

# Emerging Markets

 Country Selection Update | August 2022

**SUPERIOR PERFORMANCE THROUGH COMMITMENT TO VALUE**

KEPPLER ASSET MANAGEMENT INC.

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## Risk & Return Characteristics

Returns with Net Dividends Reinvested in US Dollars

December 31, 1988 - July 31, 2022	Top Value Strategy	EM Equally Weighted	MSCI EM Index	
Number of Months	403	403	403	
Average Monthly Return (%)	1.66	1.24	0.90	
Compound Annual Return (%)	18.34	13.48	8.66	
Number of Winning Months	251	243	241	
Highest Monthly Return (%)	32.8	25.7	19.0	
Probability of Monthly Gain (%)	62.3	60.3	59.8	
Average Gain in Winning Months (%)	5.63	4.84	4.86	
Expectation of Monthly Gain (%)	3.51	2.92	2.90	
Number of Losing Months	152	160	162	
Lowest Monthly Return (%)	-29.5	-27.5	-28.9	
Probability of Monthly Loss (%)	37.7	39.7	40.2	
Average Loss in Losing Months (%)	4.90	4.24	4.97	
Expectation of Monthly Loss (%)	1.85	1.68	2.00	
Longest Losing Streak (# Months)	5	6	6	
Largest Drawdown from Previous High (%)	64.7	55.7	61.6	
Standard Deviation of Monthly Returns (%)	7.06	5.96	6.42	
<b>Monthly Risk-Adjusted Return</b> (Kepler Ratio)	0.90	0.74	0.45	
<b>Monthly Volatility-Adjusted Return</b> (Sharpe Ratio)	0.24	0.21	0.14	
2013	0.6	-6.6	-2.6	
2014	-12.6	-2.9	-2.2	
2015	-16.9	-15.9	-14.9	
2016	16.3	13.7	11.2	
<b>Annual Returns (%)</b>	2017	33.9	32.8	37.3
2018	-12.5	-12.0	-14.6	
2019	14.6	13.8	18.4	
2020	7.4	1.2	18.3	
2021	3.4	2.6	-2.5	
Year to date	-15.0	-12.9	-17.8	

KEPPLER ASSET MANAGEMENT INC. | NEW YORK

Updated through: July 31, 2022

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## Recent Developments & Outlook

After having suffered their worst monthly decline in a year in June, all but one of the emerging markets we follow here eked out some gains last month. The MSCI Emerging Markets Index (ND) gained 0.1 % in local currencies and 2.3 % in euros. However, due to the strong US currency, it lost 0.2 % in US dollars. The MSCI EM Index (December 1988 = 100) now stands at \$ 1,625 and € 1,756, respectively. Year-to-date, the EM benchmark is down 13.6 % in local currencies, 17.8 % in US dollars and 8.4 % in euros. As shown by the KAM Equally Weighted EM Index, smaller markets did much better by losing less than the larger ones. The euro finished July down 2.5 % at 1.0197 versus the US dollar. Compared with its end-of-2021 level of 1.1372, it lost 10.3 %.

Twenty-three markets included in the MSCI Emerging Markets Index advanced in July and one market (China) declined. India (+9.7 %), Chile (+8.1 %) and Greece (+7.1 %) performed best last month, while China (-9.4 %), Mexico (+0.9 %) and the Czech Republic (+1.7 %) came in at the bottom of the range. Year-to-date, eleven markets are up and thirteen are down. The biggest winners this year are Turkey (+34.0 %), Chile (+29.5 %) and Kuwait (+15.5 %), while Hungary (-26.5 %), Egypt (-25.5 %) and Poland (-24.6 %) performed worst. Performance is in local currencies unless mentioned otherwise.

The *Emerging Markets Top Value Model Portfolio*, which is based on the *Top Value Strategy* (December 1988 = 100) using national MSCI country indices as hypothetical investment vehicles, advanced 2.9 % in local currencies, 2.0 % in US dollars and 4.6 % in euros in July and now stands at \$ 28,607 and € 30,926. Year-to-date, it is down 7.2 % in local currencies, 15.0 % in US dollars and 5.2 % in euros, thus outperforming its EM benchmark by between 2.8 and 6.4 percentage points, depending on the currency. There is one change in our performance ratings last month: Thailand is downgraded to “Sell” from “Neutral”. The *Top Value Model Portfolio* continues to hold the nine “Buy”-rated markets Brazil, Chile, China, Korea, Malaysia, Mexico, Poland, Taiwan and Turkey. According to our analyses, an equally weighted combination of these most attractively valued markets offers the highest expectation of long-term risk-adjusted performance. For the recent performance of the national and regional MSCI EM indices, benchmarks and strategies, please see page 6.

The table below shows how the *Emerging Markets Top Value Model Portfolio* compares to three alternatives as of July 31, 2022 based on selected valuation and return measures:

	Valuation Ratios			Rates of Return (%)		
	PBV	PCF	PE	DY	CFRoE	RoE
<b>EM Top Value Model Portfolio</b>	<b>1.37</b>	<b>5.6</b>	<b>8.4</b>	<b>4.59</b>	<b>24.4</b>	<b>16.3</b>
MSCI Emerging Markets Index	1.64	8.5	12.5	3.18	19.3	13.1
MSCI World Index (DM)	2.90	12.8	18.5	2.05	22.8	15.7
MSCI EM Growth Index	3.11	12.5	19.7	1.65	24.9	15.8

According to our analyses, the asset class *Emerging Markets Equities* is now undervalued by 36 % compared to the MSCI World Index of the developed markets. Moreover, the *Emerging Markets Top Value Model Portfolio* is now undervalued by 29 % compared to the MSCI Emerging Markets (Standard) Index, by 55 % compared to the MSCI World Index of the developed markets (DM) and by 59 % compared to the MSCI EM Growth Index. This extreme undervaluation is not justified by the underlying fundamentals and therefore is expected to lead to a significant outperformance of the *Top Value Model Portfolio* in the next three to five years.

Michael Keppler,  
New York, August 1, 2022

P.S. Mainly due to liquidity issues and geopolitical risks, we are deviating from straight equal weighting of markets in the portfolios we advise.



## Current Ratings & Valuation Characteristics

CURRENT RATINGS	Valuation Ratios			Rates of Return (%)		
	Price/ Book Value	Price/ Cash Flow	Price/ Earnings	Dividend Yield	Cash-Flow Re- turn on Equity	Return on Equity
<b>BUY CANDIDATES (Top Value)</b>	1.37	5.6	8.4	4.59	24.4	16.3
Brazil	1.52	3.6	5.2	11.30	42.6	29.5
Chile	1.59	6.4	8.5	5.44	25.0	18.7
China	1.39	12.9	14.5	2.40	10.8	9.5
Korea	1.01	5.3	9.3	2.35	19.3	10.9
Malaysia	1.53	8.7	16.1	3.97	17.6	9.5
Mexico	1.85	7.0	13.8	3.72	26.5	13.3
Poland	0.96	3.3	5.8	3.86	29.2	16.5
Taiwan	2.14	7.8	11.3	4.37	27.3	19.0
Turkey	1.16	4.9	5.4	3.96	23.5	21.4
<b>SELL CANDIDATES</b>	2.32	11.4	22.6	2.00	20.4	10.2
India	3.56	16.6	23.5	1.28	21.4	15.1
Kuwait	2.49	9.1	24.2	2.38	27.4	10.3
Philippines	1.78	12.0	20.6	1.76	14.8	8.6
↓ Thailand	2.09	10.3	22.6	2.56	20.3	9.2
<b>NEUTRALLY RATED MARKETS</b>	1.46	6.4	11.2	3.73	23.0	13.1
Colombia	1.22	4.3	6.5	6.21	28.1	18.9
Czech Republic	2.07	7.9	12.4	5.38	26.3	16.7
Egypt	1.17	5.4	5.5	4.73	21.5	21.5
Greece	0.86	6.8	-16.2	2.22	12.6	-5.3
Hungary	0.83	3.0	5.4	1.77	27.9	15.4
Indonesia	2.50	8.2	16.6	3.08	30.6	15.1
Peru	1.58	6.8	9.8	4.91	23.3	16.1
Qatar	2.17	9.6	16.4	3.29	22.4	13.2
Saudi Arabia	2.55	9.5	18.7	2.46	26.7	13.6
South Africa	1.70	7.0	10.4	3.84	24.4	16.4
United Arab Emirates	1.94	12.1	14.5	3.11	16.1	13.4
<b>MSCI EM Index (CW)</b>	1.64	8.5	12.5	3.18	19.3	13.1
<b>KAM EM Index (EW)</b>	1.49	6.1	9.6	3.95	24.6	15.6
<b>EM Asia Index</b>	1.61	9.6	13.8	2.61	16.9	11.7
<b>EM EMEA Index</b>	1.86	7.3	13.2	3.11	25.5	14.1
<b>EM Latin America Index</b>	1.59	4.3	6.5	8.67	36.9	24.5

↓↑ Arrows indicate direction of change in rating

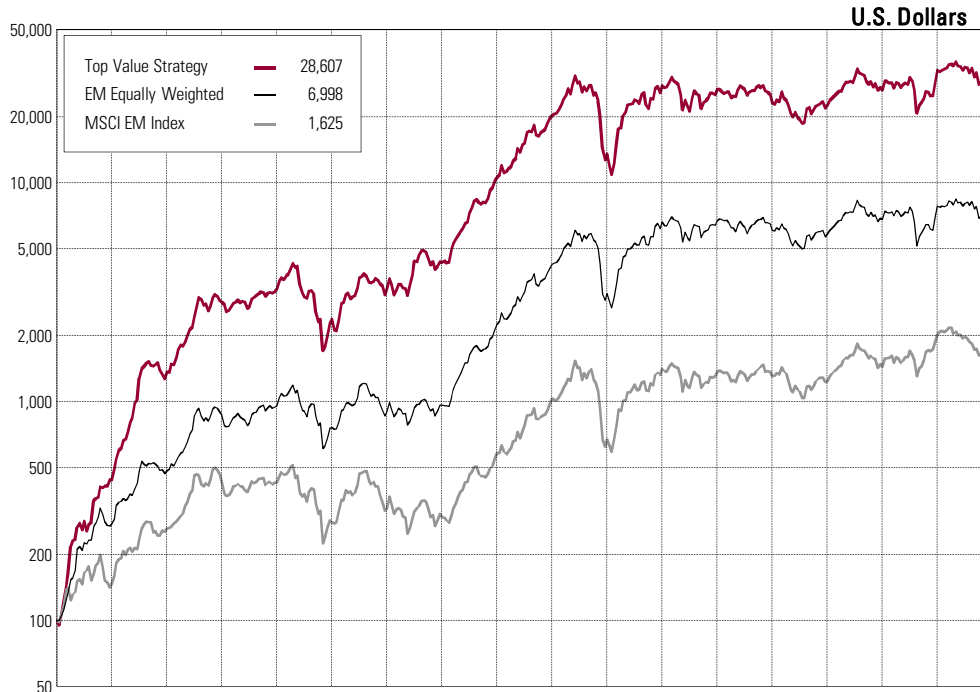


# Top Value Strategy Performance History\* versus the MSCI EM Index

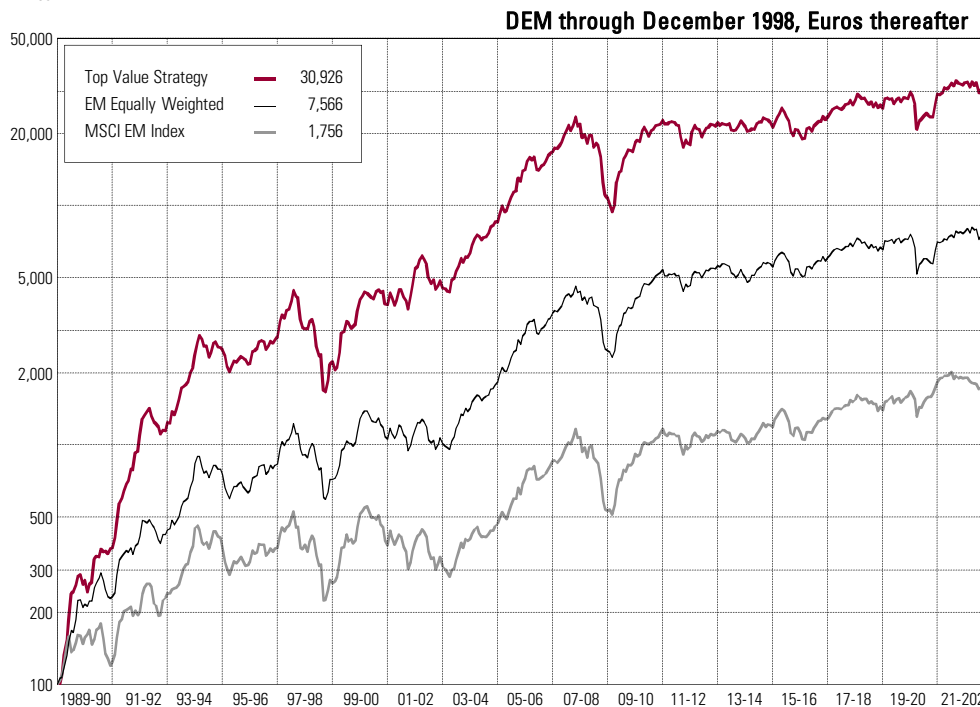
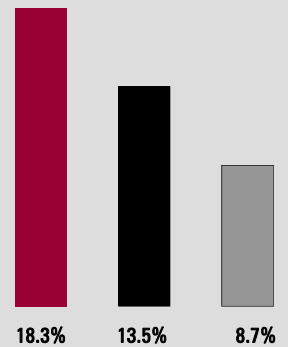
Total & Compound Annual Returns with Net Dividends Reinvested

**Total Returns**  
December 1988 = 100

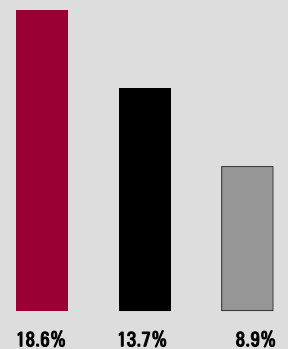
**Compound Annual Returns**  
December 1988 - July 2022



Top Value Strategy	EM Equally Weighted	MSCI EM Index
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Top Value Strategy	EM Equally Weighted	MSCI EM Index
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\*From January 2003: Using MSCI national market indices as hypothetical investment vehicles. Prior to 2003, S&P/IFCI national market indices.



## Recent Performance\*

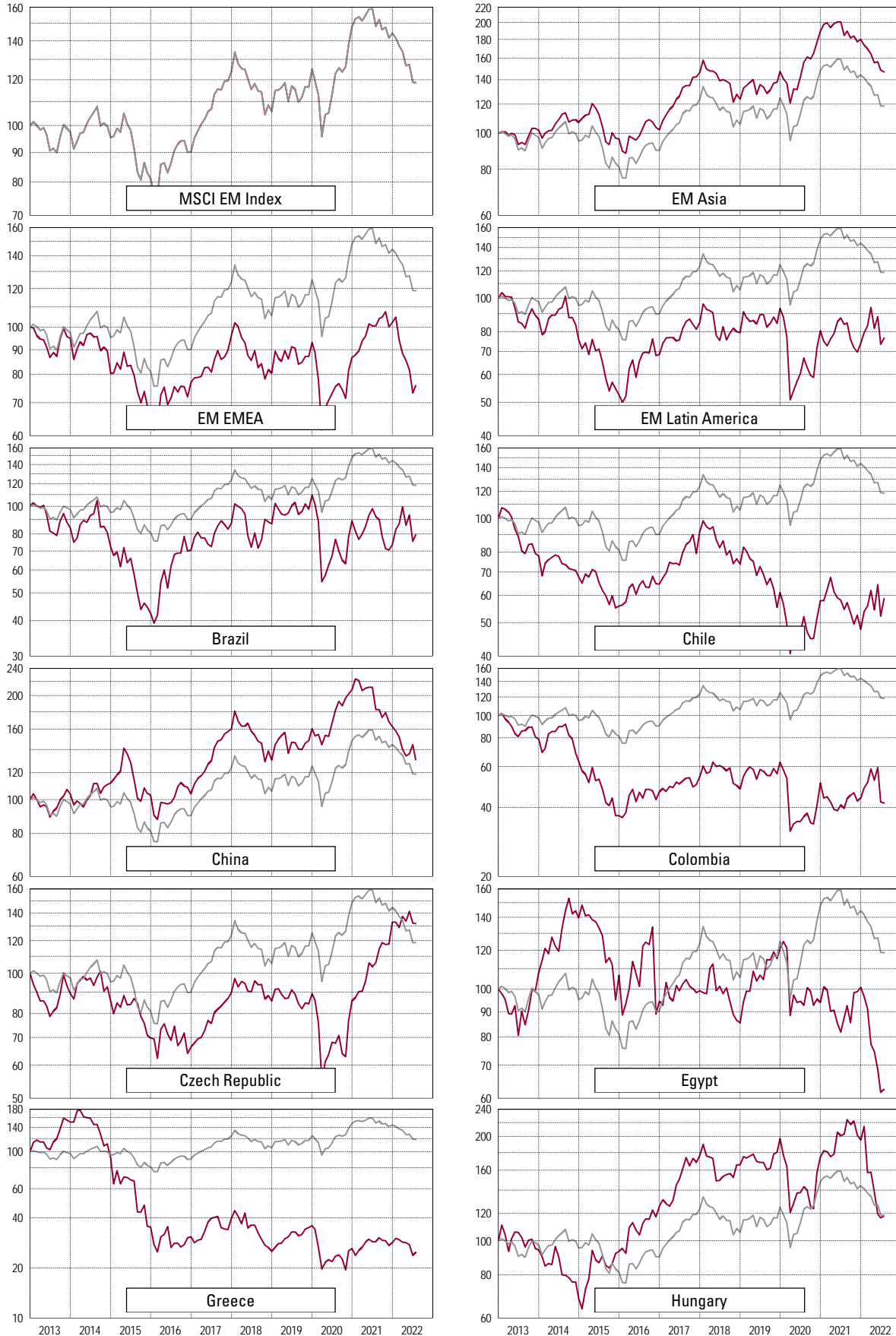
Total Returns based on Indices  
with Net Dividends Reinvested

BUY	NEUTRAL	SELL	% Change								
			in Local Currencies			in U.S. Dollars			in Euros		
			during Jul 22	last 3 mths.	Year to date	during Jul 22	last 3 mths.	Year to date	during Jul 22	last 3 mths.	Year to date
Brazil			4.9	-3.0	1.2	5.5	-7.5	8.4	8.2	-4.3	20.9
Chile			8.1	13.8	29.5	12.4	7.7	22.4	15.2	11.5	36.5
China			-9.4	-2.1	-18.4	-9.5	-2.4	-19.7	-7.2	1.0	-10.4
	Colombia		2.1	-14.0	0.6	-1.2	-20.4	-4.8	1.3	-17.7	6.1
	Czech Republic		1.7	1.9	9.4	-0.3	-1.5	-1.0	2.2	1.9	10.4
	Egypt		2.2	-14.3	-25.5	1.5	-16.2	-38.1	4.1	-13.3	-31.0
	Greece		7.1	-9.4	-2.2	4.5	-12.4	-12.3	7.1	-9.4	-2.2
	Hungary		5.6	-6.0	-26.5	1.3	-14.9	-39.8	3.8	-11.9	-32.9
	India		9.7	-0.4	-1.2	9.3	-4.0	-7.3	12.1	-0.7	3.3
	Indonesia		2.7	-7.4	7.0	3.2	-9.5	2.9	5.8	-6.4	14.7
Korea			5.9	-7.6	-17.3	5.8	-10.7	-24.3	8.5	-7.6	-15.6
	Kuwait		3.3	-4.9	15.5	3.4	-5.0	13.9	6.0	-1.7	27.0
Malaysia			3.4	-6.1	-2.7	2.4	-8.2	-8.9	5.0	-5.0	1.6
Mexico			0.9	-4.9	-8.4	-0.1	-4.7	-7.9	2.5	-1.4	2.7
	Peru		3.0	-13.1	-3.1	3.0	-13.1	-3.1	5.6	-10.0	8.1
	Philippines		2.4	-5.6	-9.1	2.2	-10.6	-15.9	4.8	-7.5	-6.3
Poland			2.8	-6.2	-24.6	-0.3	-10.3	-34.5	2.2	-7.1	-26.9
	Qatar		6.2	-6.2	13.2	6.2	-6.2	13.2	8.8	-2.9	26.3
	Saudi Arabia		6.0	-12.4	8.8	5.9	-12.5	8.7	8.6	-9.5	21.3
	South Africa		2.0	-6.7	-3.0	0.3	-11.5	-7.1	2.9	-8.4	3.6
Taiwan			3.7	-7.0	-16.5	3.0	-8.5	-22.9	5.6	-5.3	-14.0
	Thailand		2.1	-1.1	0.6	-1.9	-8.0	-8.7	0.6	-4.8	1.8
Turkey			6.0	-0.1	34.0	-1.2	-17.2	-0.7	1.3	-14.3	10.7
	United Arab Emirates		5.5	-14.0	3.1	5.5	-14.0	3.1	8.2	-11.0	15.0
MSCI EM Index (CW)			0.1	-4.6	-13.6	-0.2	-6.5	-17.8	2.3	-3.2	-8.4
KAM EM Index (EW)			3.2	-3.5	-5.3	1.8	-7.9	-12.9	4.4	-4.7	-2.9
MSCI EM Asia Index			-0.9	-4.0	-14.0	-1.3	-5.7	-18.3	1.2	-2.4	-8.8
MSCI EM EMEA Index			4.5	-9.2	-18.1	3.5	-11.3	-25.9	6.1	-8.2	-17.4
MSCI EM Latin America Index			3.9	-3.1	-0.4	4.3	-6.4	3.7	6.9	-3.1	15.6
EM Top Value Strategy			2.9	-2.4	-7.2	2.0	-6.4	-15.0	4.6	-3.2	-5.2

\* Using MSCI National Market Indices as hypothetical investment vehicles.

# MSCI National Markets vs. MSCI Emerging Markets Index

Total Returns in U.S. Dollars with Net Dividends Reinvested



December 31, 2012 = 100 (unless shown otherwise)  
 Updated Through: July 31, 2022

# MSCI National Markets vs. MSCI Emerging Markets Index

Total Returns in U.S. Dollars with Net Dividends Reinvested

