

A PRIMER ON EMERGING MARKET DEBT

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We believe there are compelling reasons to consider investing in emerging market (EM) debt—especially when you consider that total returns from fixed income today may be driven by factors other than the simple cash flows they generate. For example, EM debt provides:

- The opportunity to participate in emerging market growth with the potential for less volatility than EM equities
- Issuers with comparatively low levels of debt as a percentage of gross domestic product (GDP)
- A growing investable universe

But perhaps you're wondering: How do I best capitalize on these trends in EM debt? There are three ways to invest in this evolving asset class:

- **U.S. dollar (USD) sovereigns (a \$579 billion market)**—the longest-standing market, USD sovereign debt is the entry point for most developing EM issuers to access global investors. While it offers more countries, it also has a higher percentage of less credit-worthy borrowers.
- **Local currency sovereigns (a \$953 billion market)**—provide access to the underlying economic growth, as they are more closely tied to local interest rates, monetary policies and economic events driving the local economy. The largest of the EM debt markets, local debt also has the highest barriers to entry; not every country can issue in their local currency. This has caused the investable universe to be tilted toward investment-grade borrowers (currently 93%)¹.
- **Corporates (USD-denominated—a \$620 billion market)**—the fastest-growing portion of the market, EM corporates have a larger percentage of investment grade issues than USD sovereigns and offer the opportunity for higher yields than U.S. fixed income of similar credit quality, with less [interest rate risk](#). In our opinion, local currency sovereigns and EM corporates are ideal investment choices for today's investors. Both of these options can provide shorter durations and less interest rate risk than their USD sovereign counterparts. *To learn more about WisdomTree Fixed Income family, [click here](#).*

¹Source: JPMorgan, as of 12/31/2013.

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You cannot invest directly in an index.

DEFINITIONS

U.S. dollar (USD) sovereigns : debt denominated in U.S. dollars issued by an emerging market government.

Local currency sovereigns : debt denominated in local currencies issued by an emerging market government.

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