

# THE SWEET SPOT IN HIGH QUALITY, HIGH CAPITAL RETURN STOCKS

Kara Marciscano — Associate, Research  
08/03/2021

S&P Dow Jones Indices (S&P) recently [released data about buybacks](#) in the [S&P 500 Index](#). The headline reads: “Q1 2021 S&P 500 Buybacks Double Their Post-Covid Low; Companies repurchased 36.5% more shares than in Q4 2020.”

The [WisdomTree U.S. Quality Shareholder Yield Fund \(QSY\)](#), which targets high-quality companies with high levels of capital return, has experienced an even greater [buyback](#) rebound than the S&P 500.

- In the first quarter of 2021, QSY’s buybacks increased 161% from the second quarter of 2020 vs. 101% reported by S&P. Quarter-over-quarter buybacks increased 41% for QSY vs. 37% for the S&P 500.
- According to S&P, roughly two-thirds (335 companies) of S&P 500 companies bought back at least \$5 million in shares in the first quarter. Meanwhile, 94 of the 125 companies in QSY, or three-fourths of the Fund, executed buybacks of at least \$5 million during the same period. Additionally, 27, or 22% of the companies held in QSY, reduced share count by more than 4% year over year, which compares to 6% for the S&P 500.
- Buybacks are top-heavy in the S&P 500. Per S&P, the top 20 stock repurchasers account for 53.3% of all buybacks. Twelve of those names are currently held in QSY and they were 10% of the Fund’s weight as of the end of the first quarter.

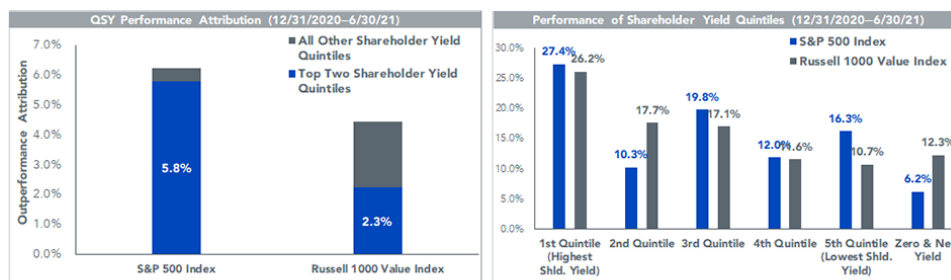
## QSY — A Leading Value Fund

QSY’s 1-YR performance ranks in the top decile of funds within Morningstar’s Large Value category – it ranks 10th of the 107 ETFs included in the category (as of 6/30/2021)<sup>1</sup>.

Over the trailing one-year period, QSY has returned 48.9%, outperforming the S&P 500 (35.9%) and Russell 1000 Value (37.3%) Indices by at least 1,150 [basis points \(bps\)](#). Year-to-date, QSY has returned 22%, outperforming the S&P 500 and the [Russell 1000 Value Index](#), which have both returned 17%, by 500bps<sup>2</sup>.

Companies in the top quintile of the S&P 500 and Russell 1000 Value index have been the top-performing subgroup year-to-date. QSY’s over-weight exposure to the high shareholder yield subgroups has driven the majority of its outperformance versus the benchmarks in the first half of 2021.

**Performance data quoted represents past performance and is no guarantee of future results. Current performance may be lower or higher than the performance data quoted. Investment return and principal value will fluctuate so that an investor’s shares, when redeemed, may be worth more or less than original cost. Returns less than one year are not annualized. For current standard performance and expenses, visit [www.wisdomtree.com](http://www.wisdomtree.com)**



Sources: WisdomTree, FactSet, as of 6/30/21. Past performance is not indicative of future results. You cannot invest directly in an Index.

Lean into [Quality](#) and Shareholder Yield in the Back Half of 2021

My colleague recently wrote a great piece dissecting the quality factor and he makes a strong case, in my view, for long-term exposure to quality at the core of your portfolio. To paraphrase from Matt Wagner's blog post, [Quality 101: What it Is and Why it Works](#)—high-quality companies have outperformed low quality stocks by 400 bps annualized, with lower [downside capture](#) and downside deviation than the market<sup>3</sup>.

In theory, there should be a relatively high overlap between companies bucketed as high-quality and high capital return. Companies that are most operationally efficient (high quality) should be generating the most excess capital and therefore returning the most capital to shareholders through dividends and buybacks.

We know this does not necessarily hold true, but it is worth investigating how different reality is from theory in a follow up piece.

Part of the reason high quality is not a precondition to high capital return is because most industries do not have rules requiring that be the case, but some highly regulated industries do. U.S. banks are a good example of an industry where annual stress tests precede capital returns.

The [Federal Reserve](#) recently removed restrictions on bank [dividends](#) and buybacks, which were put in place in the wake of the COVID-19 pandemic. This development was not only a vote of confidence in the U.S. economic recovery but also a positive catalyst toward a return to pre-COVID levels of capital return across sectors.

As the U.S. economy recovers, we view QSY as well positioned in a high quality, high capital return sweet spot. Today's case for QSY three-pronged and compelling—QSY offers investors 1) higher quality and 2) higher capital return, at a 3) discounted valuation relative to benchmark indexes.

|                          | Forward P/E  | Dividend Yield | Buyback Yield | Shareholder Yield | Return on Equity |
|--------------------------|--------------|----------------|---------------|-------------------|------------------|
| <b>QSY</b>               | <b>14.2x</b> | <b>1.9%</b>    | <b>2.8%</b>   | <b>4.7%</b>       | <b>17.3%</b>     |
| S&P 500 Index            | 22.7x        | 1.3%           | 0.8%          | 2.1%              | 15.0%            |
| Russell 1000 Value Index | 17.6x        | 1.9%           | 0.3%          | 2.2%              | 10.6%            |

Sources: WisdomTree, FactSet, as of 7/23/21.

**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. Current standard performance and expenses are 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.

**This information must be preceded or accompanied by a prospectus. Please go to [www.wisdomtree.com](#) to view or download a prospectus. We advise you to consider the Fund's objectives, risks, charges and expenses carefully before investing. The prospectus contains this and other important information about the Fund. Please read the prospectus carefully before you invest.**

For standardized performance and 30-day SEC yield please click [here](#).

<sup>1</sup> Source: Morningstar. Past performance is not indicative of future results.

<sup>2</sup> Performance for the period 12/31/20–7/21/21. QSY performance at NAV. Past performance is not indicative of future results.

<sup>3</sup> Source: WisdomTree, Kenneth French Data Library, 6/30/1963-5/31/2021.

**Important Risks Related to this Article**

There are risks associated with investing, including the 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 the Fund 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. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

Morningstar, Inc., 2019. All rights reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance, rankings and ratings are no guarantee of future results. The % of Peer Group Beaten is the funds' total-return percentile rank compared to all funds within the same Morningstar Category and is subject to change

each month.

**Related Funds**

+ [WisdomTree U.S. Quality Shareholder Yield Fund](#)

For more investing insights, check out our [Economic & Market Outlook](#)

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](http://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, Kara Marciscano, 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

**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.

**Buyback** : When a company uses its own cash to purchase its own outstanding shares; may positively impact the share price.

**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.

**Russell 1000 Index** : A measure of the performance of the 1,000 largest companies by market capitalization in the Russell 3000 Index.

**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.

**Down Capture** : Measure of the performance of an investment relative to a benchmark index during a down market.

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

**Qualified dividends** : Dividend paid by corporations meeting certain criteria defined by the Internal Revenue Service and therefore eligible in certain instances to be taxed at rates below a tax filer's tax bracket on ordinary income.