

3 Reasons Why Investors Are Eyeing Emerging Markets

They're increasingly attractive to investors willing to accept higher risk

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Main Points

Emerging markets stock prices are rising in anticipation of better global economic growth.

Investor risk appetite is increasing and the region provides an attractive valuation.

Risks include the possibility of another drop in global stocks and earnings growth that may be too optimistic.

2. Risk appetite increasing.

Following the slide in global stocks in 2018, investors flocked to safe-haven assets like money market funds. Now investors are beginning to invest again in riskier assets. EM equities have the strongest positive relationship with global equities, which means EM can be expected to have the strongest recovery after a market bottom is in place.

3. Attractive valuation.

EM equities started to weaken early

last year. By the time October rolled around, emerging markets accounted for nine of the 12 lowest price/earnings (P/E) ratios among the 47 countries in the All Country World Index, and the P/E for the MSCI Emerging Markets Index was well below its 24-year norm.

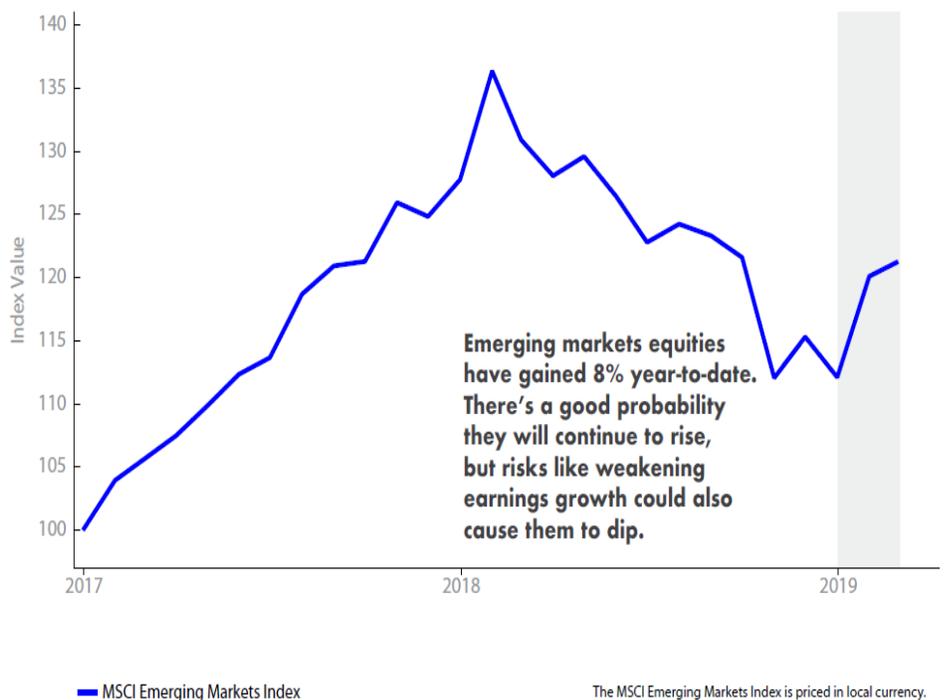
Investing in emerging markets equities isn't for everyone. Risks include the potential for another drop in global stocks. Also, earnings growth and earnings revisions could keep worsening to such an extent that the cheaper valuations will not be seen as cheap enough.

Emerging markets stocks (those in countries like China, South Korea, India, Brazil, and Russia) have gained 8.17% year-to-date (**chart at right**), primarily driven by strength in Chinese stocks (+15.03%). Investors are taking a closer look at emerging markets (EM) for several reasons, including these three:

1. Anticipation of a global economic recovery.

The global economic slowdown that began in 2018 has been persisting so far in 2019. Based on the length of past global slowdowns, tendencies point to a recovery in global economic activity in the second half of 2019. With China the largest weight in the MSCI Emerging Markets Index, a trade agreement with the U.S. and fiscal stimulus could be positive catalysts for the region's growth.

Emerging Markets Index poised to continue to rebound



The MSCI Emerging Markets Index is priced in local currency. Index reallocated to 100 on 12/30/2016. Source: MSCI. Monthly data from 12/30/2016 through 2/28/2019.