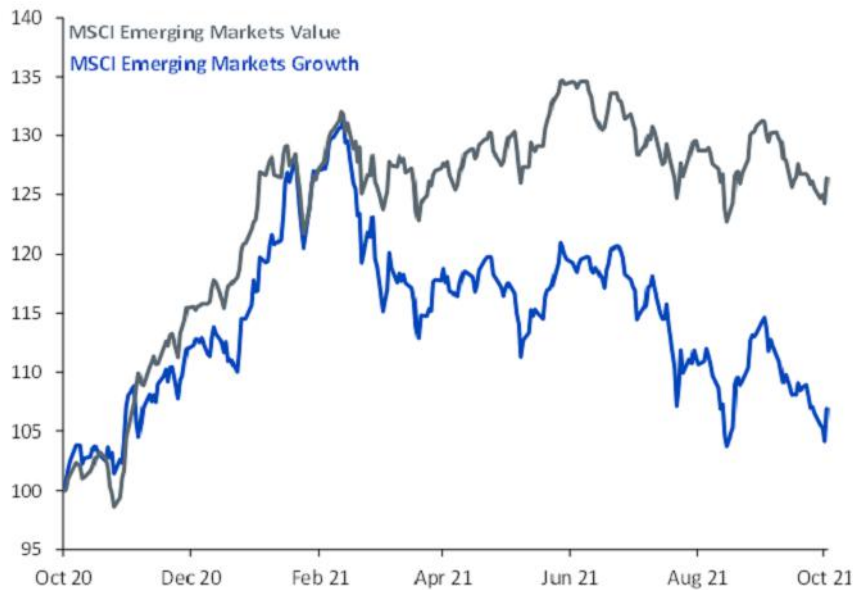


# VALUE TRUMPS GROWTH IN EMERGING MARKETS

Aneeka Gupta – Director, Macroeconomic Research  
28 Oct 2021

Commodity prices have had a strong run (up 32%)<sup>1</sup> driven in part by the recent surge in energy prices. Commodity price surges can redefine the fortunes of major commodity exporters, most of which are present in Emerging Markets (EM). According to a paper drafted by the International Monetary Found (IMF)<sup>2</sup> in 2016, most emerging markets had experienced a high period of growth during the commodity price boom. We have seen many emerging and developing economies prosperity rise and fall in tandem with global prices of their leading commodity exports. EM is a net commodity exporter to the tune of 2.6% of gross domestic product (GDP) while developed markets are a net commodity importer to the tune of 1.6% of GDP<sup>3</sup>. Russia is a case in point. Not only is Russia a major exporter of oil and natural gas (accounting for nearly 40% of Europe energy supply) but it is also an important exporter of nickel, palladium and aluminium. The ongoing energy crisis has taught us that there is still a considerable period until when global reliance on fossil fuels will be phased out and green energy is phased in. And so, Russia stands to benefit amidst this current energy crisis. Brazil is another key exporter of oil, iron ore, soybeans, and coffee from the Latin American region is poised to benefit from the surge in commodity prices. The energy transition will also drive consumption of the raw materials required to generate and consume energy in a cleaner way such as – aluminium, copper, nickel, cobalt and lithium. In addition to being a key copper producer, Chile remains an important source of wind and solar power and is expected to emerge as a low-cost producer and exporter of green hydrogen. China dominates global production of rare earth minerals (around 66%)<sup>3</sup> which are required for the manufacture of new energy goods. Amidst the ongoing commodity price increase, a new trend is taking root evident from the outperformance of value versus growth stocks within the EM landscape over the past year.

Figure 1 – Outperformance of value versus growth in EM



Source: Bloomberg, WisdomTree, data available as of close 08 October 2021.

**You cannot invest directly in an index. Historical performance is not an indication of future performance and any investments may go down in value.**

Many would argue that the composition of EMs has changed dramatically over the decade and EMs are less reliant on commodities. However, in commodity exporting nations, the commodity intensive value sectors remain an important source of public sector revenues and state subsidies. Commodities account for 44% of EM trade compared to just 29% in DMS<sup>2</sup>. As prices of most of these commodities have risen, alongside improving terms of trade – it should lend a tailwind for these economies. EMs have faced a sharp setback owing to the regulatory onslaught in China alongside the Evergrande crisis rendering their valuations at a significant discount to developed markets. Keeping in mind where we are in the economic cycle, with inflation concerns rising and growth starting to plateau and monetary conditions starting to tighten, investors would benefit by taking exposure to dividend paying commodity exporting EM economies. The WisdomTree EM Equity Income Index's offers a higher geographical tilt towards commodity exporters within EM such as Russia (12.41%) and Brazil (4.14%) and a lower tilt towards China (-15.3%) versus the MSCI Emerging Markets Index (benchmark). The benefit of these allocations towards commodity intensive regions is reflected in the WisdomTree EM Equity Income Index's 14.8%<sup>4</sup> outperformance versus the benchmark. Its emphasis on allocating towards the commodity intensive sectors such as materials and energy drove a large share of its outperformance versus the benchmark. In addition, the WisdomTree EM Equity Income Index's allocation towards the highest dividend paying stocks also played an important role in its outperformance versus the benchmark evident from the attribution table below.

**Figure 2: Dividend Yield Attribution**

Category	Attribution Components				Average Category Weight			Category Performance	
	Allocation	Stock Selection	Interaction	Total Attribution	Index Weight	Benchmark Weight	+/- Wgt	WT Index Return	Benchmark Return
1st Quintile (Highest Div. Yield)	12.65%	-0.67%	-2.48%	9.50%	72.06%	14.38%	57.68%	32.37%	36.00%
2nd Quintile	2.15%	0.20%	0.61%	2.96%	22.23%	13.39%	8.84%	30.94%	29.49%
3rd Quintile	-5.15%	2.97%	-1.44%	-3.63%	2.97%	23.54%	-20.57%	49.73%	36.97%
4th Quintile	-0.67%	5.96%	-5.44%	-0.15%	0.75%	11.50%	-10.75%	52.15%	22.24%
5th Quintile (Lowest Div. Yield)	0.71%	0.80%	-6.00%	-4.50%	0.04%	17.12%	-17.09%	-23.32%	14.94%
Zero Div. Yield	10.16%	15.60%	-15.38%	10.38%	0.77%	20.02%	-19.25%	55.02%	-15.99%
N/A	-0.65%	0.04%	0.85%	0.24%	1.18%	0.06%	1.13%	23.60%	-13.03%
Total	19.20%	24.91%	-29.29%	14.81%	-	-	-	33.02%	18.20%

Source: Factset, WisdomTree from 30 September 2020 to 30 September 2021.

**You cannot invest directly in an index. Historical performance is not an indication of future performance and any investments may go down in value.**

### Sources

- <sup>1</sup> Price performance of Bloomberg Commodity Index from 31 December 2020 to 7 October 2021
- <sup>2</sup> IMF 2018 Annual Data
- <sup>3</sup> IMF Working Paper – Trading on their terms? Commodity Exporters in the Aftermath of the Commodity
- <sup>4</sup> Statista
- <sup>5</sup> Factset performance from 30 September 2020 to 30 September 2021

### Related blogs

+ [Kicking the implicit guarantee of State-Owned Enterprise](#)

### Related products

+ [DEM/DEMD WisdomTree Emerging Markets Equity Income UCITS ETF](#)

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

Important Information

**Marketing communications issued in the European Economic Area (“EEA”):** This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

**Marketing communications issued in jurisdictions outside of the EEA:** This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as “WisdomTree” (as applicable). Our Conflicts of Interest Policy and Inventory are available on request.

**For professional clients only.** The information contained in this document is for your general information only and is neither an offer for sale nor a solicitation of an offer to buy securities or shares. This document should not be used as the basis for any investment decision. Investments may go up or down in value and you may lose some or all of the amount invested. Past performance is not necessarily a guide to future performance. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

The application of regulations and tax laws can often lead to a number of different interpretations. Any views or opinions expressed in this communication represent the views of WisdomTree and should not be construed as regulatory, tax or legal advice. WisdomTree makes no warranty or representation as to the accuracy of any of the views or opinions expressed in this communication. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

This document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares or securities in the United States or any province or territory thereof. Neither this document nor any copy hereof should be taken, transmitted or distributed (directly or indirectly) into the United States.

Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.