

# Looking back at equity factors in Q3 2024 with WisdomTree

Published 20 November 2024

**Pierre Debru**

Head of Research, WisdomTree Europe.

## Key Takeaways

- Growth, Momentum and Quality posted the worst return in Q3, which was a complete reversal from the first half of the year.
- Despite continuing the rally, markets observed a sharp rotation across factors and sectors in Q3.
- The S&P 500 equal weighted outperformed in Q3 in the wake of lackluster performance from the Magnificent Seven, pointing to a potential need for investors to diversify their approach to equities going forward.
- Related Products WisdomTree US Quality Growth UCITS ETF - USD Acc, WisdomTree US Quality Dividend Growth UCITS ETF - USD Acc, WisdomTree Global Quality Dividend Growth UCITS ETF - USD Acc, WisdomTree Eurozone Quality Dividend Growth UCITS ETF - EUR Acc, WisdomTree UK Quality Dividend Growth UCITS ETF, WisdomTree US Efficient Core UCITS ETF - USD Acc, WisdomTree Global Quality Growth UCITS ETF - USD Acc, WisdomTree Eurozone Efficient Core UCITS ETF - EUR Acc, WisdomTree US Value UCITS ETF - USD Acc, WisdomTree Global Value UCITS ETF - USD Acc, WisdomTree Europe Value UCITS ETF - EUR Acc Find out more

Markets continued to rally in Q3 across global and emerging market equities, with global equities gaining 6.4%, US equities rising 5.8%, and emerging markets jumping 8.7%. Global developed equities were buoyed by the Federal Reserve's 50 bps rate cut in September, resilient economic data, and a positive earnings outlook. Emerging markets were strongly impacted by the stimulus package announced by China, which led to a 25% surge in the CSI 300 over a five-session streak in September.

Interestingly, though, this was a continuation of the year-to-date rally in a different form. Utilities, Real Estate, and Financials were the top-performing sectors in Q3, while Information Technology and Communication Services were at the top of the leaderboard in the year's first half. This rotation hints at a healthier, more sustainable market advance.

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

## Performance in focus: A clear rotation of factors in Q3

In Q3, the MSCI World (+6.4%), the MSCI USA (+5.8%) and the MSCI Emerging markets (8.7%) performed strongly on the back of a resilient economy, positive earning news and supportive monetary policies. Like in Q2, Emerging Markets performed the strongest during the quarter following China's stimulus package.

Factor performance also highlighted the rotation we mentioned above:

- High Dividend, Minimum Volatility and Small Cap posted the strongest return across developed markets in Q3.
- While Quality, Momentum and Growth suffered negative performance. A complete reversal from the first half of 2024.
- In emerging markets, Minimum Volatility posted the only outperformance.
- In that region, Growth suffered the most, followed by Value and Momentum.

## Figure 1: Equity factor outperformance in Q3 2024 across regions

	World Q2 2024: 6.4%	USA Q2 2024: 5.8%	Europe Q2 2024: 2.4%	Emerging Markets Q2 2024: 8.7%
High Dividend	3.9%	3.6%	4.4%	-2.1%
Minimum Volatility	3.8%	3.4%	3.5%	2.1%
Momentum	-3.4%	-2.1%	-0.6%	-6.3%
Quality	-2.6%	-1.0%	-1.7%	-1.9%
WisdomTree Quality	0.4%	1.6%	0.4%	-2.1%
Size	3.0%	2.9%	2.1%	-3.2%
Value	-0.2%	0.3%	1.8%	-6.8%
Growth	-2.9%	-3.2%	-2.7%	-8.8%

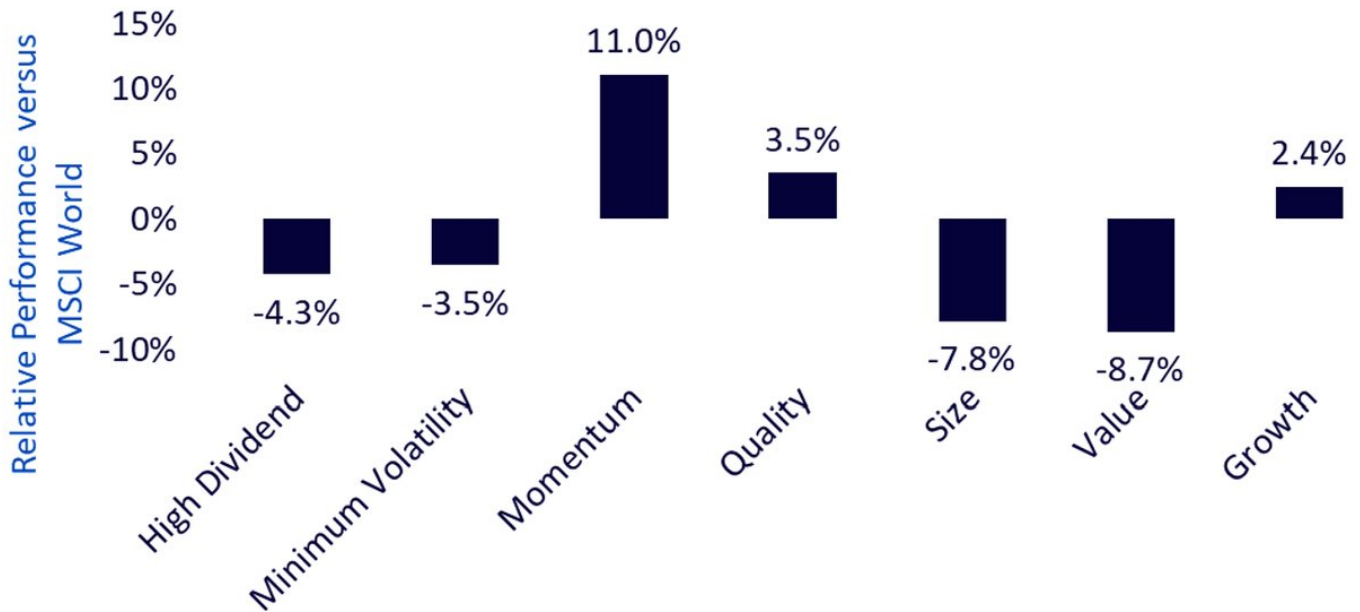
Source: WisdomTree, Bloomberg. 30 June 2024 to 30 September 2024. Calculated in US Dollars for all regions except Europe, where calculations are in EUR. **Historical performance is not an indication of future performance and any investments may go down in Value.**

## YTD factor performance: The picture remains unchanged

Despite the rotation in Q3, the overall picture for 2024 remains unchanged. Momentum remains the best-performing factor in global equities, followed by Quality and Growth. Value and Size remain the weakest ones.

In Emerging Markets, Momentum also posted the strongest performance this year up to the end of September. High Dividend and Minimum Volatility resist but are still posting negative returns.

## Figure 2: Equity factor outperformance in 2024



Source: WisdomTree, Bloomberg. 31 December 2023 to 30 September 2024. Calculated in US Dollars. **Historical performance is not an indication of future performance and any investments may go down in Value.**

### Q3: The equity rotation is finally here

It is striking that the worst three performing sectors in Q3 were the best three sectors in the first half of the year. The rotation that we observed in factors is also evident in sectors, and this is a strong sign that the equity rally is gaining in breadth and, therefore, in health as well. It is worth noting that this is not just the case in performance; fundamentals also show such a broadening. Up to mid-2024, earnings growth in the S&P 500 was mostly driven by the Magnificent Seven. However, analyst expectations for the rest of the year and early 2025 indicated that earnings growth would be shared more evenly between the seven biggest stocks and the 493 going forward.

### Figure 3: S&P 500 sector performance in 2024

	H1 2024	Q3 2024
<b>Communication Services</b>	26.7%	1.7%
<b>Consumer Discretionary</b>	5.7%	7.8%
<b>Consumer Staples</b>	9.0%	9.0%
<b>Energy</b>	10.9%	-2.3%
<b>Financials</b>	10.2%	10.6%
<b>Health Care</b>	7.8%	6.1%
<b>Industrials</b>	7.8%	11.5%
<b>Information Technology</b>	28.3%	1.6%
<b>Materials</b>	4.1%	9.7%
<b>Real Estate</b>	-2.5%	17.2%
<b>Utilities</b>	9.2%	19.4%

Source: WisdomTree, Bloomberg. 31 December 2023 to 30 September 2024. Calculated in US Dollars. **Historical performance is not an indication of future performance and any investments may go down in Value.**

The Magnificent Seven's (except for Tesla's) performance in Q3 was lacklustre. Alphabet posted the 468th-best performance in the S&P 500, Amazon the 440th, Microsoft the 439th, and Nvidia the 424th.

This resulted in the outperformance of most strategies that focus on diversification and tend to underweight mega caps. The S&P 500 equal weight index is a prime example of the effect of that diversification. It outperformed the S&P 500 by 9.2% over the last quarter.

## Figure 4: Relative Performance of S&P 500 Equal Weighted vs S&P 500



Source: WisdomTree, Bloomberg. 31 December 2021 to 30 June 2024. 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.**

## Valuations increased across the board in Q3

In Q3 2024, developed markets became more expensive. Most factor portfolios also got more expensive, with Small Caps suffering the most significant jump. Only Momentum stocks saw their valuation drop slightly. Growth stocks valuation, especially in the US, remains significantly elevated at 34.7 Price to Earning ratio. In Emerging markets, value stocks and momentum stocks benefited from slightly cheaper valuations, but the other factors also got more expensive. Overall, value stocks remain very cheap, with an 8.1 P/E ratio in the US and 6.9 in Emerging Markets.

## Figure 5: Historical evolution of Price to Earnings ratios of equity factors

	World			USA			Europe			Emerging Markets		
	P/E Ratio	Δ3Months		P/E Ratio	Δ3Months		P/E Ratio	Δ3Months		P/E Ratio	Δ3Months	
<b>Market</b>	20.9	↑	1.1	24.3	↑	1.6	14.9	↑	0.6	14.0	↑	0.8
<b>High Dividend</b>	15.0	↑	1.3	18.0	↑	2.0	11.7	↑	1.1	9.2	↑	0.2
<b>Minimum Volatility</b>	18.6	↑	1.4	21.4	↑	2.0	16.3	↑	1.0	15.6	↑	1.1
<b>Momentum</b>	21.7	↓	-0.5	25.2	↑	0.5	15.5	↑	0.2	14.7	↓	-0.3
<b>Quality</b>	26.2	↑	0.7	27.5	↑	1.3	21.1	↑	0.4	19.8	↑	1.2
<b>Size</b>	19.8	↑	2.3	24.3	↑	3.5	14.3	↑	1.0	16.9	↑	1.6
<b>Value</b>	10.7	↑	0.5	8.1	↑	1.0	9.2	↑	0.7	6.9	↓	-0.1
<b>Growth</b>	30.9	↑	0.8	34.7	↑	1.0	25.5	↑	0.5	27.5	↑	0.6

Source: WisdomTree, Bloomberg. As of 30 September 2024. **Historical performance is not an indication of future performance and any investments may go down in Value.**

## 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. The information contained in this document is for your general information only and is neither an offer for sale nor a solicitation of an offer to buy securities or shares. This document should not be used as the basis for any investment decision. Investments may go up or down in value and you may lose some or all of the amount invested. Past performance is not necessarily a guide to future performance. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.**

The application of regulations and tax laws can often lead to a number of different interpretations. Any views or opinions expressed in this communication represent the views of WisdomTree and should not be construed as regulatory, tax or legal advice. WisdomTree makes no warranty or representation as to the accuracy of any of the views or opinions expressed in this communication. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

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 or securities in the United States or any province or territory thereof. Neither this document nor any copy hereof should be taken, transmitted or distributed (directly or indirectly) into the United States.

Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. 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.