

To Capture a Value Rotation, Make Sure You Have Value Exposure!

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After the global financial crisis of 2008/09, U.S. equities—particularly growth-oriented U.S. equities—went on a run. For an extended period in 2022, it started looking like the growth rally was over and the value cycle had begun.

Periods of growth or value outperformance and underperformance tend to unfold over years. It would be rare for investors to look at long-term charts and see quick shifts in value/growth leadership. If history is a guide, we can think of two logical scenarios now unfolding:

- **Scenario 1:** 2022 was a blip and the growth rally is really just continuing. The world's largest tech companies are pushing markets higher and value is relegated to underperformance.
- **Scenario 2:** The first half of 2023 is the blip and the value rotation that many investors caught onto in 2022 will pick back up after this shorter period of growth outperformance.

In this piece, we focus on those who believe that the value rotation is coming back, that is, Scenario 2. We noted in a [prior blog post that something 'weird' is happening](#) in the relationship between the S&P 500 and S&P 500 Value indexes, and we extend some of that analysis here.

Analytical Framework: Funds & Indexes

Within this piece, we reference:

- iShares Core S&P 500 ETF (ticker: IVV), which tracks the returns, after fees and expenses, of the S&P 500 Index.
- iShares S&P 500 Value ETF (IVE), which tracks the returns, after fees and expenses, of the S&P 500 Value Index.
- [WisdomTree U.S. LargeCap Dividend Fund \(DLN\)](#), which tracks the returns, after fees and expenses, of the [WisdomTree U.S. LargeCap Dividend Index](#)
- [WisdomTree U.S. High Dividend Fund \(DHS\)](#), which track the returns, after fees and expenses, of the [WisdomTree U.S. High Dividend Index](#).

The critical discussion relates IVE, [DLN](#) and [DHS](#)—all strategies having varying degrees of value-type exposure—back to IVV in terms of performance and valuation.

As we saw in a prior post, if Microsoft is the top holding of the S&P 500 Value Index by a significant margin (and also of IVE), it has implications for the relative discounts and ‘true’ value tilt—which can be in the eye of the ‘beholder’ or index methodology.

The Setup: Performance in the First Half of 2023

First, we show year-to-date performance in 2023.

- IVV returned nearly 12%—from a narrow subset of large, tech-oriented companies that includes Microsoft.
- IVE returned greater than 8% over the same period, driven by top 10 exposures to Microsoft, Meta Platforms and Amazon.com. We also note that the tenth position in IVE was actually Netflix, not a company normally at the tip of a value investor’s tongue.
- DLN was up 1.18% over the period, whereas DHS was down 5.17%.
 - If a small subset of large tech companies is going to lead the U.S. equity market, DLN may be able to catch Apple and Microsoft—payers of significant dividends—but DHS is unlikely to catch the major tech ‘growth’ companies, due to the nature of its Index focusing only on higher yielding dividend-payers.

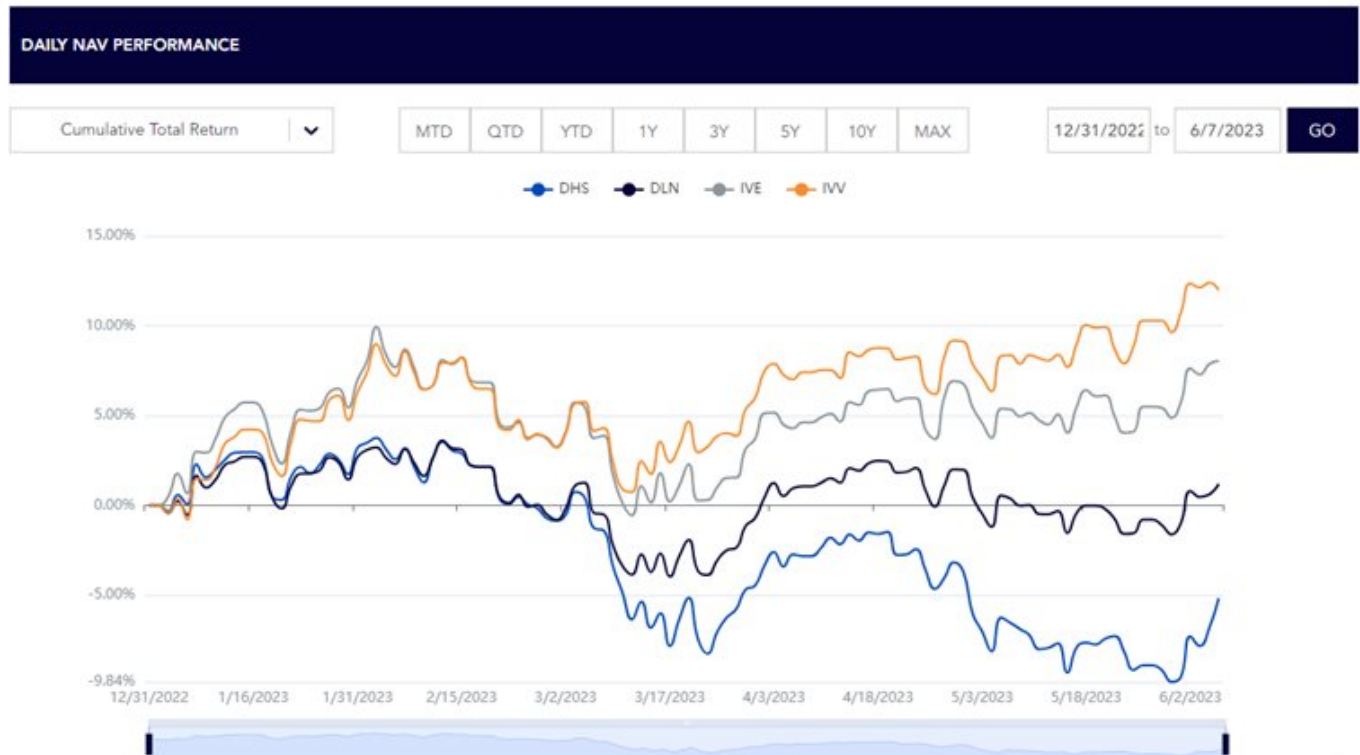
Figure 1a: Standardized Performance as of March 31, 2023

Name	Gross Expense Ratio	Inception Date	YTD	1-Yr	3-Yr	5-Yr	7-Yr	10-Yr	Since Inception	Common Period
WisdomTree U.S. LargeCap Dividend Fund (NAV)	0.28%	6/16/06	0.43%	-3.22%	18.13%	9.78%	10.62%	10.57%	8.41%	8.28%
WisdomTree U.S. LargeCap Dividend Fund (MP)	0.28%	6/16/06	0.44%	-3.43%	18.13%	9.74%	10.60%	10.55%	8.39%	8.25%
WisdomTree U.S. High Dividend Fund (NAV)	0.38%	6/16/06	-3.36%	-2.49%	17.81%	7.85%	7.68%	8.63%	6.91%	6.79%
WisdomTree U.S. High Dividend Fund (MP)	0.38%	6/16/06	-3.40%	-2.70%	17.82%	7.84%	7.67%	8.61%	6.91%	6.78%
iShares S&P 500 Value ETF (NAV)	0.18%	5/22/00	5.13%	-0.34%	18.91%	9.29%	10.30%	9.98%		7.35%
iShares S&P 500 Value ETF (MP)	0.18%	5/22/00	5.11%	-0.43%	18.91%	9.28%	10.29%	9.99%		7.34%
iShares Core S&P 500 ETF (NAV)	0.03%	5/15/00	7.49%	-7.76%	18.57%	11.15%	12.38%	12.20%		9.34%
iShares Core S&P 500 ETF (MP)	0.03%	5/15/00	7.44%	-7.85%	18.56%	11.13%	12.38%	12.20%		9.32%

Source: WisdomTree. (NAV) is net asset value and refers to a measure of total return performance. (MP) is market price and refers to a measure of return based on the share price behavior of the exchange-traded Fund. Since inception is available only for WisdomTree Funds. Common period refers to 6/30/06–3/31/23. To learn more about the differences between the Funds being compared, please see the Additional Information section below. **The performance data quoted represents past performance and is no guarantee 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 and to download the respective Fund prospectuses, click the relevant ticker: [DHS](#), [DLN](#), [IVE](#), [IVV](#).

Figure 1b: Zooming in on Year-to-Date 2023 Performance



‘Value’ Is Usually Defined by Fundamental Metrics

The price-to-earnings (P/E) ratio is likely the most widely followed of the different metrics used to denote whether a stock, index or fund is expensive or inexpensive.

IVV, IVE, [DLN](#) and [DHS](#) all contain large, established, profitable companies—for the most part—so it is appropriate to look at P/E multiples. Figure 2 shows:

- None of the strategies is ‘most expensive’ or ‘least expensive’ on a P/E basis for the full time series.
- From late-2021 to early-2022, [DHS](#)’s P/E ratio was quite clearly declining, and it is getting close to single-digit territory at present.
- IVE’s P/E ratio has increased significantly from late-2022. We know that the S&P 500 Value Index (tracked by IVE) went through a reconstitution that was responsible for getting companies like Microsoft, Amazon.com, Meta Platforms, Salesforce, Cisco and Netflix into the top 10 holdings. IVE’s P/E ratio is looking very similar to that of IVV, the Fund that tracks the return of the broader S&P 500 Index.

Key Question: If an investor is looking for value, does it make sense to search for it in a strategy with a similar P/E ratio to the broad benchmark?

Figure 2: Divergence in Price-to-Earnings (P/E) Ratios among Value-Oriented Funds

Source: WisdomTree, specifically the Fund Compare Tool. Period is 6/30/06–4/30/23.

How Does the Present Compare to History?

It is not often that a value index has a P/E ratio higher than the market—particularly without a recession that might result in value indexes having temporarily depressed earnings.

Right now, everyone is waiting for a recession that has yet to materialize.

- In fact, the last time that IVV (S&P 500) and IVE (S&P 500 Value) had the same P/E ratio (or IVE was a bit higher), it was during the global financial crisis of 2008/09—when earnings collapsed at the big banks and cyclical stocks.
- From late-2017 to late-2021, IVE's P/E ratio was typically at a **20% discount** to the broad market. The average discount since 2006 has been 10.5%.
- **DHS is in wide discount territory:** DHS's P/E ratio is at a discount of around 50% to IVV, **for the first time** since its inception on June 16, 2006, approximately 17 years ago. This is an extreme valuation discount and perhaps an opportunity.
- DLN's P/E ratio is at an approximately 25% discount to IVV, while its average discount has been 12.1%.

Figure 3: Valuation Discounts across Various Value Indexes



Source: WisdomTree, specifically the Fund Compare Tool. Period is 6/30/06–4/30/23.

Conclusion: For Value Exposure, Make Sure You Know What's under the Hood

The value factor could struggle if the economy deteriorates and short-term earnings come under pressure. However, in our view, those looking for tools to implement a value thesis should hold IVE's metaphorical feet to the fire, and recognize that an exposure like [DHS](#) seems to be very heavily loaded toward stocks currently out of favor, and is thus approaching that venerated single-digit P/E that causes many value investors to salivate.

Figure 4: Further Information Supporting the Comparison of the Different Funds

Fundamentals	DHS	DLN	IVE	IVV
Objective	WisdomTree U.S. High Dividend Fund is an exchange-traded fund incorporated in the U.S. The Fund seeks investment results that correspond to the performance of the WisdomTree U.S. High Dividend Index. The Fund invests in the highest yielding stocks of the WisdomTree U.S. Dividend Index that meet specified requirements.	WisdomTree U.S. LargeCap Dividend Fund is an exchange-traded fund incorporated in the U.S. The Fund seeks investment results that correspond to the performance of the WisdomTree U.S. LargeCap Dividend Index. The Fund invests in the largest market capitalization stocks of the WisdomTree U.S. Dividend Index that meet specified requirements.	iShares S&P 500 Value ETF is an exchange-traded fund incorporated in the U.S. The Fund seeks investment results that correspond to the performance of the S&P 500 Value Index. The Fund invests in the stocks from within the S&P 500 Index universe that best exemplify S&P's value factors.	iShares Core S&P 500 ETF is an exchange-traded fund incorporated in the USA. The Fund seeks investment results that correspond to the performance of the S&P 500 Index. The Fund invests in stocks that S&P's approach defines as some of the most important within the broader U.S. equity market.
Price to Earnings Ratio	10.95	16.00	21.22	21.47
Price to Book Ratio	1.99	3.41	2.80	4.16
Price to Sales Ratio	1.38	1.96	1.77	2.36
Price to Cash Flow Ratio	6.98	10.94	12.43	14.39
Dividend Yield	4.81%	2.85%	1.99%	1.63%
Total Expense Ratio	0.38%	0.28%	0.18%	0.03%
Total Assets Under Management (USD, billions)*	1.19	3.46	24.41	315.82
30-Day SEC Yield*	4.61%	2.56%	1.81%	1.58%

Sources: WisdomTree, specifically the Fund Comparison Tool, with data quoted as of 4/30/23. *These statistics were taken from the relevant Fund website pages, accessing the most currently available data published as of 6/8/23. **Historical performance is not an indication of future performance, and any investments may go down in value. The performance data quoted represents past performance and is no guarantee 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 and to download the respective fund prospectuses, click the respective ticker: [DHS](#), [DLN](#), [IVE](#), [IVV](#).

If you're interested in diving more into the comparison of these Funds, please check out our [Fund Compare Tool](#).

Important Risks Related to this Article

There are risks associated with investing, including the 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 each Funds' prospectus for specific details regarding each Funds' risk profile.