Beating the NASDAQ 100 is hard! Here's how our US Quality Growth ETF did it.

Published 4 February 2025

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Key Takeaways

- **Stronger growth selection**: unlike the NASDAQ 100, which includes slower-growing companies like Cisco Systems and PepsiCo due to market cap weighting, the WisdomTree US Quality Growth UCITS Index prioritises high-growth, high-profitability companies like ServiceNow and Eli Lilly, leading to a more targeted growth exposure.
- **Broader stock universe**: the NASDAQ 100 only includes Nasdaq-listed stocks, excluding high-growth NYSE-listed companies like Visa, Mastercard, and Blackstone. The WisdomTree US Quality Growth UCITS Index, by selecting from all major US exchanges, has a more flexible approach to identifying growth opportunities.
- **A more focused growth strategy**: the WisdomTree US Quality Growth UCITS Index outperformed the NASDAQ 100 by applying earnings and sales growth screens, ensuring a focus on companies with stronger fundamentals and reducing exposure to slower-growing firms.

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For years, the NASDAQ 100 has been the dominant benchmark for growth investors in the US markets, known for its heavy exposure to technology and innovation-driven companies. The methodology is straightforward—the 100 largest non-financial companies by market capitalisation listed on the NASDAQ exchange are selected for inclusion, with constituents weighted by modified market capitalisation.

However, this simplicity can come with trade-offs. Since the NASDAQ 100 does not apply fundamental selection criteria, mature, slow-growth companies can enter the index purely due to their size, potentially diluting the ‘growth’ exposure that investors seek.

In contrast, the WisdomTree US Quality Growth UCITS Index deploys a fundamentals-based selection process, identifying high-growth companies with strong profitability metrics across all major US exchanges. This broader and more refined methodology has led to outperformance of more than 12.5% over the NASDAQ 100 in 20241, a year when the NASDAQ 100 itself posted strong gains.

Figure 1: Live performance vs NASDAQ 100, Russell 1000 Growth, and S&P 500

Source: FactSet, Bloomberg. Returns from 30 November 2022 to 31 December 2024, are derived from the Net Total Return series. The WisdomTree US Quality Growth Strategy is represented by backtested performance followed by live performance of the UCITS Index (WTQGRWUN Index). The strategy went live in the US under the index name WTQGRWTR Index on 30 November 2022. **Historical performance is not an indication of future performance, and any investment may go down in value.**

Stock selection: a key differentiator

Figure 2: Stock overlap between WisdomTree US Quality Growth UCITS Index and NASDAQ 100

Source: WisdomTree, NASDAQ, as of 31 December 2024. You cannot invest directly in an index.

While there is significant overlap in holdings, WisdomTree's selection methodology results in a differentiated portfolio, emphasising earnings and sales growth as key factors.

To highlight the contrast in methodology, below are the five largest unique holdings in each index.

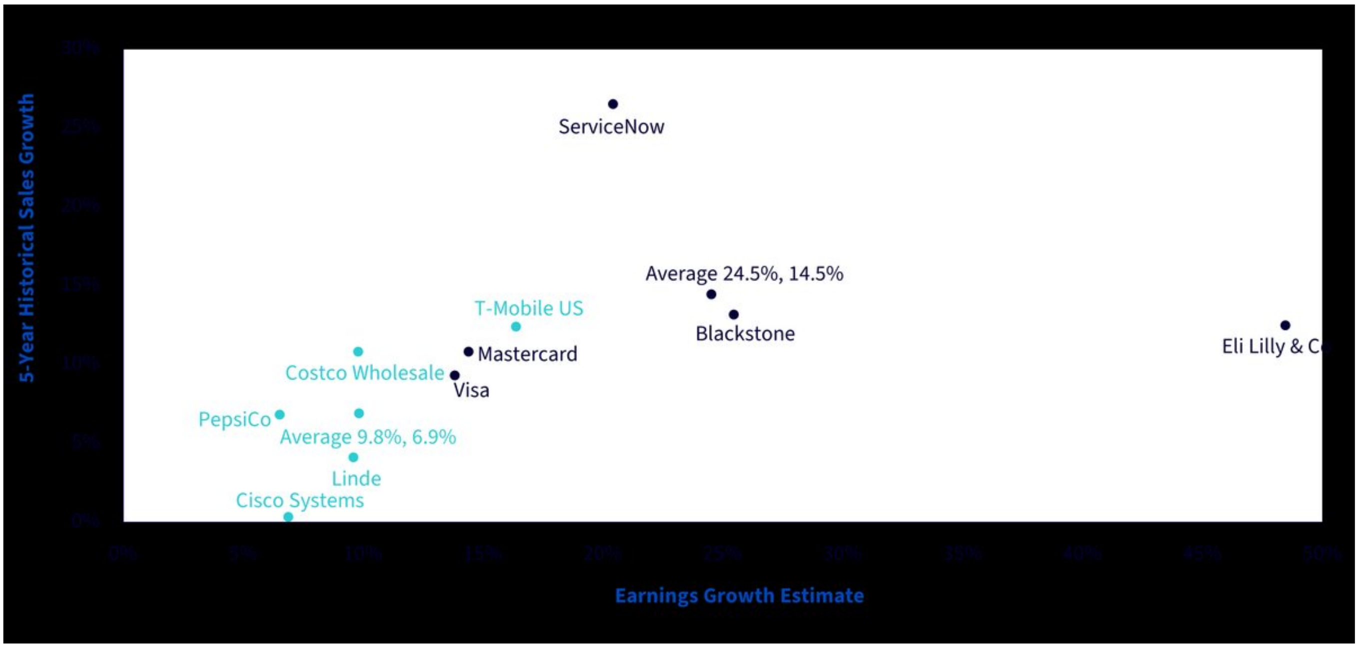
Top Unique Stocks in the WisdomTree US Quality Growth Index:

- Eli Lilly & Co
- Visa
- Mastercard
- Blackstone
- ServiceNow

Top Unique Stocks in the NASDAQ 100 (excluded from WisdomTree due to profitability and growth screens):

- Costco Wholesale
- T-Mobile US
- Cisco Systems
- PepsiCo
- Linde

Figure 3: Top unique stocks in WisdomTree US Quality Growth versus unique stocks in NASDAQ 100



Source: WisdomTree, FactSet, Bloomberg. As of 31 December 2024. **You cannot invest directly in an index.**

A few observations from Figure 3:

- As of 31 December 2024, the average estimated earnings growth and sales growth for companies included in the WisdomTree US Quality Growth Index, but excluded from the NASDAQ 100, were 24.5% and 14.5%, respectively.
- Conversely, the average earnings and sales growth for companies included in the NASDAQ 100 but excluded from the WisdomTree Index were just 9.8% and 6.9%, respectively.

- One standout example is ServiceNow (NOW)—a $200+ billion market capitalisation company that has grown sales at an annualised rate of 26.5% over the last five years. Analysts project it will grow earnings at over 20.4% annually in the coming years.
- On the other hand, Cisco Systems (CSCO), which is included in the NASDAQ 100 but excluded from the WisdomTree Index, has grown sales at just 0.4% annualised and is expected to deliver less than 7% earnings growth going forward. Despite its relatively slow growth, Cisco remains in the NASDAQ 100 simply due to its market cap, not because it meets high-growth criteria.

Conclusion: a more holistic approach to growth investing

By applying a fundamentals-based selection process across all US exchanges, the WisdomTree US Quality Growth UCITS Index provides a better proxy for growth investing compared to traditional market-cap-weighted indices like the NASDAQ 100.

WisdomTree US Quality Growth UCITS Index:

- Captures high-growth companies from the US stocks market agnostic of the exchange
- Filters out slower-growing companies that might make it into the NASDAQ 100 due to market-cap selection
- Reduces speculative exposure by adding profitability as a selection metric

For investors seeking high-quality growth opportunities, the WisdomTree US Quality Growth UCITS ETF seeks to track the price and yield performance of the WisdomTree US Quality Growth Index. With it's fundamentals-driven approach the WisdomTree US Quality Growth UCITS ETF could offer a superior way to access long-term, sustainable growth.

1 Source: FactSet, Bloomberg. Returns from 30 November 2022, to 31 December 2024.

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