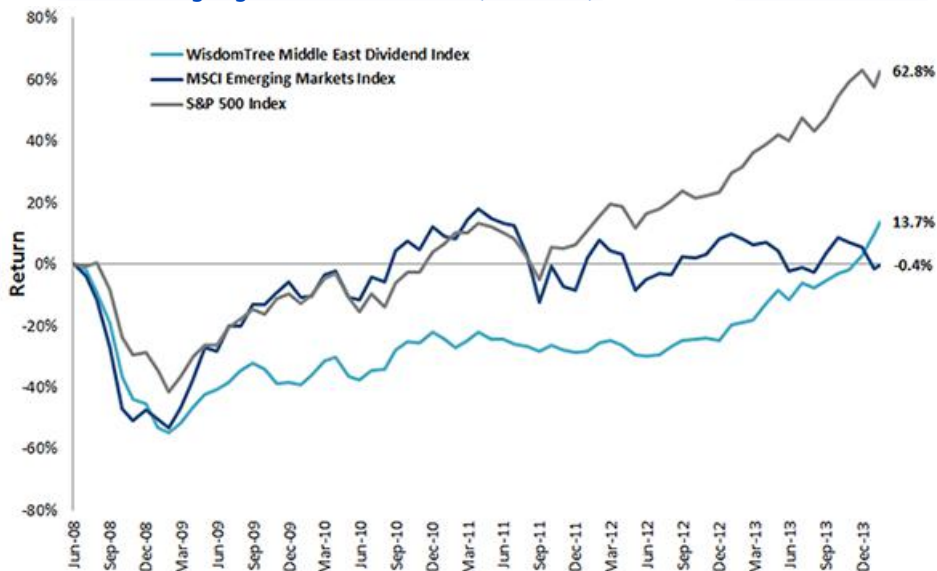


# MIDDLE EAST DIVIDEND INDEX REACHES NEW HIGH

Jeremy Schwartz – Global Chief Investment Officer  
03/05/2014

With the emerging markets embroiled in a storm of currency weakness and disappointing recent performance, some investors have decided to abandon the space, as illustrated by recent asset flows. Consequently, I recently wrote [here](#) that emerging markets remain some of the cheapest markets around the globe and investors shouldn't abandon the asset class but instead focus on the [fundamentals](#) through a rules-based strategy. While it may take time for the negative sentiment to change within traditional emerging markets, I wanted to highlight one standout of relative strength. Interestingly, when one looks at various emerging market countries, a number of the “emerging” emerging markets—or the countries that are often included in frontier market indexes—have diverged from some of the more popular emerging countries. **Middle East Countries Divergence** In May of 2013, I [wrote](#) about the divergence of a few Middle East countries during the first half of last year and suggested there could be further potential gains after Qatar and the United Arab Emirates (UAE) were upgraded to emerging market status by Morgan Stanley Capital International (MSCI). Since then, the region has reached new highs and continues to separate from traditional emerging market indexes. To illustrate this point, I will graph the [WisdomTree Middle East Dividend Index \(WTEMME\)](#) since inception against both the [MSCI Emerging Markets Index \(MSCI EM\)](#) and the [S&P 500 Index](#). **Index Performance**



Sources: WisdomTree, Bloomberg (07/01/2008–02/14/2014). You cannot invest directly in an index. Past performance is not indicative of future results.

**• WisdomTree Middle East Dividend Index Reaches New High** – The Index finished the most recent calendar year with a gain of over 37%, putting it at an all-time high and pushing its cumulative return since inception into positive territory for the first time. Year-to-date, WTEMME continues to forge new highs, up close to 10.5%, outperforming both the S&P 500 and MSCI EM by over 10% and almost 16%, respectively.<sup>1</sup> **• WTEMME Continues to Diverge from MSCI EM** – Since the start of last year, WTEMME has finally started to trend higher after a few years of sideways consolidation, and this improvement started only after it was

announced by MSCI in June of 2013 that Qatar and the UAE would be upgraded to emerging market status in June 2014. It is impossible to know what the new country weights are going to be in the future, but we did know that [market participants](#) would need to add exposure to Qatar and the UAE. As a result, it was expected that these markets would converge upon the traditional emerging markets. But the Middle East countries did not stop there; they continued to move higher even as the emerging markets trended lower. I find this relative strength quite impressive, especially considering the year-to-date action, and I believe there is more to these countries than just the upgrade announcement.

- While the Middle East Dividend Index went down nearly 1 for 1 with the emerging markets during the 2008 crisis for drops over 50%, the traditional emerging markets rebounded strongly in 2009 – with gains of over 70%, while the Middle East Dividend Index languished. It is making its way back from the crisis, and real estate and banking in particular have been doing well in the UAE. **Further Reasons to Consider the Middle East** Although the region has recently reached new highs, I think it still remains relatively attractive from a [valuation](#) perspective. WTEMME had a [dividend yield](#) of over 5%, surpassing the S&P 500 and MSCI EM indexes by over 3.1% and 2.3%, respectively. From a [price-to-earnings](#) perspective, WTEMME traded at 11.5x expected earnings, a little above MSCI EM at 9.5x and below the S&P 500 Index at 15.6x.<sup>2</sup>
- **Valuations Remain Attractive after Strong Performance** – The weighted average performance of stocks within WTEMME domiciled in Qatar and the UAE were up over 29% and 99%, respectively.<sup>3</sup> Yet stocks within Qatar have a dividend yield of 4.36% and an estimated price-to-earnings ratio of 12.2x, while UAE stocks had a dividend yield of 2.8% and an estimated price-to-earnings ratio of 12.9x.<sup>4</sup>
- **Dividend Growth Supports Valuations** – Firms in the region have recently announced their proposed dividends for the 2013 calendar year, and some of the top weights in WTEMME had signaled for double-digit growth<sup>5</sup>:
  - o Qatar National Bank – 16.7% increase
  - o Industries Qatar – 29.4% increase
  - o First Gulf Bank – 20.0% increase

**Potential Diversification Benefits** Exposure to these Middle East countries represents a different type of emerging market allocation. This can be illustrated through WTEMME's historically low [correlation](#) with MSCI EM and S&P 500 Index.

- **3-Year Monthly Correlation<sup>6</sup>**:
  - o MSCI EM vs. S&P 500 – 0.77
  - o WTEMME vs. S&P 500 – 0.56
  - o WTEMME vs. MSCI EM – 0.45

It is important to remember that regional returns can vary significantly year over year, and it is impossible to time the best-performing region. As a result, we think it is important to remain diversified across the different emerging or frontier countries and not focus just on the traditional countries. The [WisdomTree Middle East Dividend Index](#) tracks dividend-paying stocks in countries that tend to be under-weighted in many investors' portfolios.

<sup>1</sup>Sources: WisdomTree, Bloomberg (12/31/2013–02/14/2014). <sup>2</sup>Sources: WisdomTree, Bloomberg (02/14/2014). <sup>3</sup>Sources: WisdomTree, Bloomberg (12/31/12–12/31/13). <sup>4</sup>Sources: WisdomTree, Bloomberg (02/14/2014). <sup>5</sup>WTEMME Index weight (02/14/14): Qatar National Bank (7.21%), Industries Qatar (7.13%) and First Gulf Bank (6.69%). <sup>6</sup>Sources: WisdomTree, Zephyr StyleADVISOR (12/31/10–12/31/13).

#### Important Risks Related to this Article

There are risks associated with investing, including possible loss of principal. Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. Investments in the Middle East increase the impact of events and developments associated with the region, which can adversely affect performance. Investments in emerging, offshore or frontier markets such as the Middle East 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. Investments focused in Qatar or the United Arab Emirates are increasing the impact of events and developments associated with the region, which can adversely affect performance. Diversification does not eliminate the risk of experiencing investment losses.

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](http://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

**Fundamentals**: Attributes related to a company's actual operations and production as opposed to changes in share price.

**WisdomTree Middle East Dividend Index**: A fundamentally weighted index that measures the performance of companies in the Middle East that pay regular cash dividends on shares of common stock and meet specified requirements as of the Index measurement date. The Index is dividend weighted and updated to reflect market prices and exchange rates.

**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.

**S&P 500 Index**: Market capitalization-weighted benchmark of 500 stocks selected by the Standard and Poor's Index Committee designed to represent the performance of the leading industries in the United States economy.

**Market participant**: Anyone interacting with the ETFs in some capacity. It can be end investors, market makers, hedgers, authorized participants.

**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.

**Correlation**: Statistical measure of how two sets of returns move in relation to each other. Correlation coefficients range from -1 to 1. A correlation of 1 means the two subjects of analysis move in lockstep with each other. A correlation of -1 means the two subjects of analysis have moved in exactly the opposite direction.