
BE GREEDY WHEN OTHERS ARE FEARFUL

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This article is relevant to financial professionals who are considering offering Model Portfolios to their clients. If you are an individual investor interested in WisdomTree ETF Model Portfolios, please inquire with your financial professional. Not all financial professionals have access to these Model Portfolios.

Let's talk about something few people have any interest in talking about this year.

I swear, this is not because I want a large portion of you to close this browser window. But in investing, the best times to talk about something is often when people have the least interest in talking about it.

Let's talk about [emerging markets \(EM\)](#).

An Afterthought, and Not Hard to See Why

Frankly, it isn't difficult to see why investors have had little interest in EM lately. It is currently in one of the longest [bear market drawdowns](#) in the history of the asset class, having peaked nearly a full year before the [S&P 500](#) did earlier this year.

The relentless strength of the [dollar](#)—arguably the biggest macro driver of EM returns—has tightened [liquidity](#) globally and squeezed EM investor returns.

And the Chinese government has been on a regulatory rampage, issuing one body blow after another to many of its largest tech companies.

It isn't purely anecdotal that investors have little interest in EM right now—the data backs it up, too.

Global fund managers have close to the biggest underweight allocations to EM they have had in the last five years.¹ According to Morgan Stanley, investor sentiment toward EM is what they would classify as "extremely bearish," with their sentiment indicator currently in the bottom decile of its history.²

Light at the End of the Tunnel?

But it is possible that right now we're seeing signs of a turnaround.

For one, sentiment is a remarkably effective contrarian indicator. The historical periods when the Morgan Stanley sentiment indicator was this deeply negative wound up being excellent times to buy EM: Q2 2020, Q3 2019, Q1 2016, Q4 2011 and Q1 2009.

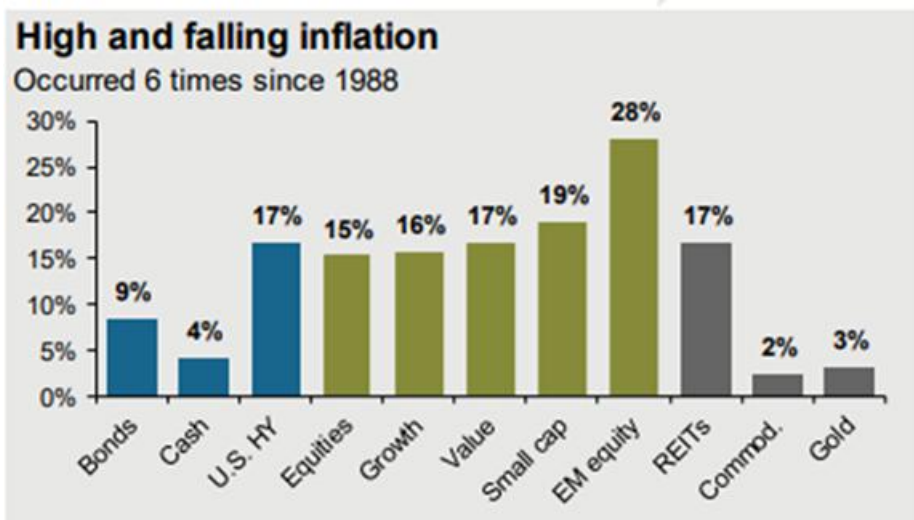


Source: Morgan Stanley, "Biweekly Perspectives: Opportunities amid Extreme Bearishness in Asia/EM," 7/25/22.

In China, the July Politburo meeting statement called for a normalizing of regulation of platform businesses and gave the green light to several pending technology investment deals. This regulatory "normalization" could perhaps signify the end to the punitive measures taken by Beijing against tech companies.

Additionally, recent weeks have seen global [central banks](#), aside from the [Fed](#), taking aggressive steps to get a handle on their countries' persistently high [inflation](#). With the Fed no longer the only aggressively [hawkish](#) major central bank in town, this development could potentially lessen the upward pressure on the dollar.

Lastly, it is possible that inflation in the U.S. has peaked (although it is important to note that we expect it to remain sticky). According to JPMorgan, high but falling inflationary periods have been extremely positive for EM equities.



Source: JPMorgan, "Guide to the Markets," 12/31/20.

Our Current Approach to EM Allocations

Most of the WisdomTree Model Portfolios will take a multi-pronged approach to EM.

Our flagship Core Equity Model barbells the [WisdomTree Emerging Markets ex-State-Owned Enterprises Fund \(XSQE\)](#) with the [WisdomTree Emerging Markets SmallCap Dividend Fund \(DGS\)](#).

Having experienced the brunt of the unwinding in China tech, [XSQE](#) is currently trading at just a 14.5 times [P/E ratio](#)—the third percentile of cheapness for its entire history.³

[XSQE](#)'s attractive [valuations](#) are reflective of the current valuations for names like Alibaba and Tencent, with both trading at an unthinkable 12 times earnings.⁴

Occasionally we'll be met with a few raised eyebrow when discussing EM small caps, typically accompanied by the natural follow-up question, "Aren't those too risky?"

Year-to-date 2022 may epitomize a down year for risk assets. During this time, [DGS](#) was down less than the MSCI EM Index, less than the MSCI EM Small Cap Index, and even nearly in-line with the blue-chip S&P 500.⁵

Lastly, many of the WisdomTree Model Portfolios that include an income mandate will often utilize the [WisdomTree Emerging Markets High Dividend Fund \(DEM\)](#).

Like [DGS](#), [DEM](#) has outperformed the broad [MSCI EM Index](#) by 4.8% thus far in 2022.⁶ But its true value comes in the form of its incredibly attractive 8.3% [dividend yield](#).⁷

For anyone that hasn't closed their browser window just yet, we'd love to talk about what [EM and the WisdomTree lineup have to offer](#).

¹ Morgan Stanley, "Asia EM Equity Strategy – Weekly Fund Flows," 7/29/22.

² Morgan Stanley, "Biweekly Perspectives: Opportunities amid Extreme Bearishness in Asia/EM," 7/25/22.

³ WisdomTree, as of 6/30/22

⁴ Bloomberg, as of 7/31/22

⁵ Performance at NAV as of 7/31/22

⁶ Performance at NAV as of 7/31/22

⁷ Fund distribution yield as of 7/31/22. Click [here](#) for the most recent standardized returns.

Important Risks Related to this Article

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DGS, DEM: There are risks associated with investing, including the possible loss of principal. Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. Funds focusing on a single sector and/or smaller companies generally experience greater price volatility. Investments in emerging, offshore or frontier markets are generally less liquid and less efficient than investments in developed markets and are subject to additional risks, such as risks of adverse governmental regulation, intervention and political developments. Due to the investment strategy of these Funds, they may make higher capital gain distributions than other ETFs. Dividends are not guaranteed, and a company currently paying dividends may cease paying dividends at any time. Please read the Funds' prospectuses for specific details regarding the Funds' risk profiles.

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For the top 10 holdings of DGS please visit the Fund's fund detail page at <https://www.wisdomtree.com/investments/etfs/equity/dgs>

For the top 10 holdings of XSOE please visit the Fund's fund detail page at <https://www.wisdomtree.com/investments/etfs/equity/xsoe>

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

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- + [WisdomTree Emerging Markets High Dividend Fund](#)
- + [WisdomTree Emerging Markets SmallCap Dividend Fund](#)
- + [WisdomTree Emerging Markets ex-State-Owned Enterprises Fund](#)

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You cannot invest directly in an index.

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.

Bear market : A sustained downturn in market prices, increasing the chances of negative portfolio returns.

Drawdowns : Periods of sustained negative trends of return.

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.

USD (United States Dollar) : The USD (United States dollar) is the official currency of the United States of America. The United States dollar, or U.S. dollar, is made up of 100 cents. It is represented by the symbol \$ or US\$ to differentiate it from other dollar-based currencies.

Liquidity : The degree to which an asset or security can be bought or sold in the market without affecting the asset's price. Liquidity is characterized by a high level of trading activity. Assets that can be easily bought or sold are known as liquid asset.

Central bank : Refers to the the monetary authority of any country.

Federal Reserve : The Federal Reserve System is the central banking system of the United States.

Inflation : Characterized by rising price levels.

Hawkish : Description used when worries about inflation are the primary concerns in setting monetary policy decisions.

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.

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.

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.

Dividend yields : Refers to the trailing 12-month dividend yield. Dividends over the prior 12 months are added together and divided by the current share price. Higher values indicate more dividends are being generated per unit of share price.