

KEY THEMES FOR EMERGING MARKETS IN 2022

Matt Wagner — Associate Director, Research

01/20/2022

2021 was a disappointing year for emerging markets ("EM") as an asset class. The [MSCI Emerging Markets Index](#) was down 2.5%, lagging [MSCI ACWI](#) by 21%.

For global asset allocators, there are a few key themes to consider for this year as it relates to EM:

1. A high-inflation environment
2. Rising interest rates
3. The overhang of China regulatory risks/China slowdown under its "zero COVID-19" policy

The [WisdomTree Emerging Markets High Dividend Fund \(DEM\)](#)—which outperformed the MSCI EM Index by 1,425 [basis points \(bps\)](#) in 2021—may be well positioned for contending with these themes.

Theme 1: High Inflation

[DEM](#) is over-weight in the most inflation-sensitive sectors—Financials, Real Estate, Materials and Energy—making it a prime candidate, we believe, for investors in search of inflation hedges.

Unlike the 2000s, the current sector weights of the broad MSCI EM Index skew more toward technology and tech-enabled companies, making it less of a beneficiary of a potential commodity supercycle.

Sector	DEM	Old MSCI EM (12/31/06)	New MSCI EM (12/31/21)
Financials	24.75%	20.01%	19.40%
Materials	23.35%	14.00%	8.60%
Information Technology	12.26%	13.38%	22.67%
Energy	10.84%	16.47%	5.56%
Consumer Staples	6.53%	5.04%	5.87%
Industrials	5.15%	7.32%	5.07%
Real Estate	5.13%	0.99%	1.95%
Utilities	4.84%	3.66%	2.37%
Communication Services	4.70%	11.99%	10.72%
Consumer Discretionary	1.97%	5.34%	13.54%
Health Care	0.47%	1.80%	4.24%

Sources: WisdomTree, FactSet, MSCI, 12/31/21. You cannot invest directly in an index. Holdings subject to change.

Theme 2: Rising Interest Rates

As we've seen in recent weeks when high-[growth](#) names have come under pressure, growth stocks that derive more of their value from far-out cash flows are more negatively impacted by higher rates.

Conversely, [value](#) stocks that have higher current cash flows and pay out higher [dividends](#) are more positively impacted. Out of all of WisdomTree's ETFs, no product screens higher on value and income than [DEM](#) with its dividend yield more than 7% and a 6x price-to-earnings multiple.

Valuation/Characteristics	DEM	MSCI EM
Price/Earnings (Trailing)	5.98	13.91
Price/Earnings (Forward)	6.13	13.04
Dividend Yield	7.26%	2.25%
Return on Equity	14.11%	12.64%
Return on Assets	1.86%	1.80%
Number of Holdings	492	1420

Sources: WisdomTree, FactSet, MSCI, 12/31/21. You cannot invest directly in an index. Holdings subject to change. WisdomTree shares are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Total returns are calculated using the daily 4:00 p.m. EST net asset value (NAV). Market price returns reflect the midpoint of the bid/ask spread as of the close of trading on the exchange where Fund shares are listed. Market price returns do not represent the returns you would receive if you traded shares at other times. Performance is historical and does not guarantee future results. Current performance may be lower or higher than quoted. Investment returns 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.

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

Click [here](#) for the most recent standardized performance, 30-day SEC yield and month-end performance.

Theme 3: China Risks

China's regulatory crackdown on its large tech-enabled companies came as a surprise to markets in 2021. It's possible that this risk is fully priced-in/appreciated by investors.

Nonetheless, concerns about the investability of Chinese companies—accentuated by U.S. government blacklists of Chinese companies—or merely concerns about the disproportionate weight of China in the MSCI EM Index (34%) have led some investors to search for “ex-China” solutions.

By screening on the high-yielding companies in the emerging market universe, [DEM](#) is naturally under-weight in the high-growth Chinese companies that have accumulated significant weights in the MSCI EM Index. On an aggregate country basis, [DEM](#) is under-weight in China by 9%, with a more modest 25% weight as of December 31, 2021.

With just a 15% holdings overlap to MSCI EM, [DEM](#) can be a useful complementary EM allocation to dial back exposure to China-tech headline risk or used in isolation to navigate the themes we've highlighted for this year.

DEM Top 10 Holdings		MSCI EM Top 10 Holdings	
Top 10 Holdings	Weight	Top 10 Holdings	Weight
Vale S.A.	7.58%	Taiwan Semiconductor Manufacturing Co., Ltd.	6.97%
China Construction Bank Corporation Class H	3.22%	Samsung Electronics Co., Ltd.	4.63%
Petroleo Brasileiro SA Pfd	3.12%	Tencent Holdings Ltd.	4.30%
Hon Hai Precision Industry Co., Ltd.	2.20%	Alibaba Group Holding Ltd.	2.95%
Industrial and Commercial Bank of China Limited Class H	2.12%	Meituan Class B	1.50%
Bank of China Limited Class H	1.81%	Reliance Industries Limited	1.16%
Grupo Mexico S.A.B. de C.V. Class B	1.57%	Infosys Limited	1.10%
Ping An Insurance (Group) Company of China, Ltd. Class H	1.36%	China Construction Bank Corporation Class H	0.85%
Asustek Computer Inc.	1.34%	MediaTek Inc	0.83%
Impala Platinum Holdings Limited	1.31%	JD.com, Inc. Class A	0.78%

Sources: WisdomTree, FactSet, MSCI, as of 12/31/21. You cannot invest directly in an index. Holdings subject to change.

Please read the [prospectus](#) carefully before investing.

Important Risks Related to this Article

There are risks associated with investing, including possible loss of principal. Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. Funds focusing on a single sector generally experience greater price volatility. 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, intervention and political developments. Due to the investment strategy of this Fund, it may make higher capital gain distributions than other ETFs. Dividends are not guaranteed, and a company currently paying dividends may

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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.

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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.

MSCI All Country World Index : a broad global equity benchmark that represents large and mid-cap equity performance across 23 developed and emerging market countries.

Basis point : 1/100th of 1 percent.

Growth : Characterized by higher price levels relative to fundamentals, such as dividends or earnings. Price levels are higher because investors are willing to pay more due to their expectations of future improvements in these fundamentals.

Value : Characterized by lower price levels relative to fundamentals, such as earnings or dividends. Prices are lower because investors are less certain of the performance of these fundamentals in the future. This term is also related to the Value Factor, which associates these stock characteristics with excess returns vs the market over time.

Dividend : A portion of corporate profits paid out to shareholders.