EMERGING MARKETS RALLY TOOLKIT: CURRENCIES, EQUITIES & BONDS

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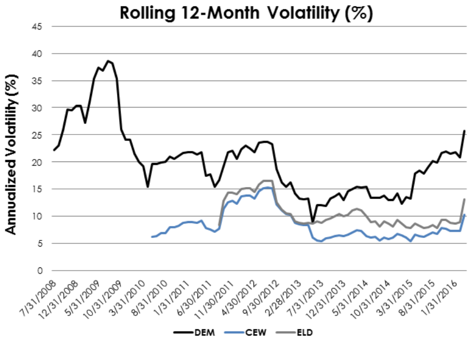
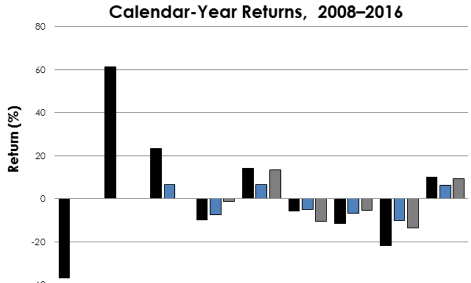
Whether investors are trading on greater stability in commodity prices or a less "hawkish" Federal Reserve (Fed), or they're simply reallocating en masse to less expensive assets, emerging markets (EM) are soaring. But with virtually all EM assets rallying, which one makes sense for the current environment? Below, we examine the risk and return profile of three ways to position for a continued resurgence across the broader emerging markets. **Emerging Market Currencies** While the last five years have seen a broad, sustained rally in the value of the U.S. dollar, 2016 has seen a fairly dramatic reversal in this trend, particularly in EM. After being beaten down to (in some instances) unprecedented levels, emerging market currencies have rallied sharply over the past two months. In our view, for investors to remain bullish on EM, they must be comfortable assuming foreign currency risk. As one alternative, the WisdomTree Emerging Currency Strategy Fund (CEW) offers a straightforward way to express this view. With assets peaking at more than $700 million in August 2011, CEW currently provides exposure to 15 emerging market currencies. Given that the strategy gains exposure to EM currencies through currency forward contracts, the total returns of the Fund are determined by three components: the interest earned on the collateral (U.S. Treasury bills) of the forwards, changes in spot prices of EM currencies and the interest rate differential between EM countries and the U.S. As of April 15, CEW's embedded income yield was 4.22%.[1] Put another way, EM currencies would need to depreciate by just over 4% in the next 12 months in order to break even on this investment. For this reason, CEW has tended to be less volatile than EM stocks or bonds. Since inception, CEW has had an average annual volatility of 8.7%.[2] **High-Dividend Emerging Market Equities** Over market cycles, dividends have the ability to boost returns and dampen volatility normally associated with equity investing. In our view, one of the most underappreciated elements of emerging market equities is that more than 93% of all publicly traded EM companies pay dividends.[3] The WisdomTree Emerging Markets High Dividend Fund (DEM) takes dividend-focused investing a step further by allocating to the highest-yielding 30% of the WisdomTree Emerging Markets Dividend Index. After peaking at more than $5.8 billion in May 2013, WisdomTree's high dividend approach declined with broader markets because of its over-weight to the Financials, Energy and Materials sectors. Today, with the outlook for these industries potentially stabilizing, a price/earnings ratio (P/E) of 9.8x, a majority of companies trading below book value and a trailing 12-month dividend yield of 5.2%, we believe investors should consider taking a value-focused approach to emerging markets.[4] Since inception, DEM has had an average annual volatility of 21.8%.[5] **Emerging Market Local Debt** Similar to CEW, the WisdomTree Emerging Markets Local Debt Fund (ELD) derives its total returns from three components: changes in value of EM currencies against the U.S. dollar, income via coupon payments from bonds and changes in bond prices due to shifts in EM interest rates. A key difference between the strategies is that CEW is investing in three-month currency forwards versus ELD's investments in longer-maturity bonds. As a result, higher income potential has generally helped dampen volatility compared to CEW. Assets peaked at more than $2.1 billion in May 2013, and negative performance since then can largely be attributed to a strengthening U.S. dollar and negative sentiment over a majority of emerging market countries. With yields ranging from 1.7% in South Korea to 13.4% in Brazil, ELD currently boasts an embedded income yield of 6.3% (and [duration](#) of 4.89 years) by investing across 17 countries. Since inception, ELD has had an average annual volatility of 11.2%.





	2008	2009	2010	2011	2012	2013	2014	2015	YTD
DEM	-36.92	61.34	23.39	-9.77	14.03	-5.61	-11.59	-21.95	9.85
CEW	0	0	6.59	-7.4	6.47	-4.99	-6.82	-10.06	6.15
ELD	0	0	0	-1.28	13.28	-10.39	-5.43	-13.65	9.28

Source: Zephyr StyleADVISOR, as of 3/31/16 . Past performance is not indicative of future results.

Click for standardized performance of [DEM](#), [CEW](#) and [ELD](#). With a variety of options for exposure to emerging markets, how should an investor allocate in the current environment? In our view, DEM represents the deepest value strategy across WisdomTree's emerging markets suite. While dividends have historically dampened volatility compared to the [MSCI Emerging Markets Index](#), performance will ultimately depend on continued improvement in sentiment resulting from stabilization in China and commodity prices. For investors comfortable assuming currency risk, EM local debt offers perhaps less value but higher income potential than stocks. As a result, volatility in EM fixed income will likely be lower than that of emerging market equities, but returns will likely be lower during a strong risk-on environment. Finally, while CEW will likely offer the lowest amount of volatility, the drivers of return are more straightforward: EM currencies must continue to rally against the U.S. dollar. With these factors in mind, we believe investors should strongly reconsider their current exposure to emerging market assets.

[1]Source: WisdomTree. [2]Compared to MSCI Emerging Markets Index volatility of 19.0%, as of 3/31/16. [3]Source: MSCI, as of 3/31/16. [4]Source: WisdomTree, as of 3/31/16. [5]Compared to MSCI Emerging Markets Index volatility of 24.8%, as of 3/31/16.

Important Risks Related to this Article

Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. The Funds focus their investments in specific regions or countries, thereby increasing the impact of events and developments associated with the region or country, which can adversely affect performance. Investments in emerging or frontier markets 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. Derivative investments can be volatile, and these investments may be less liquid than other securities, and more sensitive to the effects of varied economic conditions.

Investments in currency involve additional special risks, such as credit risk and interest rate fluctuations.Investments in currency involve additional special risks, such as credit risk and interest rate fluctuations.

Unlike typical exchange-traded Funds, there are no indexes that CEW and ELD attempt to track or replicate. Thus, the ability of each Fund to achieve its objectives will depend on the effectiveness of the portfolio manager.

Funds focusing on a single sector generally experience greater price volatility.

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You cannot invest directly in an index.

DEFINITIONS

Hawkish : Description used when worries about inflation are the primary concerns in setting monetary policy decisions.

Federal Reserve : The Federal Reserve System is the central banking system of the United States.

Bullish : a position that benefits when asset prices rise.

Treasury Bill : A treasury bill (T-Bill) is a short-term debt obligation backed by the U.S. government with a maturity of one month (four weeks), three months (13 weeks) or six months (26 weeks).

Spot price : The current price at which a particular security can be bought or sold at a specified time and place.

Interest rates : The rate at which interest is paid by a borrower for the use of money.

Embedded Income Yield : Represents the annualized rate of return generated by a fund's investments in both fixed income securities and derivatives exclusive of interest rate changes and movement in foreign exchange spot rates. The calculation is intended to capture the Fund's potential to earn income return over the following year given current holdings and market conditions. The embedded income yield will differ from the portfolio's yield to maturity, due to the incorporation of derivatives in the embedded income yield. Embedded income yield and portfolio yield to maturity may differ from a Funds actual distribution and SEC yield and do not reflect Fund expenses.

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

Dividend : A portion of corporate profits paid out to shareholders.

Book Value : refers to the net asset value of a company determined by subtracting liabilities and intangible assets from Total assets.

Trailing 12-month dividend yield : Dividends over the prior 12-months are added together and divided by the current share price. Higher values indicate more dividends are being generated per unit of share price.

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 tim.

Coupon : The annual interest rate stated on a bond when it's issued. The coupon is typically paid semiannually. This is also referred to as the "coupon rate" or "coupon percent rate.&rdquo.

Duration : A measure of a bond's sensitivity to changes in interest rates. The weighted average accounts for the various durations of the bonds purchased as well as the proportion of the total government bond portfolio that they make up.

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.