

Goldman Sachs

“What’s the key to an emerging markets comeback?”

Hint: Not valuations”

Date of recording: Jan. 11, 2024

Caesar Maasry: Emerging market equities may not present the value that some investors think. US equities have outperformed massively over the past decade. They've gone up about 10 percent per year, more than double any other region in the world.

Investors are now asking whether US equities are overpriced versus international markets. Optically, the S&P 500 price-earnings ratio, at 20 times, is quite high. It's twice that of MSCI EM price-earnings ratios.

So, are emerging market equities poised to outperform from here? Not necessarily. US profits have grown 7 percent per year over the past decade. But emerging market profits have been stagnant. So, although emerging market equities appear to be cheap, they could be cheap for a reason. But this doesn't necessarily mean we are bearish. In fact, we expect 2024 to be the year in which EM profits finally lift off from zero percent growth. And we expect modest

outperformance.

The key is we expect EM to outperform due to earnings growth, not due to cheap valuations.

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