



WHY EMERGING MARKETS Q1 2024

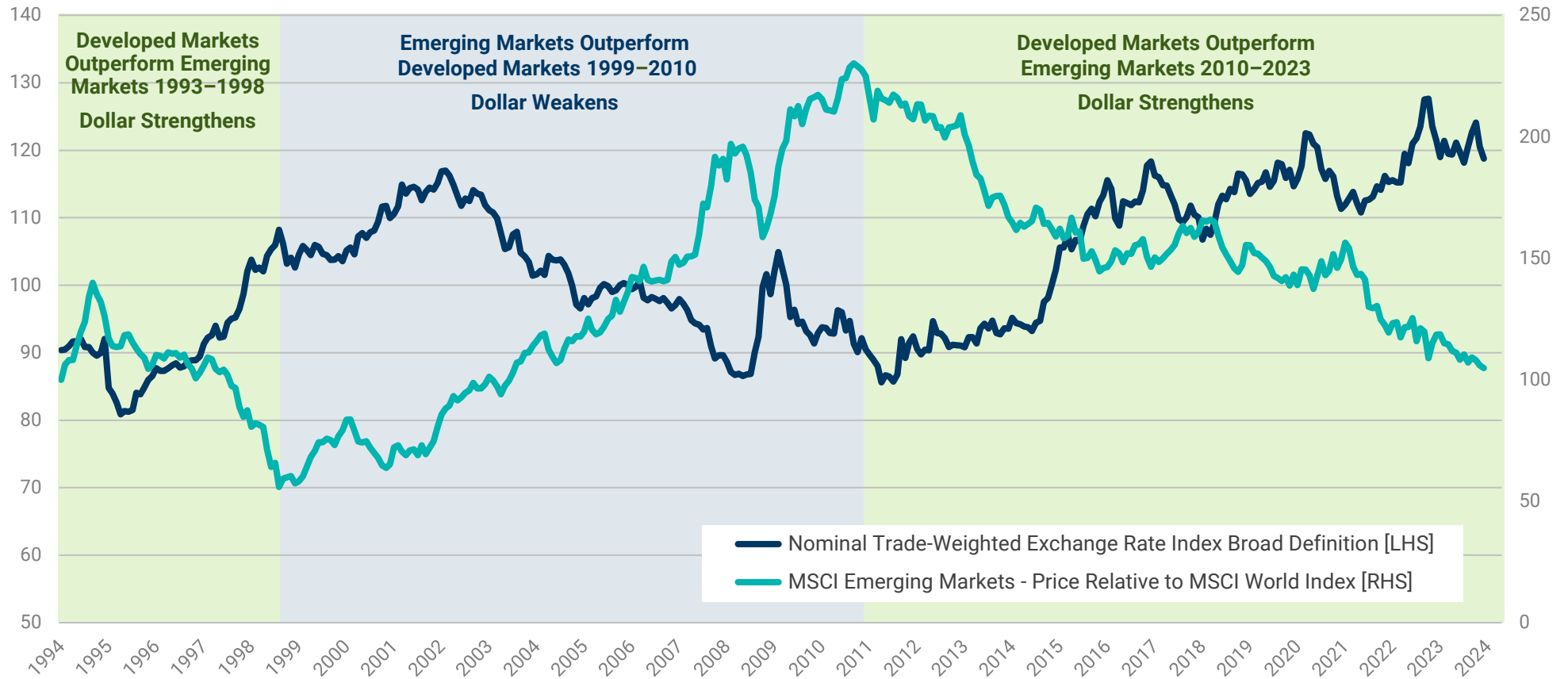
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LAZARD
ASSET MANAGEMENT

1. THE US DOLLAR IS EXPECTED TO BE LESS OF A HEADWIND FOR EM

- The US dollar recently hit a 20Y high and has had a strong start to 2024, causing headwinds for developing countries.
- A continued moderation in dollar strength could be beneficial for the asset class.
- Historically, investors have benefited from adding exposure to EM equities when the US dollar nears a peak.

Trade-Weighted US Dollar vs. MSCI EM/MSCI World Relative Performance



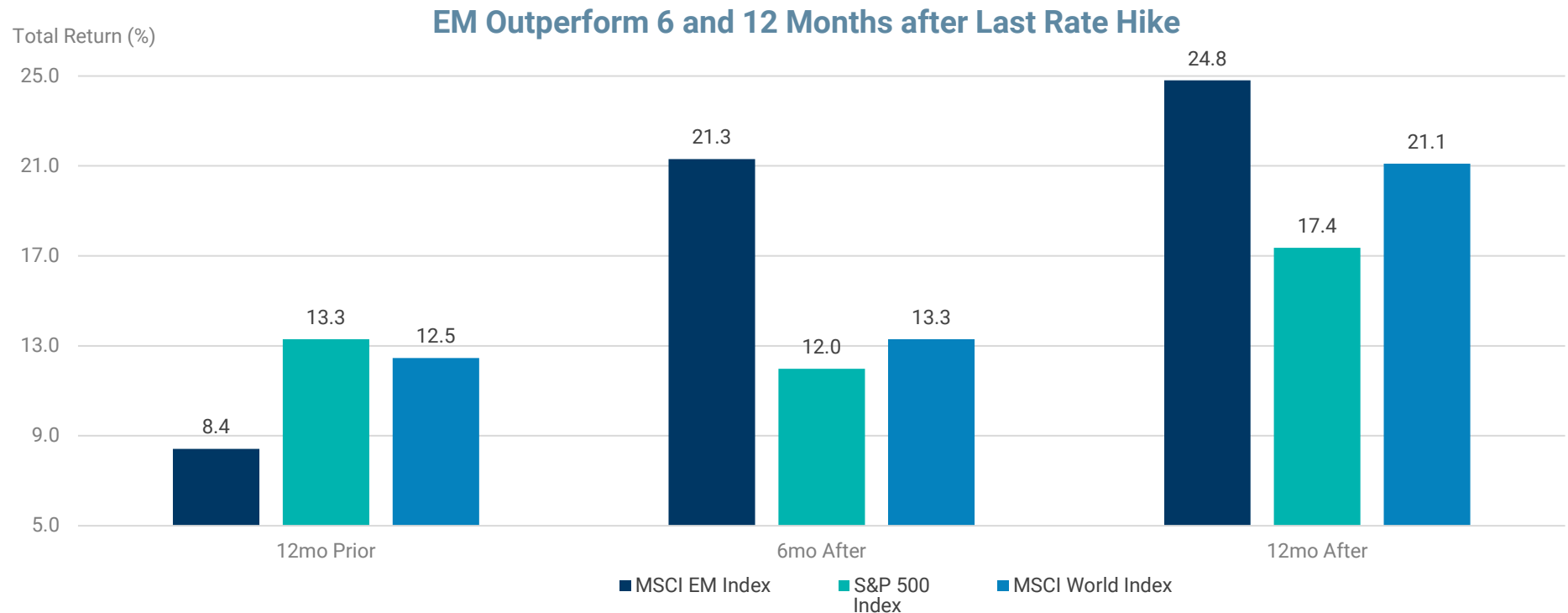
As of 31 March 2024

For illustrative purposes only. **Past performance is not a reliable indicator of future returns and does not guarantee future results.**

Source: JP Morgan forecasts, National statistics

2. EM TYPICALLY OUTPERFORMS DM EQUITIES FOLLOWING THE LAST RATE HIKE

- The US Federal Reserve has signaled the end to its monetary policy hiking cycle with the last rate hike occurring in July 2023. Although the Fed rate cutting cycle has been pushed out due to the resilience of the US economy, we expect them to begin by the end of 2024.
- Lower rates, inherently, attract less capital, which means less demand for US dollars and potential weakness for the currency.
- EM has generally been the best-performing asset class six months and one year following the last hike in a cycle. Historical outperformance relative to the S&P 500 Index and MSCI World Index as well as cheap valuations make now an attractive time to invest in EM.



As of 31 March 2024

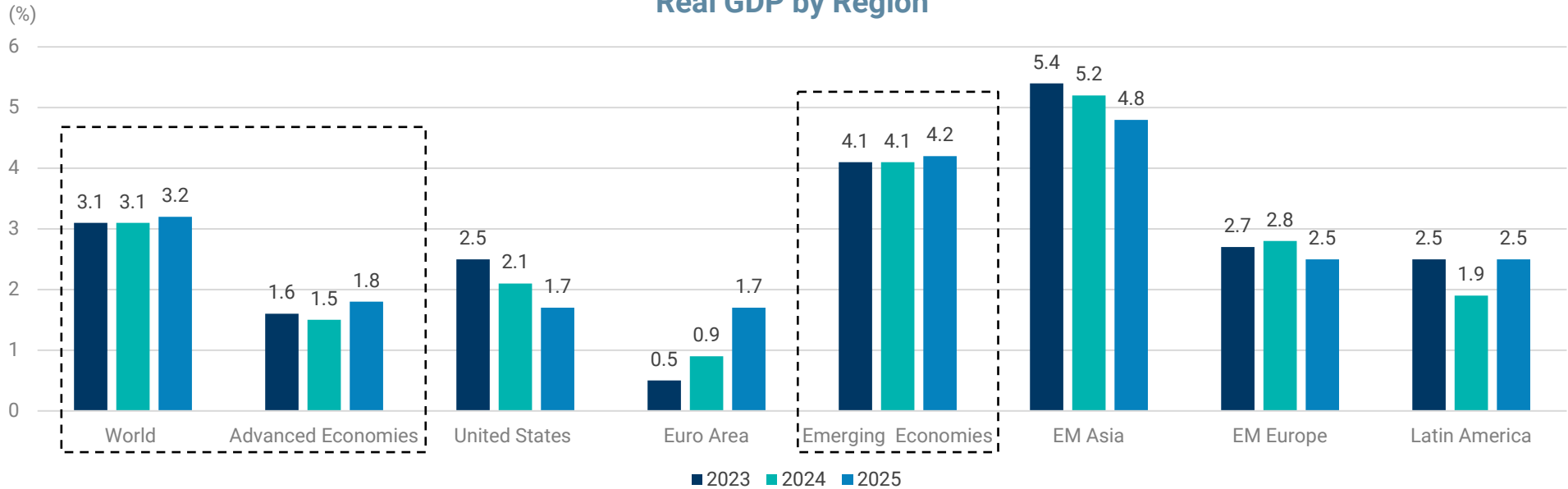
Time Periods (6/30/98–6/30/99; 6/30/03–6/30/04; 12/16/14–12/16/15; 3/16/21–3/16/22)

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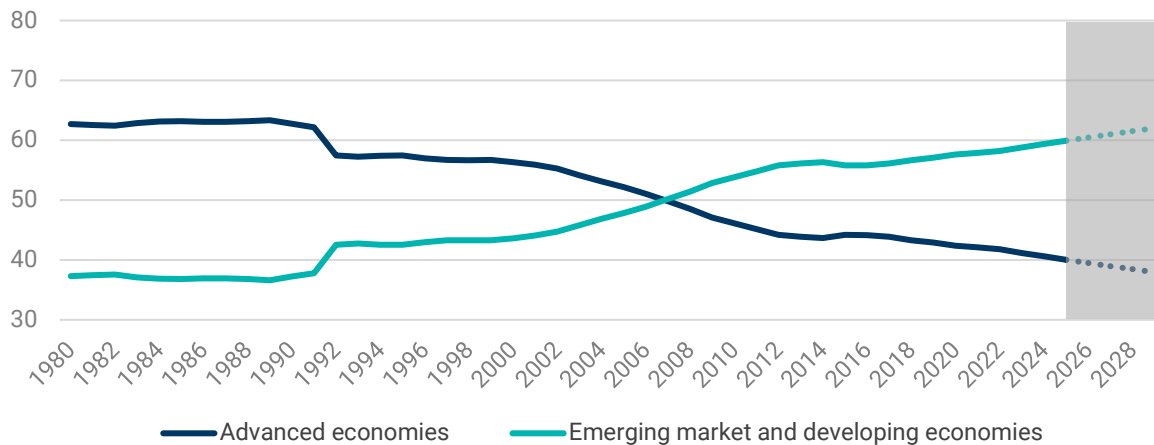
Source: FactSet

3. MORE BALANCED GLOBAL GROWTH OUTLOOK WITH EM ASIA TO LEAD

Real GDP by Region



GDP based on PPP, share of world (Percent of World)



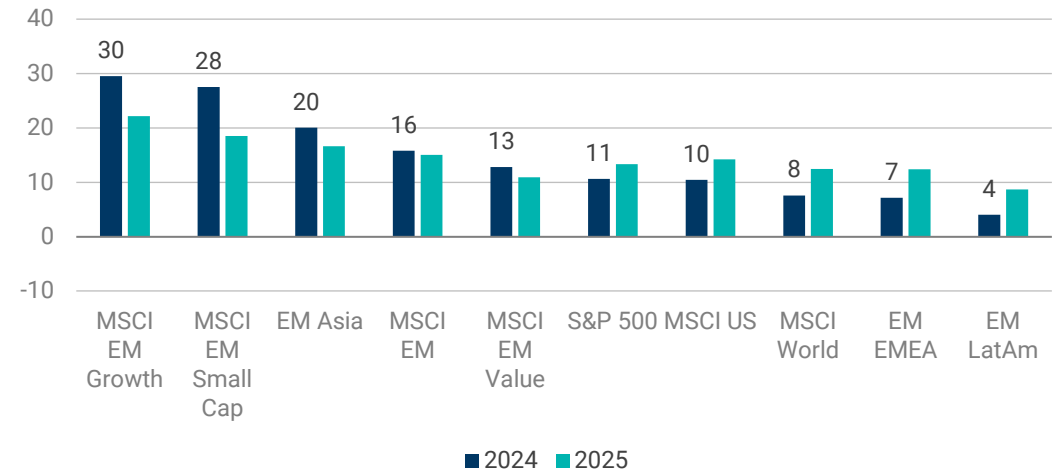
- The Economic growth premium across regions is moving in a non-synchronous fashion, which, we believe, should result in a more balanced global growth outlook.
- EPS Growth expectations are higher in EM relative to the MSCI World and S&P 500 over the next two years.
- EM countries have grown faster, and are becoming very large economies, which means that their growth rates will contribute more global growth.

As of 30 January 2024
Source: IMF, Haver Analytics, shaded area represent IMF projections

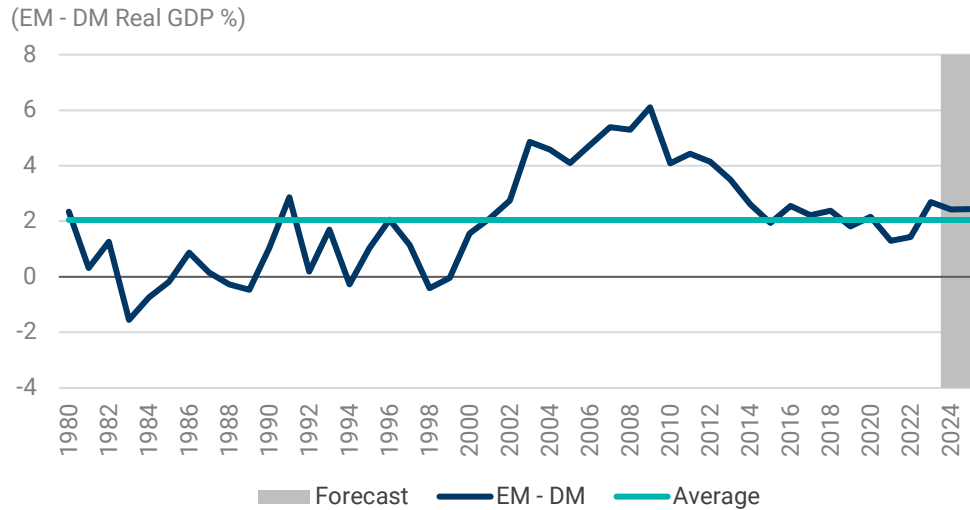
4. HIGHER ECONOMIC AND EARNINGS GROWTH

- We believe the growth premium in favor of EM over DM will continue widening and major EM countries are likely to benefit.
- We expect India to benefit from a demographic dividend with nearly 80% of its population younger than 50, while Indonesia's growth prospects are also improving as it climbs up the metals value chain.
- In our view, growth prospects in Latin America, namely Brazil and Mexico, have greatly improved on the back of nearshoring trends and an increase in foreign direct investment as companies adjust their global supply chain strategies.

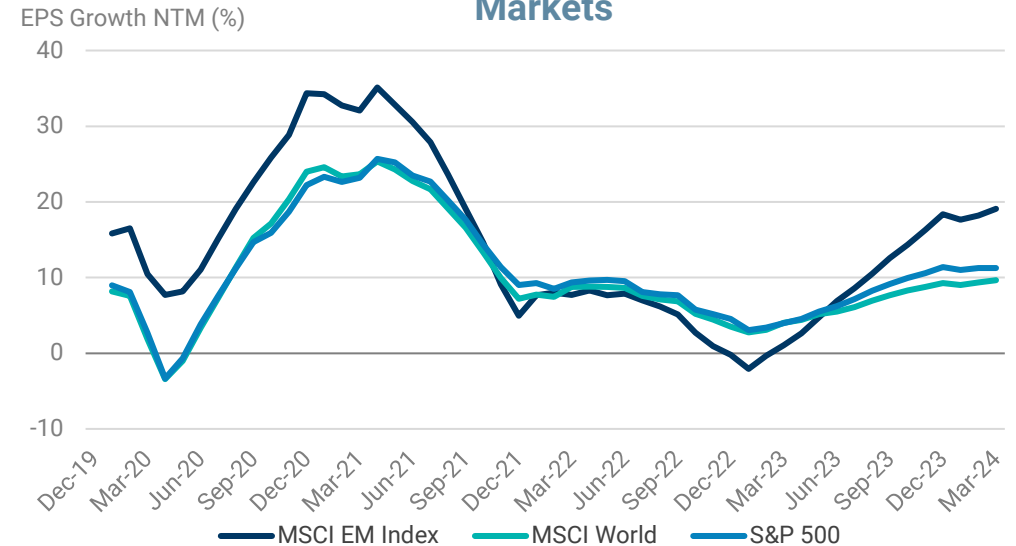
2024–2025 EPS Growth



Economic Growth Premium



EM EPS Expectations Outpacing Developed Markets



As of 16 April 2024

Source: FactSet, Haver Analytics, International Monetary Fund

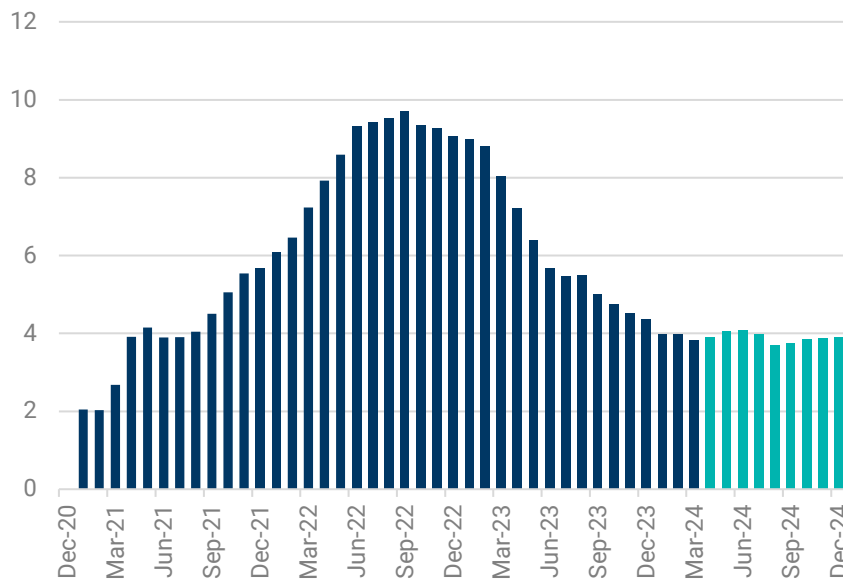
5. IMPROVING ECONOMIC BACKDROP

EM inflation is falling and central banks are beginning to cut

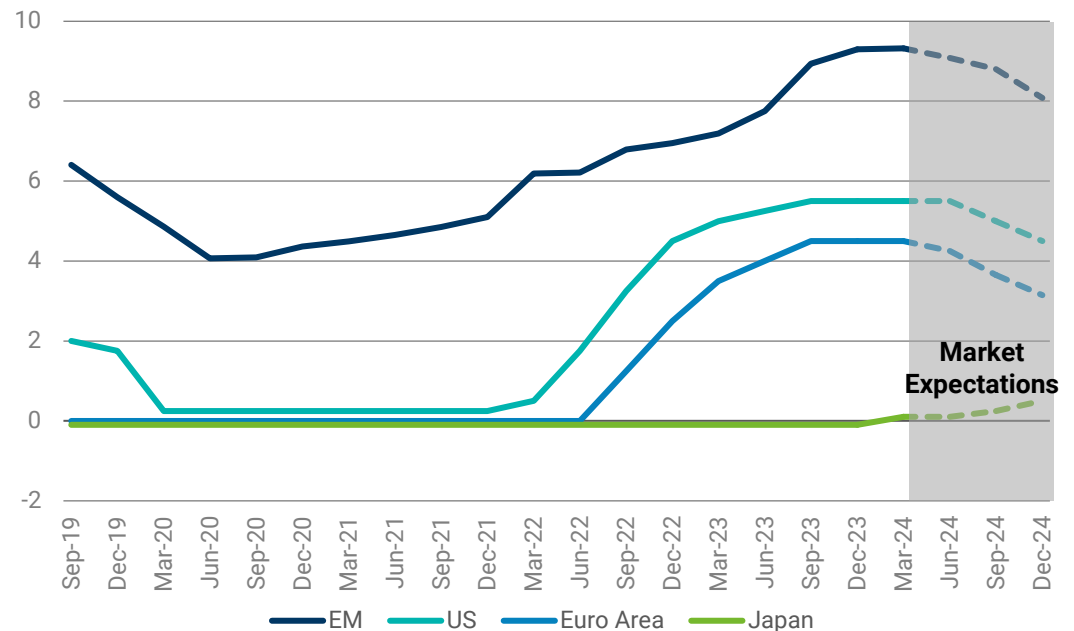
- Headline inflation peaked across EM in Q3'22 while core inflation peaked Q4'22. Headline inflation has already returned to pre-2021 levels while core has more to go.
- Every major emerging markets central bank has completed its respective rate hike cycle. Half of EM central banks have already started rate cuts with another 40% starting cut cycles in mid-2024. Many EM central banks offer double-digit policy rates after hiking 700-1200 bps over the last year.
- Historically, EM equities have enjoyed some of their strongest years of outperformance following a peak in US federal funds rates and strong risk-adjusted returns after rate-cut cycles commence.

EM Headline Inflation

JPM GBI-EM GD Weighted Average (YoY, %)



Central Bank Policy Rates



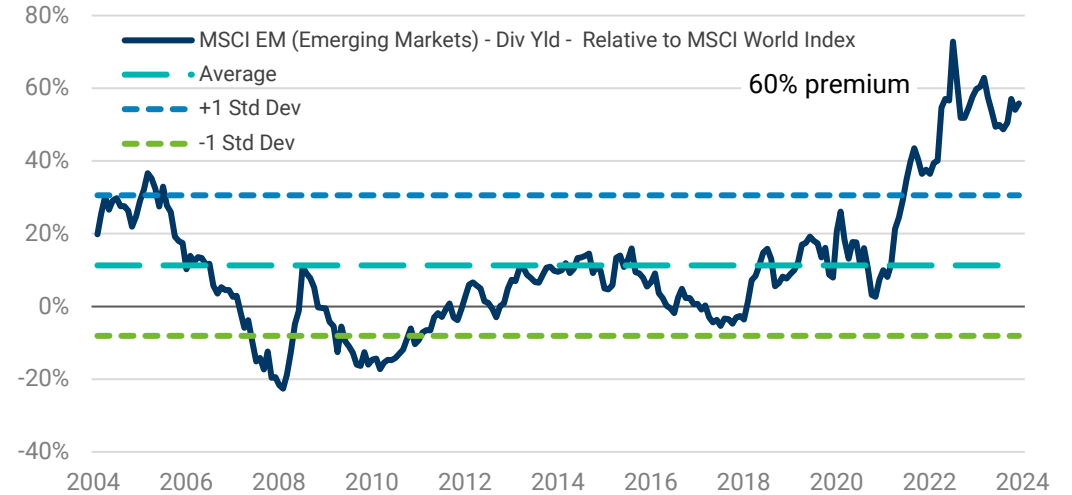
As of 31 March 2024. EM economic data is calculated as an index-weighted average of JPM GBI-EM GD countries.
 Source: Lazard, Bloomberg Estimates BLS, Haver Analytics, JP Morgan

6. EM VALUATION DISCOUNTS ARE TOO WIDE RELATIVE TO LONG-TERM AVERAGES

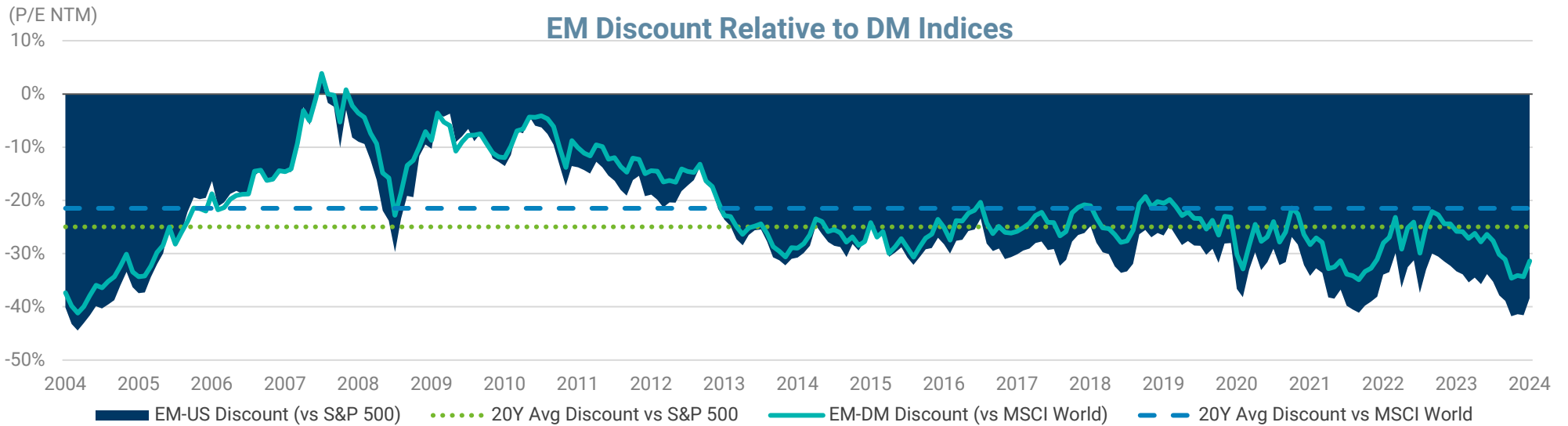
EM vs DM P/B



EM vs DM Dividend Yield



EM Discount Relative to DM Indices



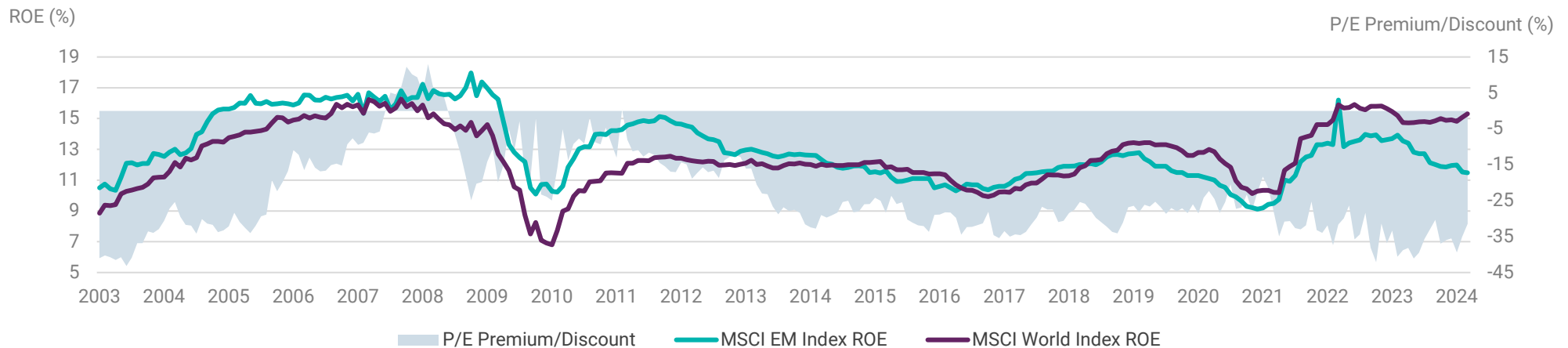
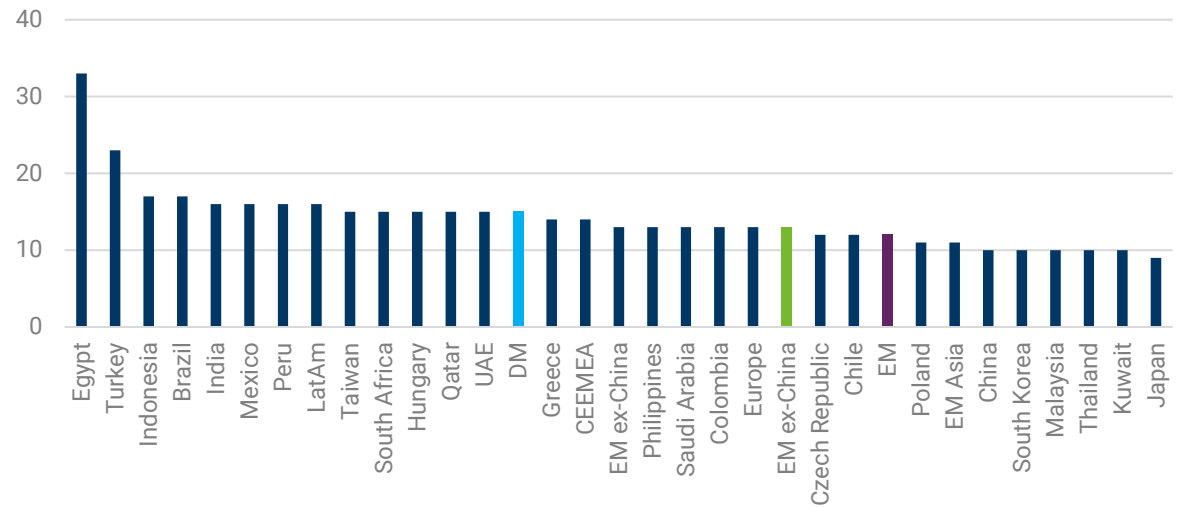
As of 31 March 2024
Source: FactSet

7. EM VALUATION DISCOUNT CAN NARROW WITH ROE IMPROVEMENT

EM equities trade at more than a 30% valuation discount

- The valuation divergence between developed and emerging markets equity indices has continued to widened over the years with the MSCI EM Index currently trading at a 32% discount to the MSCI World Index.
- ROE's in many EM countries are higher than their developed market counterparts.
- EM equities are among these attractively valued assets with relatively high profitability or return on equity free cash flow, and dividend yields.
- Relative to history and to DM, EM valuations are approaching record levels with profitability, free cash flow, and dividend yields all moving higher. Earnings growth is expected to outpace DM in 2024-2025.

ROE's Strong in Many EM's



As of 31 March 2024
 Characteristics shown are calculated on a trailing 1-year basis.
 Source: Lazard, FactSet, MSCI

IMPORTANT INFORMATION

Published on 16 May 2024.

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The S&P 500 Index is a market capitalization-weighted index of 500 companies in leading industries of the US economy.

The MSCI Emerging Markets Index is a free-float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. The MSCI Emerging Markets Index consists of emerging markets country indices including: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey, and United Arab Emirates. The index is unmanaged and has no fees. One cannot invest directly in an index.

The MSCI World Index is a free-float-adjusted market capitalization index that is designed to measure global developed market equity performance comprised of developed market country indices. The index is unmanaged and has no fees. One cannot invest directly in an index.

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