

Schroders



Schroders Emerging Markets Lens: Equity

Strategic Research Unit

May 2023

Marketing material for professional investors or advisers only.

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Summary

- EM equities are slightly expensive on a forward price-earnings basis. The price-book ratio is close to its historical median, while EM is cheap versus history on a dividend yield basis.
- There remains considerable variability between sector valuations. Various growth sectors remain much more expensive than value sectors.
- EM equities are cheaper than developed market (DM) equities, but the difference is not extremely large, especially on a sector neutral basis.
- On a regional basis, Latin America remains cheap on a forward price-earnings basis. Valuations in EMEA are close to their historical median while EM Asia is slightly expensive.
- A decade of US dollar appreciation has weighed on EM equity returns. Most EM currencies have depreciated in real terms, implying emerging value, although the extent varies significantly.

*EMEA is Europe, the Middle East and Africa.
Source: MSCI, Refinitiv Datastream.
Please see relevant disclaimers on page 37.

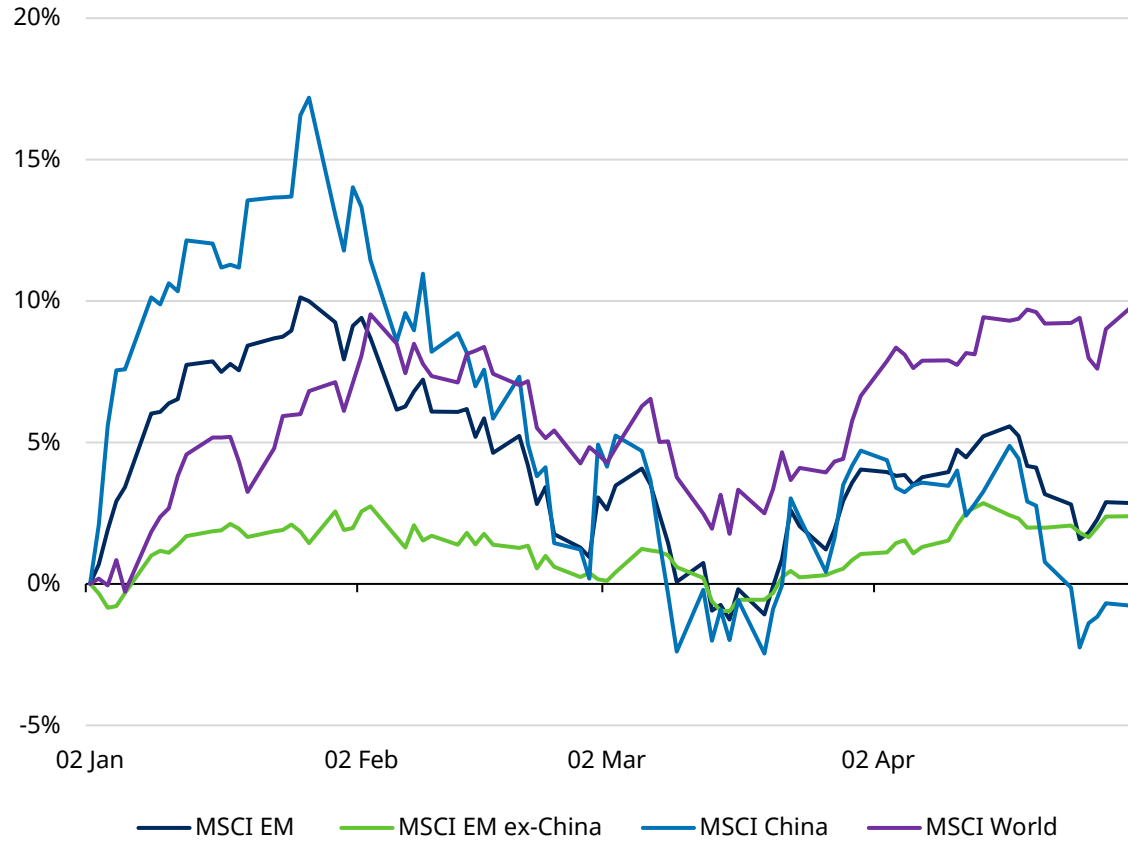


Emerging market equity performance

EM equities fell in April, and underperformed DM

...led lower by China, amid renewed US tensions

YTD EM and global equity market returns (USD)



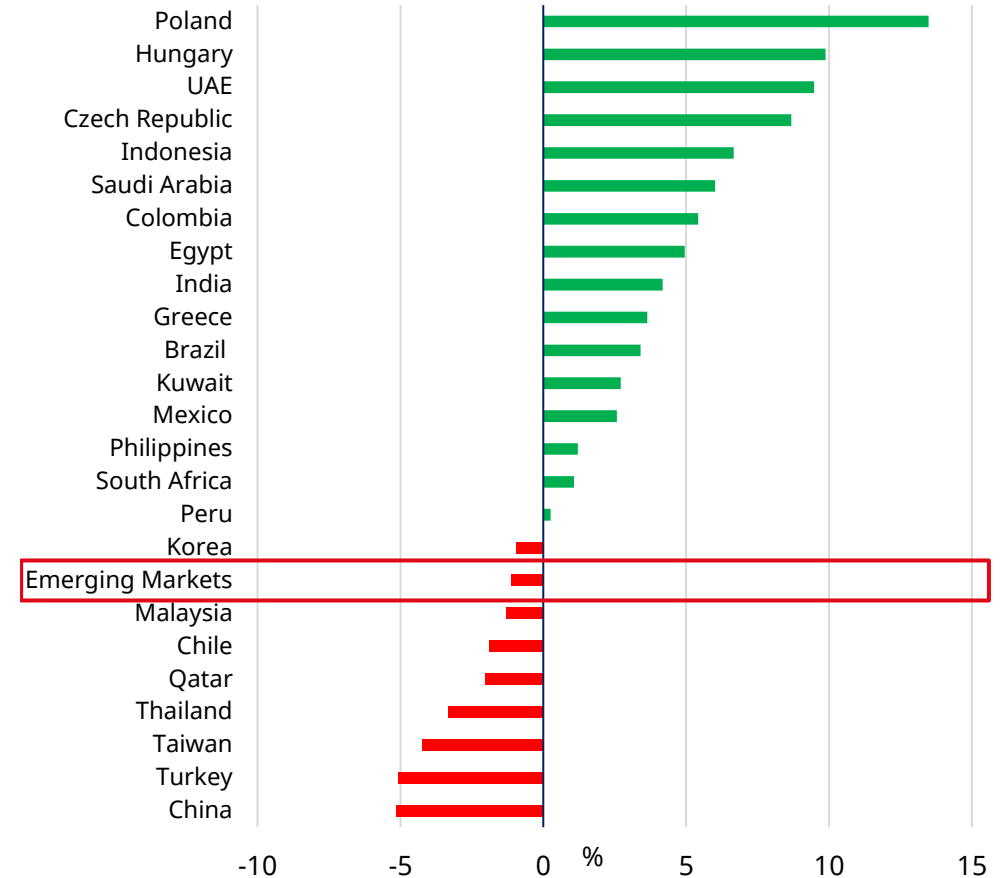
Past performance is not a guide to future performance and may not be repeated.

Total return, US dollars

Source: Refinitiv Datastream, MSCI, Schroders Strategic Research Unit, as at 1 May 2023.

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April 2023 EM equity market returns (USD)



Past performance is not a guide to future performance and may not be repeated.

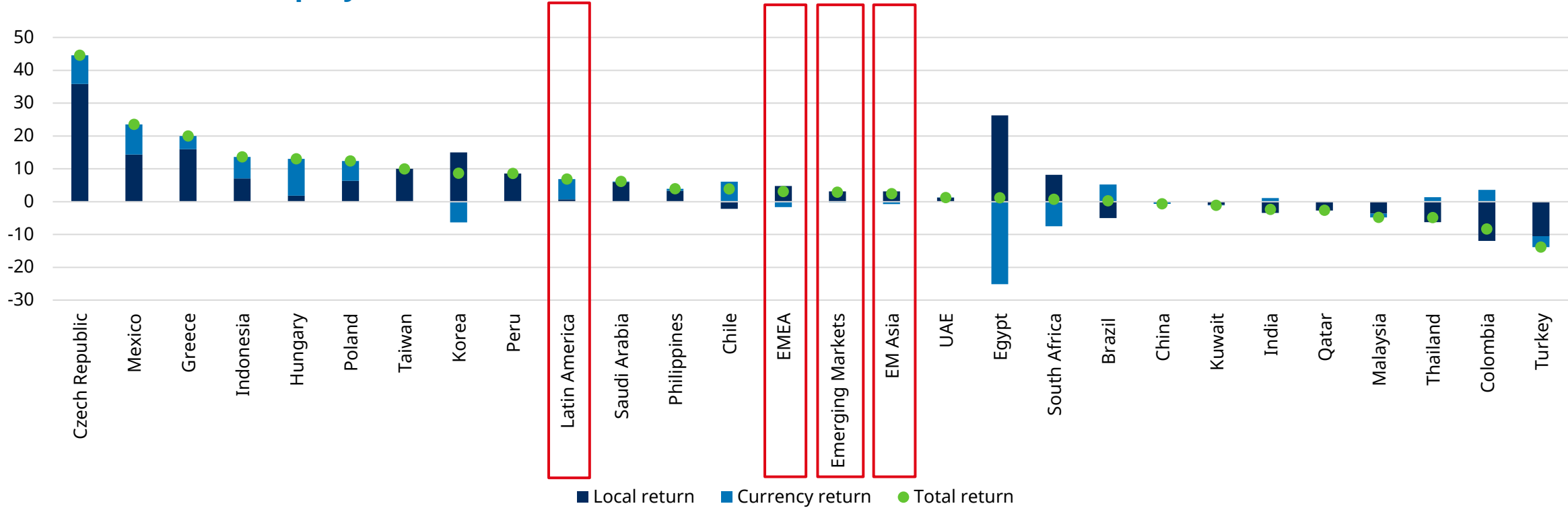
Percentage total return. US dollars.

Source: Refinitiv Datastream, MSCI, Schroders Strategic Research Unit, as at 30 April 2023.

Significant variability in EM performance

EM Latin leads YTD; EM Asia is now the laggard, owing to weakness in India and China

YTD returns in EM equity markets, US dollar terms



All regions are represented among YTD top performers, reflecting higher intra-region return dispersion

Past performance is not a guide to future performance and may not be repeated.

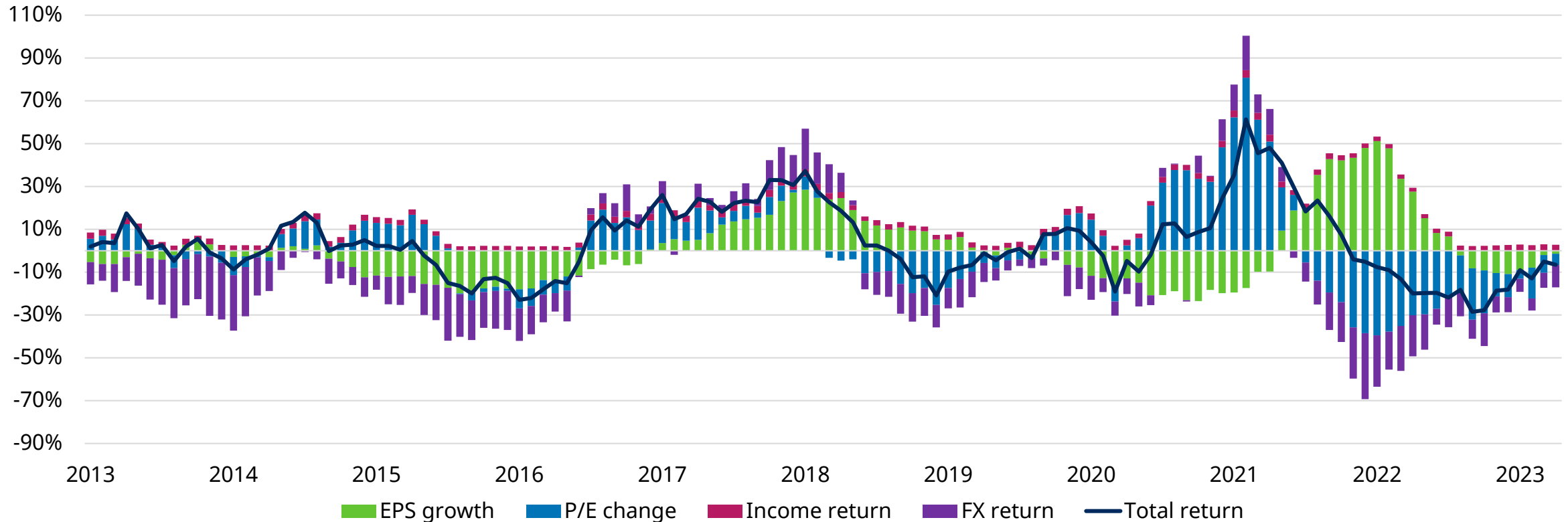
*EMEA is Europe, the Middle East and Africa

Source: Schroders, Refinitiv Datastream, MSCI, Schroders Strategic Research Unit. Data as at 30 April 2023. Please see relevant disclaimers on page 37.

Decomposition of EM equity returns

Return drivers vary over time

Components of the MSCI Emerging Markets Index 12-month total return



Rolling 12-month total return was negative due to contracting P/E multiple, EPS growth, and currency losses

Past performance is not a guide to future performance and may not be repeated.

Source: Schroders, Refinitiv Datastream, MSCI, Schroders Strategic Research Unit. Data as at 30 April 2023. Please see relevant disclaimers on page 37.

A challenging decade for EM versus DM

Is this trend set to finally abate?

EM vs DM (total return, rebased to 100)



The longer term trend of underperformance versus DM started in 2011

Past performance is not a guide to future performance and may not be repeated.

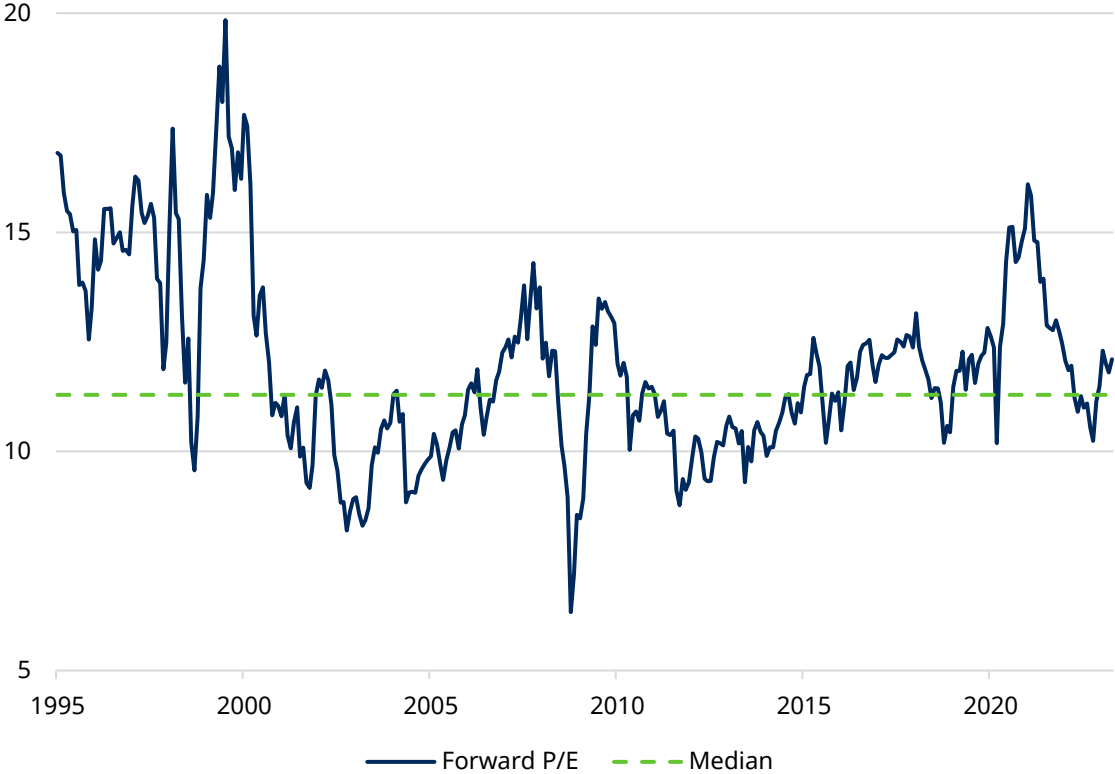
Source: Refinitiv Datastream, MSCI, IBES, Schroders Strategic Research Unit. Data as at 30 April 2023. All returns in USD terms. Please see relevant disclaimers on page 37.



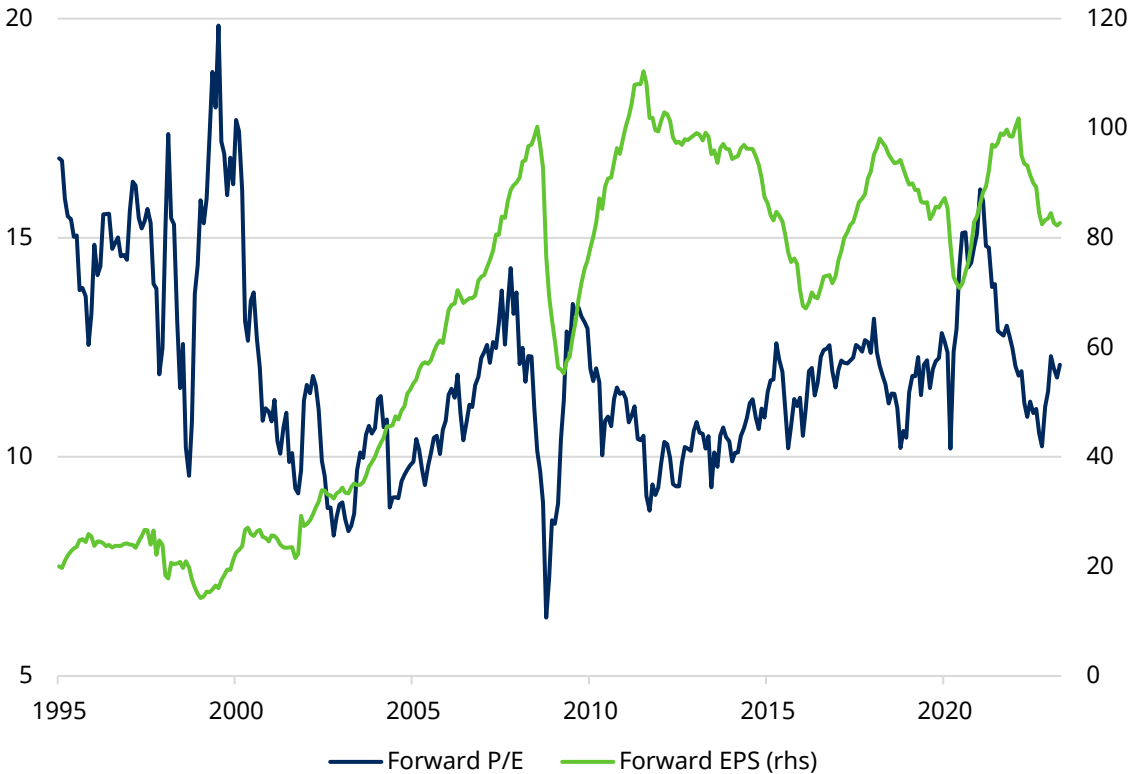
Emerging market equity valuations

EM equities are slightly expensive on a forward P/E basis

The MSCI EM Index 12-month forward P/E



The MSCI EM Index 12-month forward P/E and EPS



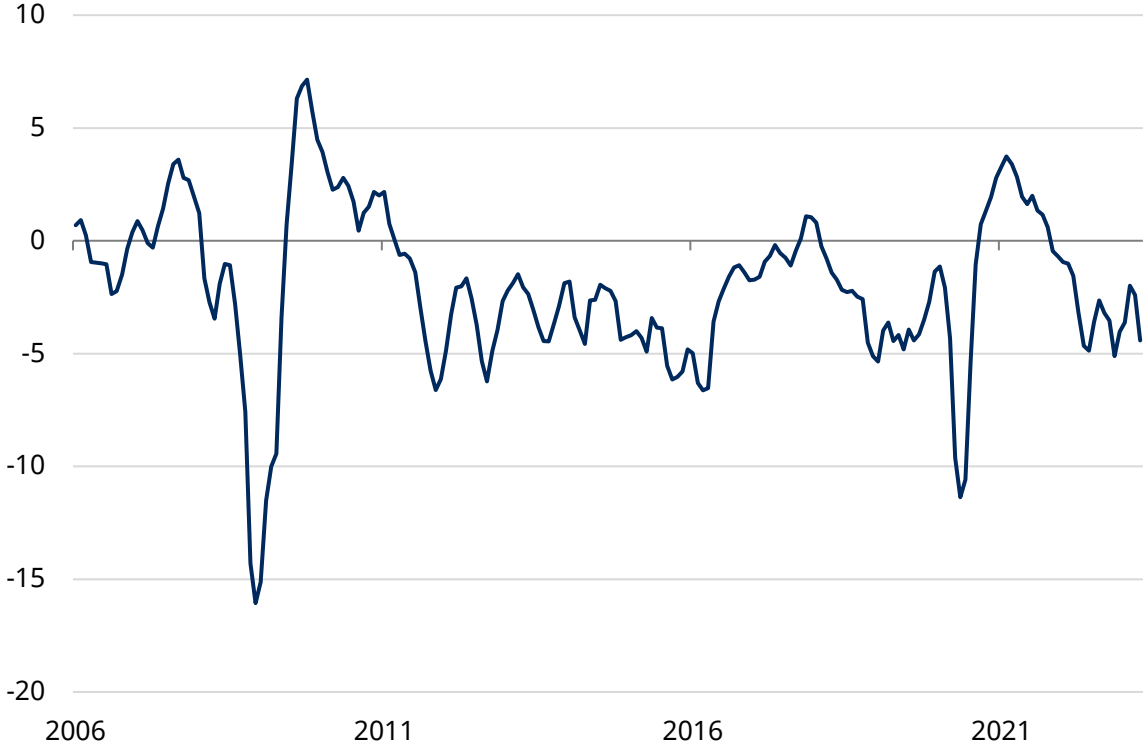
EM forward P/E is above the historical median

Source: Refinitiv Datastream, MSCI, IBES, Schroders Strategic Research Unit. Data as at 30 April 2023. Please see relevant disclaimers on page 37.

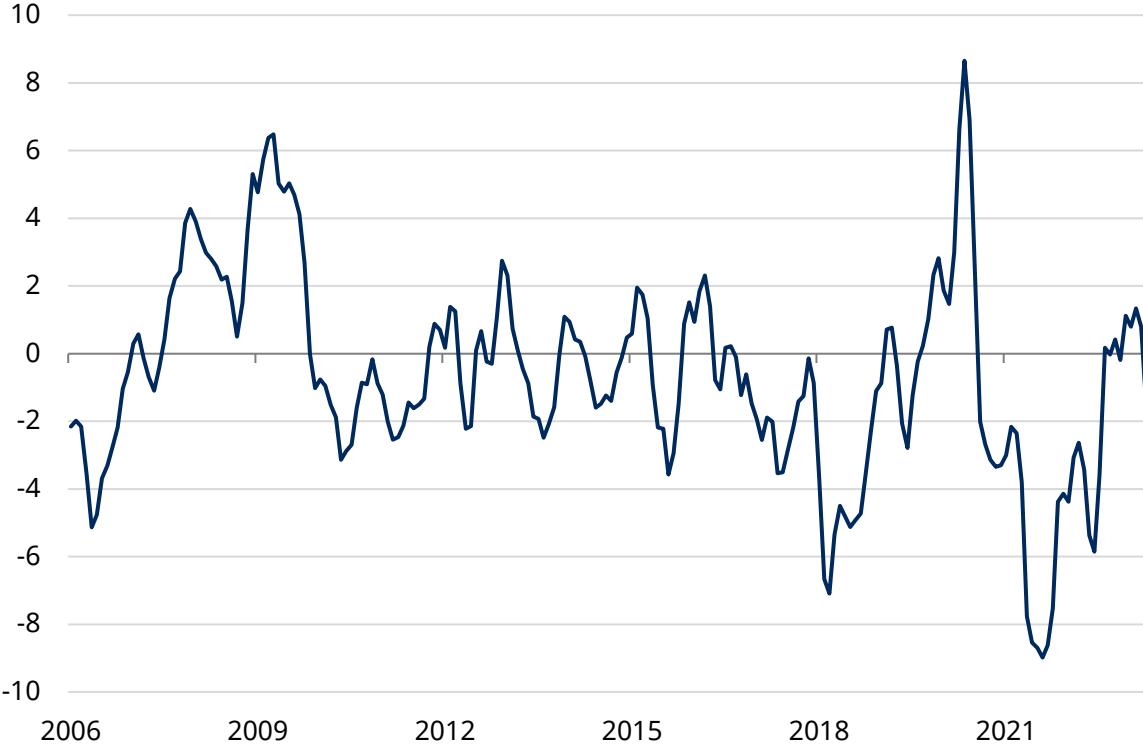
EM earnings revisions are still negative

...and have turned negative again relative to DM

EM earnings revisions¹ (3-month average)



EM minus DM earnings revisions

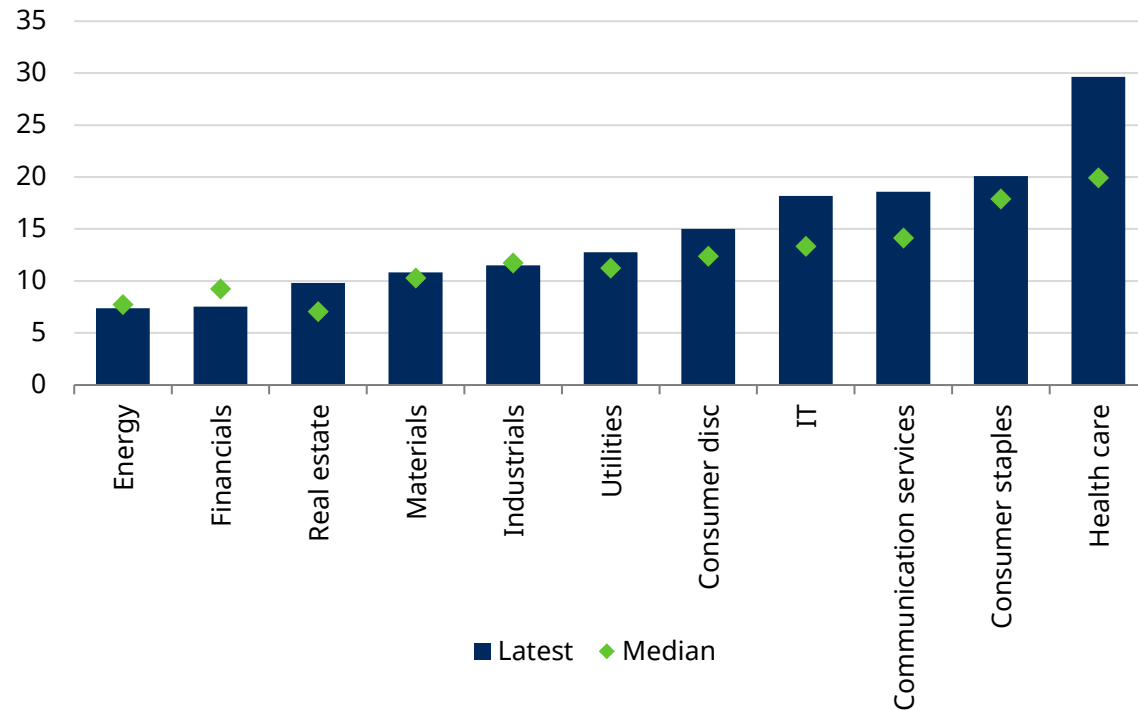


Calculated as the number earnings upgrades minus the number of earnings downgrades divided by the total numbers of earnings updates.
Source: Refinitiv Datastream, MSCI, IBES, Schroders Strategic Research Unit. Data as at 30 April 2023. Please see relevant disclaimers on page 37.

Variability in sector valuations remains high

Various higher P/E sectors are still expensive versus history

The MSCI EM Index 12-month forward P/E ratios of sectors



Standard deviation of EM sector forward P/E ratios

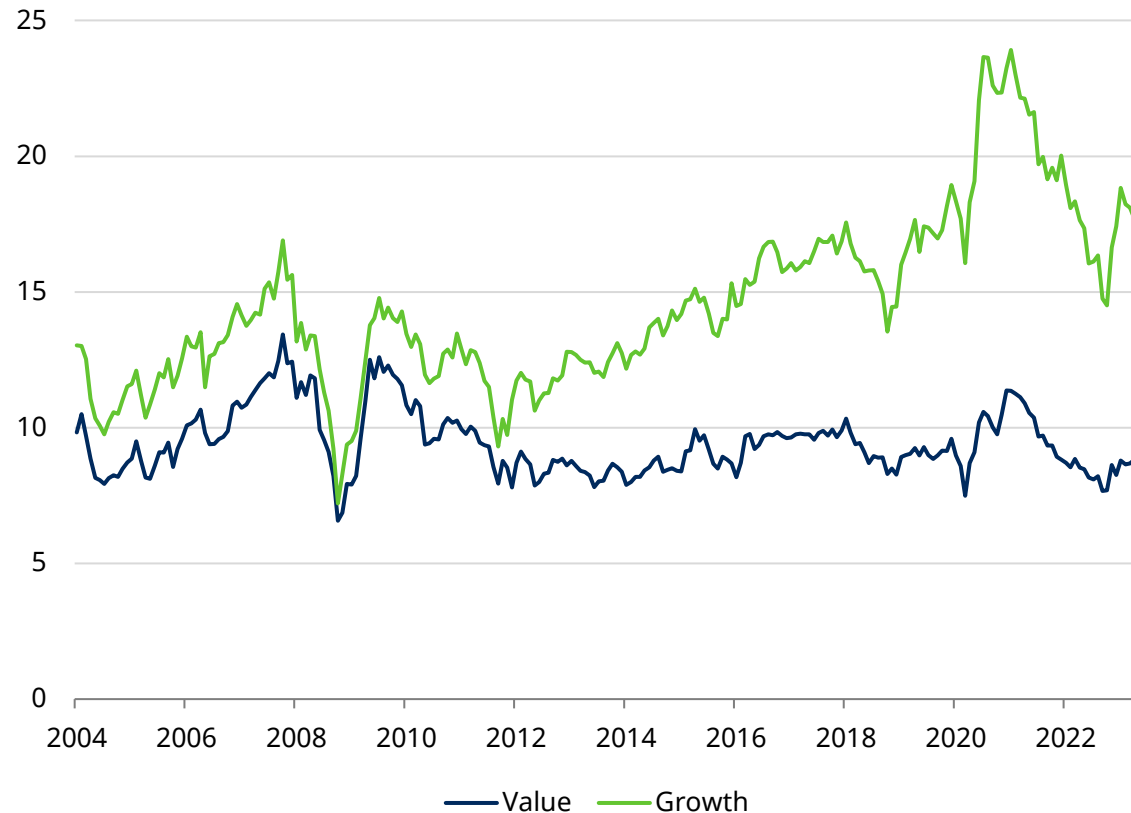


Health care, communications services, and IT are the most expensive relative to their historical median

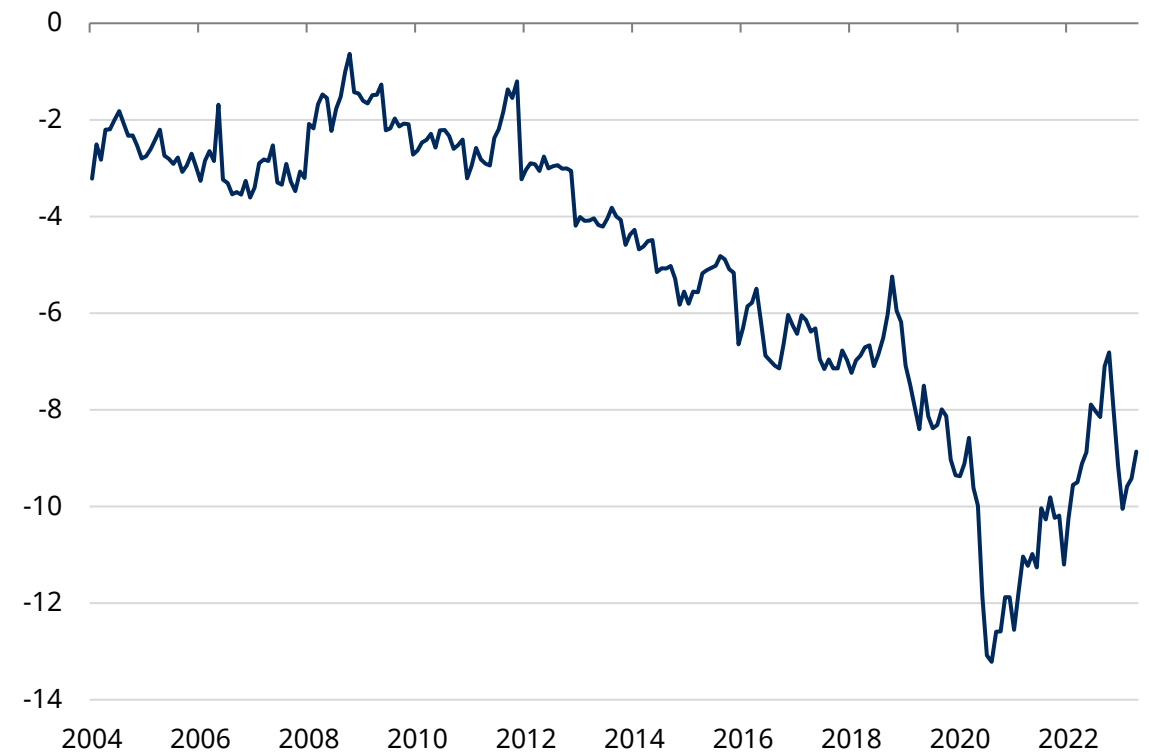
Source: Refinitiv Datastream, MSCI, IBES, Schroders Strategic Research Unit. Data as at 30 April 2023. Median since January 1999. Please see relevant disclaimers on page 37.

Value versus growth in EM

The MSCI EM Value and Growth 12-month forward P/E



EM value minus growth 12-month forward P/E



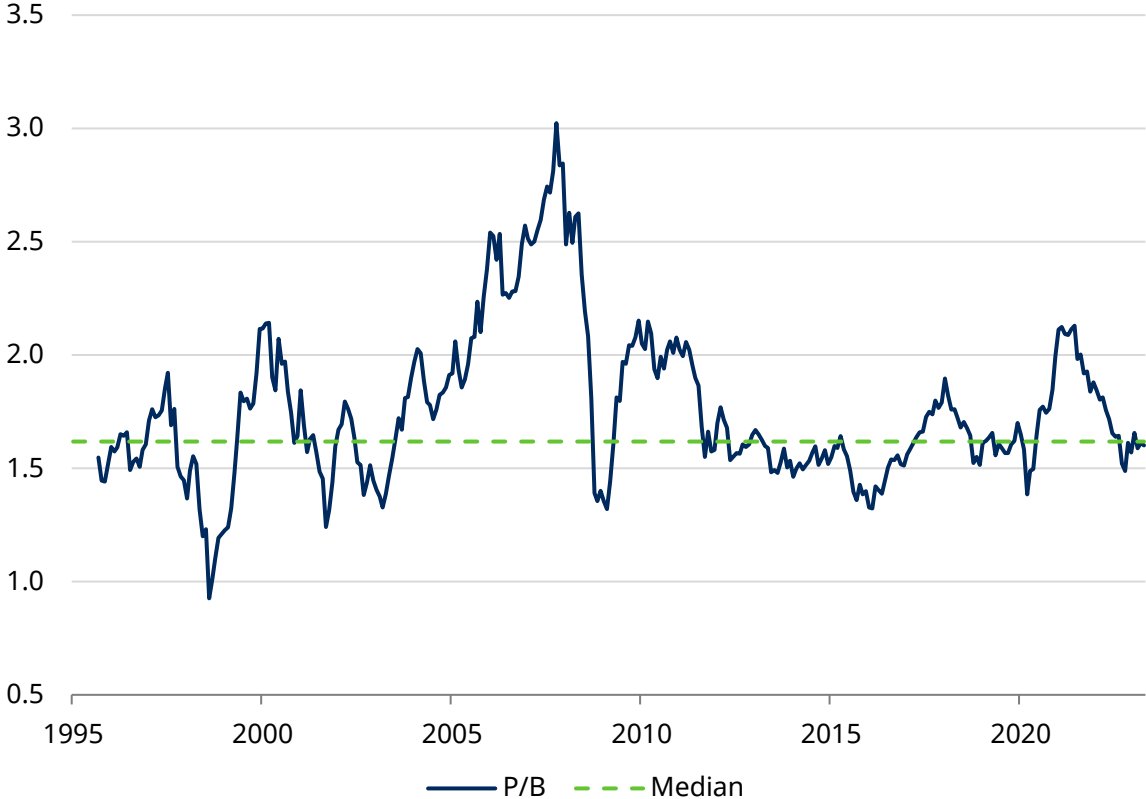
The Growth re-rating that started at the end of October came to a halt in February

Source: Refinitiv Datastream, MSCI, Schroders Strategic Research Unit. Data as at 30 April 2023. Please see relevant disclaimers on page 37.

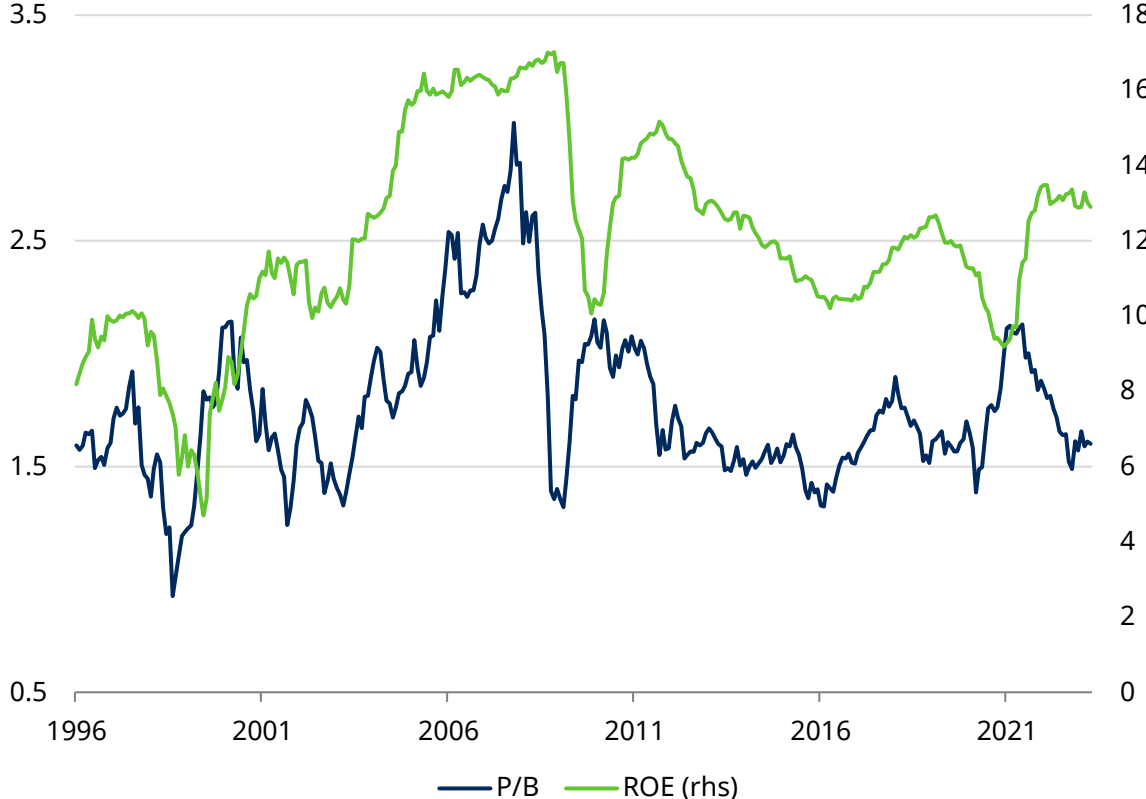
Other valuation metrics: price-to-book ratio

The P/B ratio is close to the historical median

The MSCI EM Index P/B



The MSCI EM Index P/B and ROE

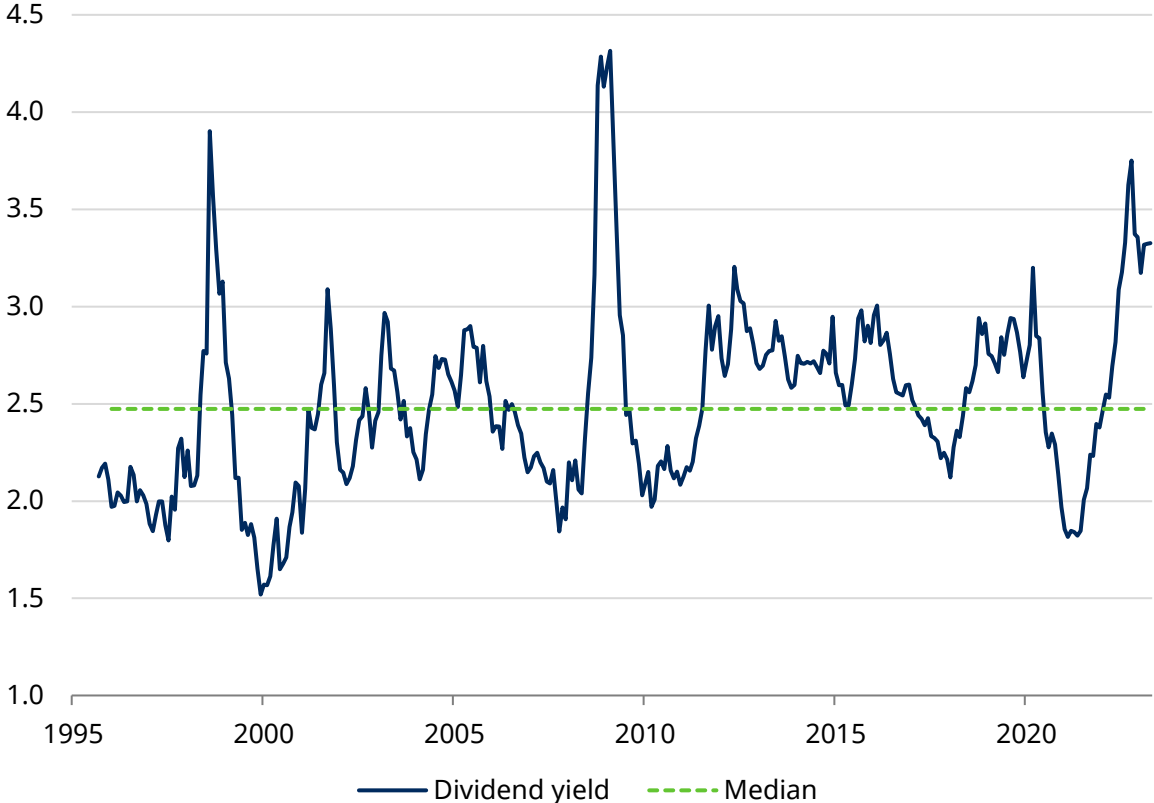


Source: Refinitiv Datastream, Schroders Strategic Research Unit, MSCI. Data as at 30 April 2023. Please see relevant disclaimers on page 37.

Other valuation metrics: the dividend yield

EM dividend yield is still well above the historical median

The MSCI EM Index dividend yield (%)



The MSCI EM Index dividend per share (rebased to 100)



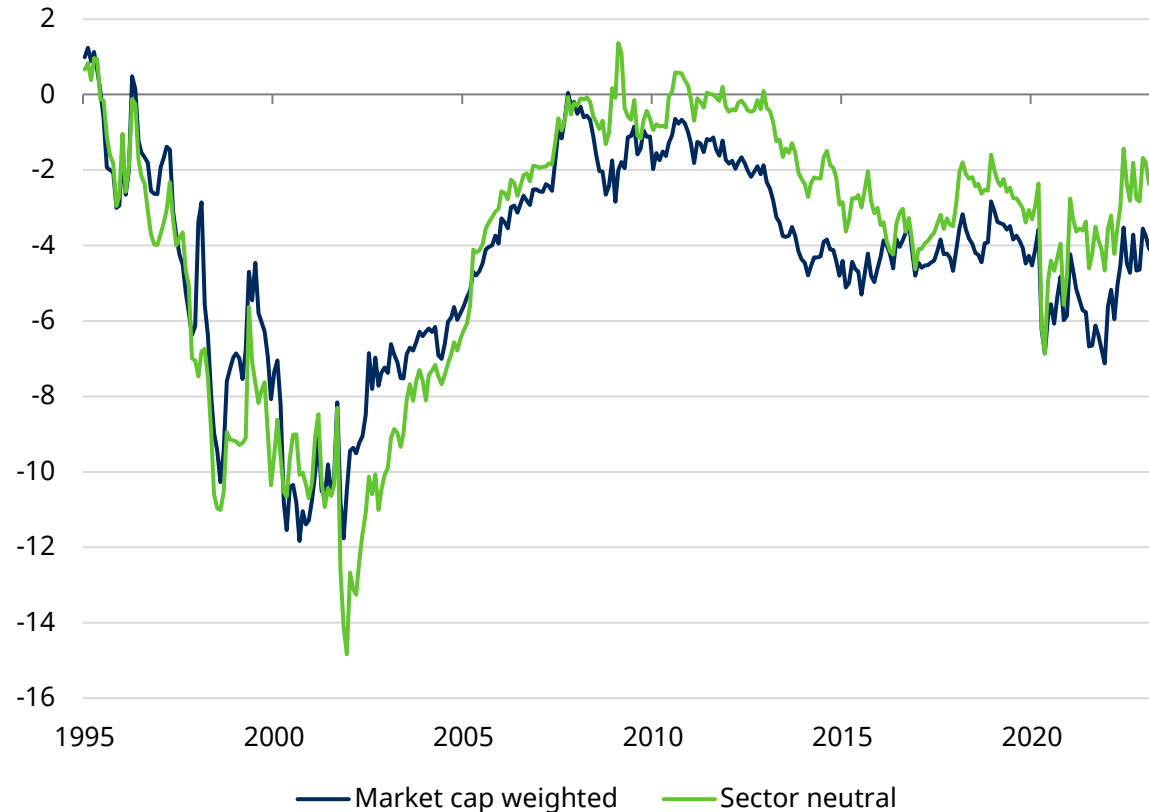
EM dividend yield remains elevated

Source: Refinitiv Datastream, Schroders Strategic Research Unit, MSCI. Data as at 30 April 2023. Please see relevant disclaimers on page 37.

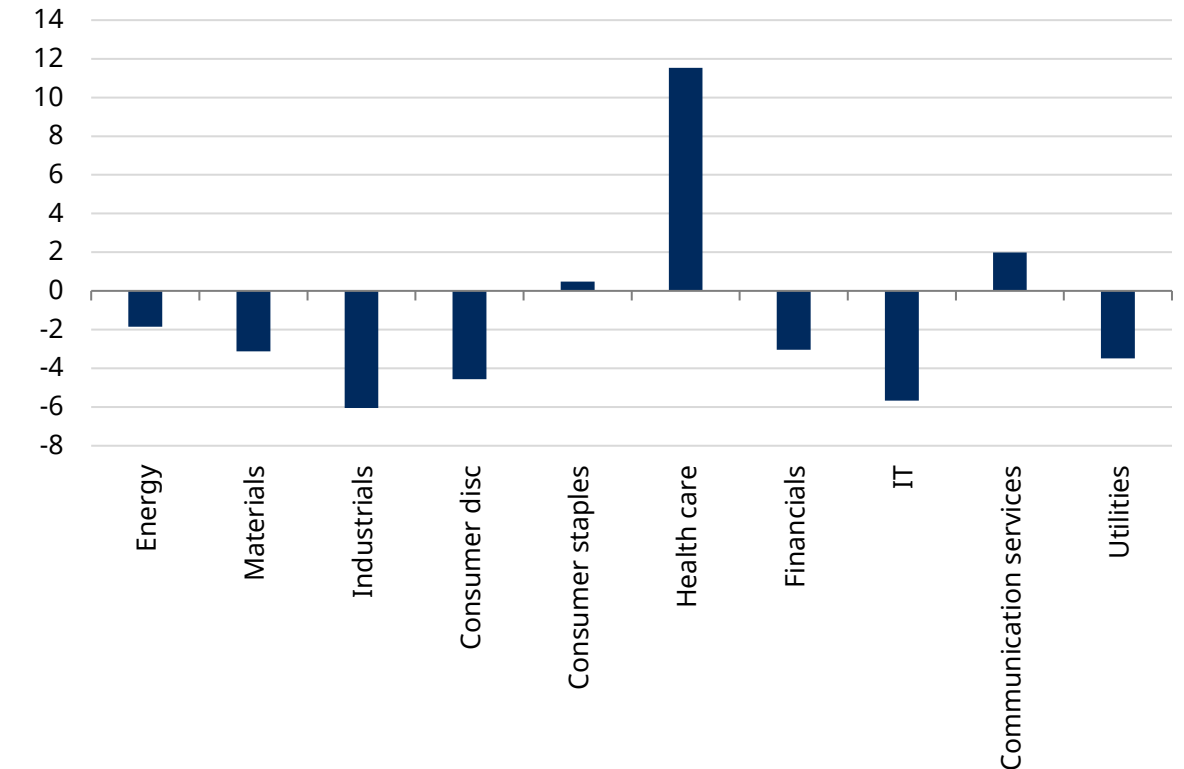
Emerging versus developed market valuations

EM equities are cheap compared to DM equities but less so on a sector neutral basis

EM minus DM 12-month forward P/E



EM minus DM 12-month forward P/Es of sectors



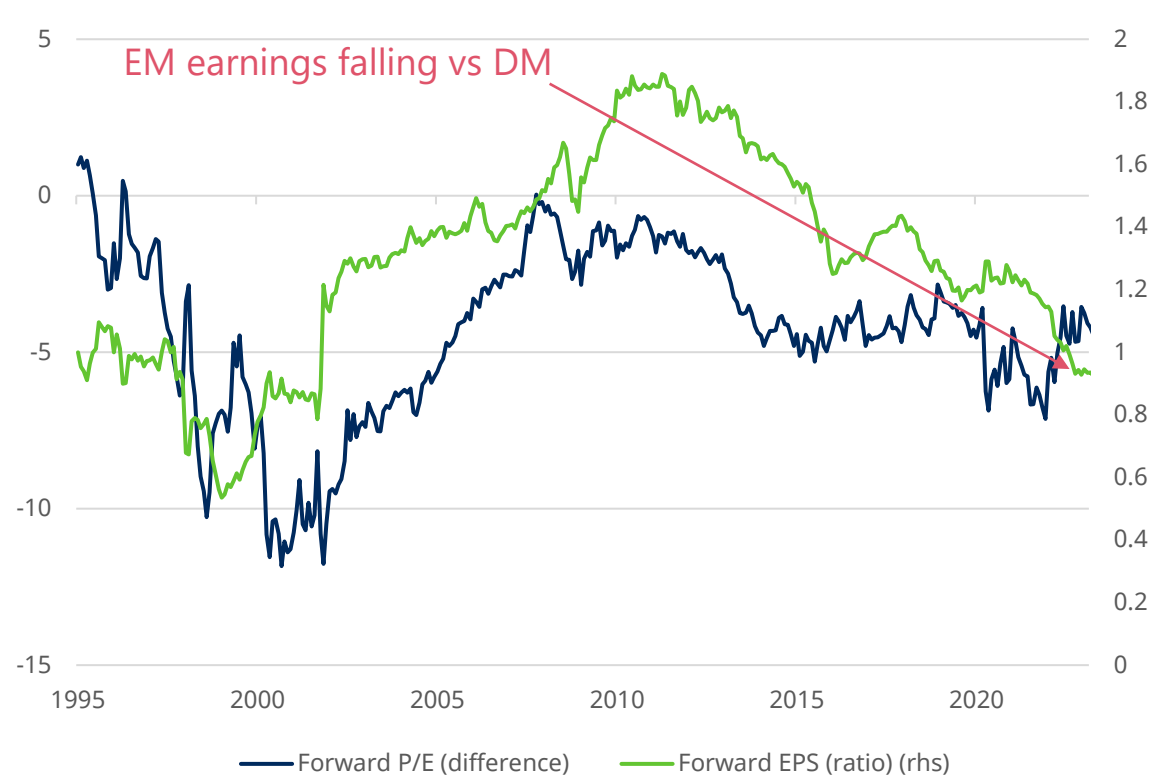
Health care, consumer staples, and communications services are the only sectors at a premium to DM

Source: Refinitiv Datastream, MSCI, IBES, Schroders Strategic Research Unit. Data as at 30 April 2023. Please see relevant disclaimers on page 37.

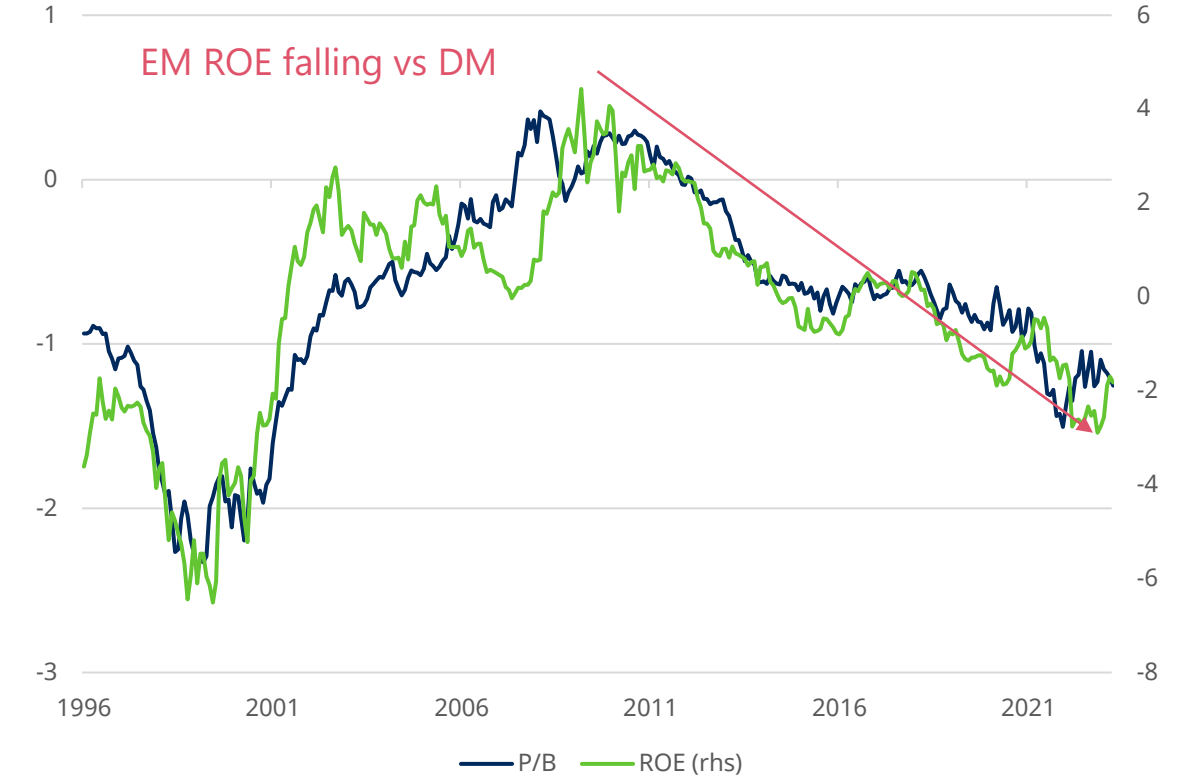
Drivers of EM/DM valuation gap

Better earnings and profitability needed to reduce EM discount to DM

EM minus DM 12-month forward P/E and EPS



EM minus DM P/B and ROE



The ROE gap to DM has narrowed slightly recently, due to falling DM ROE

Source: Refinitiv Datastream, MSCI, IBES, Schroders Strategic Research Unit. Data as at 30 April 2023. Please see relevant disclaimers on page 37.

Emerging markets index composition

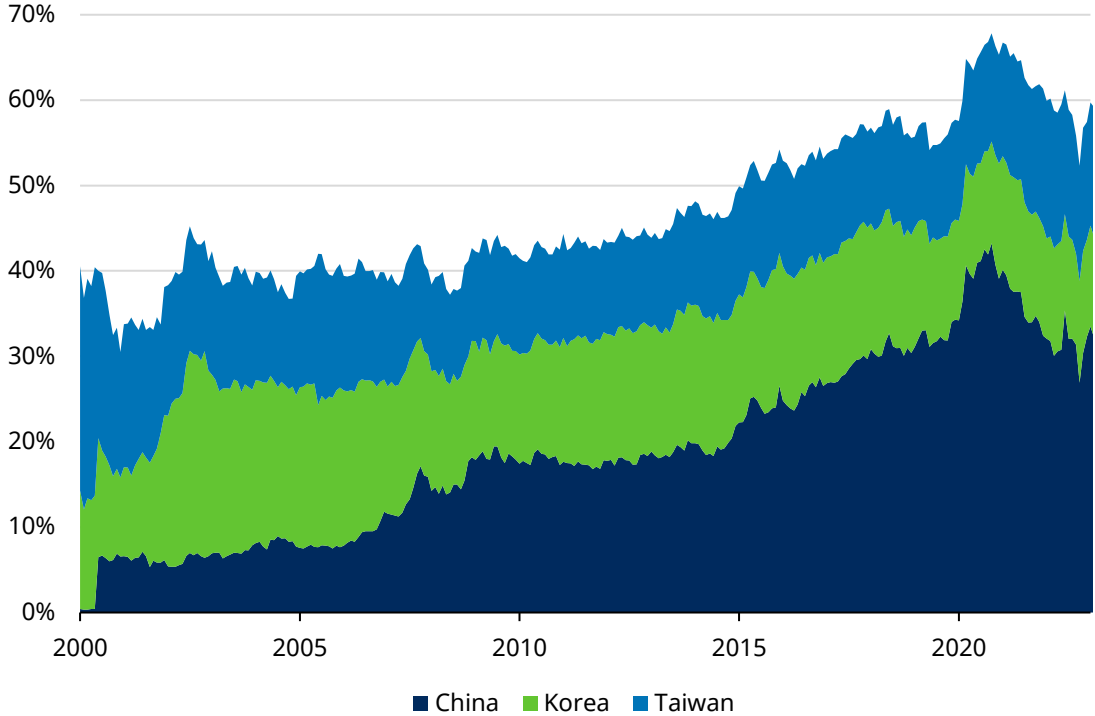
EM is dominated by Asia

The MSCI EM Index share of regions



■ Asia ■ EMEA ■ Latam

China, Korea and Taiwan are close to 60% of the EM index

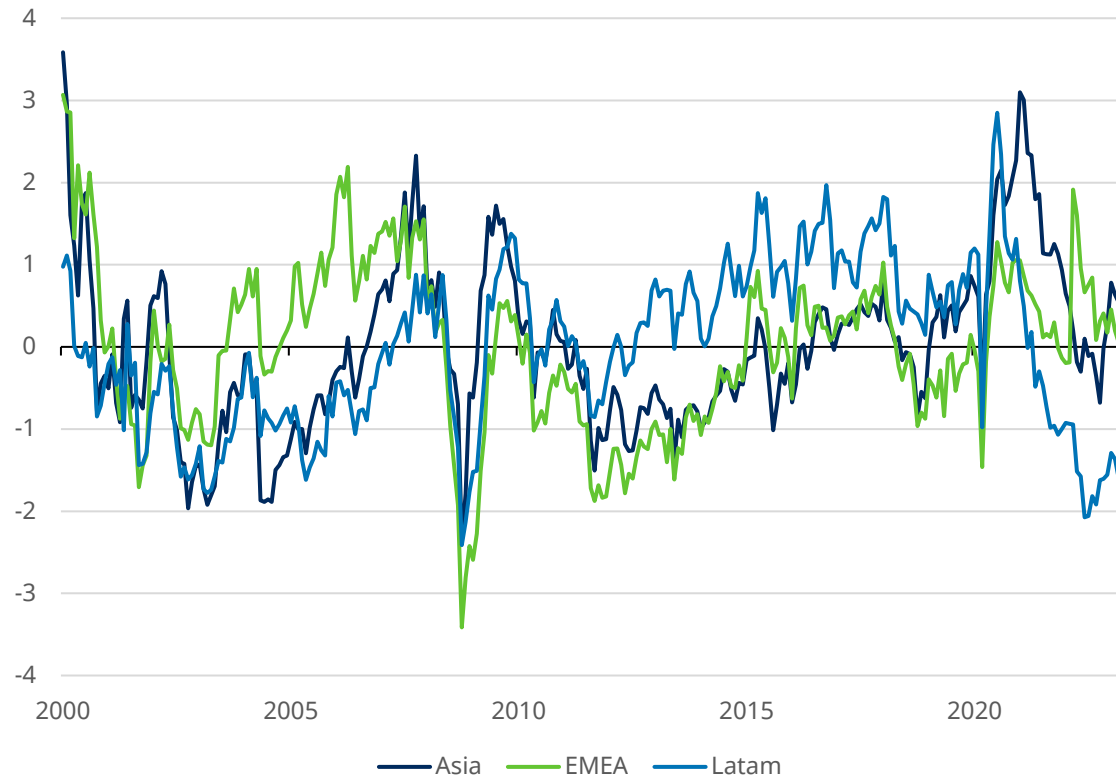


Three large North-east Asia markets have a big impact on aggregate EM valuations

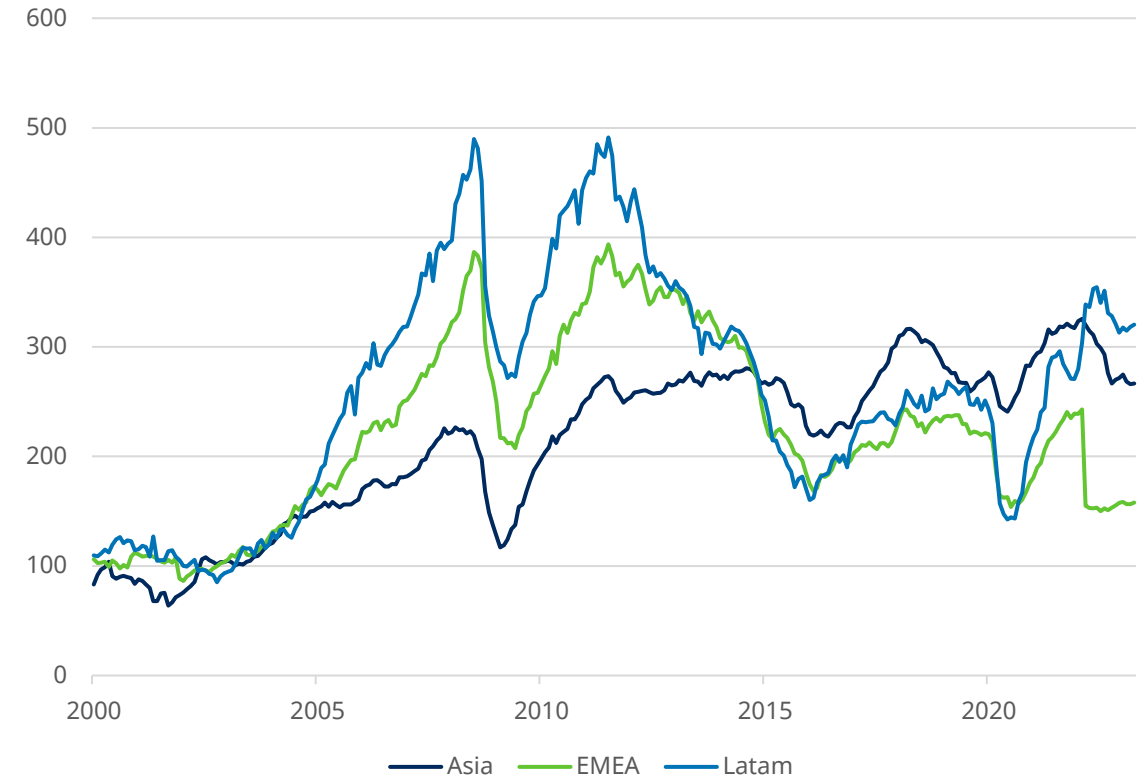
Source: Refinitiv Datastream, MSCI, Schroders Strategic Research Unit. Data as at 30 April 2023. Please see relevant disclaimers on page 37.

Valuations and earnings expectations in EM regions

Standardised 12-month forward P/E (z-score¹)



12-month forward EPS of EM regions



Latin America is the cheapest region. EMEA is close to the historical average, while Asia is slightly expensive

Source: Refinitiv Datastream, Schroders Strategic Research Unit, MSCI. Data as at 30 April 2023.

¹The z-score is a measure of how far valuations are from historical mean. Please see relevant disclaimers on page 37.

Regional valuation gap is affected by sector exposure

Asia is dominated by growth sectors; EMEA and Latin America by value sectors

The MSCI Emerging Markets Index



The MSCI EM Asia Index



The MSCI EM EMEA Index



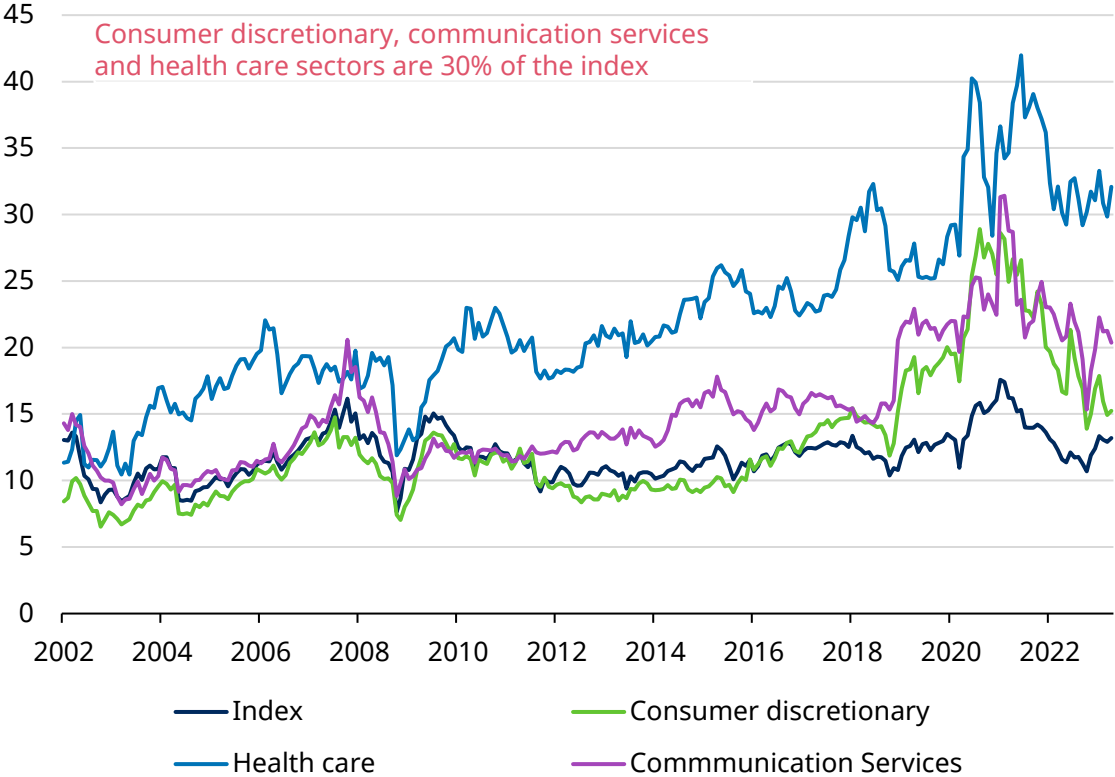
The MSCI EM Latin America Index



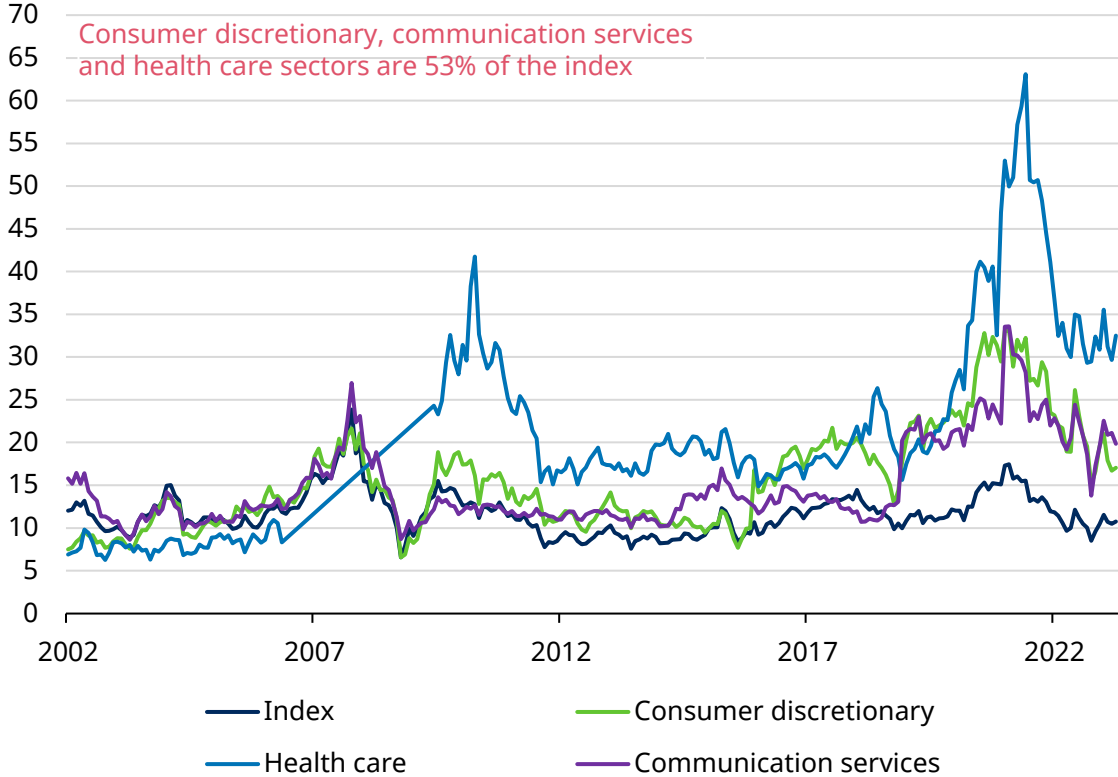
Source: Refinitiv Datastream, MSCI, Schroders Strategic Research Unit, Data as at 30 April 2023. **Value sectors:** energy, materials, industrials, financials, utilities, real estate. **Growth sectors:** consumer discretionary, consumer staples, health care, IT, communication services. Please see relevant disclaimers on page 37.

EM Asia forward P/E has been highly influenced by a few high-flying sectors

The MSCI EM Asia Index sector forward P/E ratios



The MSCI China Index sector forward P/E ratios

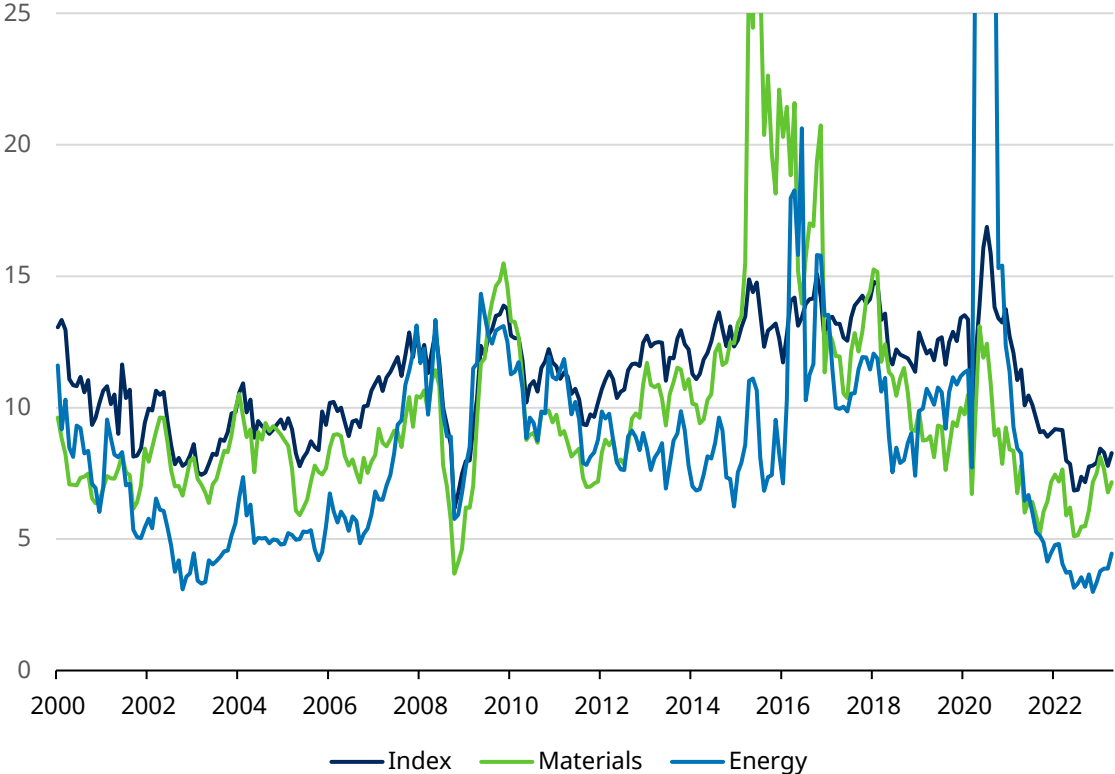


The falls in high P/E sectors in recent years has pushed valuations lower in China + broader EM Asia

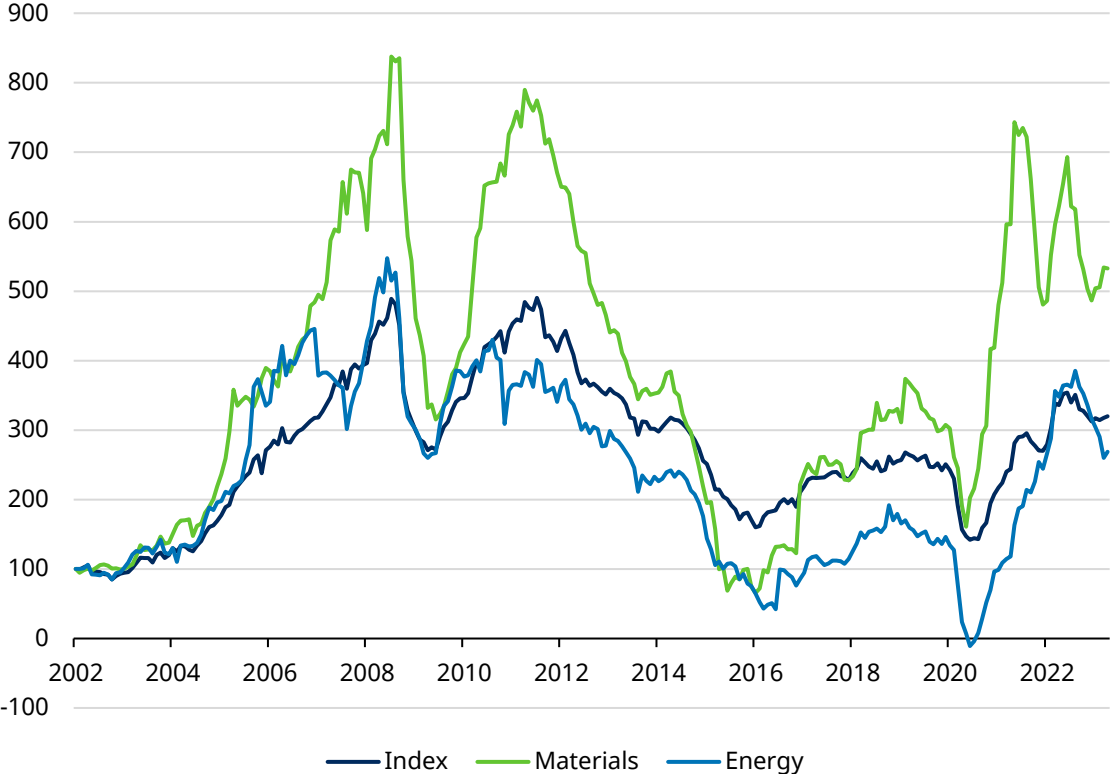
Source: Refinitiv Datastream, MSCI, Schroders Strategic Research Unit. Data as at 30 April 2023. Please see relevant disclaimers on page 37.

Valuations in Latin America have been highly influenced by commodity prices

The MSCI EM Latin America Index forward P/E ratios



The MSCI EM Latin America Index forward EPS



Earnings expectations in the Latin materials sector have started to pick up, but have deteriorated in energy

Source: Refinitiv Datastream, MSCI, IBES, Schroders Strategic Research Unit. Data as at 30 April 2023. Please see relevant disclaimers on page 37.

EM country-level valuations

How countries stack up when measured against their own history

On a combined valuation basis, EM markets are generally cheap versus history.

Asian market valuations are mixed:

- India is still the most expensive market in the EM index. Thailand and South Korea are slightly expensive.
- Malaysia is the cheapest market in EM Asia.
- Taiwan, China, the Philippines, and Indonesia are slightly cheap versus history.

The Latin American markets offer the most compelling valuations:

- Chile and Brazil are still the cheapest markets in EM, when measured against their own history.
- Colombia, Mexico, and Peru are also undervalued.

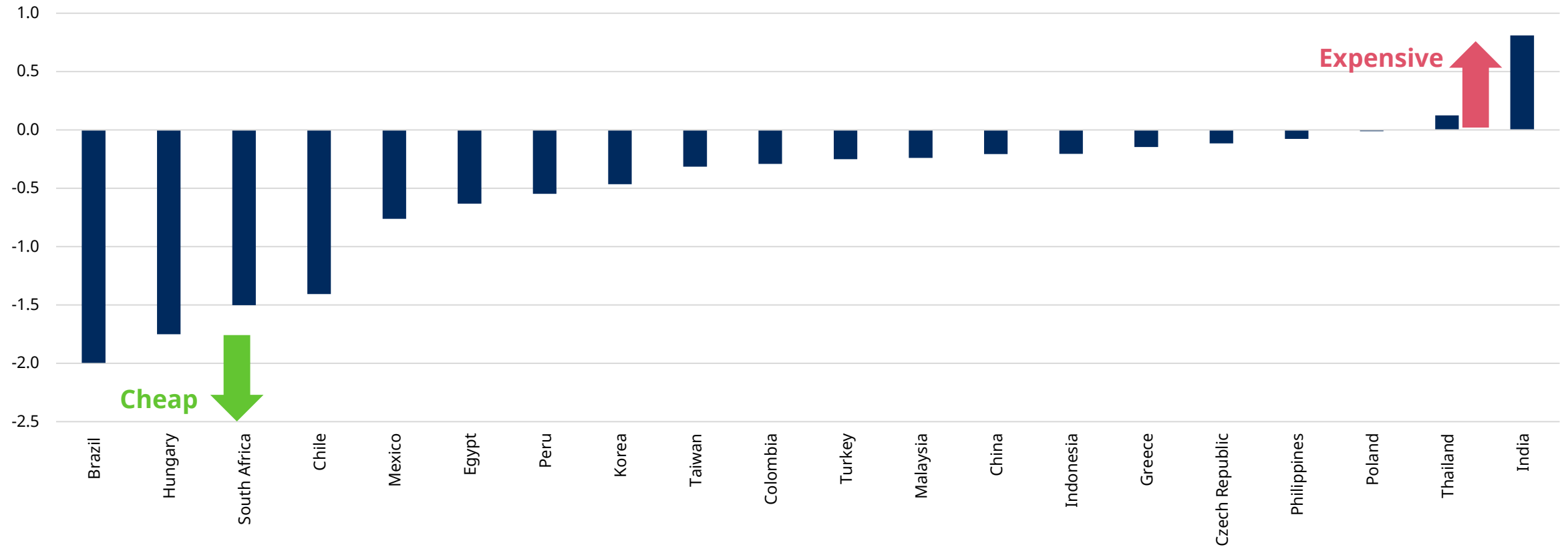
The EMEA markets are in general cheap:

- Hungary and South Africa are the cheapest in the region.
- Valuations in the Czech Republic are slightly expensive versus history.

Source: Schroders, Refinitiv Datastream, MSCI, IBES, Schroders Strategic Research Unit. Data as at 30 April 2023. Please see relevant disclaimers on page 37.

Standardised EM country valuations: trailing P/E

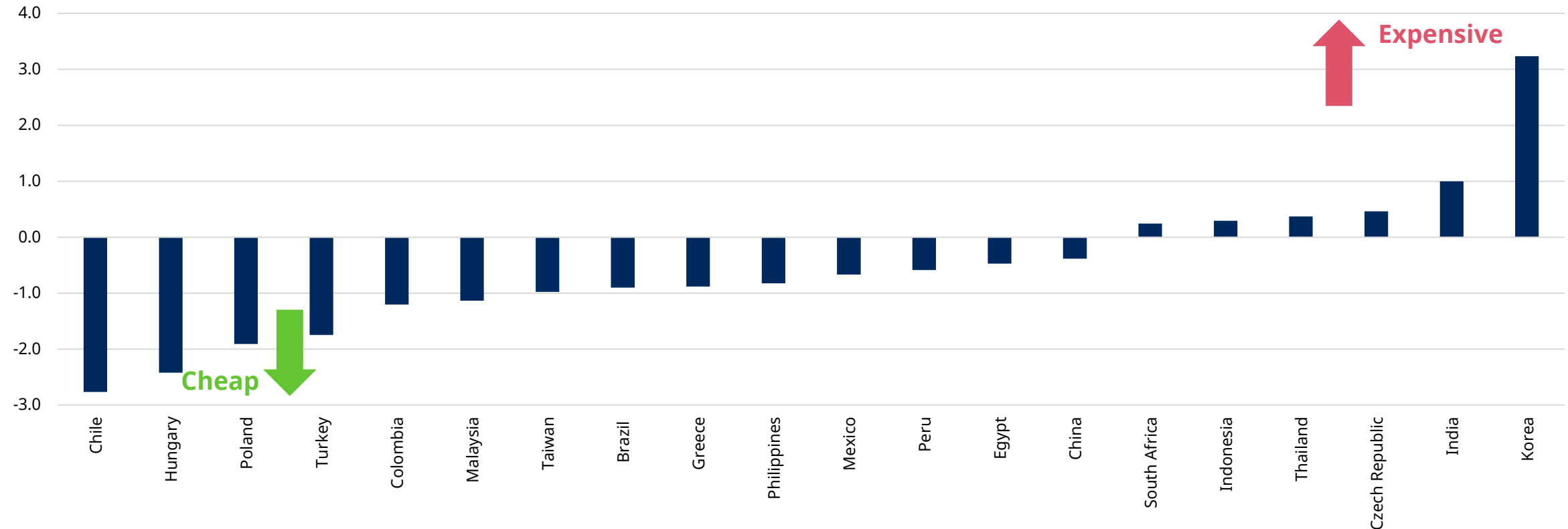
12-month trailing P/E (z-score¹)



Excludes UAE, Qatar, Saudi Arabia and Kuwait due to limited data history. ¹The z-score is a measure of how far valuations are from historical mean, calculated since January 2000. Source: Schroders, Refinitiv Datastream, MSCI, IBES, Schroders Strategic Research Unit. Data as at 30 April 2023. Please see relevant disclaimers on page 37.

Standardised EM country valuations: the forward P/E

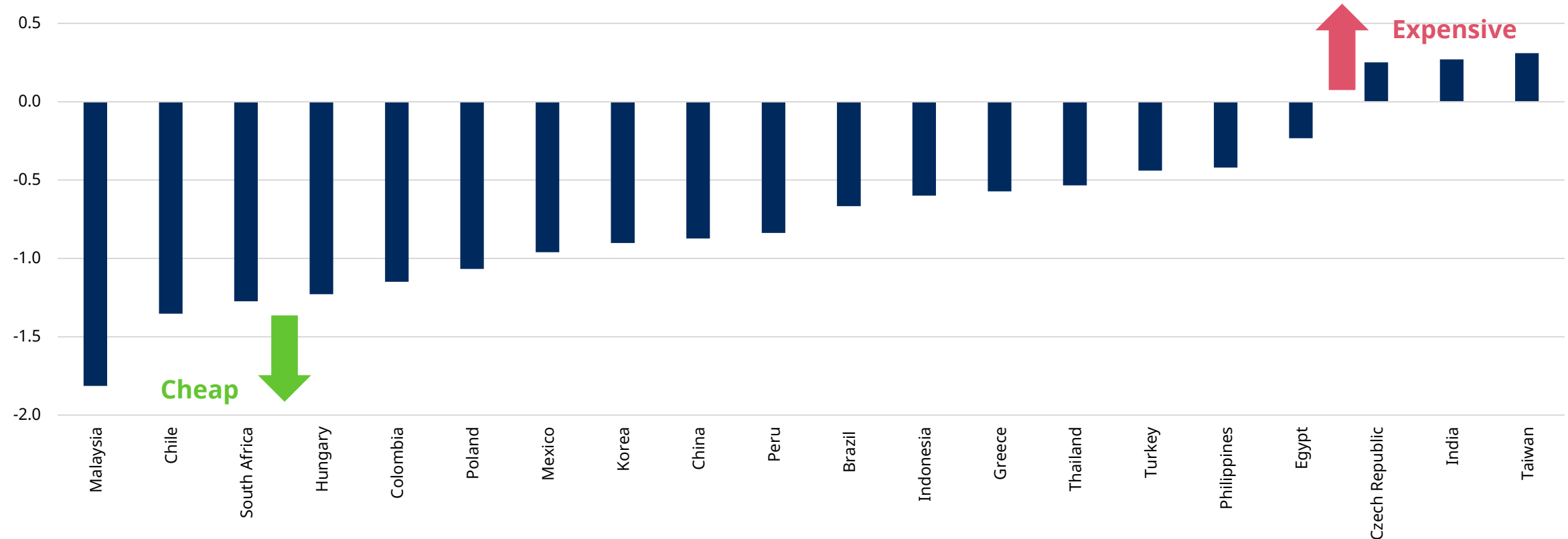
12-month forward P/E (z-score¹)



Excludes UAE, Qatar, Saudi Arabia and Kuwait due to limited data history. ¹The z-score is a measure of how far valuations are from historical mean, calculated since January 2000. Source: Schroders, Refinitiv Datastream, MSCI, IBES, Schroders Strategic Research Unit. Data as at 30 April 2023. Please see relevant disclaimers on page 37.

Standardised EM country valuations: the P/B ratio

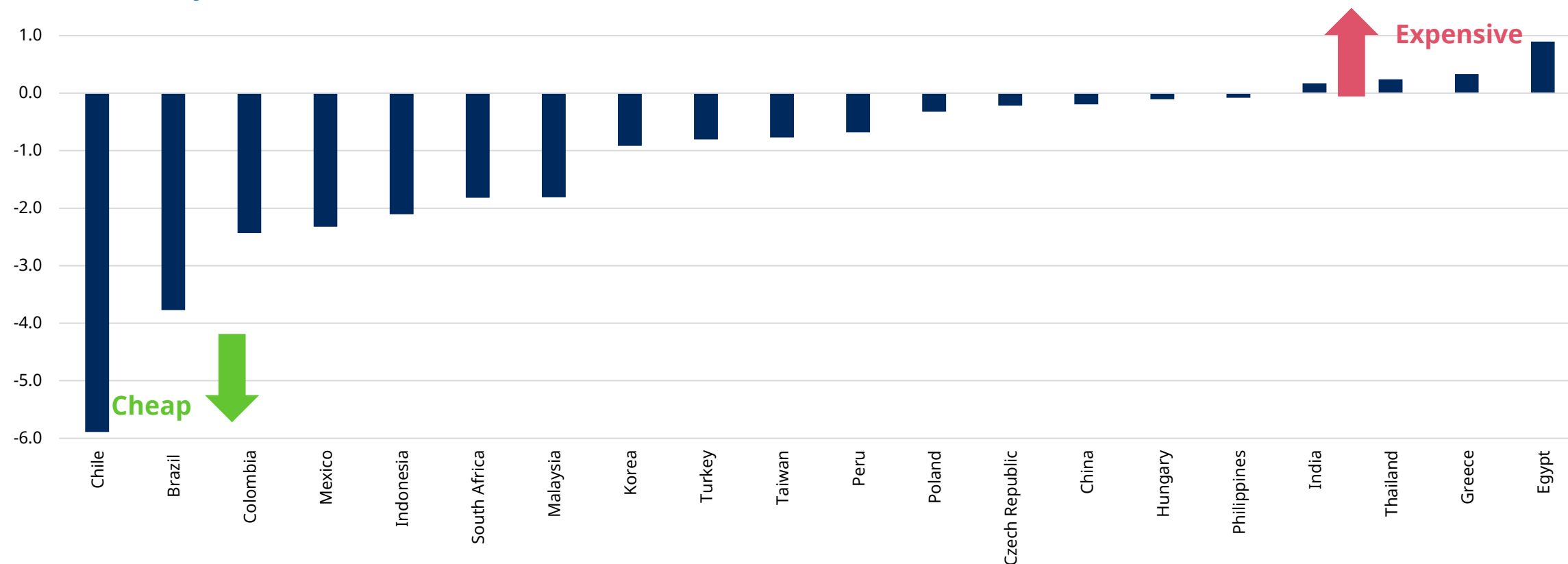
The P/B ratio (z-score ¹)



Excludes UAE, Qatar, Saudi Arabia and Kuwait due to limited data history. ¹The z-score is a measure of how far valuations are from historical mean, calculated since January 2000. Source: Schroders, Refinitiv Datastream, MSCI, IBES, Schroders Strategic Research Unit. Data as at 30 April 2023. Please see relevant disclaimers on page 37.

Standardised EM country valuations: the dividend yield

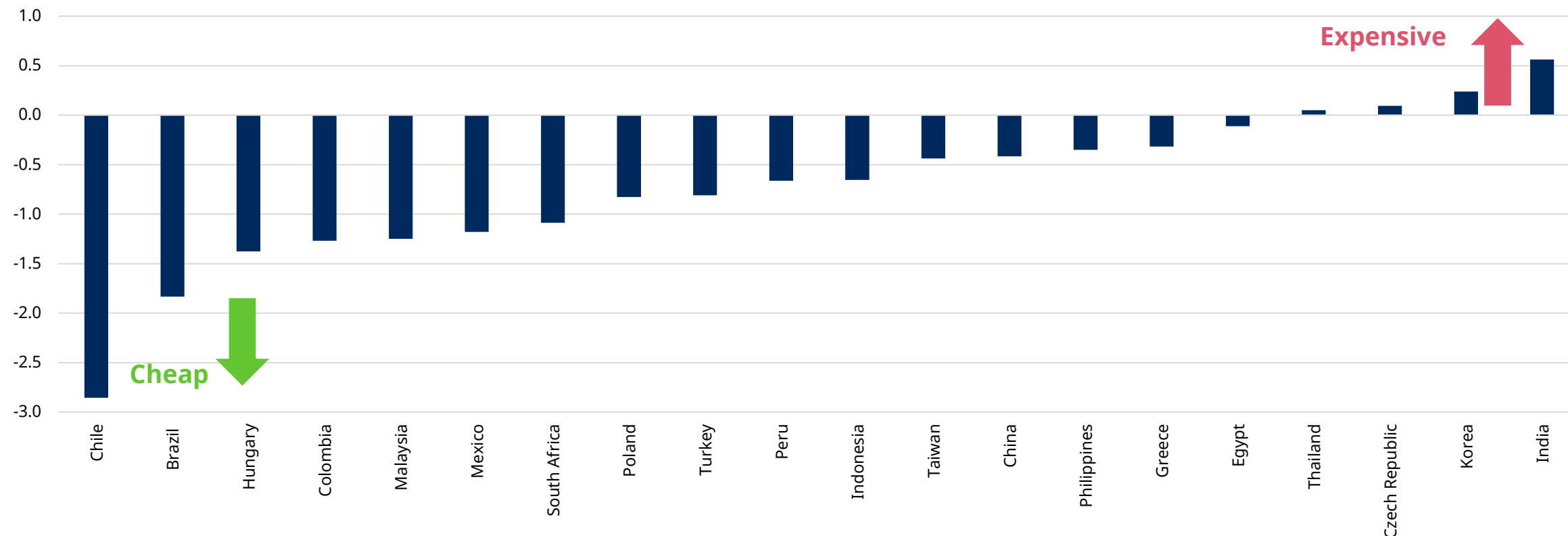
The dividend yield (z-score ¹)



Excludes UAE, Qatar, Saudi Arabia and Kuwait due to limited data history. ¹The z-score is a measure of how far valuations are from historical mean, calculated since January 2000. Source: Schroders, Refinitiv Datastream, MSCI, IBES, Schroders Strategic Research Unit. Data as at 30 April 2023. Please see relevant disclaimers on page 37.

Standardised EM country valuations: combined

Average (trailing P/E, P/E, P/B, dividend yield) (z-score ¹)



Excludes UAE, Qatar, Saudi Arabia and Kuwait due to limited data history. ¹The z-score is a measure of how far valuations are from historical mean, calculated since January 2000. Source: Schroders, Refinitiv Datastream, MSCI, IBES, Schroders Strategic Research Unit. Data as at 30 April 2023. Please see relevant disclaimers on page 37.

EM valuation heatmaps - current z-scores¹

Most of EM is cheap but the degree varies

	Trailing P/E	12-month fwd P/E	P/B	Dividend Yield	Combined
Chile	-1.4	-2.8	-1.4	-5.9	-2.9
Brazil	-2.0	-0.9	-0.7	-3.8	-1.8
Hungary	-1.8	-2.4	-1.2	-0.1	-1.4
Colombia	-0.3	-1.2	-1.1	-2.4	-1.3
Malaysia	-0.2	-1.1	-1.8	-1.8	-1.2
Mexico	-0.8	-0.7	-1.0	-2.3	-1.2
South Africa	-1.5	0.2	-1.3	-1.8	-1.1
Poland	0.0	-1.9	-1.1	-0.3	-0.8
Turkey	-0.3	-1.7	-0.4	-0.8	-0.8
Peru	-0.5	-0.6	-0.8	-0.7	-0.7
Indonesia	-0.2	0.3	-0.6	-2.1	-0.7
Taiwan	-0.3	-1.0	0.3	-0.8	-0.4
China	-0.2	-0.4	-0.9	-0.2	-0.4
Philippines	-0.1	-0.8	-0.4	-0.1	-0.4
Greece	-0.1	-0.9	-0.6	0.3	-0.3
Egypt	-0.6	-0.5	-0.2	0.9	-0.1
Thailand	0.1	0.4	-0.5	0.2	0.1
Czech Republic	-0.1	0.5	0.3	-0.2	0.1
Korea	-0.5	3.2	-0.9	-0.9	0.2
India	0.8	1.0	0.3	0.2	0.6

¹The z-score is a measure of how far valuations are from historical mean, calculated since January 2000.

Excludes UAE, Qatar, Saudi Arabia and Kuwait due to limited data history. Combined figure is an average of trailing P/E, 12-month forward P/E, P/B, and dividend yield.

Source: Schroders, Refinitiv Datastream, MSCI, IBES, Schroders Strategic Research Unit. Data as at 30 April 2023. Please see relevant disclaimers on page 37.

EM valuation heatmaps – % cheap vs median

Most of EM is cheap but the degree varies

	Trailing P/E	12-month fwd P/E	P/B	Dividend Yield	Combined
Chile	-75%	-45%	-29%	-73%	-55%
Colombia	-67%	-49%	-36%	-62%	-54%
Hungary	-56%	-49%	-51%	-12%	-42%
Brazil	-60%	-24%	-7%	-71%	-41%
Turkey	-64%	-48%	-25%	-25%	-41%
Poland	-42%	-38%	-28%	-29%	-34%
Greece	-49%	-28%	-45%	10%	-28%
South Africa	-33%	-18%	-25%	-29%	-26%
Peru	-26%	-15%	-28%	-33%	-26%
Mexico	-10%	-8%	-13%	-51%	-21%
Malaysia	-7%	-13%	-26%	-31%	-19%
Indonesia	-16%	-2%	-11%	-45%	-19%
Taiwan	-30%	3%	8%	-28%	-12%
Philippines	4%	-14%	-14%	-16%	-10%
China	1%	-6%	-19%	-6%	-8%
Czech Republic	-39%	10%	30%	-1%	0%
Korea	-9%	54%	-15%	-23%	2%
Egypt	-22%	-11%	-2%	76%	10%
Thailand	37%	29%	-9%	4%	15%
India	27%	28%	13%	5%	18%

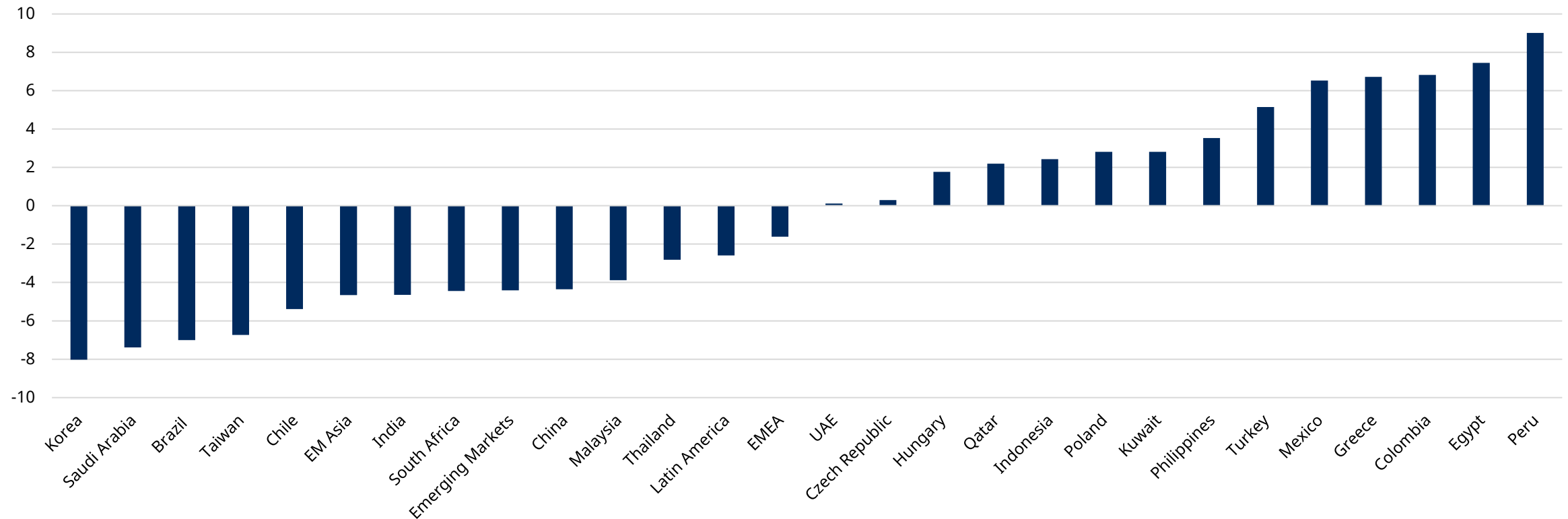
Excludes UAE, Qatar, Saudi Arabia and Kuwait due to limited data history.

Discount to historical median (since Jan 1995 or earliest available). Combined figure is an average of trailing P/E, 12-month forward P/E, P/B, and dividend yield.

Source: Schroders, Refinitiv Datastream, MSCI, IBES, Schroders Strategic Research Unit. Data as at 30 April 2023. Please see relevant disclaimers on page 37.

EM earnings revisions

Earnings revisions¹ (%) (3-month average)

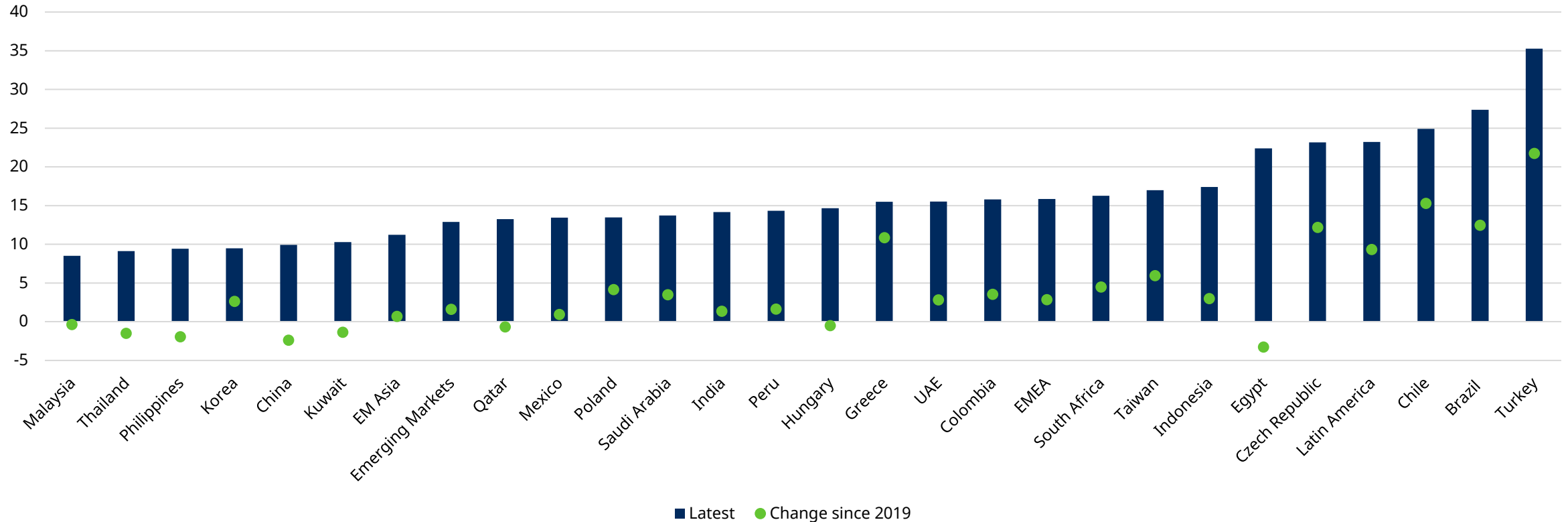


¹Calculated as the number earnings upgrades minus the number of earnings downgrades divided by the total numbers of earnings updates.
 Source: Refinitiv Datastream, IBES, Schroders Strategic Research Unit. Data as at 30 April 2023. Please see relevant disclaimers on page 37.

EM return on equity

Profitability has improved in most markets versus pre-Covid levels

Return on equity (%)



Source: Schroders, MSCI, Schroders Strategic Research Unit. Data as at 30 April 2023. Please see relevant disclaimers on page 37.

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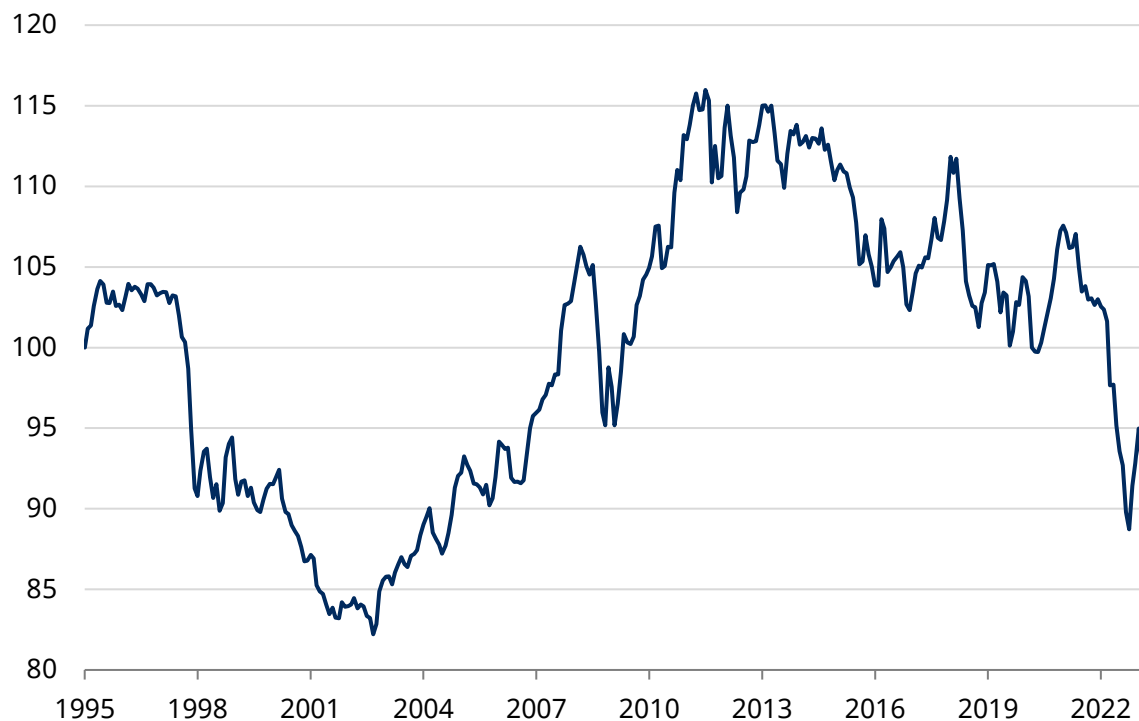


EM currency valuations

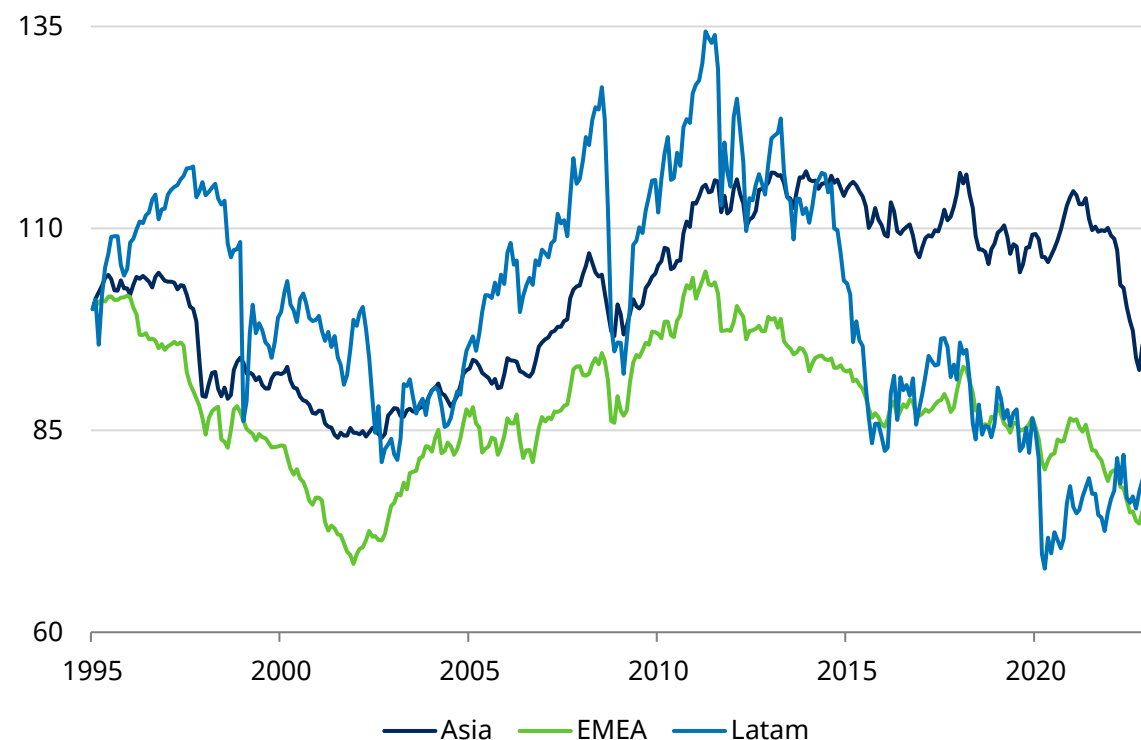
Is there value in EM currencies?

EM currencies have depreciated in real terms since 2011

EM real exchange rate¹



EM real exchange rates of regions¹



There are significant differences between regions; EMEA and Latin America currencies are cheapest

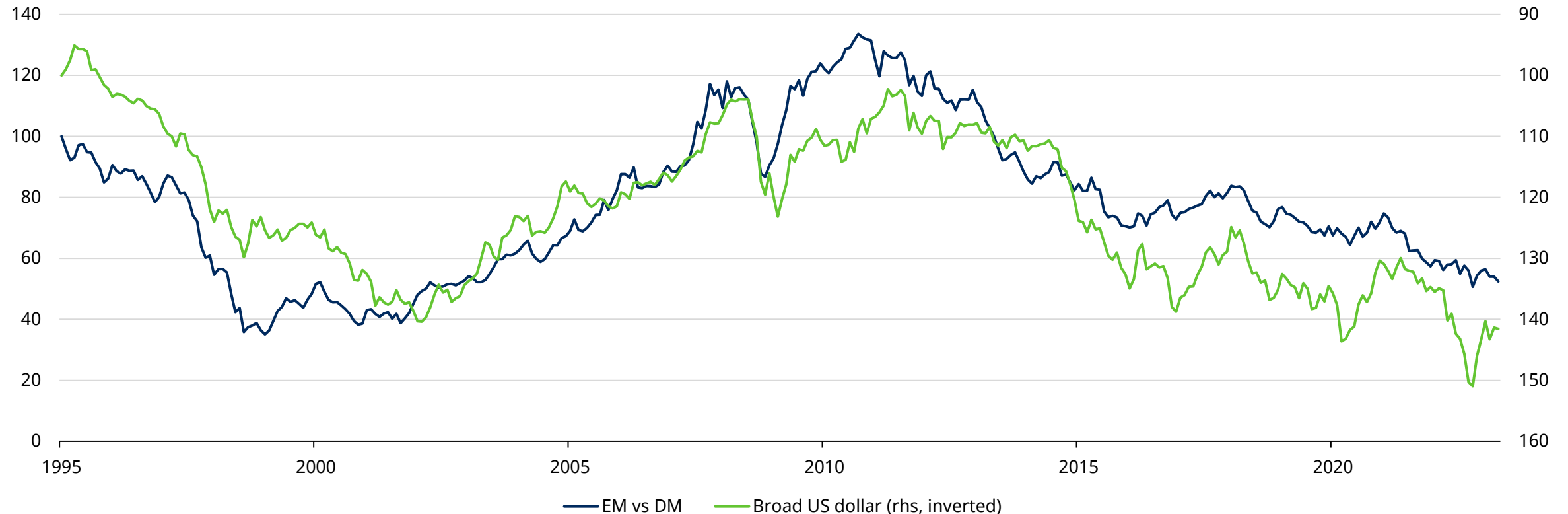
Real exchange rate is the nominal dollar exchange rate deflated by the CPI of each EM country vs. US. ¹Based on the latest MSCI EM Index country weights.

Source: Refinitiv Datastream, MSCI, Schroders Strategic Research Unit. Data as at 30 April 2023. Please see relevant disclaimers on page 37.

The importance of the US dollar for EM equity performance

The long period of dollar strength has weighed on EM, but has the tide begun to turn?

EM vs DM equities (total return, rebased to 100) vs broad US dollar



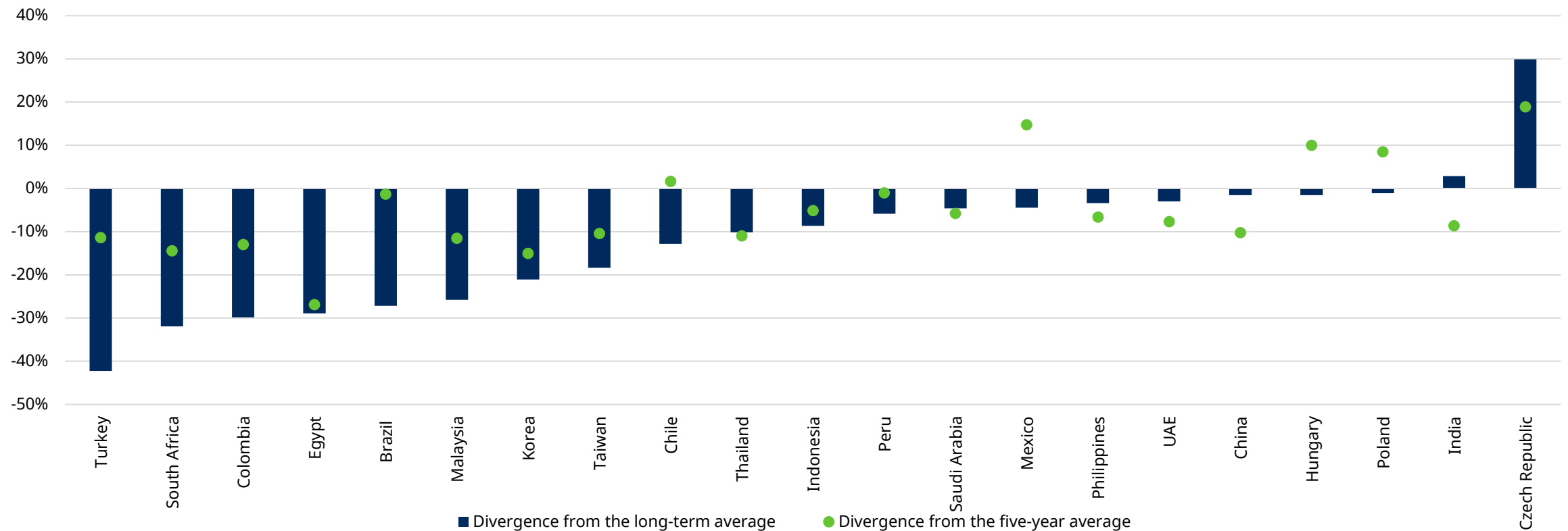
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Source: Refinitiv Datastream, MSCI, Schroders Strategic Research Unit. Data as at 30 April 2023. Please see relevant disclaimers on page 37.

The value in EM currencies varies considerably

Some currencies are significantly undervalued

Real exchange rate: deviation from average



Turkey, South Africa, and Colombia have the cheapest currencies; Czech Republic and India have a real exchange rate above the long-term average

Real exchange rate is the nominal dollar exchange rate deflated by the CPI of each EM country vs. US Long-term average is since January 1995.
Source: Schroders, Refinitiv Datastream, Schroders Strategic Research Unit. Data as at 30 April 2023. Please see relevant disclaimers on page 37.

Relevant Disclosures

- **All investments involve risk including the loss of principal.** The information presented is current as of the date of this publication.
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