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# LOOKING BACK AT EQUITY MARKETS IN Q2 WITH WISDOMTREE

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In this second instalment of the [WisdomTree Quarterly Equity Factor Review](#), we look back at a second quarter where equity markets around the world have rebounded almost as quickly as they dropped in the first quarter, erasing most of their losses. This led to a reversal of fortunes for some of the equity factors:

- Across all regions, 3 factors have led the pack performance-wise: Size, Momentum and Quality.
- Quality and Momentum stands out as the winner for the first half of the year benefiting from good behaviour in both quarters.
- All Equity Factors' Price to Earnings ratio went up over the quarter buoyed by positive performance but some still got cheaper compared to the overall market.
- Quality valuation premium to the market is very stable despite strong performance year to date.

## Performance in focus: Clear winners and Losers

In Q1, Min Volatility, Quality and Momentum dominated across regions while Size and Value mostly suffered. In this quarter,

- Size led the way in all regions but Emerging Markets
- Momentum and Quality followed, keeping up with the market across regions with Momentum performing very strongly in Emerging Markets.
- Min Volatility trailed in most regions

- Value and High Dividend continued to suffer failing to rebound after a lacklustre first quarter

Figure 1: Equity Factor Outperformance in Q2 2020 across regions

	World Q2 2020: 19.4%	USA Q2 2020: 20.4%	Europe Q2 2020: 12.6%	Emerging Markets Q2 2020: 18.1%
High Dividend	-8.3%	-8.1%	-1.8%	-8.6%
Minimum Volatility	-9.5%	-7.7%	-4.3%	-5.7%
Momentum	2.6%	3.1%	2.6%	20.3%
Quality	0.3%	-0.8%	-0.8%	-1.4%
Size	5.2%	6.6%	6.1%	9.1%
Value	-8.3%	-5.0%	2.9%	-9.9%

Source: WisdomTree, Bloomberg. 31st March 2020 to 30th June 2020.

**Historical performance is not an indication of future performance and any investments may go down in value.**

Both Quality and Momentum benefitted from their overweight in the best sector for the quarter; Information & Technology, but they also suffered from their underweight in Consumer Discretionary which was the second-best sector.

**The first half of 2020 favoured the all rounders**

Looking back to this eventful first half of the year, two factors only have managed to deliver positive outperformance across regions: Momentum and Quality. Both factors managed to cushion the drawdown and then follow the market in its rebound. Min Volatility, on the other hand, did well in the market crash but failed to rebound leaving its proponents with underperformance in all regions but in Europe. Size similarly benefited from a blistering second quarter but that did not compensate from such a bruising start of the year.

Figure 2: Equity Factor Outperformance Year to Date across regions



Source: WisdomTree, Bloomberg. 31st December 2019 to 30th June 2020.

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**Valuations are up across the board**

Following large moves in equity prices, valuation ratios have been changing quickly over the quarter. After getting cheaper in Q1, all factors have become more expensive over this quarter following a sharp rebound in the performance that outpaced analysts earning revisions. However, there have been large discrepancies between the different factors:

- Size got more expensive a lot faster than the market and any other factors. In fact Size's P/E ratio (Price-to-Earnings) is more than 10 points more expensive than its benchmark, higher than at any other time in the last 3 years.
- Momentum also got more expensive relative to the market following its strong performance this quarter. In Emerging Market, the change is drastic with a move from 12.5 to 34.6 in 3 months
- The rest of the factor became more expensive in absolute value but got cheaper relative to the overall market.
- Quality continues to exhibit very stable multiples with a current premium of less than 1 point versus the MSCI World.

Figure 3: Historical Evolution of Price to Earnings ratios of Equity Factors



Source: WisdomTree, Bloomberg. As of 30th June 2020. Historical Data represents the last 3 years from 30th June 2017 to 30th June 2020.

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**Could factor momentum benefit quality and momentum?**

Academics have been showing the existence of factor momentum from one quarter to the next. i.e. the tendency from the best factors in one period to continue to do well in

the next one.

Q2 2020, did not break the rule with 2 factors staying in the top 3. In fact, over the last year, Quality has trusted the podium in every quarter and momentum is now well in place. Both factors could therefore benefit from this momentum effect going into the second half of the year.

**Figure 4: Factor Momentum, the 3 best factors in the 4 quarters**

	Q3 2019	Q4 2019	Q1 2020	Q2 2020
<b>Best</b>	Minimum Volatility	Quality	Momentum	Size
<b>2nd Best</b>	Quality	Size	Quality	Momentum
<b>3rd Best</b>	High Dividend	Value	Minimum Volatility	Quality

Source: WisdomTree, Bloomberg. 30th June 2019 to 30th June 2020. MSCI World Factors are considered.

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Looking forward to the 3rd quarter, the uncertainty is still very high in the market, practitioners are split between bears and bulls, the divide between wall Street and Main Street is at an all-time high and talk of a U-Shape recovery has been growing. Whatever the view, it stands to reason that all-weather factors such as quality and momentum, could continue to do well in the next quarter.

World is proxied by MSCI World net TR Index. US is proxied by MSCI USA net TR Index. Europe is proxied by MSCI Europe net TR Index. Emerging Markets is proxied by MSCI Emerging Markets net TR Index. Minimum Volatility is proxied by the relevant MSCI Min Volatility net total return index. Quality is proxied by the relevant MSCI Quality net total return index. Momentum is proxied by the relevant MSCI Momentum net total return index. High Dividend is proxied by the relevant MSCI High Dividend net total return index. Size is proxied by the relevant MSCI Small Cap net total return index. Value is proxied by the relevant MSCI Enhanced Value net total return index.

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