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August 26, 2026

WisdomTree's Equity Market Outlook:
Where We Are and Where We're Going

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WISDOMTREE®

August 26th, 2026

WisdomTree's Equity Market Outlook: Where We Are and Where We're Going

Brian Manby, CFA
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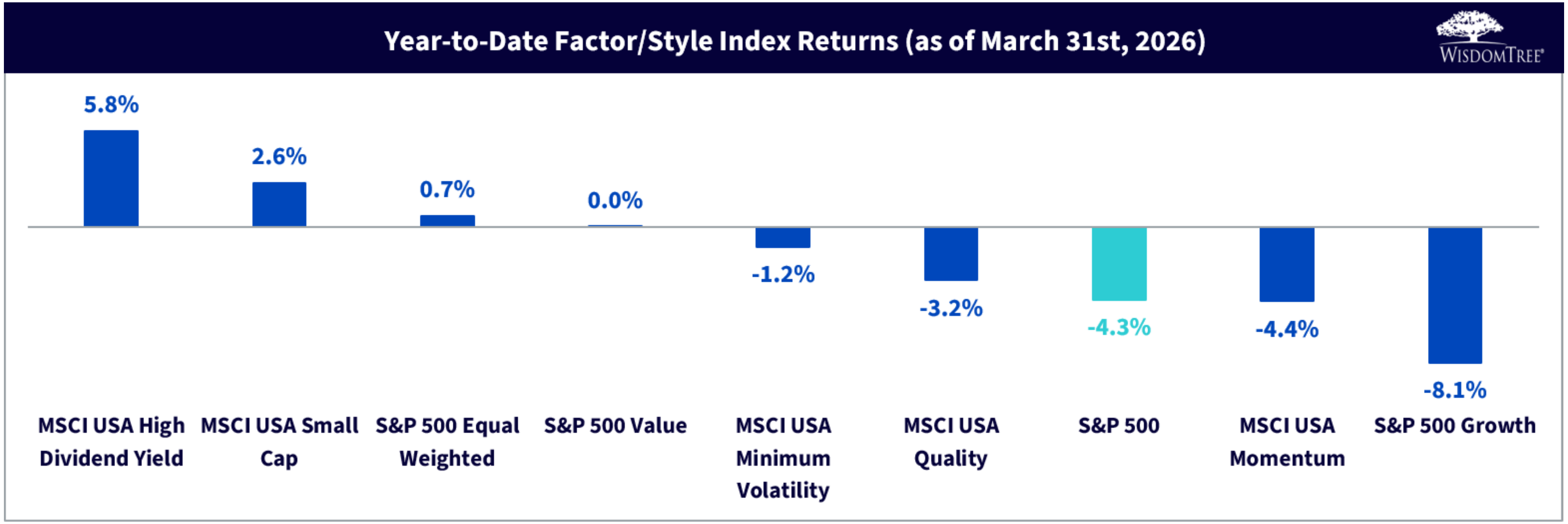
WISDOMTREE®

Where We ***Were***

A Tale of Two Markets: Q1 2026

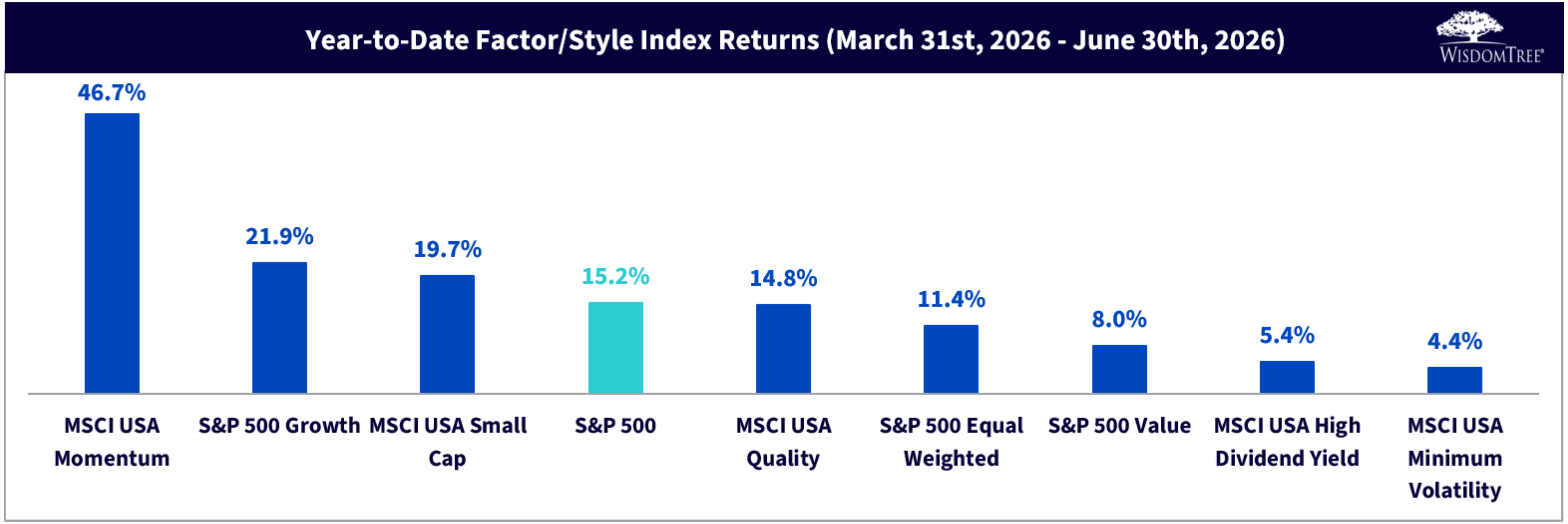
The first quarter of 2026 marked a reversal from the equity factor and style leadership trends that characterized 2025 and the prior few years. **Quality** and **Value** outperformed the broader U.S. market, while **Growth** and **Momentum** (the two leaders from 2025) fell out of favor amid on the onset of war in the Middle East. **Small caps** and large **dividend-payers** disproportionately benefited for the first time in recent memory.



Source: WisdomTree, S&P, MSCI, as of March 31st, 2026. Past performance is not indicative of future results. You cannot invest directly in an index.

A Tale of Two Markets: Q2 2026

After the market low on March 30th, however, leadership completely reversed and quickly resembled 2025's pattern. **Growth** and **Momentum** roared back to produce historic gains, led by stocks closely tied to the artificial intelligence (AI) buildout. This cohort included semiconductor manufacturers, memory companies, data center operators, and others linked to the emergence, enablement and deployment of AI. Consequently, **Quality**, **Value** and **dividend-payers** fell behind the broader market.

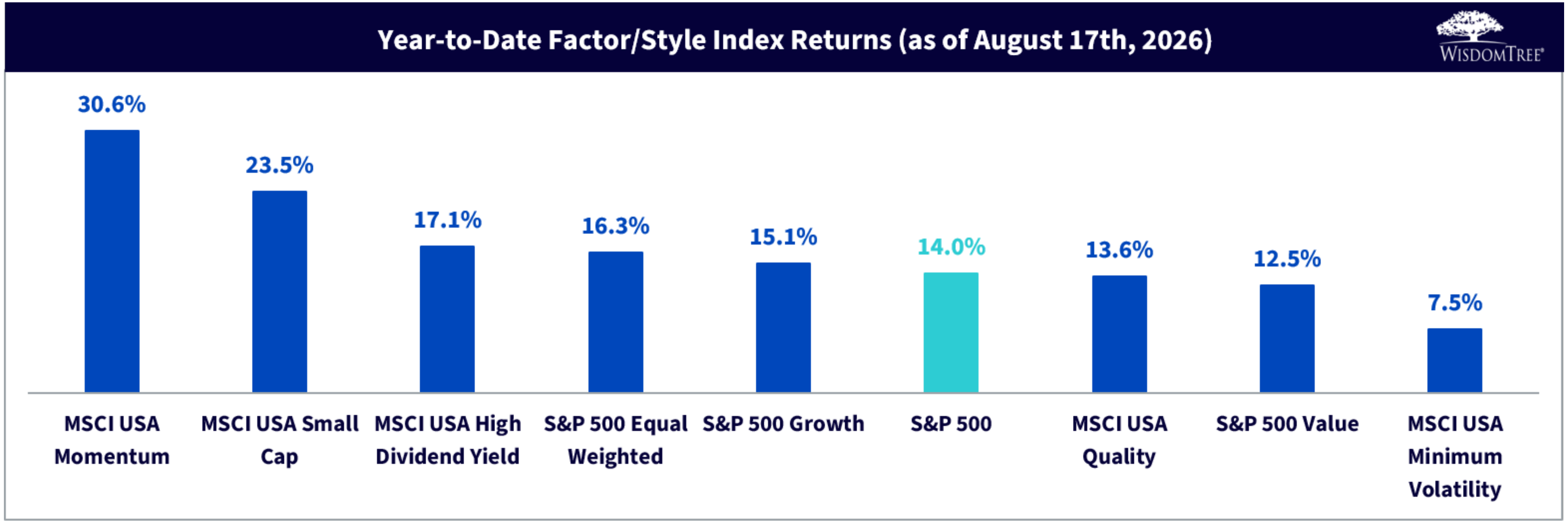


Source: WisdomTree, S&P, MSCI, as of June 30th, 2026. Past performance is not indicative of future results. You cannot invest directly in an index.

Where We *Are*

A Tale of Two Markets: YTD 2026

Q2’s leadership themes dissipated to some extent by the end of June and through July, leaving a unique trio of winners (**Momentum**, **Small Caps**, & **High Dividends**) while traditional styles (**Growth**, **Value**, & **Quality**) closely resemble the broader equity market. We’re observing broader market participation for the first time in years, with the **equal-weighted S&P 500** leading the market capitalization-based version.

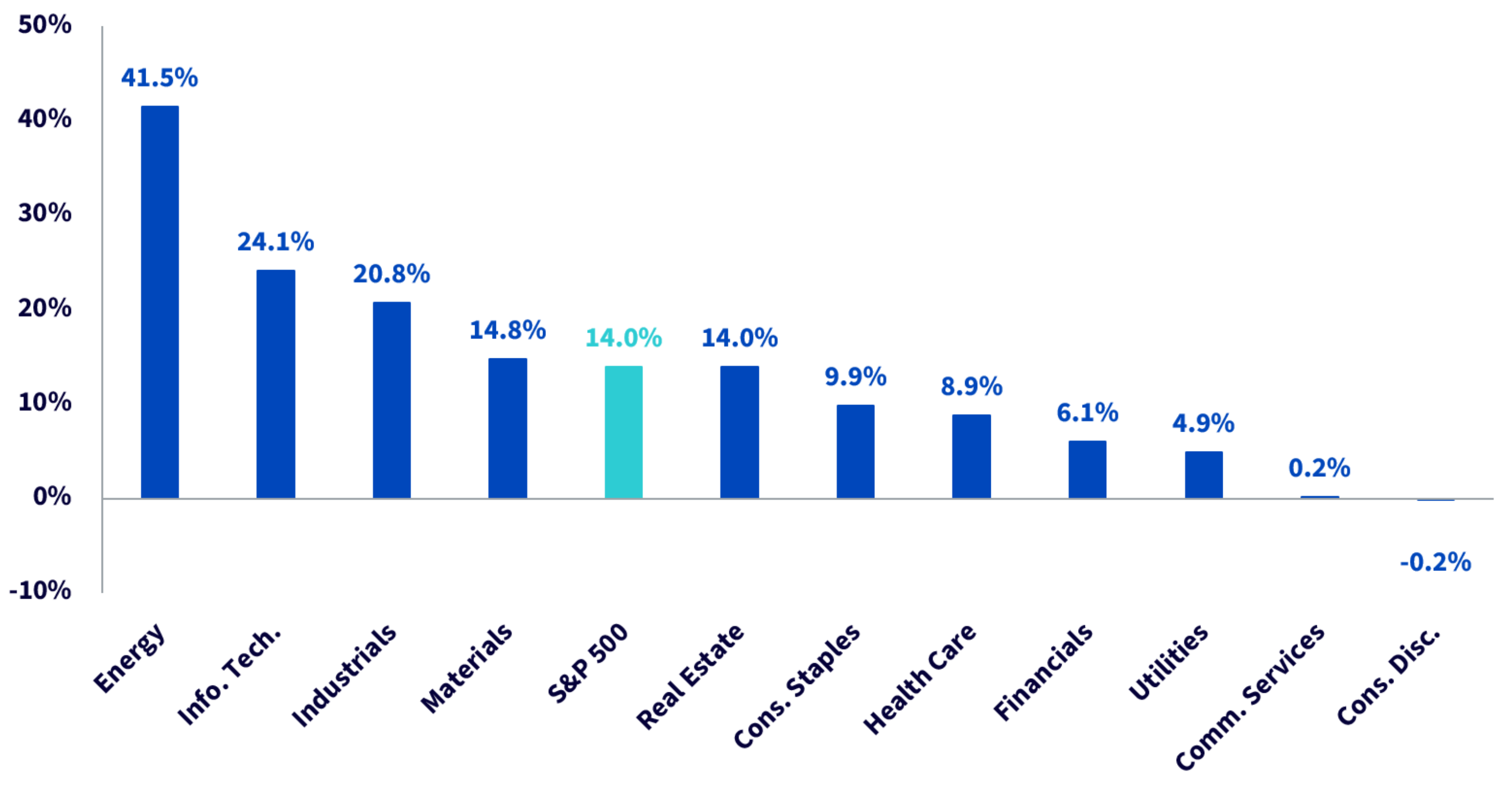


Source: WisdomTree, S&P, MSCI, as of August 17th, 2026. Past performance is not indicative of future results. You cannot invest directly in an index.

2026 Sector Leadership: Tech. Enjoying Further Outperformance, While Certain Cyclicals Finally Regain Steam vs. the Broader Market

- **Year-to-date sector leadership has been defined by a few cyclicals.**
  - **Energy** shares have skyrocketed this year, fueled by higher oil prices stemming from the war in the Middle East. Ongoing transit disruption in the Strait of Hormuz maintains a high price floor for crude oil.
  - Other economic growth bellwethers – **Industrials** and **Materials** – are enjoying relative outperformance versus the broader market.
  - But **Information Technology** remains a darling, owing to its close association with the nascent AI buildout.

Year-to-Date Total Returns for S&P 500 GICS® Sectors

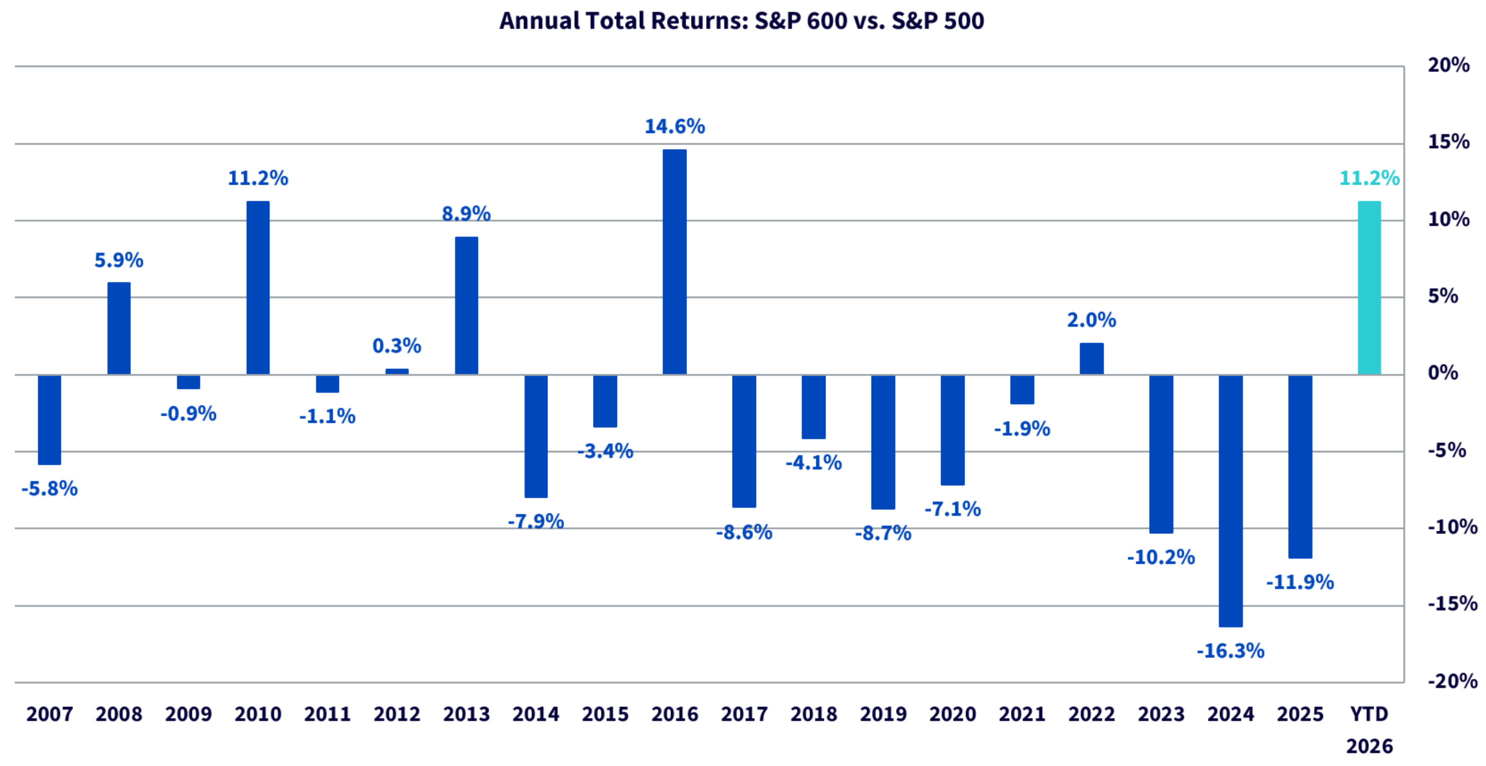


Source: WisdomTree, S&P. YTD Total Return as of August 17th, 2026. Past performance is not indicative of future results. You cannot invest directly in an index.

A Broadening Equity Rally: U.S. Small Caps on Pace for Strongest Outperformance in a Decade

- **Small caps have notched a double-digit performance advantage year-to-date versus large caps.**
  - Should this hold, it will mark the first period of outperformance since 2022 and the first *meaningful* outperformance since 2016.
  - More importantly, it will be a much-needed reprieve: From 2023 to 2025, small caps underperformed large caps by double-digits each year.

Small Caps On Track for Best Outperformance vs. Large Caps Since 2016, and First Since 2022



Source: WisdomTree, S&P as of August 17th, 2026. Past performance is not indicative of future results. You cannot invest directly in an index.

Where We *May Be Going*

Corporate Fundamentals Show No Sign of Slowing Down

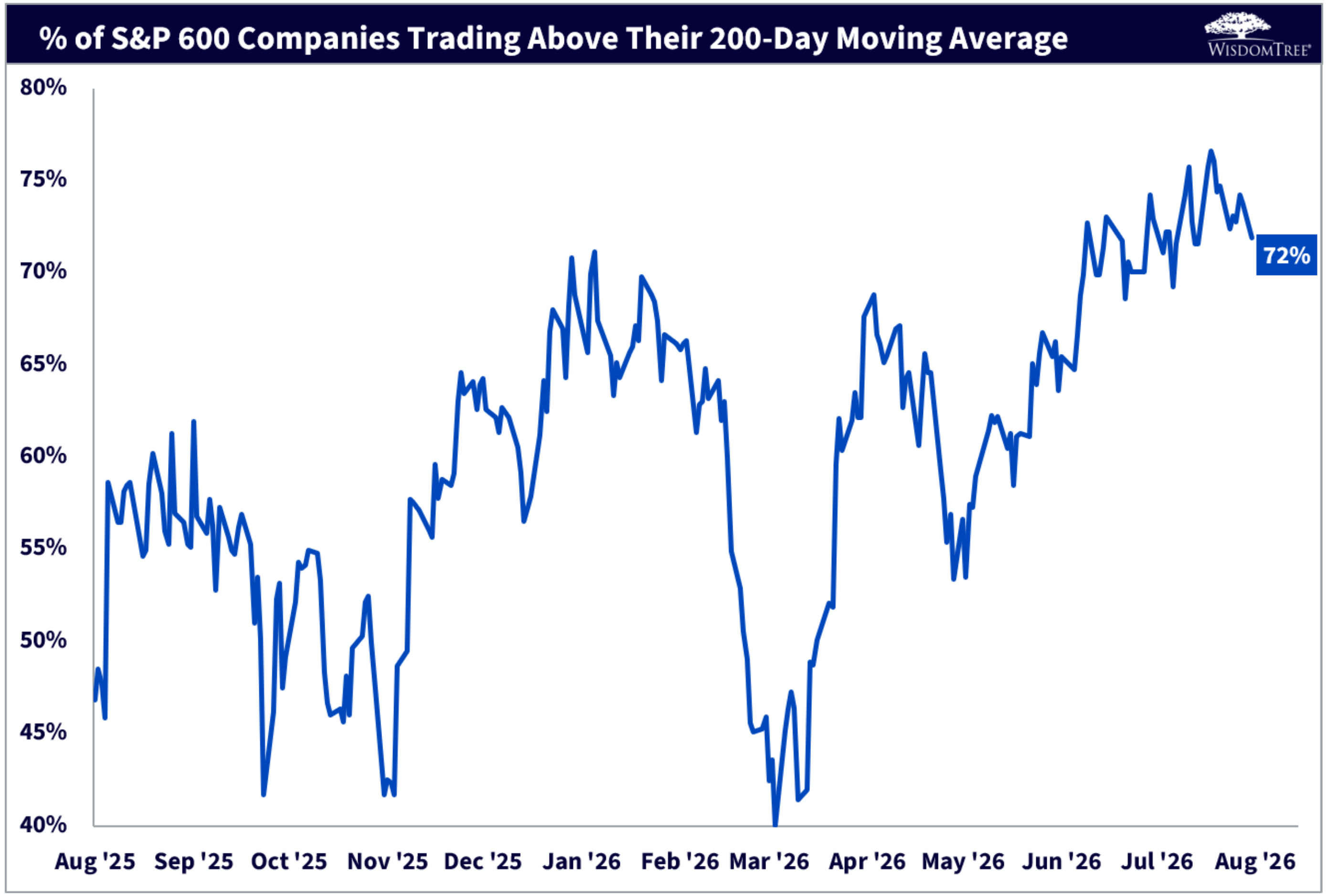
WisdomTree®

+ **The S&P 500 just produced one of the best quarterly earnings results on record,** delivering an astounding 39% earnings growth compared to Q2 2025.
  + 76% of companies beat their consensus earnings estimates, well above the 10-year median beat percentage of 72%. Industrials led all sectors with an 86% beat rate.
  + Meanwhile, 2027 earnings estimates for the S&P 500 remain in double-digit territory, approaching 20%.
  + While it will be difficult to duplicate Q2's strong results in Q3 2026 and beyond, we're convinced that corporate fundamentals remain healthy and profitability is strong.

Source: WisdomTree, S&P, FactSet as of August 14th, 2026. Past performance is not indicative of future results. You cannot invest directly in an index.

A Broadening Equity Rally: Small Cap Outperformance Underpinned by Strong Breadth

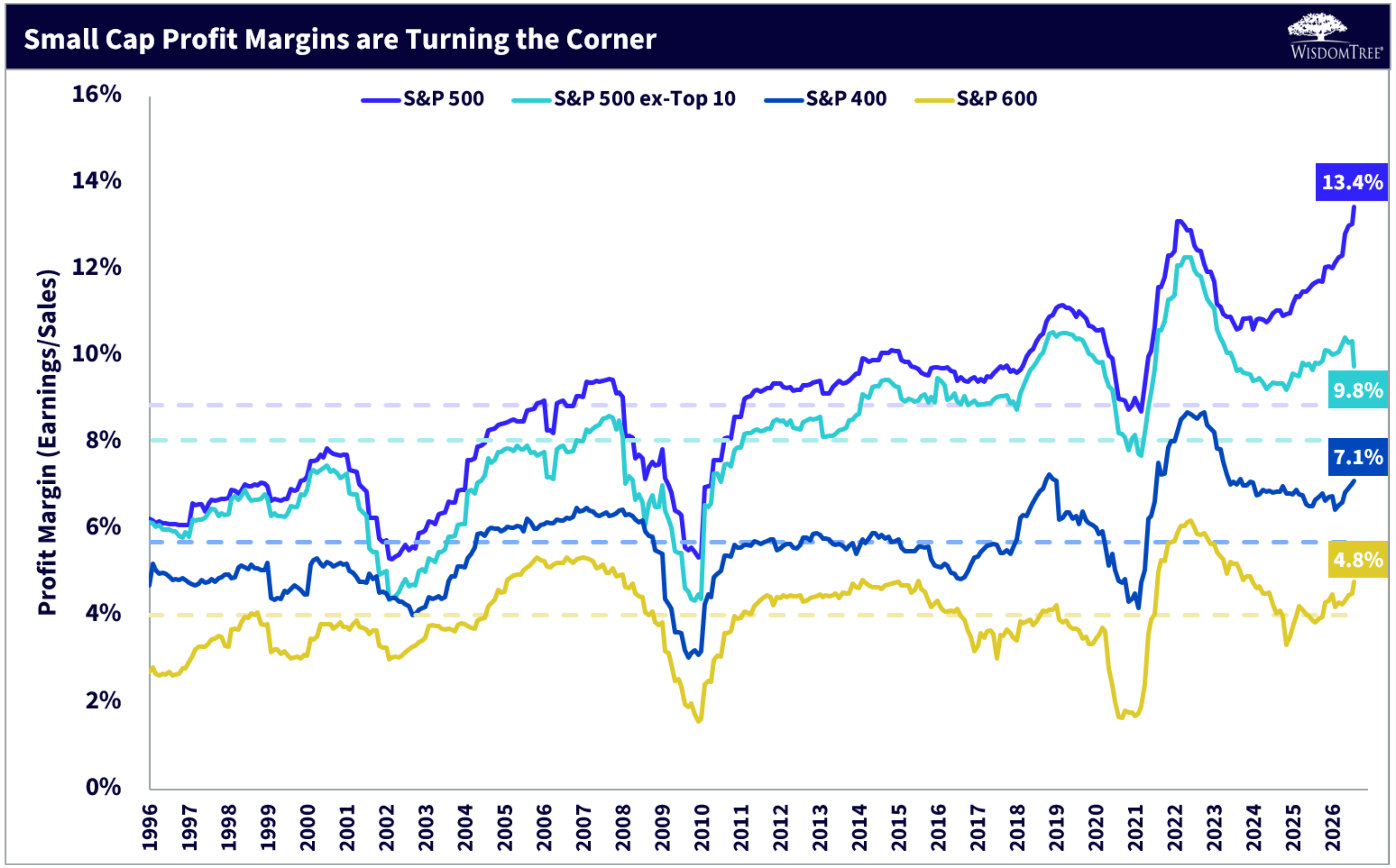
- **Over 70% of S&P SmallCap 600 Index companies are currently trading above their 200-Day Moving Averages (DMA).**
  - This reading is close to its highest level within the past year.
  - Trading above a 200-DMA is often considered a bullish indicator that may extend a recent rally.



Source: WisdomTree, S&P, FactSet as of August 17th, 2026. Past performance is not indicative of future results. You cannot invest directly in an index.

A Broadening Equity Rally: Small Cap Support Also Rooted in Improving Fundamentals & Profitability

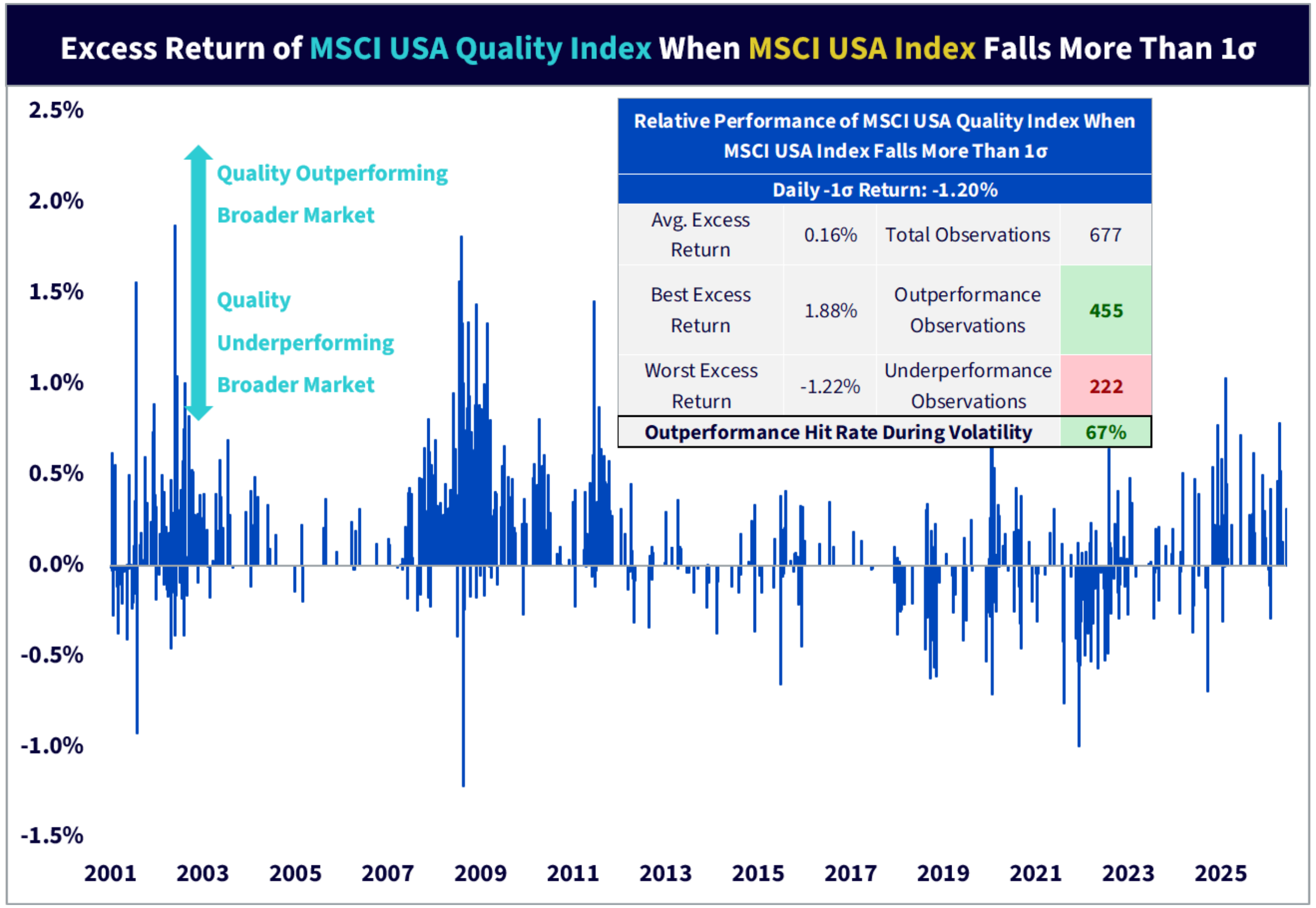
- **Small cap profit margins are finally recovering.** After a few years of steady declines that sent them near, or below, their long-term averages, they're recently trending higher.
    - **Markets appear to have shrugged off the risk that higher interest pose for small cap balance sheets and profitability.** Instead, the 2026 rally suggests the market is betting that small caps can contend with marginally higher rates from this point.



Source: WisdomTree, S&P, FactSet as of August 17th, 2026. Past performance is not indicative of future results. You cannot invest directly in an index.

High-Quality Exposures May Buffer Portfolios During Volatility Flareups

- **Over nearly thirty years, the MSCI USA Quality Index outperformed the broader market two-thirds of the time when the MSCI USA Index fell by one standard deviation (about 1.20%) or more.**
  - High-quality allocations produced about 16 basis points of outperformance, on average, during these volatile sessions.
  - Quality allocations may be valuable, defensive positions during Kevin Warsh's tenure as Chairman of the Federal Reserve, with monetary policy guidance drastically reduced, if not altogether eliminated.



Relative Performance of MSCI USA Quality Index When MSCI USA Index Falls More Than 1σ			
Daily -1σ Return: -1.20%			
Avg. Excess Return	0.16%	Total Observations	677
Best Excess Return	1.88%	Outperformance Observations	455
Worst Excess Return	-1.22%	Underperformance Observations	222
Outperformance Hit Rate During Volatility			67%

Source: WisdomTree, Bloomberg as of August 17th, 2026. Past performance is not indicative of future results. You cannot invest directly in an index.

Important Information

Please see the WisdomTree Glossary for definitions of terms and indexes.

There are risks associated with investing, including possible loss of principal. Using an asset allocation strategy does not assure a profit or protect against loss.