

The Case for Emerging Markets

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To put it lightly, 2015 and recent years have been tough for emerging market (EM) allocations. Although this asset class has been under significant pressure, we do not view this as a reason to jump ship. In our view, the 2015 sell-off poses an opportunity to take control of your allocations rather than continue to hold on to a region that has underperformed. In early 2015, there was a strong rebound in the emerging markets following the sell-off in commodities. This reinvigorated confidence in emerging markets ended with an April high for the MSCI Emerging Markets Index. However, since April 2015, emerging market equities have fallen approximately 22%.

You cannot invest directly in an index. Period is from 31/12/2010 through 29/3/2016 in Chart 1 and 31/12/2015 to 29/3/2016 in Chart 2. 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 performances assumes reinvestment of dividends but does not reflect any management fees, transaction costs or other expenses that would be incurred by a portfolio or fund, or brokerage commissions on transactions in fund shares. Such fees, expenses and commissions could reduce returns.

But as we said we don't think it's time to bail. In fact, we believe that there is deep value to be found in the emerging markets. And we see an interesting way to capture it: tax loss harvesting into DEM, the WisdomTree Emerging Markets Equity Income UCITS ETF (which is designed to track the performance of the WisdomTree Emerging Markets Equity Income Index, shown above). We see market volatility as an opportunity to be more tactical. When we see significant downward moves—such as the current environment in EM equities—we think it makes sense to rotate strategies while booking a loss.

As DEM has tracked the WisdomTree Emerging Markets Equity Income Index since its 16 June 2007 inception, it's worth noting that this Index has hunted for valuation opportunities on an annual basis, taking the top 30% of dividend-paying EM securities^[1] and weighting them based on annual cash dividends paid. Currently, the Index displays a 6.33% 12-month trailing dividend yield and a price-to-earnings ratio (P/E) of 11.04x.

^[2] DEM has been very responsive to the recent movements in the price of oil. This makes sense, what with the Fund's large commodity exposure in materials or energy companies.

DEM certainly has faced headwinds from its exposure to energy and China over the recent years. But the long-term track record of a focus on high dividend stocks in the emerging markets has added meaningful value.

All data is sourced from WisdomTree Europe and Bloomberg, unless otherwise stated.

[1] Universe is defined as the WisdomTree Emerging Markets Equity Income Index

[2] Source: WisdomTree, as of 29/3/16

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