

## CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

# Emerging markets: unfairly punished?

### Bottom line up top:

**Geopolitical “guilt by association” has meted out undeserved punishment.** Beyond its devastating humanitarian toll, Russia’s invasion of Ukraine triggered knee-jerk selling across global financial markets, especially in China and across emerging markets. The tendency to view the EM universe as monolithic ignores its exceptionally diverse nature. Variations run the gamut not only in terms of geopolitical risks, but also by economic profile, fiscal and monetary policy, balance of trade and the role of commodities and currency regimes. Failure to consider these differentiating factors has led to broadly oversold conditions in EM.

### **China, the world’s largest EM, is addressing its challenges.**

While not a proxy for all of EM, China’s economic health is a key barometer for these markets and for global growth more broadly. A slowing domestic economy being further hampered by rising COVID-19 cases, delicate internal politics and a desire to maintain good relationships with its trading partners have prompted China to enact or announce a series of pro-growth, market-friendly policies. These include monetary easing (lowering the required reserves ratio, cutting the benchmark lending rate), fiscal stimulus (proposed tax cuts) and a potentially lighter regulatory hand (in contrast to last year’s tech sector crackdown).

**Navigating the nuances is essential.** As the People’s Bank of China maps out its easing policy to support economic growth, other EM central banks have implemented monetary tightening to help combat inflation. In this environment, we favor select exposure to areas where relative



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As Nuveen’s CIO and leader of our Global Investment Committee, Saira drives market and investment insights, delivers client asset allocation views and brings together the firm’s most senior investment leaders to deliver our best thinking and actionable investment ideas. In addition, she chairs Nuveen’s Equities Investment Council and is a portfolio manager for several key investment strategies.

valuations look particularly attractive, such as EM debt.

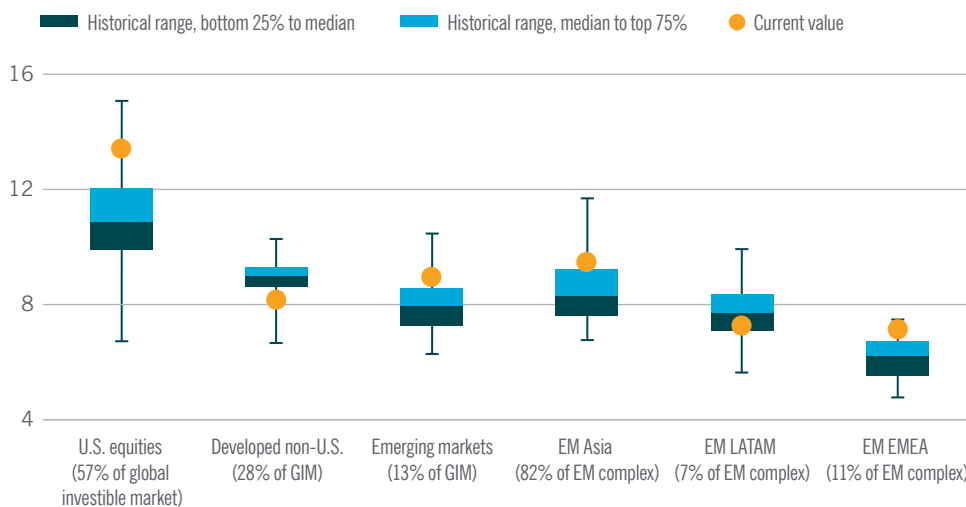
## Portfolio construction implications

**Some EM equities might be cheap for a reason.** With the MSCI EM Index trading nearly 20% below its 52-week high, it might appear on the surface to be a screaming value opportunity for investors with a tolerance for volatility. However, compared to non-U.S. developed stocks and historical standards, those bargain prices might not make up for heightened geopolitical uncertainty. On an enterprise value (EV) to forward EBITDA basis, EM valuations remain in the top quartile, mainly driven by EM Asia's (and China's) outsized weighting (Figure 1). EMEA also appears stretched in light of negative earnings revisions due to its Russia exposure.

**Emerging markets have sold off sharply, but EM is not a monolithic asset class.**

**FIGURE 1: ARE EM STOCKS OFFERING VALUE? DEPENDS WHERE YOU LOOK.**

*Enterprise value to forward EBITDA (%)*



Data source: Bloomberg, L.P., 30 Apr 2012 to 24 Mar 2022. **Past performance is no guarantee of future returns.** Data depicts the estimated one-year blended forward enterprise value to earnings before interest, taxes, depreciation and amortization. Each line represents the historical maximum and minimum of these ratios and the boxes reflect the historical medians and top 75% and bottom 25% ranges. **Representative indexes:** U.S. equities: MSCI U.S. Index; non-U.S. developed: MSCI World ex-U.S. Index; emerging markets: MSCI EM Index; emerging markets Asia: MSCI EM Asia Index; emerging markets Latin America: MSCI EM LATAM Index; emerging markets Europe, Middle East and Africa: MSCI EM EMEA Index.

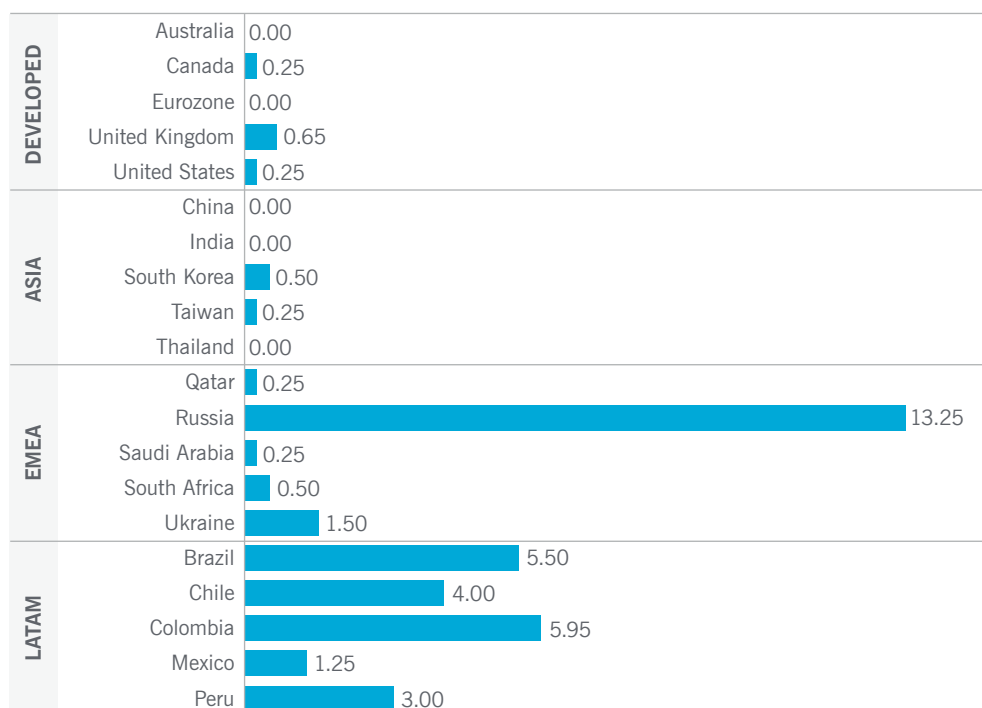
### Latin American stocks may be poised for better performance.

Valuations in Latin America (90% of which consist of Brazilian and Mexican companies) appear more favorable. In part, this is due to relative interest rates and currency valuations. The U.S. dollar has appreciated this year versus the euro,

yen and pound, but not against currencies in Latin America, where central banks are further along in their tightening cycles (Figure 2). We continue to see solid opportunities in these regions and potential for further currency gains.

**FIGURE 2: HIGHER INTEREST RATES FAVOR LATIN AMERICA**

*Change in policy rate since September 30 Sep 2021 (bps)*



Data source: Bloomberg, L.P., 30 Sep 2021 to 24 Mar 2022.

**Look to debt markets for more EM exposure.** Overall, we remain constructive on EM equity markets, particularly China where uncertainty associated with geopolitics and COVID-19 containment measures might make for a bumpy road in the near-term, but economic fundamentals remain intact. We also favor attractively-valued commodity exporters like Brazil and Mexico.

Given its higher weighting in Latin America and yields north of 5% (Figure 3), EM debt might be a better way for investors with a more moderate risk tolerance to add EM to their portfolios. Our EMD specialists continue to find opportunities in commodity exporters and idiosyncratic reform stories, including Saudi Arabia, Oman, Ecuador, Iraq and Zambia. They also favor local markets where central banks have already been tightening, such as South Africa, Brazil, and Chile.

*We're seeing significant differences across emerging markets, and have a particularly favorable view toward Latin American equities.*

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

**FIGURE 3: CONSIDER GENERATING INCOME FROM EMERGING MARKETS DEBT**



Data source: Bloomberg, L.P., 31 Dec 2011 to 24 Mar 2022 **Past performance is no guarantee of future returns. Representative indexes: emerging markets debt:** Bloomberg EM USD Aggregate Total Return Index. Yield-to-worst is the lowest potential yield that can be received on a bond without the issuer actually defaulting. **Spreads** reflect option-adjusted spreads to Treasuries.

*Attractive yields make emerging markets debt a good income-generating candidate, but it pays to be selective.*

## About Nuveen's Global Investment Committee

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*Regular meetings of the GIC lead to published outlooks that offer:*

- macro and asset class views that gain consensus among our investors
- insights from thematic “deep dive” discussions by the GIC and guest experts (markets, risk, geopolitics, demographics, etc.)
- guidance on how to turn our insights into action via regular commentary and communications

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### Endnotes

#### Sources

All market and economic data from Bloomberg, FactSet and Morningstar.

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#### A word on risk

All investments carry a certain degree of risk and there is no assurance that an investment will provide positive performance over any period of time. Equity investing

involves risk. Investments are also subject to political, currency and regulatory risks. These risks may be magnified in emerging markets. Diversification is a technique to help reduce risk. There is no guarantee that diversification will protect against a loss of income. Investing in municipal bonds involves risks such as interest rate risk, credit risk and market risk, including the possible loss of principal. The value of the portfolio will fluctuate based on the value of the underlying securities. There are special risks associated with investments in high yield bonds, hedging activities and the potential use of leverage. Portfolios that include lower rated municipal bonds, commonly referred to as “high yield” or “junk” bonds, which are considered to be speculative, the credit and investment risk is heightened for the portfolio. Credit ratings are subject to change. AAA, AA, A, and BBB are investment grade ratings; BB, B, CCC/CC/C and D are below-investment grade ratings. As an asset class, real assets are less developed, more illiquid, and less transparent compared to traditional asset classes. Investments will be subject to risks generally associated with the ownership of real estate-related assets and foreign investing, including changes in economic conditions, currency values, environmental risks, the cost of and ability to obtain insurance, and risks related to leasing of properties. Socially Responsible Investments are subject to Social Criteria Risk, namely the risk that because social criteria exclude securities of certain issuers for non-financial reasons, investors may forgo some market opportunities available to those that don't use these criteria. Investors should be aware that alternative investments including private equity and private debt are speculative, subject to substantial risks including the risks associated with limited liquidity, the use of leverage, short sales and concentrated investments and may involve complex tax structures and investment strategies. Alternative investments may be illiquid, there may be no liquid secondary market or ready purchasers for such securities, they may not be required to provide periodic pricing or valuation information to investors, there may be delays in distributing tax information to investors, they are not subject to the same regulatory requirements as other types of pooled investment vehicles, and they may be subject to high fees and expenses, which will reduce profits. Alternative investments are not appropriate for all investors and should not constitute an entire investment program. Investors may lose all or substantially all of the capital invested. The historical returns achieved by alternative asset vehicles is not a prediction of future performance or a guarantee of future results, and there can be no assurance that comparable returns will be achieved by any strategy.

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