

<https://blog.en.erste-am.com/emerging-markets-equities-no-comeback-point/>

## Emerging markets equities: no comeback at this point

Peter Szopo



© © Fotolia

Based on earnings expectations [emerging markets equities](#) are currently valued 27% below the price/earnings ratio of developed markets equities. The long term average of this discount is 19%. Closing the gap is a question whether the confidence of the markets in the earnings expectations is solid enough to facilitate a re-(e)valuation.

In the first four months of the year the emerging [equity markets](#) recorded the hoped-for increase, and with a plus of 14% a substantial one (year low to year high). From mid-February to the end of April they even outperformed the developed equity markets. In May, however, the situation changed, and the emerging markets fell behind again both in absolute and in relative terms. While the [MSCI EM index](#) is still on positive terrain at +5% in the year to date (in USD), this is largely due to three markets – China, Taiwan, and Russia – which together account for almost 40% of the emerging markets universe. Although at +24% Hungary has been clearly positive, it only commands a weighting of 0.2% and is thus only of marginal importance. The majority of the markets – almost two thirds – have been on negative terrain (in USD) in the year to date.

aktienperf\_jahresbeginn

As far as the development from here on out is concerned, a number of factors are of relevance.

1. the foreseeable US [Fed funds rate](#) hike will burden the equity markets at least for a short while (even though the [long-term effects do not have to be negative](#)). This will probably affect the emerging equity markets more significantly.
2. if the [Fed](#) were to abstain from the expected hike this year, this would not help emerging markets equities either, because it would ultimately mean that the Fed expected the US economy to experience long-term stagnation.
3. the overall index of the emerging markets has soared especially in China and Russia, but in both markets the upward potential should be limited after recent rallies.
4. the positive growth gap of the emerging markets relative to the developed markets – one of the most important arguments in favour of investing in that segment – will fall to slightly above two percentage points in 2015, which from a long-term perspective is low. IMF forecasts predict a slight expansion for 2016, but the accuracy of said predictions has recently left a lot to be desired.

wachstumsdifferenz\_aktien

In terms of valuation, the picture is mixed. The [PE-ratio](#) on the basis of expected earnings (forward 12 months earnings expectations) is currently 27% below that of the developed markets; the long-term average of this discount is 19%. On the basis of historical earnings, the discount is roughly in line with its long-term average of 23%. The question is whether the confidence of the markets in the earnings expectations of the emerging markets is solid enough to facilitate a re-(e)valuation.

relative\_bewertung\_kgv

In summary, another equity rally would be surprising in view of the aforementioned factors.

### Legal disclaimer

This document is an advertisement. Unless indicated otherwise, source: Erste Asset Management GmbH. The language of communication of the sales offices is German and the languages of communication of the Management Company also include English.

The prospectus for UCITS funds (including any amendments) is prepared and published in accordance with the provisions of the InvFG 2011 as amended. Information for Investors pursuant to § 21 AIFMG is prepared for the alternative investment funds (AIF) administered by Erste Asset Management GmbH pursuant to the provisions of the AIFMG in conjunction with the InvFG 2011.

The currently valid versions of the prospectus, the Information for Investors pursuant to § 21 AIFMG, and the key information document can be found on the website [www.erste-am.com](http://www.erste-am.com) under "Mandatory publications" and can be obtained free of charge by interested investors at the offices of the Management Company and at the offices of the depositary bank. The exact date of the most recent publication of the prospectus, the languages in which the key information document is available, and any other locations where the documents can be obtained are indicated on the website [www.erste-am.com](http://www.erste-am.com). A summary of the investor rights is available in German and English on the website [www.erste-am.com/investor-rights](http://www.erste-am.com/investor-rights) and can also be obtained from the Management Company.

The Management Company can decide to suspend the provisions it has taken for the sale of unit certificates in other countries in accordance with the regulatory requirements.

**Note:** You are about to purchase a product that may be difficult to understand. We recommend that you read the indicated fund documents before making an investment decision. In addition to the locations listed above, you can obtain these documents free of charge at the offices of the referring Sparkassen bank and the offices of Erste Bank der oesterreichischen Sparkassen AG. You can also access these documents electronically at [www.erste-am.com](http://www.erste-am.com).

**N.B.:** The performance scenarios listed in the key information document are based on a calculation method that is specified in an EU regulation. The future market development cannot be accurately predicted. The depicted performance scenarios merely present potential earnings, but are based on the earnings in the recent past. The actual earnings may be lower than indicated. Our analyses and conclusions are general in nature and do not take into account the individual characteristics of our investors in terms of earnings, taxation, experience and knowledge, investment objective, financial position, capacity for loss, and risk tolerance.

**Please note:** Past performance is not a reliable indicator of the future performance of a fund. Investments in securities entail risks in addition to the opportunities presented here. The value of units and their earnings can rise and fall. Changes in exchange rates can also have a positive or negative effect on the value of an investment. For this reason, you may receive less than your originally invested amount when you redeem your units. Persons who are interested in purchasing units in investment funds are advised to read the current fund prospectus(es) and the Information for Investors pursuant to § 21 AIFMG, especially the risk notices they contain, before making an investment decision. If the fund currency is different than the investor's home currency, changes in the relevant exchange rate can positively or negatively influence the value of the investment and the amount of the costs associated with the fund in the home currency.

We are not permitted to directly or indirectly offer, sell, transfer, or deliver this financial product to natural or legal persons whose place of residence or domicile is located in a country where this is legally prohibited. In this case, we may not provide any product information, either.

Please consult the corresponding information in the fund prospectus and the Information for Investors pursuant to § 21 AIFMG for restrictions on the sale of the fund to American or Russian citizens.

It is expressly noted that this communication does not provide any investment recommendations, but only expresses our current market assessment. Thus, this communication is not a substitute for investment advice, does not take into account the legal regulations aimed at promoting the independence of financial analyses, and is not subject to a prohibition on trading following the distribution of financial analyses.

This document does not represent a sales activity of the Management Company and therefore may not be construed as an offer for the purchase or sale of financial or investment instruments.

Erste Asset Management GmbH is affiliated with the referring Sparkassen banks and Erste Bank.

Please also read the "Information about us and our securities services" published by your bank.

Subject to misprints and errors.



## Peter Szopo

Peter Szopo has worked as chief equity strategist at the Erste Asset Management since March 2015. Before he already worked as a consultant for equity fund management at Erste Asset Management for Central and Eastern European equity markets. From November 2009 to April 2013, he was head of the research department at Alfa Bank in Moscow.

After his research work at WIFO (Austrian Institute of Economic Research) from 1978 to 1990, he worked as a securities specialist in various management functions at internationally renowned investment banks. During this time he held the position of Head of Research at such institutions as Creditanstalt Investmentbank, UniCredit Bank Austria, Robert Fleming Securities, and at Bank Sal. Oppenheim.

Along with his analysis activities, he worked from 1997 to 2000 at Eastfund Management as the fund manager for Central and Eastern European equity.