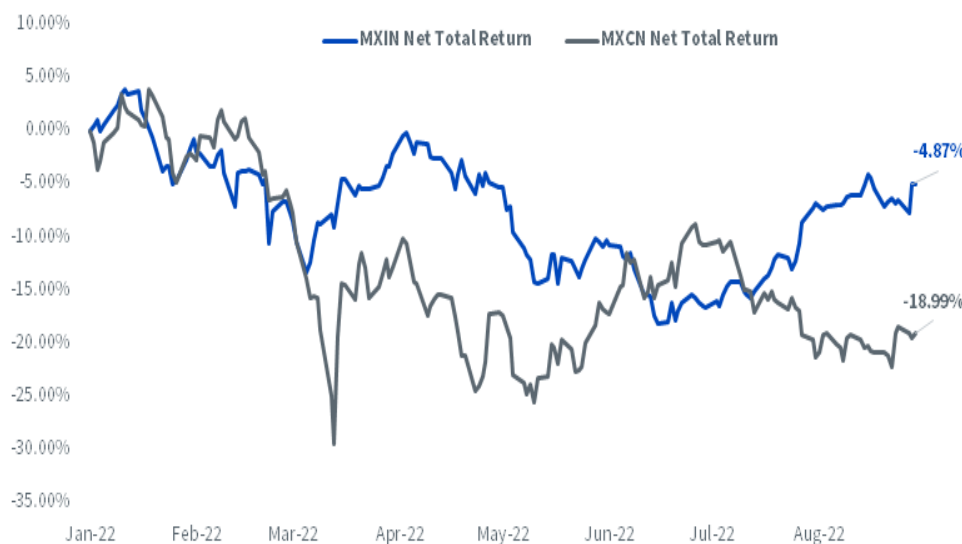


TAKE NOTE: INDIAN EQUITIES ARE ROARING

Hyun Kang — Research Analyst
09/20/2022

The past year has been anything but easy for [emerging markets](#), where equities are facing challenges on multiple fronts. Spiking fuel and energy costs are raising [inflation](#) expectations and interest rates, and a surging U.S. dollar is hurting local currencies.

Year-to-date, the [MSCI Emerging Markets Index \(MXEF\)](#) is down by 16.84%, of which no small portion has been due to floundering Chinese equities.



Sources: WisdomTree, MSCI, 1/3/22–8/31/22. You cannot invest directly in an index. Past performance is not indicative of future returns. MXIN = MSCI India Index. MXCN = MSCI China Index.

Chinese COVID and Regulatory Clampdown

Chinese residents and businesses alike are struggling under uncompromising “zero-COVID” policies, and the [MSCI China Index](#) is down 18.99% this year. All sectors except Energy are down between 9.97% and 30.67%.

The Information Technology and Communication Services sectors are key contributors to the negative performance of the index, due to increasing regulatory measures and probes.

Though months-long total lockdowns placed on major cities like Shanghai have ended, the Chinese government is still enforcing strict COVID controls, such as immediate lockdowns of retail store (along with shoppers) upon discovery of positive cases. Some manufacturers are required to operate under a closed-loop system, where employees live on-site. These ongoing measures have contributed to supply-chain woes, exacerbated by unpredictable demand patterns.

Supply and demand uncertainty in the Chinese economy and strict regulations, coupled with rising geopolitical tensions with the U.S. and Taiwan, are expected to deter hesitant foreign and domestic investors.

Indian Equities Rallying

By comparison, the [MSCI India Index](#) is only down by 4.87% this year and is continuing to outperform most other emerging markets countries, driven by the resilience of its Utilities sector.

The Indian economy has shown a remarkable post-COVID recovery, facilitated by government efforts to ease compliance burdens on businesses and remove redundant policies and laws.

On August 20, the Ministry of Commerce and Industry announced that it simplified almost 20,000 compliances and decriminalized thousands of laws. The significant reduction in red tape is expected to bolster further outperformance and attract investors.

Since the start of Q3 2022, the gap between India’s performance and that of other emerging markets has been widening. The differences are even more glaring when comparing India and China (proxied by the MSCI India and MSCI China indexes, respectively).

India, a major oil importer, has benefited as oil prices have slid over 20% since the middle of June. Lower prices will help temper inflation and mitigate the need for the Reserve Bank of India to aggressively tighten interest rates—a boon to equities.

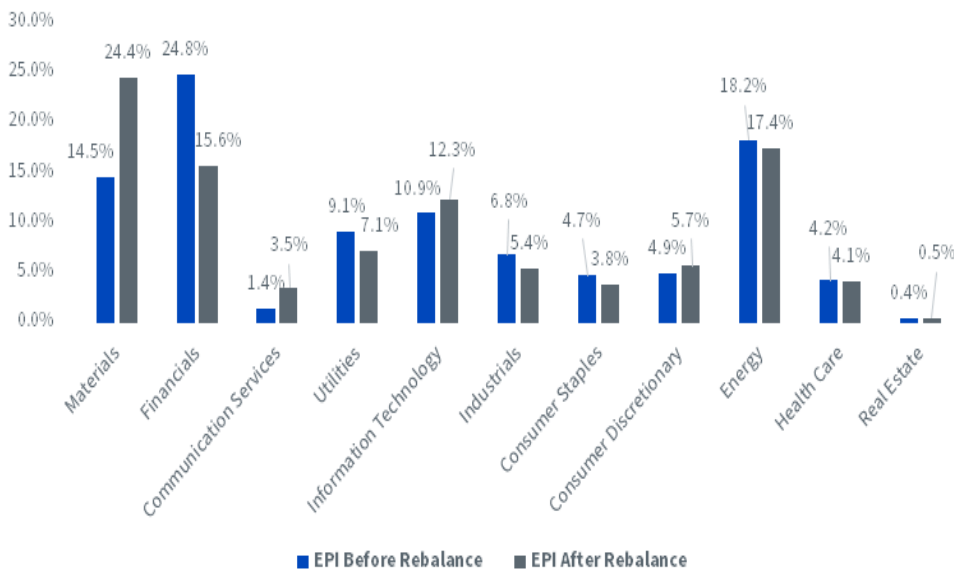
| | 1 Year | Year-to-Date | Quarter-to-Date |
|-----------------------------|---------|--------------|-----------------|
| MSCI India Index | -3.93% | -3.11% | 13.81% |
| MSCI Emerging Markets Index | -22.89% | -19.24% | -2.07% |
| MSCI China Index | -29.83% | -21.07% | -11.71% |
| MSCI ACWI Index | -13.91% | -16.08% | 4.86% |
| MSCI EAFE Index | -19.95% | -19.11% | 0.14% |

Sources: MSCI, 9/10/21–9/9/22. You cannot invest directly in an index. Past performance is not indicative of future returns. **MSCI ACWI Index:** A free-float adjusted market capitalization-weighted index that is designed to measure the equity market performance of developed and emerging markets. **MSCI EAFE Index:** A market cap-weighted index composed of companies representative of the developed market structure of developed countries in Europe, Australasia and Japan.

WisdomTree India Earnings Index Rebalance

[The WisdomTree India Earnings Index \(WTIND\)](#) targets profitable companies from the fast-growing Indian equity market.

The annual rebalance of this Index—which screens at the end of August—tilted the Index away from the Financials sector, due to the Index’s rule to exclude companies recently reclassified as passive foreign investment companies (or PFICs). The Index also added to the Materials sector which has seen profits increase with soaring [commodity](#) prices.



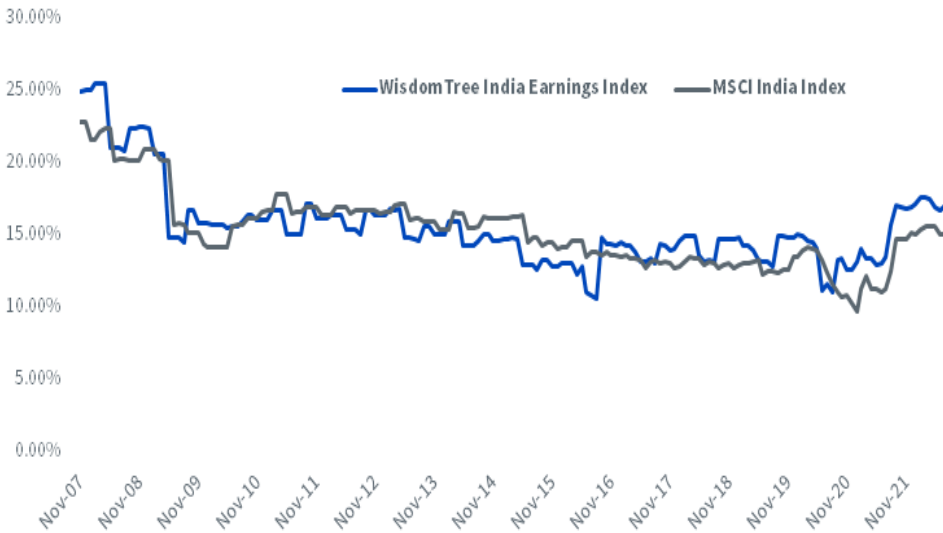
Sources: WisdomTree, FactSet, as of 9/9/22. You cannot invest directly in an index. Past performance is not indicative of future returns.

From a fundamental perspective, quality metrics improved, with [ROA](#) increasing from 3.3% to 4.6%, and [ROE](#) from 16.0% to 18.8%. The Index’s [price-to-earnings \(P/E\)](#) decreased to 10times—less than half of that of the MSCI India Index. Adds and drops to WTIND netted out, leaving the total number of companies at 555.

| | Company Count | P/E | Fwd. P/E | Div. Yield | ROA | ROE | Large Cap | Mid Cap | Small Cap |
|------------------------|---------------|-------|----------|------------|-------|--------|-----------|---------|-----------|
| WTIND before Rebalance | 555 | 11.8x | 12.7x | 2.69% | 3.30% | 15.95% | 63% | 25% | 12% |
| WTIND after Rebalance | 555 | 10.0x | 11.7x | 2.79% | 4.60% | 18.84% | 65% | 23% | 12% |

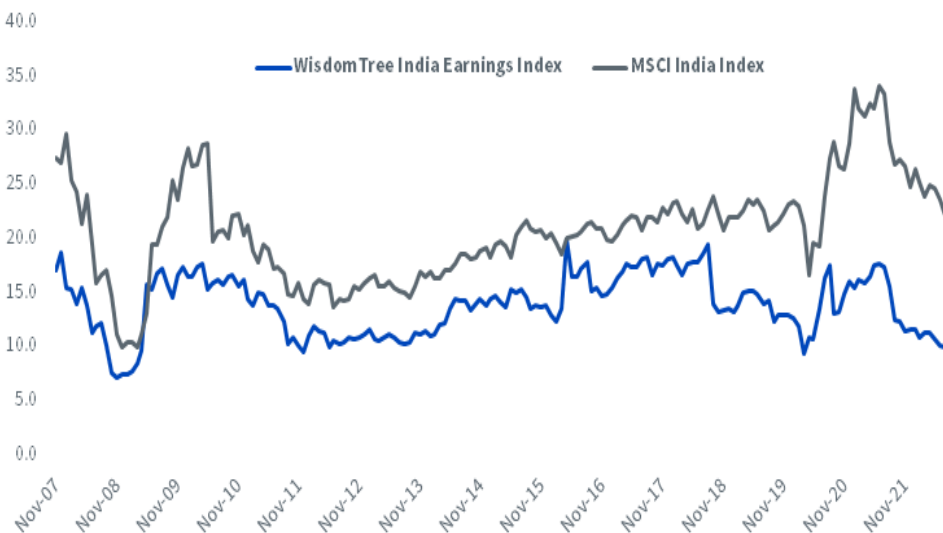
Sources: WisdomTree, FactSet, as of 9/9/22. You cannot invest directly in an index. Past performance is not indicative of future returns.

For the past six years, WTIND’s ROE has been increasing relative to the MSCI India Index’s with each rebalance.



Sources: WisdomTree, FactSet, as of 9/9/2022. You cannot invest directly in an index. Past performance is not indicative of future returns

WTIND has historically traded at a significant discount to the MSCI India Index, and the spread between their P/E ratios has generally widened over time.



Sources: WisdomTree, FactSet, as of 9/9/22. You cannot invest directly in an index. Past performance is not indicative of future returns.

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended

for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

Related Funds

+ [WisdomTree India Earnings Fund](#)

View the online version of this article [here](#).

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DEFINITIONS

Emerging market : Characterized by greater market access and less potential for operational risks when compared to frontier markets, which leads to a larger base of potentially eligible investors.

Inflation : Characterized by rising price levels.

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.

MSCI China Index : A free float-adjusted, market capitalization-weighted equity index designed to measure the performance of the Chinese equity market.

MSCI India Index : A market capitalization-weighted index designed to measure the performance of the Indian equity market.

Commodity : A raw material or primary agricultural product that can be bought and sold.

Return on assets (ROA) : Firm profits (after accounting for all expenses) divided by the firm’s total assets. Higher numbers indicate greater profits relative to the level of assets utilized to generate them.

Return on Equity (ROE) : Measures a corporation’s profitability by revealing how much profit a company generates with the money shareholders have invested.

Price-to-earnings (P/E) ratio : Share price divided by earnings per share. Lower numbers indicate an ability to access greater amounts of earnings per dollar invested.