

WHERE TO FIND VALUE TODAY

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After a general sustained rise in asset prices over the last seven to eight years, there are not many asset markets today where investors look at [valuations](#) and see bargain-basement prices. The conventional narrative is that U.S. markets are “expensive” compared to foreign markets like Europe, Japan and some emerging markets. But where are valuations really the most attractive?

Every year, WisdomTree conducts an annual [rebalance](#) of its global and emerging market Indexes in October. We just completed the rebalance across our emerging markets [dividend](#) family, and the valuations in this part of the world, I would argue, are still in a relatively depressed state.

In particular, I would point to the [WisdomTree Emerging Markets High Dividend Index](#) as symbolic of these low levels of market multiples. The valuation table below is displayed on our website every day, and it shows a [dividend yield](#) of 5%, a trailing 12-month [P/E ratio](#) around 10x and an estimated P/E ratio in the single digits. When we look at valuations across the world, there are no indexes WisdomTree has with lower valuation multiples.

Index Valuation Statistics

As of 10/25/2017	Valuation Statistics
Dividend Yield	5.0%
Price/Earnings	10.3x
Estimated Price/Earnings	9.2x
Price/Book	1.2x
Price/Sales	0.9x
Price/Cash Flow	5.8x

Source: WisdomTree. Past performance is not indicative of future results.

Where is this Index allocated to achieve these low multiples?

Of course, all investments contain risks, and when it comes to equities, emerging markets are at the higher end of the risk spectrum. So these low valuations entail a higher level of risk than U.S. equities. In terms of specific sector and country risks, the below table displays the top industries and top country risks.

The industry groups with the lowest multiples today are banks, energy companies and materials, which are more cyclical and tied to global growth prospects. Country-wise, there are large allocations to Taiwan and China, followed by Russia and South Africa.

Industry Group	Weight	Country Allocation	Weight
1. Banks	17.86%	1. Taiwan	27.04%
2. Energy	17.65%	2. China	21.77%
3. Materials	13.69%	3. Russia	13.13%
4. Telecom Services	12.60%	4. South Africa	10.50%
5. Tech, Hardware & Equipment	10.89%	5. Thailand	5.00%

Source: WisdomTree. Subject to change.

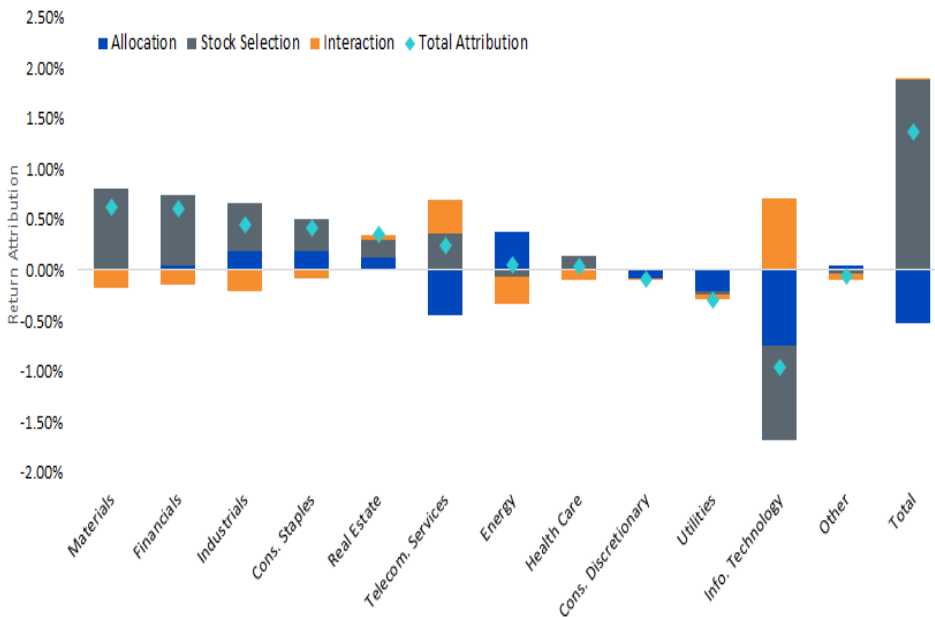
Some of the biggest relative differentials when comparing the WisdomTree Index to the broader [MSCI Emerging Markets Index](#) are the allocations to commodities and energy stocks versus technology stocks.

Tech stocks, and Chinese tech stocks in particular, have been rising at fast rates in 2017, and their weight in a [cap-weighted](#) index has been rising disproportionately. These stocks are not high dividend payers, so on a relative basis, this high dividend index has been an out of favor factor in 2017, but also in the previous three to five years.

Detailed Look at Attribution

WisdomTree has started providing more detailed attribution analysis for a number of its Indexes, and this Index is one with such information available. The attribution provides context around how various sectors contributed to returns of the WisdomTree Index and its benchmark. Going back 10-plus years, the WisdomTree Emerging Markets High Dividend Index has outperformed the MSCI Emerging Markets Index by 137 [basis points \(bps\)](#) per year, and most of this benefit came from stock selection—even more so than the allocation percentages. Being under-weight to technology over the life of the Index the last 10 years was one of the drawbacks from performance. But for those who think technology stocks—the best performing sector over the last 10 years—might revert, this high dividend index could start to see more positive benefits from sector allocation differentials.

WTEMY vs MXEF (05/31/07 - 09/29/2017)									
Sector	Attribution Components				Average Sector Weights			Sector Performance	
	Allocation	Stock Selection	Interaction	Total Attribution	WT Index Weight	Benchmark Weight	+/- Wgt	WT Index Return	Benchmark Return
Materials	0.01%	0.80%	-0.18%	0.63%	16.18%	11.86%	4.32%	2.14%	-1.81%
Financials	0.05%	0.70%	-0.14%	0.61%	21.61%	23.43%	-1.81%	5.58%	3.19%
Industrials	0.18%	0.49%	-0.21%	0.45%	4.85%	6.93%	-2.08%	2.79%	-3.21%
Cons. Staples	0.19%	0.31%	-0.08%	0.41%	4.09%	6.64%	-2.55%	10.11%	6.70%
Real Estate	0.13%	0.17%	0.04%	0.35%	1.49%	1.91%	-0.41%	2.65%	-2.52%
Telecom. Services	-0.45%	0.36%	0.34%	0.24%	17.34%	8.16%	9.18%	3.19%	0.32%
Energy	0.37%	-0.07%	-0.26%	0.05%	13.28%	11.03%	2.24%	-1.05%	-1.32%
Health Care	0.00%	0.14%	-0.10%	0.03%	0.14%	1.93%	-1.79%	8.31%	6.59%
Cons. Discretionary	-0.08%	0.00%	-0.02%	-0.09%	3.66%	7.68%	-4.02%	6.15%	5.34%
Utilities	-0.21%	-0.03%	-0.05%	-0.29%	7.31%	3.36%	3.94%	-0.79%	-0.01%
Info. Technology	-0.75%	-0.94%	0.71%	-0.97%	9.62%	15.55%	-5.93%	7.93%	9.75%
Other	0.04%	-0.04%	-0.06%	-0.06%	0.43%	1.51%	-1.08%	-1.61%	-15.58%
Total	-0.52%	1.88%	0.01%	1.37%	-	-	-	4.43%	3.06%



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

That is one reason I see this Index as one where there are relative valuation opportunities today. If an investor is looking to foreign markets as a source of value in today's highly valued asset markets, this is an Index with both low absolute and relative multiples. I'm hearing some feedback from those looking at strength in long-term track record but recent underperformers. This Index fits the bill for those who are looking for asset class mean reversion.

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](#).

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DEFINITIONS

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.

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: A portion of corporate profits paid out to shareholders.

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

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.

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.

Market capitalization-weighting: Market cap = share prices x number of shares outstanding. Firms with the highest values receive the highest weights in approaches designed to weight firms by market cap.

Basis point: 1/100th of 1 percent.