CHANGING CURRENCY TIDES: EMERGING MARKETS

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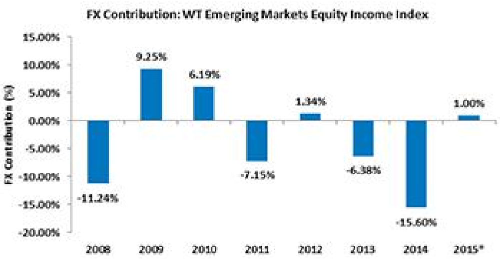
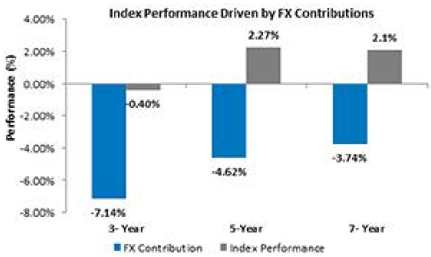
Recently, the emerging markets (EM) have been embattled in a storm of currency weakness and disappointing performance. However, that tide may be starting to turn. Case in point: the WisdomTree Emerging Markets Equity Income Index (WTEMHY) has returned 11.52% year-to-date, with currencies contributing 1% to that performance.[1] In recent years, currency moves have dominated investor returns in the emerging market equity space. This was especially the case in 2014, where FX stripped over 15% off the broad-based high-yielding emerging market equity strategy defined by WTEMHY. More generally, the U.S. dollar has had a significant run-up against its trading partners in both the developed and the emerging market complex. For context, the Bloomberg Dollar Spot Index, a liquidity-adjusted measure of the dollar against a broad set of developed and emerging currencies, appreciated 10.31% in 2014 and 13.58% over the most recent nine-month period.[2] **Are Emerging Market Currencies Offering Good Value?** A few emerging market countries screen as being potentially attractive candidates to add exposure to, particularly after the sharp decline in their currencies. While foreign currencies were a large drag on WTEMHY's performance in 2014, they subsequently added 100 basis points (bps) to their performance in 2015. This is in stark contrast to the developed world, proxied by the MSCI EAFE Index, where foreign currencies have detracted 295 basis points from returns in 2015 alone.[3] With currencies becoming a performance tailwind in WTEMHY, value hunters may find depressed equity price multiples in EM more enticing. **FX Contribution Dominates Performance**





Sources: WisdomTree, Bloomberg, with data 12/31/07–4/27/15.

• FX has been a drag: The chart above highlights the various periods under consideration and the jarring reality that FX has been a large driver of performance across the stated periods of three, five and seven years. In the event the higher dollar trend bucks, this could potentially sweeten the EM opportunity, given that the region is trading at 13x earnings (represented by P/E ratio) and at a 13.5% discount against its 10-year median.[4] **• Russian Ruble Staking Performance Differential 2014 vs. 2015:** In 2014, currencies stripped 15.6% off performance, while WTEMHY returned -10.6%.[5] Another way to think about this is that if it were not for currencies, returns would have been positive. A large portion of the FX drag was attributable to the Russian ruble, which depreciated over 43%. Specifically, the ruble contributed -10.1% of the -15.6% underperformance that was currency related. While the ruble was a large detractor in 2014, 2015 was characterized by the ruble adding most significantly to WTEMHY's currency picture: it added 3% of the 1% total currency contribution in 2015. **• Brazilian Real Stuck in a Rut:** In 2011, 2013 and 2014, the real stripped -2.1%, -1.7% and -1.1%, respectively, off WTEMHY's performance, as the real declined -11.0%, -13.1% and -11.1% in those years. This underperformance continued into 2015 and is largely a function of Brazil's macroeconomic picture that has been saddled with slow growth, sticky inflation, stubborn twin deficits and a lack of reform. Due to relatively high short-term interest rates in Brazil, there may be an opportunity to look at short-term interest rates and currency markets in Brazil as a tactical opportunity. I believe the recent emerging market performance and negative sentiment has created some opportunities. Further, the stabilization of currencies has the potential to improve investors' risk-adjusted returns. Markets may deviate from the underlying fundamental value for a number of reasons and can stay irrational for long periods, but I believe they eventually revert back to underlying fundamentals. One way to take advantage of the EM space is to do so is through a rules-based strategy that hones in on fundamentals and provides sufficient income potential—such as the strategy the WisdomTree Emerging Markets Equity Income Index is based on. [1]Sources: WisdomTree, Bloomberg as of 4/30/15. [2]Period measured: 7/31/14–4/30/15. [3]Source: Bloomberg, with data from 12/31/14–4/30/15. [4]Measures on MSCI EM from 4/31/05 to 4/31/15. [5]Returns measured on WTEMHY at the net U.S. dollar level.

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WisdomTree Emerging Markets Equity Income Index : A subset of the WisdomTree Emerging Markets Dividend Index measuring the performance of the higher-yielding stocks as measured by trailing 12-month dividend yields, weighted by cash dividends.

Foreign Exchange (FOREX, FX) : The exchange of one currency for another, or the conversion of one currency into another currency.

Bloomberg Dollar Spot Index (BBDXY) : Tracks the performance of a basket of ten leading global currencies versus the U.S. dollar. Each currency in the basket and their weight is determined annually based on their share of international trade and FX liquidity.

Basis point : 1/100th of 1 percent.

MSCI EAFE Index : is a market cap-weighted index composed of companies representative of the developed market structure of developed countries in Europe, Australasia and Japan.

Earnings multiple : another way of saying price-to-earnings multiple.

Median : The median is the value within a dataset at which 50% of all observations occur above and 50% occur below.

Inflation : Characterized by rising price levels.