

Current Perspectives on the Economy and Markets

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Key Takeaways

- Jeremy Schwartz, WisdomTree's Global Chief Investment Officer, joined Advisor Perspectives' *Gaining Perspective* podcast.
- They discussed how the Fed's stance on inflation and potential rate cuts suggests that small-cap stocks with quality screens may be worth considering for over-weights in model portfolios.
- The current valuation of the Tech sector, although not cheap, is significantly lower than during the dot-com bubble, indicating that Tech stocks may not be in a bubble.
- Meta's first dividend payment has implications for dividend growth strategies and has already been recognized by our U.S. Quality Dividend Growth Index.

The economy, inflation, interest rates and market valuations drive the key questions facing advisors.

Does the tech stock landscape mirror the boom of 1996 or the bust of 2000?

What will the impact of Meta's1 inaugural dividend payment be?

Recently, Jeremy Schwartz joined Advisor Perspectives' *Gaining Perspective* podcast to share his latest takes on all these topics and more.

You can listen to the full conversation in the podcast link below, but here are some highlights:

Risks from Inflation

Coming into 2024, we thought there was a risk the Fed could stay too stubborn on the inflation fight. Our team calculates alternative measures of inflation using real-time shelter data and finds inflation to be much closer to the 2% target than the official statistics. Either way, the Fed recognizes inflation is coming down.

If the economy starts to weaken and we start getting negative payroll reports, or the unemployment rate goes above four, we think the Fed will cut rates and not be overly stubborn on inflation. WisdomTree believes stocks that are priced for a recession coming into this year—like small-cap stocks—should be considered for over-weights in model portfolios. WisdomTree's preferred allocation screens for quality small caps.

Is Tech in a Bubble?

We have a [daily dashboard](#) updated every morning, and page 20 shows the Tech sector versus the non-tech sector on a real-time valuation basis. Take a look at an expanded definition of the Technology sector that represents roughly 40% of the S&P 500 today. That group is priced close to 30x estimated earnings over the next 12 months. The non-tech segment is around 18x, while the S&P 500 as a whole is more than 21x.

That's not cheap by any stretch of the imagination, but Tech at 30x is nowhere near where Tech was in 2000, which was well over 60x this forward earnings metric. Back then, there were many large-cap Tech stocks with triple-digit P/E ratios.

We recently [hosted a podcast with Dan Ives](#). He believes this is a fourth industrial revolution that is akin to a 1995 moment, and from a technology deployment side, we think it very much may be true. The key for Tech will be earnings coming through at similarly strong rates as they've delivered over recent years.

Meta's First Dividend Is a Big Story for Dividend Growth Funds

One of the big stories of 2024 was another large Technology giant paying its first dividend. The stock reacted quite positively, but this has implications beyond Tech to some of the largest dividend growth strategies. Some backward-looking dividend growth screens wait for 10 years of consecutive dividend growth to add new payers. The S&P 500 Dividend Aristocrats Index² waits 25 years, and it will be another 15 before it might add Apple—currently one of the top cash dividend payers in the world since its first dividend 12 years ago!

Our forward-looking quality growth screens do not wait. In fact, our [U.S. Quality Dividend Growth Index](#) [already added Meta in a special rebalance](#) given the extra special nature of this large company signaling a dividend policy change.

What Is the Right Way of Measuring the Equity Risk Premium?

Many think the Shiller CAPE ratio implies very poor forward-looking returns—particularly when compared to the yield on nominal Treasury bonds today.

Jeremy discusses the equity risk premium and the importance of looking at inflation-adjusted bonds, particularly the 10-Year TIPS yield. There, the equity risk premium looks fairly similar to the long-term data Jeremy Siegel presented in “Stocks for the Long Run”—close to 3%.

Leveraging Our Shared CIO Models

One of the big topics in the industry is how to get scale and efficiency in managing portfolios for clients. WisdomTree offers unique model portfolio collaborations and CIO services³ for teams wanting to receive the full support of WisdomTree research. Please reach out to WisdomTree to find out more about these models.

To listen to the full podcast, click [here](#).

1 Meta Platforms, Inc.

2 The S&P 500 Dividend Aristocrats Index measures the performance of S&P 500 companies that have increased dividends every year for the last 25 consecutive years.

3 The reference to “CIO services” (or OCIO) is meant as a general reference to WisdomTree Model Portfolio subscriptions, consultation regarding WisdomTree Model Portfolios and WisdomTree Model Portfolios that may be customized to firm-specific objectives or unique firm-specific investment needs (“custom model portfolios”), and WisdomTree is not acting in an investment advisory, fiduciary or quasi-fiduciary capacity in connection therewith. Such material, and any assistance provided as described herein, including portfolio construction, WisdomTree Model Portfolios, custom model portfolios, asset allocation stress testing, assessments, discussions, output or other assistance (whether by WisdomTree personnel or digital tools) are (i) for information only and are not intended to provide, and should not be relied on for, tax, legal, accounting, investment or financial planning advice, (ii) not personalized investment advice or an investment recommendation from WisdomTree and (iii) intended for use only by a financial professional, with other information, as a resource to help build a portfolio or as an input in the development of investment advice for its own clients. Such financial professionals are responsible for making their own independent judgments as to how to use such information.