24 June 2024

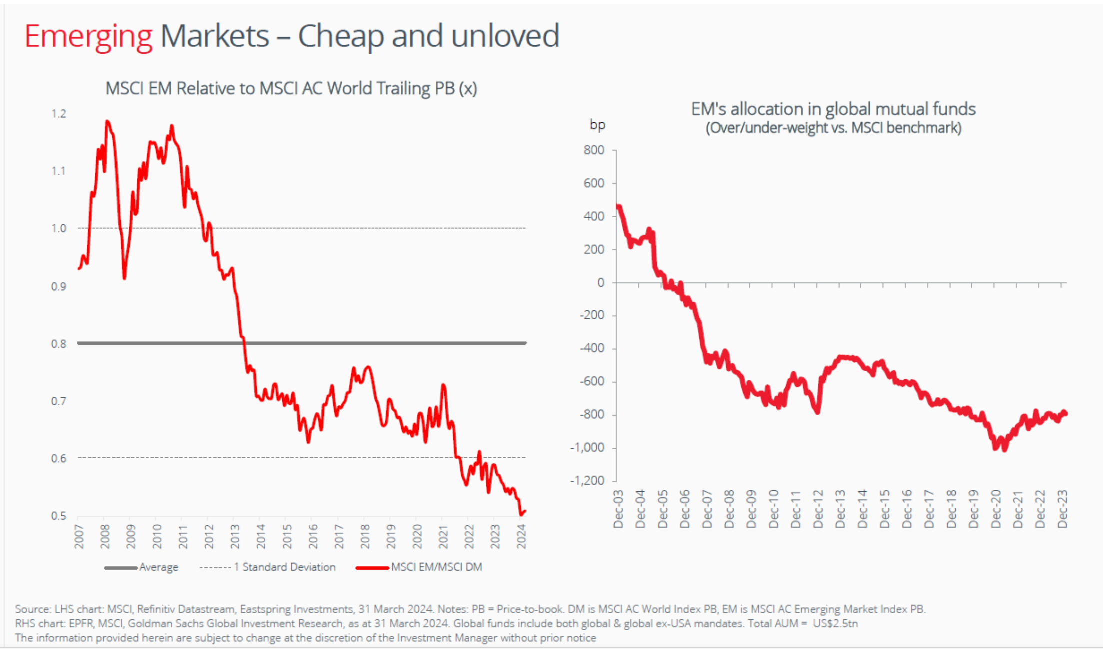
MEDIA RELEASE

Eastspring Investments sees potential for emerging markets to outperform developed markets

Slowing economic growth in developed markets against rising growth in many emerging markets (EMs), along with increasing capital investment, is likely to be a key theme in coming years, with the potential for strong outperformance by EM share markets, according to Steven Gray, the head of global emerging markets (GEM) at Eastspring Investments.

"Emerging markets are very unloved at the moment, and have de-rated considerably since 2010 - from trading at a premium relative to developed markets, to trading at a huge discount relative to developed markets," said Mr Gray, as the charts below show.

"While EMs have disappointed, that is priced into markets. So relative valuations are now very attractive to investors and expectations are low.



According to Mr Gray, EM equities have both a strong valuation and structural tailwind relative to developed market equities, which may lead to superior performance across EMs from here. Increased capital expenditure (capex) will help drive some of this outperformance.

"Emerging markets typically outperform as capex increases. Capex had been decreasing between 2010 and 2020, but since then, we have started to see an increase in capex across both developed markets and EMs. Capex continues to be on the rise.

"Historically there is a strong positive relationship between increasing capex and the performance of EMs, with markets outside China benefitting from increased exposure to materials, industrials, and financials."

In terms of particular EMs, he said: "We think China is very unloved at this stage, though it has a more managed economy, which has its upside and downsides. But it is very cheap and therefore an interesting investment proposition.

"China is now stabilising and recent data points to improving economic conditions. Today, China is a leader in the electric vehicle (EV) manufacturing space and renewable energy supply chains which is likely to be a longer-term structural support for the economy. At current valuations, China offers some compelling investment opportunities."

Outside of China in other EMs, structural factors such as geopolitics and shifting economics are raising capex and spurring economic growth, according to Mr Gray.

"Capex cycles are supportive for EMs as a whole and we see several drivers such as the 'great transition' of supply chains away from China to other emerging markets, a greater focus on investing in decarbonisation and broad-based investment in infrastructure supporting stocks in real economy sectors across EMs."

Eastspring believe the Great Transition is a long-term theme, which can yield opportunities for many economies and companies across EMs. The largest beneficiaries of this transition are likely to be in ASEAN, Latin America, India, the Middle East and Africa – all markets with cheap labour and decent manufacturing bases that are major producers of key commodities. Most have a large and young population base, and a high economic growth potential which can be exploited by this great transition.

The combined manufacturing value add of these countries is less than half that of China. As such, a small shift of supply chains away from China adds a significant amount of manufacturing value add to these countries and create interesting investment opportunities.

Eastspring has recently published a whitepaper assessing the impact of global supply chain shifts and the opportunities that are emerging from this disruption, including for emerging markets.

-oOo-

For more information contact:

Damien McIntyre, GSFM
Phone: 03 9949 8852
Email: dmcintyre@gsfm.com.au

About GSFM

GSFM was established in 2007 as a subsidiary of the Grant Samuel Group. In 2016 Canadian wealth manager CI Financial Corp (CI) purchased an 80 per cent stake in the business, previously held by Grant Samuel.

GSFM specialises in marketing funds managed by high calibre local and international managers to Australian and New Zealand institutional and Australian retail investors, and has formed partnerships with eight specialist investment managers:

- New York based Epoch Investment Partners, Inc.
- Tribeca Investment Partners, a successful Australian boutique manager headquartered in Sydney
- Payden & Rygel, a Los Angeles based independent investment management firm
- Munro Partners, an independent global equity manager based in Melbourne
- London-based Man Group plc
- Tanarra Credit Partners, a specialist in private credit instruments
- Access Capital Partners, European independent private asset manager
- Australian Entertainment Partners, to produce the AEP Screen Fund, an investment vehicle dedicated to supporting Australian film and television endeavours.

GSFM represents approximately $9.64 billion funds under management (as at 31 May 2024). For more information about GSFM please visit the website: www.gsfm.com.au

About Eastspring Investments

Eastspring Investments, part of Prudential plc, is a leading Asia-based asset manager that manages USD 237 billion (as of 31 Dec 2023) of assets on behalf of institutional and retail clients. Operating since 1994, Eastspring Investments has one of the widest footprints among asset management companies across Asia*. We provide investment solutions across a broad range of strategies including equities, fixed income, multi asset, quantitative and alternatives and are committed to delivering high quality investment outcomes for our clients over the long term.

We incorporate Environmental, Social and Governance (ESG) factors into our investment process and are aligned with a number of global sustainability initiatives including the United Nations-supported Principles for Responsible Investments (PRI) and the Asia Investor Group on Climate Change (AIGCC). We collaborate alongside industry peers to harness a collective investor voice to influence and drive change with investee companies.

For more information on Eastspring Investments, please visit: www.eastspring.com