

VALUE STRIKES BACK

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[Large-cap growth](#) stocks outperformed [small-cap value](#) stocks by over 700 basis points (bps) annualized from 2012 to 2021.¹

This stretch of whopping outperformance—a cumulative gain of 508% for large growth versus 211% for small value—stands in stark contrast to the findings of academic research into long-run historical returns.

The table below shows the historical returns of U.S. equities sorted into 25 portfolios by price-to-book and market cap from the Kenneth French Data Library.

The returns for these portfolios show a clear trend toward increasing returns for portfolios with lower [price-to-book](#) multiples (more value) and smaller [market caps](#).²

The [spread](#) in returns between the portfolio in the top right corner (lowest price-to-book and smallest size) and the bottom left corner (highest price-to-book and largest size) was over 600 bps annualized.

Fama/French U.S. 5x5 Portfolios: Size x Price-to-Book

Full Period 6/30/1926–3/31/2022						
		Price-to-Book Multiples				
		Highest Multiple (Growth)	High	Mid	Low	Lowest Multiple (Value)
Size Segment	Smallest	2.6%	6.9%	11.2%	14.5%	16.2%
	Small	7.5%	12.0%	12.7%	13.5%	15.0%
	Mid	9.3%	12.3%	12.6%	13.5%	13.5%
	Large	10.3%	11.2%	11.9%	12.8%	12.4%
	Largest	10.1%	9.8%	10.5%	9.0%	10.9%

Sources: WisdomTree, Kenneth French Data Library. Universe is all NYSE, AMEX and NASDAQ stocks. Size segment = market capitalization. Returns are average annual returns. Past performance is not indicative of future results.

Value Reversal

While it has felt like a long winter for value investors, the reality is that growth outperformance only took off in the four-year stretch between 2017–2020 and was supercharged by the economic circumstances of the Covid-19 pandemic, which favored “stay-at-home” friendly growth stocks.

In fact, between 2012 and 2016, value had a five-year stretch of outperformance over growth across large-, [mid-](#) and small-caps.

Trailing 10-Year Style Box Returns: 2012–2021

2012	2013	2014	2015	2016	2012-2016*
Mid Value - 18.5%	Small Growth - 43.3%	Mid Value - 14.7%	Large Growth - 5.7%	Small Value - 31.7%	Mid Value - 15.7%
Small Value - 18.1%	Small Blend - 38.8%	Large Value - 13.5%	Large Blend - 0.9%	Small Blend - 21.3%	Small Value - 15.1%
Large Value - 17.5%	Mid Growth - 35.7%	Large Blend - 13.2%	Mid Growth - -0.2%	Mid Value - 20.0%	Large Value - 14.8%
Mid Blend - 17.3%	Mid Blend - 34.8%	Mid Blend - 13.2%	Small Growth - -1.4%	Large Value - 17.3%	Mid Blend - 14.7%
Large Blend - 16.4%	Small Value - 34.5%	Large Growth - 13.0%	Mid Blend - -2.4%	Mid Blend - 13.8%	Large Blend - 14.7%
Small Blend - 16.3%	Large Growth - 33.5%	Mid Growth - 11.9%	Large Value - -3.8%	Large Blend - 12.1%	Large Growth - 14.5%
Mid Growth - 15.8%	Mid Value - 33.5%	Small Growth - 5.6%	Small Blend - -4.4%	Small Growth - 11.3%	Small Blend - 14.5%
Large Growth - 15.3%	Large Blend - 33.1%	Small Blend - 4.9%	Mid Value - -4.8%	Mid Growth - 7.3%	Small Growth - 13.7%
Small Growth - 14.6%	Large Value - 32.5%	Small Value - 4.2%	Small Value - -7.5%	Large Growth - 7.1%	Mid Growth - 13.5%
2017	2018	2019	2020	2021	Full Period 2012-2021*
Large Growth - 30.2%	Large Growth - -1.5%	Large Growth - 36.4%	Large Growth - 38.5%	Mid Value - 28.3%	Large Growth - 19.8%
Mid Growth - 25.3%	Mid Growth - -4.8%	Mid Growth - 35.5%	Mid Growth - 35.6%	Small Value - 28.3%	Mid Growth - 16.6%
Small Growth - 22.2%	Large Blend - -4.8%	Large Blend - 31.4%	Small Growth - 34.6%	Large Growth - 27.6%	Large Blend - 16.5%
Large Blend - 21.7%	Large Value - -8.3%	Mid Blend - 30.5%	Large Blend - 21.0%	Large Blend - 26.5%	Mid Blend - 14.9%
Mid Blend - 18.5%	Mid Blend - -9.1%	Small Growth - 28.5%	Small Blend - 20.0%	Large Value - 25.2%	Small Growth - 14.1%
Small Blend - 14.6%	Small Growth - -9.3%	Mid Value - 27.1%	Mid Blend - 17.1%	Mid Blend - 22.6%	Mid Value - 13.4%
Large Value - 13.7%	Small Blend - -11.0%	Large Value - 26.5%	Mid Value - 5.0%	Small Blend - 14.8%	Small Blend - 13.2%

19.7%	-11.9%	20.9%	3.9%	17.0%	19.2%
Mid Value -	Mid Value -	Small Blend -	Small Value -	Mid Growth -	Large Value -
13.3%	-12.3%	25.5%	4.6%	12.7%	13.0%
Small Value -	Small Value -	Small Value -	Large Value -	Small Growth -	Small Value -
7.8%	-12.9%	22.4%	2.8%	2.8%	12.0%

Sources: WisdomTree, Russell. Large-, mid- and small-cap indexes are the Russell 1000, Russell Midcap and Russell 2000 Indexes, respectively, and their corresponding growth and value style indexes. Index returns are gross total returns. You cannot invest directly in an index. Past performance is not indicative of future returns. *Returns are annualized.

With the resounding comeback of value in recent months, the question is, was the 2017–2020 period of outperformance for growth more of an anomaly, like past periods of sharp outperformance of growth stocks such as the late '90s/early 2000s tech bubble?

To put the magnitude of this reversal into some context, since the final trading day before the Pfizer vaccine announcement in November 2020, small-cap value has outperformed large-cap growth by an eye-popping 21.15% annualized.

Russell Style Index Returns, as of 5/10/22

Since 11/06/20 (Pfizer Vaccine Announcement) - Annualized			
	Value	Blend	Growth
Large	17.66%	9.14%	1.50%
Mid	18.90%	8.48%	-9.00%
Small	22.65%	5.80%	-9.09%

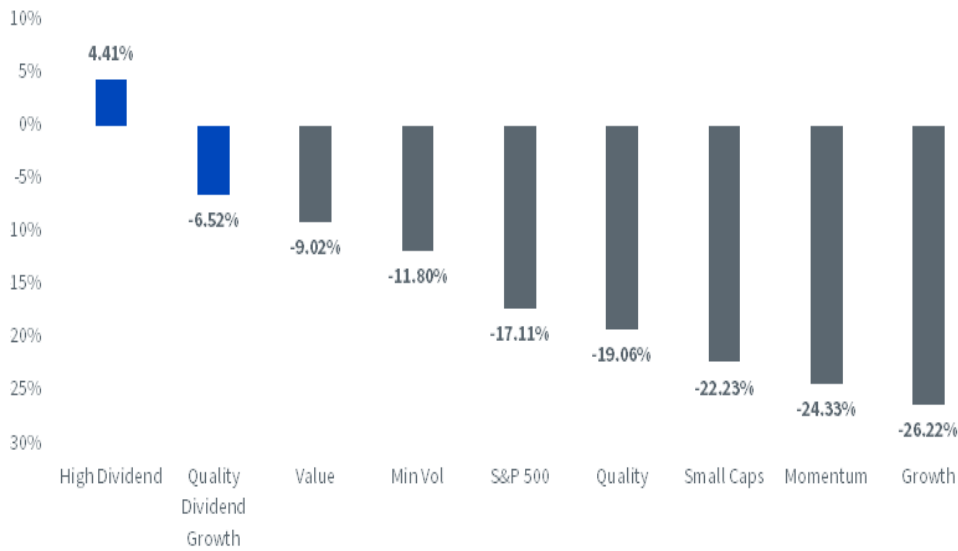
Sources: WisdomTree, Russell. Large-, mid- and small-cap indexes are the Russell 1000, Russell Midcap and Russell 2000 Indexes, respectively, and their corresponding growth and value style indexes. Index returns are gross total returns. You cannot invest directly in an index. Past performance is not indicative of future returns.

Dividends as Measure of Value

With value beating growth by over 17% year-to-date,³ [dividend](#)-oriented indexes, which tend to have high overlap with traditional value indexes, have fared even better. High dividend equities are up over 4% and quality dividend growth stocks have outperformed the [S&P 500](#) by 10.59%.

According to Bank of America Quant Research, the high [dividend yield](#) factor was the best-performing factor year-to-date through April of all approximately 50 equity factors it tracks.⁴

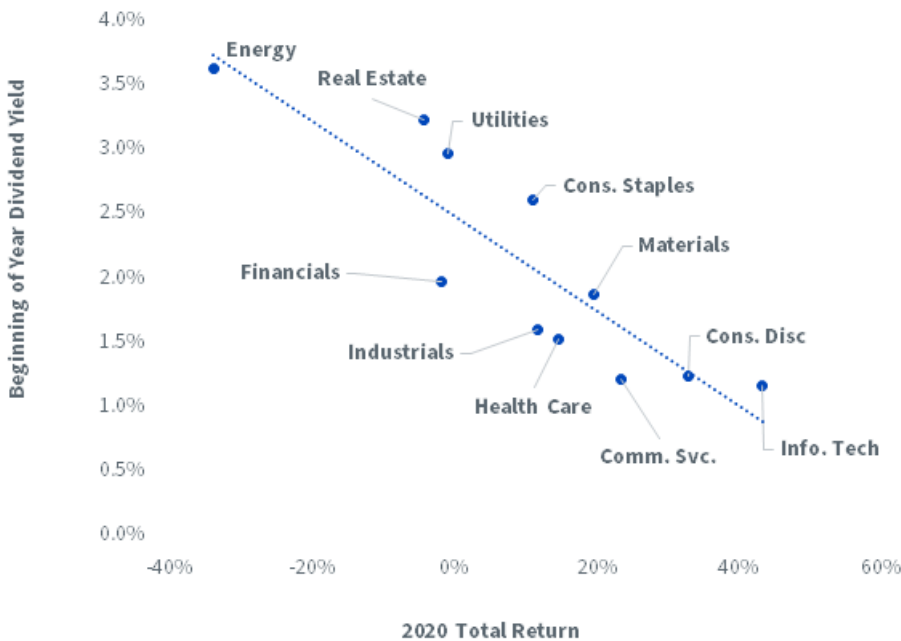
U.S. Factor Return YTD, as of 5/13/22



Sources: WisdomTree, FactSet, Russell, MSCI, S&P. 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.

The outperformance of high dividends is a reversal of what worked in 2020. That year, there was a clear negative relationship between a sector’s dividend yield and total returns as investors favored high-growth “story” stocks.

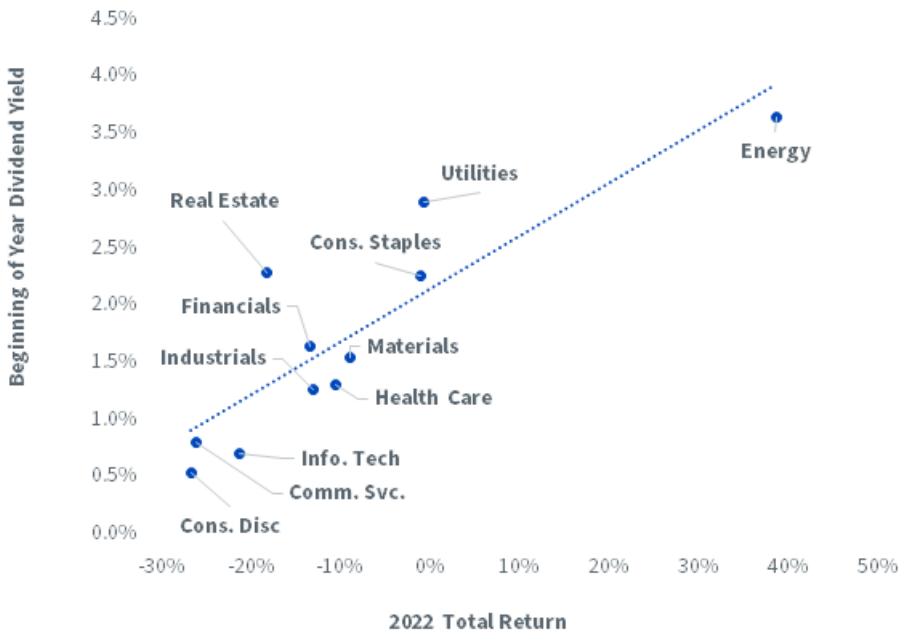
2020: Low Dividend Yielding Sectors Performed Best



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

This year, the trendline has been flipped. Now there’s a positive and upward sloping relationship between a sector’s dividend yield and total return, as investors have shifted toward favoring cash flows.

2022 Highest Dividend Yield Sectors Performed Best



Sources: WisdomTree, FactSet, S&P, as of 5/11/22. You cannot invest directly in an index. Past performance is not indicative of future returns.

What's Next?

There is a compelling case that the factors contributing to the outperformance of dividend stocks this year seem likely to persist:

- **Higher rates:** As the Fed aggressively hikes short-term rates it stands to reason investors will prefer the current cash flows of dividends over the uncertainty of non-dividend-paying growth stocks.
- **Inflation protection:** Dividend growth has historically outpaced inflation. Because stocks are real assets with profits that increase with inflation, dividend payouts also grow with inflation—unlike bond coupons.
- **Economic slowdown:** The U.S. economy registered negative growth in the first quarter, raising the prospects that the economy may be in—or entering—a soft patch. During economic slowdowns investors tend to prefer the relative safety of dividend payments.

For more information on dividends and the performance of dividend-paying equities, check out our [monthly Dividend Monitor](#).

¹ Comparing Russell 2000 Value to Russell 1000 Growth Total Returns.

² The outlier to this trend is the underperformance of smaller market-cap portfolios in the highest and high price-to-book segments. The expected positive size effect does not offset the negative expected effect of a higher price-to-book multiple and leads to lower returns in the highest price-to-book portfolios when going down the size segments.

³ Comparing Russell 1000 Value to Russell 1000 Growth Total Returns.

⁴ Bank of America Global Research, "Quantitative Profiles: Welcome to a Total Return World," 5/11/22.

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.

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You cannot invest directly in an index.

DEFINITIONS

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.

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.

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

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-book ratio : Share price divided by book value per share. Lower numbers indicate an ability to access greater amounts of earnings per dollar invested.

Market Capitalization : Market cap = share prices x number of shares outstanding. Firms with the highest values receive the highest weights in approaches designed to weight firms by market cap.

Spread : Typically refers to a difference between a measure of yield for one asset class and a measure of yield for either a different subset of that asset class or a different asset class entirely.

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.

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

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.

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.

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

Rate Hike : refers to an increase in the policy rate set by a central bank. In the U.S., this generally refers to the Federal Funds Target Rate.

Operating cash flow : Measure of the amount of cash generated by a company's normal business operations, calculated by adjusting net income for items like depreciation and changes in inventory and receivables.

Inflation : Characterized by rising price levels.

Russell 2000 Value Index : measures the performance of small-cap value segment of the U.S. equity universe. It includes those Russell 2000 Index companies with lower price-to-book ratios and lower forecasted growth values.

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