A look at what's driving outperformance of our Quality Growth ETF

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Key Takeaways

- The “Magnificent Seven” group of stocks, led by its poster child Nvidia (NVDA) – which recently surpassed the combined market cap of the entire German stock market – are still mostly going strong after a breakout performance in 2023. Putting aside a floundering Tesla (TSLA) for now (which is down close to 25% year-to-date), one might ask, how long will this last?
- The WisdomTree US Quality Growth Index has a rules-based methodology that reconstitutes semi-annually each June and December. The index's design is not to bet on individual names or a basket of constant several names over the long run but to represent a relatively dynamically moving high-conviction allocation to 100 companies with high profitability and growth characteristics.

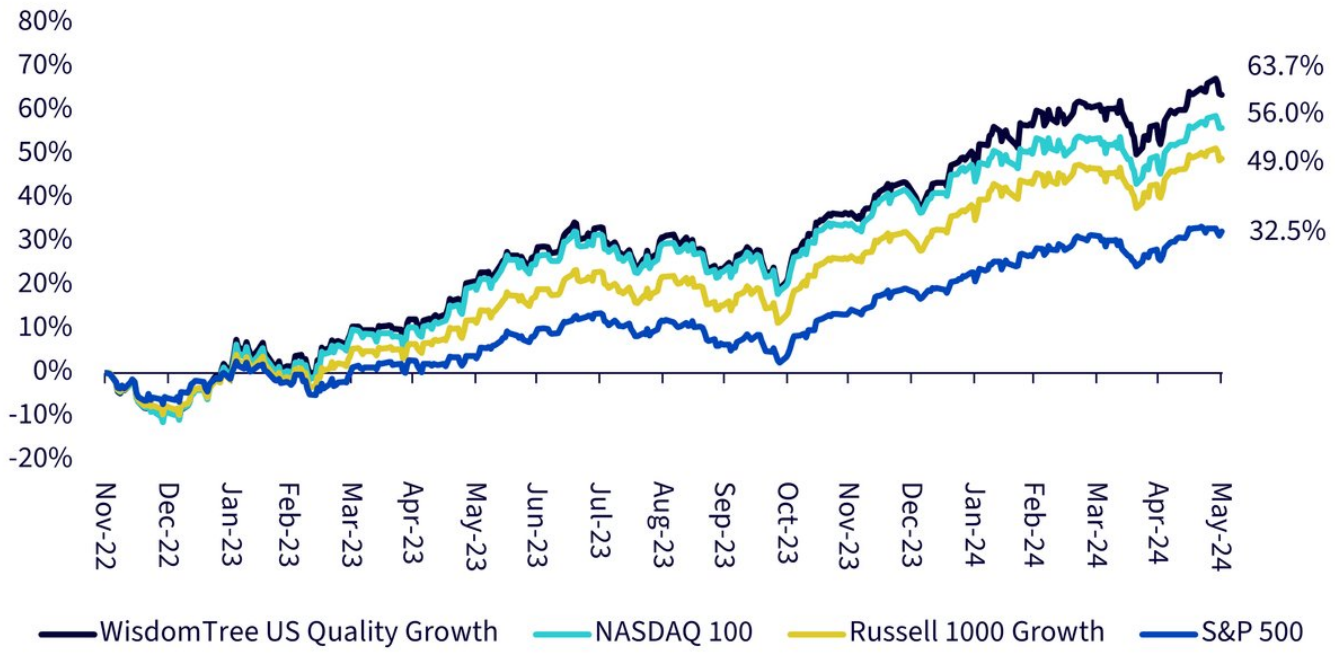
Many consider the NASDAQ 100 Index to be the default benchmark for growth.

The methodology is straightforward: the 100 largest non-financial companies by market cap are listed on the Nasdaq Exchange. Securities are weighted by modified market capitalisation.

One drawback of this simplicity for a growth benchmark is that mature, slow-growing companies can populate the index because fundamental selection criteria are absent.

In our view, WisdomTree has created a better way to capture growth – the WisdomTree US Quality Growth Index. Since its launch in the US near the end of 2022, it has outperformed the NASDAQ 100 while being more directly targeted to high-growth, high-profitability companies. Driven by its success, WisdomTree created UCITS versions of the index: the WisdomTree US Quality Growth UCITS Index and launched the WisdomTree US Quality Growth UCITS ETF in April 2024.

Figure 1: WisdomTree US Quality Growth Index vs. benchmarks since inception



Source: WisdomTree, FactSet. From 30 Nov 2022 to 31 May 2024. **You cannot invest directly in an index. Historical performance is not an indication of future results and any investments may go down in value.**

Since its launch, the WisdomTree US Quality Growth Index has outperformed the NASDAQ 100 Index and Russell 1000 Growth, as well as large cap benchmarks such as the S&P 500.

WisdomTree US Quality Growth UCITS Index: June 2024 Rebalance

The WisdomTree US Quality Growth UCITS Index underwent a semi-annual rebalance on 13 June 2024. During each rebalance, the Index selects 100 US companies with the highest scores in quality and profitability metrics and weights its constituents by market capitalisation.

This rebalance saw the addition of pharmaceutical giant Eli Lilly and Company, whose common stock is up close to 52.45% year-to-date as of 18 Jun 2024, with a weight of 3.63%.

Eli Lilly has an approximately 2.6% weight in the Russell 1000 Growth Index as of 18 Jun 2024, but the security is excluded from the NASDAQ 100 Index as its primary listing is on the NYSE, not the Nasdaq despite being a growth company.

Notably, UnitedHealth Group, a top-10 holding, dropped out of the index as it did not meet our high-quality and high-growth criteria.

Figure 2: Top 10 holdings in the WisdomTree US Quality Growth UCITS Index

Pre-rebalance	Weight		Post-rebalance	Weight
Nvidia Corp	13.75%		Apple Inc.	14.09%
Microsoft Corp	13.55%		Microsoft Corp	13.86%
Apple Inc.	13.06%		Nvidia Corp	12.97%
Alphabet Inc A	9.85%		Alphabet Inc A	9.25%
Amazon.com Inc	8.64%		Amazon.com Inc	8.15%
Meta Platforms Inc A	5.77%		Meta Platforms Inc A	5.34%
Broadcom Inc	3.12%		Eli Lilly & Co	3.63%
Tesla, Inc	2.49%		Broadcom Inc	3.15%
Visa Inc A	2.45%		Tesla, Inc	2.54%
Unitedhealth Group Inc	2.01%		Visa Inc A	2.31%
Total	**74.69%**		**Total**	**75.29%**

Source: WisdomTree, FactSet. Pre-Rebalance data as of 12 June 2024 and post-rebalance data as of 13 June 2024. You cannot invest directly in an index. Historical performance is not an indication of future results and any investments may go down in value.

Figure 3: Index turnover

Pre-rebalance and post-rebalance constituents					
Pre-rebalance constituent count	**Constituent overlap count**	**Post-rebalance constituent count**	**Pre-rebalance constituent weight**	**Index turnover / active share**	**Post-rebalance constituent weight**
100	81	100	95.1%	8.7%	92.8%

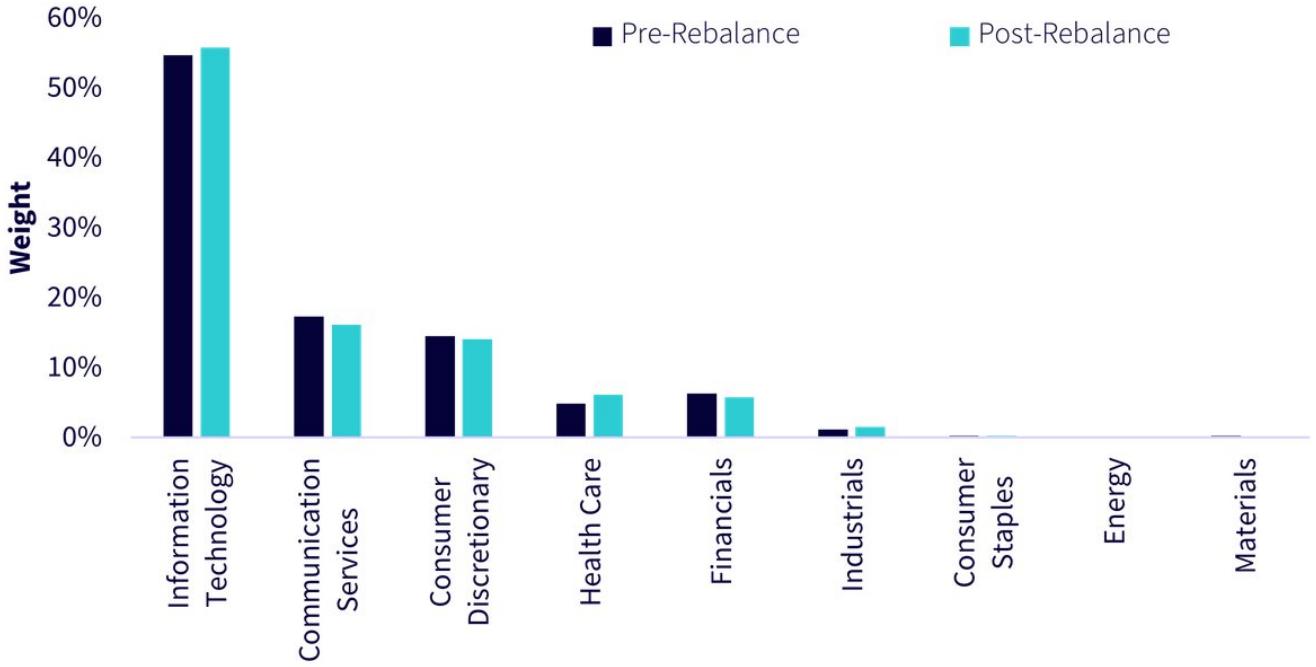
Source: WisdomTree, FactSet. Pre-Rebalance data as of 12 June 2024 and post-rebalance data as of 13 June 2024. You cannot invest directly in an index. Historical performance is not an indication of future results and any investments may go down in value.

Figure 4: Fundamentals

Characteristics	Pre-rebalance	Post-rebalance
Size		
Weighted Average Market Cap ($bn)	1682.63	1738.19
Median Market Cap ($bn)	38.48	41.08
Over $10 billion	99.93%	100.00%
$2 billion - $10 billion	0.07%	0.00%
Under $2 billion	0.00%	0.00%
Valuation and other characteristics		
Price/Earnings (Trailing)	38.41	39.41
Price/Earnings (Forward)	30.99	32.29
Price/Book	13.44	14.70
Price/Sales	7.16	7.90
Dividend Yield	0.39%	0.40%
Shareholder Yield	1.76%	1.67%
Return on Equity	30.33%	32.28%
Return on Assets	15.33%	15.78%
Number of Holdings	100	100

Source: WisdomTree, FactSet. Pre-Rebalance data as of 12 June 2024 and post-rebalance data as of 13 June 2024. You cannot invest directly in an index. Historical performance is not an indication of future results and any investments may go down in value.

Figure 5: Sector weights



Source: WisdomTree, FactSet. Pre-rebalance data as of 12 June 2024 and post-rebalance data as of 13 June 2024. **You cannot invest directly in an index. Historical performance is not an indication of future results and any investments may go down in value.**

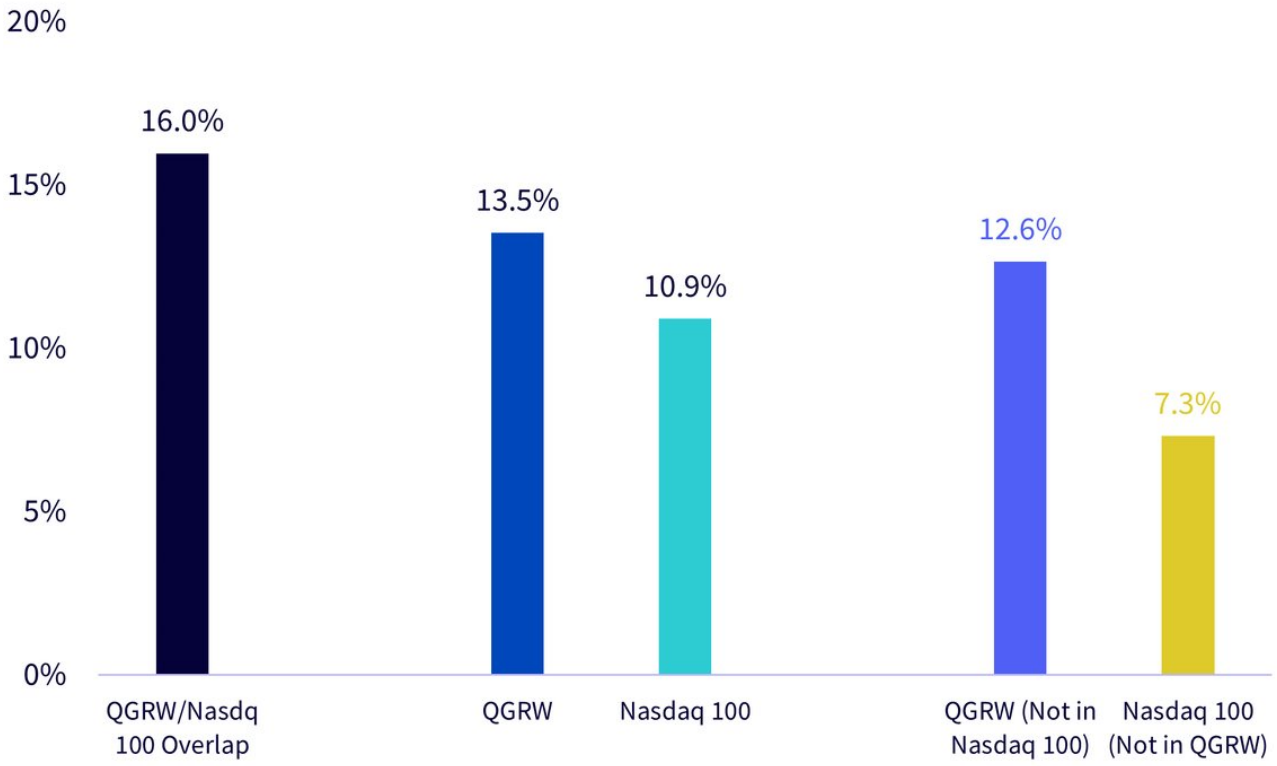
Growth exposure versus NASDAQ 100

Like the NASDAQ 100, the WisdomTree Index selects 100 securities. The Indexes hold close to 40 securities in common, with a common holdings score (or overlap) of approximately 59% as of 18 June 2024.

If we look at the chart below, we can see the difference in trailing sales growth of constituents held in QGRW that are not held in the NASDAQ 100, and vice versa; we observe a massive difference in annualised sales growth of 11.4% vs 7.1%.

This shows that because the NASDAQ 100 has no fundamental selection criteria and is limited to just one exchange, it not only misses out on some top growth stocks but also has exposure to some slow-growing stocks in the US market.

Figure 6: Five-year annualised sales growth versus NASDAQ 100



Source: WisdomTree, FactSet. Bloomberg Ticker - QGRW LN Equity post-rebalance data as of 13 June 2024. NASDAQ 100 is proxies by Bloomberg ticker QQQ US Equity as of 31 May 2024. **You cannot invest directly in an index. Historical performance is not an indication of future results and any investments may go down in value.**

Conclusion: How long will the seven stay magnificent?

The “Magnificent Seven” group of stocks, led by its poster child Nvidia (NVDA) – which recently surpassed the combined market cap of the entire German stock market – are still mostly going strong after a breakout performance in 2023. Putting aside a floundering Tesla (TSLA) for now (which is down close to 25% year-to-date), one might ask, how long will this last?

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