

Bullish on Mexican Corporate Debt

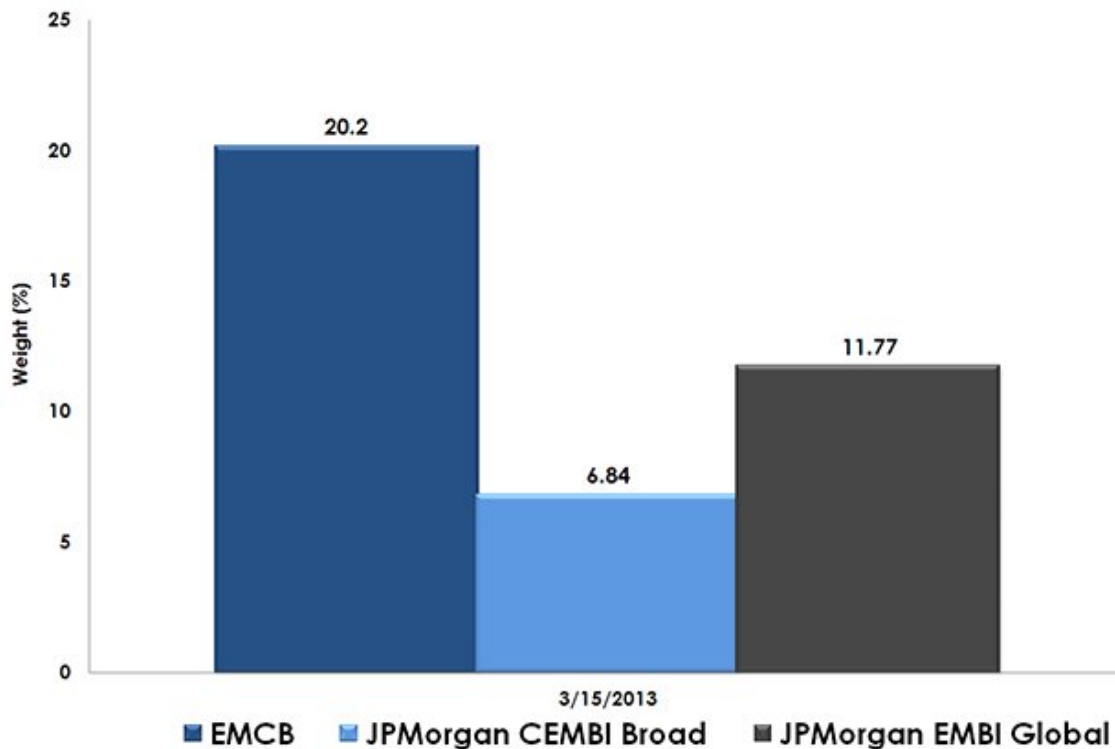
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Recently, Standard & Poor's revised its outlook for the Mexican state controlled oil company Petróleos Mexicanos (Pemex) to positive.¹ Pemex is the largest holding in the [WisdomTree Emerging Markets Corporate Bond Fund \(EMCB\)](#) as of March 15, 2013, and S&P's announcement paves the way for a greater than 1-in-3 chance of a credit rating upgrade in the next 18 months.² It also serves as a useful case study for why we are optimistic about Mexican and emerging market corporate debt as a complement for more traditional corporate credit instruments of U.S. companies. As we noted in a [blog](#) last year, an improving U.S. economy is a positive not only for the U.S. markets but also, potentially, for one of its largest trading partners, Mexico. Indeed, given the strong trade relationship between the two countries, a faster rate of economic growth in the U.S. can directly benefit the Mexican economy. However, the positive momentum in Mexico isn't singularly attributable to a recovering U.S. economy. President Enrique Peña Nieto has recently passed a series of governmental reforms that many believe may put Mexico on a more stable economic footing. At S&P, a potential catalyst for upgrade may be a continuation of these economic and governmental reforms. **Capitalizing on the Development of Emerging Markets** At WisdomTree, we believe one way many investors should attempt to capitalize on the growth of emerging markets is through investment in the debt of companies that we believe are helping to drive higher levels of growth not only in their own countries but around the world. For example, Pemex is currently the seventh-largest oil producer in the world. In January 2013, Pemex exported nearly 1.01 million barrels of crude oil to the United States. At these levels, Pemex is currently the United States' third-largest provider.³ Pemex is just one illustration of WisdomTree's bullish view on Mexico's prospects for future economic growth. • **Large Over-weight:** Currently, Mexican companies constitute over 20% of EMCB's portfolio—this is close to three times the amount in the Fund's performance benchmark⁴ and one of EMCB's largest over-weights in terms of country exposure. • The Fund's current allocation is also nearly twice the allocation to Mexico when compared to the JPMorgan EMBI Global Index. • In addition to Pemex, the Fund also holds⁵ the debt of CEMEX (one of the largest cement producers in the world), Mexichem (the largest chemical company in Mexico) and [Grupo Bimbo](#) (the largest baked goods company in the world).

Mexican Bond Exposure: EMCB vs. JPMorgan Indexes



Sources: WisdomTree, JPMorgan, 3/15/2013

Holdings subject to change. You cannot invest directly in an index.

Central to the Fund's [investment process](#), Western Asset Management (the Fund's sub-advisor) prefers having exposure to the companies it believes will benefit directly from ongoing economic development in basic infrastructure. Currently, this strategy results in an over-weight to metals & mining, oil & gas and basic industrials. Ultimately, we believe that emerging market corporate debt can provide a valuable complement to many investors' bond portfolios as they seek to evolve their investments with the changing economic landscape. When comparing it to U.S. dollar-denominated EM government debt, we currently prefer EM corporate debt as an asset class, given its higher current yields, lower interest rate risk and higher credit quality issuers.⁶ *For current holdings in the WisdomTree Emerging Markets Corporate Bond Fund, [click here](#).* ¹Standard and Poor's, March 12, 2013. ²Bloomberg, 2013. ³Bloomberg, 2013. ⁴JPMorgan Corporate Emerging Market Bond Index (CEMBI) – Broad. ⁵As of March 15, 2013. ⁶Based on a comparison of the JPMorgan CEMBI Broad Index vs. the JPMorgan EMBI Global Index.

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. 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 (ETFs), 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 this Fund, it may make higher capital gain distributions than other ETFs. Please read the Fund's prospectus for specific details regarding the Fund's risk profile. ALPS Distributors, Inc., is not affiliated with Western Asset Management Company, sub-advisor for the Fund.