Revisiting the investment case for emerging markets



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Target audience

Audience

This document is being provided for informational purposes for discussion with institutional investors and financial advisors only. Circulation must be restricted accordingly.

Nothing herein should be construed as an offer to enter into any contract, investment advice, a recommendation of any kind, a solicitation of clients, or an offer to invest in any particular fund, product, investment vehicle or derivative.

General risks

The value of investments, and any income generated from them, can fall as well as rise. Where charges are taken from capital, this may constrain future growth.

Past performance is not a reliable indicator of future results. If any currency differs from the investor's home currency, returns may increase or decrease as a result of currency fluctuations.

Investment objectives and performance targets are subject to change and may not necessarily be achieved, losses may be made.

Environmental, social or governance related risk events or factors, if they occur, could cause a negative impact on the value of investments.

The narrative: EM's have not worked

A fair observation – at face value – when considering MSCI ACWI vs MSCI EM performance over the past 5 years



Source: Bloomberg, 11 June 2024.

The reality:

US and China exceptionalism are big swing factors



Source: Bloomberg, 11 June 2024.

The reality:

EM ex-China and ACWI ex-US have performed broadly in line

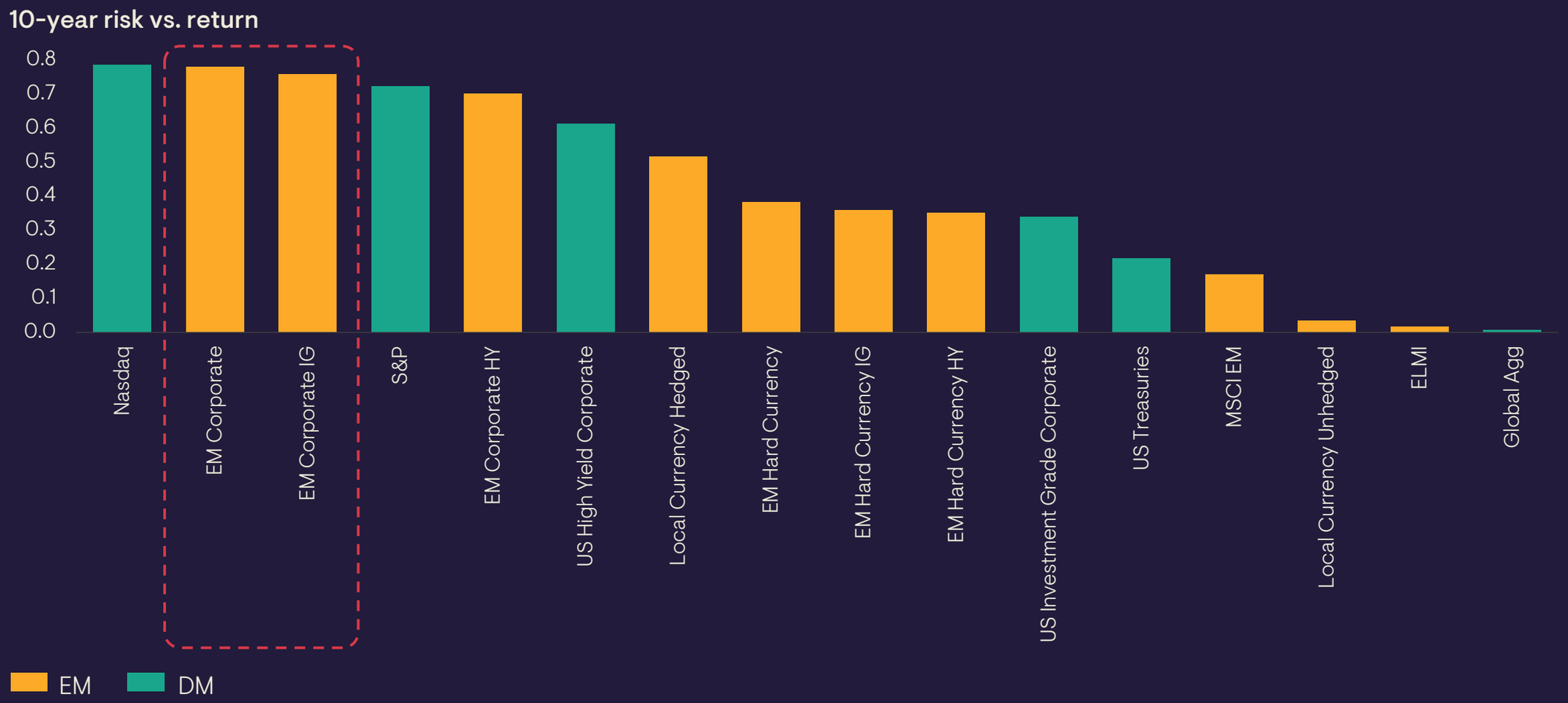


Source: Bloomberg, 11 June 2024.

Victoria Harling

EM Corporate

EM Corporates: best risk-adjusted returns in global credit markets over 10years



No assurance can be given that the Strategy will be successful or that investors will not lose some or all of their capital.
Past performance does not predict future returns; losses may be made.

Source: JP Morgan, MSCI and Bloomberg. Compiled by Ninety One as at 31 January 2024.

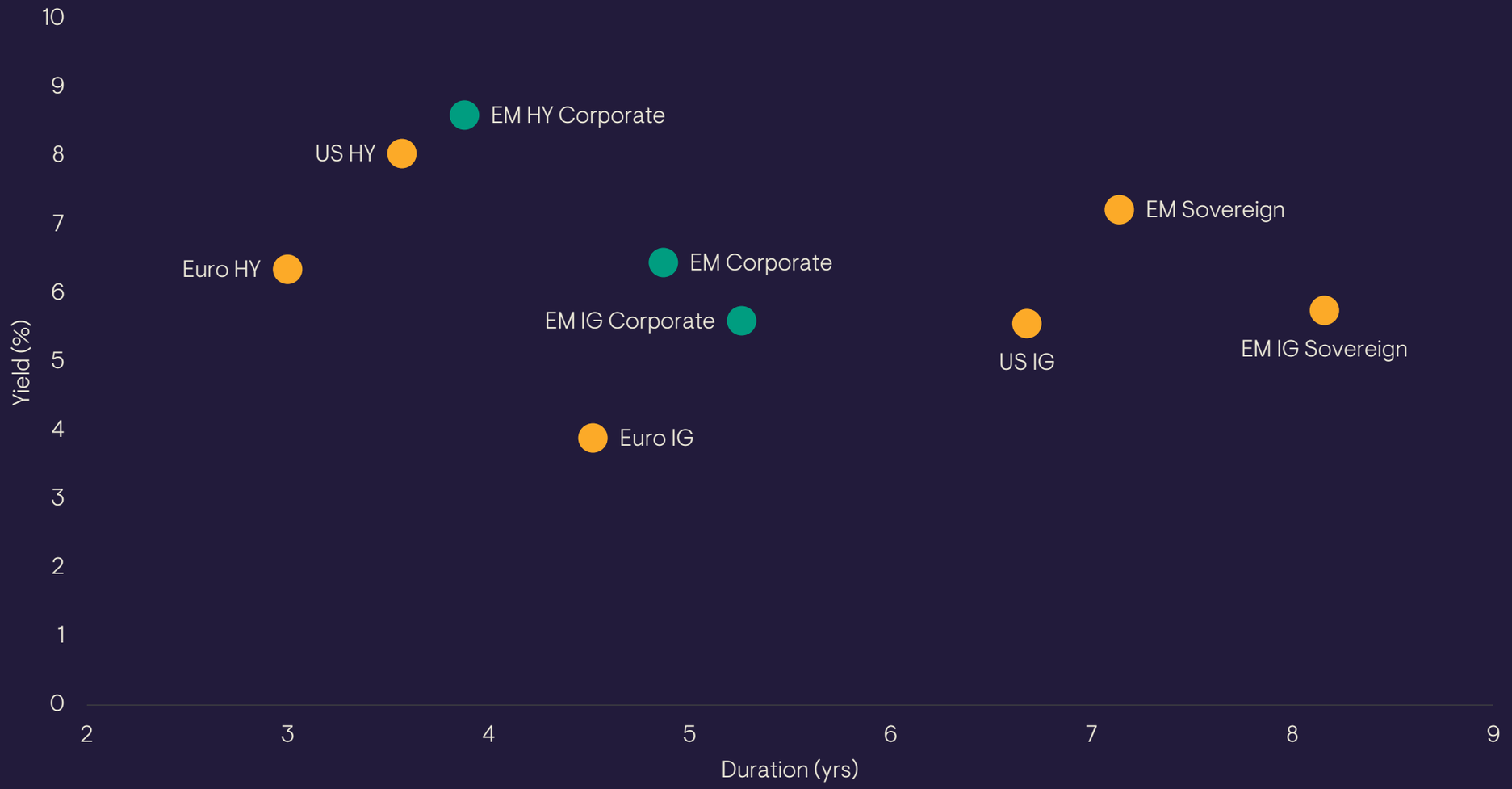
There is no reliable source of private investment data. Data is often sub-sets of data voluntarily reported by investment managers, which may skew the data.

EM credit has exhibited significant growth



Source: JP Morgan as at end 2023

EM corporates continue to look attractive relative to other FI assets

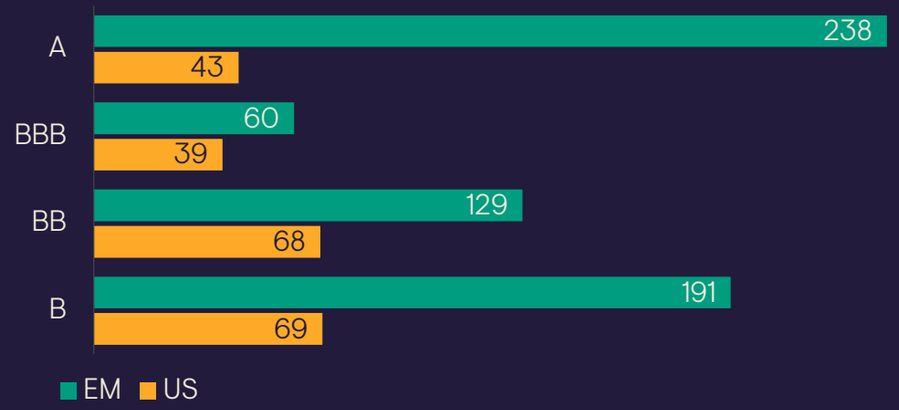


Source: JP Morgan, ICE BAML Merrill Lynch as at 31 May 2024

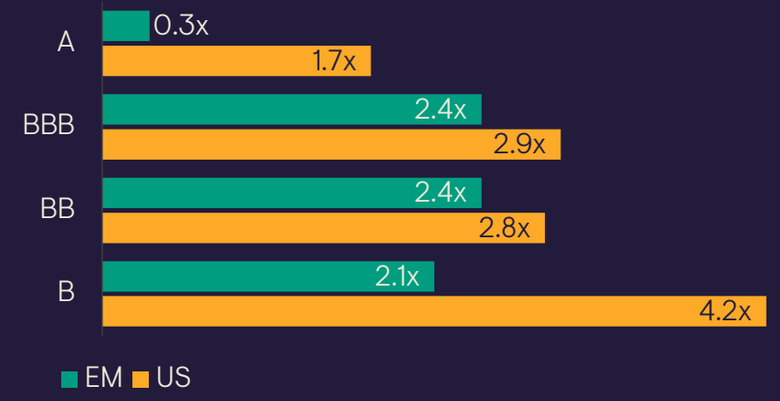
EM corporate fundamentals remain robust in aggregate

- EM corporate debt fundamentals remain robust in aggregate. And while rising costs have weighed on companies' profit margins, revenues remain resilient, and leverage levels manageable
- Net leverage remains lower than US across all rating buckets whilst refinancing seems manageable with corporates turning to RCFs and loans to secure cheaper funding
- Regionally Latam is more cyclical and earnings have been hit hardest there, especially in Miners and Brazil Petchems. Latam telcos are also under pressure
- Asia HY continues to come under pressure, although the IG segment remains stable. Europe has been improving with positive rating trends across with IG & HY
- Company financial strength has led to many improving credit stories, but sovereign credit deterioration/policy has weighed on ratings.

Spread per turn of Leverage (bp/x)



Net Leverage (Q2 2023)

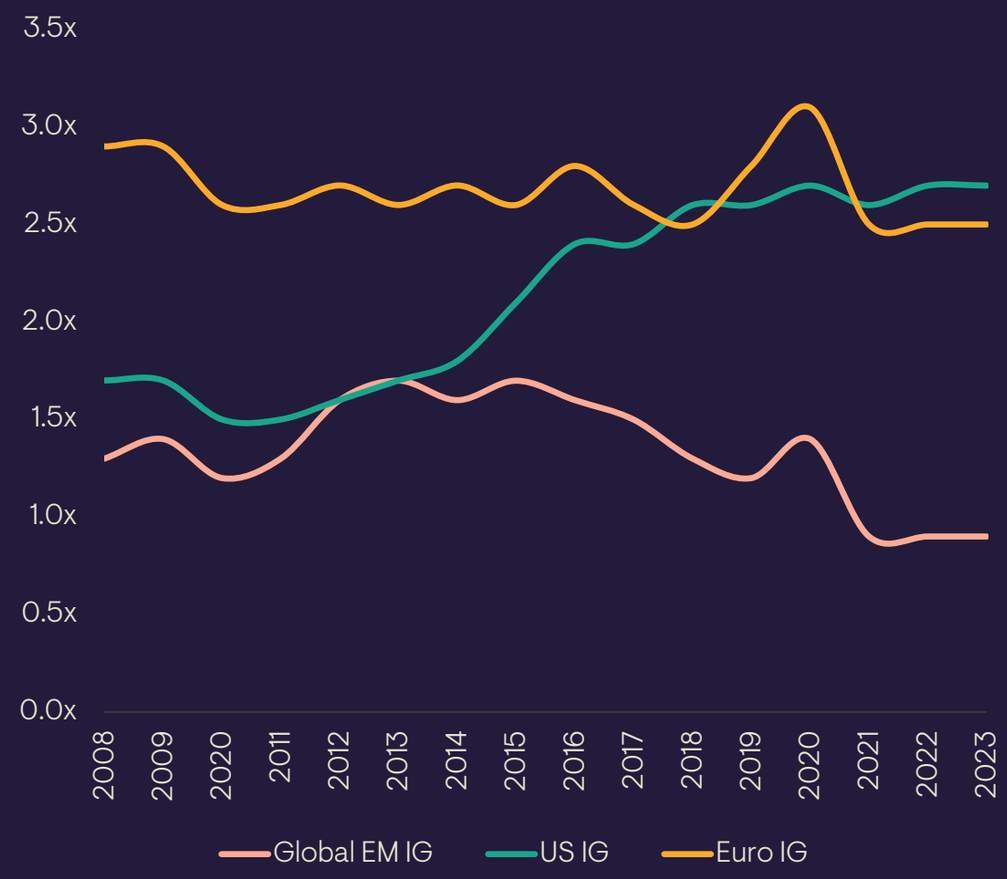


Source: Spreads as at 31 May 2024, BofA Merrill Lynch. Net Leverage as at Q2 23.

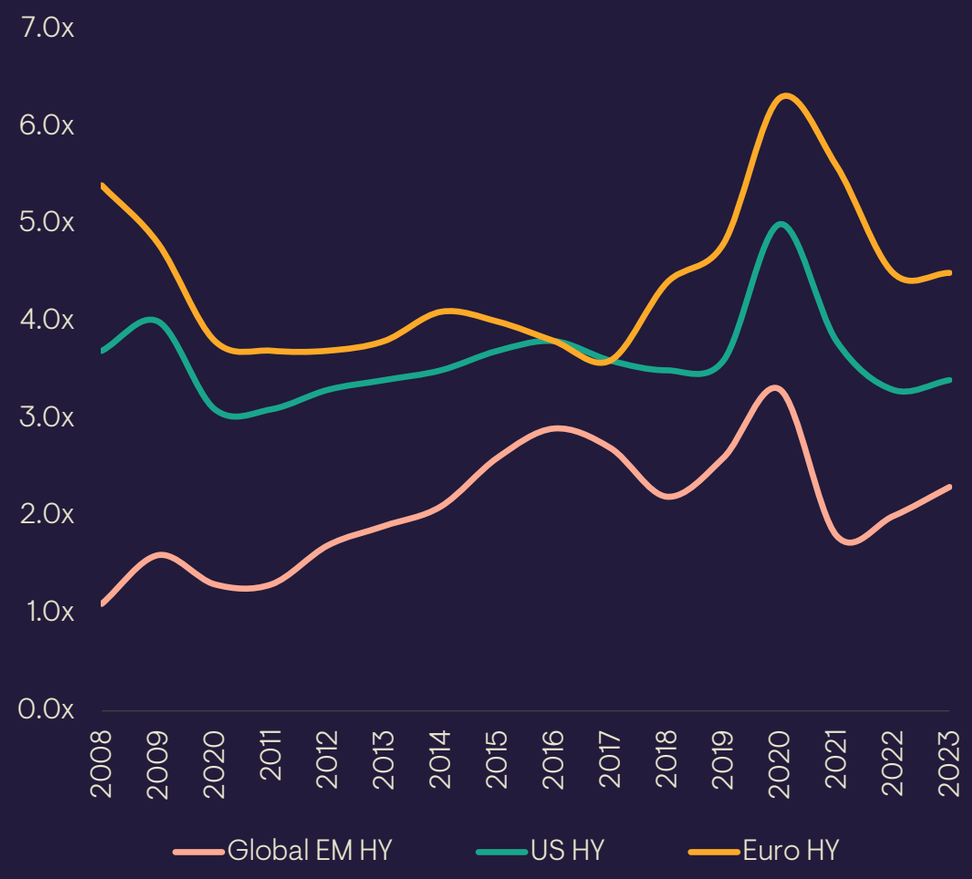
EM Corporate Fundamentals

Leverage remains well below DM equivalents

EM vs. DM Investment Grade net leverage comparison



EM vs. DM High Yield net leverage comparison

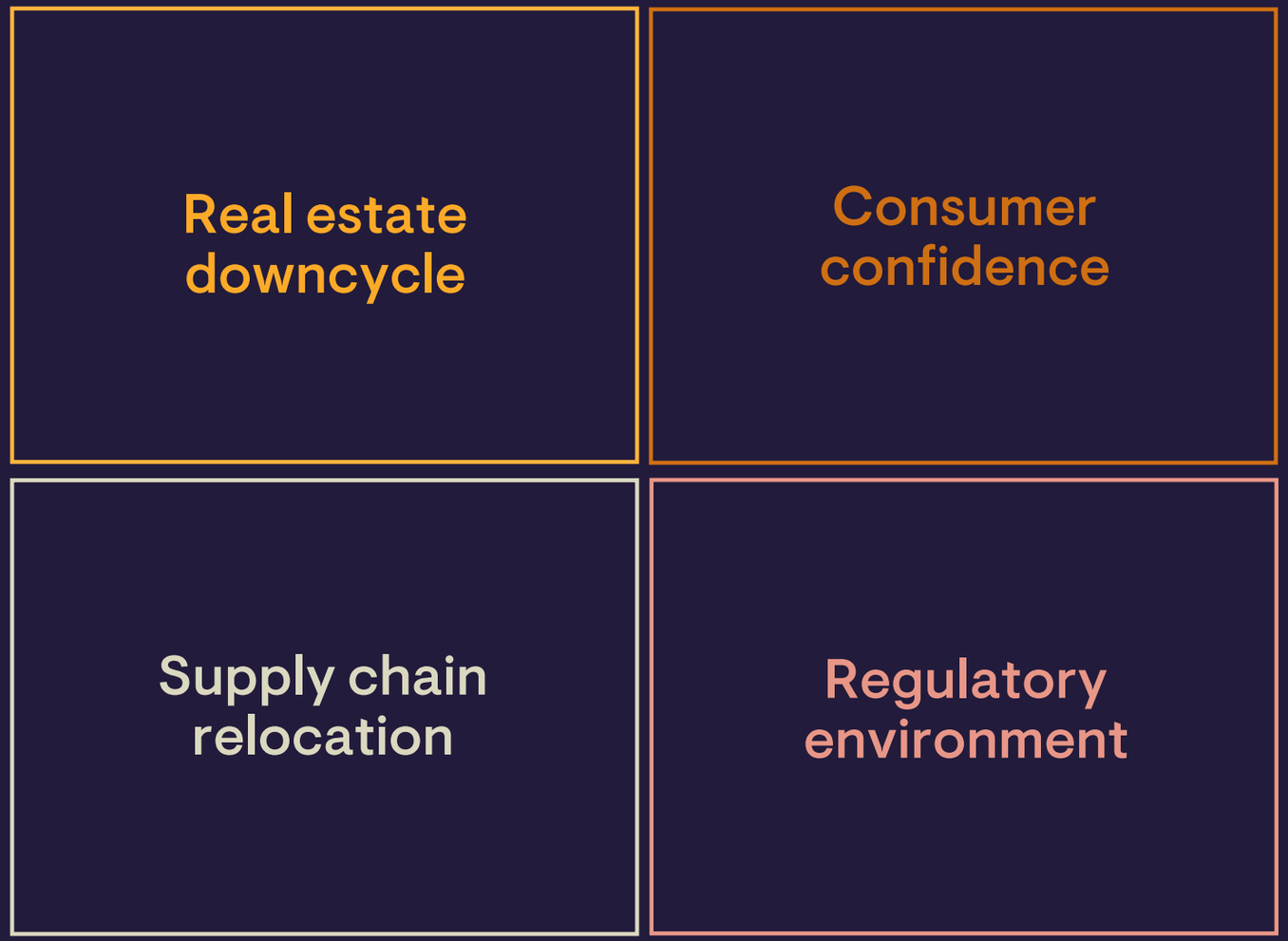


Source for all: J.P. Morgan. Note: Excluding 100%-quasis, financials, real estate, and defaulted companies. 2022 and YTD additionally exclude Russian corporates. Numbers as at December 2023.
For further information on indices, please see the important information section.

Wenchang Ma

China

What are our views on the key issues?



Market close to its cyclical lows

Valuation

1.1x P/B and 9.7x P/E for All China, 1.4x P/B and 12.1x P/E for China A-shares

Earnings cycle

Magnitude and duration of the current cycle

Sentiment

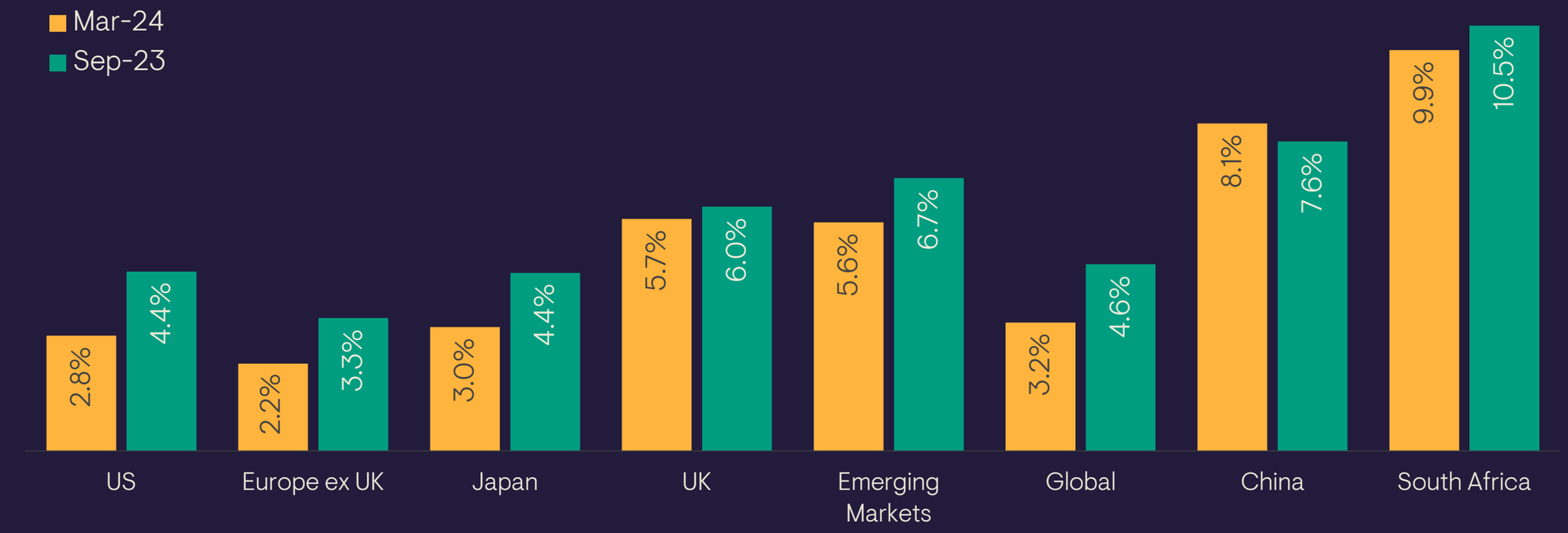
Near peak negativity, foreign investment at 3.7% of total A-share free float

Source: Factset, as of March 2024

Capital Market Assumptions

Equities – 6 month change

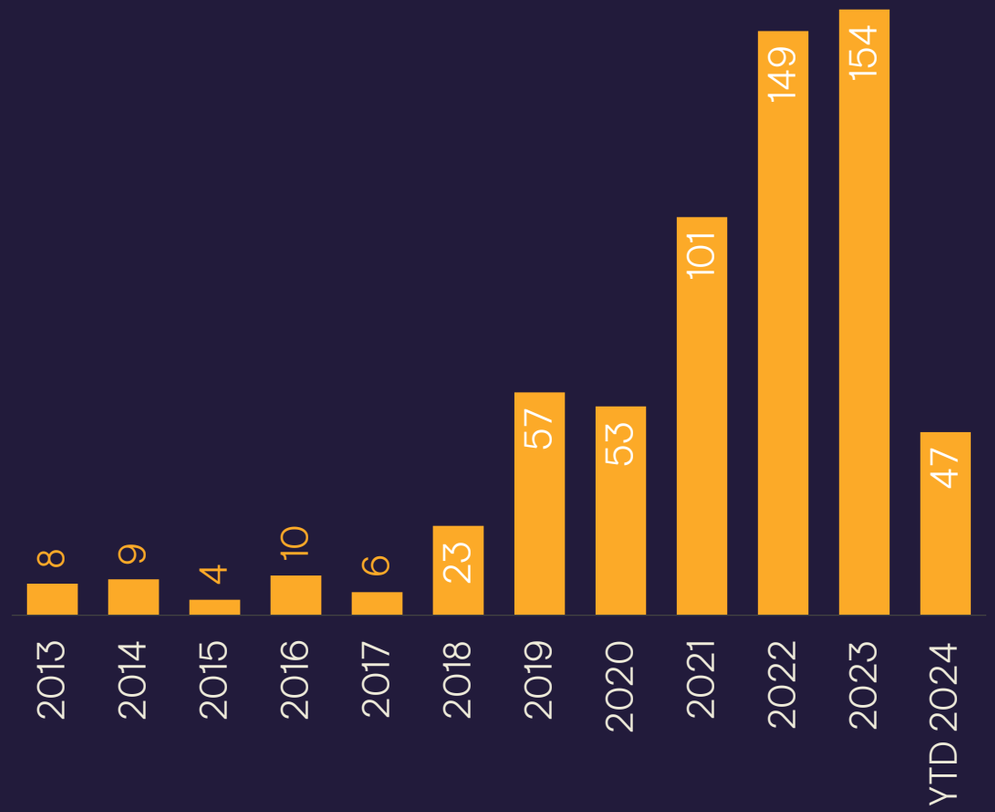
Equity 10y Local Currency Return Forecast



Source: Ninety One proprietary capital market assumptions as at 30 September 2023 and 31 March 2024. Estimates are nominal, gross of fees and ignore alpha. The final total returns are converted from logarithmic to geometric estimates. This means that the components of the return breakdown may not sum to the total return. Judgemental overrides may apply where deemed necessary – for example as currently applied to the UK assumption to account for the region's current dividend yield which is in our view structurally out-of-kilter both with its own history, and that of peers. Modelling involves risks, assumptions and uncertainties. These estimates reflect the view of Ninety One's Multi-Asset team, while the views of other teams across Ninety One may differ. Performance does not guarantee future results. Actual returns could be materially higher or lower than projected. For information on our Capital Markets Assumptions methodology, please see Important Information. Return breakdowns in local currency

Increasing payback to shareholders by Chinese companies

Annual buybacks (Rmb bn)



Dividends paid out (Rmb bn)



Source: Wind. April 2024.

Important information

This communication is for professional investors and financial advisors only.

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