

# Looking back at Equity Factors in Q4 2023 with WisdomTree

Published 18 January 2024

## Pierre Debru

Head of Research, WisdomTree Europe.

Equities finished the year with a very strong fourth quarter. Global equities gained 11.4% over the last three months to close the year with a 23.8% positive performance<sup>1</sup>. The lowering of the 'higher for longer' rates fears, and the awakening of Small Cap stocks after three quarters of lacklustre performance, helped stocks edge higher. Overall, markets finished the year focusing on upcoming rate cuts, combined with decreasing inflation, that led to a reversal of the negative mood observed in Q3.

This instalment of the WisdomTree Quarterly Equity Factor Review aims to shed some light on how equity factors behaved during this reversal and how this may have impacted investors' portfolios.

- Overall, Quality and Growth continued to dominate but Small Cap joined the party this quarter. In the US and Europe, Small Cap even posted the strongest outperformance
- High Dividend, Value and Min Volatility posted the largest underperformance, suffering from the market's pivot to optimism
- In Emerging Markets, the picture remained a bit different to the rest of the world, with most factors outperforming. Only Momentum and Min Vol posted underperformance and Quality posted the strongest returns

Looking to 2024, the equity outlook remains positive but quite uncertain. It appears rate cuts are coming, but a notable deterioration in economic data and continued disinflation may be required to validate expectations for significant policy easing in 2024 and to support equity markets. With non-dividend payers having benefitted from an exceptional run over the last decade, compared to high-dividend payers, 2024 may see a net expansion of the breadth of the market leading to some mean reversion in favour of dividend payers. This could play a very important role in the performance of Quality in the year ahead, pushing high Quality dividend growing stocks to outperform high Quality tech stocks.

## Performance in focus: a surprise bull run for Q4

In Q4 the MSCI World (+11.4%) and the MSCI USA (+11.8%) performed very strongly. European and emerging markets equities were weaker but still returned high single-digit performance. Overall, Tech Megacaps continued to lead but the market's breadth increased with Small Caps in the US and Europe performing quite strongly.

Overall Q4 ended up quite positive for factor investing:

- In global developed markets, Growth and Quality continue to post strong returns, in line with the rest of the year. Small Cap finished second in a late revival after three quarters of lacklustre performance
- In the US and Europe, Small Caps posted the strongest outperformance, followed by Growth. Quality performed well in Europe finishing third but in the US Momentum grabbed the third place
- Overall, in Developed Markets, High Dividend, Min Volatility and, to a smaller extent, Value suffered the bulk of the underperformance
- In emerging markets, Quality and Growth dominated but, like in previous quarters, most factors were able to produce outperformance over the quarter. Momentum was the standout loser in the region

**Figure 1: Equity factor outperformance in Q4 2023 across regions**

	World Q4 2023: 11.4%	USA Q4 2023: 11.8%	Europe Q4 2023: 6.4%	Emerging Markets Q4 2023: 7.9%
<b>High Dividend</b>	-4.4%	-3.8%	-0.6%	1.6%
<b>Minimum Volatility</b>	-4.7%	-4.2%	-2.0%	-1.7%
<b>Momentum</b>	0.7%	0.9%	0.0%	-4.5%
<b>Quality</b>	1.0%	0.1%	1.4%	4.6%
<b>WisdomTree Quality</b>	0.2%	-0.4%	0.5%	4.0%
<b>Size</b>	1.1%	1.9%	3.3%	1.1%
<b>Value</b>	-3.3%	0.2%	-2.8%	2.0%
<b>Growth</b>	1.9%	1.8%	1.9%	2.1%

Source: WisdomTree, Bloomberg. 30 September 2023 to 31 December 2023. Calculated in US Dollars for all regions except Europe, where calculations are in EUR. Historical performance is not an indication of future performance and any investments may go down in Value.

## 2023 in review

Looking back at the full year, Growth remained the clear winner in developed and US equities with double digit outperformance versus the market. In both regions, only Quality managed to follow its lead outperforming by almost 10% in both markets. All the other factors underperformed with High Dividend, Minimum Volatility and Momentum posting large underperformance.

In Europe, Quality and Growth also dominated the other factors but they did not post large outperformance. Minimum Volatility and Small Cap were the standout losers in that region.

In emerging markets, all factors but Momentum and Min Volatility did quite well in 2023. Small Cap posted the strongest returns followed by Value and Quality.

**Figure 2: Equity factor outperformance in 2023 across regions**

*Source: WisdomTree, Bloomberg. 31 December 2022 to 31 December 2023. Calculated in US Dollars for all regions except Europe, where calculations are in EUR. Historical performance is not an indication of future performance and any investments may go down in Value.*

### **Is it time for the revenge of the dividend payers?**

Research has shown that across markets, over the long term, big dividend payers tend to outperform low dividend payers or companies that don't pay dividends at all. However, after the strong outperformance of Tech Megacaps including many non-dividend payers in 2023, and over the last decade in general, data from Dartmouth's Ken French shows that over the last 20 years, the companies that paid no dividend outperformed the quintile that paid the highest dividends by the largest amount on record. Assuming some mean reversion, this could point to some resurgence of dividend payers<sup>2</sup>.

This is of particular interest when looking at the Quality factor. Quality continued to do well over the year but over the last two years we have observed a strong divergence in behaviour between high Quality companies that pay dividends and those that don't. In 2022 the Quality dividend payers dominated while the Quality non dividend payers did better in 2023.

To look at the impact of that divergence on 'investable' portfolios we consider:

- the MSCI USA Quality index, which currently allocates a large proportion of the portfolio to tech and non dividend paying high Quality companies
- the WisdomTree US Quality Dividend Growth UCITS index that focuses on high Quality, dividend growing companies and therefore invests only in dividend paying companies leading to smaller allocation to Tech and to the Magnificent Seven

In Figure 3 we observe that the MSCI USA Quality, following the strong rally of Tech and the Magnificent Seven in 2023, is historically expensive compared to the market. On the contrary, with a discount of -2, the WisdomTree US Quality Dividend Growth UCITS is currently quite cheap and getting cheaper.

### **Figure 3: Historical Price to Earnings ratio Premium/Discount versus the MSCI USA Index**

*Source: WisdomTree, Bloomberg. 30 April 2013 to 31 December 2023. Historical performance is not an indication of future performance and any investments may go down in Value.*

Taken together, this could indicate that high Quality with a dividend tilt could be poised to take the lead in 2024.

### **Valuations increased in Q4**

In Q4 2023, developed markets got more expensive following the sharp rally. All factors saw the Price to earnings ratio increase over the quarter except for Momentum in Europe. Growth saw the biggest increase across regions on average. Small Caps and Momentum follow just behind. In Emerging markets, valuations increased across most factors bar Small Caps.

### **Figure 4: Historical Evolution of Price to Earnings ratios of equity factors**

*Source: WisdomTree, Bloomberg. As of 30 September 2023. Historical performance is not an indication of future performance and any investments may go down in Value.*

## Looking forward to 2024

The equity outlook remains positive but quite uncertain. It appears rate cuts are coming, but a notable deterioration in economic data and continued disinflation may be required to validate expectations for significant policy easing in 2024 and to support equity markets. With non dividend payers having benefitted from an exceptional run over the last decade compared to high dividend payers, 2024 may see a net expansion of the breadth of the market leading to some mean reversion in favour of dividend payers. This could play a very important role in the performance of Quality in the year ahead, pushing high Quality dividend growing stocks to outperform high Quality tech stocks.

**World** is proxied by MSCI World net TR Index. **US** is proxied by MSCI USA net TR Index. **Europe** is proxied by MSCI Europe net TR Index. **Emerging Markets** is proxied by MSCI Emerging Markets net TR Index. **Minimum volatility** is proxied by the relevant MSCI Min Volatility net total return index. **Quality** is proxied by the relevant MSCI Quality net total return index.

**Momentum** is proxied by the relevant MSCI Momentum net total return index. **High Dividend** is proxied by the relevant MSCI High Dividend net total return index. **Size** is proxied by the relevant MSCI Small Cap net total return index. **Value** is proxied by the relevant MSCI Enhanced Value net total return index. **WisdomTree Quality** is proxied by the relevant WisdomTree Quality Dividend Growth Index.

1 Source: WisdomTree, Bloomberg. in USD. Index used is the MSCI World net TR Index

2 Source: Kenneth French data library. Data is calculated at a monthly frequency and as of Oct 2023. Stocks are selected based on dividend yields. Portfolios are rebalanced yearly at the end of June. All returns are in USD. **You cannot invest in an index. Historical performance is not an indication of future performance and any investments may go down in value.**

## Related blogs

- + [Looking back at equity factors in Q3 2023 with WisdomTree](#)
- + [Inflation, recession and geopolitical risk: can Quality offer a safe-haven?](#)
- + [Equity outlook soft landing calls for tough choices](#)

## Important Risks Related to this Article

### IMPORTANT INFORMATION

**Marketing communications issued in the European Economic Area (“EEA”):** This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

**Marketing communications issued in jurisdictions outside of the EEA:** This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as “WisdomTree” (as applicable). Our Conflicts of Interest Policy and Inventory are available on request.

**For professional clients only. Past performance is not a reliable indicator of future performance. Any historical performance included in this document may be based on back testing. Back testing is the process of evaluating an investment strategy by applying it to historical data to simulate what the performance of such strategy would have been. Back tested performance is purely hypothetical and is provided in this document solely for informational purposes. Back tested data does not represent actual performance and should not be interpreted as an indication of actual or future performance. The value of any investment may be affected by exchange rate movements. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice. These products may not be available in your market or suitable for you. The content of this document does not constitute investment advice nor an offer for sale nor a solicitation of an offer to buy any product or make any investment.**

An investment in exchange-traded products (“ETPs”) is dependent on the performance of the underlying index, less costs, but it is not expected to match that performance precisely. ETPs involve numerous risks including among others, general market risks relating to the relevant underlying index, credit risks on the provider of index swaps utilised in the ETP, exchange rate risks, interest rate risks, inflationary risks, liquidity risks and legal and regulatory risks.

The information contained in this document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares in the United States or any province or territory thereof, where none of the issuers or their products are authorised or registered for distribution and where no prospectus of any of the issuers has been filed with any securities commission or regulatory authority. No document or information in this document should be taken, transmitted or distributed (directly or indirectly) into the United States. None of the issuers, nor any securities issued by them, have been or will be registered under the United States Securities Act of 1933 or the Investment Company Act of 1940 or qualified under any applicable state securities statutes.

This document may contain independent market commentary prepared by WisdomTree based on publicly available information. Although WisdomTree endeavours to ensure the accuracy of the content in this

document, WisdomTree does not warrant or guarantee its accuracy or correctness. Any third party data providers used to source the information in this document make no warranties or representation of any kind relating to such data. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.

This document may contain forward looking statements including statements regarding our belief or current expectations with regards to the performance of certain assets classes and/or sectors. Forward looking statements are subject to certain risks, uncertainties and assumptions. There can be no assurance that such statements will be accurate and actual results could differ materially from those anticipated in such statements. WisdomTree strongly recommends that you do not place undue reliance on these forward-looking statements.

The products discussed in this document are issued by WisdomTree Issuer ICAV ("WT Issuer"). WT Issuer is an umbrella investment company with variable capital having segregated liability between its funds organised under the laws of Ireland as an Irish Collective Asset-management Vehicle and authorised by the Central Bank of Ireland ("CBI"). WT Issuer is organised as an Undertaking for Collective Investment in Transferable Securities ("UCITS") under the laws of Ireland and shall issue a separate class of shares ("Shares") representing each fund. Investors should read the prospectus of WT Issuer ("WT

Prospectus") before investing and should refer to the section of the WT Prospectus entitled »Risk Factors¼ for further details of risks associated with an investment in the Shares.

### **Notice to Investors in Switzerland – Qualified Investors**

This document constitutes an advertisement of the financial product(s) mentioned herein. The prospectus and the key **investor information documents (KIID) are available from WisdomTree's web-site:** <https://www.wisdomtree.eu/en-ch/resource-library/prospectus-and-regulatory-reports> Some of the sub-funds referred to in this document may not have not been registered with the Swiss Financial Market Supervisory Authority ("FINMA"). In Switzerland, such sub-funds that have not been registered with FINMA shall be distributed exclusively to qualified investors, as defined in the Swiss Federal Act on Collective Investment Schemes or its implementing ordinance (each, as amended from time to time). The representative and paying agent of the sub-funds in Switzerland is Société Générale Paris, Zurich Branch, Talacker 50, PO Box 5070, 8021 Zurich, Switzerland. The prospectus, the key investor information documents (KIID), the articles of association and the annual and semi-annual reports of the sub-funds are available free of charge from the representative and paying agent. As regards distribution in Switzerland, the place of jurisdiction and performance is at the registered seat of the representative and paying agent.

### **For Investors in France**

The information in this document is intended exclusively for professional investors (as defined under the MiFID) investing for their own account and this material may not in any way be distributed to the public. The distribution of the Prospectus and the offering, sale and delivery of Shares in other jurisdictions may

be restricted by law. WT Issuer is a UCITS governed by Irish legislation, and approved by the Financial Regulatory as UCITS compliant with European regulations although may not have to comply with the same rules as those applicable to a similar product approved in France. The Fund has been registered for marketing in France by the Financial Markets Authority (Autorité des Marchés Financiers) and may be distributed to investors in France. Copies of all documents (i.e. the Prospectus, the Key Investor Information Document, any supplements or addenda thereto, the latest annual reports and the memorandum of incorporation and articles of association) are available in France, free of charge at the French centralizing agent, Societe Generale at 29, Boulevard Haussmann, 75009, Paris, France. Any subscription for Shares of the Fund will be made on the basis of the terms of the prospectus and any supplements or addenda thereto.

### **For Investors in Malta**

This document does not constitute or form part of any offer or invitation to the public to subscribe for or purchase shares in the Fund and shall not be construed as such and no person other than the person to whom this document has been addressed or delivered shall be eligible to subscribe for or purchase shares in the Fund. Shares in the Fund will not in any event be marketed to the public in Malta without the prior authorisation of the Maltese Financial Services Authority.

### **For Investors in Monaco**

This communication is only intended for duly registered banks and/or licensed portfolio management companies in Monaco. This communication must not be sent to the public in Monaco.