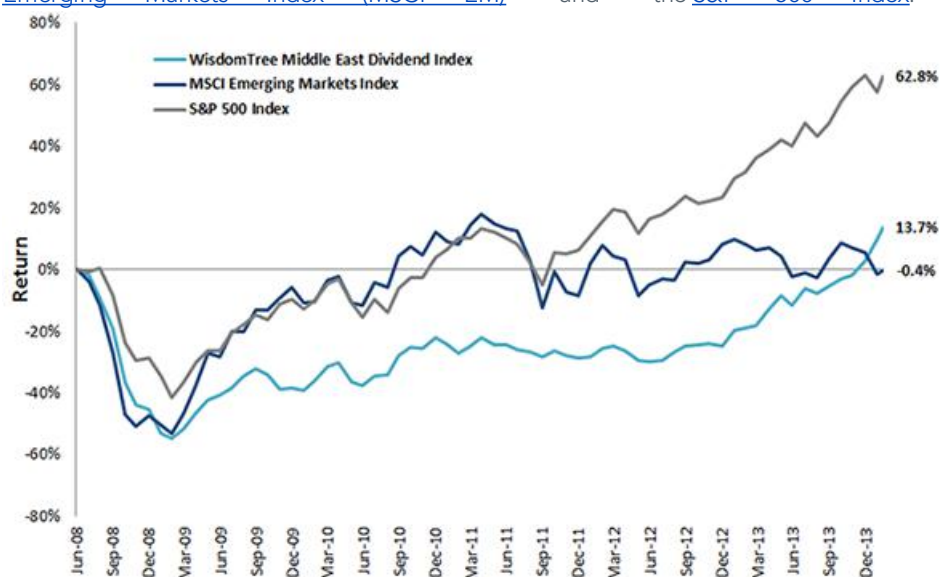


MIDDLE EAST DIVIDEND INDEX REACHES NEW HIGH

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03/05/2014

With the emerging markets embroiled in a storm of currency weakness and disappointing recent performance, some investors have decided to abandon the space, as illustrated by recent asset flows. Consequently, I recently wrote [here](#) that emerging markets remain some of the cheapest markets around the globe and investors shouldn't abandon the asset class but instead focus on the [fundamentals](#) through a rules-based strategy. While it may take time for the negative sentiment to change within traditional emerging markets, I wanted to highlight one standout of relative strength. Interestingly, when one looks at various emerging market countries, a number of the "emerging" emerging markets—or the countries that are often included in frontier market indexes—have diverged from some of the more popular emerging countries. **Middle East Countries Divergence** In May of 2013, I [wrote](#) about the divergence of a few Middle East countries during the first half of last year and suggested there could be further potential gains after Qatar and the United Arab Emirates (UAE) were upgraded to emerging market status by Morgan Stanley Capital International (MSCI). Since then, the region has reached new highs and continues to separate from traditional emerging market indexes. To illustrate this point, I will graph the [WisdomTree Middle East Dividend Index \(WTEMME\)](#) since inception against both the [MSCI Emerging Markets Index \(MSCI EM\)](#) and the [S&P 500 Index](#).



Sources: WisdomTree, Bloomberg (07/01/2008–02/14/2014). You cannot invest directly in an index. Past performance is not indicative of future results.

• WisdomTree Middle East

Dividend Index Reaches New High – The Index finished the most recent calendar year with a gain of over 37%, putting it at an all-time high and pushing its cumulative return since inception into positive territory for the first time. Year-to-date, WTEMME continues to forge new highs, up close to 10.5%, outperforming both the S&P 500 and MSCI EM by over 10% and almost 16%, respectively.¹ **WTEMME Continues to Diverge from MSCI EM** – Since the start of last year, WTEMME has finally started to trend higher after a few years of sideways consolidation, and this improvement started only after it was announced by MSCI in June of 2013 that Qatar and the UAE would be upgraded to emerging market status in June 2014. It is impossible to know what the new country weights are going to be in the future, but we did know that [market participants](#) would need to add exposure to Qatar and the UAE. As a result, it was expected that these markets would converge upon the traditional emerging markets. But the Middle East countries did not stop there; they

continued to move higher even as the emerging markets trended lower. I find this relative strength quite impressive, especially considering the year-to-date action, and I believe there is more to these countries than just the upgrade announcement. • While the Middle East Dividend Index went down nearly 1 for 1 with the emerging markets during the 2008 crisis for drops over 50%, the traditional emerging markets rebounded strongly in 2009 – with gains of over 70%, while the Middle East Dividend Index languished. It is making its way back from the crisis, and real estate and banking in particular have been doing well in the UAE. **Further Reasons to Consider the Middle East** Although the region has recently reached new highs, I think it still remains relatively attractive from a [valuation](#) perspective. WTEMME had a [dividend yield](#) of over 5%, surpassing the S&P 500 and MSCI EM indexes by over 3.1% and 2.3%, respectively. From a [price-to-earnings](#) perspective, WTEMME traded at 11.5x expected earnings, a little above MSCI EM at 9.5x and below the S&P 500 Index at 15.6x.² • **Valuations Remain Attractive after Strong Performance** – The weighted average performance of stocks within WTEMME domiciled in Qatar and the UAE were up over 29% and 99%, respectively.³ Yet stocks within Qatar have a dividend yield of 4.36% and an estimated price-to-earnings ratio of 12.2x, while UAE stocks had a dividend yield of 2.8% and an estimated price-to-earnings ratio of 12.9x.⁴ • **Dividend Growth Supports Valuations** – Firms in the region have recently announced their proposed dividends for the 2013 calendar year, and some of the top weights in WTEMME had signaled for double-digit growth⁵:
 o Qatar National Bank – 16.7% increase
 o Industries Qatar – 29.4% increase
 o First Gulf Bank – 20.0% increase
Potential Diversification Benefits Exposure to these Middle East countries represents a different type of emerging market allocation. This can be illustrated through WTEMME's historically low [correlation](#) with MSCI EM and S&P 500 Index. • 3-Year Monthly Correlation⁶:
 o MSCI EM vs. S&P 500 – 0.77
 o WTEMME vs. S&P 500 – 0.56
 o WTEMME vs. MSCI EM – 0.45
 It is important to remember that regional returns can vary significantly year over year, and it is impossible to time the best-performing region. As a result, we think it is important to remain diversified across the different emerging or frontier countries and not focus just on the traditional countries. The [WisdomTree Middle East Dividend Index](#) tracks dividend-paying stocks in countries that tend to be under-weighted in many investors' portfolios. ¹Sources: WisdomTree, Bloomberg (12/31/2013–02/14/2014). ²Sources: WisdomTree, Bloomberg (02/14/2014). ³Sources: WisdomTree, Bloomberg (12/31/12–12/31/13). ⁴Sources: WisdomTree, Bloomberg (02/14/2014). ⁵WTEMME Index Weight (02/14/14): Qatar National Bank (7.21%), Industries Qatar (7.13%) and First Gulf Bank (6.69%). ⁶Sources: WisdomTree, Zephyr StyleADVISOR (12/31/10–12/31/13).

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You cannot invest directly in an index.

DEFINITIONS

Fundamentals : Attributes related to a company's actual operations and production as opposed to changes in share price.

WisdomTree Middle East Dividend Index : A fundamentally weighted index that measures the performance of companies in the Middle East that pay regular cash dividends on shares of common stock and meet specified requirements as of the Index measurement date. The Index is dividend weighted and updated to reflect market prices and exchange rates.

MSCI Emerging Markets Index : a broad market cap-weighted Index showing performance of equities across 23 emerging market countries defined as "emerging markets" by MSCI.

S&P 500 Index : Market capitalization-weighted benchmark of 500 stocks selected by the Standard and Poor's Index Committee designed to represent the performance of the leading industries in the United States economy.

Market participant : Anyone interacting with the ETFs in some capacity. It can be end investors, market makers, hedgers, authorized participants.

Valuation : Refers to metrics that relate financial statistics for equities to their price levels to determine if certain attributes, such as earnings or dividends, are cheap or expensive.

Dividend yield : A financial ratio that shows how much a company pays out in dividends each year relative to its share price.

Correlation : Statistical measure of how two sets of returns move in relation to each other. Correlation coefficients range from -1 to 1. A correlation of 1 means the two subjects of analysis move in lockstep with each other. A correlation of -1 means the two subjects of analysis have moved in exactly the opposite direction.