Quality as a foundation in an uncertain world

Published 8 April 2026

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Key Takeaways

- Quality companies with strong profitability and balance sheets have historically delivered consistent returns across cycles.
- Higher operating profitability has outperformed across both growth and value segments.
- WisdomTree's approach focuses on dividend growth, not just high yield, supported by strong fundamentals.
- Investors can gain exposure to quality, income and long-term growth without excessive valuation trade-offs.

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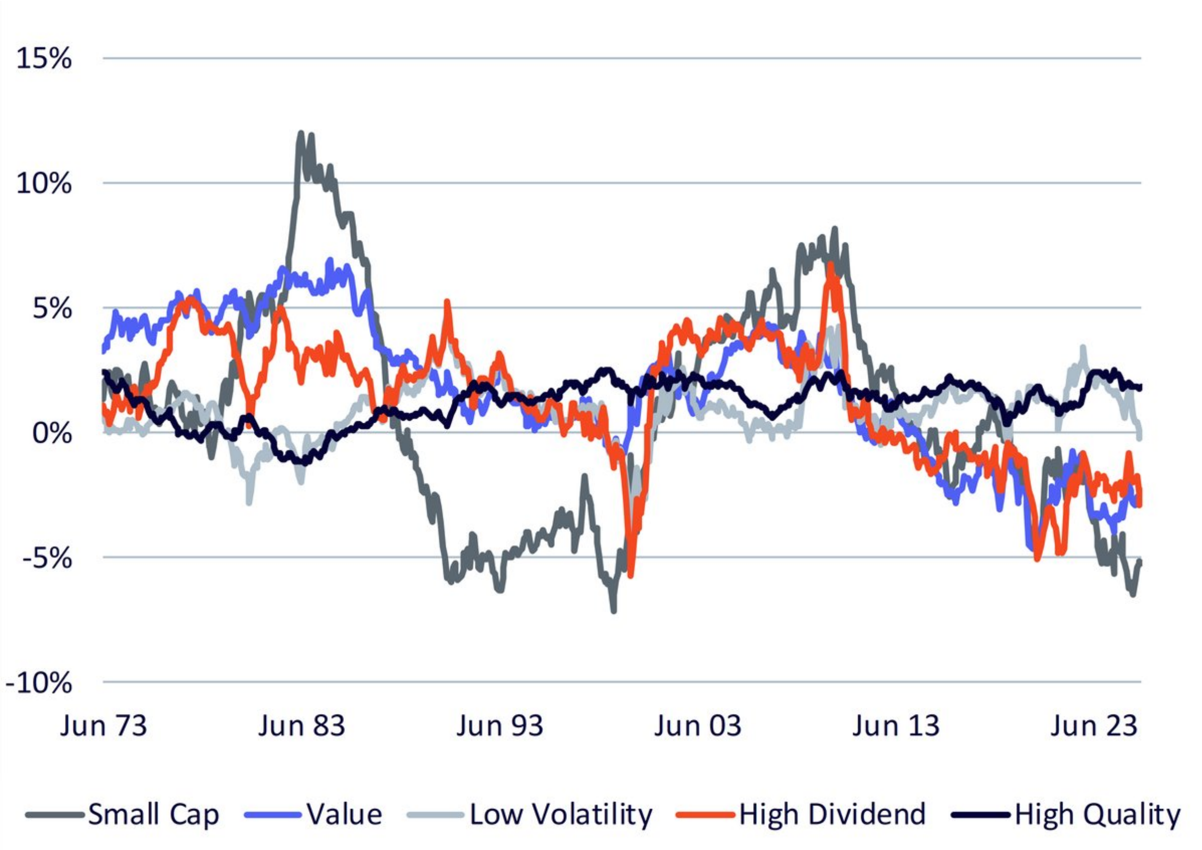
Investors are navigating an increasingly complex global backdrop. Geopolitical tensions, ongoing conflicts and energy supply risks are adding volatility to markets, while rapid technological change, particularly the acceleration of artificial intelligence, is reshaping industries and business models.

Against this backdrop of geopolitical uncertainty and technological disruption, identifying companies with durable business models and resilient fundamentals has become increasingly important.

Historically, companies with strong profitability, balance sheet strength and disciplined capital allocation, characteristics associated with the Quality factor, have demonstrated consistent performance across market cycles. Compared with other equity factors, Quality has tended to outperform more frequently over long investment horizons while experiencing relatively shallow periods of underperformance. As seen in Figure 1, Quality has exhibited strong resilience, outperforming more frequently than other factors.

Figure 1: Rolling 10-year outperformance of US factors (vs market)



Source: WisdomTree, Kenneth French Data Library, data as of 28 November 2025 (latest available data). Value: top 30% book-to-price portfolio. Size: bottom 30% portfolio. Quality: top 30% portfolio. Low Volatility: bottom 20% portfolio. High Dividend: top 30% portfolio. Market: all CRSP firms incorporated in the US and listed on the NYSE, AMEX or NASDAQ. **Historical performance is not an indication of future performance, and any investments may go down in value.**

The importance of quality becomes even clearer when examining how profitability interacts with valuation and growth characteristics.

Figure 2: Outperformance of Quality across the Value-Growth spectrum

Higher Quality

More Growth

More Value

		Operating Profitability Quartiles				
		4th (Lowest)	3rd	2nd	1st	1st vs. 4th
Price-to-Book Quintiles	4th	2.93%	8.05%	7.62%	9.47%	6.54%
	3rd	0.64%	7.15%	7.86%	10.00%	9.35%
	2nd	4.71%	7.81%	9.49%	8.08%	3.37%
	1st (Lowest)	5.74%	9.51%	9.27%	9.60%	3.86%
Total Market Return: 8.01%						

Source: Kenneth French Data Library, 1 July 1990 to 31 December 2024. The period reflects the availability of annual operating profitability returns sorted into quartiles, beginning 1 July 1990. The market comprises global developed market-listed equities within the ME2 category, grouped by operating profitability and price-to-book. Returns are annualised. **Historical performance is not an indication of future performance and any investment may go down in value.**

Companies with higher operating profitability have historically outperformed lower-quality peers across the entire growth–value spectrum, with the strongest effect observed among blend stocks. In other words, sustainable growth is often supported by strong fundamentals.

The WisdomTree Quality Dividend Growth approach

The WisdomTree Quality Dividend Growth strategy seeks to capture this quality premium through a forward-looking approach to dividend investing.

Rather than selecting companies based purely on high dividend yields, the strategy focuses on firms expected to grow their dividends over time. The strategy selects stocks with strong profitability, robust balance sheets and sustainable earnings growth, characteristics that support consistent dividend expansion.

The strategy also differs from traditional market capitalisation-weighted approaches by weighting companies according to the dividends they pay. This dividend-weighted methodology helps reduce concentration in the largest companies and links portfolio weights more closely to the cash returned to shareholders.

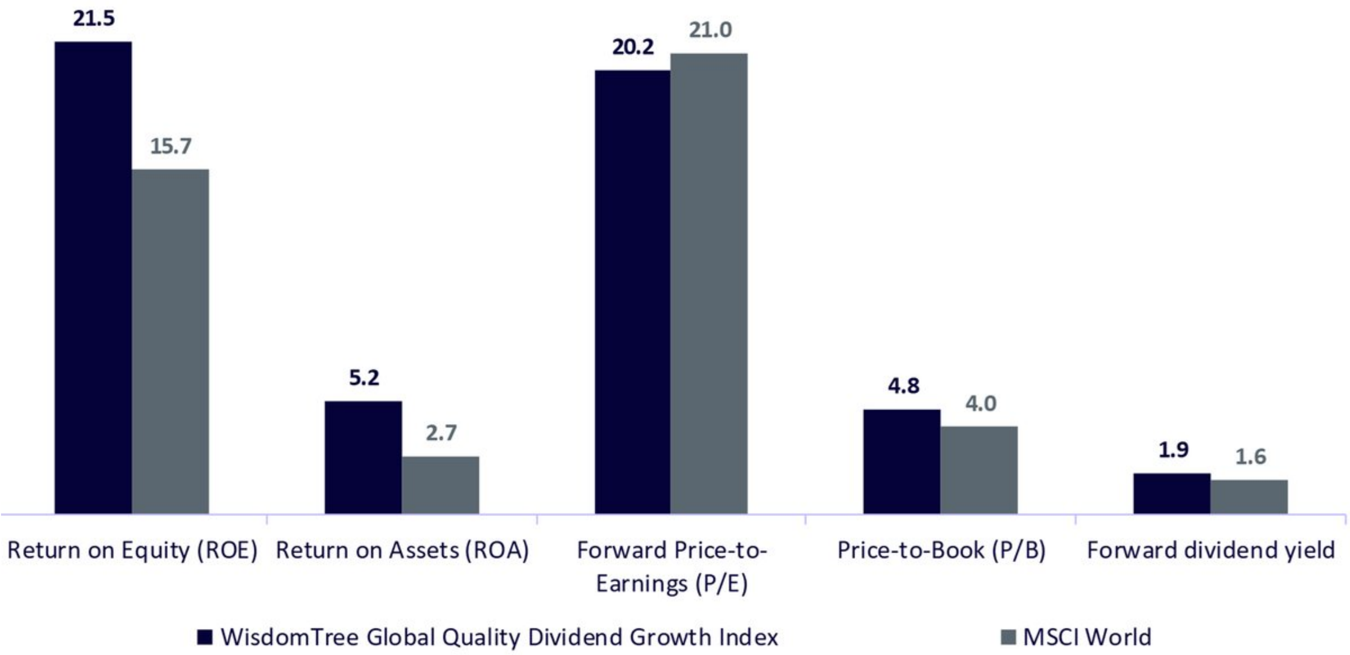
By combining quality screens with a forward-looking dividend growth framework, the strategy aims to identify companies capable of delivering both growing income and long-term capital appreciation.

While quality-focused strategies may provide resilience, they can underperform in certain market environments, particularly during strong cyclical or momentum-driven rallies. As with all equity investments, they remain subject to market risk and changes in macroeconomic conditions.

Exposure rooted in fundamentals

The case for quality is not just theoretical; it is clearly reflected in portfolio fundamentals. As shown in Figure 3 below, the WisdomTree Global Quality Dividend Growth Index exhibits higher profitability metrics than the broader MSCI World Index, with Return on Equity and Return on Assets notably elevated. At the same time, this higher quality exposure is not achieved at the expense of excessive valuation, with forward price-to-earnings (P/E) broadly in line with the market and only a modest premium on price-to-book (P/B).

Figure 3: Portfolio fundamentals



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Importantly, the WisdomTree Quality Dividend Growth strategy also delivers a higher forward dividend yield, reinforcing the idea that investors do not need to sacrifice income to gain exposure to stronger businesses. Instead, they can access a combination of profitability, sustainable growth and income generation within a single framework.

In an uncertain and rapidly evolving market environment, this balance becomes increasingly valuable. Quality Dividend Growth provides an approach rooted in fundamentals, one that seeks to capture resilient earnings, disciplined capital allocation and growing shareholder returns. For investors looking to navigate volatility while maintaining long-term return potential, anchoring portfolios in high-quality businesses may offer a more consistent and dependable path forward.

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