

D is for Defense (and Dividends)

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Key Takeaways

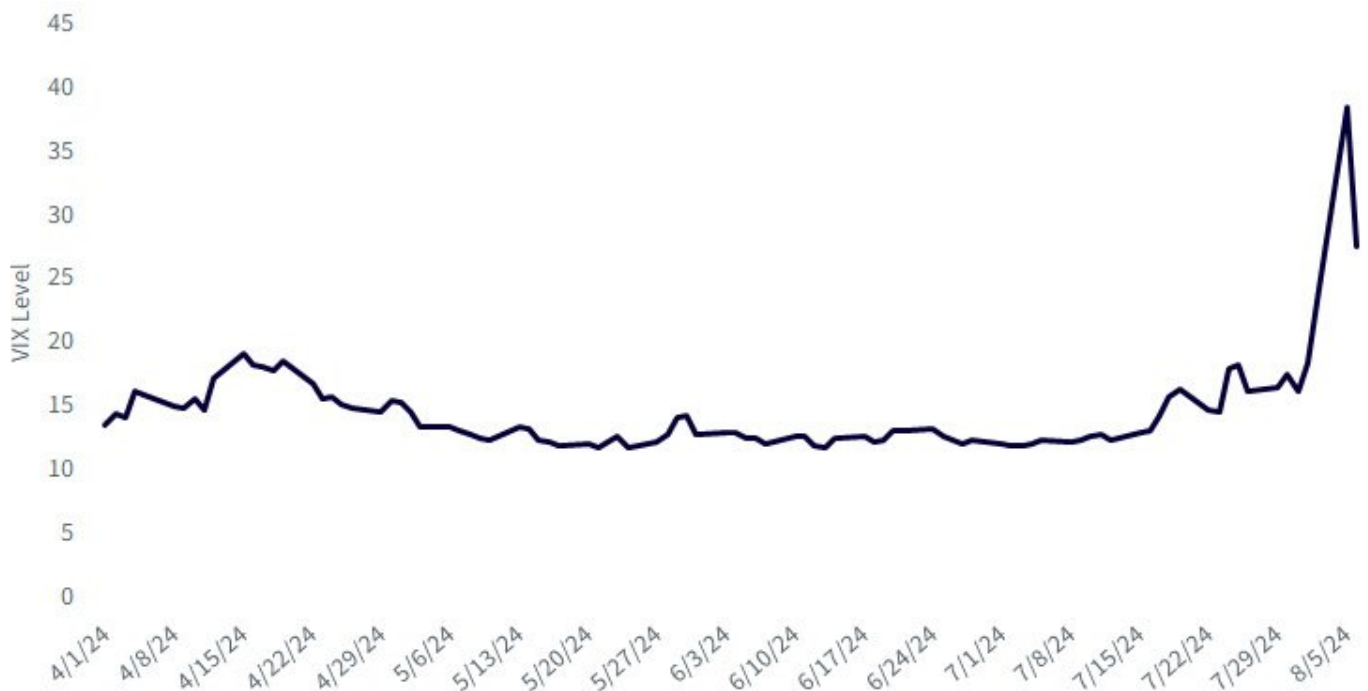
- Dividend-paying and defensive stocks, such as those in WisdomTree's dividend-focused strategies, may be beneficial during market corrections.
- Defensive sectors like Utilities, Consumer Staples and Energy are typically more favorable, with dividend-focused funds having performed comparatively better during recent market downturns.

Equity market corrections always feel unexpected. As we sit here in August 2024, we have seen (Figure 1) the VIX1 increase from a level of about 12 at the beginning of July 2024 to a near-term peak as of this writing, based on closing prices, of 38.57.2

Our Senior Economist [Jeremy Siegel](#) believes that the Fed should get to a more neutral policy stance with the Fed Funds interest rate as soon as possible, due to recent data points on inflation and unemployment.3

Rates are generally coming down, and the professor believes this could be a very good setup for dividend-paying and more defensive stocks.

Figure 1: CBOE Volatility Index (VIX) over the Past Year



Source: Chicago Board Options Exchange, CBOE Volatility Index: VIX [VIXCLS], retrieved from FRED, Federal Reserve Bank of St. Louis;
<https://fred.stlouisfed.org/series/VIXCLS>. Data for the period 8/7/23–8/6/24. **Past performance is not indicative of future results.**

WisdomTree has been managing dividend-focused equity strategies since June 2006—a period that is now approaching 20 years. Consider these notable trends:

- Equity investors from the global financial crisis of 2008–09 have been treated to—for the most part—historically low interest rates and incredible performance of growth stocks. If you want to understand why we talk about the stocks of the Magnificent 7 comprising something like 30% of the S&P 500 Index,⁵ you have to understand this period. Growth stocks saw a lot of multiple expansion in a lower-interest-rate environment, and the general investor was more excited about the possibilities of appreciation than for regular dividend payments.
- Dividend equities have historically earned their stripes not when times are good and the VIX is low but when times are bad. Historically, they go down less and give themselves a chance to recover more quickly than standard benchmarks.

The beginning of August 2024 is giving us at least initial indications that a market correction could be in store. Because the Magnificent 7 and the growth style have received so much attention in the past 20 or so months, we wanted to remind investors where to look for more defensive equity orientations.

The Dividend Continuum

All dividend-paying firms are not equal. On one end of the spectrum, think about a Utility firm. Utilities are a regulated industry, and these companies can operate only in a highly specified and expected manner. With this low expected growth of fundamentals such as sales, cash flows and earnings, there is a lower current valuation. Another way to think about this is a higher dividend yield. On the other end of the spectrum, think about a Communication Services or Information Technology company. Meta Platforms declared a dividend in 2024,⁶ and it is a good, concrete example. This firm may deliver strong growth in sales, cash flows and earnings, and its potential for strong growth leads to a higher valuation—and a lower dividend yield.

These differences become important when there is a shift from a bull market to a correction and then to a bear market.

At WisdomTree, the dividend continuum in U.S. equities is apparent across three strategies:

- The [WisdomTree U.S. Quality Dividend Growth Fund \(DGRW\)](#): [DGRW](#) is designed to track, before fees, the total returns of the [WisdomTree U.S. Quality Dividend Growth Index](#). This Index includes dividend-paying firms with strong earnings growth expectations and high return-on-equity and return-on-assets metrics. These types of firms look more like Apple, Microsoft and Meta Platforms—not necessarily the highest dividend yields but much better forward-looking growth prospects.
- The [WisdomTree U.S. LargeCap Dividend Fund \(DLN\)](#): [DLN](#) is designed to track, before fees, the total returns of the [WisdomTree U.S. LargeCap Dividend Index](#). This Index includes the 300 largest dividend-paying companies in the U.S. equity market, with size ranked on the basis of market capitalization. This model is agnostic about forward-looking growth expectations or dividend yield; there would be some higher dividend yielders and some companies with faster growth expectations.
- The [WisdomTree U.S. High Dividend Fund \(DHS\)](#): [DHS](#) is designed to track, before fees, the total returns of the [WisdomTree U.S. High Dividend Index](#). This Index includes the U.S. dividend payers that rank among the highest 30% on a dividend-yield basis, leading to a focus on dividend yield. This should be a more defensive grouping.

Now, we know the dividend continuum, and we know that the beginning of August 2024 has been a tougher equity performance month. Is the actual performance playing out the way we might predict using this paradigm?

The Third Quarter-to-Date (7/1/24–8/6/24) of 2024

- [DHS](#) was the best performer of the three WisdomTree Funds, maintaining a grasp of positive return territory. The Russell 1000 Value Index, a broad measure of value equities in the U.S. market, also hung on to a positive return.
- [DLN](#) and [DGRW](#) delivered a return and went down less than 3%.
- The S&P 500 Index, the most widely followed performance benchmark of U.S. equities, delivered the worst performance, as shown in Figure 2b.

To access each fund's prospectus please click the respective ticker: [DHS](#), [DLN](#), [DGRW](#).

Figure 2a: Average Annual Total Returns

Fund or Index Name	Fund Ticker Symbol	Fund Inception Date	Fund Expense Ratio	Fund 30-Day SEC Yield	Year-to-Date	1-Year	3-Year	5-Year	10-Year
WisdomTree U.S. Quality Dividend Growth Fund (NAV)	DGRW	5/22/13	0.28%	1.50%	11.91%	19.11%	11.51%	14.62%	12.75%
WisdomTree U.S. Quality Dividend Growth Fund (MP)	DGRW	5/22/13	0.28%	1.50%	11.89%	19.16%	11.51%	14.63%	12.74%
WisdomTree U.S. LargeCap Dividend Fund (NAV)	DLN	6/16/06	0.28%	2.07%	10.67%	17.08%	9.16%	11.24%	10.31%
WisdomTree U.S. LargeCap Dividend Fund (MP)	DLN	6/17/06	0.28%	2.07%	10.62%	17.12%	9.16%	11.25%	10.31%
WisdomTree U.S. High Dividend Fund (NAV)	DHS	6/18/06	0.38%	4.08%	4.87%	10.82%	6.74%	7.18%	7.46%
WisdomTree U.S. High Dividend Fund (MP)	DHS	6/19/06	0.38%	4.08%	4.86%	10.86%	6.74%	7.19%	7.46%
Russell 1000 Value Index					6.62%	13.06%	5.52%	9.01%	8.23%
S&P 500 Index					15.29%	24.56%	10.01%	15.05%	12.86%

Sources: WisdomTree, S&P, Bloomberg, as of 6/30/24. Performance of less than one year is cumulative. You cannot directly invest in an index.

Performance is historical and does not guarantee future results. Current performance may be lower or higher than quoted. Investment

returns and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less

than their original cost. For the most recent month-end performance, click the relevant ticker:

[DGRW](#), [DLN](#) and [DHS](#). WisdomTree shares

are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Total returns are calculated using the daily 4:00 p.m.

EST net asset value (NAV). Market price returns reflect the midpoint of the bid/ask spread as of the close of trading on the exchange where Fund

shares are listed. Market price returns do not represent the returns you would receive if you traded shares at other times.

Figure 2b: Performance



Source: WisdomTree, specifically data from the Fund Comparison Tool in the PATH suite of tools, for the period 7/1/24–8/6/24. Fund

performance is shown at net asset value. **Performance is historical and does not guarantee future results. Current performance may be lower or higher than quoted. Investment returns and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. For the most recent month-end performance, click the relevant ticker: [DGRW](#), [DLN](#) and [DHS](#).**

If we look year-to-date, we can recognize that, yes, the start of August 2024 has been a tougher month, but most of 2024 leading up to early August was pretty good.

- The S&P 500 Index—positioned with the large weight in the aforementioned Magnificent 7—was the clear leader coming up to the very large downdraft in equity markets catalyzed by economic data coming out on August 2, 2024.
- We can see in Figure 3 the near-term peak in the S&P 500 Index, which occurred on July 16, 2024. Look at the difference in returns, year-to-date, through that point:
 - [DGRW](#): 16.2%
 - [DLN](#): 15.0%
 - [DHS](#): 10.6%
 - S&P 500 Index: 19.7%
 - Russell 1000 Value Index: 11.4%

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- To show the impact of the big drawdown in early August 2024, we can repeat this exercise for the year-to-date period all the way through August 6, 2024:
 - **DGRW**: 9.7%
 - **DLN**: 10.4%
 - **DHS**: 8.7%
 - S&P 500 Index: 10.7%
 - Russell 1000 Value Index: 7.3%

By going down less in comparison to the S&P 500 Index, **DGRW** and **DLN** in particular made up significant ground, performance-wise.

Figure 3: Year-to-Date 2024



Source: WisdomTree, specifically data from the Fund Comparison Tool in the PATH suite of tools, for the period 7/1/24–8/6/24. Fund performance

is shown at net asset value. **Performance is historical and does not guarantee future results. Current performance may be lower or higher than quoted. Investment returns and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. For the most recent month-end performance, click the relevant ticker:**

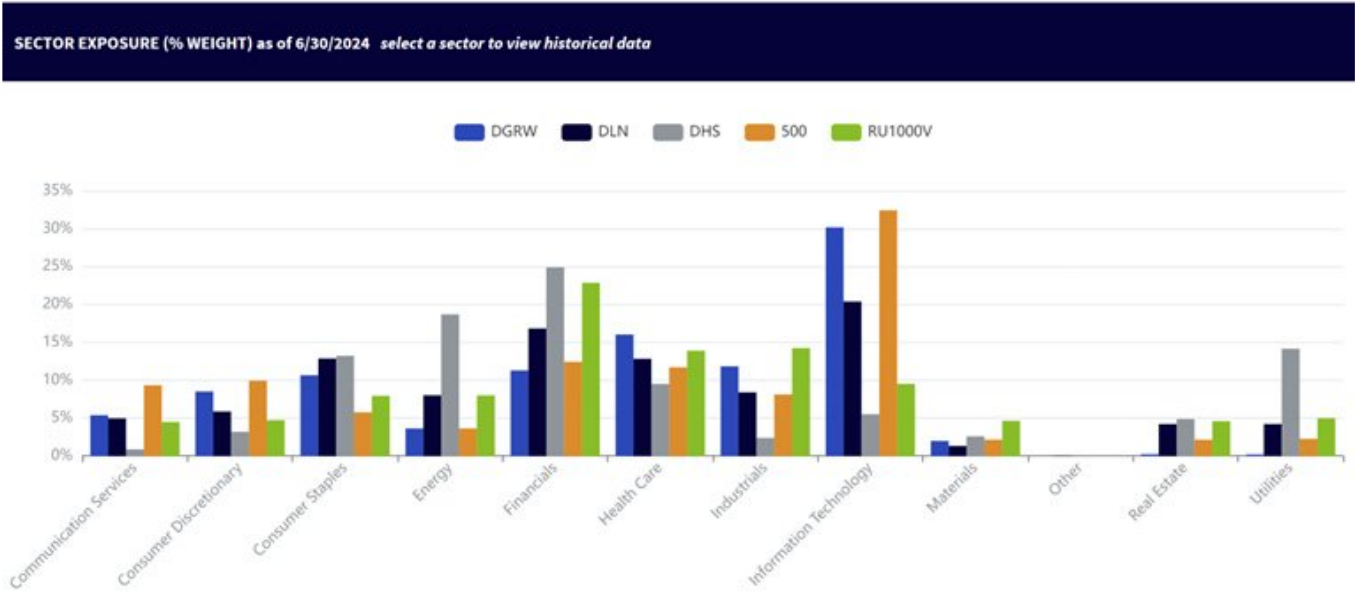
[DGRW](#), [DLN](#) and [DHS](#).

Sector Rotation Coming?

If there is a longer-lasting sector rotation, the sector composition of various dividend strategies that could help implement a more defensive posture is as follows:

- **DHS:** Utilities are nearly 15%, Consumer Staples approaches 15% and Energy stands out at nearly 20%. This Energy sector tilt could help hedge some of the inflationary risk of higher energy prices.
- **DGRW:** The Fund has barely any exposure to Utilities and about 30% exposure to Information Technology.
- **DLN:** Less concentration in any sector and more moderate sector tilts convey a value strategy.

Figure 4: Sector Exposure



Source: WisdomTree, specifically data from the Fund Comparison Tool in the PATH suite of tools, as of 6/30/24. Holdings are subject to change.

Consistently Higher Dividend Yield

With indexes, you can get a sense of historically consistent attributes of a given strategy and methodology. **DHS** tracks an Index that annually resets to the 30% highest-yielding dividend payers.

In Figure 5, we see the significant dividend-yield advantage measured across time—a significant period.

Figure 5: Dividend Yield Over Time



Source: WisdomTree, specifically data from the Fund Comparison Tool in the PATH suite of tools, from 6/06 to 6/24. The 30-day SEC yield for the relevant funds is shown in Figure 2a. 500 refers to the S&P 500 Index. RU1000V refers to the Russell 1000 Value Index. **Past performance is not indicative of future results.**

Conclusion: Bringing the Recent Past Forward to Help Understand What Could Come Next

2022 was a year when dividend and value strategies stood out as the Technology sector hit a downturn. 2023 brought AI and tech leadership back in force once again, and much of the start of 2024 continued with that environment. August serves as a reminder that defensive strategies often focus on dividends, and there are many good implementation ideas, depending on your conviction of the rotation.

1 Refers to the CBOE Volatility Index.

2 Source: Chicago Board Options Exchange, CBOE Volatility Index: VIX [VIXCLS], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/VIXCLS>.

3 Source: Siegel, Jeremy, "Calm Markets Amid Fed Uncertainty," WisdomTree, 8/12/24.

4 The term Magnificent 7 gained prominence in 2023 and refers to Microsoft, Apple, Amazon.com, Alphabet, Meta Platforms, Nvidia and Tesla.

5 Sources: WisdomTree, FactSet, with data as of 4/19/24.

6 Source: Press release: "Meta Reports Fourth Quarter and Full Year 2023 Results; Initiates Quarterly Dividend," 2/1/24.

Important Risks Related to this Article

There are risks associated with investing, including possible loss of principal. Funds focusing their investments on certain sectors may be more vulnerable 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.