

# BEHOLD, THE GLOBAL SMALL-CAP RENAISSANCE

**Brian Manby — Senior Analyst, Research**  
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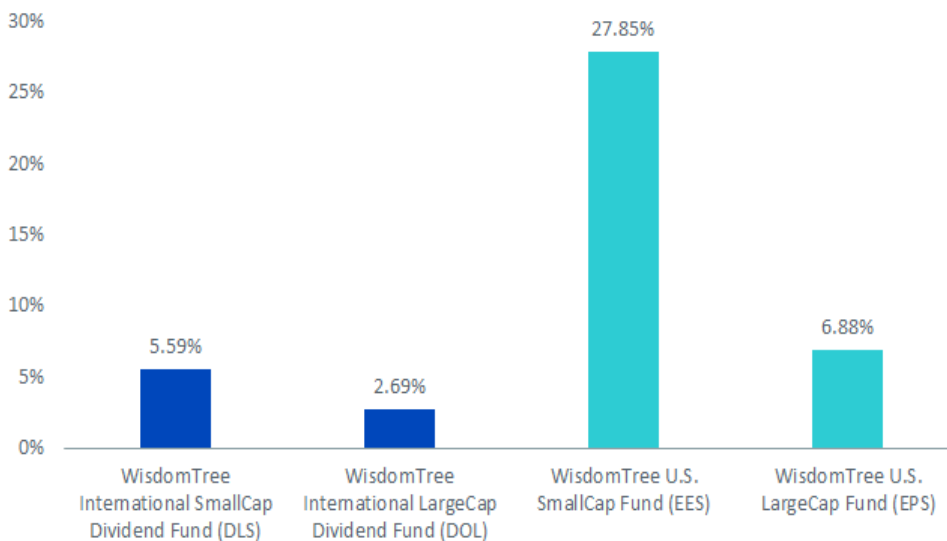
As the first quarter comes to a close, there has already been a lifetime full of headlines in financial markets. From [Bitcoin](#) to GameStop to rising bond [yields](#), there’s no shortage of market fairy tales, but the renaissance in global [small caps](#) and [value](#) stocks looks to be more of an enduring fact than fantasy.

Small caps have dominated to start the year, and value investing is finally gaining momentum. February was the best month for U.S. value relative to [growth](#) since the technology bubble in the early 2000s, outperforming by nearly 6%.

While small caps and value stocks have benefitted from a changing paradigm in the U.S., developed market small-cap value stocks have not been left behind either.

Take a look at the following chart, which relates the year-to-date performance of WisdomTree’s value-focused strategies in the U.S. and developed regions.

## YTD Performance (NAV)



Source: WisdomTree, as of 3/12/21. 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. Performance data for the most recent month-end is available at [wisdomtree.com](#).

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. EST 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.

Please click the Fund’s respective ticker for standardized performance: [DLS](#), [DOL](#), [EES](#), [EPS](#).

While the magnitude of outperformance has certainly been more pronounced in the U.S., developed small-cap value has

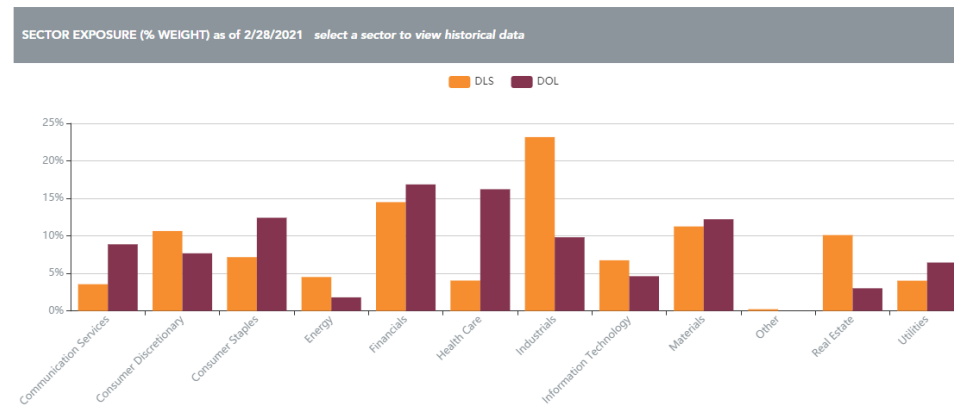
doubled the performance of its [large-cap](#) counterpart as well.

We think this is emblematic of a changing paradigm and a new beginning for the downtrodden [size](#) and value factors.

### Sector Catalysts

We think sector composition tendencies have been especially helpful in fueling the recent rally in small-cap value, especially in an economic environment that gives cyclical sectors plenty of runway.

Many investment strategists anticipate a revival in economic growth in 2021, commensurate with the reopening of global economies, the COVID-19 vaccine distribution and a resurgence in consumer activity. Those trends may set up traditional value sectors, such as Industrials, Energy, Financials and Real Estate, for lasting success—key exposures in [WisdomTree’s International SmallCap Dividend Fund \(DLS\)](#) and relative over-weights compared to its large-cap counterpart ([DOL, the WisdomTree International LargeCap Dividend Fund](#)).



Source: WisdomTree Fund Comparison Tool, as of 2/28/21. Subject to change.

Most notable is the 10% over-weight in Industrials, which signals two potentially beneficial characteristics about DLS in today’s market environment.

First is the relationship between a revival in economic activity and how that would benefit sectors that are levered to this activity. Industrials, by definition, may be best positioned for an industrial comeback.

### The Yield Appeal

Second is the propensity for dividends in developed markets. Value investing and dividend payments are practically synonymous. After many European companies suspended their dividends last year during the throes of the pandemic, their resumption may be additive for a value rally that already seems to have caught a tailwind.

But one common fear when investing in smaller companies relative to larger ones is the sacrifice in [dividend yield](#), particularly in the U.S.

We concede there is some merit there. After all, smaller companies may be at a disadvantage compared to larger companies, which have more robust operations, stronger balance sheets and enduring profitability. Naturally, larger companies may have more flexibility to create value for shareholders via dividend payments, resulting in more attractive yields.

However, while small-cap investing currently requires a dividend yield sacrifice in the U.S., it can reward with a yield pickup in developed markets.

The yield on DLS is about 30 [basis points](#) higher than DOL as of the end of February. Compare that to the U.S., where larger companies (proxied by [EPS, the WisdomTree U.S. LargeCap Fund](#)) eclipse the yield of smaller ones (proxied by [EE S, the WisdomTree U.S. SmallCap Fund](#)), and suddenly there’s an even more compelling case for size investing abroad.

	DLS	DOL	EES	EPS
Dividend Yield	3.90%	3.58%	1.37%	1.80%
Net Buy Back Yield	-0.39%	0.48%	1.06%	1.38%
Gross Buy Back Yield	0.68%	0.78%	1.71%	1.80%
Shareholder Yield	3.51%	4.05%	2.44%	3.17%

Source: WisdomTree Fund Comparison Tool, as of 2/28/21. Subject to change.

### Lower Ratios, Greater Appeal

We'd be remiss to ignore the [valuation](#) profile of international small-cap value as well. Despite the attention they've earned this year, coupled with an impressive performance record, small-cap value stocks around the world still trade at comfortable discounts to their large-cap peers. That tells us that investors are not yet as serious about small caps as they should be, which creates an advantageous opportunity.

VALUATION RATIOS as of 2/28/2021 <i>select a characteristic to view historical data</i>	DLS	DOL	EES	EPS
Price/Earnings (P/E)	13.66	17.24	15.70	21.24
Price/Earnings (P/E) Excl. Negative	12.15	15.94	13.26	20.90
Percent Negative Earn	6.39%	5.39%	6.72%	1.29%
Estimated Price/Earnings (P/E)	14.12	14.98	13.17	17.10

Source: WisdomTree Fund Comparison Tool, as of 2/28/21. Subject to change.

Despite their rally to begin the year, both U.S. and developed small-cap value stocks are trading at a 20%–25% discount to large caps on a [price-to-earnings \(P/E\) ratio](#) basis. Similarly, there are even discounts available in [forward P/E](#) measurements.

Even with their auspicious start to the year, international small caps are still lagging U.S. small caps, so the inexpensive valuations of the former should reassure you that they may still have room to rally further without fear of overpaying.

### A Changing Paradigm

In the current market environment, we believe the tables are turning in favor of small caps and value investing as the economy continues to recover.

We've made the case before for small-cap investing in the U.S., and we believe now more than ever it's just as important to consider small-cap allocations abroad. There may be rewards that the rest of the market has not discovered just yet.

*Unless otherwise stated, all data is sourced from WisdomTree, FactSet, and Bloomberg, as of 2/28/21.*

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- + [2020: A Year for Storytellers](#)
- + [Beware of Zombies in U.S. Small Caps](#)

### Related Funds

- + [WisdomTree Dynamic Currency Hedged International SmallCap Equity Fund](#)
- + [WisdomTree International MidCap Dividend Fund](#)

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## DEFINITIONS

**Bitcoin (the currency)** : A digital currency (also called a cryptocurrency) created in 2009, which is operated by a decentralized authority as opposed to a traditional central bank or monetary authority.

**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.

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

**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.

**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.

**Large-Capitalization (Large-Cap)** : A term used by the investment community to refer to companies with a market capitalization value of more than \$10 billion. Large cap is an abbreviation of the term "large market capitalization". Market capitalization is calculated by multiplying the number of a company's shares outstanding by its stock price per share.

**Size** : Characterized by smaller companies rather than larger companies by market capitalization. This term is also related to the Size Factor, which associates smaller market-cap stocks with excess returns vs the market over time.

**Dividend yield** : A financial ratio that shows how much a company pays out in dividends each year relative to its share price.

**Basis point** : 1/100th of 1 percent.

**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.

**Price-to-earnings (P/E) ratio** : Share price divided by earnings per share. Lower numbers indicate an ability to access greater amounts of earnings per dollar invested.

**Forward P/E ratio** : Share price divided by compilation of analyst estimates for earnings-per-share over the coming 12-month period. These are estimates that may be subject to revision or prove to be incorrect over time.