GOVERNMENT REFORMS HAVE RENEWED INTEREST IN INDIA

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Since the financial crisis gripped the global equity markets about five years ago, the Indian equity markets have been volatile. I believe this is due, in part, to the fractured political coalition, a lack of political will, persistent inflation and India's unreliable infrastructure. Yet India's equities have separated themselves from those of the other BRIC (Brazil, Russia, India, China) countries and from such broader emerging market indexes as the MSCI Emerging Markets Index in 2012. I was pleased to see that the Indian government took significant steps in mid-September to strengthen the economy and encourage foreign investment into India. In my opinion, these new policies have already started improving sentiment toward India, which was reflected in India's ranking as the best-performing country in the MSCI Emerging Markets Index in September. Put simply, the government and central bank recently announced plans to: • Lower diesel fuel subsidies, which helps lower government spending and the fiscal deficit[1] • Encourage more foreign direct investment by opening certain sectors to foreigners[2] • Inject liquidity into the banking system[3] Some background: Earlier this year, the Indian government proposed a series of tax measures, including General Anti-Avoidance Regulations (GAAR), that would have a significant impact on foreign investors. This hurt sentiment toward India; and given the widespread criticism of this proposal, the prime minister established an expert committee to review the application of GAAR. The committee made various recommendations, including deferring the implementation of GAAR by three years and grandfathering existing investments,[4] among other things. In addition to the improved sentiment and government reforms, perhaps the strongest reason to consider Indian equities is that they are relatively cheap compared to their global counterparts—especially given India's long-term growth prospects. WisdomTree just rebalanced its India Earnings Index in late September, and as of September 28, 2012, its P/E ratio stood at 8.8x, while the MSCI Emerging Markets Index was at 11.6x and the S&P 500 was at 14.6x. I see these as relatively low prices for Indian equities. Typically, indexes with lower P/E ratios have fewer growth prospects. But I believe this is not the case for India. Analysts expect India to have higher long-term earnings growth rates than these other regions.[5] Given this trade-off of low prices and good growth prospects, the further boost we have gotten from recent government reform efforts makes me quite positive on the prospects for India equities. *To learn more about the government reforms in India and the latest WisdomTree Index rebalance, click here.* [1]Source: Financial Times, "India: Diesel Subsidy Cuts Bring Hope of Fiscal Reform but Spark Protest Threat," September 14, 2012. [2]Source: Time World, "This Time We Mean It: India Clears the Way for Walmart and Friends," September 17, 2012. [3]Source: Wall Street Journal, "India Central Bank Holds Lending Rate at 8.0%, Cuts Cash Reserve Ratio," September 17, 2012. [4]Source: "Report on General Anti Avoidance Rules (GAAR) in Income-tax Act, 1961." Expert Committee Study published through CA ClubIndia, 2012. [5]Source: Bloomberg.

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