

SOUTH KOREA: A BRIGHT SPOT IN EMERGING MARKETS

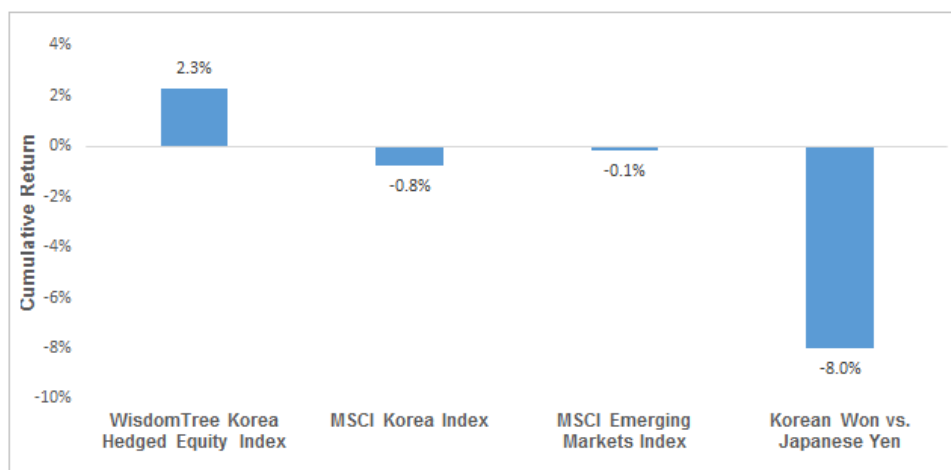
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Emerging market equities have had a rough few years. While it isn't difficult to intellectualize that trends are cyclical and that emerging market equities have great potential over the longer term, marrying that with the idea of current action has not been simple. However, opportunities exist, if you know where to look. And where are we looking? South Korea. Consider this:

- South Korea is a major exporter. Compared to performance we've seen from exporters in Japan and Europe in the recent past,¹ we see similar potential in South Korea.
- The South Korean won is relatively inexpensive to [hedge](#)—meaning that [short-term interest rates](#) tend to be lower than those in more commodity-focused emerging market countries such as Brazil.
- It is widely known that South Korean companies and Japanese companies are close competitors. Since November 30, 2012, two weeks prior to the election of Japanese prime minister Shinzo Abe, the South Korean won has appreciated approximately 24% versus the Japanese yen. From December 31, 2015, to March 16, 2016, the South Korean won depreciated 8% against the Japanese yen.² Could this be a catalyst for the equities in this market to regain some of their global competitiveness?

To Hedge or Not to Hedge While we see opportunity in South Korea, it's important to note that the key drivers of performance were the equity returns alone. Layering on currency risk (inherent to all unhedged international investing) dragged down the total performance. The chart below makes this point. **South Korea's Equity Market vs. MSCI Emerging**



Source: Bloomberg. Data period: 12/31/2015–3/16/2016. You cannot invest directly in an Index. Past performance is not indicative of future results.

Index performance does not represent actual fund or portfolio performance. A fund or portfolio may differ significantly from the securities included in the index. Index performance assumes reinvestment of dividends but does not reflect any management fees, transaction costs or other expenses that would be incurred by a portfolio or fund, or brokerage commissions on transactions in fund shares. Such fees, expenses and commissions could reduce returns.

For definitions of indexes in

the chart, visit our [glossary](#). **What Is Working in South Korea? Materials:** Over the period from December 31, 2015, through March 16, 2016, the Materials sector within the [WisdomTree Korea Hedged Equity Index](#) delivered a 7.22% return. LG Chemical Limited (8.1% weight) was the only firm with a weight above 2.5% that had a negative return over

the period, indicating a relatively broad-based positive performance for the sector. Lotte Chemical Corp. (2.7% weight) and POSCO (4.3% weight) were both up over 20% for the period. This ties into the broader theme of a rebound within the Energy and Materials sectors within emerging markets that we've been seeing of late. **Depreciation of the Won:** To gain inclusion in the WisdomTree Korea Hedged Equity Index, every constituent must generate less than 80% of its revenues from South Korea, and every constituent must be profitable.³ Whether one measures the value of the won versus the yen (down 8.0% year-to-date) or against the U.S. dollar (down 1.7% year-to-date), we can see a clear trend of depreciation. All other things being equal, this has the potential to increase the competitiveness of South Korean companies. [Learn more about WisdomTree's approach in South Korea.](#) ¹Exporters within Japan and Europe refer to the [WisdomTree Japan Hedged Equity Index](#) & [WisdomTree Europe Hedged Equity Index](#) universes. Source: Bloomberg. ²Source: Bloomberg. ³Bloomberg, with period studied from 12/31/15 to 3/16/16.

Important Risks Related to this Article

Investments focused in South Korea increase the impact of events and developments associated with the region, which can adversely affect performance.

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

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You cannot invest directly in an index.

DEFINITIONS

Hedge : Making an investment to reduce the risk of adverse price movements in an asset. Normally, a hedge consists of taking an offsetting position in a related security, such as a futures contract.

Short-term rates : the rate of interest on a debt instrument maturing in two years or less.

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.