

# What's Hot: Value trade comes to life as the yield curve dis-inverts

Published 6 September 2024

**Aneeka Gupta**

Director, Macroeconomic Research, WisdomTree Europe

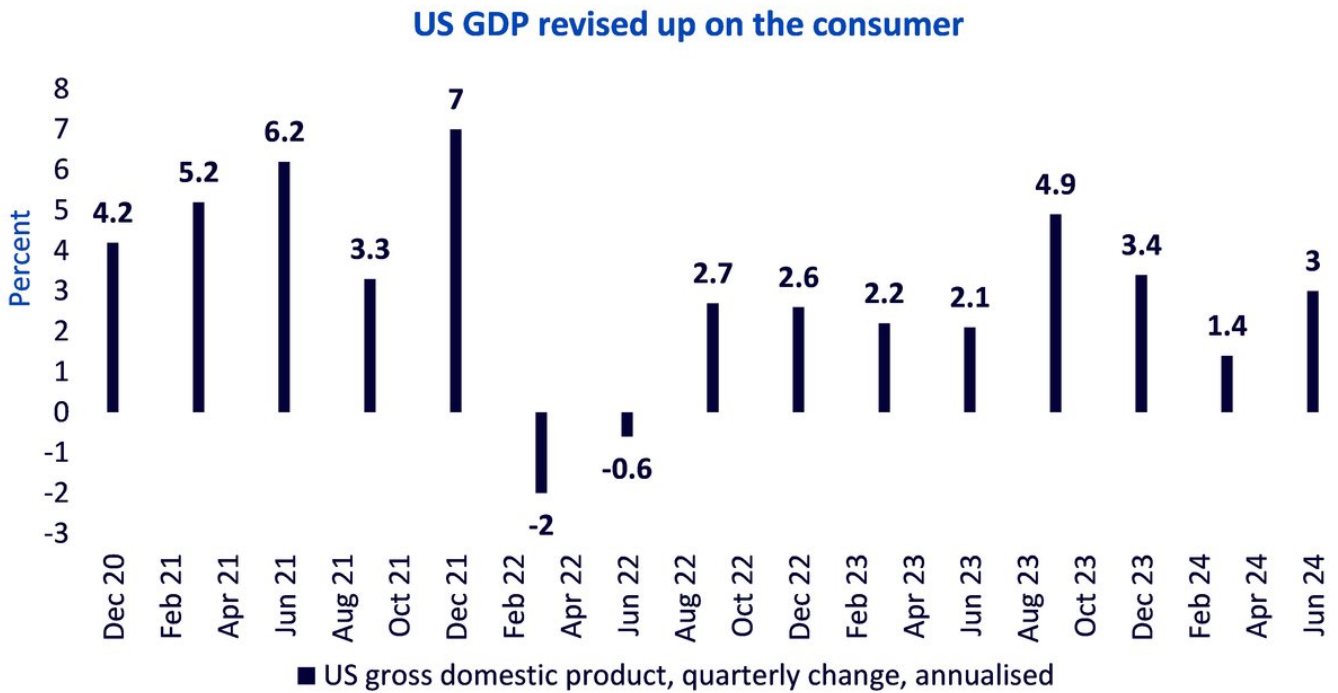
## Key Takeaways

- The US economy continues to disprove sceptics.
- Growth has certainly cooled relative to the prior year, but it has done so at a gradual pace.
- As the yield curve dis-inverts i.e. as short rates decline even as long rates remain stable, financial, asset heavy and small cap stocks stand to benefit.
- Related Products WisdomTree US Equity Income UCITS ETF Find out more

Payrolls regained their crown as the key data point for stocks. The payrolls report came in somewhere in between at 142k – higher than the July report 114k but weaker than consensus estimates at 165k. A bigger concern was 85k downward revision for June and July adding to further concerns of softening of the labour market. However, on the positive side, the unemployment rate edged lower to 4.2%, marking the first decline in five months reflecting a reversal in temporary layoffs. In addition, average hourly earnings rose 0.4%.

## US economy continues to disprove sceptics

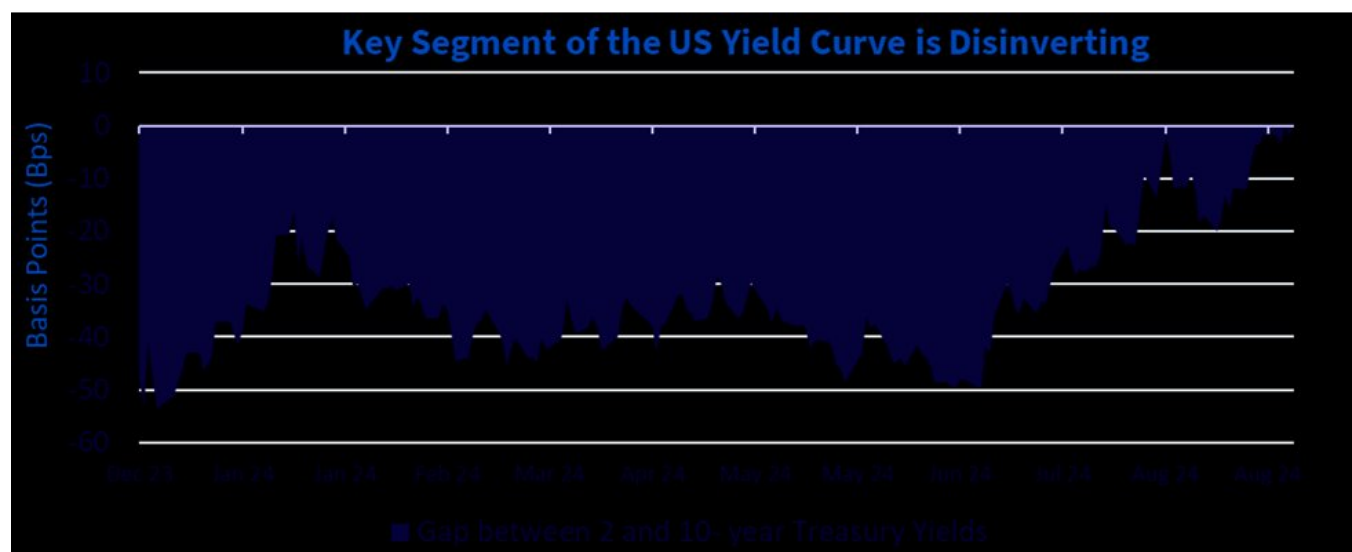
Overall, the August payroll report came in stronger than July. The US economy continues to disprove sceptics. Growth has certainly cooled relative to the prior year, but it has done so at a gradual pace. The second print of the 2Q US GDP growth surprised to the upside at a robust 3%qoq, led by strong consumption growth of 2.9%. Given that 70% of the US economy relies on the consumer, concerns about the labour market can be eased when the economy sees 2.9% spending growth. Initial jobless claims inched lower to 231k and the four-week moving average dropped to 232k, well below a recessionary level of 300k.



Source: Bureau of Economic Analysis, WisdomTree as of 30 August 2024. **Historical performance is not an indication of future performance, and any investments may go down in value.**

## Yield curve bull steepens as short yields drop

The August payroll report increased the odds for a 50Bps cut at the upcoming Federal Reserve meeting in September compared to 25Bps rate cut. Yet traders did not see the data as weak enough to definitively predict a 50Bps rate cut at the upcoming meeting. The 2s-10s slope steepened in the aftermath of the data release as shorter yields are declining as traders price in a faster pace of rate cuts by the Federal Reserve.



Source: Bloomberg, WisdomTree as of 6 September 2024. **Historical performance is not an indication of future performance, and any investments may go down in value.**

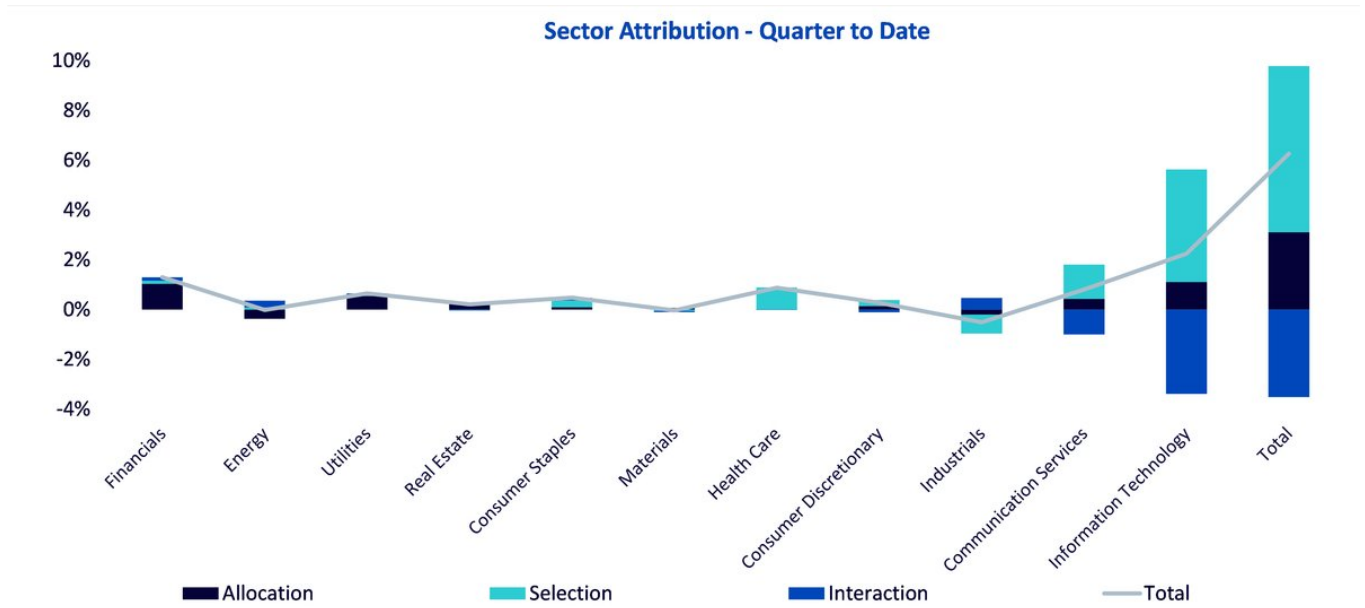
As the US yield curve dis-inverts we expect to experience a more normal upward sloping yield curve over the next two years. This matters for investors. The short-term rates matter for stocks, in the case for financial, asset heavy and small cap stocks as they use shorter term funding on their balance sheets. As the yield curve dis-inverts i.e. as short rates decline even as long rates remain stable, the stocks (financial, asset heavy, small cap) that were hurt by the rising short rates could now benefit. While the long duration growth stocks won't have a similar symmetric advantage as long rates are likely to stay positioned at current levels.

Rate cuts aid the broadening-out trade as defensive dividend paying stocks start to look more attractive. Cyclical stocks in the value trade (financials, energy, materials and industrials) should start performing better in the months ahead as the economy bottoms out.

## Value trade has certainly come to life

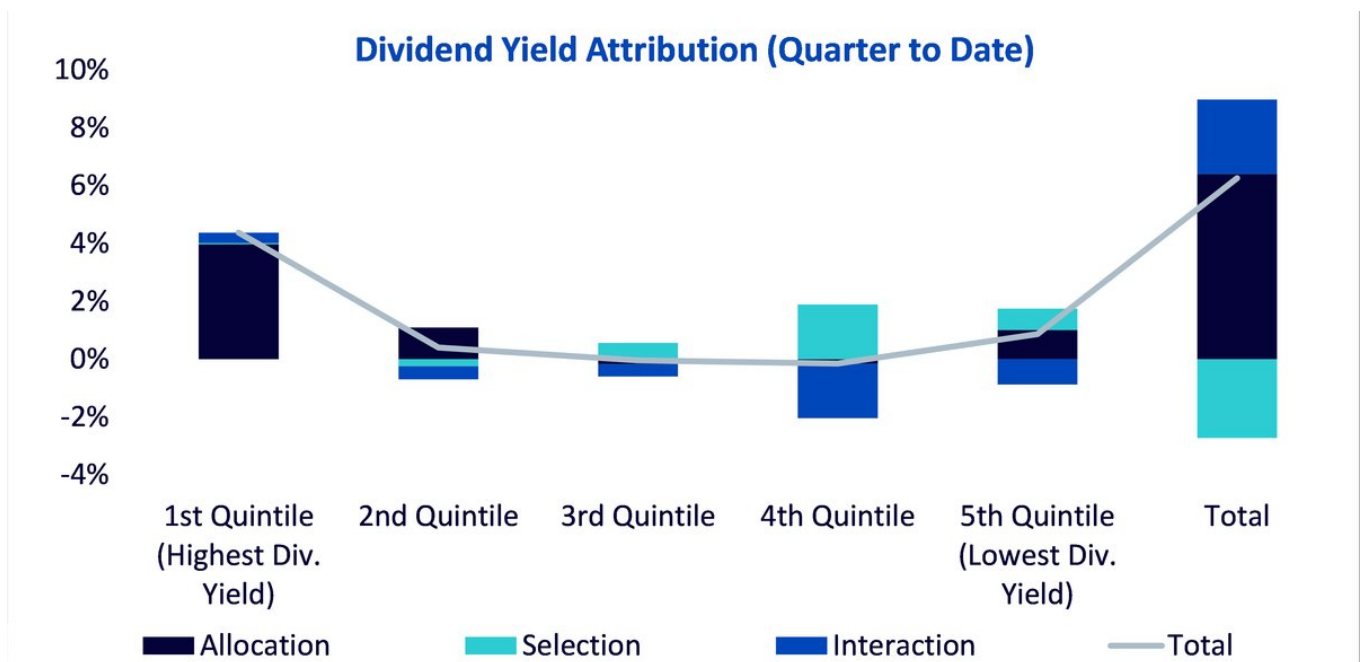
The WisdomTree approach to blending the high dividend factor alongside the value factor helped the WisdomTree US Equity Income UCITS Index (Ticker: WTHYNUHP Index) outperform the S&P 500 Index (Ticker: SPX Index) by 6.3% over the prior quarter<sup>1</sup>. The WisdomTree US Equity Income UCITS Index focuses on companies with high dividend yields that pay large cash dividends. The strategy weights the constituents based on the cash dividend being paid over the prior year.

As illustrated in the sector attribution the allocation has been positive, contributing to the tracking difference by 3.1%. The overweight in financials, energy and utilities alongside the selection of stocks within information technology, communication services and healthcare benefited performance over the prior quarter.



Source: Factset, WisdomTree from 28 June to 30 August 2024. **Historical performance is not an indication of future performance, and any investments may go down in value.**

Over the prior quarter, the higher allocation of the WisdomTree US Equity Income UCITS Index to the higher yielding dividend quintiles also contributed to the higher relative performance versus the benchmark.



Source: Factset, WisdomTree from 28 June to 30 August 2024. **Historical performance is not an indication of future performance, and any investments may go down in value.**

With economic conditions softer, equity valuations stretched, Fed now entering cutting mode, this trend favours the broadening-out call to more undervalued segments of the equity market.

1 FactSet from 28 June 2024 to 30 August 2024.

## 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.