

# WHY EMERGING MARKETS VALUE Q4 2024

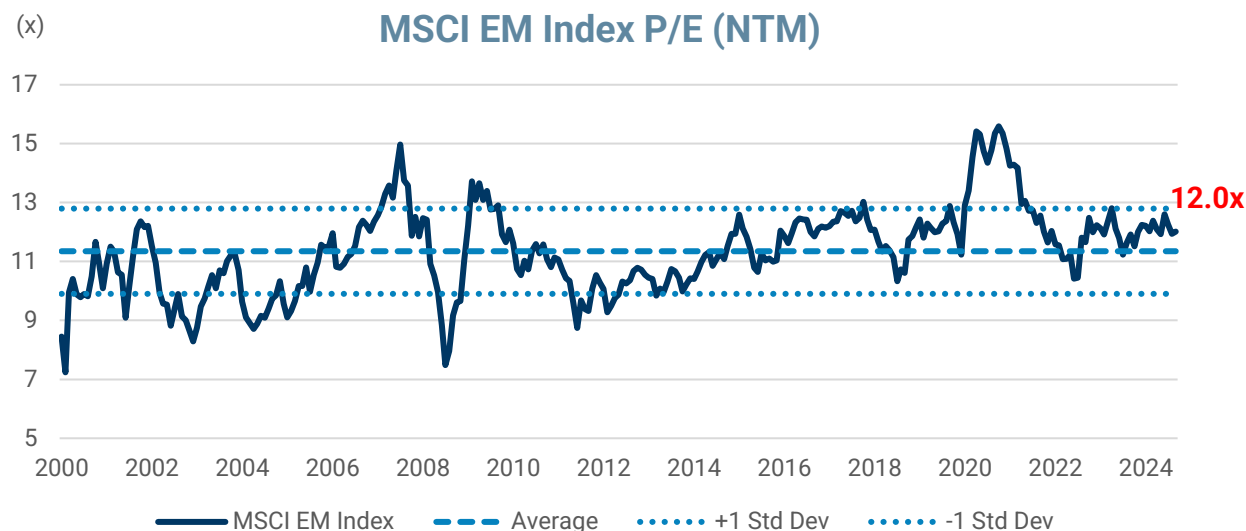
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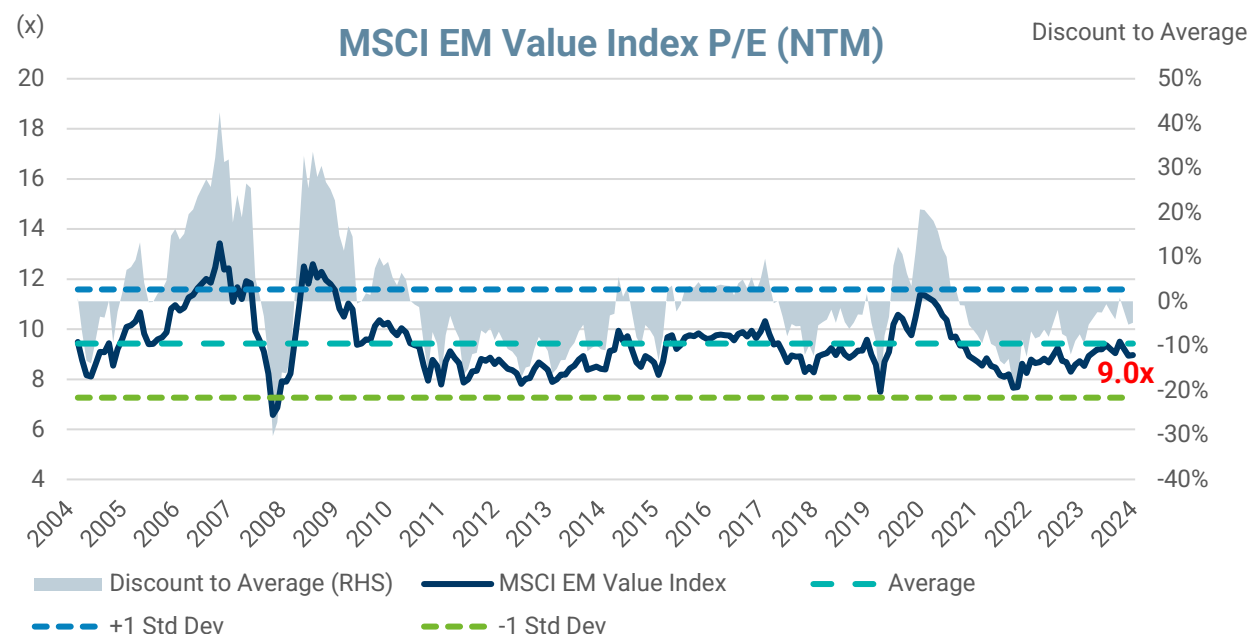


# 1. WE BELIEVE EM VALUATIONS REMAIN VERY ATTRACTIVE ... EVEN MORE SO FOR EM VALUE

- Currently, the price-to-earnings (P/E) ratio for the MSCI EM Index is a little more than 12.0x over the next twelve months (NTM), or slightly above its long-term average of 11.4x.



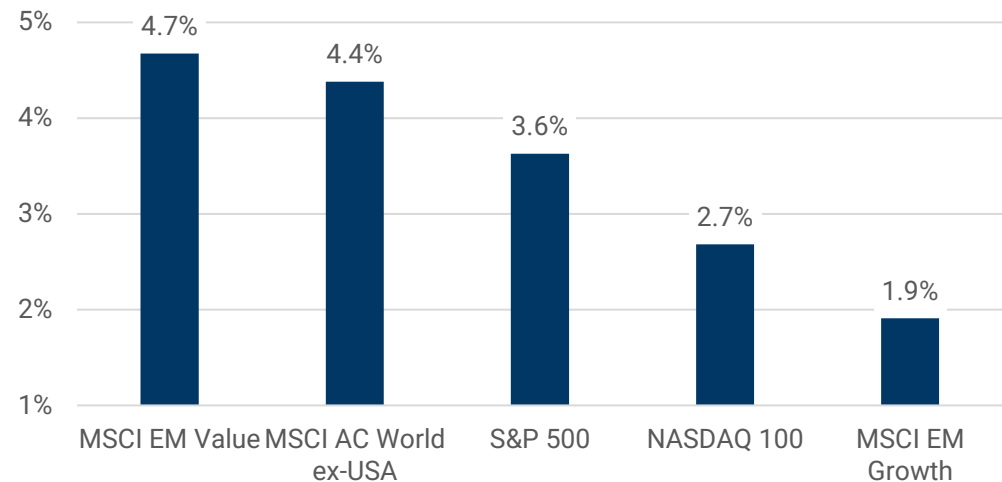
- Despite a rally in value since 2020, the MSCI EM Value Index still trades at 9.0x P/E NTM, below its 20-year average of 9.4.
- Compared to the standard MSCI EM Index, EM Value trades 30% cheaper but offers investors higher profitability, free cash flow yield, and dividend yield.



## 2. EM VALUE POTENTIALLY OFFERS STRONG PROFITABILITY AND EARNINGS YIELDS AT INEXPENSIVE VALUATIONS

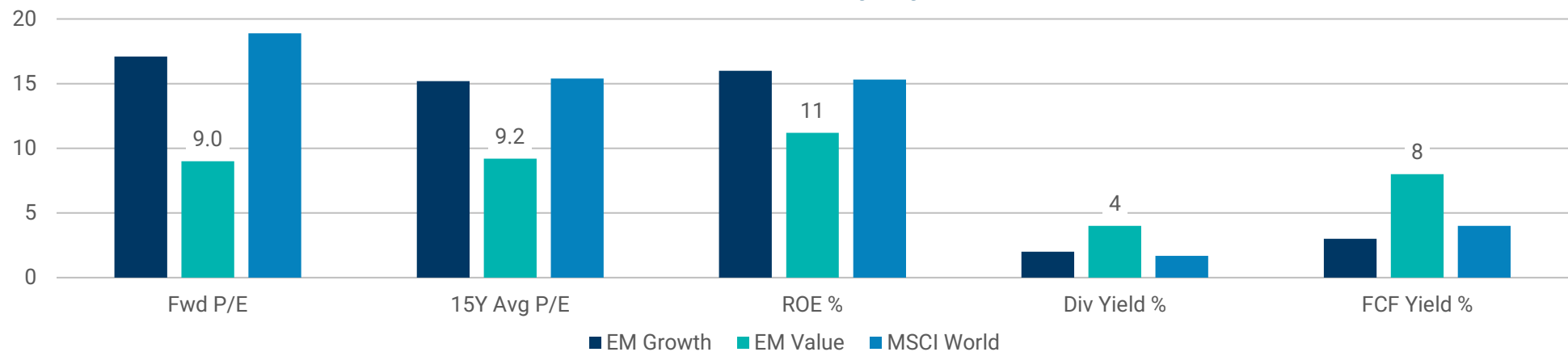
- EM Value has many superior investment characteristics relative to the World Index and S&P 500. Dividend yields and free cash flow yields are at 200% and 90% premiums, respectively, to developed markets equities, with improving ROEs in many EM countries.
- EM Value offers some of the highest earnings yield among major indexes, as it excludes high-flying, low-earnings and yielding stocks that dominate growth, US and many developed markets indexes.

EM Value Currently Has Superior Earnings Yields



(x/%)

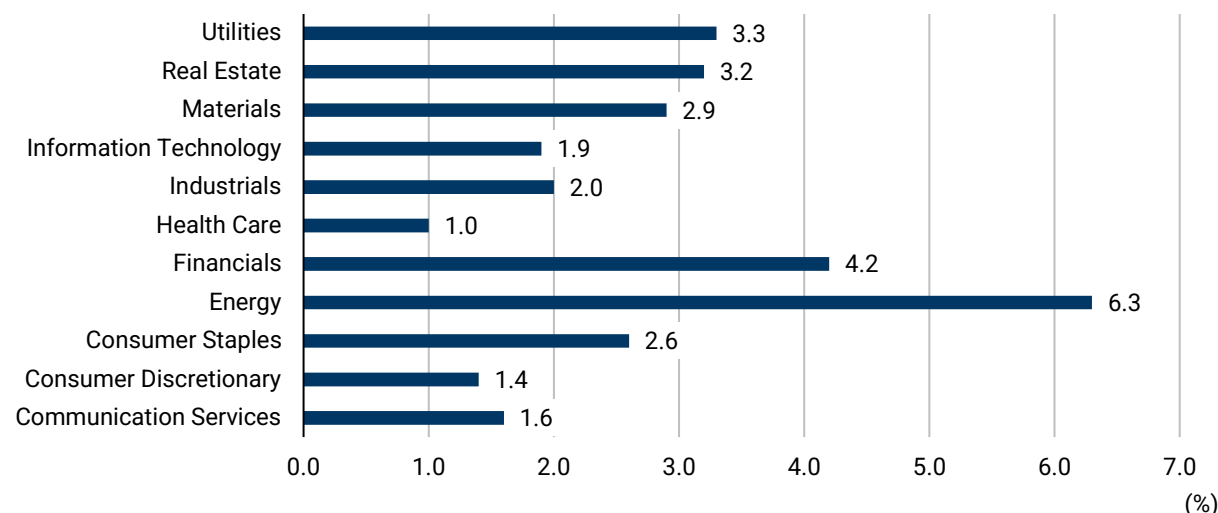
Characteristics by Style



As of 31 December 2024  
Source: FactSet, MSCI

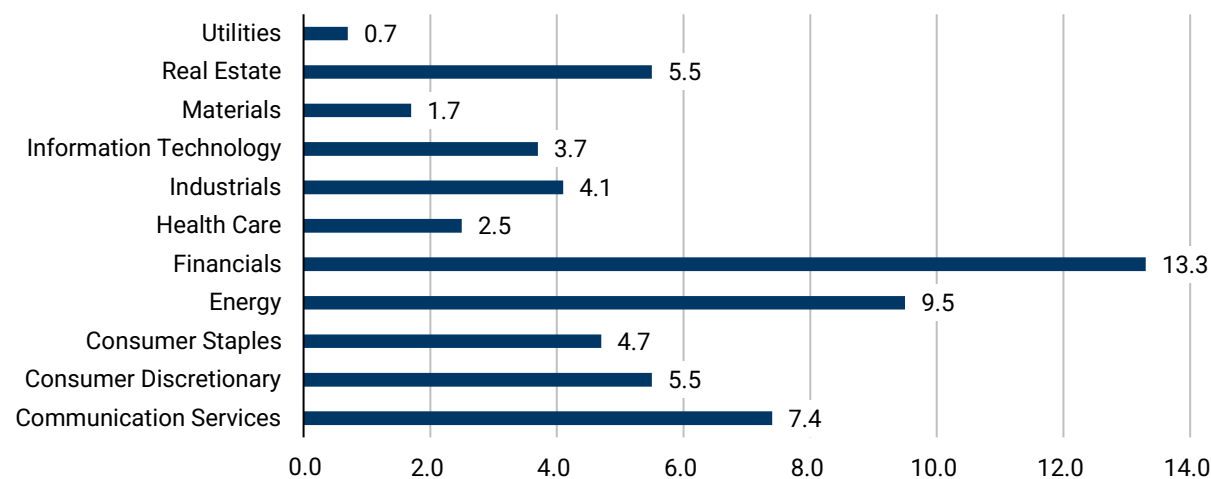
### 3. EMERGING MARKETS BY SECTOR: ATTRACTIVE DIVIDEND AND FREE CASH FLOW YIELD PROFILE

Dividend Yield by Sector



*Some of the highest dividend yields and free cash flow yields can be found in traditional value sectors, such as materials, utilities, and energy. We believe many investors are once again beginning to prioritize value investing, dividends, and cash flow generation.*

Free Cash Flow Yield by Sector



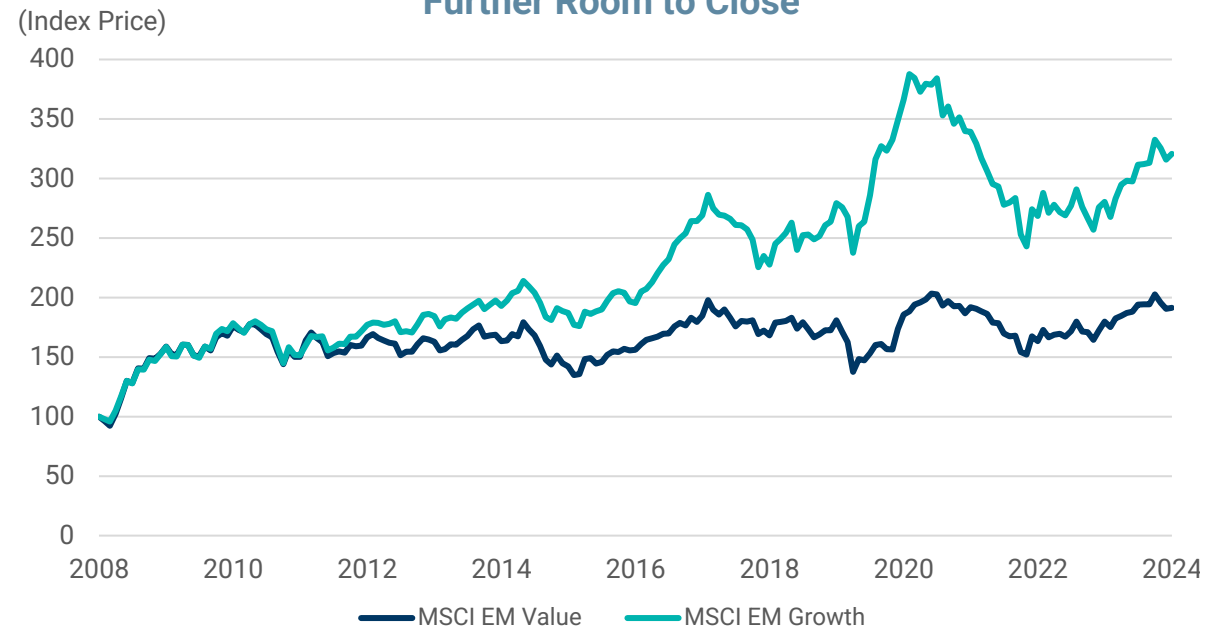
As of 31 December 2024

Source: MSCI

## 4. WE BELIEVE EM VALUE HAS ROOM TO RUN

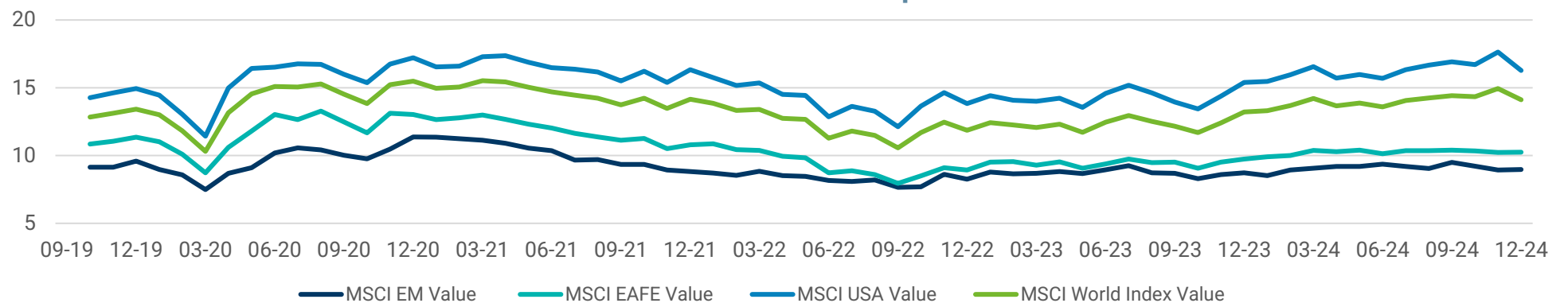
- Although value stocks have exhibited stronger performance recently, the performance gap between EM growth and value stocks remains considerably wide.
- Despite significant multiple contraction, EM growth stocks are still 2x more expensive than value.
- Over time, value stocks may revert to their mean valuations, which could result in significant capital appreciation for investors who have bought these stocks at a discount.
- EM value stocks remain the cheapest value investment across the asset class.

Performance Gap between EM Growth and Value Has Further Room to Close



(P/E NTM)

EM Value Remains Inexpensive

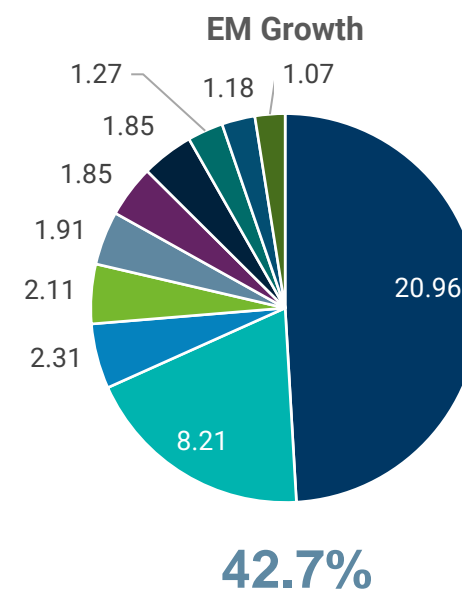
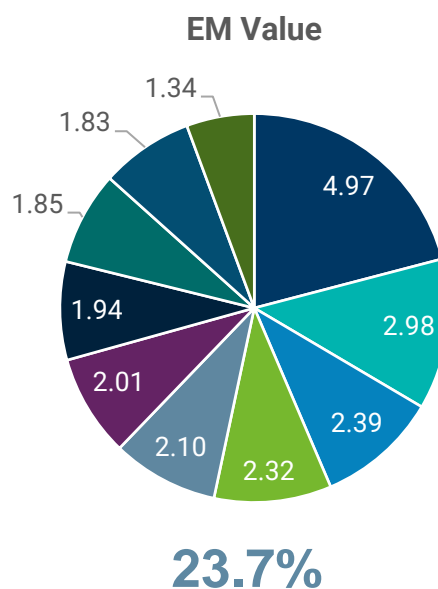
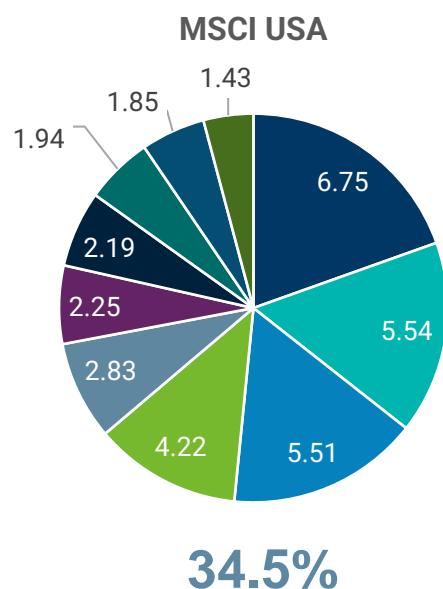


As of 31 December 2024  
Source: FactSet, MSCI

## 5. DIVERSIFICATION BENEFITS

- Investing in EM value stocks can offer diversification benefits due to sector exposure, lower concentration, and geographical differences.
- EM value indices tend to be less dominated by a few large-cap stocks compared to EM growth indices or the MSCI USA Index. This reduces the risk associated with poor performance by any single company.
- The EM Value Index typically has a more balanced sector allocation, including significant weights in financials, energy, industrials, and materials. This reduces concentration risk and provides exposure to different economic drivers (interest rate changes, commodity prices, and domestic consumption).
- EM value stocks historically have had lower correlation with global indices, making it a better diversification tool for a portfolio that already has US or developed markets exposure.

Concentration levels of Top 10 Index constituents (%)



As of 31 December 2024  
Source: Lazard, MSCI, FactSet

## IMPORTANT INFORMATION

Published on 4 March 2025.

**The performance quoted represents past performance. Past performance does not guarantee future results.**

Equity securities will fluctuate in price; the value of your investment will thus fluctuate, and this may result in a loss. Securities in certain non-domestic countries may be less liquid, more volatile, and less subject to governmental supervision than in one's home market. The values of these securities may be affected by changes in currency rates, application of a country's specific tax laws, changes in government administration, and economic and monetary policy. Emerging markets securities carry special risks, such as less developed or less efficient trading markets, a lack of company information, and differing auditing and legal standards. The securities markets of emerging markets countries can be extremely volatile; performance can also be influenced by political, social, and economic factors affecting companies in these countries.

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 MSCI Emerging Markets Value Index measures the performance of companies in the broader MSCI Emerging Markets Index with lower price-to-book, lower price-to-forward-EPS ratios, and higher dividend yields.

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 MSCI Emerging Markets Growth Index measures the performance of companies in the broader MSCI Emerging Markets Index with higher EPS growth estimates over the short term and long term, internal growth rates, long-term historical EPS, and long-term sales growth rates.

The MSCI EAFE Value Index captures large and mid cap securities exhibiting overall value style characteristics across Developed Markets countries around the world, excluding the US and Canada. The value investment style characteristics for index construction are defined using three variables: book value to price, 12-month forward earnings to price and dividend yield.

The MSCI USA Value Index captures large and mid cap US securities exhibiting overall value style characteristics. The value investment style characteristics for index construction are defined using three variables: book value to price, 12-month forward earnings to price and dividend yield.

The MSCI World Value Index captures large and mid cap securities exhibiting overall value style characteristics across 23 Developed Markets countries.

The indices are unmanaged and have no fees. One cannot invest directly in an index.

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