Why Can't You Just Get It through Your Head, It's Over, It's Over Now

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This article is relevant to financial professionals who are considering offering model portfolios to their clients. If you are an individual investor interested in WisdomTree ETF Model Portfolios, please inquire with your financial professional. Not all financial professionals have access to these Model Portfolios.

Why can't you just get it through your head?
It's over, it's over now
Yes, you heard me clearly now I said
It's over, it's over now

(Boz Scaggs, from the Silk Degrees album, 1976)

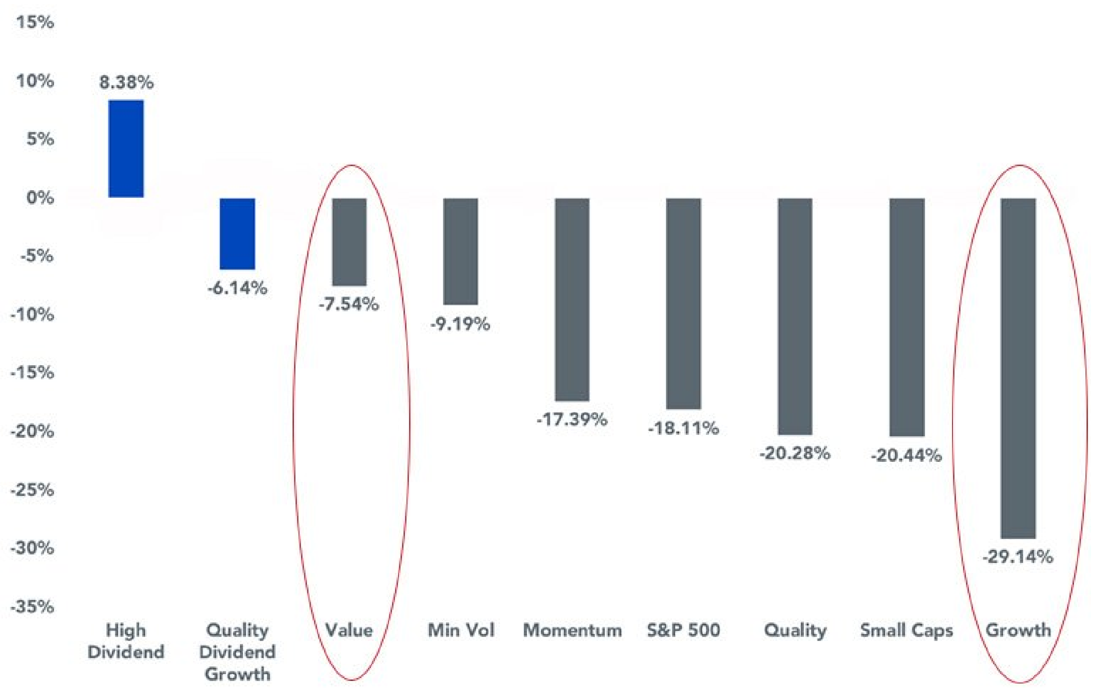
Over the past few months, we've received many inbound calls from advisors asking us when the current rotation out of growth and into value will be "over"—as if it is a one-year phenomenon. Let's examine that.

First, 2022, without a doubt, witnessed a massive rotation out of the growth stocks that led the market for most of the previous 10 years and into value stocks. The so-called "FAANGM" stocks (Facebook [Meta], Apple, Amazon, Netflix, Google [Alphabet], and Microsoft) were decimated over the course of the year.

Source: YCharts, data for calendar year 2022. Past performance is no guarantee of future results.

Meanwhile, value stocks dramatically outperformed growth stocks—to the tune of one of the widest performance dispersions in history (two charts).

Source: YCharts, data for calendar year 2022. You cannot invest in an index, and past performance is no guarantee of future results.



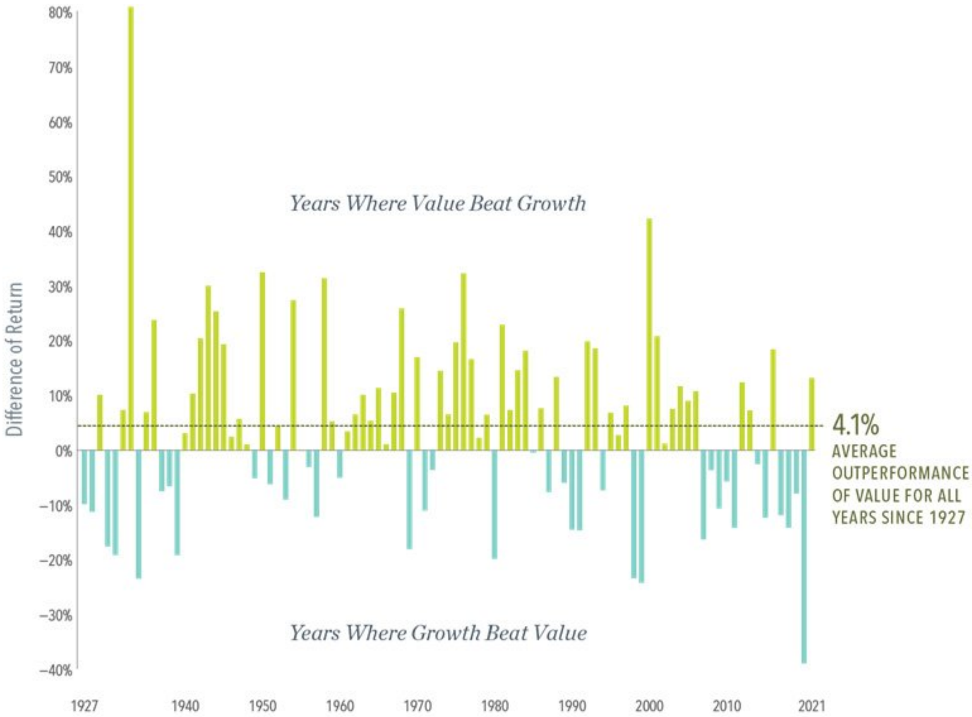
Sources: WisdomTree, FactSet, Russell, MSCI, S&P, data as of 12/31/22. You cannot invest directly in an index. Past performance is not indicative of future returns. High Dividend: WisdomTree U.S. High Dividend Index. Quality Dividend Growth: WisdomTree U.S. Quality Dividend Growth Index. Value: Russell 1000 Value Index. Small Caps: Russell 2000 Index. Min Vol: MSCI USA Minimum Volatility Index. Quality: MSCI USA Sector-Neutral Quality Index. Momentum: MSCI USA Momentum Index. Growth: Russell 1000 Growth Index.

For definitions of indexes in the chart above, please visit the glossary.

This performance gap was also remarkable in small- and mid-cap stocks.

Source: YCharts, data for calendar year 2022. You cannot invest in an index, and past performance is no guarantee of future results.

History suggests this outperformance tends to be a multi-year cycle, not a one-time phenomenon, and, in fact, the “value outperforms” regimes have tended to last longer than the “growth outperforms” regimes.



Source: Dimensional Fund Advisors, data from 1927–February 2022, for large-cap U.S. stocks. Past performance is no guarantee of future results. Investing risks include loss of principal and fluctuating value. There is no guarantee that an investment strategy will be successful. The Fama/French Indexes represent academic concepts that may be used in portfolio construction and are not available for direct investment or for use as a benchmark. Index returns are not representative of actual portfolios and do not reflect costs and fees associated with an actual investment.

Given Fed policy and the current trend in interest rates, we see no reason to expect growth stocks to “recover” anytime soon, due to the historical inverse relationship between the two.

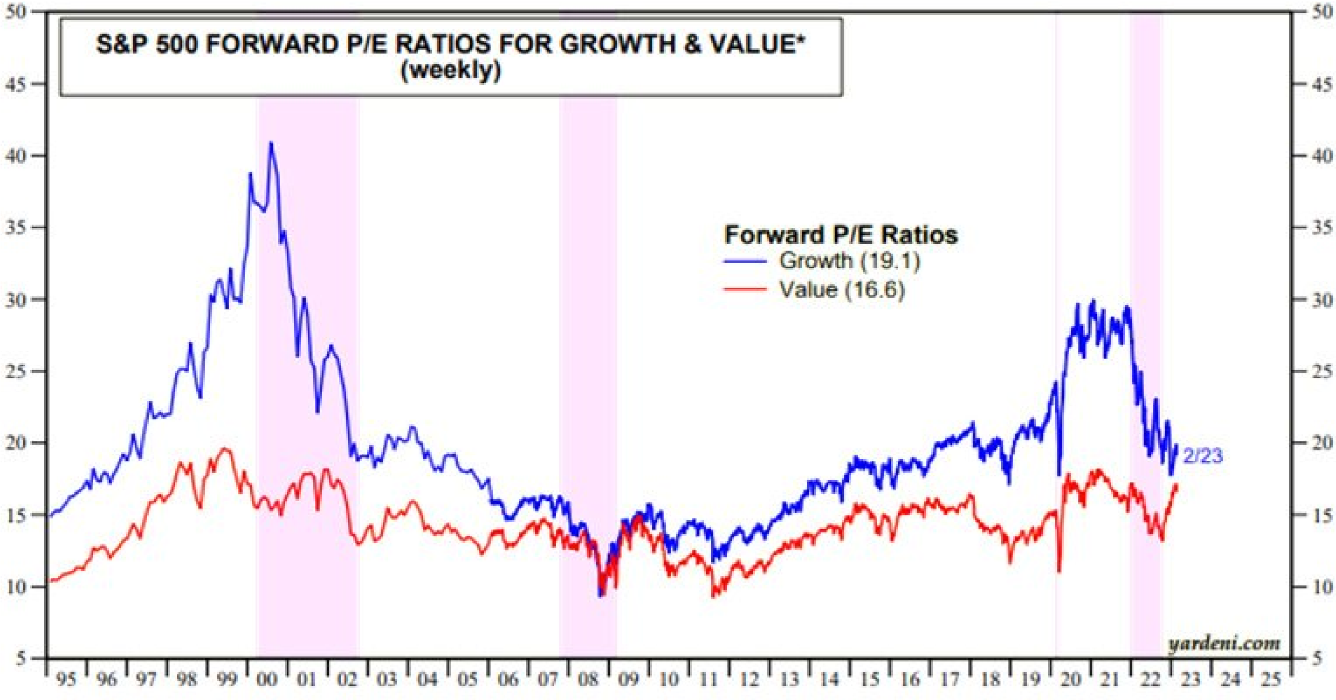
Source: YCharts, data from 1/1/1994–3/3/2023. You cannot invest in an index, and past performance does not guarantee future results.

Finally, despite the performance gap of 2022, valuation metrics still favor value stocks for fundamentally minded investors. Here we use two large iShares ETFs, IVE and IVW, as proxies for the S&P 500 Value and Growth Indexes, respectively.

Valuation Ratios as of 12/31/22	IVE	IVW
Price/Earnings (P/E)	17.08	21.57
Price/Earnings (P/E) Excl. Negative	16.24	21.47
Price Negative Earn	2.63%	0.26%
Estimated Price/Earnings (P/E)	15.40	20.67
Estimated Price/Earnings (P/E) Excl. Negative	15.24	20.67
Price/Cash Flow (P/CF)	11.53	15.09
Price/Book (P/B)	2.84	6.67
Price/Sales (P/S)	1.69	3.76

Source: The WisdomTree "Fund Comparison Tool," data as of 12/31/22. Competitor funds are determined by selecting those with the largest assets under management (AUMs) within their respective peer group. WisdomTree defines a peer group for each of its ETFs based on features such as regional and market capitalization focus, factor exposures and sector/industry characteristics. Performance is historical and does not guarantee future results. Current performance may be lower or higher than quoted. Investment returns and the principal value of an investment may be worth more or less than their original cost. Standardized and the most recent month-end performance can be found on the details tab. A prospectus for each Fund can be found on the Fund Details tab. Basis points (bps) = 1 basis point equals 1/100th of a percentage point. All information is provided strictly for educational and illustrative purposes only. No representation is being made that any investment will achieve performance similar to those shown. The information provided is not intended for trading purposes and should not be considered investment advice. This tool should not be used as the basis for your investment decisions. Fundamental data points:

- The price-to-earnings ratio for each ETF represents the net asset value per share divided by the Fund's earnings per share.
- E/P Ratio (earnings/price) is defined as Earnings/Price or 1/PE Ratio.
- The price-to-sales ratio for each ETF represents the net asset value per share divided by the Fund's sales per share.
- The price-to-book value ratio for each ETF represents the net asset value per share divided by the Fund's book value per share.



* Price divided by 12-month (52-week) forward consensus expected operating earnings per share. Monthly data through December 2005, weekly thereafter.
Note: Shaded red areas are S&P 500 bear market declines of 20% or more. Yellow areas are bull markets.
Source: I/B/E/S data by Refinitiv .

Source: Yardeni Research, through 2/23/23. You cannot invest in an index, and past performances do not guarantee future results.

Conclusions

Many WisdomTree products and most of our Model Portfolios have a distinct value tilt embedded into them—value is one of our fundamental “DNA” characteristics.

This stood us well in 2022, as value strongly rotated back into the “market lead” throughout the year.

Given the historical multi-year cycles in the value/growth rotation, we believe we are still in the “early innings” for value. 2023 year-to-date has been more volatile, with investors and the growth factor reacting strongly to real and perceived Fed interest rate decisions, but we believe this is a volatile short-term trend and not a “re-rotation” back into growth over any extended period of time.

In other words, we think the long reign of growth stocks over value stocks *“is over, it’s over now.”*

Our product suite is positioned well for this value market cycle, and we remain very comfortable with our Model Portfolio positioning as well, with its tilts toward value, dividends, size and quality.

You can learn more about our Model Portfolio allocations on the WisdomTree Model Adoption Center.

Important Risks Related to this Article

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