EMERGING MARKETS UPDATE

Week Ending January 15, 2021

GW&K INVESTMENT MANAGEMENT

Market Performance

For the week ended January 15, 2021, Emerging Market equities increased by 0.3% led by good performance in Taiwan +2.1% and China +1.6%. For the year-to-date, Emerging Market equities are off to a strong start with a 5.2% return. Among the larger countries in the MSCI Emerging Markets Index, Taiwan +8.9%, Korea +8.0% and China +5.5% have generated the strongest returns. Technology and Communication Services are the strongest sectors with returns of 9.1%. The Growth style is modestly outperforming Value. Growth has advanced by 5.5% compared to Value with a return of 4.9%. The Growth style has materially outperformed Value over the past few years. However, beginning in the fourth quarter of 2020, Value has outperformed as many depressed countries and sectors recovered on prospects of the global economy reopening. While the shift to Value may persist globally, in Emerging Market equities we expect Growth to resume its leadership as the year progresses primarily driven by Asia, which now dominates the MSCI Emerging Markets Index with over a 70% weight. As we discuss in our summary below, China and India are likely to lead Asia over the next ten years with strong increases in domestic consumption. While the shift to value may persist in the short-term, longer term we expect Emerging Market returns to be increasingly driven by Asia.

China and India at the Inflection Point

World dynamics are undergoing a material shift to Asia. The driving force is rising per capita income in the most populous countries in the world. China and India with populations in excess of 1.4 billion people each have already stepped onto the global stage in terms of consumption. Their influence will become more and more important over the next ten years. Both countries are expected to experience strong rebounds in economic growth in 2021 well above all other major economies in the world. According to J.P. Morgan estimates, China is expected to grow in excess of 9% and India is expected to grow in excess of 13%. This compares to less than 6% growth in the U.S. and even less in Western Europe and Japan. China and India combined are on track to exceed U.S. GDP by 2025. China's middle class population is expected to expand to 900 million people over the next 10 years with the upper income segment doubling to 680 million people. In China, high end household growth has already expanded by 17.8% over the past 10 years. This trend has already made China the fastest growing market for luxury goods, travel, education, cosmetics and other high end products.

India – Yes, India Should be on Your Radar Screen

India is far behind China in terms of per capita income but the trends that are well established in China will be increasingly apparent in India over the next ten years. India's consumption has grown at 9% over the past ten years, well above U.S. consumption growth of 3.6%. The middle class in India is expected to reach 1.0 billion people over the next five years. In 2012, there were less than 400 million people in the middle class. The trends we are currently seeing in China will be much more apparent in India over the next five years.

From Tidbits of Information to the Obvious

As we emerge from COVID-19, the trends that were in place in Emerging Markets in terms of middle class consumption and domestic consumption will become increasingly obvious. In this regard, we continue to believe that India and China are the two most important countries to monitor for investment opportunities. And, relative to the U.S. and countries in Europe, India and China have relied less on government stimulus to weather COVID-19, which means both countries have additional tools (dry powder) to stimulate their economies in the years ahead.

Mom and Dad - What were you doing when World Dynamics Shifted to Asia?

In our view, India and China combined are on track to exceed U.S. and European middle class consumption by at least a multiple of two by 2030. There are a limited number of companies that are well positioned to benefit from this dynamic. These companies have a long runway for growth. This is the powerful trend that is the core of the Emerging Wealth Strategy. We believe it is one of the most powerful secular investment trends in the world. Enjoy the ride.

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