

LEANING INTO EMERGING MARKET VALUE

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11/03/2022

[Emerging market \(EM\)](#) economies have shifted their composition in the past decade, becoming less dependent on exporters and commodity-driven companies. But recent performance has shown how some of these economies can thrive in a commodity boom such as the one we’ve seen over the past few years.

In the chart below, we can see how the [MSCI EM Value Index](#) has outperformed its [growth](#) counterpart over the last 24 months, at the same time the [BCOM Index](#) has trended higher.

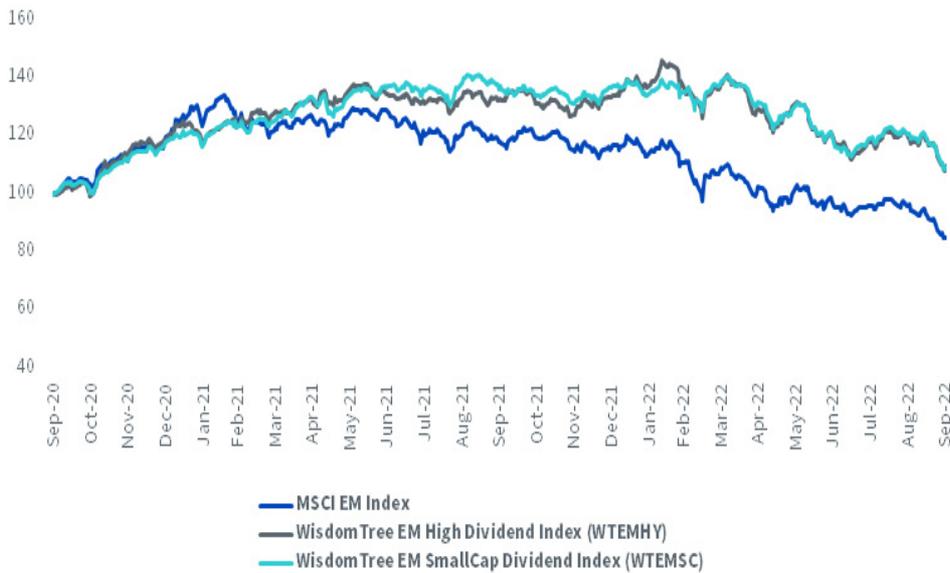


Sources: WisdomTree, FactSet. Data from 9/30/20–9/30/22. Past performance is no guarantee of future results. An investor cannot invest directly in an index. Index returns do not reflect any fees, expenses or sales charges.

WisdomTree Indexes with a Value Tilt in EM

At the same time, the [WisdomTree Emerging Markets High Dividend Index \(WTEMHY\)](#) and [WisdomTree Emerging Markets SmallCap Dividend Index \(WTEMSC\)](#) have continued to outperform the [MSCI EM Index](#) with lower [volatility](#), thanks to their [value](#) exposures and resulting sector and country exposures.

Growth of \$100



Sources: WisdomTree, FactSet. Data from 9/30/20–9/30/22. Past performance is not indicative of future results. You cannot invest directly in an index. Index performance does not represent actual fund or portfolio performance. A fund or portfolio may differ significantly from the securities included in the index. Index performance assumes reinvestment of dividends but does not reflect any management fees, transaction costs, brokerage commissions on transactions. Such fees, expense and commissions would reduce returns. To view a fund's standardized performance visit the fund webpage.

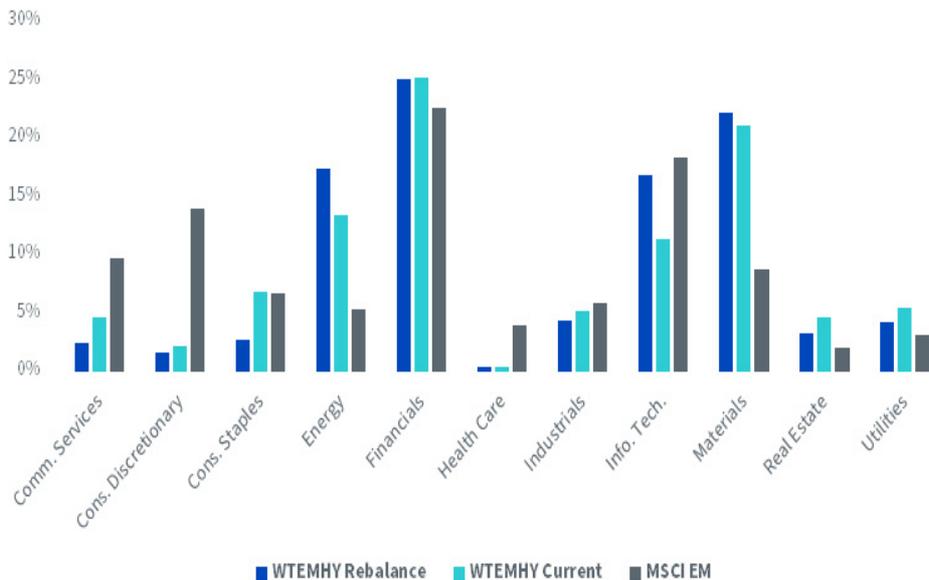
These Indexes, which are tracked by the [WisdomTree Emerging Markets High Dividend Fund \(DEM\)](#) and [WisdomTree Emerging Markets SmallCap Dividend Fund \(DGS\)](#), are reconstituted annually, and their new weights become effective after the close on October 20. In both cases, we can see how these portfolios maintain exposure to [commodity](#) sectors and economies and are positioned to take advantage of this market environment.

WisdomTree’s Emerging Markets High Dividend Index (WTEMHY)

WTEMHY holds the highest (top 30%) [dividend-yielding](#) companies in EM and screens out those with the highest risk according to our composite risk screen measure.

Selected companies are weighted by the dividends they’ve paid out over the past 12 months. In its most recent reconstitution, WTEMHY added weight to the Information Technology, Energy and Materials sectors, as these have grown dividends proportionally faster in the last year and have shown strong fundamentals. The Index continues to show a significant tilt to value sectors versus the broad MSCI EM Index.

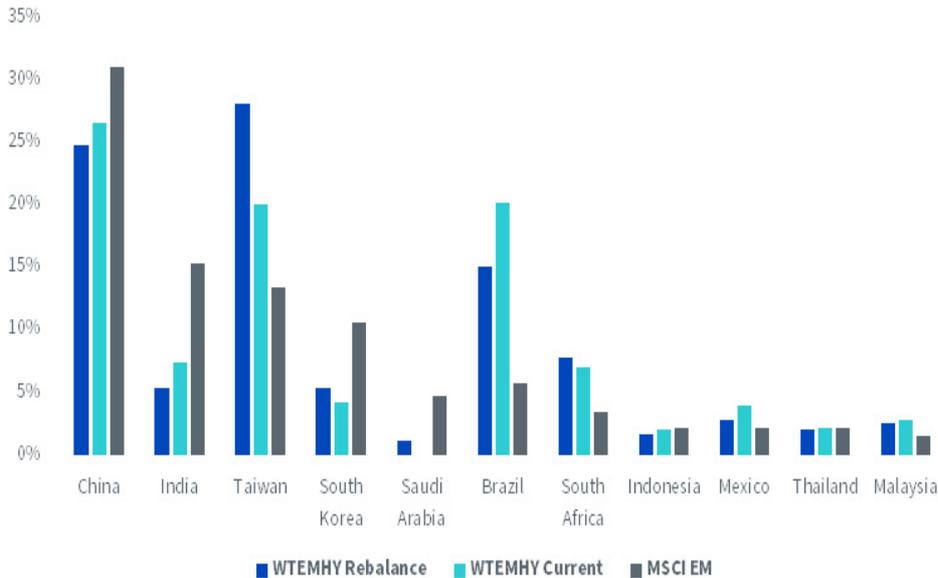
EM High Yield Universe



Sources: WisdomTree, FactSet. Data as of 9/30/22.

In terms of country exposures, the rebalanced portfolio saw an increased exposure to Taiwan as a result of Information Technology and Materials companies increasing their distributions on the back of strong earnings growth. It is worth highlighting that Saudi Arabia was added to WisdomTree’s list of eligible EM securities and has a modest weight after rebalancing. The exposure to Brazil is being reset, as it has had a significant run-up since we last rebalanced the Index in October 2021. WTEMHY continues to be over-weight in commodity-driven and “value” economies in China and South Korea, which tend to be technology- and financial-heavy.

EM High Yield Universe



Sources: WisdomTree, FactSet. Data as of 9/30/22.

Looking at the portfolio’s fundamentals below, we can see how WTEMHY improved its dividend yield by 93 [basis points \(bps\)](#), reduced its [valuation \(P/E ratio\)](#) by 0.64x to 4.71x and improved its profitability during its rebalance. Compared to MSCI EM, WTEMHY has an excess yield north of 7.5%, is trading at more than a 50% discount and has higher profitability measures.

High Yield Emerging Markets Rebalance

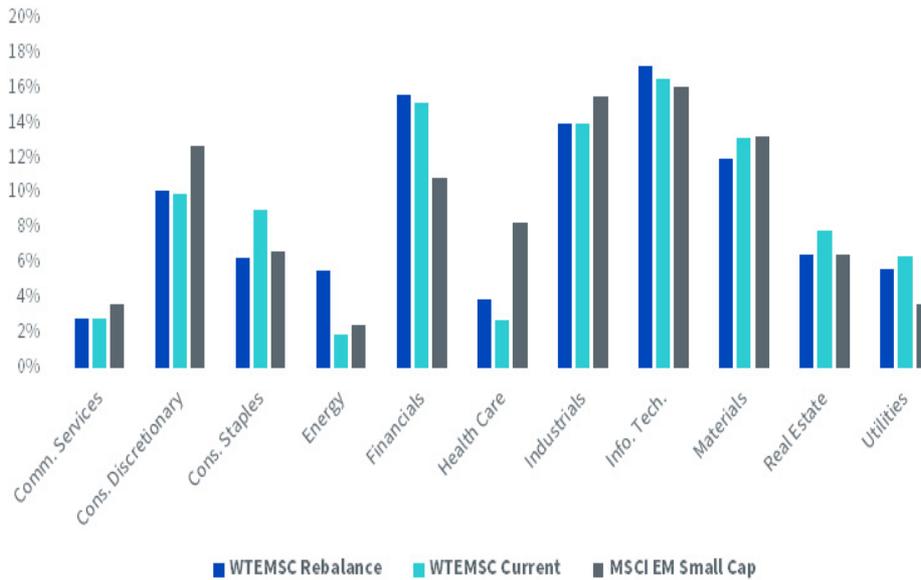
Portfolio	Constituents	Dividend Yield	Price to Earnings	Pct Neg. Earnings	Return on Assets	Return on Equity
New Portfolio	545	11.30	4.71	0.00	1.97	15.53
Old Portfolio	590	10.37	5.35	0.00	1.73	14.20
MSCI EM	1387	3.53	10.98	7.22	1.87	13.62

Sources: WisdomTree, FactSet. Data as of 9/30/22. The measures above refer to the underlying securities of the holdings in the portfolios and should not be considered reflective of future performance.

WisdomTree Emerging Markets SmallCap Dividend Index (WTEMSC)

Sector changes to WTEMSC during its reconstitution were small, with the largest shift coming from Energy into Consumer Staples. Overall, the Index remains strongly exposed to the traditional value sectors in emerging markets.

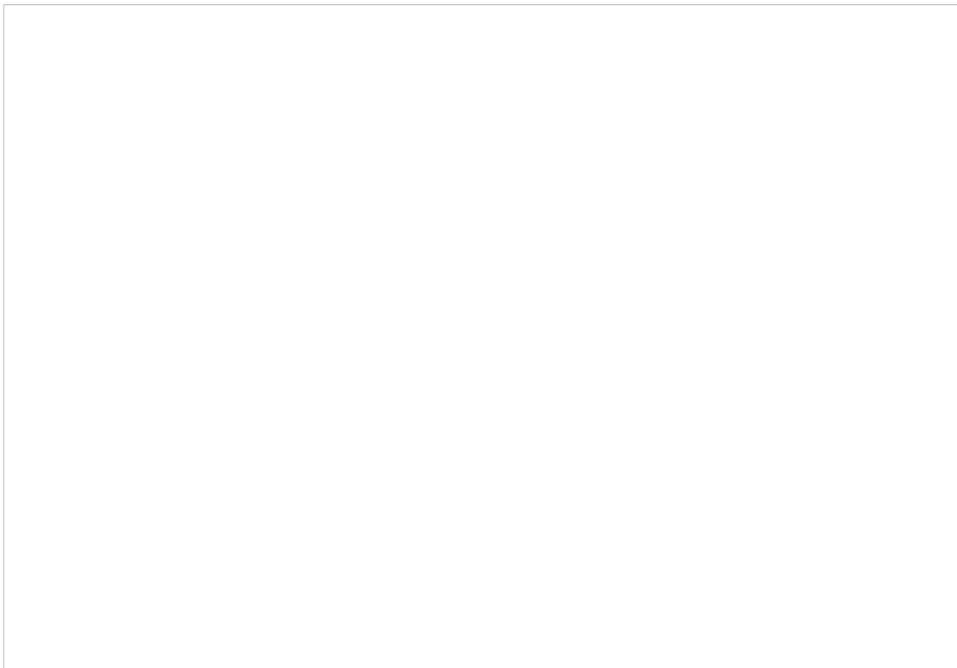
EM SmallCap Universe



Sources: WisdomTree, FactSet. Data as of 9/30/22.

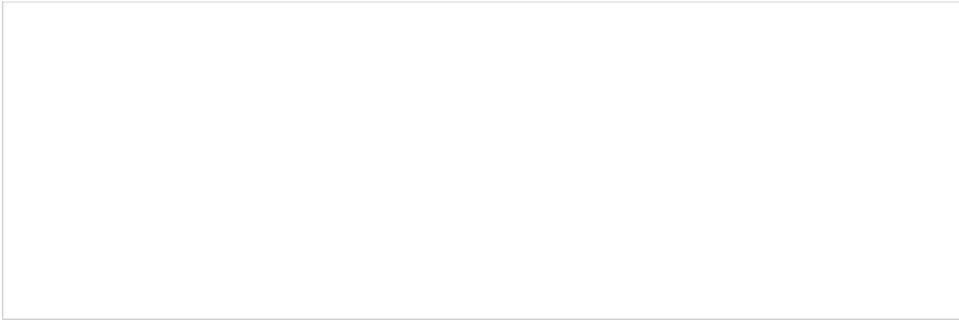
Like WTEMHY, WTEMSC continues to be over-weight in commodity-driven economies. Something to highlight is the increased exposure to China caused by companies falling into the bottom 10% of total market capitalization in the WisdomTree Emerging Markets Index, which is the starting universe for WTEMSC, as Chinese markets continue to trend downward.

EM SmallCap Universe



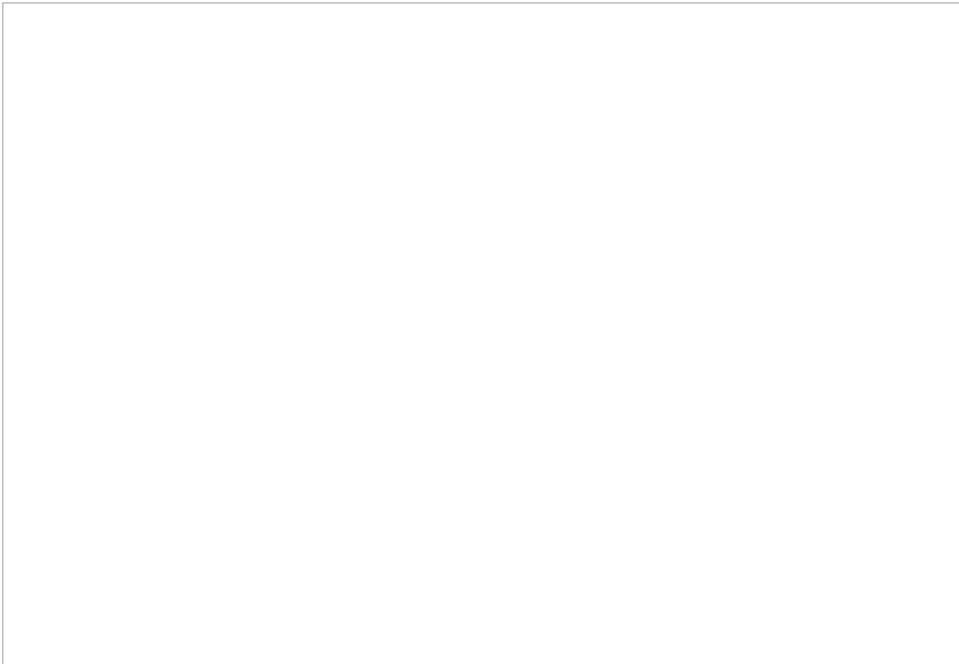
WTEMSC’s aggregate fundamentals show rebalance-related improvement across the different metrics, taking its dividend yield up almost 30 bps and cutting its valuation by 1.6x. It is very interesting to see how this basket of small-cap EM companies can have profitability metrics that are comparable to broad market benchmarks like the MSCI EM and MSCI EAFE Indexes.

Small-Cap Emerging Markets Rebalance



The valuation of this emerging market small-cap basket at six times earnings is very low compared to global benchmarks, particularly U.S. large caps and U.S. small caps. While our team has been writing that [small caps in the U.S. are attractive, given wide discounts relative to large caps](#), the discounts with WisdomTree's EM [small-cap](#) dividend approach are also some of the widest in 15 years.

Fwd. Price-to-Earnings Ratio



Important Risks Related to this Article

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