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Value & Yield factors drive active managers to outperform in Emerging Markets Equity

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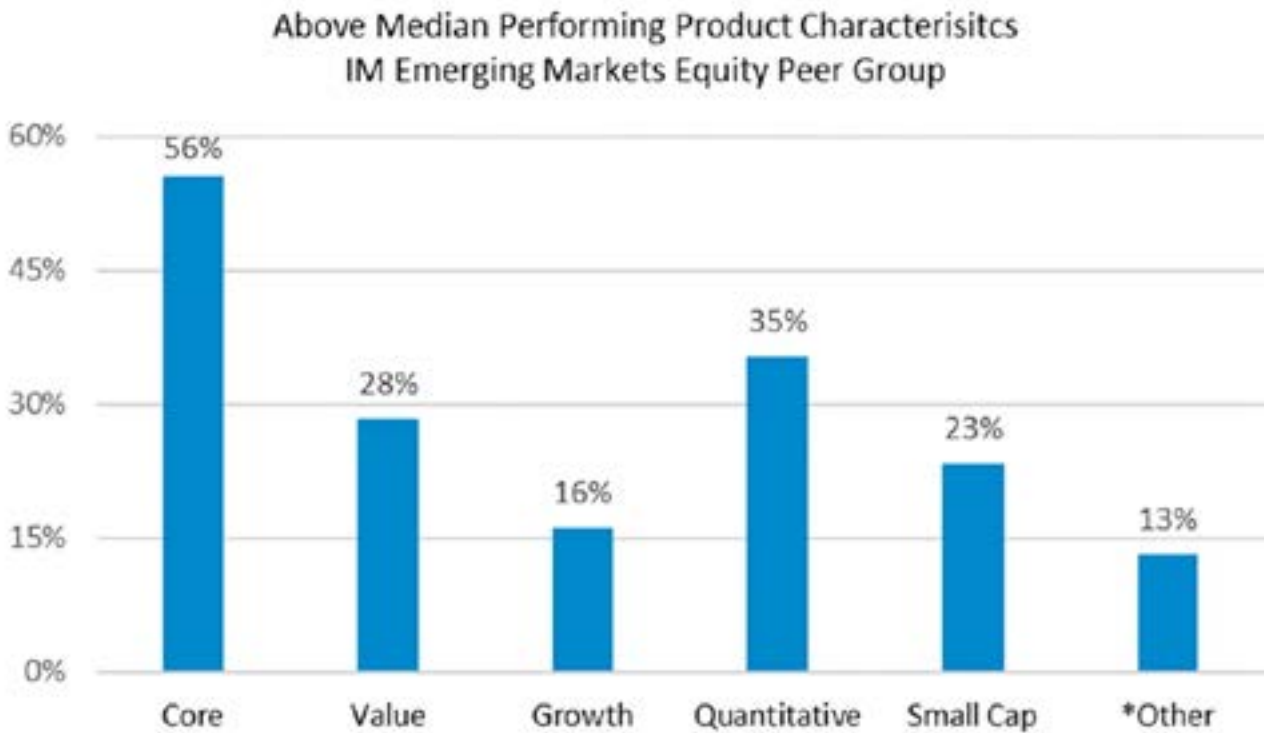
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Emerging Markets Equity Performance

2023 marked the third consecutive year that developed markets equity has outperformed emerging markets. For the year, the MSCI World Index returned 24.42%, more than double the MSCI Emerging Markets Index return of 10.26%. Although their performance lagged in absolute terms, active managers of emerging markets equity outperformed their benchmarks. For the year, the median in the broad IM Emerging Markets Equity Peer Group beat the MSCI Emerging Markets Index by 260 basis points and the MSCI Emerging Markets IMI Index by 80bps. Comparatively, the median within developed markets large cap peer groups underperformed for the year.

Figure 1 below is a percentage breakdown by characteristics of the 99 products with above median performance for the year. From a style perspective, core and value dominated growth, accounting for 84% of these products. Within growth, products either excluded China completely or were well underweight. Also of note is that quantitative products made up 35%, while small cap products accounted for 23%.



* Other: Ex China, Frontier & Low Volatility.

Figure 1: Characteristics of above median performing products IM Emerging Markets Equity Peer Group.
Source: Investment Metrics, a Confluence company

In Figure 2 below, we show the Style Analytics Master Skyline for the same above median-performing products from the IM Emerging Markets Peer Group. The leading factors driving active manager performance were Value, Yield, Quality, and Momentum, as my colleague Alex Lustig noted in the **2023 Factor Performance Analysis report**. In Emerging Markets, the triumvirate of Value, Yield, and dividend growth, aka the “three musketeers”, continue to dominate throughout December, Q4, and 2023, mirroring patterns from past years.

Comparing the factors that drove the markets to the factors that drop active manager performance, Momentum stands out, especially within the quantitative and small cap focused products. Other: Ex China, Frontier & Low Volatility.



Figure 2: Style Analytics Master Skyline, Custom Peer Group Above Median Emerging Markets Equity.)
 Source: Investment Metrics, a Confluence company

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