

# INDIA: WHAT'S WORKING IN EMERGING MARKETS

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If you only focused on the returns of the [MSCI Emerging Markets \(EM\) Index](#), you'd think EM was dead money. If you looked at the MSCI Emerging Markets Ex-China Index, you'd basically be at breakeven over the last two years. But if you look at the [WisdomTree India Earnings Fund \(EPI\)](#), you might be surprised to see what's possible in India. In this piece, we discuss the fundamental drivers of Indian equity performance and why those drivers may be poised to continue.

## China Dominates EM Benchmarks

Over the last decade, China has made a concerted effort to broaden access to its capital markets. As a result, major benchmarks like the MSCI Emerging Markets Index have seen China rise in weight from less than 5% in the early 2000s to nearly 30% today. While China is a large market that deserves attention from investors, the challenge now is that the most commonly followed emerging markets benchmark is nearly completely beholden to Chinese equity market performance. As we show in the chart below, Chinese stocks have languished over the last two years, dragging down benchmark returns. However, even strategies that exclude China are slightly lower. We contrast these returns with Indian equities, which have delivered strong returns, particularly over the last year.

## EM Equity Performance: 12/31/21–2/9/24



Source: MSCI, as of 2/8/24. You cannot invest directly in an index. Past performance is not indicative of future results.

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

## What's Driving Returns

For investors who are open to the idea of not using a one-size-fits-all/broad-index-based approach to EM investing, your three best single-country options over the last five years have tended to be India, Taiwan and South Korea. However, what's striking is the differentiation in drivers of total return.

## One Year

Index	Ann. Total Return	Multiple Expansion	Margin Expansion	Sales Growth	Dividend Return	FX Return
MSCI EM Index	9.83%	15.37%	-9.10%	0.89%	2.69%	-0.02%
MSCI India Index	20.81%	-0.28%	14.21%	6.37%	1.15%	-0.64%
MSCI China Index	-11.20%	-17.27%	8.88%	-4.53%	2.22%	-0.49%
MSCI Taiwan Index	30.42%	63.48%	-33.37%	-2.98%	3.13%	0.17%
MSCI Korea Index	23.16%	70.43%	-43.53%	-3.07%	1.38%	-2.04%

Sources: WisdomTree, MSCI, as of 12/31/23. You cannot invest directly in an index. Past performance is not indicative of future results.

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As we mentioned before, as the largest weighting in emerging markets, concentration in China is weighing down broad index returns on account of dramatic multiple contraction as sales growth recedes. By contrast, India has experienced strong performance due to its strong fundamentals performance with multiple contraction over the last year. Although Taiwan has delivered nearly 1,000 [basis points](#) of excess returns, much of it has been driven by multiple expansion from its largest index holding, Taiwan Semiconductor. While TSMC has been a big beneficiary of the market's focus on AI/the U.S. Chips Act, the question many investors face is: Are these types of results sustainable or repeatable going forward?

### Three Years

Index	Ann. Total Return	Multiple Expansion	Margin Expansion	Sales Growth	Dividend Return	FX Return
MSCI EM Index	-5.08%	-15.57%	5.59%	5.02%	2.46%	-2.58%
MSCI India Index	11.97%	-11.18%	12.06%	14.69%	0.99%	-4.59%
MSCI China Index	-18.43%	-19.35%	-2.41%	2.19%	1.78%	-0.64%
MSCI Taiwan Index	4.93%	-4.05%	6.31%	2.84%	2.85%	-3.01%
MSCI Korea Index	-7.28%	-12.64%	5.20%	3.95%	1.66%	-5.47%

Sources: WisdomTree, MSCI, as of 12/31/23. You cannot invest directly in an index. Past performance is not indicative of future results.

Over the last three years, India has delivered best-in-class performance even when multiples have continued to contract. Despite this headwind, Indian companies have experienced double-digit sales and margin expansion. Additionally, [FX](#) headwinds in India could be abating, which could begin to unwind the nearly 5% erosion in total returns for U.S.-based investors.

### Five Years

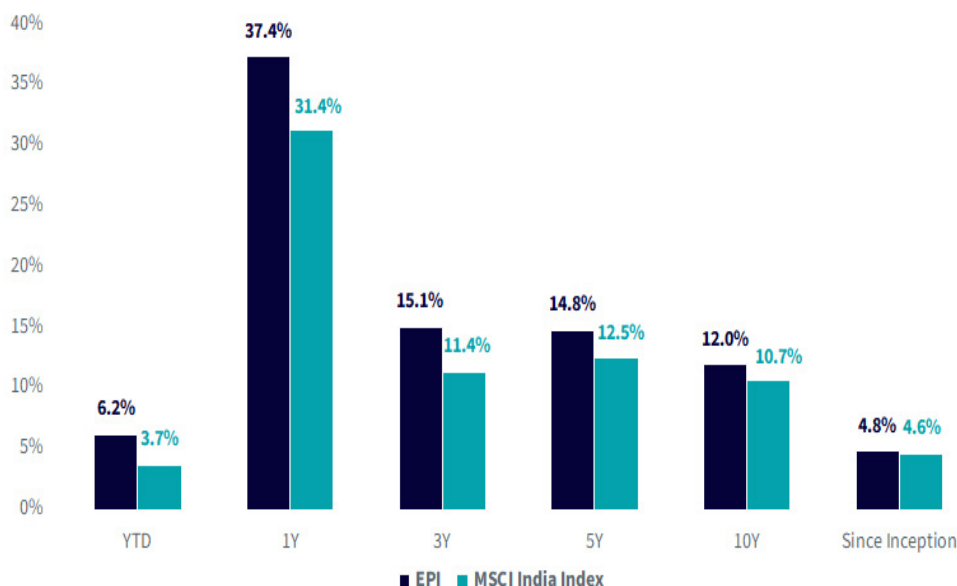
Index	Ann. Total Return	Multiple Expansion	Margin Expansion	Sales Growth	Dividend Return	FX Return
MSCI EM Index	3.69%	2.71%	-0.78%	0.95%	2.50%	-1.69%
MSCI India Index	11.78%	2.32%	4.48%	7.54%	1.15%	-3.71%
MSCI China Index	-2.80%	-1.48%	-2.36%	-0.71%	1.90%	-0.14%
MSCI Taiwan Index	17.31%	9.89%	2.44%	1.77%	3.18%	0.03%
MSCI Korea Index	5.34%	14.77%	-9.86%	1.63%	1.74%	-2.94%

Sources: WisdomTree, MSCI, as of 12/31/23. You cannot invest directly in an index. Past performance is not indicative of future results.

Over the last five years, India has delivered strong fundamental performance, growing sales by nearly 8% per year. While multiples have expanded by 2.3% per year over during this period, they are far from overvalued, in our view. As long as

India can continue to deliver solid growth versus other markets, we believe we may be in the early innings of a dramatic repricing of Indian assets versus China. We feel that China is currently on the verge of experiencing a lost decade. For many investors, India may be a strong option to counter a challenging macro environment and self-inflicted wounds from Chinese policy makers.

#### EPI vs. MSCI India Index Performance



Sources: WisdomTree, MSCI, as of 2/8/24. You cannot invest directly in an index.

**Past performance is not indicative of future results. Investment return 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. Current performance may be lower or higher than the performance data quoted.**

*For the most recent month-end and standardized performance and to download the respective Fund prospectuses, click [here](#).*

#### Adding Value vs. MSCI India

One of our primary views of investing is that market cap weighting is flawed. In India, this is no different. By focusing only on profitable companies, [EPI](#) tends to trade at a lower [P/E multiple](#) than [MSCI India](#). Over time, this has had the impact of delivering excess returns during nearly every period we examined. While there are no guarantees that these trends will continue, we continue to advocate that strategies anchored to fundamentals can deliver long-term value to investors seeking growth from Indian equity exposure.

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You cannot invest directly in an index.

## **DEFINITIONS**

**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.

**Emerging market** : Characterized by greater market access and less potential for operational risks when compared to frontier markets, which leads to a larger base of potentially eligible investors.

**Basis point** : 1/100th of 1 percent.

**Foreign Exchange (FOREX, FX)** : The exchange of one currency for another, or the conversion of one currency into another currency.

**Price-to-earnings (P/E) ratio** : Share price divided by earnings per share. Lower numbers indicate an ability to access greater amounts of earnings per dollar invested.

**MSCI India Index** : A market capitalization-weighted index designed to measure the performance of the Indian equity market.