

Rupee Outshining Emerging Market Currencies

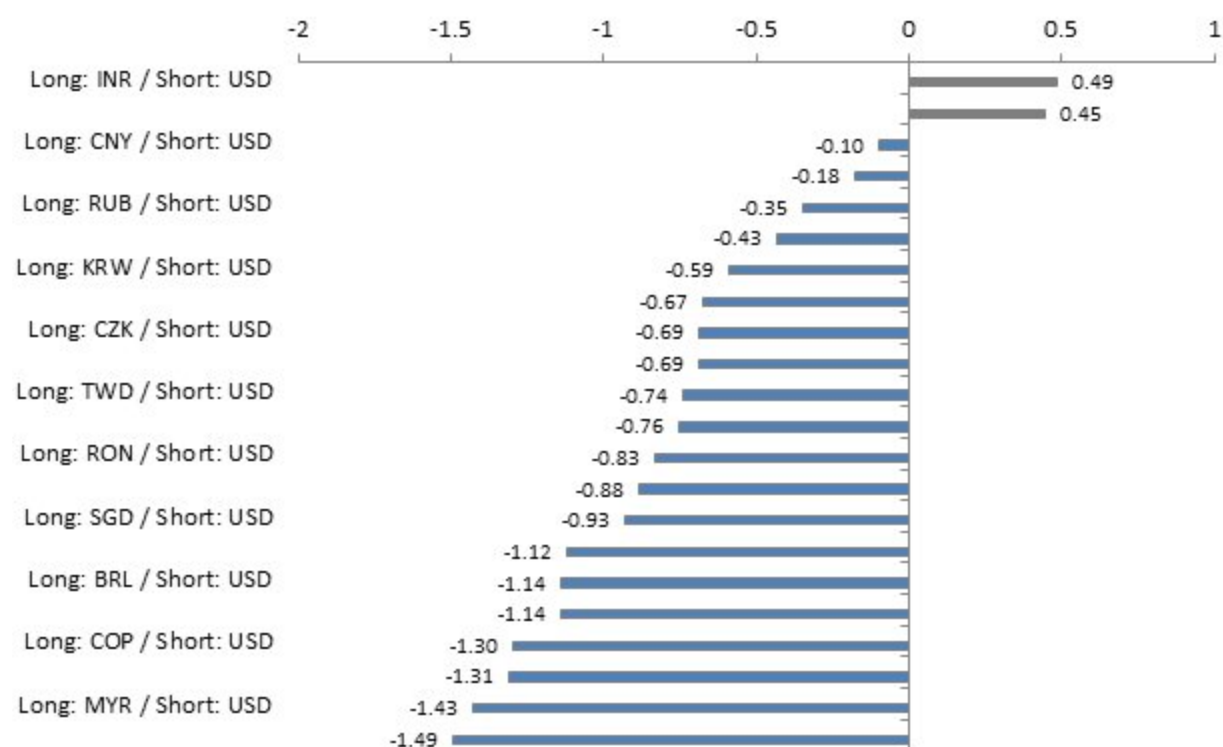
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Gaurav Sinha

Associate Director, Asset Allocation and Modern Alpha

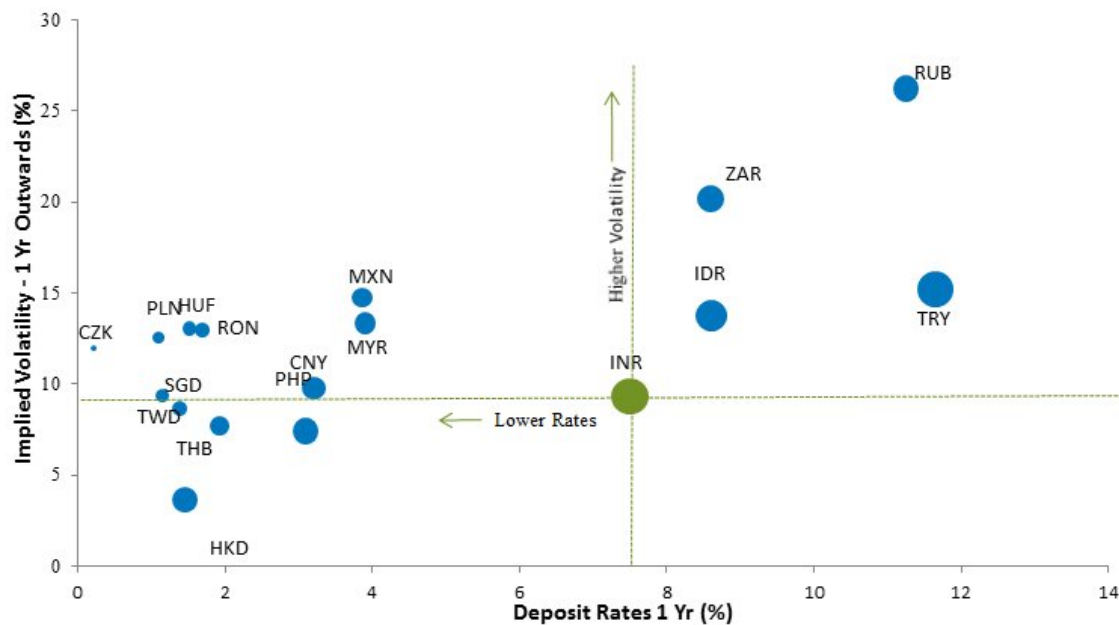
Looking back, 2015 was a tough year for emerging market (EM) equities and their currencies. A looming interest rate hike in the U.S., combined with a Chinese slowdown and falling commodities, ensured that most EM currencies faced tremendous downward pressure. However, one currency that stood out was the Indian national rupee (INR). Below, we highlight why the rupee continues to be one of the best-performing EM currencies and two implications for allocations, for both the rupee and Indian equities.

Rupee—Positive Carry Trade Returns in 2015 Relative performance for currencies is often measured via the carry trade (i.e., selling a currency that yields a lower interest rate and using the proceeds to purchase a higher-yielding currency). In 2015, the INR and its associated interest rates outperformed all EM currencies from a risk-adjusted basis when compared against the U.S. dollar.¹ Someone who invested in Indian rupees via forward contracts and collected the interest rates would have earned positive returns in an otherwise very challenging landscape. **Currency and Interest Rate: Sharpe Ratio 12/31/2014-12/31/2015**



Source: Bloomberg. Past performance is not indicative of future results.

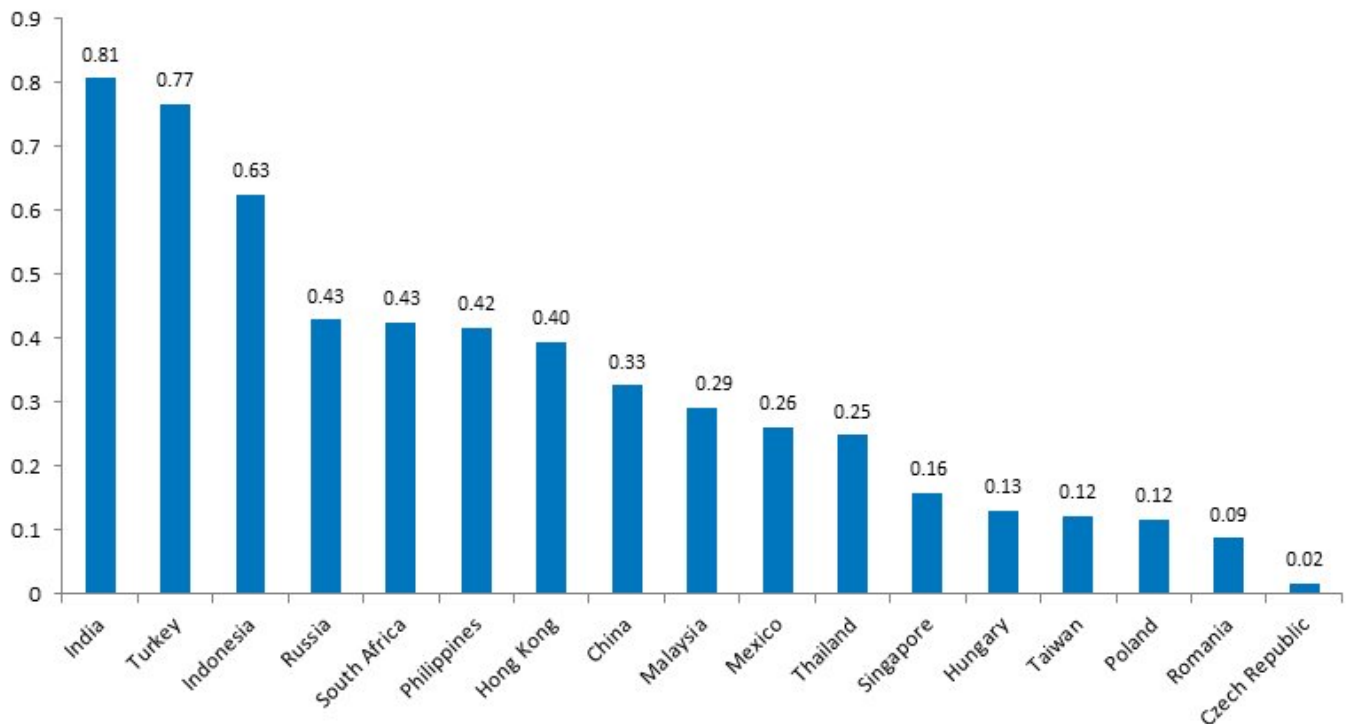
What's the Trend for 2016? Looking on a forward basis, the chart below compares how much deposit rate an investor would earn and compares that to the implied volatility in the markets today. For an expected risk of 9.3%, INR offers an impressive 7.5% deposit rate for 2016, higher than any other currency with a similar risk level. **EM Currency- Risk/Reward 2016 As of 02/11/2016**



Source: Bloomberg. Past performance is not indicative of future results.

Currency names: Czech krona (CZK), Polish zloty (PLZ), Hungarian forint (HUF), Romanian leu (RON), Taiwanese dollar (TWD), Singaporean dollar (SGD), Thai baht (THB), Hong Kong dollar (HKD), Chinese yuan (CNY), Philippines peso (PHP), Mexican peso (MXP), Malaysian ringgit (MYR), South African rand (ZAR), Indonesian rupiah (IDR), Turkish lira (TRY), Russian ruble (RUB), Indian rupee (INR).

The rupee for the moment looks to be the most optimized currency investment for 2016 in the EM world.
EM Currency Sharpe for 2016 Deposit Rate/ Implied vol (1Yr) As of 2/11/2016



Source: Bloomberg.

Factors Affecting the Rupee in 2016 The Federal Reserve's (Fed) rate hike and the Chinese slowdown have caused some investors to flee from riskier assets, especially emerging market equities. Both of these factors put some downward pressure on the rupee. However, as the third-largest importer of crude oil, with every \$1 drop in 2015 in crude oil prices, India saves more than half a billion dollars in its imports.² Thus, cheaper commodities, especially crude oil, are a windfall for the fiscal health of the rupee. Considering those two opposing forces, we expect the rupee to be fairly stable over the course of the next year. A 2% to 3% further depreciation could not be ruled out; however, in an otherwise challenging landscape this would be a good performance. Furthermore, any depreciation should not offset interest income available, as has been discussed above. It is also important to keep in mind that any relative strength in the rupee could be very supportive of the performance of Indian equities in the emerging market universe. Learn about the [WisdomTree Indian Rupee Strategy Fund \(ICN\)](#), which invests in forward contracts, collecting the short-term interest rates embedded in those contracts, as discussed in the analysis and charts above. ***Unless otherwise noted, data source is Bloomberg, as of February 11th, 2016.*** ¹Source: Bloomberg, for the period 12/31/14 to 12/31/15. ²Source: ICRA, a Moody's Investors Service company, as of November 2015.

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. This Fund focuses its investments in India, thereby increasing the impact of events and developments associated with the region, which can adversely affect performance. Investments in emerging 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.

Investments in commodities may be affected by overall market movements, changes in interest rates and other factors such as weather, disease, embargoes and international economic and political developments.

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