Leaning into Emerging Markets Value

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Commodity prices have been on a positive trend this year, with the Bloomberg Commodity (BCOM) Index up 31.6% year-to-date and up 41.51% in the last 12 months,1 driven by rising energy prices and a supply chain crunch resulting from last year's economic slowdown.

Emerging markets (EM) economies have shifted their compositions in the past decade, becoming less dependent on exporters and commodity-driven companies. But recent performance has shown how some of these economies can thrive in a commodity boom such as the one we've seen in 2021.

With inflation expectations where they are, we could well see this commodity boom extending past 2021, favoring exposure to value companies in EM.

In the chart below we can see how the MSCI EM Value Index has outperformed its growth counterpart over the last 12 months at the same time the BCOM Index has been trending higher.

Sources: WisdomTree, FactSet. Data from 09/30/19–09/30/21. Past performance is not indicative of future results. You cannot invest directly in an index

WisdomTree Indexes with a Value Tilt in EM

We recently wrote about the WisdomTree Emerging Markets High Dividend Index (WTEMHY) and how it has outperformed the MSCI EM Indexsince October of last year with lower volatility, thanks to its value exposure and resulting sector and country exposures.

At the same time the WisdomTree Emerging Markets SmallCap Dividend Index (WTEMSC), has also seen a very strong 2021, outperforming the S&P 500 Index over the last 12 months, despite recent headline risk in China.

If we're in the early innings of a global rebound after the pandemic, this asset class could continue to be a bright spot in an investor's portfolio.

Growth of $100

Sources: WisdomTree, FactSet. Data from 09/30/20–09/30/21. Past performance is not indicative of future results. You cannot invest directly in an index.

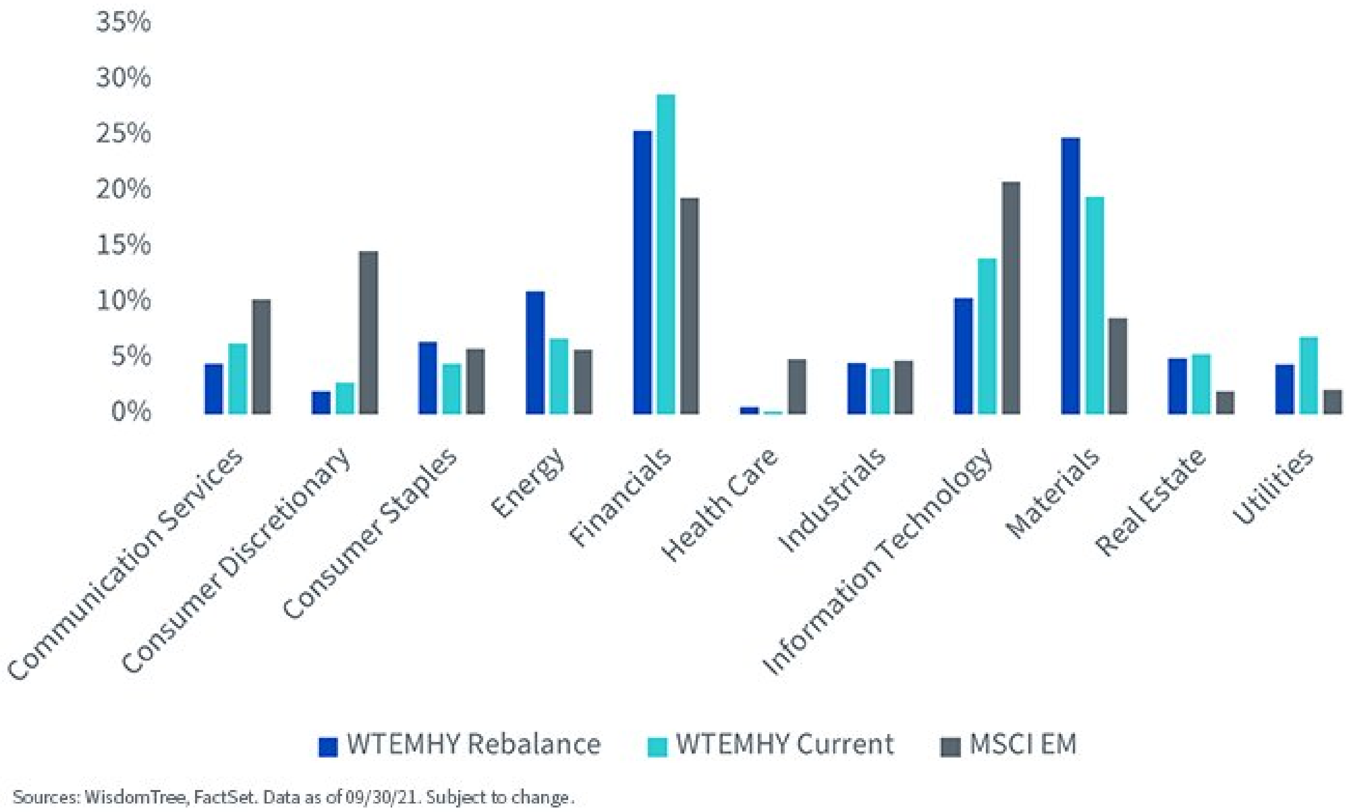
These indexes, which are tracked by the WisdomTree Emerging Markets High Dividend Fund (DEM) and WisdomTree Emerging Markets SmallCap Dividend Fund (DGS), are reconstituted annually, and their new weights became effective after the close on October 21. In both cases we can see how these portfolios increase or maintain exposure to commodity sectors and economies and are positioned to take advantage of this market environment.

WisdomTree's Emerging Markets High Dividend Index (WTEMHY)

WTEMHY holds the highest (top 30%) dividend yielding companies in EM and screens out those with the highest risk according to our Composite Risk Screen measure.

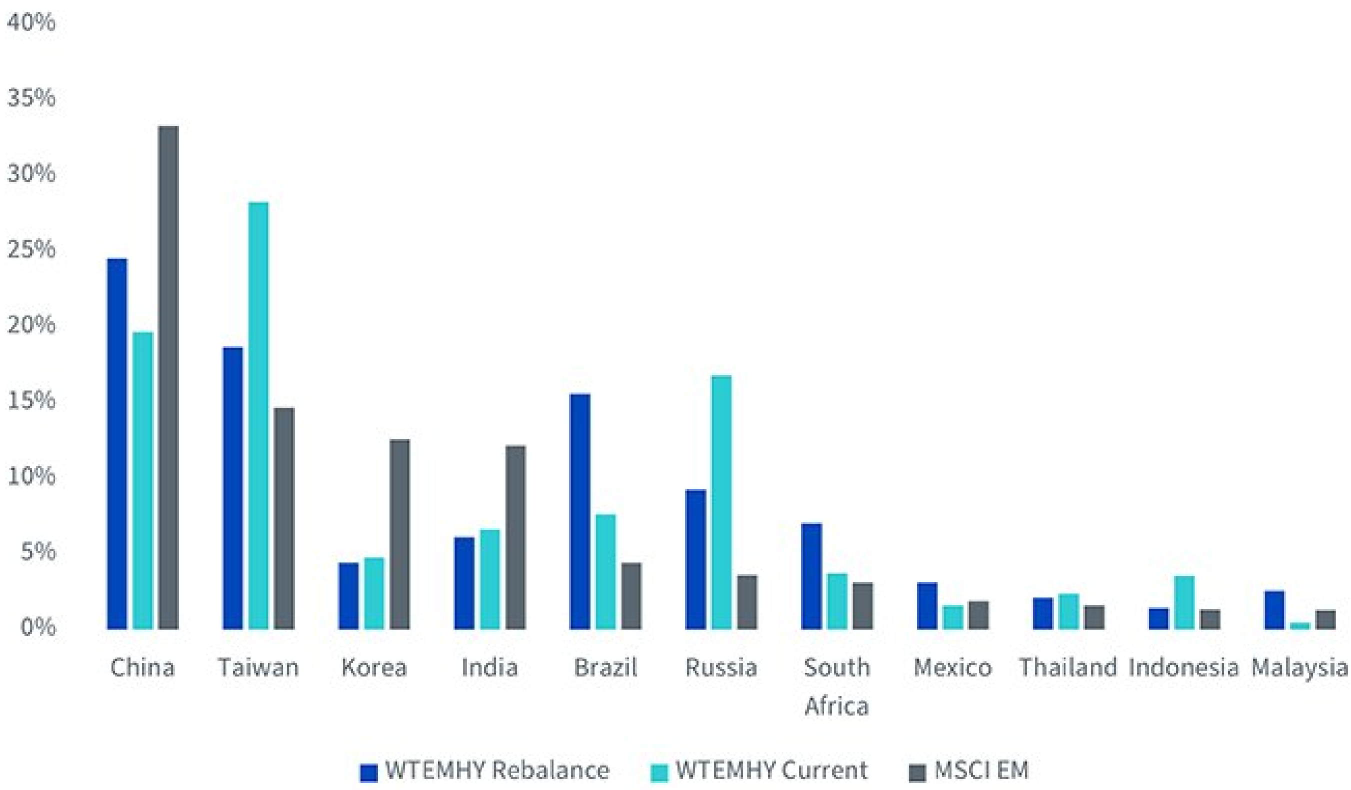
Selected companies are weighted by the dividends they've paid out over the past 12 months. In its most recent reconstitution, WTEMHY added weight to the Materials, Energy and Consumer Staples sectors as these have grown dividends proportionally faster in the last year and have shown strong fundamentals. The Index continues to show a significant tilt to value sectors versus the broad MSCI EM Index.

EM High-Yield Universe



In terms of country exposures, the rebalanced portfolio also favors commodity-driven economies such as Brazil and Russia and is resetting the exposure of Taiwan, which has had a significant run up since the last rebalance in October 2020. WTEMHY continues to be overweight in the commodity-driven economies and underweight in technology- and financial-heavy China and South Korea.

EM High-Yield Universe



Sources: WisdomTree, FactSet. Data as of 09/30/21. Subject to change.

Looking at the portfolio's fundamentals below, we can see how WTEMHY improved its dividend yield by 60 basis points (bps), reduced its valuation (P/E ratio) by 1.1 times and maintained its profitability during its rebalance. Compared to MSCI EM, it has more attractive measures across the board.

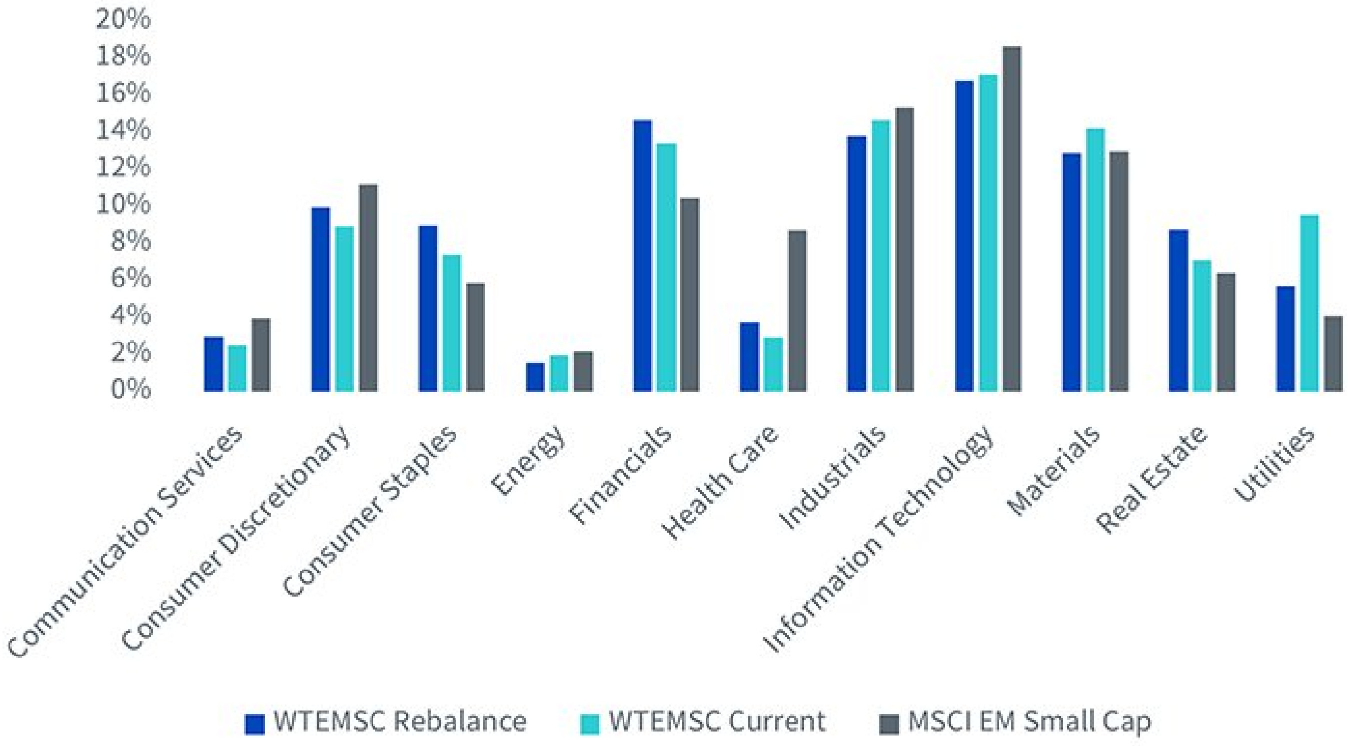
Portfolio	Constituents	Dividend Yield	Price-To-Earnings	% Neg. Earnings	Return on Assets	Return on Equity	Shareholder Yield
WTEMHY Rebalance	621	6.21	6.10	0.00	1.93	14.69	5.65
WTEMHY Current	494	5.62	7.29	0.00	1.71	14.79	5.24
MSCI EM	1418	2.07	14.96	5.88	1.73	12.41	1.00

Sources: WisdomTree, FactSet. Data as of 09/30/21.

For definitions of terms in the chart please visit the glossary.

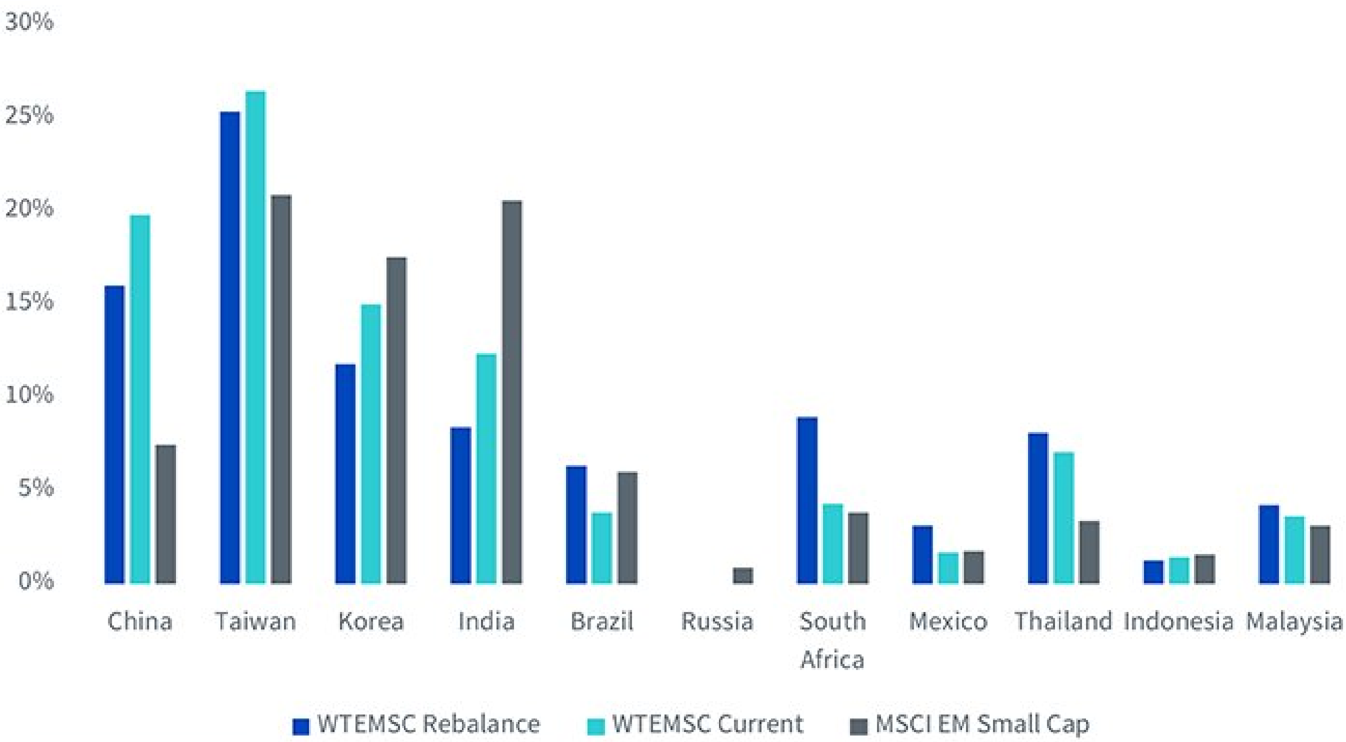
WisdomTree Emerging Markets SmallCap Dividend Index (WTEMSC)

Sector changes to WTEMSC during its reconstitution were small as it remains strongly exposed to the traditional value sectors in EM.



Sources: WisdomTree, FactSet. Data as of 09/30/21. Subject to change.

Like WTEMHY, WTEMSC continues to be overweight in the commodity-driven economies and underweight in technology- and financial-heavy China and South Korea with these tilts increasing at the latest reconstitution.



Sources: WisdomTree, FactSet. Data as of 09/30/21. Subject to change.

WTEMSC's aggregate fundamentals show rebalance-related improvement across the different metrics, taking its dividend yield up almost 50 bps and cutting its valuation by 1.5 times. It is very interesting to see how this basket of small-cap EM companies can have profitability metrics that are comparable with broad market benchmarks like the MSCI EM and MSCI EAFE indexes.

Portfolio	Constituents	Dividend Yield	Price-To-Earnings	% Neg. Earnings	Return On Assets	Return On Equity	Shareholder Yield
WTEMSC Rebalance	1168	4.53	8.16	0.00	2.93	14.73	3.27
WTEMSC Current	933	4.05	9.64	0.00	2.65	13.27	3.13
MSCI EM Small Cap	1817	2.12	17.87	12.78	1.95	9.32	0.41

Sources: WisdomTree, FactSet. Data as of 09/30/21.

1 Sources: WisdomTree, FactSet. Data as of 10/12/21.

Important Risks Related to this Article

There are risks associated with investing, including the possible loss of principal. 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 DEM and DGS, they may make higher capital gain distributions than other ETFs. Please read each Fund's prospectus for specific details regarding the Fund's risk profile.