

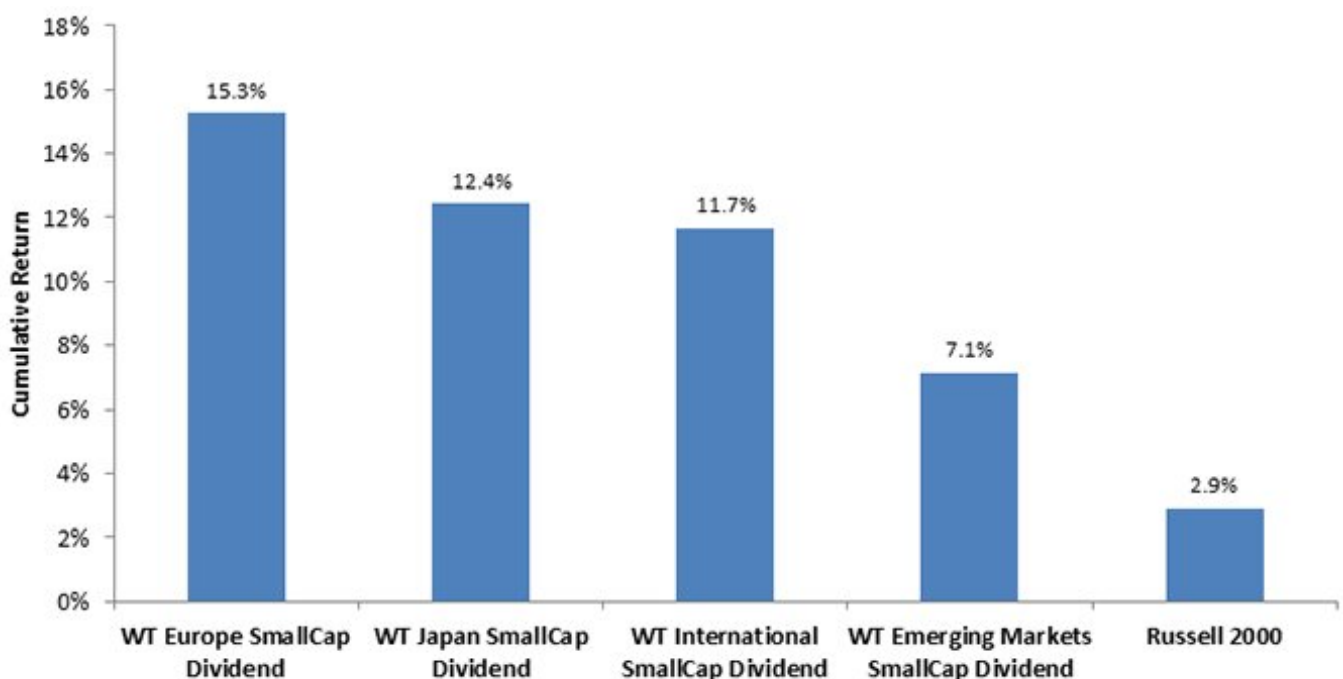
2015: The Year of International Small Caps?

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Most people who invest outside the U.S. tend to focus on well-established benchmarks such as the MSCI EAFE Index or MSCI Emerging Markets indexes. Yet both of these indexes have a particular hole: *Neither provides exposure to international small caps.* Through May 8, 2015, the Russell 2000 Index returned less than 3.0%—hardly exciting. But go beyond the U.S., and things get interesting. **Finding Double-Digit Returns in Small-Cap Equities Outside the U.S.**



Source: Bloomberg, 12/31/14–5/8/15. Past performance is not indicative of future results. You cannot invest directly in an index.

- **European Small Caps Looking Strong:** The [WisdomTree Europe SmallCap Dividend Index \(WTESC\)](#) was up more than 15% through May 8, 2015. During the second half of 2014, this Index faced a difficult performance environment, mainly due to depreciating currencies such as the pound and the euro. This year, we're seeing renewed strength on the back of improving overall economic expectations out of Europe—made more interesting in how WTESC outperformed the FTSE Developed Europe Index by nearly 6% during the period.
- **Japan Small Caps Should not Be Forgotten:** Global multinationals like Toyota¹ are not the only companies in Japan. Although they don't have recognizable names, Japanese small caps are delivering returns almost on par with their large-cap counterparts.
- **Broad-Based De-**

Developed International Small Caps Also in Double Digits: The [WisdomTree International SmallCap Dividend Index](#) has also been impressive. Markets responsible for this performance include Hong Kong (4.2% average weight, up 32%), the United Kingdom (15.4% average weight, up 14.3%) and Japan (29% average weight, up 12.8%). The lowest-performing market: New Zealand at 1.2%—meaning that developed international small-cap dividend payers were broadly positive. • **Will 2015 Be the Comeback Year for Emerging Markets?** From a valuation perspective, emerging market equities have been of great interest for the past few years, but their performance has been difficult to stomach. It is interesting to note that the [WisdomTree Emerging Markets SmallCap Dividend Index](#) delivered more than twice the year-to-date return of the Russell 2000 Index. Thus far, strength has been seen in China (9.5% average weight, up 30.2%) and South Korea (9.6% average weight, up 19.1%). Brazil has been one of the weaker markets (7.8% average weight, down 7.6%), but it's interesting to note that only one country (India) experienced negative performance in local currency terms. In other words, small-cap emerging market dividend payers are broadly positive before adjusting for exchange rate movements. **Added Benefit of International Small Caps at WisdomTree: Income** As of May 8, 2015, the Russell 2000 Index—which does not focus solely on dividend-paying companies—had a dividend yield of 1.39%. International companies, from what we've seen, initiate dividends sooner and do so in a more flexible manner, where dividend levels relate more closely to how companies are doing. What we are currently seeing in the way of dividend yields could indicate the potential for a valuation advantage compared to the Russell 2000 Index²: • **WisdomTree Europe SmallCap Dividend Index:** 3.34% • **WisdomTree Japan SmallCap Dividend Index:** 1.91% • **WisdomTree International SmallCap Dividend Index:** 3.77% • **WisdomTree Emerging Markets SmallCap Dividend Index:** 4.30% ¹As of 5/8/15, Toyota was a 5.55% weight in the [WisdomTree Japan Hedged Equity Index](#). ²Dividend yields measured as of 5/8/15.

Important Risks Related to this Article

Dividends are not guaranteed, and a company's future ability to pay dividends may be limited. A company currently paying dividends may cease paying dividends at any time. Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. Investments focusing on certain sectors and/or smaller companies increase their vulnerability to any single economic or regulatory development.