

DECEMBER 2023 For institutional, professional and wholesale investors only.

## Here comes the sun

Three reasons to be positive on Emerging Markets



In their song "Here Comes the Sun," The Beatles wrote about "a long, cold, lonely winter" and it feeling "like years" since seeing the sun. Whilst investing in Emerging Markets (EM) has felt like that and it would be tempting for investors to turn their backs on EM, we believe there are reasons to believe that the outlook is bright as we head into 2024.



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### i) The return of EM growth stocks

In an environment of slowing global economic growth and peaking interest rates, growth stocks are well placed to lead the way in 2024. US growth stocks have already begun outperforming, but EM growth stocks have yet to play catch up. In fact, value has now outperformed growth in EM for three consecutive years with cumulative outperformance of 37%<sup>1</sup>. We believe this has created attractive valuations for EM growth stocks heading into 2024.

**Chart 1. Value has outperformed growth for three consecutive years**



Source: MSCI, 31 October 2023.

<sup>1</sup>MSCI, three years to 31 October 2023.



## ii) China - misconceptions create opportunities

A key drag on EM returns has been the performance of the Chinese market. We feel there are significant misconceptions about China and this is driving material disconnects between share prices and fundamentals. We see signs of geopolitical repair and more domestic shareholder-friendly messaging around private businesses in China. We think investors will begin to reassess their increasingly cautious approach to China amidst this unprecedented divergence between share prices and fundamentals.

## iii) Come to EM for structural opportunities - technology and India

Over the long term, technology has been the best performing sector in EM<sup>2</sup> and currently represents 21%<sup>3</sup> of the index. We believe the sector remains a fantastic long-term opportunity. Despite narratives around onshoring, the reality is that the global technology supply chain continues to be heavily reliant on companies within emerging market countries. They are essential for the advancement of global technology. These companies provide investors with a diverse range of opportunities, currently trading at materially lower valuations than US peers.

We believe India is the greatest economic opportunity globally. Seizing its demographic dividend, its time has come. Importantly there is a rich opportunity set within the country. Companies with long-term structural growth potential and well-regarded management teams. These range from luxury retailers harnessing the power of technology in a market historically reliant on in-person service, to retail and corporate banks reaching historically underpenetrated parts of the market using technology and innovative business practices, or global industry leading materials companies driving positive change in an environmentally lagging sector. We expect these types of companies to continue to ride the wave of the Indian economic opportunity.

**So, whilst investing in EM has been a like long cold winter and it seems like years since it's been clear, here comes the sun and we say it's alright.**

<sup>2</sup>FactSet. Technology returned 210% on an absolute, cumulative basis in the 10 years to 31 October 2023, followed by financials which returned 26%.

<sup>3</sup>MSCI, as at 31 October 2023.

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