

# THE DIFFERENTIATION IN EMERGING MARKETS PERFORMANCE IN 2014

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05/05/2014

The emerging markets have been one of the bigger disappointments in terms of performance over the last few years, but there are pockets of opportunity, with some regions displaying fewer imbalances than others. As I look at 2014, four months in, I find it important to break emerging market equities into different pieces. This isn't all that different from what people do in the United States, recognizing that to have a diversified portfolio, one must not only pay attention to a single index but also think in terms of different [market capitalization](#) size segments, as well as different [value](#)-tilted or [growth](#)-tilted strategies. **Average Annual Returns as of 3/31/14**

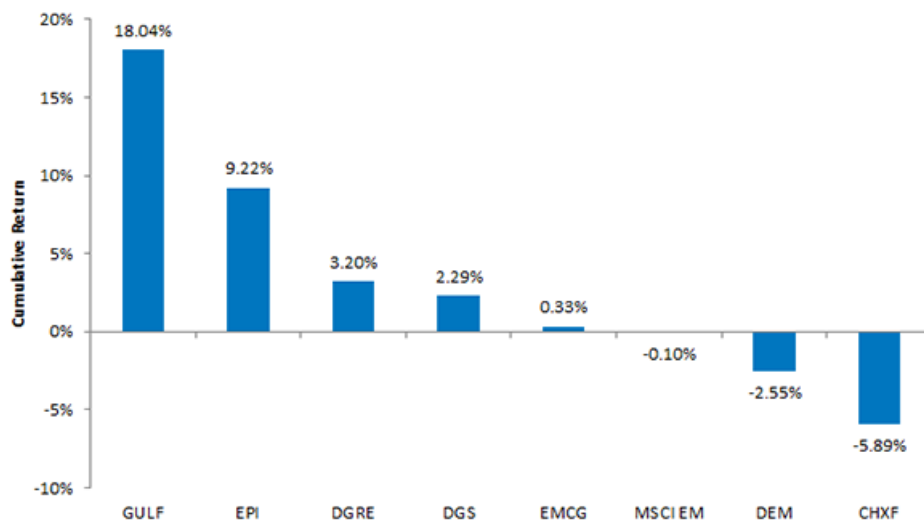
	Fund Ticker	Fund Exp. Ratio	Fund Inception Date	Total Return (NAV)				Market Price			
				1-Year	3-Year	5-Year	Since Fund Inception	1-Year	3-Year	5-Year	Since Fund Inception
WisdomTree Emerging Markets Equity Income Fund	DEM	0.63%	7/13/07	-6.22%	-2.80%	13.96%	3.57%	-6.98%	-3.22%	13.62%	3.07%
WisdomTree Emerging Markets SmallCap Dividend Fund	DGS	0.63%	10/30/07	-6.08%	-1.11%	17.32%	1.83%	-6.58%	-1.14%	17.43%	1.90%
WisdomTree Emerging Markets Dividend Growth Fund	DGRE	0.63%	8/1/13	N/A	N/A	N/A	-0.33%	N/A	N/A	N/A	-2.59%
WisdomTree Emerging Markets Consumer Growth Fund	EMCG	0.63%	9/27/13	N/A	N/A	N/A	-0.63%	N/A	N/A	N/A	-1.16%
WisdomTree China Dividend ex-Financials Fund	CHXF	0.63%	9/19/12	-1.32%	N/A	N/A	1.56%	-1.39%	N/A	N/A	0.96%
WisdomTree India Earnings Fund	EPI	0.83%	2/22/08	6.81%	-7.74%	12.37%	-3.66%	6.95%	-7.63%	12.35%	-3.77%
WisdomTree Middle East Dividend Fund	GULF	0.88%	7/16/08	44.12%	16.57%	18.26%	2.34%	43.18%	15.91%	18.13%	2.14%
MSCI Emerging Markets Index				-1.43%	-2.86%	14.48%	0.21%	-1.43%	-2.86%	14.48%	0.21%

Source: WisdomTree, with data current as of 3/31/14; MSCI Emerging Markets Index inception data is taken to be as of DEM's fund inception date.

**Performance is historical and does not guarantee future results. Current performance may be lower or higher than quoted. Investment returns and principal value of an investment will fluctuate so that investors' shares, when redeemed, may be worth more or less than their original cost. Performance data for the most recent month-end is available at [www.wisdomtree.com](#).**

WisdomTree shares are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Total returns are calculated using the daily 4:00 p.m. EST net asset value (NAV). Market price returns reflect the midpoint of the bid/ask spread as of the close of trading on the exchange where Fund shares are listed. Market price returns do not represent the returns you would receive if you traded shares at other times.

**Emerging Market Equity Performance** **Showcasing Diverging in 2014**



Sources: WisdomTree, Bloomberg, with data for period 12/31/13 to 4/30/14. Past performance is not indicative of future results. High double-digit returns were achieved primarily during favorable market conditions. Investors should not expect that such favorable returns can be consistently achieved. A fund's performance, especially for very short periods, should not be the sole factor in making your investment decision. Performance is measured at each respective fund's net asset value. MSCI EM's returns are total returns of the MSCI Emerging Markets Index. You cannot invest directly in an index.

#### • **GULF** Has Led the Way:

Thus far in 2014, I've seen countries or regions with unique catalysts leading the performance picture. The Gulf region is different in that its outperformance can perhaps be attributed to MSCI's upgrade of the United Arab Emirates and Qatar into emerging markets. This will invariably improve liquidity considerations. • **EPI** Has Benefitted from India's Equity Markets Up on Election Optimism: India is undergoing an important election in which the candidate deemed as potentially more "pro-business" has the lion's share of the momentum, and the equity market has been responding to the potential reform efforts going forward. India's equities have been breaking out to new highs, as I discussed in a [prior blog post](#). • **DGRE** and **EMCG** Have Rebounded Since Tough Markets of 2013: Looking at 2013, Indonesia and Brazil were hit particularly hard, especially from the perspective of their currencies. Thus far in 2014, I've seen a recovery in these markets as they've made progress on important reforms. Both DGRE & EMCG, therefore, faced a performance headwind as they launched but have since been turning around. EMCG, slightly positive over this time period, has additionally benefited from exposure to India—specifically to stocks within the Consumer Discretionary sector, recovering as I mentioned above. Unfortunately, EMCG's China exposure, particular in the Financials and Consumer Discretionary sectors, has been a headwind, accounting for its underperformance of DGRE. • **DGS** Has Benefitted from Focusing on Small Caps: One of the hardest-hit areas in emerging markets, since the 2008–09 global financial crisis, have been the large, [state-owned enterprises](#), which people most readily associate with the Russian Energy sector, the Chinese Financials sector and the Brazilian Energy and Materials sectors. These are large, global operators, and by virtue of DGS's focus on small-cap stocks, they have been avoided. Of course, small caps have other characteristics that may cause greater potential for volatility over full market cycles, but from what I've seen recently, avoiding some of the most highly scrutinized state-owned enterprises has been beneficial. • **DEM** Exposed to Some of the Least-Expensive Areas of Emerging Markets: The aforementioned state-owned enterprises, especially those in the Russian Energy sector and Chinese Financials sector, are some of the least expensive within the emerging market equity landscape. Since they are also some of the largest dividend payers in emerging markets, they are large exposures in DEM. Having the discipline to buy what is most inexpensive isn't always easy, but over longer periods it has certainly been a worthwhile strategy. **Blending Strategies for a Diversified Approach** A number of these emerging market strategies make very good complements to each other. I believe the Emerging Market Consumer Growth Fund (EMCG), because its universe starts by excluding Energy, Materials and large Financials, could be a good pairing with and complement to DEM, which currently has large exposures to both Energy stocks in Russia and larger Financials in China. So much of the emerging market story rests today with China and fears about China slowing down—even the inexpensive [valuations](#) in commodity stocks in Brazil or Russia can be tied to fears of China slowing down. China has been working to make progress on reform after its Third Plenum meeting last year, and this has invariably improved sentiment. Specifically, while I understand that these reforms are long-term in nature and will not immediately impact markets, I believe it is important for China's government to continually indicate that it is aware of the steps that must be taken over time. This announcement showed that China's leaders are cognizant of the plan required to help China progress on the path of economic growth over the years to come. For those [contrarian](#) investors looking for a rebound, DEM looks to be the

deepest value play of the WisdomTree Funds that I show in this blog, while those looking for growth potential and higher-quality companies may want to consider EMCG.

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You cannot invest directly in an index.

## **DEFINITIONS**

**Market Capitalization** : Market cap = share prices x number of shares outstanding. Firms with the highest values receive the highest weights in approaches designed to weight firms by market cap.

**Value** : Characterized by lower price levels relative to fundamentals, such as earnings or dividends. Prices are lower because investors are less certain of the performance of these fundamentals in the future. This term is also related to the Value Factor, which associates these stock characteristics with excess returns vs the market over time.

**Growth** : Characterized by higher price levels relative to fundamentals, such as dividends or earnings. Price levels are higher because investors are willing to pay more due to their expectations of future improvements in these fundamentals.

**Small caps** : new or relatively young companies that typically have a market capitalization between \$200 million to \$2 billion.

**WisdomTree China ex-State-Owned Enterprises Index** : Measures the performance of Chinese stocks that are not state-owned enterprises. State-owned enterprises are defined as government ownership of more than 20% of outstanding shares of companies.

**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.

**Contrarian** : Practice of seeing what the majority of market participants are focused on and attempting to look in the complete opposite direction.