



The Past Decade in Emerging Markets and Thoughts on the Future

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Summary



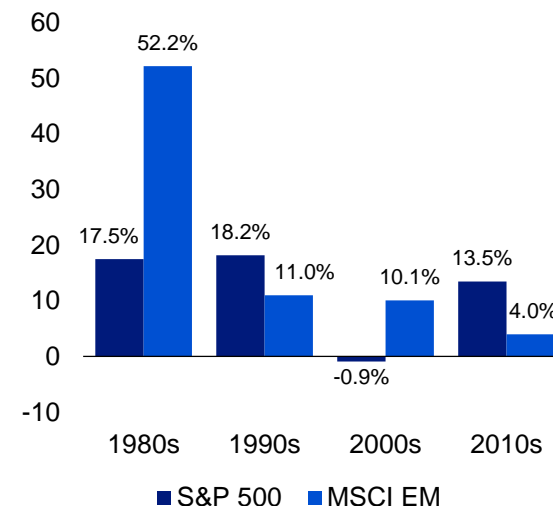
The 2010s were difficult for the developing world

- Economic growth collapsed and EM importance (ex-China) diminished.
- EM equities posted dismal real US dollar returns and substantially underperformed US equities.

We expect the 2020s will be strong for EM equities markets

- We believe EM growth will recover, and China's growth will stabilize.
- We anticipate the EM equities market will outperform the US stock market.
- We think the wave of unicorns going public will significantly expand the depth of the Latin America and Southeast Asia markets
- China will become an equal with the US – a technology leader and a challenger as we foresee capital market returns inspiring a boom in Chinese equities.

S&P 500 vs. MSCI EM by Decade
Annual return % (including dividends)



Source: RIMES, MSCI, Morgan Stanley research, as of 1/1/20. **Past performance is no guarantee of future results** An investment cannot be made directly into an index.

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The Past Decade in Emerging Markets



The Past Decade in Emerging Markets

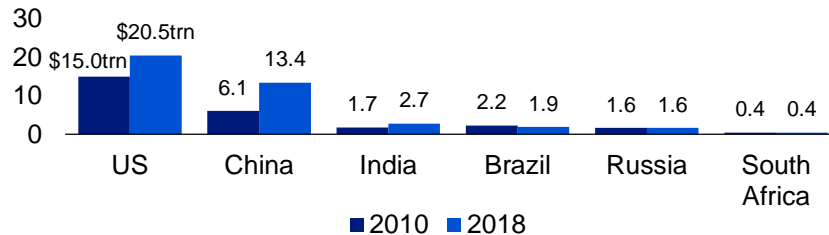
The case for investing in EM equities is NOT about superior macroeconomic growth



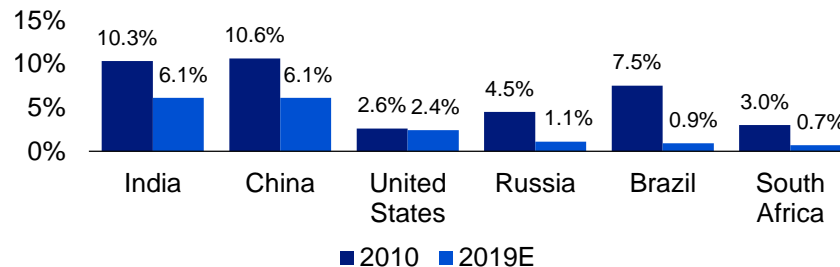
- **EM** growth collapsed after the global financial crisis and never fully recovered. The slowdown in EM was exacerbated by the commodities bust in 2014-2015.
- **China was the anomaly.** Along with the US, China generated the majority of worldwide growth during the 2010-2019 decade.
- China's GDP is rapidly closing the gap with the US, and it is now larger than the GDP of Africa, India, Russia, and all of Latin America combined.

Nominal GDP

(In Trillions of USD)



Real GDP Growth (%)



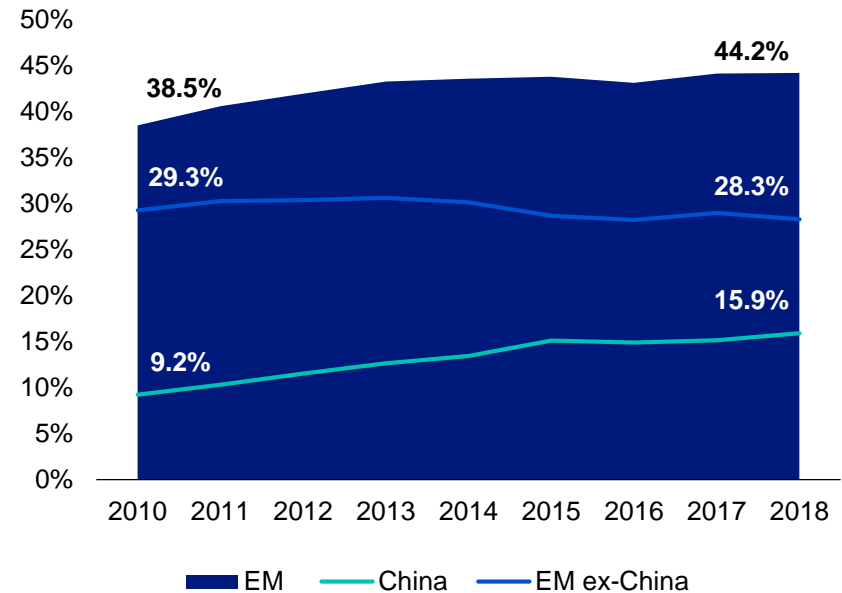
The Past Decade in Emerging Markets

The case for investing in EM equities is NOT about superior macroeconomic growth



- China contributed **16%** of world GDP. The rest of EM collectively accounted for **28%**, smaller than its global share 10 years ago.

% of World GDP (Nominal, T USD)



Source: EM Advisors, IMFWEO, World Bank, Haver, as of 12/31/18

The Past Decade in Emerging Markets

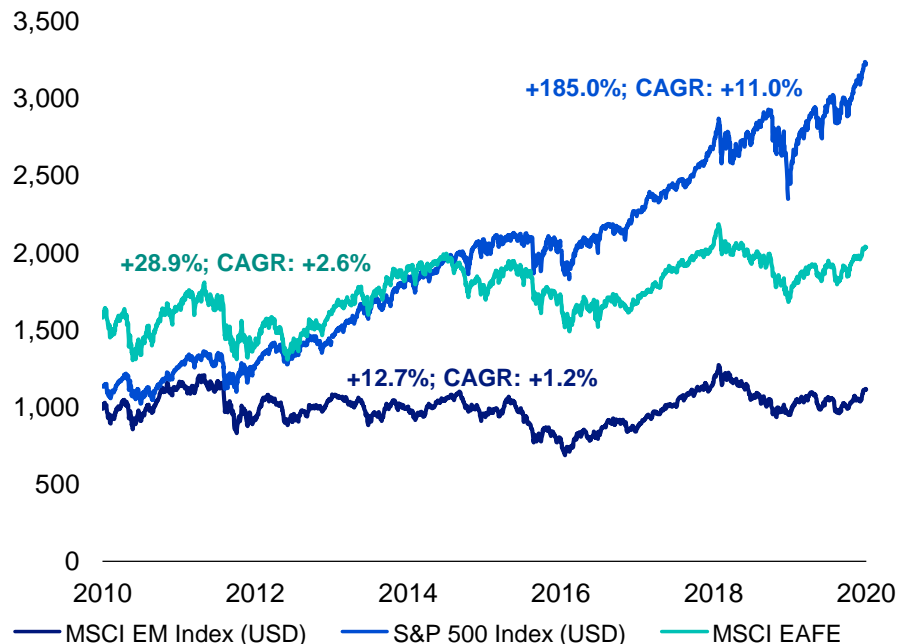
EM stocks were laggards over the past decade



- The MSCI EM index outperformed the S&P 500 in the 2000-2009 decade by 11% on an annual basis, but underperformed it by 9.8% in the 2010s.
- Annualized total returns of EM stocks have been just over 1%, or 4% including dividends, in the past decade.
- The decade was overwhelmingly dominated by US equities and US dollar strength.

MSCI EM vs. S&P 500 vs. MSCI EAFE

Cumulative returns and compound annual growth rates (CAGR) of indices from January 1, 2010 to January 1, 2020



*Note: assuming dividends are not reinvested.

Source: BofA Global Research, MSCI, FactSet, Bloomberg, as of 1/1/20

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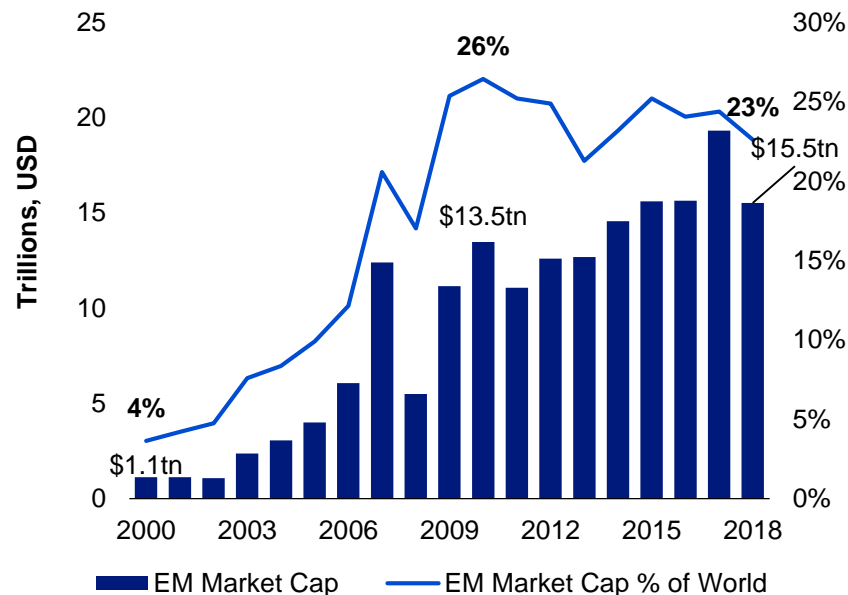
The Past Decade in Emerging Markets

Market capitalization composition changes



- EM market capitalization has expanded modestly in US dollar terms over the past decade.
- EM equities represent **23%** of worldwide capitalization, lower than their share 10 years ago.

EM Market Cap vs. World



Source: EM Advisors, data as of Dec 31, 2018

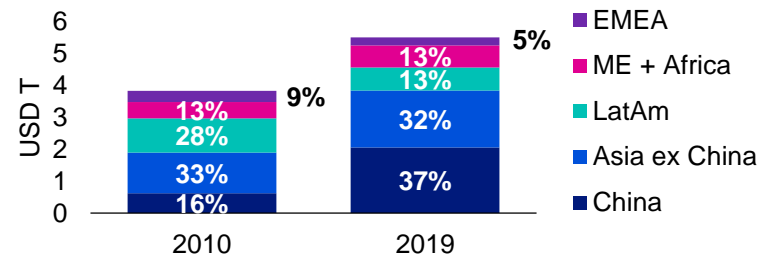
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Market capitalization composition changes

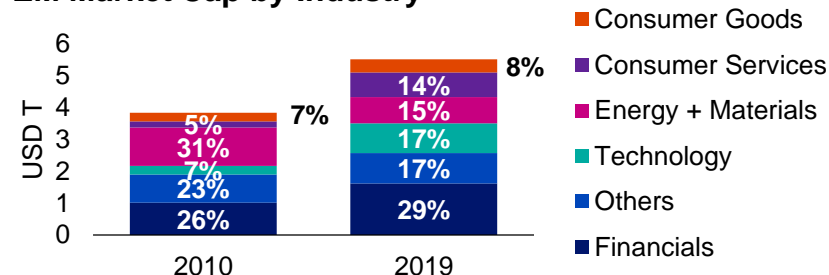


- EM equities have become incredibly Asian-centric. Asia represents approximately **70%** of EM equity capitalization, reflecting China's expansion.
- Latin American capital markets have mirrored the economic funk of their economies and now represent just **13%** of total EM capitalization.
- Eastern Europe + African equities represent only a small fraction of EM market capitalization.
- Financials** have replaced Energy & Materials to become the leading sector by capitalization as a result of the collapse in commodity prices.

EM Market Cap by Geography



EM Market Cap by Industry



Key Themes of Past Decade

- Collapse in global growth
- Weak growth in global trade
- Low inflation, lower rates
- Latin America funk
- BRICS myth implodes
- Slowdown in China



Key Themes of Past Decade

Growth rates everywhere declined

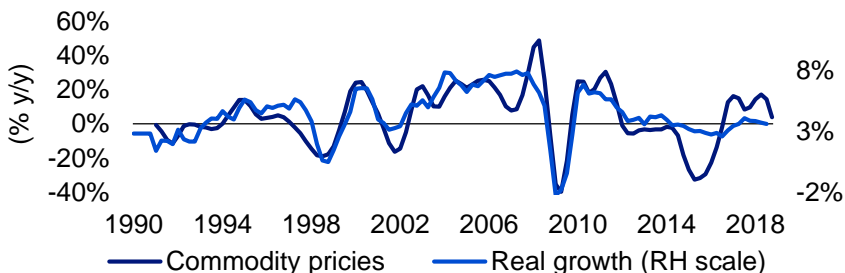


As a result of:

- Reverberations of global financial crisis.
- Stagnation in total factor productivity.
- Aging hit economic growth.
- De-globalization pressures (no further trade integration) hindered growth.
- **Commodity prices collapsed**, impacting EM growth in US dollar terms.

Commodity prices vs. EM growth

(% y/y, mid-weight)



Source: OECD, as of 12/31/18

GDP (Nominal, USD)

Sorted by 2018 data (descending)

	2000	2008	2018	Country % (2018 GDP)	CAGR 10Y	CAGR 18Y
China	1,215	4,604	13,407	45%	11%	14%
India	477	1,224	2,717	9%	8%	10%
Brazil	655	1,695	1,868	6%	1%	6%
Russia	278	1,778	1,631	6%	-1%	10%
Korea	562	1,002	1,619	5%	5%	6%
Mexico	708	1,110	1,223	4%	1%	3%
Indonesia	179	559	1,022	3%	6%	10%
Saudi Arabia	190	520	782	3%	4%	8%
Turkey	273	765	766	3%	0%	6%
Taiwan	331	417	590	2%	4%	3%
Poland	171	534	586	2%	1%	7%
Argentina	308	364	518	2%	4%	3%
Thailand	126	291	487	2%	5%	8%
United Arab Emirates	104	315	425	1%	3%	8%
South Africa	136	287	368	1%	3%	6%
Malaysia	101	239	354	1%	4%	7%
Colombia	99	242	333	1%	3%	7%
Philippines	81	174	331	1%	7%	8%
Pakistan	80	171	313	1%	6%	8%
Chile	78	179	298	1%	5%	8%
Top 20 EM Total	6,153	16,470	29,640		6%	9%
US	10,252	14,713	20,494		3%	4%

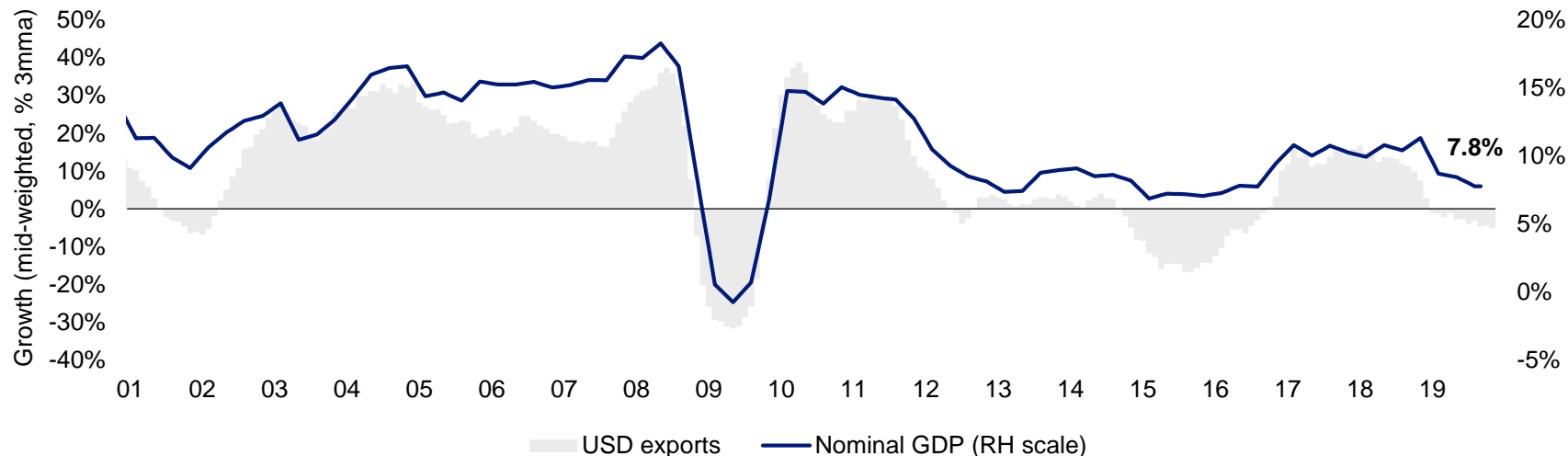
Key Themes of Past Decade



Weak trade growth and demand for Organisation for Economic Co-operation and Development (OECD) countries

- Worldwide trade slump – an adverse development for emerging market countries, which need external demand, foreign direct investment and productivity gains from cutting-edge technology.

Exports vs. EM Nominal Growth



Source: EM Advisors, CEIC, IMF, as of 12/30/19

Key Themes of Past Decade

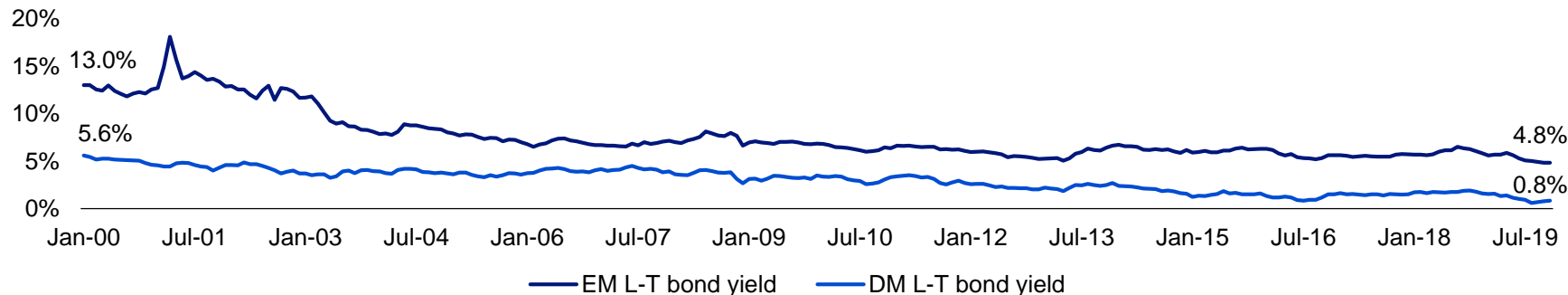
Inflation and rates collapsed everywhere



- Weak global growth
- No material inflation, anywhere
- Low rates result in asset price gains, a search for yield outside of bonds, and growing social strains from wealth inequality

Long-Term Bond Yield

(weighted average, % per annum)



As of 12/30/19, EM Advisors, weighted average of long-term bond yields in each individual country – for ex. The IMF Mexico Long-Term Government bond yield for Mexico; and Generic Government 10-year yield for the US

Key Themes of Past Decade

Latin America funk - the collapse in growth and faith in superior EM growth



- LatAm's share of total EM market has fallen from **28%** in 2010 to **13%** in 2019
- LatAm economic growth declines with slump in commodities

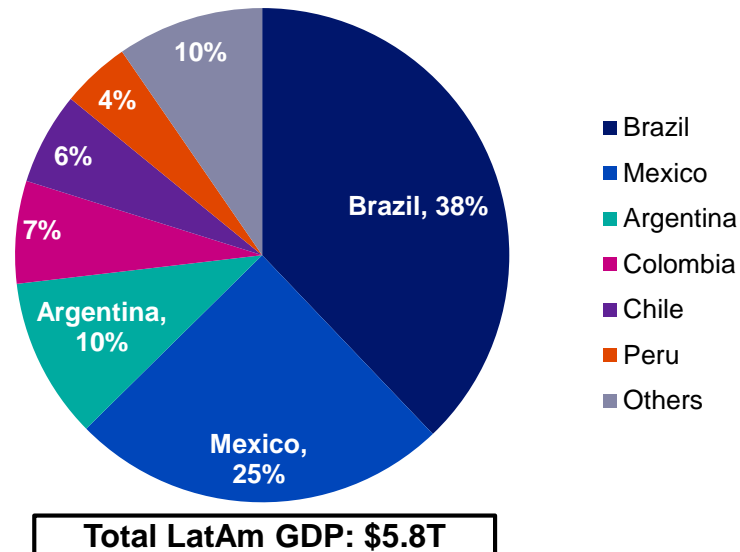
Challenges

- Insufficient domestic savings
- Insufficient private sector investment and public sector infrastructure spending
- External demand weakens considerably
- Commodities and economic volatility
- Inequality, dual economies and growth
- Insufficient state capacity
- Populism, nationalism and inconsistent economic policy

See the Invesco blog—at blog.invesco.us.com—for more of our views on these topics:

- “False narratives: The myth of ‘superior’ emerging market growth”
- “Thoughts on Mexico—parallels with the rest of the world”

2018 LatAm Nominal GDP (current US\$)



Key Themes of Past Decade

BRICS Myth Imploded



The myth that Brazil, Russia, India, China and South Africa were on the same development track and benefitted from the same underlying growth opportunities has been debunked.

- Growth in Russia, Brazil and South Africa came to a halt, affected by weak commodity prices.
- India continued to be in a deep cyclical slump.
- China's growth rate slowed.

	Brazil	Russia	India	South Africa
Weak domestic savings	✓		✓	✓
High levels of inequality and low social mobility	✓	✓	✓	✓
Insufficient fiscal capacity	✓		✓	✓
Low economic openness	✓			✓

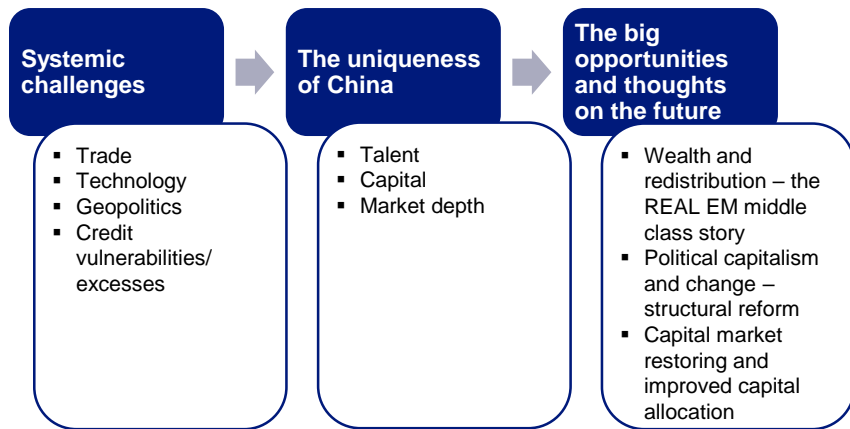
See the Invesco blog—at blog.invesco.us.com—for more of our views on these topics:

- “False narratives: Rise of the emerging market middle class”
- “India is NOT the next China”

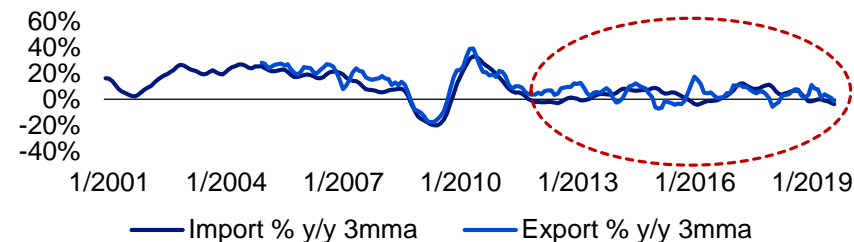
Key Themes of Past Decade

Slowdown in China

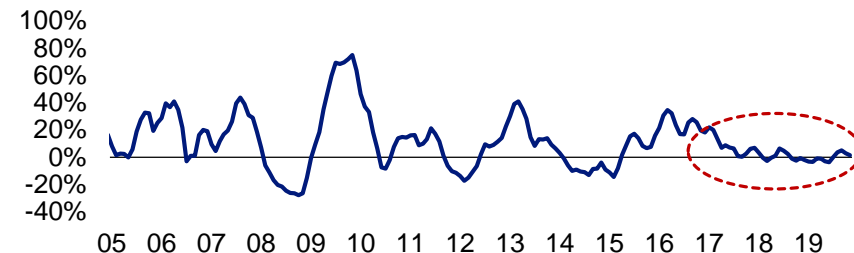
- The twin engines of growth stalled:
 - Export market share saturation
 - Peak in the real estate and automobile cycles
- Fiscal spending bolstered flagging growth, but proved to be unsustainable in the medium term.



China Export Volume Growth



Property floor space sold (% y/y 3mma)



Themes for the Next Year

- We expect a mean reversion shift toward value.
- The EM equity market will likely outperform the US equity market.
- We anticipate EM macroeconomic growth will slowly recover.
- We anticipate China's growth rate will stabilize.
- EM equities' depth will likely expand.



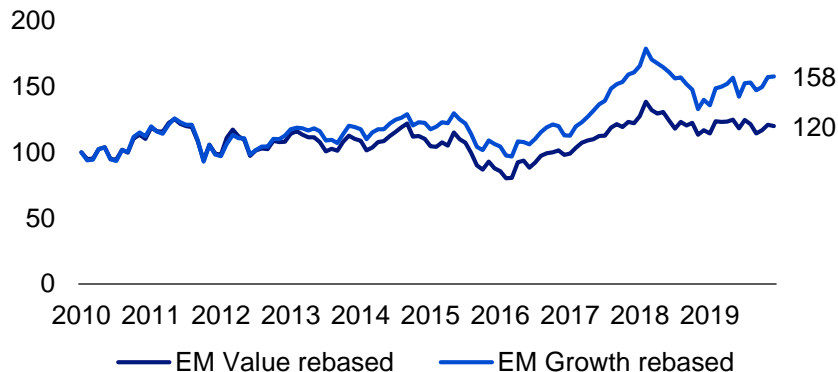
Themes for the Next Year

We expect a mean reversion shift toward value

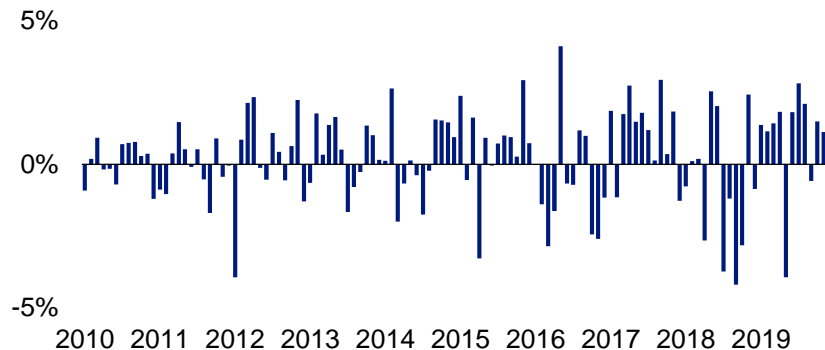


- The past decade's bifurcation between high-quality growth stocks and everything else will likely reverse.
- **We foresee** substantial opportunities for outsized returns in neglected EM value stocks.

MSCI EM Value vs. Growth Total Return
(Rebased to 100 at the beginning of 2010)



Monthly Total Return Difference - EM Growth Less Value



Source: RIMES, MSCI, Morgan Stanley Research; Data as of Dec 31, 2019

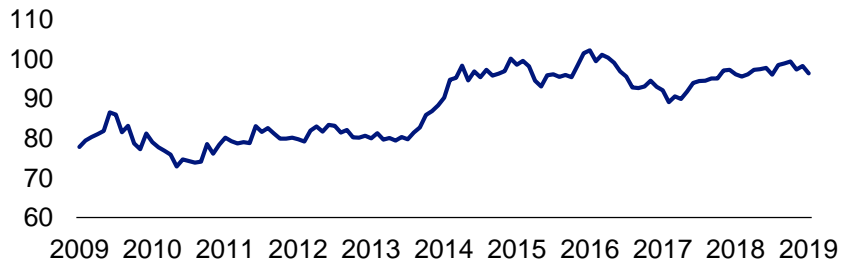
Themes for the Next Year

The EM equities market will likely outperform the US stock market

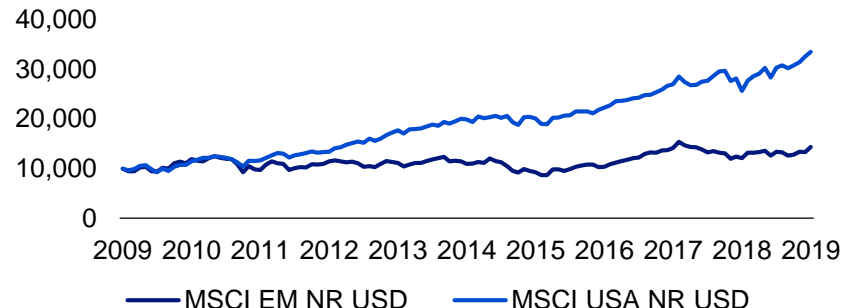


- The US dollar has already strengthened by 25% over the past decade.
- EM equities have lagged US equities in recent years because of the uncertainty of global trade and the collapse in EM growth.
- EM equities are relatively cheap. A backdrop of a recovery in EM growth, weaker US dollar and continued low global rates are favorable for EM equities.

Dollar Index Spot



MSCI EM vs. MSCI US



Source: FactSet (NR is net return), as of 12/31/19

Themes for the Next Year

We anticipate EM macro growth will slowly recover



- Weaker dollar and low global rates may allow more aggressive EM monetary easing.
- Private sector investment will likely recover cyclically with a lower cost of capital.
- We anticipate the global manufacturing recession will reverse.
- We expect EM credit (ex-China) will recover from abnormally low levels.

- See the Invesco blog—at blog.invesco.us.com—for more of our views on these topics:
 - “Dispelling myths about Emerging Market debt growth”

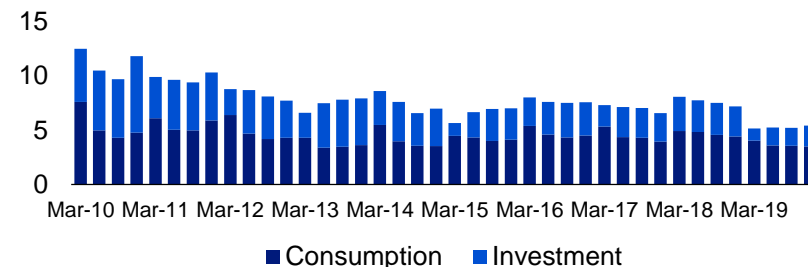
Themes for the Next Year

China's growth rate will likely stabilize



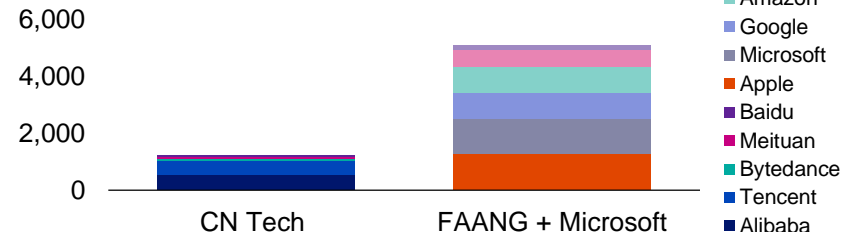
- Private investment will likely recover with greater geopolitical confidence and cautious policy stimulus.
- We expect the shift towards **consumption** and **private investment** will be propelled further by greater social spending in areas such as pensions, health care.
- Low rates and the structural shift of household wealth from property will likely improve capital allocation productivity in the economy.
- We expect China tech innovation will increasingly challenge US dominance.

Contribution to GDP Growth in China, %



Chinese vs. US tech stocks

(mkt cap in billions)



Source: Bami; As of 12/31/19 IMF

Market cap data as of 12/31/19, Bytedance valuation is US\$78B in 2018, according to multiple news sources

Themes for the Next Year

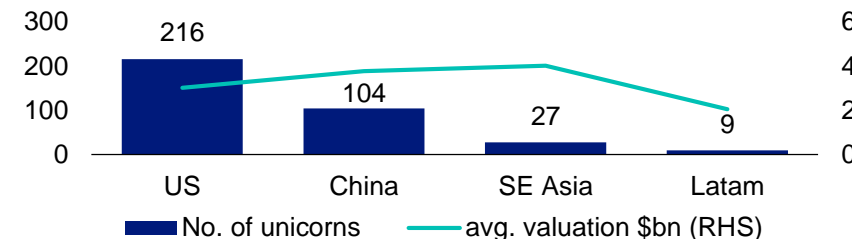
EM equities depth will likely expand



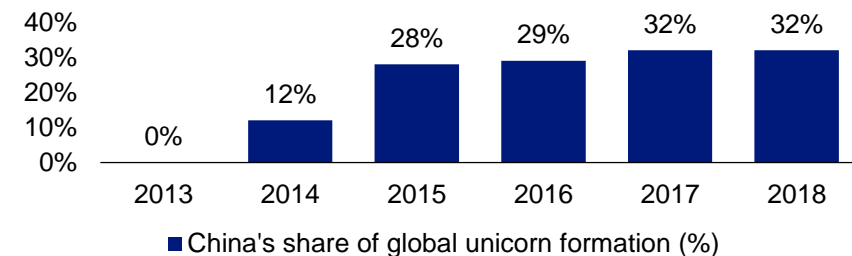
- We foresee a large pipeline of consumer and new economy IPOs.
- China's growing share of global unicorns (a startup with a USD\$1 billion market value) will have a major impact.
- See the Invesco blog—at blog.invesco.us.com – for more of our views on these topics:
 - “The future of e-commerce and retail will be written in China”
 - “4 Facts you may not know about why China has emerged as a tech leader”

Unicorns by geography

As of Jan 2020



China's share of global unicorn formation



Source: Bloomberg, Jan 21, 2020; Lux Research, July 2019; Credit Suisse, 2019

Themes We Expect Will Dominate the Next Decade in EM Equities

▪ EM ex. China

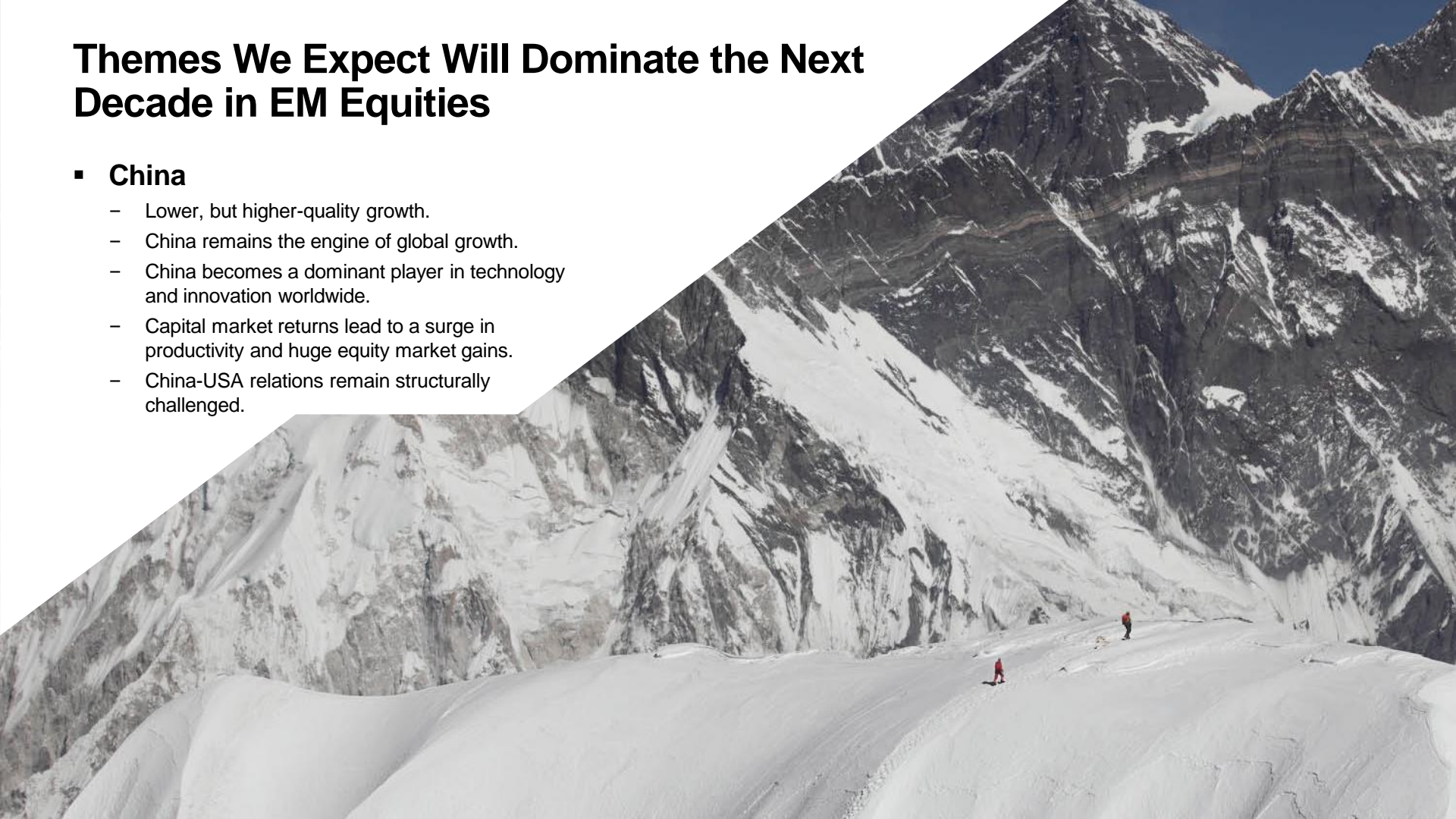
- EM growth recovers cyclically.
- EM structural growth improves with reforms.
- Chile as a harbinger of more equitable growth across EM.
- Fiscal challenges result in privatizations.
- Fintech, E-commerce and O2O (Online to Offline) become prominent drivers of market cap expansion in Southeast Asia and Latin America.



Themes We Expect Will Dominate the Next Decade in EM Equities

▪ China

- Lower, but higher-quality growth.
- China remains the engine of global growth.
- China becomes a dominant player in technology and innovation worldwide.
- Capital market returns lead to a surge in productivity and huge equity market gains.
- China-USA relations remain structurally challenged.



Disclosures



All data is from the OFI Emerging Markets Equity team at Invesco, unless otherwise noted.

Index Definitions

The MSCI Emerging Markets Index captures large- and mid-cap representation across 26 Emerging Markets (EM) countries. With 1,198 constituents, the index covers approximately 85% of the free-float-adjusted market capitalization in each country.

The MSCI EAFE Index is an unmanaged index designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada.

Foreign investments may be volatile and involve additional expenses and special risks, including currency fluctuations, foreign taxes, regulatory and geopolitical risks. Investments in securities of growth companies may be volatile. Emerging and developing market investments may be especially volatile. Eurozone investments may be subject to volatility and liquidity issues. Investing significantly in a particular region, industry, sector or issuer may increase volatility and risk.

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