



Schroders Emerging Markets Lens: Equity

Strategic Research Unit

February 2024

Marketing material for professional
investors only.

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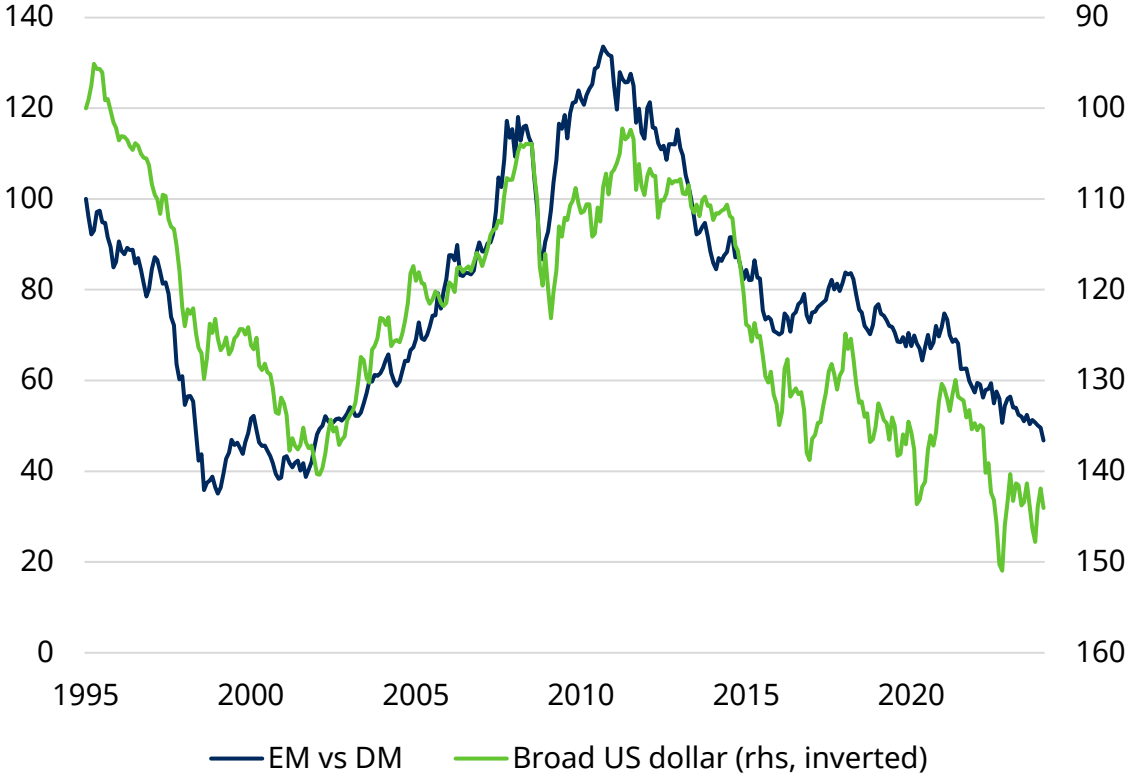
Summary

- It was a tough start to 2024 for emerging market (EM) equities, which fell 5% in January and underperformed developed markets (+1%). Weakness in China (-11%) was a notable drag, while renewed US dollar strength also weighed on EM more broadly (slide 10).
- India was the only large index market to generate a positive return in January. Strong performance and the inclusion of additional index companies in recent years has led India to become the second largest market in the MSCI EM; and it is closing the gap on China (slide 5).
- EM equity valuations are marginally cheap versus the historical median on 12-month forward price-earnings (P/E) and price-book (P/B) measures, and outright cheap on dividend yield (slides 15, 20 and 22).
- EM is cheap versus developed markets (DM). On a 12m forward P/E basis, the discount is close to the largest seen over the last 20 years (slide 25).
- On a standardised composite valuation measure most EM markets ex India are cheap versus their own history (slide 37).
- 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 (slides 43 and 44).

Note: EMEA is Europe, the Middle East and Africa.
Source: MSCI, LSEG Datastream.
Please see relevant disclaimers on page 45.

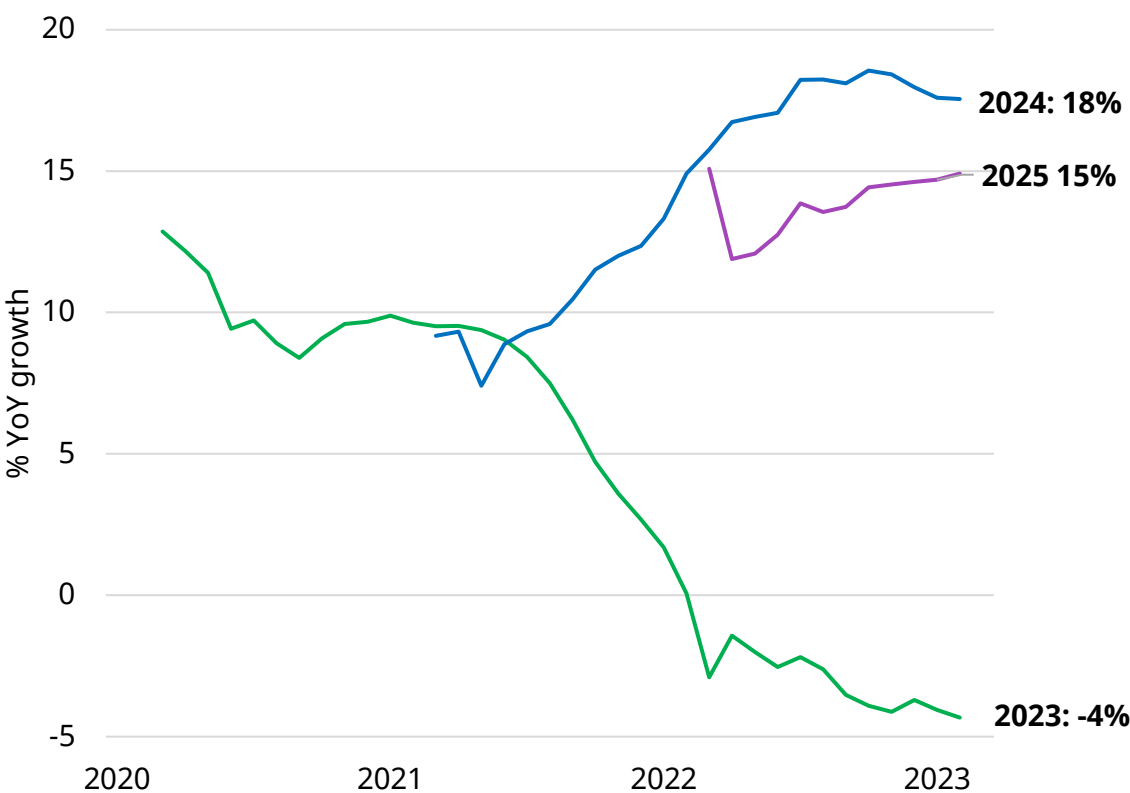
What to watch: EM earnings and the path of the US dollar

When will dollar strength dissipate?



The dollar has been stronger YTD

2023/24/25 consensus earnings growth expectations



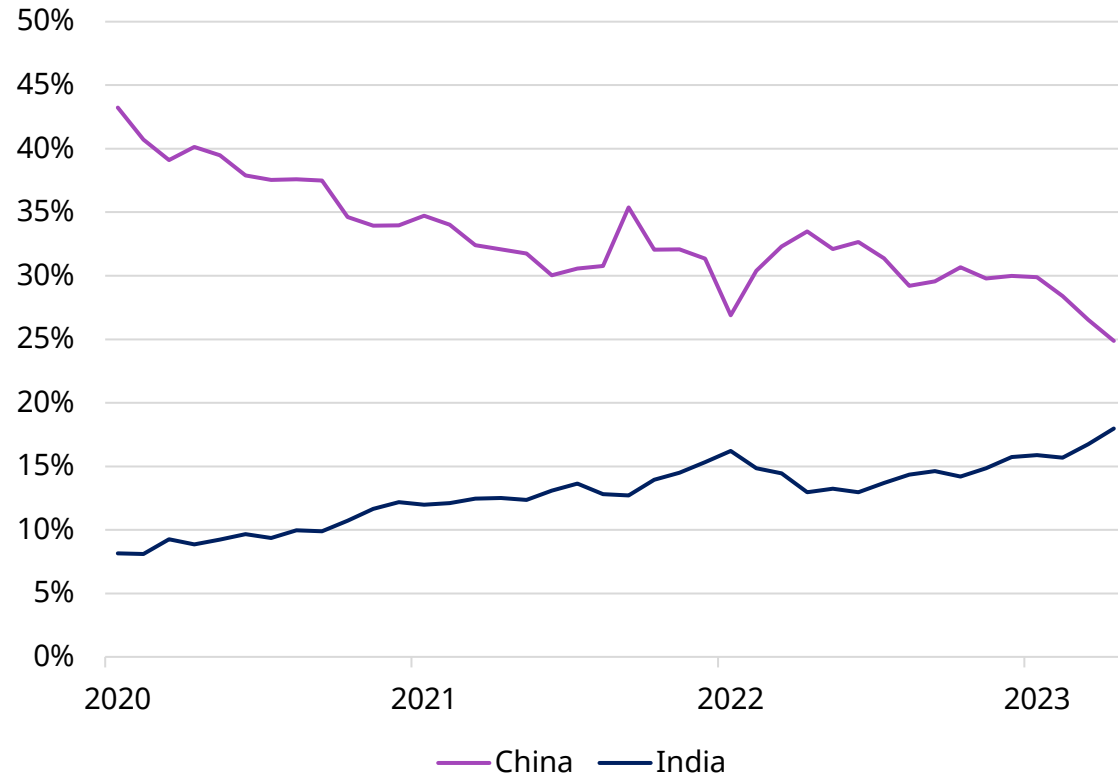
After a weak 2023, the earnings growth outlook is brighter for 2024 and 2025

Source: LSEG Datastream, MSCI, IBES, Schroders Strategic Research Unit, as at 31 January 2024. All returns and growth rates shown in USD terms. Please see relevant disclaimers on page 45. **Past performance is not a guide to future performance and may not be repeated.**

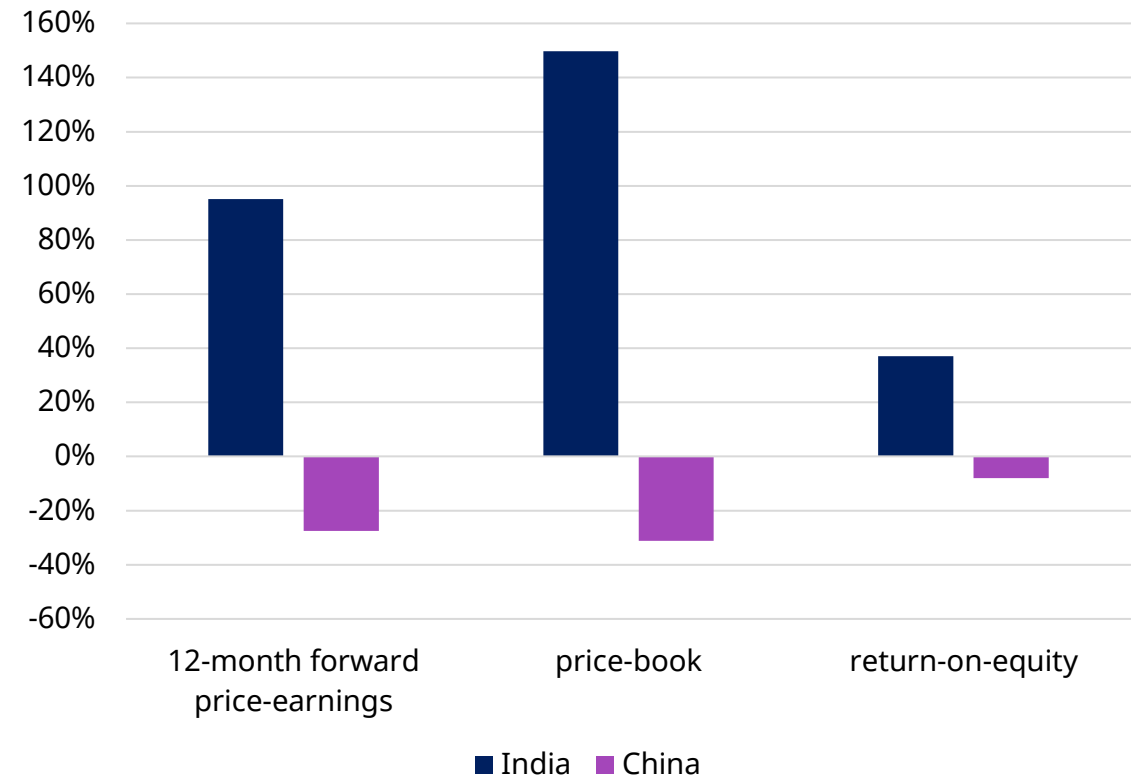
What to watch: China and India account for 43% of EM

India trades on a significant valuation premium to EM; while China is cheap

India and China index weights converging?



Premium/discount versus MSCI EM



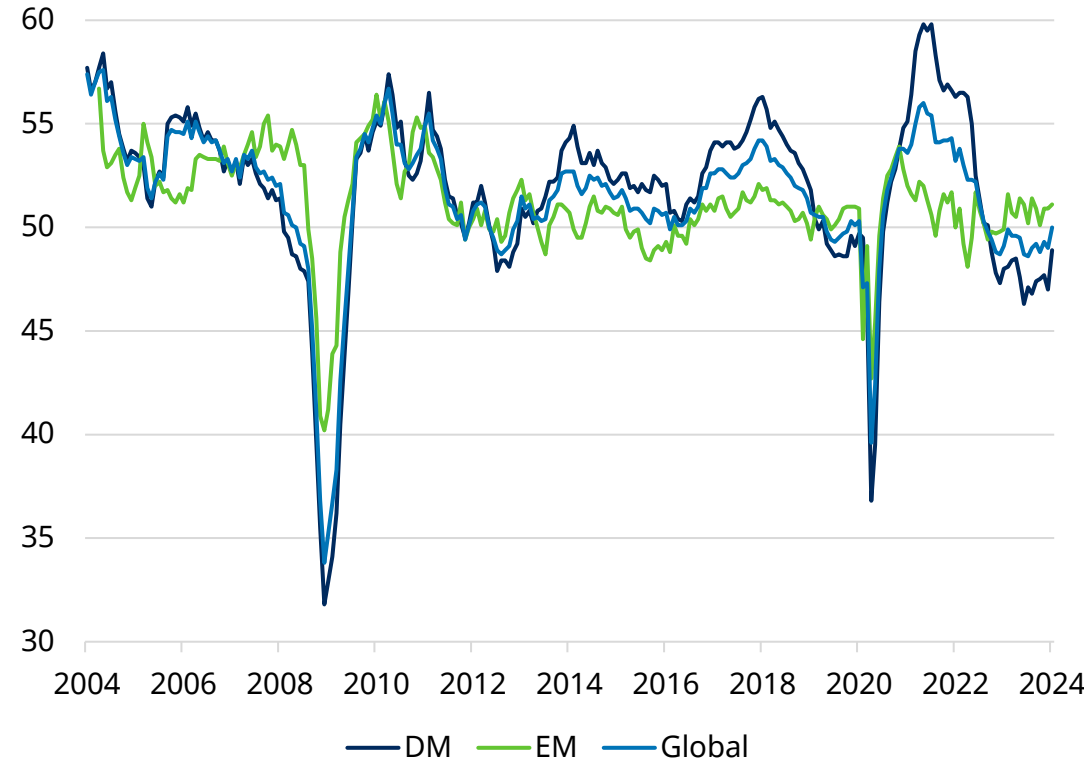
China's index weight peaked in 2020; India's index weight has since doubled

Source: LSEG Datastream, MSCI, IBES, Schrodgers Strategic Research Unit, as at 31 January 2024. Please see relevant disclaimers on page 45.
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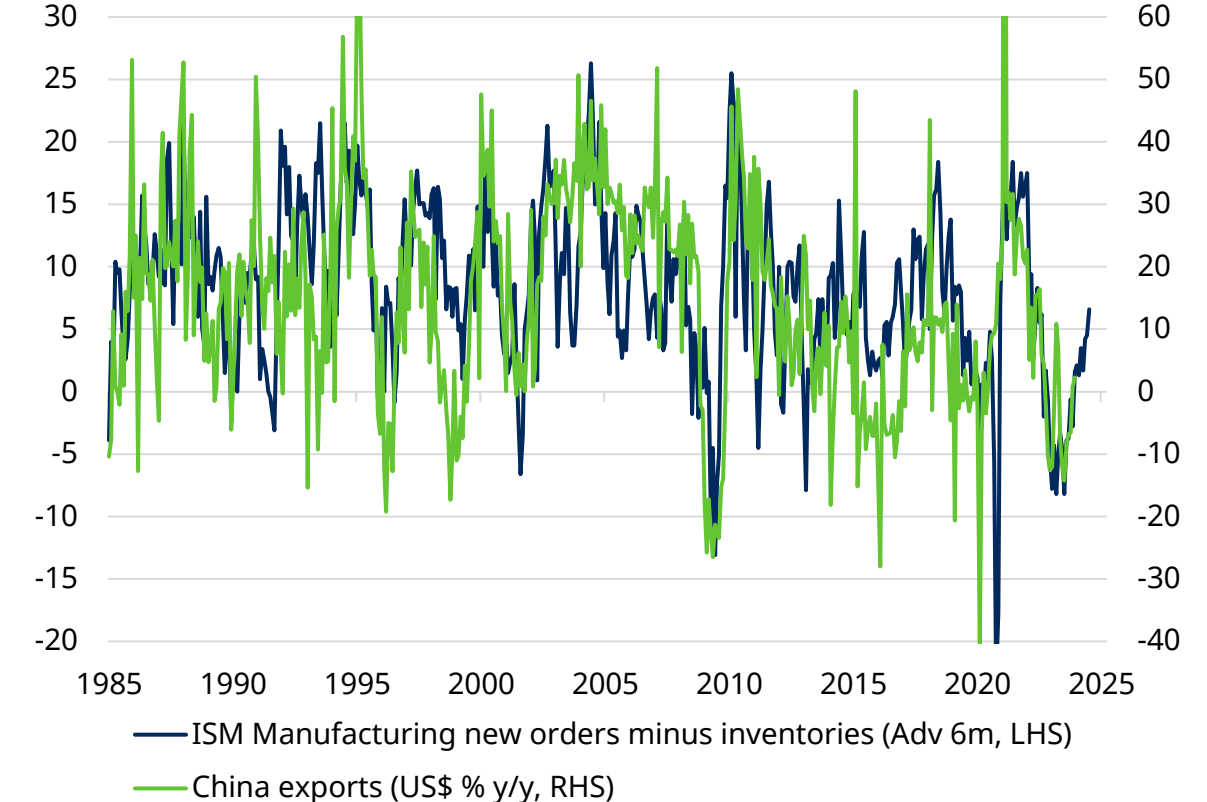
What to watch: Global goods cycle

Improved global manufacturing survey data augurs well for EM exports...

Global PMI data*



Leading indicators point to pick up in China exports



A theme we discussed last year: [Is the global goods cycle about to turn?](#)

*A reading below 50 indicates contraction, while above 50 signals expansion. Source: LSEG Datastream, Schroders Strategic Research Unit, as at 31 January 2024. Please see relevant disclaimers on page 45.
Past performance is not a guide to future performance and may not be repeated.

What to watch: Geopolitical risk

Geopolitical risks to monitor in 2024

- US-China geopolitical tensions
- Middle East conflict
- Russia invasion of Ukraine
- National elections in EM markets which account for over 50% of the MSCI Emerging Markets Index weight.

| | Elections in 2024* |
|----|---|
| Q1 | 14 February: Indonesia presidential and legislative elections |
| Q2 | 10 April: South Korea legislative elections April-May: India general elections May-Aug: South Africa general elections 2 June: Mexico Presidential, congressional and gubernatorial elections 26 June: Final round Indonesia presidential election (if required) |
| Q3 | |
| Q4 | 5 November: US presidential election |

There are a series of EM elections this year; the US election is also key

*Dates for elections only shown where confirmed. Taiwan elections held on 13 January 2024: DPP candidate won presidential election, but DPP lost parliamentary majority. Source: MSCI, Schroders Strategic Research Unit, as at 31 January 2024. All returns and growth rates shown in USD terms. Please see relevant disclaimers on page 45.

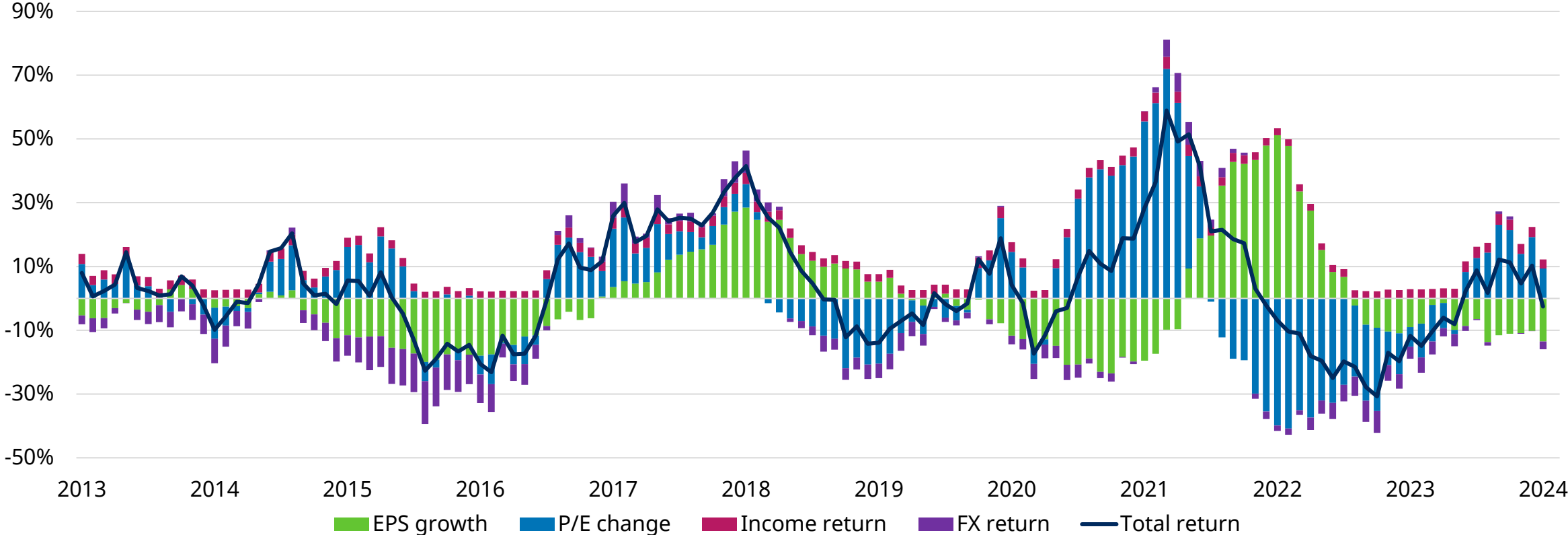


Emerging market equity performance

Negative EPS growth has dragged on 12-month EM return

...despite support from re-rating

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



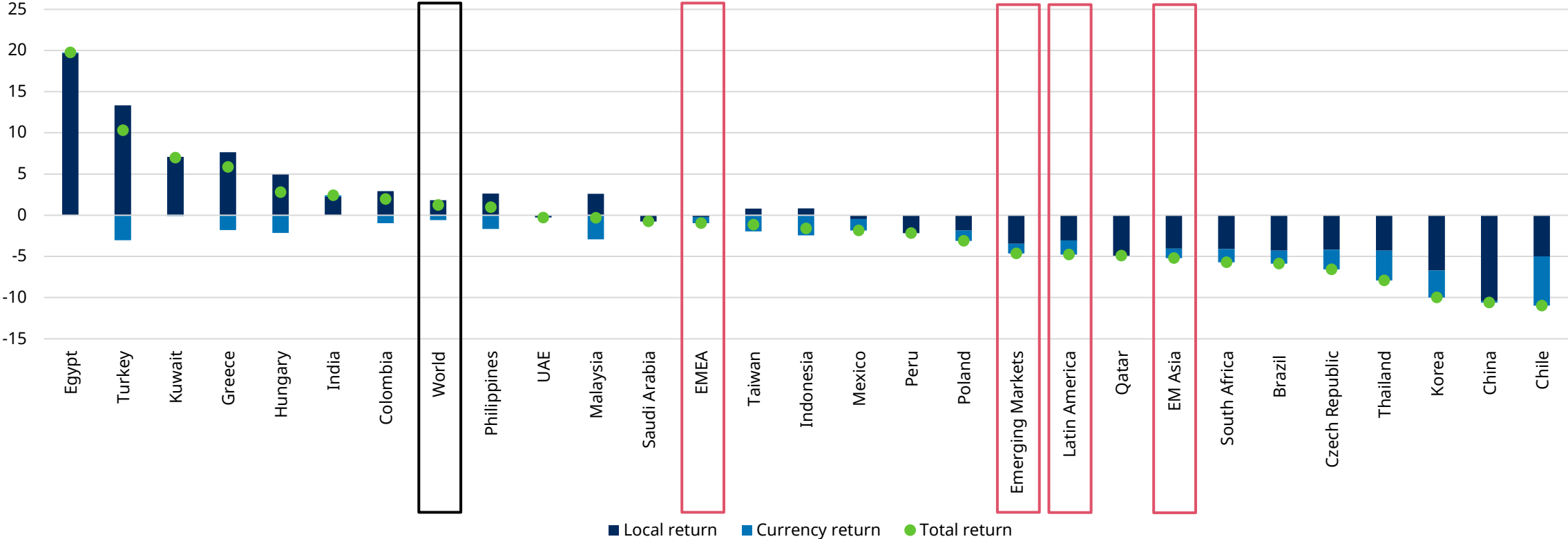
Return drivers vary over time

Past performance is not a guide to future performance and may not be repeated. Source: Schroders, LSEG Datastream, MSCI, Schroders Strategic Research Unit. Data as at 31 January 2024. Please see relevant disclaimers on page 45.

EMEA leads while EM Asia lags YTD

...but all EM regions behind DM

YTD returns in EM equity markets, US dollar terms



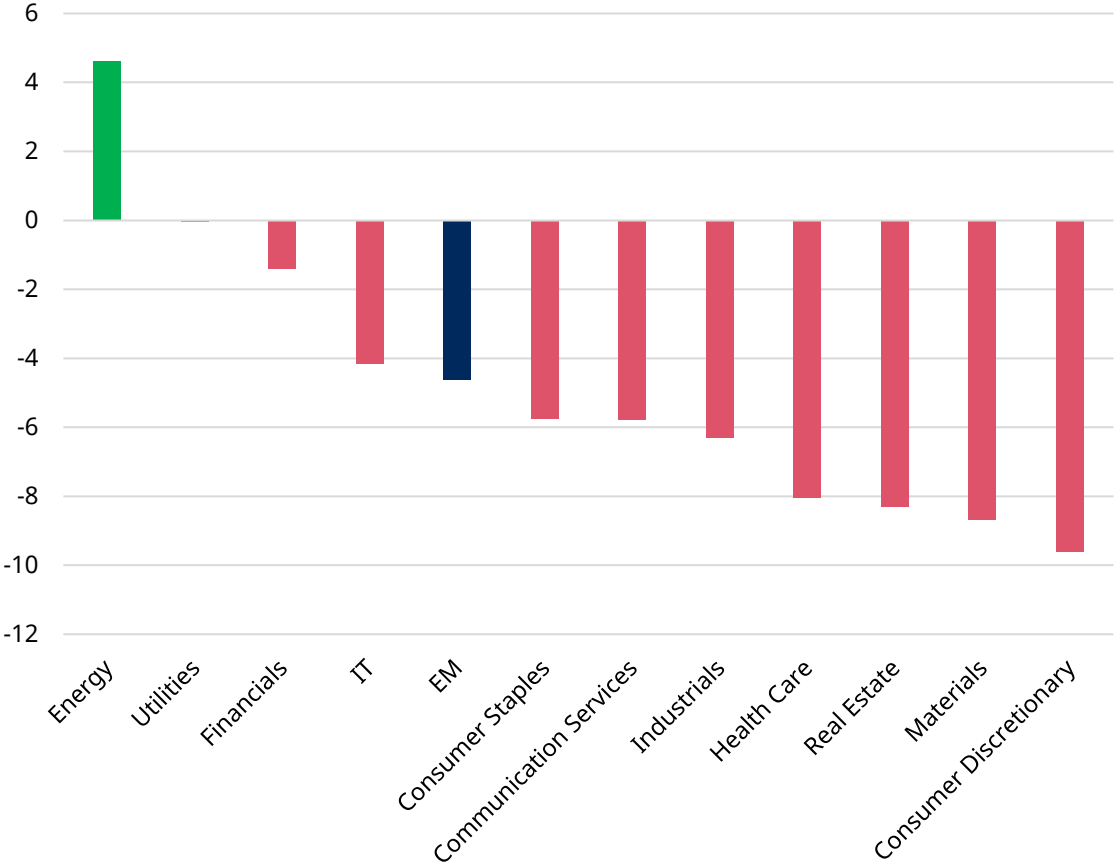
Past performance is not a guide to future performance and may not be repeated.

Note: EMEA is Europe, the Middle East and Africa. World is developed market only.

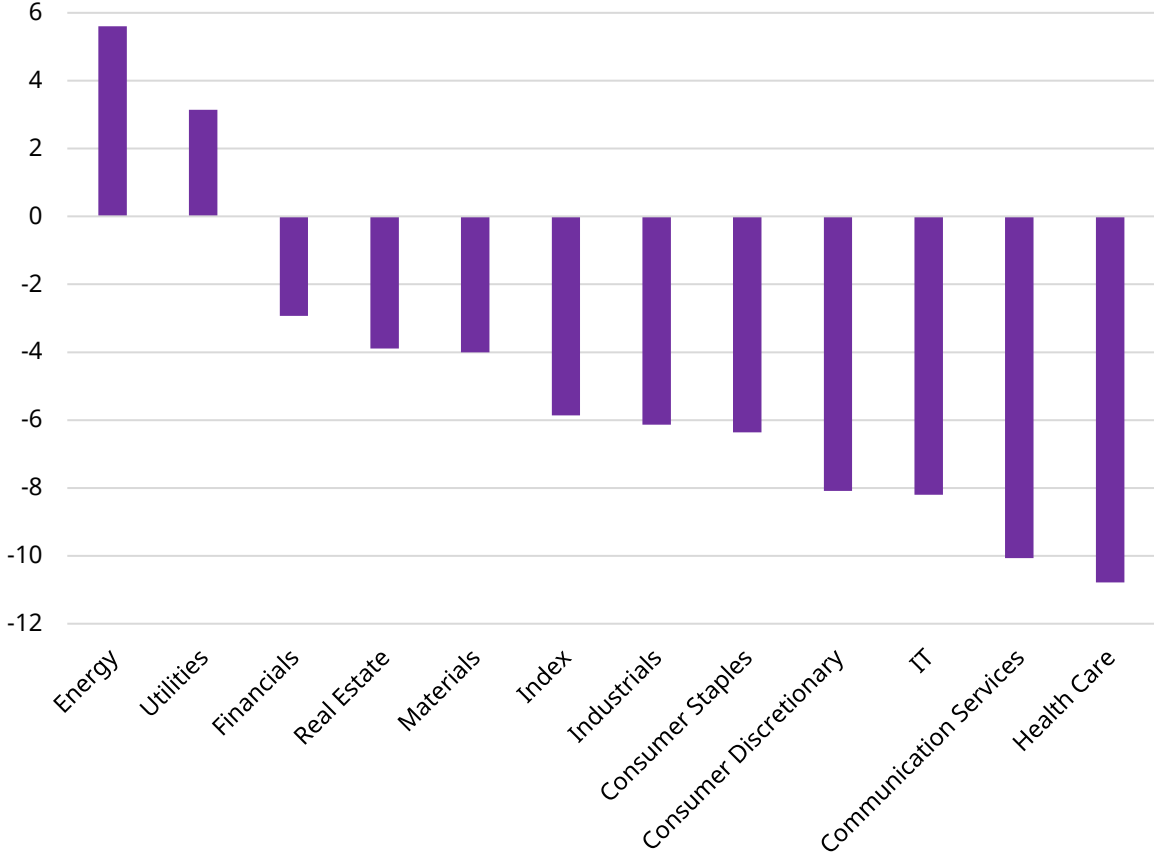
Source: Schroders, LSEG Datastream, MSCI, Schroders Strategic Research Unit. Data as at 31 January 2024. Please see relevant disclaimers on page 45.

Broad YTD weakness in EM sector returns

Most EM index sectors fell in January - USD (%)



EM minus DM sector returns YTD - USD (%)



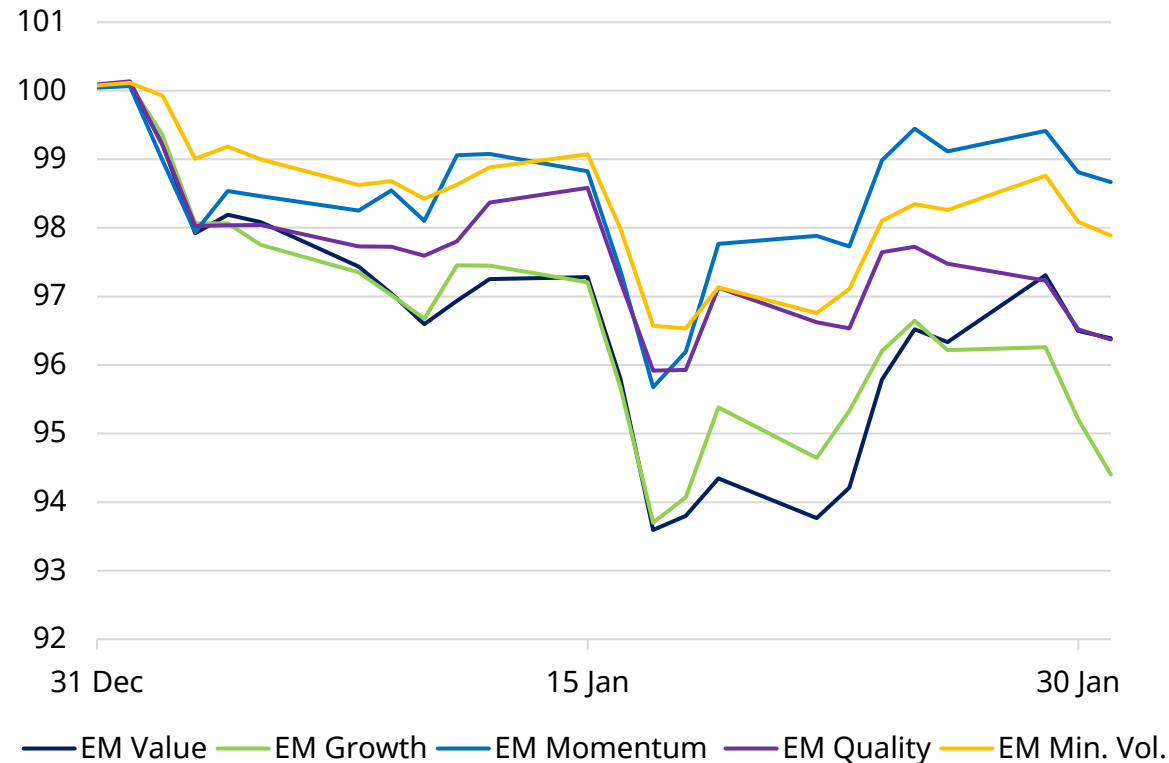
Weakness in EM consumer discretionary: a China impact

Past performance is not a guide to future performance and may not be repeated. Percentage total return, US dollars. Source: LSEG Datastream, MSCI, Schroders Strategic Research Unit, as at 31 January 2024. Please see relevant disclaimers on page 45.

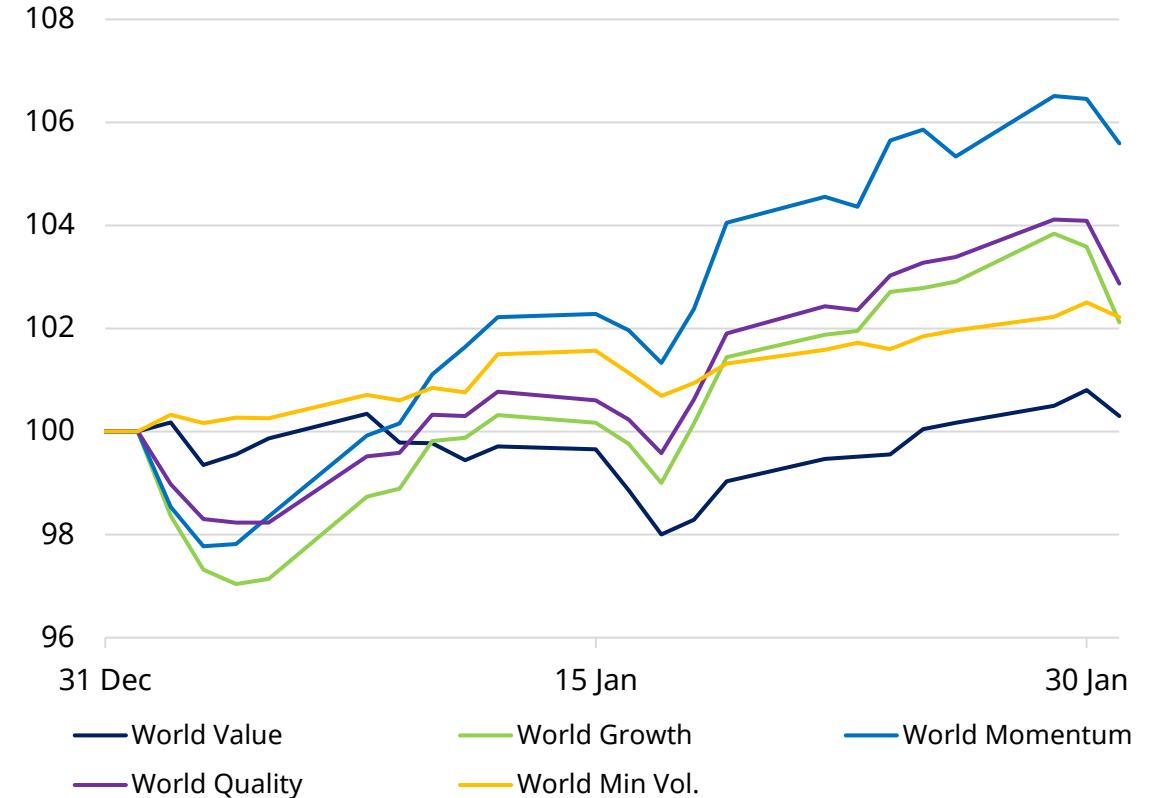
EM Momentum and Min. Vol. factors most resilient YTD

EM Growth factor the weakest YTD

MSCI EM factor indices returns YTD (USD)



MSCI World factor indices returns YTD (USD)



Momentum also leading factor in DM; but Value the laggard

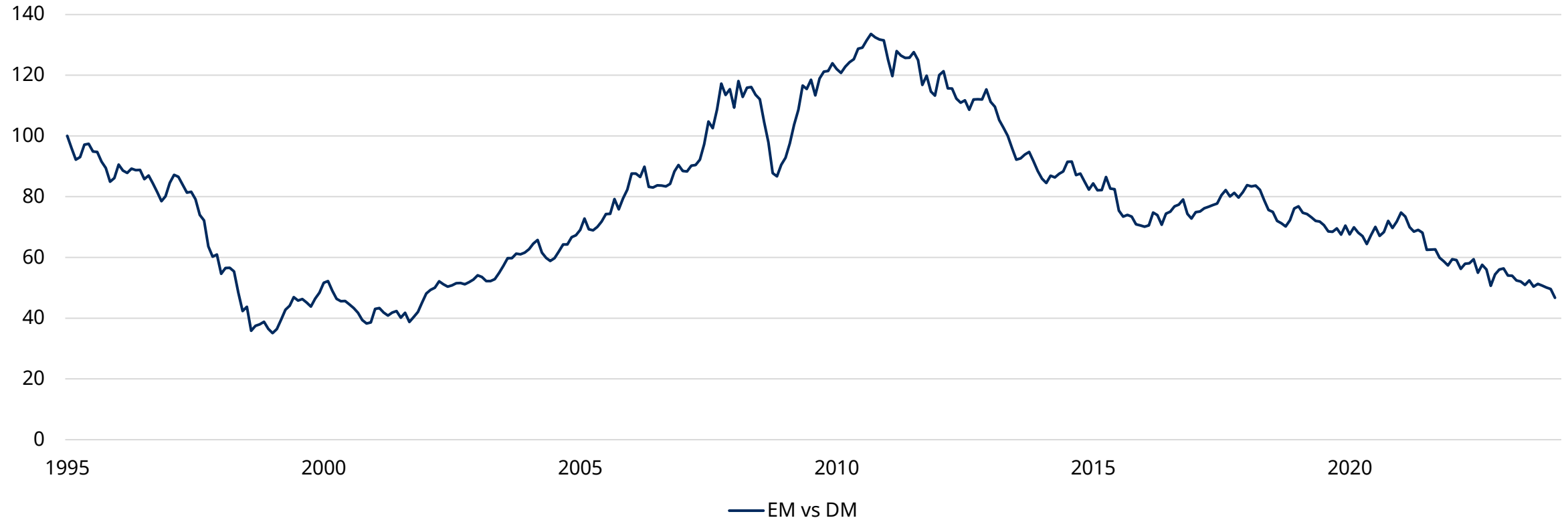
Past performance is not a guide to future performance and may not be repeated.

Total return, US dollars. Source: LSEG Datastream, MSCI, Schroders Strategic Research Unit, as at 31 January 2024. Please see relevant disclaimers on page 45.

A challenging decade for EM versus DM

The long-term trend of underperformance versus DM

EM vs. DM (total return, rebased to 100)



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

Source: LSEG Datastream, MSCI, IBES, Schroders Strategic Research Unit. Data as at 31 January 2024. All returns in USD terms. Please see relevant disclaimers on page 45.

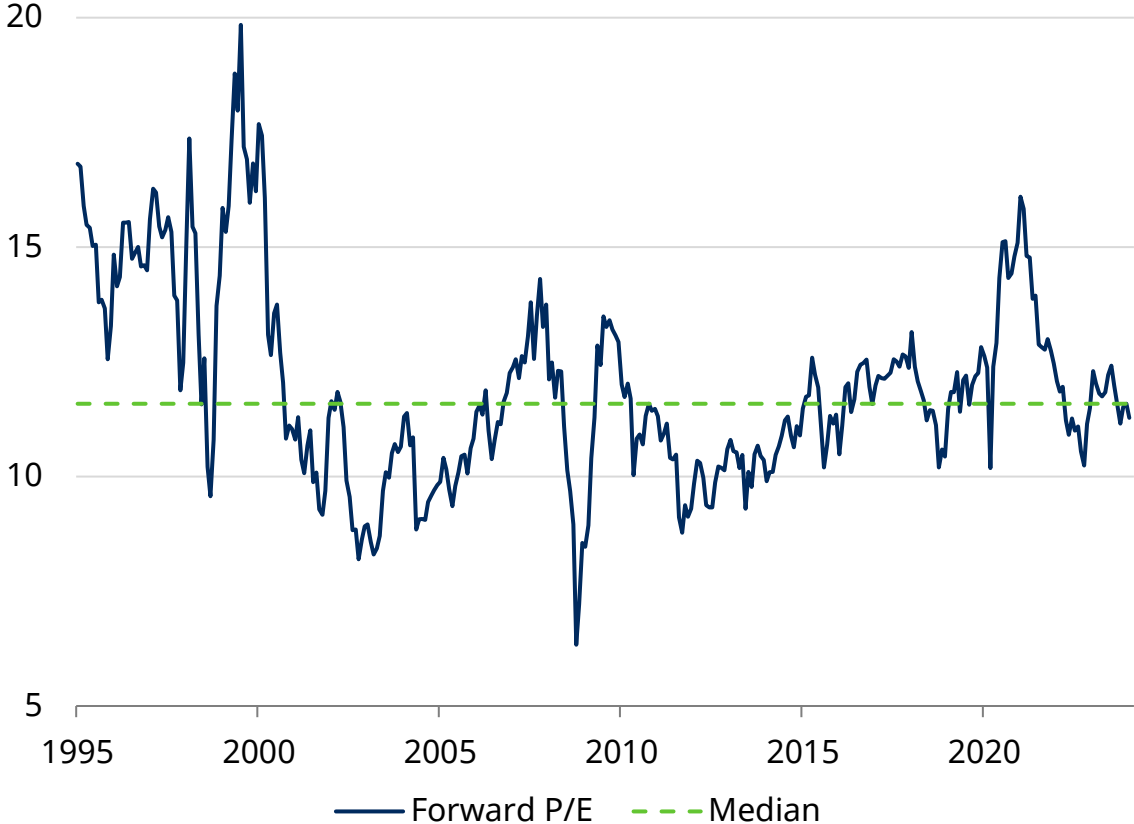


Emerging market equity valuations

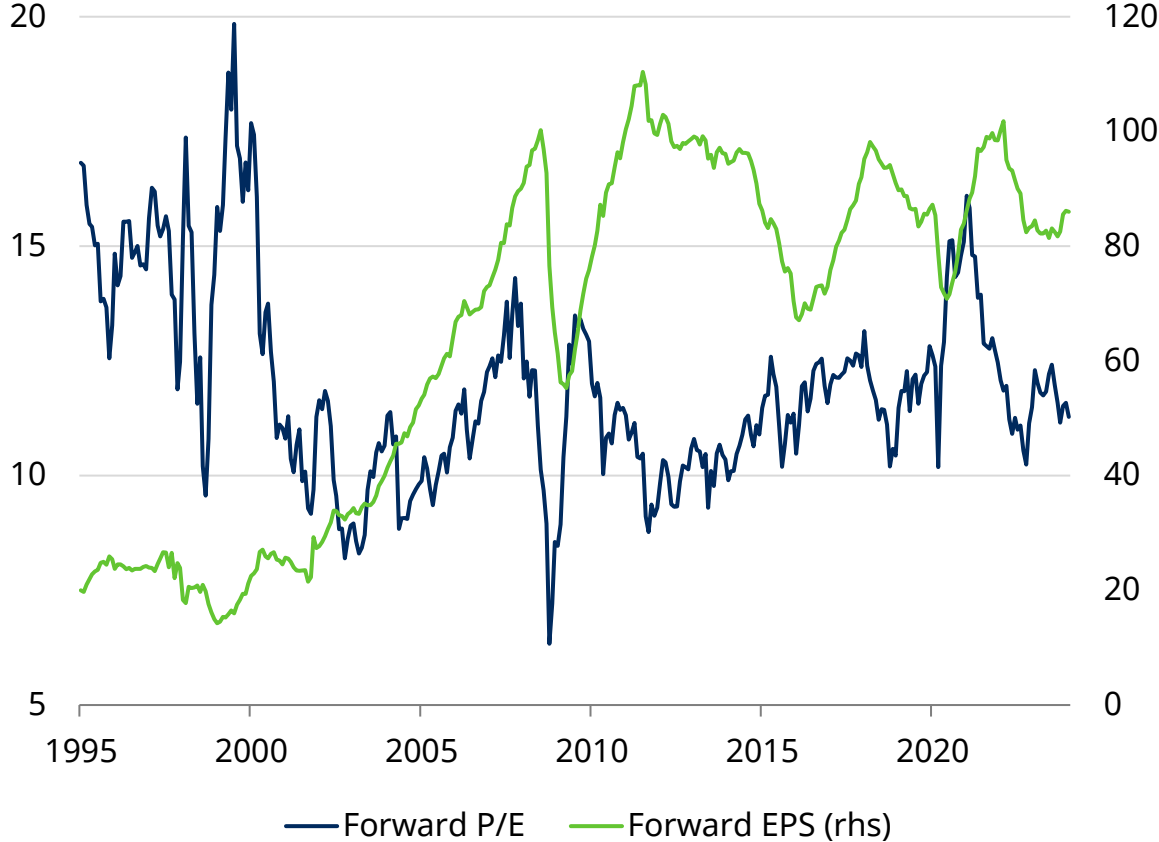
EM equities marginally cheap on fwd P/E basis

Forward EPS has started to pickup, led by the IT sector

The MSCI EM Index 12-month forward P/E



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

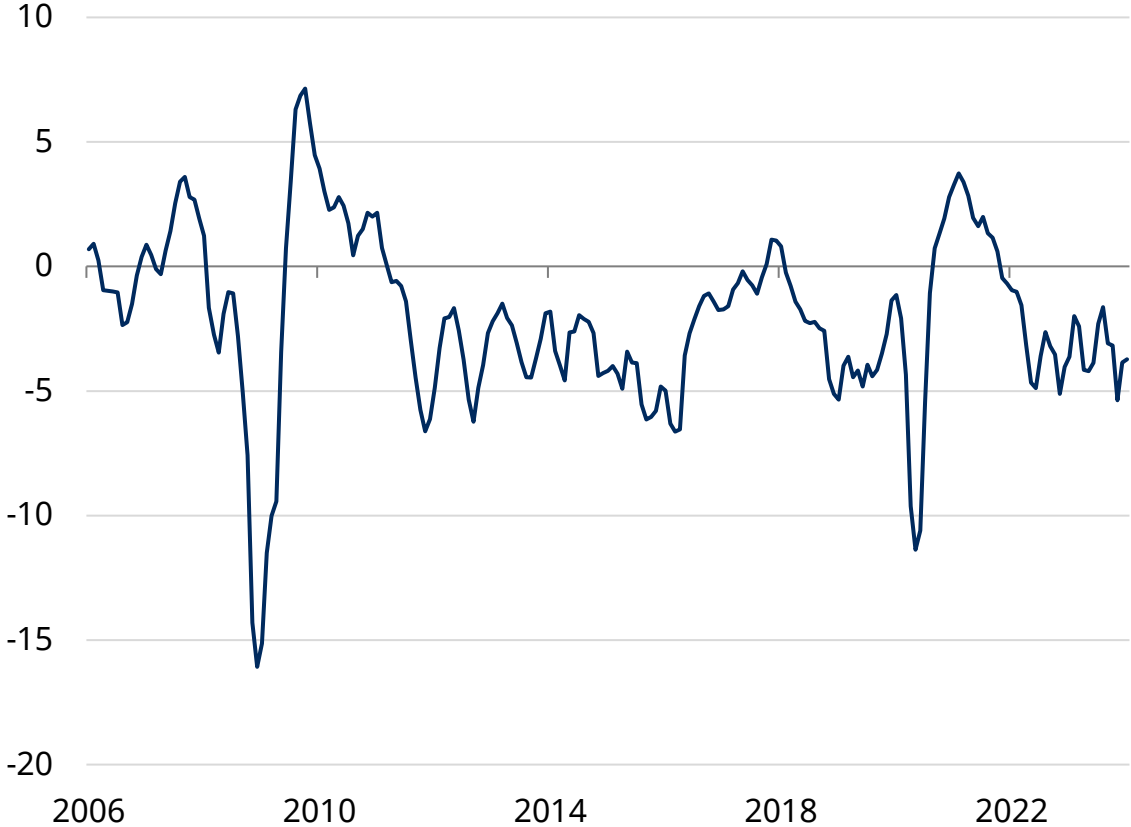


Source: LSEG Datastream, MSCI, IBES, Schroders Strategic Research Unit. Data as at 31 January 2024. Please see relevant disclaimers on page 45.

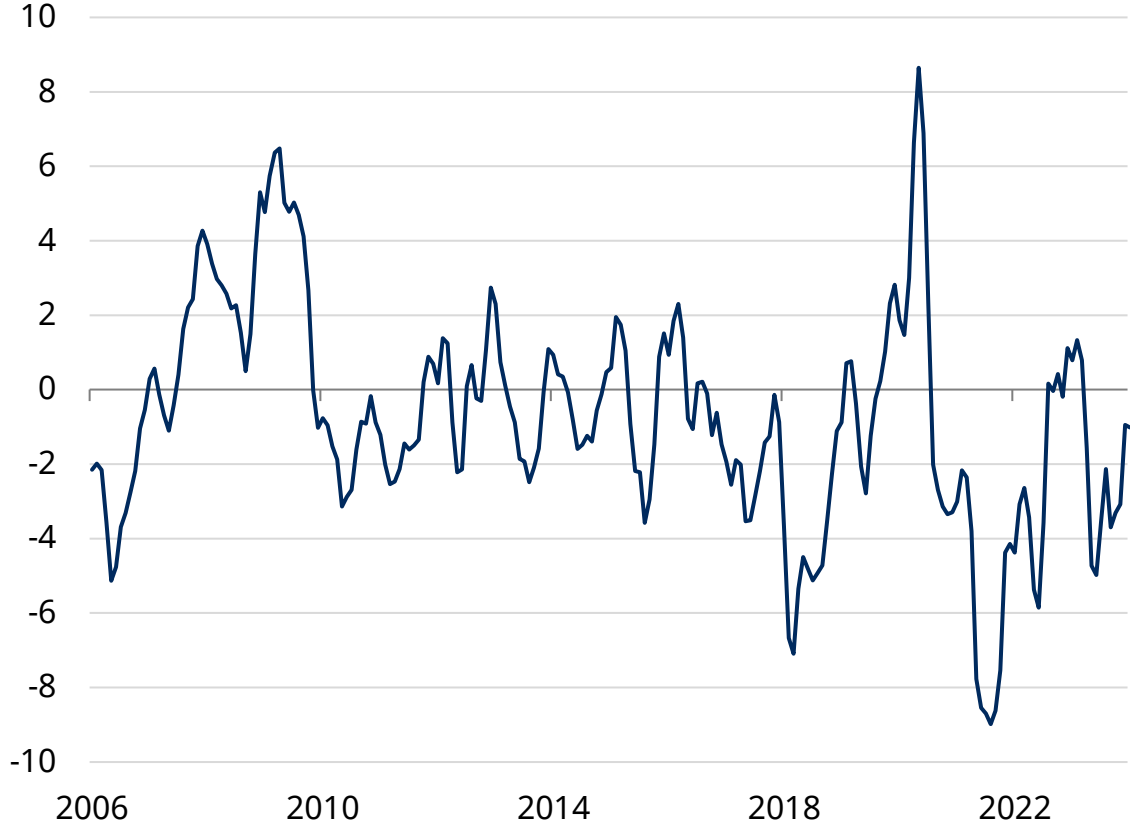
EM earnings revisions ratio is still negative

...but the gap to DM continues to narrow

EM earnings revisions¹ (3-month average)



EM minus DM earnings revisions

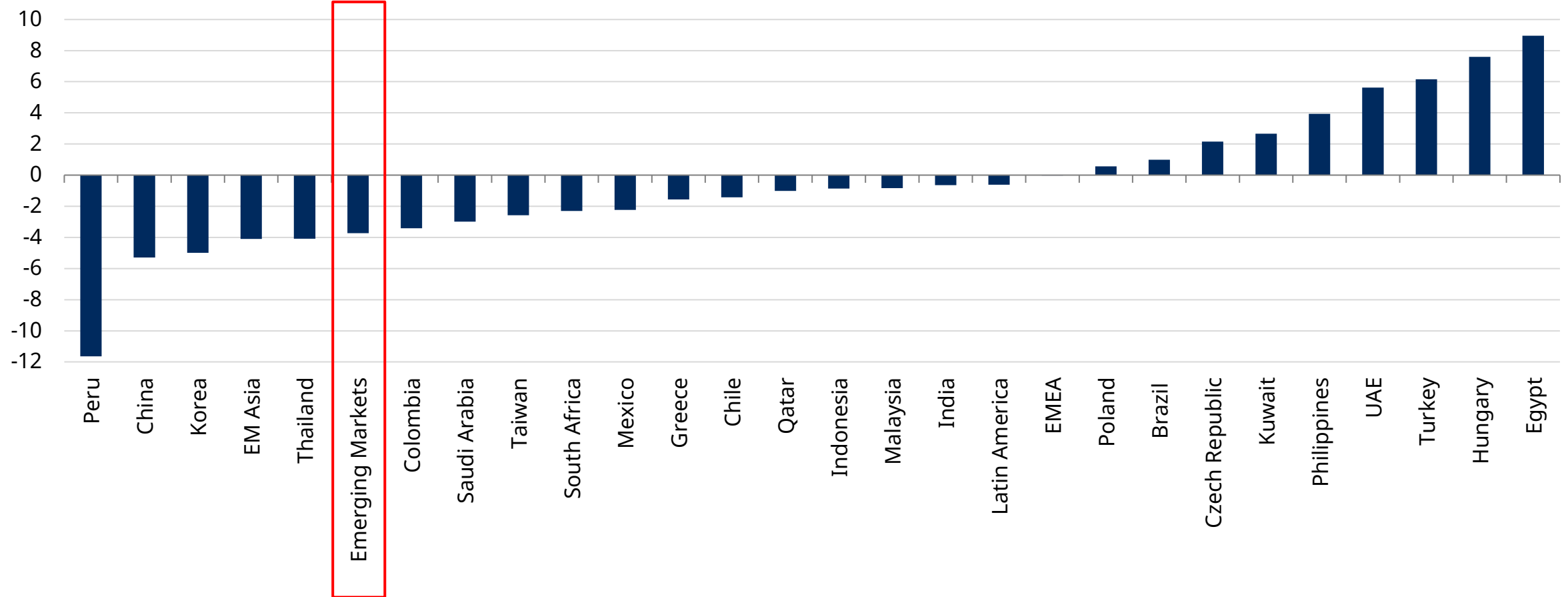


Calculated as the number earnings upgrades minus the number of earnings downgrades divided by the total numbers of earnings updates. Source: LSEG Datastream, MSCI, IBES, Schroders Strategic Research Unit. Data as at 31 January 2024. Please see relevant disclaimers on page 45.

EM earnings revisions

Most large EM have continued to experience negative earnings revisions

Earnings revisions¹ (%) (3-month average)

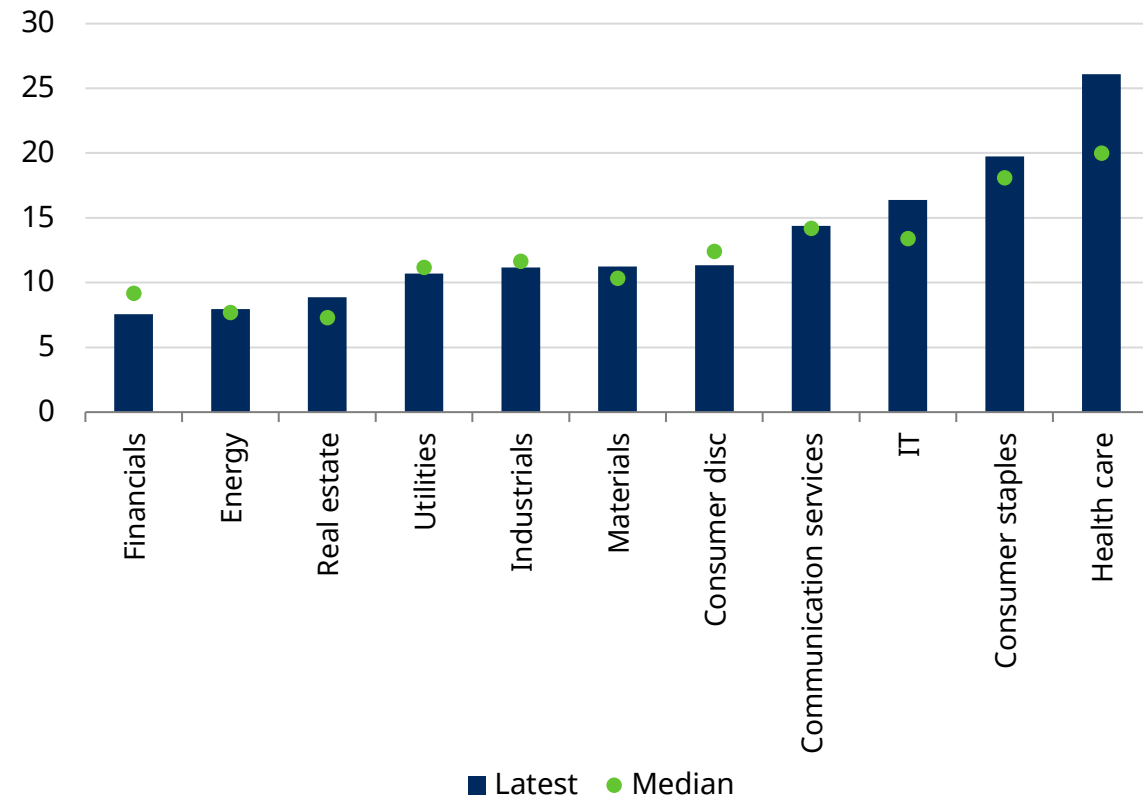


¹Calculated as the number earnings upgrades minus the number of earnings downgrades divided by the total numbers of earnings updates. Source: LSEG Datastream, IBES, Schroders Strategic Research Unit. Data as at 31 January 2024. Please see relevant disclaimers on page 45.

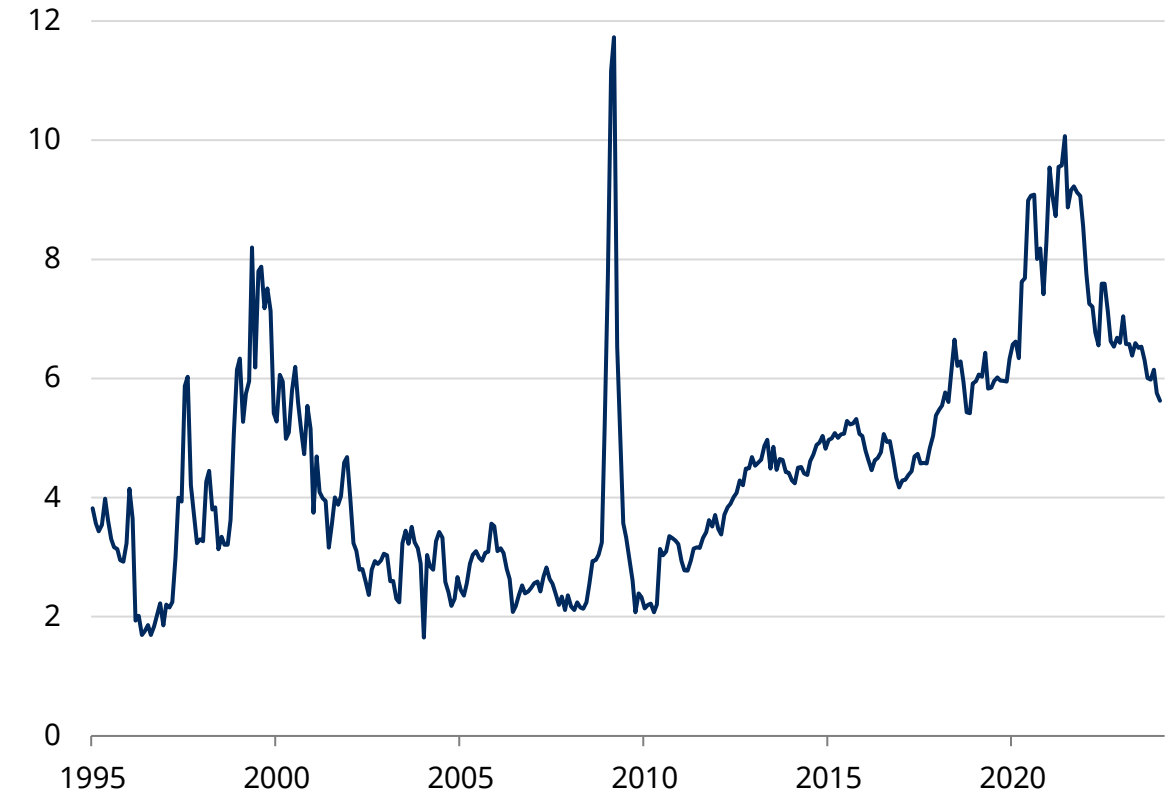
Variability in sector valuations remains high

Health care is notably expensive versus history

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



Standard deviation of EM sector forward P/E ratios



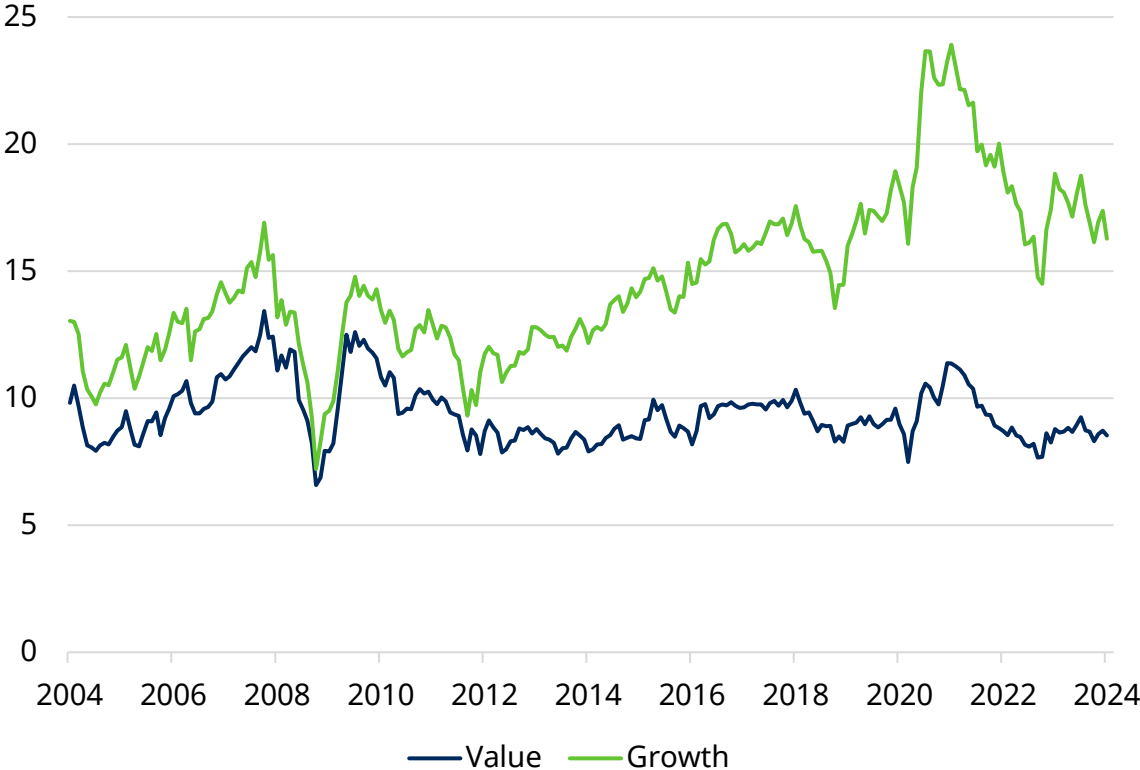
The standard deviation of EM sector forward P/E has eased from an elevated level

Source: LSEG Datastream, MSCI, IBES, Schroders Strategic Research Unit. Data as at 31 January 2024. Median since January 1999. Please see relevant disclaimers on page 45.

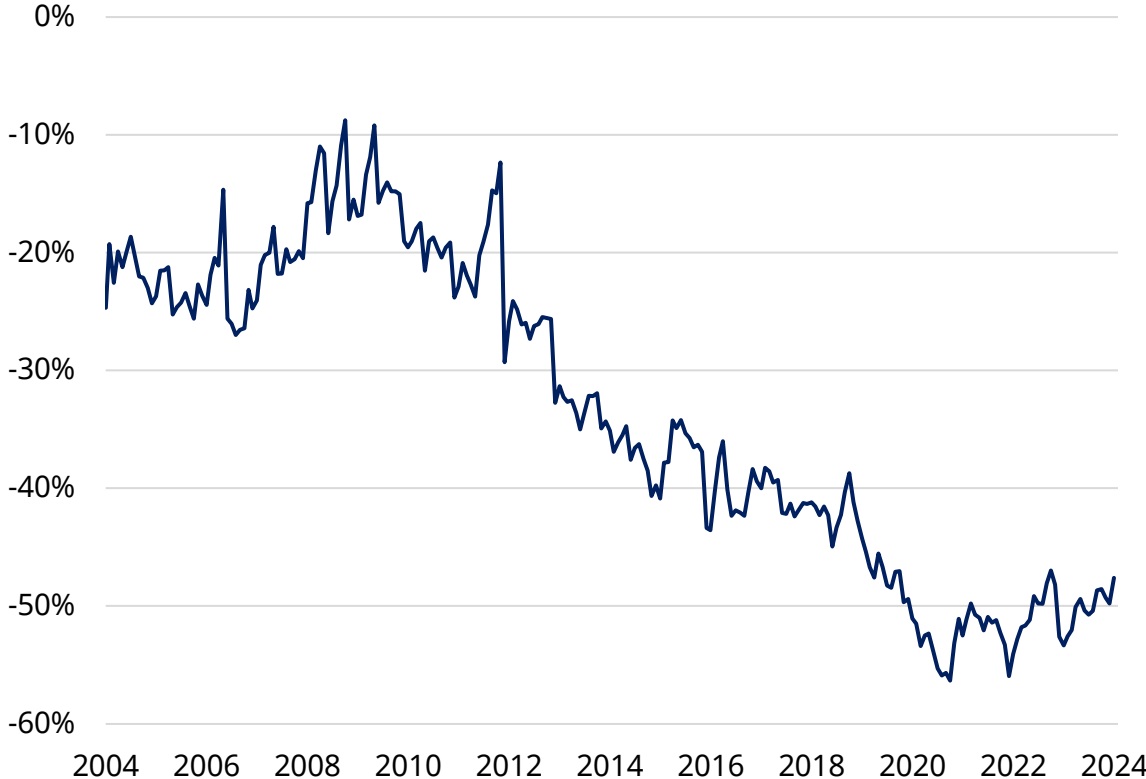
EM Value factor discount to Growth remains wide

...but has moved away from its pandemic peak

The MSCI EM Value and Growth 12m fwd P/E



EM Value discount/premium to EM growth 12m fwd P/E



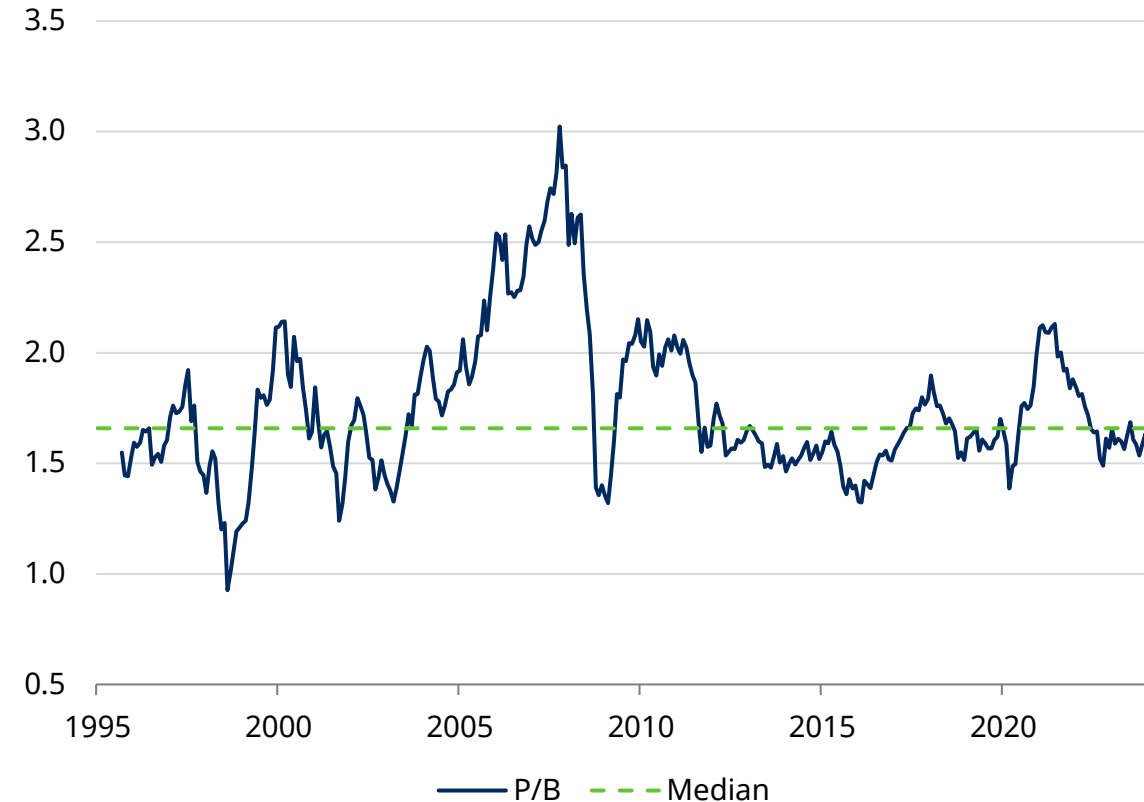
Value is on a 48% discount to Growth on a 12-month forward price-earnings measure

Source: LSEG Datastream, MSCI, Schroders Strategic Research Unit. Data as at 31 January 2024. Please see relevant disclaimers on page 45.

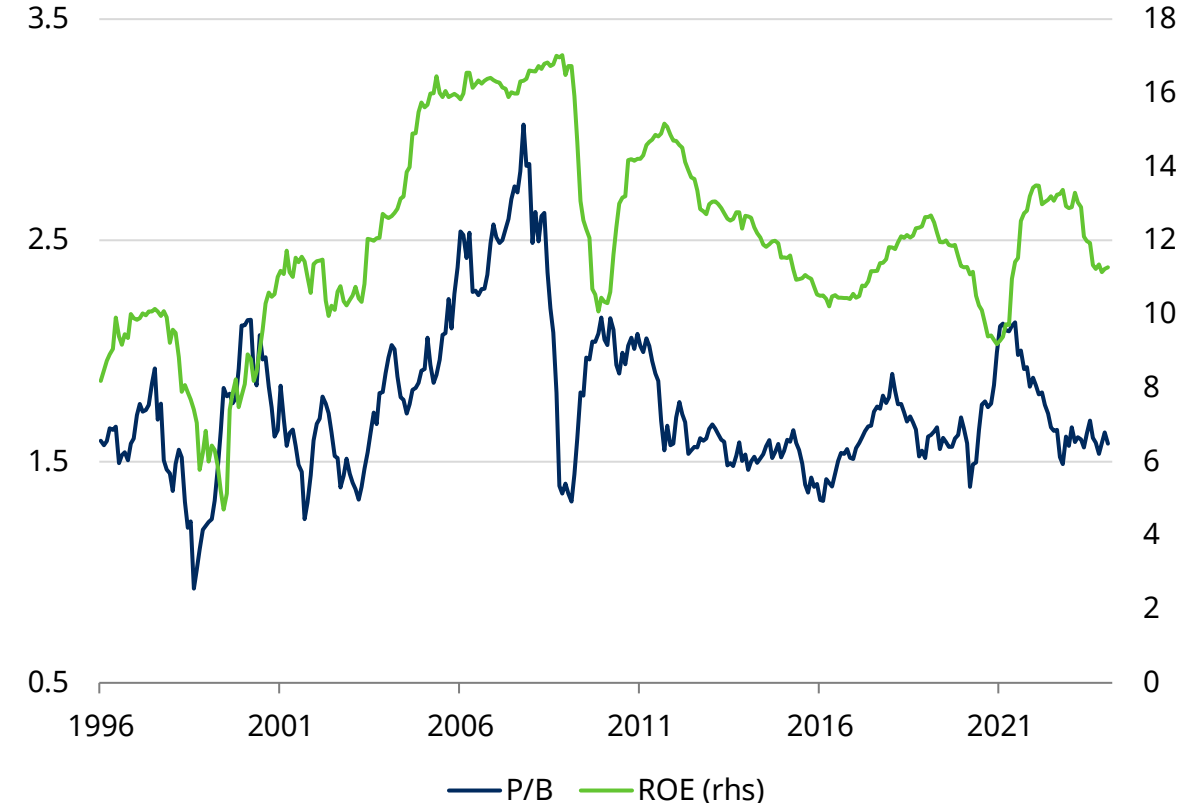
The P/B ratio is very slightly below the historical median

After the 2023 falls, is EM ROE showing tentative signs of stabilisation?

The MSCI EM Index P/B



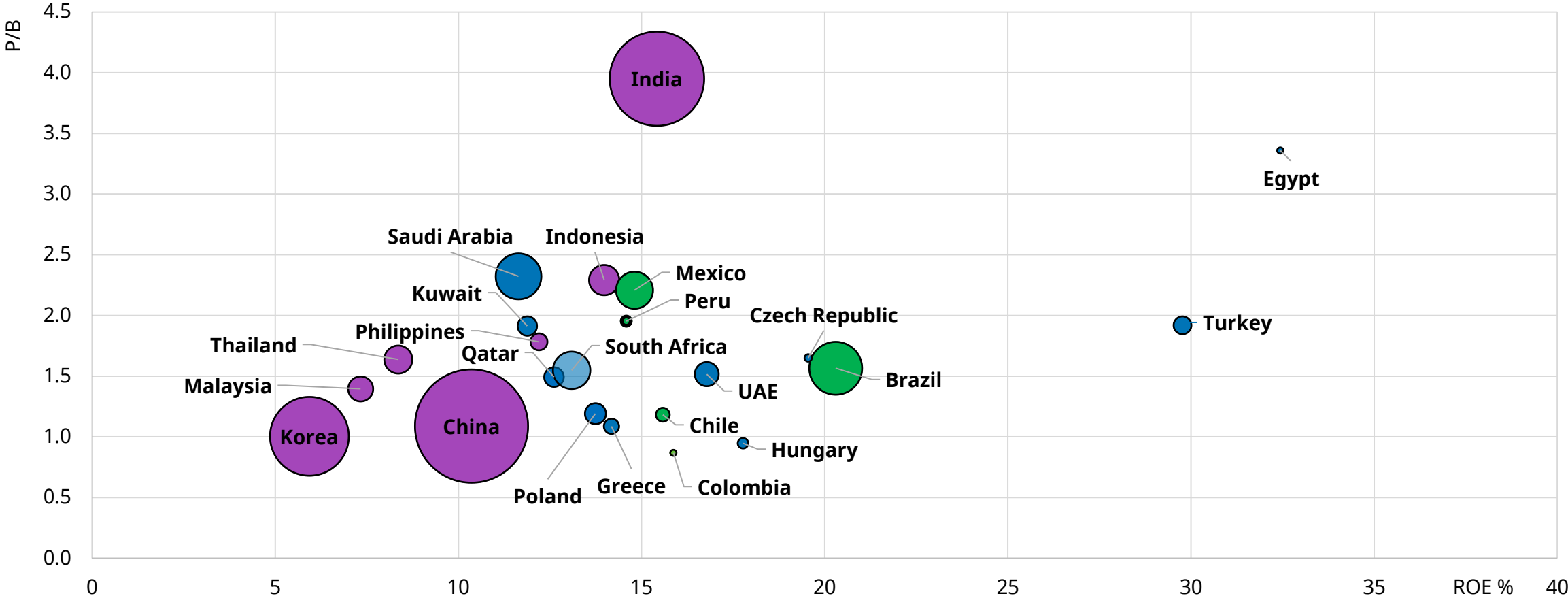
The MSCI EM Index P/B and ROE



Source: LSEG Datastream, Schroders Strategic Research Unit, MSCI. Data as at 31 January 2024. Please see relevant disclaimers on page 45.

Relative to their Return on Equity (ROE), Brazil is on a low P/B, and India a high one

Price-book to Return on Equity for EM index markets, split by region, with bubbles showing index weight

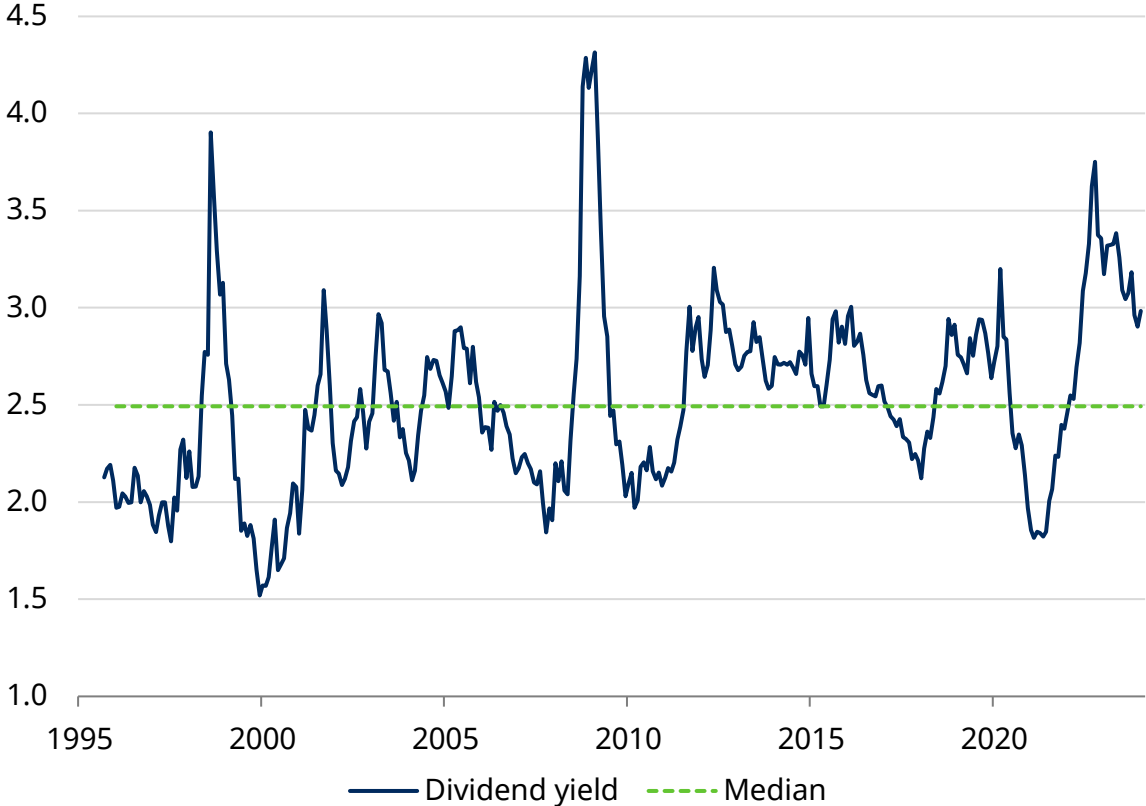


Asian EM shown in purple, EMEA shown in blue, Latin American EM shown in green. Return on Equity (ROE).
 Source: LSEG Datastream, Schroders Strategic Research Unit, MSCI. Data as at 31 January 2024. Please see relevant disclaimers on page 45.

EM dividend yield is above the historical median

...albeit has been declining

The MSCI EM Index dividend yield (%)



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



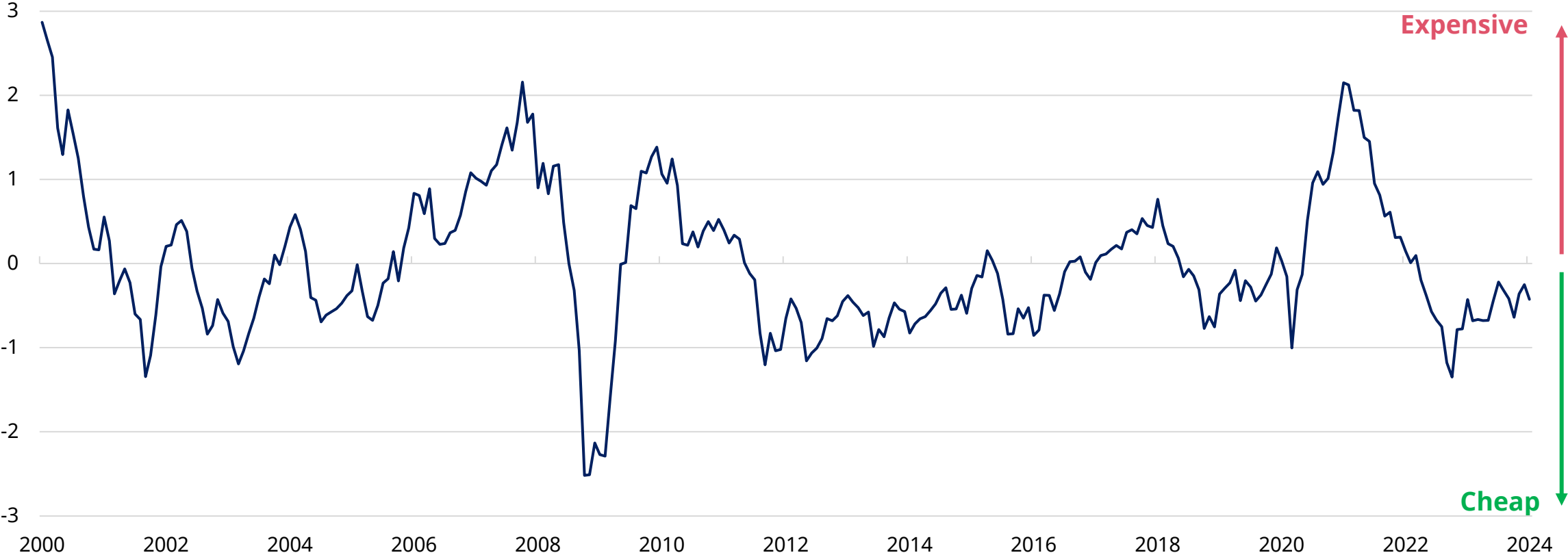
EM DPS fell in 2023, notably in energy/materials sectors

Source: LSEG Datastream, Schroders Strategic Research Unit, MSCI. Data as at 31 January 2024. Please see relevant disclaimers on page 45.

EM is slightly cheap versus history on composite Z-score

Close to the levels of 12-months ago

Composite valuation metric = Average Z-score¹ across four valuation metrics



¹The z-score is a measure of how far valuations are from historical mean, calculated since January 2000. This composite measure captures a simple average of trailing P/E, P/E, P/B, and dividend yield Z-scores. Source: LSEG Datastream, Schroders Strategic Research Unit, MSCI. Data as at 31 January 2024. Please see relevant disclaimers on page 45.

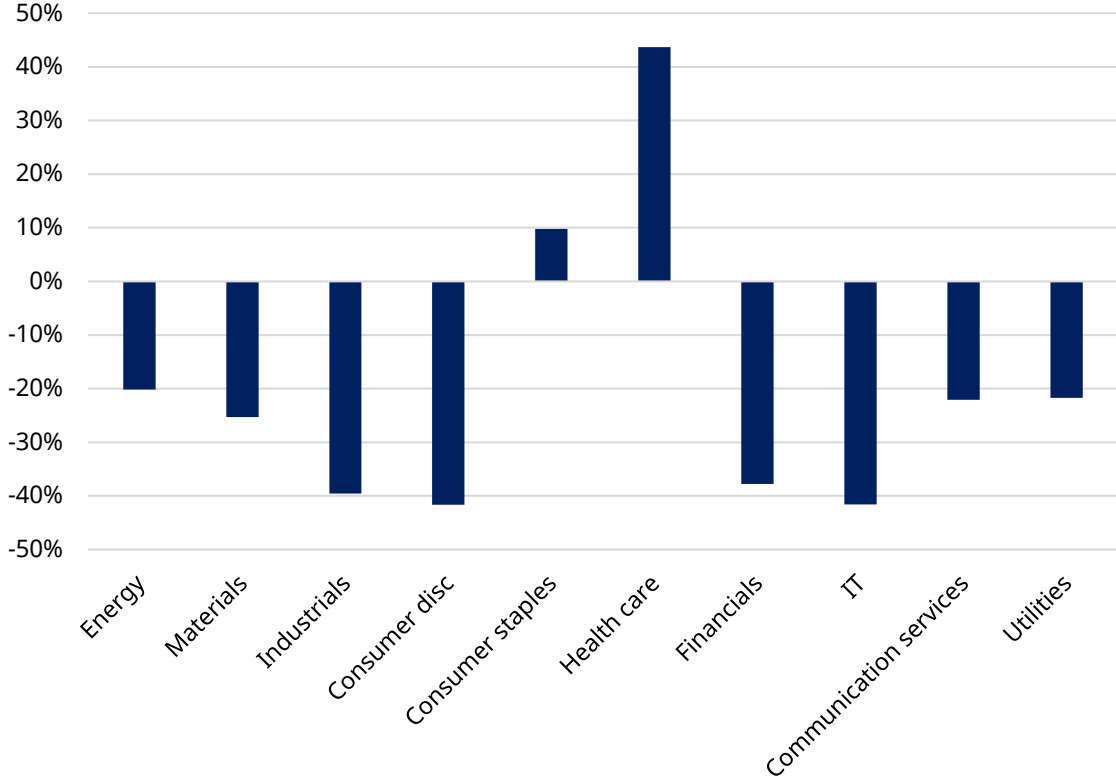
EM equities discount to DM is at top of 20-year range

The gap is 13 percentage points wider than 12-months ago...

EM/DM 12-month forward P/E discount/premium



EM/DM 12-month forward P/E sector discount/premium



Health care is the only sector at a significant premium to DM

Source: LSEG Datastream, MSCI, IBES, Schroders Strategic Research Unit. Data as at 31 January 2024. Please see relevant disclaimers on page 45.

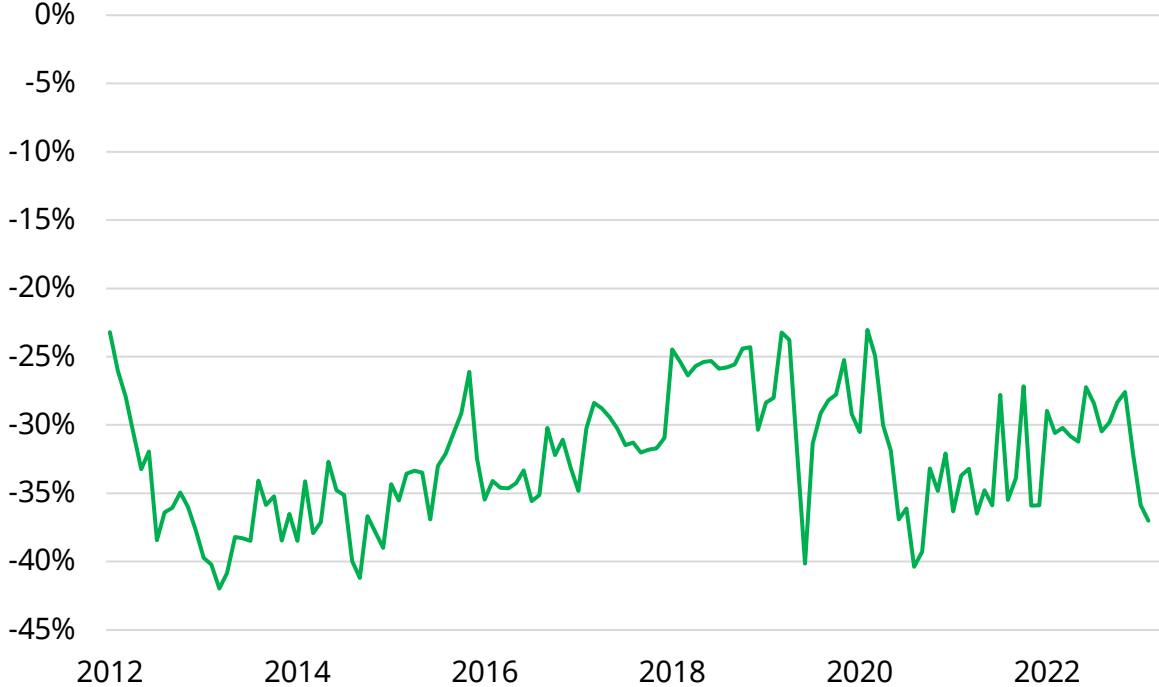
EM 12-month forward P/E discount to the US is 45%

This discount is close to the largest seen over the last 20 years

EM discount/premium to US 12-month forward P/E



EM discount/premium to US Equal Weighted 12-month forward P/E



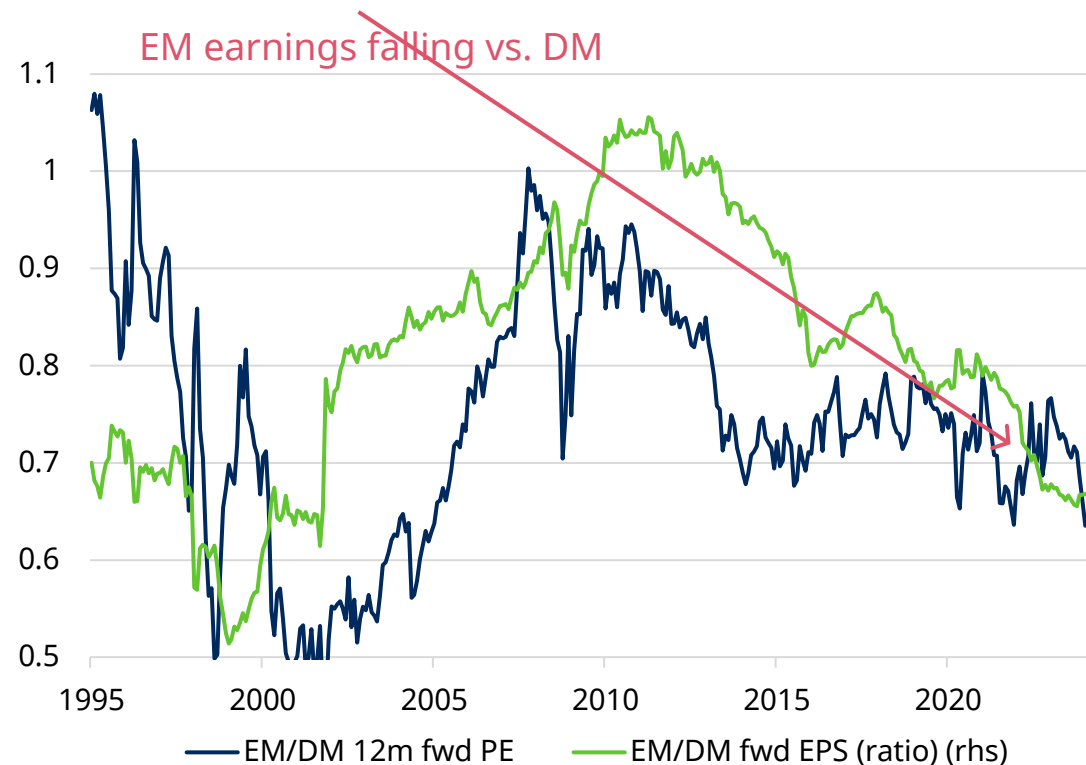
EM discount to US Equal Weighted index is 37%, but within range of last decade

*RHS chart shows standard MSCI EM Index versus MSCI USA Equal Weighted Index to adjust for impact of Magnificent 7. Data only available since 2012. Source: LSEG Datastream, MSCI, IBES, Schroders Strategic Research Unit. Data as at 31 January 2024. Please see relevant disclaimers on page 45.

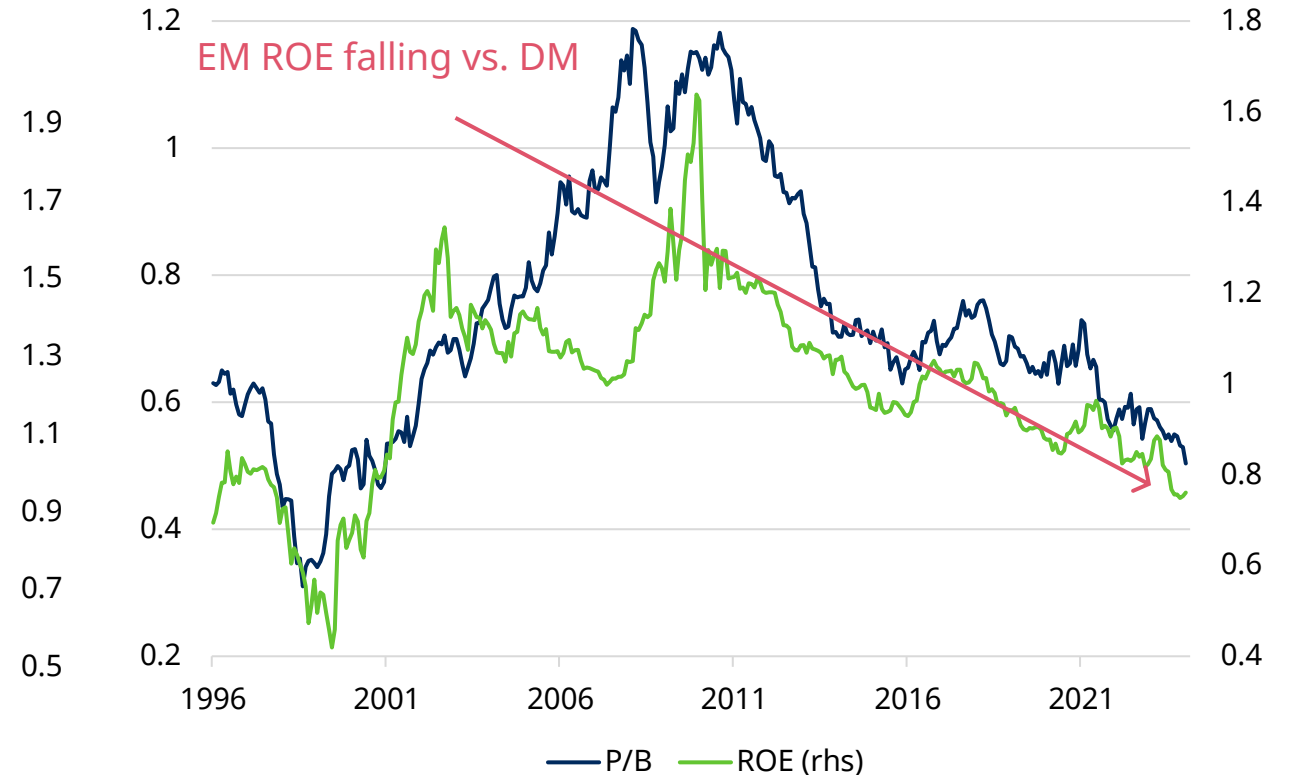
What is driving the EM/DM valuation gap?

Weaker profitability and earnings outlook in EM relative to DM

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



EM/DM P/B and ROE



Tentative signs of stabilisation in EM/DM EPS and ROE; but valuation gap still widening

Source: LSEG Datastream, MSCI, IBES, Schroders Strategic Research Unit. Data as at 31 January 2024. Please see relevant disclaimers on page 45.

Emerging markets' index composition

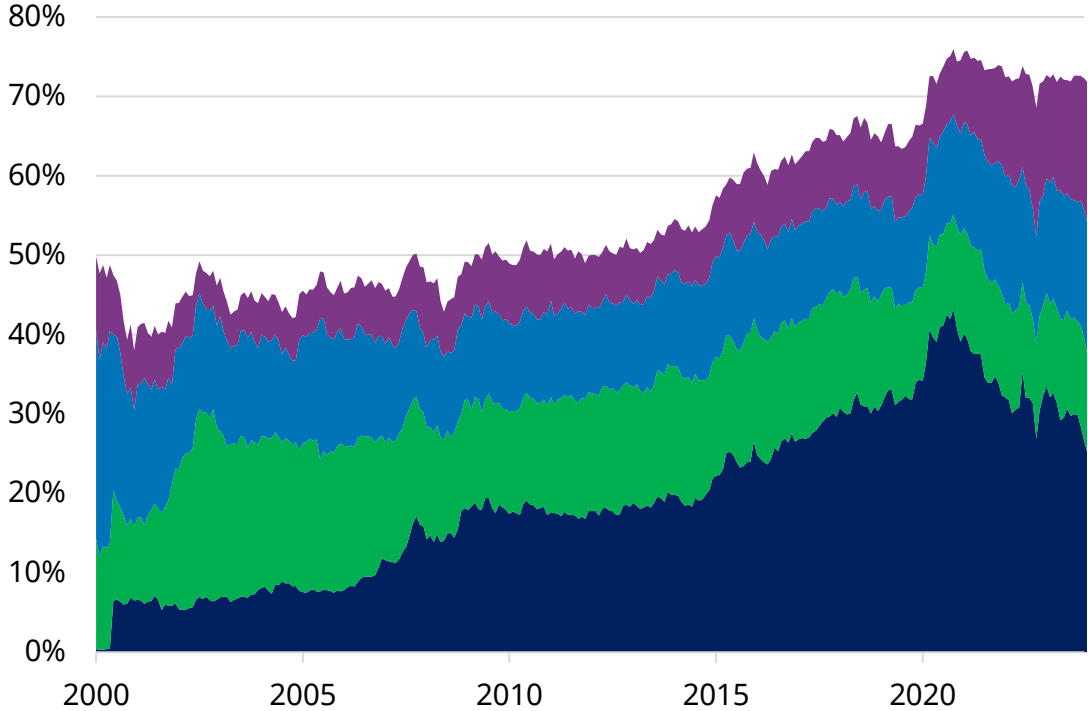
EM is dominated by Asia

The MSCI EM Index share of regions



■ Asia ■ EMEA ■ Latam

China, India, Taiwan and Korea are 72% of the EM index



■ China ■ Korea ■ Taiwan ■ India

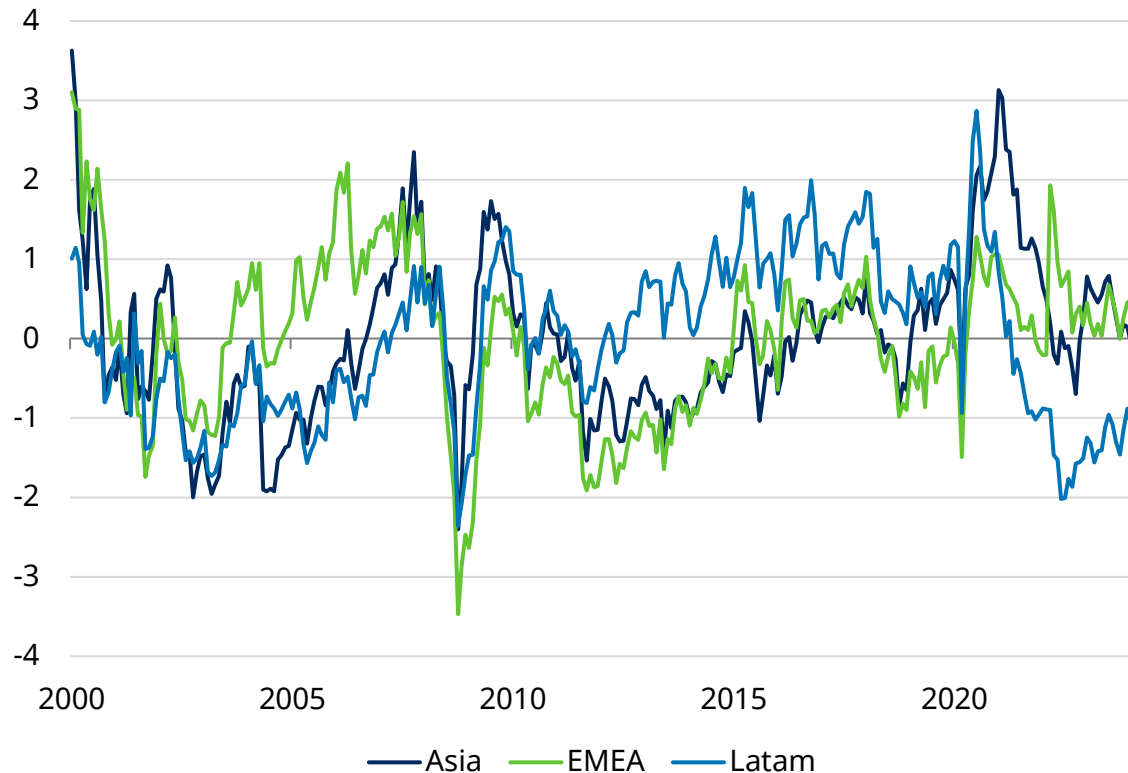
Four Asia markets have a big impact on aggregate EM valuations

Source: LSEG Datastream, MSCI, Schroders Strategic Research Unit. Data as at 31 January 2024. Please see relevant disclaimers on page 45.

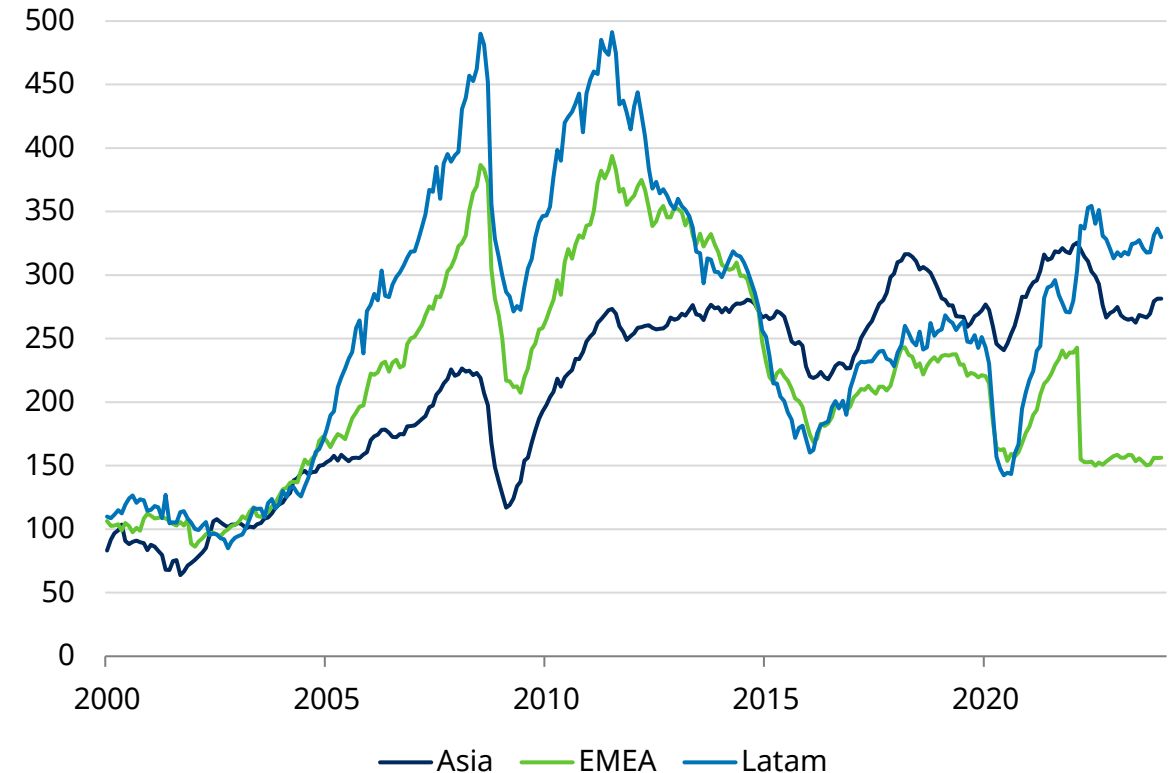
Valuations and earnings expectations in EM regions

Despite 2023 outperformance, Latin America is still the cheapest region

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



12-month forward EPS of EM regions



EMEA valuations are slightly above their historical average; Asia neutral

Source: LSEG Datastream, Schroders Strategic Research Unit, MSCI. Data as at 31 January 2024.

¹The z-score is a measure of how far valuations are from historical mean. Please see relevant disclaimers on page 45.

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



■ Value ■ Growth

The MSCI EM Asia Index



■ Value ■ Growth

The MSCI EM EMEA Index



■ Value ■ Growth

The MSCI EM Latin America Index

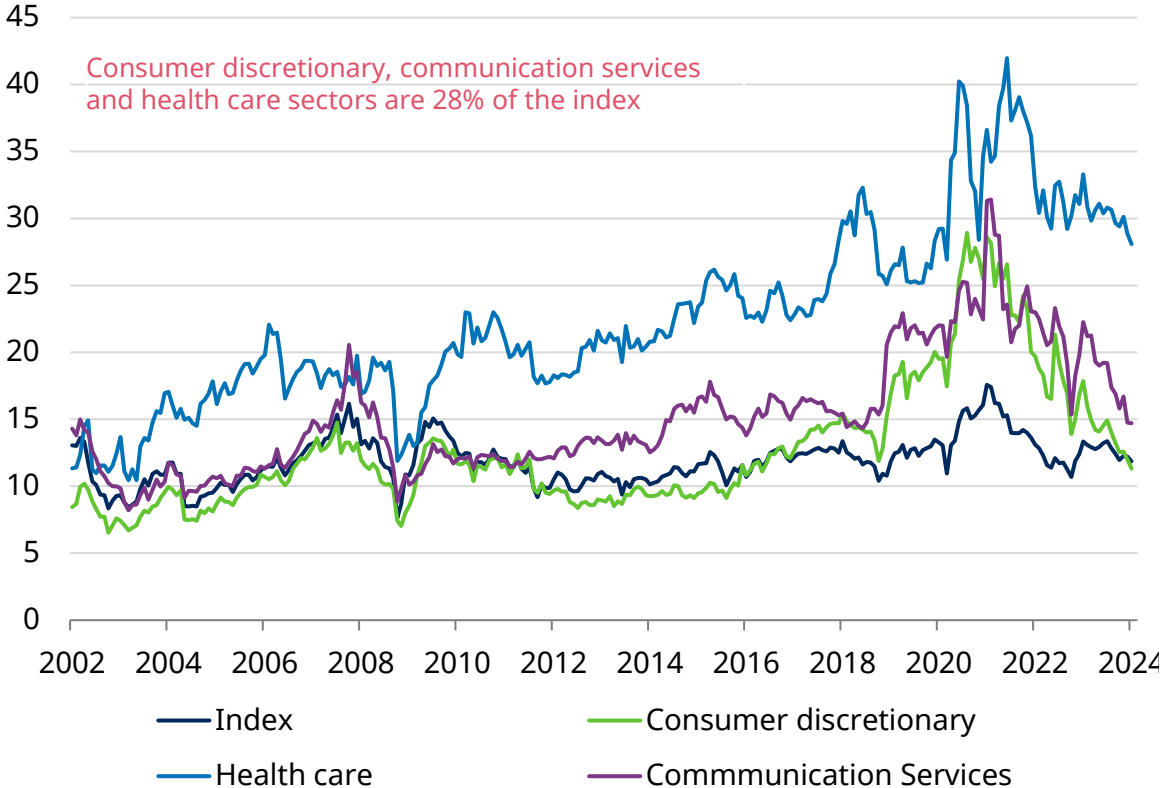


■ Value ■ Growth

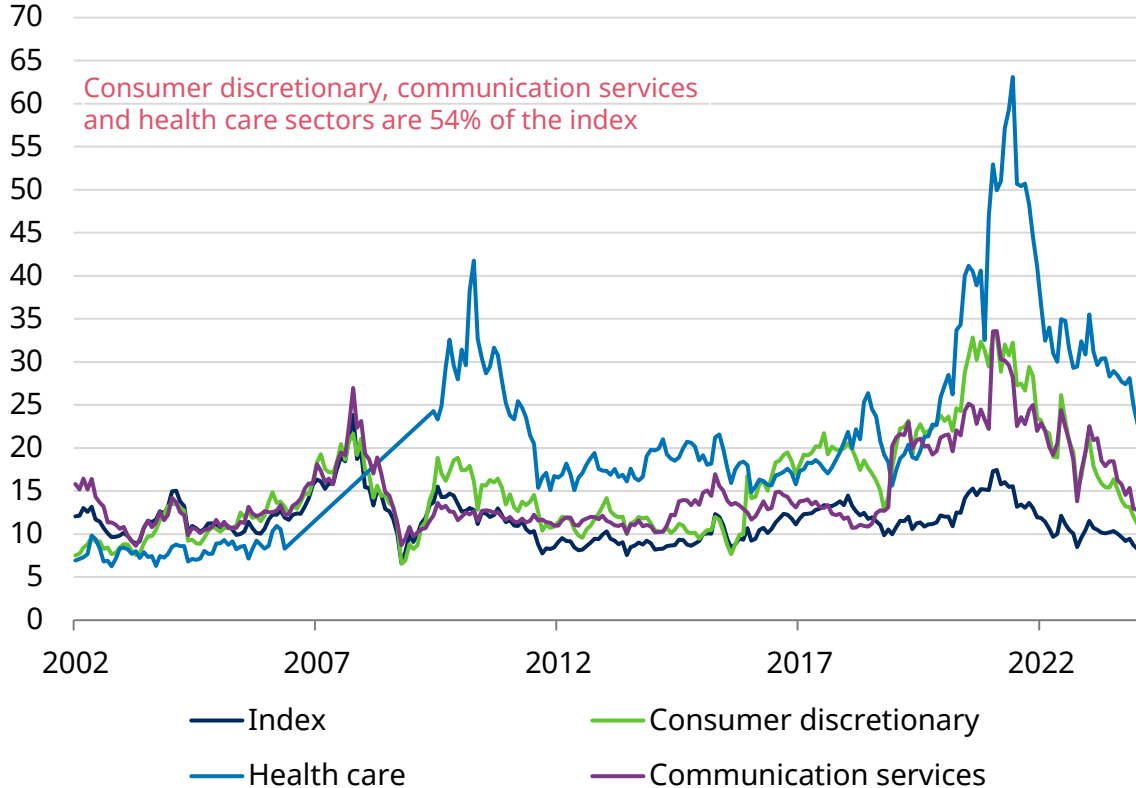
Source: LSEG Datastream, MSCI, Schroders Strategic Research Unit, Data as at 31 January 2024. **Value sectors:** energy, materials, industrials, financials, utilities, real estate. **Growth sectors:** consumer discretionary, consumer staples, health care, IT, communication services. Please see relevant disclaimers on page 45.

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



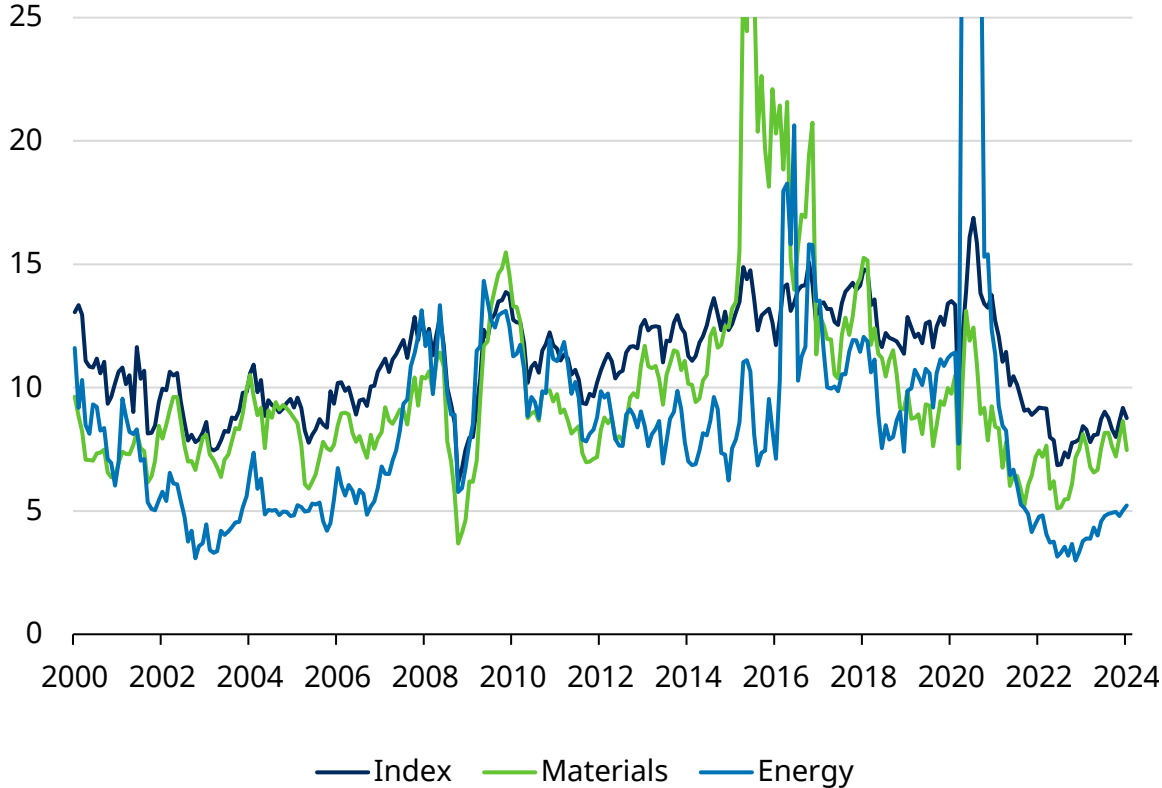
The MSCI China Index sector forward P/E ratios



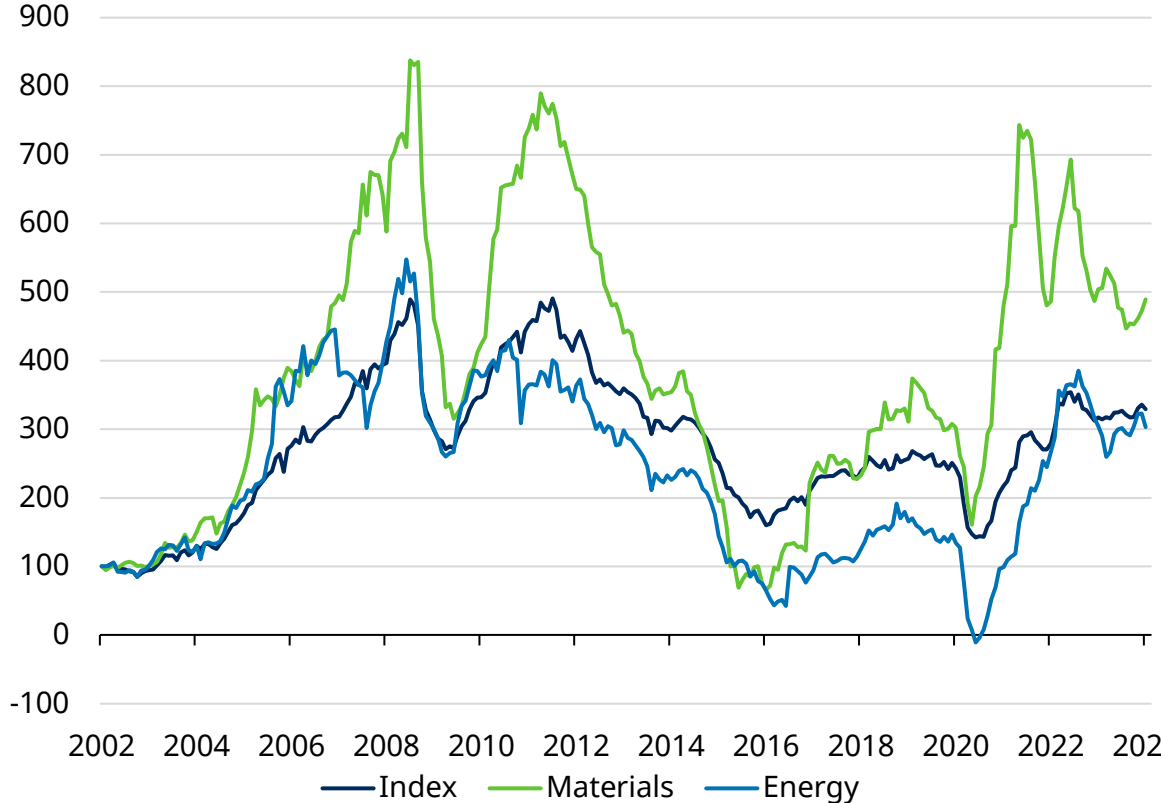
Source: LSEG Datastream, MSCI, Schroders Strategic Research Unit. Data as at 31 January 2024. Please see relevant disclaimers on page 45.

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

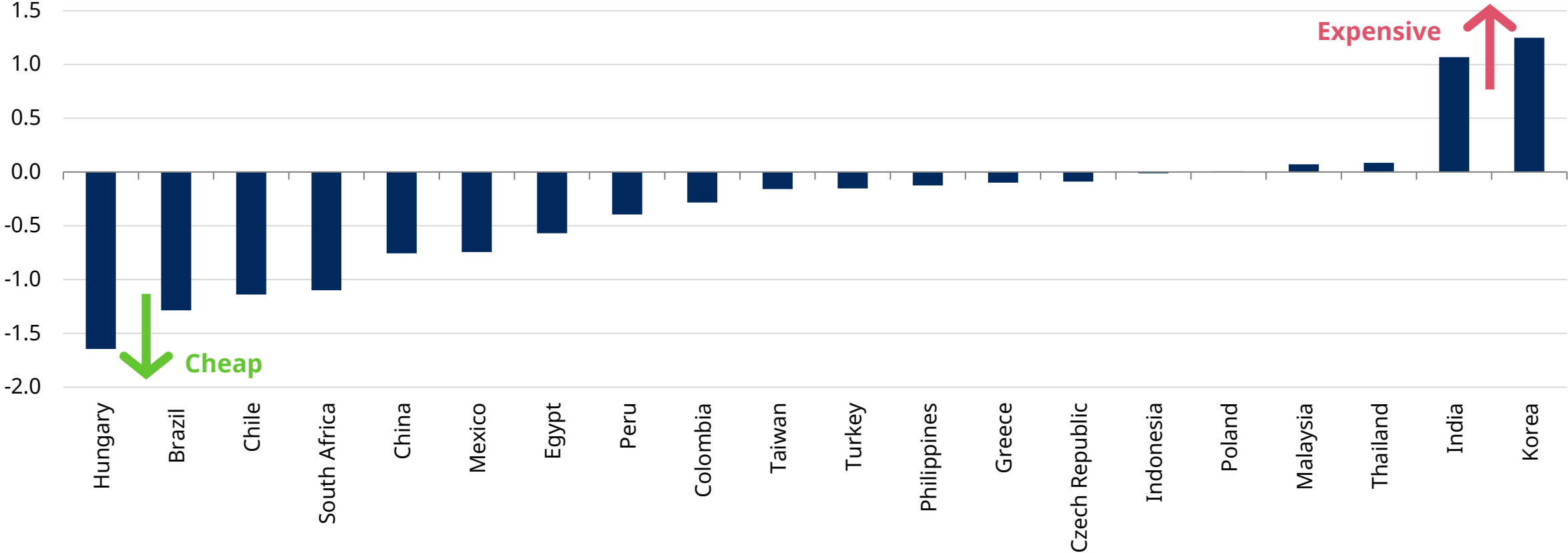


Valuation of Latin commodity sectors depressed versus history

Source: LSEG Datastream, MSCI, IBES, Schroders Strategic Research Unit. Data as at 31 January 2024. Please see relevant disclaimers on page 45.

Standardised EM country valuations: trailing P/E

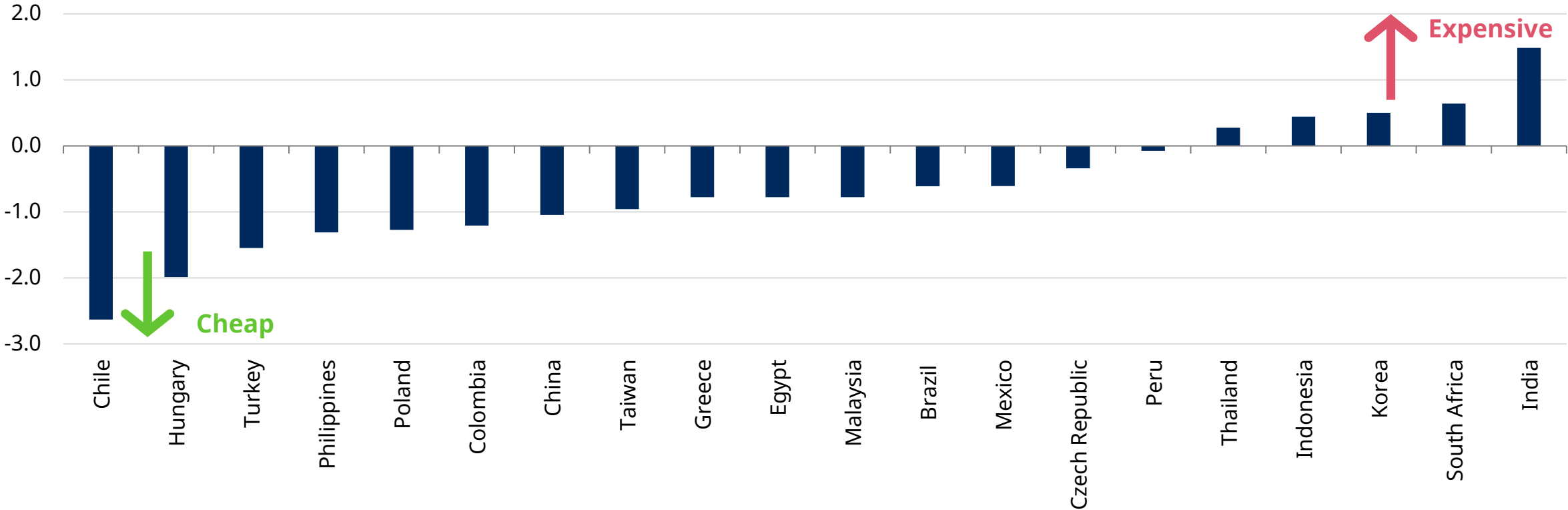
12-month trailing P/E (z-score¹)



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, LSEG Datastream, MSCI, IBES, Schroders Strategic Research Unit. Data as at 31 January 2024. Please see relevant disclaimers on page 45.

Standardised EM country valuations: the forward P/E

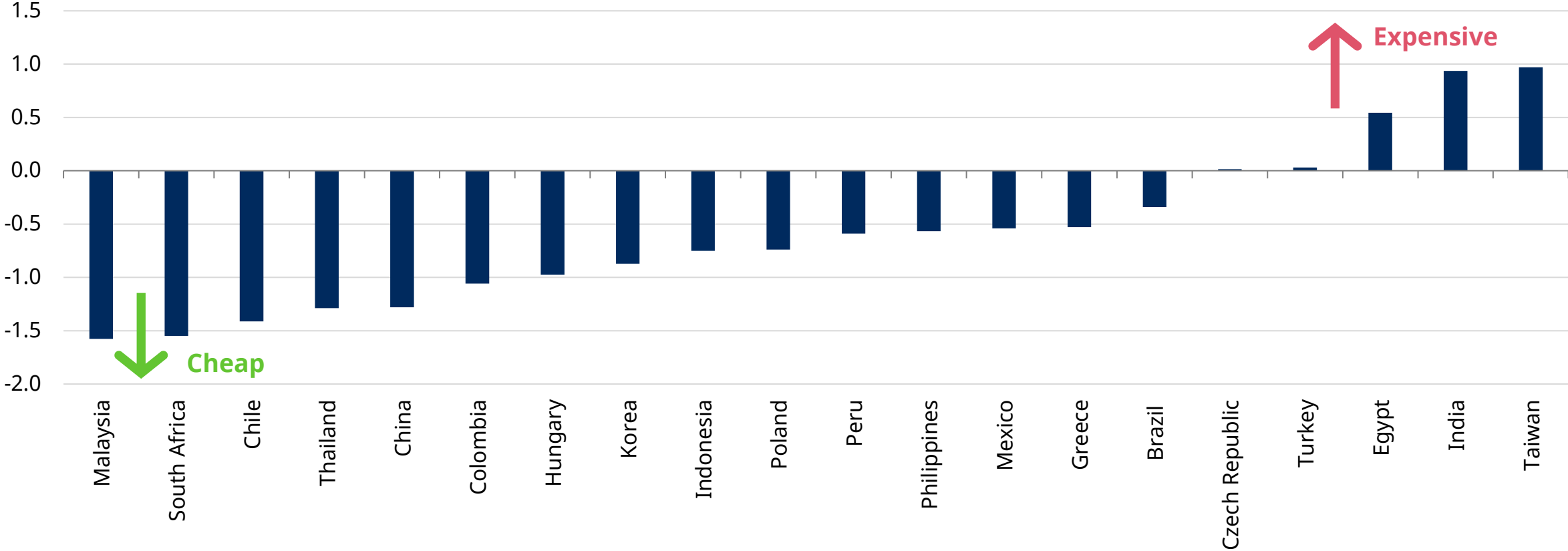
12-month forward P/E (z-score¹)



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, LSEG Datastream, MSCI, IBES, Schroders Strategic Research Unit. Data as at 31 January 2024. Please see relevant disclaimers on page 45.

Standardised EM country valuations: the P/B ratio

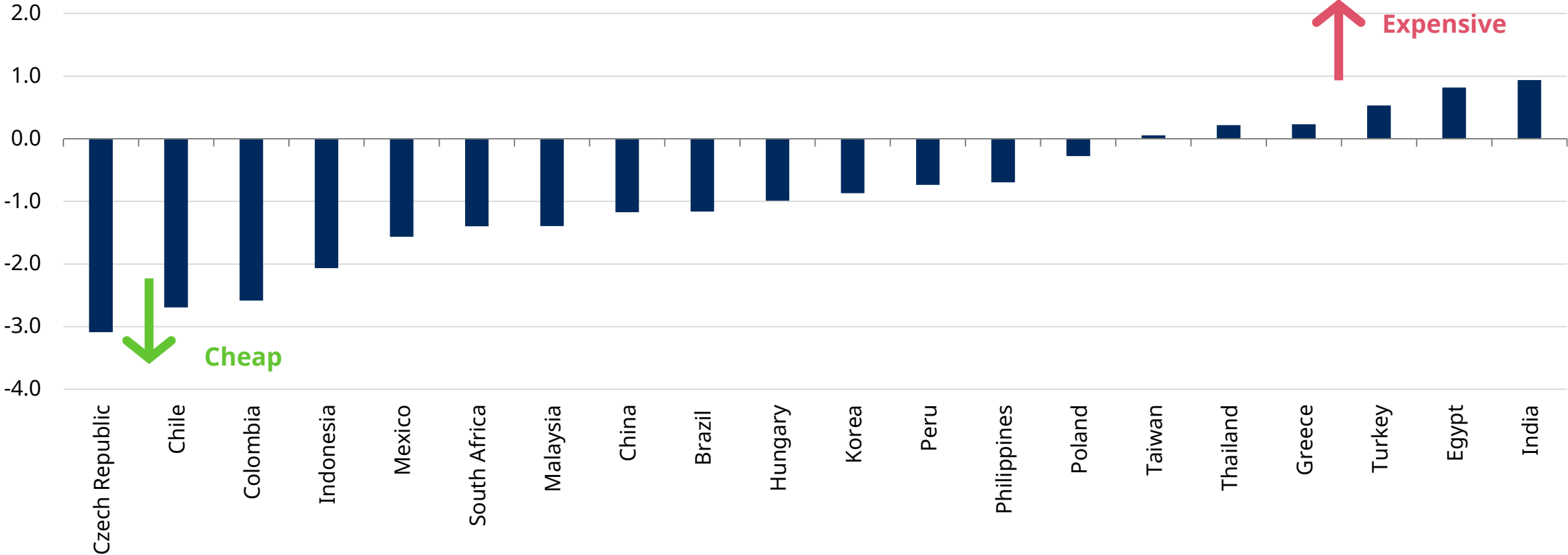
The P/B ratio (z-score¹)



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, LSEG Datastream, MSCI, IBES, Schroders Strategic Research Unit. Data as at 31 January 2024. Please see relevant disclaimers on page 45.

Standardised EM country valuations: the dividend yield

The dividend yield (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, LSEG Datastream, MSCI, IBES, Schroders Strategic Research Unit. Data as at 31 January 2024. Please see relevant disclaimers on page 45.

EM country-level valuations

How countries stack up when measured against their own history

On a combined valuation basis, most EM markets are cheap vs history, with the notable exception of India

Asian market valuations are mixed:

- India is the most expensive market in EM, while South Korea and Taiwan score close to neutral.
- China is the cheapest market in EM Asia.
- Malaysia, Indonesia, the Philippines and to a lesser extent Thailand are cheap versus history.

The Latin American markets offer the most compelling valuations:

- Chile is the cheapest market in EM, when measured against its own history.
- Colombia, Mexico, Brazil, and Peru are also undervalued.

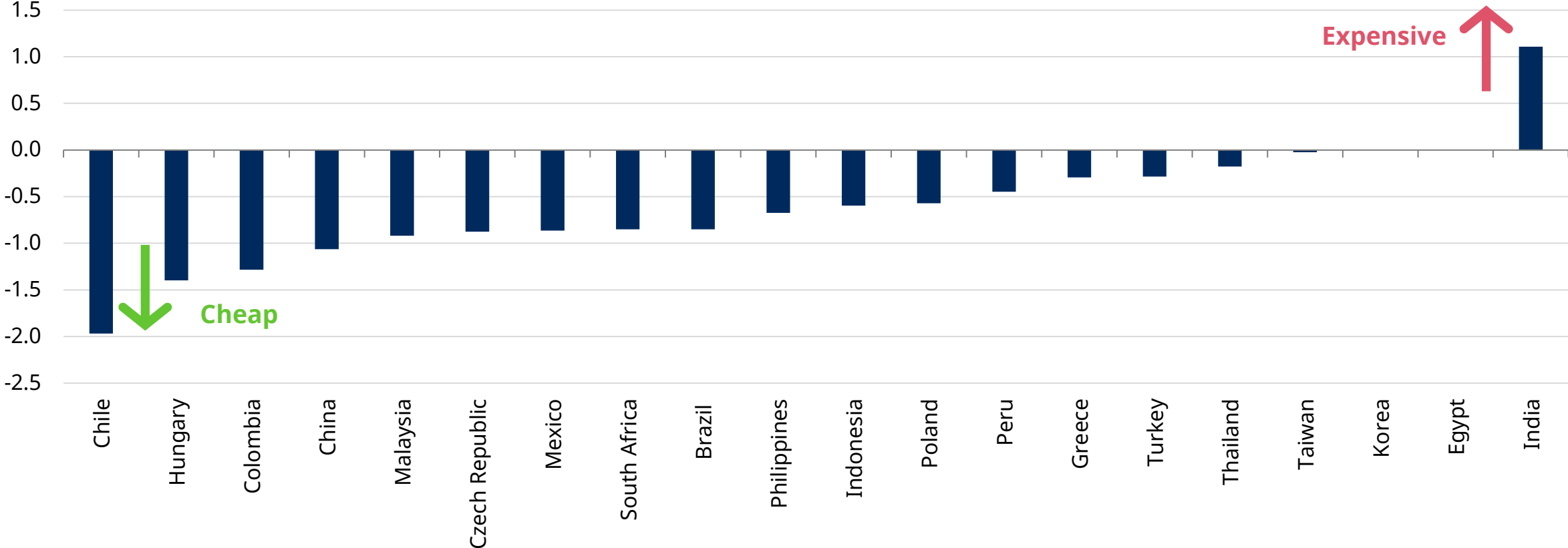
The EMEA markets are in general cheap:

- Hungary, Czech Republic and South Africa are the cheapest in EMEA.
- Valuations in Poland, Greece, and Turkey are also below the historical average. Egypt is neutral.

Source: Schroders, LSEG Datastream, MSCI, IBES, Schroders Strategic Research Unit. Data as at 31 January 2024. Please see relevant disclaimers on page 45.

Standardised EM country valuations: combined

Average (trailing P/E, P/E, P/B, dividend yield) (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, LSEG Datastream, MSCI, IBES, Schroders Strategic Research Unit. Data as at 31 January 2024. Please see relevant disclaimers on page 45.

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 | -1.1 | -2.6 | -1.4 | -2.7 | -2.0 |
| Hungary | -1.6 | -2.0 | -1.0 | -1.0 | -1.4 |
| Colombia | -0.3 | -1.2 | -1.1 | -2.6 | -1.3 |
| China | -0.8 | -1.0 | -1.3 | -1.2 | -1.1 |
| Malaysia | 0.1 | -0.8 | -1.6 | -1.4 | -0.9 |
| Czech Republic | -0.1 | -0.3 | 0.0 | -3.1 | -0.9 |
| Mexico | -0.7 | -0.6 | -0.5 | -1.6 | -0.9 |
| South Africa | -1.1 | 0.6 | -1.5 | -1.4 | -0.9 |
| Brazil | -1.3 | -0.6 | -0.3 | -1.2 | -0.9 |
| Philippines | -0.1 | -1.3 | -0.6 | -0.7 | -0.7 |
| Indonesia | 0.0 | 0.4 | -0.8 | -2.1 | -0.6 |
| Poland | 0.0 | -1.3 | -0.7 | -0.3 | -0.6 |
| Peru | -0.4 | -0.1 | -0.6 | -0.7 | -0.4 |
| Greece | -0.1 | -0.8 | -0.5 | 0.2 | -0.3 |
| Turkey | -0.2 | -1.5 | 0.0 | 0.5 | -0.3 |
| Thailand | 0.1 | 0.3 | -1.3 | 0.2 | -0.2 |
| Taiwan | -0.2 | -1.0 | 1.0 | 0.1 | 0.0 |
| Korea | 1.2 | 0.5 | -0.9 | -0.9 | 0.0 |
| Egypt | -0.6 | -0.8 | 0.5 | 0.8 | 0.0 |
| India | 1.1 | 1.5 | 0.9 | 0.9 | 1.1 |

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, LSEG Datastream, MSCI, IBES, Schroders Strategic Research Unit. Data as at 31 January 2024. Please see relevant disclaimers on page 45.

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 |
|-----------------------|--------------|------------------|------|----------------|----------|
| Colombia | -65% | -52% | -32% | -67% | -54% |
| Chile | -61% | -48% | -31% | -65% | -51% |
| Hungary | -56% | -44% | -40% | -36% | -44% |
| China | -24% | -27% | -36% | -25% | -28% |
| Greece | -40% | -25% | -43% | 2% | -27% |
| Poland | -35% | -25% | -17% | -26% | -26% |
| Brazil | -40% | -15% | 3% | -48% | -25% |
| South Africa | -25% | -18% | -32% | -26% | -25% |
| Philippines | -24% | -23% | -17% | -28% | -23% |
| Czech Republic | -33% | -7% | 17% | -57% | -20% |
| Peru | -15% | 0% | -16% | -35% | -16% |
| Mexico | -10% | -6% | -4% | -44% | -16% |
| Indonesia | -2% | 2% | -17% | -46% | -16% |
| Turkey | -38% | -44% | 8% | 25% | -12% |
| Malaysia | 11% | -10% | -24% | -26% | -12% |
| Korea | 45% | 7% | -14% | -22% | 4% |
| Thailand | 29% | 23% | -20% | 3% | 9% |
| Taiwan | 11% | 12% | 21% | -3% | 10% |
| Egypt | -17% | -21% | 45% | 63% | 17% |
| India | 34% | 39% | 29% | 29% | 33% |

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

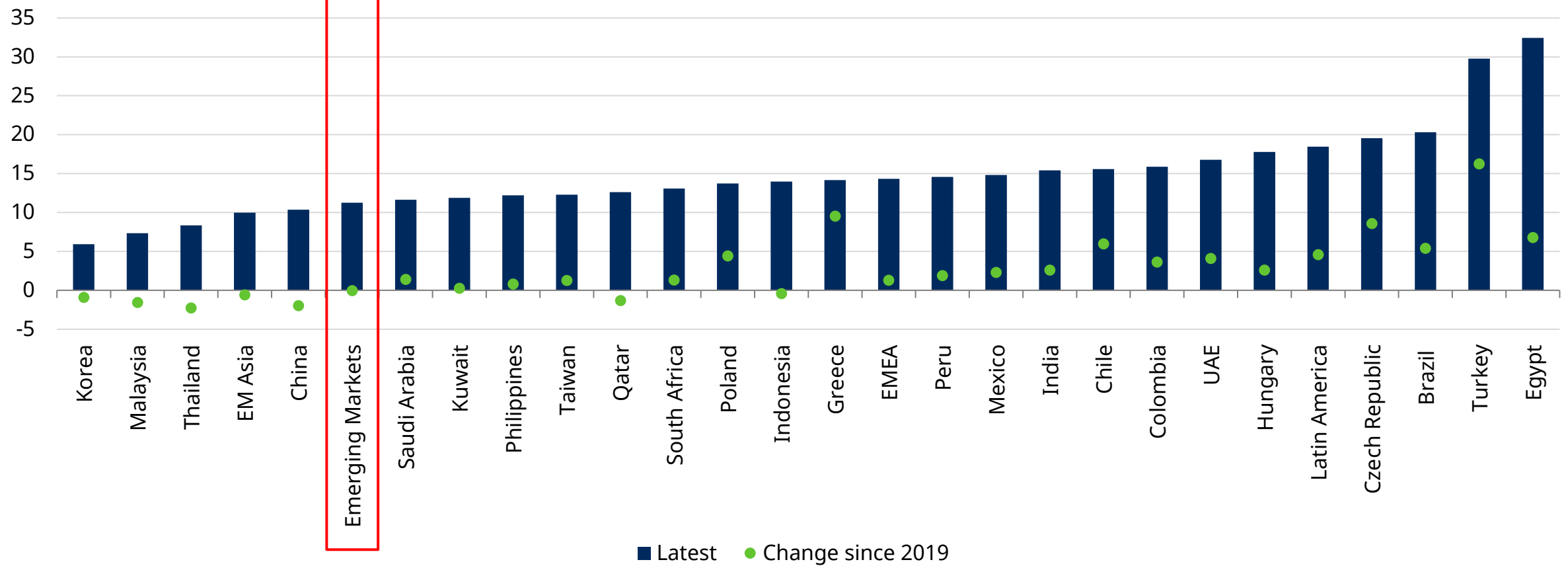
Discount to historical median (since Jan 1995 or earliest available). Combined figure is an average of trailing P/E, 12-month forward P/E, P/B, and dividend yield.

Source: Schroders, LSEG Datastream, MSCI, IBES, Schroders Strategic Research Unit. Data as at 31 January 2024. Please see relevant disclaimers on page 45.

EM return on equity

Headline EM ROE is in line with pre-Covid levels

Return on equity (%)



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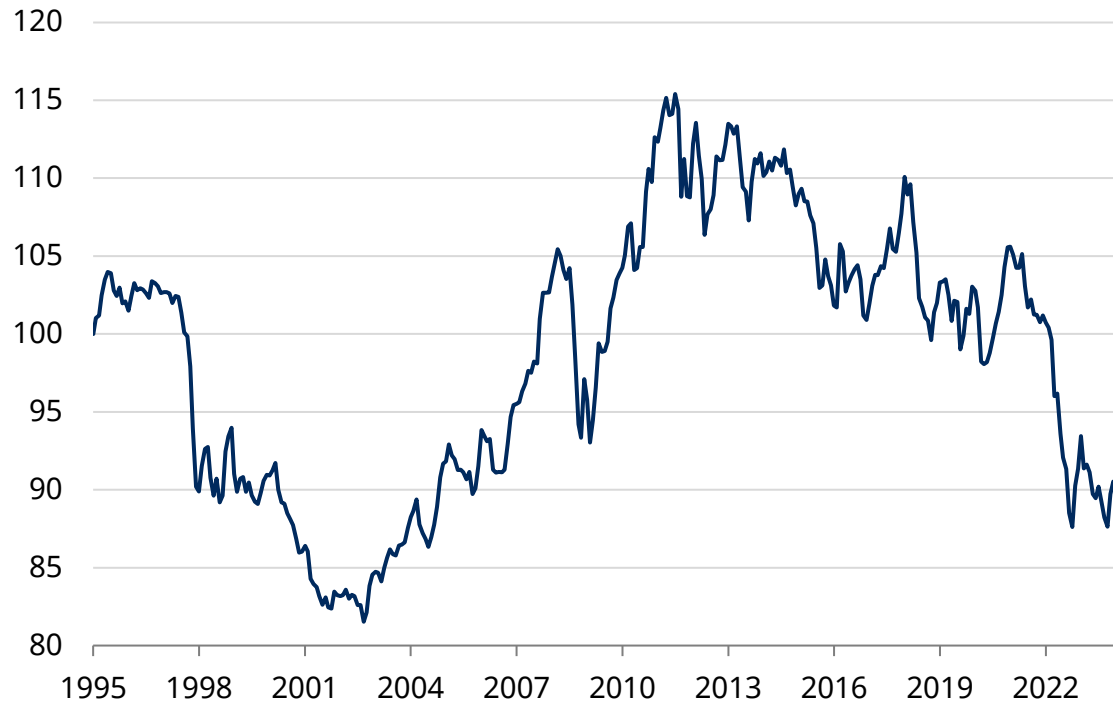


EM currency valuations

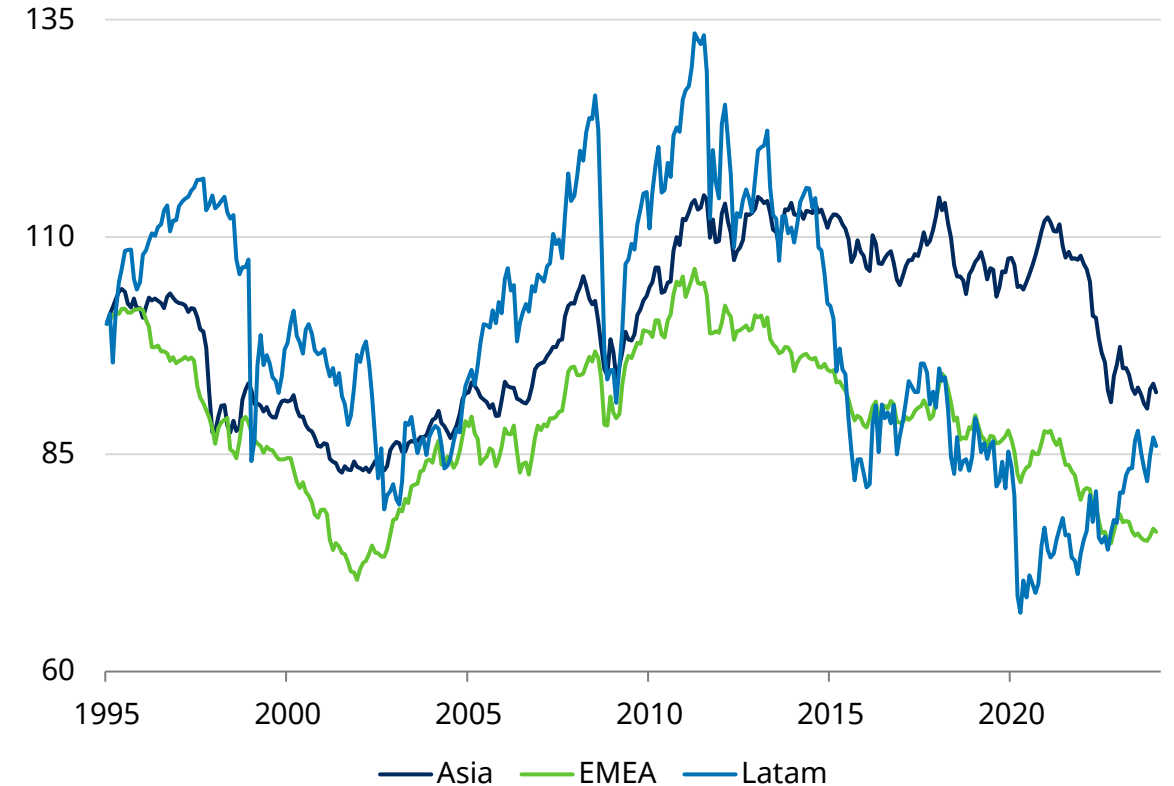
Is there value in EM currencies?

EM currencies have depreciated in real terms since 2011

EM real exchange rate¹



EM real exchange rates of regions¹

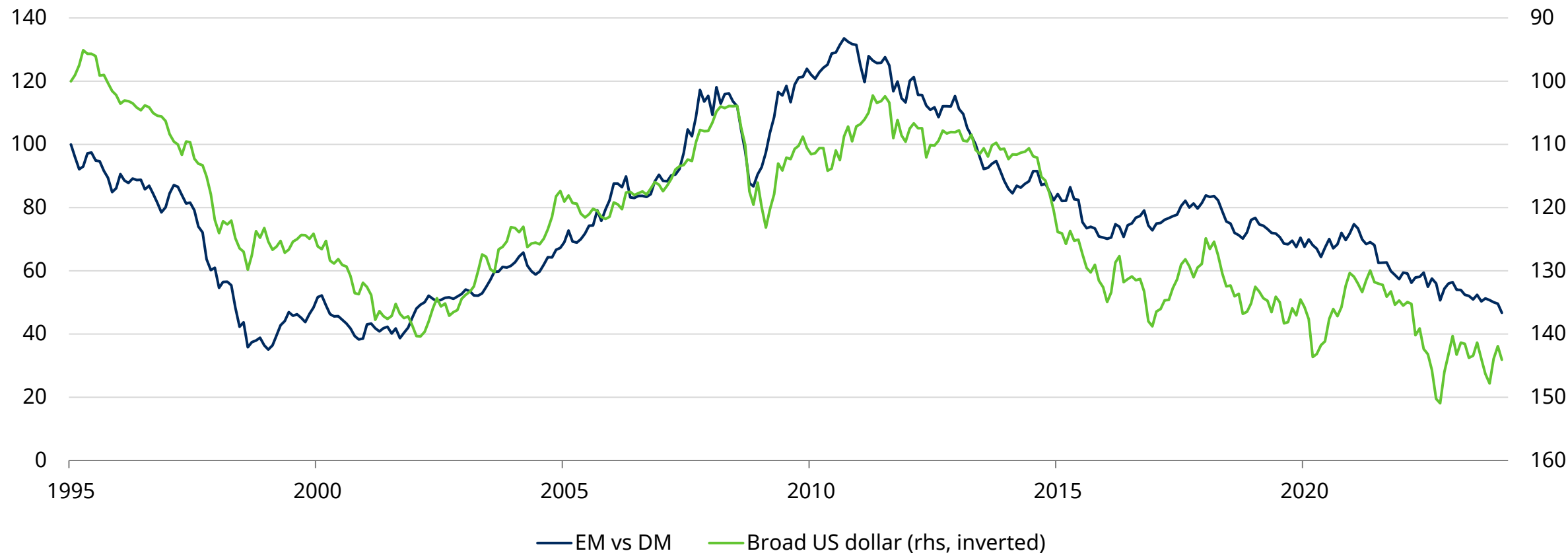


Real exchange rate is the nominal dollar exchange rate deflated by the CPI of each EM country vs. US. ¹Based on the latest MSCI EM Index country weights. Source: LSEG Datastream, MSCI, Schroders Strategic Research Unit. Data as at 31 January 2024. Please see relevant disclaimers on page 45.

The importance of the US dollar for EM equity performance

The long period of dollar strength has weighed on EM

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



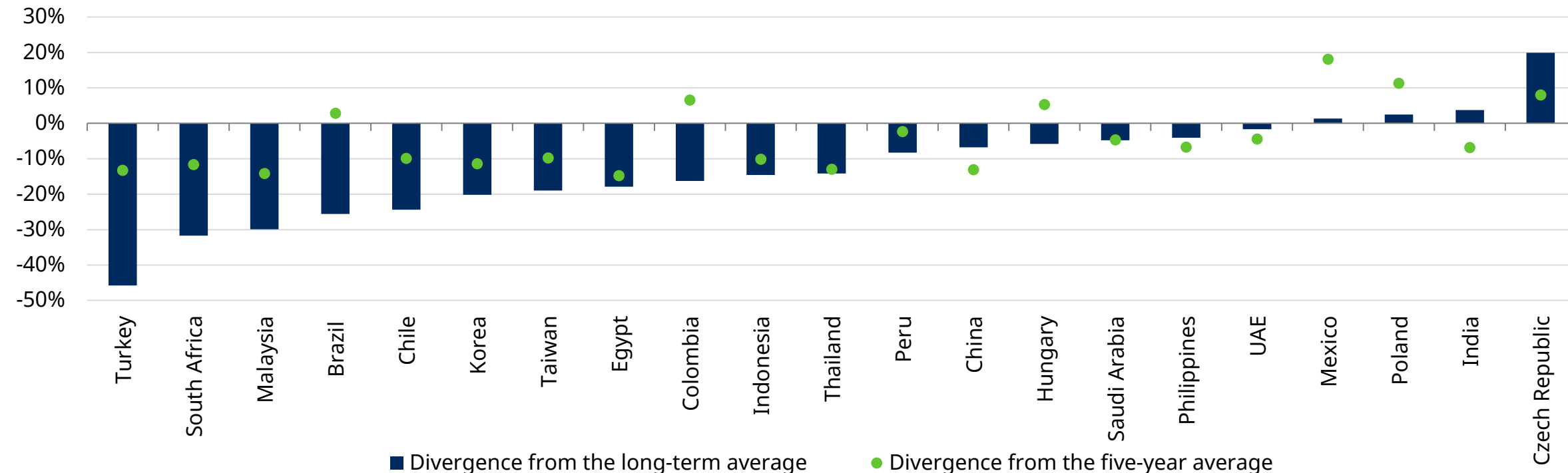
Past performance is not a guide to future performance and may not be repeated.

Source: LSEG Datastream, MSCI, Schroders Strategic Research Unit. Data as at 31 January 2024. Please see relevant disclaimers on page 45.

The value in EM currencies varies considerably

Some currencies are significantly undervalued

Real exchange rate: deviation from average



Turkey, South Africa, and Malaysia have the cheapest currencies; real exchange rate is above the long-term average in Czech Republic and to a lesser extent in India and Poland

Source: Schroders, LSEG Datastream, Schroders Strategic Research Unit. Data as at 31 January 2024.

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.

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