

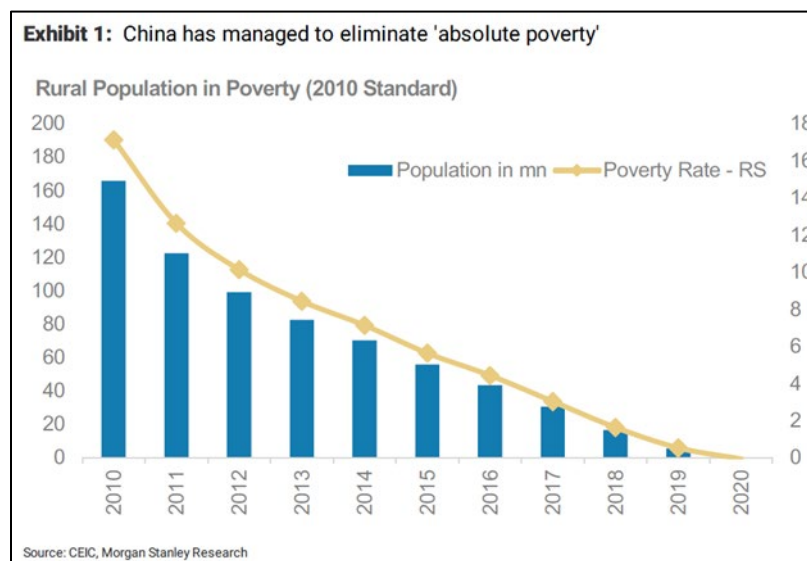
## Market Performance

For the week ended August 27, 2021, Emerging Market (EM) equities, as measured by the MSCI EM Index, increased by +4.3%. The EM Index outperformed the MSCI World Index, which was up +1.8% for the week. EM Growth outperformed EM Value, up +5.3% compared to +3.3%. All EM sectors ended the week in the positive with Communication Services and Information Technology leading the pack, up +6.2% and +5.1%, respectively. Real Estate (+2.8%) and Financials (+2.9%) were the weakest sectors. Most emerging countries were in positive territory for the week, led by Peru and Argentina, with returns of +9.0% and +8.1%, respectively. Notably China outperformed the Index with a return of +4.7%. Pakistan and Saudi Arabia were among the weakest countries reflecting rising tensions in Afghanistan.

For the year-to-date period, the MSCI EM Index is flat, lagging the 17.6% return of MSCI World. India and Taiwan are among the strongest performing countries YTD, with returns of +21.1% and +18.1%, respectively, while China continues to lag with a decline of -15%. Over the same period, Energy and Materials are the strongest sectors with returns of +14.5% and +16.6%, while Consumer Discretionary continues to lag with a decline of -19.4%.

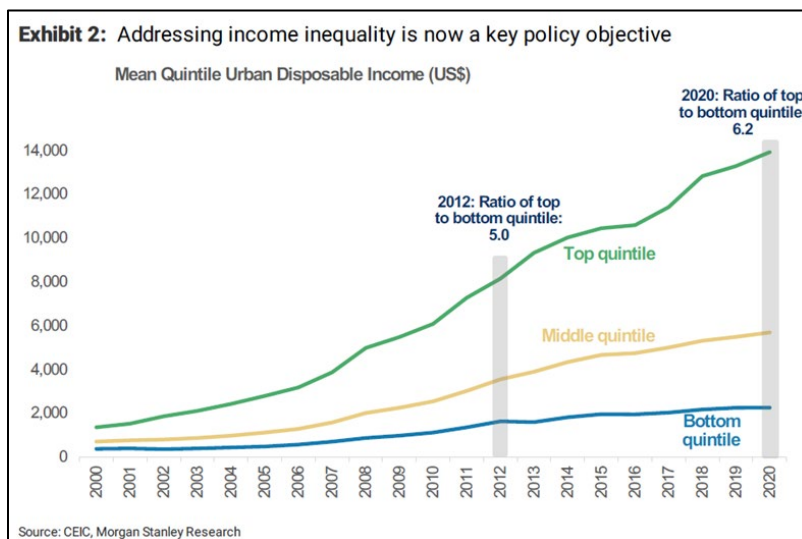
## The Progressive Era in China – A New Stage of Development

China is in the midst of a profound policy shift to assure that the benefits of economic growth are shared broadly by a population of 1.4 billion people. In the early stages of China's development the focus was on job opportunities for China's working age population. Deng Xiaoping in a speech titled, "The Task Before Us," delivered to the Central Committee of the Communist party on January 16, 1980, declared that allowing a few people to grow rich would power the economy. Since then, China has in fact experienced unprecedented economic growth and hundreds of millions of people have been lifted out of poverty (**see exhibit 1 below**). Capitalism with Chinese characteristics has been working for several decades.



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The challenge to be addressed now is income inequality (**see exhibit 2 below**). This challenge was also a part of Deng Xiaoping’s January 16, 1980 speech when he warned about “the tendency of some individuals and organizations to pay attention only to earning more for themselves without taking into account the interests of others.” This year, in a series of speeches, press releases and regulations, the government has made controlling costs for the middle class a high priority. The government has become increasingly concerned about industries that exploit the consumer and undermine the financial system. “Common Prosperity” introduced at the 100th anniversary of the Communist Party is focused on controlling costs for the middle class in three specific areas: housing, healthcare, and education.



China has been very successful in integrating aspects of capitalism into a communist country. Income inequality, however, has reached levels that have become unacceptable to Communist leadership. Regulation has lagged behind the growth of many industries that have the potential to exploit the consumer and undermine the financial system. The government has come to the conclusion that this is the time to address income inequality and rein in industry excesses that exploit the consumer. And, this is happening very rapidly. Unlike the West, where reform can take many years, China is changing the dynamics of multiple industries at an unprecedented pace.

### Regulation with Chinese Characteristics – Paralleling the Roadmap in the United States?

Since the anti-corruption campaign in 2012, China introduced several reforms to rein in excess in the economy. Overall, the impact of these reforms has been positive for the economy, and when mistakes were made, they were corrected. The need for regulation in China is similar to the need for regulation in the United States. But, in China, it is regulation with Chinese characteristics. Implementation and rule changes happen quickly as opposed to dragging out for several years. In the past, reform and regulation played important roles in U.S. economic development as well. The U.S. experienced rapid development in the late 1800s championed by Rockefeller, Carnegie, Vanderbilt and JP Morgan, but working conditions and wage rates were neglected, setting the

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stage for regulation that ultimately broke up Standard Oil in a ruling announced by the Supreme Court on May 15, 1911.<sup>1</sup> The investigation, lawsuits and appeals took more than ten years, whereas in China, the process encompassing multiple industries happens in a matter of months. Addressing inequality along with the consideration of wage rates ultimately set the stage for the rise of consumption and the middle class in America. We believe the reforms and regulations being implemented in China today are designed to foster healthy economic growth and accelerate the shift to domestic consumption. Ultimately, we believe the Chinese government understands the role of capitalism in driving economic growth, innovation and the need to incentivize entities and individuals. As we move through this period of broad-based reform, we expect companies aligned with government policy to rerate from depressed levels over the next few years.



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<sup>1</sup> Ron Chernow, *Titan: The Life of John D Rockefeller Sr.* (New York: Random House 1998) Page 554.

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