

ALL EMERGING MARKETS ARE NOT CREATED EQUAL, PART 2

Rick Harper – Chief Investment Officer, Fixed Income and Model Portfolios
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Our [recent post](#) on the WisdomTree blog discussed the role fundamentals play in our local currency debt investment process. As an example, we noted two ratings agencies' negative outlook for Hungary and our decision over the past two years to exclude their debt from our portfolios. Conversely, the Philippines, a country we have owned in both of our local debt Funds since their inception, was recently upgraded by Fitch to [investment-grade](#) status for the first time in its history.¹ On the same day, Standard & Poor's upgraded Turkey's local currency debt (which we also own) to BBB (the second-lowest investment-grade rating).² As a result of the Philippines upgrade, all the countries in the [WisdomTree Emerging Markets Local Debt Fund \(ELD\)](#) and the [WisdomTree Asia Local Debt Fund \(ALD\)](#) now carry an investment-grade rating by at least one ratings agency for the first time since their inception. While this represents an important milestone for the Philippines, we believe it also serves as positive reinforcement for our focus on fundamentals when investing in emerging markets. In uncertain or developing markets, biasing a portfolio toward [stronger economic fundamentals](#) could be a prudent way of reducing risk. In its report, Fitch noted that the impressive gross domestic product (GDP) growth of 6.6% in 2012³ and a projected expansion of 5.5% in 2013⁴ make the economy all the more attractive, given its comparatively low debt burden. Standard and Poor's raised the outlook on the Philippines to positive near the end of 2012, noting policy momentum from President Benigno Aquino.⁵ Should S&P (or any other ratings agency) match Fitch's recent upgrade, a whole new subset of investors could have the flexibility to allocate to the country's debt.⁶ This has the potential to strengthen the Philippine peso against the U.S. dollar and at the same time increase bond prices. While the ratings upgrade is a clear positive highlighting that the Philippines is progressing in the right direction, this news still needs to be put in perspective. Emerging markets are not without risks, and there will undoubtedly be bumps along the way. However, the flexibility that [active management](#) provides gives the Fund's Strategy Committee the ability to reduce or eliminate positions from the portfolio, should the unexpected occur. Ultimately, we are heartened by the progress being made in many emerging market countries. As investors continue to look for higher yield potential globally, we believe interest in the asset class could continue to grow in the coming years. ¹Fitch, March 27, 2013. ²Standard & Poor's, March 27, 2013. ³International Monetary Fund (IMF), 2013. ⁴IMF, 2013. ⁵Standard & Poor's, 2012. ⁶Some investors/indexes require a minimum ratings threshold for a security to be included in certain accounts.

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Investment grade: An investment grade is a rating that signifies a municipal or corporate bond presents a relatively low risk of default.

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