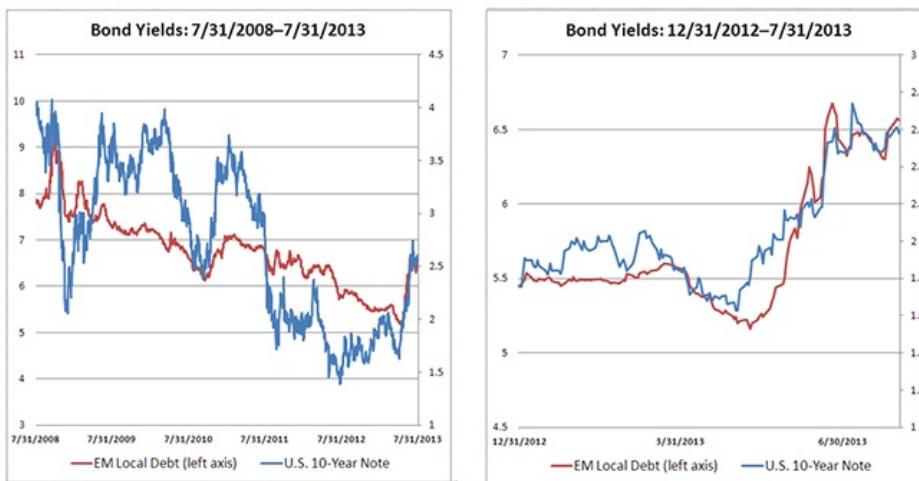


# GLOBAL IMPACT: RISING RATES AROUND THE WORLD

Rick Harper — Head of Fixed Income & Currency  
08/15/2013

Bond investors around the world have had a difficult run the past couple of months. While many market prognosticators have decried the end of the bond market, we believe there is still value in taking a diversified approach to fixed income. Although the recent past has seen yields rise across virtually all fixed income sectors, we do not believe that this period of heightened [correlations](#) is set to continue indefinitely. For the past couple of years, [beta](#) ran equity markets, and we're seeing some investors make the same claims about bonds. As globally minded investors, we do not believe that the same factors and fundamentals that drive returns are comparable between the United States and emerging market (EM) countries. For U.S. Treasury investors this year, the 10-Year Note bottomed at 1.63% on a closing basis on May 2, 2013. Just over two months later, the 10-Year was yielding 2.74%!<sup>1</sup> Talk of tapering by Fed Chairman Ben Bernanke was interpreted by markets to mean that imminent Fed tightening would occur sooner than anticipated. On the back of this, yields across the emerging markets rose in concert. To many, it seemed as though the cost of capital was increasing around the world. In fact, while Treasury yields rose by over 1.11%, yields in emerging markets actually increased by 1.45%. As the graphs below show, this strong positive relationship has not been the historical norm.



EM Local Debt represented by the J.P. Morgan GBI-EM Global Diversified Index.

Past performance is not indicative of future results. You cannot invest directly in an index.

For definitions of terms and indexes in the charts, please visit our [Glossary](#). However, this risk of rising rates needs to be carefully qualified and examined. On a total-return basis, an investment in the 10-Year Treasury Note resulted in a decline of 8.16% during this period<sup>2</sup>. Due to its lower [duration](#), the larger move in interest rates in emerging markets<sup>3</sup> resulted in a loss of just over 5% (5.05%). However, duration has accounted for only a part of the emerging markets story. U.S. dollar strength accounted for additional negative performance for investors in emerging market debt. In fact, losses from currency actually accounted for -6.64%, easily outpacing the decline from higher interest rates<sup>4</sup>. Interestingly enough, the move in emerging market currencies has been partially attributable to slowing growth in China, yet the Chinese yuan continues to be one of the top-performing emerging market currencies in 2013. However, the question that investors should be asking themselves is, do I believe the U.S. dollar will remain strong indefinitely against cleaner balance sheets and faster-growing economies of emerging markets? While the U.S. economy has recently surprised many economists with stronger earnings data and gross domestic product figures, we do not believe that EM has completely lost its luster in the medium and long term. Total returns for domestic fixed income will come under pressure and experience periods of volatility. Total returns for emerging

market fixed income are not immune to global rebalancing. As bond investors, we care principally about generating attractive levels of income per unit of risk. In our opinion, market sentiment for many EM economies continues to heavily discount the emerging market story. China may slow, South Africa may be facing a period of social unrest, and India may continue to be mired in short-term setbacks, but all three of these economies have overwhelmingly positive growth trajectories. We could just as easily [highlight](#) the two credit ratings upgrades in the Philippines (and one for Turkey) that now create yields in excess of the U.S. high yield market in a much higher credit-quality portfolio<sup>5</sup>. Ultimately, emerging markets will undoubtedly continue to be met with challenges and volatility. But should investors continue to believe in their long-term trajectories, some assets may prove to be attractive long-term buying opportunities once market sentiment begins to turn.

<sup>1</sup>Source: Bloomberg, 2013. <sup>2</sup>As represented by the Ryan Labs 10 Year Bond Index, Bloomberg. <sup>3</sup>As represented by the J.P. Morgan GBI-EM Global Diversified Index. <sup>4</sup>Sources: JPMorgan, Bloomberg, 2013. <sup>5</sup>Source: WisdomTree, 7/31/2013.

#### Important Risks Related to this Article

Diversification does not eliminate the risk of experiencing investment losses. Fixed income investments are subject to interest rate risk; their value will normally decline as interest rates rise. In addition, when interest rates fall, income may decline. Fixed income investments are also subject to credit risk, the risk that the issuer of a bond will fail to pay interest and principal in a timely manner or that negative perceptions of the issuer's ability to make such payments will cause the price of that bond to decline. Unlike typical exchange-traded funds, there is no index that the Fund attempts to track or replicate. Thus, the ability of the Fund to achieve its objective will depend on the effectiveness of the portfolio manager. Due to the investment strategy of this Fund, it may make higher capital gain distributions than other ETFs. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

For more investing insights, check out our [Economic & Market Outlook](#)

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

## **IMPORTANT INFORMATION**

**U.S. investors only: Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.**

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages ([www.msci.com](http://www.msci.com))

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Kara Marciscano, Jianing Wu and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only.

You cannot invest directly in an index.

## **DEFINITIONS**

**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.

**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.

**Duration** : A measure of a bond's sensitivity to changes in interest rates. The weighted average accounts for the various durations of the bonds purchased as well as the proportion of the total government bond portfolio that they make up.