MEXICO A BETTER BUY THAN GERMANY?

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“Let’s see: would I rather own German or Mexican 10-yr bonds? 1.5% or 5.7%? Huge potential debt/GDP or half that of U.S.? Duh.”[1] PIMCO’s co-CIO Bill Gross splashed into the headlines with this pithy yet powerful quote. Despite the fact that Mexico’s S&P credit rating is far below Germany’s, we see greater opportunity in Mexican bonds than German bonds for some investors. As Europe’s piggy bank, Germany will be the single largest creditor in any eurozone-backed bailout. Stagnating GDP growth, rising debt levels and a depreciating currency create a troubling mix, should Europe continue on its current path. In Gross’s own words, “I would be leery of German bunds simply because there are only a few scenarios in which they can do well.” On the other hand, Mexico has comparatively low levels of debt, higher-yielding bonds and, I believe, significant growth potential. Investors seem to agree. Demand for Mexican bonds—and those of other emerging markets as well—has been growing dramatically[2] as individuals look to avoid Europe’s debt crisis. In fact, our own research and investment process for WisdomTree’s Emerging Markets Local Debt ETF (Ticker: ELD) has led us to the same conclusion. Mexico is currently our largest country allocation, representing 10.27% of the Fund as of June 22, 2012. We’re optimistic that over the next 3-5 years, debt of certain emerging market countries has the potential to provide attractive rates of return. *Find out more about the WisdomTree approach to fixed income.* [1]Percentages represent yield to maturity of 10-year government bonds from Germany and Mexico, respectively. Source: http://twitter.com/PIMCO/status/215095940695076867, June 19, 2012 [2]Source: Emerging Market Traders Association, June 14, 2012.

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