THREE COMMON PITFALLS FOR TARGETING EMERGING MARKET CONSUMERS

Christopher Gannatti — Head of Research, Europe
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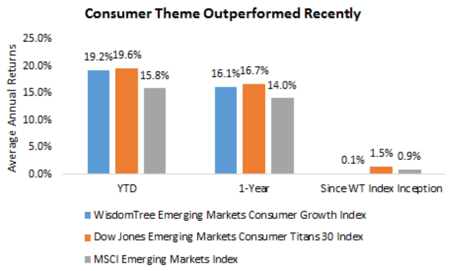
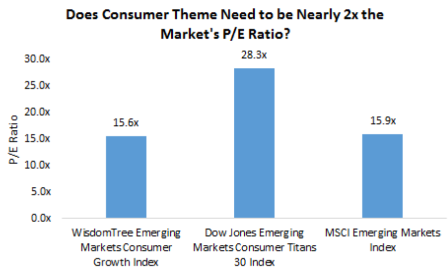
Over recent years, allocations to emerging markets were rare. Yet many investors would agree that the growth of the emerging market consumer class, with its huge population advantage over the developed world, could be one of the single most important factors for global economic growth going forward. We recently read an interesting thought piece on the Future for Asia, which compiled 100 statistics on Asia. We pulled out five that we thought were particularly interesting but would recommend the full piece[1]:

1. *"By 2030 two thirds of the world's middle class will be in Asia… by 2035 India and China alone will account for 70% of global electricity demand… and by 2050 Asia's population will be 5.3 billion, requiring a 70% increase in food production."*
2. *"Asian millionaires control the most wealth in the world at $17.4 trillion; North American millionaires, in comparison, have $16.6 trillion."*
3. *"In Asia, the number of mobile smartphones is projected to more than double from 1.3 billion in 2014 to 3 billion in 2020."*
4. *"China's automobile market in 2001 was tiny, with total annual sales of less than a million units. In 2004, General Motors sold 1 car in China for every 10 in the US; by 2009 this ratio reached parity. In 2009, total automobile sales in China were in excess of 10 million units." In 2015, total automobile sales in China were 24.6 million compared to 17.5 million in the US."*
5. *"The Alibaba Group generated $14.3 billion in gross sales on Singles' day, a major shopping event on November 11th; revenue was seven times the $2.59 billion Cyber Monday generated in the US in 2014."*

Common Pitfalls of Emerging Market Investments These statistics buttress the notion that 1) the scale of the numbers is very large, and 2) the growth rates, as people go from not having things like electricity or a car to having them, are quite high. But these things alone do not lead to strong investment returns, in our view. **Pitfall 1: Excitement Leads to Expensive Markets** It is fun to be excited and to be in awe of some of these statistics, but "awe" tends to be a negative for investments. Things like "awe" and "excitement" push up valuations, making it hard to generate compelling future returns. **Pitfall 2: Many Large Emerging Market Companies Have Little to Do with Emerging Market Consumers** Some of the largest companies in emerging markets are banks and companies in the Energy and Materials sectors. In many cases, they are owned by governments, and they typically tend to react to global macroeconomic conditions rather than changes in the actual emerging market consumers. **Pitfall 3: Thematic Investments Can Be Very Narrow** In focusing on consumption, the first, natural stop is in the Consumer Staples and Consumer Discretionary sectors. But what about smaller private-sector banks? Health care firms? Technology firms? The interests and needs of growing emerging market consumers are likely to be wide-ranging, requiring a similarly wide-ranging focus among investors. **WisdomTree's Innovation in Emerging Market Consumer Growth** The WisdomTree Emerging Markets Consumer Growth Index directly combats these three potential pitfalls at each annual Index screening: **Solution 1:** Valuation, specifically the earnings yield, is a component of the selection methodology. Lower earnings yields (in other words, higher price-to-earnings (P/E) ratios) make it harder for stocks to gain inclusion. **Solution 2:** Banks greater than $10 billion in market capitalization and Energy and Materials firms are not eligible. **Solution 3:** Eight sectors are eligible for inclusion, and 250 constituents are included. **Consumer Growth Performance without the Premium P/E Ratio**





Sources: WisdomTree, Bloomberg. Periods as follows: YTD: 12/31/2015 to 8/22/2016; 1-Year: 8/22/2015 to 8/22/2016; Since WT Index Inception: 8/9/2013 to 8/22/2016. P/E ratio data is as of 8/22/2016. Past performance is not indicative of future results. You cannot invest directly in an index.

• Over the periods shown, the WisdomTree Emerging Markets Consumer Growth Index performed similarly to the Dow Jones Emerging Markets Consumer Titans 30 Index. Both Indexes also outperformed the MSCI Emerging Markets Index over the YTD and 1-year periods. • What we find more remarkable, however, is that the WisdomTree Index delivered this performance and retained a P/E ratio very similar to broader emerging markets. The Dow Jones index, on the other hand, had a P/E ratio almost twice that of broader emerging markets. Remember, a high valuation today makes for a higher hurdle for future returns. As investors become more open to emerging market allocations, we think the future of the global economy is undoubtedly powered by the emerging market consumer, and WisdomTree has developed a solution to address the common pitfalls of accessing this emerging market consumer theme.

[1]Source:"Future of Asia by the Numbers: 100 Facts," compiled by Gurcharan Gill & Emily Kim, 8/16.

Important Risks Related to this Article

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 and intervention or political developments.

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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.

Annual screening date : The screening date refers to the date upon which characteristics of eligible constituent firms are measured, whereas the rebalance refers to when the results from the screening date are implemented by way of Index weights and constituents.

Earnings yield : The earnings per share for the most recent 12-month period divided by the current market price per share. The earnings yield (which is the inverse of the P/E ratio) shows the percentage of each dollar invested in the stock that was earned by the company.

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.

Dow Jones Emerging Markets Consumer Titans 30 Index : Index designed to measure the performance of the 30 leading emerging market companies in the consumer goods and consumer services industries. Weighting is by float-adjusted market capitalization, subject to diversification requirements.

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.