

# 15 YEARS OF EMERGING MARKETS: Good Performers in a Tough Spot

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In retrospect, the timing was awful.

Coming off our splashy launch of 20 ETFs in one shot in the summer of 2006, we launched a couple of emerging markets ETFs in 2007. We have been left frustrated, not because performance has been poor relative to the asset class, but because the asset class has been so down and out for virtually their whole lives.

What we're left with is a bittersweet 15th birthday celebration for the **WisdomTree Emerging Markets High Dividend Fund (DEM)** and the **WisdomTree Emerging Markets SmallCap Dividend Fund (DGS)**—both of which did what we hoped they would (they outperformed), but in a troubled corner of the stock market.

Figures 1 and 2 show the performance. The million-dollar question for the 2020s is whether emerging markets can muster the strength to start getting the better of U.S. stocks.

I suspect a lot of it will boil down to what happens to the dollar.

Figure 1: WisdomTree Emerging Markets High Dividend Fund (DEM) Performance

Name	Cumulative Returns (as of 10/31/2022)			Average Annual Total Returns (as of 9/30/2022)				
	3-Mo.	YTD	Since Fund Inception	1-Year	3-Year	5-Year	10-Year	Since Fund Inception
DEM (NAV)	-8.49%	-20.29%	27.53%	-18.33%	-1.47%	0.24%	-0.09%	1.76%
DEM (Market Price)	-8.58%	-20.17%	24.06%	-18.33%	-1.64%	-0.04%	-0.15%	1.51%
WisdomTree Emerging Markets High Dividend Index	-9.04%	-19.76%	47.32%	-17.59%	-0.49%	1.07%	0.82%	2.71%
MSCI Emerging Markets Index	-14.11%	-29.42%	6.55%	-28.11%	-2.07%	-1.81%	1.05%	0.63%
MSCI Emerging Markets Value Index	-11.72%	-24.67%	8.31%	-23.63%	-2.57%	-2.13%	-0.41%	0.64%

Fund Inception Date 07/13/2007. Performance of less than one year is cumulative. You cannot invest directly in an index.

Gross expense ratio: 0.63%; Net expense ratio: 0.63%.

**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. Performance data for the most recent month-end is available at [wisdomtree.com](http://wisdomtree.com).**

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 4:00pm 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.

Figure 2: WisdomTree Emerging Markets SmallCap Dividend Fund (DGS) Performance

Name	Cumulative Returns (as of 10/31/2022)			Average Annual Total Returns (as of 9/30/2022)				
	3-Mo.	YTD	Since Fund Inception	1-Year	3-Year	5-Year	10-Year	Since Fund Inception
DGS (NAV)	-10.02%	-21.99%	32.27%	-20.90%	1.19%	0.28%	2.32%	2.01%
DGS (Market Price)	-10.54%	-21.90%	32.88%	-21.12%	1.01%	0.11%	2.30%	1.99%
WisdomTree Emerging Markets SmallCap Dividend Index	-9.39%	-21.48%	55.69%	-20.40%	2.36%	1.36%	3.35%	3.10%
MSCI Emerging Markets Small Cap Index	-7.87%	-24.29%	18.83%	-23.23%	5.54%	1.25%	2.91%	1.17%

Fund Inception Date 10/30/2007. Performance of less than one year is cumulative. You cannot invest directly in an index.

Gross expense ratio: 0.58%; Net expense ratio: 0.58%.

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In figures 3 and 4, we see the color coding that we hoped for all those years ago: a lot of green at the top and red at the bottom in the 15+ year dividend-yield attributions.

Figure 3: Performance of DGS's Underlying Index, 8/1/07-10/31/22		
Quintile	WisdomTree Emerging Markets High Dividend Index	MSCI Emerging Markets
1st Quintile (Highest Div. Yield)	3.22%	4.97%
2nd Quintile	3.11%	2.77%
3rd Quintile	1.38%	1.73%
4th Quintile	1.16%	1.75%
5th Quintile (Lowest Div. Yield)	-7.41%	-0.29%
Zero Div. Yield	0.04%	-7.86%
<b>Total</b>	<b>3.17%</b>	<b>1.23%</b>

Source: WisdomTree Digital Portfolio Developer. **Performance is historical and does not guarantee future results. Investors cannot invest directly in an index, and index returns do not reflect any fees or expenses.**

Figure 4: Performance of DEM's Underlying Index, 6/1/07-10/31/22		
Quintile	WisdomTree Emerging Markets Small Cap Dividend Index	MSCI Emerging Markets Small Cap Index
1st Quintile (Highest Div. Yield)	5.84%	6.96%
2nd Quintile	4.35%	6.86%
3rd Quintile	3.51%	3.89%
4th Quintile	2.90%	2.49%
5th Quintile (Lowest Div. Yield)	-4.17%	-0.75%
Zero Div. Yield	4.11%	-2.86%
<b>Total</b>	<b>3.53%</b>	<b>1.67%</b>

Source: WisdomTree Digital Portfolio Developer. **Performance is historical and does not guarantee future results. Investors cannot invest directly in an index, and index returns do not reflect any fees or expenses.**

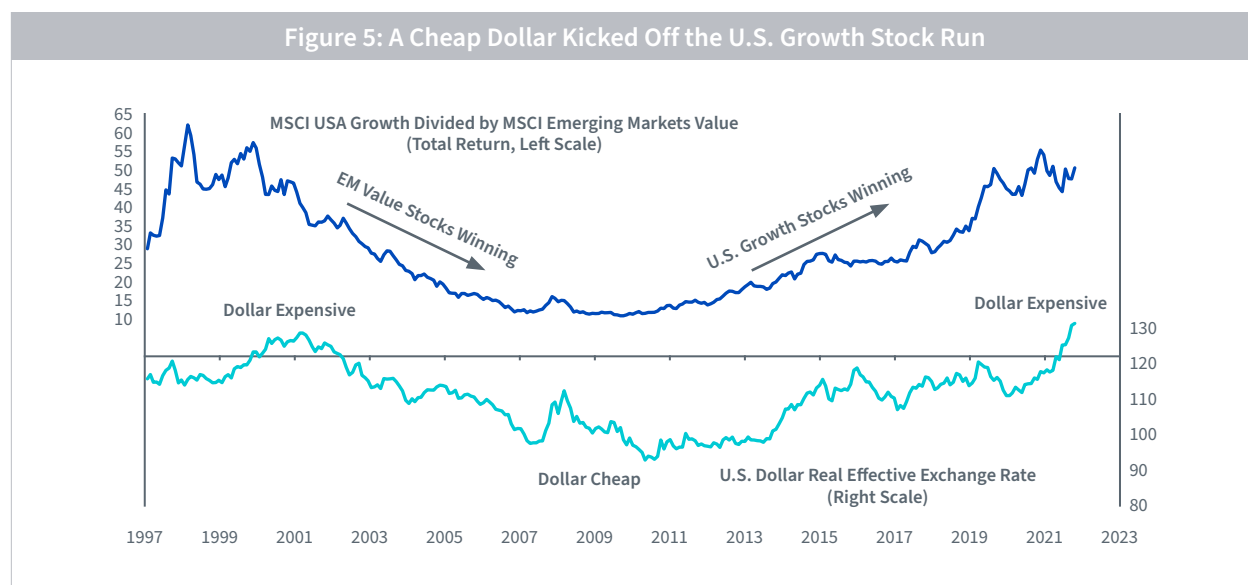
Figure 5 shows the yin and yang of this market over the last quarter-century.

For several years after the end of the dot-com bubble, the U.S. dollar weakened, aiding not only the resource-heavy emerging world but also the returns to U.S. investors as foreign currencies caught a bid.

Largely forgotten after all these years is that emerging markets value got the best of U.S. growth stocks for essentially an entire decade, starting around the time U.S. stocks were peaking at the turn of the century.

Emerging markets' good fortunes changed around the time we launched DGS and DEM, when the U.S. dollar's real effective exchange rate (REER) was bopping around its weakest levels in recent memory, about to embark on the multi-year strengthening that may be blowing off now (figure 5).

That strengthening killed the returns on emerging markets value because not only were those currencies weakening, but the strong dollar kept commodities prices at bay.



Sources: Refinitiv, J.P. Morgan CPI-based REER calculations, as of 10/31/22. **Performance is historical and does not guarantee future results.**

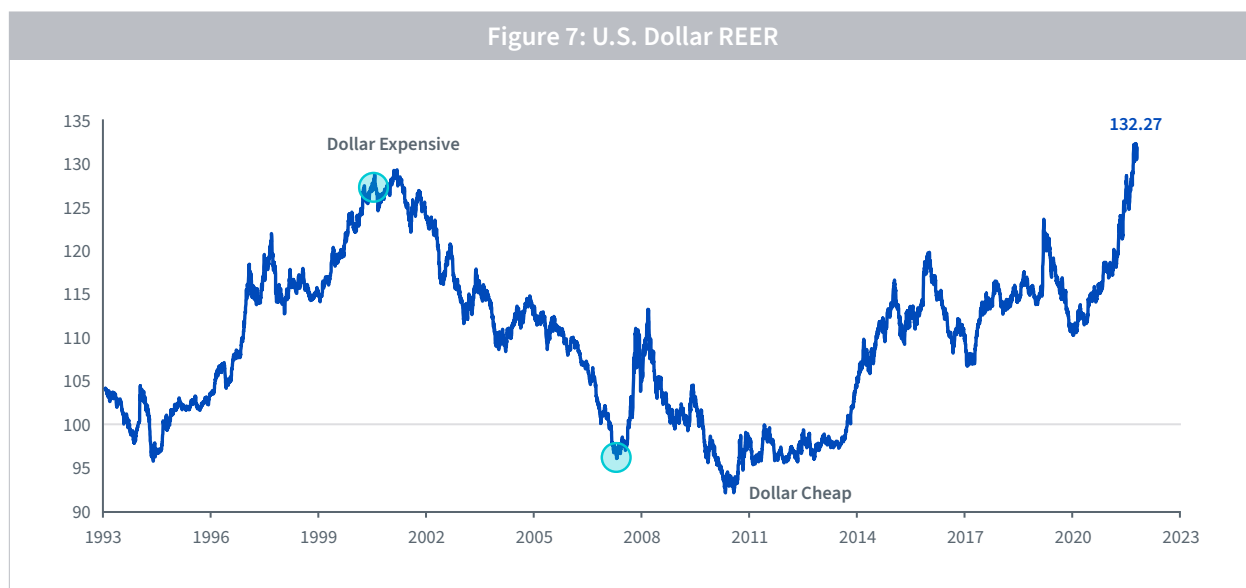
It's long forgotten at this point, but we should remember the last big multi-year run for non-U.S. stocks. Figure 6 shows the performance of the MSCI EAFE and MSCI Emerging Markets Indexes in a specific window that captured their best showing. It lasted from July 2001 to April 2008.

Market	Index	Annualized Returns
U.S.	S&P 500	3.6%
Developed Markets	MSCI EAFE	10.8%
Emerging Markets	MSCI Emerging Markets	24.3%

Source: Refinitiv. **Performance is historical and does not guarantee future results.**

In Figure 7, I placed blue circles on the dollar's REER at the start and end dates of that window. Half the battle was the return of the foreign stock markets—the other half was the currency translation effect.

The dollar is expensive again.

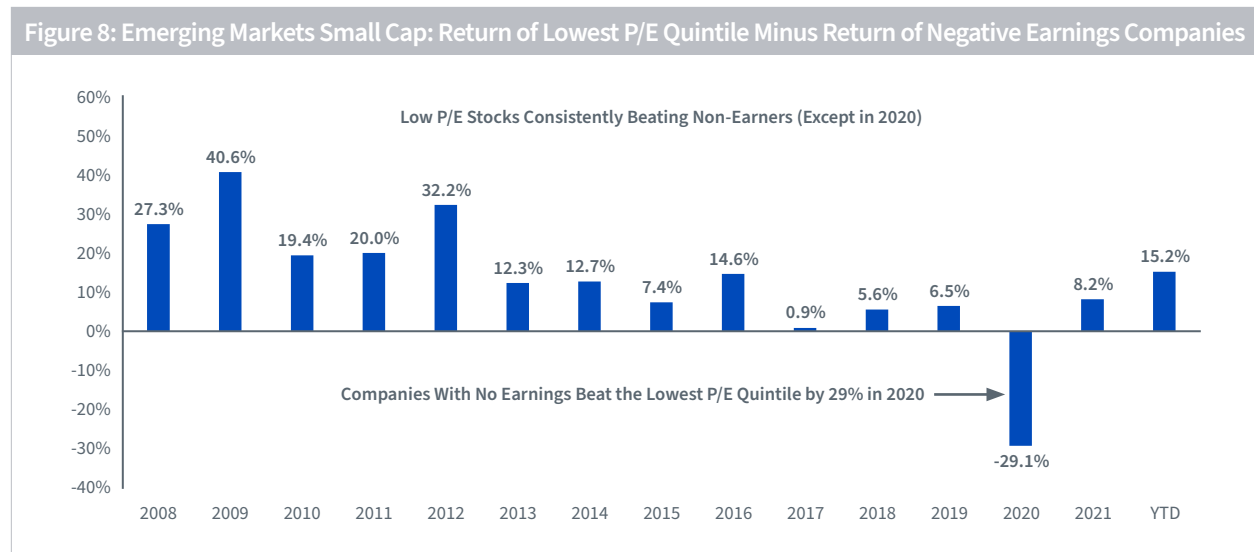


Sources: Refinitiv, JP Morgan, as of 10/31/22. **Performance is historical and does not guarantee future results.**

Something that has helped DEM and DGS over the years is the tendency of low price-to-earning (P/E) stocks in emerging markets baskets to hold up better than other pockets of the asset class.

Low-P/E concepts have been particularly accretive to the returns of emerging markets small caps, the exception being 2020, when unprofitable “stay at home” stocks thrived (figure 8).

Even after unprofitable stocks have been sold so much harder than the broad market in this bear market, they still make up 10% of the market value of the MSCI Emerging Markets Small Cap Index.

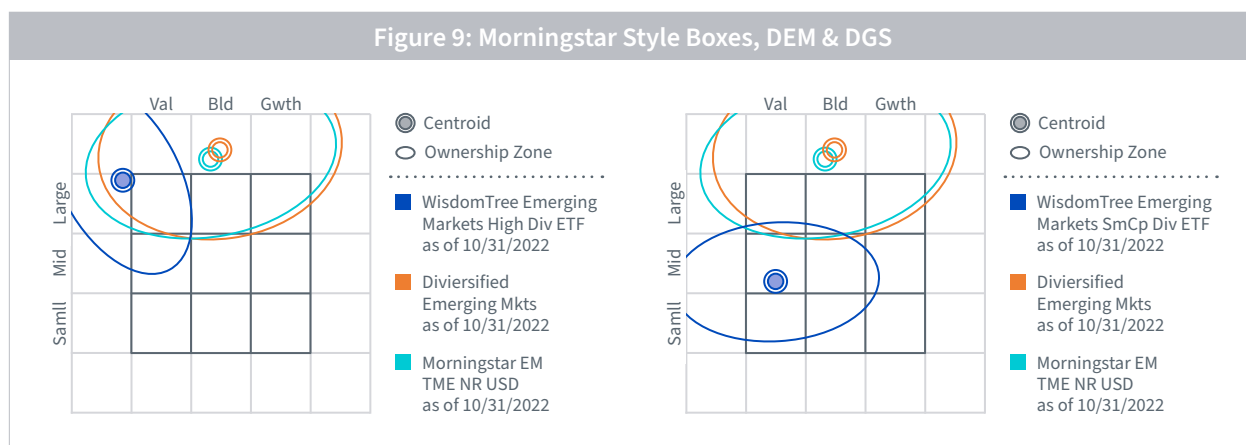


Source: WisdomTree, 12/31/07–10/31/22. **Performance is historical and does not guarantee future results.**

A good rule of thumb is that DEM is a deeper value mandate than DGS (figure 9).

You can treat them both as broad market plays because they're not niche exposures.

To wit, DEM and DGS held 482 and 1,003 stocks, respectively, on September 30, 2022. They can both fill out the entire line item for their portion of an asset allocation.



Because we are in this intense bear market, DEM and DGS are trading at single-digit multiples of both trailing and forward earnings.

**Figure 10: EM vs. U.S. Fundamentals**

Ticker	Name	P/E (ttm)	P/E (fwd)	P/S	Return on Assets (ROA)	Return on Equity (ROE)
DEM	WisdomTree Emerging Markets High Dividend Fund	4.73	5.74	0.52	1.99%	15.48%
DGS	WisdomTree Emerging Markets Small Cap Dividend Fund	6.17	6.73	0.47	2.04%	12.79%
MXEF	MSCI Emerging Markets Index	10.61	10.96	1.09	1.89%	13.54%
SPX	S&P 500 Index	18.98	17.34	2.3	4.36%	19.73%

Source: WisdomTree, as of 10/31/22. ttm=trailing 12 months.

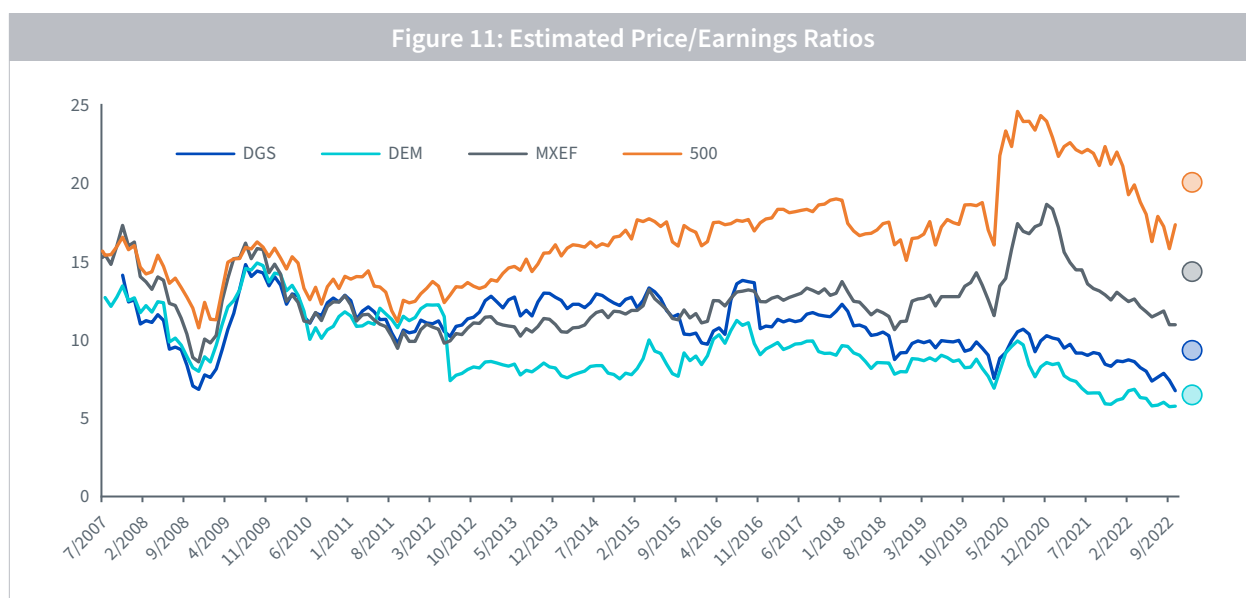
Let's go through an exercise in which the global economy remains in a funk in 2023, causing the "E" part of these forward P/E ratios to disappoint.

Start with DEM's 5.71 multiple. Lopping off a big chunk of its earnings for a grizzly 2023 bear scenario, let's say DEM's forward P/E ends up being eight, maybe nine, solely from a hit on the "E."

For DGS, let's bump the 7.39 from the table above to something like 11, in tandem with DEM's earnings recession. For the MSCI Emerging Markets Index, push the 10.95 to something in the 14–15 area. Finally, let's give the S&P 500 an earnings hit, too, shaking that multiple up from 15.81 to something like 19.

Using that guesswork, we get the four circles in figure 11 for what may be the reader's mindset on this market's forward P/Es.

Whatever ends up happening—earnings come in as expected, they crater, or they surprise to the upside—both DEM and DGS are at some of their widest P/E discounts to the MSCI Emerging Markets and S&P 500 Indexes of their 15-year lives.



Source: WisdomTree Digital Portfolio Developer, as of 10/31/2022. Circles represent hypothetical P/E ratios, as outlined in the prose above.

DEM and DGS are just two of our ten emerging equity Funds.

If you're a decided dollar bull, this is probably not the time to be putting new money into EM at WisdomTree or anywhere else. But if you're wishy-washy on where the dollar goes next, or you're a dollar bear, then DEM and DGS could be primed to capitalize on a re-kick for emerging markets value.

Of the eight other WisdomTree emerging markets Funds, a handful are known for kicking out state-owned enterprises (SOEs). Also, we have a newborn baby, just launched a few months back, which kicks out not only the SOEs but China too. For investors on the other side, we have a Fund that's 100% China. A couple more Funds own just India.

There is no shortage of ways to play emerging markets via WisdomTree.



## Glossary

**Bear market:** A sustained downturn in market prices, increasing the chances of negative portfolio returns. **Bull market:** A market in which share prices are rising, encouraging buying. **Commodity:** A raw material or primary agricultural product that can be bought and sold. **Dividend yield:** A financial ratio that shows how much a company pays out in dividends each year relative to its share price. **Emerging market:** Characterized by greater market access and less potential for operational risks when compared to frontier markets, which leads to a larger base of potentially eligible investors. **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. **Forward price-to-earnings ratio (forward earnings, P/E (fwd)):** Share price divided by compilation of analyst estimates for earnings per share over the coming 12-month period. These are estimates that may be subject to revision or prove to be incorrect over time. **Growth stocks:** 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. **Morningstar style box:** A grid of nine squares used to identify the investment style of stocks and mutual funds. **Non-earners:** An investment not yielding financial returns. **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. **Real effective exchange rate (REER):** The weighted average of a country's currency relative to an index or basket of other major currencies, adjusted for the effects of inflation. **Recession:** Two consecutive quarters of negative GDP growth, generally characterized by a slowing economy and higher unemployment. **Return on assets (ROA):** Firm profits (after accounting for all expenses) divided by the firm's total assets. Higher numbers indicate greater profits relative to the level of assets utilized to generate them. **Return on equity (ROE):** Measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. **State-owned enterprises (SOEs):** Companies in which governments have a significant ownership stake and the potential to influence the firms' actions over time. **Trailing 12-month (ttm) price-to-earnings (P/E) ratio; trailing price-to-earnings (P/E) ratio:** Share price divided by trailing 12-month earnings per share. Lower numbers indicate an ability to access greater amounts of earnings per dollar invested. **Value stocks:** 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 versus the market 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

**Morningstar Emerging Markets (EM) Target Market Exposure (TME) NR USD Index:** An index that targets large- and mid-cap stocks in emerging markets representing the top 85% of the investable universe by float-adjusted market capitalization. **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 broad market cap-weighted index showing the performance of equities across 24 emerging market countries defined as "emerging markets" by MSCI. **MSCI Emerging Markets Small Cap Index:** Includes small-cap representation across 24 emerging markets countries. The small-cap segment tends to capture more local economic and sector characteristics relative to larger emerging market capitalization segments. **MSCI Emerging Markets Value Index:** A market capitalization-weighted subset of stocks in the MSCI Emerging Markets Index that have lower share prices relative to their earnings per share, dividends per share or other financial metrics. **MSCI USA Growth Index:** A large- and mid-cap U.S. equity index aiming to capture securities exhibiting overall growth style characteristics. **S&P 500 Index:** A market capitalization-weighted benchmark of 500 stocks selected by the Standard and Poor's Index Committee, designed to represent the performance of the leading industries in the United States economy. **WisdomTree Emerging Markets High Dividend Index:** A weighted index that measures the performance of the highest dividend-yielding stocks from the WisdomTree Emerging Markets Dividend Index. **WisdomTree Emerging Markets SmallCap Dividend Index:** Seeks to track the investment results of dividend-paying small-cap companies in the emerging markets region.

## IMPORTANT INFORMATION

**Investors should carefully consider the investment objectives, risks, charges and expenses of the Funds before investing. To obtain a prospectus containing this and other important information, please call 866.909.9473, or visit [WisdomTree.com](http://WisdomTree.com) to view or download a prospectus. Investors should read the prospectus carefully before investing.**

There are risks associated with investing, including the possible loss of principal.

DEM: 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.

DGS: Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. Funds focusing on a single sector and/or smaller companies 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.

Please read each Fund's prospectus for specific details regarding each Fund's risk profile.

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