INFLECTION POINT: INDIA

Bradley Krom, U.S. Head of Research

> *"For the long-term and I have been saying this every year, but I believe this now more than ever, just buy it for your grandchildren's college fund, buy an Indian equity ETF and don't worry about it. It is going to go up. It is going to be a 10-bagger. It is exactly where China was 30-35 years ago. You knew 30-years ago China was going to have to absorb 100s of millions of people into the labor force and move them from the rural to the city and would have to change things to accommodate that. And that is where India is…. This is my single favorite thing to own and I don't look at it for months because it is a long-term story."*
>
> \- Jeff Gundlach, DoubleLine CIO, January 24, 2024

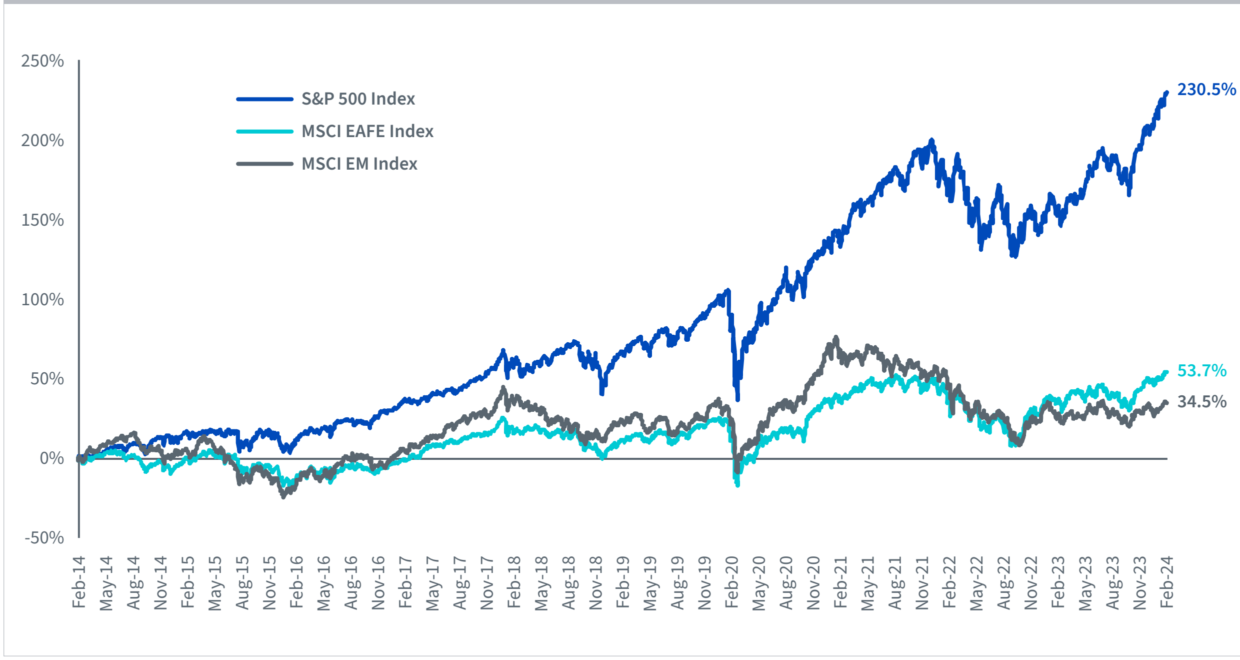
Over the last decade, investors have been rewarded by being over-weight U.S. equities. In our view, this will be tough to repeat over the next decade. We believe India is at an important inflection point for its economy and stock market, and in this piece, we review the progress and key factors for Indian stocks over the next 10 years.

[1] Source: https://www.youtube.com/watch?v=pOCUEBUw8K4

A DECADE OF AMERICAN EXCEPTIONALISM

For many investors, the chart below confirms their biases of American exceptionalism. The U.S. has been the best game in town over the last decade and it is natural to extrapolate those views into the future.

Figure 1: 10-Year Performance



Sources: WisdomTree, MSCI, as of 2/28/24. Past performance is not indicative of future results. You cannot invest directly in an index.

The U.S. market compounded at 12.7% per year over the last decade. Developed international stocks delivered returns of 4.4% per year, whereas emerging markets delivered 3.2% per year. The cumulative impact has meant that a 100% U.S. allocation has outperformed by 170% compared to the MSCI EAFE Index and 195% compared to the MSCI Emerging Markets Index. Yet a real opportunity may be lurking under the surface.

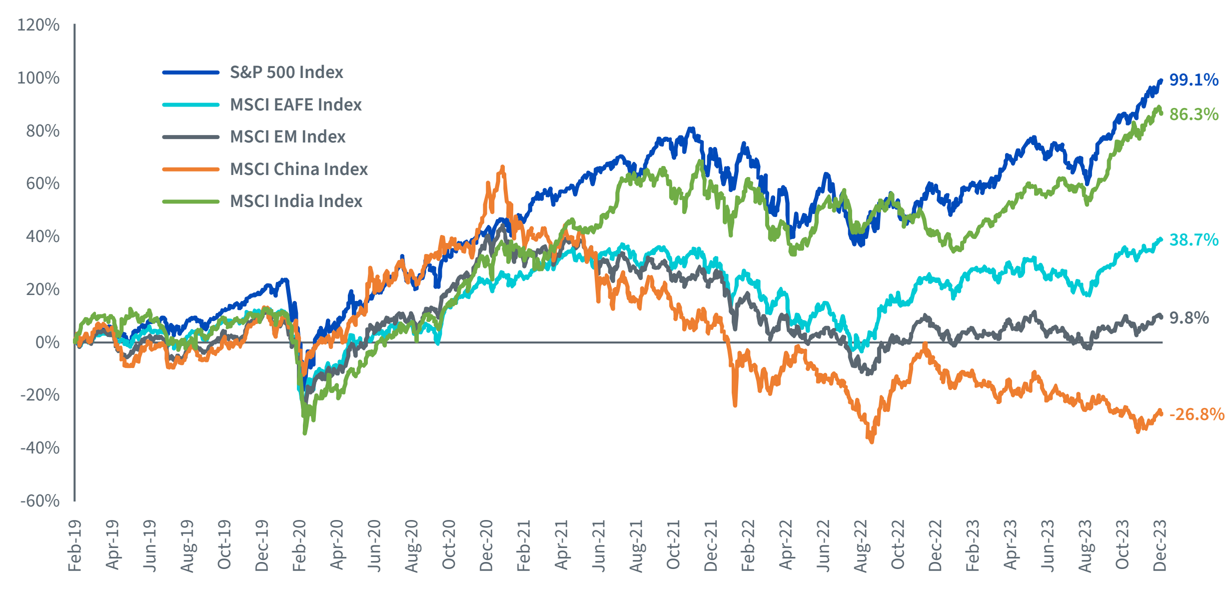
FIVE-YEAR PERFORMANCE: HIDING IN PLAIN SIGHT

Over the last five years, many things have changed. The global pandemic fundamentally changed the way businesses operate. Central banks lowered interest rates to levels not seen since the last crisis only to increase them to multi-decade highs in the face of global inflation. Oil prices went negative. Geopolitical tensions boiled over and globalization took a backseat to domestic interests.

After much hype, Chinese markets fizzled due to a variety of exogenous shocks and self-inflicted wounds. Returns for emerging markets indexes languished as returns were pulled down by a large allocation to sinking Chinese stocks.

However, after a near complete shutdown of the Indian economy, Indian stocks largely kept pace with U.S. markets despite currency headwinds and a lack of homegrown FAANG stocks.

Figure 2: Five-Year Performance

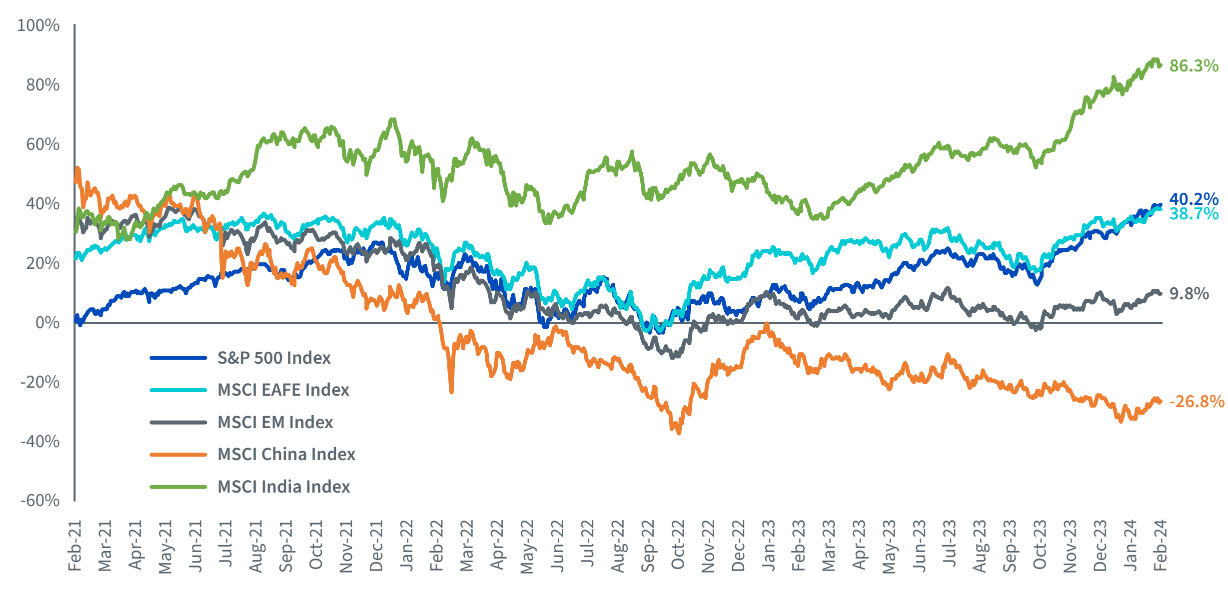


Sources: WisdomTree, MSCI, as of 2/28/24. Past performance is not indicative of future results. You cannot invest directly in an index.

THREE-YEAR PERFORMANCE: INDIA VS. CHINA

Over the last three years, the picture of Chinese stocks goes from bad to worse. As the Federal Reserve commenced one of the most aggressive tightening cycles in history, the dollar rallied strongly before peaking in the third quarter of 2022. That was the worst year for equities in a decade. After bottoming in the fourth quarter of 2022, the Magnificent 7 led narrow market leadership and angst about future returns. Indian stocks outperformed over this period while many other emerging markets submerged.

Figure 3: Three-Year Performance

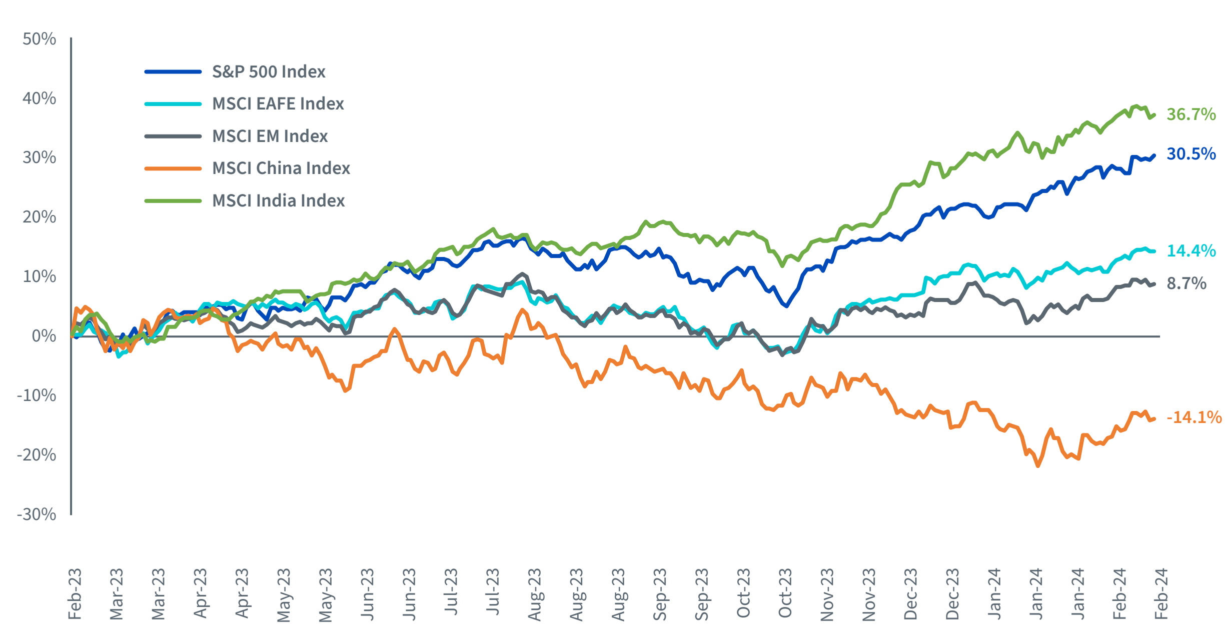


Sources: WisdomTree, MSCI, as of 2/28/24. Past performance is not indicative of future results. You cannot invest directly in an index.

ONE-YEAR PERFORMANCE: ARTIFICIAL INTELLIGENCE IS EATING THE WORLD

Today, the market narrative is that artificial intelligence (AI) will be the greatest breakthrough since the internet. As a result, companies like Nvidia, Alphabet, Amazon and Microsoft have seen their share prices rise to all-time highs. And still, Indian equities outperformed the U.S., whereas Chinese equities continued to decline. Despite higher economic growth rates in emerging markets, on average, developed markets delivered better returns.

Figure 4: One-Year Performance



Sources: WisdomTree, MSCI, as of 2/28/24. Past performance is not indicative of future results. You cannot invest directly in an index.

Markets have undergone significant change over the last decade. In spite of this evolution, Indian stocks managed to deliver incredibly strong performance, despite not necessarily conforming to the tech-dominated narrative in the U.S. For this reason, we think Indian stocks deserve a more significant allocation in most portfolios.

Next, we will describe why we think returns have been so strong and why they may be poised to continue.

10-YEAR RETROSPECTIVE: DRIVERS OF RETURN

Below, we decompose the fundamental drivers of equity returns over the last 10 years.

U.S. leadership over international indexes was boosted by a combination of superior sales growth and expanding valuation multiples. It will be harder for multiple expansion to continue—while there is also some competition in other markets for potential sales growth.

Figure 5: 10-Year Return Decomposition

Country/Region	Annualized Return (%)	P/E Return	Margin Expansion	Sales Growth	Dividend Return	FX Return
S&P 500 Index	**12.03%**	**3.32%**	**1.33%**	**5.40%**	**1.99%**	**0.00%**
India	9.91%	3.93%	0.29%	7.46%	1.34%	-3.11%
Japan	4.97%	-0.76%	3.25%	3.51%	1.98%	-3.01%
MSCI EAFE Index	**4.28%**	**-1.60%**	**4.13%**	**1.31%**	**2.70%**	**-2.26%**
MSCI EM Index	**2.66%**	**1.10%**	**0.79%**	**0.81%**	**2.45%**	**-2.49%**
United Kingdom	**2.49%**	**-3.24%**	**5.25%**	**-0.94%**	**4.07%**	**-2.65%**
Germany	1.99%	-0.73%	1.49%	1.23%	2.23%	-2.23%
China	0.85%	0.12%	-1.01%	-0.24%	2.15%	-0.16%

Sources: WisdomTree, MSCI, S&P, as of 12/31/23. Past performance is not indicative of future results. You cannot invest directly in an index.

DIGGING DEEPER

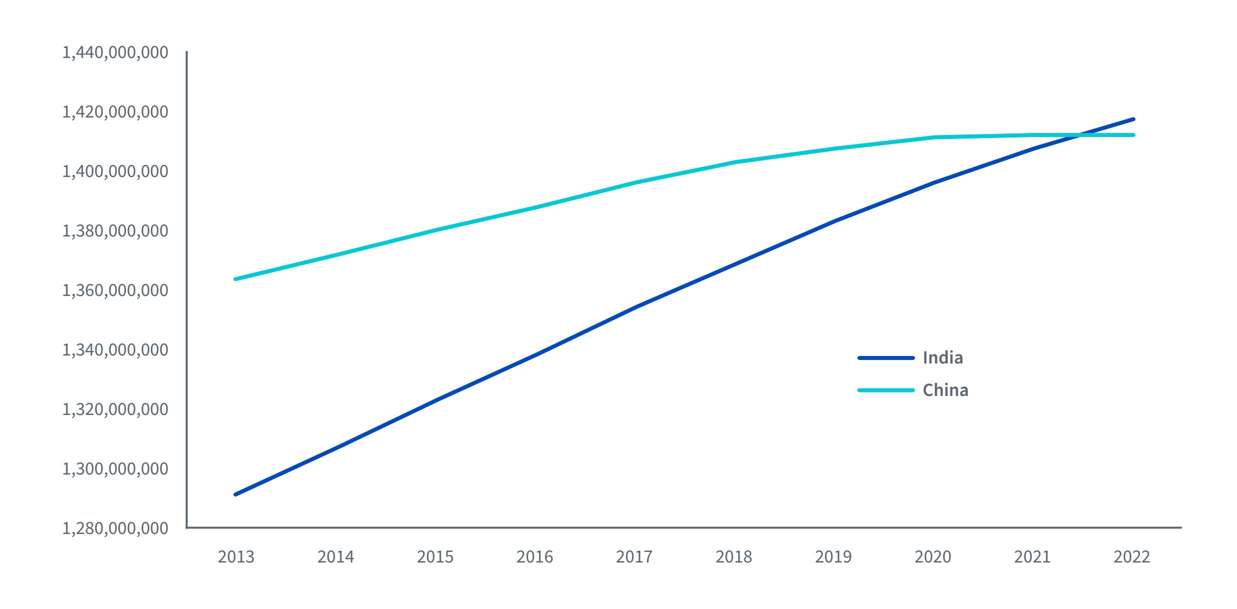
To put it simply, India's returns have been world class. Over the last decade, total returns were primarily driven by best-in-world sales growth. Yes, multiples have expanded, but the fundamentals have been the primary driver. But for a rupee weakening against the U.S. dollar, India would have outperformed the U.S. over the last decade during one of the biggest bull runs in history.

As you look to drivers of future sales growth, the macroeconomic forces argue for better growth coming from India over the U.S. based on some simple math: better demographics and rising incomes that support more consumption.

EM DOUBLE STANDARD

For the last decade, China was the focal point of the demographics discussion. The logic was simple: the largest population in the world combined with income convergence would translate to high levels of gross domestic product (GDP) growth. This coincided with a period when the Chinese government was prioritizing the internationalization of their financial markets. While all of these factors are important, returns disappointed. Enter India.

Figure 6: Total Population



Source: IMF, as of 12/31/23.

While headlines in 2023 primarily focused on geopolitics in emerging markets, India overtook China to become the most populous country in the world. India's government seeks to grow their economy to $5 trillion by 2030. In 2022, India's economy stood at $3.2 trillion, implying a 6.6% growth rate over the next seven years. Over the last decade, India's GDP has compounded at 5.8%. However, this also includes a 5.8% contraction in output in 2020 due to the global pandemic. Digging deeper, trend growth has averaged 6.5% per year over the last five years excluding COVID-19. Based on current momentum, we believe this goal is more than achievable.

MORE CAPITAL FLOWS SUPPORTIVE FOR CURRENCY

On September 21, 2023, JPMorgan announced they would be including India government debt in its emerging markets bond benchmark for the first time. Some analysts expect this to account for a shift of $24 billion dollars into India's bond market once fully phased in at a 10% weight. The process kicks off on June 28, 2024, and will be completed by March 2025. This could not only lower Indian borrowing costs, but also give support for the rupee.

10 YEARS OF MODI

On May 26, 2024, Narendra Modi will have been prime minister of India for 10 years. Should he serve out his current term, he will be the third-longest tenured prime minister since India's founding in 1947, eclipsed by only Jawaharlal Nehru and Indira Gandhi. From April to May 2024, voters in India will be heading to the polls to decide if Modi deserves another five-year term. But the story of India is much bigger than any politician. Even still, it's important to understand many of the key developments that India has achieved over the last decade under Modi's leadership.

DEMOGRAPHY, DEMOCRACY AND DIVERSITY

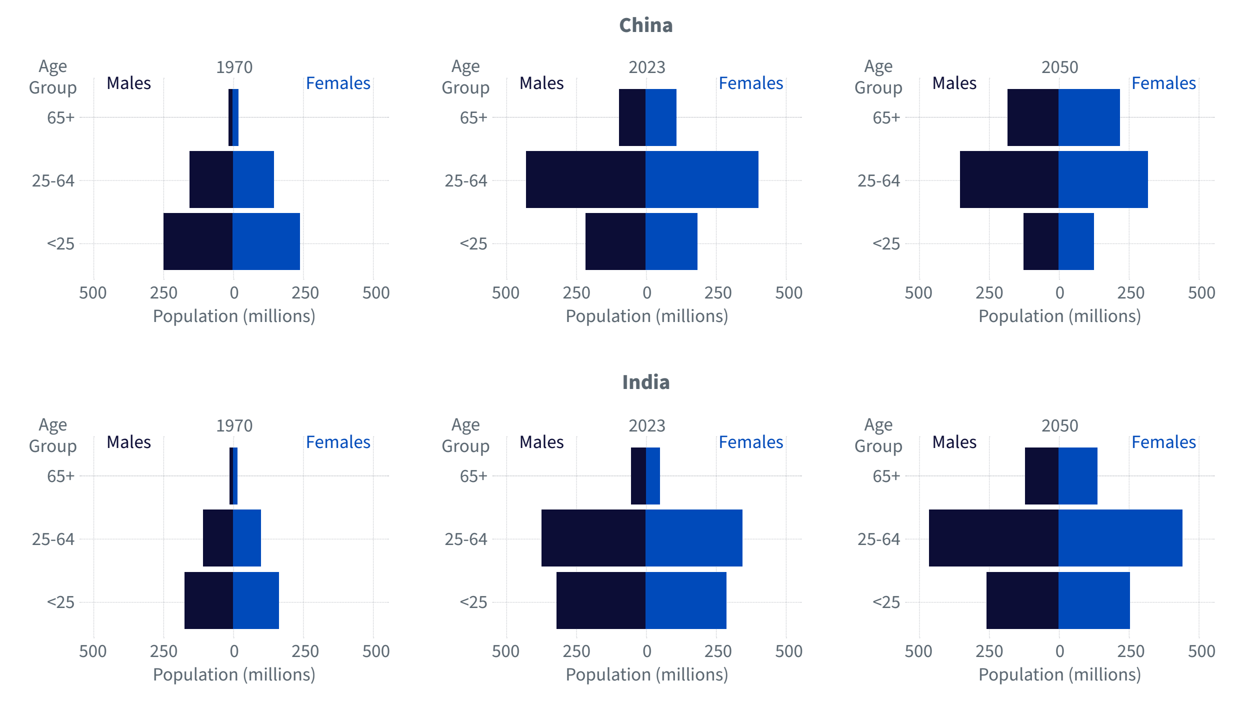
We're often reminded that financial returns do not equal GDP. In the case of China, this was true. The primary issue has been a massive increase in the number of companies available for investment, but generally disappointing levels of return. In 2014, when Modi took office, India was the tenth-largest economy in the world. Since then, India has delivered some of the fastest growth rates among large economies over the last several years. As Modi has stated in recent speeches, the long-term goal for the Indian economy is to be a developed market by the time of India's centennial in 2047. In last year's Independence Day speech, Modi highlighted that this goal was achievable due to India's "demography, democracy and diversity."

DIGGING DEEPER ON DEMOGRAPHICS

While China's population was much larger than India's in 1970, the average age for both countries was comparatively young. However, over the last 50-plus years, there has been a negative shift from the bottom of China's pyramid up toward the top.

While a majority of China's population is still working age, its One Child Policy left it with a population now skewed more heavily to older groups. By 2050, projections show the 65-plus demographic will be larger than the under-25 demographic. This will have a significant impact on growth as the population transitions from working to retirement. With fewer workers and more retirees collecting benefits, this will weigh on the Chinese economy.

Figure 7: Population Size by Age and Sex in China and India, Estimates for 1970 and Projections for 2023 and 2050

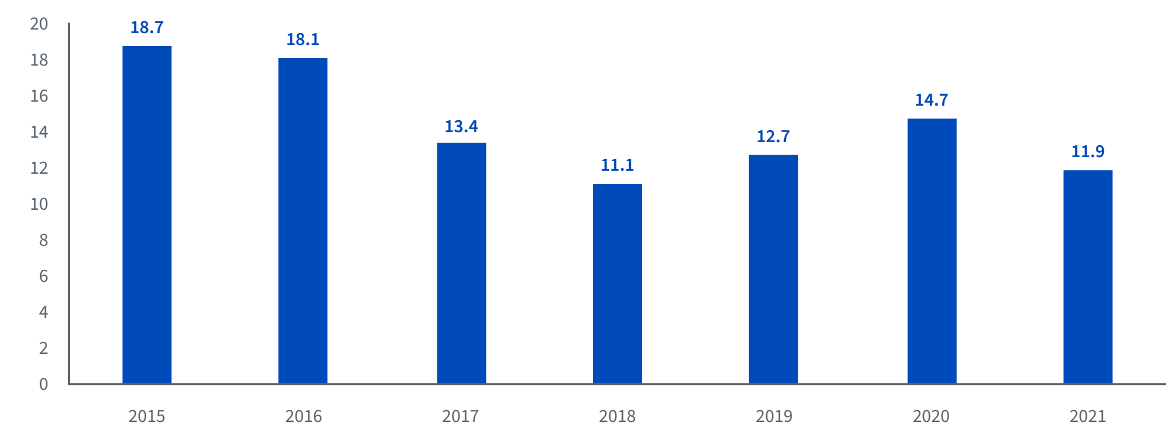


Source: United Nations, *World Population Prospects 2022,* https://population.un.org/wpp/.

By contrast, India has maintained one of the highest birth rates in the world. The country is currently in the sweet spot for economic activity as not only is the distribution more heavily weighted to the working population, but this dynamic is projected to continue for the next several decades.

For anyone that has traveled to India, it's evident that it remains an emerging market. While large cities in India's tech hubs like Bangalore and Chennai appear more similar to modern cities in the west, a large segment of India's population is rural and still quite poor. However, under Modi, the population is becoming more urban and more affluent. After taking a pause during the pandemic, the downward trend in India's poverty rate continues. While we wait for new data to be released, the view among economists is that India continues to move in the right direction.

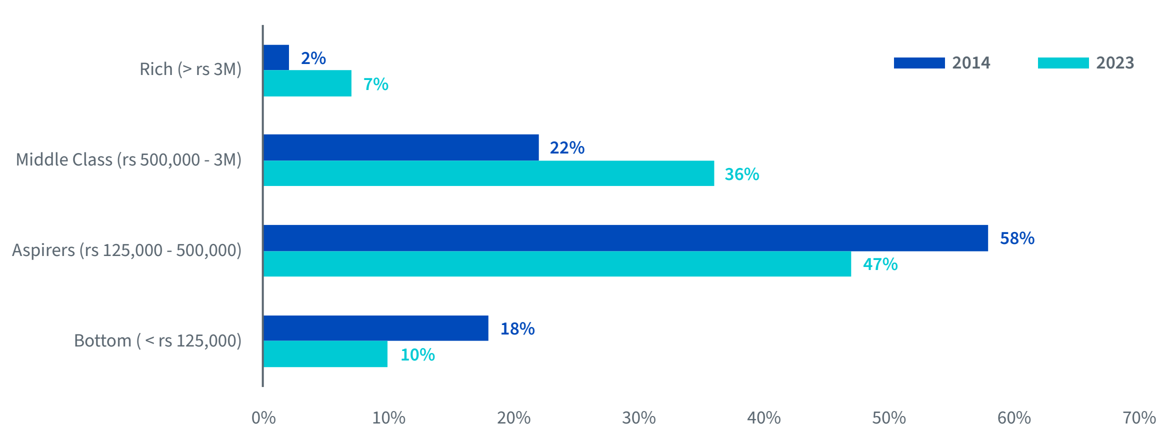
Figure 8: Share of Indian Population Living in Poverty (%)



Source: IMF, as of 12/31/23.

While the government should continue to focus on incorporating its poorest segments into the formal economy, India's middle class has also seen a dramatic boost over the last decade. As the fastest growing demographic in India, we believe the multiplier effects of this shift could have a significant impact on the economy as a whole.

Figure 9: India Income by Segment (% Population)



Source: People Research on India's Consumer Economy, as of 2/5/24. rs=Indian rupees.

INFRASTRUCTURE

In an age where “shovel ready” projects routinely get ground out of national budgets, India appears to actually be doing it. The government has said repeatedly that investment in infrastructure will continue to be a top priority. As summarized below, the speed, scope and growth rates are among the most impressive in the world.

Figure 10: India Infrastructure Growth

Infrastructure Projects	2014	2023	Growth
Road Construction Rate (km per day)	12	37	208%
High Speed Roadways (km)	3,500	30,100	760%
4+ Lane Highways (km)	18,387	46,179	151%
National Highways (km)	91,287	146,145	60%
Number of Airports	74	148	100%
Total Power Generation Capacity (MW)	248,554	425,536	71%

Source: India Ministry of Road Transport and Highways, https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1993425.

Over the last decade, India has prioritized infrastructure that will make the economy more efficient. Moving people and goods to market more efficiently can have a profound impact on the economy. As a result, India is better connected, allowing trade to occur with reduced bottlenecks. Domestic air passengers have doubled and air-freight volumes are up by 44%. The number of mobile phone base stations has tripled over the last 10 years.

TAX REFORM

The goods and services tax (GST) was controversial when it first came into existence in 2017. The idea was simple: “one nation, one tax.” By implementing a national sales tax, the goal was to streamline the system, increase revenue for the federal government and knock down barriers to regional trade. In the prior system, even if someone wanted to comply, there were no guarantees they could navigate all the red tape of dozens of potential taxes paid to states and local governments. With the new tax, more businesses have been formalized into the Indian economy.

India’s new growth pattern is the emergence of a single national market in which more firms and consumers use the modern financial system. This is fast superseding regional markets and informal businesses using mainly cash, which accounted for two-fifths of output and 87% of jobs five years ago. Receipts from GST reached the equivalent of 8% of monthly GDP in April. Tax evasion is more difficult. Competition in a national marketplace has been bad news for smaller firms that were reliant on tax-dodging and captive markets. McKinsey estimates India’s top 600 firms are 11 times more productive than average.

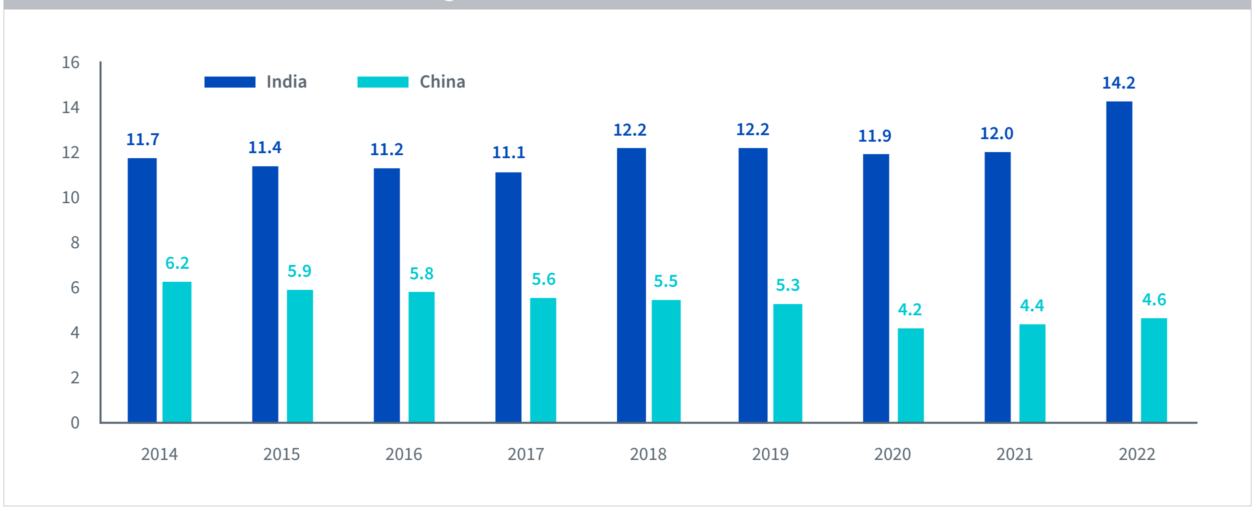
DESTINATION INDIA: CHINA + 1

The path of development in emerging markets is seldom a straight line. In fact, in the 1960s, India's gross national income per capita was comparable to China and South Korea. Today, China is three times richer, whereas South Korea is seven times richer. Why?

The answer lies in China and South Korea's focus on manufacturing. Globalization and offshoring have been major trends that benefited China. Once the infrastructure and systems were in place, companies sought to move up the value chain into higher tech manufacturing. Cheap trinkets of marginal quality in 1990s gave way to high-tech manufacturing in electronics in the 2000s.

After supply chains came under pressure during the pandemic and now that geopolitical tensions with China have risen, companies are rapidly seeking out alternatives. While few are willing to abandon decades of working with China, almost all are pursuing a policy of China + 1. India hopes to increasingly be the alternative for some of the largest companies in the world. The search for "strategic autonomy" is a mantra in Delhi.

Figure 11: Trade in Services (% GDP)



Source: IMF, as of 12/31/23.

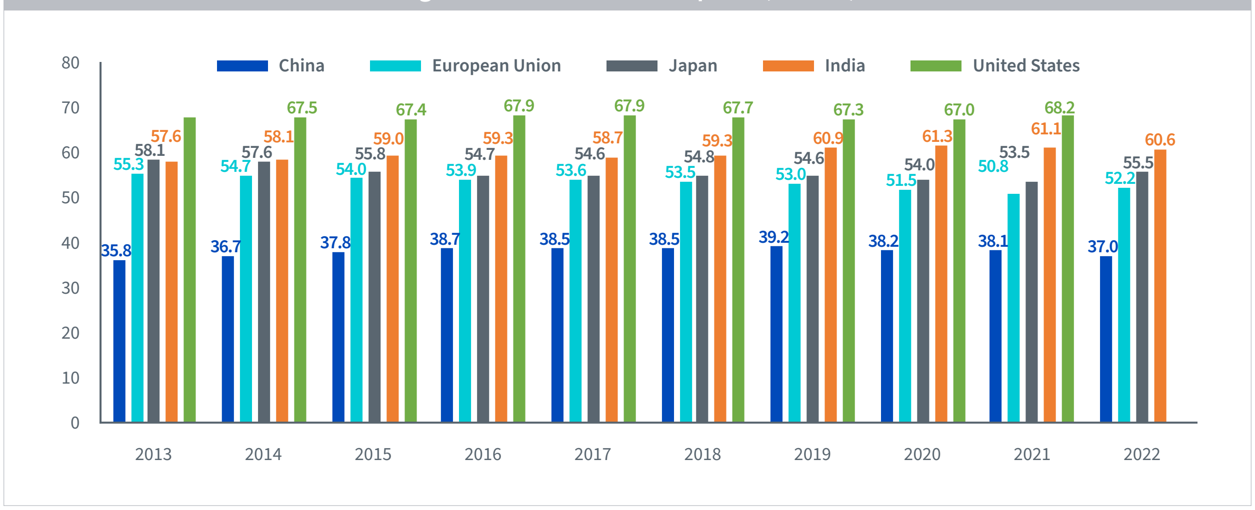
Modi is aggressively courting businesses to expand operations from China to India. Whereas China is trying to make the leap from investment-led economic growth driven by manufacturing toward a services/consumption-based economy, India is already there. India, by contrast, is trying to diversify their strong IT and services sectors through infrastructure investment and manufacturing. While the multiplier impacts on growth will not be as high, the "Make in India" theme is closer to reality as infrastructure improves.

LESSONS FROM APPLE

By 2025, more than a quarter of all iPhones will be made outside of China, mostly in India.[2] While Apple products are generally too expensive for most Indians today, the company still earned $8.7 billion in revenue in 2023 in India, growing at nearly 42%, after growing at 50% in 2022. This makes India the fifth-largest market for iPhones globally, even larger than any single country in the EU. This contrasts with declines in the number of iPhones being sold in China. India's market could be bigger than China's by 2027.

But these gains aren't confined to Apple. In 2014, India had just two factories making mobile phones. Today, India is an industry leader producing more phones than any other country except China. From April 2022 to the end of March 2023, the country's mobile exports reached a record $11.2 billion, meaning electronics have overtaken ready-made garments as India's dominant exports.

Figure 12: Private Consumption (% GDP)



Source: IMF, as of 12/31/23.

Similarly, China has struggled to fully transition from investment-led growth to consumer-led growth. India private consumption is actually leading developed markets in Europe and Japan, close to levels seen in the U.S.

[2] Source: JP Morgan.

INDIA GOES DIGITAL: AADHAAR & UPI

Launched in 2009, Aadhaar (which means “foundation” in Hindi) sought to create a national digital registry of fingerprints and iris scans that’s linked to a unique 12-digit national ID number. At the time, the motivation was to streamline the process of distributing aid to the most vulnerable. Instead of showing a birth certificate that could be lost or damaged, the new system would ensure that aid could be distributed more effectively.

Today, basically every person in India has enrolled in the system. As a result, many businesses have used Aadhaar as a streamlined means of onboarding new customers. For the government, this investment has continued to pay dividends.

Related to Aadhaar is the Unified Payments Interface (UPI). This platform has done wonders for allowing nearly every person in India to have a bank account. The UPI network allows free and fast account-to-account transfers using a mobile device. In 2022, this platform processed over $1 trillion in transactions, equal to nearly one-third of India’s total GDP.

Today, nearly 44% of all transactions in India are done in real time via UPI. This is in stark contrast to how business was conducted only a few years ago. According to government figures, nearly 90% of all transactions were conducted in cash in 2017. As payments have shifted online, this has done much to formalize large segments of the Indian economy and help the government with distributing subsidies to the most needy segments.

Both projects brought more Indians onto the internet. Adoption rates in India are now similar to levels seen in China in 2014, and we believe growth will continue to accelerate as internet coverage expands with more infrastructure spending. Additionally, Indians continue moving toward cities, where internet coverage is much broader. Even if India is currently only at a 50% internet usage rate, that still means that over 700 million people are getting online almost every day. We believe that as rates continue to rise, the impediments to economic growth will continue to fall.

Figure 13: Internet Usage (% Population)

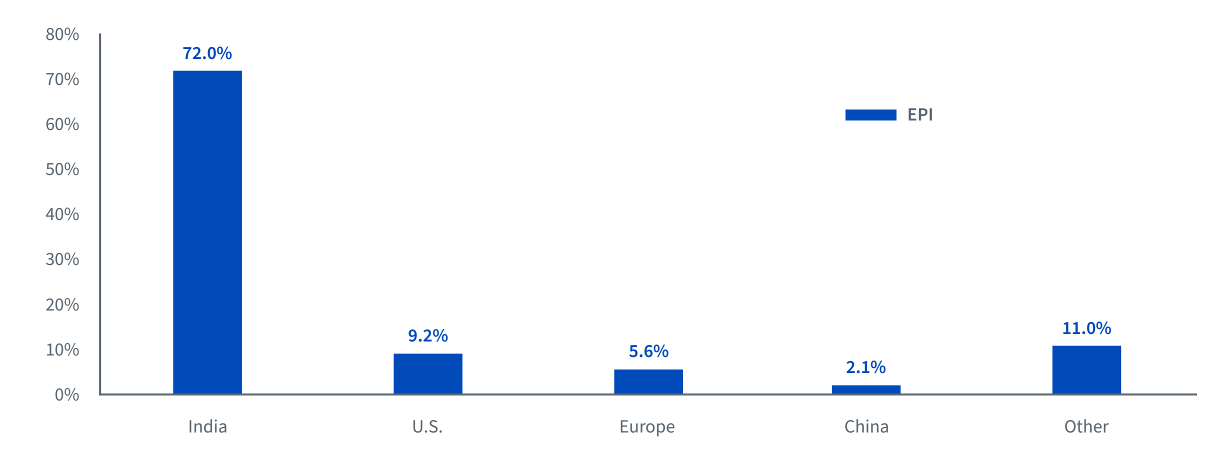
Source: World Bank, as of 12/31/23.

While much of our discussion has so far focused on the macroeconomic case for India, there are equally compelling stories for India's equity markets.

For investors looking to capitalize on strong economic growth and rising consumption patterns, we believe one needs to focus on where companies earn their revenue.

Some of the largest companies in emerging markets derive a significant amount of revenue from developed markets. But nearly 75% of all revenue for the **WisdomTree India Earnings Fund (EPI)** comes from India. This means that if an investor is directly trying to target growth in India, the overwhelming majority of the company's earning potential is being directly derived from the faster growth rates in the Indian economy.

Figure 14: Company Source of Revenue



Source: WisdomTree, FactSet, as of 2/29/24.

Looking closer, we compare the top 10 holdings of EPI and the MSCI India Index. By focusing on profitability, EPI increases its exposure to Indian sources of revenue relative to the broader index. This is primarily a function of modestly smaller exposures to companies like Infosys and Tata Consultancy Services.

Figure 15: Top 10 Holdings India Revenue

EPI	Weight	India Revenue	MSCI India Index	Weight	India Revenue
Reliance Industries	8.2%	59.4%	Reliance Industries	8.6%	59.4%
HDFC Bank	5.1%	98.9%	Infosys	5.4%	2.6%
Infosys	4.8%	2.6%	ICICI Bank	5.3%	97.2%
ICICI Bank	4.7%	97.2%	HDFC Bank	3.8%	98.9%
Oil & Natural Gas Corp.	3.2%	90.2%	Tata Consultancy Services	3.6%	5.0%
Coal India	3.0%	100.0%	Bharti Airtel	2.4%	66.7%
Tata Consultancy Services	2.8%	5.0%	Axis Bank	2.4%	98.0%
State Bank of India	2.5%	94.9%	Larsen & Toubro	2.3%	62.5%
NTPC	2.3%	99.3%	Hindustan Unilever	1.9%	96.0%
Power Grid Corporation of India	2.2%	100.0%	Kotak Mahindra Bank	1.8%	100.0%
Top 10	**38.9%**	**70.7%**		**37.6%**	**62.2%**

Sources: WisdomTree, FactSet, as of 2/29/24. Subject to change.

INDIA: AN EQUITY FACTOR PLAYGROUND

Over the last decade, WisdomTree's earnings-weighted approach outperformed the MSCI India Index by 2.8% per year. As we show in the tables below, this was the result of exposure to size and value via low P/E stocks. During a decade in the U.S. where size and value have meaningfully underperformed, we think India is worth a closer look.

INDIA FACTORS AT WORK

Over the last decade, focusing on earnings has added value in 9 out of 11 sectors. The two outliers occurred in the materials and communication services sectors. With so much focus on infrastructure spending in India, it should be of little surprise that the best performing sectors over the period were basic industrials, energy and information technology.

Figure 16: Sector Attribution, WisdomTree India Earnings Index, MSCI India Index

Category	Attribution Components				Average Category Weight			Category Performance	
	Allocation	Stock Selection	Interaction	Total Attribution	Index Weight	Benchmark Weight	+/- Wgt	WT Index Return	Benchmark Return
Financials	0.32%	0.39%	-0.13%	0.58%	23.77%	23.21%	0.56%	11.57%	10.23%
Information Technology	0.35%	0.18%	-0.02%	0.51%	15.83%	17.71%	-1.88%	13.82%	12.43%
Industrials	0.16%	0.29%	-0.01%	0.44%	5.71%	4.85%	0.86%	20.48%	14.82%
Utilities	0.11%	0.25%	0.07%	0.43%	6.17%	3.18%	2.99%	14.95%	7.57%
Energy	0.68%	-0.08%	-0.18%	0.42%	17.99%	12.46%	5.52%	15.24%	15.04%
Health Care	0.23%	0.26%	-0.14%	0.36%	4.66%	6.51%	-1.85%	9.47%	6.79%
Materials	-0.04%	-0.07%	0.28%	0.16%	11.05%	8.30%	2.75%	10.02%	12.29%
Consumer Staples	0.10%	0.13%	-0.09%	0.14%	4.39%	10.30%	-5.91%	11.65%	10.50%
Consumer Discretionary	0.02%	0.06%	0.03%	0.11%	7.66%	9.68%	-2.02%	9.40%	8.82%
Communication Services	0.10%	0.00%	-0.03%	0.07%	2.22%	3.54%	-1.32%	1.68%	3.20%
Real Estate	-0.01%	0.02%	0.00%	0.01%	0.56%	0.25%	0.31%	13.57%	6.71%
Total	**2.01%**	**1.43%**	**-0.21%**	**3.23%**	**-**	**-**	**-**	**13.83%**	**10.60%**

Sources: WisdomTree, FactSet, as of 2/29/24. Subject to change.

SIZE

In our view, one of the key differentiators between EPI and MSCI India is that EPI provides comprehensive exposure across market capitalizations. By focusing on profitability and then weighting companies based on their contribution to the earnings stream, EPI's resulting portfolio is much broader than the benchmark. After a decade when U.S. large caps handily outperformed small caps, it's interesting to note that small caps in India were the best-performing segment. With India's GDP growth still forecast to be among the fastest in 2024, investing in profitable small-cap companies that are deriving an overwhelming majority of their revenue from the country seems like a solid place for returns going forward.

Figure 17: Size Attribution, WisdomTree India Earnings Index, MSCI India Index

Category	Attribution Components				Average Category Weight			Category Performance	
	Allocation	Stock Selection	Interaction	Total Attribution	Index Weight	Benchmark Weight	+/- Wgt	WT Index Return	Benchmark Return
Large	0.04%	2.56%	-0.52%	2.09%	62.54%	77.82%	-15.27%	13.50%	10.08%
Mid	-0.20%	0.46%	0.16%	0.42%	26.06%	22.00%	4.06%	12.57%	10.65%
Small	-0.83%	-0.04%	1.57%	0.71%	11.35%	0.18%	11.17%	15.52%	-3.67%
N/A	0.00%	-	0.02%	0.01%	0.05%	-	0.05%	5.06%	-
Total	**-0.99%**	**2.98%**	**1.24%**	**3.23%**	**-**	**-**	**-**	**13.83%**	**10.60%**

Sources: WisdomTree, FactSet, as of 2/29/24. Past performance is not indicative of future results. Subject to change.

VALUE (LOW P/E)

Similar to the story for small caps, value strategies have tended to underperform over the last decade. However, even when looking at MSCI India, the lowest P/E stocks outperformed the highest P/E stocks by 4.5% per year over the last 10 years. By only investing in profitable companies and magnifying a security's weight in the portfolio according to the amount of profits it generates, has the impact of lowering the P/E multiples that an investor pays for their exposure. A common criticism of investing in India is that it always screens as expensive relative to other fast-growing markets. In our view, by focusing on earnings, investors may be able to avoid some of the pitfalls that have led to lower returns over time.

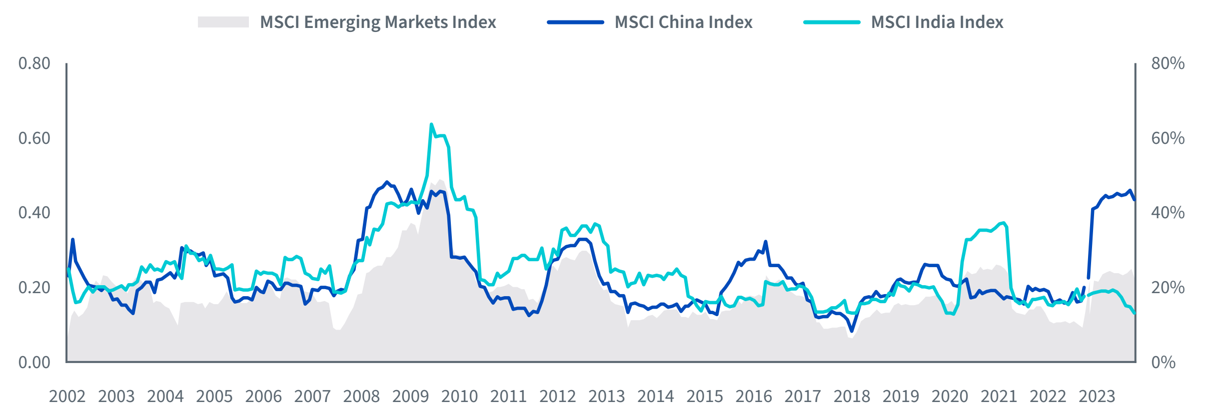
Figure 18: Earnings Yield Attribution, WisdomTree India Earnings Index, MSCI India Index

Category	Attribution Components				Average Category Weight			Category Performance	
	Allocation	Stock Selection	Interaction	Total Attribution	Index Weight	Benchmark Weight	+/- Wgt	WT Index Return	Benchmark Return
1st Quintile (Lowest P/E)	0.71%	-0.02%	0.01%	0.70%	15.41%	4.26%	11.15%	11.39%	12.03%
2nd Quintile	0.30%	0.07%	0.06%	0.43%	14.94%	7.63%	7.31%	12.14%	11.91%
3rd Quintile	-0.11%	0.35%	-0.01%	0.23%	21.51%	18.77%	2.74%	14.43%	13.31%
4th Quintile	0.18%	1.10%	-0.14%	1.13%	31.82%	37.31%	-5.48%	12.63%	8.97%
5th Quintile (Highest P/E)	0.42%	1.16%	-0.63%	0.95%	15.05%	29.29%	-14.25%	13.07%	7.53%
Negative Earners	-0.16%	-0.13%	0.07%	-0.23%	0.93%	2.33%	-1.40%	-3.41%	10.48%
N/A	0.03%	-0.03%	0.02%	0.02%	0.34%	0.42%	-0.08%	9.46%	1.67%
Total	**1.37%**	**2.49%**	**-0.62%**	**3.23%**	**-**	**-**	**-**	**13.83%**	**10.60%**

Sources: WisdomTree, FactSet, as of 2/29/24. Past performance is not indicative of future results. Subject to change.

In addition to delivering higher returns, Indian equities have actually had lower volatility than the broad emerging markets index. While much of this can be attributed to China's large weight, it's interesting that in addition to adding some of the strongest levels of returns, Indian stocks also have some of the lowest levels of volatility. This is largely a factor of the broad diversification in contributors to total returns.

Figure 19: Rolling 1-Year Volatility



Sources: WisdomTree, MSCI, as of 12/31/23. Past performance is not indicative of future results. You cannot invest directly in an index.

Taking this a step further, investors can add significant value to their risk-adjusted returns in emerging markets by increasing exposure to India and decreasing exposure to China. In our view, as long as Indian stocks remain less volatile than the index, it may make sense to continue to maintain this strategic bias in portfolios.

Looking closer at EPI relative to major equity benchmarks, it currently trades at a seven times multiple discount to MSCI India on a trailing P/E basis with significantly higher exposure to mid-caps and small caps. When compared to the MSCI Emerging Markets Index and MSCI China Index, it's not as cheap, but it does provide broad based exposure that doesn't have the current headline risk of China. Compared to developed markets, it currently sits right in between the MSCI EAFE Index and the S&P 500 Index, albeit with much smaller companies, on average.

Figure 20: Characteristics

Characteristic	EPI	MSCI India Index	MSCI Emerging Markets Index	MSCI China Index	MSCI EAFE Index	S&P 500 Index
Price-to-Earnings (P/E)	17.26	24.42	13	9.53	14.26	25.22
Estimated Price-to-Earnings (P/E)	17.37	23.36	12.17	9.08	14.51	21.05
Price-to-Cash Flow (P/CF)	13.09	19.68	7.35	4.74	11.41	15.79
Price-to-Book (P/B)	2.89	4.14	1.62	1.11	1.84	4.71
Price-to-Sales (P/S)	1.7	2.45	1.18	0.89	1.33	2.67
Dividend Yield	1.64%	1.09%	2.94%	3.03%	3.02%	1.42%
# of Stocks	476	131	1440	765	783	503
Average Mkt. Cap in Billions	7.73	22.54	13.35	10.07	26.33	85.54
Median Mkt. Cap in Billions	2.36	12.5	5.62	4.16	12.94	32.3
Wgt. Avg. Mkt. Cap in Billions	54.99	61.45	100.94	89.86	91.79	715.63
% Wgt. with Mkt. Cap > 10 Billion	71.82%	86.19%	73.90%	71.60%	90.51%	99.35%
% Wgt. with Mkt. Cap 2-10 Billion	20.12%	13.81%	25.12%	24.95%	9.49%	0.65%
% Wgt. with Mkt. Cap < 2 Billion	8.05%	0.00%	0.98%	3.45%	0.00%	0.00%

Sources: WisdomTree, FactSet, as of 2/29/24. Past performance is not indicative of future results. Subject to change.

SUMMARY

Over the last decade, the Indian economy has undergone a massive revamp. The country is home to some of the fastest growing and most technologically advanced firms in the world. In our view, any investor that believed in the promise of a dedicated position in China should also consider one in India:

- Too Big/Too Fast to Ignore
- Less Correlated to Global Markets
- More Tied to Local Economic Growth Stories

In our view, investors should seriously consider boosting exposure to Indian equities for the next decade.

Glossary

Artificial intelligence (AI): A field that combines computer science and robust datasets to enable problem-solving. Dividend yield: A financial ratio that shows how much a company pays out in dividends each year relative to its share price. Estimated price-to-earnings (P/E) ratio: Share price divided by estimated 12-month earnings per share. Lower numbers indicate an ability to access greater amounts of estimated 12-month earnings per dollar invested. Fundamentals: Attributes related to a company's actual operations and production as opposed to changes in share price. Foreign exchange (FX) return: The ratio of money gained or lost against the initial investment. Gross domestic product (GDP): The sum total of all goods and services produced across an economy. Margin expansion: An increase in the rate of profit a company makes on a product. Market capitalization: Market cap equals the share price times the number of shares outstanding. Firms with the highest values receive the highest weights in approaches designed to weight firms by market cap. Multiple: A multiple measures some aspect of a company's financial well-being, determined by dividing one metric by another metric. Price-to-book (P/B) ratio: Share price divided by book value per share. Lower numbers indicate an ability to access greater amounts of earnings per dollar invested. Price-to-cash flow (P/CF) ratio: Share price divided by cash flow per share. Lower numbers indicate an ability to access greater amounts of cash flows per dollar invested. Price-to-earnings (P/E) ratio: Share price divided by earnings per share. Lower numbers indicate an ability to access greater amounts of earnings per dollar invested. Price-to-sales (P/S) ratio: Share price divided by per share revenue. Sales growth: The increase in sales of a product or service over time. Yield: The income return on an investment. Refers to the interest or dividends received from a security that is typically expressed annually as a percentage of the market or face value.

Index Definitions

S&P 500 Index: Market capitalization-weighted benchmark of 500 stocks selected by the Standard & Poor's Index Committee, designed to represent the performance of the leading industries in the U.S. economy. MSCI EAFE Index: A market cap-weighted index composed of companies representative of the developed market structure of developed countries in Europe, Australasia and Japan. MSCI Emerging Markets Index: A free-float weighted equity index that captures large- and mid-cap representation across emerging markets countries. MSCI China Index: A free float-adjusted market capitalization-weighted equity index designed to measure the performance of the Chinese equity market. MSCI India Index: A free float-adjusted market capitalization-weighted equity index designed to measure the performance of the Indian equity market. WisdomTree India Earnings Index: A fundamentally weighted index that measures the performance of companies incorporated and traded in India that are profitable and that are eligible to be purchased by foreign investors.