

Is it Finally Time to Look at the Emerging Markets?

Opportunities Overseas

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Federated Global Investment Management Corp.

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22-30090 (3/22)

Agenda

These Aren't Your Parents' Emerging Markets

- Why emerging markets?
- What's changed over time?
- Does it make sense to dip into EM now?
- Why is selectivity key?
- Is there really innovation in the emerging markets?
- What are the risks?
- Questions?

Why Emerging Markets?

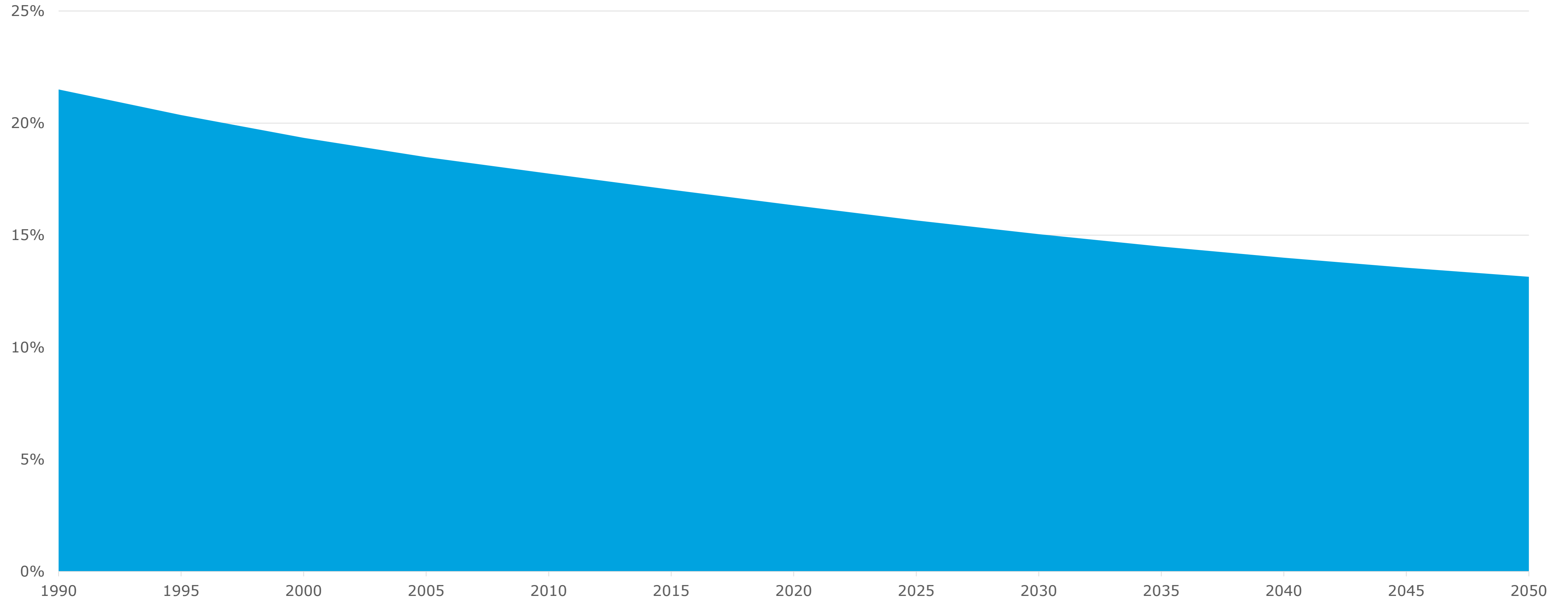
These Aren't Your Parents' Emerging Markets

- Demographic Tailwinds
- Economic Growth
- Share of Global Market Capitalization to Increase
- Generally Lower Levels of Debt
- Greater Policy Flexibility/Ahead of the US Fed

Demographics

The World is Changing

DM Population (% of World Total)

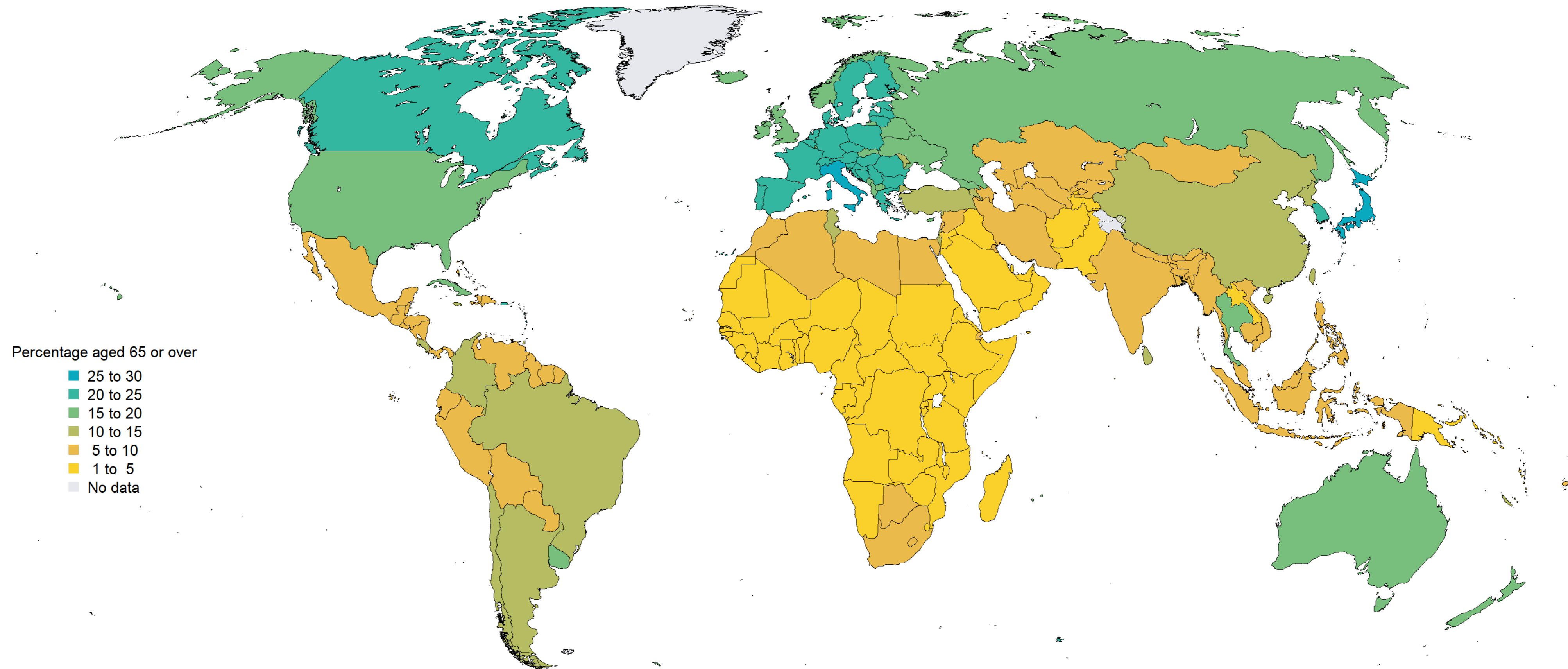


Citation: United Nations, Department of Economic and Social Affairs, Population Division (2019). World Population Prospects 2019, custom data acquired via website.

Demographics

The Developed Markets Are Aging Faster...

Percentage of population aged 65 or over, 2025 (medium-variant projection)



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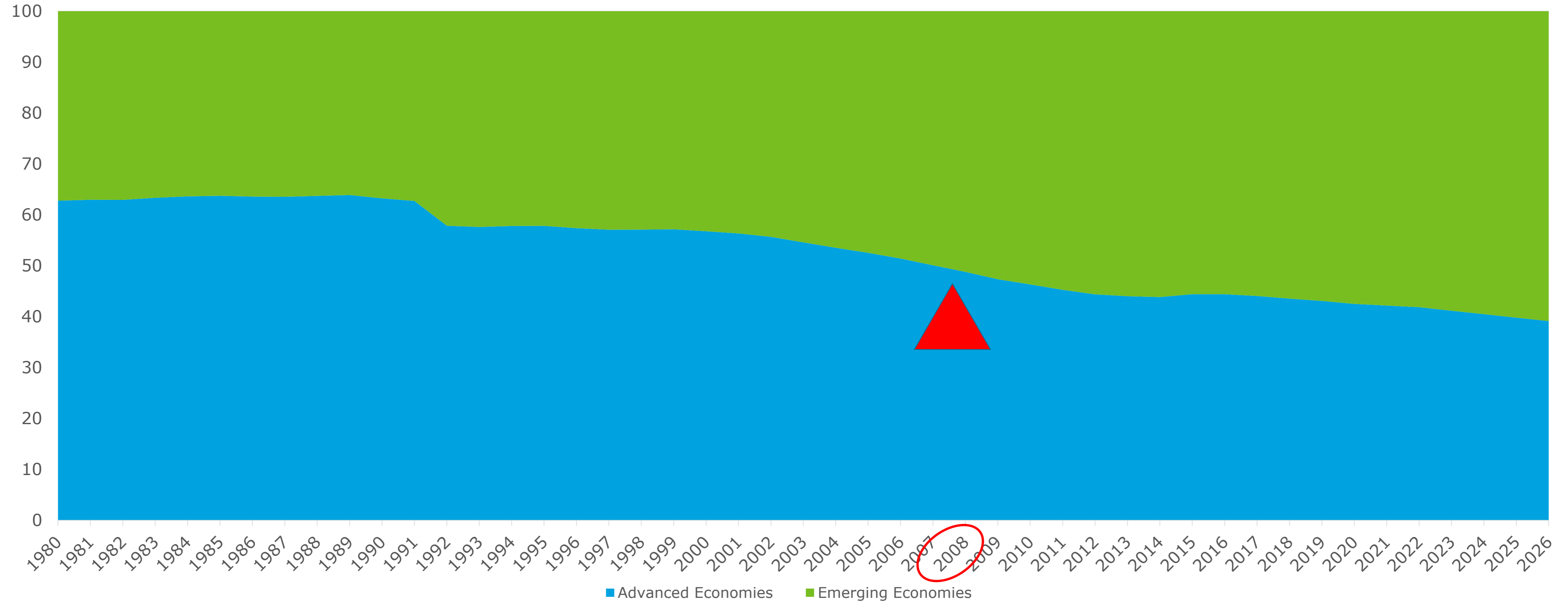
Data source: United Nations, DESA, Population Division. *World Population Prospects 2019*. <http://population.un.org/wpp/>

The designations employed and the presentation of material on this map do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries. Dotted line represents approximately the Line of Control in Jammu and Kashmir agreed upon by India and Pakistan. The final status of Jammu and Kashmir has not yet been agreed upon by the parties. Final boundary between the Republic of Sudan and the Republic of South Sudan has not yet been determined. A dispute exists between the Governments of Argentina and the United Kingdom of Great Britain and Northern Ireland concerning sovereignty over the Falkland Islands (Malvinas).

Global Economic Output

The Emerging Markets Represent >50% of Global Output

GDP Based on PPP, Share of World (% of World GDP)

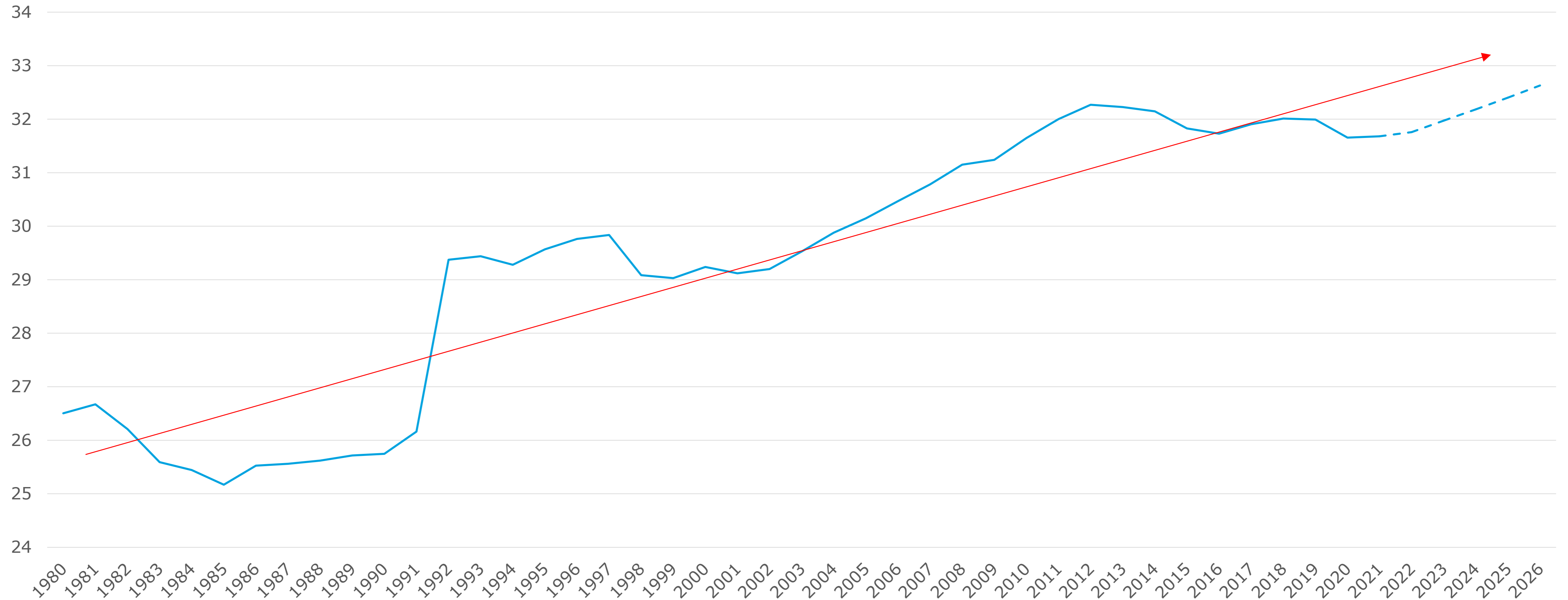


Source: IMF. Data as of April 2021.

Non-Chinese Global Economic Output

It's Not Just About China

EM ex-China GDP Based on PPP, Share of World (% of World GDP)

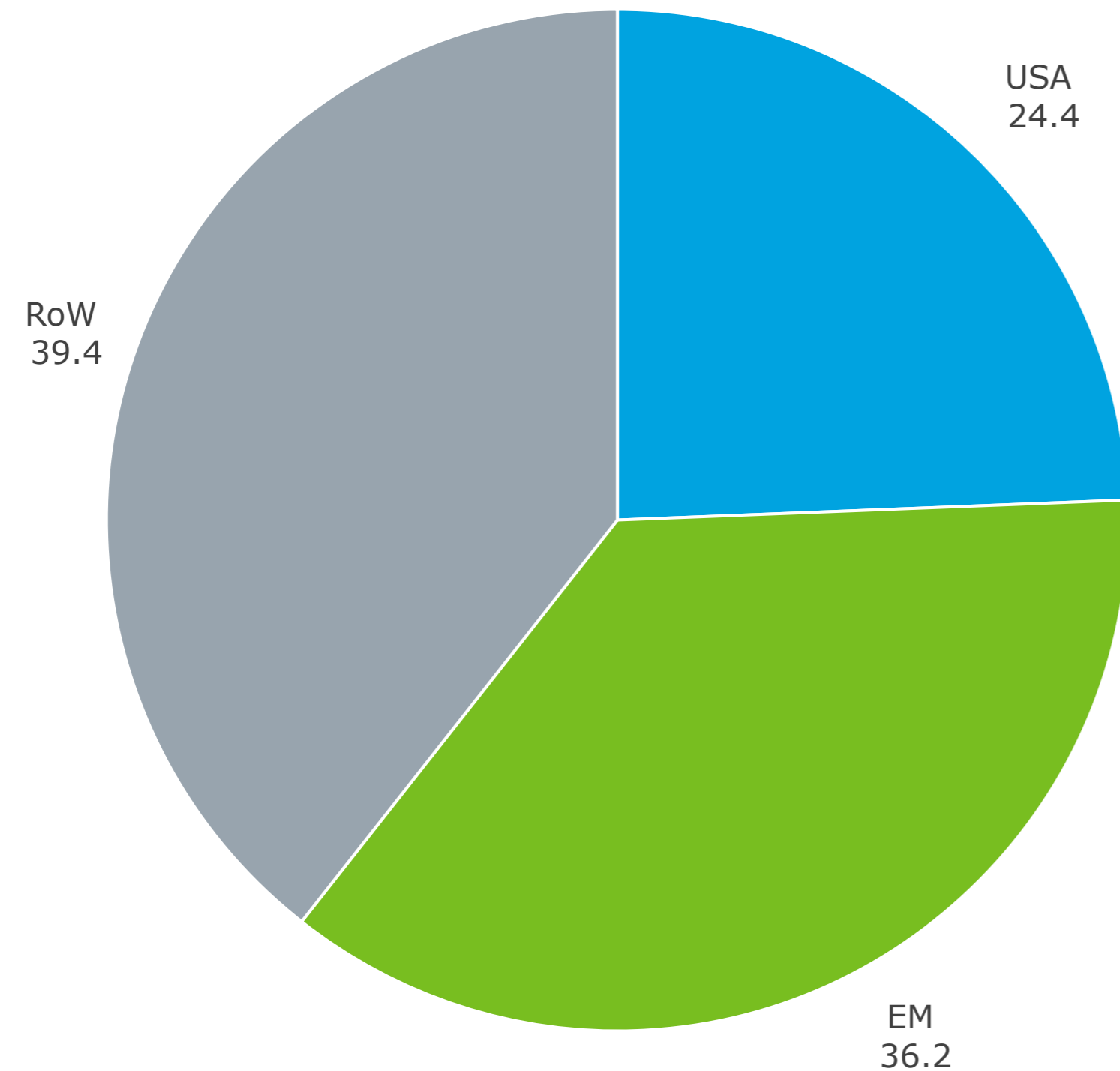


Source: IMF. Data as of April 2021.

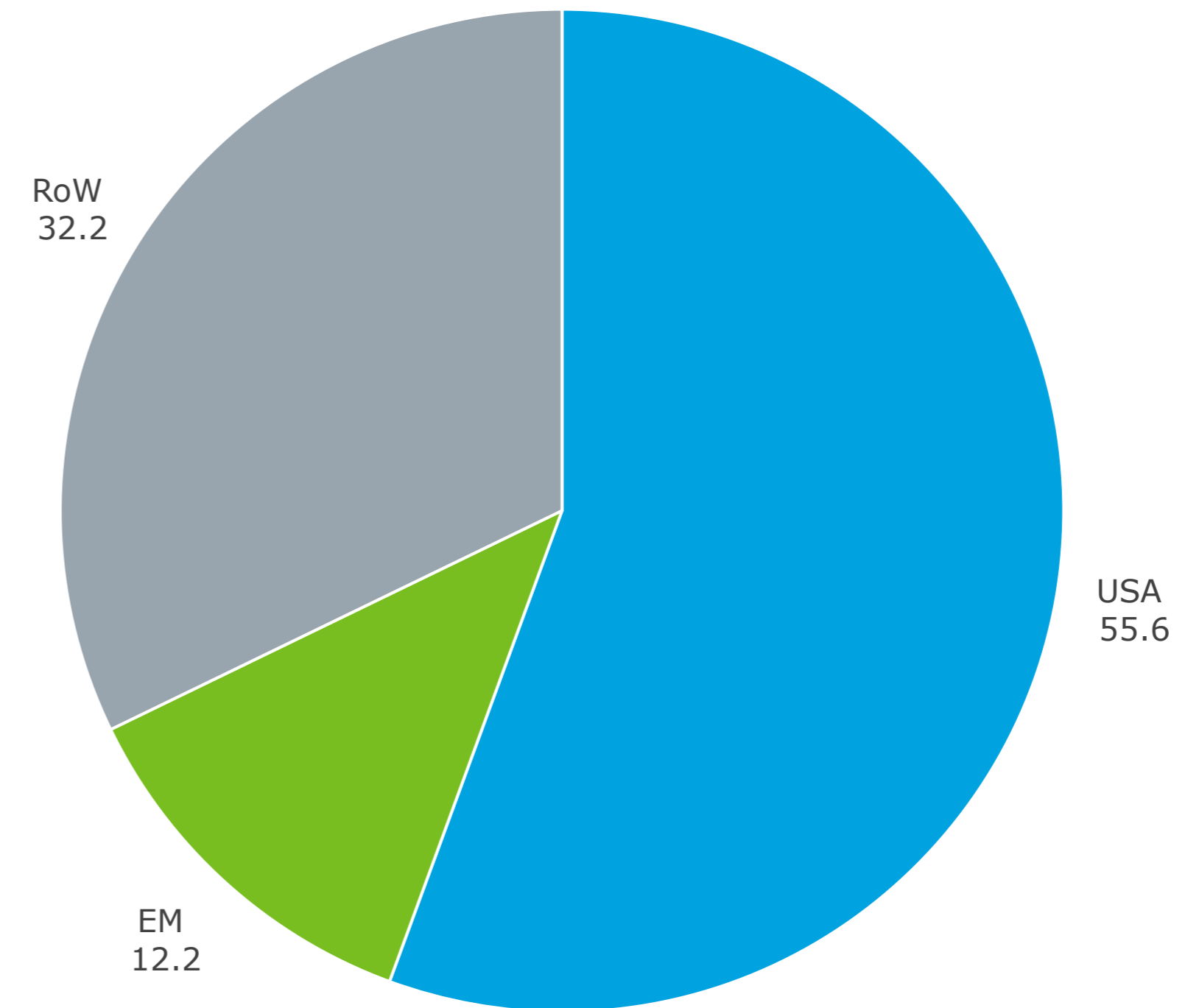
Current Share of Global GDP and Global Market Cap

The Emerging Markets Remain Under-Represented in the Capital Markets

Share of Global GDP



% of MSCI All Country World

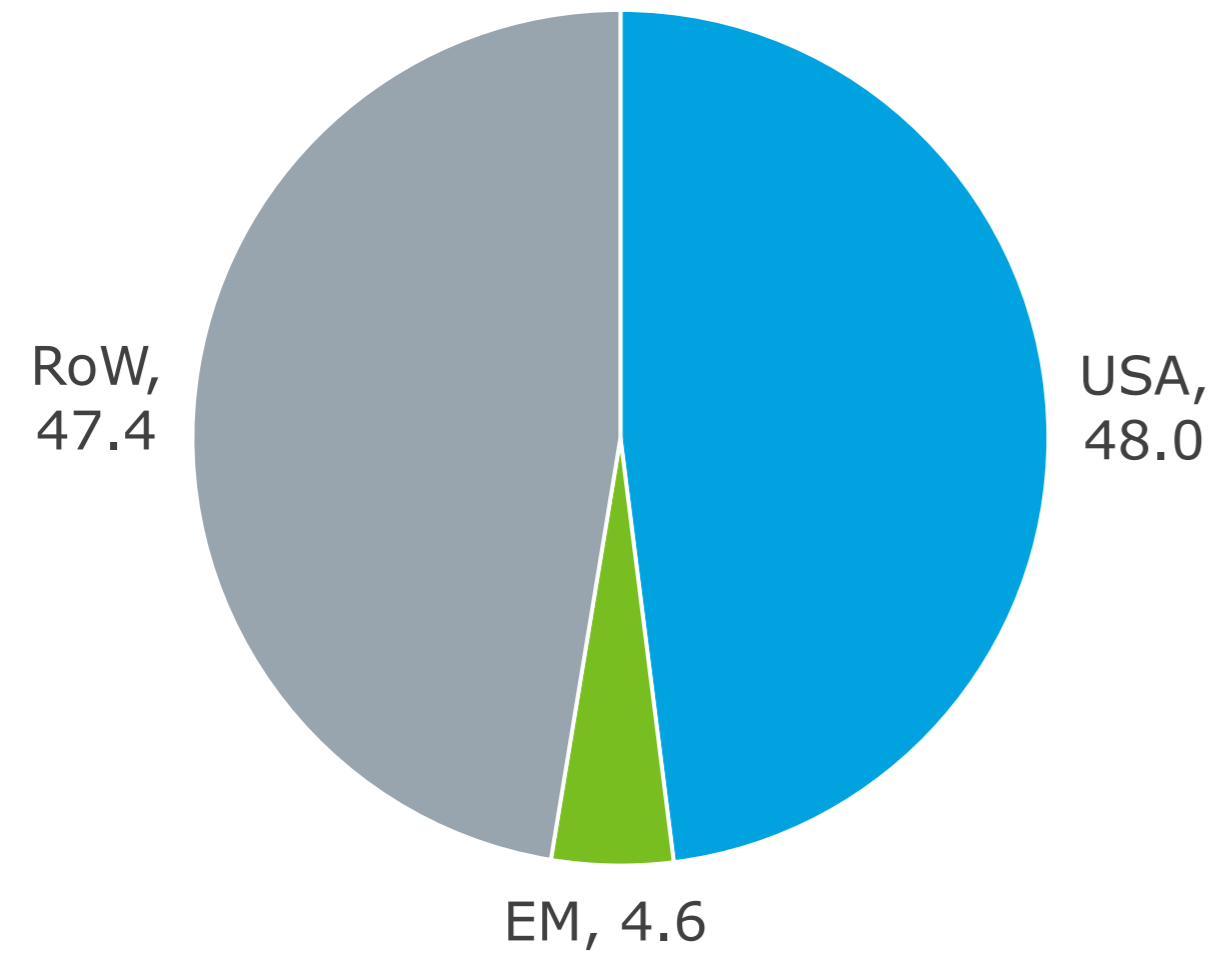


Gross Domestic Product (GDP) in current US\$
EM is defined using MSCI EM Universe; GDP EM excludes Taiwan as data was not provided.
Sources: World Bank, MSCI and FactSet. Data as of December 31, 2019.

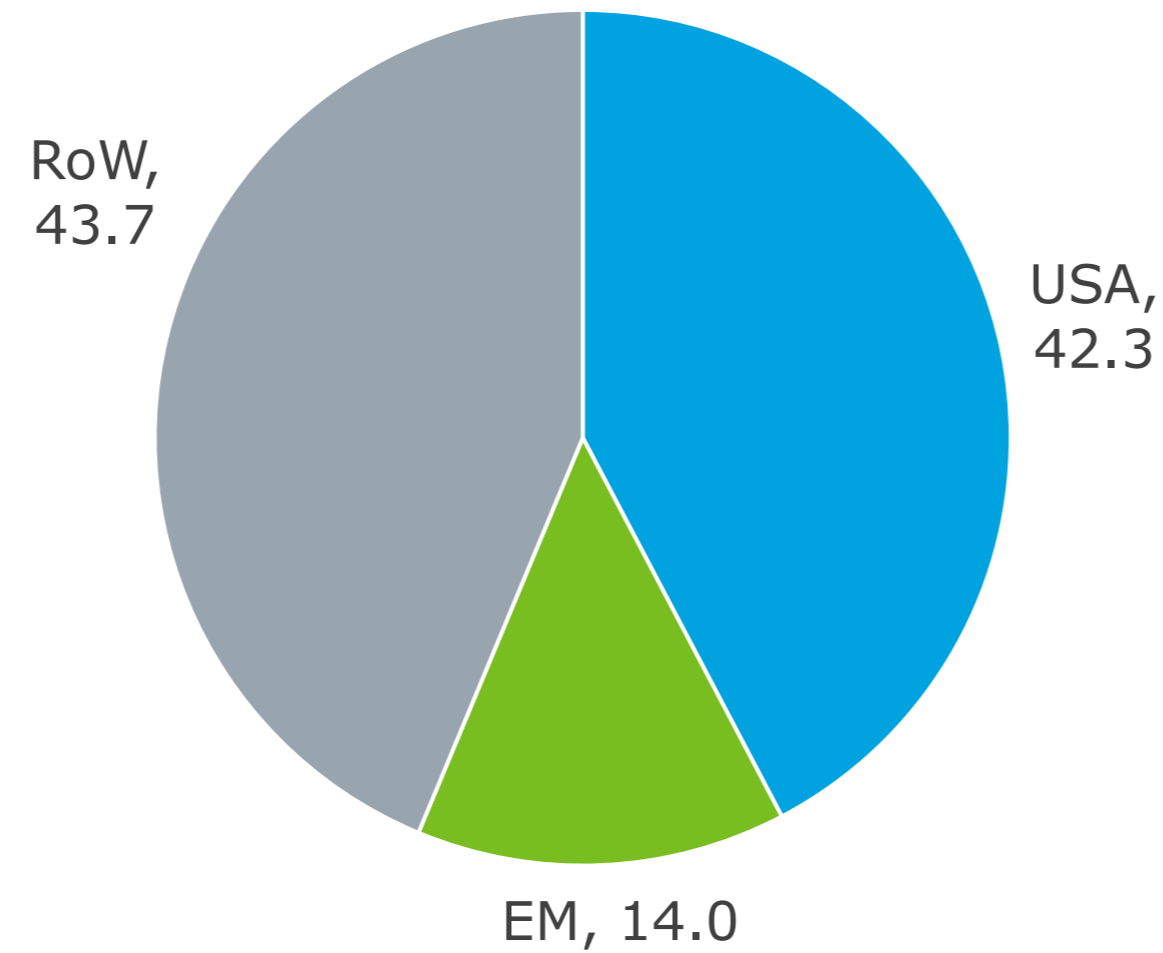
Global Market Cap Over Time

USA Market Cap is High Relative to GDP

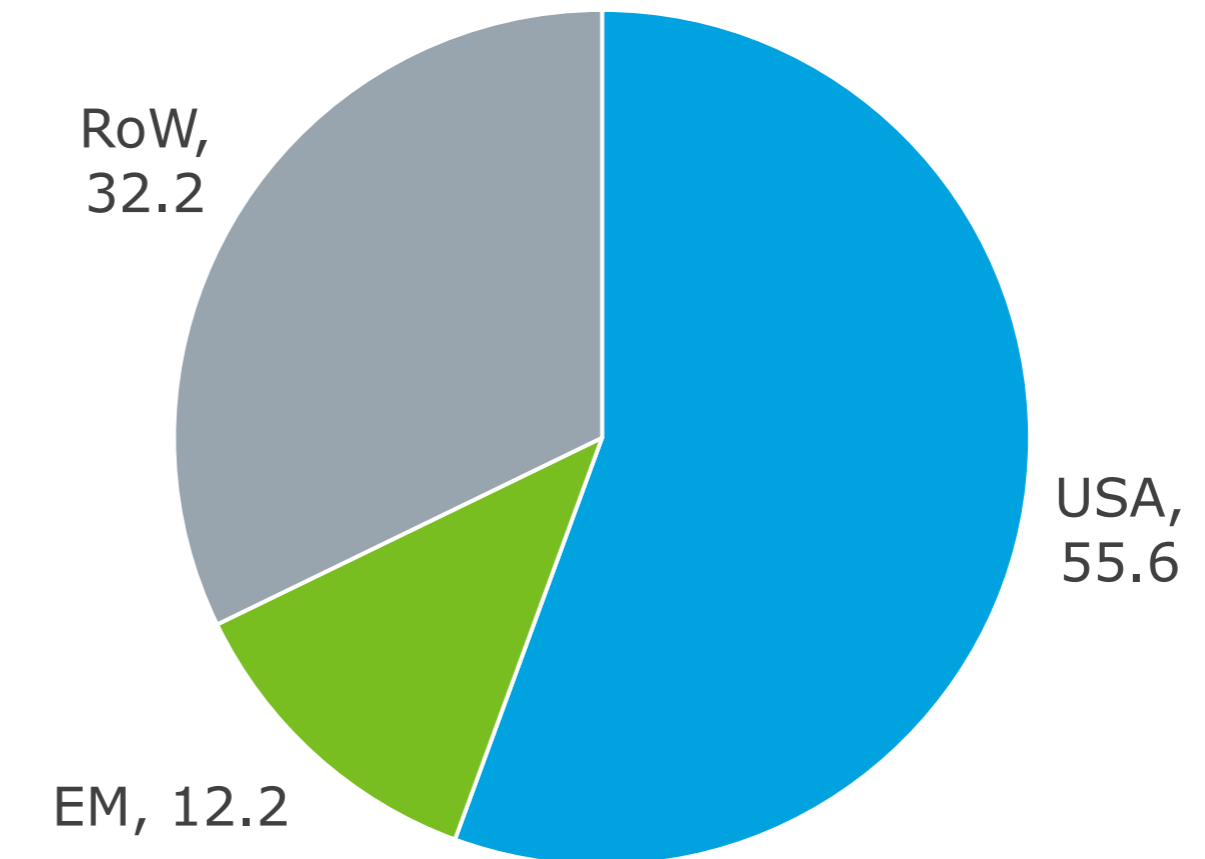
Market Cap 2000



Market Cap 2010



Market Cap 2019



EM is using MSCI EM Universe; GDP EM excludes Taiwan as data was not provided.
Sources: World Bank, IMF, MSCI and FactSet. Data as of December 6, 2020.

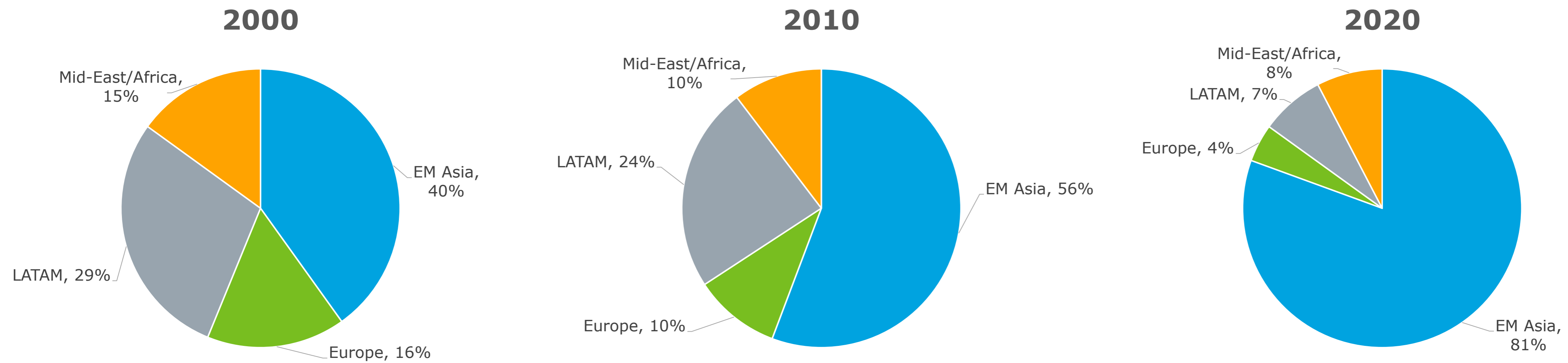
So, What's Changed?

These Aren't Your Parents' Emerging Markets

- Massive increase in market capitalization of the MSCI EM index
- MSCI EM is more weighted to Asia
- Stock leadership is evolving
- Sector Composition and Diversity Increasing:
 - Consumer
 - Technology
 - Communication services
- Environmental, Social and Governance (ESG) considerations

MSCI Region Country Weighting

The China Effect



Source: MSCI and Factset. Data as of December 2020.

The World's Largest Emerging Market Stocks

EM Leadership Has Changed Dramatically

Top 5 Stocks

1995

Korea Electric Power Corporation (S. Korea)
Eletrobras (Brazil)
Samsung Electronics (S. Korea)
Cathay Life Insurance (Taiwan)
Telefonos De Mexico SAB (Mexico)

2000

China Mobile Limited (China)
Telefonos de Mexico SAB (Mexico)
Taiwan Semiconductor Manufacturing Co. (Taiwan)
Samsung Electronics Co.
Check Point Software Technologies

2010

Samsung Electronics Co. (S. Korea)
Petrobras (Brazil)
Gazprom PJSC (Russia)
Taiwan Semiconductor Manufacturing Co. (Taiwan)
China Mobile Limited (China)

2020

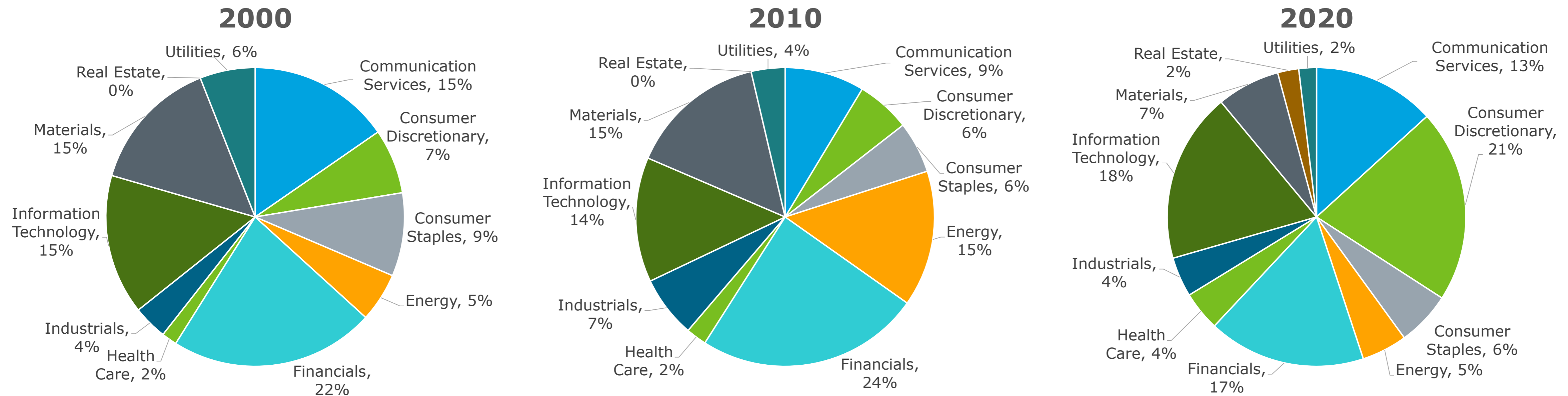
Alibaba Group Holding (China)
Tencent Holdings (China)
Taiwan Semiconductor Manufacturing Co. (Taiwan)
Samsung Electronics Co. (S. Korea)
Meituan Dianping (China)

Source: MSCI and FactSet. Data as of October 2020.
For illustrative purposes only and not a recommendation for any specific security or sector.

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Sector Changes in the Advancing Economies

Consumer and Tech Leading the Way

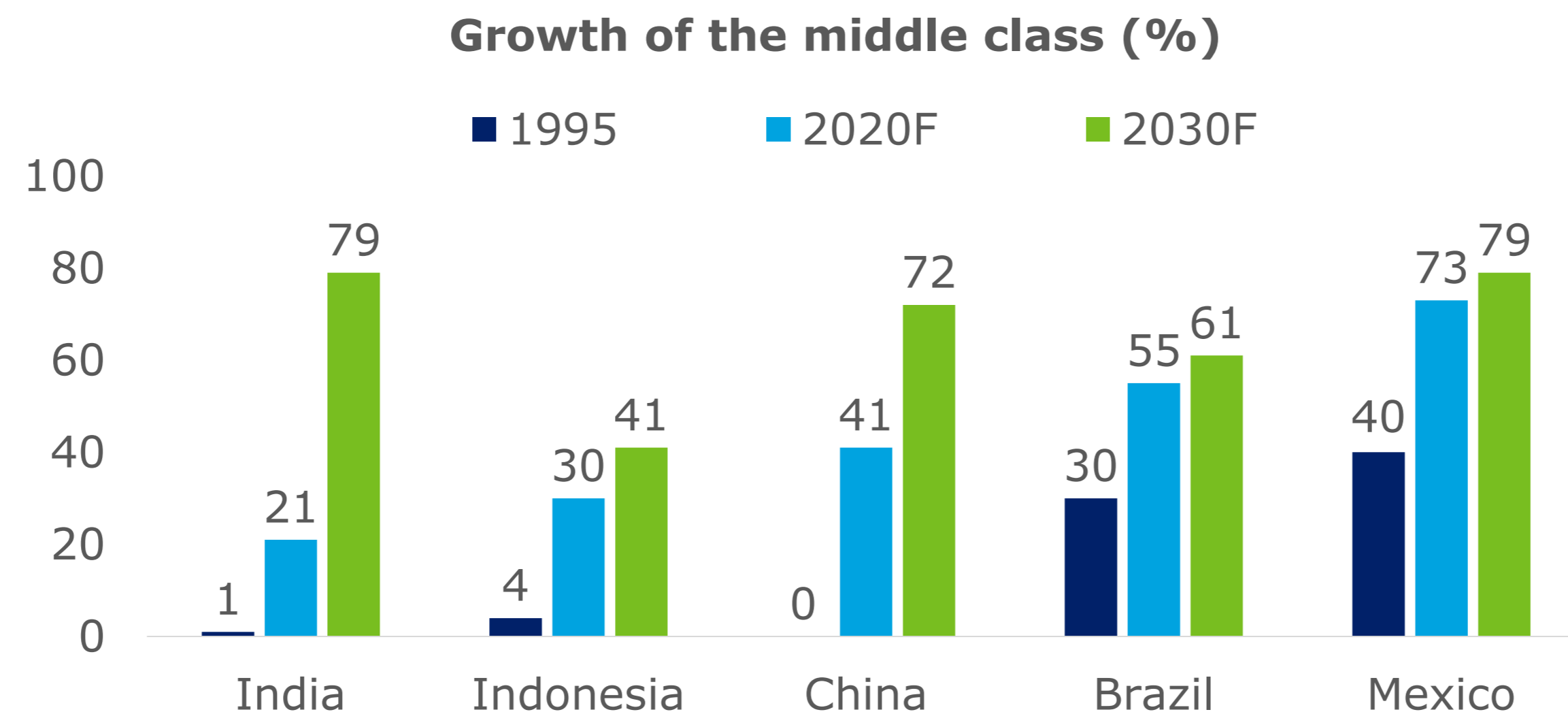


Source: MSCI and FactSet. Data as of October 2020.

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Emerging markets offer a growing set of opportunities

Many EM economies now home to companies leading innovation



Sector composition changes of the MSCI Emerging Markets Index (%)

Change +/- 4%	12/31/10	3/31/21	Grew/shrunk
Consumer Discretionary	7.3	17.7	+10.4
Information Technology	13.8	20.8	+7.0
Communication Services	7.2	11.7	+4.5
Financials	23.4	18.2	-5.2
Energy	12.9	4.9	-8.0
Materials	16.4	8.0	-8.4

As of 3/31/21. Sources: MSCI, Renaissance Capital, Brookings Institution, J.P. Morgan Asset Management, Federated Hermes analysis. Middle class is defined as households with per capita incomes between \$11 and \$110 per person per day in 2011 PPP terms. Forecasts are based on current J.P. Morgan Asset Management beliefs and assumptions. They are for illustrative purposes only and serve as an indication of what may occur. Results or performance may differ materially from those reflected or contemplated. Table shows the 3 sectors that grew the most, and shrunk the most as a % of the MSCI Emerging Markets Index from 12/31/10 to 3/31/21, illustrating that sectors such as Consumer Discretionary have become larger segments of the index. IPO data based on proceeds raised. Data includes IPOs with a deal size of at least \$100 million and excludes closed-end funds and SPACs.

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So, Why Consider EM Now?

These Aren't Your Parents' Emerging Markets

- Baron Rothschild – Contrarian
- Massive global liquidity conditions post Covid-19
- Synchronized global economic recovery: Global trade and PMIs recovering
- The U.S. dollar is likely to depreciate helping drive EM equity returns
- Increasing commodity prices
- Higher foreign reserves/lower current account deficits to weather higher rates
- Valuations and earnings and investment flows to return
- Buybacks concentrated in the U.S.

Global Monetary and Fiscal Stimulus

Tidal Wave of Liquidity

Global Monetary and Fiscal Stimulus to Fight COVID-19 Impact Feb 2020 to Feb 2022						
	Central Bank Liquidity Injection***		Fiscal Stimulus		Central Bank Liquidity Injection and Fiscal Stimulus	
	\$ tln	% GDP	\$ tln	% GDP	\$ tln	% GDP
U.S.	\$6.21	29.7%	\$6.44	30.8%	\$12.65	60.5%
Eurozone	\$2.38	18.3%	\$4.63	35.6%	\$7.02	54.0%
Japan	\$1.03	20.4%	\$3.59	71.2%	\$4.62	91.6%
U.K.	\$0.57	21.0%	\$0.69	25.3%	\$1.26	46.4%
China**	\$1.34	9.0%	\$0.67	4.5%	\$2.01	13.5%
Others*	\$1.05		\$3.23		\$4.28	
Total	\$12.57	14.8%	\$19.25	22.7%	\$31.83	37.5%

***does not reflect any tapering

**China central bank stimulus includes liquidity injections and other activities, e.g., re-lending, RRR, direct small business lending, etc.

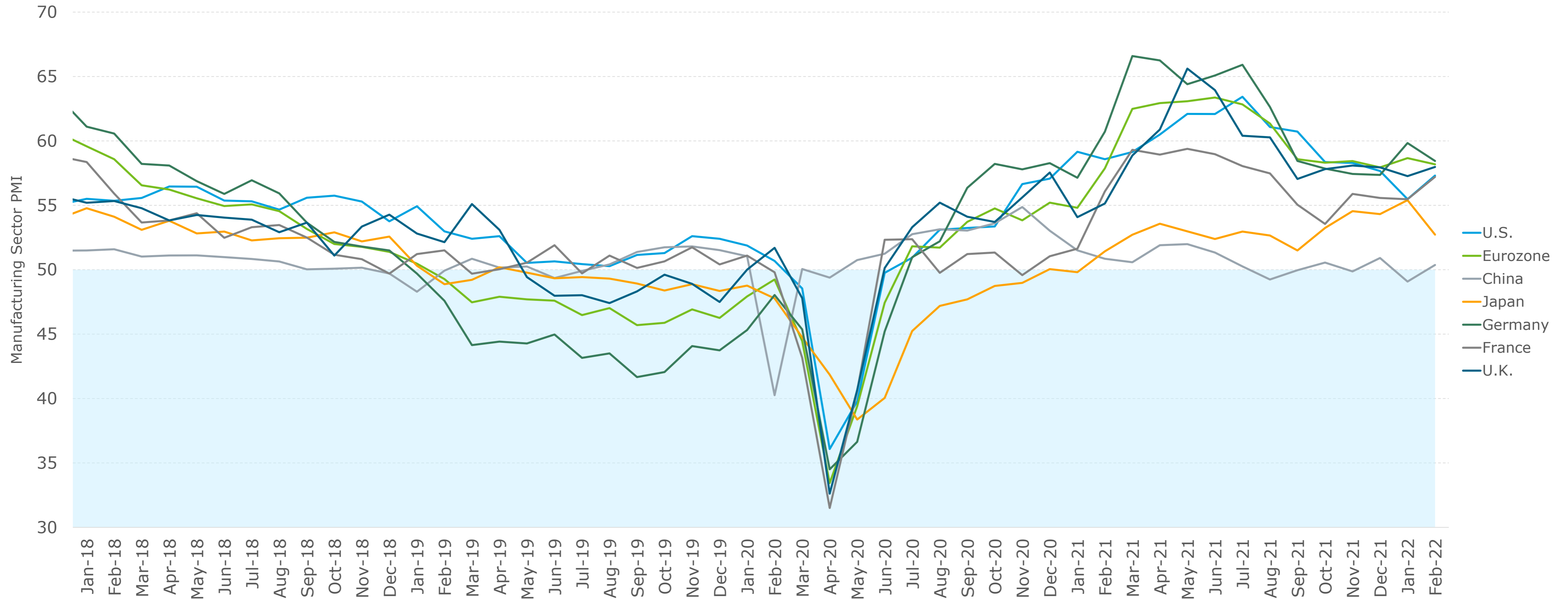
*includes Rest of World and Asian Development Bank, International Monetary Fund, World Bank

Source: Piper Sandler as of 2/28/22.

Global Recovery Sustainable?

Post Covid-19 bounce: Geopolitics and Inflation Keeping Global Investors on Edge

Global Purchasing Managers' Indexes (PMIs)

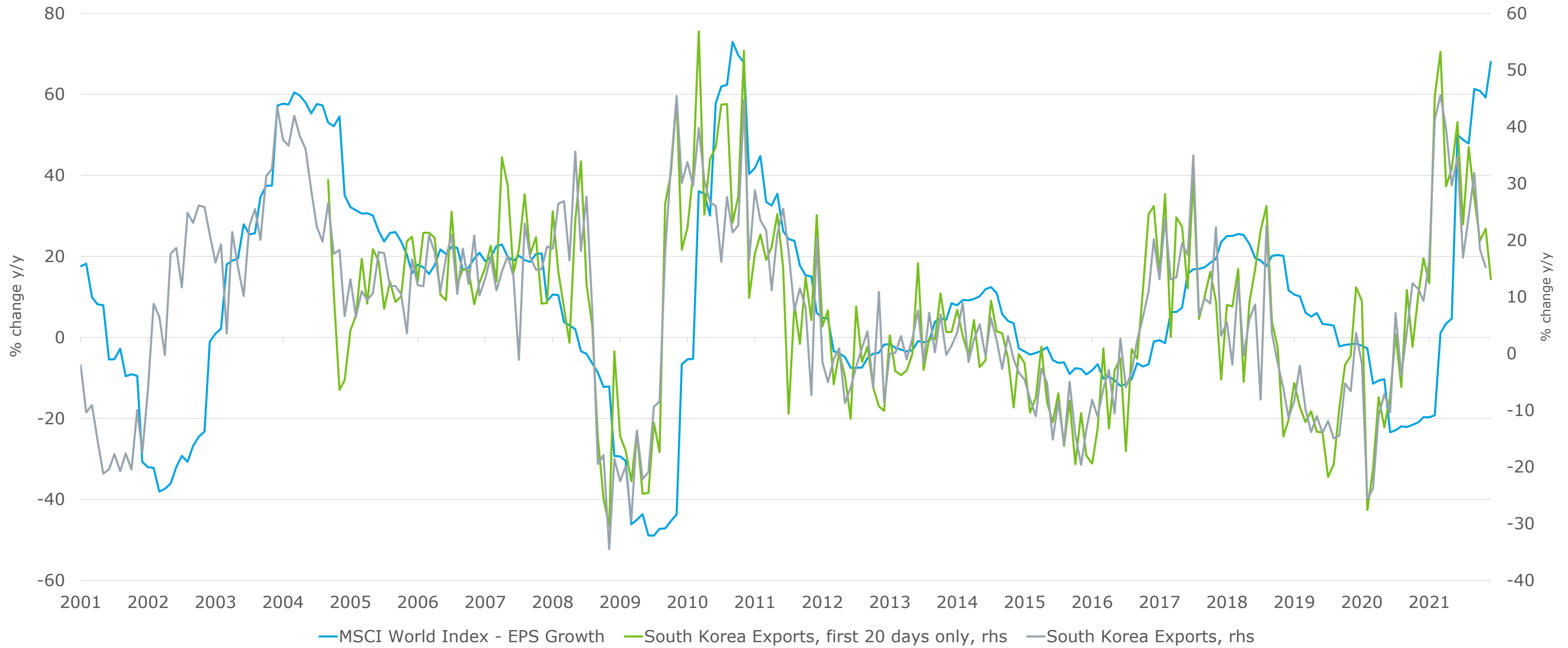


Data as of 2/28/22.

Sources: FactSet; Markit Purchasing Managers' Indexes (PMI) for the Manufacturing Sector, seasonally adjusted (SA), for the following countries: United States, Eurozone, Germany, France and the United Kingdom; the Caixin PMI Manufacturing Sector PMI Index, SA for China; the Nikkei PMI Manufacturing Sector PMI Index, SA for Japan; Federated Hermes analysis.

South Korea Exports

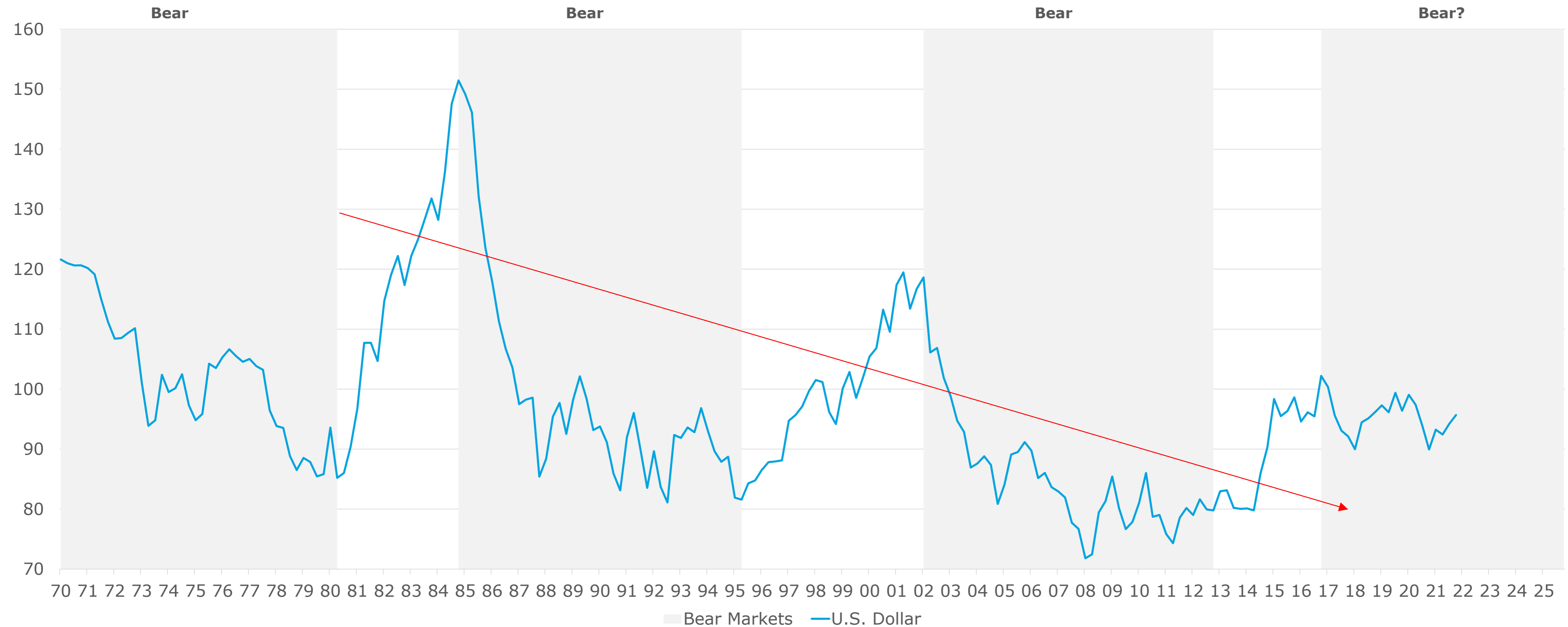
Near Term Global Earnings Growth Under Pressure



Sources: Korea Customs Service, Bloomberg, FactSet. Data as of 2/28/22.

The U.S. Dollar's Longer-term Direction

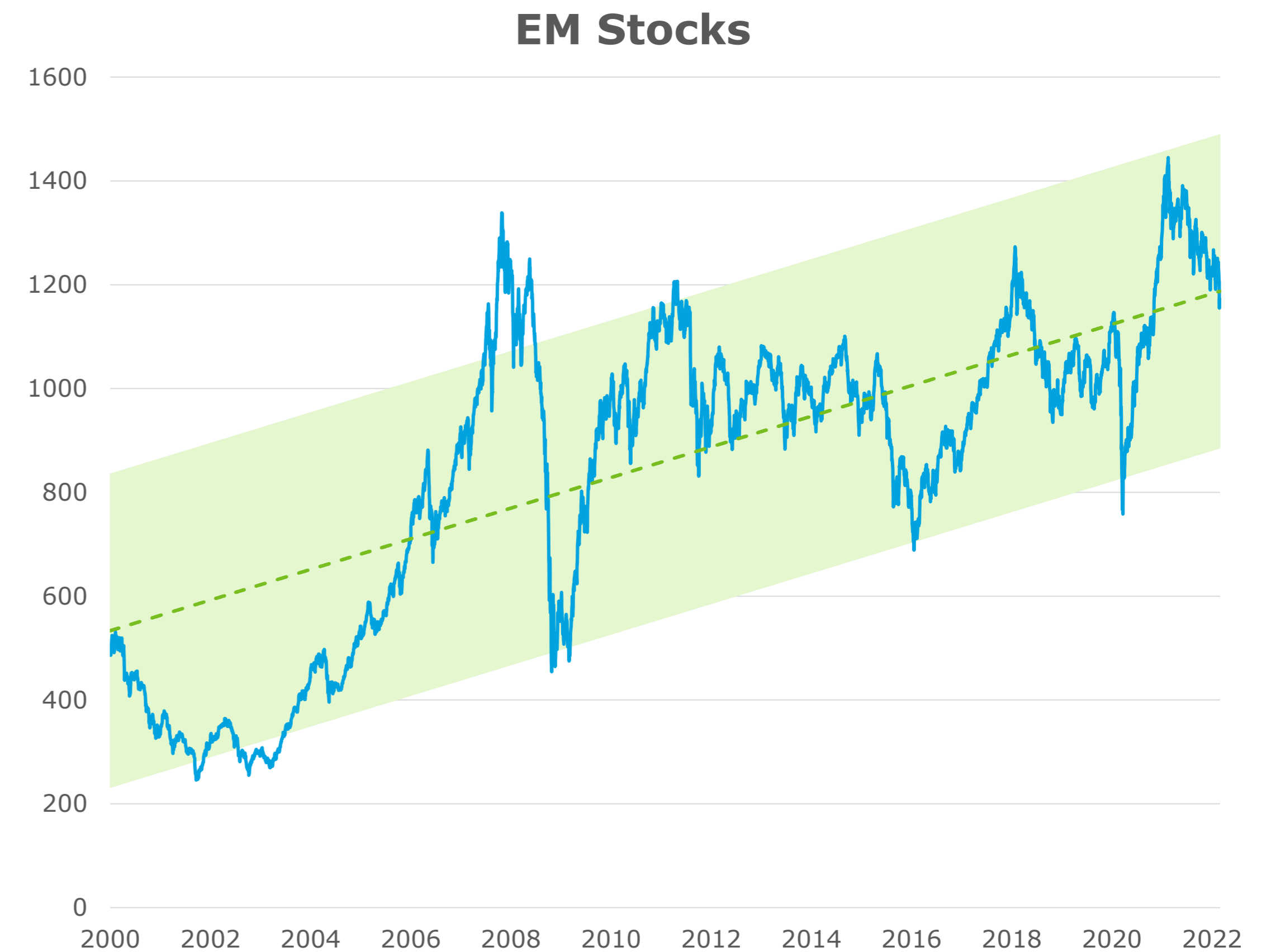
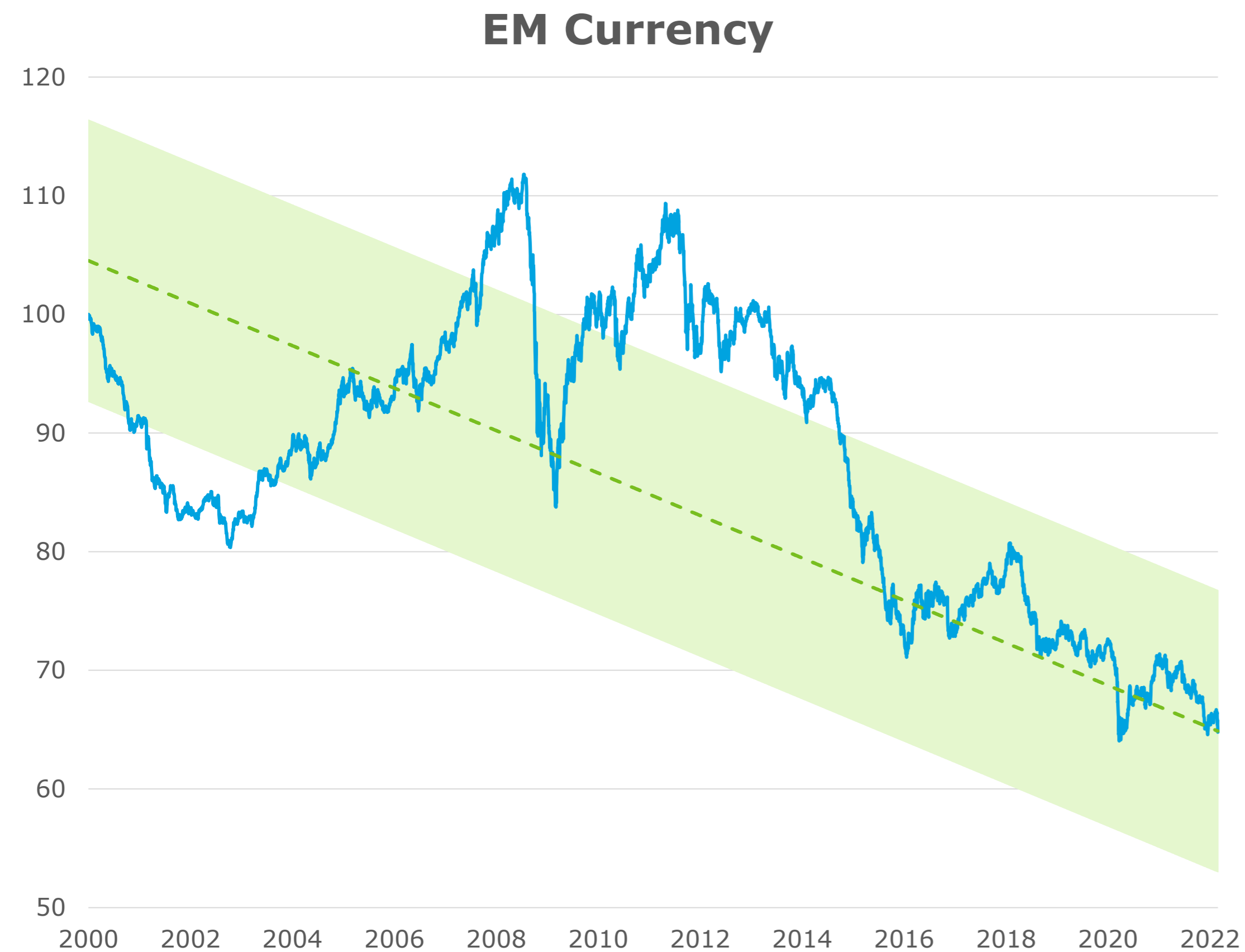
Further Downside Likely from Here



Source: Bloomberg. Data as of 12/31/21.

A Weaker Dollar Benefits the Emerging Markets

Inverse Correlation Between US\$ and EM

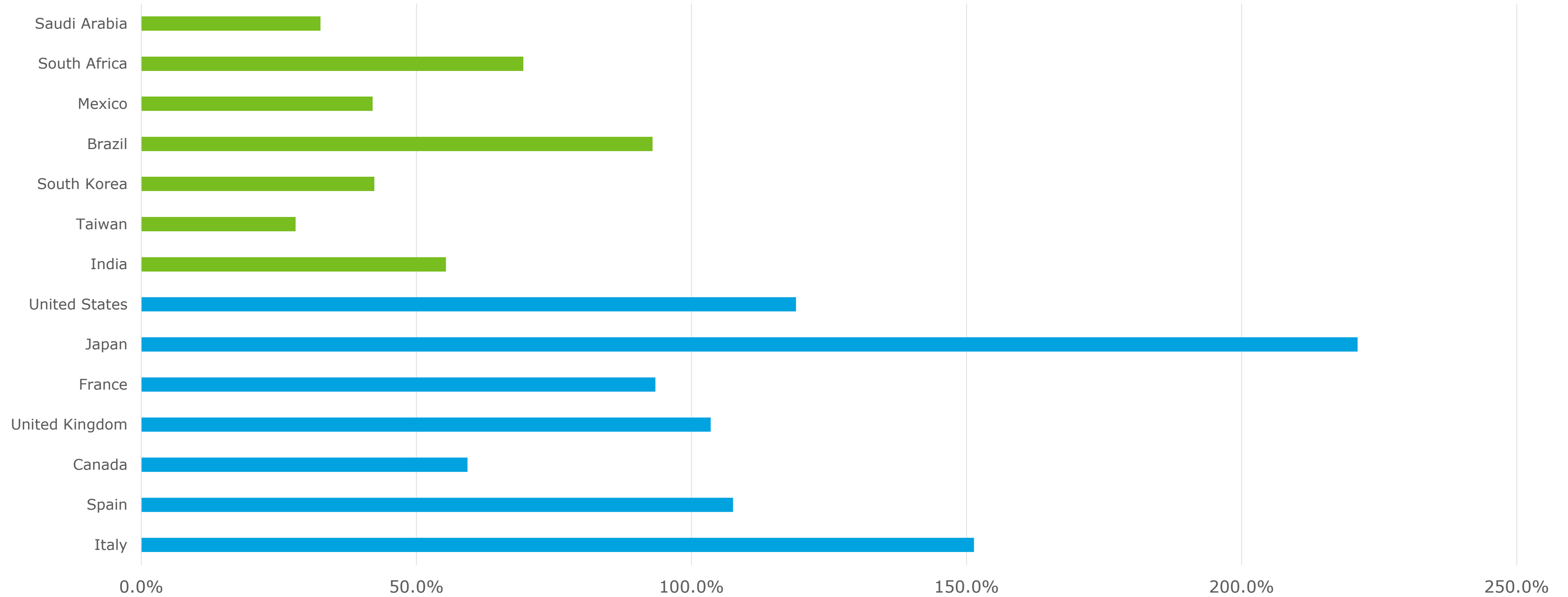


Source: MSCI and FactSet. Data as of 2/28/22.

Post-Covid Public Debt Has Increased Globally

Many Emerging Markets Are Still in Much Better Shape Than Their Developed Market Counterparts

Central Government Debt (% of GDP)

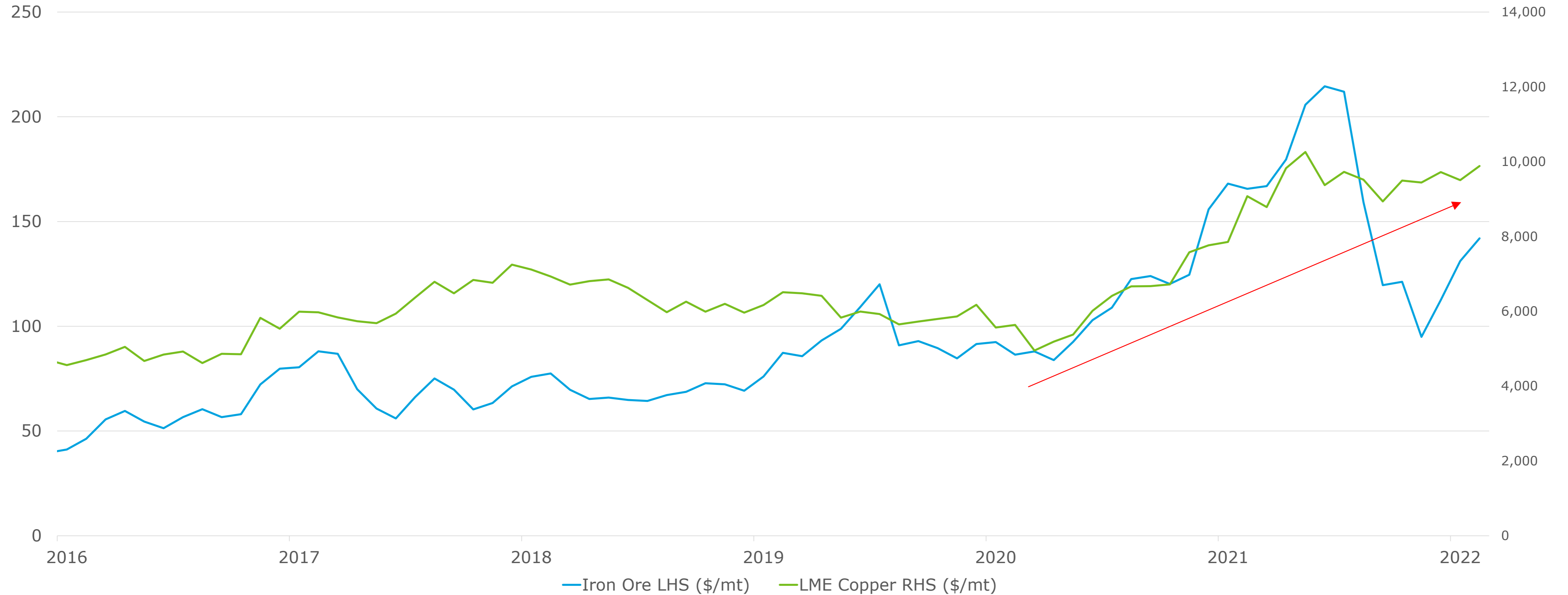


Total stock of debt liabilities issued by the central government as a share of GDP. Source: IMF Global Debt (Dec 2021).

Commodity Prices Rebounding

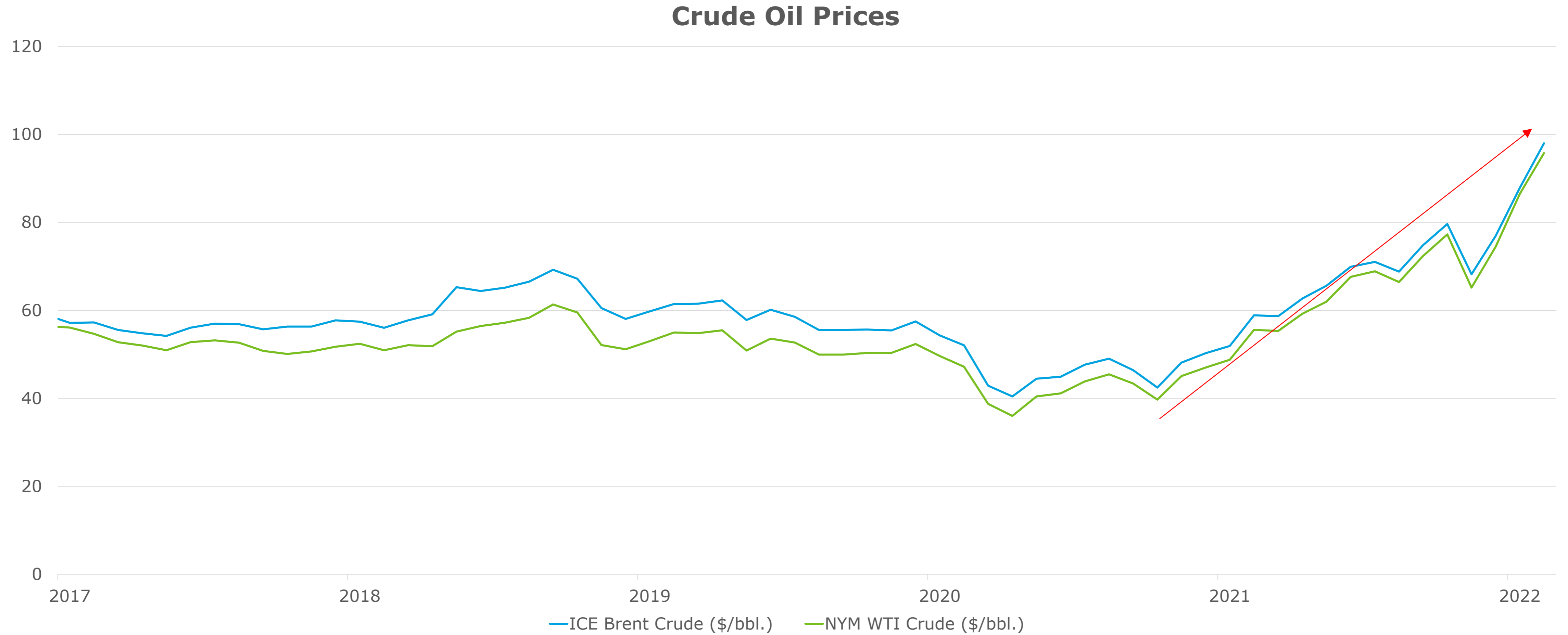
Risk On, a Weaker Dollar, Increasing Demand, and a Global Synchronized Economic Recovery

Major Commodity Prices



Source: Bloomberg. Data as of 2/28/22.

Oil Prices

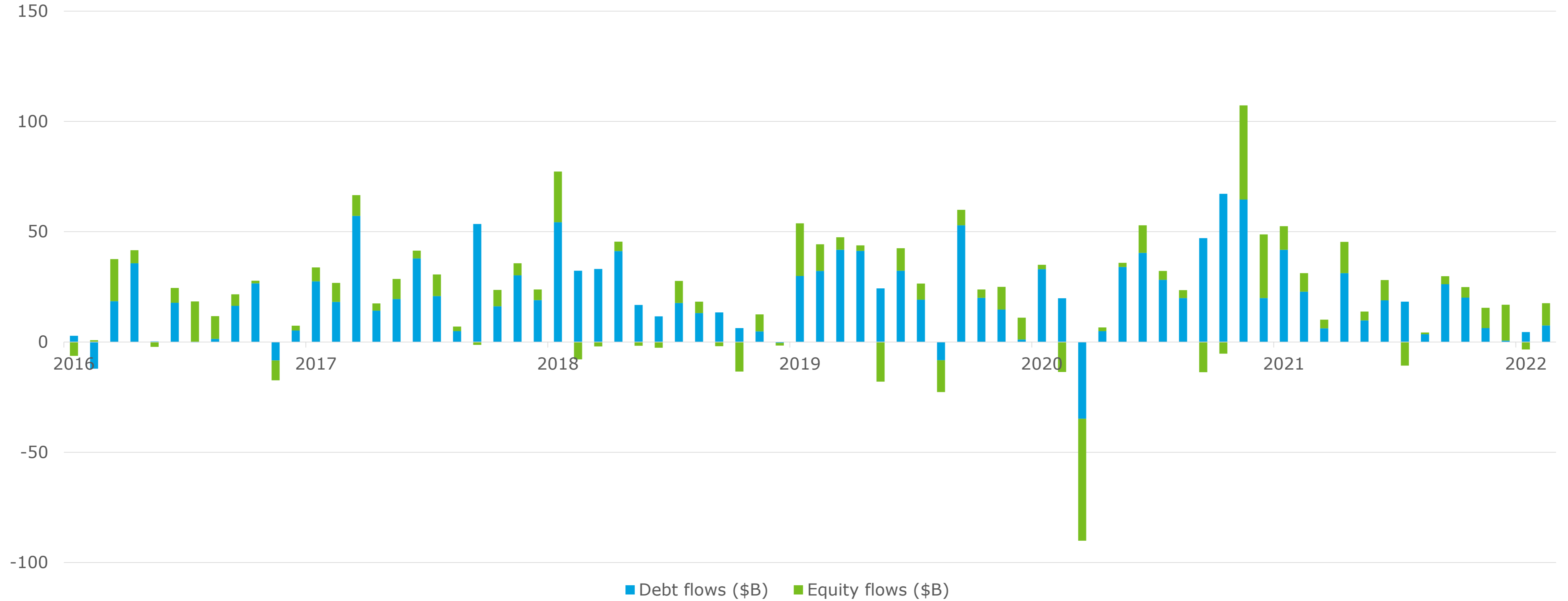


Source: Bloomberg. Data as of 2/28/22.

EM Flows

Slightly Positive with Upside

Non-Resident Portfolio Flows to EM



Source: Institute of International Finance. Data as of February 2022.

EM Performance as an Asset Class

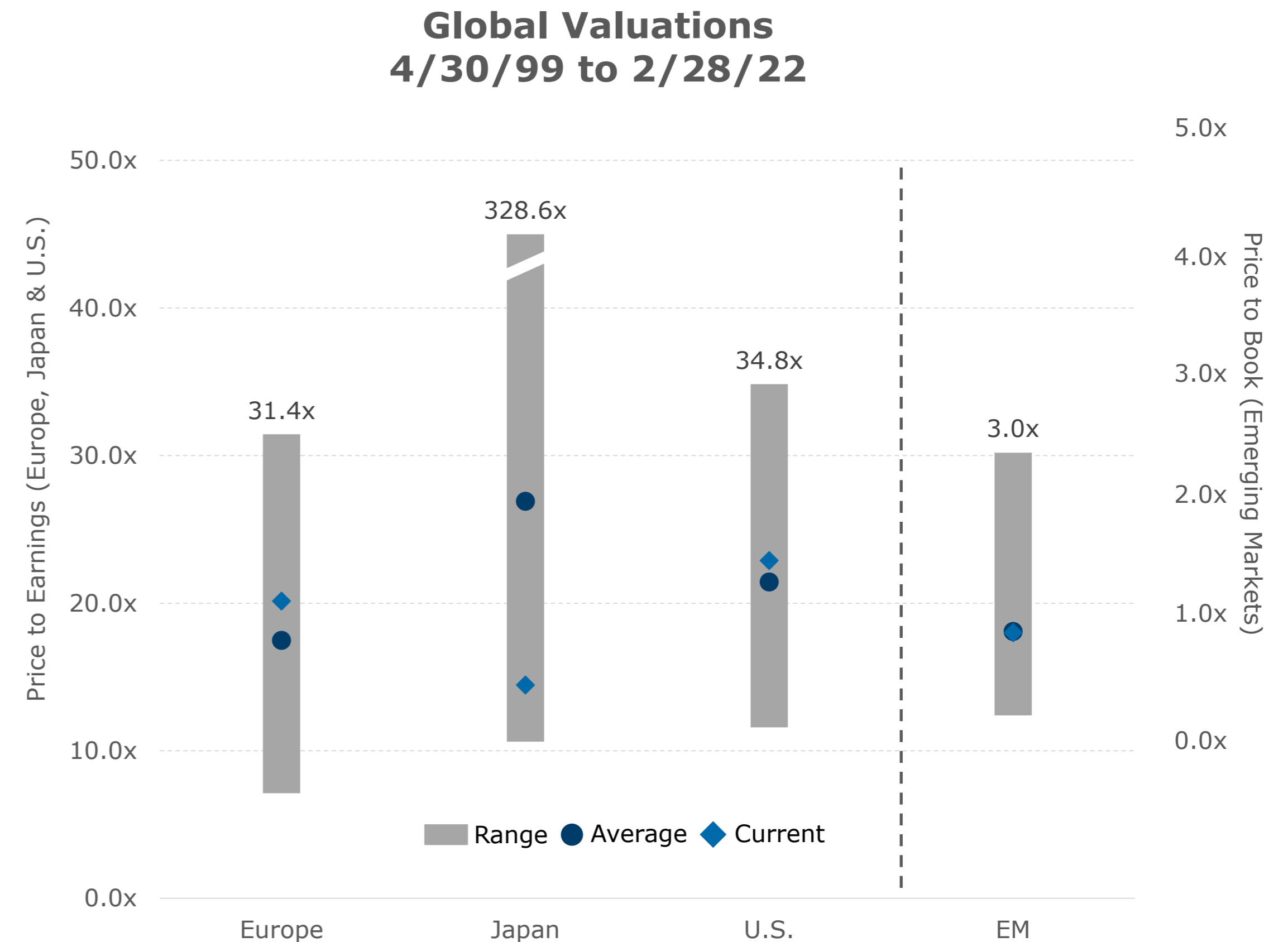
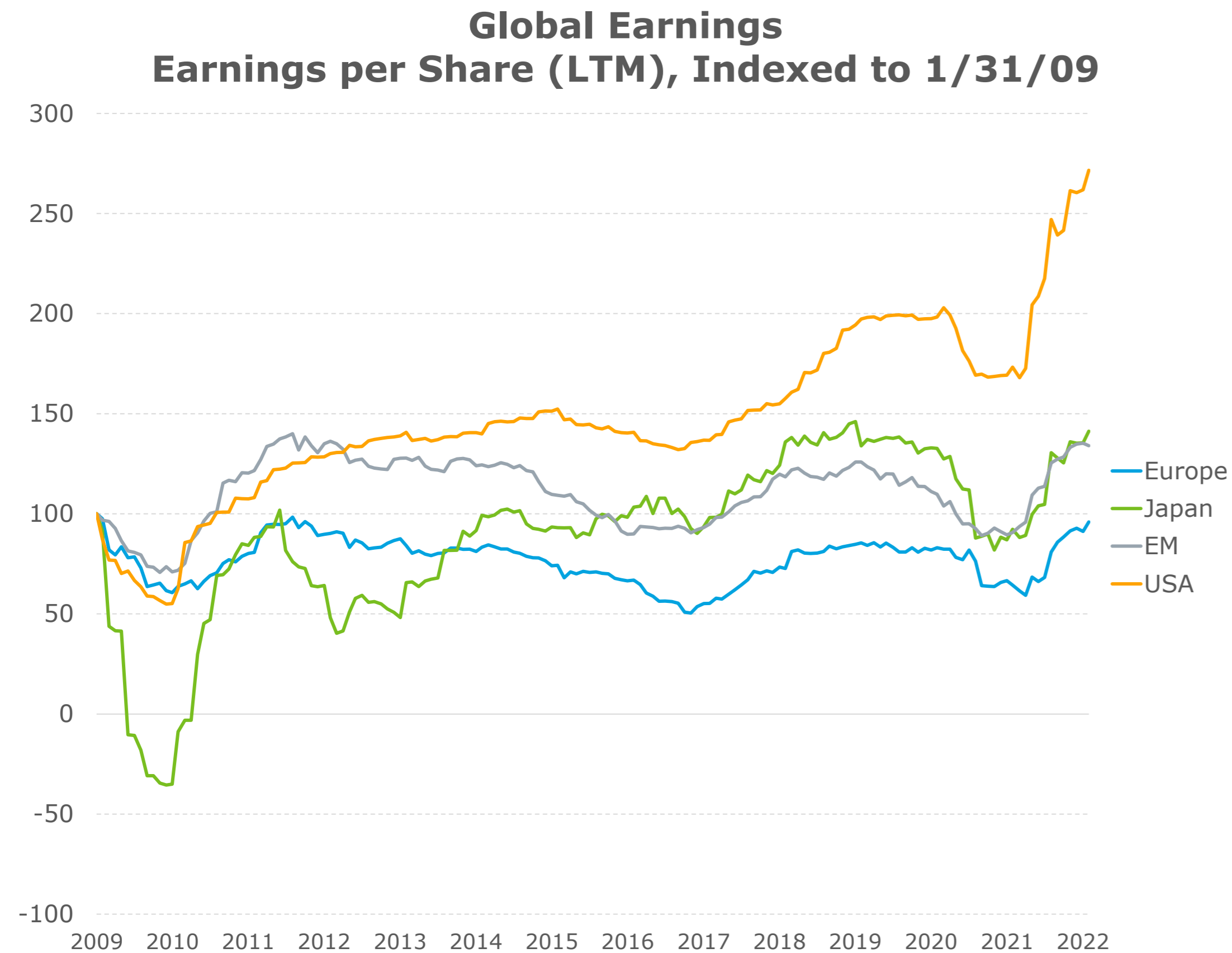
Cyclicality Rules: Where are We Now?

																2007 - 2021	
2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	YTD	Ann.	Vol.
EM Equity 39.8%	Fixed Income 5.2%	EM Equity 79.0%	RBTs 27.9%	RBTs 8.3%	RBTs 19.7%	Small Cap 38.8%	RBTs 28.0%	RBTs 2.8%	Small Cap 21.3%	EM Equity 37.8%	Cash 1.8%	Large Cap 31.5%	Small Cap 20.0%	RBTs 41.3%	Comdty. 15.6%	Large Cap 10.6%	RBTs 23.2%
Comdty. 16.2%	Cash 1.8%	High Yield 59.4%	Small Cap 26.9%	Fixed Income 7.8%	High Yield 19.6%	Large Cap 32.4%	Large Cap 13.7%	Large Cap 1.4%	High Yield 14.3%	DM Equity 25.6%	Fixed Income 0.0%	RBTs 28.7%	EM Equity 18.7%	Large Cap 28.7%	Cash 0.0%	Small Cap 8.7%	EM Equity 22.9%
DM Equity 11.6%	Asset Alloc. 25.4%	DM Equity 32.5%	EM Equity 19.2%	High Yield 3.1%	EM Equity 18.6%	DM Equity 23.3%	Fixed Income 6.0%	Fixed Income 0.5%	Large Cap 12.0%	Large Cap 21.8%	RBTs -4.0%	Small Cap 25.5%	Large Cap 18.4%	Comdty. 27.1%	Fixed Income -3.2%	RBTs 7.5%	Small Cap 22.5%
Asset Alloc. 7.1%	High Yield -26.9%	RBTs 28.0%	Comdty. 16.8%	Large Cap 2.1%	DM Equity 17.9%	Asset Alloc. 14.9%	Asset Alloc. 5.2%	Cash 0.0%	Comdty. 11.8%	Small Cap 14.6%	High Yield -4.1%	DM Equity 22.7%	Asset Alloc. 10.6%	Small Cap 14.8%	EM Equity -4.8%	High Yield 6.6%	Comdty. 19.1%
Fixed Income 7.0%	Small Cap -33.8%	Small Cap 27.2%	Large Cap 15.1%	Cash 0.1%	Small Cap 16.3%	High Yield 7.3%	Small Cap 4.9%	DM Equity -0.4%	EM Equity 11.6%	Asset Alloc. 14.6%	Large Cap -4.4%	Asset Alloc. 19.5%	DM Equity 8.3%	Asset Alloc. 13.5%	High Yield -4.9%	Asset Alloc. 5.7%	DM Equity 18.9%
Large Cap 5.5%	Comdty. -35.6%	Large Cap 26.5%	High Yield 14.8%	Asset Alloc. -0.7%	Large Cap 16.0%	RBTs 2.9%	Cash 0.0%	Asset Alloc. -2.0%	RBTs 8.6%	High Yield 10.4%	Asset Alloc. -5.8%	EM Equity 18.9%	Fixed Income 7.5%	DM Equity 11.8%	Asset Alloc. -4.9%	EM Equity 4.8%	Large Cap 16.9%
Cash 4.8%	Large Cap -37.0%	Asset Alloc. 25.0%	Asset Alloc. 13.3%	Small Cap -4.2%	Asset Alloc. 12.2%	Cash 0.0%	High Yield 0.0%	High Yield -2.7%	Asset Alloc. 8.3%	RBTs 8.7%	Small Cap -11.0%	High Yield 12.6%	High Yield 7.0%	High Yield 1.0%	DM Equity -6.5%	DM Equity 4.1%	High Yield 12.2%
High Yield 3.2%	RBTs -37.7%	Comdty. 18.9%	DM Equity 8.2%	DM Equity -11.7%	Fixed Income 4.2%	Fixed Income -2.0%	EM Equity -1.8%	Small Cap -4.4%	Fixed Income 2.6%	Fixed Income 3.5%	Comdty. -11.2%	Fixed Income 8.7%	Cash 0.5%	Cash 0.0%	Large Cap -8.0%	Fixed Income 4.1%	Asset Alloc. 11.7%
Small Cap -1.6%	DM Equity -43.1%	Fixed Income 5.9%	Fixed Income 6.5%	Comdty. -13.3%	Cash 0.1%	EM Equity -2.3%	DM Equity -4.5%	EM Equity -14.6%	DM Equity 1.5%	Comdty. 1.7%	DM Equity -13.4%	Comdty. 7.7%	Comdty. -3.1%	Fixed Income -1.5%	Small Cap -8.7%	Cash 0.8%	Fixed Income 3.3%
RBTs -15.7%	EM Equity -53.2%	Cash 0.1%	Cash 0.1%	EM Equity -18.2%	Comdty. -1.1%	Comdty. -9.5%	Comdty. -17.0%	Comdty. -24.7%	Cash 0.3%	Cash 0.8%	EM Equity -14.2%	Cash 2.2%	RBTs -5.1%	EM Equity -2.2%	RBTs -11.5%	Comdty. -2.6%	Cash 0.7%

Source: Barclays, Bloomberg, FactSet, MSCI, NAREIT, Russell, Standard & Poor's, J.P. Morgan Asset Management. Large cap: S&P 500, Small cap: Russell 2000, EM Equity: MSCI EME, DM Equity: MSCI EAFE, Comdty: Bloomberg Commodity Index, High Yield: Bloomberg Barclays Global HY Index, Fixed Income: Bloomberg Barclays US Aggregate, REITs: NAREIT Equity REIT Index, Cash: Bloomberg Barclays 1-3m Treasury. The "Asset Allocation" portfolio assumes the following weights: 25% in the S&P 500, 10% in the Russell 2000, 15% in the MSCI EAFE, 5% in the MSCI EME, 25% in the Bloomberg Barclays US Aggregate, 5% in the Bloomberg Barclays 1-3m Treasury, 5% in the Bloomberg Barclays Global High Yield Index, 5% in the Bloomberg Commodity Index and 5% in the NAREIT Equity REIT Index. Balanced portfolio assumes annual rebalancing. Annualized (Ann.) return and volatility (Vol.) represents period from 12/31/2006 to 12/31/2021. All data represents total return for stated period. This information, including the "Asset Allocation" portfolio, is for illustrative purposes only and does not represent any specific investment. Past performance is not indicative of future returns. Guide to the Markets – U.S. Data are as of February 28, 2022.

Global Earnings and Valuations

The U.S. Has Been the Outperformer and Is Now Ever More Expensive

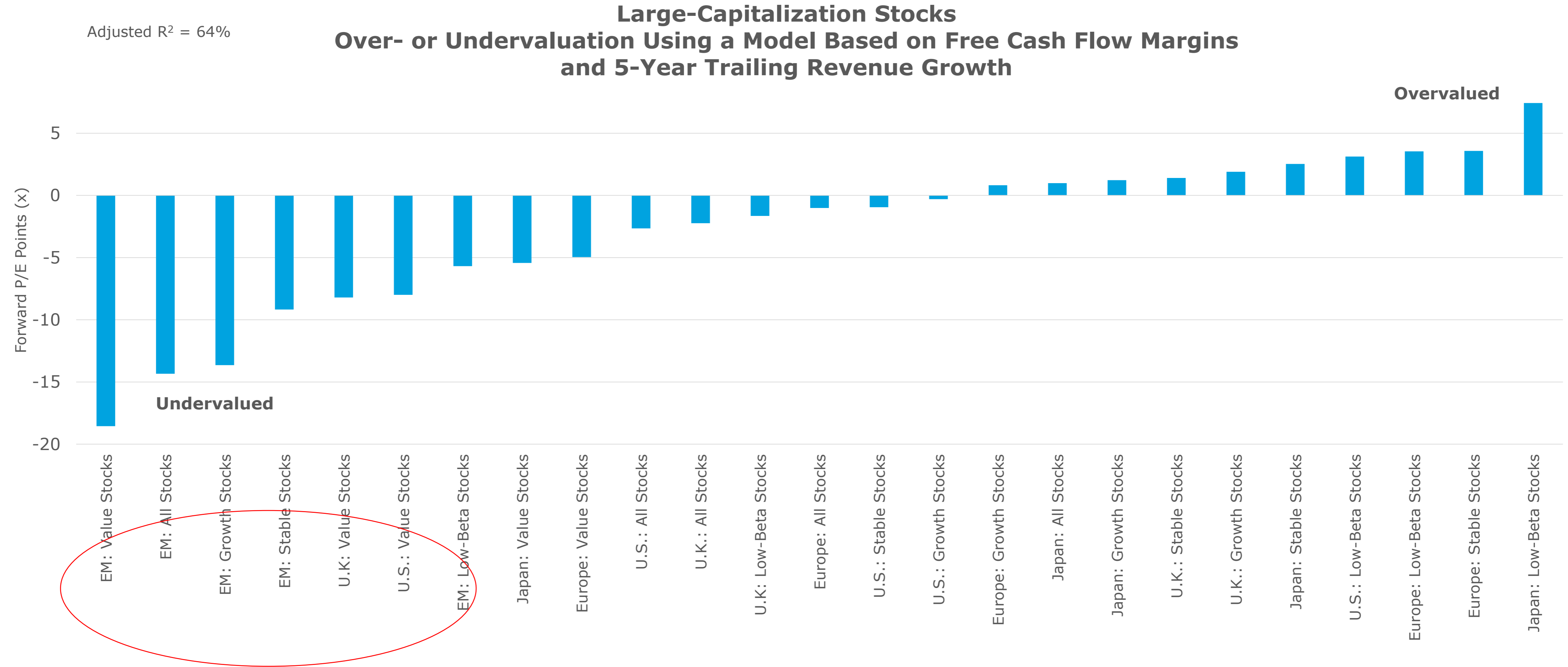


Data as of 2/28/22.

Note: Global valuations graph excludes negative values. Sources: FactSet, MSCI, Federated Hermes analysis. Global earnings graph shows earnings of the companies comprising the MSCI country and regional indexes for the U.S., Japan, Emerging Markets, and Europe. The indexes are indexed to January 2009 in order to capture the Global Financial Crisis down-cycle (which bottomed in late 2009) and show how far we've come through this current cycle. Past performance is no guarantee of future results.

Relative Valuations Based FCF Margins

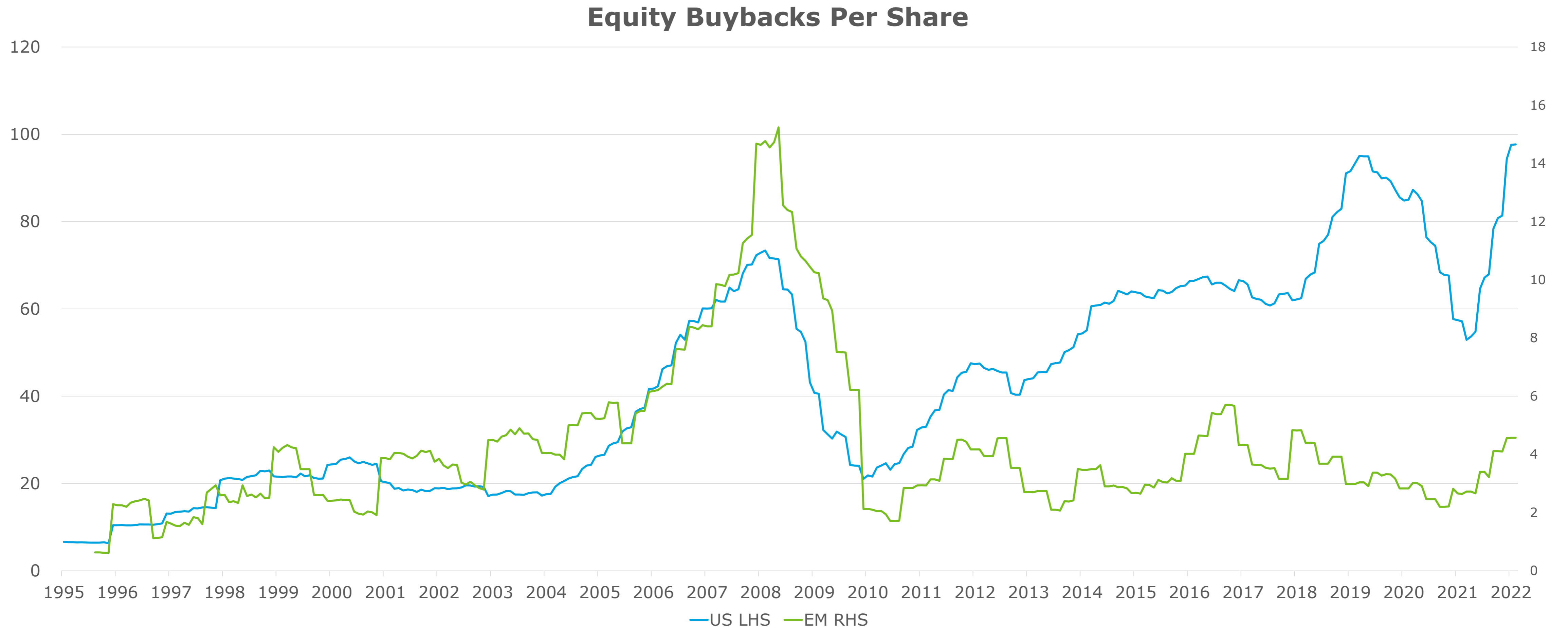
Most of EM (and Even Surprisingly EM Growth) Looks Most Undervalued



Source: Empirical Research Partners analysis. Data as of 2/28/22.

Equity Buybacks: The U.S. vs. The EMs

U.S. Stocks May Be Artificially Supported



Source: Bloomberg. Data as of 2/28/22.

A Big Change: Innovation and Discovery in the EMs

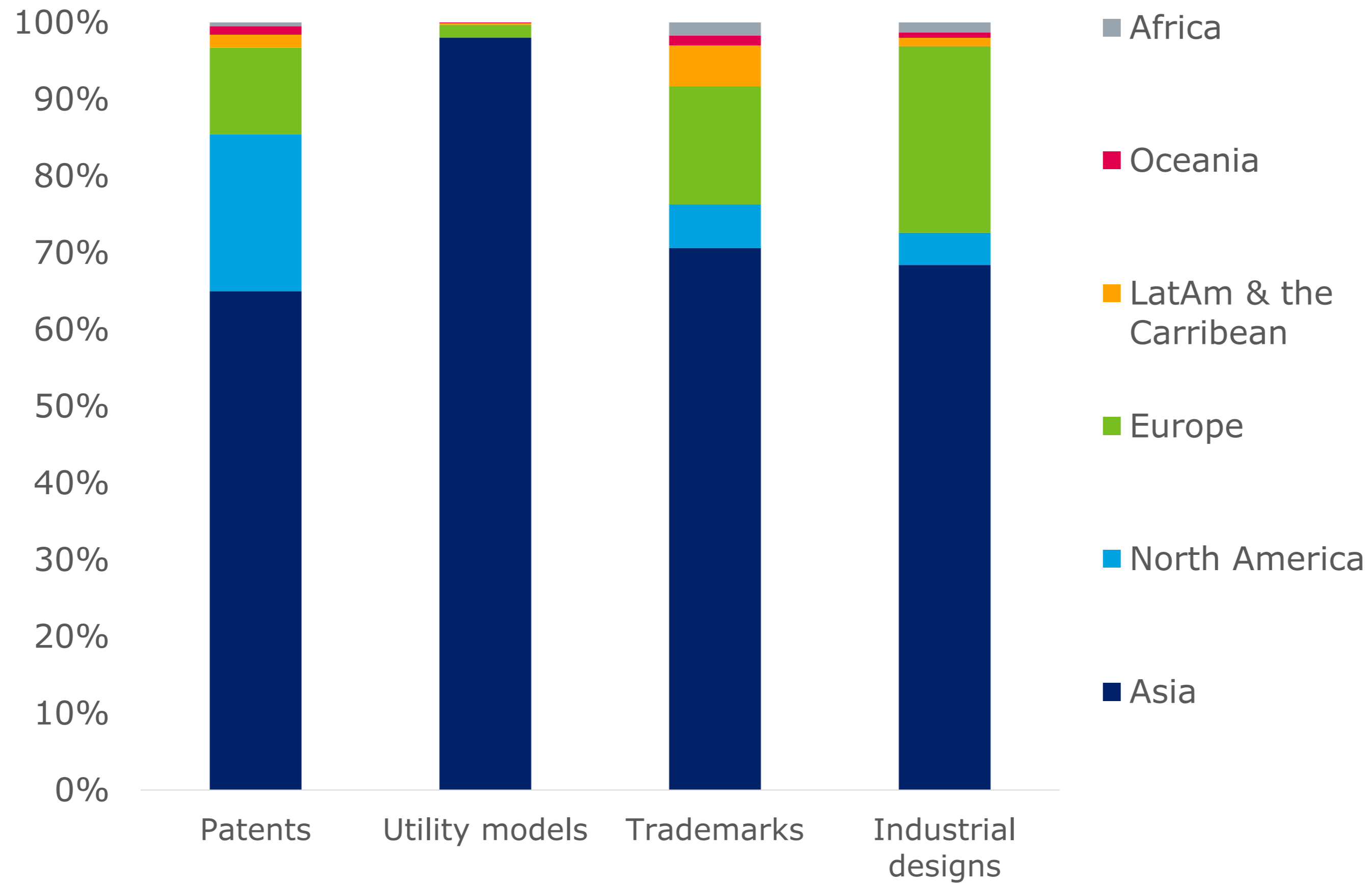
Dispersion of Advancement Through Technology

- The Leapfrogging Phenomena: M-Pesa
- The electrical vehicle (EV) revolution
- E-commerce
- 5G technology
- Fintech and Blockchain

Growth opportunities in innovative non-U.S. companies

Asia developing bulk of new technologies and intellectual property (IP)

Percentage shares of IP filing activity by region



Source: World Intellectual Property Organization (WIPO). WIPO Facts and Figures 2020 [Research Paper]. September 2020. Data as of 12/31/19. For illustrative purposes only and not a recommendation for any specific security or sector.

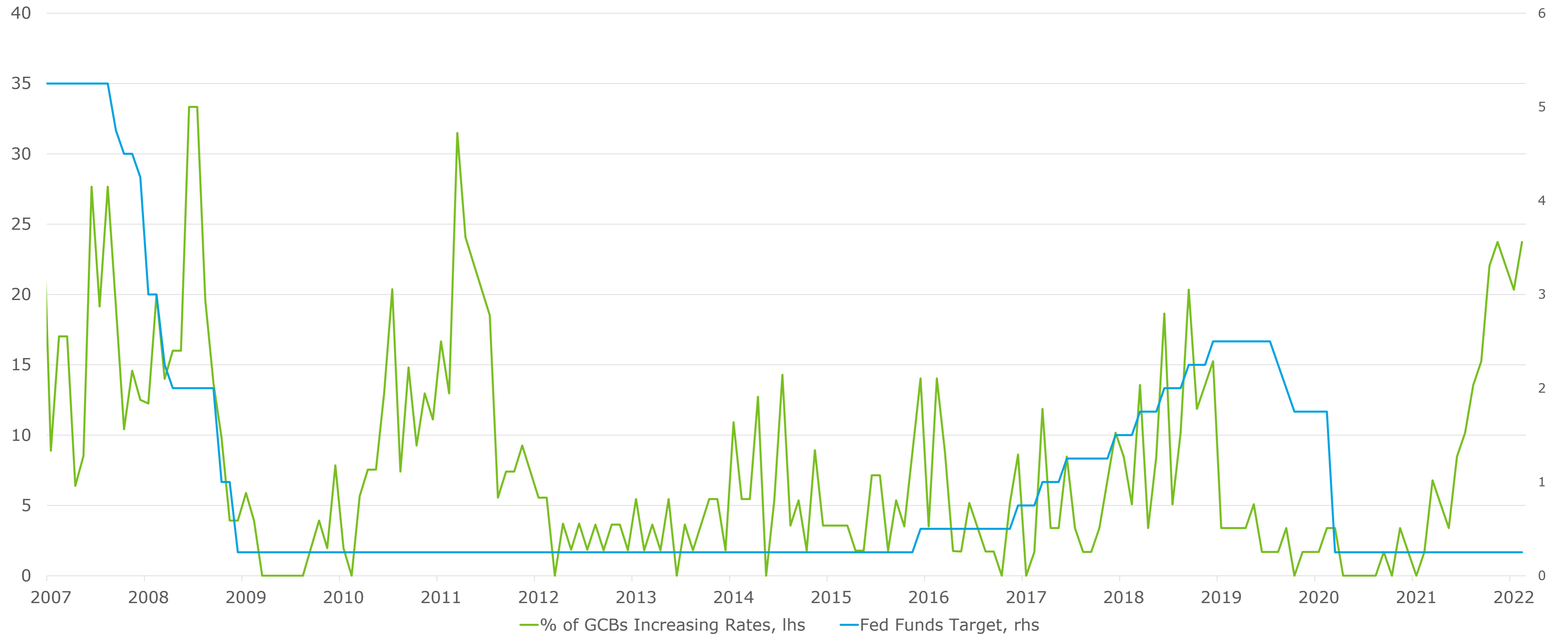
Risks

These Aren't Your Parents' Emerging Markets

- Material rise in interest rates/further appreciation of the U.S. Dollar
- Higher inflation/Weaker than expected global growth
- Continued Risk off/Geopolitics
- Policy missteps (esp. in China)
- Lockdowns and potential Covid-19 variants

Global Central Banks Increasing Rates

Will Rising Rates Snuff Out the EM Recovery?



Source: FactSet. Data as of 2/28/22.

Emerging Markets Highlights

These Aren't Your Parents' Emerging Markets

- Long term demographic, economic, and policy support
- Transformation and innovation: Booming technology and booming commodities
- Current tailwinds include strong commodity prices, global economic resilience, capital flows, compelling valuations, earnings, and a potentially weakening US Dollar
- Risks include a material further appreciation of the U.S. Dollar/Risk off/Higher interest rates/Covid flare ups/Weaker global growth
- Everything is not equal: Selectivity remains a key differentiator
- Asia remains the post-Covid LT winner even as other regions rebound

International investing involves special risks including currency risk, increased volatility, political risks, and differences in auditing and other financial standards. Prices of emerging markets securities can be significantly more volatile than the prices of securities in developed countries and currency risk and political risks are accentuated in emerging markets. Views are as of 3/8/2022 and are subject to change based on market conditions and other factors. These views should not be construed as a recommendation for any specific security or sector.

Final Thoughts - post Russian Invasion

These Aren't Your Parents' Emerging Markets

- Wars are inherently inflationary, right at the time as prices pressures are already high
- But is inflation peaking?
- Near term, the US economy may benefit with the US FED able to raise rates
- Global supply chain challenges exacerbated
- Tightening of financial conditions is a concern
- Demand destruction and potential recession risk
- Winners and losers: India/S. Korea/E. Europe vs. Indonesia/S. Africa/Latam
- Europe vs. China vs. Asian EMs vs. non-Asian EMs