THE CRISIS-STRICKEN STOCK MARKET IS FAVORING DIVIDEND SCREENS

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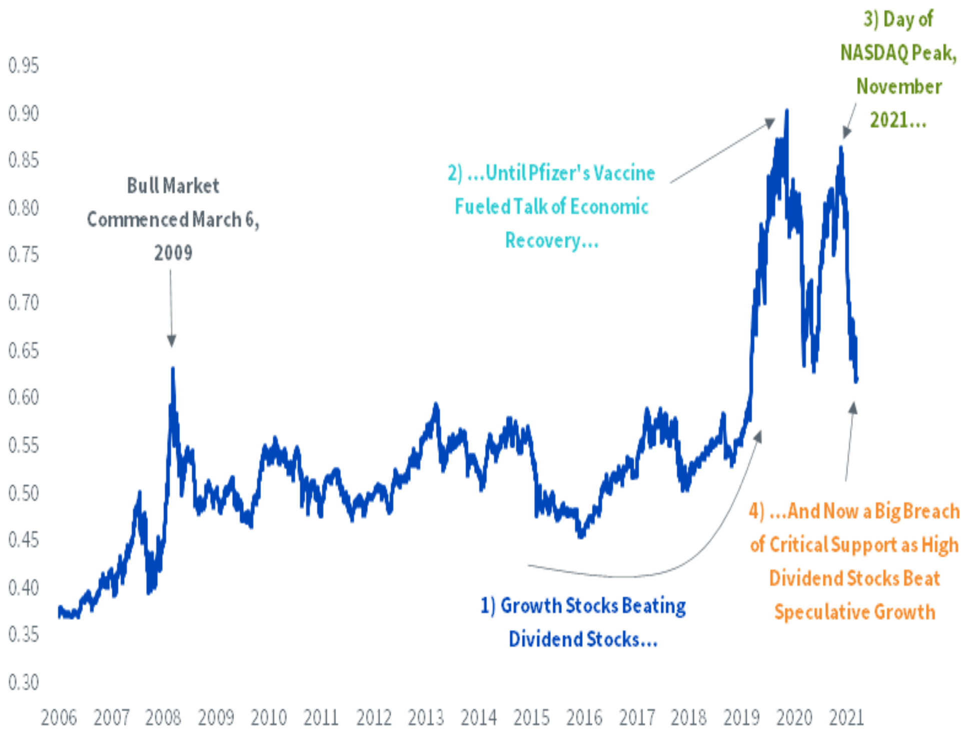
Speculative stocks have had an ugly five months. The S&P 500 Pure Growth Index, which tracks the "growthiest" of growth stocks, has ceded a huge chunk of its prior outperformance relative to dividend-paying value stocks (figure 1).

It all started in November, around the time the Street started coming to terms with "transitory" inflation being not-so-transitory.

And it's been wild.

The ratio between the S&P 500 Pure Growth Index and the S&P 500 High Dividend Index has not only come crashing down—meaning growth stocks are underperforming—but it just took out support from a critical transition day: March 6, 2009. That was when the 2007–2009 bear market turned into the 2009–2021 bull market.

Figure 1: S&P 500 Pure Growth Index Divided by S&P 500 High Dividend Index



Source: Refinitiv, as of 3/29/22, using total returns. Past performance is not indicative of future results. You cannot invest directly in an index.

When the banking system failed in 2008, growth beat value. As society recovered, everything switched; value started beating growth.

The two sides of the coin looked like this:

2008 Fear: Growth Beat Value
2009 Recovery: Value Beat Growth

Today, it's the opposite.

When fear strikes, value has held up better than growth. When the bulls get the upper hand, growth has seen relief.

Covid Reopening Has Morphed into "Stay Home Because of Gas Prices"

Three hundred dollars per barrel, "if not more." That was the warning from Russia's Deputy Prime Minister Alexander Novak on state TV on March 7, as the West tried to figure out how to freeze out Russian oil. He is of course going to say that, so I don't want to spend the time wondering about $300 oil just yet.

Instead, I point it out because maybe $300 is the new "shock number." The big, bold call used to be $100. When I was very young and starting to pay attention to these things in the 1990s, I specifically remember it being wildly bullish if you called for the high, high, high price of $30 per barrel.

Ask yourself: if the Energy team at Goldman were to put out a $200/barrel forecast right now, would you laugh them out of the room? I'd read that report. It's not so outlandish; Rystad Energy, the huge consultancy, says we could get there.

Let's say it doesn't get that bad. Instead, Brent crude goes sideways, chopping around its current $109 level. That is still high enough to make stagflation dominate the conversation.

One of the reasons our value mandates have held strong is due to the natural grab for Energy stocks when you run a dividend screen. One of our flagships, the WisdomTree U.S. LargeCap Dividend Fund (DLN), has 8% in the sector. In contrast, the Russell 1000 only has 2.5% in the group, leaving it with very few winners during the oil-induced stock market panics of recent months.

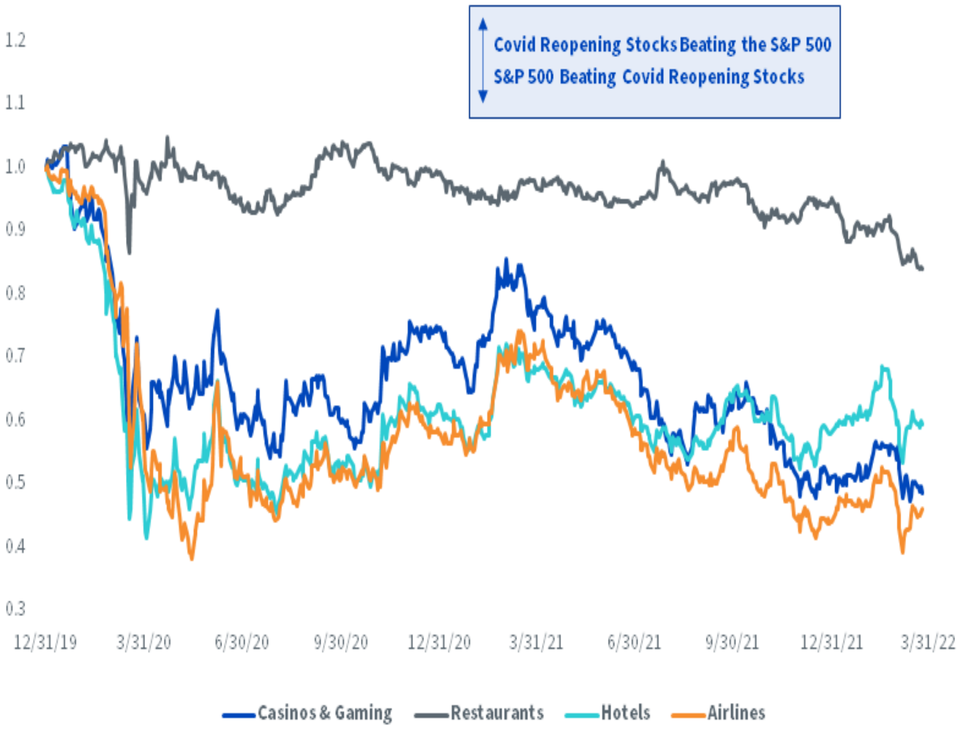
The market has followed the public's frustration with inflation. In recent weeks, Moroccan truckers have planned a three-day strike over fuel prices. Italian heavy goods truckers are also planning protests, while there is talk of the same in Ireland too. The public has come into the streets in both Pakistan and Yemen, both because of inflation.

If you had to use a word or two to describe the stock market in 2020, it would be "Covid." For 2021, perhaps "recovery." For 2022, maybe it will be "inflation protests."

Inside the S&P 500, the action has been problematic for industry groups most associated with Covid reopening, now that the middle class is giving second thought to driving the kids to Disney World with gasoline at $5 in many states.

Casinos, restaurants and hotels have all slid harder than the broad market lately, and unnervingly so. Airlines were finally seeing light at the end of the Covid tunnel, but surging jet fuel prices have the market concerned for that industry too.

Figure 2: Covid Reopening Industries Relative to S&P 500

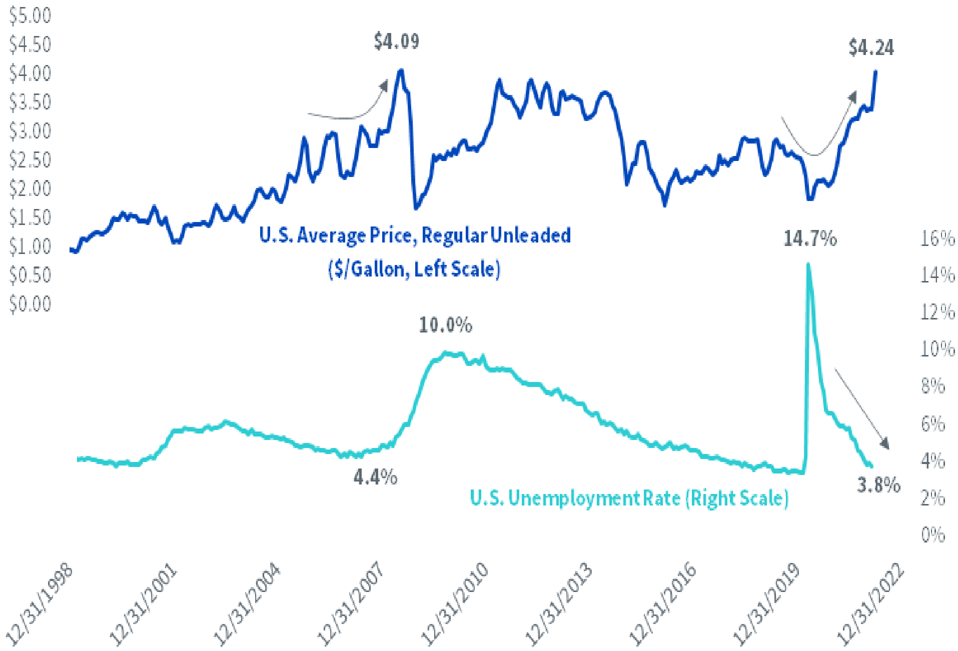


Source: Refinitiv, as of 3/29/22. Past performance is not indicative of future results. You cannot invest directly in an index.

Look at the tumble in the stock prices of the companies whose offerings consumers choose to purchase—a hotel room, a restaurant meal—and it's plain to see that the stock market is sending a message: it is time to respect recession risk. I'm not quite there yet, but it's on the radar. Let me explain why I'm not completely freaking on American consumer health.

Unlike the crescendo of the 2008 oil crisis, labor market conditions today are improving, not collapsing. Look at the "Help Wanted" signs in your own neighborhood. It's a far cry from the image etched into my own brain the last time gasoline was in crisis: Lehman employees carrying cardboard boxes out of the building.

Figure 3: U.S. Average Gasoline Price vs. Unemployment

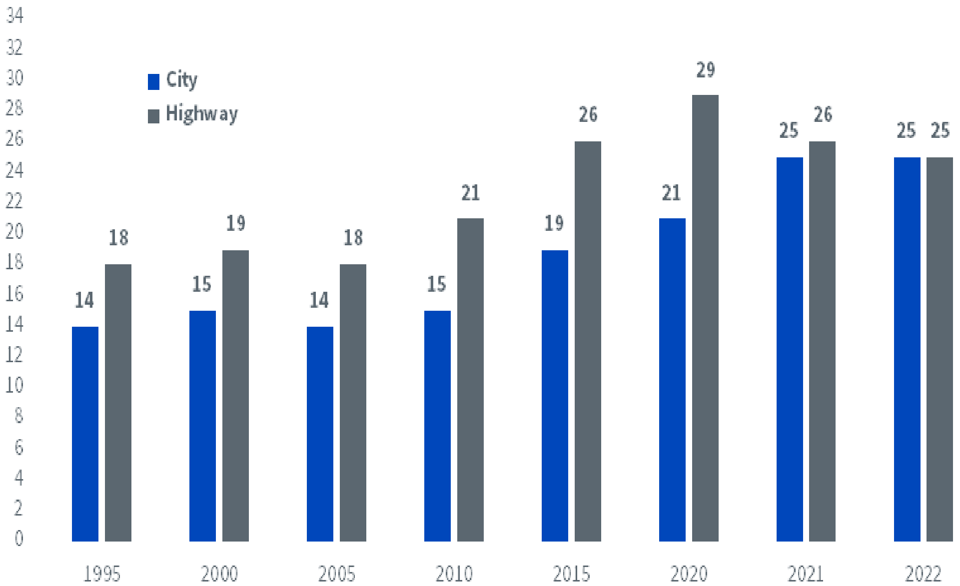


Sources: Bureau of Labor Statistics, AAA, as of 3/29/2022.

And the cars we drove when gasoline spiked in 2008 had lower fuel economy. Whereas the Toyota Camrys of that era got 25 miles per gallon, every Camry manufactured since 2018 has gotten at least 32 miles per gallon, with hybrids getting much more.

Even a big guzzler like the Ford F-150, "America's Best Selling Pickup Truck," gets about 25 miles per gallon in late models.

Figure 4: Ford F-150 Fuel Economy by Model Year (Miles per Gallon)



Source: FuelEconomy.gov. MPG is for the most energy efficient model of that year.

Additionally, a dollar meant something different in the context of the 2008 median household income of $50,000. Today's median is $67,000. Gas is pinching consumers, but I suspect we need something like sustained $6 per gallon for it to feel like $4 a generation ago. As I write, AAA calculates that the high price states -- Illinois, Hawaii, Alaska, Arizona, Utah, Nevada, California, Oregon and Washington -- each have gasoline in its highest range, $4.43 to $5.92 per gallon. Troublingly, only 11 states remain under $4.

If gas stops here, I think we can get through 2022 without a recession. Even so, it's undeniable: the market's psychology has morphed from a stock market that was ruminating on a second coming of "The Roaring 20s" to one that has become disgusted with something like a 1970s-style malaise.

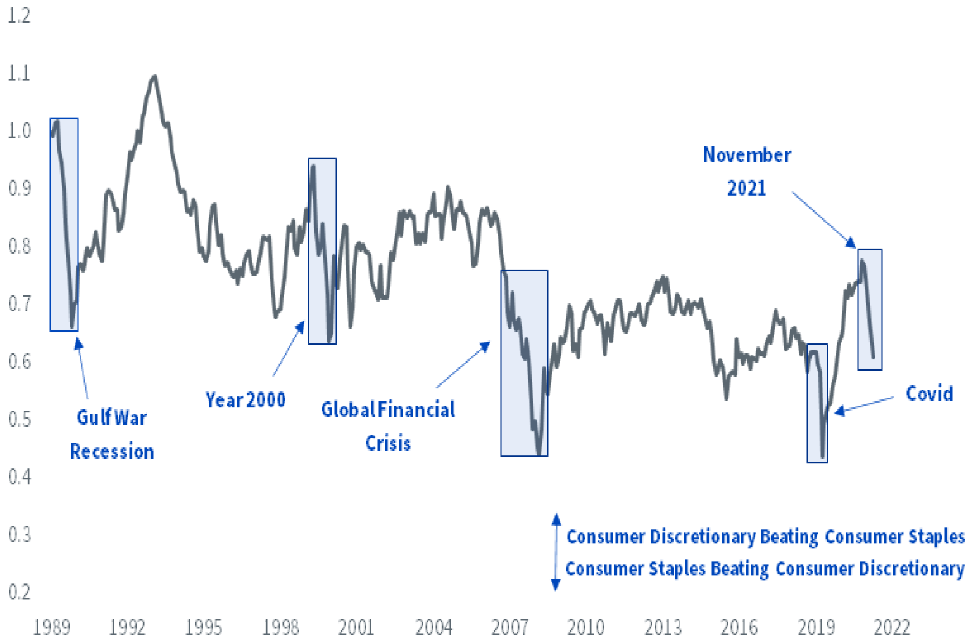
Figure 5 shows the performance of an equal-weighted basket of Consumer Discretionary stocks relative to Consumer Staples. I went with equal-weighting because Amazon and Tesla comprise 40% of the cap-weighted basket and I don't want those two stocks to skew the chart.

The theory goes that when Consumer Discretionary stocks outperform Consumer Staples, there is confidence in the system; people are choosing to buy $5 coffees and $150 sneakers, neither of which is an item that anyone needs.

In other times, when the Consumer Staples sector is beating Consumer Discretionary, something is broken. People keep buying bread and paper towels, but not a new dishwasher.

The word "disturbing" comes to mind when I review figure 5.

Figure 5: S&P 500 Equal-weight Consumer Discretionary Relative to Equal-weight Consumer Staples



Source: Refinitiv, as of 3/29/22. Past performance is not indicative of future results. You cannot invest directly in an index.

The trouble in Discretionary stocks is a giant headache for the Russell 1000 Growth index, which is heavy in the sector. In contrast, being so light in it is part of the reason our dividend stuff has been able to outperform in recent months. One of our big strategies is DLN, which has just 5.6% in Consumer Discretionary (figure 6).

Figure 6: Consumer Staples & Discretionary Weights

Style Box		Sector Weights	
Category	**Index**	**Consumer Staples**	**Consumer Discretionary**
LargeCap Growth	Russell 1000 Growth	4.2%	18.0%
Large Cap Blend	Russell 1000	5.8%	11.9%
Large Cap Value	Russell 1000 Value	7.5%	5.4%
Large Cap Value	WisdomTree U.S. Large Cap Dividend	15.4%	5.2%

Source: WisdomTree, as of 2/28/2022. Weightings are subject to change. You cannot invest directly in an index.

For definitions of terms in the chart above, please visit the glossary.

I have two recent blogs posts that touch on similar concepts.

For DLN's "cousin," the WisdomTree U.S. Value Fund (WTV), I think the half-century chart on buybacks in the middle of this post is pretty compelling.

If my societal malaise concepts resonate, there's this post, which touches on DLN.

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You cannot invest directly in an index.

DEFINITIONS

S&P 500 Pure Growth Index : A style-concentrated index designed to track the performance of stocks that exhibit the strongest growth characteristics by using a style-attractiveness-weighting scheme.

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 tim.

Inflation : Characterized by rising price levels.

S&P 500 High Dividend Index : Serves as a benchmark for income seeking equity investors. The index is designed to measure the performance of 80 high yield companies within the S&P 500 and is equally weighted to best represent the performance of this group, regardless of constituent size.

Bullish : a position that benefits when asset prices rise.

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

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.

Baskets : The composition of an ETF in terms one creation/redemption unit.

Market capitalization-weighting : 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.

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