

2021: A YEAR FOR CASH FLOWS

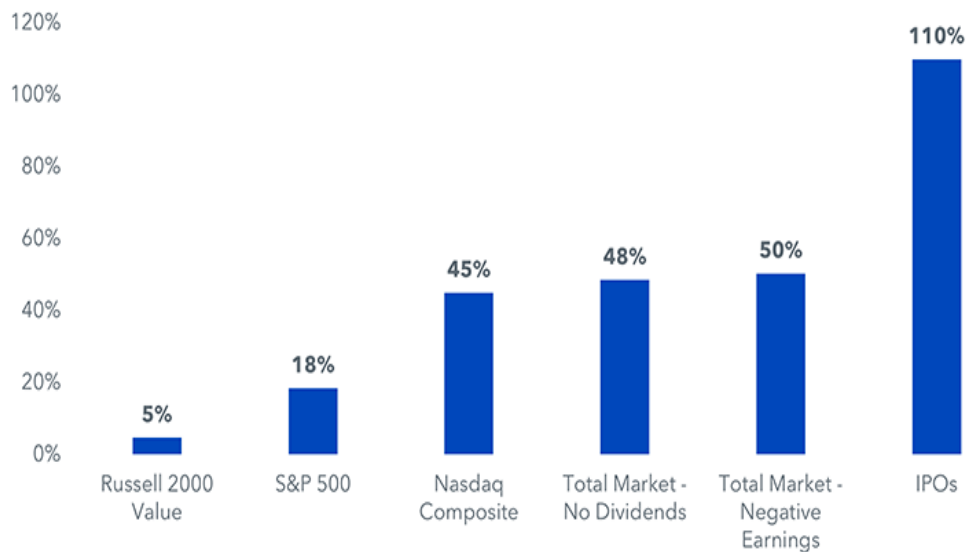
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12/20/2021

2020 was the [year of story stocks](#).

Recently issued [IPOs](#) and companies with negative earnings heavily outpaced the broader market.

2020 Index Performance

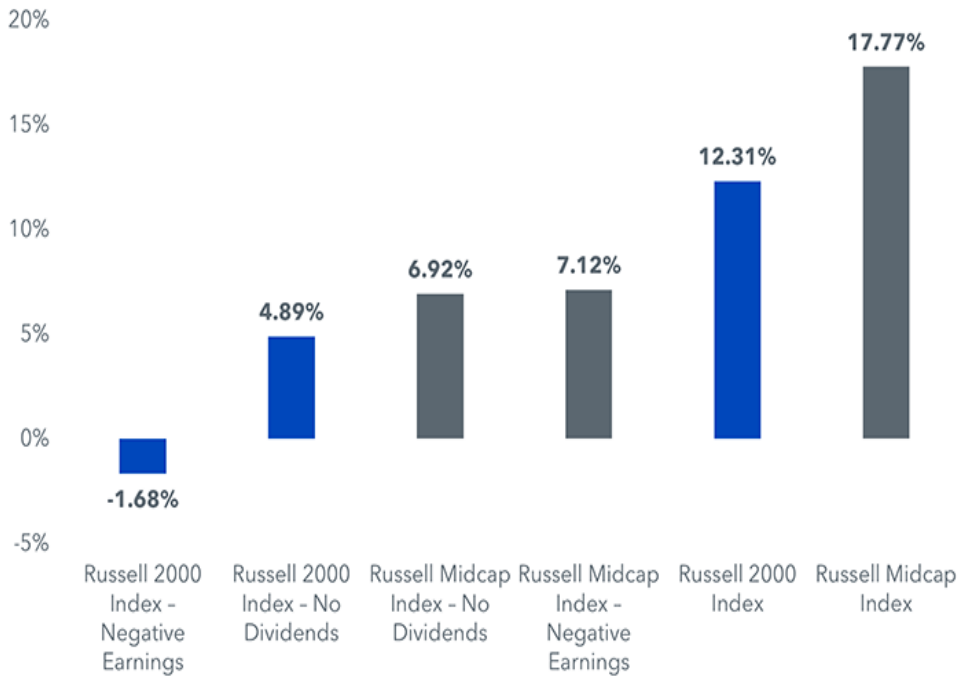


Sources: WisdomTree, Bitwise, Renaissance Capital, Zephyr StyleADVISOR. IPOs = Renaissance IPO Index. Total Market - Negative Earnings = negative earners in the Russell 3000 Index. Total Market - No Dividends = non-dividend payers in the Russell 3000 Index. You cannot invest directly in an Index. Past performance is not indicative of future returns.

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

As [interest rates](#) rose and the economy accelerated its recovery this year, investors became more focused on near-term cash flows in the form of current profits and [dividends](#). The reversal from market leadership to laggards for non-earners and non-dividend payers was most pronounced in more speculative mid- and small caps.

2021 Index Performance



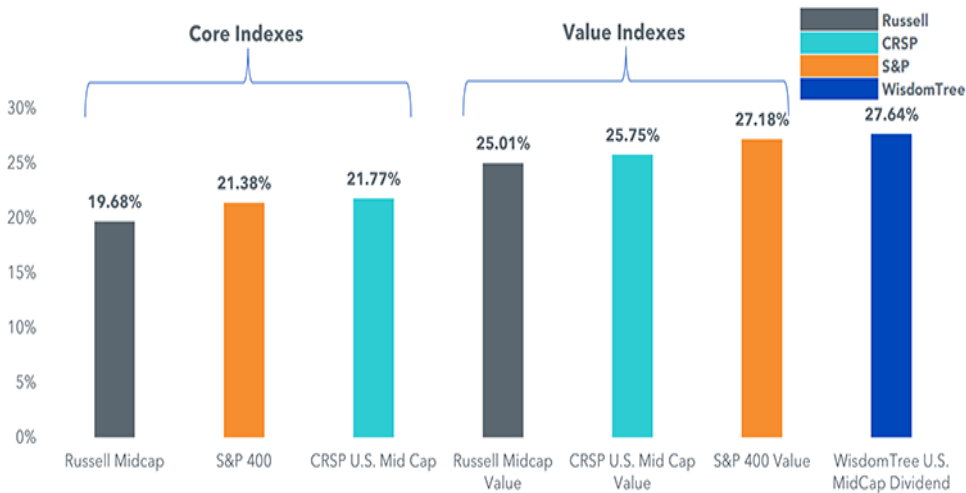
Sources: WisdomTree, FactSet, Russell. 2021 performance measured through 11/30/21. You cannot invest directly in an Index. Past performance is not indicative of future returns.

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Mid- and Small-Cap Dividends

The [WisdomTree U.S. MidCap Dividend Index](#) was a prime beneficiary of this flight to cash flows. Through December 15, the Index has outperformed the most widely tracked mid-cap core and value Indexes this year.

Year-to-Date Index Performance



Sources: WisdomTree, S&P, Russell, CRSP, as of 12/15/21. Index returns are measured by cumulative total returns. You cannot invest directly in an Index. Past performance is not indicative of future returns.

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The WisdomTree U.S. MidCap Dividend Index targets a high-quality [basket](#) of dividend paying mid-caps, giving greater weight to companies paying higher cash dividends. This investment process typically produces lower [valuation](#) multiples and higher [quality](#) characteristics than market cap-weighted indexes.

The Index is [rebalanced](#) on an annual basis each December, with the most recent rebalance taking place after the market close on December 14.

WisdomTree U.S. MidCap Dividend Index—Characteristics

Characteristics	Pre-Rebalance	Post-Rebalance	Russell Midcap Value	Russell Midcap
Size				
Weighted Average Market Cap (\$bn)	\$8.37	\$9.77	\$22.33	\$24.58
Median Market Cap (\$bn)	\$6.22	\$7.25	\$10.28	\$10.84
Over \$10 billion	33.25%	45.23%	79.41%	82.17%
\$2 billion - \$10 billion	66.75%	54.77%	20.53%	17.79%
Under \$2 billion	0.00%	0.00%	0.06%	0.05%
Valuation & Other Characteristics				
Price/Earnings (Trailing)	14.21	13.25	20.99	27.63
Price/Earnings (Forward)	13.32	12.98	17.99	22.33
Price/Book	2.34	2.41	2.66	3.68
Price/Sales	1.50	1.30	1.64	2.07
Dividend Yield	2.61%	2.44%	1.59%	1.19%
Return on Equity	16.03%	17.01%	11.98%	12.56%
Return on Assets	3.41%	3.36%	2.62%	2.78%
Number of Holdings	301	344	699	827

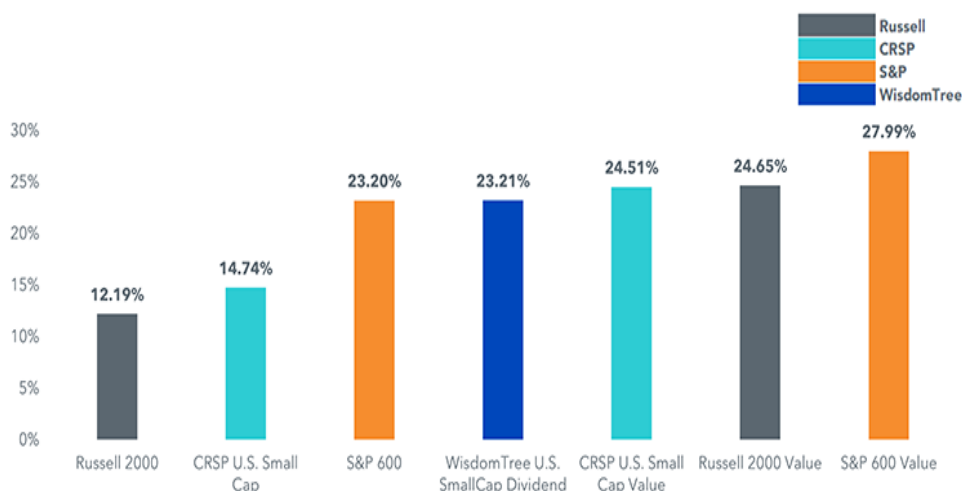
Sources: WisdomTree, Russell, FactSet. Pre-Rebalance fundamentals as of 12/14/21. Post-Rebalance and benchmark fundamentals as of 12/15/21. The Index rebalance occurred after the close on 12/14/21. You cannot invest directly in an Index.

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

The [WisdomTree U.S. SmallCap Dividend Index](#) has a comparable investment process for the small-cap universe.

Through December 15, the Index has heavily outperformed the [Russell 2000](#) and [CRSP U.S. Small Cap indexes](#)—both indexes that skew toward larger market-cap companies—but has lagged value indexes tilted toward higher [beta](#) companies.

Year-to-Date Index Performance



Sources: WisdomTree, S&P, Russell, CRSP, as of 12/15/21. Index returns are measured by cumulative total returns. You cannot invest directly in an Index. Past performance not indicative of future returns.

Headed into 2022, investors are looking to solve for the key risk of elevated valuations in both equities and fixed income.

Looking at the valuations of the WisdomTree U.S. SmallCap Dividend Index, this area of the market may help investors lower overall portfolio valuations while also offering premium dividend income potential.

WisdomTree U.S. SmallCap Dividend Index—Characteristics

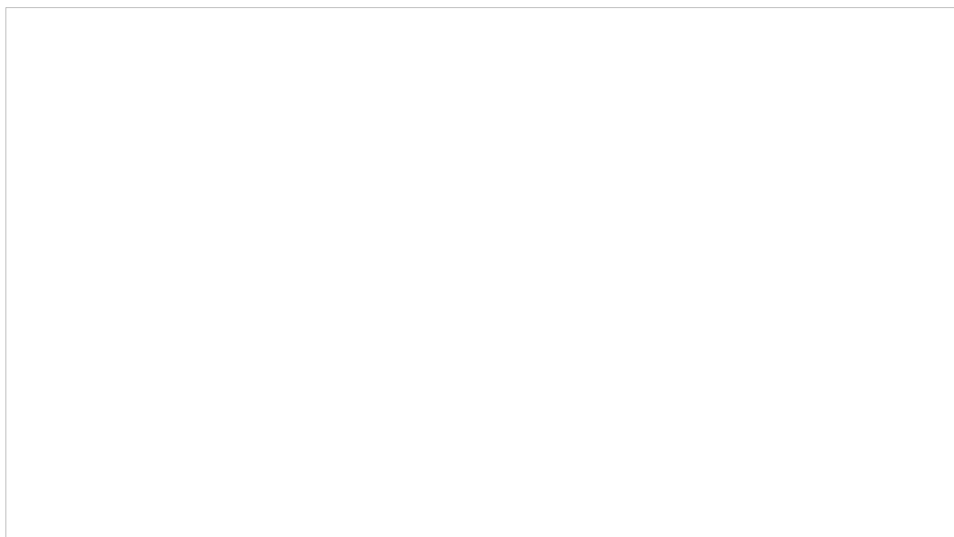
Characteristics	Pre-Rebalance	Post-Rebalance	Russell 2000 Value	Russell 2000
Size				
Weighted Average Market Cap (\$bn)	\$2.08	\$2.29	\$2.89	\$3.39
Median Market Cap (\$bn)	\$0.94	\$1.06	\$1.02	\$1.12
Over \$10 billion	0.00%	0.00%	1.66%	1.54%
\$2 billion - \$10 billion	50.48%	59.32%	59.37%	66.98%
Under \$2 billion	49.52%	40.68%	38.98%	31.48%
Valuation & Other Characteristics				
Price/Earnings (Trailing)	14.32	13.48	22.47	38.24
Price/Earnings (Forward)	14.17	13.61	19.52	28.51
Price/Book	1.94	1.89	1.74	2.68
Price/Sales	1.10	1.13	1.15	1.49
Dividend Yield	2.85%	2.88%	1.62%	0.99%
Return on Equity	12.90%	13.86%	7.89%	7.51%
Return on Assets	2.50%	3.03%	1.66%	1.62%
Number of Holdings	560	682	1,410	2,000

Sources: WisdomTree, Russell, FactSet. Pre-Rebalance fundamentals as of 12/14/21. Post-Rebalance and benchmark fundamentals as of 12/15/21. The Index rebalance occurred after the close on 12/14/21. You cannot invest directly in an Index.

Sector Allocations

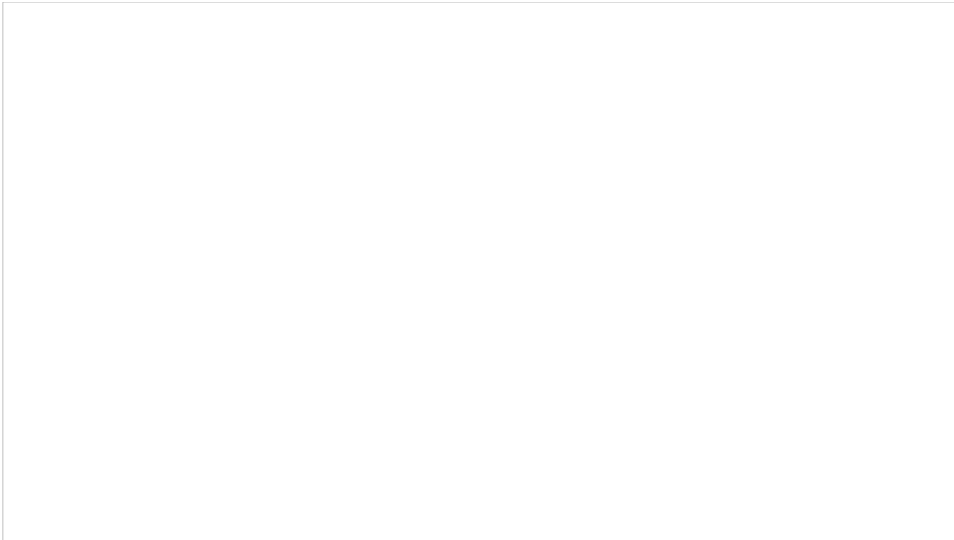
The sector allocations changes for the WisdomTree U.S. MidCap Dividend Index at this year’s rebalance were modest. The Index added over 2% to the Consumer Discretionary allocation and reduced weight to the Industrials allocation by a similar amount.

WisdomTree U.S. MidCap Dividend Index—Sectors



The WisdomTree U.S. SmallCap Dividend Index added over 3% to the Utilities sector as several companies moved down from the mid-cap Index. Financials, which gets capped at 25% in both Indexes, had its weight reduced by over 2%.

WisdomTree U.S. SmallCap Dividend Index—Sectors



Conclusion

With elevated valuations in large-cap U.S. equities, mid- and small-caps look more attractively valued for long-term focused investors. And as the Fed is expected to raise interest rates multiple times in 2022, we may see more of the same in terms of outperformance of mid- and small-value stocks relative to the unprofitable story stocks that outperformed in 2020.

In this market environment, dividend payers may be poised to solve for income as well as generate long-term outperformance.

For investors looking to tap into this thesis, we highlight the [WisdomTree U.S. MidCap Dividend Fund \(DON\)](#) and the [WisdomTree U.S. SmallCap Dividend Fund \(DES\)](#).



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. Standardized performance for DON is available [here](#). Standardized performance for DES is available [here](#). Performance of less than one year is cumulative. You cannot invest directly in an index.

WisdomTree shares are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Total returns are calculated using the daily 4:00 p.m. net asset value (NAV). Market price returns reflect the midpoint of the bid/ask spread as of the close of trading on the exchange where Fund shares are listed. Market price returns do not represent the returns you would receive if you traded shares at other times.

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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. SmallCap Dividend Fund](#)

+ [WisdomTree U.S. MidCap Dividend Fund](#)

View the online version of this article [here](#).

IMPORTANT INFORMATION

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You cannot invest directly in an index.

DEFINITIONS

Initial public offering (IPO) : The first sale of stock by a private company to the public.

Interest rates : The rate at which interest is paid by a borrower for the use of money.

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

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.

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

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

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.

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.

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.

Russell 2000 Index : Measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

CRSP U.S. Small Cap Index : Market capitalization-weighted measure of the performance of small cap equities within the United States.

Beta : A measure of the volatility of a security or a portfolio in comparison to a benchmark. In general, a beta less than 1 indicates that the investment is less volatile than the benchmark, while a beta more than 1 indicates that the investment is more volatile than the benchmark.