



Schroders Emerging Markets Lens: Equity

Strategic Research Unit

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investors or advisers only.

Table of contents

01 Emerging market equity performance

02 Emerging market equity valuations

03 Relevant emerging market currency valuations

Summary

- EM equities rallied by more than 6% in July, outperforming DM (+3%) for the first month since January.
- Optimism towards a peak in global monetary policy tightening, and China stimulus, proved supportive; even if the scale of support remains unclear. **Read more:** [No sign of a “big bang” China stimulus](#)
- EM equities are valued 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 (slides 11, 15 and 16)
- There remains considerable variability between sector valuations (slide 13). 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 17)
- On a regional basis, Latin America remains cheap on a forward price-earnings basis. Valuations in EMEA and EM Asia are above their historical average (slide 20)
- 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

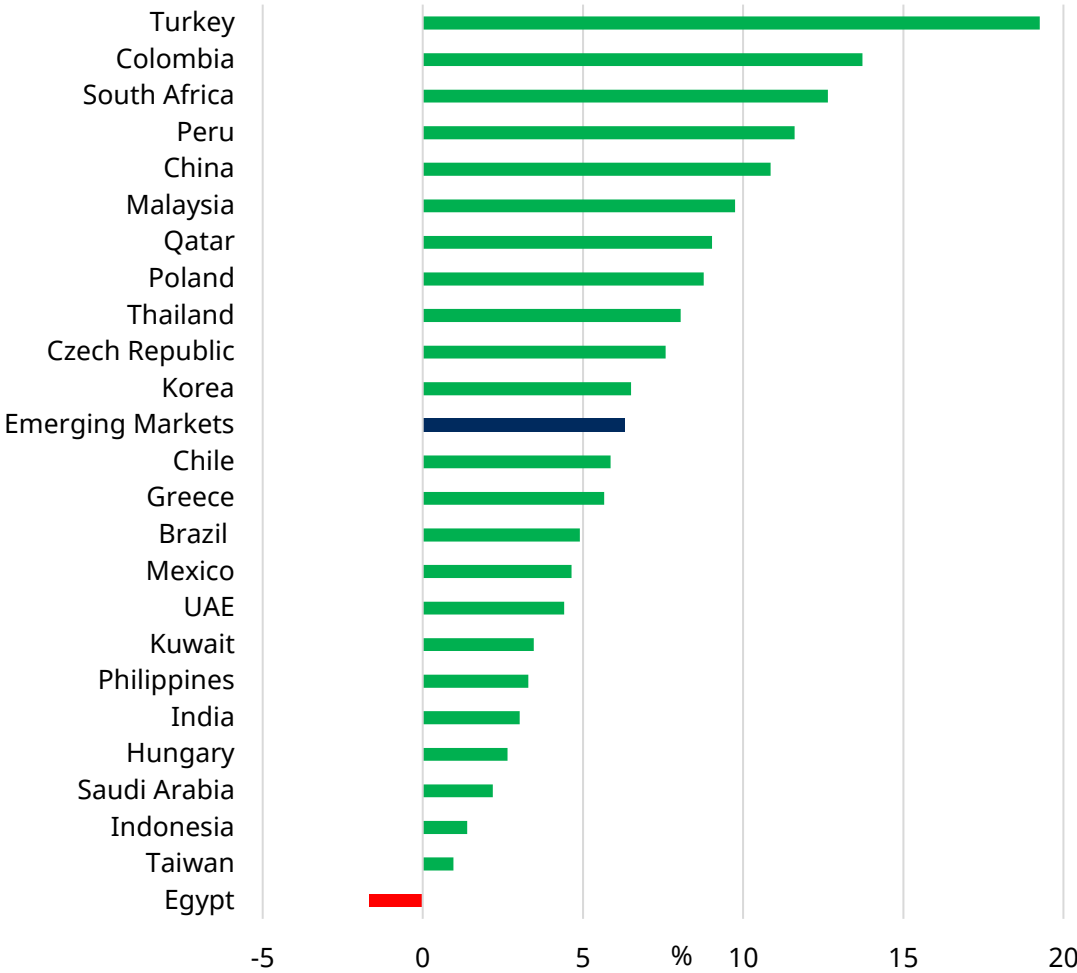
Note: EMEA is Europe, the Middle East and Africa.
Source: MSCI, Refinitiv Datastream.
Please see relevant disclaimers on page 38.



Emerging market equity performance

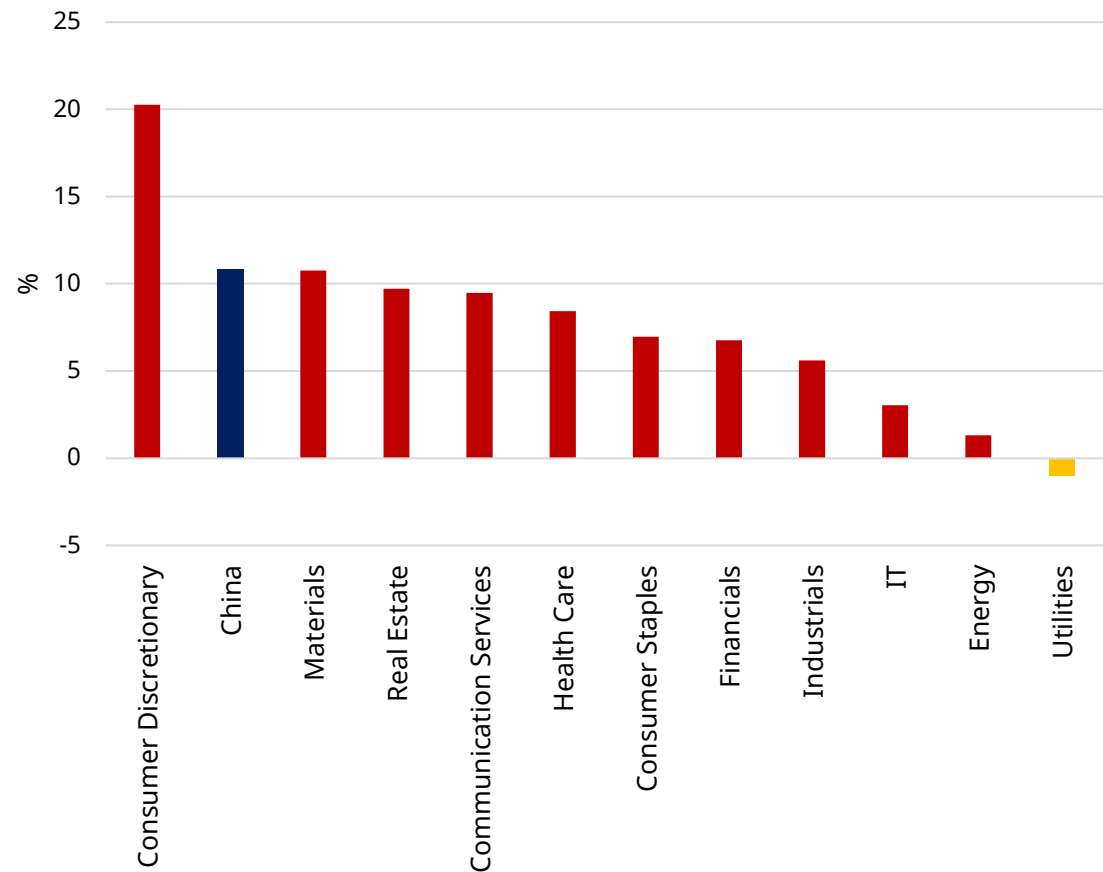
EM equities rallied in July; China returned 11%

Only Egypt finished in negative territory in July



Past performance is not a guide to future performance and may not be repeated.
 Total return July 2023, US dollars. Source: Refinitiv Datastream, MSCI, Schroders Strategic Research Unit, as at 31 July 2023. Please see relevant disclaimers on page 38.

Which sectors led the July rally in China?

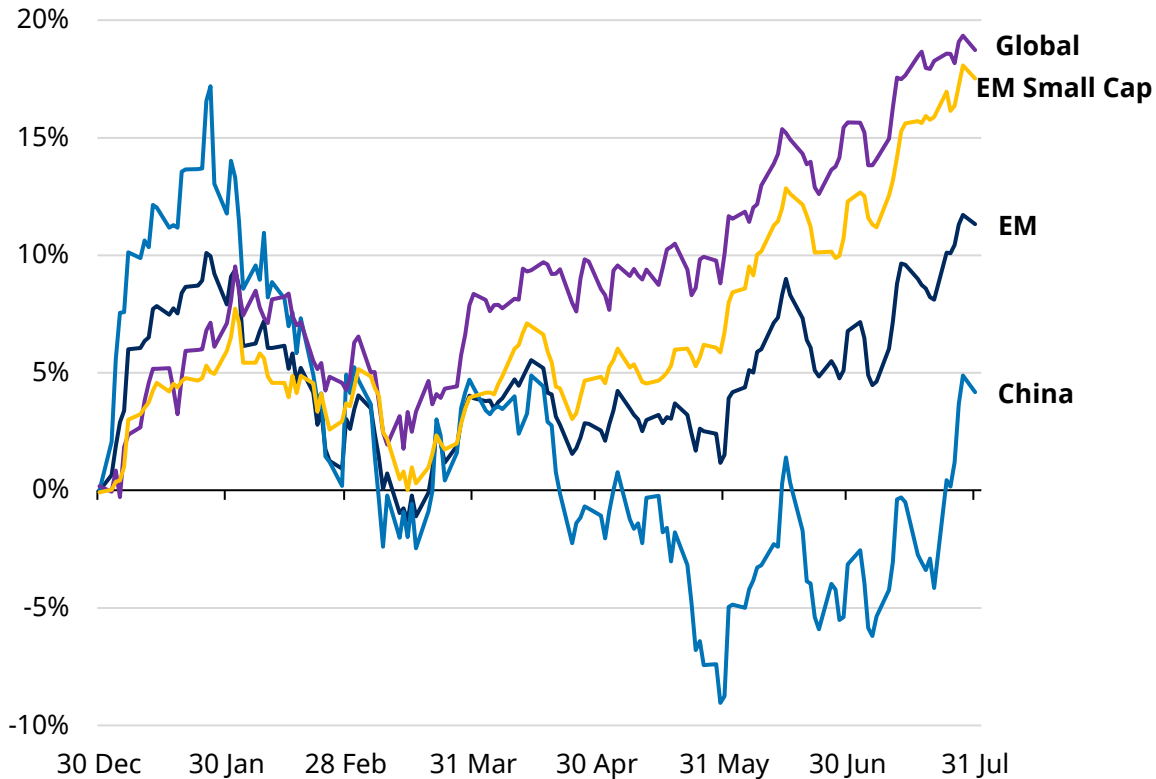


Past performance is not a guide to future performance and may not be repeated.
 Percentage total return July 2023, US dollars. Source: Refinitiv Datastream, MSCI, Schroders Strategic Research Unit, as at 31 July 2023.

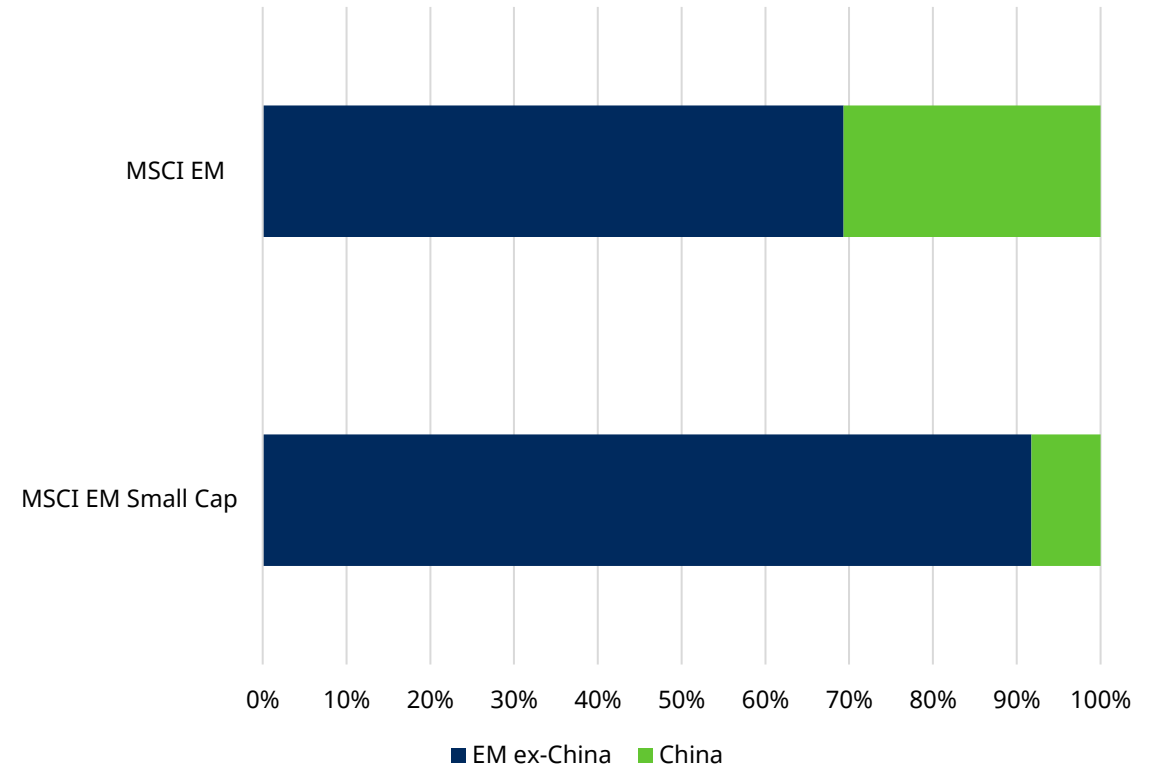
EM lags DM by a wide margin YTD

The picture is different for EM Small Cap; in part due to a lower China index weight

YTD EM and global equity market returns (USD)



EM Small Cap index



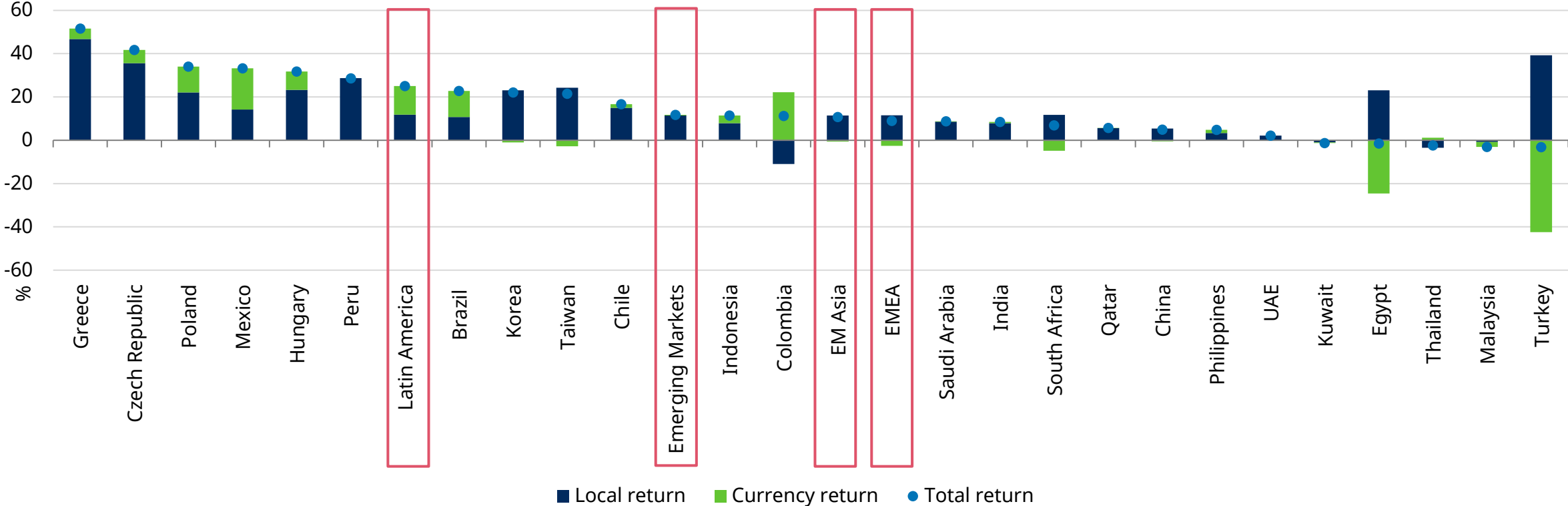
Past performance is not a guide to future performance and may not be repeated.
 Total return, US dollars.
 Source: Refinitiv Datastream, MSCI, Schroders Strategic Research Unit, as at 31 July 2023.
 Please see relevant disclaimers on page 38.

Past performance is not a guide to future performance and may not be repeated.
 Source: Refinitiv Datastream, MSCI, Schroders Strategic Research Unit, as at 31 July 2023.
 Please see relevant disclaimers on page 38.

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



Currency return has been supportive in various markets ex Turkey and Egypt YTD

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

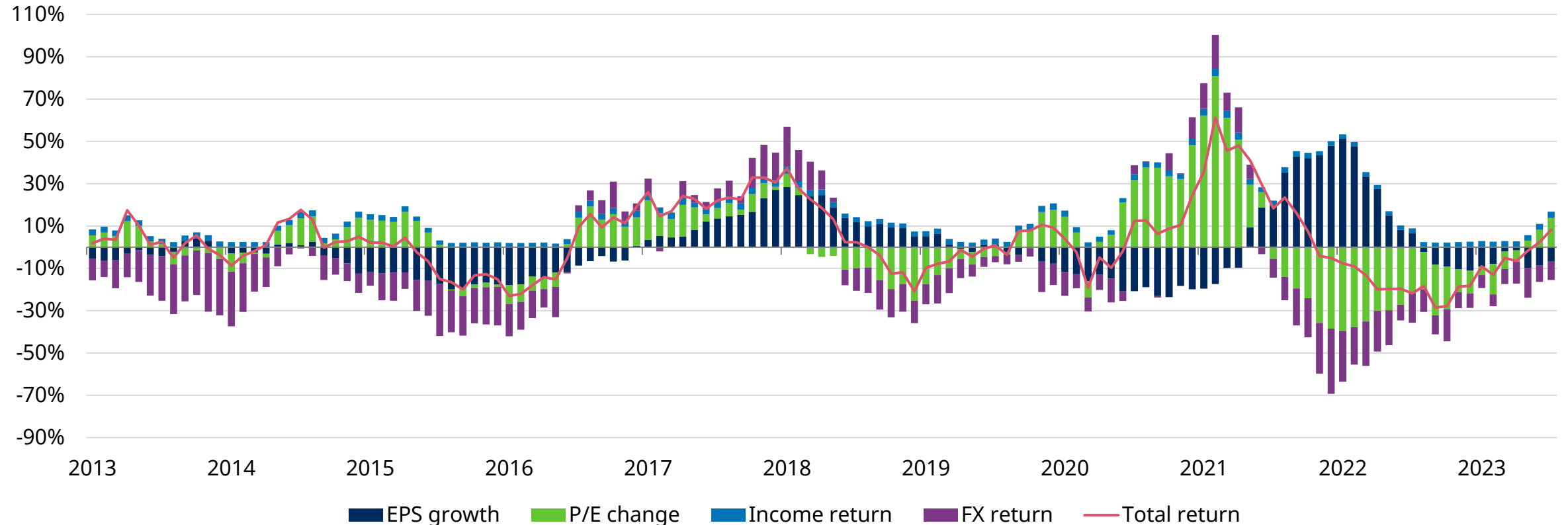
Note: EMEA is Europe, the Middle East and Africa.

Source: Schroders, Refinitiv Datastream, MSCI, Schroders Strategic Research Unit. Data as at 31 July 2023. Please see relevant disclaimers on page 38.

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 has turned positive due to re-rating

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 31 July 2023. Please see relevant disclaimers on page 38.

A challenging decade for EM versus DM

The longer term trend of underperformance versus DM started in 2011

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



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

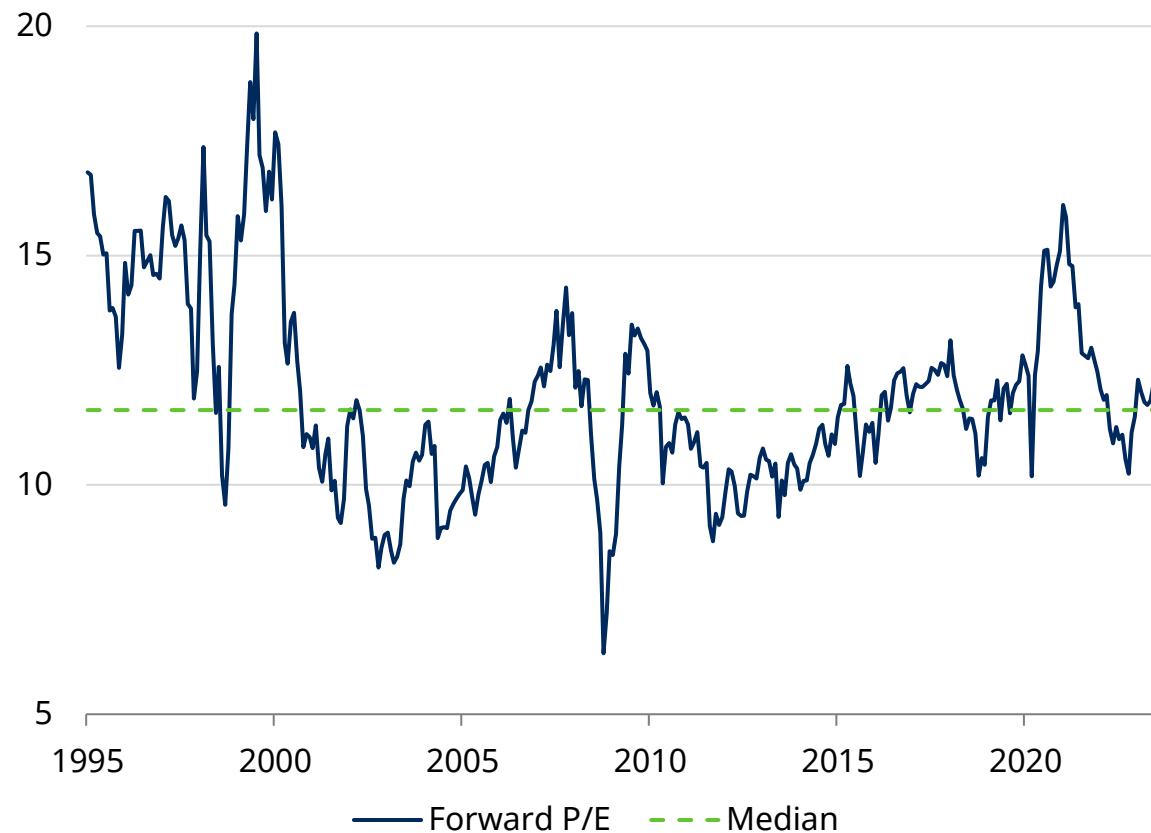
Source: Refinitiv Datastream, MSCI, IBES, Schroders Strategic Research Unit. Data as at 31 July 2023. All returns in USD terms. Please see relevant disclaimers on page 38.



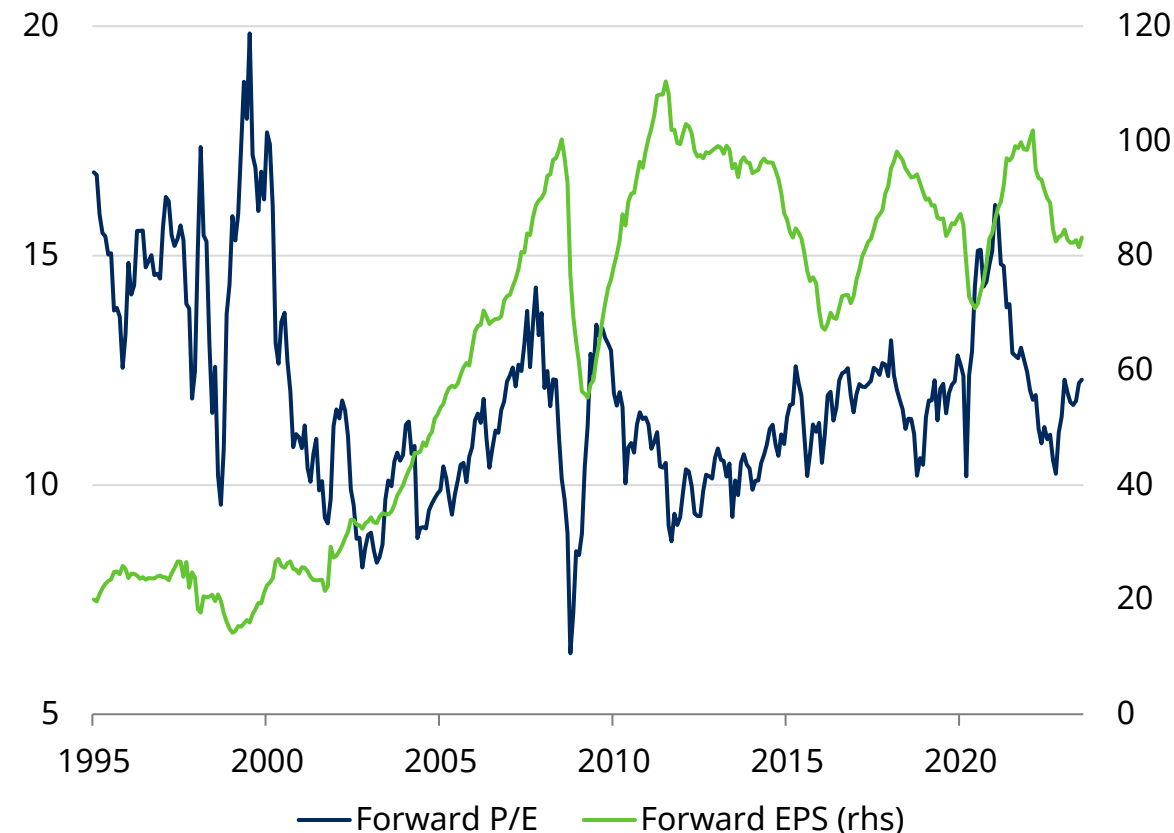
Emerging market equity valuations

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

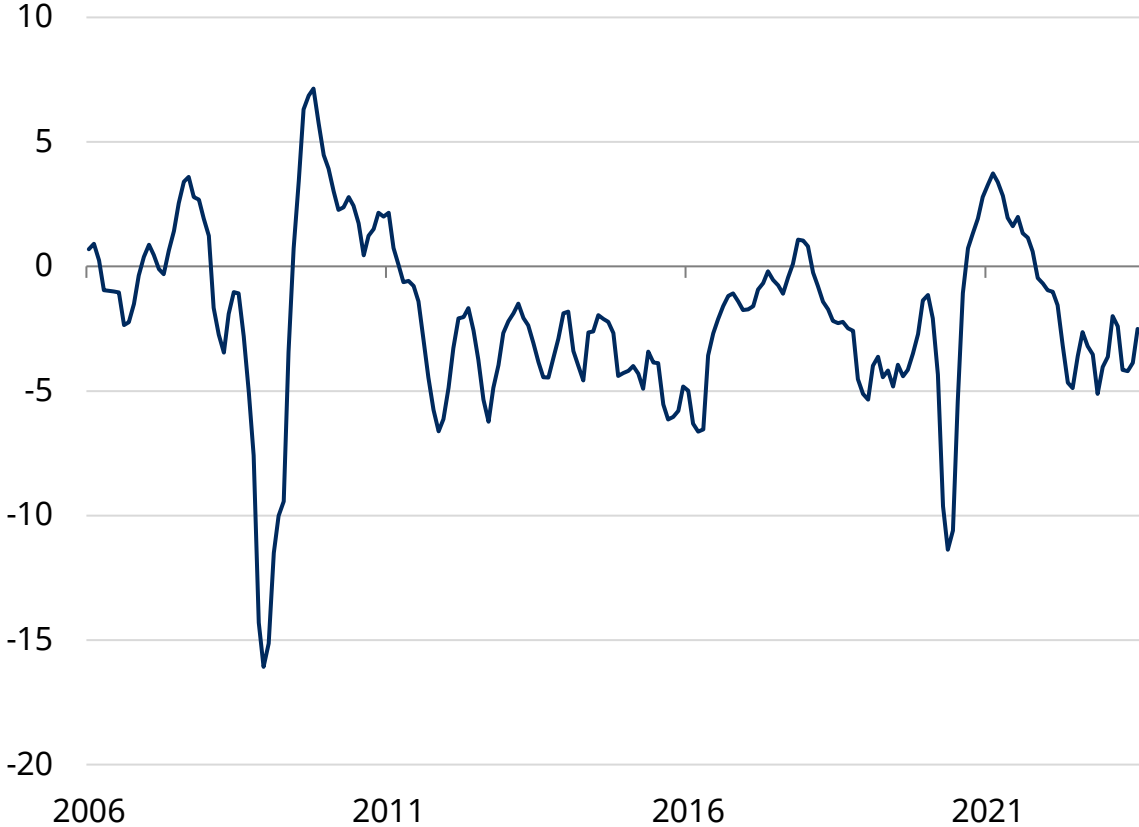


Source: Refinitiv Datastream, MSCI, IBES, Schroders Strategic Research Unit. Data as at 31 July 2023. Please see relevant disclaimers on page 38.

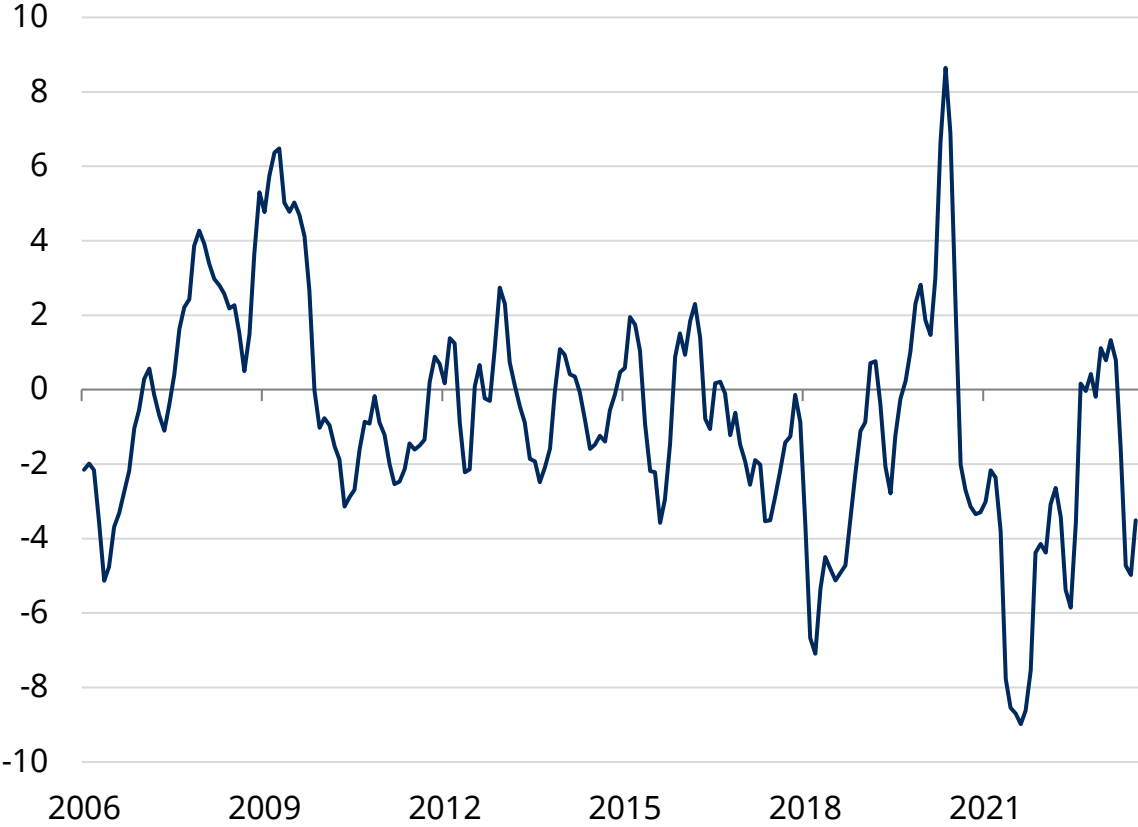
EM earnings revisions are negative

...and are negative relative to DM

EM earnings revisions¹ (3-month average)



EM minus DM earnings revisions

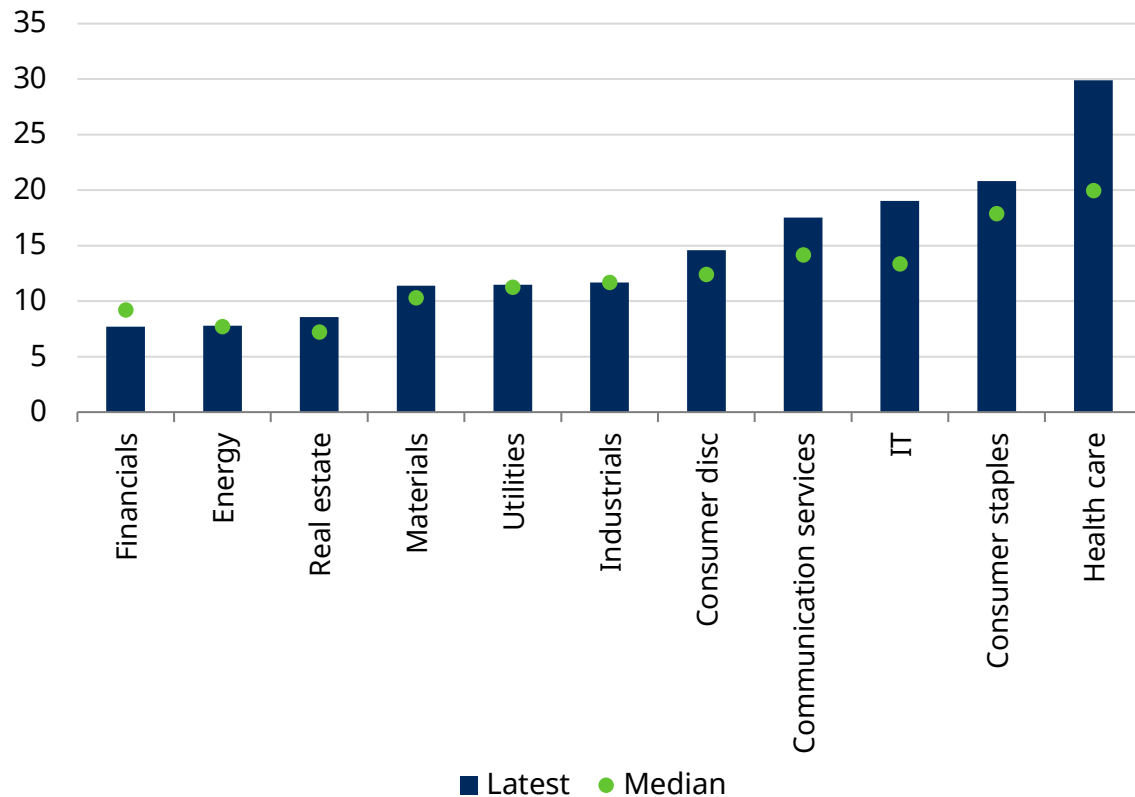


Calculated as the number earnings upgrades minus the number of earnings downgrades divided by the total numbers of earnings updates.
Source: Refinitiv Datastream, MSCI, IBES, Schroders Strategic Research Unit. Data as at 31 July 2023. Please see relevant disclaimers on page 38.

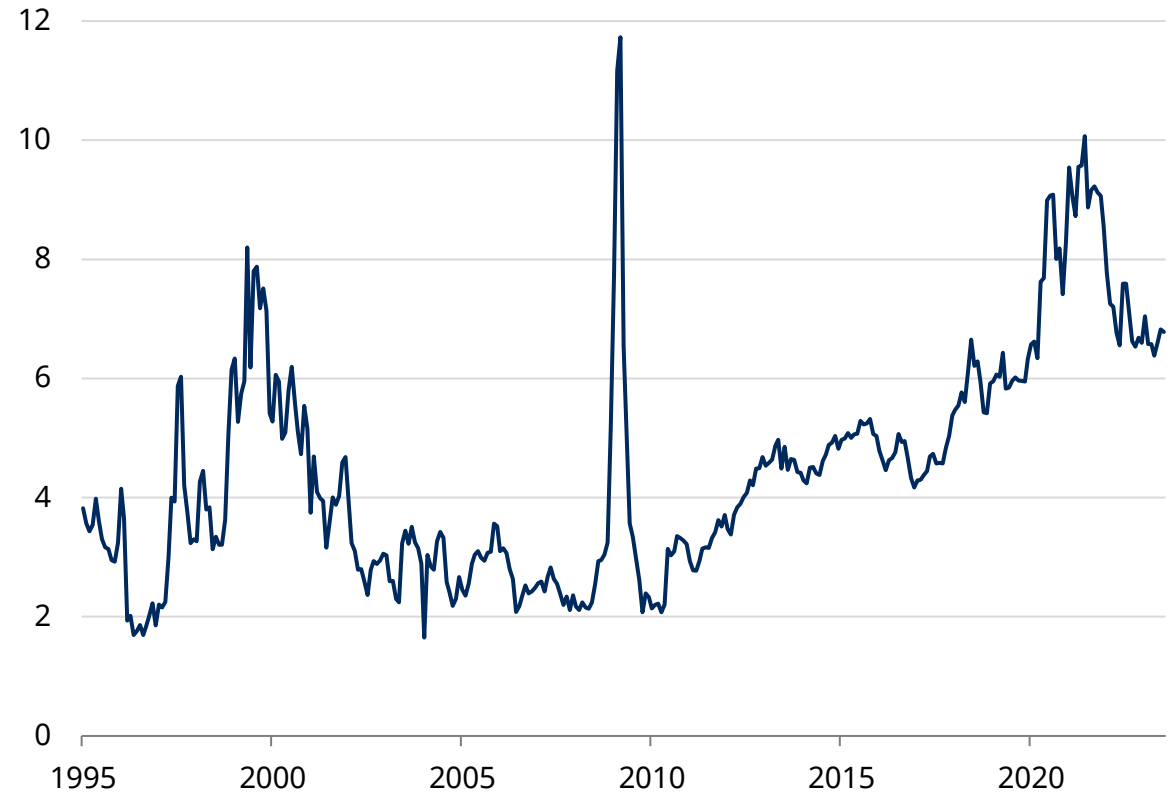
Variability in sector valuations remains high

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

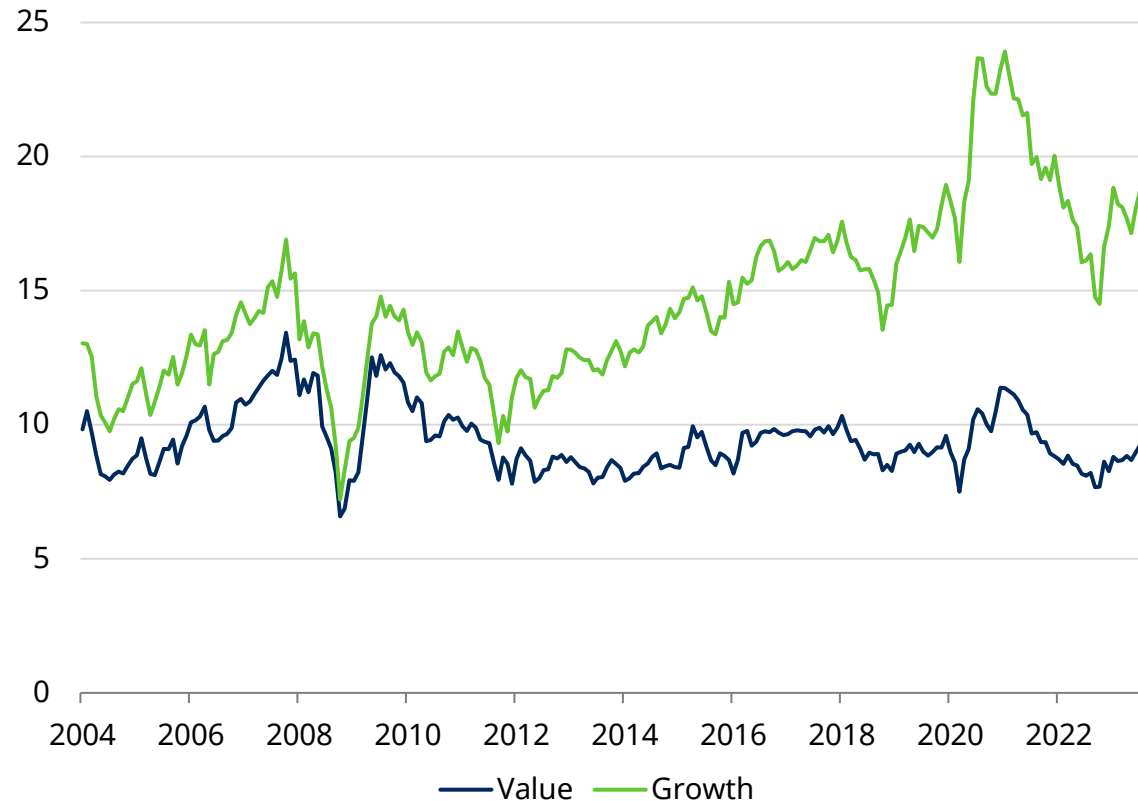


The standard deviation of EM sector forward P/E remains elevated

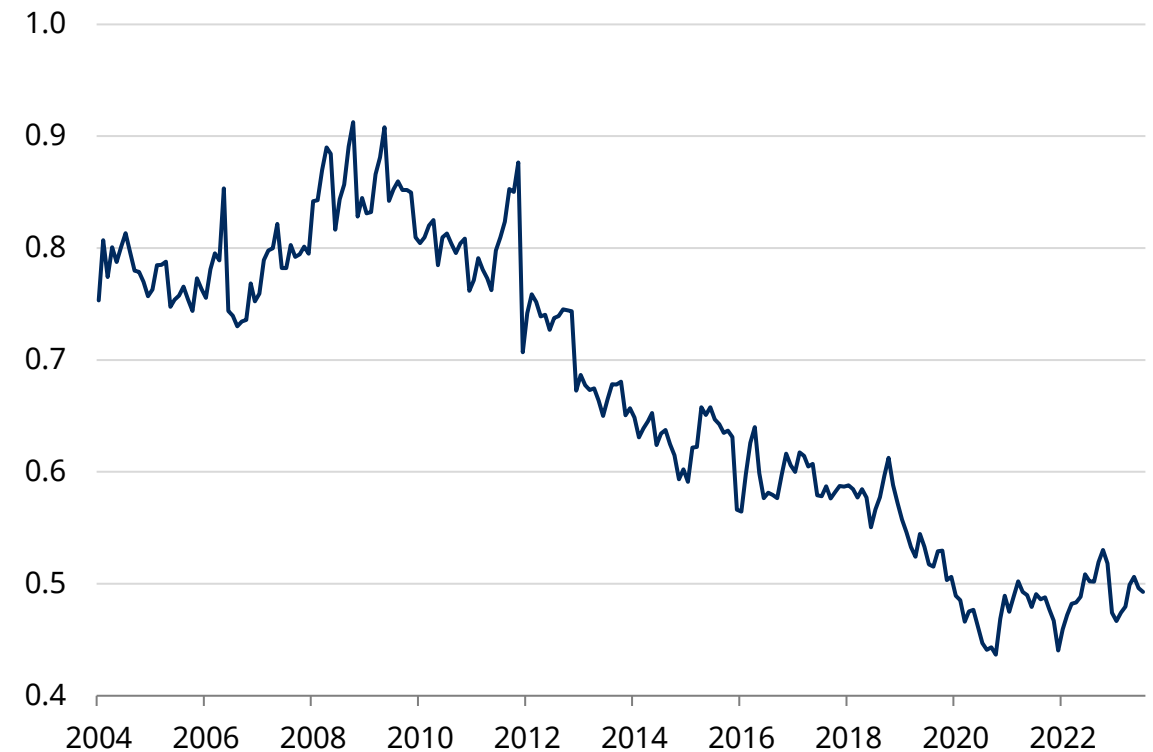
Source: Refinitiv Datastream, MSCI, IBES, Schroders Strategic Research Unit. Data as at 31 July 2023. Median since January 1999. Please see relevant disclaimers on page 38.

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



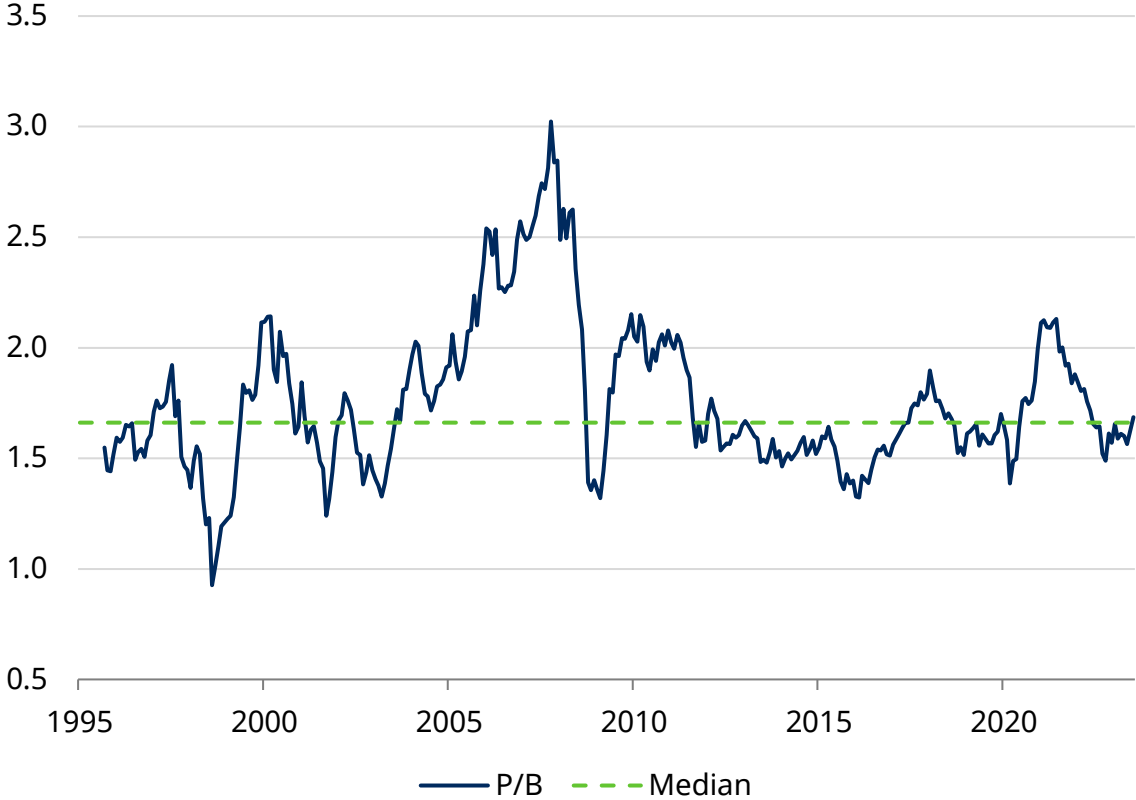
Value's discount to Growth is towards the top of its long term range

Source: Refinitiv Datastream, MSCI, Schroders Strategic Research Unit. Data as at 31 July 2023. Please see relevant disclaimers on page 38.

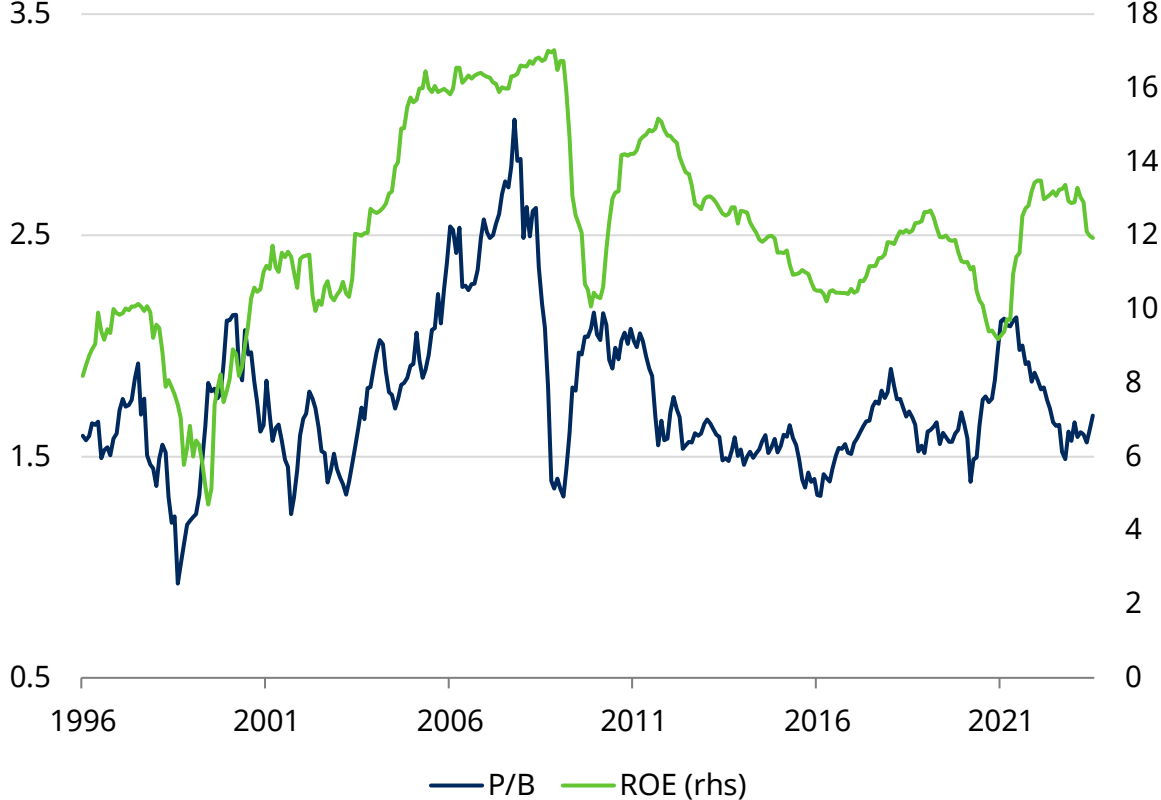
Other valuation metrics: price-to-book ratio

The P/B ratio is close to the historical median

The MSCI EM Index P/B



The MSCI EM Index P/B and ROE



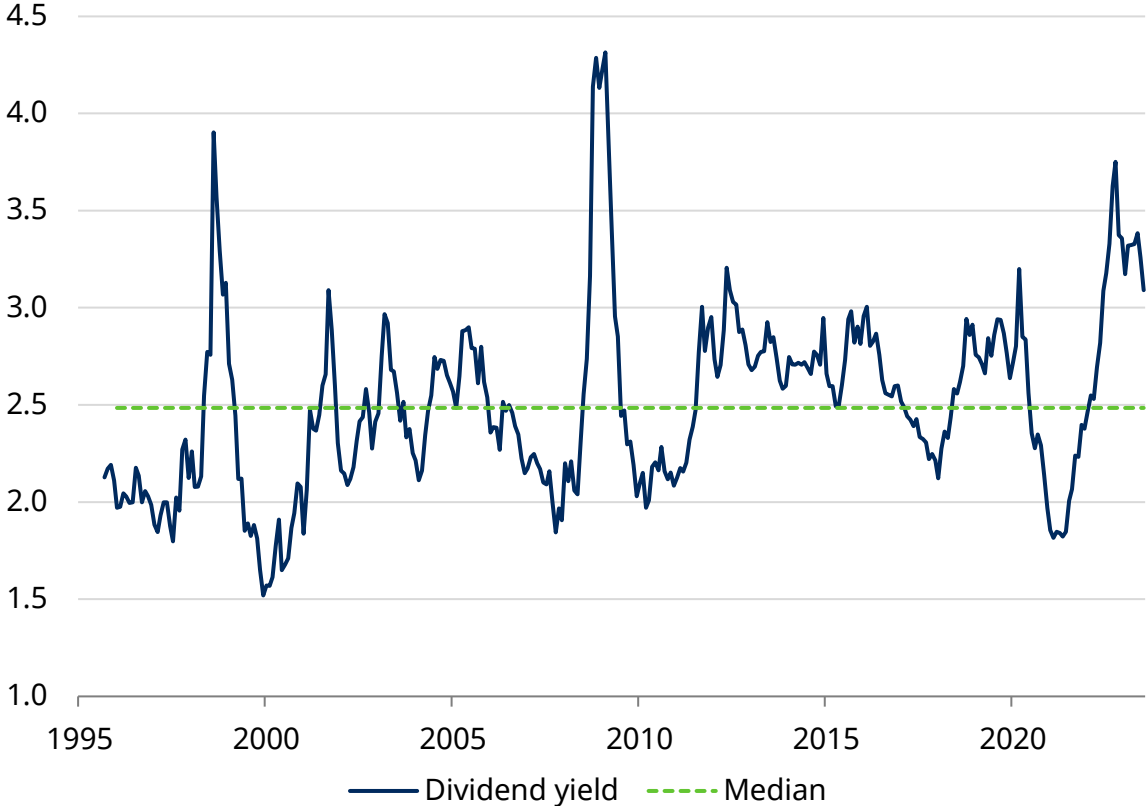
EM ROE has continued to fall

Source: Refinitiv Datastream, Schroders Strategic Research Unit, MSCI. Data as at 31 July 2023. Please see relevant disclaimers on page 38.

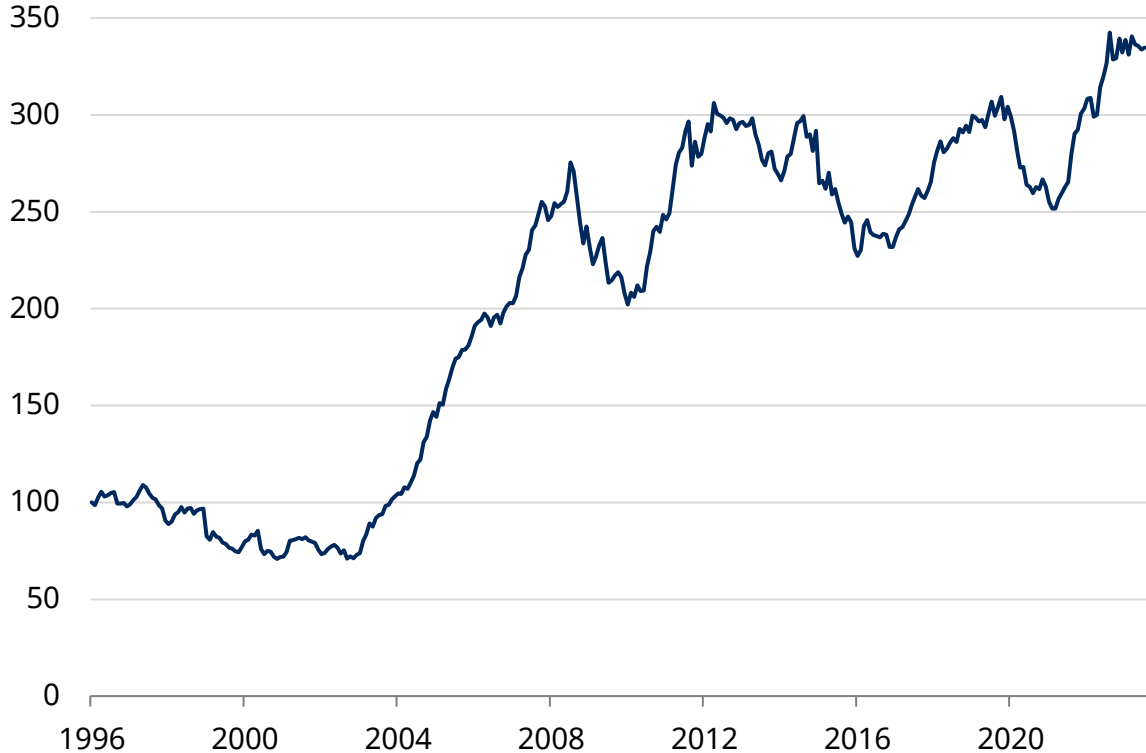
Other valuation metrics: the dividend yield

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)



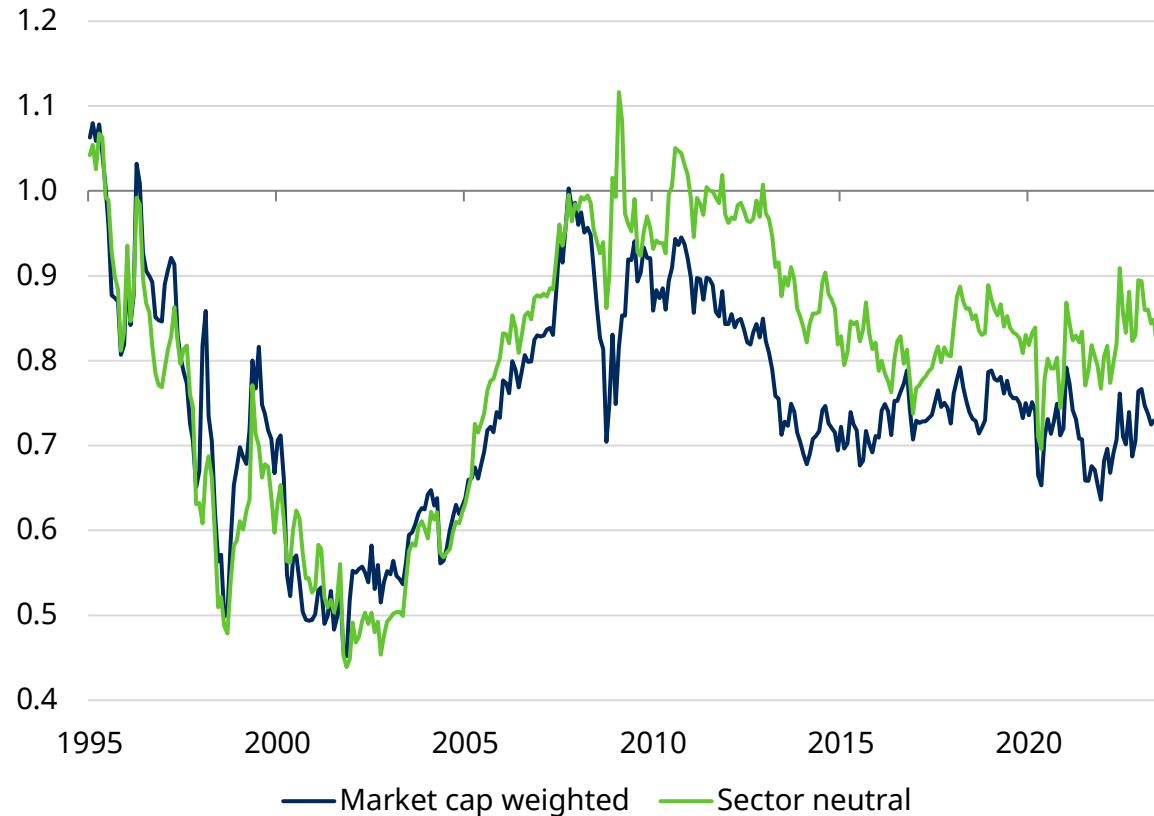
EM dividend yield remains elevated, despite the recent fall

Source: Refinitiv Datastream, Schroders Strategic Research Unit, MSCI. Data as at 31 July 2023. Please see relevant disclaimers on page 38.

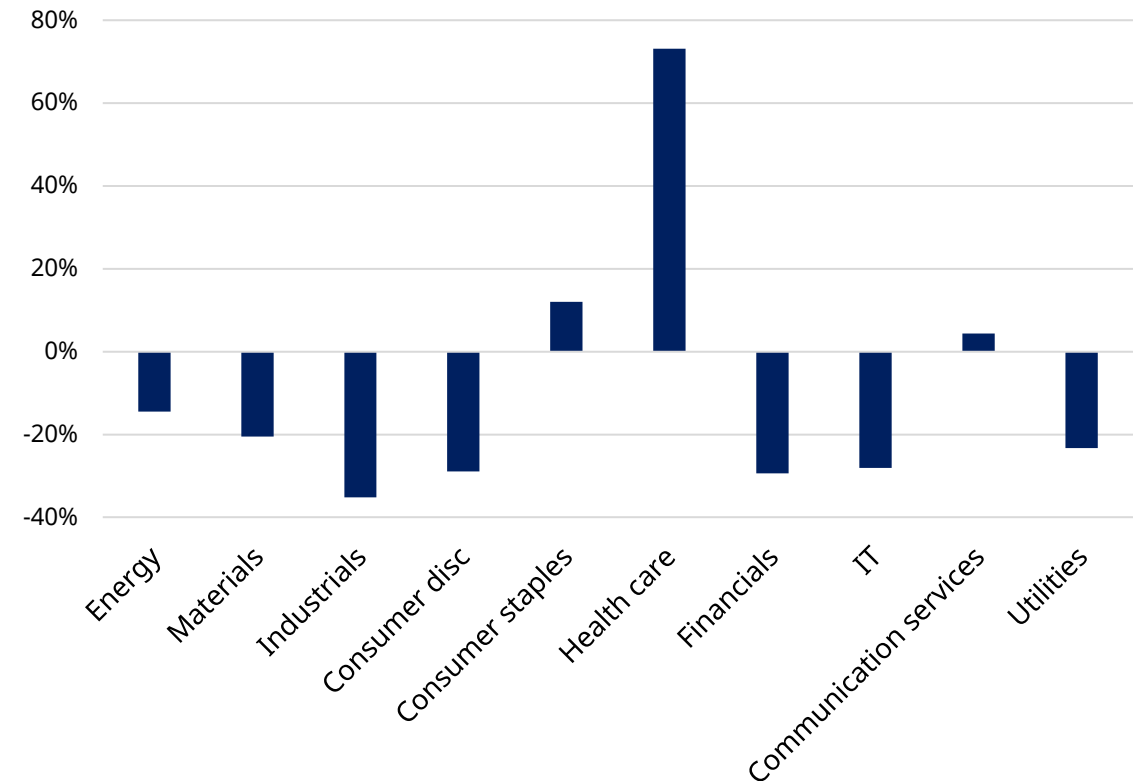
Emerging versus developed market valuations

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/Es of sectors



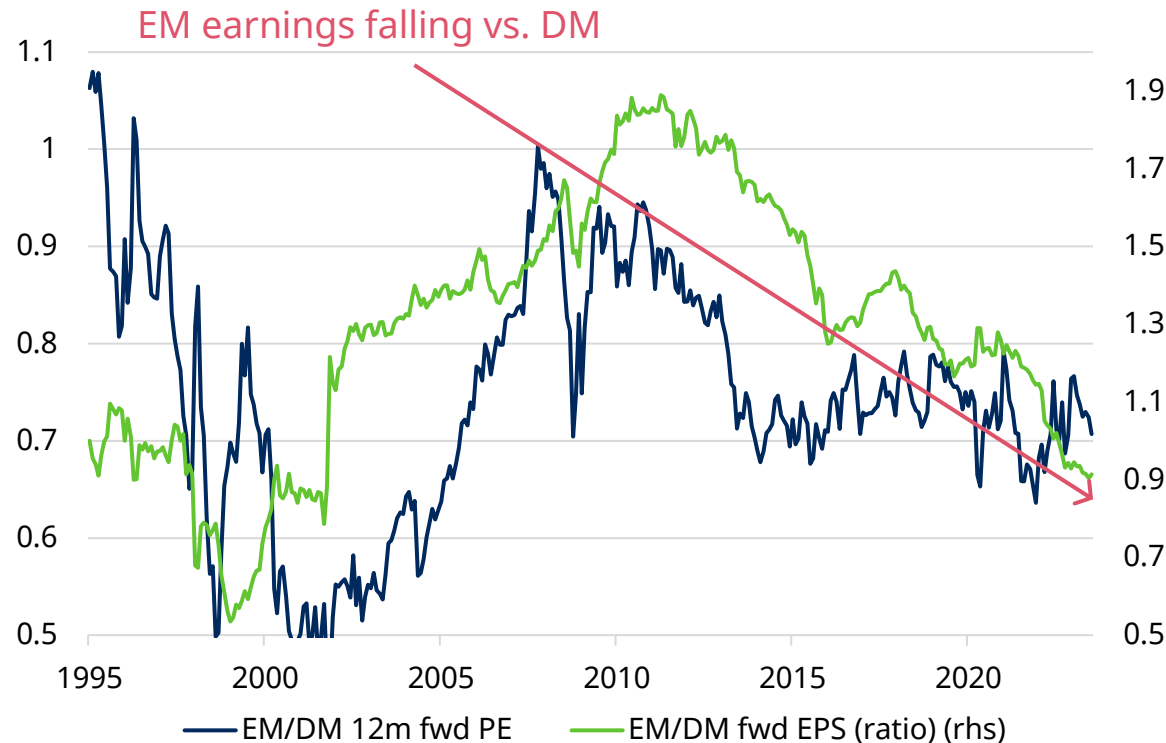
Health care is the only sector at a significant premium to DM

Source: Refinitiv Datastream, MSCI, IBES, Schroders Strategic Research Unit. Data as at 31 July 2023. Please see relevant disclaimers on page 38.

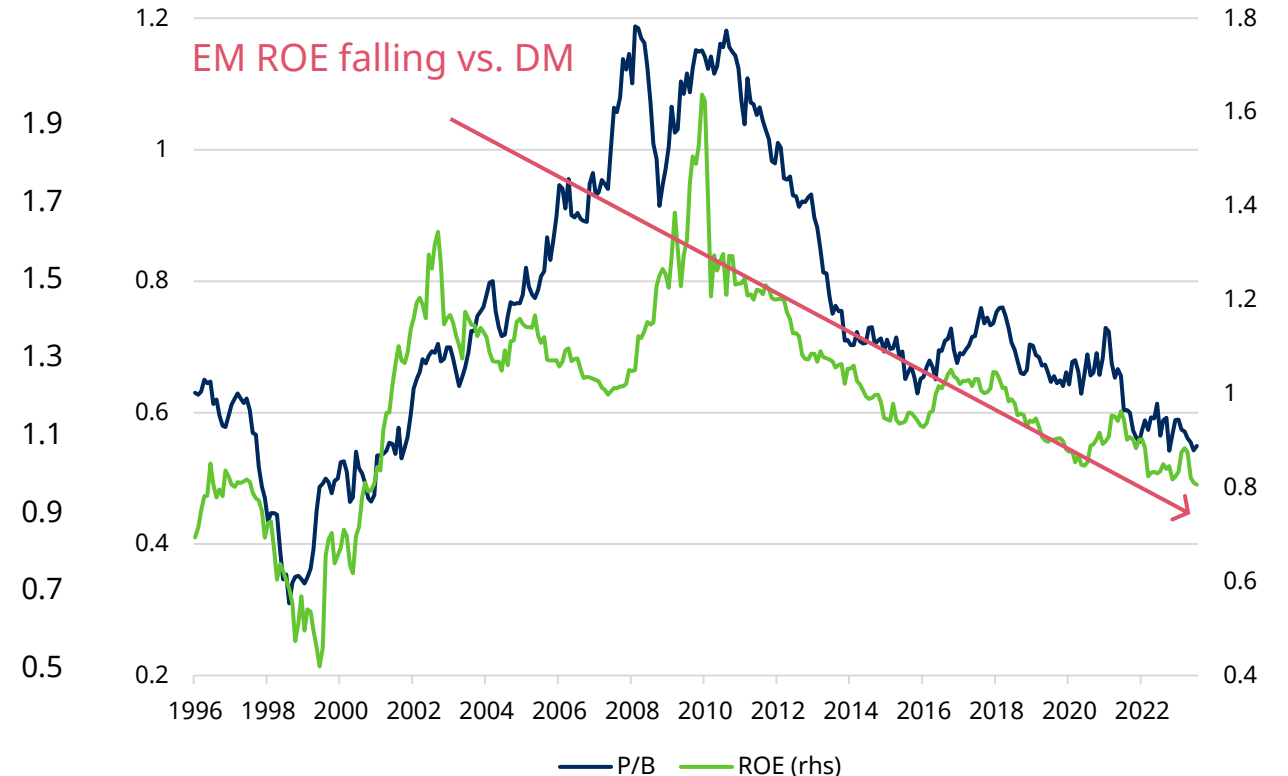
Drivers of EM/DM valuation gap

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, largely due to falling EM ROE

Source: Refinitiv Datastream, MSCI, IBES, Schroders Strategic Research Unit. Data as at 31 July 2023. Please see relevant disclaimers on page 38.

Emerging markets index composition

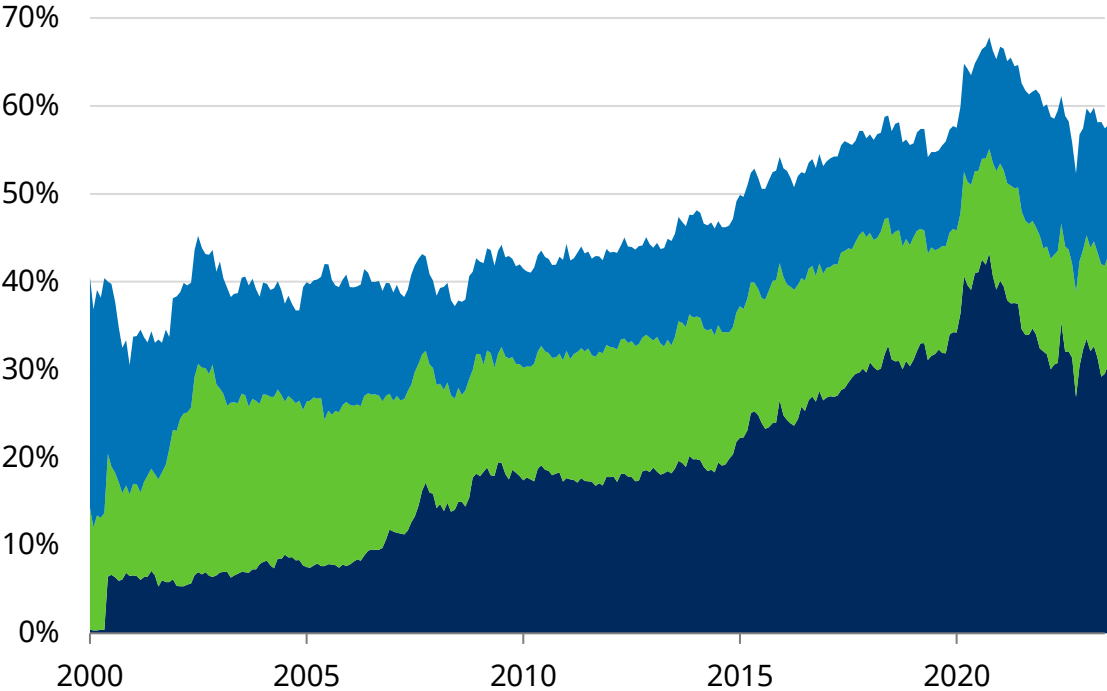
EM is dominated by Asia

The MSCI EM Index share of regions



■ Asia ■ EMEA ■ Latam

China, Korea and Taiwan are 58% of the EM index



■ China ■ Korea ■ Taiwan

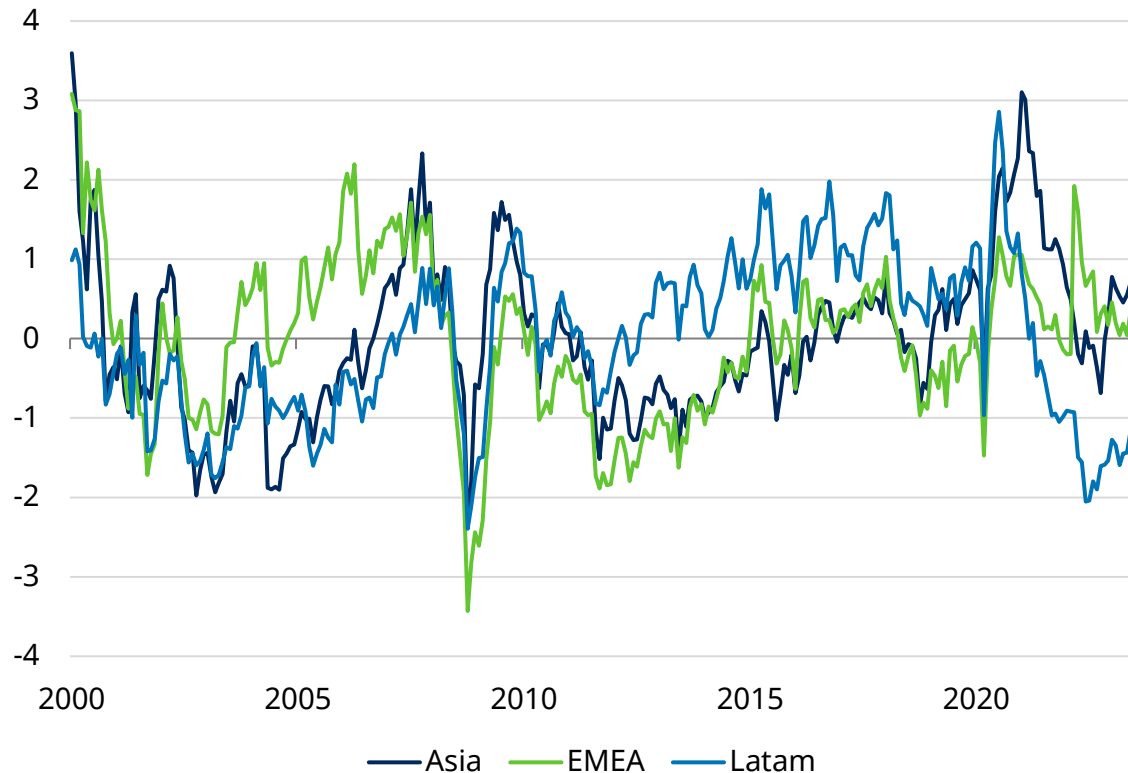
Three large North-east Asia markets have a big impact on aggregate EM valuations

Source: Refinitiv Datastream, MSCI, Schroders Strategic Research Unit. Data as at 31 July 2023. Please see relevant disclaimers on page 38.

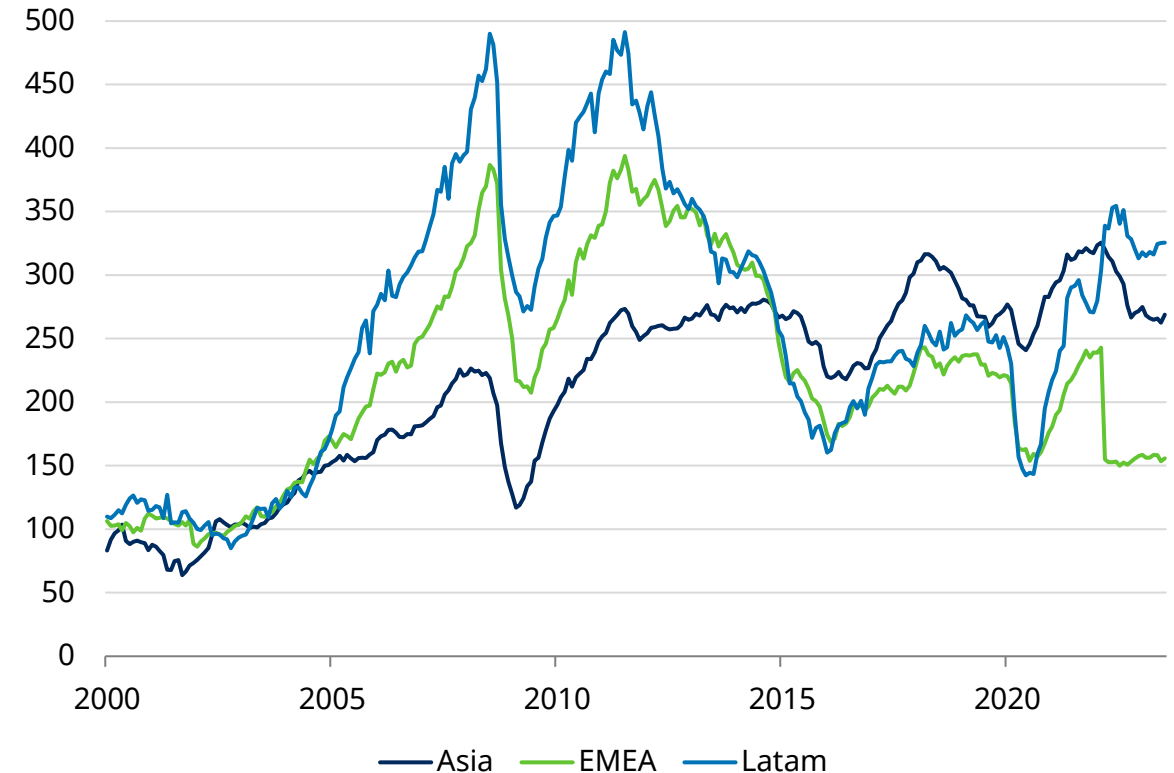
Valuations and earnings expectations in EM regions

Despite strong YTD performance, Latin America remains the cheapest region

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



12-month forward EPS of EM regions



EMEA and Asia are above their historical average

Source: Refinitiv Datastream, Schroders Strategic Research Unit, MSCI. Data as at 31 July 2023.

¹The z-score is a measure of how far valuations are from historical mean. Please see relevant disclaimers on page 38.

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

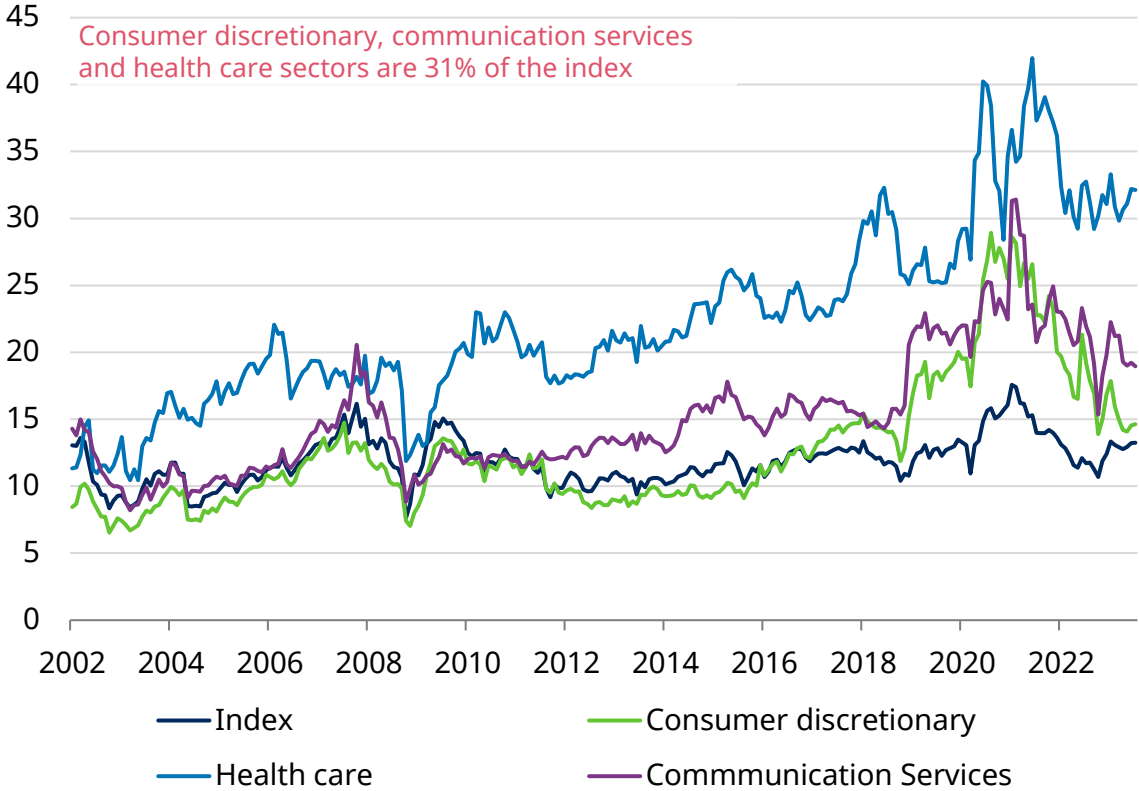


■ Value ■ Growth

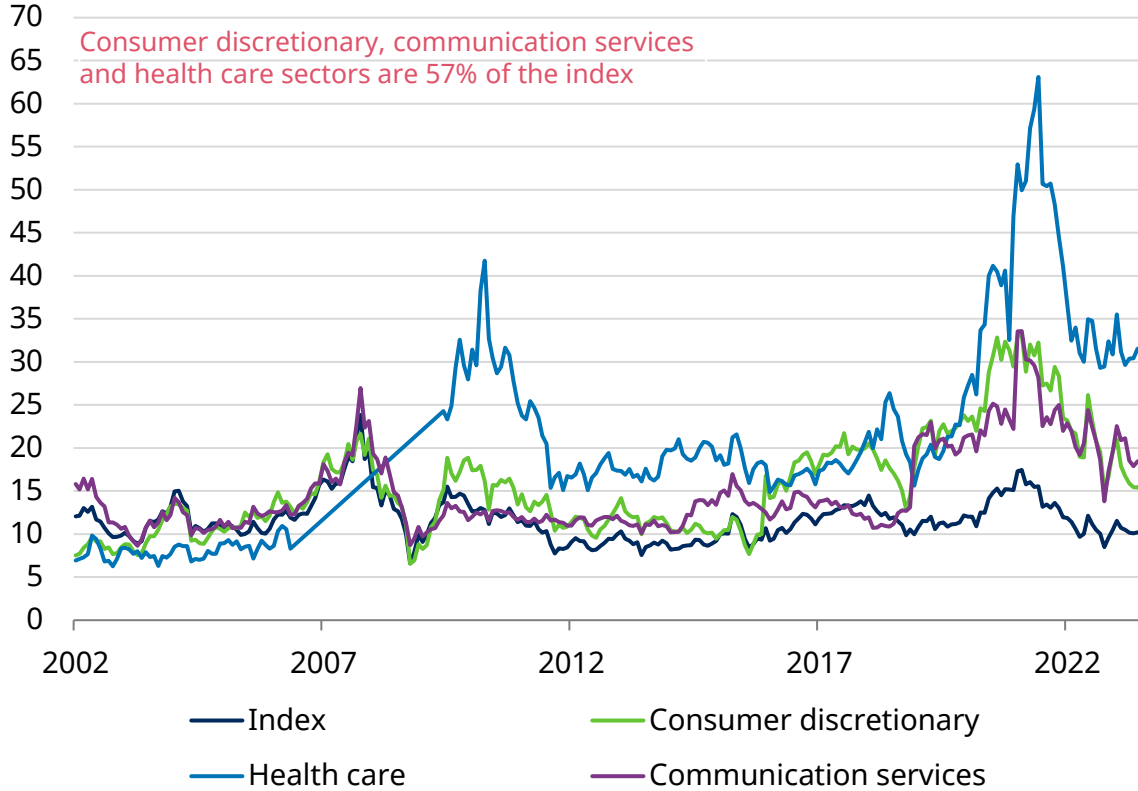
Source: Refinitiv Datastream, MSCI, Schroders Strategic Research Unit, Data as at 31 July 2023. **Value sectors:** energy, materials, industrials, financials, utilities, real estate. **Growth sectors:** consumer discretionary, consumer staples, health care, IT, communication services. Please see relevant disclaimers on page 38.

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



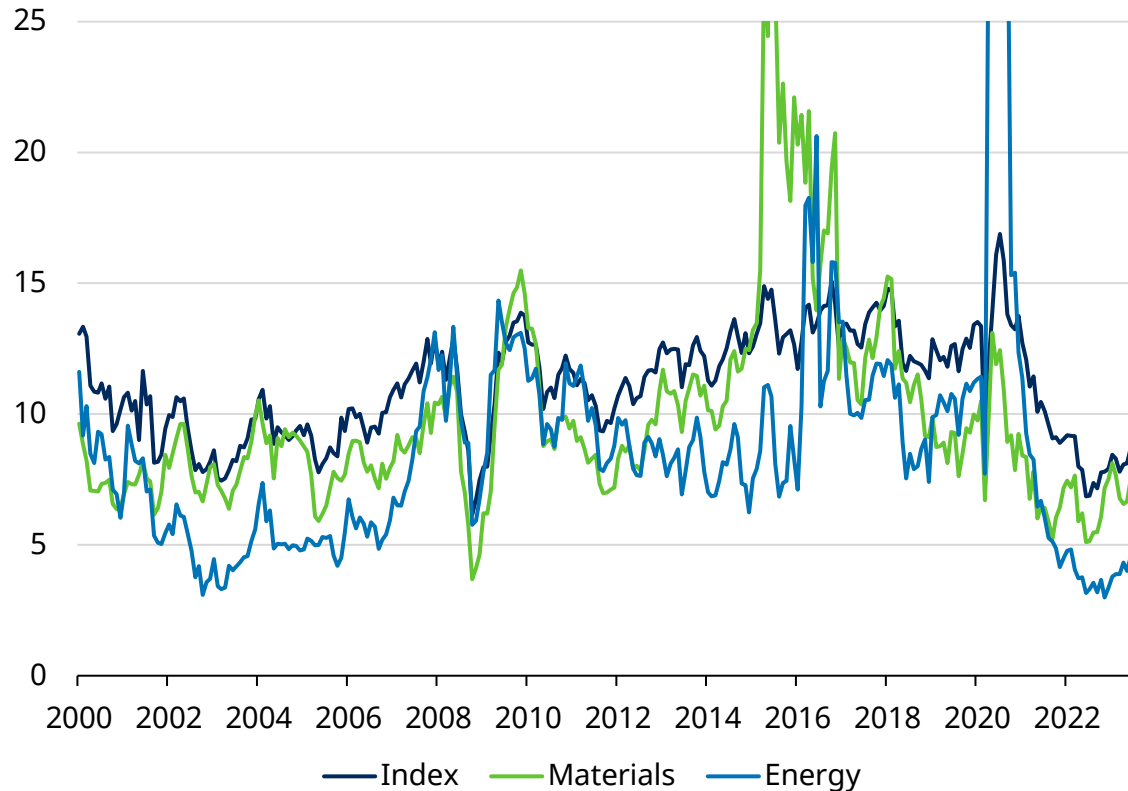
The MSCI China Index sector forward P/E ratios



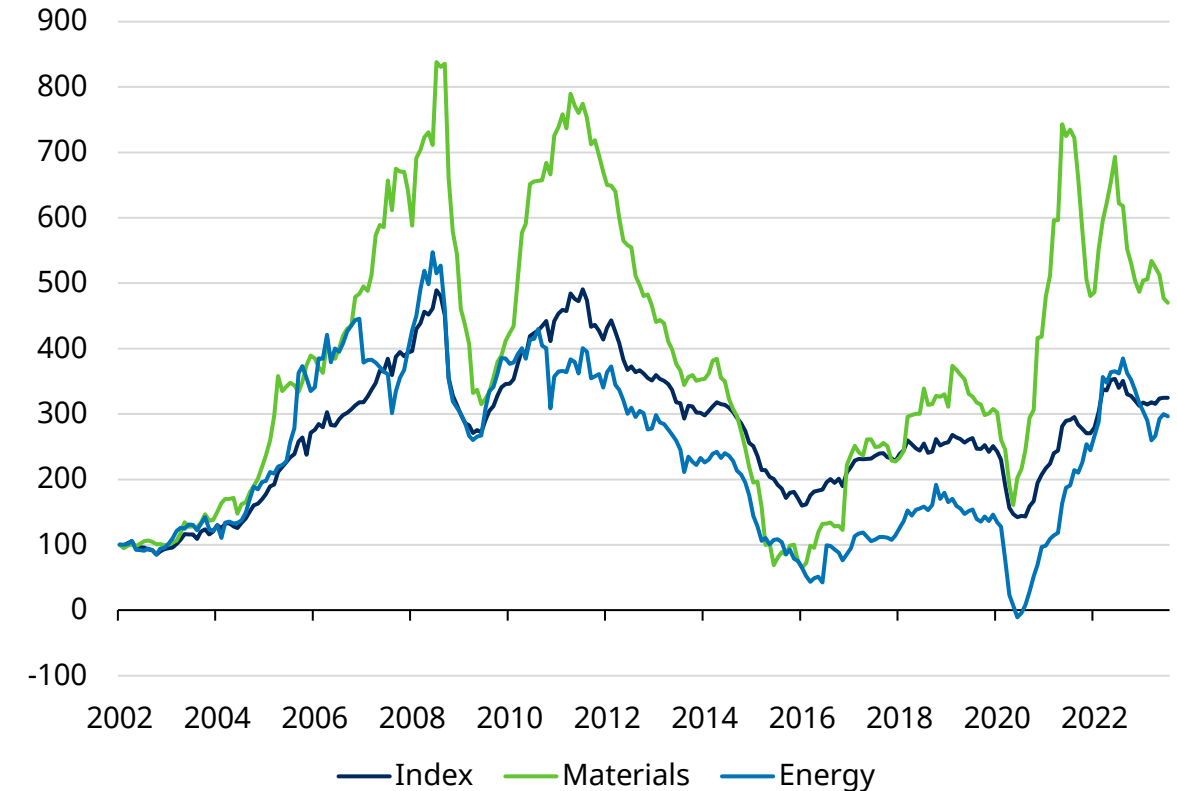
Source: Refinitiv Datastream, MSCI, Schroders Strategic Research Unit. Data as at 31 July 2023. Please see relevant disclaimers on page 38.

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 31 July 2023. Please see relevant disclaimers on page 38.

EM country-level valuations

How countries stack up when measured against their own history

On a combined valuation basis, various EM markets are 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 and Thailand are 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

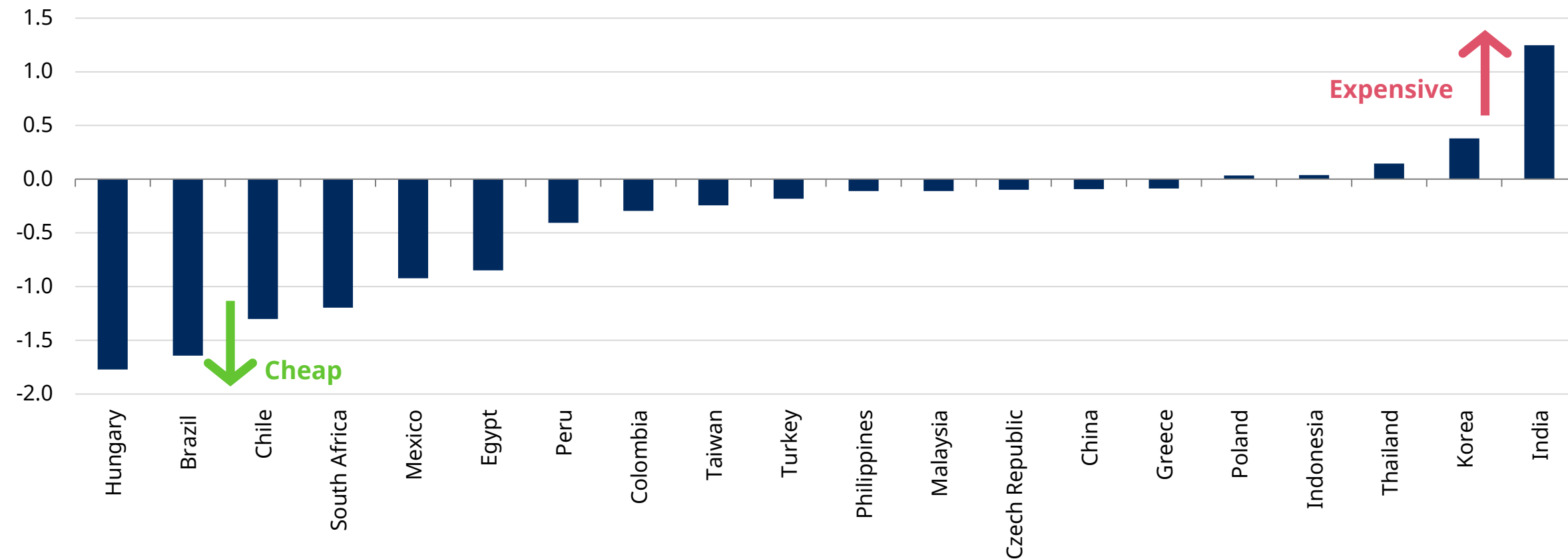
The EMEA markets are in general cheap:

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

Source: Schroders, Refinitiv Datastream, MSCI, IBES, Schroders Strategic Research Unit. Data as at 31 July 2023. Please see relevant disclaimers on page 38.

Standardised EM country valuations: trailing P/E

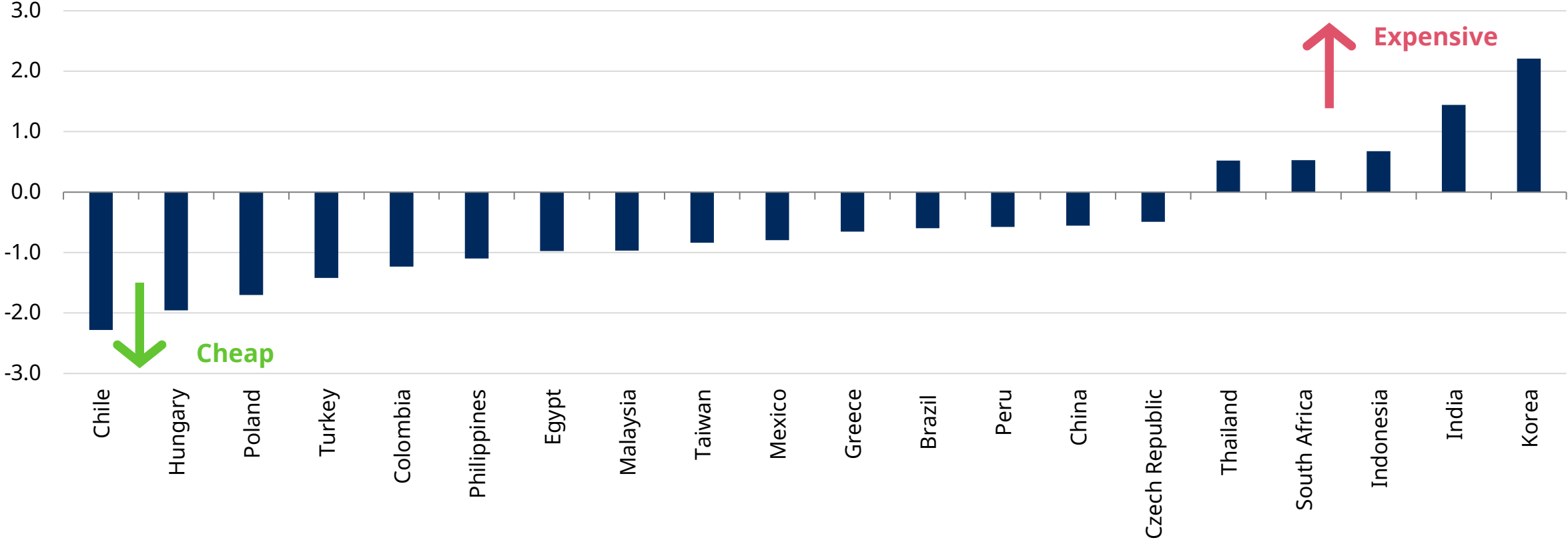
12-month trailing P/E (z-score¹)



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 31 July 2023. Please see relevant disclaimers on page 38.

Standardised EM country valuations: the forward P/E

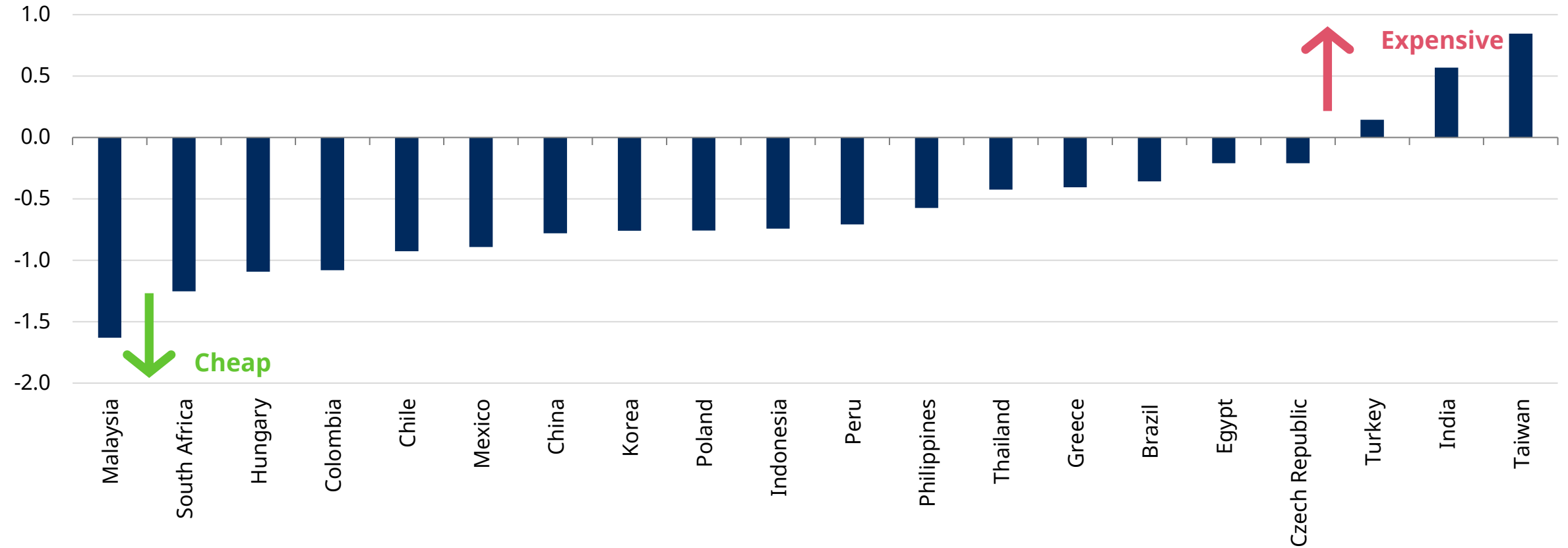
12-month forward P/E (z-score¹)



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 31 July 2023. Please see relevant disclaimers on page 38.

Standardised EM country valuations: the P/B ratio

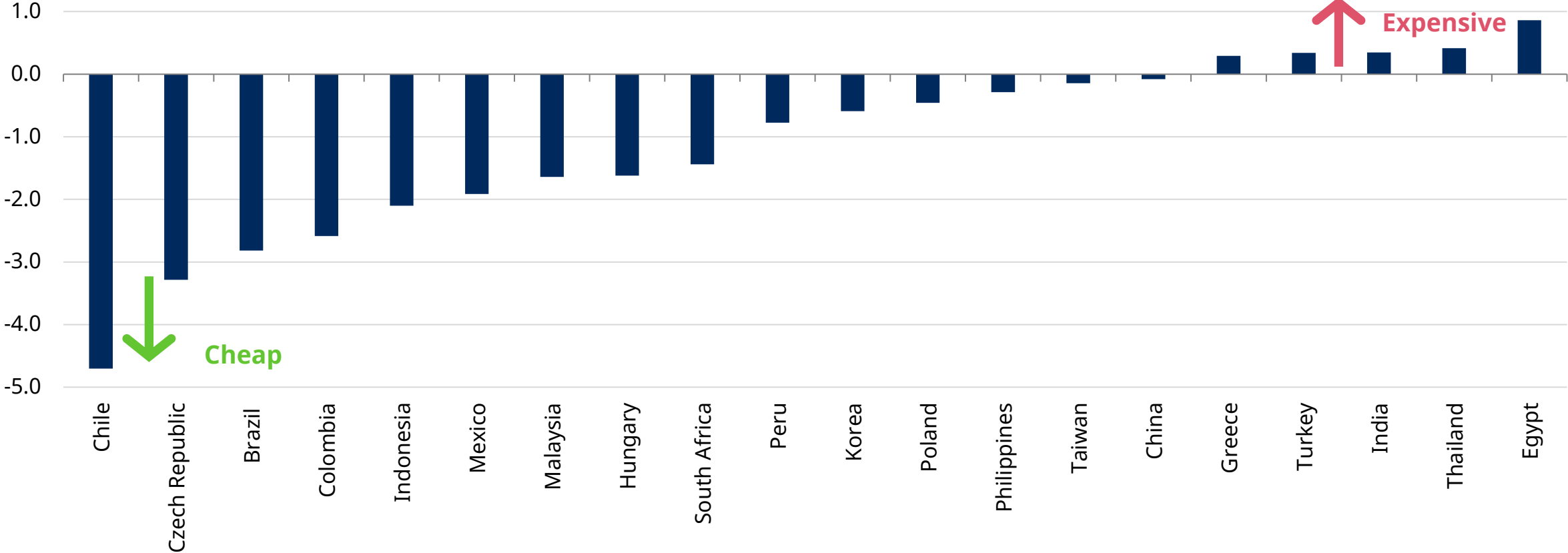
The P/B ratio (z-score¹)



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 31 July 2023. Please see relevant disclaimers on page 38.

Standardised EM country valuations: the dividend yield

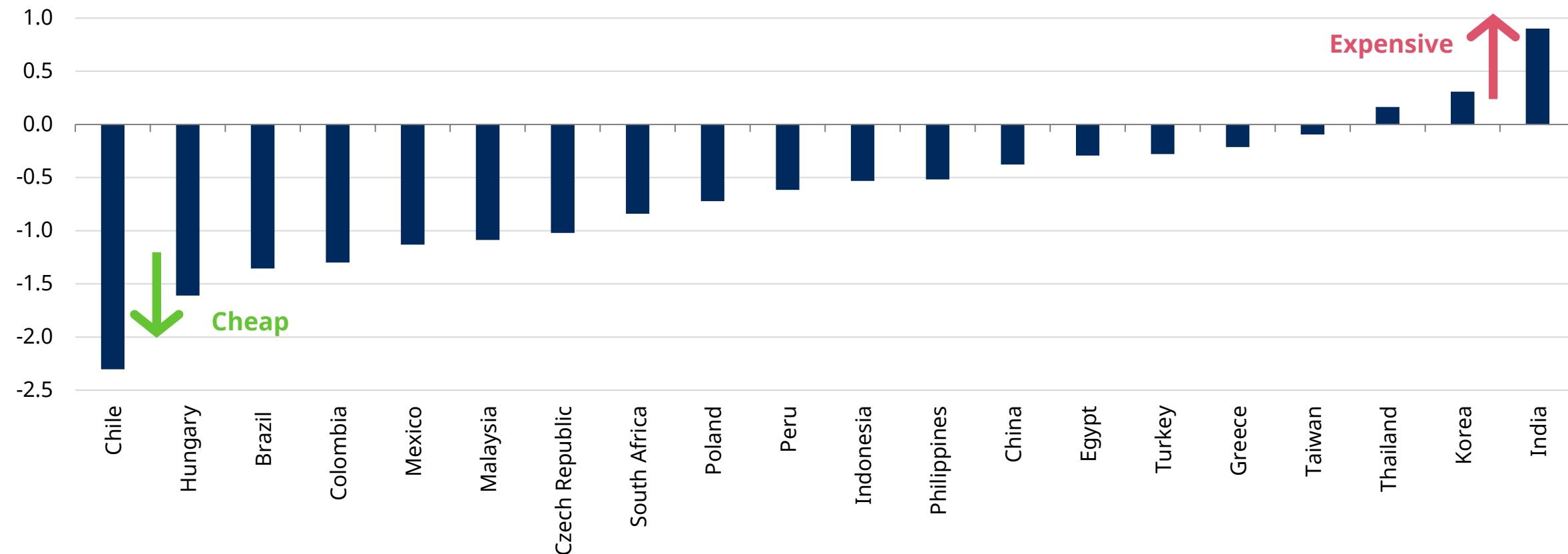
The dividend yield (z-score¹)



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 31 July 2023. Please see relevant disclaimers on page 38.

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 31 July 2023. Please see relevant disclaimers on page 38.

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 | -1.3 | -2.3 | -0.9 | -4.7 | -2.3 |
| Hungary | -1.8 | -2.0 | -1.1 | -1.6 | -1.6 |
| Brazil | -1.6 | -0.6 | -0.4 | -2.8 | -1.4 |
| Colombia | -0.3 | -1.2 | -1.1 | -2.6 | -1.3 |
| Mexico | -0.9 | -0.8 | -0.9 | -1.9 | -1.1 |
| Malaysia | -0.1 | -1.0 | -1.6 | -1.6 | -1.1 |
| Czech Republic | -0.1 | -0.5 | -0.2 | -3.3 | -1.0 |
| South Africa | -1.2 | 0.5 | -1.3 | -1.4 | -0.8 |
| Poland | 0.0 | -1.7 | -0.8 | -0.5 | -0.7 |
| Peru | -0.4 | -0.6 | -0.7 | -0.8 | -0.6 |
| Indonesia | 0.0 | 0.7 | -0.7 | -2.1 | -0.5 |
| Philippines | -0.1 | -1.1 | -0.6 | -0.3 | -0.5 |
| China | -0.1 | -0.6 | -0.8 | -0.1 | -0.4 |
| Egypt | -0.8 | -1.0 | -0.2 | 0.9 | -0.3 |
| Turkey | -0.2 | -1.4 | 0.1 | 0.3 | -0.3 |
| Greece | -0.1 | -0.7 | -0.4 | 0.3 | -0.2 |
| Taiwan | -0.2 | -0.8 | 0.8 | -0.1 | -0.1 |
| Thailand | 0.1 | 0.5 | -0.4 | 0.4 | 0.2 |
| Korea | 0.4 | 2.2 | -0.8 | -0.6 | 0.3 |
| India | 1.2 | 1.4 | 0.6 | 0.3 | 0.9 |

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 31 July 2023. Please see relevant disclaimers on page 38.

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 | -68% | -52% | -33% | -65% | -54% |
| Chile | -70% | -39% | -19% | -73% | -50% |
| Hungary | -58% | -41% | -45% | -47% | -48% |
| Brazil | -51% | -15% | 3% | -66% | -32% |
| Poland | -26% | -34% | -18% | -33% | -28% |
| Czech Republic | -36% | -10% | 8% | -56% | -24% |
| South Africa | -27% | -15% | -24% | -26% | -23% |
| Greece | -40% | -21% | -35% | 6% | -23% |
| Peru | -15% | -15% | -22% | -36% | -22% |
| Mexico | -14% | -10% | -12% | -47% | -21% |
| Philippines | -15% | -19% | -18% | -21% | -18% |
| Malaysia | 1% | -12% | -24% | -29% | -16% |
| Turkey | -46% | -39% | 17% | 14% | -13% |
| Indonesia | 2% | 8% | -16% | -46% | -13% |
| China | 6% | -12% | -15% | -2% | -6% |
| Egypt | -32% | -27% | 0% | 69% | 2% |
| Taiwan | -11% | 16% | 19% | -11% | 3% |
| Korea | 18% | 37% | -12% | -17% | 7% |
| Thailand | 41% | 38% | -7% | 9% | 20% |
| India | 39% | 39% | 20% | 9% | 27% |

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

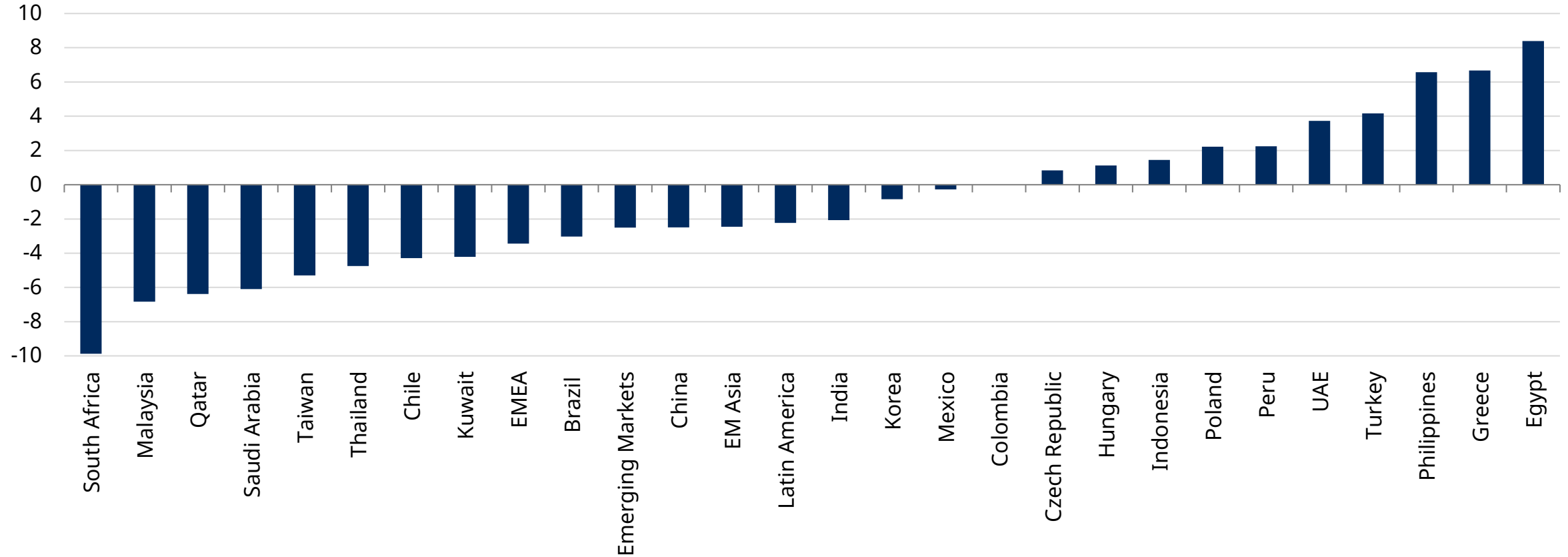
Discount to historical median (since Jan 1995 or earliest available). Combined figure is an average of trailing P/E, 12-month forward P/E, P/B, and dividend yield.

Source: Schroders, Refinitiv Datastream, MSCI, IBES, Schroders Strategic Research Unit. Data as at 31 July 2023. Please see relevant disclaimers on page 38.

EM earnings revisions

Most large EM have continued to experience negative earnings revisions

Earnings revisions¹ (%) (3-month average)

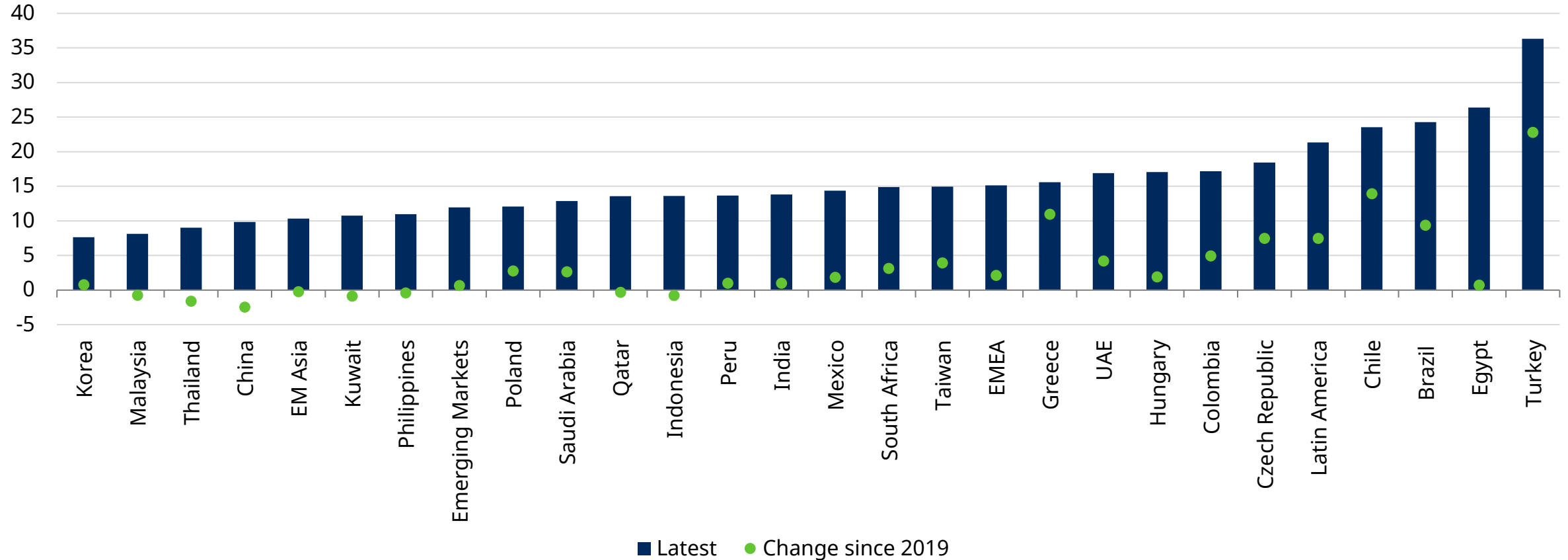


¹Calculated as the number earnings upgrades minus the number of earnings downgrades divided by the total numbers of earnings updates. Source: Refinitiv Datastream, IBES, Schroders Strategic Research Unit. Data as at 31 July 2023. Please see relevant disclaimers on page 38.

EM return on equity

Profitability has been falling recently, but is broadly improved versus pre-Covid levels

Return on equity (%)



Source: Schroders, MSCI, Schroders Strategic Research Unit. Data as at 31 July 2023. Please see relevant disclaimers on page 38. Past performance is not a guide to future performance and may not be repeated.



EM currency valuations

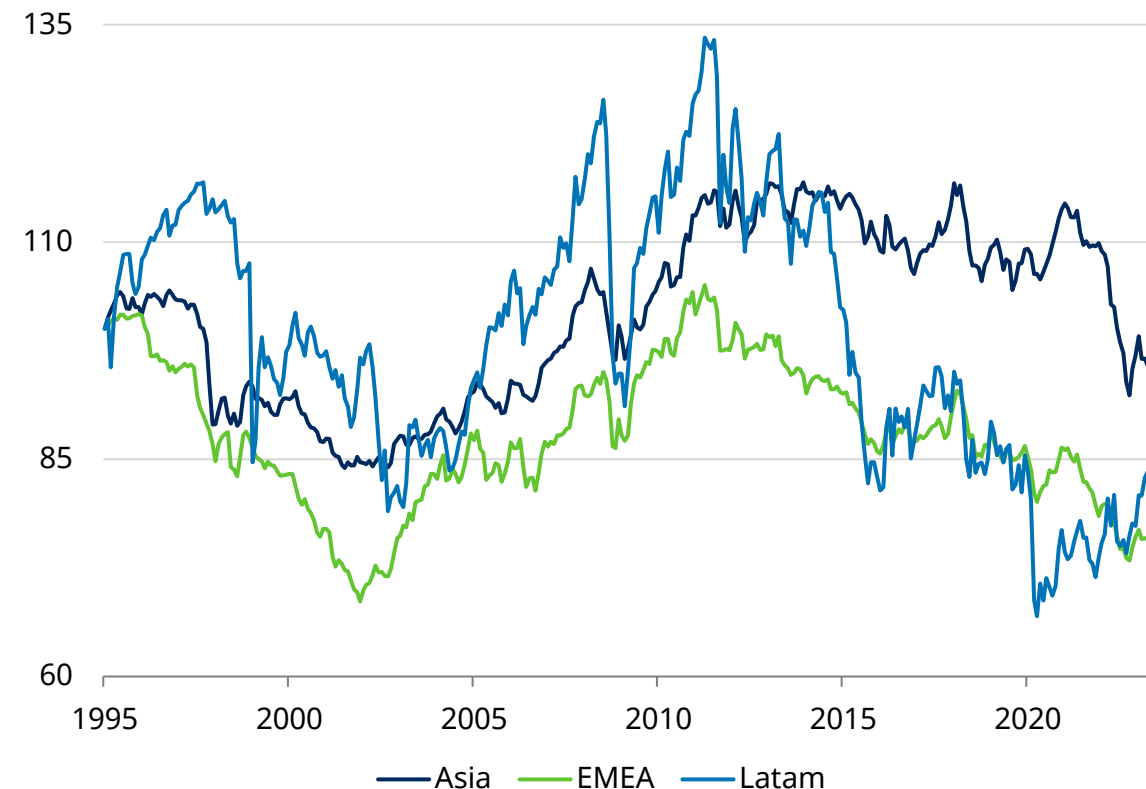
Is there value in EM currencies?

EM currencies have depreciated in real terms since 2011

EM real exchange rate¹



EM real exchange rates of regions¹



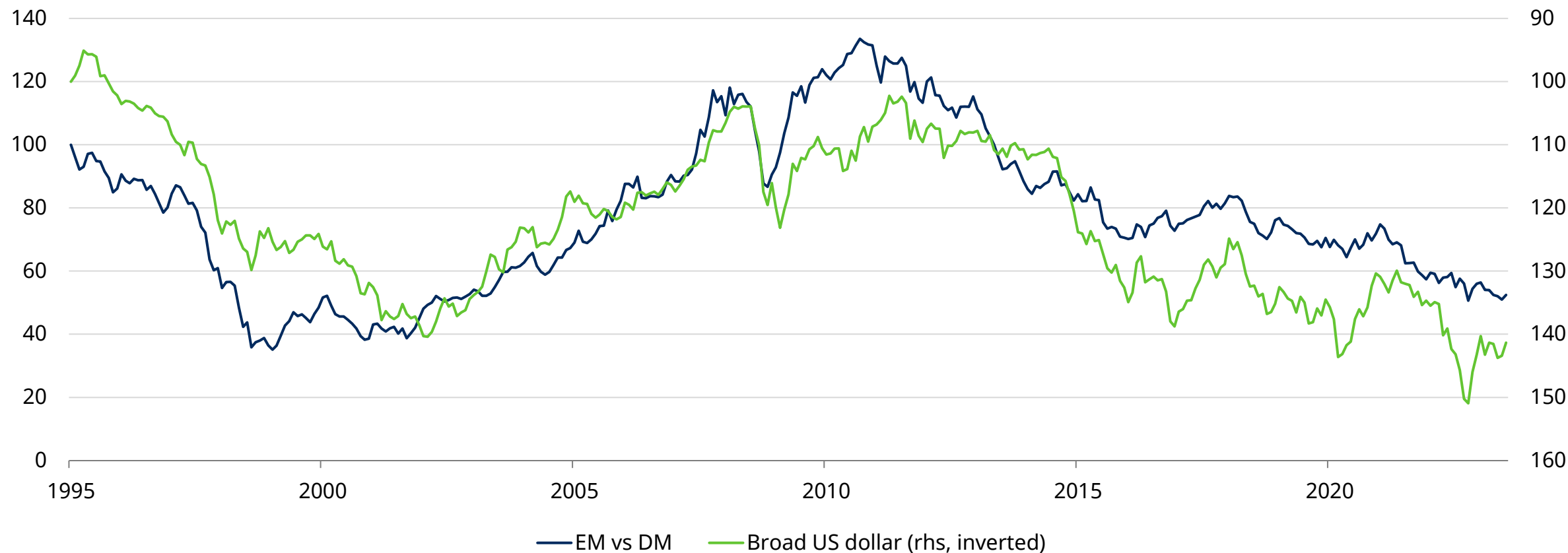
There are significant differences between regions; EMEA and Latin America currencies are cheapest

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 31 July 2023. Please see relevant disclaimers on page 38.

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



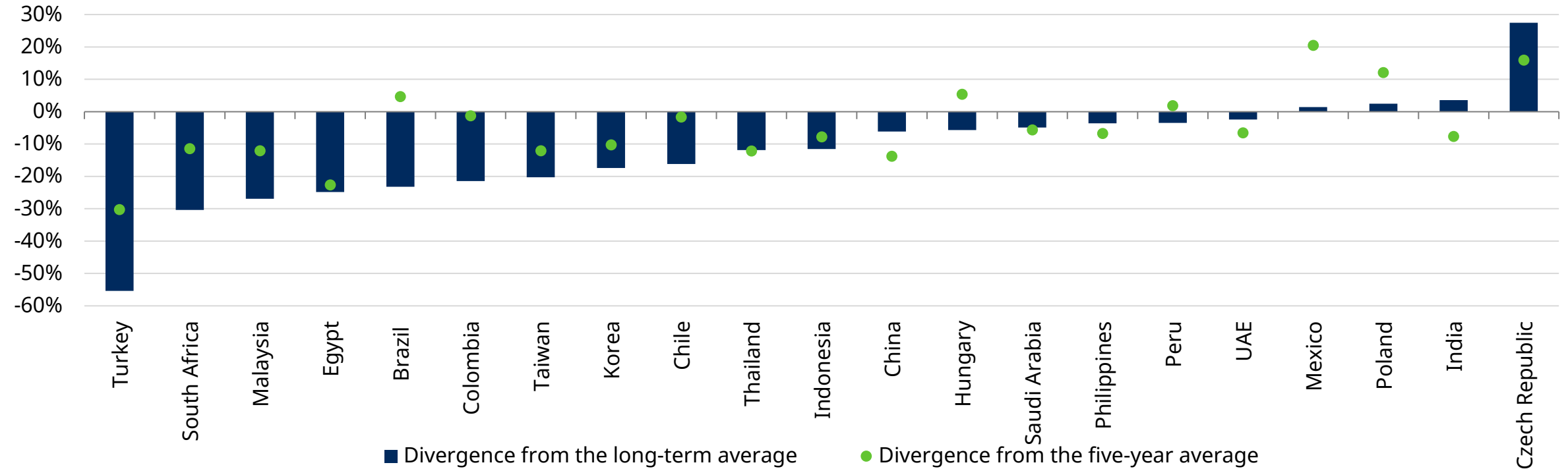
Past performance is not a guide to future performance and may not be repeated.

Source: Refinitiv Datastream, MSCI, Schroders Strategic Research Unit. Data as at 31 July 2023. Please see relevant disclaimers on page 38.

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 India, Poland and Mexico

Source: Schroders, Refinitiv Datastream, Schroders Strategic Research Unit. Data as at 31 July 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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