CORIENT

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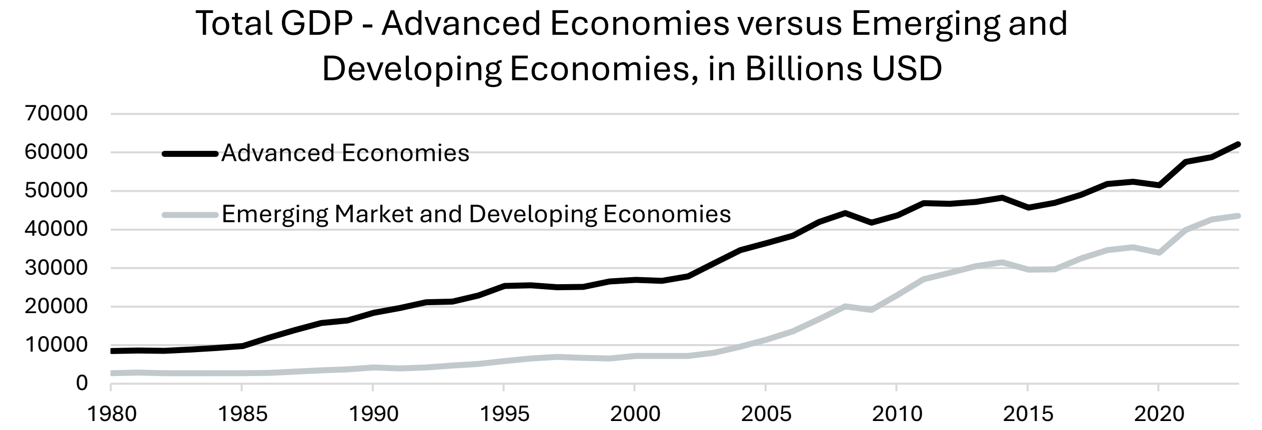
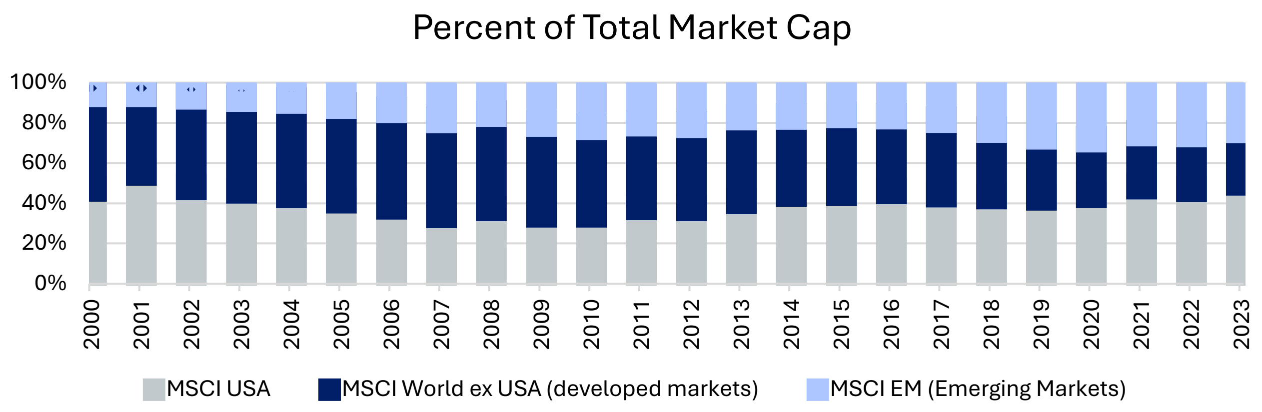
The Case for Emerging Markets

Emerging Markets (EM) represent a growing share of the economic and market pies





- In recent decades, Emerging Economies' size of the world economic pie has doubled from about 20% in 2000 to 41% today.
- Despite this trend towards representing almost half of global economic activity, the EM portion of global market capitalization has grown from 10% to only 23%.
- As the market capitalization of EM falls farther behind their share of global economic growth, P/E ratios for EM domiciled companies trade near a historically wide 50% discount to US Markets.
- With increased emphasis on de-globalization, the potential for a more nationalist industrial policy, and geopolitical tensions on the rise, EM companies may be well-positioned to disproportionally invest in their local, faster growing markets.

Source: IMF and Bloomberg. The top chart represents the aggregate GDP in billions of US Dollars of the Advanced Economies as one group and of the Emerging and Developing Economies as another group, as defined by the International Monetary Fund. The bottom chart represents the percentage of aggregate market cap of each of the follow three indices – MSCI EM (representing the Emerging Markets), MSCI World ex USA (representing developed markets other than the USA), and the MSCI USA indices (representing US stocks). Advanced Economies are defined by the IMF based on high per capita income, a diverse export base and a financial sector that is integrated into the global financial system. Advanced economies include the United States, United Kingdom, France, Germany, Japan and others. IMF classifies countries that are not advanced economies into Emerging and Developing groups, that are characterized by growth rates, industrialization, and other factors. Examples of these economies include China, India, Brazil, Mexico, and others.

Emerging Markets economies are projected to grow faster than the developed world

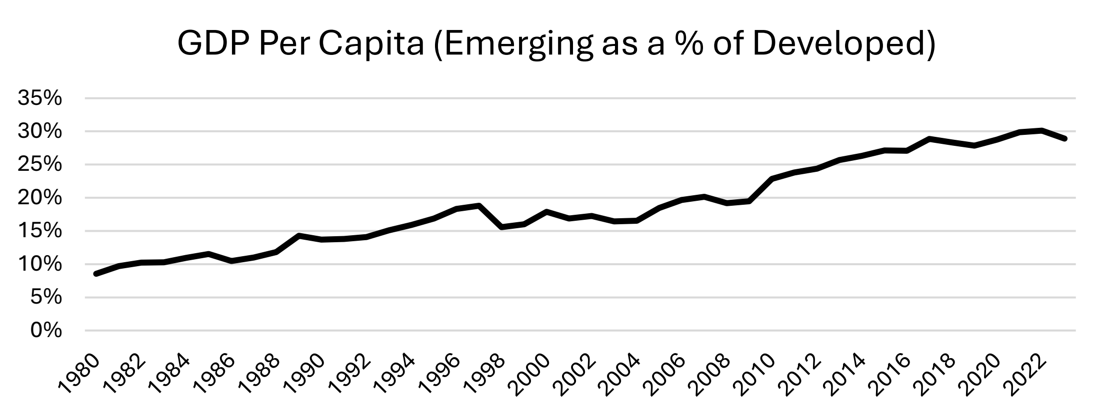
- Developed economies as a group have realized tepid economic growth in recent years, and their trajectory in the coming years is likely to be depressed by demographic challenges and slow growth in productivity.
- Emerging and developing economies have grown at more than double the rate of the developed world in recent years and IMF projections see that relationship continuing over the next 5 to 10 years.
- Emerging economies on the whole benefit from demographic tails such as growing working age populations and may benefit from increasing productivity, as they adopt technologies that are commonplace in the developed world.
- India is a particularly exciting opportunity in EM and is the second largest weight by market capitalization. Ongoing structural reforms, robust domestic consumption, and expanding sectors like technology and higher value manufacturing have the potential to further fuel India's growth.

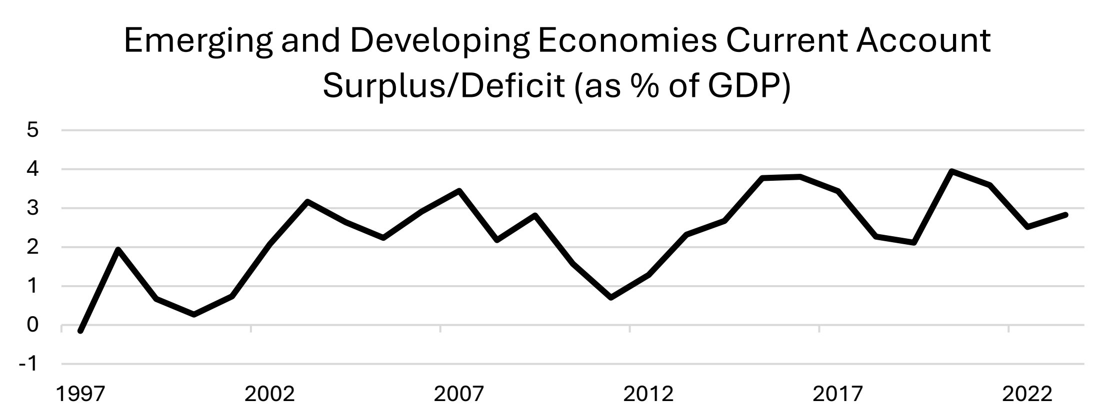
GDP Growth, 2023 actual, 2024, 2025 and 2029 Projected

	2023	2024E	2025E	to 2029E
Advanced Economies	1.70%	1.80%	1.80%	1.70%
US	2.90%	2.80%	2.20%	2.10%
Euro Area	0.40%	0.80%	1.20%	1.20%
Emerging and Developing Economies	4.40%	4.20%	4.20%	4.20%
China	5.70%	5.30%	5.00%	3.30%
India	8.20%	7.00%	6.50%	6.50%

Source: International Monetary Fund

Emerging Markets continue catch up in relative wealth and have favorable trade balances





Source: International Monetary Fund (IMF)

- In our view, Emerging Market's most important story for the coming decades is their increasing affluence. Their relative economic clout, as measured by GDP per Capita, has grown steadily and may continue to close the gap with their developed market peers. EM economies, on a per capita basis, have tripled their relative productivity over the past four decades, from less than 10% of the developed world to about 30% currently. With a growing middle class, and the rising consumption that comes with it, EM display attractive investment attributes.
- Another economic data point where Emerging Markets shine is their trade balance. The chart on the left measures the extent to which these economies are net recipients of money from abroad – a current account surplus comes from being a net exporter to the rest of the world. These economies as a group have tended to be net exporters in recent years. In our view this makes them less reliant on borrowing from global capital markets and potentially more resilient as economies going forward.

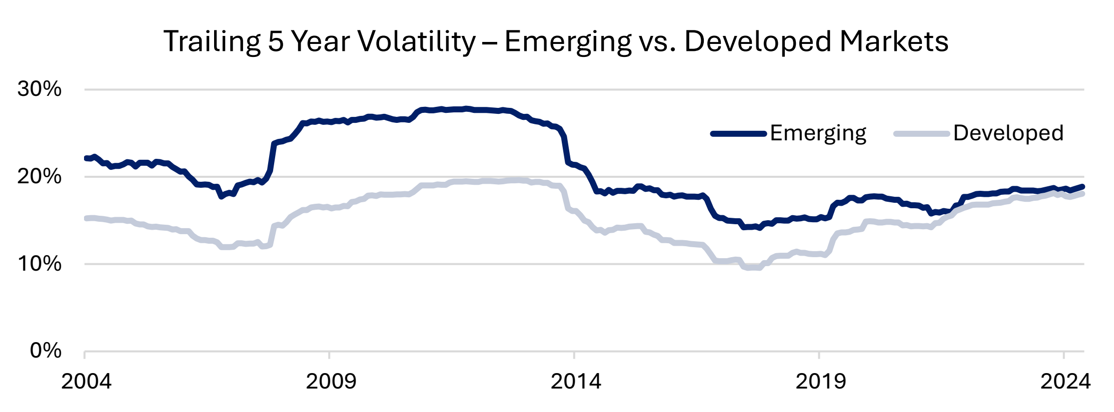
Emerging Markets' country composition is dynamic and evolving for the better

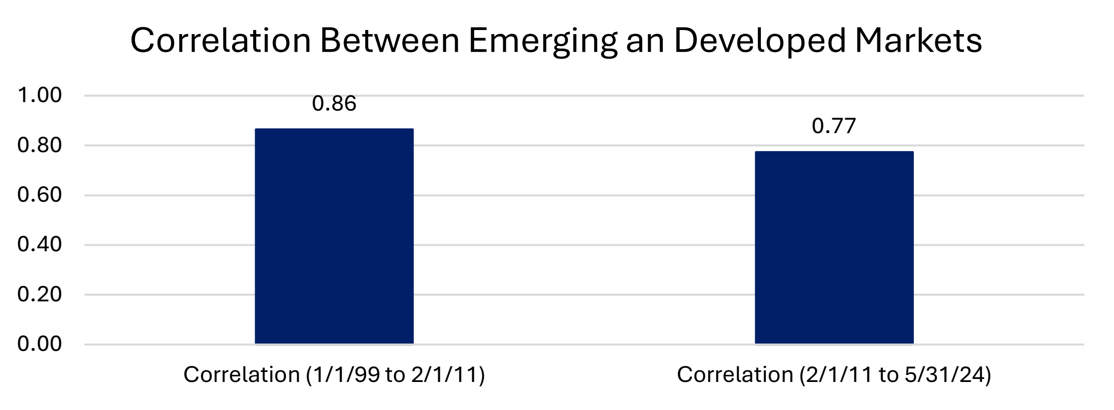
- Many investors have come to associate investing in EM with investing only in China. China's weight in the asset class as measured by the MSCI EM index peaked in 2021 at over 40% but its prominence has fallen since, falling to around a quarter of index.
- The asset class has evolved in other ways since 2010. For example, Saudi Arabia joined the index and they, along with other gulf nations, have the potential to contribute a new dynamism while improving overall governance by applying thoughtful regulatory frameworks.
- The nations falling in prominence the most over this period are Brazil and Russia, the latter of which has been removed from the benchmark due to international sanctions. As a result, the index has become less sensitive to economies that depend on natural resource extraction, a risky, more volatile, and capital intensive path to growth.
- This potential divergence of economic fates makes the asset class ripe for active management, with a manager's choice of country being a key lever to add value in a thoughtfully constructed portfolio.

County	12/31/2010 Weight	9/30/2024 Weight
China	17.35%	26.62%
India	6.58%	19.67%
Taiwan	10.53%	18.54%
Korea	14.15%	9.57%
Brazil	15.99%	4.37%
Saudi Arabia	0.00%	3.98%
South Africa	7.58%	2.78%
Mexico	4.93%	1.90%
Indonesia	2.48%	1.52%
Malaysia	2.95%	1.47%
Thailand	1.55%	1.45%
All others	15.88%	8.12%

Source: Bloomberg. The table presents the percentage by market cap in the MSCI Emerging Markets index allocated to a given sector as of 12/31/2010 and 9/30/2024

Emerging Market volatility is now in line with developed markets while EM returns have become more diversifying in an overall portfolio





- Many investors have come to associate Emerging Markets stocks with high volatility. For much of their history, this was true. Emerging Markets stocks generally exhibited a volatility 20-30% higher than developed markets. In recent years, however, the risk levels of Emerging and Developed markets have converged.
- In our view, this has been driven by factors such as higher level of wealth in the countries represented by this asset class, a sector mix that has evolved to be less cyclical, and a higher level of regulatory maturity.
- Bucking the trend of higher correlations among stock markets, Emerging markets correlations to the Developed world have modestly declined in the recent period. This may improve the diversification benefits within a US investor's portfolio.

Source: Bloomberg. The top chart measure the trailing annualized standard deviation of returns for the preceding five years of monthly returns for the MSCI Emerging markets Index and the MSCI World Index for the period 1/1/2004 to 5/31/2024. The bottom chart measures the correlation of monthly returns between MSCI Emerging markets Index and the MSCI World Index for the periods 1/1/1999 to 2/1/2011, and 2/1/2011 to 5/31/2024

Sector composition in Emerging Markets is less cyclical

- Some investors have associated Emerging Markets with more cyclical, extractive sectors like Energy and Materials
- This was true in 2010, when weights to both sectors exceeded 10% of the MSCI Emerging Markets index and composed the majority of some individual countries' markets.
- The market has evolved since 2010, with Information Technology rising to become the single largest portion of the asset class, while cyclical sectors have seen their weights decline substantially. This represents more than the growth of Chinese software firms, with some of the largest index members being dominant franchises in semiconductor manufacturing outside of China.
- In our view, many of these trends are durable and make EM an attractive area of the world to invest in.

Sector	12/31/2010 Weight	9/30/2024 Weight
Communication Services	7.99%	8.92%
Consumer Discretionary	6.85%	14.05%
Consumer Staples	6.40%	5.91%
Energy	13.82%	4.37%
Financials	22.57%	22.29%
Health Care	1.04%	3.94%
Industrials	7.26%	7.57%
Information Technology	12.33%	24.04%
Materials	14.77%	5.11%
Real Estate	1.67%	1.77%
Utilities	3.25%	2.03%
Other	2.05%	0.21%

Source: Bloomberg. The table presents the percentage by market cap in the MSCI Emerging Markets index allocated to a given sector as of 12/31/2010 and 9/30/2024

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Thank You