EMERGING WEALTH UPDATE

Month Ending May 31, 2022

Market Performance

For the month ended May 31, 2022, Emerging Market (EM) equities, as measured by the MSCI EM Index, increased +0.4% compared to Developed Market (DM) equities, as measured by the MSCI World Index, which was flat. Chile led this month (+18.4%), followed by Colombia (+13.4%) while oil rich United Arab Emirates (UAE, -8.6%), Saudi Arabia (-7.2%), and Qatar (-5.9%) had the worst returns. China ended the month with a +1.1% return while India returned -5.8%. In the last week of the month, China (+8.4%) and Taiwan (+8.4%) led returns, followed by UAE (+7.8%). Hungary (-13%) was the worst country for the week. Consumer Discretionary (+11.9%) was the strongest sector for the last week of May, followed by Commercial Services (+7%) and Information Technology (+7%).

For the year to date (YTD), EM equities returned -11.8%, better than DM equities which returned -13%. The strongest region was Latin America with Colombia (+35.6%) leading, followed by Chile (+35.4%) and Brazil (+27.1%). Poland (-24.6%) and Hungary (-38%) had the worst YTD returns. China is still down -16.7% for the year so far. YTD, the worst sectors were Health Care (-23.7%), Information Technology (-18.2%) and Consumer Discretionary (-17.5%), as well as Energy (-18.5%). The best sectors were Utilities (-0.1%) and Financials (-0.7%).

Thoughts From Trip to India

Earlier this month, we visited India after a two and a half year Covid hiatus. We returned from our trip with increased conviction in the prospects for our current holdings in India, as well as a handful of potential new ideas. Visiting India is always incredible and researching companies this time was exciting as the country is bouncing back strong from the pandemic. Consumers are optimistic and borrowing to buy homes, cars, two-wheelers, and three-wheelers. Airports and shopping malls are also busy again.

Our first impression when we arrived in Delhi – besides the 120F heat wave – was of the number of new roads built around the city and the resulting increase in mobility. Our impression was the same in Mumbai, although Bangalore is behind in terms of infrastructure. Our second impression was the widespread optimism and increasing number of vibrant entrepreneurs in areas such as Fintech and Logitech. Whether this is being driven by the likelihood of another term for Modi after the 2024 elections, or the prospects for business; it is fair to say entrepreneurs and capital are converging to solve bottlenecks in the Indian economy at an unprecedented pace. We are encouraged with the strong pipeline of IPOs from India over the next couple of years.

We believe India is the country best positioned to benefit from manufacturing shifting out of China over the next 10 years. It has a large population base, favorable demographics, low per capita income, and a reform minded government. It took China more than three decades to become the world's largest provider of goods in a variety of industries. As the world shifts its focus towards reducing dependence on China, India is very well positioned to capitalize on the opportunity to build its manufacturing base. Manufacturing tax rates have been reduced to the lowest of all the Asian countries and the government has met with multi-national companies to incentivize a move to India. A continued focus on infrastructure investment, labor reform, and establishing logistics hubs will accelerate the process, but India must move quickly and deliberately. In the immediate future, there are productivity gains to be achieved from simply adding technology and capital to increasing financial and smartphone penetration. We met with many of the Indian companies which are solving these bottlenecks and came back encouraged with the prospects for the Indian economy. We believe the stage is set for India to be the fastest growing economy over the next 10 years.

Emerging Wealth Position

In GW&K's Emerging Wealth Strategy, we have consistently had a large allocation to Indian equities as we have found a good number of leaders in their markets at valuation levels that we feel comfortable with. We believe India represents one of the most compelling growth stories in global equities for the next 20 years with its growing population of 1.35 billion people and a reform minded government. The challenge has always been valuation levels. On a longer-term basis, we continue to believe that India and China, the two fastest growing and most populated countries in the world, represent the greatest opportunity for long-term equity investment returns.

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