

2022 REBALANCE OVERVIEW: U.S. CORE INDEXES

Hyun Kang — Research Analyst
12/22/2022

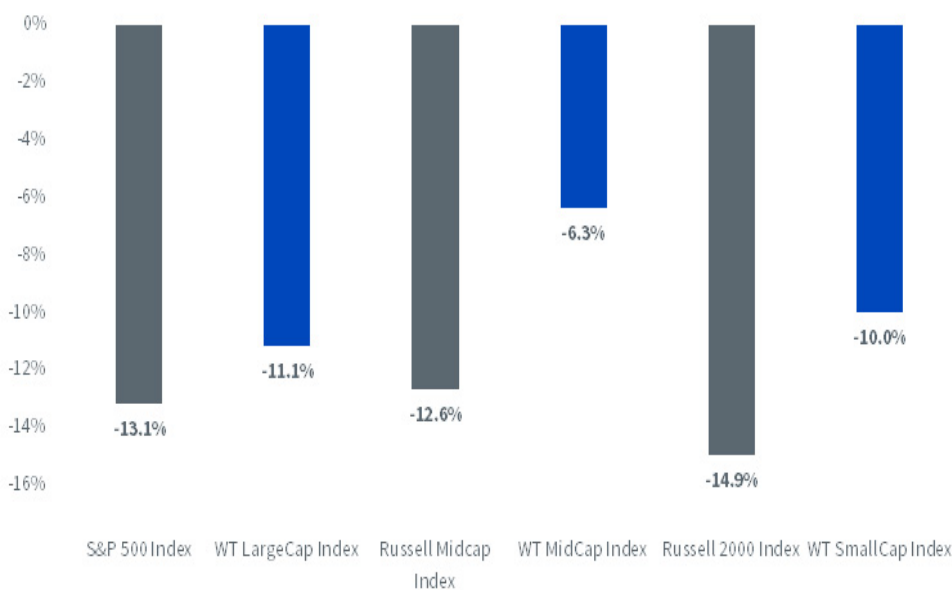
After a rocky start to the year, U.S. equities were repeatedly buffeted by a series of economic headwinds. From Russia’s invasion of Ukraine to aggressive [Fed rate hikes](#) and the de facto collapse of [cryptocurrencies](#), what little U.S. equities managed to recuperate by the end of Q1 2022 was effectively wiped out and so much more by December.

A fair share of the market’s woes were driven by the spectacular decline of [growth](#) stocks. Mega-cap growth giants suffered the most, with both Tesla Inc. (TSLA US) and Meta Platforms (META US) tumbling over 60% year to date.

Our Domestic Core Equity family of Indexes consists of the WisdomTree U.S. [LargeCap](#), [MidCap](#) and [SmallCap](#) Indexes—all of which outperformed their respective benchmark indexes as shown below.

These earnings-weighted Indexes were designed to have high correlation to broad-based market returns while mitigating exposure to expensive growth stocks—exactly the type of stocks that have struggled in 2022.

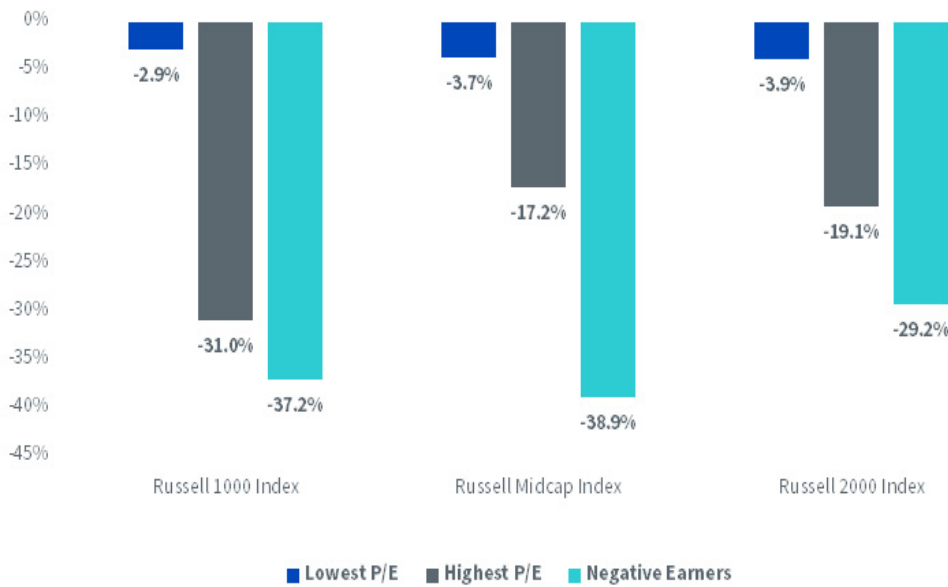
Year-to-Date Performance, WisdomTree U.S. Core Indexes vs. Broad-Based Benchmarks



Sources: WisdomTree, S&P, FTSE Russell, 12/31/21—11/30/22. You cannot invest directly in an index. Past performance is not indicative of future returns.

Looking at returns for the Russell large-cap, [mid-cap](#) and small-cap indexes, companies with high [valuations](#) and low (or negative) earnings vastly underperformed those with the lowest [price-to-earnings \(P/E\) ratios](#).

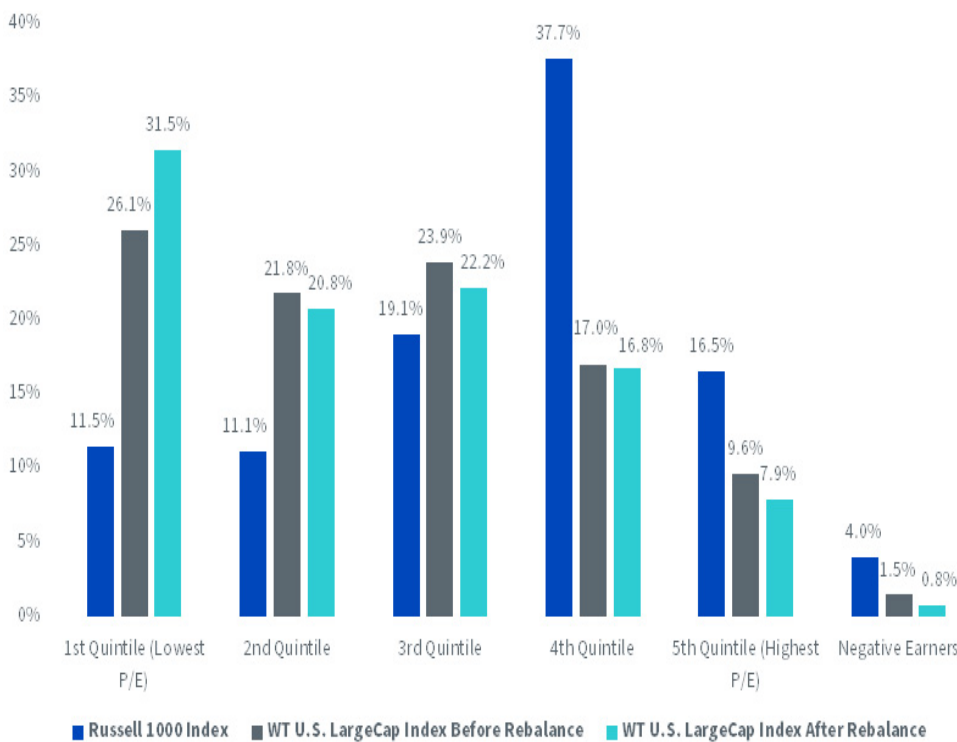
Year-to-Date Earnings Returns Attribution, Russell Benchmarks



Sources: FTSE Russell, 12/31/21—11/30/22. You cannot invest directly in an index. Past performance is not indicative of future returns.

The WisdomTree Domestic Core Equity Indexes, by design, systematically reduce exposures to companies with high valuations. After this year’s rebalance, the Indexes further increased exposures to companies in the lowest P/E quintile and lowered exposures to companies in the highest P/E quintile.

WisdomTree U.S. LargeCap Index vs. Russell 1000 Index Weights, P/E Quintiles



Sources: WisdomTree, FTSE Russell, as of 12/14/22. You cannot invest directly in an index. Past performance is not indicative of future returns.

WisdomTree U.S. Core Indexes

At their launch, the WisdomTree U.S. LargeCap, MidCap and SmallCap Indexes challenged the industry norm of [market cap-weighting](#) by allocating weights based on fundamental metrics such as earnings. This method of stock selection and weighting has resulted in enhanced returns and lowered P/E ratios compared to traditional market cap-weighted

portfolios.

As we head into 2023, high market valuations continue to pose a major risk to investors. The market outlook for next year remains uncertain, and Street earnings estimates have been steadily lowered through the second half of this year. Utilizing a strategy that lowers multiples for large caps by over five turns, mid-caps by over 10 and small caps by over 20 could serve investors well.

This year’s rebalance saw our Domestic Core Equity Indexes further reduce their P/E ratios and improve other fundamentals as well. Notably, the [WisdomTree U.S. SmallCap Index \(WTSEI\)](#) improved its return on equity by almost 5% and brought its P/E ratio below 10x, at a standout discount [well below historical levels](#). Including WTSEI, all Indexes improved their return on assets and return on equity as shown below.

Rebalance Fundamentals Changes

	Related ETF	Company Count	P/E	ROA	ROE
WTEPS After Rebalance	EPS	500	14.2x	4.1%	21.6%
WTEPS Before Rebalance		498	15.9x	3.3%	19.4%
S&P 500 Index		503	20.0x	4.3%	19.8%
WTMEI After Rebalance	EZM	584	8.3x	4.5%	24.1%
WTMEI Before Rebalance		567	9.8x	4.1%	21.2%
Russell Midcap Index		1955	29.7x	1.6%	7.8%
WTSEI After Rebalance	EES	918	8.1x	3.9%	19.7%
WTSEI Before Rebalance		930	10.8x	3.0%	14.9%
Russell 2000 Index		817	20.6x	3.1%	14.5%

Sources: WisdomTree, S&P, FTSE Russell. WisdomTree Indexes, as of 12/14/22, benchmark indexes, as of 11/30/22. You cannot invest directly in an index. Past performance is not indicative of future returns.

The year’s biggest winner was the Energy sector, which (measured by the [S&P 500 Energy Index](#)) trounced the broad S&P 500, delivering a whopping 71.98% of excess returns year to date, while maintaining the lowest P/E ratio of all sectors as profits kept pace with price gains.

All WisdomTree core Indexes increased allocations to the Energy sector, with the [WisdomTree U.S. LargeCap Index \(WT EPS\)](#) increasing its weighting by over 4%.

On the other hand, all Indexes shed weights from the Financials sector, which dropped roughly 2%. Information Technology had a more modest reduction across the Indexes.

Rebalance Sector Change

Final Weights	Change		
	WT U.S. LargeCap Index	WT U.S. MidCap Index	WT U.S. SmallCap Index
Communication Services	1.6%	0.1%	0.6%
Consumer Discretionary	-1.2%	0.0%	3.9%
Consumer Staples	-0.9%	-0.8%	-2.0%
Energy	4.4%	1.6%	0.9%
Financials	-2.3%	-2.5%	-1.7%
Health Care	-0.7%	-1.4%	-0.7%
Industrials	0.0%	2.5%	-1.6%
Information Technology	-1.3%	-0.5%	-1.0%
Materials	0.0%	0.8%	0.7%
Real Estate	0.5%	1.4%	1.6%
Utilities	0.0%	-1.2%	-0.7%

Sources: WisdomTree, FactSet, as of 11/30/22. You cannot invest directly in an index.

On an individual holdings basis, the WisdomTree U.S. LargeCap Index has its biggest under-weight allocations to Apple, Microsoft and Amazon. A 5% single holding cap forces Apple—the most profitable company in the U.S.—to be under-weight relative to its 6.5% weight in the S&P 500.

Exxon Mobil and Alphabet (combining its Class A and Class C shares) are the biggest over-weight holdings for the Index at around 1.3% each.

Top 20 Holdings, S&P 500 vs. WisdomTree U.S. LargeCap Index

Name	Sector	Index Weights		
		S&P 500 Index	WT U.S. LargeCap Index	Difference
Apple Inc.	Information Technology	6.52%	5.02%	-1.50%
Microsoft Corporation	Information Technology	5.55%	4.15%	-1.40%
Amazon.com, Inc.	Consumer Discretionary	2.50%	1.00%	-1.50%
Alphabet Inc. Class A	Communication Services	1.77%	4.72%	2.95%
Berkshire Hathaway Inc. Class B	Financials	1.68%	1.56%	-0.12%
Alphabet Inc. Class C	Communication Services	1.59%	0.00%	-1.59%
Tesla Inc.	Consumer Discretionary	1.51%	0.64%	-0.87%
UnitedHealth Group Incorporated	Health Care	1.49%	1.01%	-0.49%
Johnson & Johnson	Health Care	1.36%	1.32%	-0.05%
Exxon Mobil Corporation	Energy	1.35%	2.67%	1.31%
NVIDIA Corporation	Information Technology	1.24%	0.47%	-0.76%
JPMorgan Chase & Co.	Financials	1.18%	1.75%	0.57%
Procter & Gamble Company	Consumer Staples	1.04%	0.72%	-0.32%
Visa Inc. Class A	Information Technology	1.03%	0.80%	-0.24%
Home Depot, Inc.	Consumer Discretionary	0.97%	0.85%	-0.12%
Chevron Corporation	Energy	0.96%	1.67%	0.71%
Mastercard Incorporated Class A	Information Technology	0.89%	0.50%	-0.38%
Eli Lilly and Company	Health Care	0.85%	0.38%	-0.48%
AbbVie, Inc.	Health Care	0.83%	1.19%	0.36%
Pfizer Inc.	Health Care	0.82%	1.86%	1.04%

Sources: WisdomTree, FactSet, as of 11/30/22. You cannot invest directly in an index. Holdings subject to change.

As [recession](#) fears continue to loom amidst continued rate hikes from the Fed, it is abundantly clear that the pandemic-era days of easy money are long behind us. Expensive and unprofitable stocks—the largest of which dominate the large-cap landscape—are being crushed, weighing down the market.

By emphasizing and allocating weights using fundamental metrics as opposed to the commonly accepted method of weighting by market cap, the WisdomTree Domestic Core Equity family of Indexes magnifies the effect of earnings on performance while effectively managing valuation risks.

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.

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.

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.

Cryptocurrency : a digital or virtual currency that is secured by cryptography, which makes it nearly impossible to counterfeit or double-spend.

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.

Russell Midcap Index : The Russell Midcap Index measures the performance of the mid-cap value segment of the U.S. equity universe. It includes those Russell Midcap Index companies with lower price-to-book ratios and lower forecasted growth values.

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.

Market capitalization-weighting : Market cap = share prices x number of shares outstanding. Firms with the highest values receive the highest weights in approaches designed to weight firms by market cap.

S&P 500 Energy Index : Market capitalization-weighted measure of the performance of companies in the S&P 500 Index that are in the energy sector.

Recession : two consecutive quarters of negative GDP growth, characterized generally by a slowing economy and higher unemployment.