Emerging Markets Equities: Piling On

FRANK CARROLL
PORTFOLIO MANAGER,
EMERGING MARKETS EQUITIES

JANET WANG
CO-PORTFOLIO MANAGER,
EMERGING MARKETS EQUITIES

The current market narrative about the "uninvestability" of China reminds us of a recent comment from our co-chairman Howard Marks: "If you have two piles of assets—one with things that everyone loves, that are priced well and performing well, and the other with assets that everyone dislikes, that have poor price performance and are believed to be troubled—you have to ask yourself where will you find the best opportunities?" The answer is clearly in the latter.

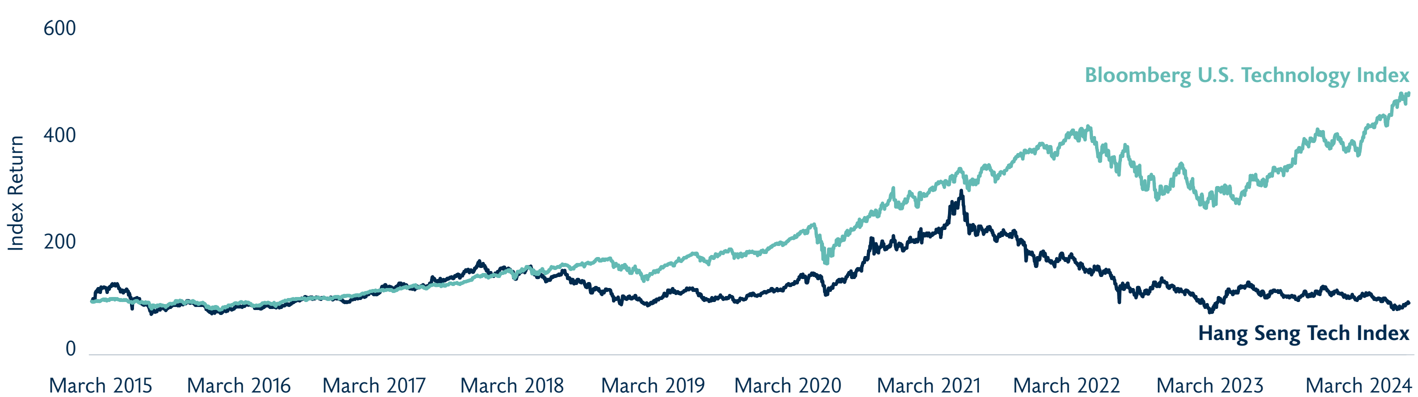
Chinese equities may be at the top of the "disliked and troubled" pile today. They are currently trading at a record-low 8.2x forward estimated earnings, on average,[1] and the gap between U.S. and Chinese technology stocks is the widest it has been in many years.[2] (See Figure 1 below.)

Moreover, sentiment regarding investment in China is as bad as we've ever seen it, with global positioning surveys showing China to be a large consensus underweight. Counterintuitively, many investors who favored Chinese equities a few years ago, when large Chinese companies were often being very aggressive in their use of capital, now consider the same equities to be too risky, even though the companies involved have become much more conservative and the equities themselves have become much less expensive.

Importantly, we think many high-quality Chinese companies are being punished not because of concerns about their fundamentals but because of broad macro concerns about China. In fact, the fundamentals of many companies are actually improving. For example, net cash positions at the top 15 Chinese companies in the MSCI Emerging Markets Index have risen from negative $19 billion in 2019 to $113 billion in 2023.[3]

Far from worsening the investment outlook in China, we believe that this bear market has dramatically improved the long-term investment prospects for those capable of identifying value in a complex market. To paraphrase another quote from Howard, we prefer to buy things when they're on sale, not after they've been marked up.

Figure 1: Chinese Technology Stocks Are Dramatically Underperforming Their U.S. Counterparts



Source: Bloomberg.

The indexes are unmanaged and cannot be purchased directly by investors. Index performance is shown for illustrative purposes only and does not predict or depict the performance of any investment.

ENDNOTES

Source: *The Roundup*: Top Takeaways from Oaktree's Quarterly Letters – March 2024 Edition. The content is derived from or inspired by ideas in 4Q2023 letters or other materials sent to clients in 1Q2024; the text has been edited for space, updated, and expanded upon where appropriate.

[1] MSCI China Index, as of January 31, 2024.

[2] Bloomberg, as of January 31, 2024.

[3] Bloomberg, as of December 31, 2023. Represents the largest non-financial Chinese companies by market capitalization. Excludes companies that went public after 2019.

IMPORTANT DISCLOSURES

All investing involves risk. The value of an investment will fluctuate over time, and an investor may gain or lose money, or the entire investment. Past performance is no guarantee of future results.

As an asset class, private credit is comprised of a large variety of different debt instruments. While each has its own risk and return profile, private credit assets generally have increased risk of default, due to their typical opportunistic focus on companies with limited funding options, in comparison to their public equivalents. Because private credit usually involves lending to below investment grade or non-rated issuers, yield on private credit assets is increased in return for taking on increased risk.

©2024 Brookfield Corporation; ©2024 Brookfield Asset Management Ltd.; ©2024 Oaktree Capital Management, L.P.; ©2024 Brookfield Oaktree Wealth Solutions LLC; & ©2024 Brookfield Public Securities Group LLC. Brookfield Oaktree Wealth Solutions LLC and Brookfield Public Securities Group LLC are indirect majority-owned subsidiaries of Brookfield Corporation.

The information contained herein is for educational and informational purposes only and does not constitute, and should not be construed as, an offer to sell, or a solicitation of an offer to buy, any securities or related financial instruments. This commentary discusses broad market, industry or sector trends, or other general economic or market conditions, and it is being provided on a confidential basis.

FORWARD-LOOKING STATEMENTS

Information herein contains, includes or is based on forward-looking statements within the meaning of the federal securities laws, specifically Section 21E of the Securities Exchange Act of 1934, as amended, and Canadian securities laws. Forward-looking statements include all statements, other than statements of historical fact, that address future activities, events or developments, including, without limitation, business or investment strategy or measures to implement strategy, competitive strengths, goals, expansion and growth of our business, plans, prospects and references to our future success. You can identify these statements by the fact that they do not relate strictly to historical or current facts. Words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe" and other similar words are intended to identify these forward-looking statements. Forward-looking statements can be affected by inaccurate assumptions or by known or unknown risks and uncertainties. Many such factors will be important in determining our actual future results or outcomes. Consequently, no forward-looking statement can be guaranteed. Our actual results or outcomes may vary materially. Given these uncertainties, you should not place undue reliance on these forward-looking statements. This communication is not intended to provide an overview of the terms applicable to any products sponsored by Brookfield Corporation and its affiliates (together, "Brookfield"). Information and views are subject to change without notice. Some of the information provided herein has been prepared based on Brookfield's internal research, and certain information is based on various assumptions made by Brookfield, any of which may prove to be incorrect. Brookfield may not have verified (and disclaims any obligation to verify) the accuracy or completeness of any information included herein, including information that has been provided by third parties, and you cannot rely on Brookfield as having verified any of the information. The information provided herein reflects Brookfield's perspectives and beliefs as of the date of this commentary.

Contact Us

brookfieldoaktree.com

info@brookfieldoaktree.com

+1 855-777-8001

Diversification does not assure a profit or protect against loss in declining financial markets.

© 2024 Brookfield Corporation

ID # 1383

00274-B

Brookfield | OAKTREE
WEALTH SOLUTIONS