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FIVE KEYS TO EMERGING MARKET OUTLOOK

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KEY TAKEAWAYS

We favor emerging market and U.S. equities for tactical asset allocations based primarily on our outlooks for global economic growth and earnings.

We expect strong economic growth to help EM offset tighter monetary policy and potentially higher interest rates in 2018.

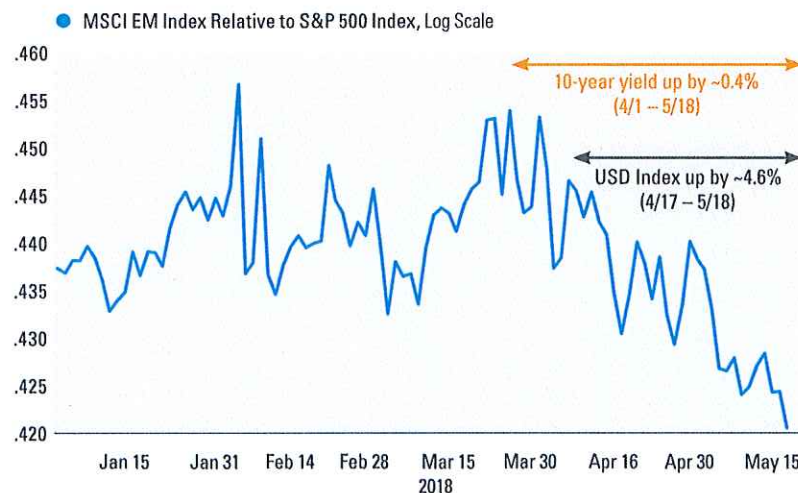
Other keys to the EM outlook include the U.S. dollar, earnings, and trade policy.

We continue to prefer emerging market (EM) equities in tactical asset allocations. EM equities have given back strong early-year gains, pushing the MSCI EM Index into negative territory year to date on a total return basis. Many headwinds have weighed on EM stocks, including rising interest rates, U.S. dollar strength (and related weakness in EM currencies), and trade war fears. Here we highlight five keys to our EM outlook.

FIVE KEYS TO EM OUTLOOK

- 1. Interest rates and monetary policy.** EM's latest bout of underperformance began on April 1, when the latest move higher in the 10-year Treasury began [Figure 1]. Since April 2, the 10-year yield has gone from 2.73% to 3.07%, while the S&P 500 Index has returned 5.4% and the MSCI EM has lost 2.5%. Expectations priced into the bond market for Federal Reserve (Fed) rate hikes in 2018 (based on fed funds futures market prices) have also shifted over to four total hikes in 2018 (>50%) rather than three, with the higher inflation expectations and higher short-term rates putting some upward pressure on intermediate- and longer-term bond yields.

1 EMERGING MARKETS STOCKS HAVE UNDERPERFORMED U.S. STOCKS RECENTLY



Source: LPL Research, Bloomberg 05/18/18

All indexes are unmanaged and cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. All performance referenced is historical and is no guarantee of future results. Estimates may not develop as predicted.