AMID EM SELL-OFF, HOW CORPORATES CAN ADD VALUE TO CORE PORTFOLIOS

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As geopolitics continues to shake investor confidence, U.S. interest rates have fluctuated and emerging market assets have come under pressure. In our view, this move could present unique opportunities for investors to decrease interest rate risk while at the same time enhancing the income profile of their core bond portfolio. Emerging market (EM) bonds could serve as an attractive diversifier, offering typically higher levels of yield, comparable credit quality and the ability to partake in the overarching global macro growth story. Given all the optionality within the EM bond universe, we believe that EM corporate bonds, issued in U.S. dollars (USD), can offer an intuitive alternative to EM sovereign bonds.

Why EM?

Despite recent underperformance, EM bonds have added significant value to global portfolios since reaching their bottom in 2015. One catalyst for this rebound has been the recovery in oil prices. Crude oil futures have risen from their near-$25 lows in 2015 to $74 through the end of June. We also have seen an acceleration in broad EM gross domestic pr oduct (GDP) growth, attractive valuations compared with the U.S. markets and continued easing from many EM central banks. All these catalysts, together with a growing consumer class, robust earnings growth and improving economic data, should continue to be indicators of strength for those seeking opportunities within their globally diversified portfolios.

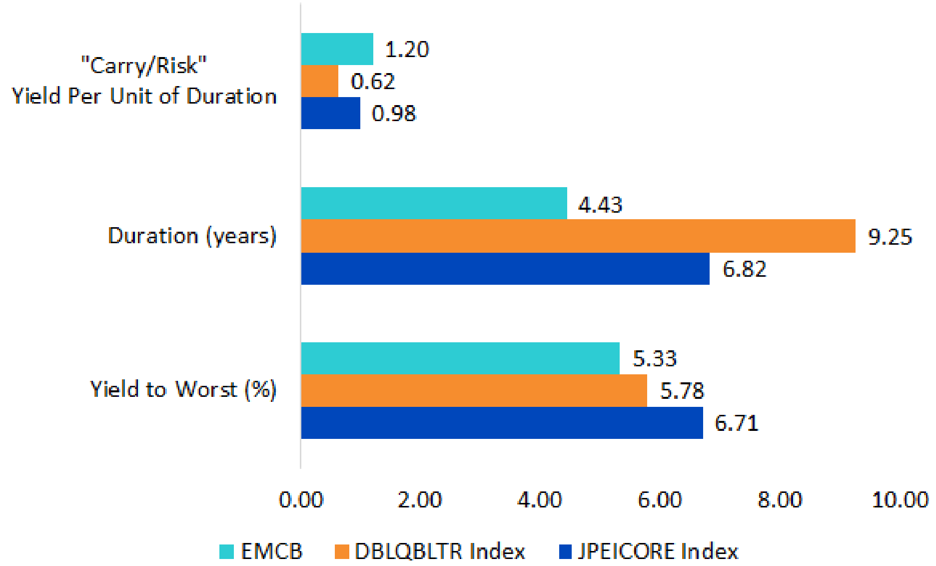
Within EM fixed income, investors can allocate via local currency debt or hard currency (that is, USD). Investing in USD-denominated bonds, as opposed to locally denominated bonds, typically allows investors to dramatically reduce volatilit y and eliminate one of the main risks of EM investments and causes of recent EM underperformance: the value of foreign currencies against the U.S. dollar. Within dollar-denominated fixed income, investors also have the option to allocate in s overeign debt or corporates.

Corporates vs. Sovereigns: Better Quality, Lower Duration, Attractive Yield

The WisdomTree Emerging Markets Corporate Bond Fund (EMCB) is an actively managed fund that seeks to provide a high level of total return from both income and capital appreciation through investments in corporate EM debt, issued in USD. If you take this fund and compare its credit quality, yield and duration profile to two of the largest EM, USD-denominated, sovereign debt indexes, the DBIQ Emerging Markets Liquid Balanced Index (DBLQBLTR) and the J.P. Mor gan EMBI Global Core Index (JPEICORE)— [which combined are tracked by billions of dollars of ETF assets]—the trade-off is staggering. EMCB is approximately 67% investment grade, with less than 1% of its remaining 32% high-yield exposure coming from debt that's rated CCC or below. However, DBLQBLTR and JPEICORE are approximately 46% and 59% investment grade, respectively, with a much larger high-yield allocation tilting toward the "junkier" end of the credit spectrum.

Currently, an investor in EMCB can expect a yield of over 5% at a nearly 35% to 52% reduction in overall duration/interes t rate risk. For a cost of only 45 to 138 basis points of yield (a mere 8% to 21% reduction), one can meaningfully improve their "carry-to-risk," the amount of yield per unit of duration (risk), as illustrated below.

Figure 1: Yield & Duration of Corporates vs. Sovereigns



Sources: WisdomTree, J.P. Morgan, Deutsche Bank, Bloomberg, as of 6/30/18.

Performance is historical and does not guarantee future results. Current performance may be lower or higher than quoted. Investment returns and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Performance data for the most recent month-end is available at www.wisdomtree.com.

WisdomTree shares are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Total returns are calculated using the daily 4:00 p.m. EST net asset value (NAV). Market price returns reflect the midpoint of the bid/ask spread as of the close of trading on the exchange where Fund shares are listed. Market price returns do not represent the returns you would receive if you traded shares at other times.

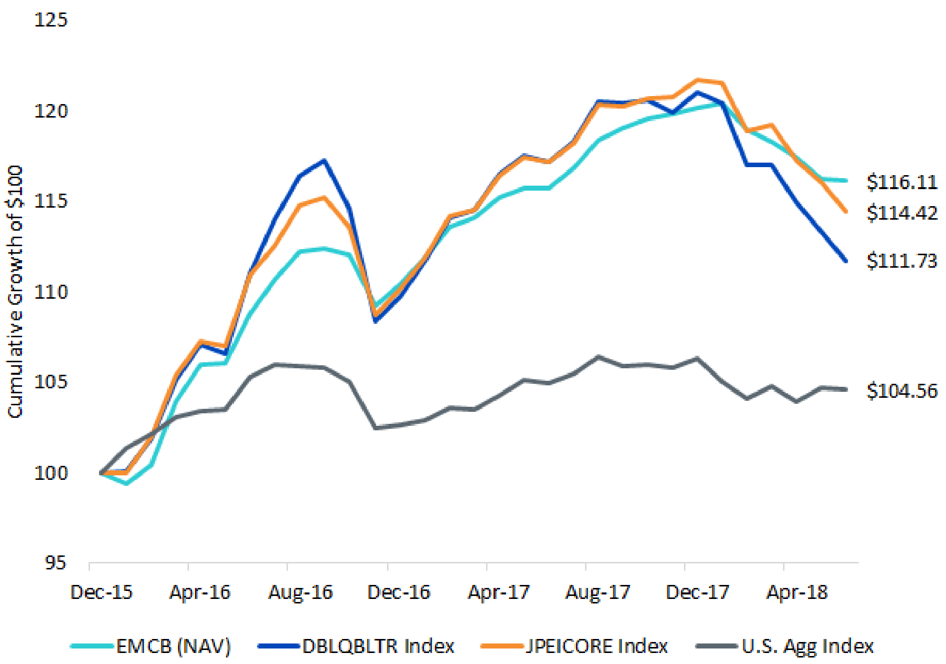
For standardized performance of EMCB, please click here.

For definitions of terms in the chart, please visit our glossary.

Don't Let Rising Rates Get You Down

EM bonds have really held their own in the current U.S. rising interest rate environment. Since the Federal Reserve (Fed) began to raise interest rates in the U.S. in December 2015, we have seen EM bonds significantly outpace the Bloomberg Barclays U.S. Aggregate Index (the Agg), and, given the generally less rate-sensitive nature of corporate bonds, this could continue to be a strong time of outperformance.

Figure 2: Cumulative Performance Since U.S. Rate Hikes Began (12/31/15–6/30/18)



Sources: WisdomTree, J.P. Morgan, Deutsche Bank, Bloomberg, as of 6/30/18. Past performance is not indicative of future results. You cannot invest directly in an index.

During this "rising rate" period, EMCB experienced significantly lower levels of volatility and higher levels of Sharpe rati o (see figure 3 below). Year-to-date we have seen nearly all EM bonds lag, and yet, when compared with its sovereign counterparts, EMCB has provided less downside capture and, thus, alpha.

Figure 3: Performance, Volatility and Sharpe Ratio (12/31/15–6/30/18)

	Total Return (%)		Standard Deviation (%)		Sharpe Ratio	
	Since Start of U.S. Rate Hikes	Year-to-Date	Since Start of U.S. Rate Hikes	Year-To-Date	Since Start of U.S. Rate Hikes	Year-To-Date
WisdomTree Emerging Markets Corporate Bond Fund	**6.10%**	**-3.49%**	**4.17%**	**1.36%**	**1.28**	**-3.15**
DBIQ Emerging Markets USD Liquid Balanced Index	4.54%	-7.64%	6.77%	2.44%	0.56	-3.46
JPMorgan EMBI Global Core Index	5.54%	-5.67%	5.74%	2.35%	0.83	-2.87

Source: WisdomTree, Zephyr StyleAdvisor, JP Morgan, Deutsche Bank, Bloomberg as of 6/30/18. Past performance is not indicative of future results. You cannot invest directly in an index.

Conclusion

For those seeking ways to increase portfolio yield without inheriting excessive levels of risk, we continue to believe strongly in EM corporate debt. During the current rising interest rate environment, EM corporate bonds have offered strong returns in an otherwise performance-stricken period. With comparable levels of yield, lower duration and higher credit quality than U.S. high-yield or EM sovereign debt, investors should think about how EM corporate bonds can play an integral role in their overall fixed income portfolios.

All data as of June 30, 2018. Sources: WisdomTree, Bloomberg, Zephyr StyleADVISOR.

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For more investing insights, check out our Economic & Market Outlook

View the online version of this article here.

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You cannot invest directly in an index.

DEFINITIONS

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

Yield : The income return on an investment. Refers to the interest or dividends received from a security that is typically expressed annually as a percentage of the market or face value.

Credit quality : A measure of a borrowers potential risk of default.

Macro : Focused on issues impacting the overall economic landscape as opposed to those only impacting individual companies.

Value : Characterized by lower price levels relative to fundamentals, such as earnings or dividends. Prices are lower because investors are less certain of the performance of these fundamentals in the future. This term is also related to the Value Factor, which associates these stock characteristics with excess returns vs the market over tim.

Gross domestic product (GDP) : The sum total of all goods and services produced across an economy.

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.

Earnings growth estimates : Bloomberg analysts' long-term earnings growth expectations, which encompass the estimated growth in operating earnings per share over the company's next full business cycle, typically three to five years.

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

Sovereign Debt : Bonds issued by a national government in a foreign currency, in order to finance the issuing country's growth.

Quality : Characterized by higher efficiency and profitability. Typical measures include earnings, return on equity, return on assets, operating profitability as well as others. This term is also related to the Quality Factor, which associates these stock characteristics with excess returns vs the market over tim.

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.

Actively managed ETFs : Investment strategy where a manager selects securities in an attempt to outperform the performance benchmark.

DBIQ Emerging Markets USD Liquid Balanced Index : Tracks the performance of a selected basket of liquid emerging markets U.S. dollar-denominated government bonds. The methodology evaluates countries regarding eligibility for inclusion in the DBIQ Emerging Markets USD Liquid Balanced Index annually based on a defined set of qualifying criteria established by DB.

High Yield : Sometimes referred to as "junk bonds," these securities have a higher risk of default than investment-grade securitie.

Interest rate risk : The risk that an investment's value will decline due to an increase in interest rates.

Basis point : 1/100th of 1 percent.

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

Bloomberg U.S. Aggregate Bond Index : Represents the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, as well as mortgage and asset backed securities.

Rate Hike : refers to an increase in the policy rate set by a central bank. In the U.S., this generally refers to the Federal Funds Target Rate.

Sharpe ratio : Measure of risk-adjusted return. Higher values indicate greater return per unit of risk, specifically standard deviation, which is viewed as being desirable.

Down Capture : Measure of the performance of an investment relative to a benchmark index during a down market.

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.