

Are You Forgetting About Global Small Caps for Income?

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Many investors need their portfolios to generate income, and this percentage is expected to increase as the 'baby boomer' generation transitions into retirement. But higher-yield asset classes are coming under pressure with treasury yields in the U.S. increasing on expectations that the Fed is going to raise interest rates. One asset class we feel is often overlooked, which can provide diversification and offer high income potential, is small caps, especially developed and emerging market small caps.

Why Small Caps for Income?

Many investors wrongly assume that small-cap companies can't afford to pay dividends because their main focus is on growth and they need to reinvest their earnings to support that growth. However, many small-cap companies actually have proven business models with relatively stable earnings, and we believe these companies have the ability to pay out dividends to shareholders and grow them over time.

The Fundamental Difference

WisdomTree's fundamental Index methodology is notably different from a market capitalization-weighted approach. When WisdomTree applies its dividend methodology, it includes only dividend-paying companies and then weights these companies by their dividends. Each Index is then rebalanced annually by adjusting relative weights based on trends in the underlying fundamentals to help manage valuation risk. When you combine these elements, it tends to produce very different trailing 12-month dividend yields.

Below we will compare a cross-section of WisdomTree's small-capitalization Indexes across the global landscape with common market cap-weighted small-cap indexes to highlight the differences in the global small-cap opportunity set.

Small-Cap Trailing 12-Month Dividend Yields

- **Don't Forget US Dividend Payers** –When looking at the large-cap or the small-cap indexes (displayed above), one typically sees higher trailing dividend yields outside the United States. The WisdomTree Emerging Markets SmallCap Dividend Index, for example, has the highest dividend yield of small-cap indices examined at just over 4.5%. However, US dividend payers should not be forgotten as they can still offer attractive income potential with the WisdomTree US SmallCap Dividend Index offering a dividend yield of over 3.5%. This represents a significant yield premium of nearly 200 bps over the benchmark S&P 600 Index.

- **Eurozone Small Caps Also Offer Income Advantage** –It is important to note that the yield advantage of the WisdomTree Europe SmallCap Equity Index was over 4.5 times that of the German 10-year government bond and more than 3 times that of the French 10-year government bond. The European Central Bank is still in the very early innings of its quantitative easing program; as a result, we feel interest rates in the region could remain low for the foreseeable future.
- [WisdomTree Europe SmallCap Dividend UCITS ETF \(DFE\)](#)
- [WisdomTree US SmallCap Dividend UCITS ETF \(DESE\)](#)
- [WisdomTree Emerging Markets SmallCap Dividend UCITS ETF \(DGSE\)](#)

For Professional Clients & Sophisticated Investors *All data is sourced from WisdomTree Europe and Bloomberg, unless otherwise stated.*

Important Risks Related to this Article

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