BLOG POST

A Hidden Gem?

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Many investors are avoiding Emerging Markets these days over fears that the type of excessive leverage in China that caused the collapse of Evergrande was systemic to the Chinese economy. China is almost 35% of the largest emerging market index (almost 50% if Taiwan is included) so it makes sense to steer clear of emerging markets if you share those concerns. That may be a mistake these days if you fail to realize that you can invest in emerging market ex-China. The chart below shows investors who are ex-China are 10% higher year-to-date than emerging market investors who own China in the index. As a group, emerging markets are trading at mid-single digit P/E ratios and have a yield higher than the S&P 500, making them a compelling value investment.

- The emerging market energy sector has been generating strong results and contributes most to the overall gains, followed by materials and industrials as exports continue to fuel these economies.
- Emerging markets in Europe, the Middle East, and Africa posted strong YTD results, while Asia and Latin America have lagged. India is the best performing country while Brazil has been the worst performer.
- Emerging markets are forecasted to grow real GDP at a rate of 5.2% in 2022, only slightly above the 4.9% estimate for the U.S. Growth might not be higher, but valuations are much lower today.