

A Primer on Emerging Market Debt

Published March 18, 2013

We believe there are compelling reasons to consider investing in emerging market (EM) debt—especially when you consider that total returns from fixed income today may be driven by factors other than the simple cash flows they generate. For example, EM debt provides:

- The opportunity to participate in emerging market growth with the potential for less volatility than EM equities
- Issuers with comparatively low levels of debt as a percentage of gross domestic product (GDP)
- A growing investable universe

But perhaps you're wondering: How do I best capitalize on these trends in EM debt? There are three ways to invest in this evolving asset class:

- **U.S. dollar (USD) sovereigns (a \$579 billion market)**—the longest-standing market, USD sovereign debt is the entry point for most developing EM issuers to access global investors. While it offers more countries, it also has a higher percentage of less credit-worthy borrowers.
- **Local currency sovereigns (a \$953 billion market)**—provide access to the underlying economic growth, as they are more closely tied to local interest rates, monetary policies and economic events driving the local economy. The largest of the EM debt markets, local debt also has the highest barriers to entry; not every country can issue in their local currency. This has caused the investable universe to be tilted toward investment-grade borrowers (currently 93%)¹.
- **Corporates (USD-denominated—a \$620 billion market)**—the fastest-growing portion of the market, EM corporates have a larger percentage of investment grade issues than USD sovereigns and offer the opportunity for higher yields than U.S. fixed income of similar credit quality, with less interest rate risk. In our opinion, local currency sovereigns and EM corporates are ideal investment choices for today's investors. Both of these options can provide shorter durations and less interest rate risk than their USD sovereign counterparts. *To learn more about WisdomTree Fixed Income family, [click here](#).*

¹Source: JPMorgan, as of 12/31/2013.

Important Risks Related to this Article

There are risks associated with investing, including possible loss of principal. Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. The Funds focus their investments in specific regions or countries, thereby increasing the impact of events and developments associated with the region or country, which can adversely affect performance. 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 and intervention or political developments. Derivative investments can be volatile and these investments may be less liquid than other securities, and more sensitive to the effects of varied economic conditions. Fixed income investments are subject to interest rate risk; their value will normally decline as interest rates rise. In addition when interest rates fall income may decline. Fixed income investments are also subject to credit risk, the risk that the issuer of a bond will fail to pay interest and principal in a timely manner, or that negative perceptions of the issuer's ability to make such payments will cause the price of that

bond to decline. Unlike typical exchange-traded funds, there is no index that the Fund attempts to track or replicate. Thus, the ability of the Fund to achieve its objective will depend on the effectiveness of the portfolio manager. Due to the investment strategy of certain Fund's they may make higher capital gain distributions than other ETFs. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.