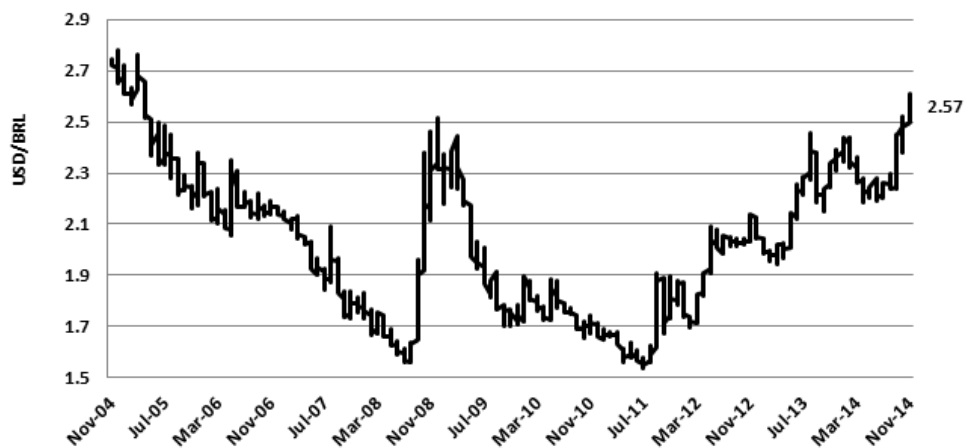


RAMPING UP REFORM IN BRAZIL

Rick Harper – Chief Investment Officer, Fixed Income and Model Portfolios
12/08/2014

In October's presidential elections, the people of Brazil voted for the status quo when they re-elected Dilma Rousseff. Since then, markets have cast their votes as well. With growth continuing to slow, prices remaining stubbornly high and corruption investigations dominating the headlines, many investors have reduced their exposure to Brazilian assets. However, the market's response seems to have finally caught the government's attention. On November 27, President Rousseff shook up her cabinet through the appointment of Joaquim Levy as finance minister. In our opinion, this marks a positive first step by the administration in its attempt to re-establish its credibility with the market. Our hope is that Brazilian assets respond in much the same way that Indian markets rebounded in response to reforms enacted by the Reserve Bank of India's governor, Dr. Raghuram Rajan, over the last year. **Brazilian Real Exchange Rate,**



11/30/04- 11/30/14 Source: Bloomberg, as of 11/30/14 Past performance is not indicative of future results.

With an impressive professional background and academic pedigree, Mr. Levy represents the reform agenda that we believe Brazil needs. As Treasury secretary in Lula's administration¹ from 2003 to 2006, Mr. Levy helped effect a dramatic improvement in Brazil's [fundamentals](#) that ushered in a golden age of growth for the country's economy. No stranger to difficult tasks, he has the potential to help Brazil turn the corner. With government largesse clearly in need of restraint, Mr. Levy has announced that he will target [fiscal surplus](#) over the coming years to help improve fundamentals and increase business confidence.² In our view, his appointment represents an acknowledgment by the administration that change is necessary. In recent years, the market had grown increasingly skeptical of Mr. Levy's predecessor, Guido Mantega. This lack of confidence translated into a reversal of investment flows and a weakening of Brazil's currency, the real. While transformation will clearly not occur overnight, in our view Brazil continues to represent a long-term opportunity for investors. Today, [interest rates](#) are among the highest in the emerging markets in both [nominal](#) and [real](#) terms. Additionally, the Brazilian real is trading at levels not seen since 2005.³ while the [Bovespa Index](#) is higher year-to-date, most U.S. investors are sitting on losses due to weakness in the currency.⁴ Cheap assets can continue to get cheaper, but we are more constructive on

Brazil, given the governments focus on fundamentals. Should additional reforms have the intended effect, we believe the government can avoid an embarrassing credit rating downgrade and markets can trade higher. In our view, investors should consider increasing allocations to the Brazilian real and locally denominated Brazilian bonds. While improvements will continue to occur over time, we believe that at current valuations investors are being adequately compensated for these risks. With a tacit acknowledgment from the government that change is needed, we believe that reformers such as Finance Minister Levy will help improve investor confidence and lift Brazilian asset prices over time.

¹Luiz Inácio Lula da Silva, president of Brazil from 2003 to 2010. ²Source: Bloomberg, as of 11/27/14. ³Source: Bloomberg, as of 11/30/14. ⁴Source: Bloomberg, as of 11/30/14.

Important Risks Related to this Article

Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. Investments in currency involve additional special risks, such as credit risk and interest rate fluctuations. 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. Investments focused in Brazil are increasing the impact of events and developments associated with the region, which can adversely affect performance.

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

For more investing insights, check out our [Economic & Market Outlook](#)

View the online version of this article [here](#).

IMPORTANT INFORMATION

U.S. investors only: Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an “as is” basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the “MSCI Parties”) expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages (www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only. You cannot invest directly in an index.

DEFINITIONS

Fundamentals: Attributes related to a company's actual operations and production as opposed to changes in share price.

Fiscal surplus: a situation where government revenue (taxes) exceeds expenditures.

Interest rates: The rate at which interest is paid by a borrower for the use of money.

Nominal interest rate: Interest rate that does not account for the impact of inflation.

Real interest rate: Interest rate accounting for the impact of inflation. From the nominal interest rate, which does not account for the impact of inflation, the rate of inflation is subtracted to get to the real interest rate.

Bovespa Index: a theoretical portfolio of stocks that seeks to serve as a gauge of performance for the Brazilian stock market.