

LEANING INTO EMERGING MARKETS VALUE

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[Commodity](#) prices have been on a positive trend this year, with the [Bloomberg Commodity \(BCOM\) Index](#) up 31.6% year-to-date and up 41.51% in the last 12 months,¹ driven by rising energy prices and a supply chain crunch resulting from last year’s economic slowdown.

Emerging markets (EM) economies have shifted their compositions in the past decade, becoming less dependent on exporters and commodity-driven companies. But recent performance has shown how some of these economies can thrive in a commodity boom such as the one we’ve seen in 2021.

With [inflation](#) expectations where they are, we could well see this commodity boom extending past 2021, favoring exposure to [value](#) companies in EM.

In the chart below we can see how the [MSCI EM Value Index](#) has outperformed its [growth](#) counterpart over the last 12 months at the same time the BCOM Index has been trending higher.



Sources: WisdomTree, FactSet. Data from 09/30/19-09/30/21. Past performance is not indicative of future results. You cannot invest directly in an index

WisdomTree Indexes with a Value Tilt in EM

We recently wrote about the [WisdomTree Emerging Markets High Dividend Index \(WTEMHY\)](#) and how it [has outperformed the MSCI EM Index](#) since October of last year with lower [volatility](#), thanks to its value exposure and resulting sector and country exposures.

At the same time the WisdomTree Emerging Markets SmallCap Dividend Index (WTEMSC), has also seen a [very strong 2021](#), outperforming the [S&P 500 Index](#) over the last 12 months, despite recent headline risk in China.

If we’re in the early innings of a global rebound after the pandemic, this asset class could continue to be a bright spot in an investor’s portfolio.

Growth of \$100



Sources: WisdomTree, FactSet. Data from 09/30/20–09/30/21. Past performance is not indicative of future results. You cannot invest directly in an index.

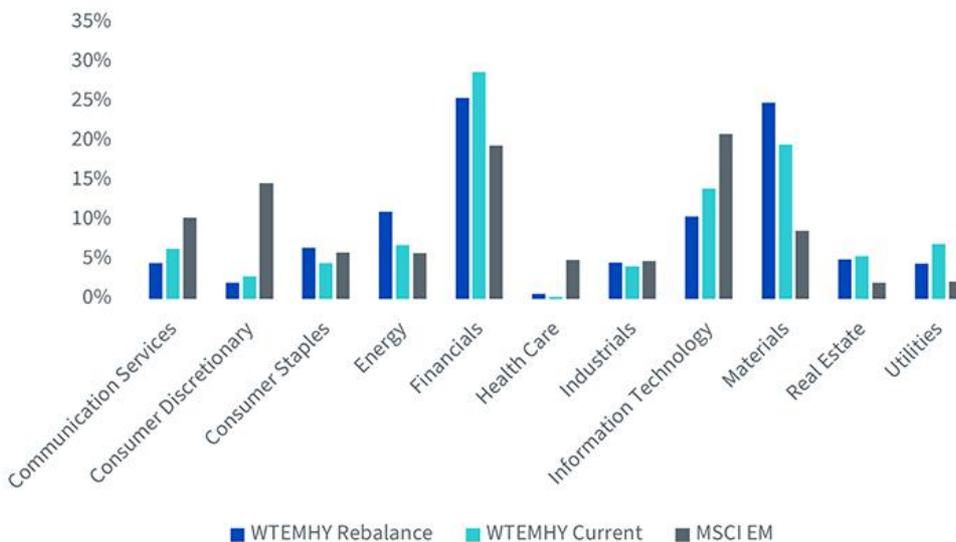
These indexes, which are tracked by the [WisdomTree Emerging Markets High Dividend Fund \(DEM\)](#) and [WisdomTree Emerging Markets SmallCap Dividend Fund \(DGS\)](#), are reconstituted annually, and their new weights became effective after the close on October 21. In both cases we can see how these portfolios increase or maintain exposure to commodity sectors and economies and are positioned to take advantage of this market environment.

[WisdomTree’s Emerging Markets High Dividend Index \(WTEMHY\)](#)

WTEMHY holds the highest (top 30%) dividend yielding companies in EM and screens out those with the highest risk according to our Composite Risk Screen measure.

Selected companies are weighted by the dividends they’ve paid out over the past 12 months. In its most recent reconstitution, WTEMHY added weight to the Materials, Energy and Consumer Staples sectors as these have grown dividends proportionally faster in the last year and have shown strong fundamentals. The Index continues to show a significant tilt to value sectors versus the broad [MSCI EM Index](#).

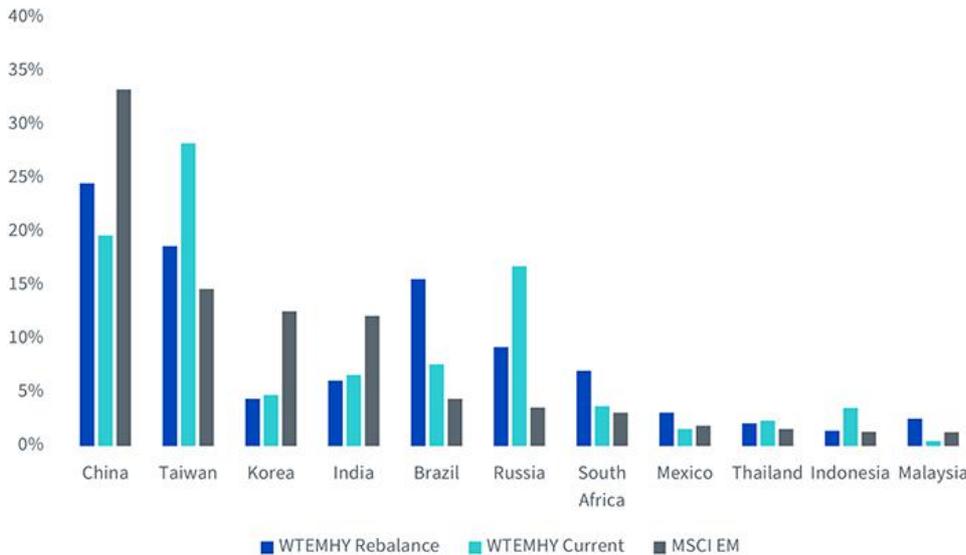
EM High-Yield Universe



Sources: WisdomTree, FactSet. Data as of 09/30/21. Subject to change.

In terms of country exposures, the [rebalanced](#) portfolio also favors commodity-driven economies such as Brazil and Russia and is resetting the exposure of Taiwan, which has had a significant run up since the last rebalance in October 2020. WTEMHY continues to be overweight in the commodity-driven economies and underweight in technology- and financial-heavy China and South Korea.

EM High-Yield Universe



Sources: WisdomTree, FactSet. Data as of 09/30/21. Subject to change.

Looking at the portfolio’s fundamentals below, we can see how WTEMHY improved its [dividend yield](#) by 60 [basis points \(bps\)](#), reduced its valuation ([P/E ratio](#)) by 1.1 times and maintained its profitability during its rebalance. Compared to MSCI EM, it has more attractive measures across the board.

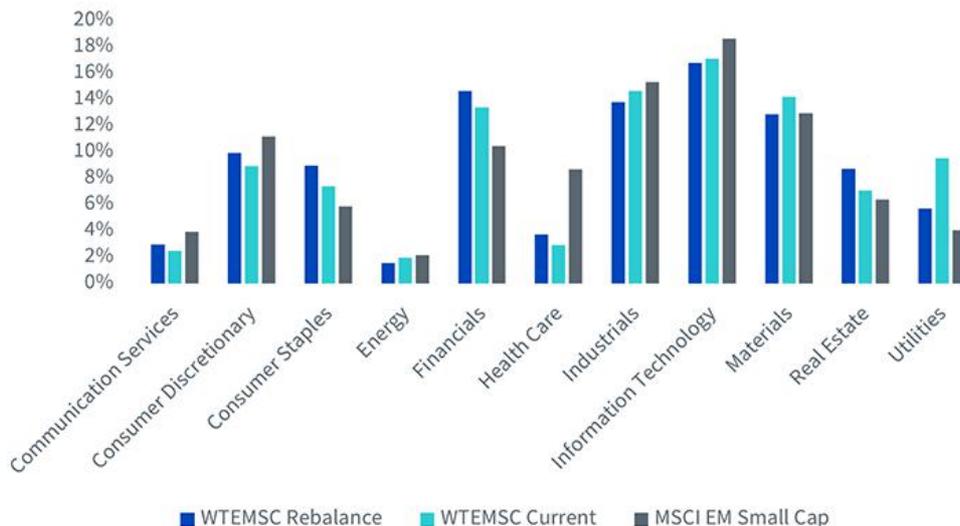
Portfolio	Constituents	Dividend Yield	Price-To-Earnings	% Neg. Earnings	Return on Assets	Return on Equity	Shareholder Yield
WTEMHY Rebalance	621	6.21	6.10	0.00	1.93	14.69	5.65
WTEMHY Current	494	5.62	7.29	0.00	1.71	14.79	5.24
MSCI EM	1418	2.07	14.96	5.88	1.73	12.41	1.00

Sources: WisdomTree, FactSet. Data as of 09/30/21.

For definitions of terms in the chart please visit the [glossary](#).

WisdomTree Emerging Markets SmallCap Dividend Index (WTEMSC)

Sector changes to WTEMSC during its reconstitution were small as it remains strongly exposed to the traditional value sectors in EM.



Sources: WisdomTree, FactSet. Data as of 09/30/21. Subject to change.

Like WTEMHY, WTEMSC continues to be overweight in the commodity-driven economies and underweight in technology- and financial-heavy China and South Korea with these tilts

increasing at the latest reconstitution.

WEMSC's aggregate fundamentals show rebalance-related improvement across the different metrics, taking its dividend yield up almost 50 bps and cutting its valuation by 1.5 times. It is very interesting to see how this [basket](#) of [small-cap](#) EM companies can have profitability metrics that are comparable with broad market benchmarks like the MSCI EM and [MSCI EAFE](#) indexes.

¹ Sources: WisdomTree, FactSet. Data as of 10/12/21.

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DEFINITIONS

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

Bloomberg Commodity Index (BCOM): A broadly diversified commodity price index distributed by Bloomberg Indexes that tracks prices of futures contracts on physical commodities on the commodity markets.

Inflation: Characterized by rising price levels.

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.

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

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.

MSCI Emerging Market Index: The MSCI Em (Emerging Markets) Index is a free-float weighted equity index that captures large and mid cap representation across Emerging Markets (EM) countries.

Rebalance: An index is created by applying a certain set of selection and weighting rules at a certain frequency. WisdomTree rebalances, or re-applies its rules based selection and weighting process on an annual basis.

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

Basis point: 1/100th of 1 percent.

Price-to-earnings (P/E) ratio: Share price divided by earnings per share. Lower numbers indicate an ability to access greater amounts of earnings per dollar invested.

Baskets: The composition of an ETF in terms one creation/redemption unit.

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

MSCI EAFE Index: is a market cap-weighted index composed of companies representative of the developed market structure of developed countries in Europe, Australasia and Japan.