

Gaming out ETF Plays for a Manufacturing Comeback

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Key Takeaways

- With the Institute for Supply Management's Manufacturing Purchasing Managers Index (the ISM PMI) breaking into expansion mode with its 50.9 showing in January, investors who are anticipating a 2025 manufacturing recovery may find opportunities in sectors that are associated with an industrial rebound.
- ETF strategies like [WTV](#) and [USMF](#) align with historical sector trends during manufacturing recoveries, while Funds like [DGRW](#) and [DLN](#) may appeal to investors who are skeptical of the manufacturing rebound.

Figure 1 marks all the months that witnessed the ISM PMI cross above 50 since WisdomTree launched ETFs in 2006. For example, in the first row, manufacturing made a move into expansion in summer 2008, as hard as that is to believe. The PMI had been in the 48–49 range for five months before it went to 50.8 that July. We know, in retrospect, that it would be just a few more months before Lehman would collapse.

Nevertheless, the best-performing ETF for the subsequent 12 months was [EPS](#) (full Fund names are listed at the bottom of the blog post). [EPS](#) is our earnings-weighted strategy that feels a lot like the S&P 500.

Figure 1: A Crossover above50 Was Good for EPS

12-Month Return after ISM Manufacturing Crosses Above 50									
Month of Crossover	S&P 500	S&P 500 Value	S&P 500 Growth	WTV	DLN	DHS	EPS	DGRW	Median
7/31/08	-20.0%	-23.7%	-16.4%	-19.6%	-20.9%	-24.1%	-18.5%		-20.3%
8/31/09	4.9%	3.9%	5.7%	0.6%	6.6%	12.5%	5.5%		5.6%
9/30/12	19.3%	22.2%	17.0%	15.2%	15.3%	14.0%	19.7%		16.1%
12/31/12	32.4%	32.0%	32.8%	30.7%	27.3%	24.5%	33.0%		31.4%
3/31/16	17.2%	18.7%	15.4%	13.2%	16.2%	12.0%	19.3%	16.0%	16.0%
9/30/16	18.6%	16.5%	19.9%	21.3%	15.8%	8.6%	21.7%	20.6%	19.9%
1/31/20	17.2%	2.5%	29.8%	13.4%	5.1%	-4.2%	12.8%	13.5%	12.8%
6/30/20	40.8%	39.5%	41.4%	54.6%	32.8%	31.0%	41.8%	33.6%	39.5%

Source: Refinitiv, as of 12/31/24. Month of crossover are the months that witnessed the ISM PMI go from some figure less than 50.0 to some figure above it. The median is a midpoint of a frequency distribution. The S&P 500 Growth and Value indexes measure constituents from the S&P 500 that are classified as growth stocks and value stocks, respectively.

Figure 2: Standardized Performance

Standardized Performance as of 12/31/24			Cumulative Returns			Average Annual Total Returns						Gross Expense Ratio
Ticker	Fund	Inception Date	1-Month	3-Month	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception	Common Period	
WTV	WisdomTree U.S. Value Fund (NAV)	2/23/07	-6.32%	4.71%	23.90%	23.90%	11.68%	13.99%	11.78%	8.87%	12.51%	0.12%
	WisdomTree U.S. Value Fund (MP)	2/23/07	-6.31%	4.79%	23.92%	23.92%	11.64%	14.01%	11.78%	8.88%	12.48%	
DLN	WisdomTree U.S. LargeCap Dividend Fund (NAV)	6/16/06	-5.03%	-0.59%	19.55%	19.55%	8.13%	10.67%	10.52%	9.16%	11.14%	0.28%
	WisdomTree U.S. LargeCap Dividend Fund (MP)	6/16/06	-5.03%	-0.52%	19.56%	19.56%	8.13%	10.71%	10.51%	9.14%	11.10%	
DHS	WisdomTree U.S. High Dividend Fund (NAV)	6/16/06	-6.79%	0.42%	17.98%	17.98%	8.30%	8.08%	8.17%	7.38%	8.94%	0.38%
	WisdomTree U.S. High Dividend Fund (MP)	6/16/06	-6.82%	0.46%	17.99%	17.99%	8.29%	8.11%	8.16%	7.37%	8.90%	
EPS	WisdomTree U.S. LargeCap Fund (NAV)	2/23/07	-3.33%	2.36%	23.98%	23.98%	8.60%	12.81%	11.91%	9.66%	12.52%	0.08%
	WisdomTree U.S. LargeCap Fund (MP)	2/23/07	-3.37%	2.32%	23.92%	23.92%	8.57%	12.83%	11.89%	9.66%	12.48%	
DGRW	WisdomTree U.S. Quality Dividend Growth Fund (NAV)	5/22/13	-4.86%	-2.32%	16.97%	16.97%	9.13%	12.98%	12.38%	12.99%	12.96%	0.28%
	WisdomTree U.S. Quality Dividend Growth Fund (MP)	5/22/13	-4.88%	-2.29%	16.99%	16.99%	9.13%	13.00%	12.37%	12.99%	12.90%	

Source: WisdomTree, as of 3/26/25. NAV denotes total return performance at net asset value. Common period refers to the period from 5/31/13 - 12/31/24. **Past performance is not indicative of future results. Investment return 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. Current performance may be lower or higher than the performance data quoted. For the most recent month-end and standardized performances, click the respective ticker: [WTV](#), [DLN](#), [DHS](#), [EPS](#), [DGRW](#).**

Beyond two of our crossover dates occurring during the global financial crisis, another one occurred in the thick of a society-wide lockdown, so we have to take some of this rearview mirror stuff with a grain of salt. Another thing to consider: the Funds' sector mixes change through the years, so keep that in mind too.

Let's look at the sector heat maps after the PMI crossovers into expansion territory. Figure 3 shows each sector's performance over the subsequent 12 months.

Figure 3: Manufacturing Contraction-to-Expansion Crossovers

12-Month Return after ISM Manufacturing Crosses Above 50													
Month of Crossover	S&P 500	Comm Services	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Info Tech	Materials	Real Estate	Utilities	Median
7/31/08	-20.0%	-9.9%	-9.3%	-7.7%	-29.0%	-37.6%	-10.8%	-29.7%	-9.7%	-27.8%	-44.7%	-20.6%	-20.6%
8/31/09	4.9%	13.4%	17.2%	10.6%	0.3%	-6.5%	0.4%	14.5%	3.1%	7.4%	40.0%	10.2%	10.2%
9/30/12	19.3%	-0.7%	31.8%	14.0%	12.3%	30.2%	28.5%	28.5%	6.9%	16.6%	5.2%	7.0%	14.0%
12/31/12	32.4%	11.5%	43.1%	26.1%	25.1%	35.6%	41.5%	40.7%	28.4%	25.6%	1.6%	13.2%	26.1%
3/31/16	17.2%	1.7%	13.2%	6.2%	14.3%	32.6%	11.6%	18.4%	24.9%	19.2%	2.5%	7.1%	13.2%
9/30/16	18.6%	-0.1%	14.5%	4.4%	0.2%	36.2%	15.5%	22.4%	28.9%	21.3%	2.7%	12.0%	14.5%
1/31/20	17.2%	20.9%	33.0%	4.6%	-22.6%	-0.8%	18.3%	6.8%	37.1%	25.6%	-3.0%	-6.6%	6.8%
6/30/20	40.8%	48.4%	37.1%	23.3%	49.4%	61.8%	27.9%	51.4%	42.4%	48.5%	31.9%	15.8%	42.4%

Source: Refinitiv, as of 12/31/24.

Eyeball it for green color-coding. Maybe we can conclude that the "good" sectors are Consumer Discretionary, Financials, Industrials, Info Tech and Materials.

Notice my strategic use of the word "maybe." There is a major proviso.

I've bucketed Tech as a good sector for manufacturing recoveries. But remember that the dataset is the time from when we launched ETFs in June 2006 to today. Hasn't Tech basically always been a good sector in that time window? Maybe it had nothing to do with manufacturing and everything to do with, say, Ben Bernanke, Janet Yellen and Jay Powell. Who knows?

To wit, of the 211 monthly rolling periods starting June 2007 (12 months after our initial launches) through December 2024, Tech was a winning sector in 172 of them, with a hit rate of 81.5%.

In other words, I'm running a screen for a manufacturing comeback; history would seemingly conclude that Tech is a beneficiary, when in reality it was just an all-weather sector.

Now, let's sum up the "generally good" sectors—with that Tech asterisk in our minds as we do it.

The two tickers that pick up the good sectors are a large-cap growth Fund ([QGRW](#))—because of all that Tech—and also the buybacks-plus-dividends Fund, ([WTV](#)), which has big quantities in the other desired sectors (figure 4).

Figure 4: Fund Weights in the "Generally Good" Sectors

Fund/Index	Sector					
	Consumer Discretionary	Financials	Industrials	Info Tech	Materials	Total
QGRW	16.1%	8.2%	3.2%	51.4%	0.0%	78.9%
WTV	15.3%	25.3%	13.3%	11.5%	2.6%	68.0%
S&P 500	11.3%	13.6%	8.2%	32.5%	1.9%	67.5%
USMF	11.1%	13.8%	8.8%	31.4%	2.1%	67.2%
EPS	11.2%	16.9%	7.5%	24.6%	1.0%	61.2%
DGRW	9.8%	9.7%	15.2%	22.9%	2.8%	60.4%
AIVL	3.5%	21.2%	19.6%	10.8%	3.5%	58.6%
DTD	5.5%	19.8%	9.4%	14.9%	1.9%	51.5%
DLN	4.6%	18.2%	8.7%	16.5%	1.2%	49.2%
DHS	4.1%	19.8%	1.4%	3.2%	1.8%	30.3%

Source: WisdomTree Path Software. Sector and index weights as of 1/31/25.

I'm going to call two sectors neutral, or maybe "sometimes good, sometimes bad." They are Health Care and Communication Services.

Figure 5: Weights in the Neutral Sectors

Fund/Index	Sector		
	Health Care	Comm Services	Total
EPS	11.2%	13.3%	24.5%
DHS	19.7%	3.9%	23.6%
S&P 500	10.1%	9.4%	19.5%
USMF	10.3%	9.0%	19.3%
QGRW	6.0%	13.2%	19.2%
DLN	12.7%	6.2%	18.9%
DGRW	11.1%	6.7%	17.8%
DTD	11.6%	5.9%	17.5%
AIVL	12.9%	3.7%	16.6%
WTV	7.2%	4.1%	11.3%

Source: WisdomTree Path Software. Sector and index weights as of 1/31/25.

Finally, the "generally bad" sectors. A lot of the red and orange shading was in Consumer Staples, Energy, Real Estate and Utilities. On this score, [QGRW](#) and our multi-factor concept, [USMF](#), are scoring well.

Figure 6: Weights in the "Generally Bad" Sectors

Fund/Index	Sector				
	Consumer Staples	Energy	Real Estate	Utilities	Total
DHS	18.6%	13.1%	4.9%	9.1%	45.7%
DLN	12.4%	8.3%	4.9%	6.1%	31.7%
DTD	11.8%	8.0%	4.9%	6.4%	31.1%
AIVL	6.9%	6.3%	3.6%	7.7%	24.5%
DGRW	13.0%	8.5%	0.2%	0.2%	21.9%
WTV	9.3%	8.5%	1.2%	1.8%	20.8%
EPS	5.8%	5.1%	1.1%	2.4%	14.4%
USMF	5.6%	3.2%	2.3%	2.4%	13.5%
S&P 500	5.5%	3.2%	2.1%	2.3%	13.1%
QGRW	0.5%	1.0%	0.0%	0.0%	1.5%

Source: WisdomTree Path Software. Sector and index weights as of 1/31/25.

Logic says we should net out the generally good from the generally bad. Again, I keep coming back to the proviso that Tech was a great sector, *in the past tense*. If we subtract the weight in the bad sectors from the weight in the good sectors, the math points to [QGRW](#) and [USMF](#).

Figure 7: Weight in Generally Good Sectors Minus Weight in Generally Bad

Fund/Index	Sector
QGRW	77.4%
S&P 500	54.4%
USMF	53.7%
WTV	47.2%
EPS	46.8%
DGRW	38.5%
AIVL	34.1%
DTD	20.4%
DLN	17.5%
DHS	-15.4%

Source: WisdomTree Path Software. Sector and index weights as of 1/31/25.

Some final observations.

In the sector heat map, I will never be able to know each reader's mindset, so let's go through some scenarios.

Something that pops out to me is the distinct possibility that the first two rows—2008 and 2009—could have a line drawn through them by 99% of you. I just don't think a lot of people who are reading this think that JP Morgan or Bank of America are going to go insolvent in 2025 à la Lehman.

The other one I could see someone drawing a line through is Covid. The whole thing was so bizarre and probably not part of many 2025 forecasts. Maybe that person gives a ding to Consumer Discretionary and eases up the bearishness on Real Estate, for example.

Here are five approaches for five different reader profiles:

- **Opinion 1:** Someone who says past is prologue. The ETF that worked best in the past was [EPS](#).
- **Opinion 2:** Someone who wants to home in on prior cycles' good sectors: [QGRW](#), [WTV](#).
- **Opinion 3:** Someone looking to subtract the bad sector weights from the good sector weights: [QGRW](#), [USMF](#).

- **Opinion 4:** Someone who is putting an asterisk on Tech. Go for the ones with Financials, Industrials and Materials: [AIVL](#), [WTV](#).
- **Let's not forget Opinion 5:** "I disagree with the whole thesis!" Maybe this person is a bear or is of the view that recession risk is underpriced. For those readers, a few of the Funds that held up well in the 2022 bear market were [DGRW](#), [DLN](#) and [DHS](#).

The Fund Names

[WTV](#): WisdomTree U.S. Value Fund

[DGRW](#): WisdomTree U.S. Quality Dividend Growth Fund

[QGRW](#): WisdomTree U.S. Quality Growth Fund

[DLN](#): WisdomTree U.S. LargeCap Dividend Fund

[EPS](#): WisdomTree U.S. LargeCap Fund

[USMF](#): WisdomTree U.S. Multifactor Fund

[DTD](#): WisdomTree U.S. Total Dividend Fund

[DHS](#): WisdomTree U.S. High Dividend Fund

[AIVL](#): WisdomTree U.S. AI Enhanced Value Fund

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