

0114 | 2019

ASIA CHART OF THE WEEK

The Emerging Markets Advantage

The Fed seems ready to exercise rates patience, Emerging Market (EM) currencies look less restrained and trade negotiations have been more reconciliatory than before. Perhaps this is a good opportunity to reiterate the case for EM assets.

EM equities are displaying attractive valuations, especially when comparing the difference between the price to book ratio between EM and Developed Markets (DM) equities. The spread is currently at a multi-year high and suggesting a sizeable premium continues to exist. (Chart 1)

EM bonds are currently trading at a substantial yield premium to DM Bonds. (Chart 2) This in spite of subdued inflation, increased sovereign fiscal stability and strong corporate balance sheets.

The bottom line

While the path to improving risk sentiment may well still be volatile, Emerging Markets stand to benefit from receding global risks and improving domestic conditions. EM assets, in its current valuations, should appeal to long term investors.

Please visit "[Market Outlook 2019: Shifting Signals](#)" for how Legg Mason's managers are positioned for 2019.

Chart 1: EM equities display attractive price to book

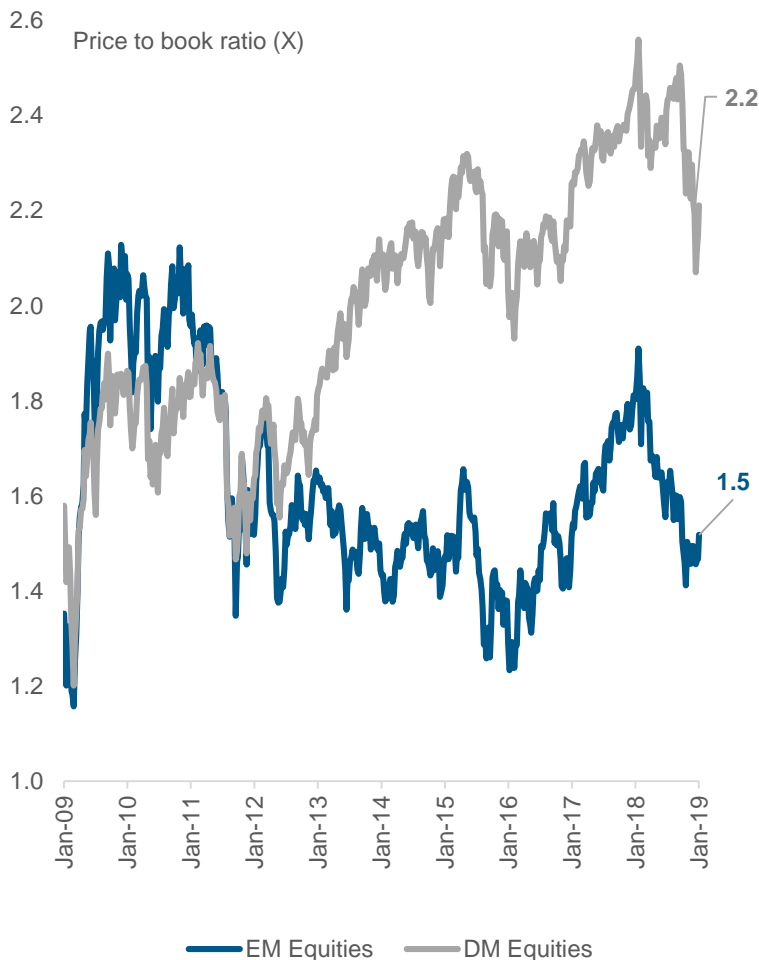
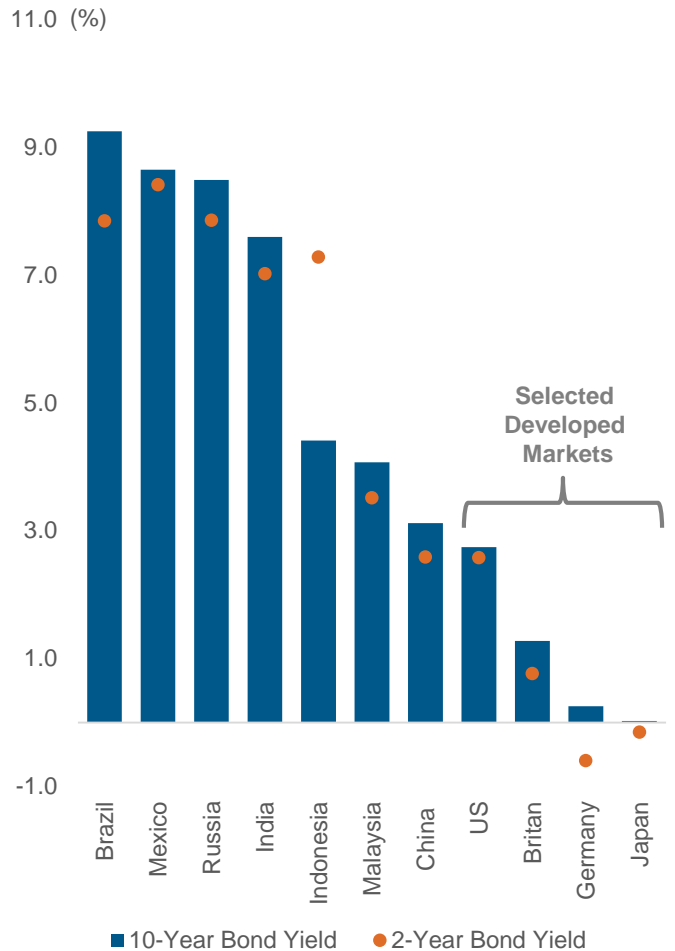


Chart 2: EM bonds have attractive yield differential



Source: Legg Mason, Bloomberg, MSCI 14 January 2019. Data as of 10 January 2019, USD. EM equities refer to the MSCI Emerging Markets Index. DM equities refer to the MSCI Developed World Index. Bond yields refer to the generic government bond yield of the particular country as per Bloomberg data retrieved on 10 January 2019.

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Source: Legg Mason, 14 January 2019. Data as of 10 January 2019, USD.

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