

A QUARTERLY REVIEW OF EQUITY MARKETS WITH WISDOMTREE

April 2020

Equity investors started 2020 as they ended 2019, with a succession of new highs, a continuation of the decade-long rally and even some of the big name tech stocks hitting the trillion-dollar market cap. Despite mounting uncertainties and the inevitability of a looming correction, no one could have predicted the next 6 weeks. A quarter of the world population in lockdown, Crude Oil down more than 60%¹ and the fastest bear market in history sent a shockwave through the financial markets. And yet, the end of the quarter saw equity market rebound to finish the quarter down merely 20% despite the world economy having been all but shut down for a month already.

After those 3 chaotic months, it is time to reflect and analyse the impact of recent events on our investments and our portfolios. Within equity markets, regions, industries and factors have fared very differently over this period. This first instalment of WisdomTree Quarterly Equity Factor Review² aims to shed some lights on Equity Factors and their behaviours:

- + Across all regions, in Q1, 3 factors have led the pack performance-wise: Momentum, Quality and Minimum Volatility.
- + Those factors have outperformed the market over the quarter and in each of the 3 respective calendar months as well
- + Most Equity Factors' Price to Earnings ratio went down compared to the MSCI World this month with the exception of Value.
- + Quality valuation premium to market is very stable despite a strong performance in the recent past
- + Quality and Momentum benefitted from their sector allocation over the quarter.

Performance in focus, clear winners and losers

Starting our review with performance, across regions the picture is the same. Momentum, Minimum Volatility and Quality have delivered outperformance in all 4 regions versus the relevant market cap weighted benchmark. In Global Equities, US Equities and European Equities, Momentum did best. In Emerging Market Equities, Minimum Volatility performed the best. High Dividend, Value and Size, on the other hand, have all underperformed. High Dividend delivered slight underperformance in developed equities and a slightly deeper dip in emerging markets. Size and Value both performed significantly under benchmark in most cases with high single digit underperformance or even double digits in some case.

¹ Source: WisdomTree, Bloomberg. Bloomberg WTI Crude Subindex TR. As of April 20th 2020.

² Definitions of each factor are available at the end.

FIGURE 1: EQUITY FACTOR OUTPERFORMANCE IN Q1 2020 ACROSS REGIONS

	World Q1 2020: -21.1%	USA Q1 2020: -19.7%	Europe Q1 2020: -22.6%	Emerging Markets Q1 2020: -23.6%
High Dividend	-0.8%	-1.8%	-2.9%	-2.9%
Minimum Volatility	5.5%	2.4%	6.5%	3.7%
Momentum	6.6%	4.7%	9.2%	0.0%
Quality	5.7%	4.6%	7.0%	1.7%
Size	-9.0%	-11.6%	-6.3%	-7.8%
Value	-5.7%	-9.7%	-7.3%	-1.1%

Source: WisdomTree, Bloomberg. 31st December 2019 to 31st March 2020. More details on the factors used in the figure are available at the end. **Historical performance is not an indication of future performance and any investments may go down in value.**

Over such a tricky quarter, the performance of Minimum Volatility and Quality was to be expected as they are both defensive factors by nature. Momentum, however, has delivered above expectations.

FIGURE 2: US FACTORS CALENDAR MONTH OUTPERFORMANCE (VS S&P 500)

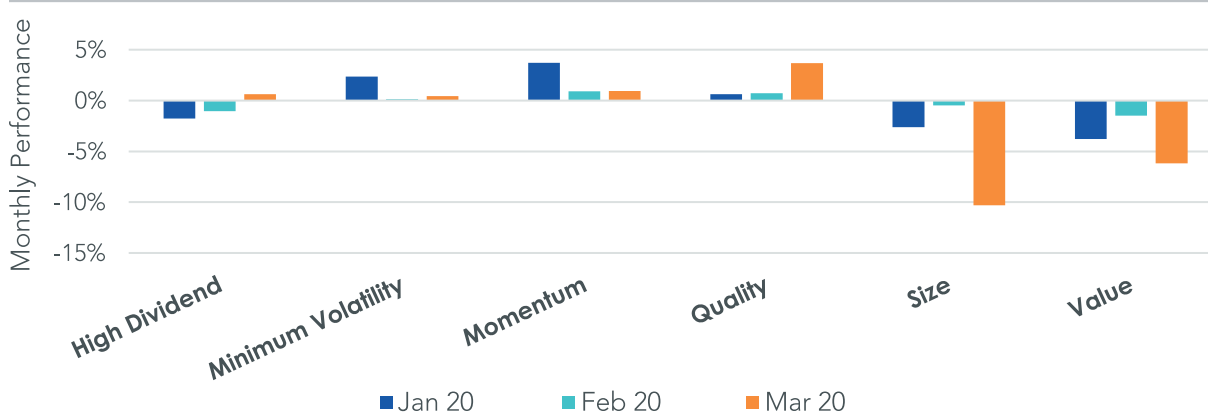
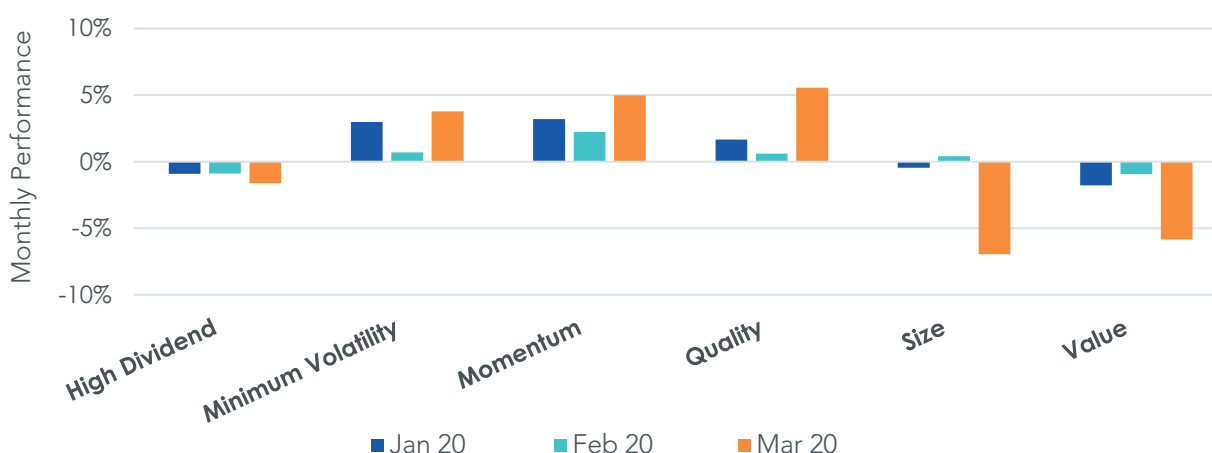


FIGURE 3: EUROPE FACTORS CALENDAR MONTH OUTPERFORMANCE (VS MSCI EUROPE)



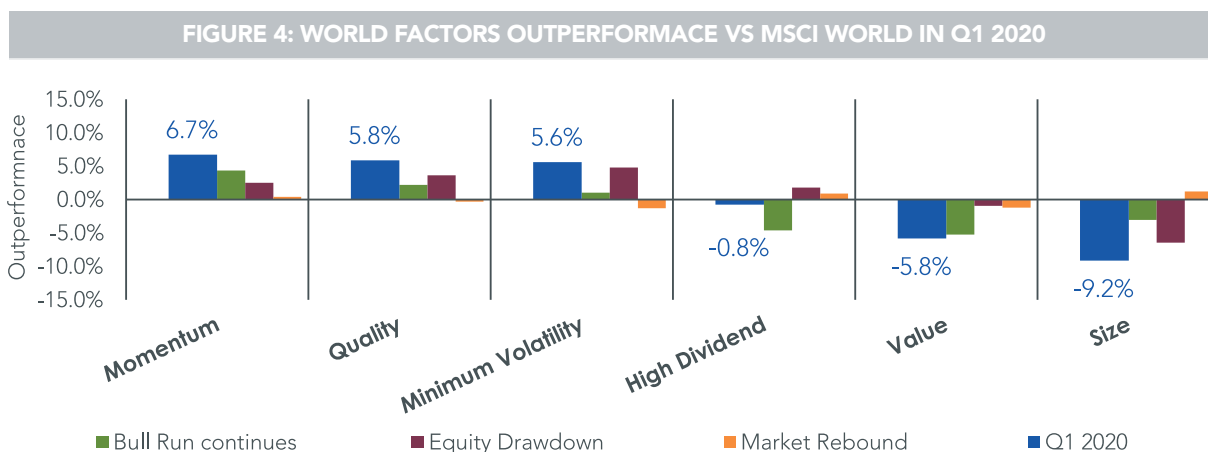
Source: WisdomTree, Bloomberg. 31st December 2019 to 31st March 2020. More details on the factors used in the figure are available at the end. **Historical performance is not an indication of future performance and any investments may go down in value.**

Focusing on calendar month performance, January has been a good month for Momentum and Minimum Volatility. March, because of the sharp downdraft followed by the sharp upward move in the market, has played towards the strength of an all-weather type factor like Quality deliver strong performance and cost Value and Size a large amount of underperformance. In February results across the board have been more muted. However, interestingly enough, the 3 factors that have done well in the quarter, have delivered outperformance in each of the month as well creating an incredible picture of regularity across a very bumpy period for markets.

Performance in focus, a regime analysis

As discussed in the introduction, the first quarter of the year is very neatly split into 3 distinct periods:

- + The decade-long Bull Run continues – 31 December to 19th February
- + The Equity Drawdown – 19th February to 23rd March
- + The Market Rebound – 23rd March to 31st March



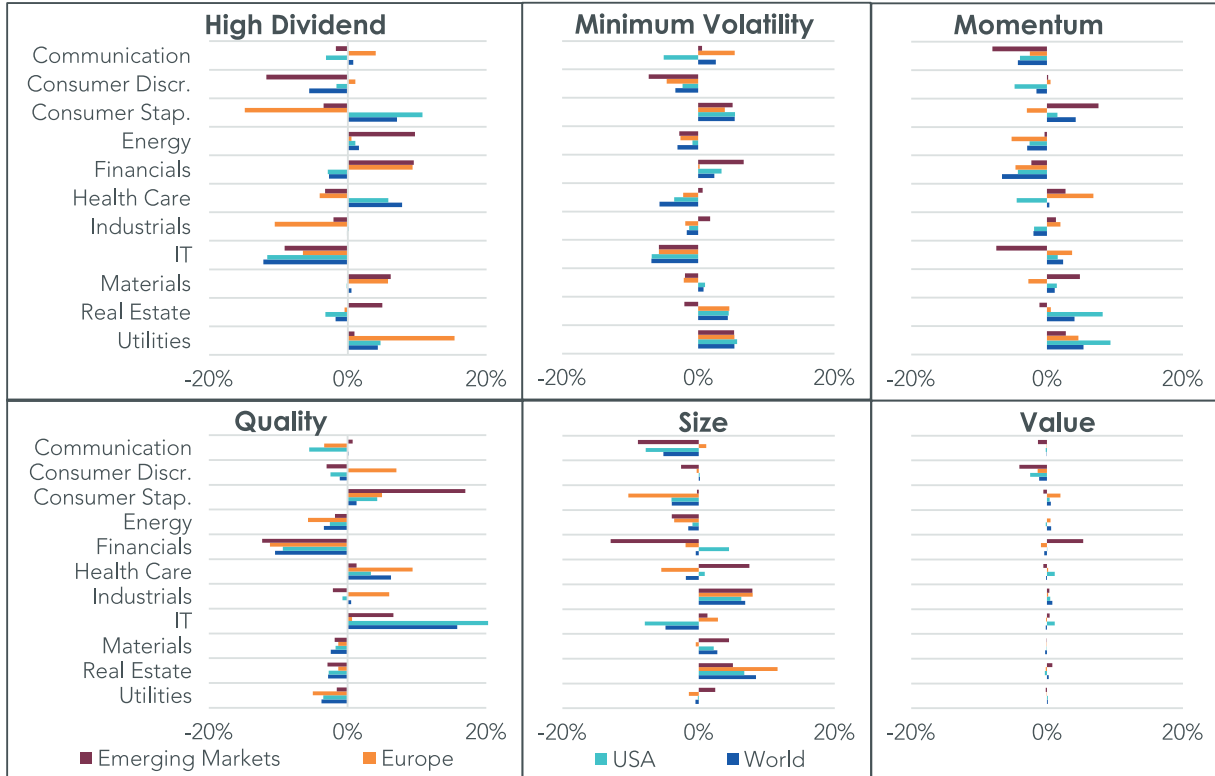
Source: WisdomTree, Bloomberg. 31st December 2019 to 31st March 2020. More details on the factors used in the figure are available at the end. **Historical performance is not an indication of future performance and any investments may go down in value.**

Looking at the performance of factors in those 3 phases, we observe that the best factors have changed over time. In the bull run, Momentum won followed by Quality. In the drawdown, Min Vol did best then Quality with Momentum further behind. And finally, in the rebound, Size did best followed by High Dividend. So, Momentum benefitted from its strong performance in the first phase, Min Volatility benefitted from its strong performance in the second phase and Quality benefitted from a decent performance in each period (2nd, 2nd and 4th across the 3 periods). This clarifies our previous observations; Momentum, as would be expected, was perfectly positioned to benefit from an established trend. Minimum Volatility really showed strength during the worst of the storm and Quality benefitted from its all-weather behaviour to ride the sharp directional changes.

Sector allocations of factors are similar across regions

Sector allocation in equity factor is an interesting topic. Some equity factors have relatively stable overweight and underweight like Minimum Volatility for example and some have always changed allocations like Momentum. Across regions, and for the same factors, there are variations but overall, the overweights and underweights are pretty similar. Looking back at Q1, it is clear that Quality and Momentum have benefitted from their sector allocation. Quality is overweight the 3 sectors that have performed best in global equities (Health Care, IT and Consumer Staples) and is underweight the 3 sectors that performed the worst (Materials, Financials and Energy). Interestingly enough, Minimum Volatility did well but its sector allocation was not that helpful.

FIGURE 5: SECTOR EXPOSURE OF EQUITY FACTORS ACROSS THE GLOBE (VERSUS BENCHMARK)

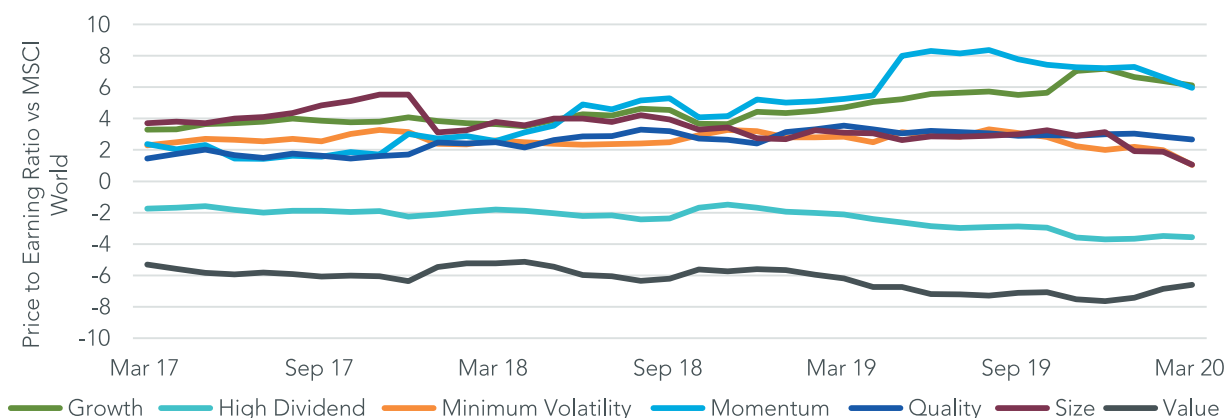


Source: WisdomTree, Bloomberg. As of 31st March 2020. More details on the factors used in the figure are available at the end. Exact figures can be found in Annex. **Historical performance is not an indication of future performance and any investments may go down in value.**

Valuations are down across the board

Following large moves in equity prices, valuation ratios of equity factors have been changing quickly over the quarter. Most equity factors have been getting cheaper versus their benchmarks. Momentum and Growth have been getting cheaper but from historical high levels of valuation premiums. Size and High Dividend are continuing their years long cheapening measured against benchmarks. Quality overall is the most stable with a constant premium of 2 over the benchmark. Counterintuitively, and despite a strong underperformance, Value got more expensive over the last 3 months.

FIGURE 6: LAST 3Y PRICE TO EARNINGS RATIOS OF GLOBAL EQUITY FACTORS (VS MSCI WORLD)



Source: WisdomTree, Bloomberg. 31st March 2017 to 31st March 2020. Exact figures can be found in Annex. More details on the factors used in the figure are available at the end. **Historical performance is not an indication of future performance and any investments may go down in value.**

FIGURE 7: EQUITY FACTORS PRICE TO EARNINGS RATIO AND THEIR QUARTERLY CHANGES ACROSS REGIONS

	World		USA		Europe		Emerging Markets	
	P/E Ratio	Δ3Months	P/E Ratio	Δ3Months	P/E Ratio	Δ3Months	P/E Ratio	Δ3Months
Market	15.8	↓ -2.4	17.0	↓ -2.7	14.0	↓ -1.7	11.8	↓ -2.8
High Dividend	12.2	↓ -2.3	13.4	↓ -2.9	11.0	↓ -1.7	8.2	↓ -1.4
Minimum Volatility	16.8	↓ -3.4	17.4	↓ -4.0	16.6	↓ -2.2	12.4	↓ -3.0
Momentum	21.8	↓ -3.7	21.8	↓ -4.9	18.9	↓ -3.1	12.7	n.a.
Quality	18.5	↓ -2.8	18.4	↓ -3.1	18.7	↓ -2.2	16.6	↓ -2.3
Size	16.9	↓ -4.5	19.7	↓ -4.6	13.7	↓ -5.2	10.2	↓ -5.2
Value	9.2	↓ -1.4	10.0	↓ -1.8	9.6	↓ -1.8	6.5	↓ -1.9

Source: WisdomTree, Bloomberg. As of 31st March 2020. Exact figures can be found in Annex. More details on the factors used in the figure are available at the end. **Historical performance is not an indication of future performance and any investments may go down in value.**

Looking forward to Q2, academics have shown the existence of a momentum effect in factor performance¹ i.e. a persistent of good (or bad) returns from one period to the next. Such momentum signal could then bode well for our 3 winners in Q2: Momentum, Quality and Minimum Volatility. Also with uncertainty continuing over the Covid-19 situation and its impact on the global economy, defensive assets like Minimum Volatility, Quality and High Dividend could continue to benefit.

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.

APPENDIX

Sector Exposures of Equity Factor across the Globe (versus Market Cap Benchmark)

	High Dividend				Minimum Volatility			
	World	USA	Europe	Emerging Markets	World	USA	Europe	Emerging Markets
Utilities	5.3%	4.7%	15.4%	1.0%	5.3%	5.7%	5.3%	5.3%
Real Estate	4.3%	-3.2%	-0.4%	5.0%	4.3%	4.5%	4.5%	-2.1%
Materials	0.8%	-0.2%	5.8%	6.2%	0.8%	1.0%	-2.2%	-2.0%
IT	-6.9%	-11.6%	-6.5%	-9.1%	-6.9%	-6.8%	-5.8%	-5.8%
Industrials	-1.7%	0.2%	-10.5%	-2.1%	-1.7%	-1.3%	-1.9%	1.7%
Health Care	-5.7%	5.9%	-4.0%	-3.3%	-5.7%	-3.6%	-2.2%	0.7%
Financials	2.4%	-2.9%	9.4%	9.5%	2.4%	3.4%	0.2%	6.7%
Energy	-3.1%	1.1%	0.5%	9.7%	-3.1%	-0.9%	-2.6%	-2.8%
Consumer Stap.	5.3%	10.8%	-14.8%	-3.5%	5.3%	5.4%	3.9%	5.0%
Consumer Discr.	-3.4%	-1.6%	1.1%	-11.8%	-3.4%	-2.3%	-4.6%	-7.3%
Communication	2.6%	-3.1%	4.1%	-1.7%	2.6%	-5.1%	5.4%	0.5%

	Momentum				Quality			
	World	USA	Europe	Emerging Markets	World	USA	Europe	Emerging Markets
Utilities	5.4%	9.3%	4.6%	2.7%	-3.8%	-3.5%	-5.0%	-1.6%
Real Estate	4.1%	8.2%	0.6%	-1.1%	-2.8%	-2.7%	-1.3%	-2.9%
Materials	1.1%	1.4%	-2.8%	4.9%	-2.4%	-1.7%	-1.4%	-1.9%
IT	2.3%	1.6%	3.7%	-7.5%	15.8%	21.0%	0.6%	6.6%
Industrials	-2.0%	-1.9%	2.0%	1.3%	0.5%	-0.8%	6.0%	-2.1%
Health Care	0.3%	-4.5%	6.8%	2.7%	6.3%	3.4%	9.4%	1.3%
Financials	-6.7%	-4.3%	-4.6%	-2.3%	-10.5%	-9.4%	-11.2%	-12.3%
Energy	-2.9%	-2.6%	-5.2%	-0.4%	-3.4%	-2.6%	-5.7%	-1.8%
Consumer Stap.	4.2%	1.5%	-3.0%	7.6%	1.3%	4.3%	4.9%	17.0%
Consumer Discr.	-1.6%	-4.8%	0.5%	0.2%	-1.1%	-2.5%	7.0%	-3.0%
Communication	-4.3%	-4.0%	-2.5%	-8.0%	0.1%	-5.5%	-3.4%	0.7%

	Size				Value			
	World	USA	Europe	Emerging Markets	World	USA	Europe	Emerging Markets
Utilities	-0.5%	-0.1%	-1.4%	2.5%	0.1%	0.1%	-0.1%	-0.2%
Real Estate	8.4%	6.7%	11.6%	5.0%	0.3%	-0.3%	-0.2%	0.8%
Materials	2.8%	2.2%	-0.4%	4.5%	-0.3%	-0.1%	-0.1%	-0.1%
IT	-4.9%	-7.9%	2.8%	1.3%	-0.2%	1.1%	-0.2%	0.4%
Industrials	6.8%	6.3%	8.0%	7.9%	0.8%	0.5%	0.2%	0.3%
Health Care	-1.9%	0.9%	-5.5%	7.5%	-0.1%	1.1%	0.2%	-0.6%
Financials	-0.4%	4.5%	-1.9%	-12.9%	-0.4%	0.0%	-0.9%	5.3%
Energy	-1.5%	-0.9%	-3.6%	-3.9%	0.6%	-0.2%	0.5%	0.0%
Consumer Stap.	-3.9%	-4.0%	-10.4%	-0.2%	0.6%	0.4%	2.0%	-0.6%
Consumer Discr.	0.2%	0.2%	-0.3%	-2.6%	-1.2%	-2.5%	-1.4%	-4.1%
Communication	-5.2%	-7.8%	1.1%	-8.9%	-0.1%	-0.2%	0.0%	-1.4%

Source: WisdomTree, Bloomberg, MSCI. As of 31st March 2020

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