



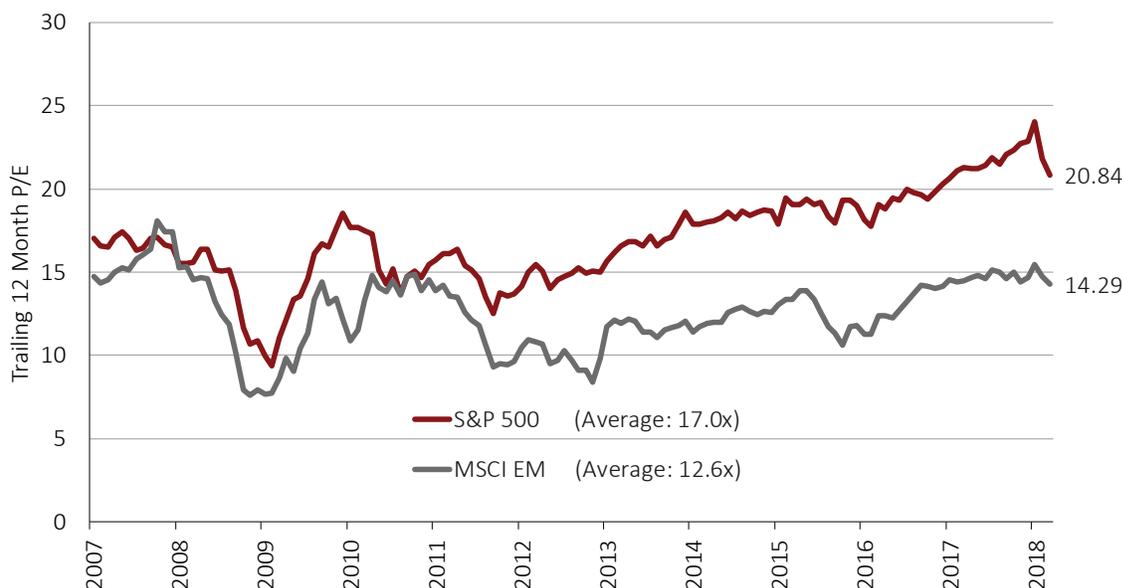
Insight Paper: Emerging Markets Stocks Attractive

By Tom Woolwine, Vice Chairman, June 2018

In our recent “Perspectives and Positions” paper, we shared our strategic outlook for equities. DeMarche feels that the domestic large cap stock market appears to be fully valued and has priced in an anticipated earnings rebound. Emerging market stocks are overweighted versus targets in discretionary client portfolios. They are comparatively attractive due to their lower relative P/E multiples. Earnings growth expectations are rising faster in the emerging markets than in any other region.

The chart below shows that emerging market stocks look more “fairly” valued than domestic stocks.

Trailing 12 Month P/E and Average Since 2007



Source: Morningstar Direct as of 3/31/18, DeMarche

Within emerging markets, Asian stocks are preferred as consumer demographic trends favor that part of the globe. Rising per capita GDP in Asia is producing a growing proportion of middle class consumers who are catching up with the rest of the world and spending money on goods. The shifting emphasis of China on consumerism to drive GDP growth is one example of a potential tailwind for performance.

Another factor impacting emerging markets investing is the inclusion of China’s A-Shares in MSCI’s Emerging Markets and All Country World indices. A-shares are securities of Chinese companies that are traded on the two Chinese stock exchanges in Shanghai and Shenzhen. These shares could previously only be purchased by mainland Chinese citizens, but Qualified Foreign Institutional Investors have been able to purchase them since 2003. MSCI began to add approximately 230 large cap A-shares in a two-step approach beginning June 1, 2018. Initially the A-shares will have an approximate weight of 0.39%, with half of their 5% weight being added. The remaining half will be added in September 2018. Full inclusion of A-shares could occur over time if the market liberalizes further, which could mean that index weight in China could increase from approximately 31% (with about 1% in A-shares) to approximately 42% (with about 16% in A-shares), according to MSCI.

If you would like to receive more detailed information on our discretionary consulting services, please contact Tom Woolwine, Vice Chairman, at (913) 384-4994 or twoolwine@demarche.com.

Disclaimer: The asset class and/or investment strategies described here may not be suitable for certain investors. We encourage you to work with your investment counsel to understand the risk characteristics and potential fit with your investment program.