

ALLOCATING TO EMERGING MARKETS AMID VOLATILITY

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Even the most ardent emerging markets (EM) [bulls](#) have been forced to question the asset class's investment merits this year.

Some of the headlines that have been weighing on returns: the Russian invasion of Ukraine, a strong dollar, and China's "zero-COVID" policy stance and continued regulatory crackdowns.

These headlines have only reinforced the narrative for some¹ of the last several years of avoiding EM altogether. Nearly four months into 2022, EM is lagging the [S&P 500](#) for the fifth consecutive year and lagging the [MSCI ACWI](#) by over 150 [basis points \(bps\)](#).

Index Total Returns since 2018

Index	Cumulative	2022 YTD	2021	2020	2019	2018
S&P 500	72.4%	-10.0%	28.7%	18.4%	31.5%	-4.4%
MSCI EAFE	13.5%	-10.0%	11.3%	7.8%	22.0%	-13.8%
MSCI Emerging Markets	2.4%	-12.2%	-2.5%	18.3%	18.4%	-14.6%
MSCI ACWI	41.3%	-10.6%	18.5%	16.3%	26.6%	-9.4%

Sources: WisdomTree, MSCI, S&P, as of 4/22/22. You cannot invest directly in an index. Past performance is not indicative of future returns.

For definitions of terms in the chart above, please visit the [glossary](#).

But not all pockets of EM have been a disappointment.

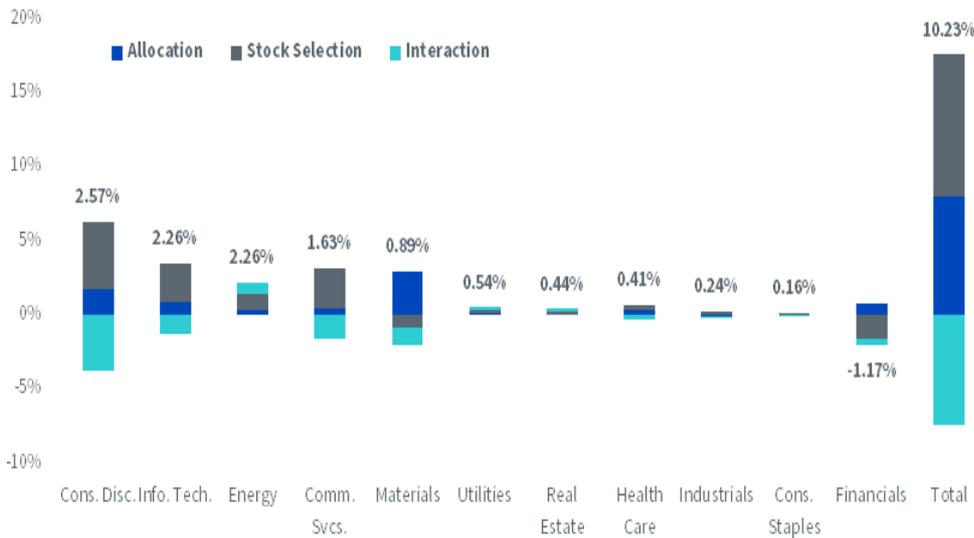
At the outset of the year, we suggested investors consider EM high dividends, with [three key themes in mind](#): 1) a high [inflation](#) environment, 2) rising [interest rates](#) and 3) Chinese regulatory/Covid policy risks.

While we couldn't foresee the Russia-Ukraine war, the conflict has intensified the first two themes, benefiting EM Energy and Materials companies.

So far this year, the [WisdomTree Emerging Markets High Dividend Index \(WTEMHY\)](#) has outperformed the [MSCI Emerging Markets Index](#) by over 1,000 bps as it has benefited from the tailwinds of EM value leading growth and the rally in global commodity prices.

Below is a summary of the year-to-date sector attribution. More detail can be accessed on our website [here](#).

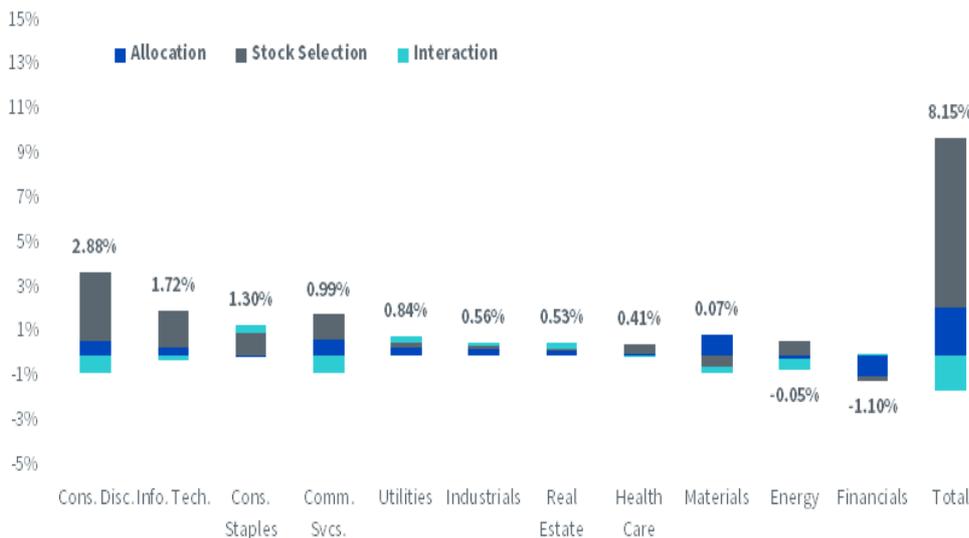
Year-to-Date Sector Attribution: WisdomTree Emerging Markets High Dividend vs. MSCI Emerging Markets Index



Sources: WisdomTree, FactSet, as of 3/31/22. Past performance is not indicative of future results. You cannot invest directly in an index. Index performance does not represent actual fund or portfolio performance. A fund or portfolio may differ significantly from the securities included in the index. Index performance assumes reinvestment of dividends but does not reflect any management fees, transaction costs, brokerage commissions on transactions. Such fees, expense and commissions would reduce returns.

The [WisdomTree Emerging Markets SmallCap Dividend Index \(WTEMSC\)](#) also handily [outperformed the MSCI Emerging Markets Index through the first quarter of the year](#). In large part, the Index has benefited from its underweight exposure to large Chinese tech and consumer companies that continue facing regulatory scrutiny.

Year-to-Date Sector Attribution: WisdomTree Emerging Markets SmallCap Dividend vs. MSCI Emerging Markets Index

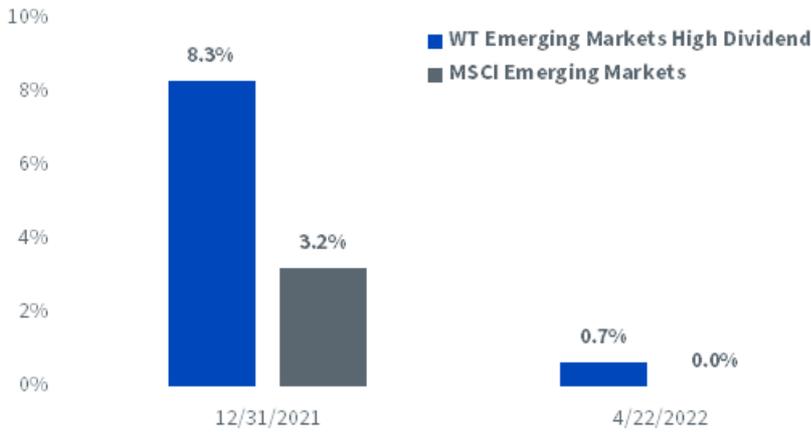


Sources: WisdomTree, FactSet, as of 3/31/22. You cannot invest directly in an index. Past performance is not indicative of future results.

Entering the year, WTEMHY had the greatest exposure to Russia among WisdomTree’s equity Indexes, and an overweight allocation of 5% relative to the MSCI Emerging Markets Index (8% vs. 3%).

The overweight exposure contributed 553 bps of negative attribution for WTEMHY relative to MSCI EM. With the Russian names in WTEMHY marked down to nearly 0% values and entirely removed from the MSCI EM Index, the relative overweight for WTEMHY is now just 70 bps.

Index Russia Exposure

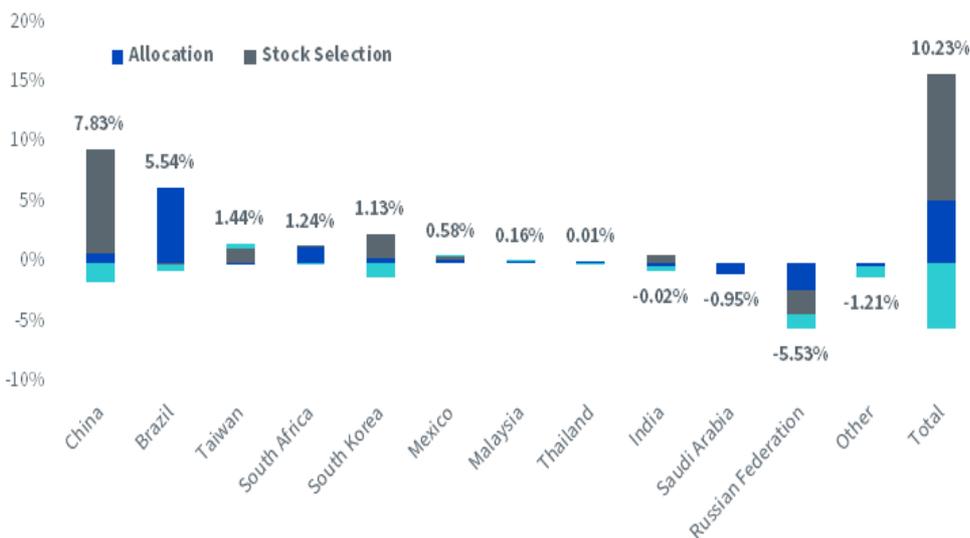


Sources: WisdomTree, FactSet. You cannot invest directly in an index.

The Russia headwind was offset by an underweight to China—specifically to China growth stocks—and an overweight to Brazilian Energy and Materials companies that have benefited from rising commodity prices.

The positive attribution of over 500 bps between Brazil and China fully offset the negative attribution from Russia.

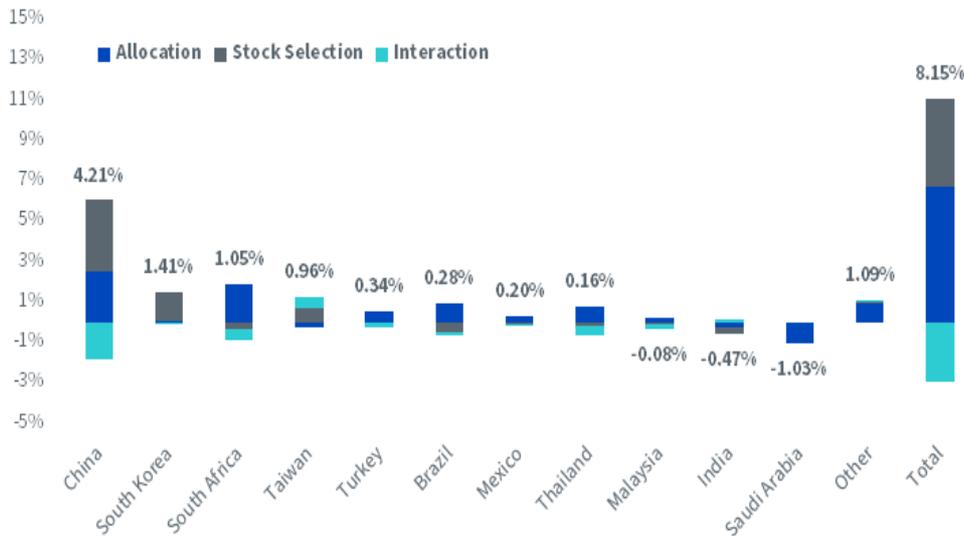
Year-to-Date Country Attribution: WisdomTree Emerging Markets High Dividend vs. MSCI Emerging Markets Index



Sources: WisdomTree, FactSet, as of 3/31/22. You cannot invest directly in an index. Past performance is not indicative of future results.

WTEMSC had no exposure to Russia entering the year. The Index has benefited heavily from positive stock selection in China, Taiwan and South Korea as several large tech and consumer companies in those countries have fallen heavily amid a rotation into value stocks.

Year-to-Date Country Attribution: WisdomTree Emerging Markets Dividend vs. MSCI Emerging Markets Index



Sources: WisdomTree, FactSet, as of 3/31/22. You cannot invest directly in an index. Past performance is not indicative of future results.

Early Innings of Value Reversal

The recent outperformance of these two WisdomTree Indexes highlights the resurgence of value strategies over the past few months.

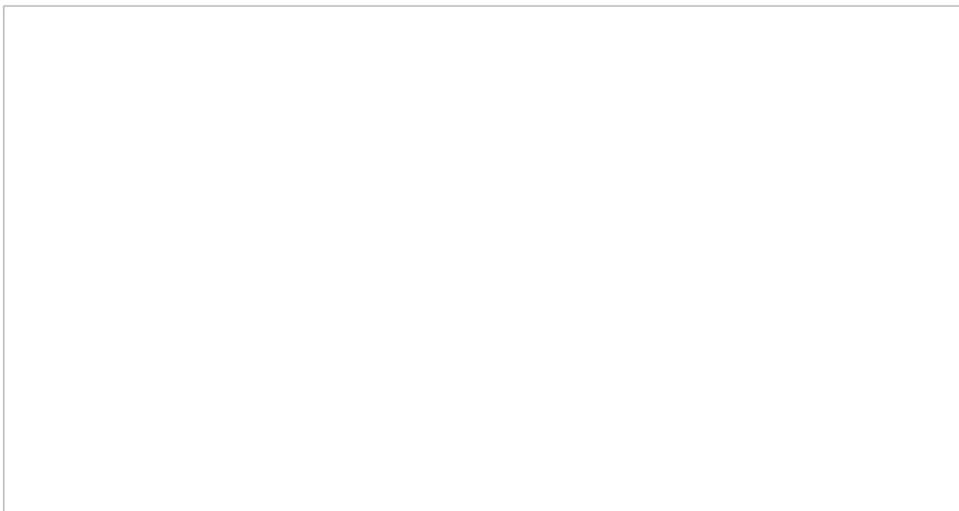
Despite the turnaround of value relative to growth over the past year and a half, the past 10 years has seen value-tilted strategies, like those targeting high dividends, lag.

WTEMHY lagged the MSCI Emerging Markets Index by 44 bps annualized for the 10 years ended March 31.

The WTEMSC also tilts toward value based on its [Dividend Stream](#) weighting but is more of a core allocation due to a lack of a high yield selection criteria.

As a result, the small-cap dividend Index didn't suffer as much of a value headwind over the past decade, outperforming the small-cap benchmark by 60 bps and the MSCI Emerging Markets Index by 255 bps.

Returns as of March 31, 2022



Conclusion

The themes we laid out at the beginning of the year—rising rates, high inflation, Chinese regulatory/zero COVID policy risks—still hold true after the first few months.

While the EM asset class has had no shortage of headline events this year, investors allocating to quality dividend payers have sidestepped much of the drawdown that has afflicted the broader market.

¹ Heather Gillers and Matt Wirz, "War in Ukraine Tests Faith in Emerging Markets," Wall Street Journal, March 21, 2022.

Important Risks Related to this Article

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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.

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You cannot invest directly in an index.

DEFINITIONS

Bullish : a position that benefits when asset prices rise.

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.

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.

Basis point : 1/100th of 1 percent.

Inflation : Characterized by rising price levels.

Interest rates : The rate at which interest is paid by a borrower for the use of money.

MSCI Emerging Market Index : The MSCI Em (Emerging Markets) Index is a free-float weighted equity index that captures large and mid cap representation across Emerging Markets (EM) countries.

Dividend Stream : Refers to the regular dividends per share multiplied by the number of shares outstanding.