A BULLISH OUTLOOK FOR INVESTING IN THE CYCLICAL ROTATION

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On Behind the Markets*, a podcast brought to you by Jeremy Schwartz, WisdomTree's Global Head of Research, we talk to market strategists, business executives and financial advisors about important trends in the financial markets.*

In this episode, Jeremy talks to Savita Subramanian, Managing Director, Head of Environmental, Social & Governance (ESG) Research and U.S. Equity & Quantitative Strategy at BofA Global Research.

Listeners will hear about:

- **Cyclical, value and small cap**: The inflationary impulse and strong GDP growth favors staying invested in the cyclical, value and small-cap sectors of the market and avoiding the defensive sectors that perform better in slower growth environments.
- **Growth remains crowded**: The average mutual fund is 50% over-weight in Technology, Media and Telecommunications (TMT) stocks whereas cyclical value remain under-weight. Savita ties this to the average age of the money managers who have only seen growth stocks work and have yet to see a cycle where inflation matters.
  - During some of the longer value cycles, you often see growth stocks resume leadership and that may be what happened in the last few weeks.
- **Energy bull**: Why Savita likes the energy sector on a valuation basis and how she squares that positioning with her role as Head of ESG Research, where many of the typical ESG stocks are expensive.
- **Quality discounts**: The underperformance of the quality factor year-to-date and how many high-quality stocks are trading at unique valuations compared to slower growing sectors.
- **Summer shorts**: How the Fed's taper talk can create volatility for the markets over the summer and what types of stocks are candidates for shorting or under-weights.
- **Dividend quintile 2**: The best place Savita sees inflation-protected yield is in dividend-paying stocks.
  - Her favorite quantitative research screen focuses on safe, high dividend stocks from 'quintile 2' while avoiding the very top decile of high dividend yields, as often they are value traps.

This was a great conversation. You can listen to the full conversation below:

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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DEFINITIONS

Inflation : Characterized by rising price levels.

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.

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

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.

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 tim.

Volatility : A measure of the dispersion of actual returns around a particular average level. .

Yield : The income return on an investment. Refers to the interest or dividends received from a security that is typically expressed annually as a percentage of the market or face value.

Value Trap : a security that appears to be inexpensive based on valuation metrics, which may accurately reflect grim business prospects and inherent risk rather than an attractive, underpriced opportunity to capture upside potential.