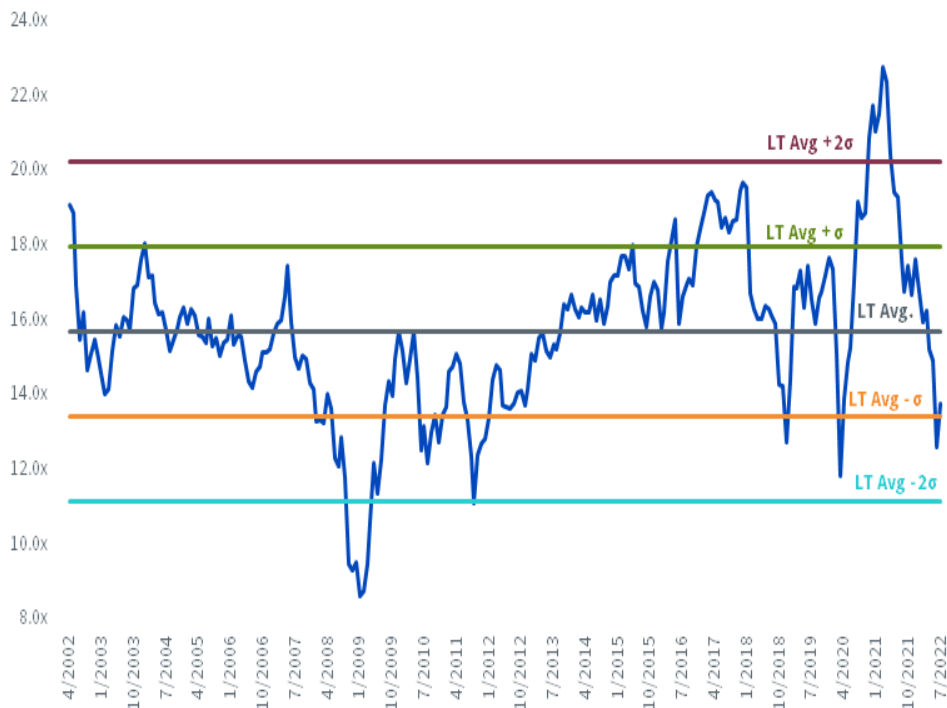
### Investing Opportunities

Although July's rally helped mid-cap value regain its footing, both valuation measures are still about a full [standard deviation](#) below their long-term averages. The [forward P/E](#) and [trailing P/E](#), both excluding negative earners, of the Russell Midcap Value finished July at a modest 13.6x and 13.8x, respectively.

**Historical Forward P/E (ex. Negative Earners) of Russell Midcap Value**



Historical P/E (ex. Negative Earners) of Russell Mid Cap value)



Source: WisdomTree, FactSet as of 7/31/2022. You cannot invest directly in an index. Past performance is not indicative of future results.

Compared to U.S. [large-cap](#) value, it almost appears as if the July rally didn't happen. Historically, mid-cap value commanded about a 5% to 7% *premium* to large-cap value on a price-to-earnings basis, yet it remains deeply discounted compared with its larger brethren through July.

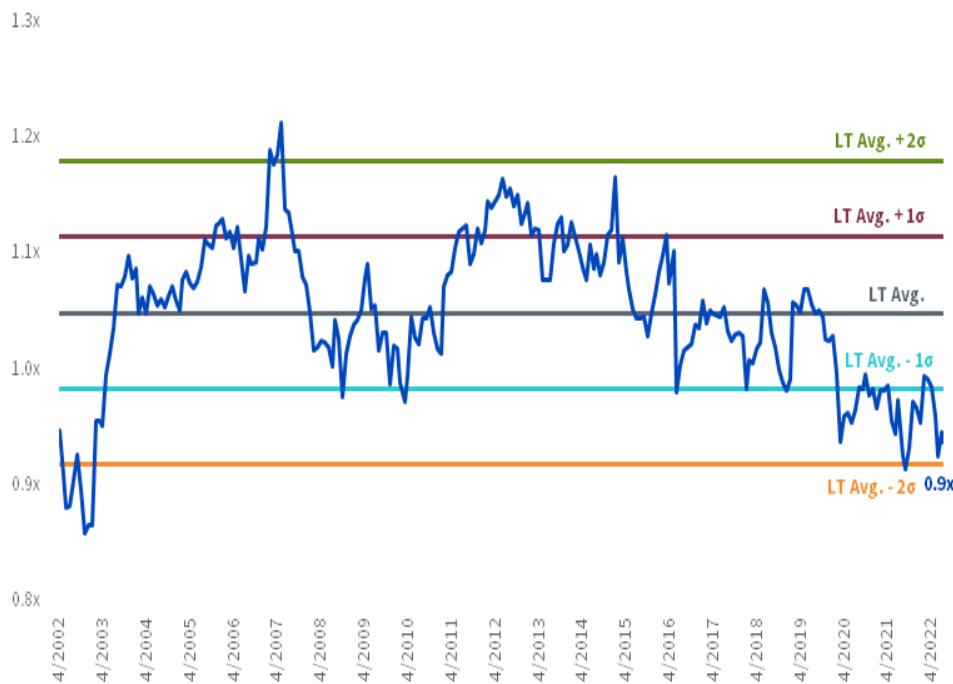
Current valuations remain about two standard deviations below their longer-term average. This implies that last month's rally may have disproportionately benefitted large-cap value more than mid-cap value. The latter may be poised to catch an overdue tailwind if

historical patterns after such bargains are upheld.

**Russell Midcap Value Fwd. P/E (ex. Negative Earners) vs. Russell 1000 value**



**Russell Midcap Value P/E (ex. Negative Earners) vs. Large Cap Value**



Source: WisdomTree, FactSet as of 7/31/2022. You cannot invest directly in an index. Past performance is not indicative of future results.

**Actionable Ideas for Mid-Cap value**

WisdomTree has preached the merits of mid-cap investing since launching the [WisdomTree U.S. MidCap Dividend Fund \(DON\)](#) in 2006. Its emphasis on dividends has also given it an explicit value tilt.

We believe that it looks attractive in today’s market, with valuations comfortably below long-term averages and discounts among the lowest observed since inception. It also may

offer an attractive entry point for investors looking to establish or maintain mid-cap value exposure amid a tenuous period for the U.S. economy.

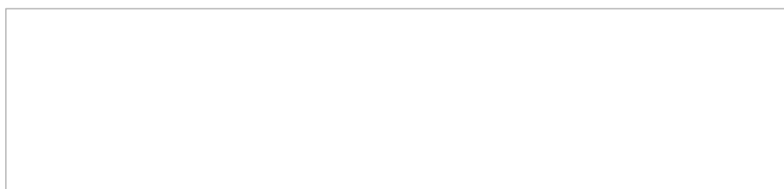
**WisdomTree U.S. MidCap Dividend Fund (DON)**

Metric	7/31/22 Value	Long-Term Avg.	Current Discount	Premium/Discount Percentile Rank (Higher = Better)
P/E	11.6x	17.4x	-33.3%	96.9%
Fwd. P/E	11.2x	16.8x	-33.3%	98.0%
P/B	2.1x	2.0x	3.8%	51.9%
P/S	1.2x	1.2x	-6.4%	68.4%
PEG	1.2x	2.1x	-43.8%	95.9%

Source: WisdomTree, FactSet as of 7/31/2022. Past performance is not indicative of future results. The measures above refer to the underlying securities of the holdings in the index portfolios and should not be considered reflective of future index performance.

But the valuations look even more compelling when you consider the underlying fundamentals that accentuate them. [DON](#) offers an advantage in value metrics, such as [dividend yield](#), and [quality](#) measures, such as [return on equity \(ROE\)](#) and [return on assets \(ROA\)](#), at a [discount](#) to broader mid-cap value markets.

**Fundamental Comparison**



*Performance is historical and does not guarantee future results. Current performance may be lower or higher than quoted. Investment returns and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. For the most recent standardized performance, 30-day SEC yield and month-end performance, click [here](#).*

Though it will require audacity to combat the narrative that a U.S. recession is imminent, mid-cap equities may be a worthwhile asset class to weather whatever the near-term economic future holds.

**Important Risks Related to this Article**

This material must be preceded or accompanied by 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. Please read the [prospectus](#) carefully before investing.

There are risks associated with investing, including possible loss of principal. Funds focusing their investments on certain sectors and/or smaller companies may be more vulnerable 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 the top 10 holdings of DON please visit the Fund's fund detail page at <https://www.wisdomtree.com/investments/etfs/equity/don>

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 Funds**

+ [WisdomTree U.S. MidCap 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

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

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

**Risk-on/risk-off**: refers to changes in investment activity in response to perceived risk. During periods when risk is perceived as low, investors tend to engage in higher-risk investments. When risk is perceived as high, investors tend to gravitate toward lower-risk investments.

**Bullish**: a position that benefits when asset prices rise.

**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.

**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.

**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.

**Russell Midcap Index**: The Russell Midcap Index measures the performance of the mid-cap value segment of the U.S. equity universe. It includes those Russell Midcap Index companies with lower price-to-book ratios and lower forecasted growth values.

**Russell MidCap Value Index**: measures the performance of the mid-cap value segment of the U.S. equity universe. It includes those Russell Midcap Index companies with lower price-to-book ratios and lower forecasted growth values.

**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 Midcap Growth Index**: Measures the performance of the mid-cap growth segment of the U.S. equity universe. It includes those Russell Midcap Index companies with higher price-to-book ratios and higher forecasted growth values.

**Standard deviation**: measure of how widely an investment or investment strategy's returns move relative to its average returns for an observed period. A higher value implies more "risk", in that there is more of a chance the actual return observed is farther away from the average return.

**Forward P/E ratio**: Share price divided by compilation of analyst estimates for earnings-per-share over the coming 12-month period. These are estimates that may be subject to revision or prove to be incorrect over time.

**Trailing Price-to-earnings (P/E) ratio**: Trailing Price-to-earnings (P/E) ratio: Share price divided by trailing 12-month earnings per share. Lower numbers indicate an ability to access greater amounts of earnings per dollar invested.



**Large-Capitalization (Large-Cap)**: A term used by the investment community to refer to companies with a market capitalization value of more than \$10 billion. Large cap is an abbreviation of the term “large market capitalization”. Market capitalization is calculated by multiplying the number of a company’s shares outstanding by its stock price per share.

**Premium**: When the price of an ETF is higher than its NAV.

**Dividend yields**: Refers to the trailing 12-month dividend yield. Dividends over the prior 12 months are added together and divided by the current share price. Higher values indicate more dividends are being generated per unit of share price.

**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.

**Return on Equity (ROE)**: Measures a corporation’s profitability by revealing how much profit a company generates with the money shareholders have invested.

**Return on assets (ROA)**: Firm profits (after accounting for all expenses) divided by the firm’s total assets. Higher numbers indicate greater profits relative to the level of assets utilized to generate them.

**Discount**: When the price of an ETF is lower than its NAV.