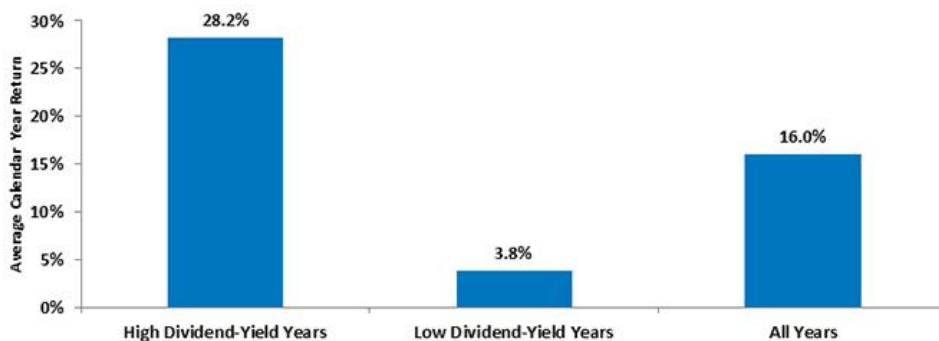


WE BELIEVE IN EMERGING MARKET VALUATIONS

Christopher Gannatti – Global Head of Research
08/18/2015

When we talk about [emerging market](#) equities today, we find that people are disappointed: there has been underperformance of late. Additionally, there remain key risks: • The U.S. [Federal Reserve \(Fed\)](#) raises [short-term interest rates](#) • [Commodity](#) prices decline while each of these well-publicized risks can contribute to further [volatility](#), it's also quite possible that they are already reflected in emerging market equity [valuations](#) today. [Dividend Yield](#) as a Barometer for Valuation Opportunities There are many ways to measure equity valuation, and in this case we look at dividend yields. Specifically, we break the available history (starting in 1988) of the [MSCI Emerging Markets Index](#) into high- and low-dividend-yield years. • **High-Dividend-Yield Years:** Years that began with a dividend yield above the [median](#) dividend yield for all calendar years. • **Low-Dividend-Yield Years:** Years that began with a dividend yield below the median dividend yield for all calendar years. • **Squarely High Dividend Yields:** The median dividend yield was about 2.3% for the full period. 2015 began with a dividend yield of 3.1%¹. As of June 30, 2015, the MSCI Emerging Markets Index had a dividend yield of about 3.0%. **The Bottom Line:** Since high-dividend-yield years indicate lower prices relative to dividends, the key question is whether they exhibited different returns, on average, than the low-dividend-yield years, when price levels relative to dividends were higher. **Dividend Yield is a Potential Measure of Relative Valuation in Emerging Markets** (12/31/1987 to 6/30/2015)



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

• **High-Dividend-Yield Years:** When a year began with a high dividend yield, the average return for that year was over 28%. In fact, such values were followed by negative years in only five instances, the worst of which was a negative 25% return in 1998. • **Low-Dividend-Yield Years:** When a year began with a low dividend yield, the average return for that year was below 4%. Such values were followed by negative years seven times, the worst of which was 2008's negative 53% return. • **Years That Started with Dividend Yields above 3.0%:** Actually, we started 2015 not only with a high dividend yield but with one above 3.0%. There have been only five such years before, and although past performance can never predict future returns, the returns were strong in those years, averaging 58%. The lowest return of any of these years was 2012, when the MSCI Emerging Markets Index was up over 18%. **Is It Time for the Turnaround?** While we strongly believe that emerging

markets will come back into favor, it is extremely difficult to predict when this turnaround will occur. There remain very real risks, but the more critical question regards whether the higher dividend yield reflects these risks. **Some things that we're being particularly watchful of:**

- Stabilization and/or rebound in commodity prices.
- Further stimulus in China or other activity relating to China's currency.
- U.S. Federal Reserve raising short-term interest rates to help people put this in the rearview mirror so that other things can move back into focus. There is concern as to how emerging market currencies might react.

¹Refers to 12/31/2014.

Important Risks Related to this Article

Dividends are not guaranteed, and a company's future ability to pay dividends may be limited. A company currently paying dividends may cease paying dividends at any time.

Investments in emerging, offshore or frontier markets are generally less liquid and less efficient than investments in developed markets and are subject to additional risks, such as risks of adverse governmental regulation and intervention or political developments.

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.

For more investing insights, check out our [Economic & Market Outlook](#)

view the online version of this article [here](#).

IMPORTANT INFORMATION

U.S. investors only: Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an “as is” basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the “MSCI Parties”) expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages (www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only. You cannot invest directly in an index.

DEFINITIONS

Emerging market: Characterized by greater market access and less potential for operational risks when compared to frontier markets, which leads to a larger base of potentially eligible investors.

Federal Reserve: The Federal Reserve System is the central banking system of the United States.

Commodity: A raw material or primary agricultural product that can be bought and sold.

Volatility: A measure of the dispersion of actual returns around a particular average level.

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.

Dividend yield: A financial ratio that shows how much a company pays out in dividends each year relative to its share price.

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.

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