Outlook on **Emerging Markets**

JUL
2020

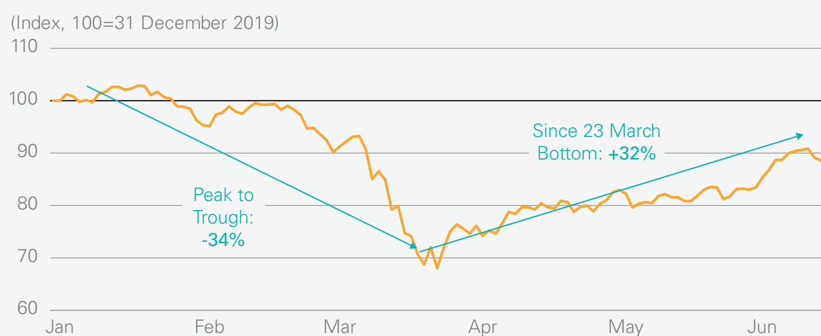
Summary

- Emerging markets equities have enjoyed a V-shaped recovery in the second quarter, with even some stocks that we would consider speculative starting to tick higher.
- In addition to the evolution of COVID-19 around the world, we will be watching the re-emergence of US-China tensions closely in the third quarter.
- Emerging markets debt also staged a remarkable recovery in the second quarter, but based on the lag behind US high yield corporates and global credit markets, we believe the rally may have room to run.
- Within emerging markets debt, we currently see the best return opportunities in high yield external sovereign credit.

Equity

The COVID-19 chapter of the 2020 book certainly isn't finished yet, but the fall and recovery in emerging markets equities so far this year has been a very sharp "V." After falling 34% from peak to trough in the first quarter, emerging markets equities rose 18% in the second quarter and 32% since a 23 March low (Exhibit 1).

Exhibit 1
EM Equities Are ~90% of the Way Back to Pre-COVID Levels



As of 30 June 2020
Source: MSCI

Several factors contributed to the dramatic recovery. China and Japan began reopening their economies without a major second wave of infections, while Korea never went into full lockdown mode to begin with. (It should be noted, however, that both China and Korea have seen an uptick in cases recently.) There has been some progress in clinical trials for COVID-19 vaccines and potential treatments. Finally, the world economy benefited from unprecedented fiscal and monetary stimulus, with the potential for further easing if necessary in a number of places. In the coming months, we will be watching the overall evolution of the disease, from the search for treatments to new outbreaks, particularly in China. We will also pay close attention to if and how the epicenter of the disease shifts, as it did over the past quarter.

We are also tracking the resurgence in political tension between China and the US, as well as territories under Chinese rule. Trade has once again come to the fore in US-Sino relations, with potential consequences for all emerging markets. China also continues to tighten its grip on Hong Kong, with potential implications not only for the global financial center and those that do business there, but for Taiwan.

Finally, as we enter the third quarter, we have identified several catalysts that would point to an uptick in global growth, which would in turn indicate the potential for further re-rating in emerging markets equities.

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The Shape-Shifting Coronavirus

The epicenter of the pandemic shifted in the second quarter from North Asia to India, Latin America, and the United States. Brazil has been hit particularly hard, having recently surpassed 1.4 million cases of the virus and 60,000 deaths. It is expected in July to claim from the US the dubious honor of being the country with the deadliest coronavirus outbreak. Brazil and India are testing far less than is the United States, indicating that the true case count is higher.

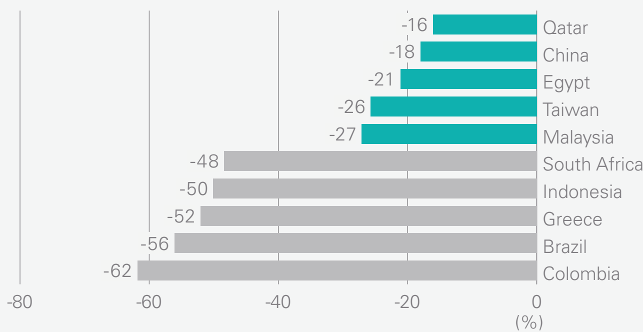
The near-shutdown of the global economy would have hit Brazil hard no matter what, given that a large proportion of the economy still depends on exports of commodities, which are highly sensitive to global growth. But Brazilian President Jair Bolsonaro, whose attitude toward the disease can best be described as dismissive, has also made some unforced errors. For one thing, the governors of each individual state were left to determine the response to the virus themselves, making for a patchwork of preventive measures such as closing non-essential businesses and encouraging citizens to practice social distancing.

The country is also yet again grappling with political turmoil, a state of affairs that has become wearyingly familiar to many international investors. Two health ministers have resigned in protest over the federal response to the crisis. Meanwhile, Bolsonaro is under investigation for allegedly interfering with the work of the federal police as they investigated members of his family. In June, a former aide to Bolsonaro's son, Flavio, was arrested. We once thought that President Bolsonaro's market-friendly reforms would mark a crucial turning point for the country, but that future appears to be further away than we believed.

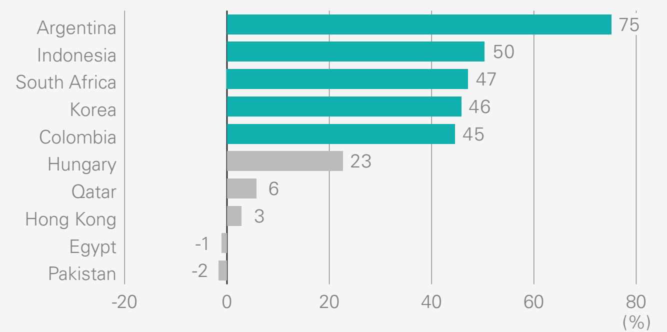
Meanwhile, stocks have behaved oddly during the pandemic. The emerging markets sell-off hurt not only vulnerable companies—those that lacked solid business plans or robust, steady cash flows—but also solid, well-run businesses. Through the 23 March bottom, all sectors and countries were negatively impacted by the pandemic, but the more economically sensitive sectors, such as financials, industrials, energy, and materials sold off the most. Additionally, those markets with a large weighting in these sectors, such as Brazil, Colombia, Indonesia, and South Africa, declined the most. Meanwhile, securities within the communication services, consumer discretionary, and information technology sectors, notably within China, held up the best. Since the bottom, the recovery has been more mixed, with some of the hardest-hit sectors like energy and materials registering significant gains, but with financials lagging the most – perhaps a reflection of lingering growth concerns (Exhibit 2). Lately, stocks we would consider speculative—highly leveraged companies, or those facing coronavirus-specific risks, such as airlines—have started to tick sharply higher. We believe the market, optimistic about the future path of COVID-19, may finally be optimistic enough about the course of the global economy to buy stocks that they believe have been oversold. It's worth pointing out that the gap in valuations between value and growth stocks in emerging markets is wider than at any point in history.

Exhibit 2
Tale of Two Halves

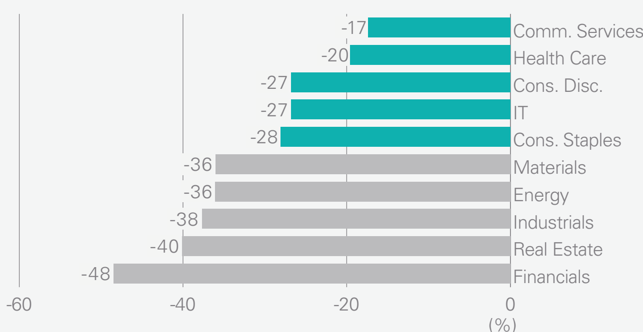
1 January 2020 Through 23 March 2020 (Top and Bottom 5 Country Returns)



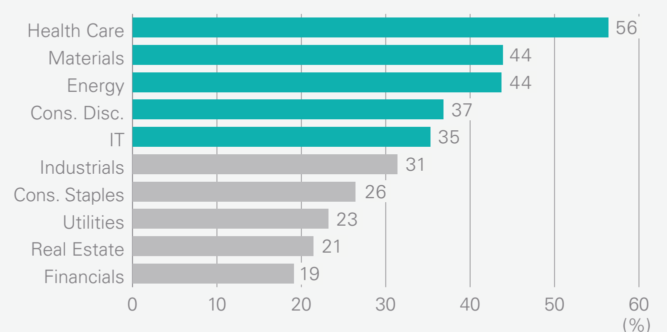
23 March to 30 June 2020 (Top and Bottom 5 Country Returns)



1 January 2020 Through 23 March 2020 (Top and Bottom 5 Sector Returns)



23 March to 30 June 2020 (Top and Bottom 5 Sector Returns)



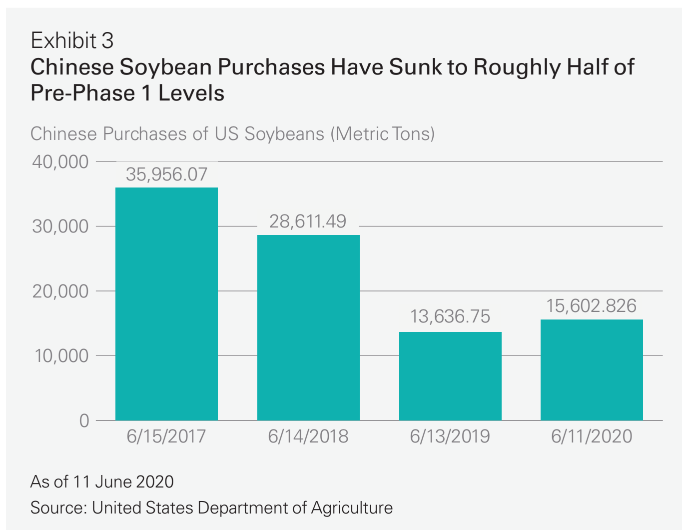
As of 30 June 2020
Source: FactSet, MSCI

Should the global economy continue to open without a resurgence severe enough to send a large part of the globe into quarantine again, we believe investors will also recognize the unique opportunity available in relatively high quality emerging markets stocks that are still available at a discount. We would then expect these stocks to re-rate. Given how exposed emerging markets are to exports and global trade, however, we emphasize the importance of a recovery in employment and consumer demand in developed countries as well as at home.

US–China Tension Heats Up…Again

2019 was the year of the trade war, culminating with China and the US inking a Phase 1 trade deal that sent markets soaring. But the euphoria has been short-lived. The trade agreement required China to spend $200 billion more over the next two years on imports of US products, including agricultural crops such as soybeans, energy products such as crude oil and liquefied natural gas, and manufactured goods. China has fallen short on buying both US oil and soybeans this year, even as oil imports reached a record high in May and demand for soybeans has been strong. Chinese farmers are restocking their herds after a swine flu forced the slaughter of millions of animals, creating demand for animal feed.[1] Through 11 June 2020, China has purchased 15.6 million metric tons of US soybeans (Exhibit 3). While this is larger than the 13.6 million figure one year ago, it is less than half of the 36 million metric tons purchased at the same point in 2017—before the Phase 1 deal.

Exhibit 3
Chinese Soybean Purchases Have Sunk to Roughly Half of Pre-Phase 1 Levels



As of 11 June 2020
Source: United States Department of Agriculture

The US has continued to pressure China on sensitive topics, and China has continued to take a dim view of it. The most salient recent example is in Hong Kong. China introduced a draft of a national security law that would allow mainland officials to supersede the territory's independent judicial system under vaguely defined circumstances in which authorities determine there is a threat to national security. The law would also establish a Chinese office in Hong Kong to gather intelligence and supervise local law enforcement in matters of national security. As a result, US President Donald Trump has said he will end the territory's special relationship with the US, which includes preferential treatment on trade and customs. After the statement, China reportedly told its state-owned entities to stop buying US soybeans.

The rekindling of the trade dispute has major ramifications for both China and the US. While trade is less important to China than it was at the turn of the century, it still accounts for nearly 20% of the country's GDP. Further tensions, tariffs, and restrictions could be a blow to the Chinese economy. The pertinent questions for investors heading into the third quarter are: Is Phase 1 dead? White House trade adviser Peter Navarro said the deal was "over" on 22 June, a claim that President Trump quickly denied. If it's not dead, is there any hope for a Phase 2? The approach of the US election will doubtless complicate calculations on both sides. The Chinese may have more leverage if President Trump keenly desires a deal in time for re-election, or they may simply decide to wait to find out if they might get a better deal under a potential President Joseph Biden. For our part, we believe Biden would be tough on China, but perhaps more amenable to negotiations.

Separately, the US Senate passed a bill in May that would tighten audit requirements for foreign companies that trade on US exchanges, requiring them to submit their audits to the Securities and Exchange Commission's Public Company Accounting Oversight Board and certify that they are not controlled by a foreign government. Several companies, including Alibaba last year and NetEase and JD.com in the past month, have already completed secondary listings in Hong Kong in anticipation of delisting. Yum China, an operator of fast casual restaurants such as KFC and Pizza Hut, is also considering a $2 billion secondary listing. We expect many more secondary listings and observe that far from being a crisis decision, many companies are seizing an opportunity to raise money at a fairly high valuation and doing productive things with the money. JD.com, which issued 133 million new shares ($3.9 billion), plans to invest the proceeds in technology initiatives in its supply chain to enhance the customer experience and improve operating efficiency. We believe the companies that can do so are likely to seek a dual listing outside the US, including in Shenzhen or Hong Kong, and that companies that cannot do that will delist in the US and seek a primary listing somewhere else, perhaps London or Hong Kong.

However, the recent developments do call the future of Hong Kong as a global financial center into serious question, in our view. With China asserting more power over Hong Kong's affairs, we believe it will become a less attractive place for international companies to do business. We would not be surprised to see the locus of power, and therefore, expatriate jobs, shift to nearby Shenzhen or Singapore. The deterioration of the so-called "one country, two systems" paradigm also raises the question of whether China will also begin trying to assert more control over Taiwan.

Chinese Tech Stocks

One of the major areas up for dispute between the US and China is technology. The US charged Huawei's chief financial officer with fraud last year and has blocked the world's largest telecom company not only from buying US parts, but from buying chips from manufacturers that use US technology—a ban that effectively covers the entire industry. However, we would note that the policies that are announced are not always the policies that go into effect. For example, US officials softened an earlier pronouncement so that US companies can work with Huawei on 5G standard-setting, as Huawei was an early leader in the technology and is heavily involved in its rollout

around the world. In addition, companies may be able to obtain a license from the US Department of Commerce to supply Huawei with chips in the future.

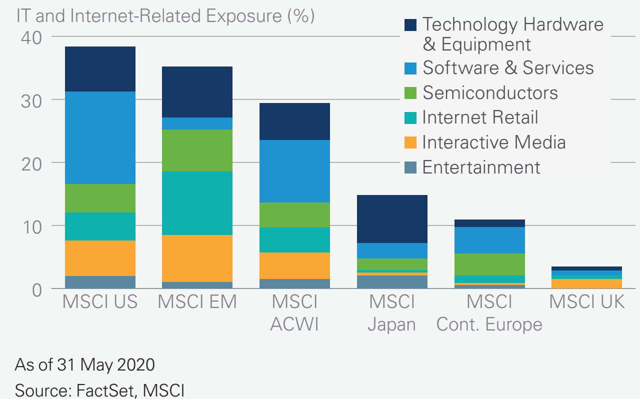
To build goodwill, a company we currently own across all emerging markets strategies where we are not barred from doing so by market capitalization limits, Taiwan Semiconductor Manufacturing Company (TSMC), went so far as to announce that it would build a major manufacturing facility in the US. The ban on supplying Huawei, one of TSMC's major customers, came after that announcement, raising the question of how much goodwill a company linked in any way to China can actually build, even with grand gestures. Still, TSMC is a good example of the nuances involved in developments like the Huawei ban. Currently, TSMC is working through the backlog of Huawei orders, and when that's done, it will certainly need to fill a void. However, the company also has plenty of customers eager to use its best-in-class technology that it did not have capacity to supply before. We also believe that TSMC will apply for a waiver to supply Huawei. In any event, we think companies like TSMC have world-class capabilities that serve as moats protecting them to a certain degree from being outcompeted into obscurity.

Another major question from the Huawei ban is whether the demand for 5G capabilities can shift to other companies or if it may simply disappear. For example, European companies looking to upgrade to 5G could potentially buy technology from Samsung. However, a significant portion of their current infrastructure is from Huawei, and ripping it out and starting over is a much higher-cost endeavor. Some companies might well decide that sticking with 4G is a better bet at the moment. It all remains to be seen, but these are important risks and opportunities for investors in Asian technology companies to consider.

Zooming out a bit to look at the big picture, it's clear that technology stocks have proven to be relatively pandemic-proof in many economies—an understandable development at a time when in-person gatherings are limited and virtual work, shopping, entertainment, and food delivery have become a bigger part of everyday life in many developed markets and the wealthier emerging markets. Emerging markets have plentiful opportunities for technology investment. In fact, the MSCI EM Index is second only to the MSCI US Index in terms of exposure to information technology and Internet-related stocks, 35% to the US' 38% (Exhibit 4). It offers twice the tech exposure of Japanese equities, thrice that of European stocks, and 10 times that of British equities.

Heading into the third quarter, we think Chinese technology companies still offer some rich opportunities. In addition to certain semiconductor manufacturers, we see attractive investments in Internet services companies, particularly those that benefit from the blurring lines between online and offline services and those that have revenue sources other than advertising, including subscriptions and licensing agreements. These companies in particular have benefited from demand scenarios that arose in the pandemic but may continue into the future, including food delivery, online education, digital wallets, and online payment systems.

Exhibit 4
FAANG Isn't the Only Tech Play in Town



As of 31 May 2020
Source: FactSet, MSCI

Catalysts for Change

The fate of emerging markets stocks in the third quarter and beyond will depend on global growth. For us as stock pickers, that means that the macro environment in the developed world and on international issues such as trade is likely to be just as important as domestic developments.

We'll be watching for four catalysts that might indicate that global growth is poised for a comeback. They are:

1. Lower infection rates in economies that are opening or have opened;
2. Unemployment rates stabilizing and falling in developed and emerging markets alike;
3. Improving PMIs and demand for everyday products, an indicator of the financial health of the consumer; and
4. A treatment or vaccine for COVID-19.

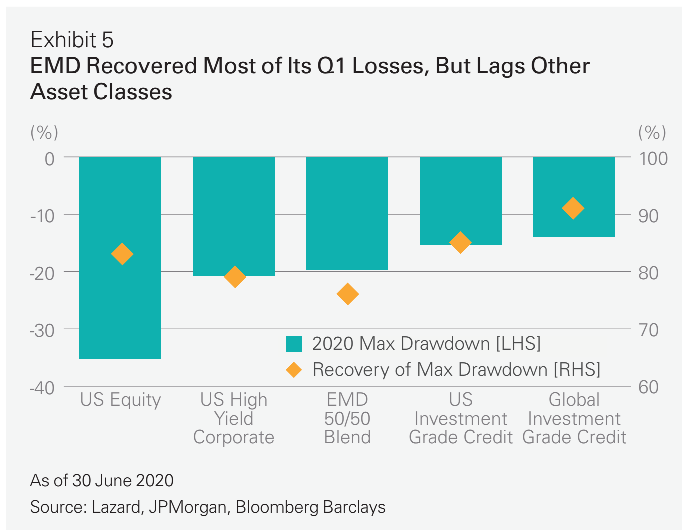
There is no doubt that the first half of 2020 was a challenging time for emerging markets equity investors, and we enter the third quarter in an environment even more uncertain than usual. What we can say, however, is that COVID-19 exacerbated existing price dislocations not only in emerging markets compared to other regions, but in high-quality businesses trading at lower valuations. The course of the pandemic and related government actions will have a great deal of influence in how we end the year, as will trade developments and the US election. But secular trends, including the rise of the increasingly advanced technology sector in Asia, are likely to remain compelling in the next quarter and beyond.

Debt

The Road to Recovery

After suffering historically large losses in both March and the first quarter of 2020, the second quarter marked a reversal of fortunes for emerging markets debt investors. The blended asset class registered one of its best quarters on record with a return of 11.05% and has recouped around 75% of its first quarter drawdown in just three months. As remarkable as this rebound has been, it has lagged that of US and global credit markets, which have recouped anywhere from 80%–90% of their losses (Exhibit 5). To us, this indicates that emerging markets debt may have greater scope for outperformance going forward.

Exhibit 5
EMD Recovered Most of Its Q1 Losses, But Lags Other Asset Classes



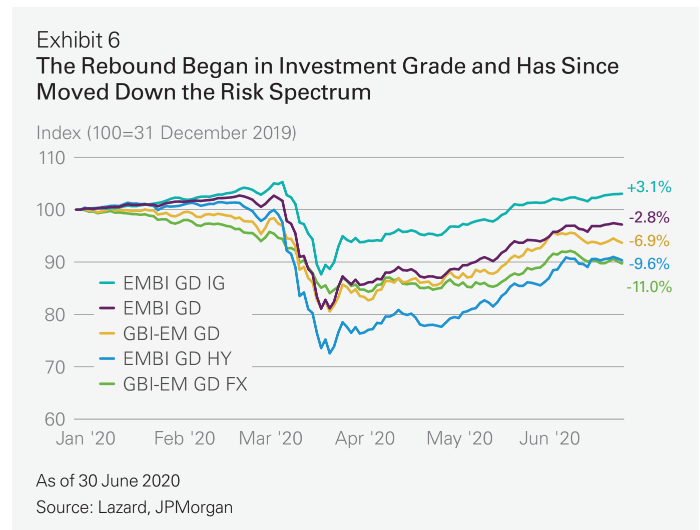
As of 30 June 2020
Source: Lazard, JPMorgan, Bloomberg Barclays

The emerging markets debt rebound began in late March, fueled by the rapid, substantial monetary and fiscal stimulus announced by the world's major economies. The most significant of these was the US Federal Reserve's announcement of its bond-buying program, which sent a strong signal to financial markets that the Fed was both willing and able to absorb not only all new issuance of US investment grade bonds, but also nearly the entire outstanding market. The mere announcement of the program sent shock waves well beyond the US investment grade credit market, helping to stabilize liquidity conditions and reopen primary markets across fixed income markets.

More recently, the strong rally in emerging markets debt has reflected broader risk-on investor sentiment, easing financial conditions around the globe, and indications that global economic activity has already troughed. One thing that became clear to investors early on in the quarter is that the economic fallout from the pandemic is highly unlikely to reach the depression-like severity that some market participants had initially feared. Every day, more countries are beginning the gradual process of reopening their economies. Importantly, there is little evidence from China and Europe that easing lockdown measures will lead to a significant second wave of infections that would require the sort of broad-based shutdown measures that could jeopardize a gradual global economic recovery. Meanwhile, policy support remains in place. Central banks have provided extensive and comprehensive stimulus and stand ready to act, if needed, while the world's largest economies are also stepping up their fiscal response to the pandemic.

Within emerging markets debt, the safest part of the asset class–investment grade external debt—led the initial recovery, as is often the case following large shocks. This segment of the asset class is now back in positive territory on a year-to-date basis (Exhibit 6), owing to its longer duration profile, which boosted returns amid the flight-to-quality rally in Treasury yields. As the rebound gathered momentum in May and investors began to hope that the economic recovery would be swifter than they first imagined, emerging markets debt progressed into the next phase of its recovery. In this phase, the segments of the asset class that are most sensitive to growth–high yield external debt and local currency debt—have outperformed.

Exhibit 6
The Rebound Began in Investment Grade and Has Since Moved Down the Risk Spectrum



As of 30 June 2020
Source: Lazard, JPMorgan

We began increasing risk across portfolios in late March, as spreads breached their widest levels since the global financial crisis. As the second quarter began, we were running around 70%–80% of our risk budget. Initially, our focus was on investment grade exposure, with an emphasis on countries with strong balance sheets and access to financing needed to weather a potentially prolonged economic slump. Given the strong outperformance of investment grade credit, we now see less room for additional spread tightening as valuations have approached our targets. In May, we began rotating down in quality by adding high yield exposure and increased risk exposure to the maximum level permitted by our internal risk budgets.

Our more favorable view is predicated on several factors. First, lockdown restrictions have been relaxed and economic data are poised to improve from the troughs reached in April. China, which we view as a possible leading indicator of what Western countries may experience, is coming back somewhat better than expected, driven by both domestic demand and better-than-expected exports. While there has been an increase in new infection rates in certain regions of the world, we know the playbook for flattening the curve and we currently do not expect major economies to revert to the large scale and broad-based shutdowns previously experienced. Second, access to capital has improved significantly for the vast majority of countries. When the primary markets reopened in late March, only

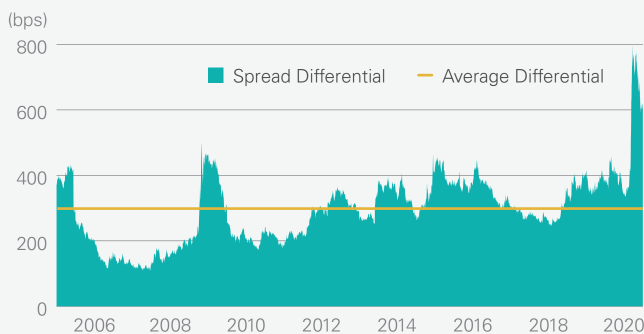
the top investment grade countries were able to issue new debt. However, many high yield countries now have access to financing, either through the capital markets or the International Monetary Fund (IMF), alleviating near-term liquidity pressures. Bahrain and Egypt, for example, issued a combined $7 billion in new debt. Meanwhile, the IMF has made emergency lending facilities available with few restrictions, helping many countries solve short-term financing needs. Lastly, oil prices have bottomed. Lower supply and better-than-expected demand helped the price of Brent crude more than double from its late April trough.

From a valuation standpoint, high yield dollar-denominated debt remains attractive compared to both other emerging markets debt segments and developed markets credit. The spread differential between high yield and investment grade external emerging markets debt remains historically high at over 600 basis points (bps), compared to a long-term average of around 300 bps (Exhibit 7). While this spread differential is unlikely to converge to its longer-term historical average anytime soon, we see ample scope for high yield spreads to tighten further, whereas any additional tightening in investment grade is likely to be far more limited. High yield emerging markets sovereign debt is also attractive relative to US high yield corporates. Since the end of the global financial crisis, spreads on emerging markets debt have traded around 40 bps wide of US high yield (Exhibit 8) on average, but that average belies a very broad range—from some 250 bps tight in 2010 to as much as 340 bps wide during the COVID-19 crisis. Emerging markets debt spreads have outperformed recently, but the spread pick-up remains near historical highs at just over 200 bps currently. Moreover, while we expect to see an increase in emerging markets defaults in 2020, our default rate forecast is relatively muted, and most of these defaults have either already occurred or are priced into the market. In contrast, defaults in US high yield are expected to reach the high single digits this year due to significant exposure to troubled industries such as shale oil production, retail, and travel and hospitality.

While we have turned more positive on high yield, we have not yet turned structurally positive on local currency debt. We have favored duration in local markets, which has performed extremely well; however, the long duration theme is less attractive at current yields, which are hovering near all-time lows. On the other hand, real yields are roughly in line with historical averages given the low level of inflation. Inflation does not appear to be a near-term threat despite ultra-accommodative monetary policies and currency depreciation across the developing world. Conventional easing by emerging markets central banks seems largely exhausted and mostly priced in, though unconventional policy measures could still lend further support in some countries. We still see attractive duration opportunities, mainly in high yielders such as Indonesia, Russia, South Africa, and Mexico, but we are more selective today.

In the final phase of the recovery, we believe local market currencies will outperform. There is little doubt that emerging markets currencies are cheap, as they absorbed much of the shock from the crisis (Exhibit 9). However, depressed valuations alone will not drive sustainable outperformance. In order for currencies to revert to more normal valuation levels, we would need to see a shift to structural weakness in the US dollar, evidence of emerging markets growth outperforming developed markets growth, or both. Now that the economic fallout from the pandemic looks as though it will be much less severe than many had initially expected, the case for continued dollar strength is much less convincing. The dollar has already weakened around 5% from its peak during the flight-to-safety rally earlier this year, but remains significantly overvalued relative to the currencies of US trading partners. A number of factors could help drive structural weakness in the dollar, including lower-for-longer Treasury yields and a ballooning fiscal deficit. We expect these risks to increase in the coming months, as we believe the Fed is likely to announce measures to cap a rise in bond yields (i.e., yield curve control) later in the year. As markets begin to focus more on the US election in November, the dollar could weaken further if Democrats look likely to win both the presidency and majorities in the House of Representatives and Senate. While we believe it is too soon to call for a secular shift in the greenback, we believe dollar weakness is a theme that is likely to play out in phase three of the recovery.

Exhibit 7
The Spread Differential Between High Yield and Investment Grade EMD Is at a Historic High

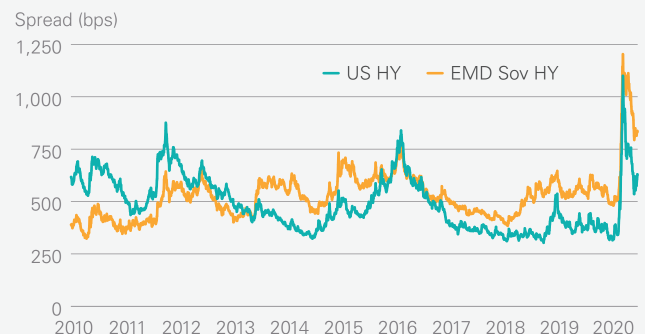


As of 30 June 2020

Indices used: JPM EMBI GD IG for investment grade bonds and JPM EMBI GD HY for high yield bonds

Source: Lazard, JPMorgan

Exhibit 8
High Yield EMD Valuations Are Also Attractive versus US High Yield

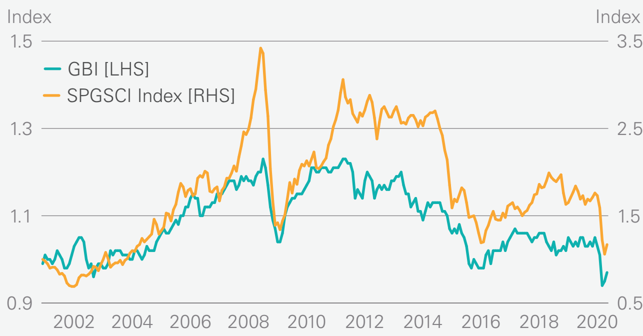


As of 30 June 2020

Indices used: JPMorgan EMBI GD HY for Emerging Markets High Yield and Bloomberg Barclays US High Yield Corporate Index for US High Yield

Source: Lazard, Bloomberg Barclays, JPMorgan

Exhibit 9
EM Currency Valuations Are Near All-Time Lows



As of 30 June 2020
Source: Bloomberg, JPMorgan, S&P

While our view on emerging markets debt is constructive, we would be remiss to ignore the risks given the high level of uncertainty around the health crisis, economic data, and geopolitical outlook. The main risk, in our view, is the potential for a second wave of infections that precipitates another global economic shutdown. Although we have yet to see any large-scale reversal in the reopening process, a fog of uncertainty continues to linger over markets, as a potential resurgence of infection rates poses a risk to the recovery. Additionally, as the US presidential election approaches, markets are likely to increasingly focus on what either a second term for President Donald Trump or a win for former Vice President Joseph Biden could mean for emerging markets.

We continue to believe the recovery in emerging markets debt will vary. In general, emerging markets countries entered the crisis from a position of relative strength. Many countries proved they have the strong institutional frameworks, ample reserves, and policy flexibility to respond to the pandemic. However, not all countries will emerge from the crisis on equal footing, and some will undoubtedly face greater challenges. Many emerging markets countries have limited fiscal and monetary policy space to further respond to the crisis, and although it has not been a focal point of the markets, many also lag the developed world in controlling the virus. We are avoiding deteriorating credits with poor fundamentals, weak institutions, and a lack of policy credibility, as well as smaller countries with weak balance sheets and less diversified economies that tend to be highly dependent on commodities.

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Notes

1 https://foreignpolicy.com/2020/06/01/china-ends-trump-trade-deal-phase-one/

Important Information

Published on 8 July 2020.

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An investment in bonds carries risk. If interest rates rise, bond prices usually decline. The longer a bond's maturity, the greater the impact a change in interest rates can have on its price. If you do not hold a bond until maturity, you may experience a gain or loss when you sell. Bonds also carry the risk of default, which is the risk that the issuer is unable to make further income and principal payments. Other risks, including inflation risk, call risk, and pre-payment risk, also apply. High yield securities (also referred to as "junk bonds") inherently have a higher degree of market risk, default risk, and credit risk. Securities in certain non-domestic countries may be less liquid, more volatile, and less subject to governmental supervision than in one's home market. The values of these securities may be affected by changes in currency rates, application of a country's specific tax laws, changes in government administration, and economic and monetary policy. Emerging markets securities carry special risks, such as less developed or less efficient trading markets, a lack of company information, and differing auditing and legal standards. The securities markets of emerging markets countries can be extremely volatile; performance can also be influenced by political, social, and economic factors affecting companies in these countries. Derivatives transactions, including those entered into for hedging purposes, may reduce returns or increase volatility, perhaps substantially. Forward currency contracts, and other derivatives investments are subject to the risk of default by the counterparty, can be illiquid and are subject to many of the risks of, and can be highly sensitive to changes in the value of, the related currency or other reference asset. As such, a small investment could have a potentially large impact on performance. Use of derivatives transactions, even if entered into for hedging purposes, may cause losses greater than if an account had not engaged in such transactions.

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The MSCI Emerging Markets Index is a free-float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. The MSCI Emerging Markets Index consists of emerging markets country indices including: Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Qatar, Russia, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey, and United Arab Emirates.

The JP Morgan Emerging Markets Bond Index (EMBI Global Diversified) is a uniquely weighted version of the EMBI Global. It limits the weights of those index countries with larger debt stocks by only including specified portions of these countries eligible current face amounts of debt outstanding. The countries covered in the EMBI Global Diversified are identical to those covered by the EMBI Global.

The JP Morgan Government Bond Index-Emerging Markets Global Diversified Index is a uniquely weighted version of the GBI-EM Global. It limits the weights of those index countries with larger debt stocks by only including specified portions of these countries' eligible current face amounts of debt outstanding. The countries covered in the GBI-EM Global Diversified are identical to those covered by the GBI-EM Global Index.

Bloomberg Barclays US High Yield Index measures the market of fixed rate, non-investment grade debt. The index covers dollar-denominated, non-convertible bonds in both corporate and non-corporate sectors registered with the US Securities & Exchange Commission (SEC) with a bond rating of Ba1/BB+ or lower as rated by at least two of Moody's, S&P, and/or Fitch. Canadian and global SEC-registered bonds of issuers in non-emerging countries are included. Non-emerging countries are defined as those with a sovereign rating of A3/A- or higher as rated by the three agencies. Securities must have at least one year to final maturity to be included into the index.

The indices are unmanaged and has no fees. One cannot invest directly in an index.