
IS THE SELL-OFF CREATING A BUYING OPPORTUNITY IN EMERGING MARKETS?

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Market [corrections](#) are like forks in the road. One road may lead to the next [bear market](#). The other may lead to all-time highs. It's hard to know in the moment what the future path holds or which road to take, especially as bull markets age. This is one of the reasons investors who try to time or trade the market miss out on its long-term returns.

For example, when U.S. stocks last experienced a 10% decline some two years ago, it took six months before stocks successfully retested their correction lows. But investors who were not spooked by the 10% declines in August 2015 and February 2016 were rewarded with another 60% gain in the [S&P 500](#) through January 2018. In long-lasting [bull markets](#), sometimes the risk is not selling too late, but selling too early.

If you are later in life and cannot endure the potential for another 20% to 40% drop in the equity portion of your portfolio, you must respect the violent fluctuations in stock prices in early February 2018. If this is the beginning of the next bear market, you may be well served to realize some past profits and redeploy to cash or shorter-term fixed income.

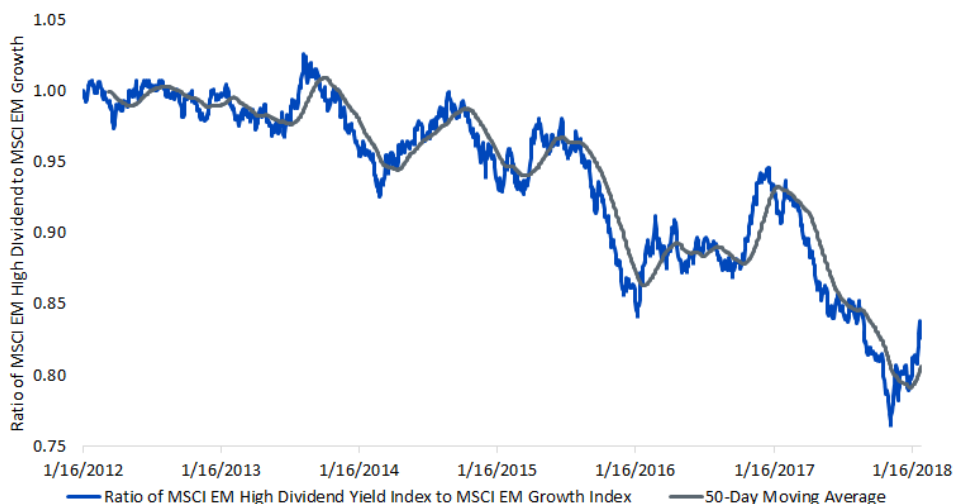
But if you are younger—or if you are older, well diversified and can endure greater [volatility](#)—you may view the recent sell-off as a buying opportunity. And some advisors who rebalanced client portfolios in January may see this moment as an early opportunity to harvest short-term losses for clients in taxable accounts.

Investors in this second group may also see the present moment as an opportune time to upgrade positions in their emerging market equity allocations. Compared to the S&P 500, EM equities trade at a lower multiple, are experiencing faster earnings growth and are poised to benefit from strong global gross domestic product (GDP) growth and a relatively benign U.S. dollar.

Right now, we may be at an important inflection point in emerging market equities, where value stocks, particularly in the higher-dividend-yielding segment of the market, begin once again to outperform EM growth stocks. In four of the last five years, for example, the [MSCI EM Value Index](#) underperformed the [MSCI EM Growth Index](#). But year-to-date that has reversed, with MSCI EM Value outperforming MSCI EM Growth, while the [MSCI Emerging Markets High Dividend Yield Index](#) is beating both.

To help visualize this relationship, we have created a ratio between the MSCI Emerging Markets High Dividend Yield Index and the MSCI Emerging Markets Growth Index and tracked that ratio through time over the past six years, the longest period for which real-time returns exist for both indexes.

Returns of MSCI EM High Dividend Index Compared to MSCI EM Growth Index, 2012–2018



Source: Bloomberg, period from 1/16/12 to 2/9/18. Past performance is not indicative of future results. You cannot invest directly in an index.

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

After peaking in 2013 and zigzagging throughout 2015, the higher-dividend-yielding segment of emerging markets trended downward through the end of 2017 on a relative basis when compared to MSCI Growth. That ratio bottomed out in January 2018 and has since rebounded sharply, crossing through the 50-day moving average and reversing the trend of that 50-day moving average with the most robust uptrend since late 2016.

We believe one of the best ways to get exposure to both the value segment of emerging markets and the higher-dividend-yielding stocks within that segment is through the [WisdomTree Emerging Markets High Dividend Index](#). Each year, the Index selects companies whose trailing [12-month dividend yields](#) rank within the top 30% of the WisdomTree Emerging Markets Dividend Index, an Index that seeks to measure the performance of all investable [dividend](#)-paying companies in emerging markets with [market capitalizations](#) of at least \$200 million.

Because both Indexes weight their components annually based on the U.S. dollar value of the cash dividends paid over the prior 12 months, both Indexes typically exhibit higher [dividend yields](#) than comparable cap-weighted indexes. What the graph above does not show is how such dividend-weighted exposures in the emerging world have performed over the past 10 years. And while they have lagged over the last three- and five-year periods, over the full market cycle of the last decade, both WisdomTree Indexes generated excess returns compared to the MSCI Emerging Markets Index—and they did so while exhibiting lower volatility.

Risk and Return Data for WisdomTree Emerging Markets Dividend Indexes vs. MSCI EM Index

Index	WisdomTree Index Inception Date	Average Annual Total Returns as of 12/31/17				
		1 year	3 years	5 years	10 years	Since WisdomTree Index Inception
WisdomTree Emerging Markets Dividend Index	6/1/2007	27.98%	7.30%	2.10%	2.65%	4.11%
WisdomTree Emerging Markets High Dividend Index	6/1/2007	25.62%	7.07%	0.94%	3.57%	4.96%
MSCI Emerging Markets Index		37.28%	9.10%	4.35%	1.68%	3.68%

Index	Trailing 12M Dividend Yield	10-Year Index Statistics			
		St Dev	Sharpe Ratio	Alpha	Beta
WisdomTree Emerging Markets Dividend Index	3.60%	21.17%	0.11	0.91%	0.92
WisdomTree Emerging Markets High Dividend Index	4.84%	20.36%	0.16	1.86%	0.85
MSCI Emerging Markets Index	2.22%	22.82%	0.06	0.00%	1

Source: WisdomTree, data as of 12/31/17. 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 or other expenses that would be incurred by a portfolio or fund, or brokerage commissions on transactions in fund shares. Such fees, expenses and commissions could reduce returns. WisdomTree, its affiliates and their independent providers are not liable for any informational errors, incompleteness or delays or for any actions taken in reliance on information contained herein. Past performance is not indicative of future results.

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Conclusion

After a period of relative underperformance, value is making a comeback in emerging markets, led by its higher-dividend-yielding stocks. For investors looking to re-establish or add to allocations in emerging market equities, WisdomTree's two dividend-weighted strategies provide potential to increase dividend income, reduce volatility or increase long-term returns compared to traditional "[beta](#)" exposures.

For investors looking to maximize yield, the [WisdomTree Emerging Markets High Dividend Fund \(DEM\)](#), which tracks the WisdomTree Emerging Markets High Dividend Index, remains WisdomTree's most appealing option in emerging markets. For investors seeking broader exposure while minimizing costs, the [WisdomTree Emerging Markets Dividend Fund \(DVEM\)](#), which tracks the WisdomTree Emerging Markets Dividend Index, allows investors to own the dividend-paying portion of emerging markets while increasing yield compared to major cap-weighted benchmarks. Since their respective inception more than a decade ago, both WisdomTree Indexes have generated [alpha](#) compared to the MSCI Emerging Markets Index while lowering risk compared to that established benchmark.

Important Risks Related to this Article

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You cannot invest directly in an index.

DEFINITIONS

Correction : A drop of 10% or greater in an Index or stock from a recent high.

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

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.

Bullish : a position that benefits when asset prices rise.

Volatility : A measure of the dispersion of actual returns around a particular average level.

MSCI Emerging Markets Value Index : A market capitalization-weighted subset of stocks in the MSCI Emerging Markets Index that have lower share prices relative to their earnings per share, dividends per share, or lower prices relative to other financial metrics.

MSCI Emerging Markets Growth Index : A market capitalization-weighted subset of stocks in the MSCI Emerging Markets Index that have higher share prices relative to their earnings or dividends per share.

MSCI Emerging Markets High Dividend Yield Index : Index designed to reflect the performance of equities in the MSCI Emerging Markets Index with higher than average dividend yields that are both sustainable and persistent and exhibit quality fundamental characteristics.

12-Month Yield : The sum of the per-share dividends over the last 12 months, divided by the fund's current net asset value (NAV.)

Dividend : A portion of corporate profits paid out to shareholders.

Market Capitalization : Market cap = share prices x number of shares outstanding. Firms with the highest values receive the highest weights in approaches designed to weight firms by market cap.

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

Beta : A measure of the volatility of a security or a portfolio in comparison to a benchmark. In general, a beta less than 1 indicates that the investment is less volatile than the benchmark, while a beta more than 1 indicates that the investment is more volatile than the benchmark.

Alpha : Can be discussed as both risk-adjusted excess return relative to a specific benchmark, or absolute excess return relative to a benchmark. It is sometimes more generally referred to as excess returns in general.