

Emerging markets on the edge: opportunity or dead money?

Texas Association of Public Employee Retirement
Systems (TEXPERS)

Presented by

Martin Schulz
Senior Vice President
Head of International Equity Growth Team
Senior Portfolio Manager

Jason DeVito
Vice President
Portfolio Manager
Senior Investment Analyst

August 21, 2022
Federated Advisory Services Company

22-40430 (8/22)
INSTITUTIONAL Sales Material. Not for Distribution to the Public.



Sharing Solutions in
SUN CITY

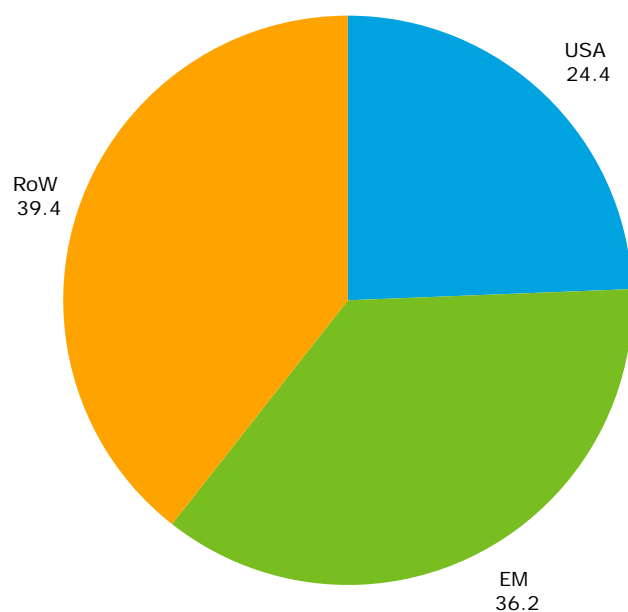
2022 Summer Educational Forum

August 21-23 | El Paso, Texas

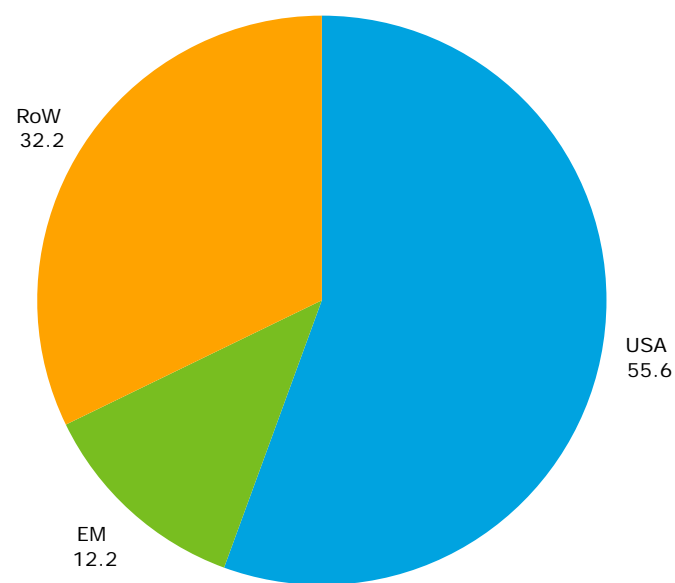
Current Share of Global GDP and Global Market Cap

The Emerging Markets Remain Under-Represented in the Global Capital Markets

Share of Global GDP (%)



% of MSCI All Country World



Gross Domestic Product (GDP) in current US\$
 EM is defined using MSCI EM Universe; GDP EM excludes Taiwan as data was not provided.
 Sources: World Bank, MSCI and FactSet. Data as of December 31, 2019.
 INSTITUTIONAL Sales Material. Not for Distribution to the Public.



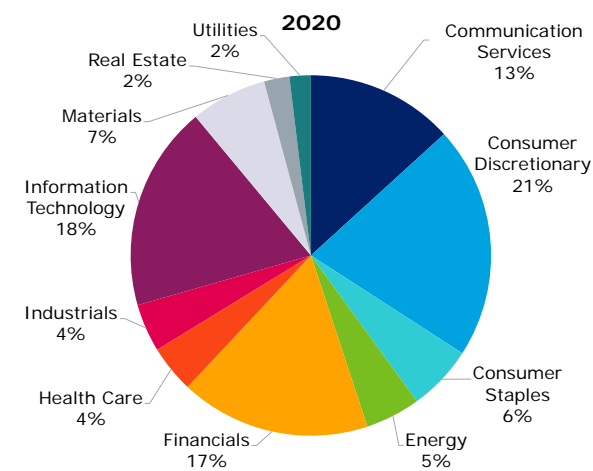
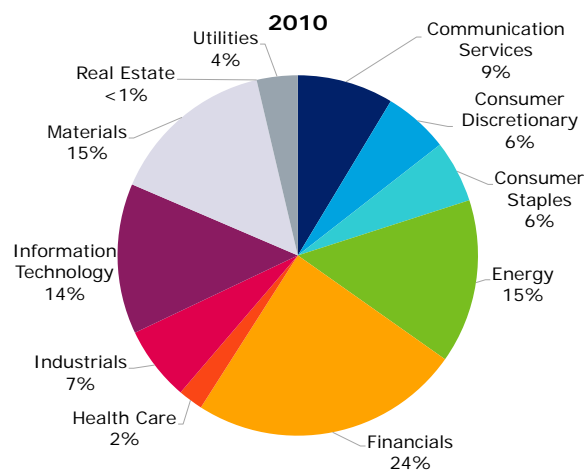
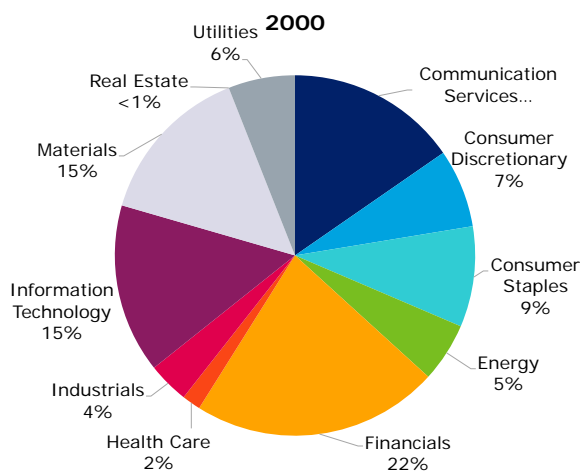
Sharing Solutions in
SUN CITY

2022 Summer Educational Forum

August 21-23 | El Paso, Texas

Sector Changes in the Emerging Economies

Consumer and Tech Leading the Way



Source: MSCI and FactSet. Data as of October 2020.
INSTITUTIONAL Sales Material. Not for Distribution to the Public.



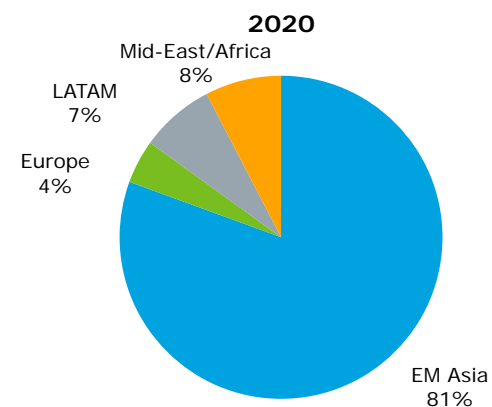
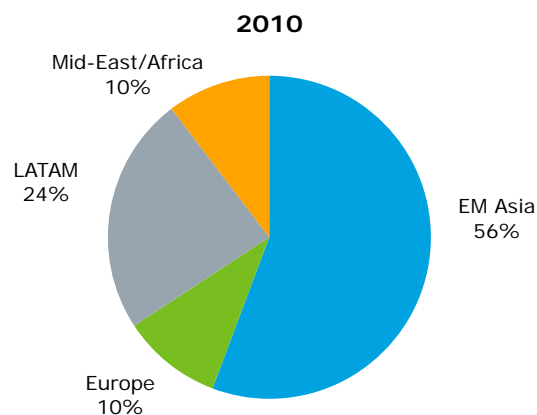
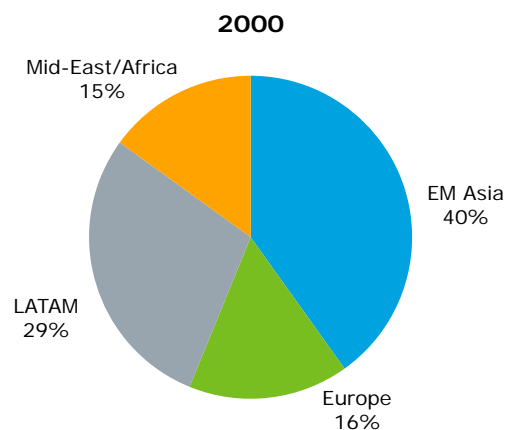
Sharing Solutions in
SUN CITY

2022 Summer Educational Forum

August 21-23 | El Paso, Texas

MSCI Region Country Weighting

The China Effect - These Aren't Your Parents' Emerging Markets



Source: MSCI and Factset. Data as of December 2020.
INSTITUTIONAL Sales Material. Not for Distribution to the Public.



Sharing Solutions in
SUN CITY

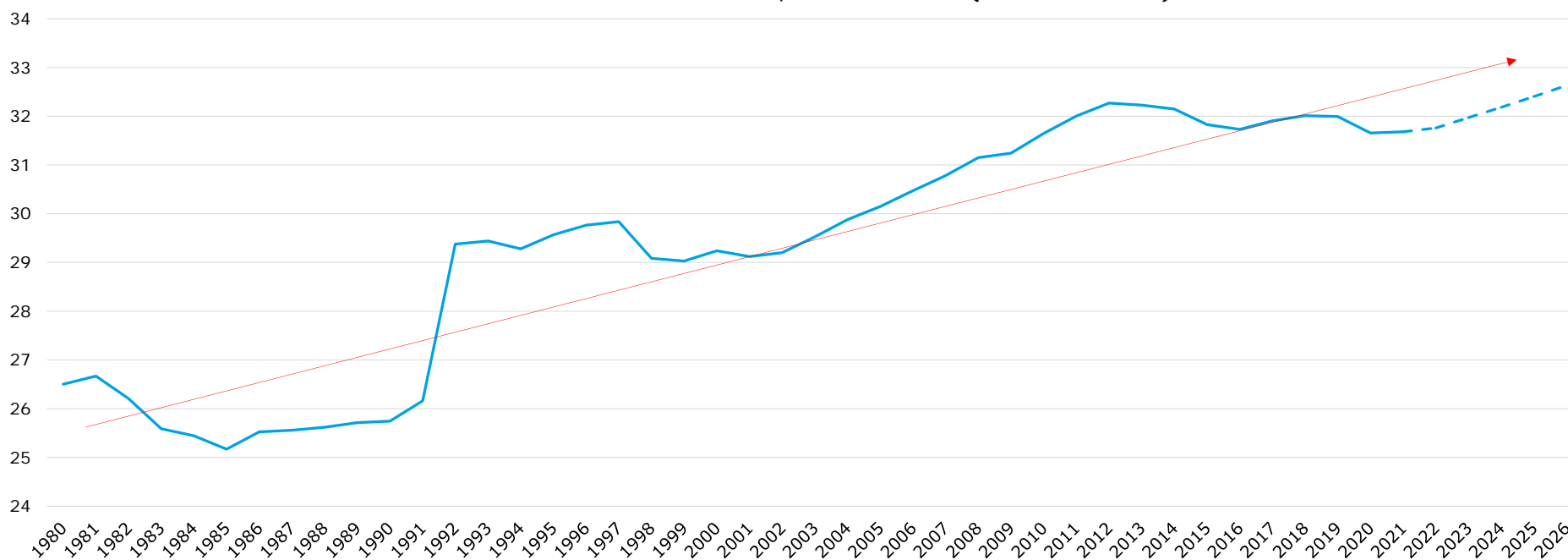
2022 Summer Educational Forum

August 21-23 | El Paso, Texas

Non-Chinese Global EM Economic Output

It's Not Just About China

EM ex-China GDP Based on PPP, Share of World (% of World GDP)



Source: IMF. Data as of April 2021.
INSTITUTIONAL Sales Material. Not for Distribution to the Public.



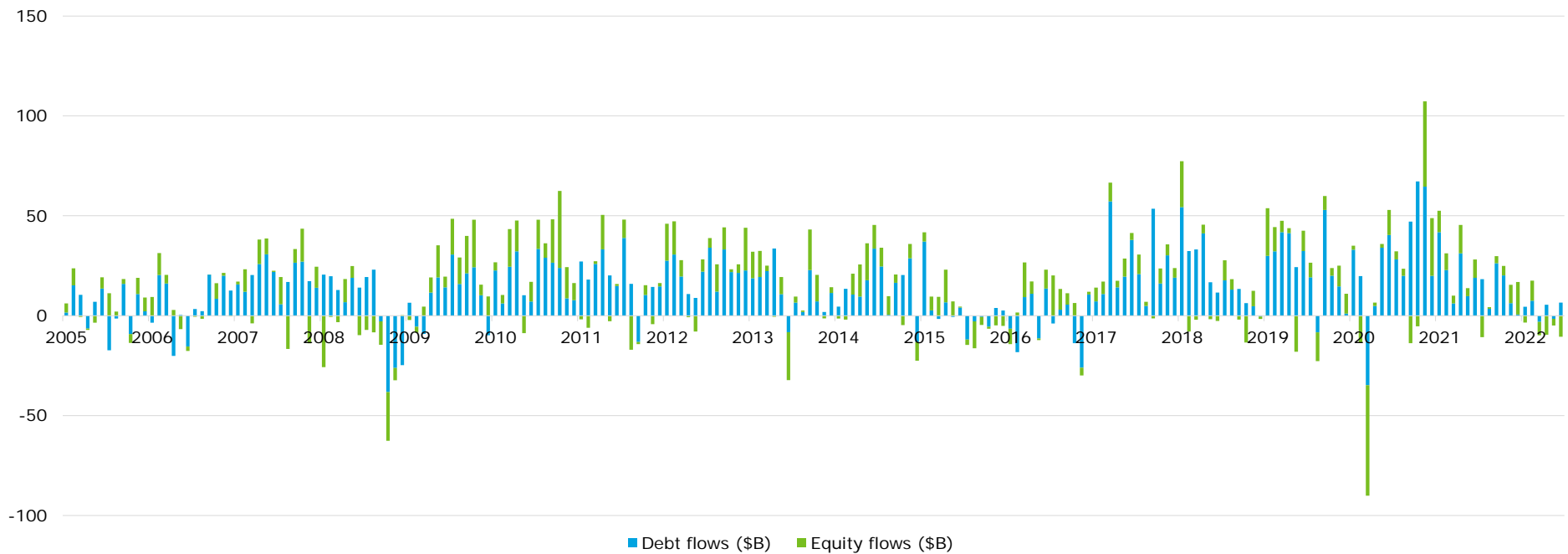
Sharing Solutions in
SUN CITY

2022 Summer Educational Forum

August 21-23 | El Paso, Texas

EM Flows

Non-Resident Portfolio Flows to EM



Source: Bloomberg, Institute of International Finance. Data as of June 2022.
INSTITUTIONAL Sales Material. Not for Distribution to the Public.

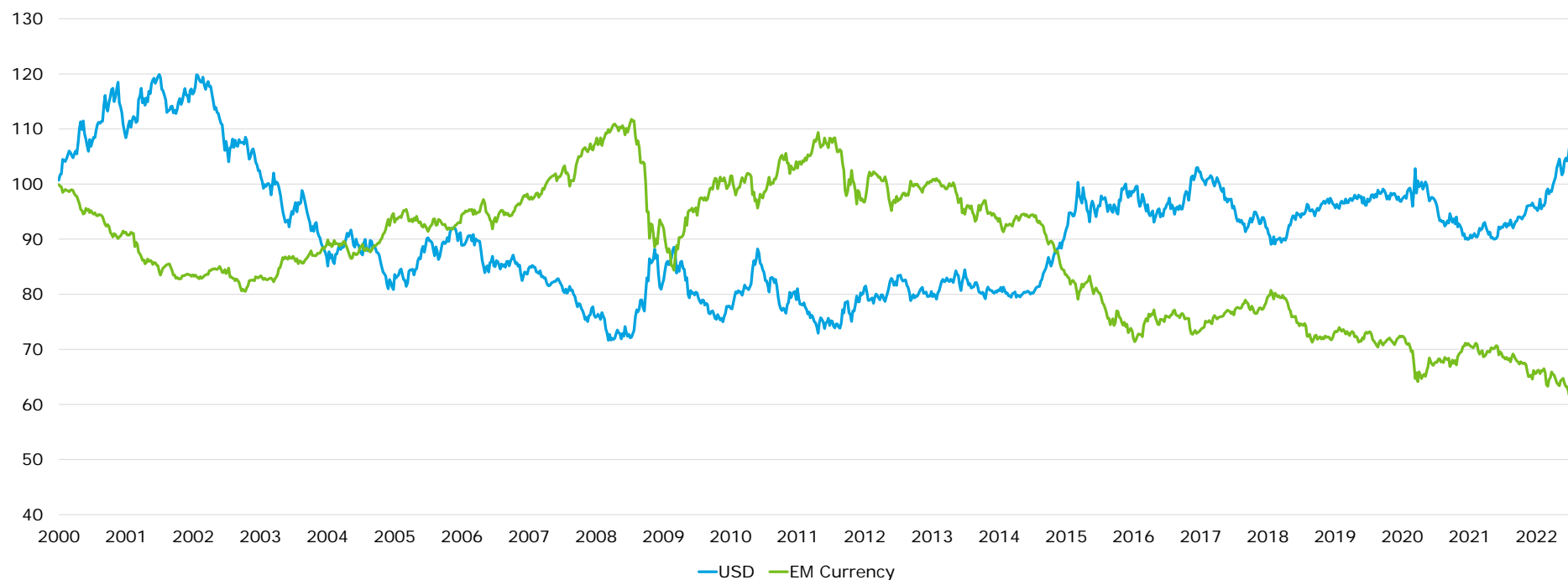


Sharing Solutions in
SUN CITY

2022 Summer Educational Forum

August 21-23 | El Paso, Texas

The U.S. Dollar vs. EM Currency



Source: Bloomberg. U.S. Dollar Index vs. DB EM FX Equally Weighted Spot Index. Data as of 7/29/22.
INSTITUTIONAL Sales Material. Not for Distribution to the Public.



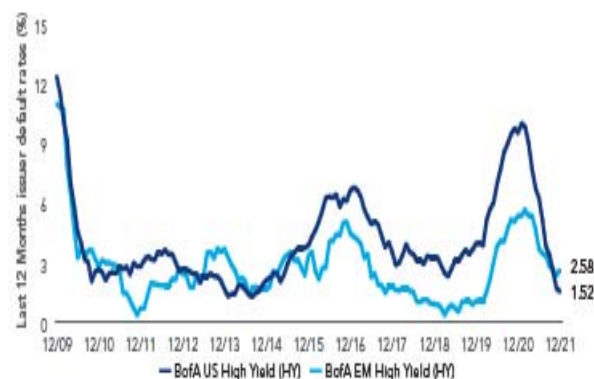
Sharing Solutions in
SUN CITY

2022 Summer Educational Forum

August 21-23 | El Paso, Texas

EM Corporate Assets Offer Value

EM default rates are comparable with those in the U.S.



Source: BofA Global Research

Past performance is no guarantee of future results.

Faster-expanding EM countries have used debt to help fund their GDP growth, which has long surpassed developed markets, and EMD now makes up more than 25% of the global bond universe. The superior growth trajectory of EM translates into the increasing depth of local capital markets and an attractive total return potential for the asset class, specifically sovereigns and corporates, at times denominated in local currency.

Emerging markets IG corporates offer competitive spreads



Sources: ICE Data Indices, LLC., BofA Global Research

Past performance is no guarantee of future results.

We note that investing in local currency corporates is challenged because of smaller (though numerous) offerings and high local demand. We generally find more opportunity in sovereign local currency offerings, which are also mostly confined to smaller issuers, but offer better liquidity than local corporates. In general, strategies with lower AUM are better able to allocate to the local currency space.

INSTITUTIONAL Sales Material. Not for Distribution to the Public.



Sharing Solutions in
SUN CITY

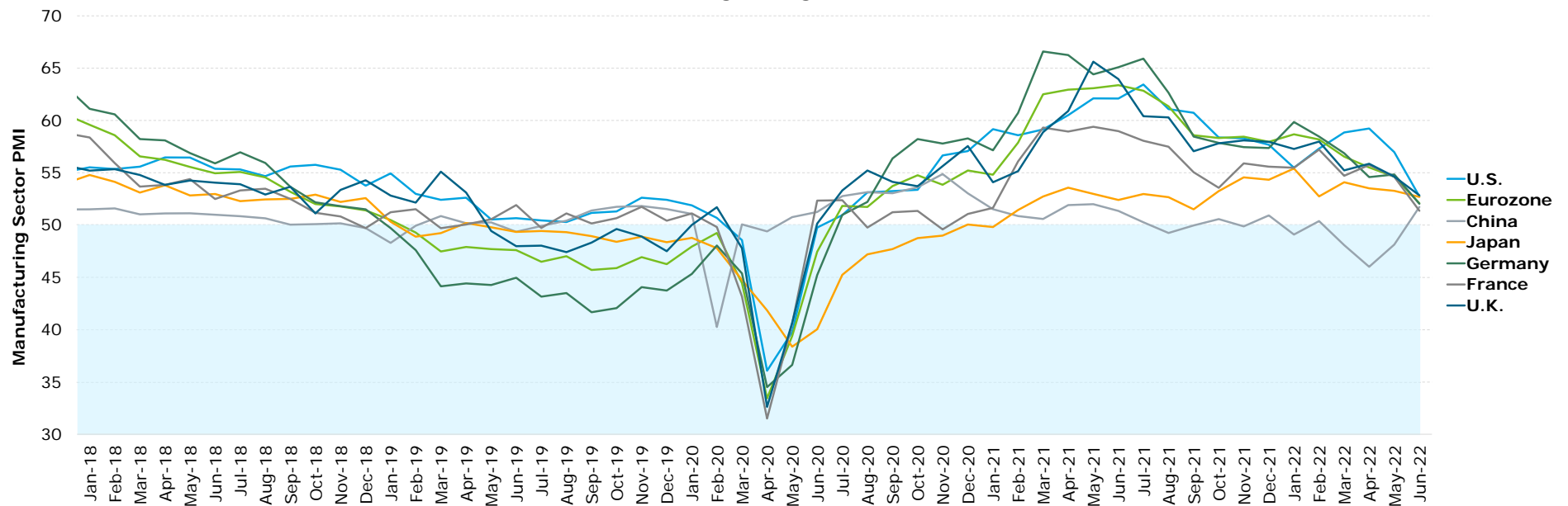
2022 Summer Educational Forum

August 21-23 | El Paso, Texas

Global Downturn?

Central Banks Withdraw Liquidity

Global Purchasing Managers' Indexes (PMIs)



Data as of 6/30/22.

Sources: FactSet; Markit Purchasing Managers' Indexes (PMI) for the Manufacturing Sector, seasonally adjusted (SA), for the following countries: United States, Eurozone, Germany, France and the United Kingdom; the Caixin PMI Manufacturing Sector PMI Index, SA for China; the Nikkei PMI Manufacturing Sector PMI Index, SA for Japan; Federated Hermes analysis.

INSTITUTIONAL Sales Material. Not for Distribution to the Public.



Sharing Solutions in
SUN CITY

2022 Summer Educational Forum

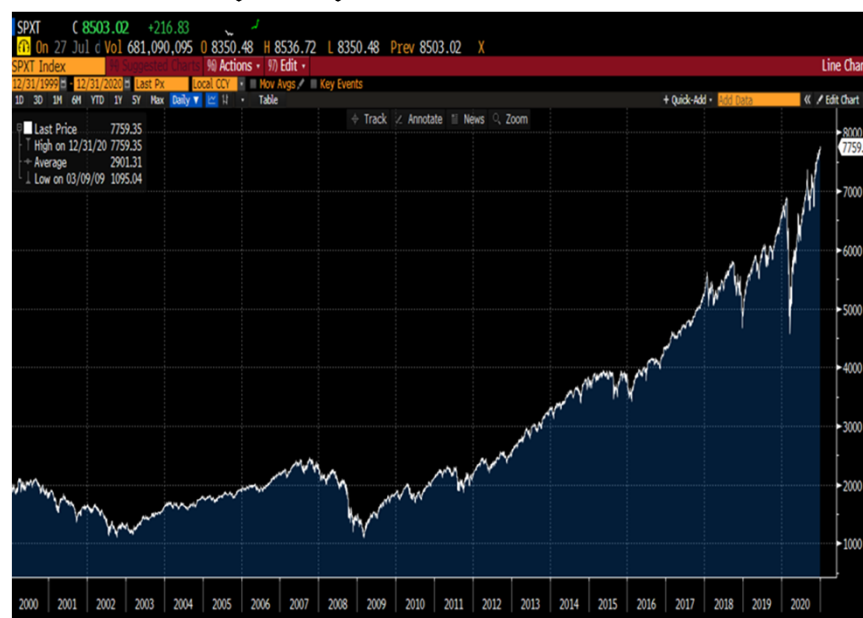
August 21-23 | El Paso, Texas

Assets Can Outperform Global GDP Growth

BOVESPA Outpaced Brazil GDP Growth of Roughly 1% in 2019



S&P Vastly Exceeding U.S. Nominal Growth Rate (3.9%) from 2000-2020 Years



Source: Bloomberg.
INSTITUTIONAL Sales Material. Not for Distribution to the Public.



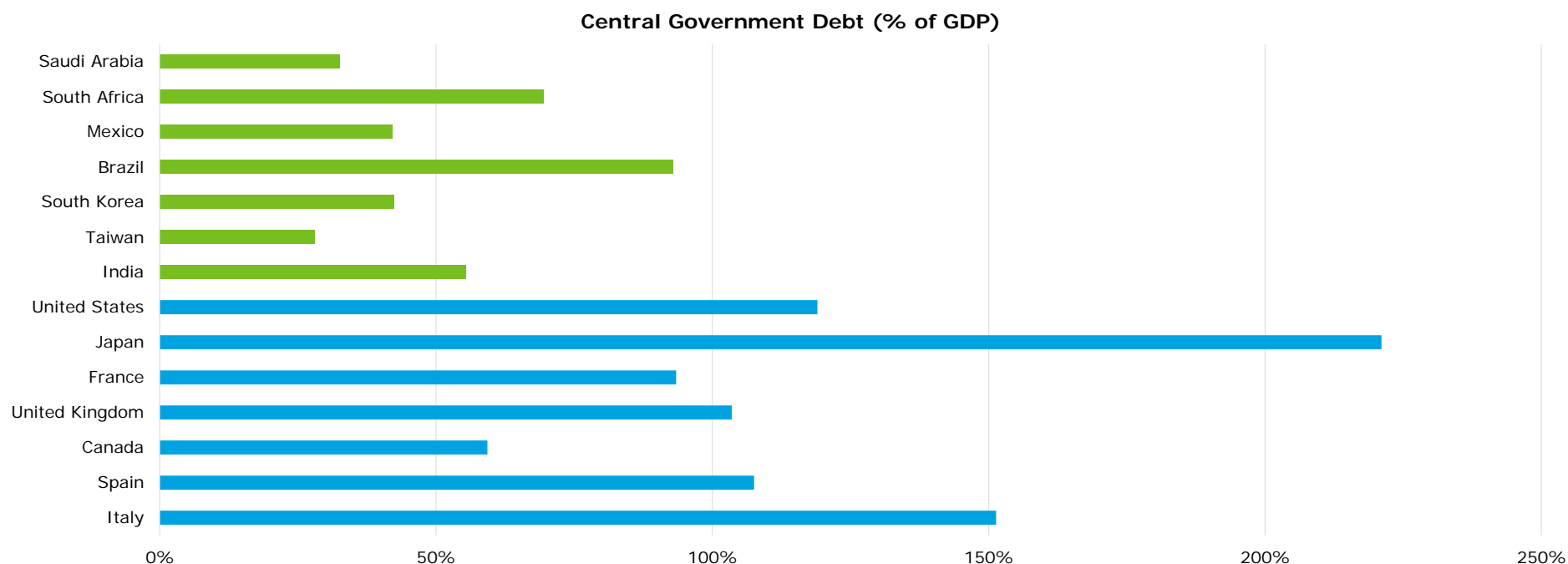
Sharing Solutions in
SUN CITY

2022 Summer Educational Forum

August 21-23 | El Paso, Texas

Post-Covid Public Debt Has Increased Globally

Most Emerging Markets Are in Much Better Shape Than Their Developed Market Counterparts



Total stock of debt liabilities issued by the central government as a share of GDP. Source: IMF Global Debt (Dec 2021).
INSTITUTIONAL Sales Material. Not for Distribution to the Public.



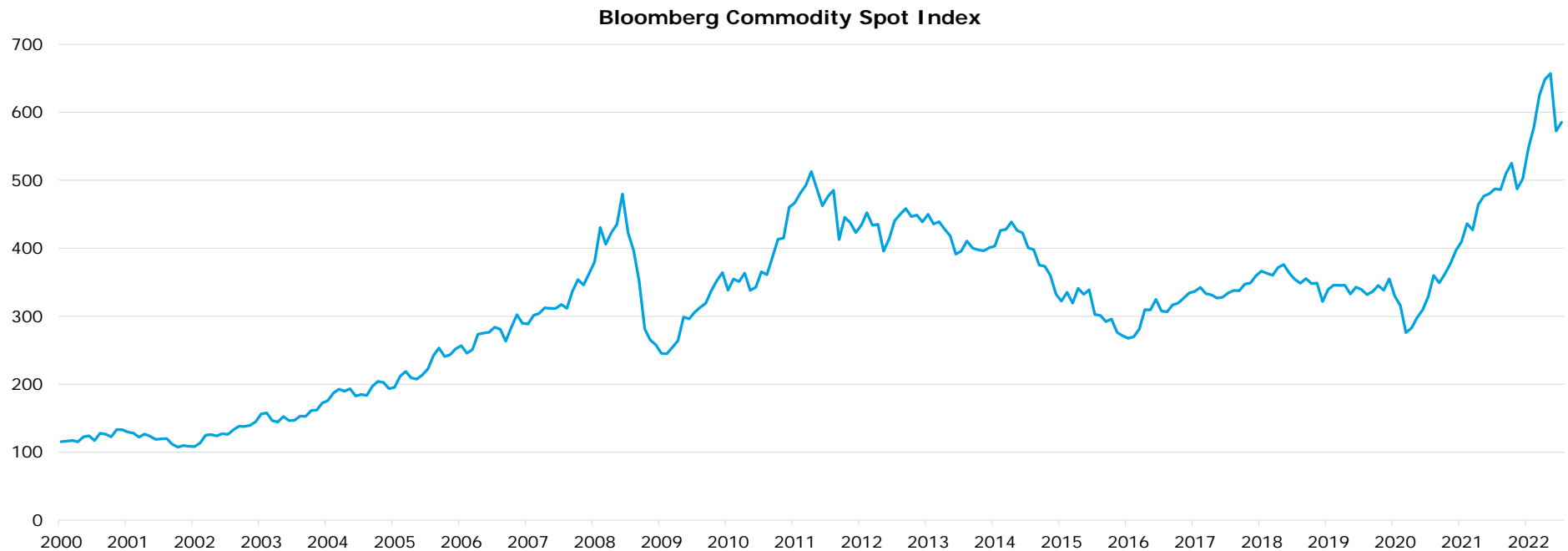
Sharing Solutions in
SUN CITY

2022 Summer Educational Forum

August 21-23 | El Paso, Texas

Commodity Prices

Differentiation within the EM – Producers vs. Buyers



Source: Bloomberg. Data as of 7/29/22.
INSTITUTIONAL Sales Material. Not for Distribution to the Public.



Sharing Solutions in
SUN CITY

2022 Summer Educational Forum

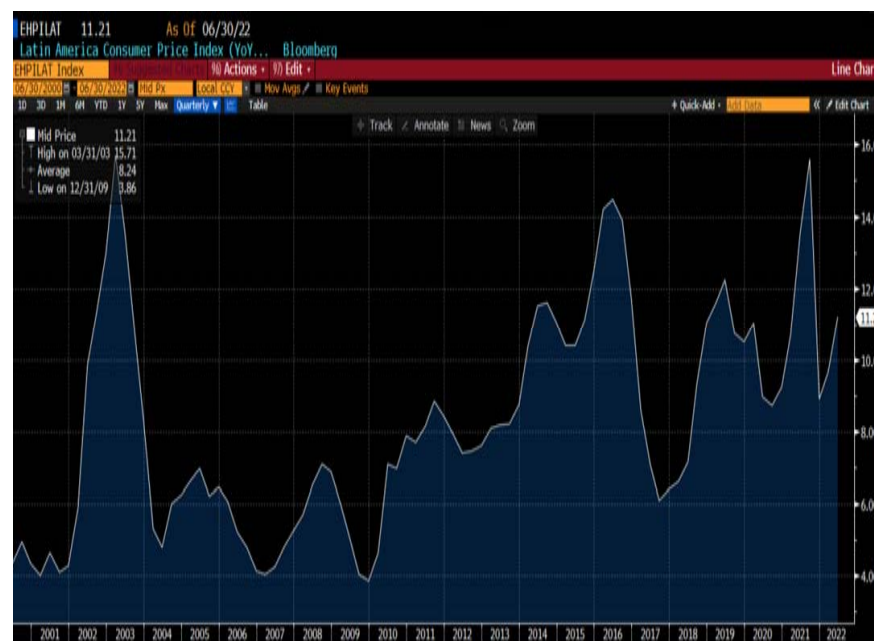
August 21-23 | El Paso, Texas

EM Countries and Inflation

Inflation Not All Bad

- Commodity players benefit from higher price deck
- Worries of inflation may shock voters to orthodox candidates

No Strangers to Inflation



Source: Bloomberg.
INSTITUTIONAL Sales Material. Not for Distribution to the Public.



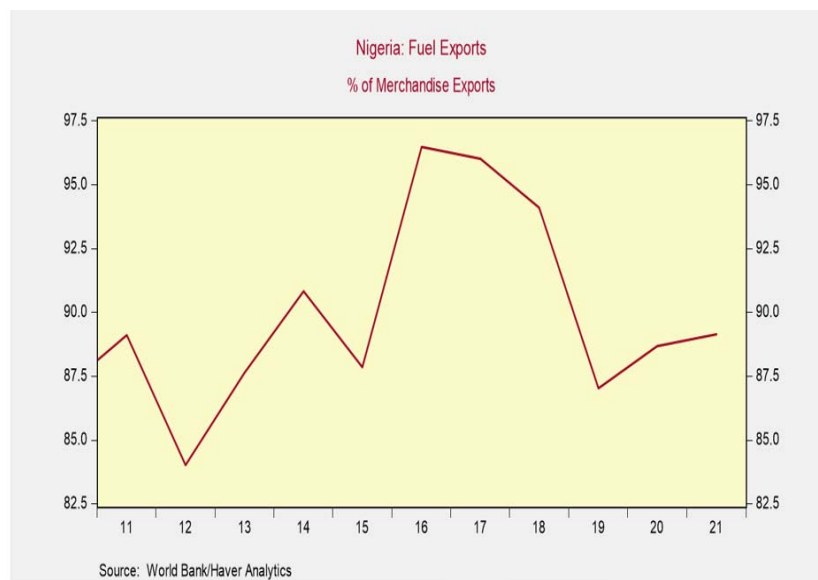
Sharing Solutions in
SUN CITY

2022 Summer Educational Forum

August 21-23 | El Paso, Texas

Some Sovereigns Benefit While Some Suffer

Benefiting from High Petro Product Prices



Suffering from High Petro Product Prices



INSTITUTIONAL Sales Material. Not for Distribution to the Public.



Sharing Solutions in
SUN CITY

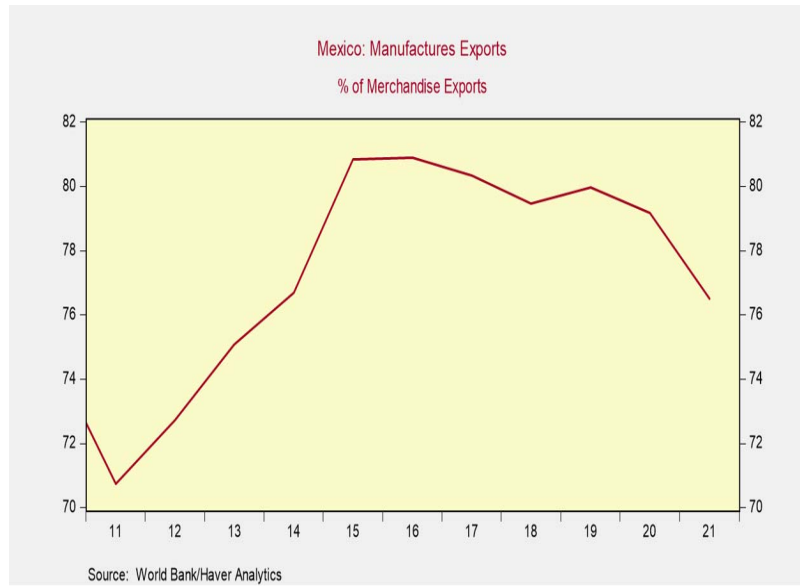
2022 Summer Educational Forum

August 21-23 | El Paso, Texas

Deglobalization

- Less correlation
- Latin America may win as U.S. backfills supply chain in western hemisphere

Mexico



Costa Rica



INSTITUTIONAL Sales Material. Not for Distribution to the Public.

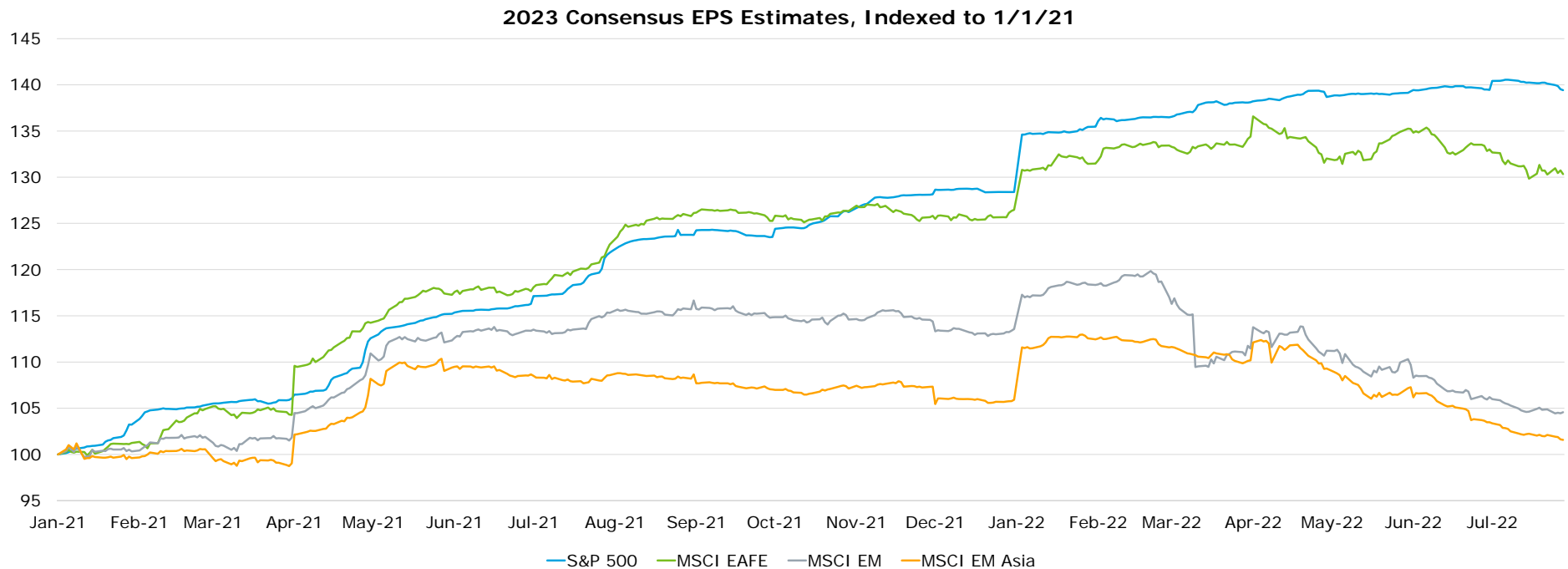


Sharing Solutions in
SUN CITY

2022 Summer Educational Forum

August 21-23 | El Paso, Texas

2023 Consensus EPS Estimates



Source: Bloomberg. Data as of 7/28/22.
INSTITUTIONAL Sales Material. Not for Distribution to the Public.



Sharing Solutions in
SUN CITY

2022 Summer Educational Forum

August 21-23 | El Paso, Texas

MSCI EM Index



Source: Bloomberg. Data as of 7/29/22.
INSTITUTIONAL Sales Material. Not for Distribution to the Public.



Sharing Solutions in
SUN CITY

2022 Summer Educational Forum

August 21-23 | El Paso, Texas

China Highlights

The Good and the Bad

- + Economy is recovering albeit slowly
- + More pragmatic Covid strategy going forward?
- + Inflation is not a mid term concern
- + Policy flexibility – Fiscal, monetary, and regulatory

- - Declining consumer confidence/sluggish domestic demand
- - Increasing unemployment in young adults
- - Weak external demand is not supportive
- - Housing is a major risk

INSTITUTIONAL Sales Material. Not for Distribution to the Public.



Sharing Solutions in
SUN CITY

2022 Summer Educational Forum

August 21-23 | El Paso, Texas

Final Thoughts

We Are Edging Closer to an Inflection Point

- Long term demographic, economic, and policy support
- Transformation and innovation: Booming technology and booming commodities
- Armed conflict/Ukraine is inherently inflationary with global supply chain challenges exacerbated, but is inflation peaking?
- Tailwinds include strong commodity prices, global economic resilience, capital flows, compelling valuations, earnings, and a potentially weakening US Dollar
- Tightening of financial conditions and de-globalization are headwinds
- USD peaking?
- Everything is not equal: Selectivity remains a key differentiator in the EM

INSTITUTIONAL Sales Material. Not for Distribution to the Public.



Sharing Solutions in
SUN CITY

2022 Summer Educational Forum

August 21-23 | El Paso, Texas

Disclosures

International investing involves special risks including currency risk, increased volatility of foreign securities, political risks and differences in auditing and other financial standards.

Prices of emerging markets securities can be significantly more volatile than the prices of securities in developed countries and currency risk and political risks are accentuated in emerging markets.



Sharing Solutions in
SUN CITY

2022 Summer Educational Forum

August 21-23 | El Paso, Texas