

Quality as a Foundation in an Uncertain World

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Key Takeaways

- Amid rising geopolitical risk and AI-driven disruption, investors are increasingly turning to high-quality companies with strong profitability and balance sheets—an area where strategies like the [WisdomTree U.S. Quality Dividend Growth Fund \(DGRW\)](#) can provide more resilient exposure.
- Quality stocks have historically outperformed in 90% of rolling 10-year periods with shallower draw-downs, reinforcing their role as a defensive core allocation even as macro uncertainty persists.
- By emphasizing dividend growth backed by earnings strength rather than high yield alone, [DGRW](#) offers investors a differentiated approach that captures sustainable income and long-term capital appreciation without excessive valuation risk.

Investors are navigating an increasingly complex market backdrop. Geopolitical tensions, ongoing conflicts and energy supply risks continue to add volatility, while rapid technological change, particularly the acceleration of artificial intelligence, is reshaping industries, business models and sources of competitive advantage.

Against this backdrop of geopolitical uncertainty and technological disruption, identifying companies with durable business models and resilient fundamentals has become increasingly important.

Historically, companies with strong profitability, balance sheet strength and disciplined capital allocation—characteristics commonly associated with the quality factor—have demonstrated some of the most consistent performance across market cycles. Compared with other equity factors, quality has tended to outperform more frequently over long investment horizons while experiencing relatively shallow periods of underperformance.

Quality Has Shown the Greatest Resilience, Outperforming More Often Than Other Factors

Figure 1: Rolling 10-Year outperformance of U.S. Factors (vs. Market)



Figure 2: Factor Performance Summary

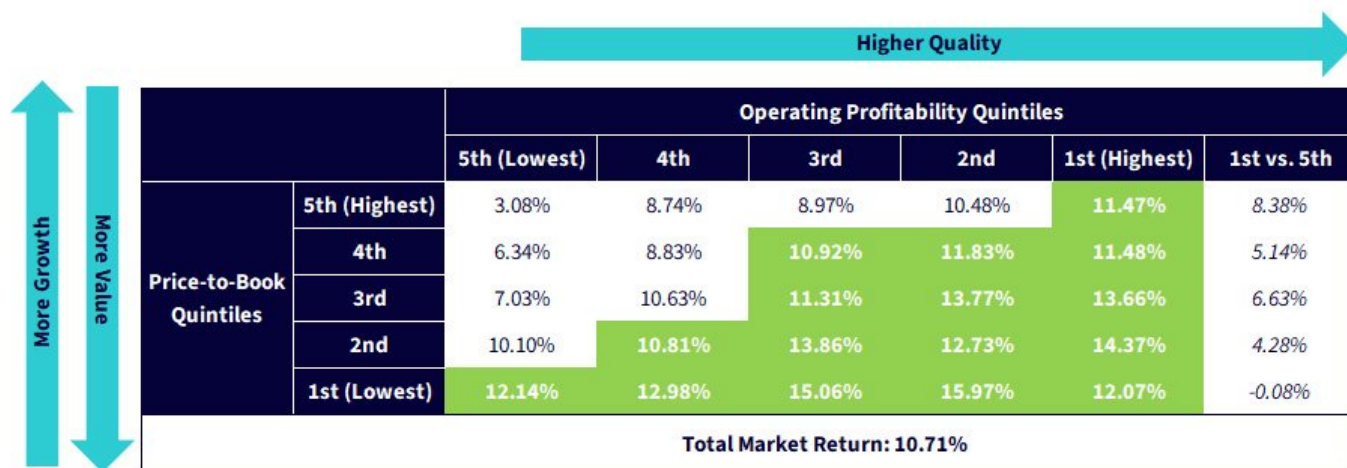
	Small Cap	Value	Low Volatility	High Dividend	Quality
Percentage of Outperforming Periods	58%	73%	77%	71%	90%
Best Outperformance	11.9%	9.1%	5.0%	6.7%	2.7%
Worst Underperformance	-7.3%	-5.7%	-4.3%	-5.7%	-1.4%

Sources: WisdomTree, Ken French, data as of November 28, 2025. Value: High 30% Book to Price portfolio. Size: Low 30% portfolio. Quality: High 30% portfolio. Low Vol: Low 20% portfolio. High Div: High 30% portfolio. "&" Market: all CRSP firms incorporated in the U.S. and listed on the NYSE, AMEX or NASDAQ. **Past performance is not indicative of future results.**

The importance of quality becomes even clearer when examining how profitability interacts with valuation and growth characteristics.

Outperformance of Quality Across the Value-Growth Spectrum

Figure 3: Returns by Profitability Across Value and Growth Segments



Source: Kenneth French Data Library, 6/30/63-2/28/2026. Period based on availability of annual operating profitability returns sorted into quintiles, which begins 6/30/1963. Market is U.S.-listed equities grouped on the basis of operating profitability and price-to-book. Returns are annualized. **Past performance is not indicative of future results.**

Companies with higher operating profitability have historically outperformed lower-quality peers across the entire growth-value spectrum, with the strongest effect observed among blend stocks. In other words, sustainable growth is often supported by strong fundamentals.

The WisdomTree Quality Dividend Growth Approach

The [WisdomTree U.S. Quality Dividend Growth Fund \(DGRW\)](#) seeks to capture this quality premium through a forward-looking approach to dividend investing.

Rather than selecting companies purely on the basis of high dividend yields, the strategy emphasizes firms with the potential to grow their dividends over time. The process focuses on companies with strong profitability metrics and earnings growth characteristics that can support sustainable dividend growth.

The strategy also differs from traditional market capitalization-weighted approaches by weighting companies according to the dividends they pay. This dividend-weighted methodology helps reduce concentration in the largest companies and links portfolio weights more closely to the cash returned to shareholders.

By combining quality screens with a forward-looking dividend growth framework, the strategy aims to identify companies capable of delivering both growing income and long-term capital appreciation.

Conclusion: Exposure Rooted in Fundamentals

Ultimately, the case for quality is not just theoretical—it is clearly reflected in portfolio fundamentals. As shown in the chart below, the [WisdomTree U.S. Quality Dividend Growth Index](#) exhibits meaningfully higher profitability metrics than the S&P 500 Index, with return on equity and return on assets notably elevated. At the same time, this higher quality exposure is not achieved at the expense of excessive valuation, with

forward price-to-earnings (P/E) broadly in line with the market and only a modest premium on price-to-book (P/B).

Figure 4: Fundamental Comparison

	WisdomTree U.S. Quality Dividend Growth Index	S&P 500
Return on Equity (ROE)	23.08%	18.55%
Return on Assets (ROA)	6.24%	4.60%
Forward Price-to-Earnings (P/E)	19.4	19.8
Price-to-Book (P/B)	5.8	5.2
Forward Dividend Yield	1.60%	1.27%

Sources: WisdomTree, FactSet. Data as of 3/31/2026.

Importantly, the strategy also delivers a higher forward dividend yield, reinforcing the idea that investors do not need to sacrifice income to gain exposure to stronger businesses. Instead, they can access a combination of profitability, sustainable growth and income generation within a single framework.

In an uncertain and rapidly evolving market environment, this balance becomes increasingly valuable. WisdomTree's U.S. Quality Dividend Growth strategy provides an approach rooted in fundamentals, one that seeks to capture resilient earnings, disciplined capital allocation, and growing shareholder returns. For investors looking to navigate volatility while maintaining long-term return potential, anchoring portfolios in high-quality businesses may offer a more consistent and dependable path forward.

Important Risks Related to this Article

There are risks associated with investing, including possible loss of principal. Growth stocks, as a group, may be out of favor with the market and underperform value stocks or the overall equity market. Growth stocks are generally more sensitive to market movements than other types of stocks. Dividends are not guaranteed, and a company currently paying dividends may cease paying dividends at any time. The Fund is non-diversified, as a result, changes in the market value of a single security could cause greater fluctuations in the value of Fund shares than would occur in a diversified fund. The Fund invests in the securities included in, or representative of, its Index regardless of their investment merit and the Fund does not attempt to outperform its Index. The composition of the Index is governed by an Index Committee and the Index may not perform as intended. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.