

A SENSE OF MALAISE IS SETTING THE MARKET'S TONE

Jeff Weniger — Head of Equity Strategy

03/03/2022

You can feel it in the air. A feeling of frustration, people spinning their wheels. Some of it is because of rising prices. It is also in the little things, like when you need the dishwasher fixed, but it'll be 10 days before someone can swing by. Then the big one of the last 2 years: COVID, which is only now feeling like it's fading from our collective consciousness. Now Americans watch as war in Eastern Europe flairs.

Last spring, only 42% of the public told pollsters from The Economist and YouGov that the country is "generally headed in the right direction." That was low indeed, especially since many at the time were lining up to get the vaccine, which we were told would get life back to normal.

But COVID kept droning on. Here we are, over a year since the original recipients took the jab in December 2020, still duking it out in what looks like the ninth inning of the COVID culture wars. By late-January, the 42% who said the country was headed in the right direction had slipped to 24%, though it has subsequently risen to 30% in the latest poll, which was taken before Russia invaded Ukraine (figure 1).

Figure 1: The Economist/YouGov Poll: "Would You Say Things in This Country Today Are..."

| Opinion | May 29- June 1 | June 26- 29 | July 31- Aug. 3 | Aug. 28- 31 | Sep. 26- 28 | Oct. 24- 26 | Nov. 27- 30 | Dec. 19- 21 | Jan. 22- 25 | Feb. 19- 22 |
|---|-------------------|----------------|--------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| "Generally Headed In the Right Direction" | 42% | 38% | 34% | 29% | 25% | 27% | 27% | 23% | 24% | 30% |
| "Off on the Wrong Track" | 45% | 49% | 53% | 58% | 59% | 59% | 60% | 62% | 65% | 58% |
| "Not Sure" | 13% | 14% | 13% | 13% | 16% | 15% | 14% | 15% | 12% | 13% |

Source: The Economist/YouGov weekly survey of U.S. adults. Number of respondents = 1,500.

You know what else isn't "headed in the right direction?" The [NASDAQ](#).

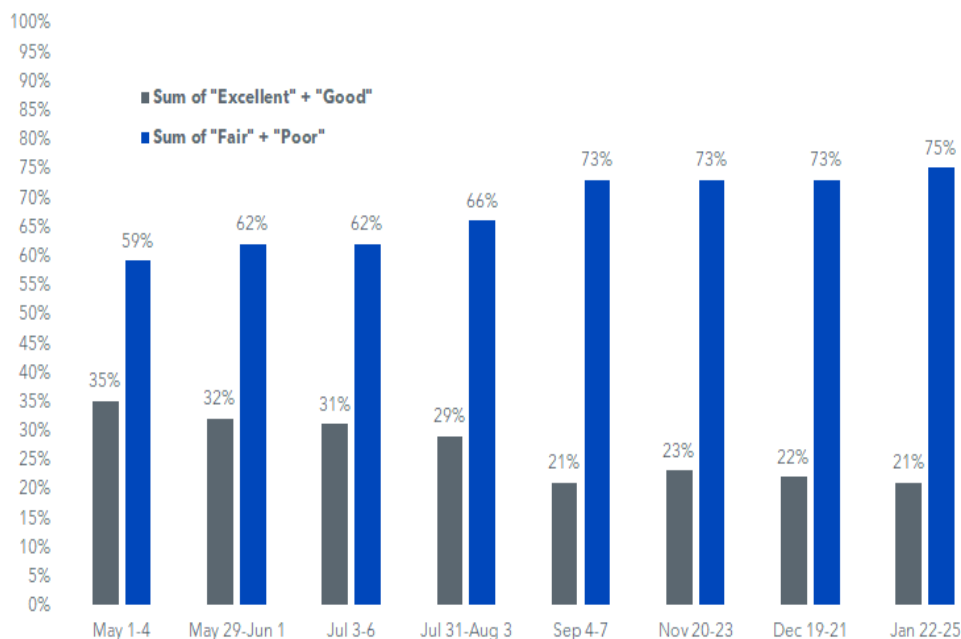
You could be forgiven for seeing the 7% annualized growth pace in Q4 [GDP](#) and concluding it would support the market's major indexes. But economic growth is being treated as much less important to stocks than the path to be taken by the [Federal Reserve](#), now that we have a sudden war in the central bank's calculus.

Nevertheless, with the unemployment rate south of 4%, previous prognostications of a deliberate [rate hiking](#) tendency by the Fed have morphed to an outlook that witnesses overnight rates rising consistently for the rest of the year and beyond. The consensus anticipates six quarter-point rate hikes in 2022, down from seven increases before Russia went into Ukraine.

Nevertheless, if GDP growth is so hot and the labor market is so tight, then why do about seven in 10 Americans rate the U.S. economy either "Fair" or "Poor?"

In a word: [Inflation](#).

Figure 2: The Economist/YouGov Poll: "How Would You Describe the Current State of the American Economy?"



Source: Economist/YouGov Survey, as of February 22. Figures sum to 100% when adding "Don't Know."

Long-duration NASDAQ stocks—those that have distant cash flows and are most sensitive to discount rates—haven't waited around for the Fed to fight rising prices. From their 52-week highs, 30% of the index's roughly 3,600 companies have been cut down by more than half.

Until recently, the market's "generals" were holding the fort. For example, while the NASDAQ peaked in mid-November and started tumbling, Meta Platforms, which is Facebook's new name, chopped sideways...for a while.

Not anymore. The [bears](#) eventually came for Meta and for most of the market's other "big dogs," save Apple, which has achieved the moral victory of breaking even in recent months.

Figure 3: Comparing the Current Market to Early 2020

| Stock Market Returns: Covid Crash vs. Current Decline | | |
|---|---------------|---------------------------|
| Company | Covid Crash | Since Nov. 19 NASDAQ Peak |
| Apple | -30.7% | 8.9% |
| Microsoft | -27.4% | -9.4% |
| Meta Platforms (Facebook) | -31.9% | -9.3% |
| Alphabet (Google) | -30.8% | -9.5% |
| Tesla | -52.7% | -17.6% |
| Amazon | -12.3% | -18.6% |
| NVIDIA | -32.4% | -25.6% |
| Equal-Weighted Portfolio | -31.2% | -11.6% |

Source: Refinitiv. Covid Crash = 2/19/20–3/23/20. Performance from NASDAQ peak is as of 3/1/22. Past performance is not indicative of future returns.

In the meantime, our [value](#) stuff has managed to hold up, despite the ugly tape. While the NASDAQ 100 went into an official bear market intraday on February 24, about three months after its November 19 peak, the [WisdomTree U.S. Value Fund \(WTV\)](#) is only off 3.5% since then.

As [bullish](#) as I am about value vs. [growth](#), I'm a little stunned by how well [WTV](#) has held up. If you had told me around Thanksgiving that Tesla, Meta and NVIDIA—among many others—would fall out of bed so rapidly, I would have suspected more pain in other equity groups too, even in Value stocks.

Yet [WTV's](#) partner, the income-oriented [WisdomTree Large Cap Dividend Fund \(DLN\)](#), is only off 0.3% since November 19. This is with the [VIX](#) having gone north of 30 in December, January, February and here in March.

Another one is a "yield gooser," the [WisdomTree U.S. High Dividend Fund \(DHS\)](#), which is up 7.8% since the NASDAQ peak.

The logical takeaway: the market is treating value stocks as a relative haven.

The vibe out there is one of malaise, “sticky” inflation, a stock market that doesn’t want to play nice. Maybe something like a whiff of the 1970s. This is uncharted territory for most players. It makes me think of an old market maxim that says the stock market’s leaders in one cycle are rarely the leaders when another cycle comes along.

Please see the fact sheets with standardized performance for [WTV](#), [DLN](#) and [DHS](#).

Important Risks Related to this Article

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 month-end performance go to wisdomtree.com

There are risks associated with investing, including possible loss of principal. Funds focusing their investments on certain sectors increase their vulnerability to any single economic or regulatory development. This may result in greater share price volatility. While WTV is actively managed, the Fund's investment process is expected to be heavily dependent on quantitative models and the models may not perform as intended. Dividends are not guaranteed, and a company currently paying dividends may cease paying dividends at any time.

Please read each Fund's prospectus for specific details regarding the Fund's risk profile.

Investments in value stocks present the risk that a stock may decline in value or never reach the value the adviser believes is its full market value. In addition, the Fund's value investment style may go out of favor with investors during certain parts of the market cycle, which may negatively affect the Fund's performance.

References to specific securities and their issuers are for illustrative purposes only and are not intended to be, and should not be interpreted as, recommendations to purchase or sell such securities.

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. High Dividend Fund](#)

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

+ [WisdomTree U.S. Value 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)

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

Nasdaq : A global electronic marketplace for buying and selling securities.

Gross domestic product (GDP) : The sum total of all goods and services produced across an economy.

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.

Inflation : Characterized by rising price levels.

Bear market : A sustained downturn in market prices, increasing the chances of negative portfolio returns.

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.

Bullish : a position that benefits when asset prices rise.

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.

CBOE Volatility Index® (VIX®) : a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices. It is the premier benchmark for U.S. stock market volatility.