

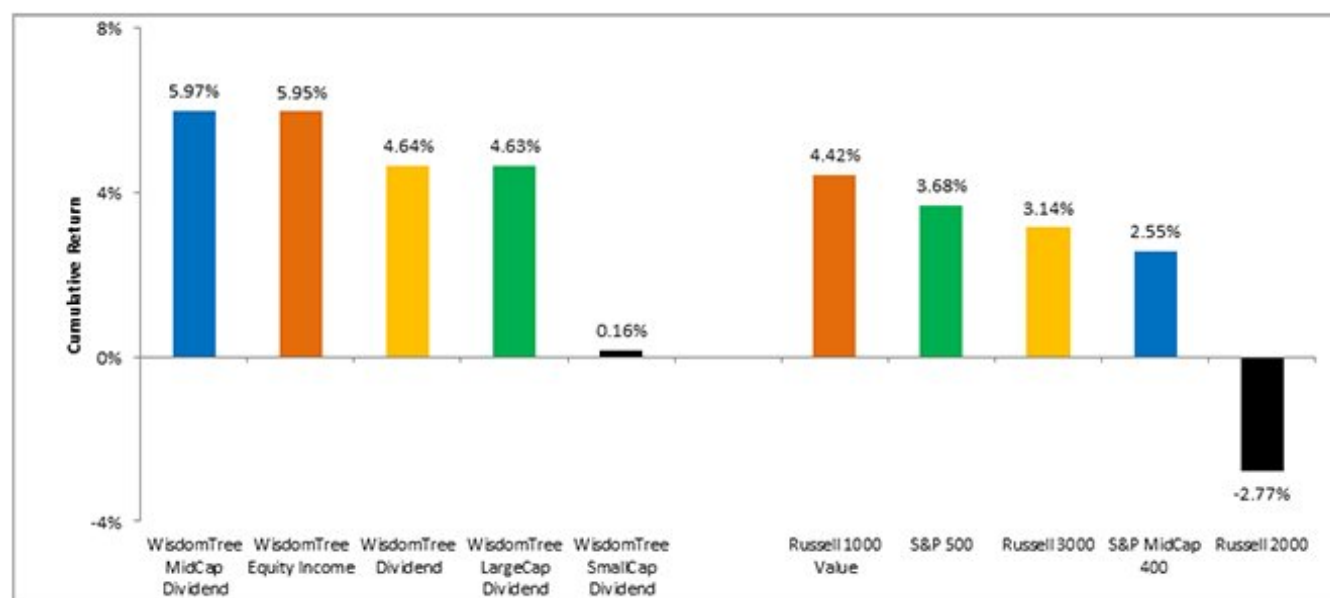
U.S. Dividends Lead in 2014

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2013 was characterized by a strong U.S. equity market, but we were not surprised that our U.S. dividend Indexes were unable to fully capture that strong upward move. Thus far in 2014, the picture has changed, and we've seen our dividend Indexes outpace their market capitalization-weighted benchmarks in **every** size segment of the market. This can be explained, in part, by the reversal in U.S. momentum stocks, written about [here](#), as well as dividend stocks coming back to deliver strong performance. **WisdomTree's Dividend Indexes Outperformed (12/31/2013 to 5/23/2014)**



Source: Bloomberg. Past performance is not indicative of future results. You cannot invest directly in an index.

For definition of indexes in the chart, visit our [glossary](#). • **U.S. Treasury Yields Support Dividend-Paying Stocks, Particularly Higher Yielders in WT Equity Income:** In our view, one of the most critical drivers of dividend-paying stocks in the U.S., currently, is the behavior of U.S. Treasury yields —particularly on the 10-Year Treasury note. From December 31, 2013, to May 23, 2014, this yield has declined from slightly over 3.00% to slightly over 2.50%. Generally speaking, Treasury yields are one of the biggest sources of competition for dividend-paying stocks in that many investors are simply looking for an income source. The lower the yield on the 10-Year note, the less competition faced by dividend-paying stocks, and we see this even if we just broadly note the performance of sectors in the [S&P 500 Index](#). Historically, the WisdomTree Equity Income Index has tended to be strongly positioned for environments supportive of higher-yielding dividend payers, since it selects for this particular attribute from a broad universe of U.S. dividend payers. •

Forgotten Mid-Caps: Over this period of strong dividend growth, the WisdomTree MidCap Dividend Index delivered the greatest outperformance over its cap-weighted benchmark, the [S&P MidCap 400 Index](#). As has historically been the case, a difference in stock selection was a key driver of performance. Most notably, we had a nearly 9.3% over-weight to Utilities and an approximate 8.3% under-weight to Information Technology. • **The Small-Cap Segment:** What Happened to the Russell 2000? Broadly speaking, we believe that question can be answered in three words: relative value rebalancing. 2013 was a year of strong performance in small caps. At the end of the year, the WisdomTree SmallCap Dividend Index underwent its annual rebalance, specifically selling stocks that experienced strong share price performance but that did not grow dividends commensurately. The Russell 2000 Index, being market cap weighted, had no such discipline to focus back on a measure of relative valuation, and we think that managing valuation risk is one of the most crucial actions to undertake after a year defined by multiple expansion. **Can Outperformance Continue?** In 2013, U.S. equities performed strongly, but that performance was primarily driven by multiple expansion. After such a year, one of the most important risks to manage is valuation risk—which our U.S. dividend Indexes are built to do. Also, if U.S. Treasury yields rise more slowly than initially expected, these types of stocks could remain important generators of income. **Unless otherwise noted, data source is Bloomberg.**

Important Risks Related to this Article

Dividends are not guaranteed, and a company's future ability to pay dividends may be limited. A company currently paying dividends may cease paying dividends at any time. Performance, especially for very short time periods, should not be the sole factor in making your investment decision.