A Surprising Rebalance Season for S&P Style Indexes

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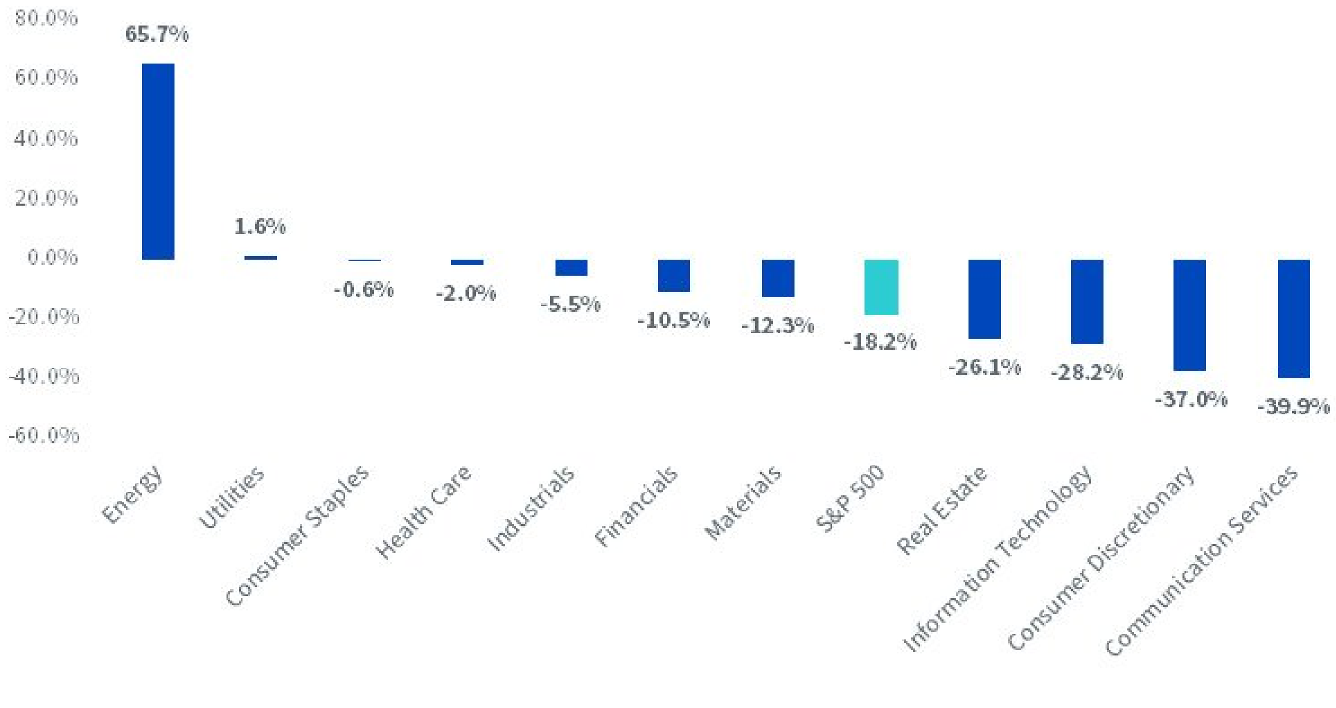
The S&P family of growth and value style indexes conducted its annual rebalance in December, and there were some surprising twists and perhaps unexpected turnover this cycle.

Notably, value indexes outperformed growth indexes across the board in 2022, as fears about elevated valuations in technology stocks dominated markets.

Energy stocks were the lone, large, bright spot, but defensive sectors like Utilities, Consumer Staples and Health Care also outperformed the broader S&P 500.

2022 S&P 500 Sector Total Returns



Sources: WisdomTree, Bloomberg, as of 12/31/22. Past performance is not indicative of future results. You cannot invest directly in an index.

Despite Energy stocks remaining among the lowest sector valuations, the S&P value indexes dramatically reduced their weight while the growth indexes added *more* Energy exposure.

Below we will review Index composition changes across the large-cap (S&P 500), mid-cap (S&P MidCap 400) and small-cap (S&P SmallCap 600) benchmarks in the S&P family and explain what aspects of their style methodology caused these surprising shifts.

Within large-cap and the S&P 500 style benchmarks:

- In the S&P 500 Value Index, the greatest reductions in weight occurred in Health Care (-8.3%), Energy (-6.5%) and Consumer Staples (-4.4%). Those were three of the top four performing sectors in 2022.
- Meanwhile, three of the four sectors with the worst performance in 2022 (Information, Technology, Communication Services and Consumer Discretionary) received the largest increases in exposure.
- These same shifts were mirrored in the S&P 500 Growth Index, as the biggest increases in exposure included Health Care, Energy and Consumer Staples, while Technology sectors saw the greatest reduction in weight.

S&P 500 Value Index Sector Exposure	Pre Rebalance (12/16)	Post Rebalance (12/19)	Change (%)
Health Care	17.7%	9.4%	-8.3%
Energy	8.2%	1.6%	-6.5%
Consumer Staples	11.7%	7.2%	-4.4%
Materials	3.7%	3.2%	-0.5%
Industrials	12.7%	12.4%	-0.3%
Utilities	5.8%	6.0%	0.2%
Real Estate	3.1%	4.8%	1.6%
Communication Services	5.3%	8.0%	2.7%
Consumer Discretionary	6.6%	10.5%	3.9%
Financials	14.7%	20.1%	5.4%
Information Technology	10.6%	16.8%	6.2%

S&P 500 Growth Index Sector Exposure	Pre Rebalance (12/16)	Post Rebalance (12/19)	Change (%)
Information Technology	44.3%	34.7%	-9.5%
Consumer Discretionary	14.3%	9.7%	-4.6%
Financials	7.5%	3.5%	-3.9%
Communication Services	9.5%	6.7%	-2.8%
Real Estate	2.3%	0.9%	-1.5%
Utilities	0.0%	0.6%	0.5%
Materials	1.5%	2.2%	0.7%
Industrials	3.8%	5.1%	1.4%
Consumer Staples	1.9%	7.1%	5.2%
Energy	1.4%	8.0%	6.6%
Health Care	13.5%	21.4%	7.9%

Source: WisdomTree, as of 12/31/22. You cannot invest directly in an index.

Notably, these shifts in Technology becoming more heavily weighted in value benchmarks, and Energy becoming more dominant in growth was not based on actual valuations.

Energy, despite being the cheapest sector in the market by price-to-earnings (P/E) multiple, became the lowest-weighted sector in the S&P 500 Value Index.

The Technology, Consumer Discretionary and Communications Services sectors had the highest P/E ratios despite receiving the largest increase in weight in the value benchmark.

Fundamentals - as of 12/31/22

Index/S&P Sectors	Price-to-Earnings	Est. Price-to-Earnings
Comm. Svcs.	14.91	14.78
Cons. Disc.	22.08	25.91
Cons. Staples	21.35	23.61
Energy	9.57	8.49
Financials	12.46	13.55
Health Care	17.65	21.04
Industrials	18.33	23.13
Info. Tech.	21.13	23.81
Materials	16.04	14.23
Real Estate	35.55	25.10
Utilities	19.56	21.06
Russell 1000 Growth	22.23	25.95
Russell 1000 Value	14.64	15.62
S&P 500	17.40	18.83

Source: WisdomTree, FactSet, S&P, Russell. You cannot invest directly in an index.

What explains the shifting sector weights, then? The below grid lists the factors in the S&P style family. Price momentum is one of the key growth factors utilized; clearly, that factor was an outlier in driving turnover.

The intersection of the S&P growth and value factor scores caused the Energy stocks to become weighted more heavily in growth, overcoming their low valuations.

Index Construction

Evaluating Growth and Value at the Company Level

Style Factors. The Style indices measure growth and value along two separate dimensions, with three factors each used to measure growth and value. The list of factors used is outlined in the table below.

Growth Factors	Value Factors
Three-Year Net Change in Earnings per Share (Excluding Extra Items) over Current Price	Book Value to Price Ratio
Three-Year Sales per Share Growth Rate	Earnings to Price Ratio
Momentum (12-Month % Price Change)	Sales to Price Ratio

Source: S&P style benchmark methodology guide. You cannot invest directly in an index.

Technology, although priced at high multiples, had such negative momentum that its growth scores plummeted enough to become more value-heavy in S&P's scoring system.

These changes were not limited to large caps. The tables below show similar shifts occurring in the mid- and small caps.

We see surprising shifts, like Utilities becoming more heavily weighted in the growth benchmarks. Energy and Consumer Staples moving from value to growth also occurred here in mid- and small caps.

S&P 400 Value Index Sector Exposure	Pre Rebalance (12/16)	Post Rebalance (12/19)	Change (%)
Energy	3.6%	0.5%	-3.1%
Utilities	6.3%	4.0%	-2.3%
Consumer Staples	5.9%	3.8%	-2.0%
Materials	6.8%	4.8%	-2.0%
Industrials	19.9%	18.0%	-1.9%
Health Care	7.0%	7.2%	0.2%
Communication Services	1.7%	2.3%	0.6%
Financials	17.6%	19.0%	1.5%
Information Technology	9.4%	11.7%	2.3%
Real Estate	8.9%	11.9%	3.0%
Consumer Discretionary	13.0%	16.7%	3.7%

S&P 400 Growth Index Sector Exposure	Pre Rebalance (12/16)	Post Rebalance (12/19)	Change (%)
Consumer Discretionary	15.8%	11.6%	-4.1%
Information Technology	16.1%	12.1%	-4.0%
Real Estate	6.6%	4.7%	-1.8%
Financials	11.4%	10.7%	-0.7%
Communication Services	2.4%	1.8%	-0.6%
Health Care	13.2%	12.6%	-0.5%
Materials	7.8%	9.6%	1.8%
Consumer Staples	2.0%	4.3%	2.3%
Industrials	19.0%	21.4%	2.5%
Utilities	1.5%	4.0%	2.5%
Energy	4.3%	7.1%	2.7%

S&P 600 Value Index Sector Exposure	Pre Rebalance (12/16)	Post Rebalance (12/19)	Change (%)
Industrials	18.1%	15.7%	-2.3%
Energy	5.8%	3.7%	-2.1%
Materials	7.2%	5.3%	-1.9%
Financials	20.9%	19.6%	-1.3%
Consumer Staples	5.9%	4.6%	-1.3%
Utilities	2.9%	1.7%	-1.2%
Communication Services	1.9%	2.4%	0.5%
Health Care	7.7%	8.3%	0.6%
Information Technology	8.0%	8.7%	0.7%
Real Estate	8.6%	11.9%	3.3%
Consumer Discretionary	12.9%	18.0%	5.1%

S&P 600 Growth Index Sector Exposure	Pre Rebalance (12/16)	Post Rebalance (12/19)	Change (%)
Consumer Discretionary	13.4%	8.0%	-5.4%
Real Estate	7.1%	4.4%	-2.7%
Information Technology	19.1%	17.2%	-1.9%
Health Care	14.9%	14.0%	-0.8%
Communication Services	1.9%	1.4%	-0.4%
Consumer Staples	4.5%	5.8%	1.3%
Utilities	1.6%	3.3%	1.7%
Financials	14.5%	16.3%	1.8%
Materials	3.9%	6.1%	2.1%
Energy	2.9%	5.0%	2.1%
Industrials	16.2%	18.5%	2.3%

Source: WisdomTree, as of 12/31/22. You cannot invest directly in an index.

WisdomTree also rebalanced its equity Index family in December, and we can share more specifics on each rebalance.

If you would like an updated look at valuations, we have a daily market dashboard that shows the P/E ratios of our ETFs against major benchmarks here.

Because of the turnover discussed above, the S&P 500 Value Index only has a single P/E point lower valuation than the S&P 500 (16.4x vs. 17.4x).

The WisdomTree U.S. High Dividend Fund (DHS) has a P/E ratio of 10.8x, more than six points lower than the S&P 500.

The WisdomTree U.S. LargeCap Dividend Fund (DLN) has a P/E ratio about two points lower than the S&P 500 Value Index (14.5 vs. 16.4) and three points lower than the S&P 500.

Again, these same features are mirrored in mid- and small caps, which we believe have attractive valuations overall.

This was quite the interesting rebalance season. It serves as a useful reminder that methodologies matter, and looking under the hood to understand portfolio composition is important since portfolios are not stagnant.

Important Risks Related to this Article

There are risks associated with investing, including the possible loss of principal. Funds focusing their investments on certain sectors increase their vulnerability to any single economic or regulatory development. This may result in greater share price volatility. Dividends are not guaranteed, and a company currently paying dividends may cease paying dividends at any time. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.