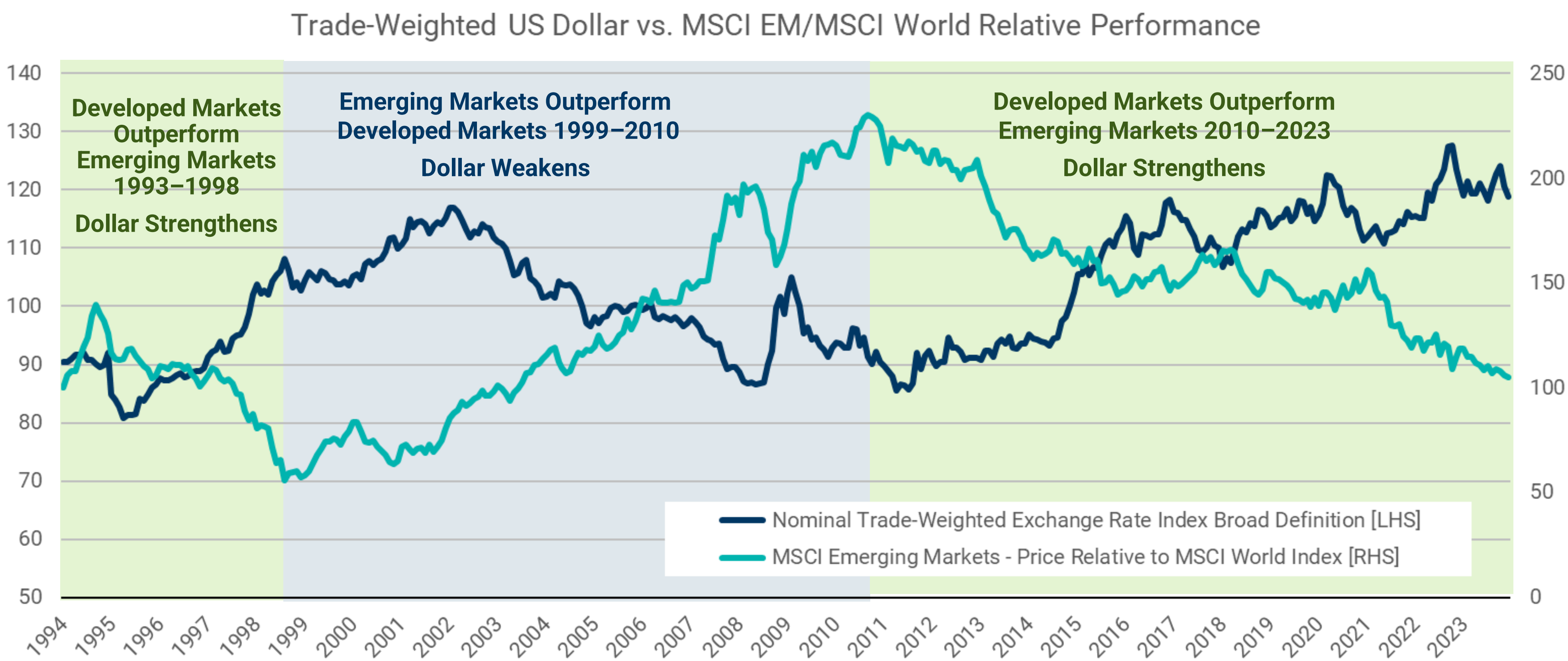
WHY EMERGING MARKETS Q4 2023

LAZARD
ASSET MANAGEMENT

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

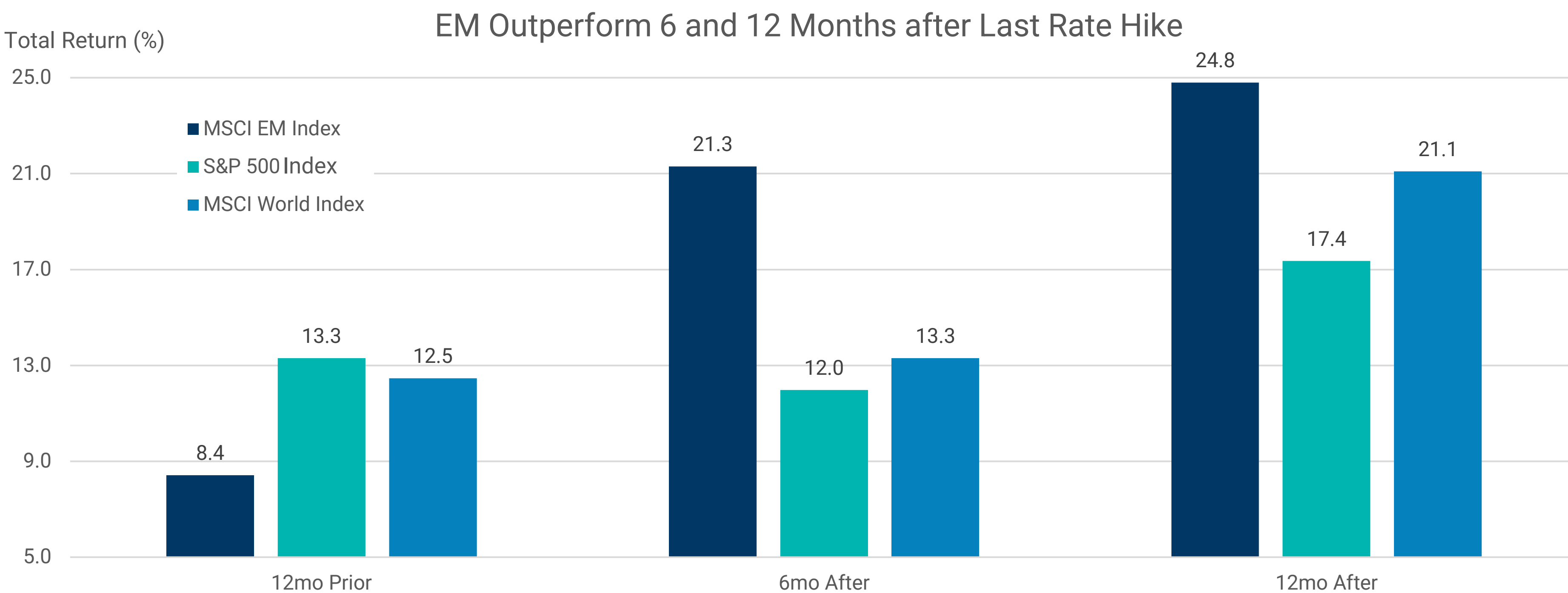
- The US dollar hit a 20-year high in Q3 of 2022, causing headwinds for developing countries.
- Since the start of Q4 2022, the US dollar has weakened, facilitating a recovery in EM performance.
- A continued moderation in dollar strength could be beneficial for the asset class.
- Historically, investors have benefited from adding exposure to EM equities when the US dollar nears a peak.



As of 31 December 2023
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. STRONGER RETURNS EXPECTED

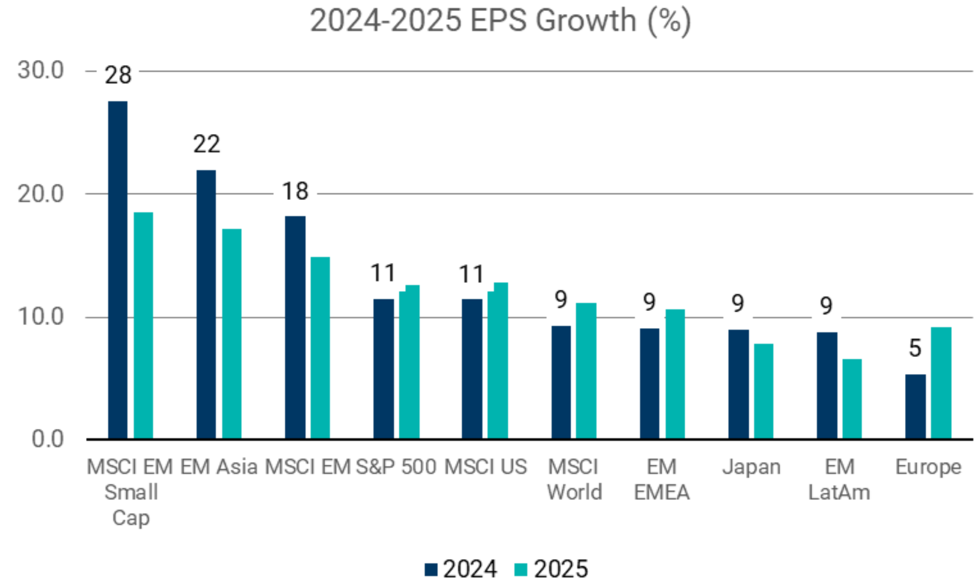
- The US Federal Reserve has signaled the end to its monetary policy hiking cycle with the last rate hike occurring in July 2023.
- Lower rates, inherently, attract less capital, which means less demand for US dollars and potential weakness for the currency.
- EM has generally been the best performing asset class six months and one year following the last hike of 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.

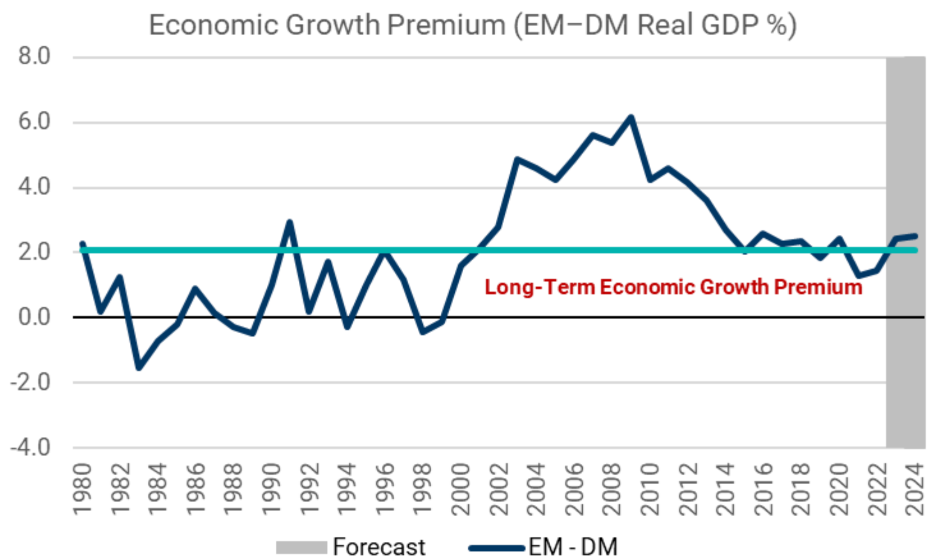


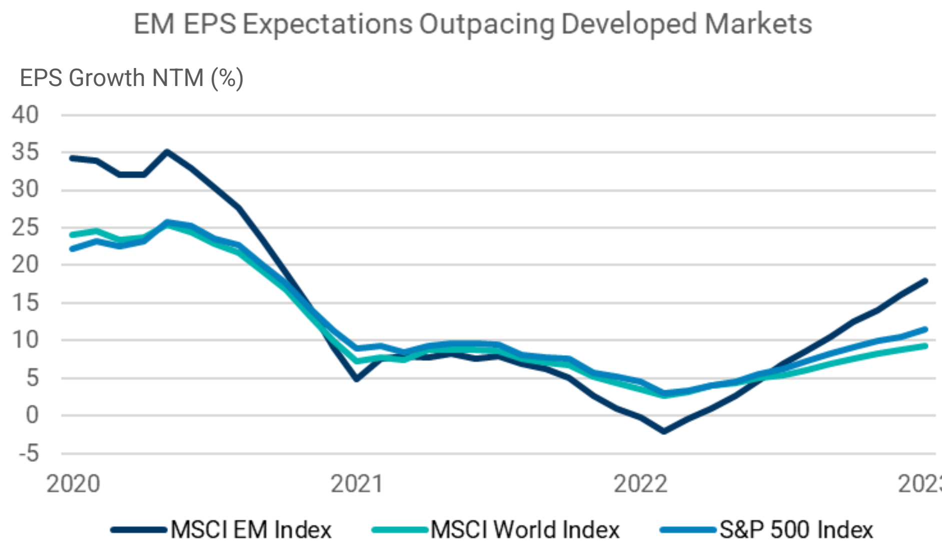
As of 31 December 2023
Time Periods (6/30/98–6/30/99; 6/30/03–6/30/04; 12/16/14–12/16/15; 3/16/21–3/16/22)
For illustrative purposes only. **Past performance is not a reliable indicator of future returns and does not guarantee future results.**
Source: FactSet

3. HIGHER ECONOMIC AND EARNINGS GROWTH

- The growth premium in favor of EM over DM is projected to continue widening. EM is being driven by more than just China, and there are reasons to expect an even higher economic growth premium in the coming years.
- India is expected 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.
- 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.







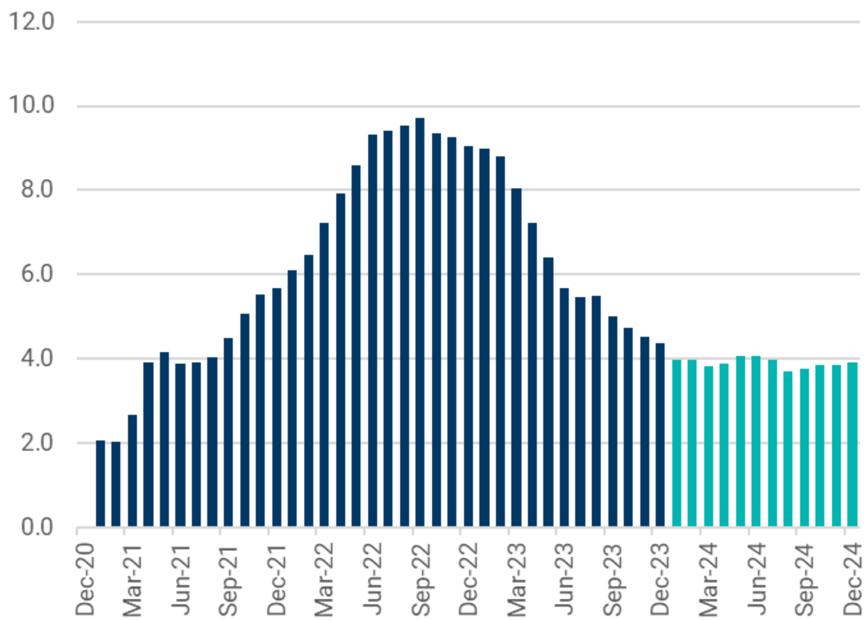
As of 31 December 2023
Source: FactSet, Haver Analytics, International Monetary Fund

4. IMPROVING ECONOMIC BACKDROP

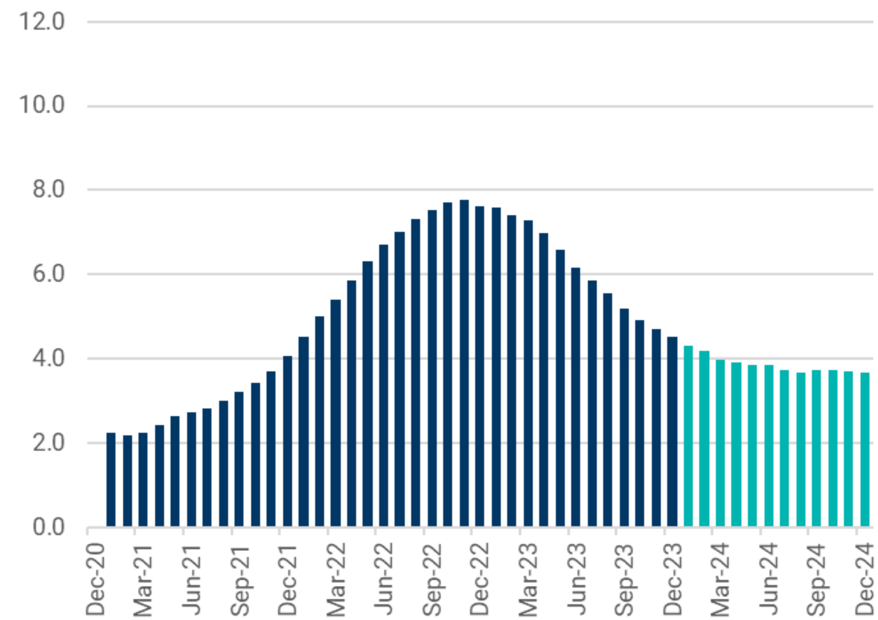
EM inflation is falling and central banks are beginning to cut

- Headline inflation peaked across EM in Q3 2022 while core inflation peaked in Q4 2022. With three straight quarters of inflation deceleration, we believe that rate hike cycles are likely over.
- The next phase of central bank policy is the beginning of rate cuts. Cuts started for many EM countries in mid-2023 while the remainder will likely commence in the second half of 2024. In Q3 2023, Chile was the first major EM to lower its key policy rate since the aggressive post-pandemic tightening cycle across the asset class.
- 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, %)



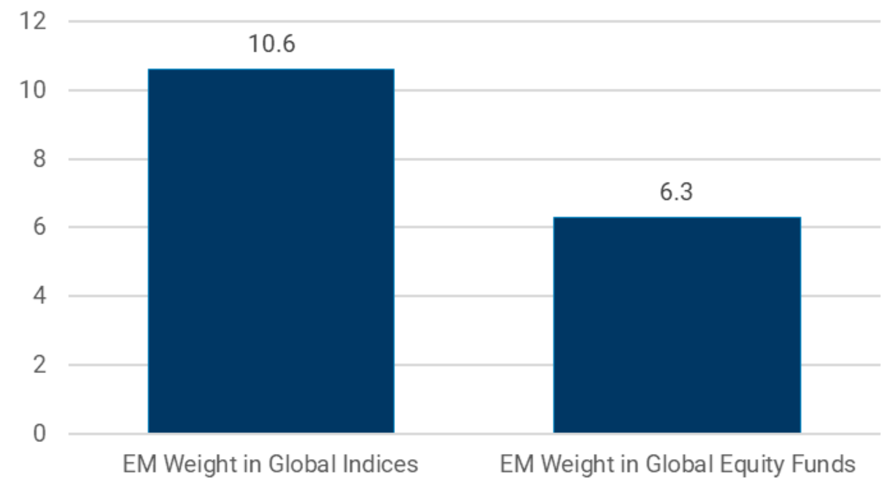
EM Core Inflation
JPM GBI-EM GD Weighted Average (YoY, %)

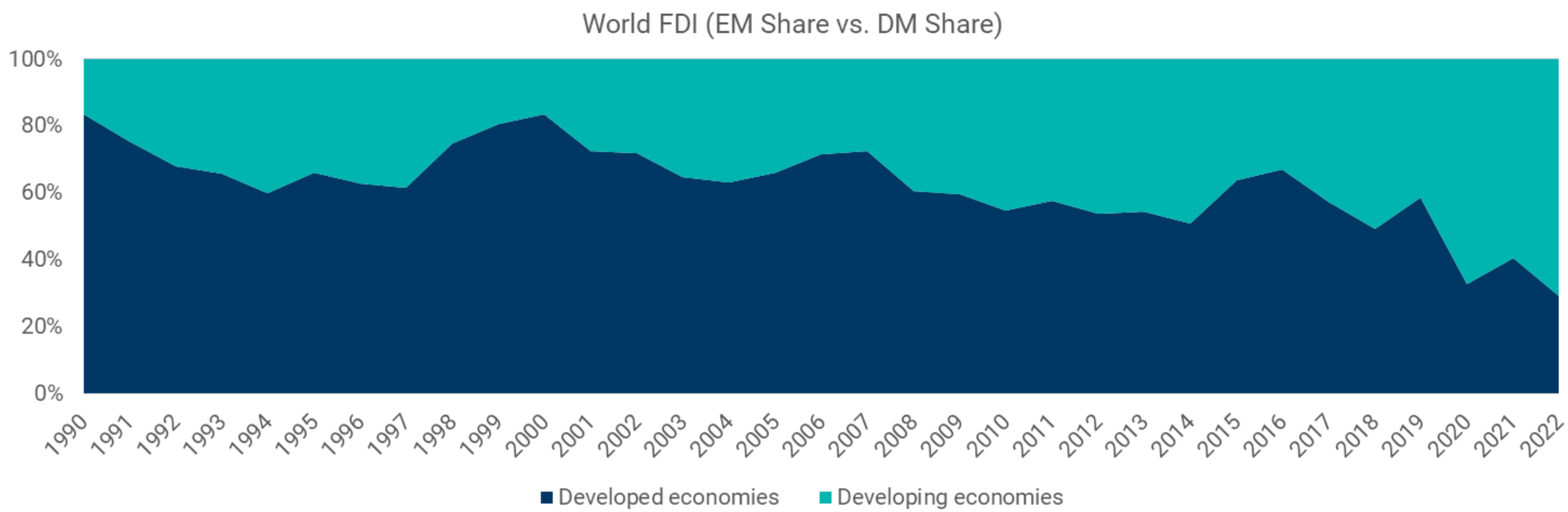


As of 31 December 2023. EM economic data is calculated as an index-weighted average of JPM GBI-EM GD countries.
Source: Lazard, BLS, Haver Analytics, JP Morgan

5. INVESTORS REMAIN UNDERWEIGHT TO EM DESPITE RAPID GROWTH IN FDI

- Strong foreign direct investment (FDI) growth across EM should bolster economic growth by easing access to foreign markets and providing capital.
- Currently, the average global equity fund allocation to EM is 6.3%, far below the suggested 10.6% allocation implied by EM's weight in the MSCI ACWI + Frontier Markets Index.
- Capital has left emerging markets in recent years and many parts of the asset class remain markedly under-owned despite being attractively valued, with high and improving economic growth and financial productivity, such as return on equity, free cash flow yield, and dividend yield.

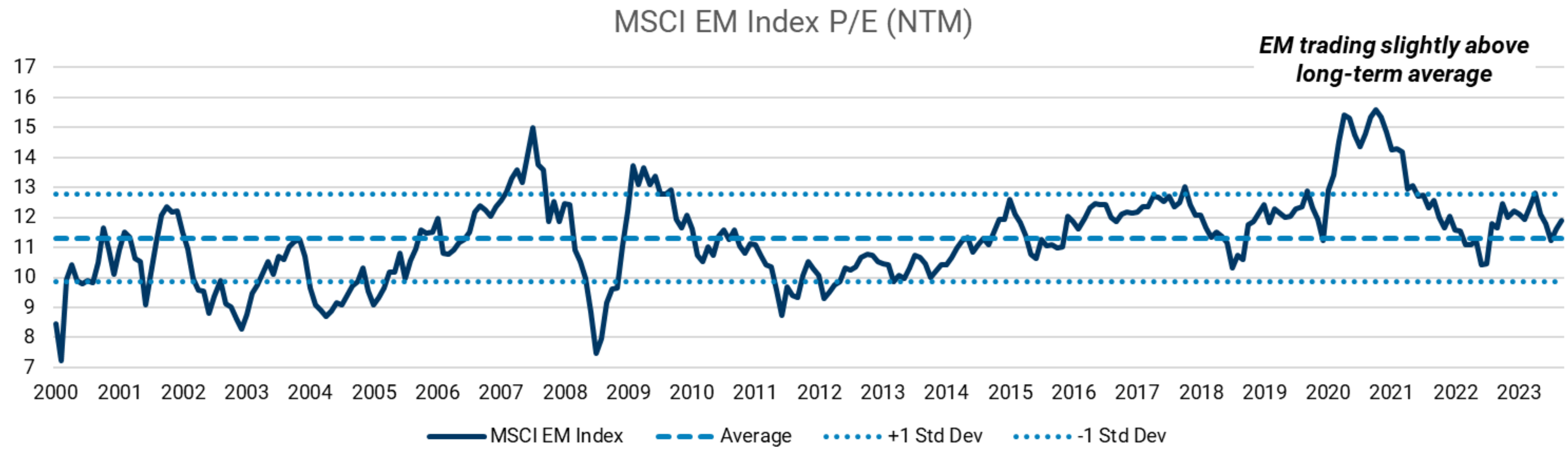


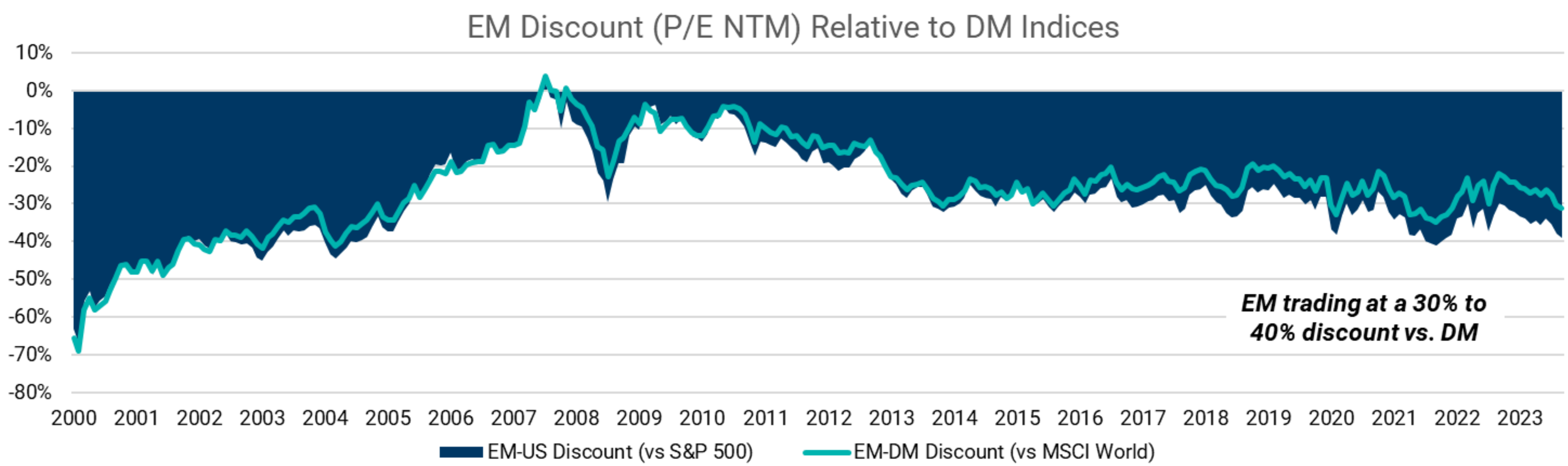


As of 31 December 2022
EM Weight in Global Indices is generated from MSCI ACWI + Frontier Markets Index. The EM Weight in Global Equity Funds is generated from 1,093 eVestment global equity funds with a reported EM allocation of $294.5 billion. The EM Weight is calculated as the proportion of the total assets allocated to EM equities within the global equity fund allocations.
Source: eVestment, MSCI, Polen Capital, UNCTAD

6. APPEALING RELATIVE VALUATIONS

Though absolute valuation levels have moved higher, discounts relative to DM remain wide



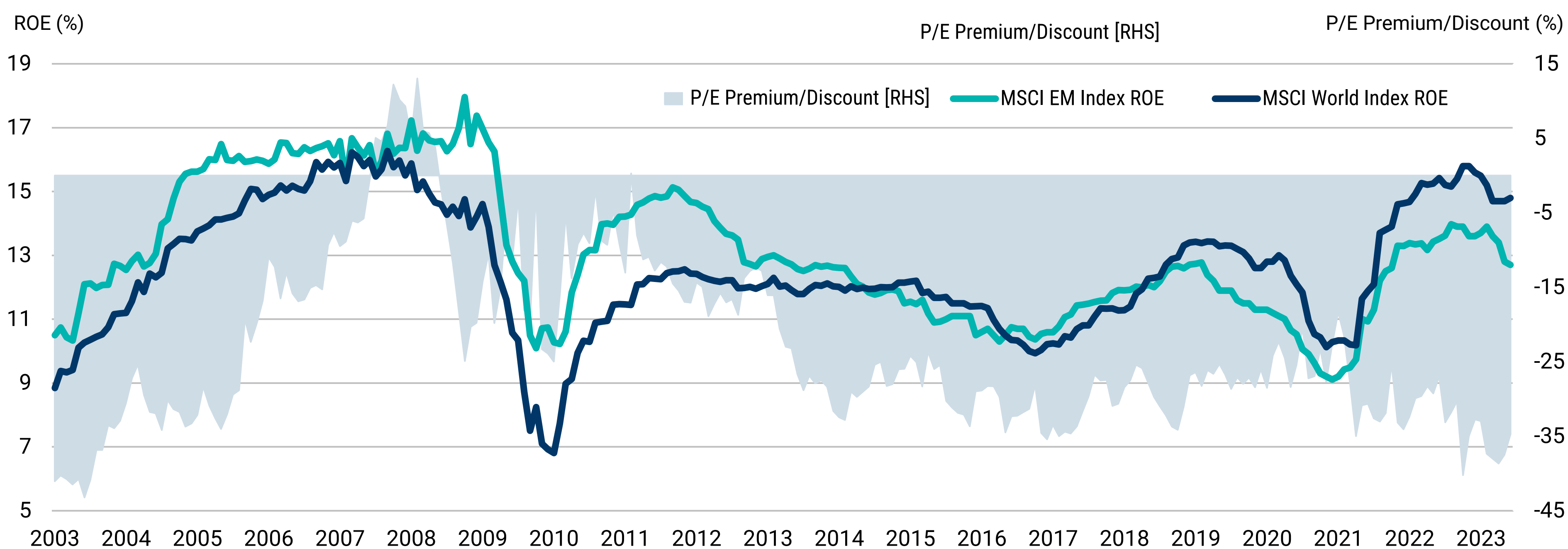


As of 31 December 2023
Source: FactSet

7. DESPITE IMPROVED PROFITABILITY, EM DISCOUNT IS CLOSE TO HIGHS

EM equities trade at more than a 30% valuation discount

- The valuation divergence between developed and emerging markets equity indices has actually widened over the years with the MSCI EM Index currently trading at a 32% discount to the MSCI World Index with improving ROEs.
- 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, and earnings growth is expected to outpace DM in 2024–2025.



As of 31 December 2023
Characteristics shown are calculated on a trailing 1-year basis.
Source: Lazard, FactSet, MSCI

IMPORTANT INFORMATION

Published on 13 February 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 indices are unmanaged and have no fees. One cannot invest directly in an index.

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