

# Quick Take: Navigating the EM Value Rotation

June 2022

## A Decade Spent Chasing Growth

- Over the past decade, as growth outpaced value, many EM investors favored growth-oriented strategies (top chart). This was part of a larger phenomenon that we have characterized elsewhere\* as a “one factor bet” on growth.
- During that period, many EM investors dismissed value outright, leaving it for dead. As the wave of speculative excess toward growth has dissipated, many investors are once again embracing value. Wariness remains as value’s protracted underperformance continues to cast a shadow.

## A Prudent Approach to Value

- For investors who abandoned value, we believe reengaging makes sense. But with enormous differentiation in value investing approaches, some are far better conceived than others.
- We believe these “rules of the road” are a practical guide:
  - Rather than try to time value, it should be a consistent part of the investing process. The value spreads in the middle chart illustrate the challenge investors face when trying to determine a proper entry point—especially since 2012.
  - Value signals work best in a more balanced framework that includes other important criteria like the sustainability of earnings and forward-looking growth prospects. A “one factor bet” on any signal (bottom chart) is likely to result in exposure to unintended risks.
  - Commoditized value implementations are vulnerable to myriad unintended risks, including sector and overall market exposures.

\* See [Reassessing Emerging Market Equities](#)

\*\* eVestment Global Emerging Markets All Cap and Large Value and Growth Universes

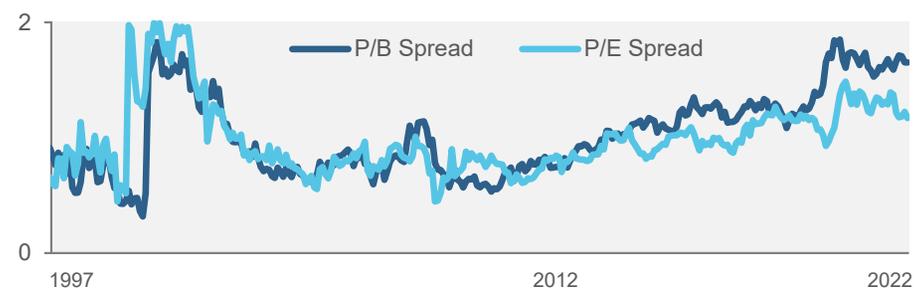
## A Decade Spent Chasing Growth

Cumulative Net Flows\*\* (USD Billions, 2012-March 2022)



## Emerging Markets Value Spreads

75<sup>th</sup> minus 25<sup>th</sup> Percentiles, MSCI EM Index (log scale, 1997-May 2022)



## Commoditized Implementations Embed Unintended Risks

Rolling 1-year Excess Returns, MSCI EM Style Indices vs. MSCI EM (1997-May 2022)



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