Diversifying within equities before diversifying away from them

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Key Takeaways

- The top 10 stocks account for 57.8% of the S&P 500's return since the 30 March low. 29% of constituents are down this year, and earnings growth is expected to halve in 2027.
- Being exposed to high dividend or quality companies could help in market downturns, as those stocks are usually more resilient when the market crashes
- WisdomTree's Composite Risk Score aims to avoid low Quality and Momentum stocks, and fundamental weighting reduces concentration.

2026 is a year for the books: record-breaking IPOs, markets pushing toward all-time-highs despite ongoing geopolitical tensions all around the world, and firms beating estimates on the backdrop of a race toward AI supremacy.

Such was the story until a few days ago. The week commencing 2 of November saw markets tumbling down: the S&P 500 fell 3% and the Nasdaq 6% on fears of tighter regulations on AI since the democrats won the house and senate earlier this week.

This selloff appeared to be very concentrated in AI and semiconductor stocks. Those same stocks are responsible for more than 50% of the Year-To-Date return of the S&P 500 Index (see Table 1).

Table 1: Which stocks drove the rebound? Top 10 contributors to the S&P 500's total return from the 30 Mar 2026 low to 06 Nov 2026

Rank	Stock	Total return	Contribution to index return (% of S&P 500 return)
1	Apple	40%	14.77%
2	Microsoft	50%	13.70%

3	Amazon	29%	6.60%
4	NVIDIA	10%	5.29%
5	Micron	104%	4.17%
6	Eli Lilly	54%	3.88%
7	AMD	106%	3.72%
8	Visa	42%	2.12%
9	Berkshire Hathaway	21%	1.81%
10	META	13%	1.77%
		Top 5	**44.53%**
		Top 10	**57.83%**

Source: Bloomberg, data from 30/03/2026 to 05/11/2026 (latest available data), using SPY as a proxy for the S&P 500 Index.

The story for the other 490 companies is different: 29%[1] of the 500 companies are down this year, and roughly 75% are down more than 10% from their all-time-highs.

Table 2: How broad is the S&P 500's performance?

	% of members	Number of stocks
Down 10% or more from all-time high	75%	378
Down 20% or more from all-time high	57%	288
Down 30% or more from all-time high	40%	202
Down 50% or more from all-time high	18%	93
Median stock: total return year to date	11%	
Median stock: distance from all-time high	-24%	

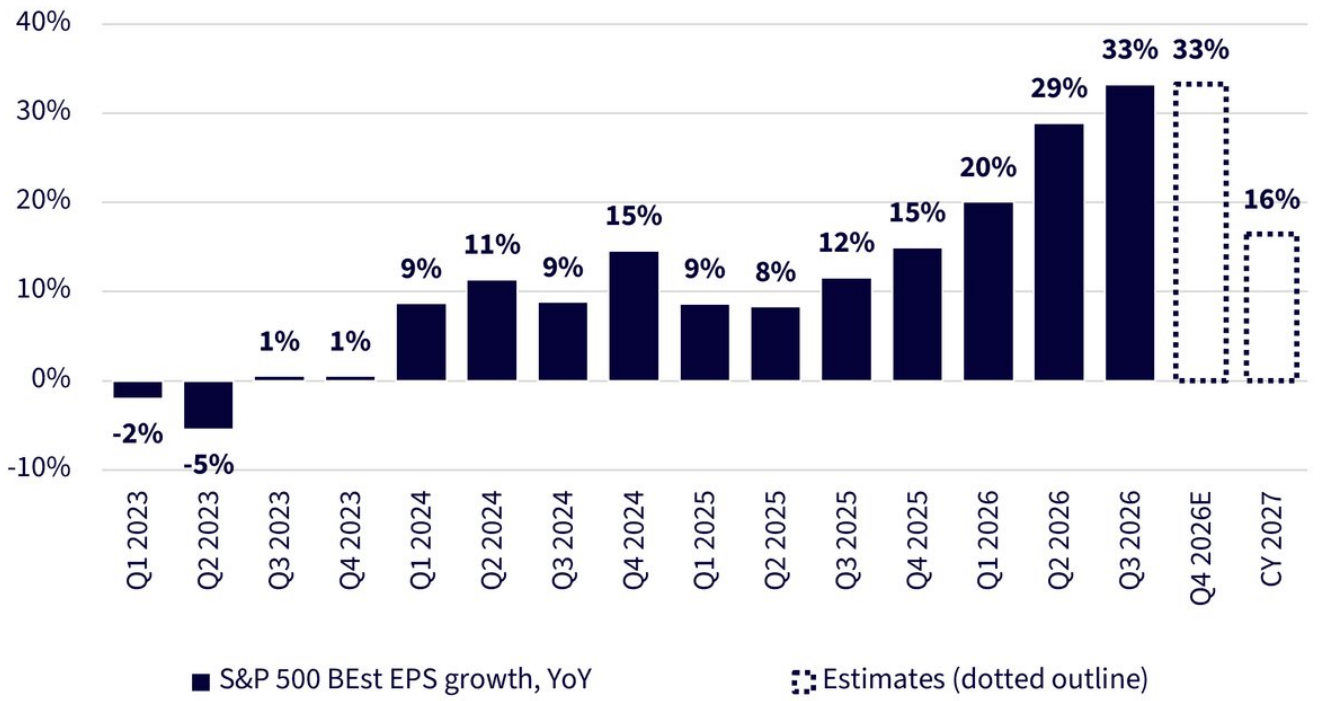
Source: Bloomberg, data as of 05/11/2026 (latest available data).

Earnings have kept on growing for the past four years and are starting to appear more and more saturated. For example, Google has recently reported sales and income per shares below what analysts estimated,

wiping out 13% from its stock price in a single day (28 Oct 2026), Amazon fell more than 7% after reporting operating income below estimates and Intel fell nearly 30% after missing revenue targets.

Overall, S&P earnings growth seem to have reached a saturation with estimated earnings growth expected to slow to down to half of the current levels (see Figure 1)

Figure 1: S&P 500: year-over-year growth of quarterly consensus EPS (estimates in dotted outline)



Source: Bloomberg. EPS = Earnings Per Share. Quarterly YoY Earnings Growth – estimates for Q4 2026 and Calendar Year 2027.
Forecasts are not an indicator of future performance, and any investments are subject to risks and uncertainties.

On the other hand though, bond markets are giving investors the possibility to lock in the highest yields seen in the past few years, which raises the question: is there a way for investors to navigate rough market conditions while still being exposed to equities?

We argue that defensive equities, in the form of High Dividend, Quality or Value stocks, provide one solution to the question raised.

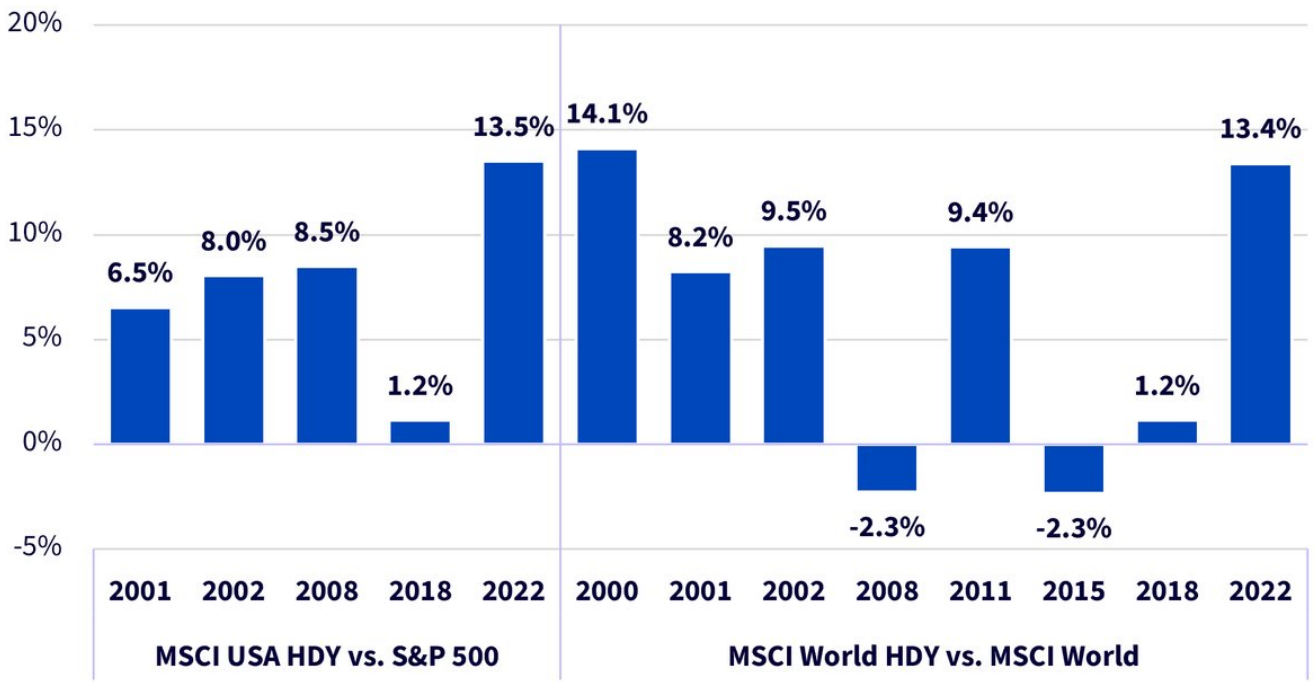
Three approaches to defensive equities

WisdomTree High Dividend Strategies

Dividend paying stocks have an inbuilt buffer that could help the company withstand choppy markets better than non-dividend paying stocks. Historically, dividends have provided a safety buffer when the broader market was down, helping hedge negative returns to some extent.

High Dividend indices have consistently outperformed the broader market in calendar years when it was down, like 2008 or 2022. In the most recent example of 2022, U.S. high dividend paying companies outperformed the market by nearly 14%, when the S&P 500 was down 18%.

Figure 2: High dividend yield out/(under)performance vs. the broad index in years the index fell

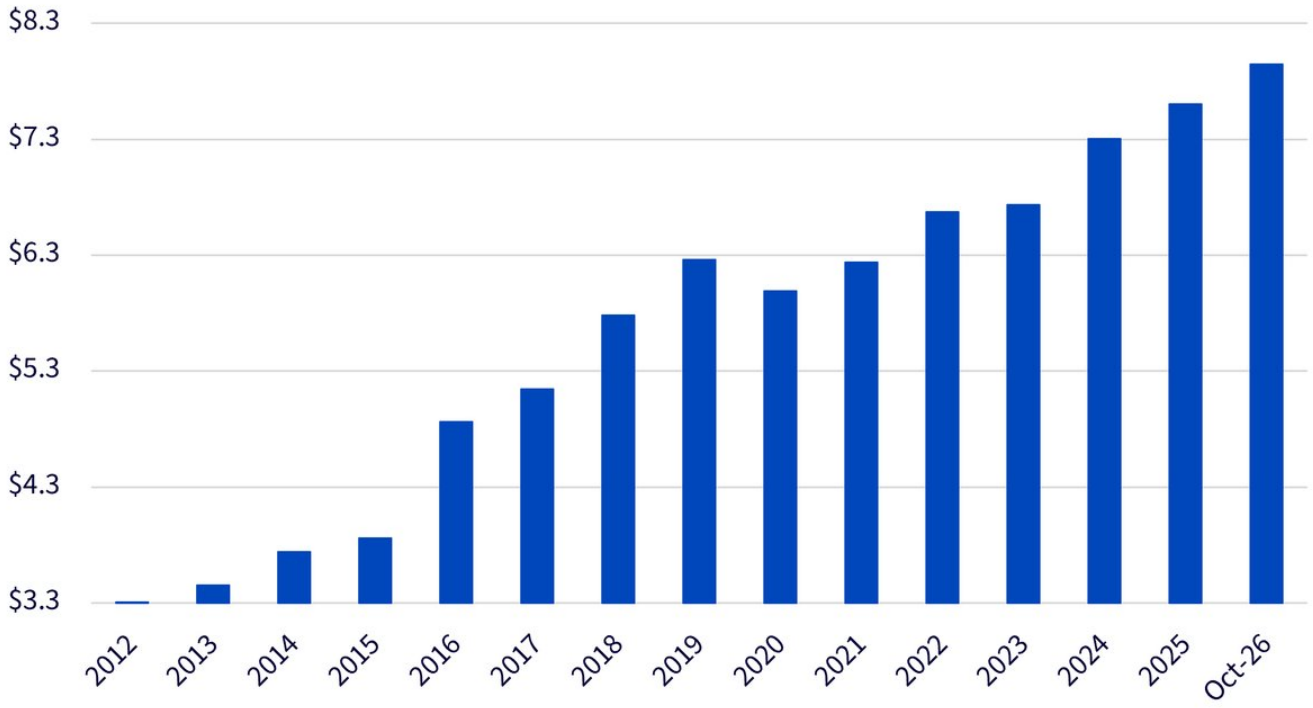


Source: Bloomberg, data from 31/12/1999 to 31/10/2026 (latest available data). HDY = High Dividend Yield. **Historical performance is not an indication of future performance and any investments may go down in value.**

The reason for this is twofold:

1. Dividends form part of the total return even when the markets go down (see figure 3).
2. Companies who can maintain a higher dividend, especially in times of market stress, will be companies with more robust balance sheets.

Figure 3: Cash dividends received each year on $100 invested at end-2012 for the MSCI USA High Dividend Index



Source: Bloomberg, data from 31/12/2012 to 31/10/2026 (latest available data). **Historical performance is not an indication of future performance and any investments may go down in value.**

Assuming USD 100 as the base value, the dividend received each would have increased from roughly USD 3.4 in 2013 to nearly USD 8 in 2026.

Despite market drawdowns that impacted the price of the underlying stocks, the dividend payments have been resilient and risen steadily over time.

The WisdomTree High Dividend UCITS Indexes offer a way to be exposed to liquid and high dividend paying companies by selecting the stocks that pay the highest dividends.

These indexes exclude companies with a low Quality and Momentum score using a proprietary Composite Risk Score (CRS) screening mechanism. The rationale behind it is simple: strategies targeted towards Value and dividend stocks could select ones where the trend and fundamentals might not be supported. WisdomTree strategies aim to avoid Value traps by adding a risk management layer in the form of CRS.

The companies are weighted by the actual cash dividend paid, which provides an innovative and robust way of being exposed to such stocks.

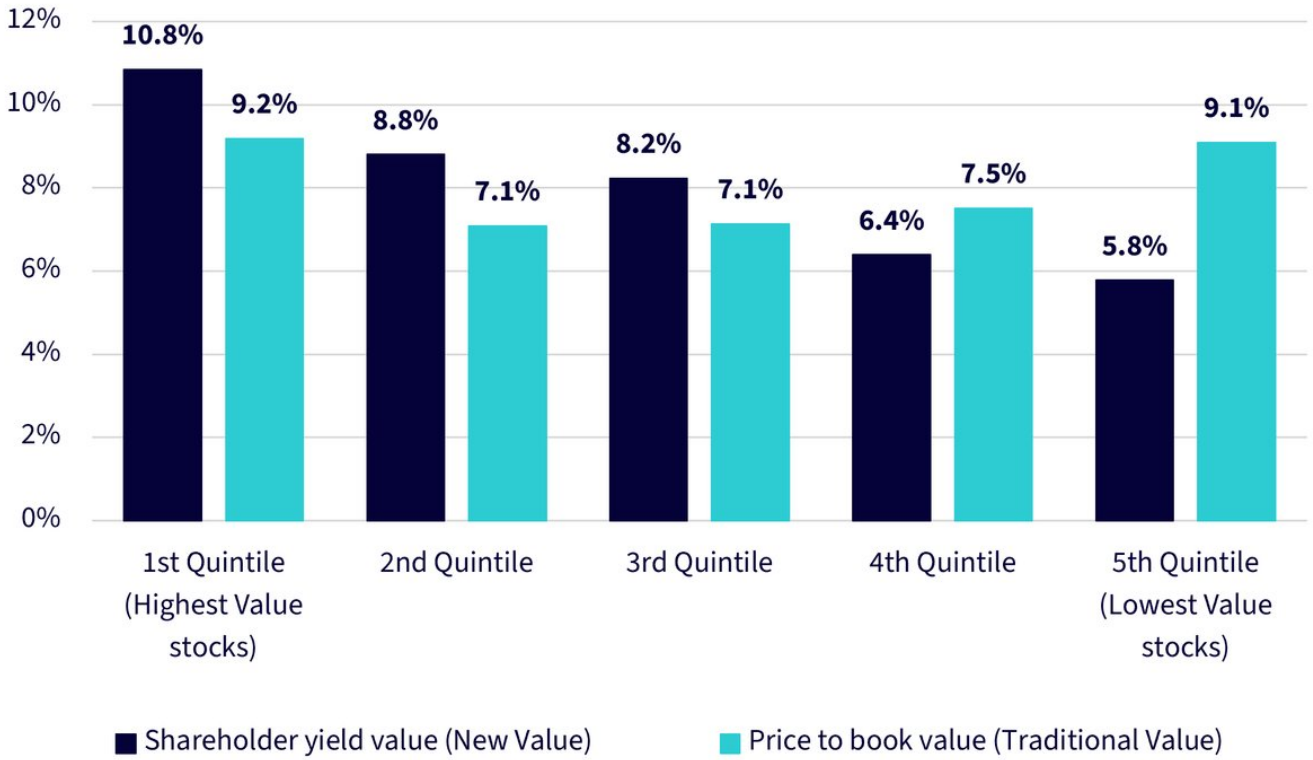
WisdomTree Value strategies

While dividend remains an important metric to measure what companies return to shareholders, it's not the only way. In the early 2000s, buybacks exceeded the total notional of dividends by S&P 500 companies, making them the preferred way for companies to return value to shareholders.

Stock buybacks are usually viewed as a vote of confidence from the company management in the stocks and is an important metric when assessing a value portfolio. Unlike some traditional metrics which rely on price and enterprise value multiples, and can be industry specific, shareholder yield captures value across a wide range of market segments.

Our research shows that shareholder yield - defined as the combination of dividend yield and buyback yield can capture a tangible risk premium that traditional metrics like price to book have failed to capture in the era of rising intangible assets.

Figure 4: Value as defined by high Shareholder Yield outperforms



Source: WisdomTree, MSCI, from 31/12/2007 to 30 Sep 2026. Quintile portfolios created using end of December data each year and constituents are equally weighted. Shareholder yield = 1st quintile (highest shareholder yield) within the MSCI World Index. Price-to-Book = 1st quintile (lowest P/B) within the MSCI World Index. **You cannot invest directly in an index. Historical performance is not an indication of future performance and any investment may go down in value. Historical performance is not an indication of future performance and any investments may go down in value.**

WisdomTree Value UCITS Indexes select stocks with the highest shareholder yield within respective regions and sectors while screening for Value traps with CRS (defined above). Constituents are then weighted by shareholder yield that allows the strategies to have high active share with the benchmark indexes.

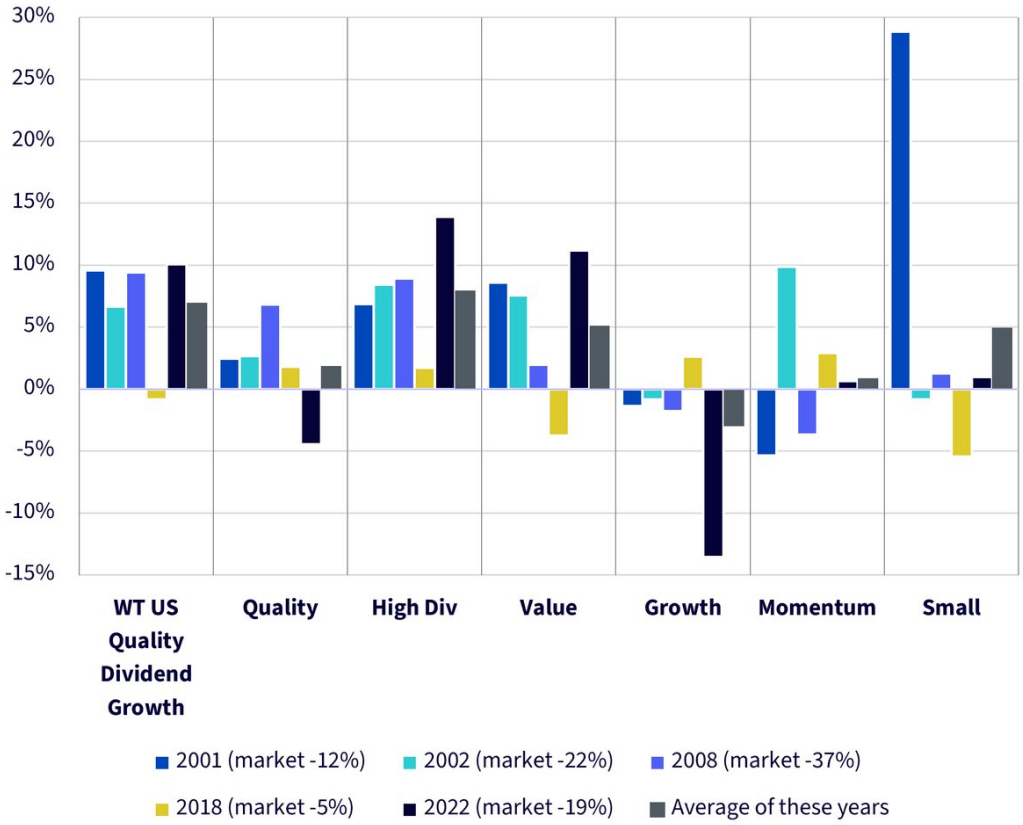
WisdomTree Quality Dividend Growth strategies

When the market takes a turn, certain factors tend to underperform. Growth, value, size or momentum tend to be hit harder than other factors. Others, like the high dividend one covered in the last section, or

quality, tend to be more resilient in such market conditions. Quality along with dividend provides investors an additional layer of protection in the form of profitability.

WisdomTree's Quality Dividend Growth UCITS Indexes provide exposure to profitable dividend-paying companies, targeting ones which can grow their dividends over time. As can be seen on figure 6 below, in years where the market fell, the WisdomTree Quality Dividend Growth index provided resilient and consistent outperformance.

Figure 5: factor return relative to the market in the years the market fell



Source: Bloomberg, data from 31/12/2000 to 31/10/2026 (latest available data). "Factors" correspond to MSCI USA indices. "Years when market fell" corresponds to calendar years where the S&P 500 Total Return Index had a negative return. **Historical performance is not an indication of future performance and any investments may go down in value.**

Stocks are also excluded based on their CRS score, described in the previous section. The resulting ones are selected using three metrics:

- estimated earnings growth, trailing 5Y earnings growth and sales growth (50%)
- return on equity (25%)
- return on assets (25%)

This methodology allows to gain exposure to high quality companies, and the weighting methodology allows an investor to be more exposed to companies that will pay a higher dividend.

Conclusion

With geopolitical tensions and AI trades unfolding all around the globe, investors may find in defensive equities a convenient way of being exposed to more resilient companies while still maintaining exposure to the equity market.

Investors have several choices to be exposed to such stocks. Dividends, buybacks and Quality can help in navigating rough market conditions by providing investors with an extra layer of security when markets tumble. Avoiding value traps is a crucial aspect of building such strategies – WisdomTree uses a proprietary Composite Risk Score (CRS) to avoid low quality and low price-momentum companies.

WisdomTree's High Dividend, Value and Quality Dividend Growth ranges provide a solution to be exposed to companies that have inbuilt buffer through dividends, buybacks or profitability to withstand market turmoil better. Stocks in these strategies are not weighted by market capitalisation which creates another buffer at portfolio level leading to better diversification and less concentration versus market capitalisation weighted indexes.

During this volatile and painful week for US markets, the WisdomTree US High Dividend Index has returned -1.16%, up +1.33% compared to the S&P 500 – the WisdomTree US Quality Dividend Growth Index has returned -1.79%, up +0.70% compared to the S&P 500 – finally, the WisdomTree US Value Index has returned -0.92%, up +1.57% compared to the S&P 500[2].

[1] Bloomberg, as of 05/11/2026.
[2] Bloomberg, from 02/11/2026 to 05/11/2026.

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