



Schroders Emerging Markets Lens: Equity

Strategic Research Unit

July 2023

Marketing material for professional
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Summary

- EM equities have returned 5% YTD, but remain adrift from DM, which is up +15%. Weakness in China has been a drag for EM, while DM has been boosted by a sharp rebound in the US Super-7* stocks (slide 8)
- Country return dispersion YTD remains wide; from +43% in Greece to -19% in Turkey (slide 9). Read more on the contrast between these [neighbouring markets who are miles apart economically](#)
- EM equities are slightly above the historical median 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 (slide 15). 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 (slide 19)
- 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 (slide 22)
- 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

Note: EMEA is Europe, the Middle East and Africa.

Source: MSCI, Refinitiv Datastream.

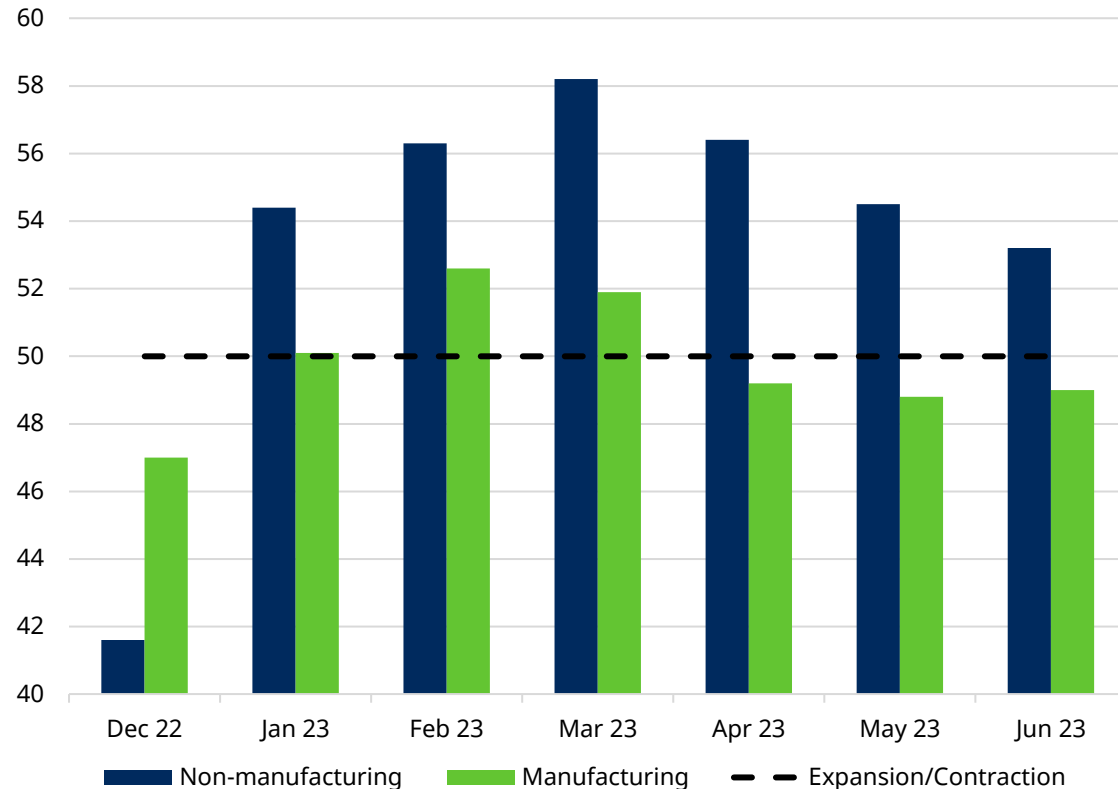
These are Apple, Microsoft, Alphabet (Google), Amazon, Tesla, Meta (Facebook), and Nvidia.

Please see relevant disclaimers on page 40.

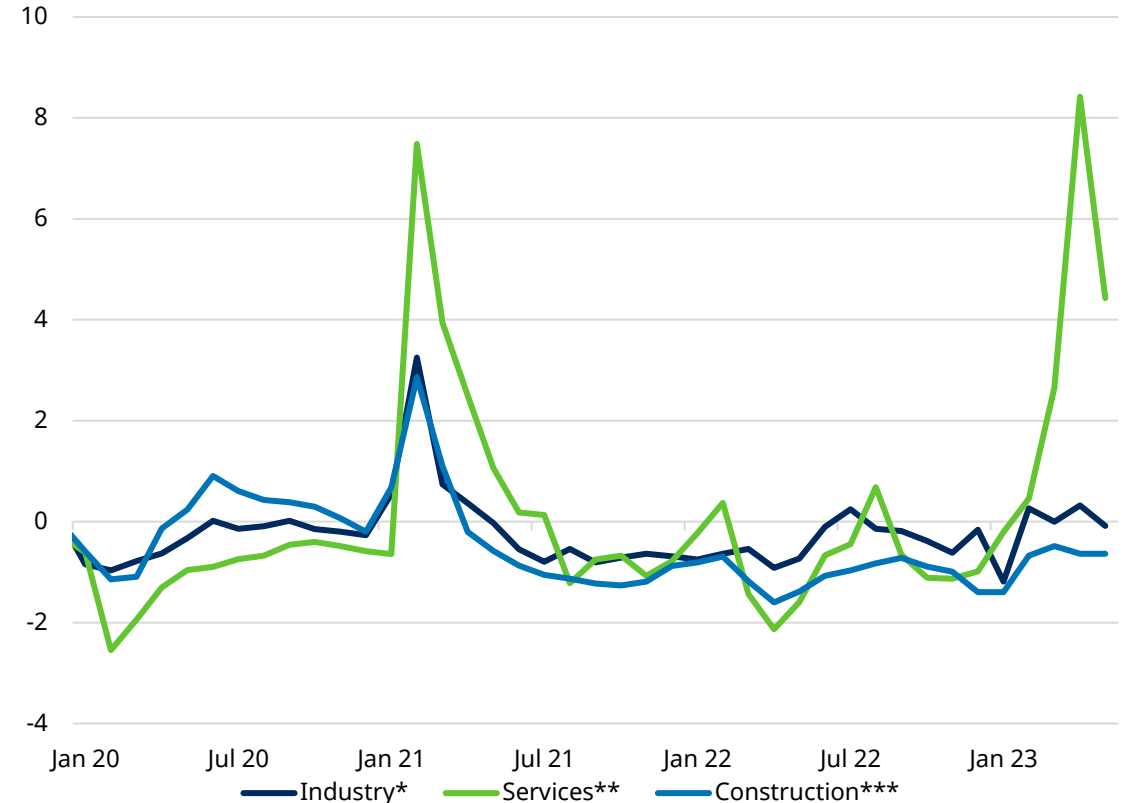
What to watch: will China deploy stimulus?

Growth remains imbalanced, while some activity data has softened

Manufacturing and non-manufacturing PMI



Components of Growth Tracker (z-scores¹)



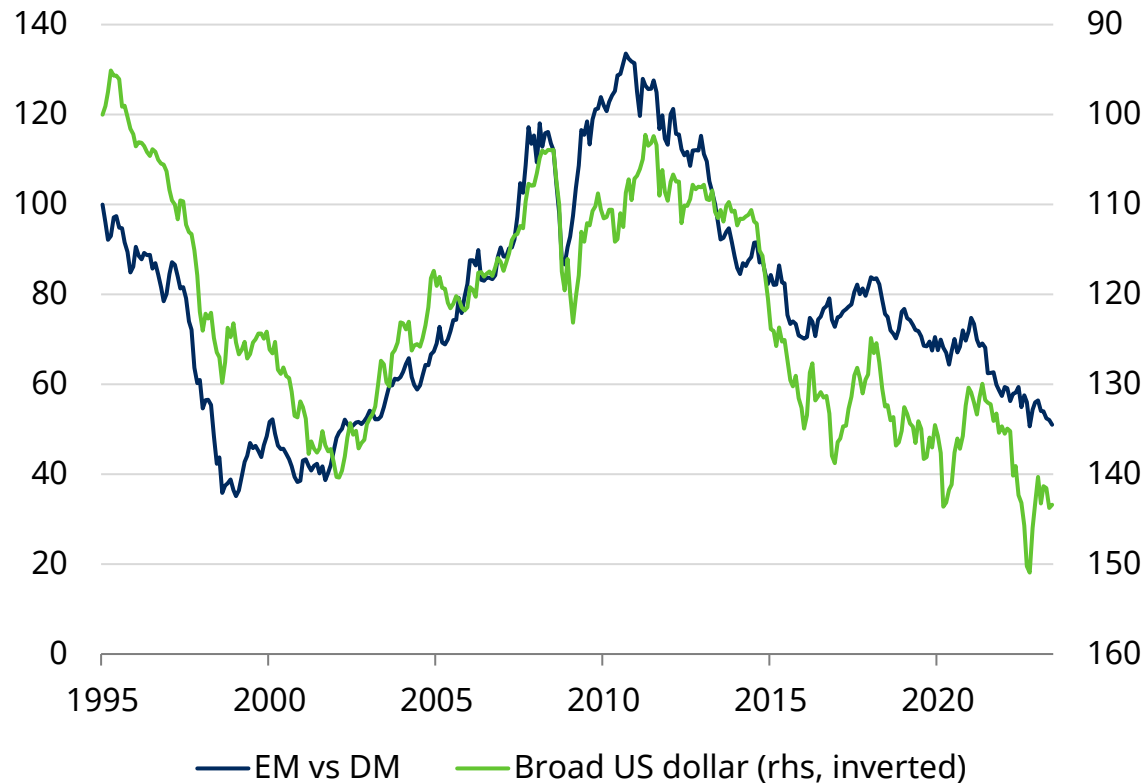
Q2 GDP growth is scheduled for release on 17 July

Source: Refinitiv Datastream, NBS, Schroders Strategic Research Unit. Data as at 7 July 2023. (a reading above 50 represents expansion) Please see relevant disclaimers on page 40.

Source: Source: Refinitiv, Schroders Economics Group. 28 June 2023. ¹z-score is a measure of how far components are from historical mean. *Railways freight, seaport cargo, parcel volumes, vehicle production, electricity production **Vehicle sales, railway & airline passengers ***Cement production, new housing starts, excavator & truck sales, import volumes of industrial metals. Please see relevant disclaimers on page 40.

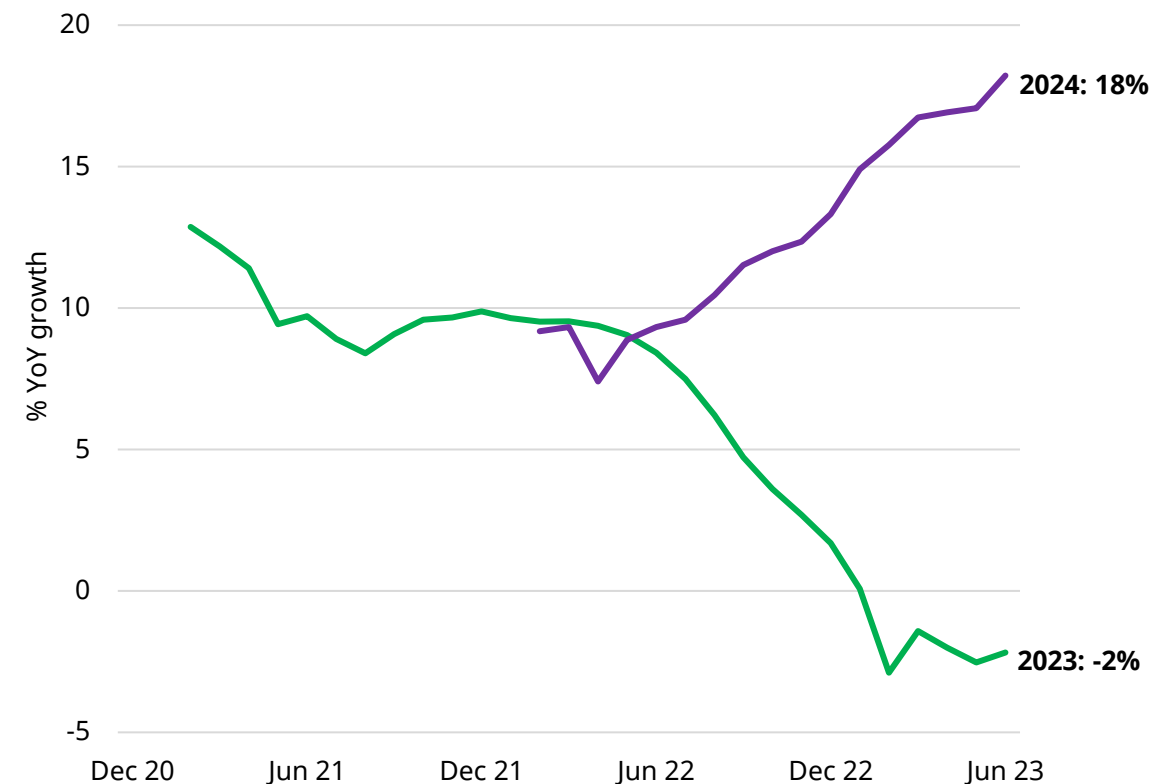
What to watch: EM earnings and the path of the US dollar

Is a dollar weakening trend set to restart?



A period of dollar weakness petered out in Q2

2023/2024 consensus earnings growth expectations



2023 expectations negative, but brighter 2024 compounds to >7% per annum

Source: Refinitiv Datastream, MSCI, IBES, Schroders Strategic Research Unit. All returns and growth rates shown in USD terms. Please see relevant disclaimers on page 40.

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

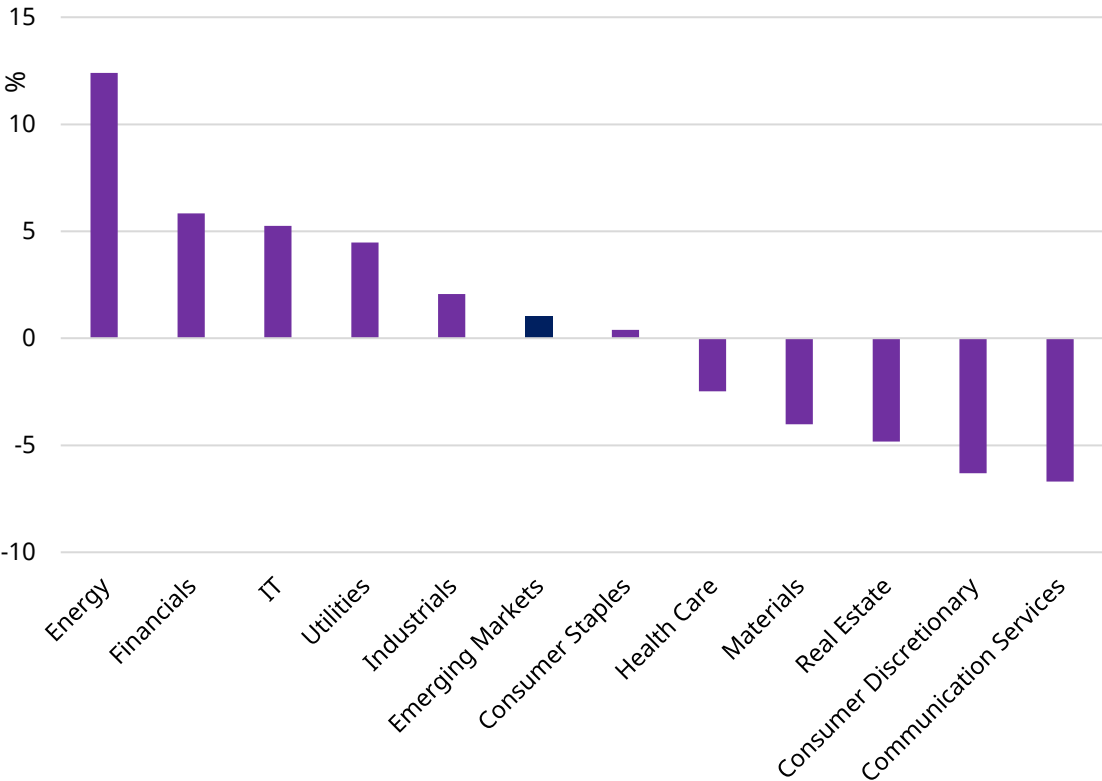


Emerging market equity performance

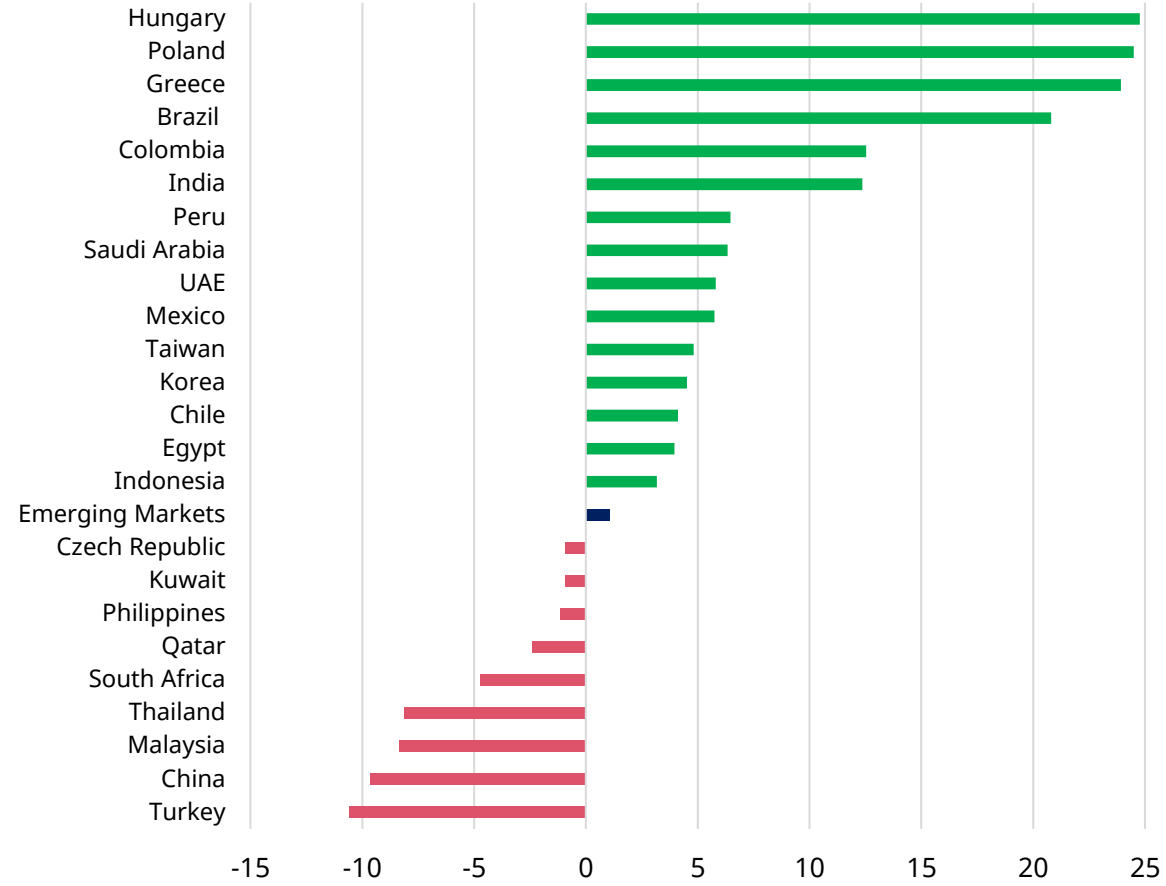
EM equities advanced in Q2, but lagged DM

A majority of markets made gains, but China remained a drag

Q2 2023 EM sector returns (USD)



Q2 2023 EM equity market returns (USD)



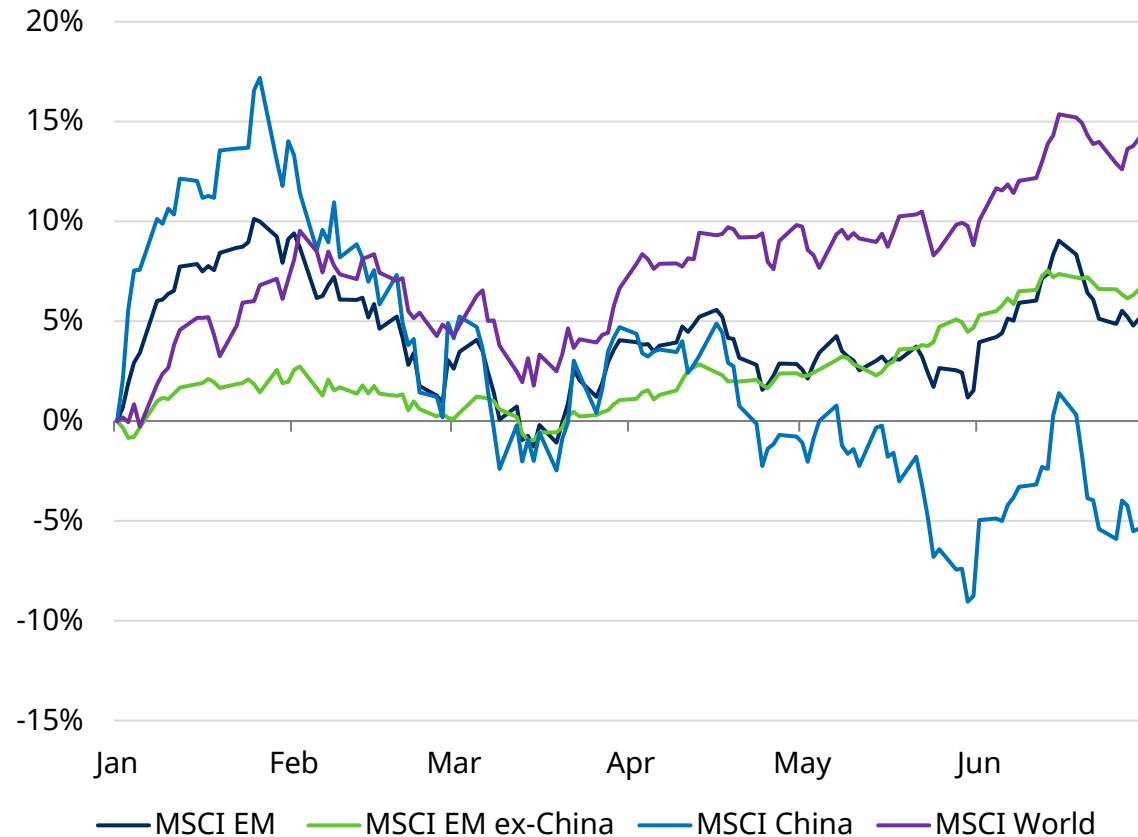
Past performance is not a guide to future performance and may not be repeated.
 Total return, US dollars.
 Source: Refinitiv Datastream, MSCI, Schroders Strategic Research Unit, as at 30 June 2023.
 Please see relevant disclaimers on page 40.

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 June 2023.

EM lags DM by a wide margin YTD

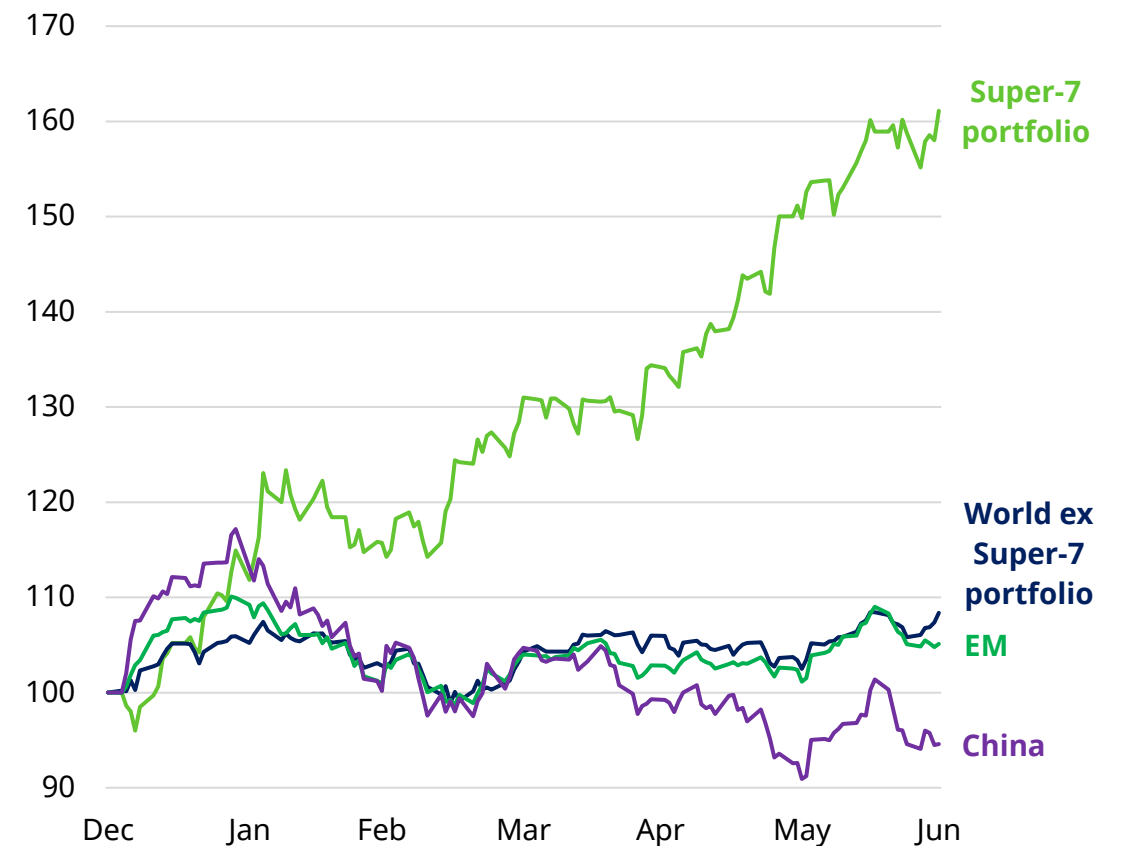
China has been a drag but much of the gap relates to Super-7 exceptionalism

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 30 June 2023.
Please see relevant disclaimers on page 40.

The Super-7 have been the big winners YTD

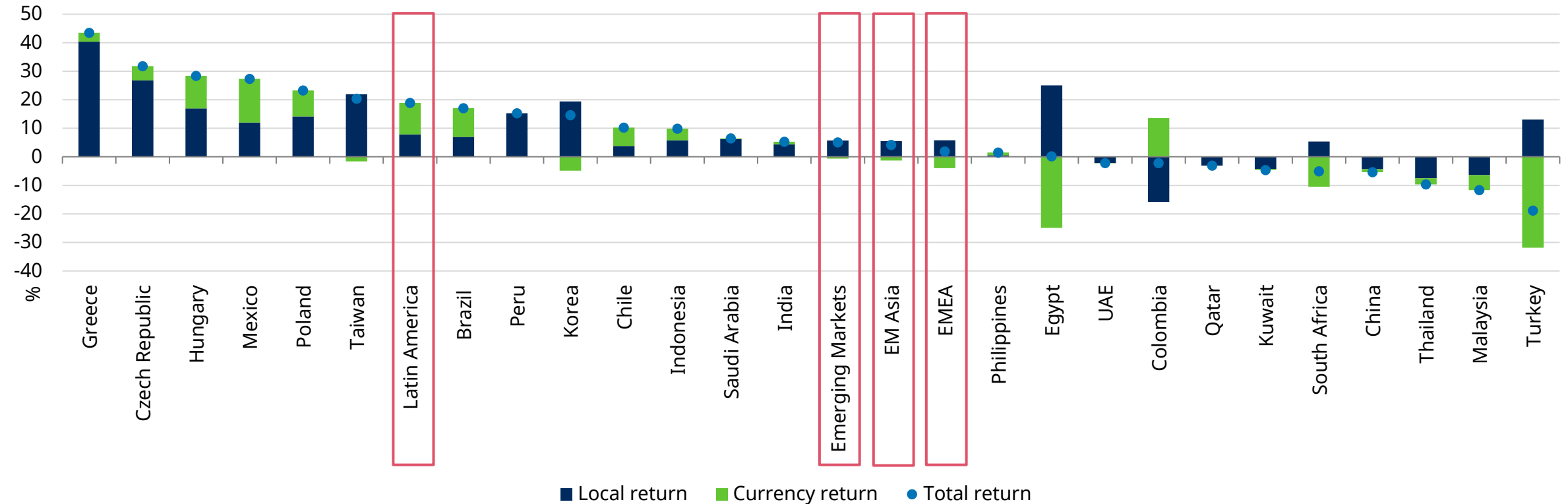


Past performance is not a guide to future performance and may not be repeated.
Super-7 portfolio is the seven largest companies in MSCI World by free float market capitalisation as at 31 December 2021. These are Apple, Microsoft, Alphabet (Google), Amazon, Tesla, Meta (Facebook), Nvidia. Source: Refinitiv Datastream, MSCI, Schroders Strategic Research Unit, as at 30 June 2023.

Significant variability in YTD EM performance

All regions represented in YTD outperformers, reflecting high intra-region return dispersion

YTD returns in EM equity markets, US dollar terms



Read more: [Turkey and Greece: neighbours who are miles apart economically](#)

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

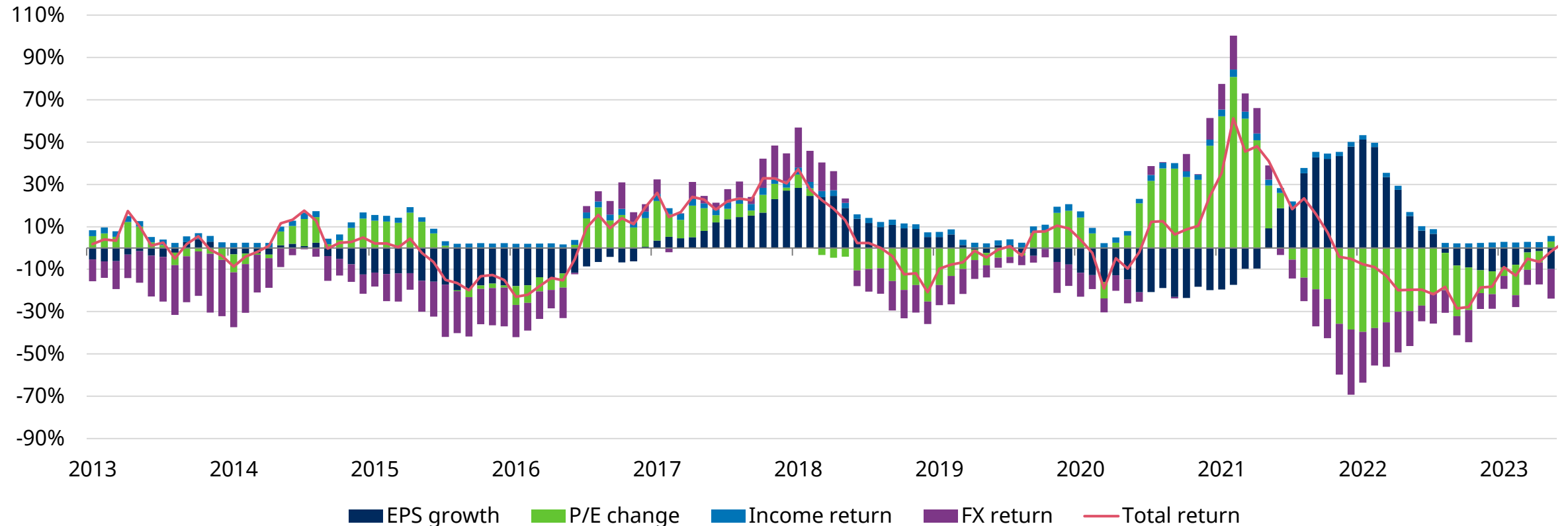
Note: EMEA is Europe, the Middle East and Africa.

Source: Schroders, Refinitiv Datastream, MSCI, Schroders Strategic Research Unit. Data as at 30 June 2023. Please see relevant disclaimers on page 40.

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 negative due to 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 June 2023. Please see relevant disclaimers on page 40.

A challenging decade for EM versus DM

The trend continues...

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.

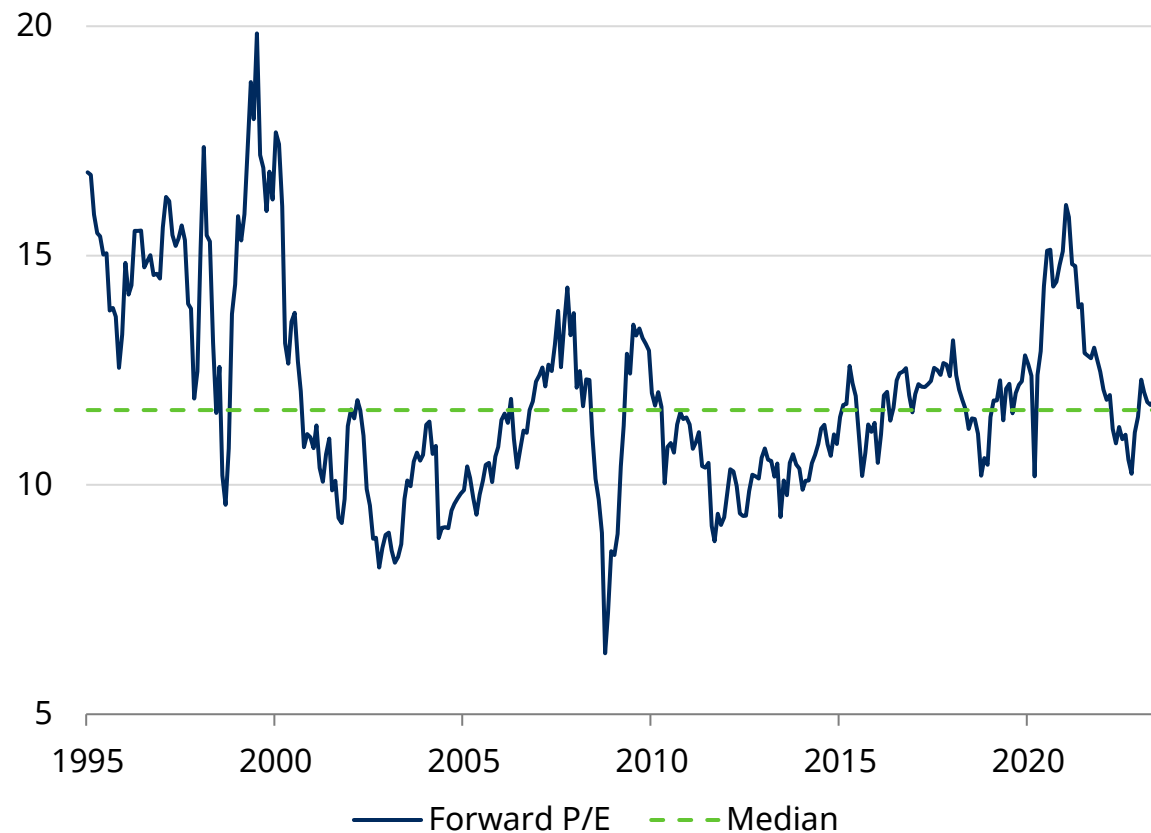
Source: Refinitiv Datastream, MSCI, IBES, Schroders Strategic Research Unit. Data as at 30 June 2023. All returns in USD terms. Please see relevant disclaimers on page 40.



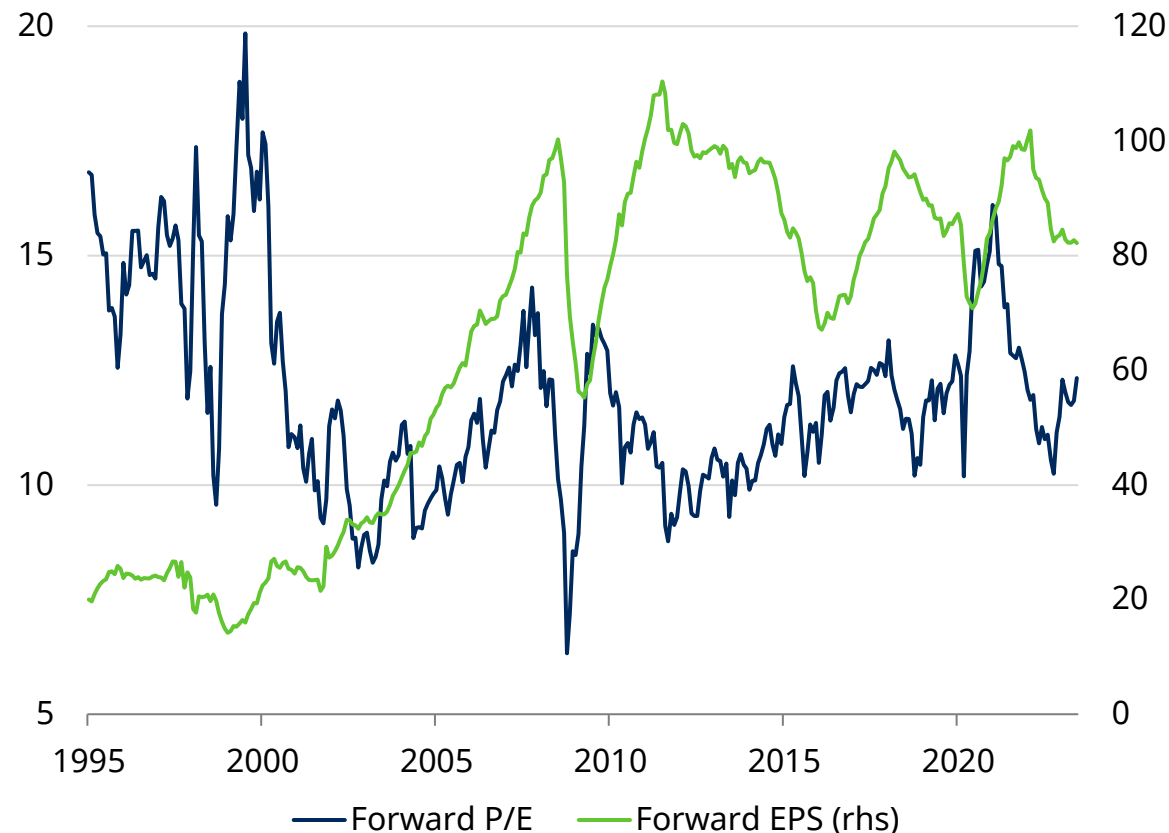
Emerging market equity valuations

EM equities are slightly above the historical median 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

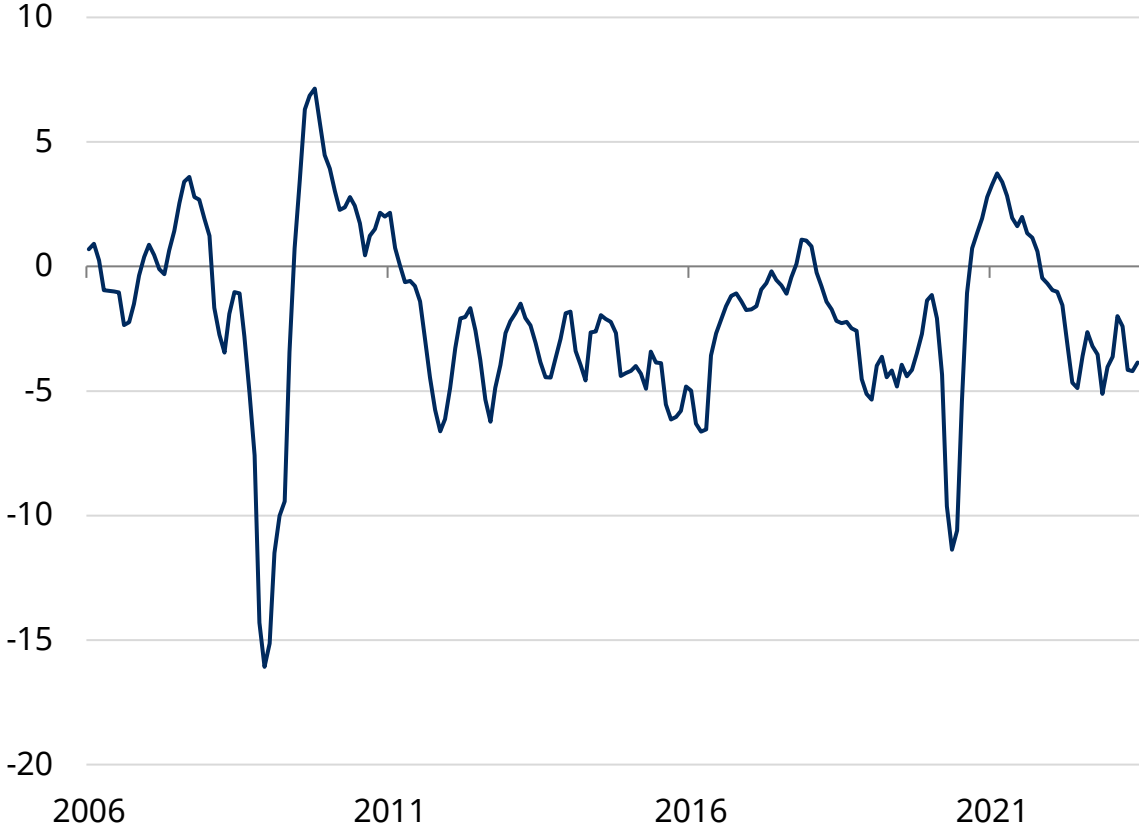


Source: Refinitiv Datastream, MSCI, IBES, Schroders Strategic Research Unit. Data as at 30 June 2023. Please see relevant disclaimers on page 40.

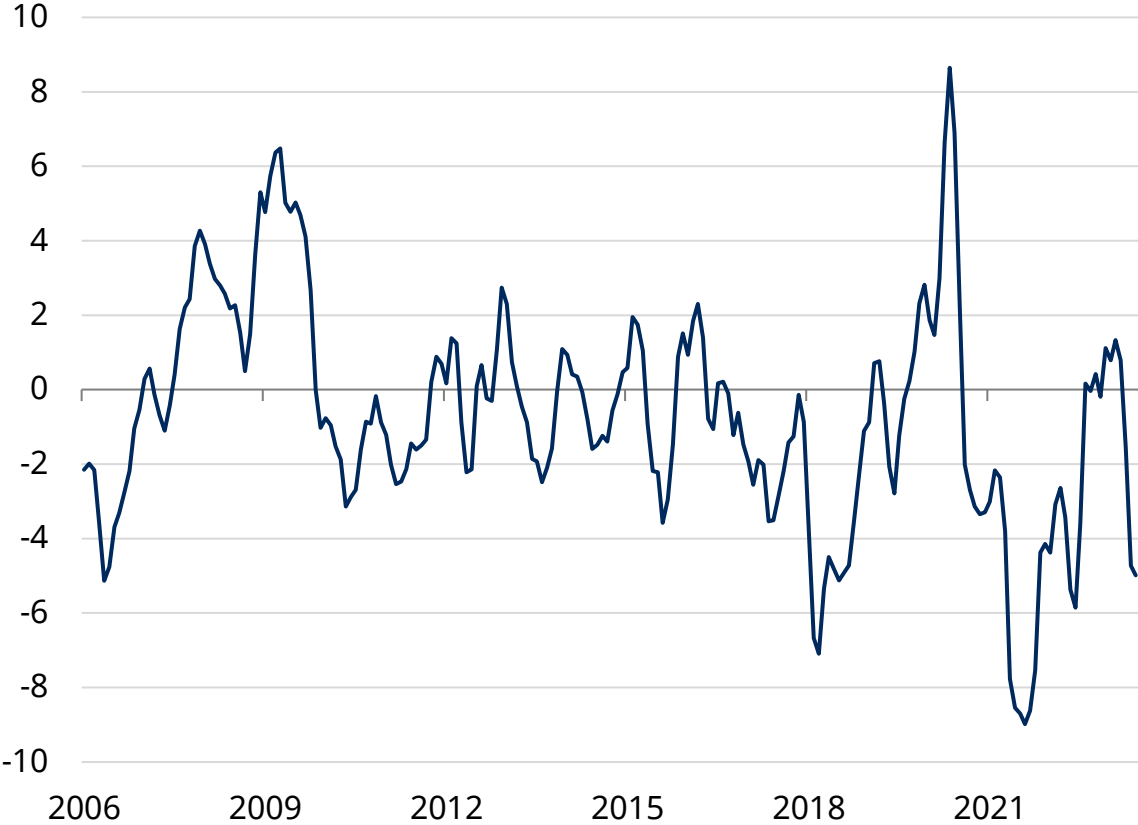
EM earnings revisions are still negative

...and are negative relative to DM

EM earnings revisions¹ (3-month average)



EM minus DM earnings revisions

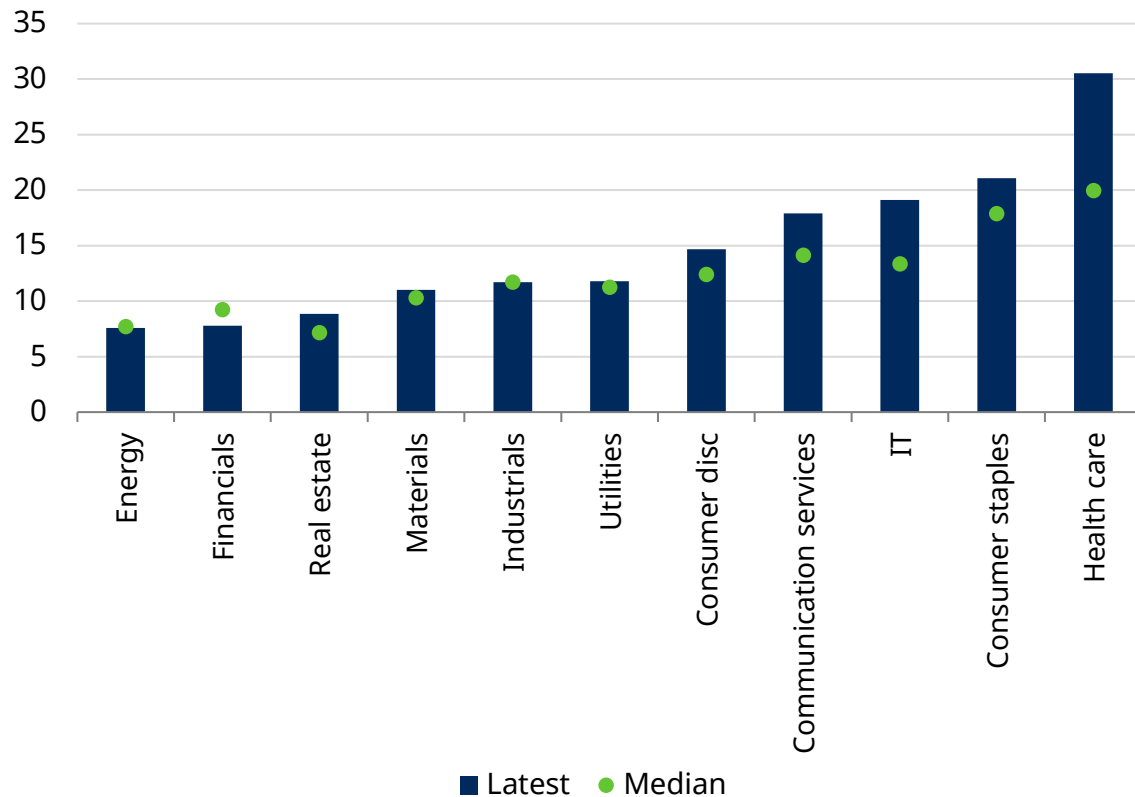


Calculated as the number earnings upgrades minus the number of earnings downgrades divided by the total numbers of earnings updates.
Source: Refinitiv Datastream, MSCI, IBES, Schroders Strategic Research Unit. Data as at 30 June 2023. Please see relevant disclaimers on page 40.

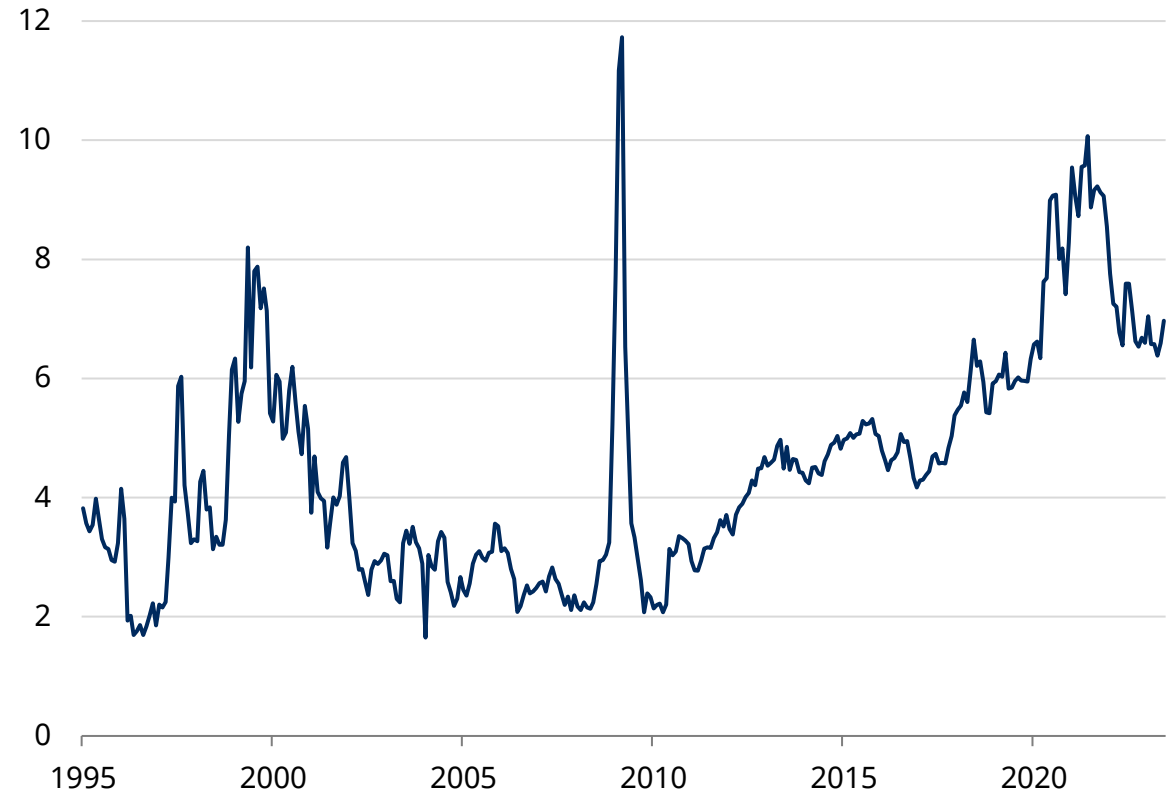
Variability in sector valuations remains high

Various higher P/E sectors are expensive versus history, notably health care

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



Standard deviation of EM sector forward P/E ratios

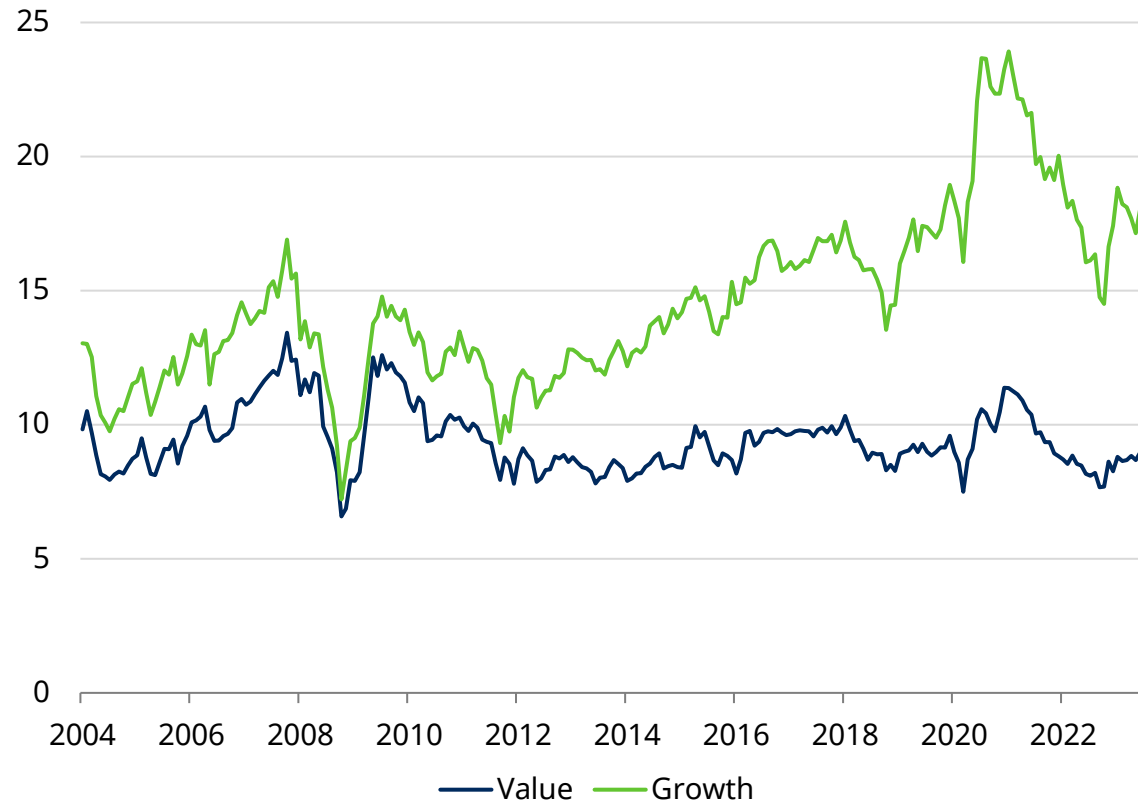


The standard deviation of EM sector forward P/E remains elevated

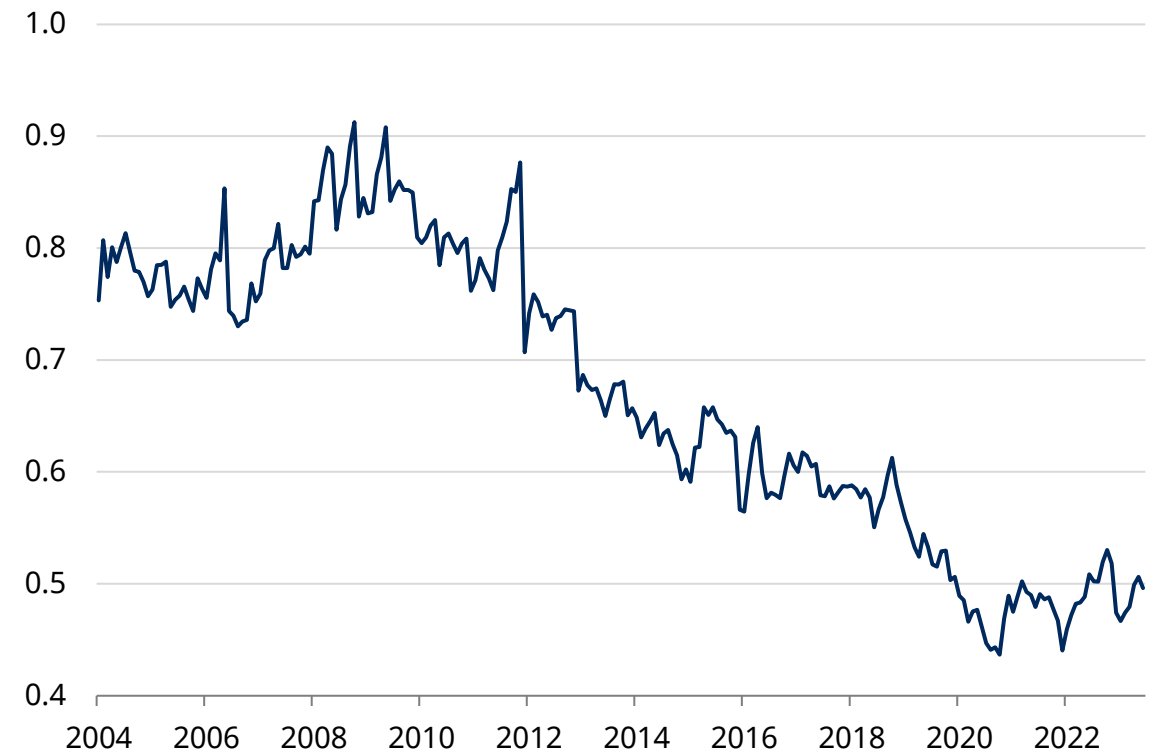
Source: Refinitiv Datastream, MSCI, IBES, Schroders Strategic Research Unit. Data as at 30 June 2023. Median since January 1999. Please see relevant disclaimers on page 40.

Value versus growth in EM

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



EM value/EM growth 12-month forward P/E



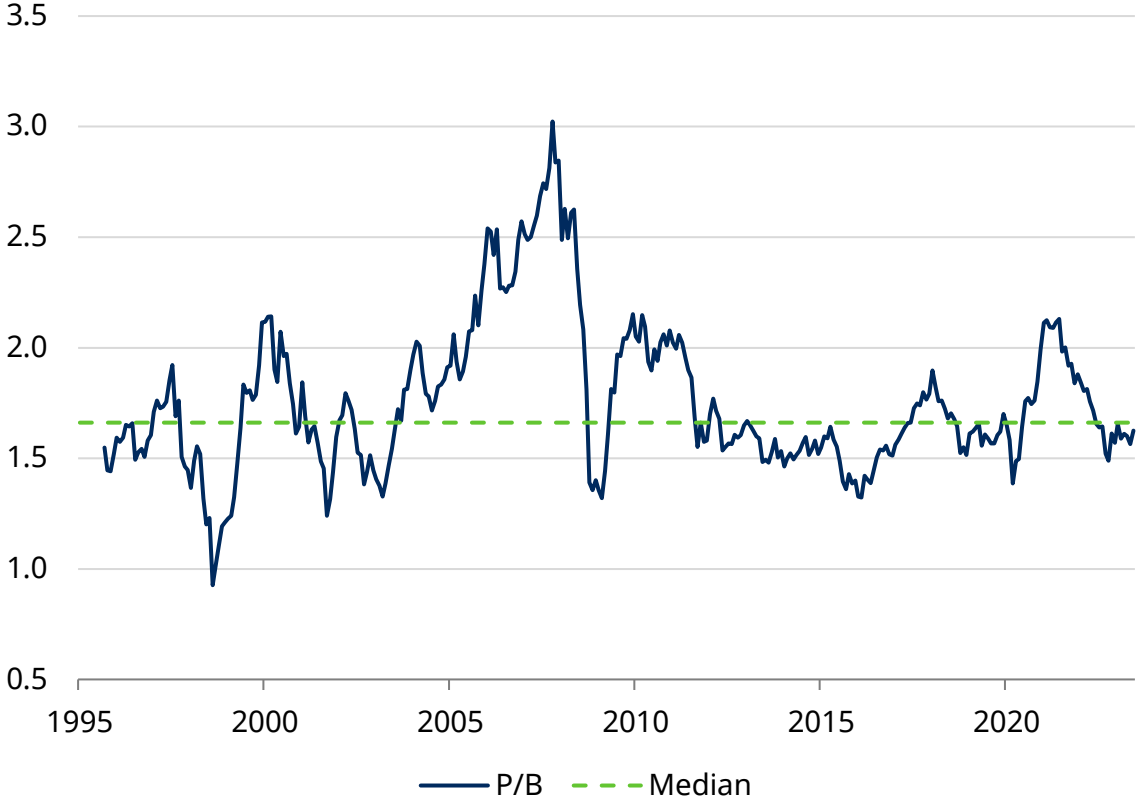
Value's discount to Growth is towards the top of its long term range

Source: Refinitiv Datastream, MSCI, Schroders Strategic Research Unit. Data as at 30 June 2023. Please see relevant disclaimers on page 40.

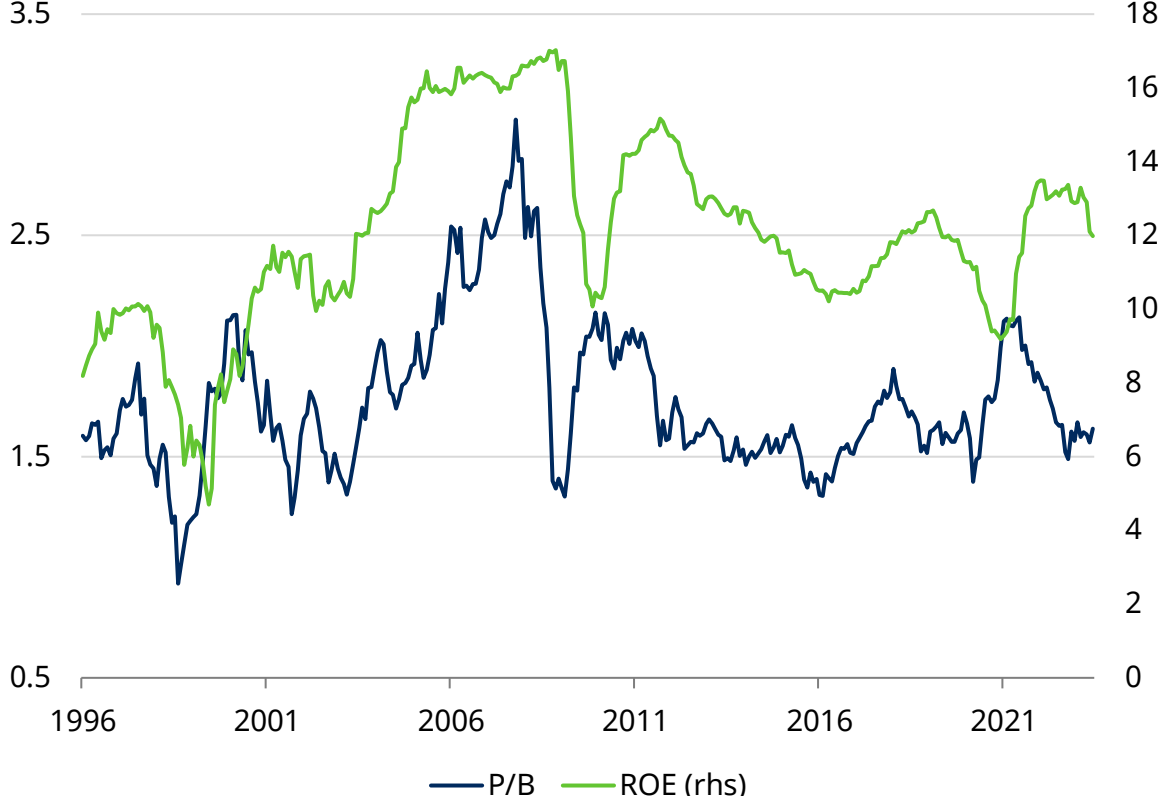
Other valuation metrics: price-to-book ratio

The P/B ratio is close to the historical median

The MSCI EM Index P/B



The MSCI EM Index P/B and ROE



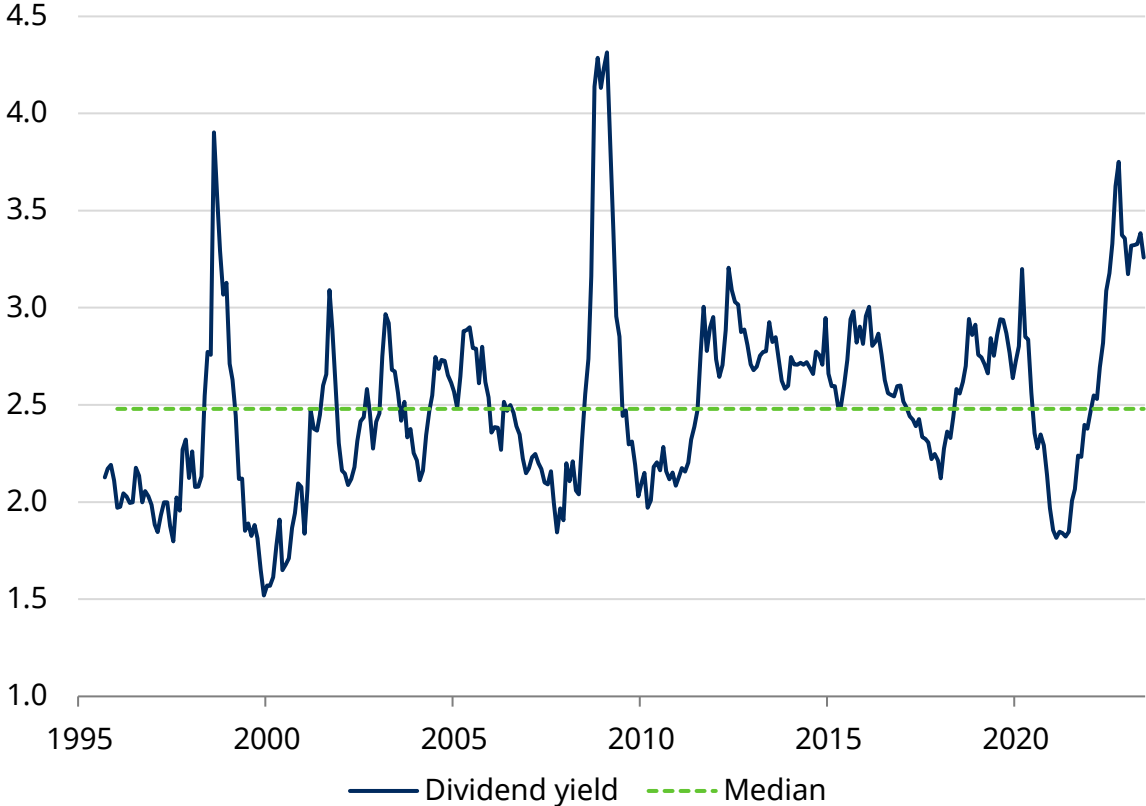
EM ROE is now falling

Source: Refinitiv Datastream, Schroders Strategic Research Unit, MSCI. Data as at 30 June 2023. Please see relevant disclaimers on page 40.

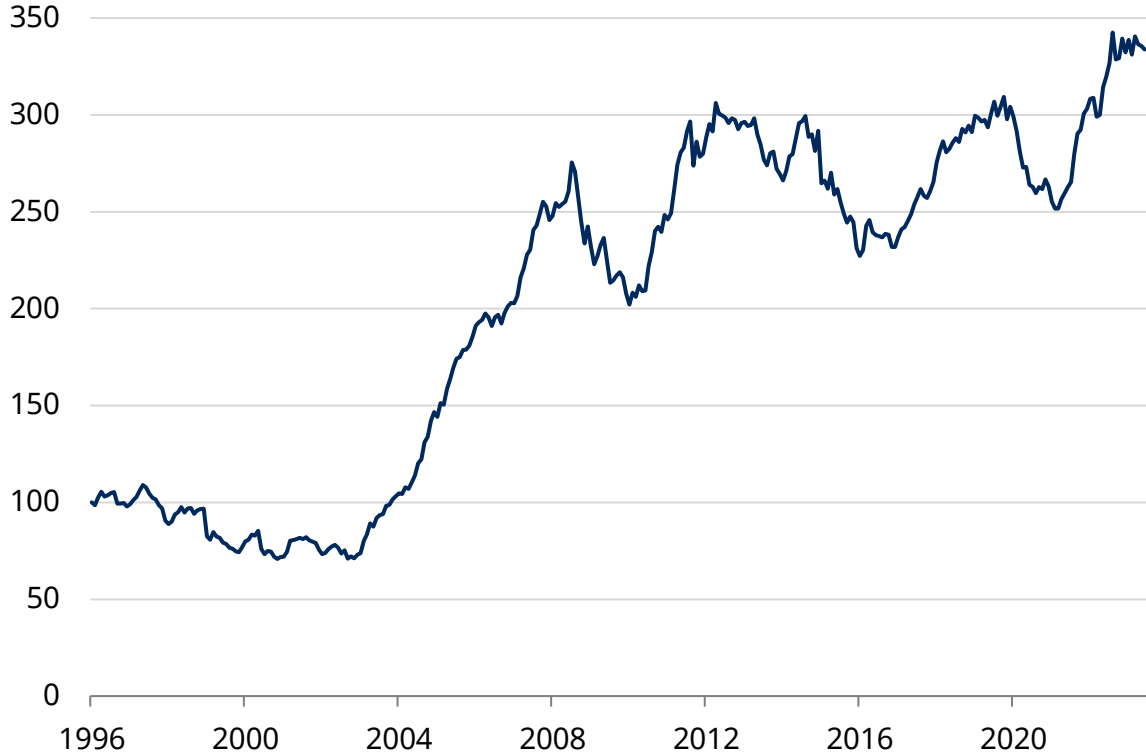
Other valuation metrics: the dividend yield

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)



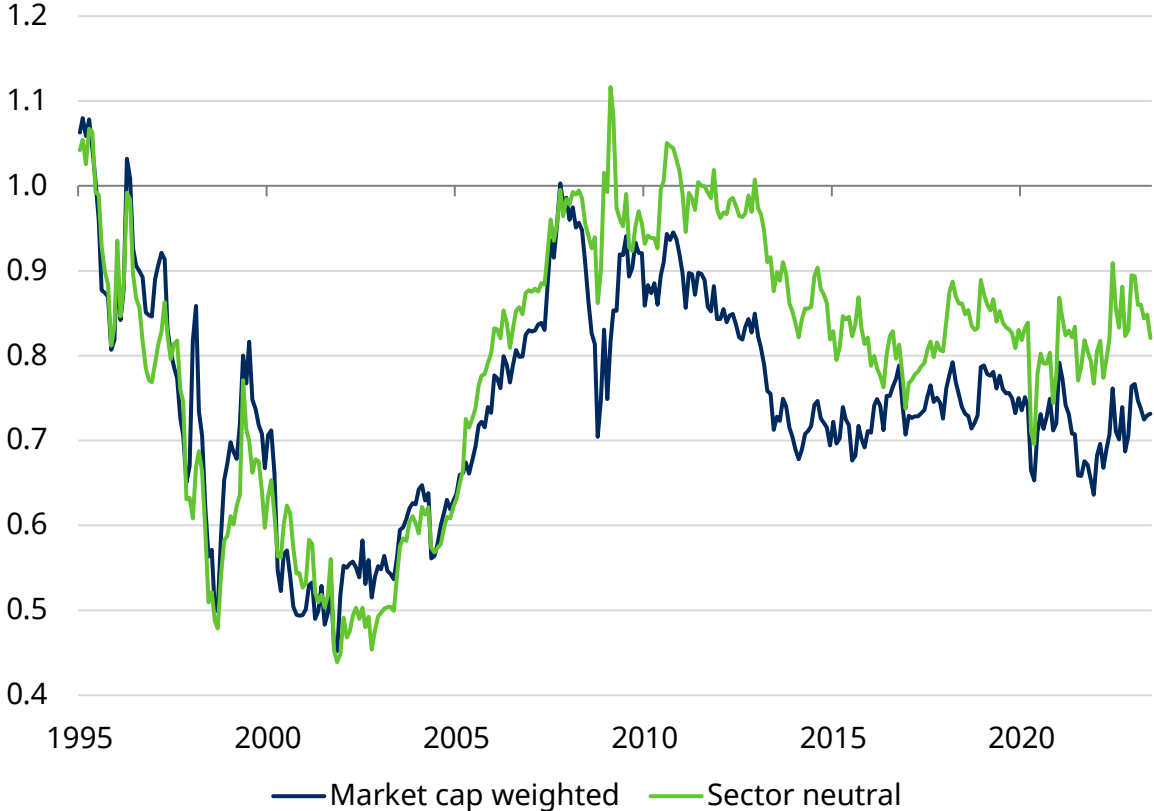
EM dividend yield remains elevated, despite the recent fall

Source: Refinitiv Datastream, Schroders Strategic Research Unit, MSCI. Data as at 30 June 2023. Please see relevant disclaimers on page 40.

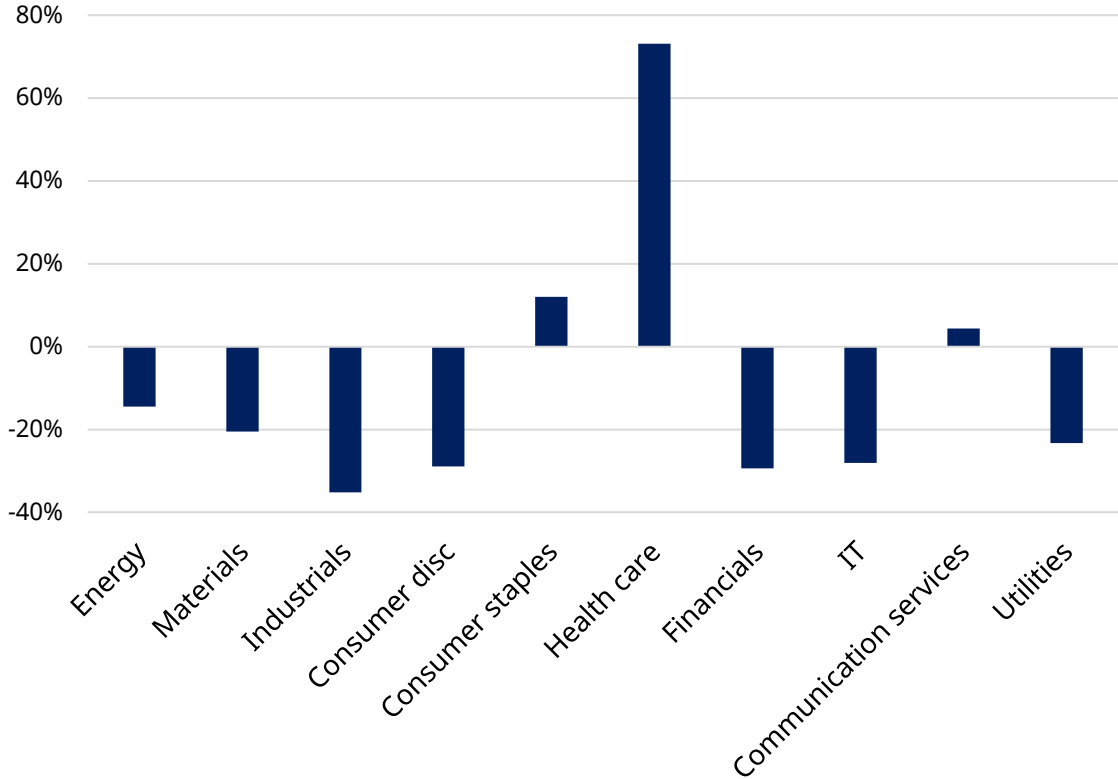
Emerging versus developed market valuations

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

EM/DM 12-month forward P/E



EM/DM 12-month forward P/E of sectors



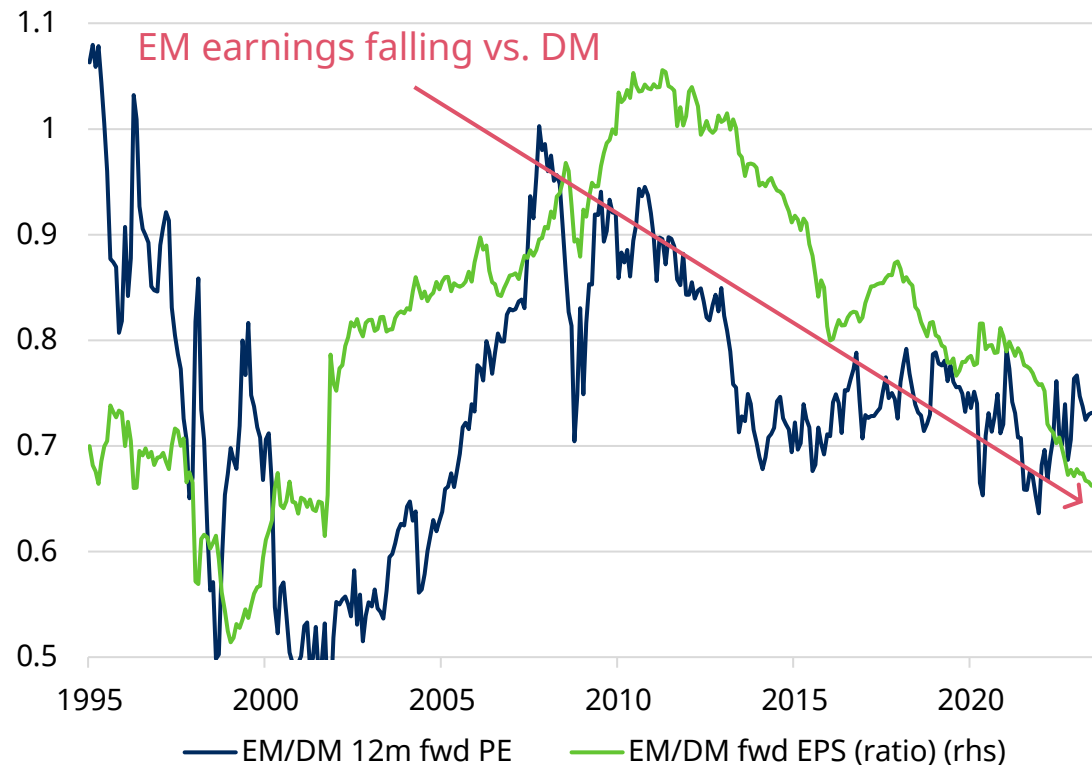
Health care is the only sector at a significant premium to DM

Source: Refinitiv Datastream, MSCI, IBES, Schroders Strategic Research Unit. Data as at 30 June 2023. Please see relevant disclaimers on page 40.

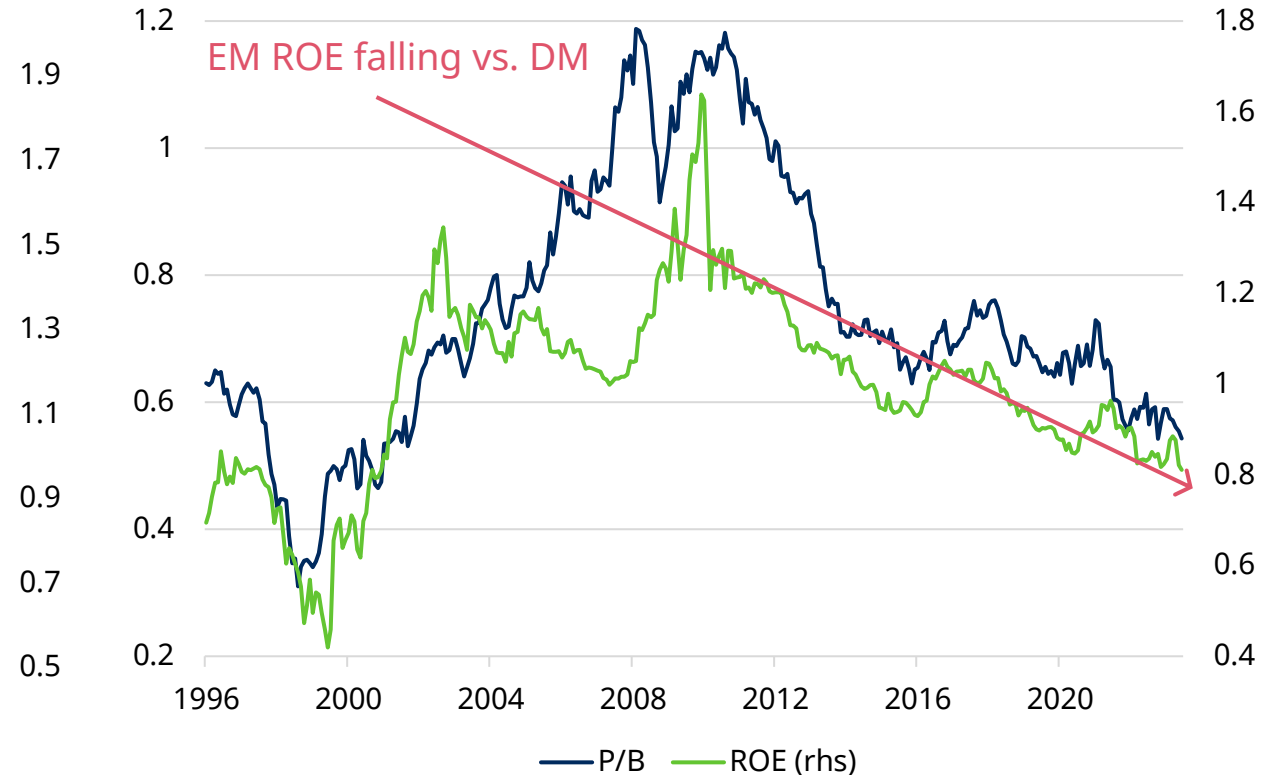
Drivers of EM/DM valuation gap

Better earnings and profitability needed to reduce EM discount to DM

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



EM/DM P/B and ROE



The ROE gap to DM has widened again, due to falling EM ROE

Source: Refinitiv Datastream, MSCI, IBES, Schroders Strategic Research Unit. Data as at 30 June 2023. Please see relevant disclaimers on page 40.

Emerging markets index composition

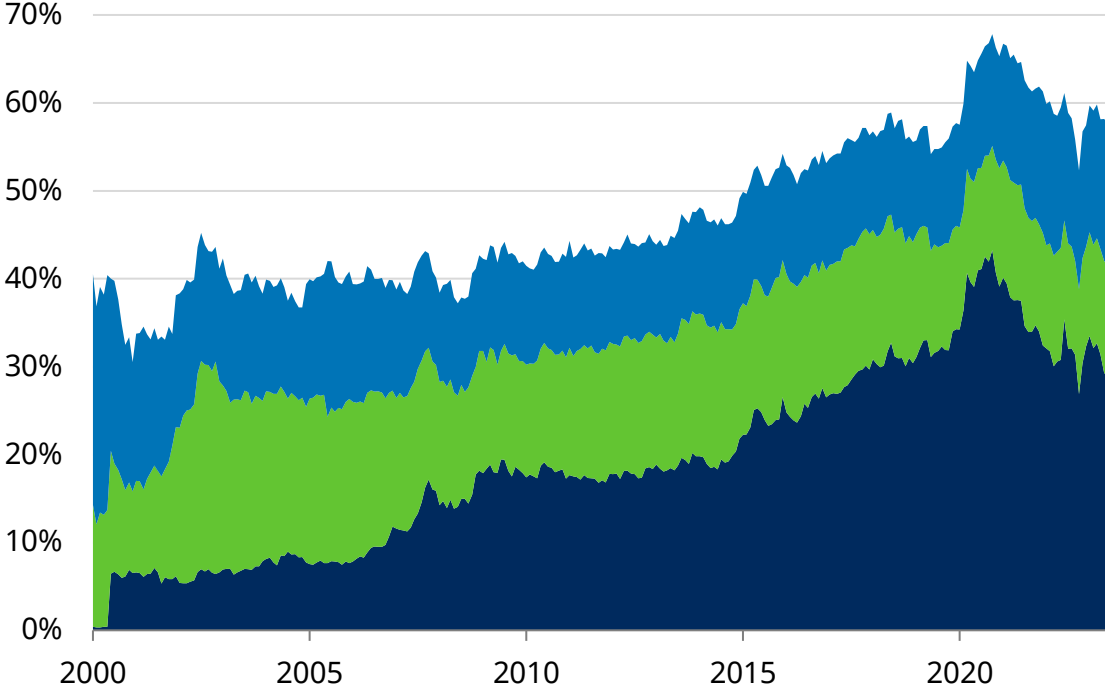
EM is dominated by Asia

The MSCI EM Index share of regions



■ Asia ■ EMEA ■ Latam

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



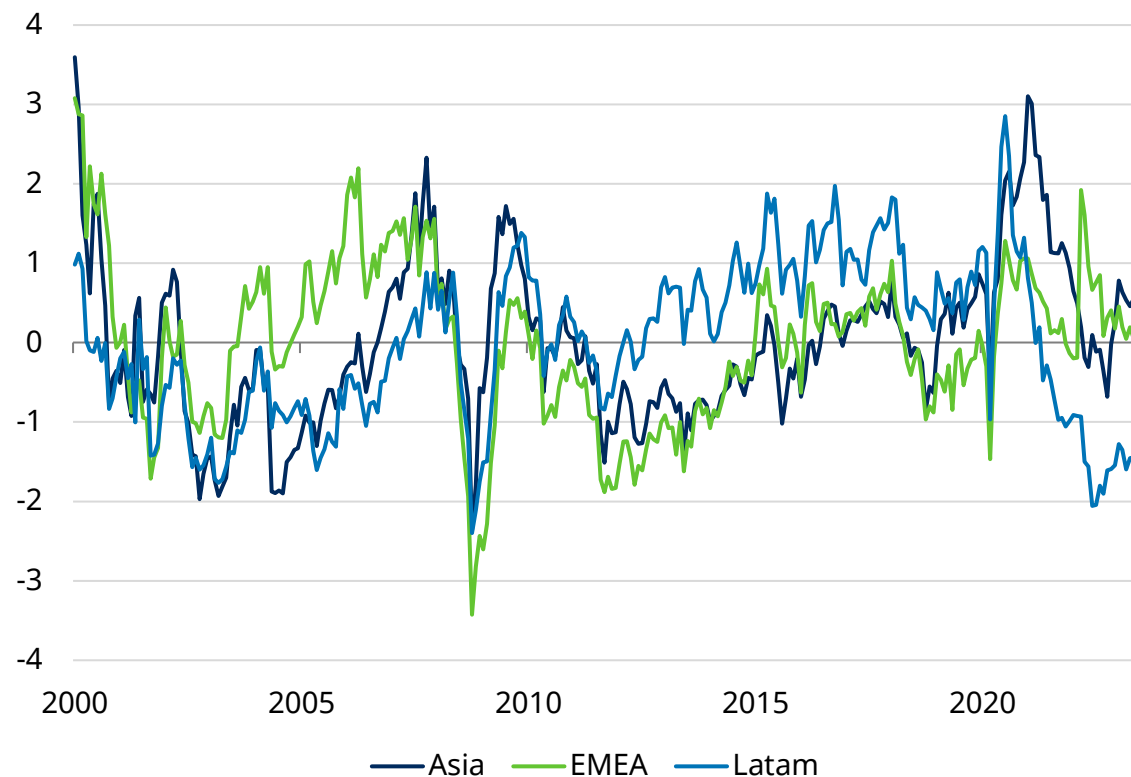
■ China ■ Korea ■ Taiwan

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

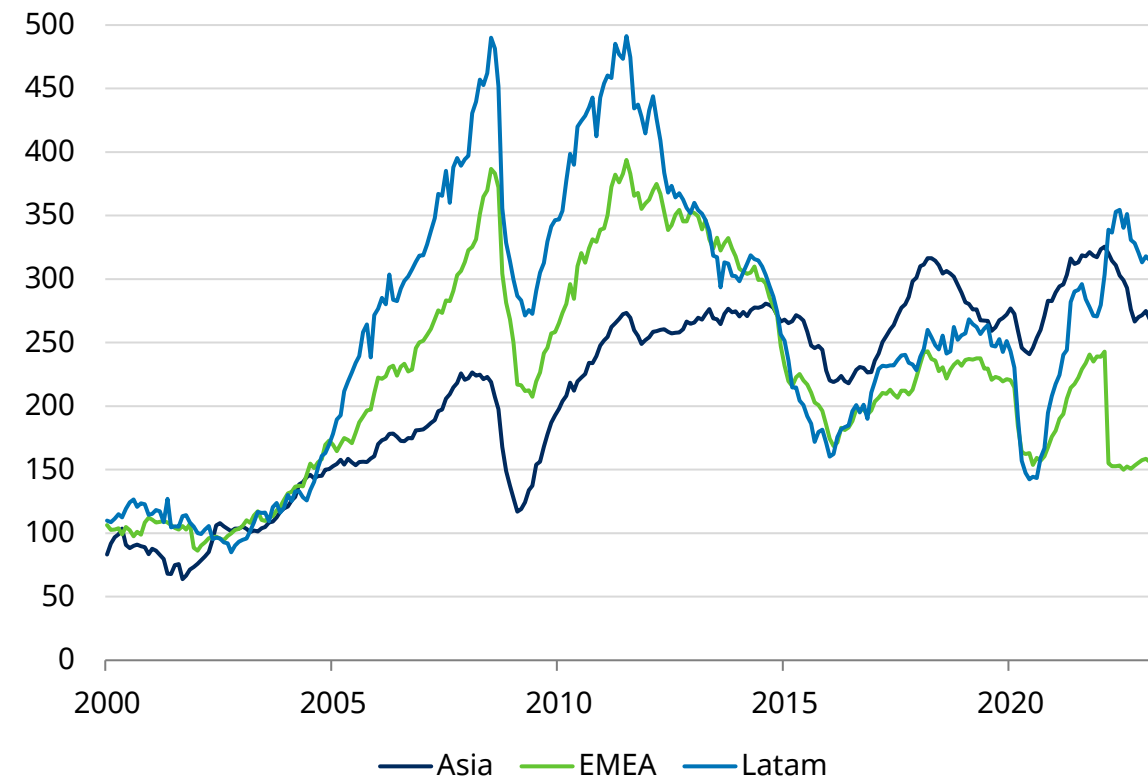
Source: Refinitiv Datastream, MSCI, Schroders Strategic Research Unit. Data as at 30 June 2023. Please see relevant disclaimers on page 40.

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 expensive

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

¹The z-score is a measure of how far valuations are from historical mean. Please see relevant disclaimers on page 40.

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

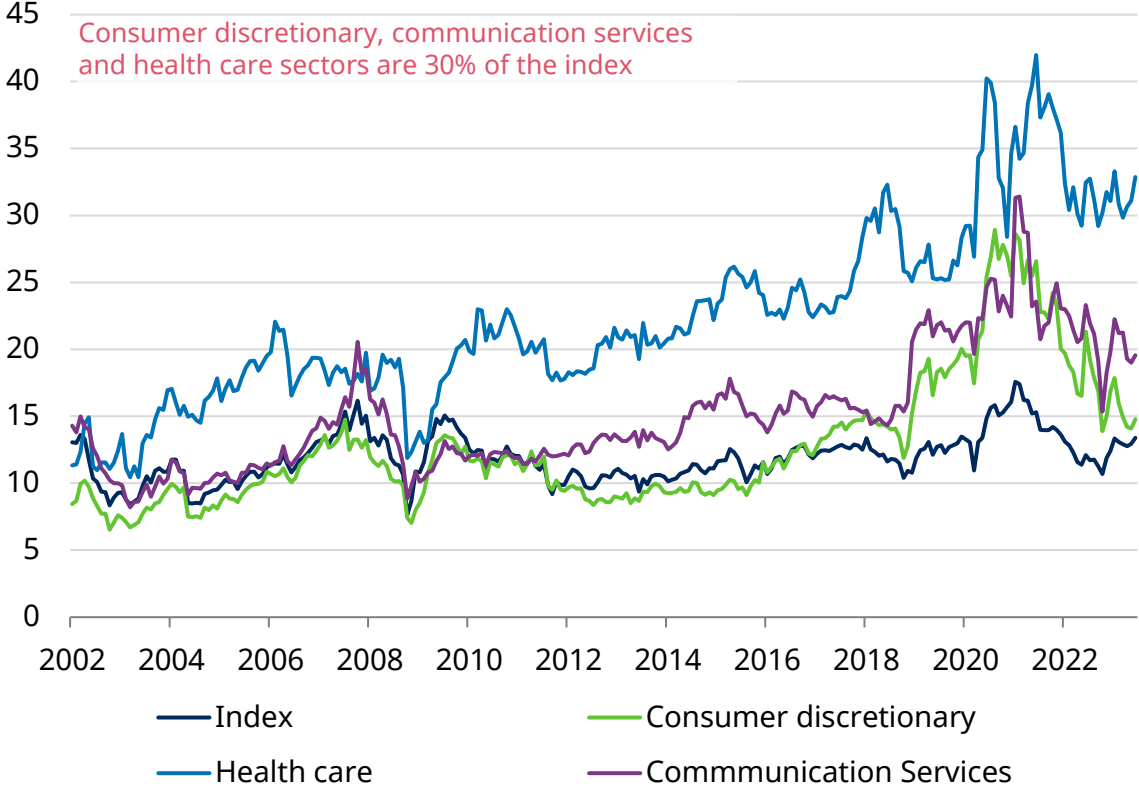


■ Value ■ Growth

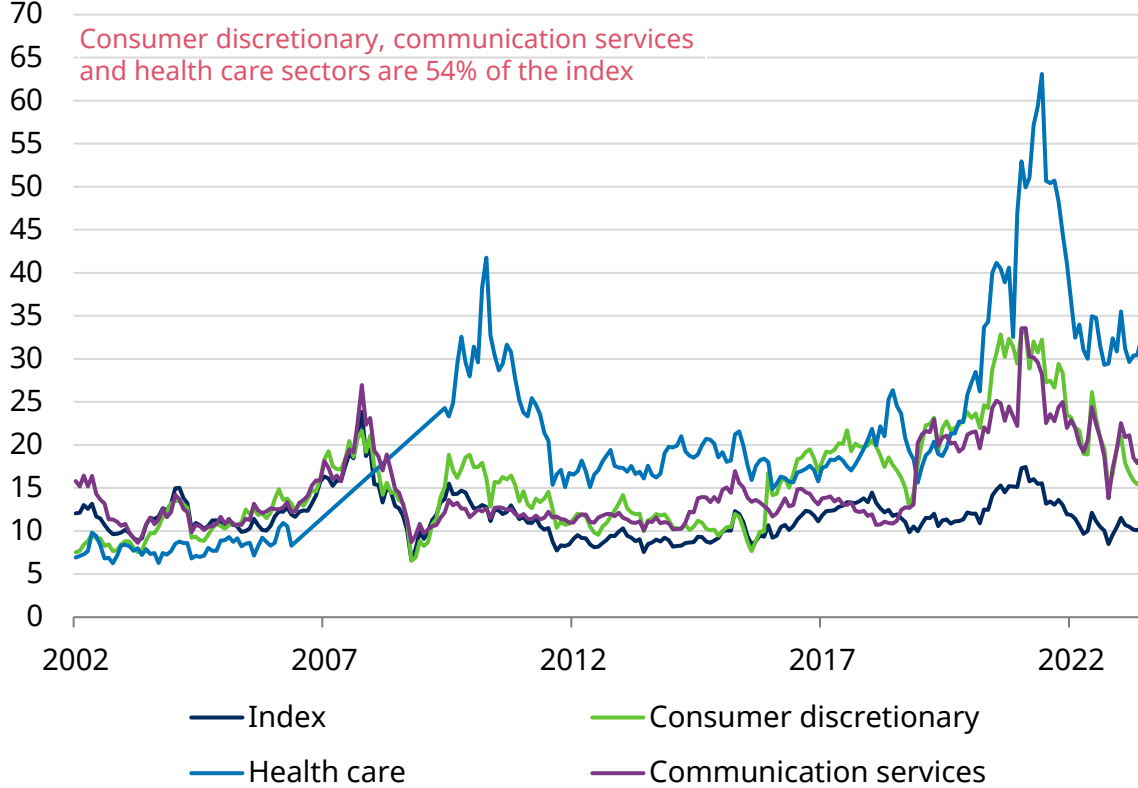
Source: Refinitiv Datastream, MSCI, Schroders Strategic Research Unit, Data as at 30 June 2023. **Value sectors:** energy, materials, industrials, financials, utilities, real estate. **Growth sectors:** consumer discretionary, consumer staples, health care, IT, communication services. Please see relevant disclaimers on page 40.

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

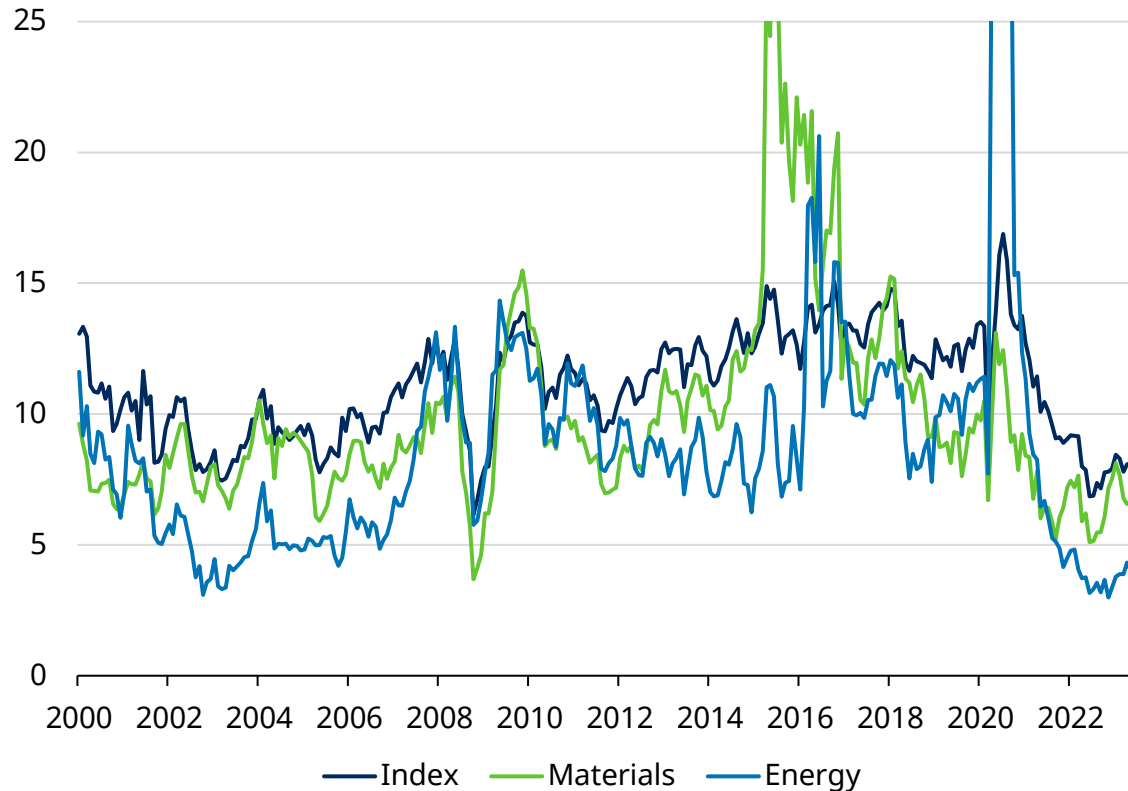


The falls in some high P/E sectors in have pushed valuations lower in China + broader EM Asia

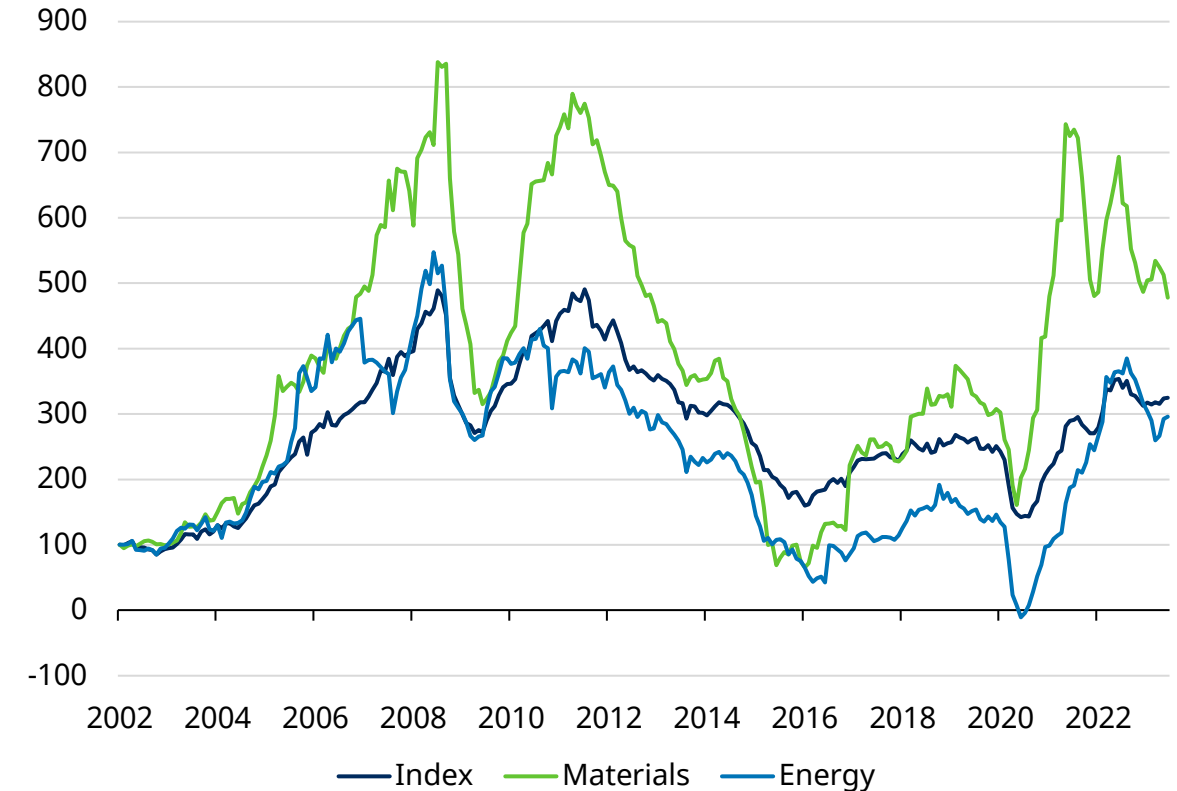
Source: Refinitiv Datastream, MSCI, Schroders Strategic Research Unit. Data as at 30 June 2023. Please see relevant disclaimers on page 40.

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



Valuations of Latin materials and energy sectors remain depressed versus history

Source: Refinitiv Datastream, MSCI, IBES, Schroders Strategic Research Unit. Data as at 30 June 2023. Please see relevant disclaimers on page 40.

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. To a lesser extent, South Korea is also expensive
- Malaysia is the cheapest market in EM Asia
- Indonesia, the Philippines, China, and Taiwan are slightly 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
- Brazil, Colombia, Mexico, and Peru are also undervalued

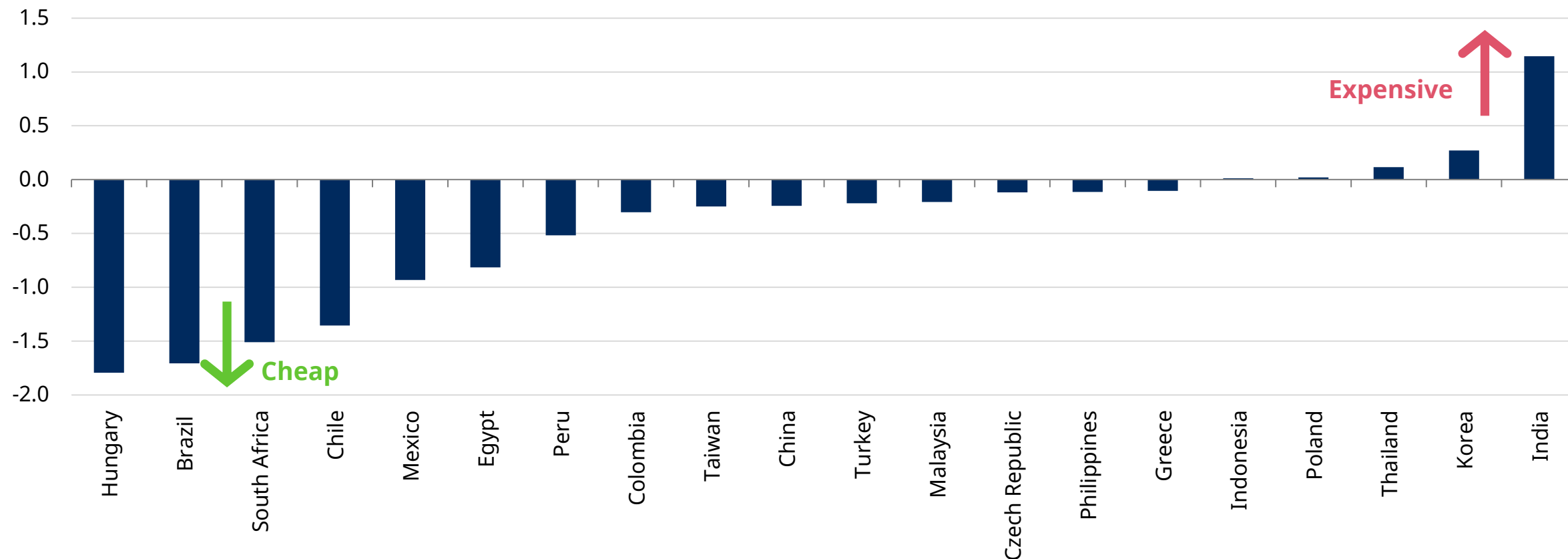
The EMEA markets are in general cheap:

- Hungary and South Africa are the cheapest in the region
- Valuations in Poland, Turkey, Czech Republic, and to a lesser extent, Greece and Egypt, are also below the historical average

Source: Schroders, Refinitiv Datastream, MSCI, IBES, Schroders Strategic Research Unit. Data as at 30 June 2023. Please see relevant disclaimers on page 40.

Standardised EM country valuations: trailing P/E

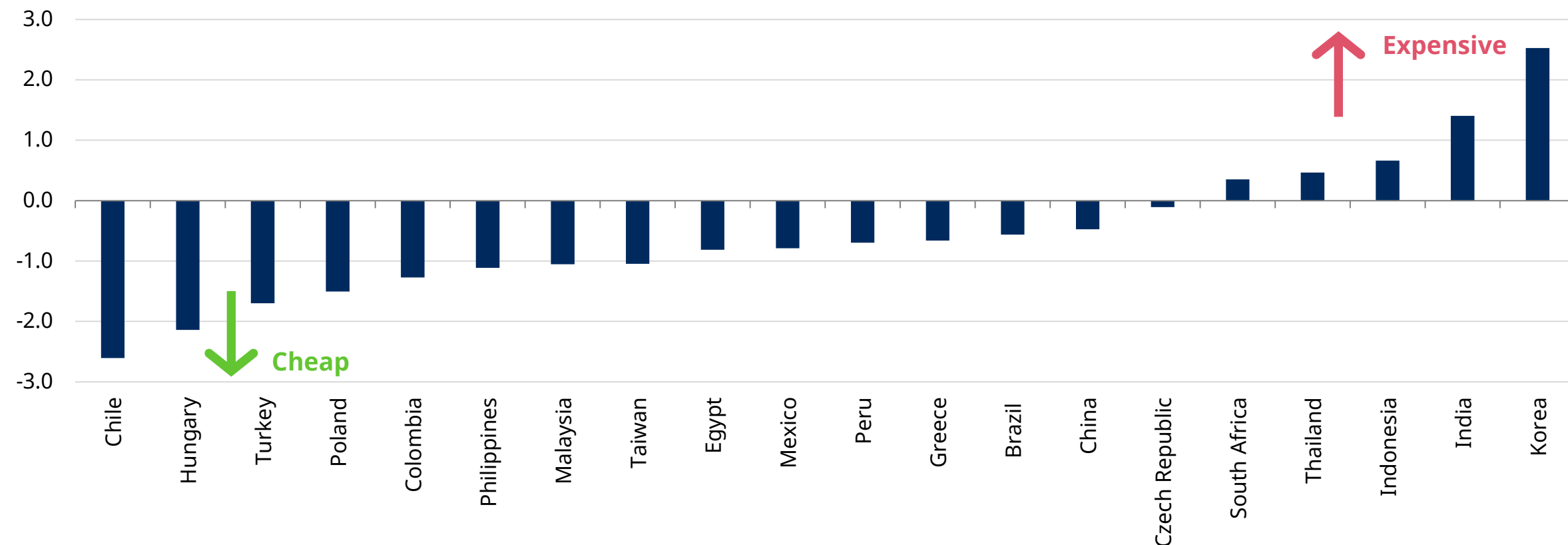
12-month trailing P/E (z-score¹)



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 June 2023. Please see relevant disclaimers on page 40.

Standardised EM country valuations: the forward P/E

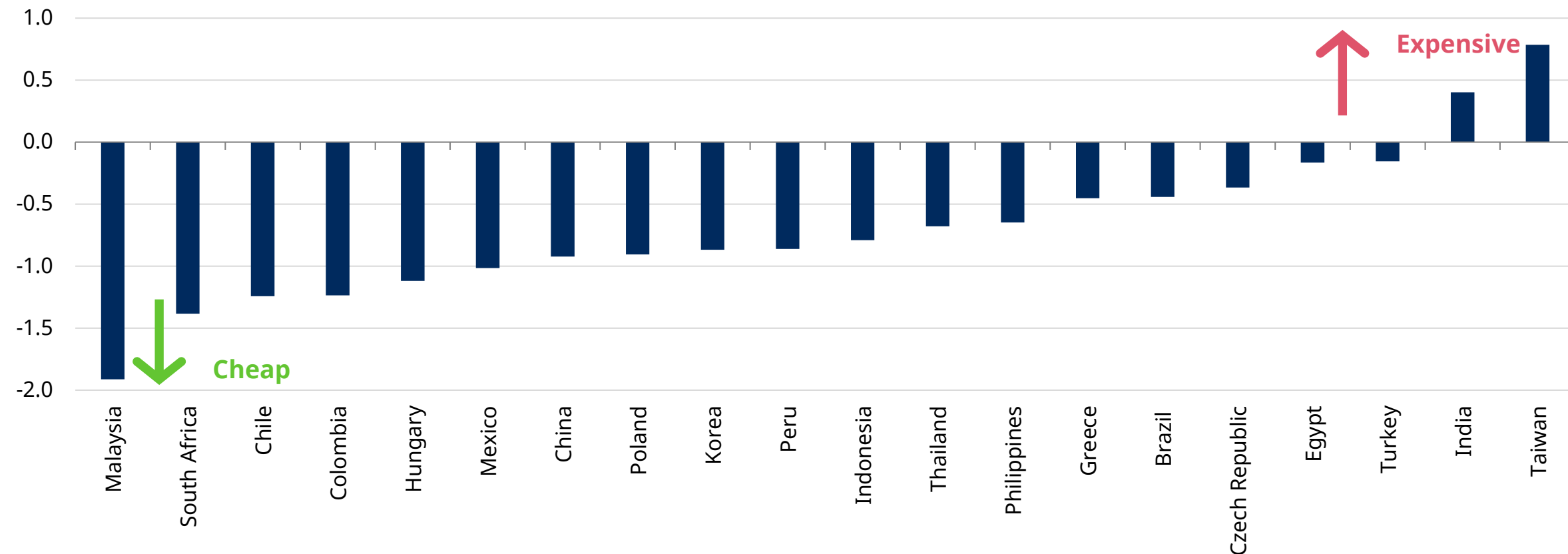
12-month forward P/E (z-score¹)



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 June 2023. Please see relevant disclaimers on page 40.

Standardised EM country valuations: the P/B ratio

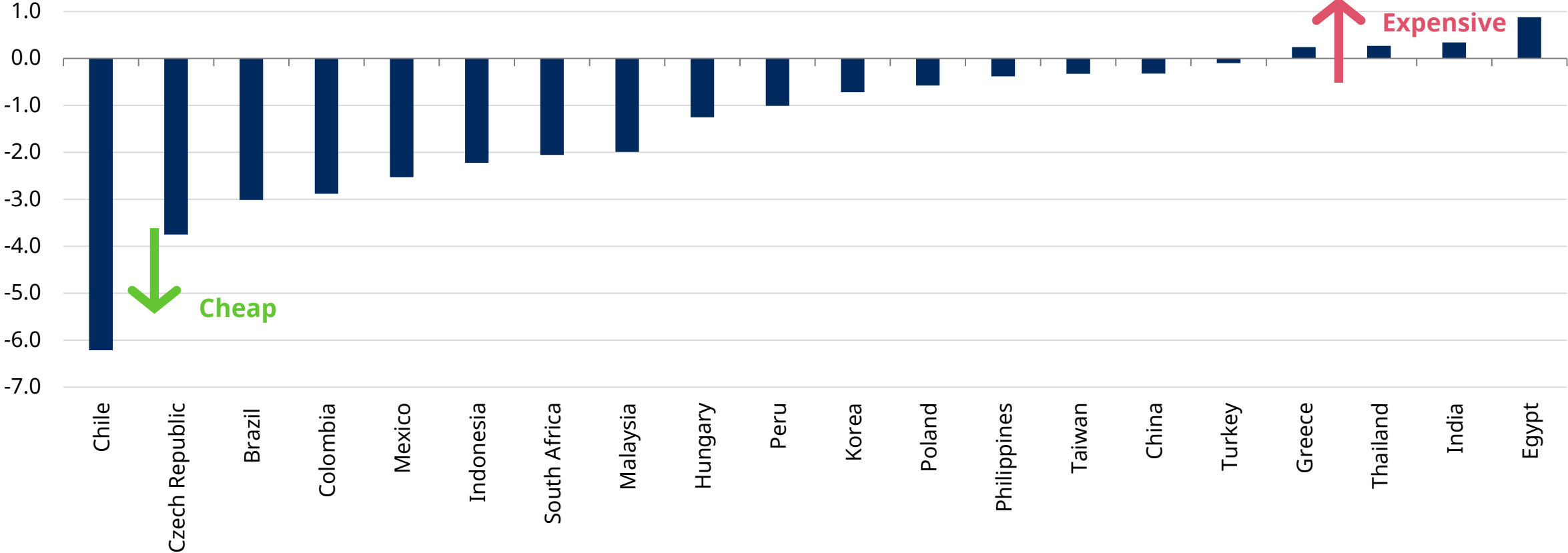
The P/B ratio (z-score¹)



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, Refinitiv Datastream, MSCI, IBES, Schroders Strategic Research Unit. Data as at 30 June 2023. Please see relevant disclaimers on page 40.

Standardised EM country valuations: the dividend yield

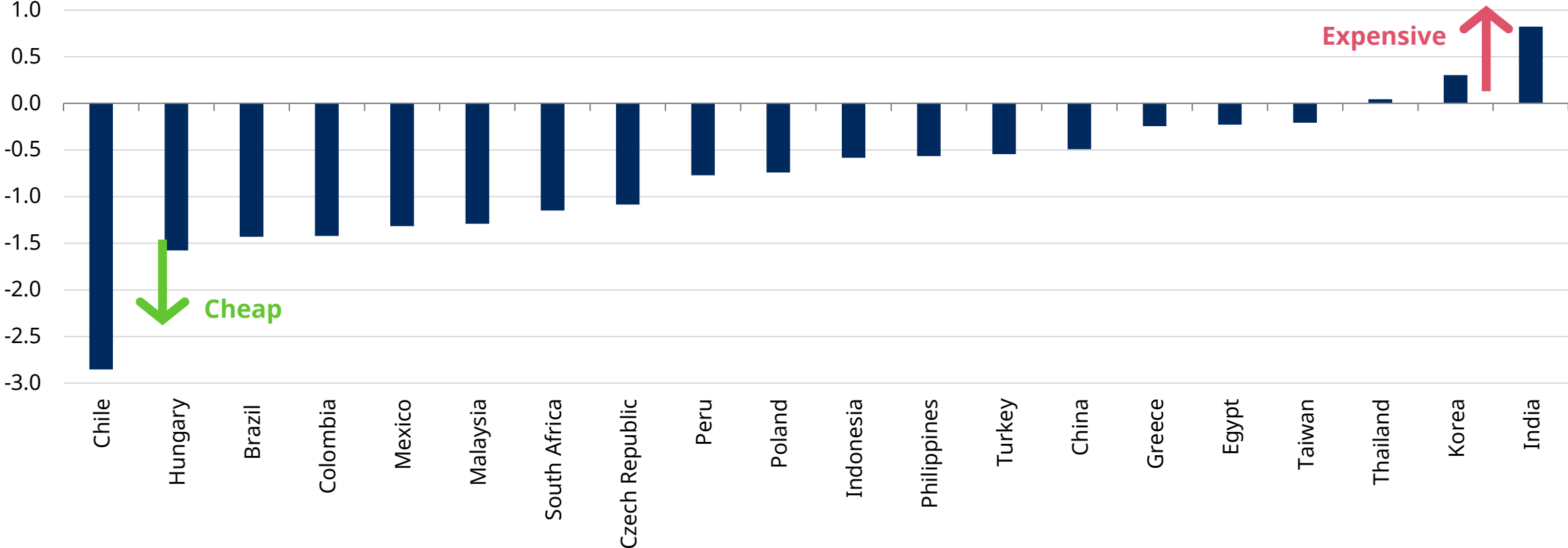
The dividend yield (z-score¹)



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, Refinitiv Datastream, MSCI, IBES, Schroders Strategic Research Unit. Data as at 30 June 2023. Please see relevant disclaimers on page 40.

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, Refinitiv Datastream, MSCI, IBES, Schroders Strategic Research Unit. Data as at 30 June 2023. Please see relevant disclaimers on page 40.

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	-2.6	-1.2	-6.2	-2.9
Hungary	-1.8	-2.1	-1.1	-1.3	-1.6
Brazil	-1.7	-0.6	-0.4	-3.0	-1.4
Colombia	-0.3	-1.3	-1.2	-2.9	-1.4
Mexico	-0.9	-0.8	-1.0	-2.5	-1.3
Malaysia	-0.2	-1.1	-1.9	-2.0	-1.3
South Africa	-1.5	0.4	-1.4	-2.1	-1.1
Czech Republic	-0.1	-0.1	-0.4	-3.8	-1.1
Peru	-0.5	-0.7	-0.9	-1.0	-0.8
Poland	0.0	-1.5	-0.9	-0.6	-0.7
Indonesia	0.0	0.7	-0.8	-2.2	-0.6
Philippines	-0.1	-1.1	-0.6	-0.4	-0.6
Turkey	-0.2	-1.7	-0.2	-0.1	-0.5
China	-0.2	-0.5	-0.9	-0.3	-0.5
Greece	-0.1	-0.7	-0.5	0.2	-0.2
Egypt	-0.8	-0.8	-0.2	0.9	-0.2
Taiwan	-0.2	-1.0	0.8	-0.3	-0.2
Thailand	0.1	0.5	-0.7	0.3	0.0
Korea	0.3	2.5	-0.9	-0.7	0.3
India	1.1	1.4	0.4	0.3	0.8

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 June 2023. Please see relevant disclaimers on page 40.

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	-70%	-53%	-40%	-67%	-57%
Chile	-72%	-44%	-26%	-77%	-55%
Hungary	-58%	-45%	-47%	-42%	-48%
Brazil	-52%	-14%	0%	-67%	-33%
Poland	-31%	-29%	-23%	-36%	-30%
Peru	-24%	-18%	-30%	-41%	-28%
South Africa	-34%	-19%	-27%	-32%	-28%
Turkey	-56%	-47%	-4%	-5%	-28%
Czech Republic	-40%	-2%	1%	-59%	-25%
Greece	-43%	-21%	-38%	3%	-25%
Mexico	-14%	-10%	-14%	-53%	-23%
Philippines	-18%	-19%	-20%	-23%	-20%
Malaysia	-5%	-12%	-28%	-33%	-20%
Indonesia	0%	7%	-18%	-47%	-14%
China	-1%	-9%	-21%	-9%	-10%
Taiwan	-12%	14%	18%	-16%	1%
Egypt	-30%	-22%	2%	72%	6%
Korea	14%	42%	-14%	-19%	6%
Thailand	35%	35%	-11%	5%	16%
India	36%	38%	16%	9%	25%

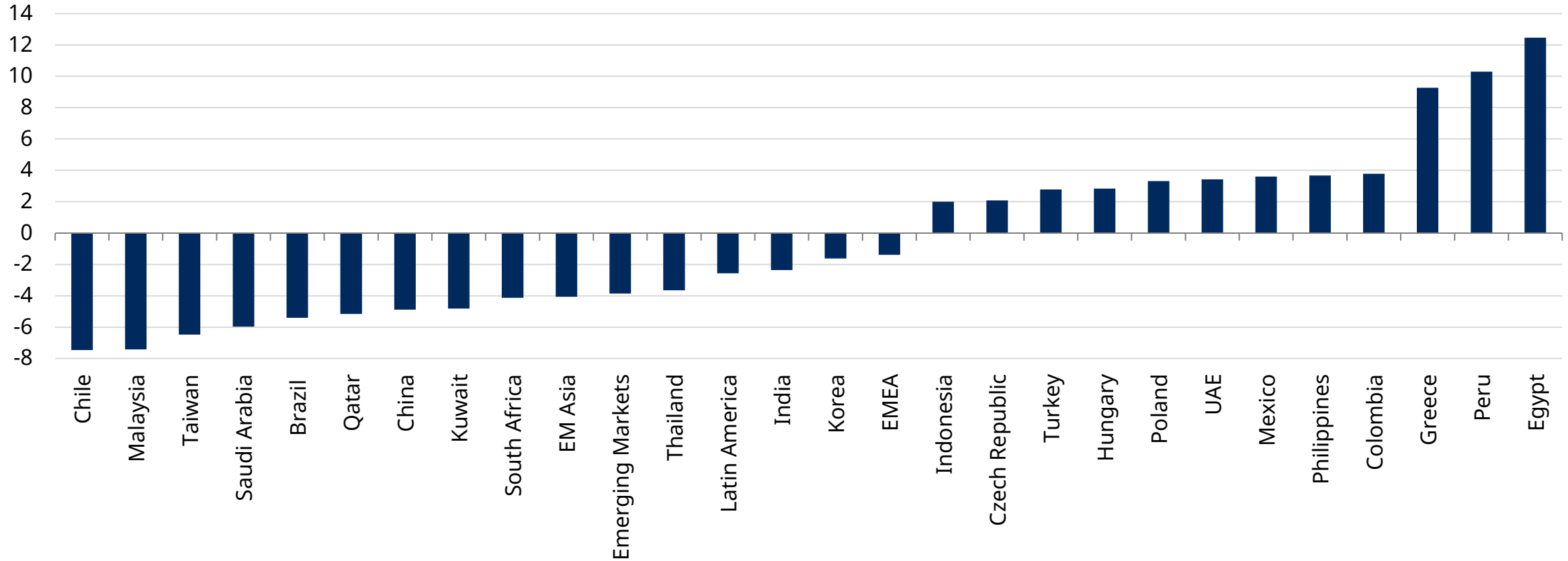
Excludes UAE, Qatar, Saudi Arabia and Kuwait due to limited data history.

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 June 2023. Please see relevant disclaimers on page 40.

EM earnings revisions

Earnings revisions¹ (%) (3-month average)

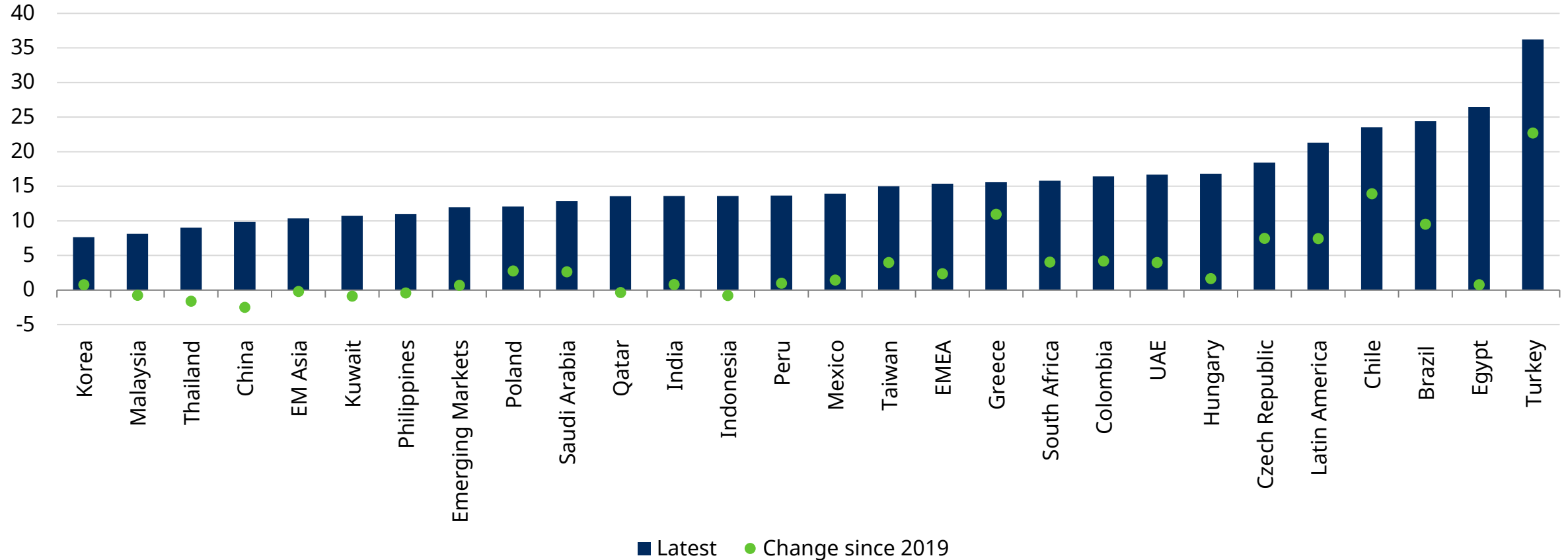


¹Calculated as the number earnings upgrades minus the number of earnings downgrades divided by the total numbers of earnings updates. Source: Refinitiv Datastream, IBES, Schroders Strategic Research Unit. Data as at 30 June 2023. Please see relevant disclaimers on page 40.

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 June 2023. Please see relevant disclaimers on page 40. Past performance is not a guide to future performance and may not be repeated.



EM currency valuations

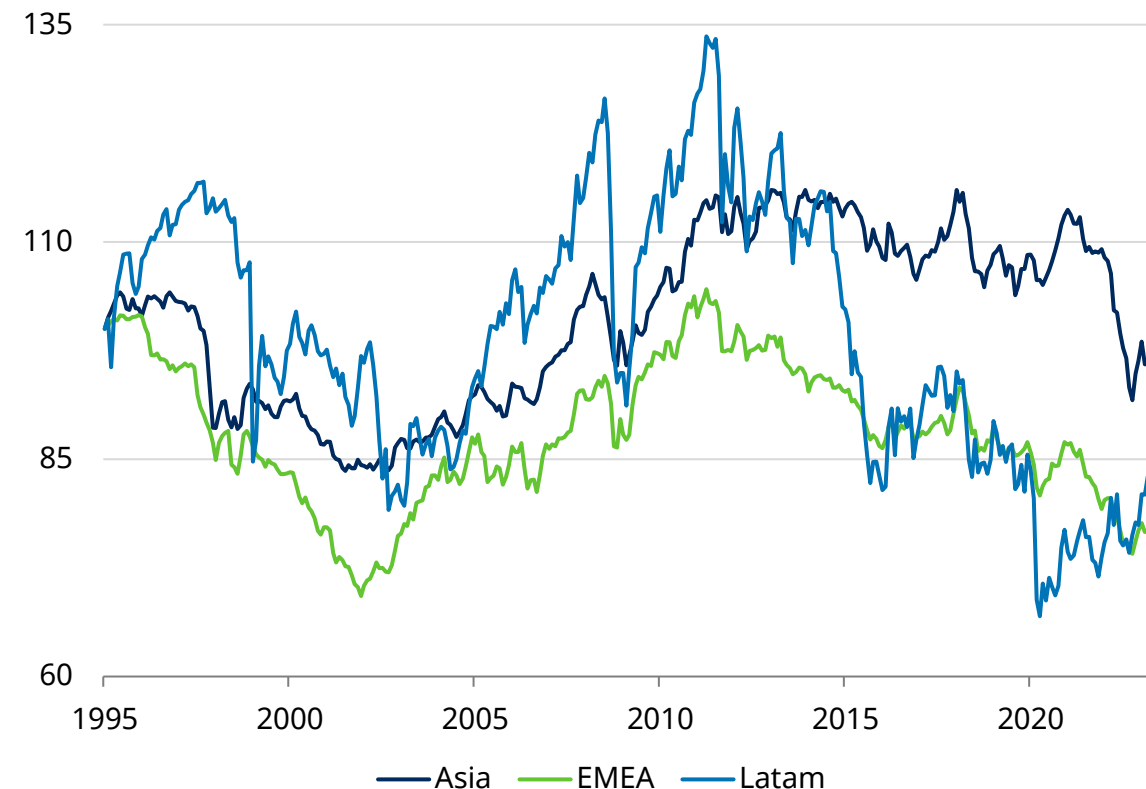
Is there value in EM currencies?

EM currencies have depreciated in real terms since 2011

EM real exchange rate¹



EM real exchange rates of regions¹



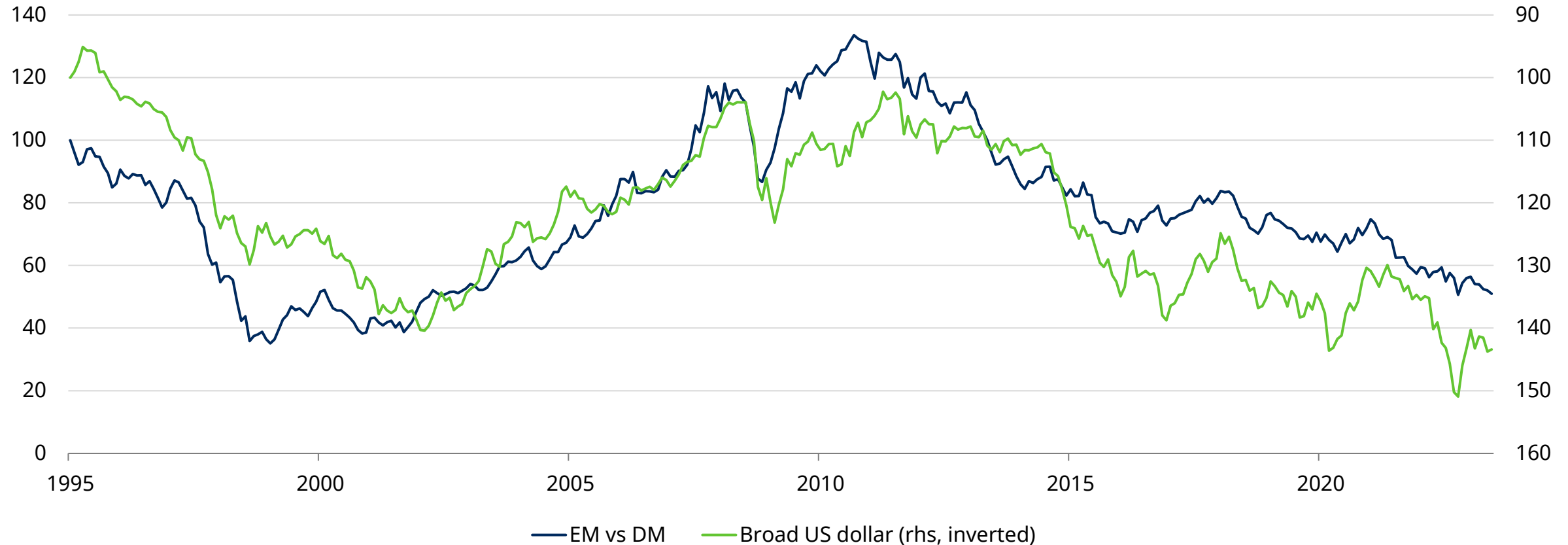
There are significant differences between regions; EMEA and Latin America currencies are cheapest

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 June 2023. Please see relevant disclaimers on page 40.

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



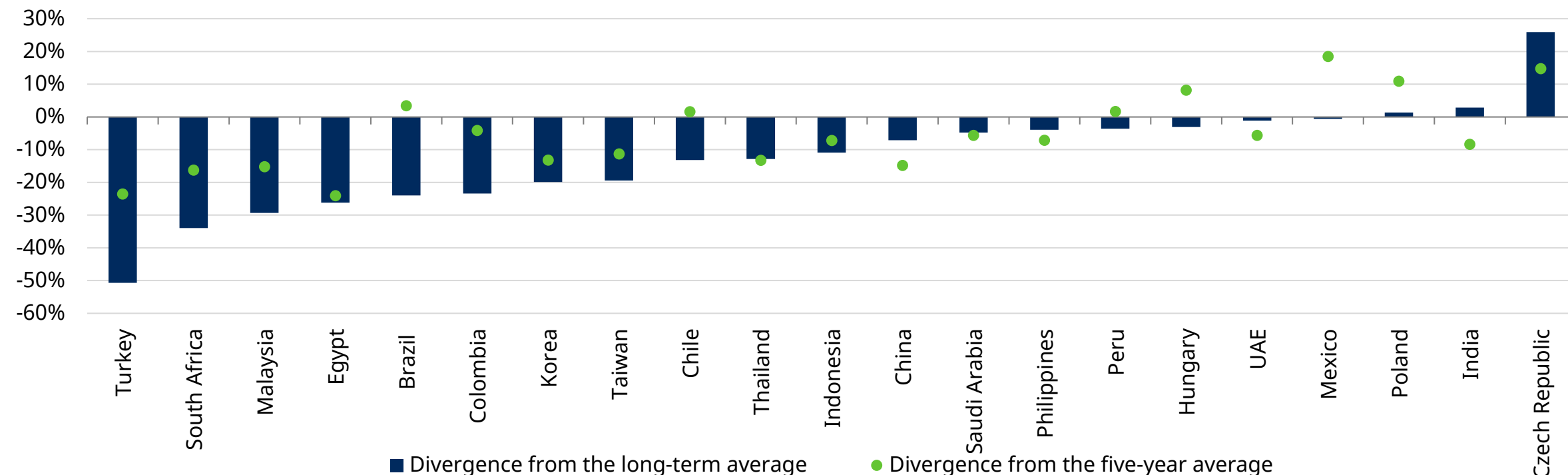
Past performance is not a guide to future performance and may not be repeated.

Source: Refinitiv Datastream, MSCI, Schroders Strategic Research Unit. Data as at 30 June 2023. Please see relevant disclaimers on page 40.

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; Czech Republic, and to a lesser extent India, have a real exchange rate above the long-term average

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

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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