

Emerging Market Small Caps Diverge from Large Cap Brethren in Early 2013

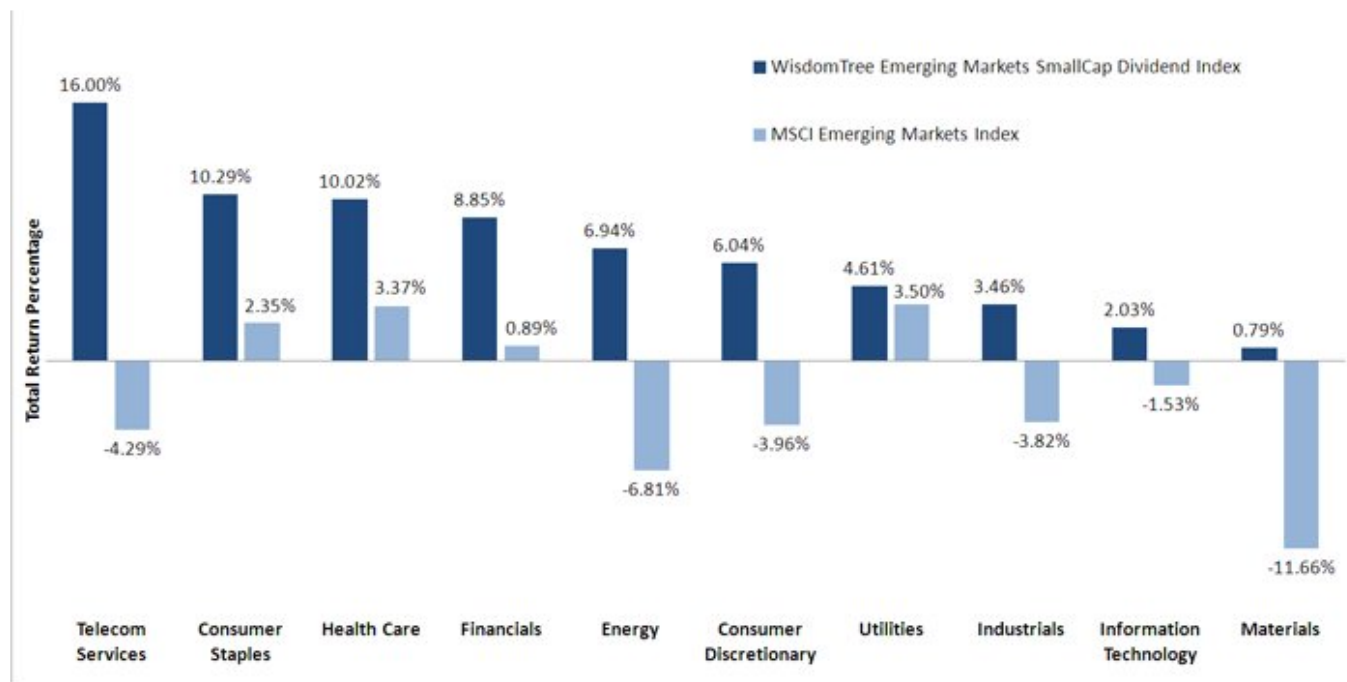
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Emerging market countries on average are continuing to lead the world in terms of global economic growth, but recently this hasn't translated into equity outperformance. One might expect economic growth and equity returns to go hand in hand, but that isn't always the case. We think the case for investing in emerging markets is strong, based on diversification benefits, longer-term global growth outlook, and a current valuation picture that still looks quite attractive (as I noted in a [recent blog](#)). **Mid- and Small-Cap Companies** To look at the differences between size capitalizations in emerging market countries, we will compare the WisdomTree Emerging Markets SmallCap Dividend Index to the MSCI Emerging Markets Index. While there are notable differences in the index methodologies of these two indexes, we chose them for comparison purposes because the former invests primarily in small-cap companies and the latter invests predominantly in large-cap companies, both within emerging markets. Investing based just on size capitalization can create very different allocations across sectors, countries and companies—leading to differences in performance. In the chart below we look at the year-to-date performance of the 10 different industry sectors within each index.

Stock Outperformance across All Sectors



Sources: Bloomberg, WisdomTree. Performance numbers are the weighted average performance of the individual stocks within each index broken down by sector. Returns are 12/31/12 to 04/10/13. Past performance is not indicative of future results.

• **Smaller Company Outperformance** – The mid- and small-cap stocks in the WisdomTree Emerging Markets SmallCap Dividend Index have outperformed their large-cap peers, represented by the MSCI Emerging Market Index, in all 10 sectors. Every sector in the WisdomTree Index has posted a positive return year-to-date, while fewer than half the sectors of the MSCI Emerging Markets Index saw positive performance over the same period.

• **Sector Differences** – Compared to the MSCI Emerging Markets Index, the WisdomTree Emerging Markets SmallCap Dividend Index's largest under-weight sectors are Energy, Telecommunication Services and Financials. The largest over-weight sectors are Industrials and Consumer Discretionary.

• **Performance Differences** – The WisdomTree Emerging Markets SmallCap Dividend Index is up 6.14% year-to-date and 15.33% over the most recent one-year period. The MSCI Emerging Markets Index is down 2.52% year-to-date and up 3.49% over the most recent one-year period.

Look to Small Caps for Potential Ties to the Emerging Market Consumer Of course there are no guarantees that smaller-cap companies will outperform larger-cap companies going forward, but we think it is important to allocate to small-cap emerging companies. The positive economic growth in emerging market economies is translating into a growing class of citizens with more discretionary income. We expect this trend will continue in emerging market countries, and it is important to focus on this new class of emerging consumers. Large-cap companies are important to consider, but many are concentrated in the energy and financial sectors and are more dependent on global growth. To capitalize on this growing emerging consumer, we think one strategy is a focus on small-cap companies that are often more dependent on the growth from their own country and citizens.

Average Annual Returns as of 03/31/2013					
	YTD	1-Yr	3-Yr	5-yr	Since WT Inception 08/01/07
WisdomTree Emerging Markets SmallCap Dividend Index	6.03%	13.11%	9.72%	8.17%	6.02%
MSCI Emerging Markets Index	-1.62%	1.96%	3.27%	1.09%	1.01%

Past performance is not indicative of future results.

Data sources are WisdomTree and Bloomberg.

Important Risks Related to this Article

You cannot invest directly in an index. The recent growth rate in the stock market has helped to produce short-term returns for some asset classes that are not typical and may not continue in the future.

Diversification does not eliminate the risk of experiencing investment losses. 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 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.