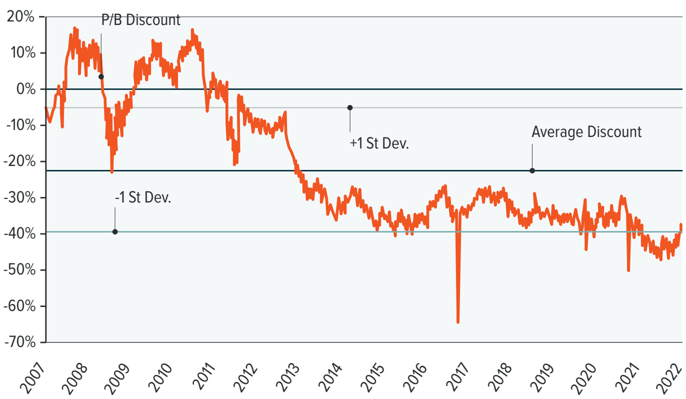
Emerging Market (EM) equities present a significant catch-up opportunity. This is based on compelling valuations with EM equities trading at a significant discount, growth potential in EM countries, an attractive interest rate differential between EM and developed market (DM) economies, and new opportunities for growth as EM continue to evolve and diversify.

Attractive Valuations

Current valuations remain compelling with emerging market equities trading at a discount of roughly 39% relative to developed market equities. On a forward price-to-book basis, the average discount between emerging and developed market equities has historically stood at 23%.*

EMERGING MARKETS ARE TRADING AT A DISCOUNT

Sources: Bloomberg, EM vs DM P/B Ratio. As of 6/30/22. *From January 2007 to June 30 2022

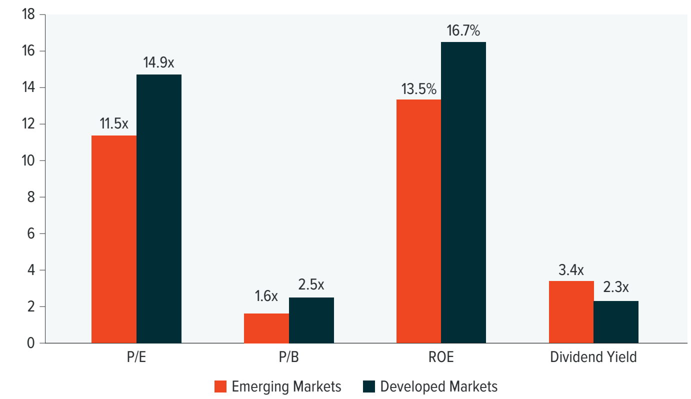


An earnings rebound also appears to be underway for emerging market companies. Emerging market corporate earnings are still coming from a low base, and improved operating and financial health of these companies should drive considerable margin expansion and earnings growth in the near to medium term.

Looking beyond labor force participation, we can also look to additional future drivers of improving female economic status. Much of this should come from improvements in corporate behavior, such as paid parental leave, schedule flexibility, and enforceable environmental, social and governance (ESG) policies — specifically in regards to diversity and gender pay gaps.

ATTRACTIVE VALUATIONS AND HIGHER YIELDS COMPARED TO DM

Sources: Factset as of 6/30/22. Based on 12-month forward multiples.
EM=MSCI EM Index; DM=MSCI World Index.

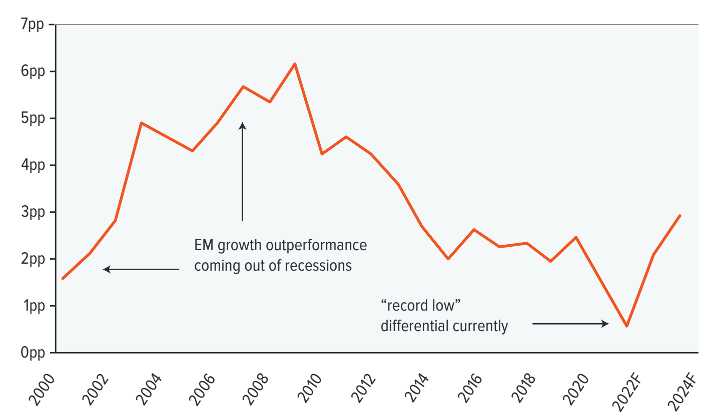


GDP Growth is Resilient in Emerging Markets

Growth prospects for emerging markets are expected to outpace those of developed markets. According to the International Monetary Fund, emerging markets experienced faster growth in 2021 and will likely continue to outperform developed markets in 2022.

EXPANDING EM VS. DM GDP GROWTH DIFFERENTIAL

Sources: IMF, World Economic Outlook Update April 2022. F=Forecast. Forecast numbers are projections only and not guarantees.



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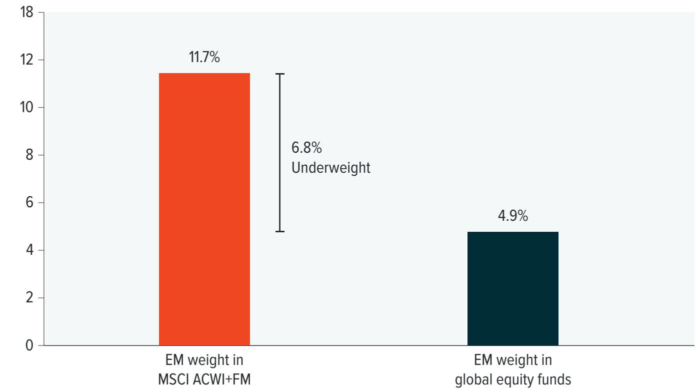
Investors Remain Underweight Emerging Markets

Emerging markets currently account for about 11.7% of the global equity market but global equity investors only have about a 4.9% allocation to emerging market equities, implying that investors are around 6.8% underweight in emerging markets. At the same time, we see a significant amount of cash being held on the sidelines. From 2020 through 2021, the MMFA Index, which represents the total value of money-market funds within it, increased approximately 29%.[1] We believe that emerging market equities will close this allocation gap over the next few years, which will support a re-rating of the asset class.

INVESTORS ARE UNDER-ALLOCATED TO EMERGING MARKETS

Sources: EPFR Global, Thomon Reuters Datastream, HSBC calculations, Mirae Asset. As of 2/28/22



Emerging Market Considerations

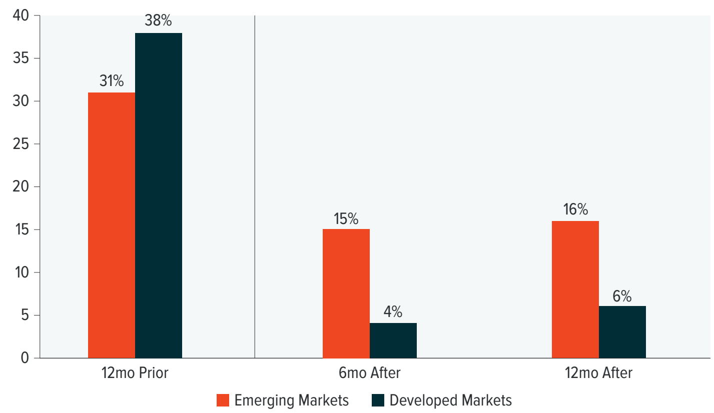
Interest Rates

The combination of various years of easy monetary policy, recent waves of fiscal stimulus, Covid-induced supply chain challenges, and the current commodity environment has led to a spike in global inflation. This spike has led the Fed to pivot into a rate hiking cycle that has led to significant market uncertainty.

Looking back at data between 1999 and 2022, EM equities have outperformed, on average, by 11% and 10%, respectively, the following 6 and 12 months after initial Fed rate hikes.

AVERAGE RETURNS FOR EM AND DM EQUITIES BEFORE AND AFTER INITIAL FEDERAL RESERVE RATE HIKES 1999-2022

Sources: Source: Bloomberg, as of 3/31/22. EM=MSCI EM Index, DM= S&P 500.
12mo Prior (6/30/98-6/30/99; 6/30/03-6/30/04; 12/16/14-12/16/15; 3/16/21-3/16/22)
6mo After (6/30/99-12/30/99; 6/30/04-12/30/04; 12/16/15-6/16/16)
12mo After (6/30/99-6/30/00; 6/30/04-6/30/05; 12/16/15-12/16/16)



An Evolving Asset Class

In the last decade, emerging market economies have evolved and diversified, with rising domestic consumption and technology providing major secular growth drivers. The "Old EM" economies were centered around manufacturing and commodities, broadly reliant on cheap exports of natural resources to developed markets. The asset class has evolved towards services, creating new opportunities for growth in areas such as healthcare, education, entertainment, housing, financial services, and discretionary spending — "New EM."

SHRINKING OLD EM, GROWING NEW EM*

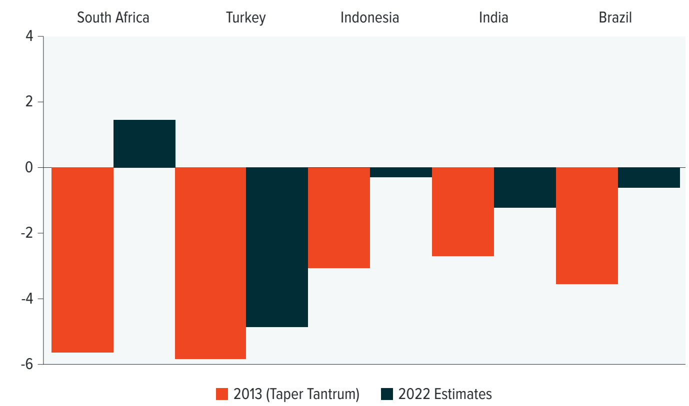
Sources: *New EM = MSCI EM Discretionary + Staples + Healthcare + Financials + Communication Services + IT weight. Old EM = MSCI EM Materials + Energy + Industrials weight. Source: Factset, as of December 31, 2021.

Improving Accounts

Emerging markets are less vulnerable to external currency and interest rate shocks than they were in the past, as their foreign reserves and current account balances have largely improved. Current accounts in many emerging market countries, including those of the Fragile 5, have generally improved since the 2013 Taper Tantrum. Both governments and corporates have broadly learned their lessons from previous periods of volatility leading to more conservative and foreign exchange matched balance sheets.

CURRENT ACCOUNT DEFICITS HAVE IMPROVED IN THE FRAGILE 5

Sources: Bloomberg. As of 6/30/22

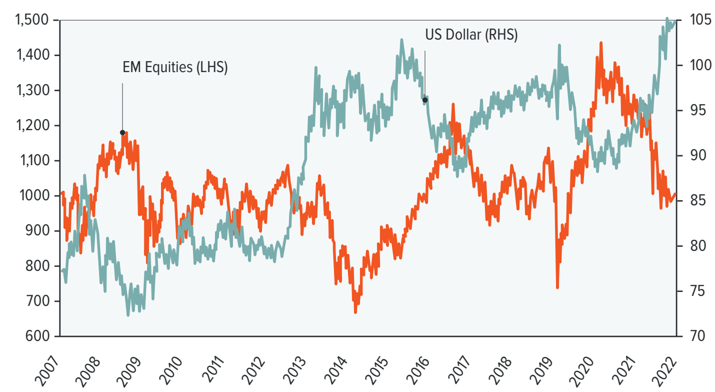


US Dollar Effect

Historically, there is a strong relationship between the US Dollar and EM equities. Some key factors that can contribute to US Dollar performance include: monetary policy, fiscal policy, regional economic growth, positioning of global investors.

A REVERSAL OF THE US DOLLAR SHOULD SUPPORT EM EQUITIES

Sources: Bloomberg. EM equities are represented by the MSCI EM Index and the US Dollar by the DXY Index As of 6/30/22.



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