

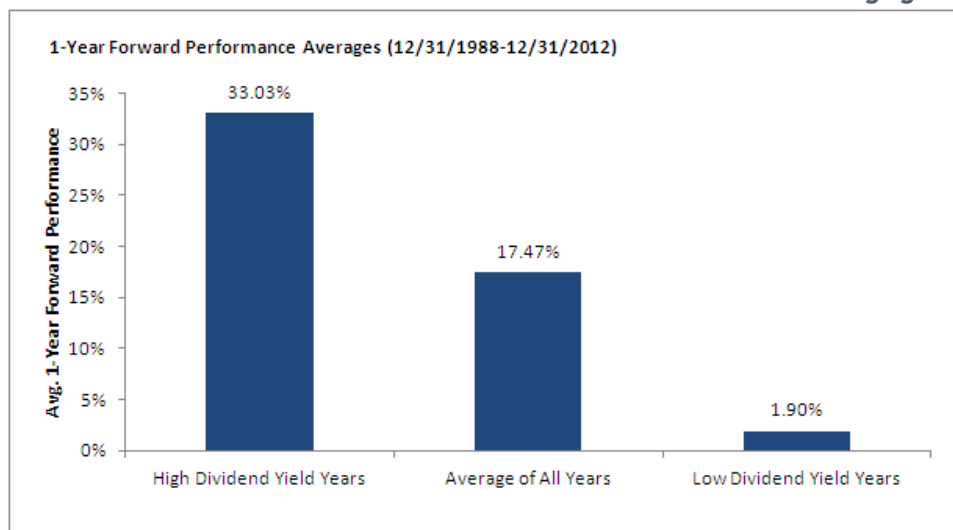
# WE ARE STILL BULLISH ON EMERGING MARKET EQUITIES FOR 2013

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Emerging market equities had a strong year in 2012, delivering returns in excess of 18%<sup>1</sup>. While we believe emerging markets are currently some of the lone bright spots in terms of global economic growth, [emerging market equity](#) performance is certainly not without risk. In 2011, for example, the [MSCI Emerging Markets Index](#) was down 18.42%, and in 2008 it was down over 50%<sup>2</sup>. We believe one critical factor in judging the prospects for emerging market equities is [valuation](#)—how expensive are the emerging market stocks? The answer today: Not very expensive, in our view. And hence we are still bullish on emerging market equities for 2013. Let's review how we arrive at that conclusion.

## Dividend Yield as a Valuation Indicator for the MSCI Emerging Markets Index



Sources: WisdomTree, MSCI

Past performance is not indicative of future results. You cannot invest directly in an index.

(For definitions of terms in this chart, please see our [Glossary](#).) We have conducted a review of the calendar years since the MSCI Emerging Markets Index has been calculated, and have subdivided the years into two groups. • “High Dividend Yield Years”: Years in which the starting trailing 12-month dividend yield was above the [median trailing 12-month dividend yield](#) for the MSCI Emerging Markets Index. The median trailing 12-month dividend yield was 2.25%. • “Low Dividend Yield Years”: Years in which the starting trailing 12-month dividend yield was below the median trailing 12-month dividend yield for the MSCI Emerging Markets Index. Based on the last 24 full calendar years of data on the MSCI Emerging Markets Index, the current trailing 12-month dividend yield—2.69% as of 1/31/2013—would rank as a low price point period. Higher trailing 12-month dividend yields indicate that a greater amount of aggregate dividends has been generated over the past 12 months relative to the current share price, while lower trailing 12-month dividend yields indicate the opposite. • In the years following these higher trailing 12-month dividend yields<sup>3</sup>, the MSCI Emerging Markets Index had returns that averaged 33.03%<sup>4</sup>. • During periods that ranked as more expensive for emerging markets, with lower trailing 12-month dividend yields, the average return over the 12 months that followed was just 1.90%. • The average return for all 24 calendar years was 17.47%<sup>5</sup>. This dramatic difference between “High Dividend Yield Years” and “Low Dividend Yield years,” to us, is a significant signal for the valuation prospects of these equities. Historical

precedent has been supportive during High Dividend Yield Years such as we are witnessing today, but of course past performance is no guarantee of future results. It is also worth noting that:

- Four of the five best yearly return periods for the MSCI Emerging Markets Index followed trailing 12-month dividend yields that ranked among the five highest of all 24 calendar year returns. Notably, at the 2008 year-end, the dividend yield on the MSCI Emerging Markets Index was 4.75% (the highest value) and the 12-month forward return of the index was 79.02% (the highest 12-month forward return).
- On the other hand, the lowest observed year-end trailing 12-month dividend yield for the MSCI Emerging Markets Index was observed on December 31, 1999, and it was followed by the second-worst of all 24 yearly returns studied, specifically -30.61%.

**Conclusion** While there are many ways to view equity valuation, we believe WisdomTree's approach provides a simple indication as to whether the MSCI Emerging Markets Index might be relatively more or less expensive when judged against its own historical record. As can be seen, index performance following less expensive valuations has been drastically different from performance that followed more expensive valuations, but of course past performance is no guarantee of future results. *For more information on the subject, read our research [here](#).*

<sup>1</sup>Emerging market equities: MSCI Emerging Markets Index for period 12/31/2011 to 12/31/2012; source: MSCI. <sup>2</sup>Source: MSCI <sup>3</sup>This refers to the 12 highest year-end trailing 12-month dividend yields falling above the median observation of 2.25% within the 24-calendar-year complete dataset. The median is the value within a dataset at which 50% of all observations occur above and 50% occur below. <sup>4</sup>This average represents the average of 12 calendar years of performance for the MSCI Emerging Markets Index that specifically follow a trailing 12-month dividend yield included among the 12 highest values over the period. This is not an average annual value. <sup>5</sup>The % represents a simple average of each of the 24 calendar years taken individually. This is not an average annual figure.

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## **DEFINITIONS**

**MSCI Emerging Markets Index** : a broad market cap-weighted Index showing performance of equities across 23 emerging market countries defined as “emerging markets” by MSCI.

**Valuation** : Refers to metrics that relate financial statistics for equities to their price levels to determine if certain attributes, such as earnings or dividends, are cheap or expensive.

**Median trailing 12-month dividend yield** : Dividends over the prior 12-months are added up and divided by the current share price. Higher values indicate more dividends are being generated per unit of share price.