Rethinking Emerging Markets: introducing a more targeted approach

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Points clés

- Traditional EM benchmarks are increasingly dominated by large, more mature economies, diluting exposure to true development-led growth.
- “True Emerging Markets” focus on countries still undergoing structural transformation, financial deepening, and income convergence.
- Economies like India, Brazil, Saudi Arabia, Mexico, and South Africa offer diverse and active growth drivers.
- WisdomTree’s multi-metric framework redefines EM based on development and market maturity rather than legacy classifications.
- The resulting portfolio reduces concentration risk and provides more targeted exposure to under-owned, high-growth markets.

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Investors have long been drawn to Emerging Markets (EM) for a simple reason: the opportunity to participate in the economic development journey with rising incomes, expanding middle classes, deepening capital markets, and the structural transformation that accompanies a country's transition from lower to middle-income status. It is one of the key long-term return drivers in global equities.

But here's the problem. Over the past two decades, the EM universe has evolved in ways that may dilute that original promise. Traditional EM benchmarks have become dominated by a small number of large, mature markets; economies where per capita incomes have risen sharply, credit standards have improved, capital markets have deepened to developed-market scale, and equity market behaviour has become less sensitive to the classic emerging-market drivers that attracted investors in the first place.

The result is that broad EM exposure can stop behaving like a diversified investment in development-led growth and may become a concentrated bet on a handful of large markets and mega-cap companies.

For investors allocating to EM to capture convergence and structural change, that's a disconnect worth addressing.

Redefining Emerging Markets

A true Emerging Market is a country that is not already economically and institutionally comparable to developed markets, still has meaningful scope for development-led growth and capital market deepening, and remains investable with sufficient practicality. It is a framework anchored in development and market maturity, not legacy classification.

Take India, for example. Gross domestic product (GDP) per capita sits at roughly $3,000[1], a fraction of developed-market levels, yet the country is building digital public infrastructure at a scale and speed that has no historical precedent. The Unified Payments Interface (UPI) processed 300 trillion rupees in transactions last year, a 300-fold increase in eight years[2]. This is not a mature economy optimising at the margin. This is an economy in the thick of a structural transformation, formalising, digitising, and expanding the addressable market for its listed companies in real time.

At the same time, Brazil's natural advantages set it apart. It is a top five global producer of soybeans, coffee, sugar, orange juice, and beef[3]. It is also one of the fastest-growing non-OPEC oil producers, and in today's environment with elevated oil prices, 88% of Brazil's electricity comes from renewable sources[4]. That combination of oil export revenue with domestic energy cost insulation through renewables is a rare dual advantage.

Saudi Arabia represents an economy channelling commodity wealth into a wholesale transformation. Tourism has already hit 122 million visits, with the 2034 FIFA World Cup, Formula 1, Riyadh Season, and the giga-projects all creating sustained demand[5]. Additionally, data centre capacity is growing at 29% annually through 2030[6].

South Africa offers yet another dimension. The banking sector is well-capitalised and expanding across the African continent. 84% of adults now have bank accounts, up from 52% in 2003 but household credit is only 34% of GDP and corporate debt at 31% is low versus its Organisation for Economic Co-operation and Development (OECD) peers[6]. There's room for credit growth as rates come down. High gold and platinum prices in 2025 significantly benefit South Africa by driving export-led growth, boosting foreign exchange reserves and bolstering fiscal revenue.

Mexico sits at the intersection of nearshoring and financial inclusion. Around 53% of GDP is tied to trade with the US, with roughly 80% of exports complying with the United States-Mexico-Canada Agreement (USMCA) rules, a structural advantage at a time when tariff policy dominates global headlines[7].

Each of these economies sits at a different stage of the development curve, but they share a common thread. The forces that have historically underpinned the appeal of emerging market investing, including convergence, structural change, financial deepening and resource-driven growth, remain firmly in place. These are not legacy classifications, but active and evolving processes.

In contrast, some countries still classified as emerging markets in traditional indices, such as China, South Korea and Taiwan, have increasingly diverged from the broader EM universe. Their levels of GDP per capita, capital market depth and growth dynamics now look materially different.

Introducing the WisdomTree True Emerging Markets UCITS ETF

The WisdomTree True Emerging Markets UCITS ETF (WEM) tracks the WisdomTree True Emerging Markets UCITS Index. In contrast to traditional emerging market benchmarks, which depend on traditional country classifications and are often heavily weighted toward a few large, more mature economies, WisdomTree uses a proprietary multi-metric framework to identify countries that qualify as True Emerging Markets.

Figure 1: WisdomTree Emerging Markets Country Classification Framework

Source: WisdomTree, as of 27 February 2026. HDI – Human Development Index.

This framework reviews each country's macroeconomic data, including IMF World Economic Outlook country classification, GDP per capita, UN Human Development Index, sovereign credit rating, and GDP growth momentum, as well as local stock market accessibility and tradability. The country classification is reviewed annually in line with the above framework. The WisdomTree True Emerging Markets UCITS ETF provides focused exposure to strong structural growth potential, under-owned emerging market countries such as India, Brazil, Saudi Arabia, Mexico, South Africa, Indonesia, and Vietnam. These are economies where demographic tailwinds, digital advancement and capital market under-penetration continue to offer meaningful long-term growth potential.

The resulting exposure differs significantly from traditional EM benchmarks, with an active share of 66% relative to the MSCI Emerging Markets Index, which has larger allocations to China, Taiwan and South Korea, markets that exhibit different economic characteristics compared to other emerging market countries. The exclusion of these markets also reduces concentration, with the combined weight of the top ten holdings decreasing from 33.5% in the MSCI EM Index to 16% in the WisdomTree Emerging Markets UCITS Index.

Figure 2: Top country exposures and differences versus the MSCI EM Index

Source: WisdomTree, MSCI. As of 27 February 2026.

Investments in emerging markets are subject to risks, including market volatility, political and economic uncertainty, currency fluctuations and changes in regulation, which may affect performance over time.

1 IMF World Economic Outlook, April 2026 update. India GDP per capita estimate for 2026.
2 National Payments Corporation of India (NPCI) and Press Information Bureau of India (PIB) 2025.
3 International Fund of Agricultural Development (IFAD) as of 31 December 2025.
4 Empresa de Pesquisa Energetica (EPE), National Energy Balance 2025, base year 2024.
5 S&P Global Intelligence, as of 31 December 2025.
6 OECD Economic Surveys: South Africa 2025.
7 World Bank, Banxico, as of 31 December 2025.

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