

EMERGING MARKETS ROUNDUP

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There was a lot of optimism for [emerging markets \(EM\)](#) equities heading into 2023.

The long-awaited reopening of the Chinese economy was expected to bolster the country's equities and the EM asset class more broadly.

Weaker-than-expected Chinese economic data repeatedly stymied this thesis.

Year-to-date performance of EM equities has been mixed. On the one hand, the [MSCI Emerging Markets Index](#) returned 4.6%, lagging its developed peers. On the other hand, the [MSCI Emerging Markets Small Cap Index](#) returned 16.12%, outpacing the MSCI ACWI benchmark.

MSCI Region Index Returns

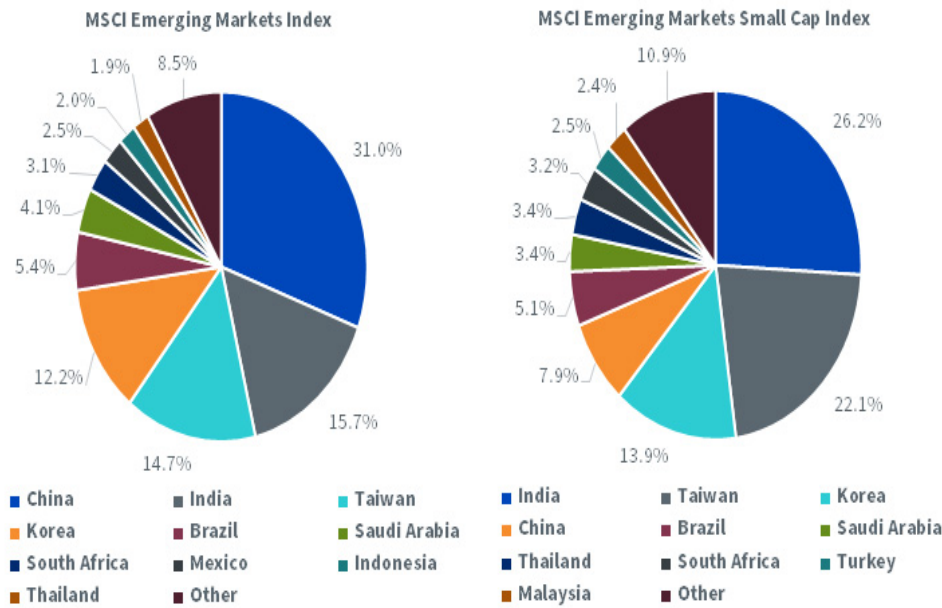
MSCI Country Indexes (USD) - as of 9/30/23				
1-Month	3-Month	6-Month	12-Month	Year-to-Date
-1.48% - EM Small	3.63% - EM Small	10.66% - EM Small	24.35% - EM Small	13.74% - EM Small
-3.33% - EM	-1.89% - USA	7.60% - USA	19.83% - USA	13.53% - USA
-3.88% - ACWI	-2.40% - ACWI	4.49% - ACWI	19.83% - ACWI	10.06% - ACWI
-4.22% - ACWI Small	-2.63% - EM	2.16% - USA Small	15.33% - ACWI Small	4.34% - ACWI Small
-4.36% - USA	-2.79% - ACWI Small	1.89% - ACWI Small	12.02% - EM	4.02% - USA Small
-5.34% - USA Small	-4.38% - USA Small	-1.01% - EM	11.69% - USA Small	1.82% - EM

Sources: WisdomTree, MSCI, FactSet. You cannot invest directly in an index. Past performance is not indicative of future returns.

A large part of the performance differential between MSCI's EM and EM small-cap indexes comes down to the weight of China. China makes up almost one-third of the broad EM index, more than twice the weight of the second-largest country (Taiwan).

In contrast, India is the largest weight in the small-cap index and China is just the fourth-largest weight, at roughly 8%.

MSCI EM Country Weights



Sources: WisdomTree, MSCI, FactSet, as of 8/31/23. You cannot invest directly in an index.

Year-to-date, China has underperformed most of its EM neighbors, returning -4.7%. Taiwan and South Korea, by comparison, returned 15.4% and 12.6%, respectively. India, the fifth-largest economy in the world and the second-largest in EM, outperformed China in all periods and notably overtook its place as the world’s most populous country in April.

MSCI EM Country Performance, Top 10 by Weight

Country Returns - as of 9/30/23					
Index	1 Month	3 Month	6 Month	1 Year	Year-to-Date
MSCI EM Index	-3.3%	-2.6%	-1.0%	12.0%	1.8%
China	-3.6%	-1.8%	-10.4%	5.1%	-7.3%
India	1.4%	3.8%	17.4%	12.4%	8.0%
Taiwan	-4.0%	-7.5%	-2.6%	20.5%	11.1%
Korea	-5.0%	-6.3%	-0.6%	26.3%	6.9%
Brazil	-3.5%	-3.1%	18.0%	17.8%	12.6%
Saudi Arabia	-5.4%	-5.7%	1.4%	-7.0%	1.7%
South Africa	-6.5%	-3.7%	-8.7%	8.0%	-9.9%
Mexico	-8.3%	-6.7%	-1.2%	32.6%	18.8%
Indonesia	-3.3%	-3.4%	-0.9%	2.3%	5.3%
Thailand	-9.4%	-2.4%	-12.5%	0.8%	-13.8%

Sources: WisdomTree, MSCI, FactSet. You cannot invest directly in an index.

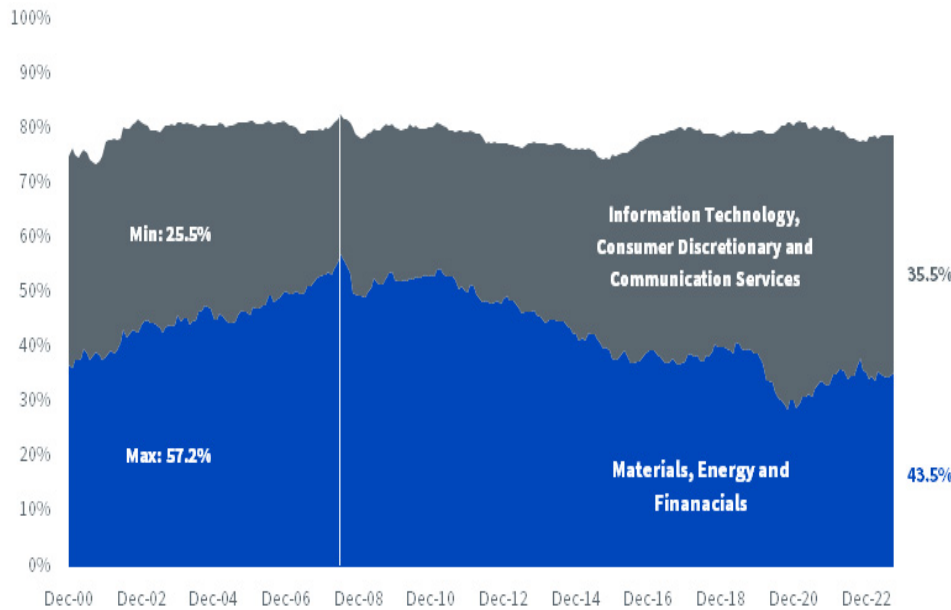
Investors used to think an allocation to EM was another closet value allocation. No longer.

The MSCI Emerging Markets Index sector mix has changed significantly over the last two decades.

In the 2000s, the index was allocated more to value-oriented sectors, such as Materials, Energy and Financials, than to “growthier” sectors like Information Technology, Consumer Discretionary and Communication Services. From the second half of the 2010s onwards, the

allocation reversed, largely due to the rise of tech giants in China and Taiwan cementing the region as the world’s largest producer of semiconductors.

EM Shifting Sector Composition



Sources: WisdomTree, MSCI, FactSet, data 12/31/00–8/31/23. You cannot invest directly in an index.

The below chart breaks down the MSCI EM Index by country-sector groupings. Some interesting takeaways here are that the Communication Services sector in China is trading at less than half its historical median valuation while yielding over triple its historical median dividends. Also, Indian Financials are trading at deep discounts while Taiwanese Financials are trading at significant premiums to their historical medians.

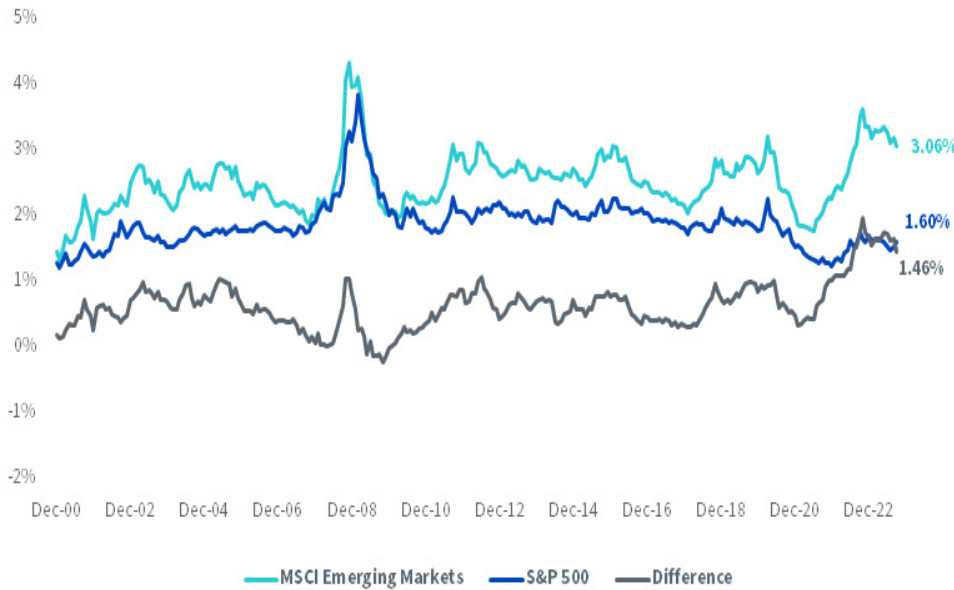
MSCI EM Country-Sector Combination Valuations and Yields

Top 10 Country & Sector Combinations				Price-to-Earnings	Dividend Yield
Country	Sector	Weight	Count	Current/Historical Median	Current/Historical Median
Taiwan	Information Technology	10.53%	41	15.5x / 15.8x	3.34% / 3.47%
China	Consumer Discretionary	9.14%	77	28.1x / 34.4x	0.63% / 0.86%
China	Communication Services	6.02%	31	14.9x / 39.8x	0.82% / 0.25%
South Korea	Information Technology	5.60%	12	19.1x / 9.7x	1.85% / 1.63%
China	Financials	4.72%	96	4.2x / 6.5x	6.94% / 4.29%
India	Financials	4.29%	25	17.6x / 20.3x	0.83% / 0.77%
Taiwan	Financials	2.09%	17	17.2x / 11.7x	3.03% / 3.97%
India	Information Technology	2.07%	8	25.6x / 20.7x	2.12% / 1.74%
Saudi Arabia	Financials	1.82%	13	13.3x / 14.1x	3.7% / 3.3%
India	Consumer Discretionary	1.78%	19	33.3x / 28.8x	0.75% / 0.68%

Sources: WisdomTree, MSCI, FactSet, as of 8/31/23. You cannot invest directly in an index. Past performance is not indicative of future returns.

Since the late 1990s, the MSCI EM Index has had higher dividend yields than the [S&P 500](#). The gap has widened significantly over the last three years, and the MSCI EM Index’s dividend yield is currently twice that of the S&P 500.

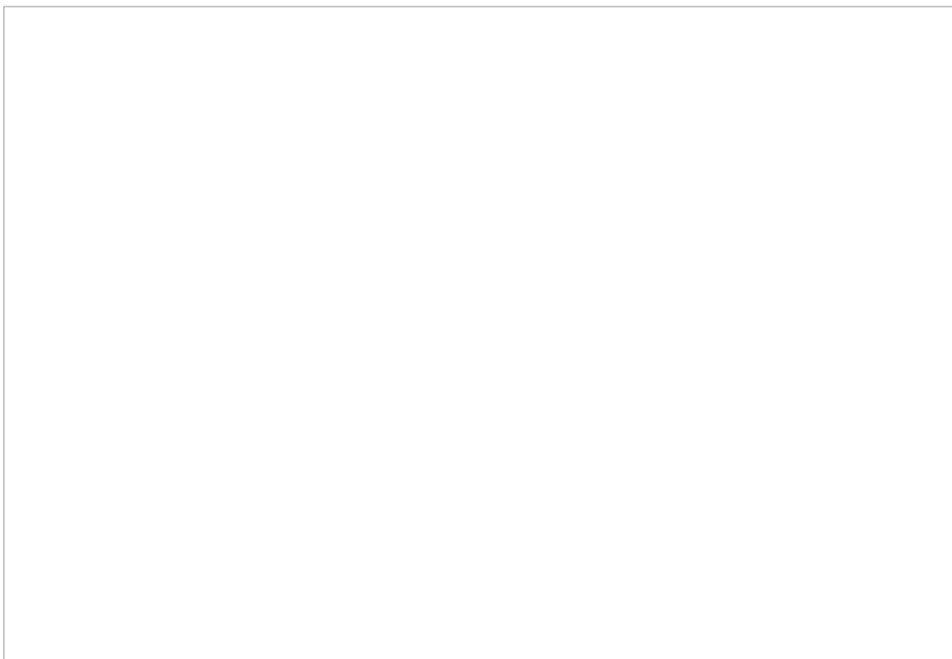
MSCI EM Dividends vs. S&P 500



Sources: WisdomTree, MSCI, FactSet, data 4/30/1995-8/31/2023. You cannot invest directly in an Index. Past performance is not indicative of future returns.

China and India share several commonalities, including their large populations and statuses as global manufacturing powerhouses and tech hubs. However, the two countries have fared very differently over the last few years. India’s manufacturing [Purchasing Managers’ Index \(PMI\)](#) surpassed 50 after a brief dip in late 2021 and has been rising since. China’s manufacturing PMI has remained mostly at or below 50 within the same period. It is also interesting to note that China has been cutting interest rates, and its policy rate is currently 3.5%, while India has maintained a steady 6.5%.

China vs. India PMI, Manufacturing



MSCI EM Country Policy Rates and Inflation



Conclusion

While many investors allocate to EM to diversify their portfolios, it is important to keep in mind that it is not a monolith and the countries and regions that comprise it have vastly different characteristics and behaviors. Tracking macroeconomic changes, equity performance and other indicators is paramount to effectively investing in EM. WisdomTree's EM Indexes cover various geographies and investment criteria, and employ systematic, rules-based methodologies to select their component securities.

WisdomTree EM Indexes versus Benchmarks



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.

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

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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.

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.

MSCI EM Small Cap Index: Includes small cap representation across 21 Emerging Markets countries. The small cap segment tends to capture more local economic and sector characteristics relative to larger Emerging Markets capitalization segments.

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.

Purchasing Managers’ Index (PMI): An indicator of the economic health of the manufacturing sector. The PMI is based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment. A reading above 50 indicates an expansion of the manufacturing sector compared to the previous month; below 50 represents a contraction while 50 indicates no change.