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Something to write home about: Emerging markets crushed U.S. stocks & bonds in 1H2017

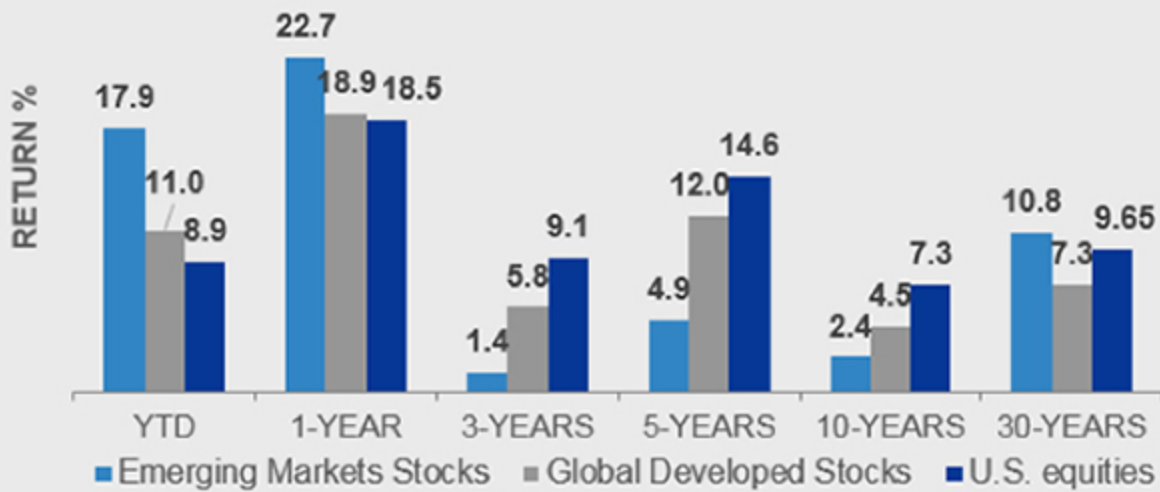


Here's something for globally diversified investors to write home about:

Emerging market equities (MSCI Emerging Markets Index) **have handily beaten U.S. stocks** (Russell 3000® Index) **and global developed stocks** (MSCI World Index) **year-to-date and for the past 12 months, as of June 30, 2017**, as the chart below shows.

EMERGING MARKETS VS. DEVELOPED MARKETS

ANNUALIZED RETURNS ENDING JUNE 2017



Sources: Emerging markets stocks—MSCI Emerging Markets Index; Global Developed Stocks—MSCI World Index; U.S. stocks—Russell 3000 Index; Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment. Indexes are unmanaged and cannot be invested in directly.

Why all the fanfare? As the chart above also shows, although emerging markets have long been recognized as an asset class that has the potential to deliver above average returns relative to other equity classes, it's been a while since they've fulfilled that potential for any extended period of time. Investors who held onto their emerging markets exposure through the tough times—as recently as late November 2016—have been rewarded for their patience.

Strength beyond equities in emerging markets

What's more, the strength in emerging markets has extended beyond equities:

Emerging markets debt (JPMorgan Emerging Markets Bond Index) **has outperformed core bonds** (Bloomberg Barclays U.S. Aggregate Bond Index) **year to date—as well as for the past 1, 3, 5, 10 and 20-year periods (all ending June 30, 2017).**

EMERGING MARKETS VS. CORE BONDS

ANNUALIZED RETURNS ENDING JUNE 2017



Sources: Emerging markets debt—JPMorgan Emerging Markets Bond Index; Core bonds—Bloomberg Barclays U.S. Aggregate Bond Index. Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment. Indexes are unmanaged and cannot be invested in directly.

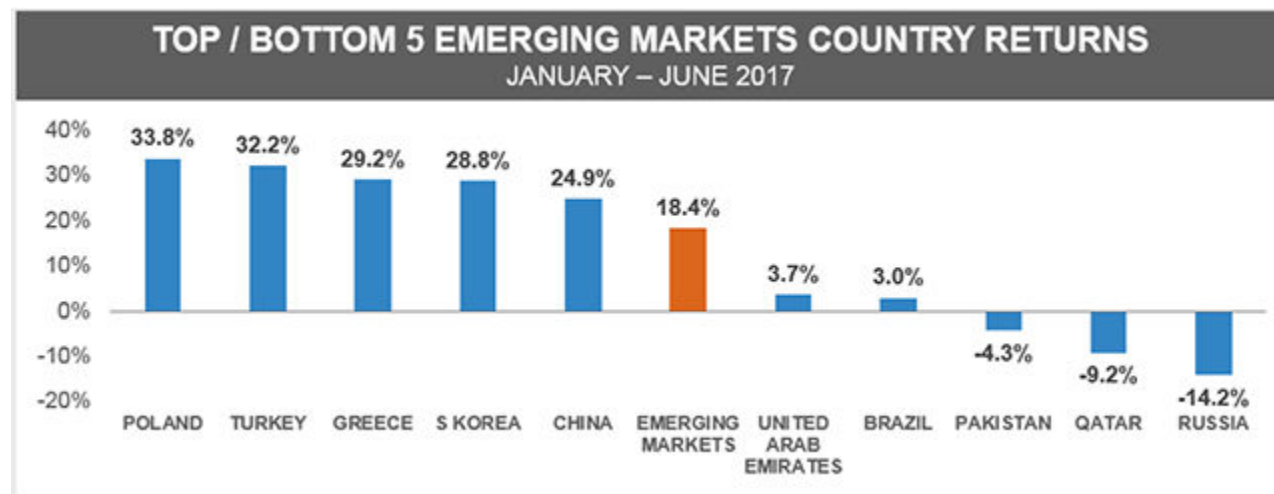
Why the turnaround?

A number of factors have helped emerging market performance turnaround:

- Weak U.S. dollar
- Rising global consumer demand
- Investor appetite for riskier investments
- Improving emerging market corporate profit margins
- Attractive valuations
- A more dovish outlook for future U.S. rate hikes.

Emerging markets are not monolithic

That said, emerging markets are a disparate group of countries with very distinct economies. Having deep expertise about each market still matters as they don't all move in the same direction at the same time. Case in point: year to date as of June 30, 2017, returns in emerging markets stocks have ranged from +33.8% (Poland) to -14.2% (Russia).



All returns are MSCI Emerging Markets Index Country Returns. Emerging Markets Cap = MSCI All Country World Index (May 2017); Population: IMF 2016; GDP: IMF, 2016 (both population and GDP reflect emerging and developing countries). Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment. Indexes are unmanaged and cannot be invested in directly.

Where to from here?

As of mid-July 2017, our strategist team is currently slightly overweight emerging markets based on reasonable valuations, a favorable cycle and neutral sentiment.

The bottom line

Investors who held strong and maintained exposure to emerging market stocks and bonds have been rewarded in the past 12 months. The outlook for the asset class appears favorable for investors who have commensurate risk tolerance. Partnering with an active manager with deep expertise in emerging markets to navigate the disparate economies has the potential to unlock further rewarding opportunities.

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Bloomberg Barclays U.S. Aggregate Bond Index: An index, with income reinvested, generally representative of intermediate-term government bonds, investment grade corporate debt securities, and mortgage-backed securities. (specifically: Barclays Government/Corporate Bond Index, the Asset-Backed Securities Index, and the Mortgage-Backed Securities Index).

JPM Emerging Market Bond Index (EMBI): Dollar-denominated sovereign bonds issued by a selection of emerging market countries.

MSCI Emerging Markets Index: A float-adjusted market capitalization index that consists of indices in 21 emerging economies: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

MSCI World Index: captures large and mid-cap representation across 23 Developed Markets countries. With 1,656 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

Russell 3000® Index: Index measures the performance of the largest 3000 U.S. companies representing approximately 98% of the investable U.S. equity market.

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