Thinking about High Valuations of U.S. Equities

Published November 24, 2025

Christopher Gannatti, CFA
Global Head of Research

Key Takeaways

- With U.S. equity valuations sitting at elevated levels, investors may benefit from revisiting value-oriented strategies that emphasize long-term risk-adjusted returns.
- While traditional value ETFs focus on low valuations alone, the WisdomTree U.S. Quality Dividend Growth Fund (DGRW) stands out by integrating quality metrics like return on equity and earnings growth, seeking to offer a differentiated approach.
- In the face of potential market drawdowns, emphasizing strong balance sheets and consistent dividend growth can potentially help investors navigate valuation risk with greater confidence.

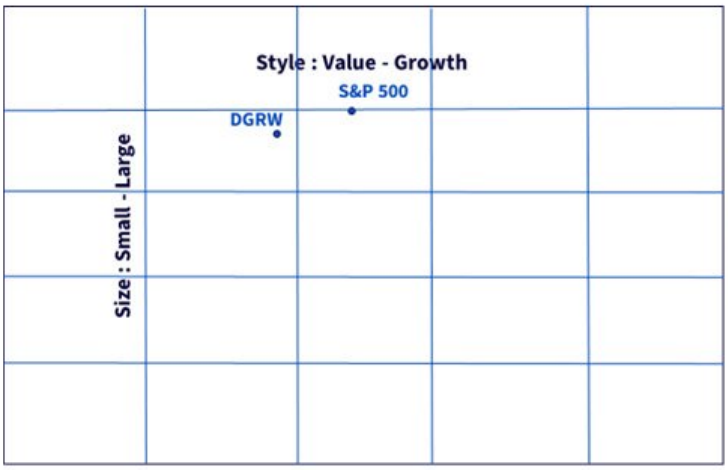
The other day, I was thinking about the relatively high valuations of U.S. equities. It made me think of doing a review of different large exchange-traded funds (ETFs) across the U.S. large value category. We had also noticed Morningstar's recent positioning of the WisdomTree U.S. Quality Dividend Growth Fund (DGRW) in their style box map, so we included it in the comparison.

When I start looking at strategies, I try to simplify the picture into three things:

- Average annual returns, preferably over a period of greater than 10 years, if possible.
- Average annual volatility, to give a sense of the experience of generating those returns.
- Average annual Sharpe ratio, to measure the units of return in excess of a risk-free rate, relative to the level of volatility.

We see the results in figure 1a.

Figure 1a: A Performance Snapshot of Different U.S. Value Equity ETFs



Performance Metric	DGRW	IVE	IWD	VTV	VLUE
Average Annual Returns	13.0%	10.7%	9.6%	11.0%	10.2%
Average Annual Volatility	13.5%	14.6%	14.7%	14.0%	16.7%
Average Annual Sharpe Ratio	0.96	0.72	0.65	0.78	0.58

Sources: WisdomTree, FactSet, Morningstar, specifically data from the Fund Comparison Tool in the PATH suite of tools, accessed 11/3/25 with returns, volatility and Sharpe ratio as of 9/30/25. The period for these statistics starts as far back as possible for all strategies shown: 5/22/13, the inception date for DGRW. Morningstar style box is sourced from Morningstar, with data as of 10/31/25. NAV denotes total return performance at net asset value. MP denotes market price performance. Average Annual Return = The average amount an investment gained or lost each year over the period shown. Average Annual Volatility = A measure of how much an investment's returns went up and down. Higher volatility means a bumpier ride. Sharpe Ratio = A way to compare investments by showing how much return you earned for each unit of risk taken. Higher numbers indicate better risk-adjusted performance. **The performance data quoted represents past performance and 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 performance, click the respective ticker: DGRW, IVE, IWD, VTV, VLUE.**

To help with further context:

- DGRW is designed to track the total return performance, before fees and expenses, of the WisdomTree U.S. Quality Dividend Growth Index. This strategy focuses on dividend-paying companies, weighted by their cash dividends, and prioritizes companies with higher return on equity (ROE), return on assets (ROA) and earnings growth expectations.
- IVE, the iShares S&P 500 Value ETF, is designed to track the total return performance of the S&P 500 Value Index. This index focuses on the value segment of U.S. large-cap equities.
- IWD, the iShares Russell 1000 Value ETF, is designed to track the total return performance of the Russell 1000 Value Index. The index focuses on the value segment of U.S. large-cap equities.
- VTV, the Vanguard Value Index Fund ETF Shares, is designed to track the total return performance of the CRSP U.S. Large Value Index. The index focuses on the value segment of U.S. large-cap equities.
- VLUE, the iShares MSCI USA Value Factor ETF, is designed to track the total return performance of the MSCI USA Enhanced Value Index. The index focuses on the value segment of U.S. large-cap equities.

Of course, there are nuances to each of these approaches, but the overall focus is the same—predominantly large-cap stocks in the value style segment of the U.S. equity market.

Figure 1b: Standardized Performance

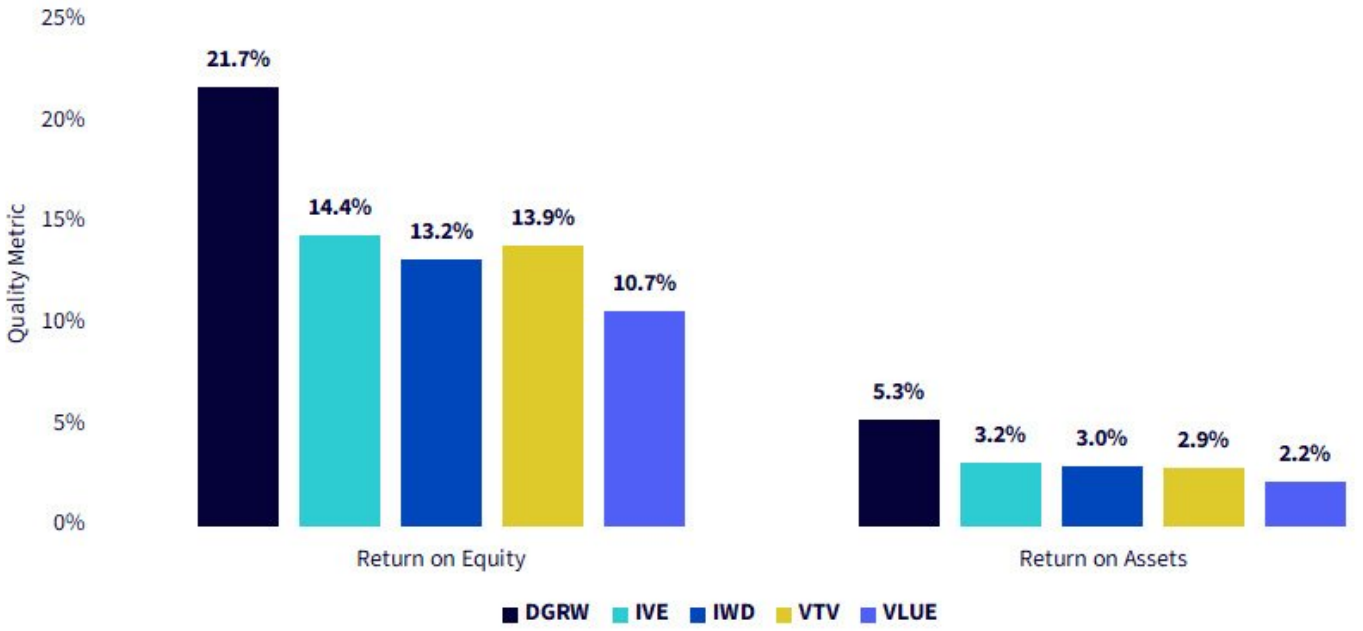
Fund Name	Fund Ticker Symbol	Fund Inception Date	Fund Expense Ratio	Fund SEC 30-Day Yield	Year-to-Date	1-Year	3-Year	5-Year	10-Year	Since Fund Inception
WisdomTree U.S. Quality Dividend Growth Fund (NAV)	DGRW	5/22/13	0.28%	1.44%	11.20%	8.62%	20.28%	14.53%	14.31%	13.13%
WisdomTree U.S. Quality Dividend Growth Fund (MP)	DGRW	5/22/13	0.28%	1.44%	11.13%	8.58%	20.25%	14.47%	14.31%	13.12%
iShares S&P 500 Value ETF (NAV)	IVE	5/22/00	0.18%	1.74%	9.55%	6.59%	19.38%	15.12%	11.85%	7.31%
iShares S&P 500 Value ETF (MP)	IVE	5/22/00	0.18%	1.74%	9.54%	6.62%	19.37%	15.16%	11.86%	7.30%
iShares Russell 1000 Value ETF (NAV)	IWD	5/22/00	0.18%	1.68%	11.51%	9.25%	16.77%	13.68%	10.54%	7.57%
iShares Russell 1000 Value ETF (MP)	IWD	5/22/00	0.18%	1.68%	11.42%	9.25%	16.71%	13.68%	10.54%	7.57%
Vanguard Value Index Fund ETF Shares (NAV)	VTV	1/26/04	0.04%	2.08%	11.98%	9.17%	17.62%	15.02%	12.10%	9.05%
Vanguard Value Index Fund ETF Shares (MP)	VTV	1/26/04	0.04%	2.08%	11.97%	9.22%	17.58%	15.04%	12.11%	9.05%
iShares MSCI USA Value Factor ETF (NAV)	VLUE	4/16/13	0.15%	2.07%	20.70%	17.66%	18.43%	14.18%	10.53%	10.32%
iShares MSCI USA Value Factor ETF (MP)	VLUE	4/16/13	0.15%	2.07%	20.61%	17.62%	18.37%	14.16%	10.51%	10.31%

Sources: WisdomTree, FactSet, specifically data from the Fund Comparison Tool in the PATH suite of tools, accessed 11/3/25 with returns, volatility and Sharpe ratio as of 9/30/25. NAV denotes total return performance at net asset value. MP denotes market price performance. The Morningstar Investment Style Box(TM) reveals a fund's investment strategy. For the equity holdings in the fund's portfolio, the vertical axis shows the market capitalization of the stocks owned and the horizontal axis shows investment style (value, blend or growth). **The performance data quoted represents past performance and 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 performance, click the respective ticker: DGRW, IVE, IWD, VTV, VLUE.**

Just Value, or Value + Quality?

We recognize we don't know what may or may not outperform going forward, but we do like the idea of owning the strongest businesses at reasonable prices as opposed to just the least expensive businesses overall. Inexpensive companies may represent opportunities, or they may represent value traps. DGRW, embedded in its process, seeks to measure the ROE and ROA of every underlying constituent, and includes only those with relatively higher figures. Even if, as we saw in figure 1a, DGRW screens into the U.S. large value segment of the Morningstar style box, the ROE and ROA metrics look markedly different.

Figure 2: The Intersection of Value and Quality



Sources: WisdomTree, FactSet, Morningstar, with data as of 9/30/25. **Subject to change. Past performance is not indicative of future results.**

Conclusion: Why Are You Thinking about Valuation Risk?

We should all be honest about what leads us to think about valuation risk—we are concerned that the equity market may face a drawdown of some sort. In a drawdown, we know that anything can happen, but we prefer to have exposure to strong businesses with strong balance sheets and a proven capacity to generate earnings growth. While this guarantees nothing, it helps us to feel more prepared in case the unexpected happens.

Figure 3: Additional Information

Fundamentals	WisdomTree U.S. Quality Dividend Growth Fund	iShares Russell 1000 Value ETF	Vanguard Value Index Fund ETF Shares	iShares MSCI USA Value Factor ETF	iShares S&P 500 Value ETF
Objective	The WisdomTree U.S. Quality Dividend Growth Fund is designed to track the total return performance of, before fees and expenses, the WisdomTree U.S. Quality Dividend Growth Index. The Index is comprised of dividend-paying companies with strong return on equity, return on assets and forward-looking earnings growth characteristics. The index is dividend weighted annually to reflect the proportionate share of the aggregate cash dividends each component company is projected to pay in the coming year, based on the most recently declared dividend per share.	The iShares Russell 1000 Value ETF is designed to track the total return performance of, before fees and expenses, the Russell 1000 Value Index. The Russell 1000® Value Index measures the performance of the largecap value segment of the US equity universe. It includes those Russell 1000 companies with relatively lower price-to-book ratios, lower I/B/E/S forecast medium term (2 year) growth and lower sales per share historical growth (5 years).	Vanguard Value ETF seeks to track the investment performance of the CRSP US Large Cap Value Index, an unmanaged benchmark representing U.S. large-capitalization value stocks. Vanguard Value ETF is an exchange-traded share class of Vanguard Value Index Fund. The fund attempts to replicate the target index by investing all, or substantially all, of its assets in the stocks that make up the index, holding each stock in approximately the same proportion as its weighting in the index. The experience and stability of Vanguard's Equity Index Group have permitted continuous refinement of techniques for reducing tracking error. The group uses proprietary software to implement trading decisions that accommodate cash flow and maintain close correlation with index characteristics. Vanguard's refined indexing process, combined with low management fees and efficient trading, has provided tight tracking net of expenses.	The iShares MSCI USA Value Factor ETF seeks to track the investment results of an index, the MSCI USA Enhanced Value Index, composed of U.S. large- and mid-capitalization stocks with value characteristics and relatively lower valuations.	The iShares S&P 500 Value ETF is designed to track the total return performance of, before fees and expenses, the S&P 500 Value Index. The S&P 500 Value Index measures the performance of the largecap value segment of the U.S. equity universe. S&P uses 3 ratios to denote value: 1) book value to price 2) earnings to price and 3) sales to price.
Total Expense Ratio	0.28%	0.18%	0.04%	0.15%	0.18%
Total Assets Under Management (millions, $)	16,046	65,119	149,200	8,523	42,586

Sources: Fund sponsor websites and fund pages, with assets under management data current as of 10/31/25. All funds are managed differently and do not react the same to economic or market events. The investment objectives, strategies, policies or restrictions of other funds may differ and more information can be found in their respective prospectuses. Therefore, we generally do not believe it is possible to make direct fund to fund comparisons in an effort to highlight the benefits of a fund versus another similarly managed fund. **Subject to change.**

Important Risks Related to this Article

DGRW: There are risks associated with investing, including 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.

IVE: There are risks involved with investing in ETFs, including possible loss of money. Shares are not actively managed and are subject to risks similar to those of stocks, including those regarding short selling and margin maintenance requirements. Ordinary brokerage commissions apply. The Fund's return may not match the return of the Underlying Index. The Fund is subject to certain other risks. Please see the current prospectus for more information regarding the risk associated with an investment in the Fund. Investments focused in a particular sector, such as technology, are subject to greater risk, and are more greatly impacted by market volatility, than more diversified investments.

VTV: There are risks involved with investing in ETFs, including possible loss of money. Shares are not actively managed and are subject to risks similar to those of stocks, including those regarding short selling and margin maintenance requirements. Ordinary brokerage commissions apply. The Fund's return may not match the return of the Underlying Index. The Fund is subject to certain other risks. Please see the current prospectus for more information regarding the risk associated with an investment in the Fund. Investments focused in a particular sector, such as technology, are subject to greater risk, and are more greatly impacted by market volatility, than more diversified investments.

VLUE: There are risks involved with investing in ETFs, including possible loss of money. Shares are not actively managed and are subject to risks similar to those of stocks, including those regarding short selling and margin maintenance requirements. Ordinary brokerage commissions apply. The Fund's return may not match the return of the Underlying Index. The Fund is subject to certain other risks. Please see the current prospectus for more information regarding the risk associated with an investment in the Fund. Investments focused in a particular sector, such as technology, are subject to greater risk, and are more greatly impacted by market volatility, than more diversified investments.

IVE: There are risks involved with investing in ETFs, including possible loss of money. Shares are not actively managed and are subject to risks similar to those of stocks, including those regarding short selling and margin maintenance requirements. Ordinary brokerage commissions apply. The Fund's return may not match the return of the Underlying Index. The Fund is subject to certain other risks. Please see the current prospectus for more information regarding the risk associated with an investment in the Fund. Investments focused in a particular sector, such as technology, are subject to greater risk, and are more greatly impacted by market volatility, than more diversified investments.