

What's Love Got to Do with This Stock Market? Ask TINA

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During the first half of the year, it seemed everyone was grabbing so-called “low-volatility” stocks.

Why?

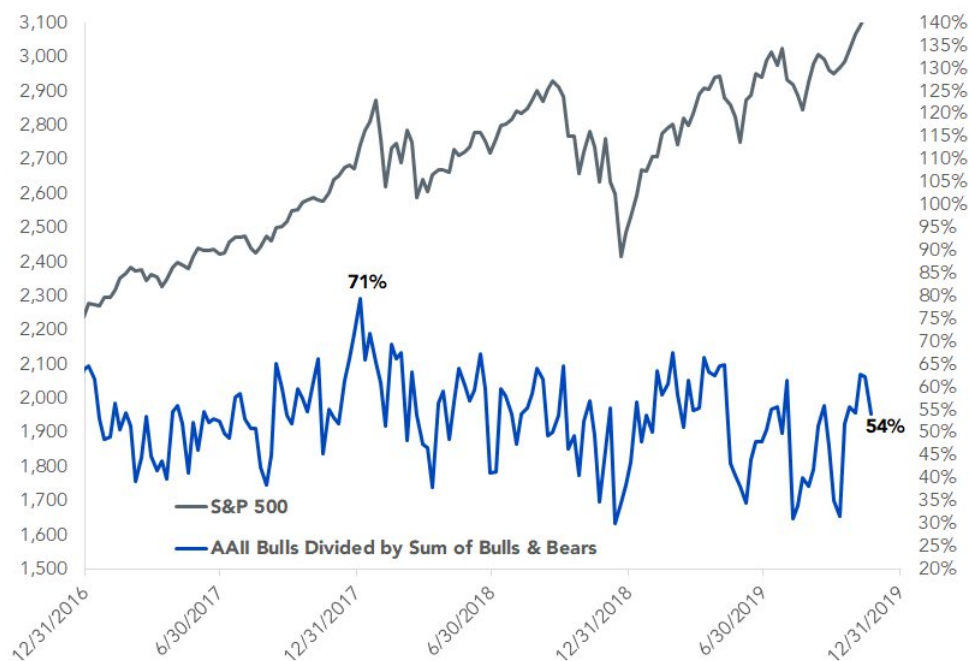
The popular “TINA” trade—“There Is No Alternative”—is based on the belief that stocks should be bought because bond yields are so paltry.

If you are of a certain age, you got the blog post title's Tina Turner reference. The Grammy winner's biggest song, according to me, was “What's Love Got to Do with It?” If Turner had been asking about this 10-year bull run in stocks—which would have been really cool—the answer would have been “not much.”

Despite 17.4% annualized S&P 500 Index returns from the March 2009 lows through October 2019, the sentiment survey by the American Association of Individual Investors (AAII) shows a largely unloved market, as the percentage of respondents labeling themselves “bullish,” “bearish” or “neutral” is a mixed bag.

In figure 1, I divided the proportion of bullish respondents by the total of bulls and bears.

Figure 1: American Association of Individual Investors Bulls Divided by Sum of Bulls + Bears



Sources: WisdomTree, Bloomberg, American Association of Individual Investors, as of 11/21/19. Past performance is not indicative of future results. You cannot invest directly in an index. Index performance does not represent actual fund or portfolio performance. A fund or portfolio may differ significantly from the securities included in the index. Index performance assumes reinvestment of dividends but does not reflect any management fees, transaction costs or other expenses that would be incurred by a portfolio or fund, or brokerage commissions on transactions in fund shares. Such fees, expenses and commissions could reduce returns. WisdomTree, its affiliates and their independent providers are not liable for any informational errors, incompleteness or delays or for any actions taken in reliance on information contained herein.

In the first eight months of this year, investors bought stocks with abandon. But market leadership was nevertheless dominated for the most part by the staid “minimum volatility” stocks. No-frills sectors such as Utilities, Real Estate Investment Trusts (REITs) and Consumer Staples joined this cycle's momentum sector—Technology—atop the performance board.

Until they didn't.

Though momentum-oriented Tech has held strong this autumn, many of the minimum volatility sectors have been troubled since the market's sector leadership switched on August 27 (figure 2).

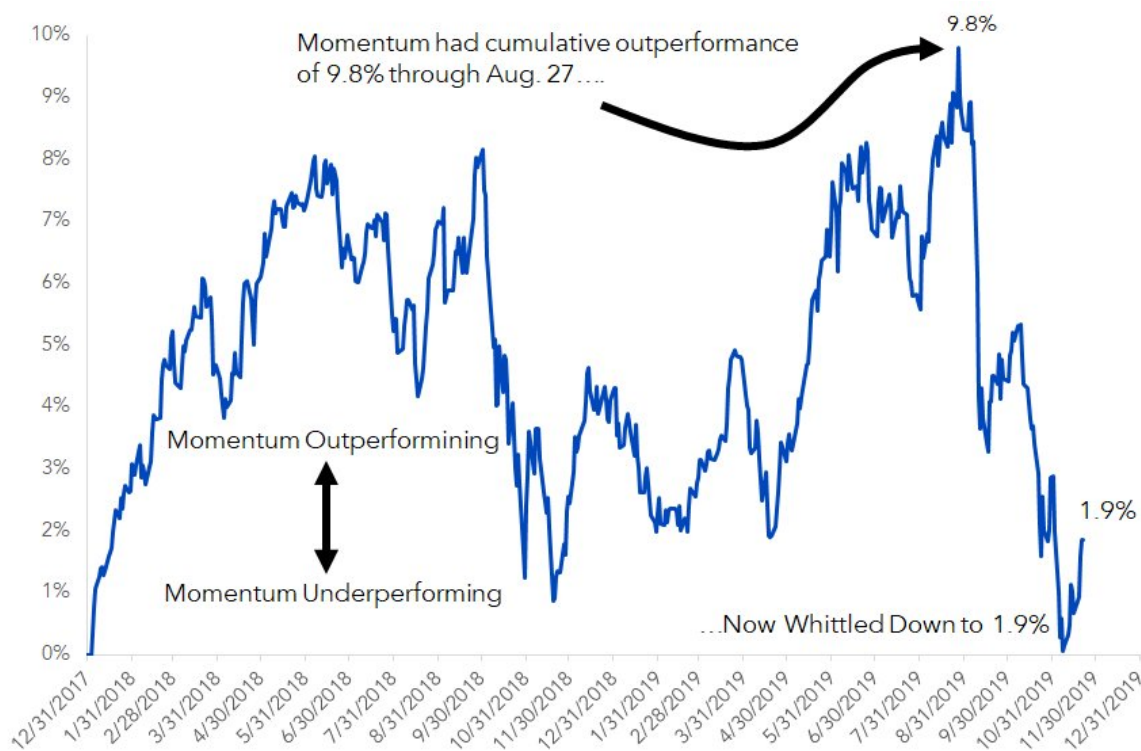
Figure 2: S&P 500 Index Sector Performance, 2019

S&P 500 Index Sector Performance			
12/31/18–8/27/19			Since 8/27/19
Information Technology	27.06%		Financials13.99%
Real Estate	26.99%		Information Technology11.81%
Consumer Staples	20.25%		Industrials11.41%
Utilities	19.66%		Health Care9.92%
Communication	19.10%		S&P 5008.85%
Consumer Discretionary	18.95%		Basic Materials8.19%
S&P 500	15.98%		Communication7.92%
Industrials	15.11%		Energy6.27%
Financials	11.13%		Consumer Staples3.03%
Basic Materials	10.33%		Consumer Discretionary2.51%
Healthcare	4.09%		Utilities2.13%
Energy	-0.79%		Real Estate0.60%

Sources: WisdomTree, Bloomberg, through 11/20/19. Past performance is not indicative of future results. You cannot invest directly in an index.

Because “minimum volatility” and “momentum” became synonymous with each other as the former morphed into the latter, the relative breakdown of defensive sectors hit both factor types in recent months. The MSCI USA Momentum Index has been reeling relative to the broad market for a couple of months (figure 3).

Figure 3: MSCI USA Momentum Index Minus WisdomTree U.S. LargeCap Index



Sources: Bloomberg, WisdomTree, 12/31/17–11/21/19. Chart shows performance disparity between a momentum stock index and a large-cap core index. When it is rising, momentum stocks are outperforming, and vice versa. Past performance is not indicative of future results. You cannot invest directly in an index.

The new market darling, at least for the last few months, is the Financials sector, much to the relief of investors in value factor funds. The sector has defied threats of Washington “cracking down on Wall Street,” beating the S&P 500 Index by more than 5 percentage points since the August 27 leadership switch from momentum to value stocks.

Russell's factor indexes are in figure 4. To the momentum factor's credit, it has a robust 2019 Wall Street earnings growth estimate. But soon, I believe, savvy investors will try to steal a march on 2020 expectations. The consensus has the Russell 1000 Momentum Factor Index's earnings growing 10.6% next year—only a tad bit higher than the 8.5% expected for the Russell 1000 Value Index. But the former is trading for 20.4x next year's earnings estimate, a 6-point premium over its value counterpart. Is it worth it?

Figure 4: Street Consensus, Russell Indexes

	Market	Value	Quality	Low Volatility	Momentum	Small
Index	Russell 1000	Russell 1000 Value	Russell 1000 Quality	Russell 1000 Low Volatility Focused Factor	Russell 1000 Momentum Factor	Russell Midcap
Price	1716.6	1304.4	2199.8	1922.5	2015.2	2303.7
2015 Earnings Per Share	58.2	54.7	63.6	70.3	59.8	73.1
2016 EPS	58.8	54.3	63.8	75.7	58.9	75.3
2017 EPS	66.2	62.1	70.1	76.9	65.9	84.3
2018 EPS	81.7	74.9	87.6	98.8	73.3	103.0
EPS Growth (2015-2018)	12.0%	11.0%	11.2%	12.0%	7.0%	12.1%
Consensus EPS						
2019 EPS (est.)	92.4	85.6	96.1	122.6	89.1	121.6
2020 EPS (est.)	102.8	92.8	108.7	130.3	98.6	134.2
Consensus EPS Growth (YoY)						
2019	13.1%	14.3%	9.7%	24.1%	21.6%	18.1%
2020	11.2%	8.5%	13.1%	6.3%	10.6%	10.4%
P/E on Consensus Estimates						
P/E (2019 est.)	18.6	15.2	22.9	15.7	22.6	19.0
P/E (2020 est.)	16.7	14.1	20.2	14.8	20.4	17.2

Sources: Bloomberg, WisdomTree, as of 11/21/19, using all Wall Street estimates reported to Bloomberg. Weights subject to change. Past performance is not indicative of future results. You cannot invest directly in an index.

Figure 5 shows the returns-based analysis of our U.S. equity exchange-traded funds (ETFs) using the Russell 1000 Index and the five major “smart beta” factors. Our broad market [WisdomTree U.S. LargeCap Fund \(EPS\)](#) is a 500-stock blend fund that tilts toward value. The ETFs that are even more value-focused are “the Ds,” our dividend-weighted ETFs with tickers that start with that letter in the table below.

Figure 5: Fund Regressions to Smart Beta Factors (%)

Index	Factor Type	WisdomTree U.S. Total Dividend Fund (DTD)	WisdomTree U.S. LargeCap Dividend Fund (DLN)	WisdomTree U.S. High Dividend Fund (DHS)	WisdomTree U.S. Dividend ex- Financials Fund (DTN)	WisdomTree U.S. Quality Dividend Growth Fund (DGRW)	WisdomTree U.S. LargeCap Fund (EPS)	WisdomTree U.S. Quality Shareholder Yield Fund (QSY)	WisdomTree U.S. Multifactor Fund (USMF)
Russell 1000	Market	--	--	--	--	--	45.5%	--	--
Russell 1000 Value	Value	84.6%	82.0%	74.9%	64.0%	44.5%	40.7%	31.2%	3.5%
Russell 1000 Quality	Quality	7.7%	18.0%	--	--	51.8%	13.8%	2.8%	--
Russell 1000 Equal Weight	Small	--	--	--	21.9%	--	--	38.5%	--
Russell 1000 Low Volatility Focused Factor	Low Volatility	7.7%	--	25.1%	14.1%	3.7%	--	27.5%	63.6%
Russell 1000 Momentum Factor	Momentum	--	--	--	--	--	--	--	32.9%

Source: Bloomberg. One-year regression through 10/31/19 to determine factor composition that most emulates the fund. For example, when we run the first fund, DTD, to see which composition of the six indexes it looks like, Bloomberg identifies it as being akin to the factor exposures of a mix that is 84.6% "value," 7.7% "quality" and 7.7% "minimum volatility." Weights subject to change.

Performance is historical and does not guarantee future results. Current performance may be lower or higher than quoted. Investment returns 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. Performance data for the most recent month-end is available at wisdomtree.com.

WisdomTree shares are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Total returns are calculated using the daily 4:00 p.m. EST net asset value (NAV). Market price returns reflect the midpoint of the bid/ask spread as of the close of trading on the exchange where Fund shares are listed. Market price returns do not represent the returns you would receive if you traded shares at other times.

Please click [here](#) for standardized performance of the ETFs mentioned in the table.

Until now, "TINA" has been a mantra to buy stocks because bond yields are so low. But now that rates are rising a bit, is the recent embrace of value stocks here to stay?

Love doesn't have anything to do with it. Valuations do.

Important Risks Related to this Article

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. While some of the Funds are actively managed, the Funds' investment process is expected to be heavily dependent on quantitative models and the models may not perform as intended. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.