William Blair

GLOBAL EQUITY/
EMERGING MARKETS DEBT

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Emerging Markets 2025: A Landscape of Opportunity

Emerging markets (EMs) remain an efficient gateway to powerful secular themes, from technology-driven transformations to consumer growth stories. However, expectations of higher U.S. interest rates and a stronger dollar are likely to challenge EM currencies and investor sentiment in 2025, and the 2024 U.S. election introduced a new layer of uncertainty. EM investors should be prepared for uneven outcomes across regions.

December 2024

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Before the U.S. election on November 5, 2024, the outlook for the world economy looked robust and consistent with economic expansion. Both the U.S. and European economies were expected to enjoy ongoing real wage growth, which would support private consumption, the largest component of aggregate gross domestic product (GDP) for both economies.

In addition, ongoing deceleration in inflation was expected to support real wage gains and, by extension, private consumption. Meanwhile, in China, unwanted fiscal retrenchment is being addressed, such that the economy was likely to accelerate modestly as we head into 2025.

But the results of the U.S. election have made this outlook far more uncertain. There are now many more plausible outcomes, and their distribution is nearly flat, with both left and right tails having increased significantly.

The United States

The tax cuts from the 2017 Tax Cuts and Jobs Act, due to expire next year, are now likely to become permanent. Corporate tax cuts usually flow directly into corporate earnings, which are now likely to be stronger. Deregulation—especially in banks and financial services more broadly—can also spur activity and earnings in some pockets of U.S. financials.

> "We believe broadening tariffs to progressively more products will hit U.S. consumers harder and could induce a significant destruction of domestic demand."
>
> **Olga Bitel, Partner**

EM Growth Depends on Three Developed Demand Centers

The vast majority of EMs are small, open economies whose fortunes depend on what happens in the world's three principal demand centers: the United States, Europe, and China. Put another way, EMs are a high-beta play on developed market growth. Interest rates, exchange rates, and commodity prices are largely set by the economic and liquidity conditions in the three global demand centers. At the same time, these prices—interest rates, exchange rates, and commodity prices—set binding constraints on economic outcomes in most EMs.

Corporate tax cuts and financial deregulation—together with a specter of rising tariffs that will incentivize stockpiling—are likely to turbocharge already robust growth in the United States early in 2025.

To the extent that the newly minted, time-limited Department of Government Efficiency (DOGE) committee incentivizes digitalization of federal government efforts, this could bring information technology (IT) services projects and further down the road, efficiency and quality-of-service gains for the U.S. government.

The inflation outlook is now less clear, too. We expect U.S. households will likely bear the full brunt of price increases that result from tariffs. Thus, higher prices mean reduced purchasing power and, therefore, reduced demand.

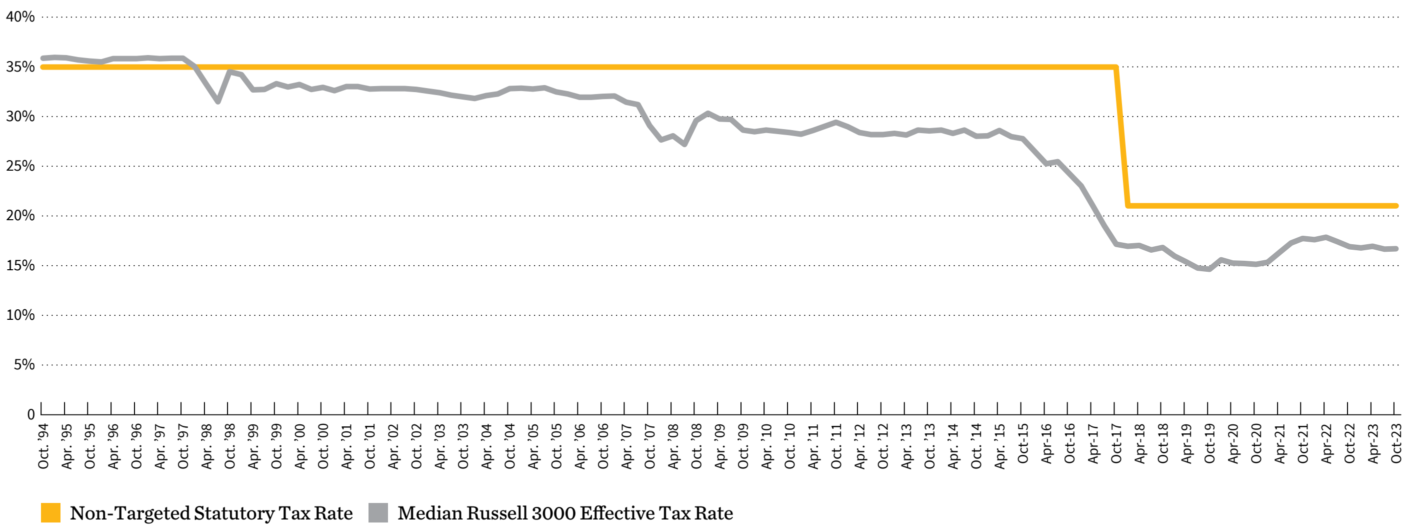
Tariffs are a regressive tax on domestic consumers; poorer consumers pay a higher share of their income for goods and therefore pay a higher proportion (relative to their income) of tariffs, as tariffs on steel and autos are likely in the near term insofar as they have been prepared already.

We believe broadening tariffs to progressively more products will hit U.S. consumers harder and could induce a significant destruction of domestic demand.

EXHIBIT 1

U.S. Corporate Tax Rate (1994-2024)

Corporate tax cuts and financial deregulation—together with a specter of rising tariffs that will incentivize stockpiling—are likely to turbocharge already robust growth in the United States early in 2025.

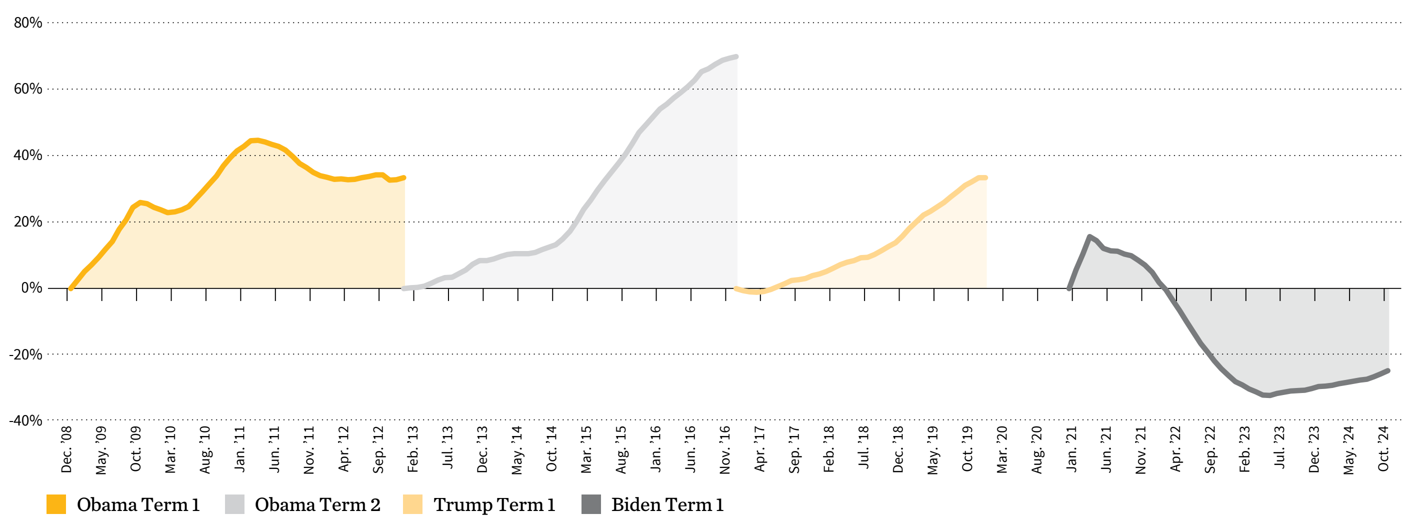


Sources: Macrobond, Worldscope, and William Blair Analysis, as of November 2023.

EXHIBIT 2

U.S. Real Cumulative Wages Growth

Real wage growth has been in decline, and with the inflation outlook less clear and tariffs on the horizon, we could induce a significant destruction of domestic demand.



Sources: U.S. Bureau of Labor Statistics (BLS) and William Blair, as of November 31, 2024. 2020-2021 is excluded from Trump's first term due to COVID-related irregularities.

Tariffs are also likely to have second-round price effects on domestic producers: if we are to levy a tax on French cheese and wine, Wisconsin cheese and Napa Valley wines would cost more but still be cheaper than imported cheese.

For more durable goods, it may be cheaper to keep repairing an old washing machine than to buy a new one; thus, the demand for repair services will increase, and with it, domestic services prices will increase.

U.S. domestic price pressures are likely to intensify further if the proposed immigration policies—deportations and inflow reduction—are enacted. To the extent that illegal migrants tend to fill labor-intensive jobs in construction, agriculture, and industrial services, wage pressures may already show up here in 2025.

The sequence with which the proposed policies are enacted will likely play a crucial role in actual GDP growth outcomes. Based on current pronouncements of the next administration, we expect that the direction of travel for the U.S. economy is likely higher inflation, poorer households, and lower growth—and therefore, lower corporate profits, too—but maybe not in 2025.

Europe

The outlook for Europe remains challenged by domestic policy paralysis and inappropriately tight liquidity conditions. The rebound from the COVID trough was arrested when the Russia-Ukraine war triggered an energy price shock. A sharp rise in energy prices hurt energy-intensive parts of the industrial supply chain, and nowhere more so than in Germany, Europe's largest economy.

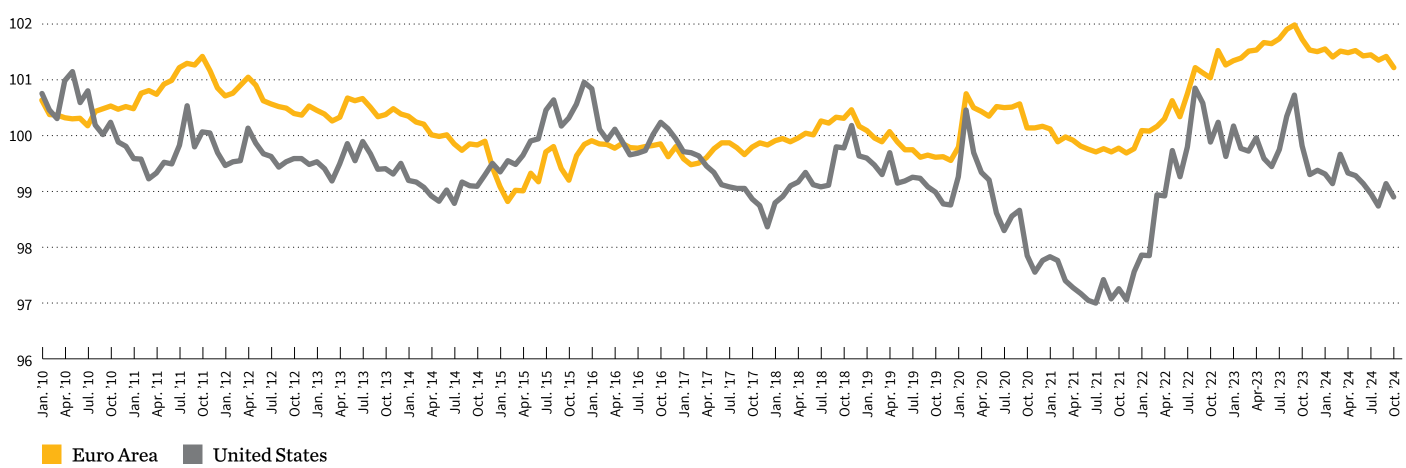
Germany, much like the rest of the continent, needs a significant investment boost, but in November 2023, Germany's constitutional court threw fiscal policies into disarray by insisting on a narrow interpretation of the debt brake rule, which is enshrined in the German constitution.

In addition, France is putting its own fiscal consolidation package in place, which could weigh on growth in 2025.

EXHIBIT 3

Financial Conditions in Europe and the United States (2010-2024)

The Goldman Sachs U.S. and Europe Financial Conditions Indices show challenging financial conditions in Europe. (A higher number indicates tighter financial conditions, which is generally considered worse for economic growth.)



Sources: Bloomberg, Goldman Sachs, and William Blair, as of November 2024. The United States is represented by the Goldman Sachs U.S. Financial Conditions Index, and Europe by the Goldman Sachs Euro Area Financial Conditions Index.

As the European Central Bank (ECB) has a single inflation mandate, it maintains monetary policy that is too tight for some of the largest economies in the European bloc. As inflation subsides, monetary policy should adjust, albeit gradually. In 2025, it is likely to be less of a headwind compared to the recent past, but it will likely remain far from accommodative.

The European economic outlook for 2025 also comes with considerable left- and right-tail possible outcomes. On the negative side, Europe runs the second-largest bilateral trade deficit (behind China) with the United States. To the extent that the incoming U.S. administration abhors trade deficits, European exporters are firmly in the line of fire for tariff increases, which is likely to have a chilling effect on demand for their products.

At the same time, any tariffs will likely be preceded with inventory buildup, to the extent that importers are anticipating a disruption. In the opening quarters of 2025, U.S. demand for European goods may look stronger than purely economic fundamentals warrant.

If the incoming U.S. administration succeeds in establishing a permanent ceasefire between Russia and Ukraine, European companies are likely to benefit from reconstruction efforts in Ukraine. Qatar is scheduled to bring significant liquified natural gas (LNG) export volumes online, which may help bring down energy prices closer towards levels last seen prior to the 2022 Russia-Ukraine war.

Finally, upcoming elections in Germany may pave the way for a new law of debt brake and with it, a series of reforms that could unlock much-needed investment spending in Germany and Europe more broadly.

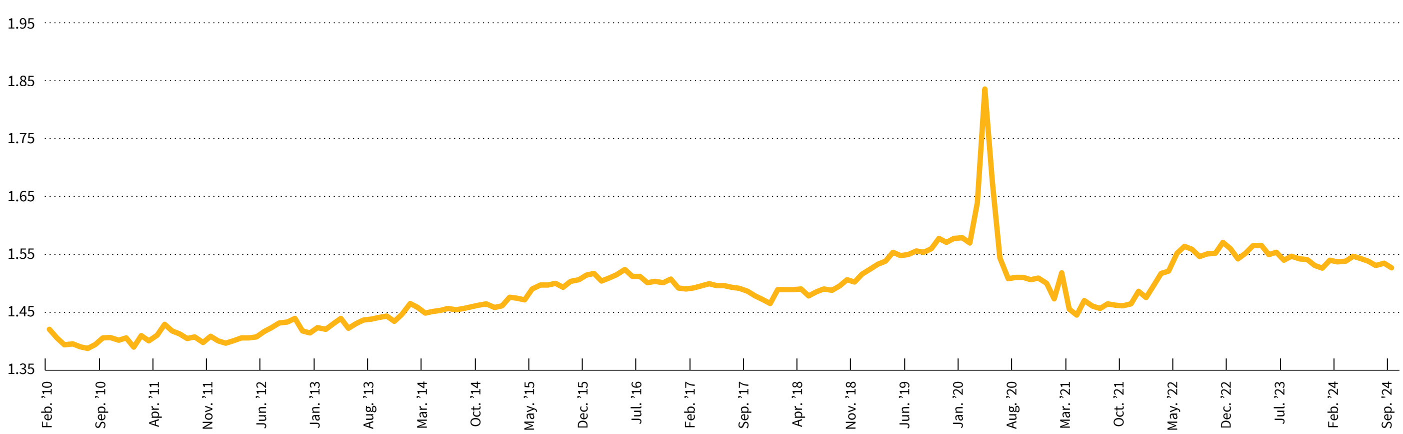
China

The outlook for China remains one of sequential, gradual improvement. The ongoing downturn in the property market generated a significant contraction in fiscal spending in 2024. As of August 2024, local governments have collectively underspent an estimated 1.6 trillion renminbi. Local authorities in China still rely on land sales for most of their revenues, and since they cannot issue debt to cover the shortfall in land sales, they curtailed spending.

EXHIBIT 4

U.S. Real Manufacturing and Trade Inventory Sales Ratio

The U.S. real manufacturing and trade inventory/sales ratio measures the relationship between the level of inventories held by manufacturers, wholesalers, and retailers and the volume of sales they generate. A rising ratio can signal economic weakness, as businesses accumulate unsold goods. A falling ratio often reflects strong consumer demand and a healthy economy.



Sources: Bureau of Economic Analysis and William Blair, as of November 2024.

Beijing has already announced a series of policy measures to reverse fiscal drag on a more sustainable basis. The announced policies fall into four broad categories: local government support in writing off hidden debt; recapitalization of large state-owned banks; limited property support measures; and income support for the most vulnerable. Eliminating fiscal contraction is likely to boost GDP growth sequentially in 2025.

Furthermore, Chinese leadership took the United States' 2016 pivot in foreign policy quite seriously and embarked on a path of self-sustainability and wholesale industrial upgrading. The story of auto exports, particularly electric vehicles (EVs), is quite well known at this point, but the industrial upgrading is far broader.

An increasing number of Chinese smartphone makers are now eyeing European markets, with China's domestic output of semiconductors having more than doubled in the last four years to an annual rate of 400 billion chips.

And according to the International Federation of Robotics (IFR), domestically designed and produced industrial robots increased their market share to 47% by the end of 2023, up from 30% in 2020. Western biotech and pharma companies have also been busy snapping up Chinese counterparts, who now produce advancements in oncology and other diseases.

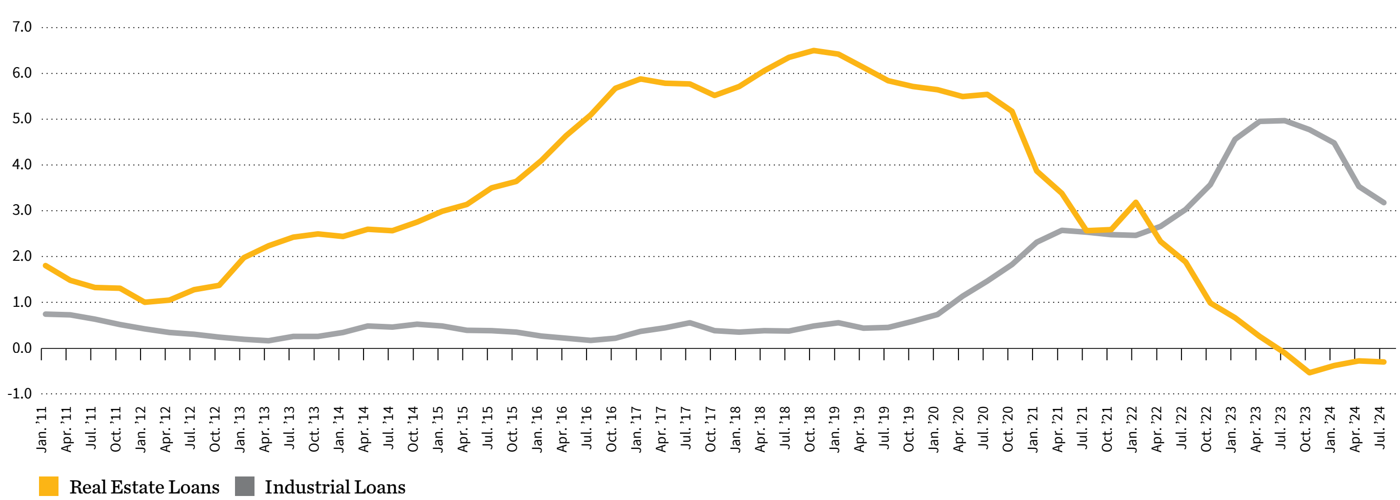
All this domestic upgrading has resulted in permanently lower imports of intermediate goods, which used to be sourced from Western companies. A new round of tariff negotiations with the United States will likely commence from a different place.

To the extent that the incoming administration wishes to re-industrialize the U.S. Rust Belt, it is conceivable that many Chinese companies would be welcome to set up production facilities in the United States. Far from becoming a drag on growth, a U.S. policy tilt may prove a boon for China Inc.

EXHIBIT 5

Year-Over-Year Change in Outstanding Loans (in Trillion Chinese Yuan)

The year-over-year change in outstanding Chinese real estate and industrial loans reflects the annual growth or decline in inflation-adjusted loans, signaling credit demand and investment trends in these sectors. Positive growth suggests economic expansion and rising confidence, while a decline may indicate tightening credit, reduced investment, or economic caution.



Sources: Peoples Bank of China and William Blair, as of November 2024.

EM Equity | Quality as the Path to Growth

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We believe EMs present a landscape of opportunity amid increasing macroeconomic headwinds, as these markets remain an efficient gateway to powerful secular themes, from technology-driven transformations to consumer growth stories across many regions.

However, the recent U.S. election has introduced a new layer of uncertainty for EMs. Ultimately, though the U.S. election may shape the near-term backdrop, we believe diverse secular growth drivers and competitive valuations in EMs offer a compelling case for investing in quality, growth-oriented companies.

Higher U.S. interest rates and a stronger dollar may challenge EM currencies and investor sentiment in 2025. EM investors should be prepared for uneven outcomes across regions, with some markets likely to face near-term pressures while others could continue to thrive on solid growth trajectories.

In an environment marked by political shifts and uncertain economic policy, we believe a focus on high-quality companies (healthy balance sheets, strong management teams, and sustainable competitive advantages) is paramount for EM investors.

In sum, while obstacles exist, we believe the underlying case for EMs remains strong, especially for those who are selective about where they invest—and in this section, we will explore three key themes that highlight the breadth of opportunity in the asset class.

First is China. Although stimulus and relatively low valuations could offer near-term opportunities, China's long-term growth prospects remain tempered by structural economic challenges and policy uncertainties.

Second is India. Often compared to China's early-1990s growth phase, India stands out as a compelling long-term investment, supported by strong demographics, rising consumer spending, and pro-business policies—though its high valuations may warrant a selective approach.

Lastly, we will explore the AI boom. EMs play a pivotal role in the global artificial intelligence (AI) buildout, supplying critical components and infrastructure for AI advancements, while also addressing the energy demands that accompany this technological growth.

> "While obstacles exist, we believe the underlying case for EMs remains strong, especially for those who are selective about where they invest."
>
> **Todd McClone, CFA, Partner**

Performance Highlights From 2024

In 2024, emerging equity markets showed resilience, though returns were mixed across regions. As of November 30, 2024, EM equities (as represented by the MSCI EM IMI) posted a year-to-date (YTD) return of 7.38%, trailing developed markets, which returned 21.10% (as represented by the MSCI World IMI).

- **China:** China emerged as a strong performer in the EM universe, with a YTD return of 15.57%.[1] The rally was driven by government stimulus aimed at delivering GDP growth targets and supporting the property market. Despite lingering structural issues, this somewhat more aggressive stimulus seems encouraging and the market has responded positively to policy measures and attractive valuations.
- **India:** India continued its impressive growth story, delivering a 16.48% YTD return. This performance was supported by strong economic fundamentals, favorable demographics, and a rising middle class. India's pro-growth policies and a burgeoning capex cycle helped the market remain an attractive destination for global investors.
- **Taiwan and South Korea:** The two markets showed contrasting outcomes. Taiwan, a key player in the global technology supply chain, gained 24.21% YTD, benefiting from the AI-driven semiconductor demand. South Korea, however, returned -16.52% YTD, as weaker demand for consumer electronics weighed on performance.
- **South Africa:** South Africa surprised on the upside, with a YTD return of 15.64%. Improving political sentiment and early signs of economic recovery contributed to investor optimism, while the start of an interest-rate-cutting cycle provided additional support.
- **Brazil:** Brazil struggled in 2024, recording a -23.94% YTD return. Fiscal and monetary concerns, along with economic challenges, overshadowed any potential for recovery.
- **Mexico:** Despite its role as a beneficiary of nearshoring trends, Mexico posted a discouraging -25.11% YTD return. Political uncertainties following recent elections have raised concerns about institutional stability and tempered investor enthusiasm.

1 All country performance is based on MSCI IMI indices.

> "Stimulus efforts could fuel short-term boosts to the Chinese equity market as Beijing focuses on stabilizing key economic sectors."
>
> **Casey Preyss, CFA, Partner**

China: A Fragile Rebound Powered by Fiscal Intervention

China's economy continues to face significant structural issues, particularly in its heavily indebted local government sector and struggling property market. In November, Beijing introduced a substantial 10 trillion renminbi ($1.4 trillion) fiscal package aimed at stabilizing the economy by bailing out local governments and restructuring their debts. While investor response to these measures has been mixed, recent efforts reflect a more forceful and coordinated approach, with both monetary and fiscal measures working in tandem. In addition, authorities are displaying a more constructive stance on the real estate sector, recognizing it as a critical component of Chinese consumers' net worth and overall sentiment.

Positives

China has shown signs of easing regulatory pressure and a refocusing on growth, with initiatives aimed at fostering self-reliance in high-end manufacturing sectors, such as semiconductors and automation. Beijing has also increased monetary support, including reductions in the reserve requirement ratio and policy rates. The property market has also received targeted support, with measures such as mortgage rate cuts, reduced down payment requirements, and eased purchase restrictions to encourage housing demand. Furthermore, large and growing household savings, alongside attractive market valuations, present a potential foundation for renewed consumer activity if confidence improves.

Negatives

Consumer confidence remains weak, with excess household savings accumulating but not translating into spending. The property sector continues to struggle, with declining new property starts, primary market sales, and overall investment. China's housing starts have outpaced

EXHIBIT 6

MSCI China Index Forward P/E Ratio

Chinese equities' forward price-to-earnings ratio has been steadily trending downward.

Sources: FactSet, MSCI, Goldman Sachs Global Investment Research, and William Blair, as of November 2024. Based on latest constituents; shows z-score over the past 10 years (monthly). S.D. refers to standard deviation.

urbanization rates, contributing to a surplus in residential real estate that weighs on the broader market. In addition, the employment and income outlook remains subdued, further constraining consumer demand. Geopolitical tensions, especially with the United States, add an external risk layer that could impact trade and investment flows. China's fiscal response—especially if expanded to include potential bank recapitalization and support for the housing sector—could present a near-term opportunity for investors, as has been the case historically.

Key Takeaway

President Xi Jinping appears committed to maintaining economic stability, and we anticipate the series of incremental positive measures will support China's 5% GDP target for 2024 and the growth trajectory for 2025. With valuations still relatively low and company fundamentals improving in certain areas, stimulus efforts could fuel short-term boosts to the equity market as Beijing focuses on stabilizing key economic sectors. But the sustainability of such rallies remains uncertain given the persistent structural challenges China faces. The country's long-term outlook is still clouded by high debt levels, demographic pressures, and slowing growth.

India: A Growth Powerhouse, but at a Premium

India's growth story is one of the most compelling among EMs, in our view, driven by favorable demographics, a burgeoning middle class, and strong economic policies. Now the fourth-largest equity market globally in terms of market capitalization, India has risen to become the second-largest market in the MSCI EM IMI as of November 30, 2024, with its weight roughly doubling over the past five years to approximately 20%. India's share of global GDP growth now exceeds 15% and is expected to trend higher. The country's young and well educated population supports a growing consumer base with increasing disposable income. Low household debt—at only 19% of GDP compared with 65% in China—signals potential for sustained consumer demand. Low penetration rates for durable goods, such as air conditioners, refrigerators, and cars, indicate a potentially large runway for consumption growth.

Positives

India's pro-business policies have introduced structural reforms that should bolster economic growth and support secular trends across key sectors, particularly in financials and manufacturing. Initiatives like the Make in India and Production Linked Incentive (PLI) schemes have catalyzed a robust capital expenditures (capex) cycle, with public capex projected to reach $20.6 trillion rupees in 2024, up from $6.4 trillion rupees in 2014. This focus on domestic manufacturing and infrastructure is strengthening India's self-reliance and enhancing its appeal to global investors.

Key sectors such as real estate, personal financial services, healthcare, and travel services are seeing strong demand as consumer spending shifts from staples to experiences and services. In addition, India's aerospace and defense industry is moving up the value chain, while the domestic manufacturing sector is benefiting from the China +1 supply chain diversification trend. We believe India's recent inclusion in global bond indices reinforce its attractiveness as an investment destination.

"In India, key sectors such as real estate, personal financial services, healthcare, and travel services are seeing strong demand."

Ian Smith, Partner

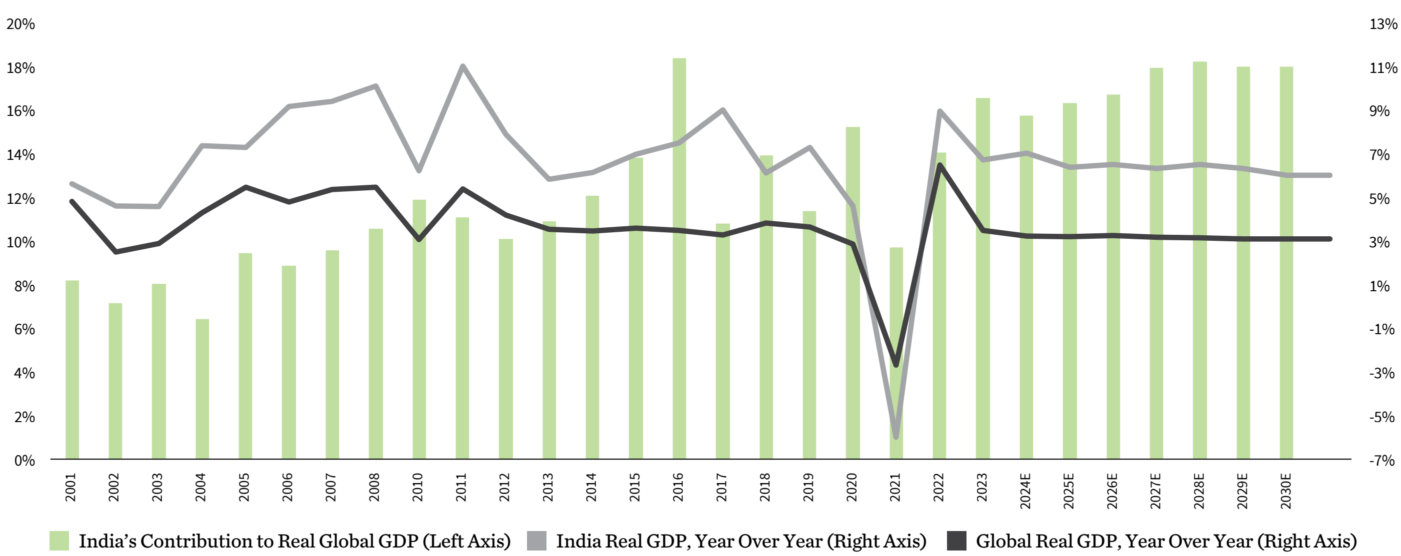
Negatives

Certain challenges in the country warrant caution. India is a net commodity importer, making it vulnerable to fluctuations in global commodity prices and external imbalances. The country's current account deficit reflects this dependency, and any sharp rise in commodity prices could impact economic stability. In addition, India's strong recent equity market performance has led to elevated valuations which, while justified (in our view) by high growth potential, may limit near-term upside.

EXHIBIT 7

India's Share of Global Growth

India's contribution to global GDP is projected to rise significantly over the next decade.



Sources: IMF, Morgan Stanley Research, and William Blair, as of September 2024. E refers to estimated.

Relative to other EMs, India's higher valuations suggest that investors may need to take a selective approach.

Key Takeaway

Overall, we believe India remains one of the most attractive long-term growth stories in EMs. The current valuation premium, however, should encourage investors to take a cautious, quality-focused approach in the current environment. As the country continues on its growth trajectory, it holds the potential to echo China's rapid economic ascent since the early 1990s, albeit with a more balanced and sustainable growth model.

The AI Boom: EMs at the Core of the Supply Chain

AI technology has become a central focus for global tech investment, and EMs are integral to the sector's development. Markets such as Taiwan and South Korea, for example, are critical to the AI supply chain, as they house leading manufacturers and suppliers who produce the hardware essential for AI applications, from high-performance semiconductors to data centers to autonomous vehicles. Taiwan, in particular, is at the forefront as a "picks and shovels" supplier of advanced components used in semiconductors and data centers, further strengthening its role in the AI buildout.

The growth of AI places unprecedented demands on energy infrastructure. Data centers, which are essential for AI-driven computations, are highly energy-intensive and create a need for reliable power sources and sophisticated grid infrastructure.

In addition to AI data center demand, there are several other big drivers of power infrastructure needs, such as the EV transition, government renewable targets, and power infrastructure and replacement demand from aging grid in Europe and the United States. We believe many EM companies could benefit from providing equipment to meet these high levels of transmission and distribution demands.

China is an energy importer, and by heavily investing in renewable energy, is trying to become more self-sufficient. Solar energy requires energy storage solutions given the limitations of daylight hours. Furthermore, much of the renewable power is generated in the west of China and needs to be transported through ultra-high-voltage lines to the east, where the majority of demand is.

Indian power investment is driven by historical underinvestment, with future strong economic growth requiring prolonged high levels of capacity expansion. India is earlier in its journey than China, but also investing heavily in renewable forms of energy.

Key Takeaway

EMs are positioned as pivotal players in the global AI supply chain and the development of next-generation energy infrastructure. For EM investors, this intersection of AI growth and energy expansion is compelling.

Targeted Growth: Opportunities and Risks Across Key EMs

Select EMs stand out for their unique growth narratives paired with country-specific risk factors, and we believe active management within these nuanced opportunities can help investors participate in targeted growth opportunities while managing localized risks.

South Africa: Signs of Political Improvement

In South Africa, we believe political developments have created a cautiously optimistic outlook for investors. The African National Congress (ANC), South Africa's ruling party since the end of Apartheid in 1994, recently lost its parliamentary majority for the first time, leading it to form a coalition with more conservative, pro-business parties. This shift has raised hopes for economic reforms and improved governance, as the coalition's influence may drive policies more favorable to business and investment. We think early signs of economic recovery, alongside lower inflation and potential rate cuts, make South Africa a more compelling opportunity than it was a year ago.

Mexico: Growth Potential Amid Political Uncertainty
Mexico has become a key player in the global reshoring trend, attracting companies seeking proximity to the United States to reduce supply chain vulnerabilities. The country's competitive labor costs and established manufacturing base position it as an appealing location for production hubs. But the recent election results, which granted the ruling Morena party a supermajority, have introduced uncertainty. Investors are concerned about the constitutional changes impacting the independence of the judiciary and other institutions, raising questions around Mexico's long-term stability. Given these political risks, a more cautious approach may be prudent.

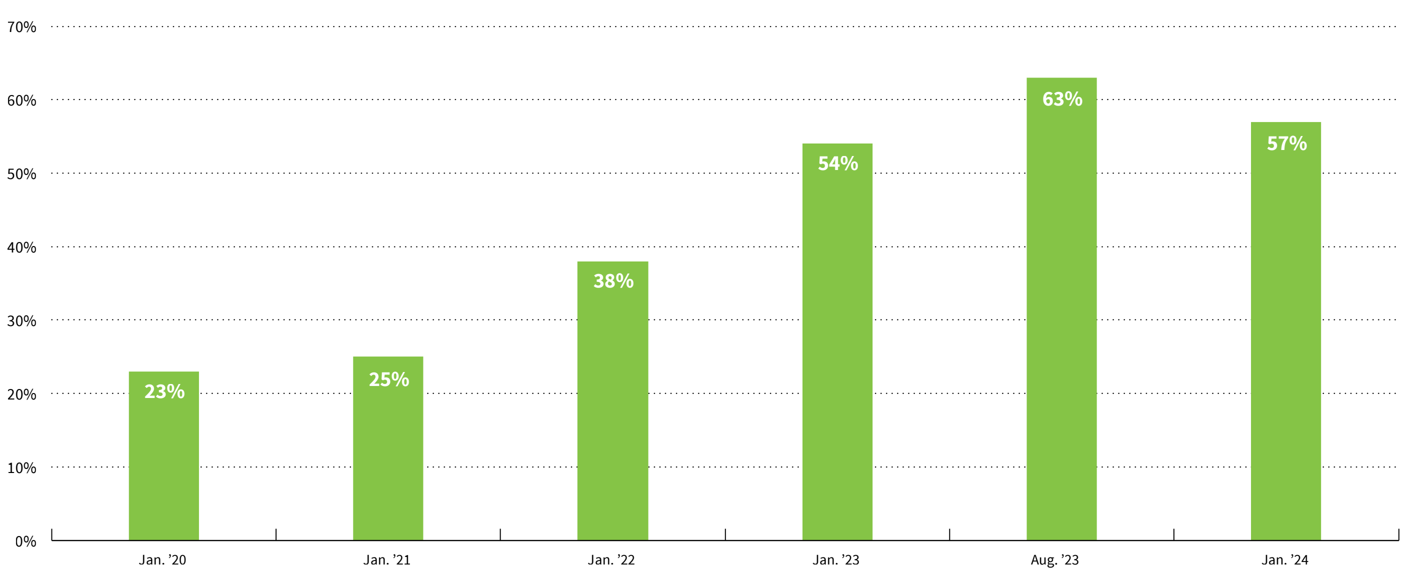
Saudi Arabia: Structural Reforms and Vision 2030
Saudi Arabia's ambitious Vision 2030 program has driven significant economic reforms, aiming to reduce the country's dependence on oil by fostering growth in sectors like finance, tourism, and technology. The Saudi government's fiscal largesse has spurred investment across these industries, creating opportunities for companies that align with the country's diversification efforts. Despite these positives, geopolitical risks and the volatility of oil prices pose ongoing concerns for investors. In addition, while the market has grown in size and influence within EM indices, it remains relatively under-owned, suggesting potential for increased foreign investment as reforms continue to unfold.

> "In Saudi Arabia, geopolitical risks and the volatility of oil prices pose ongoing concerns for investors."
>
> **Paul Birchenough, Partner**

EXHIBIT 8

Global EM Funds That Own Saudi Stocks

Global EM fund ownership of Saudi stocks has been steadily increasing, though they remain relatively under-owned compared to other EMs.



Sources: MSCI, Goldman Sachs, and William Blair, as of September 2024.

Marcelo Assalin, CFA, Partner
HEAD OF EM DEBT

After a very strong 2023, the performance of EM debt lost some of its positive momentum in 2024, a year characterized by strong U.S. economic growth and persistent inflation. While EM credit spreads continued to tighten, reflecting resilient economic conditions in EM countries, higher U.S. Treasury yields and a strong U.S. dollar created headwinds for the asset class, leading to higher EM bond yields and weaker EM currencies.

However, EM debt credit fundamentals remain supportive. Economic conditions are still resilient; fiscal, debt, and external dynamics are supportive; and disinflation creates opportunity for monetary policy easing.

As shown on the following page, we believe EM GDP growth should remain above potential, stable at around 3.9% in 2025. Concurrently, we expect inflation to fall from 5.9% in 2024 to 4.2% in 2025.

Resilient growth and lower inflation should lead to stable fiscal and debt dynamics. We believe fiscal deficits should stay at approximately 5.7% of GDP in 2025, and the overall government debt-to-GDP ratio should remain stable at 60%. We also expect solid external accounts, with the aggregate basic balance remaining at roughly 2% of EM GDP.

Importantly, fundamentals in the EM financial sector remain positive, with rising interest rates only having a limited impact on asset quality.

Overall, we expect this positive fundamental backdrop to continue to support the outlook for EM assets.

That said, there are risks. The upcoming Donald Trump presidency introduces uncertainty to this scenario. During the presidential campaign, Trump voiced strong opinions about immigration, taxation, international trade, regulation, energy, and foreign policy.

> “We believe EM countries should be less directly exposed to tariffs.”
>
> **Marcelo Assalin, CFA, Partner**

While we are unlikely to have clarity on the scope of the new administration’s policy agenda until after Trump’s inauguration in January, the direction of travel seems clear. One area of particular concern is international trade. Trump has been vocal about the potential introduction of hefty tariffs on imports, particularly from China. Investors should expect material changes to regulations.

In the United States, higher tariffs on imported goods would likely lead to a temporary increase in inflation, putting pressure on consumer discretionary spending and economic activity. While we would not expect the U.S. Federal Reserve (Fed) to initially react to transitory inflationary pressures, the path toward monetary easing becomes less certain.

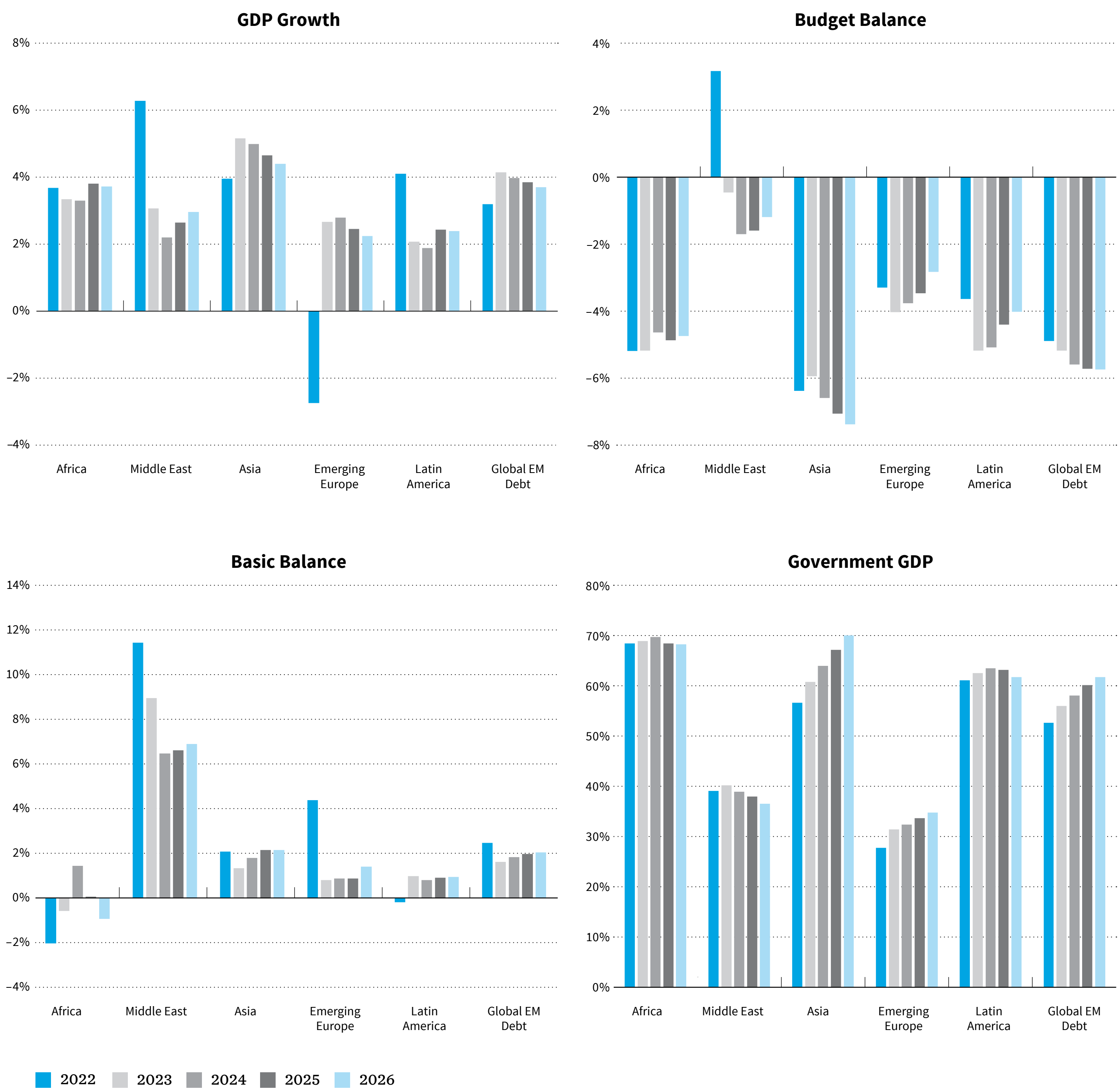
Globally, higher tariffs could negatively impact trade. Countries running large trade surpluses with the United States would likely see the biggest impact on their economies. China and, to a lesser extent, Europe could be particularly affected. In those places, we would expect to see significant fiscal and monetary policy reactions to offset the impacts of higher tariffs imposed by the new U.S. administration. We would also expect strong retaliation, as tariffs could violate World Trade Organization (WTO) commitments, creating additional risks for global trade.

While U.S. tariffs have the potential to impact global trade, we believe EM countries should be less directly exposed given the significant growth in intra-EM trade observed over the past few years. In China, we expect to see a combination of strong fiscal and monetary stimulus and a weaker currency as the government implements measures to offset the impact of U.S. tariffs. China should also continue to shift exports away from developed economies, in our opinion. EM countries now make up nearly 50% of Chinese exports.

EXHIBIT 9

Resilient Growth Stabilizes Credit Metrics

We believe EM GDP growth should remain stable at around 3.9% in 2025. Resilient growth and lower inflation should also lead to stable fiscal and debt dynamics, and the overall government debt-to-GDP ratio should hover around 60%.



Sources: Oxford Economics and William Blair, as of October 31, 2024. Methodology is GDP-weighted (based on the JP Morgan EMBIGD).

The Oil Outlook

As we end the year, it seems likely that oil markets will close at the lower end of their 2024 range of $70 to $90 per barrel for Brent crude. In 2025, we believe demand growth expectations of approximately 1 million barrels per day, or 1% growth, will be mostly driven by China and the United States, although demand from India and the Middle East is becoming more of a factor.

In China, consumption growth decelerated into the second half of 2024, with 2025 expected to be at its lowest level in years. Attempts to stimulate the economy are yet to come to fruition and EV penetration is growing, suppressing oil product demand.

In the United States, it is likely that the new administration will be more supportive of fossil fuel usage, with consumption hovering around 20 million barrels per day, about 20% of the market, for years. Prices were pressured in the second half of 2024 by expectations of a return of curtailed Organization of the Petroleum Exporting Countries (OPEC) supply. Although the cartel deferred its decision, it is likely that some supply will return in 2025, pressuring the market. The Trump administration's support for further growth in U.S. oil production will also be an overhang for prices, although questions remain about how much and how quickly the industry can respond.

A reversal in Iranian supply growth would temper this outlook, as we expect the new Trump administration to put the regime under pressure once again. Non-OPEC supplies, particularly from Brazil and Guyana, are also expected to grow. The geopolitical risk premium in oil markets has recently diminished, but conflict in the Middle East could directly affect oil supplies at any point (though it should be buffered by significant spare capacity in the region). All in all, we believe fundamental drivers of oil markets suggest a cautious outlook as we begin 2025.

Despite these risks, we believe the new U.S. administration will adopt a more gradual and pragmatic trade agenda, aiming to avoid creating higher inflation for U.S. consumers. On the foreign policy front, we have a positive view of the new administration's intentions to mediate international conflicts, which could potentially result in significant de-escalation of the wars in Russia/Ukraine and the Middle East.

In our opinion, U.S. government policies will not significantly disrupt the outlook for the global economy. We expect the global disinflationary process to continue, albeit at a potentially slower pace, and anticipate additional monetary policy easing in developed and emerging economies. The gradual removal of monetary policy restrictions should lead to lower global rates and improved liquidity conditions in 2025, in our opinion.

All in all, we expect a favorable market environment for EM debt in 2025 and believe that higher volatility induced by political noise and bombastic rhetoric could create opportunities for long-term investors.

Opportunities in Hard Currency EM Debt

EM hard currency sovereign and corporate credit spreads compressed significantly in 2024, reflecting a benign fundamental backdrop, low credit default rates, and a positive turn in the credit-rating cycle. Credit-spread compression was more significant in the higher-yielding part of the investment universe, particularly in places where valuations were attractive. In this process, EM debt outperformed developed-market credit during the year.

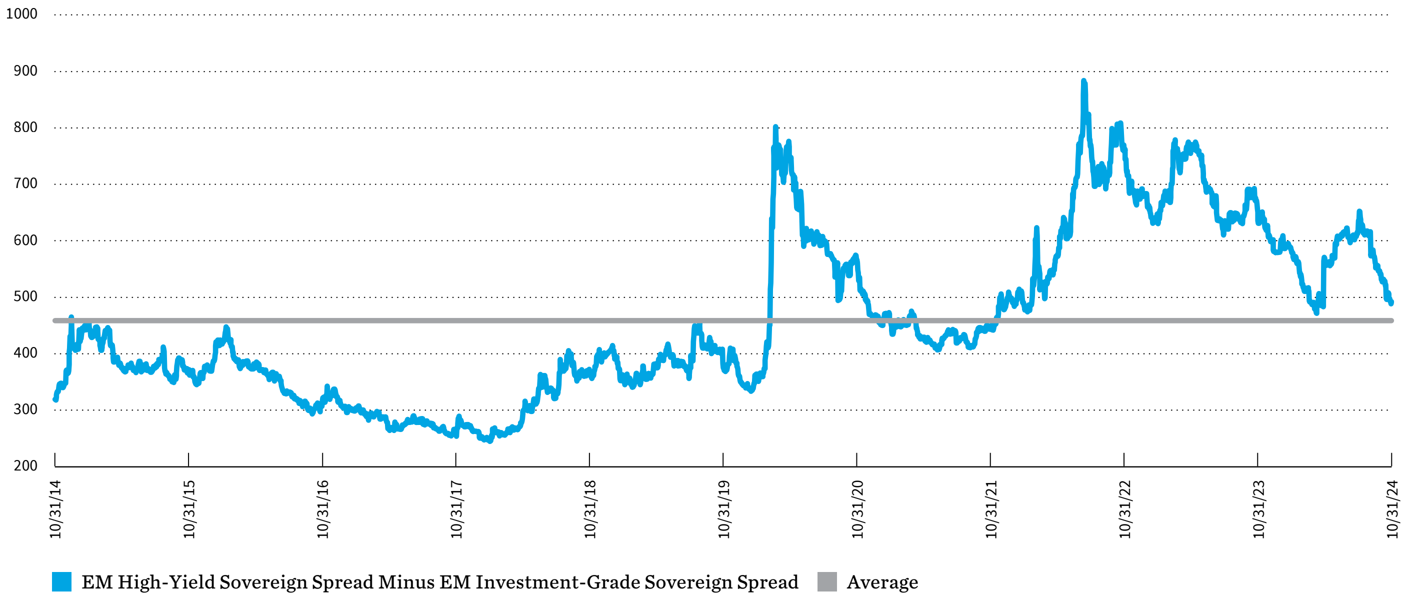
We now believe EM debt credit spreads are more indicative of fair valuations. While high-grade credit spreads are below long-term averages, high-yield credit spreads are still marginally above long-term averages. The spread between high-yield EM debt and high-grade EM debt (as well as U.S. corporate high-yield credit) remains above long-term averages.

EXHIBIT 10

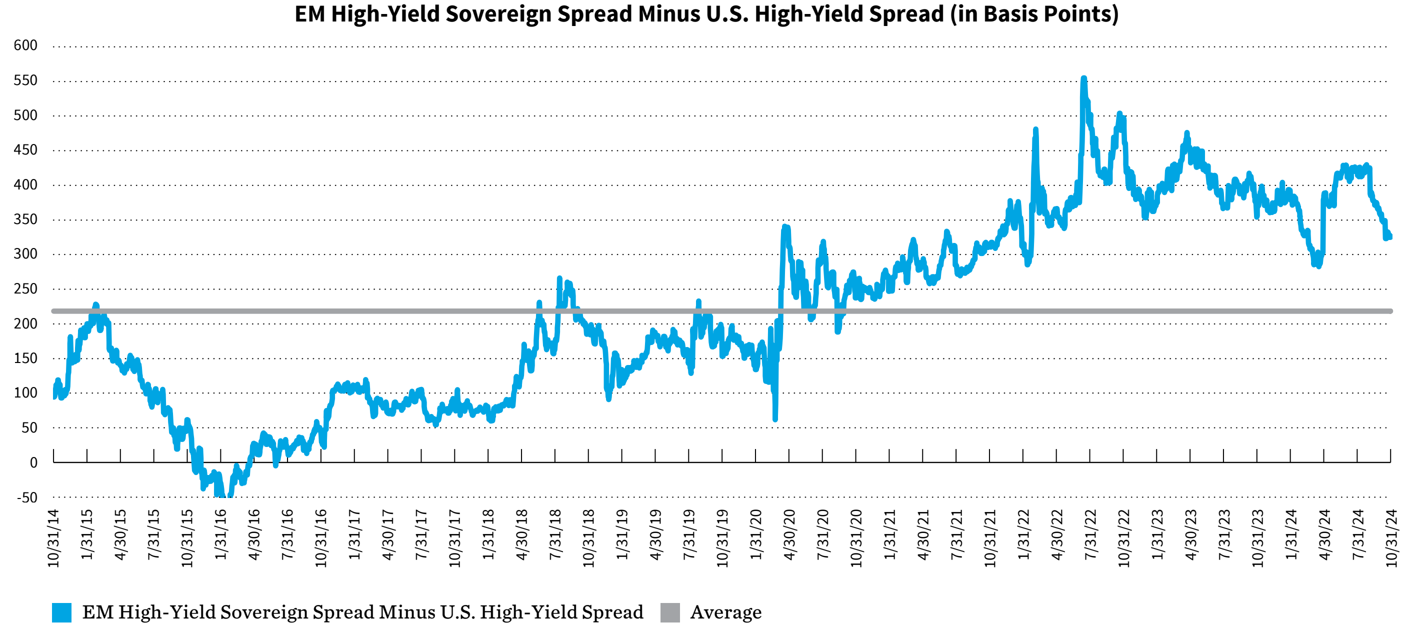
High-Yield EM Debt Appears Attractive

The spread between high-yield EM debt and high-grade EM debt and U.S. corporate high-yield credit remains above long-term averages.

EM High-Yield Sovereign Spread Minus EM Investment-Grade Sovereign Spread (in Basis Points)



EM High-Yield Sovereign Spread Minus U.S. High-Yield Spread (in Basis Points)



Sources: J.P Morgan, Bloomberg, and William Blair, as of October 31, 2024. EM high-yield sovereign is represented by the J.P. Morgan EMBI Global Diversified High Yield; EM investment-grade sovereign is represented by the J.P. Morgan EMBI Global Sovereign; U.S. high-yield is represented by the Bloomberg U.S. Corporate High Yield Index.

While EM debt credit spreads are clearly less appealing than they were in 2023 and early 2024, yield levels remain attractive, in our opinion, driven by higher underlying U.S. Treasury yields. Therefore, we expect EM hard currency debt returns in 2025 to be driven predominantly by lower U.S. underlying Treasury yields and carry, and less by credit-spread compression.

Our favorable outlook for the 10-year U.S. Treasury yield has not changed since the U.S. elections. We continue to believe that there are attractive opportunities for investors to increase exposure to long-duration securities to lock in attractive real and nominal yields.

We continue to see marginally better value in high-yield, high-beta credit and remain positioned for further high-yield/investment-grade credit spread compression. That said, we believe the distressed/defaulted universe should present fewer investment opportunities, as we do not expect EM sovereign credit defaults over the next year.

We continue to see scope for fundamental differentiation and prefer countries with easier access to multilateral and bilateral funding. Multilateral and bilateral support to EMs remains strong, and we believe it will continue to make a meaningful contribution to external funding in 2024 and beyond.

In this context, we expect favorable technical conditions, and 2025 should be another year of subdued new net debt issuance. We also expect positive flows into the asset class as higher yields drive investors back to fixed income in a Fed rate-cutting cycle.

EM corporate credit should continue to offer attractive investment opportunities, in our opinion. The diversity of the asset class presents ample opportunities for outperformance given the dispersion of fundamental drivers and investable themes. While issuance rebounded in 2024, net financing needs are still subdued for the universe. Credit default rates are expected to remain contained in 2025. Overall credit fundamentals remain stronger than in developed markets as evidenced by better leverage and coverage metrics. While valuations have compressed, EM corporate credit still offers a spread pickup given higher credit spreads and lower durations.

> "Tariffs are likely to be applied unevenly across a broad selection of EM countries, potentially resulting in a wider dispersion of returns and the creation of additional opportunities for active investors."
>
> **Marcelo Assalin, CFA, Partner**

All in all, we believe EM hard currency debt is well positioned to continue to outperform within the public fixed income space in 2025.

Opportunities in Local Currency EM Debt

We believe the U.S. dollar will remain supported by a strong U.S. economy and a cautious Fed. Against this backdrop, we expect EM local markets to face headwinds, with EM currency depreciation likely to offset tariff costs to a large extent. However, tariffs are likely to be applied unevenly across a broad selection of EM countries, potentially resulting in a wider dispersion of returns and the creation of additional opportunities for active investors.

Moreover, it remains to be seen how the Trump administration will address a strengthening U.S. dollar and if the negative impact on growth from higher inflation and interest rates will lead to a softer stance on trade.

We believe local rates should continue to be well supported by prudent EM central banks, an overall benign inflationary backdrop, and economic activity remaining broadly in line with potential growth levels.

One relative bright spot in our investment universe is frontier markets, where local currency bonds play an important role in our approach. From a structural perspective, more of these countries are making a conscious effort to open up their capital markets to diversify their financing sources and reduce dependence on foreign currency debt issuance.

Measures to achieve this include strong reform momentum, often supported by multilateral organizations; the reduction or removal of capital controls; and additional liquidity measures provided by the central banks. This means that many frontier market currencies offer opportunities for investment with currencies at or below our estimates of fair value, supported by high real and nominal local interest rates. These currencies can provide an attractive combination of a lower beta to the strong U.S. dollar trend and higher carry than is normally found in their larger EM counterparts.

We also expect a number of these markets to continue to benefit from official sector support given their geopolitical importance. This means that they enjoy a combination of strong multilateral and bilateral support. For example, a high number of frontier markets are currently on an International Monetary Fund (IMF) program. This benefits them through both cheap levels of financing and strong economic reforms that have been designed to ensure a higher and more consistent level of potential growth.

This ample and diversified source of funding has been particularly evident in recent years and has been a strong provider of financial support. In the past, it was standard for EM debt managers to add a small number of frontier markets to their portfolios in a rather concentrated way. However, the evolution of funding has convinced us that the asset class now has the diversification necessary to be relevant as a standalone asset class.

The Metals Outlook

Base and precious metals had a good year in 2024. Base metals traded higher on improved Chinese demand growth, which stemmed from green investments and exports of downstream products. Alumina emerged as the standout performer, achieving record highs following a bauxite supply disruption in Guinea, a major producer. Aluminum, a feedstock to alumina, traded higher in sympathy. Precious metals were similarly robust, with silver prices surging and gold prices reaching all-time highs due to a combination of interest-rate cuts, geopolitical risks, and strong physical demand.

Our 2025 outlook for base metals remains resilient. We expect the energy transition theme to remain intact, supporting copper and aluminum demand. While expected tariffs under the Trump administration will likely be a clear headwind for base metal prices, more targeted Chinese stimulus measures might offset the losses. Supply disruptions, which were a key factor for several metals in 2024, including alumina and zinc, might persist for a longer period, supporting prices.

Meanwhile, in the precious metals market, gold prices remain supported despite uncertainty around the trajectory of interest-rate cuts following the U.S. elections. Inflation concerns, fiscal deficit risks from the new administration's tax policies, and strong demand from EM central banks contribute to a positive outlook for 2025.

China | Stimulus and Tariff Uncertainty Clouds Investment Environment

Vivian Lin Thurston, CFA, Partner
PORTFOLIO MANAGER,
EM AND CHINESE EQUITIES

Clifford Chi-wai Lau, CFA
PORTFOLIO MANAGER, EM DEBT

China's equity markets performed relatively well in 2024 but remain policy-driven and somewhat directionless as investors await further potential stimulus announcements from the government.

Meanwhile, the Chinese government bond market has benefited from risk-averse domestic investors shifting asset allocations to fixed income. There is widespread agreement that bolder stimulus measures are needed.

Prospects for both equity and bond markets in 2025 depend on the government's next moves to revive the economy and restart a market-driven growth cycle in the face of deflationary pressures at home and the threat of higher export tariffs abroad.

What will the impact be of the stimulus package announced at the November National People's Congress meeting?

Vivian: In early November, the National People's Congress (NPC) announced measures better described as a debt swap rather than traditional stimulus. The 10-trillion-yuan package comprises two parts: 6 trillion yuan in local government debt ceiling increases over three years to pay down hidden (or off-balance sheet) debt in local government financing vehicles (LGFVs) used to fund infrastructure and real estate development projects, and 4 trillion yuan in additional special bond issuance by local governments to pay down the same hidden debt over five years.

These measures will help to diffuse the default risk of local governments and marginally improve their long-strained fiscal status. But at the end of the day, we are still waiting for the "show me the money" moment—the stimulus needed to support consumption and service industries, complete unfinished property projects, repair consumer confidence, and jump-start the economy.

Further measures are widely expected, and the Ministry of Finance has left that door open. The completion of the U.S. election could be a catalyst for more targeted or customized stimulus measures from the Chinese government. President-elect Donald Trump has been talking about a second trade war with China, including a tariff up to 60% on all Chinese imports.

It's still unclear how much of this will come to fruition. China remains a very big exporter to the United States, accounting for about 16.5% of total U.S. imports. Raising tariffs could increase U.S. inflation, which conflicts with Trump's stated goal of reducing interest rates. It seems likely, however, that Trump will push for higher tariffs in some way or other, not only with China but with all trading partners.

Clifford: The NPC's recent steps to stabilize the local government financing situation are a positive development and could lead to more targeted policies to follow. The central government could focus next on boosting consumption and implementing a bank recapitalization plan to make it easier for the policy banks and local banks to grant new loans without worrying too much about reserve ratios.

While the policy efforts announced in November are a step in the right direction, investors tend to be impatient. The Chinese government has yet to unveil policies robust enough to drive consumer spending, revive equity markets, or stimulate economic activity in a meaningful way. Investors are hoping for further targeted measures in the months to come.

On Chinese exports, since Trump was first elected back in 2016, there have been eight years of tariff pressure from the United States and increasingly from the European Union (EU) as well. As a result, China has tried to reposition its exports away from developed markets. EMs now make up nearly 50% percent of Chinese exports. Still, if the United States and the EU impose 60% tariffs on Chinese imports, it could knock one or two percentage points off China's GDP in the coming year.

What were the defining characteristics of Chinese equity and bond markets in 2024?

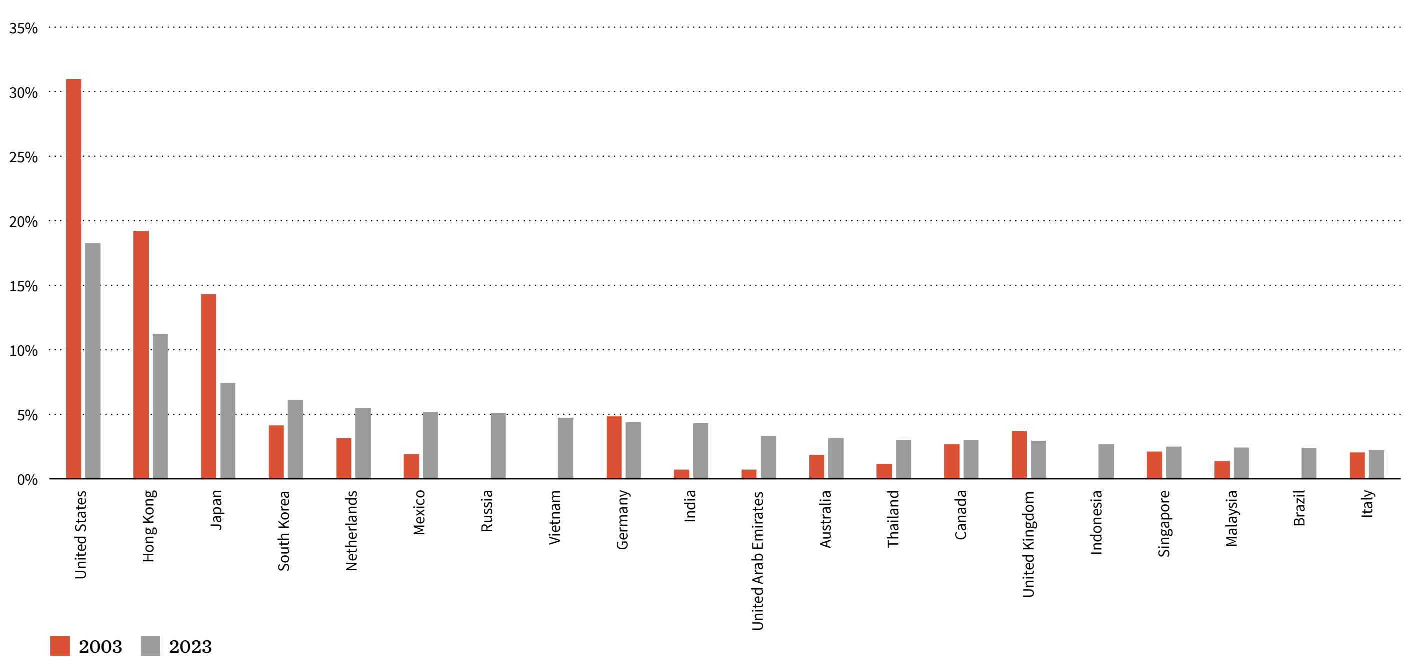
Vivian: The first 10 months of 2024 saw Chinese equity markets go through three distinct phases. The start of the year through mid-May saw renewed hopes of stimulus coming through, resulting in relatively calm market conditions. Export-driven industries did well, and first-quarter earnings showed improvement. It was a good backdrop for quality growth investors like us, and we were able to find attractive opportunities even though the broader market was still somewhat weak.

From mid-May to mid-September, the market took a nosedive because stimulus packages did not come

EXHIBIT 11

China Exports: Diversifying Away From Developed Markets (DMs) to ex-DMs Over the Past Two Decades

China has been actively shifting export share away from developed markets as it faces the prospect of higher tariffs, especially from the United States and the EU. While China has gained share across all regions since 2003, the magnitude of these changes has been greatest in lower-income regions. EMs and others now absorb about 60% of Chinese exports (as of 2023).



Sources: Bloomberg and William Blair, as of December 2023.

through as people had anticipated. Second-quarter GDP numbers were much weaker than expected, the consensus GDP forecast was revised downward, and deflationary pressures became more evident. Chinese equities sold off substantially, with quality growth stocks taking a bigger hit as the markets lost faith in growth and investors rotated to stocks with low valuations or high-dividend yields.

The market entered another phase in the middle of September. As Chinese equity valuations fell to near 15-year lows, U.S. investors, especially hedge funds, moved in, sparking a dramatic rally.

Then, President Xi Jinping unexpectedly chaired a Politburo meeting in late September and put out urgent signals that the economy needed more support. At the same time, the People's Bank of China (PBOC) announced further monetary support measures.

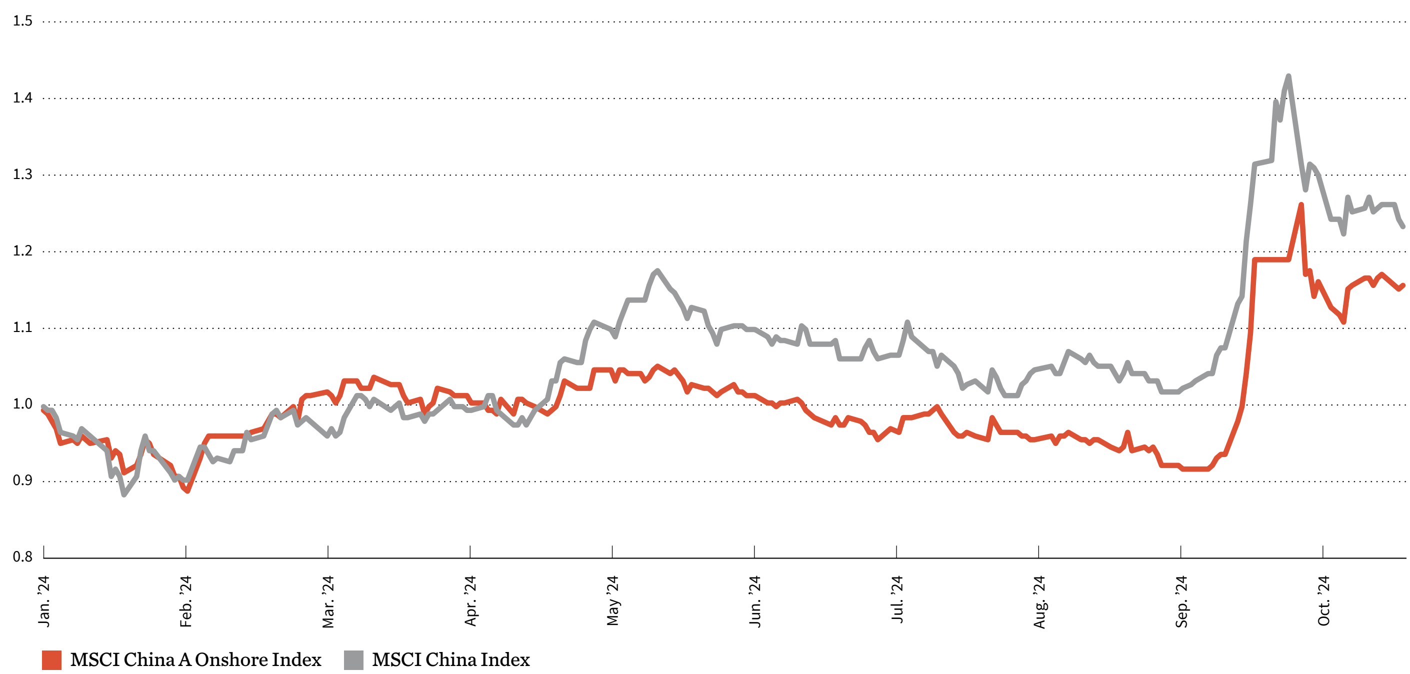
These events spurred a nearly 30% rally in Chinese equities over a two-week period, just before the markets closed for the Golden Week holiday in early October. When markets reopened, the rally faltered because further stimulus did not seem to be forthcoming.

When you put this all together, YTD performance has been impressive. The key index of the China A-Share market, the CSI 300, was up 18% in dollar terms through November 30, 2024, and the MSCI China Index was up 16%. This compares to about 8% for the MSCI Emerging

EXHIBIT 12

Chinese Equities Performed Well in 2024 Amid a Challenging Backdrop

Even after the sharp pullback from the early October peak, Chinese equities have delivered strong performance in 2024. Among major markets, only U.S. equities have performed better year-to-date.



Sources: MSCI, Bloomberg, and William Blair, as of October 31, 2024. **Past performance is not indicative of future returns.** A direct investment in an unmanaged index is not possible.

Markets Index and about 8% for the MSCI ACWI ex-US Index, which tracks both developed and emerging markets. Among major markets, only the United States has done better, with the S&P 500 Index up around 28% YTD.

Despite this relatively strong performance, it remains a difficult market for quality growth investors. The market has become policy driven, putting many investors in a holding pattern as they wait for the next policy event. Market leadership has been very fluid from one sector to another as underlying earnings have remained weak and volatile, offering little direction for fundamental investors.

Clifford: China's bond market is very isolated and typically uncorrelated with the rest of the world, and the spread between the U.S. Treasury and the 10-year benchmark Chinese government bond (CGB) widened dramatically in 2024. While the 10-year U.S. Treasury sold off by almost 40 basis points during the first 10 months of 2024, the 10-year CGB has rallied almost 50 basis points. Onshore demand from Chinese investors who have become extremely risk-averse has driven the CGB's outperformance. Chinese investors appear to have little interest in risk assets, not only Chinese equities but property ownership as well. Plummeting property values have had an enormous negative wealth effect in recent years, and rental yields offer little respite—the current rental yield is only around 2% to 3%. Therefore, investing in the risk-free 10-year CGB yielding 2% on an annual basis is a relatively attractive option for Chinese investors.

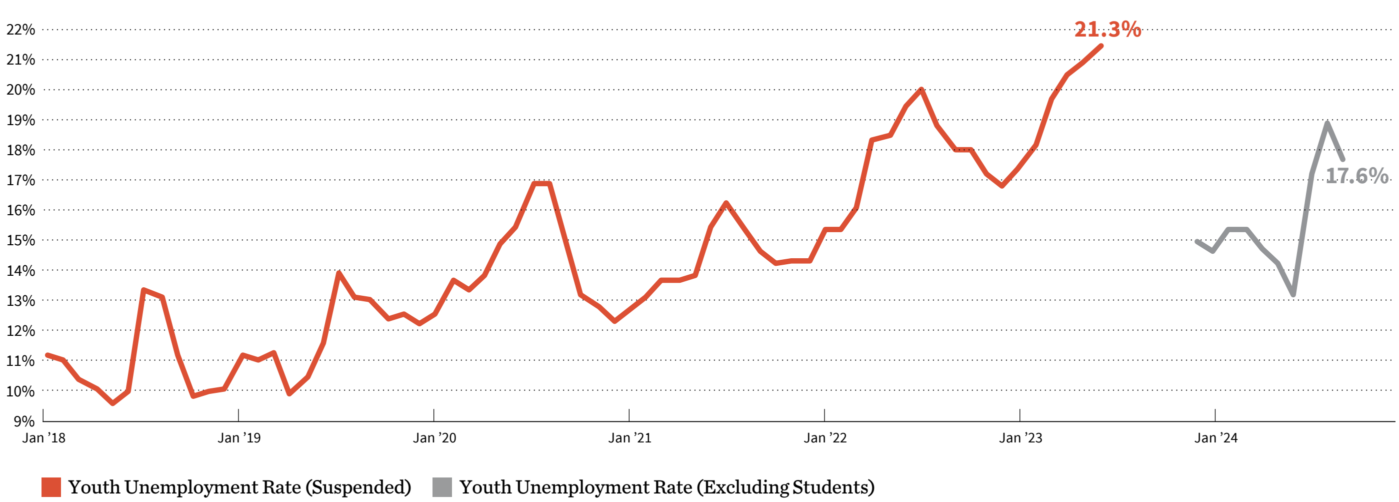
What government policies are needed in 2025 to support the Chinese economy and equity markets?

Vivian: We are in a prolonged cyclical downturn primarily because of low consumer confidence. People just don't want to consume, buy properties, or invest, resulting in rising levels of excess savings. Chinese consumers need to see policy measures that will restore their confidence before they put this capital to work.

EXHIBIT 13

China's Youth Unemployment Creates Deflationary Pressure

Unemployment among China's urban youth (16- to 24-year-olds) has risen steadily over the past few years. After it peaked in mid-2023, the government stopped publishing numbers and then resumed a few months later with a new measure that excluded students and was considerably lower. Solving youth unemployment is critical to China's attempts to revive consumer confidence and economic growth.



Sources: National Bureau of Statistics of China, Macquarie, and William Blair, as of October 2024.

I believe these efforts should focus on fixing the issues underlying the property market and supporting service industries, which are a major source of employment, especially for young people. When young people's economic prospects are dim, it inhibits household formation and sustainable consumption.

On top of that, China has many of the same structural issues as other developed countries, including an aging population. These factors resemble the conditions that led to Japan's two-decade deflationary experience. Even though China is not yet at this point, the country needs a jump start to get back on track and restart a market-driven growth cycle.

Once these issues start to get resolved, which sectors do you believe offer the most promising prospects for quality growth investors?

Vivian: Even with the current economic headwinds, there are green shoots of improving fundamentals in certain areas, including internet-related industries. Online advertising took an early hit because it is very sensitive to economic conditions, and it is now one of the first to recover.

Tencent, for example, posted strong earnings in the first half of 2024 based on improvement in online advertising. Its online gaming has also continued to improve as the regulatory pressures have decreased and their product cycle is improving. E-commerce is also starting to recover although competition remains intense.

Online travel is another bright spot, in our view, especially outbound travel. Travel activity in China still hasn't returned to pre-COVID levels because many direct flights have not yet been reinstated and there were changes to the visa program, but the overall trends are improving.

We believe power equipment is another intriguing structural growth story. Demand for electrical power has surged because of the global electrification trend, and AI data centers have only added to the demand. The power industry has underinvested in infrastructure for many years, resulting in a large imbalance between supply and demand, with rising prices. Chinese power equipment producers

"There are green shoots of improving fundamentals in certain areas, including internet-related industries."

Vivian Lin Thurston, CFA, Partner

supply domestically and generally have strong export markets in developed countries and developing countries alike.

We also like an AI-driven theme for Chinese semiconductor hardware companies, whether they service the Nvidia and global hyperscalers supply chain globally or the Huawei supply chain domestically. We find that there are quite a few impressive tech and industrials companies in China with advanced technologies in the EV supply chain, high-end manufacturing, and the energy transition—all areas that align with President Xi Jinping's desire to further advance Chinese technologies.

What is the outlook for the Chinese bond markets in 2025?

Clifford: We expect the Chinese government to fund its stimulus packages by selling more bonds. The question is which part of the yield curve will see the most issuances. The government has signaled a plan to increase supply by issuing more ultra-long bonds, but we think the increase in issuances could be across the curve.

If the PBOC carries on with monetary easing, I believe the short end of the CGB yield curve should continue to be anchored at the current low level (the two-year CGB is 1.4%). If there is indeed increased issuance targeting more supply of ultra-long bonds, then the curve is likely to get steeper, with the long end underperforming the short end.

Moving from the supply side of the CGB market to the demand side, I believe domestic investors' strong appetite for risk-free assets should sustain demand in the bond market. In my view, the primary reason that the onshore bond market might substantially underperform in 2025 would be if domestic investors were to significantly shift asset allocations from fixed income to equities.

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(continued)

For that to happen, the Chinese economy would need to rebound sharply, the government would need to further intervene in the equity market by instructing state-owned enterprises (SOEs) to buy more local stocks by providing cheap funding, or Chinese companies would need to step up share buybacks further. None of these scenarios seems very likely.

Currency outlook is an important consideration for offshore bond investors. We believe we will continue to see near-term pressure on the renminbi, particularly in light of the threat of further U.S. tariffs. The Chinese government will likely turn even more defensive should tariff threats escalate, by advancing policies not only to stimulate the domestic economy but also guide the renminbi to gradually weaken to maintain export competitiveness.

> "We believe we will continue to see near-term pressure on the renminbi, particularly in light of the threat of further U.S. tariffs."
>
> **Clifford Chi-wai Lau, CFA**

EXHIBIT 14

China Government Bonds Edge Out U.S. Treasuries

Chinese government bonds have outperformed U.S. Treasuries in 2024, continuing a trend that saw the spread between the two 10-year benchmark bonds shrink substantially over the years and then flip into a negative yield pick-up since 2022.

Sources: Bloomberg and William Blair, as of October 31, 2024. **Past performance is not indicative of future returns.**

Final Takes

Marcelo Assalin, CFA, Partner
HEAD OF EM DEBT

We anticipate a favorable market environment for EM debt in 2025 and believe that higher volatility induced by political noise and bombastic rhetoric could create opportunities for long-term investors.

Olga Bitel, Partner
GLOBAL STRATEGIST

Before the U.S. election on November 5, 2024, the outlook for the world economy looked robust and consistent with economic expansion. But the results of the U.S. election have made this outlook far more uncertain. There are now many more plausible outcomes, and their distribution is nearly flat, with both left and right tails having increased significantly.

Paul Birchenough, Partner
PORTFOLIO MANAGER, EM EQUITIES

We believe there's enormous growth potential in sectors connected to the AI supply chain and renewable energy. Strategic investments in these areas have the potential to deliver compelling long-term returns, even amidst broader market volatility.

Clifford Chi-wai Lau, CFA
PORTFOLIO MANAGER, EM DEBT

China has been shifting export share to EMs for nearly a decade in response to rising protectionism from the United States and the EU. But unless EMs see strong economic growth, China's efforts to diversify its export base likely won't offset the impact of tariffs imposed by developed markets. That is why we believe policies aimed at reviving domestic demand in China are all-important.

Todd McClone, CFA, Partner
PORTFOLIO MANAGER, EM EQUITIES

With a stronger outlook for the U.S. economy potentially keeping the U.S. dollar stronger and U.S. interest rates higher for longer, we believe it's crucial to focus on high-quality companies within EMs.

Casey Preyss, CFA, Partner
PORTFOLIO MANAGER, EM EQUITIES

Across EMs today, we see resilient corporate performance, attractive valuations, and a diversified opportunity set, which we think create exciting investment prospects, offering high-growth opportunities in under-researched, less efficient spaces.

Ian Smith, Partner
PORTFOLIO MANAGER, EM EQUITIES

A long-term growth story appears to be unfolding in EMs, but I believe maintaining a balance of growth potential and quality will be essential. EM investors may want to focus on regions showing strong structural improvements.

Vivian Lin Thurston, CFA, Partner
PORTFOLIO MANAGER, EM AND CHINESE EQUITIES

Despite the economic and trade-policy headwinds, there appear to be distinct opportunities in Chinese equity markets for quality growth investors. But in a market that is so policy-driven, improving fundamentals don't always translate to stock performance. We believe this underscores China's need for pro-growth, pro-market leadership with the right policy mindset to stimulate and normalize this giant economy.

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The **Bloomberg US Corporate High Yield Index** measures the USD-denominated, high-yield, fixed-rate corporate bond market. The **CSI 300 Index** is a market-capitalization-weighted index that consists of 300 A-share stocks traded on the Shanghai and Shenzhen exchanges. The **Goldman Sachs Euro Area Financial Conditions Index** aggregates various financial indicators—such as interest rates, credit spreads, equity prices, and exchange rates—to assess the overall financial environment in the euro area. The **Goldman Sachs U.S. Financial Conditions Index** aggregates various financial variables to assess the overall state of U.S. financial conditions. It includes factors such as interest rates, credit spreads, equity prices, and exchange rates. The **J.P. Morgan Emerging Markets Bond Index (EMBI) Global Diversified High Yield** tracks the performance of U.S. dollar-denominated sovereign and quasi-sovereign bonds from EMs with lower credit ratings, providing exposure to high-yield EM debt. The **J.P. Morgan EMBI Global Sovereign** tracks the performance of U.S. dollar-denominated sovereign debt issued by EMs, including both investment-grade and below-investment-grade bonds. (Index information has been obtained from sources believed to be reliable but J.P. Morgan does not warrant its completeness or accuracy. The indices are used with permission. The indices may not be copied, used, or distributed without J.P. Morgan's prior written approval. Copyright 2024, JPMorgan Chase & Co. All rights reserved.) The **MSCI All Country World Index (ACWI) ex-US** captures large- and mid-cap representation across developed and emerging markets, excluding the United States. It is a subset of the MSCI ACWI, and includes both developed and emerging markets, excluding U.S.-based stocks. The **MSCI China Index** captures large- and mid-cap representation across China A shares, H shares, B shares, Red chips, P chips, and foreign listings (such as ADRs). The **MSCI China A Onshore Index** captures large- and mid-cap representation across China securities listed on the Shanghai and Shenzhen exchanges. The **MSCI Emerging Markets (EM) Index** captures large- and mid-cap representation across 27 EMs. The **MSCI Emerging Markets (EM) Investable Market Index (IMI)** captures large-, mid- and small-cap representation across 27 EMs. **The MSCI World Investable Market Index (IMI)** is a stock market index that captures large-, mid-, and small-cap companies across 23 developed markets worldwide. The **Russell 3000 Inde**x measures the performance of the largest 3,000 U.S. companies. The **Standard & Poor's (S&P) 500 Index** tracks the performance of 500 large companies listed on stock exchanges in the United States. Index performance is provided for illustrative purposes only. Indices are unmanaged and do not incur fees or expenses. A direct investment in an unmanaged index is not possible.

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