

HIGH DIVIDENDS: SHORTENING EQUITY DURATION

Matt Wagner — Associate Director, Research

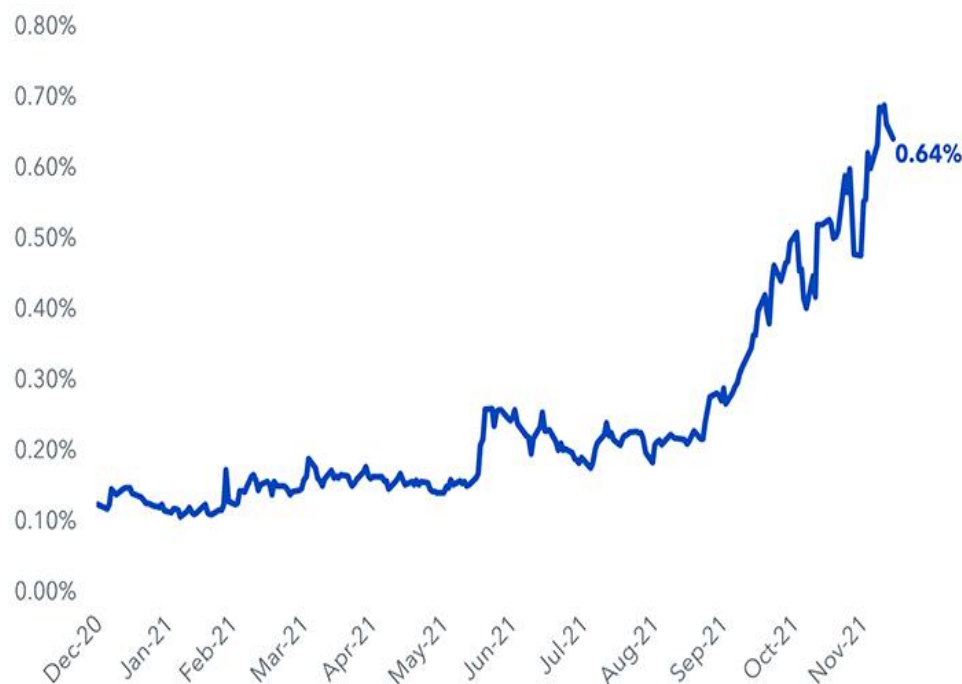
12/22/2021

The [Fed](#) may not be pulling away the punch bowl just yet, but it's also not adding more juice to it.

At the conclusion of last week's [FOMC](#) meeting, Fed Chair Powell announced that [the committee anticipates three rate hikes](#) in 2022.

Indications that the Fed will more seriously act to combat rampant [inflation](#) has led the policy-sensitive 2-Year yield to spike higher.

2-Year U.S. Treasury Yield

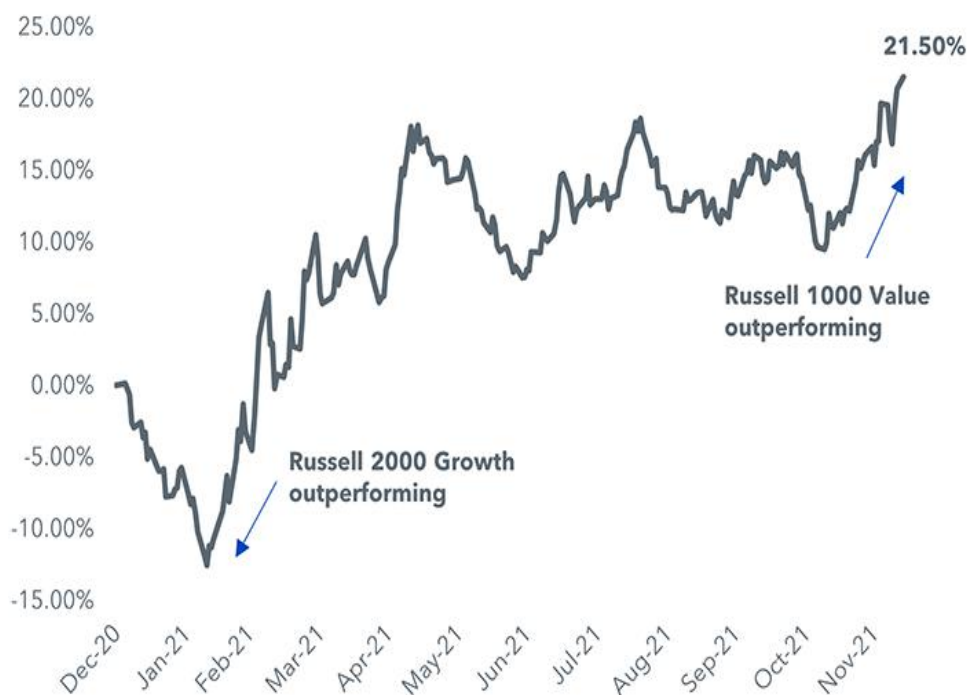


Sources: WisdomTree, Barclays, 12/31/20–12/10/21.

Higher rates have caused unprofitable, high-growth companies to fall into a tailspin as far-out cash flows get discounted at higher rates.

This trend can be seen in the significant outperformance of the [Russell 1000 Value Index](#) relative to the [Russell 2000 Growth Index](#) over the past several weeks.

Russell 1000 Value vs. Russell 2000 Growth



Sources: WisdomTree, Russell, 12/31/20–12/10/21. You cannot invest directly in an index. Past performance is not indicative of future returns.

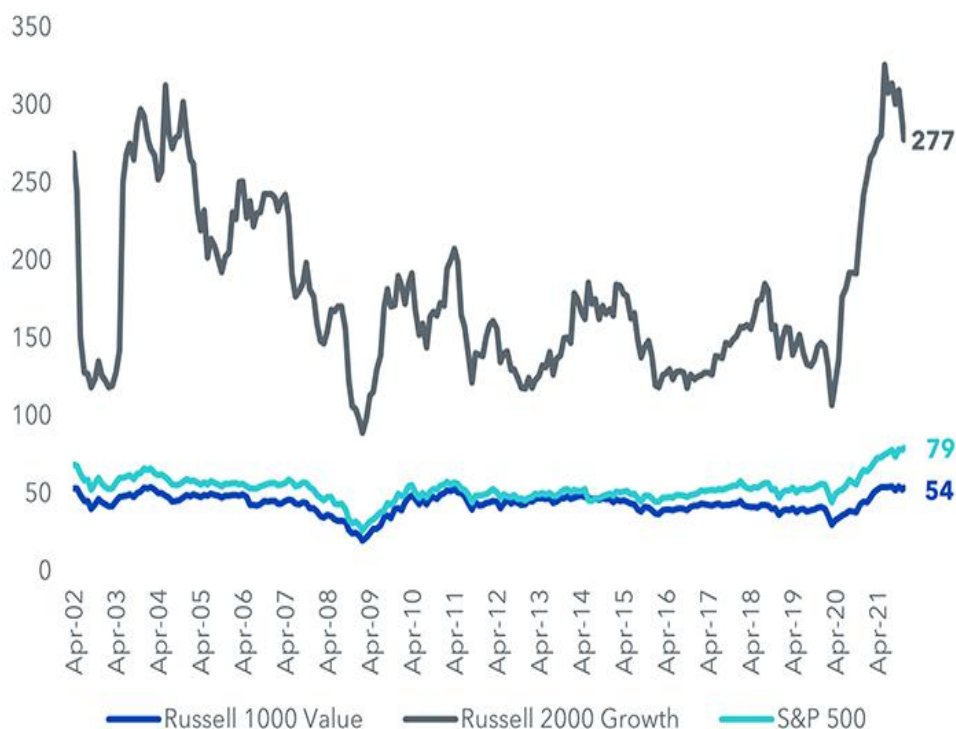
The interest rate sensitivity, or [duration](#), of equities can be measured by the inverse of the [dividend yield](#) of an index (1/dividend yield), or the number of years of dividends it would take to recover the current price.

An index with a higher duration (low-dividend yield) may be more **negatively impacted** by a move higher in rates. Conversely, a company with a lower duration (high-dividend yield) may be more **positively impacted** by a move higher in rates.

Since March 2020, the rate sensitivity of high-growth stocks has substantially increased. The equity duration of the Russell 2000 Growth Index has skyrocketed from 107 years to more than 300.

The duration of value stocks has also increased but at a more subdued rate.

Equity Duration (Years)



Sources: WisdomTree, Russell, S&P, 4/30/02–11/30/21. Equity duration = 1/dividend yield. You cannot invest directly in an index. Past performance is not indicative of future returns.

High Dividends Can Lower Rate Risk

On December 14, the [WisdomTree U.S. High Dividend Index](#) executed its annual rebalance. It had a modest impact on the characteristics of the Index.

The Index has a dividend yield greater than 4%—well over twice that of the Russell 1000 Value Index. That equates to a duration of 25 versus the duration of 54 for the Russell 1000 Value.

And the Index also has higher profitability metrics ([ROE/ROA](#)) than the Russell 1000 Value Index.

Fundamentals

Characteristics	Pre-Rebalance	Post-Rebalance	Russell 1000 Value	S&P 500
Size				
Weighted Average Market Cap (\$bn)	\$109.98	\$117.26	\$140.37	\$617.52
Median Market Cap (\$bn)	\$2.96	\$4.09	\$12.70	\$31.98
Over \$10 billion	86.46%	89.30%	92.29%	99.26%
\$2 billion - \$10 billion	10.90%	8.54%	7.69%	0.74%
Under \$2 billion	2.64%	2.16%	0.02%	0.00%
Valuation & Other Characteristics				
Price/Earnings (Trailing)	14.25	14.36	18.65	24.92
Price/Earnings (Forward)	12.11	12.17	15.83	21.23
Price/Book	2.62	2.51	2.64	4.87
Price/Sales	2.04	1.87	1.95	3.07
Dividend Yield	4.21%	4.07%	1.92%	1.28%
Return on Equity	15.87%	15.21%	13.37%	18.16%
Return on Assets	2.92%	3.05%	2.68%	3.95%
Number of Holdings	313	387	849	505

Sources: WisdomTree, Russell, FactSet, as of 11/30/21. The Index rebalance took place after the close on December 14, 2021. You cannot invest directly in an Index.

From a sector perspective, the Index added heavily to Energy (+14) and Health Care (+4%) while trimming from Info Tech (-10%) and Comm Services (-4%).

Sector Weights

Sector	Pre-Rebalance	Post-Rebalance	Russell 1000 Value
Health Care	14.21%	18.49%	17.52%
Consumer Staples	18.90%	17.51%	7.10%
Financials	17.67%	16.60%	21.46%
Energy	1.00%	15.03%	5.23%
Utilities	13.03%	12.53%	4.95%
Communication Services	9.37%	5.00%	7.42%
Real Estate	5.76%	5.00%	4.95%
Information Technology	13.22%	3.40%	10.16%
Industrials	3.52%	3.01%	11.66%
Materials	2.23%	2.34%	3.79%
Consumer Discretionary	1.08%	1.09%	5.76%

Sources: WisdomTree, Russell, FactSet, as of 11/30/21. The Index rebalance took place after the close on December 14, 2021. You cannot invest directly in an Index.

The oil majors Exxon and Chevron were added back to the Index after being removed at last year's rebalance based on a [proprietary screen of dividend riskiness](#). Combined, these two holdings make up nearly 10% of the 14% addition to the Energy sector.

Broadcom, a steady dividend payer/grower, was removed, as its more than 40% return since last year's rebalance dropped its dividend yield from 3.24% to 2.55%, removing it from the high-dividend-yield universe.

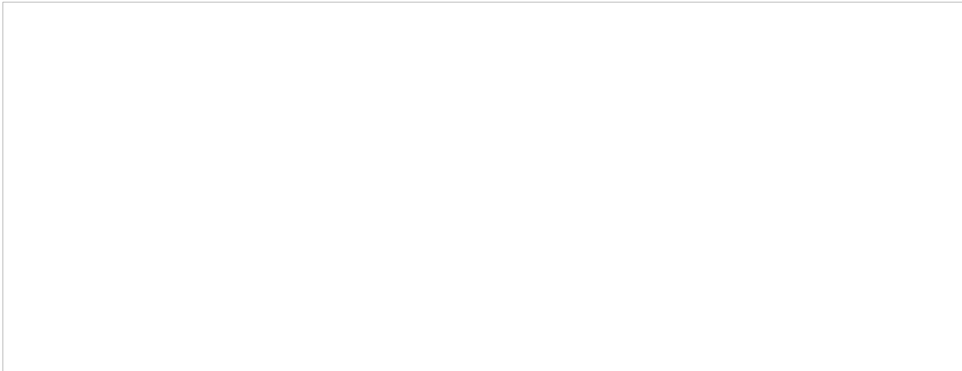
AT&T (8.71% yield), IBM (5.34% yield) and Lumen Technologies (7.72% yield) were all screened out of the Index based on the Index risk screen. Dropping these names contributed to modestly lowering the overall Index yield from 4.21% to 4.07%, as the Index aims to hold more sustainable dividend payers as opposed to merely the highest yielders.

Top Adds/Drops

Top 5 Additions			Top 5 Drops		
Name	Weight	Sector	Name	Weight	Sector
Exxon Mobil	5.39%	Energy	Broadcom Inc.	4.08%	Information Technology
Chevron	4.26%	Energy	AT&T Inc.	3.66%	Communication Services
Merck	2.88%	Health Care	IBM	3.11%	Information Technology
Morgan Stanley	2.07%	Financials	Lumen Technologies	0.76%	Communication Services
Bristol-Myers Squibb	1.80%	Health Care	Public Storage	0.65%	Real Estate

Sources: WisdomTree, Russell, FactSet. The Index rebalance took place after the close on December 14, 2021. You cannot invest directly in an Index.

WisdomTree has a family of dividend-weighted Indexes, several of which have more than 15 years of live track record.



A Fed hiking cycle is likely to favor value as shorter-duration/high yielders become more attractive with increases in short-term rates. Among WisdomTree's family of domestic dividend Indexes, the WisdomTree U.S. High Dividend Index fits the bill as having the greatest value/income tilt with a yield advantage of nearly 280 [basis points \(bps\)](#) relative to the [S&P 500](#).



Important Risks Related to this Article

Investing involves risk, including loss of principal. Dividend-focused funds may underperform funds that do not limit their investment to dividend-paying stocks. Stocks held by funds may reduce or stop paying dividends, affecting the fund's ability to generate income. Performance may also be affected by risks associated with non-diversification, including investments in specific countries or sectors. Each individual investor should consider these risks carefully before investing in a particular sector or strategy.

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](#)

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

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

Federal Open Market Committee (FOMC) : The branch of the Federal Reserve Board that determines the direction of monetary policy.

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.

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

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

Duration : A measure of a bond's sensitivity to changes in interest rates. The weighted average accounts for the various durations of the bonds purchased as well as the proportion of the total government bond portfolio that they make up.

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.

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.

Basis point : 1/100th of 1 percent.

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.